



# Reforms and Recovery in Eastern Europe

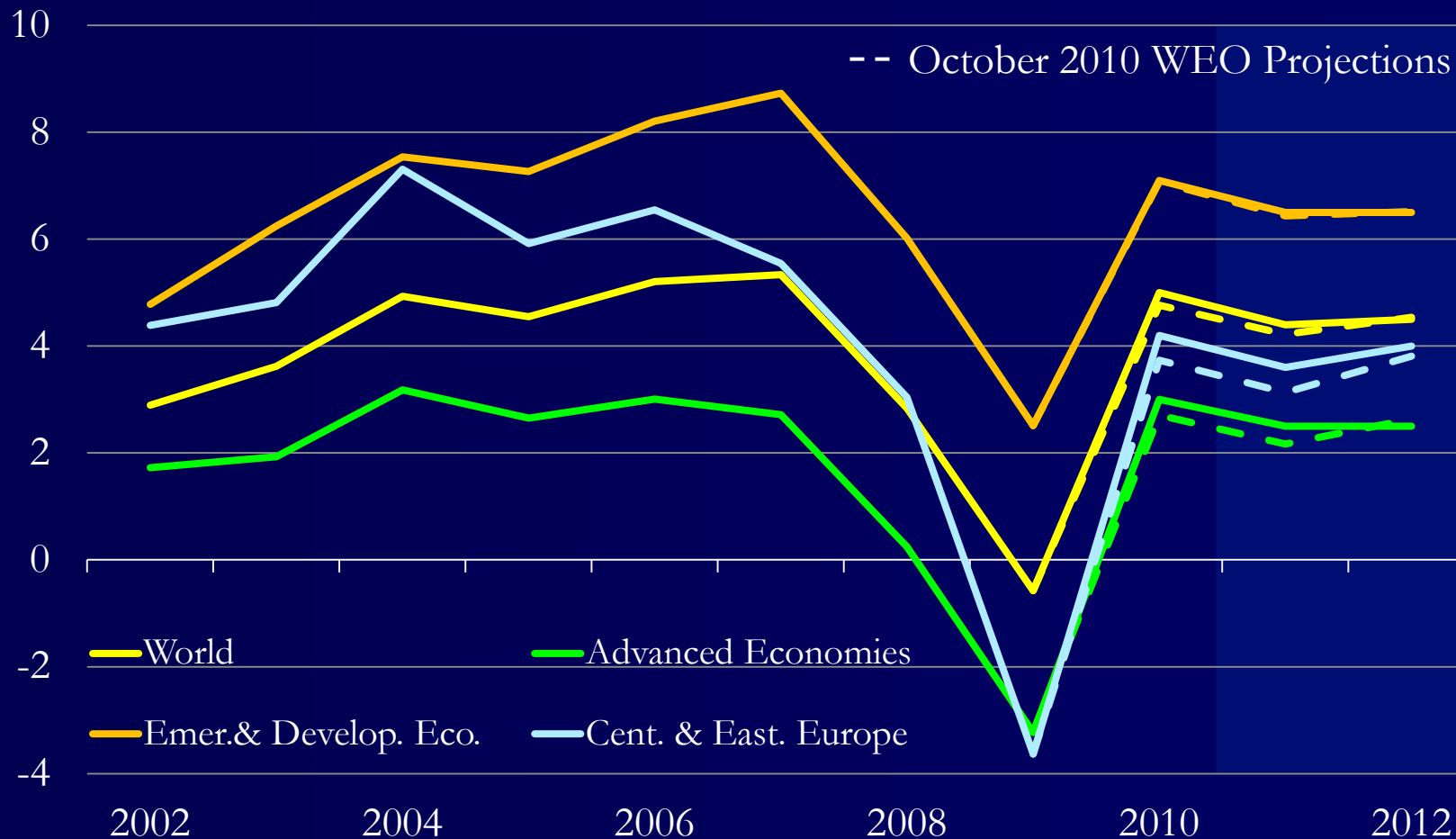
IMF Dialogue on Growth and Employment in Europe  
JVI, Vienna, March 1, 2011

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Senior IMF Resident Representative for Central  
and Eastern Europe

# Global growth has resumed

Change in real GDP  
(Year on year)

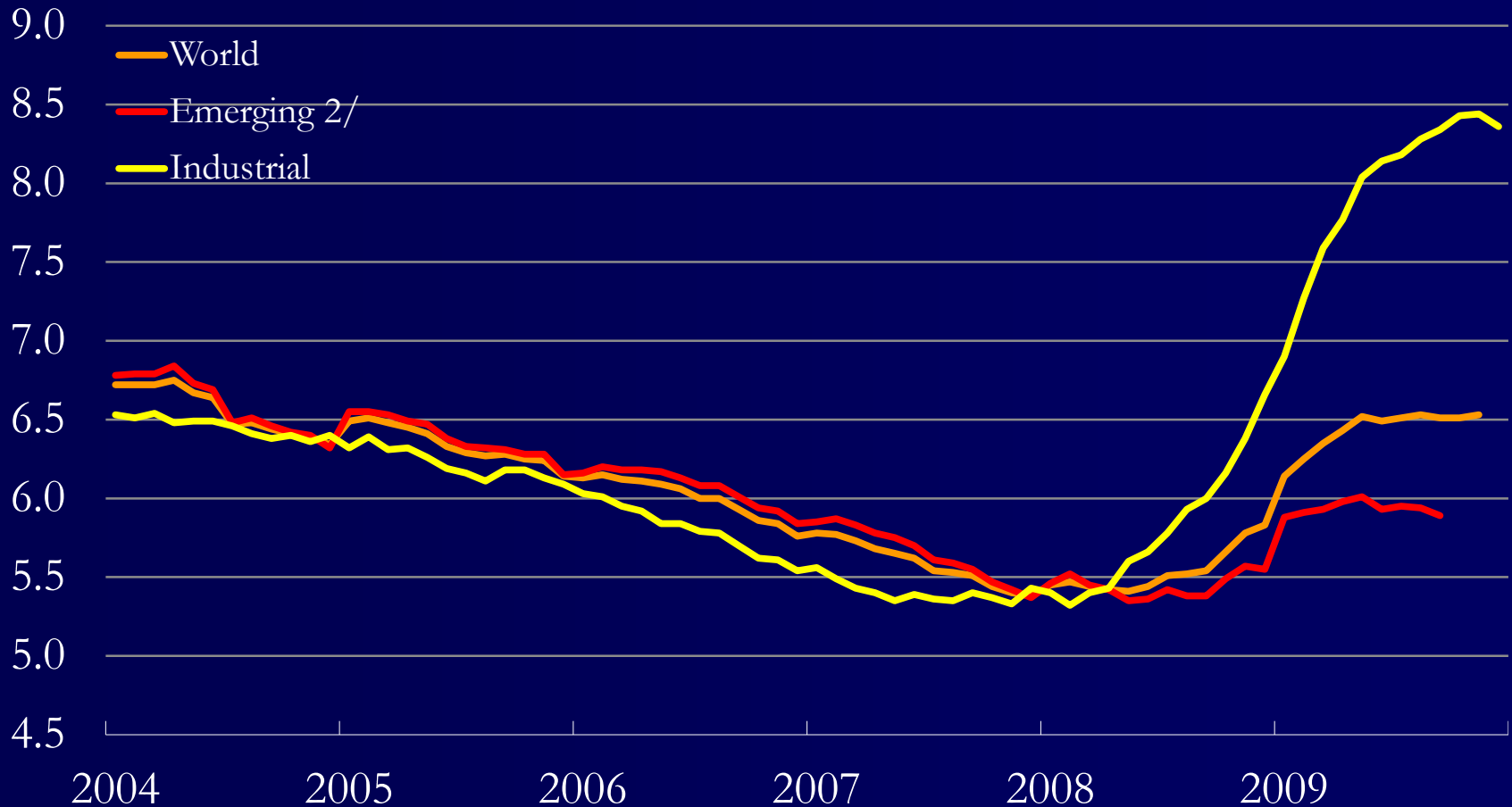


Source: WEO database



# Unemployment is high

## Unemployment rate



1/ Unemployment data series were aggregated using total labor force as weights.

2/ Excludes China, India, Indonesia, Hungary, and Pakistan.

