

Faster, Higher, Stronger **Raising the Growth Potential of CESEE**



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October 24, 2013

Outline



Risks from Global Turmoil

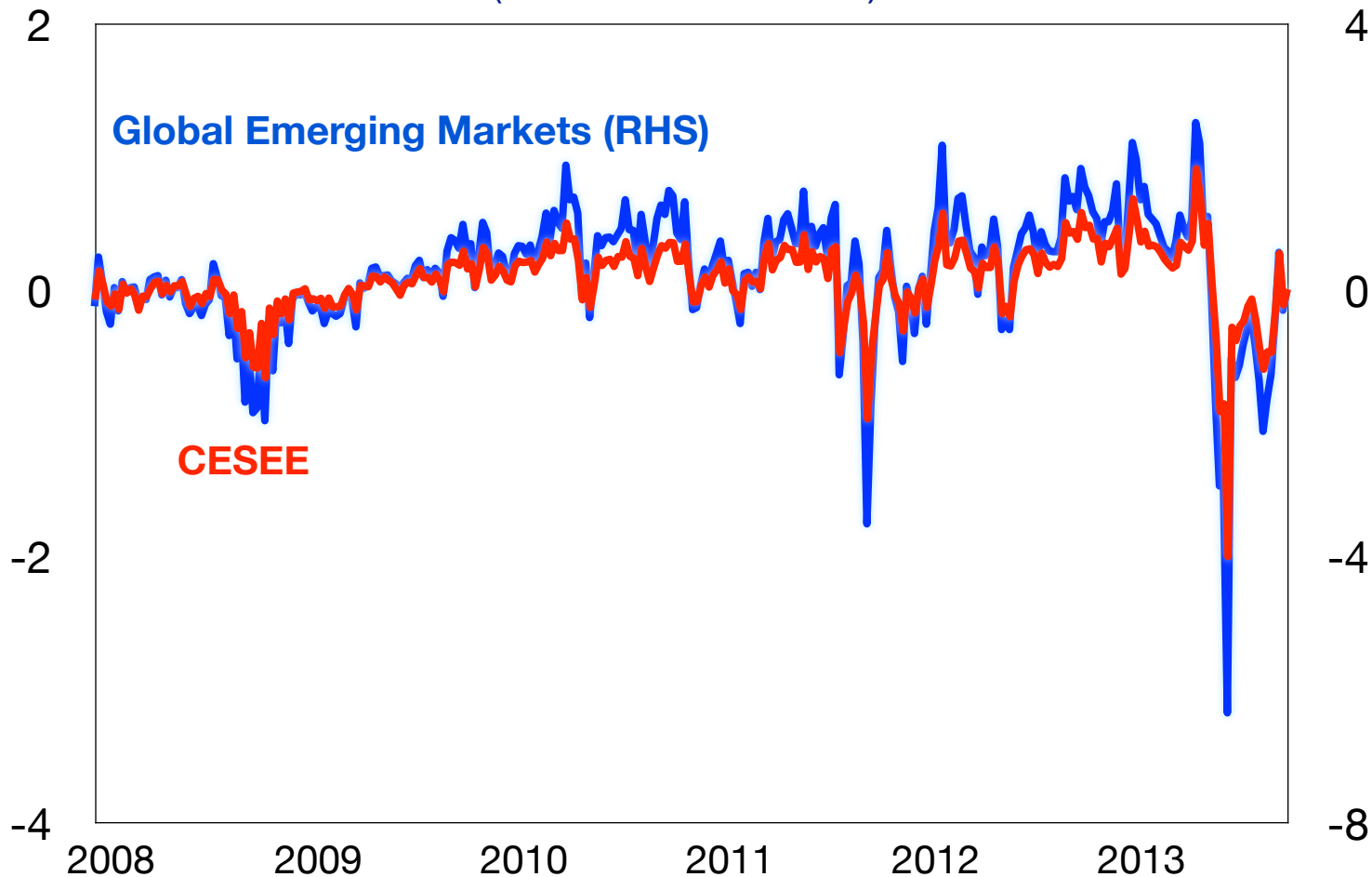
Headwinds to Growth

Addressing Growth Challenges

Financial markets in CESEE under pressure since Spring



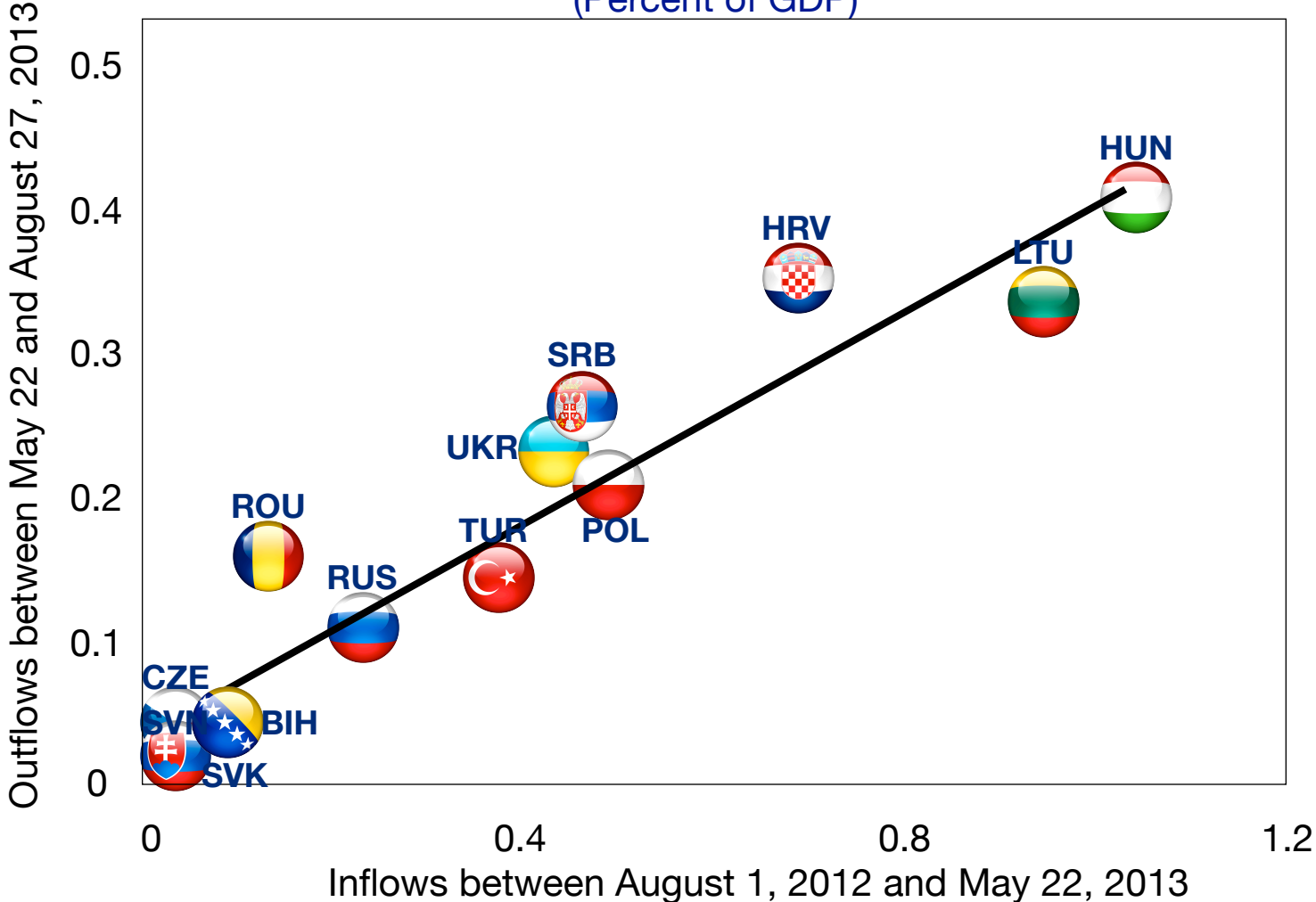
Bond Funds Flows (Billions of US dollars)



Countries with larger previous inflows were affected more ...



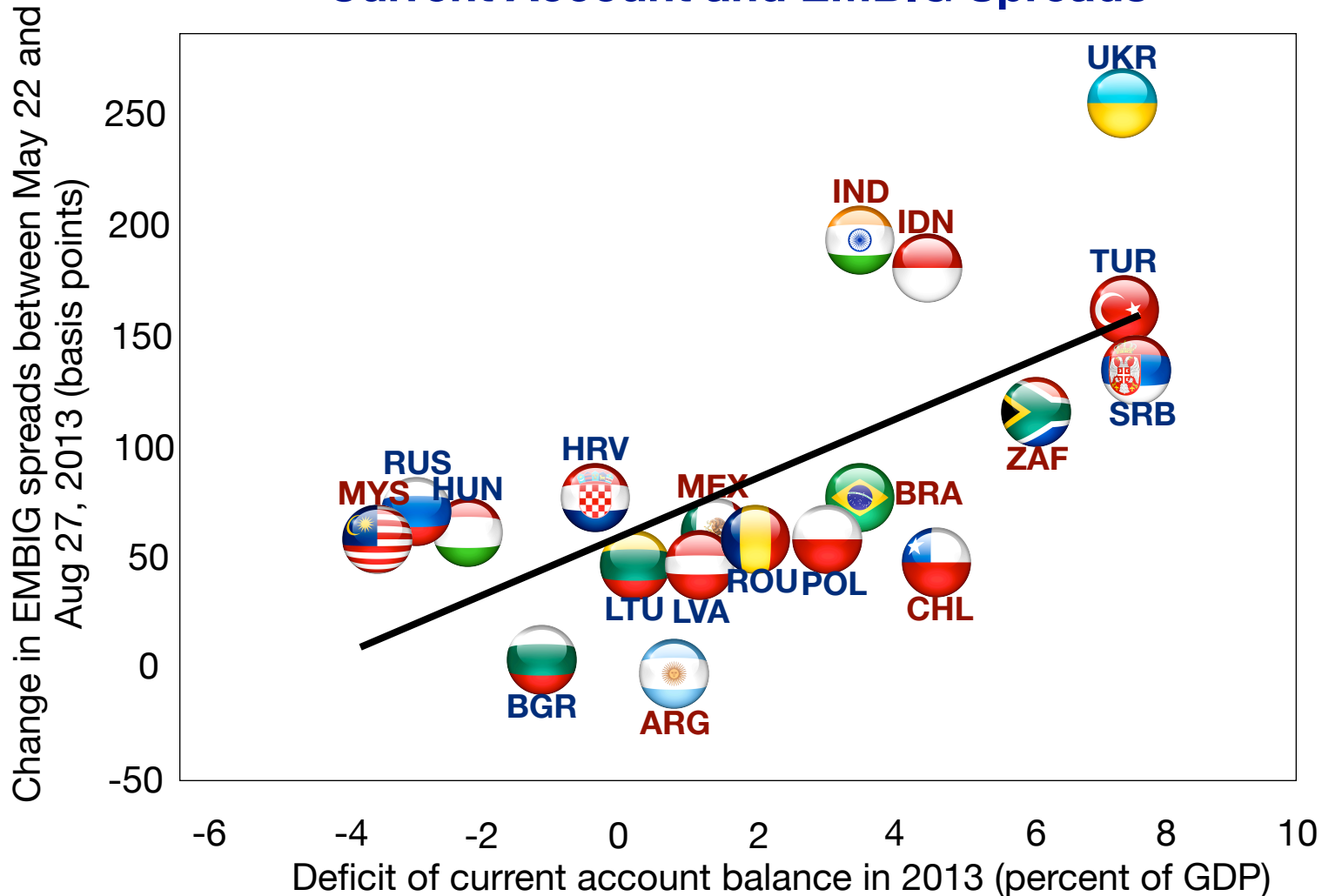
Bond Funds Flows (Percent of GDP)



... as were countries with weaker fundamentals



Current Account and EMBIG Spreads

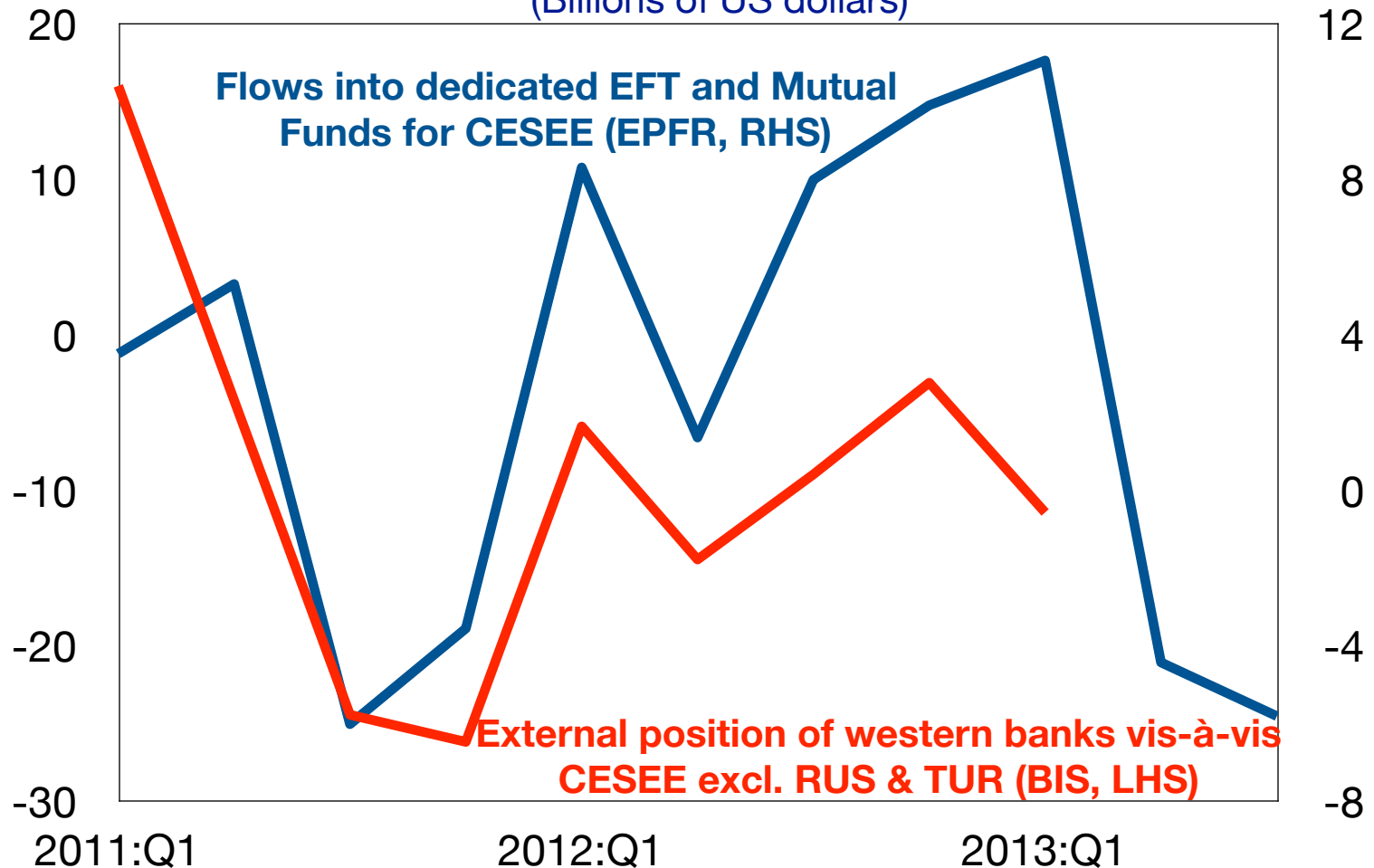


Renewed turmoil could accelerate deleveraging ...



