

CEE economies after a decade in the EU



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James Roaf

Senior Resident Representative

IMF Regional Office for Central and Eastern Europe, Warsaw

Outline



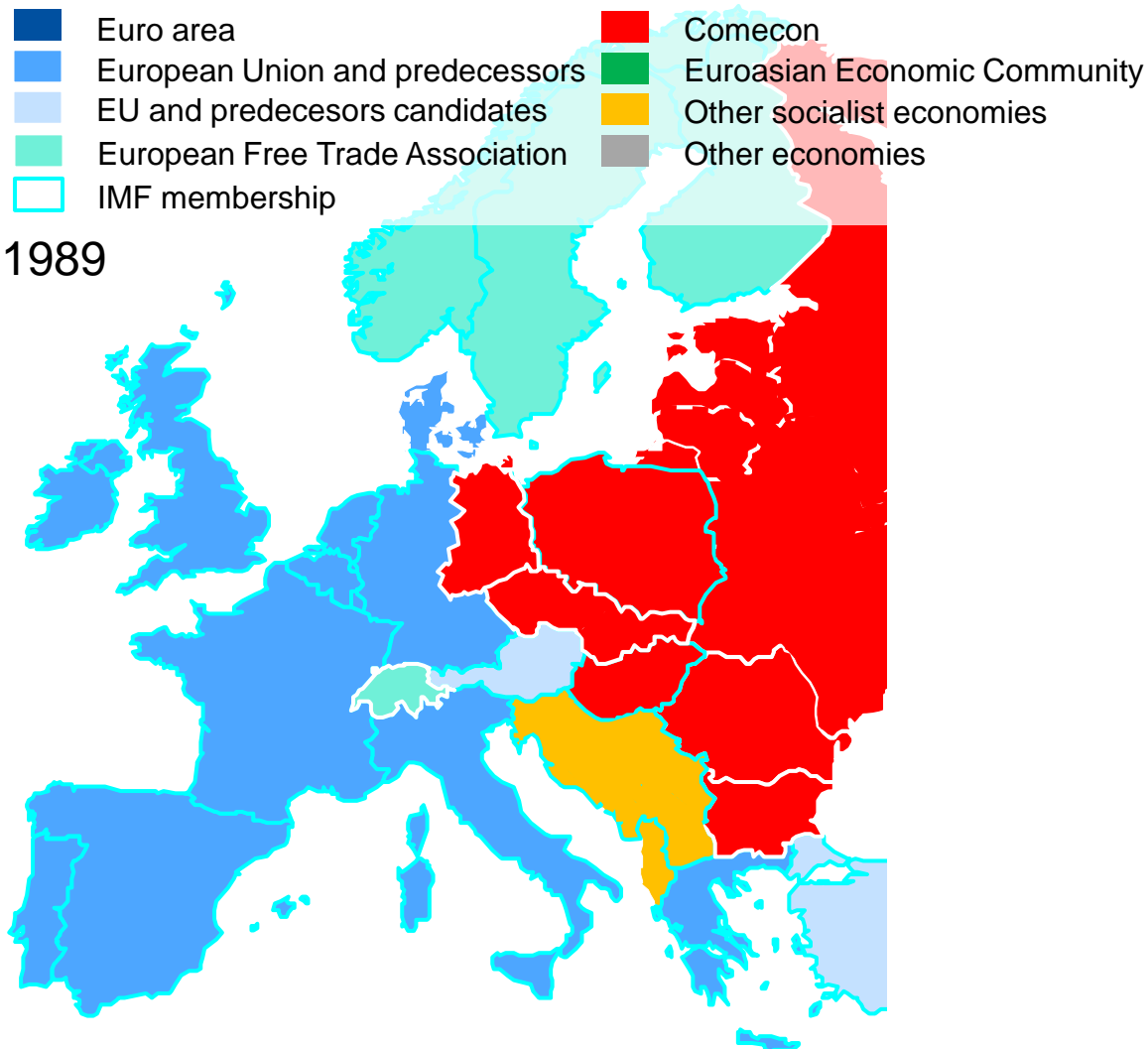
- EU membership
 - Big picture
 - Convergence
 - Trade and Financial linkages
- 2008 Financial crisis
 - Boom and bust
 - The IMF programs
- Challenges ahead
 - Economic Outlook
 - Deal with crisis legacies
 - Boost tradable sector
 - Improve investment climate

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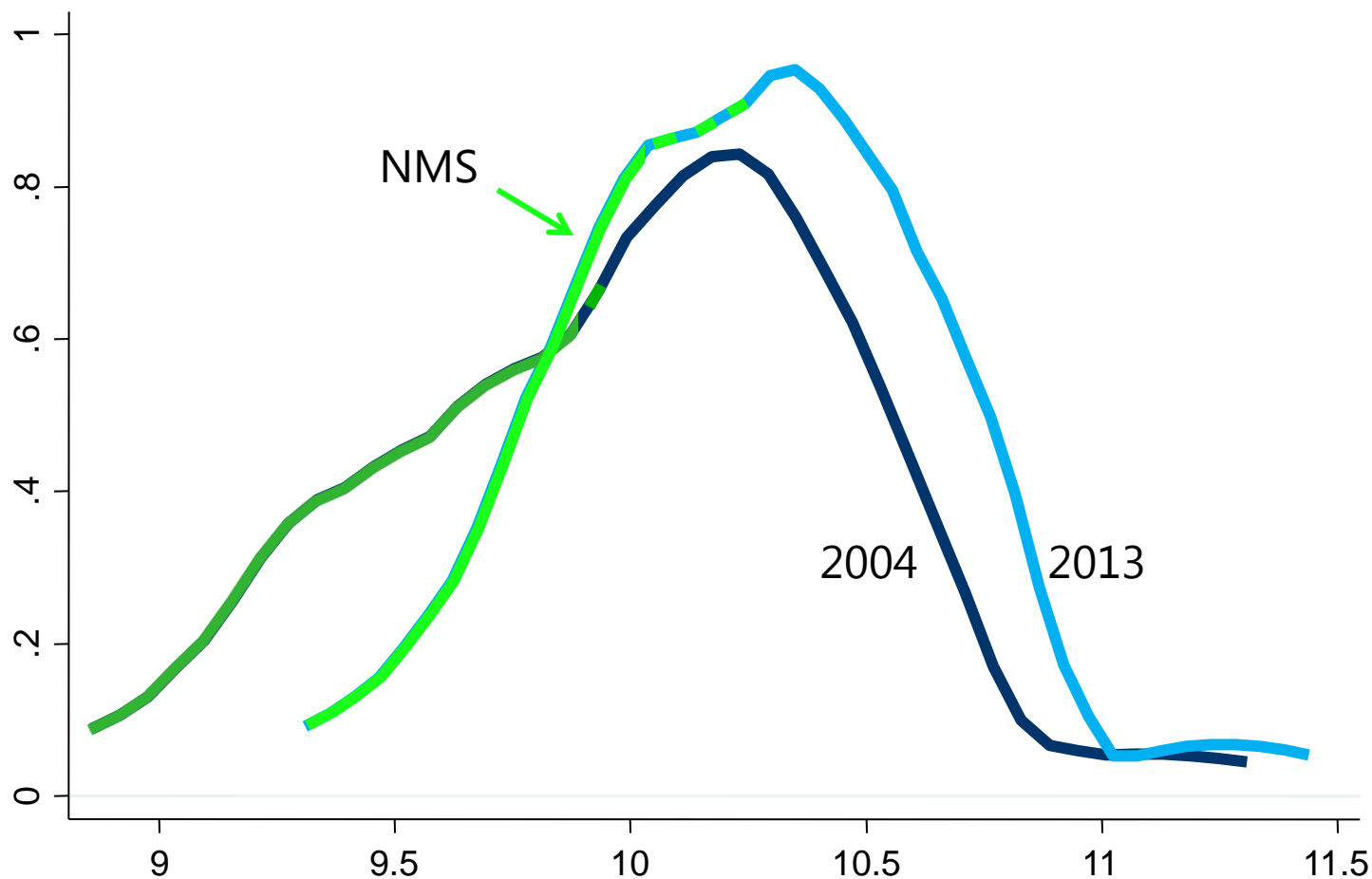
The Big Picture



