DEVELOPMENT OF KEY MACROECONOMIC INDICATORS AND COMMERCIAL INSURANCE IN V4 COUNTRIES IN 1995 – 2004

COMPARISON OF SELECTED INDICATORS

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This contribution is the last in a series of articles outlining the main aspects of the macroeconomic environment and commercial insurance industry in each of the V4 countries. These articles originated within the implementation of the project VEGA no. 1/2554/05. The aim of this contribution is to compare the development of the indicators for the respective countries. Among the macroeconomic indicators, we compared the pace of GDP growth, the average rate of inflation, and the average rate of unemployment. As regards the commercial insurance industry, there are comparisons for the correlation between written premiums and GDP, insurance penetration, the concentration of the national insurance markets, and the investment activity of insurance companies.

Comparison of selected macroeconomic indicators

We will begin by comparing the pace of GDP growth in the V4 countries, the respective data for which is given in Table 1 and Chart 1.

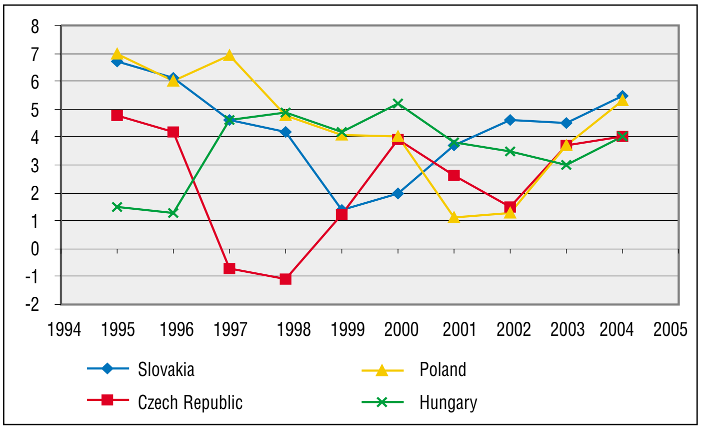
Table 1 Pace of GDP growth in V4 countries in %

State	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average
Slovakia	6.7	6.1	4.6	4.2	1.4	2.0	3.7	4.6	4.5	5.5	4.33
Czech Rep.	4.8	4.2	-0.7	-1.1	1.2	3.9	2.6	1.5	3.7	4.0	2.41
Poland	7.0	6.0	6.9	4.8	4.1	4.0	1.1	1.3	3.7	5.3	4.42
Hungary	1.5	1.3	4.6	4.9	4.2	5.2	3.8	3.5	3.0	4.0	3.6

Source: ŠÚ SR, ČSÚ, GUS, MABISZ.

All the V4 countries reached the nadir of transformation at the beginning of the 1990s and experienced alternating phases of economic expansion during the middle years of the decade. Whenever the growth proved to be unsustainable, an imbalance would arise and the respective government would be forced to implement a "package" of measures aimed at putting the economy back on to a sustainable footing. The Hungarian economy was the first to react in this way, during 1995-1996-, when the other countries were still in the phase of relatively high growth. There eventually followed a recession in the Czech Republic (1997-1998) and slowdowns in Slovakia (1999 – 2000) and Poland (2001 – 2002). The other periods under review show a convergence in the pace of growth to between 4% and 5.5%.

Chart 1 Real GDP growth in V4 countries



The comparison of the inflation rates in the V4 countries reveals a very similar development in Poland and Hungary. This is related to the selected exchange-rate regime of managed devaluation. Both countries reported double-digit inflation at the outset of the period under review, but gradually managed to reduce its rate year-on-year. Poland, in 1998, and Hungary, in 2000, achieved single-digit inflation for the first time since the beginning of the transformation. The change in the monetary policy framework for inflation targeting and the change in the exchange-rate regime further quelled inflationary expectations and brought down the rate of inflation.

