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# East European Economies: Diverging Paths

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October 2014

**INVESTMENT RESEARCH**

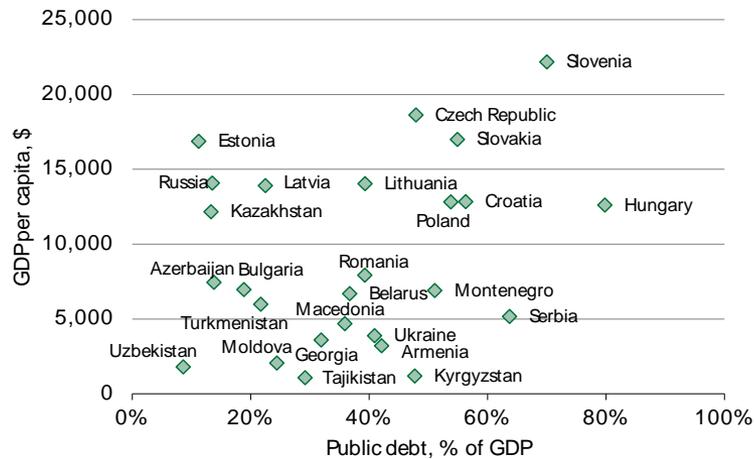
# Growth remains slow in most East European economies as external and internal rebalancing continues

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- 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.

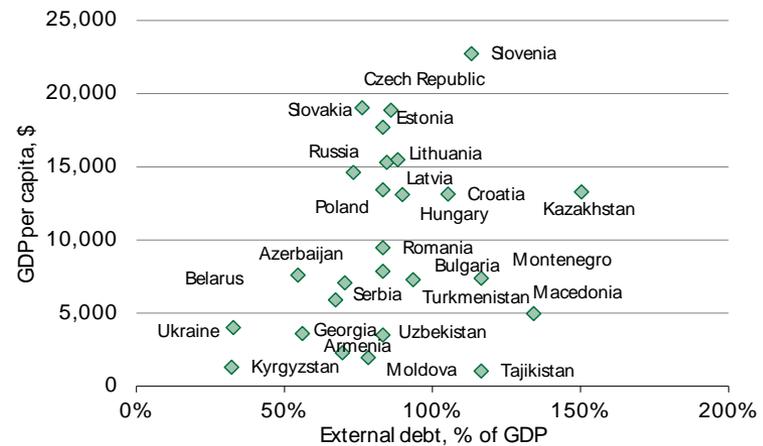
# Poland's indebtedness is low compared with peers, while GDP per capita is high enough

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



Source: Euromonitor, Sberbank Investment Research

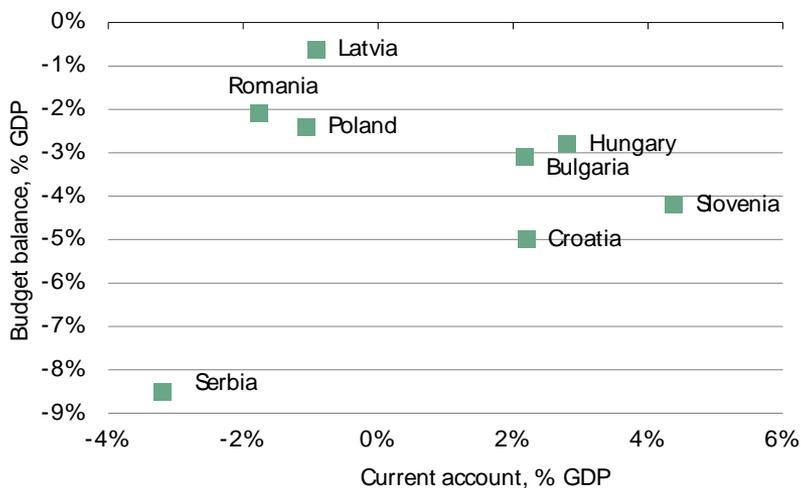
**GDP per capita and external debt in East European countries and the FSU, 2013**



Source: Euromonitor, Sberbank Investment Research

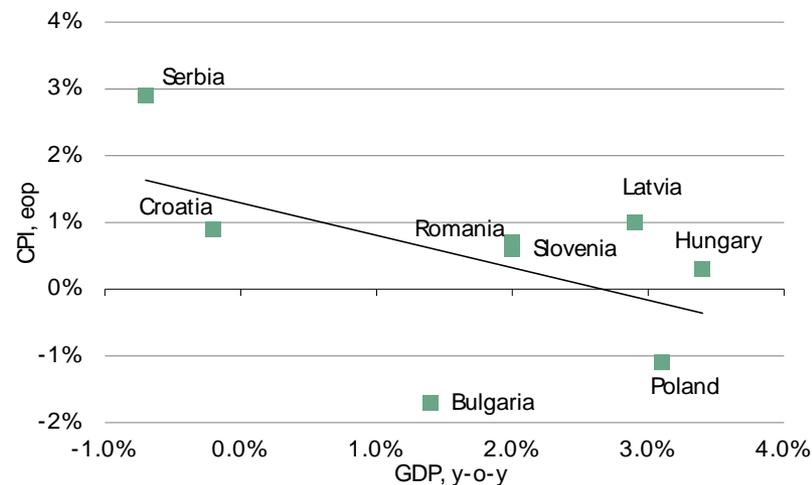
# Serbia and Croatia are at risk as imbalances remain strong in 2014 while economic performance is poor

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



Source: National Statistics Agencies

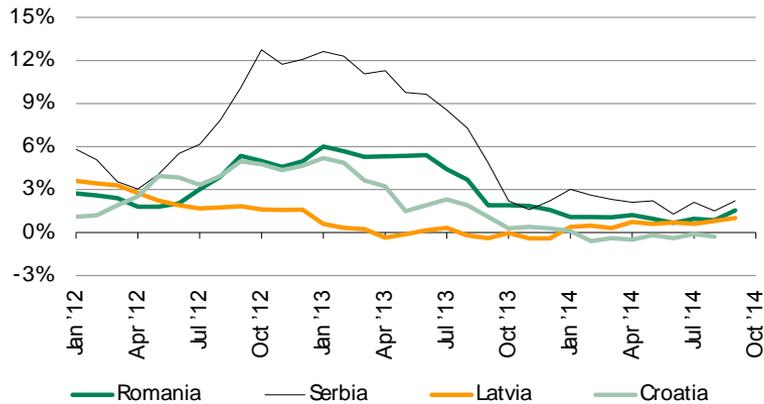
## ...while the economies stopped growing