Source: IMF, Global Data Source and staff calculations



# Financial markets remain tense

## Phases of the Crisis

*(Credit Default Swaps, basis points)*

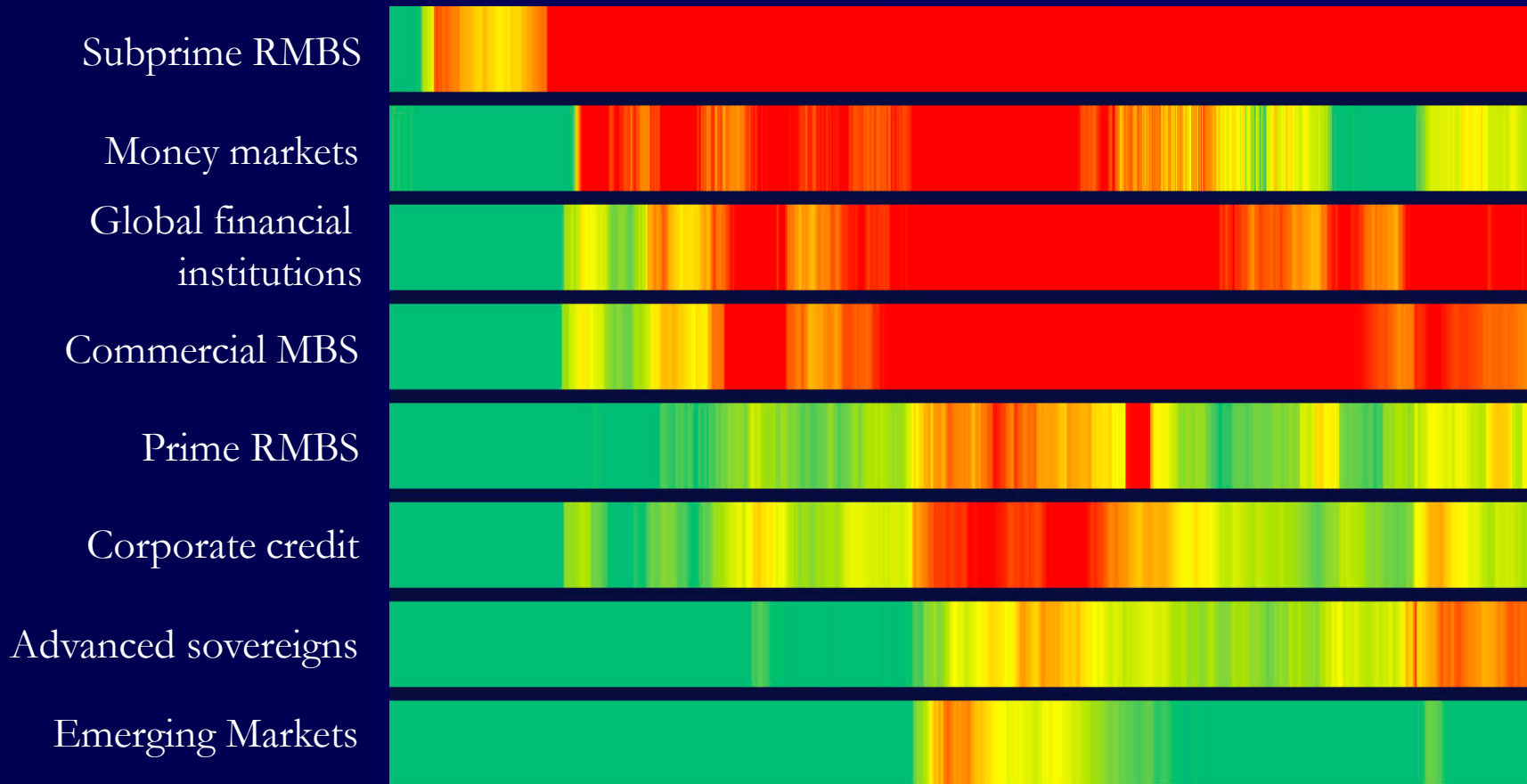


Source: Bloomberg



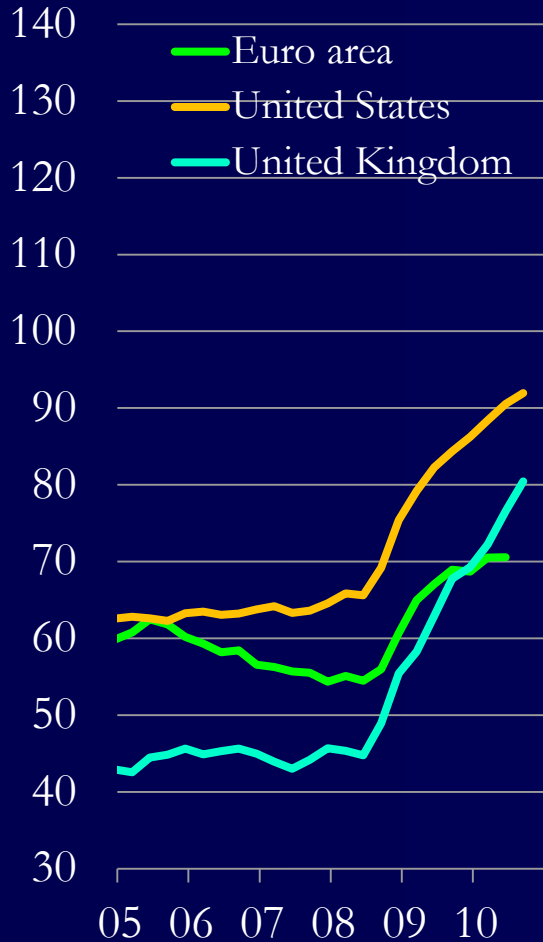
# and several sectors are still not functioning

Markets Heat Map

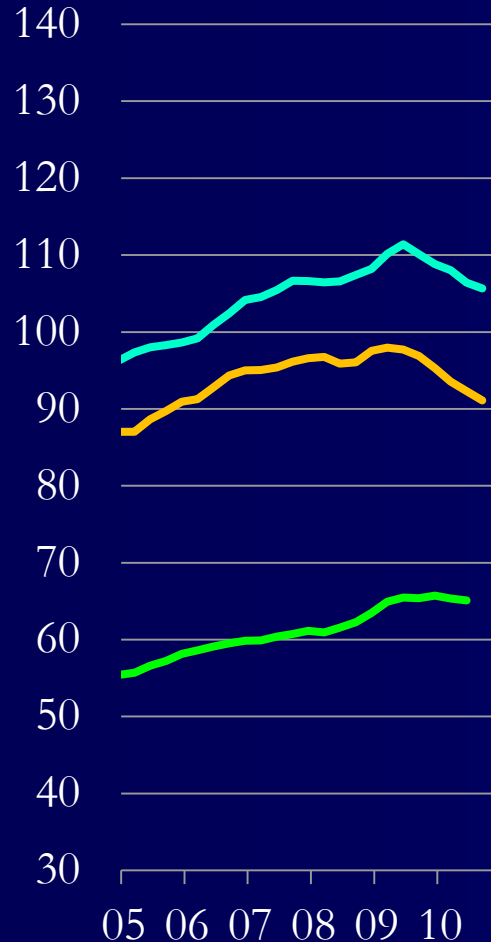


# Little progress in deleveraging

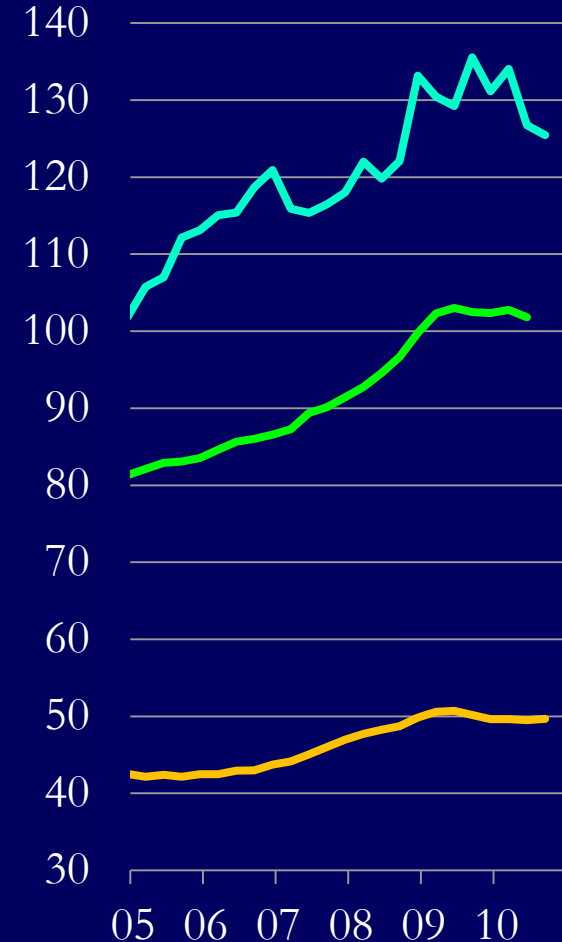
**Government Debt**  
*(percentage of GDP)*