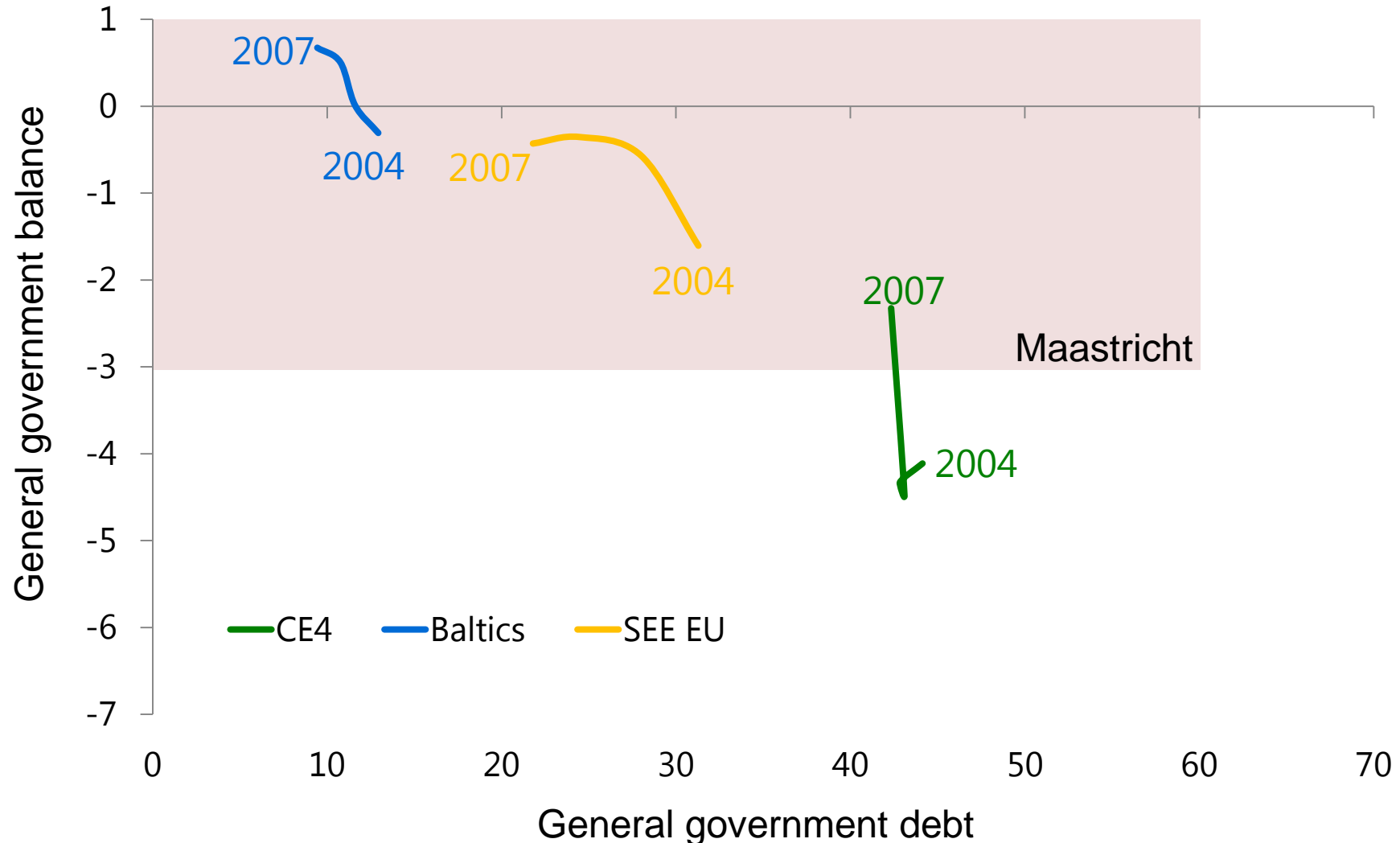
Convergence in Europe



Distribution of income in EU28 (logPPP)



Rapid growth strengthened fiscal accounts



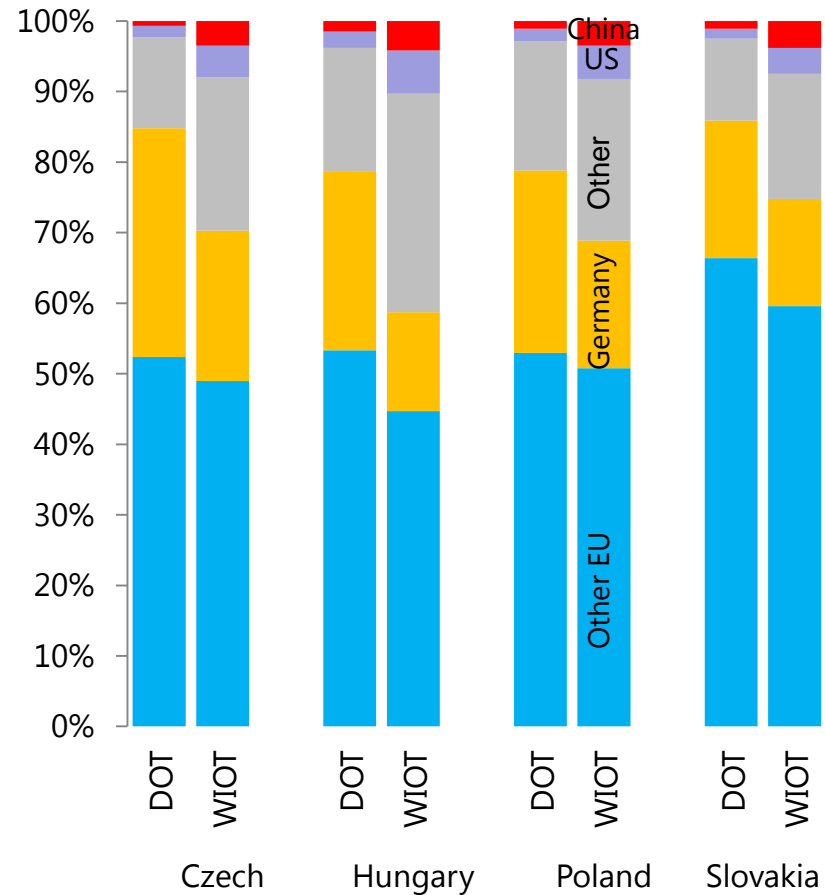
German supply chain became a main theme in CE4 trade



Composition of exports
(World input-output tables)



Exposure of CE4 based on the
Recipient's final demand, 2009



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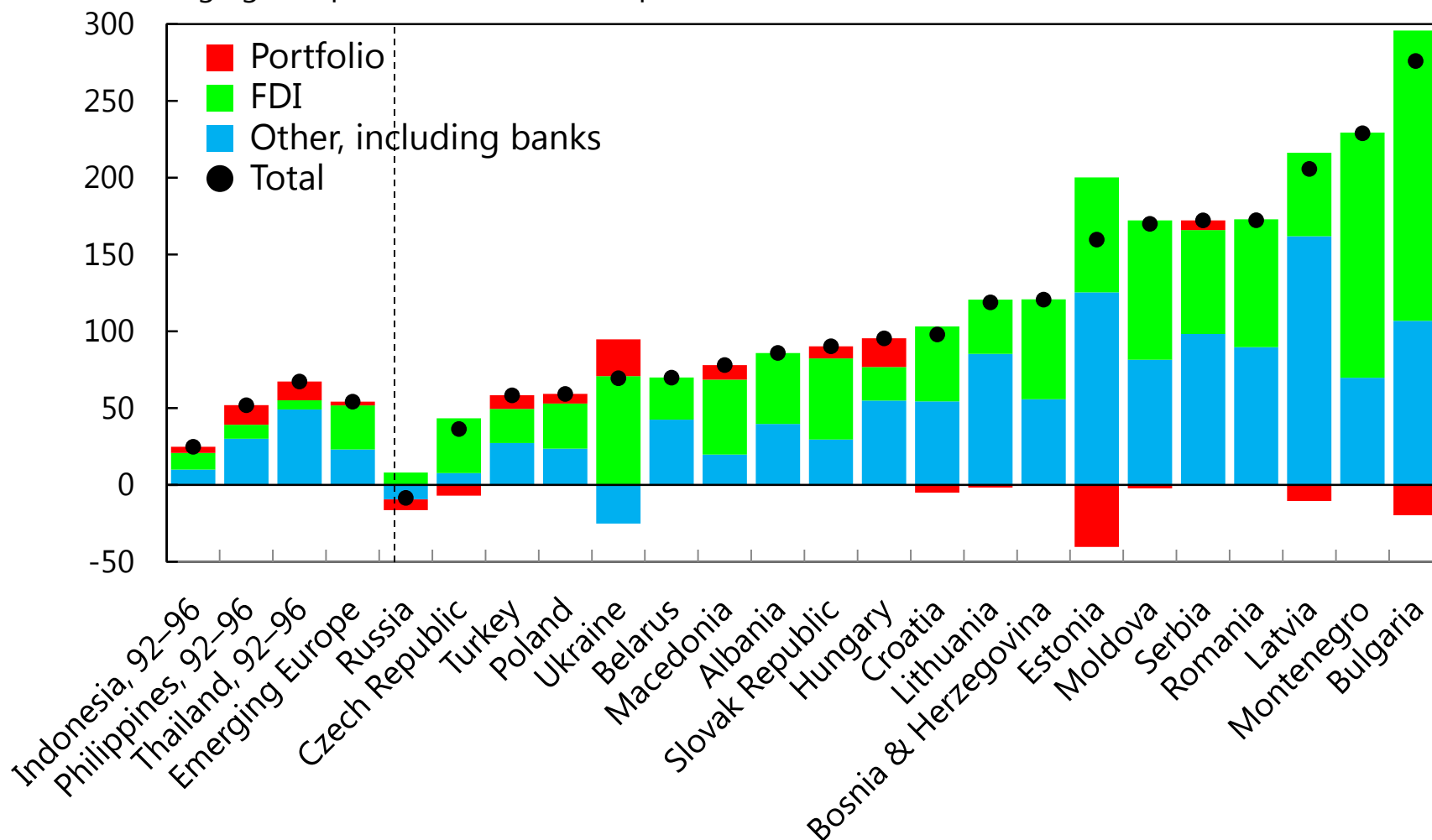


