



## Central European Outlook for Chief Executive Officers CEO for CEOs

The catching-up process  
in the new Member States –  
Where do we stand ?

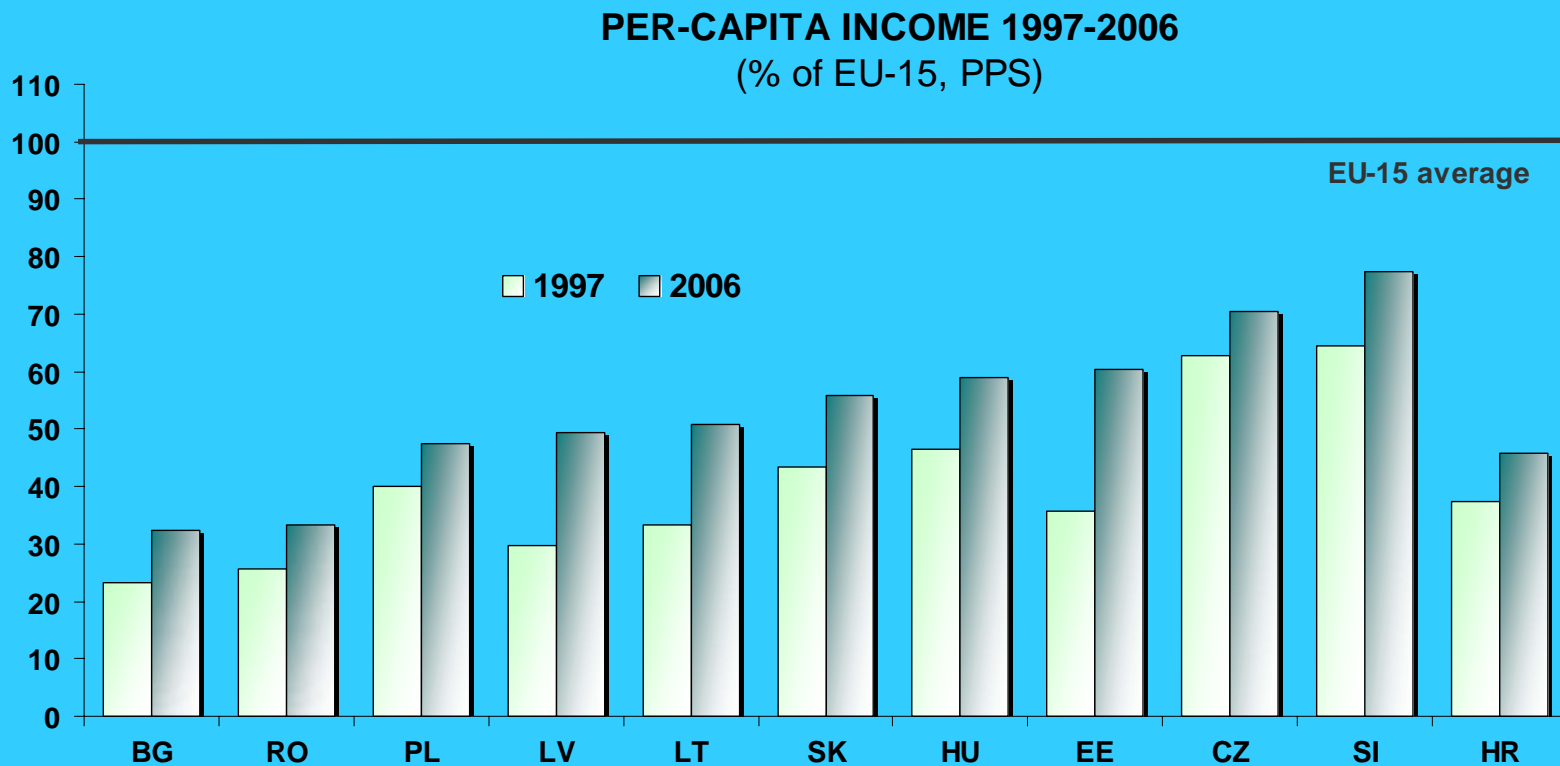
Dr. Jürgen KRÖGER

***Budapest, 26 March 2008***



## Successful catching-up

Growth and per-capita income figures indicate that catching-up has been successful





## Stylized facts of successful real catching-up Phase I - Upwing

- Initially real expected rate of upturn has to be high
- In order to avoid overheating monetary policy has to be used, not fiscal policy
- Tight money in the upswing is necessary to
  - Contain inflation
  - Establish demand supply equilibrium
  - Help establishing inter temporal equilibrium
- Appreciation reduces import costs
- Current account deficit, covered by FDI, is a counterpart to fill the supply-demand gap.



