



Kastryčnicki Ekanamičny Forum
Ураджай ідэяў дзеля ўстойлівага развіцця



KEF-2016: Reforms for Inclusive Growth

November 3–4, 2016

CESEE regional economic outlook

Dr. Bas Bakker, Senior Regional Resident Representative for Central and Eastern Europe, IMF European Department

European Department

CESEE Regional Economic Outlook



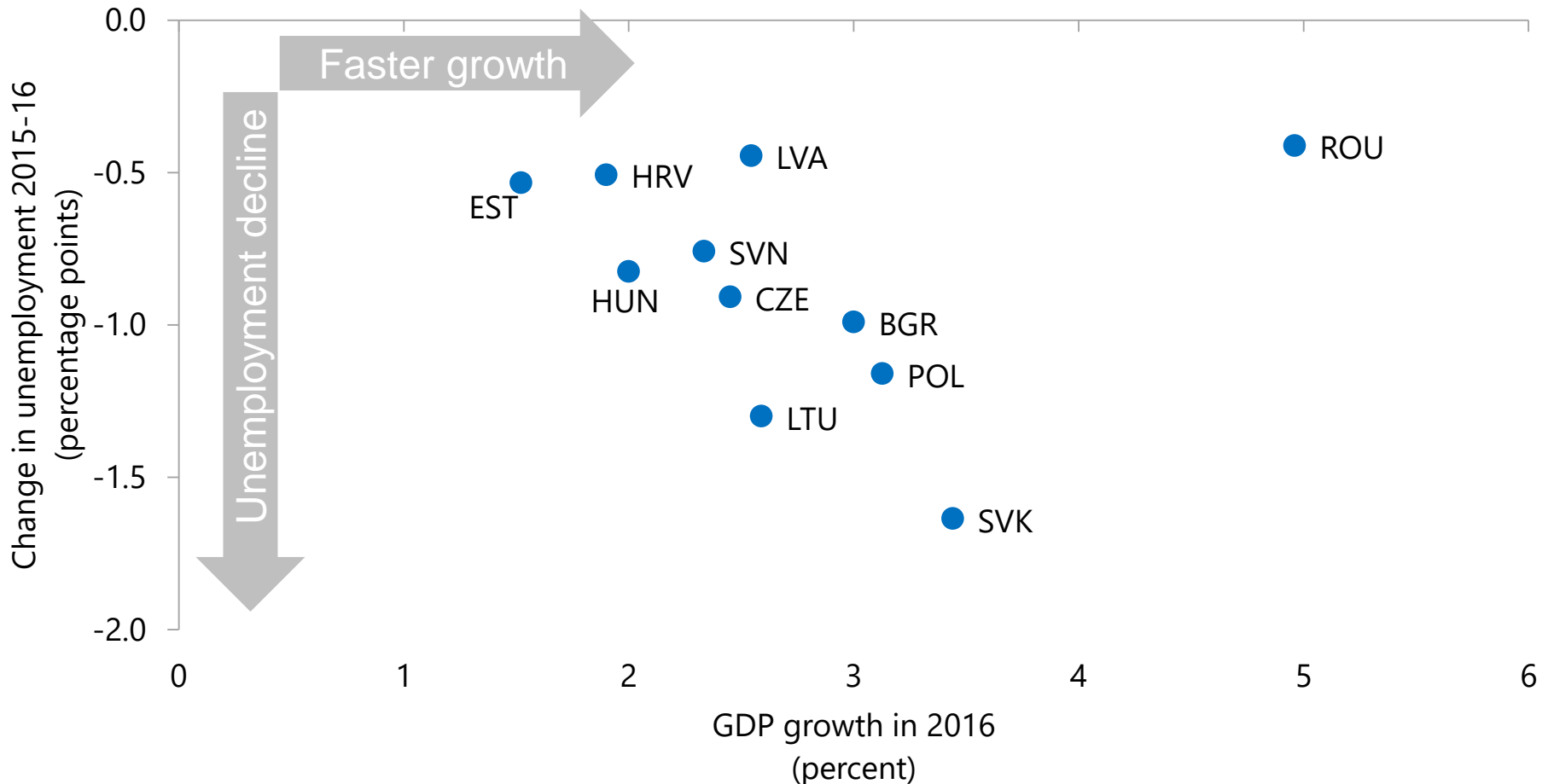
Minsk, November 3, 2016

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

Non-CIS CESEE is growing at solid pace. Unemployment is falling rapidly...



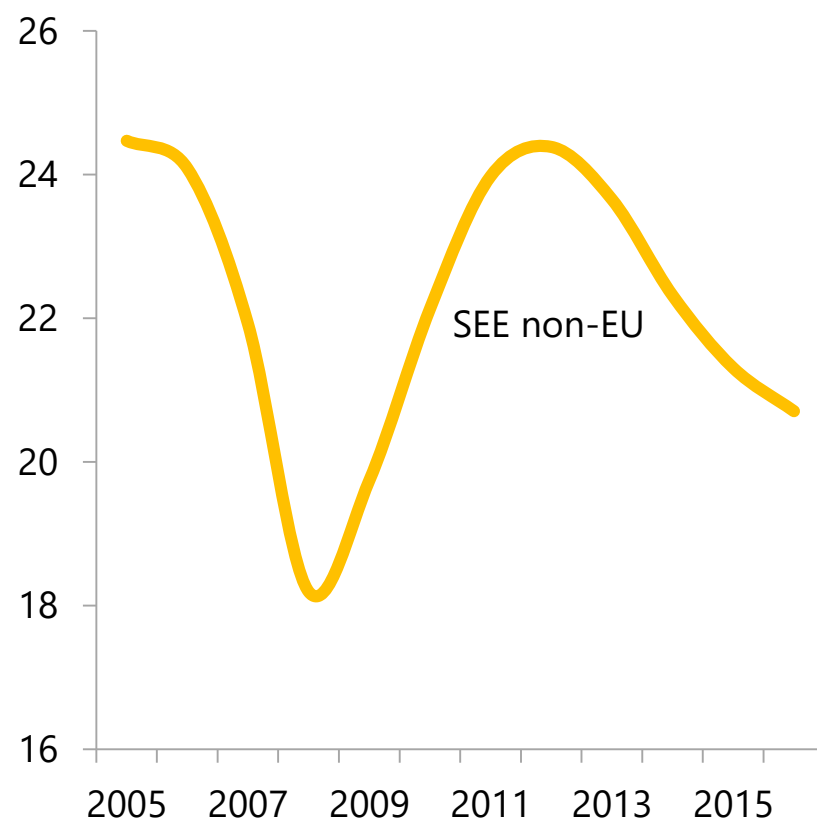
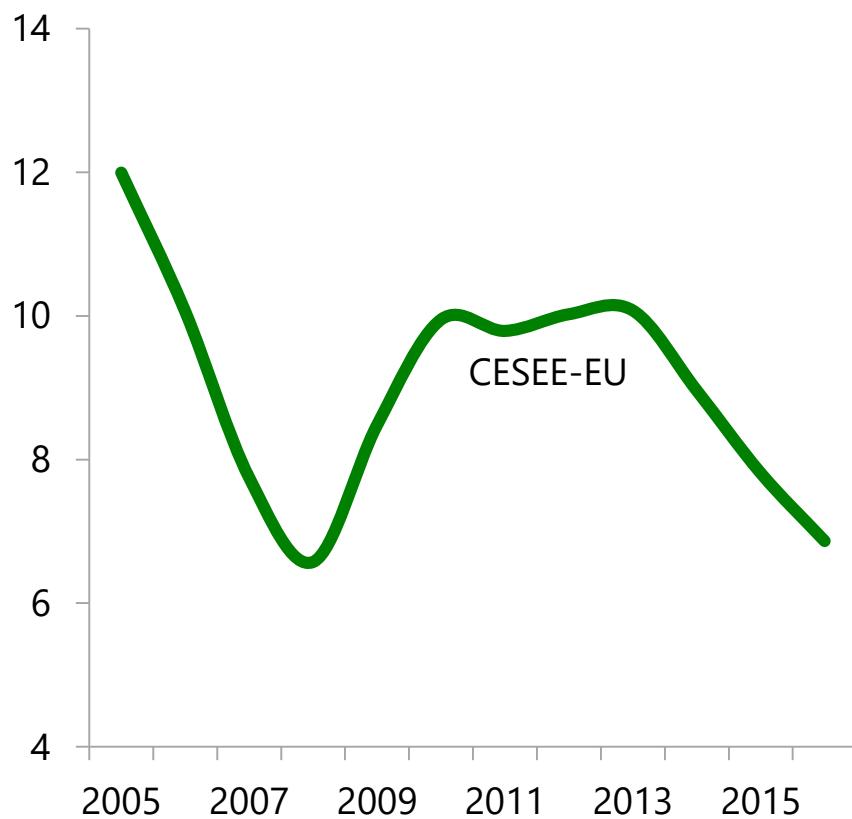
GDP growth and change in unemployment
2015-16



...to pre-crisis lows.



