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## CEE: Managing new norms

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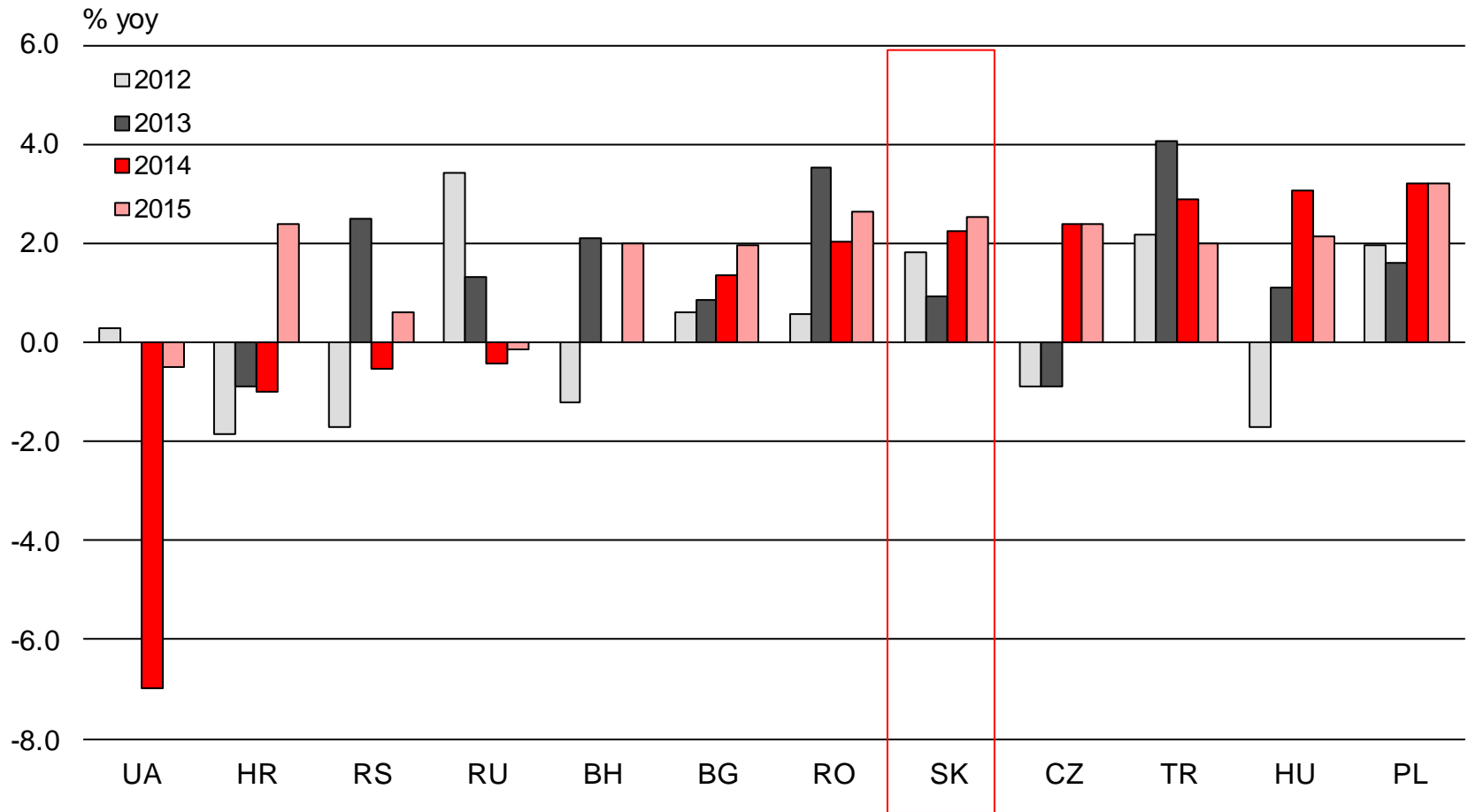
## Topics

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- Growth differentiation in CEE
- Growth drivers
- Capital flows

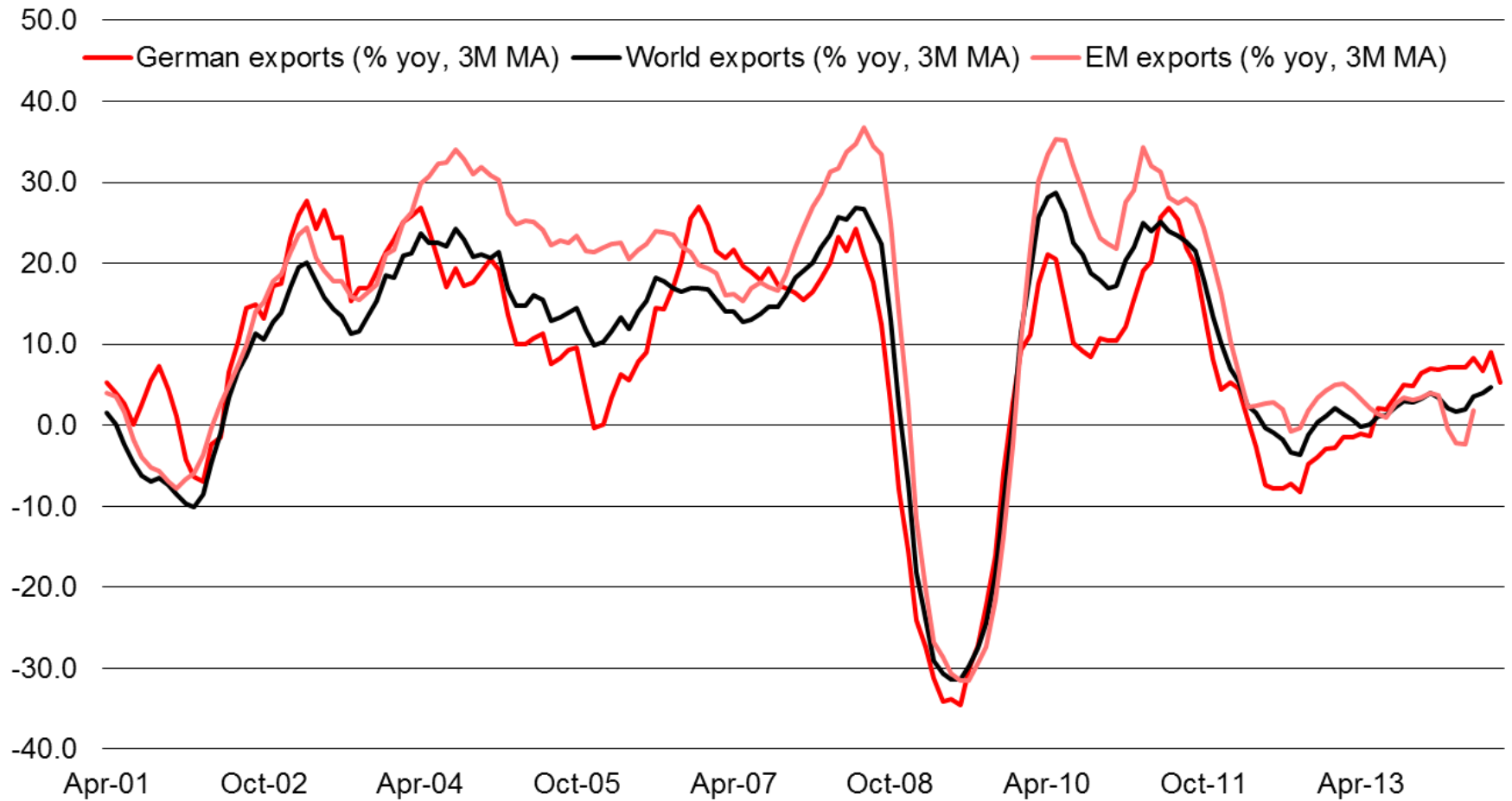
# CEE: Regional differentiation in growth performance

