



Kastryčnicki Ekanamičny Forum  
Ураджай ідэяў дзеля ўстойлівага развіцця



Даследчы  
цэнтр ІПМ



# 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

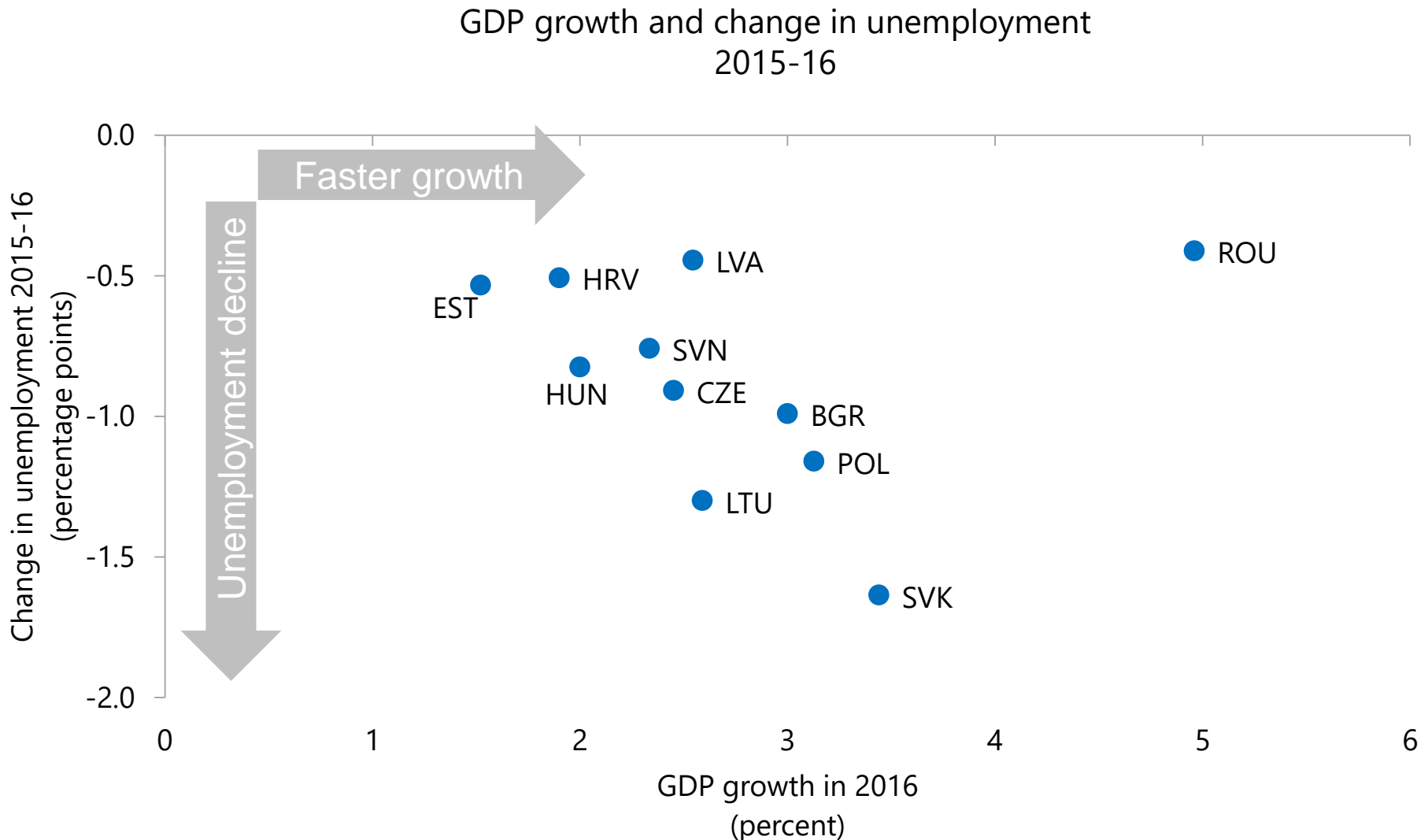
# CESEE Regional Economic Outlook



Minsk, November 3, 2016

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

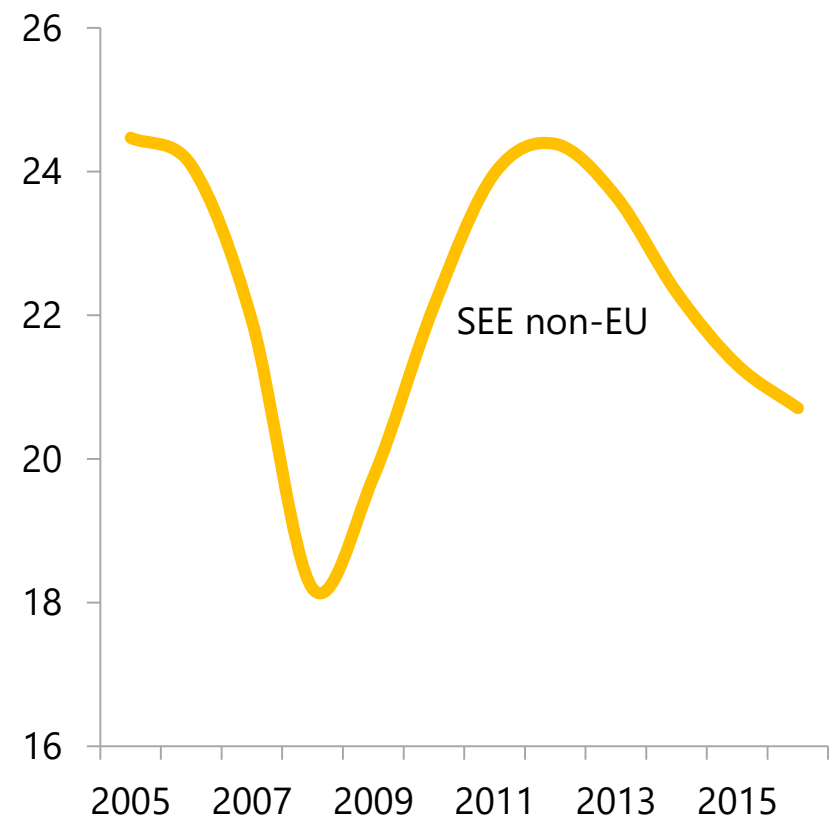
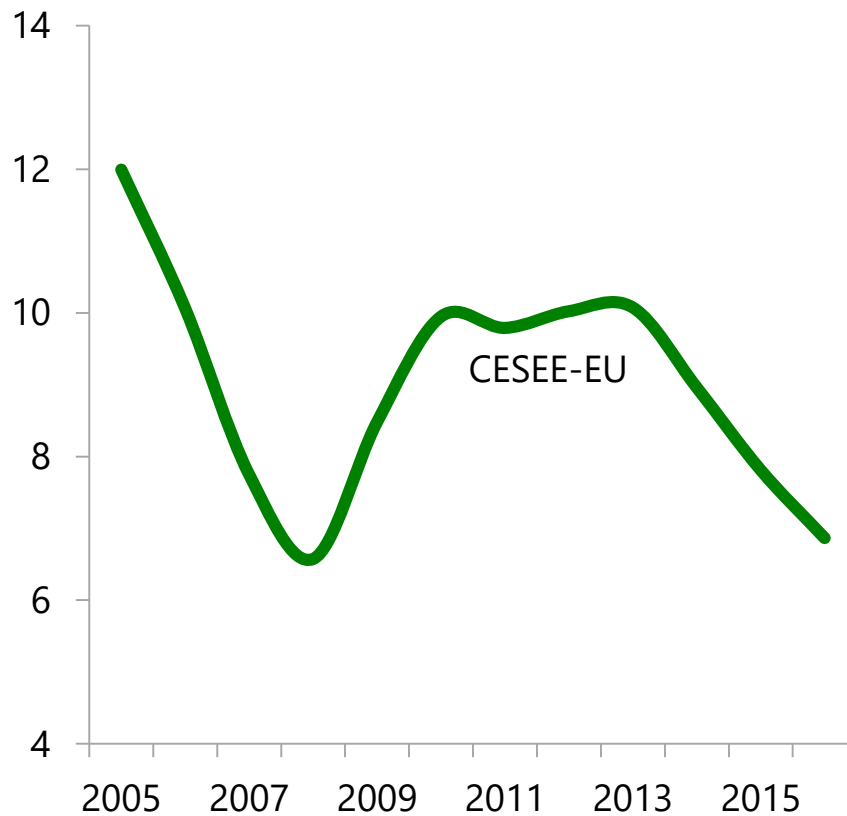
# Non-CIS CESEE is growing at solid pace. Unemployment is falling rapidly...



...to pre-crisis lows.



