



Central European Economic Outlook

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- **Czech Republic** 2

The Czech economy officially slid into recession due to a considerable drop of foreign demand. The double-digit fall of new industrial orders implies large cuts in production and employment. Low inflation and recession fears move the Czech National Bank to consider interest rate cuts.

- **Hungary** 3

The new austerity package may dent into domestic consumption in the 3rd quarter, while March industrial production and export data suggest that export-driven industry may have bottomed out. Thus, the outlook could depend on the speed of the export recovery against compressing domestic consumption. However, this would shift the structure of GDP towards a more healthy external balance.

- **Poland** 4

Poland, as the only Central European country to do so, reported positive economic growth for the first quarter of 2009 this year. Nevertheless we think that it is unlikely for Poland to post positive growth for this year as a whole for several reasons. Particularly the rise in investment, which might be partly fuelled by inventories in the first quarter of the year, is unsustainable. In addition, we do not expect household consumption will be able to offset sufficiently the falls in foreign trade and probably also in investment in the quarters to come.

- **Slovakia** 4

According to the preliminary data, Slovak real GDP fell by a surprising 5.4% y/y in Q1 09. This is the first contraction in nearly ten years. Although no detailed data were published so far, we expect that both foreign and domestic demand contributed negatively to growth.

- **Central Europe Convergence in Pictures** 5

Czech Republic

		2005	2006	2007	2008	2009f	2010f
GDP (real)	y/y, %	6.3	6.8	6.1	3.0	-3.0 ↓	2.0 ↓
Private consumption (real)	y/y, %	2.5	5.0	4.8	2.7	1.0 ↓	2.0 ↓
Investment (gross fixed capital formation, real)	y/y, %	1.8	6.0	10.8	-0.1	-7.0 ↓	1.5
GDP (nominal)	CZK bn	2,983.9	3,215.6	3,530.2	3,705.9	3,612.7 ↓	3,740.2 ↓
GDP (nominal)	EUR bn	100.2	113.5	127.2	148.6	132.8 ↓	147.8 ↓
Industrial production	y/y, %	6.7	11.2	9.0	0.4	-9.0 ↓	4.0
Construction output	y/y, %	4.2	6.6	6.7	0.6	0.0	3.5
Retail sales	y/y, %	8.3	11.1	10.0	3.4	1.0	3.7
CPI	y/y, %	2.2	1.7	5.4	3.6	1.7	2.5 ↑
Inflation	average, y/y, %	1.9	2.5	2.8	6.3	1.5	1.9 ↓
Net (core) inflation	y/y, %	0.5	1.2	3.8	-1.0	0.9	0.9 ↓
PPI	y/y, %	-0.3	2.6	5.3	-0.2	0.0 ↓	2.5
Trade balance	CZK bn	38.6	39.8	87.9	67.5	90.0	120.0 ↓
Current Account (annual basis)	% of GDP	-1.3	-2.6	-3.2	-3.1	-2.7 ↓	-2.0 ↓
Current Account	EUR bn	-1.6	-3.8	-4.0	-4.6	-3.6 ↑	-2.9 ↑
FDI net	% of GDP	8.9	11.0	2.1	3.6	2.8 ↑	2.7 ↓
Foreign exchange reserves	EUR bn	25.1	23.9	23.7	26.6	28.8 ↓	31.8 ↓
Unemployment rate	e-o-p, %	8.9	7.7	6.0	6.0	9.0 ↑	9.3 ↑
Real wages	y/y, %	3.3	3.8	4.4	2.1	2.0 ↓	1.6 ↓
Central government budget (GFS)	CZK bn	-56.6	-97.3	-66.4	-19.4	-180.0 ↓	-150.0 ↓
Central government debt (GFS)	CZK bn	691.2	802.5	892.3	999.5	1,109.5 ↑	1,259.5 ↑
Money supply (M2)	y/y, %	8.0	9.9	13.2	6.5	6.5	7.5
CZK/EUR	average	29.78	28.34	27.76	24.94	27.20 ↑	25.30 ↑
CZK/EUR	e-o-p	29.01	27.50	26.62	26.93	26.40 ↑	24.20 ↑
2w CNB repo rate	e-o-p, %	2.00	2.50	3.50	2.25	1.25 ↓	1.75 ↓
3m PRIBOR	average, %	2.01	2.30	3.09	4.04	2.30 ↑	2.25 ↓
3m PRIBOR	e-o-p, %	2.17	2.55	4.11	3.63	1.97 ↑	2.50 ↑
10y IRS	average, %	3.48	3.79	4.23	4.23	3.80 ↑	4.15 ↑