Stronger exporters perform better



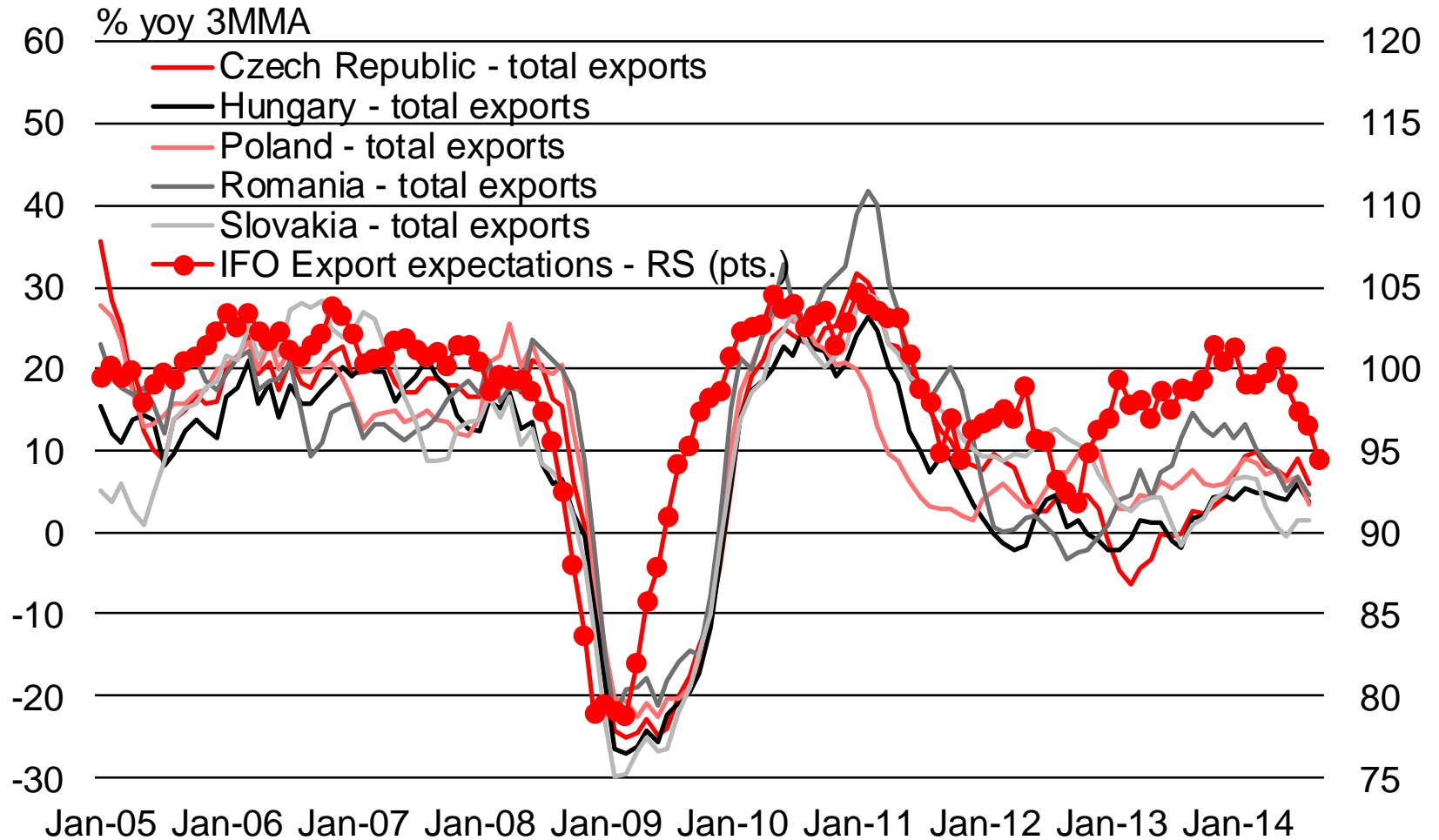
# Headwinds come from world trade, as EM countries disappoint...

EM exports have gone nowhere for three years, weighing on world exports

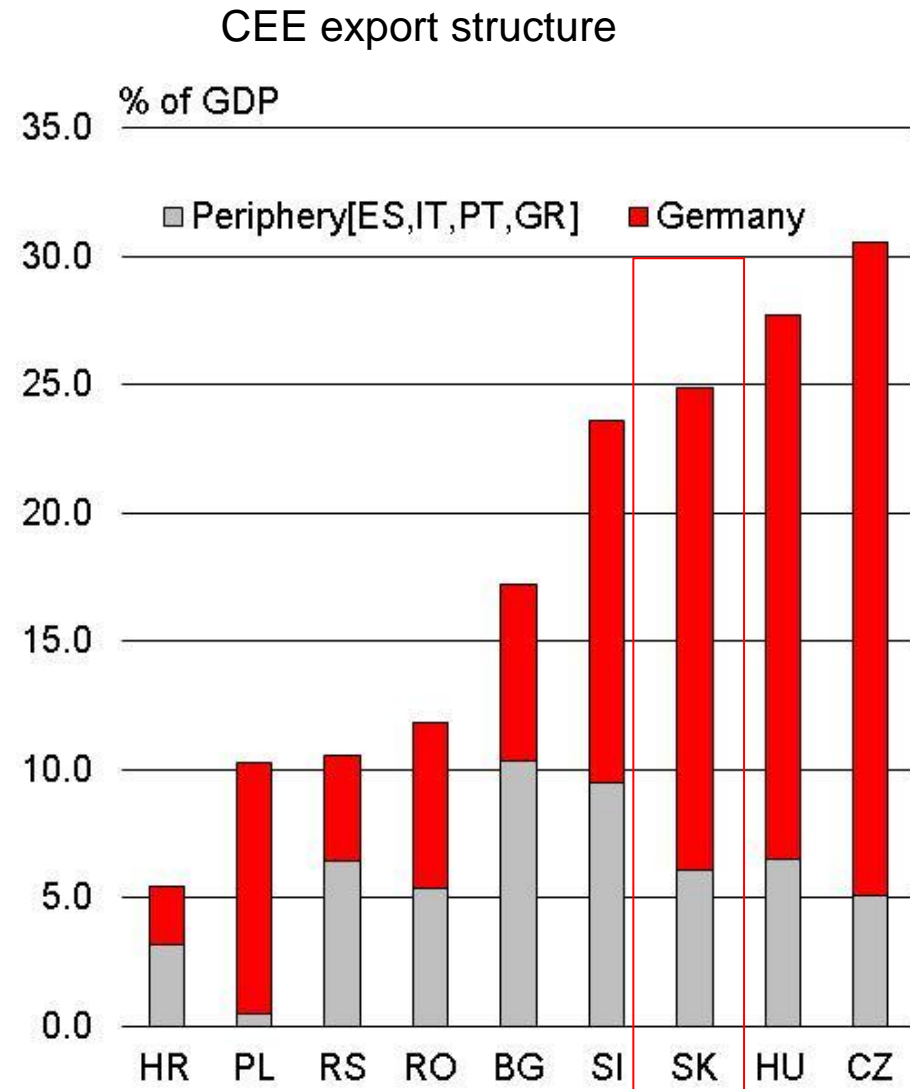
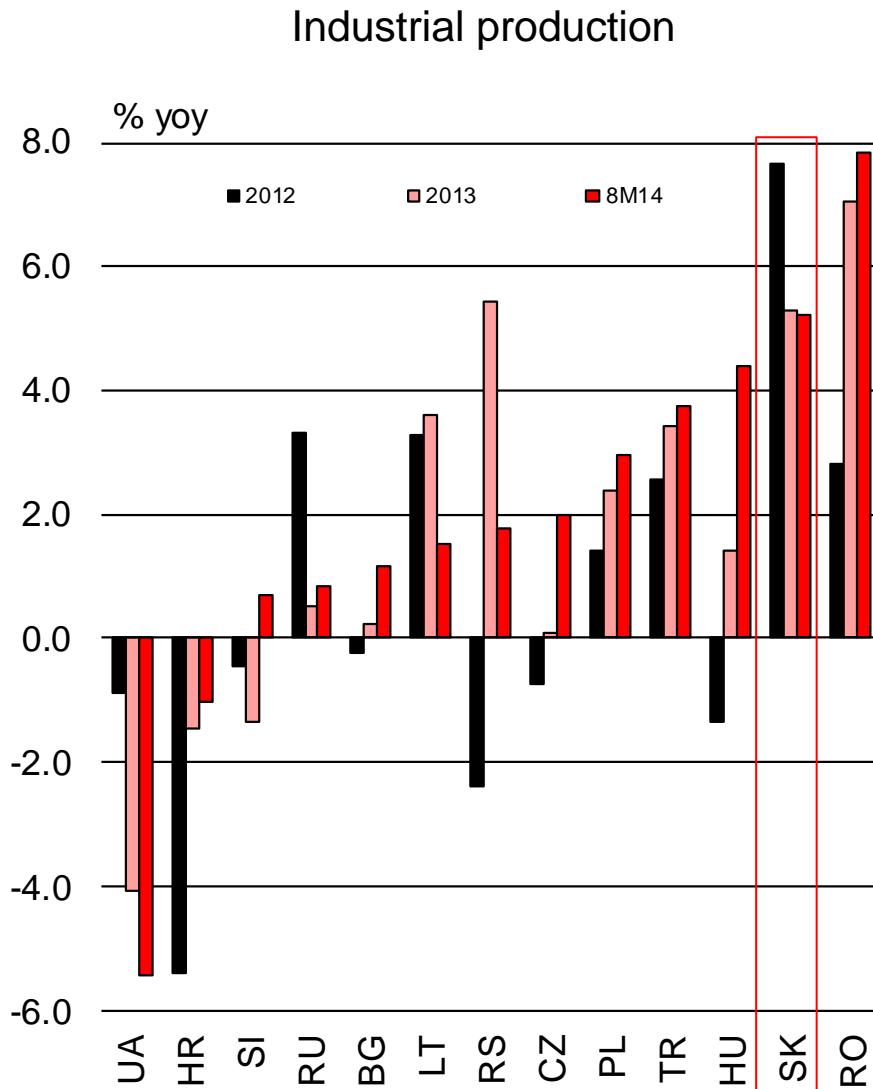