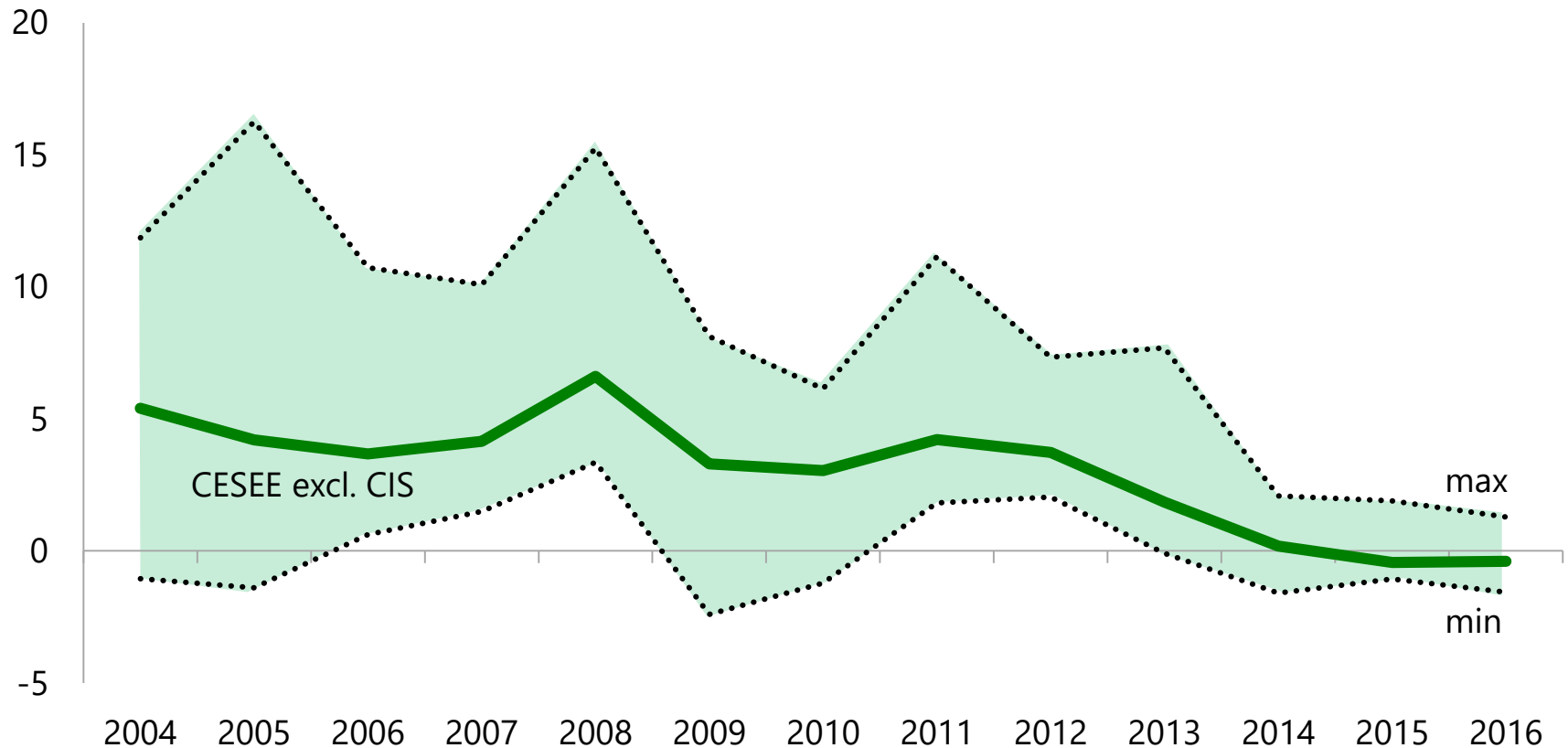
Unemployment rate  
(percent)



# While inflation is still low...



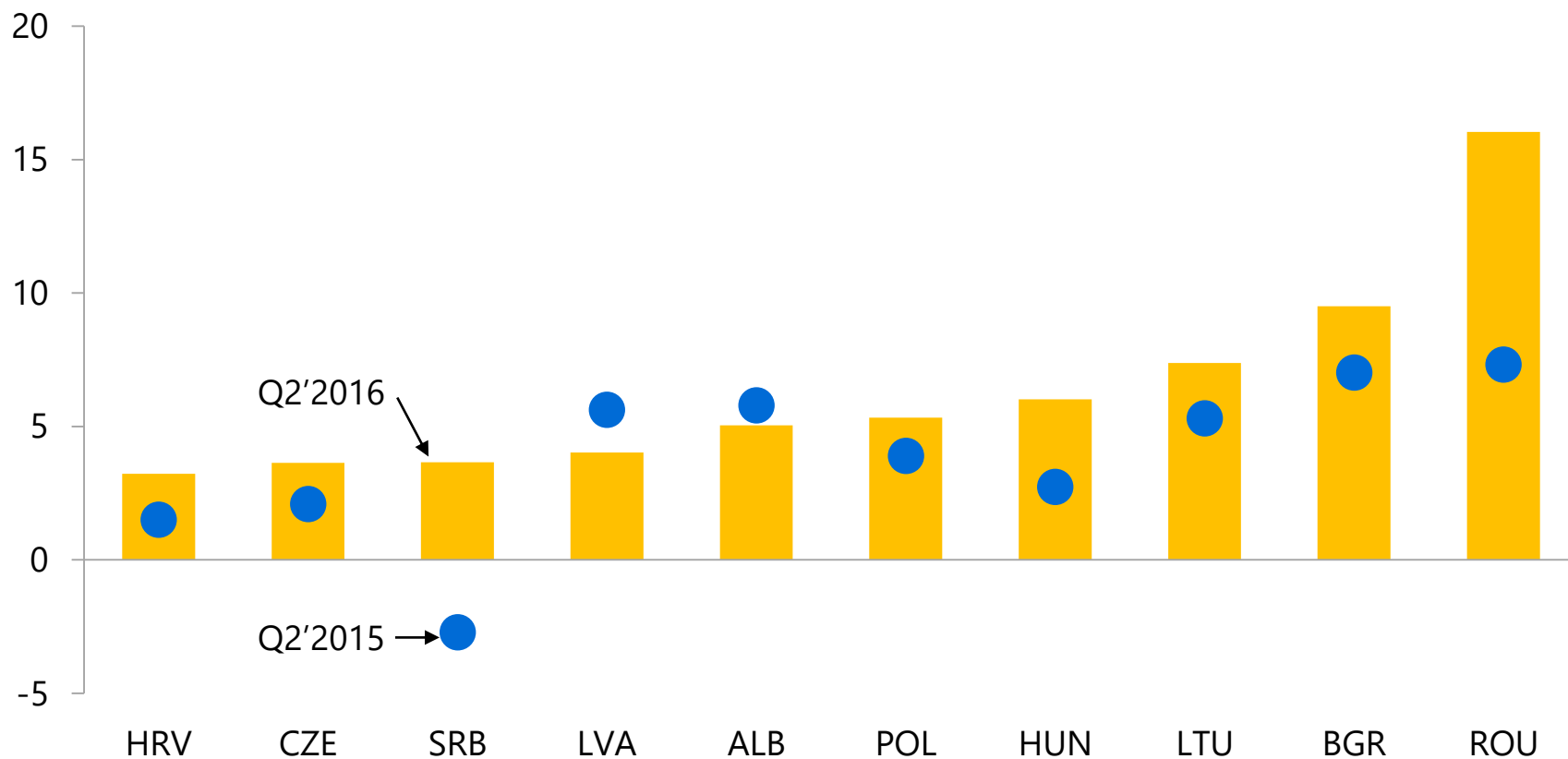
CPI Inflation  
(percent, weighted averages)



