

East European Economies: Diverging Paths

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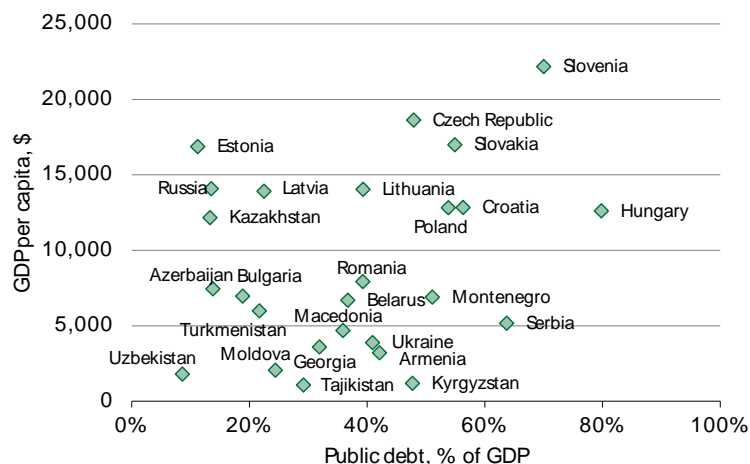
October 2014

Growth remains slow in most East European economies as external and internal rebalancing continues

- Economic performance in East European economies, differed markedly in the past years and there are little signs of convergence amid an overall slowdown of economic growth in the region. Generally, growth looks stronger in the countries with independent monetary policies.
- High debt (public and total foreign)/GDP ratios may become an impediment for long-term growth, which already happened in the Balkan countries.
- Some East European countries faced deflation in 2013-14, which, combined with sluggish growth, aggravates fiscal and debt servicing problems.
- Inflation all across the region is well below medium-term targets. Disinflation was rather fast and unexpected so that the reaction of the monetary authorities in some countries was late, which may have had negative impact on economic growth already.
- Most East European and CIS countries are demonstrating external rebalancing irrespective of their monetary policies – in some cases, this rebalancing is driven by stronger export growth, while in other countries, external rebalancing is taking place amid shrinking domestic demand and imports.
- Small economies look more vulnerable as they can be strongly affected by unpredictable one-off effects, which are not unusual in the region.

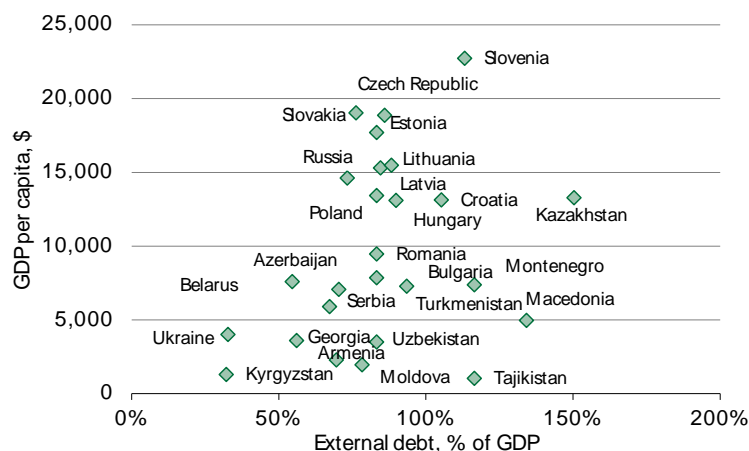
Poland's indebtedness is low compared with peers, while GDP per capita is high enough

GDP per capita and gross public debt in East European countries and the FSU, 2013



Source: Euromonitor, Sberbank Investment Research

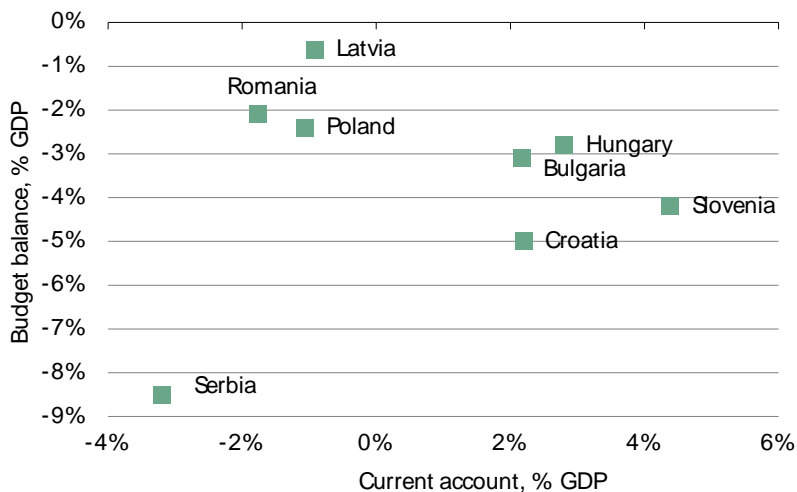
GDP per capita and external debt in East European countries and the FSU, 2013



Source: Euromonitor, Sberbank Investment Research

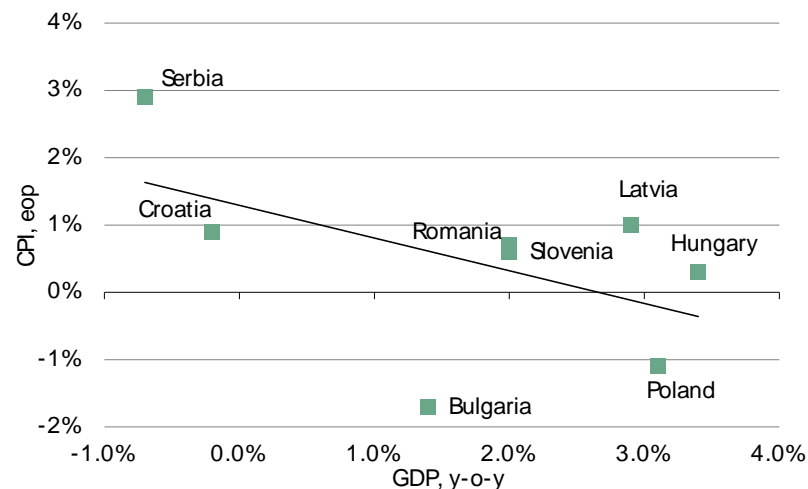
Serbia and Croatia are at risk as imbalances remain strong in 2014 while economic performance is poor

Current account and fiscal deficits are high in Serbia and Croatia...



