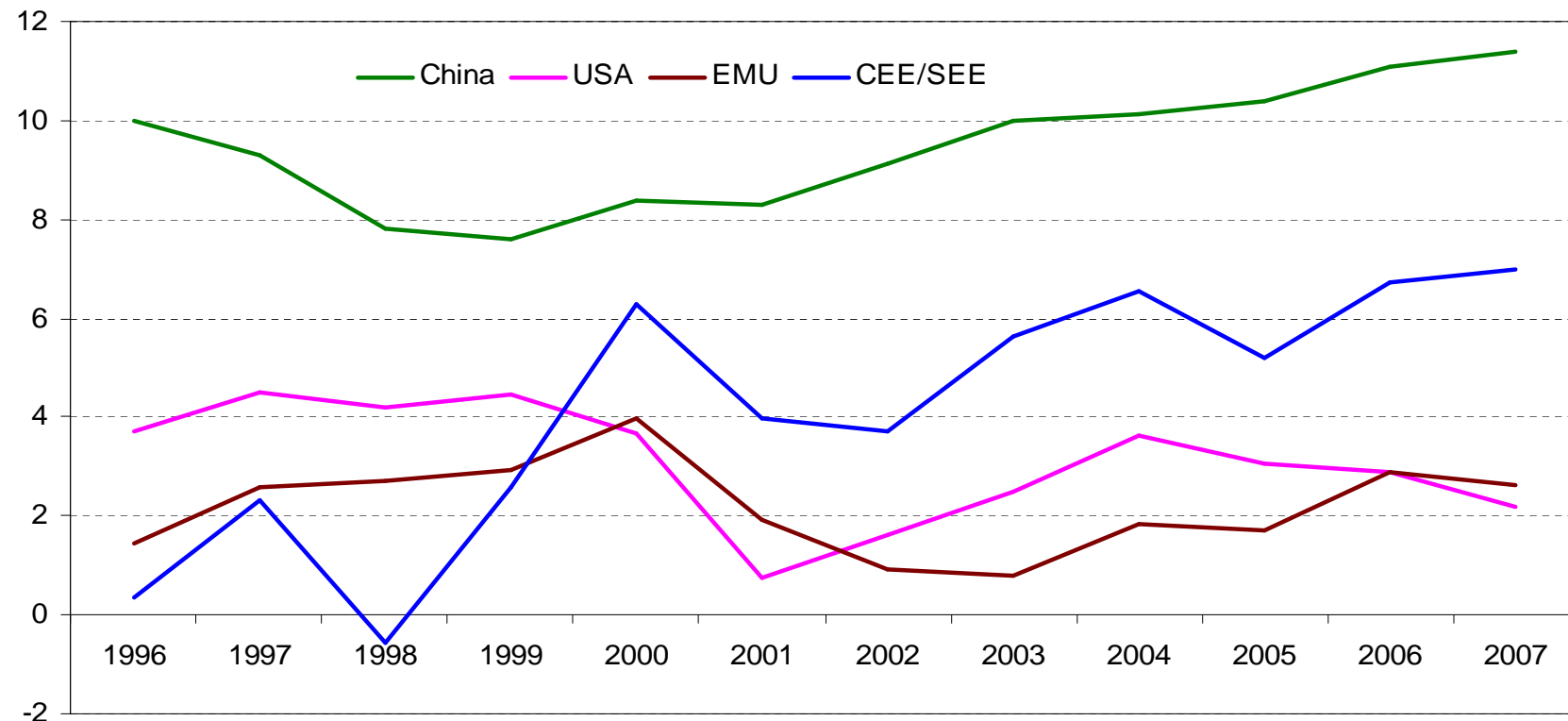

Europe – Driver or Driven?

