



*The level of real convergence
required for successful euro adoption*

ELEC Monetary Conference, *Eastern Europe and EMU*,

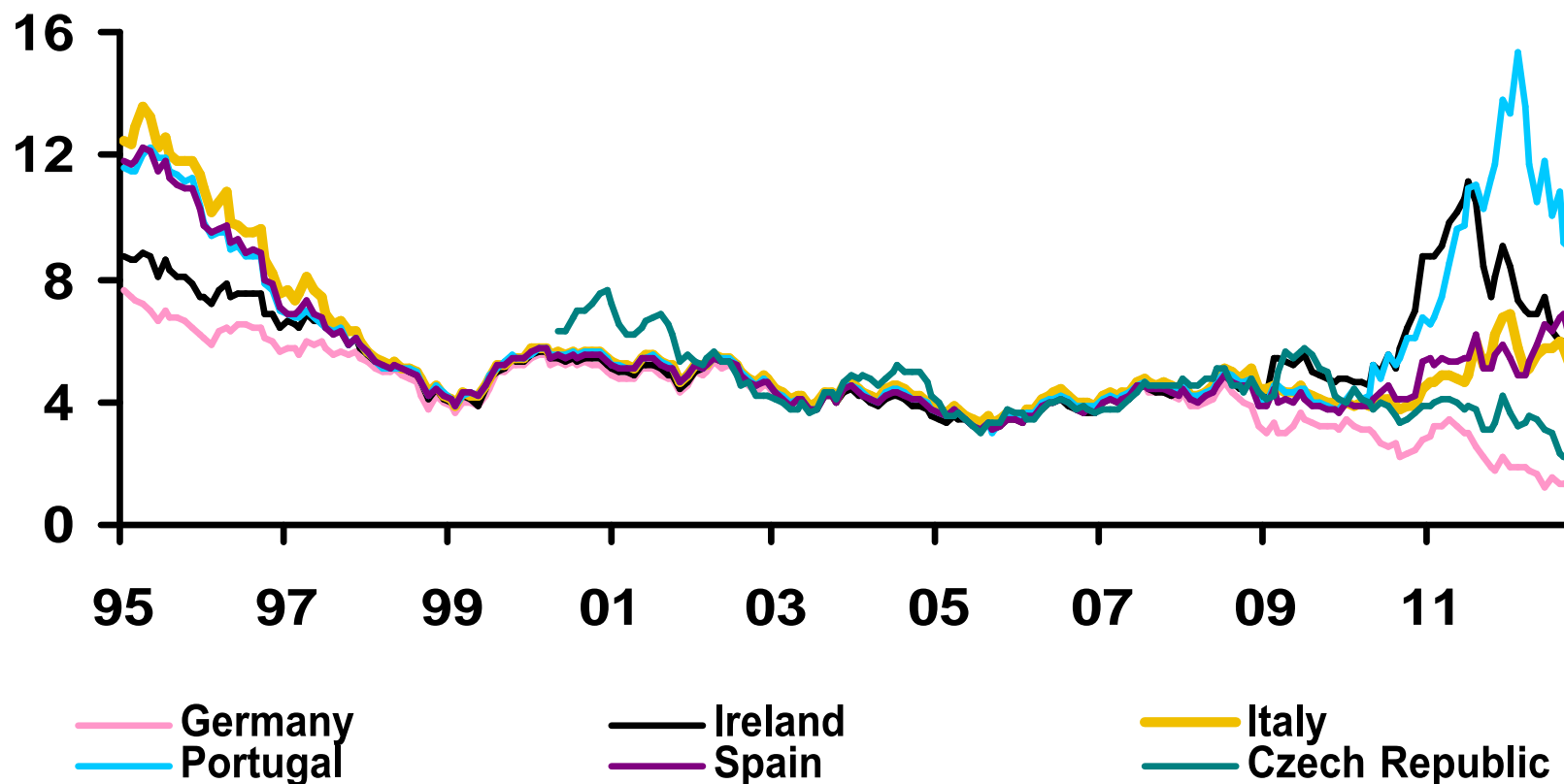
Han de Jong
Chief Economist - ABN AMRO
Bucharest, 26 October 2012

This was not enough ...