Source: National Statistics Agencies

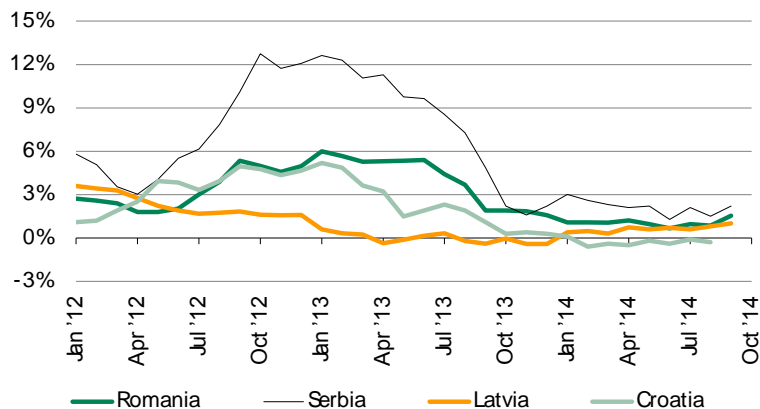
...while the economies stopped growing



Source: National Statistics Agencies

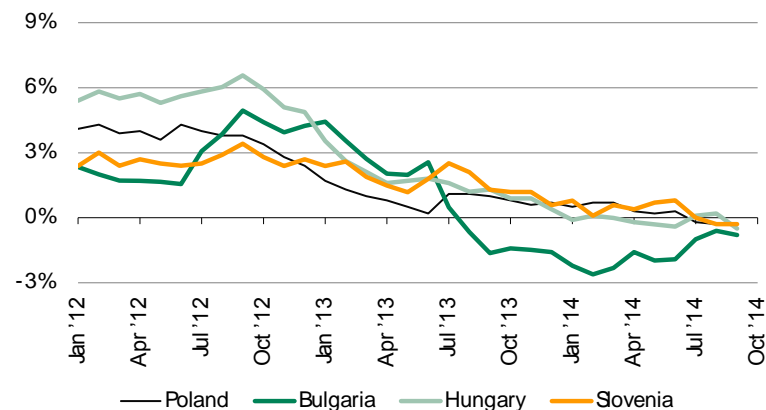
Disinflation was fast in CEE and even turned into deflation

Inflation y-o-y is low in some countries...



Source: National Statistics Agencies

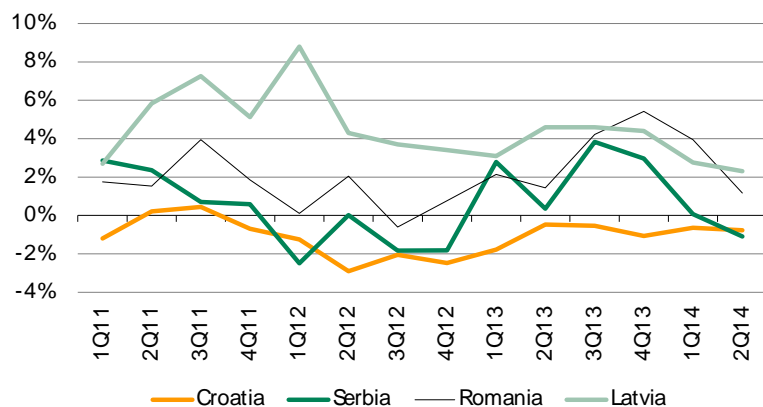
...while others faced deflation



Source: National Statistics Agencies

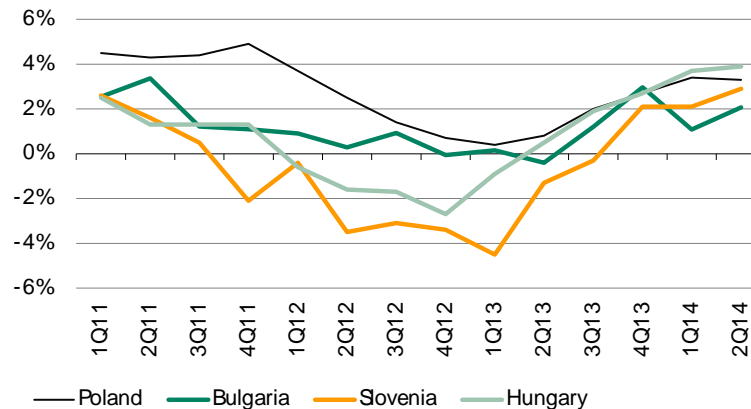
Industrial growth points to diverging paths

Industrial growth y-o-y decelerates in some countries...



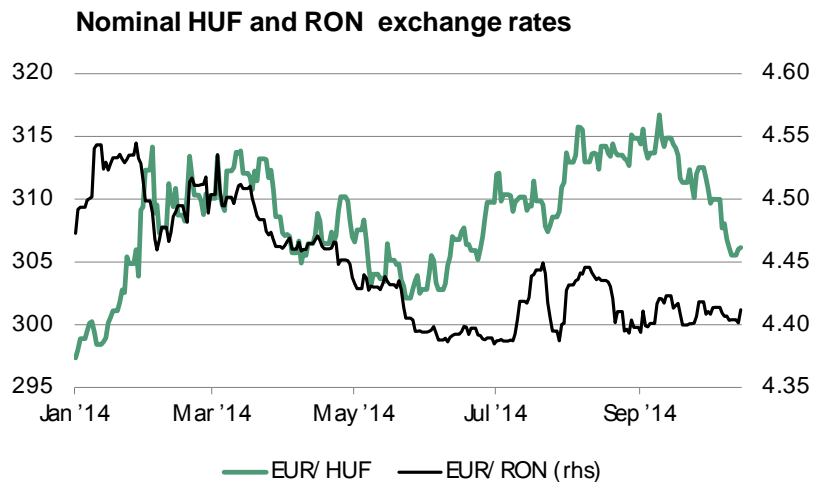
Source: National Statistics Agencies

... while growth in other countries gathers pace

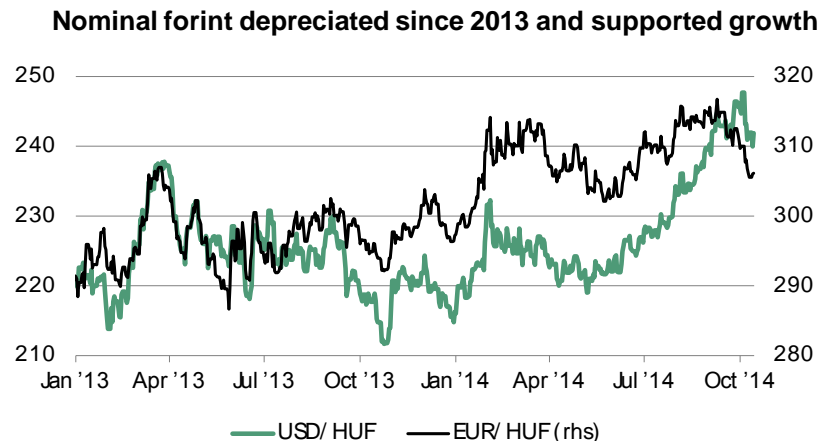


Source: National Statistics Agencies

Different exchange rate trends in Romania and Hungary make a difference for the tradable sector