# Real wage growth has accelerated



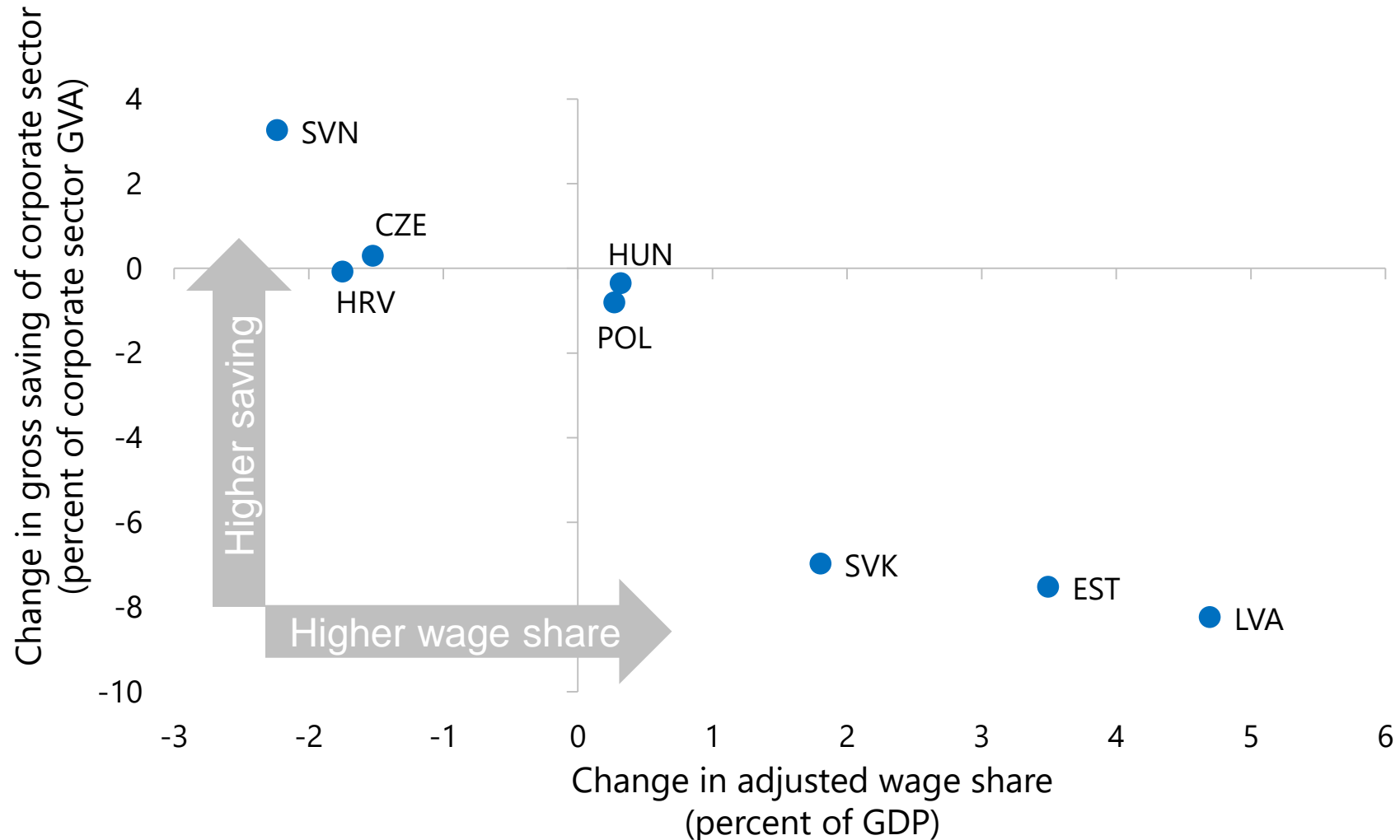
Real wage growth  
(y/y, percent)



# Which has increased wage shares and reduced corporate profits and saving



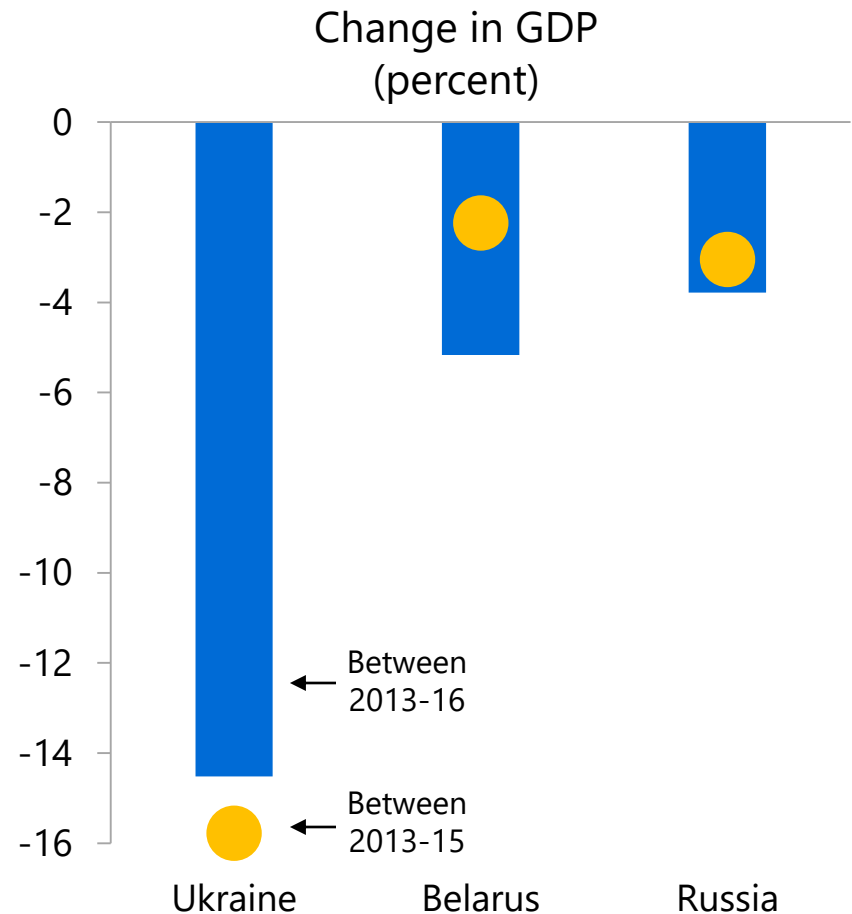
Change in wage share of income and corporate saving, 2014-16



# CIS suffered from recession in 2014/15

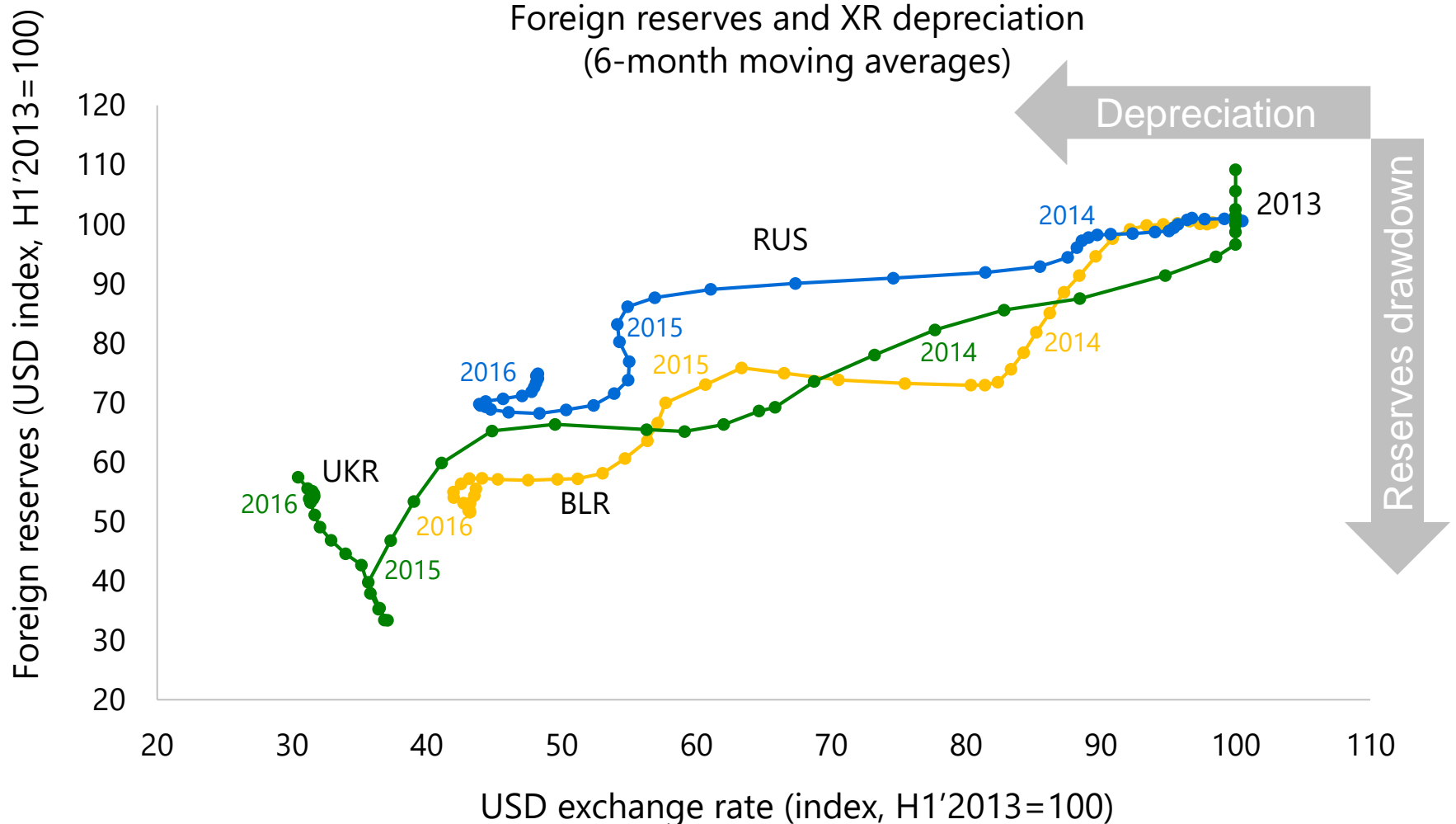


- Collapse of commodity prices
- Sudden stop in capital flows to Russia, result of sanctions on Russia
- Conflict in Ukraine

