

# CESEE: Recent Economic Developments and Prospects



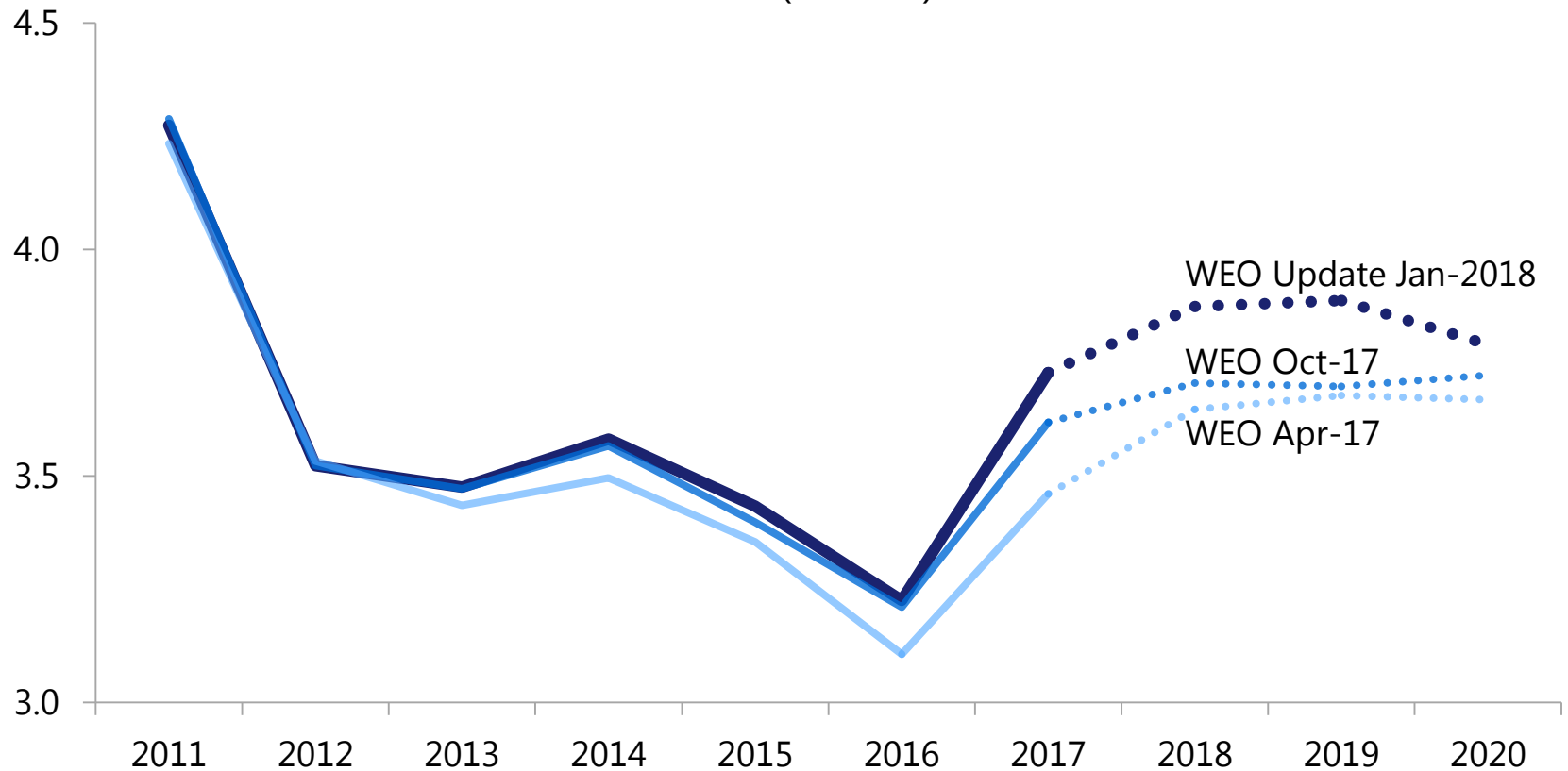
Vienna Full Forum  
London, March 12, 2018

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

# Global growth this year is the highest since 2011



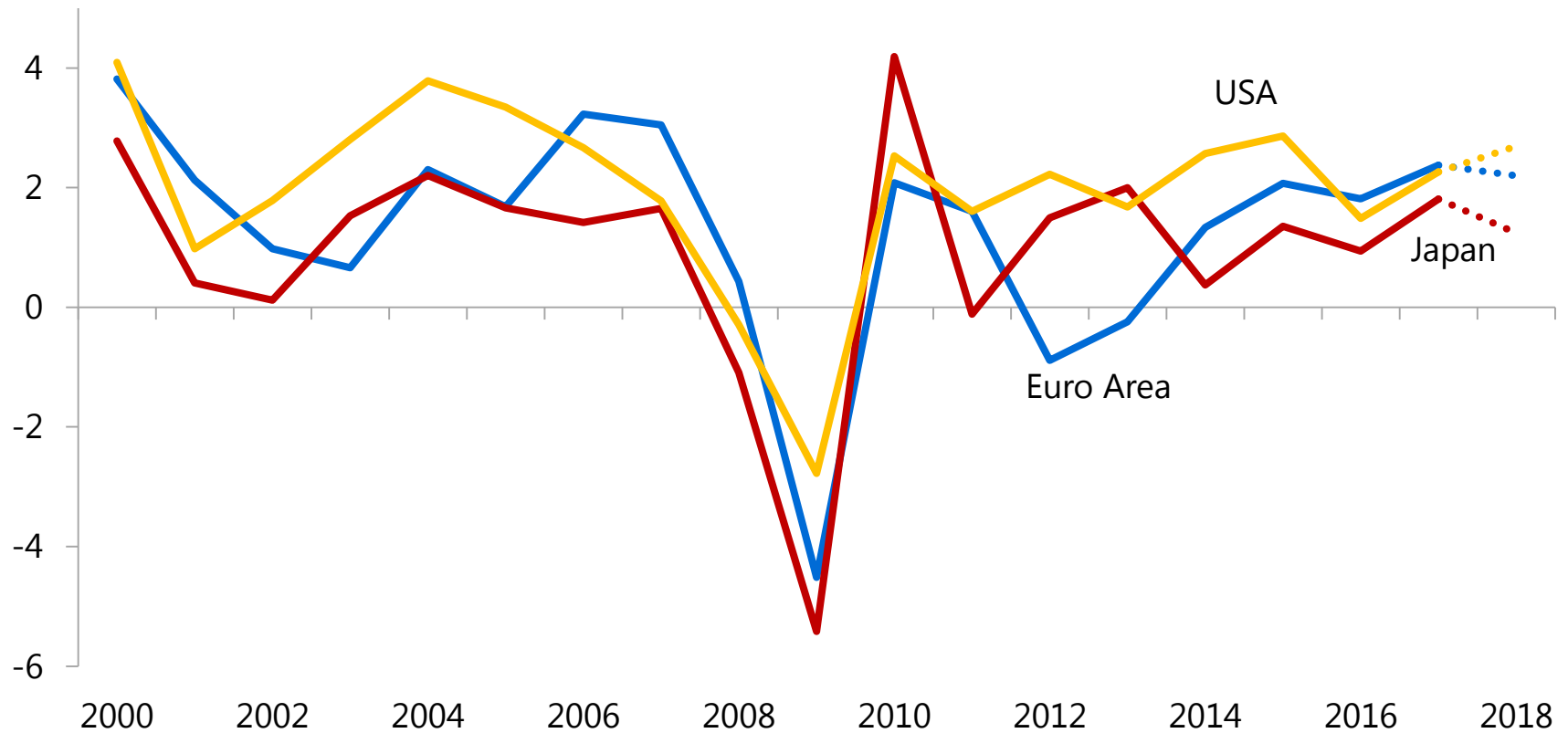
Global Real GDP growth according to various WEO vintages  
(Percent)



