

According to the IMF's and European Commission's forecasts as of June 2010, Poland, Russia, Slovakia and Ukraine should reach a 3–4% rate of growth already this year, with recovery more muted in the Czech Republic, Estonia and Slovenia.

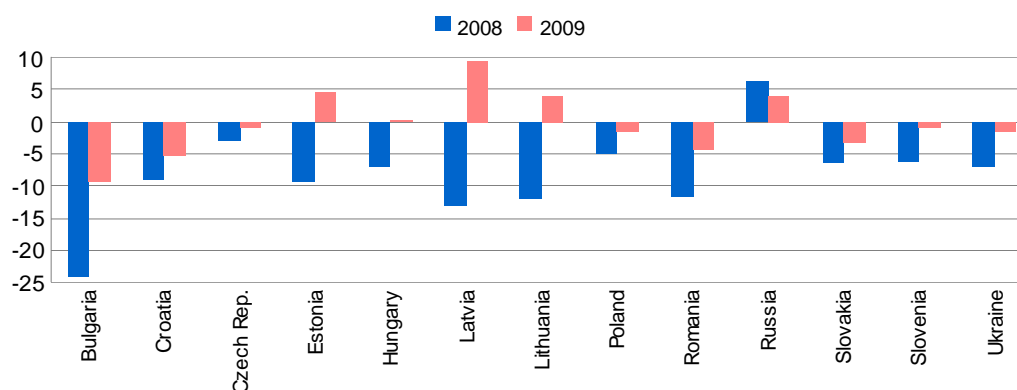
A number of countries including Bulgaria, Croatia, Lithuania, Latvia, Hungary and Romania may either still see their output contract this year or remain stagnant, with a return to positive growth only in 2011.

Actual results for Q1 2010 and partial for Q2 broadly confirm the above forecasts.

Looking beyond 2011, the IMF forecasts positive growth for the region at 3–5% annual rates – much lower than before the crisis.

The region's industrial sector, which has been hit particularly hard, seems to be leading the recovery with double-digit increases of output in recent months particularly in Central Europe and the CIS. In Slovakia industrial output in Q1 2010 grew particularly high by 20.2% year-on-year.

Figure 3. Current account balance (in % GDP), CEE 2008 and 2009



| Country | GDP (M\$) | GDP per capita (\$) | GDP growth (%) | Industry growth (%) | CPI (%) | Exports (M\$) | CA (% GDP) |
|------------|-----------|---------------------|----------------|---------------------|---------|---------------|------------|
| Bulgaria | 47 059 | 6 198 | -5.1 | -17.4 | 2.8 | 16 383 | -9.4 |
| Croatia | 63 076 | 14 232 | -5.8 | -9.2 | 2.4 | 10 474 | -5.2 |
| Czech Rep. | 190 502 | 18 160 | -4.2 | -13.4 | 1.0 | 112 425 | -1.1 |
| Estonia | 19 100 | 14 254 | -14.1 | -26.3 | -0.1 | 9 008 | 4.6 |
| Hungary | 129 017 | 12 872 | -6.3 | -17.7 | 4.2 | 83 339 | 0.2 |
| Latvia | 26 211 | 11 624 | -18.0 | -15.8 | 3.5 | 7 068 | 9.4 |
| Lithuania | 37 179 | 11 131 | -15.0 | -14.6 | 4.5 | 16 395 | 3.8 |
| Poland | 431 307 | 11 306 | 1.8 | -3.2 | 3.5 | 133 648 | -1.6 |
| Romania | 161 110 | 7 499 | -7.1 | -5.5 | 5.6 | 40 383 | -4.5 |
| Russia | 1 231 569 | 8 679 | -7.9 | -10.8 | 11.7 | 301 801 | 3.8 |
| Slovakia | 88 335 | 16 304 | -4.7 | -14.6 | 1.6 | 55 350 | -3.2 |
| Slovenia | 48 670 | 23 823 | -7.8 | -17.4 | 0.9 | 22 372 | -1.0 |
| Ukraine | 117 127 | 2 543 | -15.0 | -21.9 | 15.9 | 39 703 | -1.5 |

Source: National statistical offices, central banks, CE Research

For more advanced Central European Visegrad-4 economies and two post-Yugoslav republics real earnings increased by only 7–21% over the period or at an annual rate of 1–4%.

