



World Bank EU8 Quarterly Economic Report February 2006¹

EU8

HIGHLIGHTS OF THE REPORT

Recent Economic Developments

- Macroeconomic developments in the region remain broadly favorable despite a mixed external environment and weak reform momentum related to recent or prospective elections in the Visegrad countries.
- All EU8 countries saw buoyant output growth in the third quarter of 2005 and the outlook remains positive for the year ahead. Strong economic activity is slowly reducing unemployment in most countries. Continued rapid export growth was accompanied by equally dynamic imports and current account deficits remained mostly unchanged.
- Fiscal performance in 2005 was strong in the Visegrad countries (except Hungary) on the back of strong growth and buoyant revenues, but no further consolidation is envisaged in 2006 (the Czech Republic may even go into reverse). The Baltic States eased fiscal policy despite continued strong growth. This further fueled booming domestic demand, which together with high oil prices and structural factors is complicating inflation control (not least in Latvia).
- Slovenia looks set to adopt the euro from January 2007, but this date may slip for Estonia and Lithuania with strict interpretation of the Maastricht inflation criterion. Latvia's plans for euro-adoption one year later may also be difficult to realize. Slovakia entered the ERM2 in November, earlier than expected, and was rewarded with an upgrading in its credit rating to the highest among its peers. It plans to adopt the euro from January 2009 (and could be ready in 2008), but may also be accumulating inflationary pressures. The other Visegrad countries are unlikely to join before 2010, at the earliest (even though Poland looks like it now fulfills all the required conditions except on the exchange rate).
- Structural reforms were mostly limited to continued privatization efforts, while discussions on further tax reforms to take center stage in several countries (including Estonia, Poland and Slovenia). In Poland, the government is resisting a planned merger of two foreign-owned banks reflecting both concerns about layoffs and competition with the main state-owned bank.

Special Topic: Growth in Central Europe and the Baltic States

- Relatively rapid output growth in the region over the past decade has been led by total factor productivity (TFP) growth in the Visegrad countries, while factor accumulation—especially investment—dominated in the Baltic States. Slovakia, Poland, and Lithuania all saw average TFP growth in excess of 3% during 1996-2004, while in Latvia and the Czech Republic at the other end, average TFP growth was only around 1½%.
- In Poland, TFP growth led output growth in most sectors, especially the more modern, export-oriented manufacturing sectors. However, overall productivity declined in some

¹ This report is generally based on information available through end-December, 2005. The report was prepared by a team of World Bank economists in the region led by Thomas Laursen and including Paulina Bucon, Andrejs Jakobsons, Leszek Kasek, Anton Marcincin, Jekaterina Rojaka, and Emilia Skrok.

regulated sectors as well as in some service sectors. Reallocation of human and especially capital resources across sectors played an important role in supporting overall TFP growth, not least in the second half of the 1990s.

- Our analysis of determinants of TFP growth in the EU8 and in Polish sectors highlighted the role of technology spillovers and competition, with trade (exports) and FDI inflows supporting higher TFP growth. Business spending on R&D also mattered for TFP growth in the region, although seemingly not in Poland. We did not detect an important role for human capital, but this likely reflects difficulties in measuring its quality. Further, we found some support for the generally acknowledged role of “catching up” and progress with transition, including improving the business environment (especially regulation and institutions such as property rights). Finally, reallocation of resources towards industry was a key factor in supporting rapid TFP growth.
- Thus, policies that would support further competition and outward orientation, including deregulation and attraction of new FDI inflows, will play a key role in sustaining rapid productivity growth. Measures to enhance the amount and quality of domestic R&D will also be important. Further reforms of various elements of the education system, including higher education and vocational education and training programs, will be critical for providing high quality human capital. Restructuring of remaining “strategic” or “socially important” sectors such as heavy industries, transportation, mining, and agriculture will facilitate the flow of resources towards more productive activities. Such policies should go hand in hand with efforts to further improve the investment climate in several of the larger countries in the region and incentives for labor market participation and employment in most countries.
- Extrapolating recent trends in the Visegrad countries suggests that output growth in the coming years could amount to about 4% in the Czech Republic and Hungary and more than 5% in Slovakia and Poland assuming that further efforts to enhance employment bear fruit. Previous analysis done by the Bank suggests that growth could be even higher in Baltic States, although below the recent pace. Higher growth rates in all countries would require significant additional efforts along the lines discussed above as well as to improve further the investment climate and rate of capital formation.

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PREVIOUS SPECIAL TOPICS:

Apr 2004: Public Expenditure Management Reform in EU8 Countries.

Jul 2004: Regional Policy in the EU8.

Oct 2004: Corporate Income Taxation and FDI in the EU8.

Jan 2005: The Baltic Growth Acceleration—Is It Sustainable?

Apr 2005: Labor Taxes and Employment in the EU8.

Jul 2005: PPPs—Fiscal Risks and Institutions

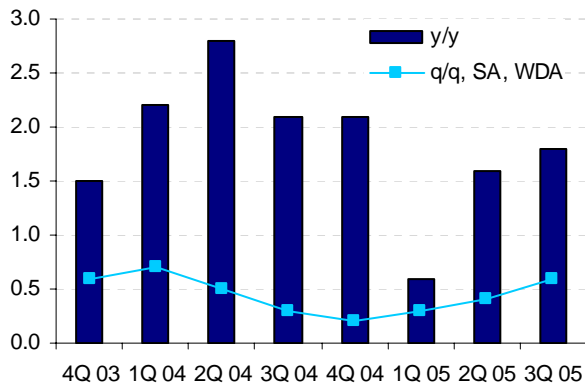
Jul 2005: Addendum: Lessons from EU Accession—One Year After.

Oct 2005: Sustainability of Pension Systems in the EU8.

External Environment

The external environment remained mixed, with further signs of recovery in the EU15 but continued high and volatile oil prices. Output growth in the euro-zone picked up from 1.6% y/y in the second quarter to 1.8% y/y in the third quarter of 2005 (Chart 1). Following a decline in oil prices to US\$ 55/BBL in November, prices surged again in January 2006 (Chart 2).

Chart 1. EU15 GDP growth



Source: Eurostat.

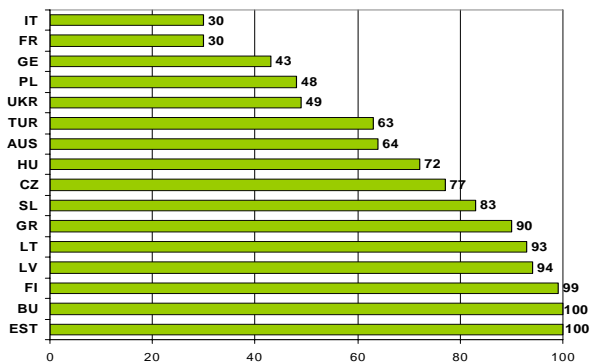
Chart 2. Oil price, Brent crude oil, USD/BBL



Source: Reuters.

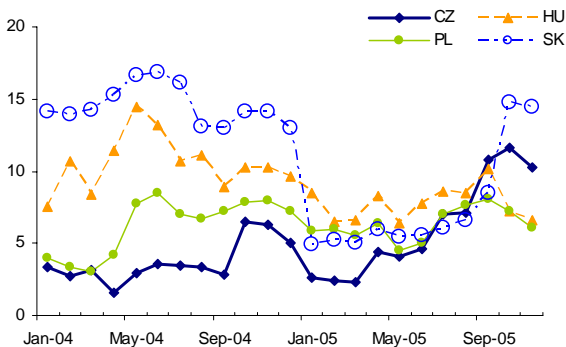
Energy markets in the region were further disrupted by controversies surrounding Russia's delivery of gas through Ukraine and demand for more market-based prices from neighboring Western countries (dependency on Russian gas is illustrated in Chart 3). Higher oil prices are slowly feeding through in the EU15 and EU8 countries (Chart 4 and Chart 5). In response, the European Central Bank raised interest rates by 25bps (bringing the key refinancing rate to 2.25%) on December 6, the first increase in the last 5 years.

Chart 3. Dependency on Russian gas supplies, 2004, % of total gas consumed



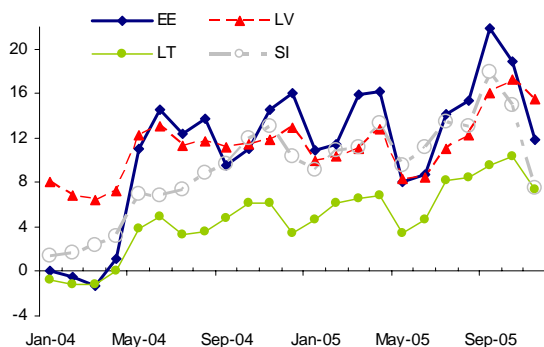
Source: Oxford Analytica, Izvestija

Chart 4. HICP - energy, % y/y



Source: Eurostat.

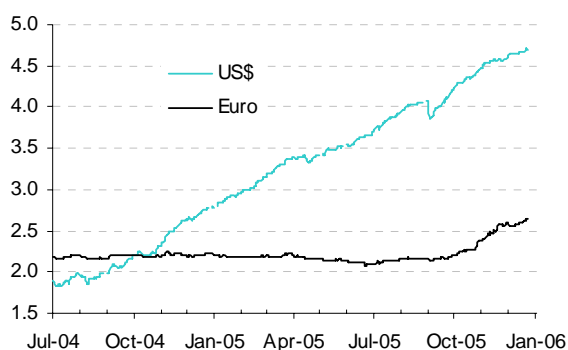
Chart 5. HICP - energy, % y/y



Source: Eurostat.

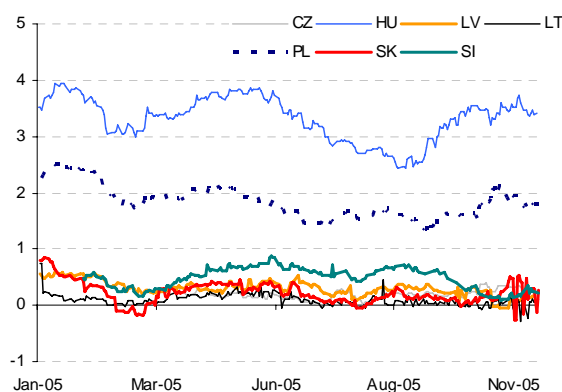
Financial markets in the region were little affected by conditions in international markets and domestic political and economic uncertainty. The US dollar continued appreciating against the euro until November, supported both by fundamentals and a large gap in LIBOR (4.5% on dollar versus 2.5% on euro, Chart 6). This trend has been reversed since then on the background of higher euro interest rates. Meanwhile, EU8 government bonds yields continued converging towards the euro-zone, offering only a 50bps premium except for Poland (almost 200bps) and Hungary (350bps) (Chart 7). Standard & Poor's improved Slovakia's rating of long-term liabilities in foreign currencies to A - the best rating of all Visegrad countries (one grade above the Czech Republic and Hungary, and two grades above Poland). Meanwhile, Fitch downgraded Hungary and S&P changed the outlook from stable to negative.

Chart 6. LIBOR, 6M



Source: BBA.

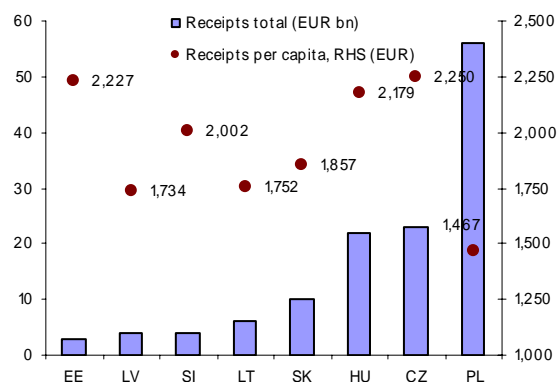
Chart 7. Government bond (10Y) spread versus euro-zone



Source: Reuters.

The next EU budget - Financial Perspectives 2007-13 - was approved by the European Council on December 17. It includes total expenditures of EUR 862.3 billion (2004 prices), of which EUR 128 billion (15%) regional aid to the EU8 countries (Chart 8). Conditions for accessing funds were also eased somewhat, including a lowering of the co-financing requirement to 15% and inclusion of VAT as eligible for financing. The budget was, however, rejected by the European Parliament on January 18. The EU Commission, Council, and Parliament are now trying to resolve the matter among each other.

Chart 8. Financial Perspectives 2007-13 (constant 2004 prices)



Source: EC and EUROSTAT.

Political Economy Background

Approaching elections (Hungary, Czech Republic, Slovakia), political uncertainty (Poland) and inflation concerns related to euro adoption plans (Slovenia and Baltic countries) severely dampened the reform momentum in the region.

In Poland, Lech Kaczynski of the center-right Law and Justice (PiS) party won the Presidential election on October 23. Kazimierz Marcinkiewicz was appointed Prime Minister and formed a minority PiS cabinet on October 30 supported by three smaller parties - the League of Polish

Families (LPR), Self-Defense (Samobrona) and the Peasants' Party (PSL).² The new government aims to improve the business environment by reducing delays at courts, improving the efficiency of public administration and privatizing some of the remaining state-owned companies, reform health care based on private insurance and a basic benefits package, and improve education (without, however, introducing tuition fees at tertiary schools). The government plans to maintain the state budget deficit at around PLN 30 billion and—according to the latest convergence program—the general government deficit at its current level (about 3% of GDP with phasing-in of the cost of pension reform as required under the revised Stability and Growth Pact) but will not set a target year for euro adoption. On February 2, PiS, Self-Defense and LPR signed a 12-month “stabilization pact” which has reduced the likelihood of early elections in the near future.

In Slovakia, regional elections on November 26 resulted in the victory of the right-wing parties but with only 18% voter turnout. The ruling coalition gained majority in six out of eight regional parliaments. HZDS - a potential coalition member after the next parliamentary elections - gained just 48 seats in all regions together compared to 144 seats four years ago. The opposition won all eight regional chairman positions in the second of elections on December 10 (SMER five and HZDS three) while voter turnout declined further to 11%. The 2006-08 budget was approved by parliament with support from 79 of 150 MPs - of whom 68 from the ruling coalition, 10 independent MPs, and 1 from the opposition party SMER. With the resignation of the Christian Democrat party from the coalition in early February, the likelihood of early elections has increased.

In the Czech Republic, parliamentary elections will be held in June, while Senate elections are scheduled for October. Public support for the governing Social Democrats (CSSD) is on the rise with the party winning over voters from the Communist party - a January poll (by STEM) showed the Social Democrats narrowing the lead of the main opposition Civic Democrats' (ODS) in voter preferences to 1.4% from December's 5.1%. The current stability can be largely attributed to the government's decision to forego divisive measures - including overhaul of the pension, healthcare and education systems - until after the general elections.

In Hungary, opinion polls show the Socialist-Free Democrat coalition back to rough parity with Fidesz after lagging significantly in late 2004. In Lithuania, the four-party center-left coalition government elected in October 2004 survived the resignation of two cabinet ministers in mid-2005 and recent accusations against Prime Minister Brazauskas of dubious privatization deals.

Macroeconomic Policies and Developments

Macroeconomic developments in the region remain broadly favorable despite a mixed external environment and weak reform momentum. Output growth in the EU8 remained brisk in the second half of 2005 and the outlook for 2006 is good. Employment is strengthening in most countries, but rapid real wage growth in the smaller countries is dampening the impact of growth and adding to inflationary pressures. Strong exports were accompanied by equally fast growing imports and current account deficits remained mostly unchanged. Fiscal performance in 2005 appears generally better than expected (except in Hungary) on the back of strong growth and buoyant revenues, but no further consolidation is in the cards for 2006. Rising domestic energy prices, rapid wage, credit and domestic demand growth, and structural factors are complicating inflation control and euro adoption plans in the Baltic countries, especially Latvia.

Output growth remained strong across the region in the third quarter of 2005, with the Czech Republic, Hungary, and Slovenia growing at around 4% (annualized), Poland and the Slovak Republic at 5-6%, and the Baltic countries above 8% (Chart 9).^{3 4} Private consumption has picked

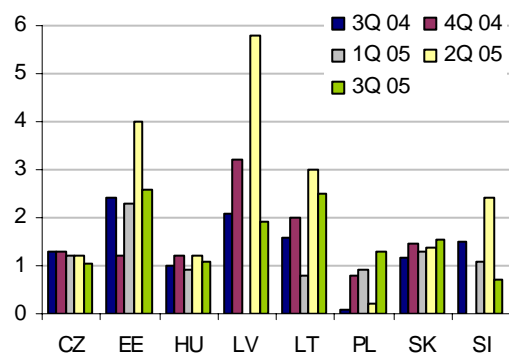
² These parties also supported the 2006 budget in the Sejm on January 24.

