World Bank EU-8 Quarterly Economic Report January 2005[1] Part I

EU-8

HIGHLIGHTS OF THE REPORT

The Political Economy Background

- The political economy background stabilized somewhat in the fourth quarter of 2004 as new governments in Poland, the Czech Republic, and Hungary established themselves in office. In other countries (Slovenia and Lithuania), the political scene was dominated by Parliamentary elections, leading to new coalition governments in both countries. At the same time, further reform efforts were slowed by weak popular support for ruling coalitions and prospective elections in Poland (2005) and in Hungary and the Czech Republic (2006). A new coalition also took over in Latvia pulling together a broad but perhaps contentious coalition. Slovak government, though with parliamentary minority, continues to implement its reform program.

Macroeconomic Policies and Developments

- The external environment deteriorated somewhat toward the end of 2004 as oil prices hiked to record highs in October-November (before easing in December), growth slowed in Western Europe, and the euro surged against the dollar.
- Against this background, and also reflecting the temporary increase in demand related to EU accession earlier in the year, growth in the region slowed slightly in the second half of 2004. While fixed investment and exports on the whole remained buoyant, private consumption growth decelerated on the back of slow real income growth and tighter monetary conditions. For the year as a whole, however, growth in the region is estimated to have increased by about 1 percentage point to 5%. Growth is likely to moderate somewhat in 2005 in line with recent developments.
- Balance of payments patterns were largely unchanged, with strong positions in some countries (notably Poland and Slovakia) leading to further upward pressures on currencies and relatively weak positions in Hungary and the Baltic countries persisting. On the whole, 2004 —in the wake of EU accession— saw a marked recovery in FDI as well as a significant pick up in portfolio inflows in the region, and stock market indices rebounded across all countries.
- Inflation stabilized following the spike in the aftermath of EU accession as monetary conditions were tightened and second round effects seemed to be contained reflecting the continued slack in labor markets and in some cases remaining excess capacity. The short monetary policy tightening cycle in the middle of the year came to an end, and interest rates were generally left unchanged in the last quarter of 2004 (although Hungary and the Slovak Republic continued their ongoing process of lowering interest rates). Only Latvia raised interest rates further in response to the surge in inflation

[1] This report is based on information available through end-December, 2004. The report was prepared by the World Bank's team of economists in the region led by Thomas Laursen: Andrejs Jakobsons (Riga), Anton Marcincin (Bratislava), Jekaterina Rojaka (Vilnius), Marcin Sasin, and Emilia Skrok (both Warsaw).

there following EU accession. Inflation should ease in 2005 as the impact of temporary factors fades.

- Fiscal developments were better than planned in some countries (notably Poland but also Slovakia and the Czech Republic) as stronger growth-induced revenues were wholly or partially saved, while in other countries (notably Hungary) gross overestimation of revenues combined with expenditure overruns were associated with fiscal slippages. For the year as a whole, the fiscal position in the Visegrad countries and Slovenia remained broadly unchanged from 2003 with a general government deficit of around 4½% of GDP, while in Latvia and Lithuania deficits increased. With higher output growth, the fiscal stance in 2004 was thus eased in the region, most notably in Poland, providing a pro-cyclical stimulus to the ongoing recovery. Budgets for 2005 point to appropriate fiscal consolidation in countries where this is most needed, although risks remain not least in Hungary.

Special Topic: Growth in the Baltic countries

- Recent high growth in the Baltic countries raises the question of whether such growth can be sustained over the medium-long term. Since the mid-1990s, output in the Baltic countries has expanded at an annual average rate of 5.7 percent, and in the most recent years, the pace has been even faster. On this score, the three countries—often dubbed the Baltic tigers—have outperformed their Central and West European peers by a wide margin.

- Our analysis suggests that this impressive performance reflects a combination of very low starting base, prudent macroeconomic policies, and rapid catching up in reforms. In addition, dynamic growth in Russia and other nearby CIS countries on the back of high oil prices may have spilled over to the Baltic countries to a larger extent than available statistics suggest.

    - Income levels at the start of transition in the Baltic countries were significantly lower and the initial output collapse significantly deeper than in most Central European countries. Contrary to the latter, the Baltic countries may not yet have caught up to pre-transition income levels, and in any case, they remain considerably below those of the more advanced new member countries. Most international studies suggest that growth is negatively related to the initial income level, consistent with some degree of income convergence over time.

    - While the conduct of macroeconomic policies in the Baltic countries has been more prudent than in Central Europe—notably with regards to fiscal policy—and they have generally caught up in terms of reforms, various indicators of transition and business climate as well as labor market flexibility, human capital and knowledge economy are in general not ahead of their peers.

    - While trade and investment relations between the Baltic countries and Russia have been scaled back significantly following the Russia crisis, it is plausible that the high oil prices in recent years and recycling of oil surpluses from Russia may have been transmitted to some extent to the Baltic countries through FDI from third countries, exports of services, and portfolio capital inflows, which are not captured by the available official statistics.

    - The recent rapid credit growth and large current account deficits are not likely to be sustainable over the medium term, suggesting that some deceleration of domestic demand growth will follow.

    - Finally, demographic changes point to a significant decline in working age population over the next 10-20 years, which together with potential emigration is likely to reduce labor supply. Further, international evidence suggests that it

will be difficult to sustain recent high productivity increases over a long period of time.

- On balance, we believe that some slowdown from the recent very high growth rates is likely in coming years. While growth should continue to outpace that of Central Europe for some time reflecting continued catching up and strong fundamentals, potential output growth is likely to be in the range of 5-6% per year, with the upper end of the interval requiring renewed reforms and efforts to strengthen the investment climate and quality of human capital.

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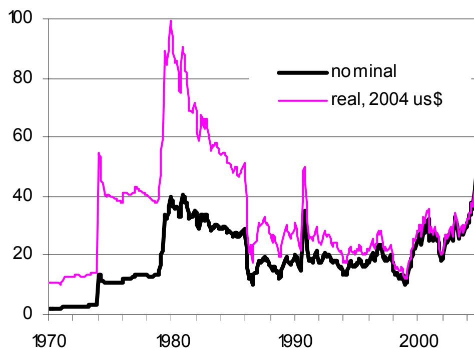
External Environment

The external environment weakened somewhat in the second half of 2004 as oil prices rose to record highs, the euro surged against the U.S. dollar, and the recovery in Western Europe lost steam. Meanwhile, conditions in international financial markets remained favorable with low spreads despite a gradual monetary tightening in the U.S.

Oil prices

In the fourth quarter of 2004 oil prices reached record highs (in nominal terms, or the highest in 20 years measured in real terms). This reflected a combination of supply disruptions and strong demand, including of a speculative nature. However, oil prices have eased more recently as output has been expanded and demand weakened reflecting a warmer than expected winter and high stocks. The price is now back below 40 US$ per barrel. Recent price hikes should be soon accommodated in the world economy—contrary to previous oil price shocks, consumer and business confidence have generally held up well. For the EU-8 countries various estimates suggest that the current level of prices may decelerate growth rates by 0.3-0.5 percentage points.

Chart I.1. Crude oil price. Average spot price of WTI, UK Brent & Dubai crudes, US$



Source: IMF.

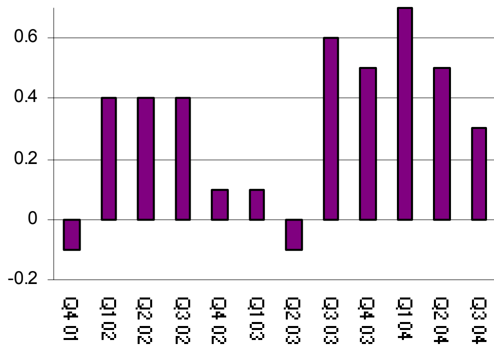
Chart I.2. London brent crude price in 2004, US$

Source: Datastream.

EU-15 growth

While output growth in Western Europe recovered in the early part of 2004, driven mainly by exports stimulated by strong growth in key markets, the recovery faltered in the second half of the year on the back of the surge in commodity prices, weakening of activity in the U.S., and the rise of the Euro. The output growth rate in the Euro-zone declined from 0.7% qoq in Q1 to 0.5% in Q2 and further to 0.3% in Q3, with a similar pace estimated for the last quarter of the year. The growth rate for 2005 is projected at roughly the level prevailing in 2004. Slower growth in EU-15 clearly has a strong impact on economic activity in EU8 countries given the large share of their exports directed to Western Europe.

Chart I.3. EU-15 growth, % q/q

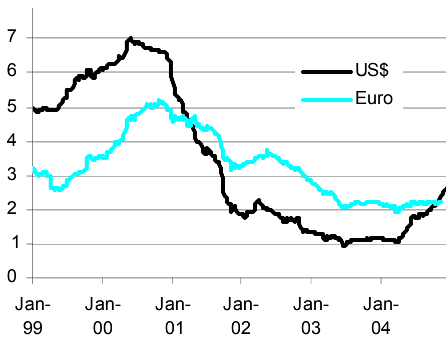


Source: Eurostat.

World interest rates and spreads

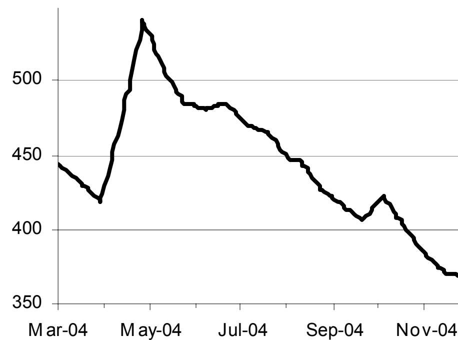
Monetary policies all over the world remained accommodative in 2004, and external financing conditions for emerging markets improved significantly. Despite a gradual tightening of monetary policy in the US from June (resulting in a cumulative 125 bps hike so far, of which 50 bps in the fourth quarter), emerging market spreads declined to record low levels following a temporary spike in May. This good performance reflects largely improved macroeconomic policies and fundamentals in emerging markets. Euro interest rates, which are more relevant for the EU8, remained on hold reflecting concerns about slow domestic demand growth and limited inflation pressures.

Chart I.4. LIBOR, 6M, %



Source: Fed, Datastream.

Chart I.5. EMBI+ spread

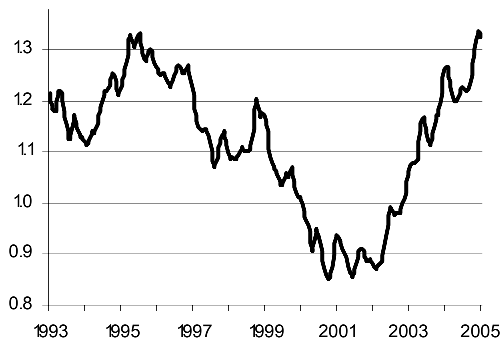


Source: ABN Amro

US$/Euro

The fourth quarter of 2004 witnessed a spectacular depreciation of the US$, particularly against the Euro. This was linked to concerns of private investors about the presumably unsustainable current account and fiscal deficits, the flagging recovery in Europe, and the rigid exchange rate policy in Asia (notably China). With the EU8 currencies generally shadowing the Euro, or in some cases appreciating vis-à-vis the Euro, their currencies also strengthened rapidly against the dollar. While the stronger Euro puts a dampening effect on exports and growth in the Euro-zone and some imports may be redirected from the EU8 to the U.S, the impact on the EU8 of Euro-dollar fluctuations is likely to be limited. These countries trade mostly with EU-15 (although a larger share of exports is denominated in U.S.), have most of their debt denominated in Euros, and ultimately target the Euro as the exchange rate anchor.

Chart I.6. US$/Euro exchange rate (or ECU)



Source: World Bank.

Chart I.7. US$/Euro in 2004

Source: World Bank.

EU-8 OVERVIEW OF EU-8

Political situation

Political developments in 2004 were marked by the accession of the EU8 countries to the EU and significant turbulence on the domestic political scenes. Government or the leadership changed in all countries except Estonia and Slovakia. Parliamentary elections underlie these changes only in Lithuania and Slovenia.