Source: Bloomberg



Source: Bloomberg

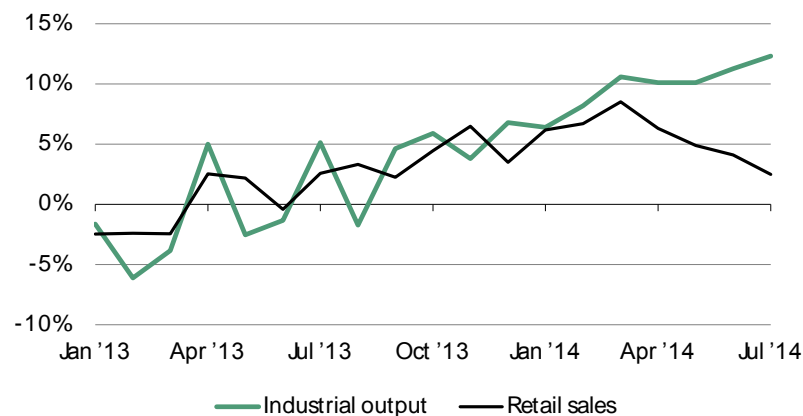
Exports drive industrial growth in Hungary as retail moderates

EU countries are Hungary's major trade partners, 2012

	Exports	Imports
Total	100%	100%
Germany	25.0%	24.7%
Romania	6.0%	2.8%
Slovakia	5.9%	5.6%
Austria	5.8%	6.9%
Italy	4.6%	4.5%
France	4.6%	3.6%
UK	4.1%	1.9%
Czech Republic	3.9%	3.5%
Poland	3.8%	4.7%
Russia	3.2%	8.8%
Other	33.1%	33.0%

Source: Hungarian National Bank

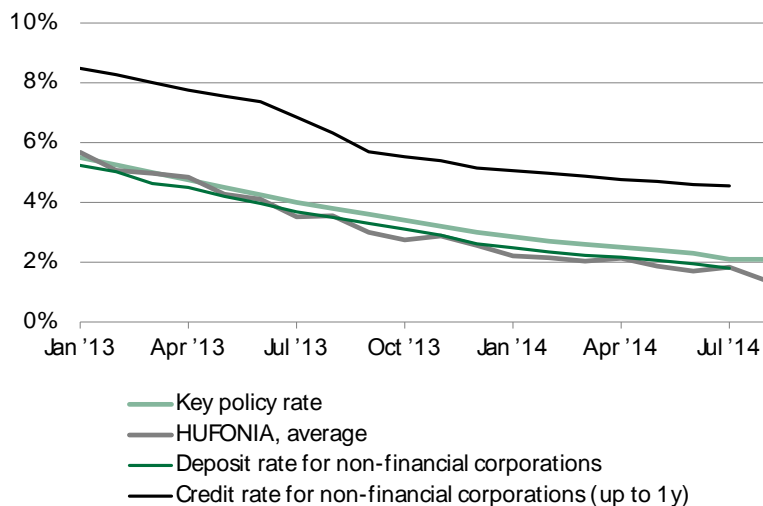
Industrial output growth, fueled by exports, continued to accelerate in mid-2014, while retail sales softened y-o-y



Source: Hungarian Central Statistical Office

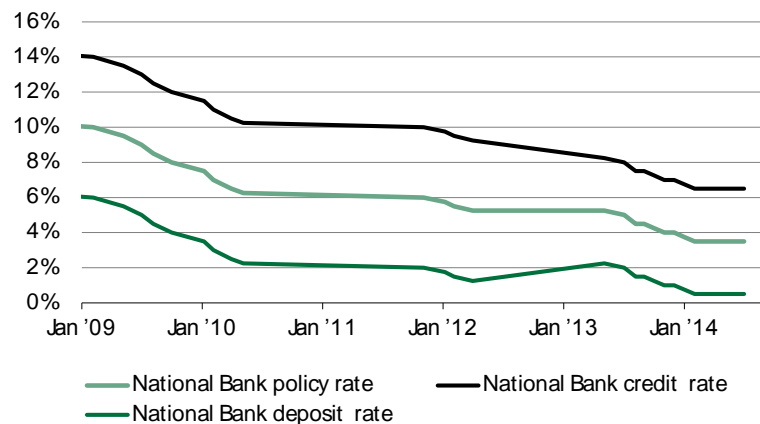
Interest rate differentials remain too high amid a near-zero inflation environment

Hungarian money market and retail interest rates



Source: Hungarian National Bank

Romanian money market rates have eased as inflation has decelerated

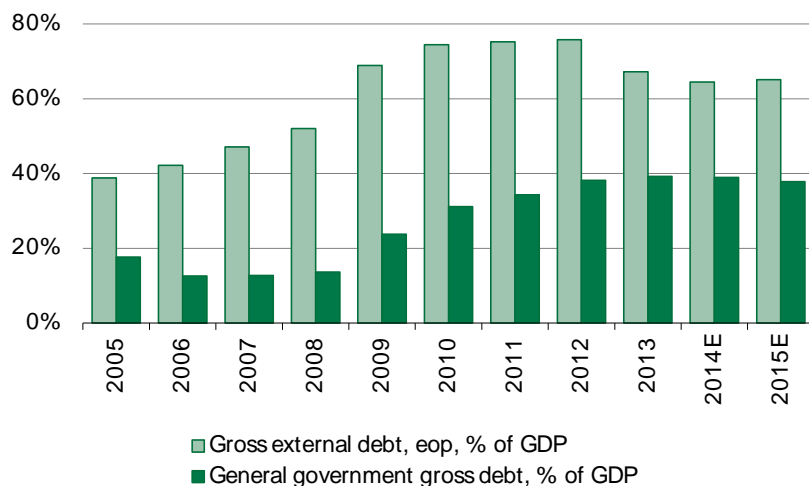


Source: Romanian National Bank



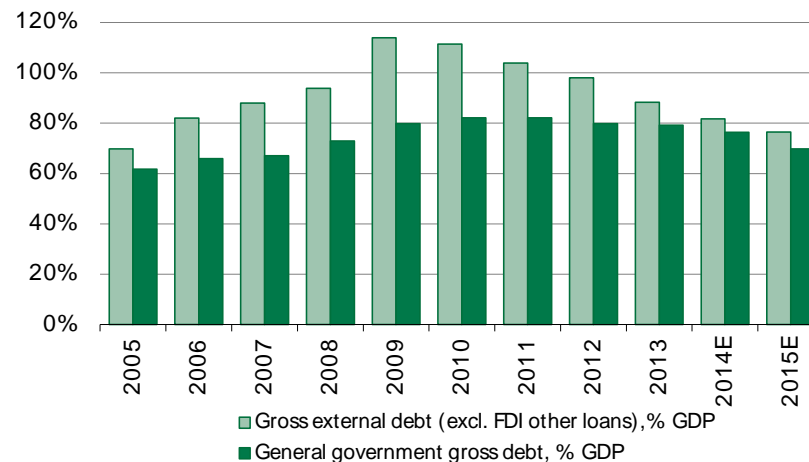
Deleveraging in Hungary is set to continue while debt to GDP ratio stabilizes in Romania