Real convergence \neq interest rate convergence

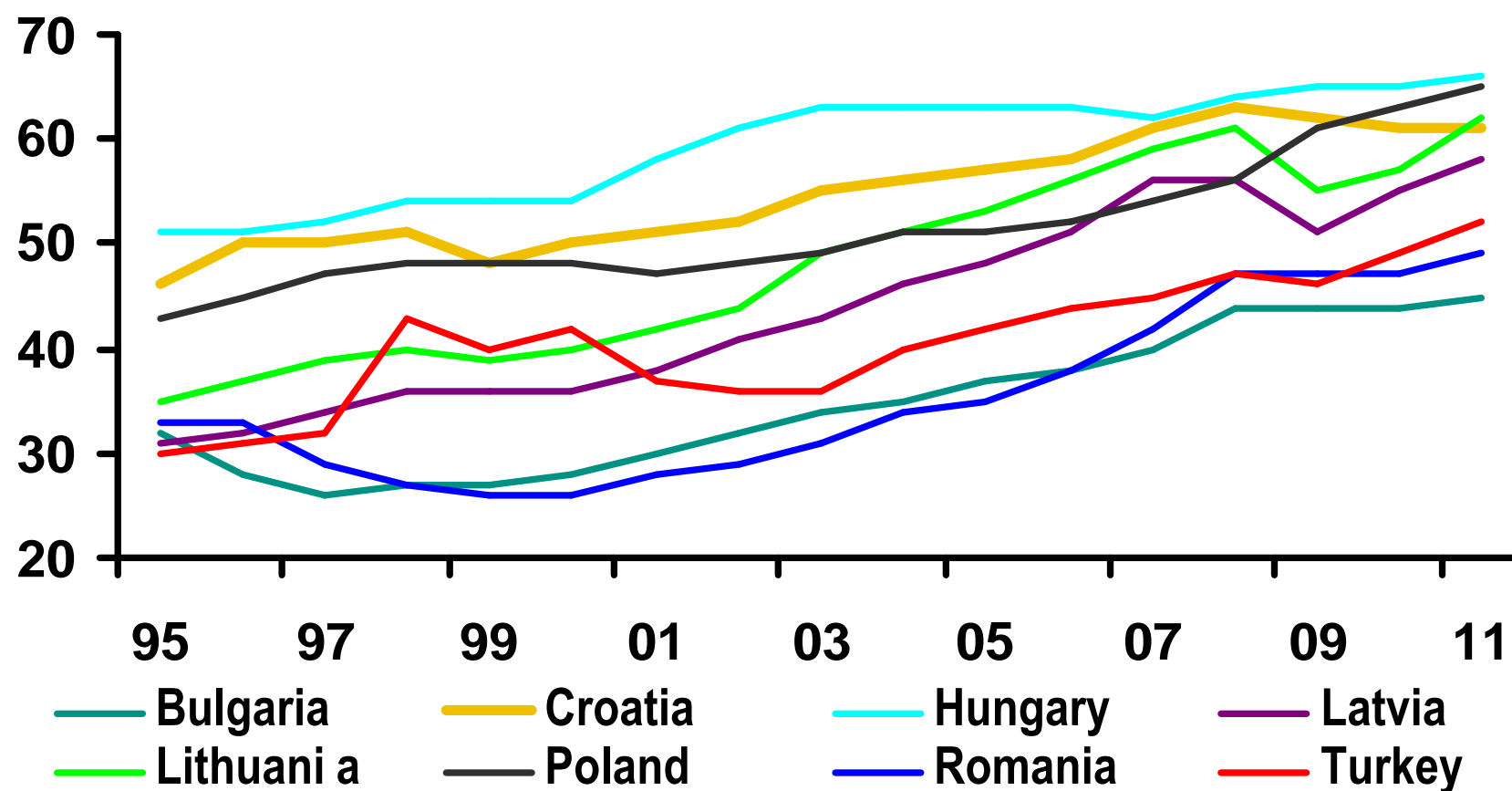
Government bond yields, 10 yr benchmark (%)



Note the strong performance of the Czech Republic

Real convergence in terms of GDP/capita ...

GDP per capita in PPP terms, EU-average = 100

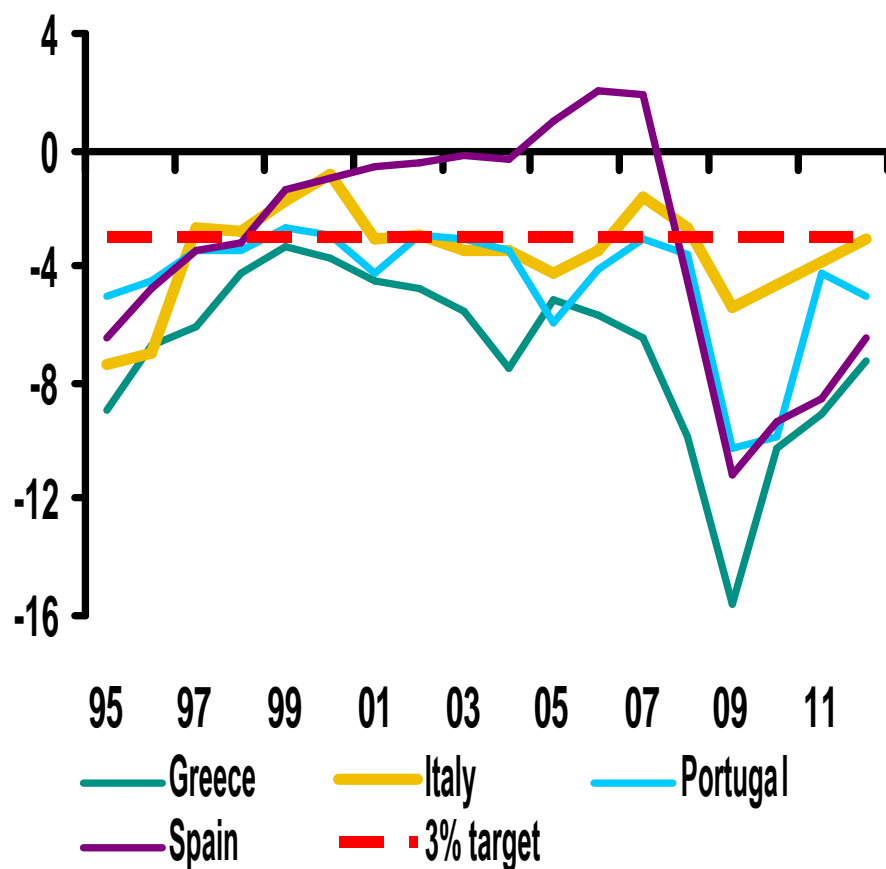


-GDP/capita still 35 – 60% below EU average (Czech Rep. 20% below EU average)

