

Central, Eastern and Southeastern Europe (CESEE): Getting out of Growth Gloom

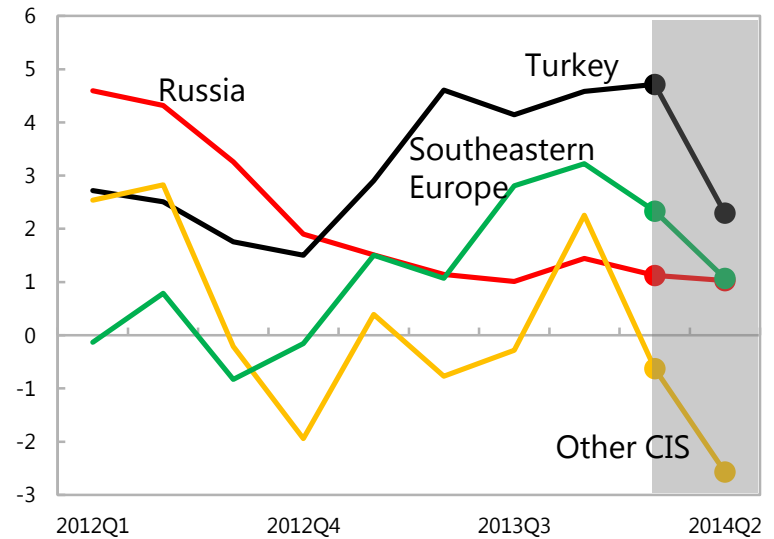
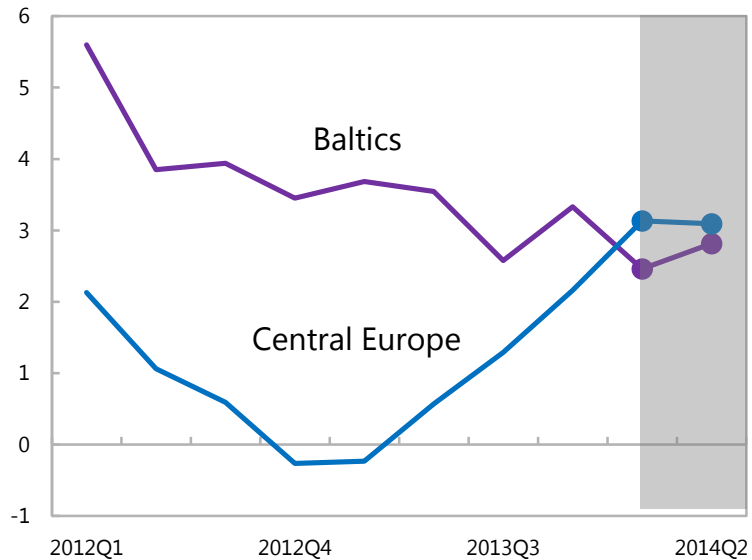


Jesmin Rahman
European Department, IMF
Istanbul, November 7 2014

Growth is slowing in most countries

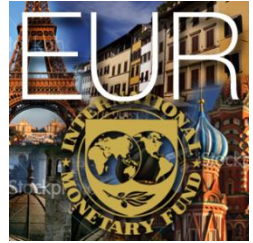


CESEE: Quarterly Real GDP Growth, 2012Q1-2014Q2 (percent, y-o-y)

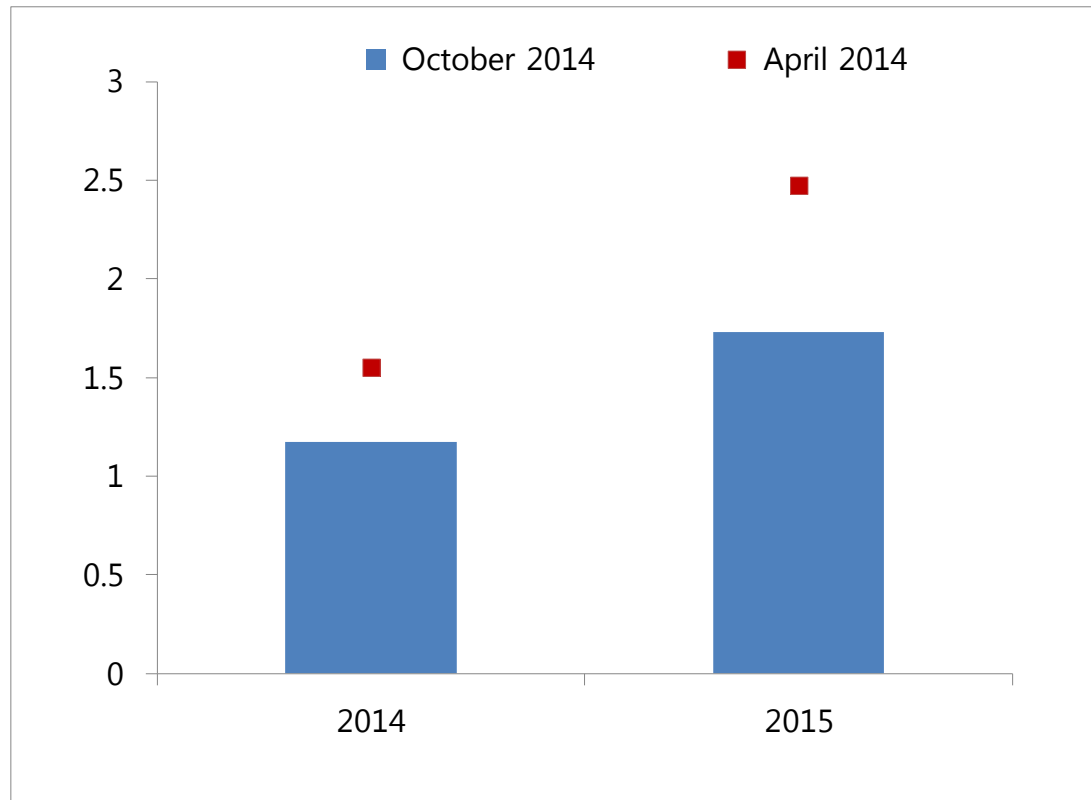


Sources: Haver Analytics; and IMF staff calculations.