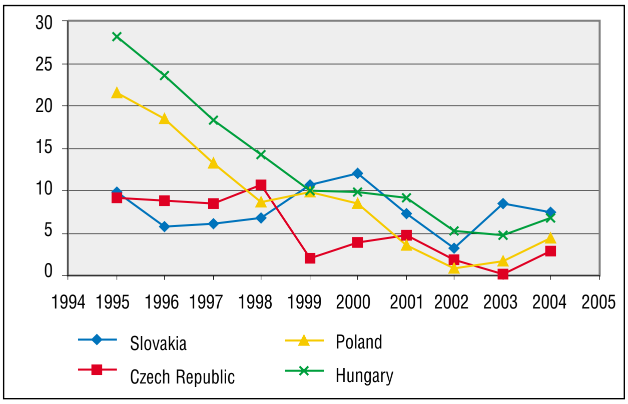
In the Czech Republic, inflation headed for sing-

Table 2 Inflation in the V4 countries in %

State	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average
Slovakia	9.9	5,8	6,1	6,7	10,6	12,0	7,3	3,3	8,5	7,5	7,77
Czech Rep.	9.1	8.8	8.5	10.7	2.1	3.9	4.7	1.8	0.1	2.8	5.25
Poland	21.6	18.5	13.2	8.6	9.8	8.5	3.6	0.8	1.7	4.4	9.07
Hungary	28.2	23.6	18.3	14.3	10.0	9.8	9.2	5.2	4.7	6.8	13.01

Source: ŠÚ SR, ČSÚ, GUS, MABISZ.

Chart 2 Inflation in V4 countries



le figures in the wake of the transformation measures and the Czech National Bank opted for a managed floating exchange-rate regime. The rate of inflation reached a record low in 2003 (0.1%) and represented a specific feature of the economic development. Consumer prices hovered around zero percent, and for six months even reported a deflationary trend. In Slovakia, CPI inflation dipped to 9.9% in 1995, breaking into single digits for the first time during the transformation. This favourable trend was to continue between 1996 and 1998, during which time the rate of inflation never exceeded 7% and the shift in exchange-rate regime from fixed to managed-floating had a less than expected effect on inflation. As Chart 2 shows, inflation for the rest of the period under review was under the control of the central banks and converged towards a level below 5%.

The comparison of the unemployment rates, presented in Table 3, highlights the fact that this indicator is particularly problematic in Slovakia and Poland. The average unemployment rate in both countries has long been in double digits and represents the highest in the European Union. In the Czech Republic and Hungary, unemployment has been averaging 7% over the long term, although Czech unemployment has edged into double figures in recent years and could become a problematic indicator. Hungary, by contrast, reported falling unemployment in the most recent of the years under review with the rate converging towards 5%.

Comparison of selected insurance industry indicators

The most important macroeconomic factor in the development of the insurance industry is the volume and pace of GDP growth. Our tests showed that the correlation between written premiums and GDP in current prices is strong in all the V4 countries. Slovakia had a correlation coefficient of 0.9919, the Czech Republic 0.9752, Hungary 0.9979 and Poland 0.9889. It may also be noted that written premiums are growing at a more gradual pace than is GDP.

Insurance penetration represents a basic aggregate indicator of insurance industry development. The respective data for the V4 countries is shown in Table 4 in %.

The Czech Republic recorded the highest insurance penetration while Slovakia had a growing trend with convergence towards 4%. Poland reported a lower penetration, at around 3%, and the figure for Hungary fell to below 3% with expectations of further decline. Since all these values combined do not come to even half of the average value for EU countries, it appears that the V4 countries still face a long-term process to match the figures for the EU 15.

The investment activity of insurance companies was highest in the Czech Republic and Poland, where it exceeded the recommended figure of 100%. In Hungary, the figure remained constantly above the recommended threshold until it dipped to 98.5% in 2004. Meanwhile, the Slovak insurance market saw a decline in investment activity with a figure of below 100% since 2001. This undesirable situation was caused by the nonobservance of legally-stipulated forms, limits and principles when investing the funds of technical reserves in

Table 3 Rate of unemployment in V4 countries in %

State	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average
Slovakia	13.1	12.8	12.5	14.6	18.2	19.2	19.2	18.5	17.4	18.1	16.36
Czech Rep.	2.9	3.5	5.2	7.5	9.4	8.8	8.9	9.8	10.3	10.3	7.66
Poland	14.9	13.2	10.5	10.4	13.0	15.0	17.5	18.1	18.0	19.1	14.97
Hungary	9.3	11.0	8.7	7.8	7.0	6.4	5.8	5.9	5.8	5.9	7.36

Source: ŠÚ SR, ČSÚ, GUS, MABISZ.

