



Central European Economic Outlook

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

- **Czech Republic** 2

The economy is growing thanks to the automotive industry. Domestic demand remains subdued. Investment and consumption is decreasing and thus inhibit inflation. The central bank may keep its interest rates unchanged at least until early next year.

- **Hungary** 3

The budget deficit swell to 118% of the full-year target at the end of the first half the 2020 and it is still not clear where the deficit would be heading for without intra-year government measures. In this respect the central bank's forecast for 4.5% of GDP full-year deficit seems to be the best case scenario for that. This means that the government will have to implement tight spending control in the second half of the year in order to meet the 3.8% of GDP deficit target.

- **Poland** 4

Polish growth perspective seems to have improved in the second quarter after severe winter at the beginning of the year. Beside solid recovery of export-oriented manufacturing also domestic consumption seems to have bottomed at the beginning of the year. If fiscal policy stays relaxed ahead of the 2011 general elections, we may hear haks on MPC board to speak more loudly soon.

- **Slovakia** 4

The Slovak manufacturing is growing thanks to auto and electrotechnical industries. The corporate companies signal cautious creating of new jobs. The new centre-right government admits the deficit could be at the level 7% of GDP.

- **Central European economies in Pictures** 5

Czech Republic

Macroeconomic development

		2006	2007	2008	2009	2010f	2011f
GDP (real)	y/y, %	6.8	6.1	2.5	-4.1	1.5	2.5
Private consumption (real)	y/y, %	5.0	4.8	3.6	-0.3	-0.5	0.7 ↓
Investment (gross fixed capital formation, real)	y/y, %	6.0	10.8	-1.5	-9.2	-3.0 ↓	2.0
GDP (nominal)	CZK bn	3,222.4	3,535.5	3,689.0	3,628.1	3,708.3 ↓	3,865.6 ↓
GDP (nominal)	EUR bn	113.7	127.3	147.9	137.2	147.2 ↑	158.4 ↓
Industrial production	y/y, %	8.3	10.6	-1.8	-13.6	6.0 ↑	4.5 ↓
Construction output	y/y, %	6.0	7.1	0.0	-1.0	-5.0	0.5 ↓
Retail sales	y/y, %	10.8	10.0	2.7	-4.7	-1.2	2.5 ↓
CPI	y/y, %	1.7	5.4	3.6	1.0	2.0 ↓	2.3 ↑
Inflation	average, y/y, %	2.5	2.8	6.3	1.0	1.5 ↓	2.3 ↑
Net (core) inflation	y/y, %	1.2	3.8	-1.0	0.0	1.3	1.3 ↓
PPI	y/y, %	2.6	5.3	-0.2	-0.8	2.2 ↑	2.1
Trade balance	CZK bn	39.8	87.9	67.2	151.7	157.1	172.9
Current Account (annual basis)	% of GDP	-2.4	-3.2	-0.6	-1.0	-1.4 ↓	-1.5 ↓
Current Account	EUR bn	-2.7	-4.1	-1.0	-1.5	-2.1 ↓	-2.3 ↓
FDI net	% of GDP	2.2	5.8	10.4	8.7	0.0	0.0
Foreign exchange reserves	EUR bn	23.9	23.7	26.6	28.9	30.1	32.9
Unemployment rate	e-o-p, %	7.7	6.0	6.0	9.2	9.4 ↓	9.0 ↓
Real wages	y/y, %	4.0	4.3	1.9	3.0	0.2 ↑	0.7 ↓
Central government budget (GFS)	CZK bn	-97.3	-66.4	-19.4	-192.4	-170.0 ↓	-130.0
Central government debt (GFS)	CZK bn	802.5	892.3	999.5	1178.2	1,348.2 ↑	1,478.2 ↑
Money supply (M2)	y/y, %	9.9	13.2	6.6	4.3	4.5	6.0
CZK/EUR	average	28.34	27.76	24.94	26.45	25.20 ↓	24.40
CZK/EUR	e-o-p	27.50	26.62	26.93	26.47	24.00	23.80 ↑
2w CNB repo rate	e-o-p, %	2.50	3.50	2.25	1.00	0.75	1.50
3m PRIBOR	average, %	2.30	3.09	4.04	2.19	1.25	1.55
3m PRIBOR	e-o-p, %	2.55	4.11	3.63	1.54	1.15	1.85
10y IRS	average, %	3.79	4.23	4.23	3.69	3.07 ↓	3.37 ↓

