NBP Narodowy Bank Polski

No. 2/14 July 2014

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

No. 2/14 July 2014

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

Marcin Grela
Marcin Humanicki
Dagmara Kalicka
Marcin Kitala
Tomasz Michałek
Wojciech Mroczek
Jakub Mućk

Edited by:
Ewa Rzeszutek
Małgorzata Golik
Marcin Grela

Economic Institute
Warsaw 2014

Contents

Summary 3
Countries of Central and Eastern Europe - macroeconomic outlook 5
10 years in the EU – did the New Member States use the opportunity to catch up with Western Europe? 8
Bulgaria – consumer prices keep falling 21
Croatia – high private sector debt and ongoing fiscal consolidation delay recovery 23
The Czech Republic – effects of exchange rate commitment 25
Estonia, Latvia, Lithuania – weakening exports slow the recovery 27
Romania – dynamic growth fuelled by one-off factors 29
Slovakia – toward balanced growth 31
Slovenia – still far from economic stabilization 33
Hungary – economic policy supports investment growth 35
Central and Eastern Europe vulnerability to the Ukrainian crisis 37
Statistical Annex 54

Summary

Economic recovery in the majority of the countries of Central and Eastern Europe (CEE), observed since the beginning of 2013, continued in Q1 2014. In Q1 2013 CEE economies were in stagnation, but the provisional GDP estimates for Q1 2014 indicate a growth of 2.8% y/y for the region. Therefore the annual GDP growth has risen for the fifth consecutive quarter.

Accelerating GDP growth was accompanied by a shift in its structure. Exports, fuelled by the euro area demand, continued to rise. This was noticeable especially in Romania, Slovakia, Hungary and since H2 2013 also in the Czech Republic. Exports in these countries were spurred by growing production in the automotive sector. However, despite growing exports, net exports contribution to GDP growth did not increase, due to an even faster growth in imports, stimulated by domestic demand revival.

It is domestic demand that has started taking the role of the main engine of growth in the CEE region since Q4 2013. Both private consumption and fixed capital formation growth rates accelerated in most of the countries.

The private consumption growth rate increased in the majority of the CEE economies (except for the Baltic states). The growth was especially visible in the Czech Republic, Slovakia and Hungary, where a decline in households' expenditure was experienced in previous quarters. Growing private consumption resulted primarily from the improvement in the labour markets, an increase in real disposable income and improving expectations of the future economic situation.

Fixed investment in the CEE region also increased. In Q3 2013, for the first time in almost two years it made a positive contribution to GDP growth, which even increased in the following quarters. Improved investment was to a certain degree associated with an increased level of public investment, mainly on infrastructure, co-funded by EU funds. Private investment also accelerated, but to a lesser extent. For example, fast growth in fixed capital formation in Hungary was, in a large part, a result of introducing the Funding for Growth Scheme, a programme aimed at supporting small and medium enterprises by easing their access to bank funding.

Only in the Baltic states opposite tendencies were observed. GDP growth decelerated (in Estonia it even fell into negative territory), which was a result of the weakening of both domestic demand (fixed investment in particular) and exports. A fall in exports was partly an effect of declining demand from countries outside the EU (mainly from Russia), whose share in total exports was much higher than in the other CEE states. Rising labour costs and the deterioration of cost competitiveness were also important factors.

Domestic demand growth in the CEE countries was supported by an accommodative monetary policy. The central banks of Hungary and Romania continued their policy rate cuts in Q1 2014. The Czech central bank sustained its decision on exchange rate commitment and continued to intervene in order to prevent koruna appreciation.

Contractionary fiscal policy did not curb growth in 2013 as it did in previous years. In 2014-2015 fiscal consolidation is to be continued only in the CEE countries still under the EDP (Slovenia, Croatia and Poland) and Lithuania. In other countries fiscal stance should remain similar to 2013. In the Czech Republic, Estonia, Hungary and Latvia some fiscal easing is even expected.

On the other hand, ongoing deleveraging of the private sector continued to slow the recovery. The most indebted countries, like Slovenia and Croatia, suffered the most, even despite active government support for the banking sector.

GDP growth in recent quarters was accompanied by falling inflation. The annual HICP growth rate for the region reached an all-time low level in the first months of 2014. Both the supply-side (decline in food prices growth rate) and the demand-side (still very low level of core inflation) factors contributed to the inflation drop. A further decrease in inflation in 2014 was observable in almost all of the CEE countries. In Bulgaria, and temporarily also in Croatia, Slovakia and Hungary, it even turned negative. It seems that foreign exchange commitment undertaken by the Czech National Bank in November 2013 helped the country to avoid similar fate.

Financial markets of the CEE countries, after a period of mild turbulences in January 2014, were relatively calm. The outbreak of the Russian-Ukrainian conflict (February-March 2014) only temporarily increased the volatility of some asset prices. In the following months, the situation returned to normal. Markets stabilised and later on the CEE financial assets even went onto a slight upward path. The ECB decision on further monetary policy loosening additionally helped the region's markets.

The recovery is expected to continue in the following quarters of 2014 and in 2015. A recently observed shift in growth structure is to become more permanent. Domestic demand, both consumption and investment, is to increase its contribution to GDP growth, at the cost of net exports. The main risks for the continuation of the CEE region recovery appear to be the ongoing deleveraging of the private sector (domestic demand), slower than previously expected growth in the euro area and the deepening of the Russian-Ukrainian conflict (foreign demand).

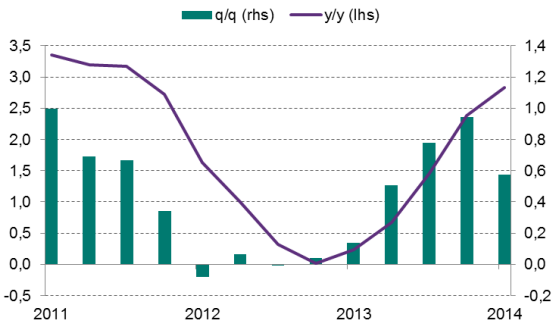
The disinflation tendency observed for the last one and a half years is about to gradually reverse. A slight increase in inflation, expected already in H2 2014, is to result mainly from growing inflationary pressure (due to an expected strengthening of private consumption) and thus, growing core inflation. Food and energy prices, which determined inflation development in the previous months, are to play a much less significant role in H2 2014 and 2015.

Countries of Central and Eastern Europe –macroeconomic outlook

Further acceleration of GDP growth in the CEE region

Economic recovery in the majority of the CEE countries, observed since the beginning of 2013, continued in the Q1 2014. In Q1 2013 the CEE economies were in stagnation, but provisional GDP estimates for Q1 2014 indicate a growth of 2.8% y/y for the region, meaning that the annual GDP growth has risen for the fifth consecutive quarter.

Figure 1.1. GDP growth in CEE (in %)



Source: Eurostat

Varied trends amongst individual countries

Following the trend from the beginning of 2013, in Q1 2014 the GDP growth accelerated in the biggest economies of the region, i.e. Poland, the Czech Republic, Slovakia and Hungary. In Bulgaria, Romania and Slovenia the rate lowered with regards to its Q4 2013 figure, but was still higher than the annual figure for last year. Croatia, still struggling with recession (lasting for five consecutive years), managed to reduce its scope in Q1 2014 in comparison to 2013.

In the Baltic states, a continuous decrease in the annual GDP growth rate was observable from the beginning of 2013. In Lithuania and Latvia the decrease was relatively low, and the GDP growth rate of those countries was comparable to the average of this region (in Q1 2014 it amounted to 3.0% and 2.4% y/y respectively). In Estonia, however, the decrease was more significant. GDP fell by 1.1% on an annual basis in Q1 2014, mainly due to weakened demand from the main trading partners. As a result, Estonia has experienced the most severe recession, apart from Cyprus, whereas in 2011-2012 it was the fastest growing economy of the EU (average growth of almost 7% y/y).

Changes in the growth structure – the growing importance of domestic demand

The acceleration of economic growth in CEE in 2013 and Q1 2014, was mainly due to the increasing role of domestic demand. Along with foreign demand, it became one of the main drivers of economic growth. The growing importance of domestic demand was best observable in the countries which previously experienced its significant fall, i.e. in the Czech Republic, Slovenia, Slovakia and Hungary. Domestic demand has also accelerated in Poland, Romania, Bulgaria and Croatia. Only in the Baltic states has domestic demand fallen slightly, where with exports falling at the same time, the economic growth rate has also decreased.

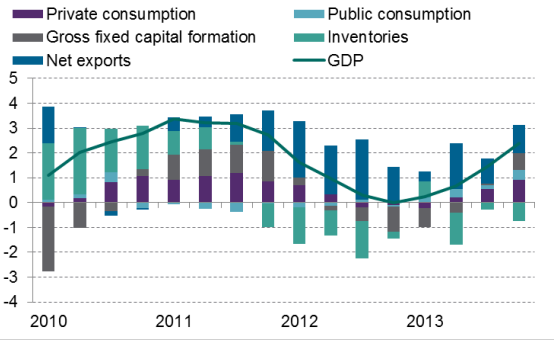
The rise in domestic demand observed amongst the majority of the CEE countries was a consequence of a less contractionary fiscal policy and an accommodative monetary policy.

Growing private consumption

Since Q2 2013 household consumption in the CEE region has started to increase. In Q1 2014, the annual growth rate of household consumption amounted to 2.4% y/y and was the highest since Q3 2008.

Growth in private consumption has increased in the majority of the economies of the region, apart from the Baltic states, where its growth rate slightly fell, while remaining relatively high. A significant rise in private consumption occurred in the Czech Republic, Slovakia and Hungary, i.e. countries that previously experienced a decrease on an annual basis in the preceding years and even in Q1 2013

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



Source: Eurostat

The general improvement in private consumption was caused by factors such as improved conditions in the labour market, an increase in real disposable income and the eased scope of fiscal consolidation observed amongst the majority of the countries. Those factors, along with the expectations about the economic situation, have led to improved consumer sentiment and a propensity to spend. A more significant and sharp increase in the private consumption, however, remains restricted by the process of household deleveraging, despite the accommodative monetary policy .

Significant increase in investment

Fixed capital formation began to increase markedly in mid-2013. Moreover, for the first time in two years, investment contributed positively to GDP growth in the CEE region. In Q1 2014 its annual growth rate amounted to 5.2%, which indicated a significant improvement compared to the decrease of 4.6% in Q4 2012,.

A rise in investments has taken place in the majority of the CEE countries. A significant decrease in investment was, however, visible in Estonia, Latvia (the result of an end to large projects) and Romania as a consequence of a decreased investment in transport equipment. Improved investment was, to a certain degree, associated with an increased level of public investment, mainly on infrastructure, co-funded by the EU.

Although the construction sector crisis, a consequence of the constantly lowering private expenditure from both the corporate and household level, is still persisting in the majority of the ECC countries, the abovementioned rise in public investment has greatly helped to lower the scope of the crises. The Baltic states have been the only countries to experience an increase in private investment in construction in 2013 and Q1 2014.

Machinery, equipment and means of transport were the main areas of private investment and were particularly observed within the manufacturing companies. They indicated efforts to increase production capacity to accommodate growing foreign demand.

Exports driven by demand from the euro area remain an important growth factor

In H2 2013 and in Q1 2014 exports were still increasing, even at an accelerated rate, when compared to H1 2013. The increase in exports was driven by demand from the euro area, and its constantly growing rate helped to maintain positive trends in international trade, despite a fall in exports to the Russian and Ukrainian markets in Q1 2014.

An increase in exports in H2 2013 and in the beginning of 2014 occurred in the majority of the countries, but was particularly visible in the Czech Re-

public, Romania, Slovakia and Hungary, where it was mainly attributable to increased production in the automotive industry. In addition, exports increased in Poland, Slovenia and in Q1 2014 also in Croatia. In the Baltic states, however, exports were declining from the beginning of 2013. The fall was associated with a decline in sales to both the EU and non EU states, including a fall in trade among the three countries.

Increased exports have positively contributed to a rise in the GDP of the region. Moreover, positive contribution of net exports occurred in the majority of the economies in H2 2013 and Q1 2014 (apart from in Lithuania and Estonia, and in Q1 2014 also in Bulgaria). Although the scope of the positive impact of net exports on the economic growth increased in the Czech Republic, Hungary (rise in car exports), Croatia (slower growth in imports) and Slovenia, it was Romania that experienced the contribution to the greatest extent.

In Q1 2014 the positive contribution of net exports to the GDP growth of the region declined. The decline was associated with a rapid increase in imports caused by two factors. Firstly, growing domestic demand increased demand for the import of consumer and capital goods. Secondly, through increasing exports within the global value chains (GVC), the demand for intermediate goods increased, thus causing a rise in imports too.

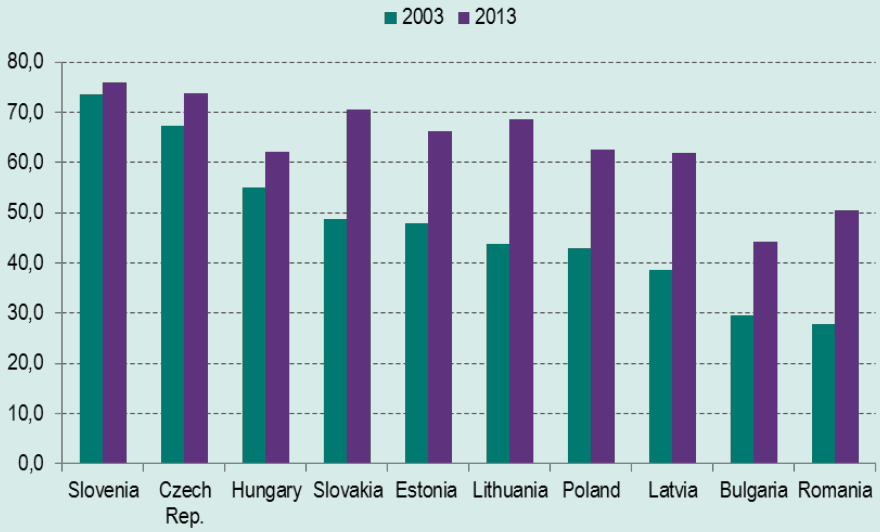
10 years in the EU – did the New Member States use the opportunity to catch up with Western Europe?

At the moment of accession, the New Member States (NMS) had already gone through a long pre-accession process, and most economists were already aware that EU membership was more an opportunity for dynamic and sustained economic growth than its guarantee. Accession improved the conditions for development; most barriers to free movement of goods, labour and capital were removed. Decreased financial risk improved investment, while development programmes granted the opportunity to modernize infrastructure.

Data are providing evidence that the opportunity to catch up with Western Europe was indeed used on a region level. In the years 2003-2013, GDP *per capita* expressed in PPS increased considerably and the difference with the EU-15 countries decreased significantly. At the moment of accession, GDP *per capita* in the region represented less than 50% of the EU-15 average, while in 2013 it exceeded 60%.

With regard to the pace of the convergence process, two groups of countries emerge. The first group consists of countries characterized by a relatively low level of economic development at the moment of accession and a dynamic convergence towards EU-15 levels of economic development (Bulgaria, Estonia, Lithuania, Latvia, Poland, Romania and Slovakia). Countries from the second group were characterized by a relatively high level of economic development at the moment of accession, but the process of catching-up with the EU-15 was sluggish (Czech Republic, Slovenia and Hungary). Thus the convergence pattern observed in the NMS seems to be in line with the main conclusions from the neoclassical growth theory (R. Solow, 1956; N.G. Mankiw, 1992).

Figure 1.3 GDP *per capita* in PPS (as % of UE-15)



Source: Eurostat, EI NBP calculations

In 2003, Bulgaria and Romania were the least developed among the countries of the region; their GDP *per capita* expressed in relation to the EU-15 average did not exceed 30%. Before the global crisis broke out in 2008, both economies were converging at a similar pace. Since 2009, however, the process became more dynamic in Romania, bringing its GDP *per capita* to 51% of the EU-15 average in 2013, while the Bulgarian GDP *per capita* stagnated below 44%.

In the Baltic Countries the catching-up process was equally dynamic. During the accession their GDP *per capita* barely exceeded 40% of the EU-15 average (with the exception of Estonia where it amounted to 51%), whereas 10 years later it amounted to 59%, 65% and 66% in Latvia, Estonia and Lithuania respectively. Among these countries, catching-up with EU-15 was the fastest in Lithuania and slowest in Estonia. Income convergence was fuelled by foreign capital inflow mainly in the years 2004-2008. During the crisis and the years of restrictive economic adjustments that followed (such as internal devaluation), GDP *per capita* relative to the EU-15 average decreased temporally; pre-crisis levels of relative GDP per capita were reached only in 2011.

In Slovakia convergence proceeded at a similar pace; however, its temporary reversal during the crisis years did not occur. When joining the EU, its GDP *per capita* represented slightly less than 50% of the EU-15 GDP *per capita*; however, in 2013 it had already reached 70%. Consequently, not only the distance separating the Slovak economy from EU-15 countries was diminished, but the development gap between Slovakia and the Czech Republic, which was much more developed when Czechoslovakia broke up, nearly disappeared.

When Poland joined the EU, its GDP *per capita* was relatively high, representing 44% of the EU-15 average. Moreover, the convergence process was relatively dynamic throughout the 10 years; since 2013 the relative GDP *per capita* has exceeded 60%. It is also worth mentioning that during the crisis period, convergence accelerated, which was possible thanks to a large domestic market, a flexible exchange rate and the relatively small openness of the economy.

In countries characterized by a relatively high level of economic development in the moment of EU accession (i.e. Hungary, Czech Republic and Slovenia), convergence followed a different pattern. In 2003, Hungarian GDP *per capita* amounted to 56% of the EU-15 average. However, as a result of high debt policy in the years 2003-2006 and the consequent fiscal adjustment in the following years, convergence in Hungary was sluggish during the 10 years, with even a mild correction in 2007. As a result, Hungarian GDP *per capita* reached 62% of the EU-15 average in 2013 – less than Lithuania, Estonia and Slovakia, all of which were less developed in the moment of accession.

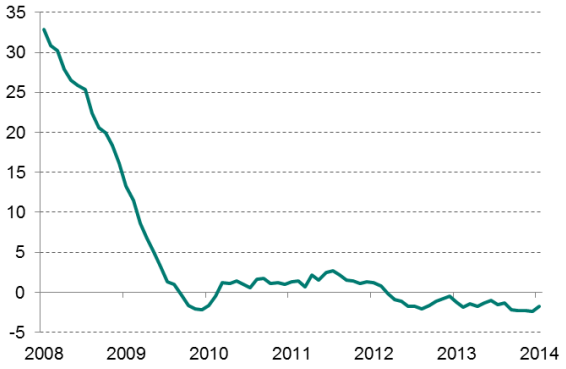
Convergence in the Czech Republic was equally slow to materialize. The main difference, however, is that the initial level of development in the Czech Republic was much higher than in Hungary. In 2003, Czech GDP *per capita* represented nearly 70% of the EU-15 average, making the Czech Republic the second most developed country in the region. However, similarly to Hungary, the convergence process proved to be slow enough for the GDP *per capita* to reach only 74% of the EU-15 average after 10 years.

Slovenia is the only country where the convergence process was not durable. Before joining the EU, Slovenia, with its GDP *per capita* exceeding 76% of the EU-15 average, was already the most developed country in the region. Nevertheless, in the case of Slovenia, not only the convergence process was relatively slow in the pre-crisis years, but it reversed after the crisis. As a consequence, the Slovenian economy is currently at the same level of development in relation to the EU-15 as it was in the moment of joining the EU.

Deleveraging remains a barrier for growth

Ongoing private sector deleveraging kept on slowing the domestic demand in many of the CEE economies in 2013 and the beginning of 2014. Domestic credit for the non-financial private sector has been constantly falling on an annual basis since mid-2012. Only in Poland (corporate loans) and Slovakia (households loans) a significant growth in loans value (c.a. 6% y/y in both countries) was observed in that period. A smaller increase (1.5%-3.0% y/y) was noticed in Bulgaria, the Czech Republic and Estonia. On the other hand, in Croatia, Hungary, Latvia and Slovenia lending growth not only remained negative, but its falls were also getting deeper.

Figure 1.4. Private sector loans in the CEE countries (average, y/y, in %)



Source: Central banks

Both demand and supply factors were standing behind weak credit growth in the CEE region. On the one hand, highly indebted households and enterprises, especially in the Baltic states, Croatia and Slovenia, were eager to reduce current debts rather than taking on new ones. On the other hand, banks, facing liquidity problems, were not able to increase credit supply. According to the BIS data[1], foreign claims of the CEE located banks *vis-a-vis* their foreign counterparts (mainly parent banks) further decreased in 2013. In the whole CEE region, the capital outflow from the CEE banking sector abroad amounted to 3% in 2013. Only in the Czech Republic[2] and Lithuania the opposite process was observed.

The outflow of foreign capital from the banking sector was partly replaced by domestic deposits (steadily growing at c.a. 5% y/y since 2011). However, high dependence on foreign funds meant that domestic deposit growth was still not able to fully compensate for the capital withdrawal from the CEE region.

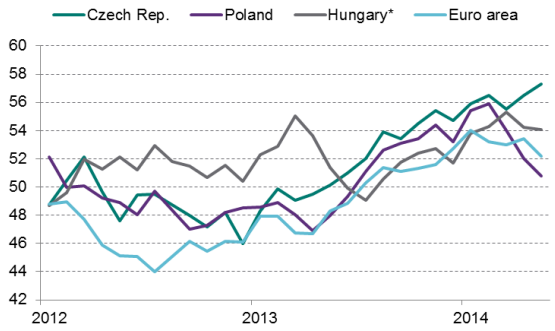
Growth in business sentiment halted in Q2 2014

Business sentiment indicators in the CEE countries in the first five months of 2014 did not provide a homogenous view. In January-February 2014, like in 2013, both EC Business Climate Indicators (BCI) and Manufacturing PMI for the region's largest economies (Poland, the Czech Republic, Hungary) continued on an upward trend. Growing optimism was supported by steadily increasing new orders (but mostly domestic ones) and observed positive trends in current production, which shift the production expectations. However, in the following months' (March-May 2014) growth in business confidence indicators stopped, and in some countries (the Baltic states, Poland, Croatia and Hungary), a decline in producers confidence indicators was observed. Decreasing export orders and growing uncertainty about the developments in foreign demand (due to possible slowdown in the euro area recovery and the expected fall in the Easter European demand due to intensification of the Russia-Ukraine conflict) seemed to have the greatest influence on business confidence deterioration.

