



# Central European Economic Outlook

Written by CSOB Prague, CSOB Bratislava and K&H Budapest

- **Czech Republic** 2

The recession ended and the economy started growing in the 3rd quarter. The fall in industrial output is slowing sharply not only due to German scrapping bonuses but also due to some broader improvement of new orders. On the other hand, the labour market will react with quite a long delay. Current deflation is only a short term episode as is the case in the euro area.

- **Hungary** 3

It seems that weak domestic demand has a greater disinflationary effect than expected. Inflation could undershoot the expected path. This is good news for the fixed income markets, but less so for the budget, which has already seen lower revenues due to falling consumption. Lower inflation could really make the 2009 deficit target of 3.8% of GDP difficult to achieve. Hence it was no surprise that both the IMF and the EU Commission expect an overshoot of the deficit now.

- **Poland** 4

The Polish economy may recover a bit more slowly than we expected. The Polish economy relies more on construction now and hence the labour market may be more seasonal than in the years before crisis. Hence we may see a sharper increase in unemployment during the winter months and more moderate consumption growth.

- **Slovakia** 4

The MinFin sees a light at the end of the tunnel. The central bank signalled an improvement in the outlook for 2010, too. The governor considers the year 2010 as the year of stabilization.

- **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	-0.5 ↓
<b>GDP (nominal)</b>	CZK bn	2,983.9	3,222.4	3,535.5	3,693.5	3,626.1 ↓	3,699.0 ↓
<b>GDP (nominal)</b>	EUR bn	100.2	113.7	127.3	148.1	137.4 ↓	146.8 ↓
<b>Industrial production</b>	y/y, %	3.9	8.3	10.6	-1.8	-12.5 ↑	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	-4.5 ↓	-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	-1.3 ↓	1.9
<b>Trade balance</b>	CZK bn	38.6	39.8	87.9	67.2	110.0 ↑	120.0
<b>Current Account (annual basis)</b>	% of GDP	-1.3	-2.4	-3.2	-3.1	-2.3 ↑	-1.9 ↑
<b>Current Account</b>	EUR bn	-1.6	-3.8	-4.1	-4.6	-3.1 ↑	-2.8 ↑
<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	28.4 ↓	30.0 ↓
<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	-1.0 ↑
<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	6.6	4.0	5.5 ↓
<b>CZK/EUR</b>	average	29.78	28.34	27.76	24.94	26.40 ↑	25.20 ↑
<b>CZK/EUR</b>	e-o-p	29.01	27.50	26.62	26.93	25.30 ↓	23.80
<b>2w CNB repo rate</b>	e-o-p, %	2.00	2.50	3.50	2.25	1.25 ↑	1.25
<b>3m PRIBOR</b>	average, %	2.01	2.30	3.09	4.04	2.20	1.73 ↑
<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	3.95 ↑

### Convergence

		2005	2006	2007	2008	2009f	2010f
<b>GDP per capita</b>	euroarea=100	68	70	73	73	73 ↑	74 ↑
<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	-5.5 ↓
<b>Public debt (ESA-95)</b>	% of GDP	29.7	29.4	29.0	30.0	36.3 ↑	41.1 ↑
<b>Long term interest rate</b>	spread in bps	16	2	6	65	168 ↑	100 ↑
<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	-0.8 ↓
Private consumption (real)	y/y, %	3.8	3.2	-2.0	0.5	-7.8	-0.5
Investment (gross fixed capital formation, real)	y/y, %	5.3	-2.1	0.0	3.0	-5.2	2.4
<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	102.5 ↓
<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	-5.5 ↓	0.5
<b>CPI</b>	e-o-p, y/y, %	3.3	6.5	7.4	5.5	5.8 ↑	3.2
<b>Inflation</b>	average, y/y, %	3.6	3.9	8.0	6.5	4.1 ↓	3.7
<b>Net (core) inflation</b>	y/y, %	1.3	5	5.3	5.3	4.5 ↓	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	4000 ↑	2000
<b>Current Account (annual basis)</b>	% of GDP	-7.3	-5.8	-5.4	-6.0	-2.5 ↓	-3.2 ↓
<b>Current Account</b>	EUR bn	-6.4	-5.197	-5.5	-6.4	-2.5 ↓	-3.3 ↓
<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	10.5 ↑	11.5 ↑
<b>Real wages</b>	y/y, %	6.3	3.6	-5.2	1.0	-3.5 ↓	-1.0 ↑
<b>General gvt budget (GFS)</b>	HUF bn	-984	-2,034	-1480	-1111	-1073	-1692 ↓
<b>General gvt budget (GFS)</b>	% of GDP	-4.5	-8.7	-5.8	-3.4	-3.9	-6.0 ↓
<b>Central gvt gross debt</b>	HUF bn	12,766	14,706	15,576	16,800	15,728	14,036 ↓
<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	275.0 ↑
<b>HUF/EUR</b>	e-o-p	252.7	251.5	253.0	255.0	270.0	275.0 ↑
<b>2w NBH depo rate</b>	e-o-p	6.00	8.00	7.50	11.50	6.25 ↓	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	6.25 ↓	6.00
<b>10y IRS</b>	average	6.49	7.05	6.73	9.00	8.25 ↑	7.25 ↑

