

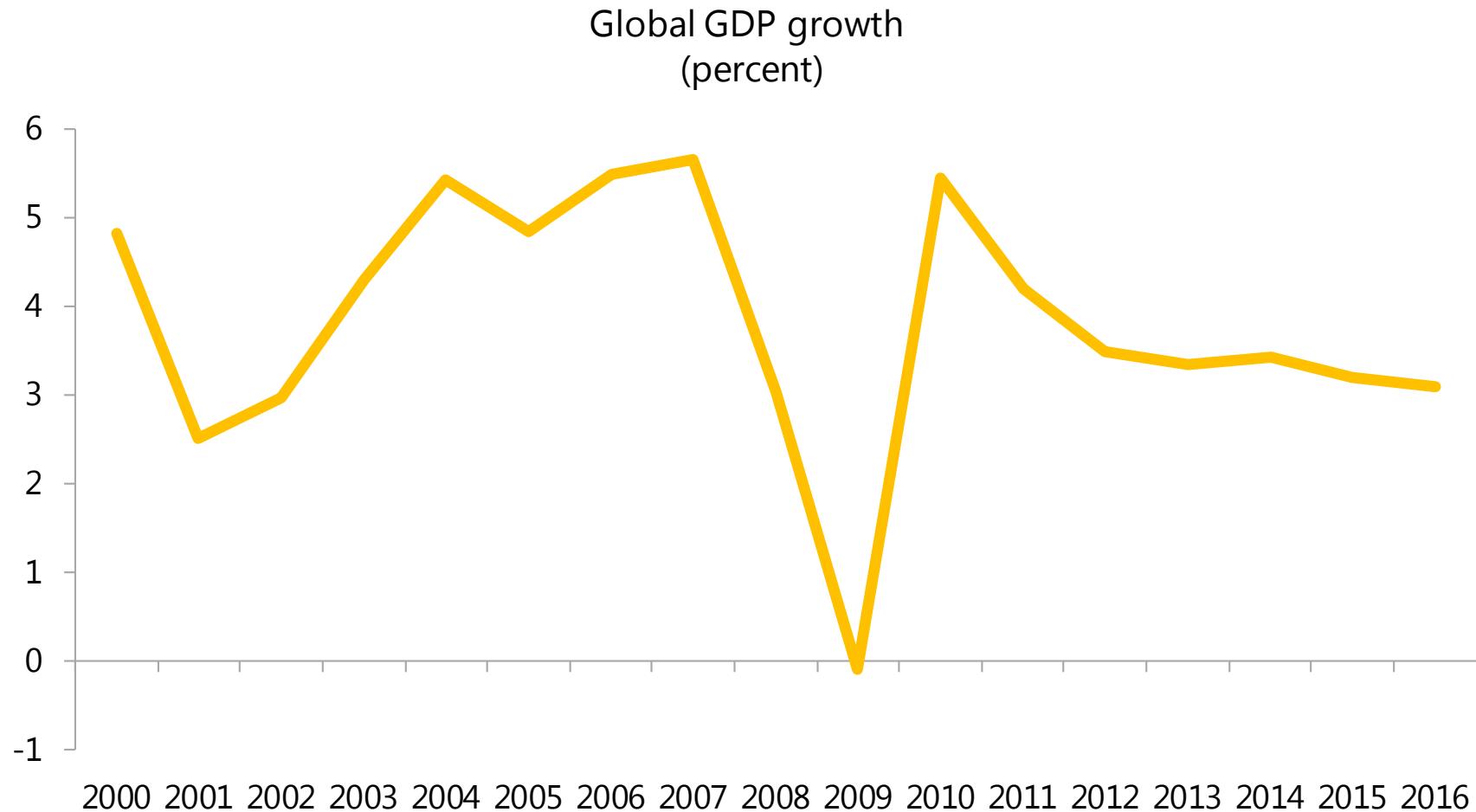
Economic and Financial Issues in CESEE



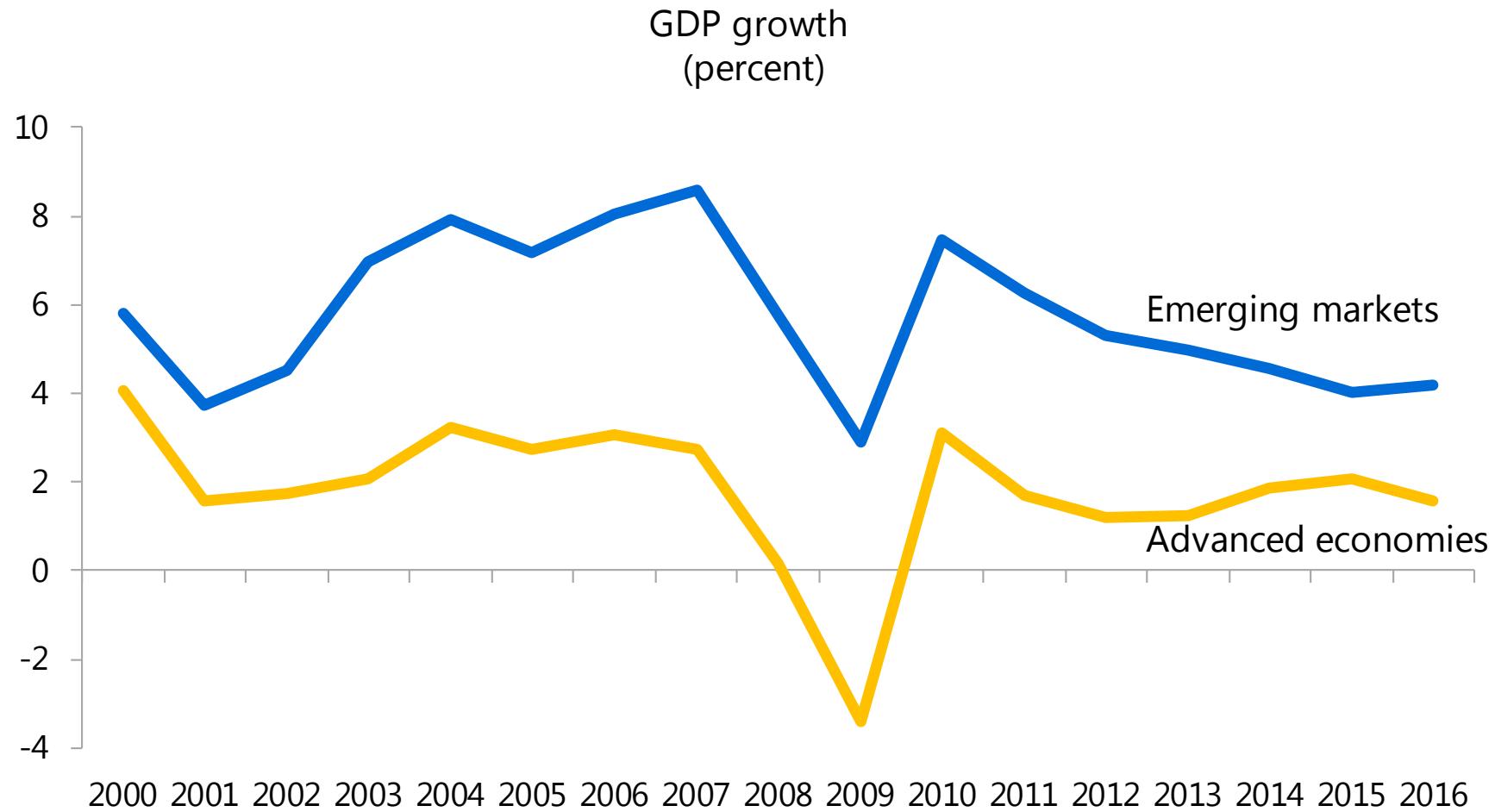
Vienna, November 28, 2016

Bas B. Bakker
Senior Regional Resident Representative
for Central and Eastern Europe

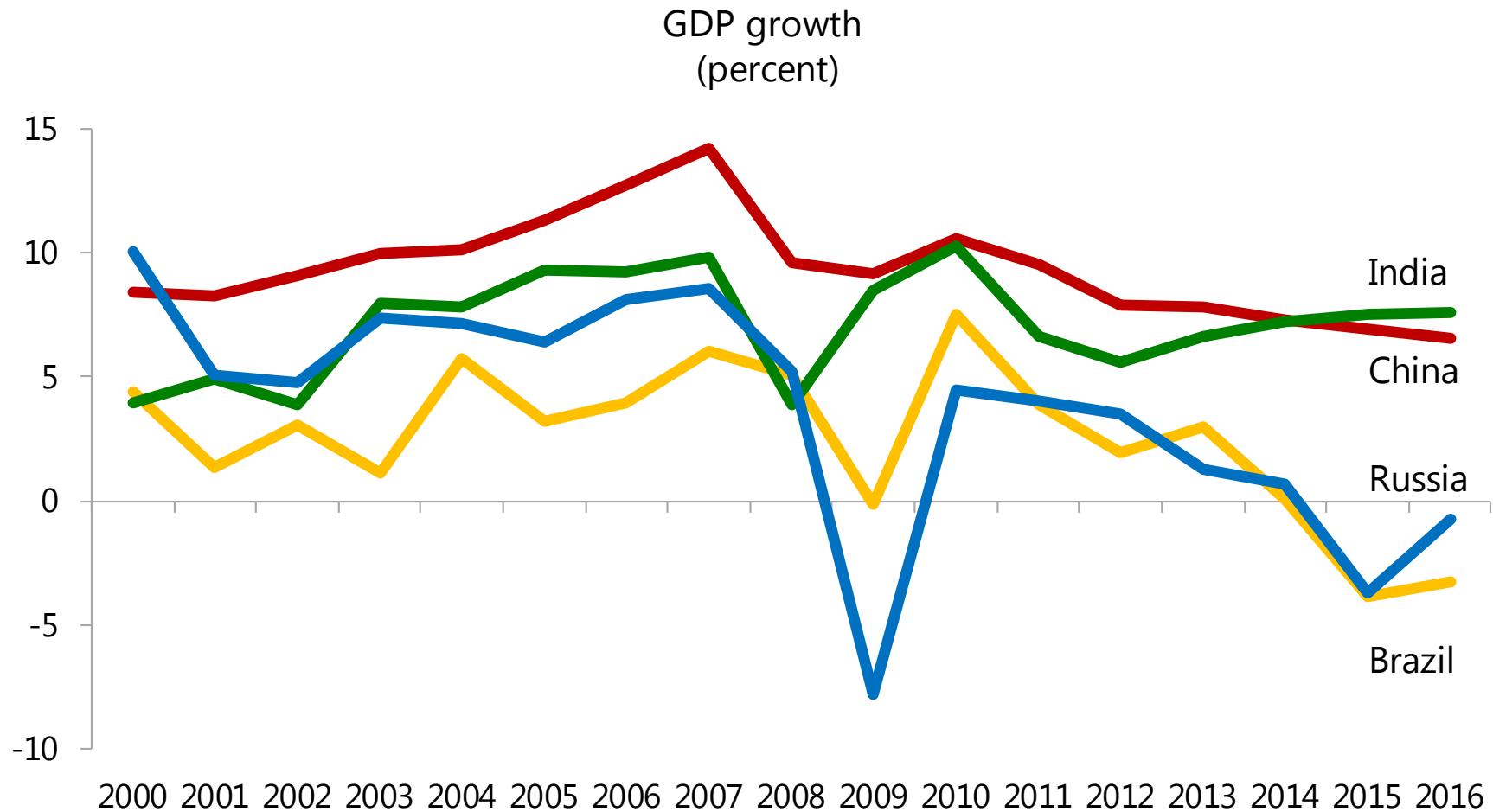
Global growth has hovered around 3½ percent.
In recent years, well below pre-crisis levels.



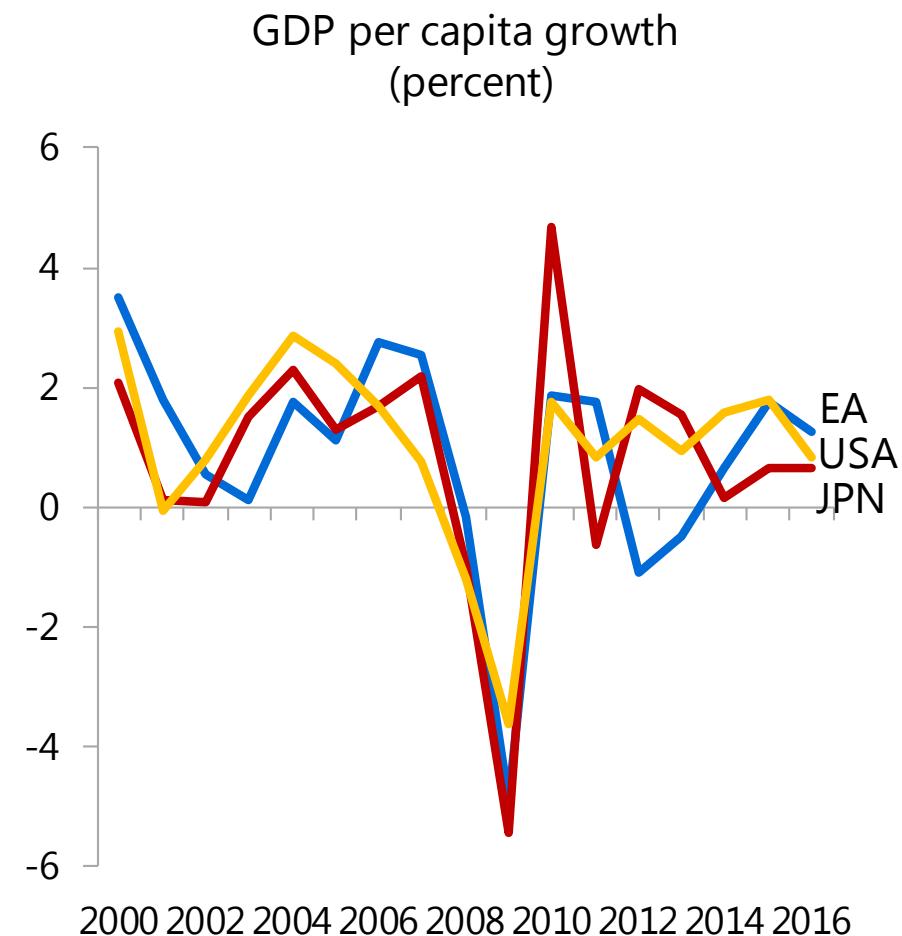
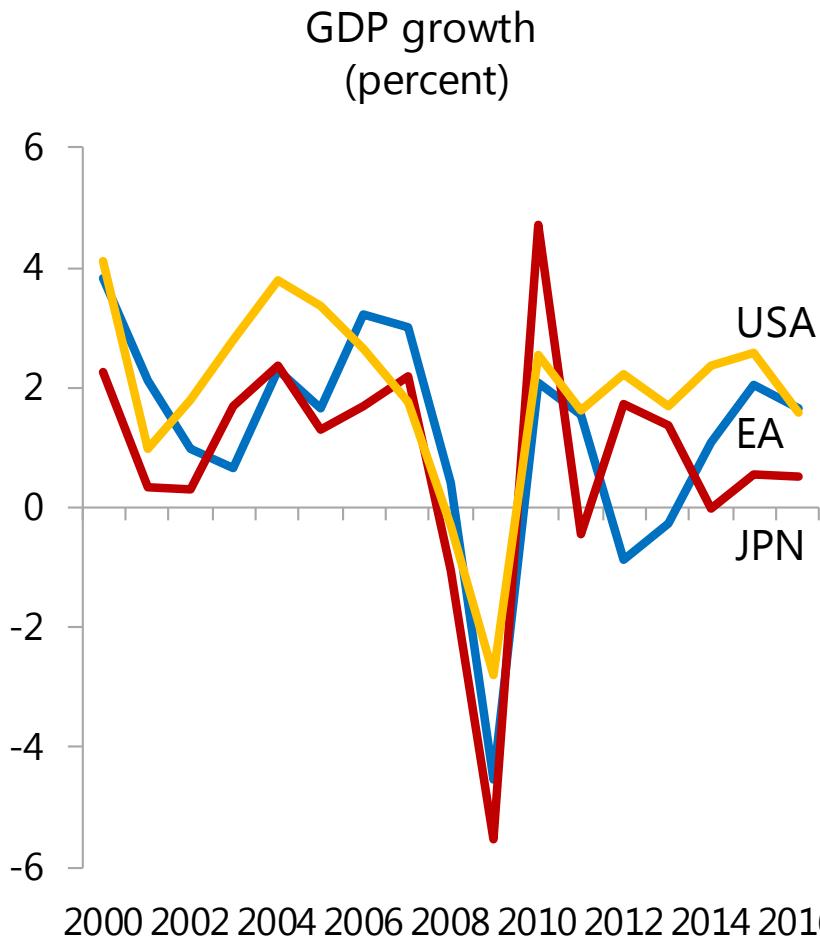
Growth in EMCs has lost steam...