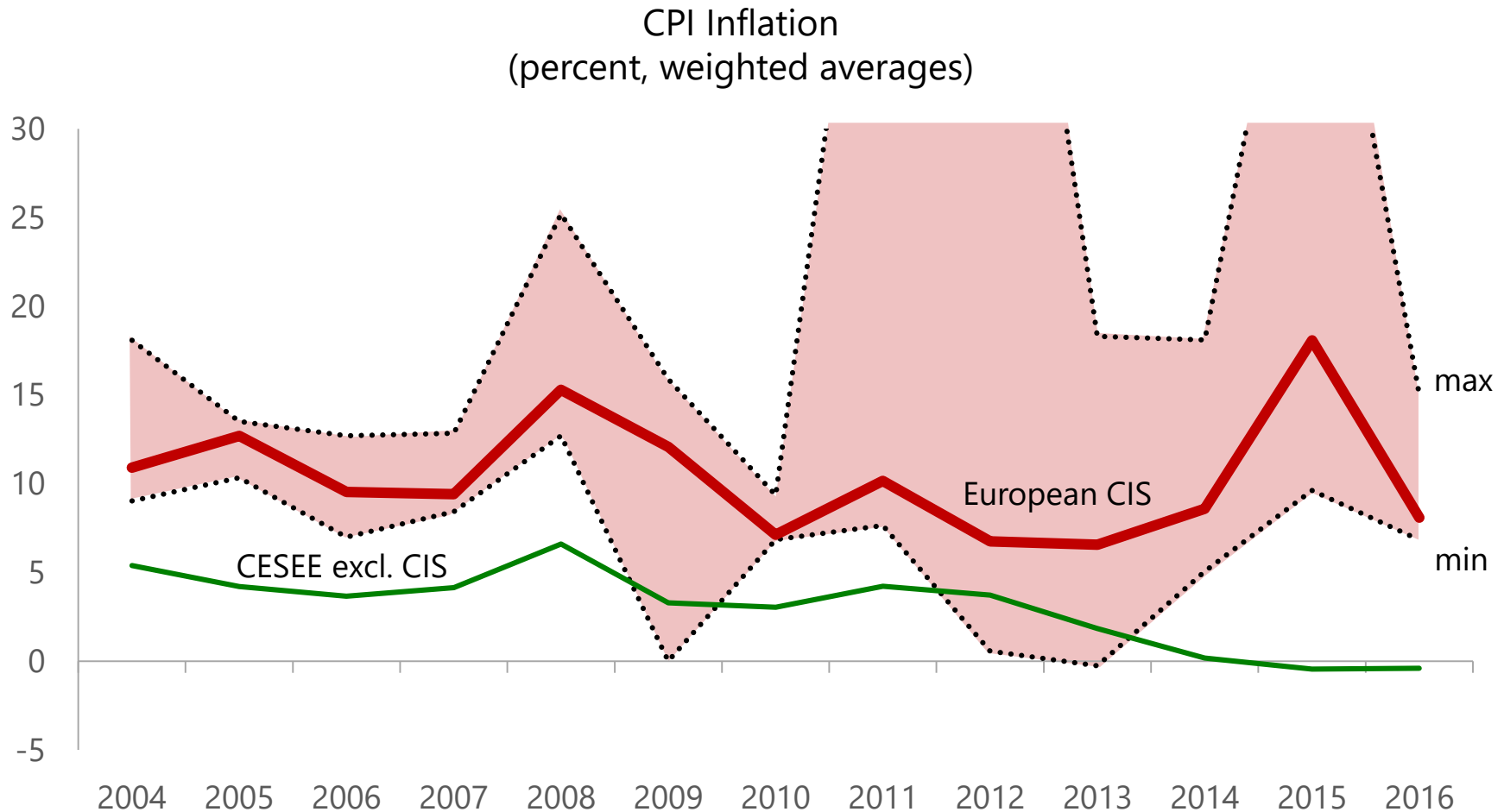




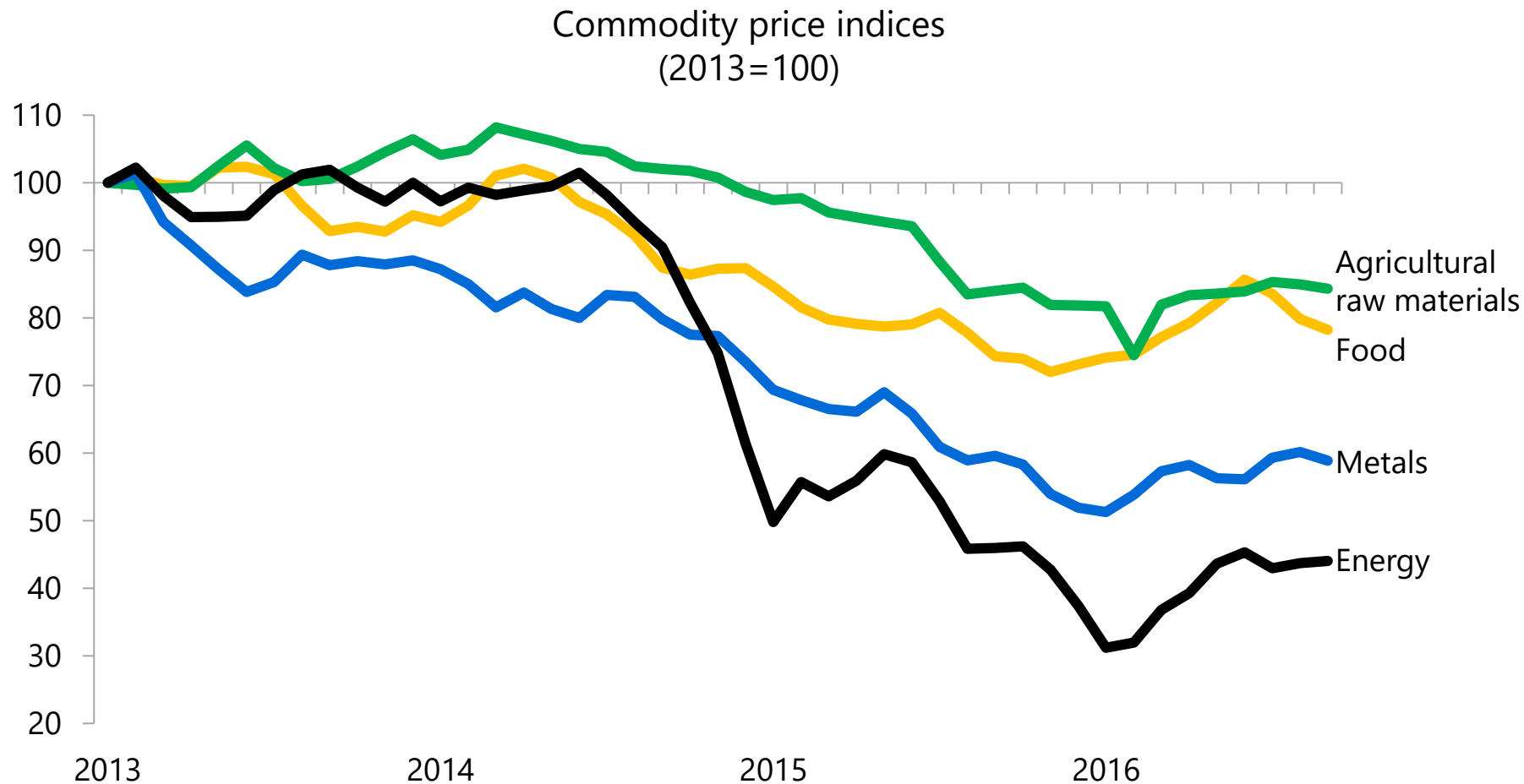
# Exchange rate flexibility helped absorb much of the shock...



...although at cost of high inflation.



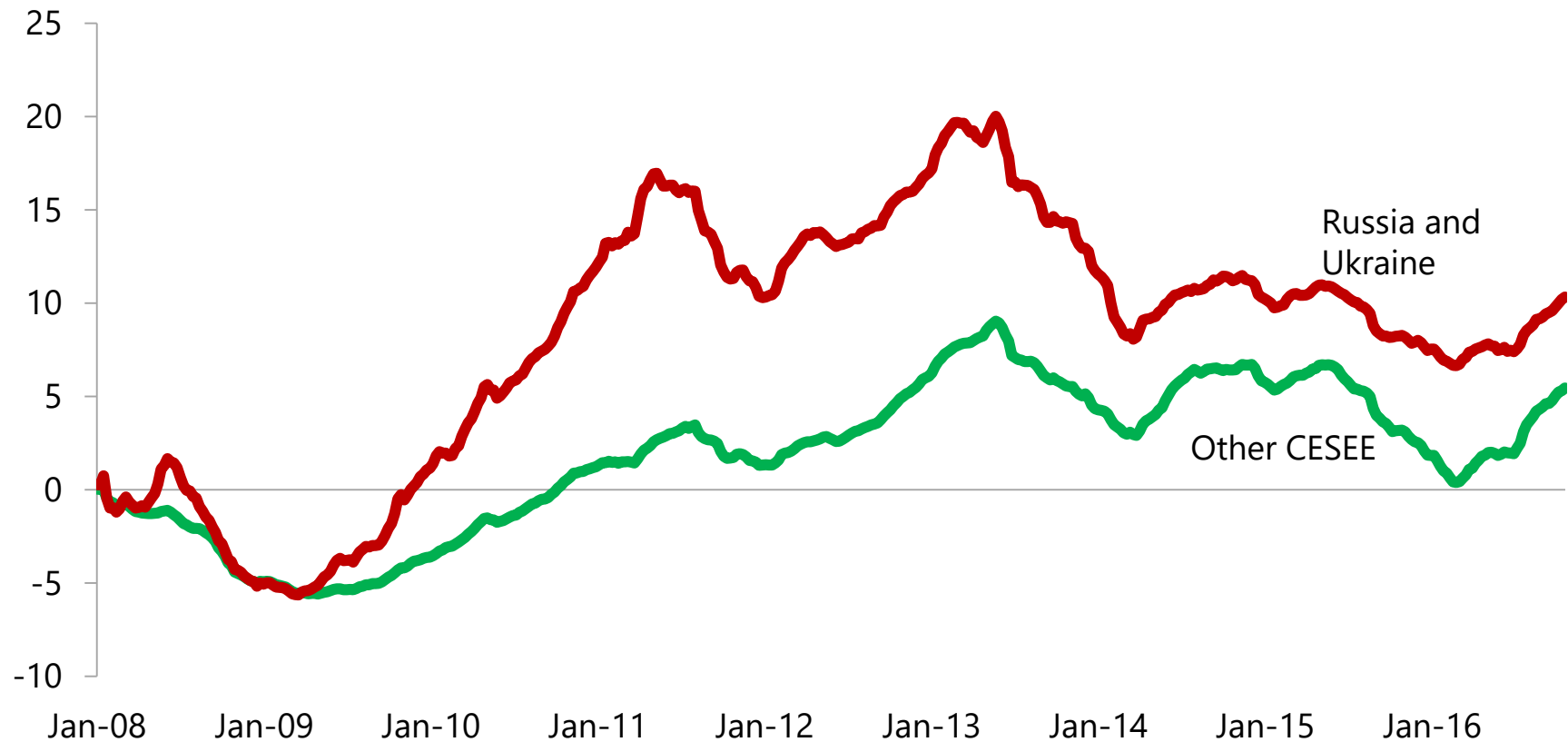
# Oil prices have rebounded...



