
# Regional Economic Outlook and Regional Economic Issues

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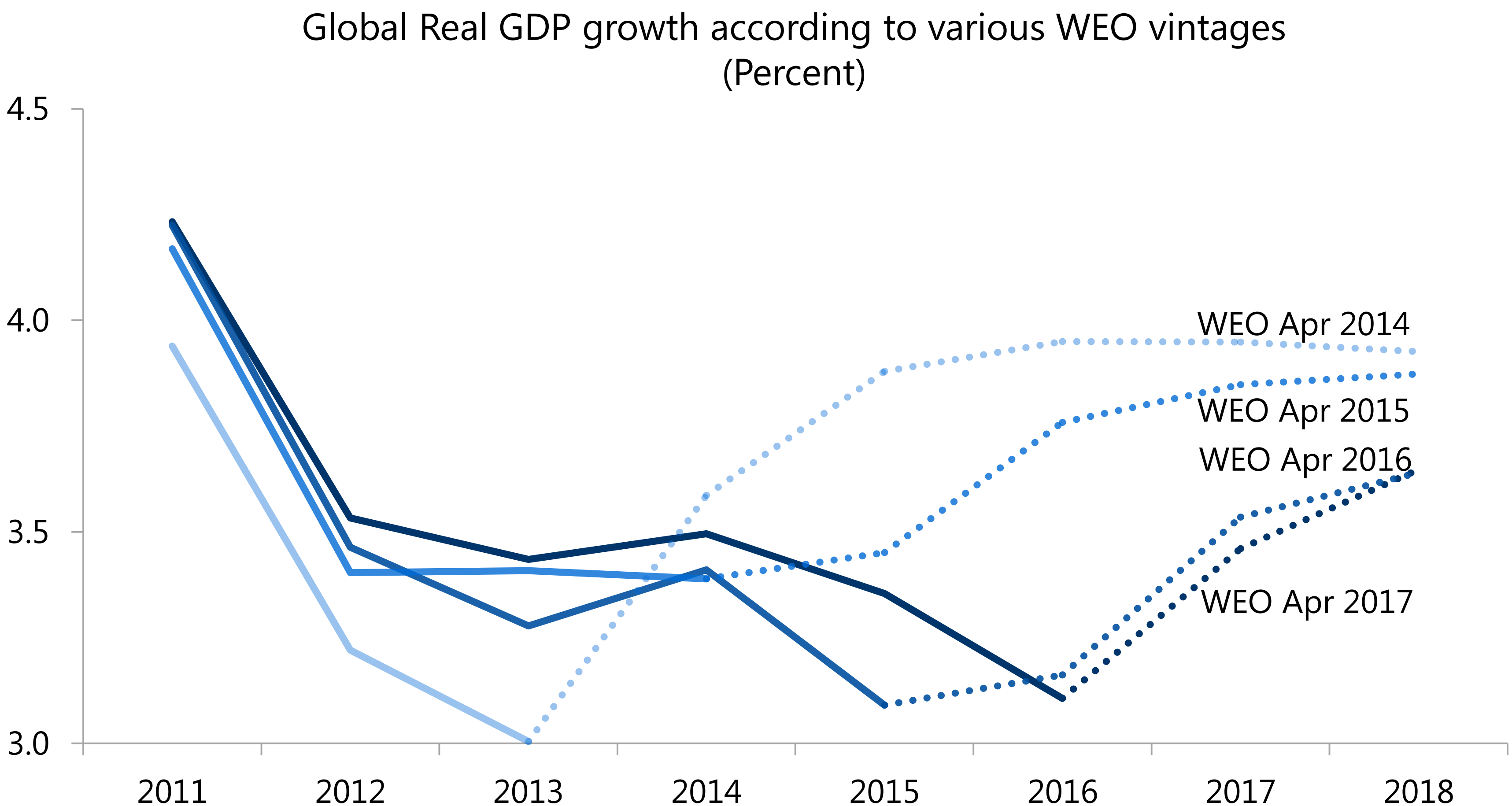
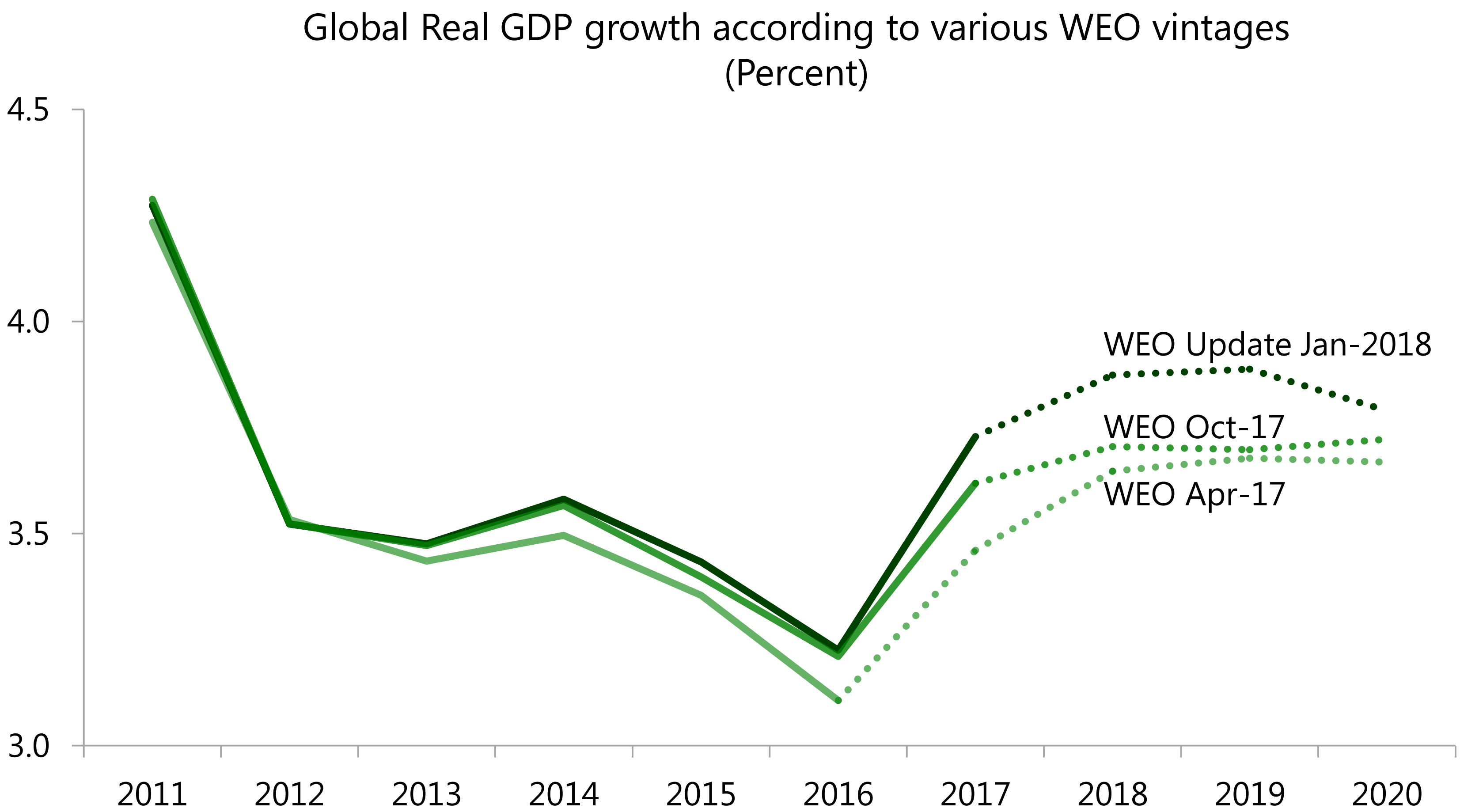
# In the last decade, world has experienced a lot of shocks


- 2008/09 global economic and financial crisis
- 2010/12 Euro area crisis
- 2014/15 oil price collapse and recession in large EMCs

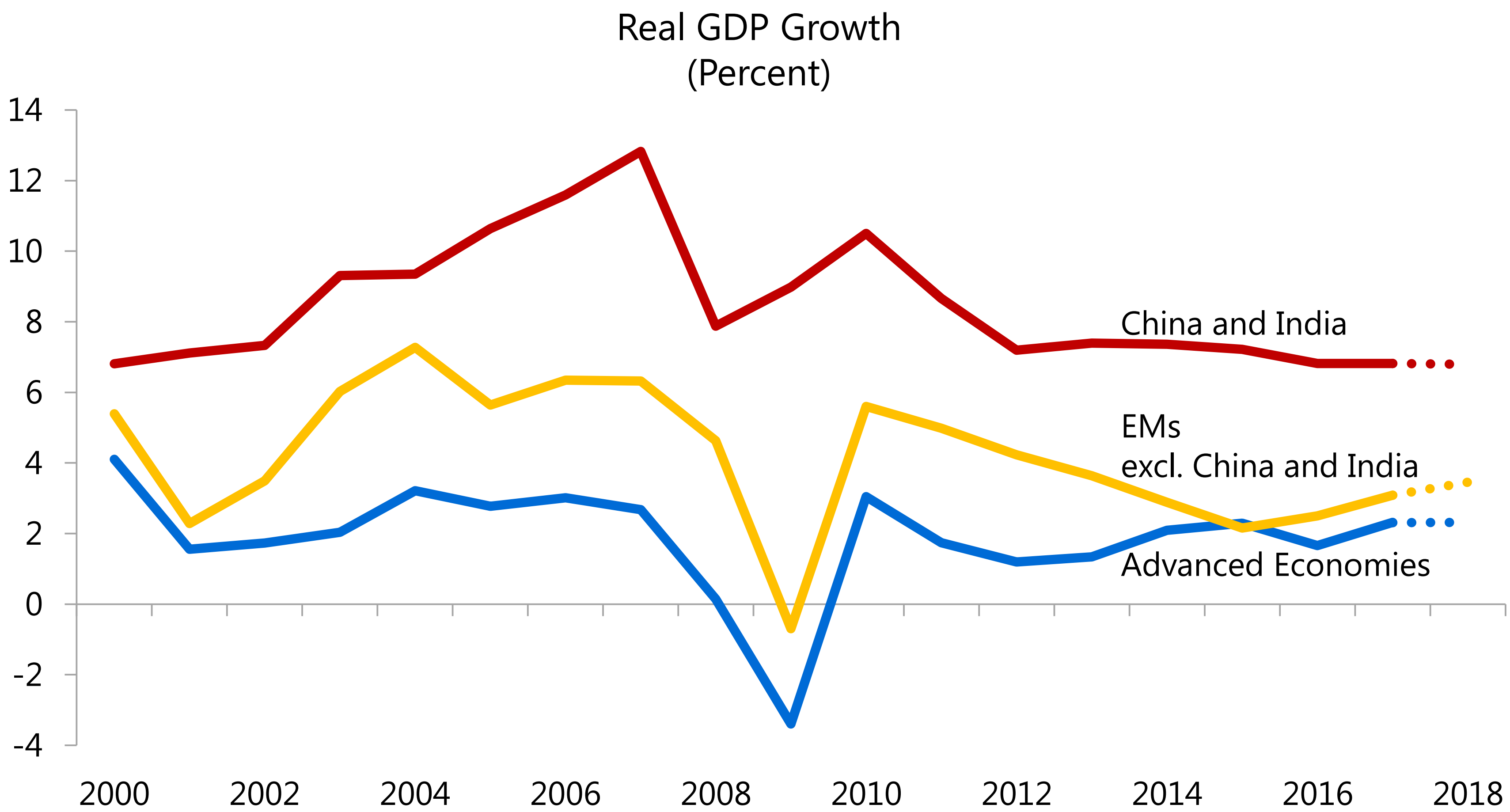
# Until a year ago growth continued to disappoint



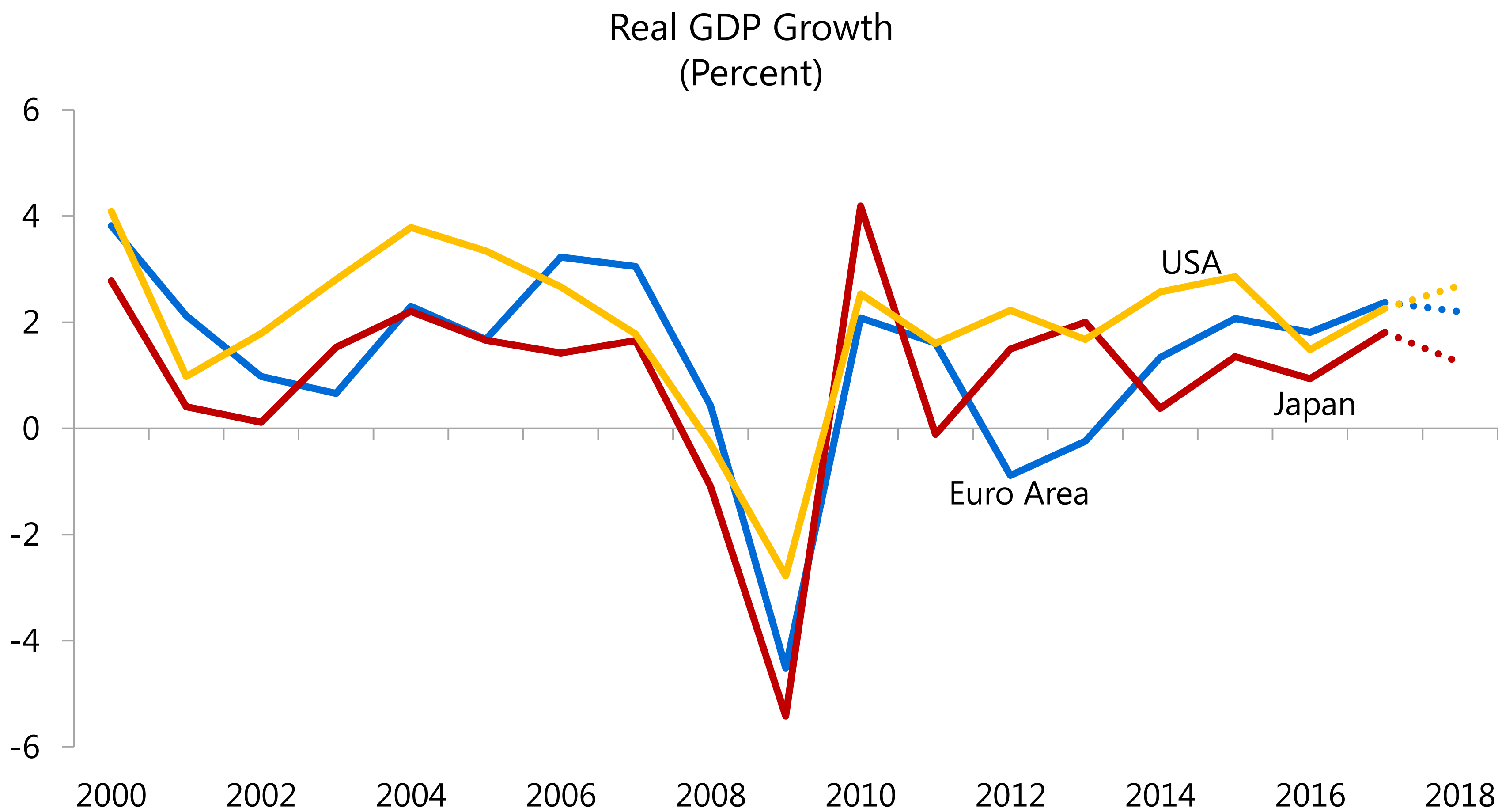
# The good news is that more recently we have been upgrading growth forecast



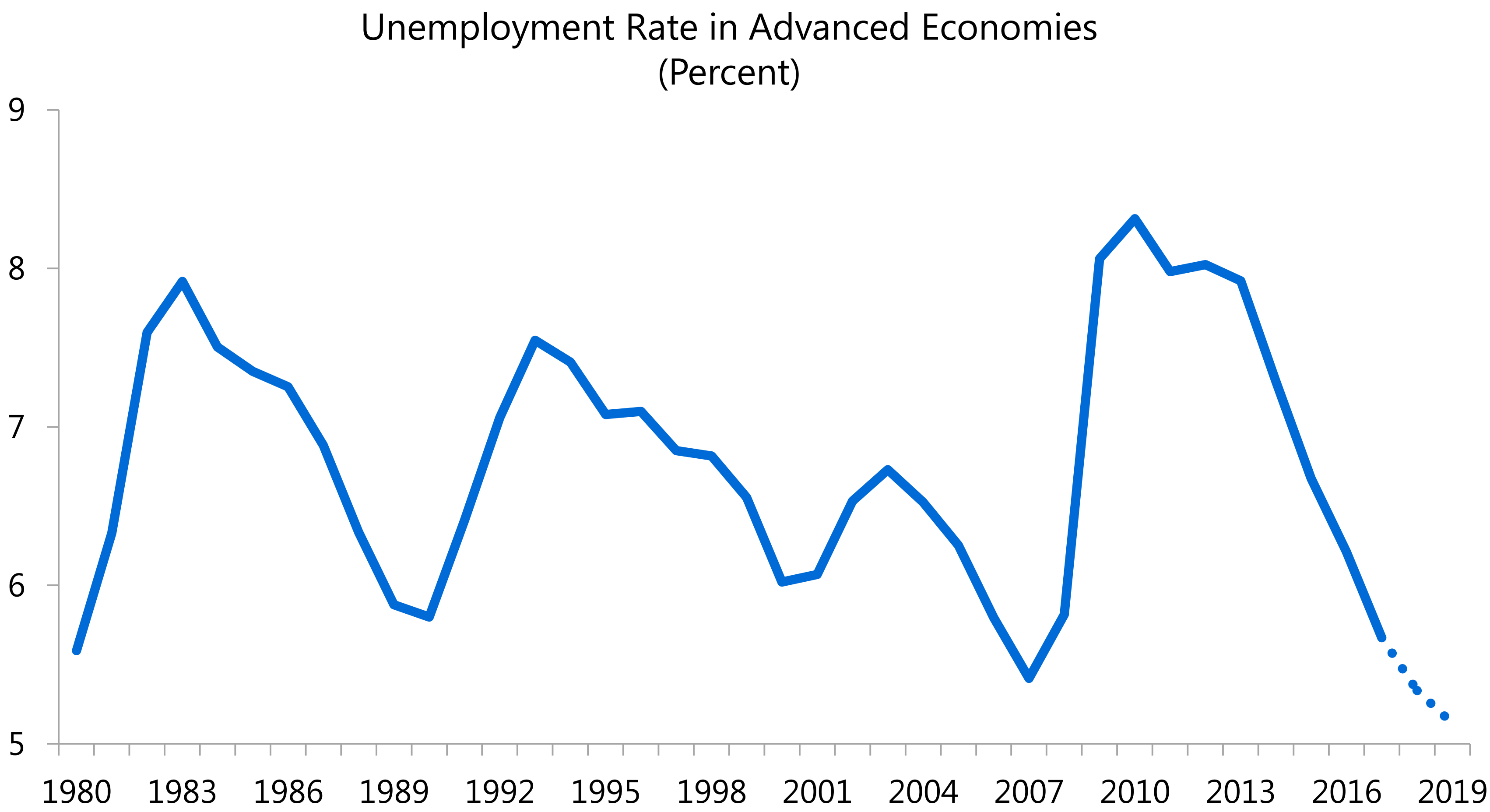
# This year, advanced economies are growing around 2 ¼ percent, China and India, 7, other EMCs, 3 ½