## ...but also from Germany

German export expectations have been declining since early 2014

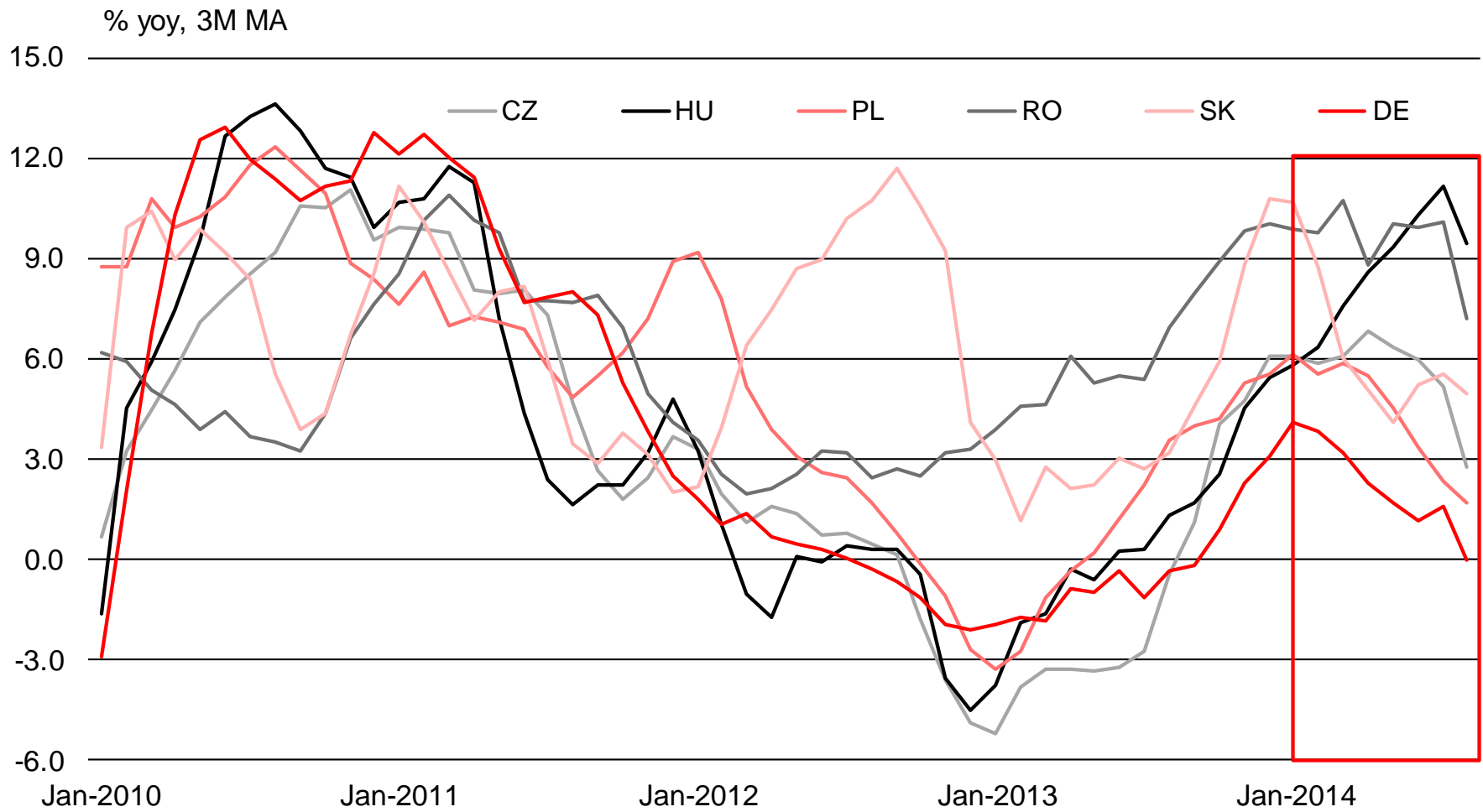


# Industrial production is strong in Central Europe and Turkey...



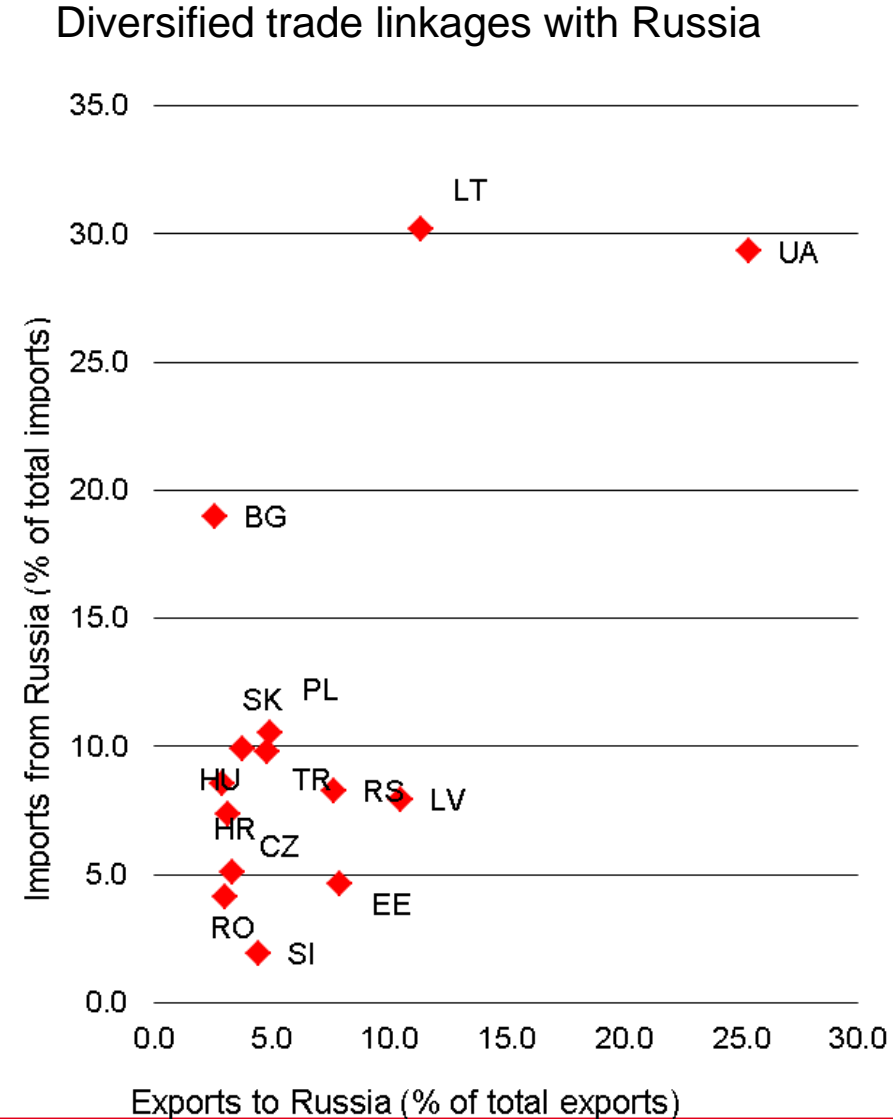
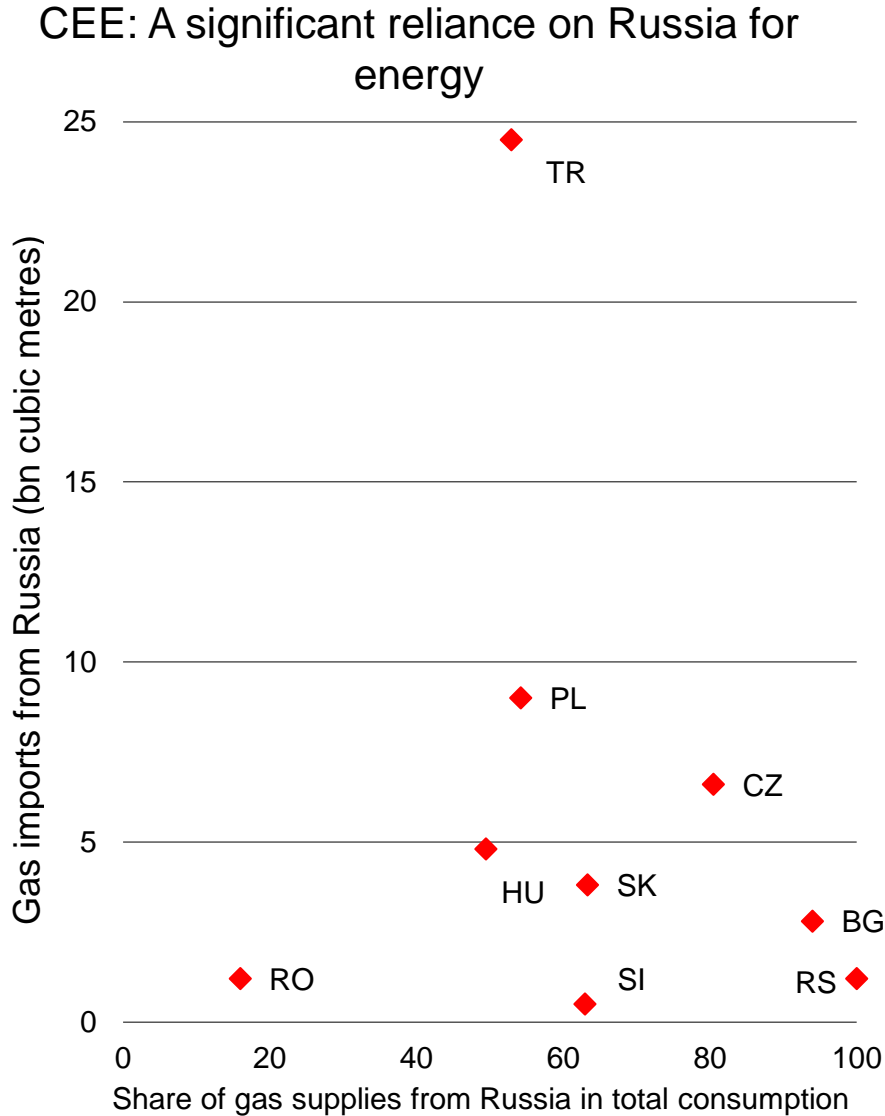