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



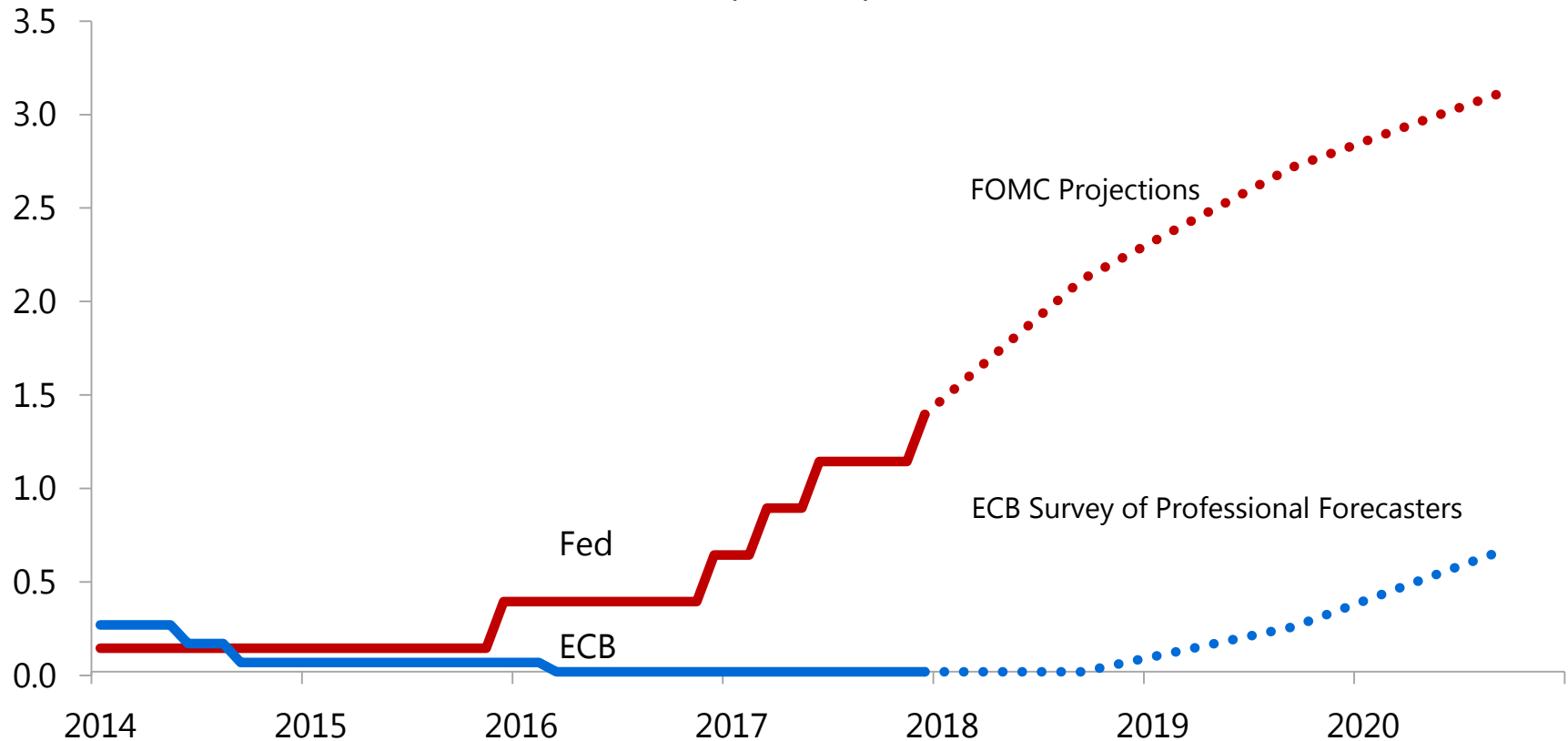
Real GDP Growth  
(Percent)



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



US and EA Policy Rates and Forecasts  
(Percent)