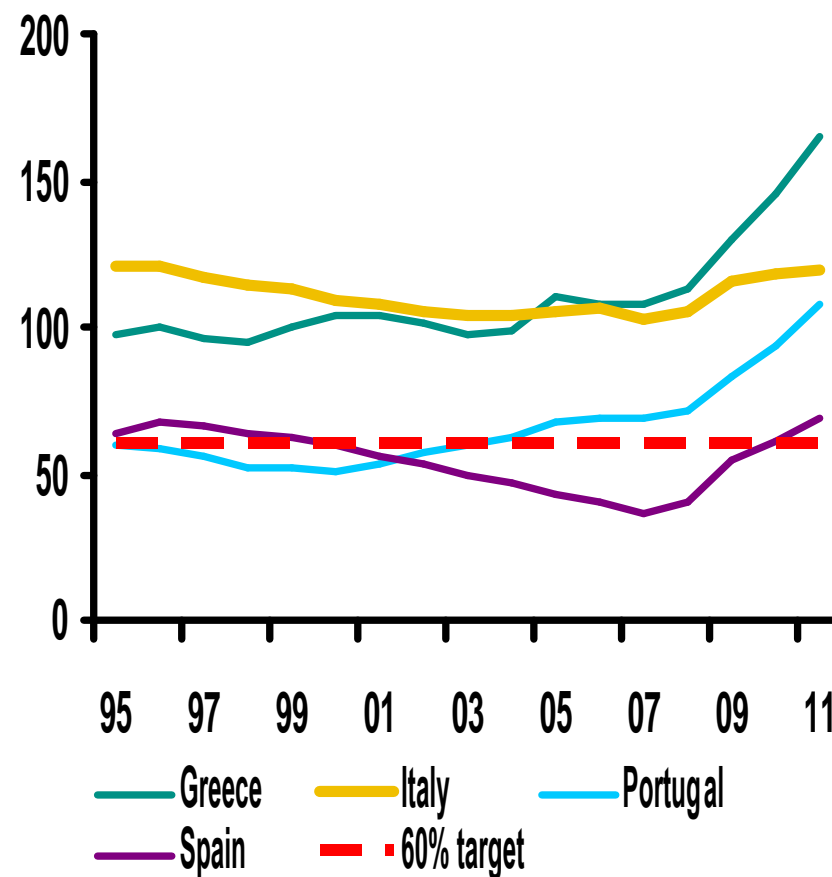
-Bulgaria and Romania still lagging behind

Lack of vigilance in the South ...

Budget deficit (% GDP)

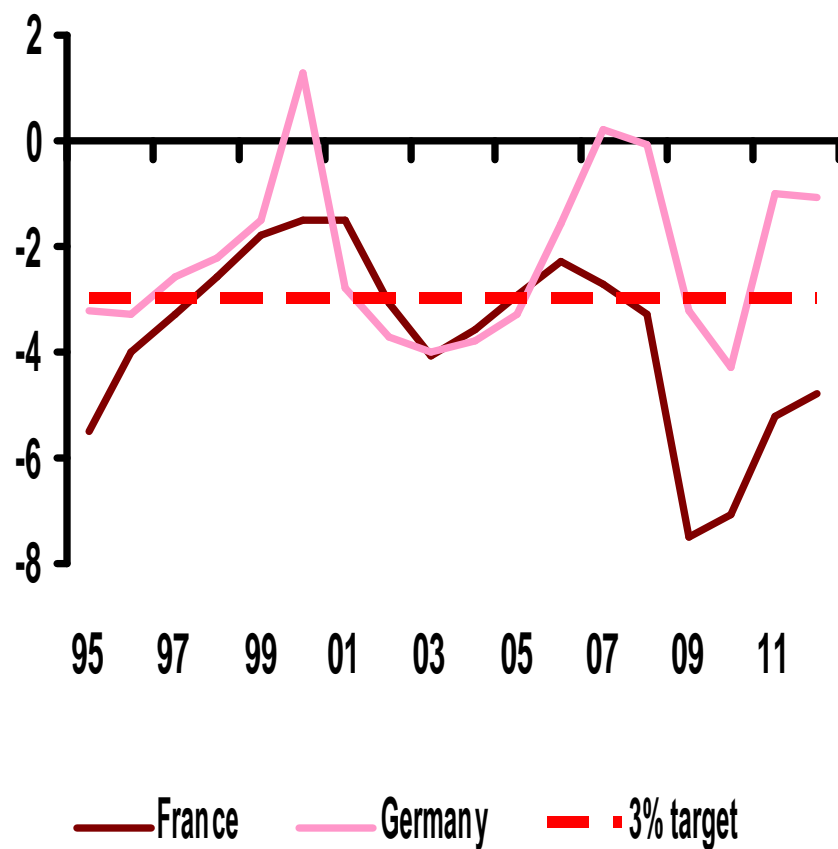


Public debt (% GDP)

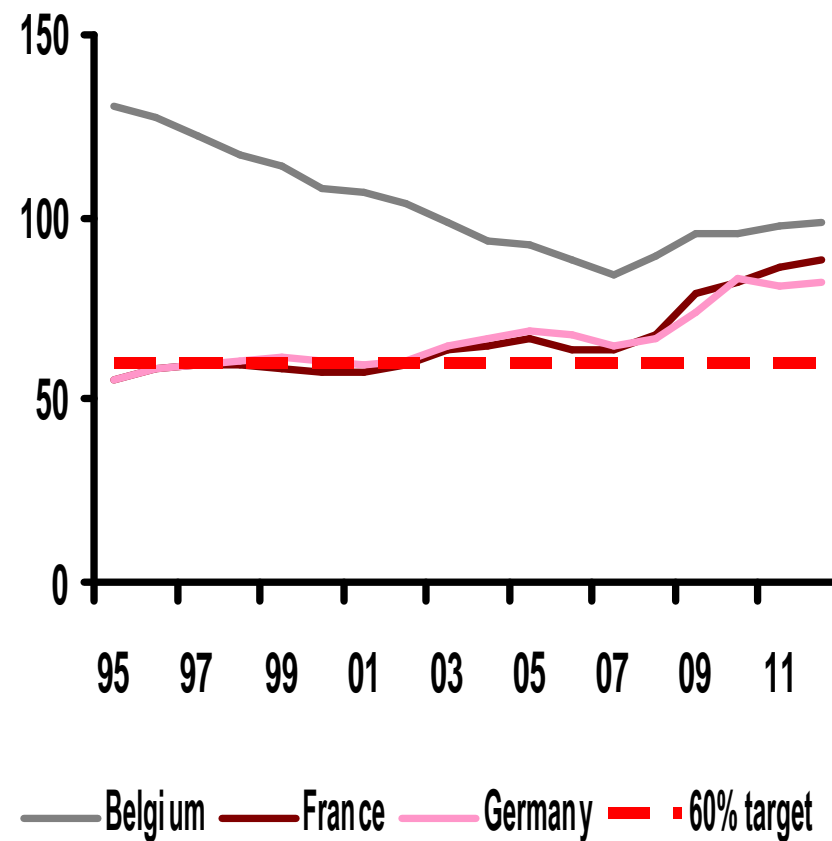


... and the North

Budget deficit (% GDP)