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

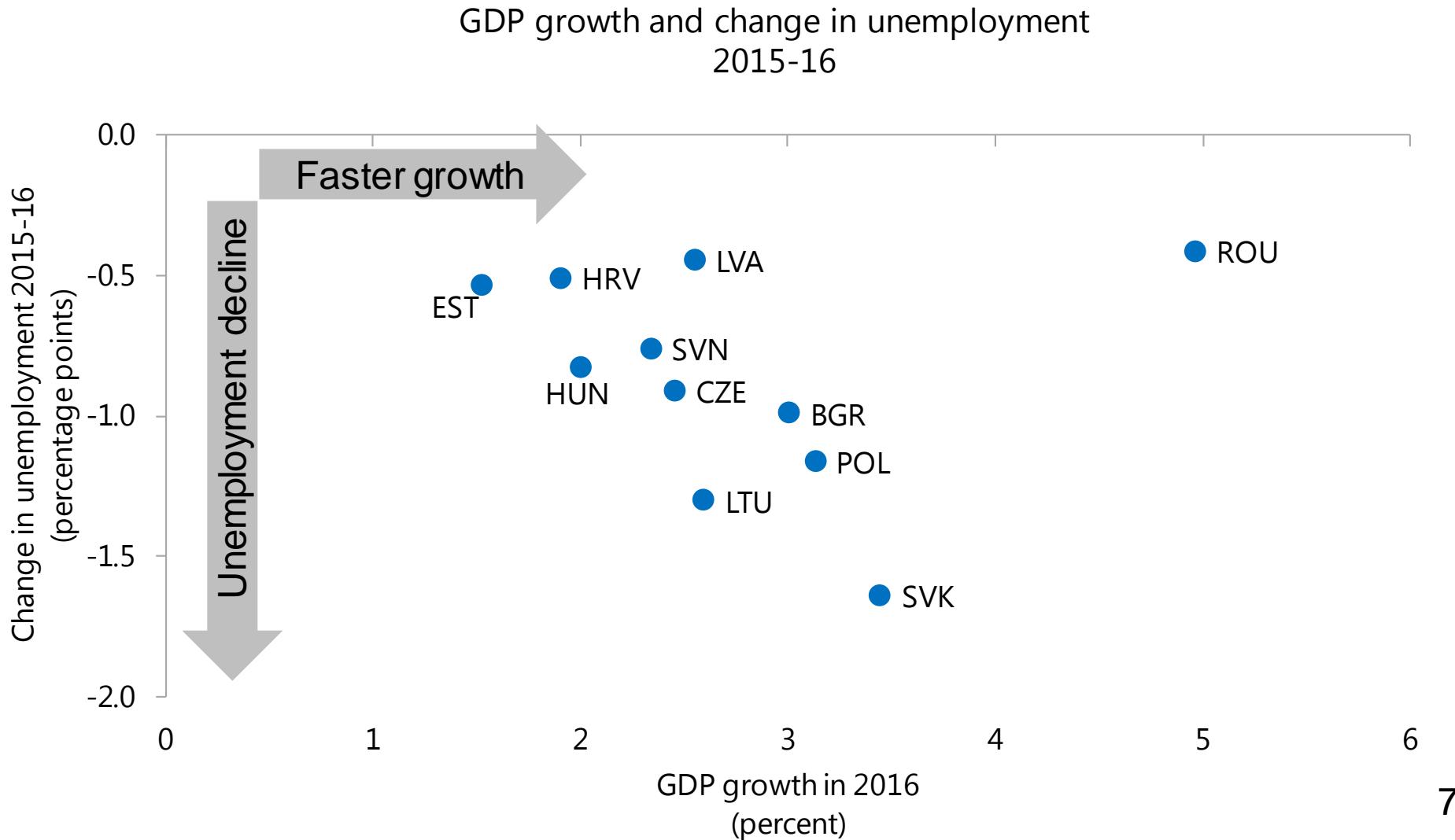


Euro area has been recovering gradually, but growth in US has disappointed

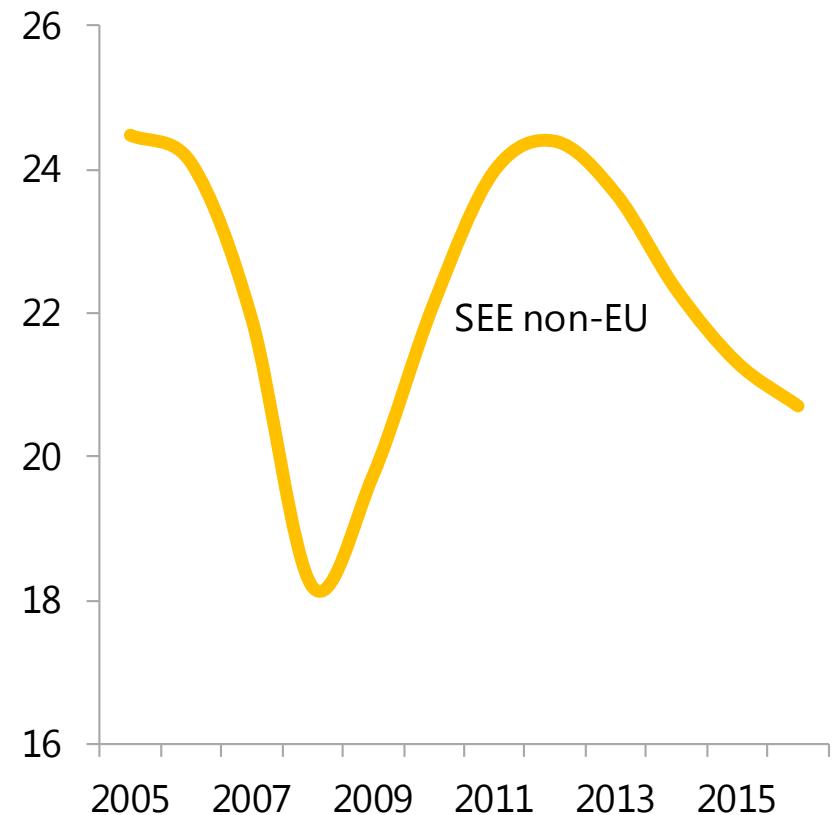
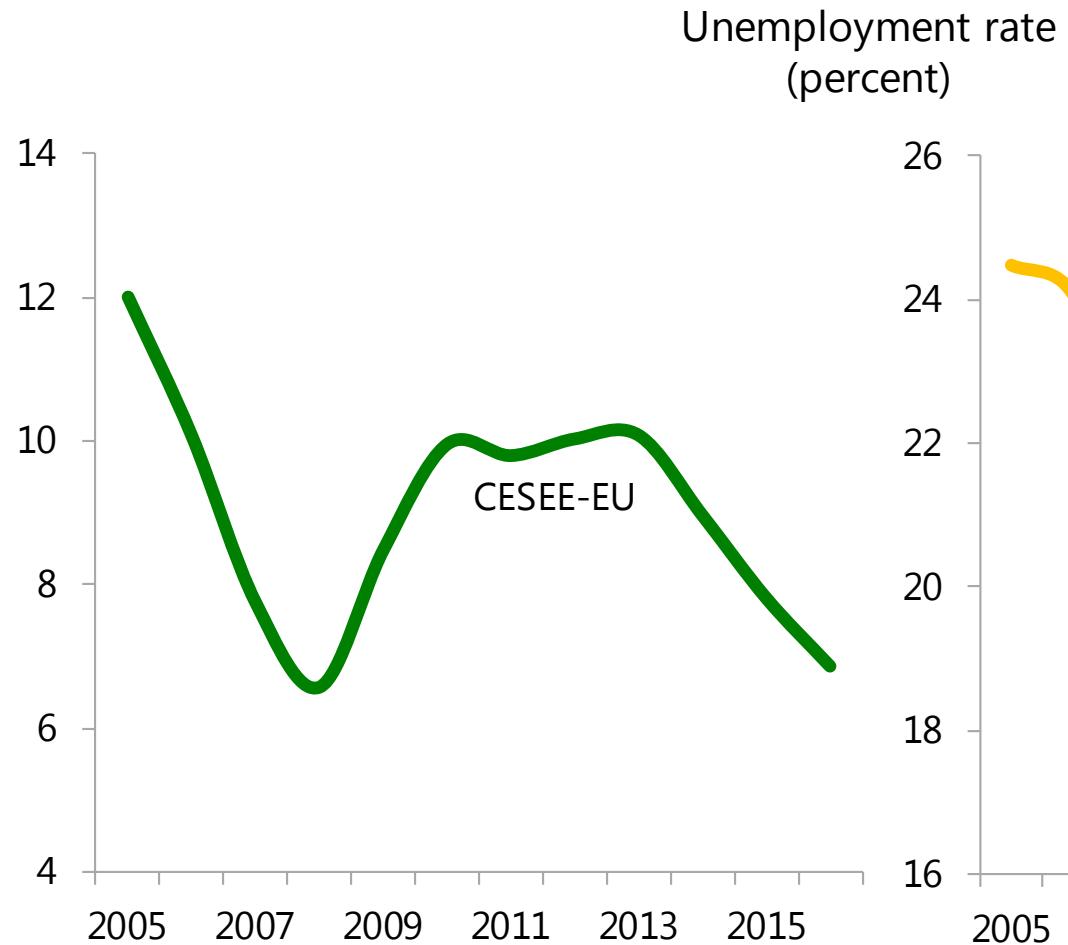


- Large difference between CIS and non -CIS
 - Non-CIS CESEE doing quite well
 - CIS in recession in 2014-15

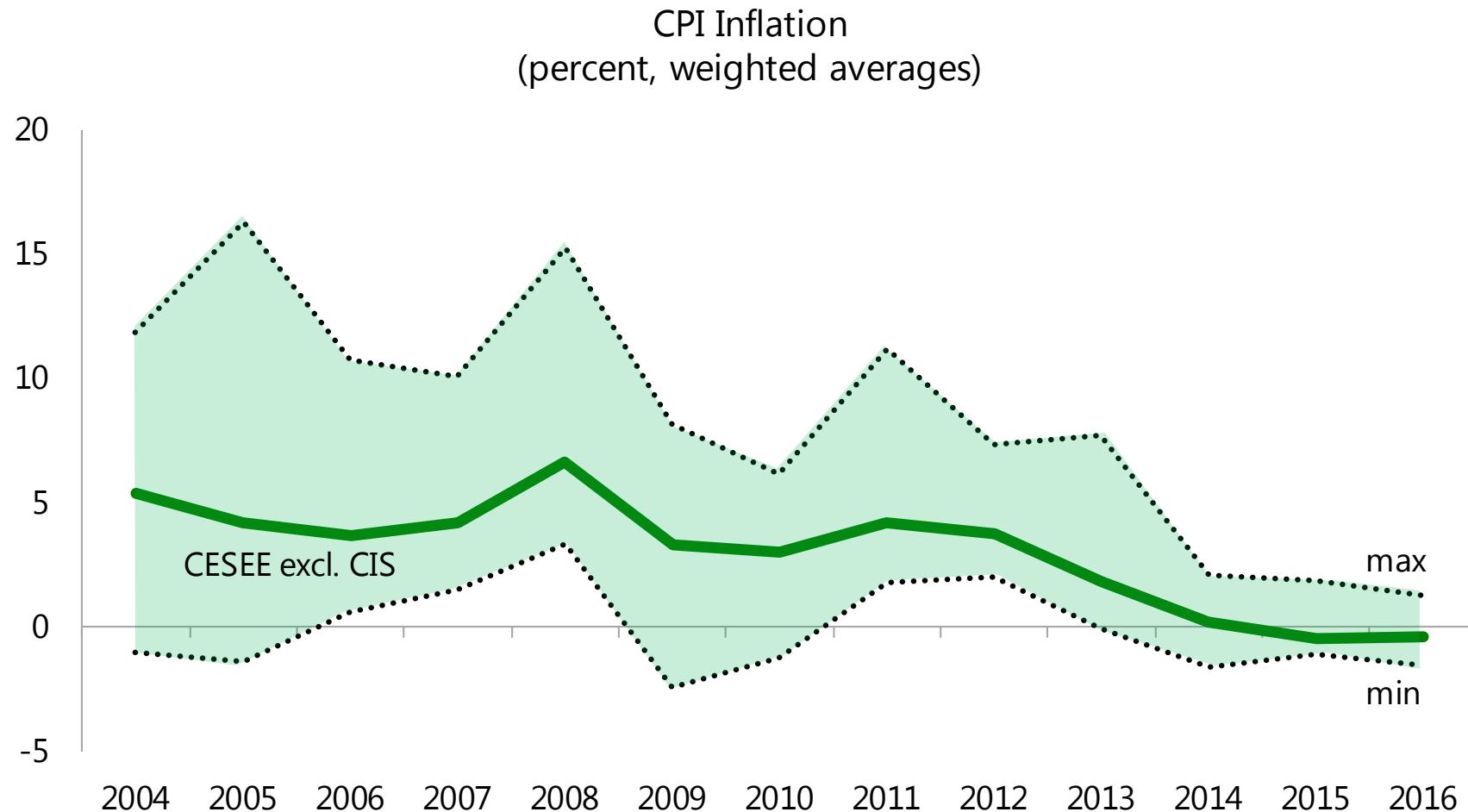
Non-CIS CESEE is growing at solid pace. Unemployment is falling rapidly...