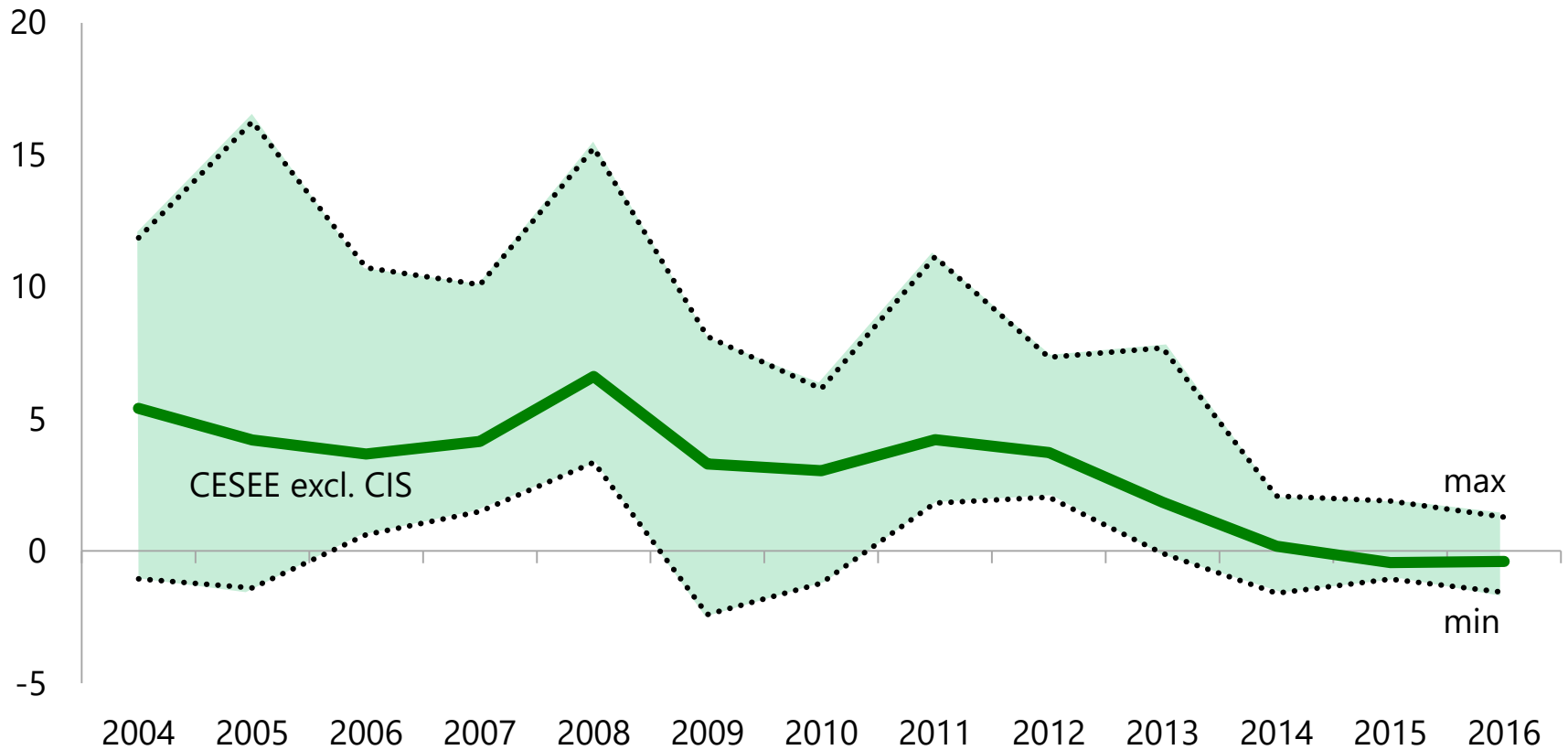
Unemployment rate
(percent)



While inflation is still low...



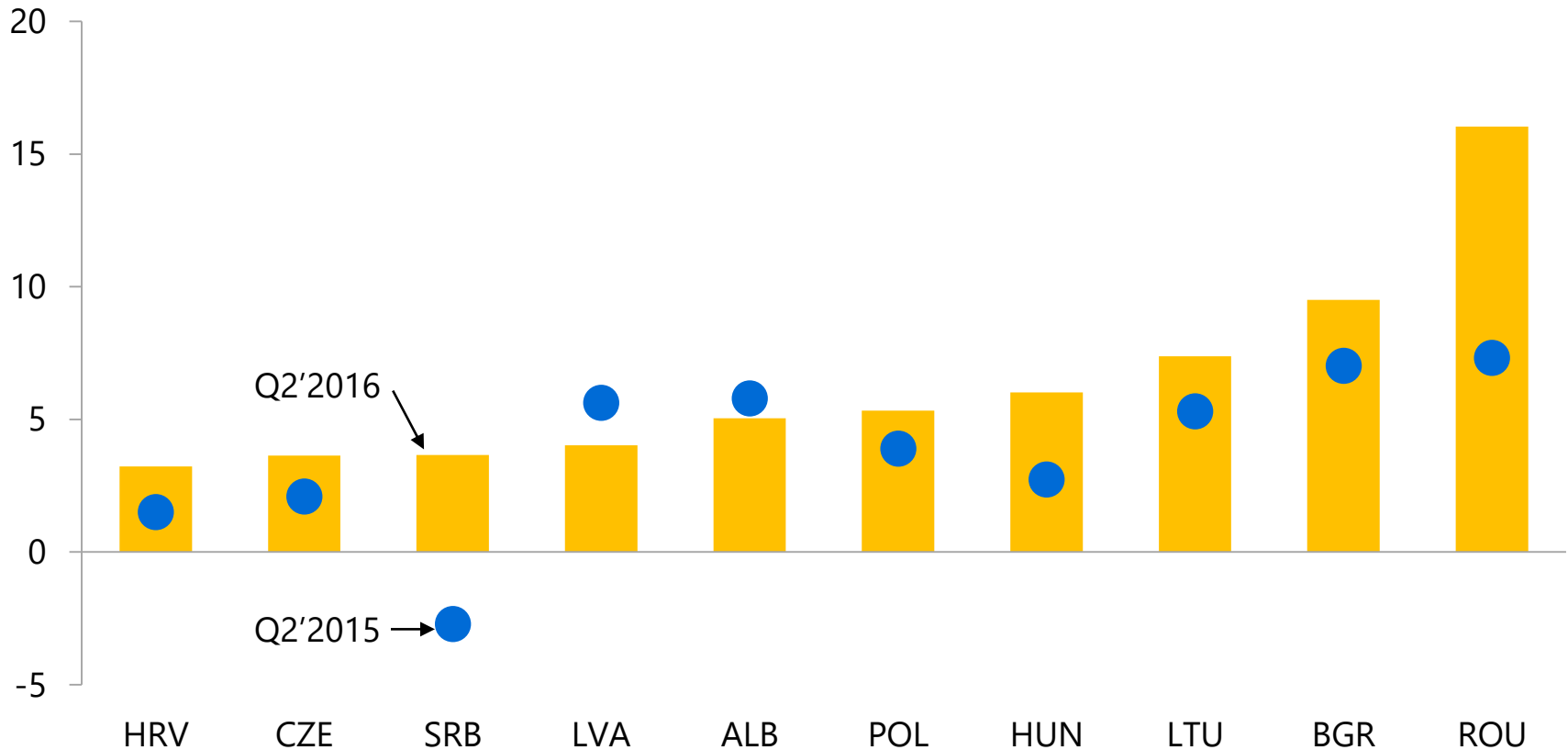
CPI Inflation
(percent, weighted averages)