**Household Debt**  
*(percentage of GDP)*

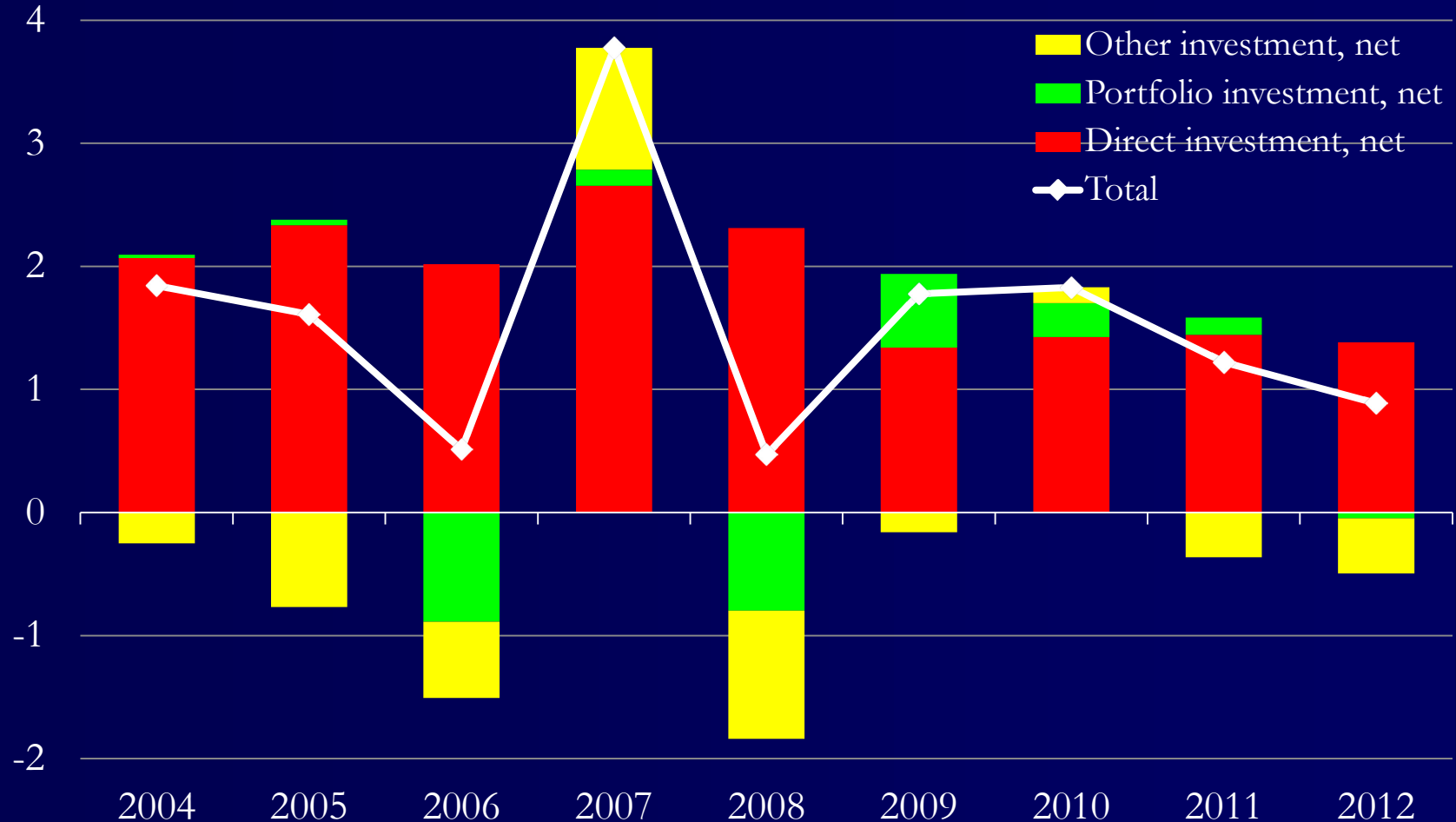


**Corporate Debt**  
*(percentage of GDP)*



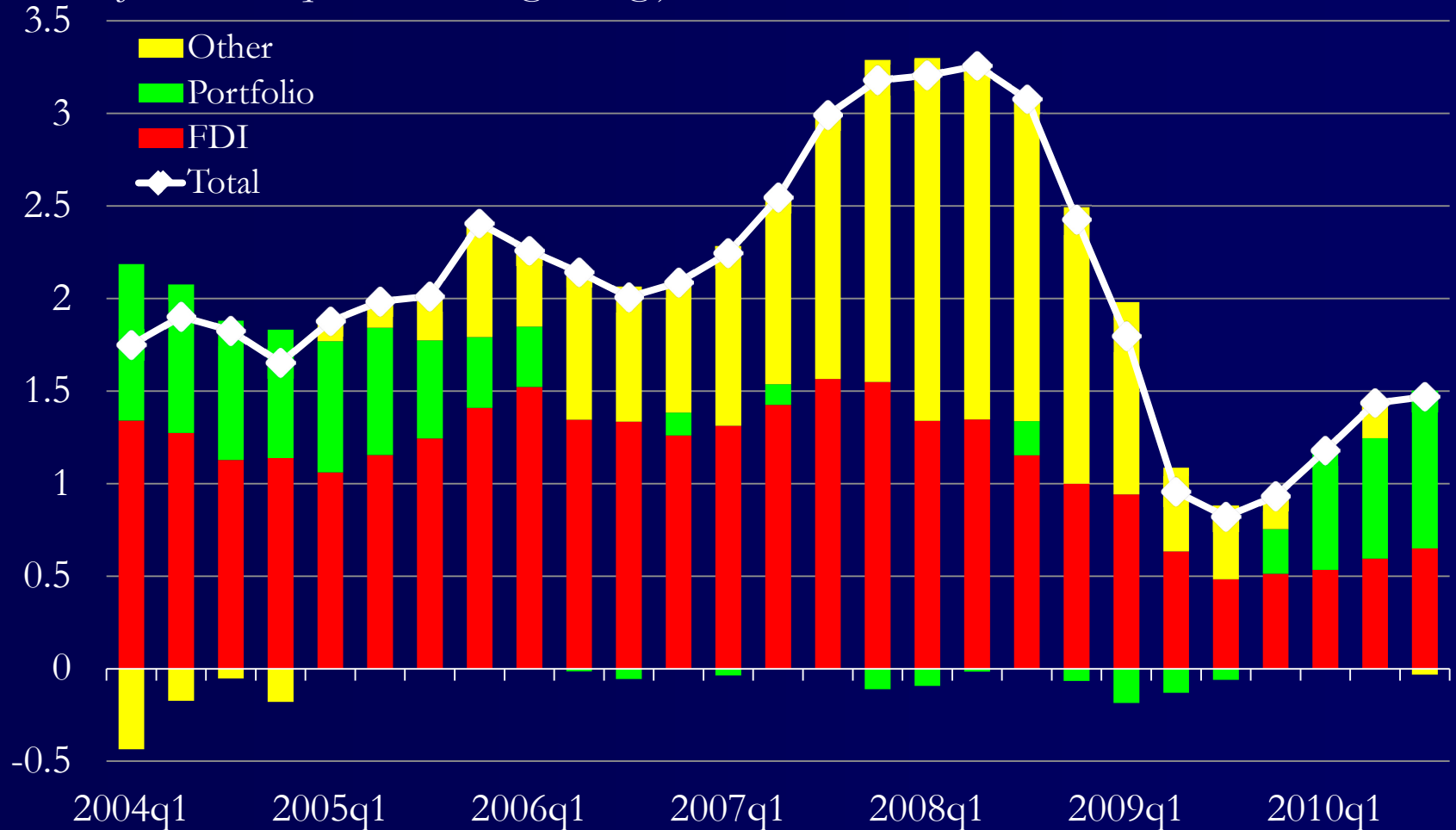
# Capital flows are returning

Net Capital Inflows to Emerging Markets  
(percent of GDP)



# Capital flows are returning

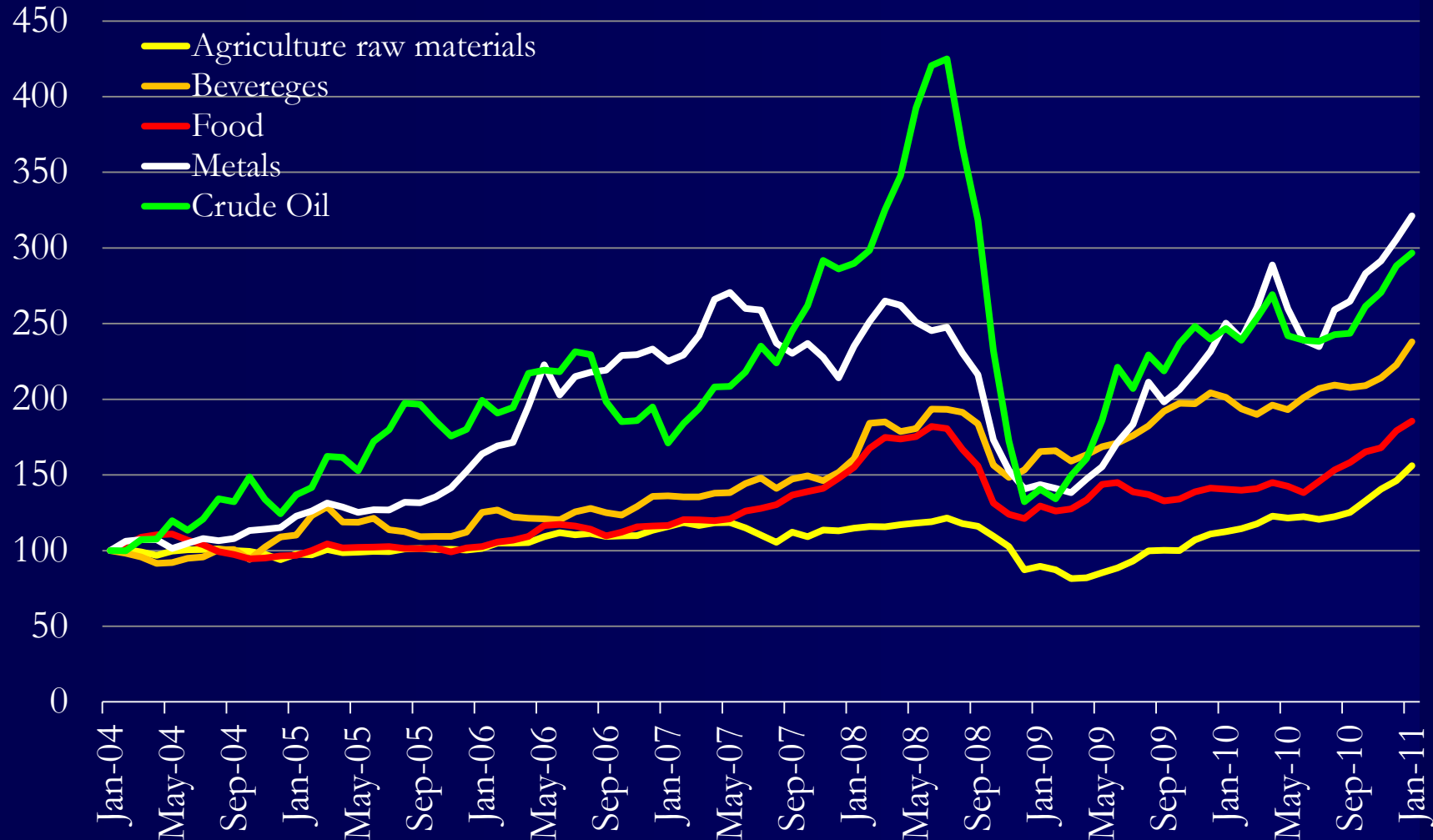
Net Capital Inflows to the Central and Eastern Europe  
(percent of GDP, 4-quarters moving average)