A Central and Eastern European Perspective

- ▶ ACI World Congress May 30, 2008, Uta Pock

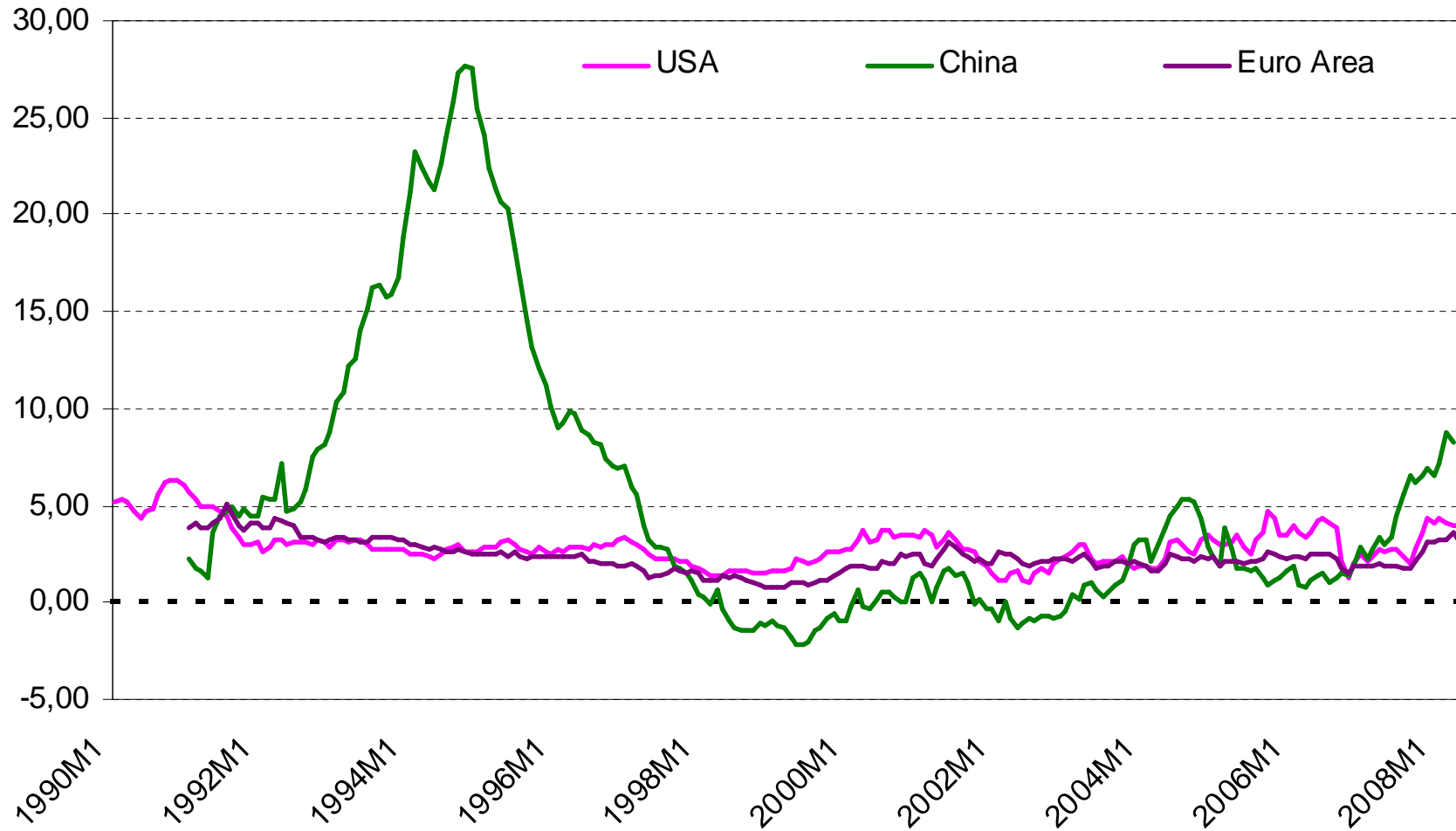
What's Europe?

- EMU, EU 27, old Europe, new Europe, CEE-5, CEE-10, SEE, ...
- On an aggregate level, the European economy seems rather balanced with a low level and variation of growth rates and inflation rates
- GDP annual growth rates since 1996:



