



# Central European Economic Outlook

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

- **Czech Republic** 2

Economic growth accelerated in the third quarter to 3% Y/Y, driven by rising exports, while domestic demand remains subdued. Inflation remains moderate and does not force the central bank to change its interest rates. Crown remains in a narrow band below 25 EUR / CZK.

- **Hungary** 3

Debate about Hungary remained centered about the medium-term fiscal outlook as one-off revenue measures (special taxes on the financial, energy, retail and telecom sectors) will expire in 2013 implying a risk of higher budget deficit.

- **Poland** 4

Although the Polish central bank (NBP) kept its main interest rate unchanged at the all-time low, the promising economic environment set the stage for the start of a tightening cycle. We believe that the Q3 GDP figures will show solid growth in core investments (net of inventories), which remained in negative territory till now. Thus, if the doves within the MPC were missing hard evidence of increasing investments (and domestic demand) so far, the GDP report could provide a good argument for a shift in their opinion.

- **Slovakia** 4

The MoF revised the 2010 deficit estimate to 7.8% of GDP and forecasts a deficit of 4.9% of GDP in 2011. The government wants a more flexible Labour Code. Eastern Slovak regions are fighting for several big investments, including by IBM, for which Poland is also still in the running.

- **Central European economies in Pictures** 5

## Czech Republic

### Macroeconomic development

		2006	2007	2008	2009	2010f	2011f
<b>GDP (real)</b>	y/y, %	6.8	6.1	2.5	-4.1	1.7	1.8
Private consumption (real)	y/y, %	5.0	4.8	3.6	-0.3	0.3	0.0
Investment (gross fixed capital formation, real)	y/y, %	6.0	10.8	-1.5	-9.2	-4.8	0.8
<b>GDP (nominal)</b>	CZK bn	3,222.4	3,535.5	3,689.0	3,628.1	3,715.6	3,846.8
<b>GDP (nominal)</b>	EUR bn	113.7	127.3	147.9	137.2	146.6	158.6
<b>Industrial production</b>	y/y, %	8.3	10.6	-1.8	-13.6	9.0	4.5
<b>Construction output</b>	y/y, %	6.0	7.1	0.0	-0.9	-4.5	-2.0
<b>Retail sales</b>	y/y, %	10.8	10.0	2.7	-4.7	0.9	0.4
<b>CPI</b>	y/y, %	1.7	5.4	3.6	1.0	2.0	2.7
<b>Inflation</b>	average, y/y, %	2.5	2.8	6.3	1.0	1.4	2.3
<b>Net (core) inflation</b>	y/y, %	1.2	3.8	-1.0	0.0	1.4	1.3
<b>PPI</b>	y/y, %	2.6	5.3	-0.2	-0.8	2.3	2.1
<b>Trade balance</b>	CZK bn	39.8	87.9	67.2	149.6	124.8	148.8
<b>Current Account (annual basis)</b>	% of GDP	-2.4	-3.2	-0.6	-1.0	-2.5	-2.7
<b>Current Account</b>	EUR bn	-2.7	-4.1	-1.0	-1.5	-3.7	-4.4
<b>FDI net</b>	% of GDP	2.2	5.8	10.4	8.7	0.0	0.0
<b>Foreign exchange reserves</b>	EUR bn	23.9	23.7	26.6	28.9	31.1	34.6
<b>Unemployment rate</b>	e-o-p, %	7.7	6.0	6.0	9.2	9.1	8.8
<b>Real wages</b>	y/y, %	4.0	4.3	1.9	3.0	0.8	-0.8
<b>Central government budget (GFS)</b>	CZK bn	-97.3	-66.4	-19.4	-192.4	-160.0	-130.0
<b>Central government debt (GFS)</b>	CZK bn	802.5	892.3	999.5	1178.2	1,338.2	1,468.2
<b>Money supply (M2)</b>	y/y, %	9.9	13.2	6.6	4.2	4.5	6.0
<b>CZK/EUR</b>	average	28.34	27.76	24.94	26.45	25.34	24.25
<b>CZK/EUR</b>	e-o-p	27.50	26.62	26.93	26.47	24.70	23.80
<b>2w CNB repo rate</b>	e-o-p, %	2.50	3.50	2.25	1.00	0.75	1.25
<b>3m PRIBOR</b>	average, %	2.30	3.09	4.04	2.19	1.31	1.30
<b>3m PRIBOR</b>	e-o-p, %	2.55	4.11	3.63	1.54	1.22	1.75
<b>10y IRS</b>	average, %	3.79	4.23	4.23	3.69	3.01	3.35