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Exceptional pre-crisis capital inflows

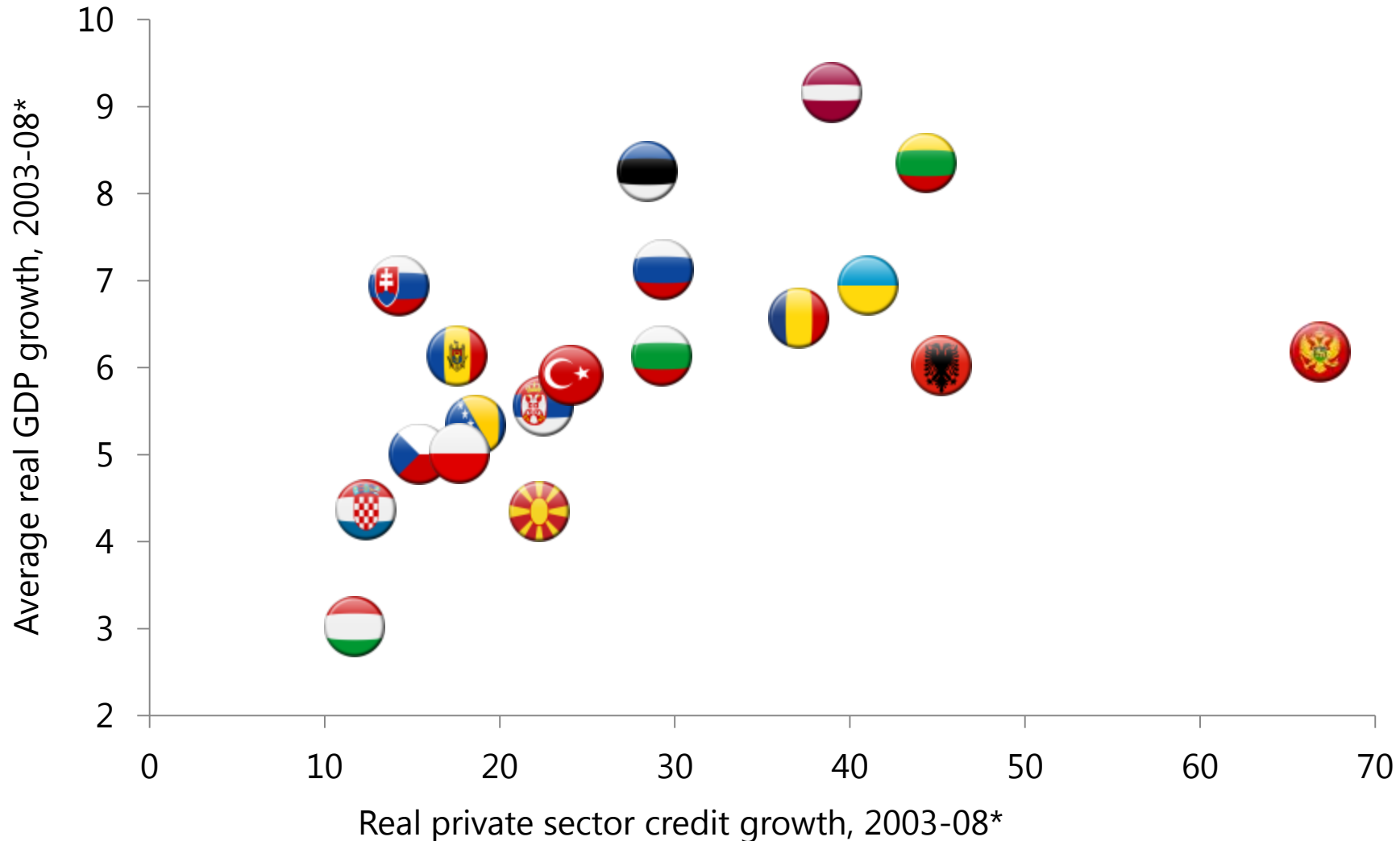


Emerging Europe: Cumulative Net Capital Inflows, 2003–08* (Percent of 2003 GDP)