Bank and Portfolio Flows

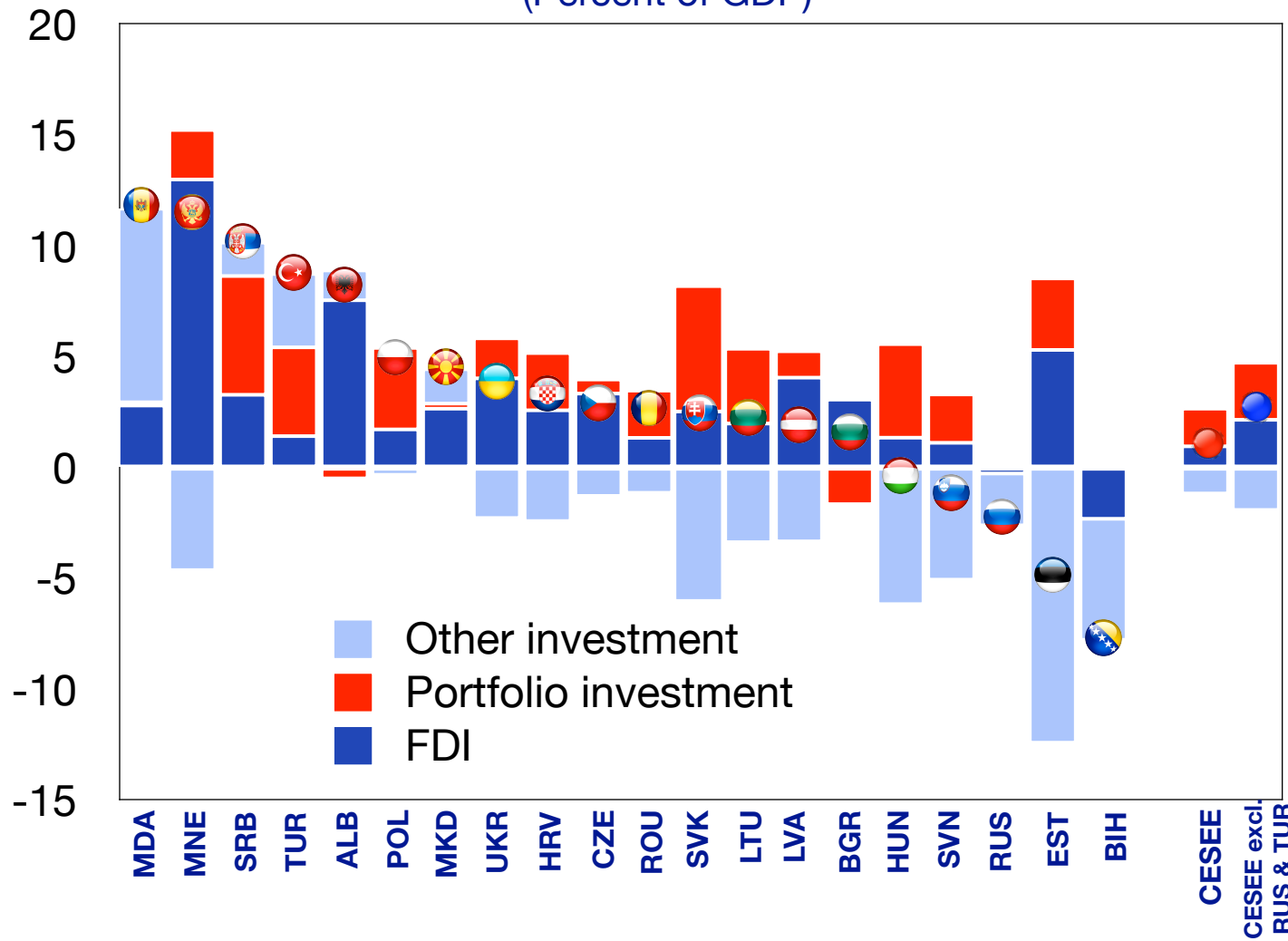
(Billions of US dollars)



... exacerbated by portfolio outflows ...



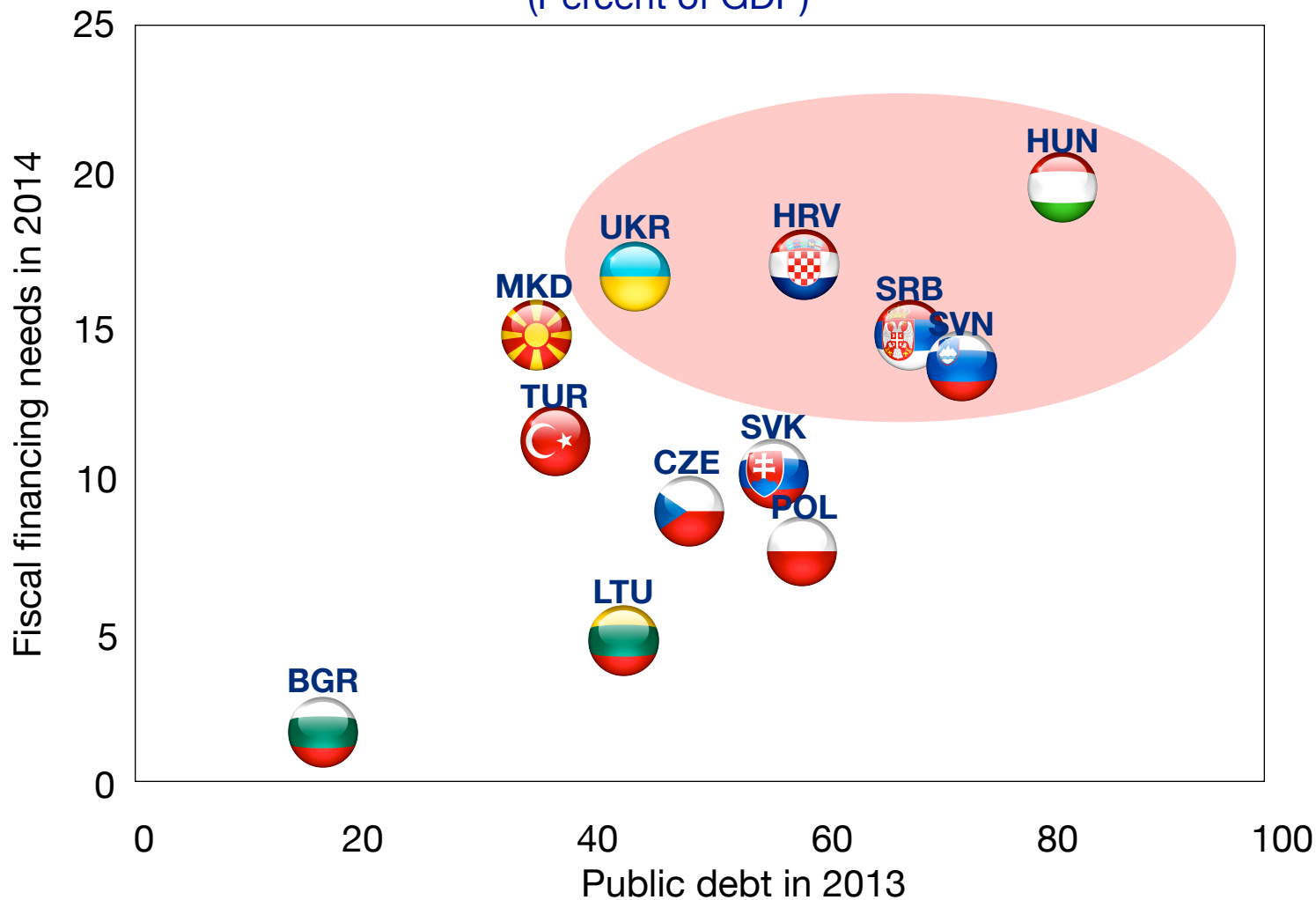
Average Annual Capital Flows in 2011 and 2012 (Percent of GDP)



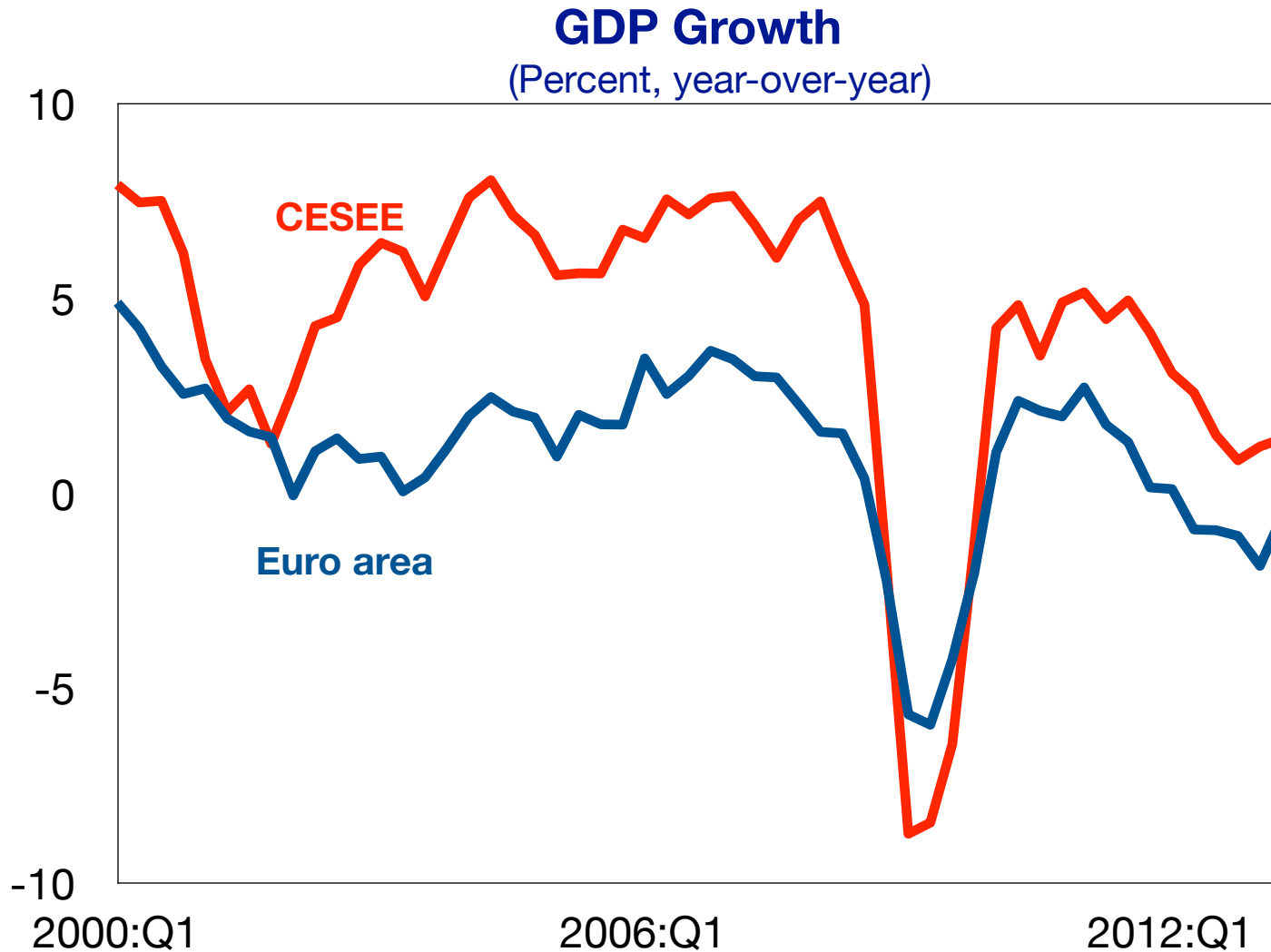
... and put added pressure on those with large fiscal gaps



Public Debt and Fiscal Financing Needs (Percent of GDP)



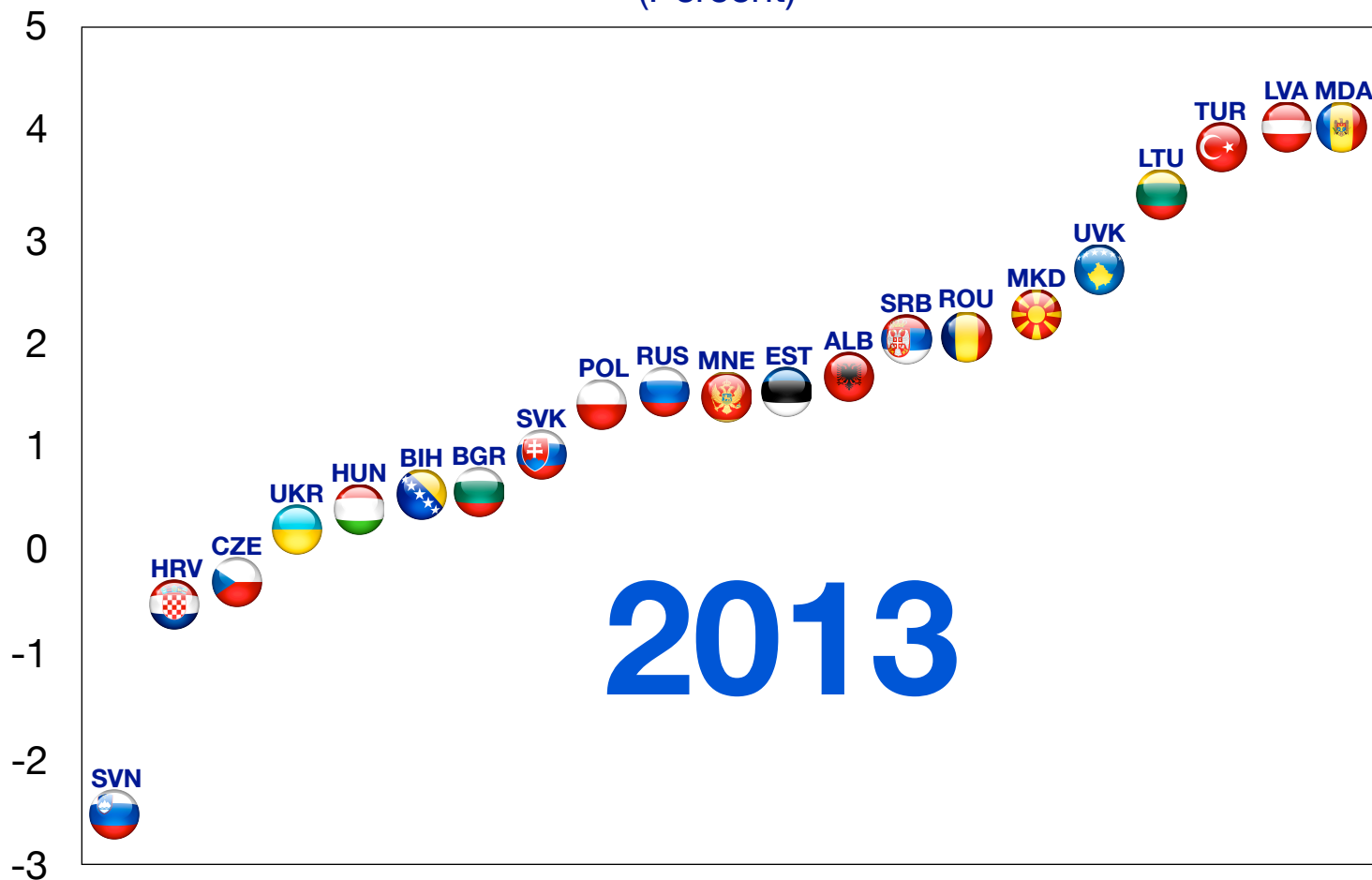
Region recovering from second downturn in five years ...



... which could be jeopardized by renewed turmoil ...