Source: National Statistics Agencies

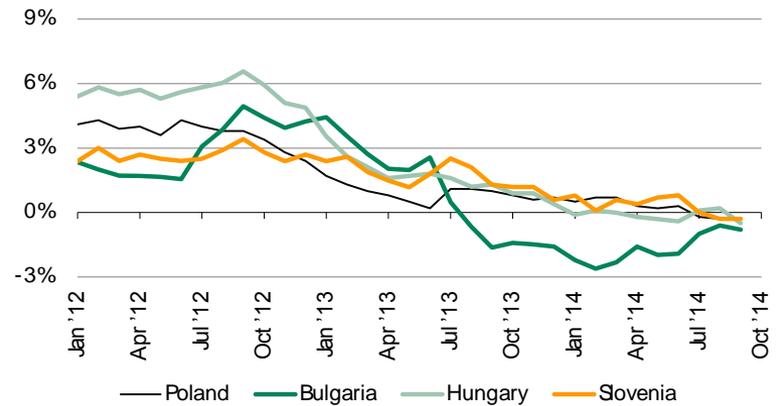
# Disinflation was fast in CEE and even turned into deflation

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



Source: National Statistics Agencies

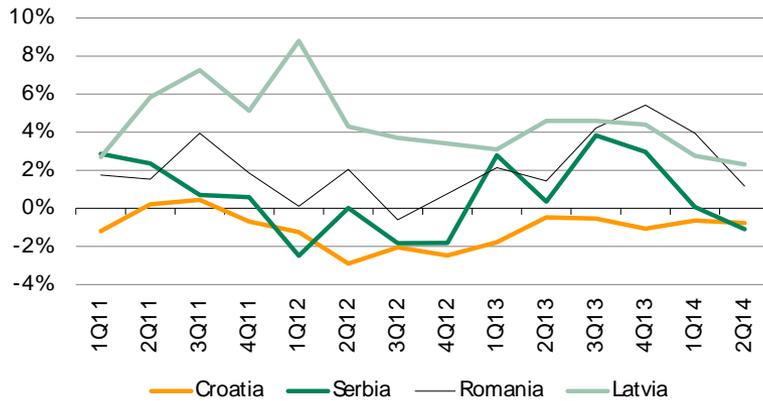
**...while others faced deflation**



Source: National Statistics Agencies

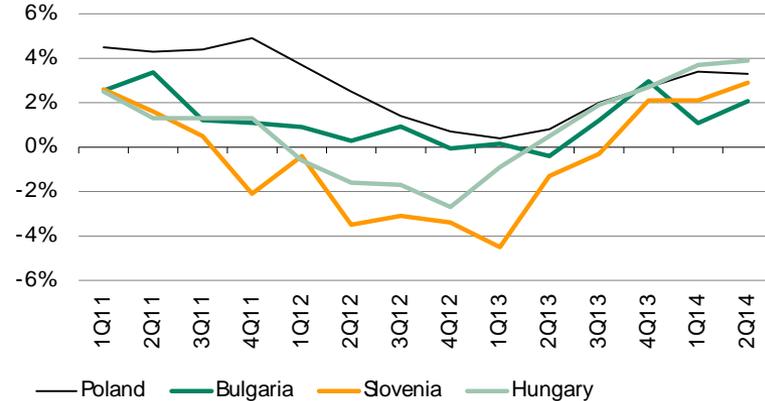
# Industrial growth points to diverging paths