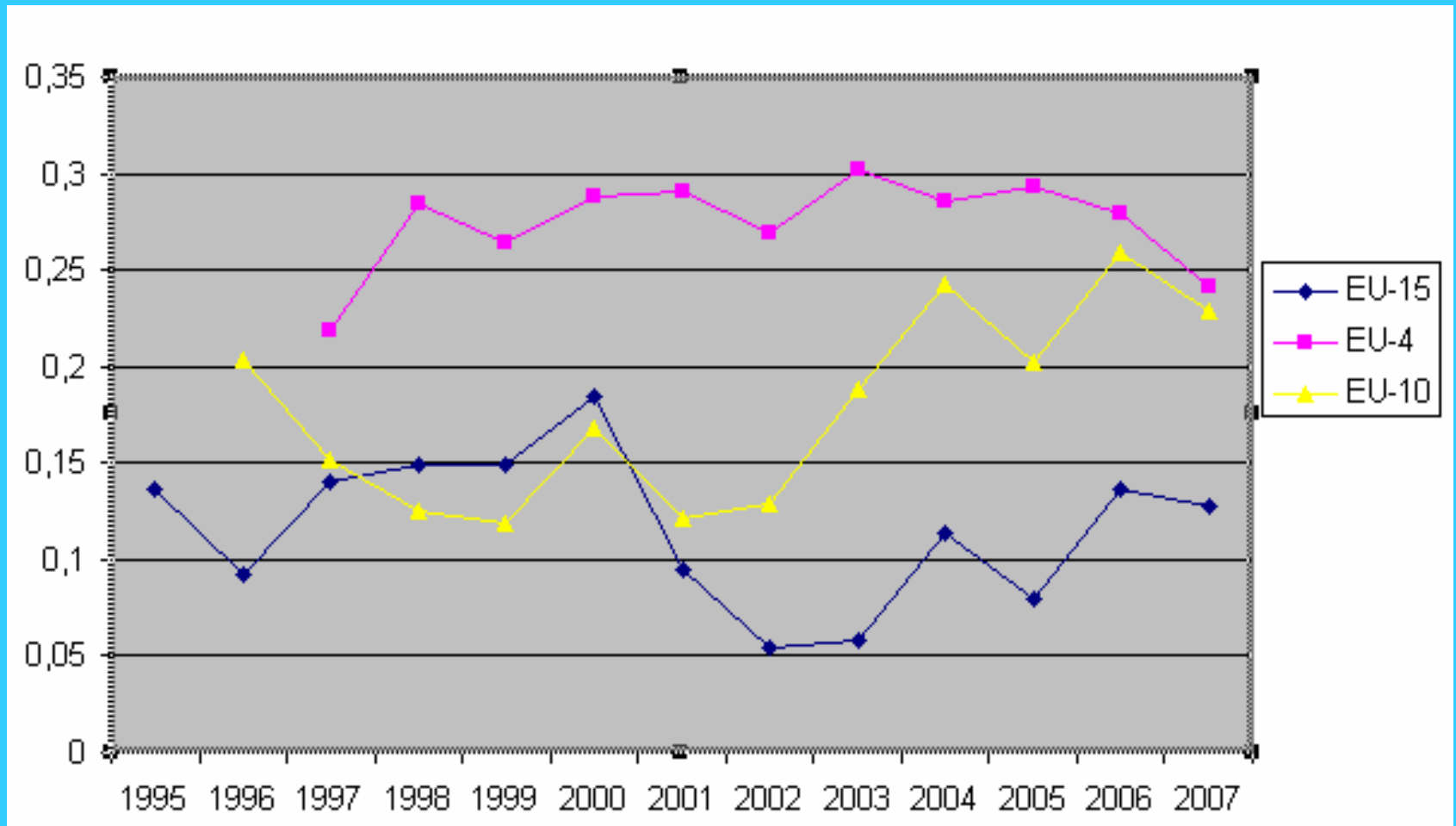
## Stylized facts of successful real catching-up Phase II - Consolidation

- Higher investment increases the capital stock :  
Potential output rises
- Domestic supply approaches domestic demand
- The marginal real rate of return shrinks to the level of partner countries
- Monetary policy is gradually easing
- Net exports rising as exchange rate depreciates
- Current account moving towards a sustainable level



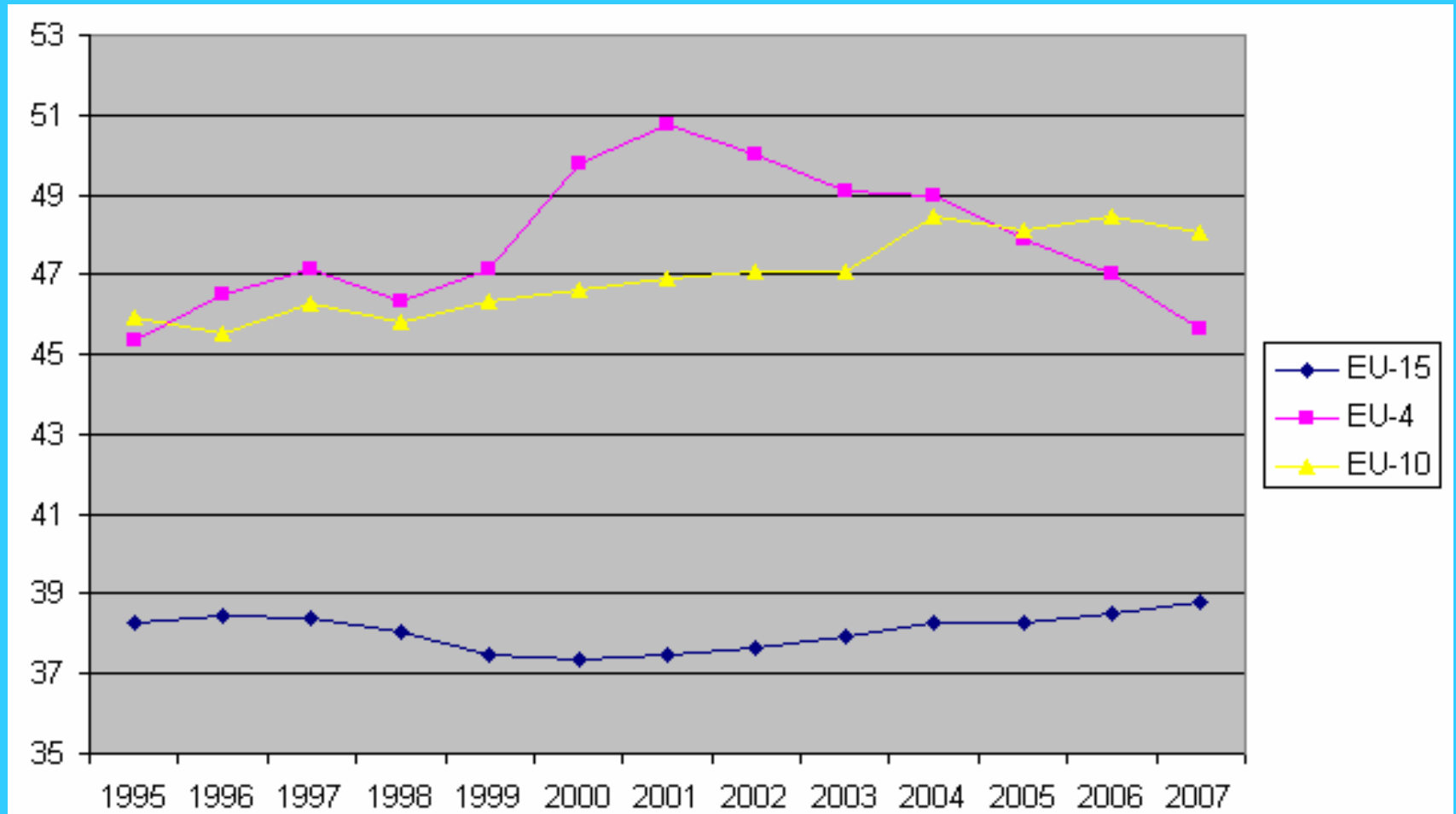
## Marginal efficiency of capital – Total economy

