

European Department

# Economic and Financial Issues in CESEE



Vienna, November 28, 2016

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for Central and Eastern Europe

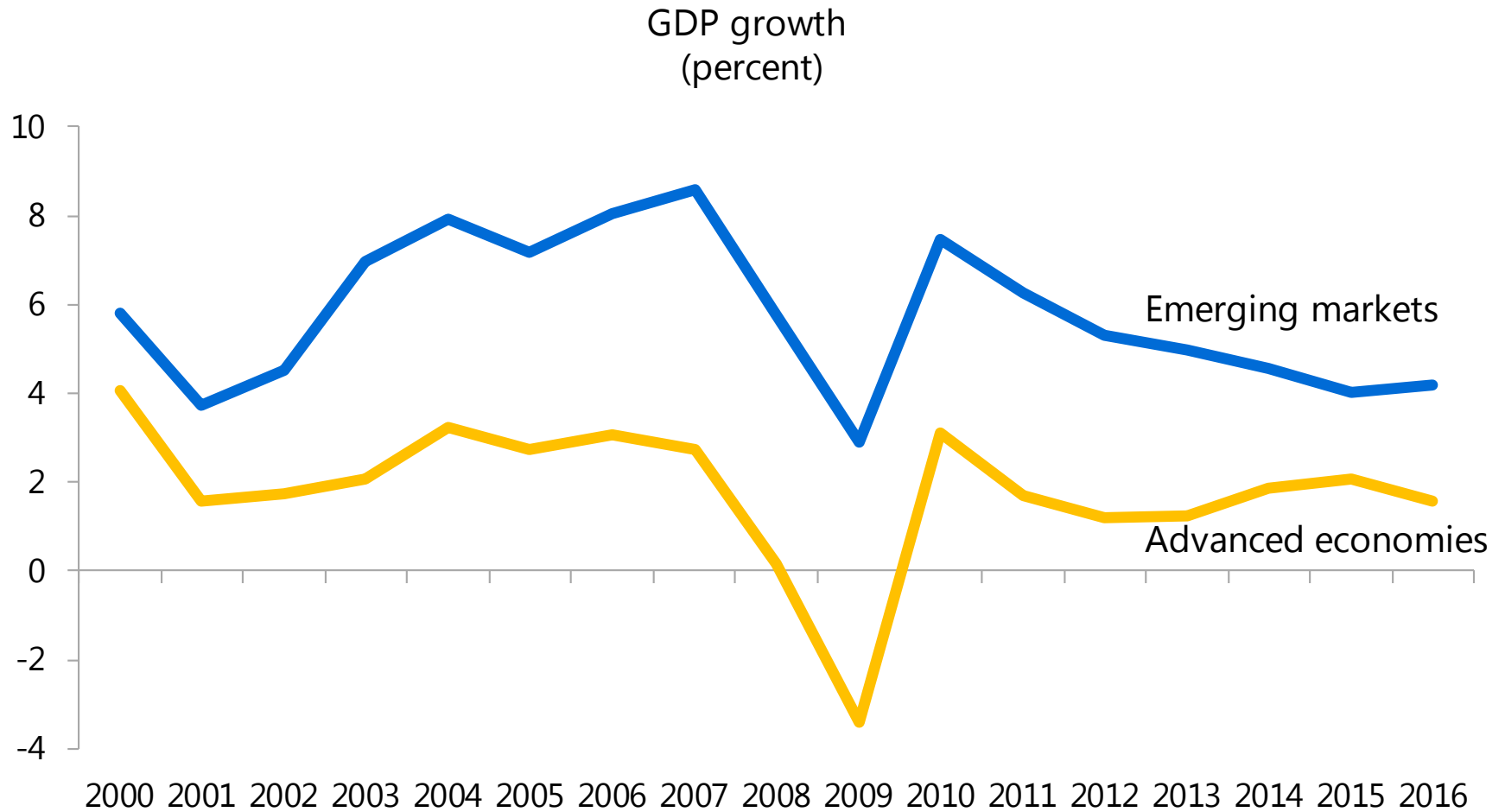
Global growth has hovered around 3¼ percent.  
In recent years, well below pre-crisis levels.



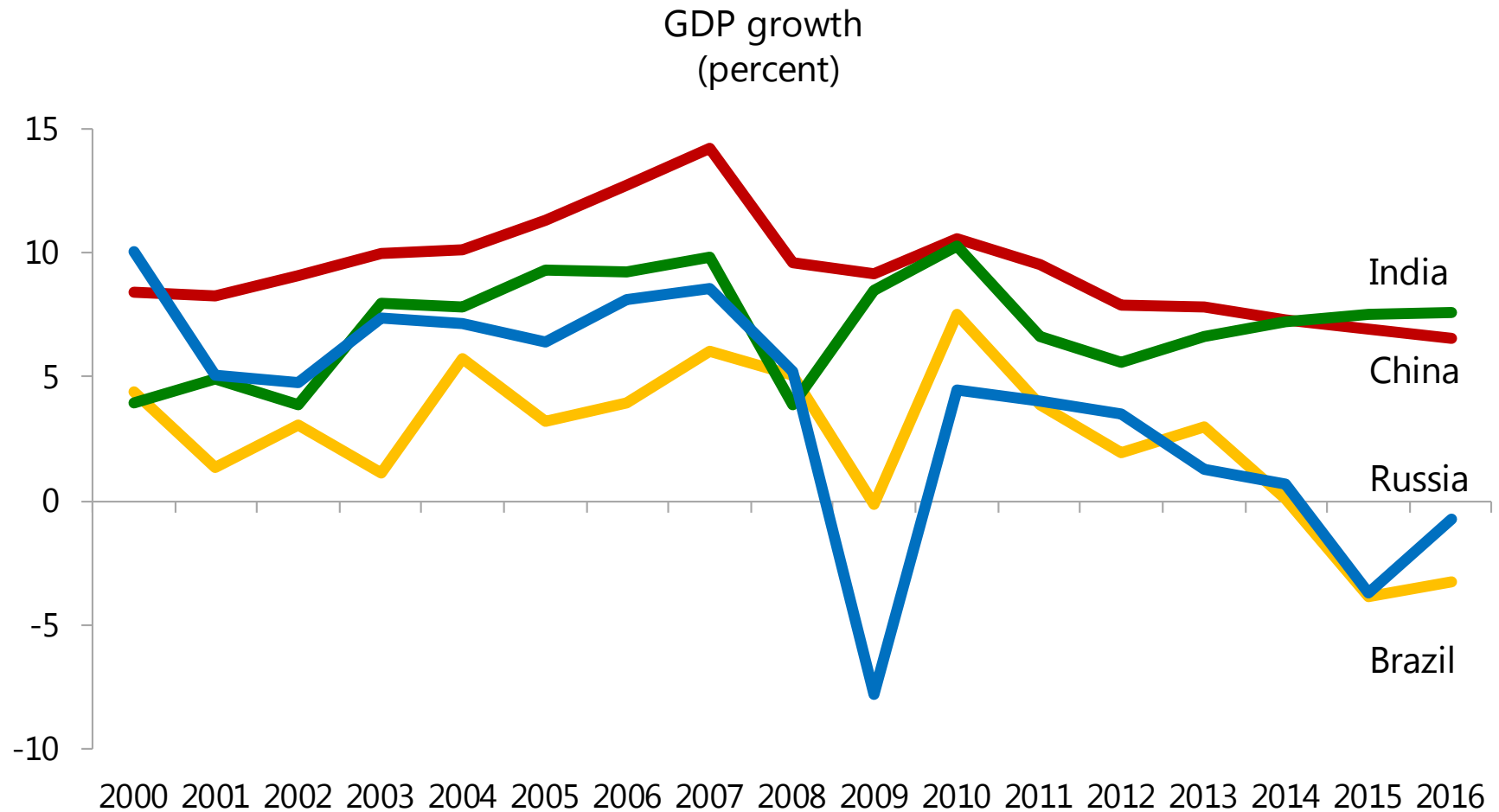
Global GDP growth  
(percent)



# Growth in EMCs has lost steam...



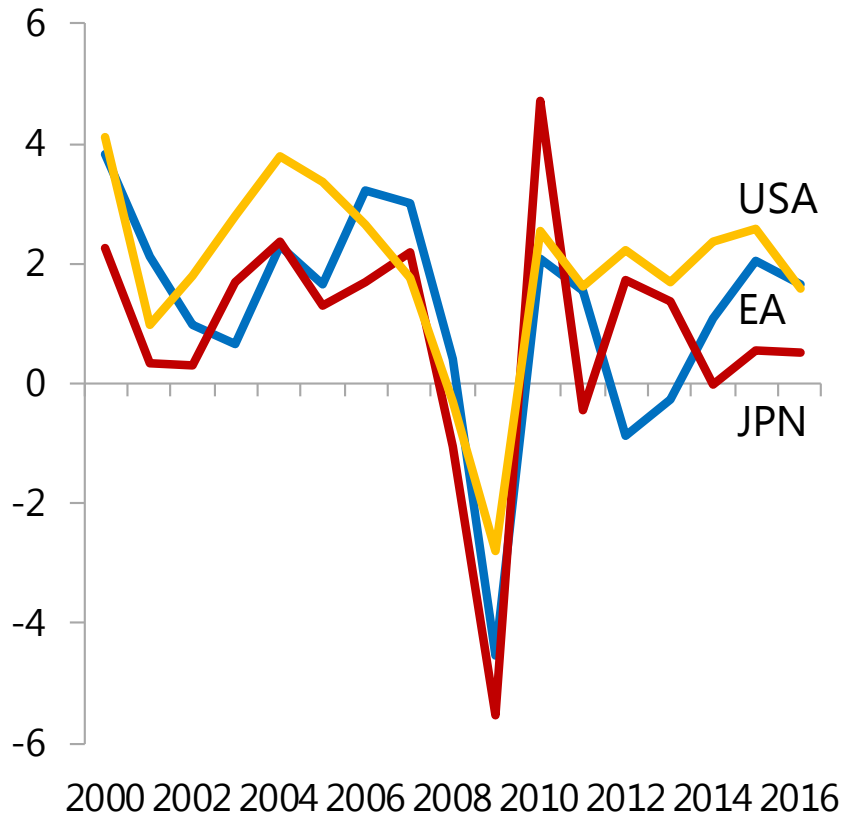
...with Brazil and Russia in recession and China slowing down.



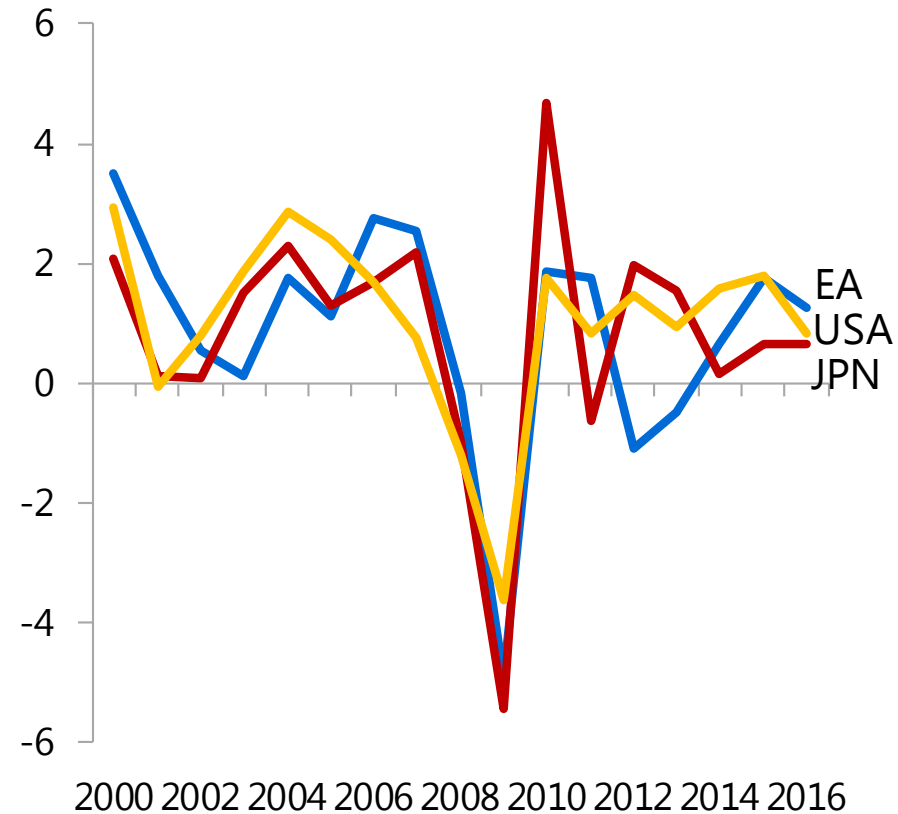
# Euro area has been recovering gradually, but growth in US has disappointed



GDP growth (percent)



GDP per capita growth (percent)