# Main risks for CESEE outlook

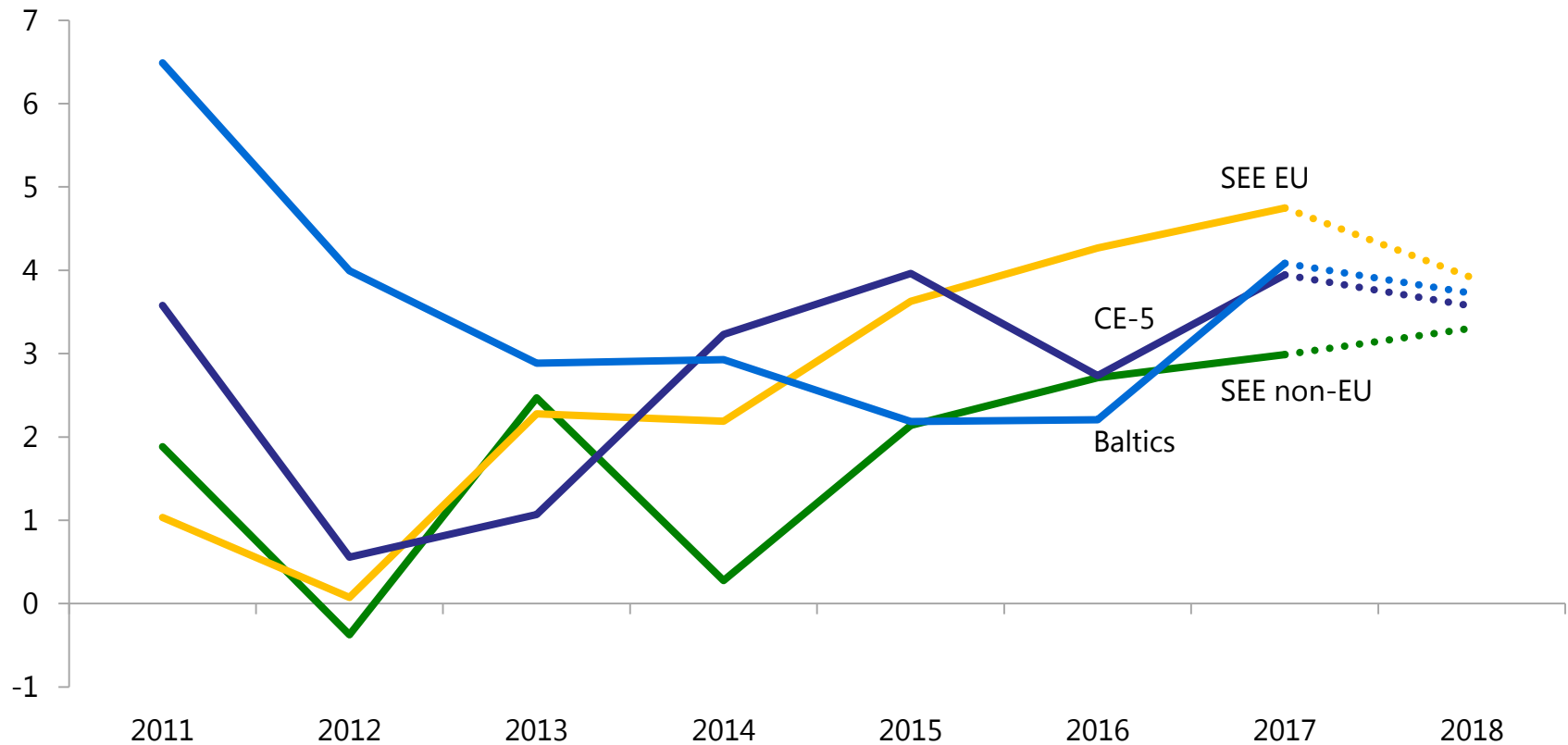


- Faster-than-expected tightening of US financial conditions
- Stretched valuations in global asset markets / underpricing of risks
- Geopolitical risks

# Growth in CESEE is strong



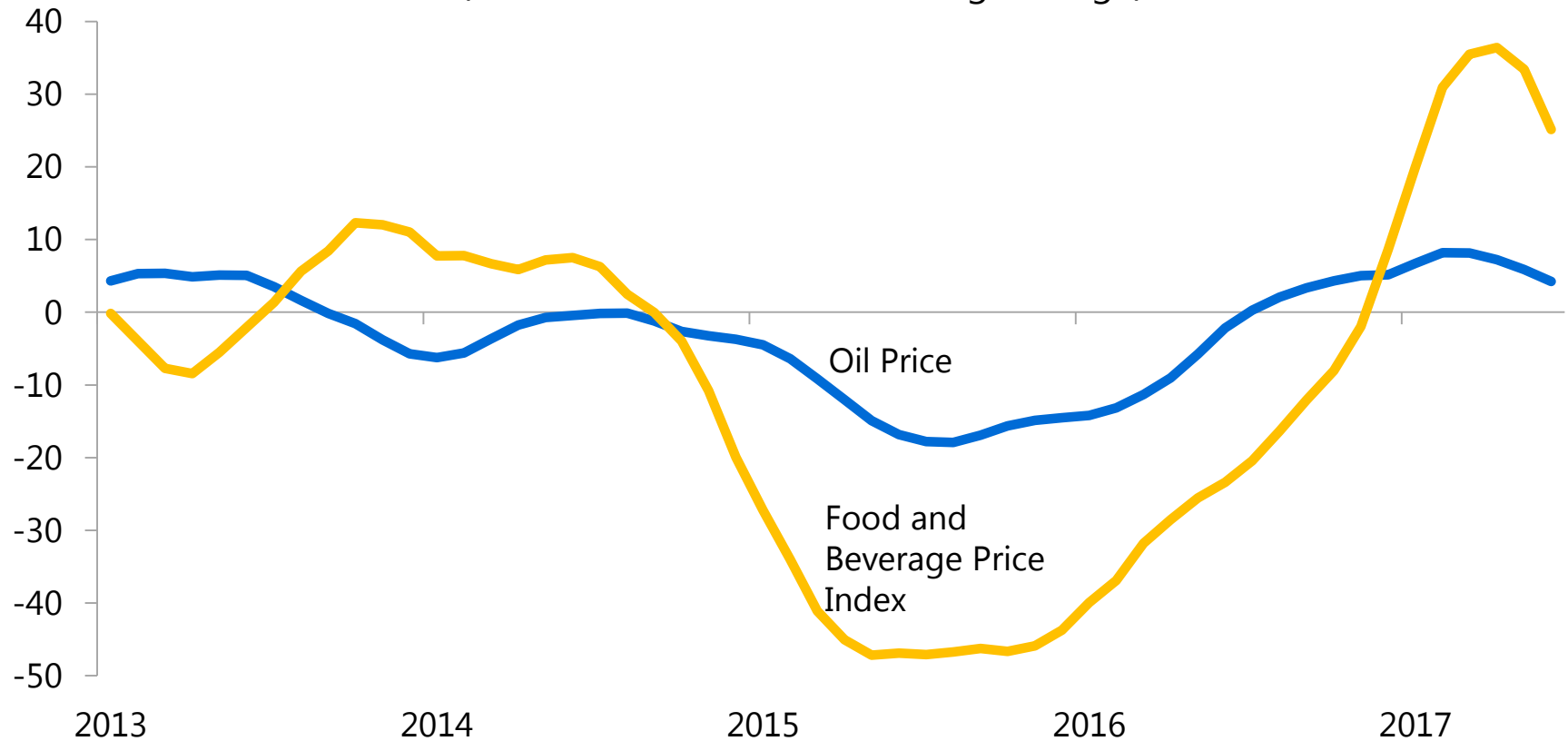
Real GDP growth  
(Percent)