Change in GDP at constant market prices per unit of gross fixed capital formation at constant prices



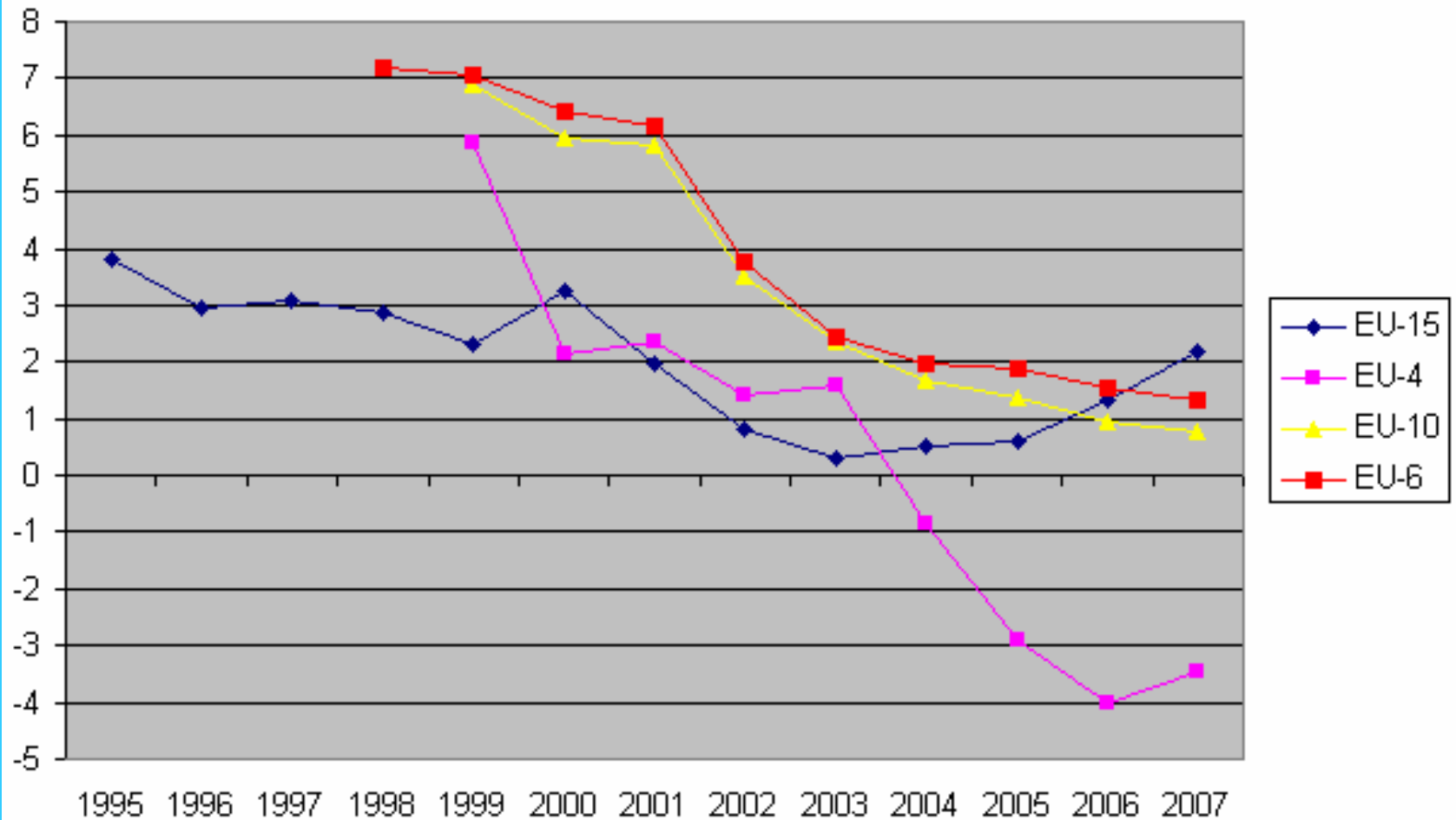


