OVERVIEW OF THE MACROECONOMIC AND INDUSTRY ENVIRONMENT

WORLD ECONOMY

Global growth is still under its pre-crisis level and it is expected to remain there. With the exception of India, all of the large emerging economies experienced declining growth in 2014.

In China, underlying real indicators are showing a worse picture than headline GDP. The country's overall debt level is large, especially for an emerging economy. Credit and investment based growth is coming to an end, and slower growth is likely in the coming decade.

OECD countries performed better in 2014, all the major economies managed to increase their GDP growth (with the exception of Japan). The US economy performs best among majors due to cheap energy, healthier financial institutions and generally better fundamentals.

The Eurozone is also out of its recession; however, growth is still weak and the new quantitative easing programme alone does not seem to be enough to accelerate the region. Meanwhile the return to growth and easing of finances has decreased the appetite for structural reforms. In addition to the still unresolved credit crisis on its periphery (most importantly in Greece), the European Union has to deal with a new situation by its eastern borders. Sanctions against Russia and increased uncertainty in the region have so far had limited effects on European economies; however, a long-lasting open conflict decreases growth expectations. The Eurozone's outlook is therefore still clouded by uncertainty, weak growth and persisting political tensions.

GLOBAL ENERGY MARKETS & UPSTREAM

The most important event of 2014 was definitely the oil price decline that started in June and continued even in 2015. The most important causes of the decline were weak global oil demand, momentarily less supply disruptions and most importantly the US shale oil boom. As both demand and supply are rigid in the short run, large price swings are needed to balance a sudden change in conditions. Shale oil production is more responsive than conventional production, hence by the end of the year US unconventional production growth and especially investments started slowing.

The price of Brent crude averaged USD 99 per barrel in 2014. As mentioned earlier, demand increase was smaller than anticipated: according to the International Energy Agency, global oil demand increased by 0.7 MMbpd, reaching 92.5 MMbpd. All of the demand increase came from emerging markets, whereas OECD demand slightly declined in 2014.

Non-OPEC production grew by 2 MMbpd, from which US growth was 1.6 MMbpd. The US production growth alone was more than double the global demand growth in 2014. In addition, OPEC countries decided not to cut their production.

DOWNSTREAM

The Downstream segment is undergoing a profound transformation. More and more unprocessed liquid hydrocarbons are bypassing refineries while the refinery overhang is still massive, especially in the OECD. European Downstream is in an especially difficult position. It has neither the fast-growing local markets of Asia nor the cheap hydrocarbons the United States enjoys.

In 2014, refinery margins recovered somewhat from depressed 2013 levels, refinery shutdowns continued throughout the year despite the fact that around 10% of European capacity had already shut down between 2008-2012. According to the IEA, roughly a further quarter of European refining capacity may be at risk of closure by 2035.

CENTRAL AND EASTERN EUROPE

Most Central and Eastern European (CEE) countries experienced moderate GDP growth in 2014. However, there are distinct regional differences between dynamic markets (such as Poland) and relatively weak economies (such as Croatia). The recession was over in the Eurozone as a whole, and that had a positive effect on the region as well.

Due to relatively good economic growth, regional motor fuel demand grew in 2014. Moreover, this may continue in 2015 as low prices can boost demand.

HUNGARY

Hungary's GDP grew by 3.6% in 2014. Nevertheless, GDP is still lower than its 2008 peak and last year's relatively high growth was based on one-offs, such as a record draw of EU-funds. Medium term growth potential is certainly lower: public debt and spending remain high, bank lending is still lacklustre. Diesel demand grew by 9% and gasoline demand by 3.4% in 2014, possibly thanks to the construction sector and infrastructural developments and to lower oil prices in the second half of the year.

CROATIA

Croatia's economy remained weak in 2014, the sixth consecutive year without growth. Given weak domestic demand including lacklustre investment activity, a short-term rebound seems unlikely. Unemployment remains persistently high at around 17%, whereas falling inflation signals weak domestic demand with no recovery in sight for household credit. The country accordingly experienced a 5% gasoline demand drop in 2014, while diesel consumption stagnated. On a more optimistic note, industrial production is benefitting from EU entry as is to a lesser extent export growth which could boost GDP growth.

SLOVAKIA

Slovakia managed to consolidate its government budget since the crisis and done major reforms and austerity measures. Due to these measures, Slovakia experienced 2.3% GDP growth in 2014 (IMF). On the flipside, unemployment is still relatively high at around 14%. Gasoline demand grew by 2.5% in 2014, whereas diesel demand grew by a sizable 5.7%, mainly due to favorable economic environment and the oil price decline.

Regional GDP growth, 2011-2014