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



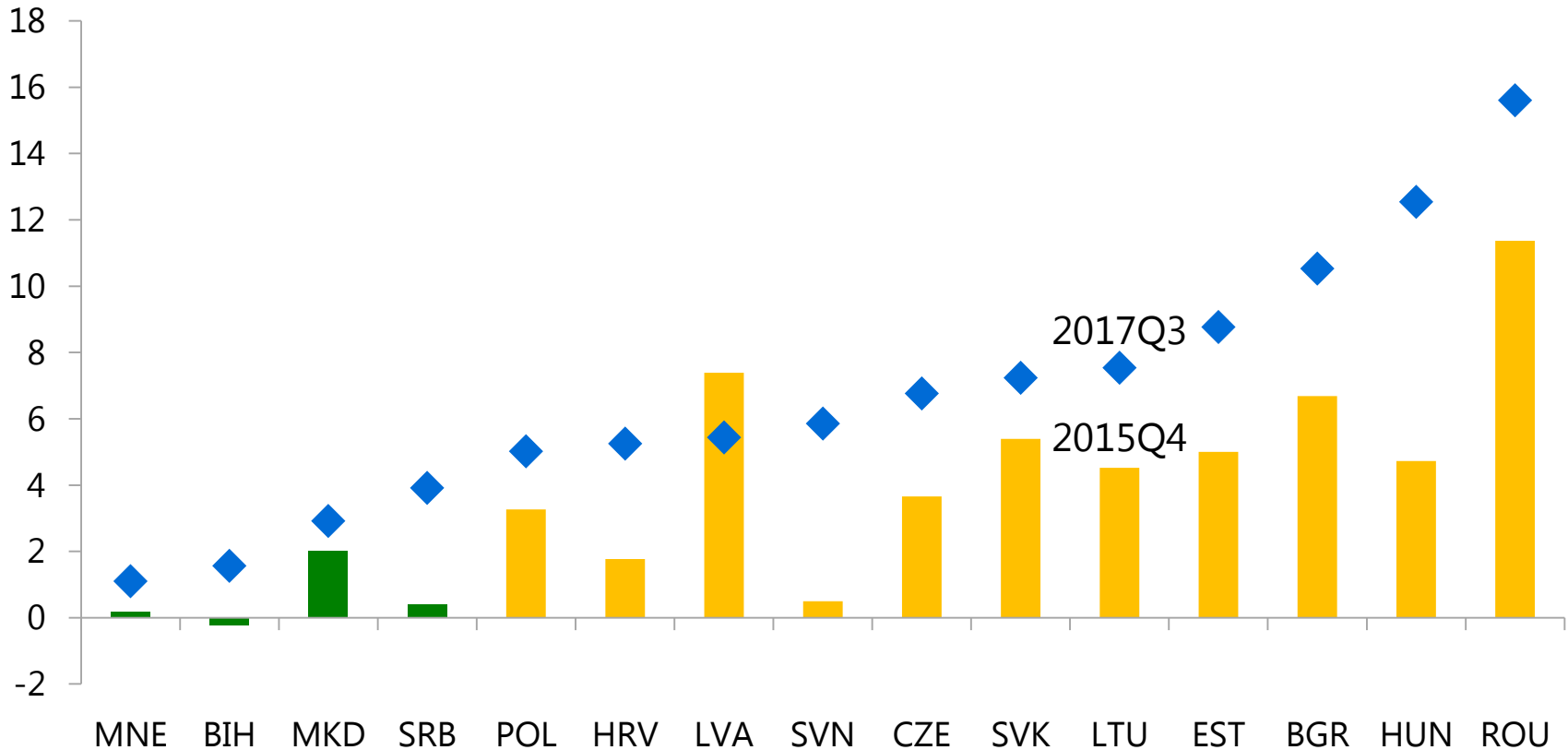
Oil and Food Prices  
(Percent, Y/Y, 6 months moving average)



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



Nominal Wage Growth  
(Percent, Y/Y)