³ Methodological revisions of national accounts have led to significant adjustments, with higher real output growth in recent years in Estonia and Hungary (Box 1).

⁴ Recent very high rates of economic growth have allowed the Baltic countries a fast pace of catching-up, although incomes remain at only about one-half of the average for the EU (Chart 10 and Chart 11). The league remains led by Slovenia (82%), the Czech Republic (73%) and Hungary (62%).

up in most of the countries and is booming in the Baltic countries on the back of rapid wage and credit growth (Chart 12). Fixed investment growth is also edging up in most countries (except Slovenia) and is particularly buoyant in the Baltic countries, Hungary, and Slovakia (Chart 13). High investments in Hungary were supported by motorway building projects and in Slovakia by new FDI projects.

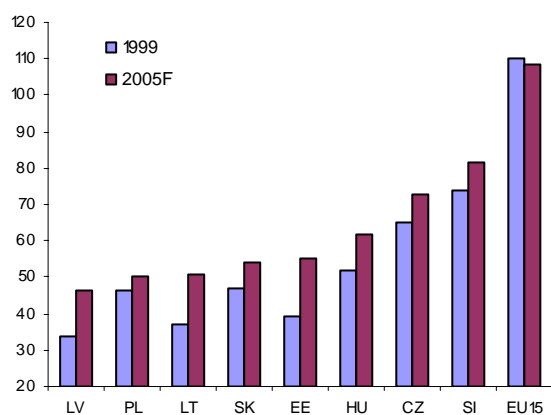
Chart 9. GDP real growth, % q/q, SA



Comparability of aggregates between countries may be reduced due to methodological improvements implemented by EU Member States at different points in time in 2005 (see also Box 1).

Source: CSOs.

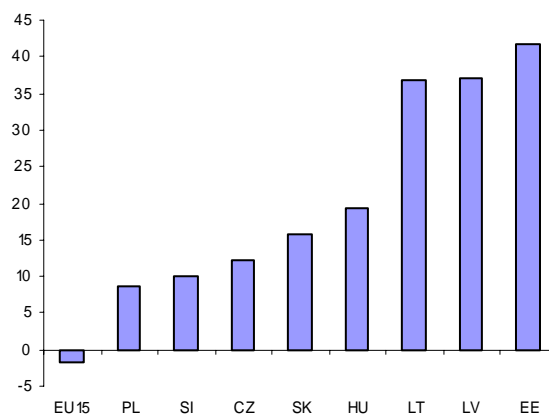
Chart 10. GDP per capita, PPS, EU25=100%



Data for 2005 are estimates.

Source: EUROSTAT and staff calculations.

Chart 11. GDP per capita, PPS, change.

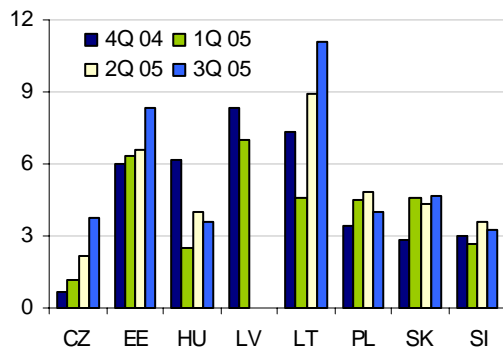


Note: Change for country i equals to $[Y_i(2005)/Y_i(1999)] / [Y_{eu}(2005)/Y_{eu}(1999)] * 100 - 100$, where eu stands for EU25 and Y for GDP in PPS.

Data for 2005 are estimates.

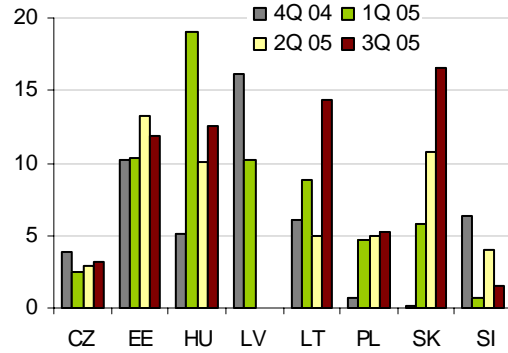
Source: EUROSTAT and staff calculations.

Chart 12. Private consumption real growth, % y/y



Comparability of aggregates between countries may be reduced due to methodological improvements implemented by EU Member States at different points in time in 2005 (see also Box 1).
Source: CSOs.

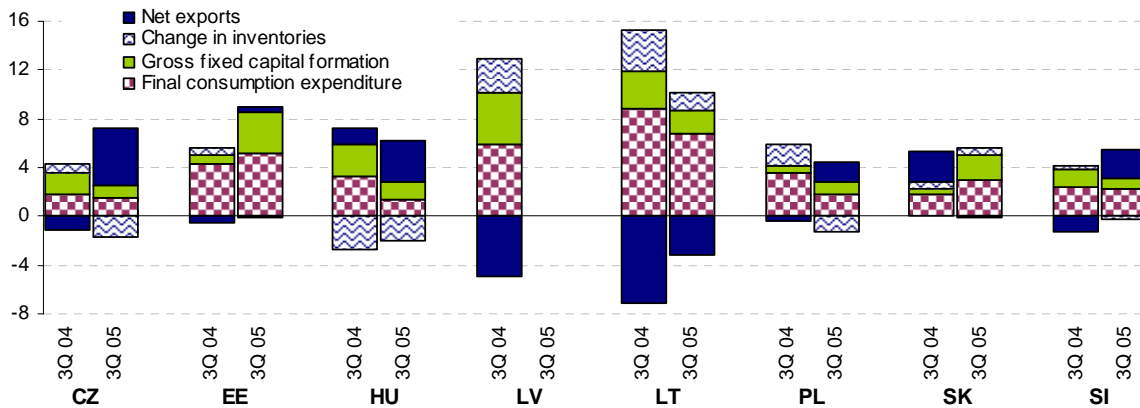
Chart 13. Fixed investment real growth, % y/y



Comparability of aggregates between countries may be reduced due to methodological improvements implemented by EU Member States at different points in time in 2005 (see also Box 1).
Source: CSOs.

While domestic demand is thus leading growth in the Baltic countries and Slovakia, net exports are the main driver in the Czech Republic and Hungary (Chart 14). Growth is more balanced in Poland and Slovenia.

Chart 14. Contributions to GDP growth, 4 quarter cumulative, % points of GDP



Comparability of aggregates between countries may be reduced due to methodological improvements implemented by EU Member States at different points in time in 2005 (see also Box 1).
Source: CSOs; and staff calculations.

Box 1. Revised National Accounts

Eurostat national accounts methodology has been revised in two areas (related to financial services and GDP deflators) with the impact of revisions already introduced in the EU8 in most cases positive (higher nominal GDP and real GDP growth rates). The revision of financial services (FISIM) for the period 1995-2004 is due by end-2005. Some countries are more advanced in this respect than others - therefore, during a transition period, the figures are not entirely comparable. Estonia, Slovenia and Poland have already made FISIM revisions for 1995-2004, while Hungary, Lithuania and Latvia made revisions for shorter periods (Table 1). Chain-linked volume data based on annual price structures and weights (to be introduced during 2005 and 2006) have been provided by Czech Republic and Slovenia (Poland has already been using this methodology for the last few years). The impact of the new FISIM allocation on nominal GDP is in most cases positive - up to 1.8% in Poland. This led to upward revisions of real growth rates, notably in Hungary and Estonia.

- The new methodology for recording financial services is resulting in an increase in GDP levels (according to Eurostat* ranging from 0.5% to 2.0% in the EU25) and also in higher real GDP growth rates. FISIM measures this part of financial services which is not directly charged by the financial intermediaries to customers, but which is, however, reflected in different interest rates charged to borrowers and lenders. Before the revision, FISIM was not allocated to sectors/industries which consumed the services but was recorded as a separate category in SNA. Because FISIM was calculated as a difference in the interest actually paid and received, the final output and intermediate consumption of monetary financial institutions were increased equally, and the level of FISIM was neutral to nominal GDP. At the same time, value added in financial institutions was underestimated, while value added in other sectors was overestimated. Under the revised methodology, FISIM is recorded as final (rather than intermediate) consumption and net export, thus increasing GDP levels. Moreover, the revision tends to also raise past real GDP growth rates. This is because a significant part of FISIM is attributed to household loans with large interest margins - and household loans were rising over the last few years in many EU8 countries.
- Furthermore, to improve estimates of economic growth and international comparability of data, a new deflation methodology was introduced: price structures and weights should be updated every year instead of every five years. Globalization and high competition has led to more volatile relative prices and the associated volumes. Recently, dramatic changes in price structures were common for information, communication and technology (ICT) goods. Although there is no formal requirement for chain-linking quarterly data, most EU member states plan to introduce this by end-2006.

Table 1. Revision of national accounts (change of real GDP growth rate).

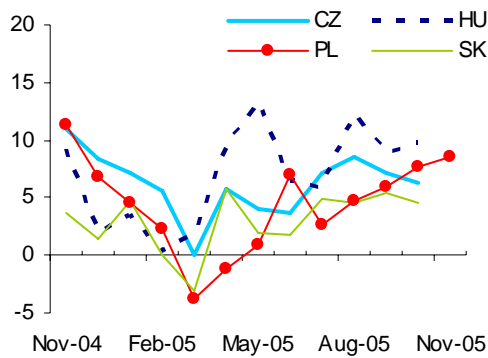
	Estonia			Hungary			Lithuania		
	Revised (A)	Before rev. (B)	(A) - (B)	Revised (A)	Before rev. (B)	(A) - (B)	Revised (A)	Before rev. (B)	(A) - (B)
1995	4.5	4.5	0.0						
1996	4.4	4.5	-0.1						
1997	11.1	10.5	+0.6						
1998	4.4	5.2	-0.8						
1999	0.3	-0.1	+0.4						
2000	7.9	7.8	+0.1						
2001	6.5	6.4	+0.1	4.3	3.8	+0.5	6.4	6.4	+0.1
2002	7.2	7.2	0.0	3.8	3.5	+0.3	6.8	6.8	0.0
2003	6.7	5.1	+1.6	3.4	2.9	+0.5	10.5	10.6	-0.1
2004	7.8	6.2	+1.6	4.6	4.2	+0.4	7.0	6.9	+0.1
	Poland			Slovenia					
	Revised (A)	Before rev. (B)	(A) - (B)	Revised (A)	Before rev. (B)	(A) - (B)			
1995					4.1				
1996	6.2	6.0	+0.2	3.7	3.6	+0.1			
1997	7.1	6.8	+0.3	4.8	4.8	0.0			
1998	5.0	4.8	+0.2	3.9	3.6	+0.3			
1999	4.5	4.1	+0.4	5.4	5.6	-0.2			
2000	4.2	4.0	+0.2	4.1	3.9	+0.2			
2001	1.1	1.0	+0.1	2.7	2.7	0.0			
2002	1.4	1.4	+0.0	3.5	3.3	+0.2			
2003	3.8	3.8	+0.0	2.7	2.5	+0.2			
2004	5.3	5.4	-0.1	4.2	4.6	-0.4			

Source: CSOs. and staff calculations.

* Eurostat, Changes to National Accounts in 2005. Status: 30.11.2005. <http://europa.eu.int/comm/eurostat/>

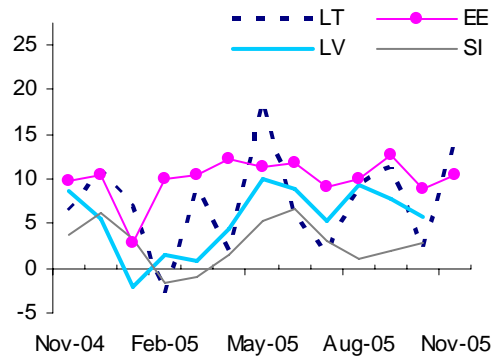
Strong industrial production data in recent months (notably in the Visegrad countries) (Chart 15 and Chart 16), brisk retail sales (especially in the Baltic countries) (Chart 17 and Chart 18), expected gradual recovery in Western Europe, and election-related fiscal stimuli in some countries point to continued buoyant output growth in the region in the period ahead.

Chart 15. Industrial production, % y/y



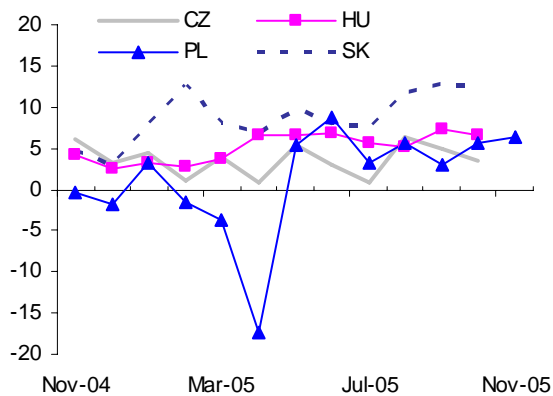
Source: CSOs.

Chart 16. Industrial production, % y/y



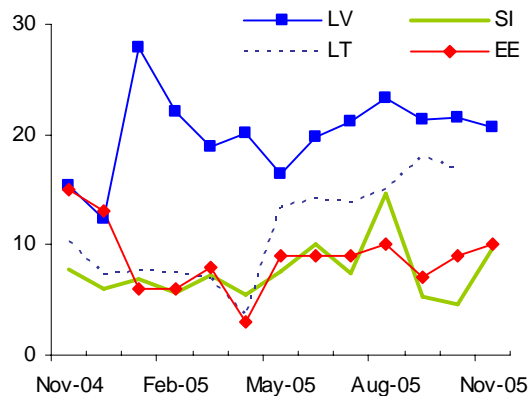
Source: CSOs.

Chart 17. Retail sales, % y/y



Source: CSOs.

Chart 18. Retail sales, % y/y

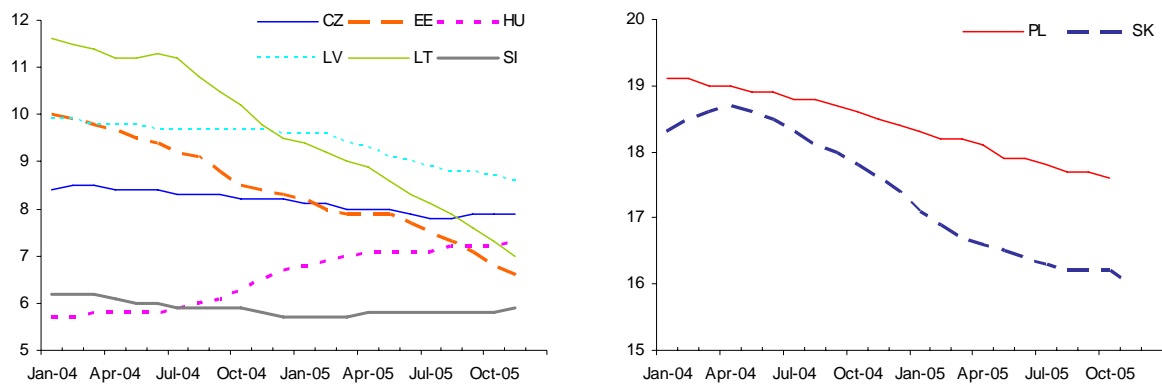


Source: CSOs.

Unemployment is easing slowly across most of the region in tandem with strong output growth. Unemployment is declining in all EU8 countries except Hungary (increasing), the Czech Republic, and Slovenia (both stable). In Poland and Slovakia, the two countries with the highest rates of unemployment, unemployment rates have declined to around 18 and 16%, respectively (Chart 19). In the Baltic States, unemployment is also coming down steadily and is now in the range of 7-9% (highest in Latvia and lowest in Estonia), partly affected by migration.⁵ Meanwhile, unemployment rates remain stable in Slovenia and the Czech Republic at 6% and 8.5%, respectively. In Hungary, the unemployment rate is climbing steadily and is now somewhere in between the two aforementioned countries. Slovakia and the Czech Republic have a large/rising share of long-term unemployed. In several countries, in particular the Baltic States and Slovakia, bottlenecks are emerging in certain areas and professions.

⁵ In Lithuania, migration is causing a shortage of blue collar workers in the expanding construction sector, and there is also a large outflow of health care specialists.

