Europe – Driver or Driven?

A Central and Eastern European Perspective

- ACI World Congress May 30, 2008, Uta Pock

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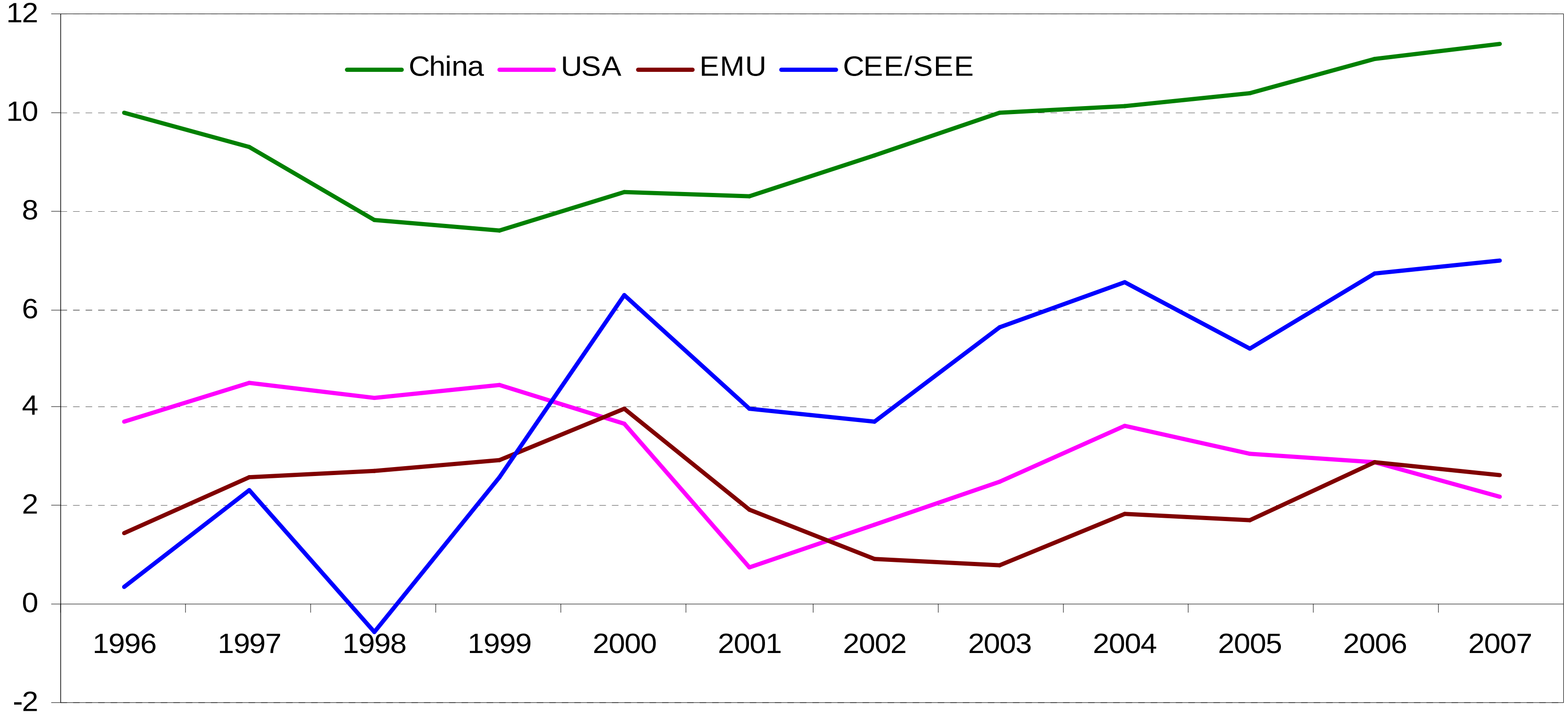
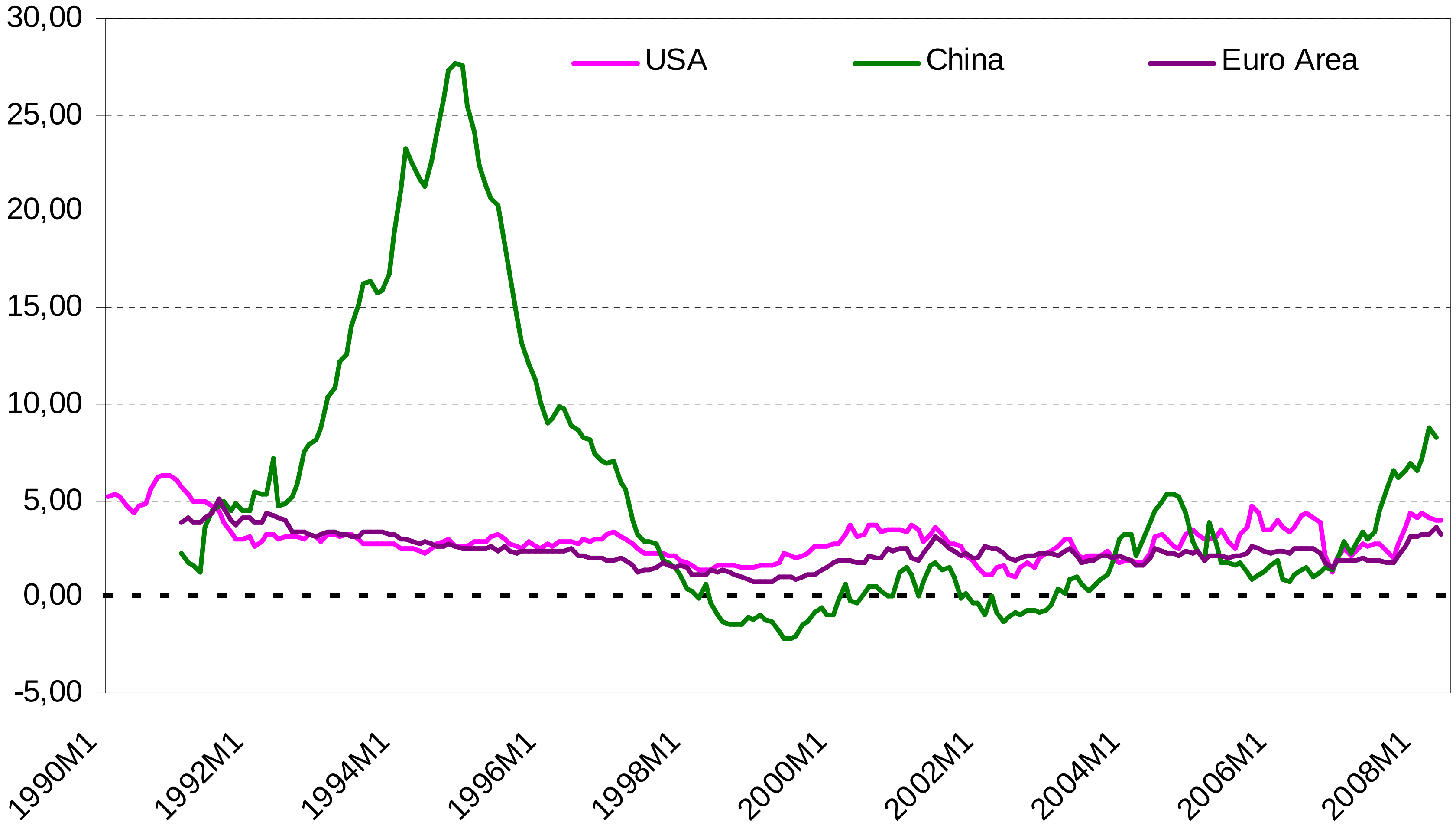
What‘s Europe?