## ... but the correlation with Germany has not helped in 2014

Annual growth of industrial production



Sources: National Statistical Offices, Haver Analytics, Unicredit Research

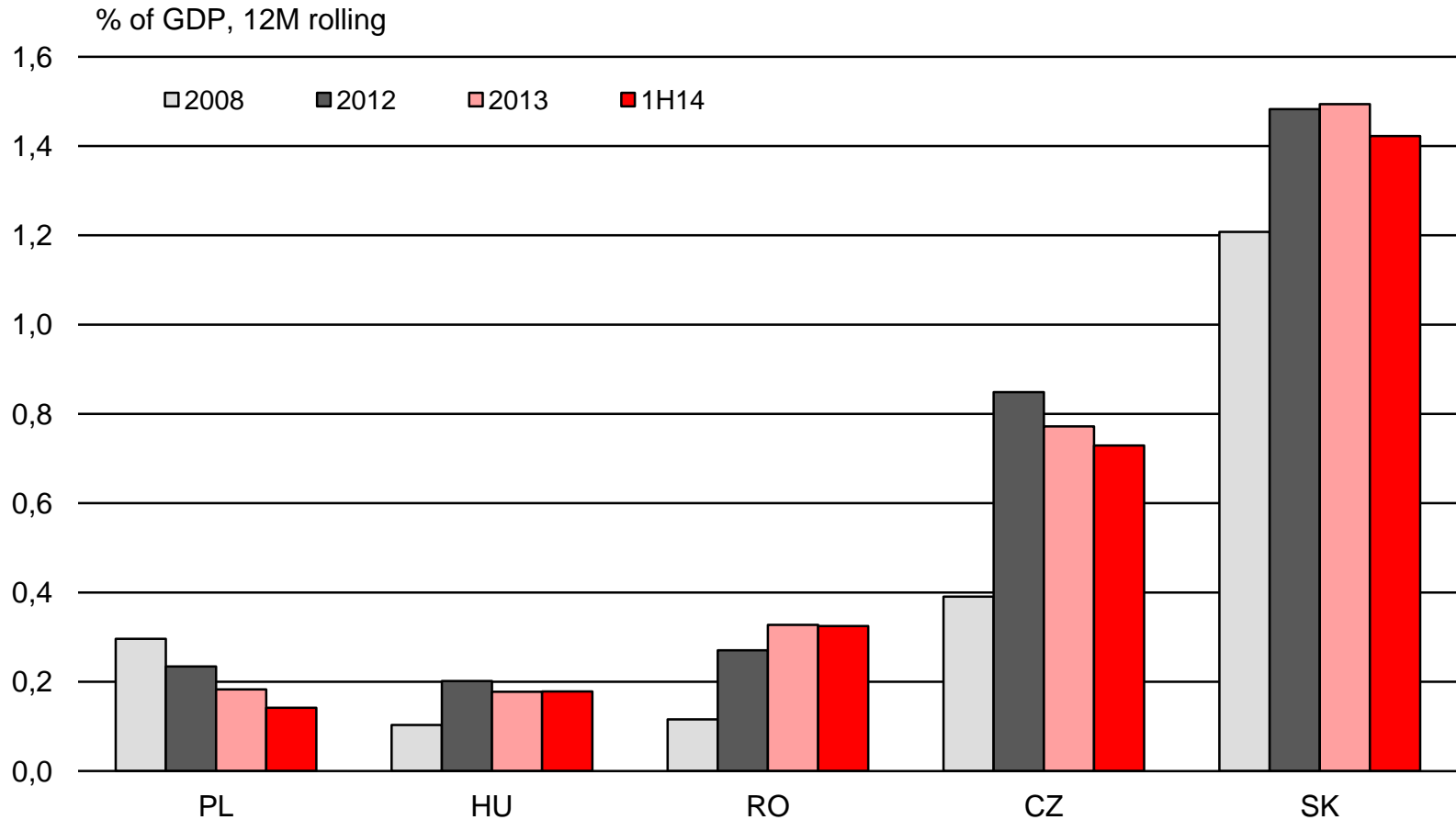
# Russia : A primary risk to CEE (I)





