

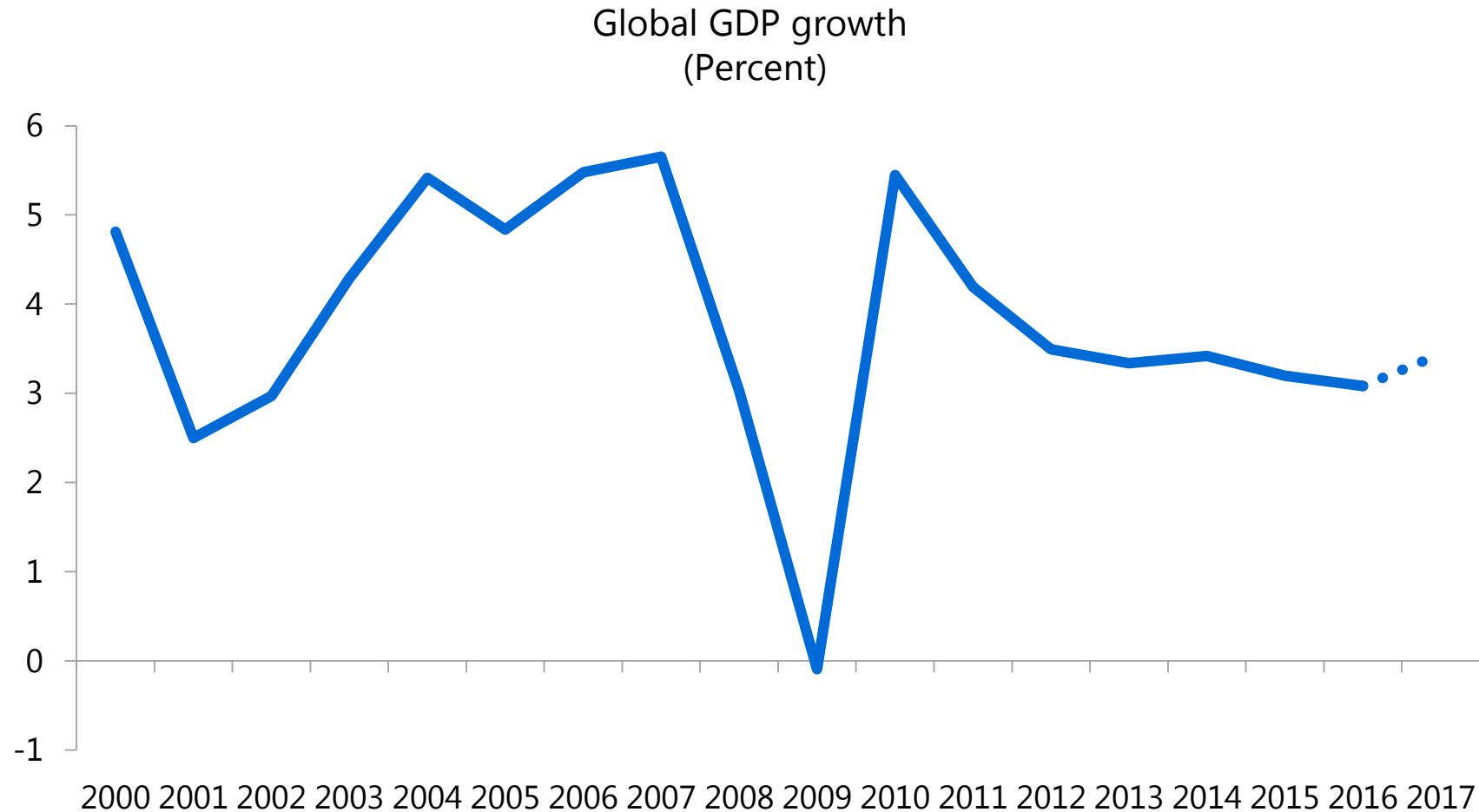
Global Economy in 2017



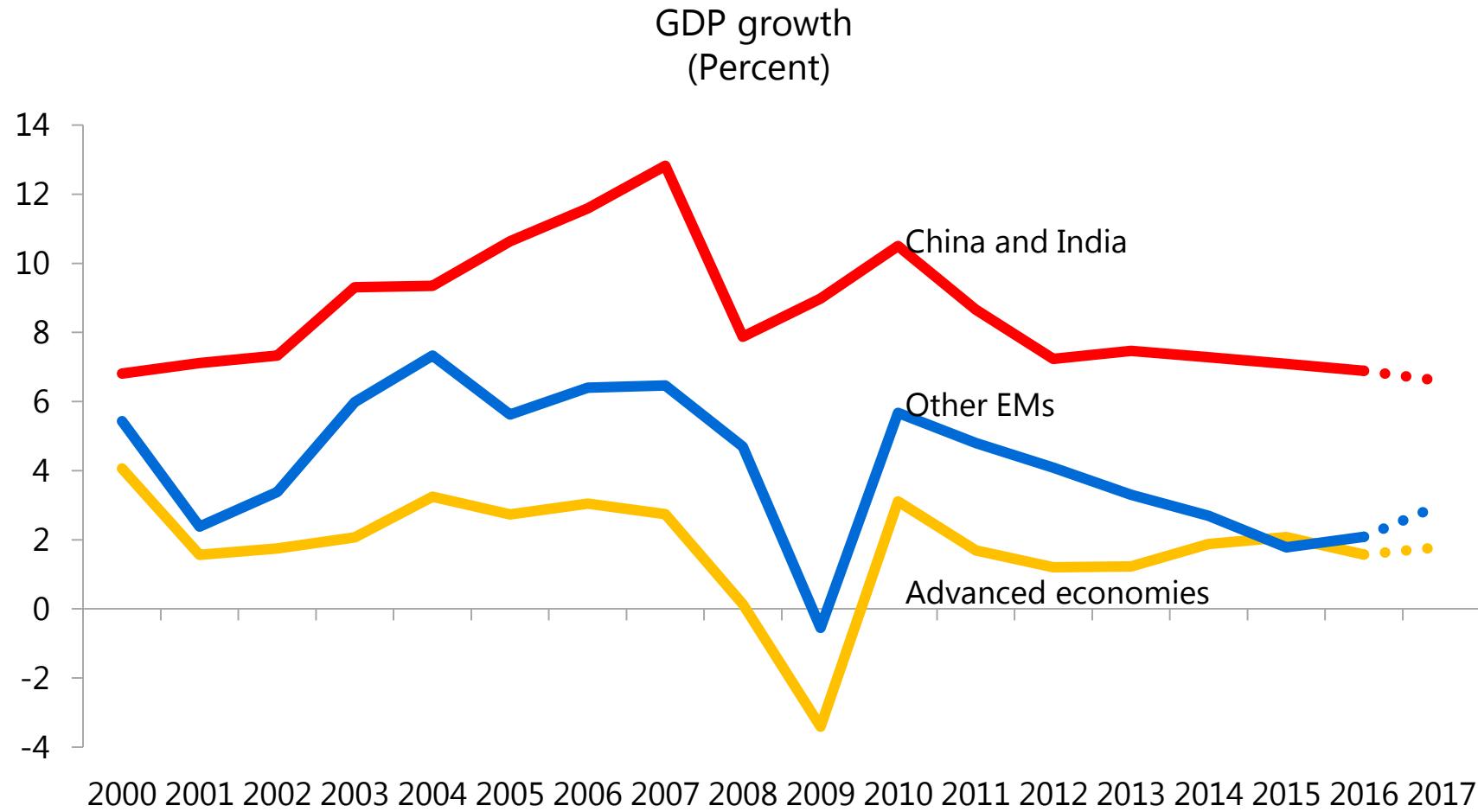
The Central and Eastern European Forum
Vienna, January 17, 2017