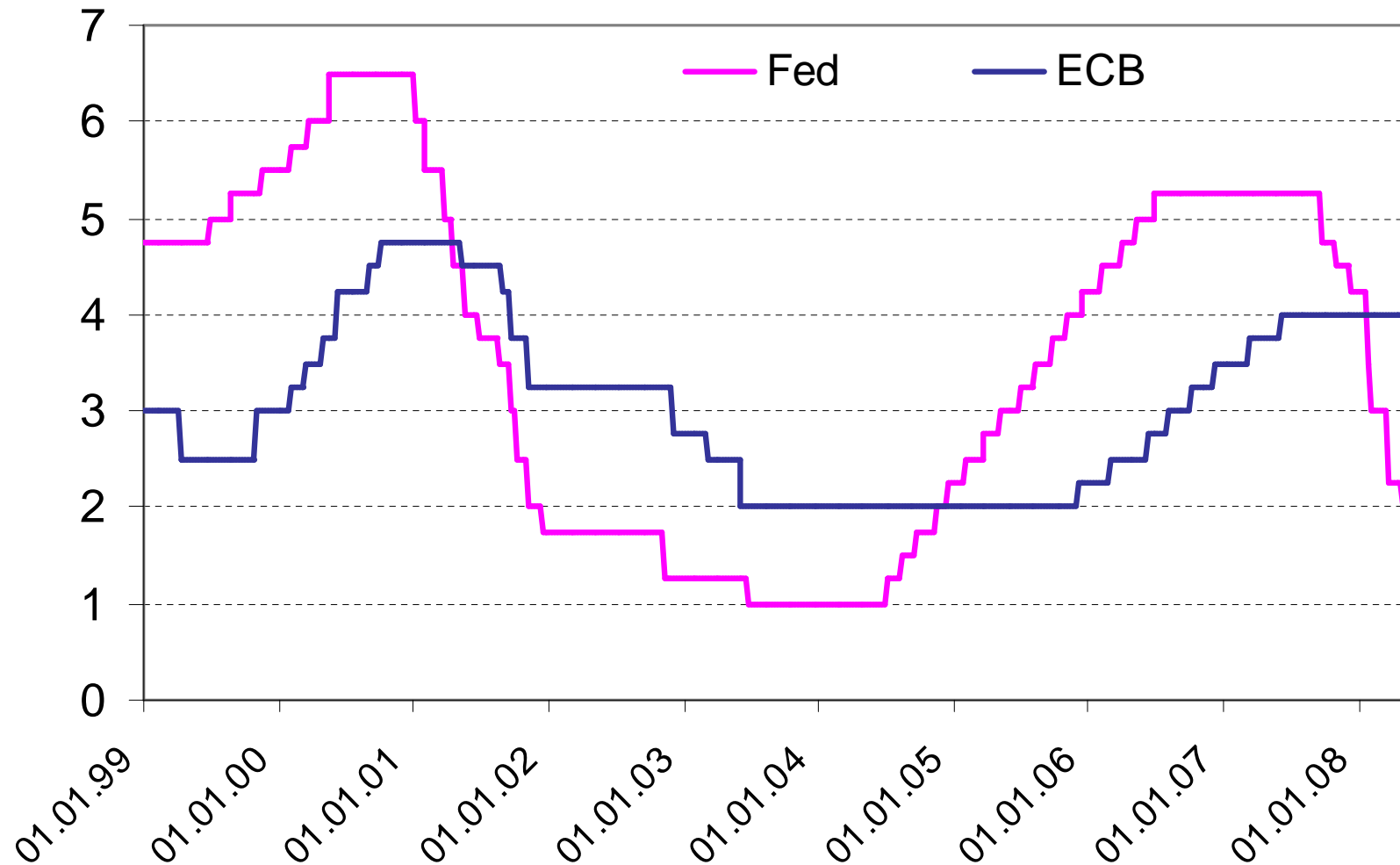
Consumer Price Inflation

Inflation Rates since 1990



Central Bank Rates

- ECB minimum refinancing rate reflects the lower volatility of the European economy