Public debt (% GDP)

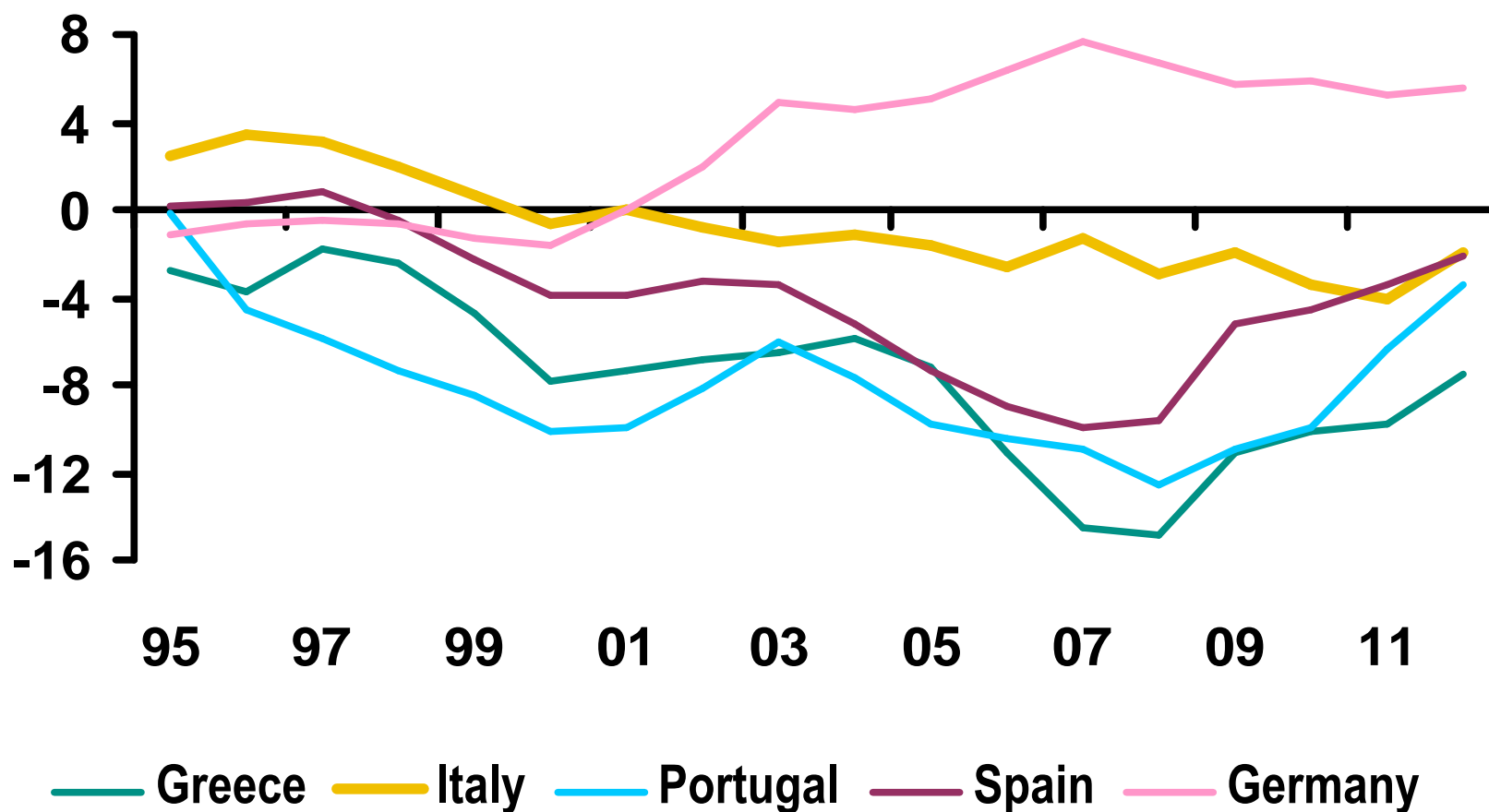


Mind the (external) gap



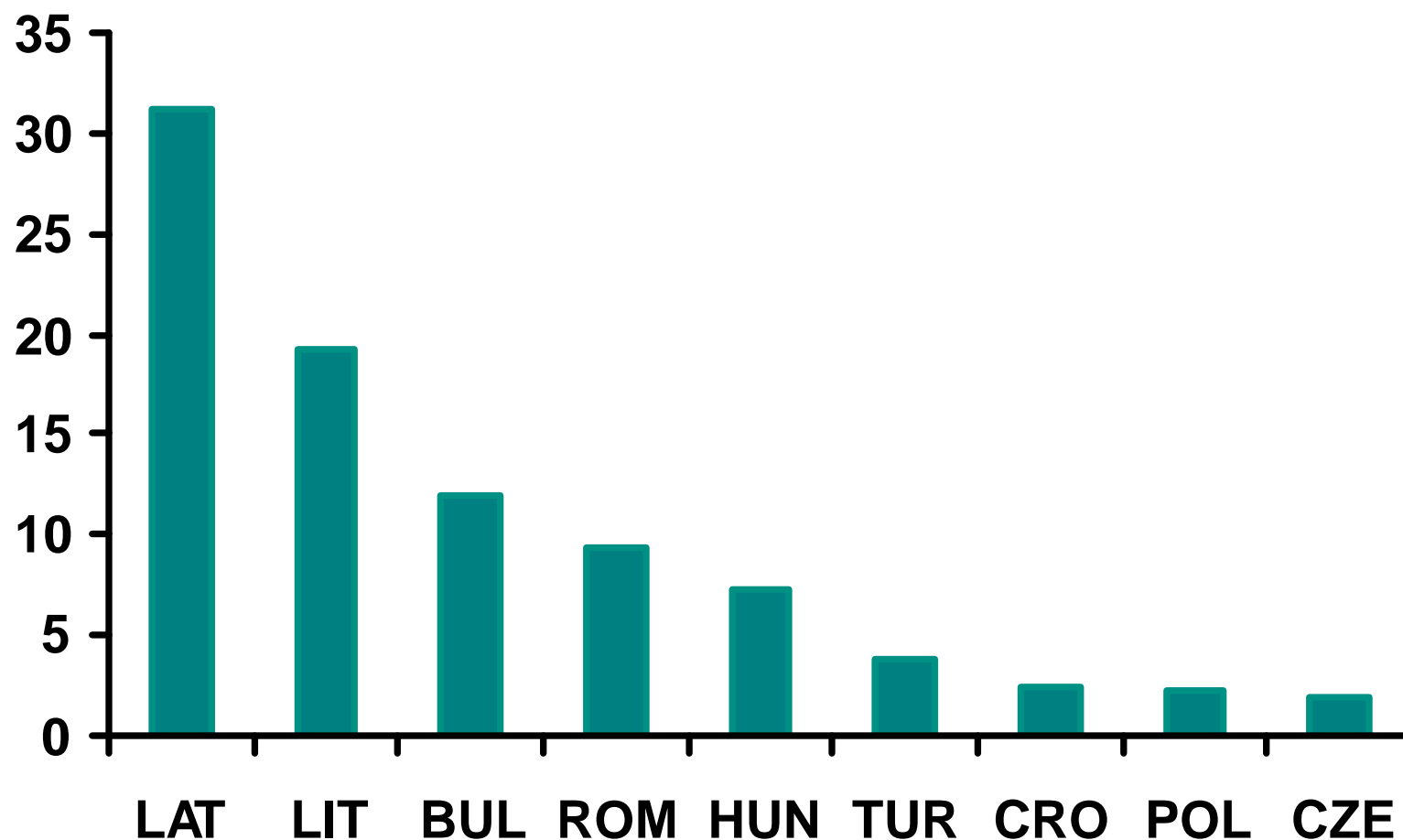
The eurozone's external imbalances

