

CESEE economies: Outlook and challenges



Zagreb, May 23, 2014

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Senior Resident Representative

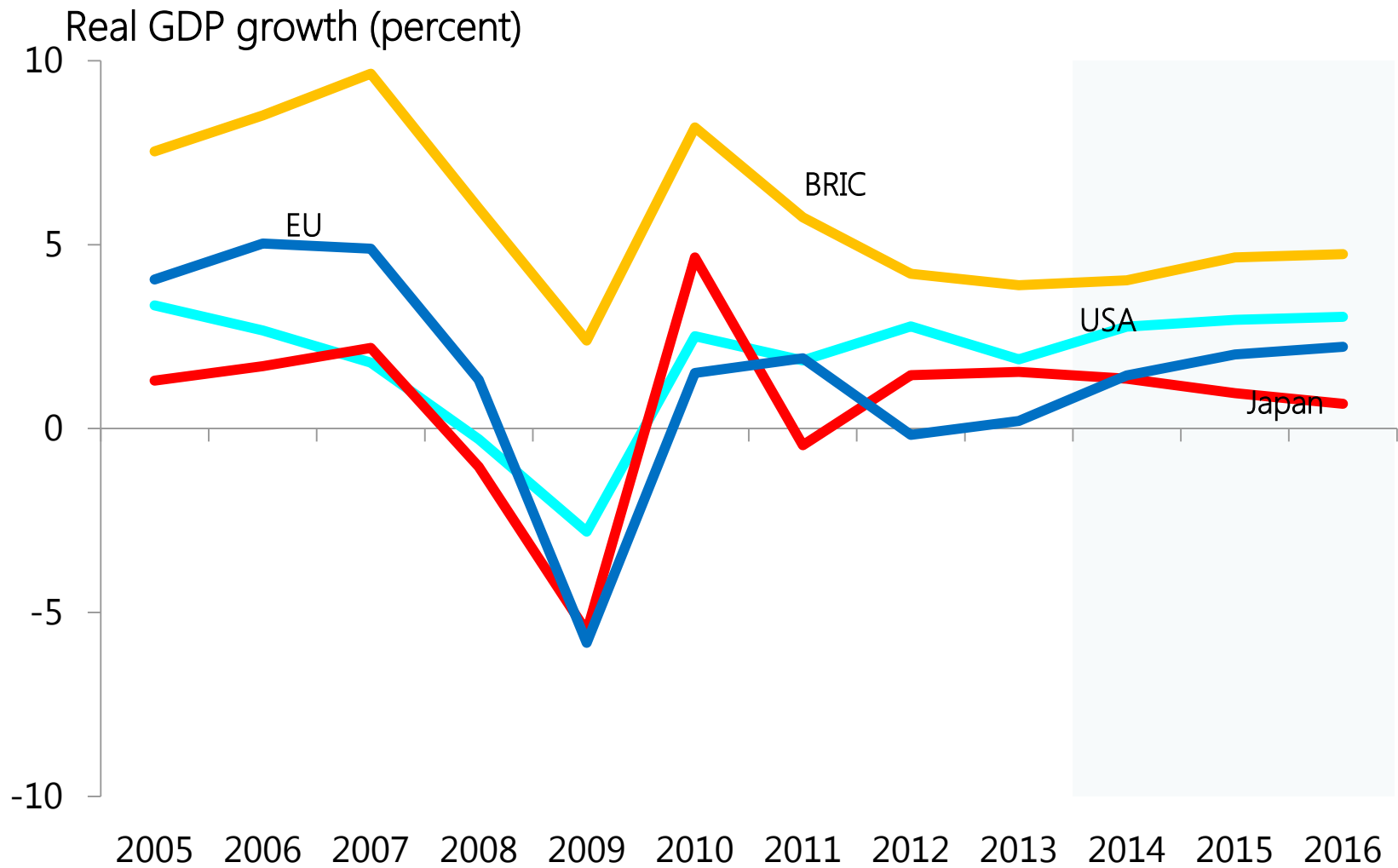
IMF Regional Office for Central and Eastern Europe, Warsaw

Outline

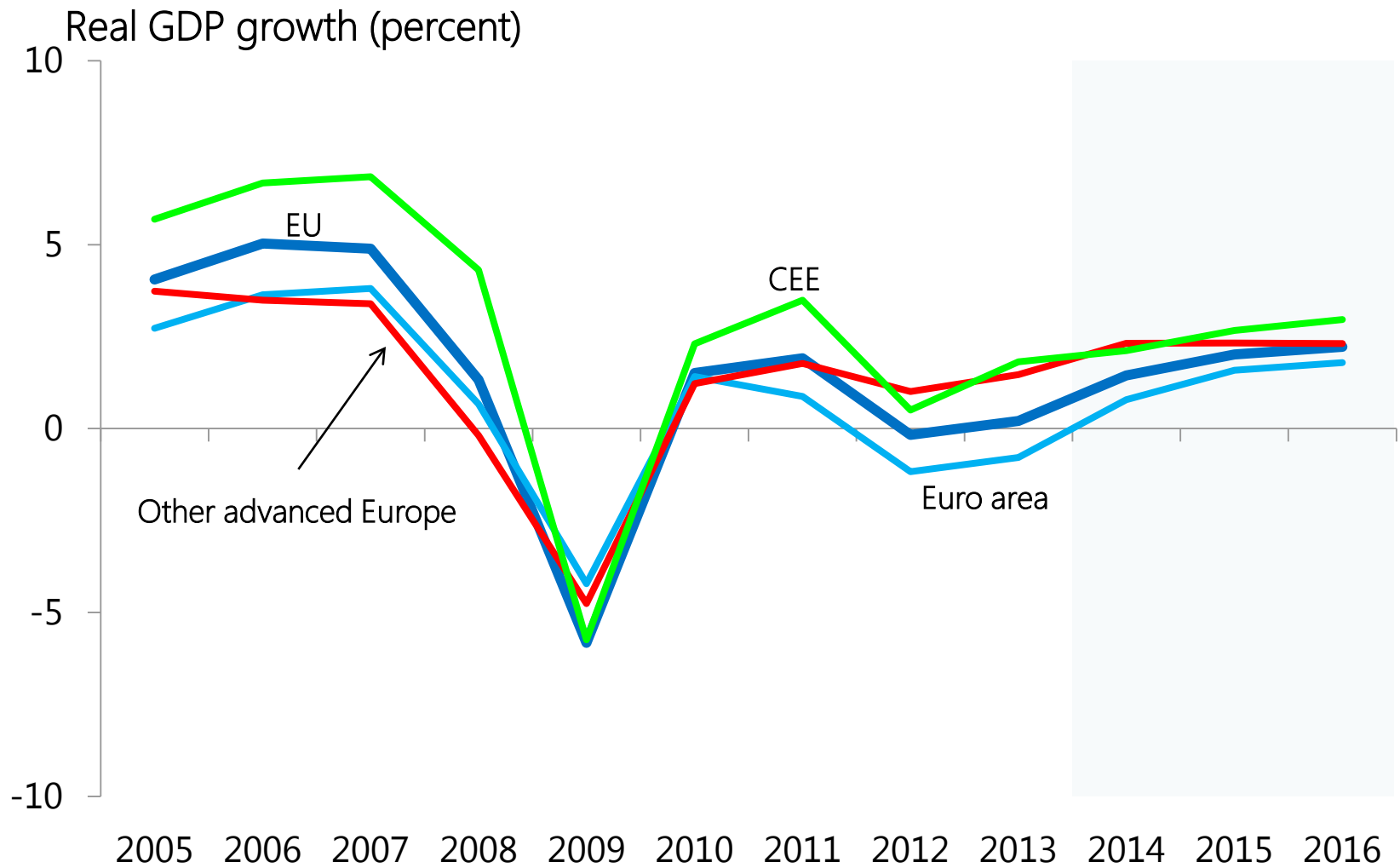


- **Outlook**
- Risks
 - Weak growth in Euro Area
 - External funding conditions
 - Geopolitical risk
- Challenges
 - Fiscal consolidation
 - Monetary policy
 - High NPLs
 - Labour market
 - Business environment
 - Policy priorities summary

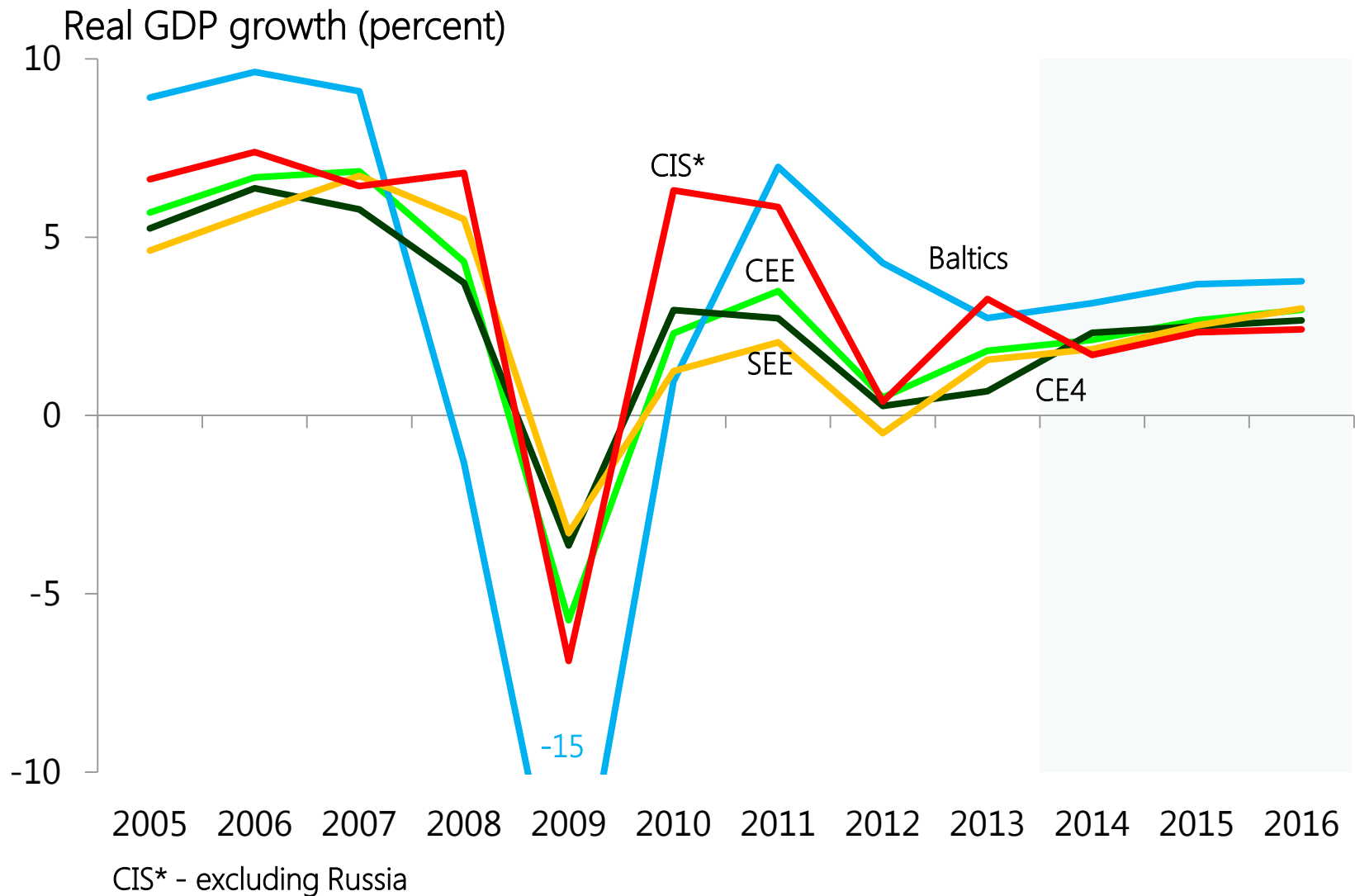
Recovery in prospect...