Real wage growth has accelerated



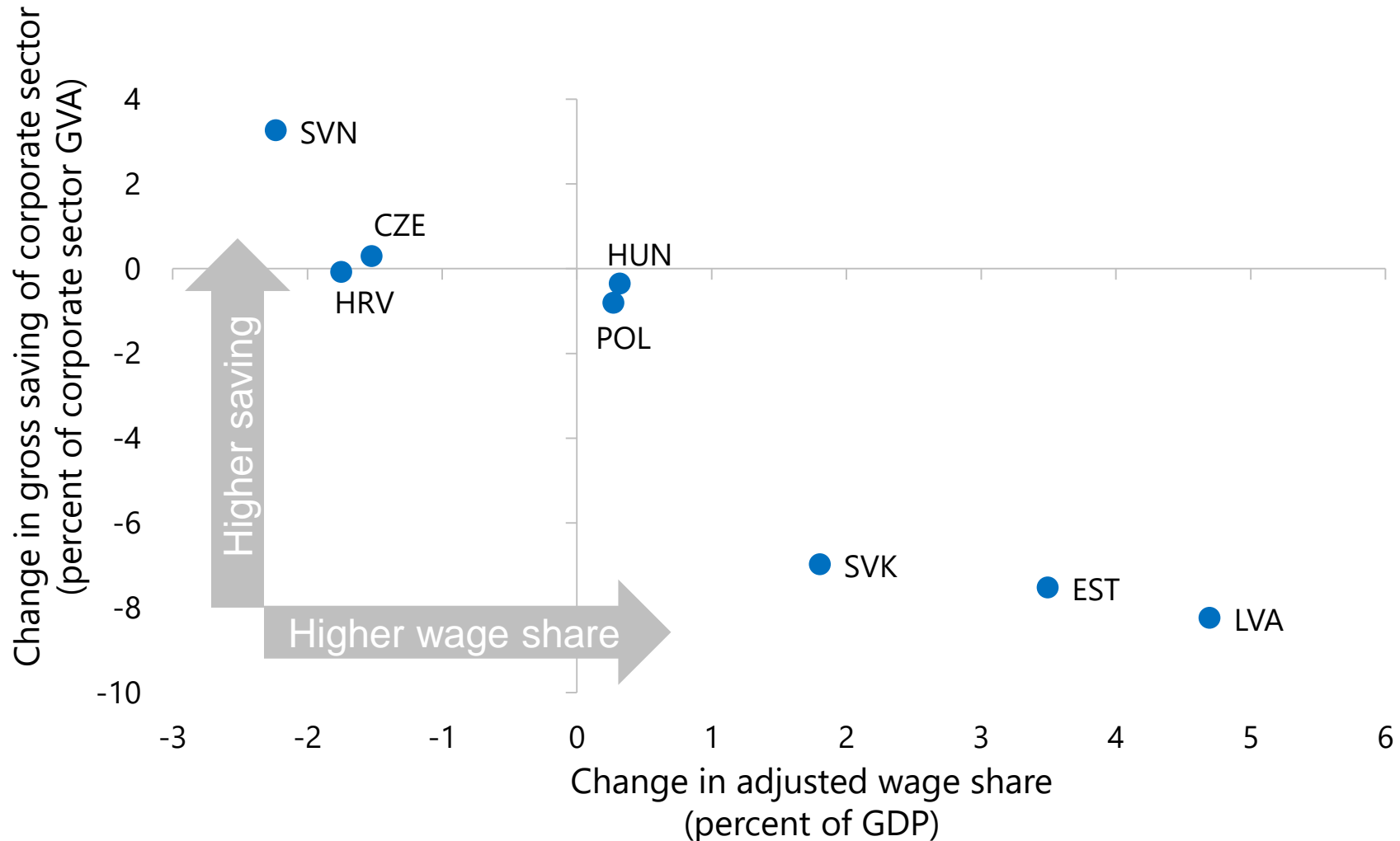
Real wage growth
(y/y, percent)



Which has increased wage shares and reduced corporate profits and saving



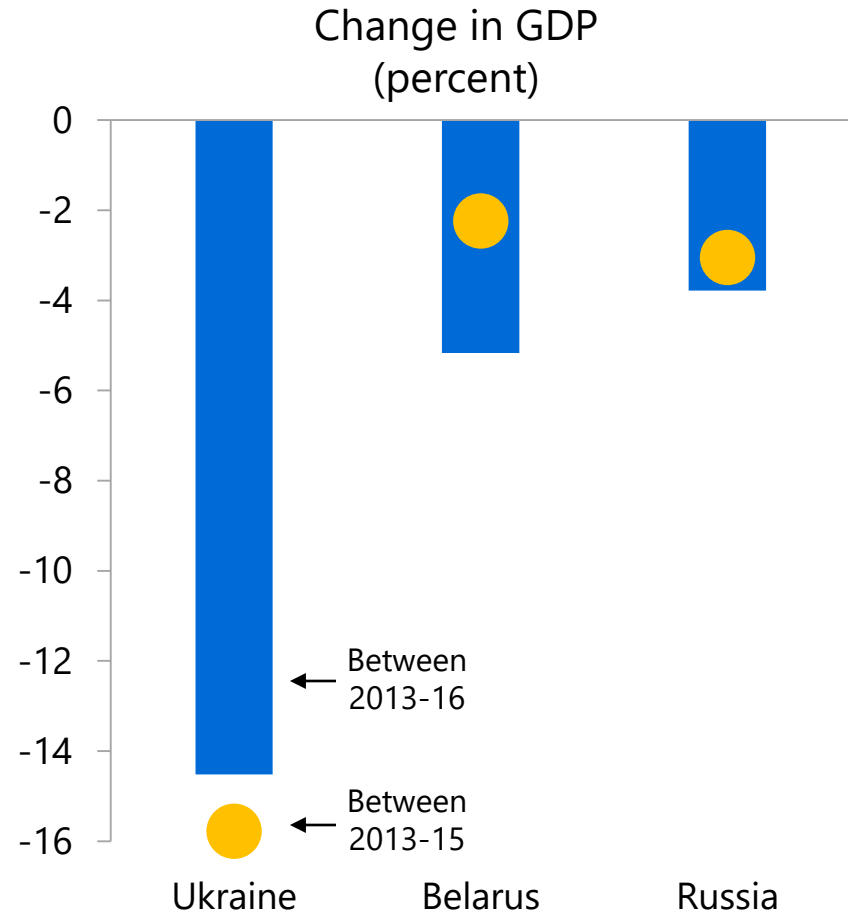
Change in wage share of income and corporate saving, 2014-16