Downward revision in the near-term: 2014-15



CESEE: Real GDP Growth, 2014-2015

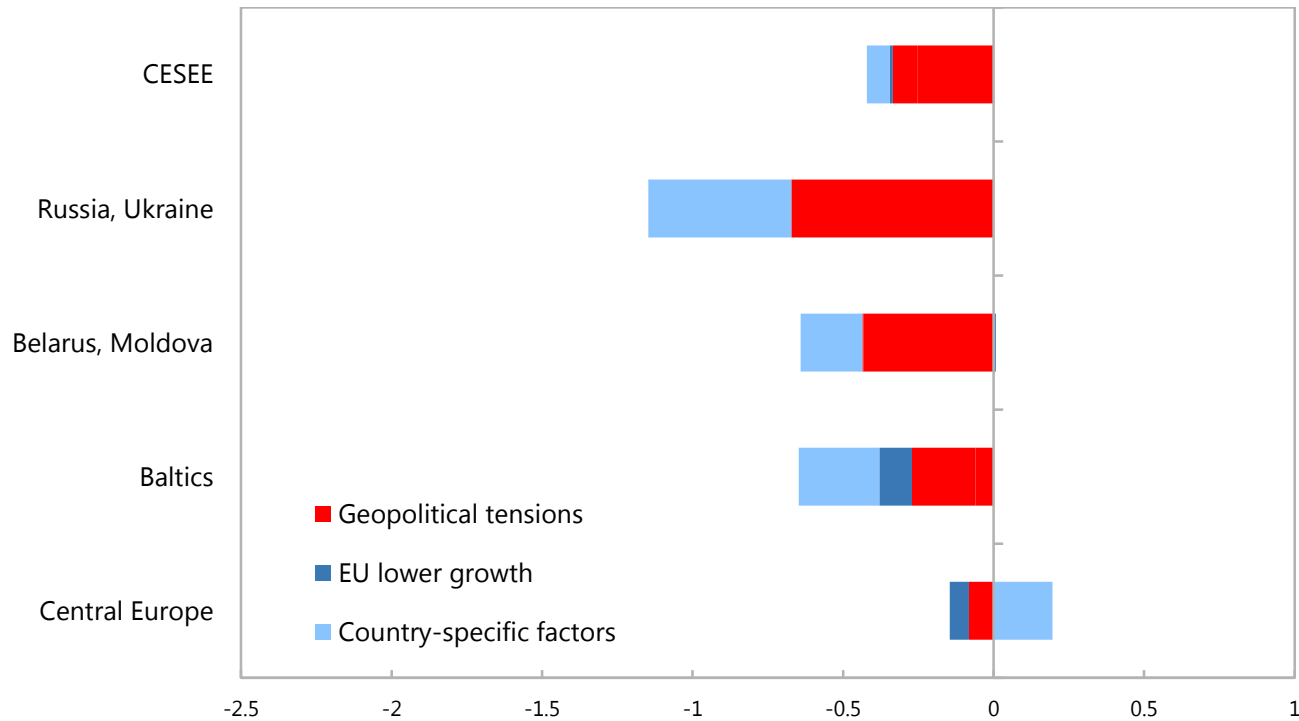


Sources: World Economic Outlook database; and IMF staff calculations.

Mostly due to geopolitical tensions



GDP Growth Revisions, 2014: October vs. April (in percentage points)



1/ Geopolitical tensions refers to the effects from the conflict in eastern Ukraine, sanctions against Russia, and Russian counter-sanctions.
Source: IMF country teams' estimates.

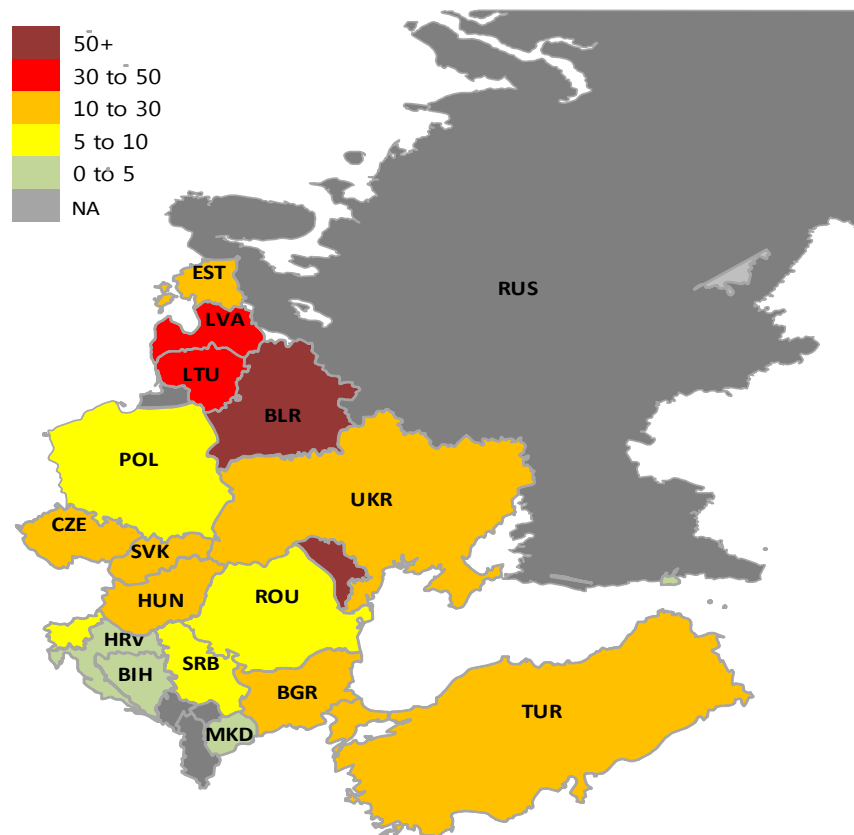
Plenty of downside risks ...