In the fourth quarter, the political situation stabilized in Poland, Hungary, and the Czech Republic as new governments established themselves in office. In Lithuania the political situation has stabilized only recently with the emergence of a coalition government of the new Labor Party, Social Democratic Party (SDP), New Unions/Social Liberals (who participated in the previous government) and New Democracy/Peasants' Union. In Slovenia, the new center-right government was formed by the Slovenian Democratic Party (SDS) and New Slovenia (NSi). A new majority coalition took office in Latvia with a nominally broad basis of support in Parliament. However, it may prove difficult to hold together the balance among strong personalities. In Slovakia the minority coalition has been able to enact its legislative program including far reaching health reforms and the 2005 budget.

Uncertainties continue for 2005, although possibly at a lesser scale. Elections, both parliamentary and presidential, are coming up in Poland and while all signs are that there will be a shift of government to a center-right coalition, the question is whether the outcome will bring greater stability. In the meantime, the current government continues to chart a moderate and reformist course. Scheduled elections in 2006 in several countries may also slow reform momentum across the region already in 2005.

Table I.1. Parliamentary elections/presidential elections: political timetable

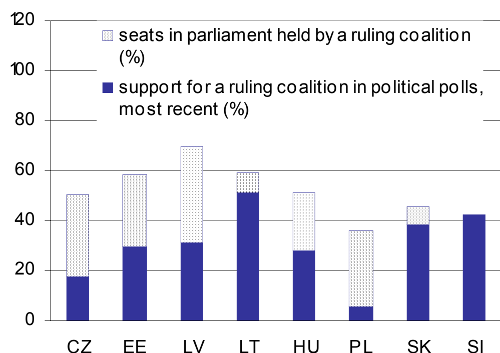
	Changes in 2004	Next parliamentary elections	Next presidential elections
CZECH REPUBLIC	government	2006	2008
ESTONIA	none	2007	2006
HUNGARY	government	2006	2005
LATVIA	government	2006	2007
LITHUANIA	parliament, government, president	2008	2009
POLAND	government	2005	2005
SLOVAKIA	president	2006	2009
SLOVENIA	parliament, government	2008	2007

Source: ISI, EIU.

In most countries new elections could support further reform efforts through improving the representation of various political fractions. Recent elections in Lithuania and Slovenia led to realignment of the parliamentary representation. In some countries the ruling coalition's popular support falls far short of its share in parliament (notably in Poland and the Czech Republic), and new elections should strengthen the political mandate of governments in these countries. It also appears that general support for the ruling coalition has strengthened in

countries which were able to approve major reforms and agree on major foreign policy issues (Slovakia).

Chart I.8. Support for ruling coalition in political polls



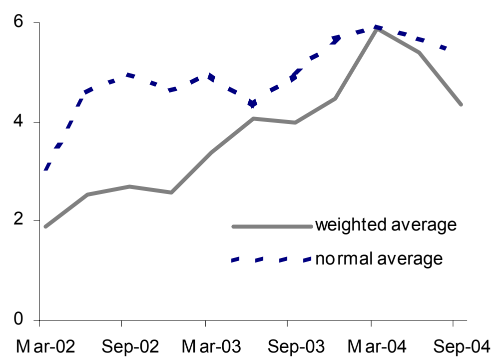
Source: National Parliaments websites, ISI, staff calculations.

Macroeconomic developments

Macroeconomic developments in the EU8 were on the whole favorable in 2004. Output growth gained further strength in line with the business cycle in Western Europe, and the fiscal situation generally improved—and/or was significantly better than expected—owing to buoyant revenues. While inflation picked up, this was largely a one-time increase related to EU accession and the rise in oil prices. Wage developments remained under control and secondary effects appear to have been contained. At the same time, however, there was no progress in reducing large external imbalances in some countries.

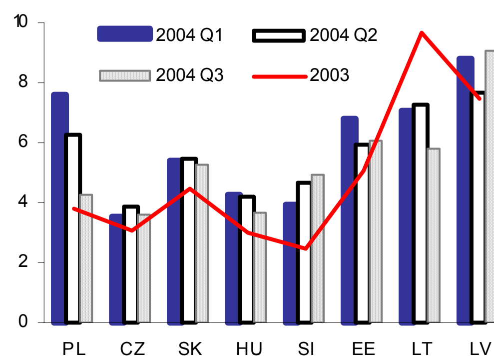
Output growth continued recovering in the region, but slowed somewhat in the second half of the year as the impact of an EU-accession related boost faded, slowing growth in Western Europe was felt, and higher inflation eroded real incomes. EU8 growth (weighted average) slowed from 5.4% in Q2 to 4.4% in Q3, but is estimated to have risen to 5% in 2004 as a whole—1 percentage point higher than the year before. Within the region, the good performance was driven by a strong recovery in Poland, but also a pick-up in activity in Hungary and the Czech Republic. Meanwhile, growth in the Baltic countries remained high, and Slovakia also sustained buoyant growth.

Chart I.9. Real GDP growth in EU8, %, y/y



Source: CSOs, staff calculations.

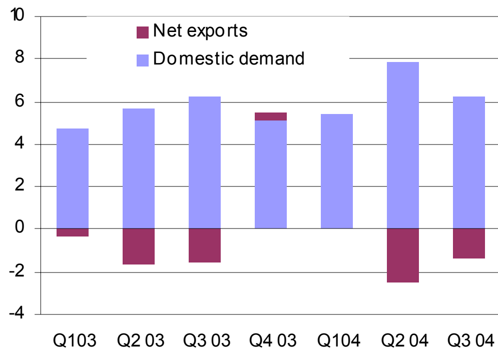
Chart I.10. Real GDP growth, %, y/y



Source: CSOs, staff calculations

Domestic demand continued to lead growth in 2004, with net exports contributing negatively. In particular, investment rebounded strongly (although affected by sizeable inventory accumulation in the second quarter) under the influence of strong corporate profits and a renewed stream of FDI as well as increased public sector infrastructure investments. Despite highly dynamic export growth, import growth was even more rapid although the balance improved somewhat in the third quarter. On the supply side, it is not surprising that the construction sector was particularly vibrant.

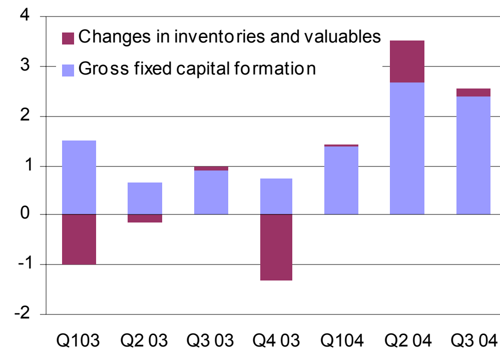
Chart I.11. GDP contribution in EU7*, simple average, % GDP



* EU8 excluding Latvia

Source: CSOs, staff calculations.

Chart I.12. Capital formation in EU6*, simple average, % GDP

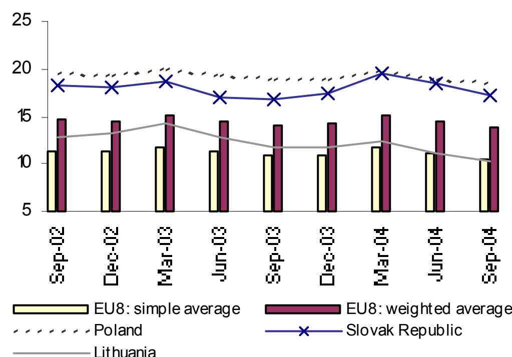


* EU8 excluding Latvia and Lithuania

Source: CSOs, staff calculations.

The EU8 recovery has gradually become more job-intensive. Unemployment rates are easing across the region (except the Czech Republic), and the weighted-average unemployment rate for EU8 dropped below 14% in the third quarter of 2004. Meanwhile, bottlenecks (notably shortages of highly-skilled labor) are developing in several labor markets.

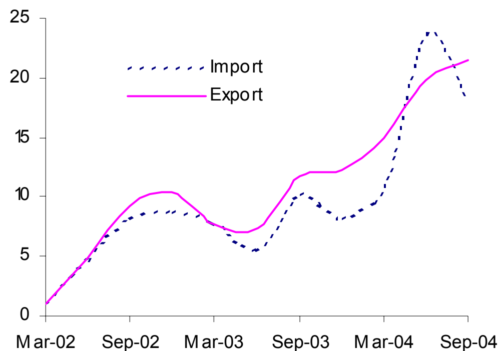
Chart I.13. Unemployment rate in EU8, %, NSA



Source: Eurostat.

Exports from the EU8 continued accelerating throughout 2004 under the impact of EU accession, stronger demand in main export markets, and higher FDI inflows. Exports from the EU8 were up by about 21% yoy in Q3, outpacing also rapid import growth of about 18% reflecting high import intensity of exports and new investment imports. Export growth was particularly strong from the Baltic countries (aided by real currency depreciation) and the Czech Republic (reflecting continuing structural changes in the corporate sector).

Chart I.14. Export and import in EU7* countries, simple average, %, y/y



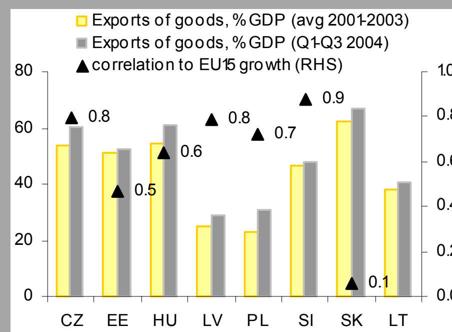
* EU8 excluding Lithuania

Source: WIIW, staff calculations.

Box I.1. Export growth analysis

The EU8 region has become highly reliant on the EU15 for trade, while trade with the CIS and intra-EU8 trade has decreased sharply during transition.

Exports to EU 15 from most of the EU8 countries form a large share of GDP, resulting in high sensitivity of their economies to shifts in demand from the EU. Exports range from above 60% of GDP for the Slovak Republic to 25% of GDP in Poland (data for 2001-2004).



Source: CSOs (in LCU), staff calculations.

The ratio of exports to GDP rose in all countries in 2004, led by Poland (up 8% GDP) and followed by the Czech Republic and Hungary (up 6-7% GDP) and Slovakia (up 4.5% of GDP). Similarly, the EU15 share of EU8 trade rose sharply in 2004, to roughly 80%. Estonia and Hungary's shares are the highest among the EU8

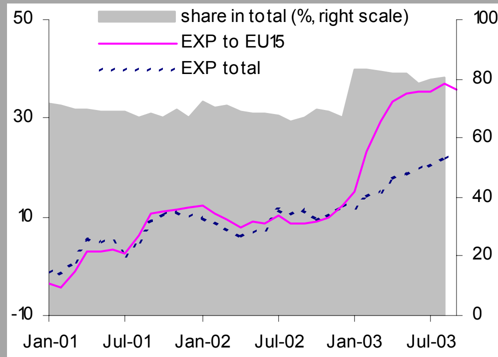
The high sensitivity is confirmed by a high correlation[2] between EU15 GDP growth (treated as proxy for EU15 demand) and export performance in most of the EU8 countries. The coefficient is higher than 0.7 in the Czech Republic, Latvia, Poland and Slovenia, while in Estonia and

[2] Correlation of EU8 exports and EU15 GDP in 2002-2004, quarterly data.

Hungary it is higher than 0.5. Slovakia is an exception with a surprisingly low correlation, which has its roots in 2003 export developments. The main factor behind the soaring export figures in 2003 was export of cars from the VW car plant in Bratislava. Also, the EU share of Slovak exports is not as high as in the Czech Republic or Hungary.

