

## Macroeconomics



Abid Sharifov  
Deputy Prime Minister of Azerbaijan

### Debates

- Economic integration – hopes and risks
- Economy and society: mechanism of interaction
- Macro-economic consequences of demographic changes (situation in the region of Central and Eastern Europe)
- Central and Eastern European countries and their way to the euro
- European Union 2007-2012: the new financial perspective
- Directions of investment policy on international capital markets after the Polish EU accession
- How to decrease the risk of investment in the East?
- Retail lending growth in New Europe countries
- 'New' and 'Old' European Union: is it possible to close the development gap?
- The telecommunications market: deregulation?
- Success factors in CEE banking - what can we learn from one another?

In 2004, the accession of 10 new member states to the European Union took place. As many as eight of these countries were former post-Socialist states, which for many years had been experiencing systemic, economic and social transformation. The success of these countries constitutes an important reference point, as well as a tremendous challenge for other countries aspiring to join the European Union. To what extent should the experience of the new EU member countries be a model to be followed for the integration process of these other countries? What threats should they focus on? On the other hand, what are the next challenges for the new EU member states and what is their role in the formation of New Europe? These were the questions, around which the discussion in the Macroeconomics subject group was focused at this year's Economic Forum.



Jarosław Dąbrowski  
President of NORD/LB Bank Polska Norddeutsche Landesbank

### Economic integration – hopes and risks

The global economy at the beginning of the XXI century, based on information technologies, forces countries to be increasingly open and to abolish barriers. Country borders and traditional divisions are disappearing, and progress is gaining speed. However, an increasing number of doubts are appearing: are we all beneficiaries of this fast march towards prosperity; is the division between the poor and the rich, between those who exploit and those who are being exploited, not becoming exacerbated? What can be done to effectively support those who are in a difficult situation for reasons over which they have no influence?

There were many issues discussed by this panel: What view of the EU do the countries of Eastern Europe, aspiring for membership, have? What does European integration mean to them in the economic and social dimension? What changes are they expecting as a result of integration with EU countries and what are their ideas about the course of integration? Is it important for them to join the EU as soon as possible? What is the experience of Poland in this regard?

Georgia's Economy Minister, **Irakli Chogovadze**, emphasised that, at present, we are facing great challenges, because freedom itself is not enough for our countries. We need peace and democracy. Without democracy no nation, no state, can embark on a path of lasting development. Especially in Europe one cannot enjoy a normal life and normal prospects for the future, because we need a sense of security. We need to resolve our internal problems, which arose through problems with various countries and their relations, which have been fuelled by imperialist tendencies. This is a great challenge for us and we may only discuss economic growth in a more serious manner, after we resolve these problems. However, first we need peace, security and democracy.

---



Anatoliy Bashmakov  
Member of Parliament of the Kazakhstan Republic

According to the minister, Georgia is clearly headed towards European integration. We do not want premature integration, (but) only when we have a competitive economy. This is when we shall raise the question of our membership of the European Union.

Similarly resolute assessments of integration processes were voiced by Deputy Prime Minister of Azerbaijan, **Abid Sharifov**, Minister of Economy and Trade of Moldova, **Valeriu Lazar** and **Volodomyr Shandra**, Ukraine's Minister of Industrial Policy.

Towards the end of the discussion, **Jacek Piechota**, Minister of Economy and Labour of the Republic of Poland, pointed to the basic fears associated with economic integration, which could constitute impediments to economic growth. *Countries of the highly developed Fifteen were protecting themselves against our employees. The United Kingdom, Ireland and Sweden, which have opened up their labour markets, today see the effects of this. Poles are very well received there and the British economy is growing faster than the German one, which has protected its labour market against Poles. The*

*fourth freedom pertains to the free movement of services. The Polish plumber enjoyed a spectacular career in France before the referendum. He was a symbol of the threat of Polish services, when all of us economy ministers admit that the freedom of movement also in this area would be conducive to faster economic growth of our countries.*

---

#### Economy and society: mechanism of interaction

The economy cannot be separated from politics, from the state of social awareness, from the moral and cultural advancement of the population. A society is a homogeneous organism, all the components of which are closely related to one another. Changes in politics are impacting the economy and then the economy affects politics. It is harder to show the link between the economy and the management and administration system, the state of culture, science and good practices. Failure to recognise the significance of these interactions is often the cause of unsuccessful transformations.