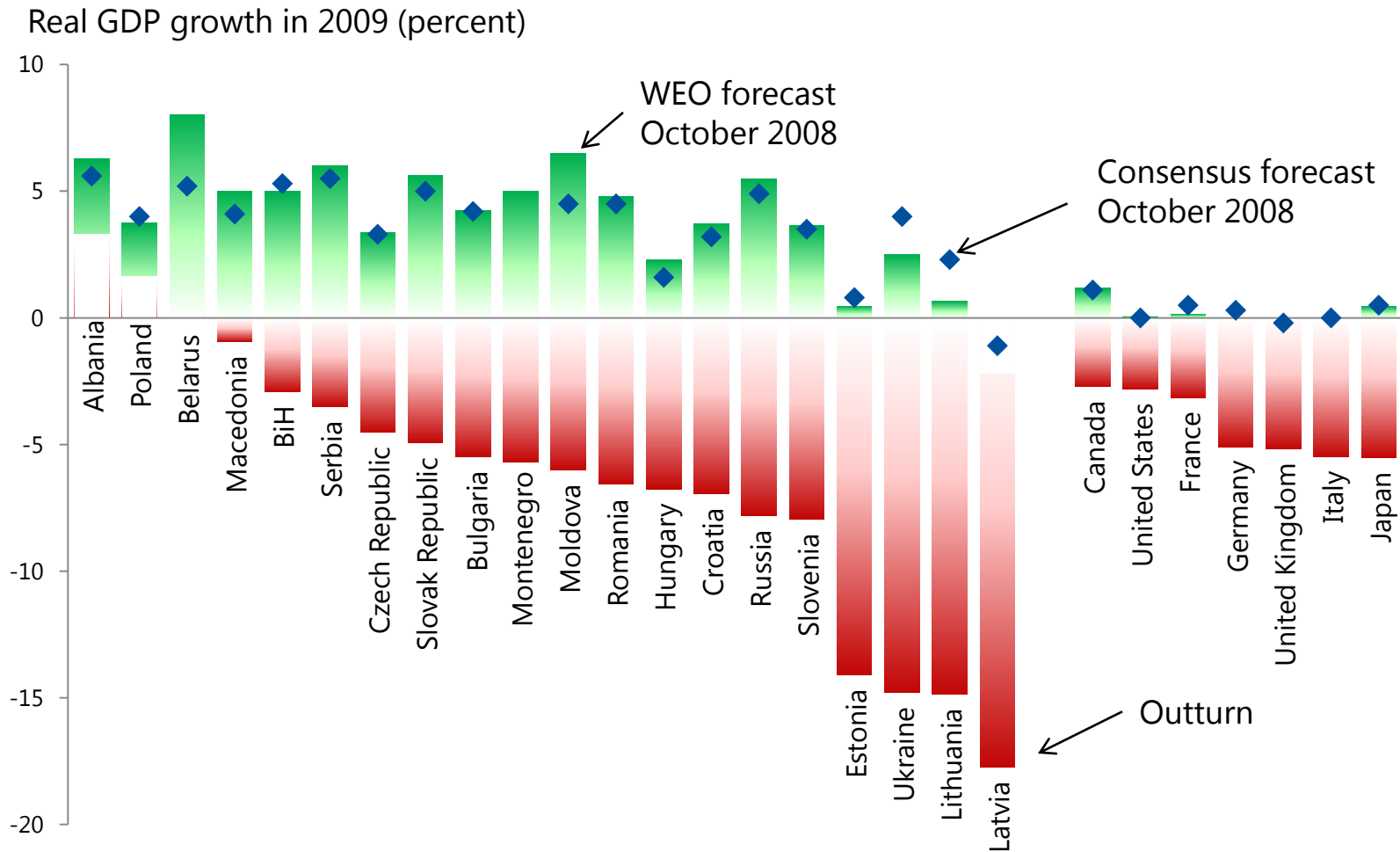


*As the boom in the Baltic states ended in 2007, data for the Baltic states refer to 2002–07 in percent of 2002 GDP.

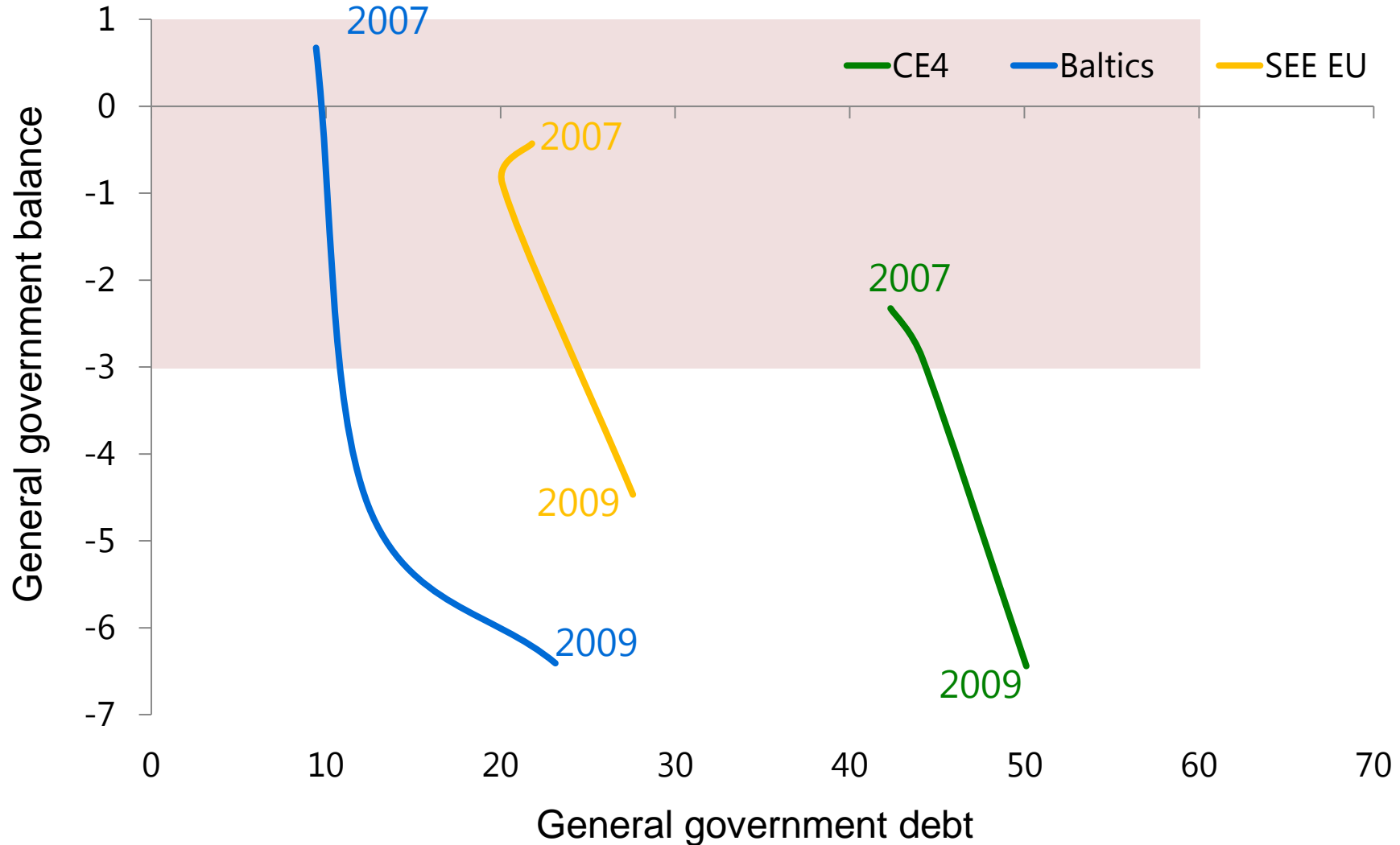
Credit boom fueled strong GDP growth



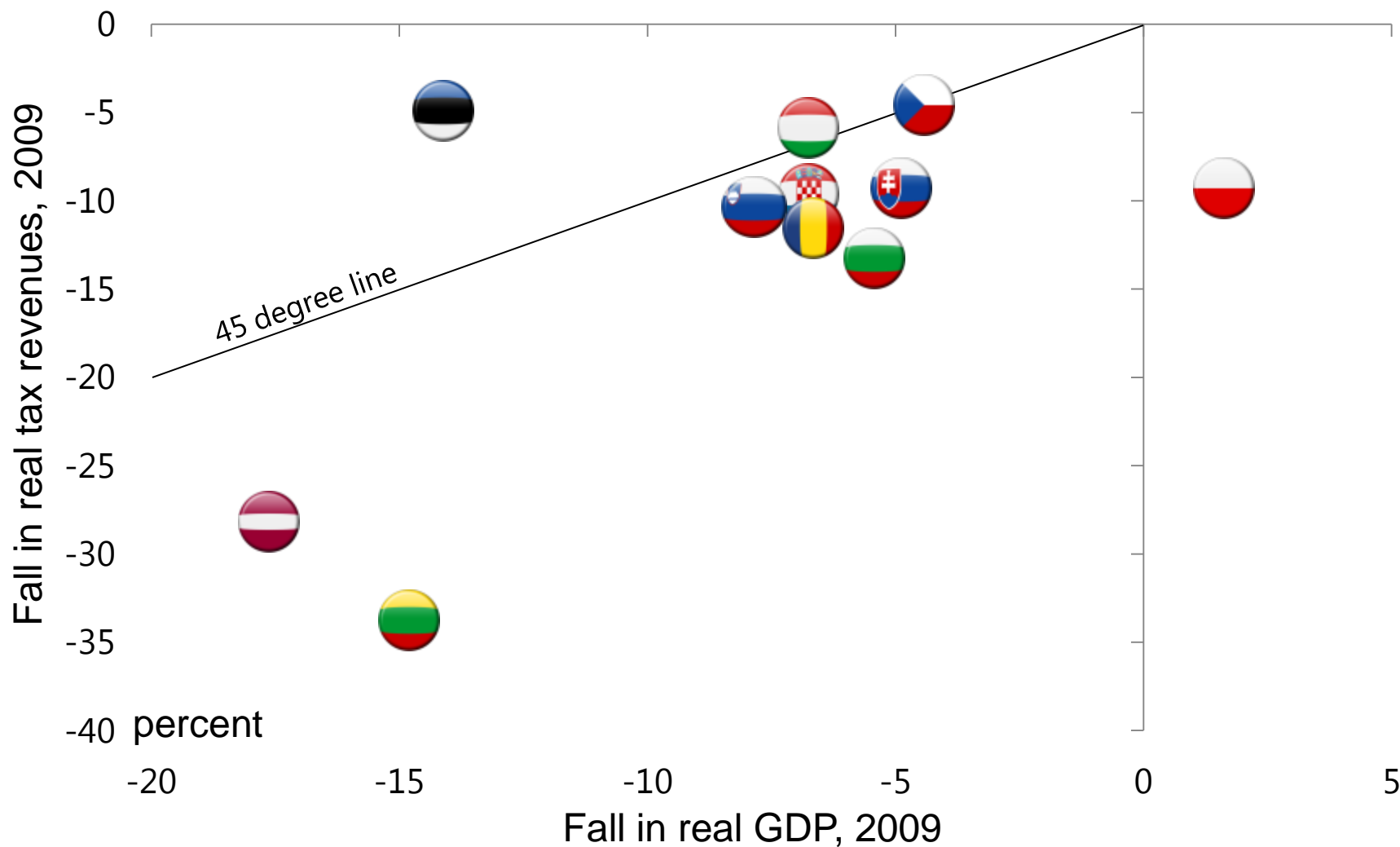
2009 recession came as a surprise...



