

Panel I: Uncertain Times: Geo-politics, Trade and Rate Cycles in 2017

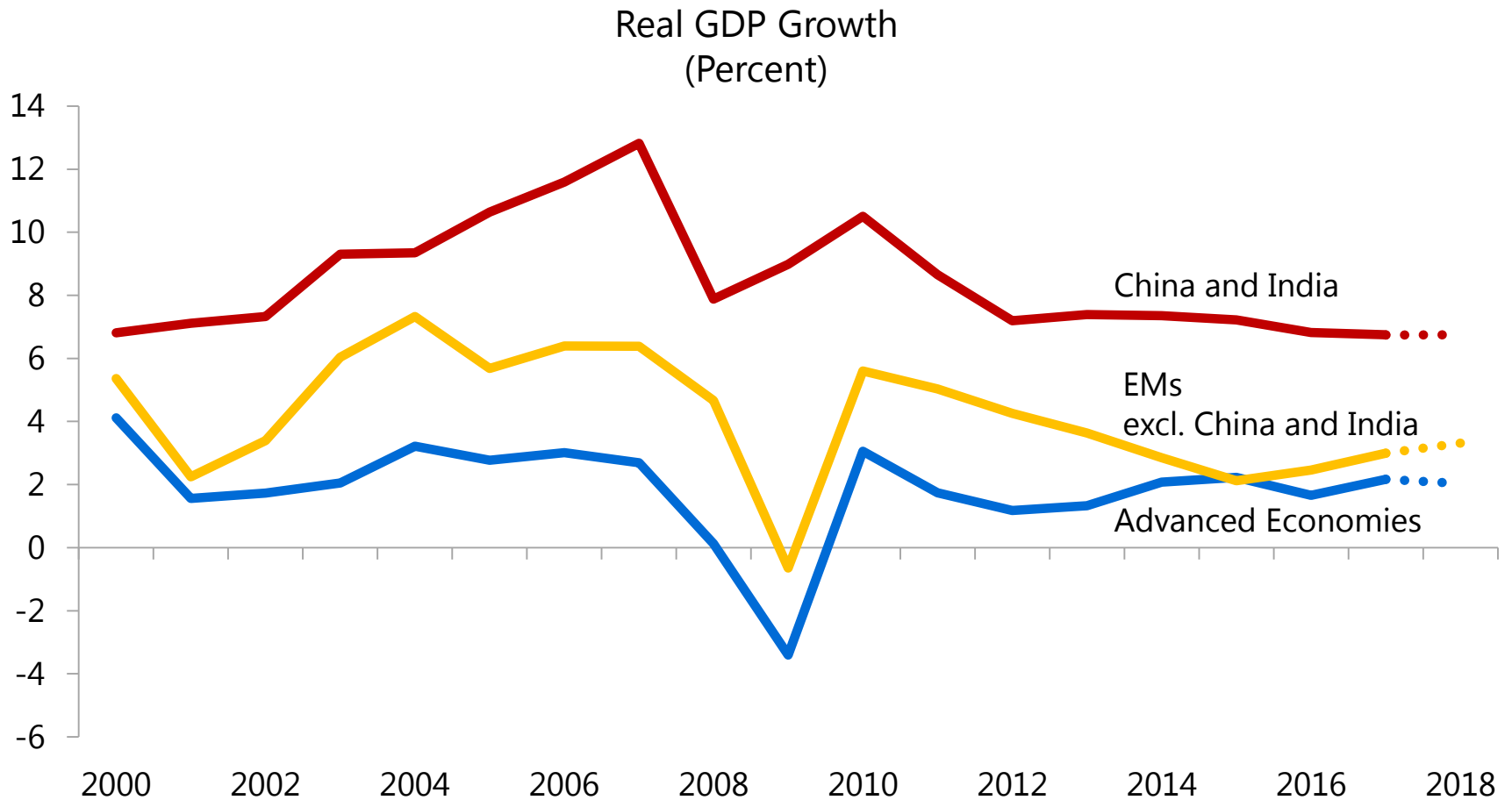


Bas B. Bakker
Senior Regional Resident Representative
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2017 best year for the global economy since 2011, and 2018 will be even better



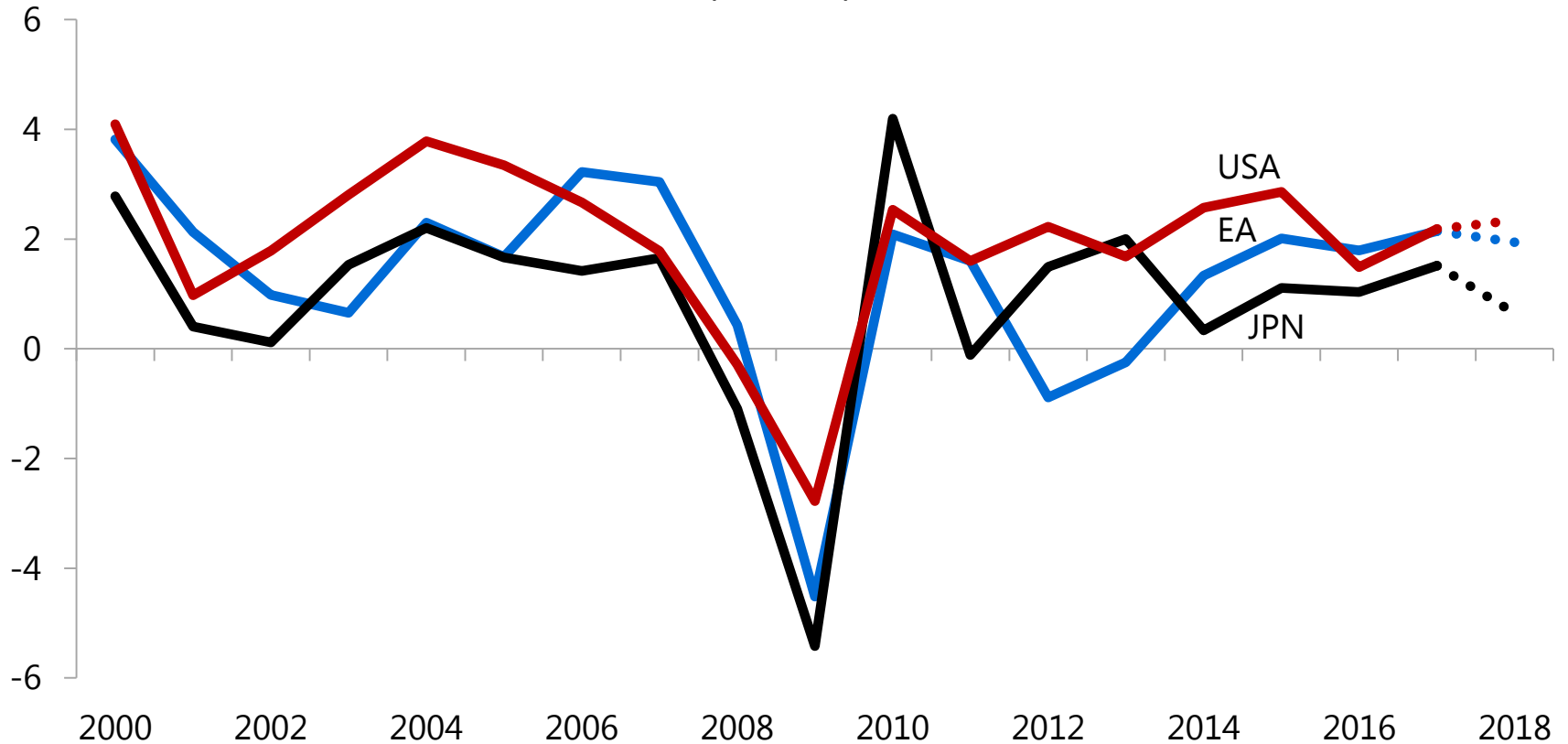
Advanced economies are growing around 2 percent, China and India, 7, other EMCs, 3