# Gross operating surplus As % of GDP



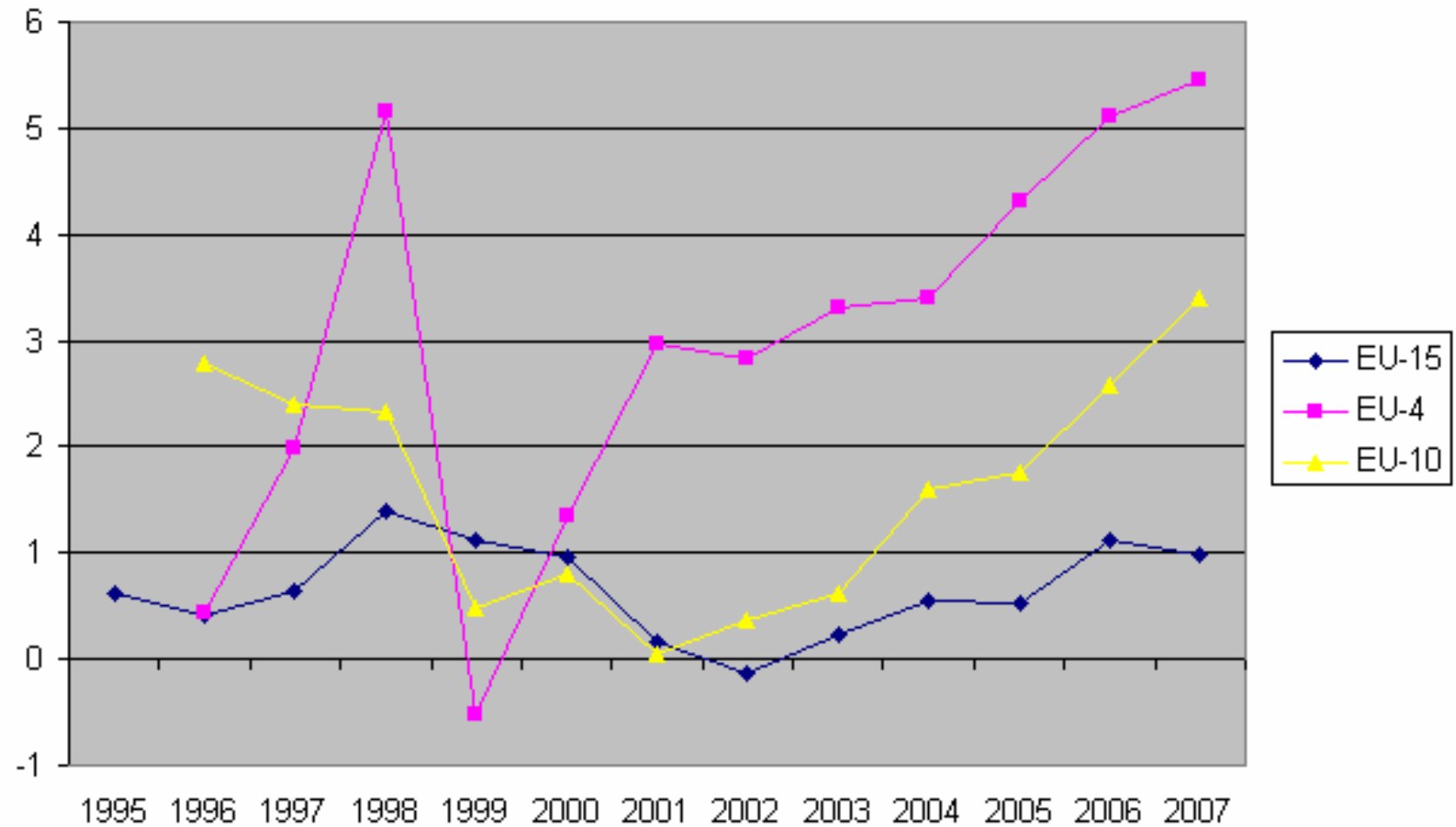


## Real short-term interest rates % of current account deficit



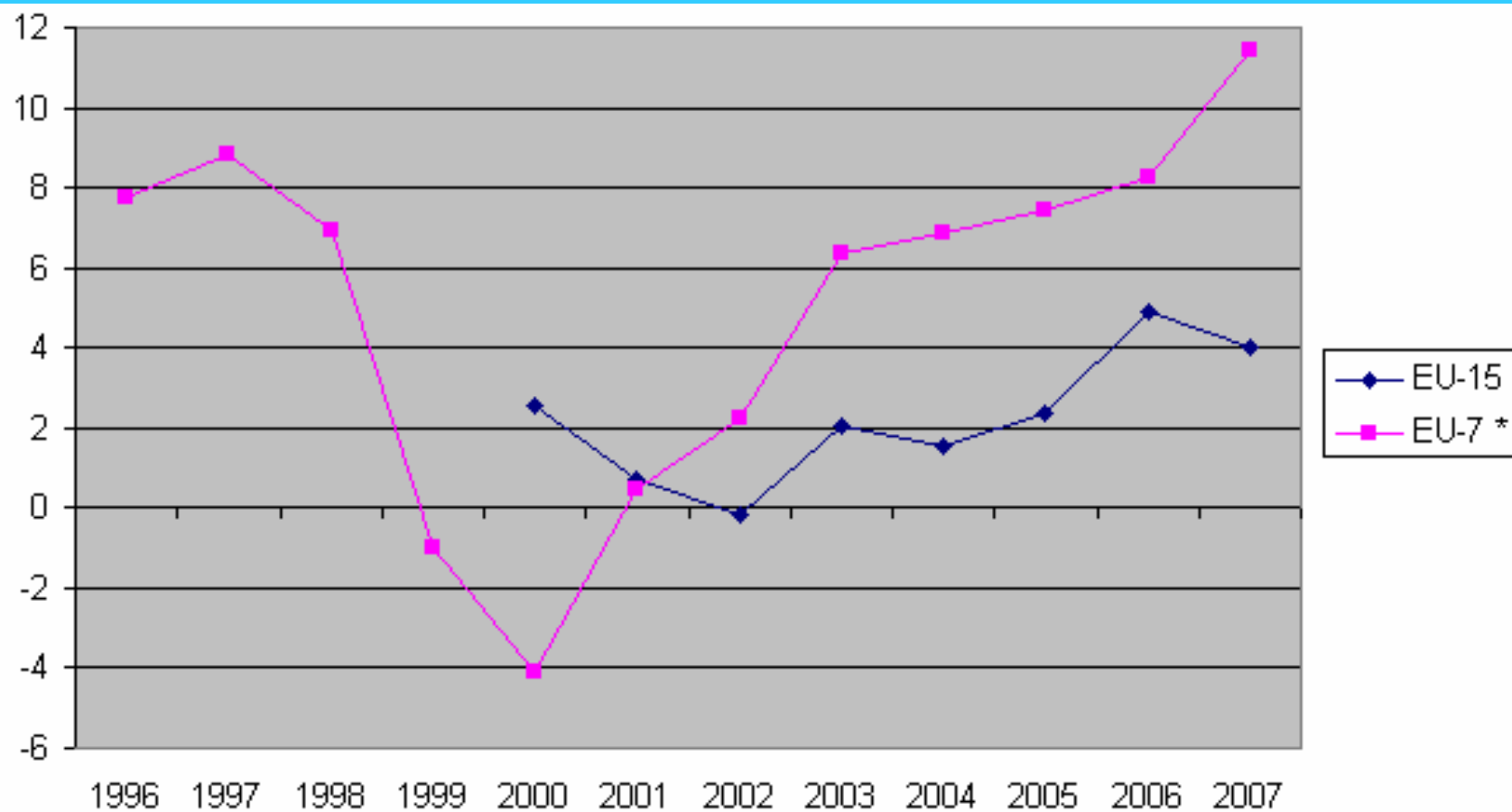