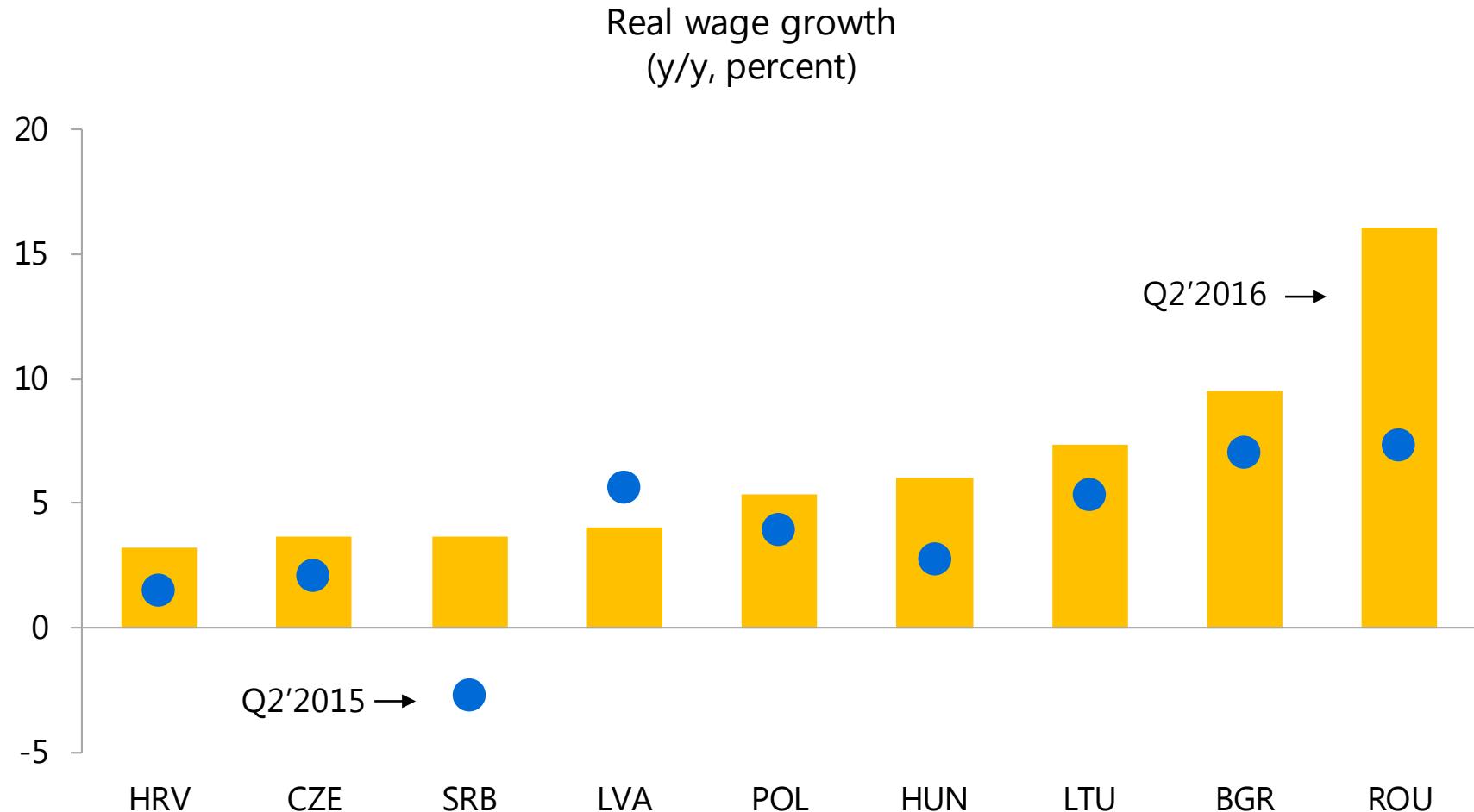
...to pre-crisis lows.



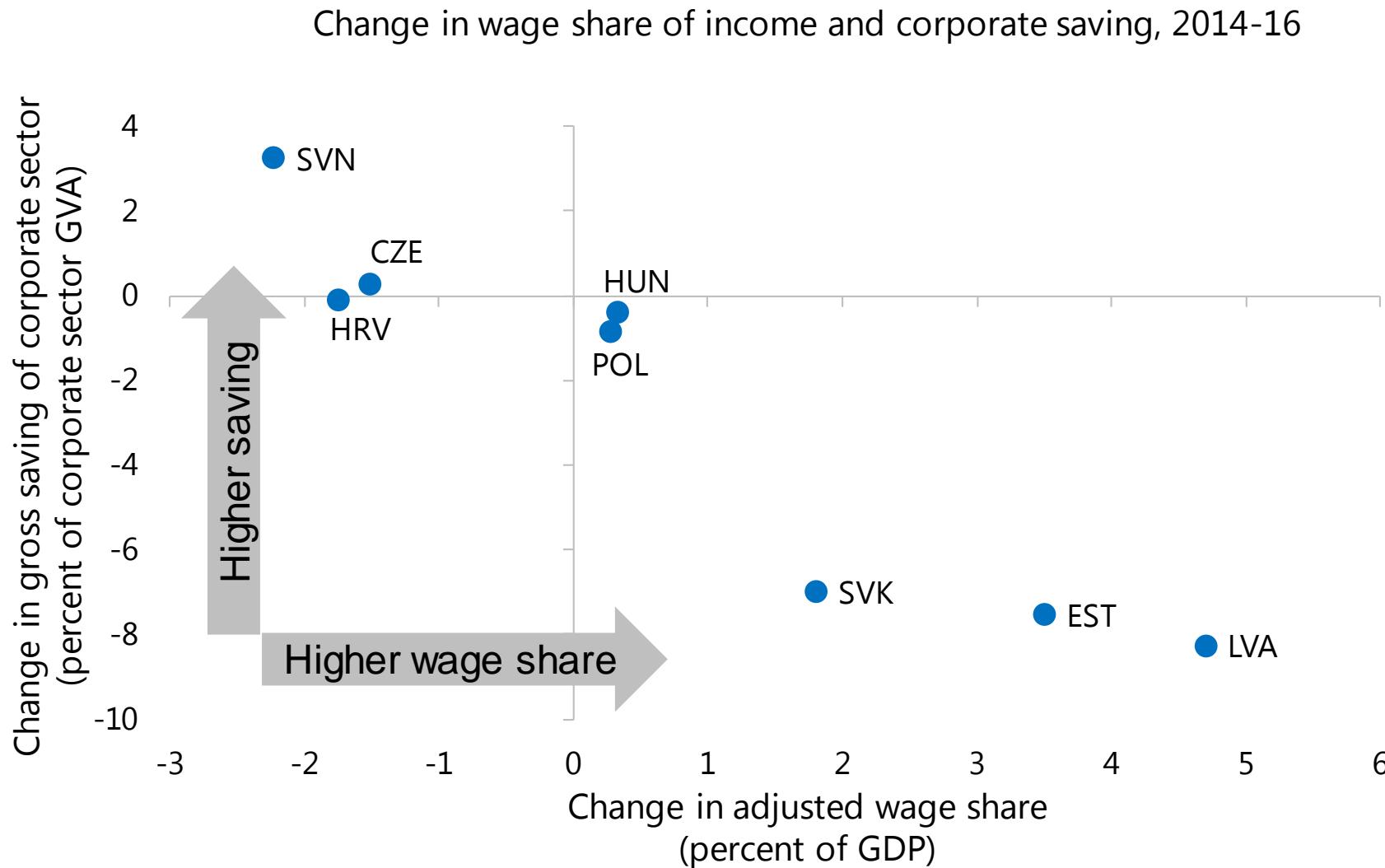
While inflation is still low...



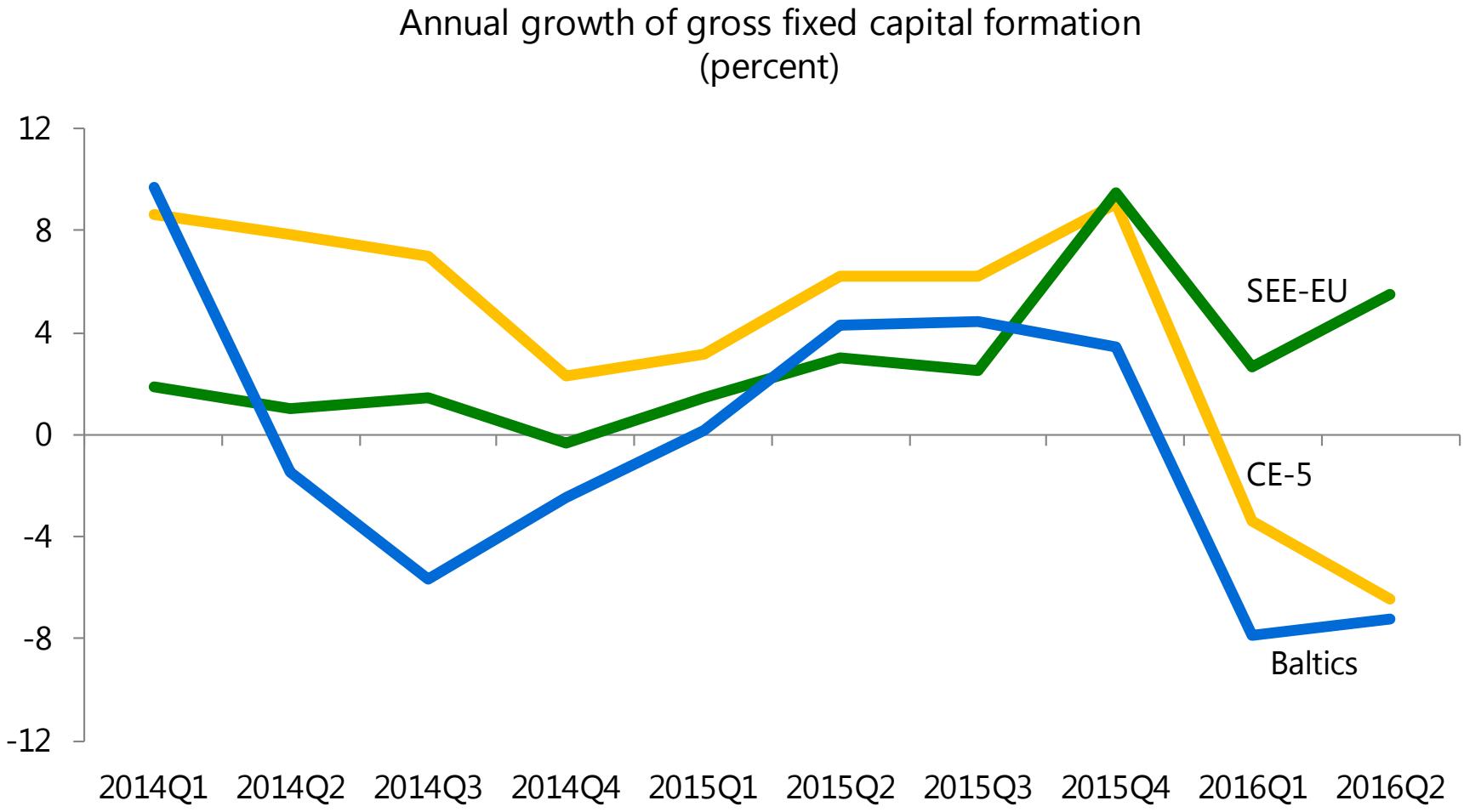
Real wage growth has accelerated



Which has increased wage shares and reduced corporate profits and saving

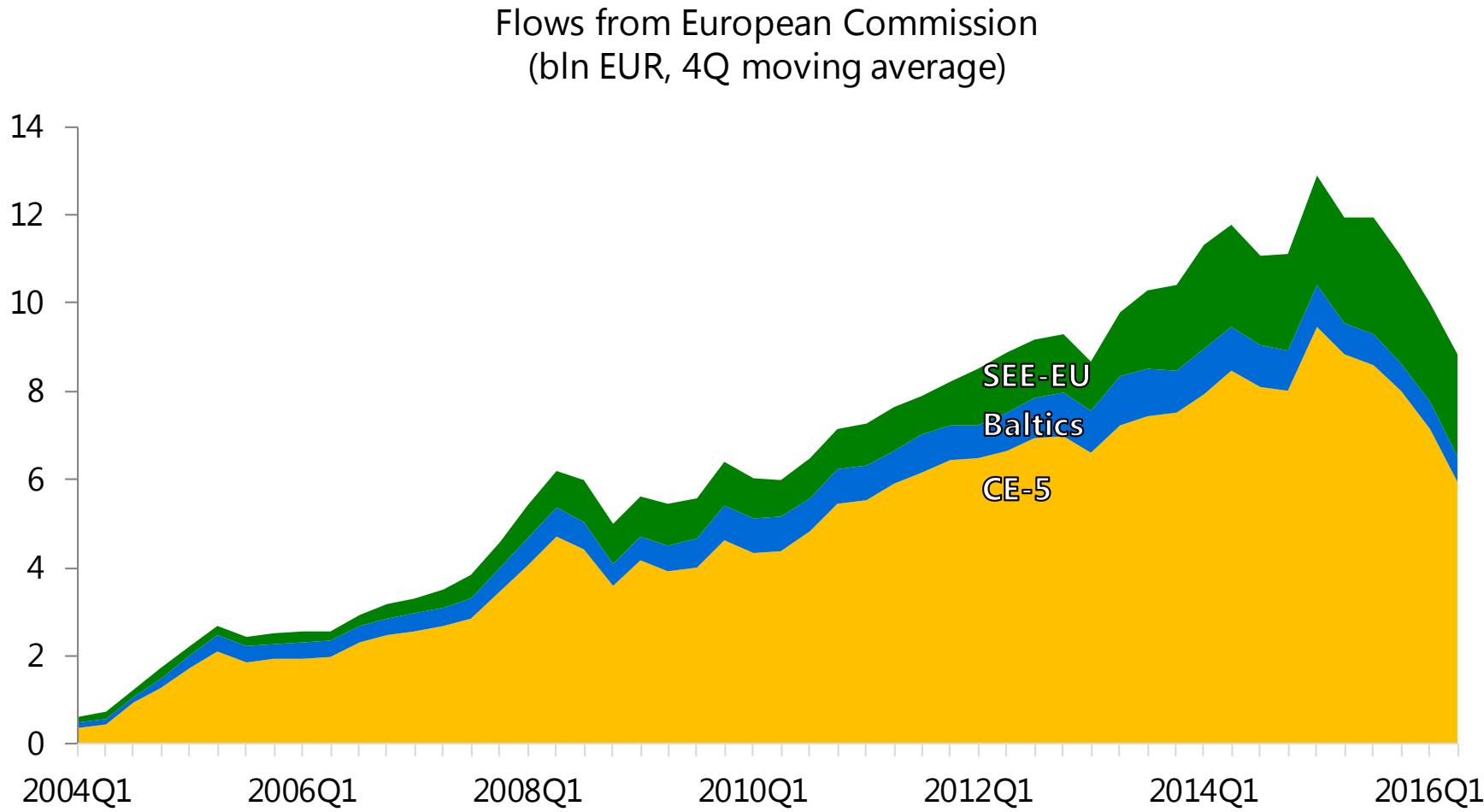


Investment has weakened in 2016...



