



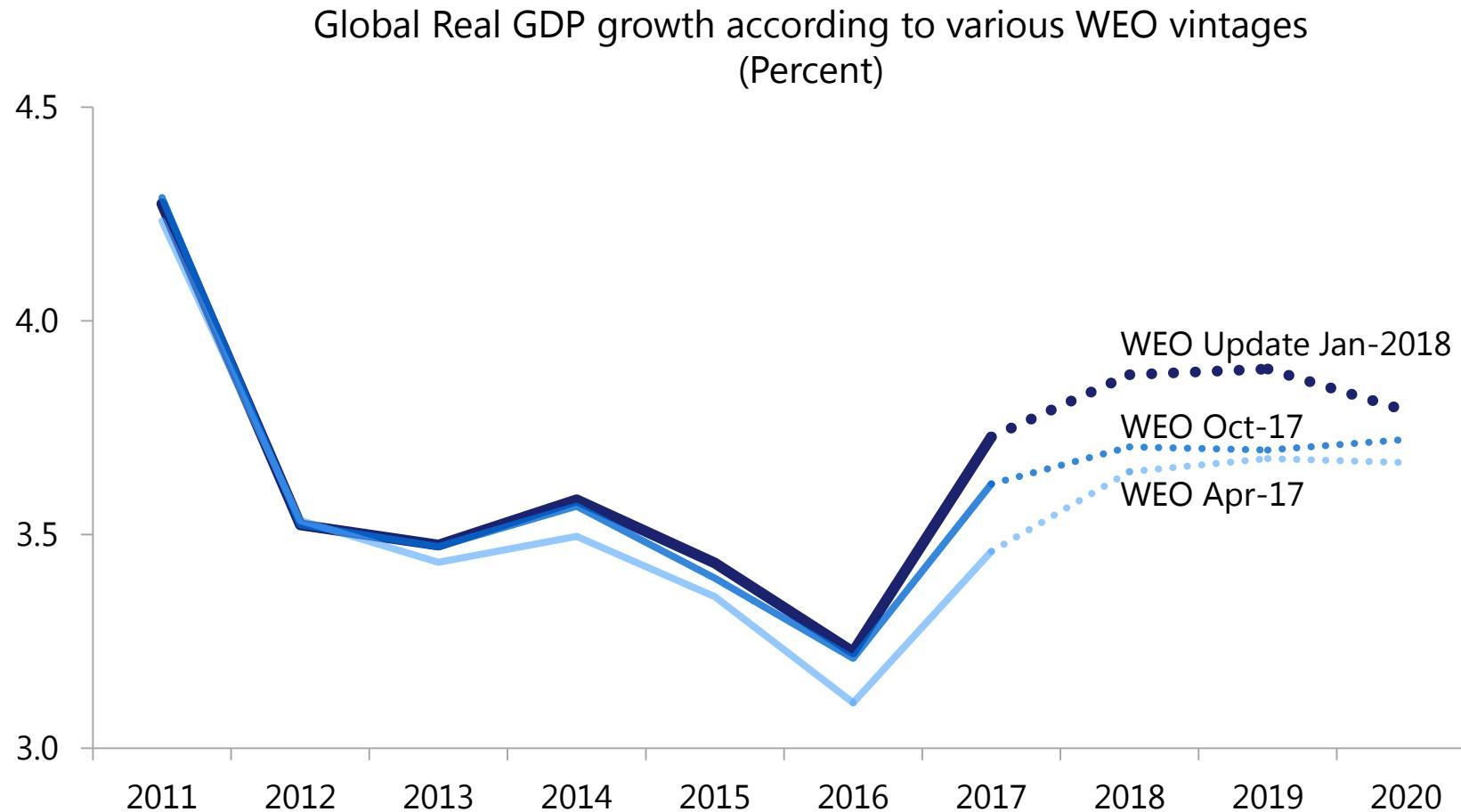
CESEE: Recent Economic Developments and Prospects



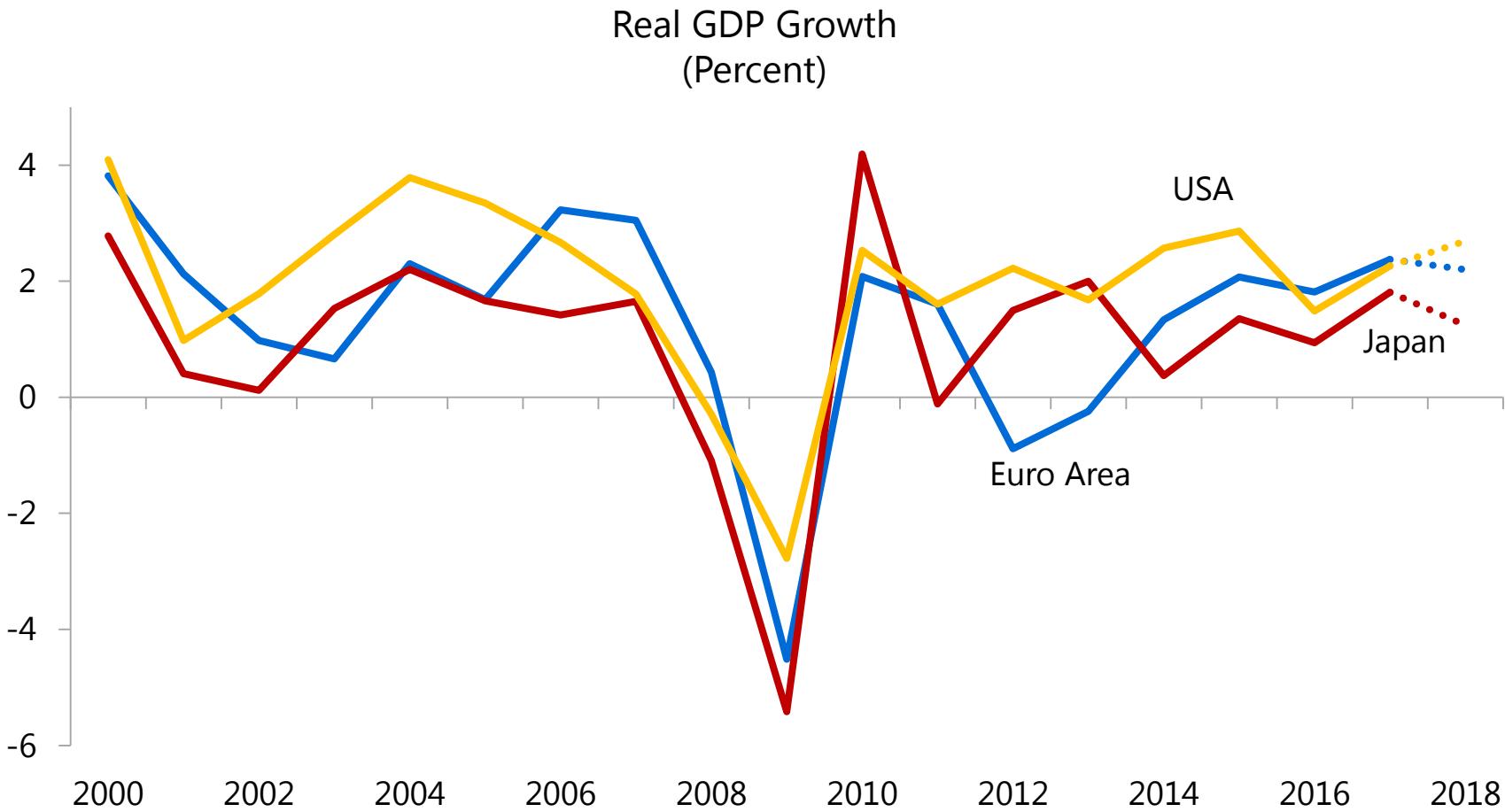
Vienna Full Forum
London, March 12, 2018