Within advanced economies, USA and Euro Area are growing by 2 percent, and Japan by 1-1.5



Real GDP Growth
(Percent)



Tax reform will boost US growth

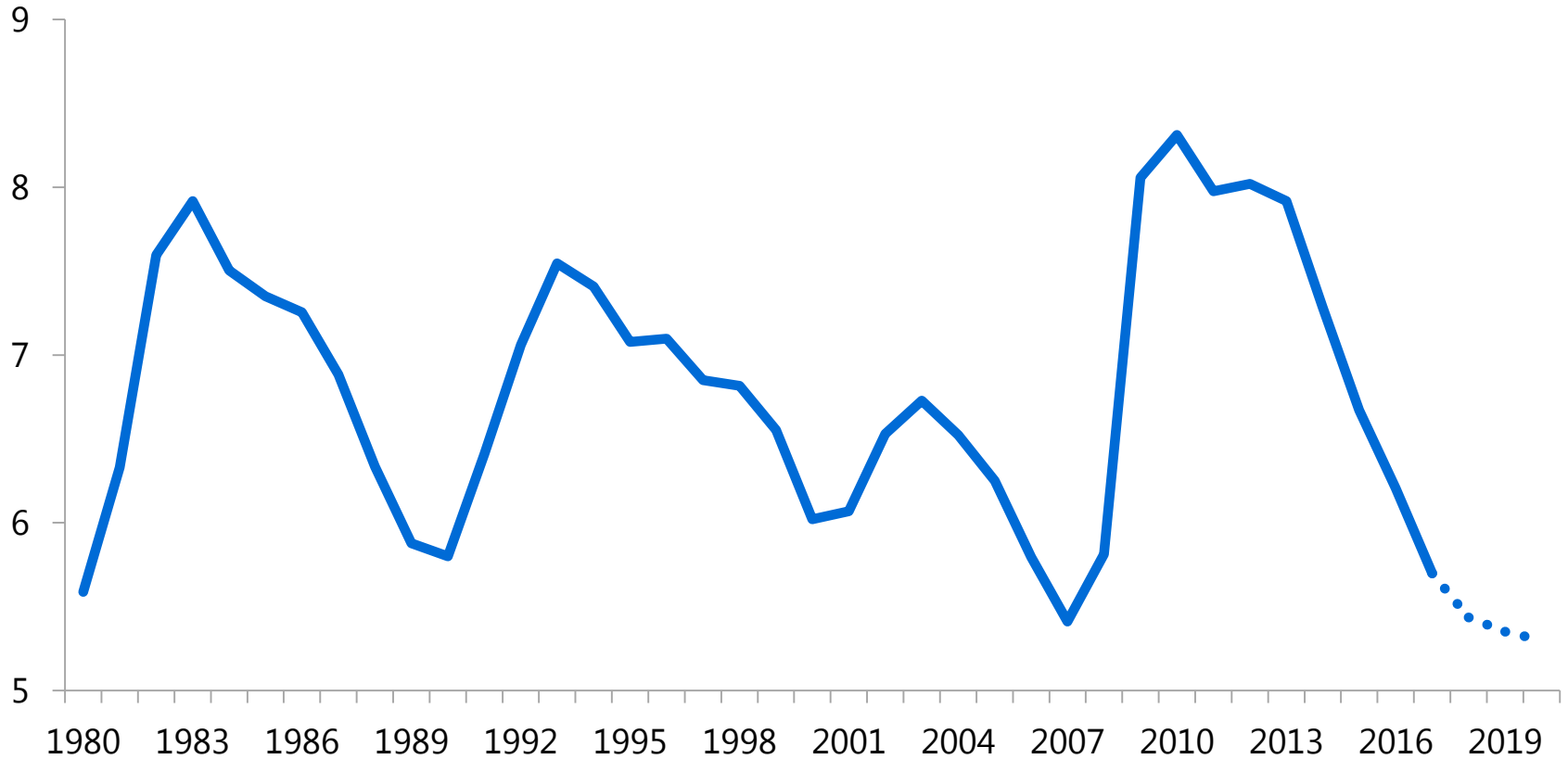


- Most significant effect will come from lower corporate income tax (35→21 percent) and expensing of capital investment
- However, tax reform will also raise fiscal deficit
- New growth forecasts for the US will be published in WEO update on 22 January

Unemployment rate in advanced countries is near pre-crisis low



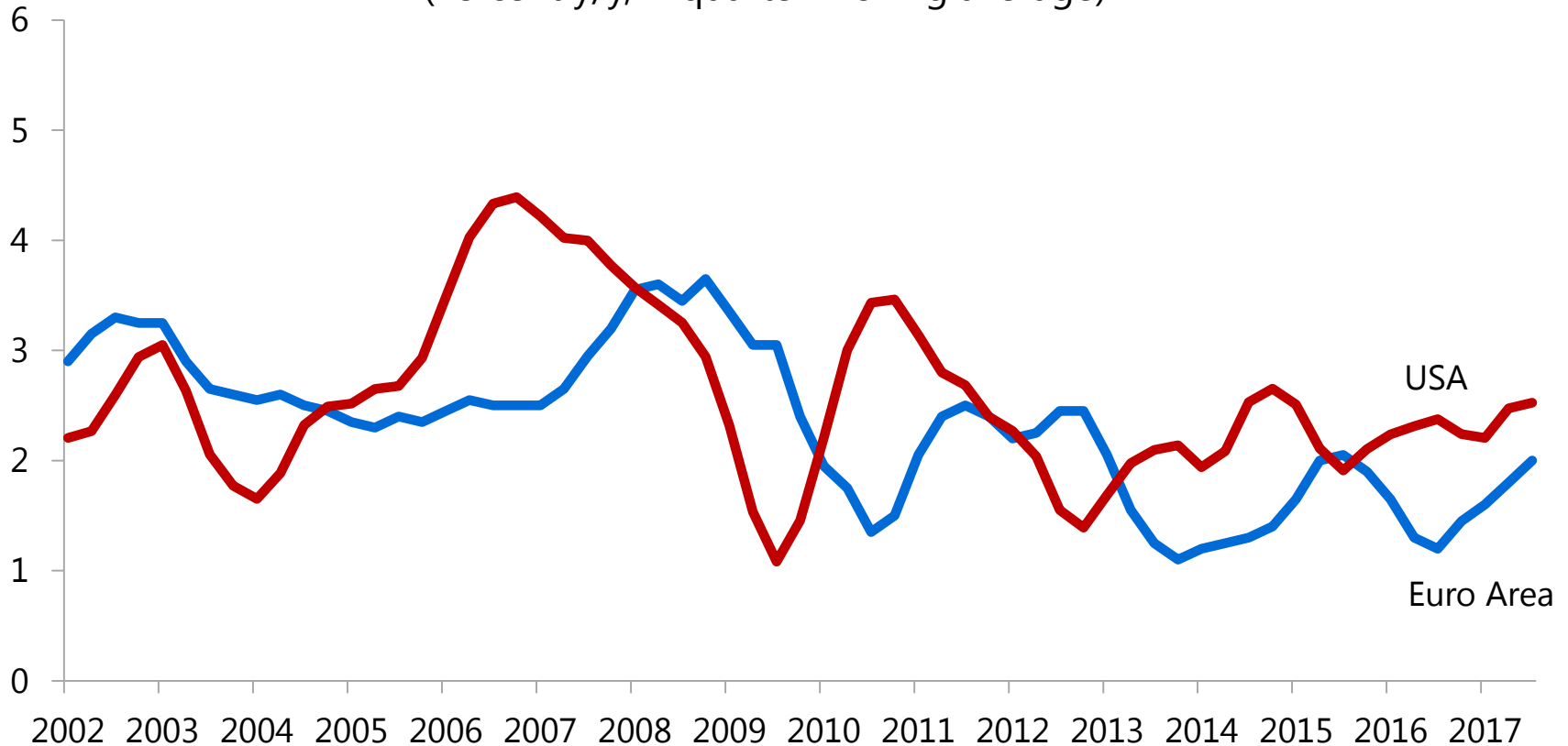
Unemployment Rate in Advanced Economies
(Percent)