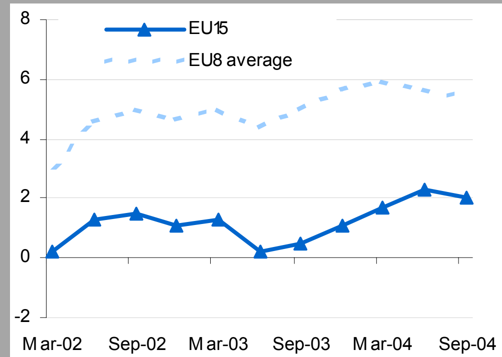
Strong productivity growth appears to so far have preserved export competitiveness of the Visegrad countries despite real currency appreciation (based on CPI). The nominal exchange rates of these countries appreciated against the Euro in the second half of 2004, resulting in a marked real appreciation.

Export vs export to EU15* in EU7, %, y/y, simple average**



*Exports to EU25 for Estonia **EU8 excluding Lithuania
For Sep 2004 only 4 countries
Source: WIIW, staff calculations.

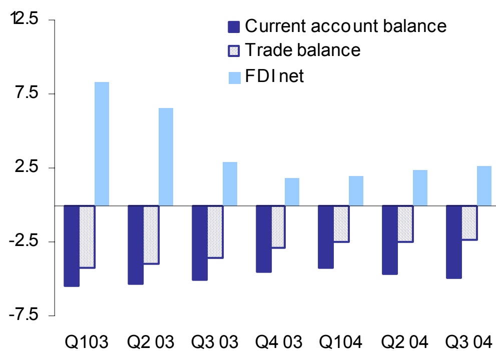
Real GDP growth in EU15 and EU8 countries, %, y/y, simple average



Source: CSOs, staff calculations.

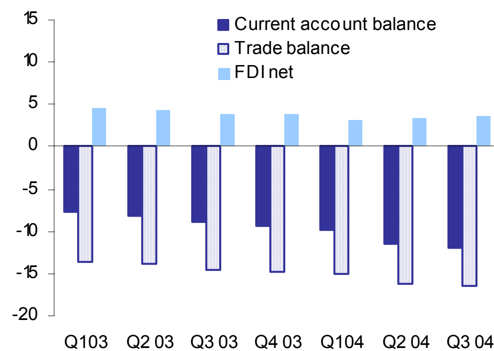
Nevertheless, the EU8 external current account deficit increased further in 2004. While the strong export performance was associated with an improvement in the EU8 trade balance, the current account deficit increased further. The region's current account deficit reached almost 7% of GDP (12 month rolling average) in Q3 2004, reflecting weaker balances in both the Visegrad countries plus Slovenia and a continued widening of the high deficits in the Baltics. While deficits remain low in Poland, Slovakia and Slovenia, they have reached worrisome levels in Hungary and the Baltic countries with no signs of abating. Income and current transfers show rising deficits resulting from repatriation of direct investment income, the higher costs of debt servicing (Hungary) and from the fact that liabilities related to EU membership are recorded as current transfers.

Chart I.15. External indicators* in Visegrad countries, simple average, % GDP



* 12 months rolling
Source: National Central Banks, staff calculations.

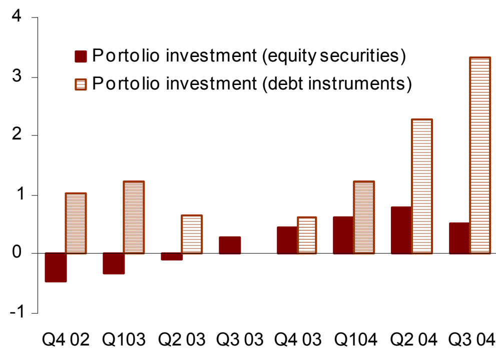
Chart I.16. External indicators* in Baltic countries, simple average, % GDP



* 12 months rolling
Source: National Central Banks, staff calculations.

Meanwhile, financing of the current account gap strengthened. Net FDI inflows recovered throughout 2004, reaching over 3% of GDP in EU8 in the third quarter of the year (nearly 4% of GDP in the Baltic countries). The recovery in FDI was most noteworthy in Slovakia and Hungary. EU8 bond markets also gained stronger attention of investors through 2004. After falling to a very low level in 2003 (0.8% GDP), portfolio investment inflows rebounded strongly in 2004, reaching 3.1% of GDP in Q3 (12 month rolling average). In the Visegrad countries and Slovenia, inflows were even higher at 4% of GDP. Inflows were mainly directed to bond markets, although investments in equity securities also increased in the Visegrad countries.

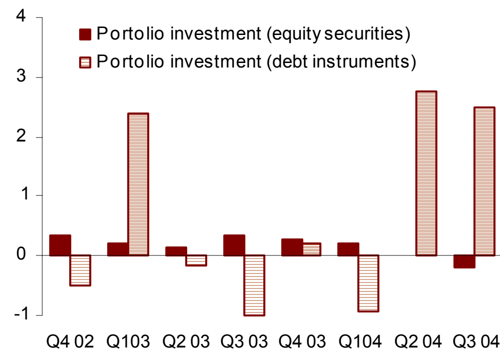
Chart I.17. Portfolio investment* in Visegrad countries, simple average, % GDP**



* 12 months rolling ** excluding Slovakia

Source: National Central Banks, staff calculations.

Chart I.18. Portfolio investment* in Baltic countries, simple average, % GDP

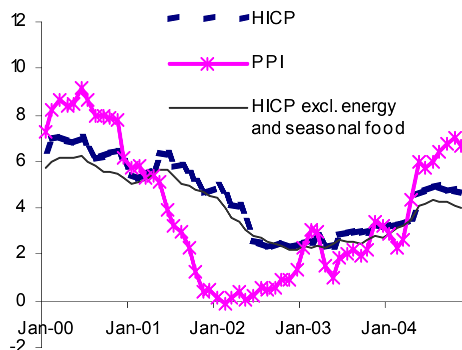


* 12 months rolling

Source: National Central Banks, staff calculations.

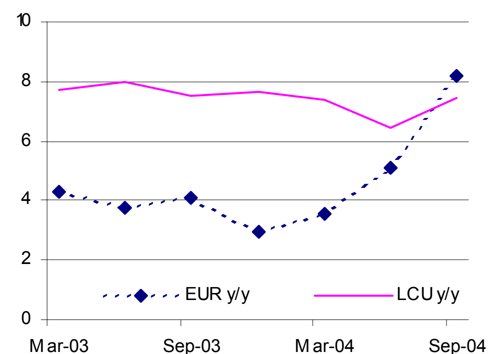
Inflationary pressures were generally contained in the latter part of 2004. Core inflation (HICP excluding energy and seasonal food) in the EU8 stabilized at 4% yoy in Oct-Nov, slightly below the level in Q2-Q3. The high oil and commodity prices appear to have been contained to energy-price hikes and PPI only, and wage demands have remained muted (as suggested by available data on minimum wage settlements for 2005). After rising by around 7% in 2004, wage growth is likely to slow in 2005 to about 6% (in the Visegrad countries). If labor productivity remains as strong as in 2004 this should not lead to a rise in unit labor costs. Inflation is likely to have risen on average to 4.4% in 2004, but expected to slow by about 1pp in 2005. Thus, the EU accession related inflation impulses were apparently contained.

Chart I.19. Inflation, %, y/y



Source: CSOs, Eurostat.

Chart I.20. Gross wages* growth in EU8, %, LCU, y/y



*in the whole economy (except Slovakia)

Source: CSOs, staff calculations.

Box I.2. Minimum wage growth

The minimum wage in the EU8 will rise by about 6% in 2005 (simple average; excluding Slovenia) compared to 10% in 2004. The deceleration of minimum wage growth is particularly sharp in the Baltic countries.

Latvia will have the lowest minimum wage in the EU8 in 2005 and also the largest number of employees paid at this wage (based on 2003 data). The minimum monthly wage in 2005 in Latvia[3] will be roughly 120-130 Euro, followed by Lithuania (160 Euro). Slovenia has the highest minimum wage in the region, but only 2% of employees receive it.

	Minimum wage in LCU (%, y/y)			% employees with minimum wage
	2003	2004	2005 Budget	2003
CZECH REP.	8.8	8.1	7.2	2.0
HUNGARY	0.0	6.0	7.5	7.4
POLAND	5.3	3.0	3.0	13.6
SLOVENIA	2.0	7.6	n/a	10.2
SLOVAKIA	13.2	9.2	6.9	8.1
LATVIA**)	16.7	14.3	0.0	15.4*)
LITHUANIA	0.0	16.3	10.0	2.7
ESTONIA	16.8	14.8	8.5	0.4*)

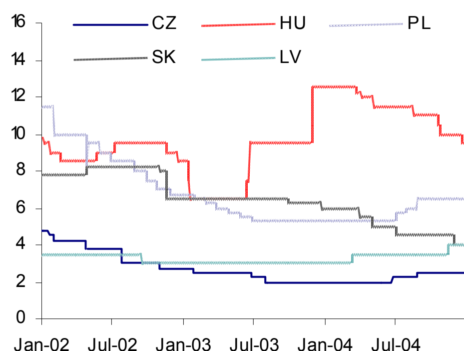
*) for EE in 2001; for LV in 2002

**) accorging to goverment represenatives there will be no minimum wage rise in 2005

The monetary policy tightening cycle was over by the third quarter of 2004. Following the hike in interest rates in several countries in the third quarter of 2004 in response to the jump in inflation in the aftermath of EU accession, interest rates were put on hold in the last quarter of the year while appreciating currencies worked to restrain monetary conditions. Strong currencies and easing inflation prodded the Hungarian and Slovak central banks to continue lowering interest rates in the fourth quarter (by 150bps and 50bps, respectively). For the year 2004 as a whole, interest rates were raised in the Czech Republic, Latvia, and Poland (50 bps, 100 bps, and 125 bps, respectively), while Hungary and Slovakia reduced interest rates by over 200 bps. However, the exception was Latvia where stubborn inflation led to a further increase in interest rates in November (by 50 bps). From 1 January 2005, the lat was re-pegged from the SDR to the euro at an exchange rate of 0.702804 lats per euro with a fluctuation margin of plus/minus 1 percent.

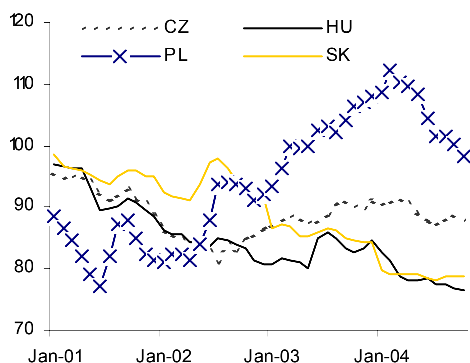
[3] In Latvia, the increase of the minimum wage rate has been postponed due to the potential budgetary pressures and replaced with an increase in the level of the non-taxable minimum.

Chart I.21. Basic interest rates, %



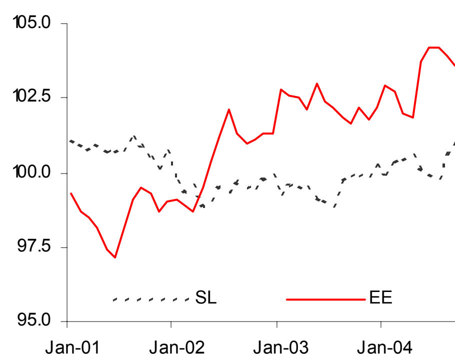
Source: National Central Banks.

Chart I.22. Real effective exchange rate in Visegrad countries (2000=100)



Source: WIIW, staff calculations.

Chart I.23. Real effective exchange rate in Baltic countries (2000=100)



Source: WIIW, staff calculations.