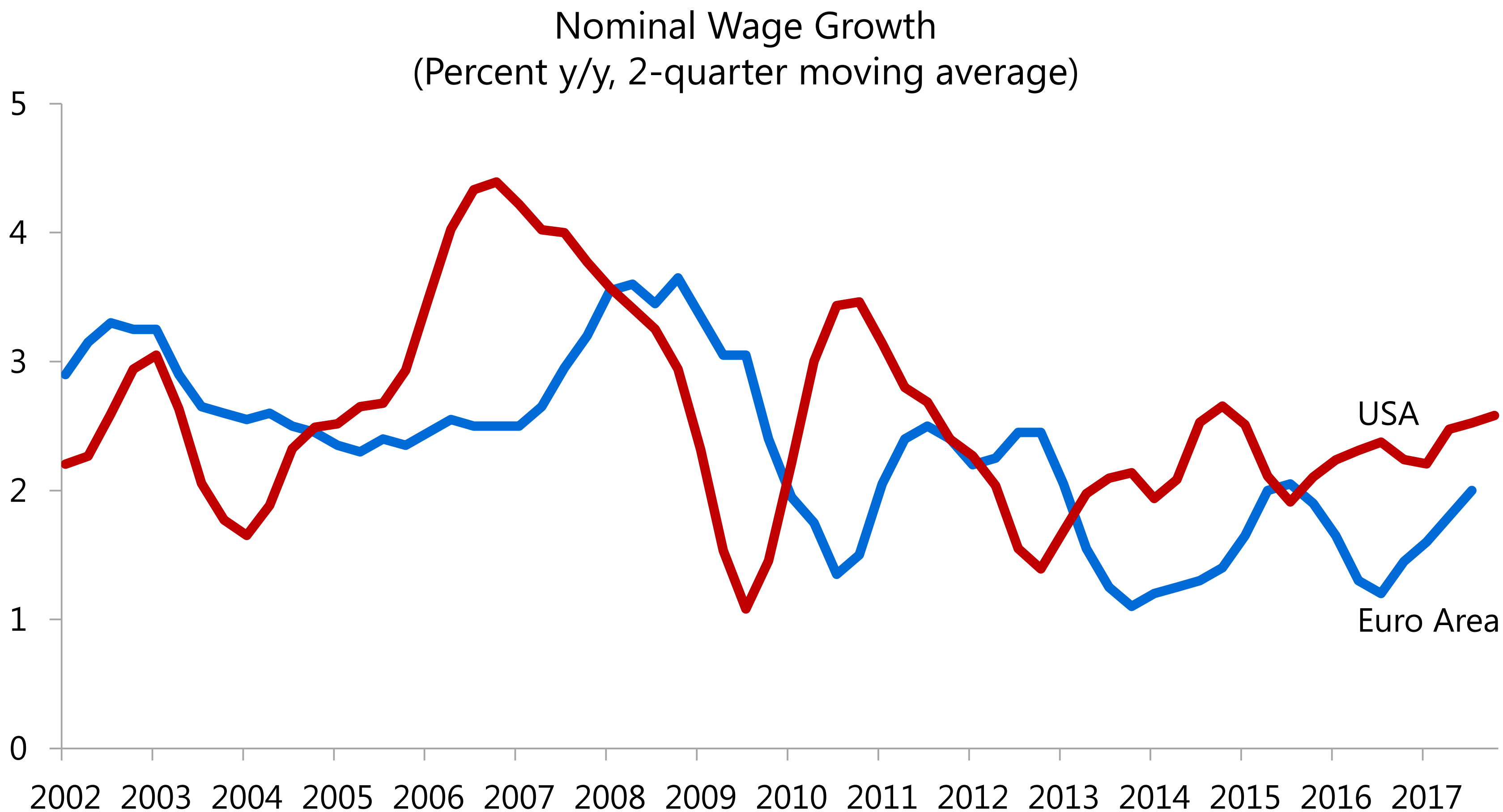
# USA will grow by 2.7 percent, euro area by 2.2, and Japan by 1.2



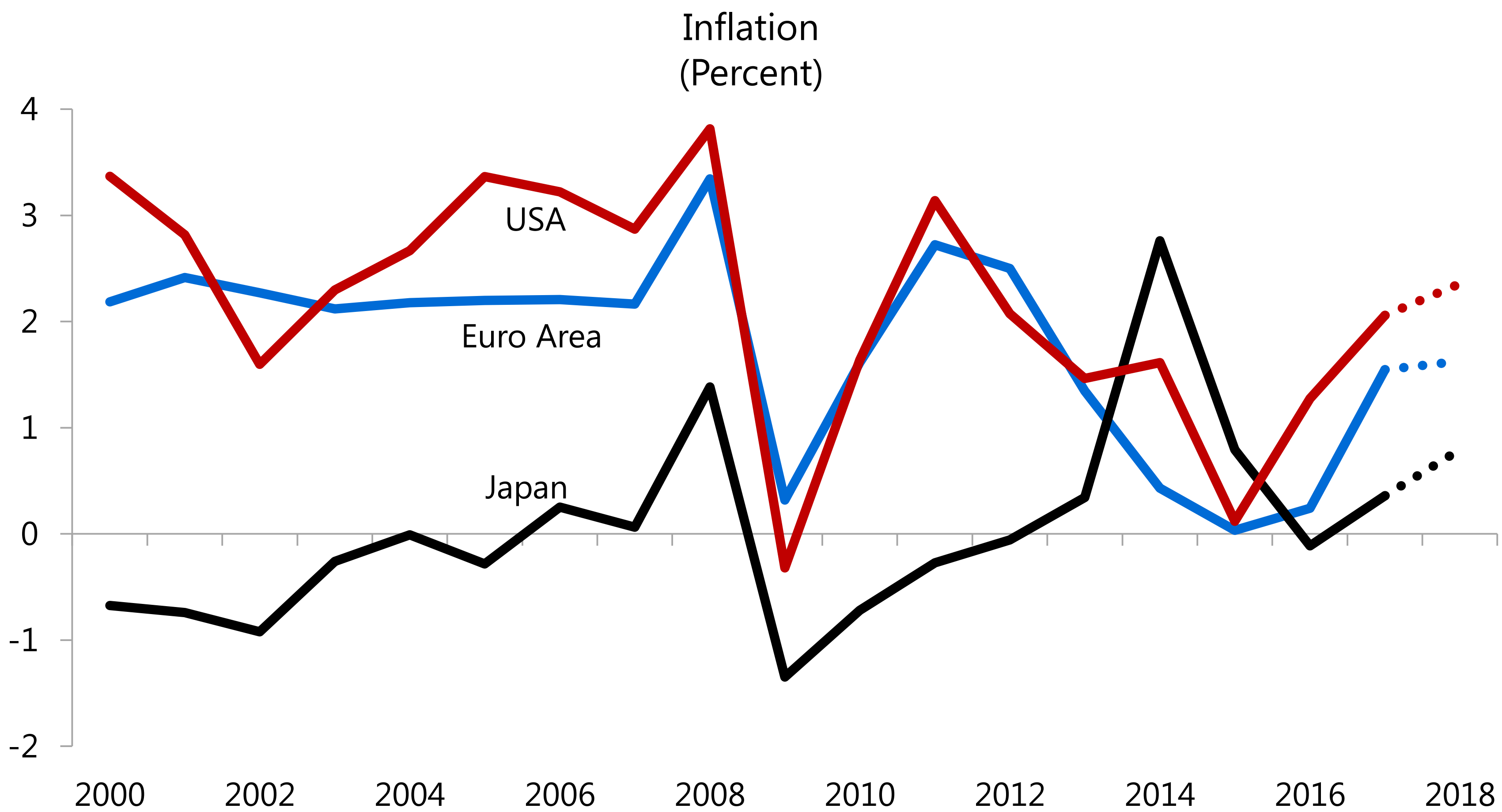
# Unemployment rate in advanced countries is near pre-crisis low



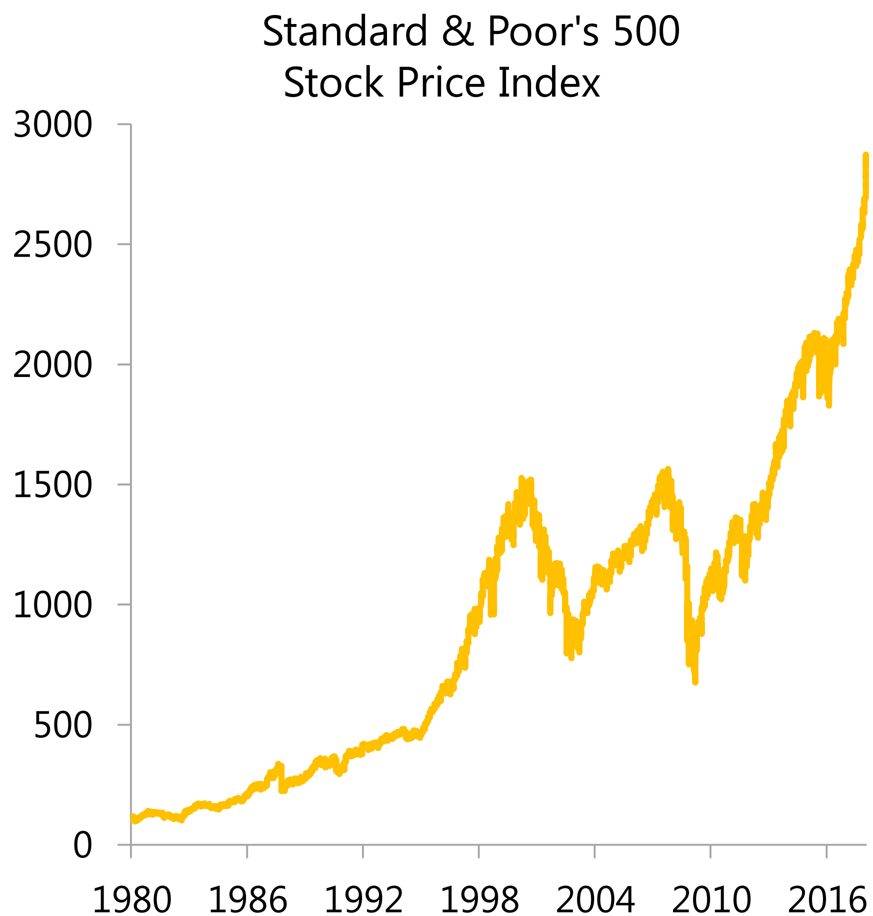
# But wage growth remains subdued

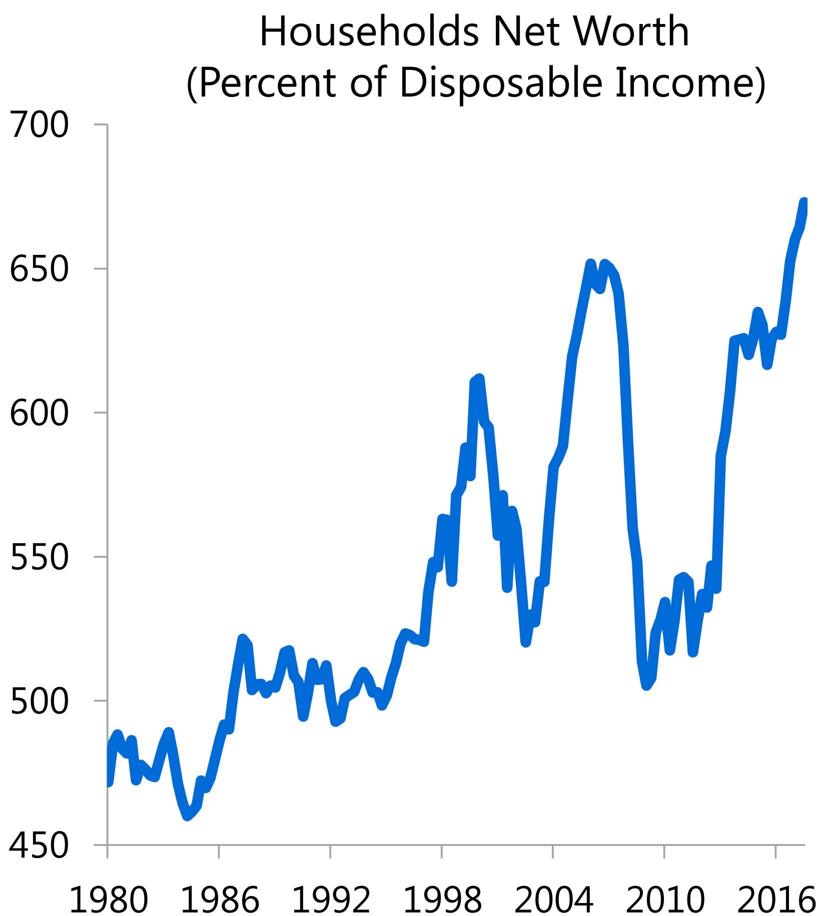


# With recovering oil prices, inflation in advanced countries has picked up, but remains below target

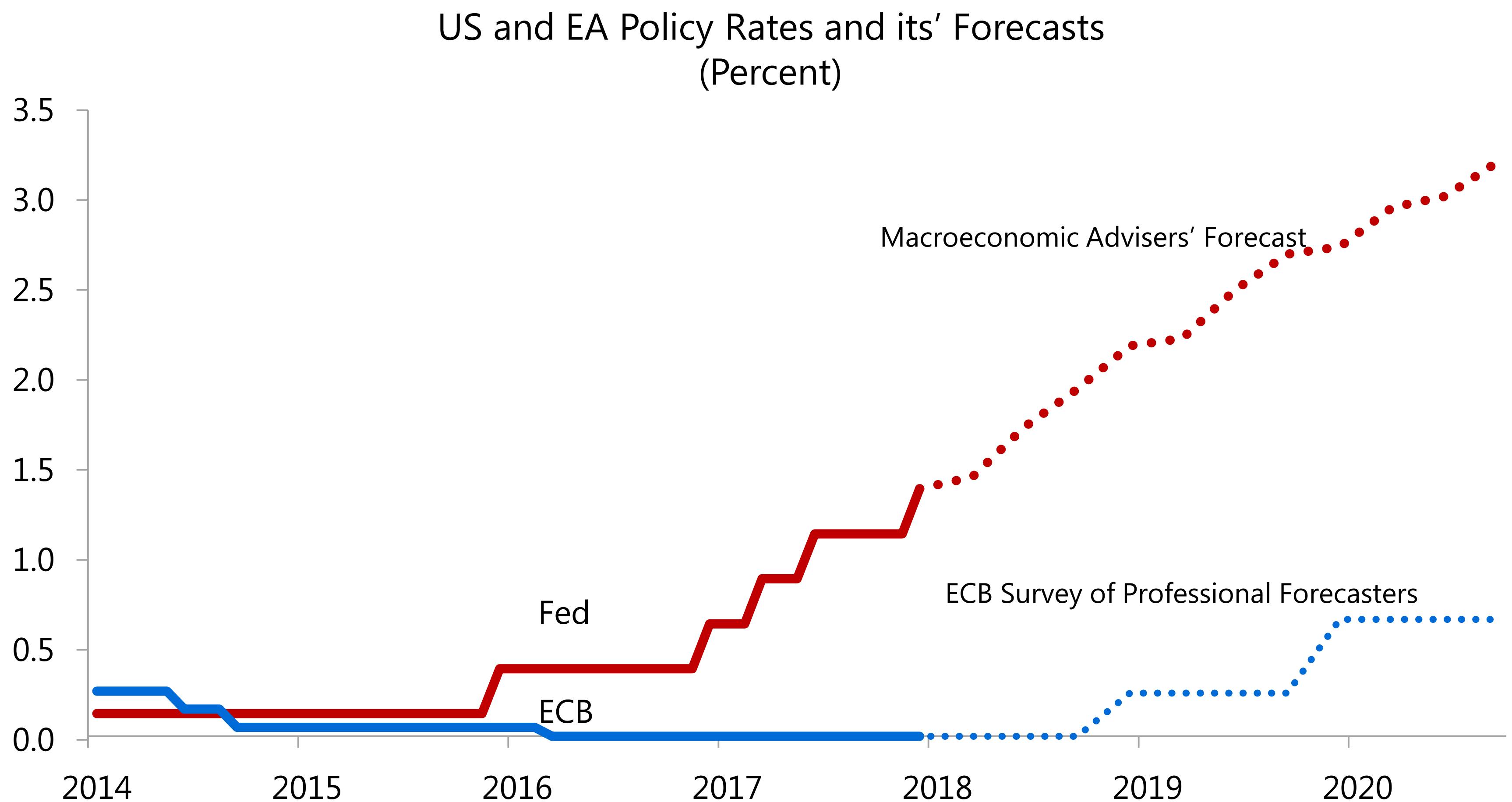


# But stock markets are surging, net worth in the US is above pre-crisis peak

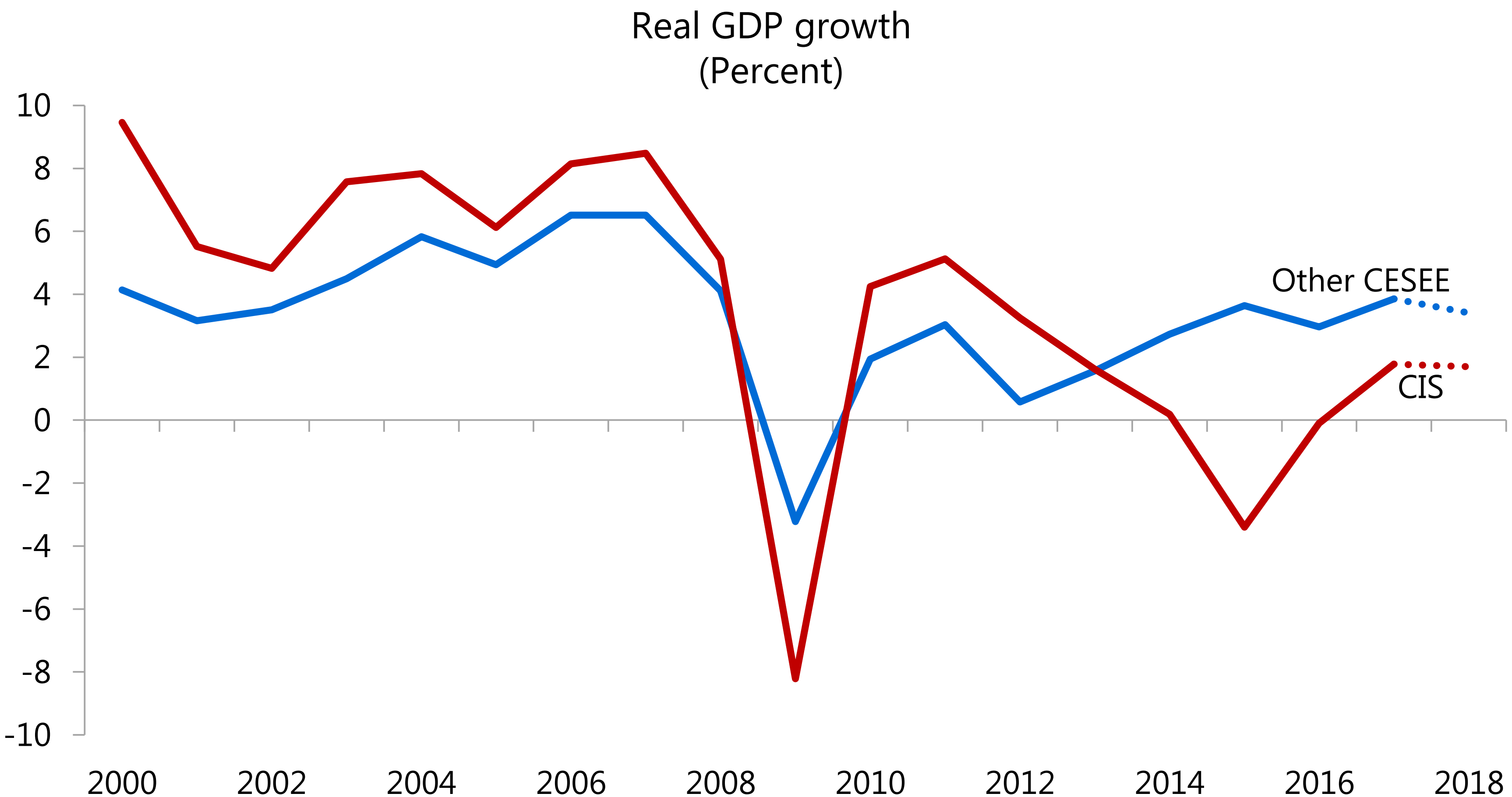


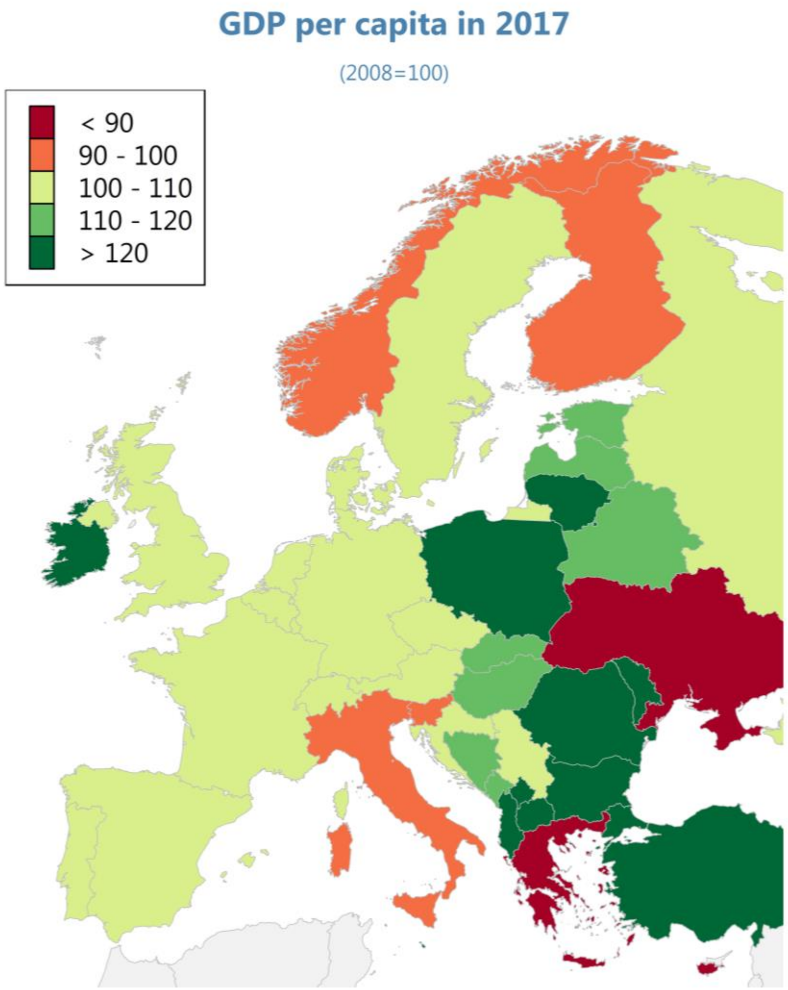
# Fed has started to tighten, ECB rates are expected to remain low for longer