### Convergence

		2006	2007	2008	2009	2010f	2011f
<b>GDP per capita</b>	euroarea=100	71	73	74	74	75	77
<b>Price level</b>	euroarea=100	60	61	70	66	70	76
<b>HICP</b>	average, %	2.1	3.0	6.3	6.3	1.2	2.1
<b>Public budgets (ESA-95)</b>	% of GDP	-2.6	-0.7	-2.7	-5.9	-5.3	-4.3
<b>Public debt (ESA-95)</b>	% of GDP	29.4	29.0	30.0	35.4	39.8	42.8
<b>Long term interest rate</b>	spread in bps	2	6	65	162	126	111
<b>Currency in ERM-II</b>		no	no	no	no	no	no

## Hungary

### Macroeconomic development

		2006	2007	2008	2009	2010f	2011f
<b>GDP (real)</b>	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
<b>GDP (nominal)</b>	HUF bn	23,562	25,585	27,270	25,500	26,200	27,500
<b>GDP (nominal)</b>	EUR bn	89.2	102.8	107.2	91.0	93.6	101.9
<b>Industrial production</b>	y/y, %	10.1	8.1	6.0	-18.7	7.0	8.0
<b>Construction output</b>	y/y, %	-0.5	-14.1	-5.0	-4.0	-2.0	3.0
<b>Retail sales</b>	y/y, %	4.4	-3.0	-1.5	-7.5	-3.0	1.0
<b>CPI</b>	e-o-p, y/y, %	6.5	7.4	5.5	5.7	3.5	3.5
<b>Inflation</b>	average, y/y, %	3.9	8.0	6.5	4.2	4.5	3.5
<b>Net (core) inflation</b>	y/y, %	5	5.3	5.3	4.7	3.2	3.5
<b>PPI</b>	y/y, %	5.0	5.3	6.0	1.8	3.5	4.2
<b>Trade balance</b>	HUF bn	-522.4	-145	-150	4421	5000	4000 ↑
<b>Exports (EUR basis)</b>	y/y, %	16.8	17.1	10.0	-17.0	10.0	6.0
<b>Imports (EUR basis)</b>	y/y, %	14.2	14.0	9.0	-28.0	8.0	7.0
<b>Current Account (annual basis)</b>	% of GDP	-5.8	-5.4	-6.0	1.6	2.0	1.0 ↑
<b>FDI net</b>	% of GDP	2.0	1.0	2.4	1.1	1.1	1.0
<b>Basic balance (C/A + net FDI)</b>	% of GDP	-3.9	-2.4	-1.3	2.5	1.5	0.0 ↑
<b>Foreign exchange reserves</b>	EUR bn	16.4	16.5	16.5	30.0	35.0	35.0 ↑
<b>Unemployment rate</b>	e-o-p, %	7.5	8.1	8.0	10.5	11.5	11.0
<b>Real wages</b>	y/y, %	3.6	-5.2	1.0	-3.5	-1.0	1.0
<b>General gvt budget (GFS)</b>	HUF bn	-2,034	-1480	-1111	-981	-996 ↑	-798 ↑
<b>General gvt budget (GFS)</b>	% of GDP	-8.7	-5.8	-3.4	-3.9	-3.8 ↑	-2.9 ↑
<b>Central gvt gross debt</b>	HUF bn	14,706	15,576	16,800	17,781	18,918 ↓	19,715 ↓
<b>Money supply (M3)</b>	y/y, %	16	9.0	9.0	4.0	3.5	4.5
<b>HUF/EUR</b>	average	264.1	251.3	250.0	280.2	284.0	275.0 ↑
<b>HUF/EUR</b>	e-o-p	251.5	253.0	255.0	270.0	280.0	270.0 ↑
<b>2w NBH depo rate</b>	e-o-p	8.00	7.50	11.50	6.25	5.25	5.25 ↑
<b>3m BUBOR</b>	average	6.99	7.75	10.00	8.75	5.75	5.25 ↑
<b>3m BUBOR</b>	e-o-p	8.05	7.50	11.50	6.25	5.25	5.25 ↑
<b>10y IRS</b>	average	7.05	6.73	9.00	7.50	7.00 ↓	7.00 ↑