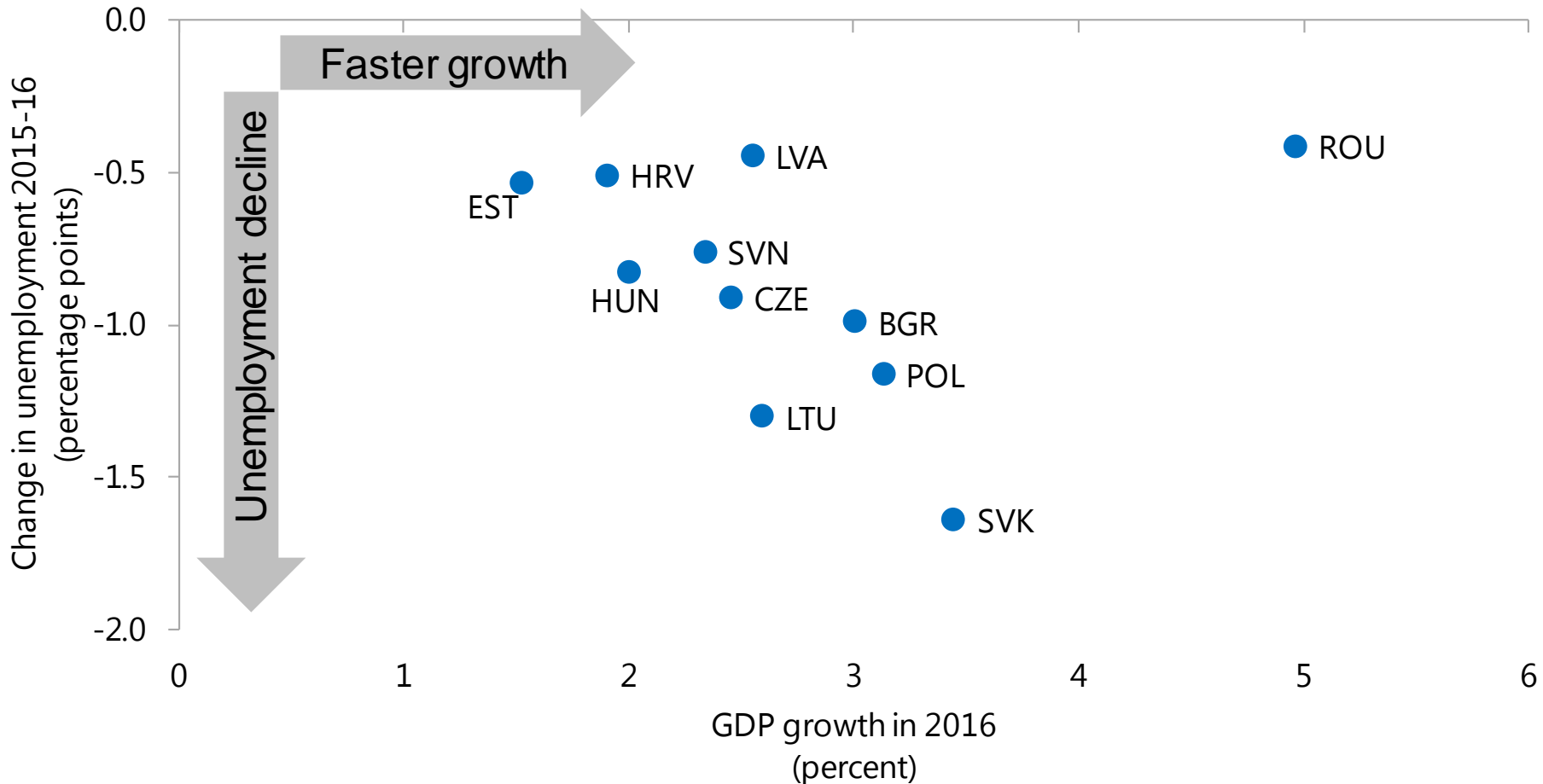


- Large difference between CIS and non -CIS
  - Non-CIS CESEE doing quite well
  - CIS in recession in 2014-15

# Non-CIS CESEE is growing at solid pace. Unemployment is falling rapidly...



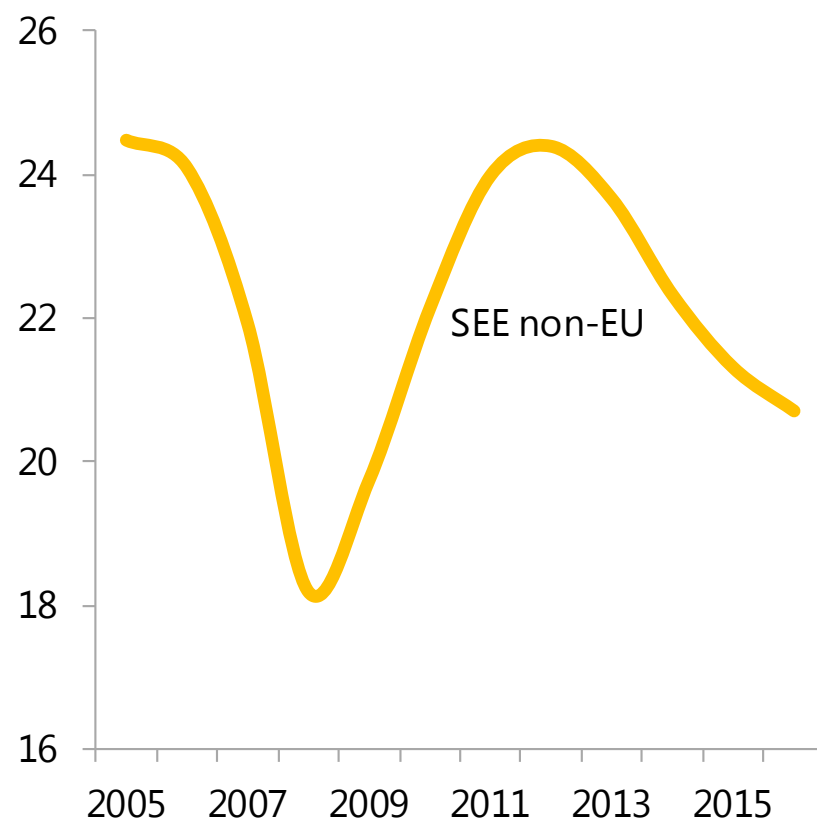
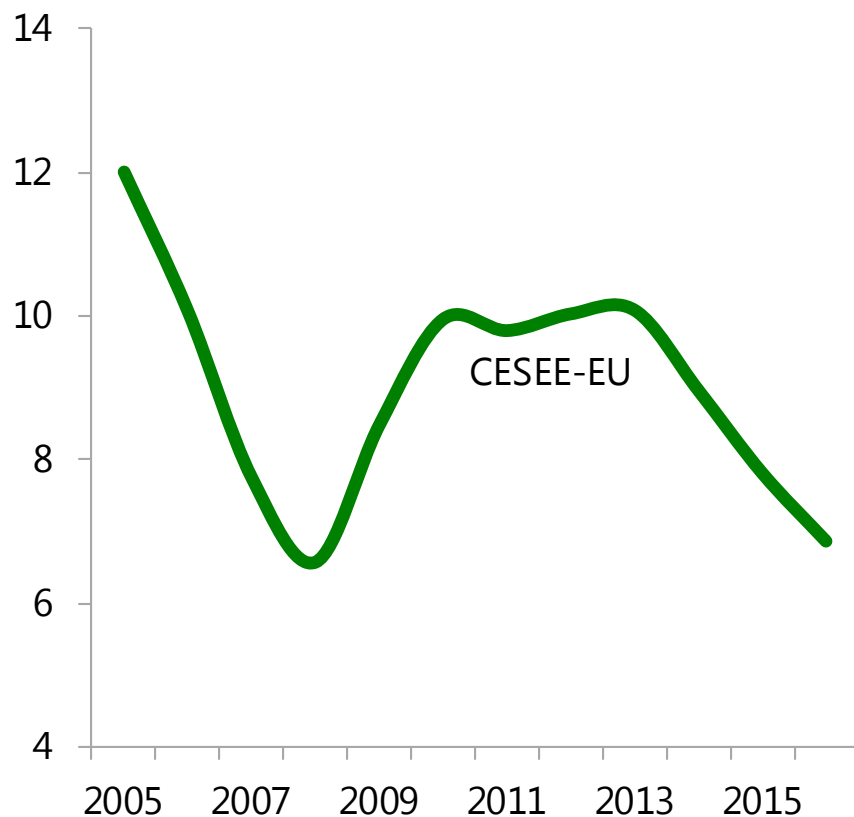
GDP growth and change in unemployment  
2015-16



...to pre-crisis lows.



Unemployment rate  
(percent)





# While inflation is still low...



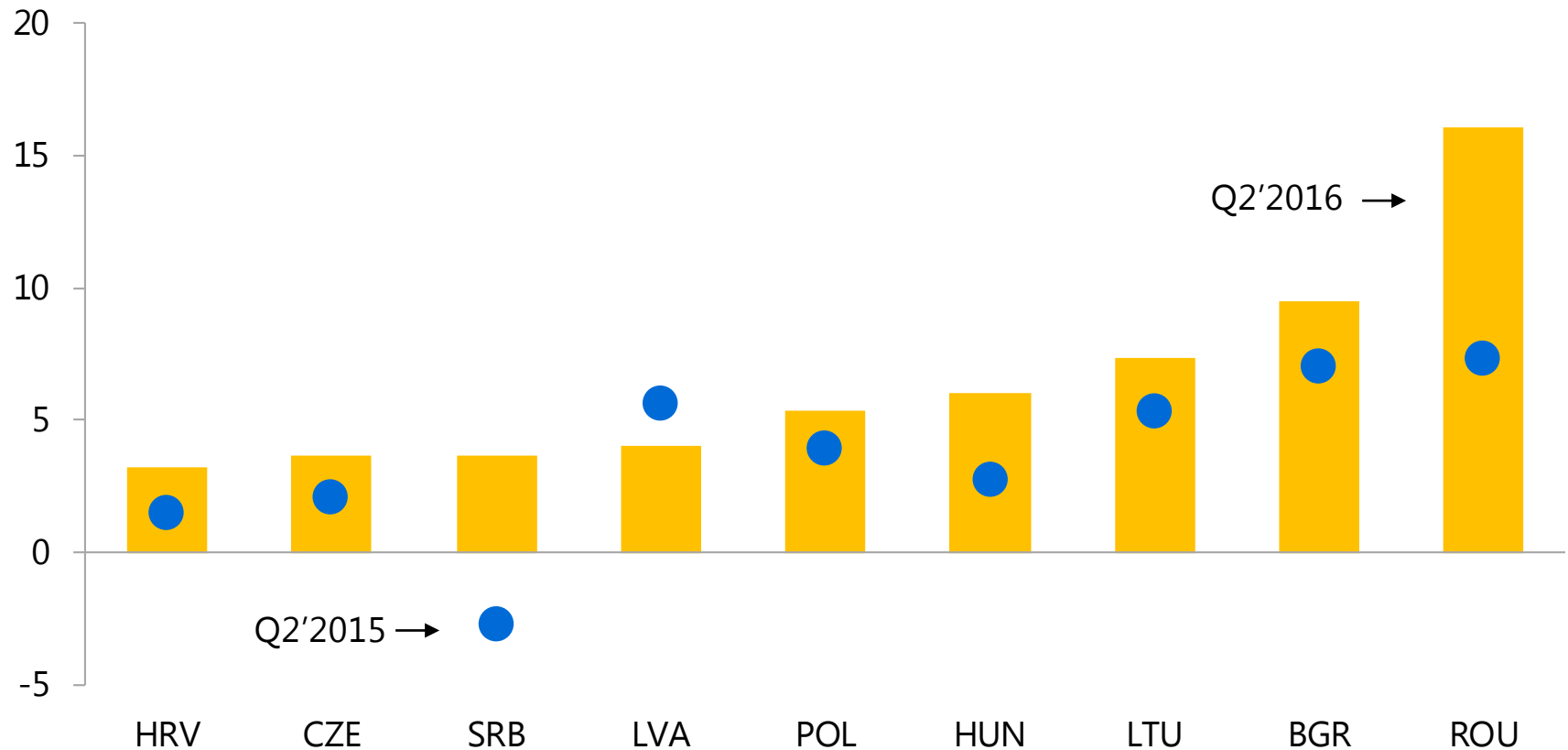
CPI Inflation  
(percent, weighted averages)



# Real wage growth has accelerated



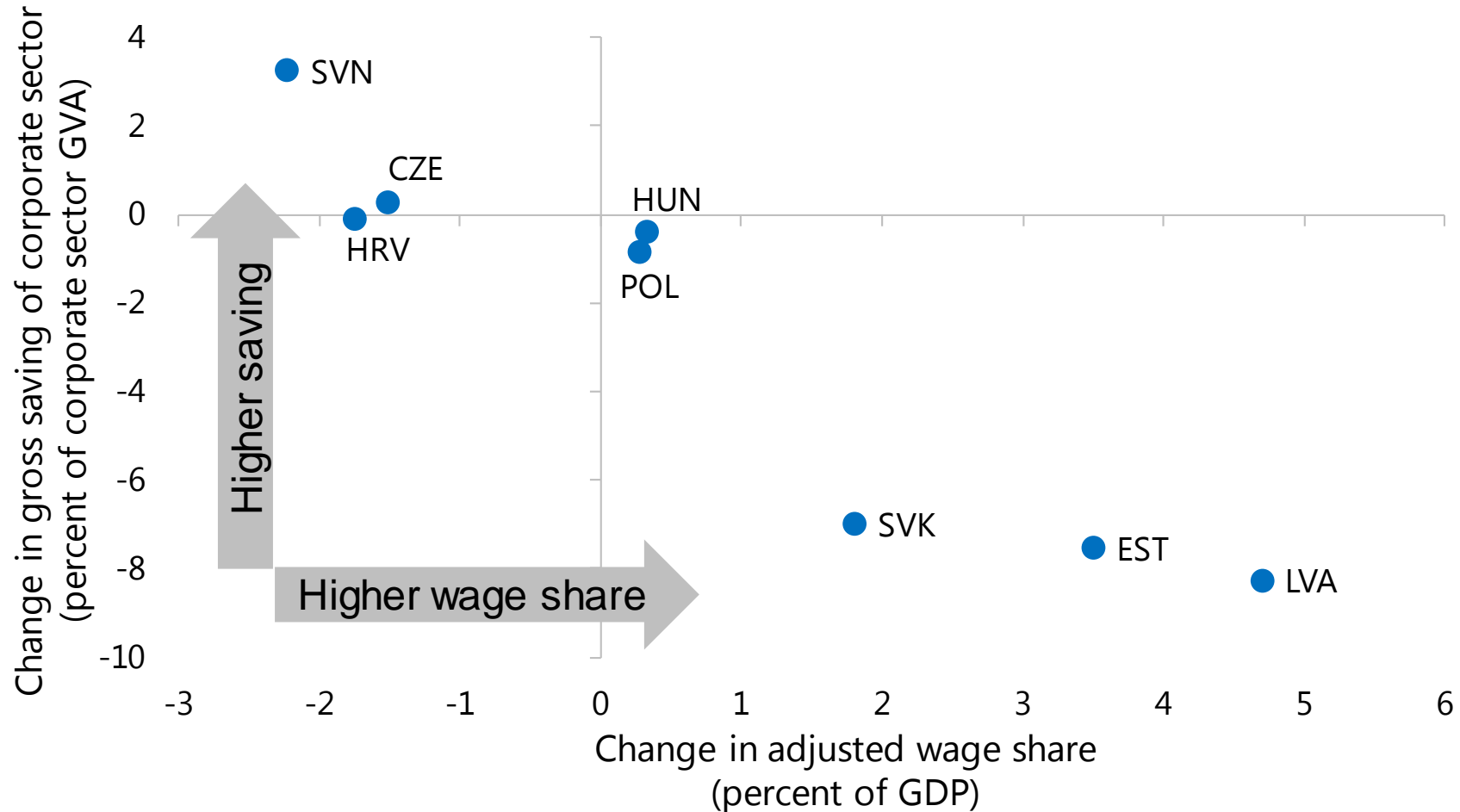
Real wage growth  
(y/y, percent)