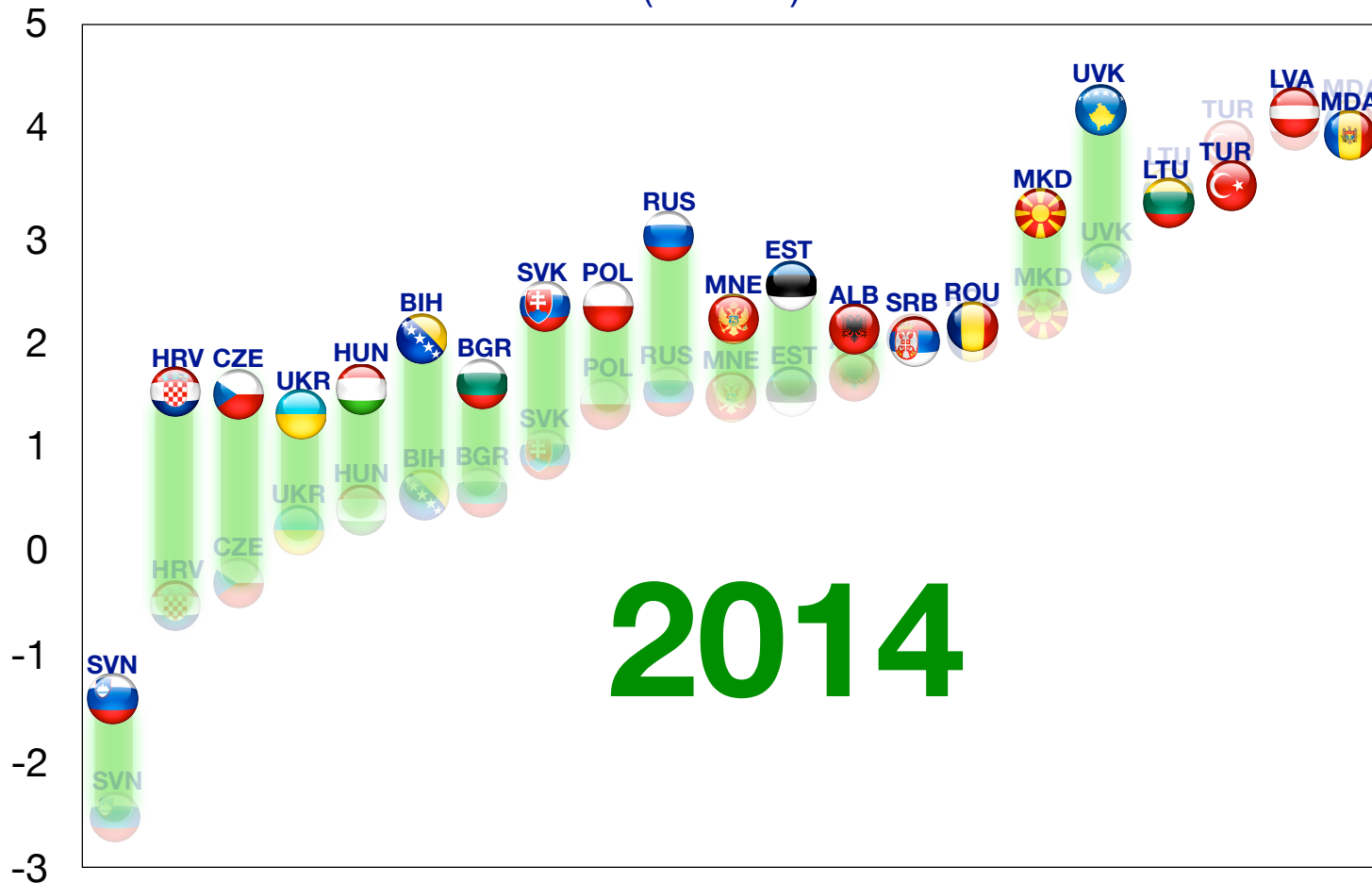
GDP Growth Projections (Percent)



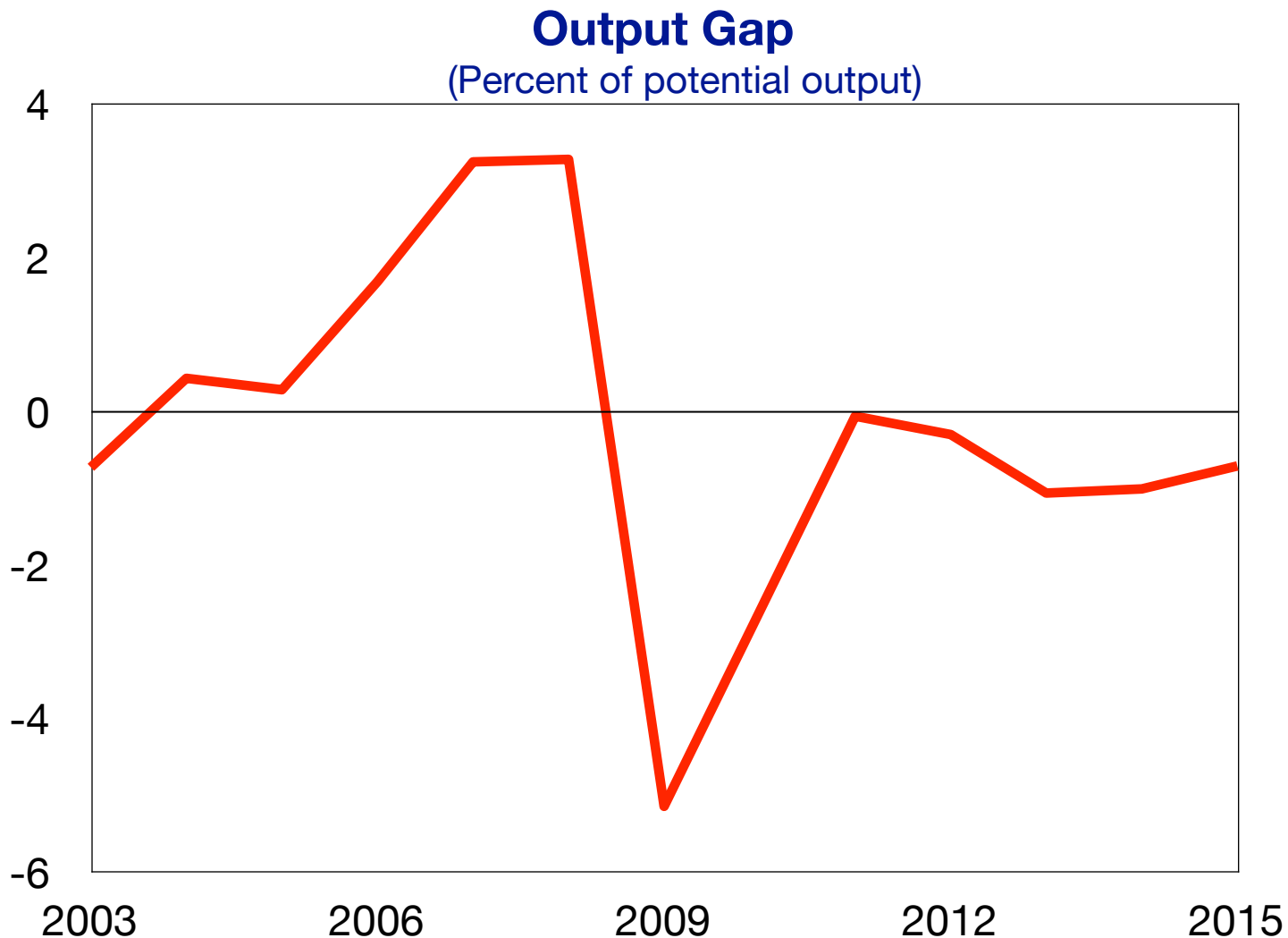
... which could be jeopardized by renewed turmoil ...



GDP Growth Projections (Percent)



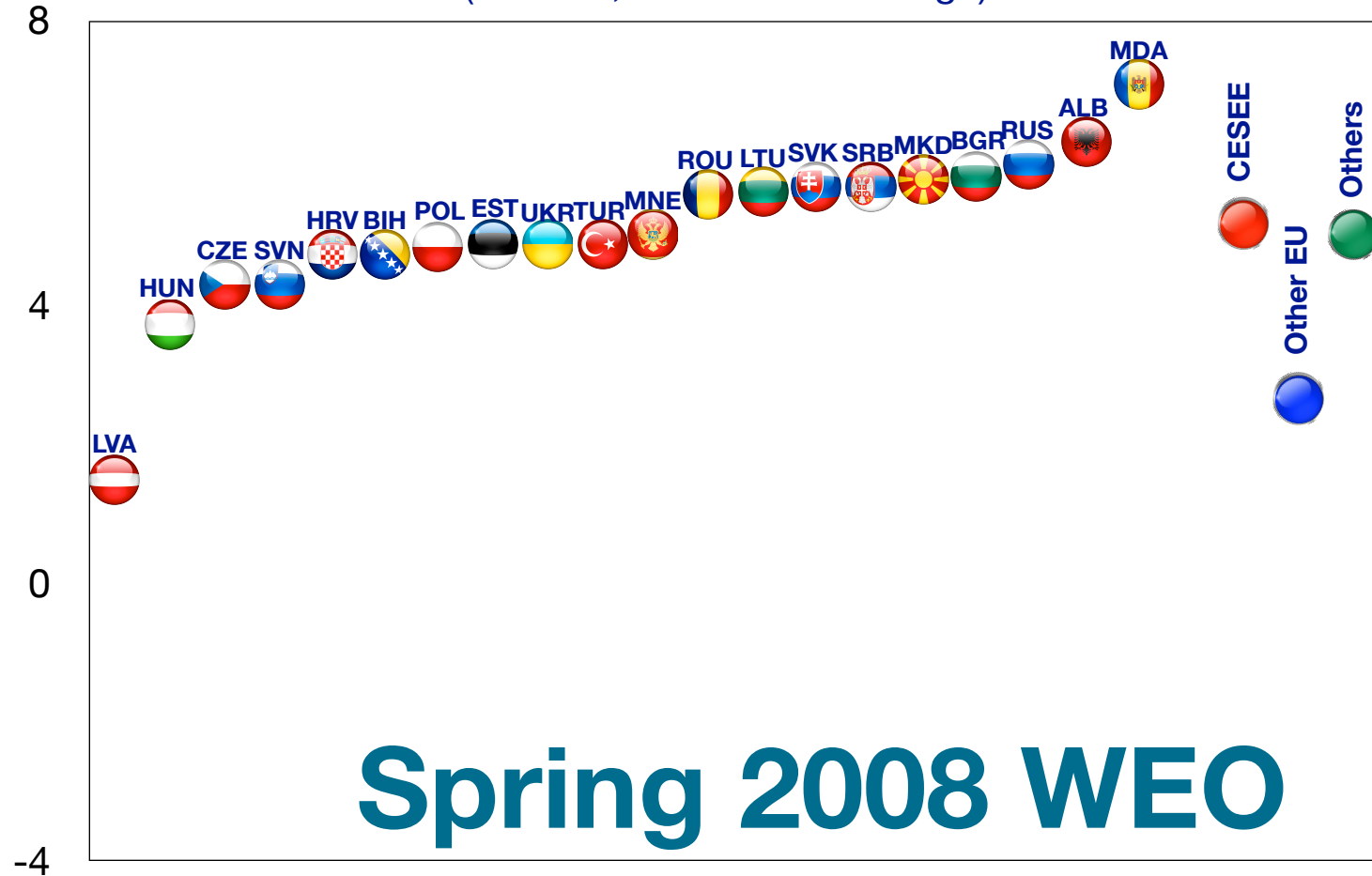
... with small output gap reopened in 2012 widening again



Post-crisis growth disappointing ...



GDP Growth between 2008 and 2013
(Percent, annualized average)

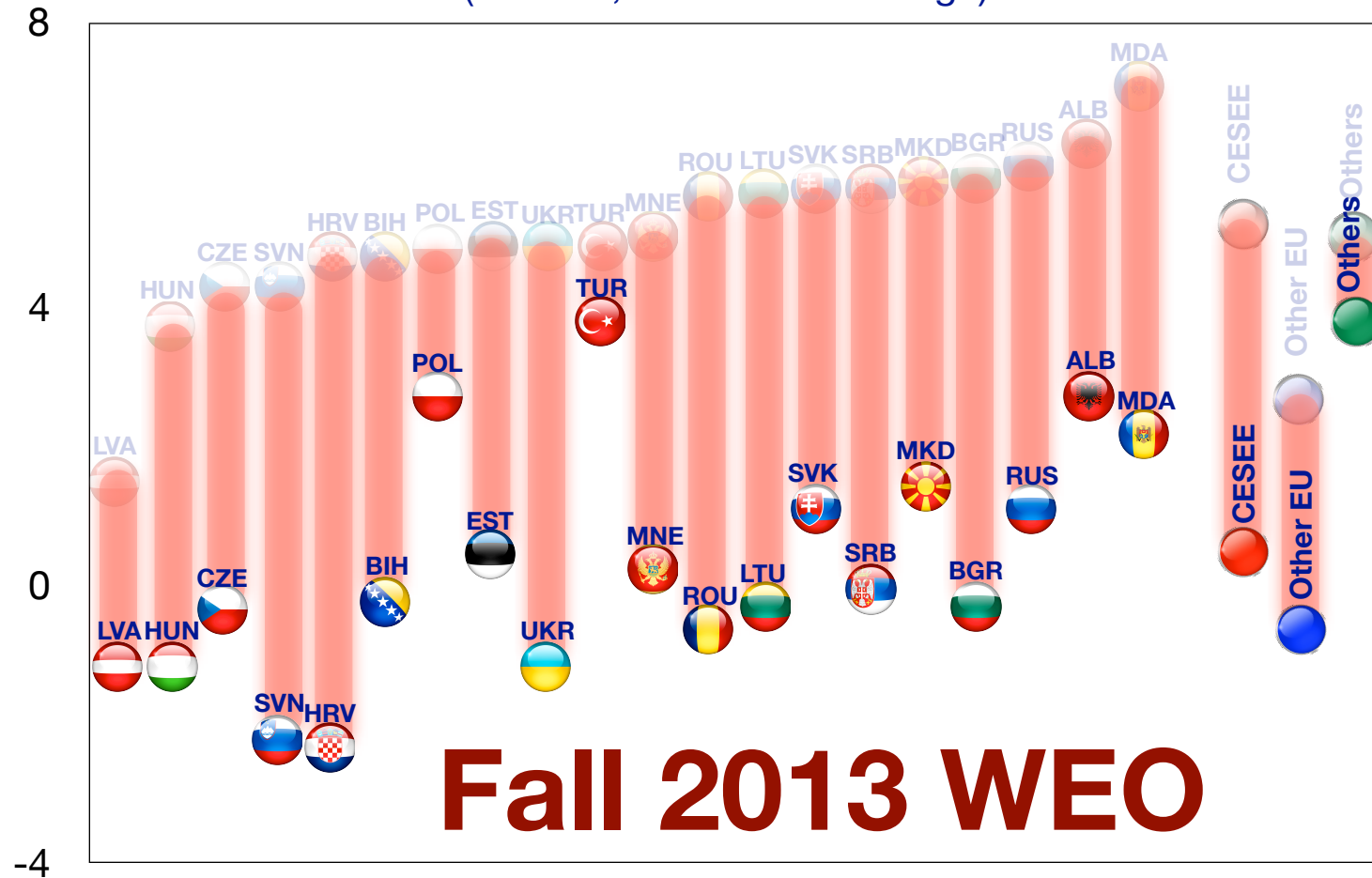


Spring 2008 WEO

Post-crisis growth disappointing ...