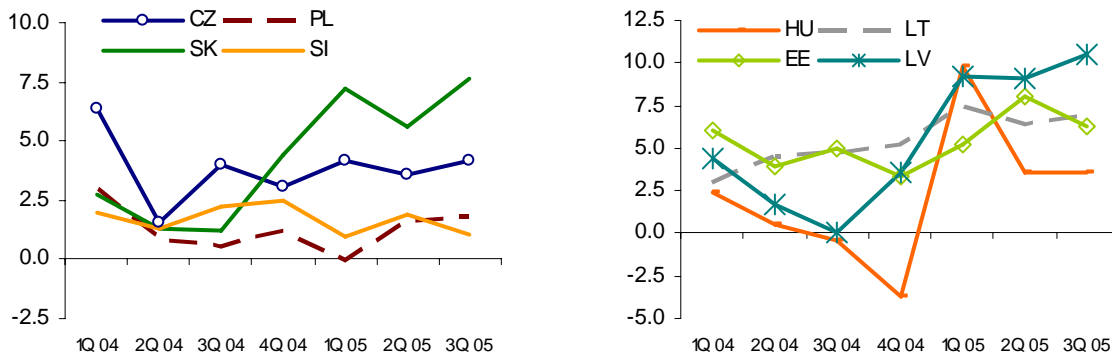
Chart 19. Harmonized unemployment rate, %, SA



Source: Eurostat.

These bottlenecks are putting upward pressure on wages in some countries. Real wage growth has reached around 7½% in the Baltic States and Slovakia (even above 10% in Latvia) (Chart 20). This reflects not only emerging shortages of qualified labor, but also large public sector wage increases in some countries (e.g. Lithuania) and spillovers from traded goods sectors, where productivity growth is likely to be running higher than in non-traded goods sectors (Balassa-Samuelson effect). Meanwhile, real wage growth remains very modest in Poland, Hungary, and Slovenia.

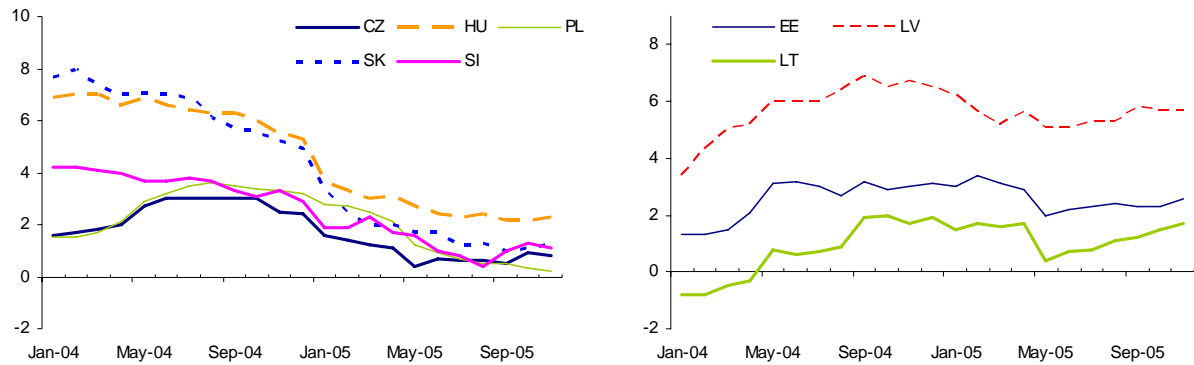
Chart 20. Real wage growth, % y/y



Source: CSOs; and staff calculations.

Core inflation remains low in the Visegrad countries but is high in Latvia and creeping up in other smaller EU8 countries. Core inflation remains low in the larger EU8 countries, not least Poland, subdued by strong competitive forces following EU accession. On the other hand, core inflation is close to 6% in Latvia and rising since May 2005 in the other Baltic States (Chart 21).

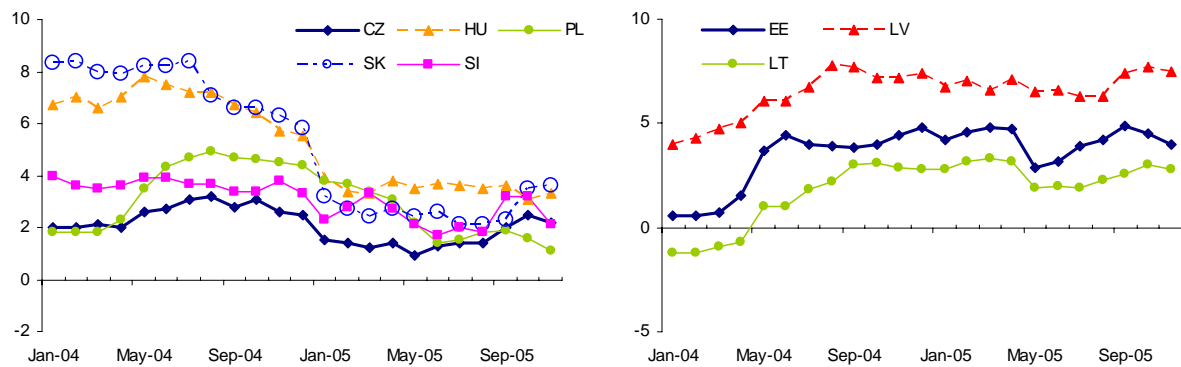
Chart 21. Core inflation, HICP - overall index excluding energy and unprocessed food, % y/y



Source: Eurostat.

This reflects a mix of rapid wage, credit and demand growth (notably in the Baltic States) and higher energy prices, including potentially second-round effects from higher CPI inflation in most countries (HICP is in the range of 2-4% in most EU8 countries, with Poland below and Latvia above this range) (Chart 22).

Chart 22. HICP, % y/y

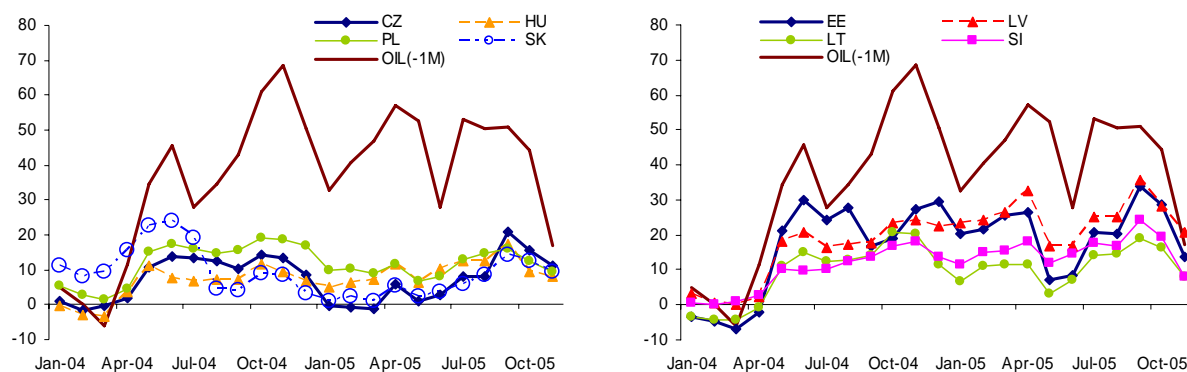


Source: Eurostat.

Higher CPI inflation reflects both the rise in energy prices and adjustment of regulated prices and indirect taxes (and in some countries, rapid food price increases), although the former have not been passed fully on to consumers and the latter in some cases have lagged general price increases (Chart 23 and Chart 24).⁶

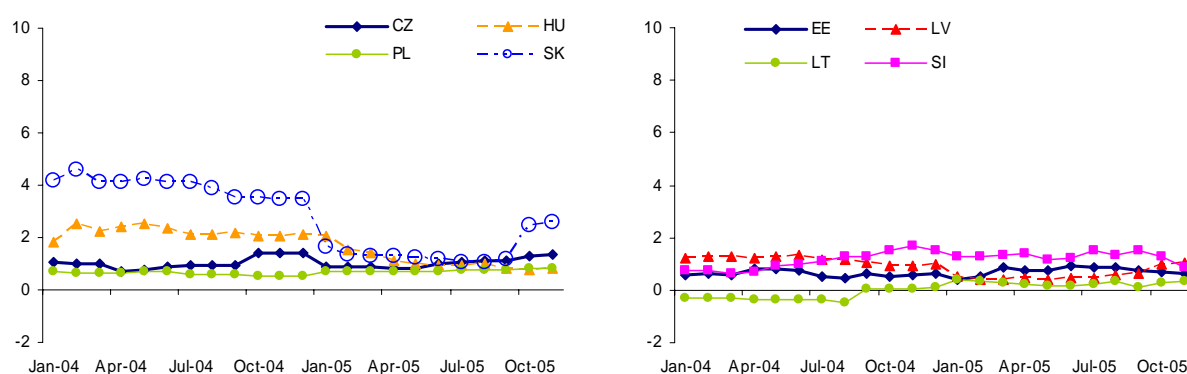
⁶ The share of energy and regulated prices in EU8 CPI baskets is relatively high (Table 2). The lack of full pass-through of global oil prices to domestic energy prices reflects both the existence of fixed-price term supply contracts for gas and the sizeable component of rigid indirect taxes.

Chart 23. Domestic prices of fuels in the EU8 and price of UK Brent oil in USD/BBL, % y/y



Source: Eurostat; IFS; Reuters; and staff calculations.

Chart 24. Regulated prices in the EU8, % y/y



Source: Eurostat; and staff calculations.

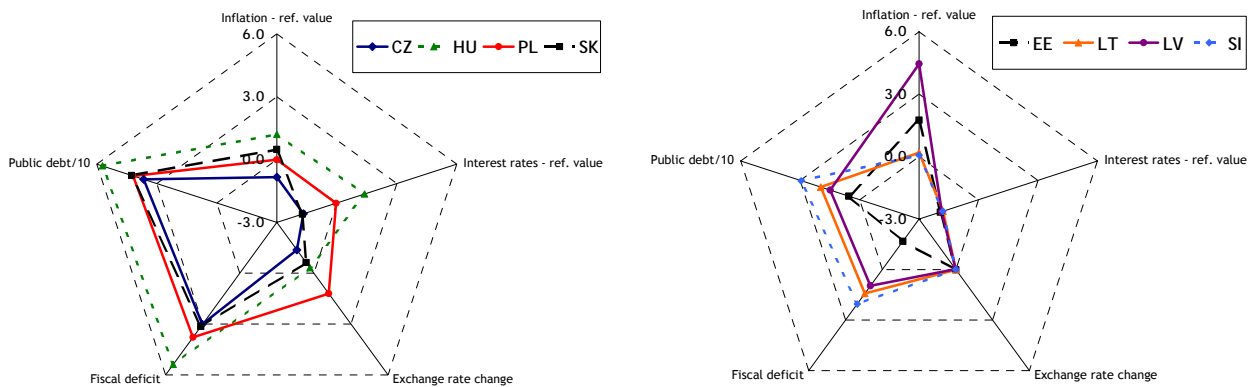
Table 2. HICP weight systems in the EU8 countries								
Total index = 1000	CZ	EE	HU	LT	LV	PL	SI	SK
HICP excluding energy and unprocessed food	784.3	769.1	794.9	747.8	756.6	746.4	800.1	746.7
Energy share in HICP basket	138.0	134.7	131.2	130.7	122.1	161.1	122.8	175.3
Fuels share in HICP basket	38.6	64.3	48.8	48.1	42.2	57.9	81.7	34.6
Unprocessed food in HICP basket	77.7	96.2	73.9	121.5	121.4	92.6	77.1	78.0
Regulated prices in HICP basket	250.5	178.0	200.6	171.3	205.9	206.0	166.9	258.2

Source: Eurostat.

These developments are complicating the ERM2 countries' euro adoption plans, with only Slovenia on track to join from January 2007 (Chart 25).⁷ The Czech National Bank raised interest rates by 25bp from a record low of 1.75% in October (still below the ECB rate), while other Visegrad countries have kept rates on hold in recent months.

⁷ The Slovak central bank in December increased its inflation target for end-2006 from 2.5 to 2.9-3.0%.

Chart 25. Maastricht indicators in the EU8, November 2005

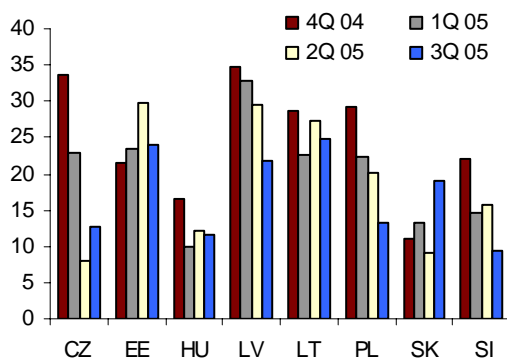


Notes: Inflation - ref. value: 12M HICP minus actual reference value of 2.5% in November 2005. Countries with deflation were not taken into account while calculating the reference value. Interest rates - ref. value: The average bond yield in the three best performing countries on inflation criterion, augmented by 2 percentage points. Exchange rate change - rate of change of monthly average euro exchange rate (minus denotes appreciation of the respective local currency). Fiscal deficit - general government deficit-to-GDP ratio in percent in 2004. Public debt/10 - general government sector debt-to-GDP ratio in 2004 in percent divided by 10. The smaller the pentagon the better the Maastricht criteria fulfillment.

Sources: Eurostat, CSOs; and staff calculations.

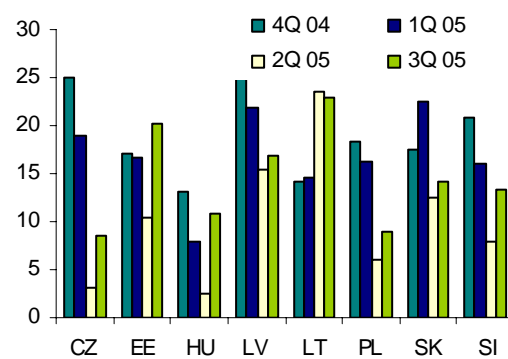
Foreign trade continues growing rapidly although with some deceleration in Poland, the Czech Republic, and Slovenia. Exports and imports in the Baltic States are expanding at a pace of 20-25% y/y, and trade is also very dynamic in Slovakia (Chart 26 - Chart 29).

Chart 26. Export of goods, EUR, % y/y



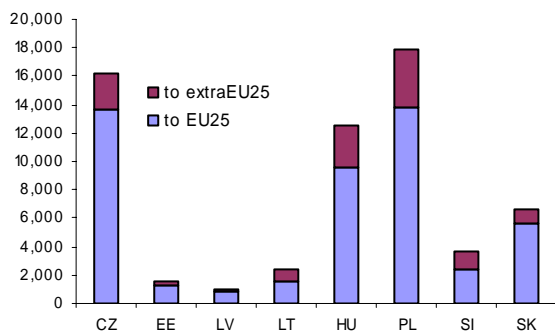
Source: Eurostat.

Chart 27. Import of goods, EUR, % y/y



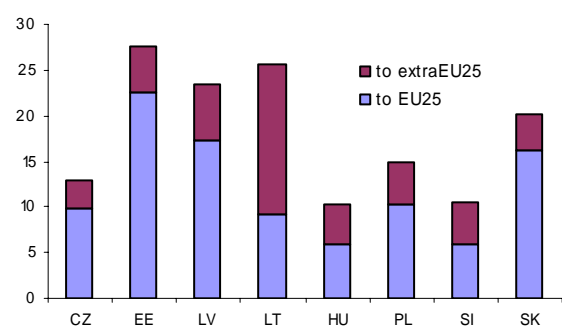
Source: Eurostat.

Chart 28. Exports in Q3-2005, EURm, sa



Source: Eurostat. Seasonally and working day adjusted trade value.

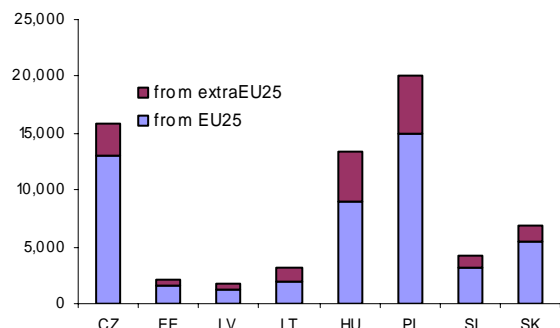
Chart 29. Export growth in Q3-2005, ppt sa/y



Source: Eurostat. Seasonally and working day adjusted trade value.