Convergence

		2005	2006	2007	2008	2009f	2010f
GDP per capita	euroarea=100	69	70	73	75	76 ↓	77 ↓
Price level	euroarea=100	54	57	60	64	58 ↓	65 ↓
HICP	average, %	1.6	2.1	3.0	6.3	1.3	1.7 ↓
Public budgets (ESA-95)	% of GDP	-3.6	-2.6	-0.6	-1.5	-4.4 ↓	-4.0 ↓
Public debt (ESA-95)	% of GDP	29.8	29.6	28.9	29.8	35.0 ↑	37.8 ↑
Long term interest rate	spread in bps	16	2	6	65	165 ↑	80 ↑
Currency in ERM-II		no	no	no	no	no	yes

Hungary

		2005	2006	2007	2008	2009f	2010f
GDP (real)	y/y, %	4.2	3.9	1.5	2.0	-6.5	-0.8
Private consumption (real)	y/y, %	3.8	3.2	-2.0	0.5	-7.8	-0.5
Government consumption (real)	y/y, %	0.2	-2.8	-5.0	-2.0	-6.4	-1.5
Investment (gross fixed capital formation, real)	y/y, %	5.3	-2.1	0.0	3.0	-5.2	2.4
GDP (nominal)	HUF bn	21,785	23,562	25,585	27,270	28,200	28,800
GDP (nominal)	EUR bn	87.8	89.2	102.8	107.2	97.2	104.7
Industrial production	y/y, %	7.0	10.1	8.1	6.0	-21.6	2.5
Construction output	y/y, %	16.6	-0.5	-14.1	-5.0	-5.4	1.4
Retail sales	y/y, %	4.5	4.4	-3.0	-1.5	-6.3	1.2
CPI	e-o-p, y/y, %	3.3	6.5	7.4	5.5	6.8	3.5
Inflation	average, y/y, %	3.6	3.9	8.0	6.5	4.8	4.2
Net (core) inflation	y/y, %	1.3	5	5.3	5.3	5.7	3.3
PPI	y/y, %	4.4	5.0	5.3	6.0	1.8	2.8
Trade balance	HUF bn	-720.1	-522.4	-145	-150	-300	-500
Exports (EUR basis)	y/y, %	12.2	16.8	17.1	10.0	-12.0	5.0
Imports (EUR basis)	y/y, %	9.1	14.2	14.0	9.0	-10.0	4.0
Current Account (annual basis)	% of GDP	-7.3	-5.8	-5.4	-6.0	-3.0	-2.0
Current Account	EUR bn	-6.4	-5.197	-5.5	-6.4	-2.9	-2.1
FDI net	EUR bn	4.3	1.749	1.0	2.5	1.0	1.8
FDI net	% of GDP	4.9	2.0	1.0	2.4	1.0	1.7
Basic balance (C/A + net FDI)	% of GDP	-2.4	-3.9	-2.4	-1.3	-2.0	-0.3
Foreign exchange reserves	EUR bn	15.7	16.4	16.5	16.5	28.0	32.0
Unemployment rate	e-o-p, %	7.2	7.5	8.1	8.0	11.4	12.3
Real wages	y/y, %	6.3	3.6	-5.2	1.0	-2.7	-0.6
General gvt budget (GFS)	HUF bn	-984	-2,034	-1480	-1111	-1100 ↓	-864
General gvt budget (GFS)	% of GDP	-4.5	-8.7	-5.8	-3.4	-3.9 ↓	-3.0
Central gvt gross debt	HUF bn	12,766	14,706	15,576	16,800	15,982	15,118
Money supply (M3)	y/y, %	13.9	16	9.0	9.0	10.0	10.0
HUF/EUR	average	248.1	264.1	251.3	250.0	290.0	275.0
HUF/EUR	e-o-p	252.7	251.5	253.0	255.0	280.0	265.0
2w NBH depo rate	e-o-p	6.00	8.00	7.50	11.50	9.50	8.50
3m BUBOR	average	7.05	6.99	7.75	10.00	9.50	9.00
3m BUBOR	e-o-p	6.27	8.05	7.50	11.50	9.50	8.50
10y IRS	average	6.49	7.05	6.73	9.00	8.25	7.25

