RISKS TO ECONOMIC STABILITY IN CEE COUNTRIES

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Introduction

The Global crisis has hit a number of developed and emerging economies that have been vulnerable due to accumulated imbalances. The crisis has changed the trajectory of economic development and has raised a number of questions about the stability of the economies. Governments and central banks failed to generate confidence in their initial reactions, and this postponed the economic recovery.

Lehman Brothers' bankruptcy led to the spread of the crisis in the CEE countries, which had a similar upward trend prior the crisis and suffered its serious impact. The period that has elapsed since then calls for the exploration of these countries' economic development in order to track changes and to assess their degree of stability.

Ten countries that joined the EU 2004-2007 are included in the study: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

We can divide the CEE countries into two groups – Eurozone and Non-Eurozone.

After the crisis, the enlargement process continued, with five countries accepted in the Eurozone: Slovenia, Slovakia, Lithuania, Latvia and Estonia. Bulgaria has a currency board in place and largely imports monetary policy from the ECB, but remains outside the Eurozone. With the inflation targeting, the Czech Republic, Poland, Hungary and Romania remain.

The analysis is focused on main indicators of economic development, and two periods are envisaged. The first period is before the Global crisis from 2002 to 2008, and second is after the turbulent times from 2011 to 2017. The crisis had the strongest impact in 2009 and 2010 and these periods are therefore excluded from the analysis.

The main goal of the paper is to provide a comparative analysis of CEE countries in terms of main economic indicators connected with economic stability.

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The major assumption held is that after the crisis the CEE countries are characterized by lower growth rates and unstable dynamics, with a number of risks to their medium-term development.

We can set the following research objectives:

- Comparative analysis of the countries on the selected indicators, focusing mainly on the risks to medium-term economic development
- Outlining effects for the two groups of countries – Eurozone and Non-eurozone
- Building an index of economic instability and pointing out the three countries with the highest risk potential.

The methodology used is based on benchmarking based on indicators that give an idea of economic development and the main risk to stability. The behavior of the indicators in the two selected periods is compared and countries which are performing best, and which are the worst are identified. The dynamics of the indicators for both groups of countries (from the Eurozone and beyond) is compared as well.

Based on the indicators examined, a composite index of economic instability is also compiled. The indicators are shown in eight tables. For each subset (table), an indicator is chosen whose behavior implies a potential risk to economic development over the medium term. The three countries with the most negative development of the indicator get value 1. By compiling the values for the individual 8 indicators for each country, an index of economic instability has been arrived at. This index identifies Slovenia, Bulgaria and Lithuania as the riskiest countries.

Brief literature review

The accession of the 10 countries concerned to the EU has given rise to increased attention to their economic development.

Dombi (2013) explores the direct sources of economic growth in these countries for the period 1995-2012. The author uses growth accounting and development accounting and demonstrates that the most important factor for economic growth is physical capital accumulation. This determines its great importance for medium-term economic stability.

Gurgui and Lach (2013) explore the relationship between political instability and economic growth in 10 CEE countries in the period 1990-2009. They prove that political instability has a negative impact on economic growth. This conclusion is in place when political instability is defined as major changes in the government. They find no evidence of the impact of changes in economic growth on political stability.

Croatian Central Bank governor Boris Vujcic (2016) points out the challenges to economic policy in the CEE countries. He examines a number of indicators related to economic stability and convergence. Finally, he makes recommendations for reforms in the business environment, product and labor markets as well as for the development of human capital.

Kubinschi and Barnea (2016) analyze the development of four CEE countries. They study the impact of a composite indicator of systemic risk on economic growth, inflation and interest rates. Their conclusions are that economies are more prone to the negative impact of shocks before the crisis. The post-crisis period is characterized by increased attention to risks, but this continues until 2012. In recent years, risk levels have risen again, with the materialization of shocks expected to reduce potential growth. The least susceptible to external shocks prove to be Poland.