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

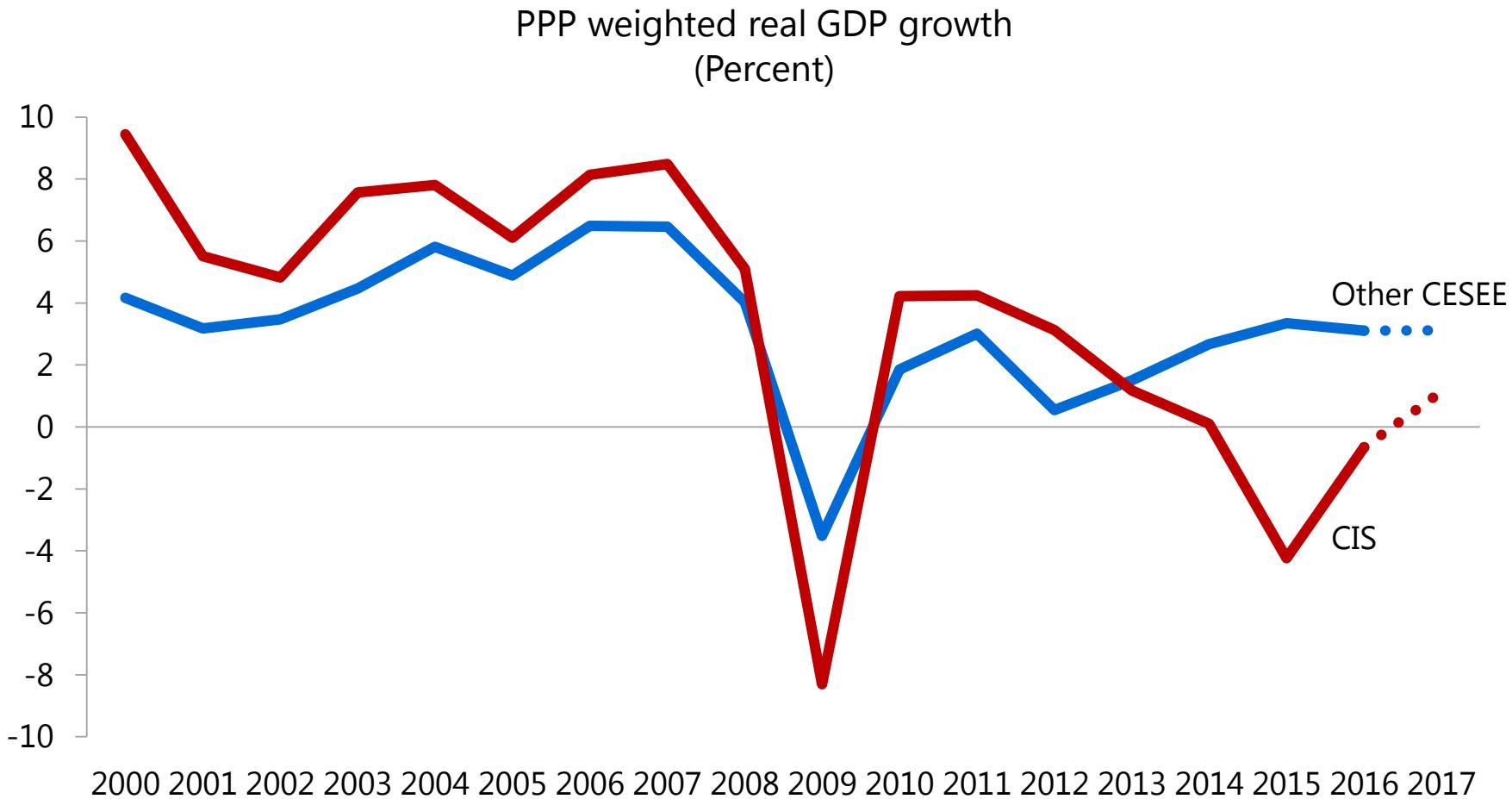
In last few years, global growth has hovered around 3¼ percent



Growth in advanced countries has increased, but growth in EMs has slowed—particularly outside China and India



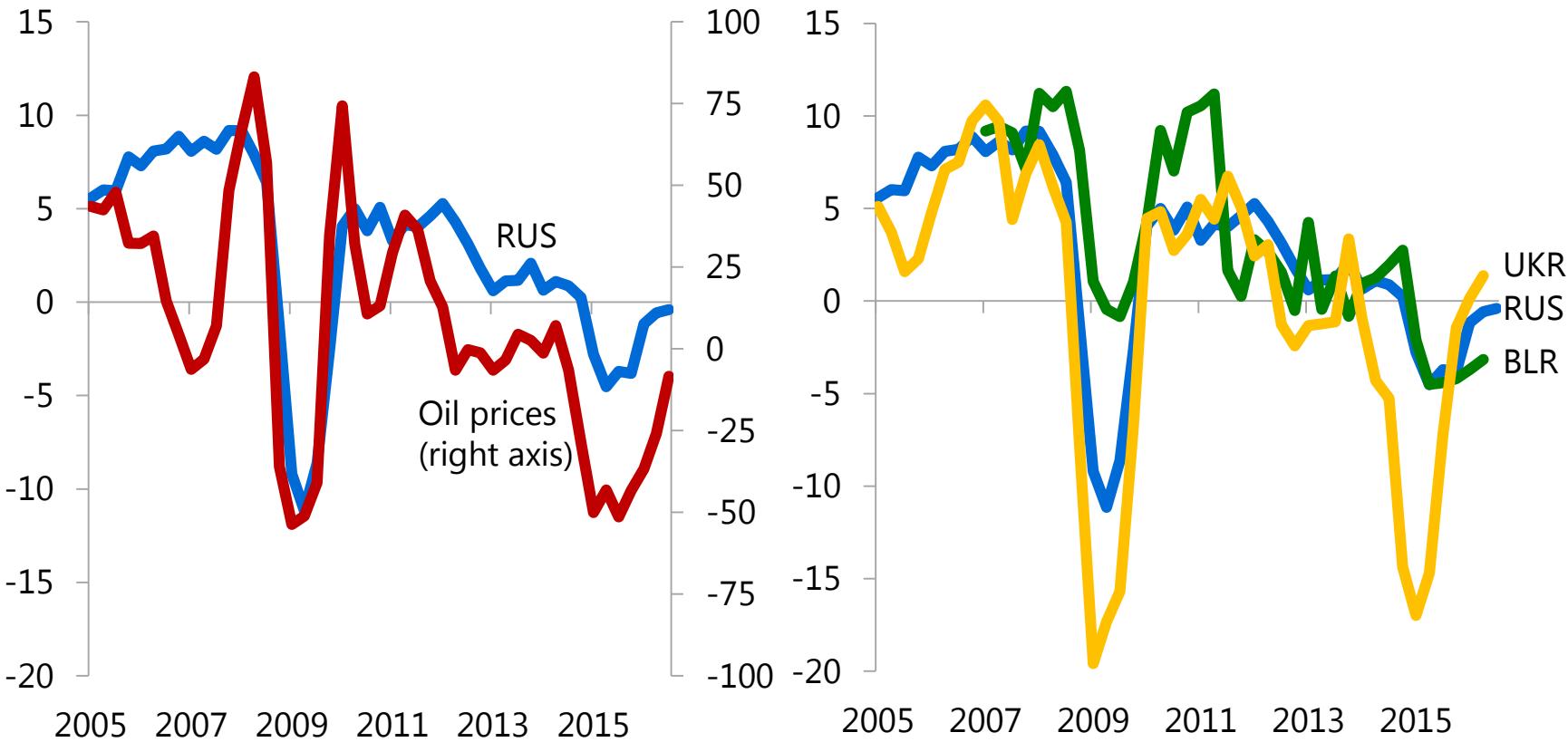
Within CESEE dichotomy: CIS was in recession, but non-CIS fairly strong