GDP Growth between 2008 and 2013
(Percent, annualized average)

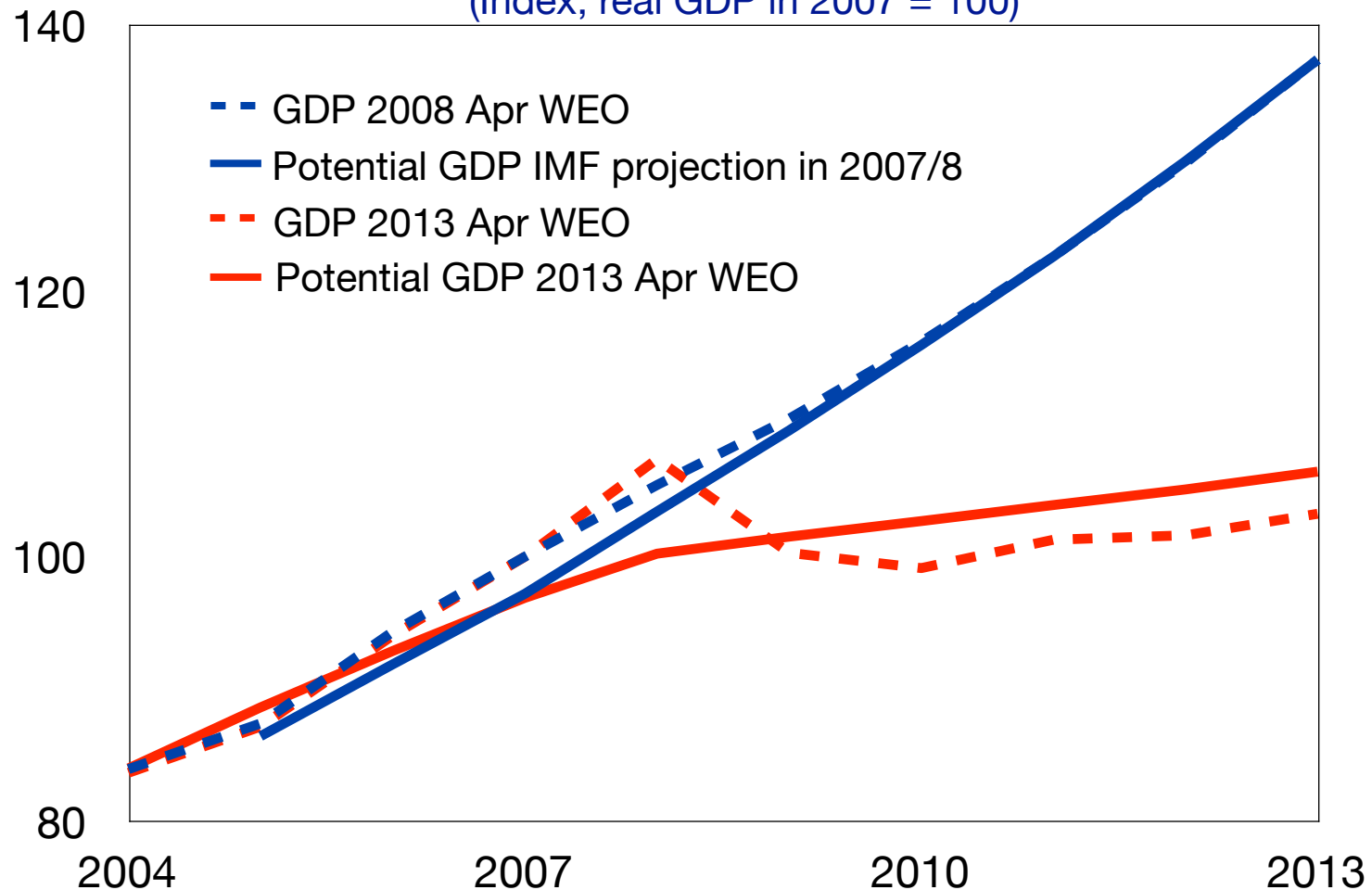


... reflecting drop in growth potential ...



Romania: Real and Potential GDP

(Index, real GDP in 2007 = 100)

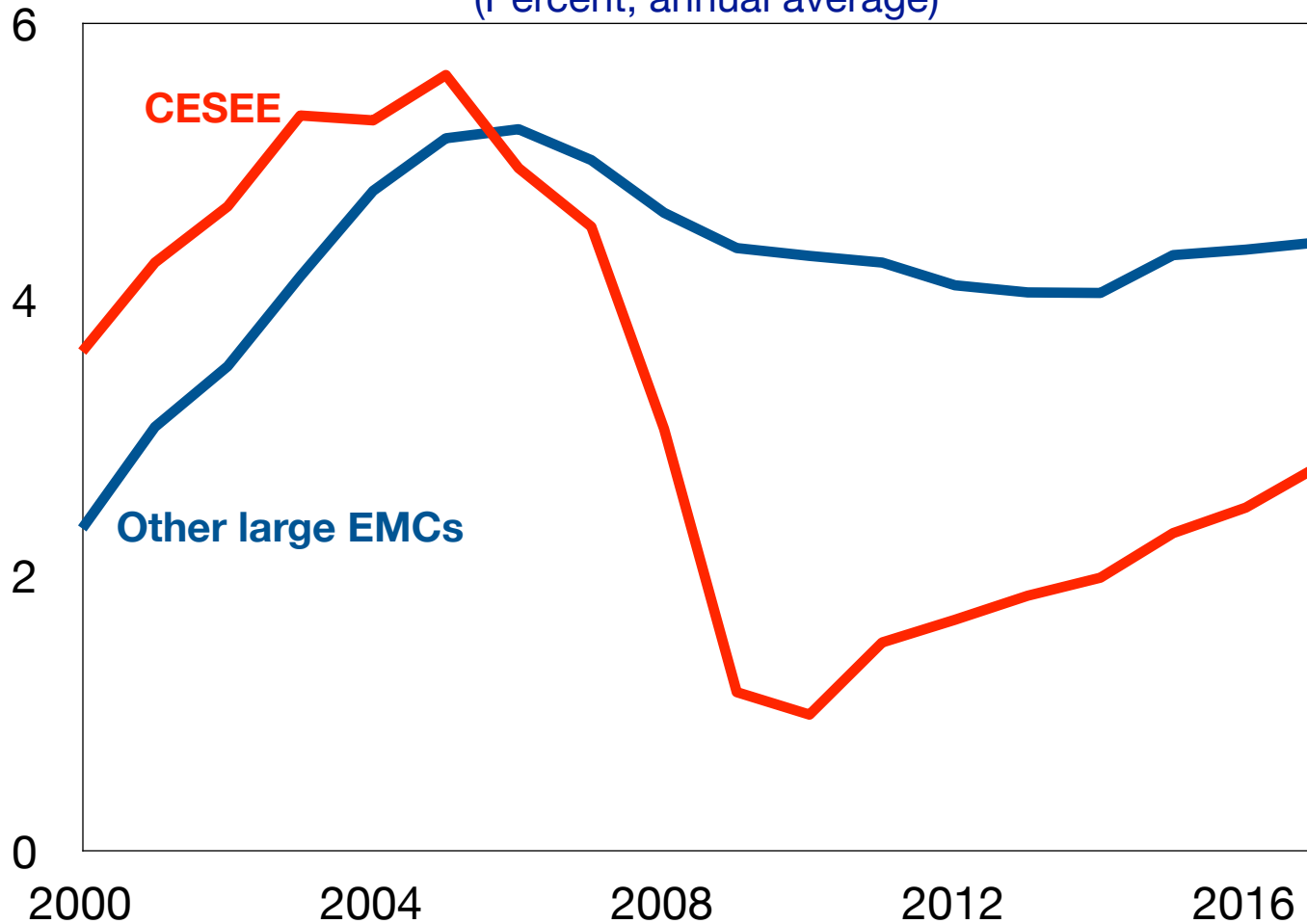


... which was worse than other EMs



Potential Output Growth

(Percent, annual average)

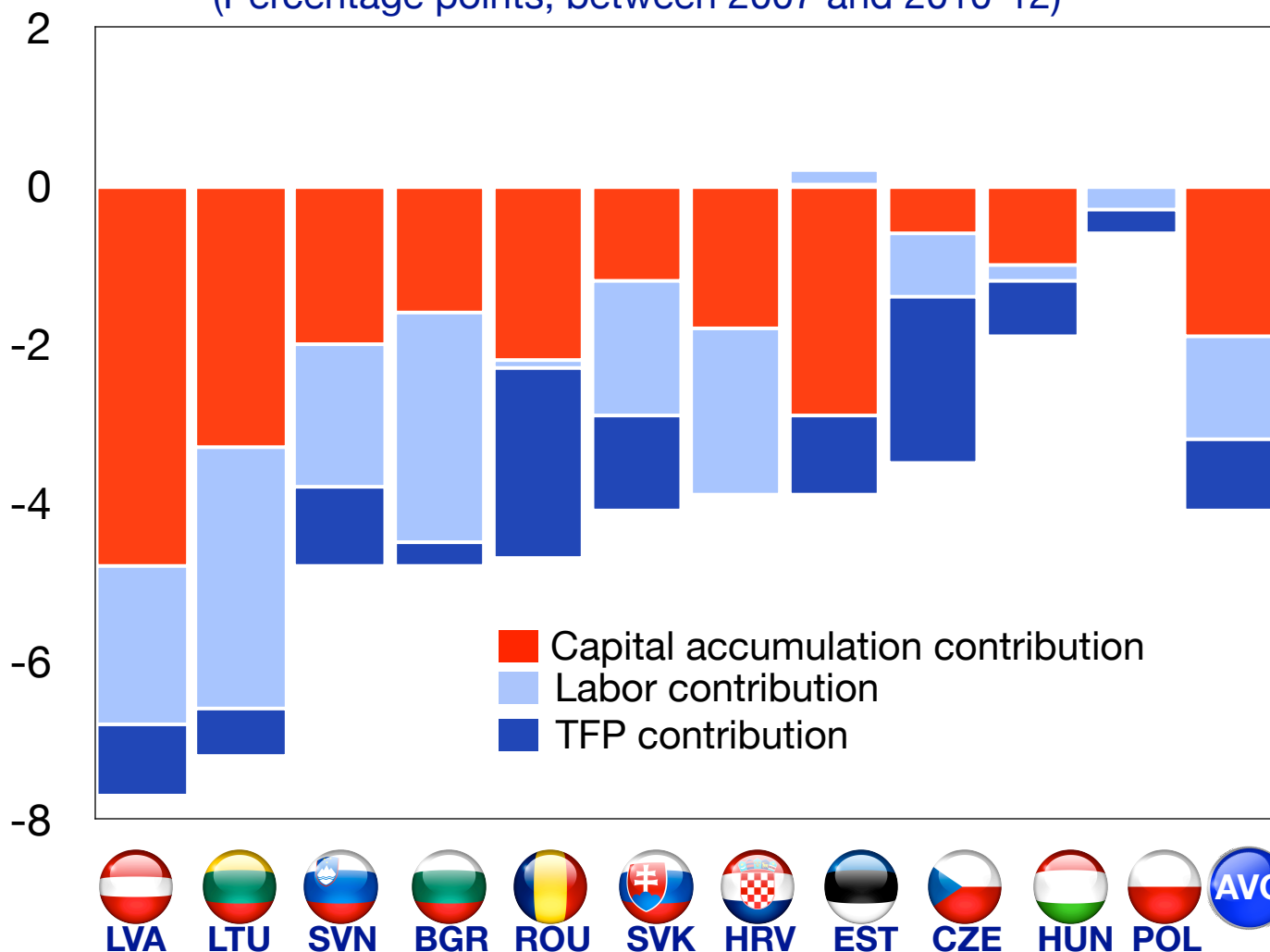


Potential growth decline largely due to weaker investment ...



Decomposition of the Fall in Potential Growth

(Percentage points, between 2007 and 2010-12)

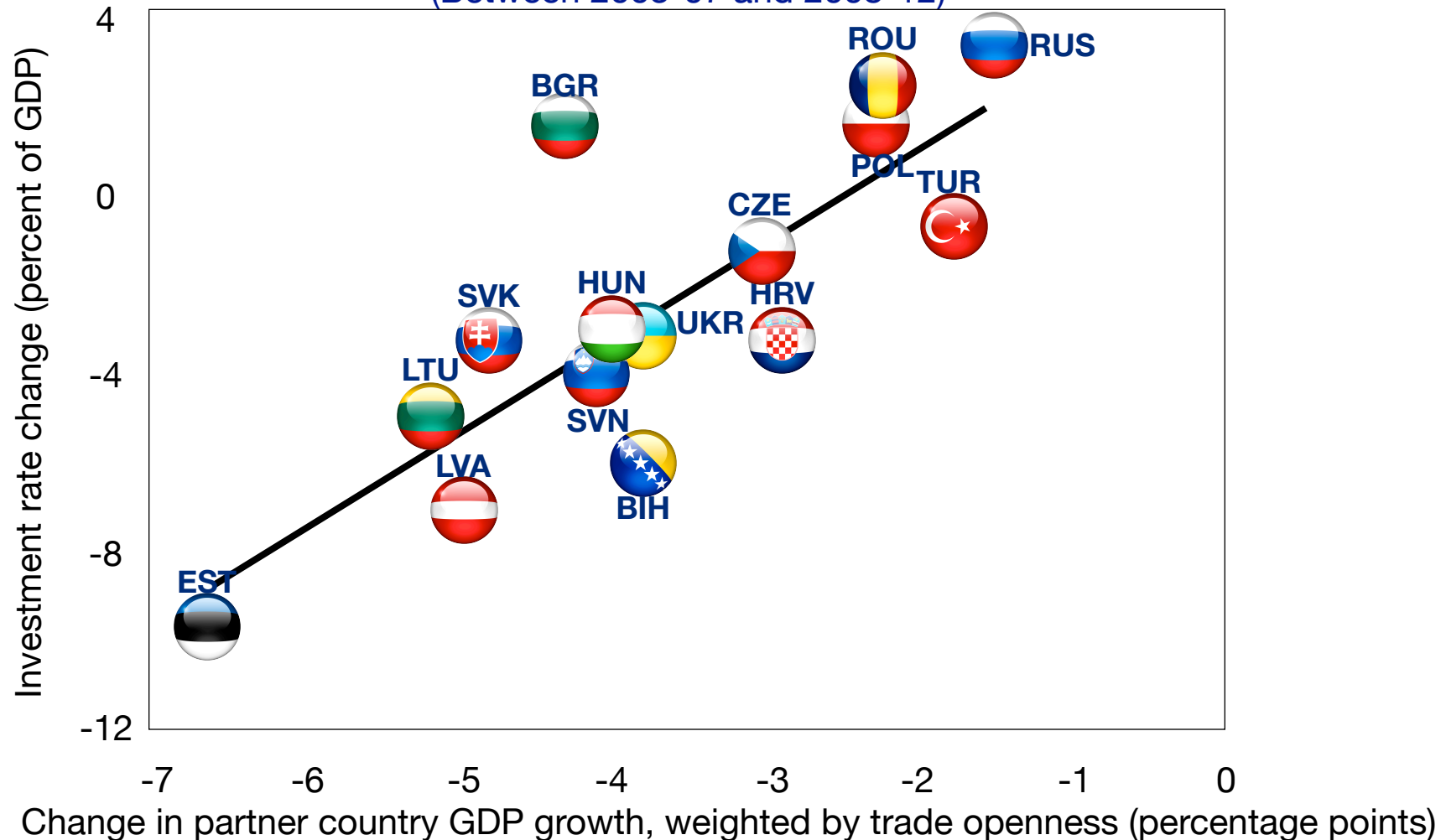


... partly as a result of lower demand



Investment and Partner Country Growth

(Between 2003-07 and 2008-12)