...capital inflows have picked up...



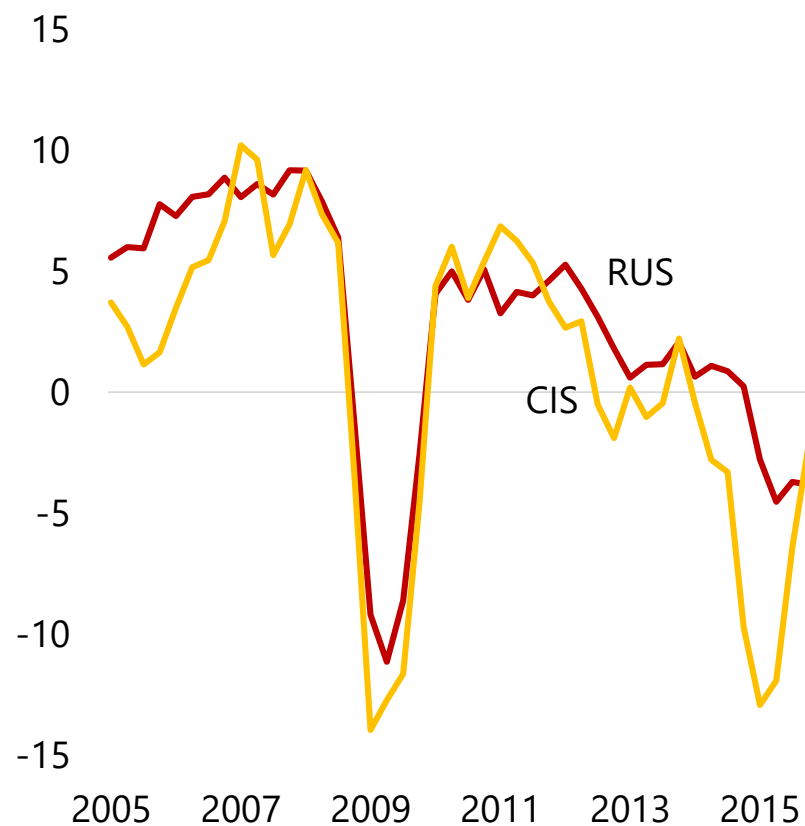
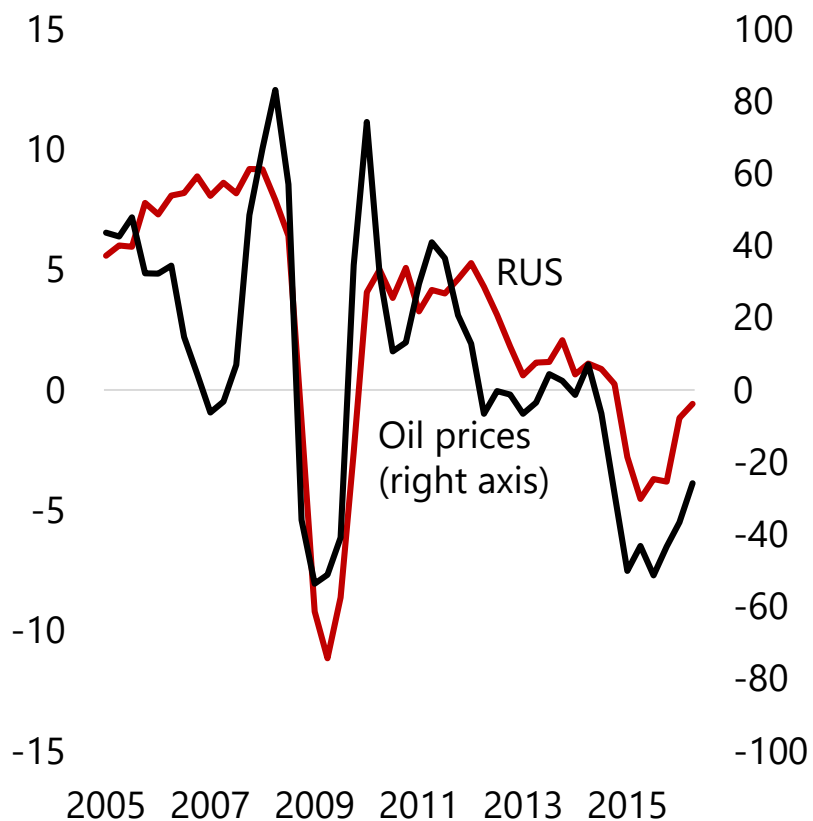
Cumulative EPFR flows into ETFs and Mutual Funds  
(bonds and equity, billions of USD)



# CIS is now recovering...



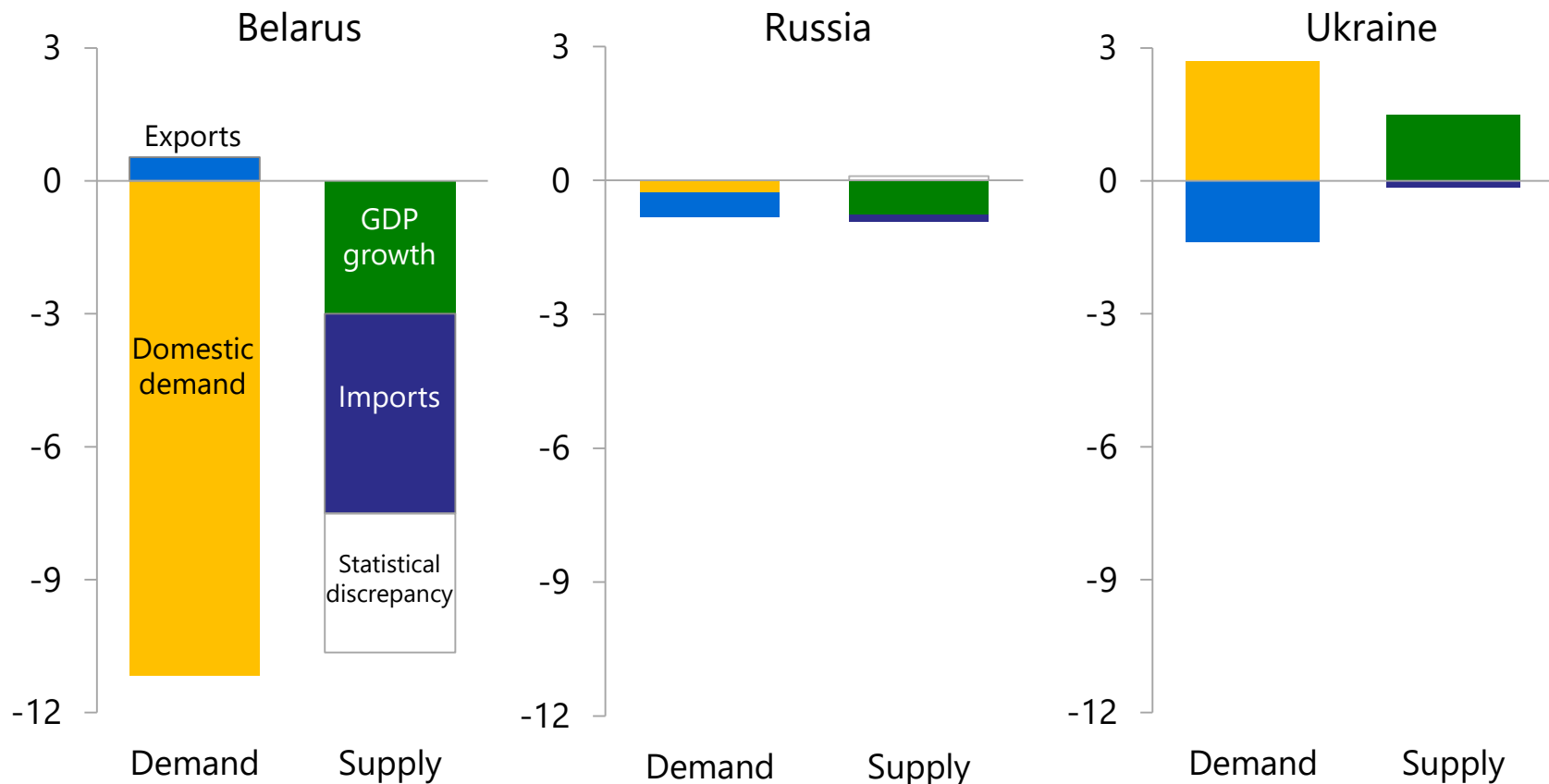
GDP growth in Russia, other CIS countries and changes in oil prices  
(percent y/y)