József Bayer, Director of the Institute of Political Science of the Hungarian Academy of Sciences

The economy is not the only factor that is changing under the influence of integration. The society, its mentality, expectations and opinions, also plays an important role in the process of integration. And there are hopes and threats hidden here. To what extent does public opinion reflect the state of the economy and influence it? How has the assessment of the economies of Central and Eastern Europe changed in the opinion of societies? How satisfied are they with the past 15 or so years of economic development? Should ethics and morality play a significant role in the economy and politics, and are they actually playing such a role? How fast are the changes in the society taking place with regard to economic changes, and what are the economic consequences of this? These are the questions around which the discussion by this panel was centred.

Some very important comments on this subject were made by **József Bayer**, Director of the Institute of Political Science of the Hungarian Academy of Sciences, who emphasised *that political consolidation is not possible without social consolidation. A third way is necessary between neo-liberalism, which is very strong, and radical populism, supported by traditional nationalism, nationalist tendencies and conservatism of the period between world wars. The European alternative should be a sort of a third form of the model of the welfare state, compared to the American neo-conservatism.*

*Probably not only in Kazakhstan, but also in many other countries, especially post-Soviet ones, expenditure on the development of culture and spirituality amounts to maybe 1% or less of the entire budget. Culture is something of secondary importance, something incidental – pointed out **Anatolyi Bashmakov**, member of the Senate of the Parliament of the Kazakhstan Republic. He also emphasised that *in every multi-national society, the sentiments of the people are quite stable, formed by tradition and habits. These kinds of people are not used to sudden changes. I am an advocate of cooperation in fighting starvation, fighting for the improvement of living standards, but not for imposing rules of how to live upon anyone.**



Erkinbek Alymbekov  
Deputy Speaker of the Parliament of Kyrgyzstan

---



Ronald Schoemaekers  
Scientific Director of the Population and Family Study Centre, Belgium

---



Stanislaw Kluza  
Chief Economist at BGZ, Poland

**Macro-economic consequences of demographic changes (situation in the region of Central and Eastern Europe)**

A demographic decline began in Poland and in the entire region of Central and Eastern Europe, coinciding with the systemic transformation. Its negative consequences will become evident in the economy and in social processes, after a delay of around 20 years. It may be estimated that the phase of the effects will commence around the year 2010. The negative consequences of the demographic process will be reflected both in fiscal sustainability, as well as in countries' economic growth. This is another threat to the success of European integration.

The panel sought to find answers to the following questions: What are the main tendencies of economic development in Central and Eastern Europe? What are the social and economic problems arising from this situation, and what are the consequences of this? What are the real possibilities for preventing the economic consequences of the problem of an ageing population? What is the nature of the demographic problem in Russia?

**Ronald Schoenmaeckers**, Scientific Director of the Population and Family Study Centre, Belgium, presented the results of a study prepared for the European Council in association with a conference devoted to demographic issues, which took place in Strasbourg. The main conclusions concerned the question of whether a growing gross domestic product can withstand the negative effect of a declining labour force. Second issue: the age profile for health care spending. Does an ageing structure of the population necessarily, and I emphasise necessarily, have to lead to higher outlays on health care?

*As a sociologist and a demographer, I conclude, that we can expect an increase in the gross domestic product. As regards people aged over 65, I believe that we shall cope with the problem of ageing populations. Productivity and employment ratios need to be increased. This means that people should work longer. In the year 2050, per capita GDP in the countries of Central and Eastern Europe will continue to be half that of the wealthy European countries at the same time. If we take the same employment levels, but*

*a 3% increase in productivity, instead of 1.75%, we shall reach the same levels as in Western Europe. If we could cause the population of Central and Eastern Europe to increase its productivity by 3%, then we will be successful, but this is a great challenge – asserted Ronald Schoenmaeckers.*

Ronald Schoenmaeckers also discussed public expenditure on health care. An increasing number of people are becoming old. This would imply that in many countries (if the forecasts are correct), the share of expenditure on public health care will increase from 6% of GDP to 7.5% of GDP. The majority of health care expenditures are associated with age, i.e. these outlays increase in the period of the last 48 months of our life. *There are also some indications from the studies of my other colleagues, who claim that an increase in longevity will lead to an increase of years in good health. If this is true, then all population structures do not necessarily need to assume an increase in spending on health care, because the number of years spent in good health is rising.*

**Mikhail Matovnikov**, General Director of the Interfax Centre for Economic Analysis, pointed out, however, that none of these forecasts will turn out to be correct in Russia. He emphasised the role of many factors (for example, the late child-bearing age resulting from a difficult economic situation as a consequence of transformation; offspring as an alternative to a pension system), which, notwithstanding natural demographic factors, will contribute to a rapid increase in the birth rate in Russia. *This means that Russia will have to obtain funds, not for homes for retirees, but for normal kindergartens and then schools. This yields even more interesting consequences for the labour market, as the birth rate in Russia had been lower for 15 years.*