The strong overall increases in the Baltic states, Russia and Ukraine come despite a decrease of real earnings in the last year of the period – 2009.

Table 11. Year on year growth (in percent) of real average gross earnings, CEE 2005-2009

| | 2005 | 2006 | 2007 | 2008 | 2009 | Total increase (%) | av. compound rate (%) |
|------------|------|------|------|------|------|--------------------|-----------------------|
| Bulgaria | 5.7 | 3.6 | 10.4 | 12.6 | 5.5 | 43.6 | 7.5 |
| Croatia | 1.1 | 2.9 | 3.2 | 0.9 | -0.2 | 8.1 | 1.6 |
| Czech Rep. | 3.1 | 4.0 | 4.3 | 1.9 | 3.0 | 17.2 | 3.2 |
| Estonia | 6.4 | 11.6 | 13.0 | 3.2 | -4.9 | 31.7 | 5.7 |
| Hungary | 4.9 | 4.1 | 0.0 | 1.4 | -3.6 | 6.7 | 1.3 |
| Latvia | 9.3 | 14.9 | 19.7 | 4.3 | -7.0 | 45.8 | 7.8 |
| Lithuania | 8.1 | 13.1 | 14.0 | 7.7 | -8.8 | 36.9 | 6.5 |
| Poland | 1.8 | 3.0 | 6.0 | 5.0 | 1.8 | 18.9 | 3.5 |
| Romania | 7.4 | 11.2 | 16.2 | 17.0 | 1.6 | 64.9 | 10.5 |
| Russia | 12.6 | 13.3 | 17.3 | 11.5 | -2.7 | 62.4 | 10.2 |
| Slovakia | 6.3 | 3.9 | 4.5 | 3.4 | 1.4 | 20.9 | 3.9 |
| Slovenia | 2.3 | 2.3 | 2.4 | 2.4 | 2.5 | 12.5 | 2.4 |
| Ukraine | 20.4 | 18.4 | 15.1 | 6.8 | -8.9 | 59.4 | 9.8 |

Source: CE Research

Table 12. Average monthly gross earnings in local currency units, CEE 2005-2009

| | 2005 | 2006 | 2007 | 2008 | 2009 | Total increase (%) | av. compound rate (%) |
|------------|-----------|---------|---------|---------|---------|--------------------|-----------------------|
| Bulgaria | 324 | 360 | 431 | 545 | 591 | 102.4 | 15.1 |
| Croatia | 6 248 | 6 634 | 7 047 | 7 544 | 7 711 | 28.8 | 5.2 |
| Czech Rep. | 18 344 | 19 546 | 20 957 | 22 691 | 23 598 | 35.1 | 6.2 |
| Estonia | 8 073 | 9 407 | 11 336 | 12 912 | 12 264 | 68.3 | 11.0 |
| Hungary | 158 315 | 171 239 | 185 004 | 198 942 | 199 775 | 37.1 | 6.5 |
| Latvia | 246 | 302 | 398 | 479 | 461 | 118.5 | 16.9 |
| Lithuania | 1 276 | 1 496 | 1 802 | 2 152 | 2 052 | 78.6 | 12.3 |
| Poland | 2 380 | 2 477 | 2 691 | 2 944 | 3 103 | 35.5 | 6.3 |
| Romania | 9 668 279 | 1 146 | 1 396 | 1 761 | 1 889 | 128.7 | 18.0 |
| Russia | 8 555 | 10 634 | 13 593 | 17 290 | 18 795 | 178.9 | 22.8 |
| Slovakia | 17 274 | 18 761 | 20 146 | 21 782 | 745 | 41.8 | 7.2 |
| Slovenia | 277 279 | 290 635 | 1 285 | 1 391 | 1 439 | 30.4 | 5.5 |
| Ukraine | 806 | 1 041 | 1 351 | 1 806 | 1 906 | 223.1 | 26.4 |

Source: national statistical offices, CE Research

Map 3. Average monthly gross earnings in Euro, CEE 2009



Taking into account rates of minimum wages as of January 1st 2010 and using average exchange rates of year 2009 both the ranking and values have been almost unchanged except for a significant increase of the minimum wage in Ukraine to €80.