Risks to economic stability

The global crisis emerged in the United States, but the connectivity between participants in the globalized financial system spread it over to the EU. The main event that caused the contagion of the crisis and loss the of confidence was the bankruptcy of Lehman Brothers in September 2008. Later on, the economies of the CEE countries were also seriously affected. Before the crisis, these countries enjoyed a period of high economic growth, yet their economies remained vulnerable to shocks and did not build up the necessary safeguards[1].

In this part of the study, we will analyze the development of the selected countries based on a range of indicators to highlight the risks to economic stability. Presumably the analysis should start with potential economic growth, which is a major indicator of medium-term development.

Table 1. GDP growth (%)

	potential		actual		potential	actual
	02-08	11-17	02-08	11-17	2017	2017
Bulgaria	5,45	2,00	6,41	2,20	3,16	3,81
Czech Republic	3,96	1,91	4,53	2,16	3,11	4,29
Estonia	5,20	2,26	5,85	3,84	3,15	4,86
Latvia	6,59	1,25	7,44	3,47	2,95	4,64
Lithuania	6,02	1,77	7,50	3,62	2,45	4,14
Hungary	2,88	1,48	3,26	2,31	2,66	4,14
Poland	3,72	3,31	4,52	3,28	3,24	4,81

[1] Chobanov, P. (2012), "Imbalances, Risks and the Global Crisis," ed. Propeller, Sofia

Romania	5,03	2,75	6,62	3,68	4,06	6,95
Slovenia	3,46	0,81	4,41	1,41	2,11	4,88
Slovakia	5,07	2,67	6,67	2,74	2,86	3,19
Average	4,74	2,02	5,72	2,87	2,98	4,57
Eurozone countries	5,27	1,75	6,37	3,02	2,71	4,34
Non-eurozone	4,21	2,29	5,07	2,73	3,25	4,80

Source: Eurostat, Ameco[1], own calculations

The biggest decline in potential GDP in the period 2011-2017 compared to 2002-2008 is observed in Latvia, Lithuania and Bulgaria, due to the large overheating of the economy before the crisis and the inability to achieve high growth rates in the period after this. The economy adjusts to relatively lower levels of potential growth, which is a serious constraint to medium-term development.

Poland, Romania and Slovakia have the highest potential growth after the crisis, and they accordingly face favorable prospects for medium-term development.

The biggest difference between the potential and the actual growth in the post-crisis period was registered in Lithuania, Latvia and Estonia. In 2017, the biggest difference is in Romania, Slovenia and Estonia, and these countries may be showing some signs of overheating.

Bulgaria is characterized by a relatively low potential growth after the crisis of 2% (at an average rate for the group of countries of 2.02%), with the average annual real growth of 2.2% not significantly diverging from the potential and ranking the country in 8th place, only having a lead only to the Czech Republic and Slovenia. These growth rates are insufficient for the convergence process to the EU average, with a lagging behind the average growth rate of the 10 countries concerned, which is 2.87%.

The dynamics of growth in Bulgaria is also unfavorable. We are in 7th place in 2011, while in 2017 we are the penultimate, with only Slovakia falling behind.

Poland, Romania and Slovakia have the highest potential growth after the crisis, which gives them favorable prospects for medium-term development.

The largest difference between the potential and the actual growth achieved in the post-crisis period is seen in Lithuania, Latvia and Estonia. In 2017, the biggest difference is in Romania, Slovenia and Estonia, with those countries likely to experience signs of overheating during the period.

After the crisis, the Eurozone countries have a lower potential growth rate of 1.75% and it is 2.29% in non-euro area countries. The achieved growth rate in

[1] Potential GDP data is as of May 5, 2018.

the Eurozone countries is 3% and exceeds that in the other group of countries, which is 2.7%.

The significant decline in potential GDP growth is a sign of unfavorable long-term development. The countries with the largest declines are Latvia, Lithuania and Bulgaria, which receive a value of 1 in this indicator as a part of the Economic instability index.

Table 2 shows the cumulative real decline in GDP resulting from the Global crisis and the countries' length of recovery.