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

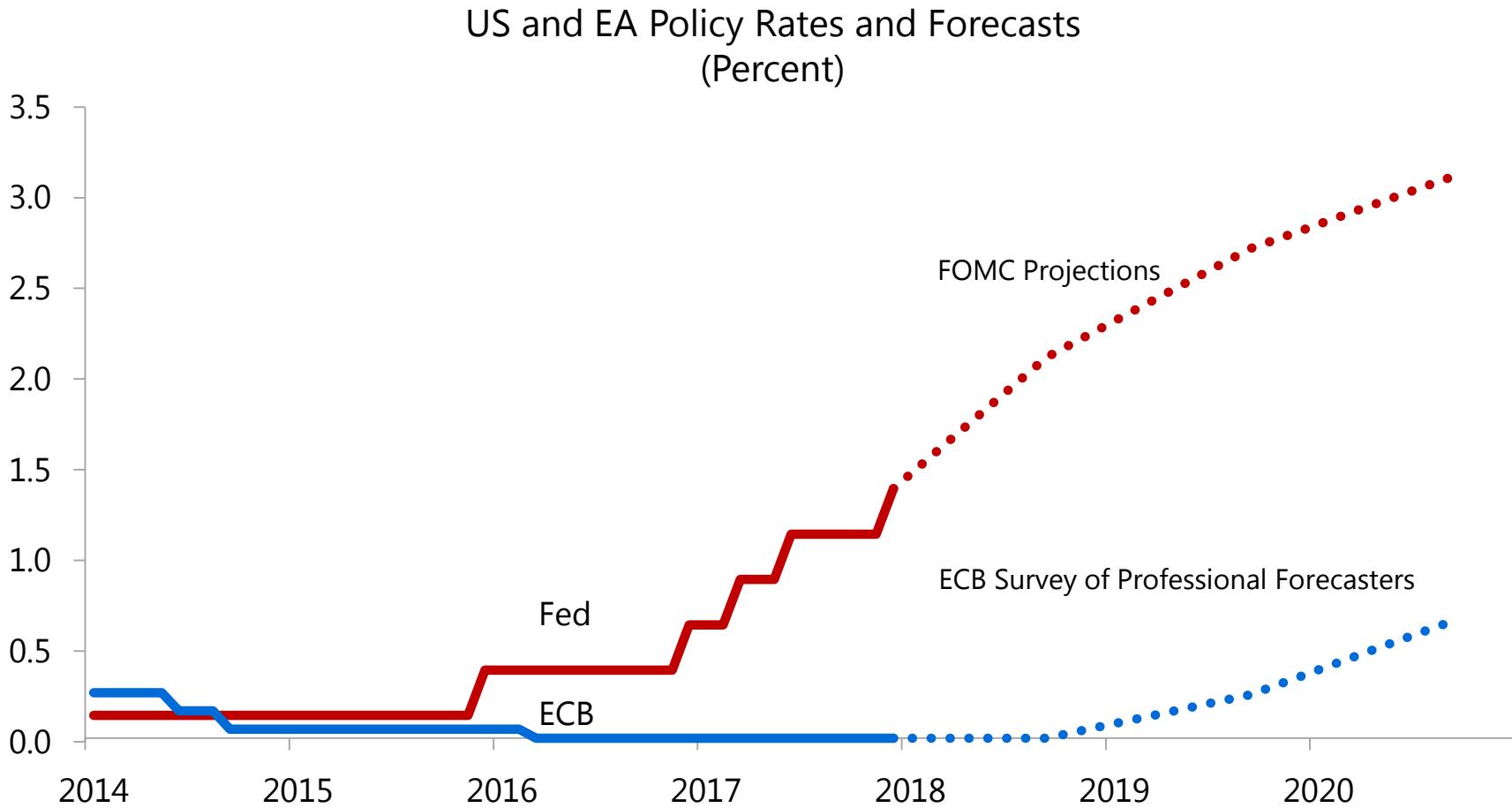
Global growth this year is the highest since 2011