## Investment – Contribution to GDP Growth





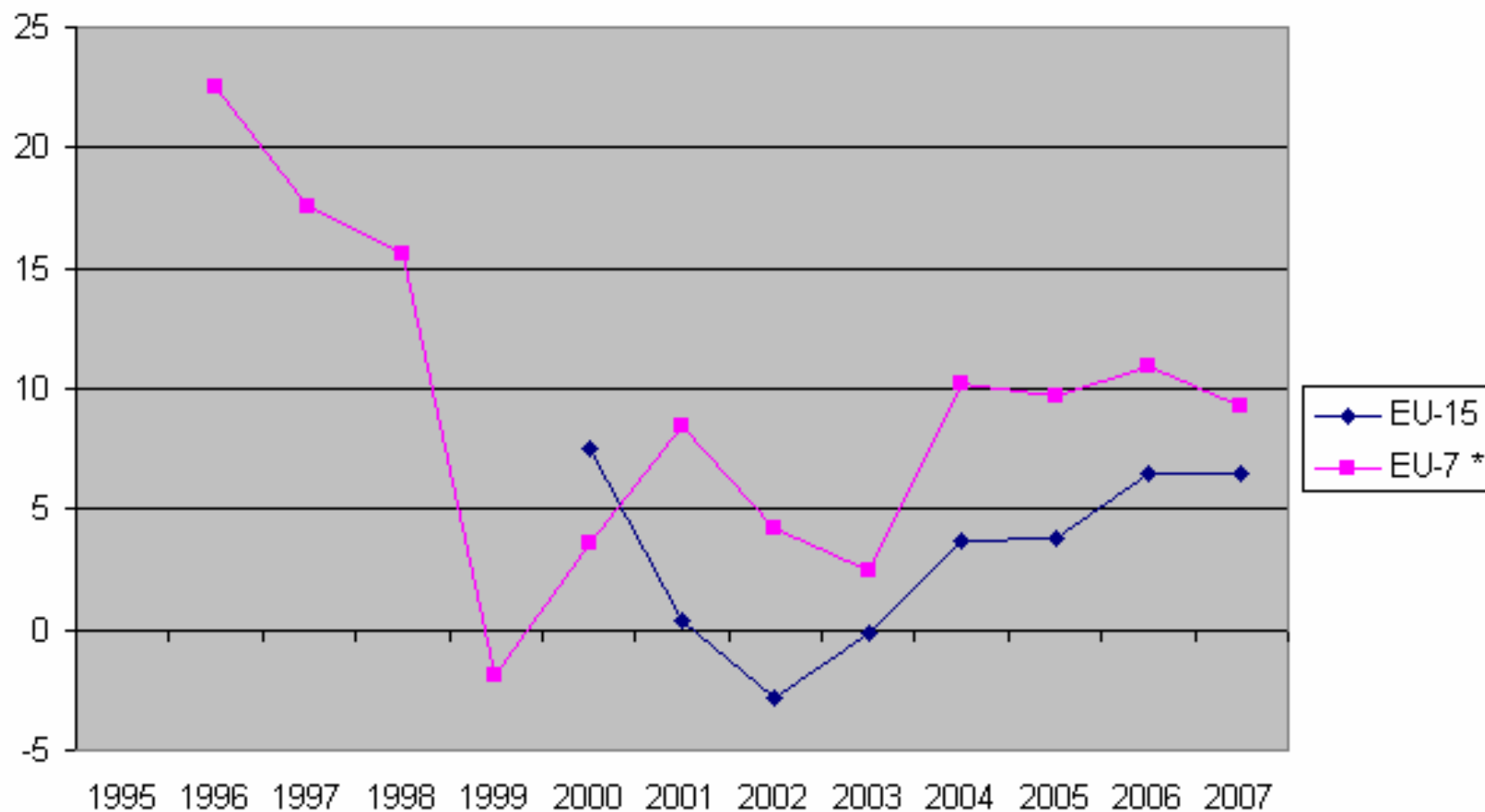
## Investment in construction (y-o-y growth)