# Which has increased wage shares and reduced corporate profits and saving



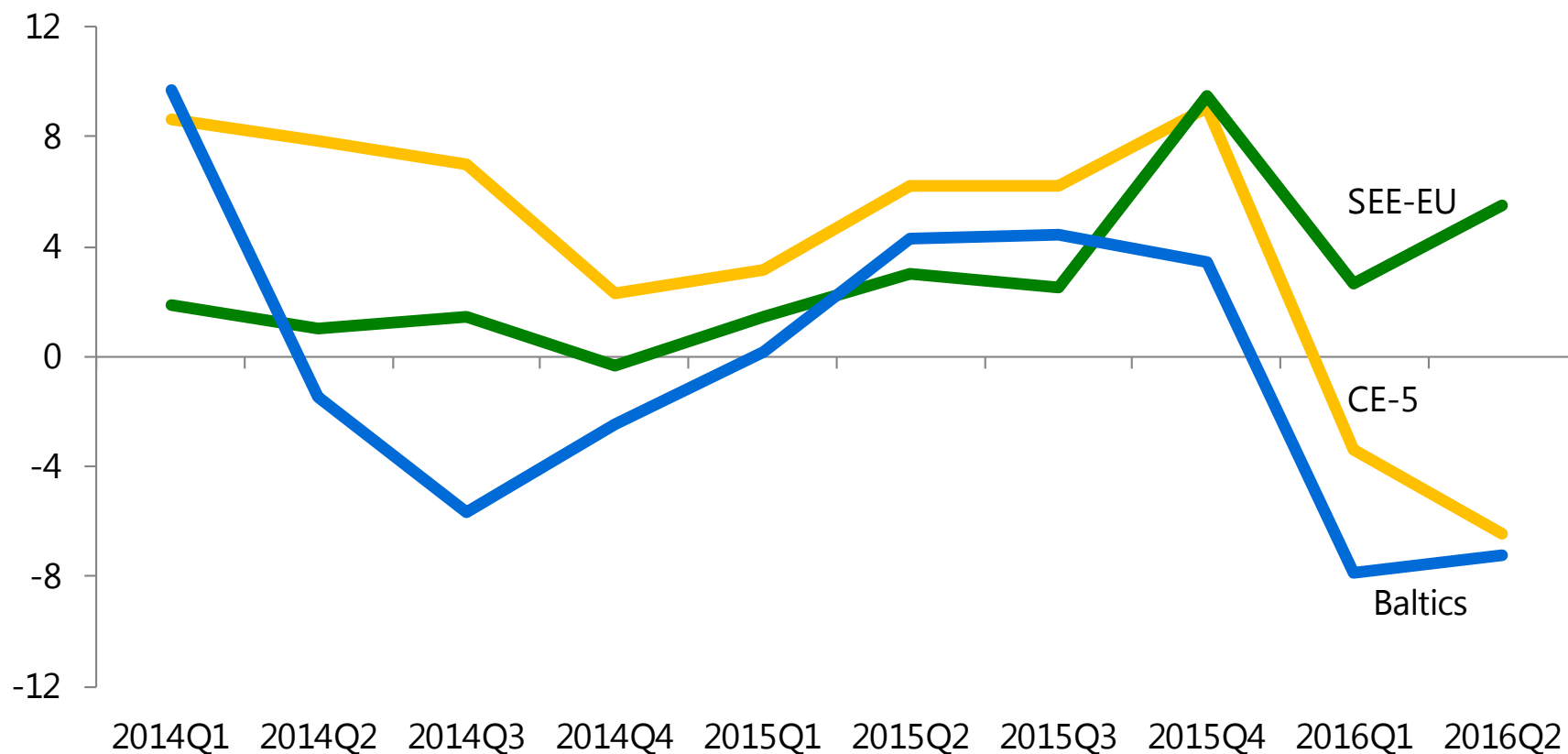
Change in wage share of income and corporate saving, 2014-16



# Investment has weakened in 2016...



Annual growth of gross fixed capital formation (percent)

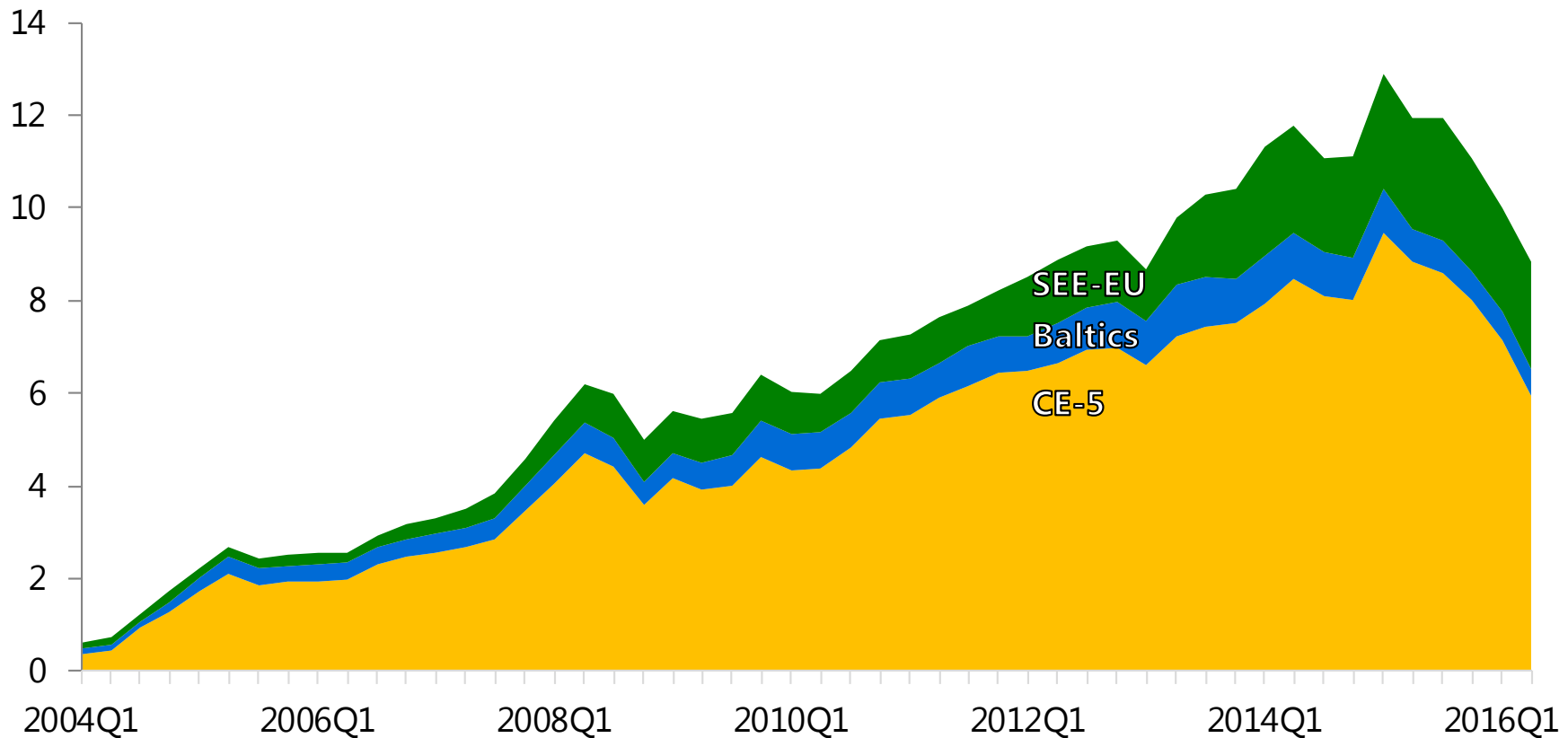


Note: Simple average of annual growth of GFCF in given countries.

...but this is partly a temporary problem, linked to timing of EU funds



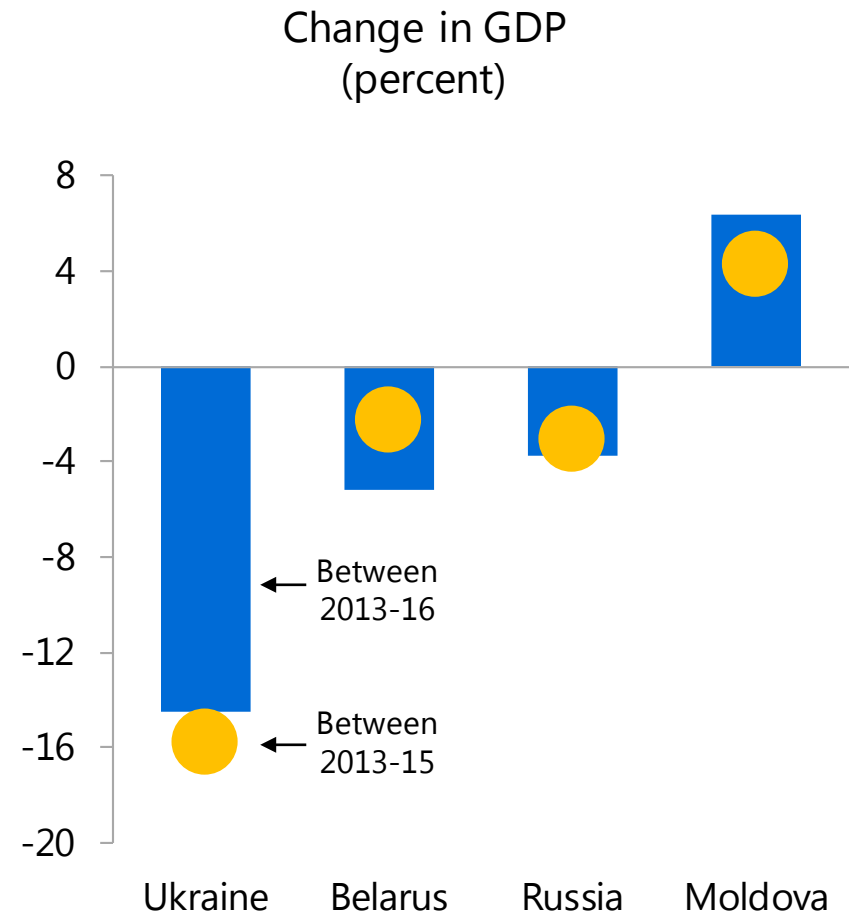
Flows from European Commission  
(bIn EUR, 4Q moving average)



# CIS suffered from recession in 2014/15



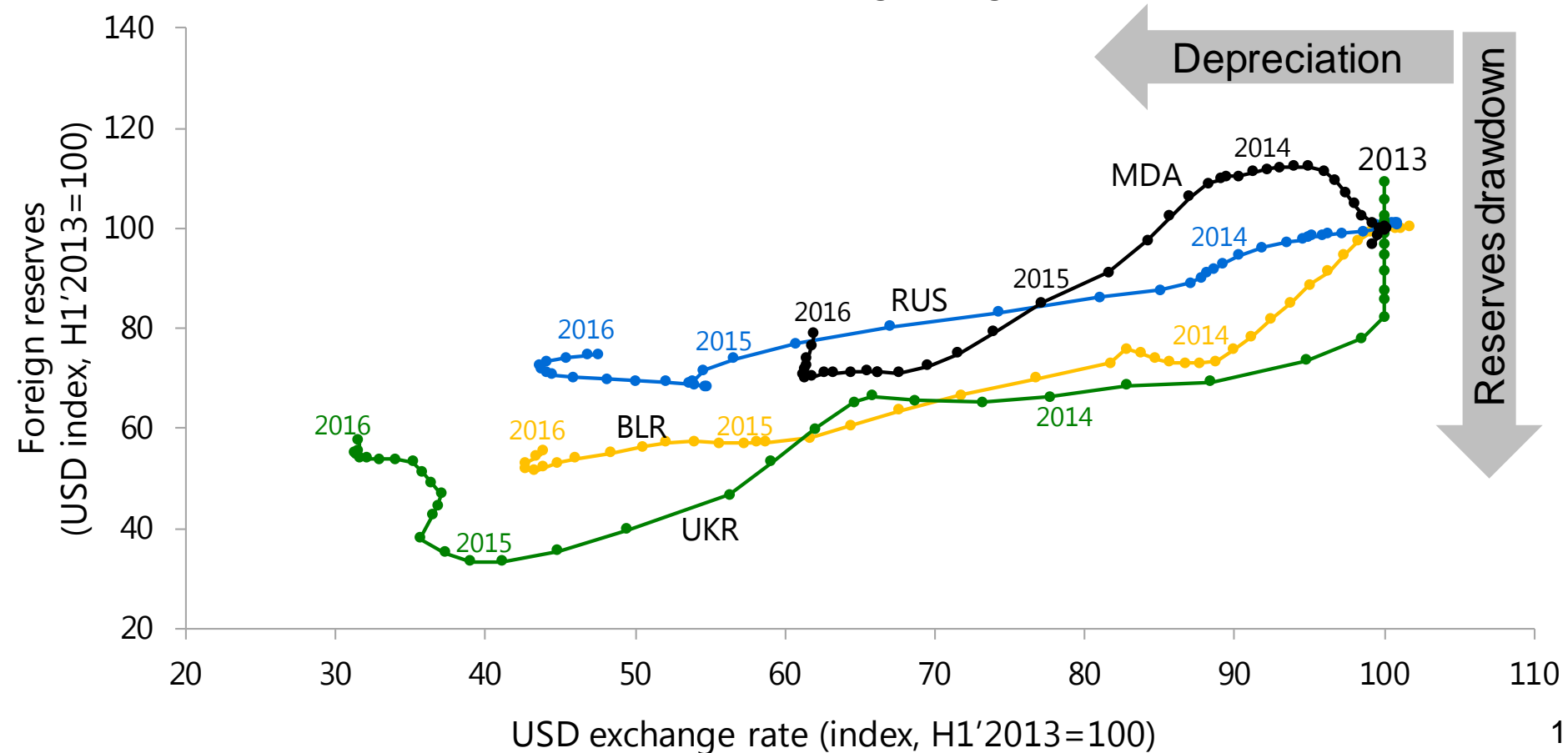
- Collapse of commodity prices
- Sudden stop in capital flows to Russia, result of sanctions on Russia
- Conflict in Ukraine
- Spillovers from Russia to other CIS countries