The EU8 fiscal stance was expansionary in 2004.[4] While budget revenues were buoyant in 2004, the overall EU8 budget position is estimated to have deteriorated slightly as some countries (notably Poland) had adopted expansionary budgets and others spent unanticipated revenues. In the Visegrad countries, the general government deficit is estimated at 4.7% of GDP (roughly the same level as in 2003 when adjusting that year for a large one-off imputation of state guarantees to the general government deficit in the Czech Republic). In the Baltic countries and Slovenia, the combined fiscal deficit is estimated to have risen to about 1.3% of GDP in 2004 (0.8 pp higher than in 2003), with Estonia again recording a surplus. The fiscal position is estimated to have turned out significantly better than budgeted in Poland and the Baltic countries, while in Hungary only an arbitrary postponement of payments into 2005 allowed the country to stay within its already twice downward revised forecast. On the whole, fiscal policy in the region was expansionary and implied a pro-cyclical stimulus.

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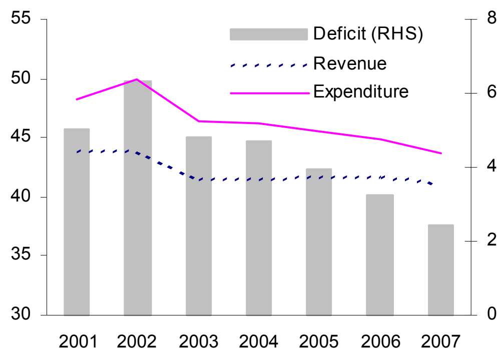
[4] The numbers in the following are based on December 2004 Convergence Programs for the Visegrad countries (excluding the impact of pension reforms), Estonia, Lithuania and Latvia; and government forecasts for Slovenia.

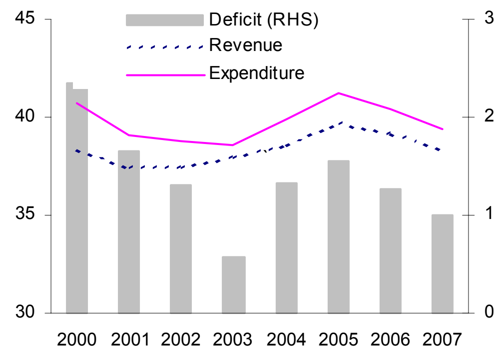
Chart I.24. General government performance in Visegrad countries, %GDP



* in CZ without one-off inputation of state guarantees

Source: Eurostat, CPs.

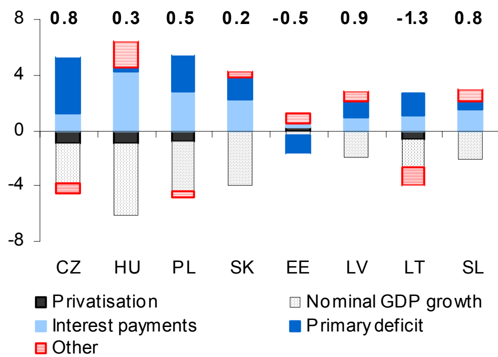
Chart I.25. General government performance in Baltic countries and Slovenia, %GDP



Source: Eurostat, CPs.

Public debt ratios in the Visegrad countries edged up. The gross public debt-to-GDP ratio in the Visegrad countries is estimated to have increased to some 46.2 % of GDP in 2004 (about 0.5% GDP higher than in 2003) due to higher primary deficits (mainly in Poland and the Czech Republic) and interest payments (notably Hungary) which more than offset the positive impact from strong GDP growth and privatization flows.

Chart I.26. Composition of changes in general government debt ratio in EU8 in 2003/2004, % GDP

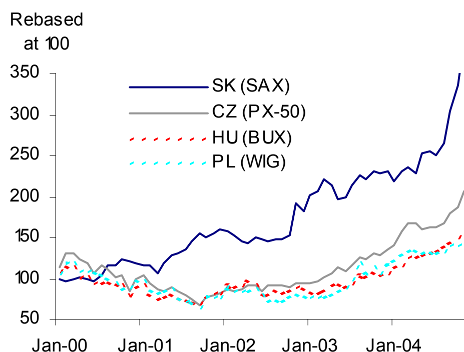


*) bolded numbers reflect y/y change in debt/GDP

Source: CPs, staff calculations.

It was a stunning year for EU8 stock markets. The strong currencies and strong performance of stocks in general seems to be the main underlying trends in EU8 financial markets. Central Europe's stock exchanges had a banner year in 2004, boosted by much faster economic growth than in the rest of Europe, the powerful positive effects of joining the European Union in May and some large privatizations conducted through the market.

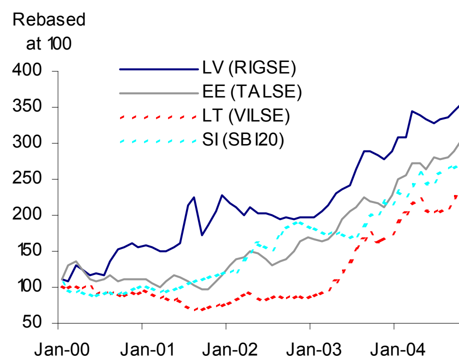
Chart I.27. Main stock exchange indices* in Vesigrad countries



* end of month

Source: Stock Exchanges, staff calculations.

Chart I.28. Main stock exchange indices* in Baltic countries and Slovenia



* end of month

Source: Stock Exchanges, staff calculations.

Outlook for 2005 and the medium term

After its peak in mid-2004, EU8 growth is expected to decelerate slightly through 2005. Real GDP growth in the region should be close to 4.5% (weighted average) in 2005, down from an estimated 5.0% in 2004. This reflects a combination of waning "EU-accession effect", less accommodative macro policies (both fiscal and monetary) and a slight slowdown in EU15 growth. Meanwhile, inflation should ease further as the EU-accession impact fades and oil prices decline.

Box I. 3. Credit growth in the EU8

Credit to the private sector is growing fast especially in the Baltic countries, driven by the household sector. In 2003, household credits grew remarkably in Latvia (60%), Hungary (48%) and Estonia and Lithuania (34% and 32%), and growth in the Czech Republic also exceeded 20%. Slovenia (2%) and Poland (6%) were notable exceptions. Credits to enterprises stagnated or declined in all countries, except Latvia (16%), Slovenia (8%), and Estonia (6%). Average growth over 2001-03 was positive only in Latvia, Slovenia and Estonia. The surge in credit expansion in the Baltic countries reflects in part the relatively small size of their banking sectors, not least in Lithuania.

	Bank credit to business sector			Bank credit to household sector		
	2003	Sep-04	2001-03	2003	Sep-04	2001-03
CZ	-12	-4	-19	24	22	11
EE	6	..	1	34	..	23
HU	1	2	-3	48	35	24
LT	..	..	..	32	12	12
LV	16	17	22	60	58	51
PL	-2	-8	0	6	4	9
SK	-8	-10	-17	17	23	6
SI	8	..	5	2	..	-3

Note: Credit growth is deflated by the GDP deflator. Bank credit data are geometric averages of beginning-of-the-year and end-of-the-year stocks.

This reflects both increased supply and demand. Banks have been cleaned up, have excess liquidity and are willing to lend. As a competition for enterprise borrowers is high, banks are entering the household market more aggressively. At the same time, buoyant consumption and real estate demand is fueled by expectations of future income growth.

Recent Financial System Stability Assessments by the IMF/World Bank suggest that there are no immediate threats to financial sector stability.[5] Banking sectors appear sound, although they face increased competitive pressures with accession to the European Union. While supervision has improved significantly, the new challenges call for further strengthening.

However, more recent examinations urge further caution. In Estonia, the IMF in November 2004 warned that recent rapid credit growth could pose a risk to macroeconomic and financial stability, and should continue to be monitored carefully. In Lithuania, the IMF suggested in December 2004 that high credit growth might be one of the signs that the economy is overheating. In Latvia, the IMF in August noted that the recent rise in inflation—though largely due to one-off factors—together with rapid credit growth could increase the country's vulnerability to external shocks. The IMF also advised careful monitoring of credit developments in Slovakia (November), the Czech Republic (August) and Hungary (May).

EC and ECB convergence reports (Q4-2004) stressed that fiscal policies were unsustainable in a number of countries[6]. The reports concluded that none of the EU-8 countries met all criteria required to enter the EMU. In particular, they concluded that "progress with fiscal consolidation had generally been too slow and a majority of countries had yet to achieve a situation which, in a broader view, might be judged as sustainable in the medium term." Excessively large public sectors, high contingent liabilities, anticipated demographic changes and high structural unemployment" were identified as the main problems. It was noted that "making tax/benefit systems more efficient and employment-friendly by strengthening work incentives could contribute significantly to fiscal consolidation while promoting economic growth".

The EC also drew attention to the need to strengthen the performance of labor markets across the EU8. This reflects a combination of structural issues related to skill and geographic gaps combined with policy issues affecting both labor demand and supply (wage policy, social assistance incentives, and the labor tax wedge).

Some fiscal consolidation is in the cards. The 2005 budgets for the Visegrad countries envisage a reduction in the fiscal deficit to 4% of GDP (led by Poland, but also some adjustment in the other countries). Fiscal positions in the Baltic countries and Slovenia would remain broadly unchanged, although the reversal from a surplus of 1% of GDP in Estonia in 2004 to balance in 2005 is noteworthy. Nevertheless, there are significant uncertainties in Poland as substantial expenditures (notably pension indexation) have been shifted to 2006 and in Hungary where renewed fiscal slippages are possible. Elections scheduled in 2006 in Slovakia, Hungary and the Czech Republic add further uncertainty to the fiscal outlook.

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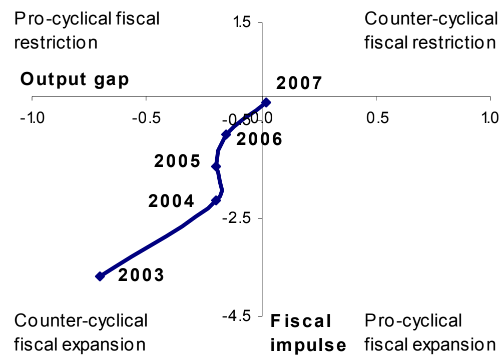
[5] FSAP Slovenia (May 2004), Slovakia (September 2002), Latvia (March 2002), Hungary (June 2002), Lithuania (February 2002) Poland (June 2001), and the Czech Republic (July 2001).

[6] These reports address the "progress made in the fulfillment by the member states of their obligations regarding the achievement of economic and monetary union", and must be prepared at least once every two years (or at the request of a member state). The period under review was September 2003 to August 2004.

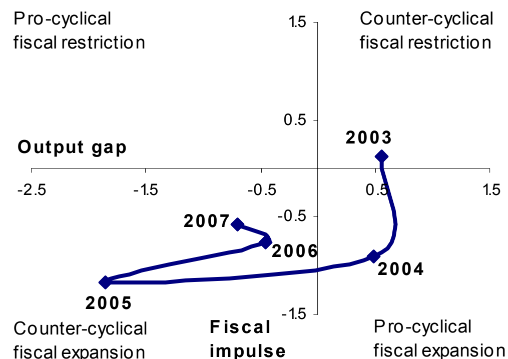
Updated Convergence Programs (CPs) from December 2004 broadly retain previous medium-term fiscal objectives. All Visegrad countries (except the Czech Republic) expect to reduce their fiscal deficits to below 3% of GDP by 2007 (Slovakia by 2006). The Czech Republic would follow in 2008. All countries are planning an improvement in their respective primary, cyclically adjusted balances by 2007. In the period 2005-2007, the Czech Republic would run the highest primary, cyclically adjusted deficit, while Hungary would have reached a primary surplus already in 2005. While all countries (except Hungary) project a worsening of their debt levels over the period, they would remain safely below the 60% of GDP threshold.

Chart I.29. Fiscal stance and cyclical conditions in Visegrad countries, 2003-2007, simple average



Source: CPs, staff calculations.

Chart I.30. Fiscal stance and cyclical conditions in Baltic countries and Slovenia, 2003-2007, simple average



Source: CPs, staff calculations.