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

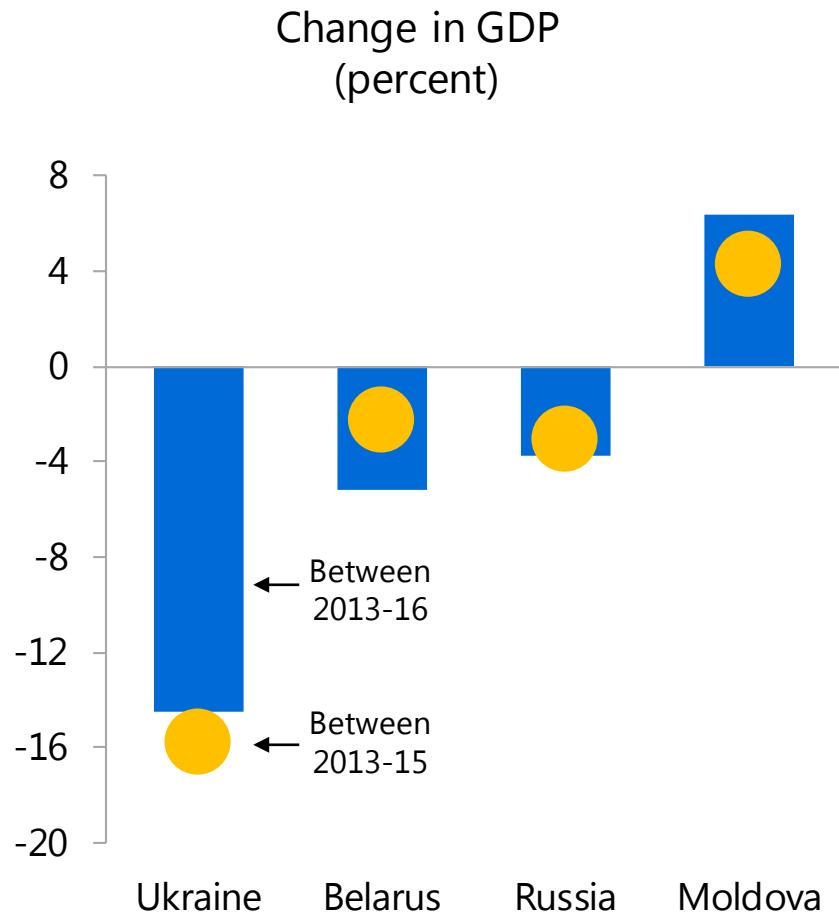
...but this is partly a temporary problem,
linked to timing of EU funds



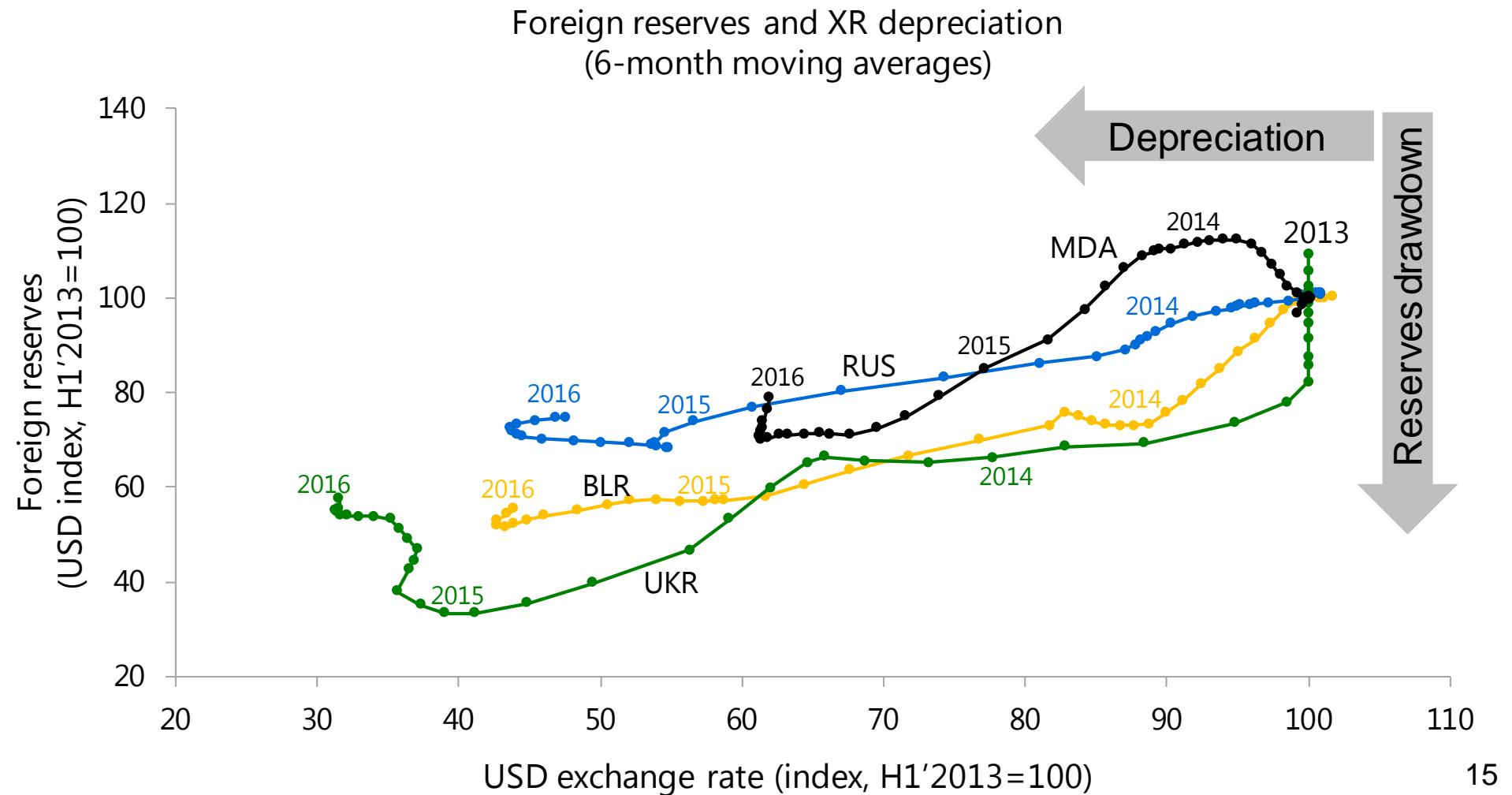
CIS suffered from recession in 2014/15



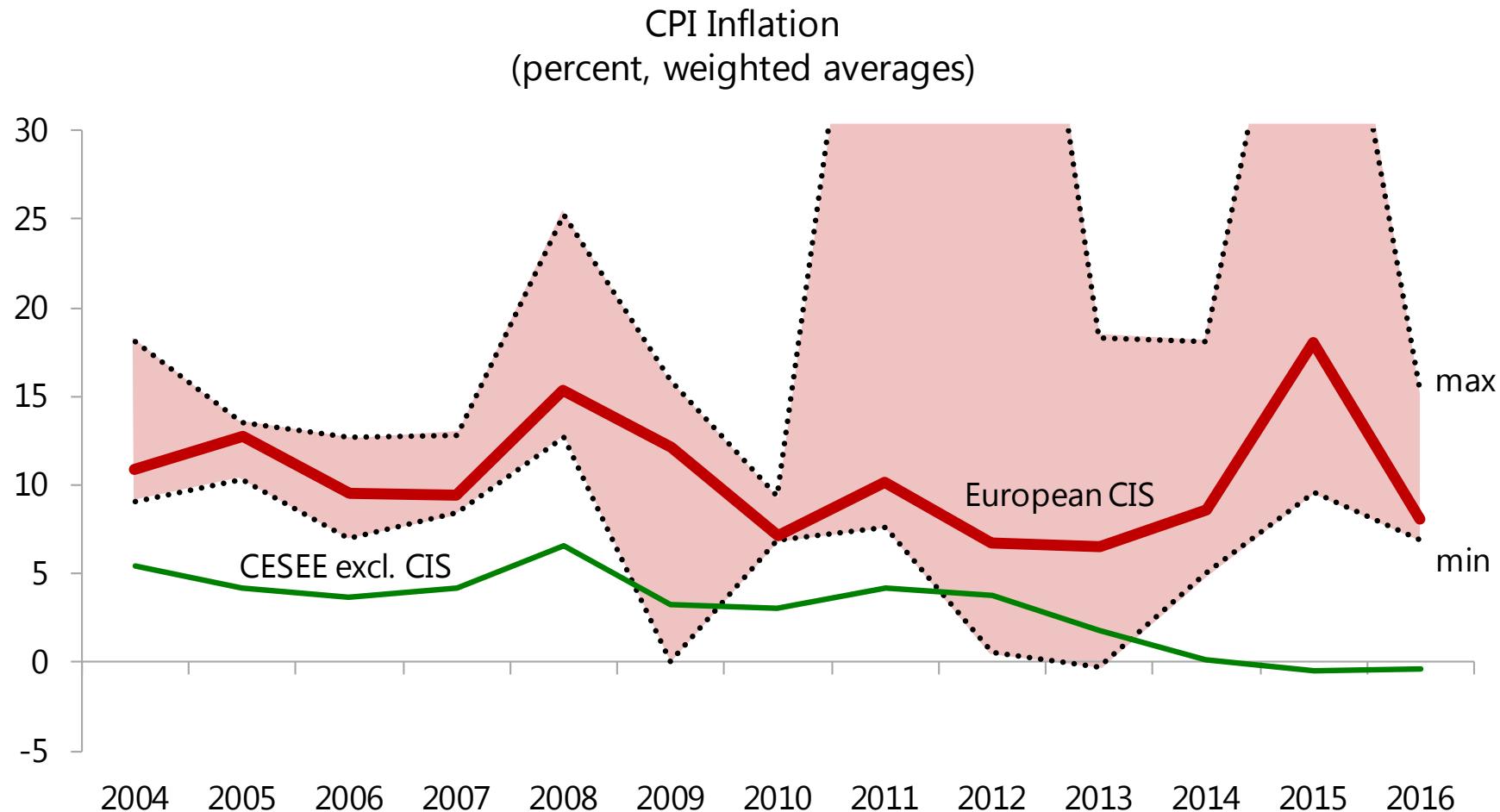
- Collapse of commodity prices
- Sudden stop in capital flows to Russia, result of sanctions on Russia
- Conflict in Ukraine
- Spillovers from Russia to other CIS countries



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



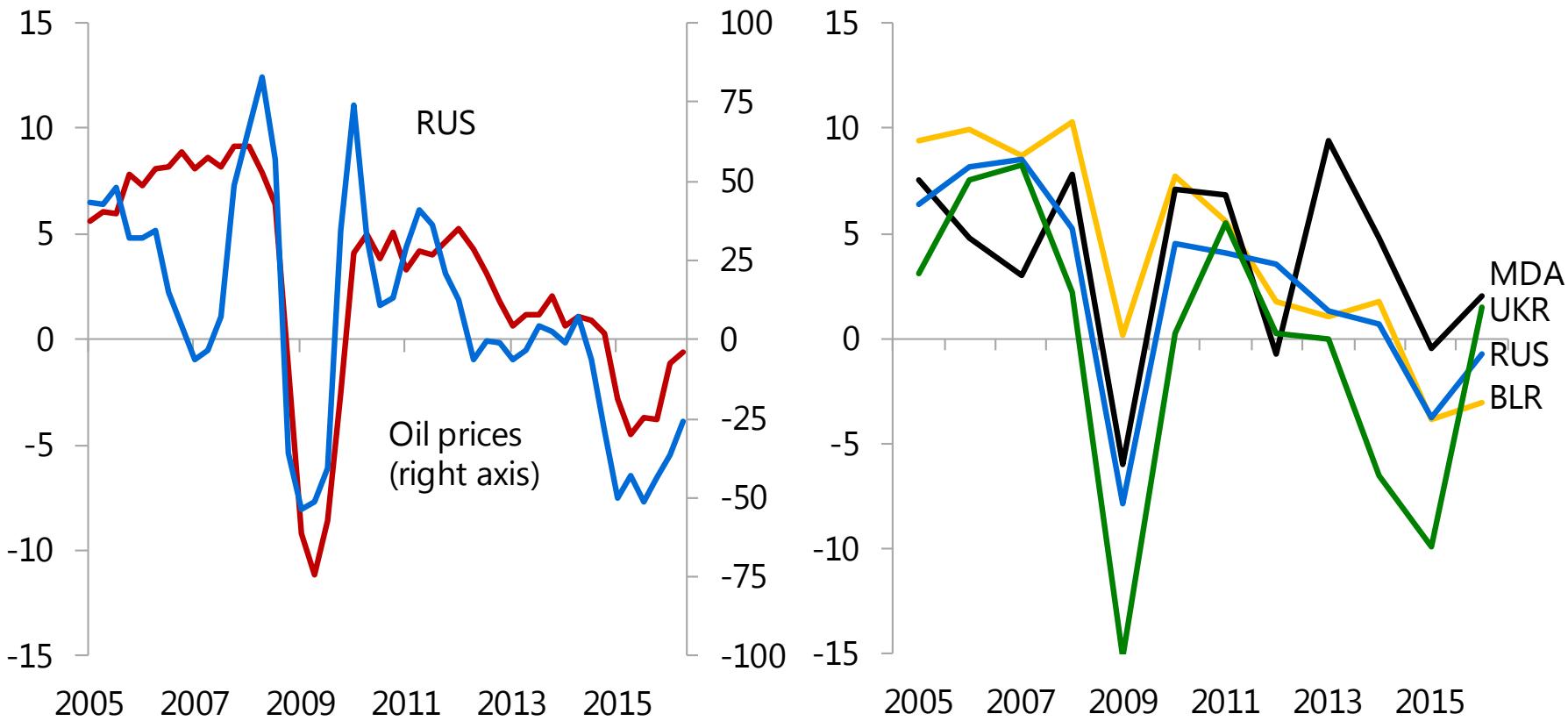
...although at cost of high inflation.



Russia is recovering, helped by rising oil prices.