Table 2. Crisis and recovery

	Cumulative real decline (%)	Crisis years	GDP above precrisis levels (year)
Bulgaria	-3,59	1	2013
Czech Republic	-4,80	1	2014
Estonia	-19,35	2	2016
Latvia	-20,69	3	2017
Lithuania	-14,81	1	2013
Hungary	-6,60	1	2014
Poland	2,82	0	2009
Romania	-8,56	2	2014
Slovenia	-7,80	1	2017
Slovakia	-5,42	1	2011

Source: Eurostat, own calculations

The largest cumulative fall in real GDP is seen in Latvia, Estonia and Lithuania. The decline in Latvia is 20.7% and lasts three years – from 2008 until 2010. Real GDP exceeds its pre-crisis levels by all countries in 2017, which is also typical of Slovenia.

Poland is the only country that does not see a decline in real GDP during the crisis, with growth in 2009 amounting to 2.8%. As we saw in Table 1, the potential growth rate for 2011-2017 is the highest at 3.3%, remaining the closest to its pre-crisis levels of 3.7%.

Despite a decline of 5.4%, Slovakia enjoys the fastest recovery, surpassing the pre-crisis real GDP levels in 2011, with potential growth falling but remaining lower only in comparison to Poland and Romania in the post-crisis period.

Bulgaria has the lowest drop in the countries concerned (with the exception of Poland) and relatively faster than the rest (in 2013) GDP exceeds its pre-crisis levels.

The average cumulative decline of the Eurozone is 13.6%, while in the other countries it stands at 4.1%. Eurozone countries are relatively slow to recover from the crisis, with the exception of Slovakia.

The latest recovery from the crisis is a signal of instability in the medium term, so Slovenia, Latvia and Estonia receive a value of 1 on this indicator in the general instability index. The countries concerned managed to surpass the pre-crisis levels of real GDP latter than the others.

Growth of domestic demand is an important indicator and a reason for the imbalances before the crisis. Table 3 shows the growth of domestic demand and its main components.

Table 3. Domestic demand growth (%)

	Domestic demand		Households consumption		Government consumption		Gross fixed capital formation	
Country	02-08	11-17	02-08	11-17	02-08	11-17	02-08	11-17
Bulgaria	8,5	1,8	7,7	2,5	2,8	1,2	15,5	0,0
Czech Republic	3,8	1,5	3,6	1,8	2,2	0,6	5,1	1,3
Estonia	7,9	4,0	7,3	3,6	4,3	2,1	11,1	7,0
Latvia	8,1	3,2	7,7	2,9	3,8	2,4	11,3	4,7
Lithuania	8,8	3,8	9,3	4,0	2,5	0,2	12,6	6,2
Hungary	3,0	2,2	3,2	1,9	1,8	1,6	3,7	3,7
Poland	4,7	2,4	4,0	2,7	3,7	1,8	7,3	2,4
Romania	11,0	3,4	10,6	4,8	0,3	0,4	18,3	2,4
Slovenia	3,9	0,3	3,0	0,5	3,0	-0,1	6,3	-0,8
Slovakia	5,2	1,5	5,5	1,2	4,1	1,7	5,2	2,6
Average	6,5	2,4	6,2	2,6	2,8	1,2	9,6	2,9
Eurozone countries	6,8	2,6	6,6	2,4	3,5	1,3	9,3	3,9
Non-eurozone	6,2	2,2	5,8	2,7	2,2	1,1	10,0	2,0

Source: Eurostat, Ameco, own calculations

Domestic demand has considerably weakened since the crisis, unlike the years before, when in many countries there was overheating of the economy and very high growth in household consumption and investments.

The countries that have the highest average annual growth of domestic demand before the crisis are Romania, Lithuania and Bulgaria, which also shows the highest growth in consumption and investments. In the post-crisis

period, the countries with the highest growth rates are Estonia, Lithuania and Romania. Furthermore, these countries are characterized by the highest growth in consumption and investments.

Slovenia and the Czech Republic are among the countries with the poorest growth in domestic demand in the two periods. Slovenia is characterized by the lowest rate of post-crisis growth in all indicators considered.