---



Mikhail Matovnikov, General Director of the Interfax Centre for Economic Analysis, Russia



Susan Schadler

Deputy Director of the European Department at the International Monetary Fund

### Central and Eastern European countries and their way to the euro

Aside from the threats and hopes associated with European integration in countries remaining outside the European Union, the challenges faced by the new members are also important. One of these challenges is the adoption of the euro. What are the main costs and benefits associated with the (rapid) adoption of the euro? What is the magnitude of these costs and benefits and what are the factors shaping it? Which criteria of euro zone accession are the most important to fulfil? How should the exchange rate be effectively stabilised in the period of the last two years before accession to the euro zone?

**Susan Schadler**, Deputy Director of the European Department at the International Monetary Fund, presented the main benefits and costs associated with the adoption of the new currency. *We have found that for countries that entered the EU with an appropriate, already established, policy, the benefits will be very large, while the costs will be relatively small. There is a view, according to which a later date of euro adoption could entail the cost of a loss of some investment*

*opportunities, as companies will be seeking to direct their investments to countries that are already inside the euro zone. The benefits of the adoption of the euro are the increased trade turnover and an increase in revenues, while as far as the costs are concerned, greater fluctuations of prices and incomes are possible. The more volatile the fluctuations a given country's currency will be subject to prior to its adoption of the euro, the greater the benefits this country will obtain after it enters the euro zone.*

**Willem Buiter** from the London School of Economics, did not fully agree with the previous speaker, stating that the benefits of euro adoption for trade are probably overrated, in the view of cautious estimates. *These studies do not take into account the fact that the realisation of a single European document is of much more importance for intra-EU trade. Taking into account the criteria associated with inflation and other economic criteria, few of them are of significance. The most important of the criteria is the economic stability in a given country. If the economy is unstable, this creates some limitations in economic growth and the development of foreign trade.*



**Paweł Samecki**

Member of the Management Board of the NBP, Director of the International Department, Poland

Regardless of all the criteria, Willem Buiters recommends that countries join the euro zone at the first opportunity they get.

Professor **Andrzej Sławiński** from the Warsaw School of Economics, pointed to the problem of reigning in the volatility of the zloty exchange rate, after the remaining criteria associated with euro zone accession are met. *In the case of the old member countries, the stabilisation of the currency was easier. At the end of the 90s, the market was not very interested in these currencies. However, the foreign exchange market has changed over the past 15 years and the situation as regards the currencies of the new member countries, such as the zloty, the Czech Koruna and the Hungarian Forint, is completely different. Our solution, as regards the choice of the exchange rate regime, will depend on the attitude of our European partners: will this be a broader range? Or a fixed exchange rate?*

**Jacek Rostowski**, Advisor to the Management Board of Bank Pekao SA, emphasised the core of the problem arising from the significant level of indebtedness in many

countries belonging to the euro zone. *We need to think to what extent we can trust our partners, as regards their current debt legacy and situation. We are aware of the benefits and they are not questionable. However, in the longer term, potential dangers could arise. Hence the question – why should we hurry?*

---

#### European Union 2007-2012: the new financial new perspective

Since the reform of EU financing principles in 1998, the basic objectives for multi-year periods are laid out in financial perspectives. The deepening of the integration process, new tasks and further enlargement of the EU have resulted in the growth of the common budget up to the current financial perspective. The ceiling for of the so-called commitments at present amounts to 1.24% of GNI (which is equivalent to around 1.27% of GDP). The Commission is not proposing to raise this ratio for the new period. In June 2005, the European Council failed to adopt the new EU financial perspective for the years 2007-2013.



Milan M. Cvikl, Chair of the Commission for Budgetary and Other Public Finance Control of the National Assembly of the Republic of Slovenia

The drafting of a new financial perspective is a challenge not only for the new EU member countries, but also for all member states. The discussion in the panel was focused around the following issues: what is the significance of the new financial perspective? What are the main points of contention accompanying the work on the EU's multi-year financial perspective? What are the real possibilities for adopting a financial perspective in 2005?