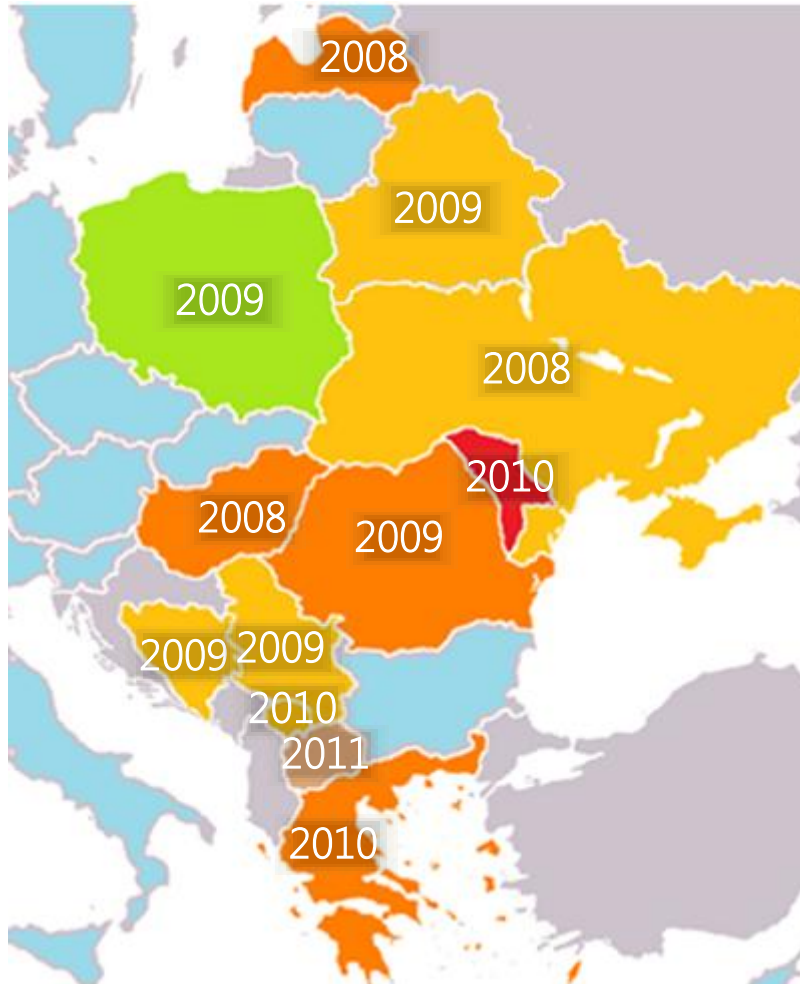
...depleting fiscal buffers...



...as tax revenues collapsed.



The IMF was quick to provide assistance



EU countries:

- EU member countries
- SBA program
- FCL program

Non-EU countries:

- SBA program
- EFF program
- PCL program

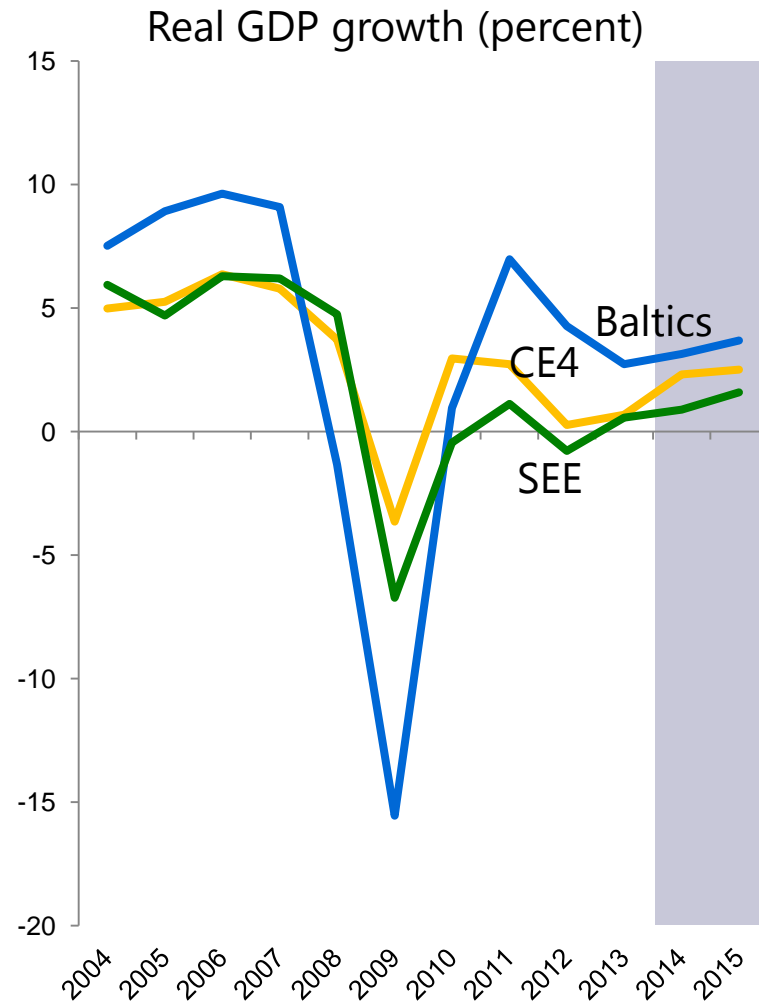
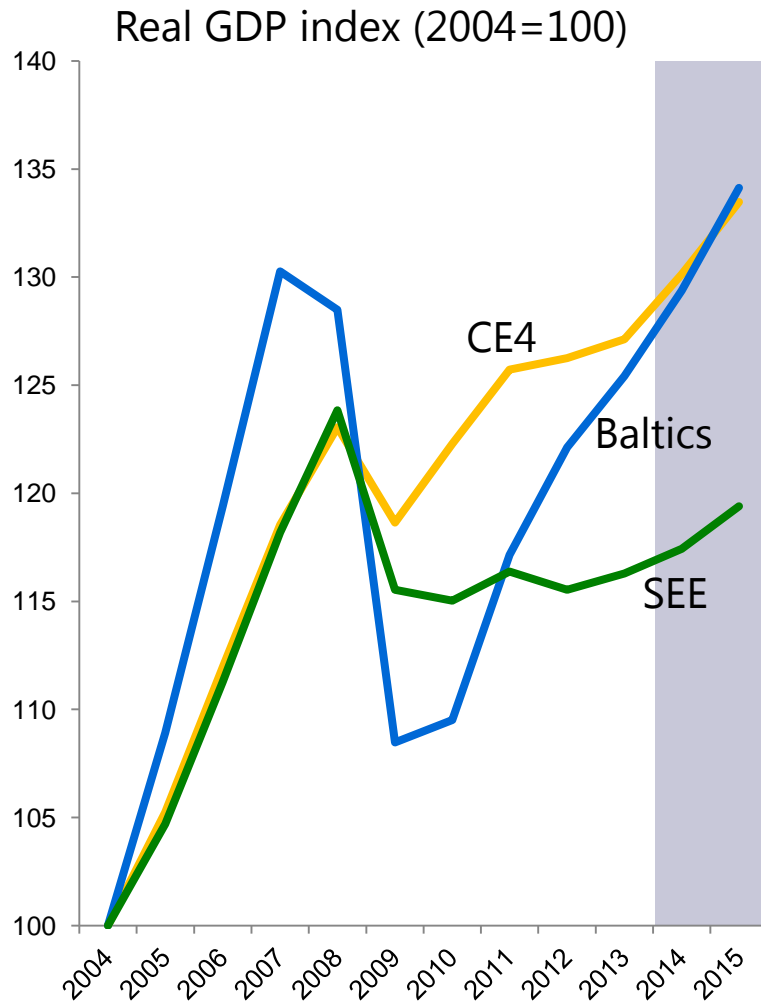
Precautionary programs

