



# Central European Economic Outlook

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- **Czech Republic** 2

The fall in industrial output is starting to decelerate due to the one-off impact of the bonus for scrapping cars put in place in Germany. Given low domestic demand, the wave of price reductions is likely to persist and be yet another contributor to the favourable inflation outlook for next year. Hence, the central bank has several more arguments at hand for cutting its base rate.

- **Hungary** 3

The country has become an exporter of capital as the C/A balance swung into surplus and foreign trade is going to post a huge surplus this (probably more than €2B). No wonder that the S&P rating agency upgraded the outlook for Hungary's sovereign ratings.

- **Poland** 4

The Polish economy will remain the economy within the EU, which will not slip into recession this global cycle. That is why we think that markets' worries about the fiscal outlook are overblown.

- **Slovakia** 4

The German scrap subsidy helped Slovak manufacturing to moderate its free fall and registered only a mild -4.2% Y/Y decrease in August. Harmonized inflation dipped to a new all time low at 0%. More and more institutions paint a rosier picture of the Slovak economy - EBRD expects +3.5% Y/Y growth in 2010.

- **Real Convergence in Pictures** 5

## Czech Republic

### Macroeconomic development

		2005	2006	2007	2008	2009f	2010f
<b>GDP (real)</b>	y/y, %	6,3	6,8	6,1	2,7	-4,5 ↓	1,0 ↓
Private consumption (real)	y/y, %	2,5	5,0	4,8	3,4	0,8 ↓	0,0 ↓
Investment (gross fixed capital formation, real)	y/y, %	1,8	6,0	10,8	-1,1	-7,5 ↓	0,0 ↓
<b>GDP (nominal)</b>	CZK bn	2 983,9	3 222,4	3 535,5	3 693,5	3 633,1 ↑	3 724,5 ↓
<b>GDP (nominal)</b>	EUR bn	100,2	113,7	127,3	148,1	137,8 ↑	148,1 ↓
<b>Industrial production</b>	y/y, %	3,9	8,3	10,6	-1,8	-13,0 ↓	3,0 ↓
<b>Construction output</b>	y/y, %	5,2	6,0	7,1	0,0	-1,5 ↓	0,0 ↓
<b>Retail sales</b>	y/y, %	8,1	10,9	10,0	2,8	-3,5 ↓	-0,5 ↓
<b>CPI</b>	y/y, %	2,2	1,7	5,4	3,6	0,9 ↓	2,2 ↓
<b>Inflation</b>	average, y/y, %	1,9	2,5	2,8	6,3	1,0 ↓	1,5 ↓
<b>Net (core) inflation</b>	y/y, %	0,5	1,2	3,8	-1,0	0,4 ↓	1,1 ↓
<b>PPI</b>	y/y, %	-0,3	2,6	5,3	-0,2	-0,9 ↓	1,9 ↓
<b>Trade balance</b>	CZK bn	38,6	39,8	87,9	67,2	95,0 ↑	120,0
<b>Current Account (annual basis)</b>	% of GDP	-1,3	-2,4	-3,2	-3,1	-2,5 ↑	-2,0 ↑
<b>Current Account</b>	EUR bn	-1,6	-3,8	-4,1	-4,6	-3,4 ↑	-2,9 ↑
<b>FDI net</b>	% of GDP	8,9	11,0	2,1	3,6	2,6 ↓	2,3 ↓
<b>Foreign exchange reserves</b>	EUR bn	25,1	23,9	23,7	26,6	28,8	31,8
<b>Unemployment rate</b>	e-o-p, %	8,9	7,7	6,0	6,0	9,2 ↑	9,6 ↑
<b>Real wages</b>	y/y, %	3,0	4,0	4,3	1,9	1,8 ↑	-1,3 ↓
<b>Central government budget (GFS)</b>	CZK bn	-56,6	-97,3	-66,4	-19,4	-180,0	-170,0 ↓
<b>Central government debt (GFS)</b>	CZK bn	691,2	802,5	892,3	999,5	1 179,5 ↑	1 349,5 ↑
<b>Money supply (M2)</b>	y/y, %	8,0	9,9	13,2	6,5	5,0	6,5 ↓
<b>CZK/EUR</b>	average	29,78	28,34	27,76	24,94	26,36 ↓	25,15 ↑
<b>CZK/EUR</b>	e-o-p	29,01	27,50	26,62	26,93	25,70 ↓	23,80
<b>2w CNB repo rate</b>	e-o-p, %	2,00	2,50	3,50	2,25	1,00 ↓	1,25 ↓
<b>3m PRIBOR</b>	average, %	2,01	2,30	3,09	4,04	2,20 ↓	1,70 ↓
<b>3m PRIBOR</b>	e-o-p, %	2,17	2,55	4,11	3,63	1,70 ↓	1,85 ↓
<b>10y IRS</b>	average, %	3,48	3,79	4,23	4,23	3,70 ↓	3,85 ↓