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



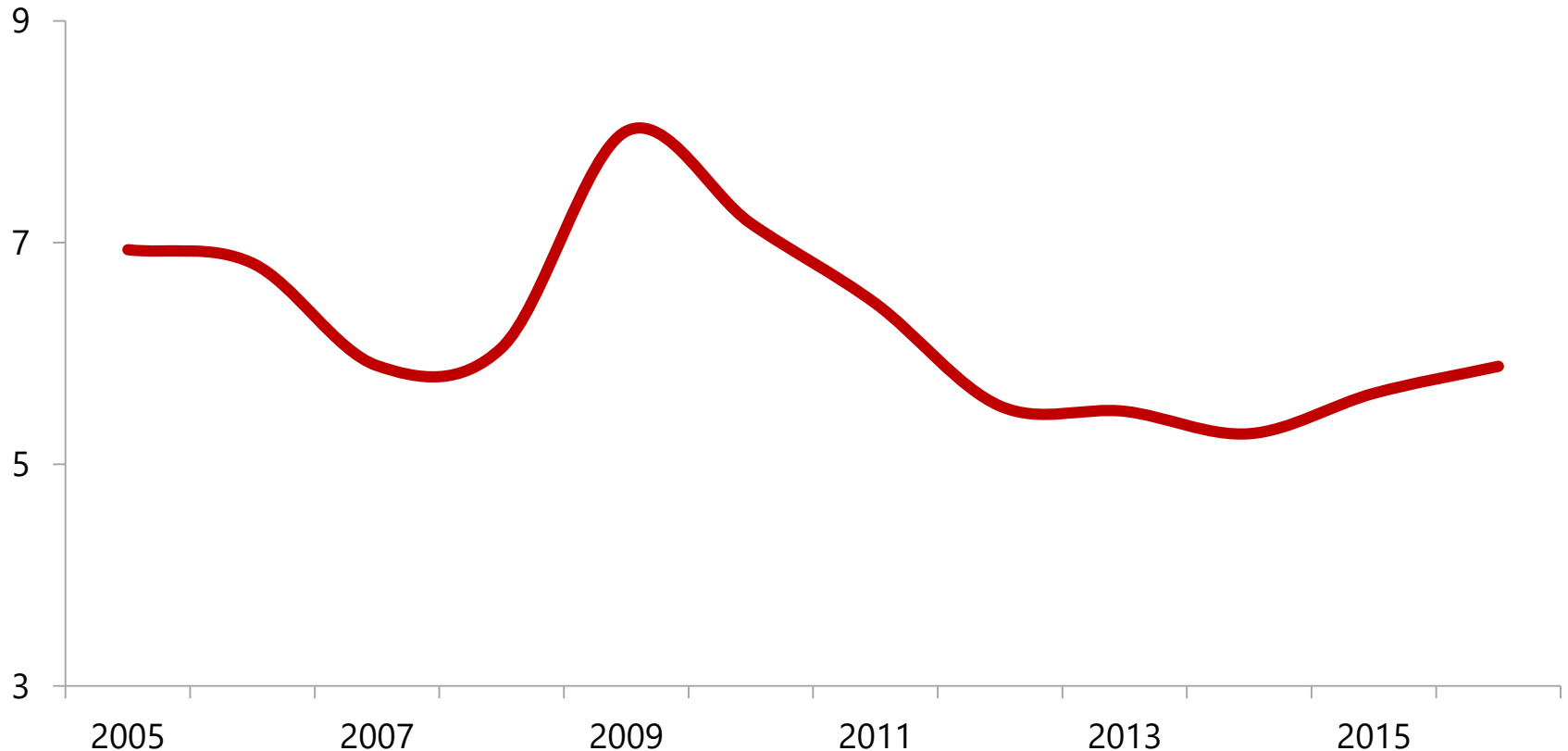
Demand and supply components: contribution to GDP in 2016  
(percent)



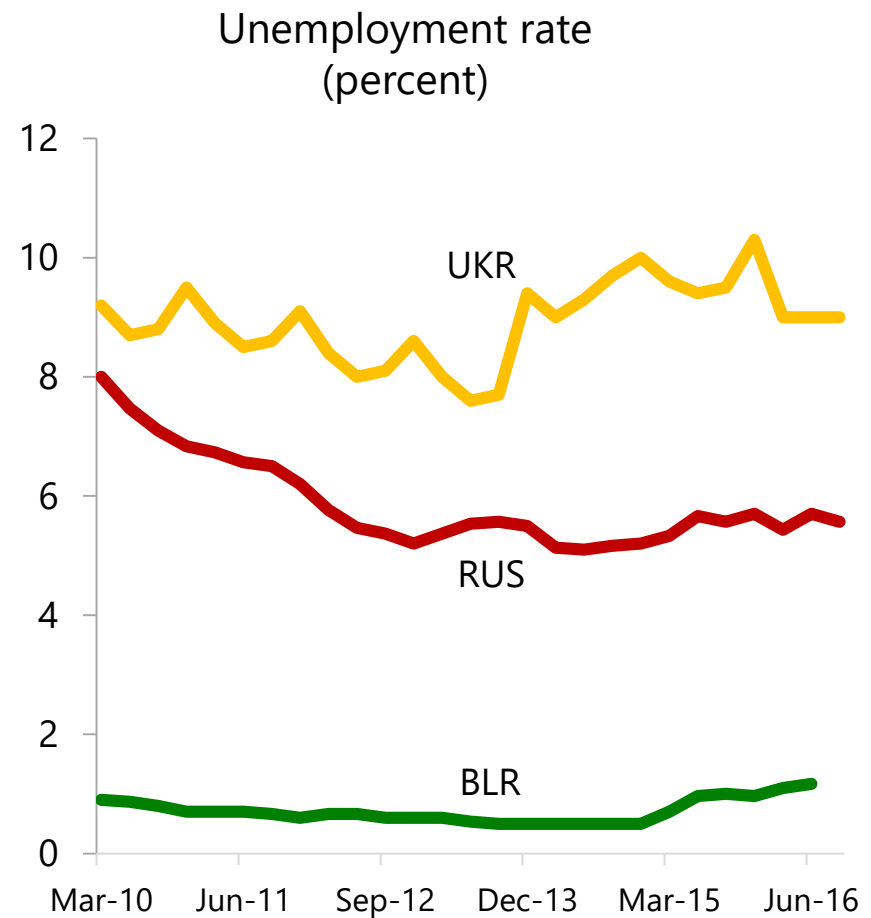
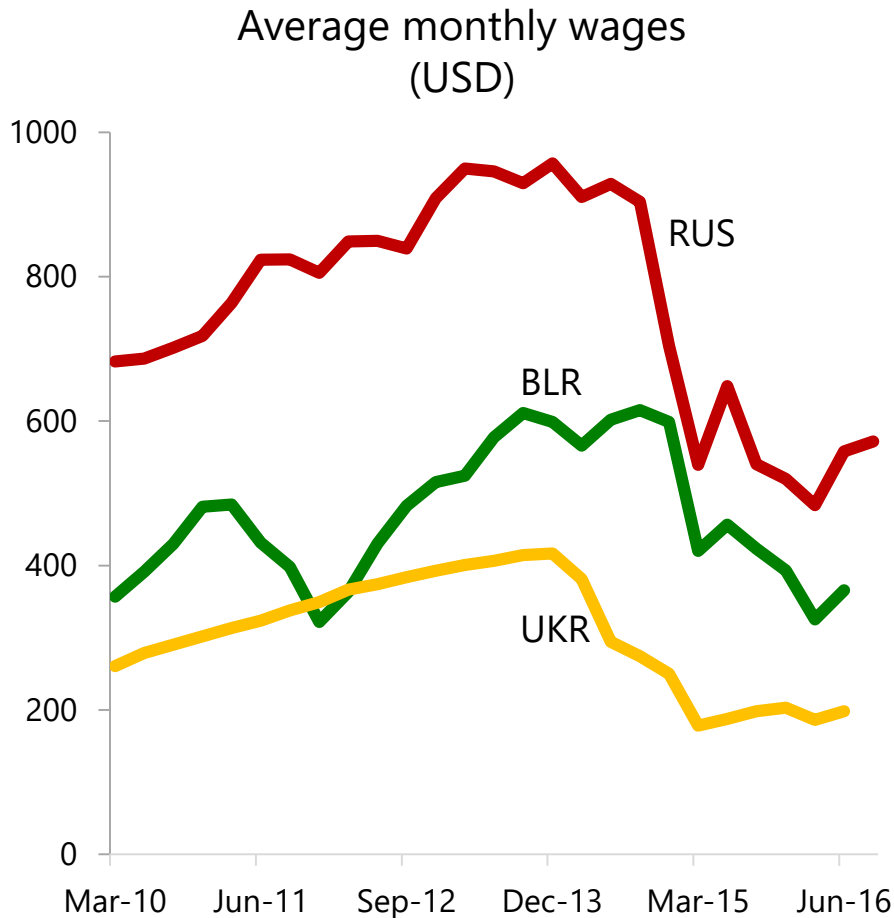
# Unemployment has remained low, despite recession...