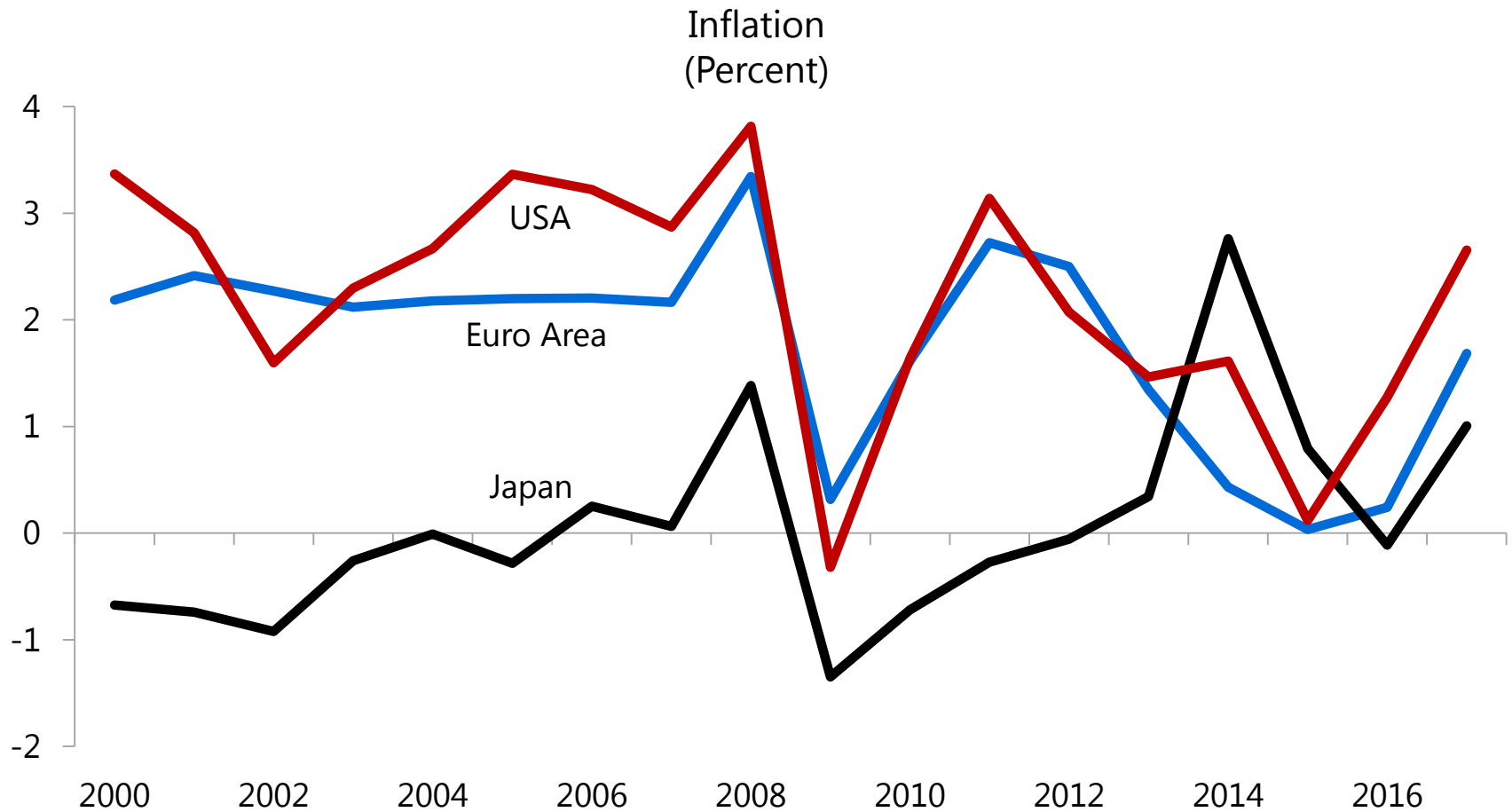
But wage growth remains subdued



Nominal Wage Growth
(Percent y/y, 2-quarter moving average)



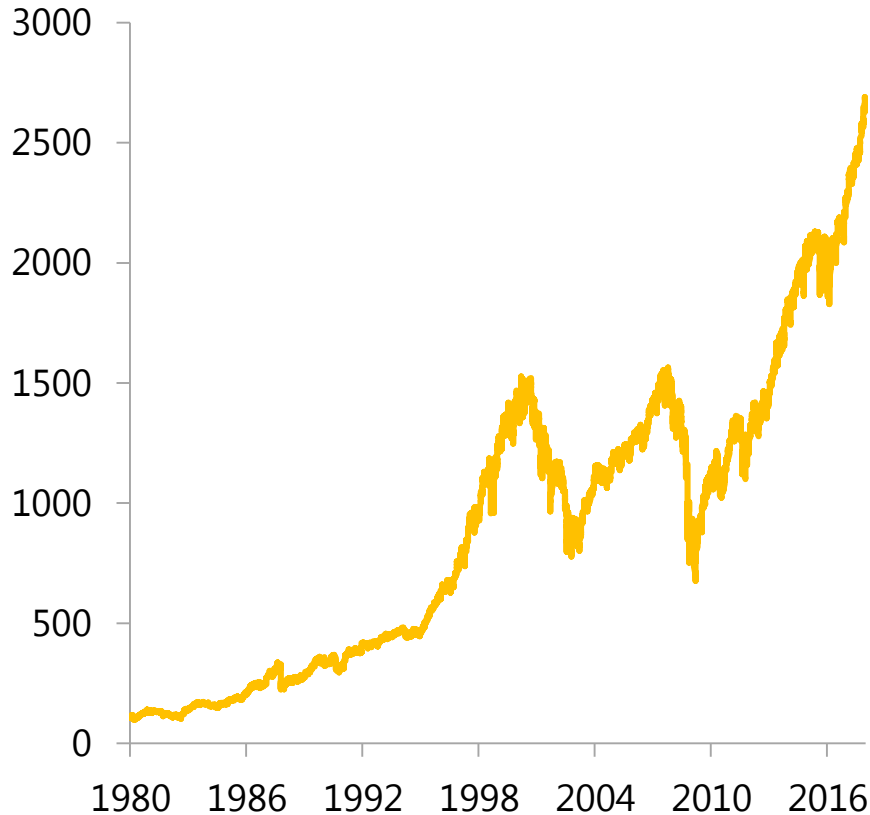
With recovering oil prices, inflation in advanced countries has picked up, but remains below target