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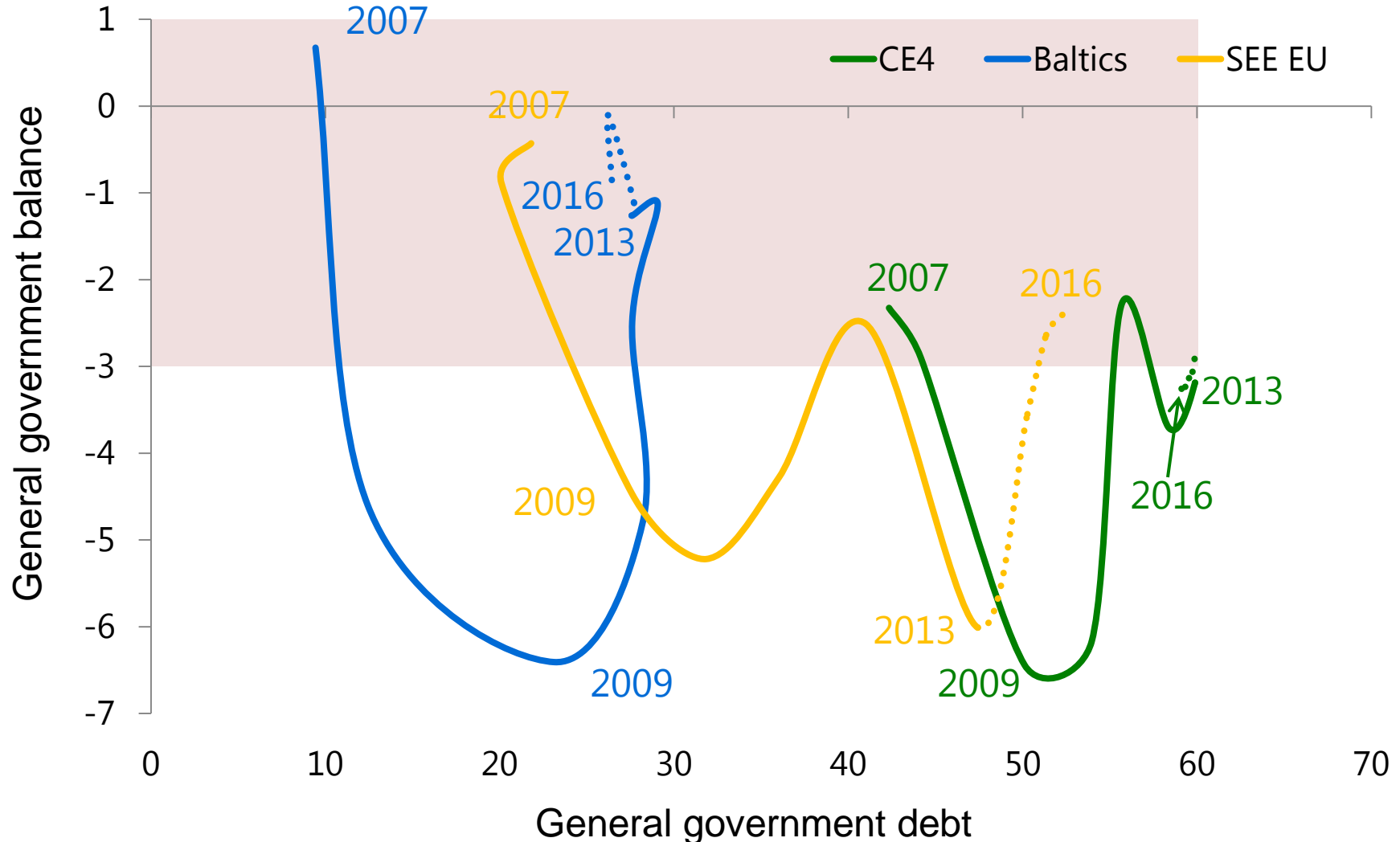


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Growth is expected to recover