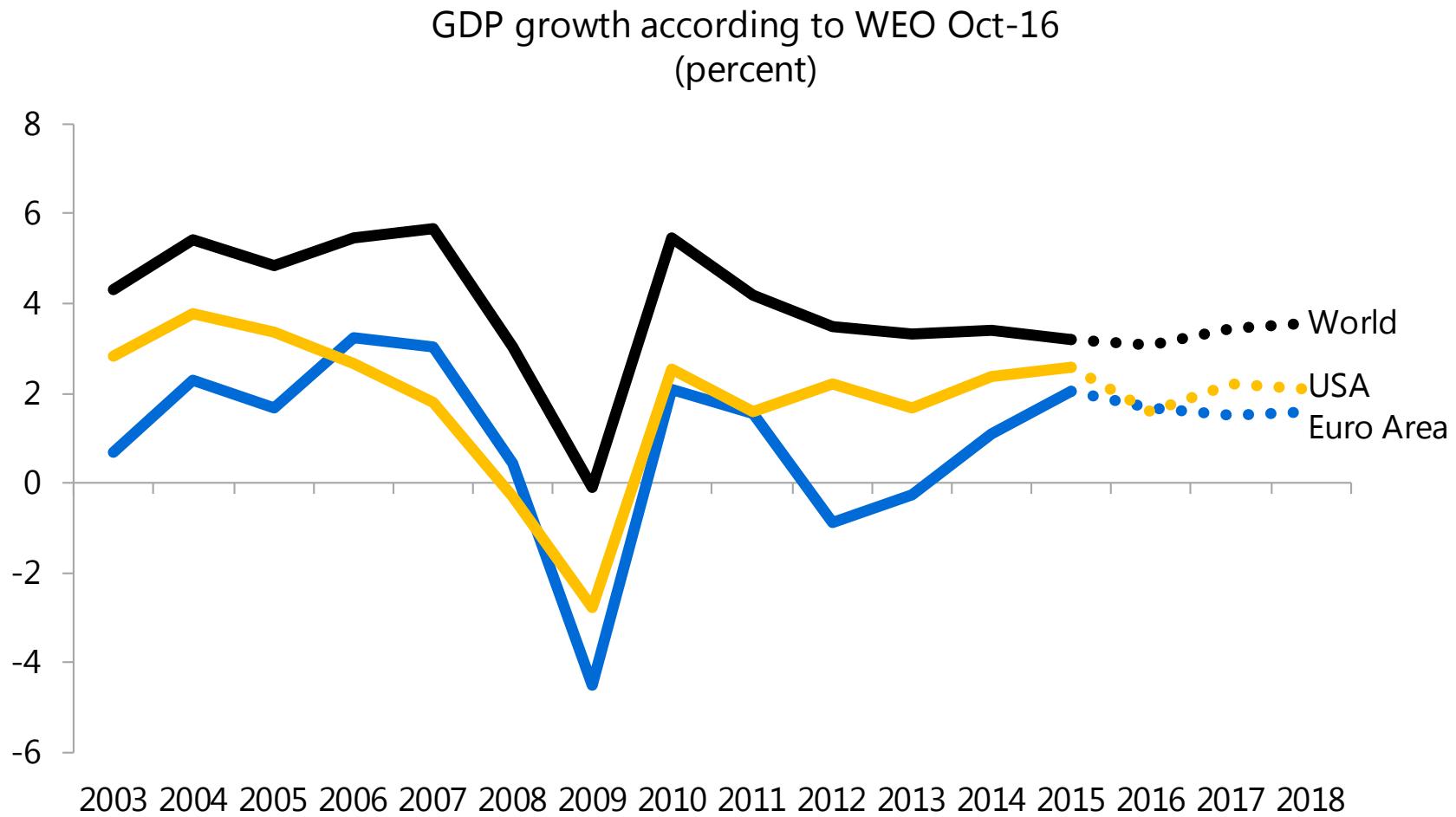
Real GDP growth in Russia, other CIS countries and changes in oil prices
(percent y/y)



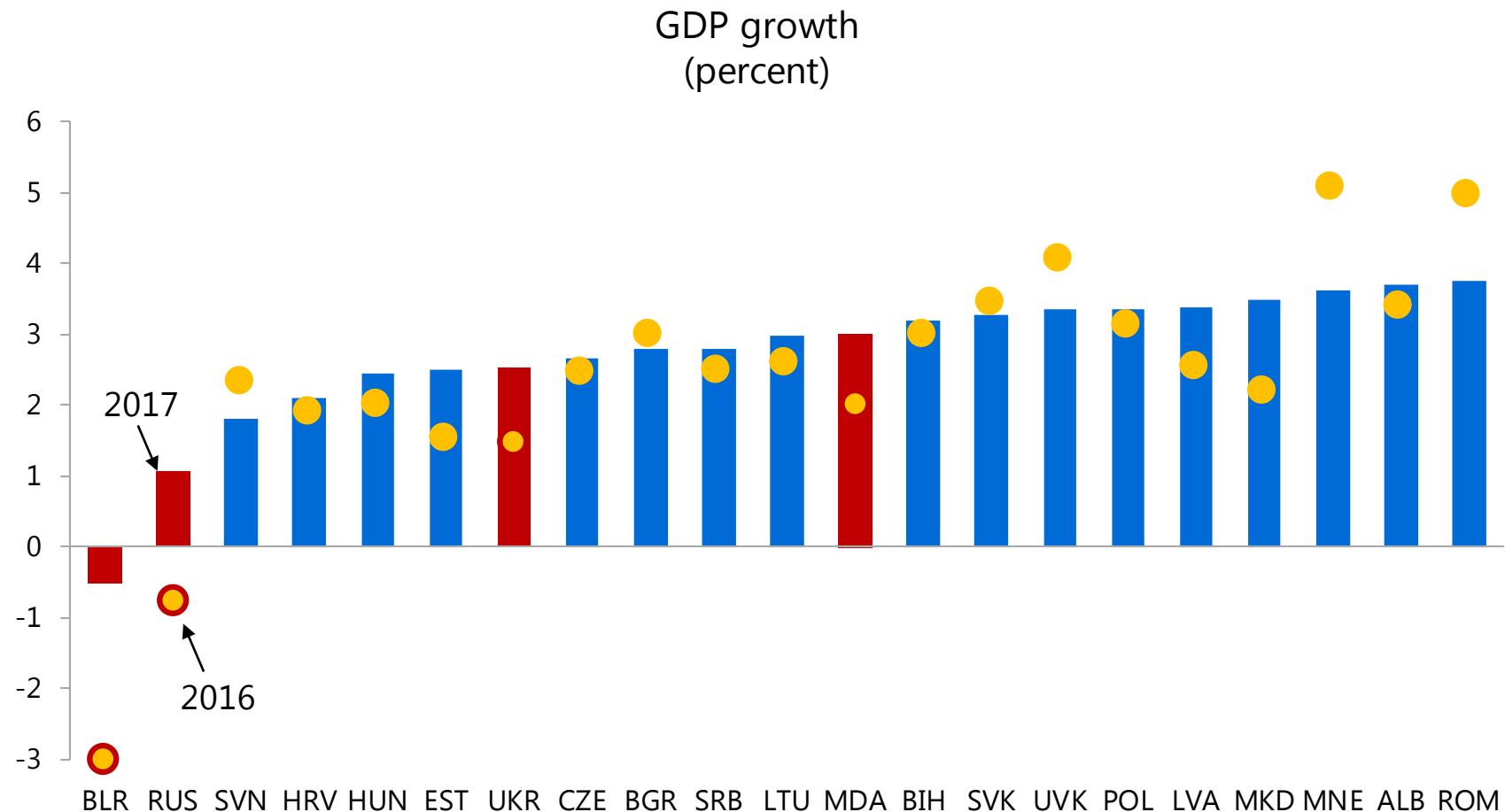


Forecasts for 2017

Global growth for 2017 continues to be modest



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



Note: CIS countries in red.

Downside risks continue to dominate the outlook

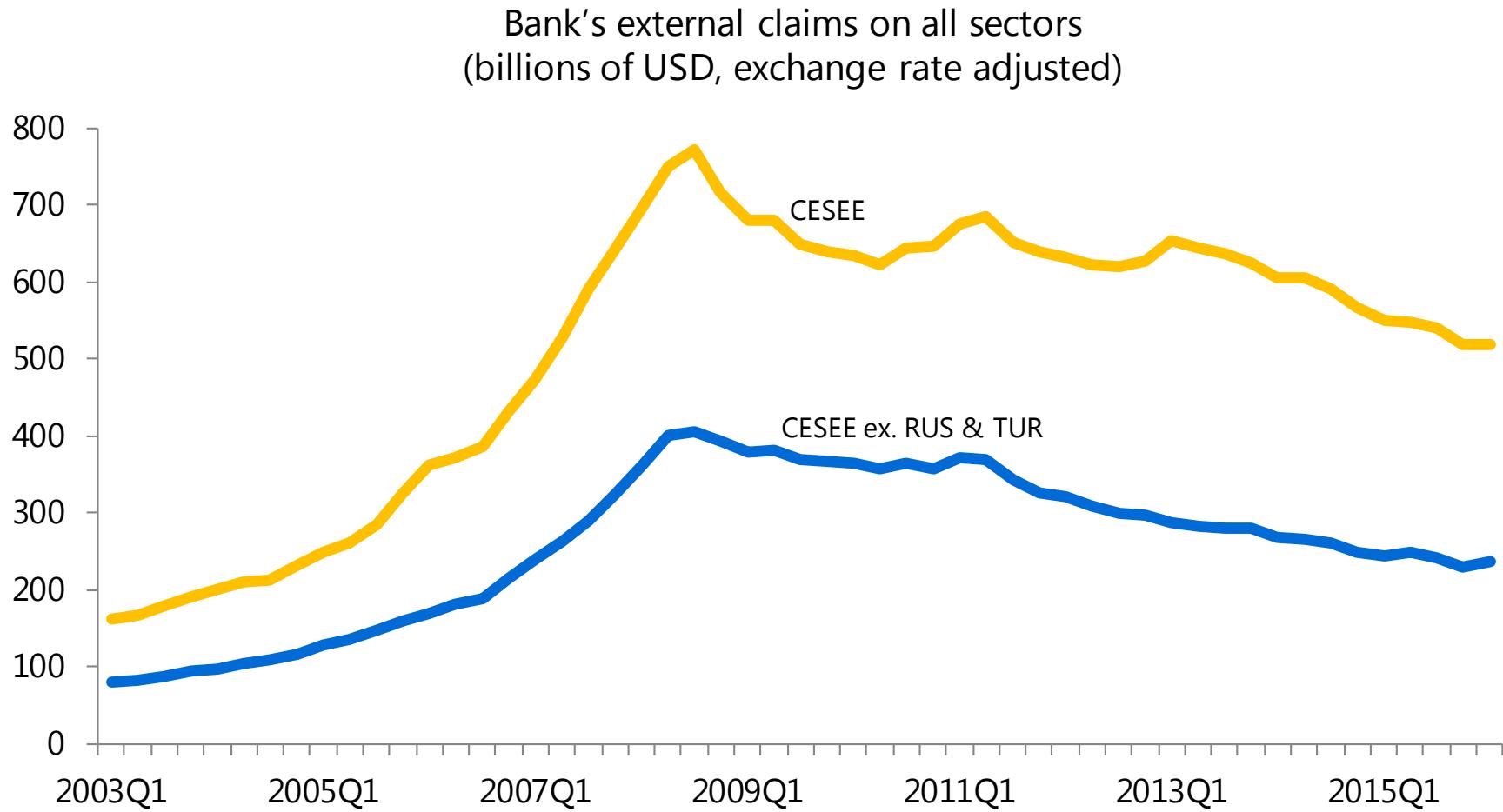


- Tighter and more volatile financial conditions
- Structurally weak growth in the euro area
- Slowdown in China or failure of recovery in major EMs
- What will be impact of US election?
- Non-economic shocks:
 - Political fragmentation
 - Refugee crisis
 - Terrorism



Crisis legacies in the banking sector

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

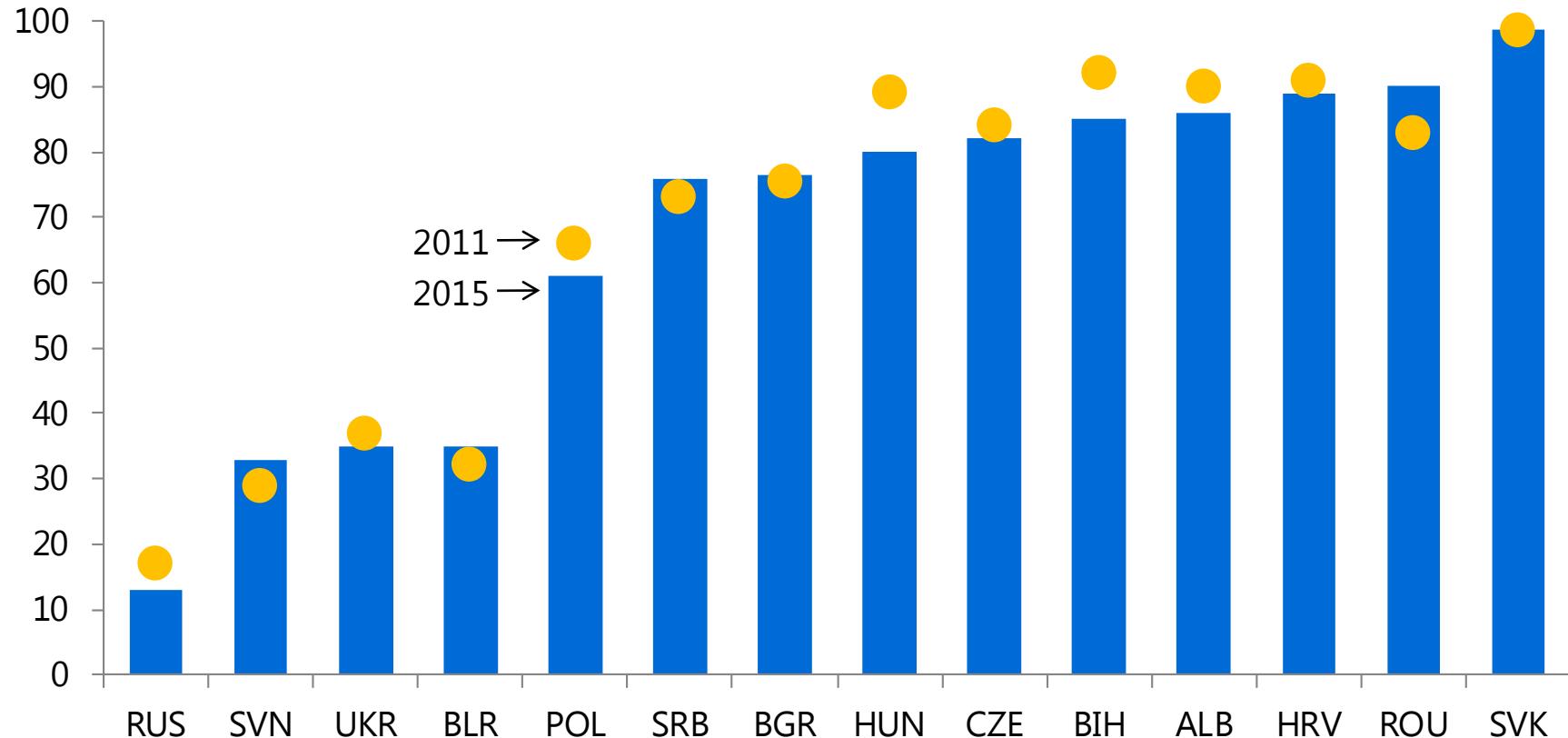


Note: for MNE and BGR data for 2012 and 2015.