Romanian general government and external debt, % of GDP



Source: Romanian National Bank, Sberbank Investment Research

Hungarian general government and external debt, % of GDP



Source: Hungarian National Bank, Sberbank Investment Research

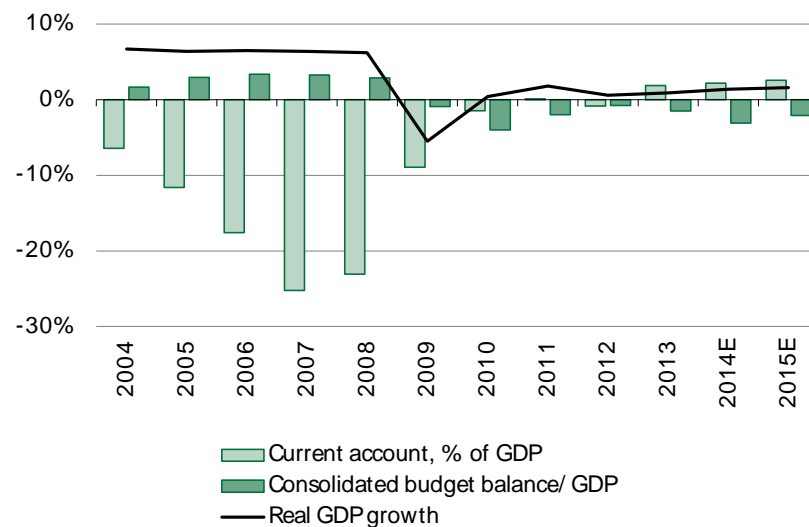
Bulgaria's growth remains moderate but more stable since 2011 as foreign trade is relatively diversified

Bulgaria's main trade partners

	1H14		2013	
	Exports	Imports	Exports	Imports
Total	100.0%	100.0%	100.0%	100.0%
EU	62.6%	50.6%	60.1%	48.7%
Germany	12.5%	10.6%	12.3%	10.0%
Italy	9.8%	7.4%	8.7%	7.3%
Romania	7.8%	5.3%	7.7%	5.3%
Greece	6.6%	4.3%	6.9%	4.9%
France	4.5%	3.3%	4.3%	3.0%
Belgium	4.1%	1.6%	2.9%	1.3%
Turkey	9.7%	5.8%	9.0%	5.4%
China	2.5%	6.5%	2.9%	5.9%
Russia	2.5%	15.0%	2.6%	18.1%
Other	22.7%	22.2%	25.4%	21.9%

Source: Bulgarian National Bank

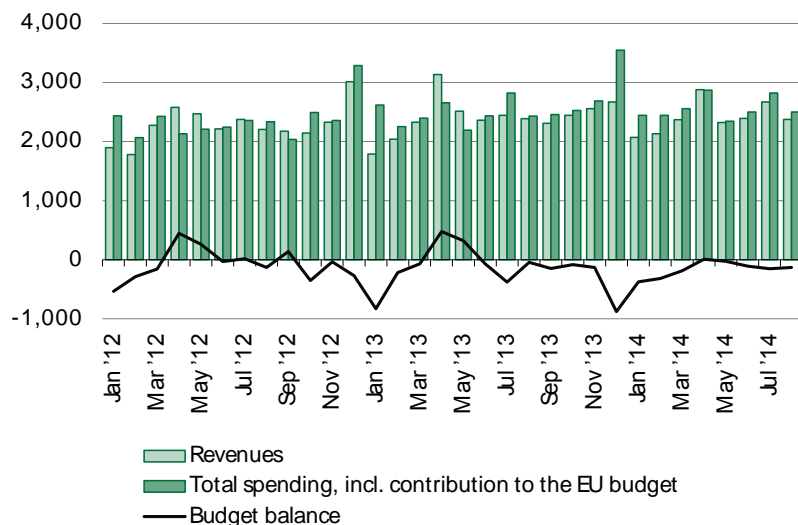
Bulgaria's slow economic growth after rebalancing



Source: Bulgarian National Bank, Sberbank Investment Research

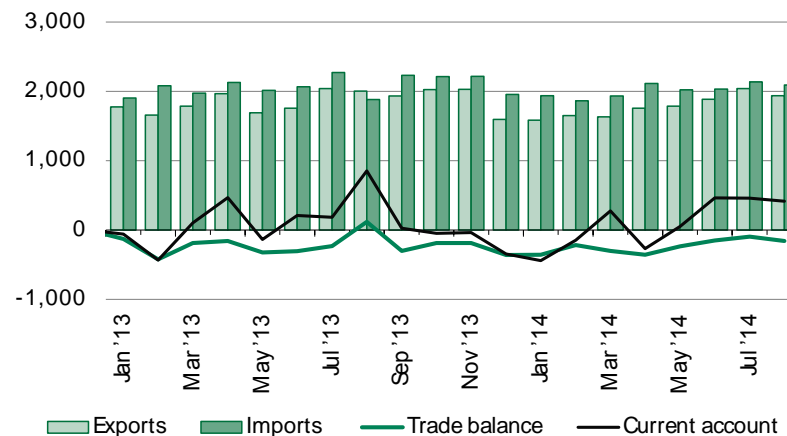
Bulgaria: fiscal performance looks stable (so as the current account) but the former may be at risk if deflation persists