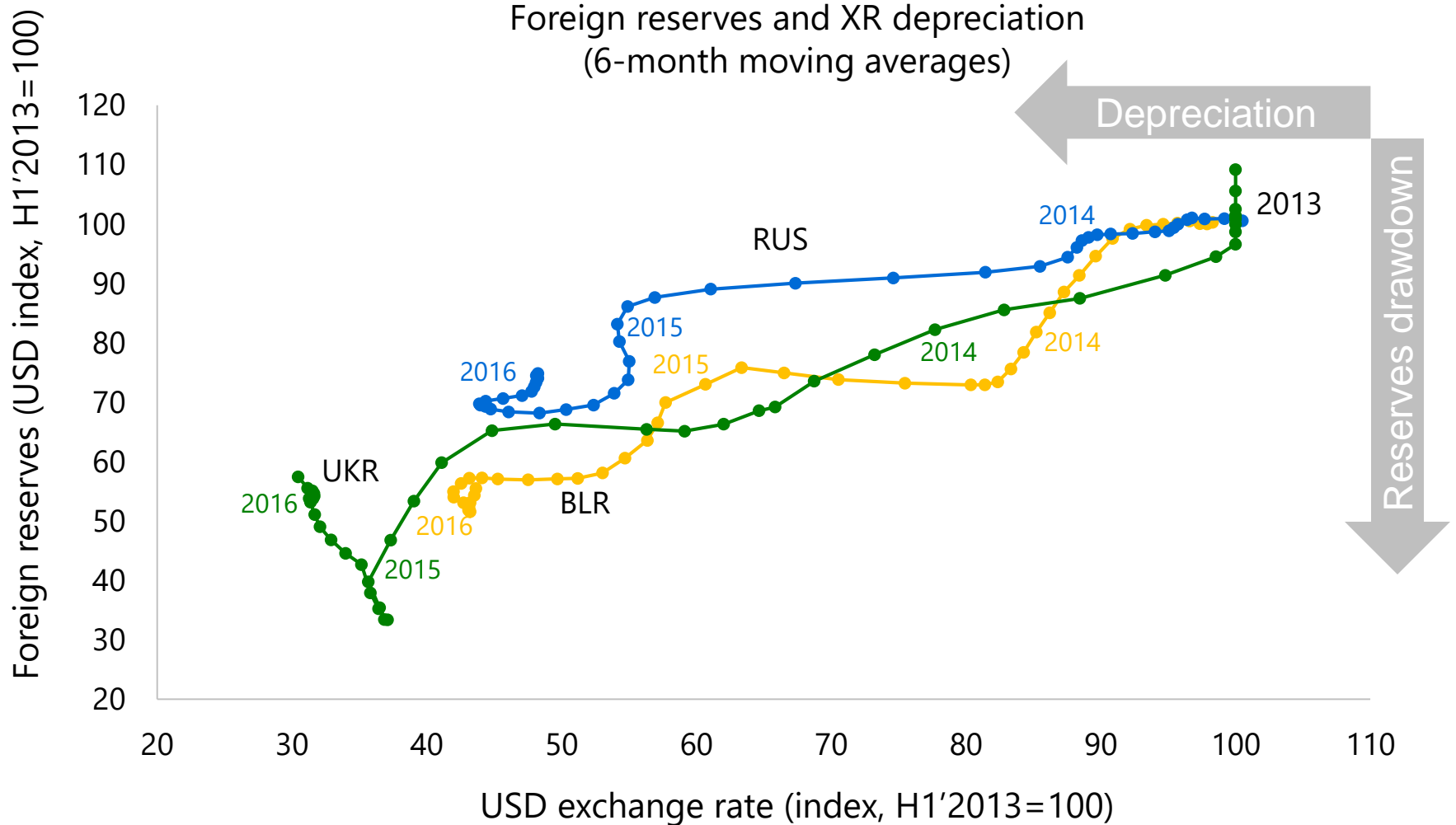
CIS suffered from recession in 2014/15



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



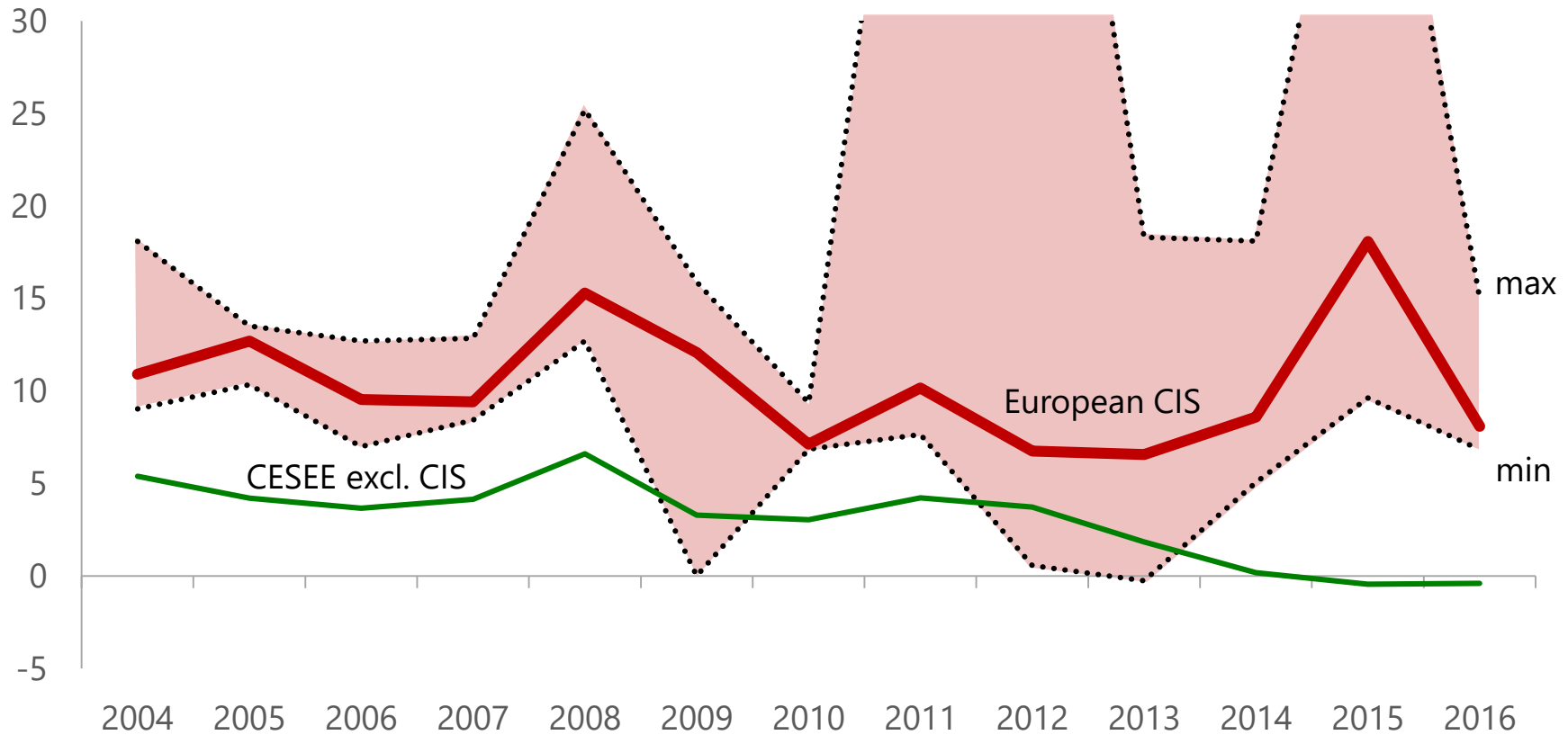
Exchange rate flexibility helped absorb much of the shock...



...although at cost of high inflation.



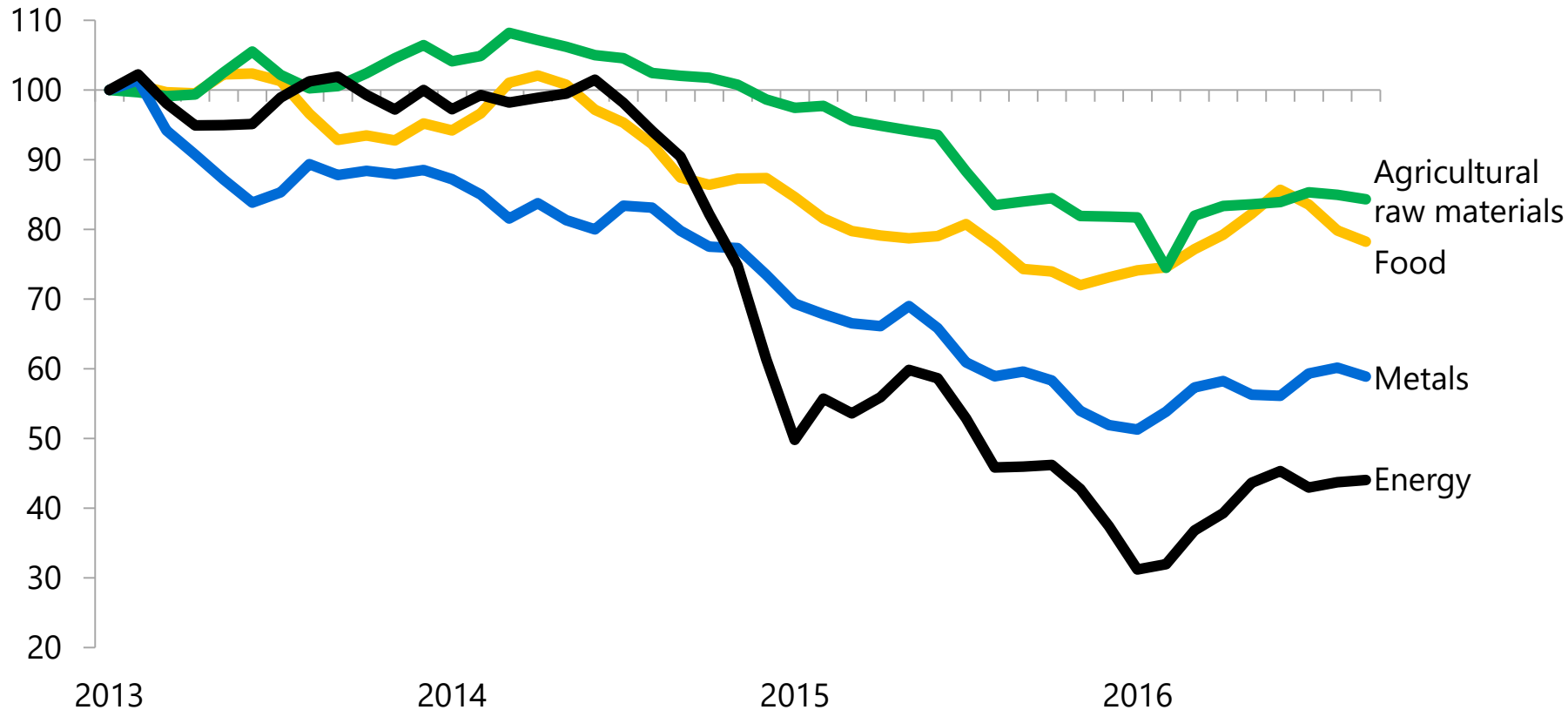
CPI Inflation
(percent, weighted averages)



Oil prices have rebounded...