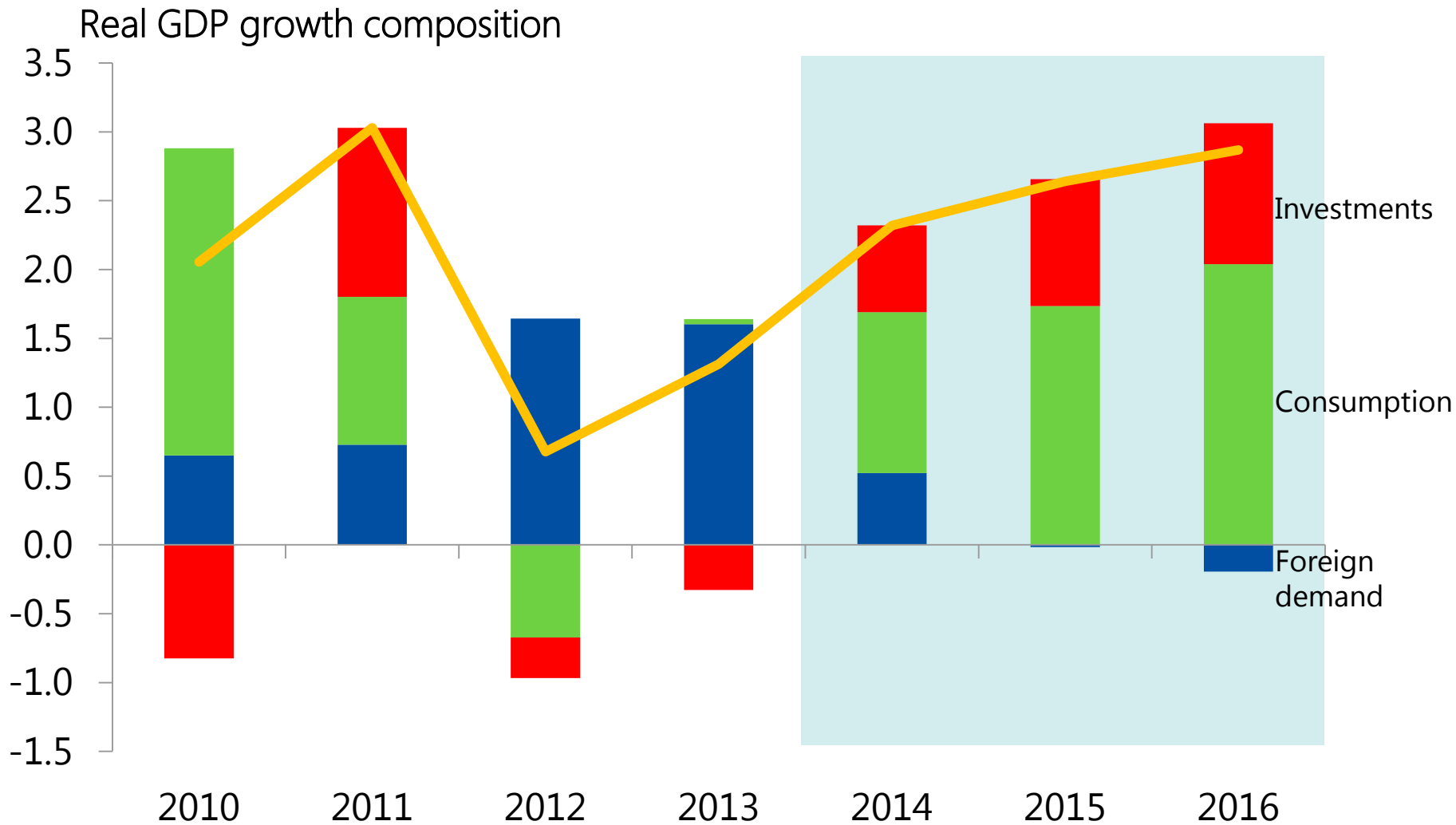
...but weak convergence...



...but weak convergence



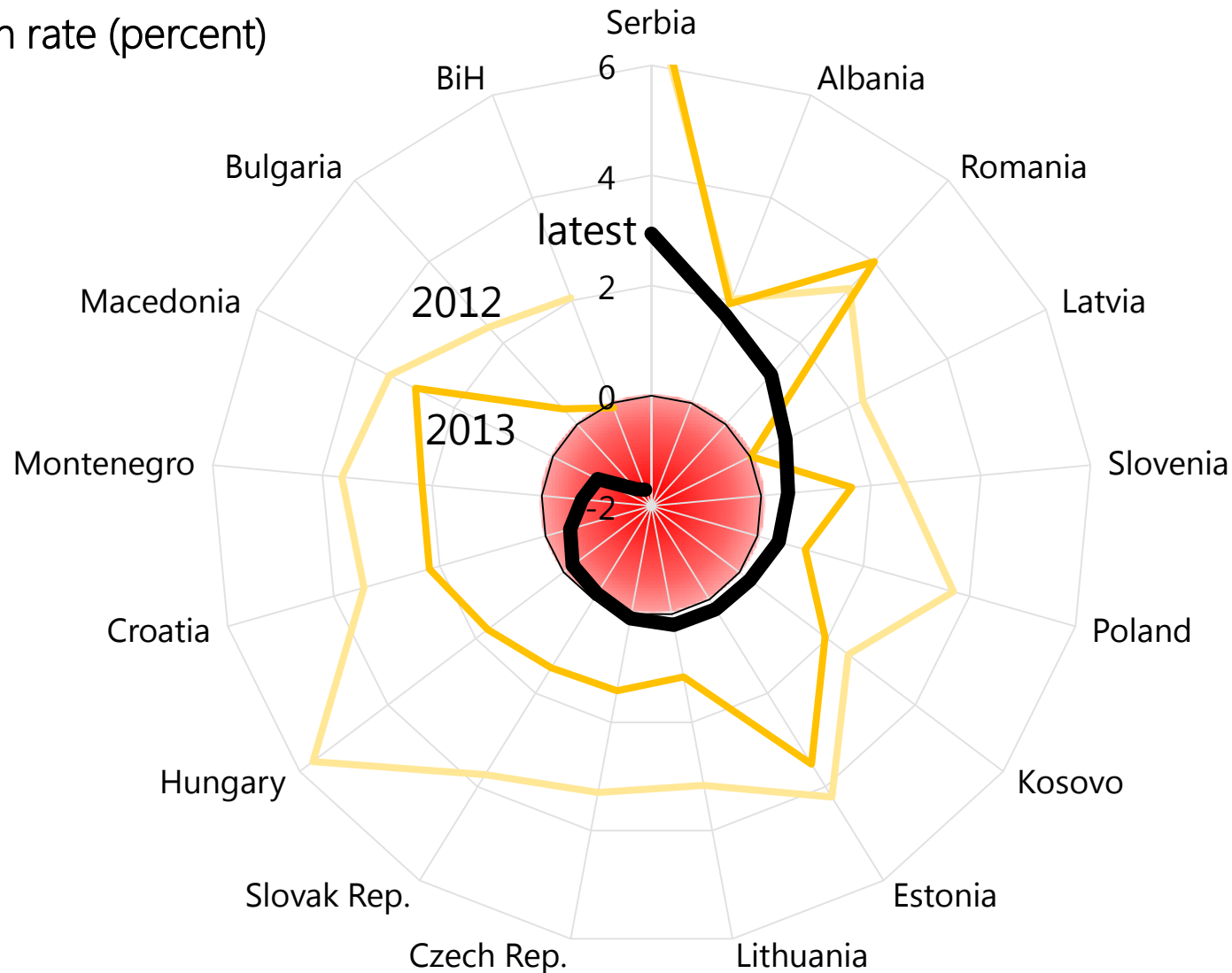
More balanced growth



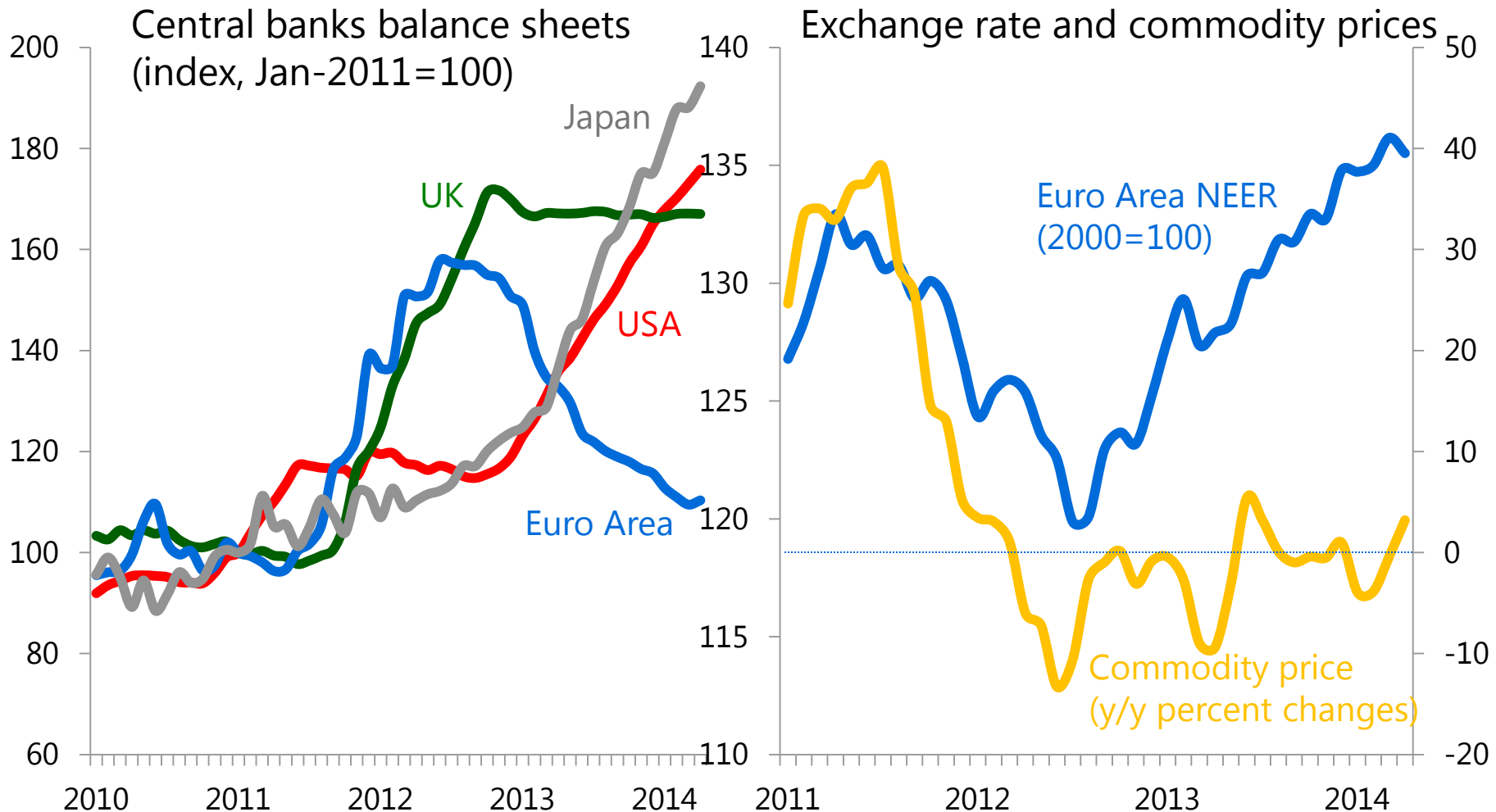
Inflation back on the radar - negatively