[1] Bank for International Settlements, Locational Banking Statistics

[2] The increase in foreign claims in the Czech Republic, and at the same time the decrease in Slovakia were a result of a merger within the Unicredit Group.

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



*3 month moving average for Hungary
Source: Markit

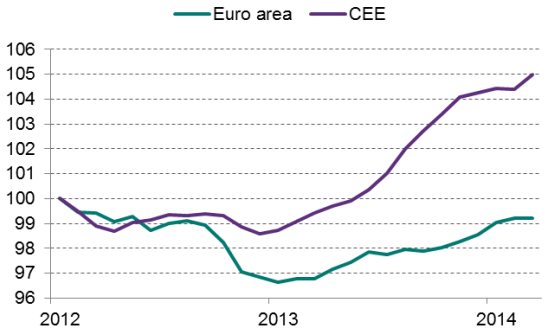
Ongoing recovery in industry

A decrease in new orders, especially export orders in Q2 2014, did not translate into a slowdown in industry. Industrial production continued to rise. In April 2014 its annual growth rate amounted to 6.2%, i.e. the highest figure since mid-2011.

Industrial production grew in most of the CEE countries and was related mostly to an increase in manufacturing output. The most significant growth was observed in the Czech Republic, Hungary, Romania and Slovakia, on the back of growing production of the automotive industries in these countries. On the other hand, the Baltic states experienced a decrease in industrial production. This resulted from lower foreign demand and thus a fall in exports. Curtailed output of Mazeikiai oil refinery (Lithuania) and Liepaja metallurgy plant (Latvia) also significantly influenced the production drop.

Production of consumer goods, especially durable ones, rose the fastest in Q1 2014. Production of capital and intermediate goods also increased, but to a smaller extent. Production of energy, similarly to most EU countries, continued to fall. The negative trend in energy production, observed since 2013, was reversed already in April 2014.

Figure 1.6. Industrial production in the CEE region and in the euro area (January 2012 = 100)



Source: Eurostat

Improving consumer sentiment indicates further growth in private consumption

Consumer sentiment indicators across the CEE countries had been on a rise since the beginning of 2013. In the first months of 2014 this tendency was upheld. In May 2014 the EC Consumer Confidence Index reached the highest value since September 2008, which means that households optimism has already returned to its pre-crisis levels. However, the situation was not homogenous across the region. In Croatia, Estonia and Lithuania consumer confidence indicators fell slightly in January-May 2014.

The main factors influencing the sharp rise in households optimism include the following: an expected further improvement of countries' economic situation and their financial standing, improvement in labour markets, and growth in real disposable income (due to lower inflation expectations). In Estonia and Lithuania, however, the recent economic slowdown weighted on a fall in sentiment indicators.

The improvement in consumer sentiment was followed by an increase in retail sales, which increased by 0.9% between January and April 2014 (3.4% y/y in April 2014). Sales of durable and semi-durable

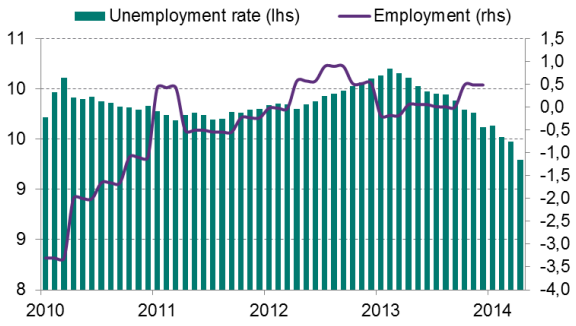
goods rose the most, although sales of food and fuels also increased.

The fastest growth in retail trade turnover was observed in the Baltic states, even as consumer sentiment in these countries deteriorated. Sales also accelerated significantly in Hungary and Romania. On the other hand, in Bulgaria and Slovenia retail trade turnover remained practically unchanged, whilst it fell in Poland.

Slow recovery in the labour market

Labour market conditions were improving gradually in Q1 2014 similarly to H2 2013. Although the unemployment rate for the region was decreasing, it still remained relatively high. The decrease between December 2013 and April 2014 took place in all the economies (apart from Latvia). A particularly high fall in the unemployment rate occurred in Hungary (0.9%) and Estonia (0.6%), where the former decline was mainly attributable to an increased employment in public sector – a result of the government work scheme. The rest of the countries experienced a substantially smaller fall in the unemployment rate, not exceeding 0.3%. In May 2014, the lowest unemployment rate was recorded in the Czech Republic (6.5%) and Romania (7.1%), whereas the highest rates were in Bulgaria (12.8%), Slovakia (14.0%) and Croatia (16.8%).

Figure 1.7. Unemployment rate (in %) and employment growth (in %, y/y) in the CEE region



Source: Eurostat

The falling number of unemployed was mainly associated with the decline of short-term unemployment (up to 1 year out of employment). The number of people in long-term unemployment, however, did not change (apart from in the Baltic states). In Bulgaria, Romania, Slovenia and Slovakia the number even significantly rose. Long-term unemployment prevailed especially in the countries with the highest unemployment rate, i.e. Croatia and Slovakia. In Q4 2013 those unemployed for one year accounted for 63% and 72% of all unemployed respectively. In contrast, in the rest of the countries this figure was around 40-50% and was comparable to the average of the EU-15 countries.

Employment data also indicated a slight improvement in the labour market, i.e. employment in the CEE region increased by 0.5% on an annual basis. A fall in employment was present only in Bulgaria, Croatia and Slovenia. Latvia and Hungary, in contrast, recorded an increase of over 2% y/y; however, in Hungary the rise may have been a result of the previously mentioned government scheme.

Growing industrial production supported an increase in the number of employed in this sector. The only countries to report a decline in employment in industry in 2013 were the Baltic states and Slovenia. The increase in employment last year also occurred in the public sector (particularly Hungary) and the retail sales sector, whereas the agricultural sector recorded a decline. Amongst the majority of the CEE economies employment in construction continued to fall, which was evidence of the crises present in that sector. The only countries to record an increase in employment in construction were Latvia and Lithuania.

The expected continuation of economic recovery for the CEE region in 2014-2015 should contribute further to the progressively improving situation on the labour markets. Forecasts of domestic and international institutions have indicated that a decline in the unemployment rate will occur relatively slowly.

Therefore, the projected economic recovery in the upcoming years will not, most probably, be a consequence of increased employment, but improved productivity, similarly to 2010-2011.

Decline in nominal wages and unit labour costs

Despite the slow improvement in labour market conditions, the growth rate in nominal wages in 2013 and Q4 2014 diminished slightly in the majority of the countries, when compared to last year's figures. The nominal wage growth rate for the region in Q1 2014 was 3.8%, whereas last year it amounted to 4.6%. The decline was observed amongst the majority of the economies. In the Czech Republic nominal wages decreased even in Q4 2013, but the fall was due to a high base effect. The average wage growth rate in 2013 increased in the Baltic states and Slovenia. Slovenia's improvement was solely the effect of a low base (falling nominal wages since 2012). The Baltics, however, had recorded a high nominal wage growth rate already in 2012. It was amongst the highest ones in the region and continued to be so in subsequent years, despite weakened economic activity. In Q1 2014 the growth of wage rate slowed down slightly in Estonia and Lithuania, but remained relatively high in contrast to the rest of the CEE region.

A fall in the nominal wage growth rate was accompanied by an even stronger fall in inflation and inflation expectations. As a result, the real wage growth rate rose. It was one of the most important factors which positively simulated consumer sentiment at that time. On the other hand, a decline in inflation and inflation expectations could also be attributed to lower wage pressure.

A decrease in the nominal wages growth rate and increased labour productivity (indicated by high GDP growth and a relatively small increase in employment) have both contributed to a decrease in unit labour costs (ULC). The decreasing trend had already been observed in H2 2012 and it continued to 2013. However, it did not prevail amongst all the economies. In the Baltic states high growth in nominal wages and declining GDP growth have contributed to a significant acceleration of ULC growth. It seems, that increasing labour costs in the Baltics could impose a threat to the hard won cost competitiveness of their exports.

A slow improvement on the labour market and continued economic recovery are expected to contribute to the nominal wage growth amongst the majority of the CEE countries between 2014-2015. Only in the Baltic states is an increasing trend that could be observed between 2012-2013 expected to pause. Moreover, the rise in wages in the upcoming years should not affect the nominal ULC, because productivity should improve to a comparable extent.

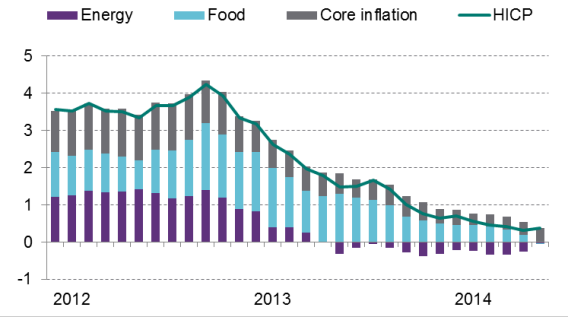
Successive decline in inflation

The disinflation process that started in Q4 2012 continued throughout 2013 and at the beginning of 2014. The annual growth rate of HICP amounted to 0.4% in May 2014 (in April 2014 the figure was even lower, i.e. 0.3%). In contrast, in December 2013 the figure was 0.7% and in September 2012 it amounted to 4.2%. Thus, the most current rate of HICP inflation rate for the CEE region has reached its lowest value ever.

The decline in inflation during the period January-May 2014 occurred in the majority of the CEE countries. The greatest fall was observed in the Czech Republic, Estonia and Hungary, which was highly associated with a decrease in regulated prices. Only in Latvia did the inflation rate during that period increase substantially. To some extent this was a consequence of Euro adoption (the Bank of Latvia estimated that inflation increased by 0.2%-0.3% as a result). In Romania, Slovenia and Slovakia, after recording a decrease in inflation in Q1 2014, in May 2014 the figures returned to the levels observed at the end of 2013.

In May 2014 the comparatively highest inflation was observed in Romania (1.3%) and Slovenia (1.0%). In the rest of the countries, the inflation rate did not exceed 1% and was even negative in Bulgaria. The negative inflation rate present in Bulgaria has been visible since mid-2013, but can be considered as a temporary phenomenon which is attributed to a fall in regulated prices and favourable energy and food prices development. After an ease of the base effect associated with a decrease in regulated prices (particularly energy), inflation in Bulgaria should begin to increase, which can be expected even in Q3 2014. At the beginning of 2014 negative inflation was also observed in Croatia, Hungary and Slovakia but it was a short term decline and in May 2014 HICP growth rates increased again.

Figure 1.8. HICP inflation and its components in the CEE region (in %, y/y)



Source: Eurostat

The factors leading to a declining price growth were similar amongst the CEE countries. Those were mainly supply side factors. Although the decrease in the HICP rate in 2013 was mainly associated with energy prices, in 2014 it was food (precisely unprocessed food) prices that affected HICP the most. In total food prices have contributed to a decrease in inflation by 0.5% where 0.4% was assigned to unprocessed food prices. The fall in food prices is mainly the effect of persistently low price levels of agricultural goods, owing to good harvests.

The smaller contribution of energy prices into a decline in inflation in 2014 compared to 2013 was not a result of an increase in energy prices, but was due to a low base in 2013. After a period of 12 months of negative growth in energy prices, their level has started to increase. Already in May 2014 the annual growth in energy prices occurred, but it amounted to merely 0.1% y/y. In many countries, however, the energy prices for the private sector were still declining, owing to administrative decisions (i.a. lowered electricity prices in the Czech Republic, Lithuania and Slovakia or lowered gas prices in Lithuania and Hungary.

Core inflation still at a very low level

Core inflation in the CEE region in January-May 2014 remained at a historically low level, i.e. 0.6%-0.7%.

The recorded low level of core inflation indicates that the growing demand to date was not strong enough to play a significant role in spurring inflation. Moreover, decreasing levels of energy and food prices, as well as the declining level of producers price index[3], which in turn affected the prices of goods and services, have also contributed to the low levels of core inflation.

Core inflation has been persistently declining in most of the CEE counties since January 2014, but at a slower rate than in 2013. The only countries to observe an increase in core inflation were Latvia, Romania, Slovenia and the Czech Republic. The increase in the former two could be attributed to a relatively rapid rise in private consumption. In Slovenia it was the effect of an increase in regulated prices (i.e. of transport services), whereas in the Czech Republic the further fall in core inflation could be associated with the depreciation of CZK and increasing import prices.

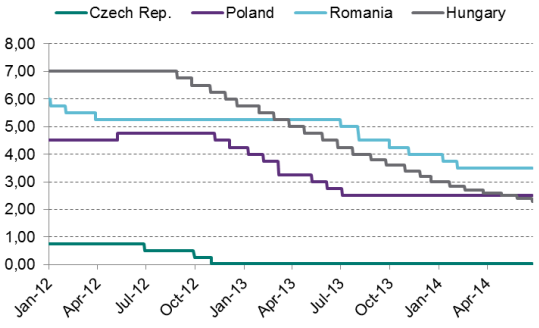
[3] Domestic PPI annual growth rate in January-April 2014 was negative in all CEE states, except for Latvia.

Accommodative monetary policy stance

A further fall in inflation in the first half of 2014 was considered to be the main reason for the CEE central banks (of the countries following the direct inflation targeting policy, i.e. the Czech Republic, Hungary, Poland and Romania) to maintain their accommodative monetary policy stance or even further ease monetary policy. In all four of the countries inflation already fell below the lower band of the inflation target in October 2013.

In January-June 2014 the central banks of Hungary (MNB) and Romania (NBR) continued on main policy rates reductions. MNB lowered it rate by 70 bps in total (to 2.3%) and NBR by 50 bps (to 3.5%).

Figure 1.9. Central banks main policy rates in the CEE countries (in %)



Source: Reuters

The Polish (NBP) and Czech (CNB) central banks kept their rates at historically low levels. As CNB was unable to further cut its main policy rate (the 2 week Repo rate has remained at 0.05% since November 2012), it decided to use the exchange rate as a monetary policy tool. In November 2013 the CNB Board announced that it would intervene to keep the EUR/CZK rate close to 27 for at least 18 months. The commitment was to be asymmetrical, i.e. CNB was to act only to prevent CZK appreciation. Prevailing low inflation could, however, extend the period of the exchange rate commitment.

The accommodative monetary stance in the CEE region is expected to be sustained in the nearest future. It is backed by still very low inflation and the recent ECB decision (lowering interest rates and the introducing quantitative easing programmes). In the case of a strong appreciation of local currencies, further monetary policy easing in CEE cannot be excluded.

Central bank decisions were translated into short-term interbank rates. In most of the countries they remained low and relatively stable. Only in Hungary did they decline by c.a. 70 bps, following the changes in MNB rates. Higher volatility was noticeable in Romania. In January 2014, 3-month interbank rates fell below 2%, i.e. the lowest level in history, far below the MNB rate level. However, in the following months a significant increase took place. Till June 2014, short-term rates began to fluctuate around the main NBR rate level[4].

Relatively sound public finances in 2013

The general government deficit in 2013 was executed below the reference value (3% of GDP) in almost all CEE countries. Moreover, fiscal outturns were similar or lower than the budgetary targets assumed in 2013 updates of stability/convergence programmes. Targets were outperformed, in particular, in the Czech Republic and Hungary (by 1.3 pp and 0.5 pp of GDP, respectively), owing to lower spending[5]. In contrast, large fiscal imbalances continued to persist in Slovenia (14.7% of GDP), Croatia (4.9% of GDP) and Poland (4.3% of GDP) – all

[4] Banks expected increased liquidity in the sector after NBR lowered the reserve requirement. It did not happen, as most of the excessive funds had been absorbed by Treasury.

[5] In the Czech Republic lower than planned investment outlays and favourable developments on the revenue side (higher indirect tax receipts and social contributions, one-off revenue from the sale of newly-released frequency bands) accounted for this improvement. In Hungary, better-than-expected fiscal outturn resulted from cancellation of budget reserves and lower social transfers and local government expenditure.

being under the excessive deficit procedure[6] (EDP), as economic conditions were weaker than expected. The significant worsening of the headline deficit in Slovenia stemmed predominantly from the sizeable support to the banking system (10.3% of GDP).

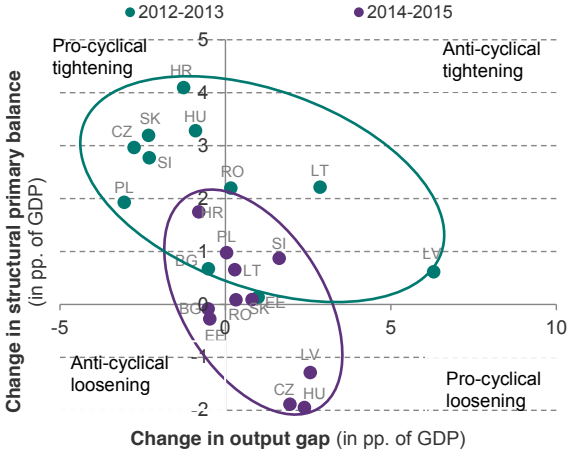
Before 2013, Hungary had been the only country in the region with the public debt-to-GDP ratio exceeding the reference value (60%). Last year, this threshold was breached by Croatia (67.1% of GDP) and Slovenia (71.7% of GDP), mainly as a consequence of persistent deep fiscal imbalances and economic slump, followed by the pre-financing of next years' borrowing needs. The surge in the public debt figure for Slovenia in 2013 (by 17.3pp of GDP) also reflected to large extent the recapitalizations of certain banks and the purchase of non-performing loans portfolio by the government-owned Bank Assets Management Company.

2013 was the deadline for bringing down the general government deficit below 3% by the Czech Republic and Slovakia. At the beginning of June 2014, the EC recommended the Council an abrogation of EDP for both countries, as improvement in public finances was delivered in a credible and sustainable manner.

Compliance with the EU fiscal rules – determinant of fiscal adjustment in 2014-2015

In the years 2014-2015 fiscal consolidation is expected to be continued only in Lithuania and the CEE countries under the EDP (Slovenia, Croatia, Poland). Adopted and planned measures are geared to both revenue (i.a. tackling the shadow economy and tax evasion) and expenditure side. However, the average magnitude of the fiscal effort (gauged by improvement in the primary structural balance[7]) will be substantially lower as compared to 2012-2013 (1.1 pp. against 2.8 pp. of GDP) and – according to the EC spring forecast – may not safeguard the deficit correction by the established EDP deadline. The EC estimates that Poland and Slovenia will miss the reference value by only 0.1 pp. of GDP in 2015, in contrast to 0.7 pp. of GDP in the case of Croatia (2016). The figures for Poland and Croatia exclude the impact of the asset transfer from the open pension funds[8] on the headline deficit. The EC in early June 2014 assessed, that these two countries had taken effective action and no further steps under EDP were needed, but further adjustment measures should be adopted for 2015[9], to ensure durable deficit correction.

Figure 1.10. Fiscal policy stance in the CEE countries in 2012-2013 and 2014-2015



Source: European Commission (AMECO database).

[6] Taking into account the economic situation of these countries, the EC recommended the Council an extension of the EDP deadline for Poland and Slovenia to 2015 (from 2012 and 2013, respectively) and proposed a relatively long deadline (2016) while opening EDP for Croatia.

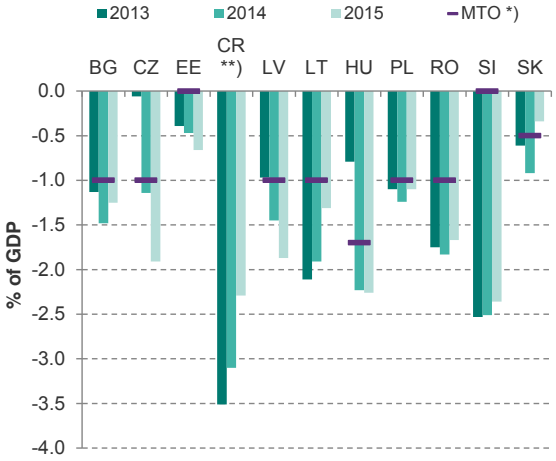
[7] Nominal fiscal balance net of the impact of business cycle, interest payments, one-off and temporary measures. Data for the CEE countries are taken from the EC spring forecast (May 2014).

[8] According to ESA2010, replacing current ESA95 rules in autumn 2014, such transfer will not be registered as a revenue any longer (no impact on the general government balance). The value of assets transferred from the pension funds to the general government in 2015 is estimated by Polish and Croatian authorities at c.a. 0.2% of GDP and ca. 0.6% of GDP, respectively.

[9] The EC spring forecast does not incorporate certain austerity measures envisaged in the Croatia's Convergence Programme.

In other CEE countries the primary structural balance is projected to remain unchanged within the horizon of the EC forecast, whereas in the Czech Republic, Latvia, Estonia and Hungary fiscal policy will be loosened[10], but the headline deficit will not exceed 3% of GDP. This translates, in the face of improving cyclical conditions, into postponing achievement of the medium-term budgetary objective (MTO)[11], required by the Stability and Growth Pact, as well as public debt stabilization.

Figure 1.11. Progress towards MTO in the CEE countries



*) structural balance of the general government.
**) The Croatian authorities did not set out the MTO in the Convergence Programme.
Source: European Commission (AMECO database), stability/convergence programmes of the CEE countries.

Moderate public debt growth

Despite the sizeable reduction in the fiscal imbalance in recent years and improving growth prospects, in most CEE countries the debt-to-GDP ratio is projected to rise. Yet, its growth will be moderate (0.3-3.9 pp. of GDP in 2014-2015), except for Slovenia (c.a. 9.6 pp. of GDP, the result of further support to the banking system and pre-financing of the borrowing needs[12]). However, forecasts of the EC and Slovenian authorities do not include the impact of planned privatization (i.a. sale of the government shares in commercial banks).

In turn, a slight fall in public debt is expected in the Czech Republic and Estonia (0.3-0.5 pp. of GDP), a large decrease is anticipated in Latvia (4.6 pp. of GDP, repayment of loans granted under financial assistance programme[13]) and Poland (7.0 pp. of GDP, the impact of the funded pension scheme overhaul[14]).

Slovenia, Hungary and Croatia[15] will remain the only countries in the region, in which the general government gross debt markedly exceeds the 60%-of-GDP threshold. The EC warned Hungary, that non-compliance with the debt reduction benchmark could trigger re-opening of the EDP[16].

[10] The EC estimates that the primary structural general government balance will deteriorate in 2014-2015 by 2 pp. of GDP in the Czech Republic and Hungary, by 1.3 pp. of GDP in Latvia and 0.3 pp. of GDP in Estonia, as a consequence of higher spending (Latvia – measures on the revenue side).