In 2018, Euro area will grow by 2.2 percent,
USA by 2.7



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

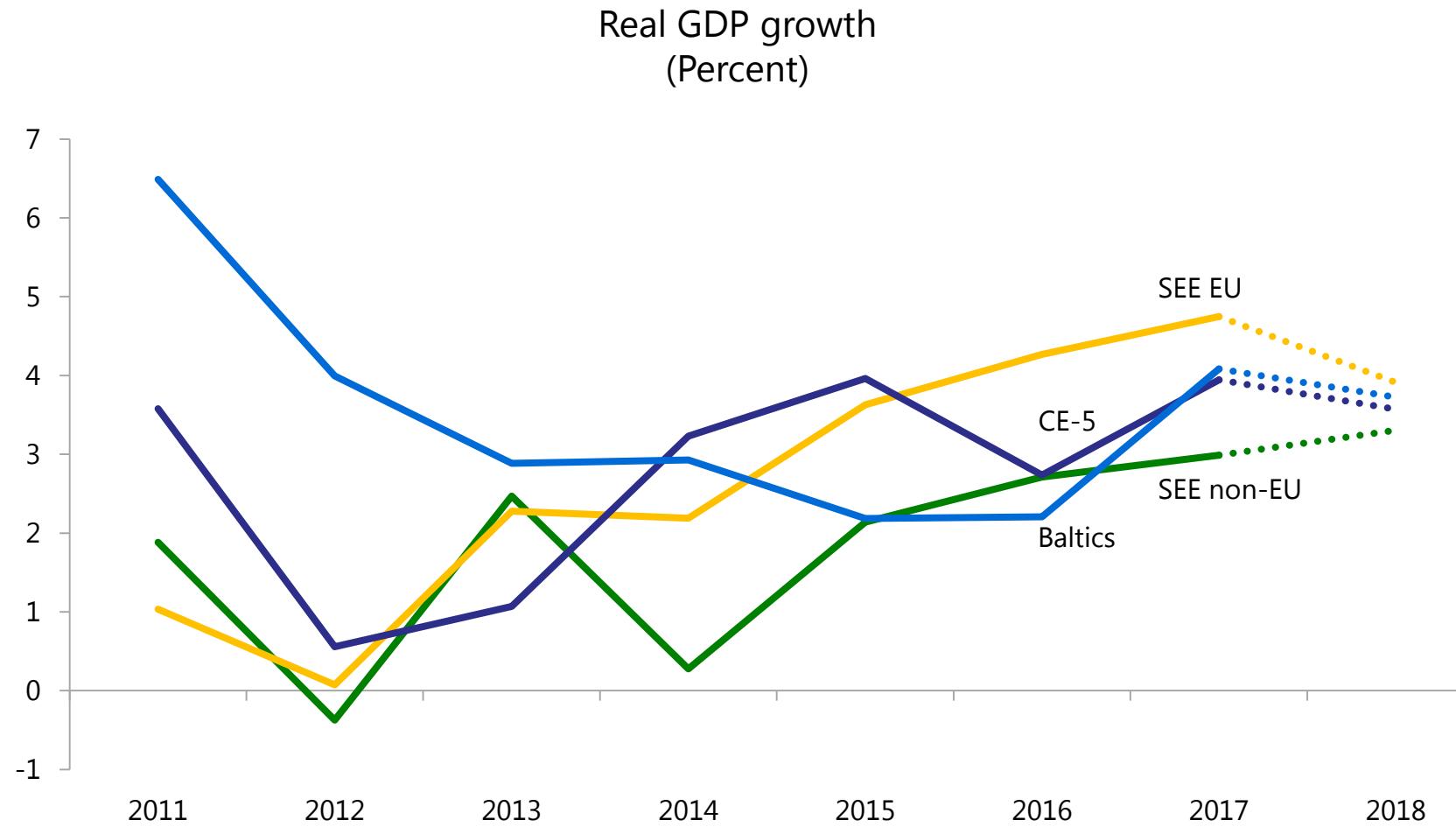


Main risks for CESEE outlook

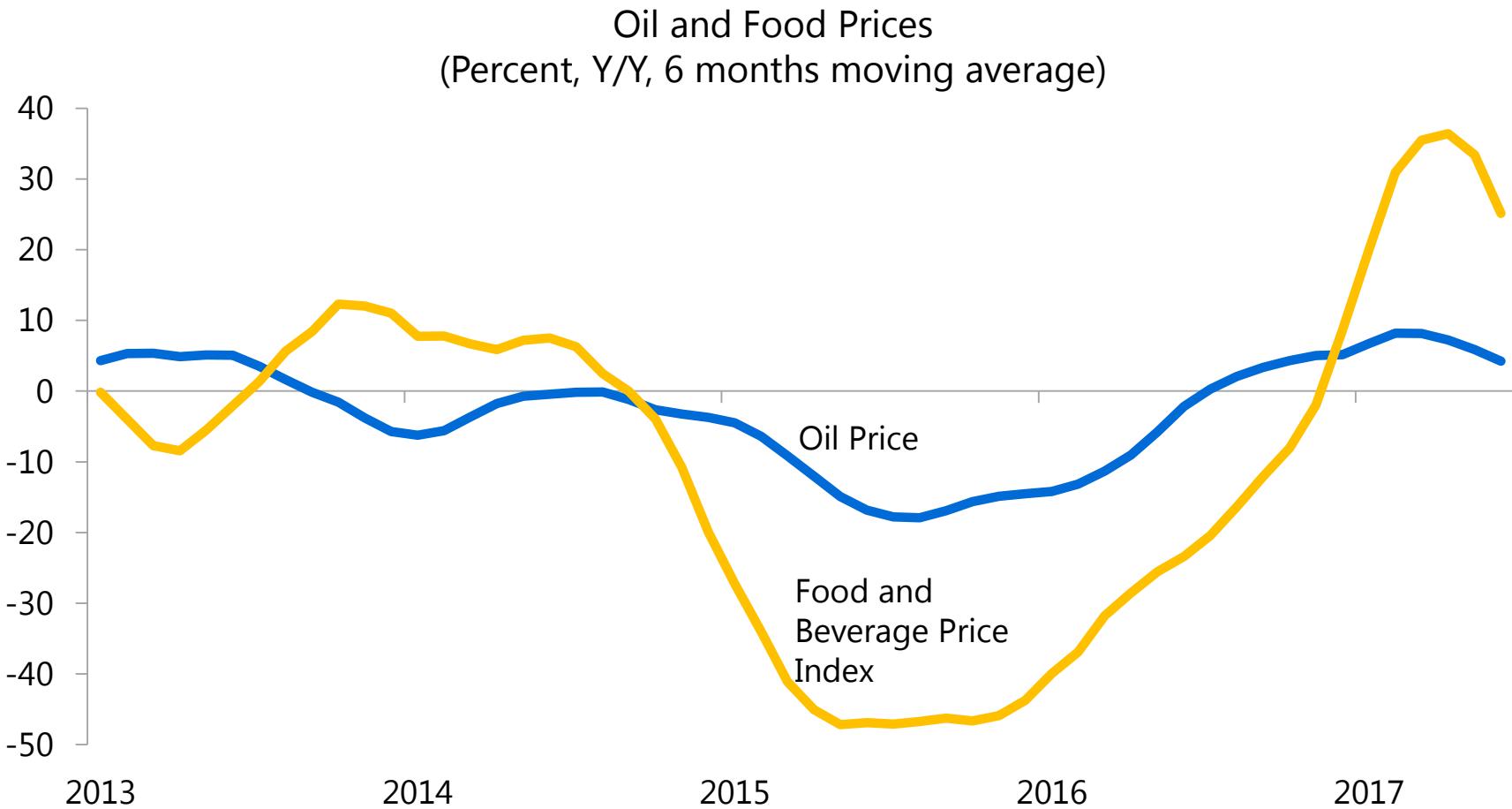


- Faster-than-expected tightening of US financial conditions
- Stretched valuations in global asset markets / underpricing of risks
- Geopolitical risks