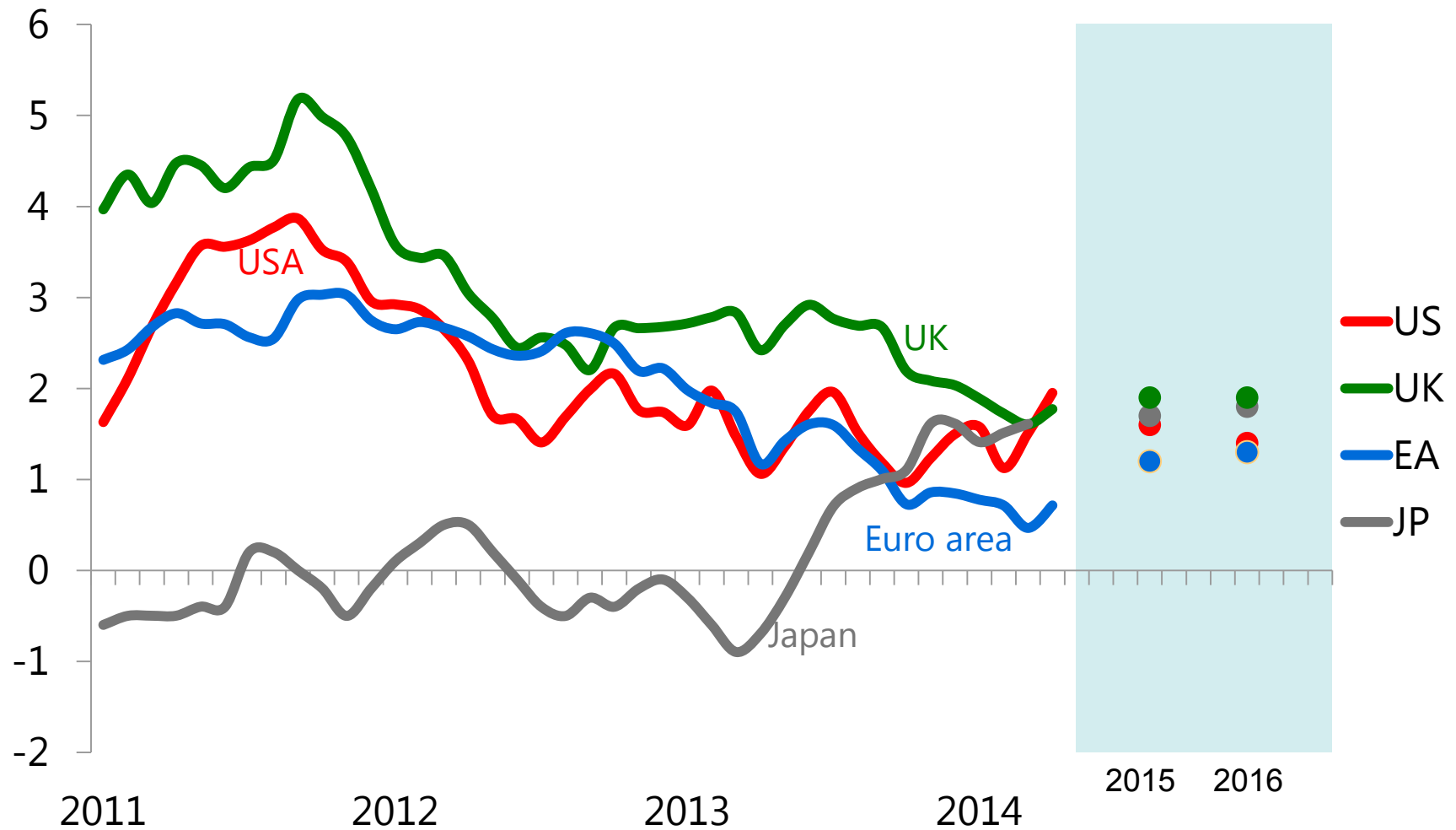
Inflation rate (percent)



Euro under appreciation pressure



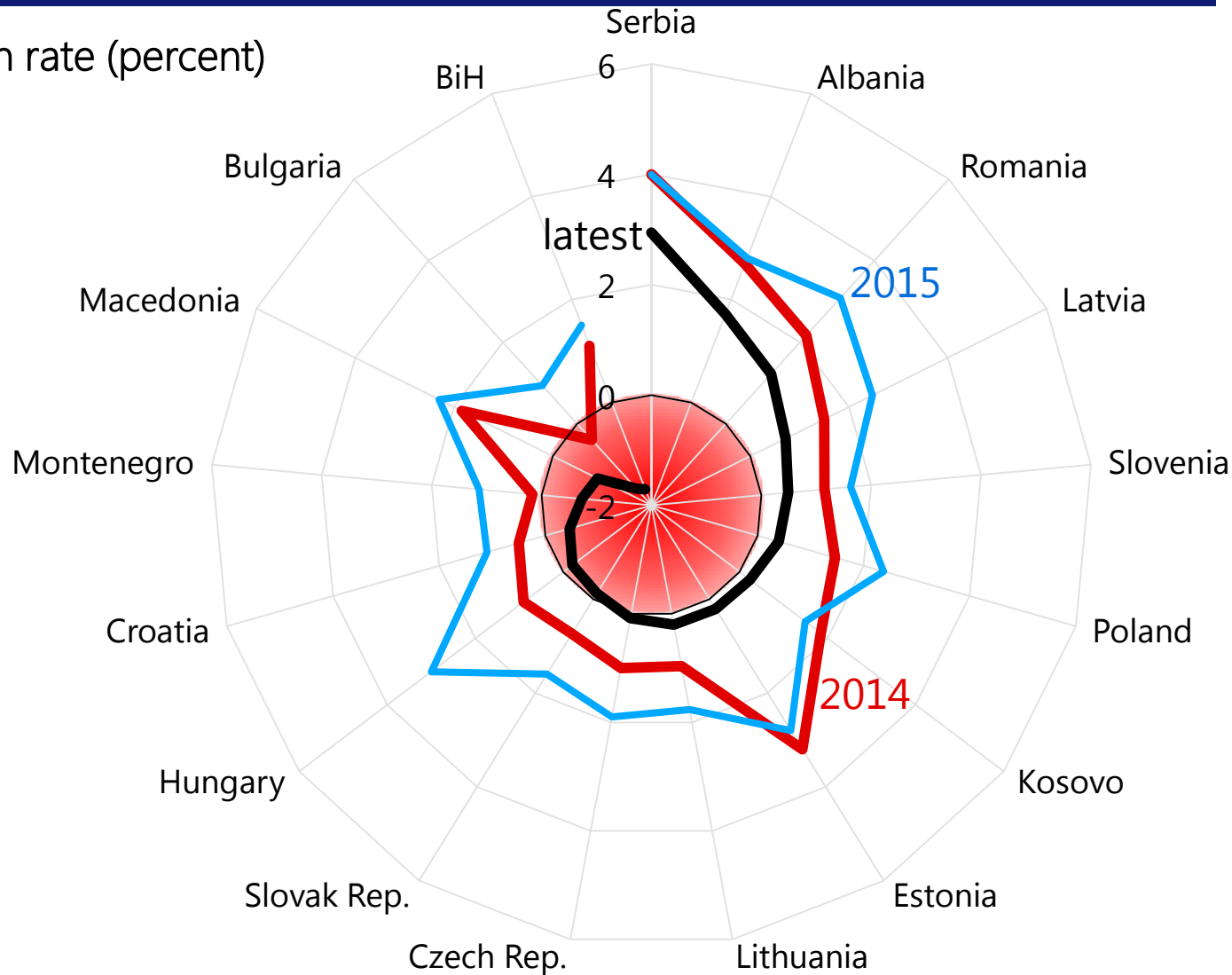
Inflation expected to rise (we hope)...



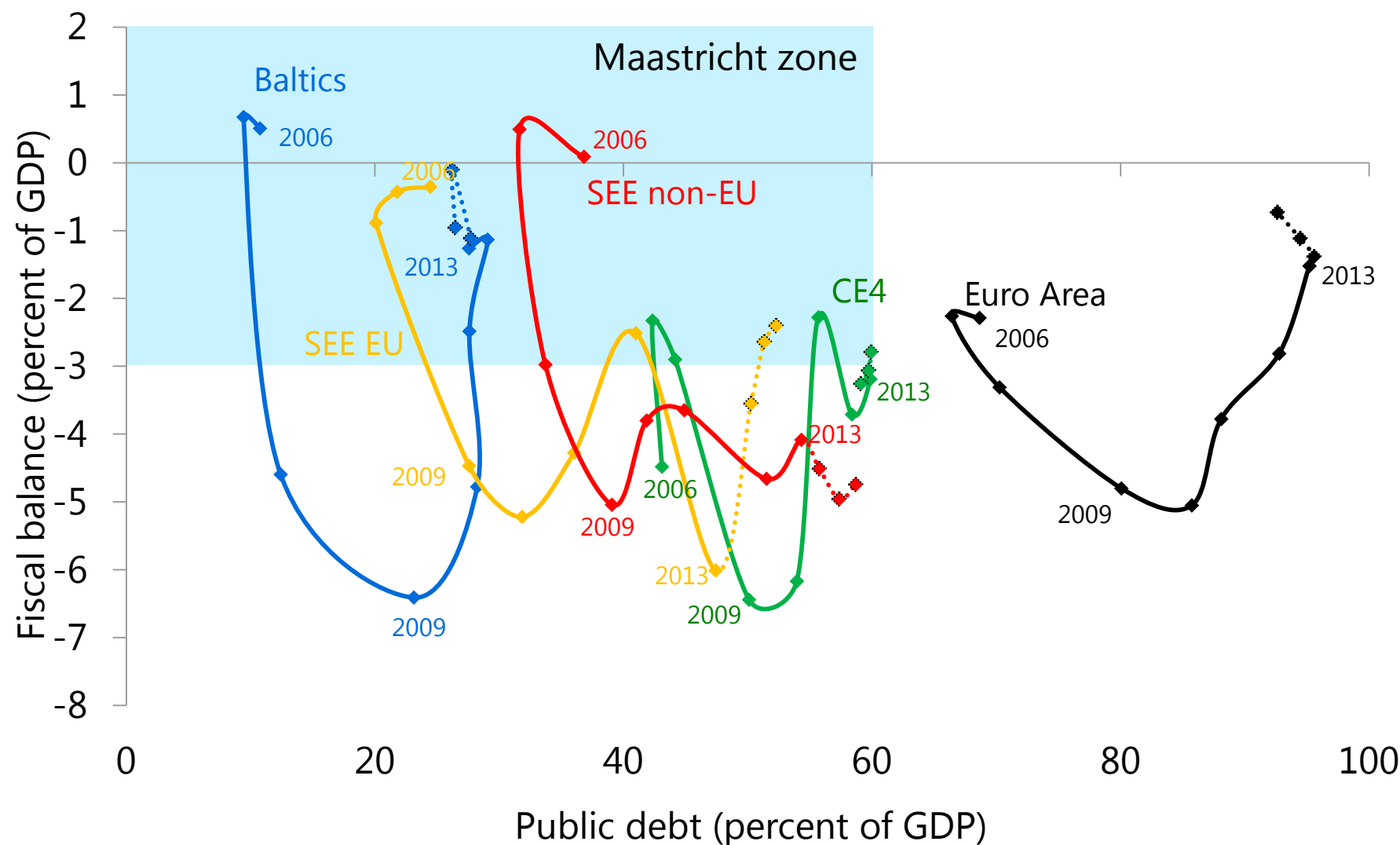
...including in CESEE



Inflation rate (percent)