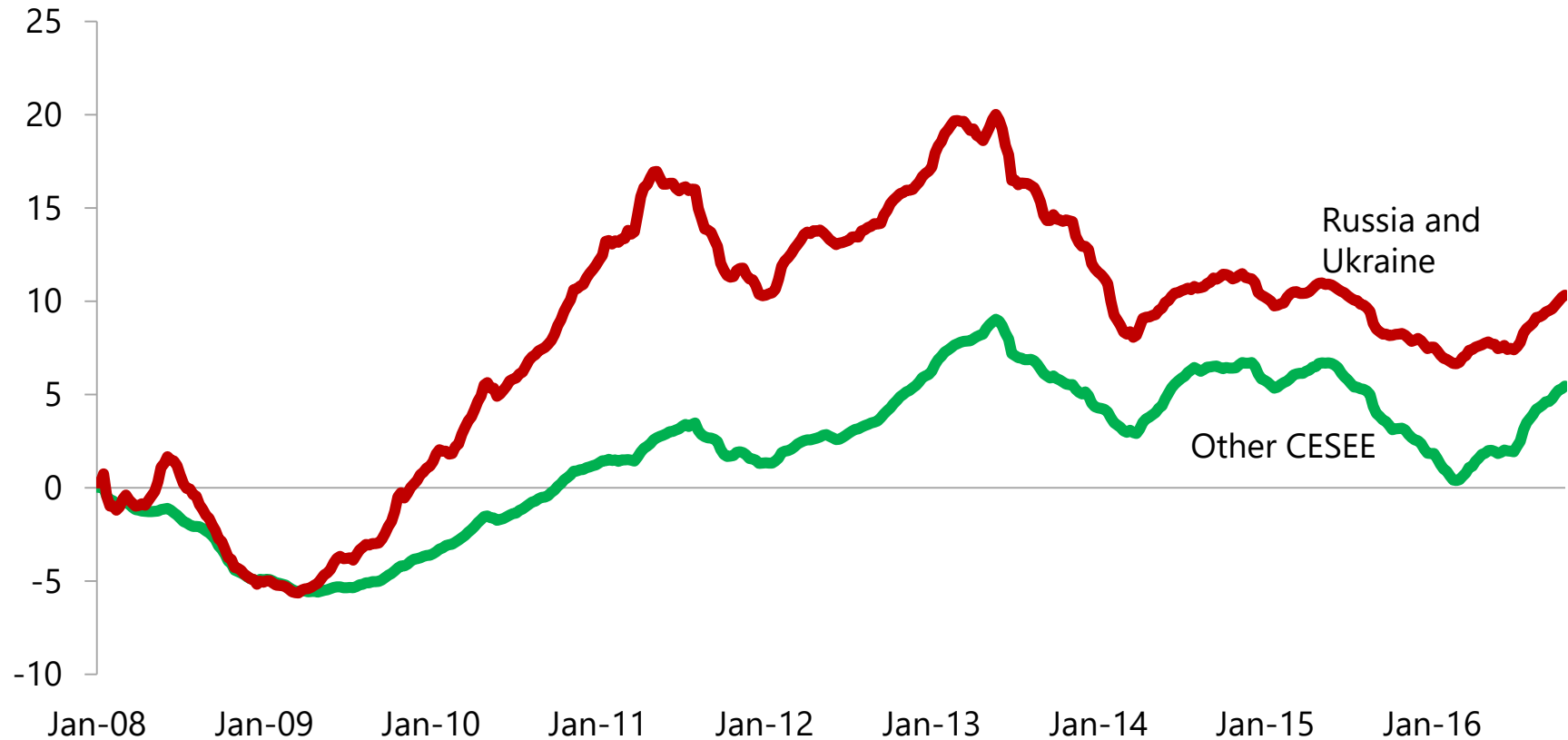
Commodity price indices
(2013=100)



...capital inflows have picked up...



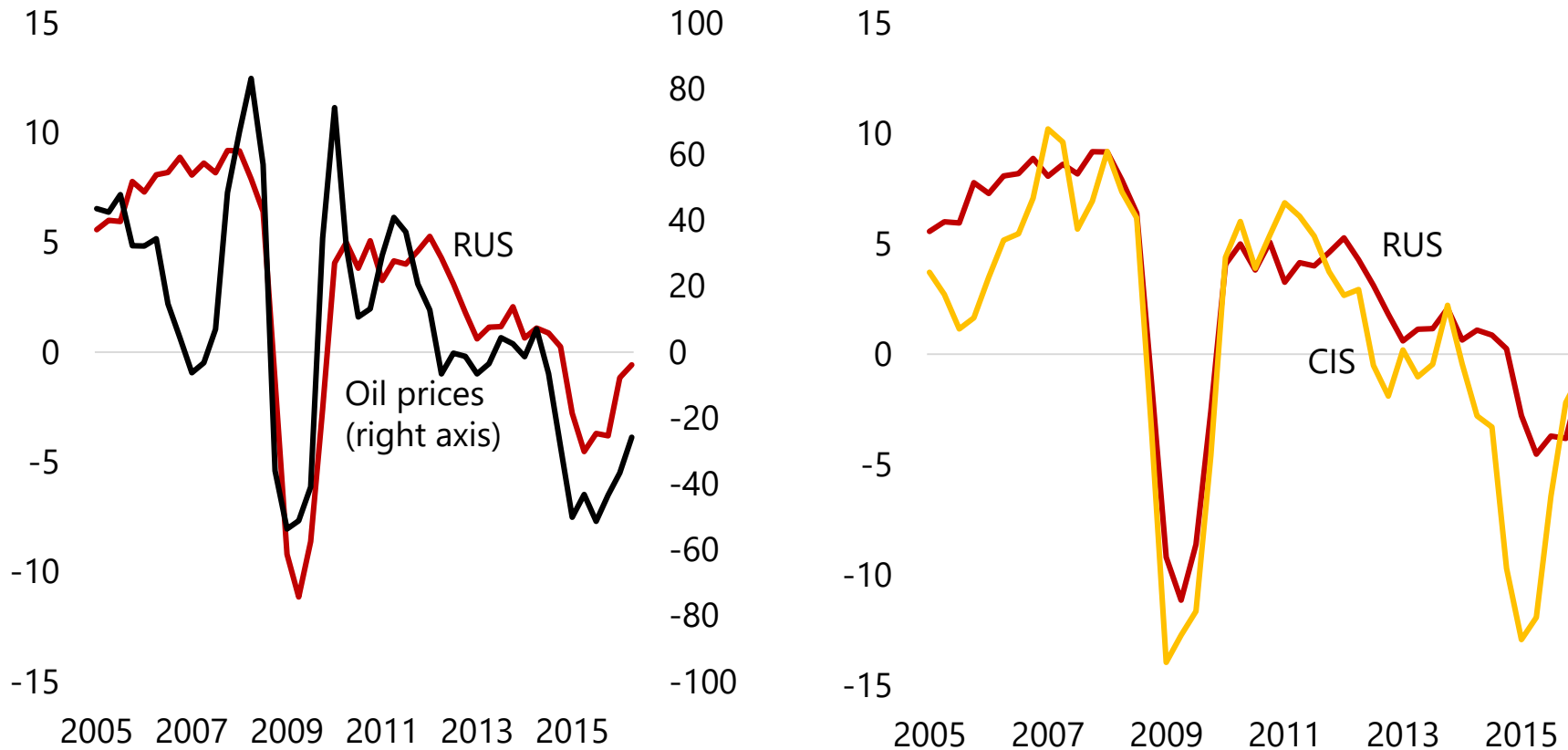
Cumulative EPFR flows into ETFs and Mutual Funds
(bonds and equity, billions of USD)



CIS is now recovering...



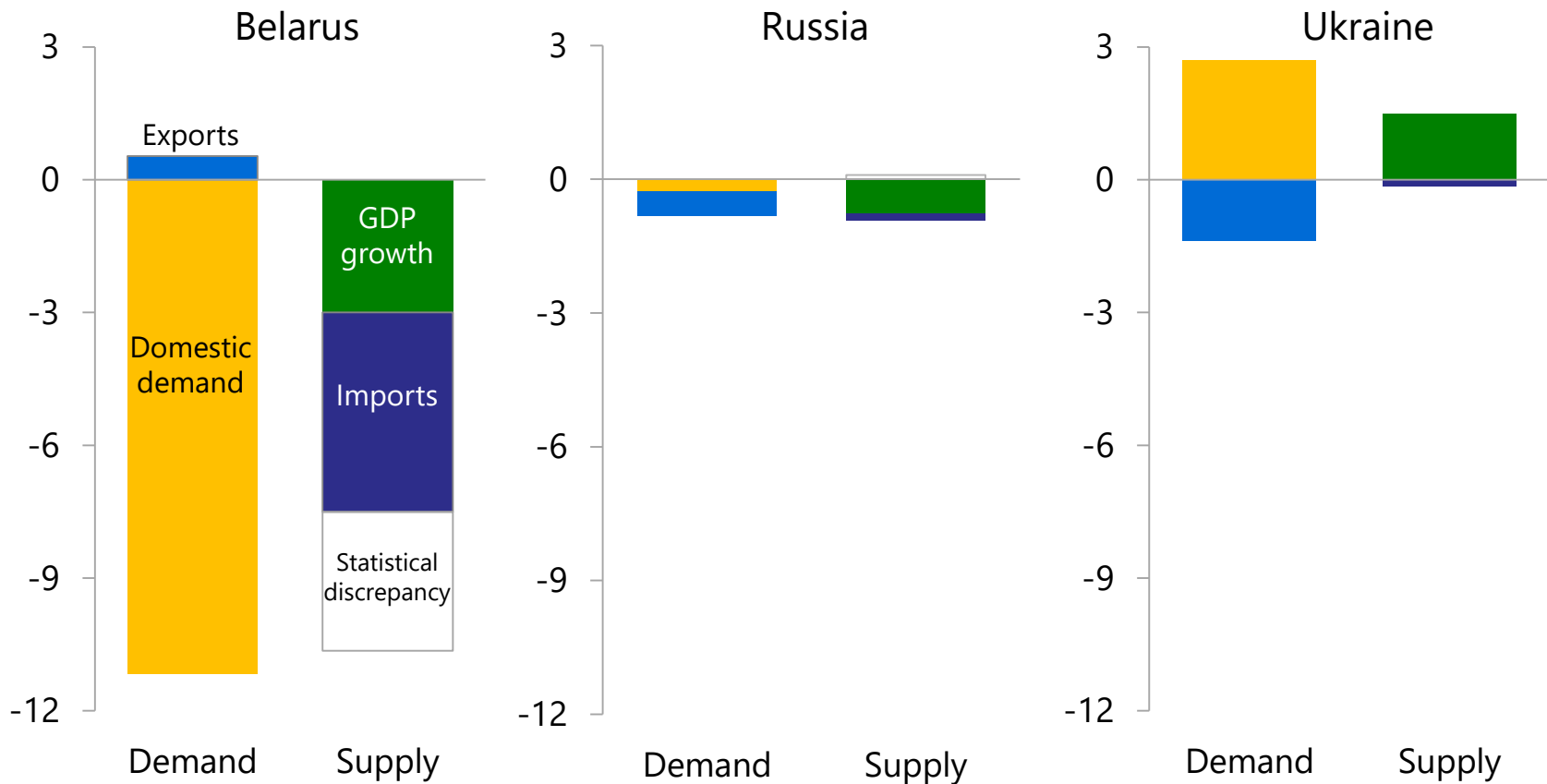
GDP growth in Russia, other CIS countries and changes in oil prices
(percent y/y)