Looking at the relative level of minimum wages the ratio of minimum to average wages is highest in Bulgaria at around 46% followed by Poland, Slovenia. Slovakia and Bulgaria where minimum wages were above 40% of the previous year's average earnings. In Russia minimum wages are lowest at 23% of average earnings, with the remainder of the countries having established minimum wages at 32–39% of average earnings.

Over the 2005–2009 period minimum wages calculated in Euro increased five-fold in Russia. In Bulgaria, Latvia and Romania they increased by over 100% and in Slovakia by 90%. Compared to 2004 minimum wages in Euro increased the least in Hungary and in Slovenia at close to 20% while in other countries they grew by 40–80%.

Figure 15. Minimum monthly wages in Euro and USD, CEE January 1st 2010

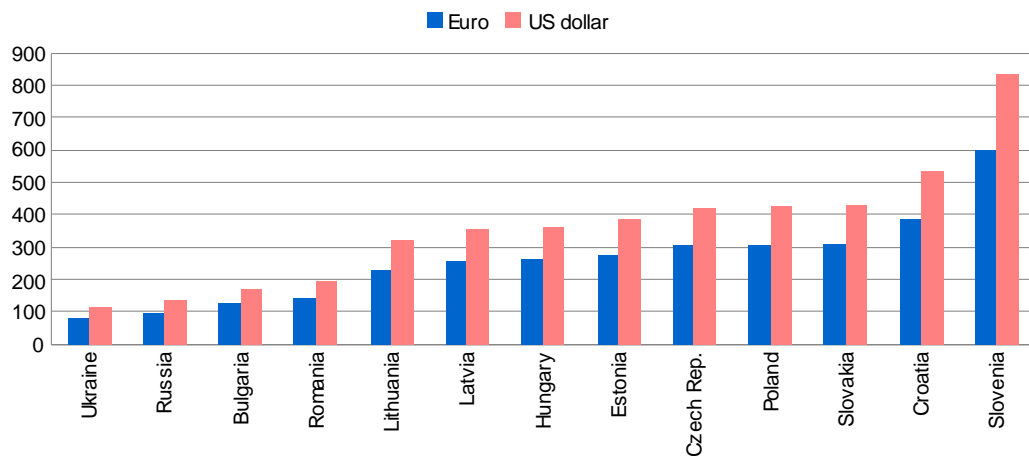


Figure 16. Minimum monthly wages as of January 1st 2010 in percent of average gross earnings 2009

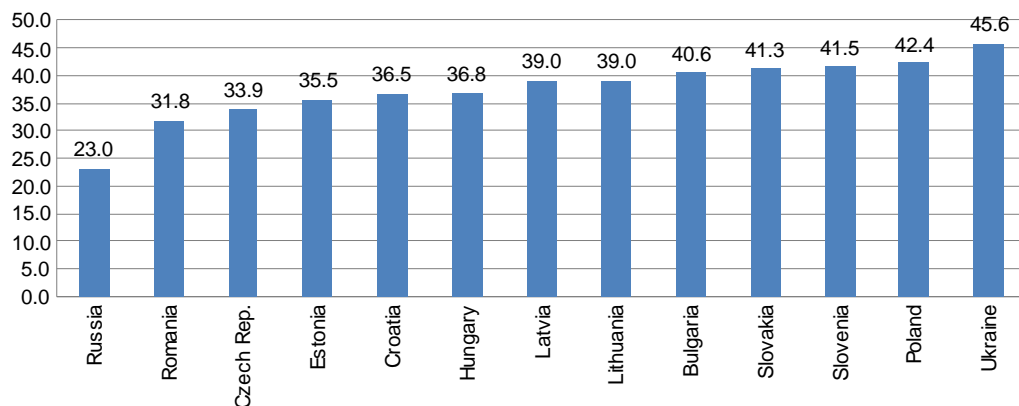


Figure 30. Average monthly gross earnings and labour costs in Accommodation and food services (section I) in Euro, 2009