CEE fiscal mostly under control



Outline

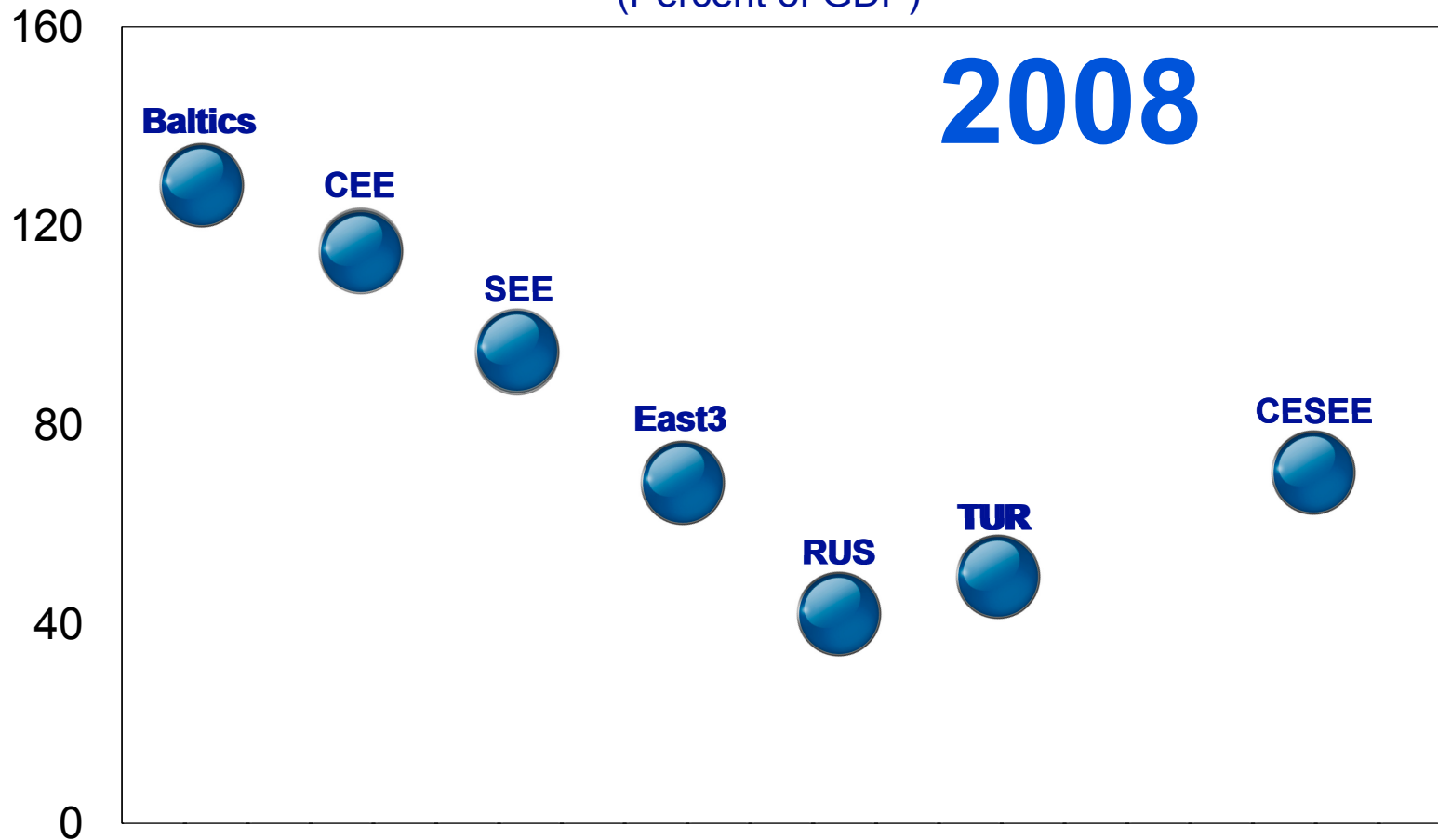


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High dependence on external funding...



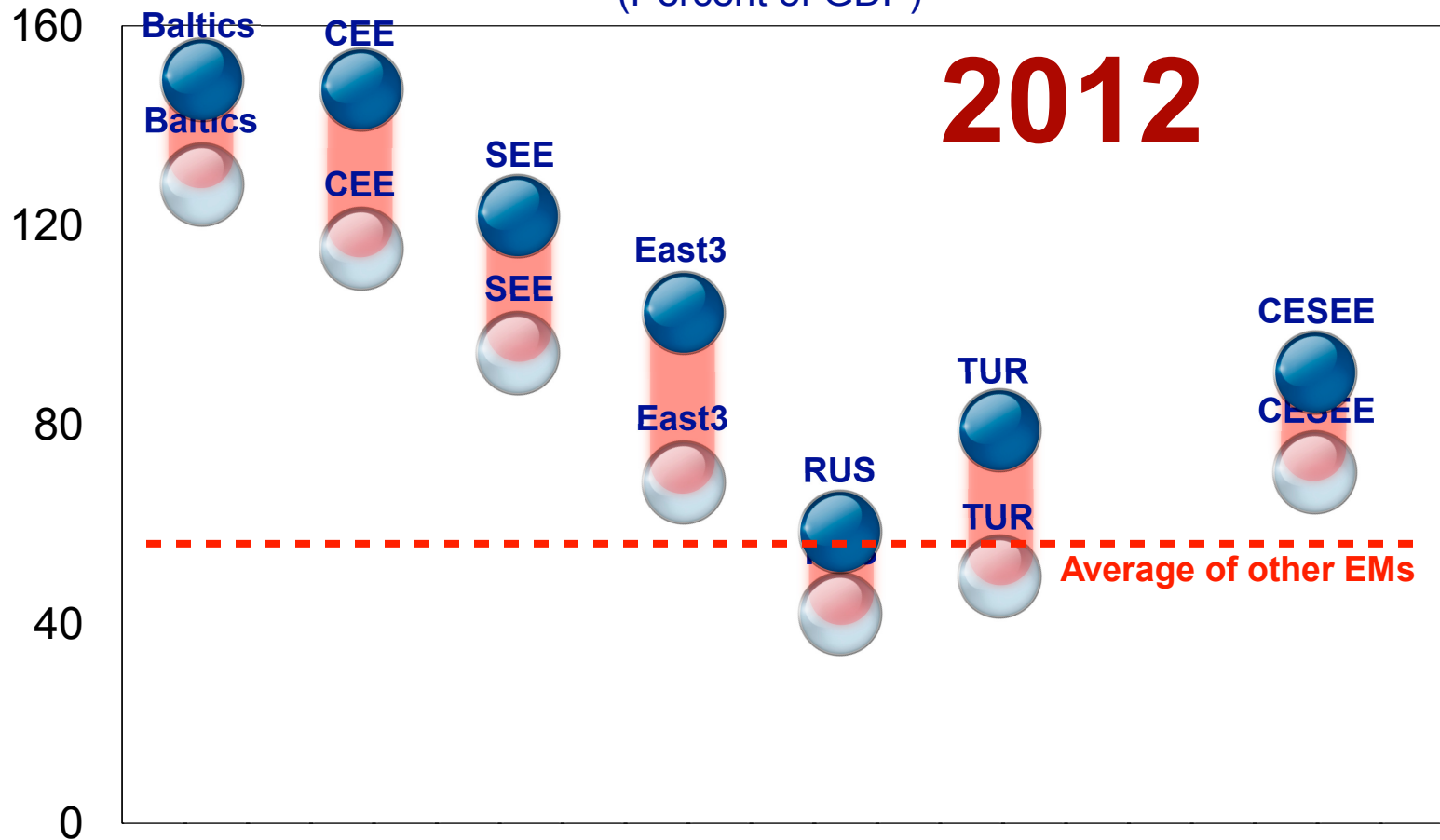
Gross External Liabilities (Percent of GDP)



...increased further in recent years.



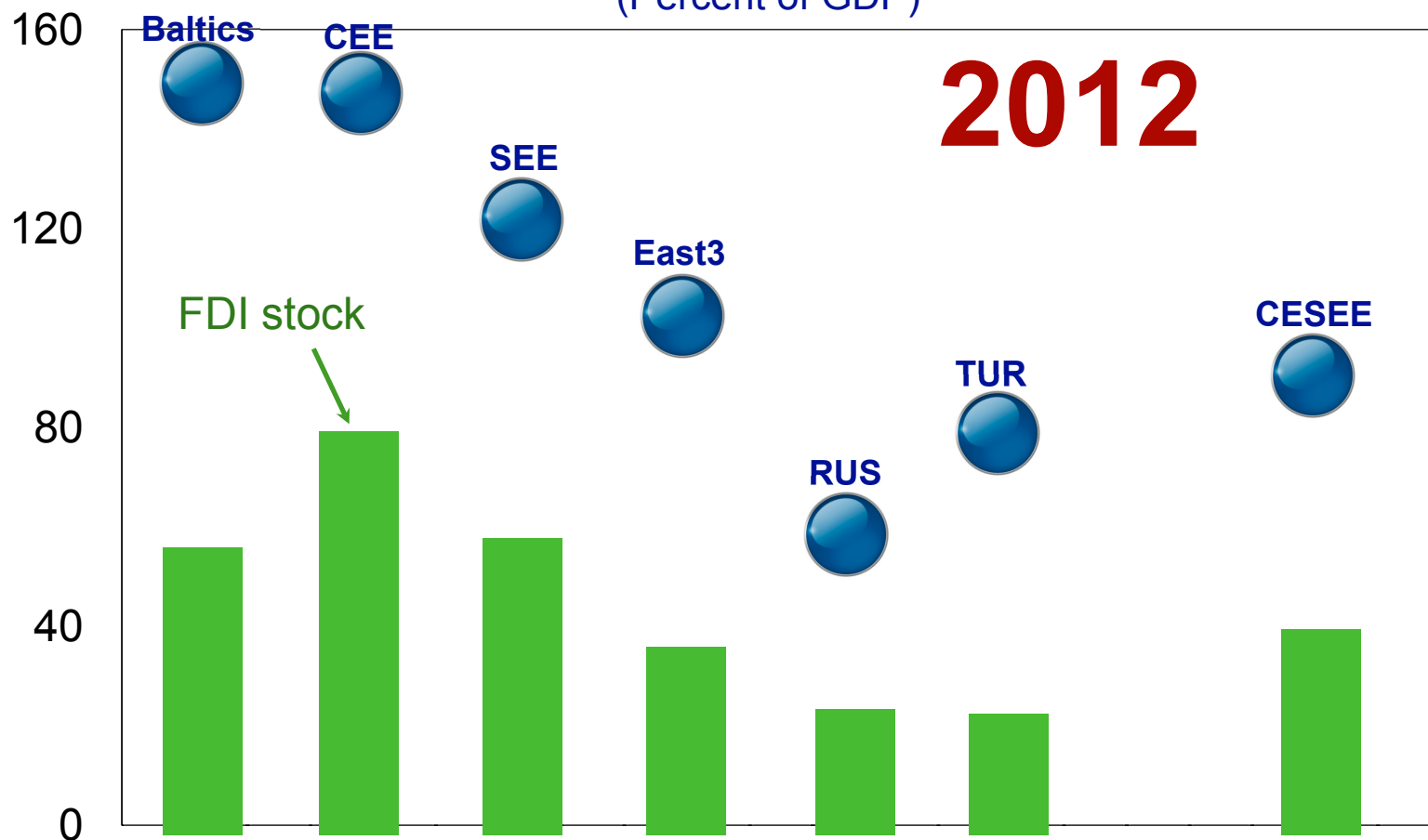
Gross External Liabilities (Percent of GDP)