# In CESEE, CIS recovering and non-CIS growing strongly



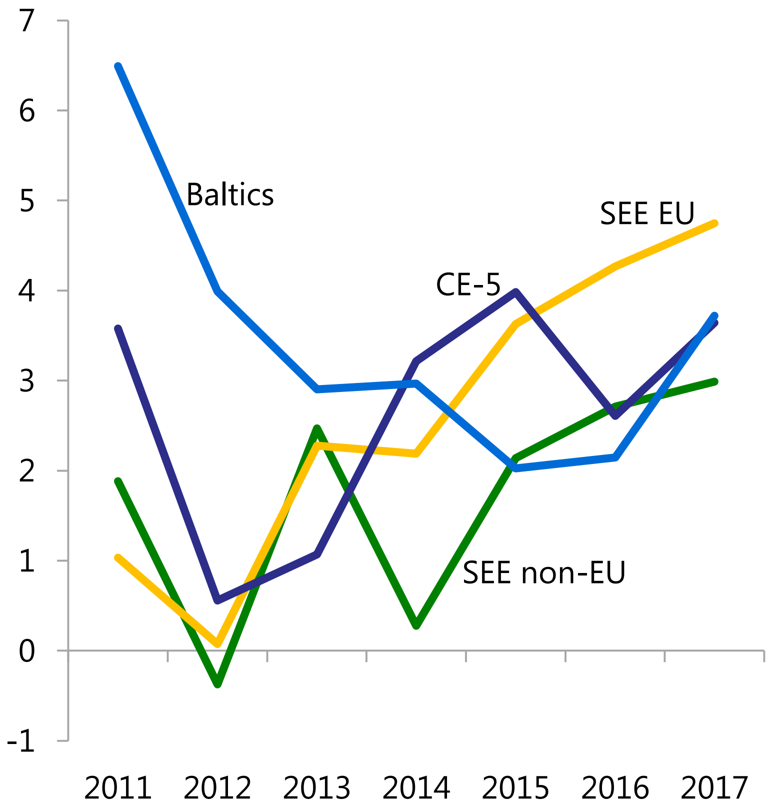
# GDP per capita is well above pre-crisis level (except Ukraine)



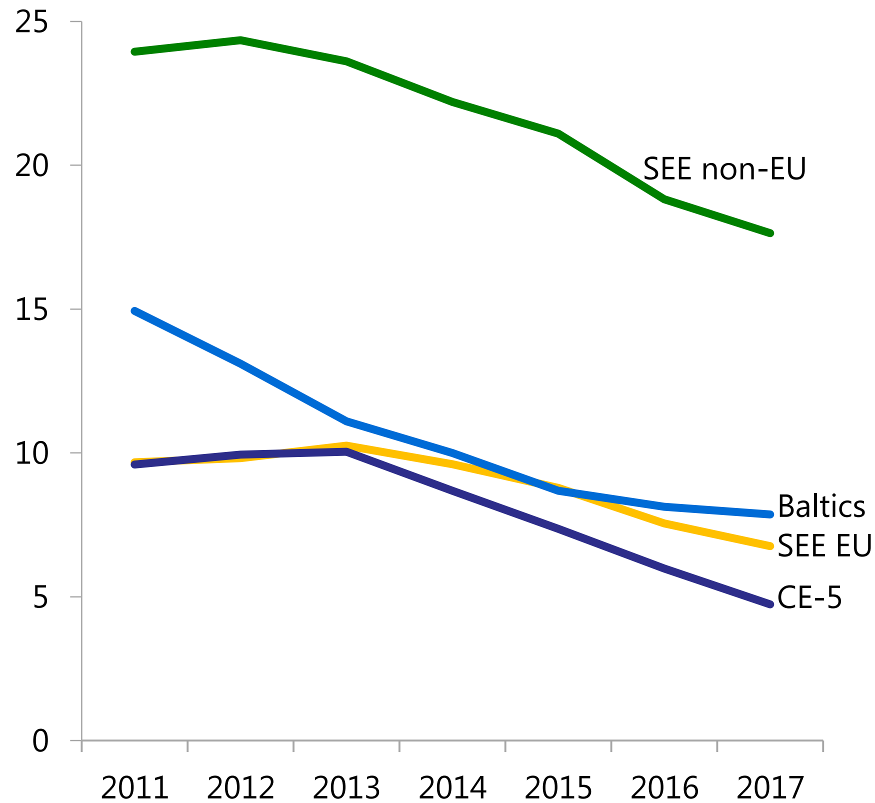
# NON-CIS CESEE

# Growth is rapid, and unemployment is falling sharply

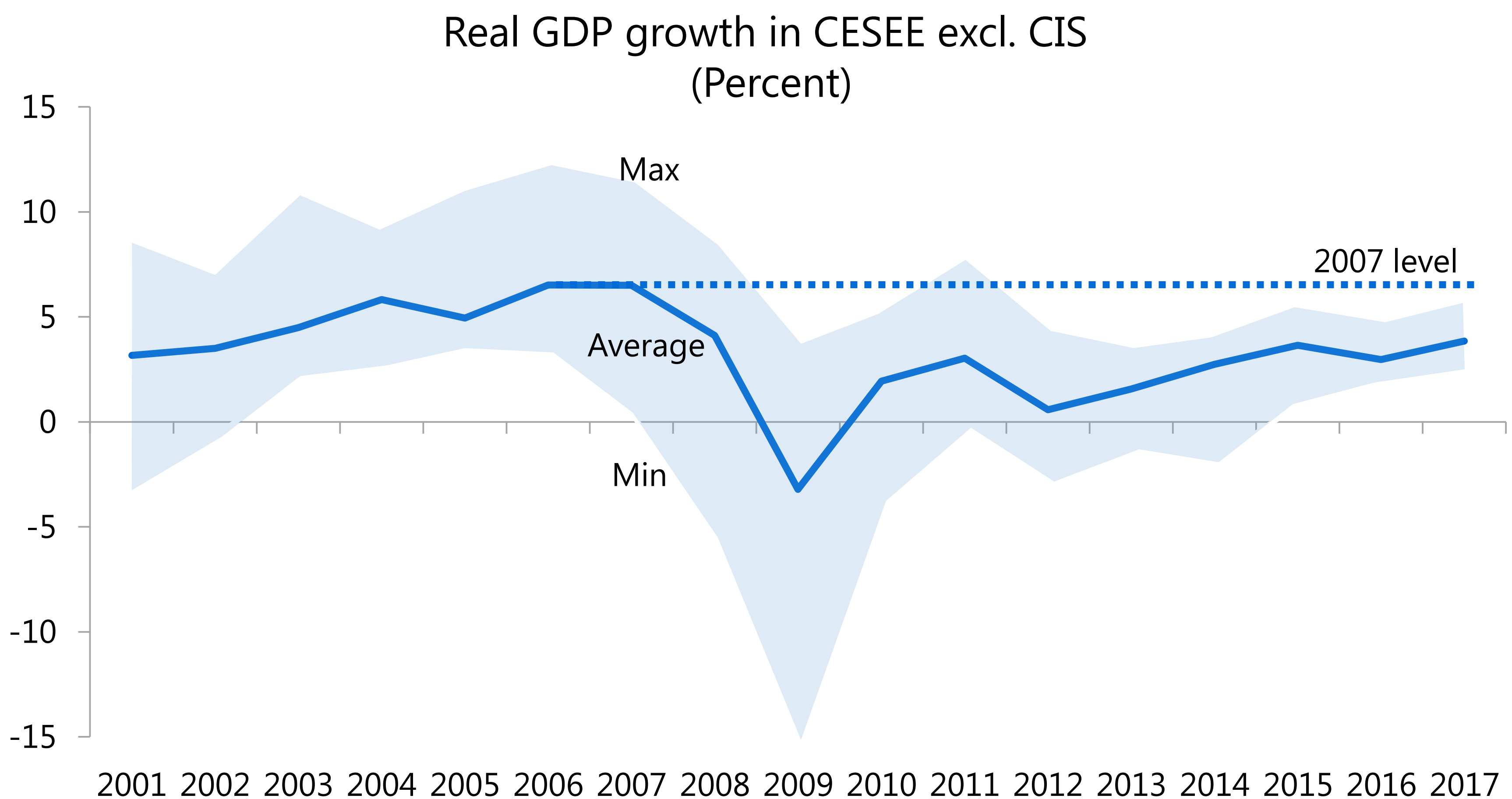
Real GDP growth
(Percent)



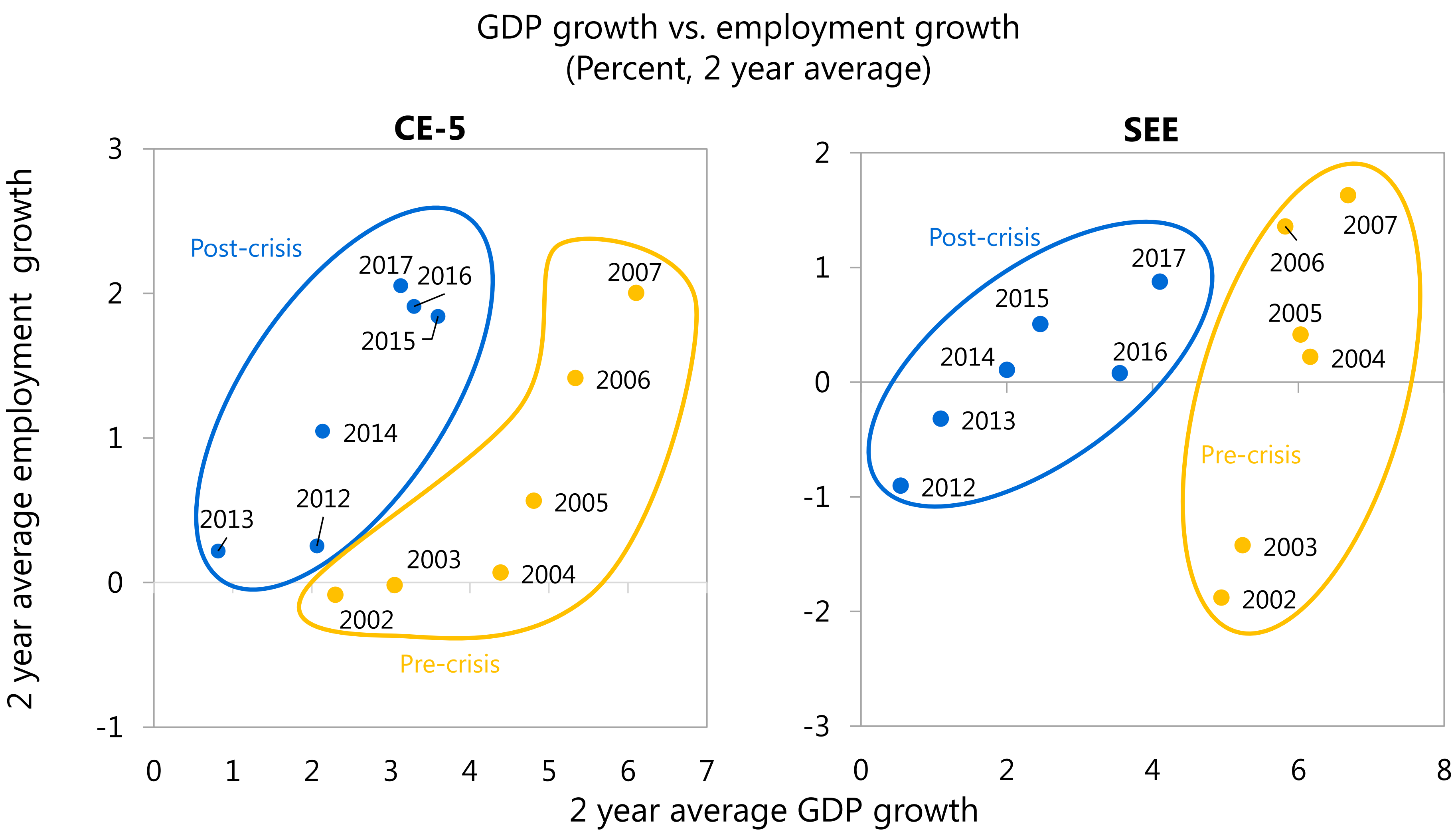

Unemployment Rate
(Percent)