### 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	-2.9 ↑	-3.0 ↑
<b>Public debt</b>	% of GDP	61.7	67.5	66.0	65.0	84.0 ↑	82.0
<b>Long term interest rate</b>	spread in bps	364	276	270	500	500 ↑	400 ↑
<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	1,8 ↓	3,5 ↓
<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	11,9 ↑	11,5 ↑
<b>PL/EUR</b>	average	4,03	3,90	3,78	3,48	4,20	3,70 ↑
<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	4,20 ↑	4,60
<b>10y IRS</b>	average, %	5,14	5,12	5,47	5,75	6,10 ↑	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	270 ↑	160 ↑
<b>Currency in ERM-II</b>		no	no	no	no	no	yes

## Slovakia

### Macroeconomic development

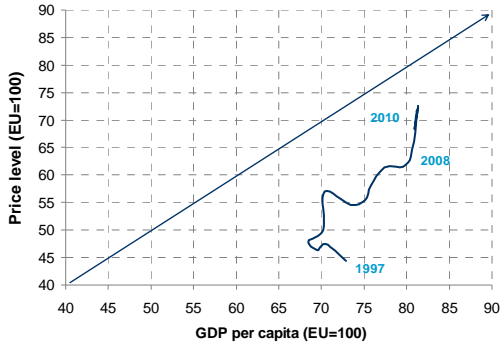
		2005	2006	2007	2008	2009f	2010f
<b>GDP (real)</b>	y/y, %	6.5	8.5	10.4	6.4	-5.0	1.5
Private household consumption (real)	y/y, %	6.6	5.9	7.1	6.1	-0.5	1.0
Investment (gross fixed capital formation, real)	y/y, %	17.6	9.3	8.7	6.8 ↓	-8.0 ↓	2.5 ↓
<b>GDP (nominal)</b>	SKK bn	1,485.7	1,659.4	1,852.8	2,028.4 ↑	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

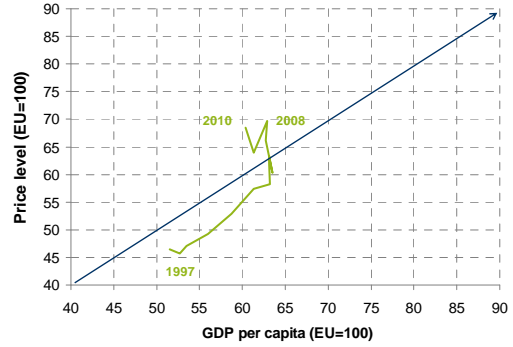
		2005	2006	2007	2008	2009f	2010f
<b>GDP per capita</b>	euroarea=100	54	58	61	65 ↑	68 ↑	70 ↑
<b>Price level</b>	euroarea=100	54	57	62	68 ↑	71 ↑	72 ↑
<b>HICP</b>	average, %	2.8	4.3	1.9	4.0 ↓	1.3 ↓	2.0 ↓
<b>Public budgets (ESA-95)</b>	% of GDP	-2.8	-3.5	-1.9	-2.2 ↓	-6.3 ↓	-6.0 ↓
<b>Public debt (ESA-95)</b>	% 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

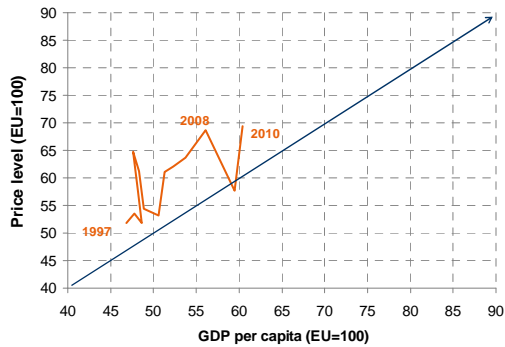
**CZ: Convergence**



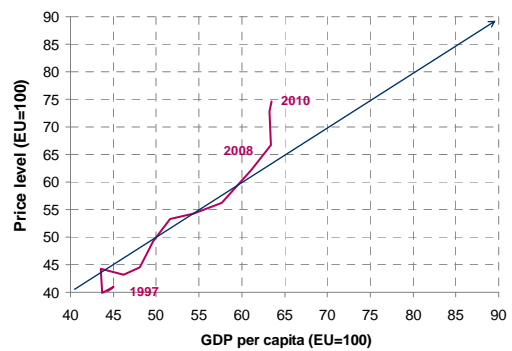
**HU: Convergence**



**PL: Convergence**



**SK: Convergence**





Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41		
Peter Wuyts	+32 2 417 32 35	Brussels	
Didier Hanesse	+32 2 417 59 43	Corporate Desk	+32 2 417 45 82
Bob Maes	+32 2 417 51 94	Commercial Desk	+32 2 417 53 23
<b>Dublin Research (IIB)</b>		Institutional Desk	+32 2 417 46 25
Austin Hughes	+353 1 6646892	London +44 207 256 4848	
<b>Prague Research (CSOB)</b>		Frankfurt +49 69 756 19372	
Jan Cermak	+420 2 6135 3578	Paris +33 153 89 83 15	
Petr Dufek	+420 2 6135 3560	New York +1 212 541 06 97	
Jan Bures	+420 2 6135 3574	Singapore +65 533 34 10	
<b>Bratislava Research (CSOB)</b>		Prague +420 2 6135 3535	
Marek Gabris	+421 2 5966 8400	Bratislava +421 2 5966 8436	
		Budapest +36 1 328 99 63	
		Warsaw +48 22 634 5210	
<b>Budapest Research (K&amp;H)</b>			
Gyorgy Barcza	+36 1 328 99 89		
<b>Our reports are also available on: <a href="http://www.kbc.be/dealingroom">www.kbc.be/dealingroom</a></b>			
<p>This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.</p>			