Convergence

		2005	2006	2007	2008	2009f	2010f
GDP per capita	euroarea=100	57	58	57	55 ↓	54 ↓	54 ↓
Price level	euroarea=100	60	62	59	63 ↓	56 ↓	60 ↓
HICP	average, %	3.5	3.9	8.0	6.5	4.2	3.8
Public budgets	% of GDP	-7.8	-9.8	-6.0	-2.9	-3.9 ↓	-3.0
Public debt	% of GDP	61.7	67.5	66.0	65.0	84.0	82.0
Long term interest rate	spread in bps	364	276	270	500	500 ↑	400 ↑
Currency in ERM-II		no	no	no	no	no	no

Poland

		2005	2006	2007	2008	2009f	2010f
GDP (real)	y/y, %	3.6	6.1	6.4	5.0	-0.5 ↓	2.8 ↓
Inflation	average, y/y, %	2.1	1.0	2.5	4.2	3.7 ↑	3.2 ↑
Unemployment rate	e-o-p, %	18.2	14.9	11.3	9.5	12.0	11.0 ↑
PLN/EUR	average	4.03	3.90	3.78	3.48	4.25 ↓	3.60 ↓
PLN/EUR	e-o-p	3.86	3.83	3.60	3.90	3.70 ↓	3.40 ↓
NBP intervention rate	e-o-p, %	4.50	4.00	5.00	5.25	3.25 ↑	3.50
3m WIBOR	average, %	5.20	4.21	4.73	6.17	4.40 ↑	4.10
10y IRS	average, %	5.14	5.12	5.47	5.75	6.00 ↑	5.50 ↑

Convergence

		2005	2006	2007f	2008	2009f	2010f
GDP per capita	euroarea=100	46	48	49	50 ↓	52 ↓	53 ↓
Price level	euroarea=100	51	60	61	59 ↓	49 ↓	59 ↓
Long term interest rate	spread in bps		144	116	270	260 ↑	160 ↑
Currency in ERM-II		no	no	no	no	no	yes