There has also been selected withdrawal of ownership

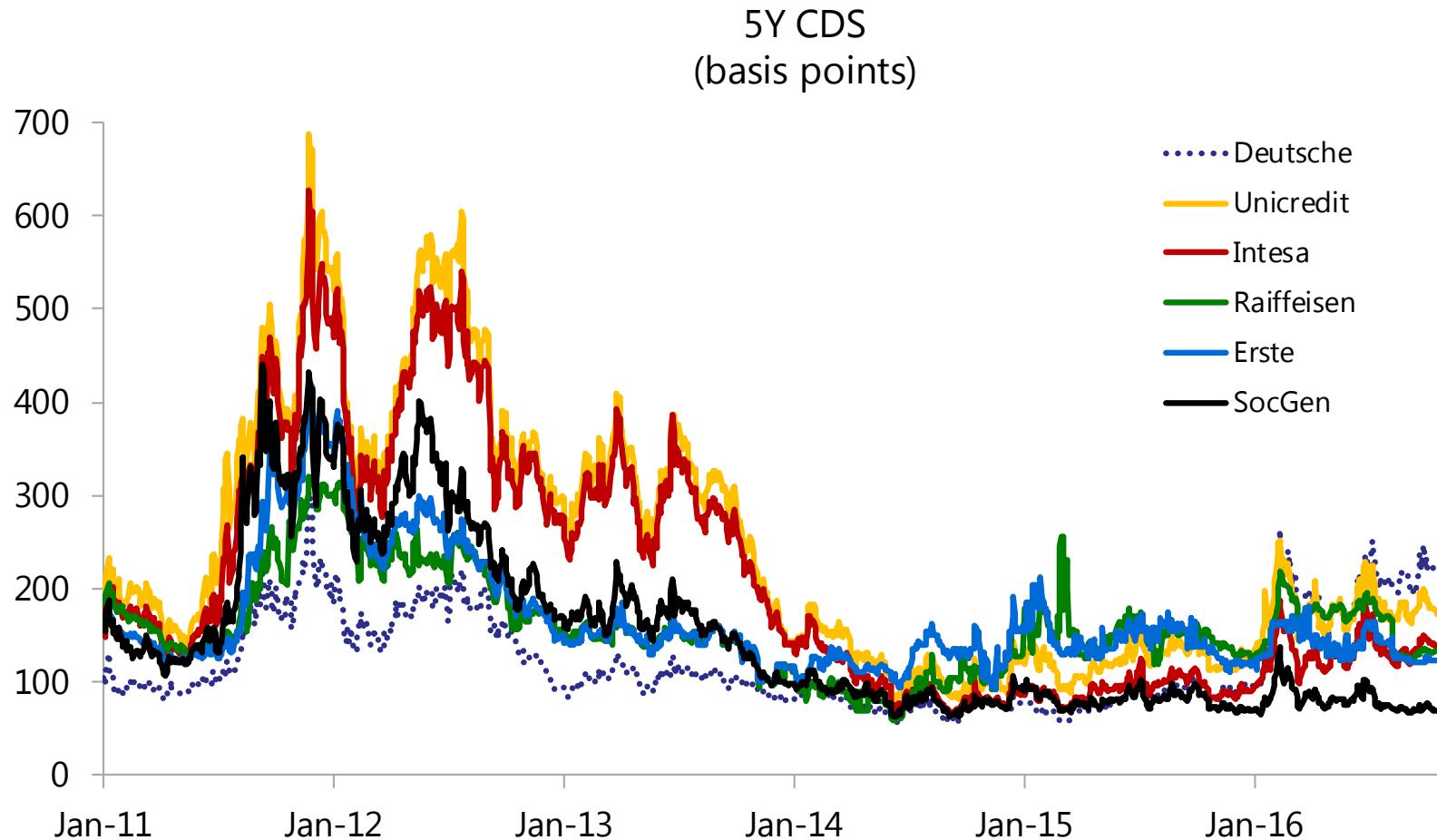


Market share of foreign-owned banks, 2015
(Percent of total assets)

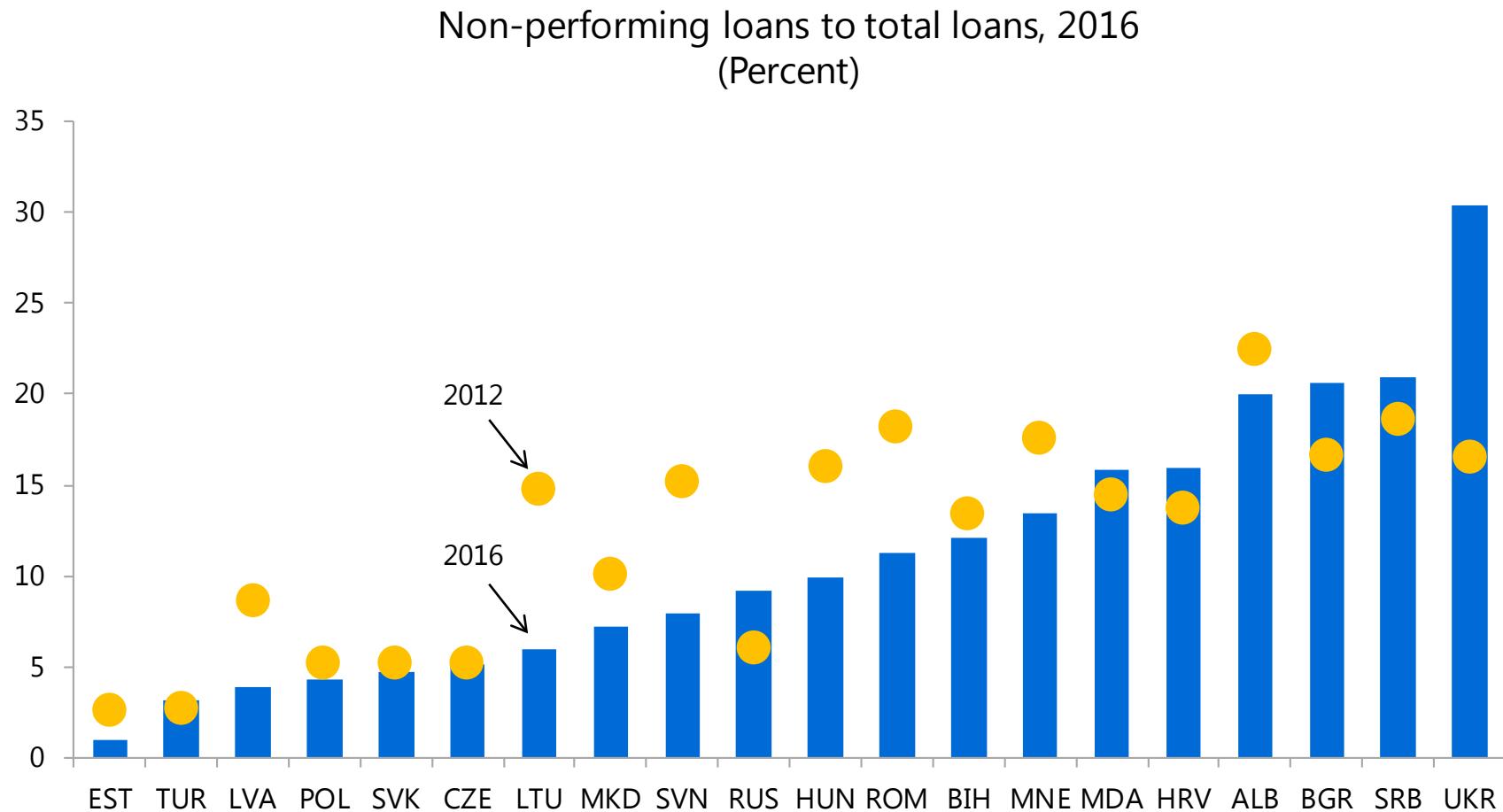


Note: for BLR data for 2011 and 2014

Renewed pressure on some parent banks may lead to further sales

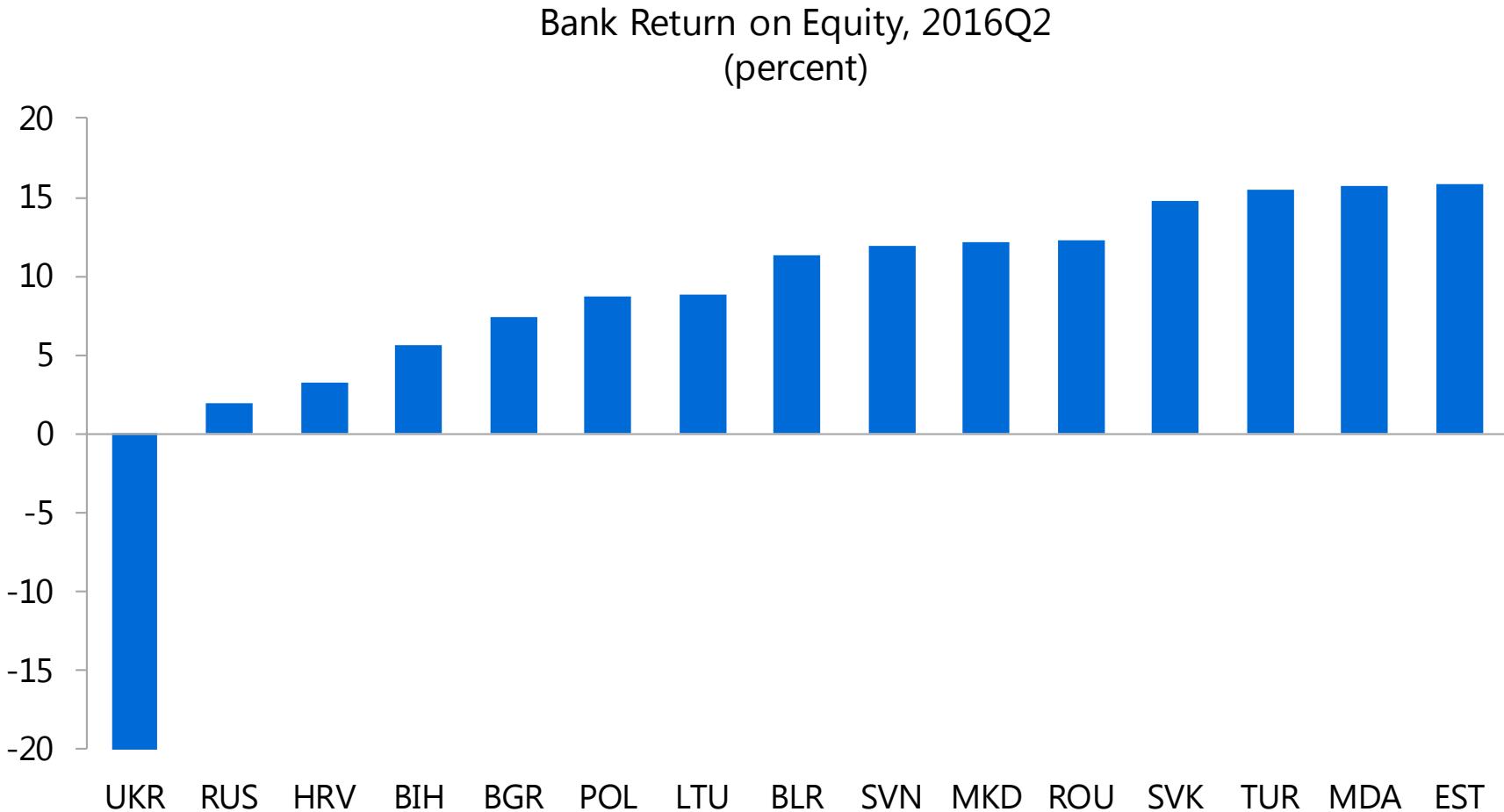


NPLs have come down (although they are still high in SEE and Ukraine)...



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

Large differences in return on equity.



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

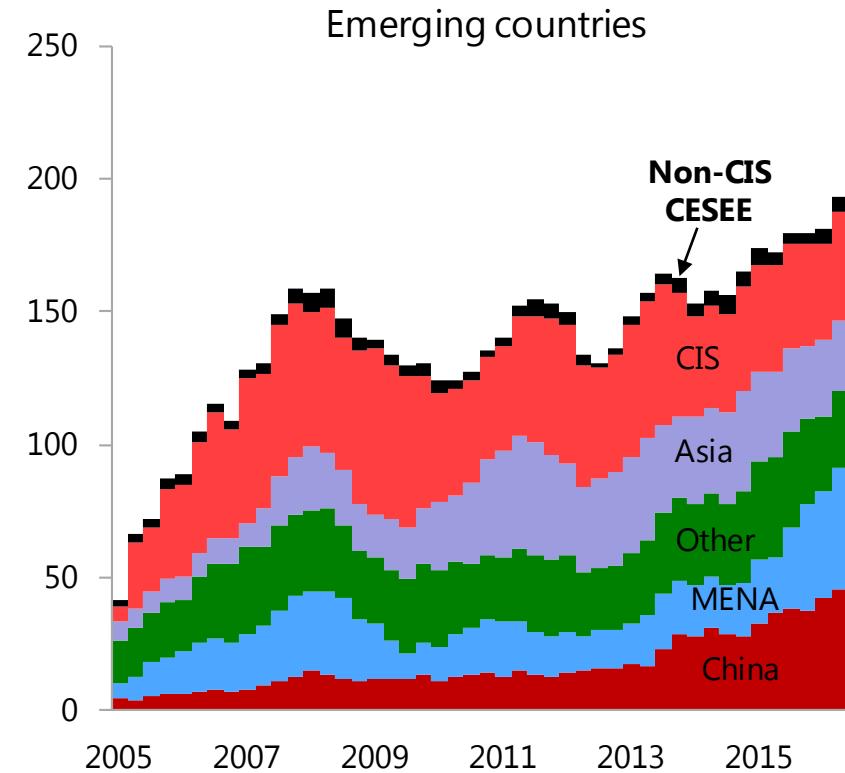
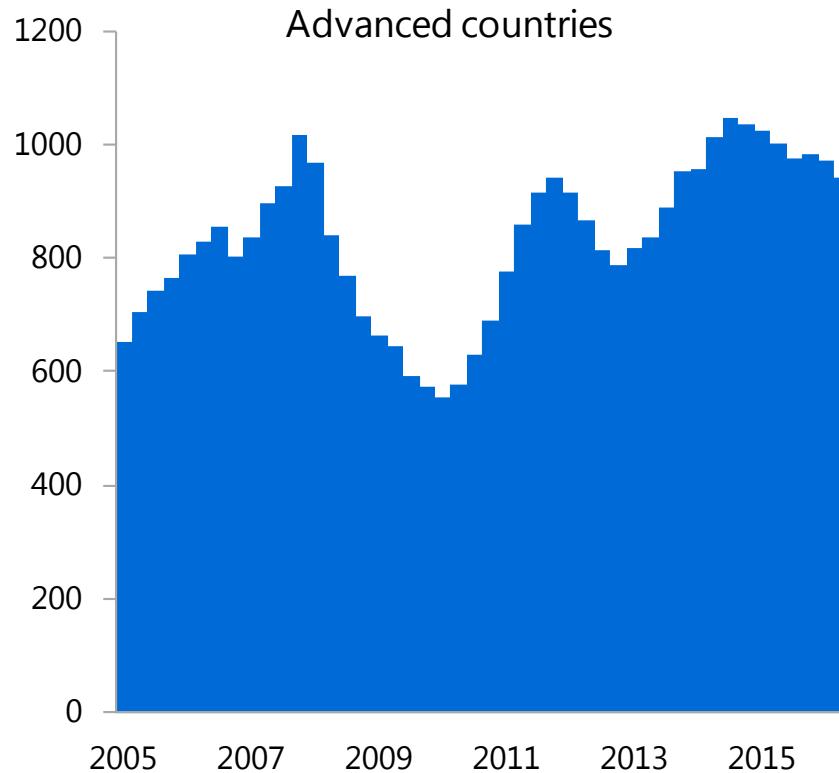