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



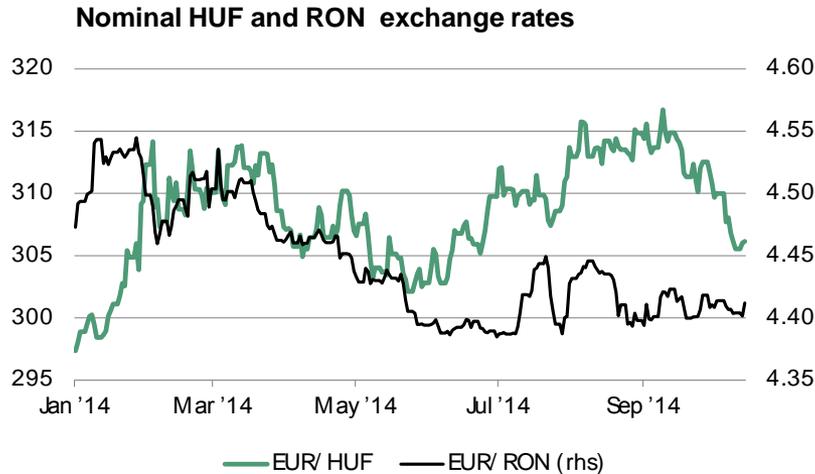
Source: National Statistics Agencies

**... while growth in other countries gathers pace**

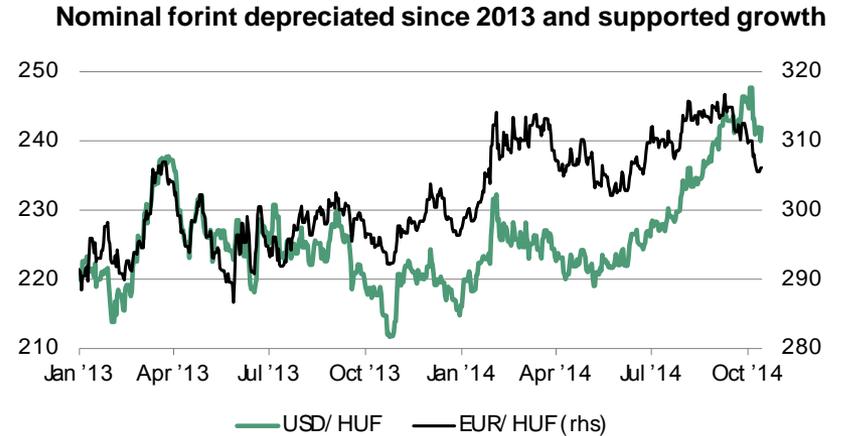


Source: National Statistics Agencies

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



Source: Bloomberg



Source: Bloomberg

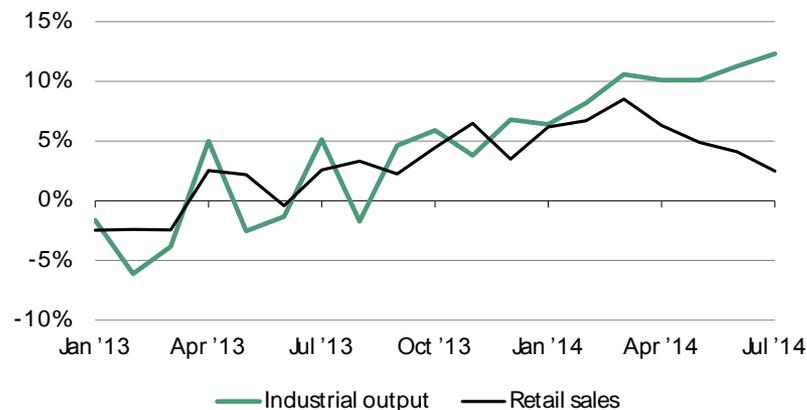
# Exports drive industrial growth in Hungary as retail moderates

## EU countries are Hungary's major trade partners, 2012

	Exports	Imports
<b>Total</b>	<b>100%</b>	<b>100%</b>
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

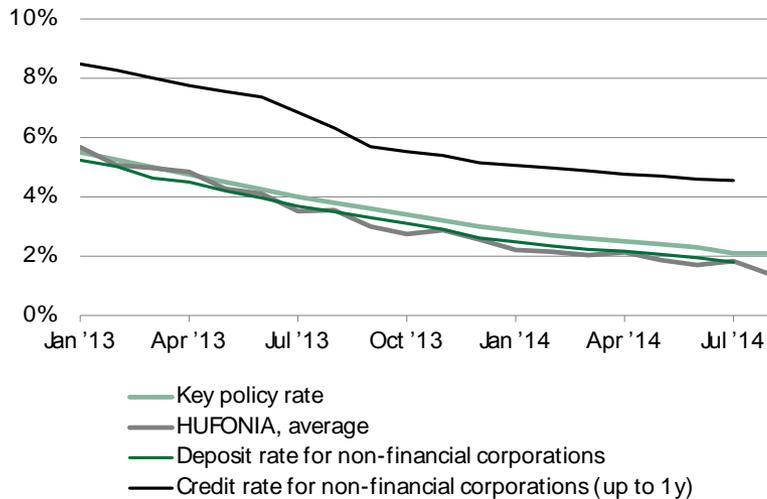
## Industrial output growth, fueled by exports, continued to accelerate in mid-2014, while retail sales softened y-o-y



Source: Hungarian Central Statistical Office

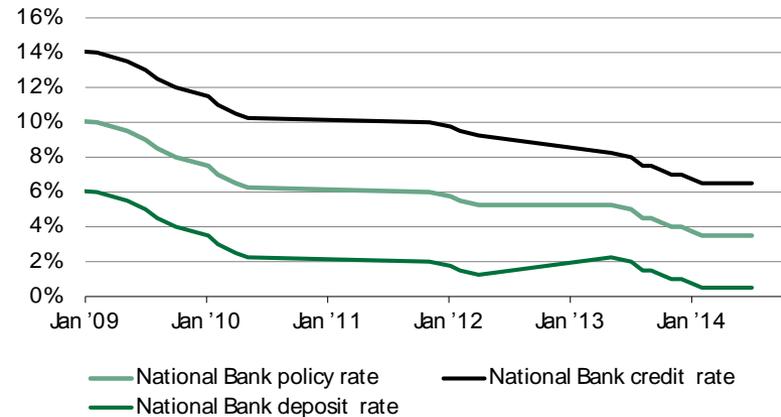
# Interest rate differentials remain too high amid a near-zero inflation environment

**Hungarian money market and retail interest rates**



Source: Hungarian National Bank

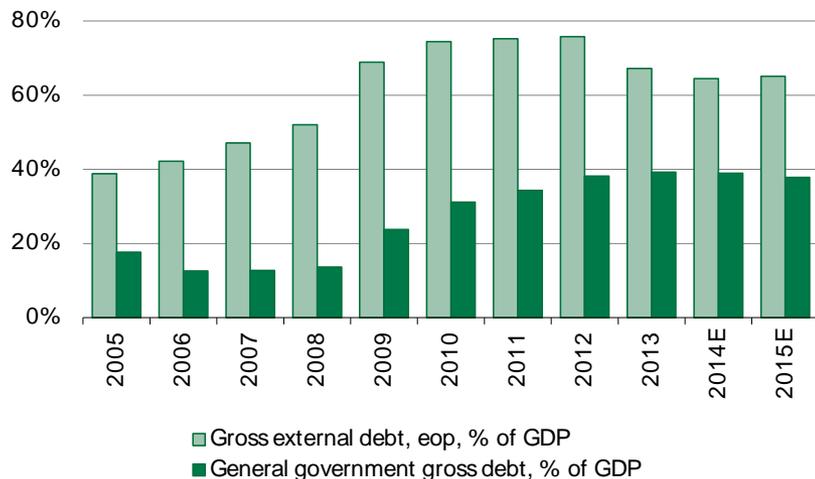
**Romanian money market rates have eased as inflation has decelerated**



Source: Romanian National Bank

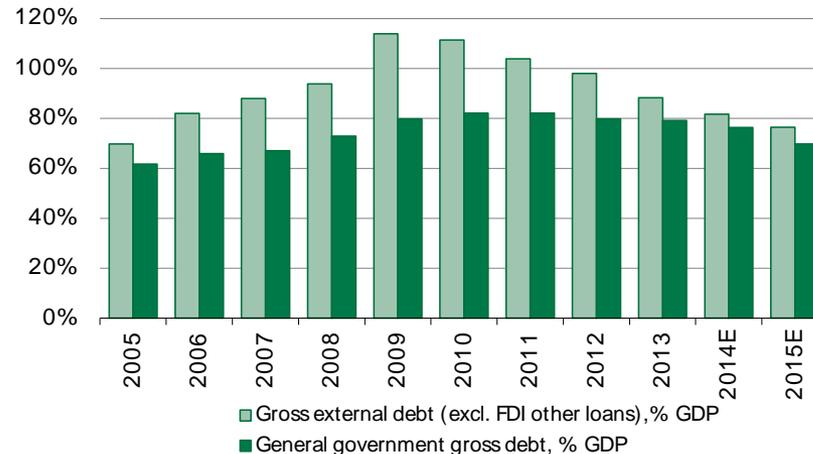
# Deleveraging in Hungary is set to continue while debt to GDP ratio stabilizes in Romania

