

CESEE Economic Outlook



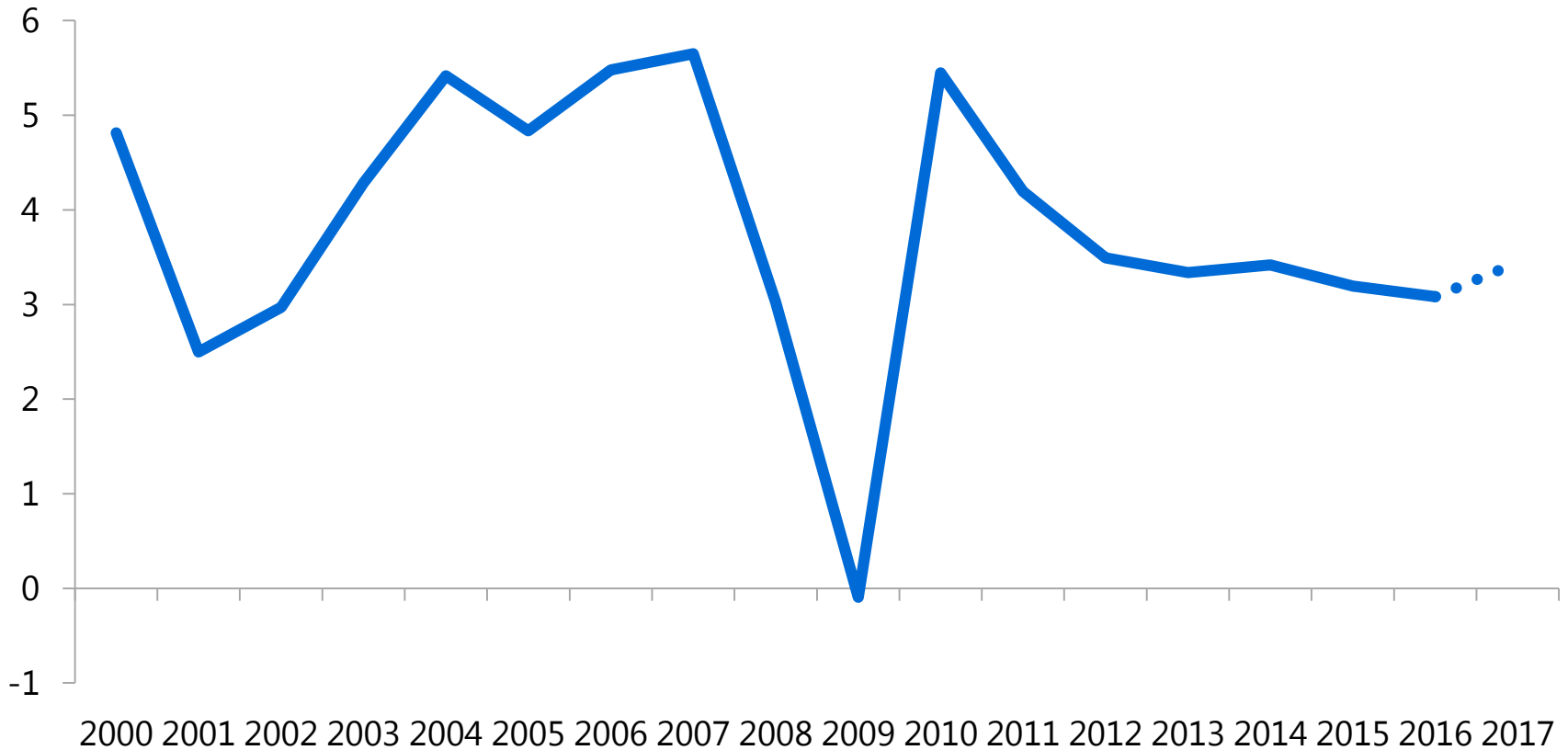
Vienna Initiative Plenary Meeting
Luxembourg, March 6, 2017

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

Global growth has hovered in 3-3½ percent range



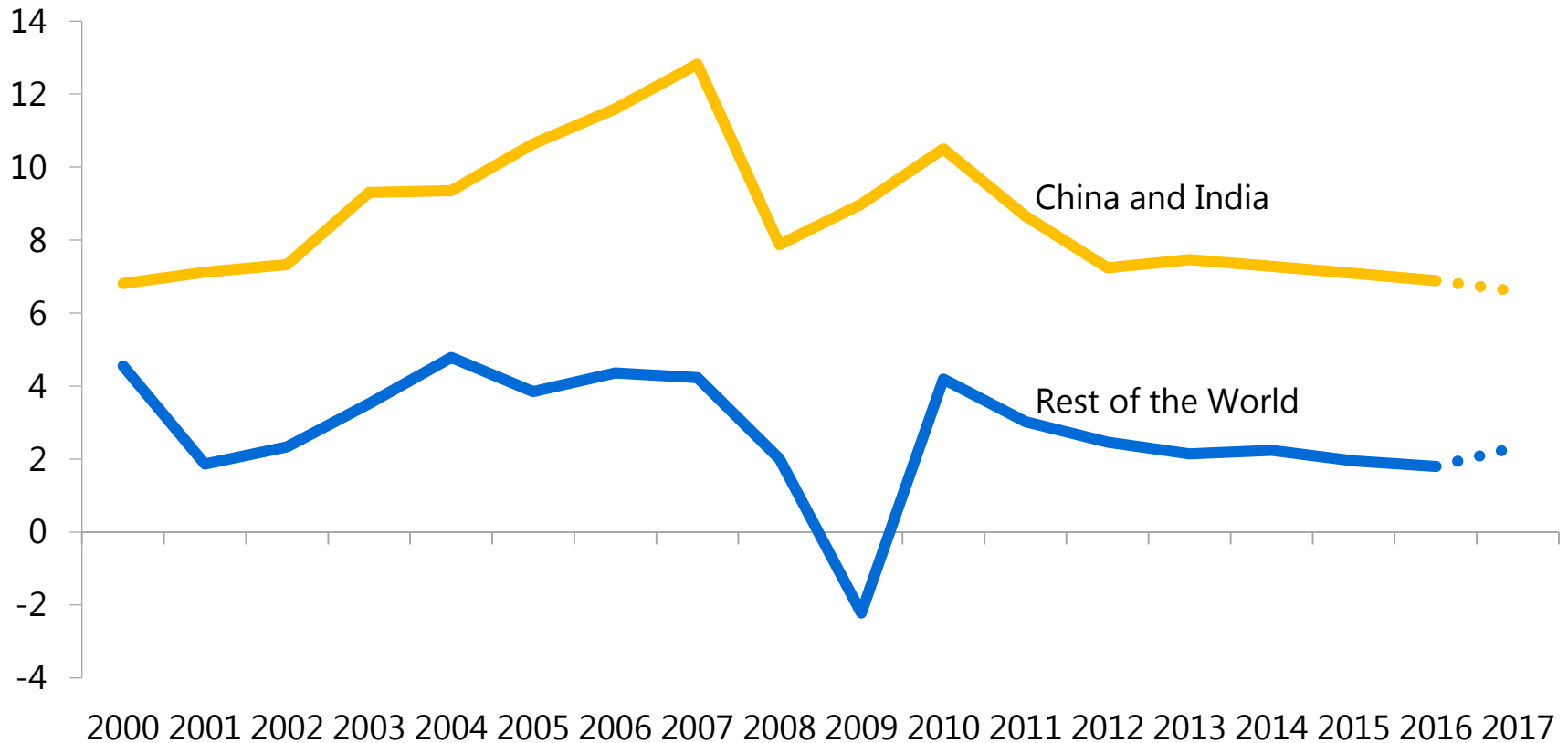
Global GDP growth
(Percent)