Table I.2. Convergence Program comparisons

% of GDP	2003		2004		2005		2006		2007	
	previous	**latest update**	previous	**latest update**	previous	**latest update**	previous	**latest update**	previous	**latest update**
					GDP growth					
CZ	2.9	**3.1**	2.8	**3.8**	3.1	**3.6**	3.3	**3.7**	3.5	**3.8**
HU	2.9	**3.0**	3.3-3.5	**3.9**	3.5-4.0	**4.0**	cca. 4	**4.2**	4-4.5	**4.3**
PL	3.7	**3.8**	5.0	**5.7**	5.0	**5.0**	5.6	**4.8**	5.6	**5.6**
SK	4.2	**5.1**	4.1	**5.0**	4.3	**4.5**	5.0	**5.1**	4.7	**5.4**
EE	4.7	**5.1**	5.3	**5.6**	5.8	**5.9**	5.6	**6.0**	5.9	**6.0**
LV	7.5	**7.5**	6.7	**8.1**	6.7	**6.7**	6.5	**6.5**	6.5	**6.5**
LT	9.0	**9.7**	7.0	**6.5**	7.3	**6.5**	6.6	**6.2**	6.3	**6.0**
SL	2.3	**2.5**	3.6	**4.0**	3.7	**3.8**	3.8	**3.9**	3.9	**4.0**
					Actual budget balance					
CZ	-12.9	**-12.6**	-5.3	**-5.2**	-4.7	**-4.7**	-3.8	**-3.8**	-3.3	**-3.3**
HU	-5.2	**-5.5**	-3.9	**-4.5**	-3.3	**-3.8**	-2.7	**-3.1**	-2.2	**-2.4**
PL	-4.1	**-3.9**	-5.7	**-5.4**	-4.2	**-3.9**	-3.3	**-3.2**	-1.5	**-2.2**
SK	-3.6	**-3.7**	-4.0	**-3.8**	-3.4	**-3.4**	-3.0	**-2.9**	-2.0	**-1.9**
EE	2.6	**3.1**	0.7	**1.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**
LV	-1.8	**-1.5**	-2.1	**-1.7**	-2.2	**-1.6**	-2.0	**-1.5**	-2.0	**-1.4**
LT	-2.4	**-1.9**	-2.7	**-2.5**	-2.5	**-2.5**	-1.8	**-1.8**	-1.5	**-1.5**
SL	-1.8	**-2.0**	-1.9	**-2.1**	-1.8	**-2.1**	-1.5	**-1.8**	-0.9	**-1.1**
					Gross debt levels					
CZ	37.6	**37.8**	38.4	**38.6**	39.7	**38.3**	41	**39.2**	41.7	**40**
HU	57.0	**57.0**	56.7	**57.3**	54.6	**55.3**	53.0	**53.0**	51.2	**50.6**
PL	45.3	**45.4**	49.0	**45.9**	51.9	**47.6**	52.7	**48.0**	52.3	**47.2**
SK	42.8	**42.8**	45.1	**43.0**	46.4	**44.2**	46.1	**45.3**	45.5	**45.5**
EE	5.8	**5.3**	5.4	**4.8**	5.1	**4.6**	4.7	**4.3**	3.4	**3.1**
LV	15.3	**14.4**	16.2	**14.2**	16.8	**14.5**	17.3	**14.8**	17.7	**15.0**
LT	21.5	**21.4**	22.4	**20.1**	22.2	**20.9**	21.4	**20.3**	21.0	**20.1**
SL	28.6	**29.4**	29.1	**30.2**	29.5	**30.7**	29.4	**30.9**	28.4	**29.7**

*without pension reform effects

Source: CPs, December 2004.

Box I.4. Classification of Pension Funds and it's impact on fiscal outlook

In March 2004, Eurostat issued a controversial ruling on the classification of certain funded pension schemes, barring governments from classifying state transfers to pension funds as revenue (part of general government sector). This has had a particular impact on three of the EU8 countries, namely Poland, Hungary and Slovakia. Excluding the pension funds from public finance, as decided by Eurostat, would increase the budget deficit in 2005 in Poland by 1.7% GDP, in Hungary by 0.9% of GDP and in Slovakia by 0.4% of GDP (and by more than 1% GDP in the following years). Thus it would make it much more difficult for those countries to reduce their budget deficit below the 3% of GDP threshold before 2007 and adopt the euro

before 2010.

Despite the fact that Eurostat upheld its ruling in October 2004, Poland, Hungary and Slovakia have not changed their methodology in line with ESA rules. Their governments argue that transfers to OFE's should be treated as long-term savings and countries should not be punished for implementing needed pension system reforms. Certainly, Eurostat's decision would not seem to have any macro economic justification as national savings stay unaffected. These countries also refer to recent support from other EU member states (Italy, Germany, France) to exclude pension funds from budget deficit calculations The Eurostat ruling may be reviewed as part of the planned reform of the Stability and Growth Pact.

Pension fund reform - effect on general government deficit

% of GDP	2003	2004	2005	2006	2007
HU					
General government deficit	-5.5	-4.5	-3.8	-3.1	-2.4
Effect of pension reform	**-0.7**	**-0.8**	**-0.9**	**-1.0**	**-1.0**
General government deficit with the effect of pension reform	-6.2	-5.3	-4.7	-4.1	-3.4
PL					
General government deficit	-3.9	-5.4	-3.9	-3.2	-2.2
Effect of pension reform	**-1.6**	**-1.6**	**-1.8**	**-1.7**	**-1.7**
General government deficit with the effect of pension reform	-5.5	-7.0	-5.7	-4.9	-3.9
SK					
General government deficit	-3.7	-3.8	-3.4	-2.9	-1.9
Effect of pension reform	**0.0**	**0.0**	**-0.4**	**-1.0**	**-1.1**
General government deficit with the effect of pension reform	-3.7	-3.8	-3.8	-3.9	-3.0

source: CPs, staff calculations

The assessments by the EC in December were favorable except for Hungary. After the publication of the EC spring 2004 economic forecasts, the Commission initiated the excessive deficit procedure (Article 104-7) for Poland, Slovakia, the Czech Republic and Hungary in view of the fact that their fiscal deficits had exceeded 3% of GDP in 2003. Upon recommendation by the Commission, the Council decided in July that each country had an excessive deficit and at the same time issued recommendations for their correction. The EC's assessment—based on 2005 budgets and updated Convergence Programs—in December 2004 of Council recommendations were favorable in all cases except Hungary (where a slippage of more than 1 pp of GDP in the 2005 deficit compared to the May 2004 CP was expected).

The EC recommended to the Council to decide that corrective measures undertaken by the Hungarian government towards curtailing budget deficit were inadequate. The EC pointed out that while certain consolidation measures were implemented those were insufficient to meet the 2004 fiscal gap. According to EC further corrective action is needed in 2005 and subsequent years to reduce the general government deficit below 3% of GDP by 2008. Furthermore, the EC projects a 5.2% of GDP deficit in 2005 (against 4.7% of GDP outlined in the updated CP version) despite certain expenditure restrictions envisaged for 2005.

Structural issues and reform developments

EU-8 reform efforts in 2004 were focused on implementing the EU Acquis Communautaire, and progress on the broader reform agenda was limited and uneven. Further fiscal reforms were pursued in some countries (notably Poland and Slovakia) and privatization got a further push in a few countries (notably the Czech Republic and Poland). Some progress could also be detected in improving the overall business climate. In particular, banking and financial market reform was advanced in the Czech Republic, Estonia, and Slovakia—the only upgrades on the EBRD Transition Indicators.

- On fiscal reforms, Slovakia and Lithuania prepared for the introduction of their second and third pension pillars, respectively, from January 1, 2005. These reforms will improve the sustainability, adequacy, affordability and robustness of the pension systems. Slovakia also adopted a comprehensive reform of its health care system, aimed at rationalizing health services and strengthening incentives in the health care system. Further, the government will submit new law on tuition fees and scholarships for tertiary students in early 2005. Lithuania also revised its unemployment benefits system. From January 1, 2005 unemployment benefits are earnings related (equal to 40% of former wage or salary of unemployed) instead of based entirely on a flat rate. Moreover, the government plans to reduce personal income taxes, to be offset by introduction of a real estate tax. Finally, Poland implemented part of a fiscal reform package that included both administrative measures and measures to streamline social expenditures, although some of the latter were either diluted or abandoned. The Czech Republic implemented the first phase of its fiscal reforms (approved in late 2003), while Hungary achieved some much needed fiscal savings mainly through administrative measures and postponement of spending.
- Privatization was advanced in Poland with the sale of a minority share in the largest state-owned bank (PKO) in November. In Slovakia, several health care companies (in spa, hospital, pharmacy) and bus companies were privatized in 2004 for a total sale price of Sk 1bn, and privatization of 66% of the Slovak Power Plants for EUR840 million to Italian company Enel was prepared. The transaction is expected in early 2005. Additionally, in 2005 Erste Bank will buy the remaining 20% state share in the Slovak Saving Bank for Sk5 billion and become the sole owner of the Bank .
- Further, large privatizations are planned in 2005 in Poland and the Czech Republic, notably the insurance company PZU in Poland and the national telecommunications company Cesky Telecom and metallurgical firm Vitkovice Steel in the Czech Republic. PKN Orlen is also expected to finish its takeover of top Czech oil company Unipetrol in 2005. The Hungarian government plans to sell its shares in oil and gas company MOL, as well as its stakes in terrestrial broadcaster Antenna Hungária, Ferihegy airport operator Budapest Airport and the Land Credit and Mortgage Bank (FHB).
- However, the Czech government has postponed the largest privatization—electricity conglomerate CEZ—as well as Czech Airlines and the Czech Airport Authority; their privatization will return to the agenda only after 2006 elections. In Hungary, the government has made clear that privatizations related to Magyar Posta (Hungary's postal service), Hungarian railways (MÁV) and long-distance bus services (Volán) will not proceed prior to elections.
- Some steps were made towards strengthening the business environment in the Czech Republic in 2004, with revamping of cumbersome business registration, and reform of the judiciary (submitted to the Senate) and tax systems. Efforts were also made to reform bankruptcy legislation, but the status of this remains unclear. The country also undertook further labor market reforms aimed at enhancing flexibility in the job market. The new law redefines tools for active policies (e.g. introducing the possibility for employees to join the re-qualification process when they are assumed to lose their

jobs soon) and regulates the implementation of rules for job placement and entitlement for unemployment benefits.

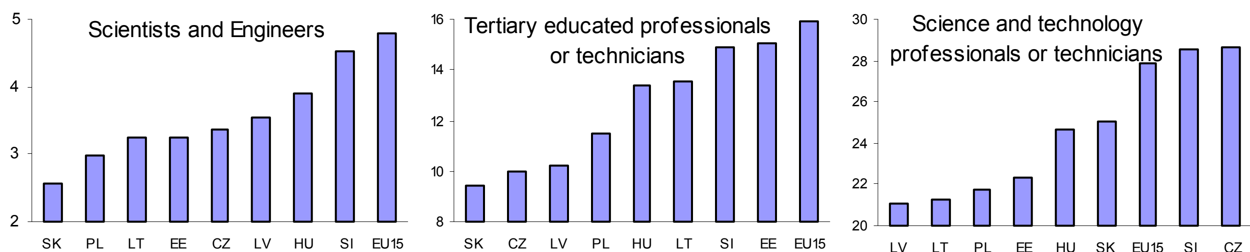
- Progress in banking and financial market reform was made in the Czech Republic, Estonia and the Slovak Republic, which was reflected in improved EBRD transition indicators received in 2004. The Czech Republic improved its capital market legislation, Estonia and the Slovak Republic achieved a significant expansion of domestic credit to the private sector and further strengthening of prudential supervision and competition in the banking sector.

The development of knowledge economies received further attention in 2004. Slovakia announced its plan for the development of competitive national economy, with structural reforms to focus on strengthening market incentives, modernizing education policy, achieving IT literacy, enhancing research, development and innovation, and improving law enforcement and the quality of public service.