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

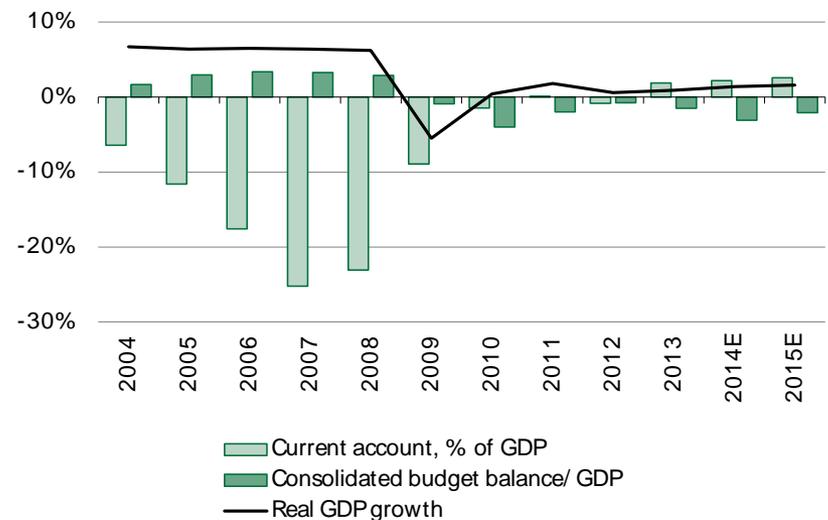
# Bulgaria's growth remains moderate but more stable since 2011 as foreign trade is relatively diversified

## Bulgaria's main trade partners

	1H14		2013	
	Exports	Imports	Exports	Imports
<b>Total</b>	100.0%	100.0%	100.0%	100.0%
<b>EU</b>	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

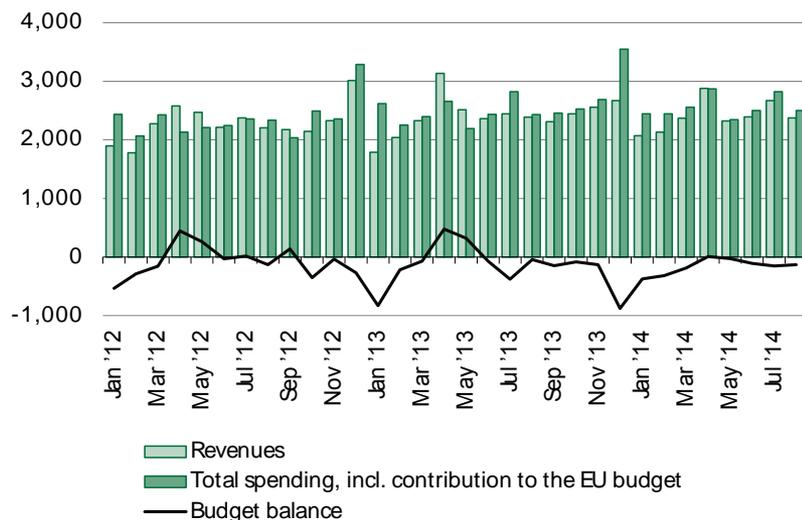
## Bulgaria's slow economic growth after rebalancing



Source: Bulgarian National Bank, Sberbank Investment Research

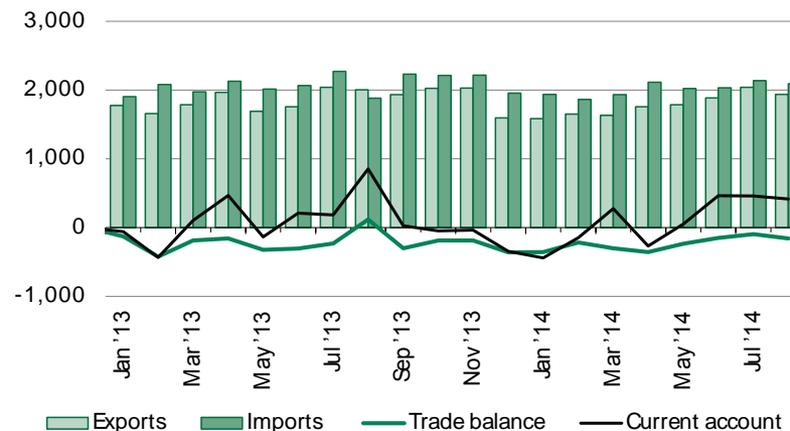
# Bulgaria: fiscal performance looks stable (so as the current account) but the former may be at risk if deflation persists

**Bulgarian consolidated budget execution, BGN mln**



Source: Bulgarian Ministry of Finance

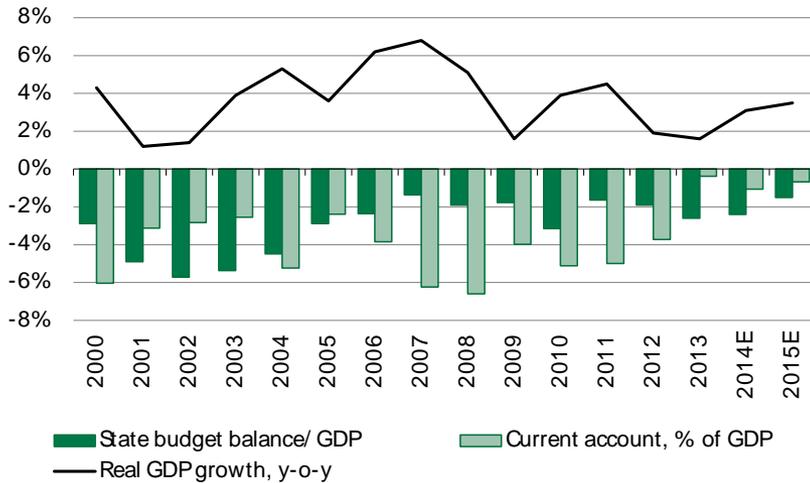
**Bulgarian balance of payments, EUR mln**