# Commodity prices are rising again

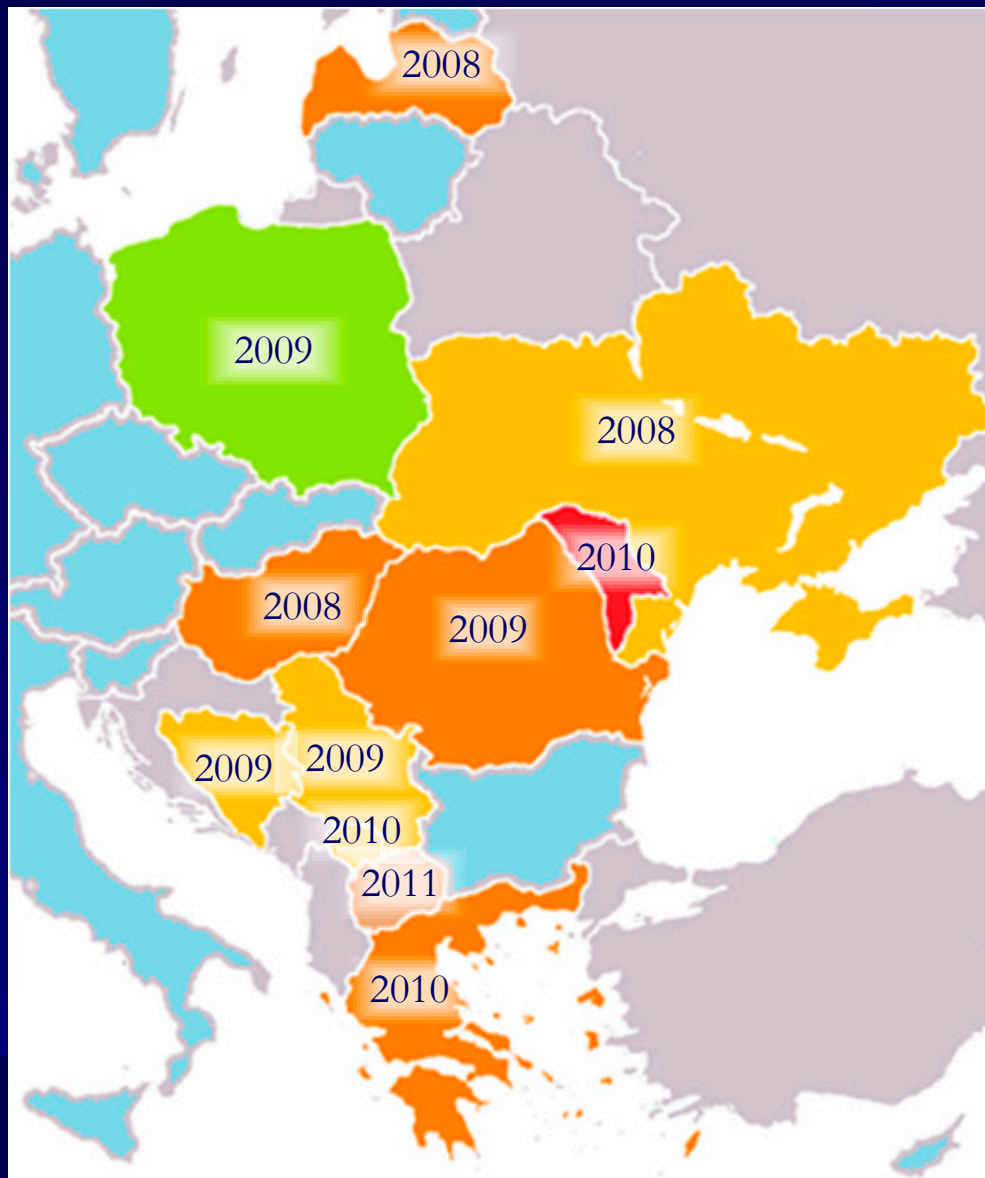
Commodity prices

(Jan-04=100)



Source: Commodity Price System

# IMF provided assistance to region



## EU countries:

- EU member countries
- SBA program
- FCL program

## Non-EU countries:

- SBA program
- EFF program
- PCL program

Precautionary programs



# Fiscal Adjustment is important element of programs

Need to:

- Reduce reliance on market financing
- Deal with effects of banking crisis
- Restore fiscal sustainability

But:

- Need fairness in burden sharing
- Protect most vulnerable groups

# IMF Support

IMF support has

- Became more flexible
- Focused more on protecting the vulnerable

# Flexibility in IMF-supported programs

- Pace of fiscal adjustment
- Support for essential spending
- Use of heterodox measures
- Streamlining and justification of conditionality
- Use of precautionary arrangements

# Social Dimension of IMF-Supported programs

- Better targeting of government's measures
- Strengthening the social safety net
- Consideration of alternative approaches
- Reducing tax burden on employment
- Deeper engagement with local unions

# Growth is returning to CEE

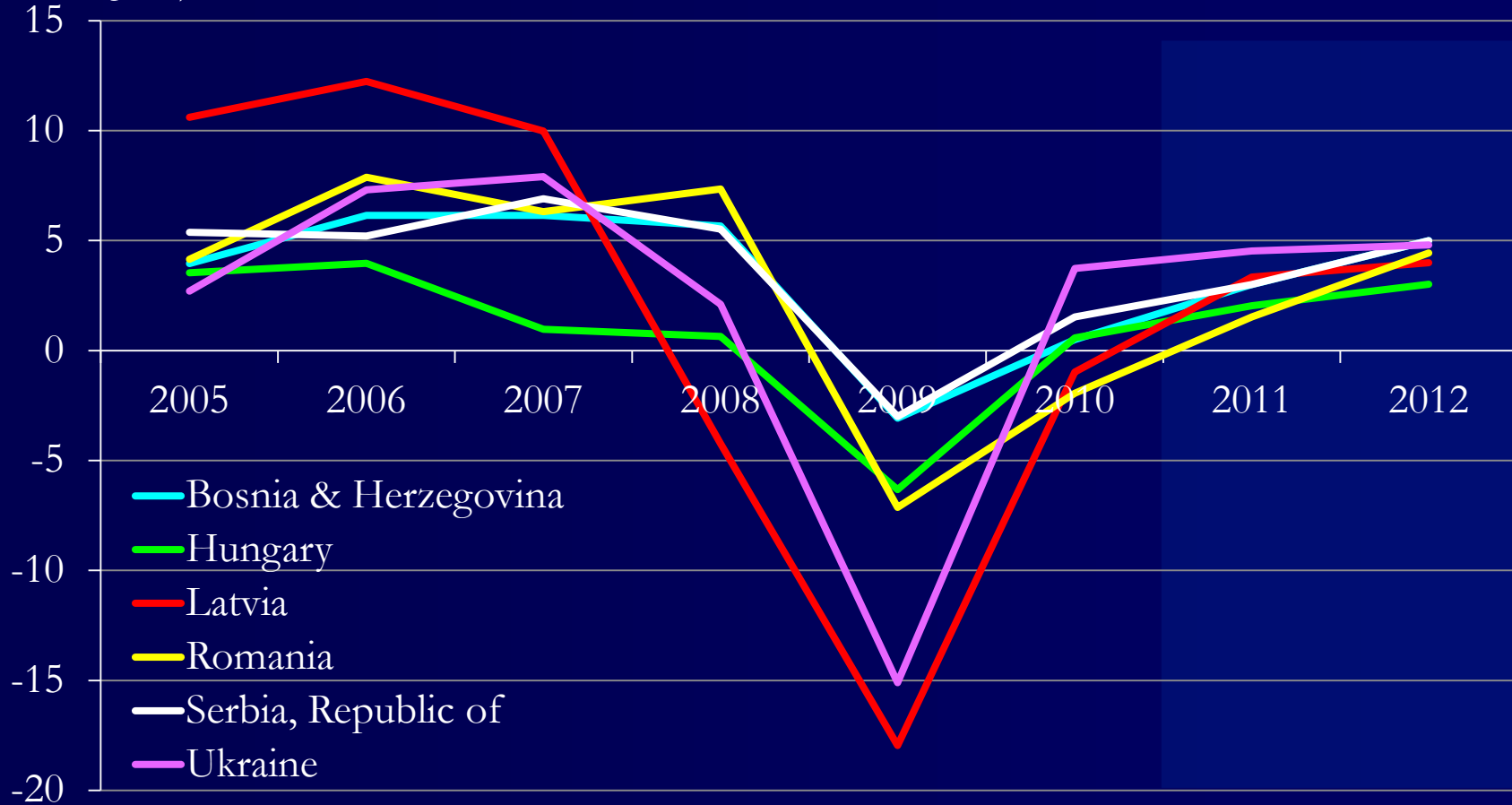
Change in real GDP  
(Year on year)