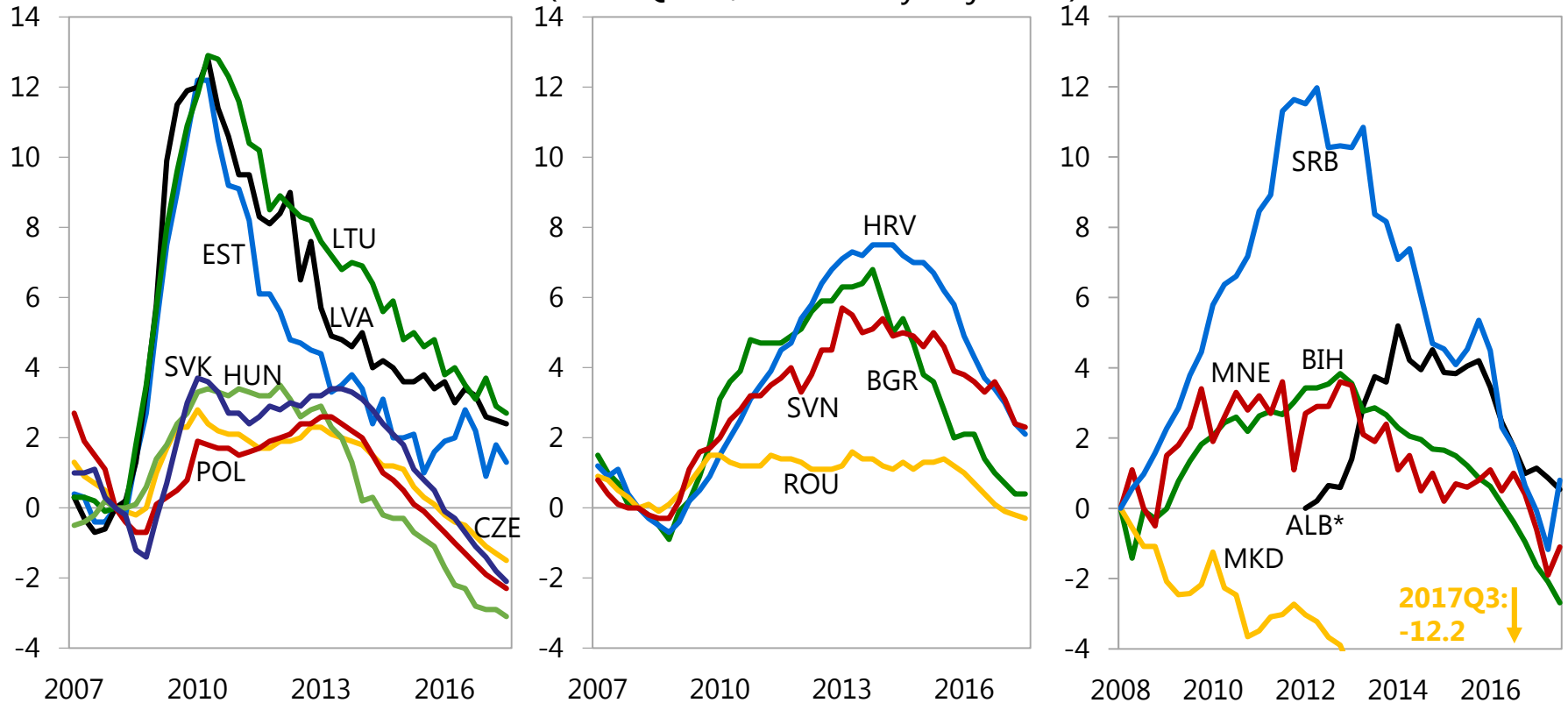




# Accelerating wages are the result of rapidly tightening labor markets



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



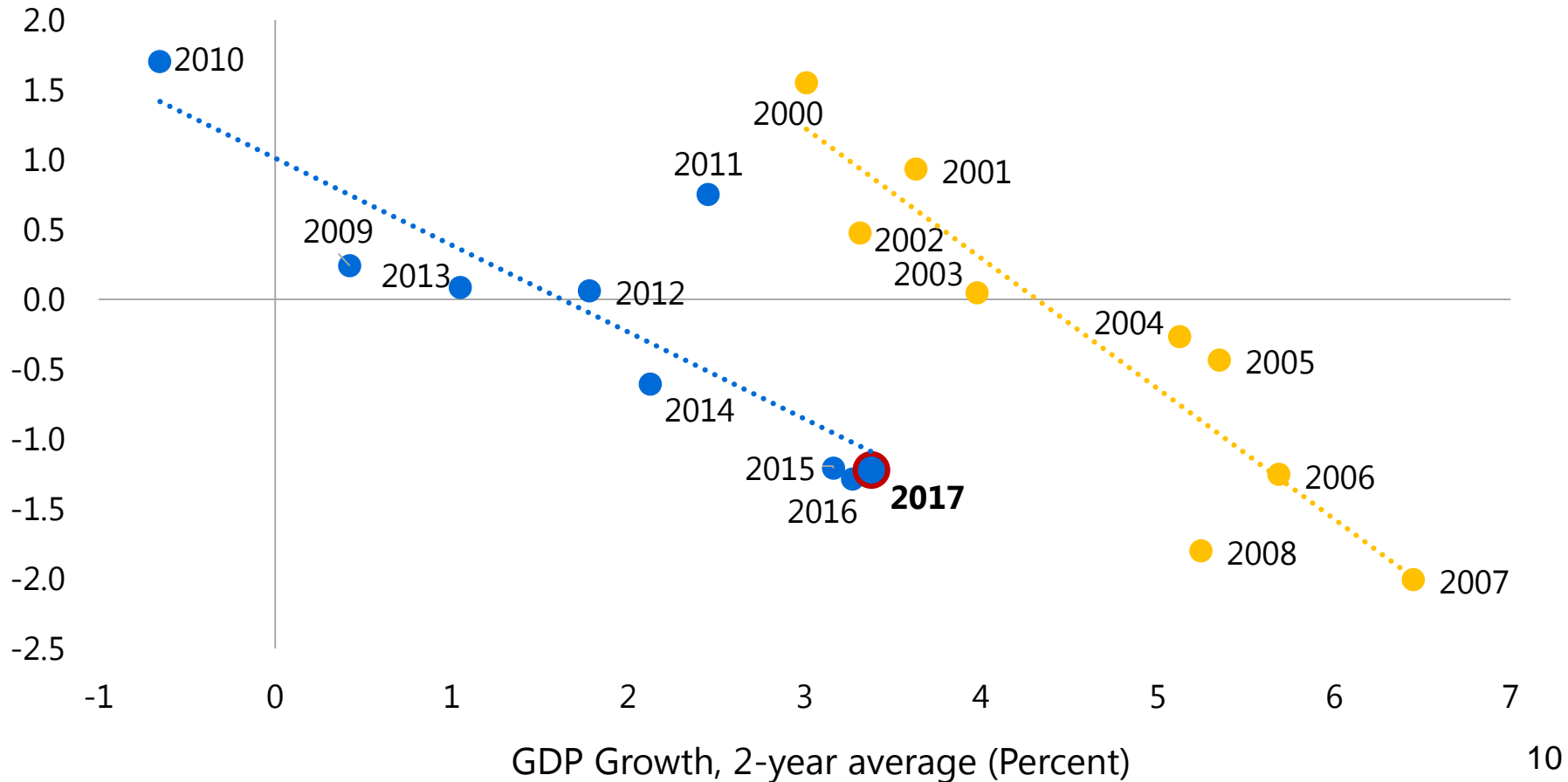
\*For ALB 2012Q1=0

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



Changes in Unemployment Rate, 2-year average (pp.)

