CESEE: Recent Economic Developments and Prospects

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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

Real GDP growth (Percent)
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

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.
As potential output growth is lower
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…
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.