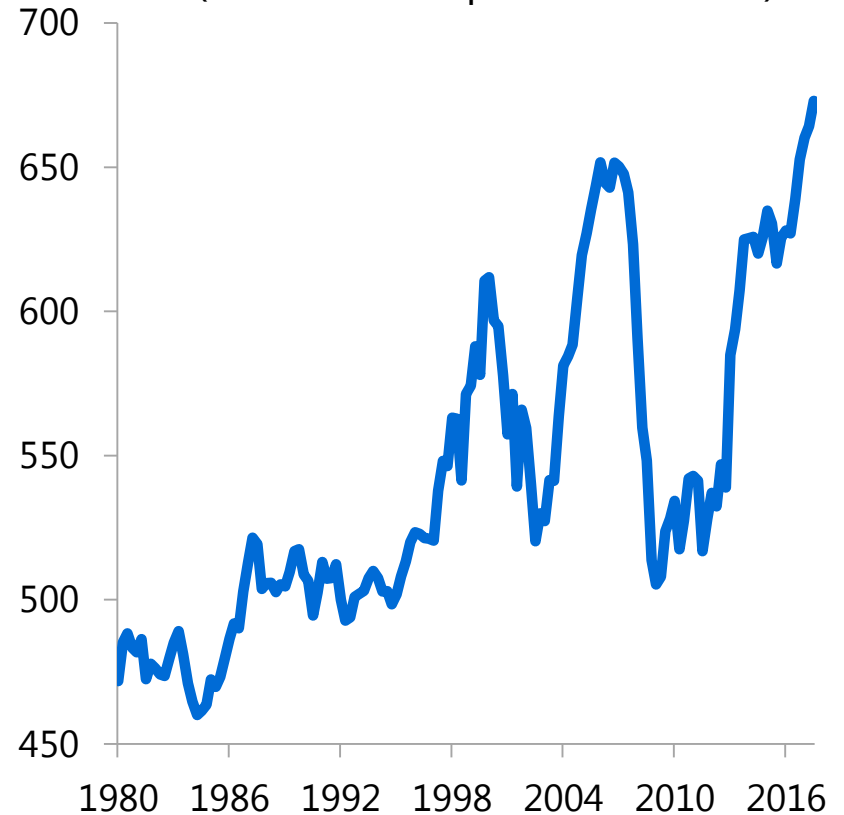
But stock markets are surging, net worth in the US is above pre-crisis peak



Standard & Poor's 500
Stock Price Index



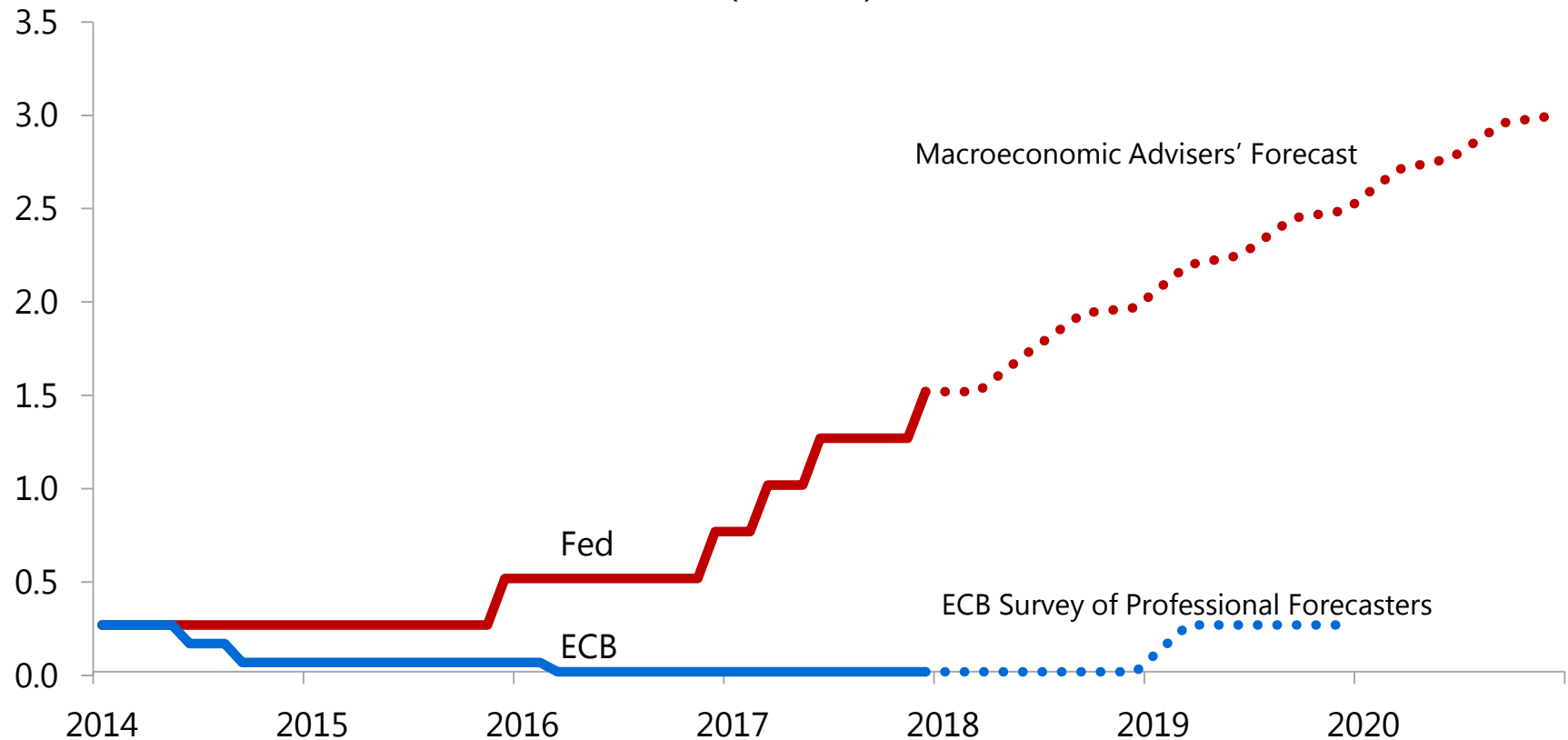
Households Net Worth
(Percent of Disposable Income)



Fed has started to tighten, ECB rates are expected to remain low for longer (although tapering of QE)



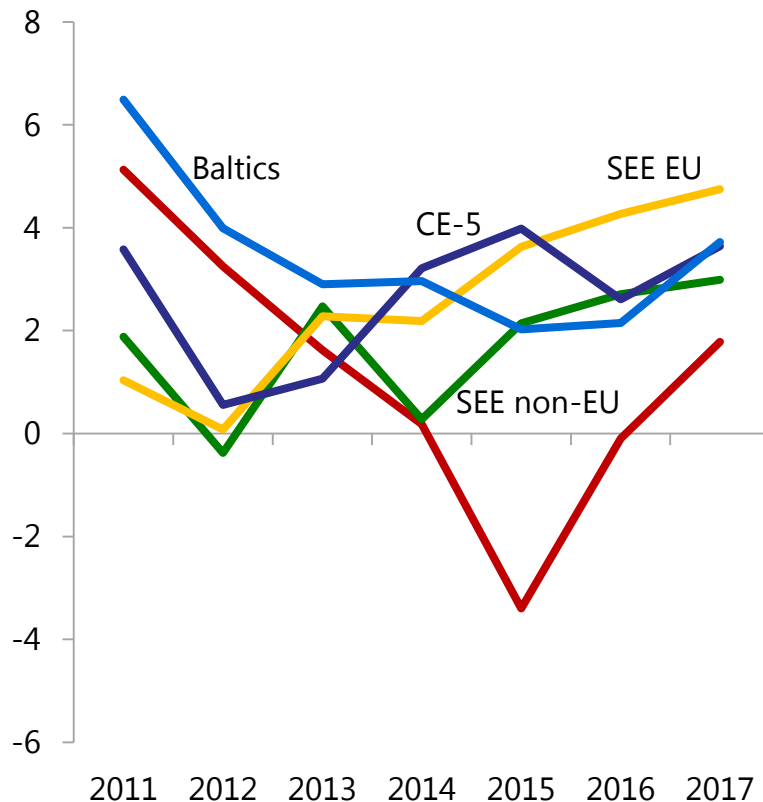
US and EA Policy Rates and its' Forecasts
(Percent)