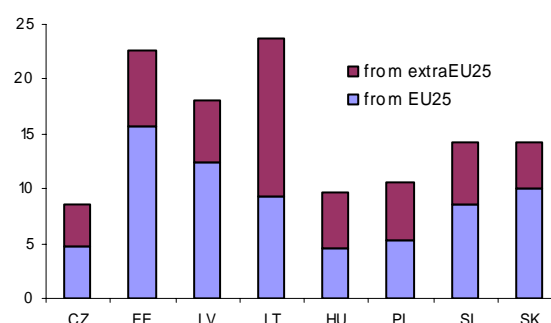
In most EU8 countries, trade with the rest of the EU is the most buoyant, although patterns are more diversified in especially Lithuania (not least energy transit) and to some degree Hungary and Poland (Chart 30 - Chart 31). The fastest growing imports and exports in most countries are intermediate goods.

Chart 30. Imports in Q3-2005, EURm, sa



Source: Eurostat. Seasonally and working day adjusted trade value.

Chart 31. Imports growth in Q3-2005, ppt, sa y/y



Source: Eurostat. Seasonally and working day adjusted trade value.

Current account positions remain broadly unchanged. Current account deficits remain above 11% of GDP in Estonia and Latvia, relatively high in Hungary (about 8% of GDP), more moderate in Lithuania and Slovakia (around 6% of GDP) and small in Slovenia, Poland and the Czech Republic. The composition of current account deficits differ significantly: the countries with small deficits have trade surpluses but sizeable factor income deficits (Hungary also has a high factor income deficit), while Lithuania and Latvia have mostly trade deficits and Slovakia and Estonia both trade and factor income deficits (Table 3). High factor income deficits are typical for countries that have been successful in attracting foreign direct investment in previous years.

Table 3. Selected external indicators, 4 quarter moving average, % of GDP

	Current account deficit				FDI net				FDI gross				Portfolio investment net			
	4Q 04	1Q 05	2Q 05	3Q 05	4Q 04	1Q 05	2Q 05	3Q 05	4Q 04	1Q 05	2Q 05	3Q 05	4Q 04	1Q 05	2Q 05	3Q 05
Czech Republic	-5.2	-3.9	-3.7	-2.8	3.6	3.8	7.5	7.8	4.1	4.2	8.0	8.6	2.2	0.6	-0.8	-1.9
Estonia	-12.7	-12.6	-11.2	-11.4	6.9	14.2	22.0	21.6	9.3	16.6	25.4	25.3	6.5	3.1	-14.4	-15.7
Hungary	-8.8	-8.8	-8.2	-7.9	3.5	3.6	3.7	2.8	4.6	4.7	5.4	4.3	6.8	7.8	7.6	6.6
Latvia	-12.9	-13.1	-11.2	-11.0	4.3	4.8	3.9	3.9	5.1	5.5	4.6	4.8	1.7	0.6	-0.2	-1.0
Lithuania	-7.7	-7.2	-6.5	-6.7	2.3	2.1	1.0	1.2	3.4	3.1	2.1	2.4	0.9	0.6	0.3	-0.5
Poland	-4.2	-3.4	-2.1	-1.5	4.6	3.9	3.0	3.3	4.9	4.3	3.5	3.8	3.8	4.1	5.4	5.0
Slovakia	-3.5	-4.3	-5.8	-5.6	3.4	2.6	3.3	3.8	3.1	2.2	3.7	4.0	2.2	2.5	-1.3	-1.2
Slovenia	-2.1	-1.9	-1.1	-0.7	0.8	-0.1	-0.2	-0.2	2.5	1.5	1.4	1.8	-2.2	-2.8	-2.9	-2.9

Notes: FDI net - difference between inward (FDI gross) and outward FDI flows. Net flows may exceed gross flows owing to differences in repatriated capital. The large negative portfolio flows in Estonia in Q2-Q3 2005 are related to transactions in Hansabank shares in Q2 (offset by inflow of FDI).

Source: NCBs; and staff calculations.

Overall balance of payments have remained healthy with relatively stable exchange rates in the region. Net portfolio inflows have generally weakened and turned negative over the past year (except Poland and Hungary where interest rate differentials are still significant). Meanwhile, net FDI inflows have strengthened in some countries (notably Estonia and the Czech Republic) and weakened in other countries (notably Poland and Lithuania).

Fiscal policies are generally disappointing with little or no improvement (or in some cases even worsening) in underlying positions likely in 2005-06 and most of the needed adjustment in the Visegrad countries pushed to 2007 or beyond (Table 4). While fiscal outcomes in 2005 seem better than envisaged in the Visegrad countries (excluding Hungary), this reflected mainly buoyant revenues, low absorption of EU funds, and carry-over of unspent funds to 2006 (Czech Republic and

Slovakia).^{8 9} Further, uncertainty remains regarding the performance of the non-central general government. In the Baltic countries, supplementary budgets eroded most of the revenue over-performance and fiscal policies were expansionary complicating further inflation control.

Table 4. General government revenues and expenditures, % of GDP, ESA95

	2004	2005	2006	2007	2008
Revenues					
Czech Republic	41.6	41.1	40.2	39.8	40.9
Estonia	38.1	41.1	41.8	39.0	37.2
Hungary	43.3	43.8	41.1	41.1	40.2
Latvia	35.2	35.3	36.1	37.4	37.4
Lithuania	31.5	33.0	33.4	32.5	32.2
Poland	37.4	40.2	40.1	39.6	38.7
Slovakia	35.7	36.2	35.6	35.8	35.0
Slovenia	45.2	44.9	44.4	44.0	43.1
Expenditures					
Czech Republic ¹	44.7	43.9	44.0	43.1	43.6
Estonia	36.4	40.9	41.7	39.0	37.2
Hungary	49.8	51.2	47.2	45.8	43.6
Latvia	36.2	36.8	37.5	38.8	38.7
Lithuania	33.2	35.1	35.2	34.6	34.0
Poland	43.0	44.9	44.7	43.7	42.4
Slovakia	38.9	41.1	39.8	38.8	37.7
Slovenia	47.2	46.7	46.1	45.4	44.2
GG balance (incl. cost of pension reform)*					
Czech Republic	-3.0	-2.8	-3.8	-3.3	-2.7
Estonia	1.7	0.2	0.1	0.0	0.0
Hungary*	-6.5	-7.4	-6.1	-4.7	-3.4
Latvia	-1.0	-1.5	-1.4	-1.4	-1.3
Lithuania*	-1.7	-2.1	-1.8	-2.1	-1.8
Poland*	-5.6	-4.7	-4.6	-4.1	-3.7
Slovakia*	-3.2	-4.1	-4.2	-3.0	-2.7
Slovenia	-2.0	-1.8	-1.7	-1.4	-1.1
<i>Memo: Cost of pension reform</i>					
Hungary	1.1	1.3	1.4	1.4	1.5
Lithuania	0.3	0.5	0.4	0.8	0.8
Poland	1.8	1.8	2.0	1.9	1.8
Slovakia	0.0	0.8	1.3	1.4	1.4
BALANCE - with allowed exclusion of pension reform cost (revised SGP)					
Hungary	-5.4	-6.1	-5.0	-3.9	-2.8
Poland	-3.8	-2.9	-3.0	-3.0	-3.0
Slovakia	-3.2	-3.3	-3.2	-2.2	-2.1

¹ for Czech Republic expenditure side was estimated

Note: Eurostat allows countries to exclude the cost of pension reform (consolidate open pension funds into central government) until 2007. The new government in Slovenia reduced the fiscal deficit target to 1.4% of GDP in 2006 and 1.2% of GDP in 2007.

Source: Convergence Programs December 2005 - January 2006.

- In Poland, the latest estimates show a reduction in the general government (GG) deficit by almost 1 pp of GDP to 4.7% of GDP in 2005 reflecting buoyant revenues.¹⁰ The budget for 2006 prepared by the new government in November (with minor adjustments to the

⁸ Slow disbursement of EU funds (and associated domestic co-financing) reflected limited absorption capacity in most EU8 countries. Latvia was most successful in absorbing EU funds while the Czech Republic and Poland were very slow (Box 2).

⁹ Carry-overs are appropriated but unspent funds by budget chapters, which may be carried over to the following year (allowed especially under multi-annual budgeting). Transfer of unspent funds into reserves are not recorded as expenditure under ESA95 (and drawings on reserves not counted as revenues).

¹⁰ Unless otherwise noted, the general government figures reported here are based on ESA95 and the countries' latest Convergence Programs from December 2006-January 2006, adjusted to include the costs of pension reform (Eurostat allows countries to report data excluding the cost of pension reform until 2007).

outgoing government's budget plans) and approved by the Sejm on January 24 targets a state budget deficit of PLN 30.5 billion (3.0% of GDP) and a broadly unchanged (from 2005) GG deficit.¹¹

- In Hungary, the GG deficit in 2005 increased by about 1 pp of GDP to 7.4% of GDP, more than 2 pp of GDP higher than planned owing to expenditures overruns (on pensions and pharmaceuticals) and the EU's rejection of plans to shift the costs of motorway construction off budget. Budget plans for 2006 call for a reduction in the GG deficit to 6.1% of GDP despite nearly 3 pp of GDP lower revenues reflecting i.a. lowering of the top VAT rate from 25% to 20% and of the corporate income tax rate from 18% to 16%. Meanwhile, family allowances and housing subsidies for new homebuyers will be increased. Measures on the expenditure side are questionable: they include shifting again the cost of motorway construction off-budget (about 1% of GDP), freezing the government wage bill, cutting pharmaceutical and other subsidies (no clear plan for how to achieve this), and across-the-board nominal reductions in allocations for ministries and other budgetary institutions (which may lead to arrears). Further, the cost of leasing military planes (0.3% of GDP) has been excluded. While the government has again included a reserve and imposed an obligation on budgetary institutions to retain carried-over unspent appropriations, fiscal targets remain optimistic. Additional election-related spending and higher interest costs are further risks to the budget in 2006.
- In the Czech Republic, fiscal performance in 2005 was better than expected with a further slight reduction in the GG deficit to below 3% of GDP on the back of strong revenues (corporate income taxes and excises) and containment of spending. Nevertheless, the deficit is expected to rise by 1 pp of GDP in 2006, breaching the legally binding nominal expenditure ceiling in the medium-term expenditure framework.¹² This reflects mainly a reduction in the corporate tax rate and the lowest personal income tax rate but also higher spending on social benefits (higher indexation of pensions, higher social benefits related to increase in the minimum subsistence level, and higher family and housing benefits).
- In Slovakia, the underlying fiscal position remain broadly unchanged in 2005 with the increase in the GG deficit to just over 4% of GDP caused by the introduction of the funded pension pillar. This also reflected very strong revenues, while spending increased considerably. The budget for 2006 (approved by parliament on December 13) envisages only a small further improvement, with the deficit remaining above the critical Maastricht level, and most the required adjustment pushed back to 2007. While education and environment will receive additional resources, the share of spending in GDP will resume its downward path in 2006.
- In Slovenia, the path of slow but gradual fiscal adjustment continues, with the GG deficit declining to about 1.8% of GDP in 2005 and the budget for 2006-07 (approved in parliament on December 12) targeting a further reduction in the deficit to 1.4 % of GDP in 2006 and 1.2% of GDP in 2007. The budget includes gradual phasing out of the special payroll tax, which accounts for some 8% of budget revenues (by 20% in 2006, 20% in 2007, 30% in 2008 and 30% in 2009). Meanwhile, resources for education and farmers are raised (the latter to 95% of the CAP level).
- In Lithuania, the fiscal deficit increased slightly in 2005 to around 2% of GDP. Fiscal plans for the following years aim at maintaining the deficit at this level. The 2006 budget was accompanied by an investment plan for 2006-2008 that sees capital spending declining from 3.4% of GDP in 2006 to 2.9% of GDP in 2007-08. In Estonia, fiscal policy eased considerably

¹¹ The major changes from the budget plans of the Belka government include no increase in excise taxes on gas (fuels), higher fuel cost compensation for farmers, and additional family benefits (offset by more optimistic revenue forecasts and higher assumed profits from the NBP). Further, the new government has withdrawn a bill extending special pension privileges for miners that the previous government had sent to the Constitutional Court (this will cost about 0.4% of GDP in 2007-08 and affect the longer-term sustainability of the pension system).

¹² Unspent funds of about 0.8% of GDP were carried over from 2005 to 2006. To the extent recent practice is continued and new funds rolled over to 2007, the deficit will be smaller (while spending of funds carried over to 2006 would raise the deficit).

in 2005 through a surge in spending (including on social protection), and the GG surplus was reduced to near-balance where it is expected to remain in the coming years. The 2006 budget includes a further cut in the personal income tax rate cut from 24% to 23% and an increase in the non-taxable minimum income level. In Latvia, the fiscal position also weakened in 2005, and plans call for keeping the GG deficit around 1½ percent of GDP.\

Box 2. Absorption of EU Funds*

EU funds can be an important tool to help accelerate the catching up of NMS. However, there is a difference between funds allocated in the EU budget and their actual absorption which depends on the absorption capacity of each member state. The experience of the EU8 over the first half of the budgetary period 2004-06 indicates much room for improvement in the absorption of EU assistance.

While assessing the flow and absorption of EU funds it is essential to differentiate between:

- Total allocation of structural funds (Table 5) provides a ceiling of available funds - to be applied for and contracted in the budgetary period;
- Total payments to be transferred by the EC that reflect the planned flow of funds from the EC, which is - because of delays in execution and accounting - lower than the total allocation. In 2004-06, EU8 countries are scheduled to receive total payments equal to 51% of the total allocation of structural funds and 23-25% from cohesion fund allocations.

Table 5. Structural funds in EU8 countries: Copenhagen package, 2004-2006, mEUR, current prices

	CZ	EE	HU	LV	LT	PL	SK	SI
Total Allocations (Appropriations for commitments)								
Structural Funds	1,685.1	386.0	2,094.7	648.9	929.5	8,631.1	1,186.9	267.6
Cohesion Fund	945.3	312.1	1123.7	520.3	614.1	4,219.8	576.1	190.6
Total Payments (Appropriations for payments)								
Structural Funds	859.4	196.9	1,068.3	330.9	474.1	4,401.9	605.3	136.5
Cohesion Fund	217.3	71.8	258.4	129.6	143.5	970.2	132.4	43.8

Source: EC; and staff calculations.

One needs to make a clear distinction between two dimensions of absorption:

- applications filed and contracts signed;
- transfer of funds (i) from the EC to program accounts, and (ii) then transfer from program accounts to final beneficiaries.

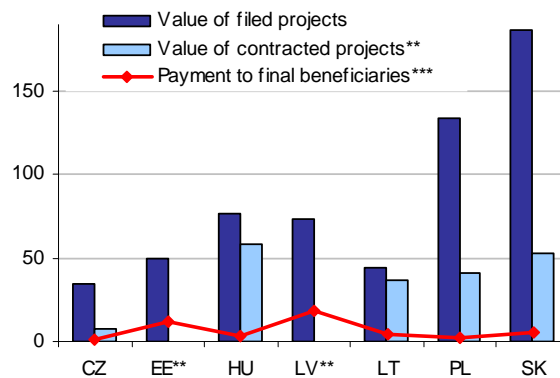
The process of contracting EU financial support is not well advanced in the EU8.

In the majority of EU8 countries, there is a large disparity between the value of applications submitted, contracts signed and transfer of funds to final beneficiaries (Chart 32). In the first 17 months of EU membership (first half of budgetary period 2004-2006 for EU8 countries), most of the EU8 countries applied for over 50% of available public financing (in Poland and Slovakia applications exceeded available funds). However, the value of projects approved and contracted is in most cases much lower - only in Hungary and Slovakia did it exceed 50% of available public financing.

Further, low ratios of contracting to applications (except Hungary and Slovakia) suggests poor efficiency in the process. This may reflect both that many projects are rejected and that it takes too long to evaluate them.

Moreover, transfer of funds to final beneficiaries was low in all countries except Latvia and Estonia.

Chart 32. Absorption of EU structural funds (excl. cohesion fund) - contracts filed and signed as of end-September 2005, % of total public cost (2004-2006)*



* Total public cost (2004-2006)= total EU assistance + total central government participation; implied rate of central government co-financing ranged between 14 and 24%

** Data on contracted projects are not available for Estonia and Latvia; for Estonia due to lack of data Payment to final beneficiaries includes payment based on invoices or other documents of equivalent value and advanced payment for beneficiaries.