Bulgarian consolidated budget execution, BGN mln



Source: Bulgarian Ministry of Finance

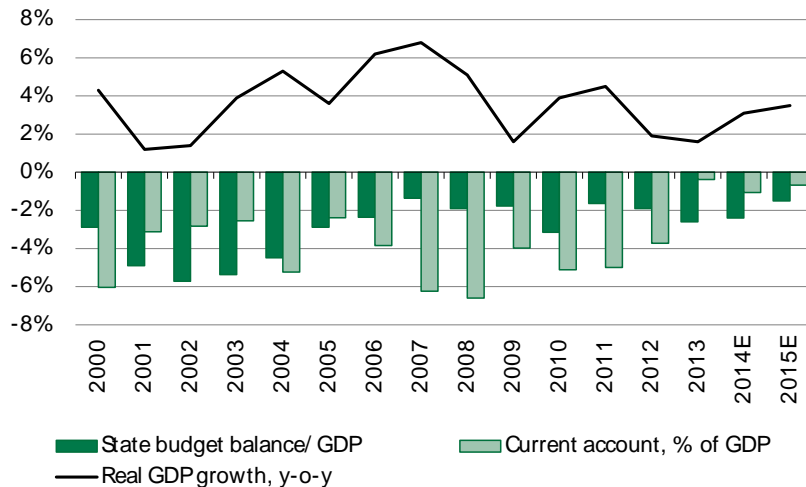
Bulgarian balance of payments, EUR mln



Source: Bulgarian National Bank

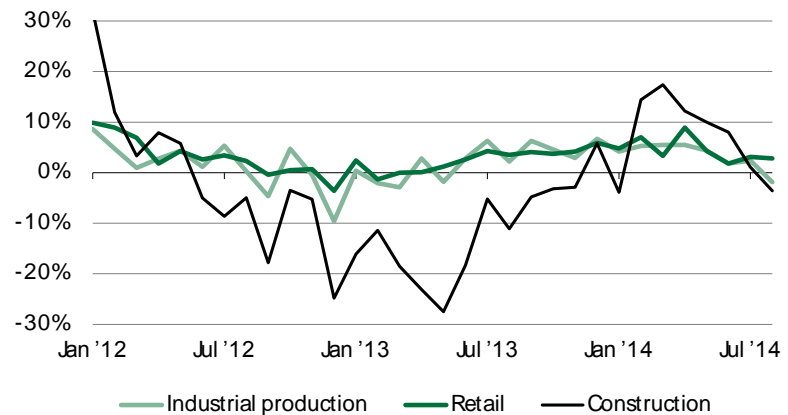
Polish current account and budget deficits looked moderated amid strong economic performance

Polish economic growth strengthens as deficits narrow



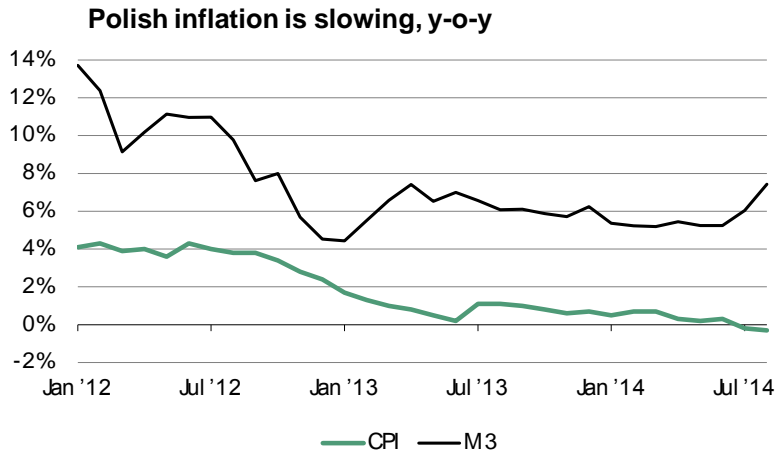
Source: Polish National Bank, Sberbank Investment Research

Polish selected economic trends, y-o-y

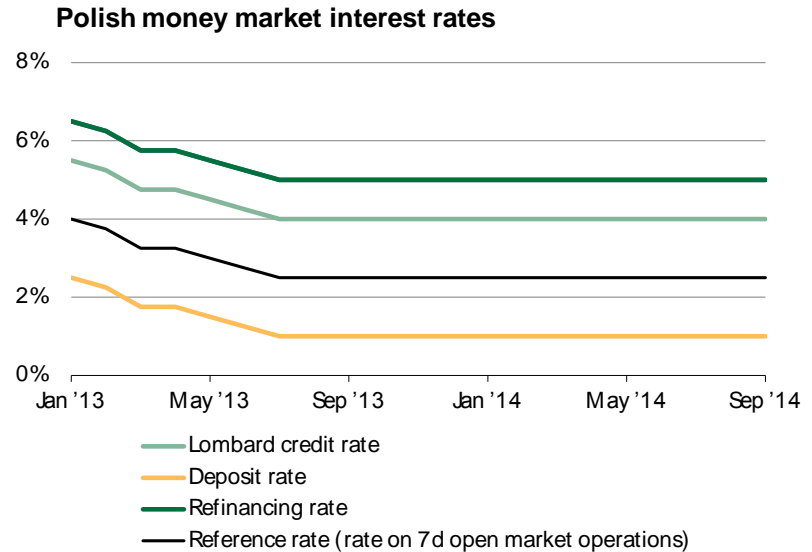


Source: Polish Central Statistical Office

However interest differentials looks excessive as deflation may persist



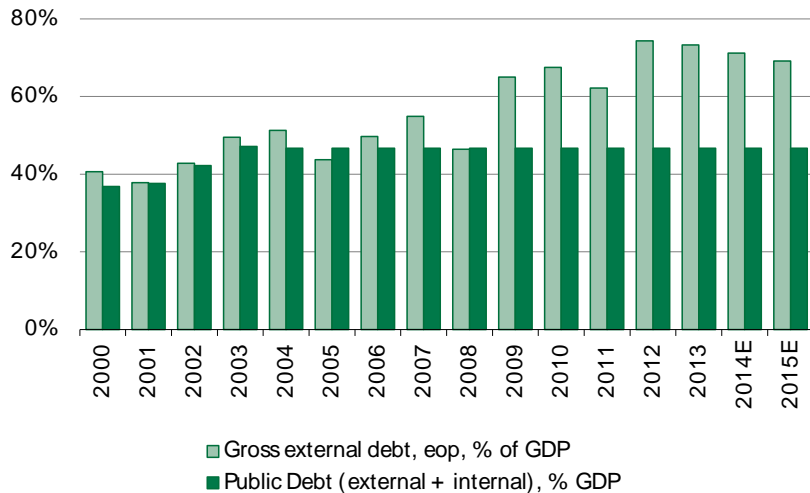
Source: Polish National Bank



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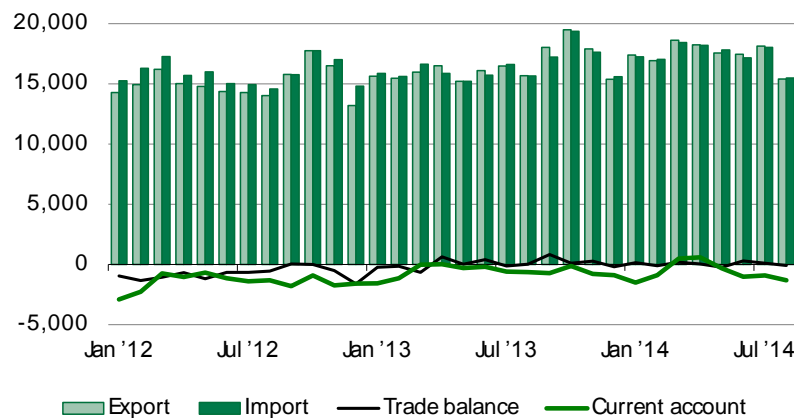
Polish public debt to GDP ratio is stable and total foreign debt is moderate