CIS was hit by oil price decline, sanctions and conflict in Ukraine, but is now recovering



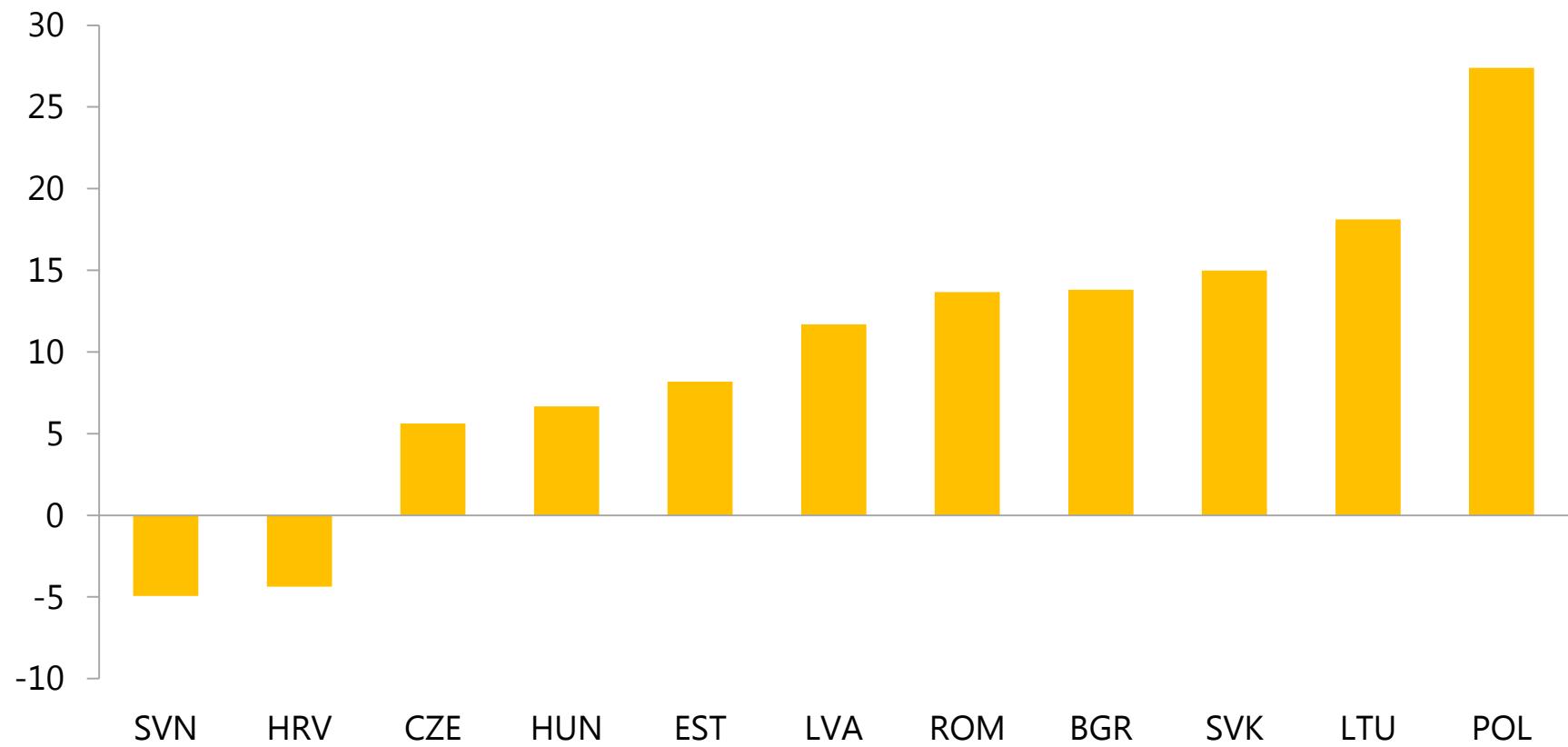
Real GDP growth in Russia, other CIS countries and changes in oil prices
(Percent, y/y)