\* EU-7: CZ, CY, LT, PL, RO, SI, SK



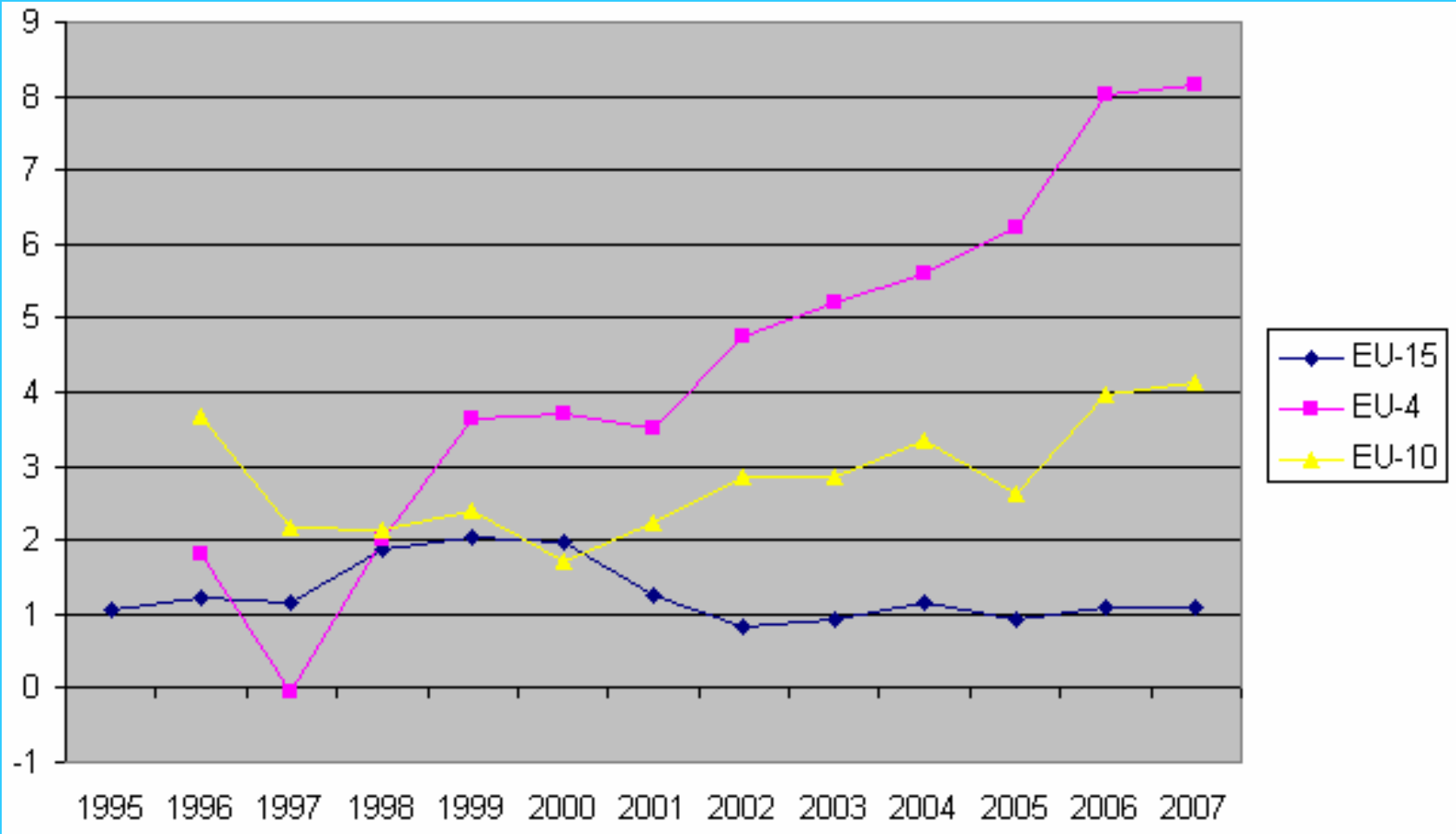
## Equipment investment (y-o-y growth)