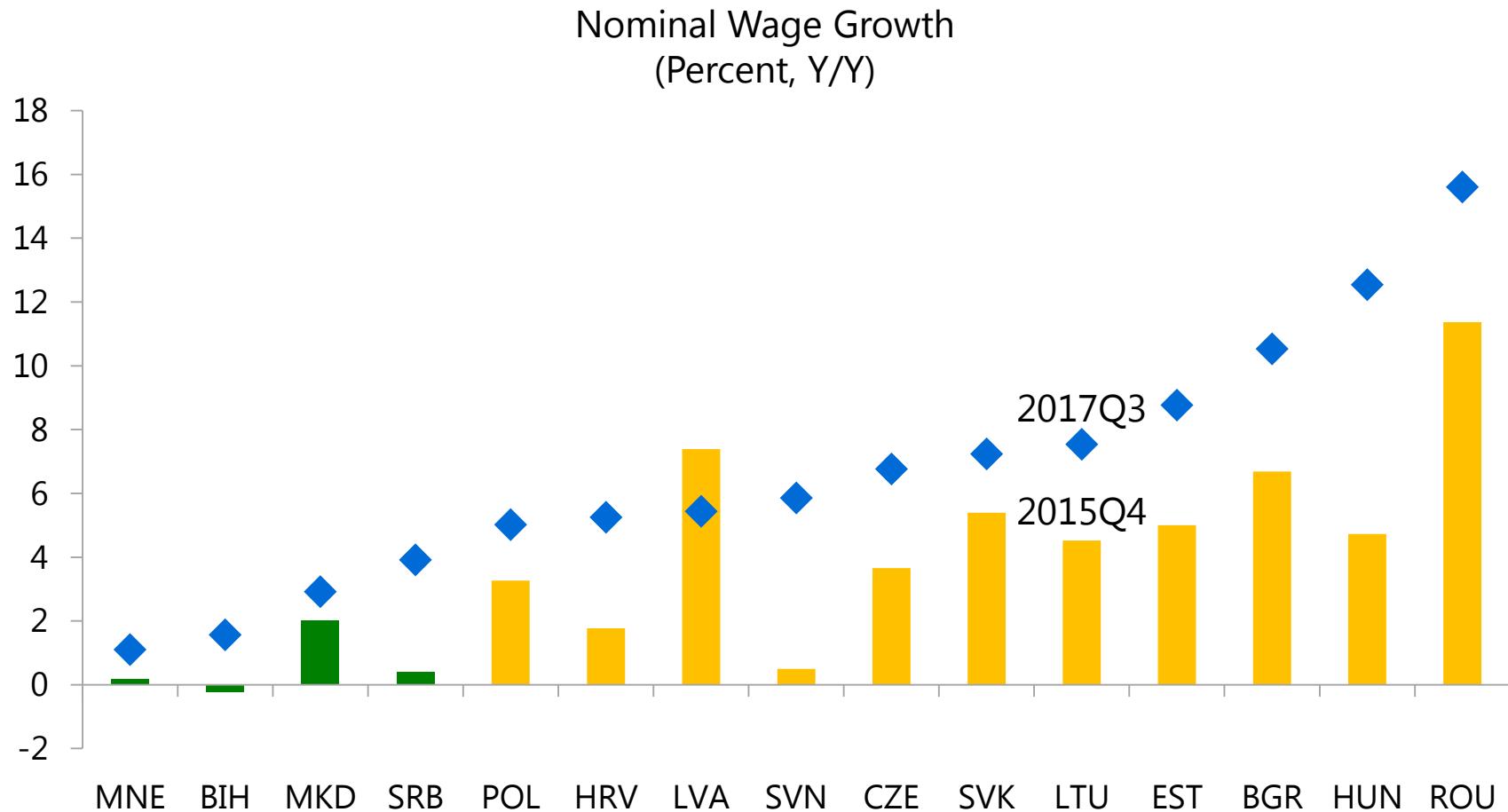
Growth in CESEE is strong



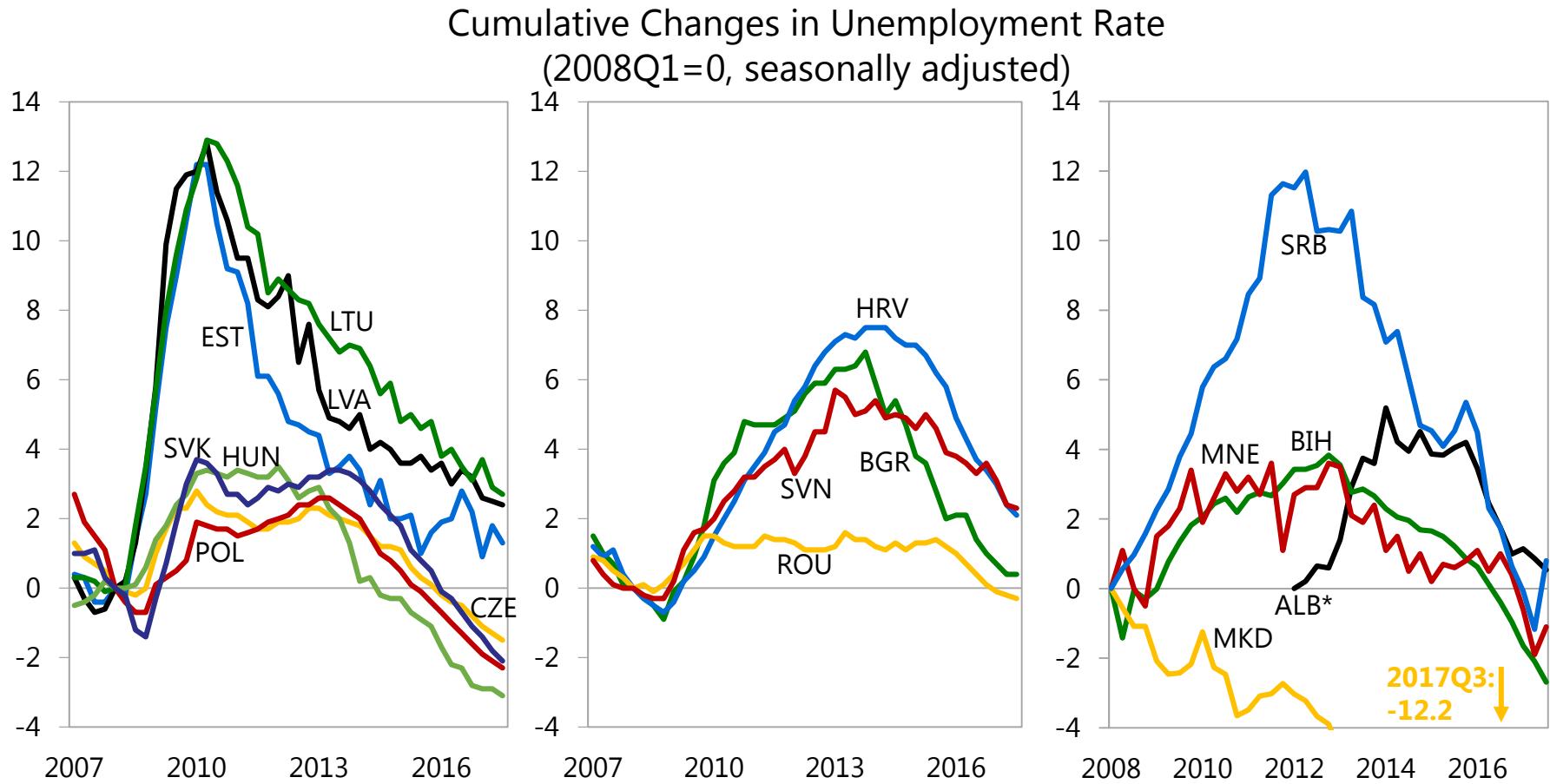
Inflation has picked up, on the back of rising food and energy prices.