# Exchange rate flexibility helped absorb much of the shock...



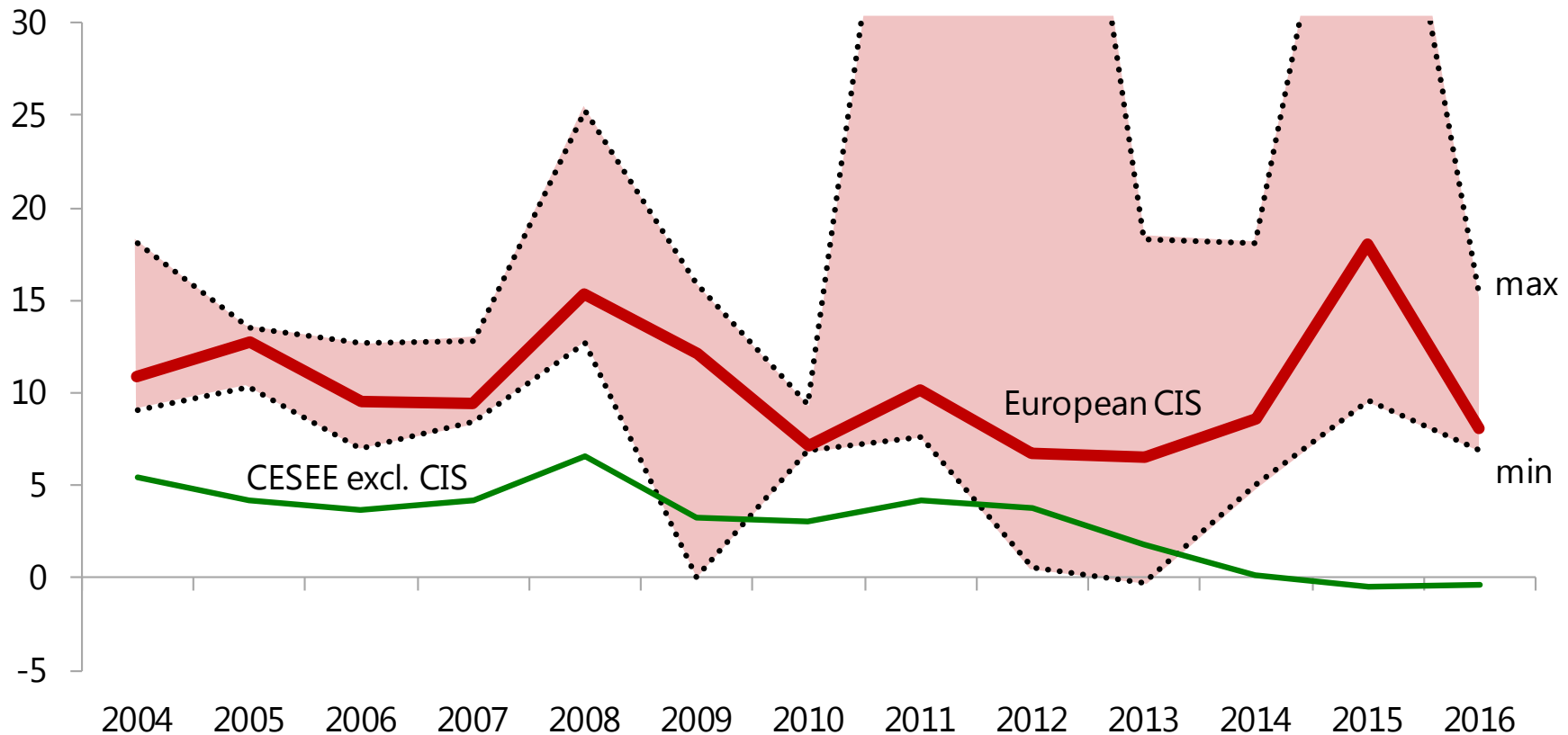
Foreign reserves and XR depreciation  
(6-month moving averages)



...although at cost of high inflation.



CPI Inflation  
(percent, weighted averages)

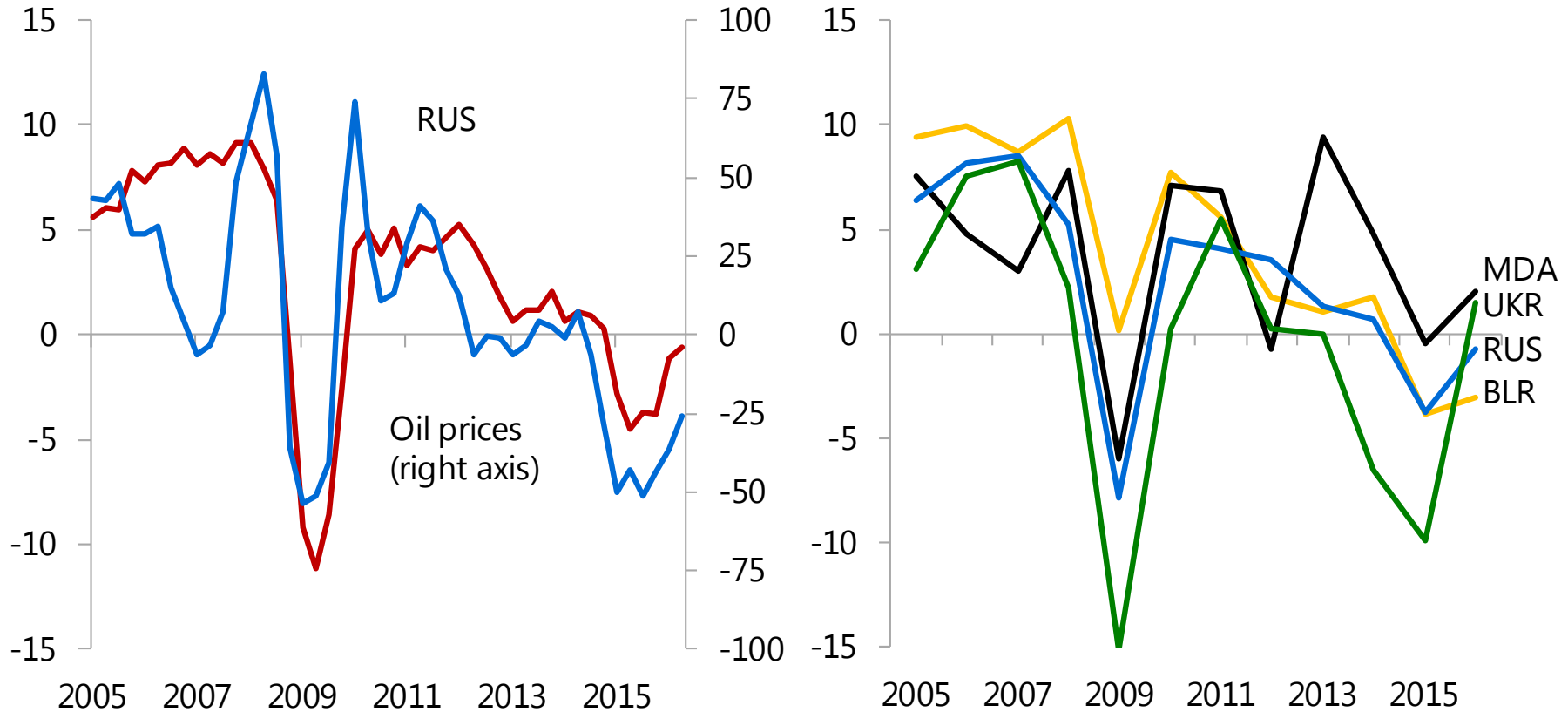




# Russia is recovering, helped by rising oil prices.



Real GDP growth in Russia, other CIS countries and changes in oil prices (percent y/y)



