KEF-2016:
Reforms for Inclusive Growth
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CESEE regional economic outlook
Dr. Bas Bakker, Senior Regional Resident Representative for Central and Eastern Europe, IMF 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

Change in unemployment 2015-16 (percentage points)

Faster growth

GDP growth in 2016 (percent)
...to pre-crisis lows.
While inflation is still low...
Real wage growth has accelerated

Real wage growth (y/y, percent)

Q2’2015

Q2’2016
Which has increased wage shares and reduced corporate profits and saving

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

Change in gross saving of corporate sector (percent of corporate sector GVA)

Higher saving

Higher wage share

Change in adjusted wage share (percent of GDP)
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.
Oil prices have rebounded...
...capital inflows have picked up...

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

Russia and Ukraine
Other CESEE
CIS is now recovering...

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

Oil prices (right axis)

RUS

CIS


-15  -10  -5  0  5  10  15

100  80  60  40  20  0  -20

-40  -60  -80  -100


-15  -10  -5  0  5  10  15

-100  -80  -60  -40  -20  0  20  40  60  80  100
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)

Belarus
- Domestic demand: -12%
- Exports: 3%
- Imports: -9%
- GDP growth: -6%
- Statistical discrepancy: -3%

Russia
- Domestic demand: -12%
- Exports: 0%
- Imports: -3%
- GDP growth: 0%

Ukraine
- Domestic demand: -12%
- Exports: 3%
- Imports: 0%
- GDP growth: 3%
- Statistical discrepancy: -6%

Exports
Demand
Supply
GDP growth
Imports
Statistical discrepancy

Belarus
Russia
Ukraine
Unemployment has remained low, despite recession...
As exchange rate depreciation reduced real wages.
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...
...as productivity growth has slowed.

Average total factor productivity growth (percent)
Productivity slowdown is problem: low productivity is what makes CESEE relatively poor
Aging will provide further headwinds...

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