*** Verified Public Expenditure - expenditure by final beneficiaries verified by the Managing Authority or Intermediary Body and based on real expenditure supported by invoices or documents of equivalent probative value

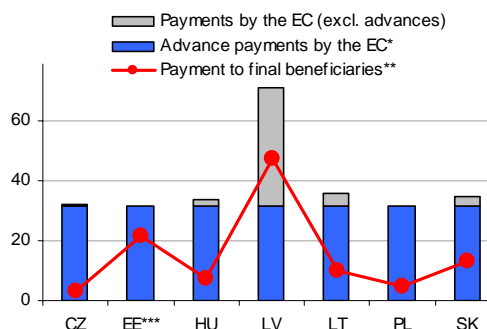
Sources: National Development Office in Hungary; and staff calculations.

Even more alarming is the slow flow of funds from the EC to program accounts and from these to final beneficiaries. Excluding advance payments from the EC (31% of total payment appropriations), only Latvia managed to secure any significant disbursement of EU funds (reimbursement of incurred spending).

Furthermore, as suggested in Chart 33, most EU8 countries were slow in passing on EC disbursements to final beneficiaries. Only Latvia managed to transfer to final beneficiaries all advance payments and a substantial part of reimbursements (50% of total allocation). In contrast, the Czech Republic, Poland, and Hungary were very slow in passing on funds (5% of total allocation).

Further investigation would be needed to find out the reasons behind the slow rate of disbursement by the EC to countries and by these to final beneficiaries (this may reflect both slow implementation and slow payment procedures).

Chart 33. Absorption of EU structural funds (excl. cohesion fund) - flow of funds from the EC and transfers to final beneficiaries, end-September 2005, % of total payment appropriations (2004-2006)



* Countries joining the EU in 2004 received advance payments amounting to 16% of the total allocation of structural funds for 2004-06; 10% of funds was transferred in 2004 and 6% in 2005.

** Verified Public Expenditure - expenditure by final beneficiaries verified by the Managing Authority or Intermediary Body and based on real expenditure supported by invoices or documents of equivalent probative value.

*** for Estonia due to lack of data Payment to final beneficiaries includes payment based on invoices or other documents of equivalent value and advanced payment for beneficiaries.

Sources: National Development Office in Hungary; and staff calculations.

* The analysis of absorption does not include cohesion and rural development funds due to lack of data.

Euro adoption prospects remain mostly uncertain. Of the current ERM2 countries, only Slovenia appears to be on track for euro adoption on January 1, 2007, while both Estonia and Lithuania—with the same target date—are having problems containing inflation as required (although mostly for reasons outside of their control). Latvia is having even greater difficulties and its one year later target date also looks problematic. Fiscal concerns remain paramount in the Visegrad countries at this time: Slovakia looks set to reduce its fiscal deficit as needed in 2007, but inflation pressures may be accumulating. The Czech Republic plans to follow one year after (and join the ERM2 in H2-2007), but fundamental spending reforms (notably pension and health reforms) remain outstanding. Hungary's 2010 euro adoption target looks particularly optimistic in view of the past track record and the magnitude of the needed adjustment, and the EU has called for a more credible strategy by September. Finally, Poland does not want to target any specific year for euro adoption although it appears now to meet all the required conditions (apart from the exchange rate criterion), including the fiscal deficit criterion (reflecting the temporarily allowed deduction of pension reform costs).

In the meantime, EU8 countries remain vulnerable to changes in market sentiment. External imbalances, with large current account deficits, increasing external debt, and low international liquidity are the main concern in Estonia, Latvia, and Hungary (except the latter factor), and rapid credit growth (most of which in foreign currency) a concern for banking systems in all the Baltic countries (Table 6). Fiscal policy is also a major concern in Hungary and to some degree in the other Visegrad countries. On the other hand, banking systems are well-capitalized and non-performing loans currently limited.

Table 6. Selected vulnerability indicators in the EU8 in Q3-2005

	CZ	EE	HU	LT	LV	PL	SI	SK
GDP growth, SNA (real, %, yoy)	4.9	10.8	4.5	7.6	11.4	3.7	3.7	6.2
Current account balance, (4Q cumulative, % of GDP)	-2.8	-11.4	-7.9	-6.7	-11.0	-1.5	-0.7	-5.6
FDI (4Q cumulative, % of GDP)	7.8	21.6	2.8	1.2	3.9	3.3	-0.2	3.8
Total gross external debt (eop, % of GDP)	38.7	89.0	74.4	47.7	97.4	43.3	67.7	60.8
Change of international reserves in euro (eop, relative to previous period,	-0.1	0.3	2.7	7.5	11.0	0.0	1.9	2.0
Reserves-to-short-term debt ratio (eop, %)	224.0	45.2	151.7	84.9	33.5	173.0	196.4	132.8
Money Supply-to-Reserves ratio (eop, %)	226.8	196.9	295.1	241.7	250.7	299.8	209.6	175.9
Overall balance of central budget ESA95/GFS* (4Q cumulative, % of GDP)	-1.2	1.4	-3.0	-2.2	-1.9	-3.2	-1.9	-3.5
Credit to private sector (eop, % of GDP)	36.8	72.5	49.5	35.3	63.6	29.1	53.8	35.1
Growth rate of credit to the private sector (avg, %)	17.5	35.6	15.6	44.3	55.9	6.4	23.6	19.7
Foreign currency loans to the private sector (eop, % of loans to priv. sect.)	10.8	76.1	44.1	62.0	67.9	25.1	27.5	21.4
Non-performing loans at the end of 2004 (eop, % of total loans)	4.1	0.3	3.7	2.4	1.1	14.2	7.5	7.2
Short-term (3M) interest rates spreads to euro area (avg, basis points)	-34.0	19.7	403.7	19.3	63.3	249.0	190.0	79.0
Change of stock exchange index (avg, relative to previous period, %)	12.9	2.7	22.6	12.9	10.9	15.5	-3.0	5.4
Long term foreign currency sovereign credit rating according to S&P's	A-(↔)(S)	A-(↔)(P↑)	A-(↔)(S)	A-(↔)(P)	A-(↔)(S)	BBB+(↔)(P)	AA-(↔)(S)	A-(↔)(P)

Notes: Central budget balance figures for HU, CZ, PL and SK are in line with national methodologies on cash basis and refer to 3rd quarter 2005. For other countries it is in line with ESA95 and refers to 2004. The symbols in the line with S&P ratings denote the outlook (S=stable; P=positive; N=negative).

Structural Reforms

Structural reforms in Central Europe were focused on continued privatization, while tax and social spending issues dominated in the Baltic countries. Meanwhile, the business environment seemed to deteriorate in several EU8 countries. In Poland discussions centered on a row with the EC over the pending merger of two of its largest private banks (Pekao and BPH) following Italian Unicredito's (owner of PEKAO) acquisition of German HVB (owner of BPH).

Privatization of utilities and some large companies continues in Slovakia, Czech Republic, Hungary and Slovenia.

- In Slovakia, the final transfer of the 66% stake in the Slovenske Elektrarne (SE, electricity generating company) to Italian Enel is delayed from end-December 2005 to April 2006. On November 30, the privatization of a 51% stake in energy distributor ZSE was approved: 41% will go to German E.ON Energie, which already owns a 49% stake in ZSE, and remaining 10% will be sold on the capital market. The tender for the sale of 51% packages of six Slovak heating companies started in December and should be finished by April 2006. Privatization of Slovak Railway Cargo and three international airports is under way. The government will only consider new privatization proposals until end-March.
- In Hungary, Ferihegy Airport operator Budapest Airport was sold in December. In the same month, the government signed an option contract allowing Hungarian oil and gas company MOL Rt to purchase most of the state's remaining stake in the company over the next 12 months.
- The Slovenian government wants to privatize all of its minority stakes (below 50%) in Slovenian companies by end-2007. The recently approved privatization plan for the Slovenian Steel Group envisages the sale of a 55% share block to a strategic investor in 2006 or 2007. The government is hiring expert groups to consider and prepare plans for privatizing companies where it holds majority stakes. However, although the expert proposals have been developed for several companies already - Nova Ljubljanska banka, Nova Kreditna banka Maribor, and Telekom Slovenije - no detailed privatization plans are yet available.

PSA Peugeot Citroën plans to increase its investments in Slovakia by EUR 357m (Sk 13.5bn) from the initially planned EUR 700m. The annual car production at its Trnava plant should increase from the originally planned 300,000 to 450,000 from 2009 resulting in 1,800 new direct jobs (3,500 initially) and another 9,000 or so indirect jobs in supplier firms. PSA would thus become the biggest car

producer in Slovakia (with South Korean KIA and German Volkswagen producing each 300,000 cars per year in the coming years).

Several countries are focused on discussions of further tax reforms. In Poland, the new government wants to reduce and possibly unify income tax rates, but has indicated that this could happen no earlier than 2007. In Slovenia, the government's plan to introduce a flat-tax in 2007 has met strong resistance from trade unions. Estonia is gradually lowering its PIT rate to 20% by 2009 (1 pp each year) and there are talks of further reductions in subsequent years.

In the area of social insurance, the Estonian government has announced plans to cut unemployment insurance contributions by about 50%, possibly through lowering contributions from 0.5% to 0.3% for employers and from 1% to 0.6% for employees. In Slovakia, unemployment benefits were raised substantially from January 2006. Healthcare fees will also be raised as these are now linked to the minimum wage (fees were introduced in 2004 to contain excess demand).

Meanwhile, the overall business environment appears to be deteriorating in some countries. According to BEEPS 2005, enterprises in the Czech Republic and Hungary considered their business environment to be deteriorating, while those in Slovakia, Poland and Estonia had become more satisfied. The opinion of enterprises was mainly affected (whether in a positive or negative way) by changes in the tax administration, labor regulations, macroeconomic stability (Hungary) and the cost of financing (Box 3).

Box 3. Business Environment and Enterprise Performance Survey 2005 (BEEPS).

In 2005, the EBRD - in collaboration with the World Bank - conducted the third Business Environment and Enterprise Performance Survey (BEEPS). It covered more than 9,500 enterprises from 26 transition countries (from Europe and Central Asia). The BEEPS reflects the perceptions of enterprises about seven broad business environment areas: institutions and property rights, business regulation, taxation, infrastructure, labor, finance and macroeconomic environment (for more information across sectors in Poland - see the Special Topic).

According to BEEPS, the main problems in 2005 included uncertain regulatory policies, violations of contracts, anti-competitive practices (Chart 34), taxes and in some countries macroeconomic stability and labor regulations (Chart 35). Although perceptions about corruption vary across the countries, the motivations are similar: corruption helps to obtain government contracts (Chart 36). The perception of corruption is low in Estonia, Slovakia and Slovenia, but relatively high in e.g. Lithuania.

Surveys of the business environment suggests considerable divergence in recent years in the EU8. Enterprises in the Czech Republic and Hungary believed that their domestic business environment had deteriorated since 2002, those in especially Slovakia but also Poland and Estonia believed that it had improved, while those in other EU8 countries had mixed views (Table 7). In the Czech Republic, the worsening of perceptions related mainly to tax administration, skills and labor regulations, institutions and property rights, and infrastructure. In Hungary, the main increase in problems related to macroeconomic stability and taxes. It is also worth noting that the perception of labor market problems increased in Lithuania and to a lesser extent the other Baltic States. Finally, tax concerns increased in Slovenia.

Table 7. Obstacles to doing business (change between 2005 and 2002).

	CZ	EE	HU	LV	LT	PL	SV	SI
Business regulation	8%	-6%	6%	-5%	4%	-7%	-16%	1%
Institutions and property rights	16%	-2%	1%	-4%	-5%	-9%	-19%	-2%
Macroeconomic instability	5%	-23%	14%	8%	-18%	-18%	-44%	-9%
Taxation	26%	-20%	14%	-7%	-10%	-5%	-26%	17%
Infrastructure	14%	-4%	2%	2%	2%	-3%	-8%	2%
Skills and labor regulations	17%	2%	3%	5%	15%	-4%	-12%	7%
Access and cost of financing	7%	-9%	11%	-8%	-2%	-5%	-29%	-2%

Note: Positive values indicate deterioration (lower percentage of firms seeing particular regulations an obstacle to doing business), while negative values indicate improvement.

Source: BEEPS 2005.

Chart 34. Obstacles to doing business - Institutions and property rights; and business regulations, 2005 (%)

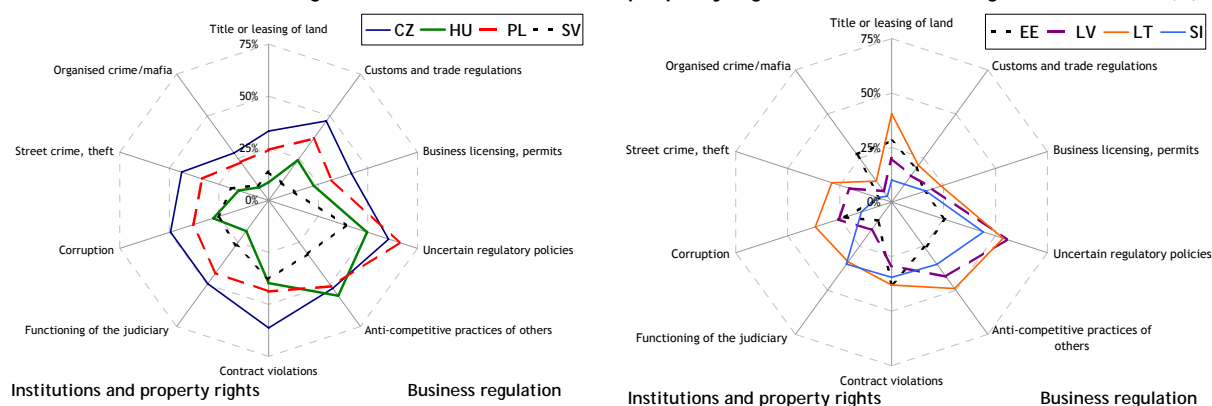
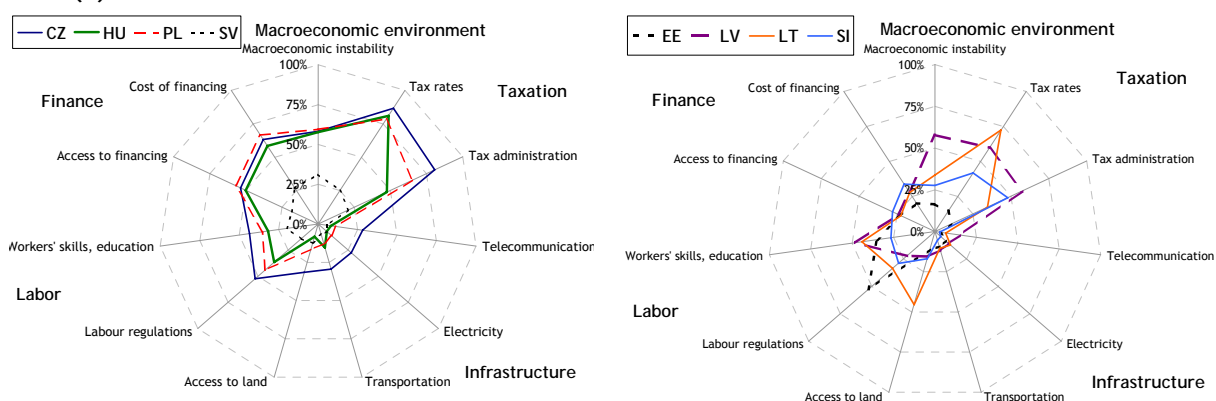


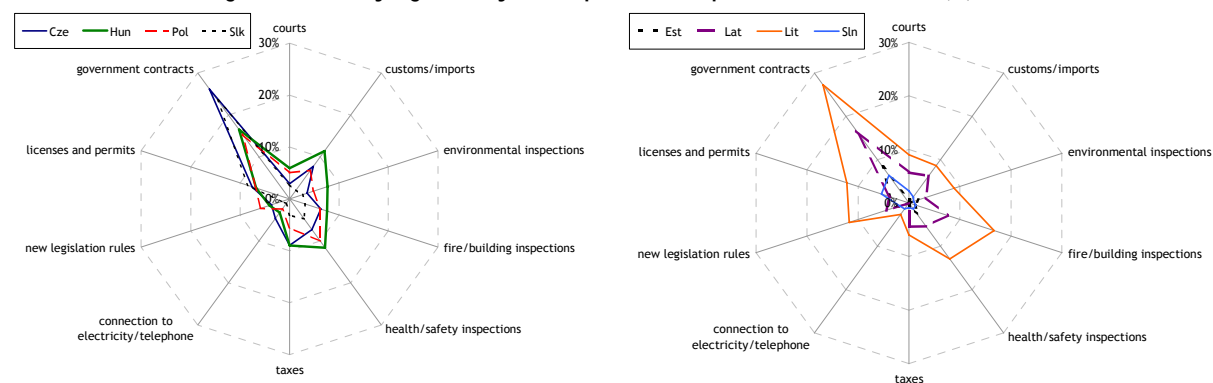
Chart 35. Obstacles to doing business - finance; macroeconomic stability; taxes; infrastructure; and labor, 2005 (%)



Note: the diamond charts show the percentage of firms seeing a particular area an obstacle to doing business. The smaller the diamond is, the fewer obstacles were identified in the respective countries.