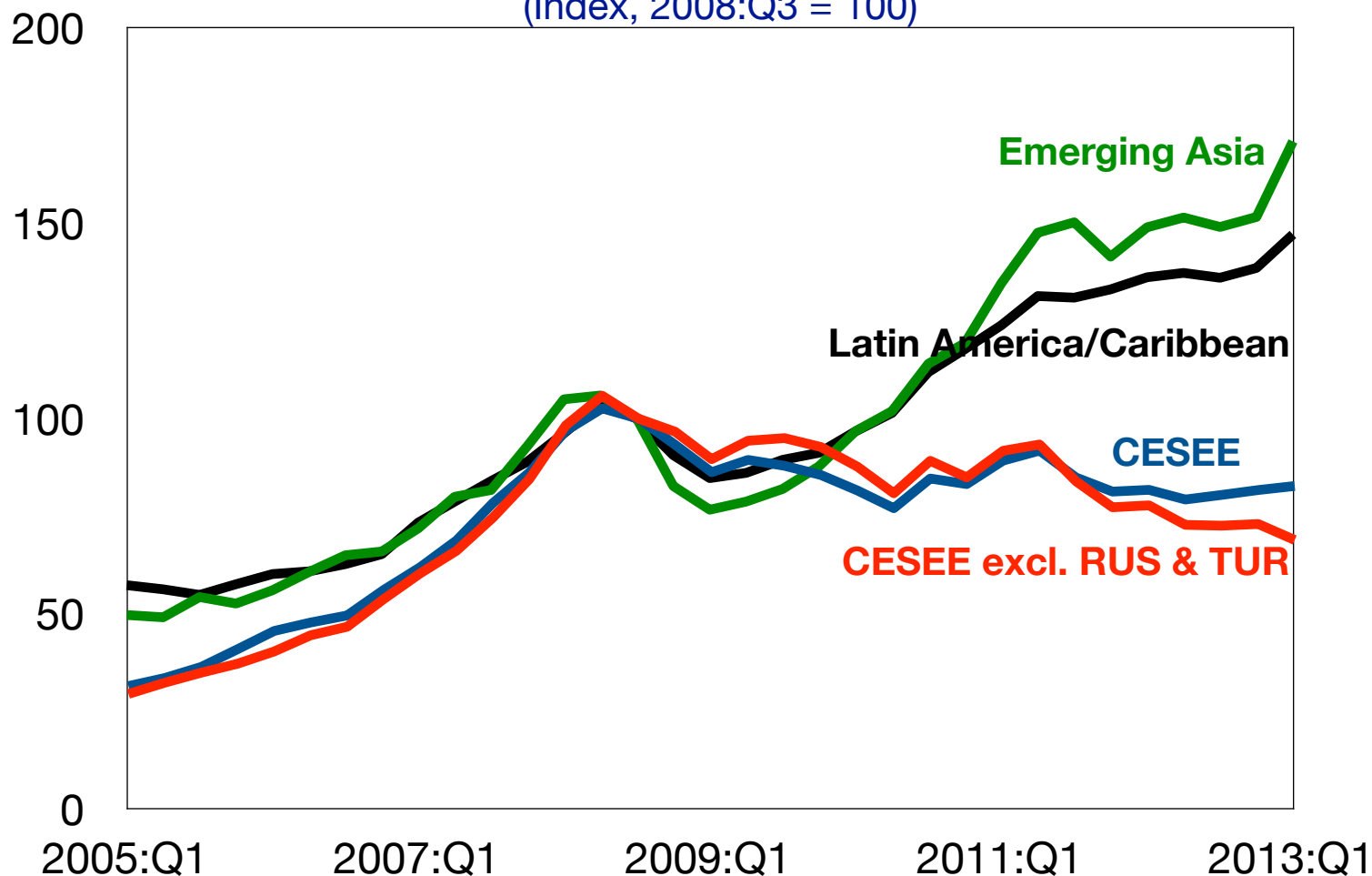


Looking ahead, headwinds to potential growth are substantial



External Positions of BIS-Reporting Banks vis-à-vis CESEE

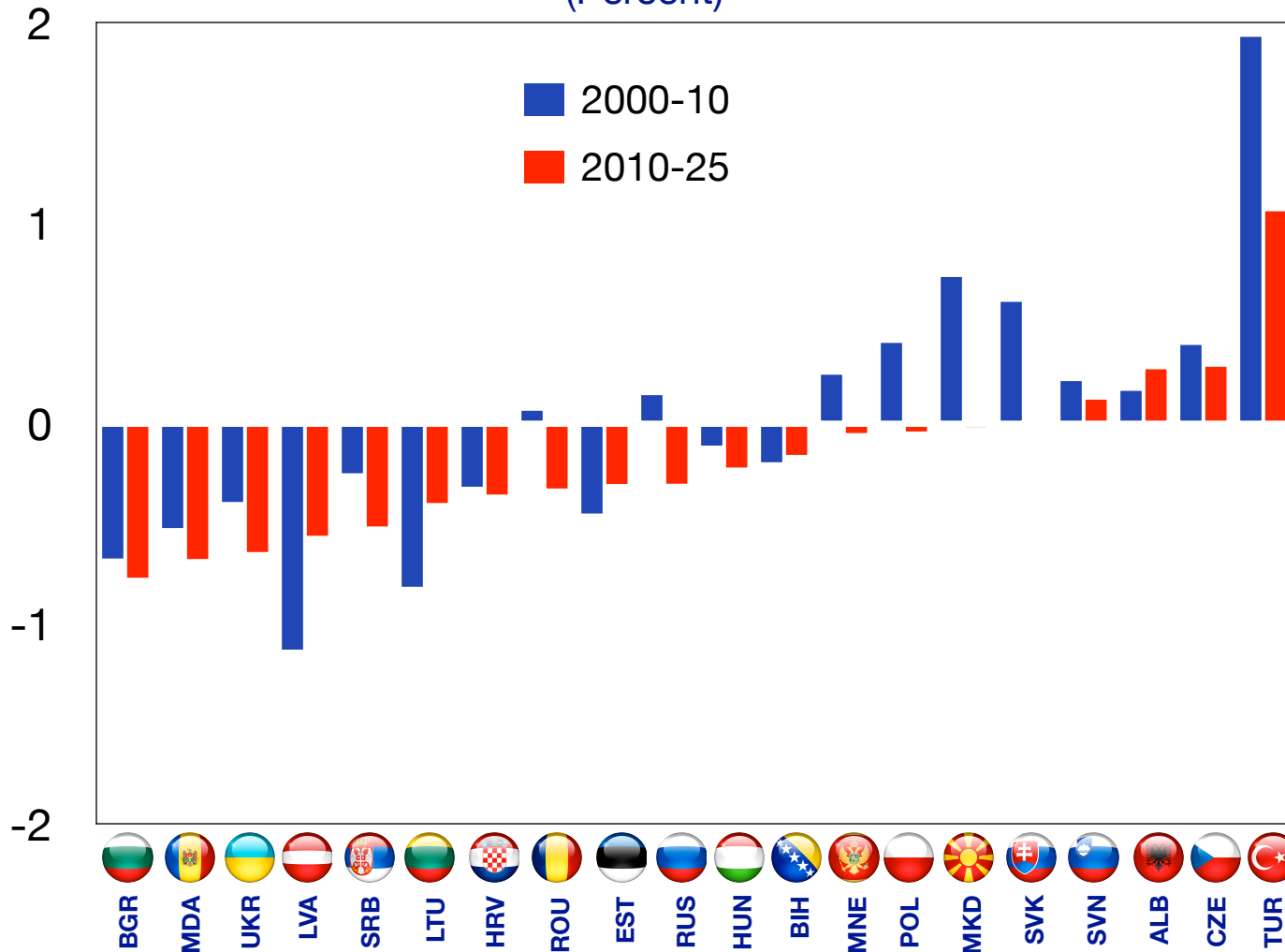
(Index, 2008:Q3 = 100)



Demographic trend, another headwind



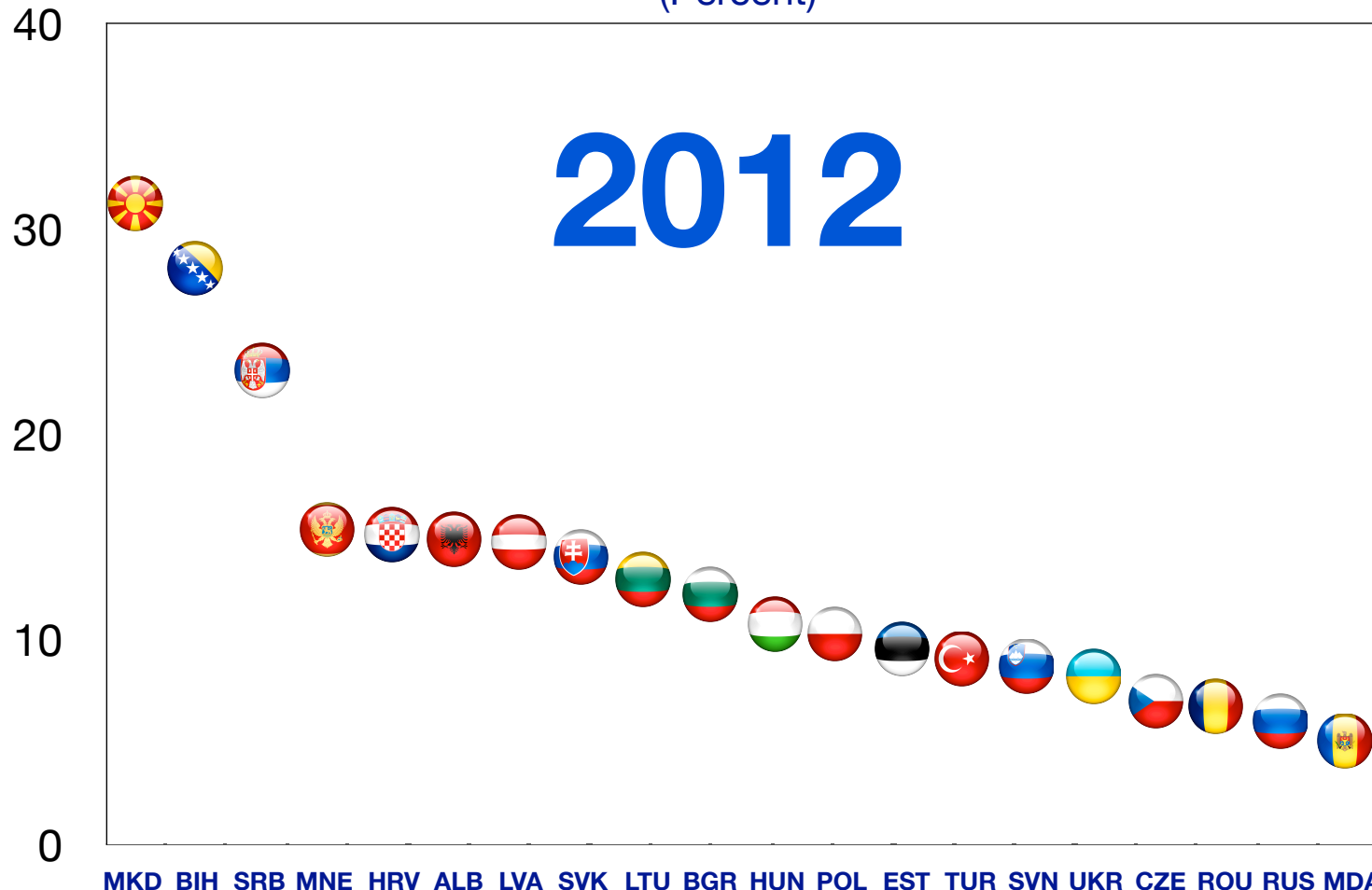
Annual Average Growth of Working Age Population
(Percent)



Lower potential growth will make it harder to reduce unemployment ...



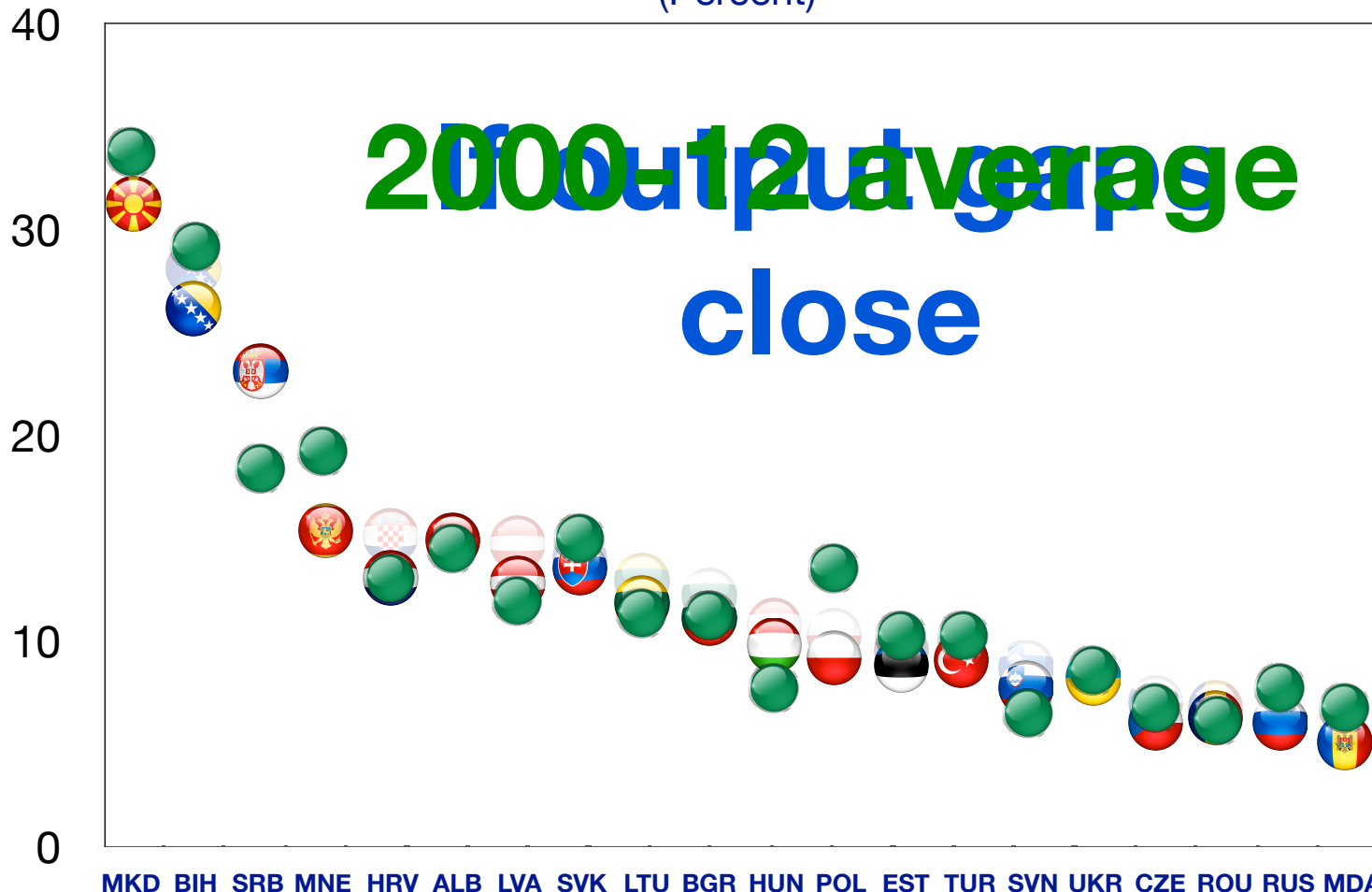
Unemployment Rate
(Percent)



Lower potential growth will make it harder to reduce unemployment ...