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

[12] The Slovenian Treasury bonds issuances in February and April 2014 were record-high, enabling pre-financing of borrowing needs till the end of 2016 r

[13] As a consequence, there will be no need to maintain sizeable precautionary cash buffers (c.a. 6% of GDP at the end of 2013).

[14] On the 3rd of February 2014 each open pension fund (OFE) transferred to the Social Insurance Institution (ZUS) 51.5% of its assets, mainly Treasury securities. A redemption of Treasury bonds and a consolidation of infrastructural bonds within the general government resulted in a one-off fall in public debt (ESA95, ESA2010) of c.a. 8.5pp. of GDP.

[15] The EC forecasts that the public debt at the end of 2015 will stand at 81.3% of GDP in Slovenia, 79.5% of GDP in Hungary and 69.2% of GDP in Croatia.

[16] Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure includes a provision related to the debt criterion con-

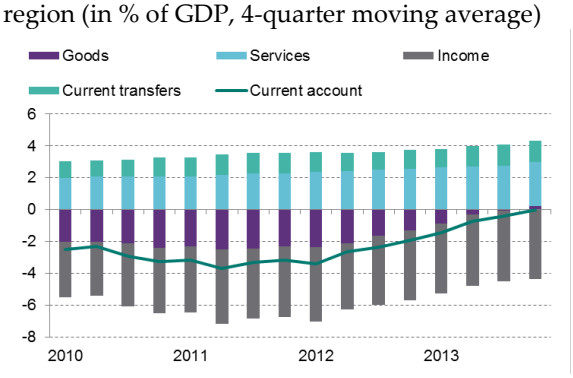
Balanced current account

The current account balance in the CEE region significantly improved in 2013. Furthermore, for the first time in the 21st century it has got out of negative territory. It amounted to 0.0% of GDP in 2013 compared with a deficit of 2.1% of GDP in 2012. Initial estimates suggest that further improvement can be noticed in Q1 2014[17], i.e. due to a large current account surplus in the Czech Republic.

Except for the Czech Republic, the current account improved in all of the countries. In some (Estonia Latvia, Poland, Romania) it meant a decrease in deficit, in others (Bulgaria, Croatia, Hungary, Lithuania, Slovakia, Slovenia), an increase in surplus.

Growing surplus on goods account was the major contributor to this change. In 2012 in the CEE region, goods posted a 1.3% of GDP deficit, while in 2013 it turned into a small surplus (0.2% of GDP). Goods account balance improved in the vast majority of the CEE economies (except for Estonia and Lithuania). Services and current transfers also increased. Only deficit in income remained unchanged across the region.

Figure 1.12. Current account balance in the CEE region (in % of GDP, 4-quarter moving average)



Source: Eurostat

cerning countries, that were under the EDP in autumn 2011. It is deemed to be fulfilled, provided sufficient progress towards compliance, as it is assessed in the opinion adopted by the Council on its stability/convergence programme.

[17] No Q1 2014 current account data for Hungary.

In the following quarters of 2014 a deceleration and even a reverse in recently observed trends is expected. The current account balance is to slightly deteriorate, mainly due to a decline on the goods balance (the rise in imports is to exceed that of exports). Deficit in income is also to widen. The expected improvement in the economy will lead to higher profits in the enterprise sector. That includes foreign-owned companies, whose profits are treated as income outflow.

Foreign capital outflow

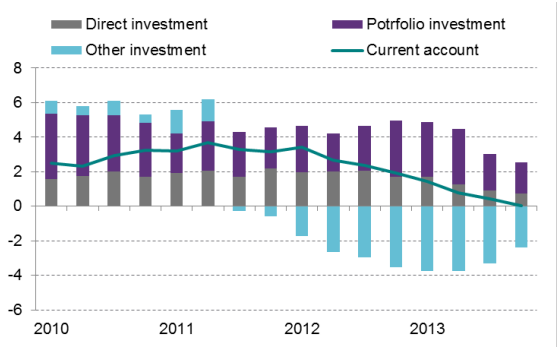
A balanced current account was not the only phenomenon in the CEE balance of payment statistics. The CEE region, for the first time, experienced a net foreign capital outflow. A decrease in the financial account balance could be noticed already in 2011-2012, but it remained positive. In 2013 it amounted to -0.4% of GDP. The net outflow resulted mainly from lower foreign capital inflow to Poland, and its increased outflow from the Baltic states, Romania and Slovenia. Initial estimates suggest, that the magnitude of foreign capital outflow might even enlarge in Q1 2014.

Lower inflows of foreign direct and portfolio investment were key factors of such financial account deterioration. This could be observed especially in the Baltic states, Poland and Slovakia.

However, a significant fall in FDI inflow did not originate from lower greenfield investment. It was a result of a repayment of intra-corporate loans, which confirms the ongoing deleveraging in the region, and transfer of profits to the parent companies. Lower portfolio investment balance was associated with the foreign investors retreat from the CEE Treasury bond market in H2 2013. It was a consequence of the FED announcement of QE tapering and growing political and economic tensions in Turkey and Argentina, which increase investors aversion toward the emerging markets. It is worth

mentioning that CEE markets suffered much less than Asian or Latin American emerging markets.

Figure 1.13. Foreign capital net inflows to the CEE region (in % of GDP, 4-quarter moving average)



Source: Eurostat

A continuous outflow of other investment, mainly loans repayment and withdrawal of deposits in the CEE banking sector, confirms the ongoing deleveraging process. The scale of this process diminished in 2013, which was mainly a result of an increased inflow of short-term deposits to the Czech banks[18].

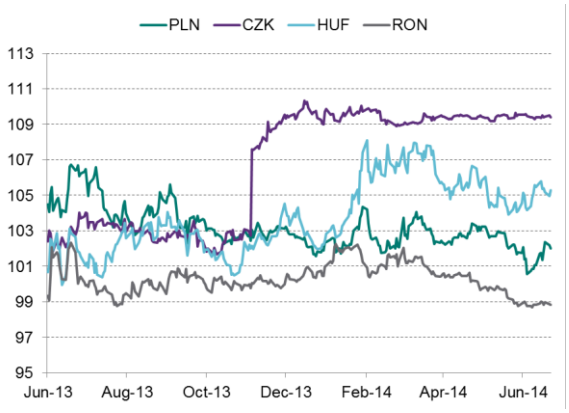
Financial markets shaped by external factors

The situation on the CEE financial markets in H1 2014 was shaped mostly by external factors (i.e. global risk aversion and investors sentiment toward the region). Domestic developments played a much smaller role.

Two periods of a significant but temporary increase in financial markets volatility were observed in the first months of 2014. In January 2014, after the FED announced its QE tapering, and Chinese data was suggesting a slowdown in the largest emerging economy, foreign investors started to withdraw their capital from emerging markets. The CEE financial markets have also been affected, but to a much smaller extent than other European (Russia, Turkey) or South American ones. Hungary seemed to be most hit among the CEE countries. In January 2014 the EUR/HUF exchange rate depreciated by 6% and 10-year bond yields rose by 80 bps. Poland (EUR/PLN depreciation by 2.5%, 10 bond yields up by 40 bps) and Romania (EUR/RON depreciation by 2.0%) were also affected, while the Czech financial markets remained broadly intact. The turbulences tend to be only short-lasting and the situation stabilized in early February 2014.

The outbreak of the Russian-Ukrainian conflict in mid-February 2014 brought a return to financial markets turbulences. Their magnitude was, however, smaller than the previous ones. The effects could be noticed only in the Polish and Hungarian currency markets (c.a. 2% depreciation *vis-à-vis* EUR till mid-March 2013). Czech and Romanian currencies exchange rates remained stable, just as the CEE Treasury bond yields did not suffer from it.

Figure 1.14. Exchange rates of the CEE currencies *vis-a-vis* EUR (01.01.2013=100)



Source: Reuters

In the following months (March-June 2014) the CEE financial assets quickly regained the losses and went on a slight upward path. The ECB decision of further monetary policy easing additionally contributed to the improvement of investors sentiment toward CEE markets. As a result, currencies appreciated (except for CZK which remained stable) and

[18] This was connected to the FX interventions conducted by CNB in Q4 2013.

Treasury bond yields decreased, especially in Hungary and Slovenia.

Foreign investors seem to more and more positively assess the economic and financial situation of the CEE region (partly due to the euro area recovery). Recent development on the global financial markets proved that the CEE countries have become more immune to the shocks than other emerging economies, contrary to the 2008 crisis. Monetary policy easing by the ECB, which already started in Q2 2014, should additionally ease tensions on the markets and made the CEE financial assets prices slowly grow in the subsequent months.

Continuation of recovery in 2014-2015

GDP forecasts of domestic and international organizations suggest a continuation of the recently observed recovery in 2014-2015. The fastest economic growth, similarly to previous years, is to be recorded in the Baltic states[19], the slowest in Croatia (the only CEE economy struggling with recession in 2014) and Slovenia. Forecasts for the whole regions did not change in the first months of 2014. Slight downward revisions were made for the Baltics and Croatia. GDP forecasts for the Czech Republic, Hungary, Poland and Slovenia were, on the other hand, revised upwards.

Permanent shift in growth structure

The change in growth structure observed in 2013, i.e. the increasing contribution of domestic demand, is to strengthen in 2014 and 2015. Both consumption and investment are to continue growing. Already in H2 2014 the contribution of domestic demand is to surpass net exports and become the main driver of economic growth in the CEE region.

[19] High (3-4%) 2014 growth forecasts for the Baltics seem to be overoptimistic taking into account their recent economic slowdown and high exposure to crisis hit Eastern European economies.

The accommodative monetary policy and less restricted fiscal policy stance is to support domestic demand growth. Growing industrial production and increasing capacity utilization will lead to new investment in the private sector. The gradually improving situation in the labour markets should support consumption growth. On the other hand, ongoing deleveraging will still slow domestic demand growth, however, its magnitude should be smaller than in previous years.

Foreign demand is expected to remain an important growth driver. Recovery in the euro area should induce further growth in exports. However, contribution of net exports is to decrease, due to an even faster growth in imports. The major risks for maintaining strong foreign demand seem to be the still not fully stable euro area recovery and the fall in demand from Russia and other CIS countries (The Baltic states seem to be most vulnerable due to the highest exposure to these markets).

Acceleration of inflation since H2 2014

Low and decelerating inflation in the first months of 2014 brought serious downward revisions of forecast for the CEE region. Inflation, just like in the previous months, is expected to rise, but growth is now expected to be smaller and start later than previously assumed.

After a period of record low inflation, already in H2 2014 the disinflation trend should reverse. It will be the effect of growing domestic demand and thus inflation pressure. this means that core inflation should be a key contributor to an expected increase in consumer price acceleration. Demand side factors, i.e. food and energy prices, which determined the inflation development in recent quarters, should play a lesser role. Prices of energy and agricultural commodities on global markets are expected to stabilize. Changes in administrated prices should also be less frequent than in the previous period.

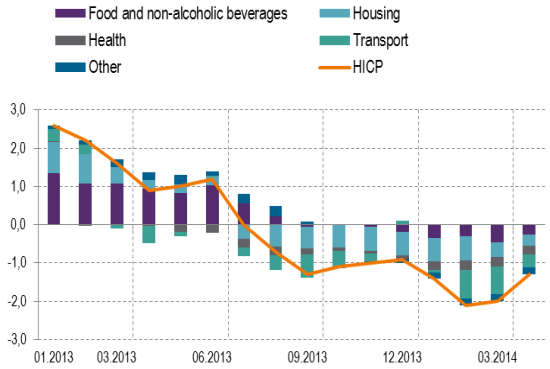
Bulgaria – consumer prices keep falling

With GDP growth not exceeding 1%, 2013 was again marked by stagnation in the Bulgarian economy. Weak domestic demand impeded growth; households reduced consumption spending on the back of negative developments on the labour market and weak expectations regarding the Bulgarian economy. In 2013 GDP growth was driven mainly by net exports and, to a lesser extent, by public spending. Even though growth figures for Q1 2014 point to a relatively weak annual growth rate – amounting to 1.2% – its structure has changed. Exports contribution to growth weakened significantly, while growth in private consumption spending resumed, reaching end of2012 levels.

Weak domestic demand throughout 2013 contributed to a gradual decrease in inflation. In H2 2013, the annual inflation rate according to the HICP index fell below zero and was decreasing gradually to bottom out at -2% in February 2014. The fall in prices eased somewhat in May 2014 to -1.8% in annual terms. Prices were falling practically in all HICP categories; the most pronounced declines in prices were recorded in housing, energy, transport, health services and food categories.

Although the weak domestic demand contributed indirectly to prices declines through margin reductions, in most cases price declines were induced by factors external to the Bulgarian economy and by administrative decisions. External factors included mainly a gradual slowdown and fall in food prices in 2013 and the beginning of 2014. Unprocessed food (meat, fruits and vegetables) prices declined following food price trends on international markets. Similarly, oil prices on international markets contributed to a decrease in transport expenditures in H2 2013 and at the beginning of 2014. The negative impact of the above-mentioned commodity prices on inflation was further strengthened by the appreciation of the EUR/USD exchange rate, the Bulgarian lev being pegged to the euro.

Figure 2.1. HICP inflation and its components (in %, y/y)



Source: Eurostat

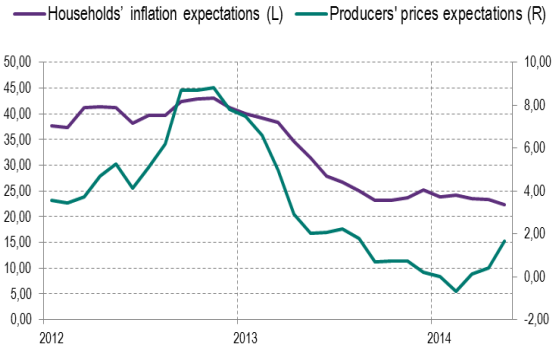
Administrative measures also contributed to a negative inflation rate. The July 2013 electricity price reduction had the biggest impact on the HICP. Other measures, such as lower health services prices contracted by the administration played a significant role in further reducing the HICP. Finally the methodology of including air fares in transport prices changed end 2013, which (purely statistically) further deepened the decline in transport prices.

In line with falling prices, 2013 saw declines in households' inflation expectations. More and more consumers were expecting consumer prices to fall further. At the beginning of the year inflationary expectations stabilized at low levels, which is consistent with weak consumer spending due to a still elevated unemployment rate and a low consumer confidence level.

Price expectations of producers follow a slightly different pattern. Although in Q4 2013 most producers were anticipating a fall in prices of their products, in Q1 2014 the situation changed and the majority of producers was expecting prices of their

products to rise over the next 12 months. Only producers of investment goods are still expecting prices of their products to fall. The fact that inflation expectations are back to H1 2013 levels seems to indicate that producers expect price declines to have a temporary character induced by one-off factors.

Figure 2.2. Households' inflation and producers' prices expectations (3 month average, pp)



Source: Eurostat

Producers' expectations are fairly consistent with forecasts of leading analytical institutions. According to them, stronger domestic demand, an expected stabilization of commodities prices on international markets as well as the waning of one-off factors will contribute to a gradual slowdown in the decrease of prices. The average inflation rate in 2014 is expected to rise back only to -0.8%, even though forecasting institutions expect the inflation rate to become positive at the end of 2014. In 2015, the average inflation rate is expected to reach 1.2%.

The key factor for bringing inflation back into positive territory will be the recovery of GDP growth, on the back of stronger domestic demand, including household consumption expenditure. The GDP growth structure should be similar to Q1 2014, with the only exception being trade, which is expected to have a stronger contribution to GDP growth. According to the European Commission, GDP growth is expected to reach 1.7% and 2% in 2014 and 2015 respectively.

Nevertheless, economic forecasts for Bulgaria bear a non-negligible risk stemming from political instability. In one and a half years only, Bulgaria has witnessed two parliamentary elections and a turmoil in the banking sector in June 2014. The June incident was caused by the spread of false information on the insolvency of two of the main Bulgarian banks (*Corporate Commercial Bank* and *First Investment Bank*) and resulted in deposit withdrawal, causing a temporary destabilization of the country's banking system. The situation was contained with the assistance from the central bank, a credit line granted by the European Commission (3.3 billion BGN) and statements by international institutions (EC and IMF) that the Bulgarian banking system is stable and that the country's economy rests on strong fundamentals.

The banking sector turmoil, although contained, has shown that the banking system in Bulgaria is potentially vulnerable to attacks, including attacks undermining bank credibility.

Croatia – high private sector debt and ongoing fiscal consolidation delay recovery

Croatia has been in a recession for the past 5 years, due to its constantly falling domestic demand. Since the start of the crisis in 2008, GDP has decreased by over 12%. Most recent figures indicate a decrease in real GDP by 1% in 2013 and by 0.6% y/y in Q1 2014.

The downfall in the GDP was mainly caused by a marked decrease in fixed investment, especially in the residential buildings, which was further accompanied by a decrease in exports – the main driver of the economy in the preceding years[20]. After accessing the EU, Croatian enterprises had become less competitive and thus their export sales decreased. Croatia also lost its trade privileges with CEFTA countries (including Bosnia and Hercegovina and Serbia), which seriously hit its foreign trade turnover with the Western Balkans.

Private consumption has been diminishing, reflecting lack of improvement in the labour market (Croatia reported one of the highest unemployment rates in the EU, just after Greece and Spain, especially amongst younger people). The high unemployment rate was attributable mainly to the lack of equilibrium in the housing market, where supply still outstrips the real demand, resulting in an ongoing stagnation in the construction sector.

Deleveraging of the banking sector in Croatia, which translated into continuous decline in loans for both households and non-financial corporations, also had an effect on the fall of the aggregate demand. Parent banks from abroad yet again reduced the scope of financing their Croatian subsidiaries in 2013. Despite the decline in foreign claims in Croatia, which led to private sector deleveraging, the loans to GDP ratio remains the highest among CEE economies.

Figure 3.1. Loans to GDP ratio in 2013, in %

* Includes domestic credit for general government

Source: Raiffeisen Bank

Another important factor affecting economic growth in Croatia is also a lack of balance in the general government sector as well as a high level of public debt.

Fiscal adjustment undertaken in 2012 and 2013 (comprised predominantly of VAT and excise duties hikes, current expenditure cuts, introduction of electronic cash registers) did not translate into an improvement in the headline deficit, due to the economic headwinds. At the same time, measures to foster economic growth and employment were adopted[21]. In consequence, the magnitude of the fiscal imbalance in 2013 (4.9% of GDP) remained unchanged (5.0% of GDP in 2012), and was the highest in the region (apart from Slovenia).

In January 2014, the EDP was launched against Croatia. Taking into account the weak economic

[20] As a result of distinctively lower sales of petroleum products, food, means of transport and electrical appliances, all of which play a significant role in the Croatian exports.

[21] Measures aimed at lowering labour costs, among others, a cut in the health insurance contribution rate (from 15% to 13%; reversed in 2014), higher basic personal allowance in PIT.

conditions, the Council set a relatively long deadline (2016) to bring the fiscal deficit down below 3% of GDP. In response, the Croatian government tabled to the Parliament a draft amendment to the budget act for the year 2014 alongside a set of consolidation measures. The GDP growth forecast for 2014 was lowered by the authorities (from 1.3% to 0.2% y/y), to reflect, among others, the impact of the planned fiscal adjustment[22]. The consolidation package (c.a. 2% of GDP in 2014 and c.a. 1% of GDP in 2015) is based to a larger extent on the revenue side. The most important measures are changes in the functioning of the funded pension scheme and reversal of the cut in healthcare contributions (from April 2014)[23]. The social security contributions of persons entitled to early retirement (c.a. 0.1% of GDP annually) will be diverted from the second pillar to the state-run PAYG scheme, alongside transfer of assets accumulated by these persons in the pension funds to the central government budget (in two stages: c.a. 0.8% of GDP in 2014, c.a. 0.6% of GDP in 2015, compared to 10.6% of GDP of funds net portfolio at the end of 2013). Austerity measures envisaged on the expenditure side include, among others, streamlining of the public administration[24], tightening access to the disability benefit scheme, cuts in the early old-age pension benefits[25], subsidies to the state-owned enterprises and agricultural sector and expenses on prescription medicines.

The EC forecasts the headline deficit to decline to 3.7% of GDP in 2015 (excluding the one-off asset transfer from pension funds), owing to the planned fiscal adjustment. Thus, further consolidation measures may be needed. Meanwhile, the public debt surged in 2013 (from 55.9% to 67.1% of GDP) and is expected to hover around 69% of GDP in 2014-2015. Apart from Slovenia and Hungary, this will be the highest level of public debt among the CEE countries.

According to the latest forecasts, a further fall in domestic demand will keep Croatia in recession in 2014. A moderate recovery is expected in 2015 due to increasing exports and gross fixed capital formation.

[22] According to the EC spring forecast, Croatia is expected to remain in recession in 2014 and to return to economic growth in 2015.

[23] The other planned measures on the revenue side consist of profit withdrawal from the state-owned enterprises, increased fees for telecommunication services, changes in the lottery and gambling taxes, and a continuation of actions aimed at combating the shadow economy. From 2015 the non-taxation of reinvested profits (CIT) will be restricted, followed by a tax imposed on savings interest. The value tax on property tax formula is envisaged in 2016.

[24] Reduction in employment and payroll, centralized public procurement.

[25] Benefits were reduced by 10%, less favourable pension indexation was applied.

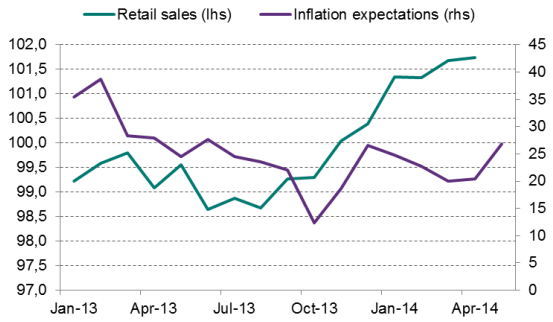
The Czech Republic – effects of exchange rate commitment

The annual GDP growth rate in the Czech Republic in Q4 2013 turned positive (1.2%), preceded by a period of a two years lasting recession. In Q1 2014 it further accelerated to 2.5% y/y. There were at least a few factors standing behind the acceleration in GDP growth. Firstly, increased demand for cars manufactured in the Czech Republic (i.a. thanks to the introduction of new models) spurred industrial production and exports. Secondly, growth was positively influenced by one-off factors such as an increase in tobacco companies' inventories, due to expected the excise tax rate hike in January 2014.