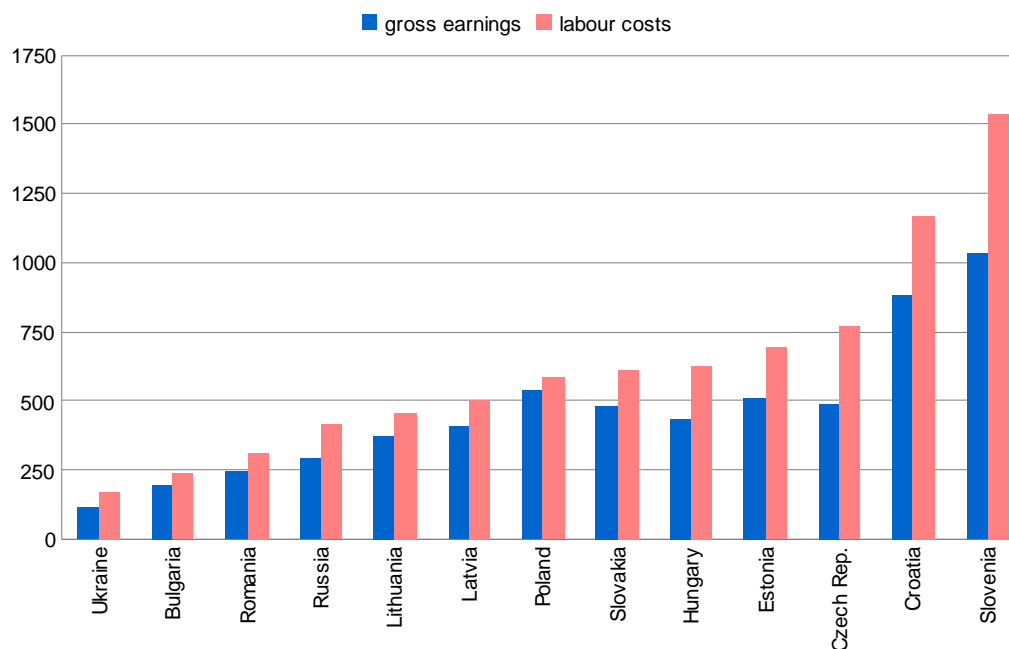
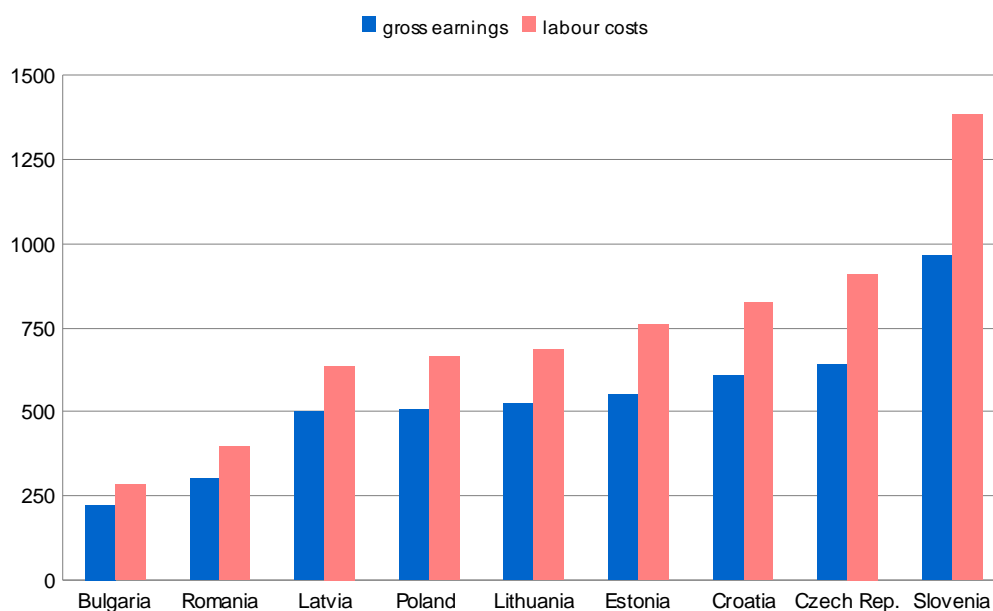