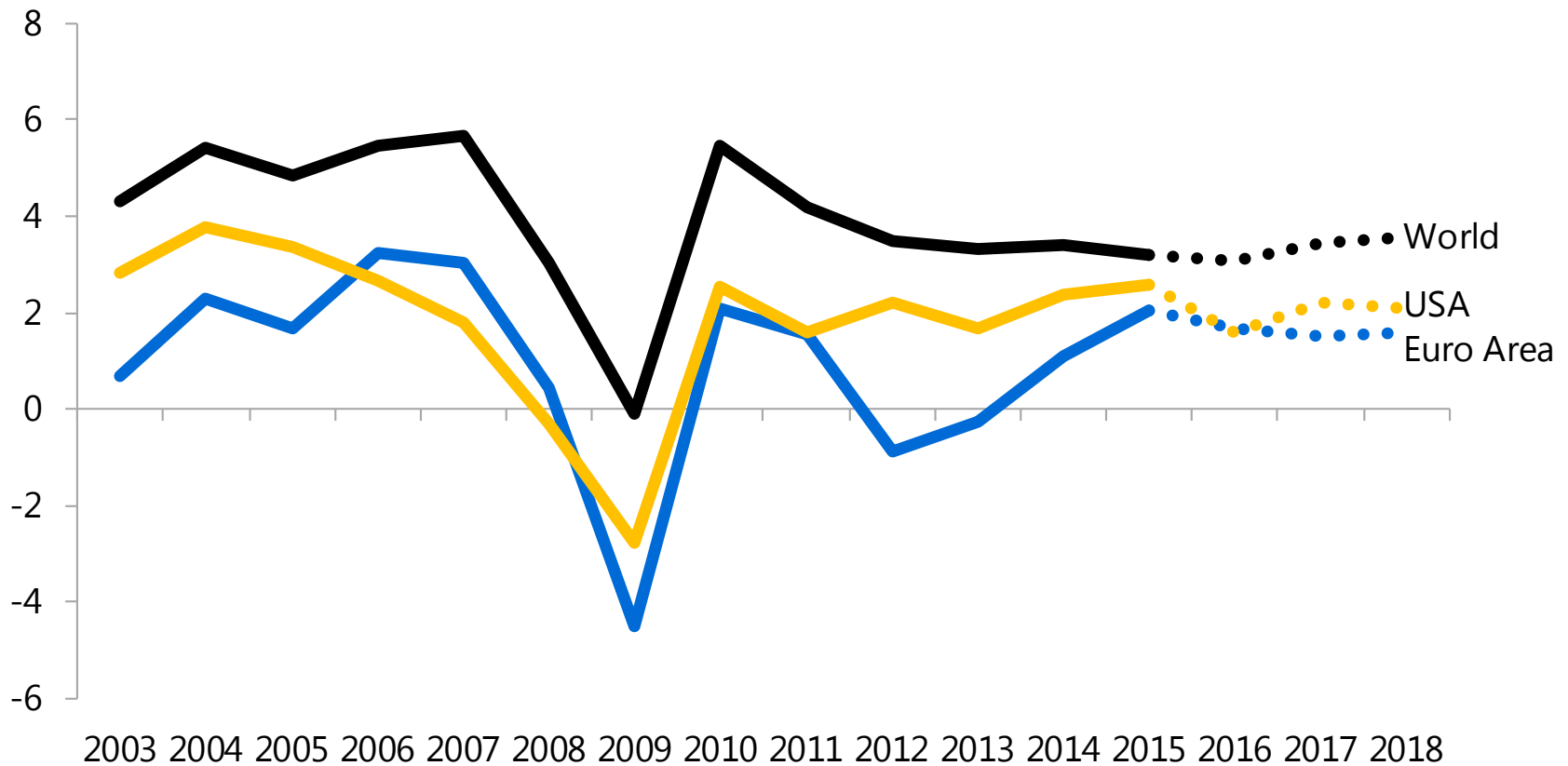


# Forecasts for 2017

# Global growth for 2017 continues to be modest



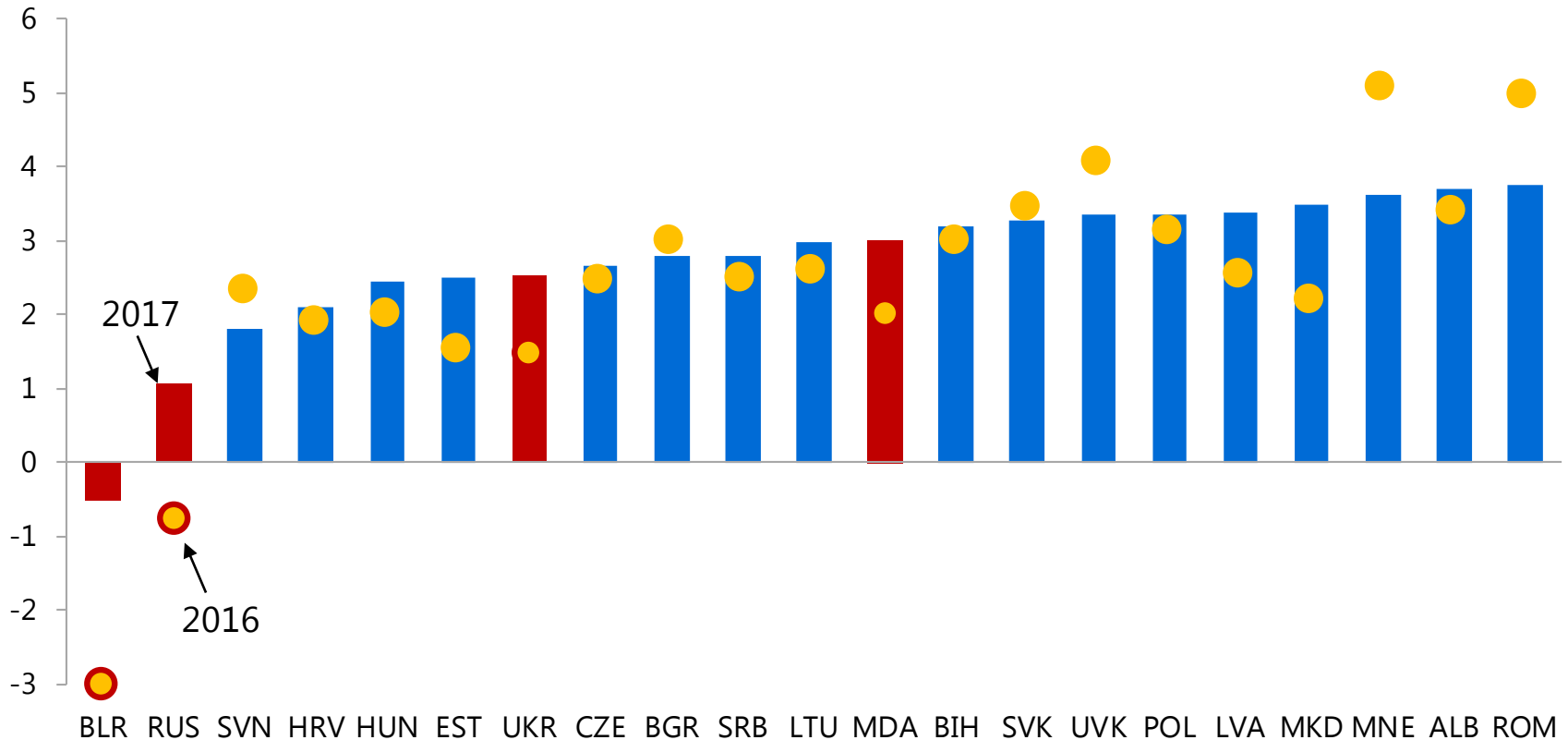
GDP growth according to WEO Oct-16  
(percent)



# Country forecasts: Non-CIS similar as 2016; pick-up in CIS; Belarus still in recession



GDP growth (percent)



Note: CIS countries in red.

# Downside risks continue to dominate the outlook



- Tighter and more volatile financial conditions
- Structurally weak growth in the euro area
- Slowdown in China or failure of recovery in major EMs
- What will be impact of US election?
- Non-economic shocks:
  - Political fragmentation
  - Refugee crisis
  - Terrorism

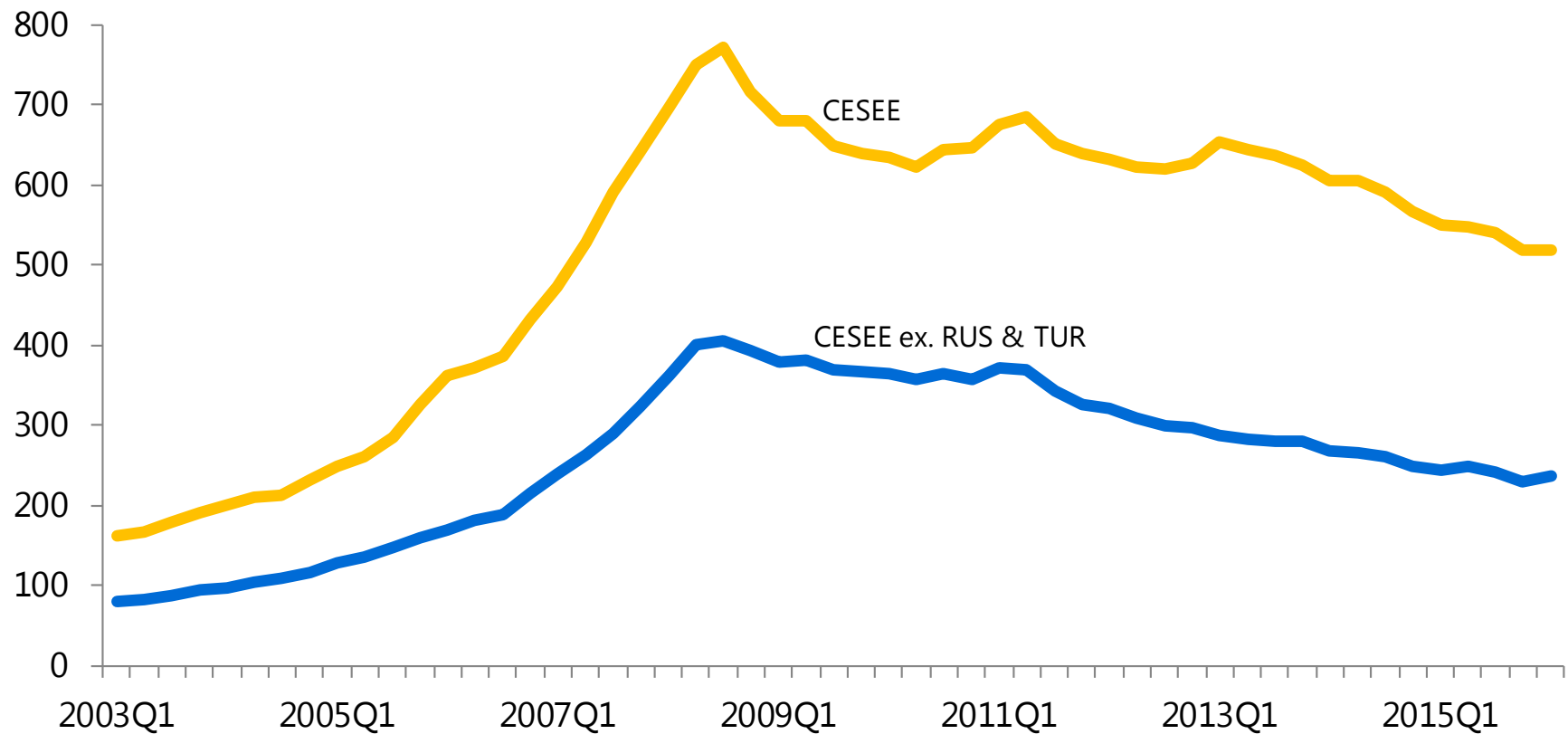


# Crisis legacies in the banking sector

# Post-crisis, there has been withdrawal of Western Bank funding from CESEE



Bank's external claims on all sectors  
(billions of USD, exchange rate adjusted)

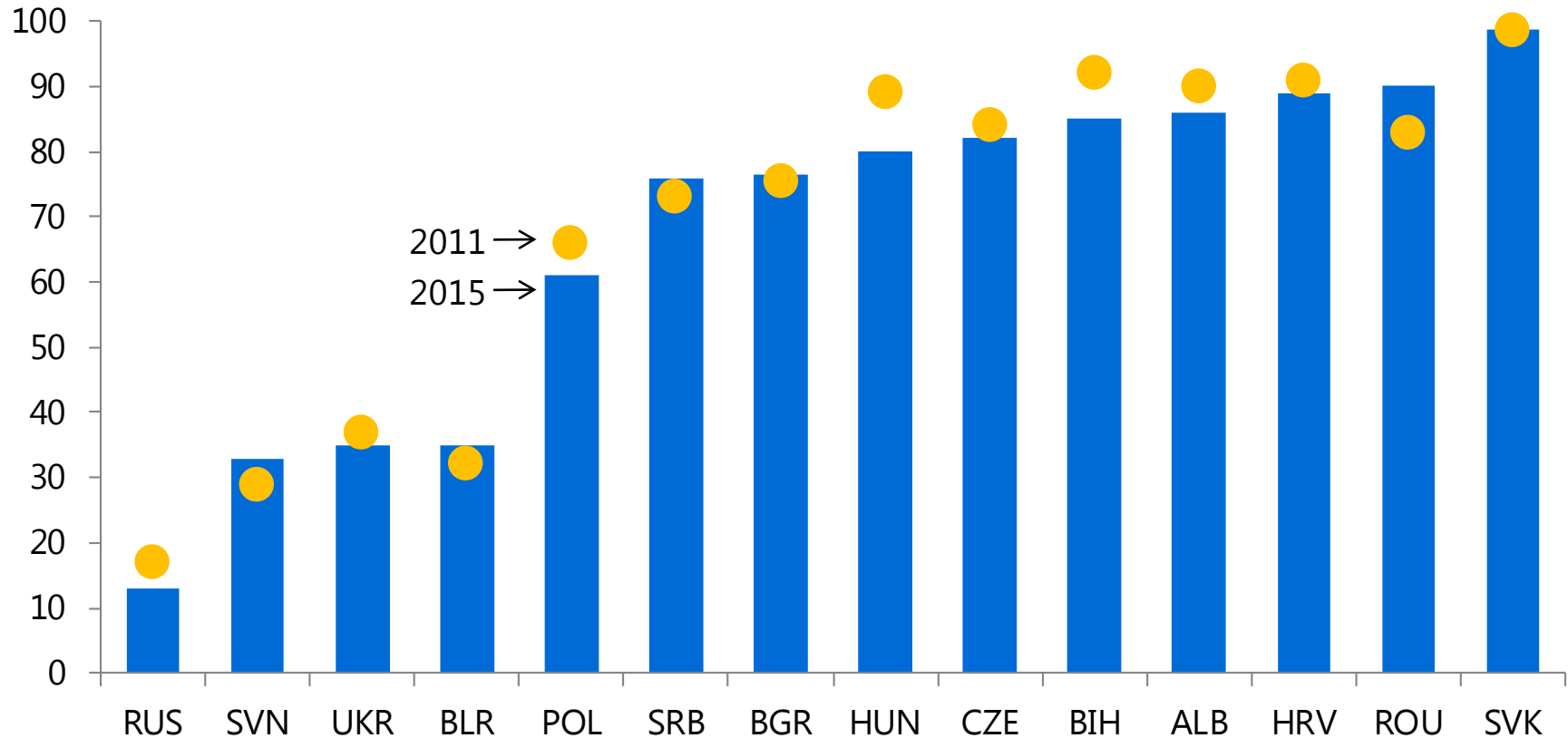


Note: for MNE and BGR data for 2012 and 2015.

# There has also been selected withdrawal of ownership



Market share of foreign-owned banks, 2015  
(Percent of total assets)