# Including all program countries

Change in real GDP

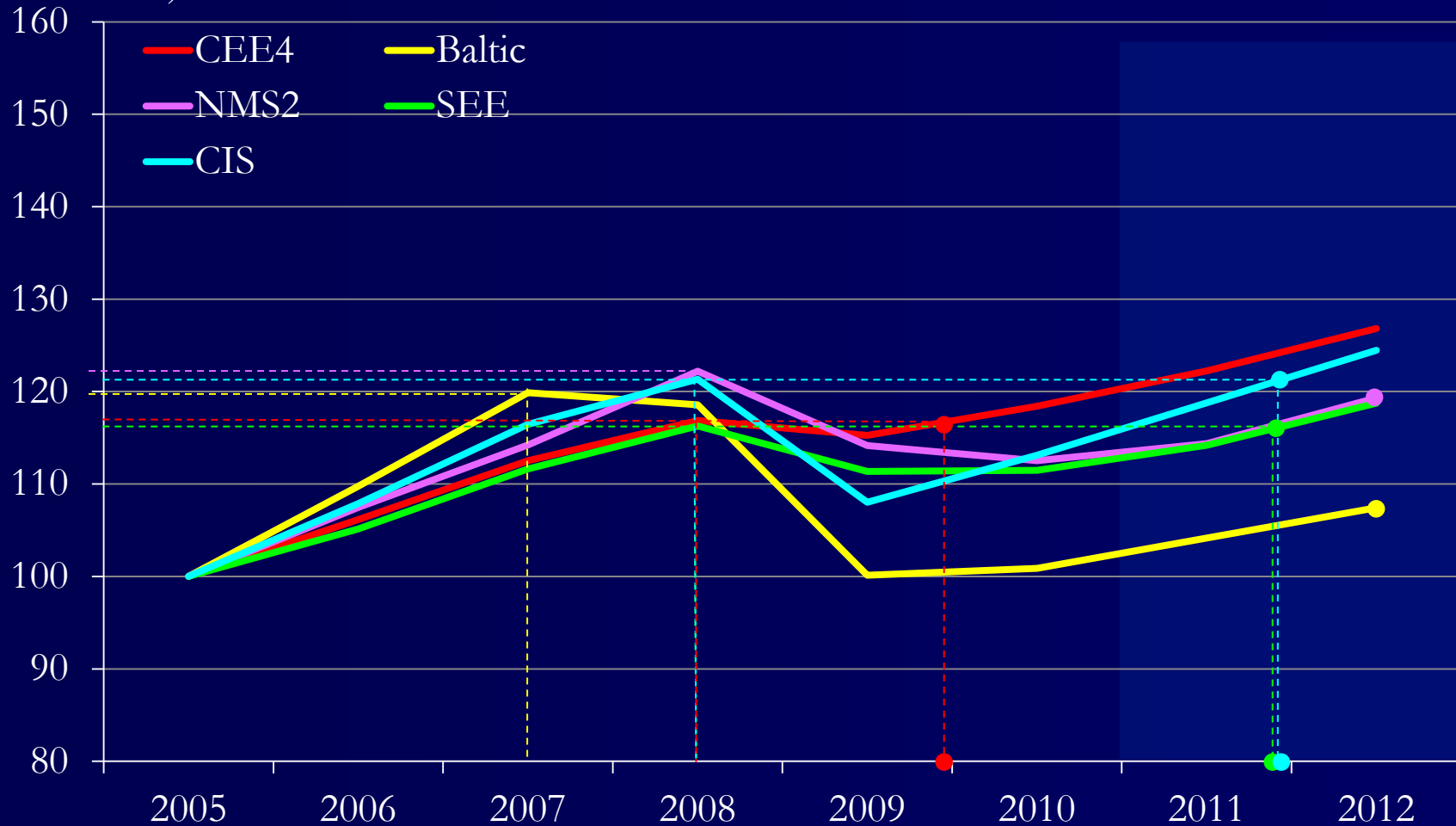
(Year on year)



# Output losses have been severe

Real GDP levels

(2005=100)

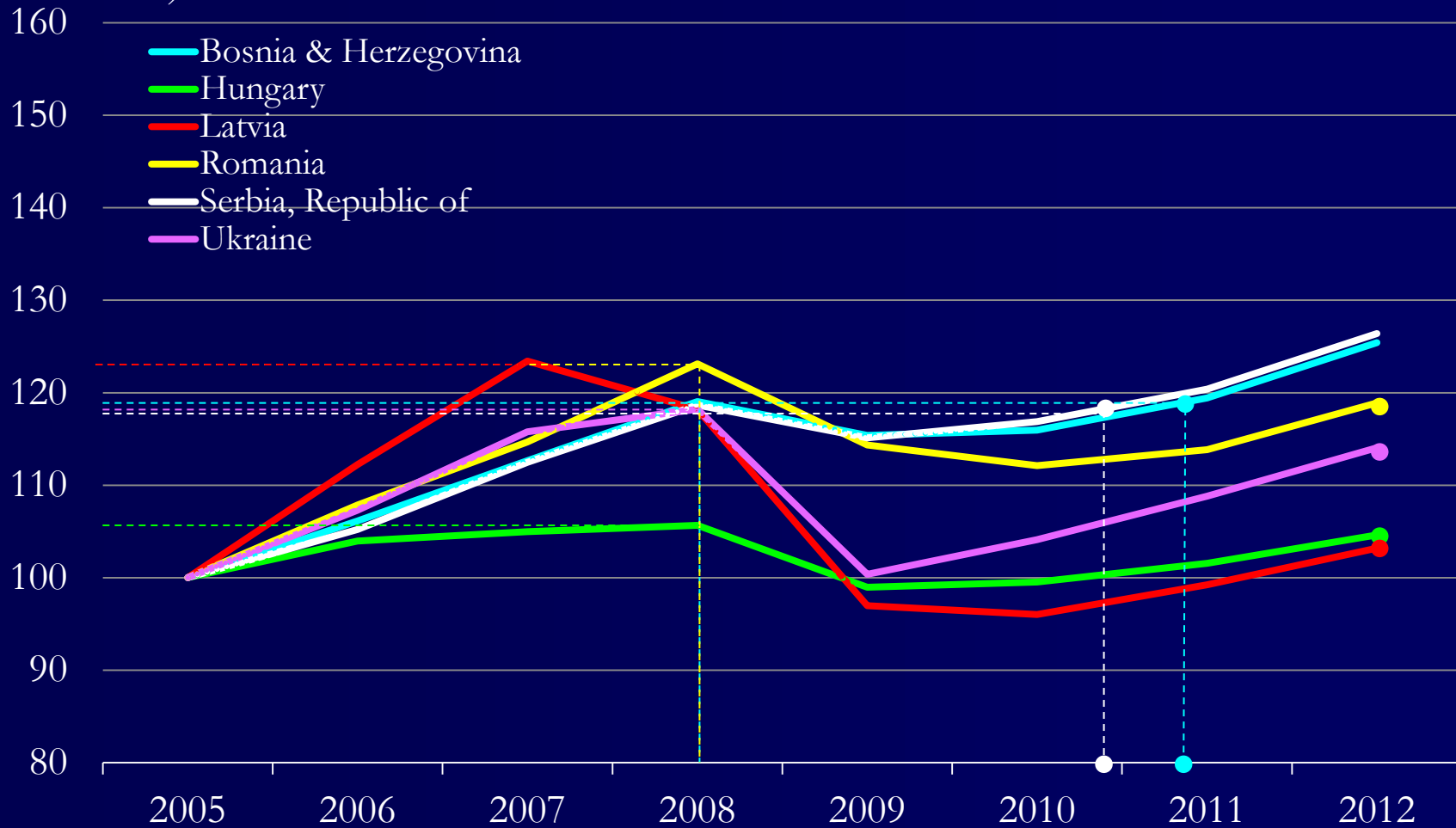


Source: WEO database

# Especially in program countries

Real GDP levels

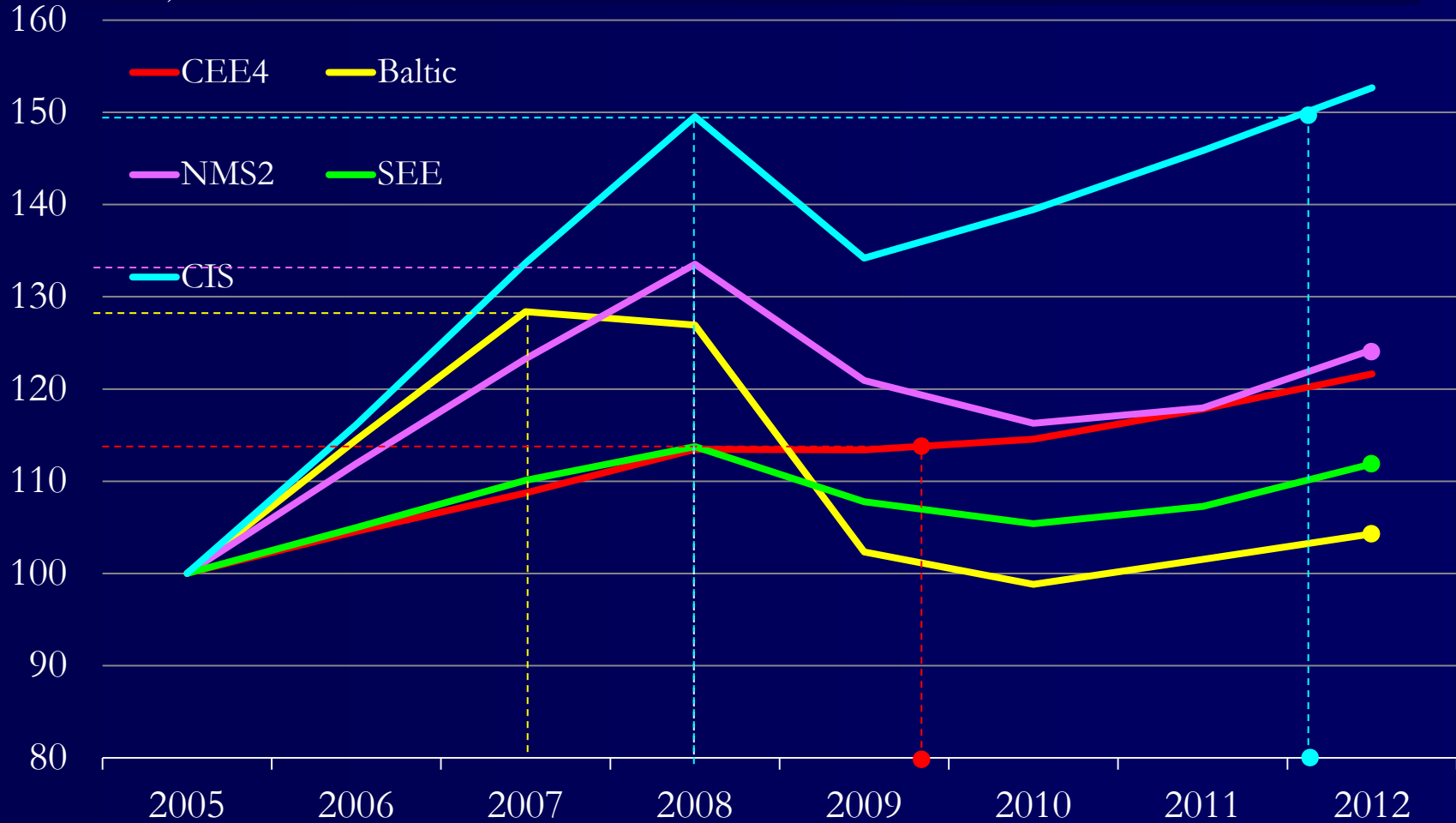
(2005=100)