Slovakia

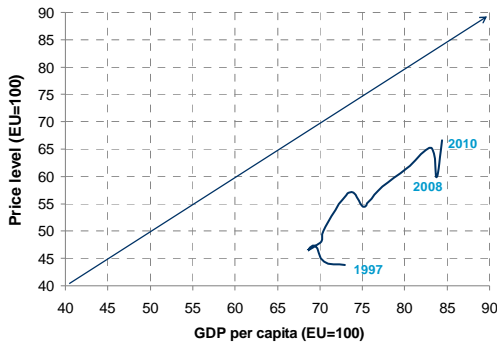
		2005	2006	2007	2008	2009f	2010f
GDP (real)	y/y, %	6.5	8.5	10.4	6.4	-4.5 ↓	1.5
Private household consumption (real)	y/y, %	6.6	5.9	7.1	6.1	-1.0 ↓	2.5
Investment (gross fixed capital formation, real)	y/y, %	17.6	9.3	8.7	6.8	-5.0 ↓	1.0
GDP (nominal)	SKK bn	1,485.7	1,659.4	1,852.8	2,028.4	1,976.3 ↓	2,074.0 ↓
GDP (nominal)	EUR bn	38.5	44.5	54.8	64.8	65.6 ↓	68.8 ↓
Industrial production	y/y, %	3.3	10.1	12.8	6.5	-10.0	3.0
Construction output	y/y, %	15.0	16.1	5.4	12.7	4.0	6.0
Retail sales	y/y, %	9.7	8.8	5.5	5.3	0.5	3.5 ↓
CPI	y/y, %	3.7	4.2	3.4	4.4	1.7 ↓	2.4 ↓
Inflation	average, y/y, %	2.7	4.5	2.8	4.6	2.1 ↓	2.3 ↓
Core inflation	y/y, %	1.7	2.7	4.2	3.3	1.4 ↓	2.6 ↓
PPI	y/y, %	4.7	5.4	2.8	6.6	-1.0 ↓	2.5 ↓
Trade balance	EUR bn	-2.5	-2.5	-0.7	-0.7	-1.1 ↓	-1.2 ↓
Current Account (annual basis)	% of GDP	-8.5	-7.0	-5.3	-4.6	-6.2	-4.5
FDI net	% of GDP	1.8	4.7	2.0	2.0	0.9 ↑	1.6 ↑
Unemployment rate	e-o-p, %	11.4	9.4	8.0	8.4	12.0	11.5
Real wages	y/y, %	6.3	3.3	4.3	3.3	0.5 ↓	1.5 ↓
Money supply (M3)	y/y, %	7.4	15.3	13.0	5.0	5.5	7.0

Convergence

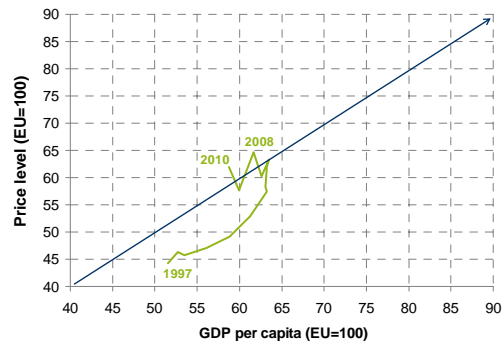
		2005	2006	2007	2008	2009f	2010f
GDP per capita	euroarea=100	54	58	61	63	63 ↓	64 ↓
Price level	euroarea=100	53	54	56	66	70 ↓	71 ↓
HICP	average, %	2.8	4.3	1.9	4.0	1.3 ↓	2.0 ↓
Public budgets (ESA-95)	% of GDP	-2.8	-3.5	-1.9	-2.2	-4.8	-4
Public debt (ESA-95)	% of GDP	34.2	30.4	29.4	27.6	30.4	34.0
Long term interest rate	spread in bps	10	57	17.0	120.0	80.0	30.0

Central Europe Convergence in Pictures

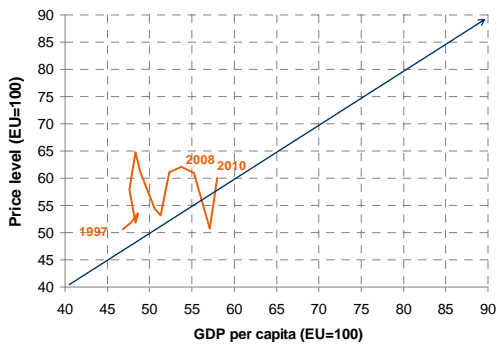
CZ: Convergence



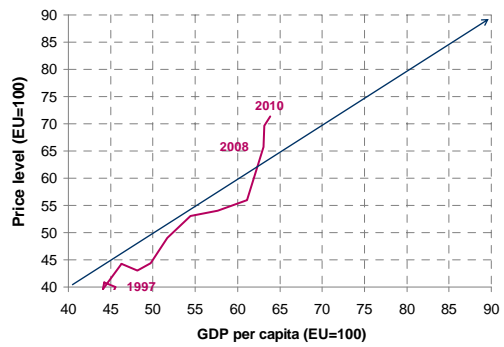
HU: Convergence



PL: Convergence



SK: Convergence



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