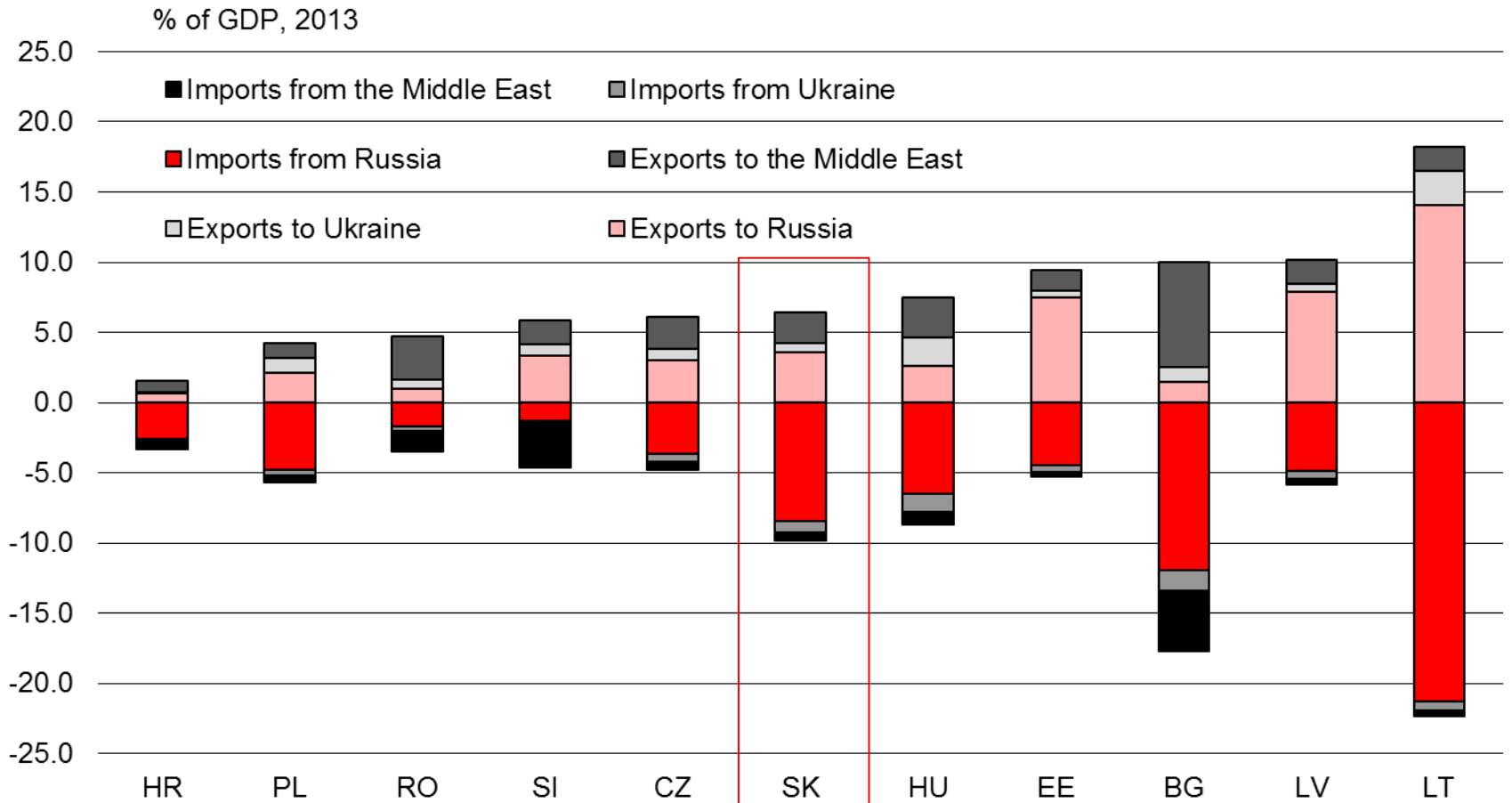
## Russia : A primary risk to CEE (II)

Direct car exports to Russia vary significantly



# CEE: Direct trade exposure to geopolitical risks

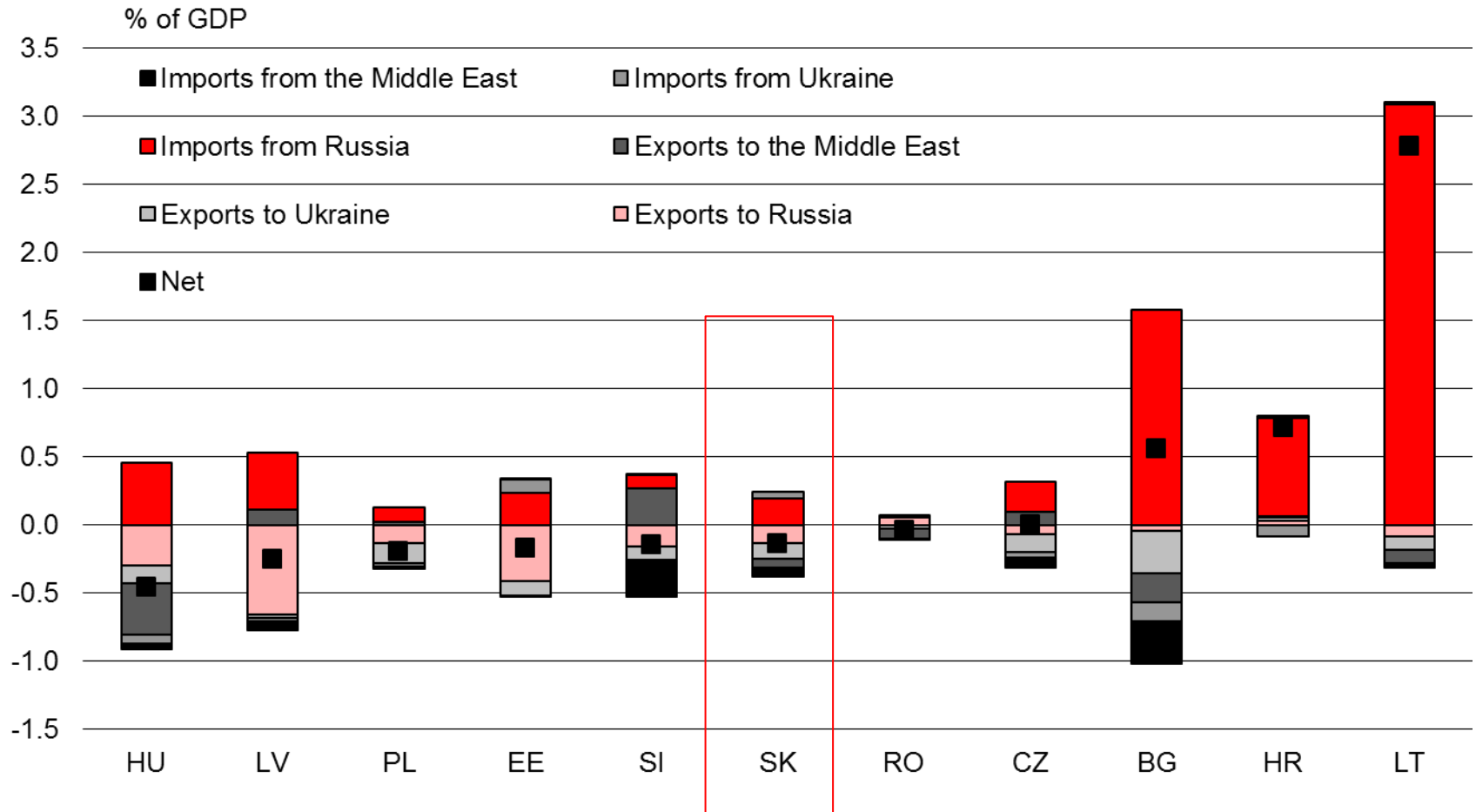
Most CEE countries run a cumulative trade deficit with Russia, Ukraine and the Middle East