Source: Bulgarian National Bank

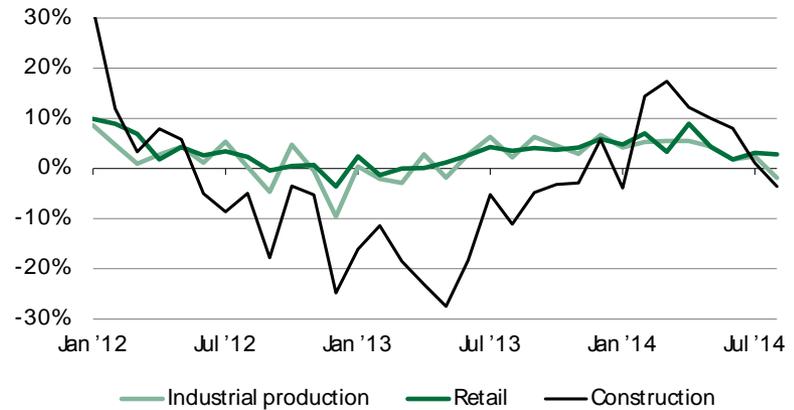
# Polish current account and budget deficits looked moderated amid strong economic performance

Polish economic growth strengthens as deficits narrow



Source: Polish National Bank, Sberbank Investment Research

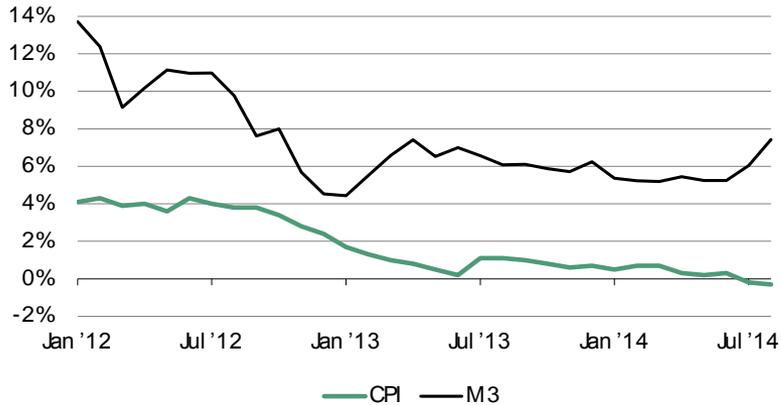
Polish selected economic trends, y-o-y



Source: Polish Central Statistical Office

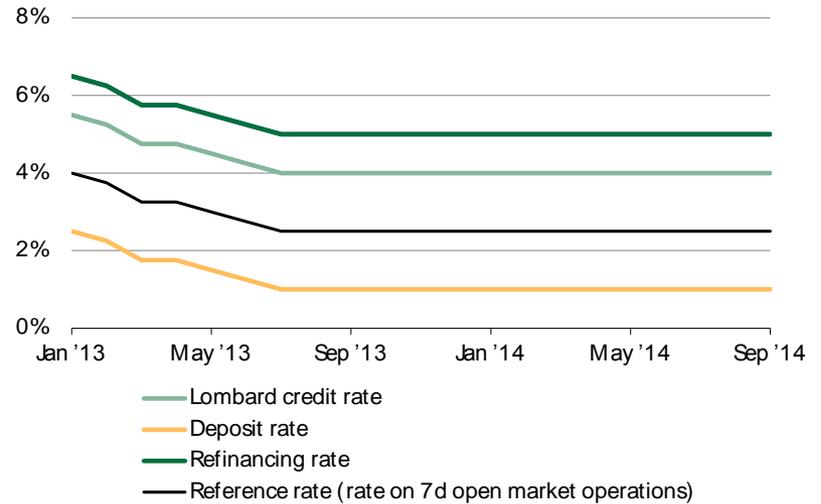
# However interest differentials looks excessive as deflation may persist

Polish inflation is slowing, y-o-y



Source: Polish National Bank

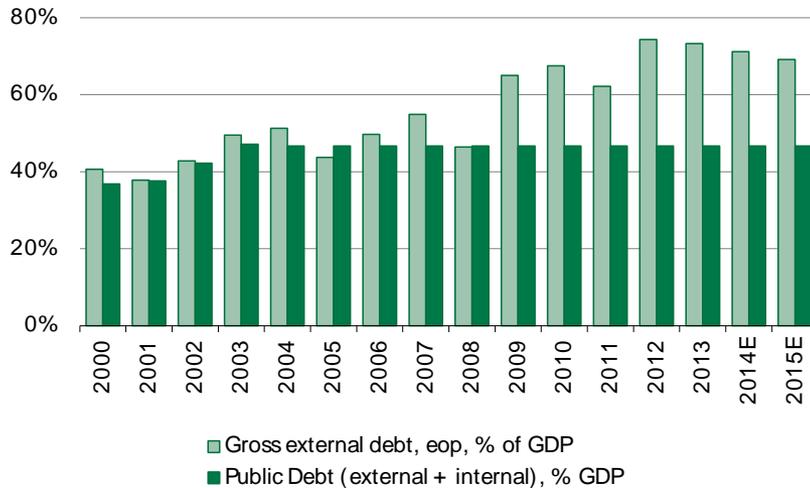
Polish money market interest rates



Source: Polish National Bank

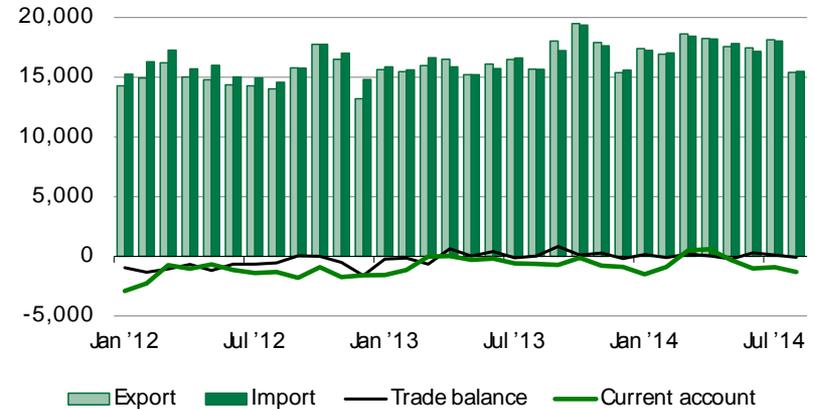
# Polish public debt to GDP ratio is stable and total foreign debt is moderate