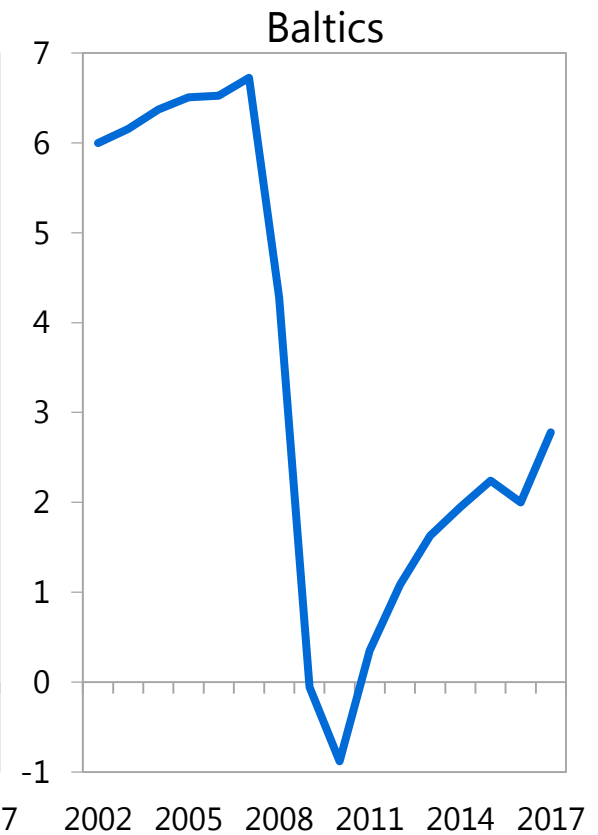
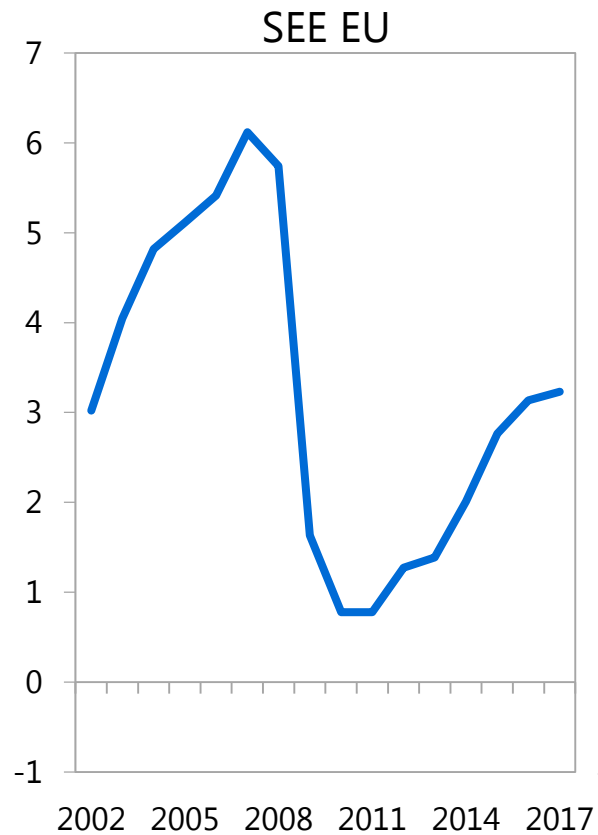
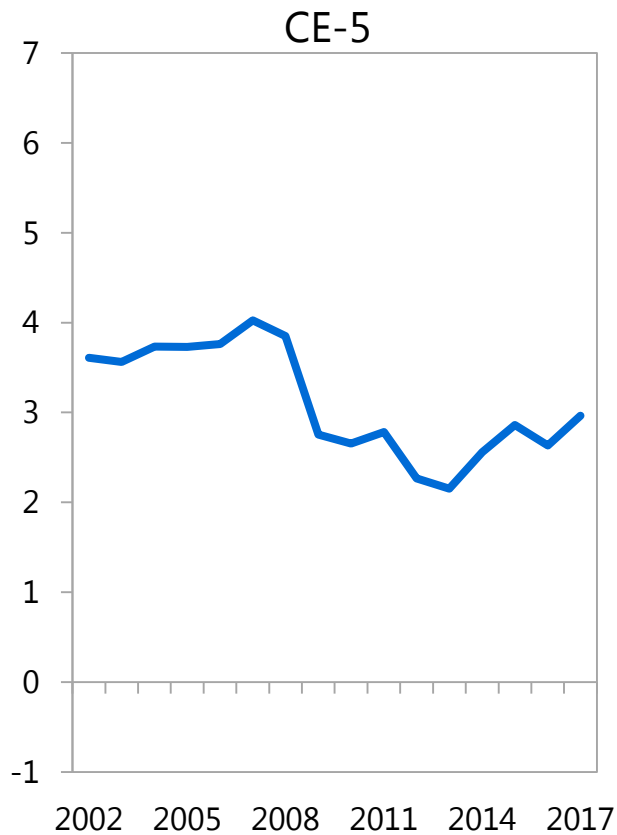
### GDP Growth and Changes in Unemployment Rate in CESEE



# As potential output growth is lower



Potential Output Growth  
(Percent)