According to the Czech National Bank (CNB)[26], asymmetrical exchange rate commitment, aimed at CZK depreciation, also contributed to the GDP growth by triggering growth in households' expenditure in reaction to an expected rise in prices.

Prolonged recession in H1 2013 and the fear of deflation at the beginning of 2014, which might result from the expected decreases in electricity prices and the fading out of base effects[27], forced the CNB to ease the monetary conditions. However, the CNB was already unable to further lower its policy rates and quantitative measures seemed to be ineffective due to excess liquidity in the banking sector. Therefore, the CNB decided to use the exchange rate as a monetary policy tool. The CNB Board announced that it would intervene to keep the EUR/CZK rate close to 27 (it fluctuated around 25.5-26 in the previous months) for at least 18 months. The commitment was to be asymmetrical, i.e. CNB was to act only to prevent CZK appreciation.

Figure 4.1. Retail sales, in %, y/y and inflation expectations in the Czech Republic



Source: Eurostat, EI NBP calculations

It seems, that although the effect of foreign exchange interventions on households' consumption was only temporary, it could be treated as a trigger that stimulated its further growth. The upward trend was kept in the following months, driven by the improving current and expected situation in the Czech economy.

The first effects of the exchange rate commitment appeared in Q4 2013, as inflation expectations went up sharply. At the same time, retail trade turnover, being flat since 2009, also started to rise, even when accompanied by a decline in nominal and real households' disposable income. In Q4 2014 nominal disposable income fell by almost 2% and real by 3% on an annual basis[28].

Already in Q1 2014 inflation expectations returned on a downward path, thus adopting to

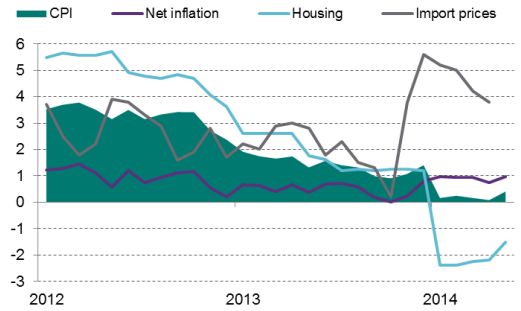
[26] "…real consumption expenditure was fostered to some extent by the weakening of the koruna exchange rate by the CNB and related expectations of price increases in the near future.", CNB Inflation Report II/2014, May 2014

[27] In January 2013 basic the VAT rate was increased from 20% to 21%, and the reduced rate from 14% to 15%, which resulted in an increase in inflation by c.a. 1 pp.

[28] This was an effect of a high base. In Q4 2012, anticipating the tax changes (i.e. solidarity tax for highest earners), many companies decided on earlier payment of annual or quarterly bonuses, which led to an abnormal increase in the average wage in 2012.

decreasing inflation. However, it did not stop the retail sales growth. In April 2014 it amounted to 2.6% y/y, i.e. the highest value since 2008. Rising retail trade turnover, combined with continuously improving consumer sentiment heralds further private consumption growth in the forthcoming quarters of 2014.

Figure 4.2. Inflation measures in the Czech Republic, in %, y/y



Source: CSU, CNB

One of the key goals of the exchange rate commitment was to avoid deflation in the Czech Republic, which might slow economic growth down and hamper financial sector stability. According to the CNB, this goal has been achieved. Although HICP inflation fell to 0.2% at the beginning of 2014, it was solely attributable to a significant decrease in energy prices (retail electricity prices were lowered by 10% in January 2014). At the same time, net inflation increased, affected by rising import prices. This indicates that in the subsequent months headline inflation in the Czech Republic should start to rise again. The first evidence occurred already in May 2014, when the annual HICP growth rate amounted to 0.4%, i.e. the highest level since the beginning of 2014.

Despite the exchange rate commitment, both inflation and inflation expectations in the Czech Republic remain low. CNB forecasts suggest that till the end of 2014 inflation should fluctuate below the central bank target (2%) and slightly exceed it only in 2015. Thus, the CNB Board decided on continuation of its asymmetrical exchange rate targeting during the earlier announced period. In June 2014 the Board even decided to extend its timeframe[29].

[29] On July 26, 2014,. the CNB Board announced that it will continue the exchange rate interventions till Q2 2015.

Estonia, Latvia, Lithuania – weakening exports slow the recovery

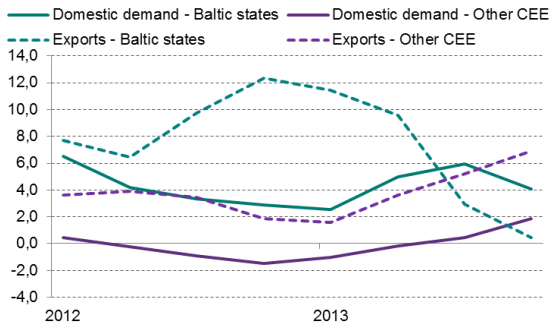
Estonia, Latvia and Lithuania were clearly EU leaders in terms of GDP growth in 2011-2012[30]. In the following quarters, as opposed to the other CEE economies, their GDP growth started to decelerate. In Estonia and Latvia it could be observed since the beginning of 2013, in Lithuania since Q3 2013. In Latvia and Lithuania the slowdown was relatively mild. The annual GDP growth rate in these countries hovered around the CEE average (3.7% and 3.4% in 2013 and 2.3% and 3.0% in Q1 2014). In Estonia, the drop in the growth rate was significant. In Q1 2014 it even turned negative (-1.1%), which was the lowest figure in the whole EU except for Cyprus.

Differences in the growth rates in the Baltic states and other CEE countries appeared already in 2011 and were a result of a different growth structure. Domestic demand in the Baltic states has been on a strong upward path since 2011. The rapid growth of both consumption and fixed capital formation can be, to a large extent, explained by making up for the severe losses following the global financial crisis[31].

In 2011-2012 acceleration in exports also started to contribute to the growth. It resulted from the geographical structure of the Baltics' exports. Struck by the crisis, the euro area was a relatively less important trade partner (compared to the other CEE economies). On the other hand, CIS economies, precisely Russia, which experienced an economic upturn in that period, played a more important role in exports.

The situation started to change in 2013. While domestic demand continued to grow robustly, especially private consumption fuelled by strong wage growth[32], exports began to decelerate. In Q1 2014 the exports growth rate fell into negative territory.

Figure 5.1. Exports and domestic demand growth rates, Baltic states vs. other CEE countries, in %, y/y



Source: Eurostat, EI NBP calculations

The geographical structure of exports, especially high exposure to Russia and CIS markets, which was spurring its growth in previous years, started to drag foreign sales down in 2013 and Q1 2014 due to significant economic slowdown in these countries. The share of CIS economies in the Baltic states exports was the highest among EU countries. It varied from 13.2% in Estonia to 31.2% in Lithuania. Already in 2013 exports to the Eastern European markets fell in Estonia and Latvia and in Lithuania its growth rate visibly decelerated. At the same time, demand from the Scandinavian countries, other important trade

[30] The annual average GDP growth rate in Estonia amounted to 6.8%, in Latvia 5.0%, and in Lithuania 4.8%. In the whole CEE region it reached only 1.9%.

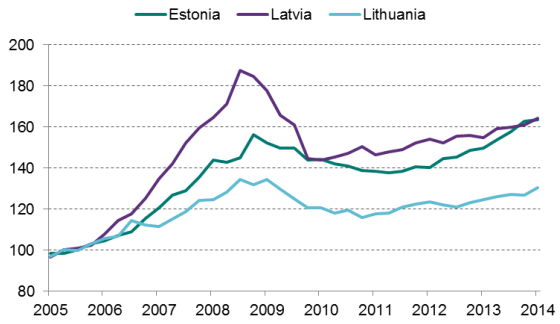
[31] Among all EU countries, the Baltic economies have been most seriously hit by the global financial crisis. In 2008-2009 GDP in Estonia decreased by 20%, in Lithuania by 16% and in Latvia by 24%.

[32] The growth rate of gross fixed capital formation decelerated significantly, especially in Estonia and Latvia. This resulted from the completion of most EU co-funded programmes, a number of environmental projects (Estonia) and growing uncertainty among investors about the consequences of euro adoption (Latvia).

partners, especially for Estonia, also decreased. Even growing euro area demand, which boosted other CEE economies' exports in 2013, was not able to reverse this negative tendency, especially when exports on the CEE markets, i.e. mainly trade turnover among the Baltic states, kept on falling.

At the beginning of 2014 a slight acceleration in exports onto the CIS markets took place. However, it was only a temporary phenomenon. The expected deepening of recession in Russia, as an effect of the Ukrainian crisis, suggests that it is almost unlikely that Russian demand will pick up in the nearest future.

Figure 5.2. Unit labour costs in Estonia, Latvia and Lithuania, 2005=100



Source: Eurostat

Another factor influencing a fall in the Baltic states exports is the deteriorating cost competitiveness of these economies. In 2009-2010 unit labour costs (ULC) in the Baltic economies decreased significantly, even in terms of a severe economic crisis. ULC were reduced by 12% in Estonia, 16% in Lithuania and 24% in Latvia, as an effect of "internal devaluation", i.e. reduction in wages while keeping the exchange rate of the currencies unchanged.

In the following years, wage growth in the Baltics accelerated. In 2011-2012 it was accompanied by strong productivity growth and thus had little effect on competitiveness. However, since 2013 productivity growth in Latvia and Lithuania slowed down, in Estonia it even decreased, but wages kept on growing at a fast pace. In 2013, average nominal wages increased by 6% in Latvia and Lithuania and by almost 8% in Estonia. This led to an increase in the ULC, especially in recession-facing Estonia, when the ULC level exceeded the previous peak value of 2008 already in mid-2013.

An expected further fall in foreign demand, from Russia in particular[33], and slowing investment demand, might further decelerate or even reverse productivity growth in the Baltic states in 2014 and subsequent years. At the same time, wage pressure remains high, which was indicated by only a slightly lower wage growth in Q1 2014. These two factors suggest that cost competitiveness of the Baltic states is in jeopardy. Thus, vast efforts aimed at restoring the countries' ability to compete on foreign markets might easily be ruined.

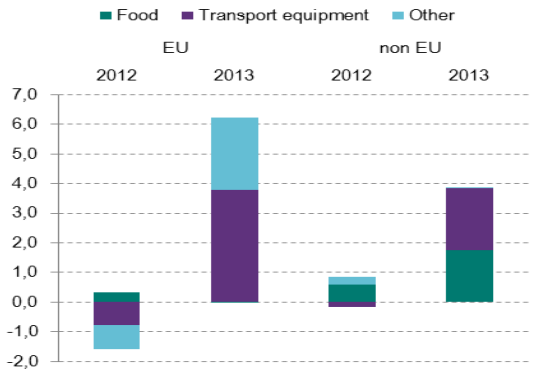
[33] See chapter entitled *CEE economies exposure to the effects of the Ukrainian crisis* of this report.

Romania – dynamic growth fuelled by one-off factors

In Q4 2013, the Romanian economy grew at an annual pace of 5%, which was the highest growth rate recorded in the entire EU. In Q1 2013 this pace slowed down to 3.8%, but still was the highest among EU members. Dynamic growth came as a surprise taking into account the stagnating domestic demand – namely households' consumption expenditure and investment, caused among others, by a still ongoing deleveraging. With weak domestic demand, and as a consequence of weak imports, exports growth (reaching 15% in 2013, compared to a contraction of nearly 3% in 2012), was the main growth driver in 2013[34].

In 2013 Romanian exports expanded not only on EU markets, but outside of the EU as well. Exports to the EU were driven mainly by exports of cars, which grew by nearly 30% in that period. Increased demand for cars produced in Romania reflected better economic conditions in most of Romania's trading partners[35].

Figure 6.1. Contribution to exports growth (y/y, pp)



Source: Eurostat

The structure of exports to non-EU countries was somewhat different. Transport equipment[36] played an important role in exports; nevertheless it was grains exports that was decisive in shaping its dynamics. Strong grain exports was possible mainly thanks to one-off factors such as favourable weather conditions and low supply of wheat on the international market, which was stocked due to low prices on international markets.

Favourable weather conditions shaped the structure of valued added created in the Romanian economy in 2013. Strong food production growth and favourable foreign selling conditions had a positive impact on the value added created by the agricultural sector. It grew by 19% (compared to a decrease by 16% in 2012) adding 1.8 pp to value added growth in 2013.

Similarly, strong demand for cars produced in Romania (mostly in the EU and to a lesser extent outside of the EU) contributed to the growth of value added in the industrial sector. Value added in industry grew by 7% in 2013 (compared to a decrease by 1% in 2012), adding 1.9 pp to value added growth in 2013.

While the industrial and agricultural sectors are stimulated mainly by external demand, the services sector depends mainly on domestic demand. With its stagnation, the contribution of services to value added growth was negligible.

Most forecasts assume a recovery of domestic demand in 2014; however its scale should be limited since it is expected to be driven by household consumption expenditure and by investment stimulated by improved EU funds

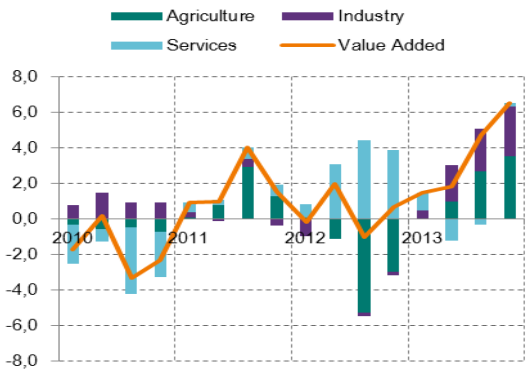
[34] With the exception of Q4 2013, when households' consumption spending grew nearly by 3% in annual terms (compared to 0.5% on average in Q1-Q3 2013).

[35] Mainly EU countries and Turkey.

[36] In the case of exports to non-EU markets, except cars, sales of ships played a significant role in shaping transport equipment exports dynamics.

absorption. Q1 2014 data provides only evidence for a gradual recovery in private consumption, while investment spending was still contracting.

Figure 6.2. Contribution to Value Added growth by sector (y/y, pp)



Source: Eurostat

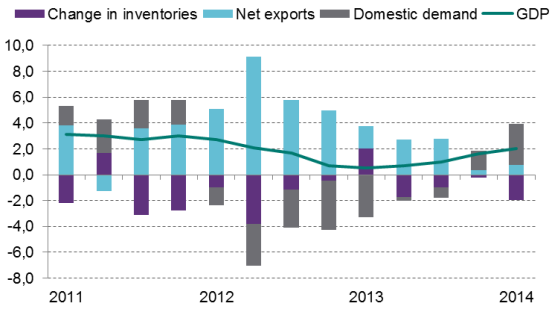
In Q1 2014 exports slowed down. Despite an improvement in the economic situation of the main trading partners (mainly from the EU), which will ensure a positive net exports contribution to growth, maintaining growth rates of exports comparable to 2013 level is very unlikely. Even if foreign demand for cars produced in Romania will be the main determinant of exports dynamics, one–off factors that boosted grain exports will not materialize this year. One expects smaller grain harvests in Romania and greater supply of grains on the international market to limit Romanian food exports.

The EC forecasts a GDP growth of 2.5% in 2014 and 2.6% in 2015, representing a noticeable slowdown from the 3.5% growth rate reached in 2013. The risk balance seems to be negative. The biggest threats to growth being a higher than expected impact of deleveraging on consumer expenditure and investment spending, strong base effects in agricultural and industrial output as well as a probable lack of further improvement of the economic situation in the euro area.

Slovakia – toward balanced growth

The Slovak economy grew at a relatively moderate pace in the first three quarters of 2013. The annual GDP growth rate in that period amounted to 0.8%, i.e. much less than in the previous years. GDP growth accelerated only in Q4 2013 and Q1 2014 (1.4% and 2.0% y/y respectively). It resulted mainly from an increase in domestic demand. On the other hand, the contribution of net exports, the key driver of growth in the previous three years, declined. This suggests that Slovakia may be experiencing a shift in the growth structure, which means that more balanced growth is to be observed in the forthcoming quarters.

Figure 7.1. GDP and its components in Slovakia, in pp., y/y



Source: Eurostat

Since 2011 till Q3 2013 GDP, growth in Slovakia was based solely on foreign demand. Net exports were at that time the only positive contributor to growth. This resulted from a continuous rise in exports, which were increasing at an average pace of 10% y/y in 2010-2013. Fast growing production and foreign sales of the automotive industry stood behind that growth. In 2009-2013, the value of exported vehicles doubled, while exports of other goods increased by 50% in that period. In 2013 motor vehicles amounted to over ¼ of total Slovakian exports.

After almost two years of recession, in Q4 2013 domestic demand in Slovakia finally contributed positively to GDP growth. Its contribution even increased in Q1 2014. Domestic demand growth in Slovakia resulted from both rising fixed capital formation and private consumption.

An upturn in investment was seen throughout the economy, notably in certain segments of manufacturing, especially in the automotive industry (aimed at increasing production capacities). Public investment in infrastructure (including construction works on Mochavce nuclear plant) also played an important role. A downward effect continued to be exerted only by investment in residential construction, evident from the decline in household investment activity. Relatively strong and widespread growth in fixed capital formation suggests that the upward trend may persist in the forthcoming quarters. Continuously high levels of business sentiment indicators, as well as the recently observed pick up in the value of loans granted to non-financial corporations seem to confirm this.

Private consumption growth also made a positive contribution to GDP growth, for the first time since the outbreak of the global financial crisis. In 2009-2012 household consumption had been constantly falling, dragged down by ongoing fiscal consolidation and weak labour market conditions. In 2013 consolidation measures eased. The situation in the labour market also started to improve. The number of jobs slightly increased (by 0.1%). The unemployment rate, although still relatively high (14%), fell for the first time in the last two years. Both of these factors led to a significant rise in consumer confidence, especially in the assessment of households' expected financial situation. The European Commission Consumer Confidence Index for Slovakia in May 2014 reached its highest level since 2008. Growing

consumer optimism caused the reversal in the long-lasting downward trend in private consumption. In Q1 2014 it rose by 3.1% y/y.

Figure 7.2. Private consumption in Slovakia, 2009=100

Source: Eurostat

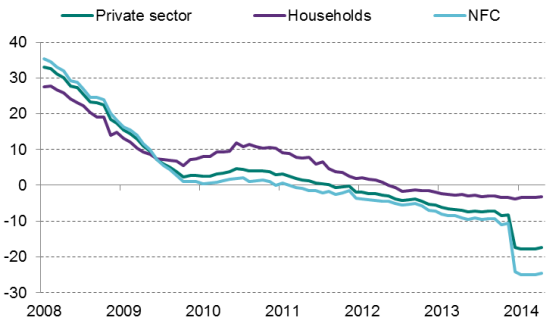
Private consumption growth was still restrained by only a slight increase in wages. Nominal wages in the private sector did not change in 2013 compared to 2012. In the public sector their growth amounted to merely 0.5% y/y. However, decreasing inflation, which even temporarily fell below zero in February-April 2014, prevented the reduction of real household income.

GDP growth in Slovakia in 2014-2015 should pick up pace. The recently observed change in the growth structure should continue. Domestic demand is expected to slowly replace net exports as a key growth driver. Fixed investment is to further grow, although its growth rate will not rely on the automotive industry. An expected further improvement in the labour market, coupled with an increase in nominal wages, should back further growth in private consumption.

Slovenia – still far from economic stabilization

Slovenian GDP in 2013, similarly to 2012, decreased. However, in H2 2013 GDP growth slightly accelerated. In Q4 2013 it even increased by 1.2% on a quarterly basis. Q1 2014 saw a slight GDP decline, but its annual growth rate remained positive (1.5% against 1.9% in the previous quarter). The abovementioned GDP acceleration was an effect of increased exports and one-off factors (i.a. higher tax revenues[37] and EU co-funded investment projects). Private domestic demand in Slovenia, however, remained weak.

Figure 8.1. Private sector loans, in %, y/y



Source: Bank of Slovenia

Intensifying private sector deleveraging was the key factor curbing domestic demand growth. In March 2014 the amount of loans for households decreased by 3.4% and for non-financial corporations by almost 25%[38]. Weak lending, on the one hand, was caused by low demand of highly indebted entities. On the other, supply restrictions and high lending rates (cost of corporate loans is c.a. 2 pp. higher than in the euro area average) also played an important role.

In the last few years Slovenian authorities had undertaken several measures aimed at restoring financial system stability. In 2013, the government spent 10.3% of GDP on recapitalization of major Slovenian commercial banks. Additionally, the Bank Asset Management Company (DUTB) [39] was created in order to reduce the number of non-performing loans in the banking system. In 2013 DUTB took c.a. EUR 3.3 bn of "bad loans" from the two largest Slovenian banks in exchange for c.a. EUR 1 bn of state guaranteed loans[40]. As a result, the share of non-performing loans decreased from 17% to 12%. However, these actions did not solve the problem completely. Government support for the banking sector is also expected in 2014, however, its scale should be significantly smaller. Recapitalization should amount to 0.9% of GDP and DUTB bonds issuance to 1.5% of GDP.

It seems, that financial sector stability in Slovenia is still in peril. Most of the indebted enterprises did not work out suitable debts restructuring programmes, which means, that the number of impaired loans might return to their high levels, especially in the case of unfavourable economic conditions. As a result, lending growth in the forthcoming years is not expected to start rising.

Another factor hindering economic growth in Slovenia was fiscal adjustment undertaken in 2012-2013. Yet, the headline deficit, as well as the public debt, considerably exceeded the reference value in 2013. Deterioration of public finances in

[37] The base VAT rate in Slovenia increased from 20% to 22% in July 2013. Measures against tax evasion have also been taken.

[38] In recent months the scale of decrease in corporate loans rose significantly due to a transfer of EUR 3 bn worth non-performing loans from the banks to the Bank Asset Management Company (DUTB).

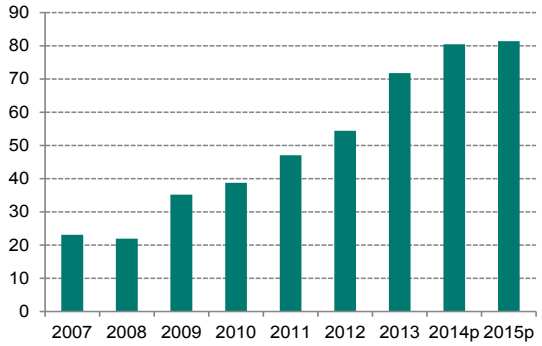
[39] *Družba za upravljanje terjatev bank d.d.* (DUTB), which is classified within the general government.