Escalation of geopolitical tensions



Russian Gas Imports

(Percent of total energy consumption, 2012)

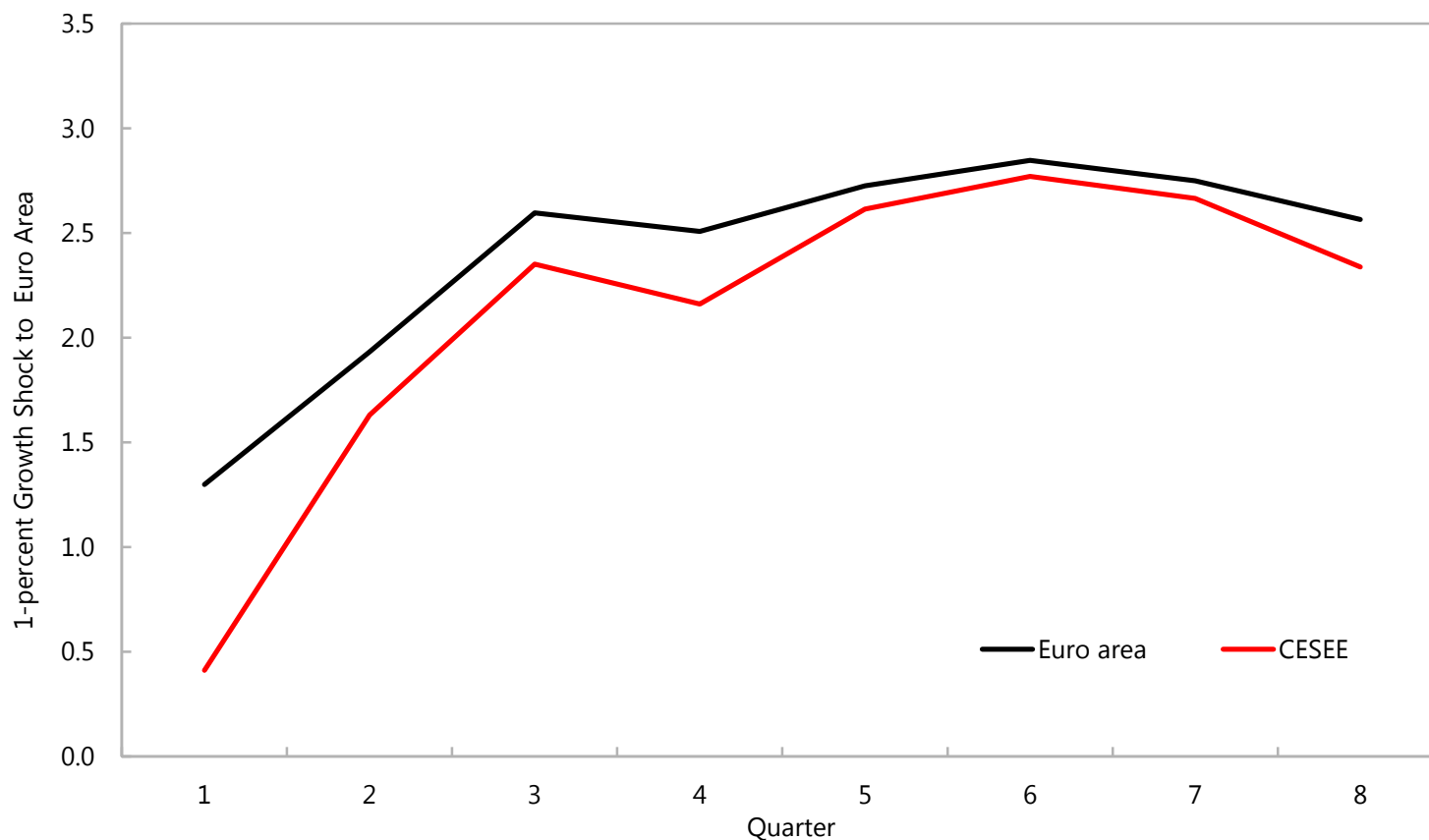


Sources: BP; Eurostat; International Energy Agency; Organization for Economic Cooperation and Development; and U.S. Energy Information Administration.

Euro area slowdown Can affect growth..



Growth Spillover from Euro Area to CESEE (Accumulated response of GDP, percent)

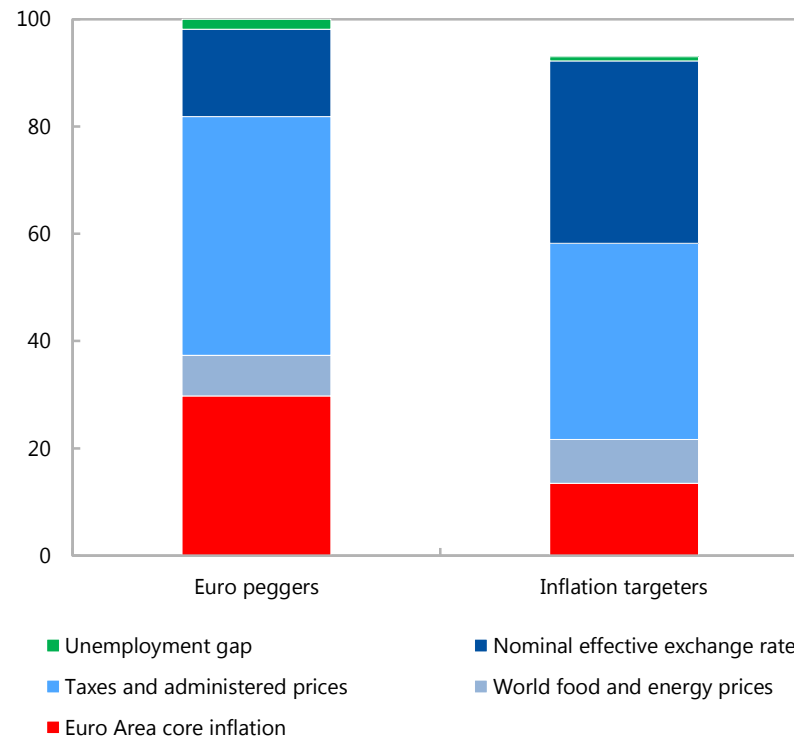


Source: IMF staff calculations.