# Outside the labor market, there are no signs of overheating

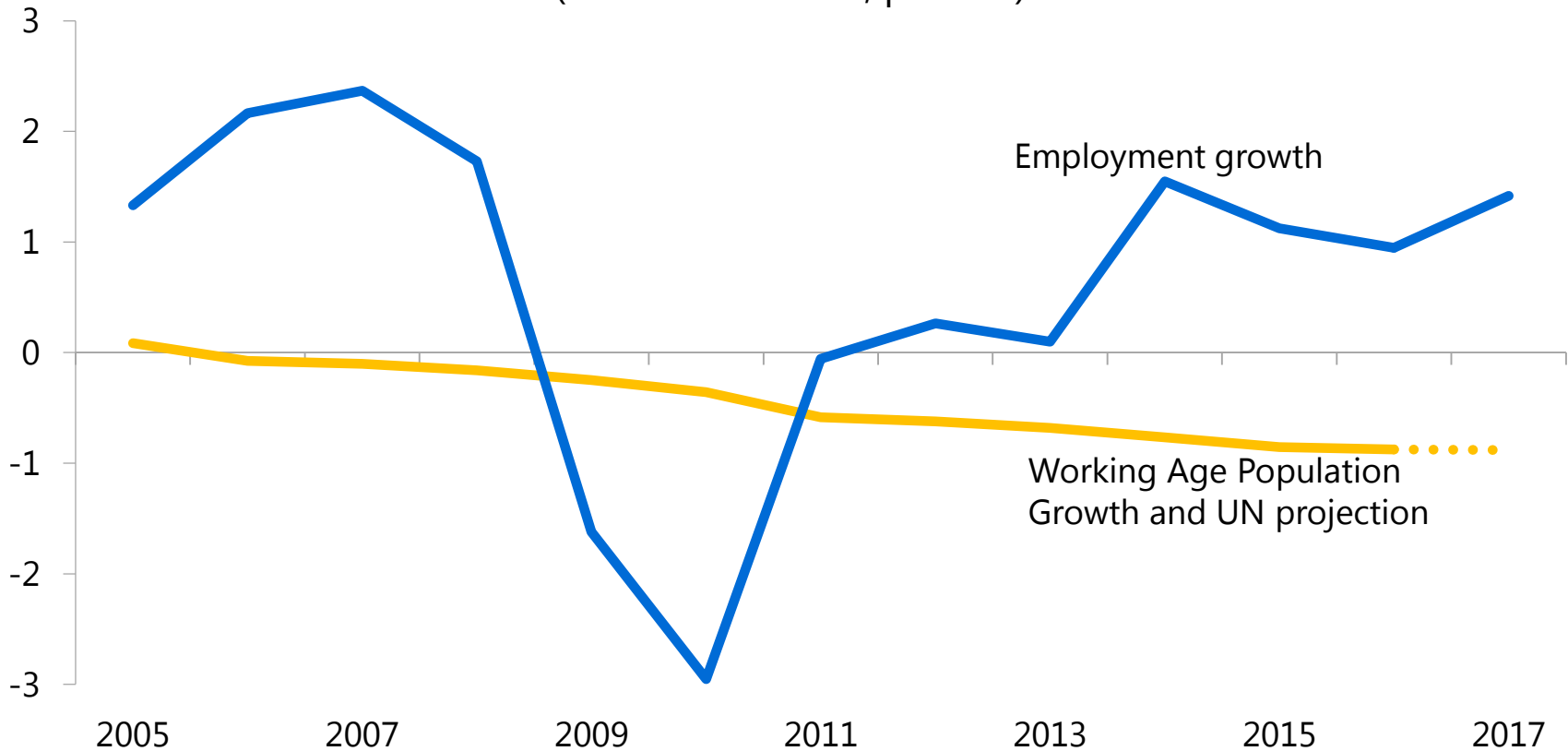


- Inflation has picked up, but is modest
- Current account deficits remain low and capital inflows are low
- Credit growth does not much exceed GDP growth

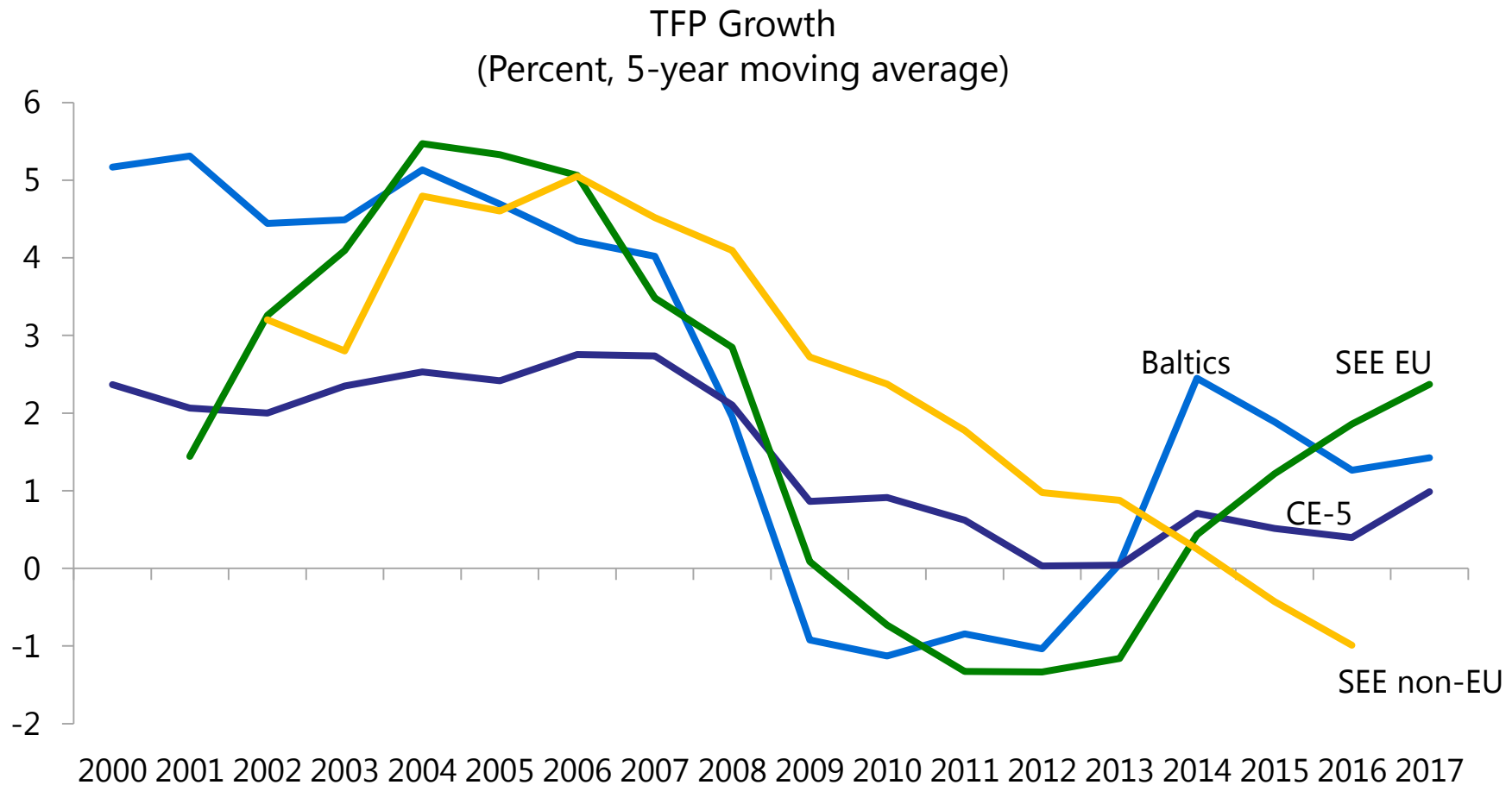
However, labor market tightness may constrain growth going forward...