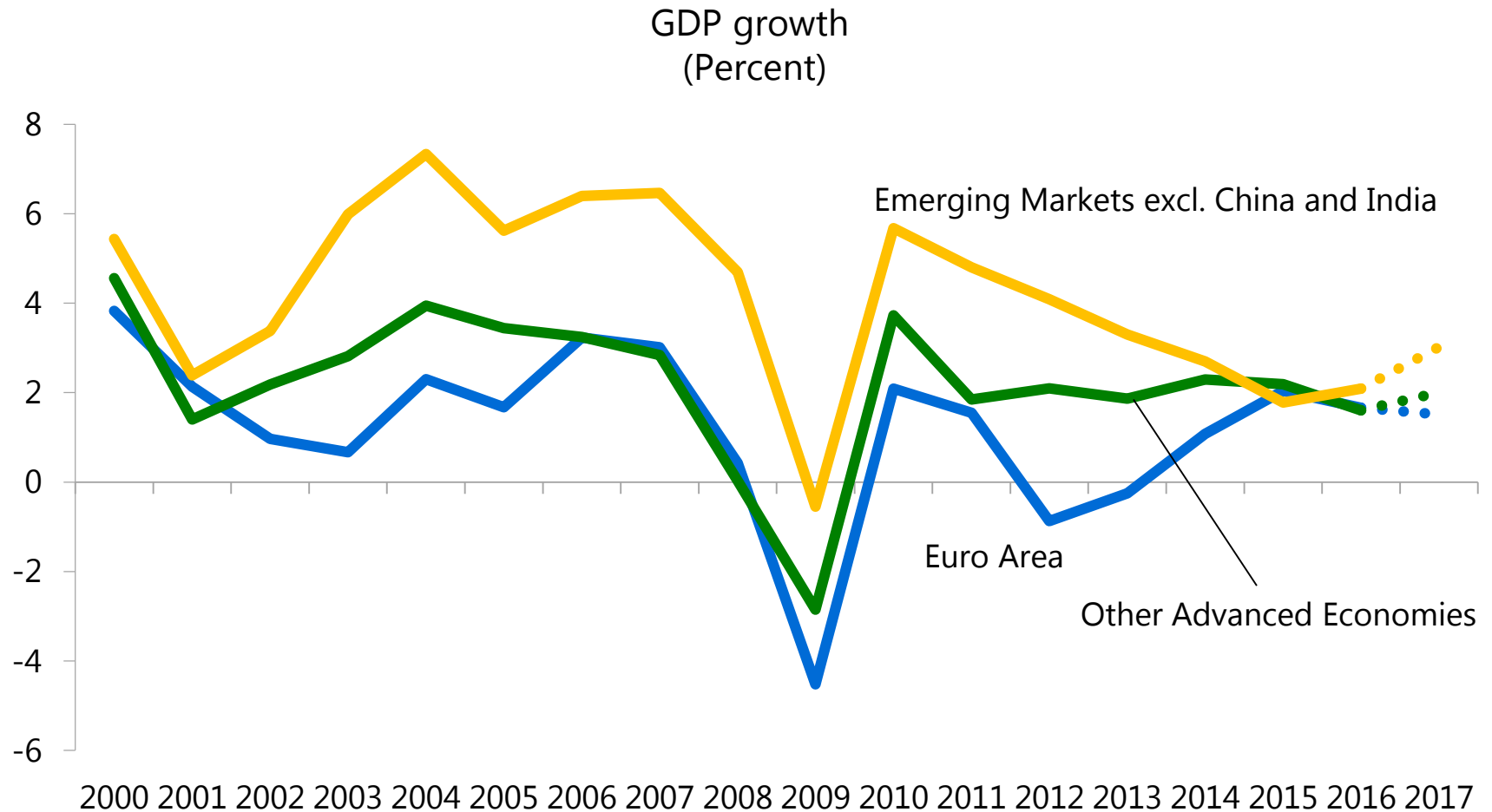
Outside China and India, growth was only 2 percent



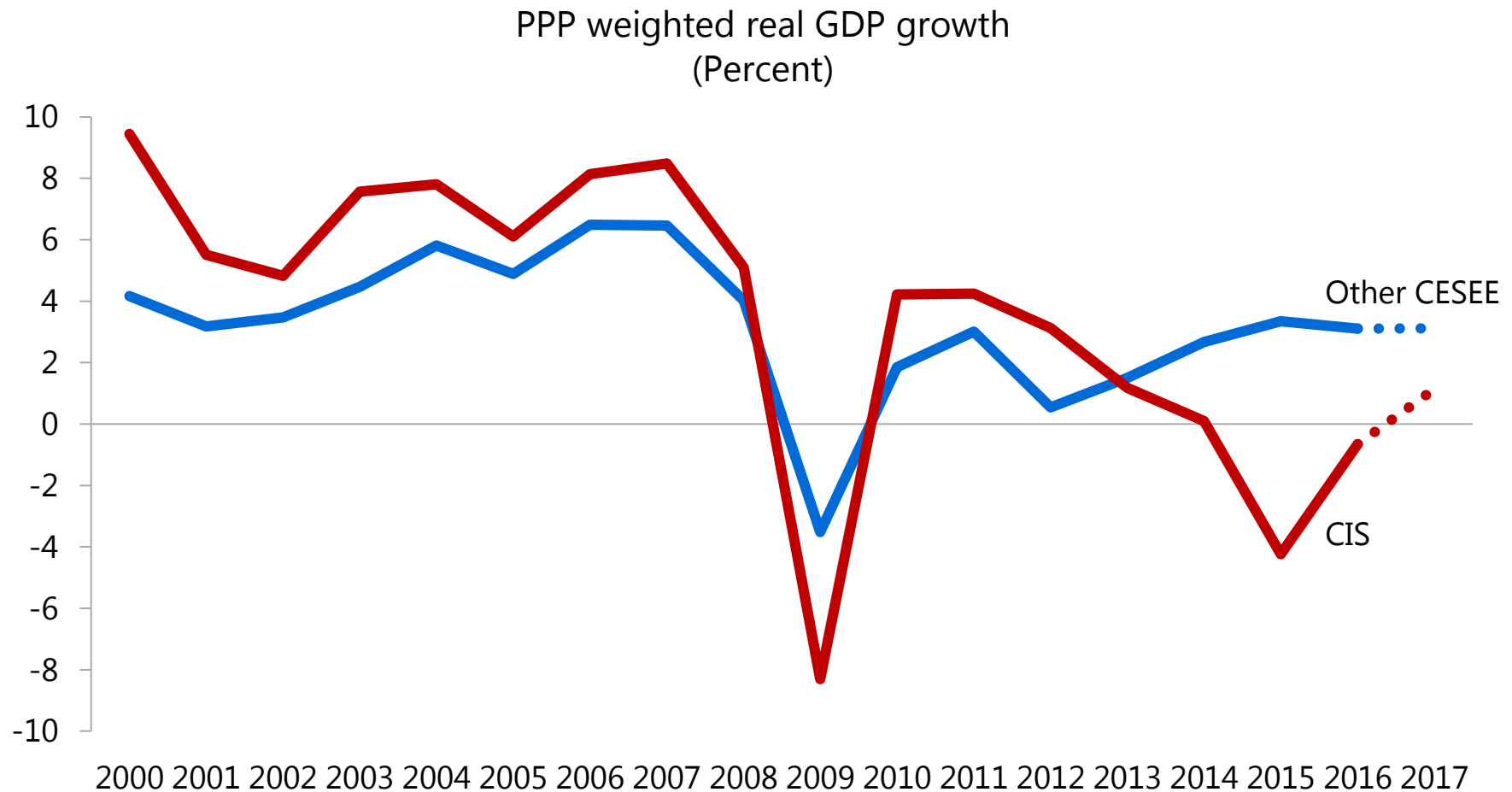
GDP growth
(Percent)



