World Bank Global Economic Prospects
Some comments

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Three topics

- 1. Slowdown in EMEs
- 2. Resilience of non-CIS CESEE
- 3. CESEE regional differences
Slowdown in Emerging Markets

- Growth in emerging market has slowed down
- Is this temporary?
- Or is it more structural?

Real GDP growth (percent y/y)
Report attributes slowdown to “shocks”

- Shocks have no doubt have played a role.
  - Commodity price shocks
  - Tightening of global financial conditions
- But there is also question whether growth model itself was sustainable.
- Would rapid growth have continued without shocks?
It is not just actual output that has been revised!

Potential and headline real GDP level
(index, potential GDP in 2000=100)

Brazil

Potential (WEO Oct 2013)
Headline (WEO Oct 2013)

Potential (latest)
Headline (latest)

Russia
Growth in the large EMEs has been fueled by a credit boom.
In China credit boom has been particularly dramatic.

Credit to private non-financial sector in China (percent of GDP)

+80 percent of GDP
Even stronger than Latvia pre-crisis!

Credit to private non-financial sector in Latvia
(percent of GDP)

+57 percent of GDP
Debt service has increased as well

Debt service ratio of non-financial private sector (percent)

China

USA
Big question: What happens if credit boom ends?

- What happens with domestic demand growth?
- NPLs?
- Will financial sector remain healthy?
In 2007, we thought that credit booms in US and UK would end well.
2. Resilience of CESEE

- CESEE has been much less affected by global financial turmoil

![Graph showing 5-year CDS spreads (basis points) for CESEE, Developing Asia, and Latin America from Jan-11 to Jan-16. The graph compares the financial stability of these regions during the specified time period.]
CESEE—excl Turkey and Russia—has not had a credit boom post 2008!
Post 2009, capital inflows have been low

Capital flows to CESEE*
(percent of GDP)

*excluding Russia and Turkey
3. Regional Differences

- May be better not to look at CESEE as one region
- Large regional differences in growth
  - CIS in recession
  - Non-CIS is seeing moderate to fairly strong growth
- And inflation
  - Elevated in CIS
  - Low in non-CIS
Growth and Inflation: Regional Differences

3-year rolling average real GDP growth (percent)

3-year rolling average CPI inflation (percent)
Regional growth projections

GDP growth projections (percent)

2015

2016

Note: Striped fill denotes CESEE country under IMF programs.
Almost all countries have recovered from crisis.
Particularly in per capita terms
Two main crisis legacies: high NPLs

Non-performing loans
(latest available data, percent of total loans)

Below 5 percent
5-10 percent
10-15 percent
15-20 percent
20-25 percent
Above 25 percent

Albania
Serbia
Montenegro
Croatia
Bulgaria
Bosnia and Herz.
Romania
Slovenia
Slovenia
Macedonia
Kosovo

NPLs 2008  change  max
High public debt

Public debt (percent of GDP)

Change in public debt, 2007-15 (percent of GDP)

- Ukraine: 94.4%
- Slovenia: 81.8%
- Croatia: 89.3%
- Serbia: 76.7%
- Montenegro: 69.9%
- Latvia: 37.8%
- Romania: 40.9%
- Bosnia: 45.5%
- Slovakia: 53.3%
- Lithuania: 38.8%
- Belarus: 40.4%
- Moldova: 44.8%
- Albania: 73.3%
- Macedonia: 37.1%
- Czech Rep.: 40.6%
- Russia: 20.4%
- Bulgaria: 28.6%
- Hungary: 75.3%
- Estonia: 10.8%
- Poland: 51.1%
- Kosovo: 21.4%

Public debt in 2015 (percent of GDP)
However, adjustment fatigue seems to have set in.

Estimates of 2016 Fiscal Deficit by WEO vintage (percent of GDP)

Estimates of 2016 deficit as in:
- Fall 2015 WEO
- Fall 2014 WEO
Thank you