Current account balance (% GDP)



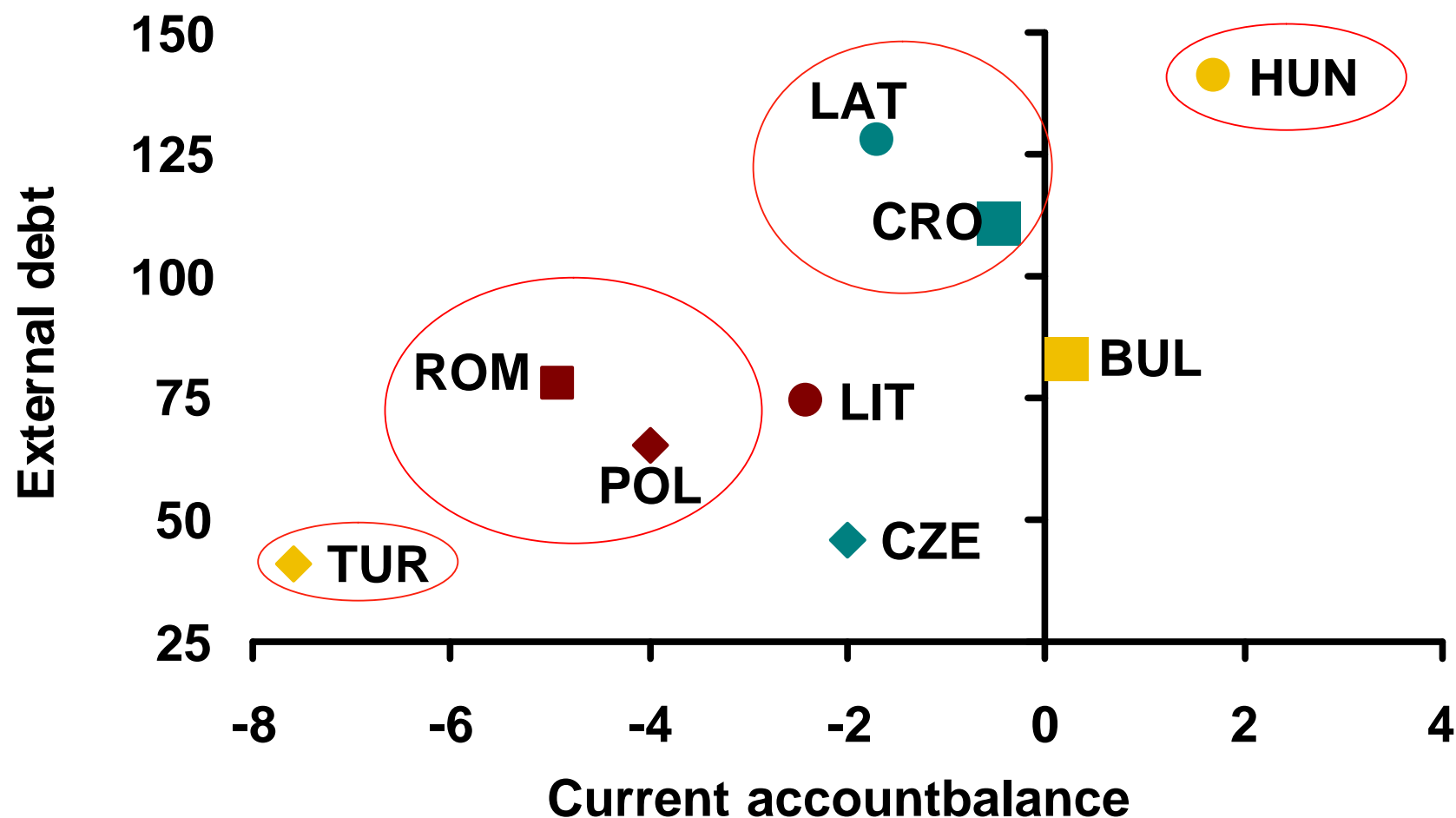
Global crisis caused extreme external correction in Eastern Europe