No signs of recovery yet in Belarus; recession driven by sharp drop in domestic demand



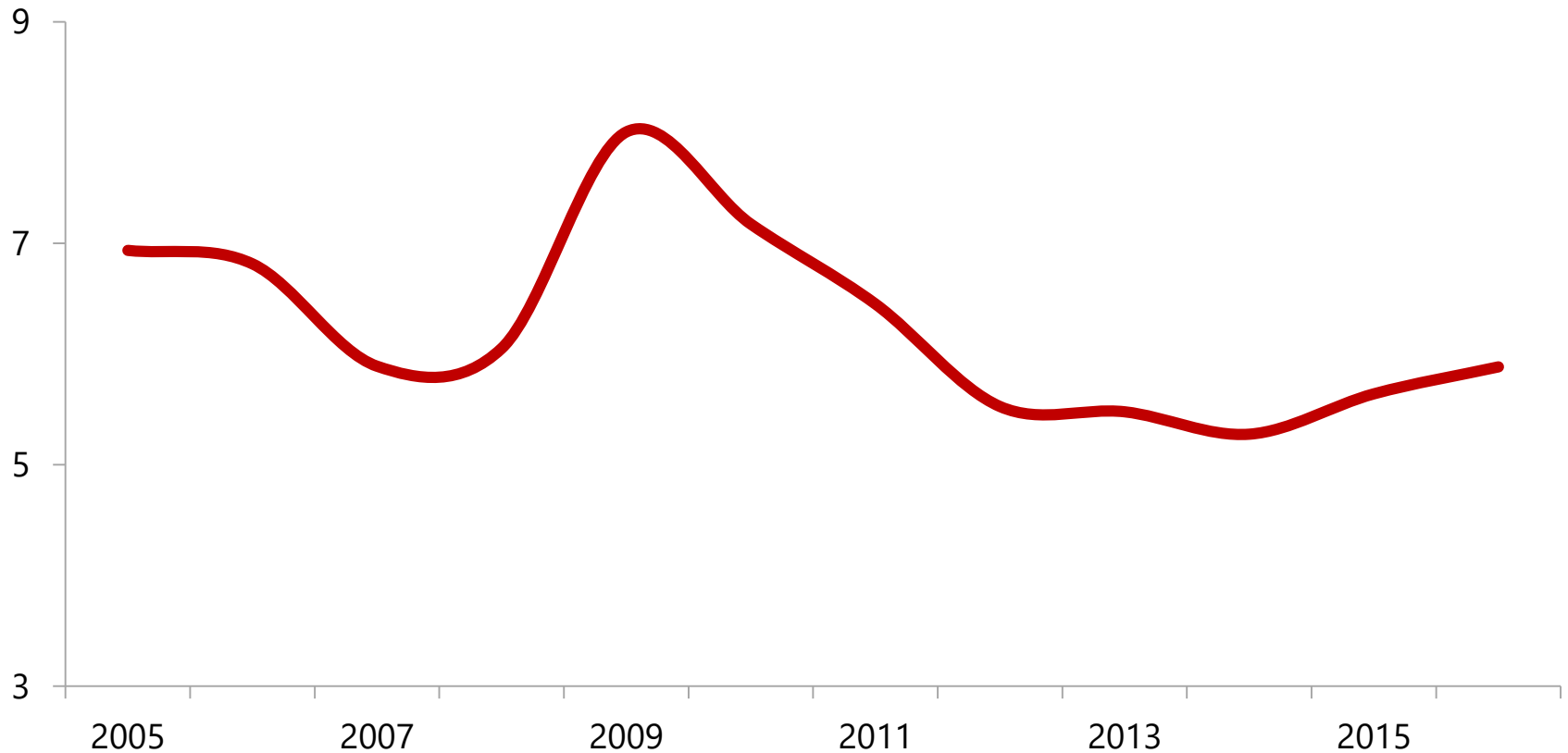
Demand and supply components: contribution to GDP in 2016
(percent)



Unemployment has remained low, despite recession...



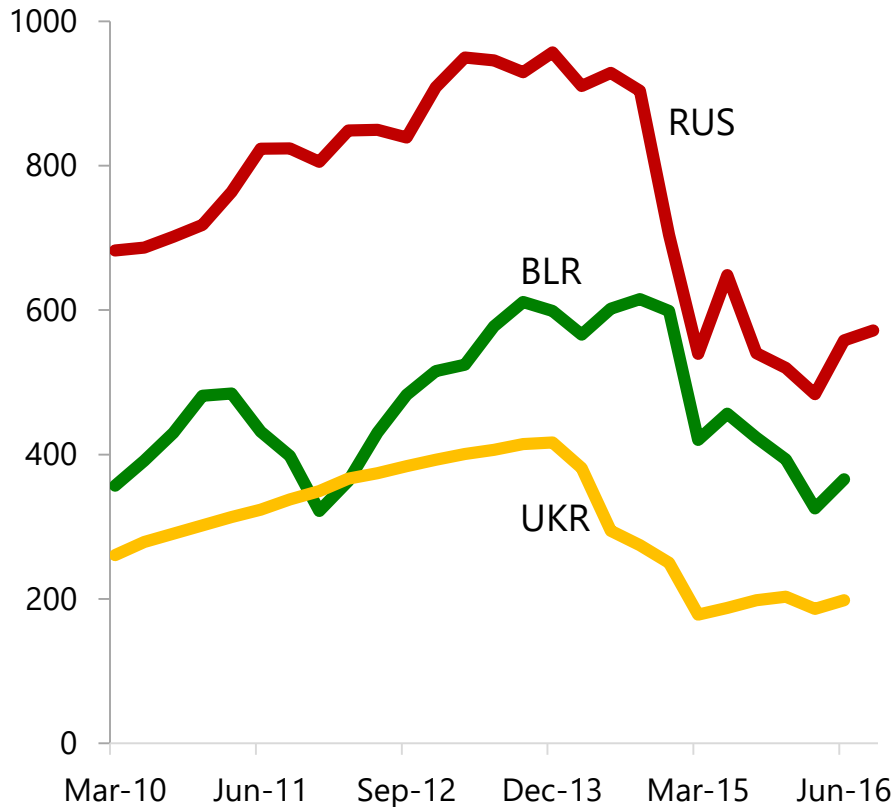
Unemployment rate in European CIS
(percent)



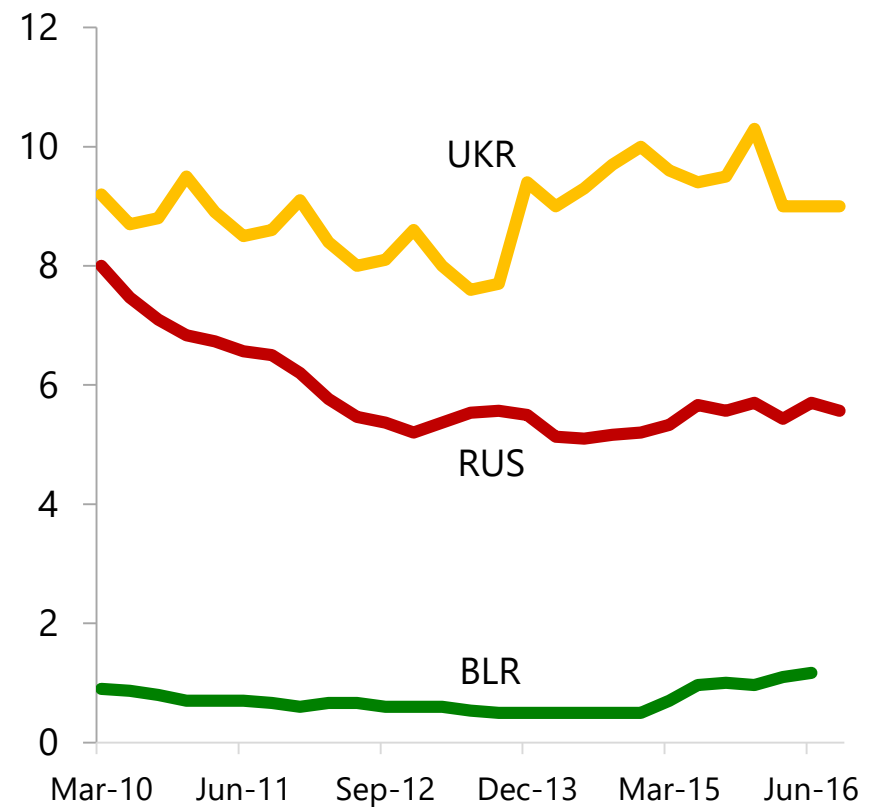
As exchange rate depreciation reduced real wages.