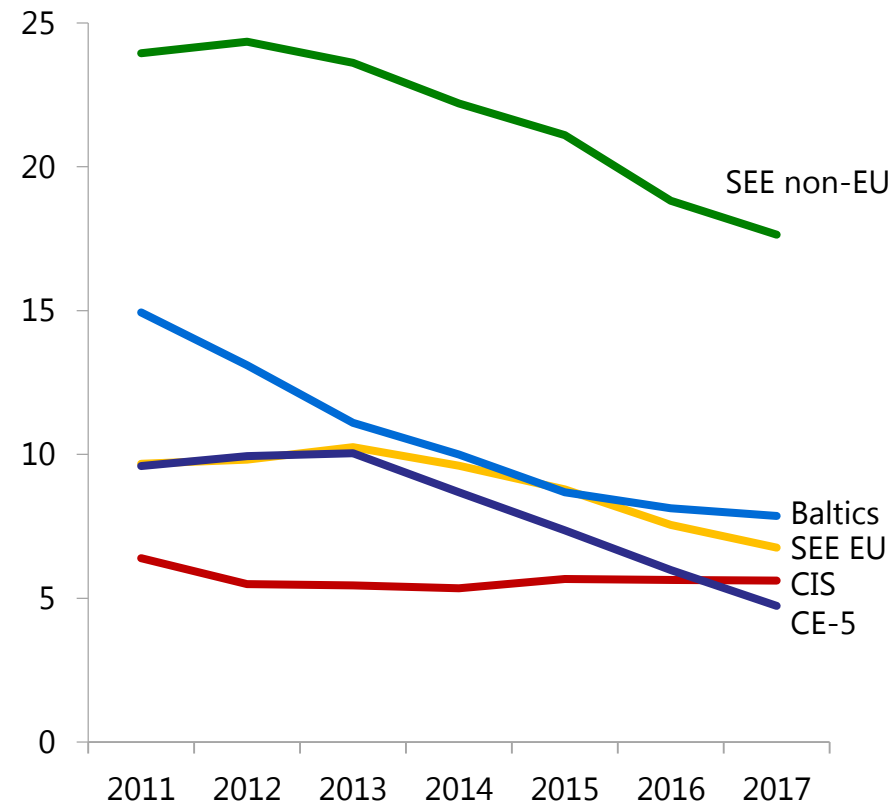
CESEE is doing very well, particularly NMS. Growth is rapid, and unemployment is falling sharply



Real GDP growth
(Percent)



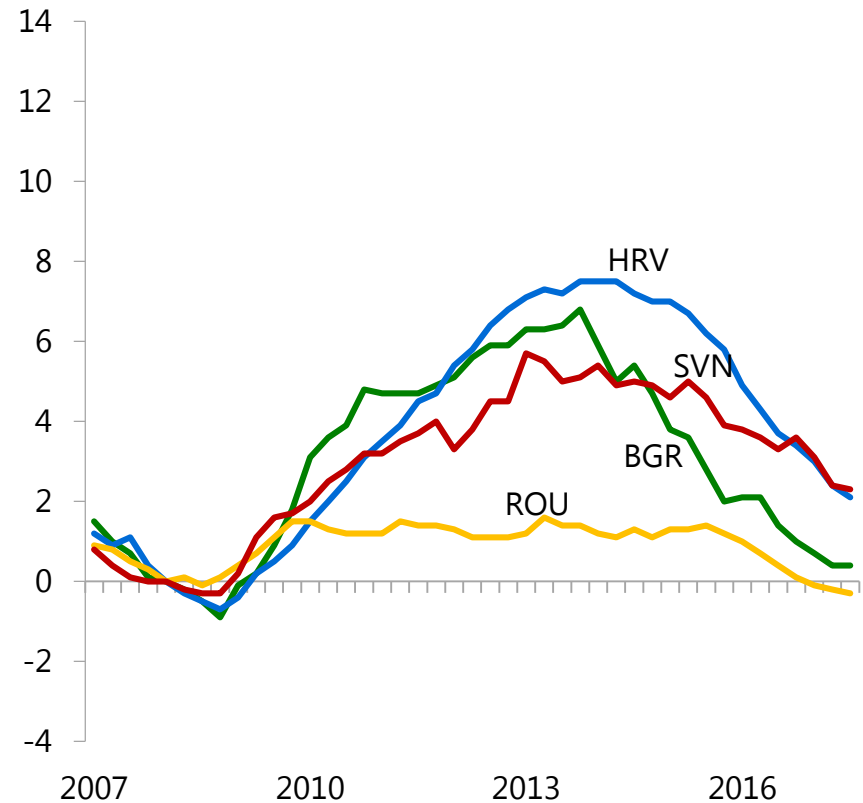
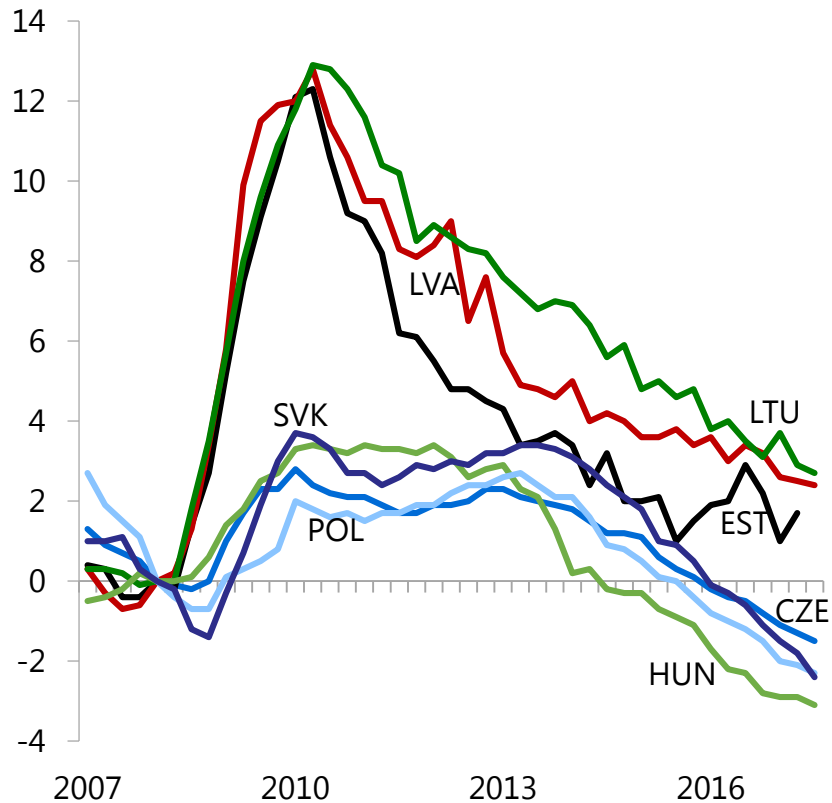
Unemployment Rate
(Percent)