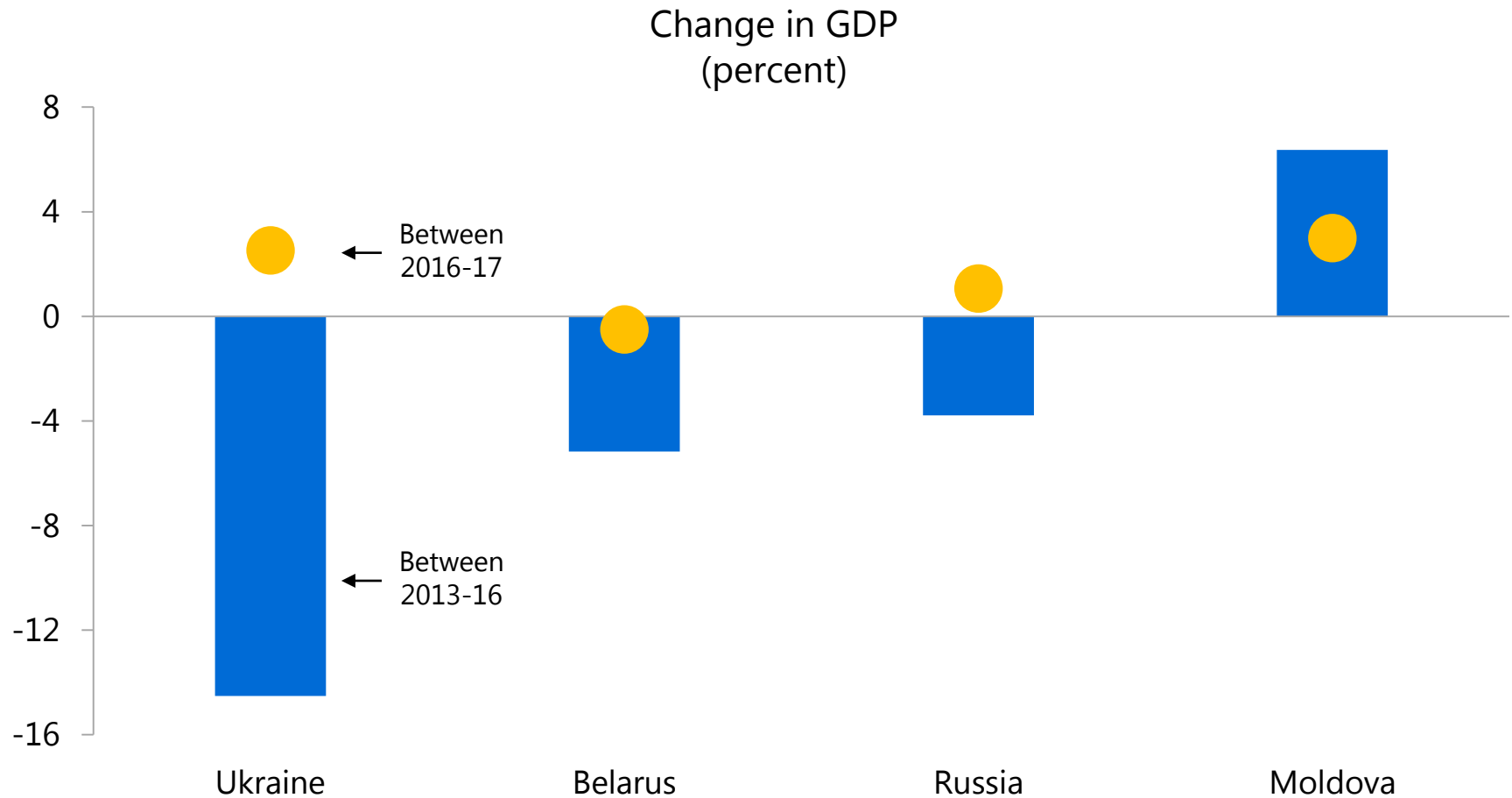
Growth in euro area has picked up, but growth in emerging markets has slowed



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



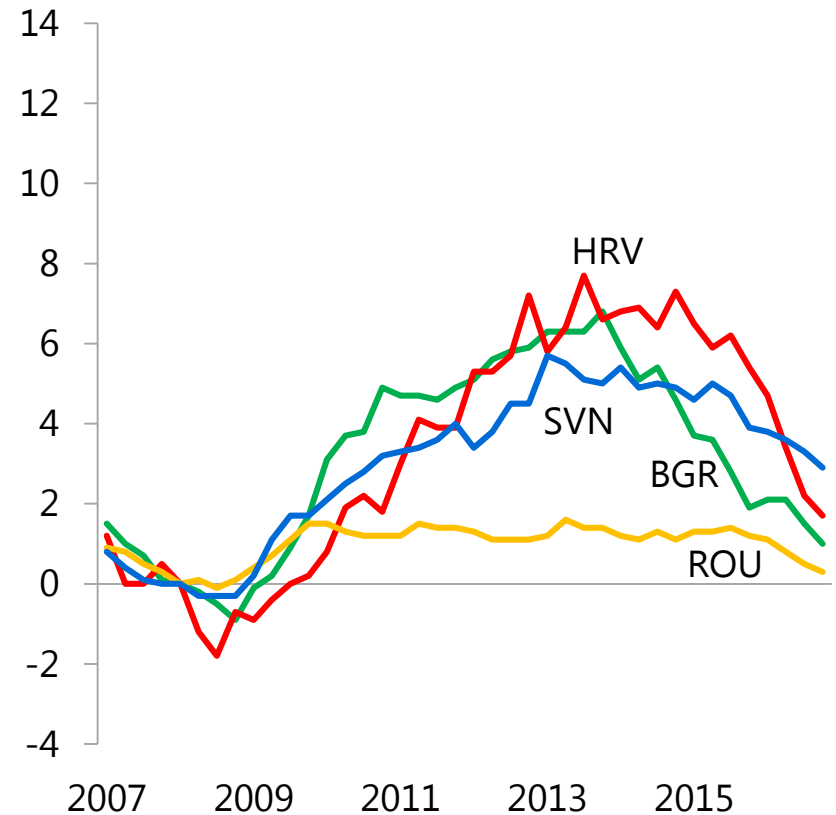
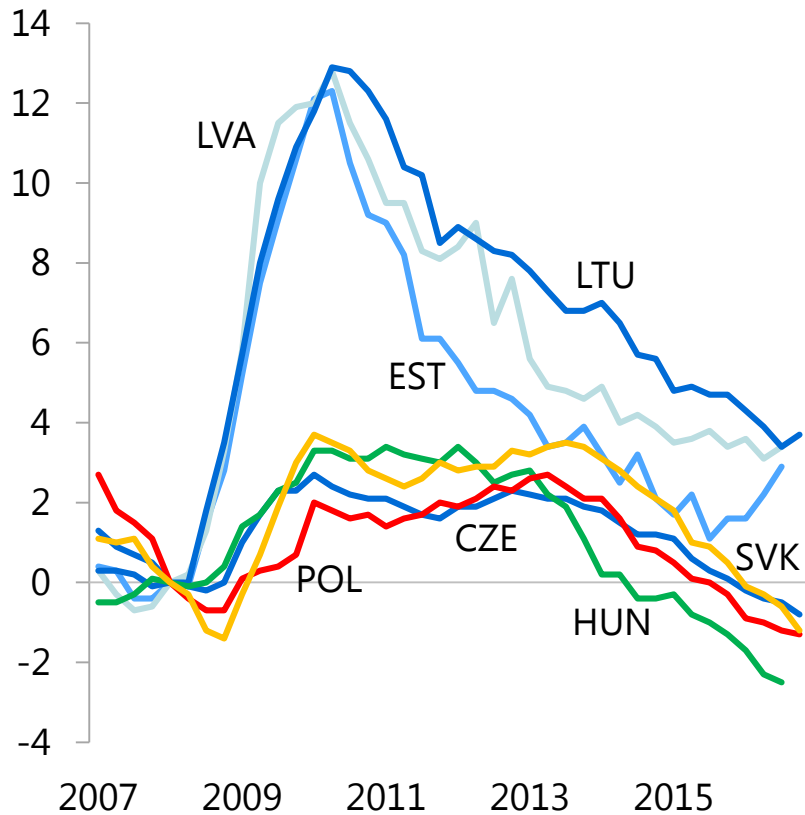
CIS countries were in recession but are now recovering