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

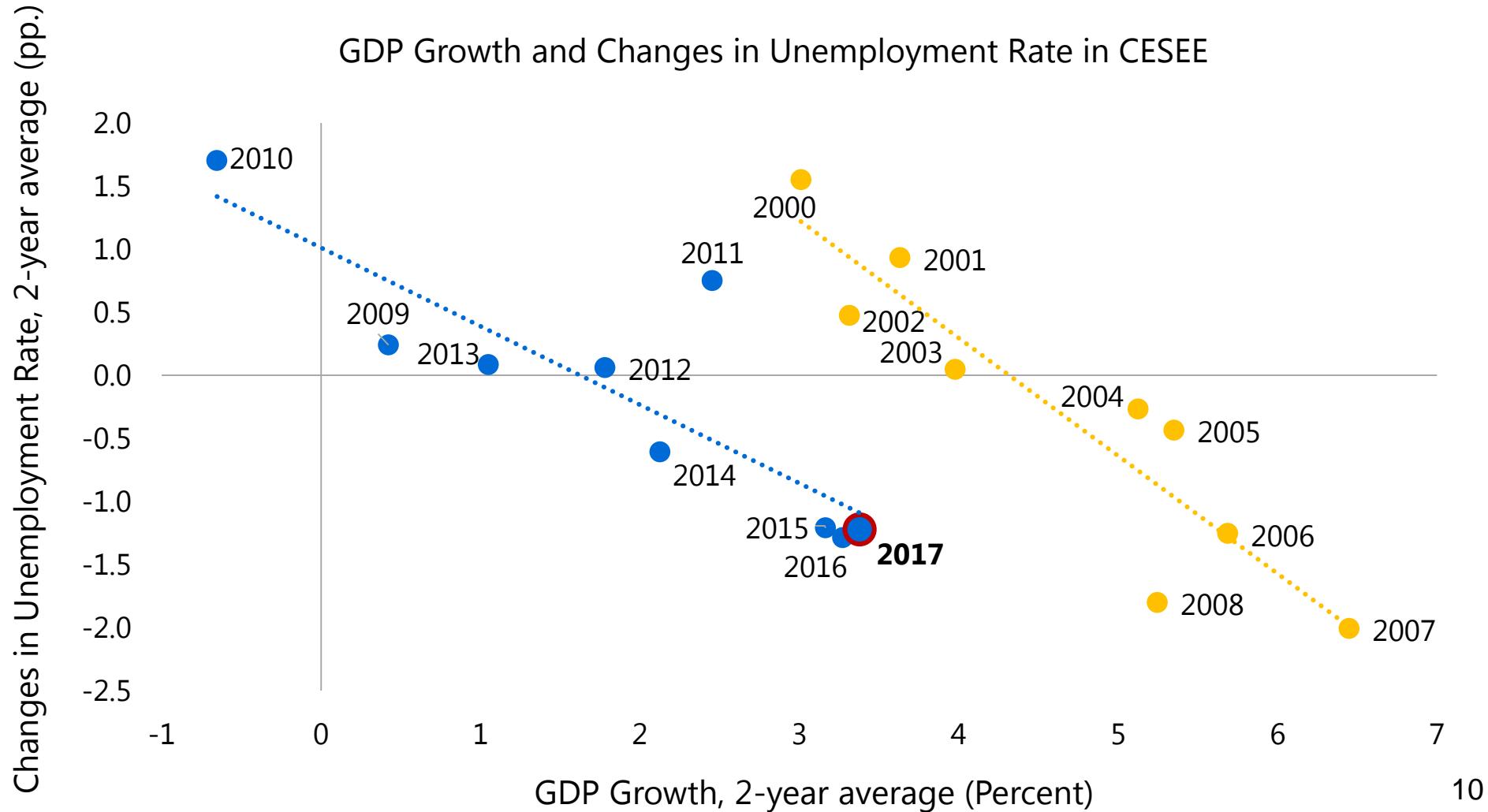


Accelerating wages are the result of rapidly tightening labor markets



*For ALB 2012Q1=0

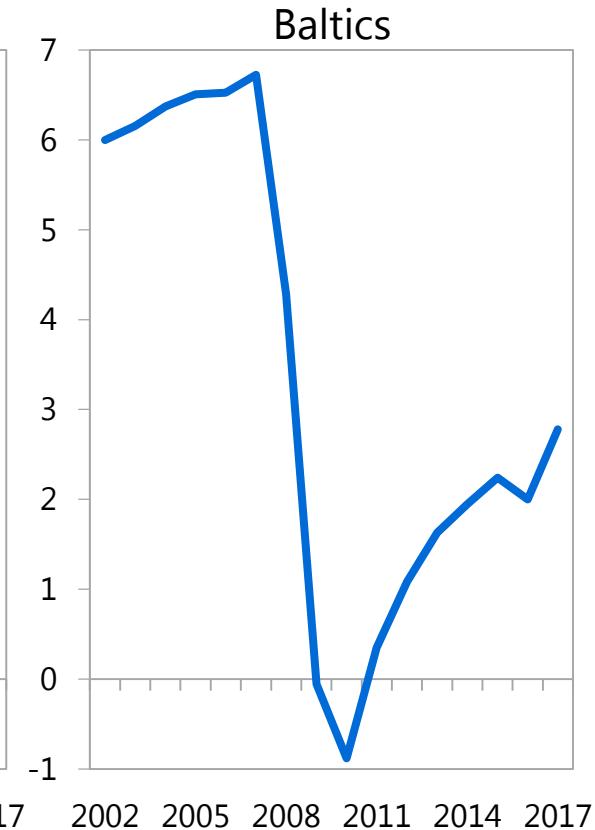