When comparing the two periods, Bulgaria and Romania have one of the biggest downturns in household consumption and investments, though Romania retains the relatively highest growth in post-crisis consumption, which may lead to overheating.

In Bulgaria, following the crisis, there was almost zero change in investments, which lagged behind the average growth rates of the countries in question. This is unfavorable to potential growth over the medium term, considering that the analyzed period is relatively long (7 years) and several consecutive years of higher investment growth are needed to offset the lag, and this is unlikely to occur with the continued deterioration of the business environment.

Eurozone countries are characterized by higher domestic demand growth over both periods, due to the impact of the Baltic States. Eurozone countries have higher average growth rates of investment after the crisis, with the rest falling behind due to the negative impact of the indicator in Bulgaria and the Czech Republic.

Investments are of the greatest importance for the medium-term growth potential of the examined components of domestic demand. Countries with the lowest average annual growth of investments in 2011-2017 are Bulgaria, the Czech Republic and Slovenia. They receive a value 1 for this indicator in the general instability index.

It is also necessary to analyze the relative share of investments in GDP as well as their main components.

Table 4. Composition of investments (Gross fixed capital formation, % of GDP)

	Total		Construction		Machinery, equipment, weapons systems	
Country	02-08	11-17	02-08	11-17	02-08	11-17
Bulgaria	25,0	20,4	11,4	10,5	11,9	8,2
Czech Republic	28,7	25,5	12,9	10,4	12,8	11,3
Estonia	33,2	25,6	18,1	13,7	13,7	9,3
Latvia	30,3	22,3	15,3	11,8	13,2	8,8
Lithuania	24,1	18,8	14,0	10,4	8,5	6,3

Hungary	23,8	20,9	12,0	9,3	9,4	8,7
Poland	20,0	19,3	10,6	10,6	8,1	7,3
Romania	27,1	24,8	13,1	13,1	12,1	10,1
Slovenia	27,0	19,1	13,8	8,5	10,4	7,5
Slovakia	26,7	21,9	11,9	9,4	12,0	10,6
Average	26,6	21,9	13,3	10,8	11,2	8,8
Eurozone countries	28,3	21,5	14,6	10,7	11,6	8,5
Non-eurozone	24,9	22,2	12,0	10,8	10,9	9,1

Source: Eurostat, own calculations

The share of total investment declined after the crisis in all countries, with the largest decline in Latvia, Slovenia and Estonia. Nevertheless, Estonia has the highest relative share of investment over both periods.

Investment in construction remains the same as a relative share of GDP in Romania and Poland, while in other countries it is decreasing. The highest share is in Estonia over both periods, which also applies to investment in housing.

The decrease in the relative share of investments in Bulgaria coincides with the average for the countries under review, keeping our 7th place in both periods. Investments in Bulgaria are 33% of GDP in 2008, while in 2017, are only 18.5%. Such a negative development is only observed in Romania, but in 2017 the investments are 22.6% and remain higher than those in Bulgaria. Only Poland has a lower share of investment in 2017.

The share of construction in total investment in Bulgaria has increased from 45.7% before the crisis to 51.6% in the period following it, with an increase in this indicator only in Latvia and Poland.

The share of investments and their main components in the Eurozone countries is higher before the crisis, and subsequently lower, which is negative development.

The investments most productive and important for long-term development are in machinery and equipment. Countries with the lowest share of machinery and equipment after the crisis are Lithuania, Poland and Slovenia, and they get a value of 1 on this indicator in the general instability index.

Another important factor for potential growth is employment, and Table 5 exposes the dynamics of this indicator.