Unemployment in the EU New Member states is coming down rapidly



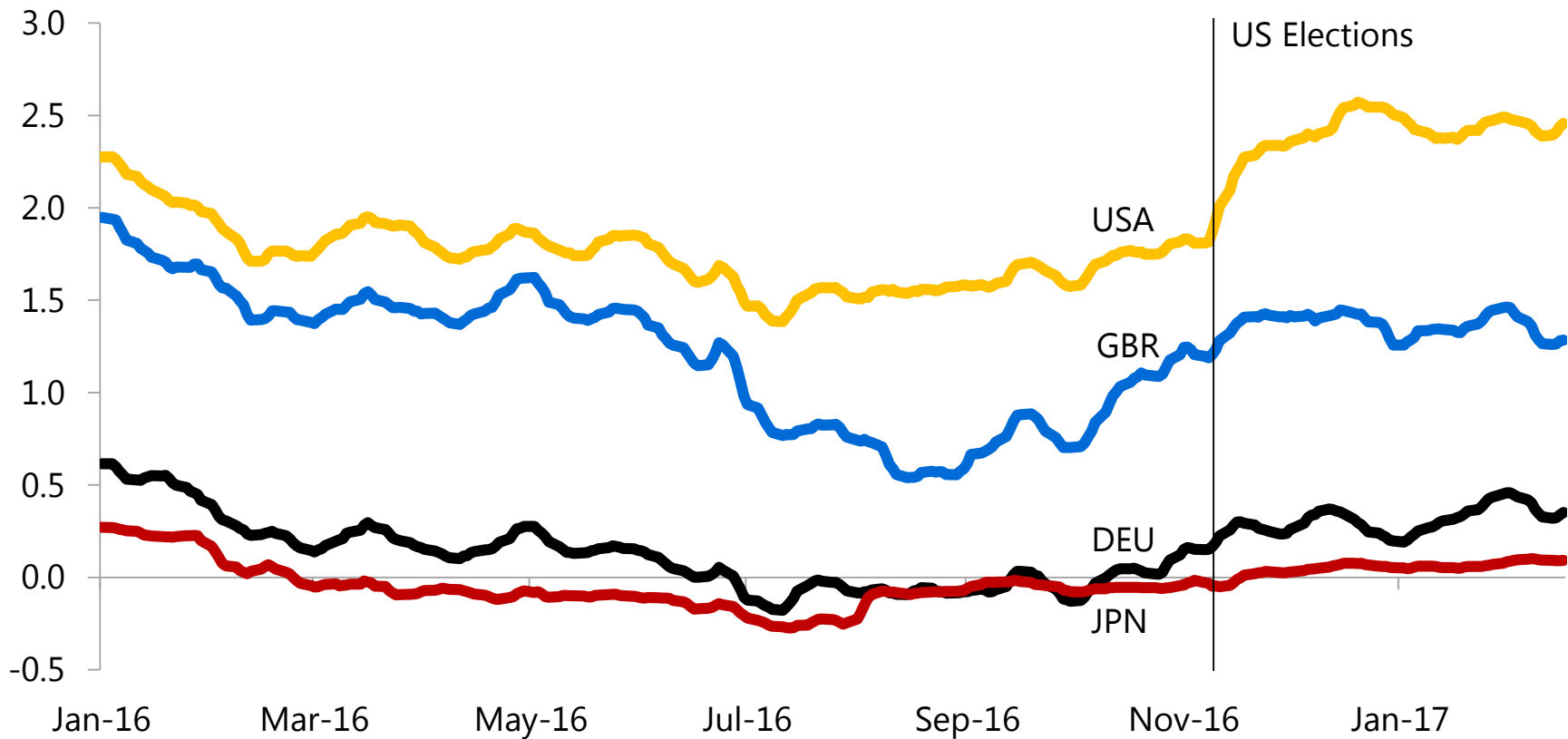
Cumulative changes in unemployment rate
(2008Q1=0, seasonally adjusted)



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



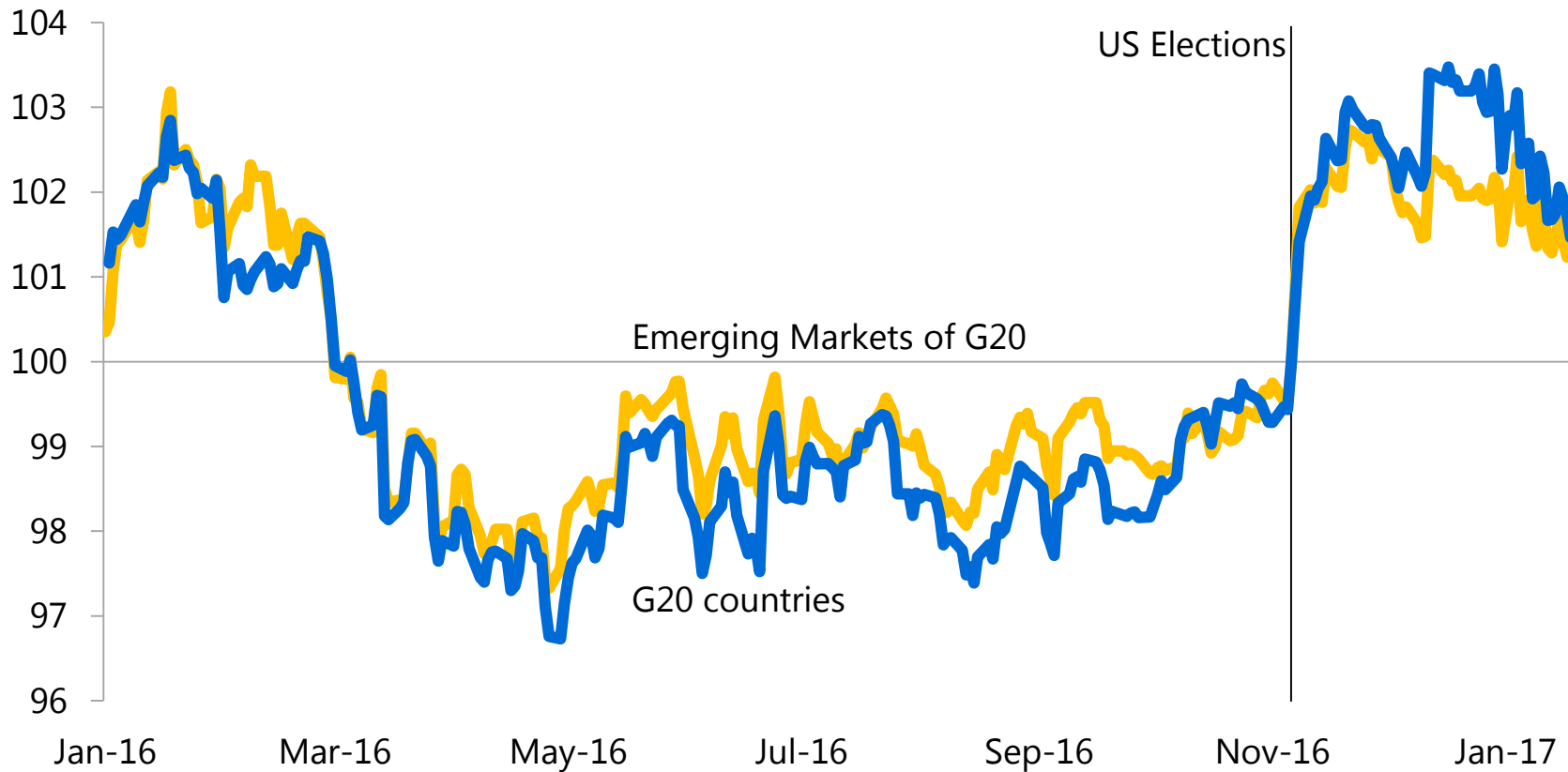
10Y Government Bond Yields
(Percent, 5-day moving average)