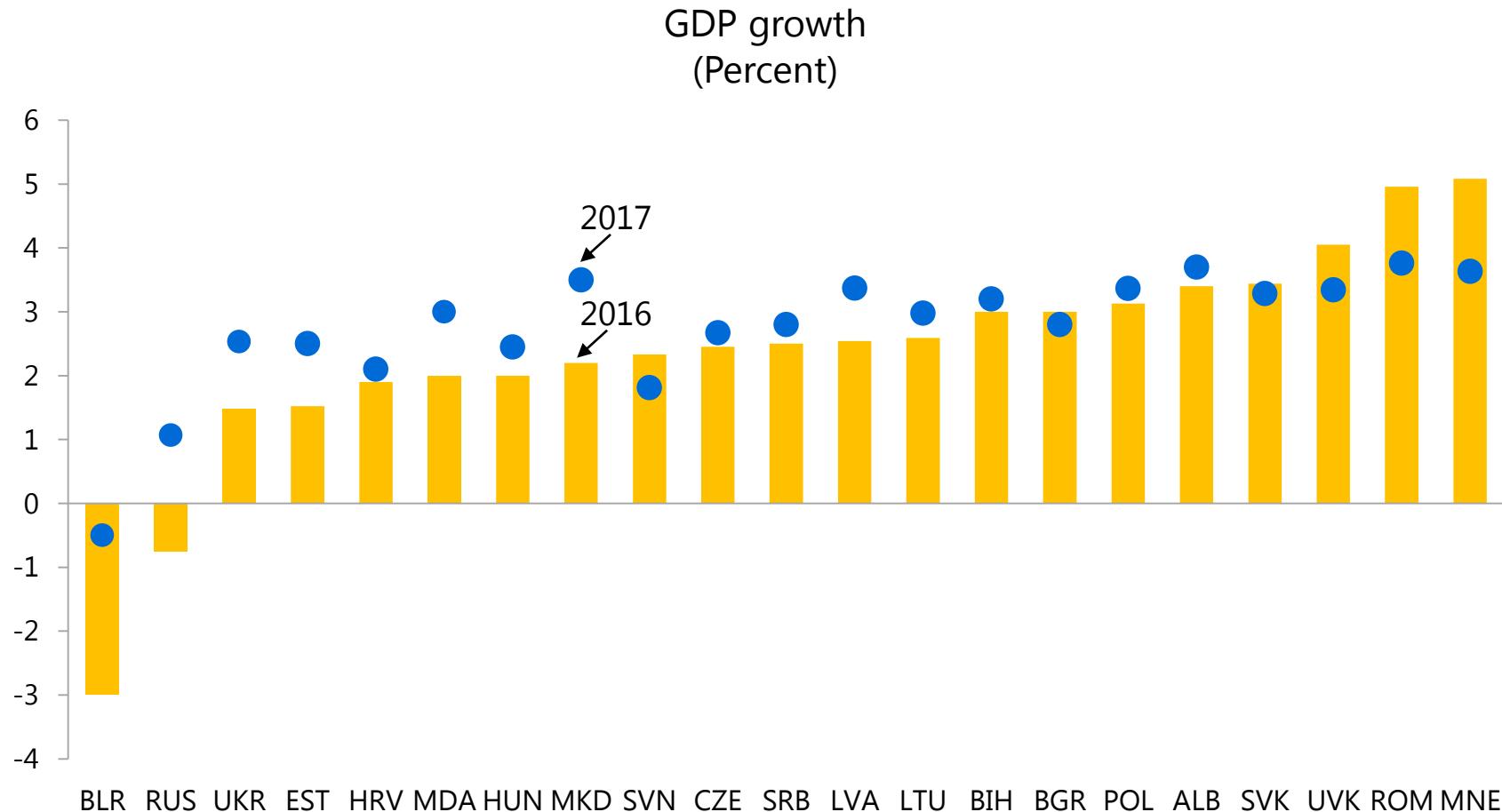
By contrast, EU new member states continue to recover from 2009 crisis



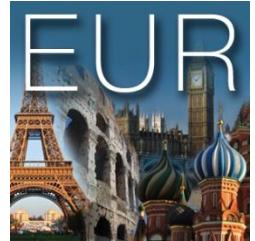
Real GDP per capita growth, 2008-16
(Percent)



October 2016 WEO projections: pick-up in CIS in 2017, and continued strong growth in rest of CESEE

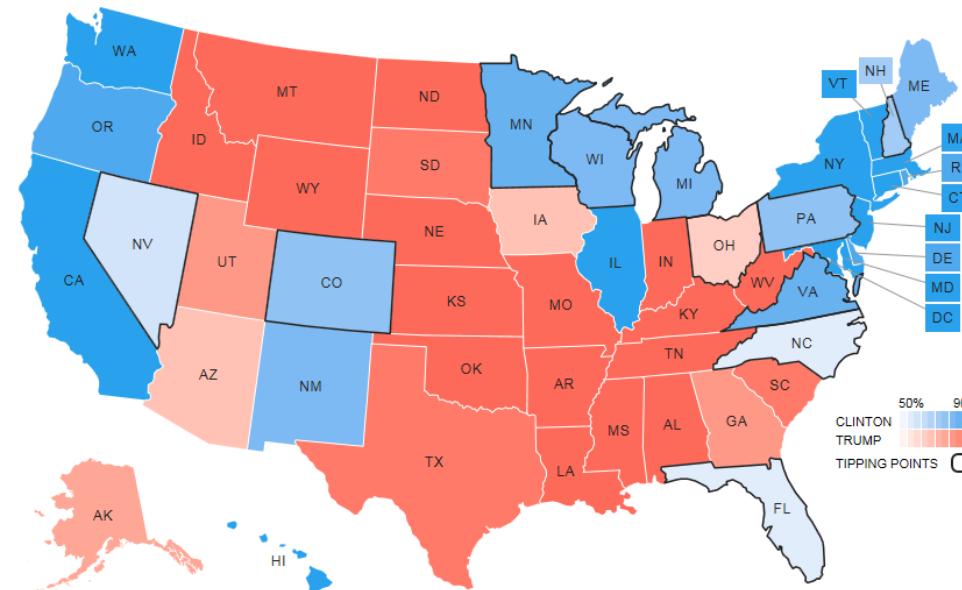


After projections were made Donald Trump was elected, which was not quite expected by markets