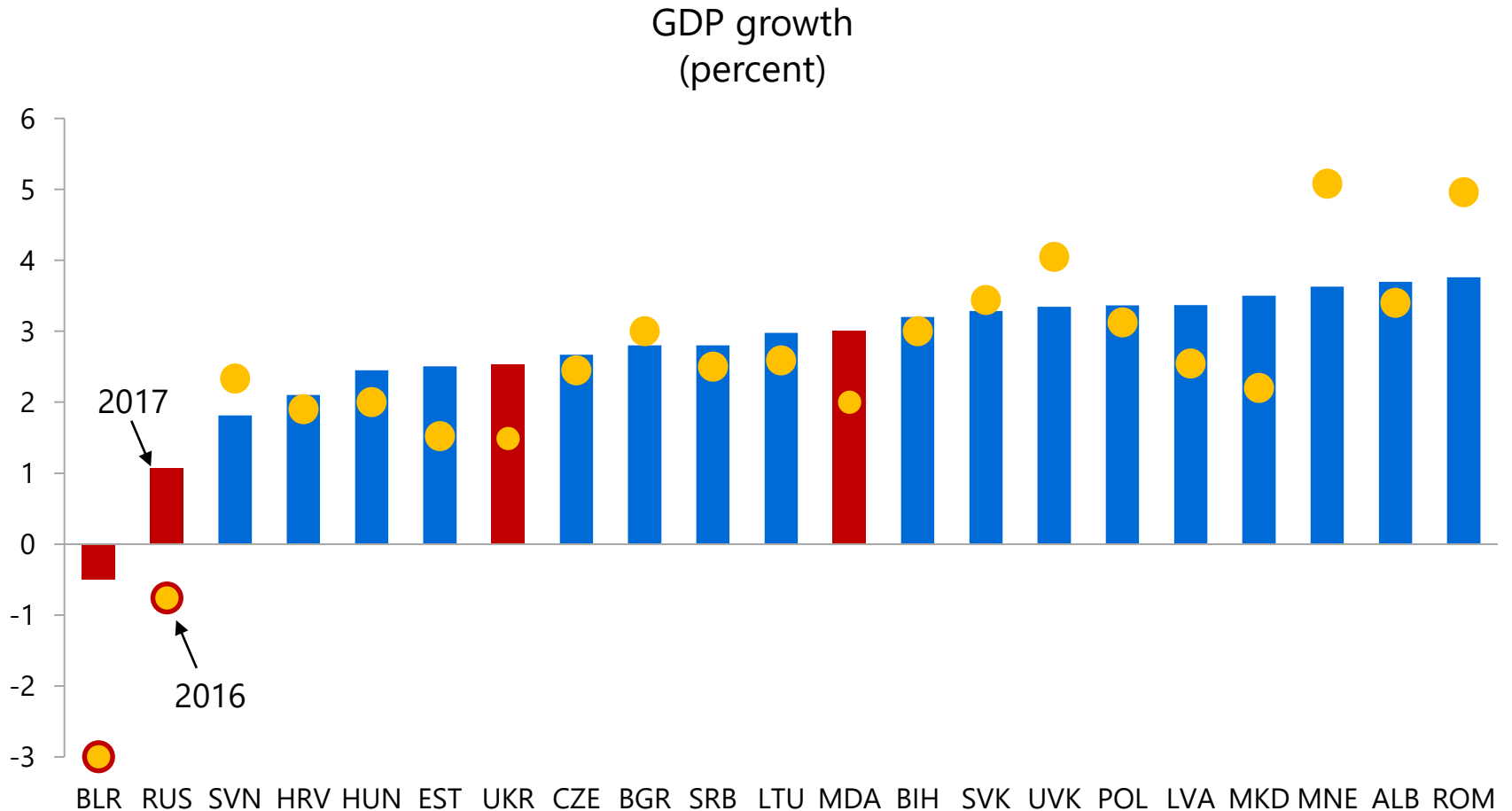
Average monthly wages
(USD)



Unemployment rate
(percent)



Forecast for 2017: Non-CIS similar as 2016; pick-up in CIS; Belarus still in recession



Note: CIS countries in red.

Downside risks continue to dominate the outlook

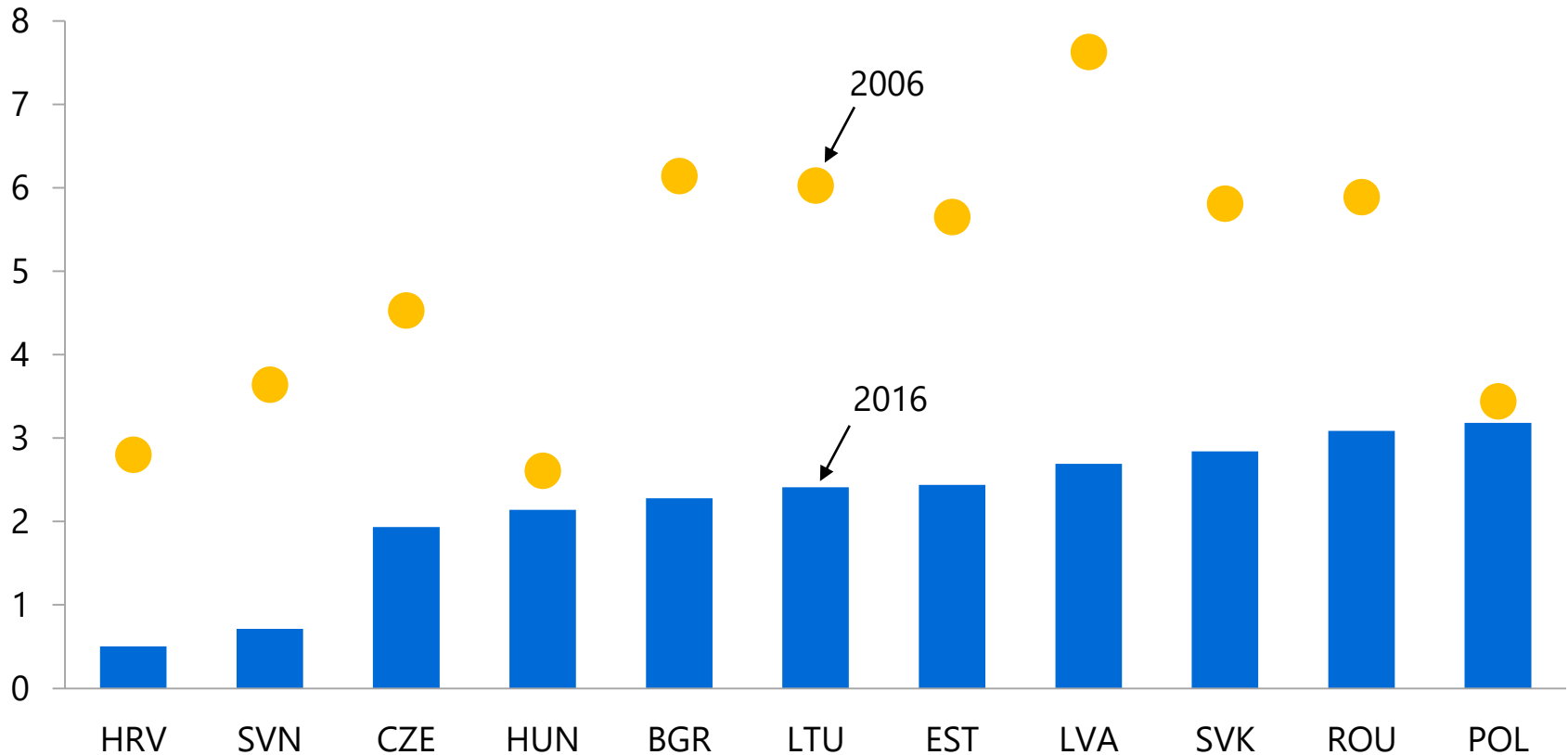


- Tighter and more volatile financial conditions
- Structurally weak growth in the euro area
- Slowdown in China or failure of recovery in major EMs
- Non-economic shocks:
 - Political fragmentation
 - Refugee crisis
 - Terrorism

Long-term challenge: Potential output growth has slowed in many countries...