Sources: Eurostat, Unicredit Research

## CEE: So far, the direct effects have been limited

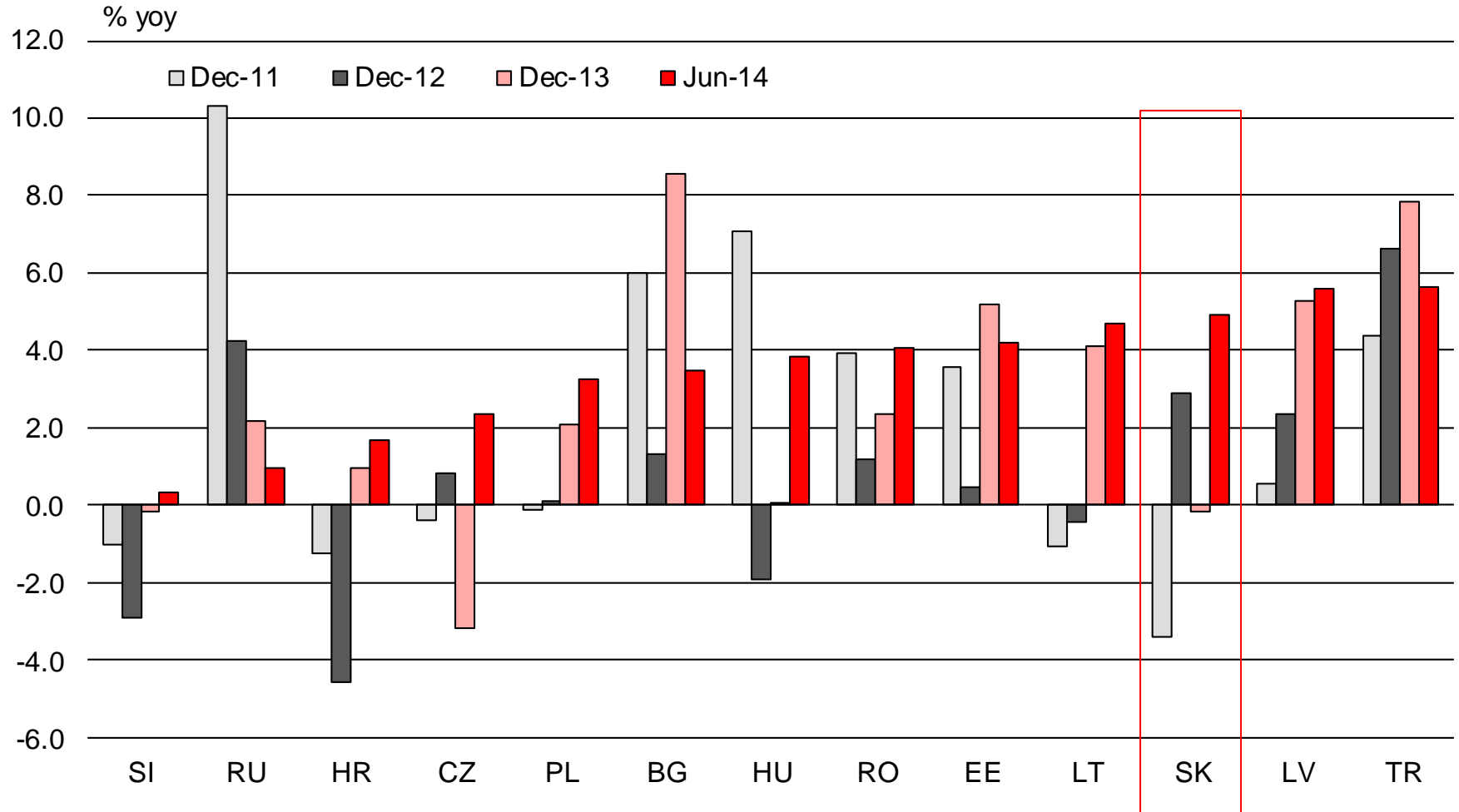
In 1H14, Ukraine and the Middle East had a larger negative impact on trade than Russia



Sources: Eurostat, Unicredit Research

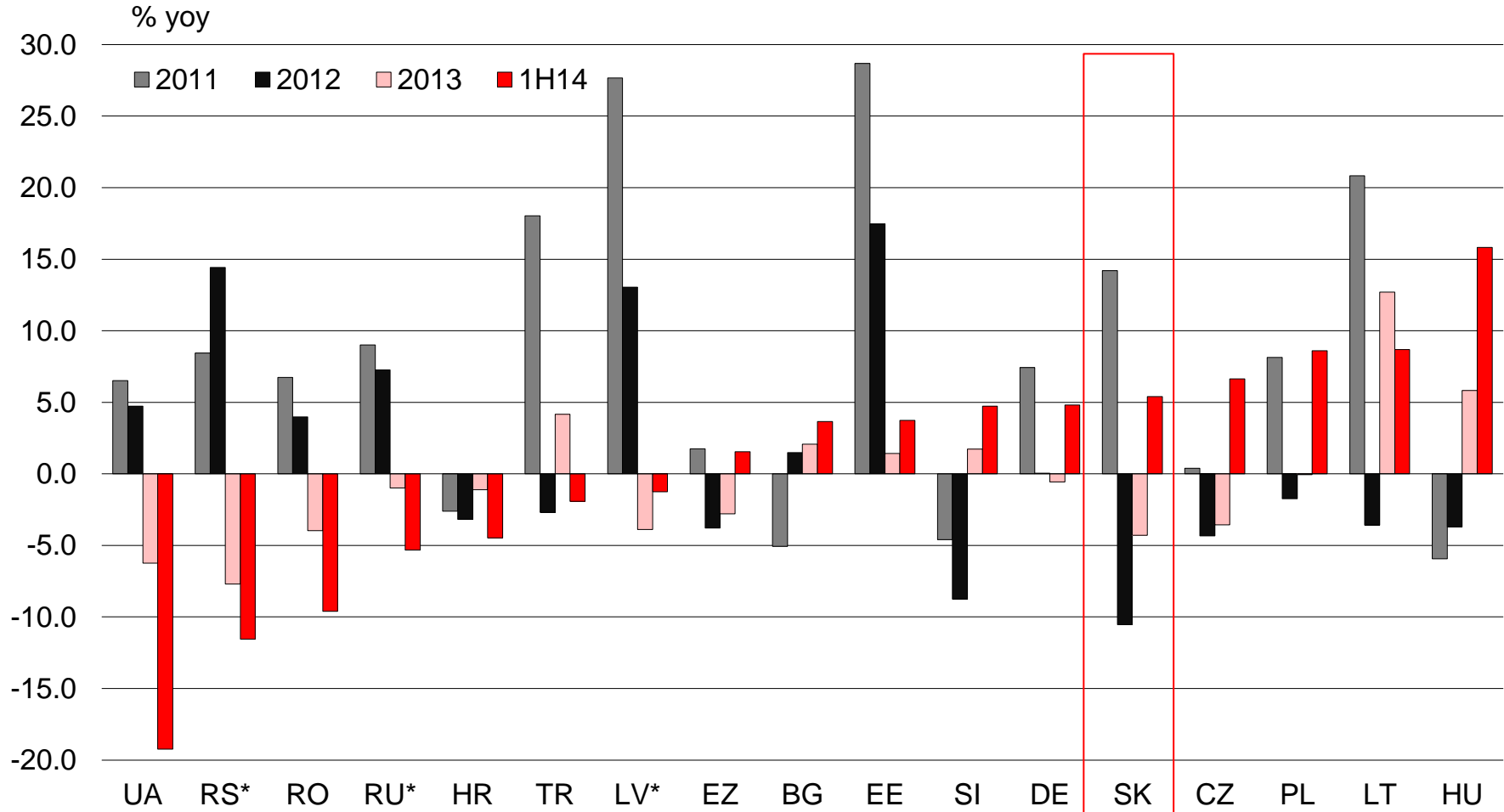
# CEE: Domestic demand helped by real wage growth (and low inflation)

Real wage growth is boosted by low inflation and recovering industrial production