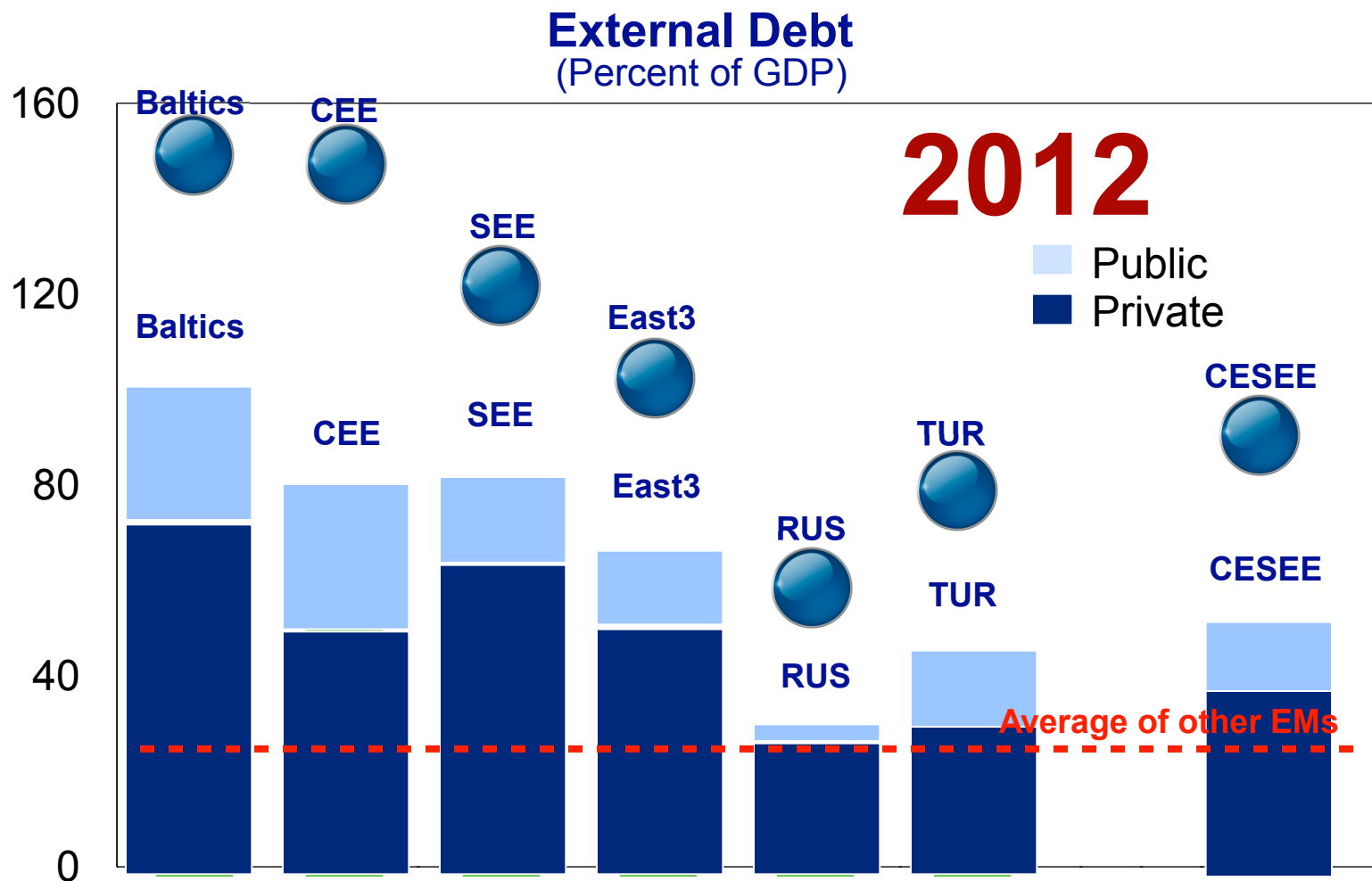
FDIs are a significant part



Gross External Liabilities (Percent of GDP)



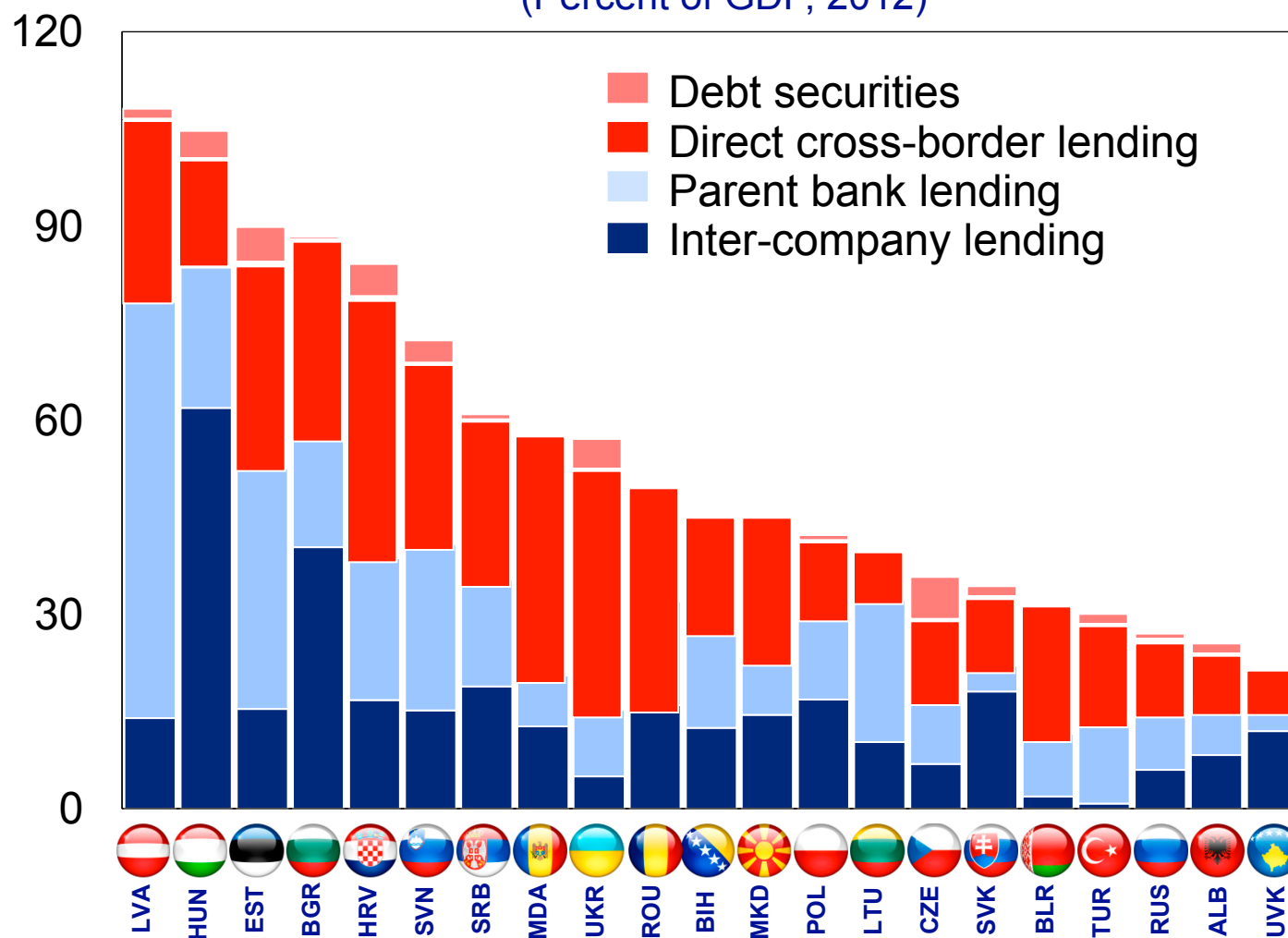
Private sector accounts for most of the external debt



Funding structure matters



Private External Debt Structures (Percent of GDP, 2012)