Potential output growth in 2006 and 2016
(percent)

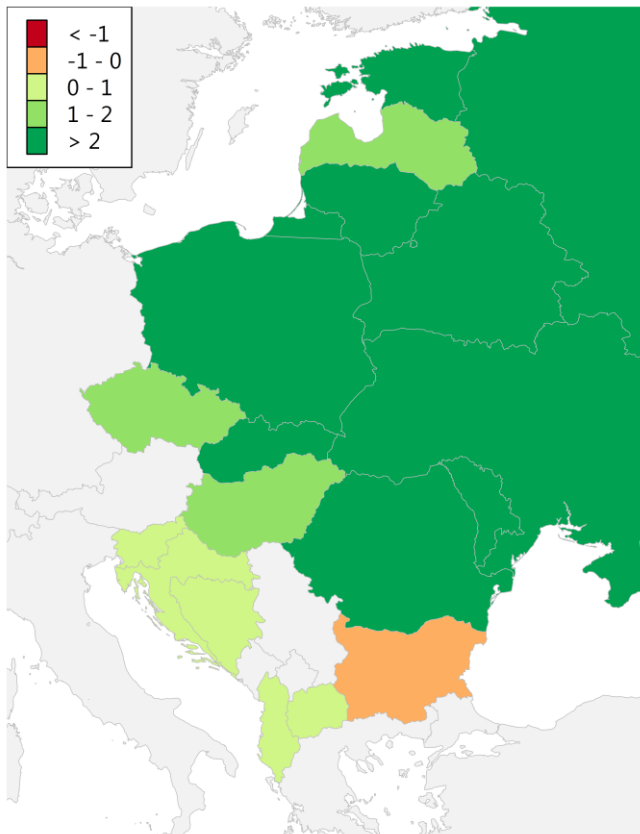


...as productivity growth has slowed.

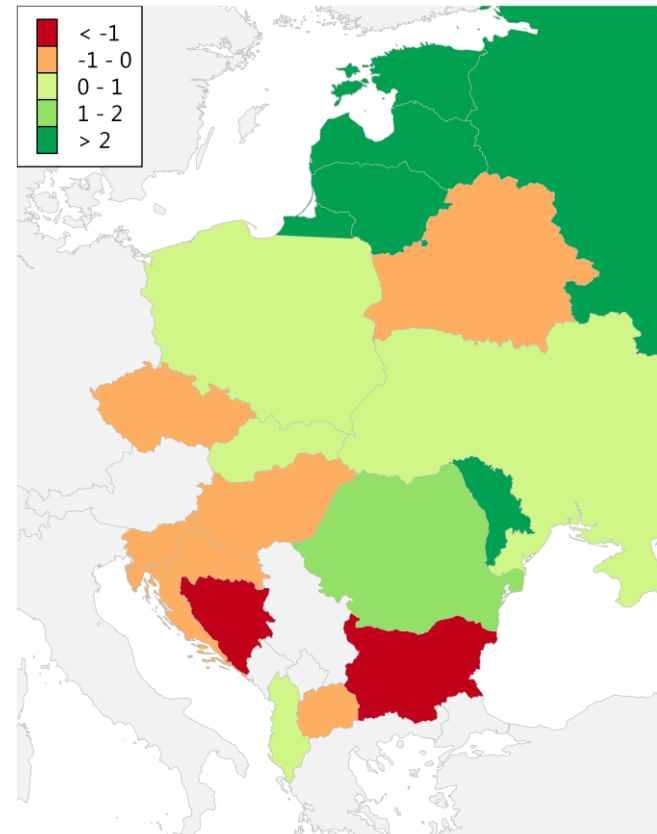


Average total factor productivity growth
(percent)

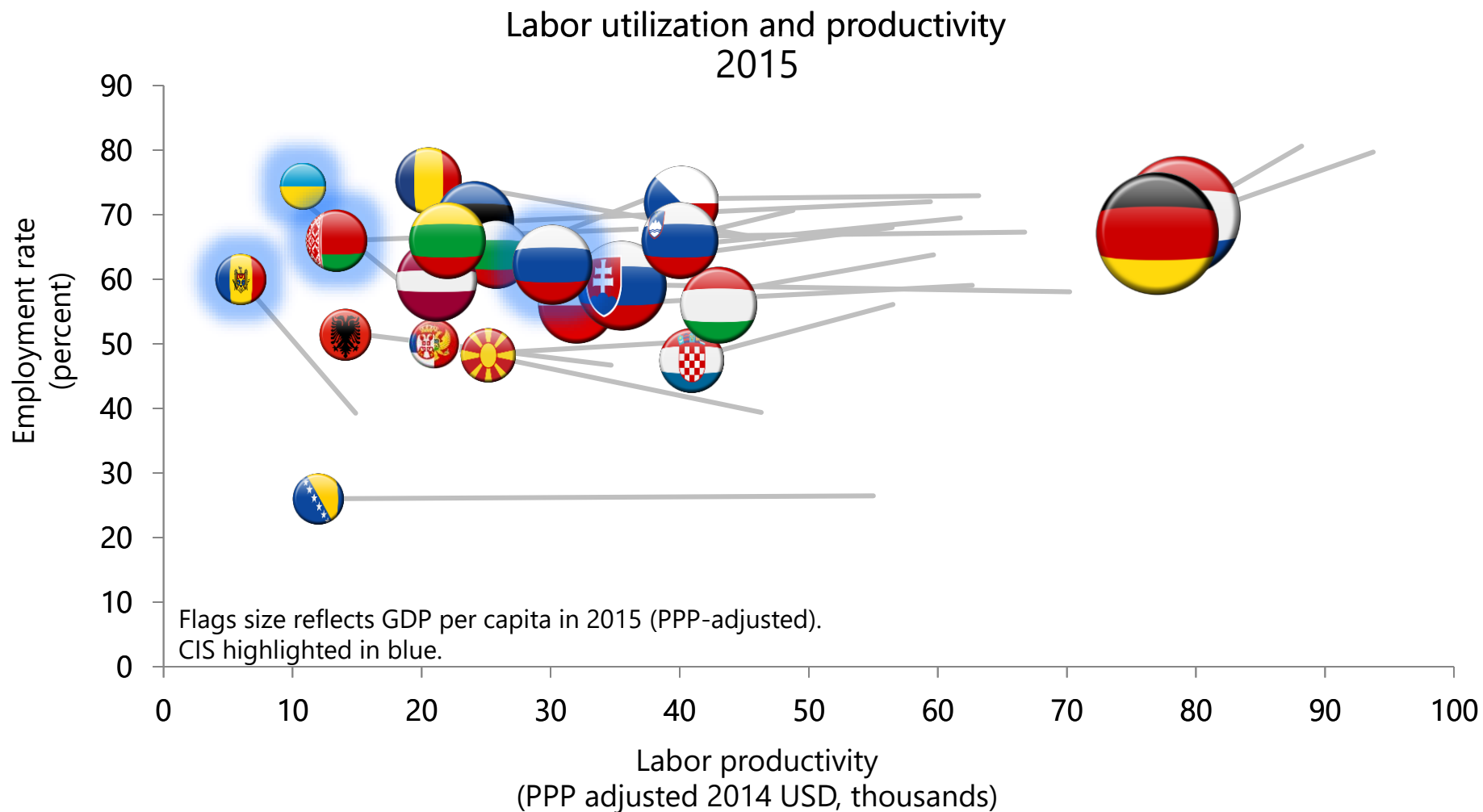
2000-04



2010-14



Productivity slowdown is problem: low productivity is what makes CESEE relatively poor

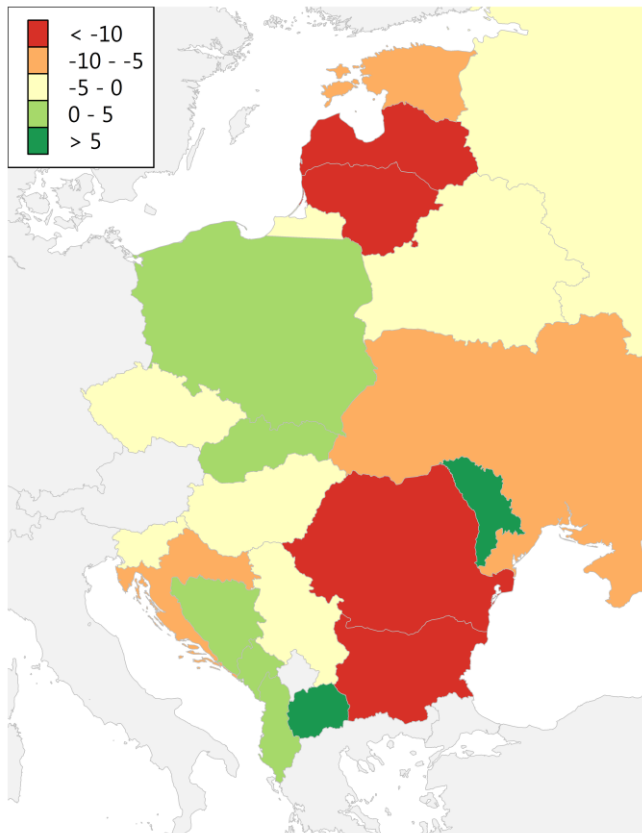


Aging will provide further headwinds...



Working age (15-64) population growth
(percent)

2000-2015



2015-2025