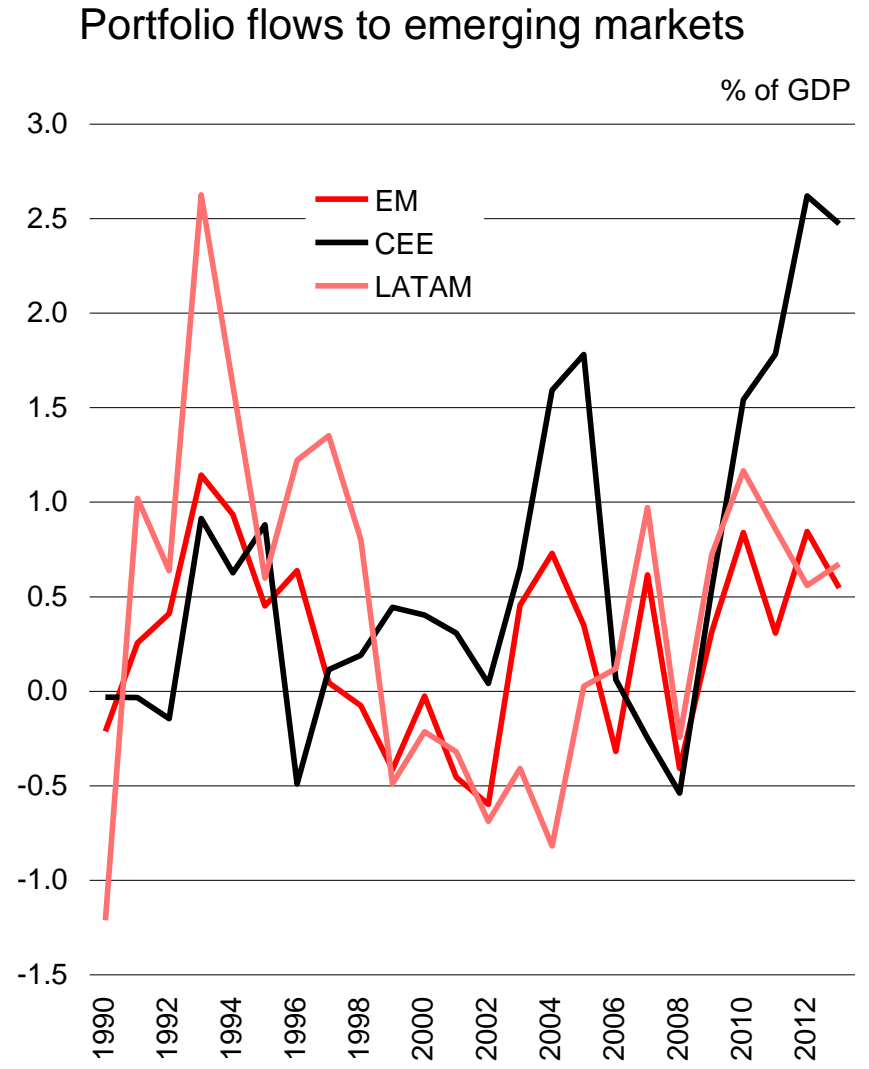
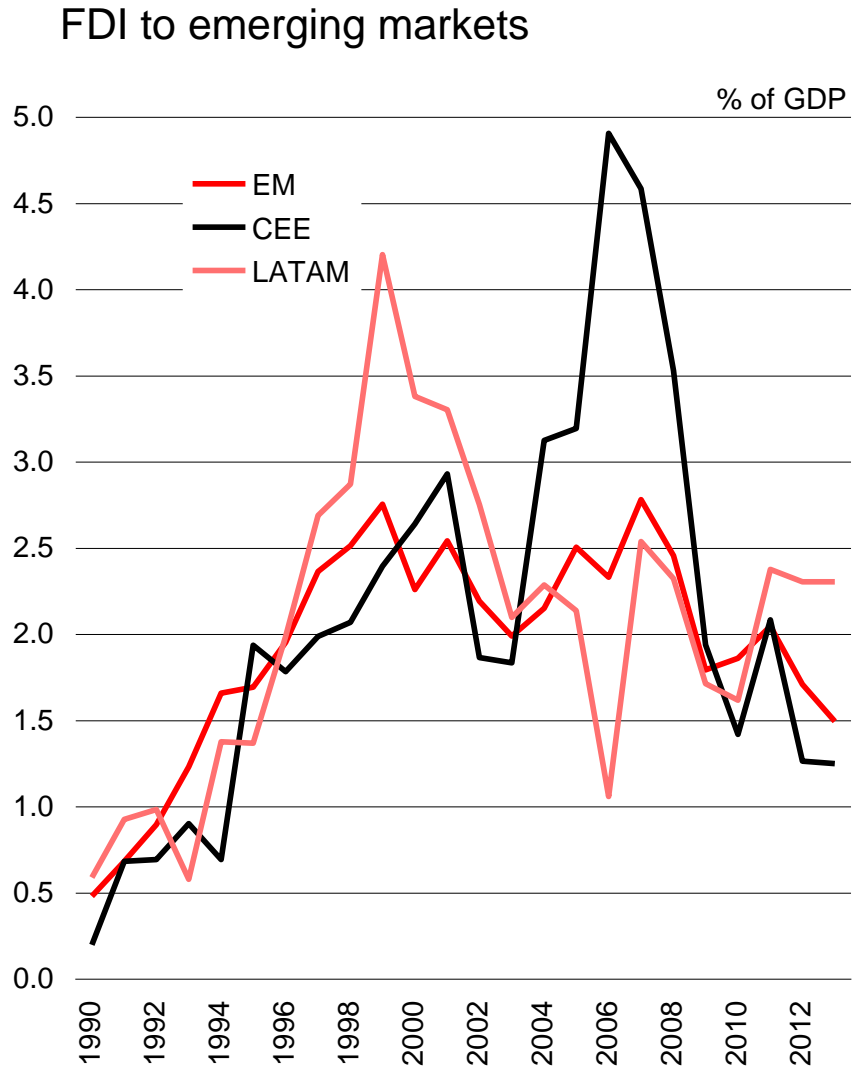


## CEE: Fixed investment rebounding

A mixture of private and public investment driven mostly by EU funds explain why Hungary, Poland and Lithuania outperform the rest of the CEE