Variety of macro data in EU-15

Reuters, Eurostat, Global Insight	Inflation CPI	M2 growth	Credit to privat sector (% y/y)	Demand Deposits % y/y	Unemploy- ment rate	Industrial Production (% y/y)	Real GDP (% Y/Y)	c/a banlance (% of GDP)	Government debt (% of GDP)	Fiscal balance (% of GDP)
	2008M4	*2008M3*	*2008M2*	*2008M2*	*2008M3*	*2008M3*	*2008Q1*	*2007*	*2007*	*2007*
AT	3,29	19,73	6,35	7,32	5,80	-1,11	3,10	2,70	54,03	-0,70
	2008M4	*2007*	*2008M2*	*2008M2*	*2008M2*	*2008M2*	*2008Q1*	*2007*	*2006*	*2006*
BE	4,15	3,34	17,02	0,92	6,90	6,23	2,10	3,20	85,34	-0,27
	2008M4	*2008M3*	*2008M2*	*2008M2*	*2008M3*	*2008M3*	*2007Q4*	*2007Q4*	*2007*	*2007*
DK	3,24	10,38	12,37	11,12	2,00	-2,30	1,90	2,08	27,75	-4,93
	2008M4	*2008M3*	*2008M2*	*2008M2*	*2008M4*	*2008M3*	*2007Q4*	*2007Q4*	*2006*	*2007*
FI	3,55	17,19	11,47	3,22	6,20	-3,27	3,80	5,95	35,26	2,22
	2008M4	*2008M3*	*2008M2*	*2008M2*	*2002M3*	*2008M3*	*2008Q1*	*2007*	*2007*	*2007*
FR	3,03	12,33	12,60	6,38	9,10	0,30	2,20	-1,17	63,77	-2,06
	2008M4	*2008M3*	*2008M2*	*2008M2*	*2008M4*	*2008M3*	*2008Q1*	*2008Q1*	*2007*	*2007*
DE	2,41	11,38	1,17	3,26	8,10	5,20	2,60	7,92	63,52	-0,61
	2008M4	*2003*	*2007M8*	*2008M2*	*2008M2*	*2008M3*	*2008Q1*	*2008Q1*	*2007*	*2007*
GR	4,43	6,10	17,26	-2,48	8,00	-4,80	3,60	-9,27	94,50	-5,63
	2008M4	*2008M3*	*2008M2*	*1998M12*	*2008M3*	*2008M3*	*2007Q4*	*2007Q4*	*2007*	*2007*
IE	4,31	7,85	14,98	30,83	5,60	6,92	3,80	-4,29		3,77
	2008M4	*2008M3*	*2008M2*	*2008M2*	*2007Q4*	*2008M3*	*2007Q3*	*2007*	*2006*	*2006*
IT	3,30	8,09	10,40	3,53	6,60	-7,45	1,90	-2,20	104,92	-2,20
	2008M4		*2008M2*	*2008M2*	*2008M1*	*2008M3*	*2007Q4*	*2007*	*2005*	*2005*
LU	3,48		43,16	12,17	4,58	1,50	3,35	9,50	4,47	-3,87
	2008M4	*2008M3*	*2008M2*	*2008M2*	*2008M3*	*2008M3*	*2008Q1*	*2007*	*2007*	*2006*
NL	2,04	0,49	18,52	-4,54	4,20	6,62	3,10	6,60	45,36	0,69
	2008M4	*2008M2*	*2008M2*	*2008M2*	*2008Q1*	*2008M3*	*2008Q1*	*2007*	*2007*	*2007*
PT	2,53	10,53	13,06	-2,26	7,60	-7,46	0,90	-9,40	65,80	-3,78
	2008M4	*2008M3*	*2008M2*	*2008M2*	*2008Q1*	*2008M3*	*2008Q1*	*2007Q4*	*2006*	*2007*
ES	4,19	13,37	16,76	-1,51	9,63	-2,60	2,70	-10,41	30,00	
	2008M4	*2008M3*	*2008M2*		*2008M4*	*2008M3*	*2007Q4*	*2007Q4*	*2006*	*2007*
SE	3,41	9,78	13,96		6,00	0,78	2,60	9,85	43,80	3,35
	2008M4	*2008M3*	*2007M12*		*2008M3*	*2008M3*	*2008Q1*	*2007*	*2007*	*2007*
UK	3,00	9,88	16,03		5,20	-0,20	2,50	-4,90	44,68	