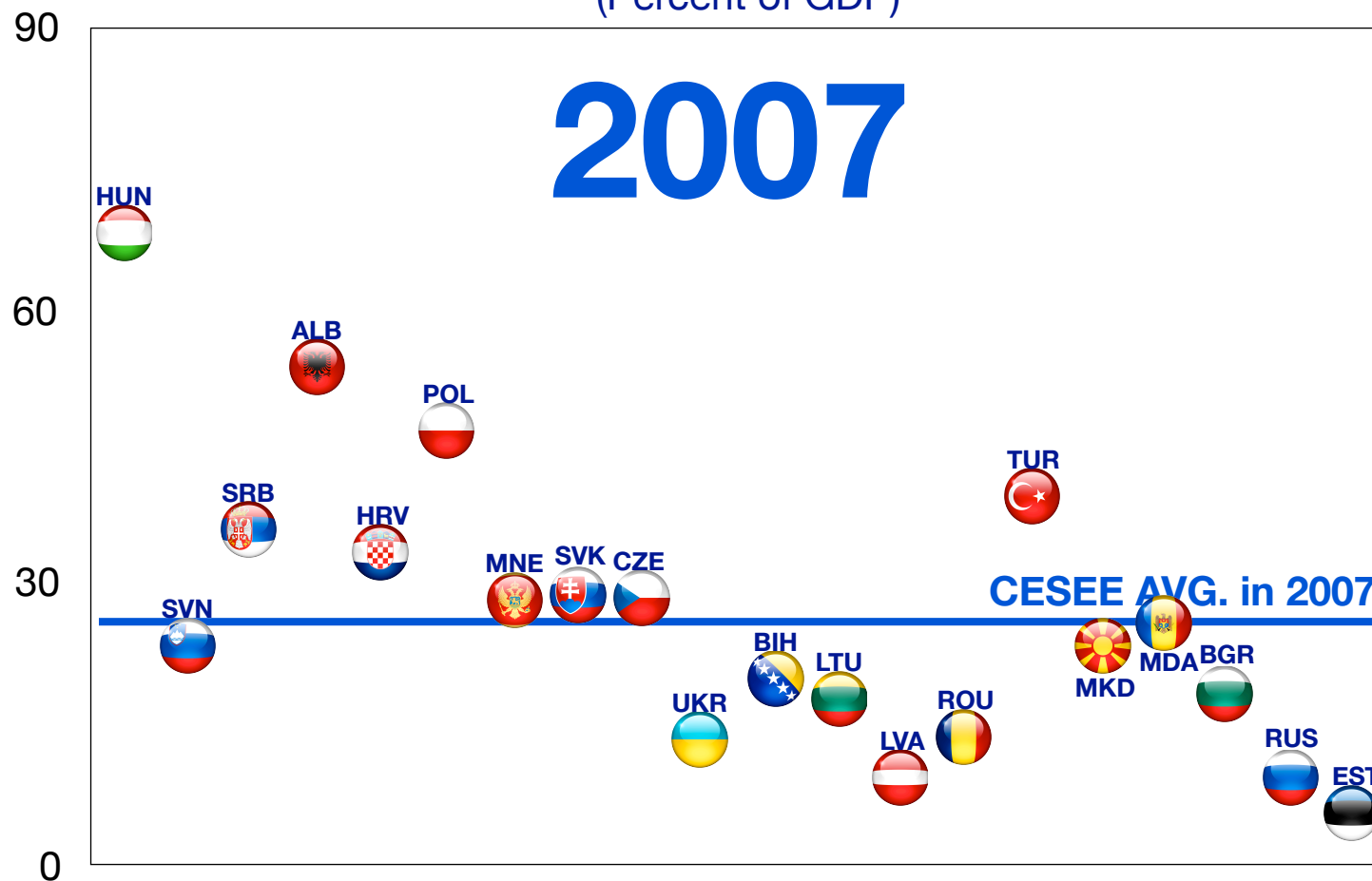
Unemployment Rate
(Percent)



... and bring public debt ratios back to more comfortable levels



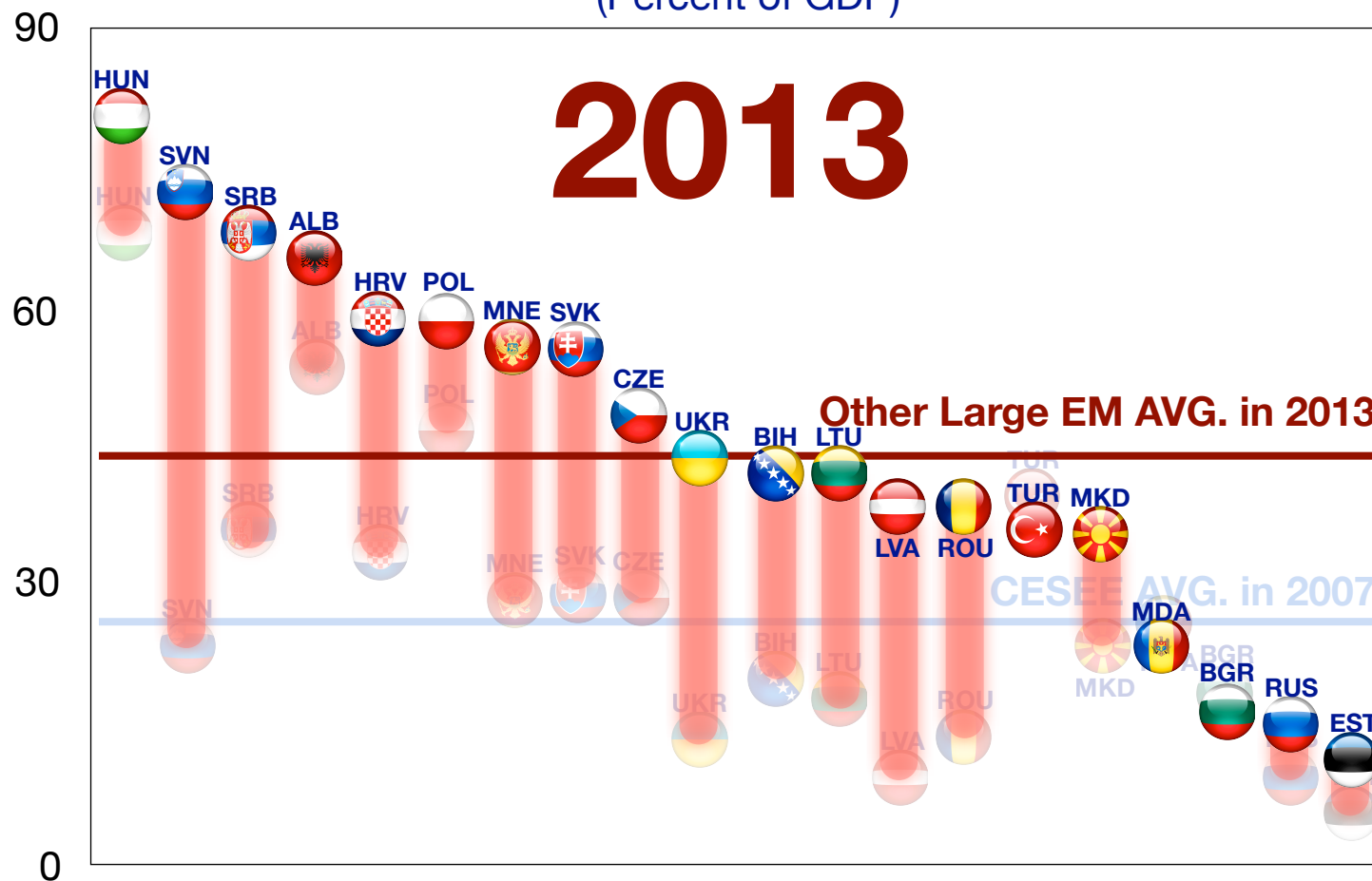
Public Debt
(Percent of GDP)



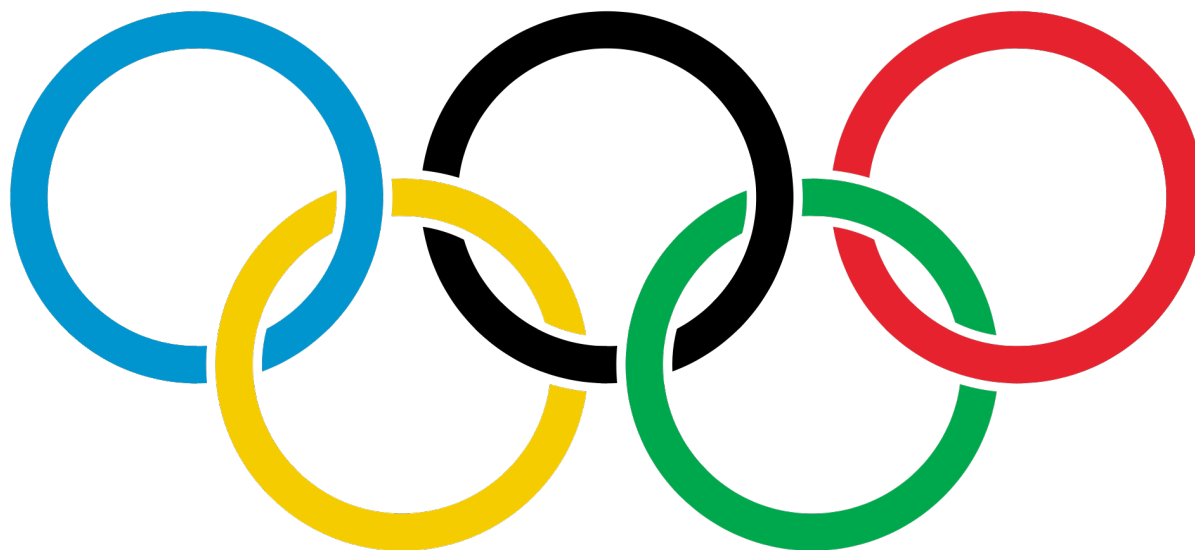
... and bring public debt ratios back to more comfortable levels



Public Debt
(Percent of GDP)



Faster, Higher, Stronger growth is essential

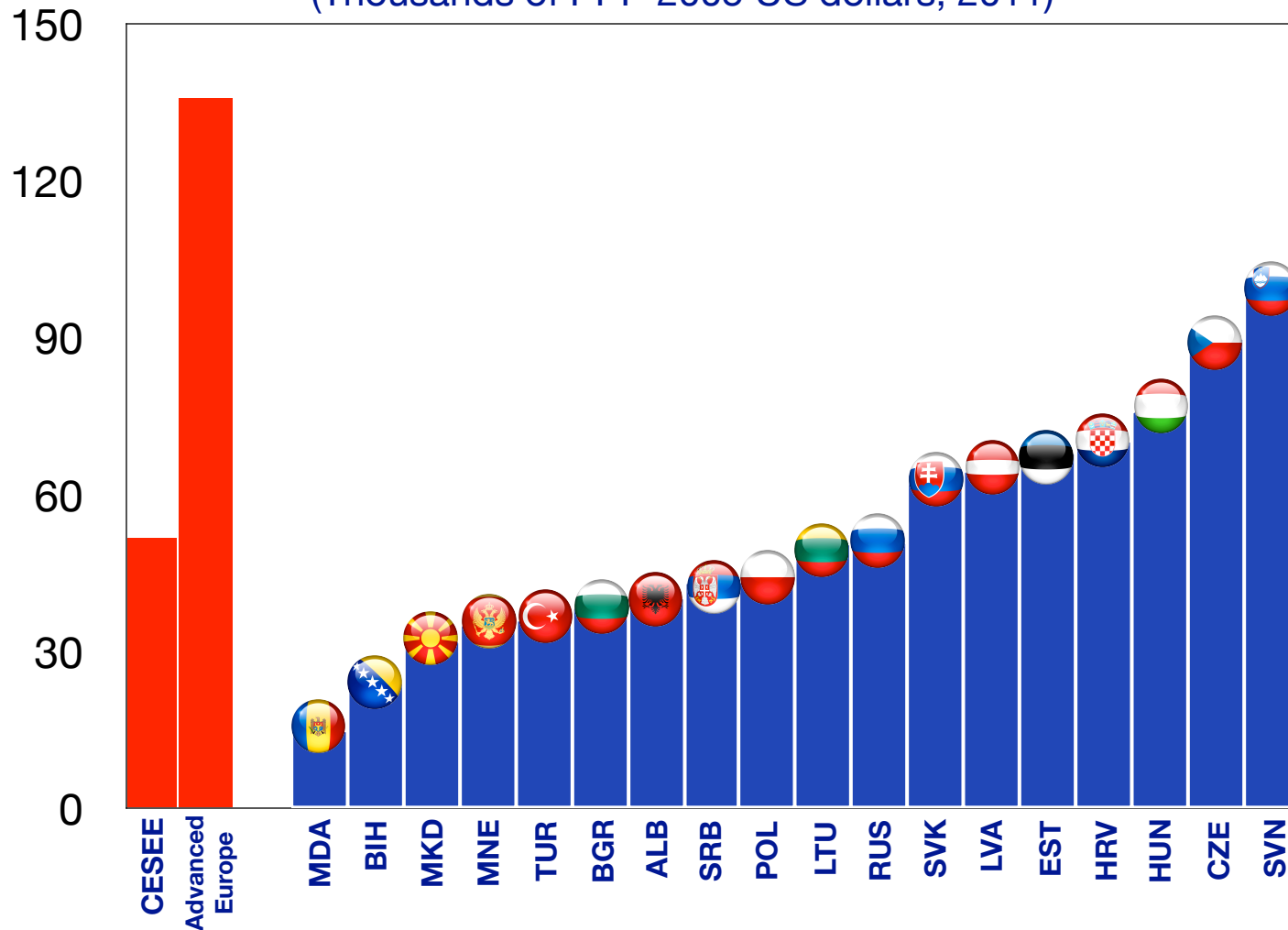


Need to increase per capita capital stock ...



Per Capital Capital Stock

(Thousands of PPP 2005 US dollars, 2011)

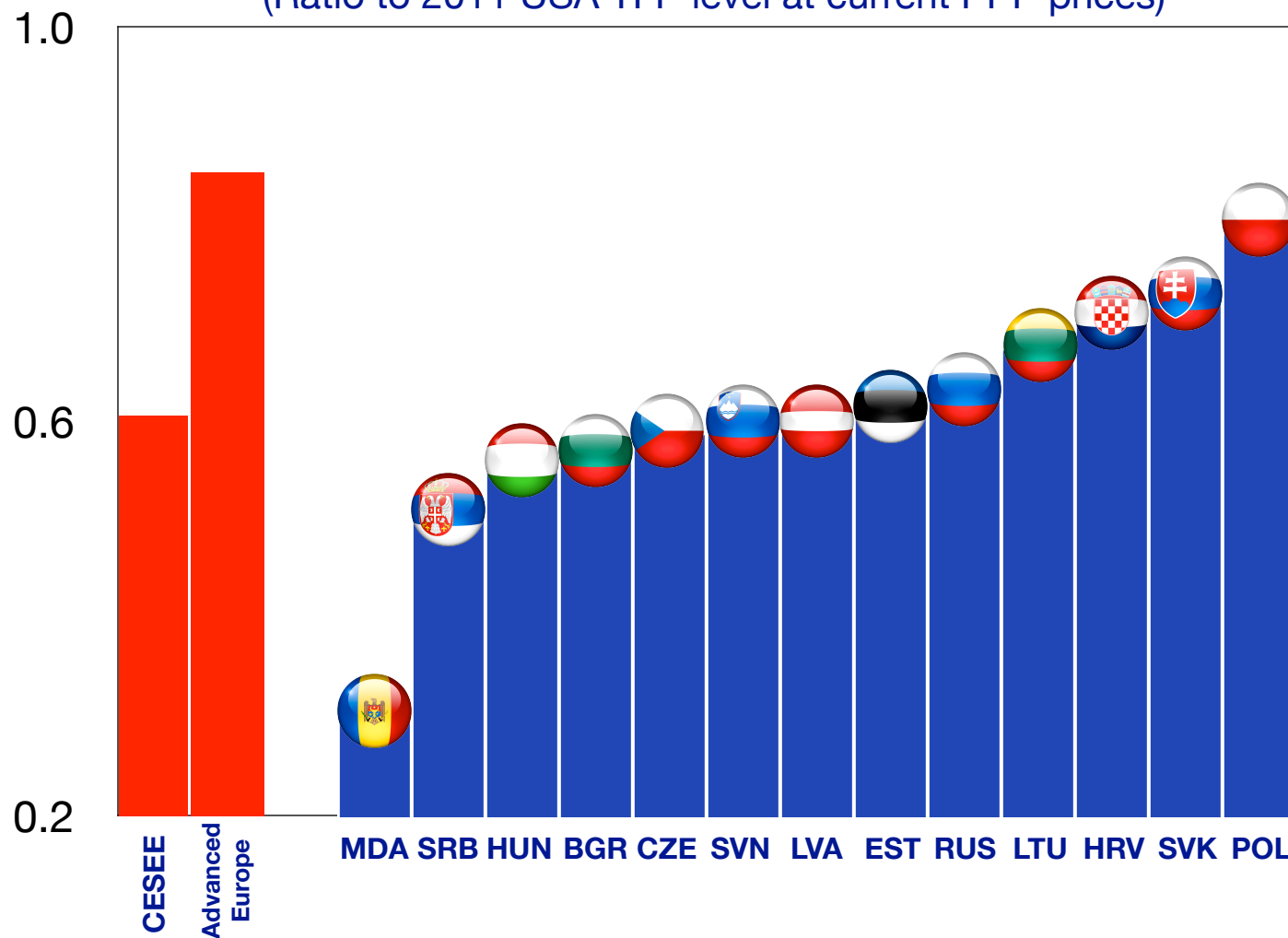


... improve TFP ...