Source: WEO database

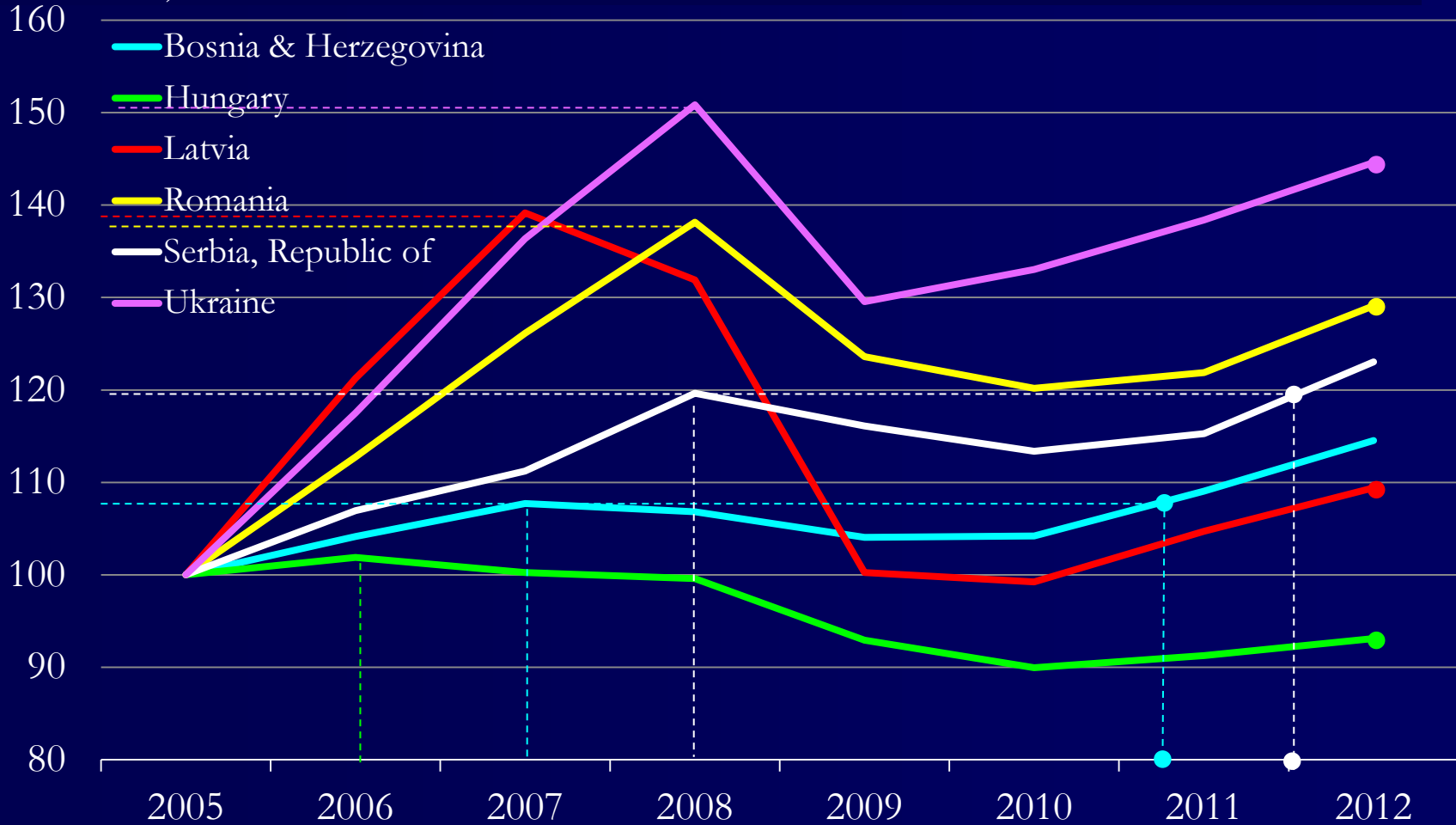
# Private consumption has recovered more slowly

Real Private Consumption levels  
(2005=100)



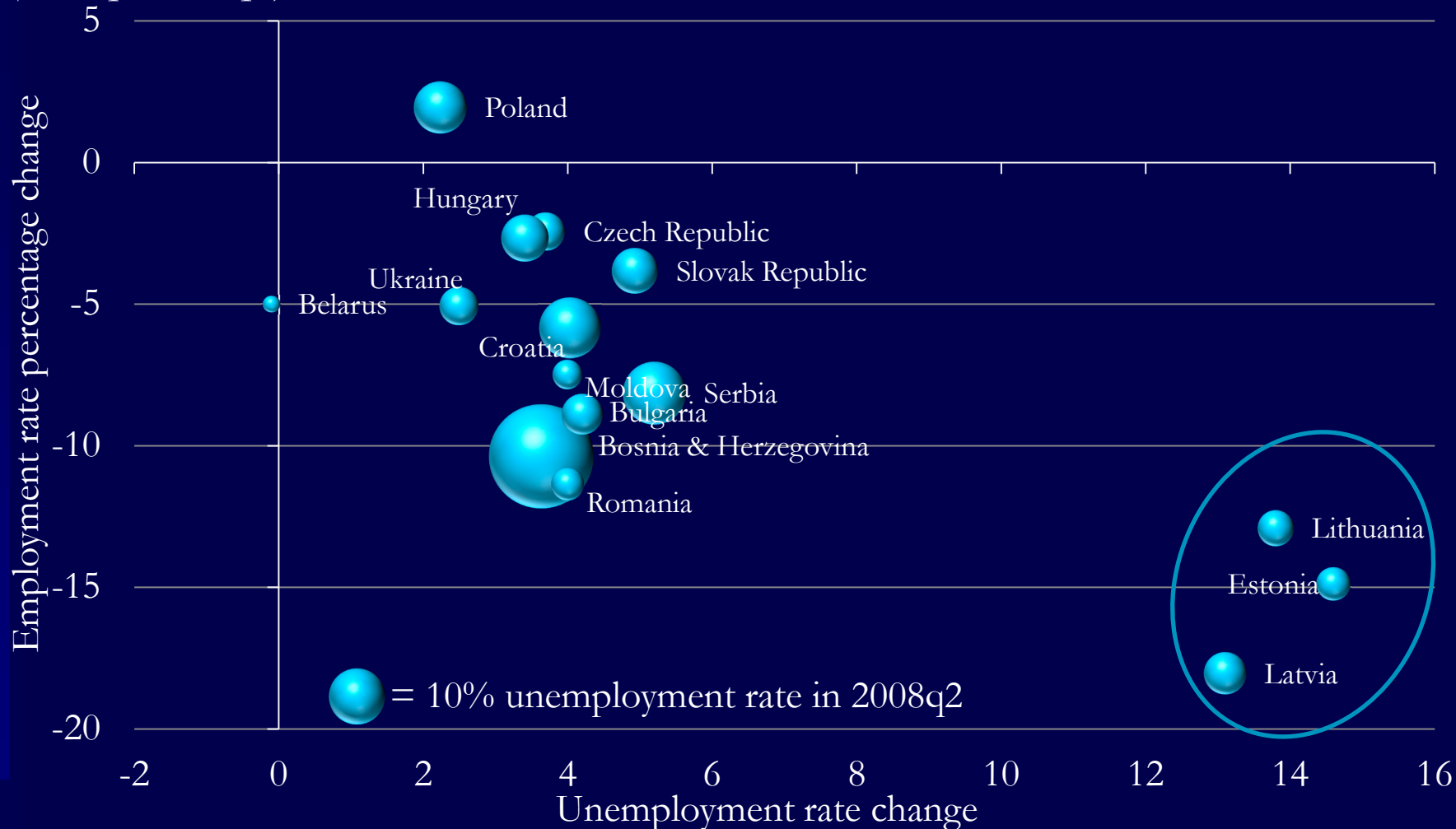
# And is yet to recover in most programs

Real Private Consumption levels  
(2005=100)



# Labor markets have been badly affected

Labor Market during the crisis  
(2008q2-2010q2)



Source: WEO database

# Unemployment has risen, especially in Baltic

Unemployment rate

(percent)