Syndicated loans

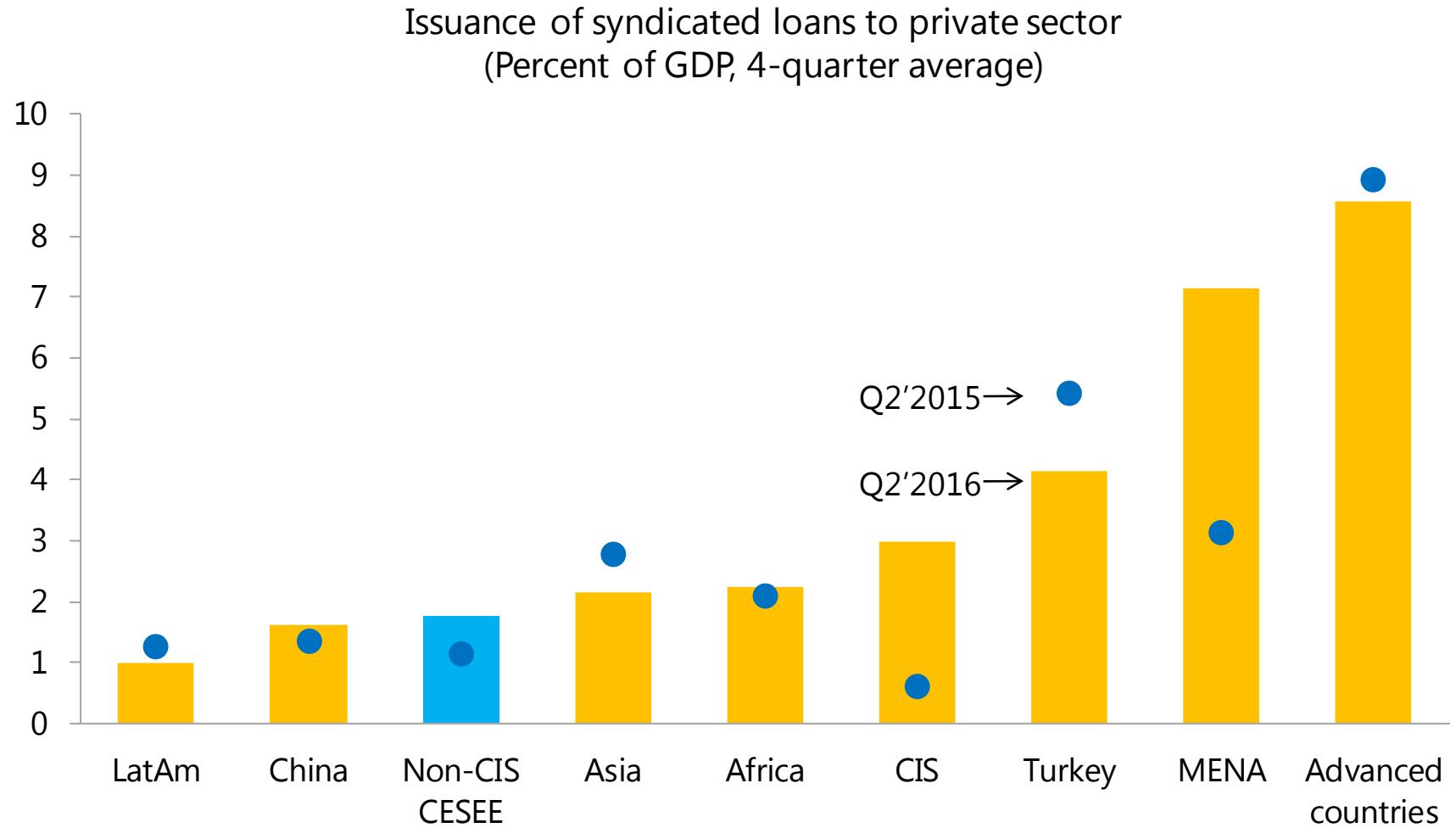
Syndicated loans issuance is very cyclical.



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





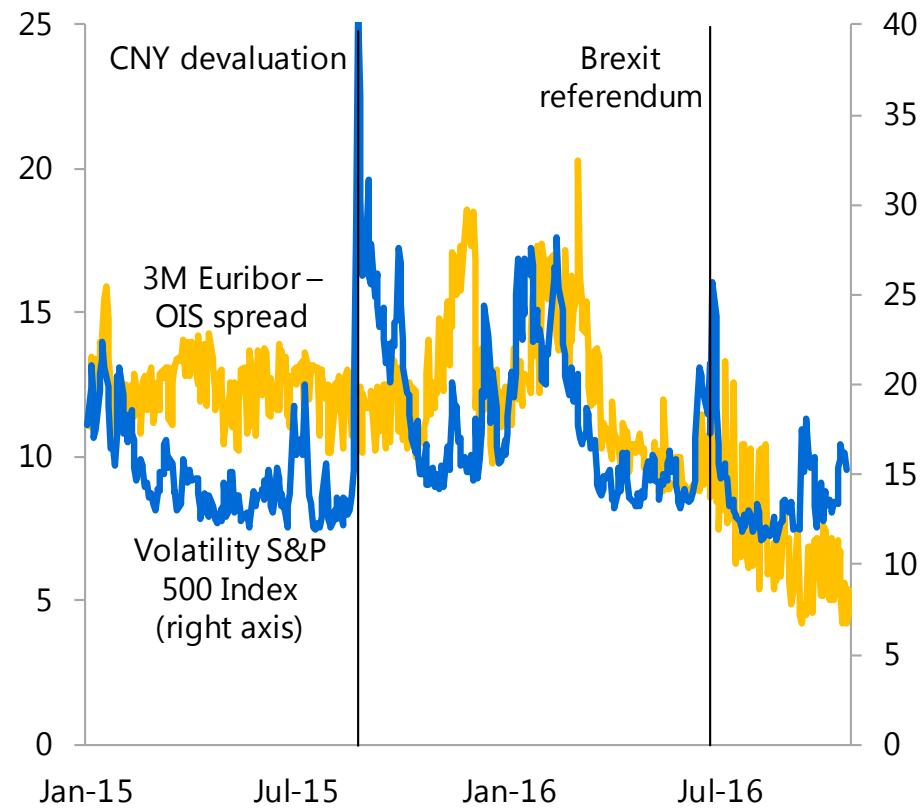
Challenges

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?

3M Euribor – OIS spread and VIX index (basis points)

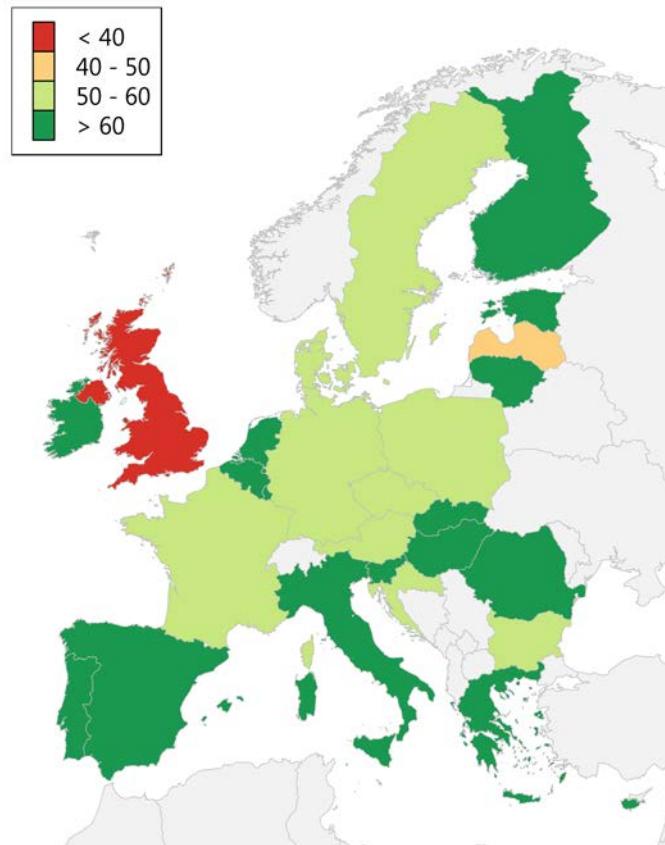


In the past decade there has been a sharp decline in confidence in the EU

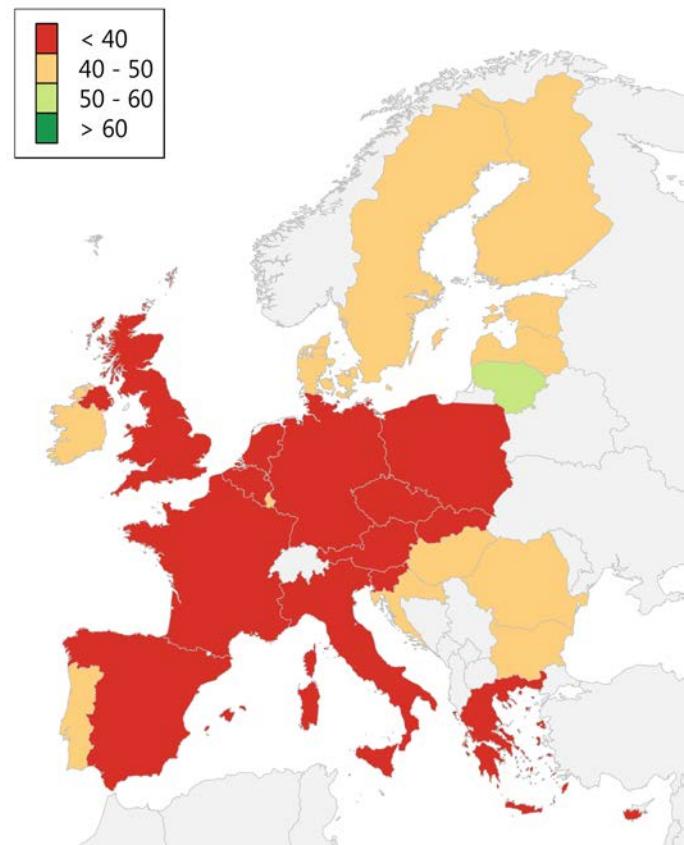


Level of confidence in the European Union
(percent of population surveyed by Eurobarometer)