[40] On 20 December 2013, DUTB agreed to take EUR 3.3 bn worth of impaired loans (mainly loans for construction and manufacturing companies) from Nova Ljubljanska banka d.d and Nova Kreditna banka Maribor d.d. in exchange for EUR 1 bn worth of government guaranteed bonds. Potential profits of such operations (debt repayments, sale of collateralized assets) are to be used for public debt reduction.

comparison to 2012 (the general government deficit and debt were higher by 10.7 and 17.3 pp. of GDP, respectively) was largely driven by one-off factors[41].

In 2014-2015 the Slovenian economy is to gather pace. Expected growth is still to be based on foreign demand. Domestic demand will remain weak, due to ongoing private sector deleveraging and fiscal consolidation, although its scope should moderate[42].

Figure 8.2. Public debt in Slovenia, in % of GDP



p – EC spring forecast (April 2014)
Source: Eurostat

From 2014 the automatic indexation of PIT tax brackets (as well as certain tax reliefs) was abolished. In March 2014, excise duties hikes[43] and the elimination of tax exemption from excise duty on biofuels were adopted. In 2014-2015 the salaries in the public administration and pension benefits are to remain frozen. Units of the general government with accumulated surpluses from the previous years will not receive subsidies from the central budget. The authorities announced further measures to curb the underground economy and rationalize health expenditure. The centralization of public procurement is to be continued.

According to the EC forecast, adopted consolidation measures may be insufficient to bring the fiscal imbalance down below 3% of GDP in 2015 (3.1% of GDP) in a sustainable manner. The downside risks include possible further recapitalizations of banks and the unstable political situation (early parliamentary elections in July 2014).

In contrast to the expected improvement in the headline deficit, the EC projects a significant growth of the public debt, which will exceed 80% at the end of 2015, reaching the highest level among the CEE-countries. The surge in the public debt-to-GDP ratio (by ca. 10 pp. in 2014-2015) partially stems from record Treasury bonds issuances in February and April 2014, under favourable market conditions. They shall secure Slovenia borrowing needs until the end of 2016. The public debt forecasts of the EC and Slovenian authorities did not incorporate privatization receipts resulting from the planned sale of shares in commercial banks (2014) and large enterprises.

[41] Apart from the bank recapitalizations, the 2013 headline deficit was adversely affected by the Constitutional Court rulings (ca. 0.9% of GDP).

[42] Due to, i.e. extension of excessive deficit correction deadline till 2015.

[43] On tobacco by 0.5%, alcohol (except for wine) and alcoholic beverages by 10%. The excise duty hike was also imposed on mineral oil.

Hungary – economic policy supports investment growth

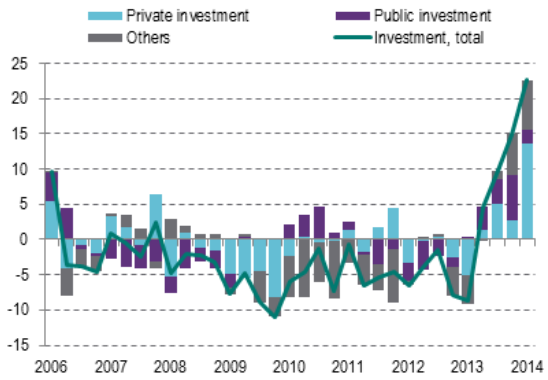
In 2013 Hungary's GDP increased by 1.2% in real terms after a fall of 1.7% in the previous year. A positive trend in the economy became apparent in Q2 2013 and in the subsequent quarters it gathered speed. In Q1 2014, the GDP growth rate accelerated further, reaching 3.2% y/y – the highest level since 2006.

The improvement in the economic situation was mainly due to increases in gross fixed capital formation (especially in the public sector) and acceleration of export growth (i.e. through increased production capacity of the car manufacturing sector[44]). Private consumption had, however, a significantly smaller impact on the GDP growth rate in 2013, mainly due to only small changes in household expenditures between 2012 and 2013.

Last year's increase in GDP was accompanied by a change in its structure. Domestic demand became the key driver of growth, replacing net exports. Previously, domestic demand was relatively weak, among other things due to weak consumption. Ongoing debt reduction efforts within households limited their expenditure growth, which was further weakened by a slow growth of wages and relatively high inflation rate.

On the other hand, persistently decreasing investment activity since 2006 in both the private and public sector were also closely tied to the negative impact that domestic demand had on the GDP growth rate. Companies' falling propensity to invest were mainly due to difficult access to credit facilities, weak consumption and an unfavourable business climate (i.e. unstable regulations, the introduction of sectorial taxes).

Figure 9.1. Gross fixed capital formation in Hungary, in %, y/y



Source: KSU, EI NBP calculations

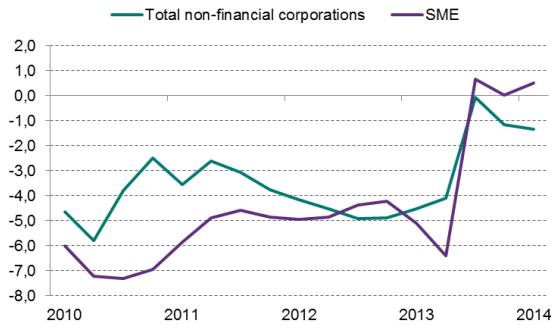
In 2013, however, investment increased by 5.9% mainly due to a surge in public investment – that also included investment co-funded by the European Union. Furthermore, from Q2 2013, there had been an improvement in the significance of private investment for the economy, which was associated, at least partly, with the introduction of the Funding for Growth Scheme (FGS). Its main objective was to improve access to bank credit for the SMEs sector[45], previously identified as a factor discouraging propensity to invest. According to banks and money lending institutions, the scheme successfully generated a substantial interest amongst enterprises (displayed by more than 90% of funds available being used to facilitate credit needs). Following this, the Hungarian monetary authorities not only in-

[44] In mid-2013 Audi opened a car factory in Gyor, which shared the same location with the engine manufacturer for the Volkswagen Group to which Audi belongs. This enabled a continuous production process of the new A3 Sedan model within the country.

[45] The SME sector plays a key role in the Hungarian economy due to its high employment (estimated at 70% of the labour force) and high annual GDP production (58% of Hungarian GDP). Furthermore, those enterprises often finance their activities through the banking system, as a result of lack of own input required to start up a business, or high costs of issuing bonds/shares.

creased (by a half) the amount available for lending out, but also prolonged the period of operating the programme[46]. According to the Hungarian central bank (MNB), the FGS has successfully met the fundamental aim of reducing barriers to obtaining finances from the banking system for the SMEs sector[47].

Figure 9.2. Loans for non-financial corporations, in %, y/y



Source: MNB

In 2012-2013 fixed capital formation in the public sector was gradually increasing, taking place despite the ongoing fiscal consolidation aimed at the reduction of the general government deficit to less than 3% of the GDP.

The increase in public investment was mainly due to the European Union funds, precisely the EU financial framework for 2007-2013, which enabled co–funding of the investment projects. Moreover, it is expected that the framework for 2007-2013 and 2014-2020 will continue to improve investment activity[48], which would also be positively affected by expectations about less contractionary fiscal policy, all thus accelerating economic growth further.

Most probably, as a result of the FGS and thus greater availability of credit to the SMEs, private investment is expected to gain a significant role in boosting economic growth in the upcoming years, whereas the influence of net exports on GDP is expected to diminish due to the imports growth rate outstripping the exports rate.

[46] Originally the programme was 500 bn HUF and was meant to last for three months (June – August 2013). However, the budget was increased to 750 bn HUF and the application period prolonged until the end of 2014.

[47] "Analysis of the first phase of the Funding for Growth Scheme" contains details on the programme's effectiveness.

[48] In line with the EU Multiannual Financial Framework (rule of n+2), all the EU funds from the period 2007-2013, can be used until 2015.

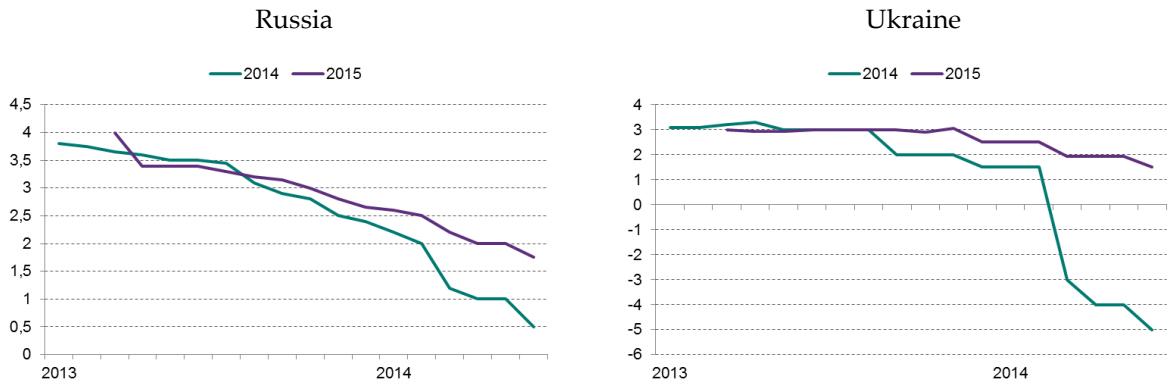
Central and Eastern Europe vulnerability to the Ukrainian crisis

Deteriorating prospects for Russian and Ukrainian economies

The economies of Russia and Ukraine were facing a significant slowdown even before the outbreak of the 2014 conflict. After a period of post-crisis recovery in 2010-2011, the following years brought GDP growth deceleration. The GDP growth rate in Russia fell from 4.3% in 2012 to 1.3% in 2013, while in Ukraine the slowdown was more pronounced. In 2012-2013 the Ukrainian economy practically stalled (the GDP growth rate amounted to 0.3% and 0.0% respectively), compared to an increase by 5.4% in 2011. The outbreak of the conflict brought a further GDP deceleration. In Q1 2014, the growth rate in Russia amounted to 0.9% y/y and in Ukraine to -1.1% y/y.

Consensus forecasts at the beginning of 2014 pointed at a possible recovery in both economies in 2014. However, the outbreak of the conflict and rapid foreign capital outflow brought major revisions to these forecasts. According to the June 2014 Bloomberg median forecast, GDP growth in Russia will slow down to 0.5% in 2014 and Ukraine is to face a recession with GDP contracting by 5% this year. However, the situation in both countries is still unstable, thus the abovementioned forecasts can be subject to significant revisions.

Figures 10.1 and 10.2. Changes in GDP growth forecasts for Russia and Ukraine for 2014-2015



Source: Bloomberg

The growth model of the Russian economy in the previous decade was based on the extraction and sale of energy commodities, mostly crude oil and gas. Their share in exports rose to over 70% in recent years. Oil and gas revenues accounted for over a half of federal budget revenues. Those revenues have been used for supporting infrastructure investment and maintaining high wage growth in the public sector. On the other hand, some key structural weaknesses persisted in the economy, including low competitiveness of manufacturing, overregulation and high tax rates that curb private sector activity, structural mismatches in the labour market and widespread corruption. In 2013 the Russian economy started to lose pace. Public investment related to the Sochi Olympics and investment in the energy sector came to an end. Private investors did not fill that gap due to deteriorating business sentiment.

Positive GDP growth rate was maintained thanks to an upturn on the commodities markets and thus strong exports. Private consumption remained high, but decelerating wage and lending growth, was slowly pulling it down. The GDP growth rate in Russia in Q1 2014 went down again, dragged by decreasing investment. The Ukrainian conflict increased the county's risk perception and made foreign investors withdraw their capital. This caused strong ruble depreciation and led to inflation growth. As a consequence, the Central Bank of Russia was forced to increase its policy rates. Weak business sentiment, strict monetary policy, rising inflation and decelerating wage growth as well as possible sanctions from the West seem to be the key threats the Russian economy will have to face in the forthcoming years. Probably their effects will become visible already in 2014.

Post-crisis Ukrainian economic policy was based on loose fiscal policy (e.g. central budget financing losses of the state-owned energy companies, high wage growth in the public sector), which was accompanied by measures preventing hryvna depreciation, leading to a loss in cost competitiveness and thus to a decrease in manufacturing production and exports. The combination of such policies resulted in large twin deficits (general government and current account deficits), which curbed economic growth and made the country more prone to internal and external shocks. Conflict with Russia made those risk even more pronounced. In Q1 2014 GDP fell by 1.1%, and industrial production decreased by 5%. The sharp depreciation of hryvna at that time led to a rapid growth in inflation (from 0.5% to 10.9% in January-May 2014), mainly via the import prices (food and fuels) and an increase in gas prices for households. The crisis affects both Ukrainian domestic demand (rising inflation and deteriorating business and consumer sentiment) and foreign demand (fall in demand, especially from Russia, main trading partner and receiver of over a half of Ukraine's industrial production). Tight monetary policy and measures aimed at restoring economic and financial stability, linked to the IMF loan[49], also act toward the deepening of the current recession.

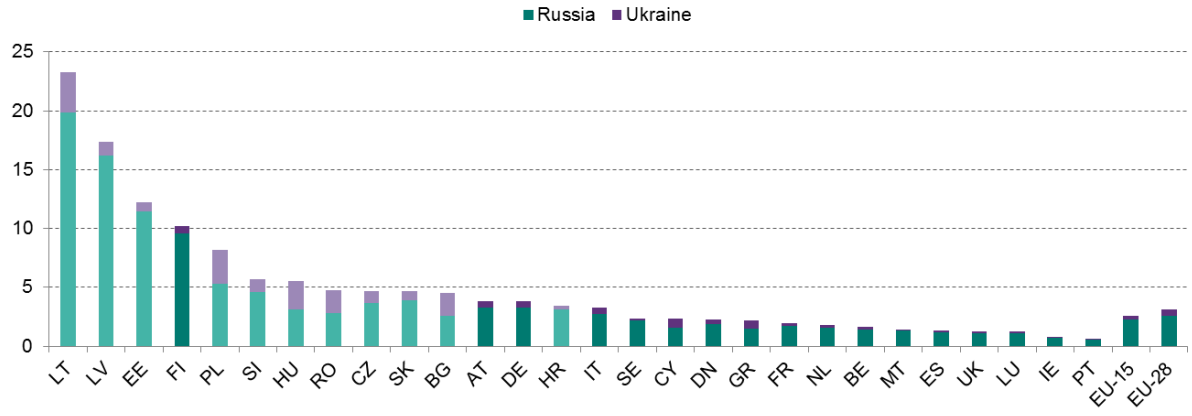
CEE economies trade links with Russia and Ukraine

Russia and Ukraine are among the most important trade partners of the CEE region. Their role in the region's exports is far more pronounced than in in the Western European countries. In 2013, exports to Russia amounted to 5.1% and to Ukraine 1.9%. The figure was twice as big as in the EU-15 countries. The relatively strong links were the result of geographic proximity and common history. That is why the Baltic states are still closely linked to the former USSR countries, especially Russia. The combined share of Russia and Ukraine in the Baltics' exports ranged from 12.2% in Estonia to 24.3% in Lithuania. However, c.a. 90% of exports were directed onto the Russian market. Ukraine was far less important.

[49] On 30April 2014, the IMF approved a USD 17.01 bn loan to support Ukraine's reform programme. The first tranche (USD 3.19 bn) was disbursed immediately after the decision was made. The next tranches will be disbursed each two months after the fund assesses the course of economic reforms. The reform programme focuses on five areas: to maintain a flexible exchange rate to restore competitiveness and foster accumulation of reserves (direct inflation targeting in 2015), to maintain confidence in the financial system and strengthen the infrastructure for financial regulation and supervision, to meet near-term fiscal obligations and gradually reduce the fiscal deficit, to achieve a self-sustained energy sector and implement comprehensive structural reforms, including in the areas of public procurement and tax administration, to help reduce corruption and improve the business climate.

In other CEE countries, relative exports to Russia and Ukraine were smaller. In Bulgaria, Croatia, the Czech Republic, Romania and Slovakia it did not exceed 5% of total exports.

Figure 10.3. Share of Russia and Ukraine in 2013 exports, in % of total exports



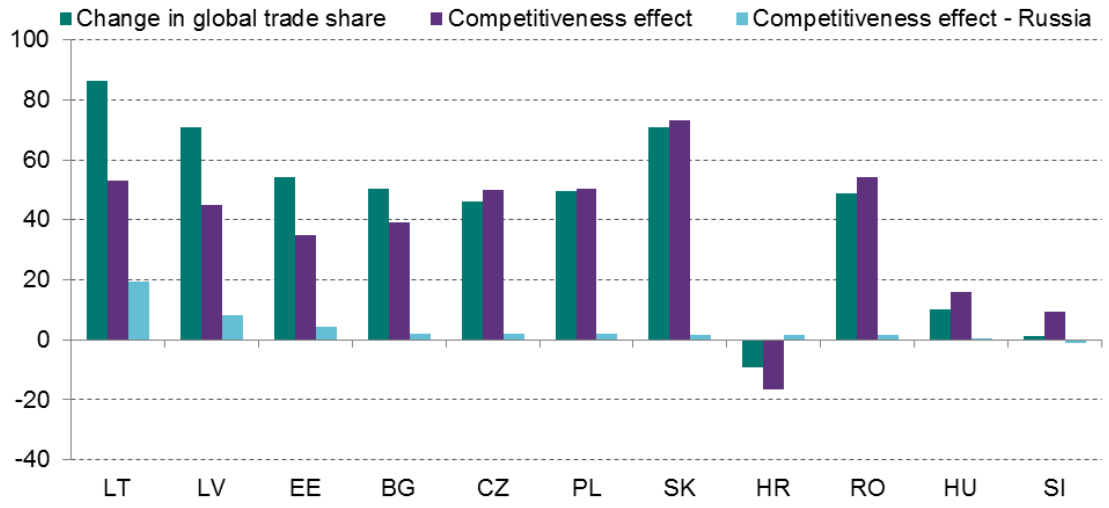
Source: Eurostat

Former USSR countries, Russia and Ukraine in particular, were not only important export markets, but their share in the CEE exports was steadily improving (much faster than in the Western European countries' exports). In 2000 the share amounted to only 4.3% (of which 3.3% was for Russia and Ukraine). In 2013 it almost doubled. This means that former USSR markets were becoming more and more important for the CEE exporters.

Constant Market Share analysis performed for the CEE countries leads to very similar findings[50]. It turns out that for the CEE countries an increase in the global trade was driven mainly by factors related to external competitiveness, whereas the exports structure was not so relevant. The competitiveness effect, which measures both the price and non-price competitiveness, might be decomposed into geographical and product markets. Except for Slovenia, the increasing competitiveness on the Russian market contributes significantly to the CEE's growth in world trade. It's worth noting that Latvia and Lithuania gained relatively the most from the increasing competitiveness on that market. To sum up, the Russian market became an important destination for the CEE countries exports.

[50] *Constant Market Share Analysis* was performed on highly disaggregated trade data to exclude the group of goods containing raw materials and goods unclassified.

Figure 10.4. Changes in global trade shares and its selected components for the CEE countries, in pp.



Source: EI NBP calculations

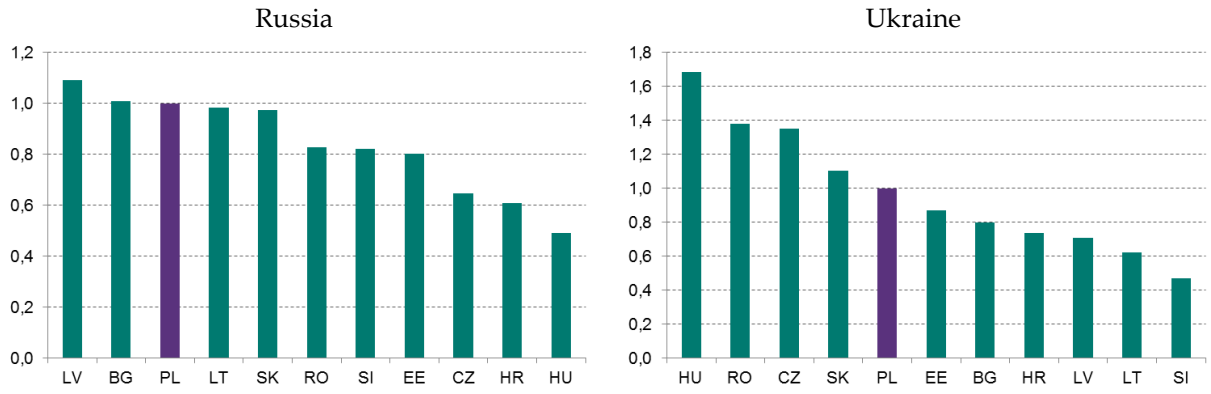
Vulnerability to Russian and Ukrainian demand

The CEE economies' vulnerability to changes in Russian and Ukrainian demand can be presented by comparing differences in their demand elasticities of exports to these countries[51]. Combined with trade openness and a share of the Eastern European economies in exports, the potential impact of changes in their demand on the CEE economies' GDP can be estimated.

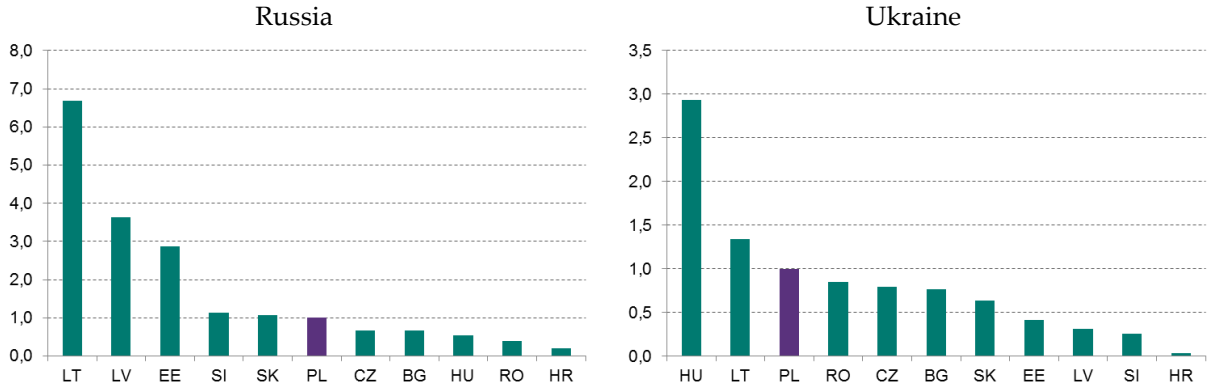
Demand elasticities of exports to Russia seem to be quite similar among the CEE countries and are close to the one observed in Poland (benchmark). The Czech Republic, Croatia and Hungary were the only countries whose exports reaction to changes in Russian demand was less evident. Demand elasticity of exports in these countries was c.a. 1/3 lower than in Poland. In the case of Ukrainian demand, elasticities were more diversified. In Hungary, the Czech Republic and Romania they were twice as big as in Latvia, Lithuania or Slovenia.