Source: BEEPS 2005.

Chart 36. Percentage of firms saying bribery is frequent in respective areas, 2005 (%)



Note: the smaller is the diamond, the lower is the percentage of firms saying bribery is frequent.

Source: BEEPS 2005.

World Bank Activities

Poland:

- On January 24, 2006 the World Bank approved a new loan for EUR 72.2 million to support rural programs in the initial period following EU accession. The focus is on improving social cohesion in small rural low-income gminas by enhancing their capacity to identify, plan, and execute social inclusion strategies, and to strengthen the administrative and analytic capacity of the Agricultural Social Insurance Fund (KRUS) during its reform process. The project will be implemented by the Ministry of Labor and Social Policy and by KRUS.
- Preparation of the Odra River Basin Flood Protection Project was completed in November 2005 with project approval expected before June 2006. This is a EUR 500 million project which aims to eliminate the risk of flooding for a population of more than 2.5 million people living in towns and rural settlements in three provinces in the Lower Silesia region through the construction of a dry polder in Racibórz, improvement of the Wroclaw Water Way as well as institutional capacity strengthening. Financing is expected to come from the government budget, EU Cohesion funds, the Council of Europe Development Bank, and the World Bank.
- Three reports were completed during the period October 2005 - January 2006, and their findings discussed with relevant government officials and other stakeholders (ROSC Update of the Accounting and Auditing module; ROSC Update of the Corporate Governance module; and PPPs for Roads).

STATISTICAL ANNEX

	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05	Aug-05	Sep-05	Oct-05	Nov-05
GDP, SNA (real, %, y/y)												
Czech Republic	2.6	1.5	3.2	4.7	5.0	5.0	5.2	4.9				
Estonia	6.5	7.2	6.7	7.8	6.6	7.2	9.9	10.6				
Hungary	4.3	3.8	3.4	4.6	4.5	3.2	4.5	4.5				
Latvia	8.0	6.4	7.5	8.3	8.4	7.3	11.4	11.4				
Lithuania	6.4	6.8	10.5	7.0	7.2	4.4	8.4	7.6				
Poland	1.1	1.4	3.8	5.3	3.9	2.1	2.8	3.7				
Slovakia	3.8	4.6	4.5	5.5	5.8	5.1	5.1	6.2				
Slovenia	2.7	3.5	2.7	4.2	3.8	2.7	5.5	3.7				
Consumption, SNA (real, %, y/y)												
Czech Republic	3.0	3.3	4.4	1.5	0.7	1.2	2.2	3.8				
Estonia	5.2	9.5	7.2	5.0	6.0	6.3	6.6	8.3				
Hungary	5.2	9.3	7.8	2.8	1.1	1.4	2.0	1.9				
Latvia	6.2	6.1	6.7	7.7	8.3	7.0						
Lithuania	2.9	4.9	10.5	9.2	7.4	4.6	8.9	11.1				
Poland	2.2	2.9	2.5	3.9	2.4	2.0	1.9	2.3				
Slovakia	4.8	5.3	0.3	2.8	2.8	4.6	4.3	4.7				
Slovenia	2.7	1.8	3.0	3.1	3.0	2.7	3.6	3.3				
Gross capital formation, SNA (real, %, y/y)												
Czech Republic	6.3	3.5	1.3	7.9	2.8	-2.6	-3.8	-3.9				
Estonia	12.7	20.0	8.7	5.2	8.1	7.5	8.3	16.3				
Hungary	-4.7	-3.3	1.1	2.8	4.3	0.8	-2.5	0.3				
Latvia	29.3	5.8	22.7	21.3	12.4	8.3						
Lithuania	17.2	12.3	18.7	25.5	17.1	11.9	17.4	3.8				
Poland	-13.4	-7.2	3.3	14.7	7.8	-3.9	-11.6	-1.6				
Slovakia	14.9	2.6	-8.2	13.1	18.4	8.0	18.0	0.7				
Slovenia	-4.3	4.0	10.1	9.2	6.5	-1.7	-7.7	-4.4				
Gross fixed capital formation, SNA (real, %, y/y)												
Czech Republic	5.4	3.4	4.7	5.3	3.9	2.5	2.9	3.2				
Estonia	13.0	17.2	8.5	6.0	10.2	10.3	13.3	11.9				
Hungary	5.9	9.3	2.5	8.4	0.6	6.8	9.4	8.7				
Latvia	11.4	13.0	10.9	17.3	16.1	10.1						
Lithuania	13.5	11.1	14.0	12.3	6.1	8.8	4.9	14.3				
Poland	-9.7	-6.3	-0.1	6.3	8.5	1.2	3.8	5.7				
Slovakia	13.6	-0.6	-1.5	2.5	0.1	5.8	10.7	16.5				
Slovenia	0.4	0.9	7.1	5.9	6.4	0.8	4.0	1.6				
Exports, SNA (real, %, y/y)												
Czech Republic	11.5	2.1	7.5	21.4	22.6	17.9	6.8	10.9				
Estonia	-0.2	0.8	5.8	16.0	10.2	16.6	18.0	18.5				
Hungary	8.0	3.9	7.8	16.4	12.0	6.4	11.3	11.5				
Latvia	7.5	5.2	5.0	9.3	12.2	18.8						
Lithuania	21.2	19.5	6.9	4.2	6.8	10.9	14.5	12.4				
Poland	3.1	4.8	14.2	14.0	6.3	3.9	9.7	5.6				
Slovakia	6.2	5.6	22.5	11.4	9.5	7.2	5.0	16.1				
Slovenia	6.3	6.7	3.1	12.5	14.2	8.7	9.6	8.5				
Imports, SNA (real, %, y/y)												
Czech Republic	13.0	4.9	7.9	18.4	15.9	10.6	0.2	6.1				
Estonia	2.1	3.8	10.6	14.6	12.3	15.9	9.5	17.9				
Hungary	5.2	6.6	11.1	13.2	8.3	4.2	3.8	7.7				
Latvia	14.5	4.6	13.0	15.6	13.3	16.2						
Lithuania	17.6	17.7	10.3	14.8	10.9	13.2	17.7	14.0				
Poland	-5.3	2.7	9.3	15.2	5.7	1.1	0.8	0.2				
Slovakia	11.0	5.5	13.6	12.7	12.3	7.9	6.9	11.6				
Slovenia	3.0	4.8	6.7	13.2	14.1	6.8	1.5	4.6				

	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05	Aug-05	Sep-05	Oct-05	Nov-05
Industrial production (% y/y)												
Czech Republic	10.6	4.8	5.8	9.9	9.1	4.3	4.5	7.6	8.6	7.1	6.3	
Estonia	8.9	8.2	9.8	7.3	7.1	7.8	11.9	10.6	10.1	12.6	9.0	10.4
Hungary	3.6	2.8	6.4	7.4	5.3	1.9	9.7	9.0	12.2	8.9	9.8	
Latvia	6.9	5.8	6.5	6.0	4.4	0.1	7.8	7.5	9.3	7.8	5.8	
Lithuania	16.0	3.1	16.1	10.8	7.6	4.2	8.5	7.5	9.3	11.3	2.2	14.8
Poland	0.6	1.1	8.3	12.3	6.2	0.7	2.3	4.5	4.8	5.9	7.6	8.5
Slovakia	7.1	6.4	5.1	4.2	1.2	0.6	3.1	4.9	4.5	5.4	4.5	
Slovenia	2.9	2.4	1.4	4.8	2.1	-2.6	4.5	2.1	1.1	2.0	2.8	
Retail sales (excl. motor vehicles, automotive fuel, % y/y)												
Czech Republic	3.2	3.2	4.0	3.0	3.4	3.2	3.1	4.0	6.4	4.9	3.4	
Estonia	14.0	14.4	9.9	13.1	12.0	6.0	7.0	9.0	10.0	7.0	9.0	10.0
Hungary	4.4	8.7	8.9	5.7	3.5	3.3	6.6	6.0	5.1	7.3	6.6	
Latvia	3.3	12.1	13.4	12.3	11.8	22.7	18.8	21.9	23.3	21.4	21.6	20.6
Lithuania	2.3	7.9	11.1	10.7	8.3	7.2	10.3	15.6	15.0	18.0	16.8	
Poland	0.2	1.9	3.6	7.1	1.1	-0.4	-3.2	4.1	5.6	2.9	5.7	6.4
Slovakia	4.5	5.8	-5.2	6.2	3.6	9.4	8.1	10.6	11.7	12.7	12.3	
Slovenia				3.8	5.3	9.6	7.7	9.1	14.7	5.3	4.6	9.7
Unemployment (% NSA, LFS data)												
Czech Republic	8.1	7.3	7.8	8.3	8.2	8.4	7.8	7.8				
Estonia	12.6	10.3	10.0	9.7	8.5	9.5	8.1	7.0				
Hungary	5.7	5.7	5.9	6.1	6.3	7.1	7.1	7.3				
Latvia	13.1	12.0	10.6	10.4	10.3	9.9	9.2	8.7				
Lithuania	17.4	13.8	12.4	11.4	10.6	10.2	8.5	7.2				
Poland	18.3	19.6	19.7	19	18.0	18.9	18.1	17.4				
Slovakia	19.1	18.5	17.4	18.1	17.1	17.5	16.2	15.6				
Slovenia	5.9	5.9	6.7	6.3	6.4	6.8	5.8	6.3				
CPI inflation (% average y/y)												
Czech Republic	4.7	1.8	0.1	2.8	3.1	1.6	1.6	1.9	1.7	2.2	2.6	2.4
Estonia	5.8	3.6	1.3	3.0	4.6	4.6	3.5	4.3	4.2	4.9	4.5	3.9
Hungary	9.2	5.3	4.7	6.8	5.9	3.6	3.8	3.7	3.6	3.7	3.2	3.3
Latvia	2.5	1.9	2.9	6.2	7.3	6.7	6.5	6.5	6.1	7.2	7.6	7.4
Lithuania	1.3	0.3	-1.2	1.2	3.1	3.1	2.4	2.3	2.3	2.6	3.1	2.8
Poland	5.5	1.9	0.8	3.5	4.4	3.6	2.3	1.6	1.6	1.8	1.6	1.0
Slovakia	7.1	3.3	8.5	7.5	6.3	2.8	2.5	2.1	2.0	2.2	3.3	3.4
Slovenia	8.4	7.5	5.6	3.6	3.4	2.6	2.3	2.5	2.1	3.2	3.1	2.1
PPI (% average y/y)												
Czech Republic	2.9	-0.5	-0.3	5.7	8.2	6.9	4.1	1.4	1.1	1.0	0.3	0.0
Estonia	4.4	0.4	0.2	2.9	3.8	3.3	1.8	1.3	2.0	0.7	1.8	2.0
Hungary	5.2	-1.8	2.4	3.5	2.4	4.0	5.2	3.8	3.4	3.9	4.1	4.4
Latvia	1.7	1.0	3.2	8.6	11.0	10.5	7.9	6.1	6.2	6.3	6.8	6.7
Lithuania	-3.0	-2.8	-0.5	6.0	9.5	9.1	10.3	13.6	13.0	15.5	13.1	11.5
Poland	1.6	1.0	2.6	7.0	6.5	3.3	0.1	-0.2	-0.2	-0.5	-0.9	-0.4
Slovakia	6.6	2.1	8.3	2.6	6.2	4.7	5.8	5.5	5.0	5.7	5.8	5.5
Slovenia	8.9	5.1	2.5	4.3	5.0	4.2	2.9	2.0	2.1	1.9	1.8	
Exchange rate (nominal, LCU/EUR, period average)												
Czech Republic	34.08	30.81	31.84	31.90	31.13	30.01	30.13	29.69	29.59	29.32	29.68	29.27
Estonia	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65
Hungary	256.7	243.0	253.5	251.7	246.0	245.1	249.8	245.6	244.5	245.8	251.9	251.0
Latvia	0.560	0.581	0.641	0.665	0.703	0.703	0.703	0.703	0.703	0.703	0.703	0.703
Lithuania	3.581	3.459	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453
Poland	3.669	3.856	4.398	4.534	4.237	4.029	4.130	4.019	4.044	3.916	3.923	3.970
Slovakia	43.30	42.68	41.48	40.03	39.47	38.31	38.92	38.67	38.70	38.46	38.92	38.68
Slovenia	217.2	226.2	233.7	238.9	239.8	239.7	239.5	239.5	239.5	239.5	239.5	239.5

	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05	Aug-05	Sep-05	Oct-05	Nov-05
Exchange rate (nominal, LCU/USD, period average)												
Czech Republic	38.04	32.74	28.23	25.70	24.03	22.90	23.94	24.31	24.07	23.90	24.71	24.82
Estonia	17.48	16.61	13.86	12.60	12.09	11.94	12.42	12.82	12.73	12.76	13.01	13.27
Hungary	286.5	258.0	224.4	202.6	190.0	187.0	198.2	201.2	198.8	200.6	209.2	212.7
Latvia	0.628	0.618	0.571	0.540	0.530	0.535	0.557	0.576	0.572	0.573	0.584	0.595
Lithuania	4.000	3.677	3.062	2.779	2.669	2.627	2.737	2.830	2.810	2.816	2.872	2.922
Poland	4.094	4.080	3.889	3.654	3.286	3.078	3.278	3.296	3.291	3.199	3.260	3.366
Slovakia	48.35	45.33	36.77	32.25	30.56	29.16	30.85	31.69	31.48	31.40	32.36	32.79
Slovenia	242.7	240.2	207.1	192.4	185.4	182.7	190.2	196.4	194.9	195.5	199.3	202.9
Real effective exchange rate, CPI based (% , period average, y/y), (negative value= depreciation)												
Czech Republic	7.0	8.2	-2.0	3.3	4.5	7.7	6.0	-0.2	0.0	1.1	-1.4	
Estonia	0.8	3.5	1.5	1.6	2.6	1.1	-0.1	-0.3	-0.2	0.2	-1.1	
Hungary	10.8	9.3	1.1	8.4	11.1	7.3	2.5	1.9	2.3	1.1	-2.2	
Latvia	-3.4	-4.3	-4.8	-0.5	-0.3	-2.5	-5.0	-5.3	-5.4	-4.5	-3.8	
Lithuania	-4.1	4.1	1.2	-2.8	-1.7	-2.2	-3.0	-4.5	-3.9	-4.4	-6.1	
Poland	12.2	-6.9	-9.7	8.5	13.3	21.3	14.2	8.6	8.2	10.2	8.9	
Slovakia	-0.5	-1.6	0.1	-0.6	-2.3	-3.1	-4.1					
Slovenia	-1.0	1.8	1.8	-1.0	-0.5	-1.1	-0.2	-0.9	-1.2	-1.0	-1.2	
Exports of goods (EUR, %, y/y)												
Czech Republic	18.1	9.3	5.8	28.8	33.7	22.8	7.9	13.5	20.0	14.6		
Estonia	7.3	-1.6	9.9	19.4	19.9	23.5	30.8	26.9	29.3	25.9		
Hungary	11.3	7.4	4.4	17.1	16.5	9.8	13.7	12.4	18.0	14.5		
Latvia	10.4	8.2	5.8	26.0	34.7	32.8	30.1	21.8	19.6	26.9		
Lithuania	24.1	15.8	11.2	21.4	28.8	22.7	27.3	25.7	28.2	31.2		
Poland	16.9	8.2	9.3	26.8	29.2	22.6	20.4	14.2	15.9	11.8		
Slovakia	9.8	8.3	26.7	14.7	11.0	13.2	9.2	19.6	21.0	21.8		
Slovenia	9.0	5.9	2.9	13.3	22.1	14.6	15.9	9.8	11.7	9.3		
Imports of goods (EUR, %, y/y)												
Czech Republic	17.1	6.1	6.3	23.0	25.0	19.0	3.0	9.3	13.8	12.6		
Estonia	3.9	5.9	12.9	16.9	17.1	16.6	12.1	23.7	29.1	20.9		
Hungary	7.8	6.4	5.9	14.8	13.1	8.0	4.4	10.9	17.5	10.4		
Latvia	12.9	9.3	8.1	23.3	27.0	21.9	16.7	17.0	24.6	9.0		
Lithuania	17.8	18.9	7.1	16.8	14.2	14.5	23.5	23.7	33.4	37.6		
Poland	5.6	4.4	3.2	19.6	18.4	16.5	6.4	9.6	13.4	8.5		
Slovakia	19.3	6.3	13.7	19.0	17.5	22.4	12.6	14.5	12.6	19.2		
Slovenia	3.3	2.0	5.7	15.6	20.9	16.1	8.1	14.1	13.6	18.1		
Trade balance (% GDP)												
Czech Republic	-5.0	-3.0	-2.7	-0.8	-0.8	0.1	1.0	1.2				
Estonia	-9.6	-15.4	-16.9	-17.5	-17.5	-16.8	-14.7	-14.2				
Hungary	-4.3	-3.2	-3.9	-3.0	-3.0	-2.8	-1.8	-1.7				
Latvia	-16.2	-16.0	-18.0	-20.2	-20.2	-19.9	-18.2	-18.0				
Lithuania	-9.1	-9.4	-9.1	-10.6	-10.6	-10.0	-10.1	-10.3				
Poland	-4.0	-3.7	-2.6	-2.3	-2.3	-1.9	-1.3	-1.1				
Slovakia	-10.2	-8.7	-2.0	-3.5	-3.5	-4.4	-4.8	-4.1				
Slovenia	-3.1	-1.1	-2.2	-3.9	-3.9	-3.8	-2.9	-3.2				
Current account (% GDP)												
Czech Republic	-5.4	-5.6	-6.3	-5.2	-5.2	-3.9	-3.7	-2.8				
Estonia	-4.1	-7.3	-12.1	-12.7	-12.7	-12.6	-11.2	-11.4				
Hungary	-6.1	-7.0	-8.7	-8.8	-8.8	-8.8	-8.2	-7.9				
Latvia	-7.6	-6.7	-8.2	-12.9	-12.9	-13.1	-11.2	-11.0				
Lithuania	-4.7	-5.1	-6.8	-7.7	-7.7	-7.2	-6.5	-6.7				
Poland	-2.8	-2.5	-2.1	-4.2	-4.2	-3.4	-2.1	-1.5				
Slovakia	-8.4	-7.9	-0.8	-3.5	-3.5	-4.3	-5.8	-5.6				
Slovenia	0.2	1.5	-0.3	-2.1	-2.1	-1.9	-1.1	-0.7				