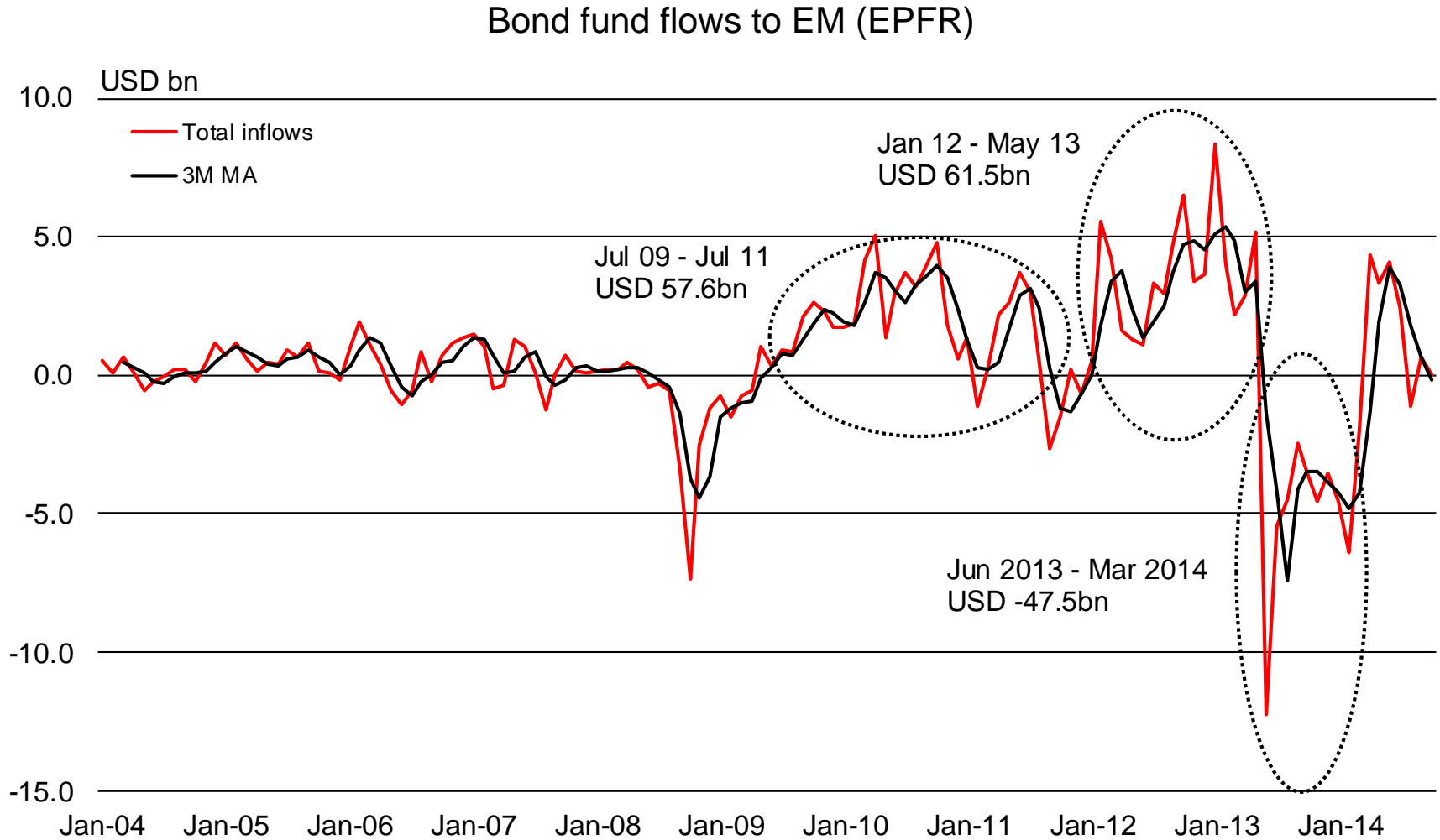


# FDI remains subdued



Source: IMF, UniCredit Research

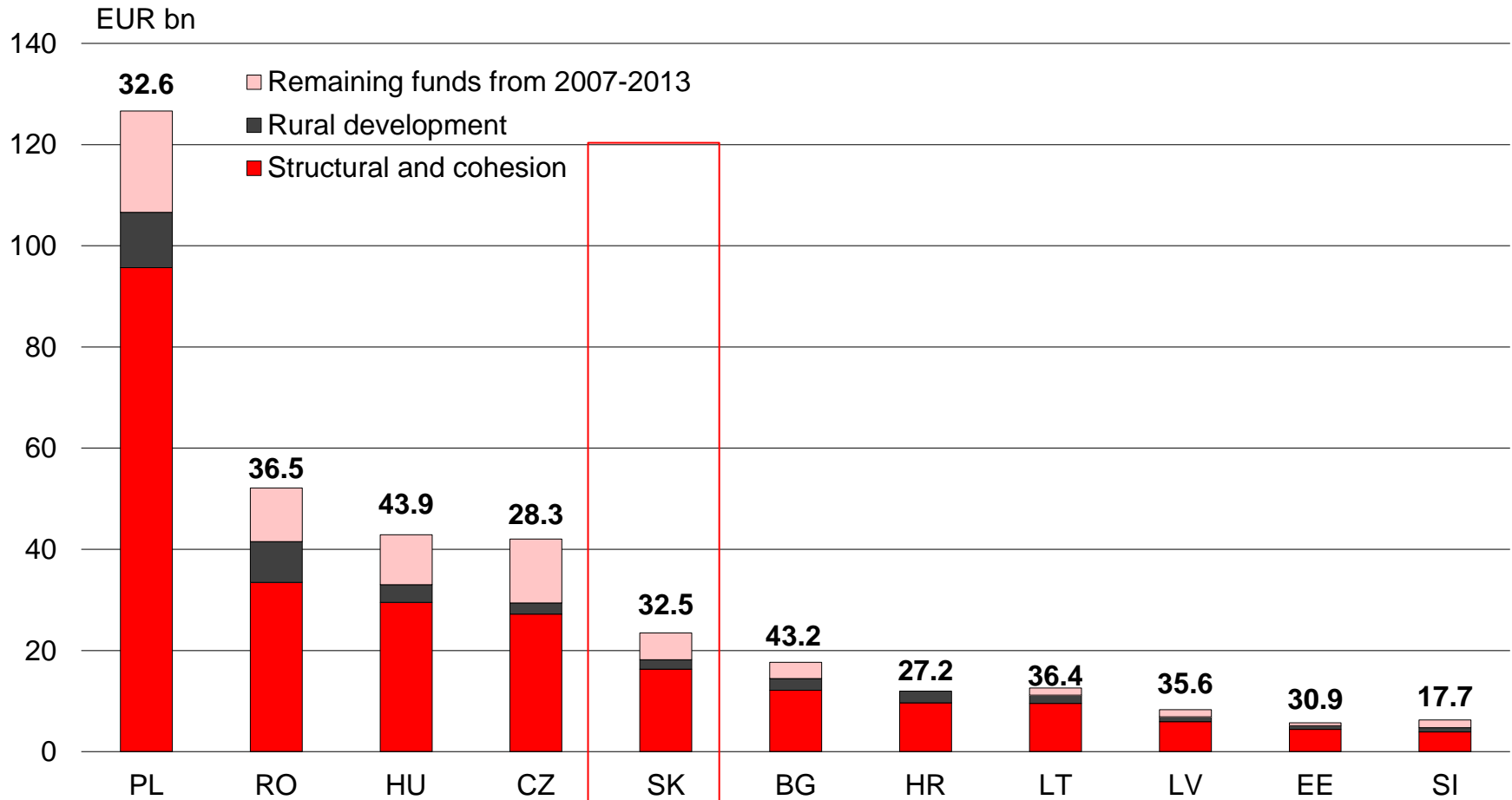
## ... while portfolio flows to EM are volatile...



Sources: EPFR, UniCredit Research

## ... but CEE can benefit from EU funds

In a low FDI environment, CEE countries that are members of the EU rely on EU funds

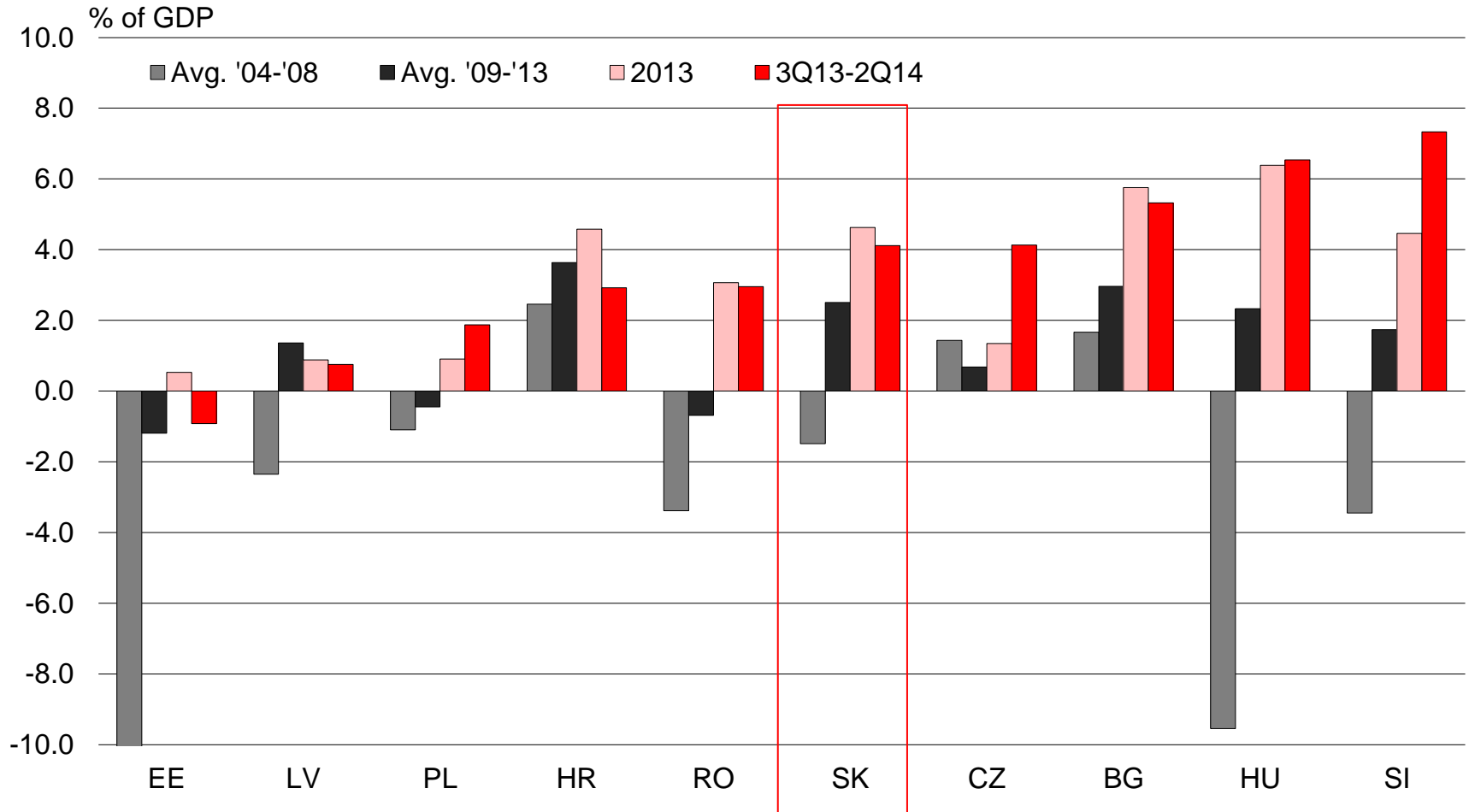


Data labels represent the percent of EU funds in 2013 GDP



## ... leading to supportive basic balances for new EU members

Extended basic balance = C/A + FDI + EU funds



Sources: Eurostat, Haver Analytics, UniCredit Research

## Wrap-up

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- Central Europe recovered after the crisis due to strong foreign demand
- Several risks weigh on the export outlook:
  - Conflicts in the Middle East and Ukraine
  - Sanctions on and from Russia
  - A slowdown in the eurozone (especially Germany)
- Domestic demand is helped by low inflation and recovering credit
  - Wage setting could be affected in 2015 by the slowdown in industrial production
- Capital flows are predominantly volatile
  - EU funds can supplement a lack of FDI

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