[51] The short-run elasticity estimates were obtained with standard two-step cointegration techniques. In the first step, the long-run elasticity was estimated with a fully modified ordinary least square which has better properties in the small samples in comparison to the system approach. Next, the error correction component from the first step is used in the model explaining the exports growth rate. To avoid the omitted variable bias, the general specification of models includes the relative prices which combine information about the price levels and bilateral exchange rate.

Figures 10.5 and 10.6. Demand elasticity of exports for CEE countries, Poland=1



Figures 10.7 and 10.8. Impact of Russian and Ukrainian demand change on CEE countries GDP, Poland=1



Source: EI NBP calculations

More diversification among the CEE countries appears when combining demand elasticities with trade exposure to Russia and Ukraine. In all CEE economies, the impact of demand changes on their GDP is much higher in the case of Russian demand than Ukrainian (four times on the average). The group of countries most vulnerable to Russian demand differs from the one prone to changes in Ukrainian demand.

Not surprisingly, the Baltic states are most vulnerable to changes in Russian demand. In Lithuania the effect is almost seven times stronger than in Poland (in Latvia three and a half times, in Estonia three times as intense). Croatia, Romania and Hungary are on the other end of the scale. Croatian dependence on the Russian economy seems to be even five times weaker than in Poland, i.e. over thirty times weaker than in Lithuania.

In the case of Ukraine, the highest impact on GDP could be observed in Hungary (c.a. five times as much as in Poland). On the other hand, Croatia, Slovenia, Estonia and Latvia seem to be quite immune to changes in Ukrainian demand.

Structural changes in the CEE exports to Russia

A significant rise in the CEE countries' exports to Russia has been observed since their accession to the EU. In 2003-2013 their value increased over sevenfold. In 2004-2008 exports to Russia grew at an average pace of 40% y/y. This made Russia regain its position as one of the most important trade partners of the CEE region.

Rapid growth in exports to Russia was not only the result of fast increasing Russian demand. In a large part it was a consequence of international corporation strategies. Those corporations decided to enter the Eastern European markets via branches located in the CEE region. Lower production costs enabled them to create cheaper equivalents of Western European products that were more affordable for Russians. Such strategies also significantly changed the product structure of CEE exports to Russia. Global value chains (GVC) related goods started to play a much more important role in exports[52].

In 2004-2013, Russian imports were growing at a very fast pace[53]. They grew at an average annual rate of 16.8% in that period (in EUR). Imports growth was much faster than in China or Brazil and only slightly slower than in India. In effect, the Russian share in global imports increased from 1.0% to 1.8%. The importance of the Russian market is even greater while taking into consideration the size of foreign value added in final demand. OECD/WTO Trade in Value Added (TiVA) data show, that prior to the global financial crisis (2008), Russia's share in global imported value added amounted to 2.5%, i.e. more than in the case of India or Brazil. OECD data also show a high share of foreign value added in Russian final demand. In 2009 it accounted for 25% of final demand, comparable to India (26%) and much more than in Brazil (13%) and China (17%).

Russia's importance is even greater when taking into consideration only final goods. According to *Research Institute of Economy, Trade and Industry*, Russia received 3.4% of global capital goods (8th largest global importer) and 3.1% of consumer goods (10th largest importer). In 2004-2012 the average annual growth rate of the Russian imports of capital goods amounted to 22.3%, which was one of the highest in the world during that period. It is fast growing demand for final goods that made Russia a primary target of international corporations. It was especially visible in the case of the European companies, which found difficulties in entering other large emerging markets (due to strong American and Asian competition and the high level of protectionism).

The CEE countries played a significant role in "conquering" the Russian market. In 2004-2012 Russia's share in their exports doubled (2.5% and 5.1% respectively). The share is significantly larger than EU-15 exposure to Russia and when it comes to Russia's share in global imports. Relatively high exposure to Russia means that CEE countries "specialized" in exports to Russia. Low labour costs, and geographical proximity tended to be their advantages over Western European countries.

[52] That includes, according to BEC classification, durable consumer goods, transport equipment and parts and accessories thereof.

[53] Even despite sharp recession in 2009, when Russian imports decreased by over 30%. It was one of the steepest declines in the world.

These advantages also attracted a number of foreign investments to the region. It seems that at least part of foreign investments in the CEE manufacturing sector[54], was aimed at expanding production capacities and indirectly entering the former USSR markets, mainly Russia[55]. The growing role of the CEE economies as exporters to Russia is also confirmed by their growing share in EU exports onto this market[56].

The growth in the CEE exports to Russia was linked mainly with the GVC-related goods[57]. The average annual growth rate of exports of these goods in 2004-2013 (excluding 2009) amounted to 32%. It was further evidence of international corporations' strategies. Those companies, by relocating the production process, made their CEE branches responsible for entering Eastern European markets.

Figure 10.9. CEE and EU-15 exports to Russia, 2004=1, current prices, EUR

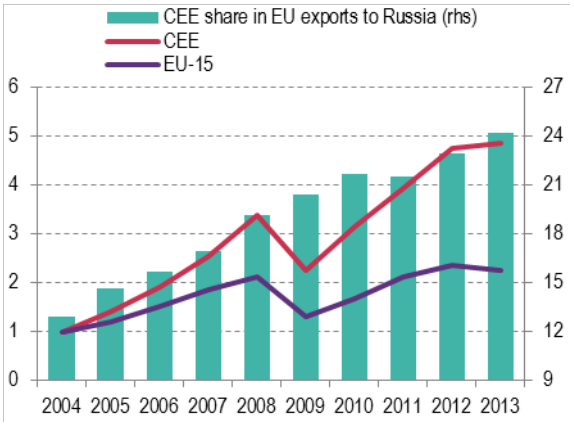
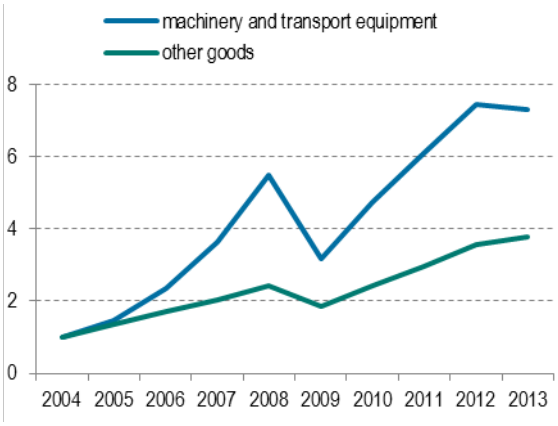


Figure 10.10. CEE exports to Russia, 2004=1, current prices, EUR



Source: Eurostat, EI NBP calculations

Durable consumer goods and parts for transport equipment were the categories of goods which experienced the greatest increase in exports to Russia. In both cases the share in EU exports to Russia significantly increased. For durable consumer goods it amounted to 31% in 2008 (5% of EU exports in 2003) and for parts for transport equipment 32% (10% in 2003).

International corporations had a great influence on changing the exports structure in the CEE region. Already at the beginning of the 21st century, exports to Russia were dominated by low processed goods (commodity- and labour-intensive goods). Now, GVC-related goods (including machinery and transport equipment) account for the major part of exports. In 2004 the share of GVC-related good in

[54] Barriers to foreign investment in Russia could also be an important factor.

[55] Interest in production relocation to the CEE countries increased during European integration. International corporations were present in the CEE region already in the mid-1990s, but inter-corporate trade rose especially after EU accession by the CEE countries.

[56] In 2011 CEE exports to Russia accounted for 24.5% of EU exports to this country. In 2003 the number was twice as small (10.8%).

[57] However, foreign companies do not only export GVC-related goods to Russia via the CEE countries. Growing exports of medicines and paper products are also a result foreign direct investment in the region.

exports to Russia amounted to 30%. In 2013 the share increased to almost 50%. The growth was noticeable both in final goods (capital goods, durable consumer goods and transport equipment) and parts thereof.

In recent years, the structure of exports to Russia from both CEE and EU-15 countries was becoming more and more similar. However, a significant difference can be found. The average unit value of the CEE exported goods is still much lower than EU-15 exported ones. It proves that the CEE countries became producers and exporters of cheaper equivalents of Western European products.

Figure 10.11. Structure of CEE exports to Russia in 2004-2013, in %

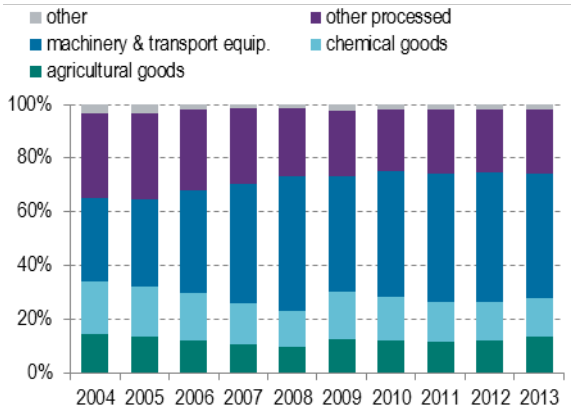
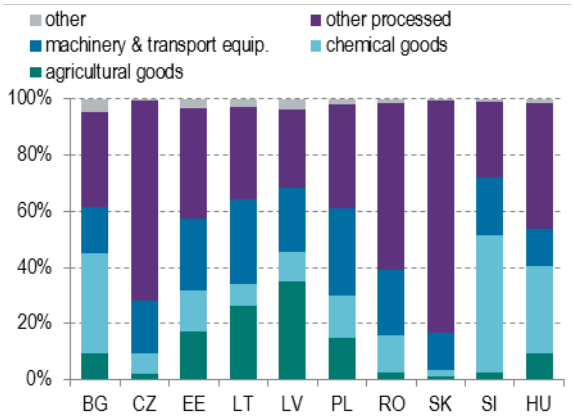


Figure 10.12. Structure of CEE countries exports to Russia in 2013, in %



Source: Eurostat, EI NBP calculations

The unit value of CEE goods exported to Russia before EU accession amounted to only 36% of EU-15 unit values. However, it was the effect of a differing exports structure (low-processed goods in CEE exports, high-processed in EU-15 exports). In 2004-2013, due to changes in the exports structure, the unit value of exports to Russia more than doubled, thus reducing the gap between CEE and EU-15 goods. However, in 2011-2013 the process of unit values convergence reversed. In 2013 the unit value of CEE exports amounted to 58% of the EU-15 level. Large differences in unit price were observed mainly in the GVC-related goods. Prices of other CEE goods exported to Russia were much closer to the EU-15 level.

The model of exports to Russia varies significantly among CEE countries. In some countries GVC-related goods dominate in final goods exports. Slovakia (89% of final exported goods were GVC-related in 2013) and the Czech Republic (83%) seem to be the clearest examples.

In Poland and the Baltic states exports of machinery and transport equipment (SITC 7), such as other processed goods (SITC 5-8), was relatively much smaller. Their close geographical proximity to Russia (closest among CEE countries) seemed to determine the exports structure. GVC-related goods play a lesser role in exports to Russia than in Slovakia and the Czech Republic. On the other hand the role of small and medium sized exporters is much more pronounced. Small and medium enterprises operate

mainly on geographically limited areas. Bordering with Russia make SMEs in the abovementioned countries often treat that market almost like a local one.

The product structure of the Polish exports to Russia has change significantly in recent years. In 2004-2013, the share of GVC-related goods increased, although it did not reach 50%. A lower share of GVC-related goods than in other CEE countries (e.g. the Czech Republic, Slovakia) can be explained by at least two factors. Firstly, small and medium-sized enterprises still play a significant role in exports, especially in exports to Russia. Secondly, Polish exports seem to be less influenced by international corporations, which was evidenced by lower growth rate of exports to Russia than in the Czech or Slovakian cases.

OECD/WTO *Trade in Value Added* data indicate that actual (i.e. measured by value added) share of Russia in the CEE exports is higher than shown by official data. The difference kept growing, as international corporations were increasing their role in the region's exports. In mid-1990s official and value added statistics of Russia's share in exports were similar. In 2008 the difference was significant. According to official data Russia accounted for 4.6% of the CEE exports while according to value added data it amounted to 5.0%. This means that part of the CEE production is indirectly exported onto the Russian market via other countries' exports. The largest difference was observed in Hungary, the Czech Republic and Poland.

This means that a decline in Russian demand may not only harm exports to this country, but also may influence trade between countries most in intra-corporate trade, i.e. trade with Germany and among the CEE states. Taking into consideration the significant role of Russia in the German exports (fifth largest receiver of final goods, just behind the US, France, China and the UK), the magnitude of a fall in Russian demand on the CEE total exports cannot be negligible.

Slovakia, in contrast, is an example of a country in which the actual share of Russia in exports is smaller than indicated by official data. It suggests, that a large part of the Slovakian exports on that market consists of intermediate goods and services previously produced in other countries, presumably Germany, the Czech Republic or Poland, i.e. most important Slovakian trade partners.

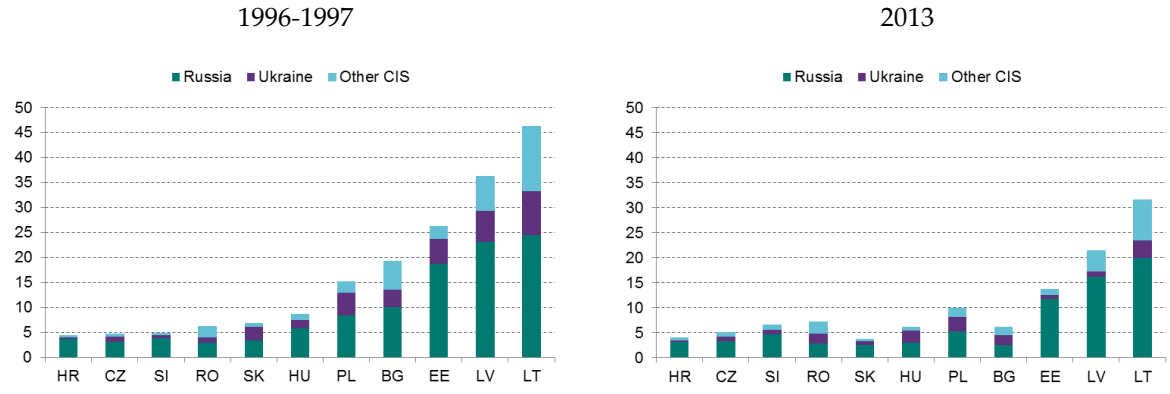
The increasing role of international corporations resulted in the growing role of foreign value added in the CEE exports to Russia. However, it is still relatively low compared to other exports destinations. In 2008 its share amounted to 23%, assuming that domestic value added was directly exported to Russia. The highest share of foreign value added in exports to Russia could be observed in Slovakia – at least 50%.

Historical experience

The fall in exports to Russia and Ukraine in 2014 is the third one in the last two decades. The Russian crisis of 1998-1999 seemed to be especially harmful for the CEE economies. The former USSR economies, Russia in particular, experienced a severe recession at that time, which was a consequence of the

financial crisis[58]. The Russian GDP decreased by 5.3% in 1998 (in Q4 1998 the annual growth rate fell to -9.1%). In Ukraine the recession was milder (GDP fell by 1.8% in 1998), but a decline in the Ukrainian GDP had been observed since the early 1990s. Imports in those countries fell even deeper in 1998-1999. In Russia it declined by 40% and in Ukraine by almost 30% during that period.

Figures 10.13 and 10.14. Exports to CIS countries, in % of total exports



Source: IMF DOTS

The economies that were most severely hit by the crisis in Russia and the countries of the former USSR in 1998-1999 were the CEE countries.. The share of former USSR countries in the CEE exports amounted to, on average, 10% of total exports (including 6% for Russia and 2.5% for Ukraine). The situation was, however highly diversified. In Croatia, the Czech Republic or Slovenia the share amounted to merely 5%, while in Lithuania it reached 46%.

In 1998-1999 the CEE economies experienced a massive and rapid decline in their exports to the former USSR markets. In 1999 they declined by 55%. Exports to Russia fell by 63% and to Ukraine by 46%. A relatively small decrease in exports was observed in the Czech Republic (30%)[59]. As former USSR countries were among the most important trade partners of the CEE region, the fall in exports to these markets significantly influenced total exports. In 1999 they decreased by 1.4%, while in the previous years exports was expanding at a two digit pace. The Baltic states, due to their high exposure on the Eastern European markets, were most severely hit by the fall in foreign demand, especially from Russia. The effect on the Estonian, Latvian and Lithuanian economies was strong enough to significantly slow the recovery after the post-transition crisis[60]. In other CEE economies, including Poland[61], the effects of the Russian crisis were smaller.

[58] The Russian crisis was a consequence of the Asian crisis. It resulted in massive foreign capital outflow, currency depreciation and a rapid fall in financial assets prices.

[59] Czech exports to former USSR states fell significantly in the next year, while the process stopped in the majority of other CEE countries. As a result, Czech exports in 1997-2000 also experienced a large decline of over 50%.

[60] A fall in GDP in Estonia and Lithuania could be observed in 1999.

[61] According to NBP estimates, due to the Russian crisis, Polish total exports decreased by 4.8-8.0% in 1998.

Figure 10.15. CEE exports to CIS and total exports, in %, y/y

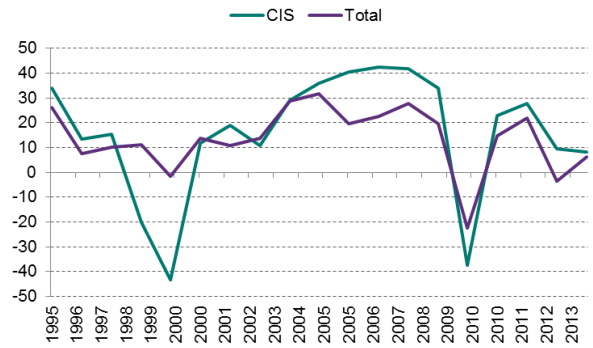
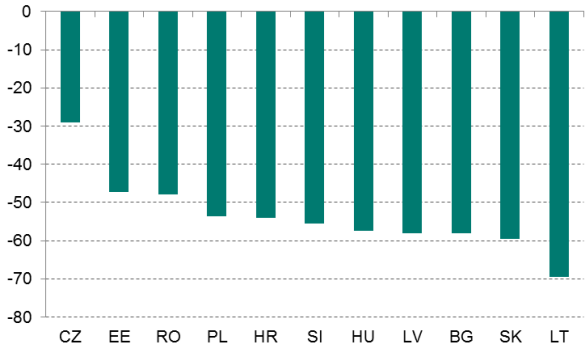


Figure 10.16. Change in CEE countries exports to CIS in 1997-1999, in %



* CIS and Mongolia
Source: IMF DOTS

In the late 1990s agricultural products accounted for a large share of exports; in Poland their share in total exports amounted to 1/3 (1997). Moreover Russia was a receiver of 40% of the Polish agricultural exports. Such a large role of Russia in trade in agricultural goods was a consequence of restricted access to EU markets at that time. The European treaties assumed only partial liberalization of trade in food and agricultural products. Trade preferences were limited to a relatively small number of goods. The treaties of 2000 and 2003 made trade in agricultural goods less restricted, but it was the EU accession in 2004 that removed all the obstacles. Thus, the EU accession significantly changed the geographical structure of the Polish agricultural exports. There was a deterioration of agricultural goods trade with Russia at the same time. This concerned mainly animal-related products (i.e. meat, fish, poultry, milk and its products). Russian authorities introduced obligatory veterinarian controls (carried out by Russians) in farms and manufacturing companies. In practice, it often ended with export embargoes.

The increasing role of international corporations not only changed the structure of exports to Russia, but also made it less vulnerable to falls in Russian demand. Processed, more advanced goods, are easier to move onto other markets. On the other hand, the magnitude of a decrease in the case of these products may be temporarily greater than in the case of necessity goods.

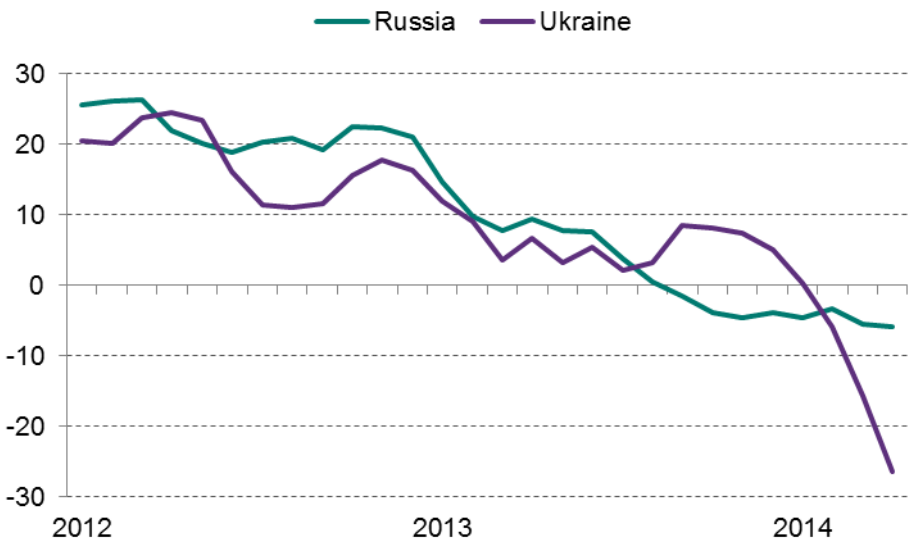
Effects of the Ukrainian crisis

The effects of the Ukrainian crisis were noticeable already in the first four months of 2014. CEE exports to Ukraine decline by 26% and to Russia by 6% (the continuation of a downward trend which started already in mid-2013) as compared to the same period of 2013.

A fall in exports to Ukraine was evident in almost all categories of goods. Exports of durable consumer goods, passenger cars and capital goods, i.e. the categories of goods most vulnerable to changes in demand and exchange rate, decreased the most. In the case of exports to Russia, cars and car parts fell

the most. Still strong exports of capital goods, due to the fulfilment of past contracts (e.g. trams from Poland), cushioned the fall in exports. A lowering of Russian and Ukrainian demand for GVC-related goods might explain the fall in trade turnover among the CEE countries, observed in April 2014.