\* EU-7: CZ, CY, LT, PL, RO, SI, SK

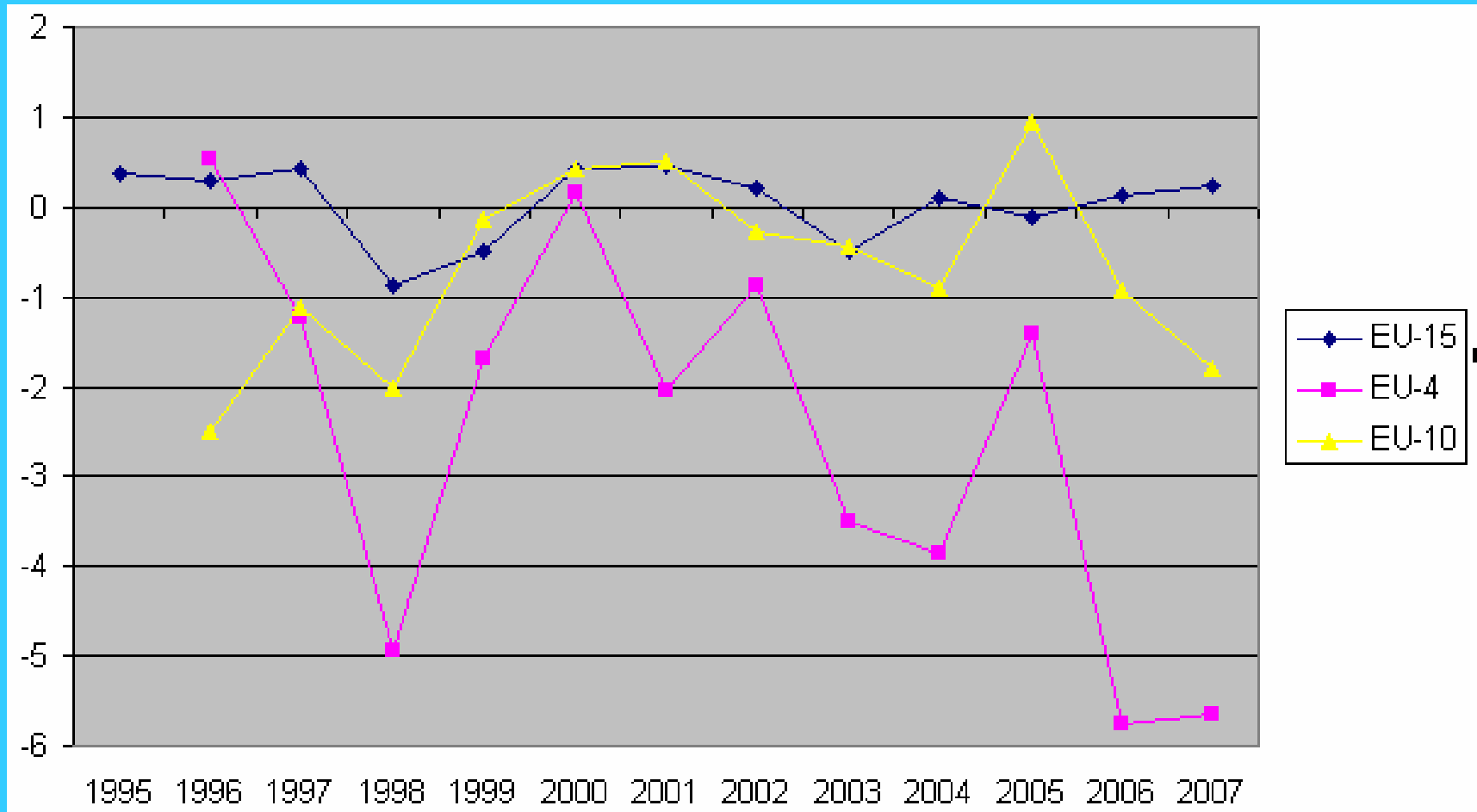


## Private consumption – Contribution to GDP growth



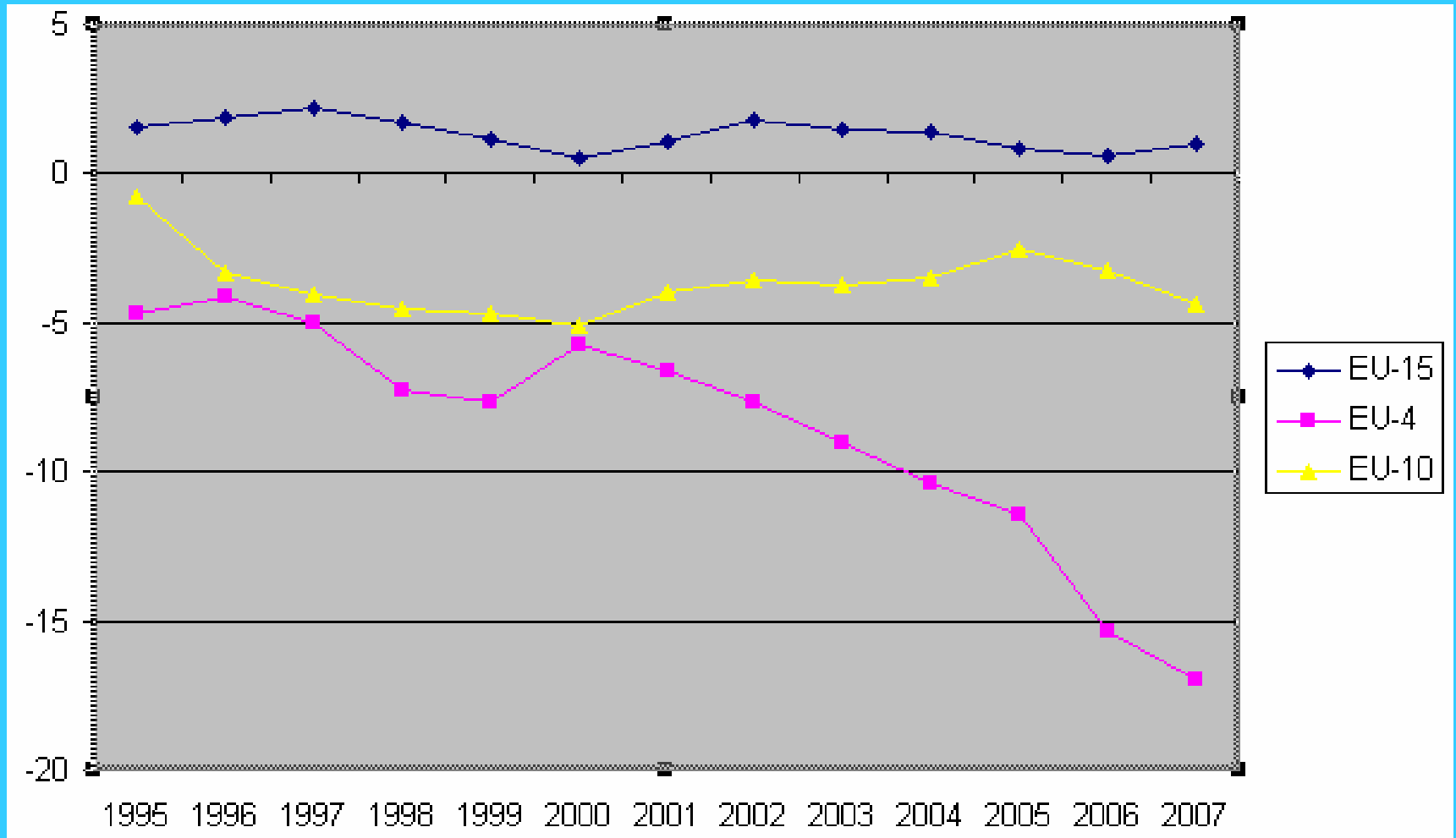


## Net exports – Contribution to GDP growth





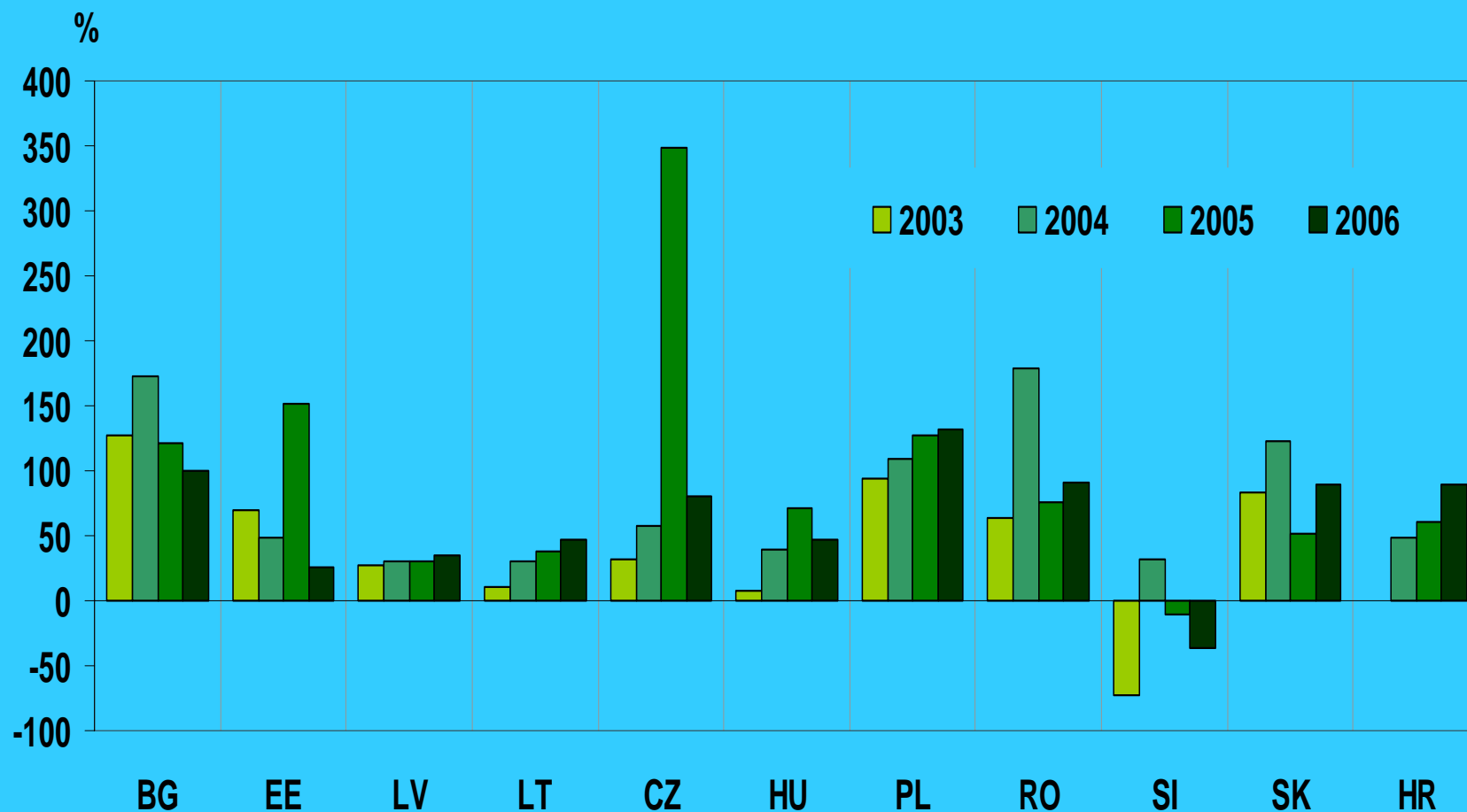