# Growth in the region is not as high as in the pre-crisis years

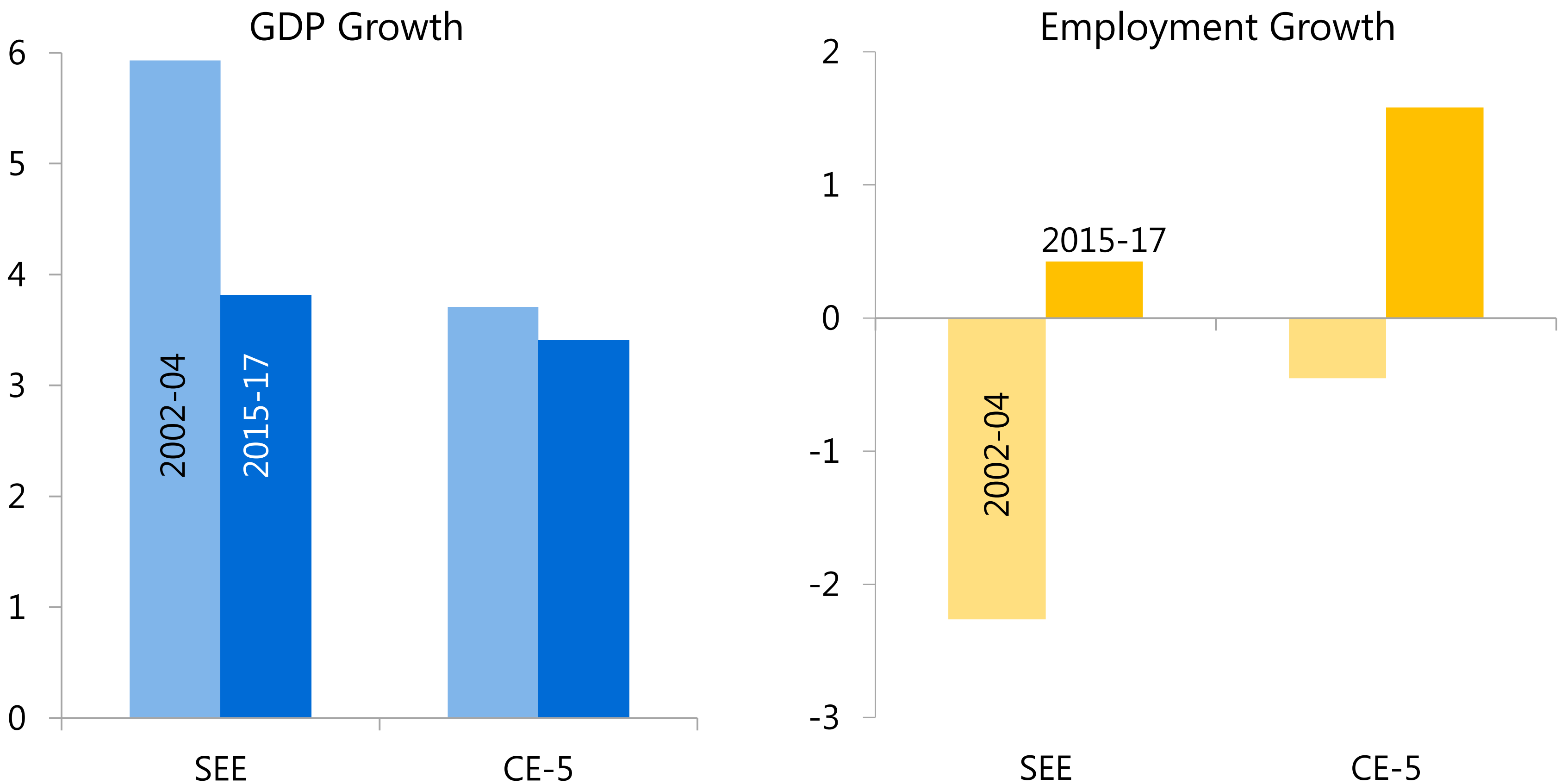


# But employment growth in many countries is as high as during pre-crisis peaks.

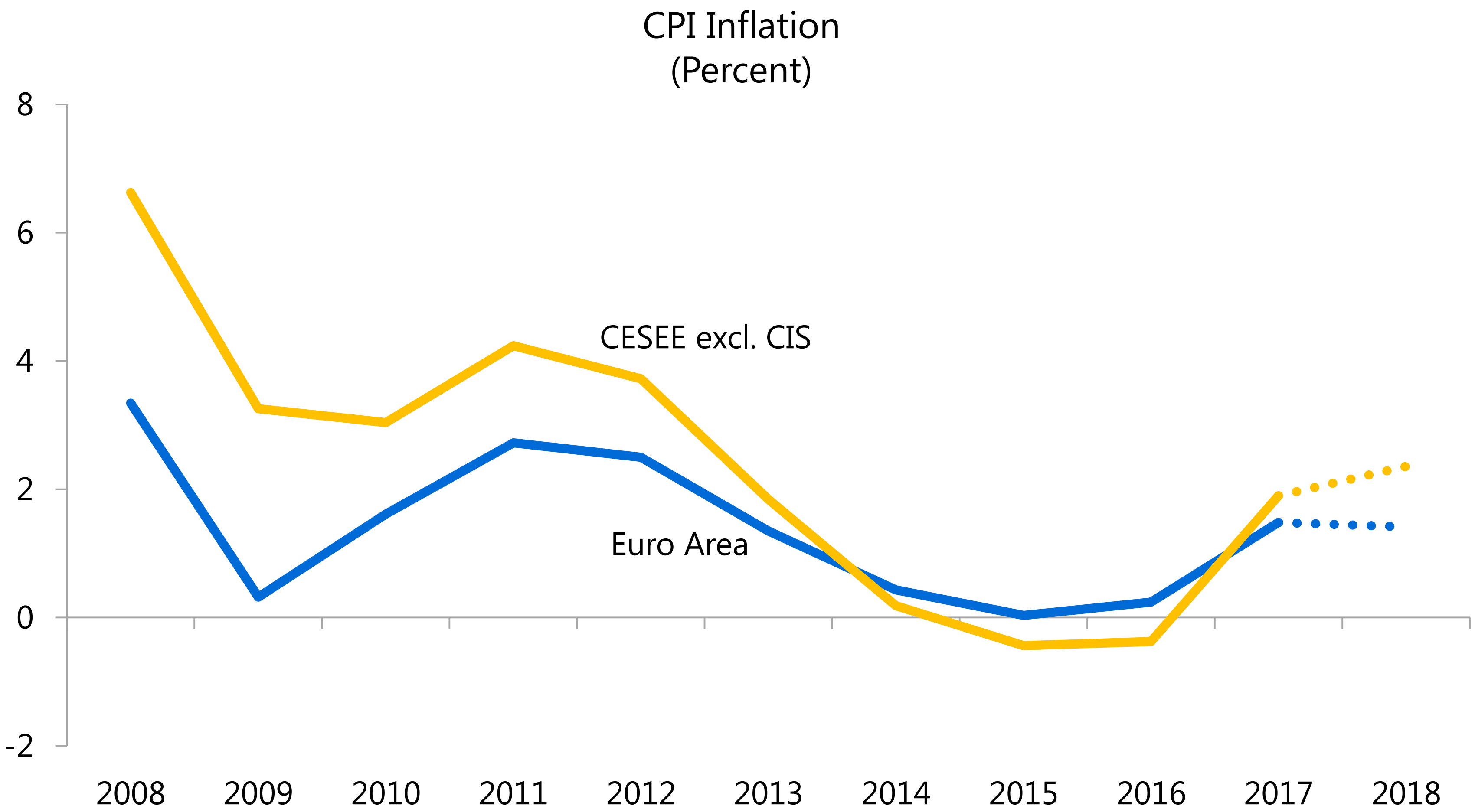


# Even if we exclude peak pre-crisis years: current growth is lower but employment growth higher than pre-crisis

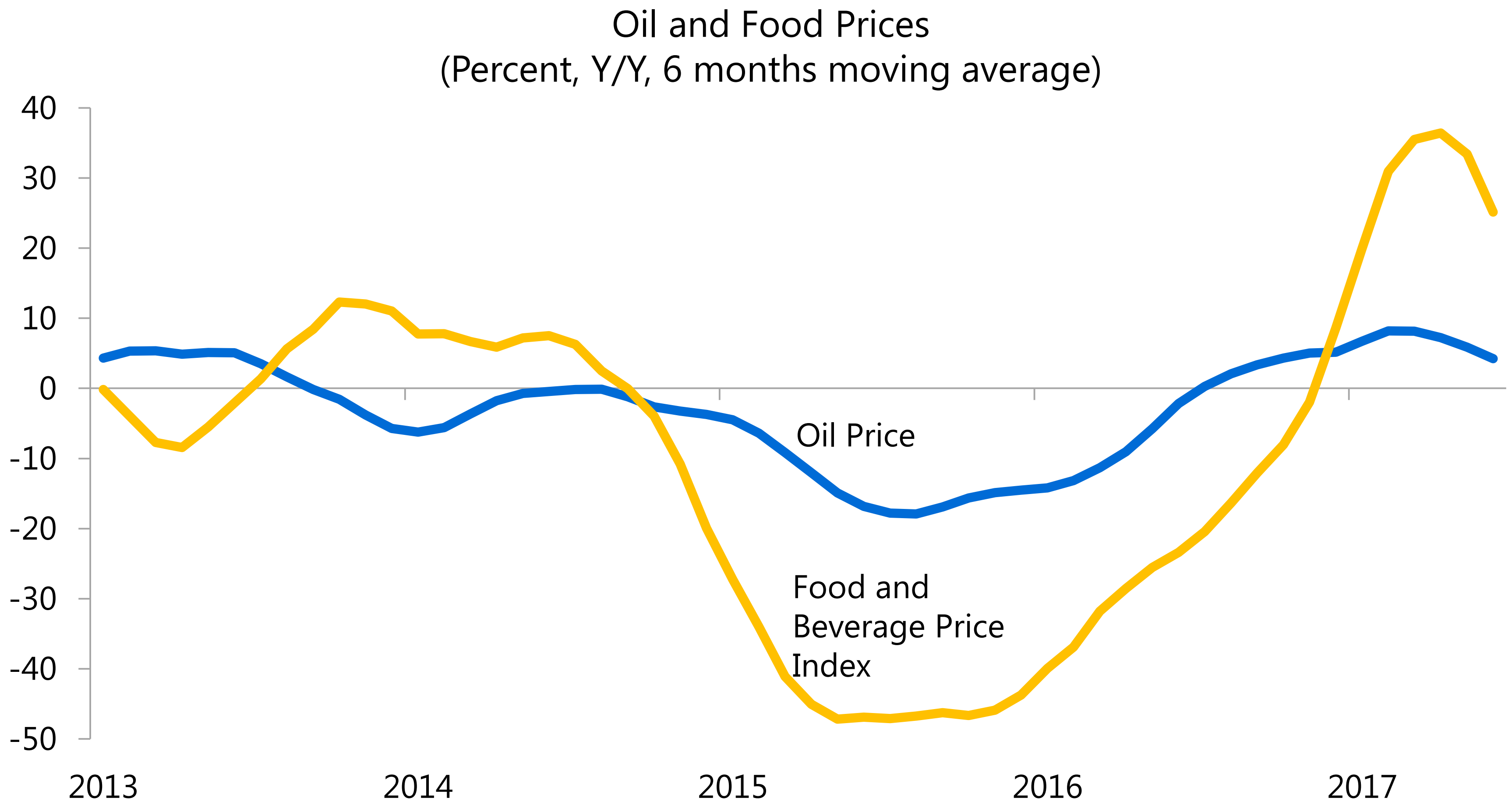
GDP and Employment Growth in 2002-04 and 2015-17
(Average, percent)



# Inflation, which was very low in 2015-16 has picked up recently



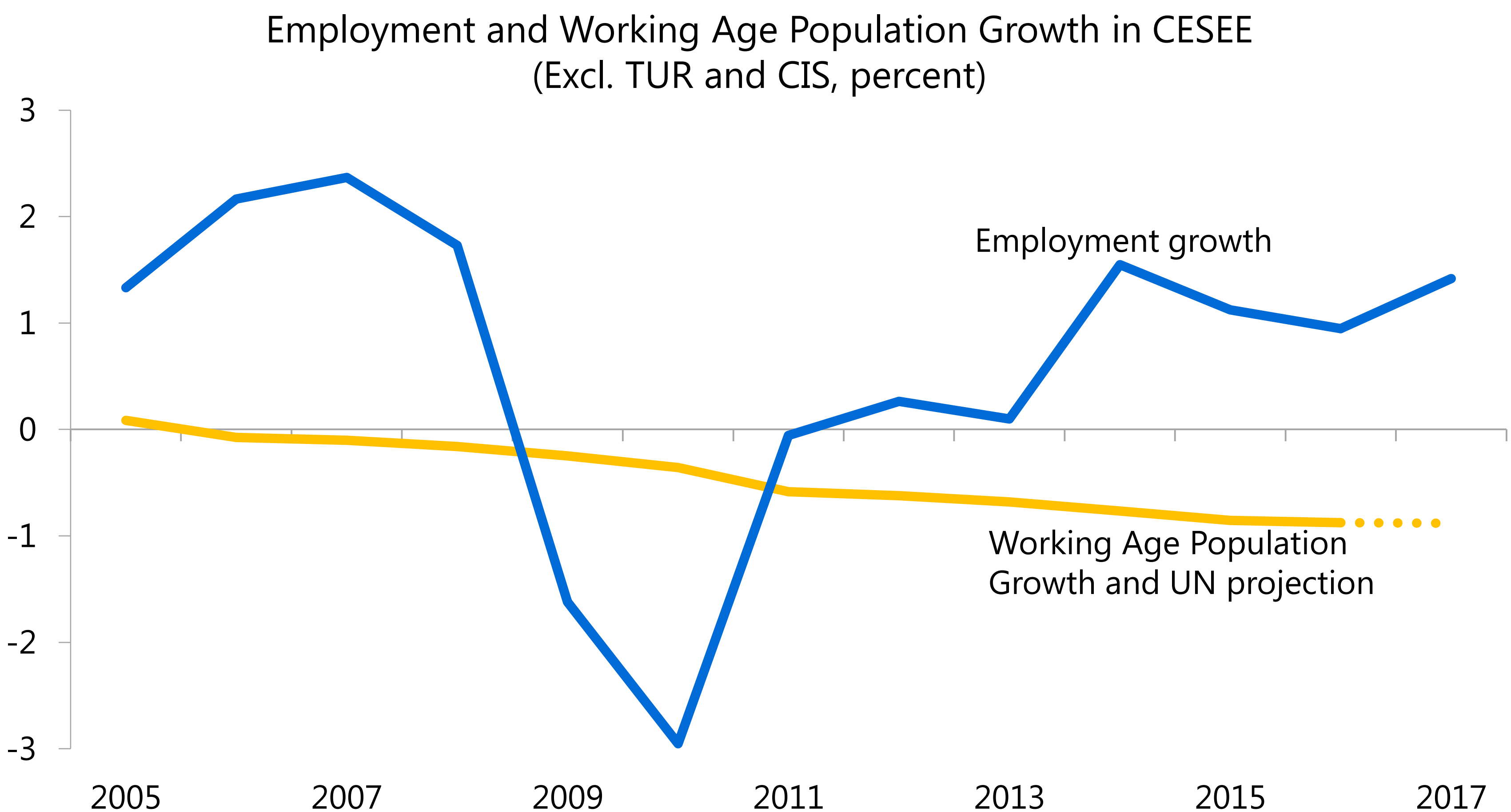
# Energy and food prices played key role in pick-up of inflation



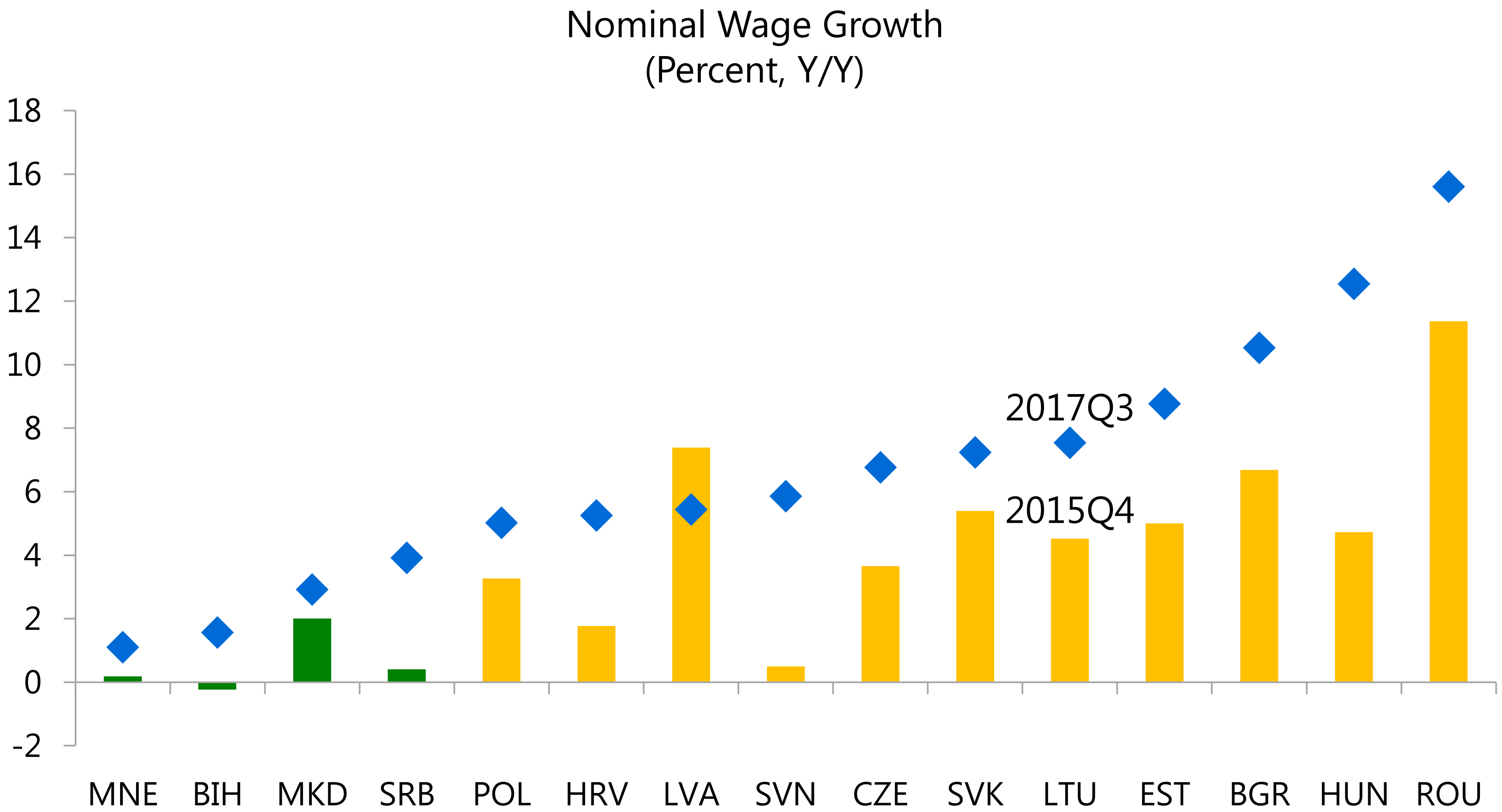
# Growth in 2018 will continue to be strong

- 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

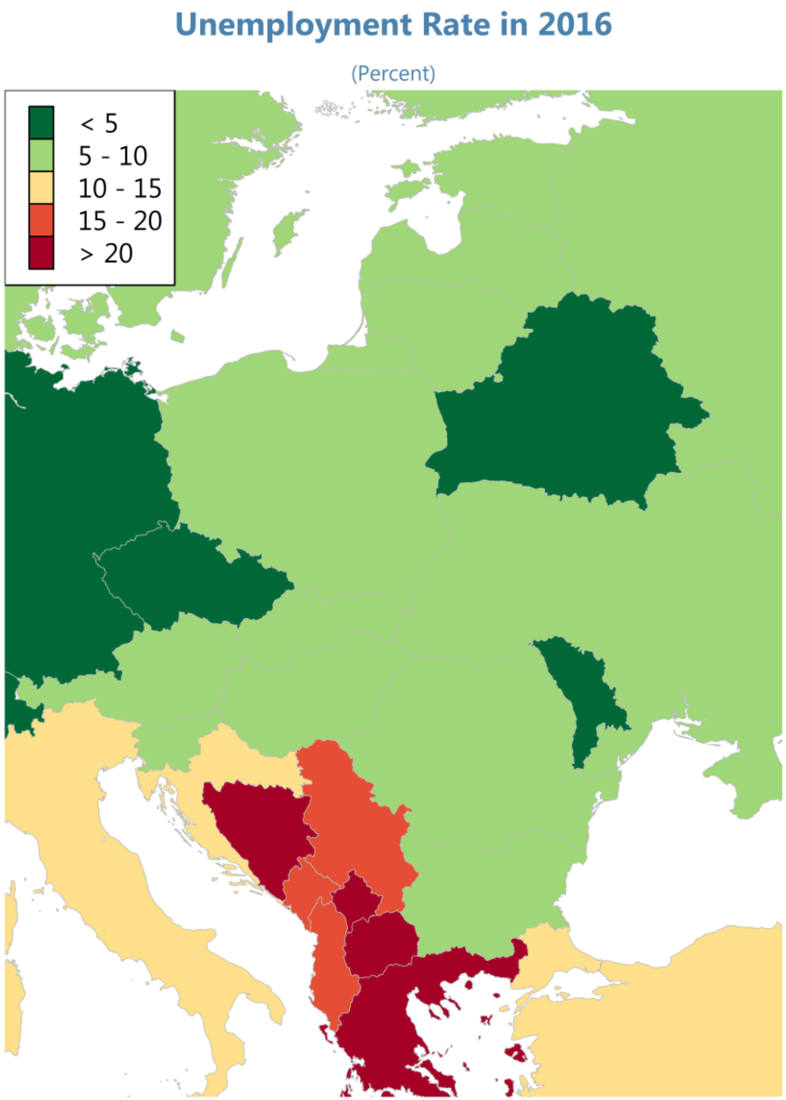
# What will this imply for labor markets?

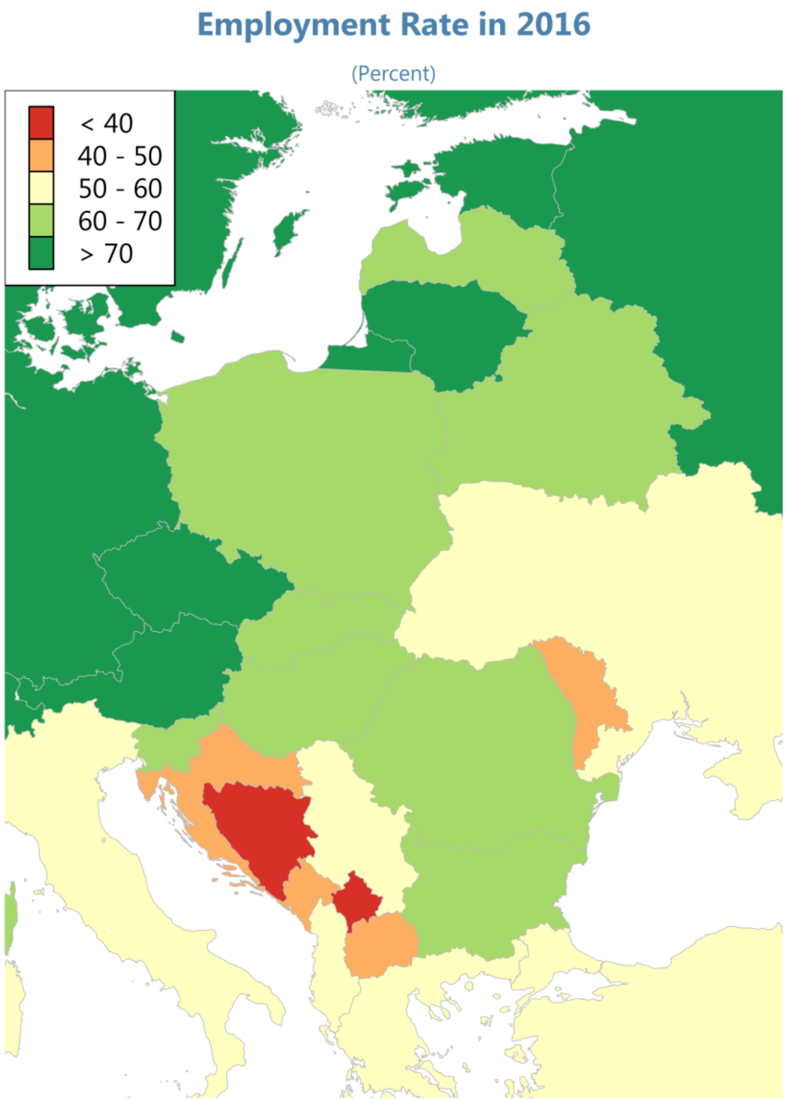


# In the EU NMS wage growth has accelerated, while it has remained more modest in the Western Balkans



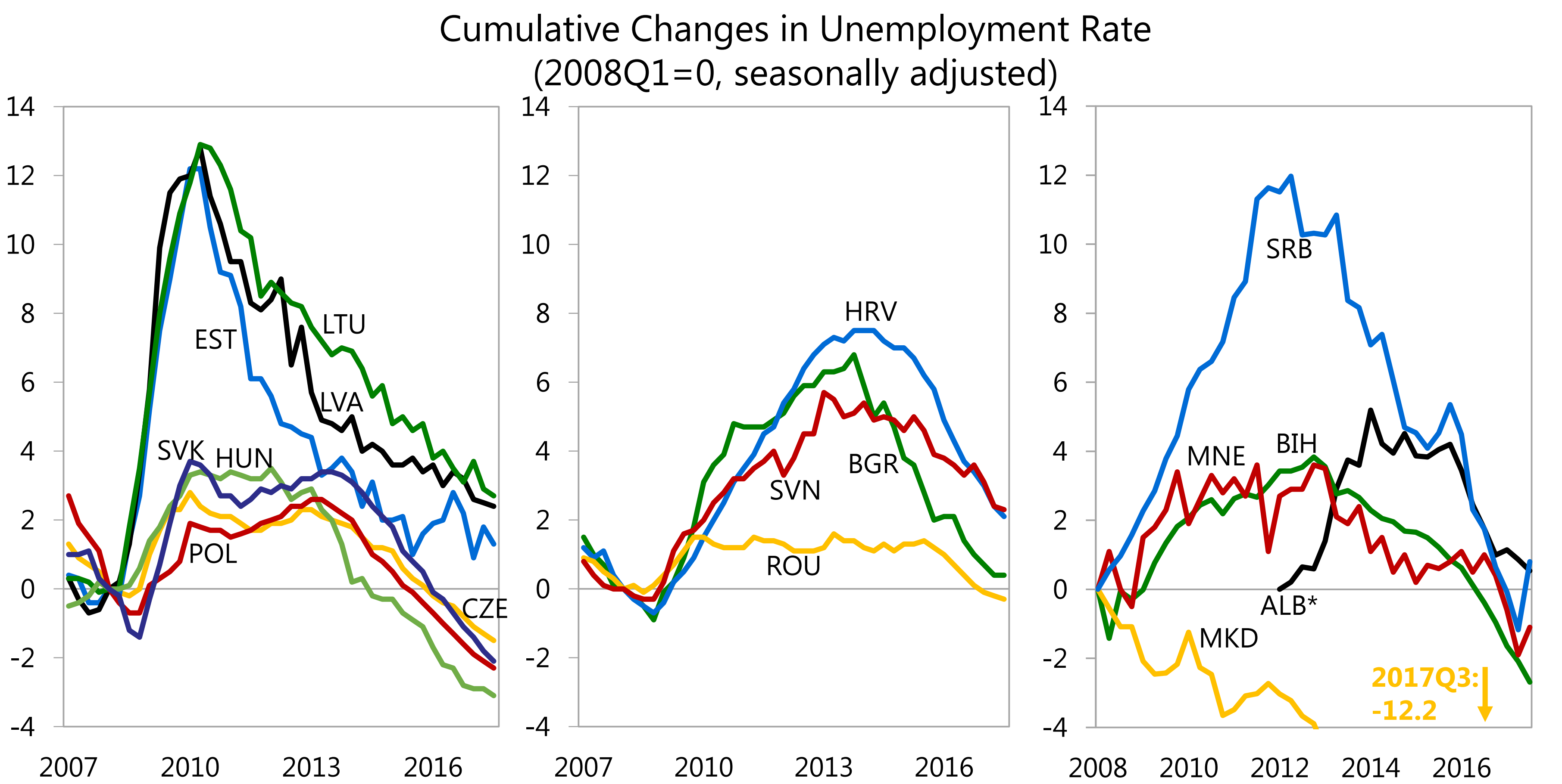
# In Western Balkans unemployment rates are still very high and employment rates low