**Lars Christensen**, Senior Analyst with Danske Bank, asserted that we should be working harder on reforming the Common Agricultural Policy. This does not apply to individual countries. The majority of common funds are being spent on the CAP and there is no reason for this to continue. What should the EU do as regards spending money? *The majority of the funds should be devoted to financing at the national or local level. There are of course many arguments in favour of pan-European cooperation, but first, one needs to define what the public good is. I do not believe that direct financing could bring any benefits to the new members. Internal reforms in the respective countries are much more important here.*

**Milan M. Cvikl**, Chair of the Commission for Budgetary and Other Public Finance Control of the National Assembly of the Republic of Slovenia, questioned the good will of EU member states in quickly drawing up the new financial perspective. The financial perspective should come into life in the year 2007, which appears unrealistic not so much because of the budget itself, but because of the need to prepare the necessary projects. It appears that we will not manage to agree on the next financial perspective this year.

---



Krzysztof Kalicki  
President of Deutsche Bank Polska

---

**Directions of investment policy on international capital markets after the Polish EU accession**

Aside from the hopes and threats associated with European integration among the current and future members of the EU, attention was also focused on the new directions of investment policy. The following issues were discussed: what are the characteristics of different capital markets and their segments? Which assets are worth investing in? Which economies are emerging and what are the prospects of their growth in the coming years (decades)? What is the magnitude of risk in these countries?

**Andreas Gummich**, Director of DWS Investments in the Deutsche Bank Group, presented an exhaustive analysis and description of capital markets. In his view, for the majority of investors in Germany, France, the United States and Austria, the capital markets of Eastern Europe are becoming increasingly interesting. *In our assessment, they are still not too expensive. Poland is already a part of the Western world. We are*

*expecting the yield on bonds to remain low in the future. This is, therefore, an investment problem. A question thus arises: should we really be investing in bonds at such low rates of return, or perhaps in something else, maybe in currencies? Further weakening of the dollar and yen will take place. The euro will continue to gain strength.*

Gummich also mentioned the new emerging economies, which he called "BRIC": B for Brazil, R for Russia, I for India and C for China. Brazil is the supplier of the raw materials of the future world, Russia – of its gas and fuel plant, while China is the workshop and India, the intellectual potential of the future world.



**Patrik Rozumbersky**  
Chief Economist at Zivnostenska Banka, Czech Republic

---



**Cevdet Akcay**  
Chief Economist at Yatirim Koc Financial Services, Turkey

---



Jan Krzysztof Bielecki  
President of Bank Pekao SA, Poland

---

#### How to decrease the risk of investments in the East?

During the brief discussion by this panel, attention was mainly devoted to what type of risk is the most significant from the viewpoint of a strategic investor.

**Jan Krzysztof Bielecki**, President of Bank Pekao SA, pointed out that next to the credit risk, interest rate volatility risk and the exchange rate risk, the main investment risk is the policy of a given state. *Investments are assessed on the basis of the political risk associated with them. This is the most important moment, when the "state" begins to be accepted by lobby groups. This is how corruption and all irregularities are born. This is what everyone is trying to protect themselves against, while political risk is being analysed daily.*

---

#### Retail lending growth in New Europe countries

Dynamic growth of retail lending, fuelled by mortgage loans, is taking place in the euro zone and in Europe's transforming economies. In this panel, attention was mainly drawn to the following issues: How are the basic trends of development of retail loans being shaped in the countries of New Europe? What are the main determinants of the level of indebtedness of households? What are the implications arising from this for economic policy? What are the characteristics of retail loan markets in Poland, Turkey and the Czech Republic, and what are the causes of such developments?

**Andrea Moneta**, Deputy General Manager and Head of the New Europe Division in the UniCredit Group, Vice-president of the Supervisory Board of Bank Pekao SA, noted that unlike in the euro zone, there are still some lending constraints to be observed in the New Europe countries. *Banks are not granting loans to the extent they could be.*



Andrea Moneta, Deputy General Manager and Head of the New Europe Division in the UniCredit Group

*We have such a situation in Turkey, Romania and Slovakia. There are consumption levels, which would allow for better utilisation of loans, but there are lending constraints in these countries.*

Household indebtedness in relation to GDP amounts to 12%, as compared to 15% in the Euro zone. The main reason for indebtedness is the mortgage loan market. There is no risk on that market. There is also no major cause for concern, when it comes to exchange rate and exchange rate risk indicators.

**Jacek Rostowski**, Advisor to the President of the Board of Bank Pekao SA, pointed to some very interesting tendencies observable on the retail lending market in Poland. *It turns out that there is a very interesting pattern, which indicates rationality among Polish borrowers. Mortgage loans and consumption show a positive correlation – the wealthier the people become, the more they borrow in order to, for example, buy a house. At the same time, they consume more. On the other hand, however, if their incomes are not rising as fast as they would have expected, they nevertheless do not limit their consumption. But they do not increase their holdings. This is, therefore, an interesting degree of rationality of choices, when it comes to borrowing.*

---