Dollar appreciated strongly (although more recently this has reversed)



Exchange rate of USD against G20* currencies
(Day of US Elections=100, GDP-weighted)

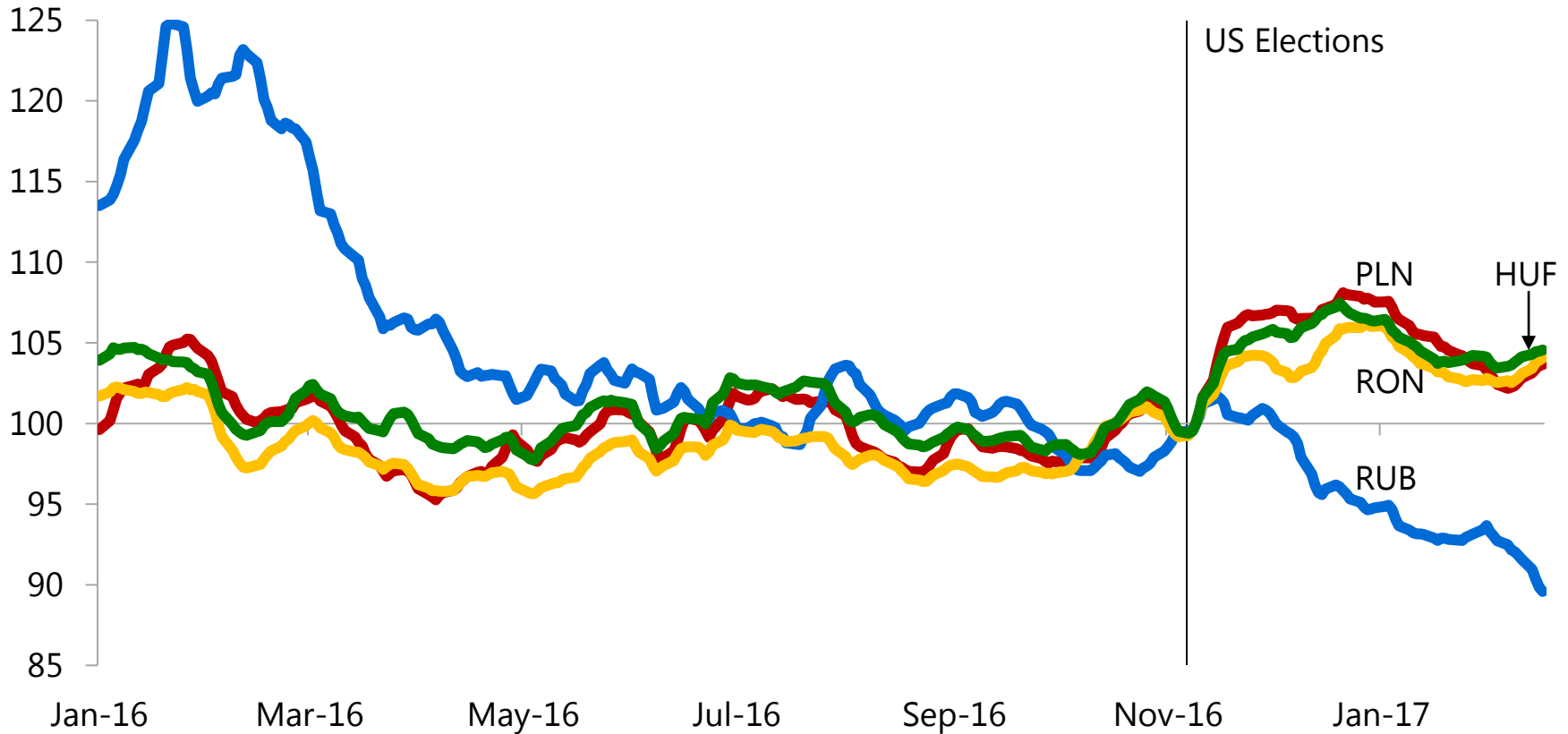


*DEU, FRA, ITA and EU are replaced by EA.

Including against CESEE (except RUB; oil prices up)



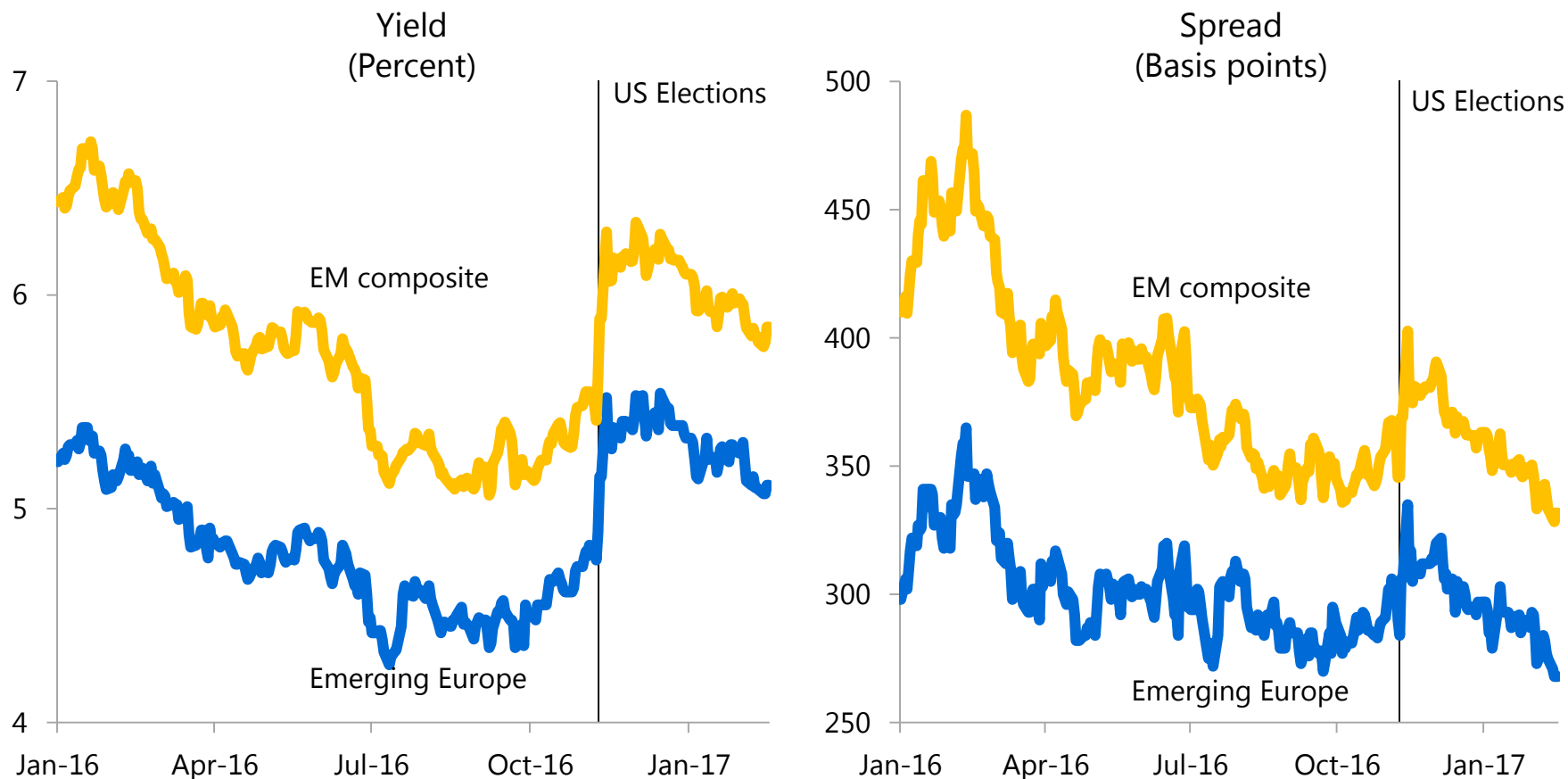
Exchange rates of USD against selected currencies
(Day of US Elections=100, 5-day moving average)