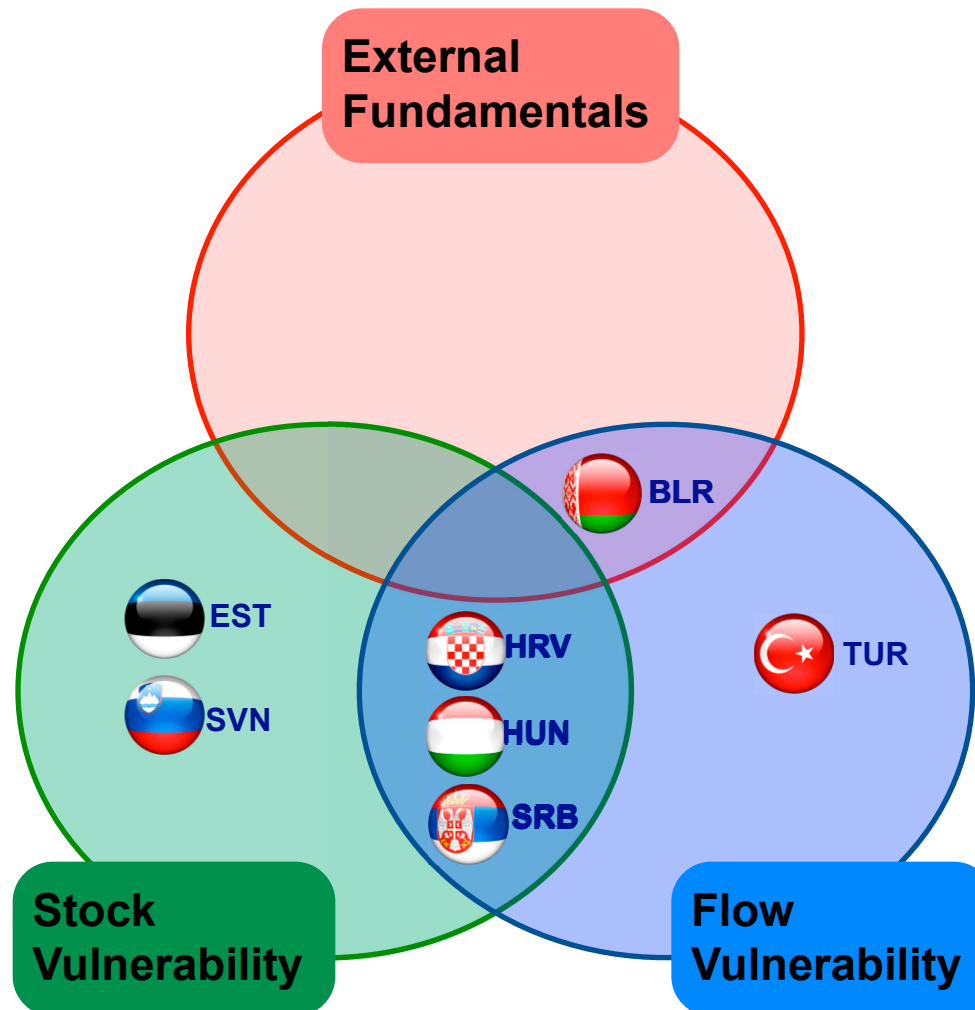


Sources of external funding risks

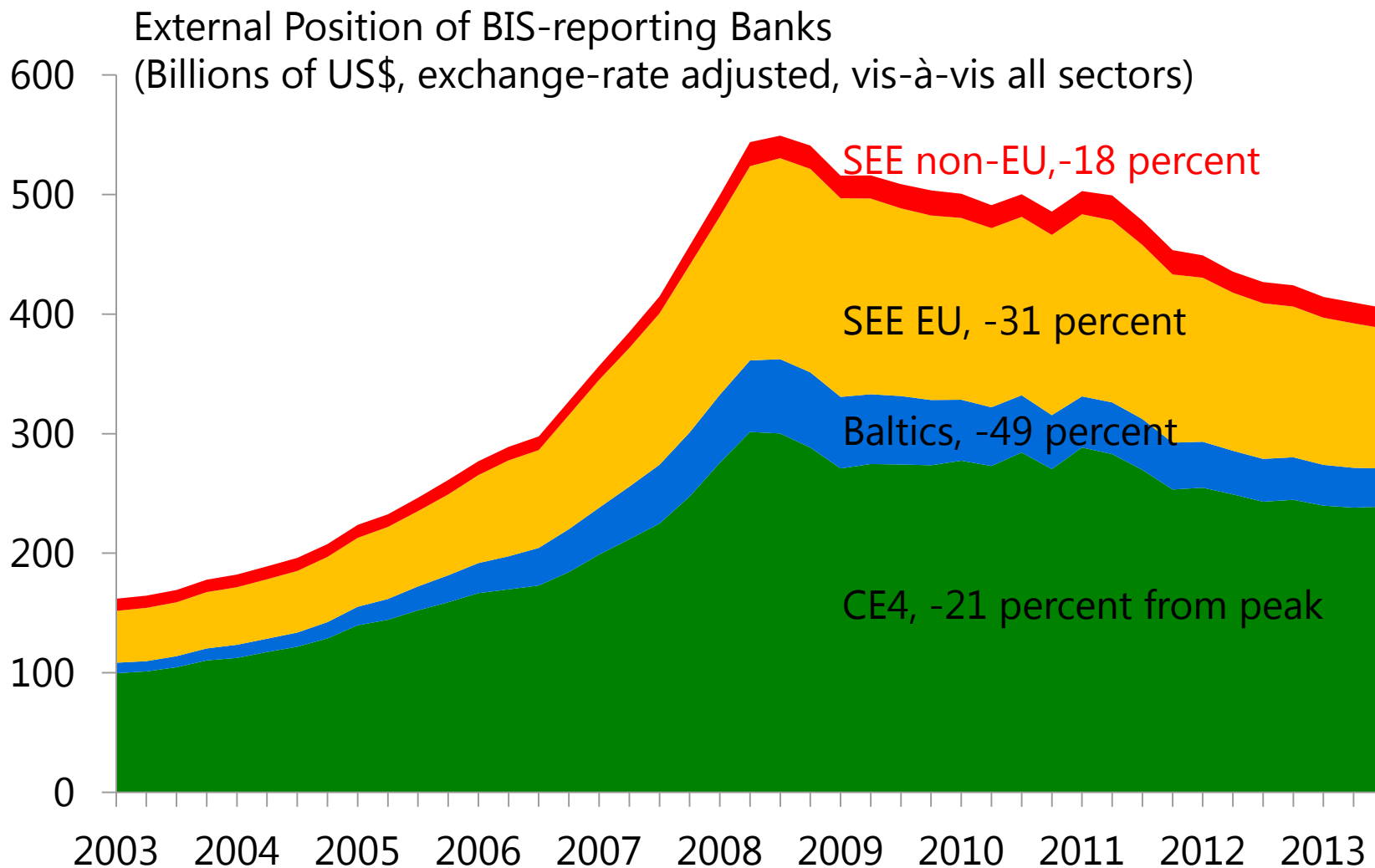


Stock vulnerabilities	Flow vulnerabilities	External fundamentals
Stock of debt	External financing needs	Exchange rate misalignment
External funding from non-affiliated sources	Fiscal financing needs	Reserve buffers
Debt denominated or linked to FX	Funding costs	

Countries susceptible to external funding risks



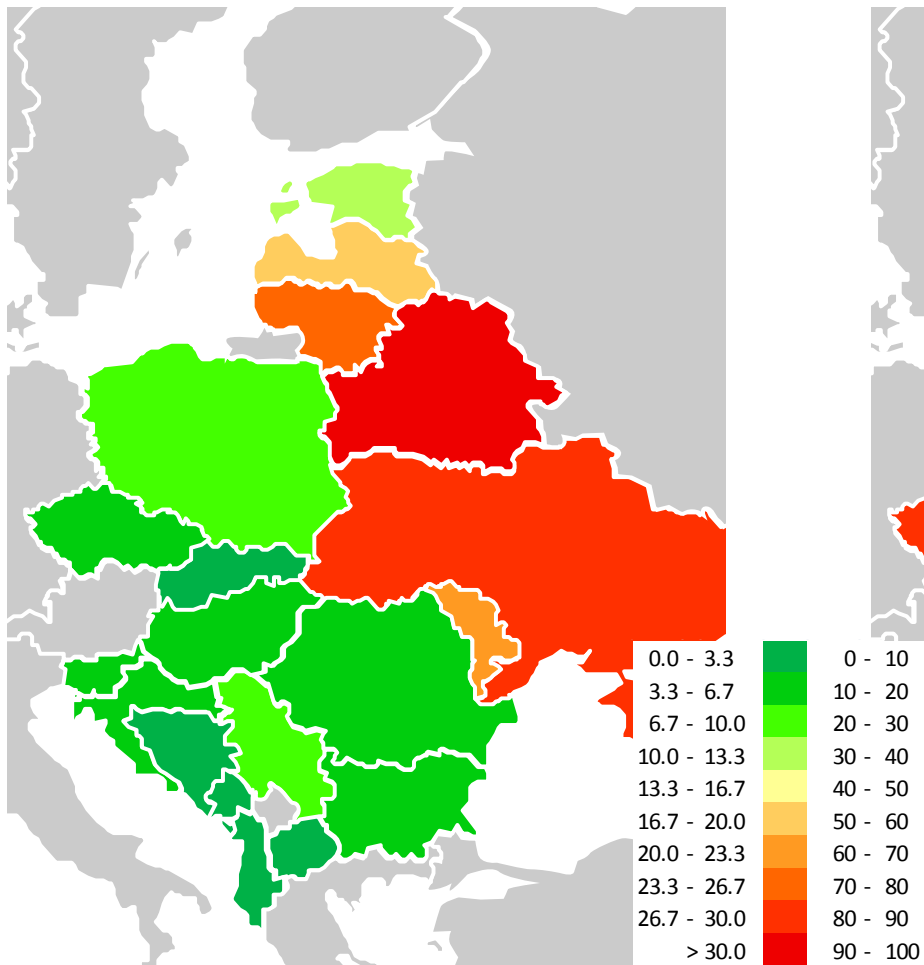
Deleveraging continues



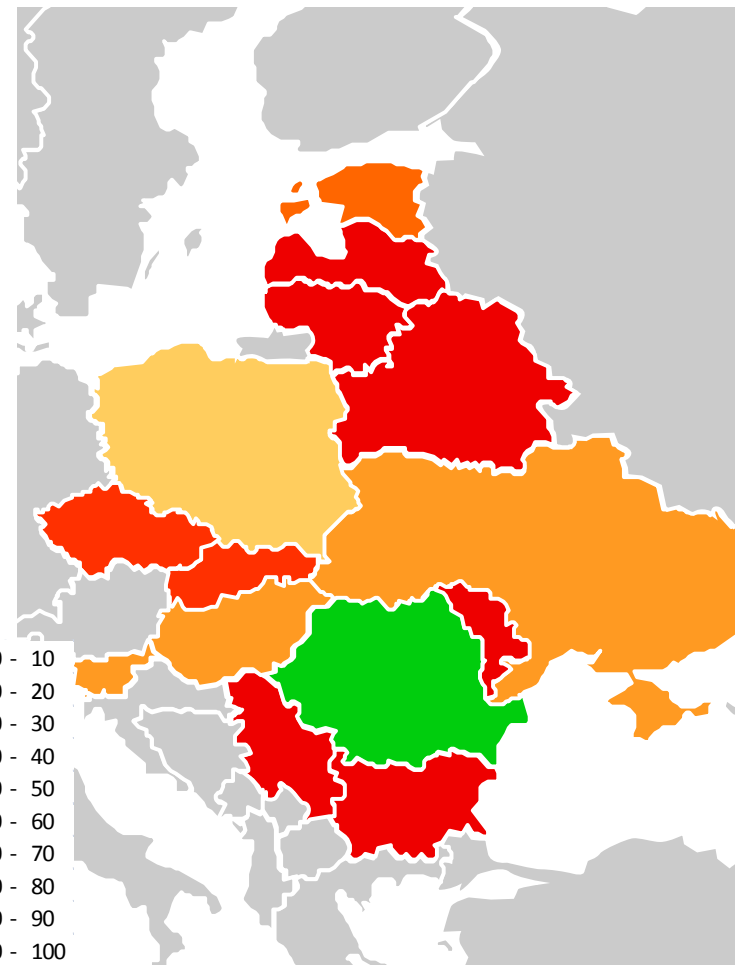
Uncertainty on geopolitical situation



Russia and Ukraine share of exports
(percent)



Share of gas consumption provided by
Russia (percent)