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



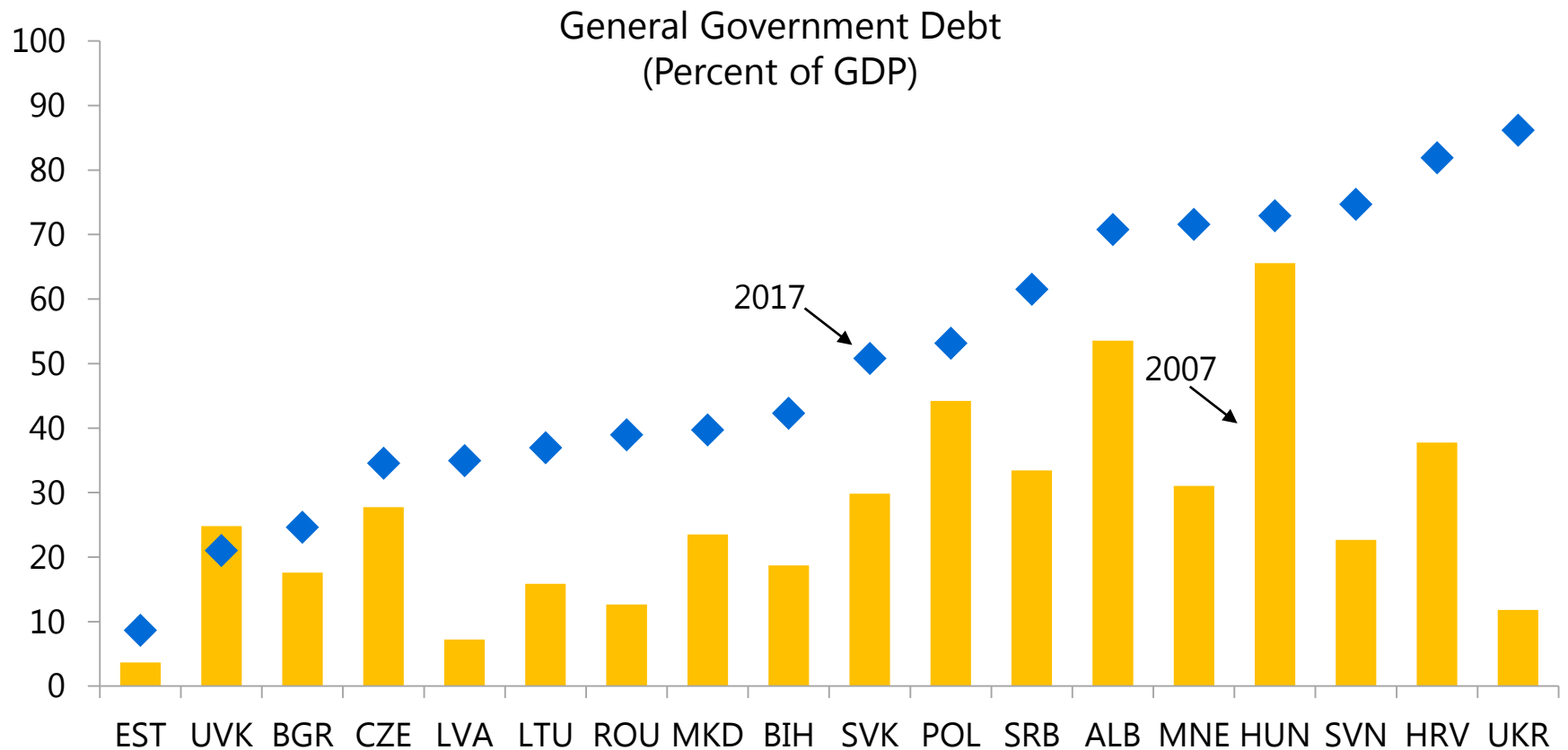
# To sustain rapid growth, TFP growth will need to pick up



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



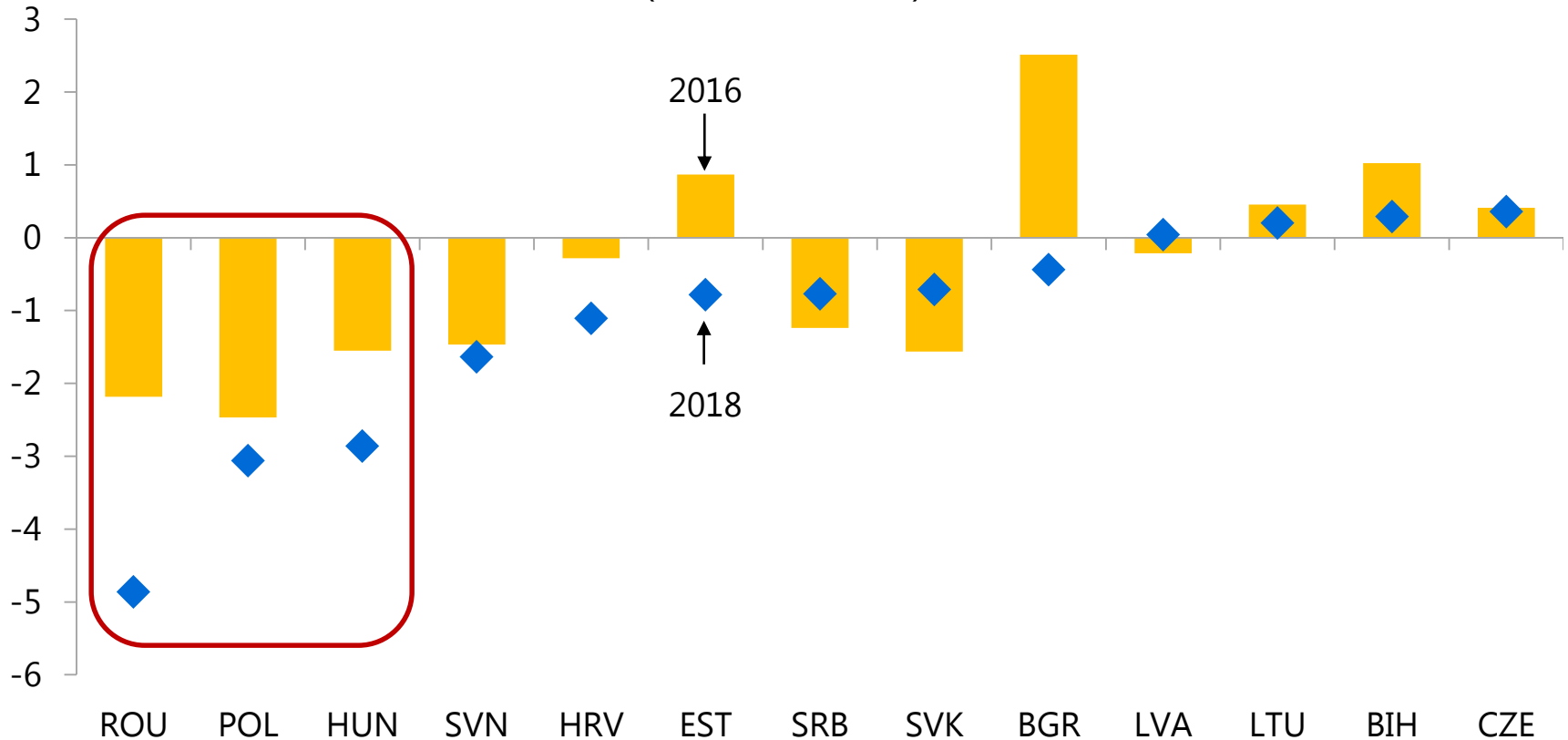
- Particularly given that debt is much higher than pre-crisis levels.



# Unfortunately, many countries are reverting to pro-cyclical loosening



General Government Structural Balance  
(Percent of GDP)







Thank you

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