Unemployment rate in Central Europe is now well below pre-crisis troughs



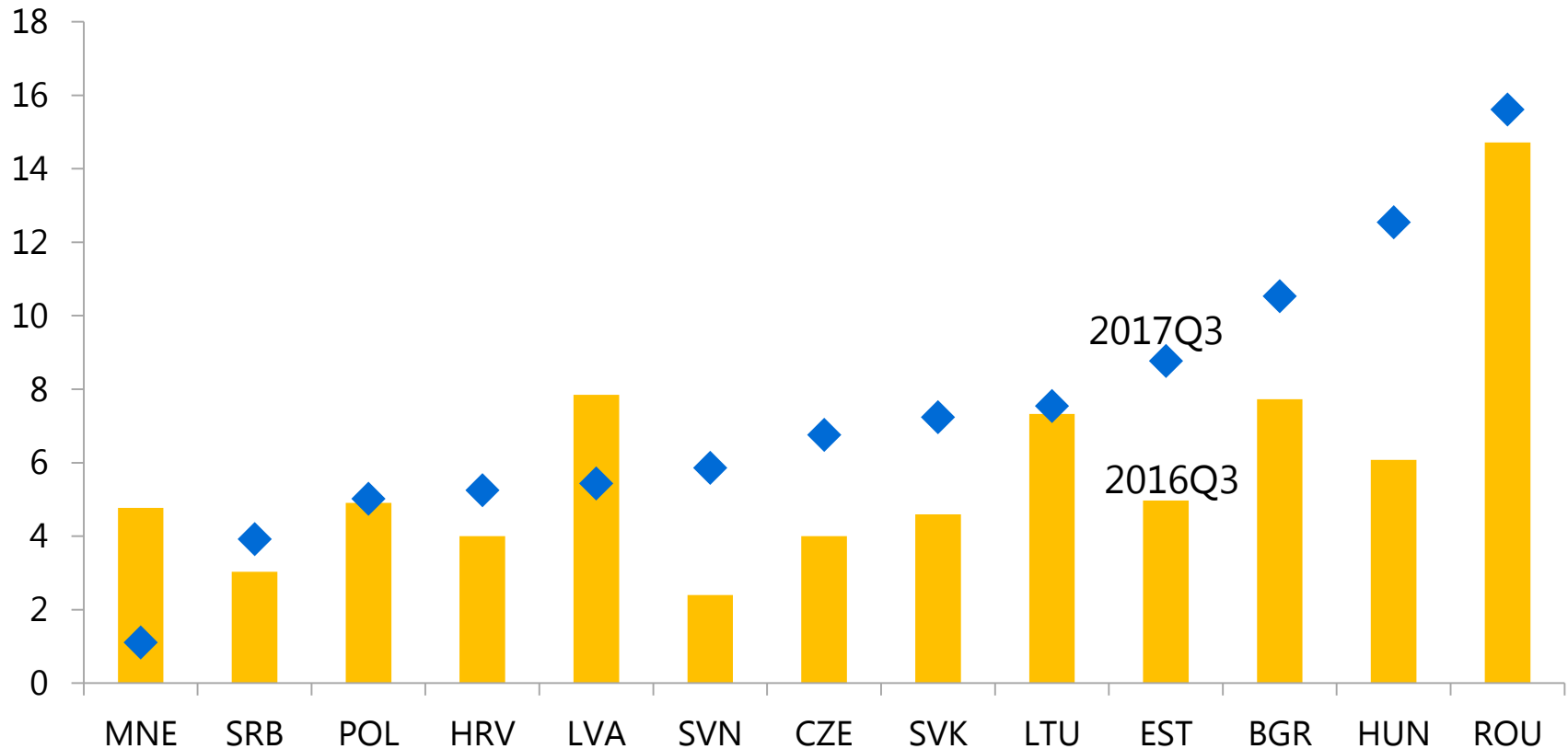
Cumulative Changes in Unemployment Rate
(2008Q1=0, seasonally adjusted)



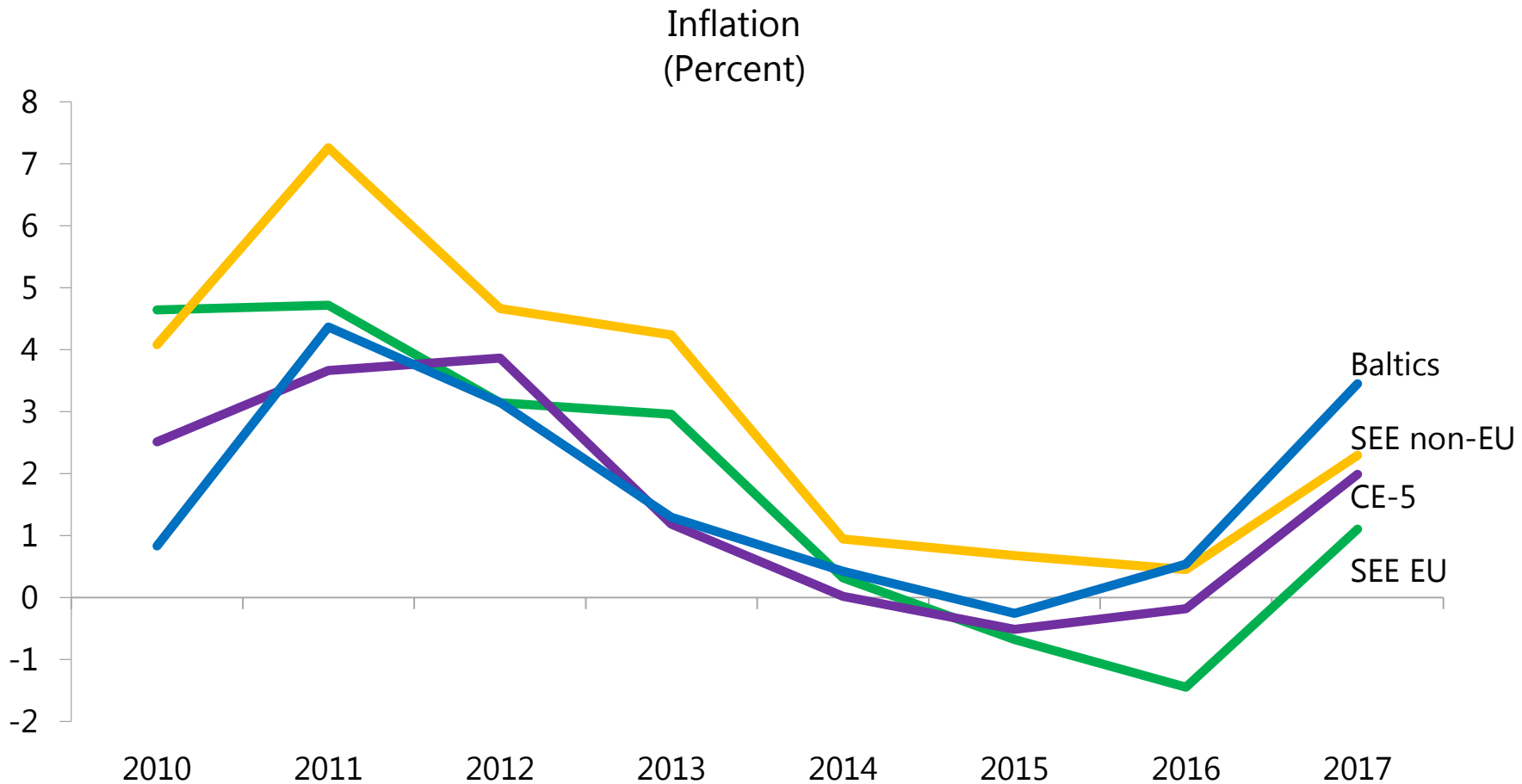
Wage growth has accelerated over the past year