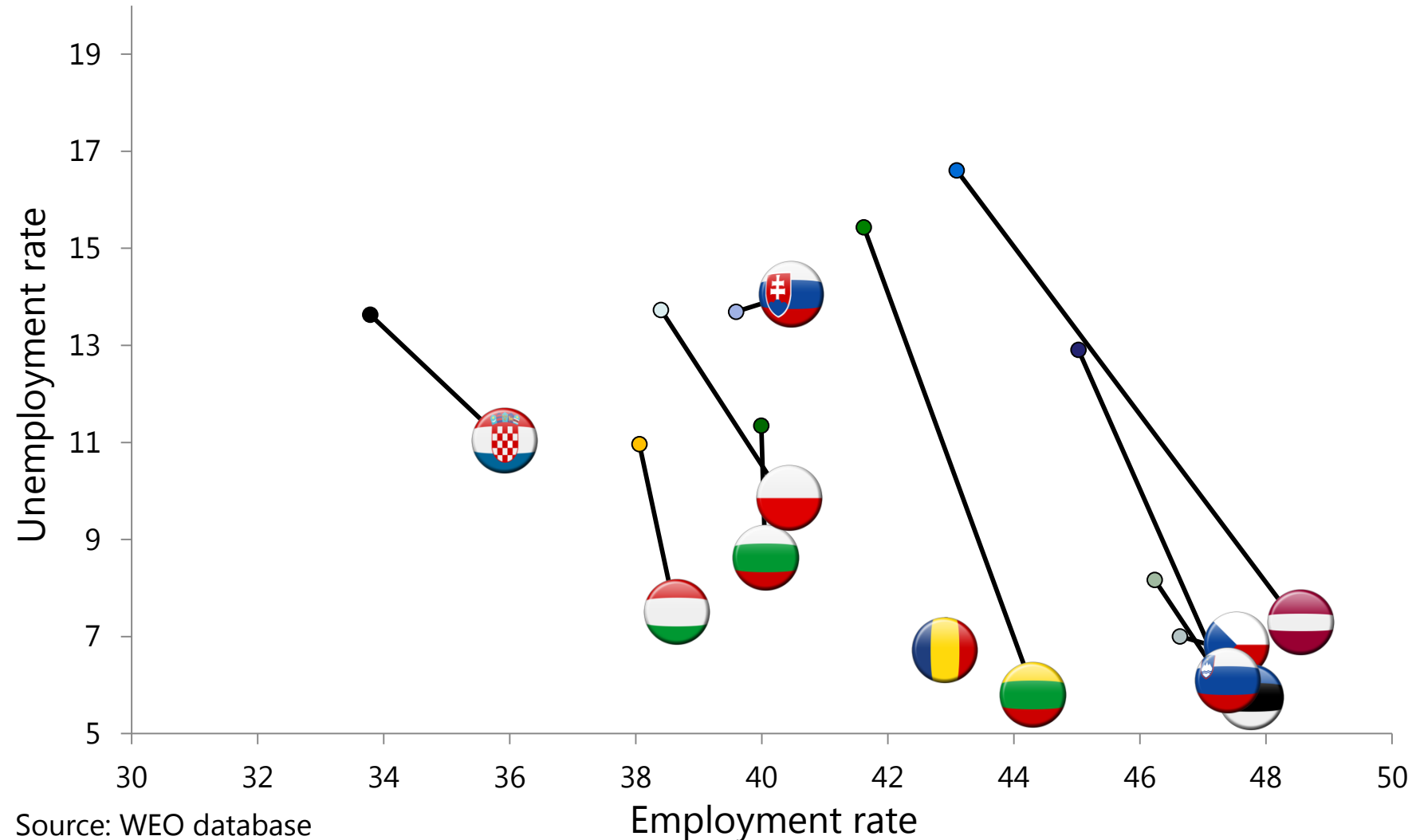
Crisis legacies: Rebuild fiscal buffers



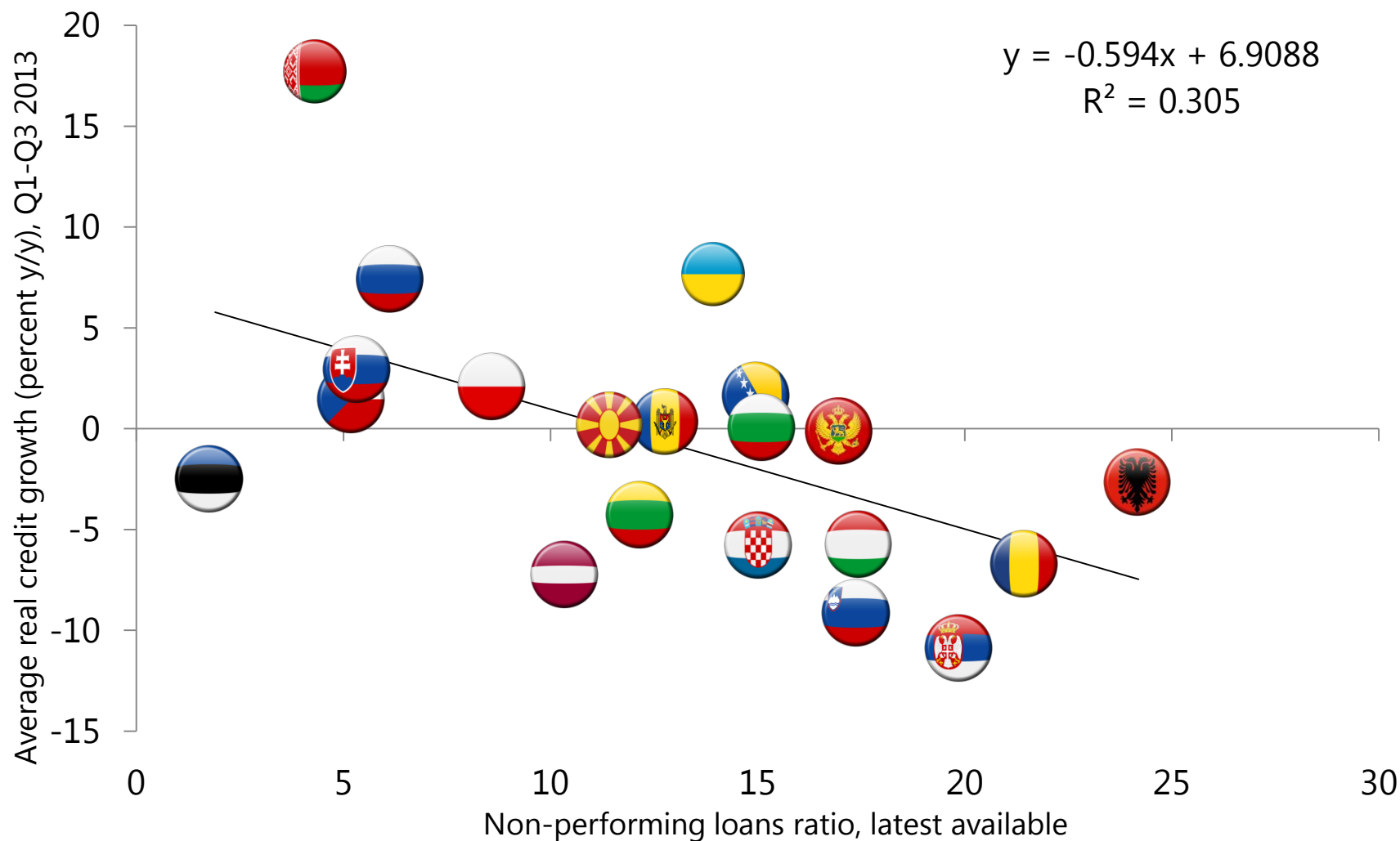
Crisis legacies: Labor market is yet to recover



Average 2000-2008



Crisis legacies: Address high NPLs



Boost tradable sector



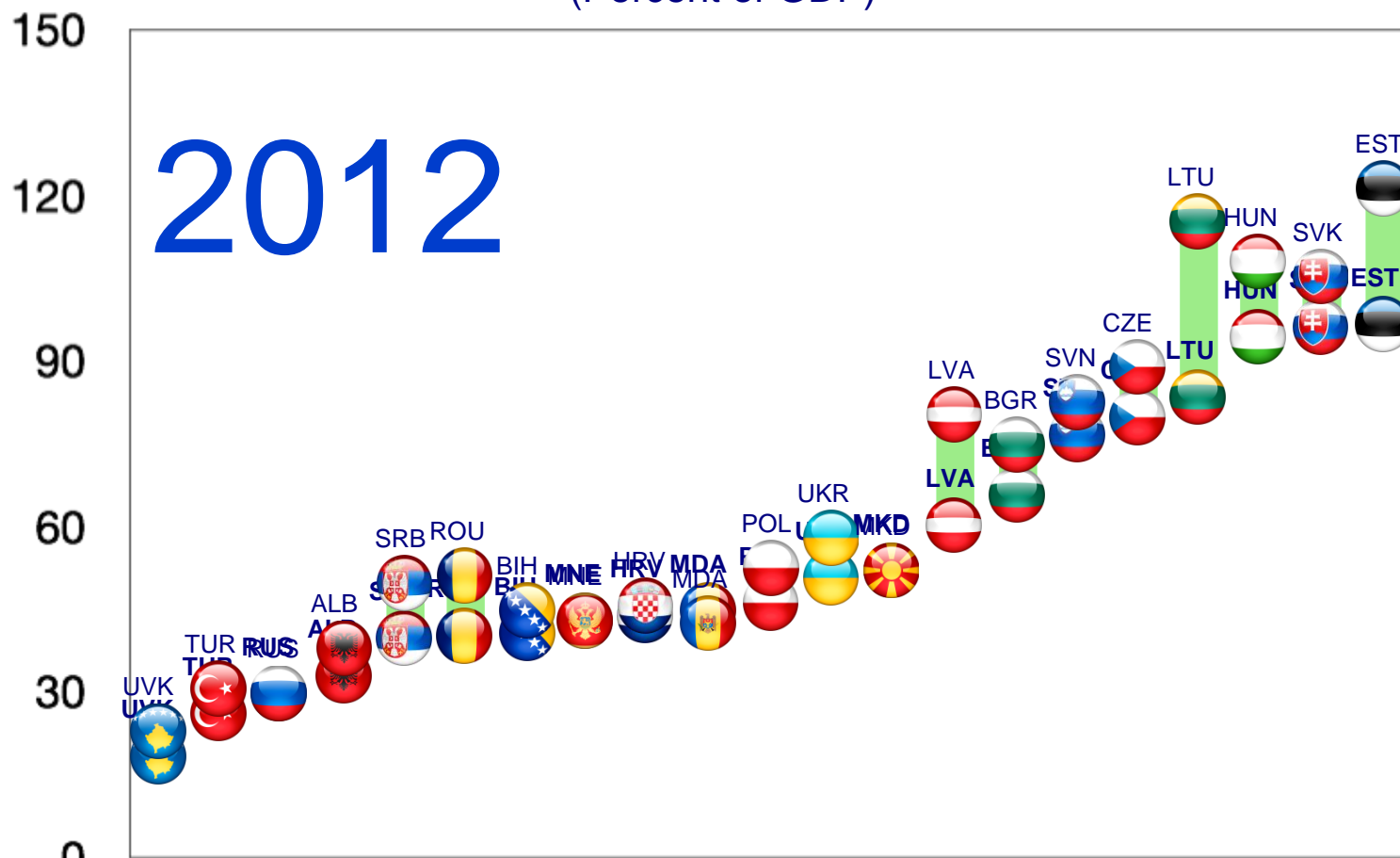
Exports of Goods and Services (Percent of GDP)