And inflation



**Headline Inflation Variance Decomposition,
2012Q1-2014Q1 (contribution in percent)**



Sources: Haver Analytics; National authorities; World Economic Outlook database; and IMF staff calculations.

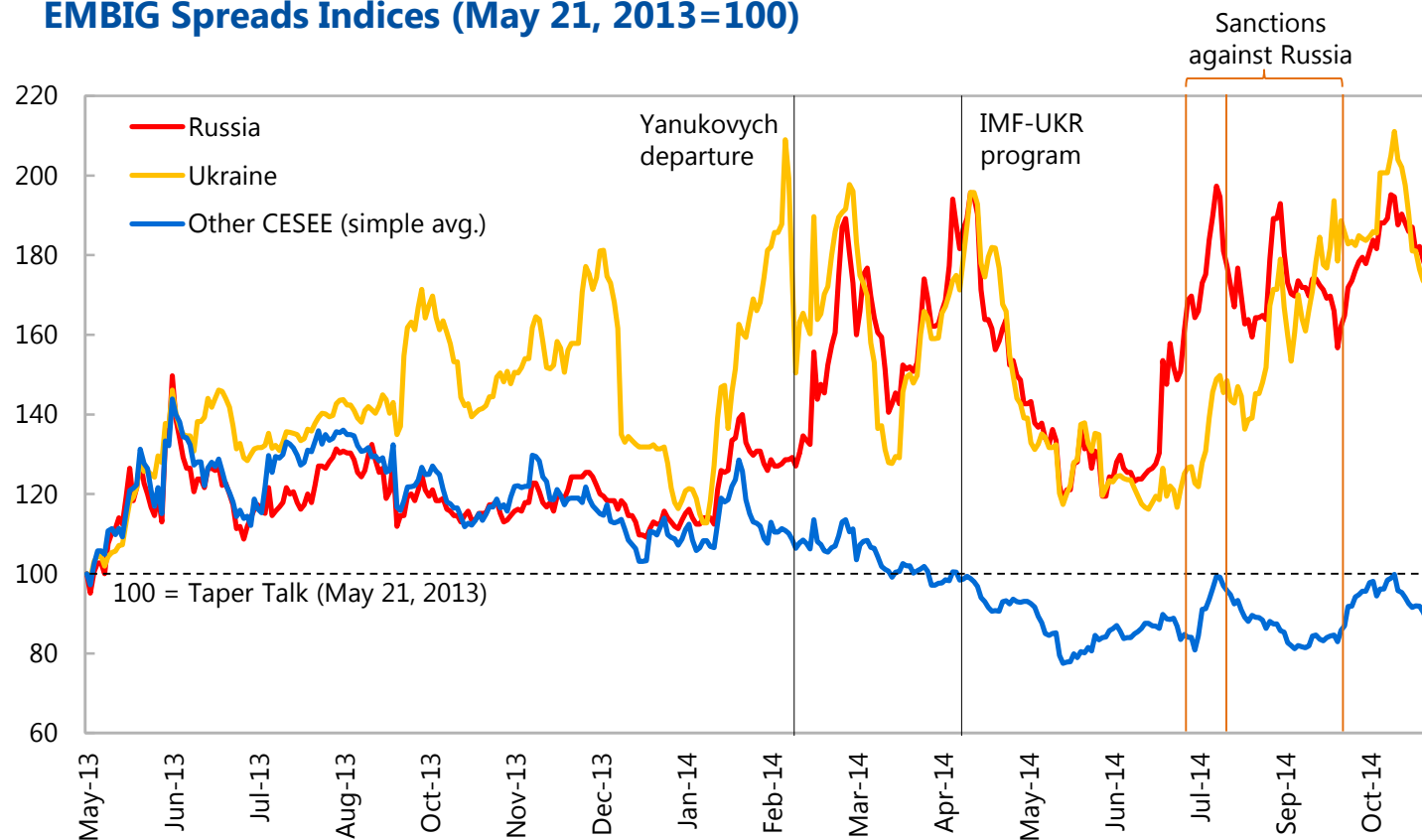
Note: EM Europe peggers includes Bulgaria, Croatia, Kosovo, and Lithuania. EM Europe floaters includes Czech Republic, Hungary, Poland, Romania, and Serbia.