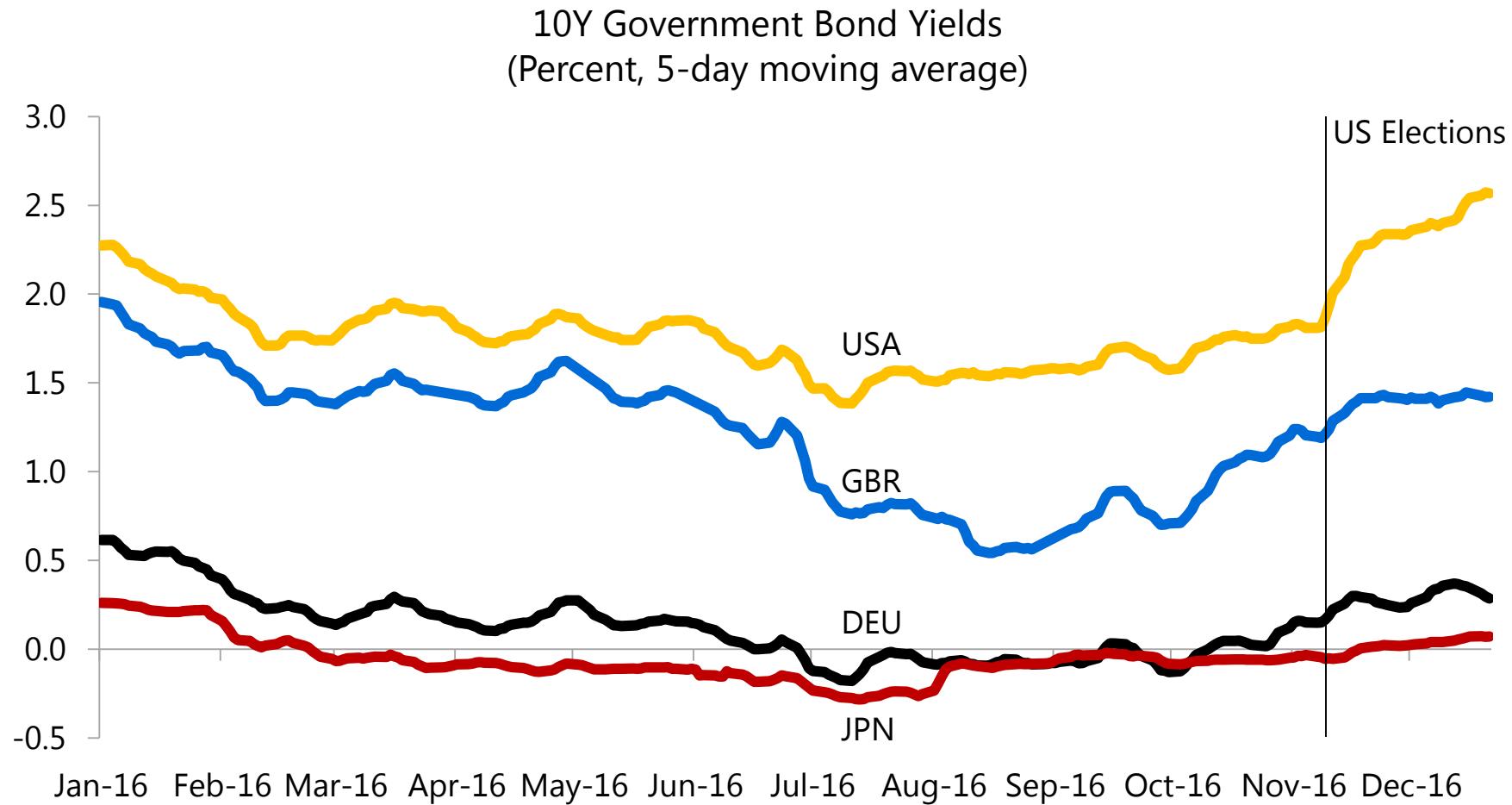


Who will win the presidency?