Boost tradable sector



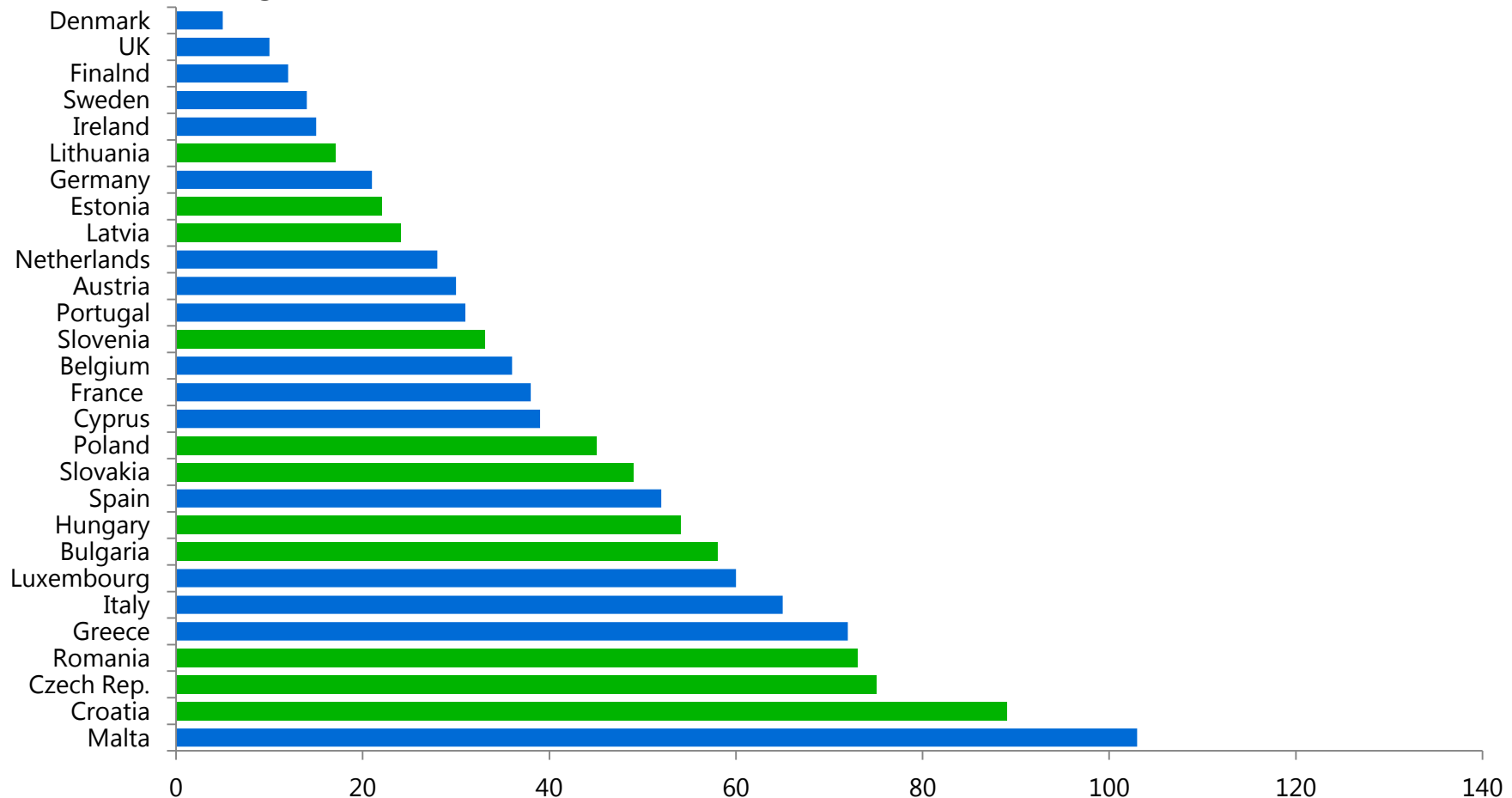
Exports of Goods and Services (Percent of GDP)



Tax system is a weakness in most CEE countries



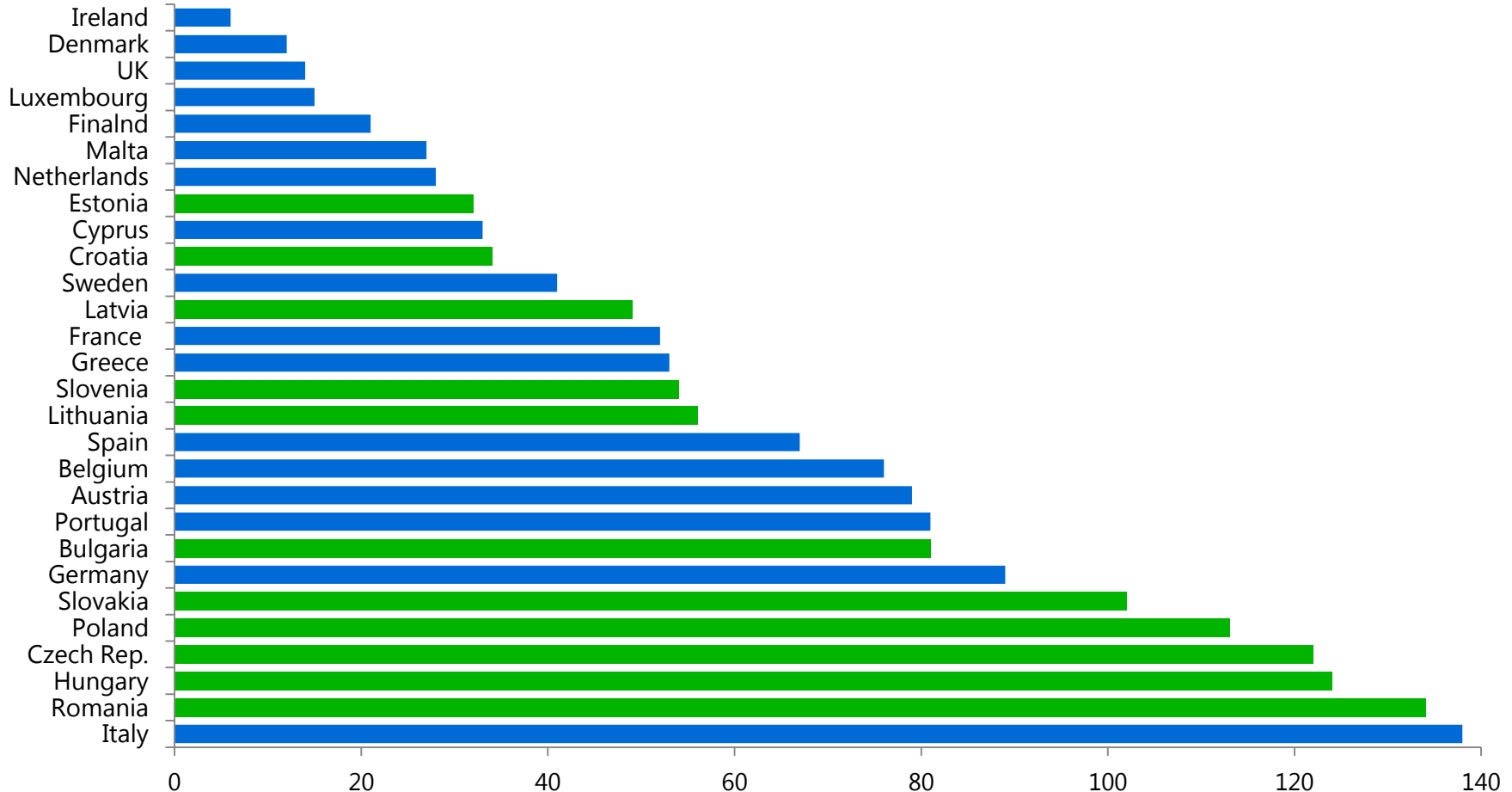
Doing Business 2014 rank



Tax system is a weakness in most CEE countries



Paying Taxes 2014 rank



IMF policy priorities in the region



Policy area	Priority*	Common policy recommendations
Fiscal		<ul style="list-style-type: none"> • Composition of fiscal consolidation should be more balanced • Improve tax compliance
Monetary		<ul style="list-style-type: none"> • Monetary policy should remain supportive, while being alert to inflation and exchange rate pressures
Financial system		<ul style="list-style-type: none"> • Address high NPLs problem • Strengthen financial sector supervision and regulation
Labor market		<ul style="list-style-type: none"> • Improve labor market participation and reduce skill mismatches • Consider active labor market policies
Business environment		<ul style="list-style-type: none"> • Improve contracts enforcement • Strengthen insolvency framework
Social security		<ul style="list-style-type: none"> • Consider parametric reform of pension system • Ensure fairness and counter abuses of the system

* Prevalence of calls for policy action in latest IMF Article IV staff appraisals



Thank you