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



Source: IMF, Euromonitor, Sberbank Investment Research

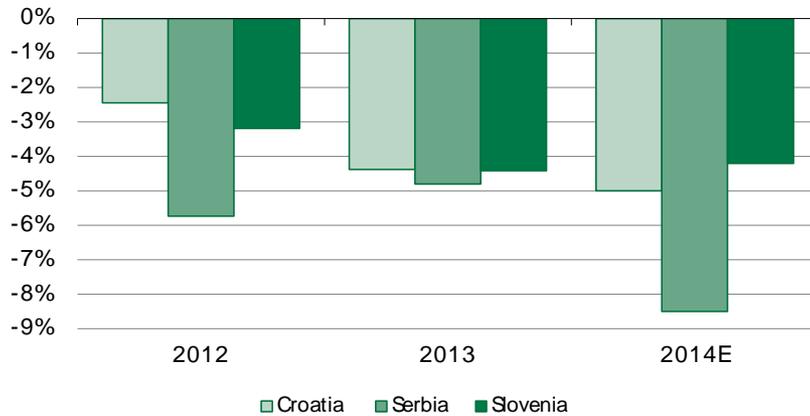
Polish balance of payments, \$ mln



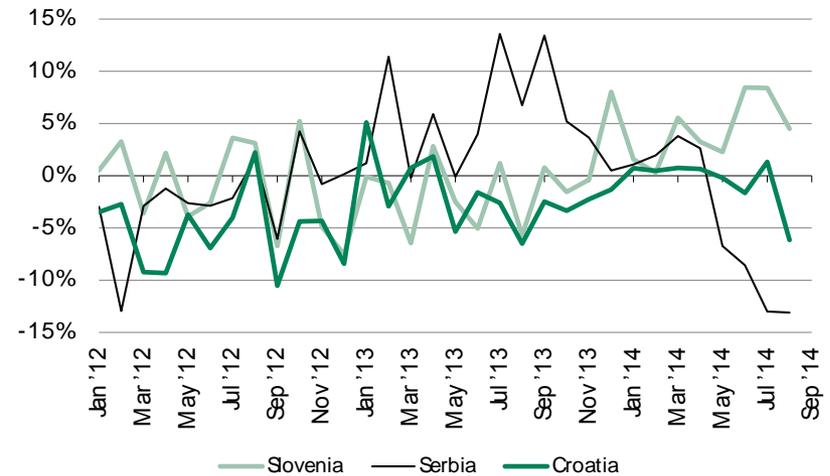
Source: Polish National Bank

# Deficits widened in the Balkan countries as industrial growth is unstable

Budget balance, % of GDP



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



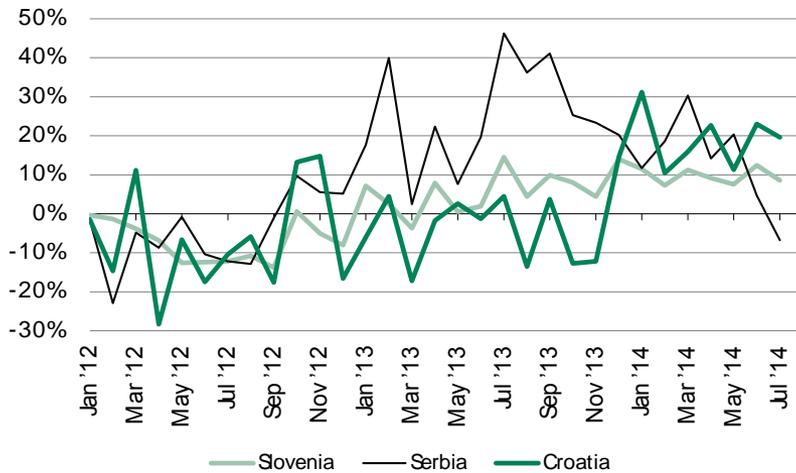
Note: For Slovenia, the data excludes spending on bank recapitalization as this is rather attributed to operations with financial assets.

Source: National Statistics Agencies

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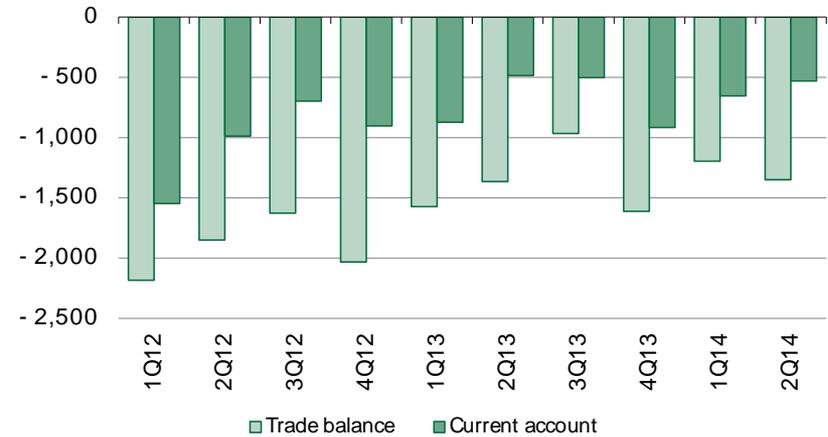
# Serbia suffered from a one-off effect in mid summer...