Polish foreign debt and public debt are not high compared with other Eurozone countries



Source: IMF, Euromonitor, Sberbank Investment Research

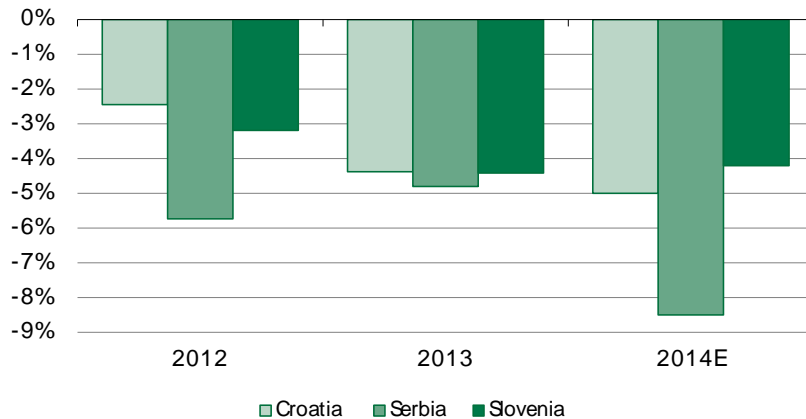
Polish balance of payments, \$ mln



Source: Polish National Bank

Deficits widened in the Balkan countries as industrial growth is unstable

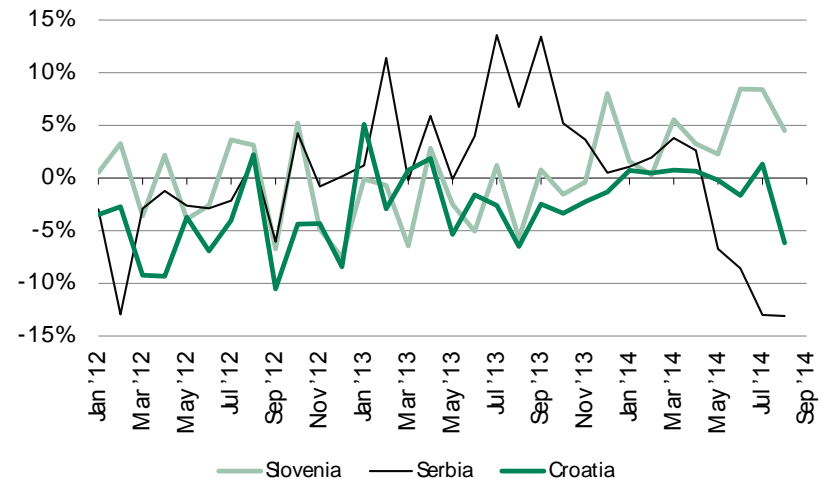
Budget balance, % of GDP



Note: For Slovenia, the data excludes spending on bank recapitalization as this is rather attributed to operations with financial assets.

Source: National Statistics Agencies

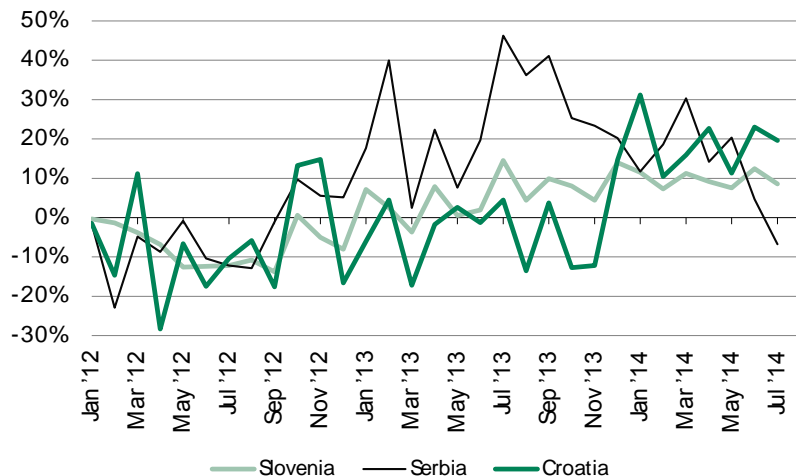
Industrial growth stayed positive only in Slovenia, y-o-y



Source: National Statistics Agencies

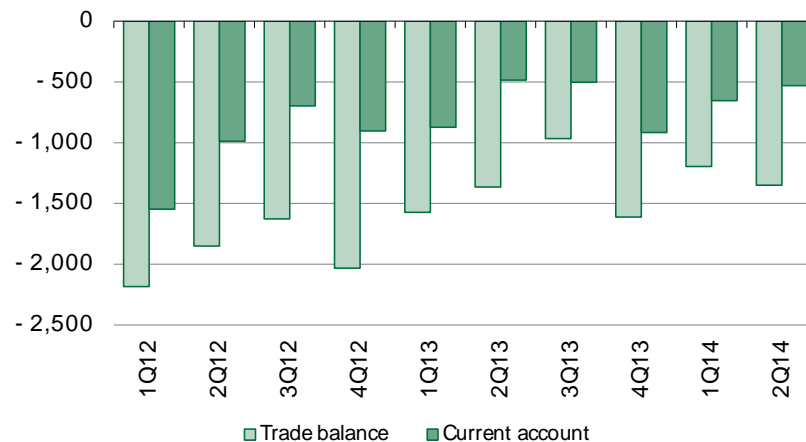
Serbia suffered from a one-off effect in mid summer...