Unemployment rate in European CIS  
(percent)

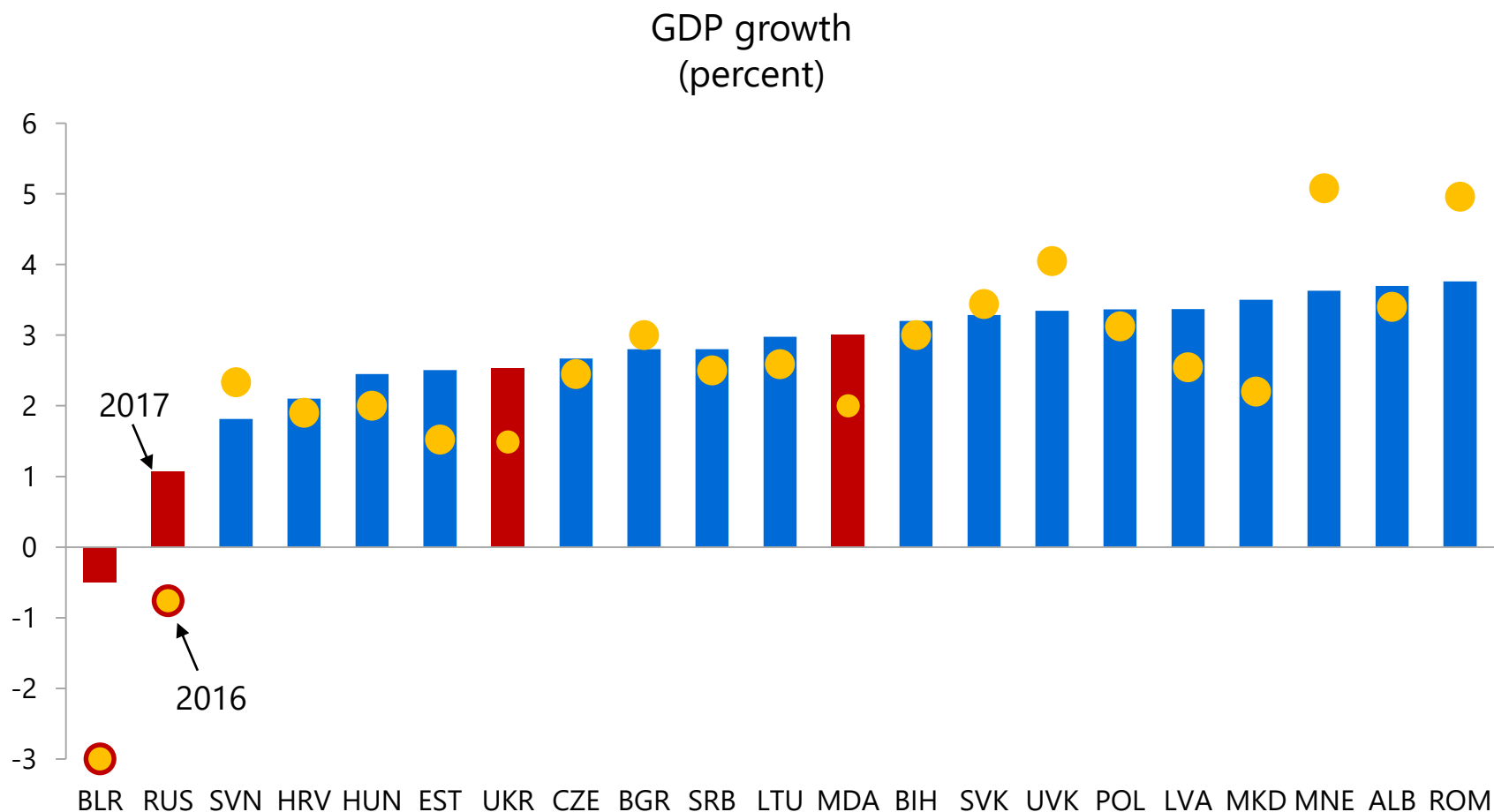


# As exchange rate depreciation reduced real wages.





# 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

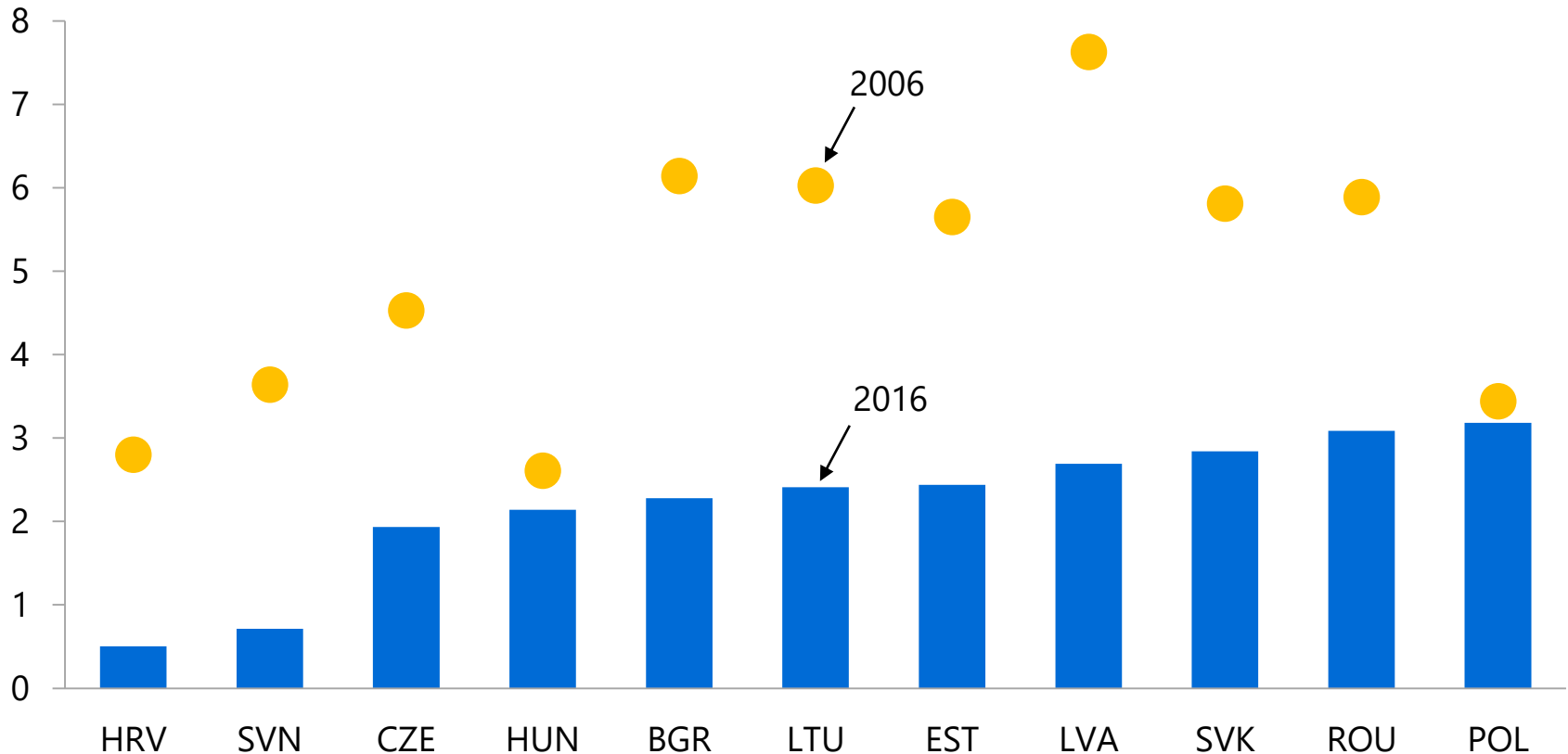


- Tighter and more volatile financial conditions
- Structurally weak growth in the euro area
- Slowdown in China or failure of recovery in major EMs
- Non-economic shocks:
  - Political fragmentation
  - Refugee crisis
  - Terrorism

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



Potential output growth in 2006 and 2016  
(percent)