25

20

15

10

5

0

CEE4

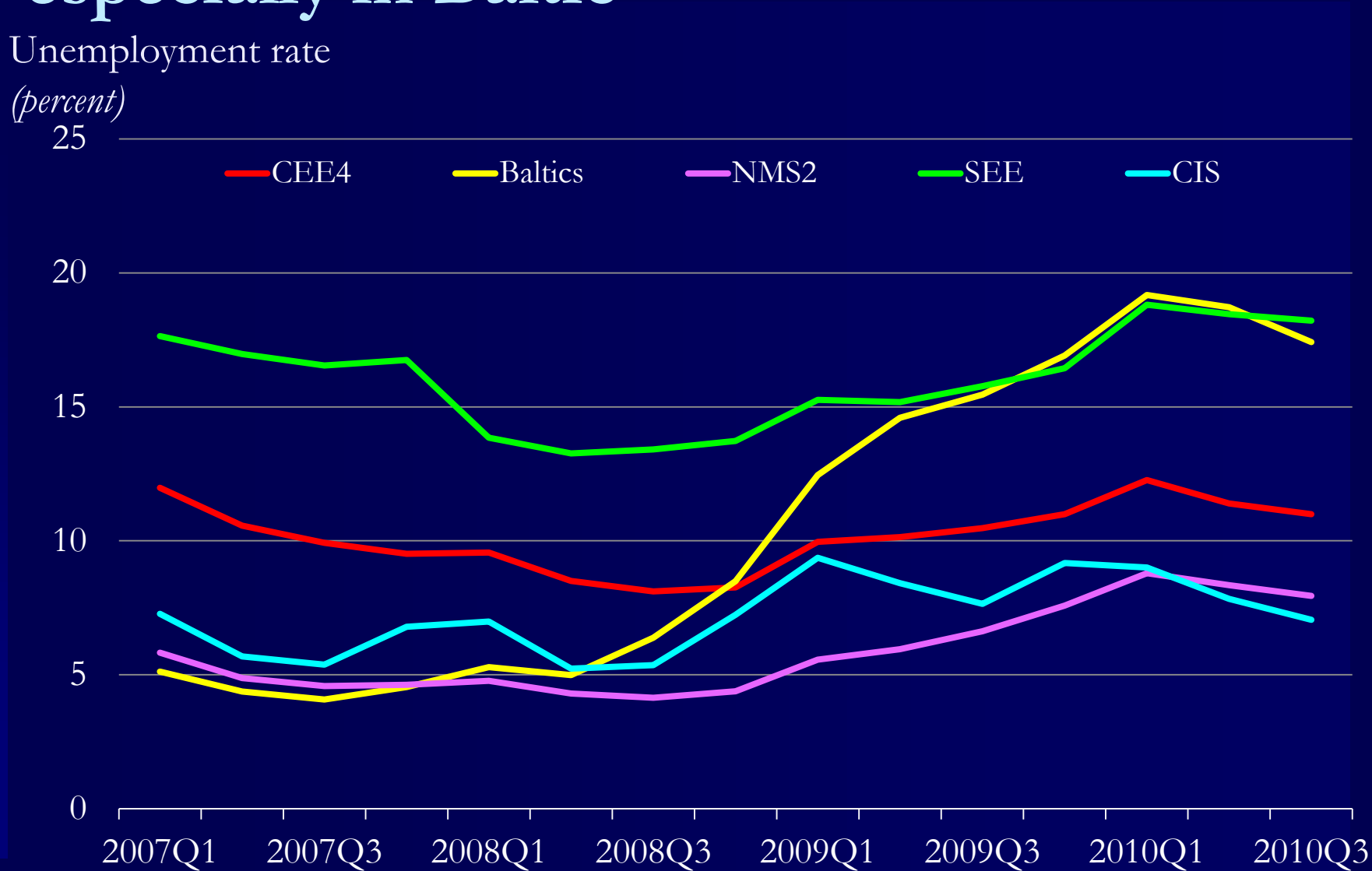
Baltics

NMS2

SEE

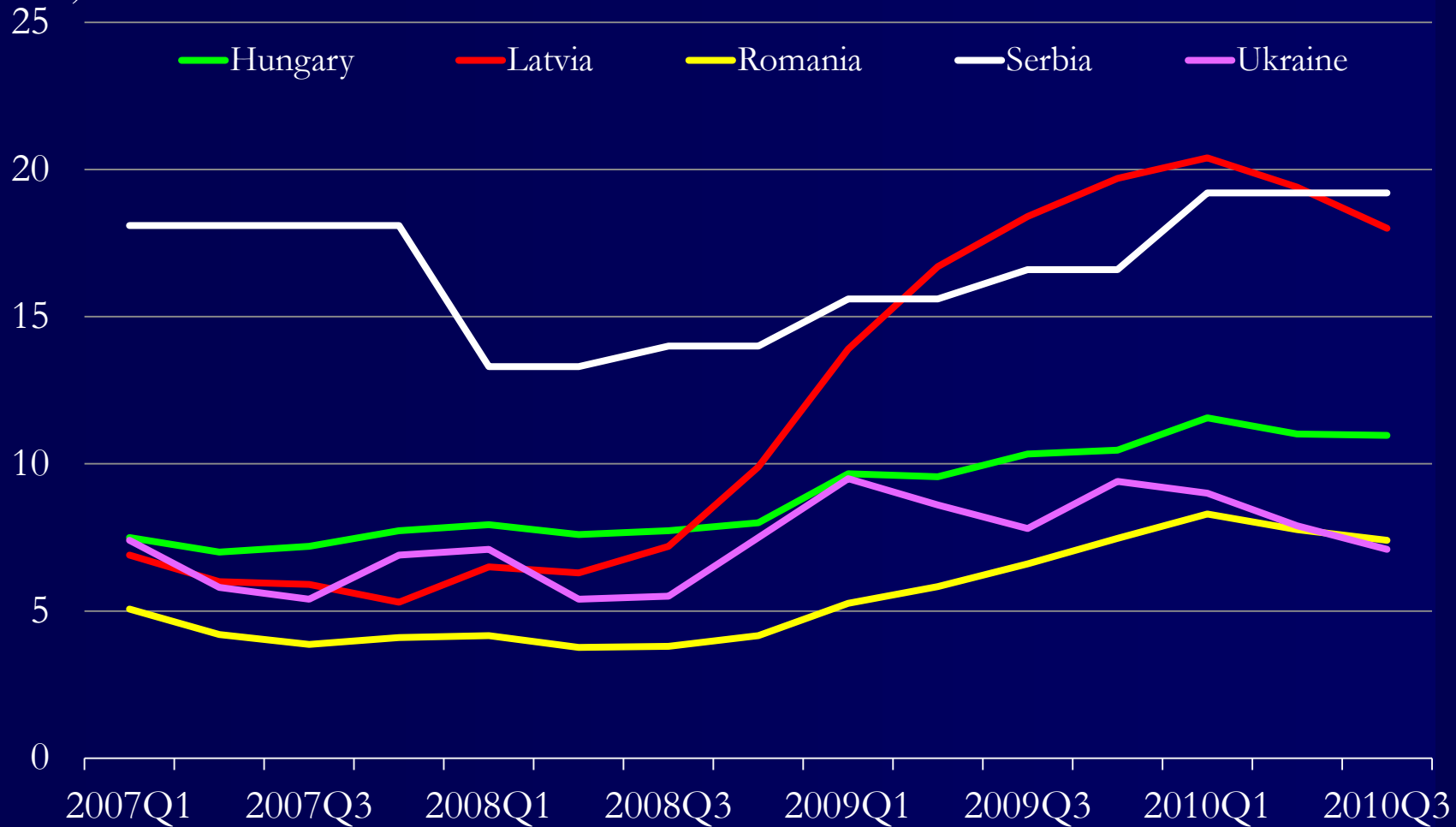
CIS

2007Q1 2007Q3 2008Q1 2008Q3 2009Q1 2009Q3 2010Q1 2010Q3



# Unemployment has risen, especially in Baltic

Unemployment rate  
(percent)



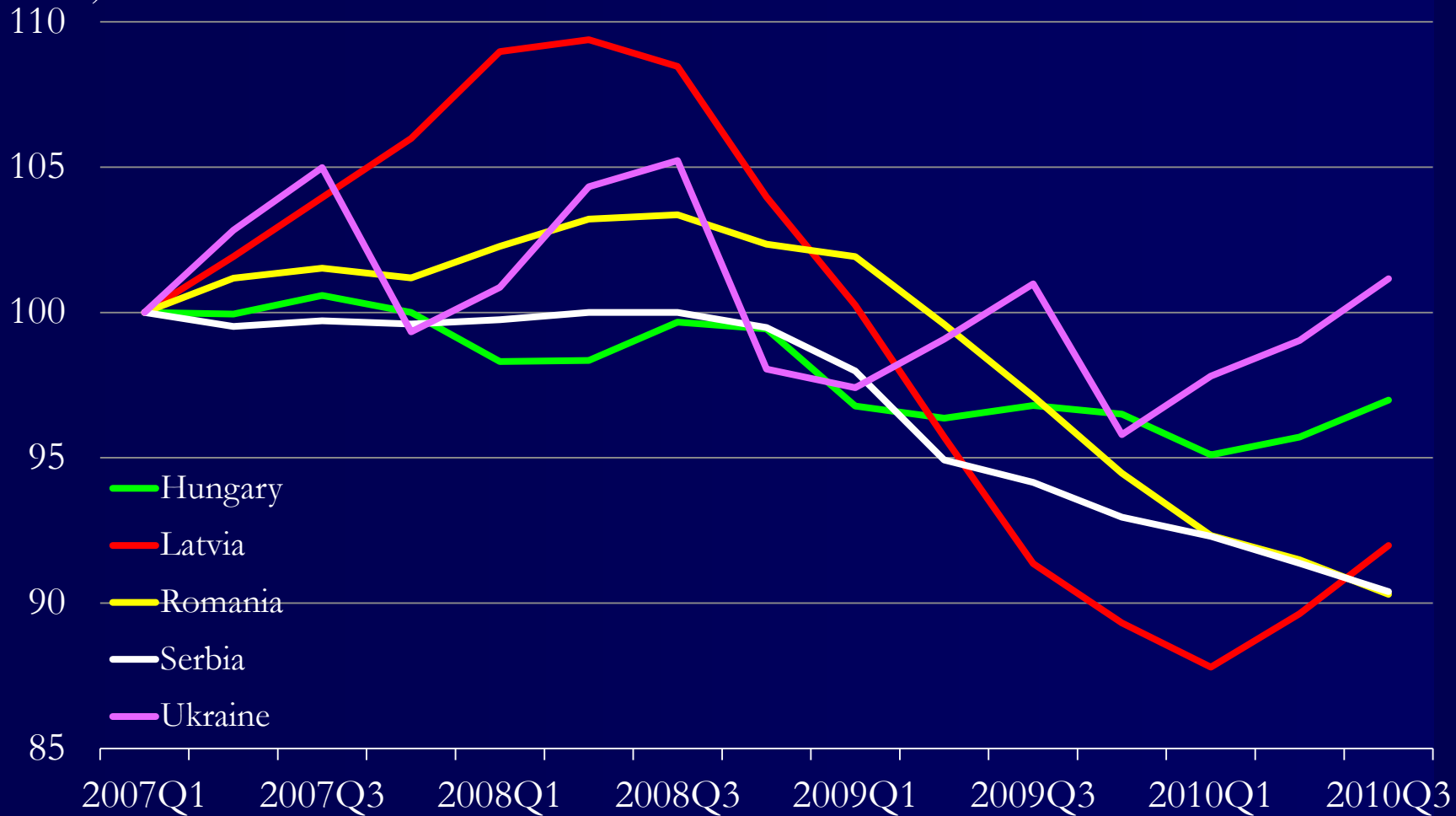
# Employment has only stayed strong in Visegrad Four