Table 5. Employment (15+, % change in number of employed)

	Employment (15+, %chg)		
Country	02-08	11-17	17/08
Bulgaria	2,9	0,3	-6,3
Czech Republic	1,0	1,0	4,4
Estonia	1,7	2,1	0,4
Latvia	1,8	0,7	-15,2
Lithuania	0,6	1,2	-5,1
Hungary	0,0	2,4	14,9
Poland	1,5	0,9	3,9
Romania	-2,0	-0,1	-7,5
Slovenia	1,2	-0,1	-3,7
Slovakia	2,0	1,3	4,0
Average	1,1	1,0	-1,0
Eurozone countries	1,5	1,0	-3,9
Non-eurozone	0,7	0,9	1,9

Source: Eurostat, LFS, own calculations

Bulgaria, Slovakia and Latvia have the highest growth rate before the crisis, with Hungary, Estonia and Slovakia remaining in the aftermath of the crisis. After the crisis, Bulgaria ranked among the countries with the most negative change in employment, along with Romania and Slovenia.

Eurozone countries are characterized by higher growth rates of employment over both periods.

Besides the average annual rate of change, the number of people employed at the end of the two periods is also important. Therefore, the last column in the table showing the percentage change in employment in 2017 compared to 2008 is included. Latvia, Romania and Bulgaria have the largest drop in employment, while Hungary shows the highest growth rate both at the average annual rate and the indicator at the end of the period.

The countries with the lowest rate of change in post-crisis employment are Bulgaria, Romania and Slovenia and they receive a value of 1 on this indicator in the general instability index.

Important factors for competitiveness and economic development are the productivity and labor costs presented in Table 6.

Table 6. Productivity and labour costs (growth, %)

	Real labour productivity		Nominal unit labour cost	
Country	02-08	11-17	02-08	11-17
Bulgaria	3,8	2,5	4,7	4,6
Czech Republic	3,5	1,4	2,6	1,5
Estonia	4,5	1,5	8,6	3,6
Latvia	5,7	2,7	12,3	3,9
Lithuania	6,6	2,4	5,6	3,5
Hungary	3,7	0,4	4,6	2,0
Poland	3,0	2,5	0,5	1,1
Romania	8,6	4,5	10,5	1,5
Slovenia	3,1	1,0	3,7	0,4
Slovakia	5,2	1,4	2,9	1,4
Average	4,8	2,0	5,7	2,4
Eurozone countries	5,0	1,8	6,7	2,5
Non-eurozone	4,5	2,2	4,7	2,2

Source: Eurostat, own calculations

Prior to the crisis, Romania, Lithuania and Latvia experienced the greatest growth in productivity, and after the crises the best performers are Romania, Latvia and Bulgaria to bottom out of the crisis. Hungary, Slovakia and the Czech Republic are with the lowest rate after the crisis. Eurozone countries are performing better before the crisis than after it.

Nominal unit labor costs before the crisis have the largest growth in Latvia, Romania and Estonia, and after the crisis – in Bulgaria, Latvia and Estonia, which is a negative signal for the competitiveness.

Eurozone countries have a higher average of the indicator over both periods.

With regard to the Economic instability index, we compare the two indicators in the post-crisis period. A large deviation of labor cost growth from productivity growth may be the result of overheating the economy, structural labor market problems, and a decline in competitiveness. Therefore, countries with the largest deviation, Bulgaria, Estonia and Hungary, receive a value of 1 on this indicator in the general instability index.

Eurozone countries are in a more unfavorable situation when comparing growth in both periods.

The comparison of the budget balance and the deviation from potential GDP is important for fiscal discipline and is a basic requirement in the Stability and Growth Pact – avoiding pro-cyclical policies. In times of economic growth and a positive deviation from the potential, we need to have budgets that are either balanced or with surplus in order to ensure a reduction in government debt and accumulate buffers for worse economic times.