CEE and SEE Countries

Source: Global Insight	Inflation CPI	PPI	M2 growth	Credit to privat sector (% y/y)	Demand Deposits % y/y	Unemploy- ment rate	Industrial Production (% y/y)	Real GDP (% Y/Y)	c/a balance (% of GDP)	Government debt (% of GDP)	Fiscal balance (% of GDP)
	2008M4	*2008M3*	*2008M3*	*2008M3*	*2008M2*	*2008M4*	*2008M3*	*2007Q4*	*2007Q4*	*2007*	*2007*
BG	14,60	15,32	28,98	55,55	24,40	6,51	-0,66	6,93	-27,72	14,26	4,56
	2008M4		*2008M3*	*2008M3*	*2008M2*	*2008M3*	*2008M4*	*2007*	*2007*	*2005*	
BiH	7,56		18,11	29,46	92,27	45,51	2,47	7,64	-13,08	23,80	
	2008M4	*2008M4*	*2008M3*	*2008M2*	*2008M2*	*2008M4*	*2008M3*	*2008Q1*	*2007Q4*	*2007*	*2007*
CZ	6,79	4,77	8,97	26,72	12,16	5,20	-2,12	5,40	-3,54	25,08	-1,87
	2008M4	*2008M4*	*2008M3*	*2007M12*	*2008M3*	*2008M3*	*2008M3*	*2007Q4*	*2007*		*2006*
RS	12,01	14,35	33,47	40,14	16,62	22,33	2,60	6,94	-11,66		1,43
	2008M4	*2008M2*	*2008M2*	*2008M2*	*2008M2*	*2008M4*	*2008M3*	*2007Q4*	*2007Q3*	*2006*	*2006*
HR	5,68	7,44	14,65	14,72	14,43	13,90	0,14	3,68	20,20	40,77	-0,29
	2008M4	*2008M3*	*2008M3*	*2008M2*	*2008M2*	*2008M3*	*2008M3*	*2007Q4*	*2007Q3*	*2007*	*2007*
HU	6,60	10,78	14,22	24,07	10,68	8,00	1,86	0,80	-5,55	66,00	-5,48
	2008M4	*2008M4*	*2008M3*	*2008M3*	*2008M3*	*2008M3*	*2008M4*	*2007Q4*	*2007Q3*	*2006*	*2007*
PL	4,15	2,52	14,66	29,81	20,33	11,10	14,88	6,10	-1,08	45,49	-1,46
	2008M3	*2008M3*	*2008M3*	*2008M2*	*2008M2*	*2008M3*	*2008M3*	*2007Q4*	*2007Q4*	*2006*	
RO	8,63	19,98	34,80	67,85	59,98	4,20	1,04	6,58	-12,72	18,94	
	2008M4	*2008M3*	*2008M3*	*2008M2*	*2008M2*	*2008M3*	*2008M4*	*2007Q4*	*2007Q4*	*2005*	*2007*
RU	14,01	26,72	36,83	51,88	40,36	6,37	9,20	9,53	6,38	9,86	5,54
	2008M4	*2008M3*	*2008M3*	*2008M2*		*2008M3*	*2008M3*	*2007*	*2007Q4*	*2005*	*2007*
SK	4,23	5,24	8,81	24,50		7,60	-1,38	10,37	-7,87	6,98	-1,27
	2008M4	*2008M4*	*2008M3*	*2008M2*	*2008M2*	*2008M3*	*2008M2*	*2007Q4*	*2007Q4*	*2006*	*2006*
SLO	6,50	6,15	12,24	31,75	-1,36	6,90	4,64	4,73	-6,37	24,14	-0,61
	2008M4	*2008M4*	*2008M3*	*2008M3*	*2008M3*	*2008M2*	*2008M3*	*2007Q4*	*2007Q4*	*2005*	*2007*
TR	9,66	14,56	23,33	30,53	23,80	11,60	2,38	3,44	-6,33	69,60	-1,62
	2008M4	*2008M4*	*2008M3*	*2008M2*	*2008M2*	*2008M3*	*2008M4*	*2007Q4*	*2007Q3*	*2007*	*2007*
UA	30,16	37,54	52,66	78,15	45,16	2,20	8,03	7,68	-0,48	12,40	-1,38
	2008M3	*2008M3*	*2008M3*	*2007M10*	*2007M10*	*2006*	*2006M10*	*2007Q4*	*2006*	*2005*	*2006*
MK	8,82	11,70	22,80	34,94	22,55	36,00	8,19	5,25	-0,71	27,71	0,00

Outlook

- On aggregate, there will be a kind of soft landing scenario in Europe;
- Financial market crisis puts pressure on countries that depend on foreign capital inflows, whether they are EMU members or not;
- Highest growth dynamics in CEE and SEE region, where net EU subsidies add up to 2% annual GDP growth;
- Due to higher weighting of food prices in their consumer price baskets, higher energy intensity of the manufacturing sector and strong wage growth, inflation is much more of a problem in CEE and SEE countries than in the EMU;
- While the Fed eased monetary policy and the ECB kept on hold, most CEE/SEE central banks increased base rates by up to 500 basis points;
- Effect of monetary tightening undermined by high proportion of €-denominated debt
- Probability of regional crises has risen, but still no actual occurrences.

Conclusion

- The combination of rising oil prices, a strong euro, a “vigilant” ECB and scarce liquidity could deepen regional differences
 - CEE/SEE economies set to maintain momentum, albeit at higher risk
 - This has limited influence on overall European performance due to their still low share in European GDP
-
- ➔ Being diversified like this, the European economy is not looking like an international driving force – but it is also less driven by international shocks than many other regions.
 - ➔ ECB rates set to stay sticky (as aggregate EMU macro figures do), convergence of SEE/CEE rates toward EMU could pause for a while.