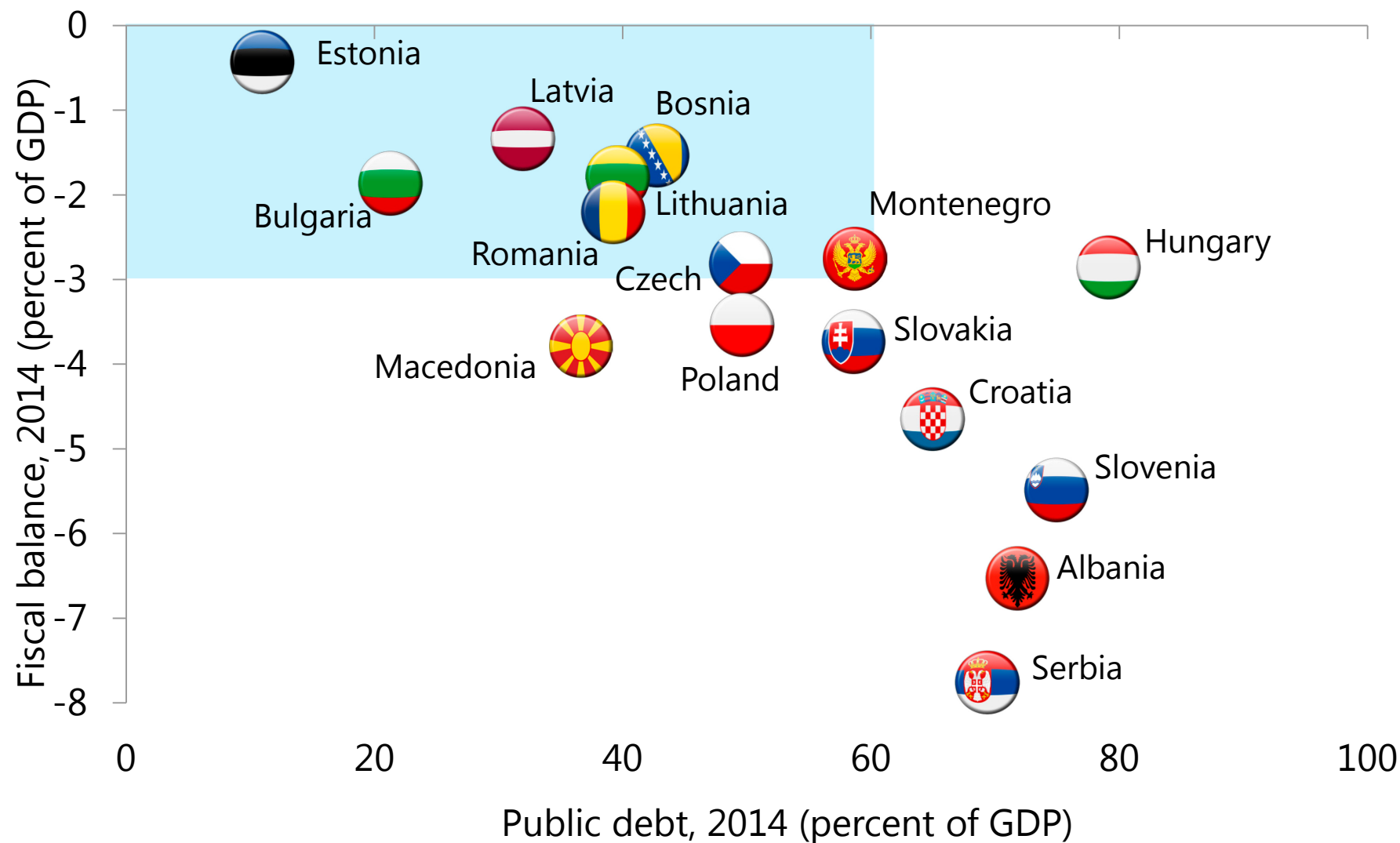


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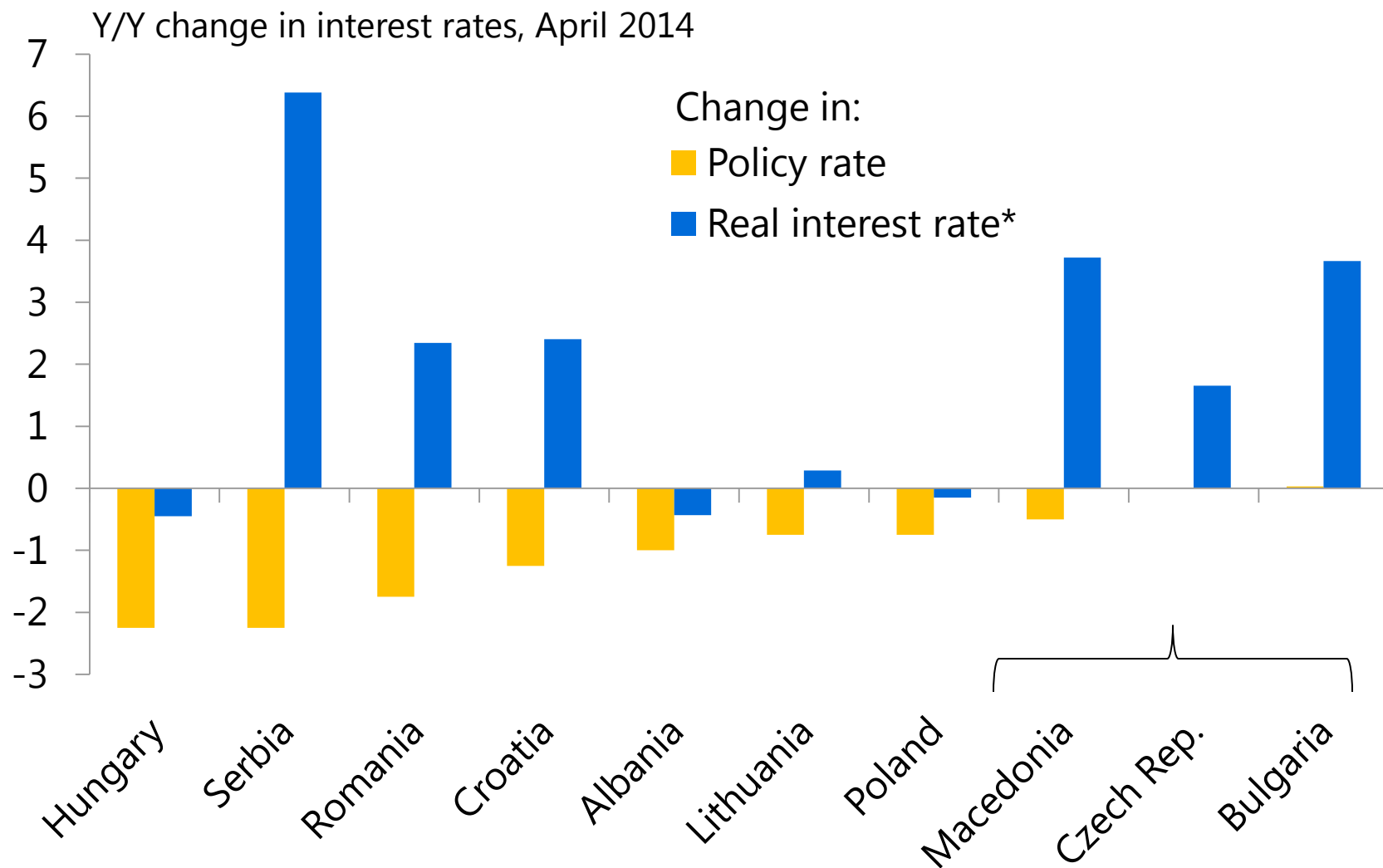


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Fiscal buffers need to be rebuilt