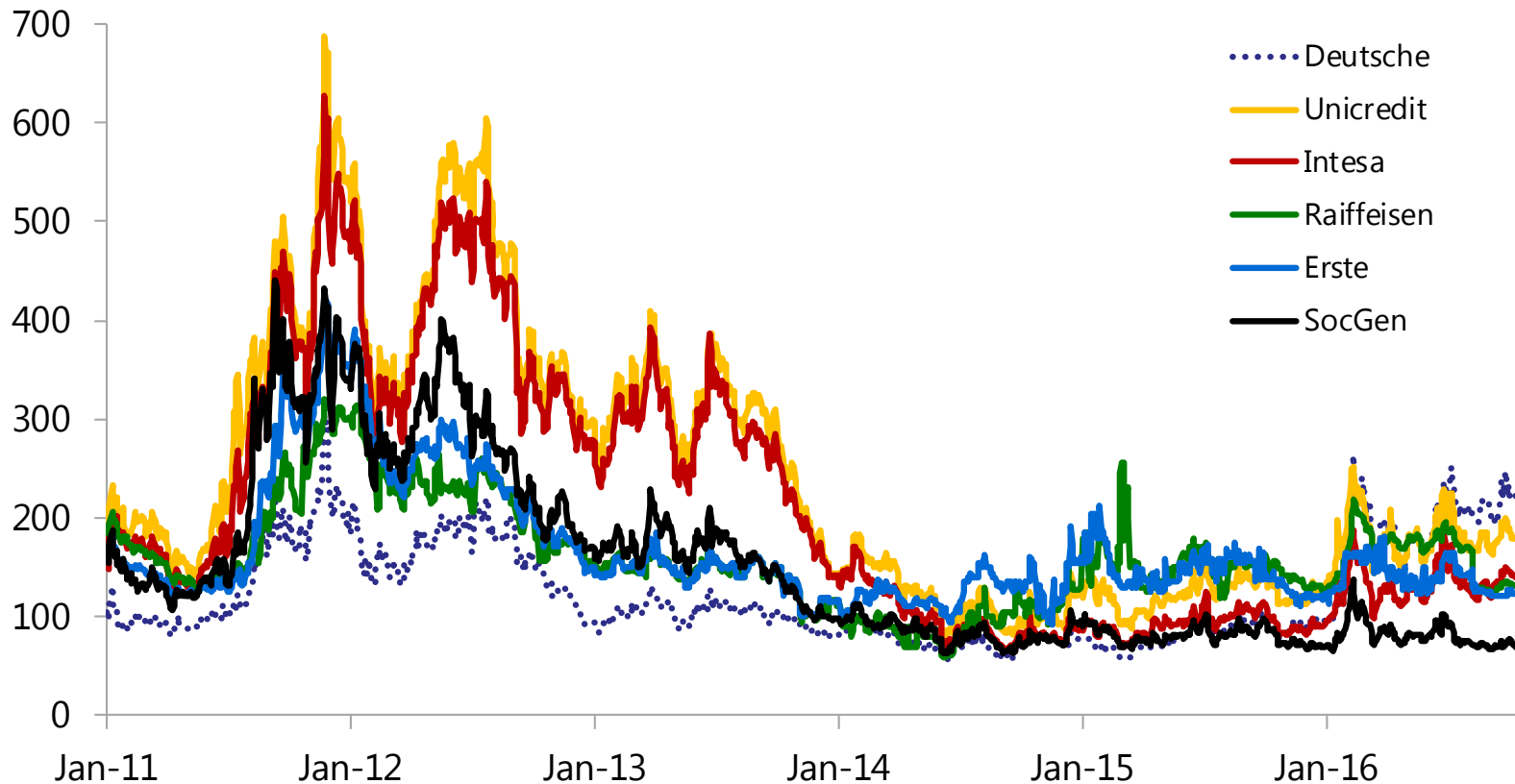
Note: for BLR data for 2011 and 2014



# Renewed pressure on some parent banks may lead to further sales



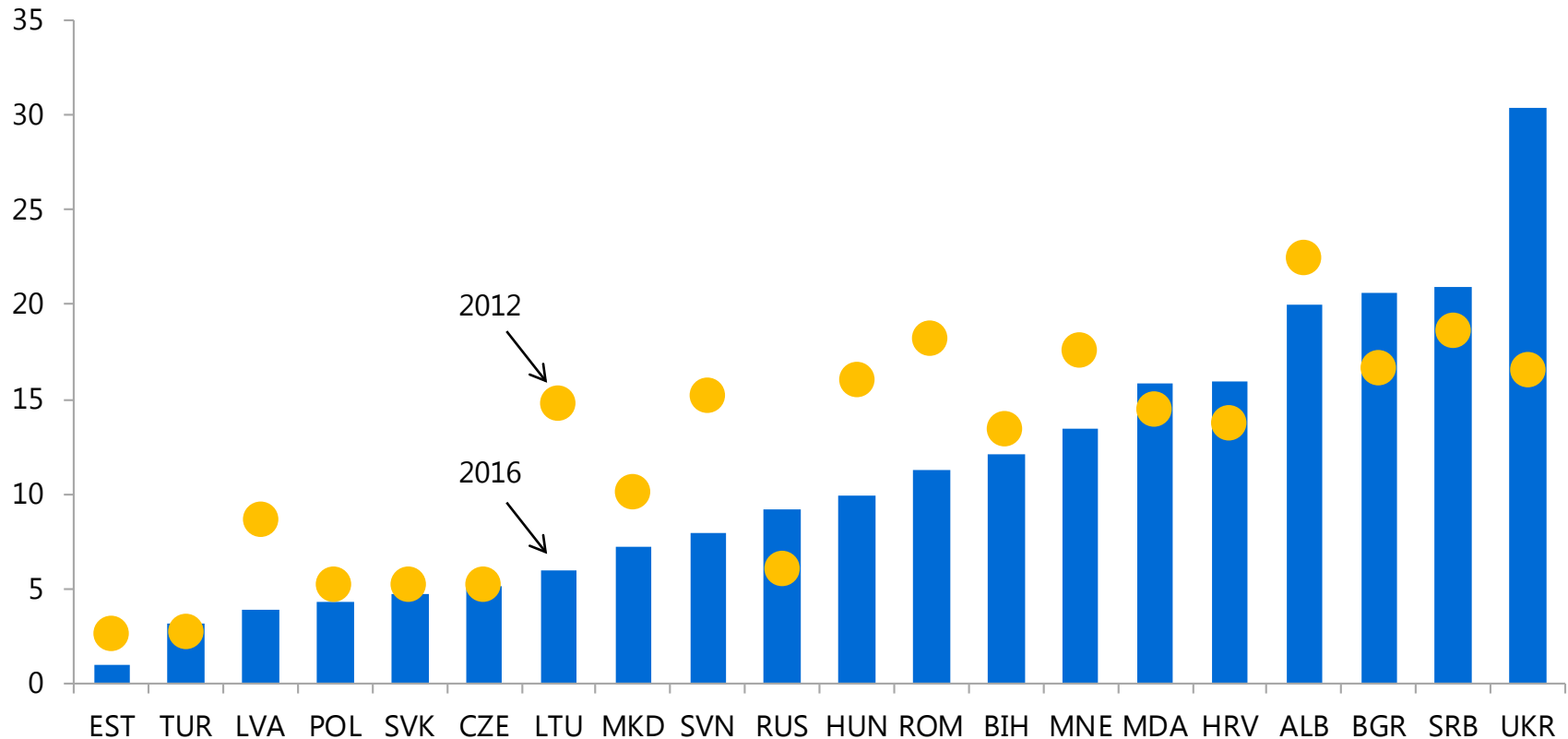
5Y CDS  
(basis points)



# NPLs have come down (although they are still high in SEE and Ukraine)...



Non-performing loans to total loans, 2016  
(Percent)

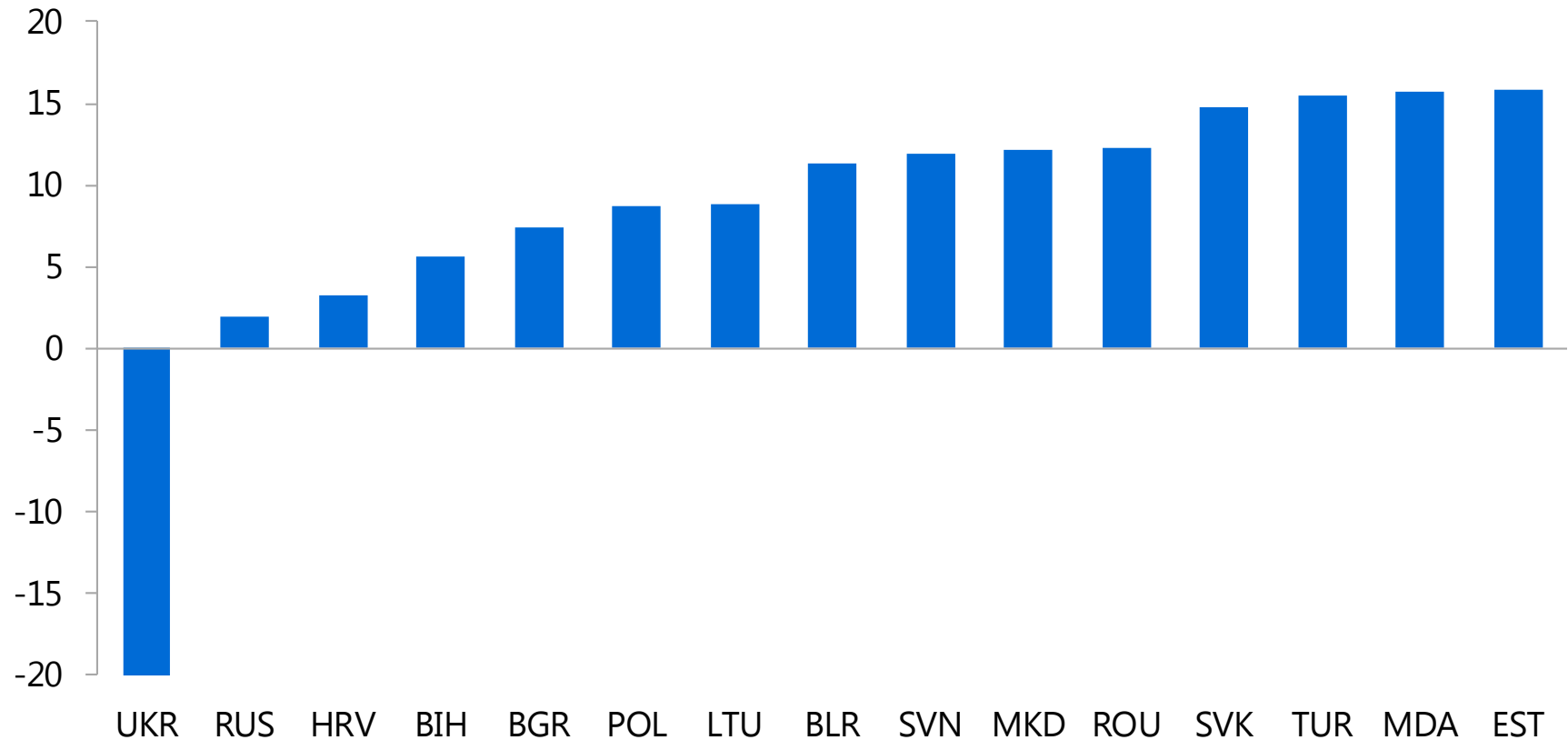


Note: for MNE and BGR data for 2012 and 2015.

# Large differences in return on equity.



Bank Return on Equity, 2016Q2  
(percent)



Note: for BLR, HRV, BLR, TUR, MDA: data for 2016Q1; for BGR and RUS: data for 2015.

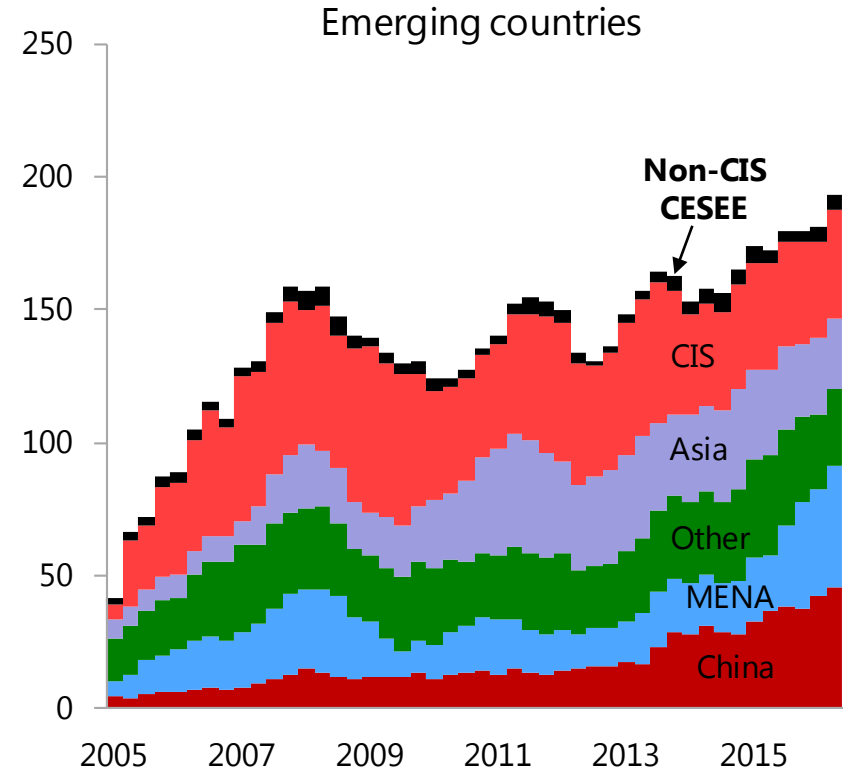
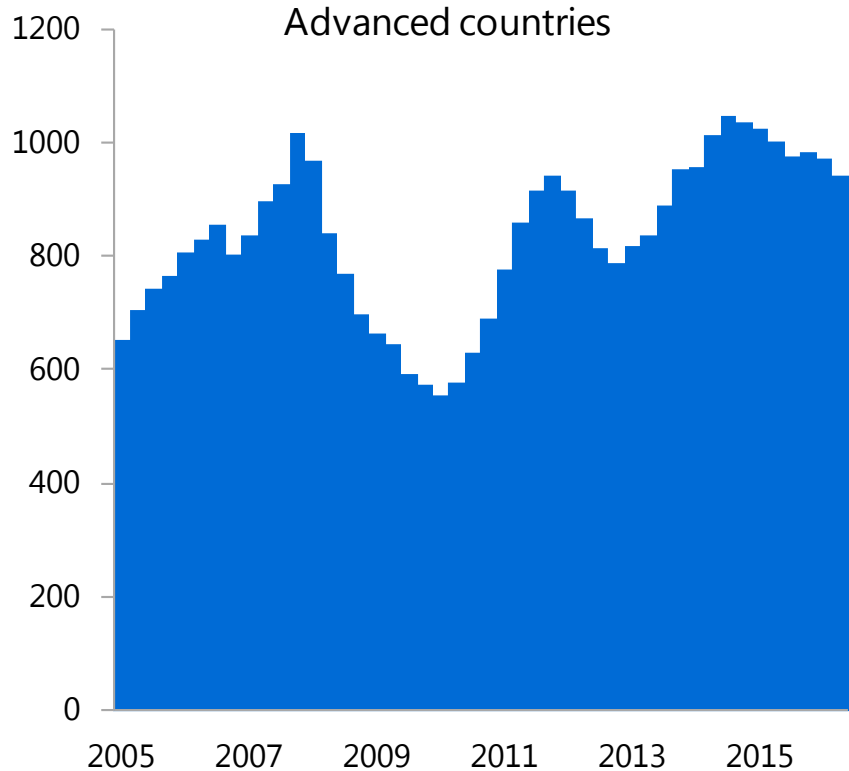