A EUROSTAT analysis from October 2004 suggested that:

- The EU-8 generally lacks scientists and engineers. All EU-8 countries have a low share of scientists and engineers. However, Hungary, Latvia, Slovenia and Estonia are doing better on the number of tertiary educated professionals. The picture improves further if secondary-educated professionals were considered: Slovenia and the Czech Republic are above the EU-15 average.
- Highly qualified labor found is found mainly in services**.** The share of highly qualified labor in EU-8 manufacturing was 5% lower than in EU-15. On the other hand, services—and especially those that are knowledge intensive—tend to attract more high quality labor in the EU-8 than in the EU-15.

Panel I.1. Quality of labor



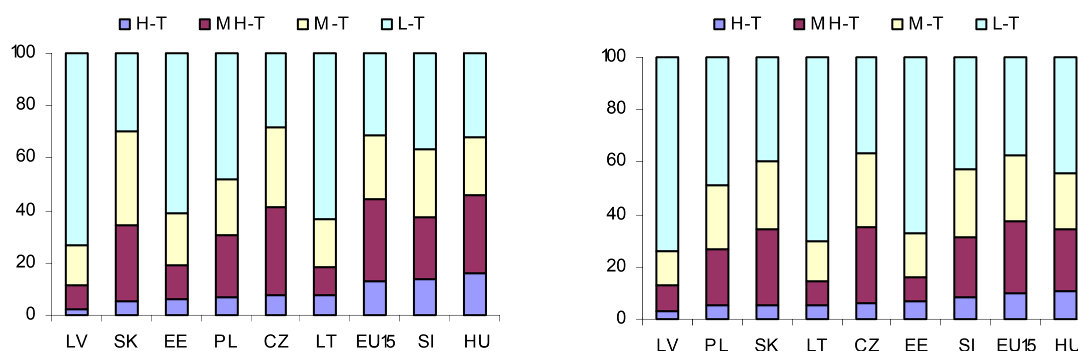
In percent of total labor force, 2003.

Source: EUROSTAT , Who are Europe's highly qualified human resources and where do they work? Statistics in focus, 11/2004; LFS 2003; and staff calculation.

- High-technology manufacturing in EU-8 in 2001, which also reflects quality of locally available labor, was far behind EU-15. Value added in high-tech in the EU-8 was only 8% compared to 13% in the EU-15. Similarly, the share of low-tech in the EU-8 was 47% compared to 32% in the EU-15. Perhaps more importantly, the EU8 countries need to raise the very low amounts spent on R&D and develop innovation strategies that lead to applying R&D to traditional industries.

Panel I.2. Value added and labor in manufacturing by technology

Value added, % / **Number of persons employed, %**



In percent of value added and labor in manufacturing. H-T stands for high technology, MH-T for medium-high technology, M-T for medium technology, and L-T for low technology.

Source: EUROSTAT , Specialization in manufacturing in the EU. Statistics in focus, 41/2004; and staff calculation.

The 2004 EBRD Transition Report found limited further progress in the EU-8. The only upgrades were as mentioned banking and financial sector development in the Czech Republic, Estonia, and Slovakia. All EU-8 countries are close to the EBRD's maximum index on progress of transition. The countries score the same or very similar in price liberalization, foreign exchange and trade liberalization, small-scale privatization, large-scale privatization (Slovenia and Poland are behind here), enterprise reform, and competition policy and infrastructure (Slovakia and Lithuania are lagging in these areas). Estonia and Hungary have the most developed banking sectors, while Lithuania is furthest behind. Slovakia and Slovenia need to improve non-banking sector regulations, while Hungary is scoring the best here.

The EBRD identified the key challenges in each country as follows:

- *Czech Republic*. Transparency in public procurement and the provision of state aid; conflicts of interest for public officials; judiciary; lending to enterprises; and comprehensive fiscal reform.
- *Estonia*. Reform of the energy sector; business environment; restructuring of large enterprises; and FDI.
- *Hungary*. Privatization; health care; tax system; energy market liberalization; labor market participation; regional imbalances; disability benefits; education; and fiscal discipline and coherent implementation of macroeconomic policies.
- *Latvia*. Corruption; anti-money laundering legislation; and liberalization of the energy sector.
- *Lithuania*. Clear legal and regulatory framework for the electricity market; pension reform.
- *Poland*. Business environment; judiciary and public administration; labor market rigidities; and fiscal consolidation.
- *Slovakia*. Consolidating recent improvements in the business environment; transport infrastructure; focus of monetary policy on disinflation; and implementation of pension and health care reforms.

- *Slovenia*. Competition policy; judiciary; privatization of large enterprises; and disinflation.

Table I.3. EBRD Transition Indicators 2004

	Population (m)	GDP p.c. in $(PPP)	Price liberalization	Forex and trade liberalization	Small-scale privatization	Large-scale privatization	Enterprise reform	Competition policy	Infrastructure reform	Banking sector reform	Reform of non-financial institutions	Combined index
CZ	10.3	15,780	4.3	4.3	4.3	4.0	3.3	3.0	3.3	3.7	3.3	3.7
EE	1.4	12,260	4.3	4.3	4.3	4.0	3.3	2.7	3.3	4.0	3.3	3.7
HU	10.0	13,400	4.3	4.3	4.3	4.0	3.3	3.0	3.7	4.0	3.7	3.8
LV	2.3	9,210	4.3	4.3	4.3	3.7	3.0	2.7	3.0	3.7	3.0	3.6
LT	3.5	10,320	4.3	4.3	4.3	3.7	3.0	3.0	2.7	3.0	3.0	3.5
PL	38.3	10,560	4.3	4.3	4.3	3.3	3.3	3.0	3.3	3.3	3.7	3.6
SK	5.4	12,840	4.3	4.3	4.3	4.0	3.0	3.0	2.7	3.7	2.7	3.6
SI	2.0	18,540	4.0	4.3	4.3	3.0	3.0	2.7	3.0	3.3	2.7	3.4

GDP per capita in 2002 at current international US$ (PPP)
Combined index calculated as un-weighted average by the WB staff

The indicators range from 1.33 to 4.33, where 4.33 indicates that the country's structural characteristics are comparable to those prevailing on average in advanced economies. Please see the methodological notes of the Transition Report to find indicator definitions and sources.

Source: EBRD Transition Report 2004 and staff calculation.

The new OECD Program for International Student Assessment (PISA)[7] suggests that EU-8 elementary and secondary education is in need of fundamental restructuring. While some EU-8 countries scored well (especially the Czech Republic), the general outcome is worrisome. Although the quality of tertiary education has often been questioned and has led to reform initiatives in several countries, the poor performance of elementary and secondary schools is a source of concern.

[7] PISA 2003 – data collected in 2003, results published in 2004.

Annex I.1. Specific country recommendations from convergence reports, October 2004

	Legal acts to be changed and problems identified in them	Other recommendations for achieving a high degree of sustainable convergence
CZECH REP.	Czech National Bank Act Act on the Supreme Control Office -personal independence -confidentiality	the implementation of a sustainable and credible fiscal consolidation path, and a tangible improvement of the country's fiscal performance. national policies aimed at improving the functioning of the labor markets should be strengthened
ESTONIA	Eesti Pank Act Constitution currency law -personal independence	continuation of fiscal discipline the determined promotion of wage moderation containment of credit growth while ensuring effective financial supervision reduction of the high current account deficit to sustainable levels improving the functioning of the labor markets in the medium term
LATVIA	Law on the Bank of Latvia -functional independence -personal independence	implement a sound fiscal consolidation path contain strong credit growth reduction of Latvia's large current account deficit to sustainable levels conduct of moderate wage policies further improving product market flexibility and addressing the remaining structural labor market problems
LITHUANIA	Law on the Bank of Lithuania Constitution law on currency law on the credibility of the litas -personal independence	implement a sound fiscal consolidation path and achieve an improvement in fiscal performance enhance competition in product markets proceed with the liberalization of regulated sectors further improve the functioning of labor markets contain the currently strong credit growth and to provide effective financial supervision ensure the sustainability of Lithuania's sizeable current account deficit.
HUNGARY	Magyar Nemzeti Bank Act Constitution -institutional independence -personal independence	implementation of a sustainable and credible fiscal consolidation path, and a tangible improvement of the country's fiscal performance. containing inflationary pressures decreasing the large current account deficit restore credibility to support exchange rate stability conduct of moderate wage policies for price stability improve labor market conditions
POLAND	Act on Narodowy Bank Polski Constitution -institutional independence -financial independence -personal independence	implementation of a sustainable and credible fiscal consolidation path, and a tangible improvement of the country's fiscal performance enhance competition in product markets proceed with privatization improve the functioning of the labor market

SLOVENIA	Banka Slovenije Act national corruption prevention legislation -institutional independence -personal independence	implement a sound fiscal consolidation path implement moderate wage policies proceed with structural reforms increased labor market flexibility continuation of economic liberalization
SLOVAKIA	Act on Národná banka Slovenska	implementation of a sustainable and credible fiscal consolidation path continue the ongoing implementation of structural reforms will be important enhancing competition improving the functioning of labor markets conducting moderate wage policies
	Source, EC, ECB	

Annex I.2. EC assessment, December 2004

	European Council recommendation under Article 104(7)	Commission assessments/conclusions (based on information detailed in 2005 budgets, confirmed by CP up dates)
Czech Republic	- to **correct** the excessive **deficit by 2008** - to take effective action by 5 November 2004 regarding the measures envisaged to achieve the 2005 deficit target of 4.7% of GDP, set in the May 2004 CP.	- **positive assessment** of action taken by Czech government regarding the measures envisaged to achieve the 2005 deficit target - If the expenditure ceilings of individual budget lines are applied prudently, the 2005 deficit target could even be over-achieved - to meet the expenditure ceilings in 2006, important expenditure cuts, particularly regarding government consumption, still need to be agreed upon - **no further steps** necessary under the excessive deficit procedure.
Poland	- to **correct** the excessive **deficit by 2007** - to take effective action by 5 November 2004 regarding the measures envisaged to achieve the 2005 deficit target, of 4.2% of GDP, set in the May 2004 CP	- **positive assessment** of action taken by Polish government regarding the measures envisaged to achieve the 2005 deficit target - the measures adopted and planned appear to be for the largest part of a structural nature (reflecting rationalization and savings in social spending), thus having a deficit reducing impact also in subsequent years - despite the rejection by Parliament of two measures of the Hausner plan (representing 0.2% of GDP) and ongoing uncertainty over the implementation of the remaining measures, consolidation impact of the envisaged measures is sufficient to achieve the 2005 deficit target from May's CP - **no further steps** necessary under the excessive deficit procedure
Slovak Republic	- to **correct** the excessive **deficit by 2007** - to take effective action by 5 November 2004 regarding the measures envisaged to achieve the 2005 deficit target, of 3.9% of GDP, set in the May 2004 CP	- **positive assessment** of action taken by Slovak government regarding the measures envisaged to achieve the 2005 deficit target - Slovak authorities almost fully completed the planed reform agenda, in particular related to further health care reforms and public sector rationalization - remaining uncertainties over 2005 target concern 2005's revenue side, including VAT revenues, social contributions and the revenue effect of the pension reform. - **no further steps** necessary under the excessive deficit procedure

Hungary	- to put an end to the present excessive deficit **as rapidly as possible** - to take action in a medium-term framework, set in the May 2004 CP (with the following annual targets: 4.6% of GDP in 2004, 4.1% of GDP in 2005, 3.6% in 2006,3.1% in 2007 and 2.7% of GDP in 2008) - to stand ready to introduce additional measures, if necessary, with a view to achieving the general government deficit target for 2004 - to take effective action by 5 November 2004 regarding the measures envisaged to achieve deficit target for 2005	- **negative assessment,** no effective action in response to the Council recommendations within the period laid down in the recommendation - despite some consolidation likely achieved in 2004, the target set in the CP is expected to be missed by a sizeable margin - new official 2005 target is 0.6 % of GDP higher than the original deficit target in the recommendation and in the CP - based on EC forecast there will be a further 0.5% of GDP slippage (due to uncertainty around interest expenditures, effectiveness of newly introduced rules for expenditure restriction and overly optimistic assumptions for certain revenues), which would bring the total slippage compared to the CP plan to 1.1% of GDP. - the slow progress in structural reforms, put at risk the completion of the correction of the excessive deficit in 2008 - debt ratio is expected to remain slightly below 60% of GDP