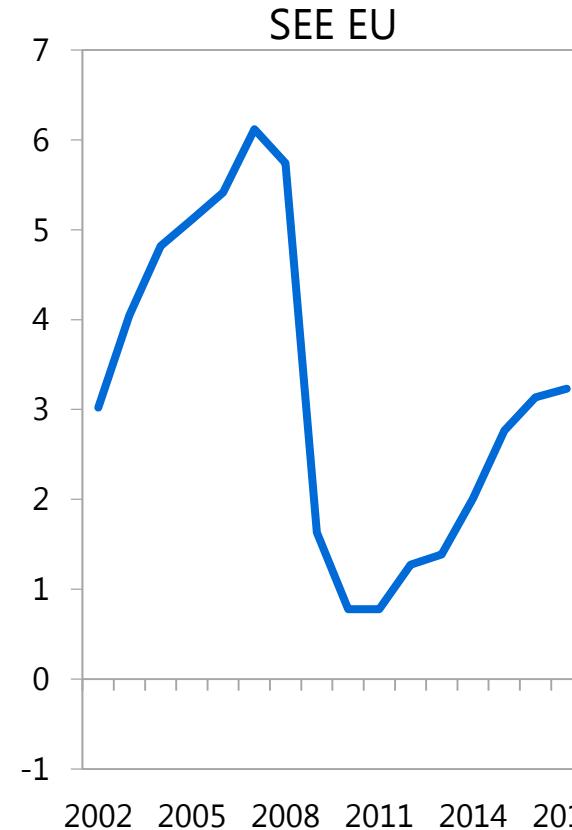
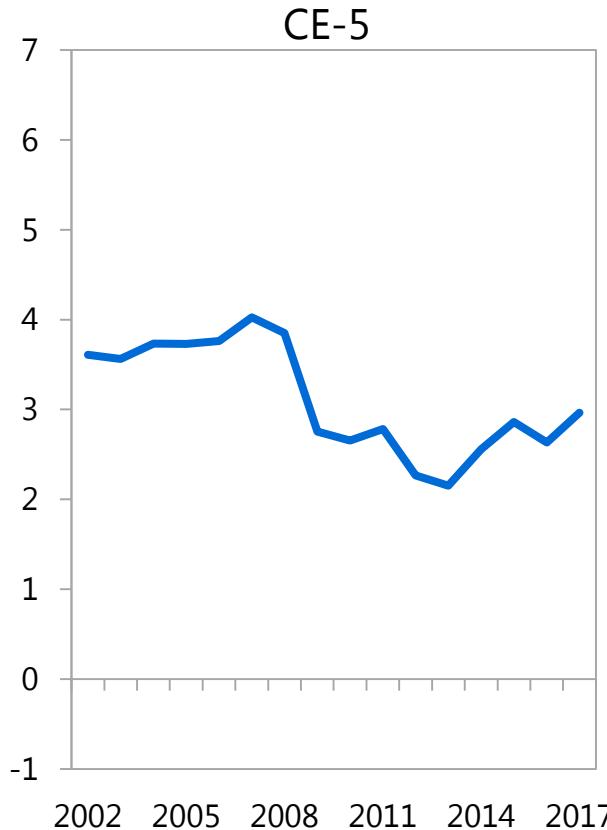
The GDP growth rate consistent with constant unemployment is well below pre-crisis levels



As potential output growth is lower



Potential Output Growth
(Percent)