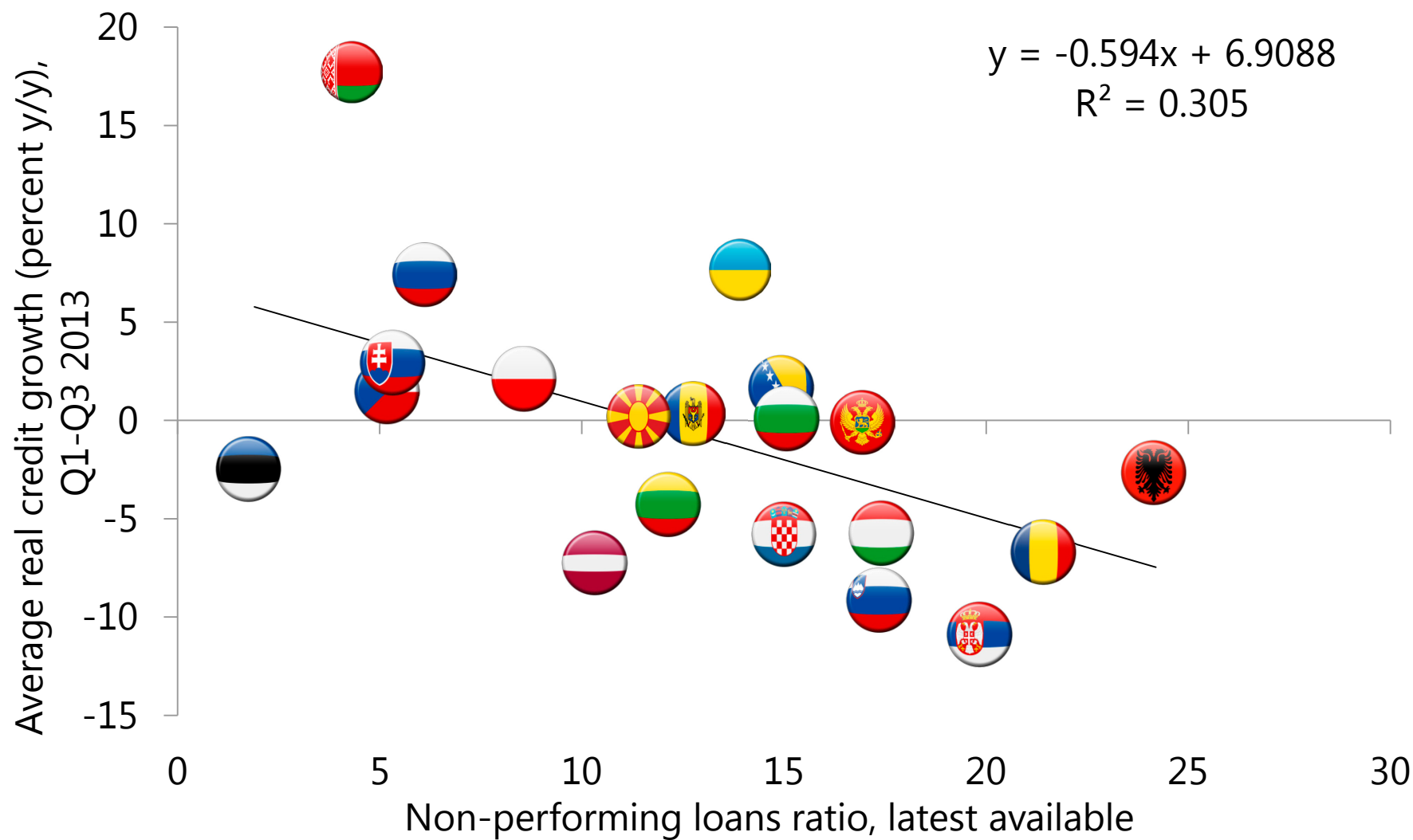


Montary policy challenge

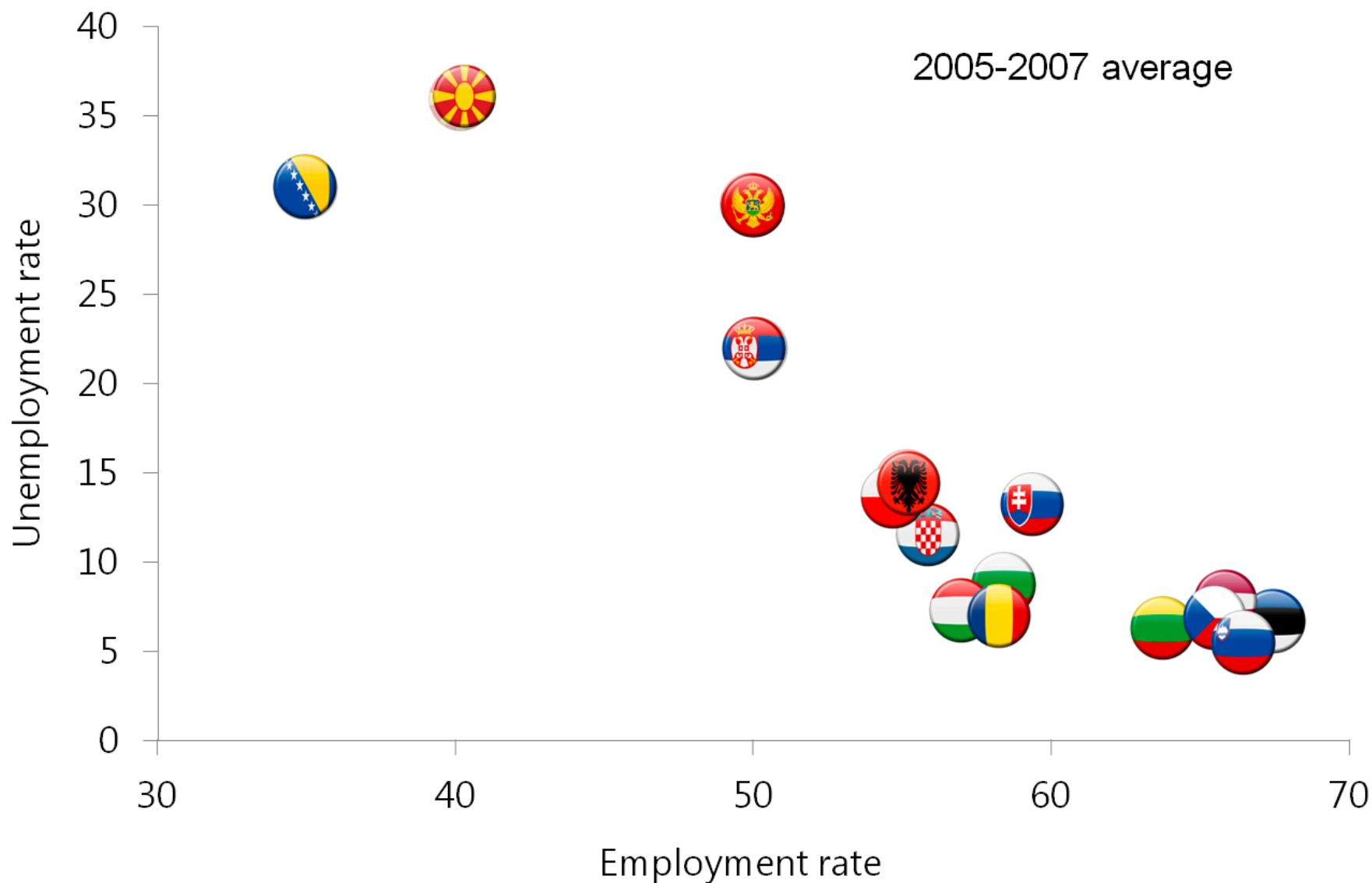


*backward looking real interest rate

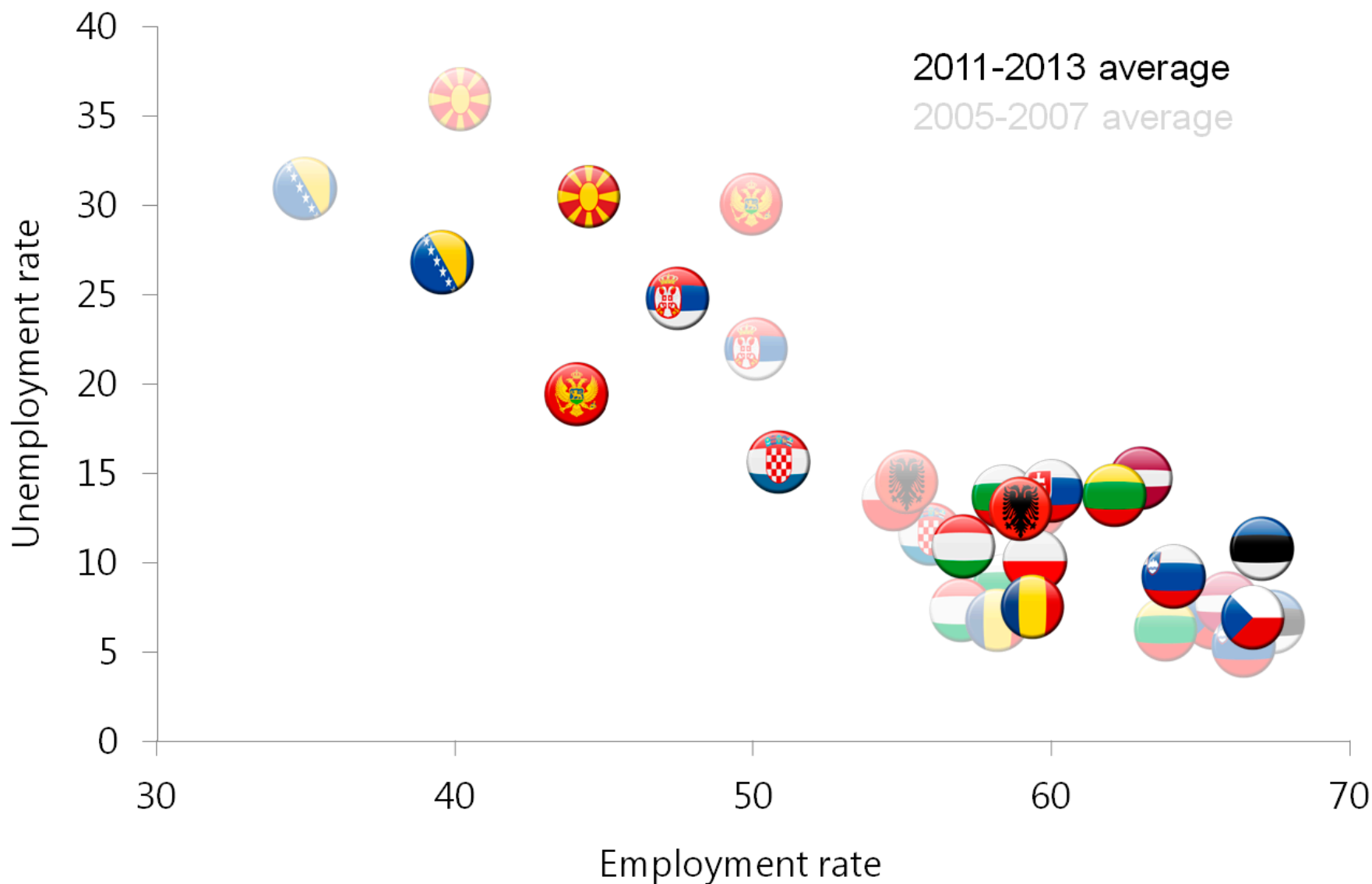
Bank legacy issues



Weak labour markets



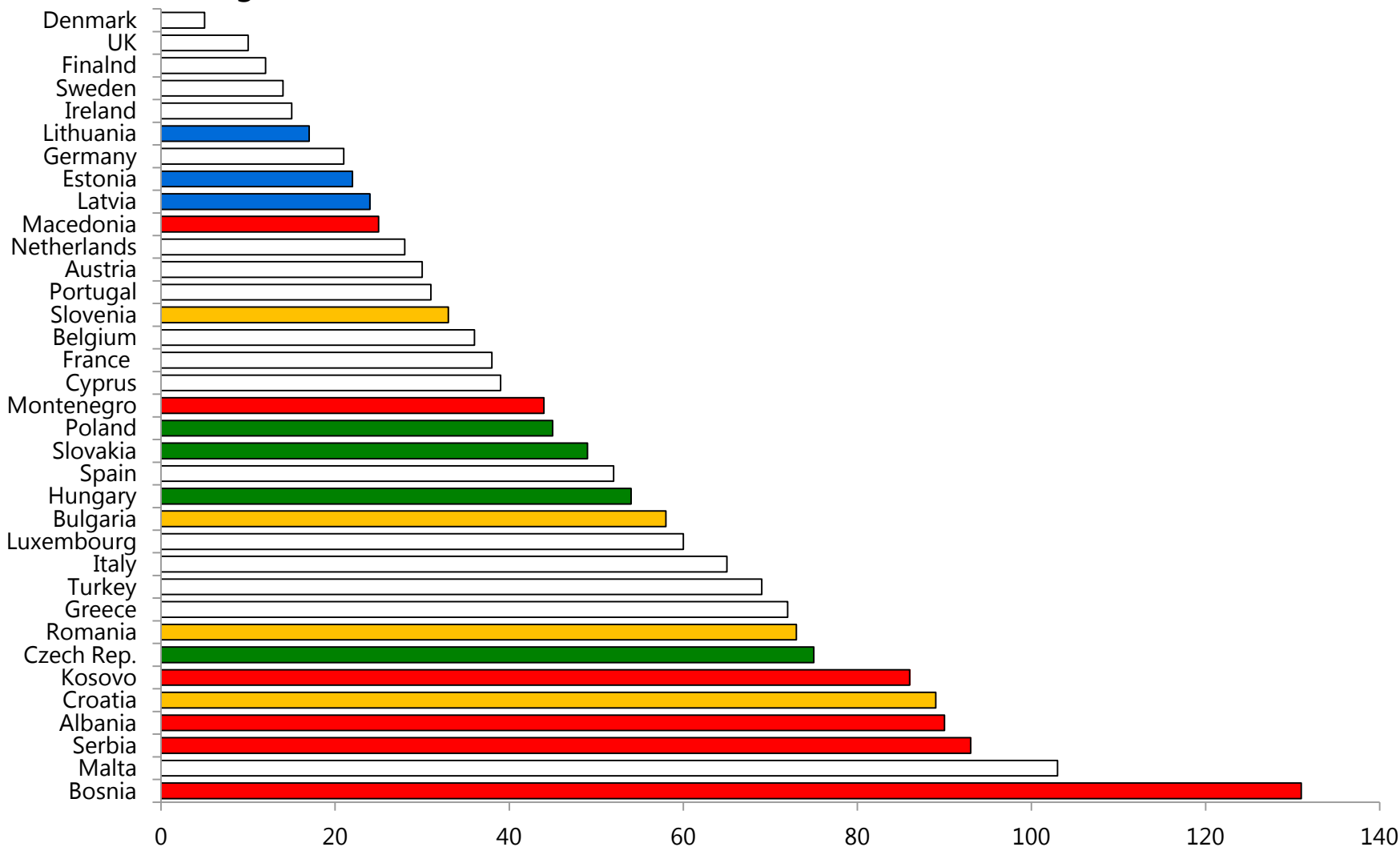
Weak labour markets



Business environments need work



Doing Business 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