Annex I.3 Statistical annex

	2001	2002	2003	2004	Q1 04	Q2 04	Q3 04	Q4 04	Q1-3 04 (Q1-2 04 for Latvia)	Oct-04	Nov-04	Dec-04
Real GDP, SNA (%, y/y)												
Czech Republic	2.6	1.5	3.7		3.5	3.9	3.6		3.7			
Estonia	6.4	7.2	5.1		6.8	5.9	6.1		6.2			
Hungary	3.8	3.5	3.0		4.3	4.2	3.7		4.1			
Latvia	8.0	6.4	7.5		8.8	7.7	9.1		8.2			
Lithuania	6.4	6.8	9.7		7.1	7.3	5.8		6.7			
Poland	1.0	1.4	3.8		6.9	6.1	4.8		5.9			
Slovakia	3.8	4.6	4.5		5.4	5.5	5.3		5.4			
Slovenia	2.7	3.3	2.5		3.9	4.7	4.9		4.5			
Consumption, SNA (%, y/y)												
Czech Republic	3.0	3.3	4.7		1.9	1.5	-0.3		1.0			
Estonia	5.1	9.2	5.7		5.1	6.3	4.9		5.5			
Hungary	5.8	8.7	7.3		2.8	3.1	2.5		2.8			
Latvia	6.2	6.1	7.0		7.6	7.9			7.7			
Lithuania	2.8	5.0	10.4		12.2	8.0	8.0		9.3			
Poland	1.7	2.7	2.4		3.3	3.5	2.9		3.3			
Slovakia	4.7	5.3	0.3		1.7	3.4	3.5		2.9			
Slovenia	2.7	0.7	2.7		2.8	2.7	3.4		3.0			
Gross fixed capital formation, SNA (%, y/y)												
Czech Republic	5.4	3.4	4.8		9.3	10.5	9.7		9.9			
Estonia	13.0	17.2	5.4		-8.5	20.2	9.3		7.3			
Hungary	5.0	8.0	3.4		18.9	10.0	12.7		13.2			
Latvia	11.4	13.0	10.9		16.5	21.3			19.3			
Lithuania	13.5	11.1	14.0		17.2	15.0	13.5		14.9			
Poland	-8.8	-5.8	-0.5		3.5	3.6	4.1		3.7			
Slovakia	13.9	-0.6	-1.4		1.0	3.5	5.5		3.4			
Slovenia	4.1	3.1	6.3		7.9	6.5	6.3		6.9			
Change in inventories, SNA (%, y/y)												
Czech Republic	28.7	4.1	-35.7		17.5	11.6	-20.1		5.7			
Estonia	9.9	53.5	-4.9		24.5	-3.2	-19.7		9.6			
Hungary	-46.5	-75.3	-107.0		-18.9	48.6	42.6		11.8			
Latvia	-332.5	-63.9	381.6		38.8	68.8			47.0			
Lithuania	131.9	25.2	29.2		54.9	-763.2	74.1		121.0			
Poland	-93.7	-306.1	-455.8		1252.4	274.2	260.1		595.6			
Slovakia	96.7	110.2	-116.9		39.0	369.2	100.0		108.2			
Slovenia	-138.1	-179.7	246.9		22.2	275.5	-13.4		47.1			

	2001	2002	2003	2004	Q1 04	Q2 04	Q3 04	Q4 04	Q1-3 04 (Q1-2 04 for Latvia)	Oct-04	Nov-04	Dec-04
Exports, SNA (%, y/y)												
Czech Republic	11.5	2.1	7.3		10.4	26.0	22.7		19.8			
Estonia	-0.2	0.9	5.7		20.5	18.9	18.4		19.2			
Hungary	7.8	3.7	7.6		18.0	18.7	9.9		15.4			
Latvia	7.5	5.2	5.0		5.3	9.7			7.6			
Lithuania	21.2	19.5	6.9		1.2	6.2	3.3		3.6			
Poland	3.1	4.8	14.7		16.0	11.3	20.4		15.9			
Slovakia	6.2	5.6	22.5		15.8	16.4	5.1		12.2			
Slovenia	6.3	6.7	3.2		9.1	13.7	11.9		11.6			
Imports, SNA (%, y/y)												
Czech Republic	13.0	4.9	7.9		11.3	25.8	19.3		19.0			
Estonia	2.1	3.7	11.0		10.9	23.2	17.4		17.4			
Hungary	5.1	6.2	10.4		16.7	20.4	11.1		16.0			
Latvia	14.5	4.6	13.0		15.2	21.2			18.4			
Lithuania	17.7	17.6	10.2		13.2	15.8	15.0		14.7			
Poland	-5.3	2.6	9.3		11.3	8.3	19.0		12.9			
Slovakia	11.0	5.5	13.6		12.0	17.0	9.6		12.9			
Slovenia	3.0	4.9	6.8		10.2	14.5	10.1		11.6			
Industrial production (%, y/y)												
Czech Republic	10.6	4.8	5.8		8.7	12.6	8.8			8.1	10.9	
Estonia	8.9	8.2	9.8		7.4	7.1	7.4			1.0		
Hungary	3.6	2.8	6.4		10.4	10.4	5.9			5.7	10.6	
Latvia	6.9	5.8	6.5		9.2	6.4	3.9			-0.8	8.5	
Lithuania	16.0	3.1	16.1		9.8	17.4	7.3					
Poland	0.6	1.1	8.4		19.0	16.4	9.2			3.5	11.3	
Slovakia	7.6	6.7	5.3		6.2	5.2	3.9			0.2	2.5	
Slovenia										-3.0	3.8	
Retail sales (%, y/y)	115.0	125.0	8.7									
Czech Republic	4.5	3.0	4.9		1.2	2.5	1.8			1.3	8.0	
Estonia	13.5	14.5	10.0		14.0	15.0	12.0			8	15	
Hungary	4.4	8.7	8.9		6.5	7.8	5.6			4.3		
Latvia	10.0	18.0	13.0		13.1	13.8	10.4			9.7	13.7	
Lithuania	2.3	7.9	11.1		14.5	12.6	8.3					
Poland		3.1	7.9		13.5	14.4	9.8			4	4.4	
Slovakia			-5.2		3.9	8.6	9.6			3.1	4.7	
Slovenia					3.0	1.8	2.1			4.5		
Unemployment (%, NSA, Survey data)												
Czech Republic	8.1	7.3	7.8		8.7	8.2	8.2					
Estonia	12.7	10.4	10.1		10.1	10.0	10.0					
Hungary	5.7	5.8	5.9		6.1	5.8	6.1					
Latvia	13.1	12.0	10.6		11.5	9.9	10.0					
Lithuania	16.4	17.4	13.8		13	11.3	10.6					
Poland	18.4	19.9	19.4		20.7	19.1	18.2					
Slovakia	19.4	18.7	17.4		19.3	18.5	17.5					
Slovenia	5.9	5.9	6.6			6.1	6.0					

	2001	2002	2003	2004	Q1 04	Q2 04	Q3 04	Q4 04	Q1-3 04	Oct-04	Nov-04	Dec-04
CPI inflation (%, average y/y)												
Czech Republic	4.7	1.8	0.1	2.9	2.4	2.7	3.2	3.2				
Estonia	5.8	3.6	1.3	3.0	0.4	3.2	4.0	4.3				
Hungary	9.2	5.5	4.4	6.8	6.8	7.3	7.0	5.9				
Latvia	2.5	1.9	2.9	6.1	4.3	5.8	7.4	6.8				
Lithuania	1.3	0.3	-1.2	1.2	-1.2	0.5	2.5	3.0				
Poland	5.5	1.9	0.8	3.5	1.6	3.3	4.6	3.4				
Slovakia	7.3	3.4	8.5	7.6	8.3	8.1	7.4	6.4				
Slovenia	8.4	7.5	5.5	3.5	3.7	3.7	3.6	3.1				
PPI (%, y/y)												
Czech Republic	2.8	-0.5	-0.3	5.7	1.8	4.9	7.8	8.4				
Estonia	4.4	0.4	0.2		0.9	2.8	4.0					
Hungary	5.1	-1.7	2.3		4.3	4.3	2.9					
Latvia	1.7	0.9	3.2		5.4	7.5	10.4					
Lithuania	-3.0	-2.8	-0.5		-0.2	7.6	9.2					
Poland	1.7	1.1	2.7		4.4	9.0	8.4					
Slovakia	6.6	2.1	8.3		2.9	2.8	3.6					
Slovenia	8.9	5.1	2.5	4.2	3.1	4.1	4.7	4.9				
Exchange rate (nominal, LCU/EUR, period average)												
Czech Republic	34.1	30.8	31.8	32.0	32.9	32.0	31.6	31.4				
Estonia	15.6	15.6	15.6	15.6	15.6	15.6	15.6	15.6				
Hungary	256.6	242.9	253.5	251.8	260.2	252.1	248.8	246.0				
Latvia	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7				
Lithuania	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.5				
Poland	3.7	3.9	4.4	4.5	4.8	4.7	4.4	4.3				
Slovakia	43.3	42.7	41.5	40.1	40.6	40.1	40.0	39.8				
Slovenia	218.0	226.0	233.8	239.1	237.6	238.8	240.0	239.8				
Exchange rate (nominal, LCU/USD, period average)												
Czech Republic	38.0	32.7	28.2	25.7	26.3	26.6	25.9	24.1				
Estonia	17.5	16.6	13.9	12.6	12.5	13.0	12.8	12.1				
Hungary	286.5	257.9	224.3	202.6	208.1	209.3	203.6	190.0				
Latvia	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5				
Lithuania	4.0	3.7	3.1	2.8	2.8	2.9	2.8	2.7				
Poland	4.1	4.1	3.9	3.7	3.8	3.9	3.6	3.3				
Slovakia	48.4	45.3	36.8	32.3	32.4	33.3	32.8	30.6				
Slovenia	242.7	240.2	207.1		189.8	197.9	196.3					
Real effective exchange rate, CPI based (%, y/y), (negative value= appreciation)												
Czech Republic	-5.7	-10.3	2.0		-0.2	1.6	-2.7			-1.7	-2.1	
Estonia	2.0	1.9	1.8		-0.1	0.8	2.0			1.7	3.1	
Hungary	-8.1	-11.2	-2.3		-1.3	-5.1	-9.9			-7.5	-9.2	
Latvia	2.1	3.4	6.0		2.5	-1.7						
Lithuania	-2.7	2.4	1.9		-0.6	-2.8	-0.8					
Poland	-13.8	3.2	9.8		10.2	4.0	-3.1			-7.4	-9.5	
Slovakia		-1.1	-12.7				-8.6			-6.7	-7.2	
Slovenia										1.1	0.5	