Convergence

		2006	2007	2008	2009	2010f	2010f
GDP per capita	euroarea=100	71	73	74	74	75 ↓	77 ↑
Price level	euroarea=100	60	61	70	66	71 ↓	75 ↓
HICP	average, %	2.1	3.0	6.3	6.3	1.3 ↓	2.1 ↑
Public budgets (ESA-95)	% of GDP	-2.6	-0.7	-2.7	-5.9	-5.5	-4.3 ↑
Public debt (ESA-95)	% of GDP	29.4	29.0	30.0	35.4	40.1 ↑	42.7 ↓
Long term interest rate	spread in bps	2	6	65	162	144 ↑	144 ↑
Currency in ERM-II		no	no	no	no	no	no

Hungary

Macroeconomic development

		2006	2007	2008	2009	2010f	2011f
GDP (real)	y/y, %	3.9	1.5	2.0	-6.3	0.8 ↑	2.7
Private consumption (real)	y/y, %	3.2	-2.0	0.5	-7.0	-1.0	0.5
Government consumption (real)	y/y, %	-2.8	-5.0	-2.0	-1.0	-0.5	-0.5
Investment (gross fixed capital formation, real)	y/y, %	-2.1	0.0	3.0	-5.7	3.0	5.0
GDP (nominal)	HUF bn	23,562	25,585	27,270	25,500	26,200	27,500
GDP (nominal)	EUR bn	89.2	102.8	107.2	91.0	93.6	101.9
Industrial production	y/y, %	10.1	8.1	6.0	-18.7	7.0 ↑	8.0
Construction output	y/y, %	-0.5	-14.1	-5.0	-4.0	-2.0	3.0
Retail sales	y/y, %	4.4	-3.0	-1.5	-7.5	-3.0 ↑	1.0
CPI	e-o-p, y/y, %	6.5	7.4	5.5	5.7	3.5	3.5
Inflation	average, y/y, %	3.9	8.0	6.5	4.2	4.4	3.5
Net (core) inflation	y/y, %	5	5.3	5.3	4.7	4.2	3.5
PPI	y/y, %	5.0	5.3	6.0	1.8	3.5	4.2
Trade balance	HUF bn	-522.4	-145	-150	4421	3000	2000
Exports (EUR basis)	y/y, %	16.8	17.1	10.0	-17.0	3.0	6.0
Imports (EUR basis)	y/y, %	14.2	14.0	9.0	-28.0	4.0	7.0
Current Account (annual basis)	% of GDP	-5.8	-5.4	-6.0	1.6	0.5	-1.0
FDI net	% of GDP	2.0	1.0	2.4	1.1	1.1	1.0
Basic balance (C/A + net FDI)	% of GDP	-3.9	-2.4	-1.3	2.5	1.5	
Foreign exchange reserves	EUR bn	16.4	16.5	16.5	30.0	30.0	30.0
Unemployment rate	e-o-p, %	7.5	8.1	8.0	10.5	11.5	11.0
Real wages	y/y, %	3.6	-5.2	1.0	-3.5	-1.0	1.0
General gvt budget (GFS)	HUF bn	-2,034	-1480	-1111	-981	-1965	-1238
General gvt budget (GFS)	% of GDP	-8.7	-5.8	-3.4	-3.9	-7.5	-4.5
Central gvt gross debt	HUF bn	14,706	15,576	16,800	17,781	19,746	20,984
Money supply (M3)	y/y, %	16	9.0	9.0	4.0	3.5	4.5
HUF/EUR	average	264.1	251.3	250.0	280.2	280.0	270.0
HUF/EUR	e-o-p	251.5	253.0	255.0	270.0	270.0 ↓	265.0
2w NBH depo rate	e-o-p	8.00	7.50	11.50	6.25	5.00 ↓	5.00
3m BUBOR	average	6.99	7.75	10.00	8.75	5.75 ↓	5.00
3m BUBOR	e-o-p	8.05	7.50	11.50	6.25	5.00 ↓	5.00
10y IRS	average	7.05	6.73	9.00	7.50	7.25 ↓	6.75