Current account adjustment 2007-2009 (%-points GDP)



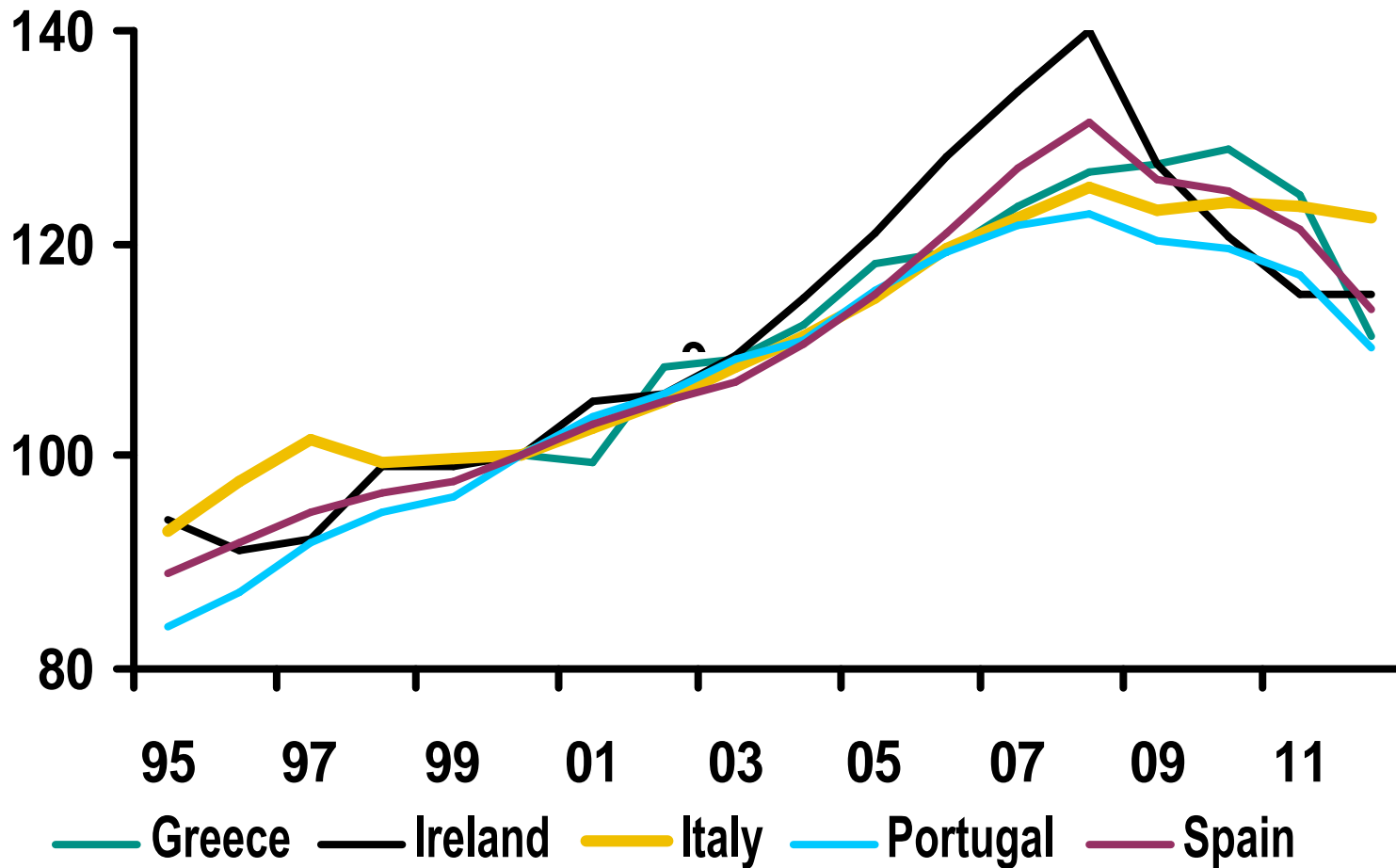
But external position of some countries still vulnerable

Current account balance and external debt (2012, % GDP)