TFP

(Ratio to 2011 USA TFP level at current PPP prices)

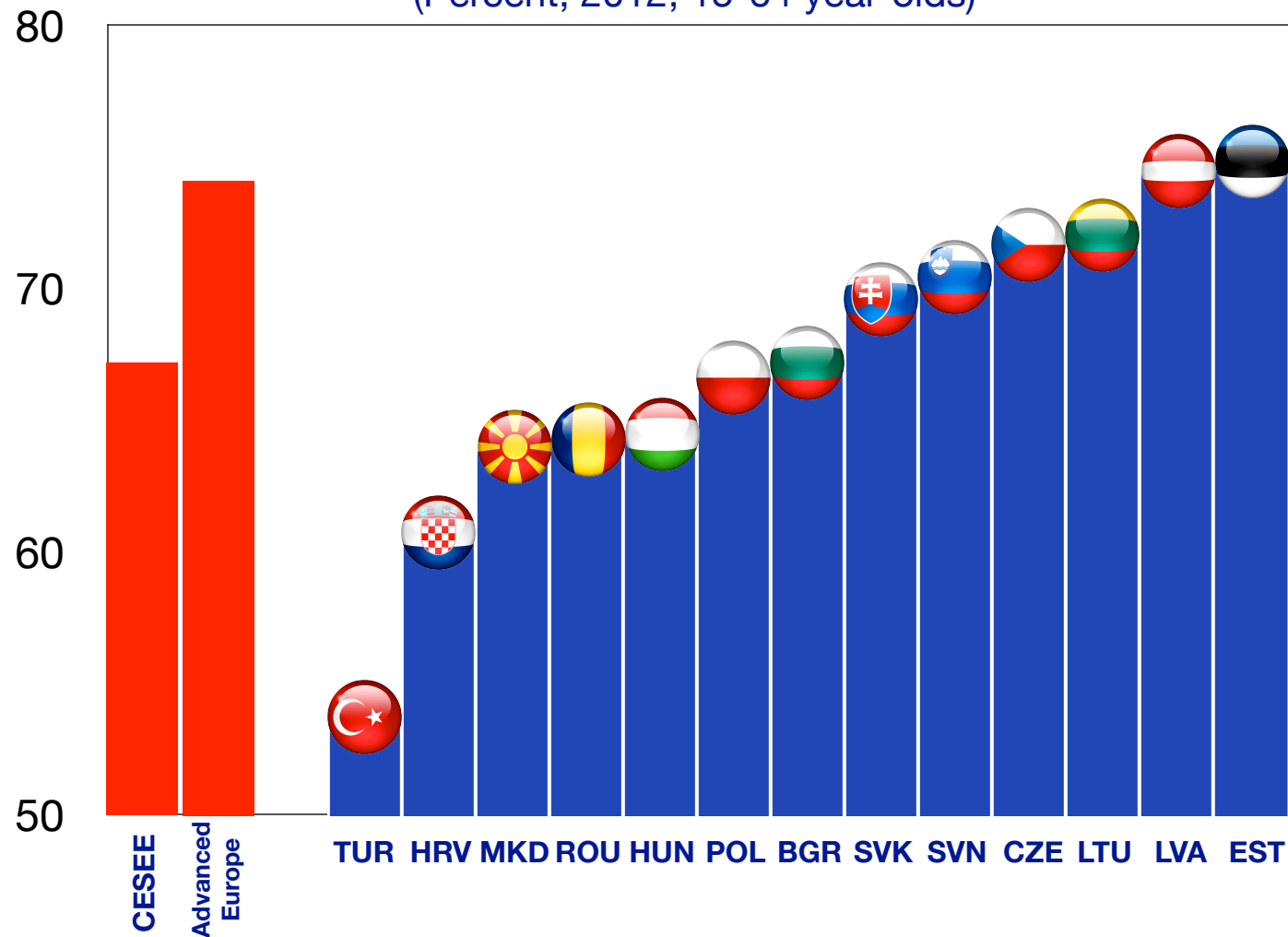


... and raise labor force participation



Labor Force Participation

(Percent, 2012, 15-64 year-olds)



Boosting growth: policy agenda



1. Address crisis legacies

2. Boost tradable sector

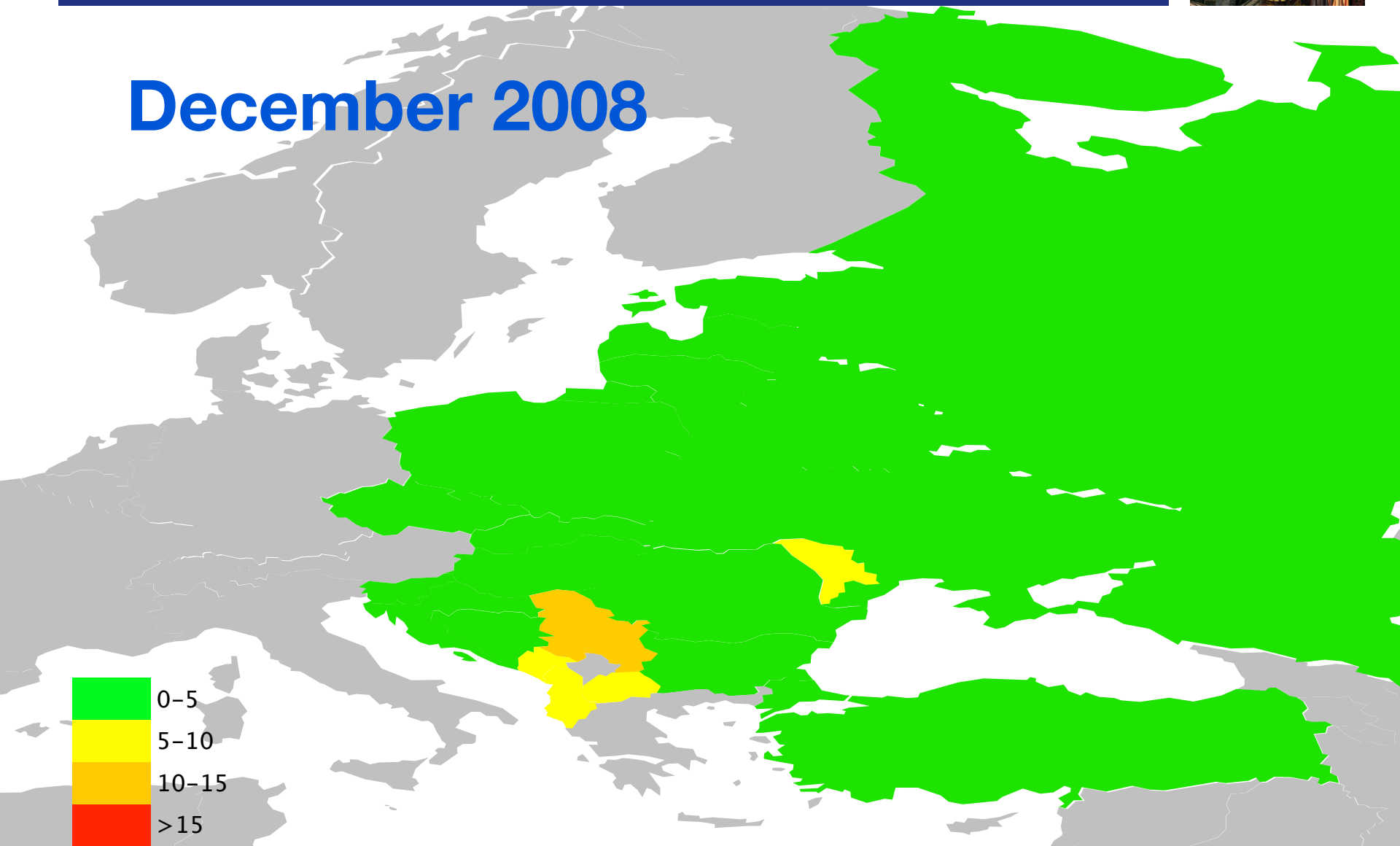
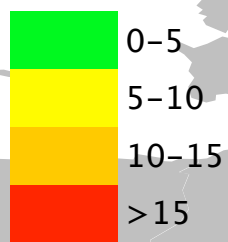
3. Improve investment

4. Reduce labor market rigidity

1. Address crisis legacies: clean up NPLs ...



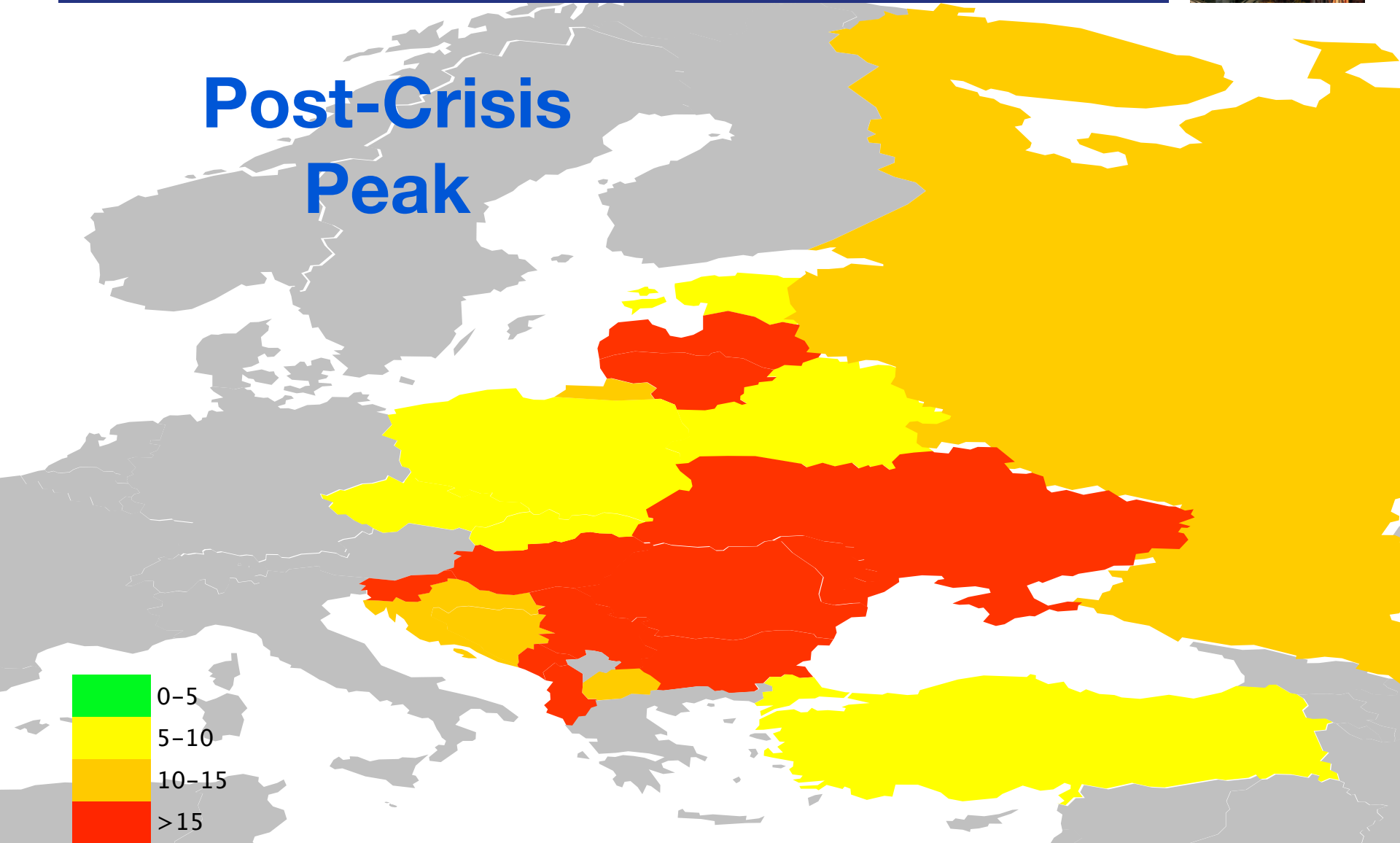
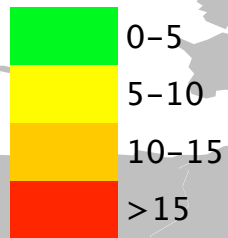
December 2008



1. Address crisis legacies: clean up NPLs ...



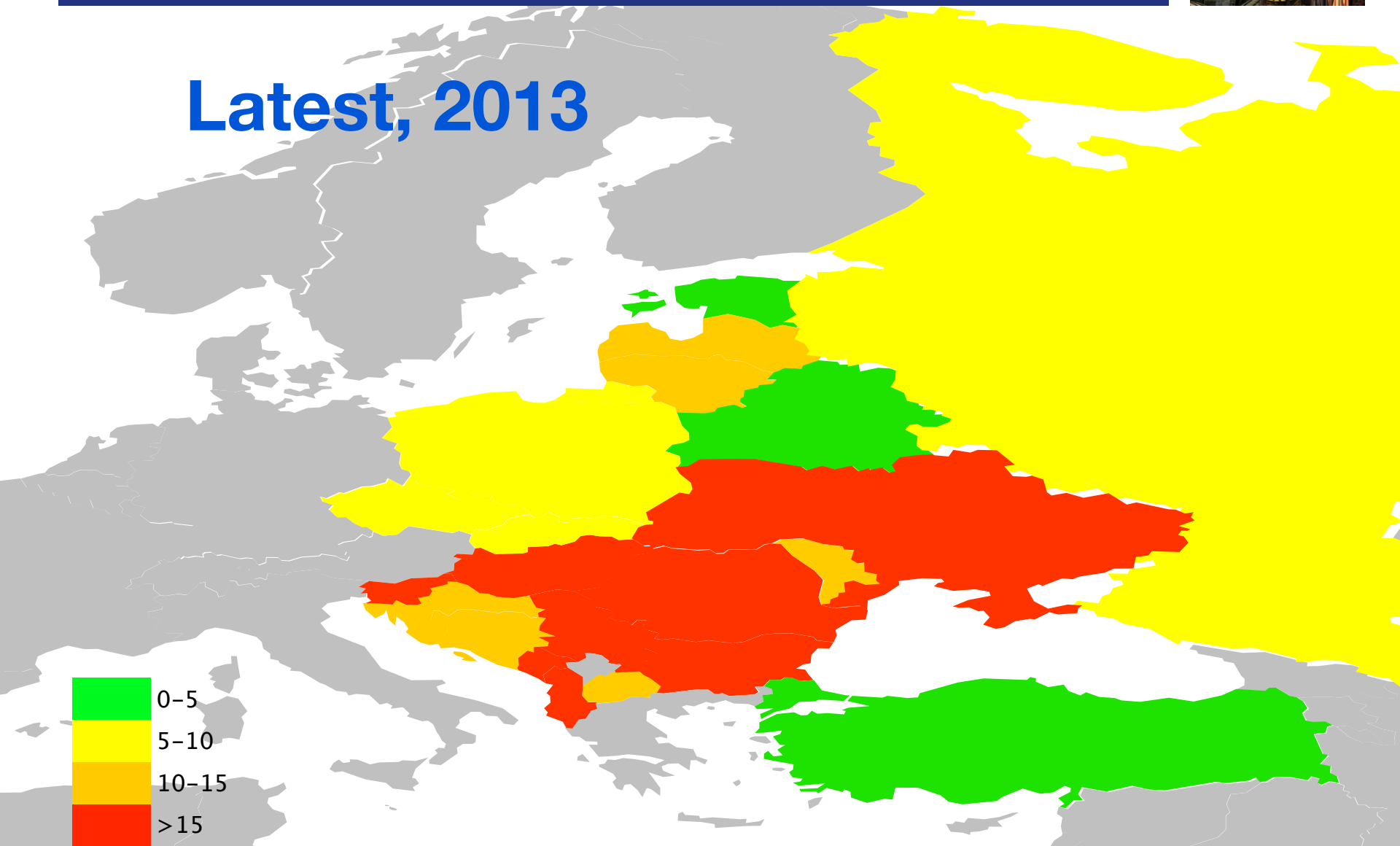
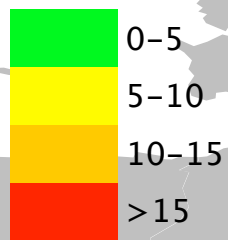
**Post-Crisis
Peak**