Table 38. Average monthly gross earnings and labour costs in Euro, Accommodation and food services (section I NACE)

| | Gross earnings | Labour costs |
|------------|----------------|--------------|
| Bulgaria | 193 | 238 |
| Croatia | 882 | 1 167 |
| Czech Rep. | 490 | 770 |
| Estonia | 511 | 690 |
| Hungary | 437 | 625 |
| Latvia | 404 | 505 |
| Lithuania | 370 | 455 |
| Poland | 538 | 587 |
| Romania | 245 | 315 |
| Russia* | 288 | 416 |
| Slovakia | 480 | 611 |
| Slovenia | 1 033 | 1 537 |
| Ukraine* | 117 | 167 |

* Hotels & restaurants (section H NACE Rev.1)

Source: CE Research

Figure 44. Average monthly gross earnings and labour costs in Euro, textiles (division 13 NACE)Table 54. Average monthly gross earnings and labour costs in Euro, textiles (division 13 NACE)

| | Gross earnings | Labour costs |
|------------|----------------|--------------|
| Bulgaria | 224 | 284 |
| Croatia | 608 | 826 |
| Czech Rep. | 644 | 912 |
| Estonia | 551 | 757 |
| Hungary | | |
| Latvia | 501 | 637 |
| Lithuania | 527 | 685 |
| Poland | 509 | 664 |
| Romania | 301 | 395 |
| Russia | | |
| Slovakia | | |
| Slovenia | 964 | 1384 |
| Ukraine | | |

Source: CE Research

Productivity in the industrial sector

The growth of productivity in manufacturing (the core of the “tradable goods” sector) defines the level of earnings in the whole economy, according to the Balassa-Samuelson effect. In short it says that when labour is mobile between tradable and non-tradable goods sectors, the growth of earnings in the tradable goods sector (car assembly plants, shipyards, paper mills, etc) is reflected in earnings in the non-tradable sector (retail, catering, education, etc).

Productivity increases in manufacturing allow then for increases in earnings and cause labour costs to increase in the economy as a whole.

When productivity growth is higher than that of trading partners (for simplicity in the case of the CEE region: in the Euro area) the difference will ultimately be consumed either via growth in the real value of wages or via currency appreciation, all other things considered constant. Either way the result is a rise in the Euro value of those earnings.

For the decade 1999–2008 the productivity of labour in the industrial sector had been increasing at an annual average compound rate of 3.0–11.4% and increased in total by between 34% and 195% for CEE countries in the report.

Productivity trebled in Ukraine and approximately doubled in Estonia, Hungary, Lithuania and Poland.

Gains were smallest in Latvia – at 34% or 3.0% annually in sharp contrast to its Baltic neighbours.

Table 90. Industrial output, employment and productivity 1999-2008, CEE and selected developed markets, 1999=100

| | Employment | Output | Productivity | Av. compound rate of growth |
|----------------|------------|--------|--------------|-----------------------------|
| Bulgaria | 89 | 164 | 185 | 6.4 |
| Croatia | 92 | 143 | 154 | 4.4 |
| Czech Republic | 99 | 166 | 168 | 5.3 |
| Estonia | 94 | 182 | 195 | 6.9 |
| Hungary | 96 | 202 | 210 | 7.7 |
| Latvia | 94 | 126 | 134 | 3.0 |
| Lithuania | 88 | 174 | 197 | 7.0 |
| Poland | 94 | 181 | 191 | 6.7 |
| Romania | 78 | 144 | 185 | 6.4 |
| Russia | 110 | 172 | 156 | 4.6 |
| Slovakia | 104 | 173 | 167 | 5.2 |
| Slovenia | 90 | 137 | 152 | 4.3 |
| Ukraine | 74 | 218 | 295 | 11.4 |
| France | 92 | 109 | 119 | 1.8 |
| Germany | 98 | 132 | 135 | 3.0 |
| Italy | 99 | 103 | 104 | 0.4 |
| Japan | 84 | 98 | 116 | 1.5 |
| UK | 77 | 97 | 126 | 2.3 |

Source: CE Research