Figure 10.17. CEE exports to Russia and Ukraine, 3-month moving average, in %, y/y

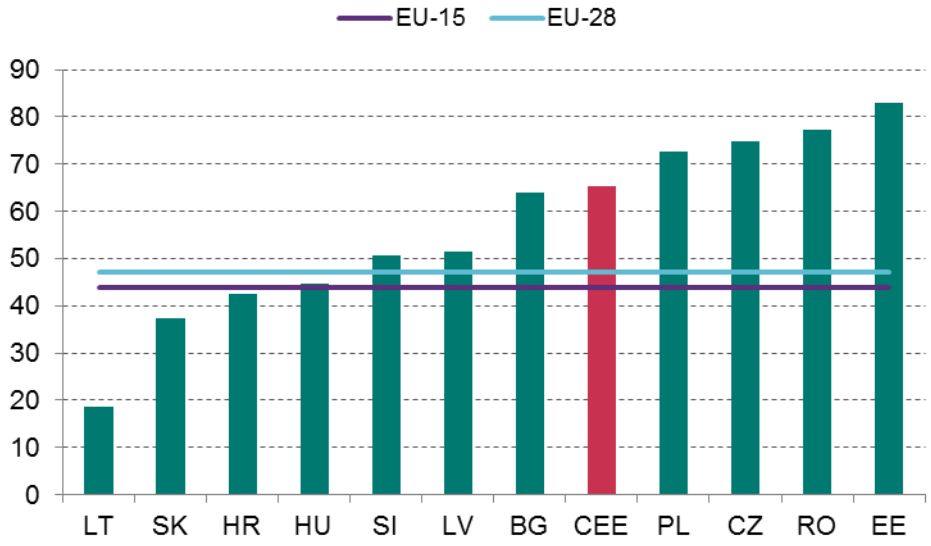


Source: Eurostat, EI NBP calculations

Energy sector – strong dependence on Russia

The CEE economies are less dependent on imported energy than Western European countries. In 2012 domestic production covered c.a. 2/3 of domestic consumption. In EU-15 the share was merely 44%. The largest share of energy produced domestically was seen in Estonia (83%), the smallest in Lithuania (18%).

Figure 10.18. Domestic energy production as % of total consumption



Source: Eurostat

Solid fuels, i.e. coal in Poland and the Czech Republic or oil shale in Estonia (global leader in mining and use of oil shale) still played an important role in the CEE region's energy production. In recent years, the share of renewable energy has also been rising. This was most evident in Latvia, where c.a. 50% of total electricity production comes from hydroelectric power plants. On the other hand, oil[62] and gas extraction in most of the CEE countries is relatively low and economies must rely on imports of these commodities. Only in Romania and Croatia are domestic sources of natural gas and crude oil able to fulfil a significant part of the countries' needs. Domestic sources in the last decade were able to fulfil about 75% of domestic needs in Romania and 80% in Croatia in the case of natural gas and 50% and 20% respectively, in the case of oil. Generally, in the whole CEE region c.a. 90% of oil and 70% of gas used in the economies was imported. The share of imported oil and gas was similar to that observed in EU-15 countries (85% and 65% respectively). However, these two regions of the EU differ significantly in terms of diversification of supplies. CEE economies depended almost solely on Russian commodities, while EU-15 countries had access to oil and gas from other suppliers (the North Sea region, Mediterranean Sea region, and the Middle East).

[62] On the territories of most CEE countries there are refineries (except for Estonia, Latvia and Slovenia). However, commodities processed there are mostly imported from abroad.

As mentioned before, Russia was the main, and in the case of some economies, the only supplier of energy commodities to the CEE region. Imports of Russian oil in 2011-2013 amounted to almost 100% of oil imports in Bulgaria, Lithuania, Slovakia and Hungary. In Poland they amounted to 95%. Imports of Russian oil were also important for the Czech Republic, Croatia (c.a. 60% of total oil imports) and Romania (c.a. 30%). Even the CEE countries that did not import crude oil (Estonia, Latvia, Slovenia), processed petroleum products were imported mainly from neighbouring states. It means that those economies were also, though indirectly, dependent on Russian supplies.

A similar situation was observed on the natural gas market. Russia was the main natural gas supplier for the CEE region (except for Romania and Croatia). In the Baltic states all of the imported gas came from Russia. In Bulgaria, Hungary and Slovakia the share amounted to 80-90%, in the Czech Republic, Poland and Slovenia to c.a. 60%.

Figure 10.19. Russian oil imports as % of total oil imports

Source: Eurostat

Figure 10.20. Russian gas imports as % of total gas consumption

Source: Eurostat, Eurogas

Although reliance on domestic energy sources in the CEE region is bigger than in the EU-15 countries, the level of dependence on imports of energy commodities from Russia is a serious threat to the smooth functioning of the CEE economies. Scenarios analysis of hypothetical disturbances in Russian gas supply seems to confirm this danger[63]. These analyses confirm that most of EU-15 countries (except for Finland) would not be seriously harmed by cuts in the supply of Russian gas. The CEE economies, the Baltic states in particular, would be seriously hit. Such circumstances would affect both the volume of consumption and processing of gas in these economies. In the Baltics states gas consumption might fall by 70% and its prices could even double[64].

[63] See Richter P., Holz F., All Quiet on the Eastern Front? Disruption Scenarios of Russian Natural Gas Supply to Europe, Deutsches Institut für Wirtschaftsforschung, 2014

[64] Estimates assume disturbances of all Russian gas supplies. Slovakia, Hungary and Poland seem to be more vulnerable than the Baltic states in the case of limiting only the transfer via Ukraine.

In the last two decades, energy self-sufficiency of the CEE economies[65], similarly to almost all EU countries, has decreased. This means that imports of energy or energy commodities play an increasingly important role in their energy policies. At the same time, diversification of oil and gas supplies has remained weak. Russia has remained the key supplier. Although there are some projects aimed at diversifying supplies of gas and oil in the CEE region, most of them have not been realized so far. The Czech Republic is an exception. In the 1990s the Czechs managed to connect their gas and oil pipelines to the German network, which gave them access to Norwegian gas[66] and oil from Azerbaijan. This allowed them to decrease the share of the Russian commodities to c.a. 60%, compared to almost 100% before that operation.

Southern CEE countries (Croatia, Slovenia, Romania) are relatively less exposed to imports of th Russian energy commodities. They either rely on their own resources or have access to alternative sources of supply (Mediterranean and North Africa regions). Other CEE economies seem to be more dependent on Russia. The largest dependence on Russian energy supplies could be observed in the Baltic states, in Lithuania in particular. After closing the Ignalina Nuclear Power Plant down, Lithuania became almost completely reliant on Russian energy.

[65] Due to limitation in the use of solid fuels, which was especially important for Poland or the Czech Republic, as energy production in those countries was based on coal.

[66] In practice, the deal of 1997 allows to physically trade Norwegian oil for Russian oil. However, in case of disturbances in the Russian oil supplies, the Norwegians are obliged to become a real supplier. Such a situation took place in 2009.

Summary

After the Russian crisis of 1998-1999, the CEE countries trade relationships with Russia and Ukraine were quickly rebuilt. The EU accession accelerated the CEE countries export growth onto the Eastern European markets. This resulted from the international corporation, whose role in the CEE exports increased, policies, which aimed at making the CEE countries production and export centres to former USSR states.

It is the corporations' policy, beside growing Russian demand, that helped to achieve a high export growth rate. International companies entered onto the Russian market via their branches and subsidiaries located in the CEE region, due to their geographical proximity and lower labour costs. The CEE branches specialized in production and exports of cheaper equivalents of Western European products, which were thus more affordable for Russians. As a result, the product structure of the CEE countries' exports to Russia became more similar to that of EU-15 countries. This meant that GVC-related goods started to play a dominant role in exports to Russia. However, a marked difference in the unit value of goods exported by the CEE countries and EU-15 countries was still observable.

The growing presence of International corporations in the CEE countries has significantly influenced the model of their exports to Russia. Already at the beginning of the 21st century, exports to Russia were dominated by low-processed goods (commodity- and labour-intensive goods). Now, GVC-related goods (including machinery and transport equipment) account for the major part of exports. In 2004 the share of GVC-related good in exports to Russia amounted to 30%. In 2013 the share increased to almost 50%. The growth was noticeable both in final goods (capital goods, durable consumer goods and transport equipment) and parts thereof.

It is difficult to assess total implications of the Ukrainian crisis on the CEE economies, as it seems to be far from an end. However, CEE countries tend to be much more vulnerable to its effects than Western European countries. Trade links with Russia and Ukraine are strong; although not as strong as before the Russian crisis of 1997-1998, they are much stronger than in the Western European states. A significant shift in product structure of the CEE exports has been observed in recent years. GVC-related goods started to replace necessity goods, especially food and agricultural products[67]. More advanced, processed goods are easier to move onto other markets. On the other hand, the magnitude of a decrease in the case of these products may be temporarily greater than in the case of necessity goods. Additionally, a large share of GVC-related goods in the CEE exports to Russia and Ukraine, in the case of demand disturbances, may influence not only direct trade with these economies, but also slow export growth with other countries.

Demand elasticities of exports and changes in constant market shares indicate that the Baltic states, and Lithuania in particular, are most exposed to changes in former USSR countries demand (mainly

[67] The Baltic states were an exception. The share of food in their exports to Russia increased in recent years. In Latvia it amounted to 34% of total exports.

Russian). This resulted not only from the largest share of these countries in exports, but also from its product structure – still large trade in food.

Although energy self-sufficiency of the CEE economies tend to be higher than that of EU-15 countries, low diversification of supplies of gas and oil, i.e. almost full dependence on Russia, made them more prone to cuts in foreign deliveries. Similarly to foreign trade channel, the Baltic states seem to be most exposed to imports of Russian energy.

Statistical Annex

1 National accounts

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

	2012	2013	I 2013	II 2013	III 2013	IV 2013	I 2014
Bulgaria	0.6	0.9	0.4	0.4	0.9	1.2	1.2
Croatia	-2.2	-0.9	-1.0	-0.6	-0.4	-0.6	-0.6
Czech Republic	-1.0	-0.9	-2.3	-1.6	-1.0	1.1	2.5
Estonia	3.9	0.8	1.8	1.5	0.4	-0.3	-1.1
Lithuania	3.7	3.3	4.1	4.1	2.4	3.4	3.0
Latvia	5.2	4.1	6.9	4.5	4.1	3.6	2.3
Poland	2.0	1.6	0.5	1.3	2.0	2.5	3.5
Romania	0.6	3.5	-1.1	0.8	2.3	1.6	4.1
Slovakia	1.8	0.9	0.5	0.7	1.0	1.6	2.0
Slovenia	-2.5	-1.1	-3.1	-1.7	-0.8	1.9	1.5
Hungary	-1.7	-1.1	-0.3	0.5	1.8	2.9	3.2

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

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

	2012	2013	I 2013	II 2013	III 2013	IV 2013	I 2014
Bulgaria	3.7	-2.3	-2.4	-2.2	-2.2	-1.3	3.2
Croatia	-3.1	-1.2	-2.2	-1.0	-0.4	-0.8	-0.3
Czech Republic	-2.1	0.1	-1.3	-0.2	0.9	1.2	1.4
Estonia	4.9	4.2	4.4	5.8	3.3	3.4	2.7
Lithuania	3.9	4.7	3.2	5.9	6.1	5.4	4.2
Latvia	5.8	5.4	5.8	5.8	4.9	4.5	2.5
Poland	1.3	0.8	0.1	0.4	1.0	1.7	2.0
Romania	1.5	1.3	0.3	0.3	1.3	2.9	6.4
Slovakia	-0.2	-0.1	-1.6	0.4	0.2	0.7	3.1
Slovenia	-4.8	-2.7	-5.5	-2.7	-2.5	-0.2	0.5
Hungary	-1.6	0.3	-0.8	0.1	0.8	1.1	1.4

Source: Eurostat, seasonally adjusted data, constant prices of 2005, Romania - non working days adjustment.

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

	2012	2013	I 2013	II 2013	III 2013	IV 2013	I 2014
Bulgaria	4.0	-0.3	2.4	1.0	1.8	3.1	3.4
Croatia	-3.1	-1.3	-2.1	0.5	-2.7	-2.5	-4.6
Czech Republic	-4.5	-3.5	-5.3	-6.5	-5.0	2.7	5.2
Estonia	10.9	1.1	-5.2	0.2	10.3	-1.0	4.1
Lithuania	-3.6	12.8	5.3	11.6	18.0	16.2	9.4
Latvia	8.7	-4.3	-6.2	0.9	-0.3	-9.5	-1.1
Poland	-1.6	-0.2	-3.2	-2.1	1.7	4.1	8.8
Romania	7.3	4.9	-6.4	-2.6	-3.4	-3.3	-5.1
Slovakia	-10.5	-4.3	-10.4	-3.3	-6.1	3.3	4.8
Slovenia	-8.2	0.2	-3.3	-2.3	-0.7	5.3	1.9
Hungary	-3.7	5.8	-0.5	4.6	7.8	11.5	12.6

Source: Eurostat, seasonally adjusted data, constant prices of 2005, Romania - non working days adjustment.

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

	2012	2013	I 2013	II 2013	III 2013	IV 2013	I 2014
Bulgaria	-0.4	8.9	8.0	5.5	10.3	9.3	1.5
Croatia	0.3	-1.2	-1.9	1.1	-1.7	-2.8	6.0
Czech Republic	4.5	0.2	-3.7	0.6	0.3	3.7	9.8
Estonia	5.6	1.8	4.1	5.3	-1.2	-0.7	1.3
Lithuania	11.8	10.3	19.7	15.3	6.6	1.4	-4.4
Latvia	9.4	1.0	3.9	2.9	0.1	-0.2	1.1
Poland	3.9	4.6	1.7	3.4	5.7	6.1	7.6
Romania	-1.5	13.5	7.2	7.8	19.3	18.1	10.8
Slovakia	9.9	4.5	4.1	4.5	2.5	6.7	10.0
Slovenia	0.6	2.9	3.0	1.1	2.9	3.7	3.6
Hungary	1.7	5.3	2.2	3.5	6.3	9.1	7.4

Source: Eurostat, seasonally adjusted data, constant prices of 2005, Romania - non working days adjustment.

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

	2012	2013	I 2013	II 2013	III 2013	IV 2013	I 2014
Bulgaria	3.3	5.7	7.8	2.7	7.4	6.9	6.3
Croatia	-2.4	-2.0	-5.2	4.4	-4.0	-4.1	2.4
Czech Republic	2.3	0.6	-3.1	-0.8	2.9	3.5	9.2
Estonia	8.8	2.6	3.5	8.2	0.8	-1.8	3.6
Lithuania	6.1	10.3	14.2	15.8	8.2	4.9	-1.6
Latvia	4.5	-1.7	1.0	-3.6	-0.9	-3.0	-2.0
Poland	-0.7	1.2	4.3	-2.0	4.2	4.6	5.6
Romania	-0.2	2.4	0.3	-3.2	6.2	5.2	8.4
Slovakia	3.3	2.9	2.6	2.0	-0.3	7.4	10.7
Slovenia	-4.7	1.3	-1.2	-1.2	1.9	4.8	1.3
Hungary	-0.1	5.3	1.6	6.0	5.9	7.8	7.5

Source: Eurostat, seasonally adjusted data, constant prices of 2005, Romania - non working days adjustment.

2 Business cycle and economic activity indicators

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

	09.2013	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014
Bulgaria	2.2	4.2	4.4	0.0	2.5	5.9	3.6	5.0
Croatia	-3.8	-3.4	-0.8	-2.8	2.1	1.6	0.7	0.7
Czech Republic	1.8	5.6	6.5	6.0	5.5	6.2	6.9	9.2
Estonia	0.2	7.0	3.0	-6.0	-1.5	0.4	-2.0	3.9
Lithuania	0.4	-0.2	-2.3	-4.8	-7.6	-2.2	-10.1	-0.1
Latvia	0.8	1.7	0.5	-4.0	-5.3	-1.4	-1.6	1.3
Poland	3.9	4.4	7.6	4.4	6.5	5.3	5.5	5.5
Romania	8.3	10.8	9.4	8.4	10.5	9.6	9.8	3.2
Slovakia	6.5	7.2	12.9	12.7	8.1	9.0	5.9	5.1
Slovenia	-1.5	-0.8	0.9	4.5	1.8	-1.1	4.3	3.0
Hungary	3.0	5.9	6.1	4.4	6.4	8.3	8.1	10.1

Source: Eurostat

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

	09.2013	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014
Bulgaria	5.3	6.0	5.4	4.5	6.2	6.5	2.9	0.5
Croatia	2.2	-1.0	0.2	-1.6	-2.8	-3.0	-0.6	
Czech Republic	-0.9	-1.6	3.2	0.2	3.1	4.1	3.1	3.5
Estonia	-0.1	4.8	5.8	2.2	10.2	6.6	6.7	10.6
Lithuania	4.6	3.0	4.2	4.0	5.7	4.8	5.3	8.6
Latvia	1.3	2.0	3.8	3.5	1.6	0.5	3.4	10.4
Poland	6.4	4.6	6.7	5.5	0.2	0.9	1.3	0.1
Romania	0.8	-0.5	3.4	6.4	6.8	8.1	13.5	5.2
Slovakia	0.2	-0.1	1.6	0.8	3.3	4.0	5.7	5.4
Slovenia	-4.0	-1.6	-1.1	0.0	-0.8	-2.4	-1.1	0.9
Hungary	3.2	4.5	7.1	4.4	6.5	6.4	8.3	6.6

Source: Eurostat

Table 8. Consumers' confidence indicator

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Bulgaria	-38.1	-38.0	-38.9	-37.2	-34.9	-32.5	-30.5	-31.1
Croatia	-37.4	-38.0	-41.3	-36.3	-35.6	-34.4	-34.7	-36.2
Czech Republic	-13.6	-9.8	-10.8	-8.4	-8.4	-5.4	-2.6	-3.4
Estonia	-2.8	-1.5	-2.3	-3.9	-2.6	-4.3	-2.7	-5.0
Lithuania	-9.3	-10.2	-5.7	-7.4	-8.7	-10.7	-11.5	-12.1
Latvia	-14.5	-13.9	-9.1	-9.6	-12.2	-10.4	-7.5	-8.0
Poland	-24.2	-23.6	-19.7	-21.4	-20.8	-17.5	-20.2	-15.9
Romania	-36.2	-34.9	-34.8	-34.3	-33.8	-35.1	-33.4	-34.1
Slovakia	-20.1	-17.4	-16.4	-12.6	-16.5	-13.3	-13.4	-12.3
Slovenia	-34.7	-34.6	-34.4	-30.9	-31.5	-30.1	-29.0	-23.4
Hungary	-27.0	-22.4	-22.9	-17.1	-21.6	-16.3	-15.1	-17.6

Source: European Commission, CNB

Table 9. Business confidence indicator

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Bulgaria	-11.2	-12.5	-11.5	-8.7	-8.0	-7.9	-8.3	-2.2
Croatia	2.4	-9.7	-3	3.1	7.7	3.8	-4.6	3.2
Czech Republic	-0.9	3.5	1.2	-0.6	1.6	2.3	2.4	3.5
Estonia	1.0	-0.2	-3.5	3.8	1.4	-2.3	-1.2	-2.0
Lithuania	-6.3	-7.8	-7.6	-4.5	-4.9	-2.9	-4.9	-6.9
Latvia	-4.4	-2.4	-2.6	-1.5	-0.9	-4.7	-3.2	-5.5
Poland	-15.2	-15.5	-15.0	-12.7	-12.6	-13.4	-12.6	-12.7
Romania	-3.0	-3.6	-2.0	-3.1	-1.5	0.0	-0.5	-1.0
Slovakia	4.1	-1.8	-0.8	2.4	-4.7	-1.7	2.1	1.1
Slovenia	-4.3	-0.6	-0.6	-2.2	-0.2	1.5	1.3	3.2
Hungary	-1.3	2.3	5.6	3.4	6.7	5.6	8.7	6.4

Source: European Commission, OeKB

Table 10. PMI in manufacturing

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Czech Republic	54.5	55.2	54.7	55.9	56.5	55.5	56.5	57.3
Poland	53.4	54.4	53.2	55.4	55.9	54.0	52.0	50.8
Hungary	51.7	52.9	50.6	57.9	54.4	53.7	54.6	53.9

Source: Markit Economics

3 Prices

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

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Bulgaria	-1.1	-1.0	-0.9	-1.4	-2.1	-2.0	-1.3	-1.8
Croatia	0.8	0.7	0.5	0.4	-0.2	-0.1	-0.1	0.4
Czech Republic	0.8	1.0	1.5	0.3	0.3	0.3	0.2	0.5
Estonia	2.2	2.1	2.0	1.6	1.1	0.7	0.8	0.6
Lithuania	0.5	0.5	0.4	0.2	0.3	0.4	0.3	0.1
Latvia	0.0	-0.3	-0.4	0.5	0.5	0.3	0.8	0.8
Poland	0.7	0.5	0.6	0.6	0.7	0.6	0.3	0.3
Romania	1.2	1.3	1.3	1.2	1.3	1.3	1.6	1.3
Slovakia	0.7	0.5	0.4	0.0	-0.1	-0.2	-0.2	0.0
Slovenia	1.1	1.2	0.9	0.9	0.2	0.6	0.5	1.0
Hungary	1.1	0.4	0.6	0.8	0.3	0.2	-0.2	0.0

Source: Eurostat

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

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Bulgaria	0.4	0.2	-0.2	-0.7	-0.6	-1.2	-0.5	-1.3
Croatia	3.6	3.1	2.0	1.7	0.5	0.8	-0.1	-1.3
Czech Republic	2.8	3.1	4.1	3.6	4.0	4.0	2.9	2.7
Estonia	2.6	2.4	2.6	3.3	2.9	2.3	2.1	0.6
Lithuania	1.5	1.3	0.9	1.3	1.6	1.4	1.9	1.4
Latvia	1.1	-0.7	-0.4	0.5	1.1	0.1	0.8	-0.1
Poland	2.5	2.2	2.1	2.4	2.4	2.0	1.4	0.7
Romania	0.2	-0.2	-0.1	-0.5	-0.4	-0.5	-0.7	-1.6
Slovakia	2.1	1.4	0.7	1.3	1.0	1.0	-0.1	0.2
Slovenia	2.6	2.4	2.4	1.9	1.5	1.1	0.6	0.7
Hungary	4.0	3.4	3.4	2.8	2.2	2.1	1.5	1.4