Nominal Wage Growth
(Percent, Y/Y)



Inflation has rebounded on the back of recovery in food and commodity prices

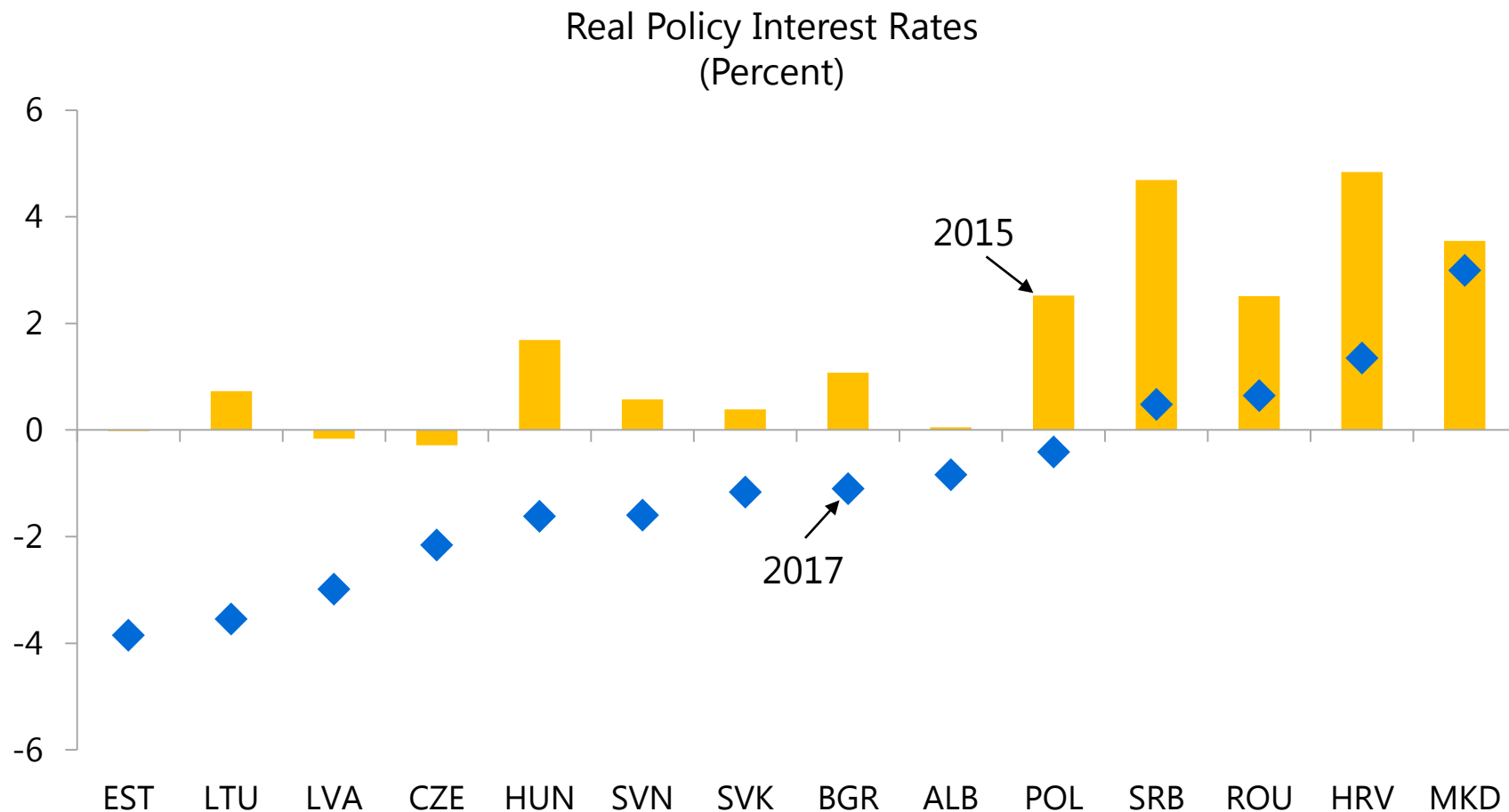


Growth in 2018 will continue to be strong



- External demand expected to remain strong in the next quarters...
- Consumption is solid as employment is growing rapidly and wages are accelerating
- Investment further boosted by pick-up of EU funds

Monetary policy stance may further boost growth, as real interest rates are lower than two years ago – a result of rising inflation



Challenge for NMS will be to sustain rapid growth while not overheating

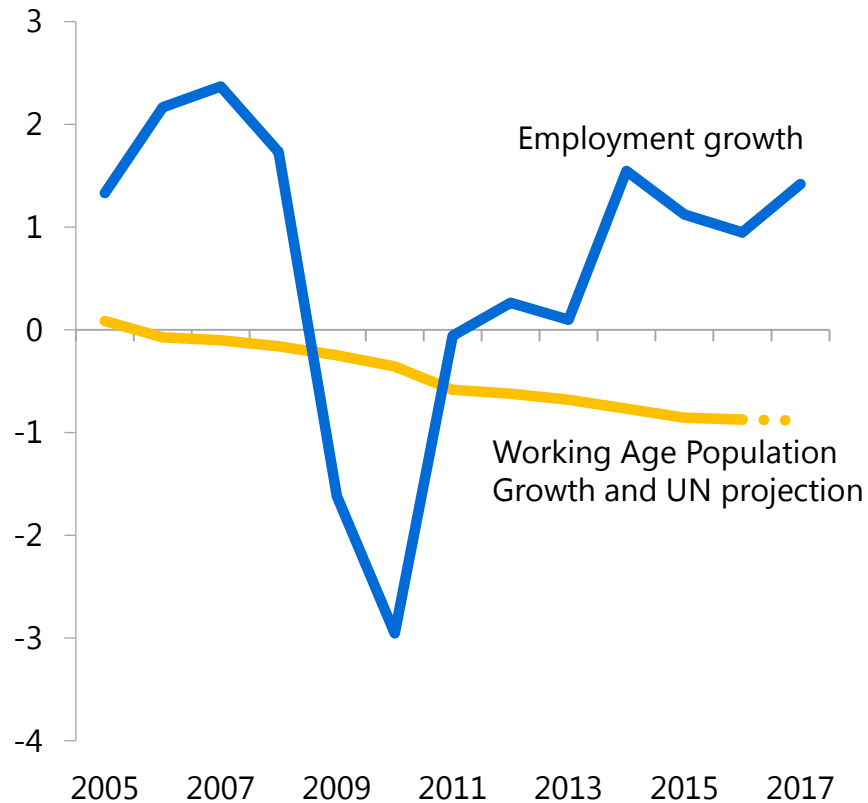


- Labor productivity growth around 3 percent
- Working age population falling by 1 percent
- Growth faster than 2 percent only possible if unemployment rate drops or labor force participation rate increases
- There are limits to drop in unemployment rate

Employment cannot continue to grow faster than the working age population: productivity will need to pick up



Employment, Working Age Population, and Labor Productivity Growth in CESEE (Excl. TUR and CIS, percent)