Financial conditions for EMs have tightened, but spreads broadly unchanged



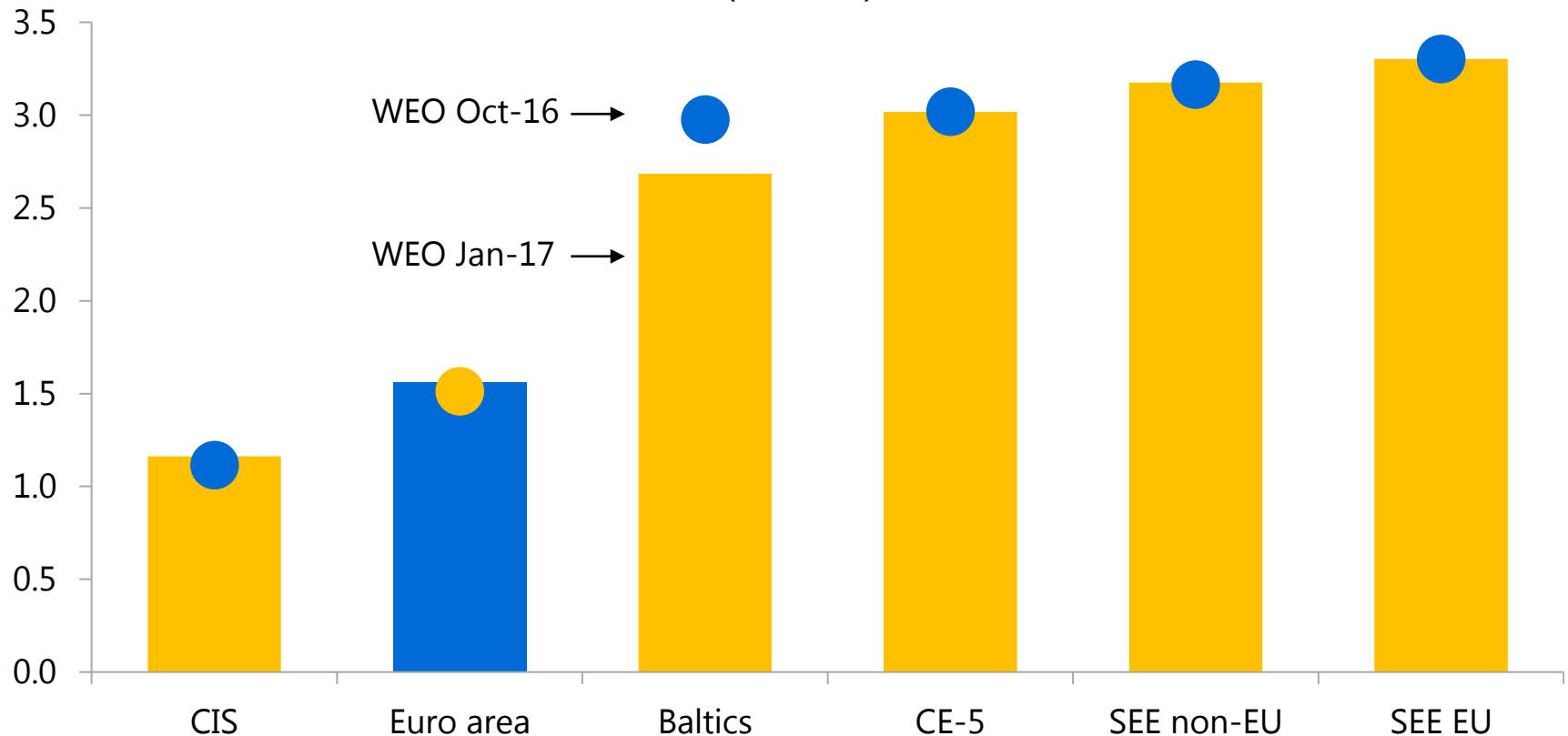
Emerging Market Bond Index Plus



So far, projections for CESEE have not changed much



GDP growth in 2017 according to different WEO vintages
(Percent)



However, there is uncertainty about the impact of US policies, which are not quite clear at this stage



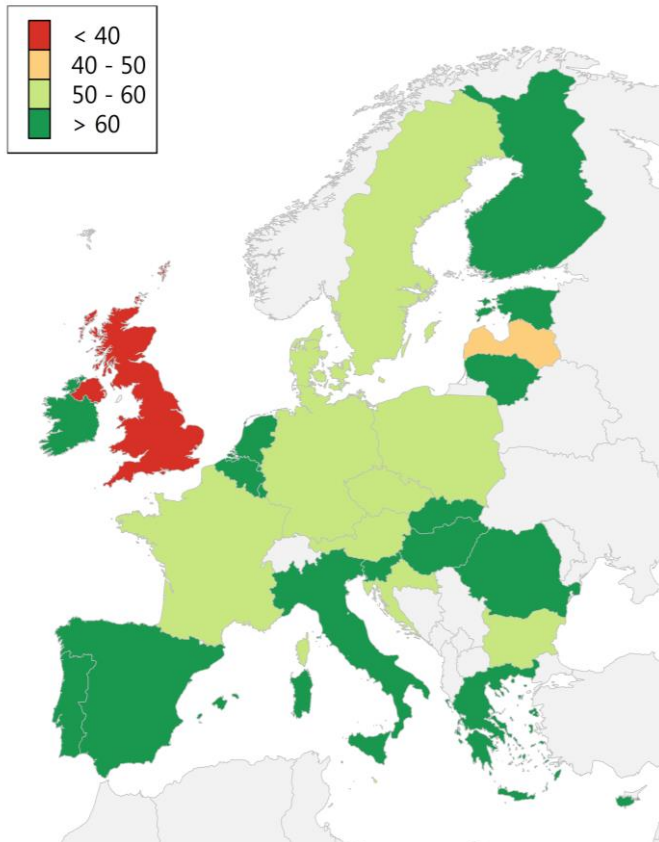
- Growth could be faster than currently projected
- There are also risks:
 - Increase in US protectionism, which could lead to trade war
 - With already low unemployment, large fiscal stimulus could lead to much faster than expected monetary tightening.