# Unemployment is coming down rapidly and is now below pre-crisis levels in many countries





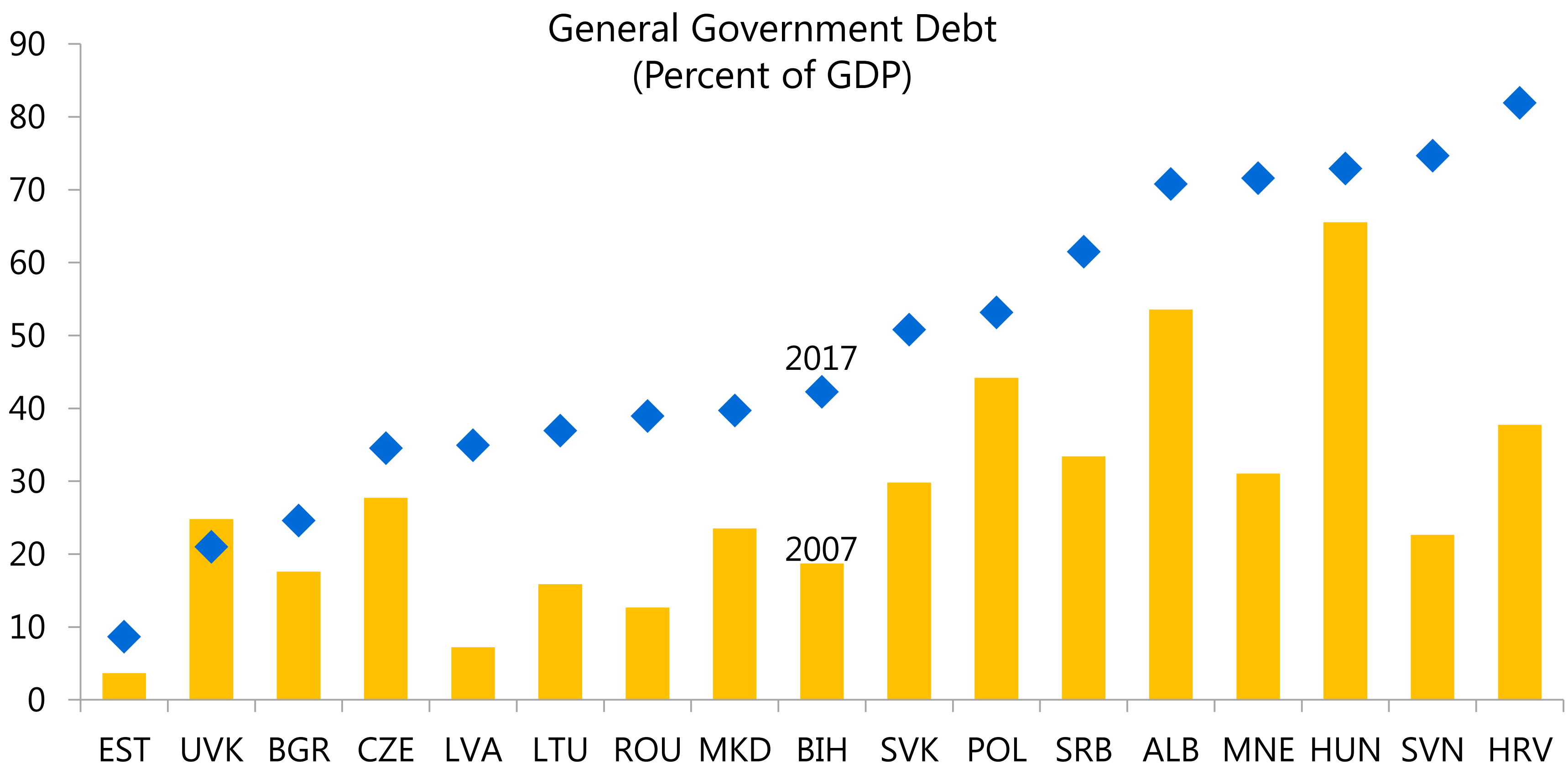

*For ALB 2012Q1=0

# In both regions, rapid decline of unemployment suggests that GDP is growing faster than potential

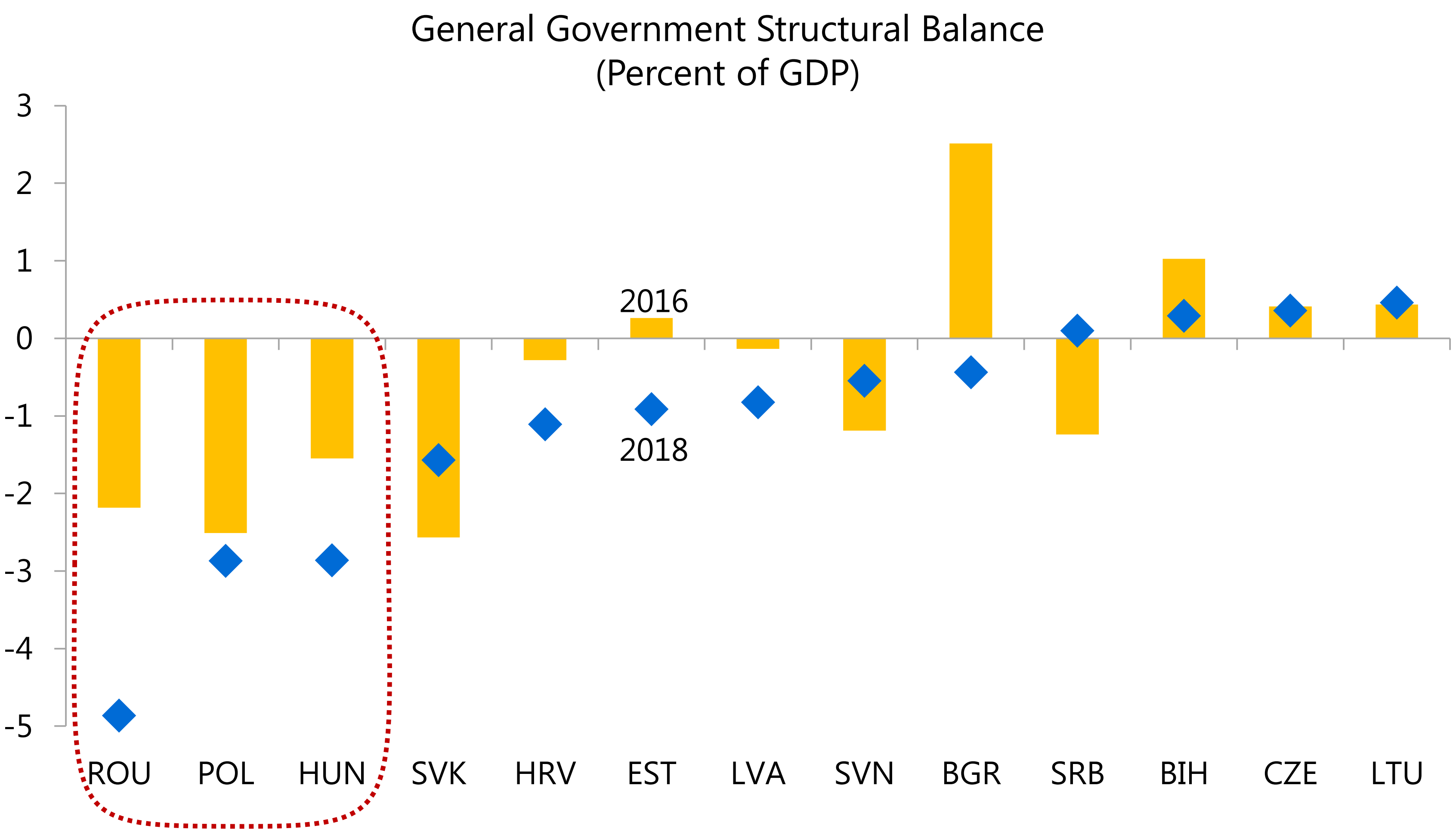
- At some stage, labor market shortages will become constraint on growth
- Growth can only continue at this pace if productivity picks up

# 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.



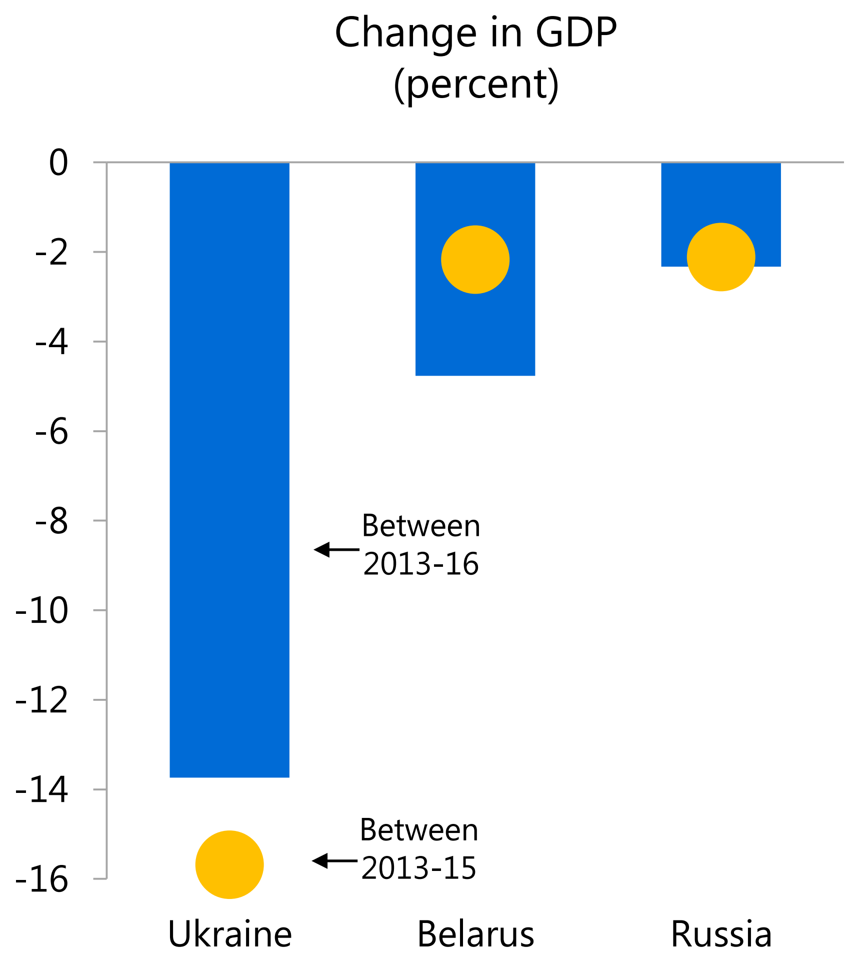
# Unfortunately, many countries with too high structural deficits are reverting to pro-cyclical loosening



# CIS

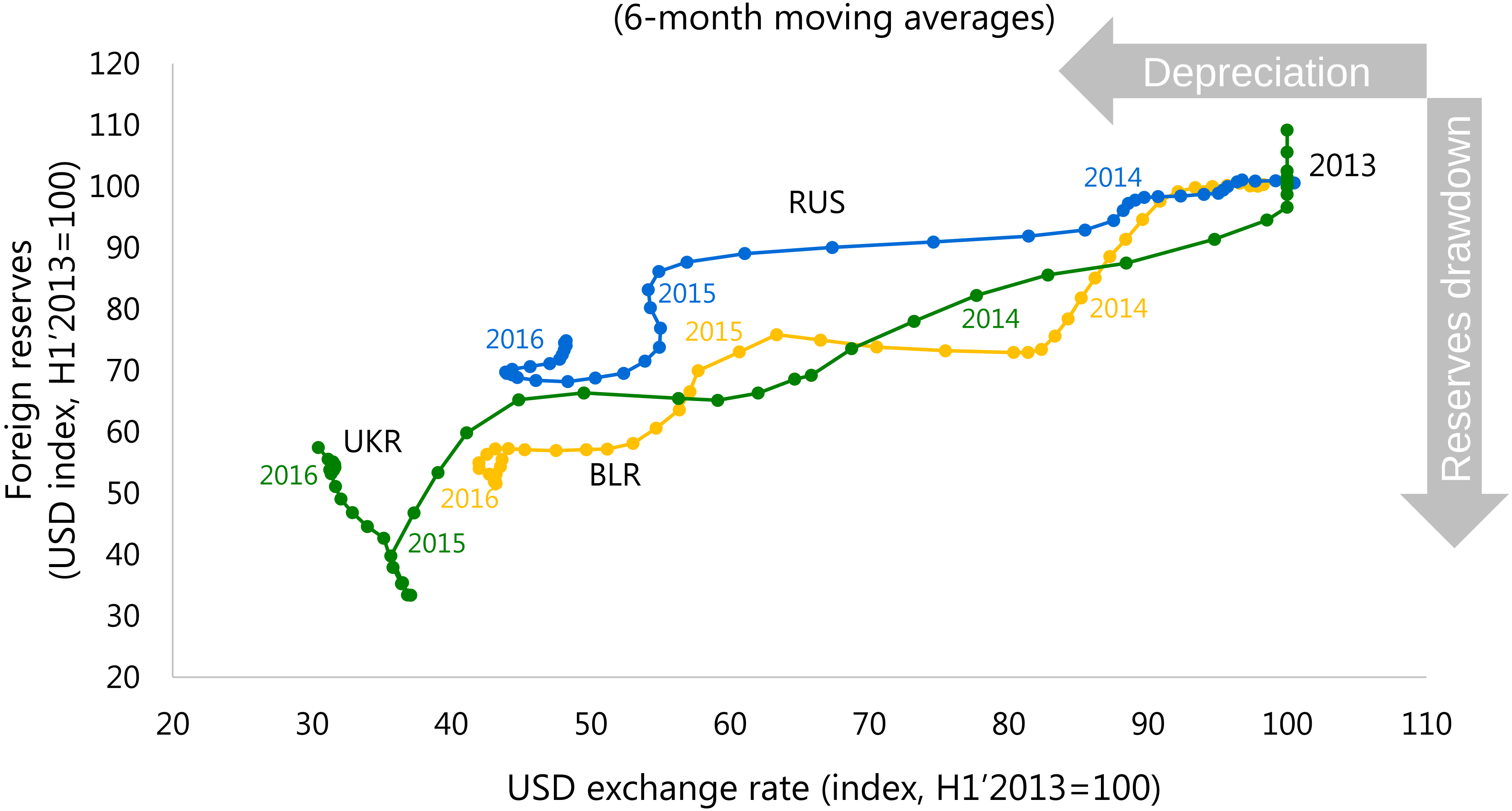
# In 2014-15, Russia and Ukraine suffered from shocks, and Belarus from spillovers

- Collapse of commodity prices
- Sudden stop in capital flows to Russia, result of sanctions on Russia
- Conflict in Ukraine

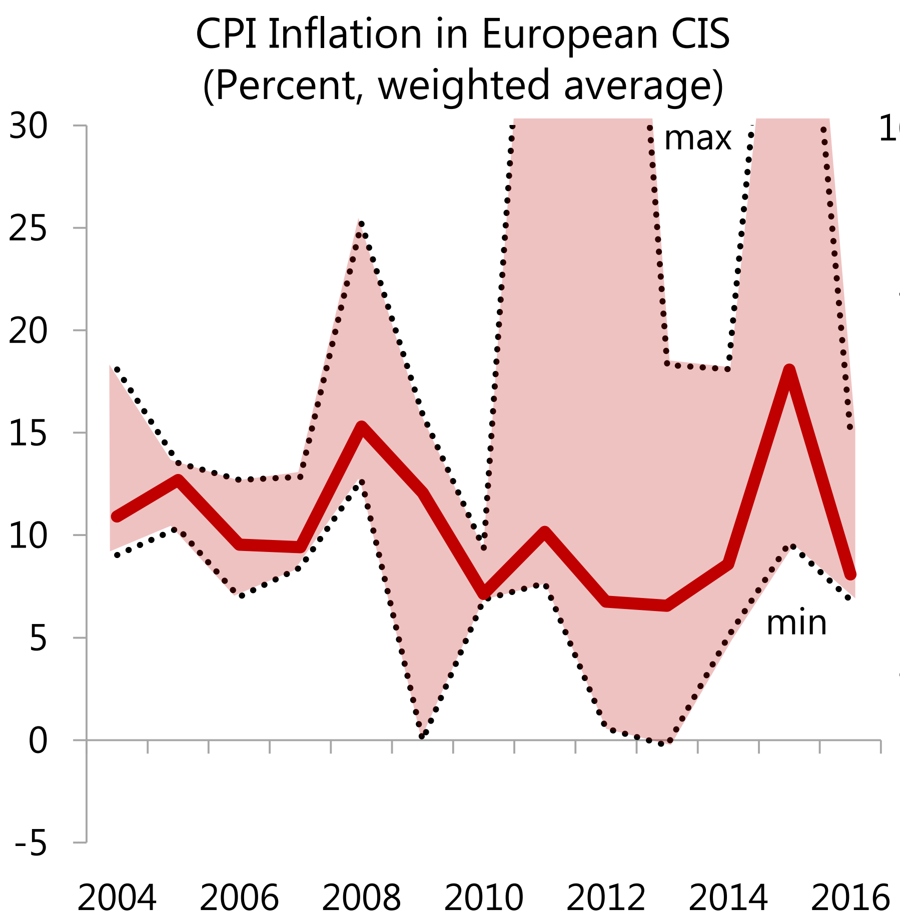


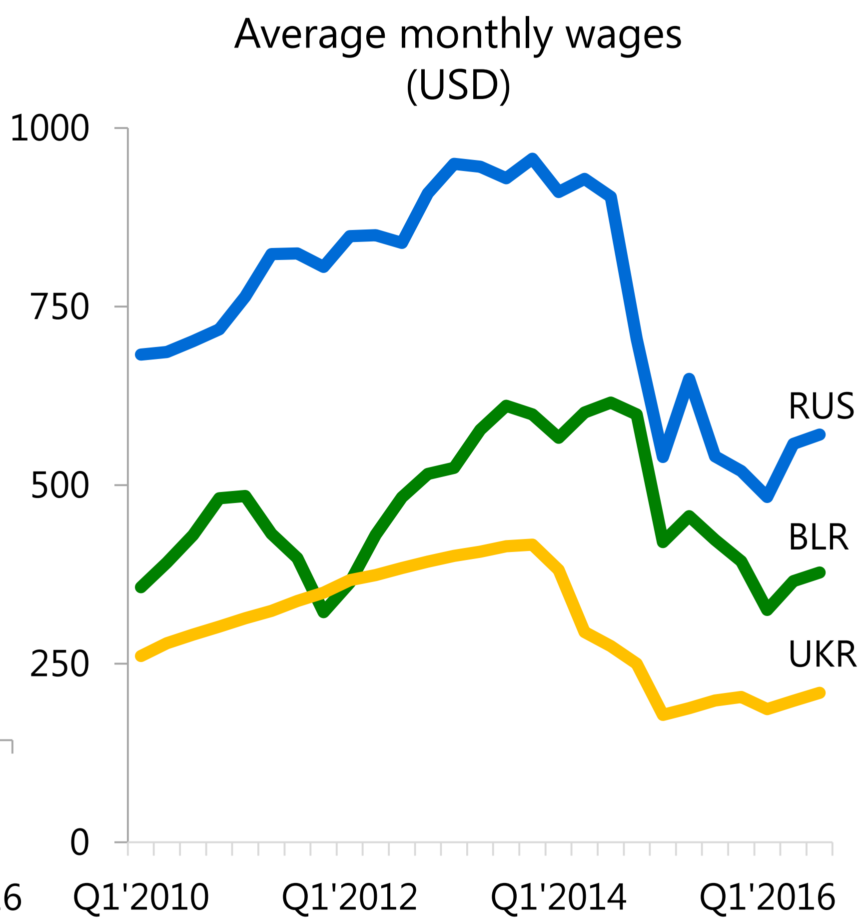
# Exchange rate flexibility was unavoidable given the limited buffers…

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



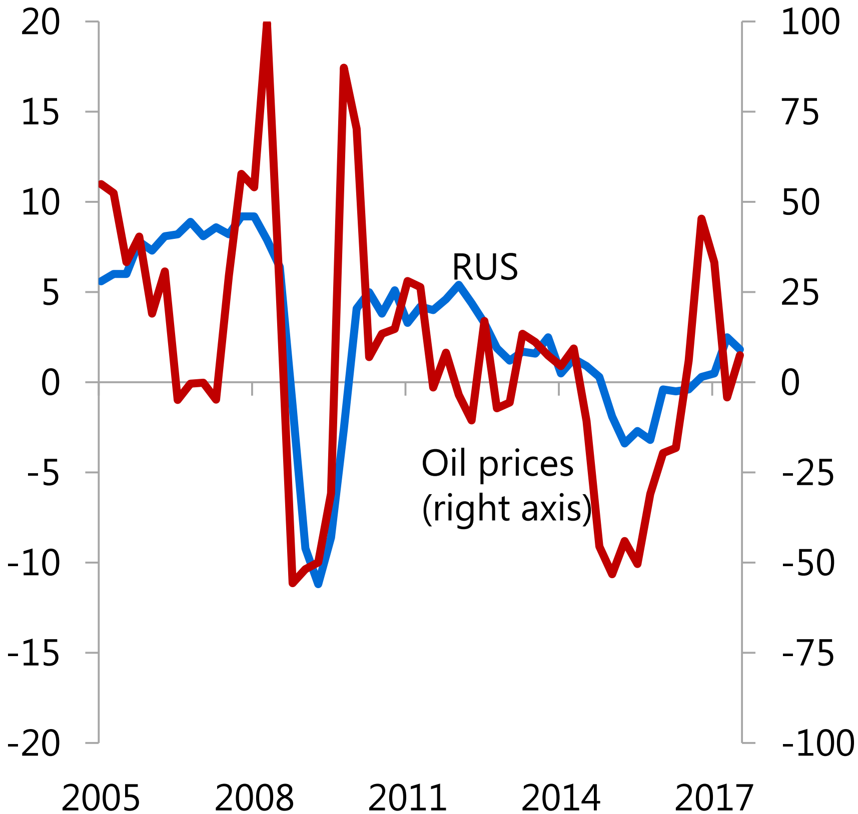
# ...but increased inflation and reduced real wages