# Syndicated loans

# Syndicated loans issuance is very cyclical.



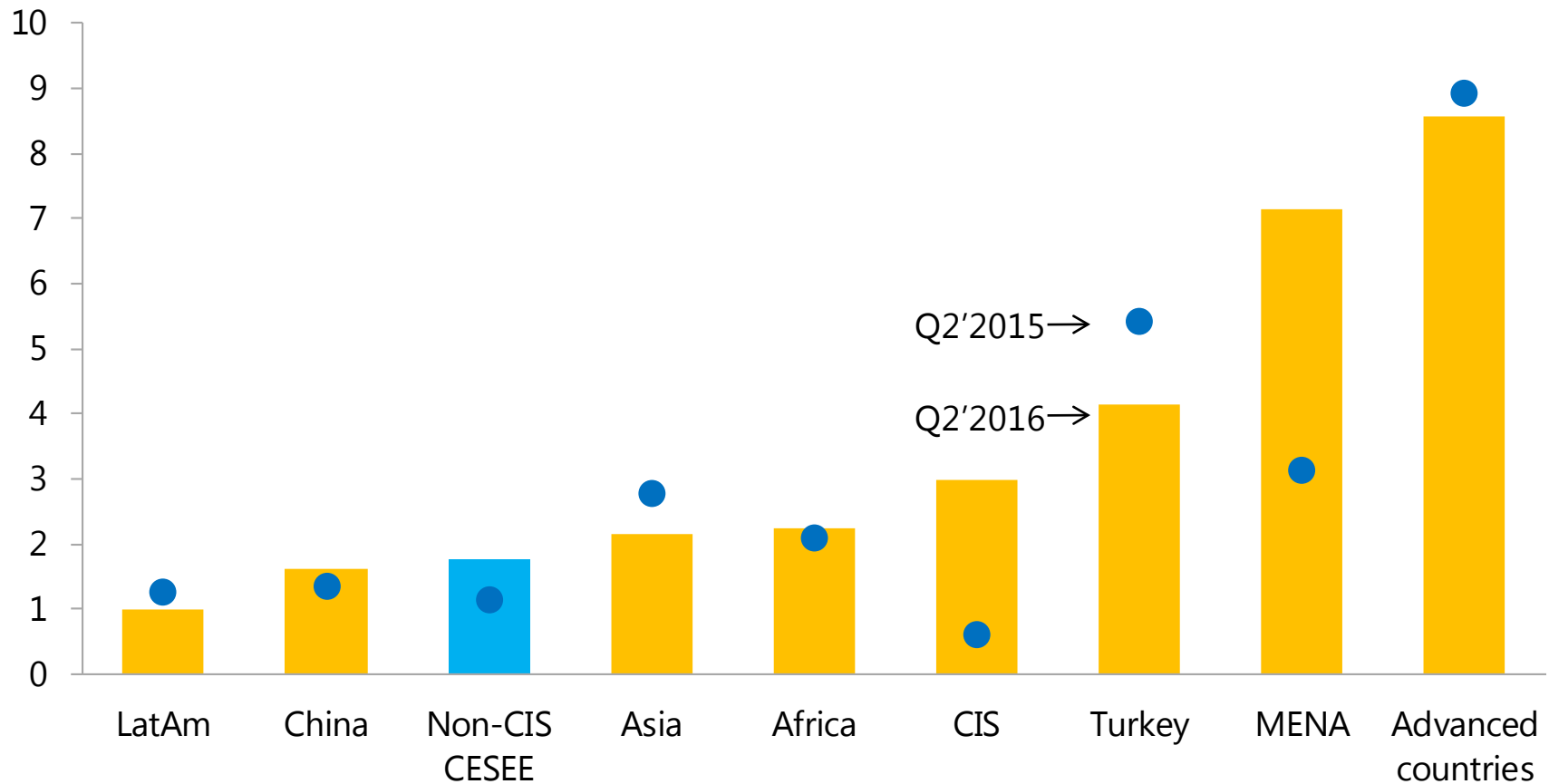
Gross issuance of syndicated loans to private sector  
(USD billion, 4-quarter moving average)



# Syndicated loans segment in CESEE is small relative to other EMCs



Issuance of syndicated loans to private sector  
(Percent of GDP, 4-quarter average)



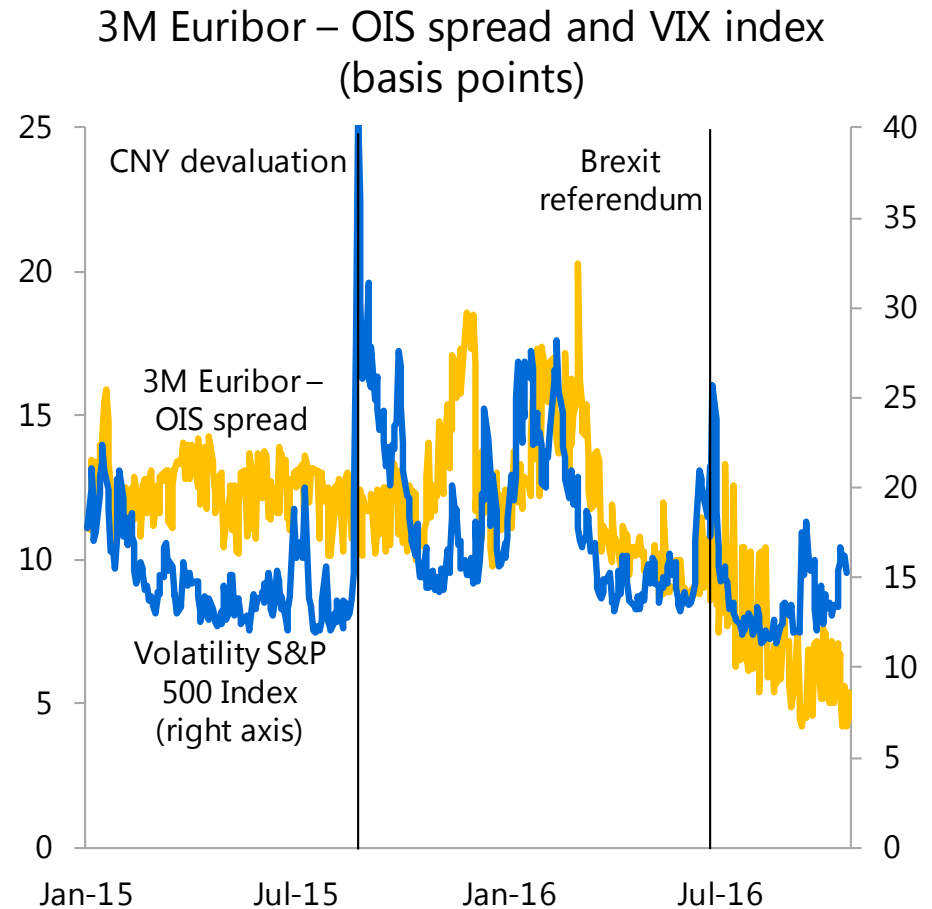


# Challenges

# 1. Brexit and future of EU



- Impact of Brexit has been modest so far
- But large uncertainty remains
- Most important question: what will be impact on future EU?



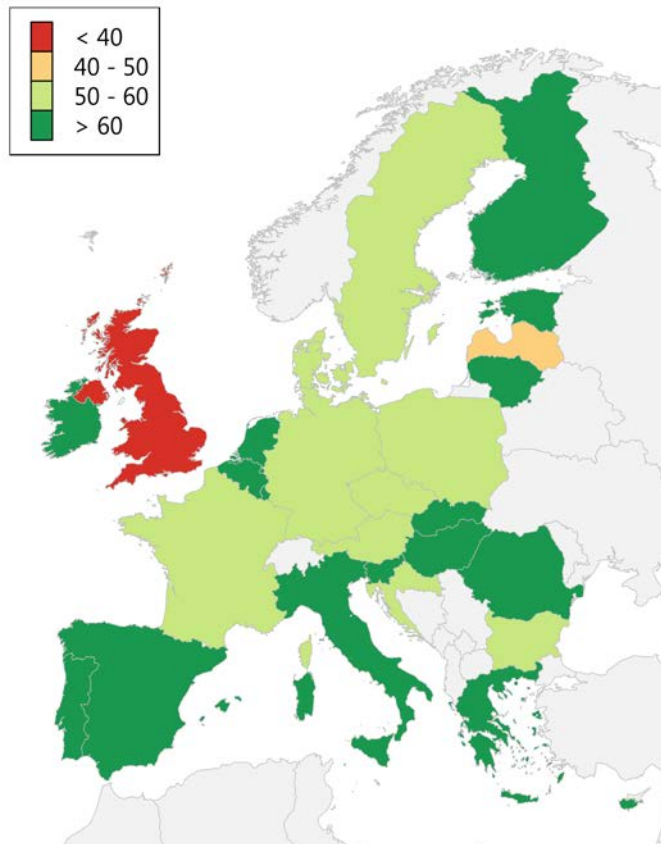


# In the past decade there has been a sharp decline in confidence in the EU

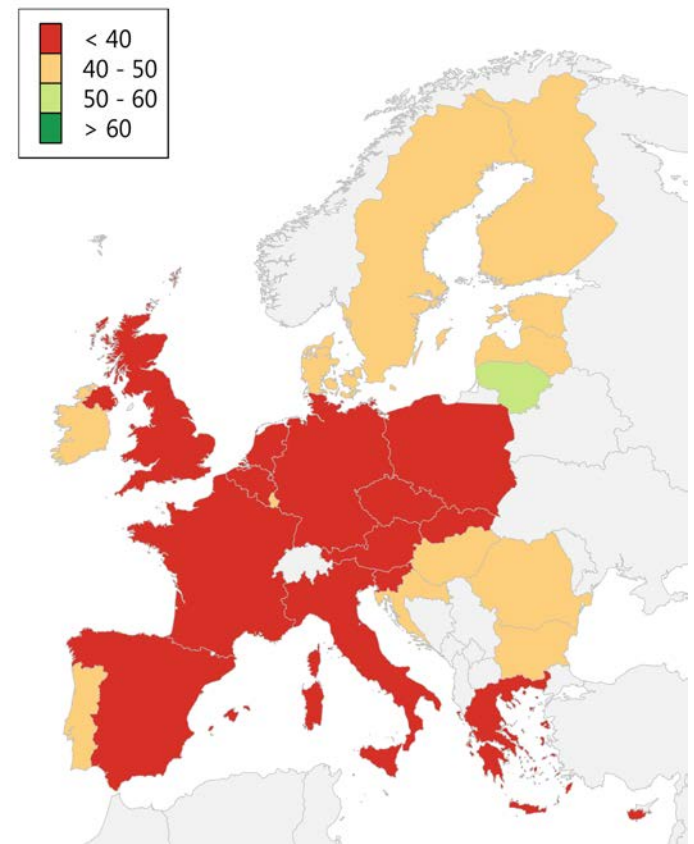


Level of confidence in the European Union  
(percent of population surveyed by Eurobarometer)