Another concern is Europe. Unhappiness with the EU has increased sharply in the past decade...

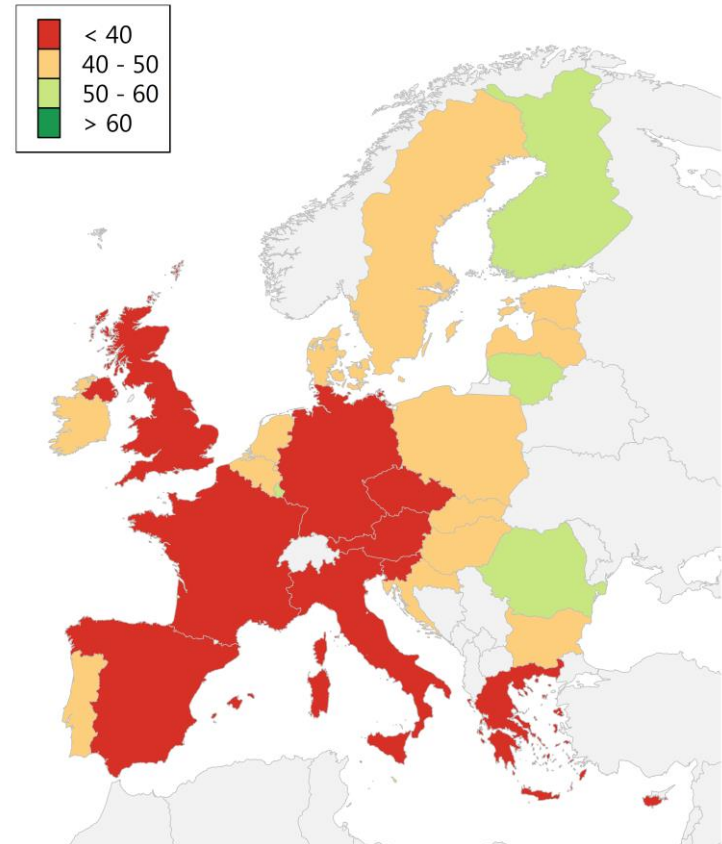


Level of confidence in the European Union
(Percent of population surveyed by Eurobarometer)

In 2004



In 2016



There are number of important elections in 2017

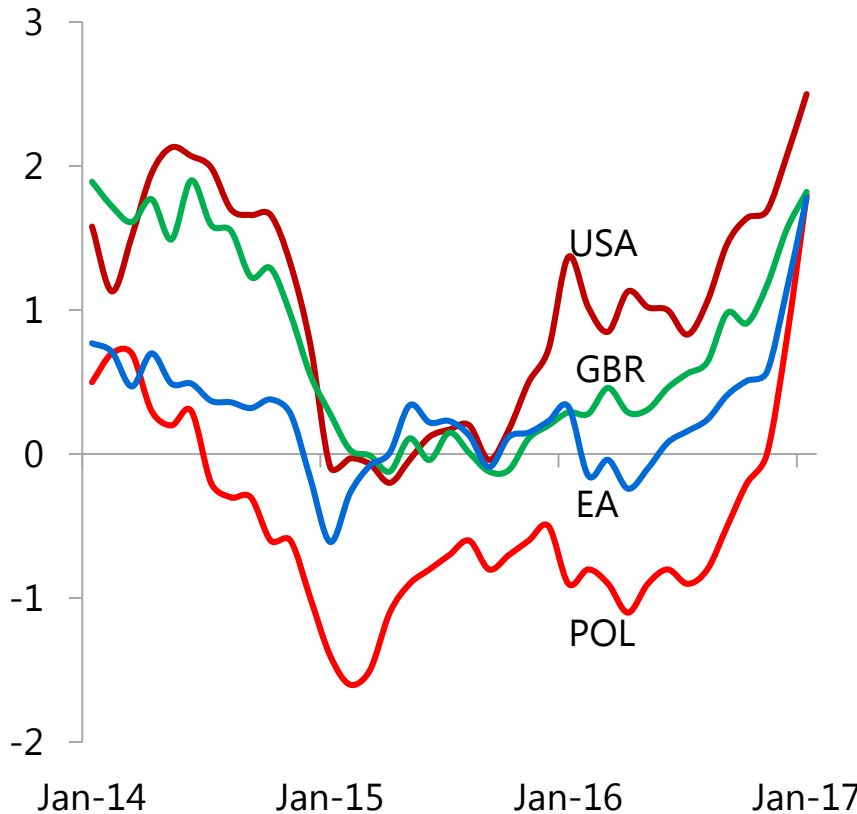


- French presidential elections
- German federal elections
- Dutch general elections
- (Possibly) Italian general elections