	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05	Aug-05	Sep-05	Oct-05	Nov-05
FDI net (% GDP)												
Czech Republic	9.0	11.2	2.1	3.6	3.6	3.8	7.5	7.8				
Estonia	5.6	2.2	8.4	6.9	6.9	14.2	22.0	21.6				
Hungary	6.8	4.1	0.6	3.5	3.5	3.6	3.7	2.8				
Latvia	1.4	2.7	2.3	4.3	4.3	4.8	3.9	3.9				
Lithuania	3.6	5.0	0.8	2.3	2.3	2.1	1.0	1.2				
Poland	3.0	2.0	2.0	4.6	4.6	3.9	3.0	3.3				
Slovakia	7.3	17.0	2.3	3.4	3.4	2.6	3.3	3.8				
Slovenia	1.1	6.5	-0.5	0.8	0.8	-0.1	-0.2	-0.2				
Net portfolio investment (% GDP)												
Czech Republic	1.5	-1.9	-1.4	2.2	2.2	0.6	-0.8	-1.9				
Estonia	-0.7	2.0	1.9	6.5	6.5	3.1	-14.4	-15.7				
Hungary	2.7	2.6	3.6	6.8	6.8	7.8	7.6	6.6				
Latvia	1.6	-2.2	-2.0	1.7	1.7	0.6	-0.2	-1.0				
Lithuania	2.2	0.1	1.5	0.9	0.9	0.6	0.3	-0.5				
Poland	0.6	1.0	1.1	3.8	3.8	4.1	5.4	5.0				
Slovakia	-1.3	2.3	-1.7	2.2	2.2	2.5	-1.3	-1.2				
Slovenia	0.3	-0.3	-0.9	-2.2	-2.2	-2.8	-2.9	-2.9				
General government balance (ESA95, % GDP)*												
Czech Republic	-5.9	-6.8	-12.5	-3.0								
Estonia	0.3	1.5	2.6	1.7								
Hungary	-3.5	-8.5	-6.5	-5.4								
Latvia	-2.1	-2.3	-1.2	-0.9								
Lithuania	-2.0	-1.4	-1.2	-1.4								
Poland	-3.7	-3.3	-4.8	-3.9								
Slovakia	-6.6	-7.8	-3.8	-3.1								
Slovenia	-3.9	-2.7	-2.7	-2.1								
General government revenue (ESA95, % GDP)*												
Czech Republic	39.1	40.2	41.0	41.4								
Estonia	37.4	37.8	39.1	37.9								
Hungary	44.9	43.6	43.4	44.4								
Latvia	34.1	33.8	33.8	35.3								
Lithuania	33.0	32.8	31.9	31.8								
Poland	40.9	42.3	41.0	40.9								
Slovakia	37.2	36.1	35.9	37.4								
Slovenia	44.7	45.4	45.2	45.4								
General government expenditure (ESA95, % GDP)*												
Czech Republic	45.0	46.9	53.5	44.3								
Estonia	37.1	36.8	36.7	36.4								
Hungary	48.5	52.1	49.8	49.7								
Latvia	36.2	36.1	35.0	36.2								
Lithuania	35.0	34.2	33.1	33.2								
Poland	44.7	45.6	45.8	44.8								
Slovakia	43.8	43.8	39.7	40.6								
Slovenia	48.6	48.0	47.9	47.4								
Public debt (% GDP)*												
Czech Republic	26.3	29.8	36.8	36.8								
Estonia	4.7	5.8	6.0	5.5								
Hungary	52.2	55.5	57.4	57.4								
Latvia	15.0	14.2	14.6	14.7								
Lithuania	22.9	22.4	21.4	19.6								
Poland	36.7	41.2	45.3	43.6								
Slovakia	49.2	43.7	43.1	42.5								
Slovenia	28.4	29.8	29.4	29.8								
Oil (Brent) USD/BBL	24.7	25.1	28.8	38.4	44.3	47.7	51.1	61.7	64.4	62.7	58.3	55.0
Exch. Rate (USD/EUR)	0.896	0.946	1.131	1.244	1.298	1.311	1.259	1.220	1.229	1.226	1.202	1.18

* Fiscal data according to Eurostat (figures may differ from those presented in Table 4 which are based on national Convergence Programs).
Sources: Eurostat; WIIW; CSOs; NCBs; IMF; and World Bank.

VULNERABILITY INDICATORS*

Czech Republic	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05
GDP growth, SNA (real, %, yoy)	2.6	1.5	3.2	4.7	5.0	5.0	5.2	4.9
Current account balance, (4Q cumulative, % of GDP)	-5.4	-5.6	-6.3	-5.2	-5.2	-3.9	-3.7	-2.8
FDI (4Q cumulative, % of GDP)	9.0	11.2	2.1	3.6	3.6	3.8	7.5	7.8
Total gross external debt (eop, % of GDP)	35.0	33.7	35.0	36.6	36.6	36.7	37.7	38.7
Change of international reserves in euro (eop, relative to previous period, %)	15.8	37.9	-5.6	-2.1	-3.3	1.7	17.0	-0.1
Reserves-to-short-term debt ratio (eop, %)	184.2	271.1	229.1	197.7	197.7	205.1	247.6	224.0
Money Supply-to-Reserves ratio (eop, %)	477.3	290.0	199.4	153.8	257.6	241.9	242.1	226.8
Overall balance of state budget (4Q cumulative, % of GDP)	-0.3	0.0	-0.1	-3.7	-3.7	-3.0	-1.6	-1.2
Credit to private sector (eop, % of GDP)	33.5	31.4	32.1	33.2	33.2	34.0	35.5	36.8
Growth rate of credit to the private sector (avg, %)	-12.5	-15.0	2.0	11.3	13.0	13.8	15.1	17.5
Foreign currency loans to the private sector (eop, % of loans to priv. sect.)	16.2	14.6	12.9	11.2	11.2	11.5	10.7	10.8
Non-performing loans (eop, % of total loans)	14.8	8.1	4.9	4.1	4.1	4.8	4.6	4.4
Short-term (3M) interest rates spreads to euro area (avg, basis points)	91	23	-6	26	45	14	-27	-34
Change of stock exchange index (avg, relative to previous period, %)	-25.3	6.4	27.5	48.3	18.6	18.2	2.5	12.9
Long term foreign currency sovereign credit rating according to S&P's	A- (↓) (S)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)
Maastricht indicators								
HICP 12M rolling average inflation relative to reference value (basis points)	165	25	-227	-86	28	27	-11	-60
Convergence criterion bond yield relative to reference value (basis points)	-169	-235	-249	-172	-156	-206	-190	-180
Change of LCU/EUR rate, minus denotes euro depreciation (avg, %)	-4.3	-9.5	3.3	0.2	-1.4	-3.6	0.4	-1.4
Fiscal balance, ESA'95 (% of GDP)	-5.9	-6.8	-12.5	-3.0	-3.0	na	na	na
Public debt, ESA'95 (% of GDP)	26.3	29.8	36.8	36.8	36.8	na	na	na

Notes: Czech Republic has adopted free floating as exchange rate regime in 1997.

Estonia	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05
GDP growth, SNA (real, %, yoy)	6.5	7.2	6.7	7.8	6.6	7.2	9.9	10.8
Current account balance, (4Q cumulative, % of GDP)	-4.1	-7.3	-12.1	-12.7	-12.7	-12.6	-11.2	-11.4
FDI (4Q cumulative, % of GDP)	5.6	2.2	8.4	6.9	6.9	14.2	22.0	21.6
Total gross external debt (eop, % of GDP)	55.5	60.1	68.7	81.2	81.2	92.3	86.7	89.0
Change of international reserves in euro (eop, relative to previous period, %)	-6.3	3.0	14.7	19.9	5.6	13.2	-5.4	0.3
Reserves-to-short-term debt ratio (eop, %)	77.5	68.6	58.3	62.4	62.4	46.5	47.1	45.2
Money Supply-to-Reserves ratio (eop, %)	171.4	182.0	179.3	175.6	175.6	156.5	193.4	196.9
Overall balance of central budget ESA'95 (4Q cumulative, % of GDP)	0.5	1.4	2.4	1.4	1.4	na	na	na
Credit to private sector (eop, % of GDP)	41.6	47.3	55.0	64.1	64.1	65.2	68.6	72.5
Growth rate of credit to the private sector (avg, %)	28.5	23.3	26.0	27.5	30.8	31.2	32.2	35.6
Foreign currency loans to the private sector (eop, % of loans to priv. sect.)	76.9	80.6	75.0	72.8	72.8	73.3	74.7	76.1
Non-performing loans (eop, % of total loans)	1.3	0.8	0.4	0.3	0.3	0.3	0.2	0.3
Short-term (3M) interest rates spreads to euro area (avg, basis points)	105	56	59	39	25	26	25	20
Change of stock exchange index (avg, relative to previous period, %)	-8.4	33.7	39.7	41.5	14.8	27.7	18.2	2.7
Long term foreign currency sovereign credit rating according to S&P's	A- (↑) (S↓)	A- (↔) (S)	A- (↔) (P↑)	A- (↑) (S↓)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)	A- (↔) (P↑)
Maastricht indicators								
HICP 12M rolling average inflation relative to reference value (basis points)	256	160	-17	-50	59	148	189	173
Convergence criterion bond yield relative to reference value (basis points)	215	119	-136	-209	-183	-161	-126	-116
Change of LCU/EUR rate, minus denotes euro depreciation (avg, %)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal balance, ESA'95 (% of GDP)	0.3	1.5	2.6	1.7	1.7	na	na	na
Public debt, ESA'95 (% of GDP)	4.7	5.8	6.0	5.5	5.5	5.2	5.3	na

Notes: Estonia has adopted currency board as exchange rate regime in 1992 and participates in ERM2 since 28 June 2004.

* The symbols in the line with S&P ratings denote the outlook, where S=stable, P=positive, N=negative.

Source: Eurostat, CSOs, CNBs, MoFs, ISI, Standard and Poor's.

Hungary	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05
GDP growth, SNA (real, %, yoy)	4.3	3.8	3.4	4.6	4.5	3.2	4.5	4.5
Current account balance, (4Q cumulative, % of GDP)	-6.1	-7.0	-8.7	-8.8	-8.8	-8.8	-8.2	-7.9
FDI (4Q cumulative, % of GDP)	6.8	4.1	0.6	3.5	3.5	3.6	3.7	2.8
Total gross external debt (eop, % of GDP)	61.4	53.8	64.7	66.3	66.3	70.6	76.2	74.4
Change of international reserves in euro (eop, relative to previous period, %)	1.1	-18.7	2.2	15.4	11.7	14.1	6.2	2.7
Reserves-to-short-term debt ratio (eop, %)	207.8	268.6	149.2	138.1	159.3	135.8	134.9	151.7
Money Supply-to-Reserves ratio (eop, %)	238.9	335.3	330.5	340.7	340.7	299.6	285.5	295.1
Overall balance of state budget (4Q cumulative, % of GDP)	-2.8	-8.7	-3.9	-4.4	-4.4	-4.3	-4.0	-3.0
Credit to private sector (eop, % of GDP)	33.5	35.5	42.9	46.5	46.5	47.5	47.9	49.5
Growth rate of credit to the private sector (avg, %)	24.7	21.5	24.2	24.7	18.5	18.2	16.8	15.6
Foreign currency loans to the private sector (eop, % of loans to priv. sect.)	29.6	29.4	33.7	39.0	39.0	40.1	42.2	44.1
Non-performing loans (eop, % of total loans)	3.0	4.9	3.8	3.7	3.7	na	na	na
Short-term (3M) interest rates spreads to euro area (avg, basis points)	660	589	615	366	472	67	285	404
Change of stock exchange index (avg, relative to previous period, %)	-21.1	12.5	8.1	39.8	15.8	19.7	4.6	22.6
Long term foreign currency sovereign credit rating according to S&P's	A- (↑) (S↓)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)
Maastricht indicators								
HICP 12M rolling average inflation relative to reference value (basis points)	719	385	220	373	463	405	302	200
Convergence criterion bond yield relative to reference value (basis points)	-6	-14	21	171	165	123	148	74
Change of LCU/EUR rate, minus denotes euro depreciation (avg, %)	-1.3	-5.4	4.4	-0.7	-1.1	-0.4	1.9	-1.7
Fiscal balance, ESA'95 (% of GDP)	-3.5	-8.5	-6.5	-5.4	-5.4	na	na	na
Public debt, ESA'95 (% of GDP)	52.2	55.5	57.4	57.4	57.4	60.2	61.2	na

Notes: Hungary adopted peg to euro with +/-15% fluctuation band in May 2001.