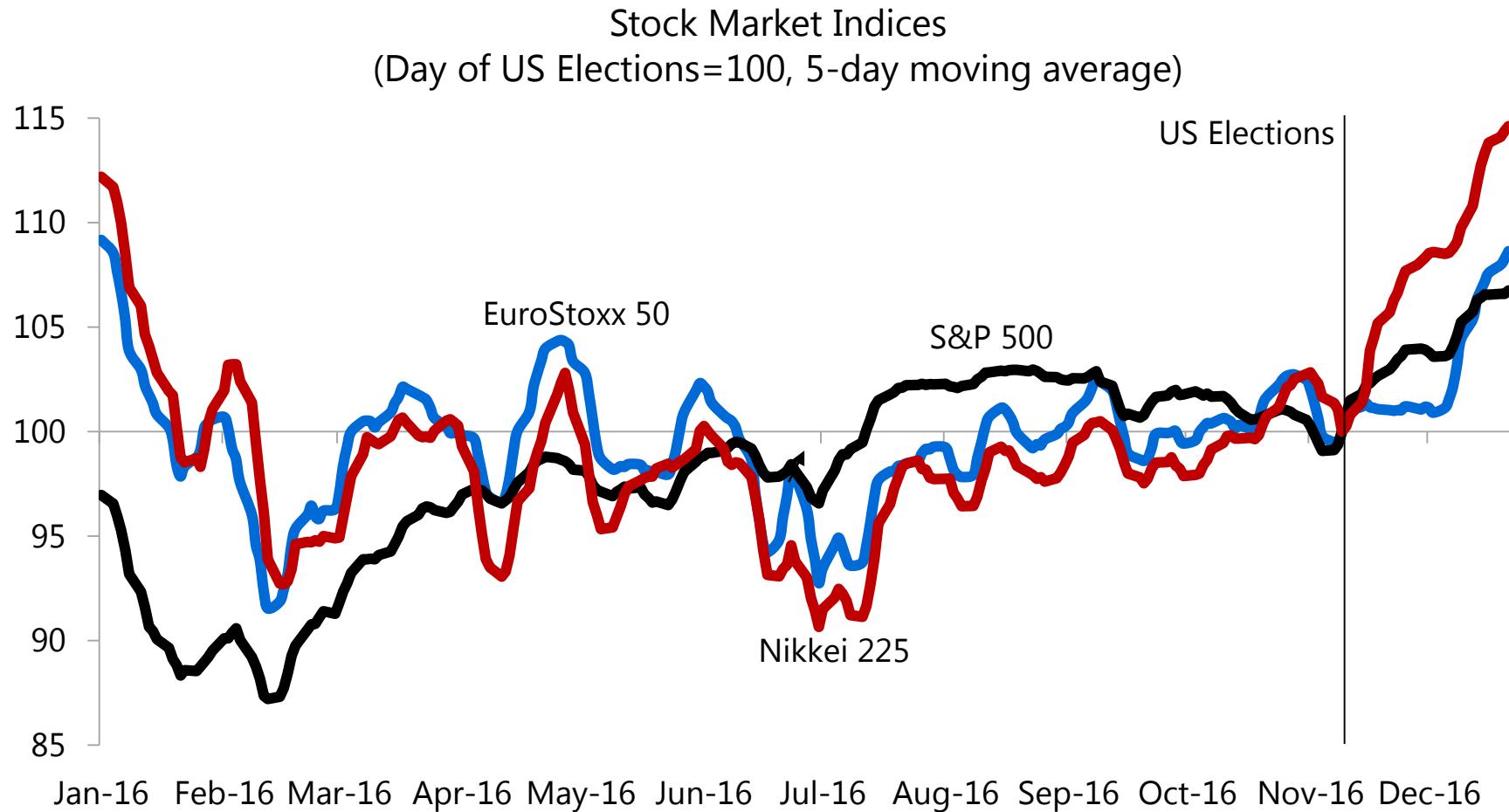
Chance of winning



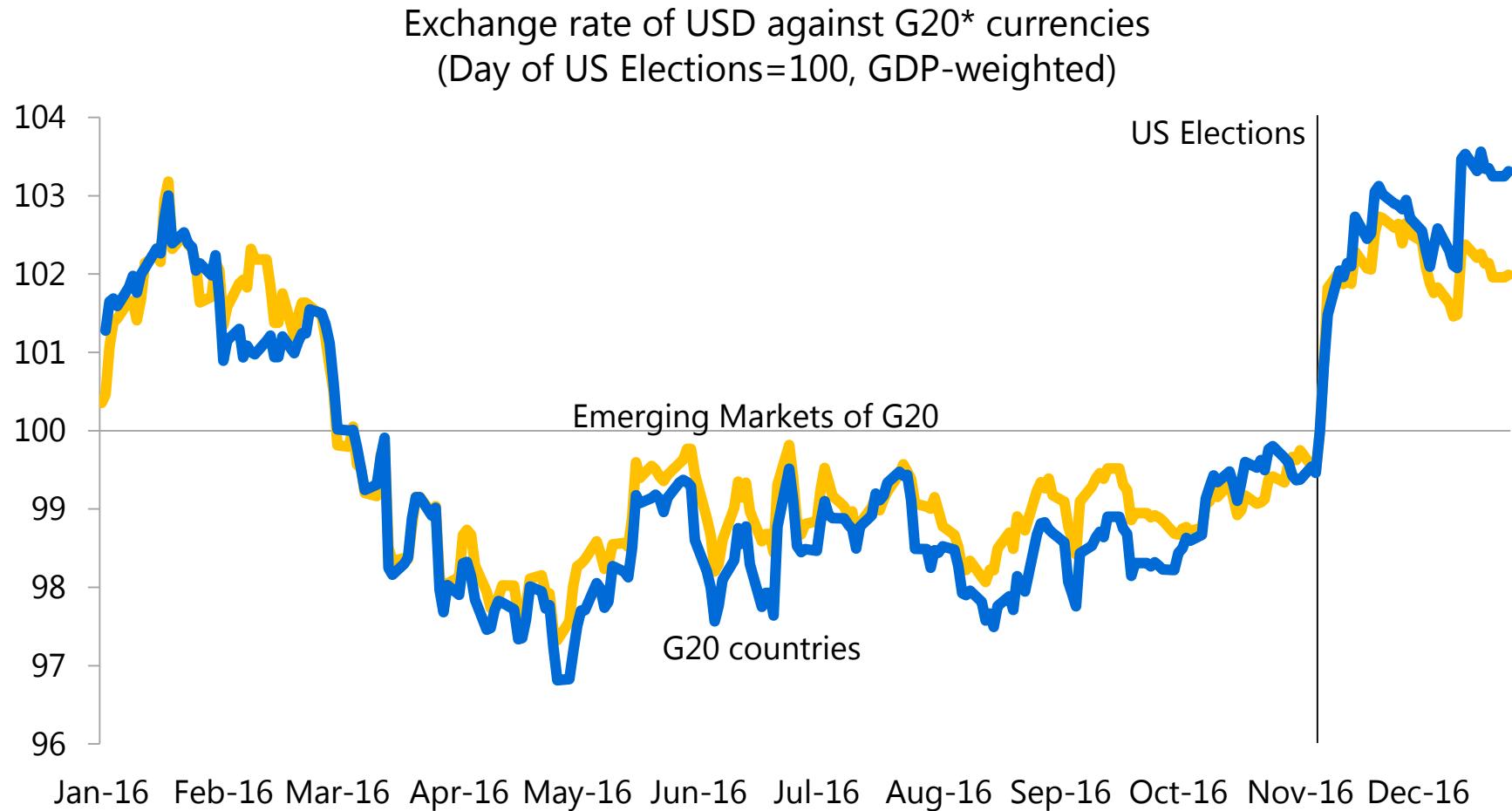
Since the election there has been a sharp increase in US long-term interest rates



...as financial markets have become more optimistic...