Monetary policy normalization in the US

Possible decompression in spreads



EMBIG Spreads Indices (May 21, 2013=100)



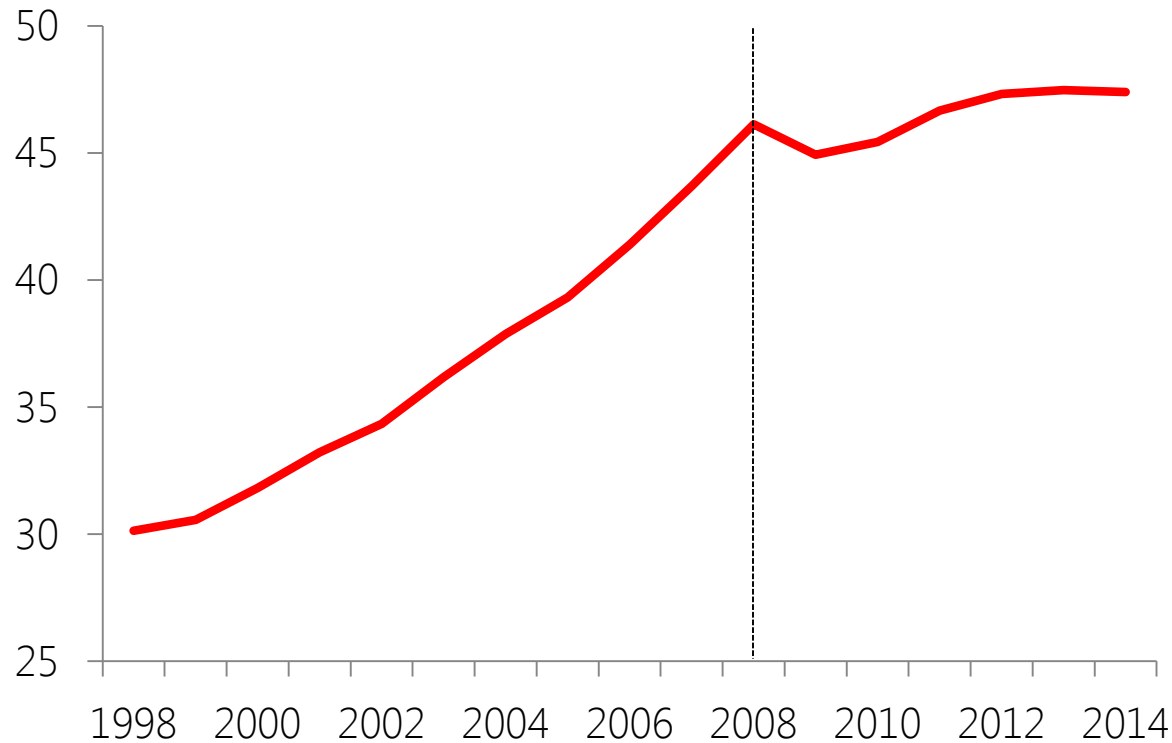
Source: Bloomberg.

Notes: Sanctions include U.S. and EU sanctions imposed on Russian banks and corporates. EMBIG = Emerging Markets Bond Index Global.

Longer-term: Convergence has stalled



CESEE: Average PPP GDP per Capita, in percent of advanced economies



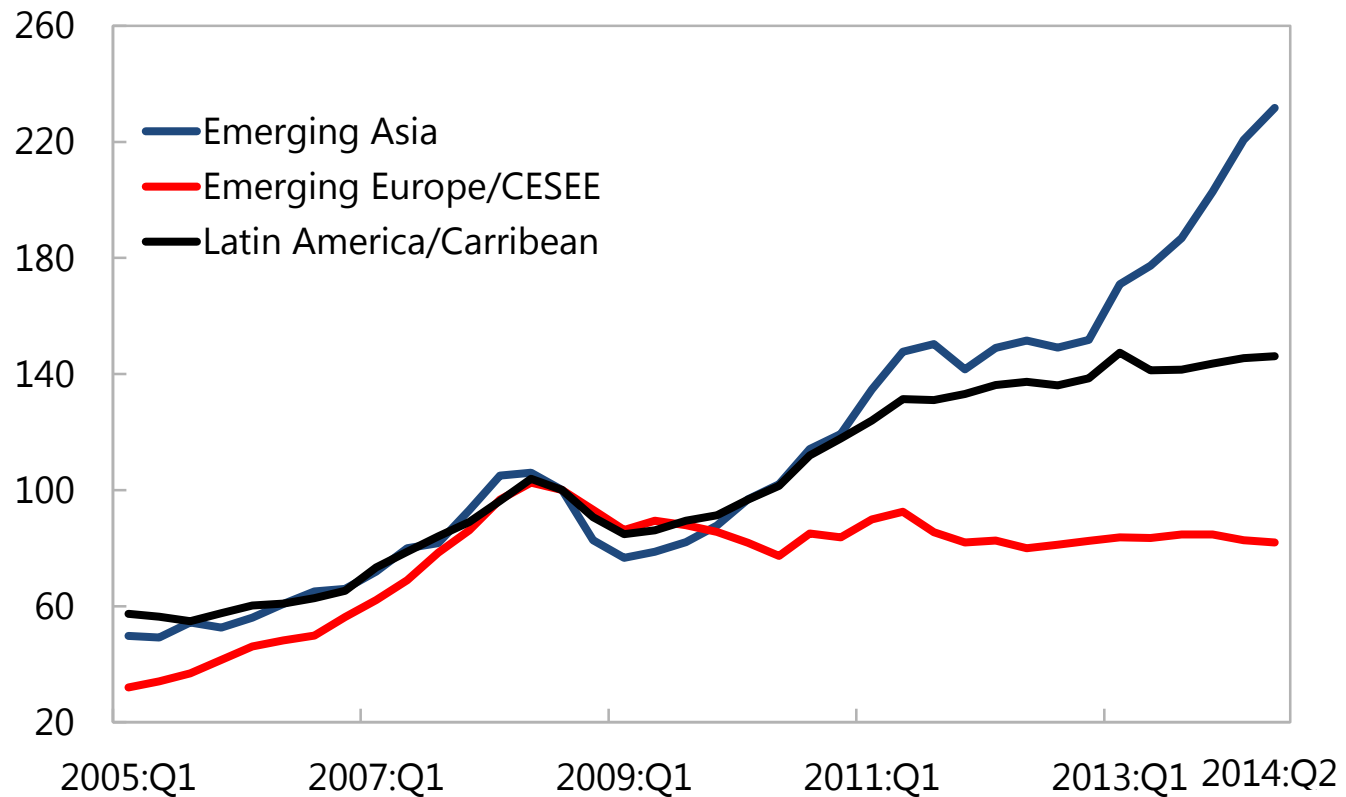
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: "Other Emerging Markets" includes Argentina, Brazil, Chile, India, Indonesia, Malaysia, Mexico, South Africa, and Thailand.