In 2004



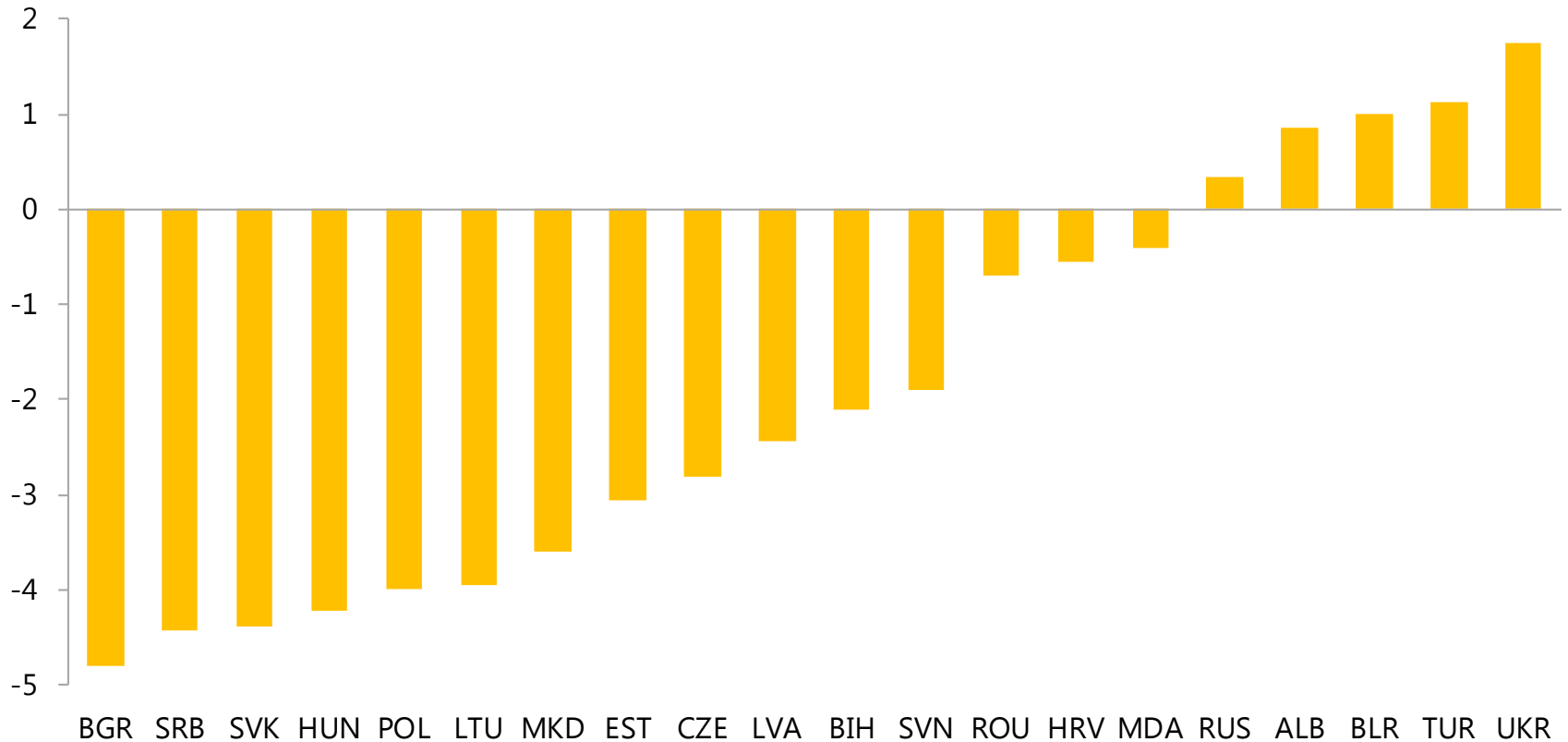
In 2016



## 2. Pro-cyclical fiscal policy: unemployment is declining rapidly



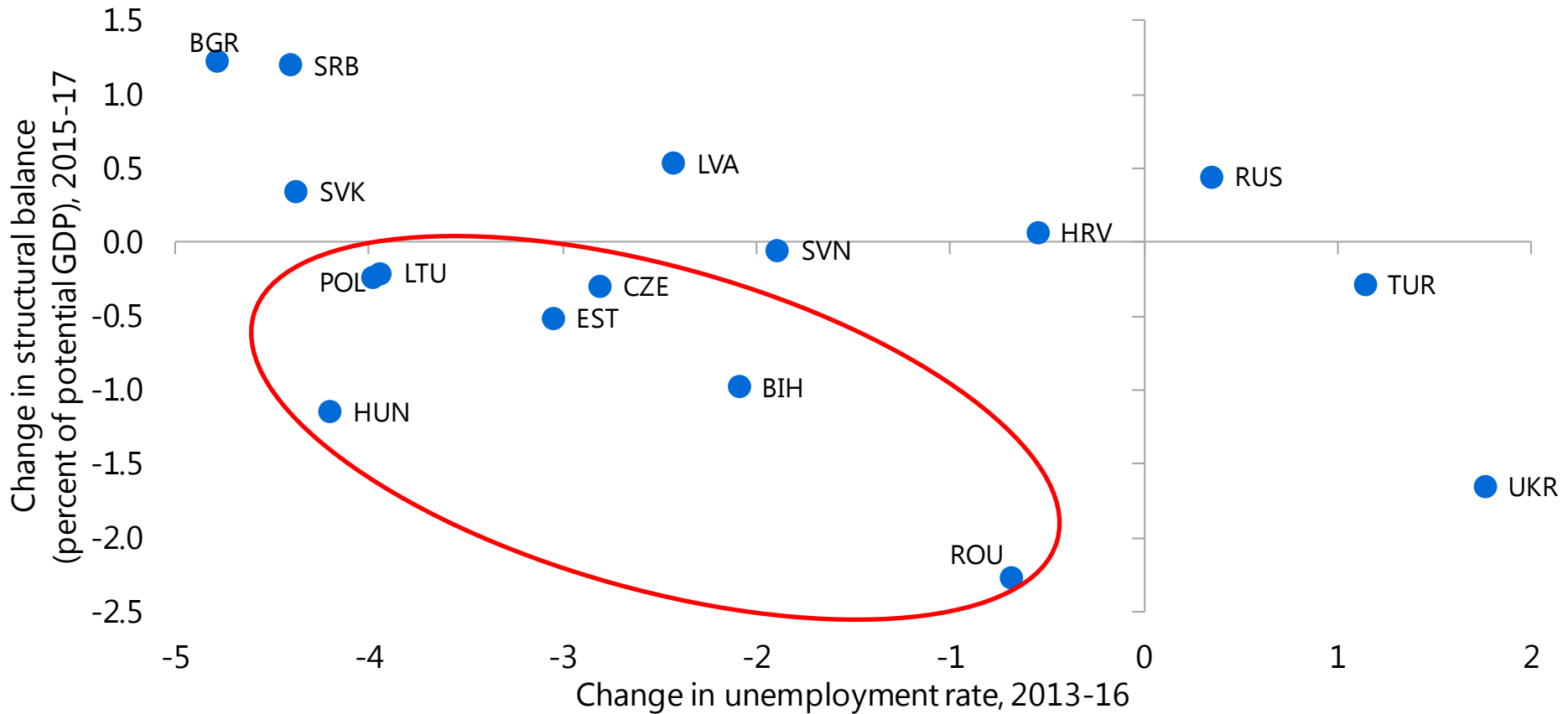
Change in unemployment rate, 2013-2016  
(Percentage points)



# But a number of countries have pro-cyclical loosening



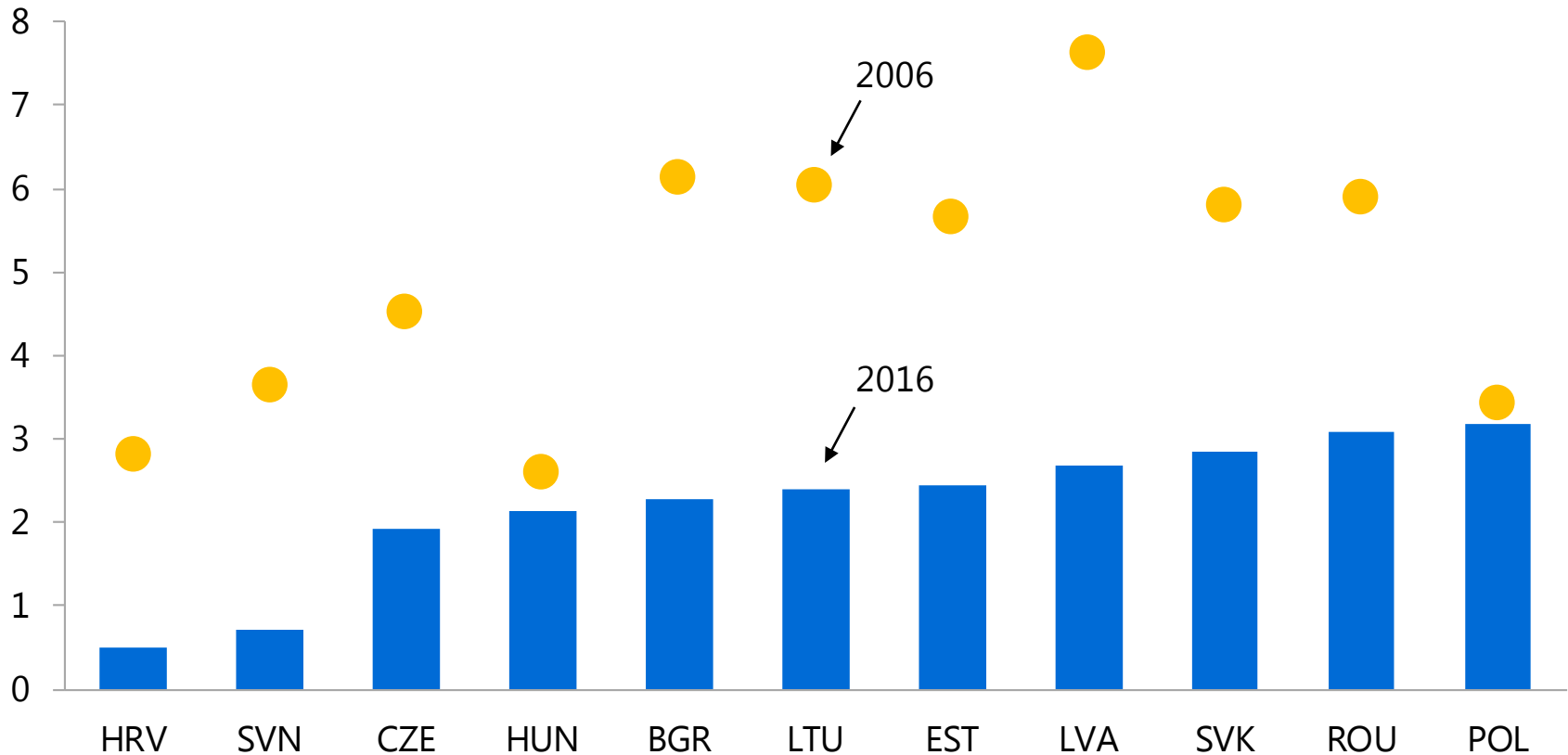
Change in unemployment rate and structural balance  
(percentage points)



### 3. Longer-term challenge: potential output growth has slowed in many countries...



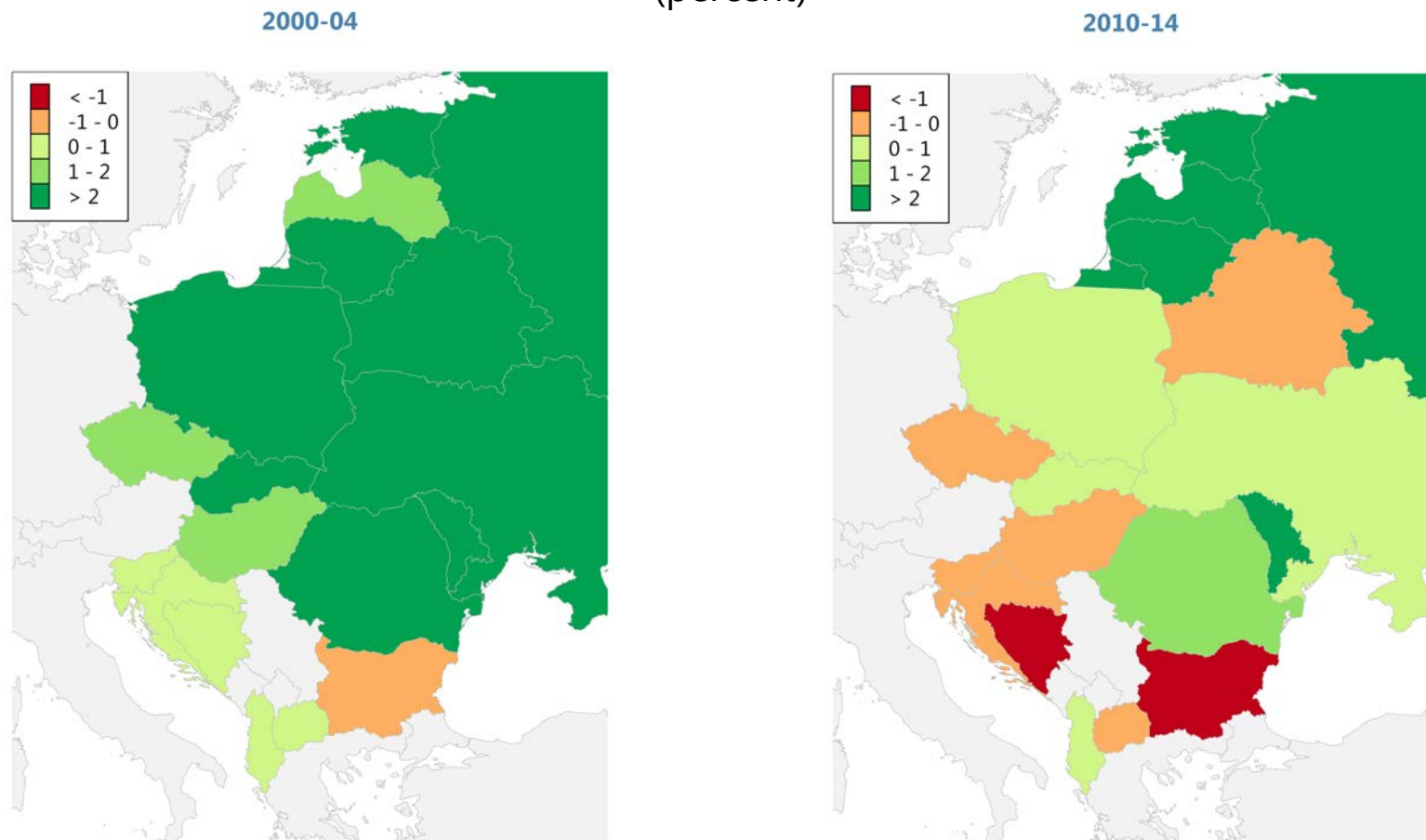
Potential output growth in 2006 and 2016 (percent)



...as productivity growth has decelerated.



Average total factor productivity growth  
(percent)

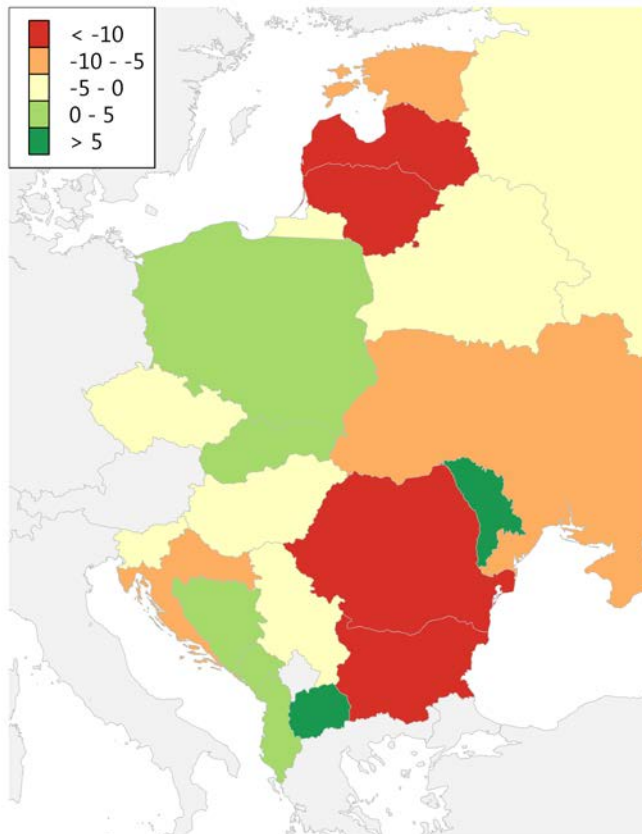


# Aging will provide further headwinds.

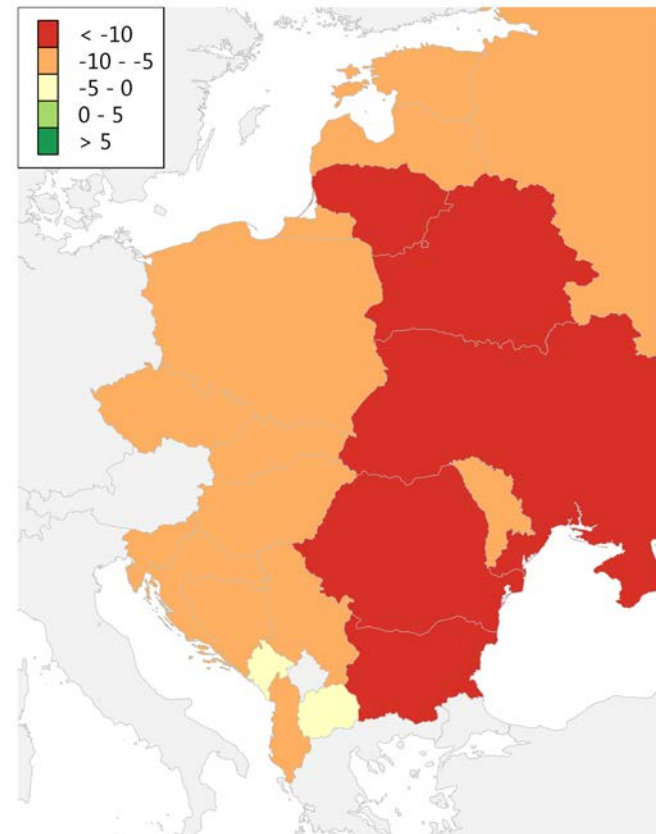


Working age (15-64) population growth  
(percent)

2000-2015



2015-2025





Thank you