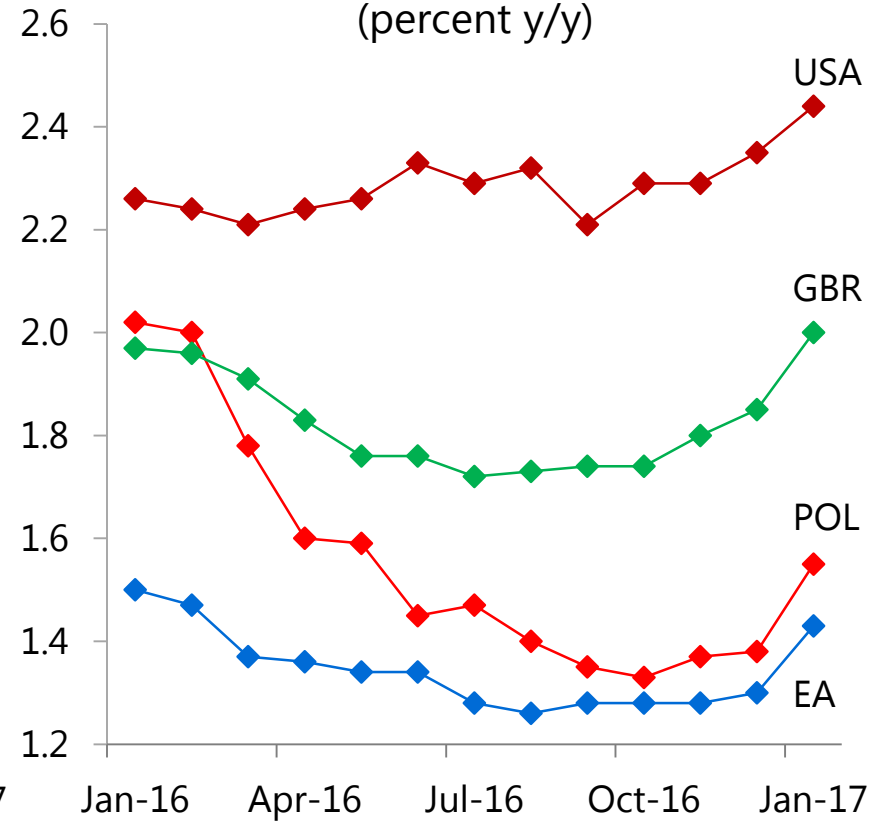
Inflation has picked up recently



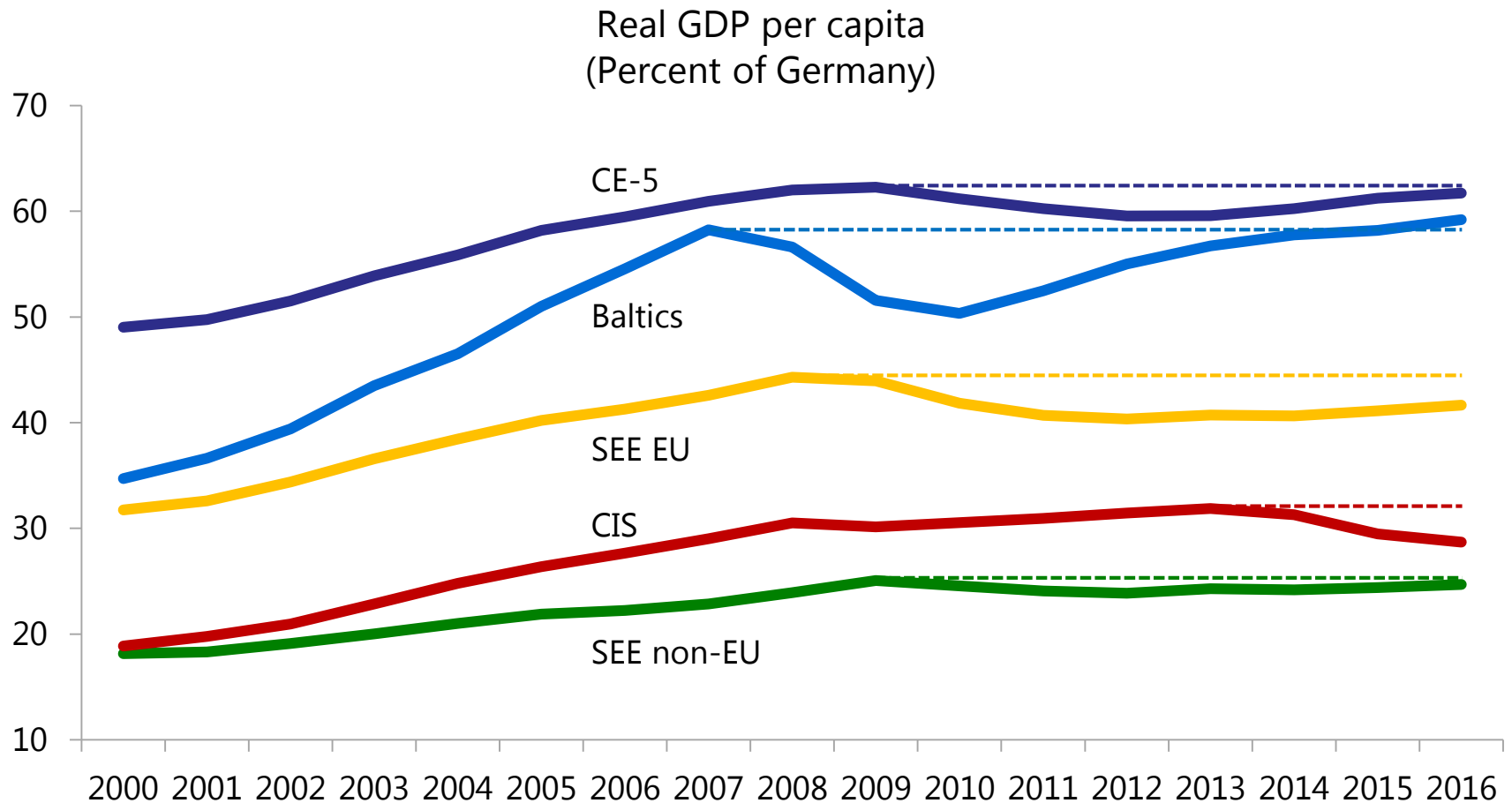
CPI inflation
(percent y/y)



Consensus inflation expectations for
2017
(percent y/y)



Finally, two longer-term concerns. Convergence has slowed...

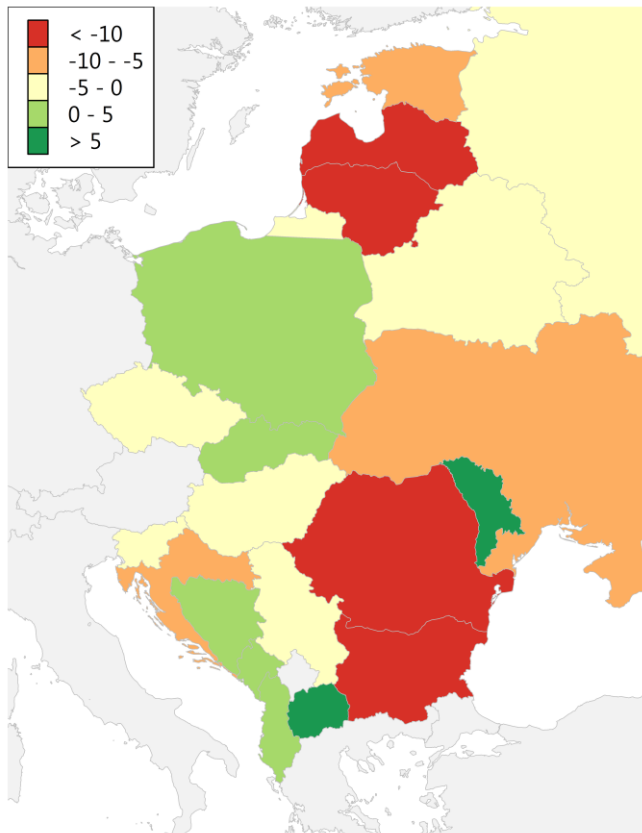


And aging will have a dramatic impact on labor supply in the next decade

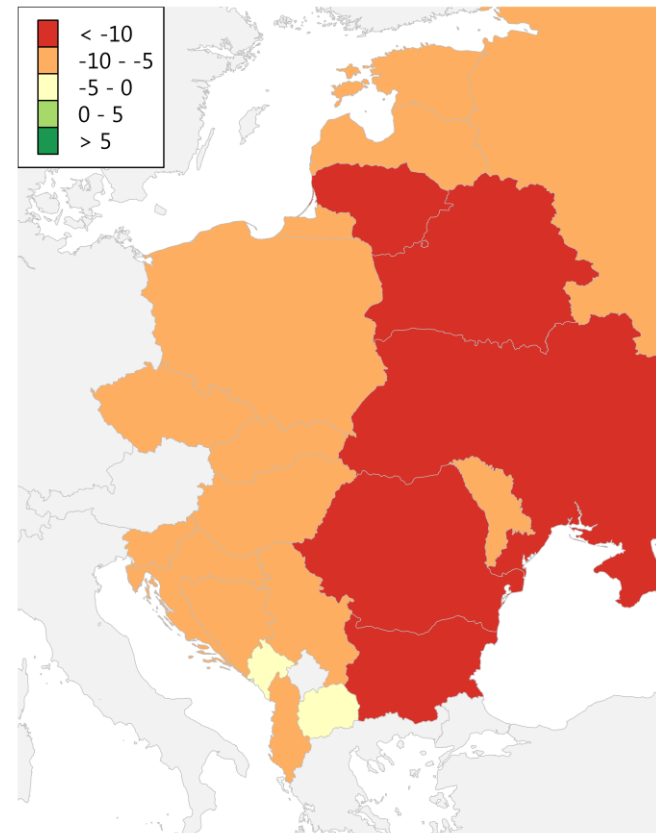


Working age (15-64) population growth (percent)

2000-2015



2015-2025





Thank you