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



Source: National Statistics Agencies

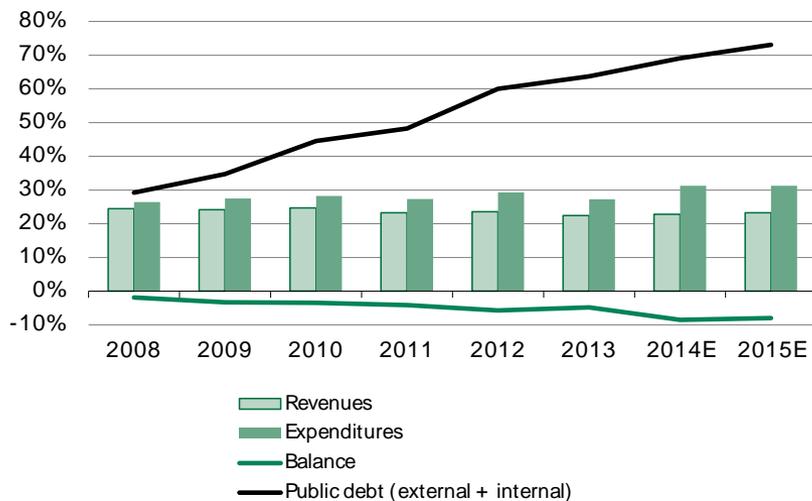
Serbian current account deficit narrowed, \$ mln



Source: Serbian National Bank

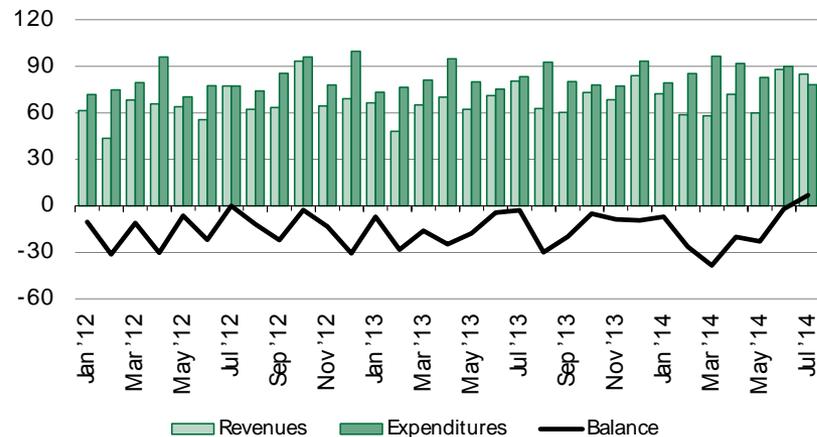
# Serbia: growing public debt points to a need of fiscal consolidation

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



Source: Serbian National Bank

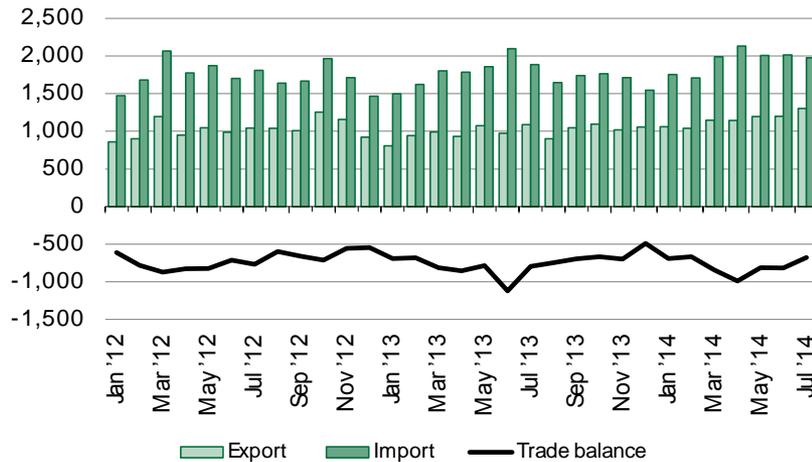
**Budget deficit widened in 1Q14 but the balance turned positive in 2Q14, RSD bln**



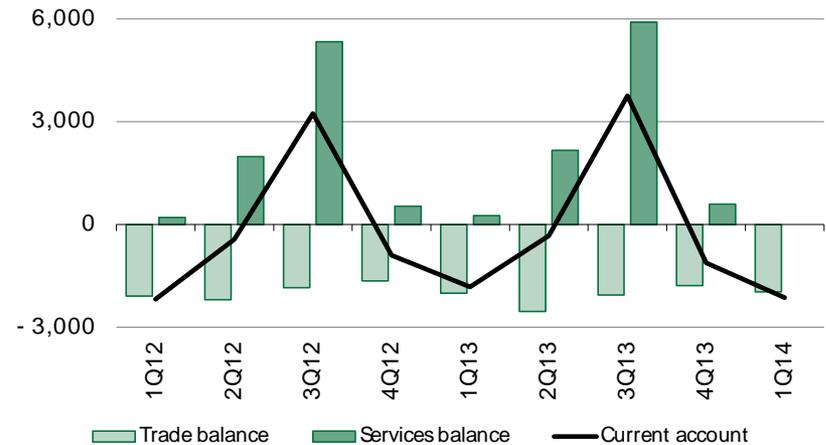
Source: Serbian National Bank

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

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



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

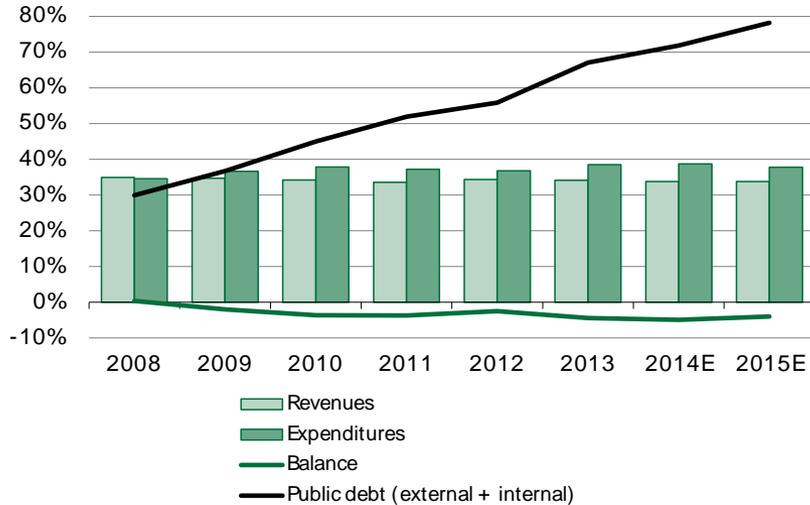


Source: Croatian National Bank

Source: Croatian National Bank

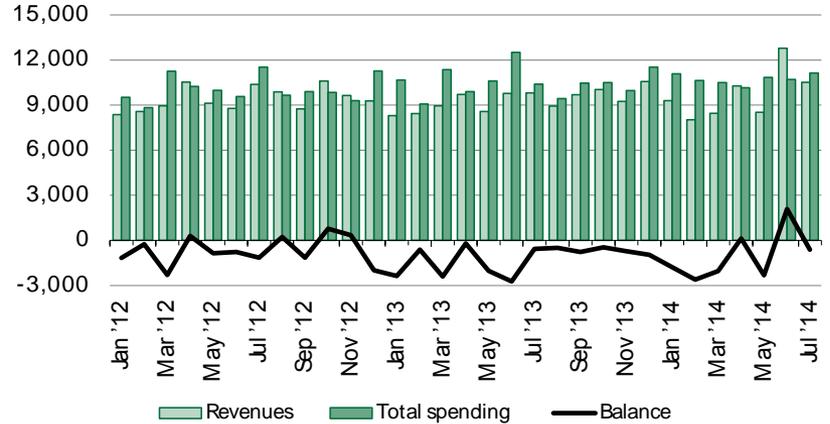
# Croatia: the budget deficit is too large as economic growth stagnates amid deflation