### Convergence

		2006	2007	2008	2009	2010f	2011f
<b>GDP per capita</b>	euroarea=100	58	58	59	58	59	60 ↑
<b>Price level</b>	euroarea=100	59	66	65	62	62	64 ↓
<b>HICP</b>	average, %	3.9	8.0	6.5	4.2	3.8	3.5
<b>Public budgets</b>	% of GDP	-9.8	-6.0	-2.9	-3.9	-7.5	-4.5
<b>Public debt</b>	% of GDP	67.5	66.0	65.0	80.0	82.0	80.0
<b>Long term interest rate</b>	spread in bps	276	270	500	500	400	400 ↑
<b>Currency in ERM-II</b>		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	3.2	3.2 ↑
Inflation	average, y/y, %	1.0	2.5	4.2	3.6	2.8 ↑	2.7
Unemployment rate	e-o-p, %	14.9	11.3	9.5	11.9	11.5 ↓	10.5 ↓
PLN/EUR	average	3.90	3.78	3.48	4.10	3.95	3.70 ↑
PLN/EUR	e-o-p	3.83	3.60	3.90	4.30	3.85 ↓	3.40 ↓
NBP intervention rate	e-o-p, %	4.00	5.00	5.25	3.50	3.75	4.25
3m WIBOR	average, %	4.21	4.73	6.17	4.20	3.70 ↓	4.30
10y IRS	average, %	5.12	5.47	5.75	6.10	5.80	6.00

### Convergence

		2006	2007	2008	2009	2010f	2011f
GDP per capita	euroarea=100	48	50	52	55	57	58
Price level	euroarea=100	61	61	66	55	61	68
Public budgets (ESA-95)	% of GDP	-3.8	-2.0	-2.7	-5.0	-8.0 ↓	-6.5
Public debt (ESA-95)	% of GDP	47.8	49.0	46.0	50.0	56.4 ↑	61.2 ↑
Long term interest rate	spread in bps	144	116	270	262.00	290	290
Currency in ERM-II		no	no	no	no	no	no