Outside the labor market, there are no signs of overheating

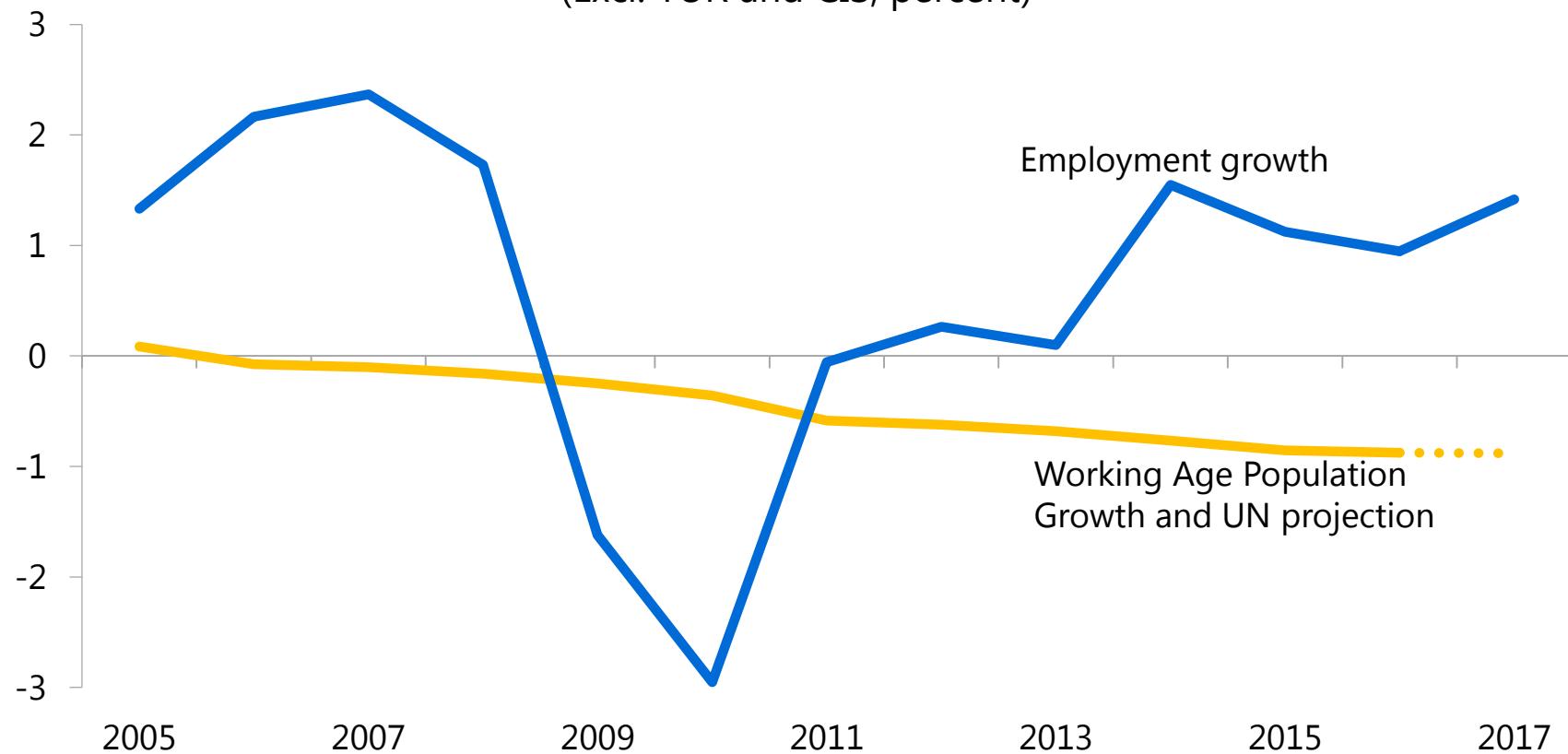


- Inflation has picked up, but is modest
- Current account deficits remain low and capital inflows are low
- Credit growth does not much exceed GDP growth

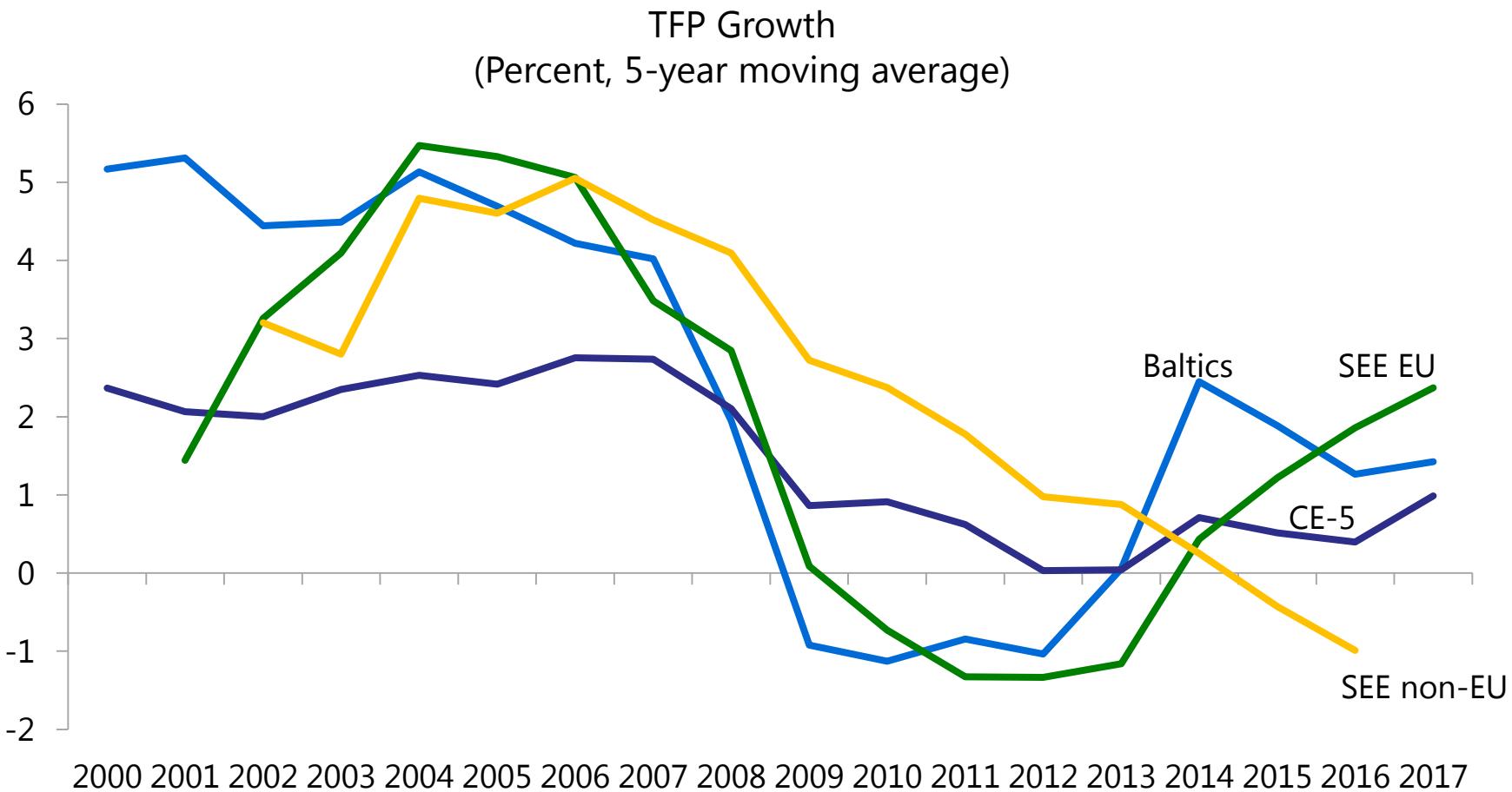
However, labor market tightness may constrain growth going forward...