### Convergence

		2005	2006	2007	2008	2009f	2010f
<b>GDP per capita</b>	euroarea=100	68	70	73	73	73	73 ↓
<b>Price level</b>	euroarea=100	57	60	61	70	68 ↑	71 ↓
<b>HICP</b>	average, %	1,6	2,1	3,0	6,3	0,8 ↓	1,3 ↓
<b>Public budgets (ESA-95)</b>	% of GDP	-3,6	-2,6	-0,7	-2,1	-5,8 ↓	-5,3 ↓
<b>Public debt (ESA-95)</b>	% of GDP	29,7	29,4	29,0	30,0	36,2 ↑	40,6 ↑
<b>Long term interest rate</b>	spread in bps	16	2	6	65	150 ↓	75 ↓
<b>Currency in ERM-II</b>		no	no	no	no	no	no

## Hungary

### Macroeconomic development

		2005	2006	2007	2008	2009f	2010f
<b>GDP (real)</b>	y/y, %	4.2	3.9	1.5	2.0	-6.5	-0.5 ↑
Private consumption (real)	y/y, %	3.8	3.2	-2.0	0.5	-7.8	-2.0
Investment (gross fixed capital formation, real)	y/y, %	5.3	-2.1	0.0	3.0	-5.2	4.0
<b>GDP (nominal)</b>	HUF bn	21,785	23,562	25,585	27,270	27,500	28,200
<b>GDP (nominal)</b>	EUR bn	87.8	89.2	102.8	107.2	98.2	106.4
<b>Industrial production</b>	y/y, %	7.0	10.1	8.1	6.0	-18.7	3.5
<b>Construction output</b>	y/y, %	16.6	-0.5	-14.1	-5.0	2.5	2.6
<b>Retail sales</b>	y/y, %	4.5	4.4	-3.0	-1.5	-4.5	0.5
<b>CPI</b>	e-o-p, y/y, %	3.3	6.5	7.4	5.5	5.0 ↓	3.2
<b>Inflation</b>	average, y/y, %	3.6	3.9	8.0	6.5	4.2 ↓	3.7
<b>Net (core) inflation</b>	y/y, %	1.3	5	5.3	5.3	5.0 ↓	3.1
<b>PPI</b>	y/y, %	4.4	5.0	5.3	6.0	1.8	2.8
<b>Trade balance</b>	HUF bn	-720.1	-522.4	-145	-150	3500 ↓	2000
<b>Current Account (annual basis)</b>	% of GDP	-7.3	-5.8	-5.4	-6.0	-1.5 ↑	-2.5 ↑
<b>Current Account</b>	EUR bn	-6.4	-5.197	-5.5	-6.4	-1.5 ↑	-2.7 ↑
<b>FDI net</b>	% of GDP	4.9	2.0	1.0	2.4	1.0	1.7
<b>Foreign exchange reserves</b>	EUR bn	15.7	16.4	16.5	16.5	30.0	31.0
<b>Unemployment rate</b>	e-o-p, %	7.2	7.5	8.1	8.0	10.0 ↓	10.5 ↓
<b>Real wages</b>	y/y, %	6.3	3.6	-5.2	1.0	-2.5 ↑	-2.0 ↓
<b>General gvt budget (GFS)</b>	HUF bn	-984	-2,034	-1480	-1111	-1073	-1410
<b>General gvt budget (GFS)</b>	% of GDP	-4.5	-8.7	-5.8	-3.4	-3.9	-5.0
<b>Central gvt gross debt</b>	HUF bn	12,766	14,706	15,576	16,800	15,728	14,318
<b>Money supply (M3)</b>	y/y, %	13.9	16	9.0	9.0	10.0	10.0
<b>HUF/EUR</b>	average	248.1	264.1	251.3	250.0	280.0	265.0
<b>HUF/EUR</b>	e-o-p	252.7	251.5	253.0	255.0	270.0	260.0
<b>2w NBH depo rate</b>	e-o-p	6.00	8.00	7.50	11.50	6.75	6.00
<b>3m BUBOR</b>	average	7.05	6.99	7.75	10.00	8.75	6.75
<b>3m BUBOR</b>	e-o-p	6.27	8.05	7.50	11.50	6.75	6.00
<b>10y IRS</b>	average	6.49	7.05	6.73	9.00	7.25 ↓	6.75 ↓