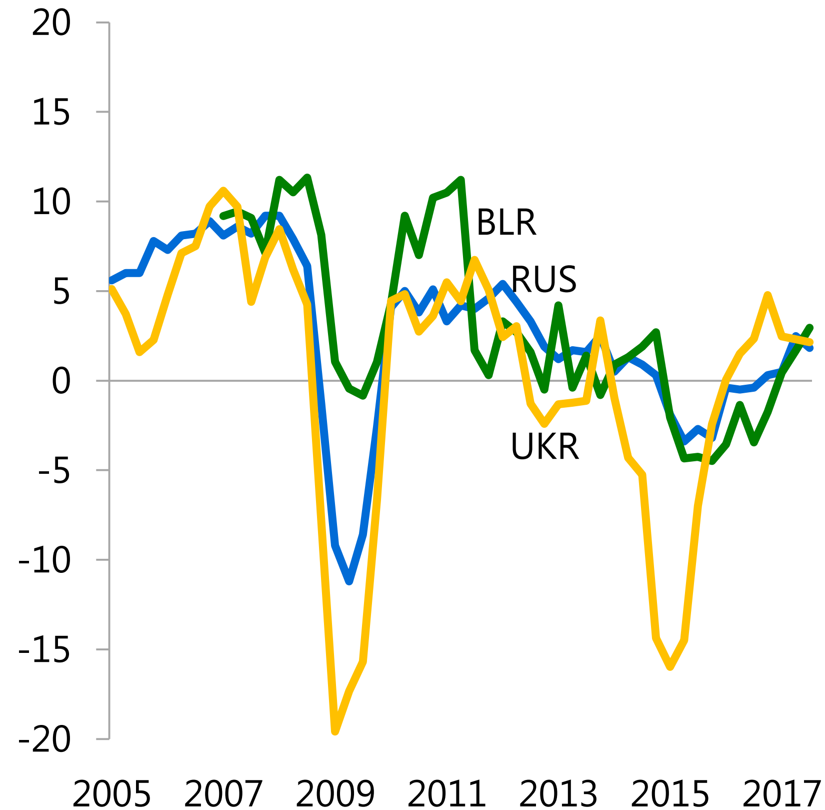


# Ukraine and Russia are now recovering (helped by rising oil prices)

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

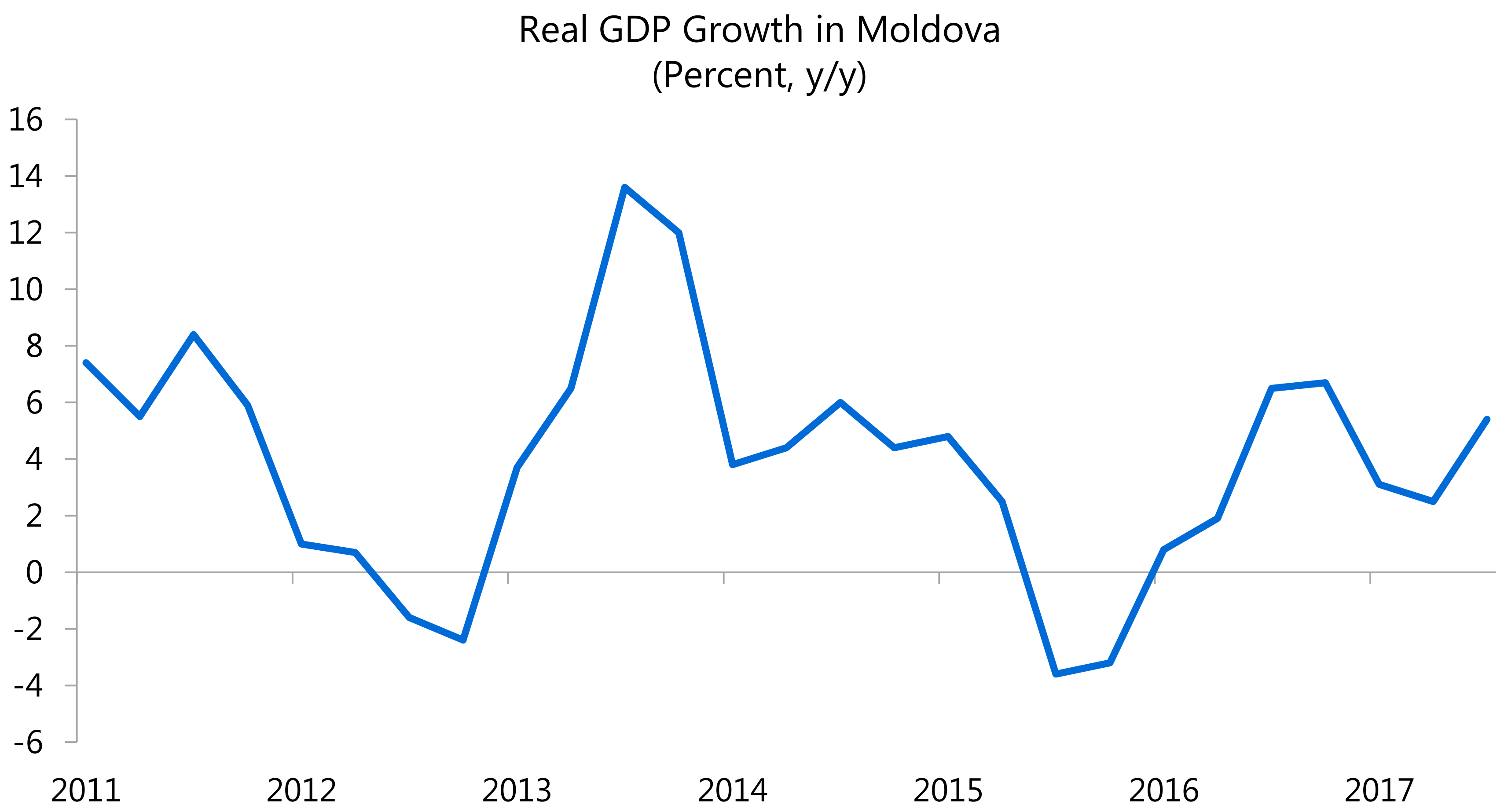


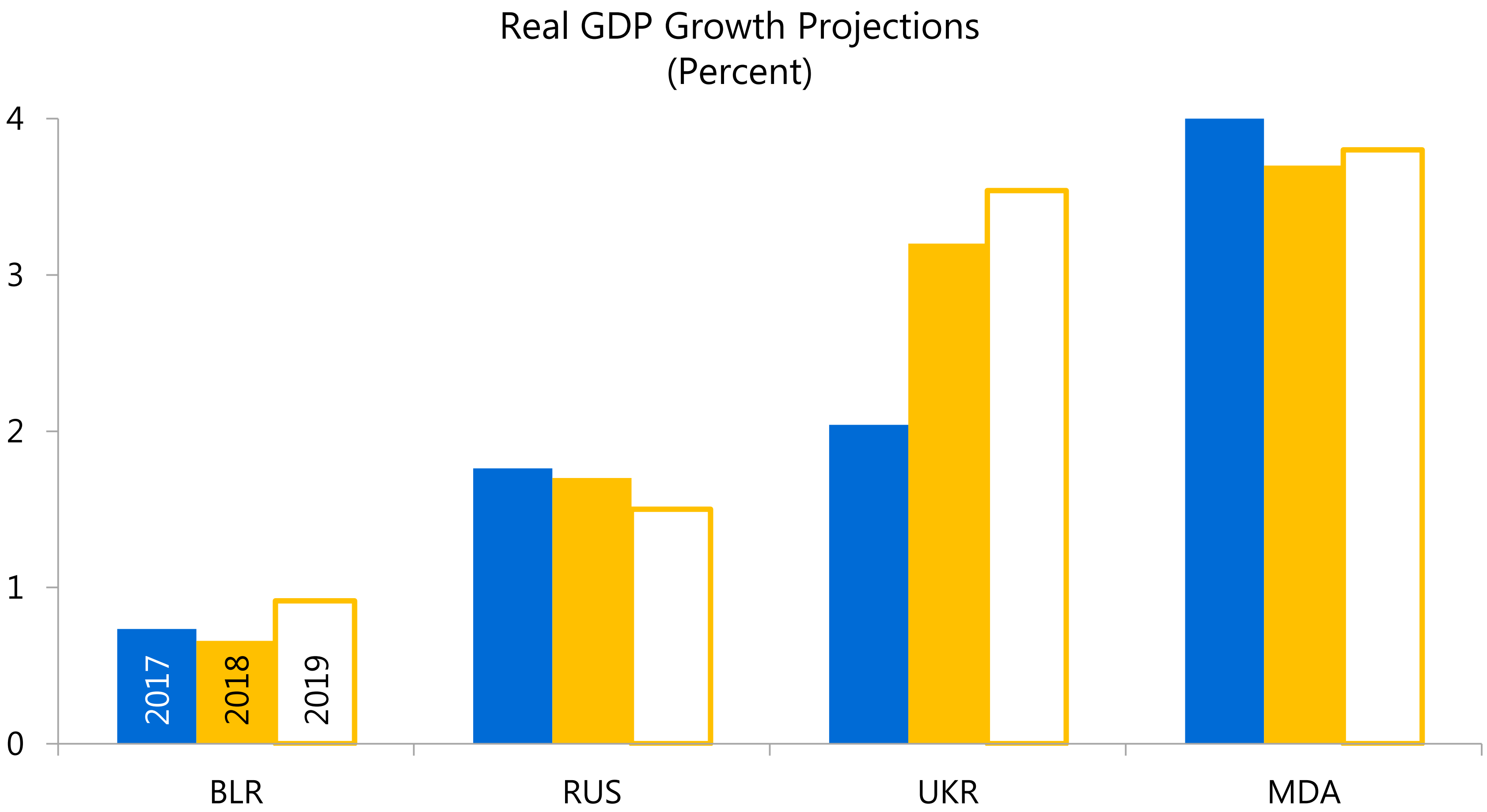
# Moldova had a banking crisis in 2014

- Three large banks collapsed as a result of their long-lasting abuse by the shareholder(s)
- Supervisory action was slow to come
- Supervisory forbearance increased the ultimate resolution costs to the budget