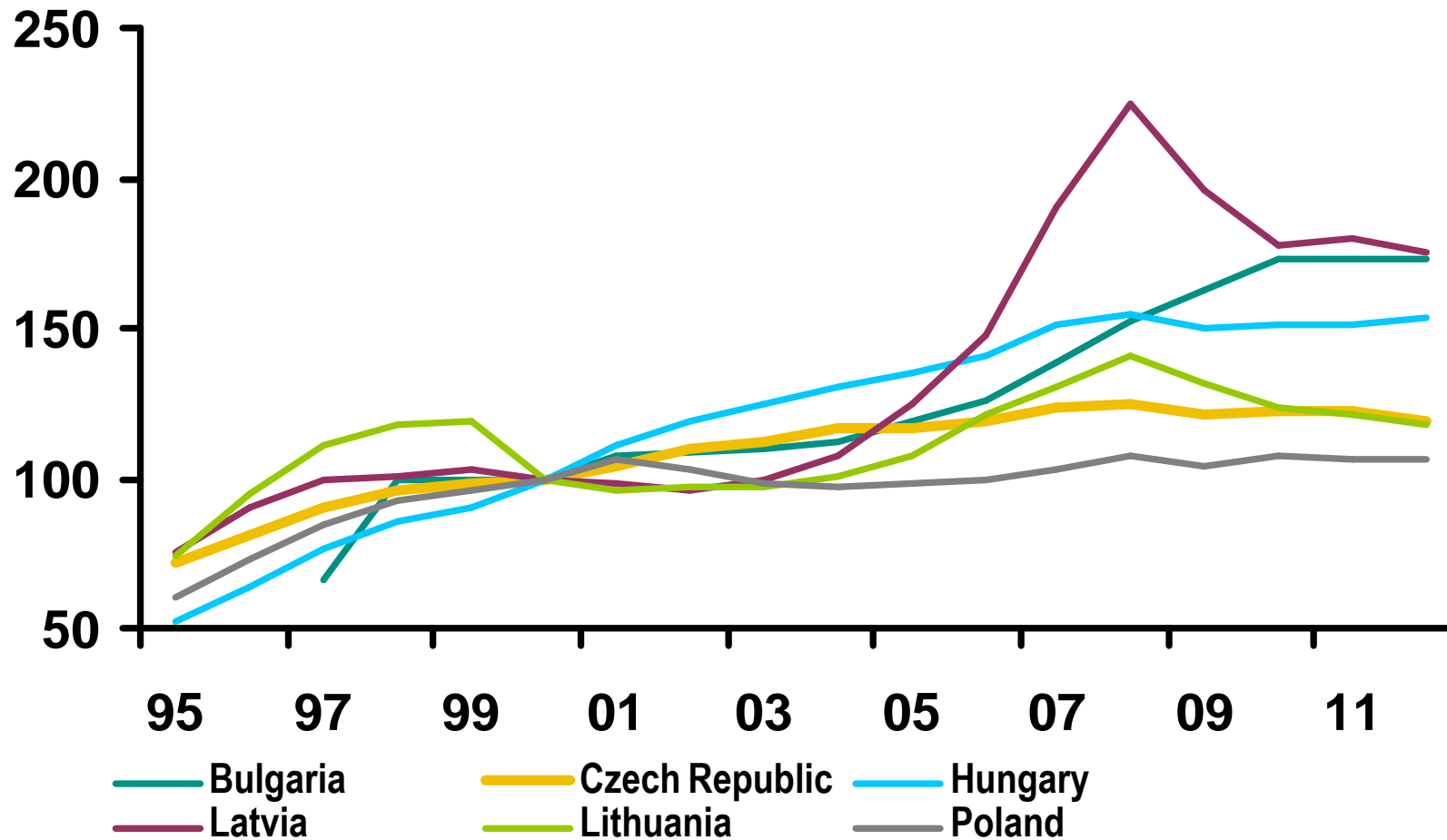
Being competitive is key (1)

Unit labour costs relative to Germany, 2000 = 100



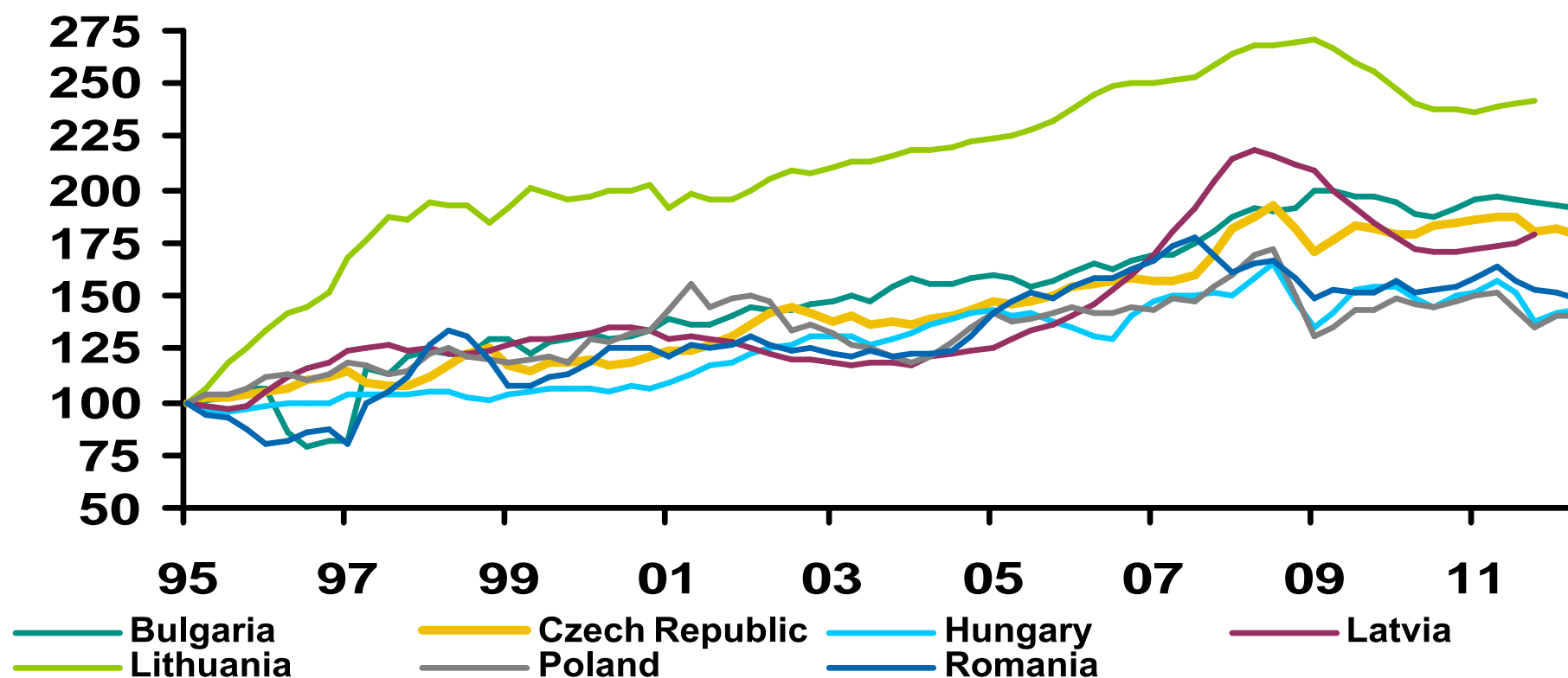
Being competitive is key (2)