### Convergence

		2005	2006	2007	2008	2009f	2010f
<b>GDP per capita</b>	euroarea=100	57	58	57	56	55	54
<b>Price level</b>	euroarea=100	62	59	65	67	64	69
<b>HICP</b>	average, %	3.5	3.9	8.0	6.5	4.2	3.8
<b>Public budgets</b>	% of GDP	-7.8	-9.8	-6.0	-2.9	-3.9 ↓	-5.0 ↓
<b>Public debt</b>	% of GDP	61.7	67.5	66.0	65.0	81.5 ↓	82.0
<b>Long term interest rate</b>	spread in bps	364	276	270	500	450 ↓	350 ↓
<b>Currency in ERM-II</b>		no	no	no	no	no	no

## Poland

### Macroeconomic development

		2005	2006	2007	2008	2009f	2010f
<b>GDP (real)</b>	y/y, %	3,6	6,1	6,4	5,0	2,0 ↑	3,8
<b>Inflation</b>	average, y/y, %	2,1	1,0	2,5	4,2	3,5	2,0
<b>Unemployment rate</b>	e-o-p, %	18,2	14,9	11,3	9,5	11,5	11,0
<b>PL/EUR</b>	average	4,03	3,90	3,78	3,48	4,20	3,50
<b>PL/EUR</b>	e-o-p	3,86	3,83	3,60	3,90	4,00 ↑	3,30
<b>NBP intervention rate</b>	e-o-p, %	4,50	4,00	5,00	5,25	3,50	4,00
<b>3m WIBOR</b>	average, %	5,20	4,21	4,73	6,17	4,10	4,60
<b>10y IRS</b>	average, %	5,14	5,12	5,47	5,75	6,00 ↑	5,50

### Convergence

		2005	2006	2007	2008	2009f	2010f
<b>GDP per capita</b>	euroarea=100	46	47	49	50	54	55
<b>Price level</b>	euroarea=100	60	61	62	66	57	69
<b>Public budgets (ESA-95)</b>	% of GDP	-4,3	-3,8	-2,0	-2,7	-5,0 ↓	-6,0 ↓
<b>Public debt (ESA-95)</b>	% of GDP	47,1	47,8	49,0	46,0	50,0 ↑	53,0 ↑
<b>Long term interest rate</b>	spread in bps		144	116	270	260 ↑	160 ↑
<b>Currency in ERM-II</b>		no	no	no	no	no	yes

## Slovakia

### Macroeconomic development

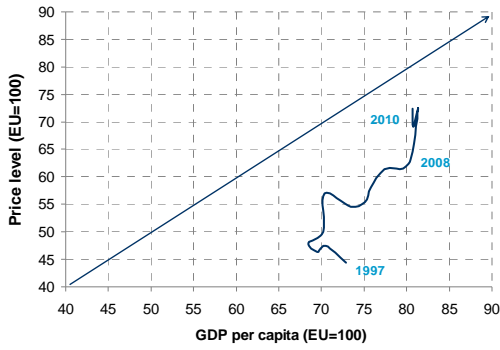
		2005	2006	2007	2008	2009f	2010f
<b>GDP (real)</b>	y/y, %	6,5	8,5	10,4	6,4	-5,0	1,5
Private household consumption (real)	y/y, %	6,6	5,9	7,1	6,1	-0,5	1,0
Investment (gross fixed capital formation, real)	y/y, %	17,6	9,3	8,7	6,8 ↓	-8,0 ↓	2,5 ↓
<b>GDP (nominal)</b>	SKK bn	1 485,7	1 659,4	1 852,8	2 028,4 ↑	1 949,5 ↑	2 027,5 ↑
<b>GDP (nominal)</b>	EUR bn	38,5	44,5	54,8	64,8 ↑	64,7 ↑	67,3 ↑
<b>Industrial production</b>	y/y, %	3,3	10,1	12,8	6,5 ↓	-20,0 ↓	3,0 ↓
<b>Construction output</b>	y/y, %	15,0	16,1	5,4	12,7 ↑	-9,0 ↑	6,0 ↑
<b>Retail sales</b>	y/y, %	9,7	8,8	5,5	5,3 ↑	-12,0 ↓	3,5 ↑
<b>CPI</b>	y/y, %	3,7	4,2	3,4	4,4 ↓	1,7 ↓	2,4
<b>Inflation</b>	average, y/y, %	2,7	4,5	2,8	4,6 ↑	2,1 ↑	2,4 ↑
<b>Core inflation</b>	y/y, %	1,7	2,7	4,2	3,3 ↓	0,5 ↑	1,5 ↓
<b>PPI</b>	y/y, %	4,7	5,4	2,8	6,6 ↑	-2,0 ↓	2,0 ↑
<b>Trade balance</b>	EUR bn	-2,5	-2,5	-0,7	-0,7 ↑	-0,2 ↑	-1,2 ↑
<b>Current Account (annual basis)</b>	% of GDP	-8,5	-7,0	-5,3	-4,6 ↑	-6,5 ↓	-6,0 ↓
<b>Current Account</b>	USD bn	-4,0	-3,9	-4,0	-5,3 ↓	-4,8 ↓	-3,5 ↓
<b>FDI net</b>	USD bn	0,7	2,1	1,1	1,3 ↓	0,6 ↓	1,1 ↓
<b>FDI net</b>	% of GDP	1,8	4,7	2,0	2,0 ↓	0,9 ↓	1,6 ↓
<b>Unemployment rate</b>	e-o-p, %	11,4	9,4	8,0	8,4 ↑	13,0 ↑	13,5 ↑
<b>Real wages</b>	y/y, %	6,3	3,3	4,3	3,3 ↓	0,3 ↓	0,5 ↓
<b>Central government budget</b>	EUR bn	-1,1	-1,1	-0,8	-0,7 ↓	-2,5 ↓	-1,5 ↓
<b>Central government debt</b>	EUR bn	16,7	16,8	18,1	19,7	24,3 ↑	27,7 ↑
<b>Money supply (M3)</b>	y/y, %	7,4	15,3	13,0	5,0	1,0 ↓	7,0
<b>10y IRS</b>	average, %	3,70	4,44	4,51	4,52	n/a	n/a