## Slovakia

### Macroeconomic development

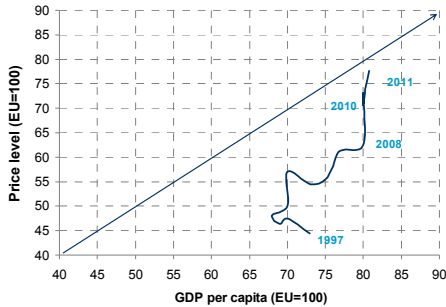
		2006	2007	2008	2009	2010f	2011f
<b>GDP (real)</b>	y/y, %	8.5	10.4	6.4	-4.7	3.6	3.0
Private household consumption (real)	y/y, %	5.9	7.1	6.1	-0.5	1.0	1.5
Investment (gross fixed capital formation, real)	y/y, %	9.3	8.7	6.8	-8.0	1.0	4.0
<b>GDP (nominal)</b>	SKK bn	1,659.4	1,852.8	2,028.4	1,950.0	1,988.3	2,054.6
<b>GDP (nominal)</b>	EUR bn	44.5	54.8	64.8	64.7	66.0	68.2
<b>Industrial production</b>	y/y, %	15.1	16.9	2.5	-14.6	15.0	5.0
<b>Construction output</b>	y/y, %	16	5.4	11.2	-11.1	-8.0	6.0
<b>Retail sales</b>	y/y, %	8.8	5.5	9.1	-10.3	-2.0	4.5
<b>CPI</b>	y/y, %	4.2	3.4	4.4	0.5	1.5 ↓	3.0
<b>Inflation</b>	average, y/y, %	4.5	2.8	4.6	1.6	1.2 ↓	3.1
<b>Core inflation</b>	y/y, %	2.7	4.2	3.3	-0.2	1.1 ↓	2.2
<b>PPI</b>	y/y, %	5.4	2.8	6.6	-4.9	0.5 ↓	2.6
<b>Trade balance</b>	EUR bn	-2.6	-0.7	-0.8	1.3	1.6	0.7
<b>Current Account (annual basis)</b>	% of GDP	-7.0	-5.3	-4.6	-0.8	-2.5	-3.0
<b>Current Account</b>	USD bn	-3.9	-4.0	-5.3	-0.7	-2.6	-2.8
<b>FDI net</b>	USD bn	2.1	1.1	1.3	0.2	0.7	1.5
<b>FDI net</b>	% of GDP	4.7	2.0	2.0	0.3	1.1	2.2
<b>Unemployment rate</b>	e-o-p, %	9.4	8.0	8.4	12.7	13.5	13.5
<b>Real wages</b>	y/y, %	3.3	4.3	3.3	1.1	0.2	1.0
<b>Central government budget</b>	EUR bn	-1.1	-0.8	-0.7	-2.8	-4.6	-3.1
<b>Central government debt</b>	EUR bn	16.8	18.1	19.7	24.3	27.7	31.4
<b>Money supply (M3)</b>	y/y, %	15.3	13.0	5.0	-2.8	3.0	7.0
<b>10y IRS</b>	average, %	4.44	4.51	4.52	n/a	n/a	n/a

### Convergence

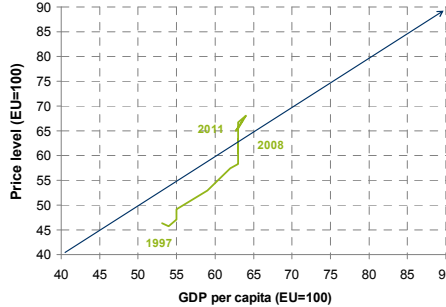
		2006	2007	2008	2009	2010f	2011f
<b>GDP per capita</b>	euroarea=100	58	62	67	67	69	70
<b>Price level</b>	euroarea=100	57	62	68	69	70	71
<b>HICP</b>	average, %	4.3	1.9	4.0	0.9	1.1 ↓	2.0
<b>Public budgets (ESA-95)</b>	% of GDP	-3.2	-1.8	-2.1	-7.9 ↓	-7.8 ↓	-5.0 ↑
<b>Public debt (ESA-95)</b>	% of GDP	30.5	29.6	27.8	35.4 ↑	42.5 ↑	49.0 ↑
<b>Long term interest rate</b>	spread in bps	57	17	120	120	100	100
<b>Currency in ERM-II</b>		yes	yes	yes	EUR	EUR	EUR

# Central European Economies in Pictures

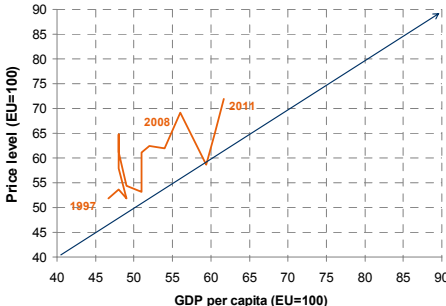
**CZ: Convergence**



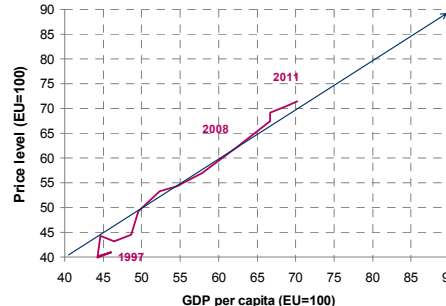
**HU: Convergence**



**PL: Convergence**



**SK: Convergence**



<b>Brussels Research (KBC)</b>		<b>Global Sales Force</b>	
Piet Lammens	+32 2 417 59 41		
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