## Current account balance % of GDP





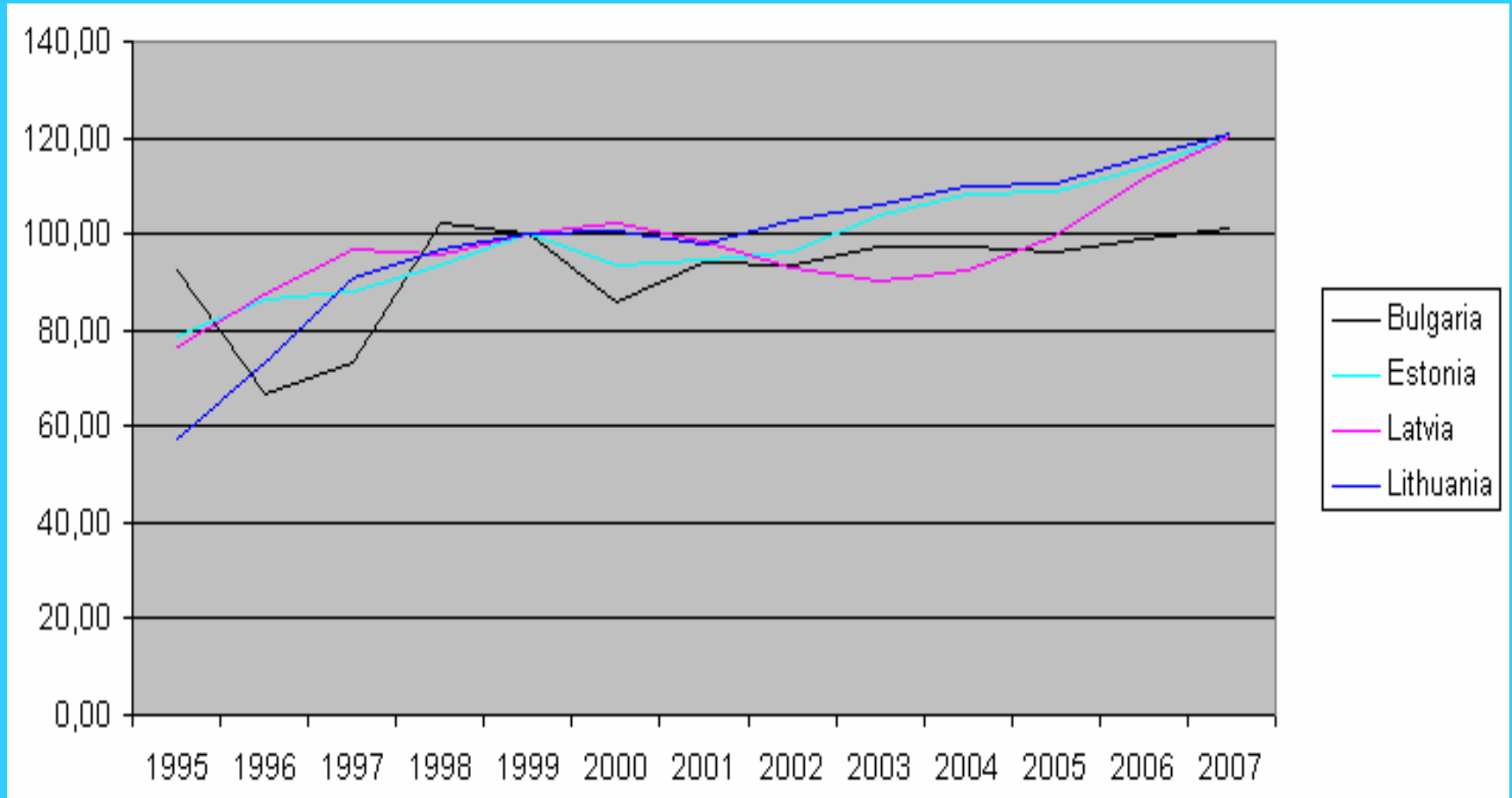
# FDI

% of current account deficit





## Real effective exchange rate (ULC) (1999=100)





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