Bank deleveraging continues



External Positions of BIS-Reporting Banks (Index, 2008:Q3 = 100)



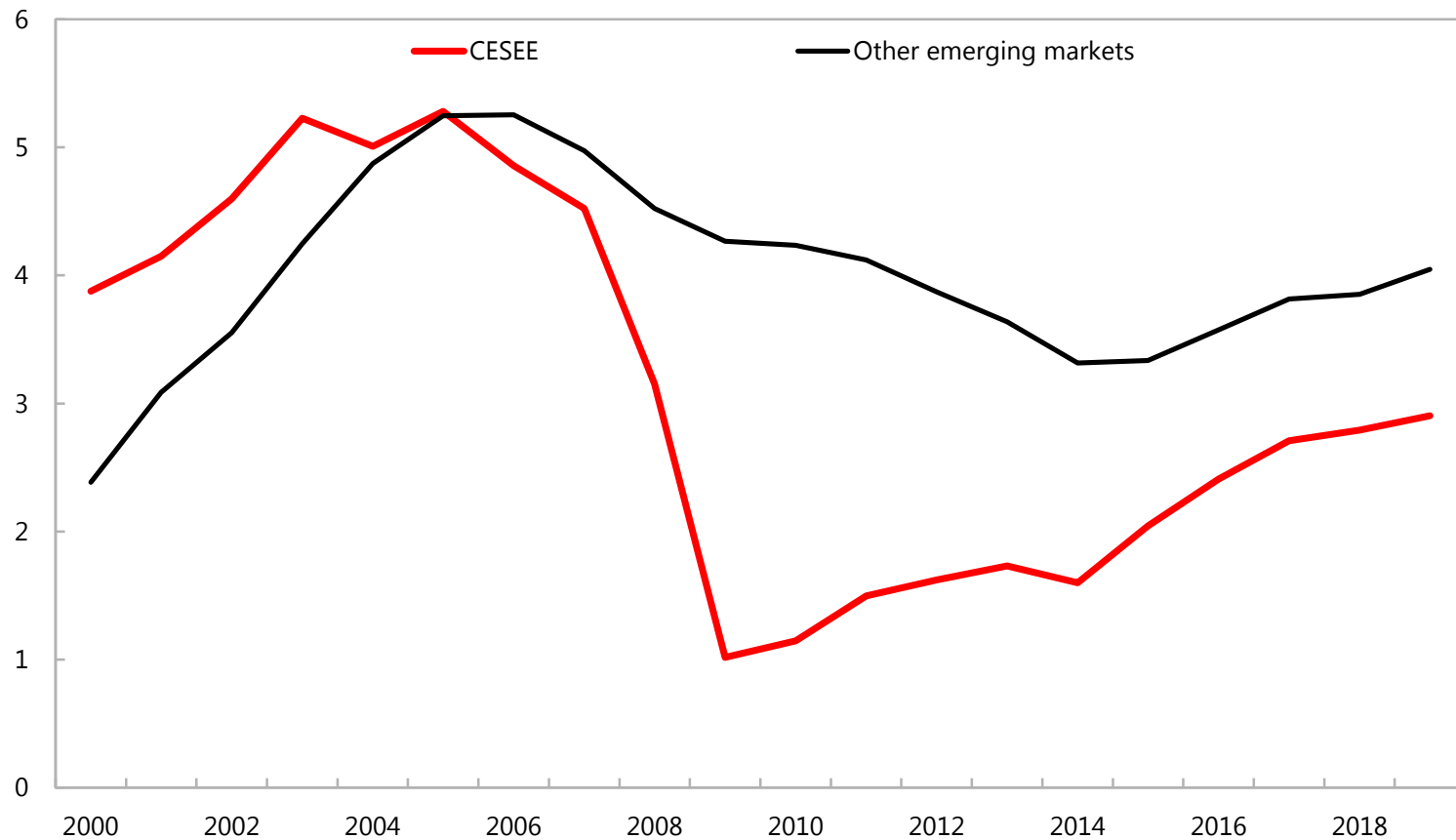
Sources: BIS, Locational Banking Statistics: and IMF staff calculations.

Growth potential is now much lower



Potential Output Growth, 2000-2018

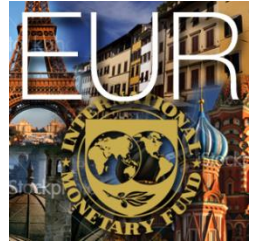
(Percent)