...while the recovery in exports softened problems in Slovenia and Croatia, y-o-y



Source: National Statistics Agencies

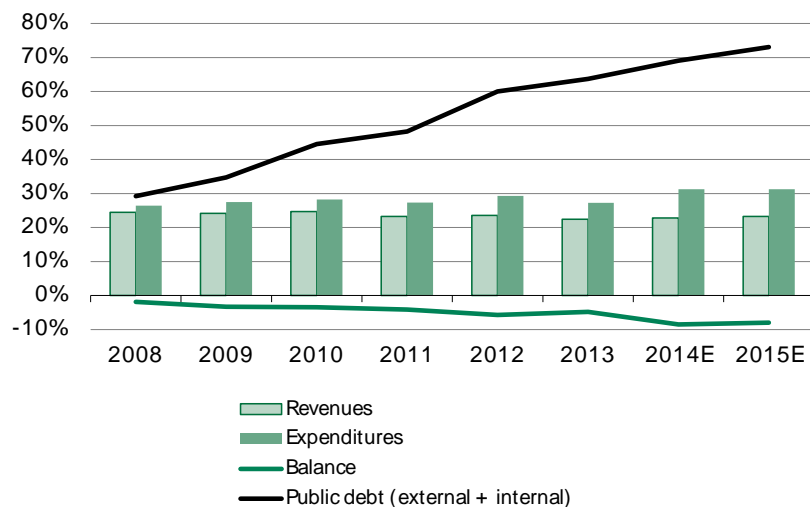
Serbian current account deficit narrowed, \$ mln



Source: Serbian National Bank

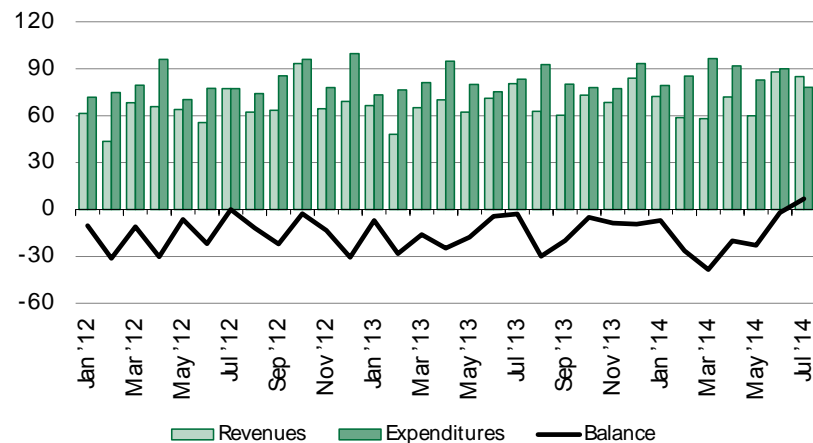
Serbia: growing public debt points to a need of fiscal consolidation

Serbian public debt grows as the budget deficit exceeds the rate of economic growth, % of GDP



Source: Serbian National Bank

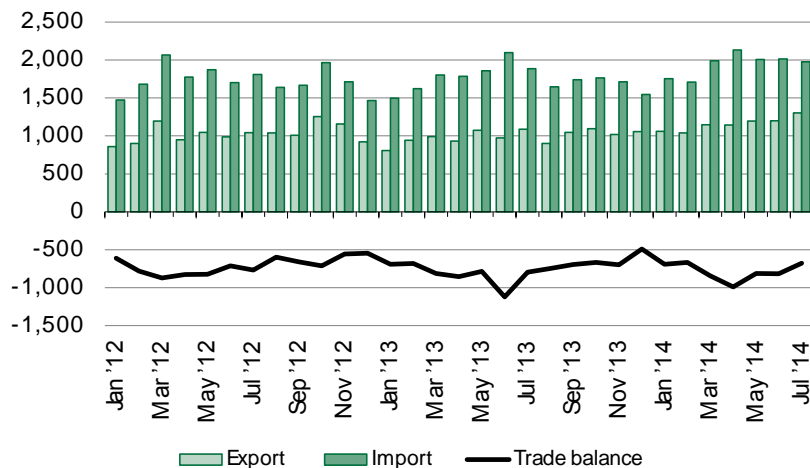
Budget deficit widened in 1Q14 but the balance turned positive in 2Q14, RSD bln



Source: Serbian National Bank

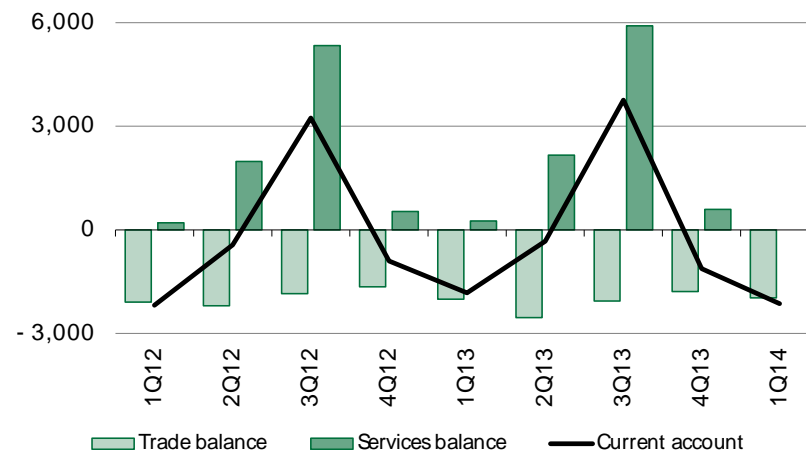
Croatian trade balance is strongly negative, while the services balance depends on mid-summer tourism

Croatian trade balance remains negative..., \$ mln



Source: Croatian National Bank

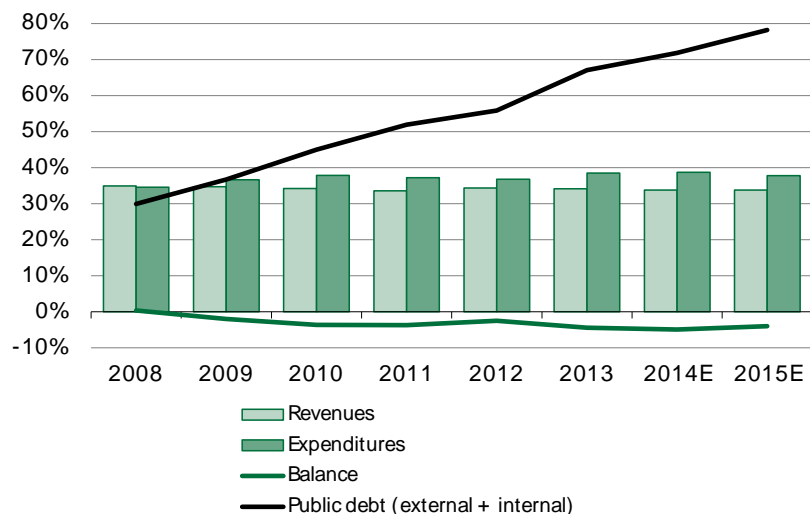
... as well as current account, \$ mln



Source: Croatian National Bank

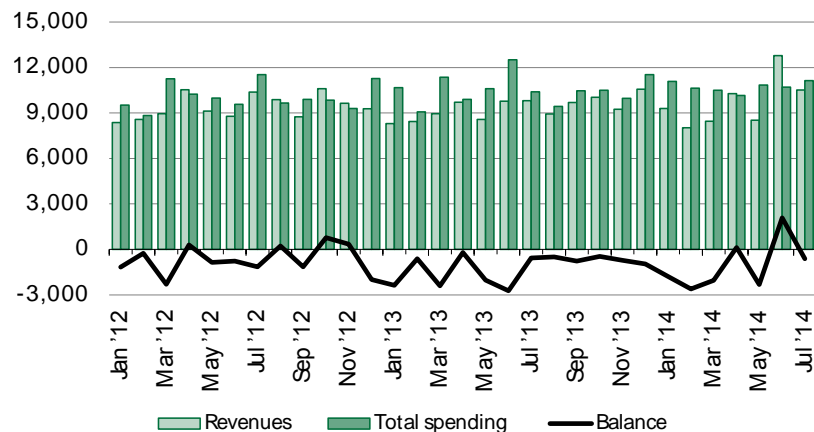
Croatia: the budget deficit is too large as economic growth stagnates amid deflation