Table 4 Insurance penetration in V4 countries in %

State	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
Slovakia	2.07	2.42	2.61	2.99	3.04	3.1	3.33	3.46	3.5	3.85	4.02
Czech Rep.	2.3	2.5	2.7	2.9	3.1	3.3	3.5	3.8	4.2	4.1	-
Hungary	2.09	2.21	2.28	2.42	2.61	2.92	2.82	2.95	3.01	2.96	2.77
Poland	3.4	3.12	3.33	3.22	3.38	3.16	3.05	2.91	2.98	3.13	-

Source: Annual reports of the Slovak Association of Insurers (SAP), the Czech Association of Insurers (ČAP), MABISZ, the Polish Chamber of Insurance (PIU), and own calculations. (* Estimate)

Table 5 Investment activity of insurers in V4 countries in %

State	1997	1998	1999	2000	2001	2002	2003	2004
Slovakia	102.36	104.65	109.67	108.85	97.95	95.11	80.74	95.12
Czech Rep.	109.62	112.38	126.86	129.09	122.59	123.41	122.36	130.36
Hungary	122.61	122.34	117.16	118.34	125.57	117.54	116.84	98.52
Poland	141.39	134.45	144.41	141.99	125.5	123.4	125.02	127.8

Source: Annual reports of the SAP, ČAP, MABISZ, PIU, and own calculations.

Chart 3 Investment activity of insurance companies in V4 countries

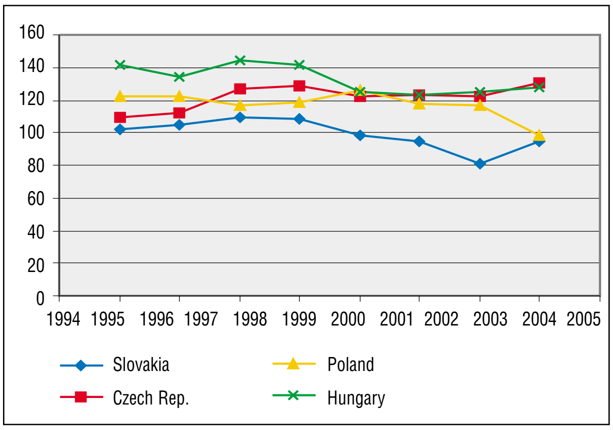


Table 6 Insurance market concentration in the V4 countries (HHI Index)

State	2000	2001	2002	2003	2004
Slovakia	2575	2471	1763	1850	2197
Czech Rep.	1973	2043	1967	1848	1961
Hungary	1591	1577	1560	1480	1354
Poland	1788	1755	1652	2535	2298

Source: Annual reports of the SAP, ČAP, MABISZ, PIU, and own calculations.

the financial market. Investment activity is subject to government regulation and national legislative amendments, and it also reflects the restructuring of investment portfolios that insurance companies are forced to carry out in response to changed external factors.

Comparing the concentration of the insurance markets in the V4 countries, we can say that only Hungary attained the desired situation of a fragmented market during the period 1998 – 2004. The markets in the other countries were strongly concentrated, especially so in Poland and Slovakia following the entry of major foreign insurance companies and their mergers with dominant domestic entities (for example, Allianz and Slovenská poisťovňa in Slovakia). The Czech insurance market is approaching the limit of moderate concentration. Insurance market concentration as measured by the Herfindahl-Hirschman Index (HHI) is shown in Table 6.

Conclusion

Having compared selected indicators of the commercial insurance industry and by applying a simple point method, we can say that the Czech Republic is the leader among V4 countries in terms of insurance market. It reports the highest insurance penetration, the highest investment activity, and it is converging towards a fragmented market. The other countries lag behind in the selected indicators with the exception of the moderately concentrated Hungarian market, which stands second in the notional ranking. Although the Polish insurance industry reports good investment activity, it is strongly concentrated – there is insufficient competition and the insurance penetration is low. The Slovak insurance industry achieved the second highest penetration but the market has low competition and insufficient investment activity.

This region has become attractive to foreign investors due to the effect of EU accession, gradual completion of reforms, increased competitiveness and labour productivity, and the advantage of lower labour costs. Public finance development continues to pose the main risk in the region and has already led to Hungary, Poland and the Czech Republic putting back their planned date for joining the European Monetary Union. Slovakia stands out in this regard – having joined ERM II, it has undertaken to fulfil the Maastricht criteria and to adopt the European single currency in 2009.

The comparative analysis presented here shows that the insurance industry in the V4 countries has still not reached the level of that in Western Europe. On the other hand, it is an unsaturated market giving rise to several positive growth impulses that could accelerate the industry's development in the near future.