Table 7. Budget balance and output gap (avg)

	Budget balance (% of GDP)		Output gap	
Country	02-08	11-17	02-08	11-17
Bulgaria	0,8	-1,2	1,3	-0,6
Czech Republic	-3,4	-1,2	2,6	-1,1
Estonia	1,2	0,1	6,3	1,0
Latvia	-1,5	-1,4	4,1	-0,9
Lithuania	-1,3	-2,1	3,1	-0,3
Hungary	-6,9	-2,7	2,0	-1,0
Poland	-4,1	-3,3	-1,4	-0,1
Romania	-2,2	-2,7	4,8	-2,7
Slovenia	-1,6	-5,1	3,1	-3,0
Slovakia	-3,4	-2,8	1,5	-1,4
Average	-2,2	-2,2	2,7	-1,0
Eurozone countries	-1,3	-2,3	3,6	-0,9
Non-eurozone	-3,2	-2,2	1,9	-1,1

Source: Eurostat, Ameco, own calculations

The average budget deficit does not change in the post-crisis period.

Before the crisis, a budget surplus is achieved by Bulgaria and Estonia, whereas after the crisis, Estonia has a balanced budget, while Bulgaria and the Czech Republic have a small deficit.

The deficit criterion of no more than 3% is broken before the crisis by the Czech Republic, Hungary, Poland and Slovakia.

After the crisis, the criterion is violated by Poland and Slovenia.

Before the crisis, Estonia and Bulgaria are pursuing a fiscal policy that is consistent with the Stability and Growth Pact rules, making a surplus during good economic times.

Other countries do not use the good times of high economic growth to discipline their public finances.

Estonia, Latvia and Romania have the highest positive output gap, with the overheating in the economy.

The post-crisis period is characterized by a negative average output gap, and it is only positive in Estonia.

Eurozone countries have more disciplined public finances before the crisis, with Slovakia being the only exception.

The adjustment of fiscal policy to low budget deficits supports the process of accession of these countries to the Eurozone and increases their stability.

Eurozone countries have a slightly higher budget deficit after the crisis, as a reason for this being mainly Slovenia.

The Eurozone countries have a higher output gap before the crisis as well as a lower negative after the crisis but the difference with other countries becomes insignificant.

Countries with the highest average annual budget deficit after the crisis are Slovenia, Poland and Slovakia, with a value of 1 on this indicator in the general instability index. Two of them are in the Eurozone and their membership does not lead to an improvement in fiscal discipline.

It is also necessary to look at the behavior of the indicators at the end of the periods, and the situation in 2017 is particularly important for the future development, when there are signs of overheating combined with a deficit in some countries.

Table 8. Budget balance and output gap

	Budget balance	Output gap	Budget balance	Output gap
Country	2008	2008	2017	2017
Bulgaria	1,6	3,9	0,9	0,1
Czech Republic	-2,0	4,4	1,6	0,9
Estonia	-2,7	5,4	-0,3	2,1
Latvia	-4,2	3,9	-0,5	2,0
Lithuania	-3,1	5,8	0,5	2,6
Hungary	-3,7	2,1	-2,0	1,6
Poland	-3,6	2,6	-1,7	0,7
Romania	-5,4	8,1	-2,9	1,2
Slovenia	-1,4	6,7	0,0	1,4
Slovakia	-2,4	7,2	-1,0	0,0
Average	-2,7	5,0	-0,5	1,3

Eurozone countries	-2,8	5,8	-0,3	1,6
Non-eurozone	-2,6	4,2	-0,8	0,9

Source: Eurostat, Ameco, own calculations

The decline in real GDP starts in Latvia and Estonia a year before the rest of the countries in 2008, and this explains the budget deficit with a rather high positive output gap, but it is declining compared to the previous years.

The high output gap in 2008 showed overheating in the economies of the countries concerned.

In 2008, Bulgaria is the most fiscally disciplined, with positive output gap combined with a budget surplus.

Other countries have high deficits against the backdrop of rather high positive output gap, making them vulnerable

Eurozone countries have higher deficits at higher output gap in 2008.

In 2017, there was a positive output gap in most countries, with the deficit in none of them exceeding 3% of GDP. However, the deficit is relatively higher in Romania and Hungary, which requires measures to reduce it in the continuation of good economic times.