	2001	2002	2003	2004	Q1 04	Q2 04	Q3 04	Q4 04	Q1-3 04	Oct-04	Nov-04	Dec-04
Exports of goods (EUR, %, y/y)												
Czech Republic	18.3	9.3	5.7		8.6	29.4	30.3			18.5	36.1	
Estonia	7.3	-3.2	11.7		20.1	13.6	34.7					
Hungary	11.8	7.2	4.0		14.8	17.8	12.9			9.5		
Latvia	-38.0	12.1	17.2		15.6	21.9	28.9			21.5	29.2	
Lithuania	20.6	11.7	11.2		9.3	23.5	21.5					
Poland	17.1	7.4	9.3		20.6	26.4	27.3			22.3		
Slovakia	9.7	8.2	26.8		18.6	22.8	10.5			12.3		
Slovenia	9.0	5.9	2.9		8.4	10.4	11.8			6.3		
Imports of goods (EUR, %, y/y)												
Czech Republic	16.6	5.7	5.1		7.0	27.1	24.9			16.9	23.0	
Estonia	4.0	5.8	12.9		10.1	26.2	-18.3					
Hungary	8.2	6.1	5.5		11.7	20.8	11.7			9.7		
Latvia	-36.5	13.4	19.7		16.8	23.9	20.3			14.7	26.2	
Lithuania	16.1	13.4	7.1		11.8	19.6	19.5					
Poland	5.8	3.6	3.2		12.8	28.4	16.6			10.9		
Slovakia	19.2	6.3	13.7		15.3	25.0	14.9			11.6		
Slovenia	3.2	2.0	5.7		5.9	15.6	12.8			10.1		
Trade balance (% GDP)												
Czech Republic	-5.0	-3.0	-2.7		-2.5	-2.3	-1.8					
Estonia	-13.2	-15.4	-17.4		-16.4	-18.3	-18.7					
Hungary	-4.3	-3.2	-4.0		-3.6	-3.1	-2.6					
Latvia	-16.4	-15.6	-18.0		-18.6	-20.0	-19.6					
Lithuania	-8.6	-9.4	-9.2		-10.2	-10.5	-11.0					
Poland	-4.1	-3.8	-2.7		-2.4	-2.6	-2.6					
Slovakia	-10.2	-8.7	-2.0		-1.5	-1.8	-2.5					
Slovenia	3.1	1.1	2.2									
Current account (%GDP)												
Czech Republic	-5.4	-5.6	-6.2		-6.3	-6.2	-6.3					
Estonia	-5.6	-10.2	-13.2		-12.2	-14.5	-14.0					
Hungary	-6.3	-7.1	-9.0		-9.1	-8.9	-9.1					
Latvia	-8.9	-7.0	-8.2		-9.2	-11.5	-12.2					
Lithuania	-4.4	-5.2	-6.9		-8.0	-8.7	-9.4					
Poland	-2.9	-2.6	-2.2		-1.7	-1.8	-1.8					
Slovakia	-8.4	-7.9	-0.8		-0.2	-1.6	-2.4					
Slovenia	0.2	1.4	-0.4									
FDI net (% GDP)												
Czech Republic	9.0	11.2	2.6		2.6	2.6	2.5					
Estonia	5.7	2.2	8.3		6.0	6.2	4.5					
Hungary	6.9	4.0	0.8		1.6	1.9	3.4					
Latvia	1.8	4.1	2.4		2.3	2.7	3.5					
Lithuania	3.4	5.0	0.8		0.9	1.2	3.1					
Poland	3.1	2.0	1.9		1.7	1.9	1.4					
Slovakia	7.4	17.1	2.1		2.1	2.9	3.3					
Slovenia	1.1	6.8	-0.5									

	2001	2002	2003	2004	Q1 04	Q2 04	Q3 04	Q4 04	Q1-3 04	Oct-04	Nov-04	Dec-04
Net portfolio investment (%GDP)												
Czech Republic	1.5	-1.9	-1.5		0.8	2.5	3.0					
Estonia	-0.7	2.0	1.9		-2.7	5.1	3.7					
Hungary	2.7	2.6	3.5		3.4	3.9	4.4					
Latvia	1.5	-2.5	-2.0		-0.7	1.4	1.0					
Lithuania	2.0	0.1	1.5		1.1	1.8	2.2					
Poland	0.6	1.0	1.2		1.4	2.8	4.1					
Slovakia	-1.3	2.3	-1.7		-1.6	2.4	2.5					
Slovenia	0.3	-0.3	0.9									
General Government balance (ESA95)												
Czech Republic	-5.9	-6.8	-12.6									
Estonia	0.3	1.4	3.1									
Hungary	-4.4	-9.2	-5.5									
Latvia	-2.1	-2.7	-1.5									
Lithuania	-2.0	-1.5	-1.9									
Poland	-3.8	-3.6	-3.9									
Slovakia	-6.0	-5.7	-3.7									
Slovenia	-2.8	-2.4	-2.0									
State Budget balance (national methodology) % GDP												
Czech Republic	-2.9	-1.9	-4.3									
Estonia	0.8	2.3	1.5									
Hungary	-2.7	-8.8	-3.9									
Latvia *	-2.0	-2.3	-1.6									
Lithuania **	-1.5	-2.1	-2.0									
Poland	-4.3	-5.0	-4.5									
Slovakia												
Slovenia	-1.0	-2.6	-1.2									
General Government revenue (ESA95, % GDP)												
Czech Republic	39.1	40.2	41.9									
Estonia	37.2	38.0	38.9									
Hungary	44.3	43.4	44.3									
Latvia	34.4	33.1	34.5									
Lithuania	33.0	32.8	32.3									
Poland	43.8	43.9	43.7									
Slovakia	45.5	45.2	36.3									
Slovenia	45.1	45.7	46.2									
General Government expenditure (ESA95, % GDP)												
Czech Republic	45.0	46.9	54.1									
Estonia	36.9	36.6	35.8									
Hungary	48.7	52.7	49.8									
Latvia	36.5	35.8	36.0									
Lithuania	35.1	34.4	34.1									
Poland	47.6	48.9	47.6									
Slovakia	51.5	50.9	40.0									
Slovenia	47.9	48.1	48.2									

	2001	2002	2003	2004	Q1 04	Q2 04	Q3 04	Q4 04	Q1-3 04	Oct-04	Nov-04	Dec-04
Public debt (% GDP)												
Czech Republic	25.3	28.8	37.8									
Estonia	4.4	5.3	5.3									
Hungary	53.5	57.2	59.1									
Latvia	14.9	14.1	14.4									
Lithuania	22.9	22.4	21.6									
Poland	36.7	41.4	45.4									
Slovakia	48.7	43.3	42.6									
Slovenia	28.1	29.5	29.5									
Oil price (Brent)	24.7	25.1	28.8	38.1	31.8	35.4	41.3	45.1				
Exchange rate (USD/EUR)	0.9	0.9	1.1	1.2	1.3	1.2	1.2	1.3				

* General government budget

** State and municipality budget

Source: Eurostat, WIIW, CSOs, National Central Banks, World Bank, staff calculations.

Annex I.4 Macro Forecasts

	2004					2005					2006				
	EC	GOV	IMF	OECD	WB	EC	GOV	IMF	OECD	WB	EC	GOV	IMF	OECD	WB
GDP															
Czech Republic	3.8	3.8	3.3	3.9	3.7	3.8	3.6	3.4	4.2	3.7	4.0	3.7		4.1	3.8
Estonia	5.9	5.6	5.8		5.5	6.0	5.9	5.4		5.5	6.2	6.0			5.5
Hungary	3.9	3.9	3.5	3.9	3.8	3.7	4.0	3.7	3.6	3.6	3.8	4.2		3.5	3.7
Latvia	7.5	8.1	6.5		7.0	6.7	6.7	6.0		6.0	6.7	6.5			6.0
Lithuania	7.1	6.5	7.0		6.5	6.4	6.5	7.0		6.0	5.9	6.2			6.0
Poland	5.8	5.7	5.8	5.4	5.8	4.9	5.0	5.1	4.3	4.8	4.5	4.8		4.5	4.5
Slovakia	4.9	5.0	4.8	4.9	4.0	4.5	4.5	4.3	4.8	4.0	5.2	5.1	5.1	5.0	
Slovenia	4.0	4.0	3.9			3.6	3.8	4.1			3.8	3.9	4.4		
CPI															
Czech Republic	2.8	2.9	3.2	2.9	3.0	3.1	3.3	3.0	3.1	3.2	2.9	2.8		3.0	3.0
Estonia	3.4	3.1	3.0		3.0	3.5	3.4	2.5		2.0	2.8	2.7			3.0
Hungary	6.9	6.8	6.9	6.9	6.8	4.6	4.5	4.4	4.7	4.4	4.2	4.0		4.5	4.3
Latvia	6.8	6.2	5.8		4.6	4.7	4.3	3.5		3.2	3.5	3.0			3.1
Lithuania	1.2	1.0	0.6		2.7	2.9	2.9	2.5		3.7	2.8	2.5			3.1
Poland	3.5	3.5	3.7	3.3	3.5	3.3	3.0	3.8	3.0	3.5	3.0	2.7		3.4	2.8
Slovakia	7.7	7.8	7.7	7.7	7.7	3.9	3.3	3.0	3.6	3.5	3.0	2.8	2.8	3.1	3.0
Slovenia	3.9	3.6	3.7			3.4	3.0	3.2			3.0	2.7	3.0		
Fiscal deficit															
Czech Republic	-4.8	-5.2		-4.3	-5.1	-4.7	-4.7		-4.6	-4.7	-4.3	-3.8		-3.9	-4.0
Estonia	0.5	1.0				0.5	0.0				0.1	0.0			
Hungary*	-5.5	-4.5/(-5.3)		-5.4	-4.4	-5.2	-3.8 (-4.7)		-4.9	-4.0	-4.7	-3.1/(4.1)		-4.5	-3.7
Latvia	-2.0	-1.7				-2.8	-1.6				-2.9	-1.5			
Lithuania	-2.6	-2.5				-2.5	-2.5				-1.9	-1.8			
Poland*	-5.6	-5.4		-5.4	-7.3	-4.1	-3.9		-4.7	-5.6	-3.1	-3.2		-4.3	-5.3
Slovakia	-3.9	-3.8	-3.7	-3.9	-3.6	-4.0	-3.4	-3.9	-3.8	-2.8	-4.1	-2.9	-4.0	-3.9	-2.5
Slovenia	-2.3	-2.1	-1.4			-2.2	-2.1	-1.1			-1.9	-1.8	-0.8		
Gross debt															
Czech Republic	37.8	38.6				39.4	38.3				40.6	39.2			
Estonia	4.8	4.8				4.4	4.6				4.2	4.3			
Hungary	59.7	57.3				59.5	55.3				58.9	53.0			
Latvia	14.6	14.2				14.4	14.5				16.6	14.8			
Lithuania	21.1	20.1				21.7	20.9				21.3	20.3			
Poland	47.7	45.9				49.8	47.6				49.3	48.0			
Slovakia	44.2	43.0				45.2	44.2				45.9	45.3			
Slovenia	30.9	30.2	27.3			30.8	30.7	27.4			30.6	30.9			
Current account															
Czech Republic	-6.1	-6.0	-5.5	-6.5	-6.4	-6.0	-5.7	-4.9	-6.6	-6.0	-5.7	-5.3		-6.5	-6.3
Estonia	-13.0	-13.1	-11.2		-8.6	-11.6	-10.4	-9.5		-6.5	-10.2	-9.2			-5.5
Hungary	-8.7	-9.0	-8.8	-9.1	-9.4	-8.5	-8.5	-8.2	-8.5	-8.8	-8.5	-7.7		-8.2	-8.6
Latvia	-9.9	-10.3	-9.3		-9.4	-9.8	-9.5	-8.2		-8.3	-9.6	-9.1			-7.6
Lithuania	-8.7	-7.8	-7.1		-6.6	-8.5	-8.0	-6.9		-5.3	-7.9	-8.4			-4.2
Poland	-2.6	-1.9	-1.7	-1.5	-1.8	-3.1	-2.3	-2.1	-2.1	-1.8	-3.3	-3.0		-2.2	-2.0
Slovakia	-2.9	-2.2	-2.3	-2.6	-5.5	-3.3	-2.8	-2.6	-3.0	1.0	-3.0	-2.1	-1.9	-1.9	3.4
Slovenia	-0.2	-0.2	-0.6			-0.8	-0.4	-1.4			-1.0	-0.1	-2.2		

* HU: GG deficit without effect of pension reform, PL: cash deficit

Source: EC: Autumn 2004 Economic Forecasts. GOV: Convergence Programs. IMF: World Economic Outlook, September 2004. OECD: OECD Economic Outlook November 2004. WB: WB Regional ECA Database, latest country economist forecast

Notes: EC European Commission, GOV Government.