That does not necessarily mean that inflation will increase sharply in 2018

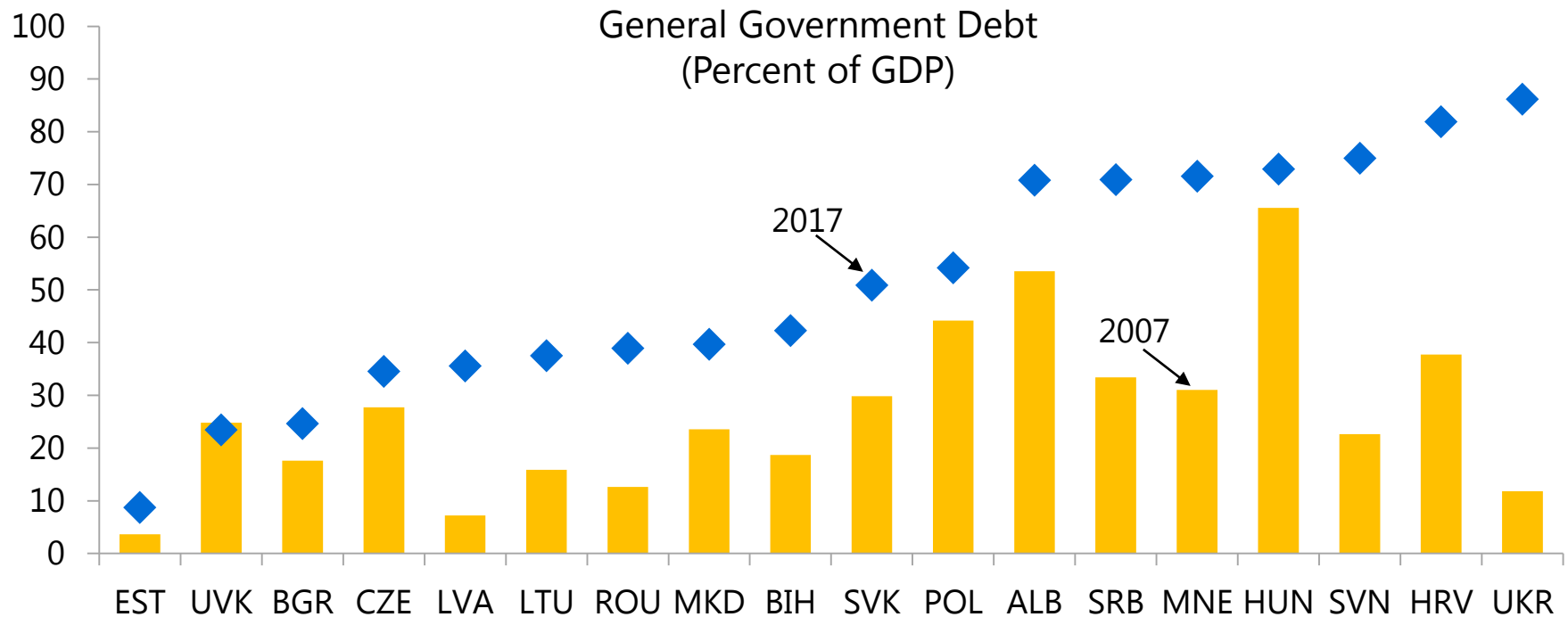


- Much of inflation in CESEE depends on
 - Food and energy prices
 - Imported inflation
- Exchange rate appreciation in some countries may keep inflation low

This would be the good time to create fiscal space and reduce structural deficits



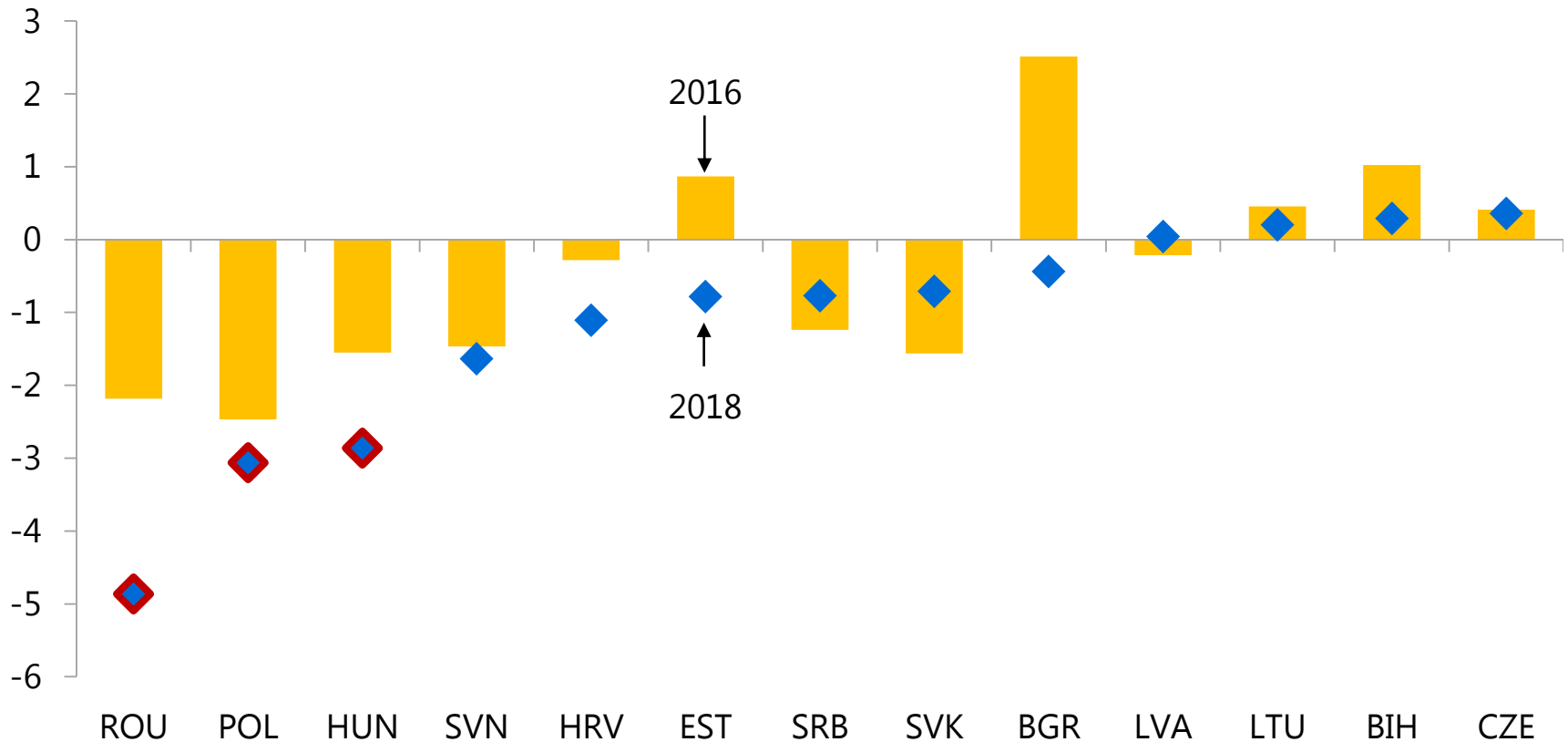
- Particularly given that debt is much higher than pre-crisis levels.



Unfortunately, many countries are reverting to pro-cyclical loosening



General Government Structural Balance
(Percent of GDP)



Conclusion



- CESEE is doing well
- Near-term outlook looks good
- Challenge is to get continued strong growth while preventing renewed overheating
- Productivity will need to pick up
- Supply side policies get increasingly important



Thank you