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



Source: Croatian National Bank

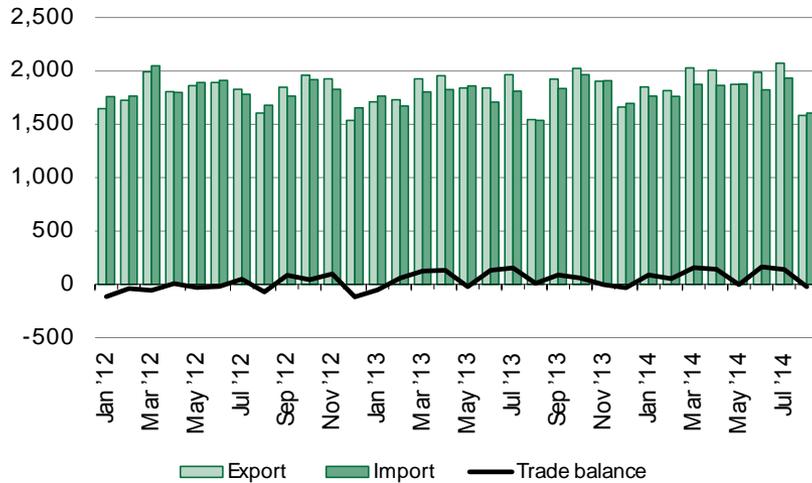
**Revenue collection falls in 1Q14 amid deflation and the budget deficits widened albeit in 2Q14 situation improved, HRK mln**



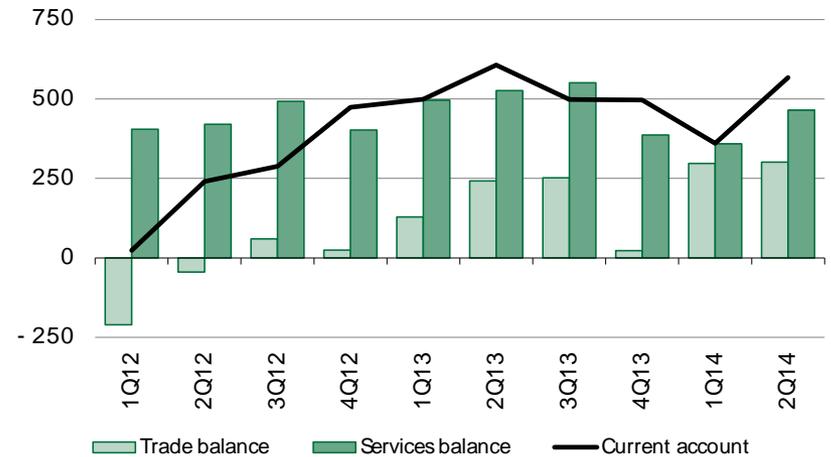
Source: Croatian Finance Ministry

# Slovenian external balance posts no threat...

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



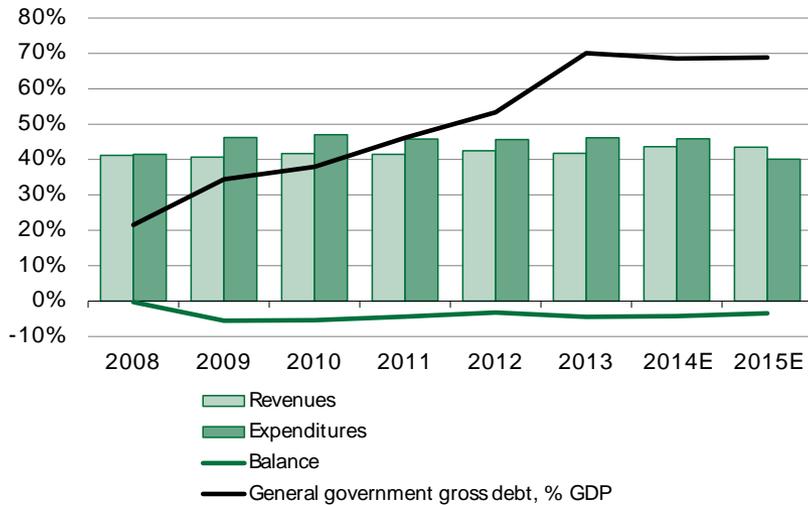
Source: Bank of Slovenia



Source: Bank of Slovenia

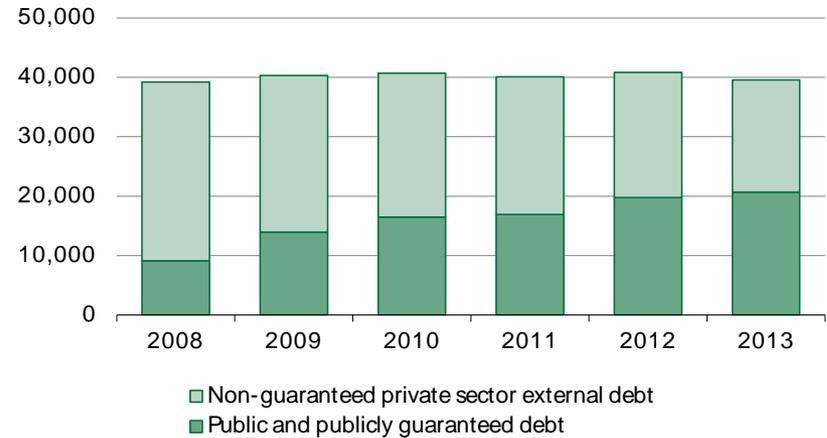
# ... while the fiscal situation offers an opportunity for an improvement

**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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