Latvia	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05
GDP growth, SNA (real, %, yoy)	8.0	6.4	7.5	8.3	8.4	7.3	11.4	11.4
Current account balance, (4Q cumulative, % of GDP)	-7.6	-6.7	-8.2	-12.9	-12.9	-13.1	-11.2	-11.0
FDI (4Q cumulative, % of GDP)	1.4	2.7	2.3	4.3	4.3	4.8	3.9	3.9
Total gross external debt (eop, % of GDP)	68.8	73.5	80.0	93.8	92.6	94.6	95.6	97.4
Change of international reserves in euro (eop, relative to previous period, %)	39.5	-8.4	-4.0	22.2	3.6	8.5	11.3	11.0
Reserves-to-short-term debt ratio (eop, %)	40.3	31.8	27.1	26.4	26.4	28.5	30.9	33.5
Money Supply-to-Reserves ratio (eop, %)	198.3	236.5	267.7	270.0	270.0	261.4	256.4	250.7
Overall balance of central budget ESA'95 (4Q cumulative, % of GDP)	-1.2	-1.7	-1.8	-1.9	-1.9	na	na	na
Credit to private sector (eop, % of GDP)	26.5	32.9	40.7	51.5	50.8	54.5	58.9	63.6
Growth rate of credit to the private sector (avg, %)	41.7	43.6	39.3	43.1	46.8	48.7	50.3	55.9
Foreign currency loans to the residents (eop, % of loans to priv. sect.)	57.0	54.4	56.1	60.9	60.9	65.3	67.9	67.9
Non-performing loans (eop, % of total loans)	3.1	2.1	1.4	1.1	1.1	na	na	na
Short-term (3M) interest rates spreads to euro area (avg, basis points)	260	104	150	213	220	160	73	63
Change of stock exchange index (avg, relative to previous period, %)	38.6	13.2	22.3	35.9	10.6	15.6	8.9	10.9
Long term foreign currency sovereign credit rating according to S&P's	BBB (↔) (P↑)	BBB+ (↑) (S↓)	BB+ (↔) (P↑)	A- (↑) (S↓)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)	A- (↔) (S)
Maastricht indicators								
HICP 12M rolling average inflation relative to reference value (basis points)	-54	-30	-36	226	373	442	468	449
Convergence criterion bond yield relative to reference value (basis points)	-43	-182	-171	-162	-143	-164	-148	-126
Change of LCU/EUR rate, minus denotes euro depreciation (avg, %)	0.1	3.7	10.3	3.8	3.0	2.4	0.0	0.0
Fiscal balance, ESA'95 (% of GDP)	-2.1	-2.3	-1.2	-0.9	-0.9	na	na	na
Public debt, ESA'95 (% of GDP)	15.0	14.2	14.6	14.7	14.7	13.7	12.7	na

Notes: Latvia has *de facto* adopted currency board as exchange rate regime in 1994 (officially formalized in 1997) and participates in ERM2 since 29 April 2005.

Lithuania	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05
GDP growth, SNA (real, %, yoy)	6.4	6.8	10.5	7.0	7.2	4.4	8.4	7.6
Current account balance, (4Q cumulative, % of GDP)	-4.7	-5.1	-6.8	-7.7	-7.7	-7.2	-6.5	-6.7
FDI (4Q cumulative, % of GDP)	3.6	5.0	0.8	2.3	2.3	2.1	1.0	1.2
Total gross external debt (eop, % of GDP)	43.4	39.5	40.6	42.5	42.5	43.6	45.7	47.7
Change of international reserves in euro (eop, relative to previous period, %)	29.6	22.2	19.3	-4.4	-3.8	5.1	3.3	7.5
Reserves-to-short-term debt ratio (eop, %)	107.1	113.7	105.3	95.4	95.4	99.6	90.6	84.9
Money Supply-to-Reserves ratio (eop, %)	190.1	185.7	184.0	238.9	238.9	241.3	248.2	241.7
Overall balance of central budget ESA'95 (4Q cumulative, % of GDP)	-1.1	-1.7	-1.7	-2.2	-2.2	na	na	na
Credit to private sector (eop, % of GDP)	13.5	16.2	22.9	28.9	28.9	30.2	32.4	35.3
Growth rate of credit to the private sector (avg, %)	12.2	27.4	43.1	51.1	42.4	37.1	37.6	44.3
Foreign currency loans to the residents (eop, % of loans to residents)	60.5	49.7	54.1	58.1	58.1	58.8	60.4	62.0
Non-performing loans (eop, % of total loans)	7.4	5.8	2.6	2.4	2.4	na	na	na
Short-term (3M) interest rates spreads to euro area (avg, basis points)	167	43	51	58	52	42	28	19
Change of stock exchange index (avg, relative to previous period, %)	-16.0	5.8	57.5	62.7	18.6	30.5	20.4	12.9
Long term foreign currency sovereign credit rating according to S&P's	BBB- (S)	BBB (↑) (S)	BBB+ (↑) (P↑)	A- (↑) (S↓)	A- (↔) (S)	A- (↔) (P↑)	A- (↔) (P)	A- (↔) (P)
Maastricht indicators								
HICP 12M rolling average inflation relative to reference value (basis points)	-178	-148	-247	-207	-134	-34	31	29
Convergence criterion bond yield relative to reference value (basis points)	15	-117	-129	-198	-184	-193	-153	-159
Change of LCU/EUR rate, minus denotes euro depreciation (avg, %)	-3.1	-3.4	-0.2	0.0	0.0	0.0	0.0	0.0
Fiscal balance, ESA'95 (% of GDP)	-2.0	-1.4	-1.2	-1.4	-1.4	na	na	na
Public debt, ESA'95 (% of GDP)	22.9	22.4	21.4	19.6	19.6	19.9	19.0	na

Notes: Lithuania has adopted currency board as exchange rate regime in 1994 and participates in ERM2 since 28 June 2004.

Poland	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05
GDP growth, SNA (real, %, yoy)	1.1	1.4	3.8	5.3	3.9	2.1	2.8	3.7
Current account balance, (4Q cumulative, % of GDP)	-2.8	-2.5	-2.1	-4.2	-4.2	-3.4	-2.1	-1.5
FDI (4Q cumulative, % of GDP)	3.0	2.0	2.0	4.6	4.6	3.9	3.0	3.3
Total gross external debt (eop, % of GDP)	36.8	40.3	47.5	41.6	41.6	42.2	43.9	43.3
Change of international reserves in euro (eop, relative to previous period, %)	1.8	-5.4	-4.8	-0.5	-9.3	9.4	15.8	0.0
Reserves-to-short-term debt ratio (eop, %)	238.5	214.7	174.1	152.8	152.8	158.6	178.9	173.0
Money Supply-to-Reserves ratio (eop, %)	310.2	281.5	266.1	335.9	335.9	315.6	283.7	299.8
Overall balance of state budget (4Q cumulative, % of GDP)	-4.2	-4.9	-4.4	-4.5	-4.5	-4.5	-4.2	-3.2
Credit to private sector (eop, % of GDP)	29.3	29.3	30.0	28.2	28.2	28.5	28.6	29.1
Growth rate of credit to the private sector (avg, %)	11.3	4.6	5.4	5.2	5.0	3.5	6.0	6.4
Foreign currency loans to the private sector (eop, % of loans to priv. sect.)	24.7	26.9	30.6	24.0	24.0	24.3	25.4	26.9
Non-performing loans (eop, % of total loans)	17.5	20.4	20.4	14.2	14.2	13.7	12.6	11.6
Short-term (3M) interest rates spreads to euro area (avg, basis points)	1183	567	334	409	464	430	337	249
Change of stock exchange index (avg, relative to previous period, %)	-24.3	0.5	18.2	41.1	5.7	4.8	0.3	15.5
Long term foreign currency sovereign credit rating according to S&P's	BBB+ (↔) (S↓)	BBB+ (↔) (S) (S↓)	BB+ (↔) (N↓)	BB+ (↔) (S↑)	BBB+ (↔) (S)	BBB+ (↔) (P↑)	BBB+ (↔) (P)	BBB+ (↔) (P)
Maastricht indicators								
HICP 12M rolling average inflation relative to reference value (basis points)	504	42	-158	-21	122	173	166	84
Convergence criterion bond yield relative to reference value (basis points)	268	13	-83	42	39	2	-10	-41
Change of LCU/EUR rate, minus denotes euro depreciation (avg, %)	-8.4	5.0	14.1	3.0	-4.2	-5.0	2.6	-2.7
Fiscal balance, ESA'95 (% of GDP)	-3.7	-3.3	-4.8	-3.9	-3.9	na	na	na
Public debt, ESA'95 (% of GDP)	36.7	41.2	45.3	43.6	43.6	na	na	na

Notes: Poland has adopted "pure" free floating as exchange rate regime in April 2000.

Slovakia	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05
GDP growth, SNA (real, %, yoy)	3.8	4.6	4.5	5.5	5.8	5.1	5.1	6.2
Current account balance, (4Q cumulative, % of GDP)	-8.4	-7.9	-0.8	-3.5	-3.5	-4.3	-5.8	-5.6
FDI (4Q cumulative, % of GDP)	7.3	17.0	2.3	3.4	3.4	2.6	3.3	3.8
Total gross external debt (eop, % of GDP)	54.1	48.1	49.6	51.1	51.1	62.5	60.6	60.8
Change of international reserves in euro (eop, relative to previous period, %)	10.9	61.5	9.7	13.8	2.8	27.3	-7.5	2.0
Reserves-to-short-term debt ratio (eop, %)	na	264.8	186.3	171.3	171.3	143.2	134.6	132.8
Money Supply-to-Reserves ratio (eop, %)	294.4	188.7	185.7	177.6	177.6	148.2	174.8	175.9
Overall balance of state budget (4Q cumulative, % of GDP)	-4.9	-5.4	-4.3	-5.4	-5.4	-5.1	-4.3	-3.5
Credit to private sector (eop, % of GDP)	34.1	32.0	32.4	31.2	31.2	32.2	33.7	35.1
Growth rate of credit to the private sector (avg, %)	-20.6	-1.6	8.3	9.7	8.4	10.6	14.9	19.7
Foreign currency loans to the private sector (eop, % of loans to priv. sect.)	16.1	17.1	18.8	22.0	22.0	20.8	22.0	21.4
Non-performing loans (eop, % of total loans)	24.3	11.2	9.1	7.2	7.2	na	7.7	na
Short-term (3M) interest rates spreads to euro area (avg, basis points)	350	445	385	257	191	81	60	79
Change of stock exchange index (avg, relative to previous period, %)	23.8	14.0	40.7	29.7	37.3	41.8	11.2	5.4
Long term foreign currency sovereign credit rating according to S&P's	BBB- (↑) (P)	BBB (↑) (P)	BBB (↔) (P)	BBB+ (↑) (P)	A- (↑) (P)	A- (↔) (P)	A- (↔) (P)	A- (↔) (P)
Maastricht indicators								
HICP 12M rolling average inflation relative to reference value (basis points)	587	238	331	607	560	435	284	136
Convergence criterion bond yield relative to reference value (basis points)	4	-29	-162	-145	-117	-191	-180	-193
Change of LCU/EUR rate, minus denotes euro depreciation (avg, %)	1.6	-1.4	-2.8	-3.5	-1.4	-3.0	1.7	-0.6
Fiscal balance, ESA'95 (% of GDP)	-6.6	-7.8	-3.8	-3.1	-3.1	na	na	na
Public debt, ESA'95 (% of GDP)	49.2	43.7	43.1	42.5	42.6	39.2	36.1	na

Notes: Slovakia adopted managed float regime with the euro as the main reference currency in October 1998 and participates in ERM2 since 28 November 2005.

Slovenia	2001	2002	2003	2004	4Q 04	1Q 05	2Q 05	3Q 05
GDP growth, SNA (real, %, yoy)	2.7	3.5	2.7	4.2	3.8	2.7	5.5	3.7
Current account balance, (4Q cumulative, % of GDP)	0.2	1.5	-0.3	-2.1	-2.1	-1.9	-1.1	-0.7
FDI (4Q cumulative, % of GDP)	1.1	6.5	-0.5	0.8	0.8	-0.1	-0.2	-0.2
Total gross external debt (eop, % of GDP)	48.0	49.4	54.0	58.6	58.6	61.7	63.4	67.7
Change of international reserves in euro (eop, relative to previous period, %)	45.0	36.1	1.4	-4.9	-0.1	0.8	2.6	1.9
Reserves-to-short-term debt ratio (eop, %)	224.2	295.4	281.0	245.0	245.0	210.1	210.9	196.4
Money Supply-to-Reserves ratio (eop, %)	236.1	184.6	188.5	210.6	210.6	208.9	210.0	209.6
Overall balance of central budget ESA'95 (4Q cumulative, % of GDP)	-3.6	-2.3	-2.5	-1.9	-1.9	na	na	na
Credit to private sector (eop, % of GDP)	40.0	39.9	42.8	47.8	47.8	50.1	51.7	53.8
Growth rate of credit to the private sector (avg, %)	18.8	13.4	13.3	18.8	19.3	22.9	24.3	23.6
Foreign currency loans to the private sector (eop, % of loans to the priv. sect.)	14.5	17.1	20.2	23.4	23.4	24.9	26.3	27.5
Non-performing loans (eop, % of total loans)	10.0	10.0	9.4	7.5	7.5	na	na	na
Short-term (3M) interest rates spreads to euro area (avg, basis points)	661	471	445	256	191	191	192	190
Change of stock exchange index (avg, relative to previous period, %)	9.9	50.6	18.6	35.0	3.4	2.9	-6.9	-3.0
Long term foreign currency sovereign credit rating according to S&P's	A (↔) (S)	A (↔) (P↑)	A+ (↑) (P)	AA- (↑) (S↓)	AA- (↔) (S)	AA- (↔) (S)	AA- (↔) (S)	AA- (↔) (S)
Maastricht indicators								
HICP 12M rolling average inflation relative to reference value (basis points)	625	497	406	217	162	127	89	36
Convergence criterion bond yield relative to reference value (basis points)	na	158	-21	-180	-175	-184	-143	-136
Change of LCU/EUR rate, minus denotes euro depreciation (avg, %)	5.5	3.7	3.5	2.2	-0.1	0.0	-0.1	0.0
Fiscal balance, ESA'95 (% of GDP)	-3.9	-2.7	-2.7	-2.1	-2.1	na	na	na
Public debt, ESA'95 (% of GDP)	28.4	29.8	29.4	29.8	29.8	na	na	na

Notes: Slovenia has *de facto* adopted crawling band as exchange rate regime in 1992 (*de jure* - managed float) and participates in ERM2 since 28 June 2004.

FORECASTS

	2005			2006		
	EC	IMF	OECD	EC	IMF	OECD
Real GDP growth (%)						
Czech Republic	4.8	4.1	4.8	4.4	3.9	4.5
Estonia	8.4	7.0		7.2	6.0	
Hungary	3.7	3.4	4.2	3.9	3.6	4.5
Latvia	9.1	7.8		7.7	6.8	
Lithuania	7.0	6.8		6.2	6.5	
Poland	3.4	3.0	3.2	4.3	4.0	3.7
Slovakia	5.1	5.0	5.3	5.5	5.4	5.6
Slovenia	3.8	3.9		4.0	4.0	
EU15	1.4			2.0		
US	3.5	3.5	3.6	3.2	3.3	3.5
CPI inflation (avg, %)						
Czech Republic	1.7	2.0	1.9	2.9	2.5	2.8
Estonia	4.1	3.9		3.3	2.8	
Hungary	3.7	4.0	3.7	2.0	3.6	2.0
Latvia	6.8	6.3		6.0	5.1	
Lithuania	2.6	2.7		2.8	2.5	
Poland	2.2	2.2	2.2	2.3	2.5	1.9
Slovakia	2.9	2.7	2.8	3.6	2.7	4.3
Slovenia	2.6	2.6		2.5	2.5	
EU15	2.3			2.2		
US	3.3	3.1	3.4	2.9	2.8	2.8
Fiscal balance, ESA95 (% of GDP)						
Czech Republic	-3.2		-4.0	-3.7		-3.6
Estonia	1.1			0.6		
Hungary	-6.1		-6.1	-6.7		-5.9
Latvia	-1.2			-1.5		
Lithuania	-2.0			-1.8		
Poland	-3.6		-3.4	-3.6		-3.6
Slovakia	-4.1		-4.1	-3.0		-4.2
Slovenia	-1.7			-1.9		
EU15	-2.7			-2.7		
US	-3.9		-3.7	-4.7		-4.2
Current account (% of GDP)						
Czech Republic	-2.9	-3.5	-4.0	-2.6	-3.2	-2.8
Estonia	-9.9	-10.9		-7.7	-9.9	
Hungary	-8.4	-8.5	-8.4	-8.4	-8.0	-8.7
Latvia	-11.1	-10.5		-10.5	-9.4	
Lithuania	-7.4	-8.1		-7.1	-7.9	
Poland	-3.2	-1.0	-1.5	-3.5	-2.5	-0.9
Slovakia	-6.6	-6.3	-6.7	-6.2	-6.4	-6.6
Slovenia	-1.6	-1.6		-1.8	-0.8	
EU15	-0.1			-0.2		
US	-6.2	-6.1	-6.5	-6.3	-6.1	-6.7

Sources:

EC: Autumn 2005 Economic Forecasts

IMF: World Economic Outlook, September 2005

OECD: OECD Economic Outlook November 2005