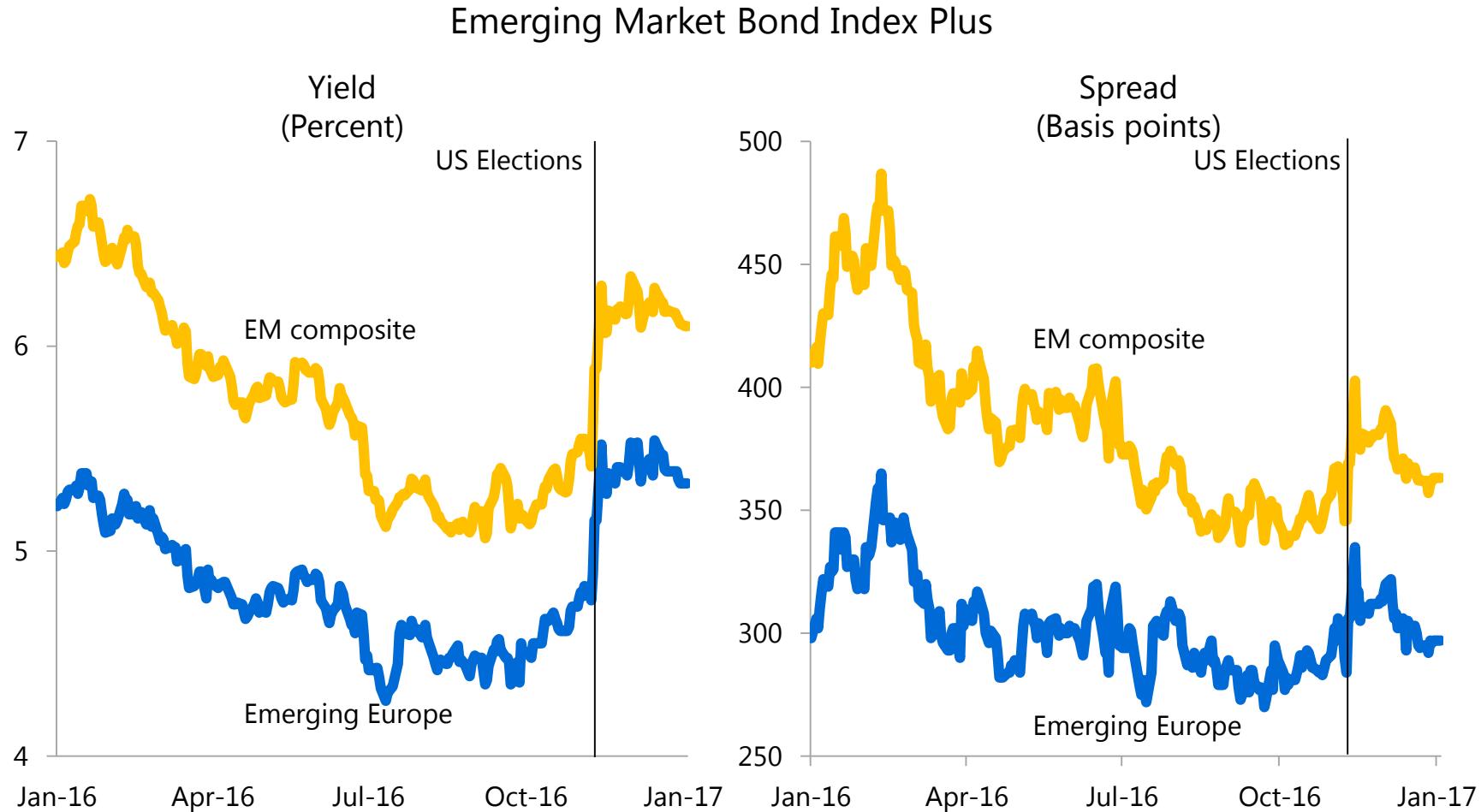


Dollar appreciated strongly

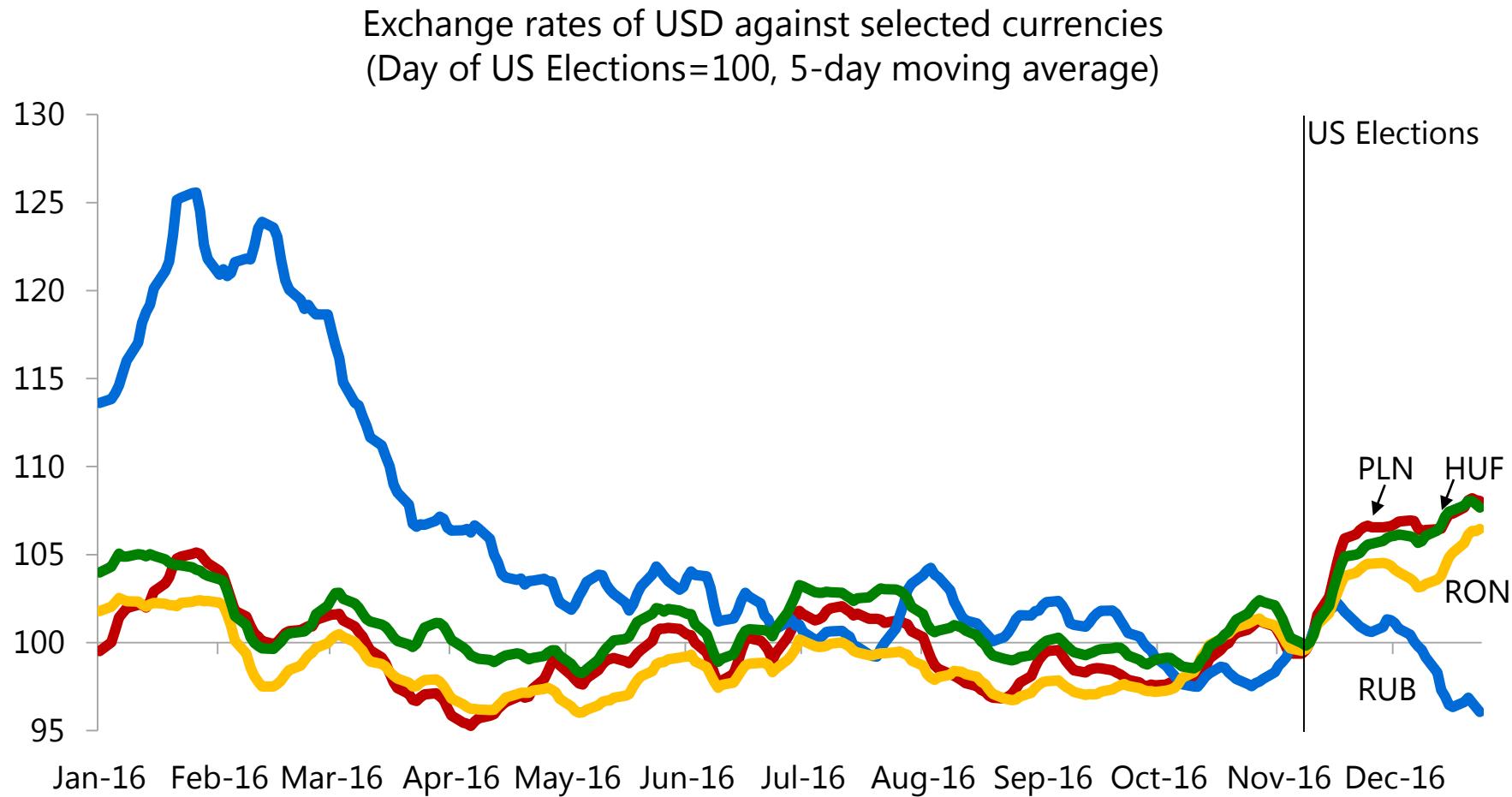


*DEU, FRA, ITA and EU are replaced by EA.

Financial conditions for EMs have tightened, but spreads broadly unchanged



In CESEE, exchange rates have depreciated vis-à-vis dollar, except RUB (oil prices up)



Markets seem to anticipate US tax cuts and higher US growth. What does this mean for CESEE?



- Stronger US growth
 - Will boost exports, but at risk of more protectionism
 - May boost commodity prices
- Stronger dollar
 - Helps exporters ✓
 - Negative balance sheet effects for dollar-indebted ✗
- Higher financing costs
 - Hurts countries with weak growth ✗
 - May help countries that are advanced in the cycle ✓

For CESEE overall impact likely to be modest



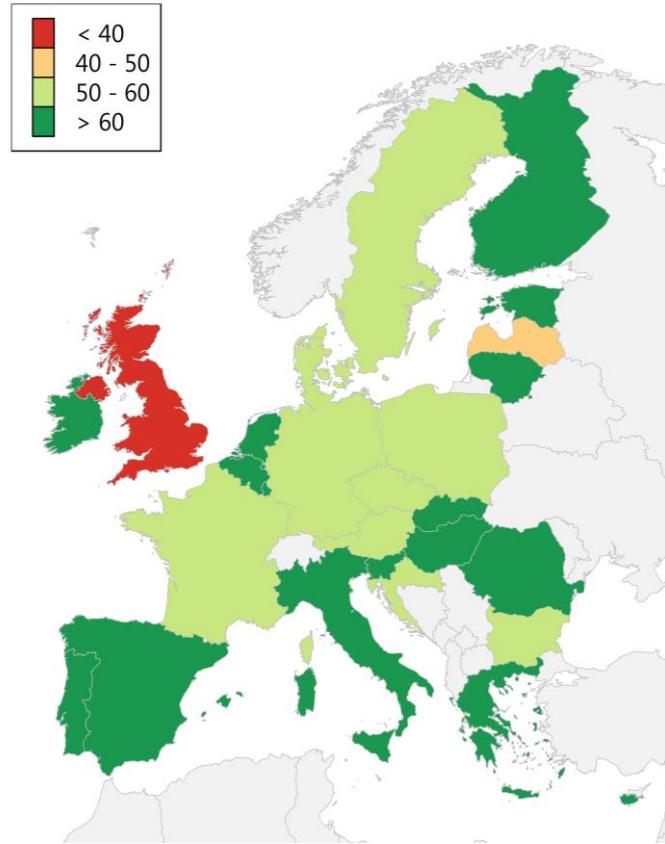
- But this will depend on US policies, which are not quite clear at this stage.
- There are also risks:
 - Increase in US protectionism, which could lead to trade war
 - With already low unemployment, large fiscal stimulus could lead to much faster than expected monetary tightening.

Bigger risk may be Europe. Unhappiness with EU has increased sharply in past decade...