Unit labour costs relative to Germany, 2000 = 100



Being competitive is key (3)

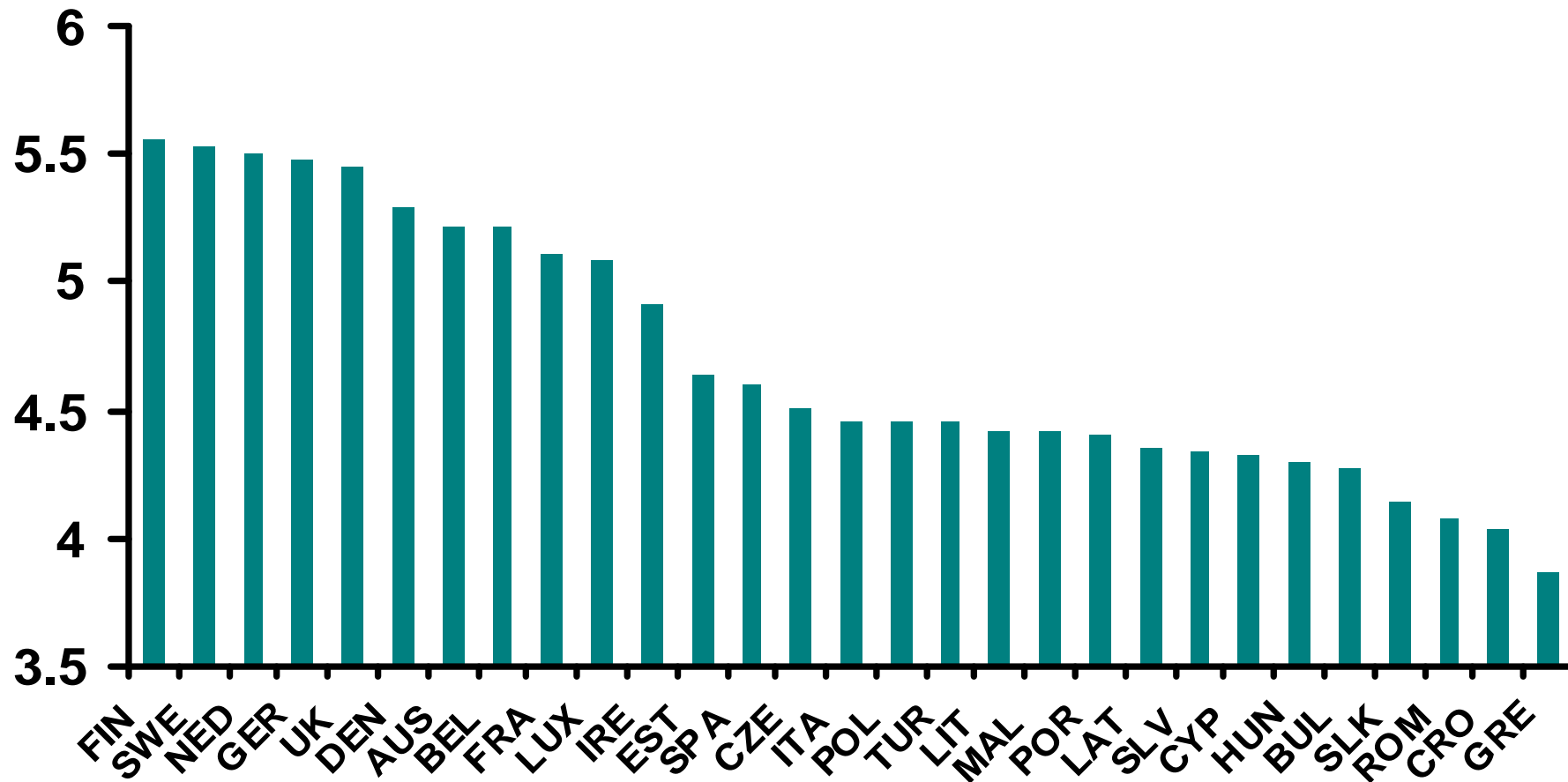
Real effective exchange rate (1995 = 100)



Currencies under fixed exchange regimes (Baltics, Bulgaria) but also the Czech koruna have appreciated relatively strong in real, effective terms

Being competitive is key (4)

Competitiveness Index 2012-13 (Score)



Doing Business ranking also provides insight ...

Ease of Doing Business Index, 2012

	Rank 2012 (1-183)	Starting a business	Construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Latvia	21	51	112	84	32	4	65	67	15	17	32
Lithuania	27	101	47	81	7	48	65	62	28	15	40
Hungary	51	39	55	103	43	48	122	117	74	19	66
Bulgaria	59	49	128	133	66	8	46	69	91	87	90
Poland	62	126	160	64	89	8	46	128	46	68	87
Czech Republic	64	138	68	148	34	48	97	119	70	78	33
Turkey	71	61	155	72	44	78	65	79	80	51	120
Romania	72	63	123	165	70	8	46	154	72	56	97
Croatia	80	67	143	56	102	48	133	32	100	48	94

- Baltics lead the pack, Romania and Croatia are lagging
- Eastern Europe scores weak on construction permits and getting electricity ...
- ... and strong on registering property, getting credit and enforcing contracts

Prepare your banks

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THE ECONOMIST
London
ENGLAND



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App for the iPad – see abnamro.nl/marketinsights (also for English docs)

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