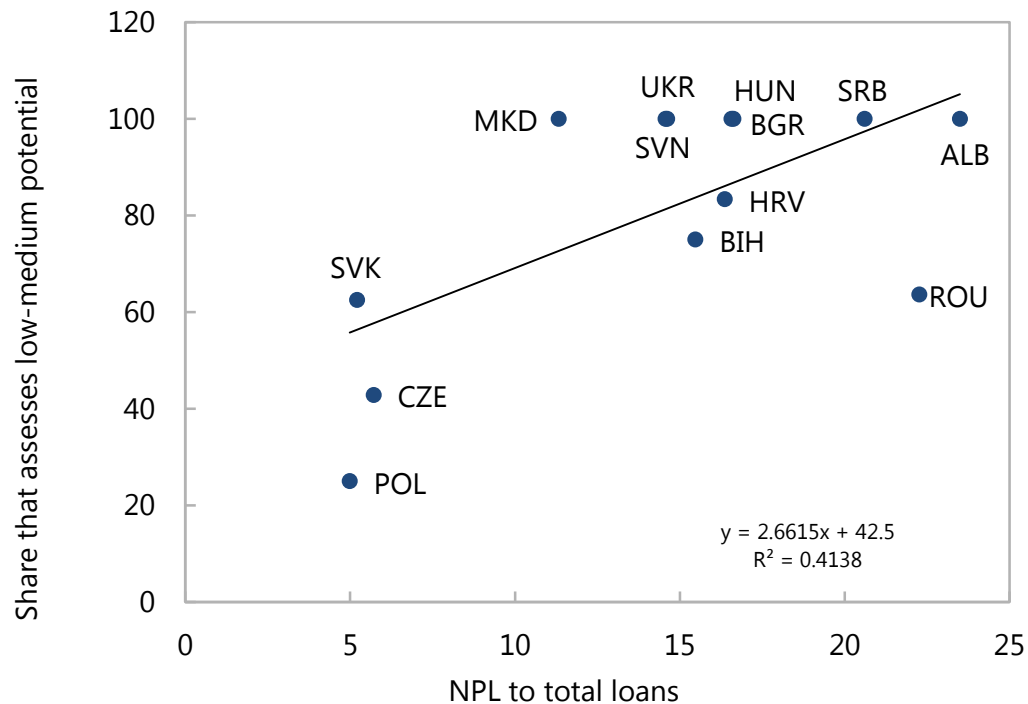
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: "Other Emerging Markets" includes Argentina, Brazil, Chile, India, Indonesia, Malaysia, Mexico, South Africa, and Thailand.

Road to higher growth Tackle NPLs



NPLs and Foreign Banks' Perception of Market Potential



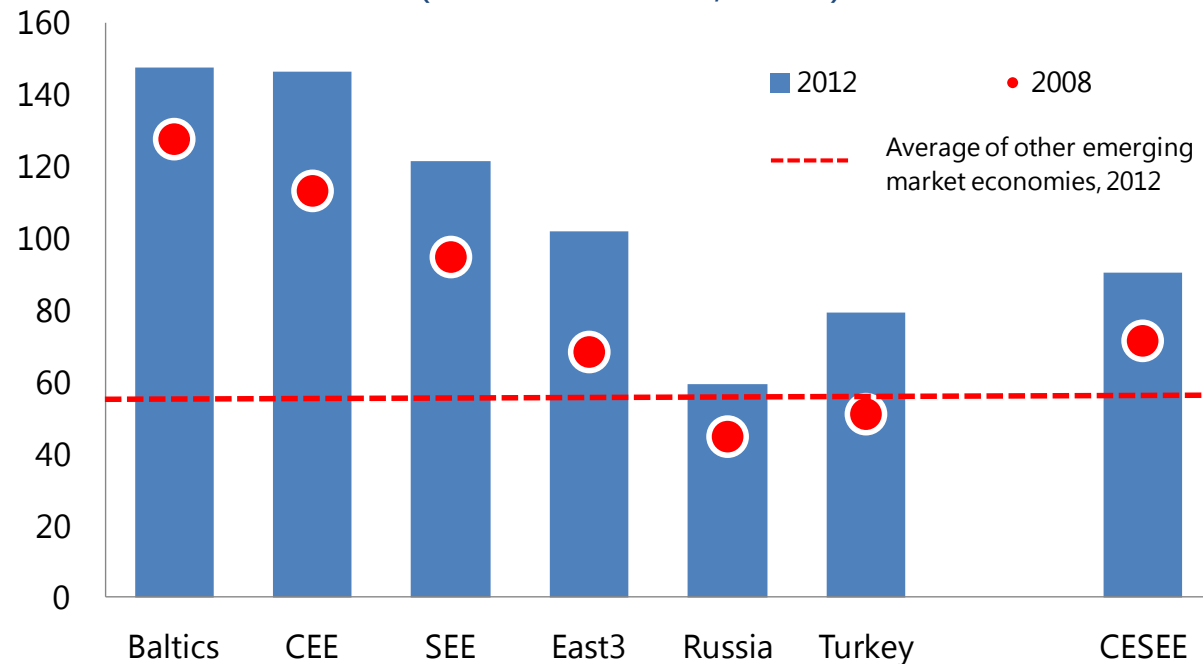
Sources: EIB Bank Lending Survey for the CESEE region, H1:2014; and International Finance Statistics, IMF.

Reduce vulnerabilities



CESEE: Gross External Liabilities

(Percent of GDP, 2012)