In the Baltic countries, the values of output gap are a signal of a possible overheating of the economy

The most fiscally disciplined in 2017 are the Czech Republic and Bulgaria

The countries with the most negative combination of positive deviation from the potential and budget deficit are Romania, Hungary and Latvia, and they get a value of 1 on this indicator in the general instability index. There are signs of overheating of the economy, coupled with budget deficits. Good economic times are not used to accumulate fiscal buffers. In a situation with a decline in GDP, they will have less opportunity to react through their fiscal policy.

Table 9 presents the Economic instability index that summarizes the results of the composite benchmarks analyzed in the text.

Components of the Economic instability index:

1. The most significant decline in potential GDP growth after the crisis
2. The latest recovery from the crisis
3. The lowest average annual growth of investments in 2011-2017
4. The lowest share of machinery and equipment after the crisis
5. The lowest rate of change in post-crisis employment
6. The largest deviation of labor cost growth from productivity growth
7. The highest average annual budget deficit after the crisis
8. The most negative combination of positive deviation from the potential and budget deficit

Table 9. Economic instability index

	1	2	3	4	5	6	7	8	total
Bulgaria	1		1		1	1			4
Czech Republic			1						1
Estonia		1				1			2
Latvia	1	1						1	3
Lithuania	1			1					2
Hungary						1		1	2
Poland				1			1		2
Romania					1			1	2
Slovenia		1	1	1	1		1		5
Slovakia							1		1
Eurozone	2	3	1	2	1	1	2	1	13
Non-eurozone	1	0	2	1	2	2	1	2	11

Source: Own calculations

The countries most exposed to the risk of economic stability are Slovenia, Bulgaria and Latvia, two of which are Eurozone members, and while our country is taking steps in this direction.

Eurozone countries have a higher overall instability index, with a higher risk of 4 indicators – a fall in potential GDP compared to the pre-crisis period, a slower recovery from the crisis, a share of investment in machinery and equipment in GDP and the highest budget deficit after the crisis. These indicators signal a medium-term problem and should be addressed by economic policy measures.

Conclusion

Significant imbalances have accumulated before the crisis, which increased the countries' vulnerability to shocks. As a result, the Global crisis has had a significant impact and led to a sharp deterioration in key economic indicators.

The economic indicators surveyed allow for an Economic instability index to be compiled, which identifies Slovenia, Bulgaria and Lithuania as the riskiest countries.

Eurozone countries have a higher instability index than others and have a negative development on a number of indicators. They have seen a higher cumulative downturn during the crisis, and it takes them longer to reach the pre-crisis levels of real GDP. They are characterized by lower potential GDP growth after the crisis. The Eurozone countries are lagging behind in the relative

share of GDP in investment in machinery and equipment. Eurozone countries have lower average labor productivity growth compared to the average of other countries, while unit labor costs are rising at a higher pace. Fiscal discipline has been worsening since the crisis, with Eurozone countries on average having a higher budget deficit. Overall, the dynamics of the indicators under review is more volatile and raises concerns over the medium term.

Fixed exchange rates and the process of joining the Eurozone play a disciplining role before the crisis for some countries. Once they become part of the Eurozone, the risks to medium-term economic stability are increasing.

The analysis and conclusions of this study can be used in decision making and macroeconomic policy formulation. They outline key areas in which specific measures and actions need to be taken. The comparison with the other CEE countries allows for the assessment of the risks to development and the identification of the measures needed to provide a broader and more stable basis for economic growth.

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RISKS TO ECONOMIC STABILITY IN CEE COUNTRIES

Abstract

This paper is intended to provide a comparative analysis of CEE countries in terms of main economic indicators connected with economic stability. Analysis is focused on main sectors of the economy, and two periods are envisaged – before and after the Global crisis. Countries are compared each other, and the best and the worst countries are identified.
On the basis of the analyzed indicators, we compile an Economic instability index. This index identifies Slovenia, Bulgaria and Lithuania as the most risky countries.
This article is aimed at a wide audience because of its complex nature. It is intended for students in a Master's degree, as well as for public institutions that have a bearing on the analysis made and the lessons learned.

Key words: comparative economics, potential growth, risks to medium-term developments, economic instability index

JEL: E66, F43, F45, G01, H62