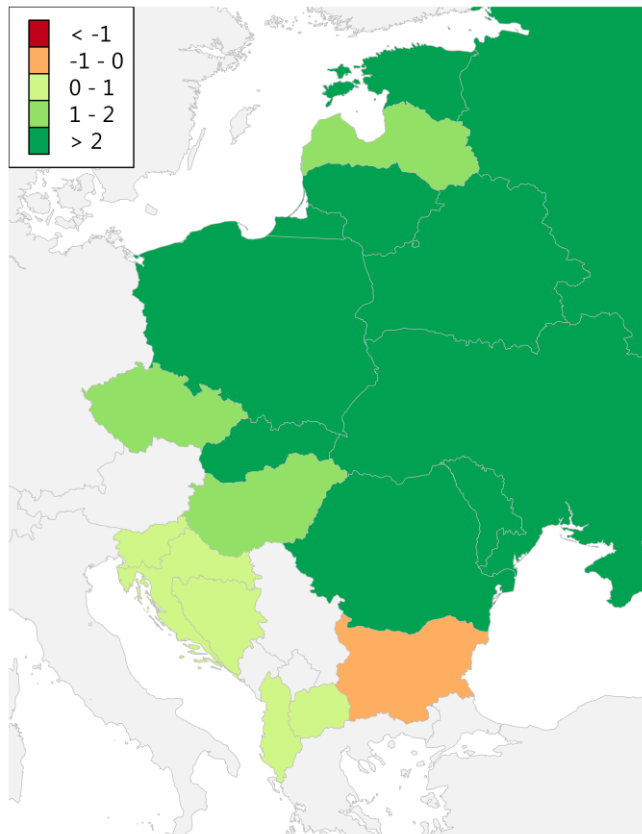


# ...as productivity growth has slowed.

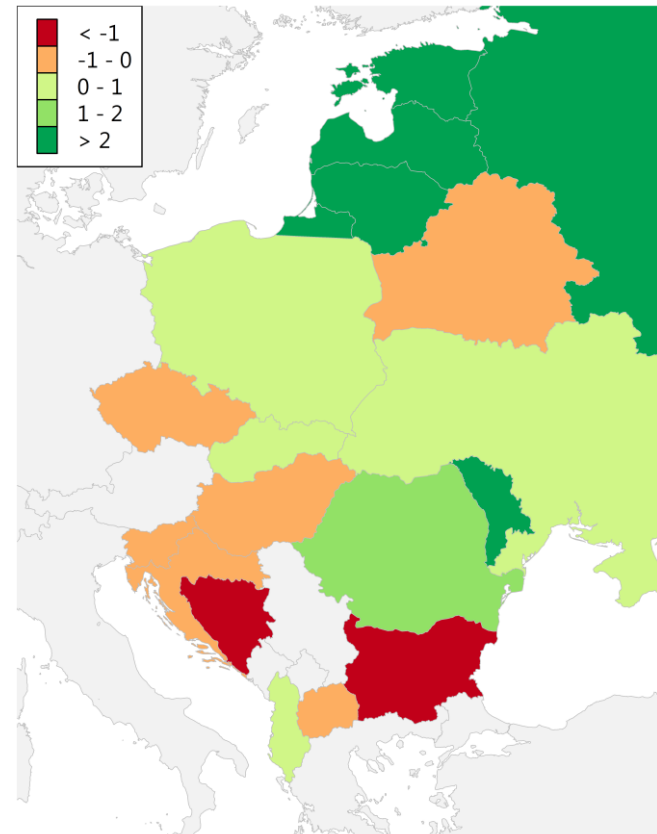


Average total factor productivity growth  
(percent)

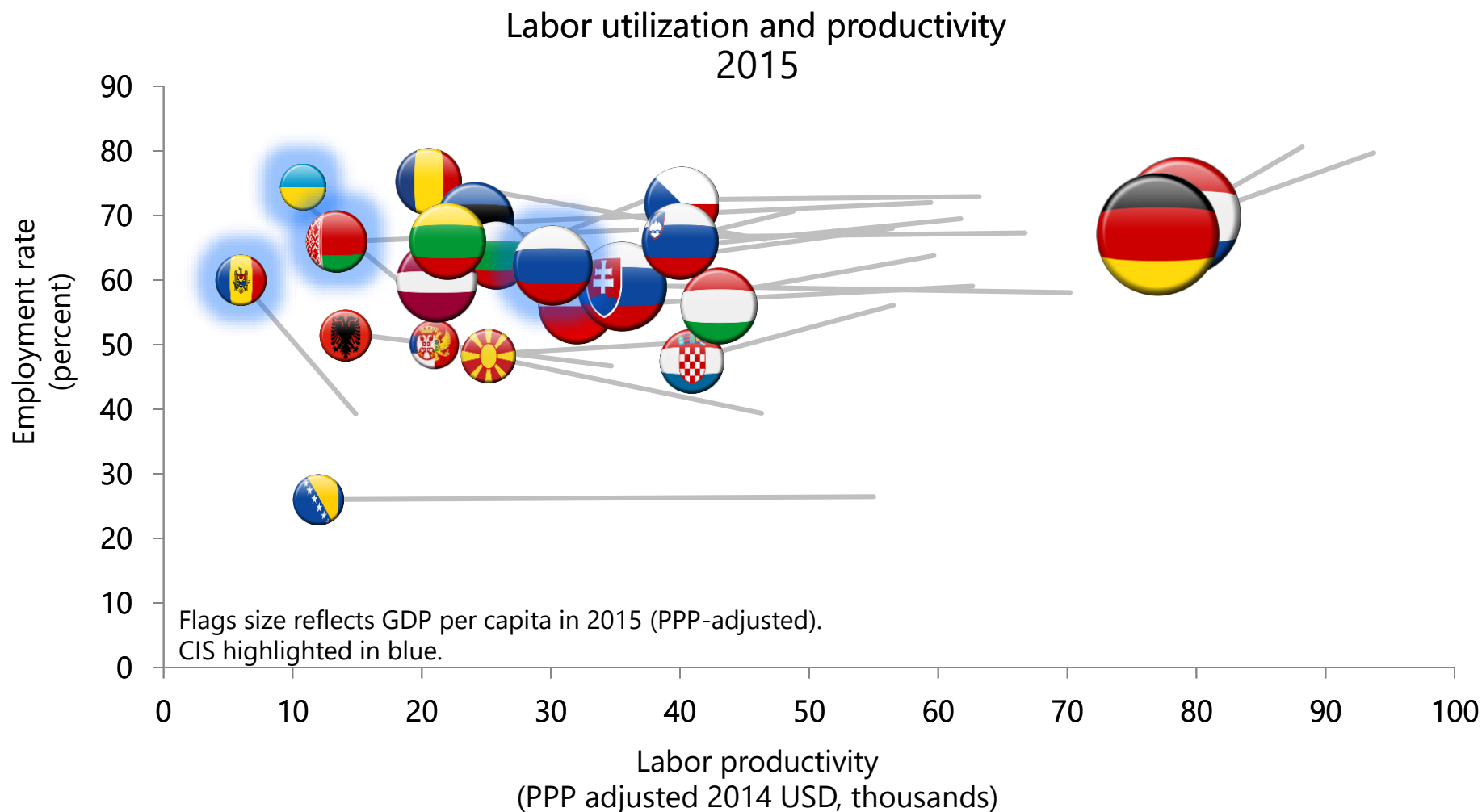
2000-04



2010-14



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

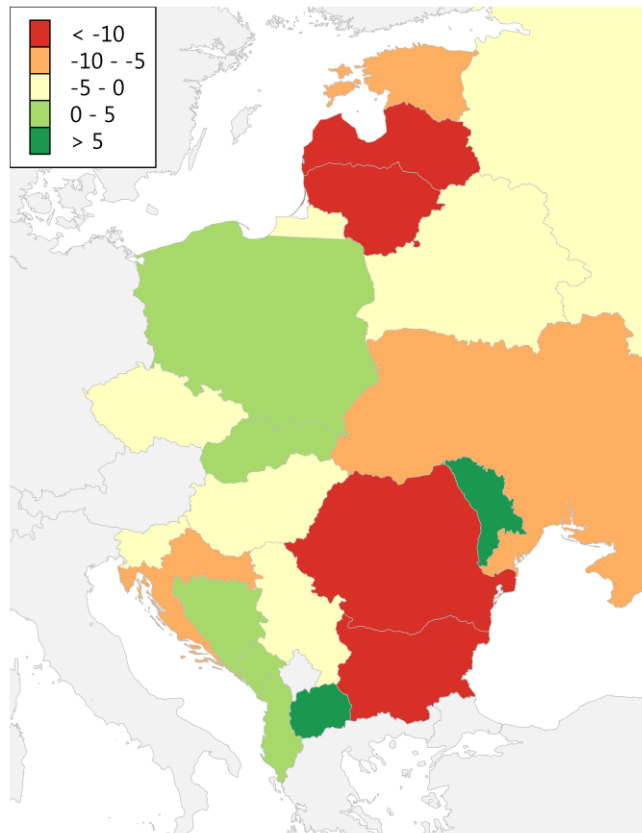


# Aging will provide further headwinds...



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

2000-2015



2015-2025