Source: Eurostat

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

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Bulgaria	-6.5	-5.0	-2.9	-3.6	-7.1	-5.3	-3.4	-3.9
Croatia	-3.5	-1.4	-0.2	0.5	-0.8	-1.0	0.2	3.5
Czech Republic	-1.0	-0.2	0.7	-4.6	-5.3	-5.7	-5.5	-3.6
Estonia	3.5	3.5	2.7	-2.0	-4.2	-5.4	-4.7	-2.3
Lithuania	-2.4	-2.1	-1.8	-3.1	-2.6	-1.8	-2.9	-3.4
Latvia	-4.7	-3.3	-3.7	-3.2	-3.0	-2.4	-1.8	-1.0
Poland	-2.5	-2.3	-1.7	-1.0	-1.2	-1.5	-1.5	-0.1
Romania	1.3	2.5	2.0	1.1	0.4	1.0	4.5	5.1
Slovakia	-1.3	-1.2	-0.9	-3.2	-3.3	-3.4	-2.3	-1.7
Slovenia	-1.8	0.3	1.4	0.1	-3.7	-3.1	-1.6	1.1
Hungary	-7.2	-10.7	-9.2	-6.6	-7.3	-6.8	-7.3	-6.0

Source: Eurostat

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

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Bulgaria	-0.4	-0.5	-0.7	-1.1	-1.6	-1.5	-1.2	-1.5
Croatia	0.4	-0.2	-0.2	-0.3	-0.4	-0.3	-0.1	0.5
Czech Republic	0.3	0.4	0.4	-0.1	0.0	0.0	0.3	0.4
Estonia	1.6	1.5	1.6	1.6	1.6	1.5	1.6	1.4
Lithuania	0.8	0.9	0.9	0.8	0.7	0.5	0.4	0.3
Latvia	0.7	0.8	0.5	1.6	1.2	1.3	1.6	1.8
Poland	0.7	0.4	0.5	0.2	0.4	0.4	0.3	0.3
Romania	1.9	2.0	2.3	2.6	2.9	2.8	2.7	2.7
Slovakia	0.7	0.6	0.6	0.3	0.3	0.3	0.3	0.3
Slovenia	1.3	1.0	0.2	0.7	0.6	1.4	1.0	1.0
Hungary	2.2	2.3	2.2	2.0	1.5	1.3	1.1	1.1

Source: Eurostat

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

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Bulgaria	-3.9	-4.0	-2.8	-2.0	-2.5	-1.6	-0.9	
Croatia	-3.0	-2.6	-2.6	-2.2	-2.8	-3.1	-3.0	-2.4
Czech Republic	0.0	0.6	1.8	-0.6	-0.6	-0.8	-0.4	-0.1
Estonia	10.9	8.7	7.2	0.3	-1.6	-4.2	-4.6	
Lithuania	-1.9	-1.4	-1.8	-3.5	-4.5	-4.5	-3.4	-4.8
Latvia	0.6	0.3	-0.4	0.5	0.5	0.6	0.1	
Poland	-1.7	-1.6	-1.2	-1.0	-1.4	-1.1	-0.5	
Romania	0.9	0.9	1.0	-0.3	-0.9	-1.0	1.1	
Slovakia	-1.4	-2.0	-1.7	-2.7	-3.8	-4.2	-4.6	
Slovenia	-0.2	-0.4	-0.3	-0.3	-1.1	-1.5	-1.5	
Hungary	-1.3	-2.0	-1.4	-1.3	-2.1	-2.6	-1.9	

Source: Eurostat

4 Balance of payments

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

	I 2012	II 2012	IIII 2012	IV 2012	I 2013	II 2013	III 2013	IV 2013
Bulgaria	-0.8	-1.7	-1.7	-0.8	-0.7	1.4	1.8	1.9
Croatia	-1.0	-1.1	-0.7	-0.1	0.5	0.6	1.4	1.3
Czech Republic	-2.9	-0.7	-1.0	-1.3	-1.8	-2.0	-2.0	-1.4
Estonia	1.8	0.7	-0.5	-1.8	-1.4	-0.5	-1.3	-1.1
Lithuania	-4.8	-2.3	-2.1	-0.2	1.4	1.1	1.3	1.5
Latvia	-3.1	-3.7	-2.7	-2.5	-2.1	-0.9	-1.2	-0.8
Poland	-5.3	-4.8	-4.4	-3.7	-3.1	-2.3	-1.9	-1.3
Romania	-4.8	-4.4	-4.5	-4.4	-3.6	-1.9	-1.2	-1.1
Slovakia	-2.9	-0.9	1.0	2.2	2.4	3.0	2.8	2.5
Slovenia	0.3	0.6	1.6	2.9	4.3	5.3	5.9	6.0
Hungary	0.2	0.5	0.9	0.8	1.6	1.7	2.3	3.0

Source: Eurostat, central banks, EI NBP calculations

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

	I 2012	II 2012	IIII 2012	IV 2012	I 2013	II 2013	III 2013	IV 2013
Bulgaria	4.8	5.1	5.4	2.0	1.6	1.5	1.6	2.4
Croatia	2.9	2.9	2.1	2.5	3.2	2.6	2.0	1.3
Czech Republic	1.8	1.7	3.4	3.1	3.4	2.5	1.7	0.9
Estonia	6.9	7.1	2.8	2.5	2.0	-0.1	0.6	2.2
Lithuania	3.1	0.6	1.0	0.7	0.6	1.6	1.1	0.9
Latvia	4.6	3.6	3.1	3.2	2.5	2.7	1.8	1.5
Poland	1.4	1.8	1.2	1.1	1.5	0.8	0.7	-0.2
Romania	1.5	1.6	2.0	1.7	1.8	2.1	1.4	1.9
Slovakia	2.7	2.9	2.4	2.1	0.9	0.1	0.5	0.5
Slovenia	2.2	1.8	1.3	0.5	-0.2	-2.3	-2.4	-1.7
Hungary	1.3	1.0	2.2	2.1	2.0	1.6	0.2	0.6

Source: Eurostat, central banks, EI NBP calculations

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

	I 2012	II 2012	III 2012	IV 2012	I 2013	II 2013	III 2013	IV 2013
Bulgaria	36.0	37.2	41.3	41.2	38.3	38.8	39.9	38.6
Croatia	24.6	24.9	24.9	25.0	25.1	26.2	26.1	28.3
Czech Republic	41.3	40.9	41.0	43.8	44.7	42.4	44.4	50.5
Estonia	1.4	1.3	1.4	1.4	1.5	1.2	1.3	1.4
Lithuania	23.8	22.1	24.9	26.2	22.5	23.3	25.2	25.3
Latvia	17.9	17.0	17.8	18.9	18.6	18.5	18.7	19.0
Poland	28.1	30.9	28.8	29.3	31.3	29.9	27.7	27.7
Romania	38.8	37.1	37.0	35.5	36.2	35.7	37.0	36.9
Slovakia	3.5	3.6	3.9	3.5	3.3	3.0	2.6	2.6
Slovenia	1.7	1.8	1.9	1.8	1.6	1.6	1.8	1.7
Hungary	26.2	26.8	26.7	27.1	28.6	27.7	26.3	29.0

* Official reserve assets according to central banks statements

Source: Eurostat, central banks, EI NBP calculations

5. Financial markets and financial system

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

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Croatia	6.25	6.25	5.00	5.00	5.00	5.00	5.00	5.00
Czech Republic	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Poland	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Romania	4.25	4.00	4.00	3.75	3.50	3.50	3.50	3.50
Hungary	3.40	3.20	3.00	2.85	2.70	2.60	2.50	2.40

Source: Central banks, EcoWin Financial

Table 20. 3m interbank rates (average)

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Bulgaria	1.0	1.0	1.0	1.0	0.9	0.8	0.8	0.8
Croatia	1.7	1.4	1.0	1.0	0.9	0.9	0.8	0.9
Czech Republic	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Estonia	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Lithuania	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Latvia	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Poland	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Romania	2.9	2.4	2.3	1.9	3.3	2.8	2.7	2.6
Slovakia	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Slovenia	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Hungary	3.6	3.3	3.0	3.0	3.0	3.2	2.9	2.6

Source: EcoWin Financial

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

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Croatia	7.62	7.63	7.64	7.64	7.66	7.66	7.63	7.60
Czech Republic	25.66	26.93	27.52	27.49	27.44	27.40	27.45	27.44
Poland	4.19	4.19	4.18	4.18	4.17	4.20	4.19	4.18
Romania	4.44	4.45	4.46	4.52	4.49	4.49	4.46	4.42
Hungary	294.76	297.68	300.24	302.48	310.20	311.49	307.37	304.58

Source: Eurostat

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

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Bulgaria	3.0	3.4	3.5	3.6	3.4	4.5	4.0	3.5
Croatia	0.7	1.2	1.0	1.1	0.8	1.8	2.2	1.9
Czech Republic	-0.2	-3.2	-5.9	-5.1	-5.6	-3.5	-3.3	-3.4
Estonia	2.9	3.3	3.4	2.9	3.0	4.4	4.0	3.3
Lithuania	2.7	2.9	3.1	2.8	2.8	4.0	3.6	3.0
Latvia	1.4	1.7	1.9	1.8	2.3	3.5	3.1	2.4
Poland	0.6	1.6	1.0	1.4	2.0	2.3	1.7	2.6
Romania	5.6	5.2	3.6	-0.2	0.1	1.3	1.2	0.8
Slovakia	2.4	3.0	3.2	2.5	2.4	3.3	2.8	2.5
Slovenia	2.0	2.3	2.3	2.0	1.8	2.7	2.4	2.0
Hungary	-1.7	-2.3	-1.9	-0.4	-3.7	0.5	0.1	-1.6

Source: BIS, EI NBP calculations

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

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Bulgaria	-0.3	0.0	0.1	-0.4	-0.9	0.5	0.6	-0.3
Croatia	-0.4	0.1	-0.1	-0.2	-0.9	0.4	0.6	0.5
Czech Republic	-0.7	-3.5	-5.9	-6.2	-6.5	-4.4	-4.4	-4.3
Estonia	2.8	3.1	3.2	2.4	2.1	3.0	2.5	1.8
Lithuania	1.6	1.7	2.0	1.4	1.6	2.9	2.2	1.4
Latvia	0.0	-0.2	0.0	0.8	1.4	2.5	2.4	1.6
Poland	0.3	0.9	0.4	0.9	1.7	2.0	0.9	1.7
Romania	6.0	5.5	3.6	-0.6	-0.1	1.1	1.0	0.3
Slovakia	1.6	1.9	2.1	1.2	1.1	1.8	1.3	1.1
Slovenia	2.0	2.1	1.5	1.4	0.7	2.0	1.4	1.4
Hungary	-2.2	-2.9	-2.9	-1.8	-4.8	-0.6	-1.4	-3.1

Source: BIS, EI NBP calculations

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

	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014	05.2014
Bulgaria	2.4	1.6	1.0	0.7	0.4	0.7	0.7	-0.6
Croatia	-2.8	-3.9	-4.1	-4.5	-3.4	-2.2	-3.5	-3.3
Czech Republic	2.8	2.0	2.3	2.1	2.7	2.9	3.0	4.3
Estonia	0.9	0.3	0.6	0.0	0.5	0.5	0.7	0.7
Lithuania	0.5	-1.1	-1.5	-2.1	-1.9	-1.6	-2.6	-1.8
Latvia	-7.9	-5.2	-6.3	-6.3	-6.5	-7.2	-7.9	-7.4
Poland	1.8	0.5	2.3	2.5	2.3	3.0	2.5	3.1
Romania	-2.1	-2.4	-1.2	-4.4	-2.7	-3.4	-4.2	-4.1
Slovakia	3.2	3.0	4.4	3.5	4.4	4.8	4.9	3.8
Slovenia	-7.1	-7.4	-7.1	-7.5	-7.3	-7.3	-8.5	-8.3
Hungary	-4.6	-7.9	-5.4	-3.2	-3.2	-1.6	-2.4	-1.0

Source: Central banks

6. Labour market

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

	I 2012	II 2012	III 2012	IV 2012	I 2013	II 2013	III 2013	IV 2013
Bulgaria	-1.8	-1.1	-0.6	-0.7	0.1	0.9	-0.1	-0.7
Croatia	-5.6	-1.0	-0.8	-5.2	-3.6	-4.2	-6.3	-1.1
Czech Republic	0.0	0.2	0.5	0.6	1.0	1.3	0.7	0.8
Estonia	3.9	3.6	1.1	1.7	-0.7	1.2	-1.2	-1.4
Lithuania	1.5	1.7	3.0	0.9	1.3	1.0	0.8	2.3
Latvia	1.5	1.0	2.2	1.8	3.8	2.6	1.3	0.8
Poland	0.3	0.2	0.2	0.1	-0.7	-0.5	0.1	0.5
Romania	-0.6	1.7	2.4	1.9	-0.2	-0.2	-0.1	-0.2
Slovakia	1.2	0.7	0.5	-0.1	0.1	-0.3	-0.4	0.6
Slovenia	-0.2	-1.9	-2.0	-1.2	-4.2	-1.8	-0.3	-1.4
Hungary	1.6	1.8	2.1	1.5	0.7	1.4	1.4	2.7

Source: Eurostat

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

	09.2013	10.2013	11.2013	12.2013	01.2014	02.2014	03.2014	04.2014
Bulgaria	12.9	13.1	13.1	13.1	13.1	13.0	13.0	12.8
Croatia	17.7	17.6	17.5	17.2	17.4	17.4	17.2	16.8
Czech Republic	6.9	6.7	6.8	6.7	6.7	6.6	6.6	6.5
Estonia	8.5	8.6	8.8	8.4	8.2	7.8	7.7	-
Lithuania	11.2	11.1	10.9	10.9	11.4	11.7	11.9	11.2
Latvia	11.7	11.5	11.5	11.5	11.5	11.5	11.5	-
Poland	10.2	10.1	10.1	10.0	10.0	9.9	9.8	9.7
Romania	7.3	7.4	7.4	7.3	7.3	7.2	7.2	7.1
Slovakia	14.3	14.3	14.1	14.1	14.0	14.0	14.0	14.0
Slovenia	9.7	9.7	9.6	9.7	9.8	9.7	9.6	9.6
Hungary	10.0	9.5	9.3	8.7	8.2	7.9	7.8	-

Source: Eurostat

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

	II 2012	III 2012	IV 2012	I 2013	II 2013	III 2013	IV 2013	I 2014
Bulgaria	3.6	4.0	2.2	9.2	8.7	7.2	8.7	2.9
Croatia	1.8	1.1	3.5	0.9	1.9	4.0	-0.5	0.3
Czech Republic	2.1	1.4	3.2	-0.5	1.2	1.4	-1.7	3.3
Estonia	4.1	6.8	6.7	8.1	7.8	8.1	7.7	6.9
Lithuania	2.7	4.4	3.3	6.2	5.3	6.5	5.1	3.6
Latvia	3.0	1.8	3.1	4.9	4.7	6.4	6.7	8.2
Poland	3.4	3.7	2.5	3.4	2.2	2.9	4.9	5.0
Romania	7.0	7.2	7.6	8.5	6.0	4.1	3.2	5.3
Slovakia	2.1	2.3	2.7	4.8	3.0	1.7	0.9	3.4
Slovenia	3.9	-0.6	-1.6	-3.8	-5.9	-0.5	2.2	2.9
Hungary	4.9	5.3	4.6	5.3	3.6	2.8	4.3	3.1

Source: Eurostat

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

	I 2012	II 2012	III 2012	IV 2012	I 2013	II 2013	III 2013	IV 2013
Bulgaria	1.1	1.8	2.9	1.0	8.8	9.0	5.7	6.3
Croatia	3.1	6.5	3.6	4.2	4.3	-0.5	0.8	1.3
Czech Republic	3.5	3.3	3.1	5.1	2.7	3.9	2.8	-2.1
Estonia	4.1	4.6	4.0	4.1	5.4	6.8	5.8	6.5
Lithuania	0.6	1.7	0.0	0.6	2.4	2.1	5.1	5.4
Latvia	-0.9	-0.9	1.7	-0.9	2.8	3.2	3.2	1.7
Poland	-3.9	0.0	-3.6	-3.2	-7.9	-8.7	-3.1	-2.2
Romania	4.0	6.7	11.3	9.1	5.9	4.4	0.0	-1.9
Slovakia	1.5	0.6	1.2	2.1	4.5	2.0	0.4	-0.2
Slovenia	3.0	4.7	4.6	3.5	3.6	1.2	1.9	2.2
Hungary	4.8	8.2	9.3	8.9	6.5	4.7	2.5	4.2

Source: Eurostat, EI NBP calculations

7. Public finance

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

	2009	2010	2011	2012	2013	2014p	2015p
Bulgaria	-4.3	-3.1	-2.0	-0.8	-1.5	-1.9	-1.8
Croatia	-5.3	-6.4	-7.8	-5.0	-4.9	-3.8	-3.1
Czech Republic	-5.8	-4.7	-3.2	-4.2	-1.5	-1.9	-2.4
Estonia	-2.0	0.2	1.1	-0.2	-0.2	-0.5	-0.6
Lithuania	-9.4	-7.2	-5.5	-3.2	-2.2	-2.1	-1.6
Latvia	-9.2	-8.2	-3.5	-1.3	-1.0	-1.0	-1.1
Poland	-7.5	-7.8	-5.1	-3.9	-4.3	+5.7	-2.9
Romania	-9.0	-6.8	-5.5	-3.0	-2.3	-2.2	-1.9
Slovakia	-8.0	-7.5	-4.8	-4.5	-2.8	-2.9	-2.8
Slovenia	-6.3	-5.9	-6.4	-4.0	-14.7	-4.3	-3.1
Hungary	-4.6	-4.3	+4.3	-2.1	-2.2	-2.9	-2.8

p – European Commission forecasts of May 2014

Source: Eurostat, European Commission

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

	2009	2010	2011	2012	2013	2014p	2015p
Bulgaria	14.6	16.2	16.3	18.4	18.9	23.1	22.7
Croatia	36.6	45.0	52.0	55.9	67.1	69.0	69.2
Czech Republic	34.6	38.4	41.4	46.2	46.0	44.4	45.8
Estonia	7.1	6.7	6.1	9.8	10.0	9.8	9.6
Lithuania	29.3	37.8	38.3	40.5	39.4	41.8	41.4
Latvia	36.9	44.5	42.0	40.8	38.1	39.5	33.4
Poland	50.9	54.9	56.2	55.6	57.0	49.2	50.0
Romania	23.6	30.5	34.7	38.0	38.4	39.9	40.1
Slovakia	35.6	41.0	43.6	52.7	55.4	56.3	57.8
Slovenia	35.2	38.7	47.1	54.4	71.7	80.4	81.3
Hungary	79.8	82.2	82.1	79.8	79.2	80.3	79.5

p – European Commission forecasts of May 2014

Source: Eurostat, European Commission

Table 31. Excessive deficit correction period (EDP)

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

* In June 2014, the EC recommended that the EU Council close the EDP for the Czech Republic and Slovakia.

Source: European Commission

8. Forecasts

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

	2013	European Commission		IMF		Domestic forecasts	
		2014	2015	2014	2015	2014	2015
Bulgaria	0.9	1.7	2.0	1.6	2.5	-	-
Croatia	-1.0	-0.6	0.7	-0.6	0.4	0.0	1.0
Czech Republic	-0.9	2.0	2.4	1.9	2.0	2.6	3.3
Estonia	0.8	1.9	3.0	2.4	3.2	0.7	3.9
Lithuania	3.3	3.3	3.7	3.3	3.5	3.3	3.6
Latvia	4.1	3.8	4.1	3.8	4.4	3.3	3.7
Poland	1.6	3.2	3.4	3.1	3.3	3.6	3.7
Romania	3.5	2.5	2.6	2.2	2.5	2.5	2.6
Slovakia	0.9	2.2	3.1	2.3	3.0	2.4	3.2
Slovenia	-1.1	0.8	1.4	0.3	0.9	0.6	1.4
Hungary	1.2	2.3	2.1	2.0	1.7	2.1	2.5

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

	2013	European Commission		IMF		Domestic forecasts	
		2014	2015	2014	2015	2014	2015
Bulgaria	0.4	-0.8	1.2	-0.4	0.9	-	-
Croatia	4.0	0.8	1.2	0.5	1.1	1.2	2.1
Czech Republic	1.4	0.8	1.8	1.0	1.9	0.8	2.2
Estonia	3.2	1.5	3.0	3.2	2.8	1.3	2.8
Lithuania	1.2	1.0	1.8	1.0	1.8	0.9	1.5
Latvia	0.0	1.2	2.5	1.5	2.5	1.1	-
Poland	0.8	1.1	1.9	1.5	2.4	1.1	1.8
Romania	4.0	2.5	3.3	2.2	3.1	2.2	3.1
Slovakia	1.5	0.4	1.6	0.7	1.6	0.1	1.6
Slovenia	1.9	0.7	1.2	1.2	1.6	0.5	1.1
Hungary	1.7	1.0	2.8	0.9	3.0	0.7	3.0

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

	2013	European Commission		IMF		Domestic forecasts	
		2014	2015	2014	2015	2014	2015
Bulgaria	1.9	1.0	0.2	-0.4	-2.1	-	-
Croatia	-1.1	1.5	1.6	1.5	1.1	1.5	1.2
Czech Republic	-1.4	-0.4	-0.2	-0.5	-0.5	0.4	0.5
Estonia	-1.0	-2.7	-2.8	-1.3	-1.5	-0.7	-1.8
Lithuania	1.5	-0.8	-1.5	-0.2	-0.6	0.0	-1.0
Latvia	-0.8	-1.3	-2.0	-1.6	-1.9	-	-
Poland	-1.6	-1.7	-2.3	-2.5	-3.0	0.5*	-0.9*
Romania	-1.1	-1.2	-1.6	-1.7	-2.2	-1.0	-1.5
Slovakia	2.1	2.4	2.4	2.7	2.9	2.1	2.7
Slovenia	6.3	6.0	6.2	6.1	5.8	7.1	7.4
Hungary	3.2	3.0	2.7	2.7	2.2	3.0	3.4

* - balance on current and capital account

Sources for tables 32-34: European Commission (05.2014), IMF (04.2014), Narodowy Bank Polski (03.2014), Ceska Narodni Banka (05.2014), Narodna Banka Slovenska (06.2014), Magyar Nemzeti Bank (03.2014), Comisia Naţională de Prognoză (05.2014), Banka Slovenije (04.2014), EestiPank (06.2014), Latvijas Banka (03.2014), Lietuvos Bankas (05.2014), Ekonomski Institut, Zagreb (01.2014).

www.nbp.pl