In 2004



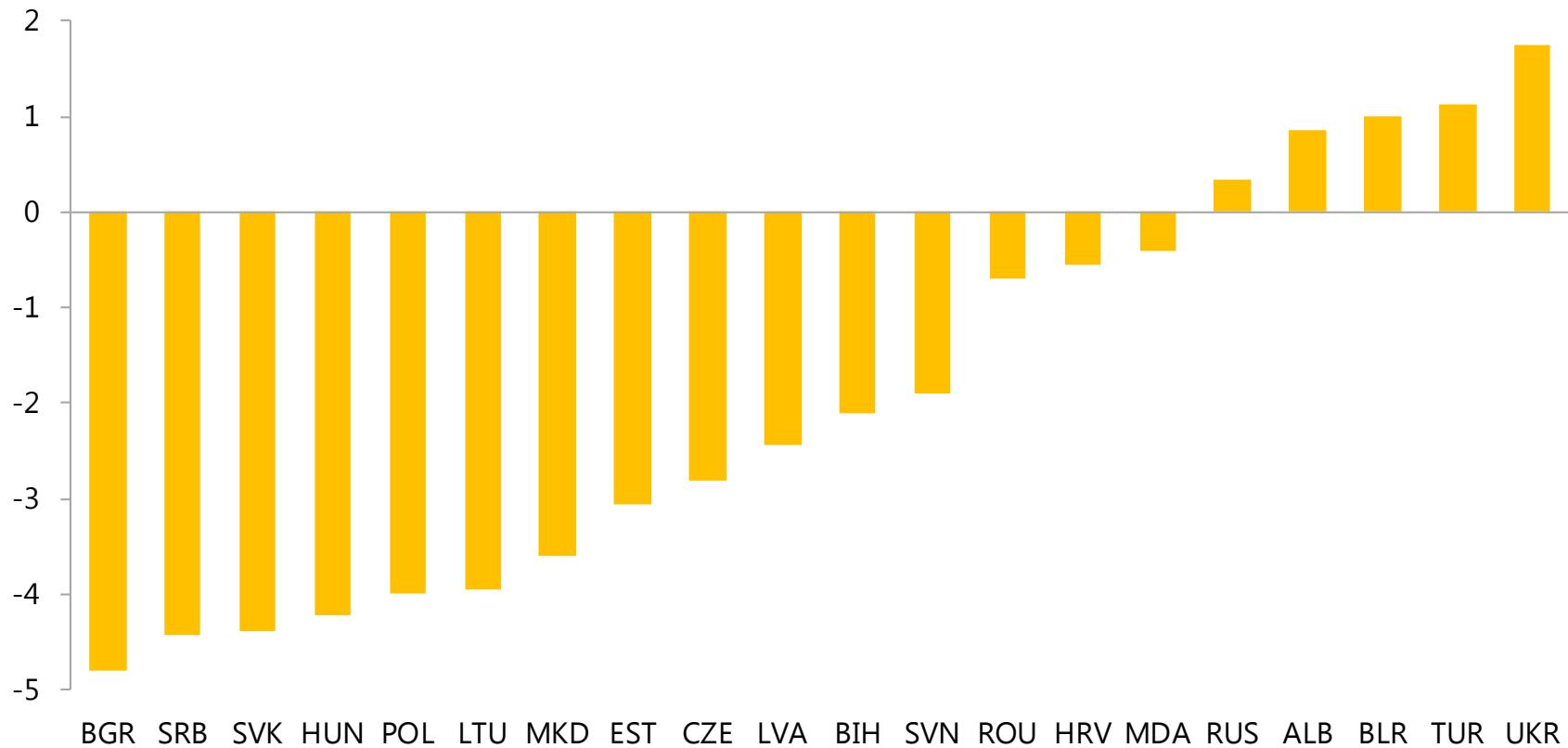
In 2016



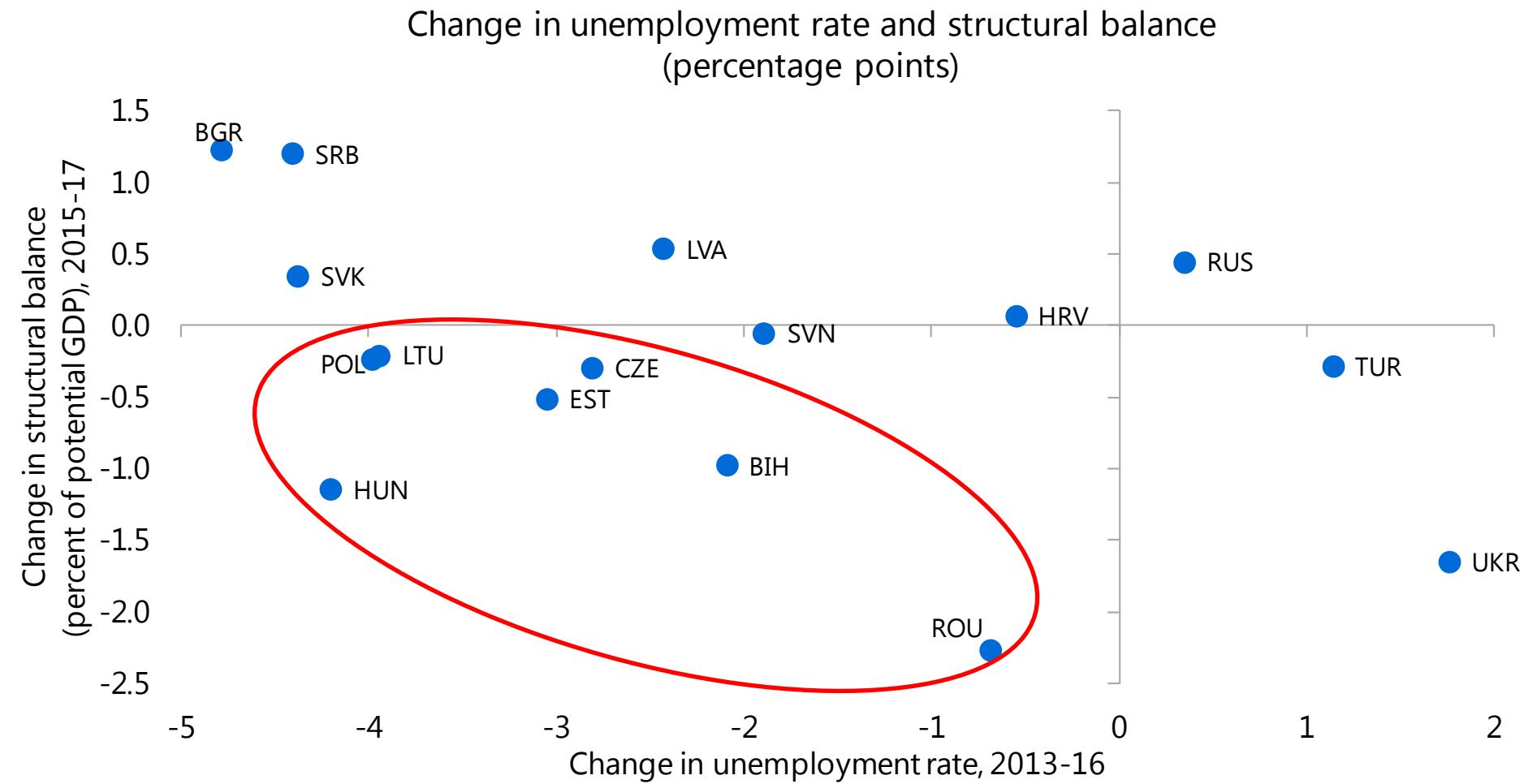
2. Pro-cyclical fiscal policy: unemployment is declining rapidly



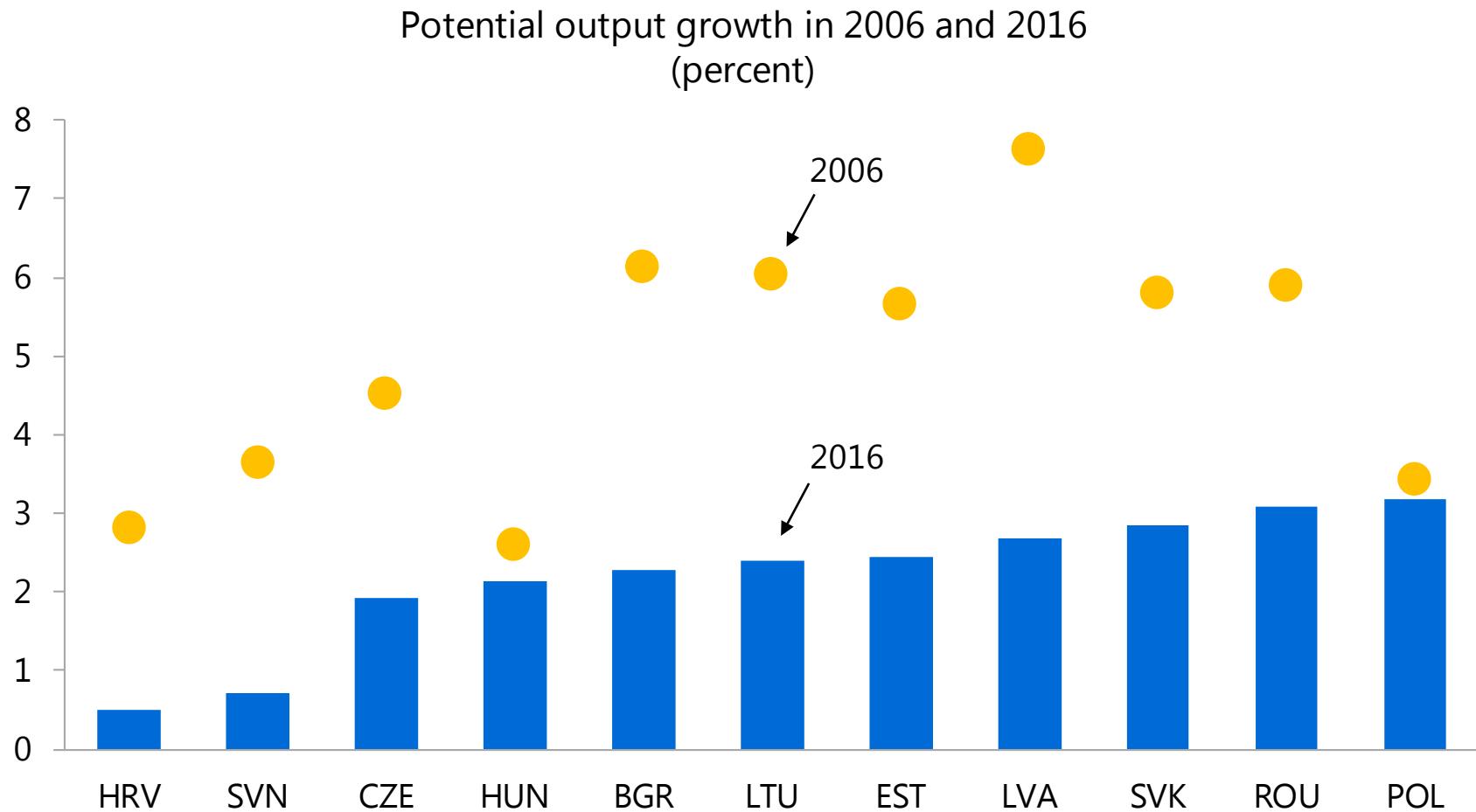
Change in unemployment rate, 2013-2016
(Percentage points)



But a number of countries have pro-cyclical loosening



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

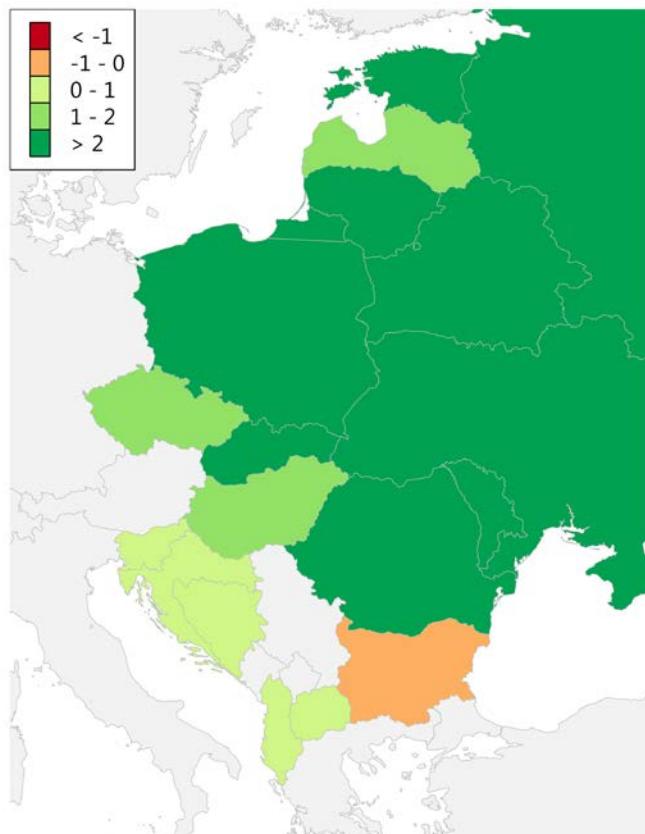


...as productivity growth has decelerated.

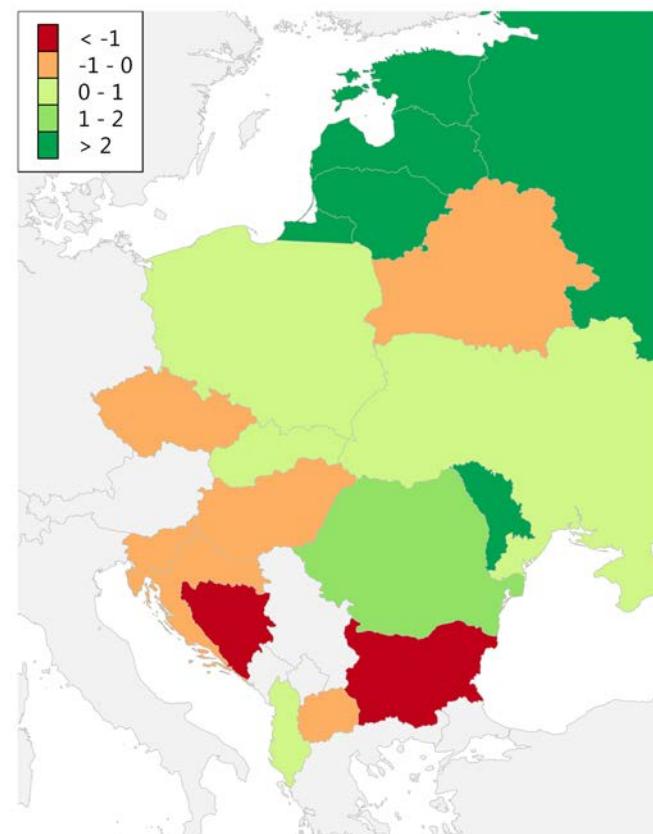


Average total factor productivity growth
(percent)

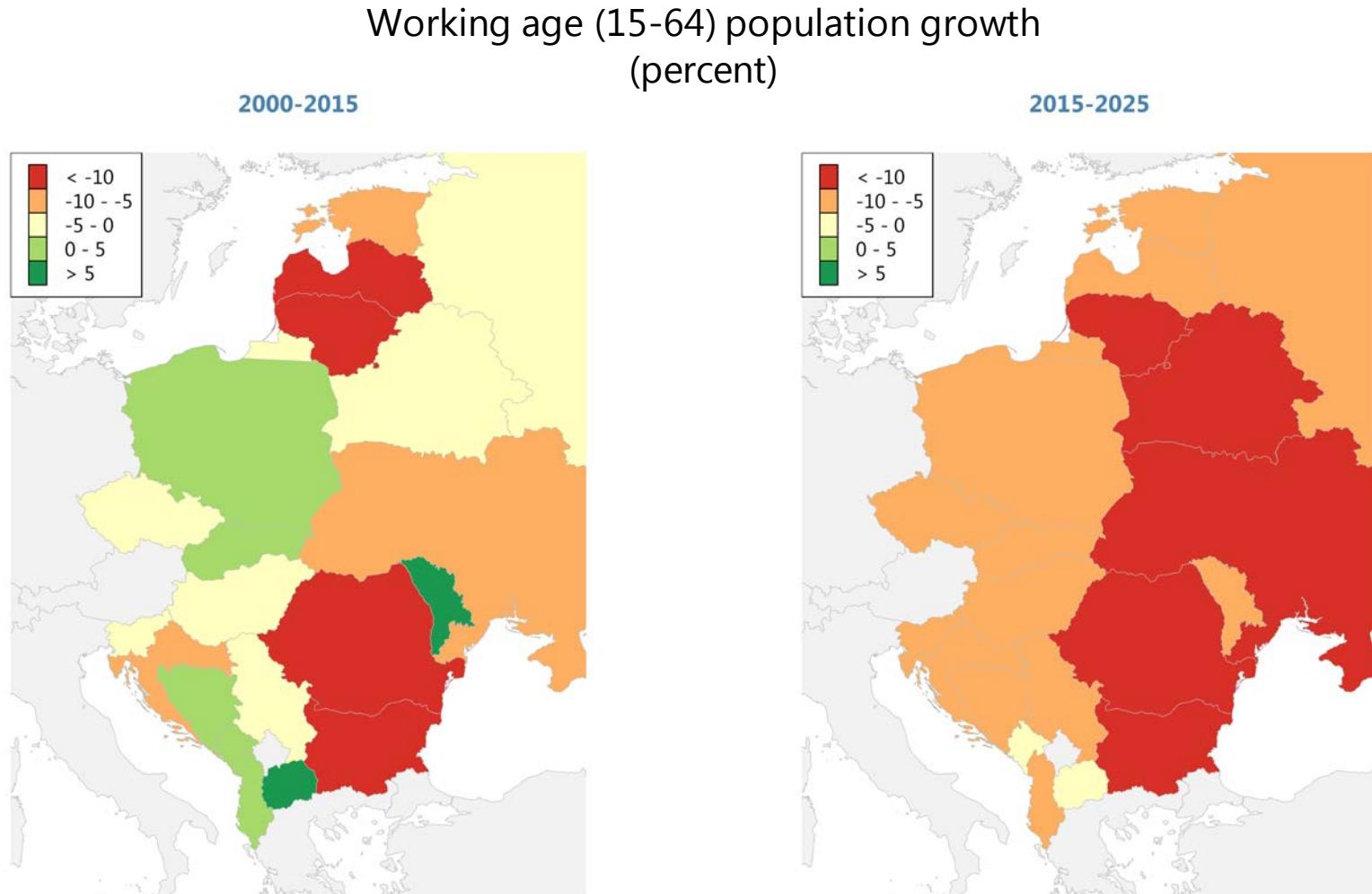
2000-04



2010-14



Aging will provide further headwinds.





Thank you