Employment rate  
(2007q1=100)



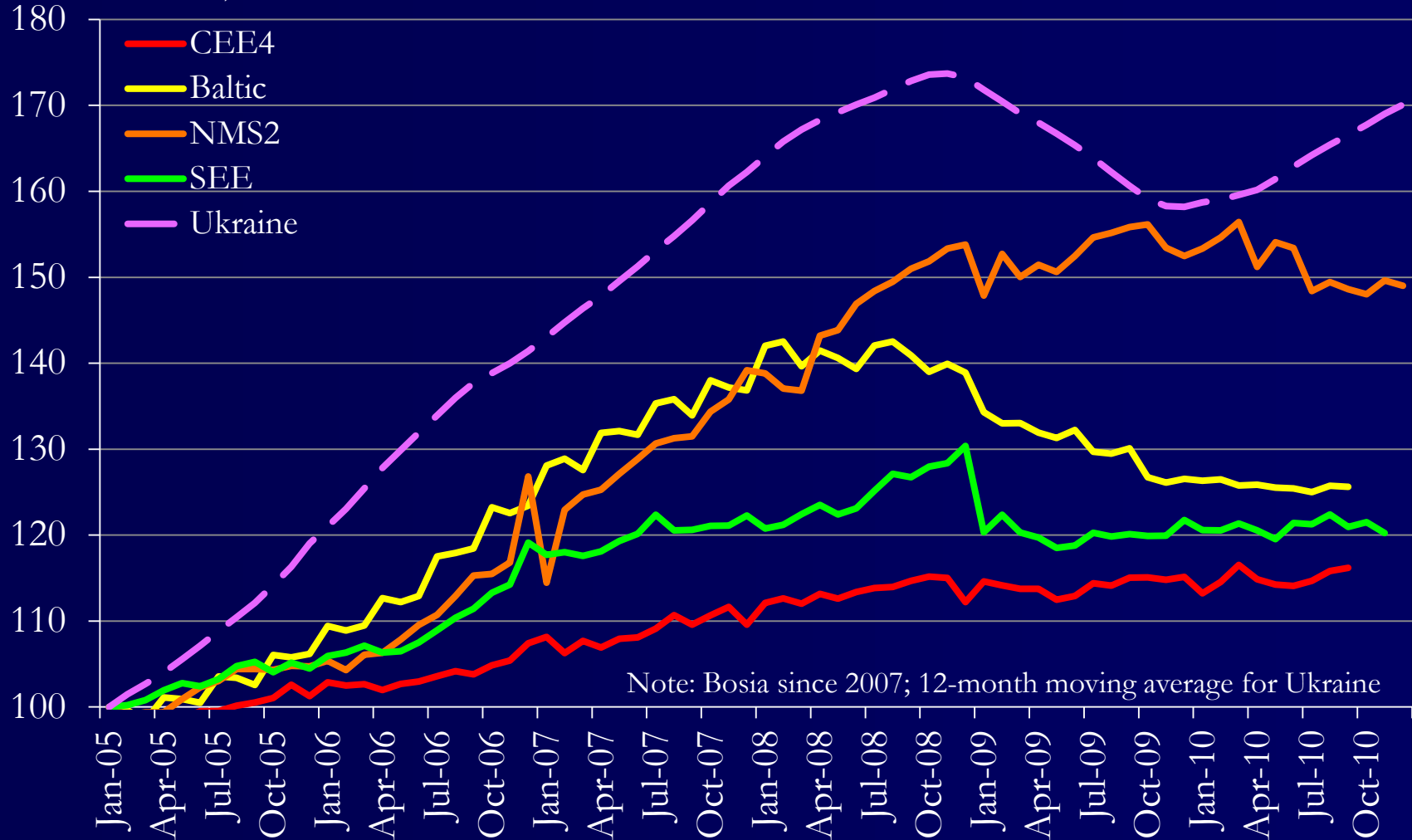
# and has fallen under all programs

Employment rate  
(percent)



# Real wages have been worst hit in the baltics

Real wage growth  
(Jan-2005=100)

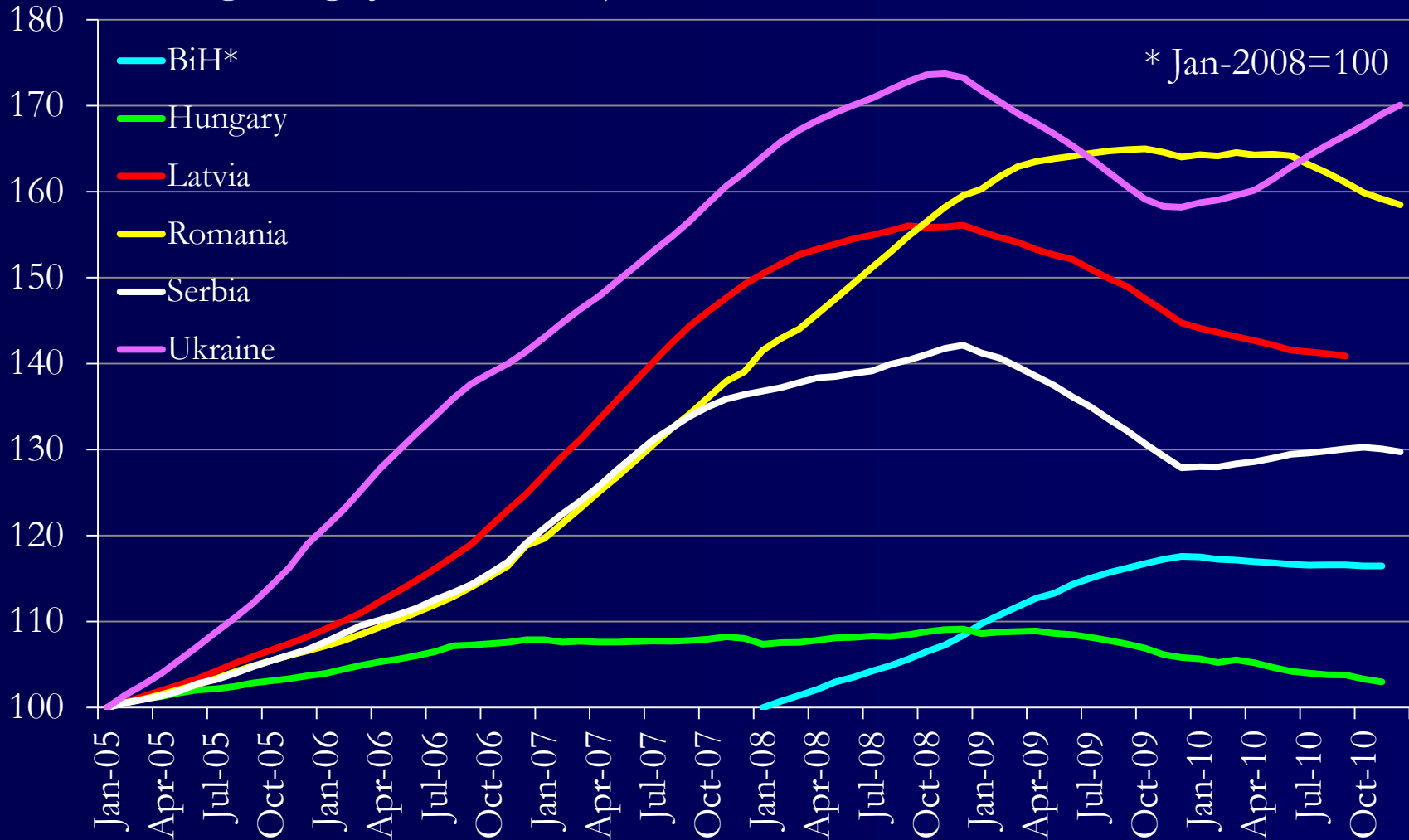


Source: Haver

# Real wages stagnant since crisis

Real wage growth

(12 month moving average, Jan-2005=100)



Source: Haver

Thank you