Convergence

		2006	2007	2008	2009	2010f	2011f
GDP per capita	euroarea=100	58	58	59	58	59 ↑	60 ↑
Price level	euroarea=100	59	66	65	62	66 ↑	68
HICP	average, %	3.9	8.0	6.5	4.2	3.8	3.5
Public budgets	% of GDP	-9.8	-6.0	-2.9	-3.9	-7.5	-4.5
Public debt	% of GDP	67.5	66.0	65.0	80.0	82.0	80.0
Long term interest rate	spread in bps	276	270	500	5	400	350
Currency in ERM-II		no	no	no	no	no	no

Poland

Macroeconomic development

		2006	2007	2008	2009	2010f	2011f
GDP (real)	y/y, %	6.1	6.4	5.0	1.7	2.7 ↓	3.6
Inflation	average, y/y, %	1.0	2.5	4.2	3.6	2.9 ↑	2.6
Unemployment rate	e-o-p, %	14.9	11.3	9.5	11.9	12.3 ↓	12.0
PLN/EUR	average	3.90	3.78	3.48	4.10	3.80 ↑	3.60
PLN/EUR	e-o-p	3.83	3.60	3.90	4.30	3.60	3.30
NBP intervention rate	e-o-p, %	4.00	5.00	5.25	3.50	3.80 ↑	4.50
3m WIBOR	average, %	4.21	4.73	6.17	4.20	4.00	4.30
10y IRS	average, %	5.12	5.47	5.75	6.10	5.80 ↑	6.10 ↑

Convergence

		2006	2007	2008	2009	2010f	2011f
GDP per capita	euroarea=100	48	50	52	55	56	58 ↓
Price level	euroarea=100	61	61	66	55	64 ↓	68
Public budgets (ESA-95)	% of GDP	-3.8	-2.0	-2.7	-5.0	-7.0	-6.5
Public debt (ESA-95)	% of GDP	47.8	49.0	46.0	50.0	55.7 ↑	60.3 ↑
Long term interest rate	spread in bps	144	116	270	262.00	290 ↑	300 ↑
Currency in ERM-II		no	no	no	no	no	no

Slovakia

Macroeconomic development

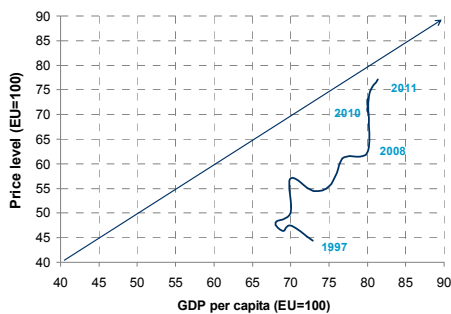
		2006	2007	2008	2009	2010f	2011f
GDP (real)	y/y, %	8.5	10.4	6.4	-4.7	3.0	3.5
Private household consumption (real)	y/y, %	5.9	7.1	6.1	-0.5	1.0	1.9
Investment (gross fixed capital formation, real)	y/y, %	9.3	8.7	6.8	-8.0	3.0	4.0
GDP (nominal)	SKK bn	1,659.4	1,852.8	2,028.4	1,950.0	2,043.5	2,154.0
GDP (nominal)	EUR bn	44.5	54.8	64.8	64.7	67.5	71.5
Industrial production	y/y, %	15.1	16.9	2.5	-14.6	6.5	5.0
Construction output	y/y, %	16	5.4	11.2	-11.1	1.0	6.0
Retail sales	y/y, %	8.8	5.5	9.1	-10.3	3.5	5.0
CPI	y/y, %	4.2	3.4	4.4	0.5	2.4	3.0
Inflation	average, y/y, %	4.5	2.8	4.6	1.6	2.4	3.5
Core inflation	y/y, %	2.7	4.2	3.3	-0.2	1.5	2.5
PPI	y/y, %	5.4	2.8	6.6	-4.9	2.0	2.6
Trade balance	EUR bn	-2.6	-0.7	-0.8	1.3	-0.5	-1.0
Current Account (annual basis)	% of GDP	-7.0	-5.3	-4.6	-0.8	-2.5	-5.8
Current Account	USD bn	-3.9	-4.0	-5.3	-0.7	-3.0	-3.0
FDI net	USD bn	2.1	1.1	1.3	0.2	1.1	0.8
FDI net	% of GDP	4.7	2.0	2.0	0.3	1.6	1.1
Unemployment rate	e-o-p, %	9.4	8.0	8.4	12.7	13.5	13.5
Real wages	y/y, %	3.3	4.3	3.3	1.1	0.5	1.3
Central government budget	EUR bn	-1.1	-0.8	-0.7	-2.8	-3.9	-3.1
Central government debt	EUR bn	16.8	18.1	19.7	24.3	27.7	31.4
Money supply (M3)	y/y, %	15.3	13.0	5.0	-2.8	3.0	7.0
10y IRS	average, %	4.44	4.51	4.52	n/a	n/a	n/a