### Convergence

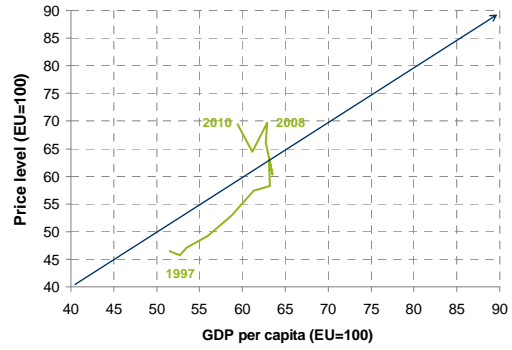
		2005	2006	2007	2008	2009f	2010f
<b>GDP per capita</b>	euroarea=100	54	58	61	63 ↑	63 ↑	63 ↑
<b>Price level</b>	euroarea=100	54	56	62	67 ↑	73 ↑	75 ↑
<b>HICP</b>	average, %	2,8	4,3	1,9	4,0 ↓	1,3 ↓	2,0 ↓
<b>Public budgets (ESA-95)</b>	% of GDP	-2,8	-3,5	-1,9	-2,2 ↓	-6,3 ↓	-6,0 ↓
<b>Public debt (ESA-95)</b>	% of GDP	34,2	30,4	29,4	27,6	30,7 ↑	40,0 ↑
<b>Long term interest rate</b>	spread in bps	10	57	17	120	120 ↑	100 ↑
<b>Currency in ERM-II</b>		yes	yes	yes	yes	EUR	EUR

# Real Convergence in Pictures

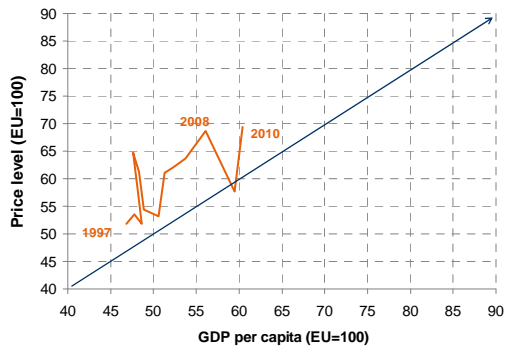
**CZ: Convergence**



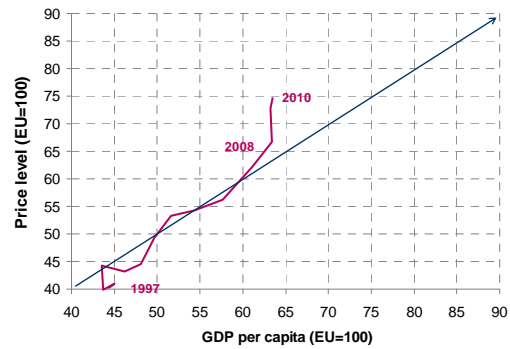
**HU: Convergence**



**PL: Convergence**



**SK: Convergence**





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