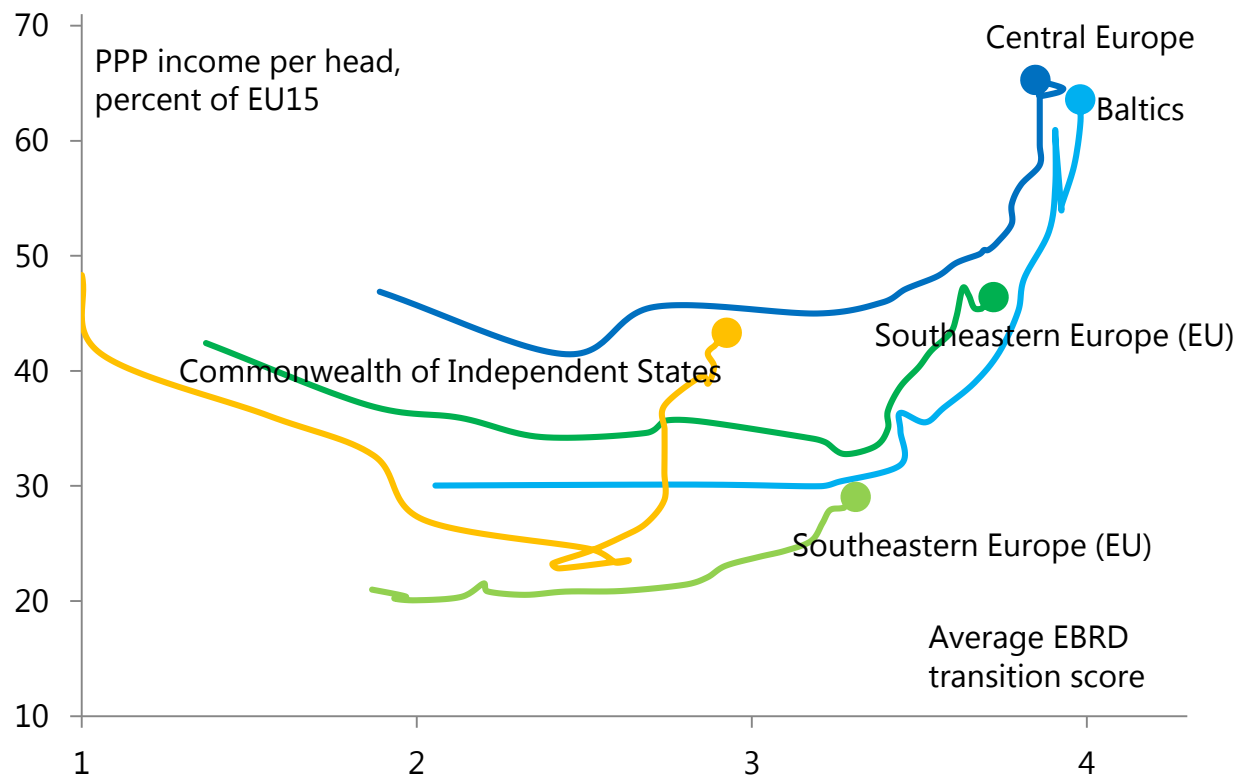


Sources: CESEE Regional Economic Outlook, April 2014.

Restart reforms



Reform and convergence, 1990-2013

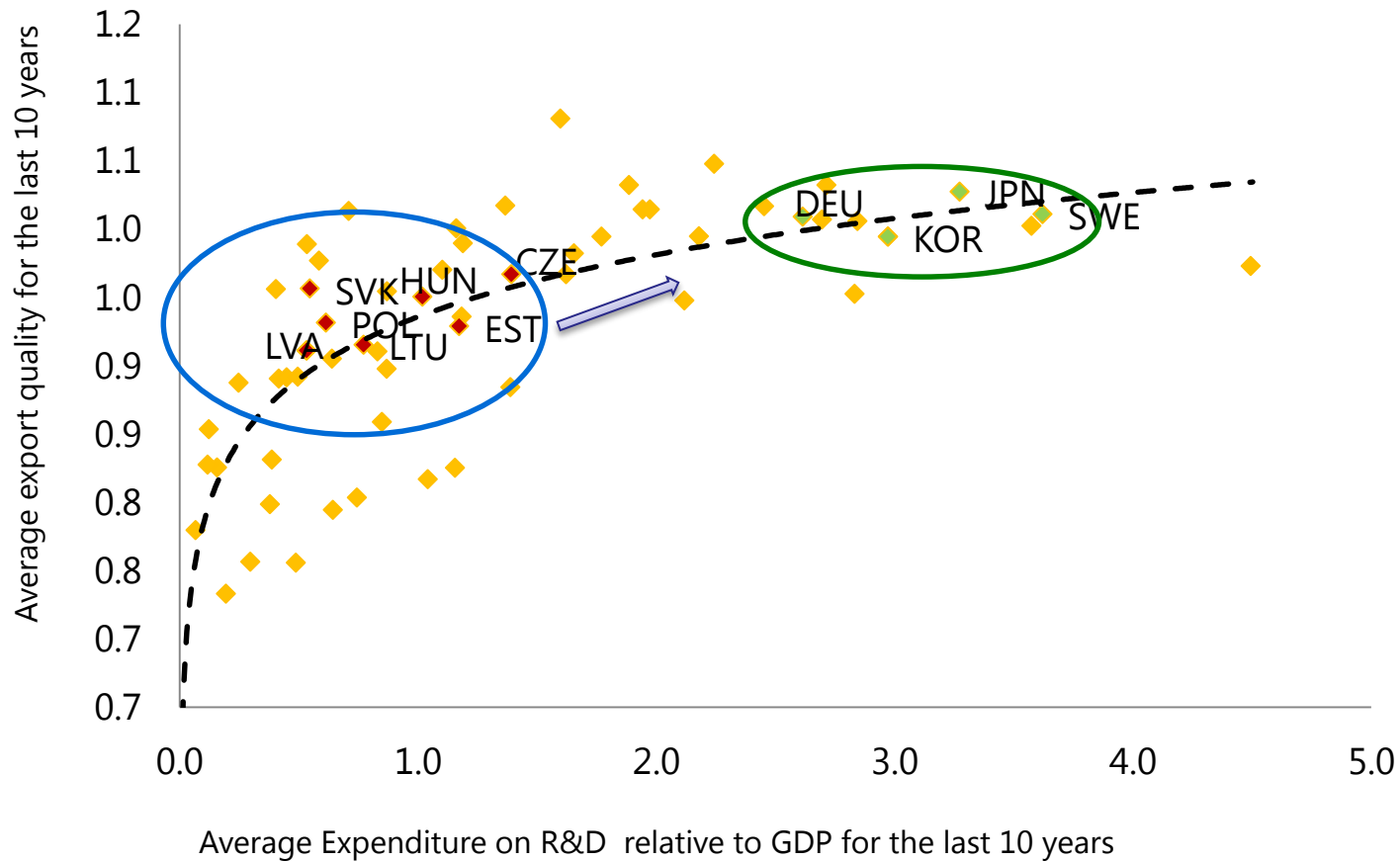


Source: World Economic Outlook, EBRD.

Invest in innovation and research



Export Quality and Spending on R&D



THANK YOU!