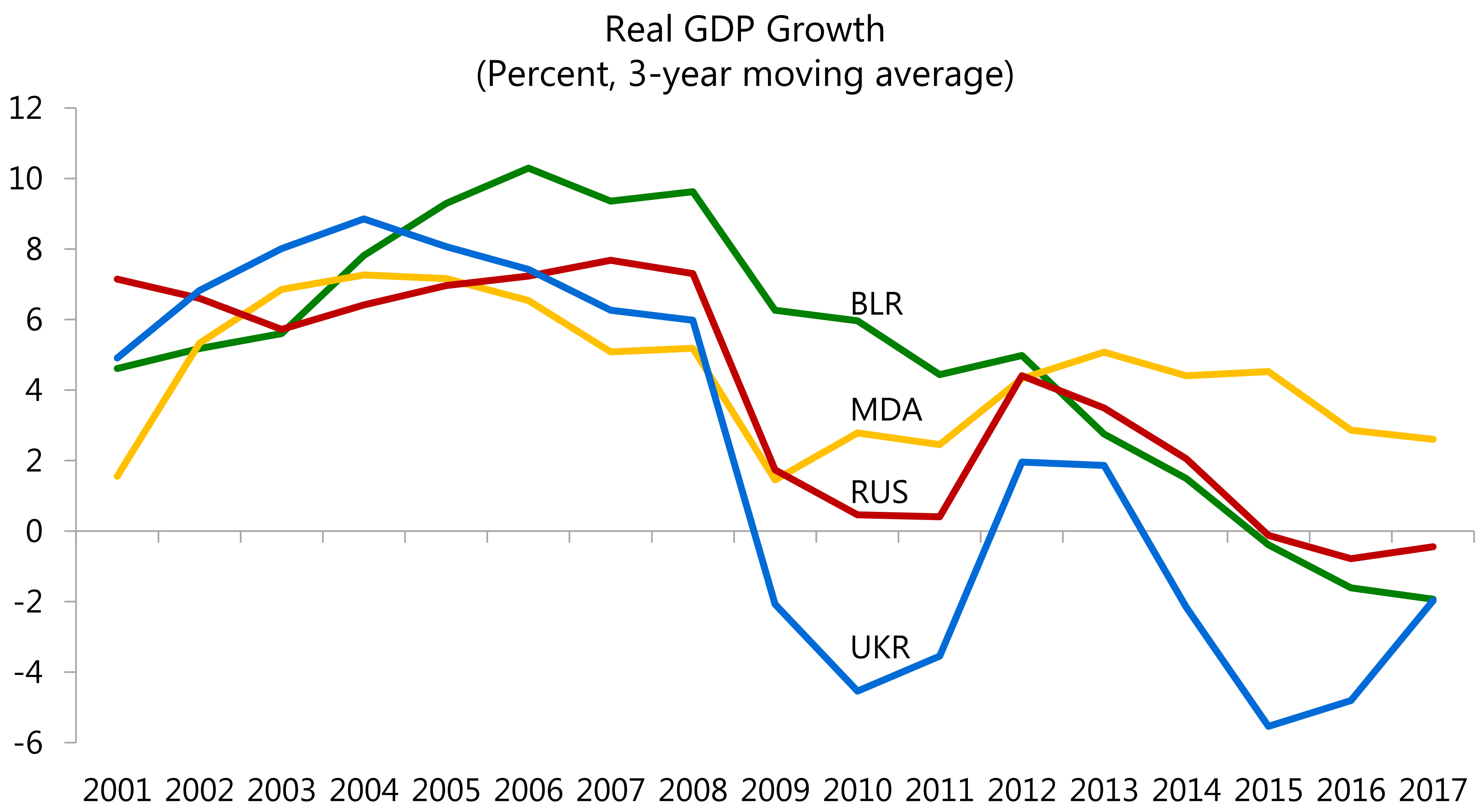
# But is now also recovering



# Near-term prospects show solid growth

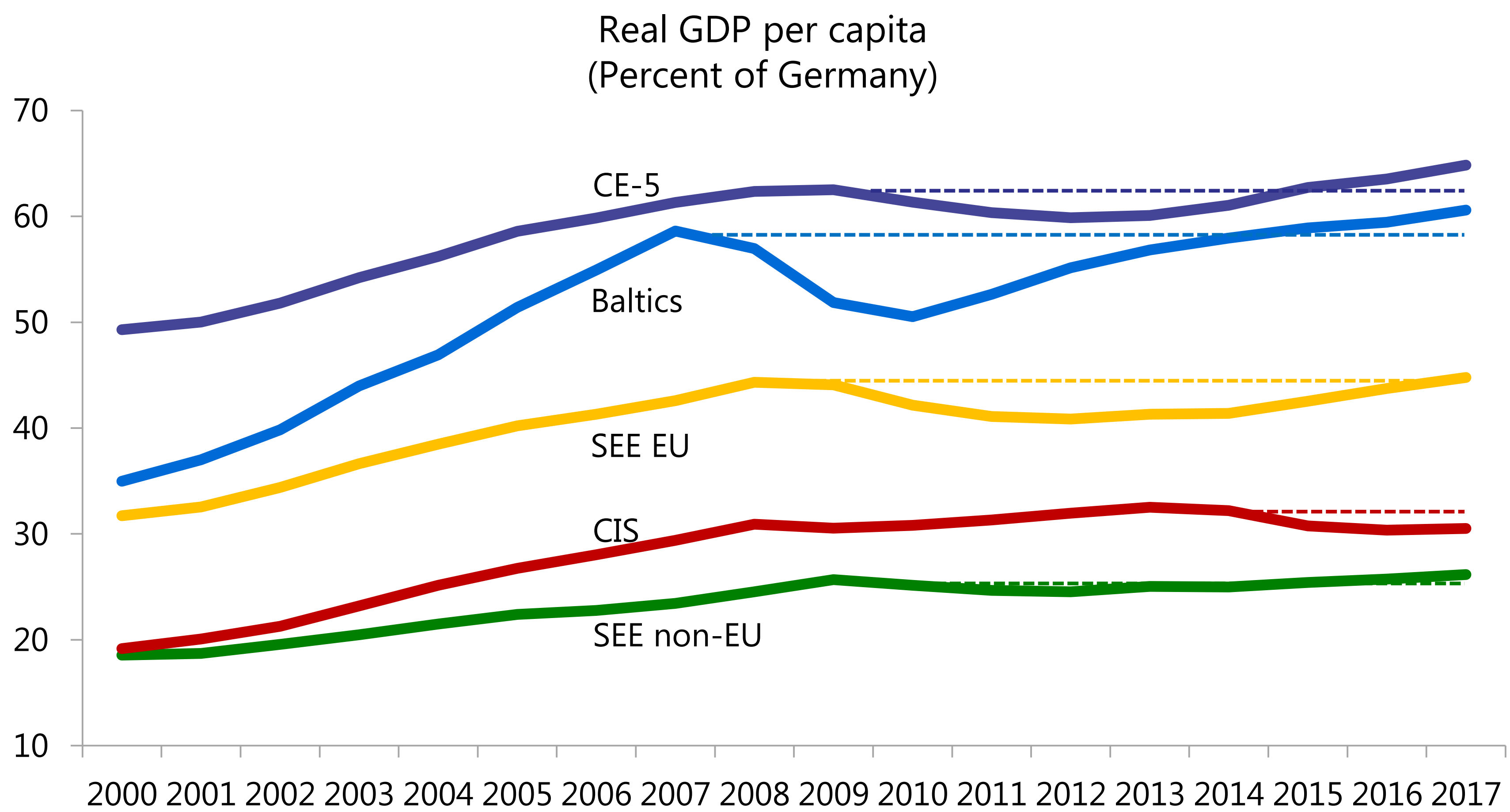



# But growth is low in comparison to pre-crisis period

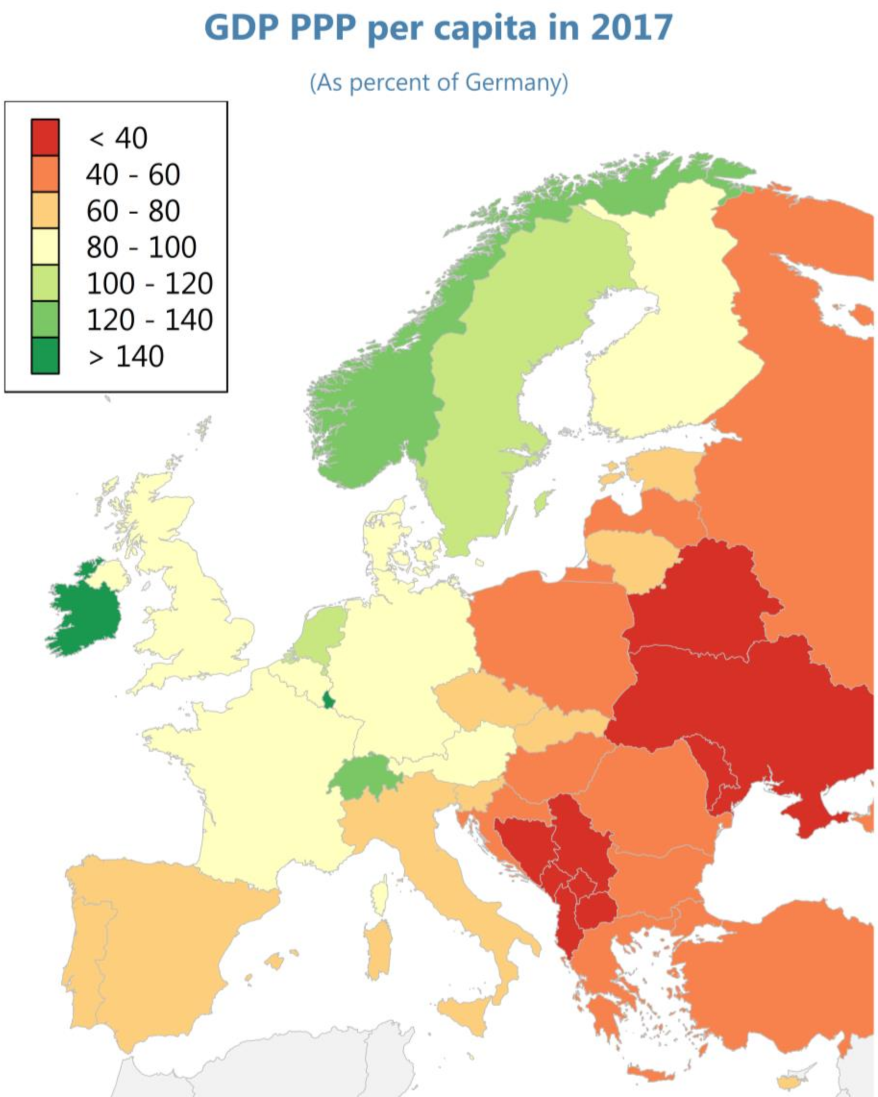


# THE FUTURE OF CONVERGENCE

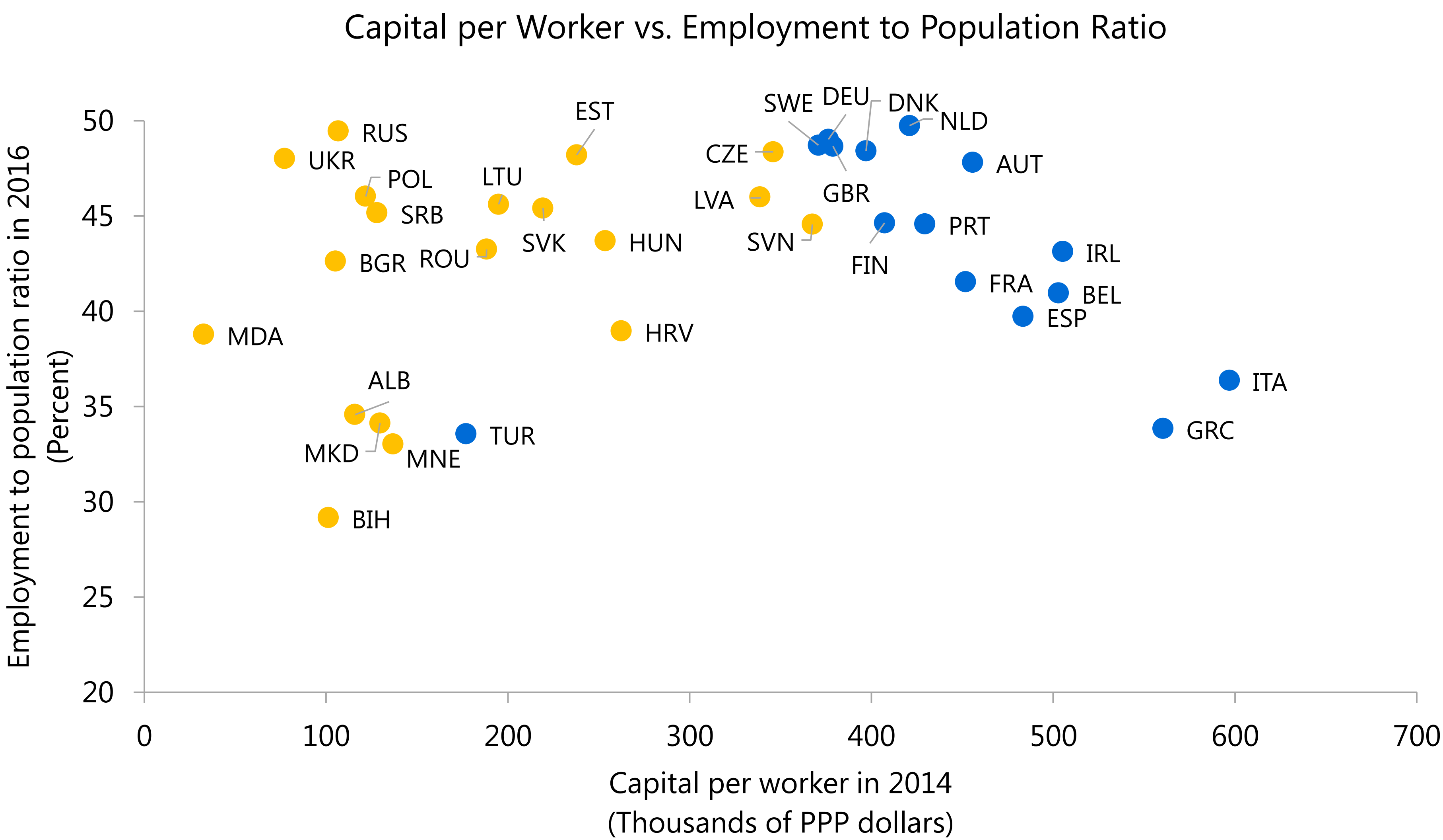
# Convergence has resumed (except in CIS)



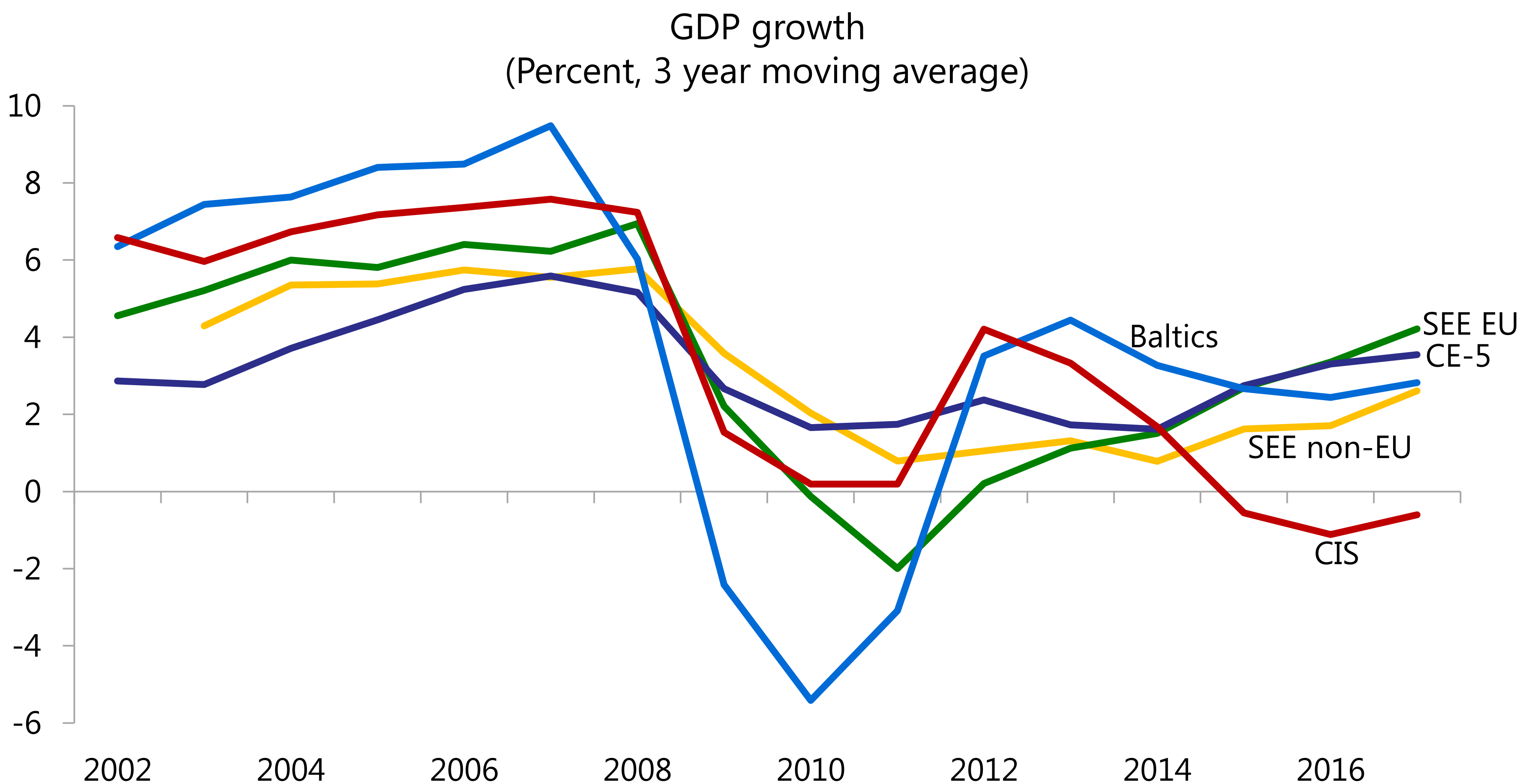
# But CESEE is still much poorer than Western Europe



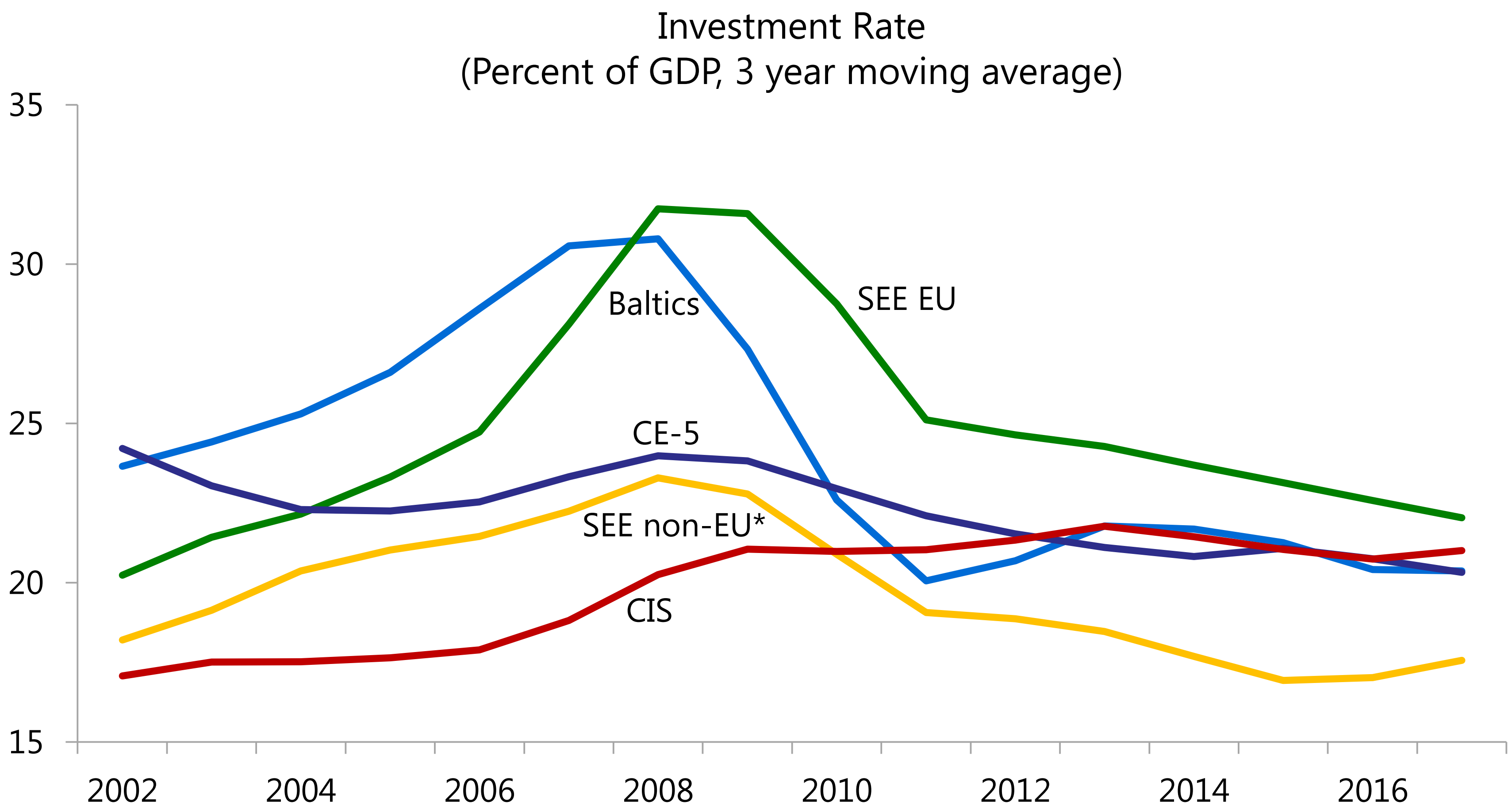
# As fewer people work and there is less capital per worker



# Growth is slower than pre-crisis…

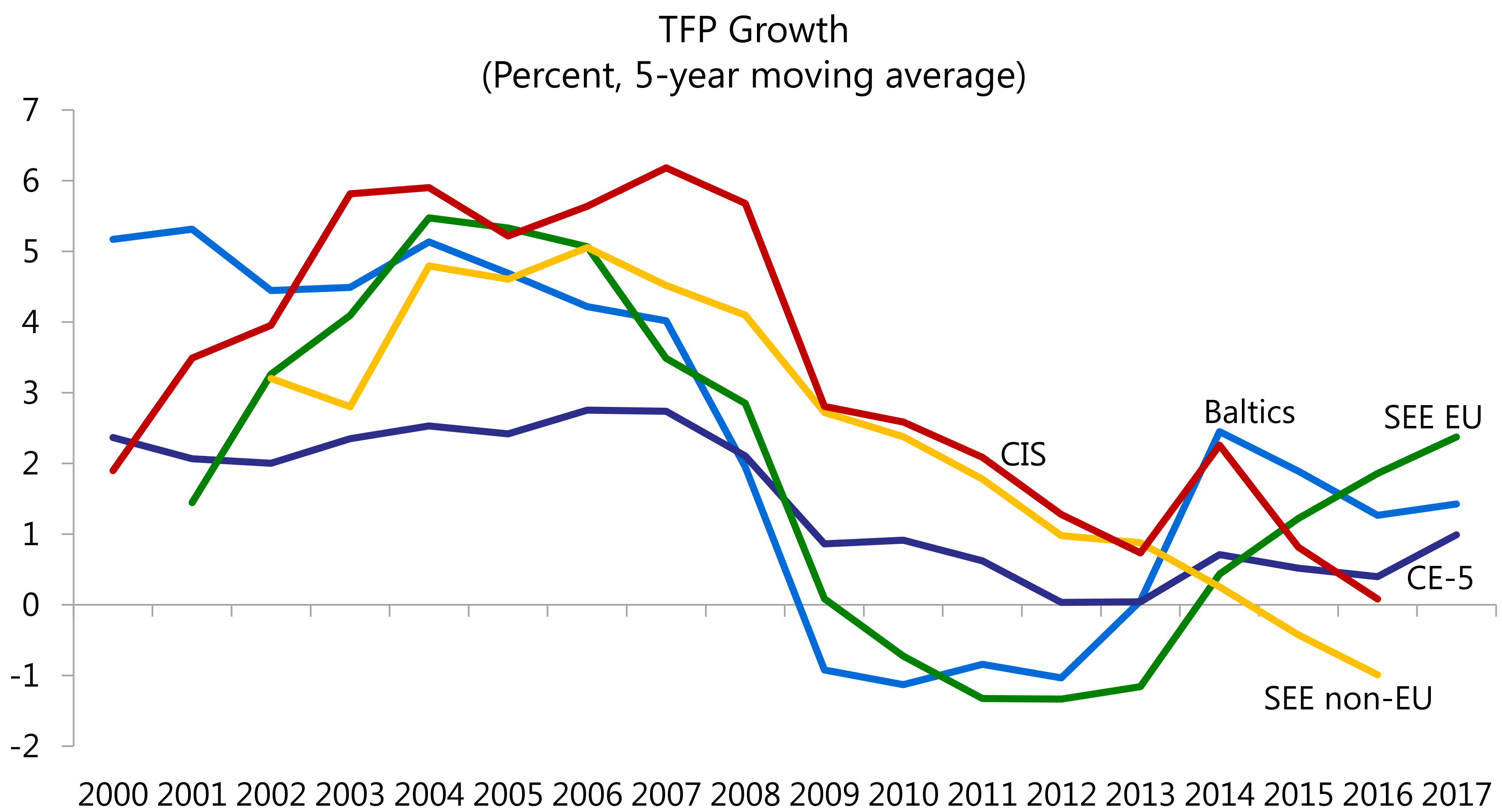


# As investment rates are lower (except CIS)

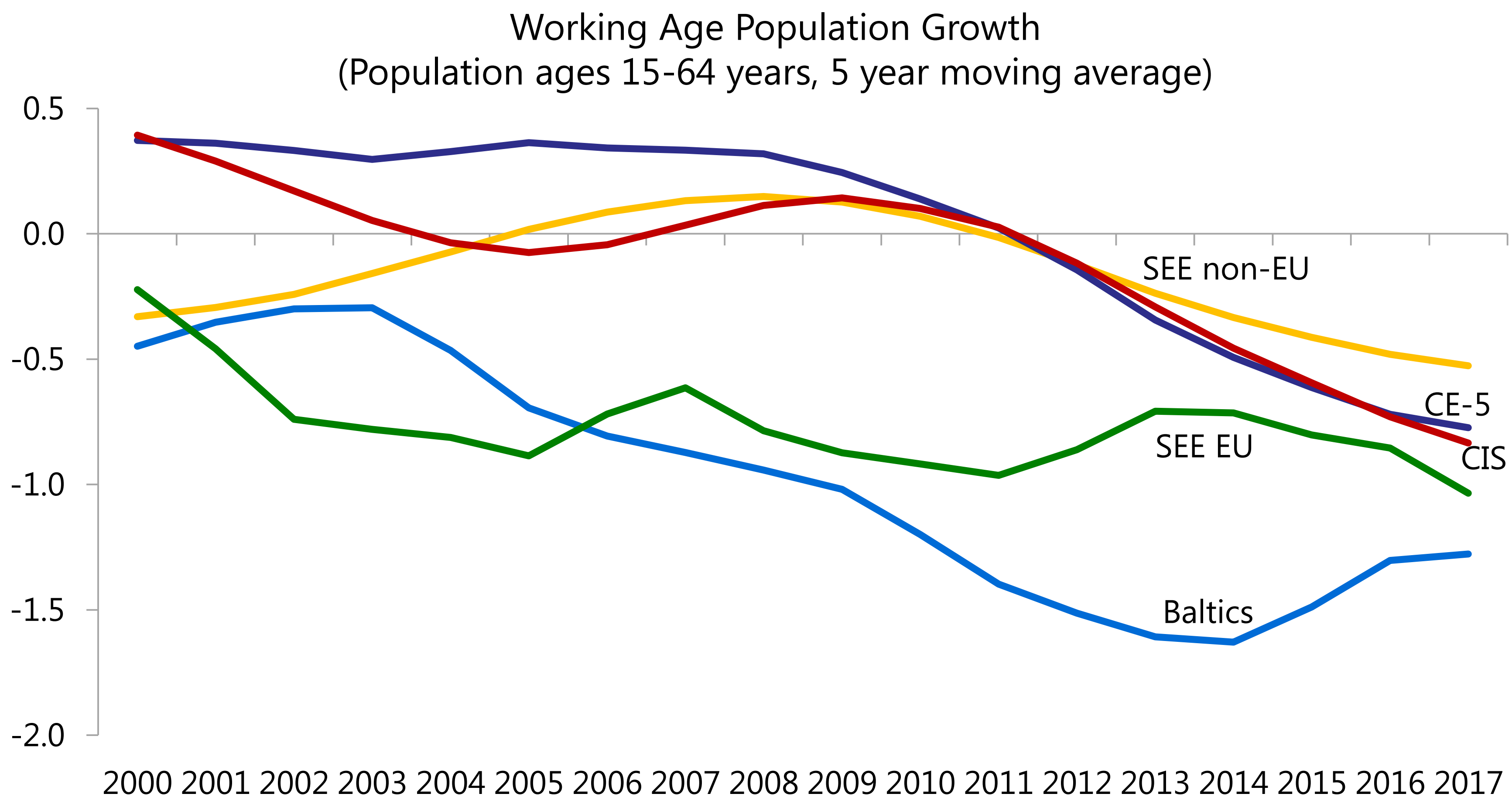



*Excl. MKD

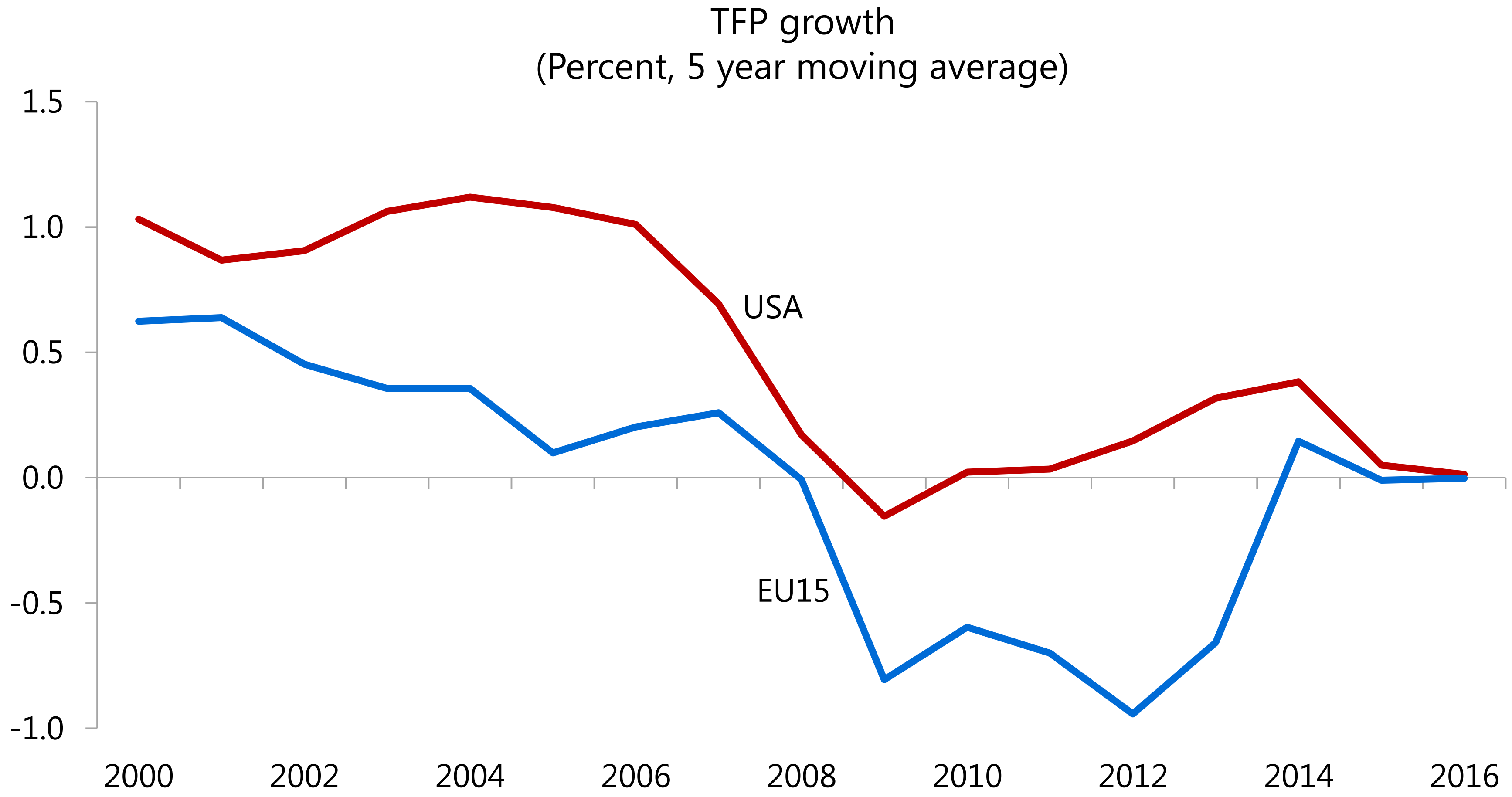
# Technological progress and efficiency advance much more slowly