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



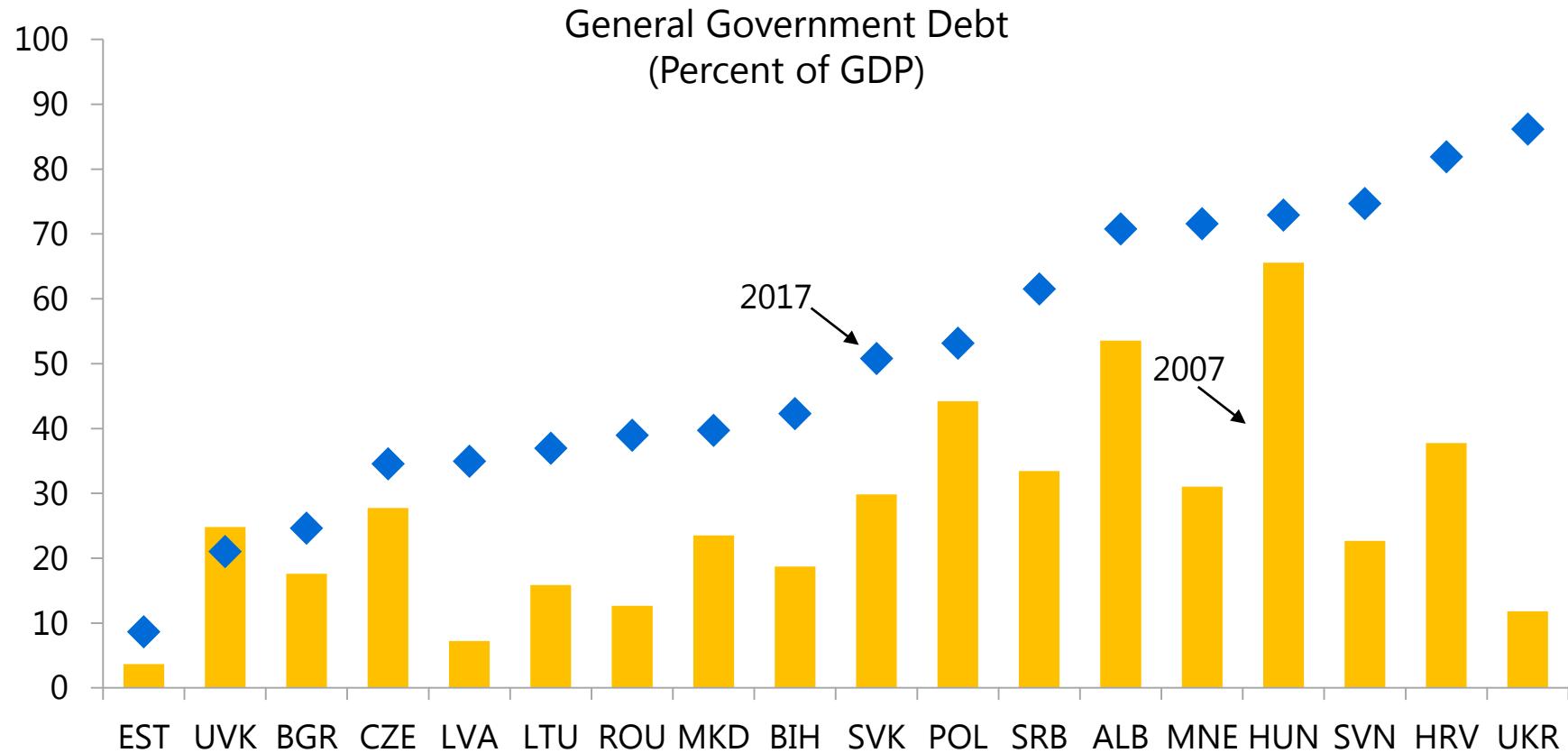
To sustain rapid growth, TFP growth will need to pick up



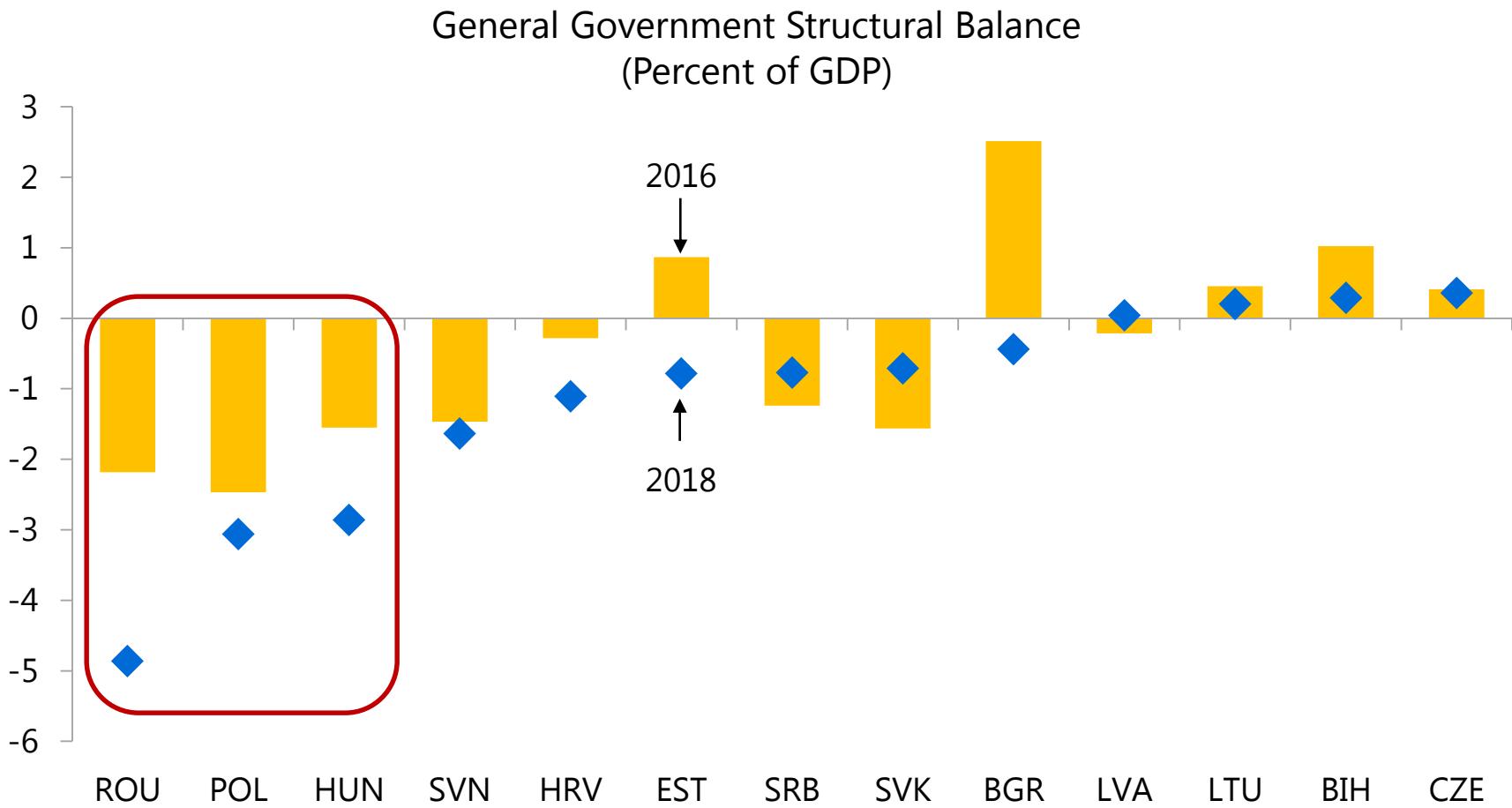
This would be the good time to create fiscal space and reduce structural deficits



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



Unfortunately, many countries are reverting to pro-cyclical loosening





Thank you

Fiscal stimulus will boost growth in the US, but at a cost of higher government borrowing