- 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:



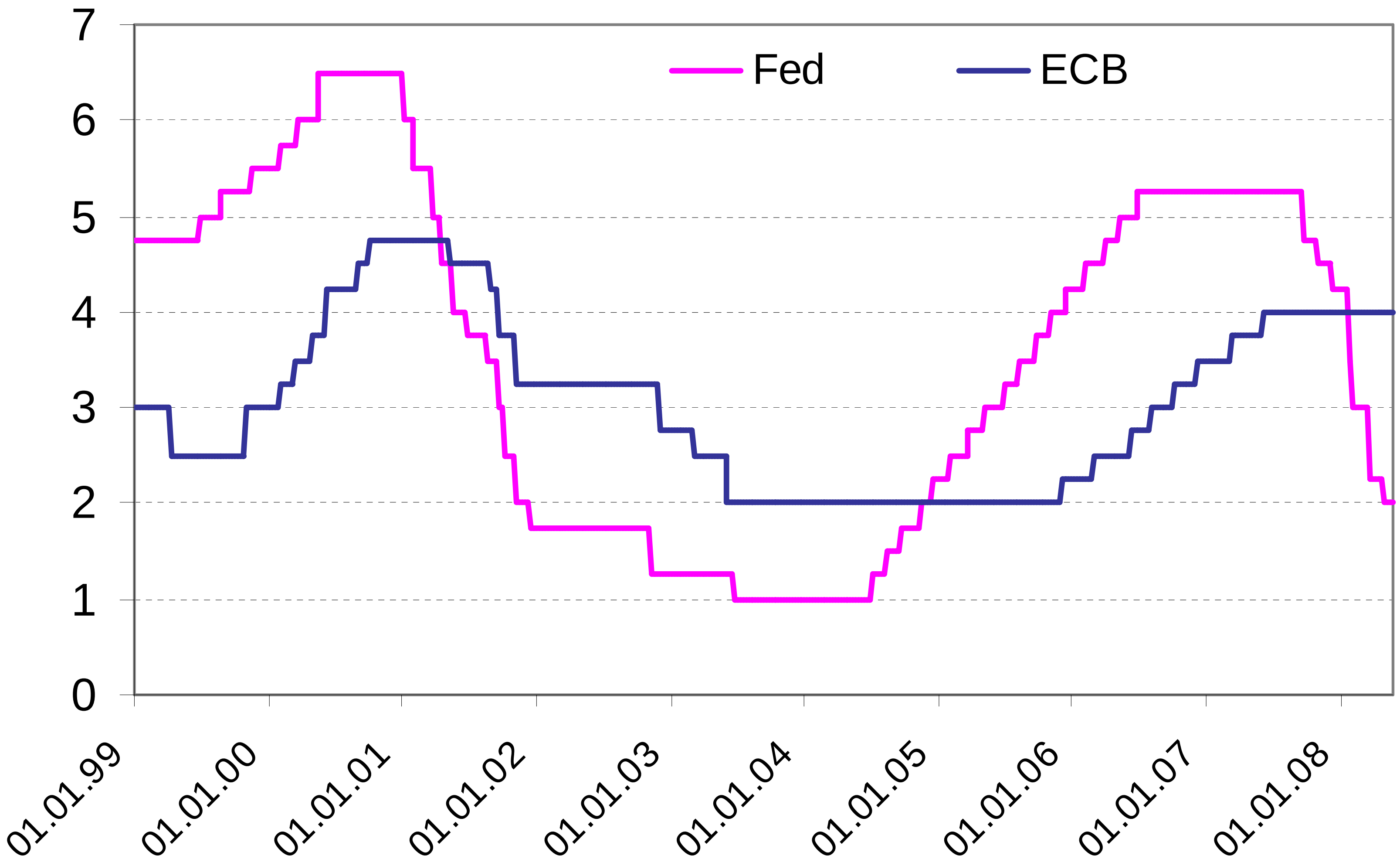
Consumer Price Inflation

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	Unemployment 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	Unemployment rate	Industrial Production (% y/y)	Real GDP (% Y/Y)	c/a banlance (% 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 occurances.

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.