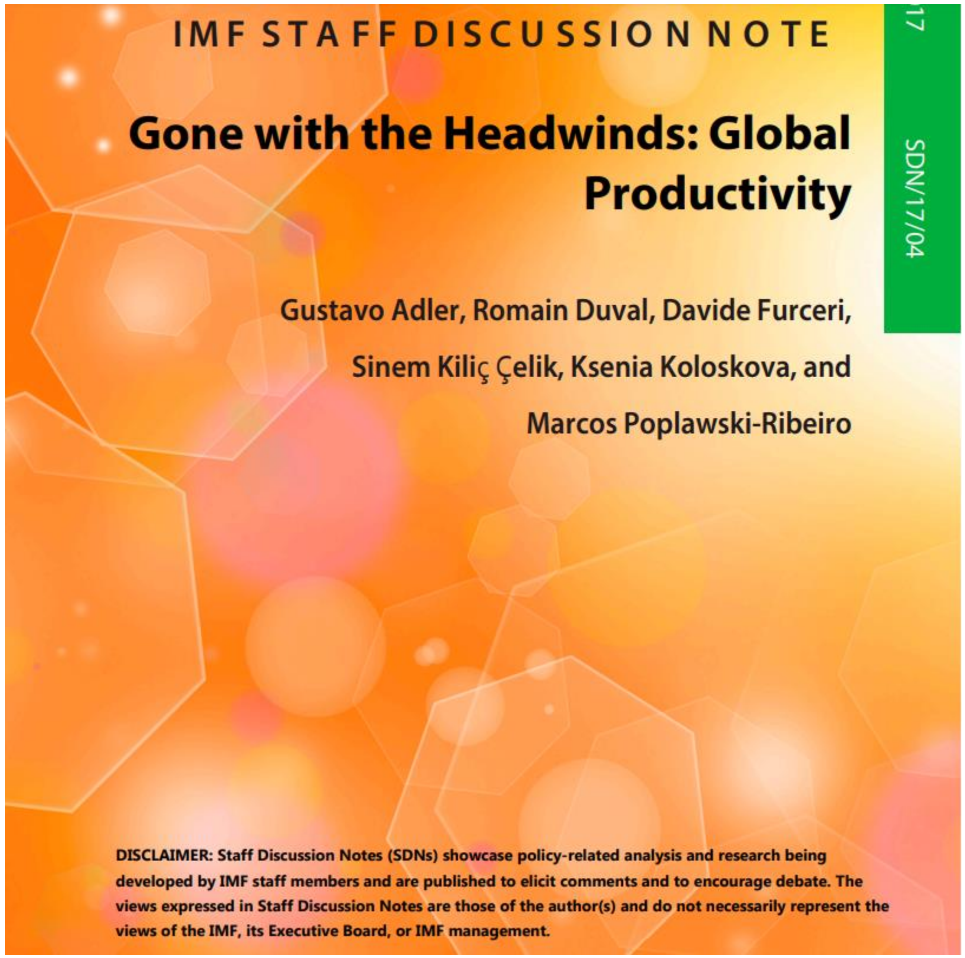
# Further exacerbated by the decline of the working age population



# Fall in TFP is a global problem



# Why has global TFP growth slowed?



IMF STAFF DISCUSSION NOTE

SDN/17/04

**Gone with the Headwinds: Global Productivity**

Gustavo Adler, Romain Duval, Davide Furceri, Sinem Kiliç Çelik, Ksenia Koloskova, and Marcos Poplawski-Ribeiro

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# Several interrelated factors have played a role

- To some extent measurement issues
- Weak corporate balance sheets, tight credit conditions which constrain investment in intangible assets
- An adverse feedback loop of weak aggregate demand, investment, and capital-embodied technological change
- Elevated economic and policy uncertainty

# What can be done to boost TFP growth

Address several problems

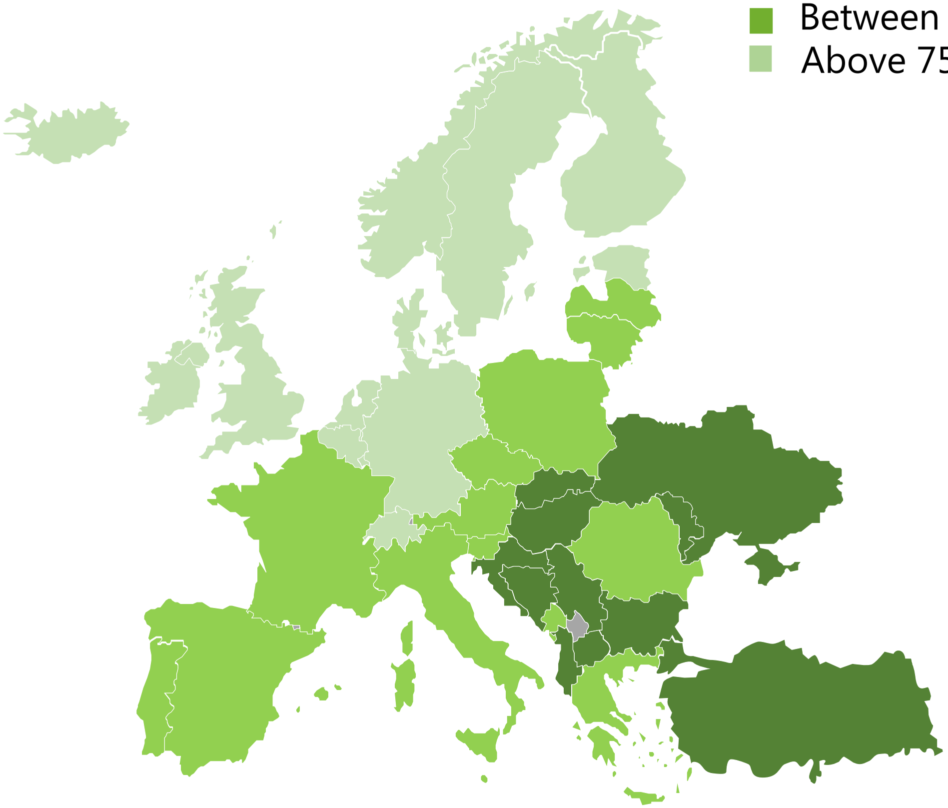
- Limited access to financial services (e.g. for SMEs)
- Infrastructural gaps
- Inefficient legal systems and other government services

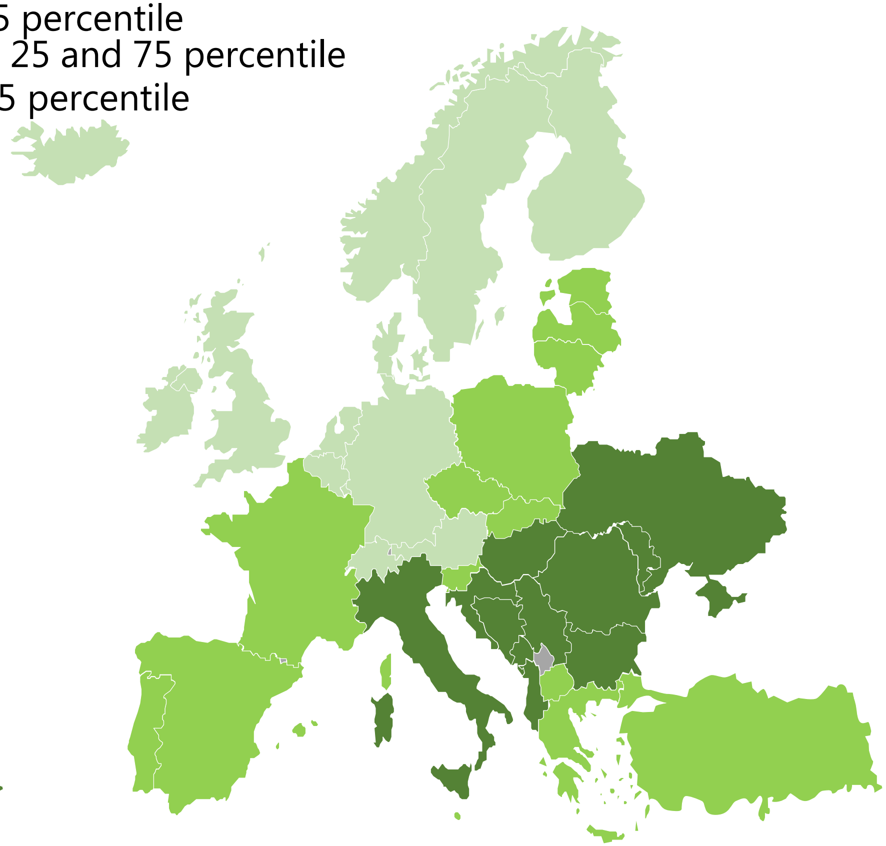
# Improve institutions, especially judiciary

Judicial Independence, 2015

Impartial Courts, 2015

- Below 25 percentile
- Between 25 and 75 percentile
- Above 75 percentile

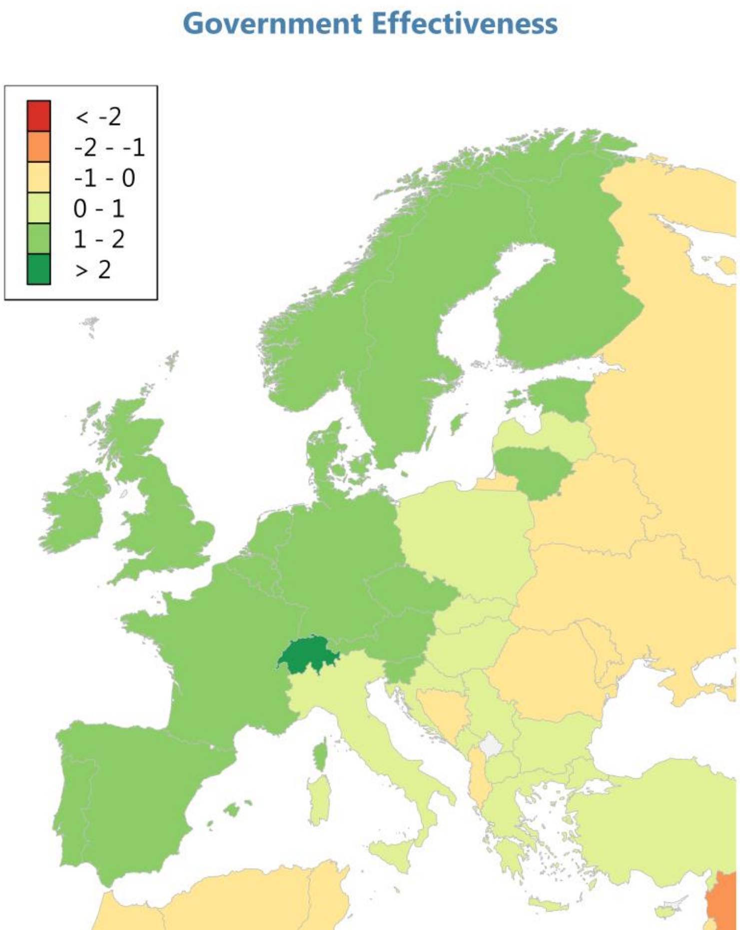


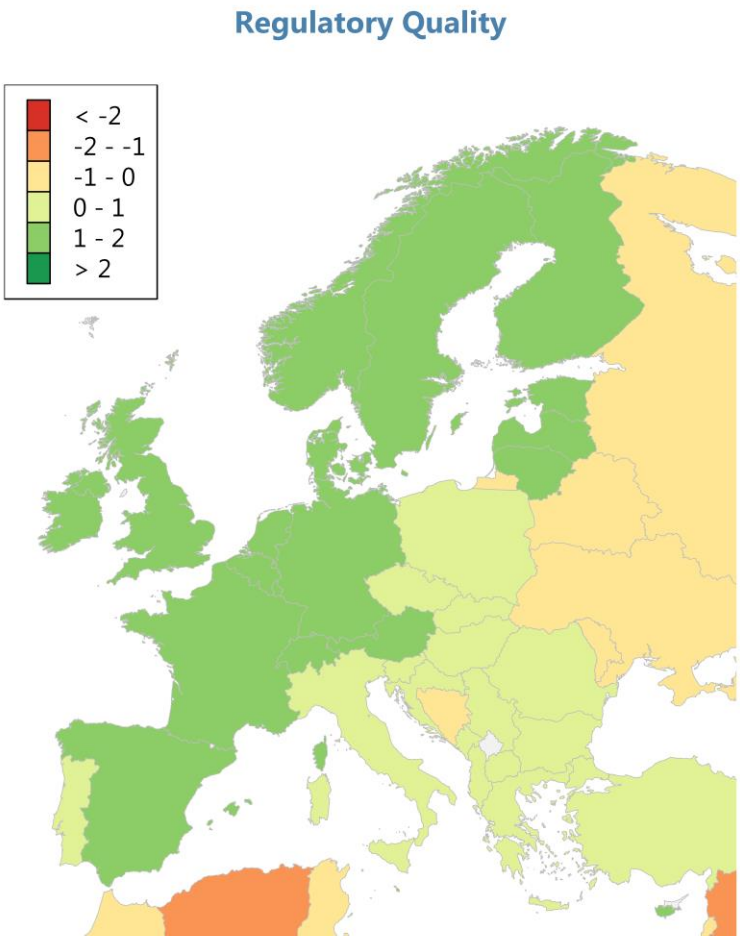


Source: World Economic Forum. Note: Worldwide distribution excluding LICs

# Other institutional indicators also show a room to catch up to Western Europe

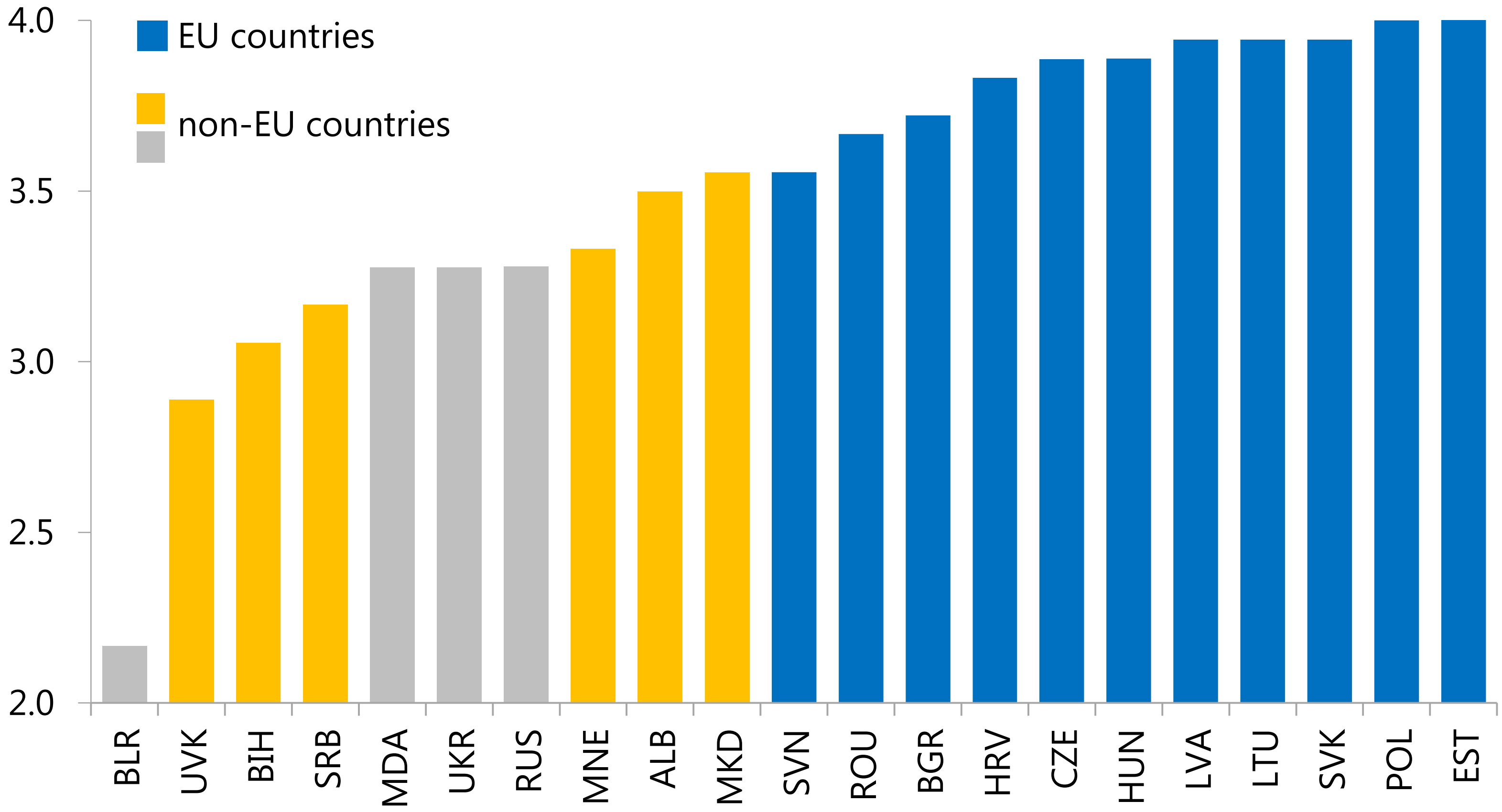
World Governance Indicators, 2016
(Ranges from -2.5 (weak) to 2.5 (strong) governance performance)



# EU accession process should lead to improved institutions / completion of transition

Average of Six EBRD Transition Indicators in 2014




Note: 2007 for Czech Republic.

# Institutional reforms provide large efficiency gains

- Better institutions hold the promise of retaining emigration of skilled workers
- Effective protection of property rights provides stronger incentives for investment
- Institutions affect innovation and productivity through enhanced trust, cooperation, commitment, and contract enforcement

# CONCLUSION

# Concluding thoughts

- CESEE has done nicely in recent years with strong growth and rapidly declining unemployment
- Growth is not as high as pre-crisis
- The challenge will be to continue current growth rates
- Productivity growth will need to pick up; at some stage labor market will become constraint
- Reforms and improvements of institutions will help

# Thank you