Convergence

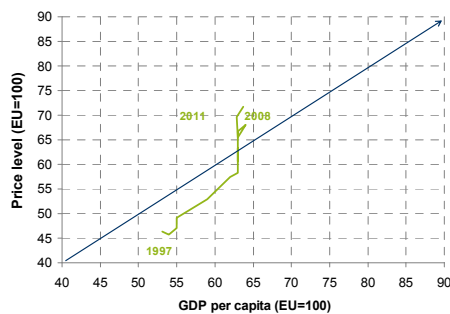
		2006	2007	2008	2009	2010f	2011f
GDP per capita	euroarea=100	58	61	67	67	69 ↓	70
Price level	euroarea=100	57	62	68	69	70 ↓	71 ↓
HICP	average, %	4.3	1.9	4.0	0.9	2.0	2.0
Public budgets (ESA-95)	% of GDP	-3.5	-1.9	-2.2	-6.8	-7.0 ↓	-6.0
Public debt (ESA-95)	% of GDP	30.4	29.4	27.6	30.7	40.0	40.0
Long term interest rate	spread in bps	57	17	120	120	80	100
Currency in ERM-II		yes	yes	yes	EUR	EUR	EUR

Central European Economies in Pictures

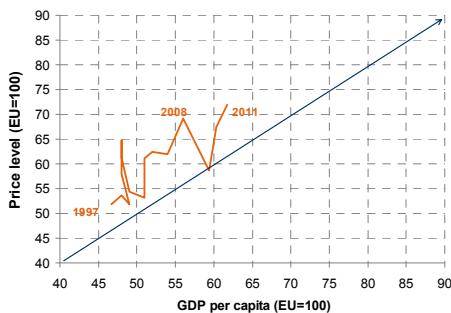
CZ: Convergence



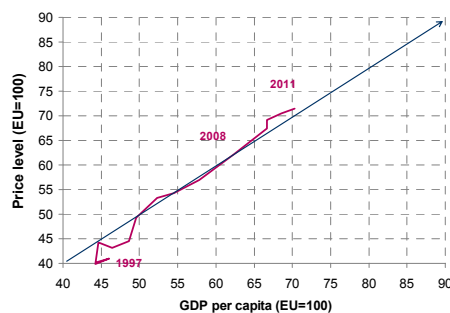
HU: Convergence



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
		Institutional Desk	+32 2 417 46 25
Dublin Research (IIB)			
Austin Hughes	+353 1 6646892	London	+44 207 256 4848
Prague Research (CSOB)		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
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8400	Prague	+420 2 6135 3535
		Bratislava	+421 2 5966 8436
		Budapest	+36 1 328 99 63
		Warsaw	+48 22 634 5210
Budapest Research (K&H)			
Gyorgy Barcza	+36 1 328 99 89		
Our reports are also available on: www.kbc.be/dealingroom			
<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>			