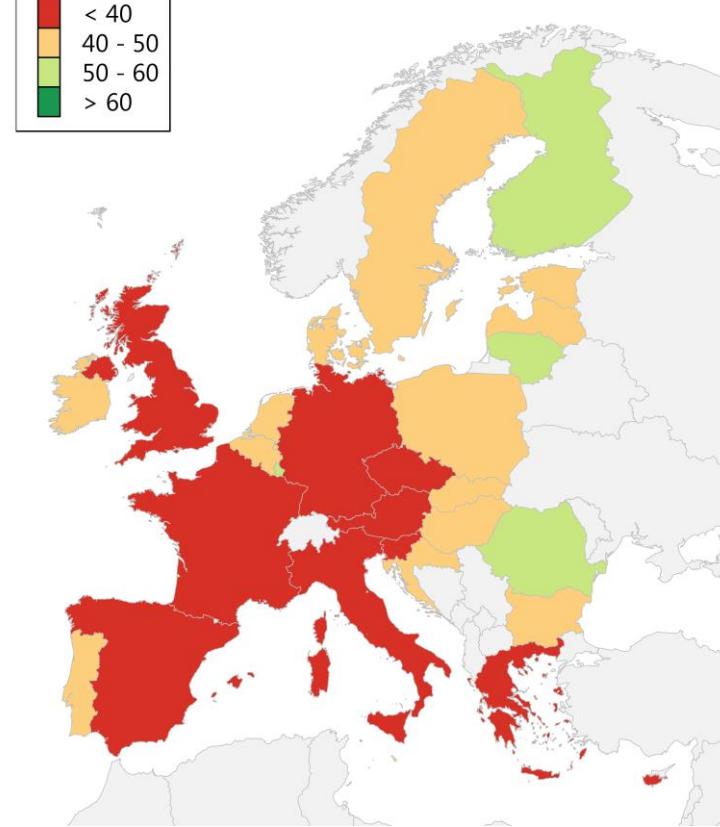


Level of confidence in the European Union
(Percent of population surveyed by Eurobarometer)

In 2004



In 2016



Further fueled by concerns about migrations and economy



Most important issues facing the EU countries in 2016
(According to Eurobarometer)

Immigration



Unemployment or economic situation



There are a number of important elections in 2017

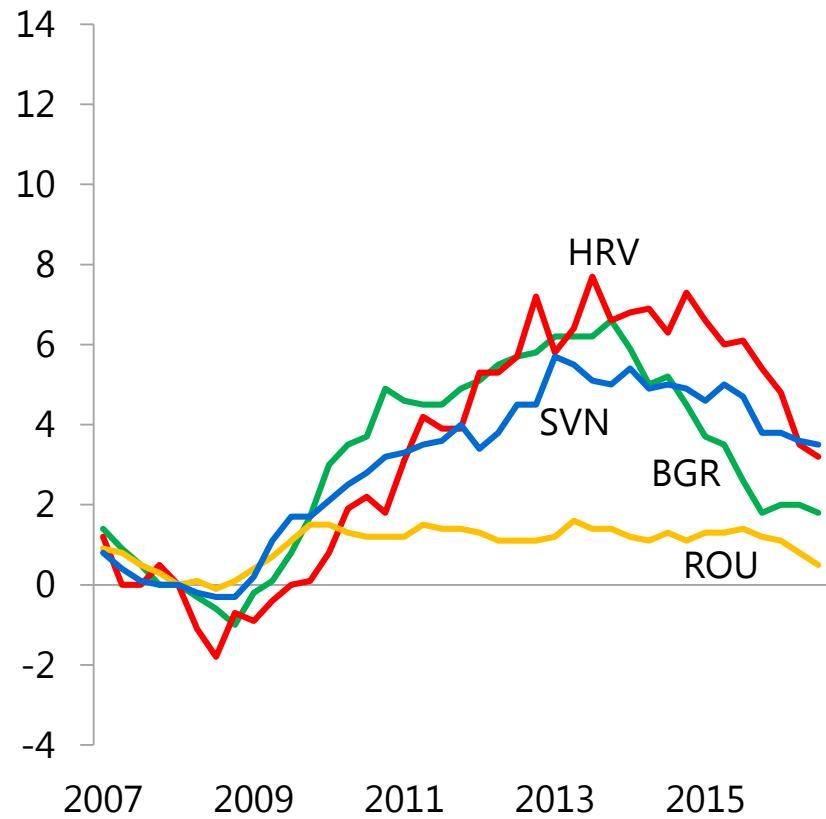
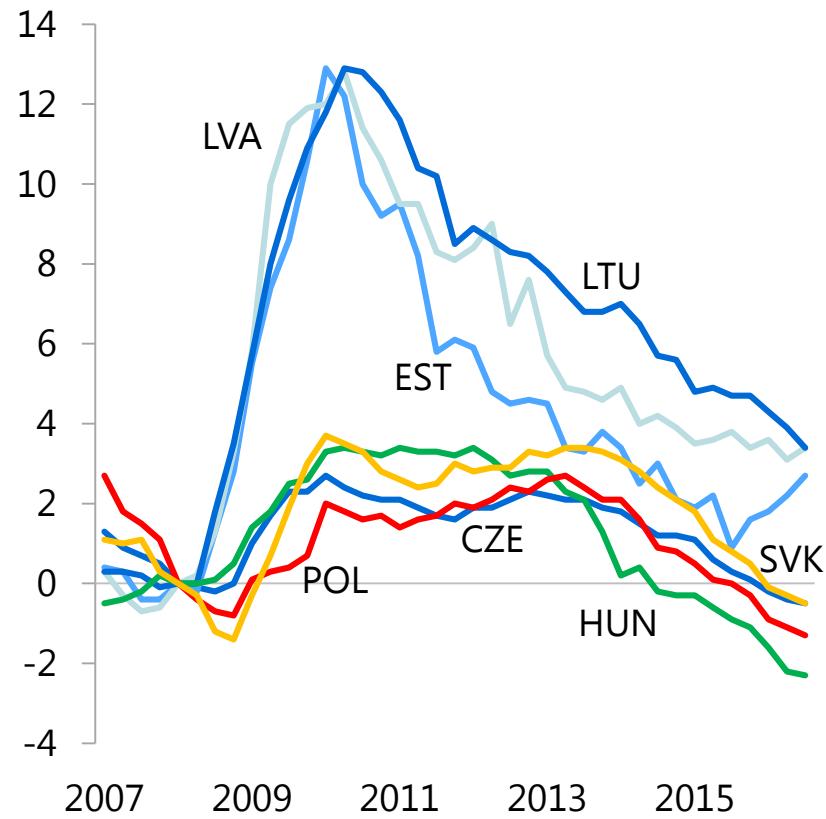


- French presidential elections
- German federal elections
- (Possibly) Italian general elections

There is also a question how sustainable current boom in EU new member states is. Unemployment is near pre-crisis levels and falling rapidly



Cumulative changes in unemployment rate
(2008Q1=0, seasonally adjusted)



How long can current pace of growth in CESEE continue?



- Unemployment cannot continue to come down
- In several countries wages already growing faster than productivity, eroding profits
- To continue current growth, increasing labor force participation key



Thank you