Croatian government debt rises as the economy shrinks amid persistent budget deficit, % of GDP



Source: Croatian National Bank

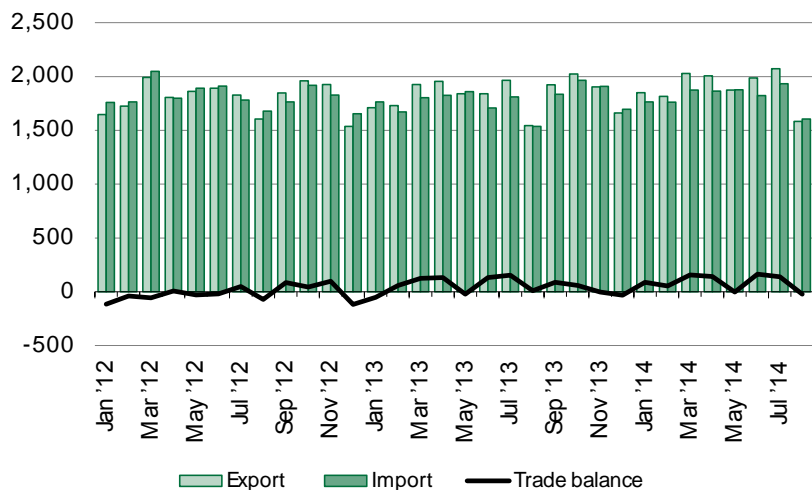
Revenue collection falls in 1Q14 amid deflation and the budget deficits widened albeit in 2Q14 situation improved, HRK mln



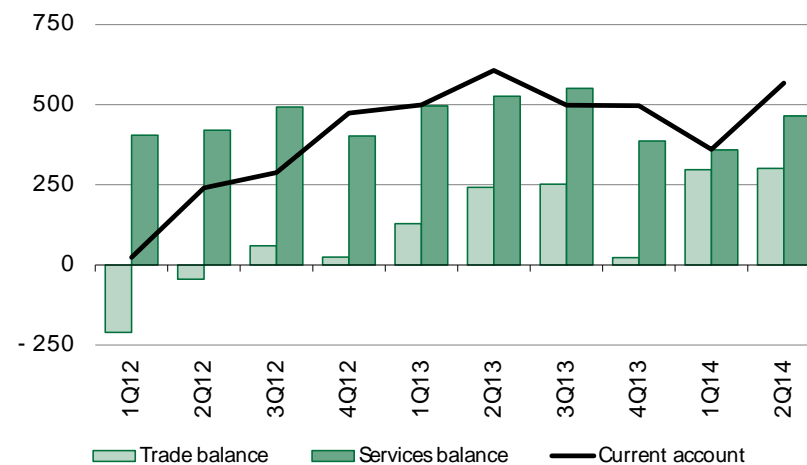
Source: Croatian Finance Ministry

Slovenian external balance posts no threat...

As the Slovenian trade balance turned positive in 1H14..., EUR mln ... the current account strengthened, EUR mln



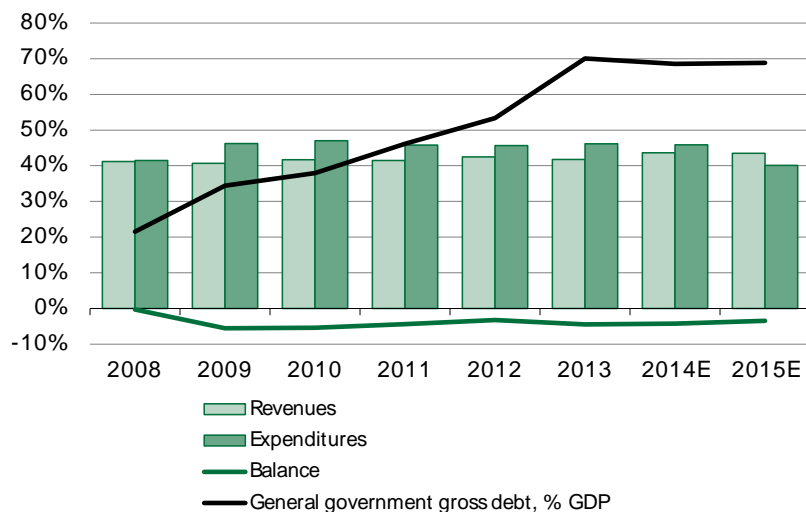
Source: Bank of Slovenia



Source: Bank of Slovenia

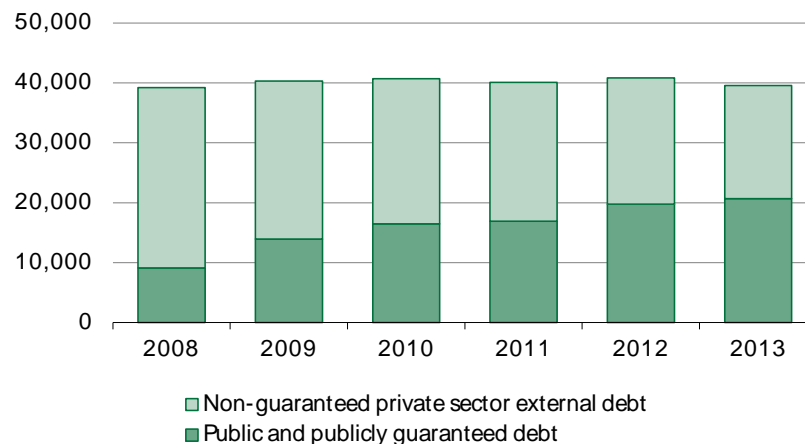
... while the fiscal situation offers an opportunity for an improvement

Slovenian public debt increased in 2013 as a result of borrowing to recapitalize banks, % of GDP



Source: Bank of Slovenia

Government borrowing supported private sector deleveraging, EUR mln



Source: Bank of Slovenia

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