1. Address crisis legacies: clean up NPLs ...



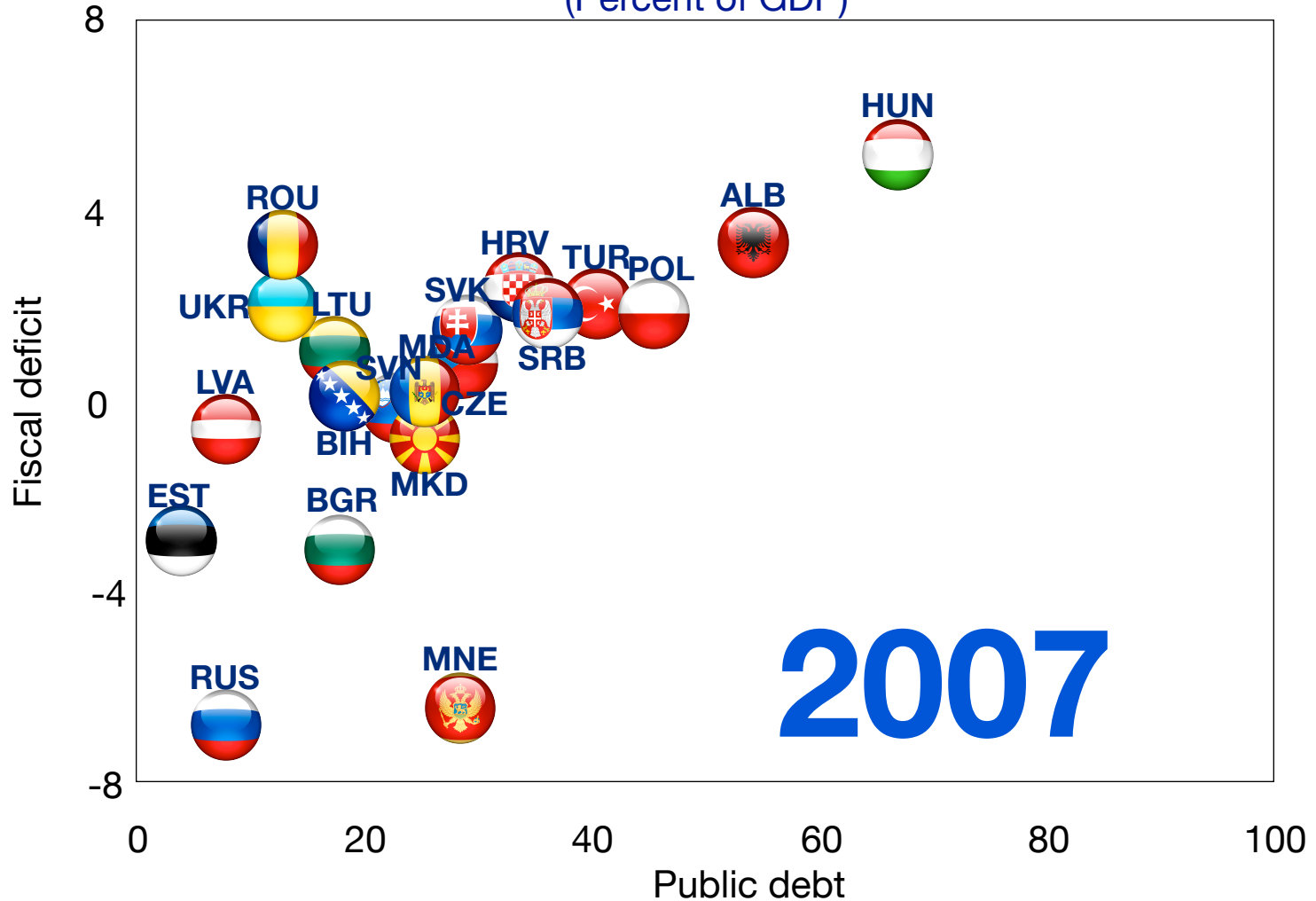
Latest, 2013



... and rebuild fiscal buffers



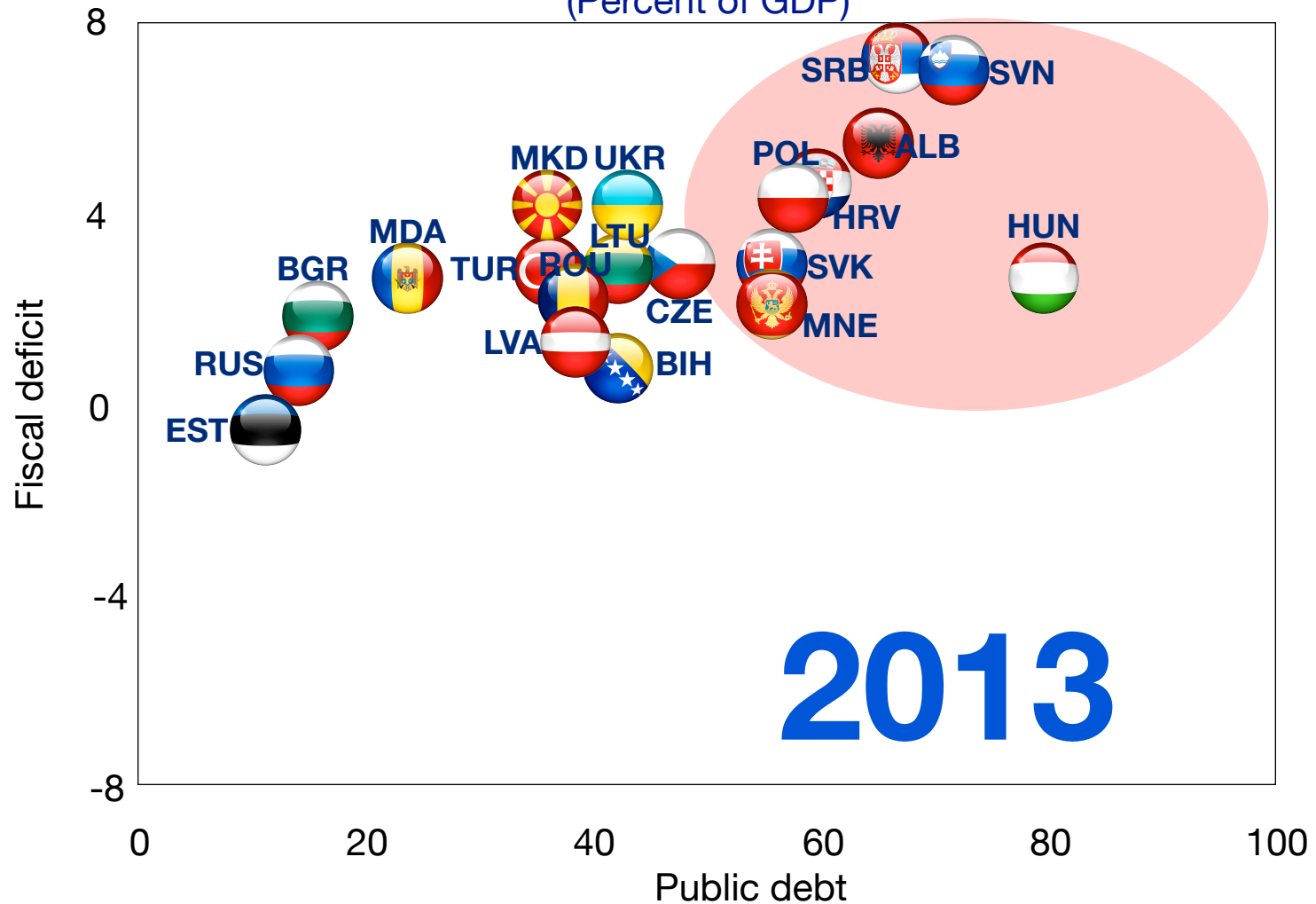
Public Debt and Fiscal Deficits (Percent of GDP)



... and rebuild fiscal buffers



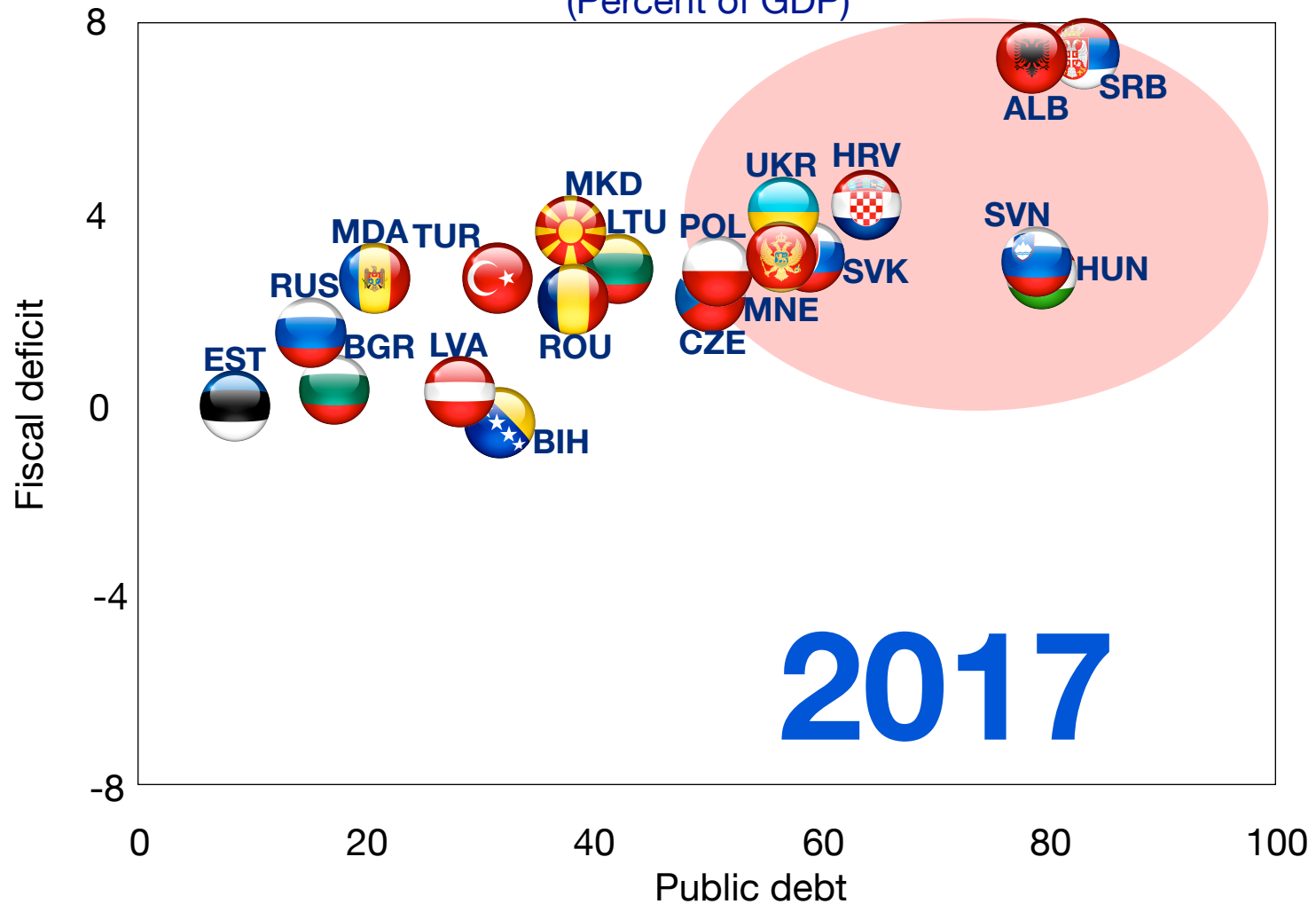
Public Debt and Fiscal Deficits (Percent of GDP)



... and rebuild fiscal buffers



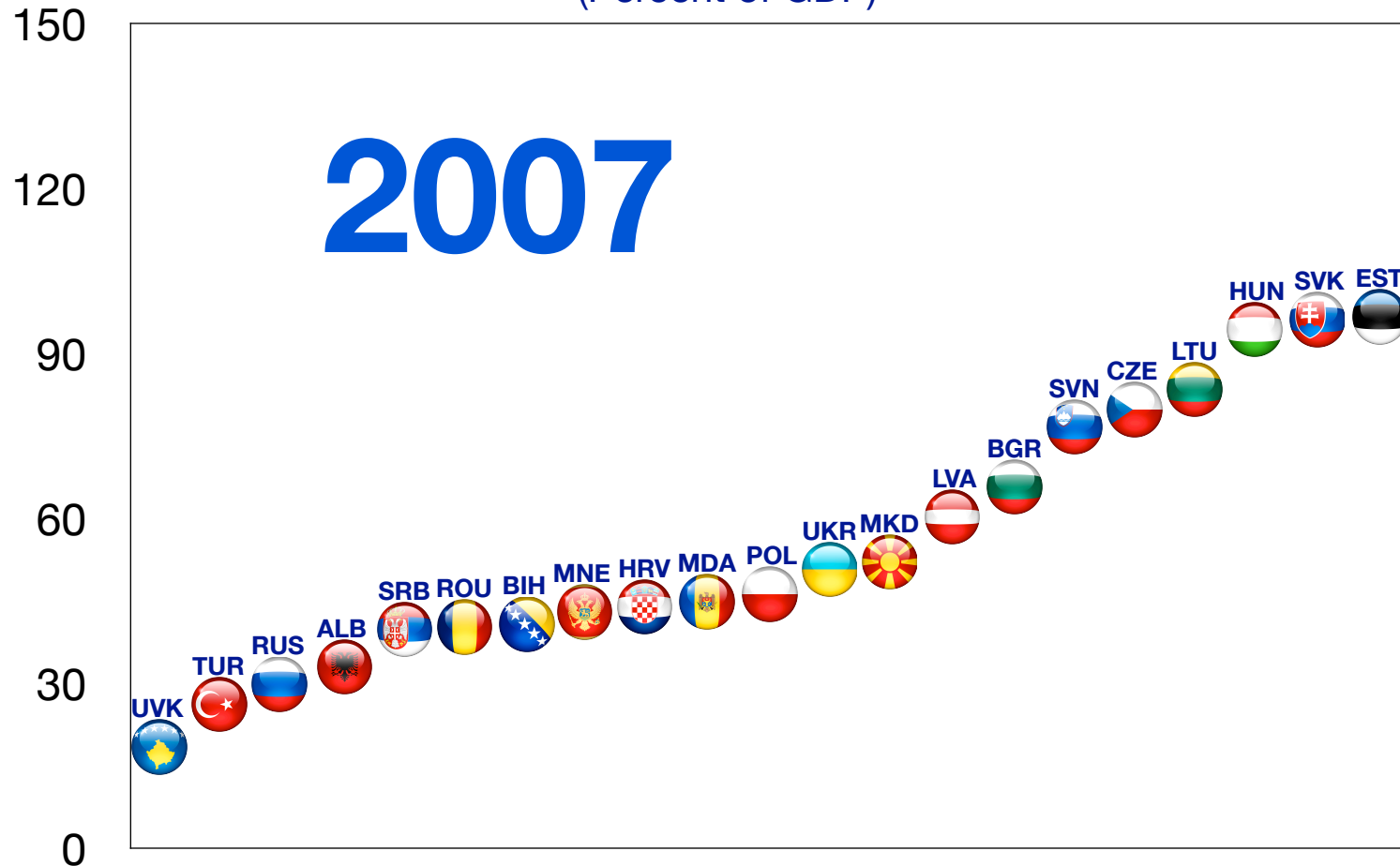
Public Debt and Fiscal Deficits (Percent of GDP)



2. Boost tradable sector ...



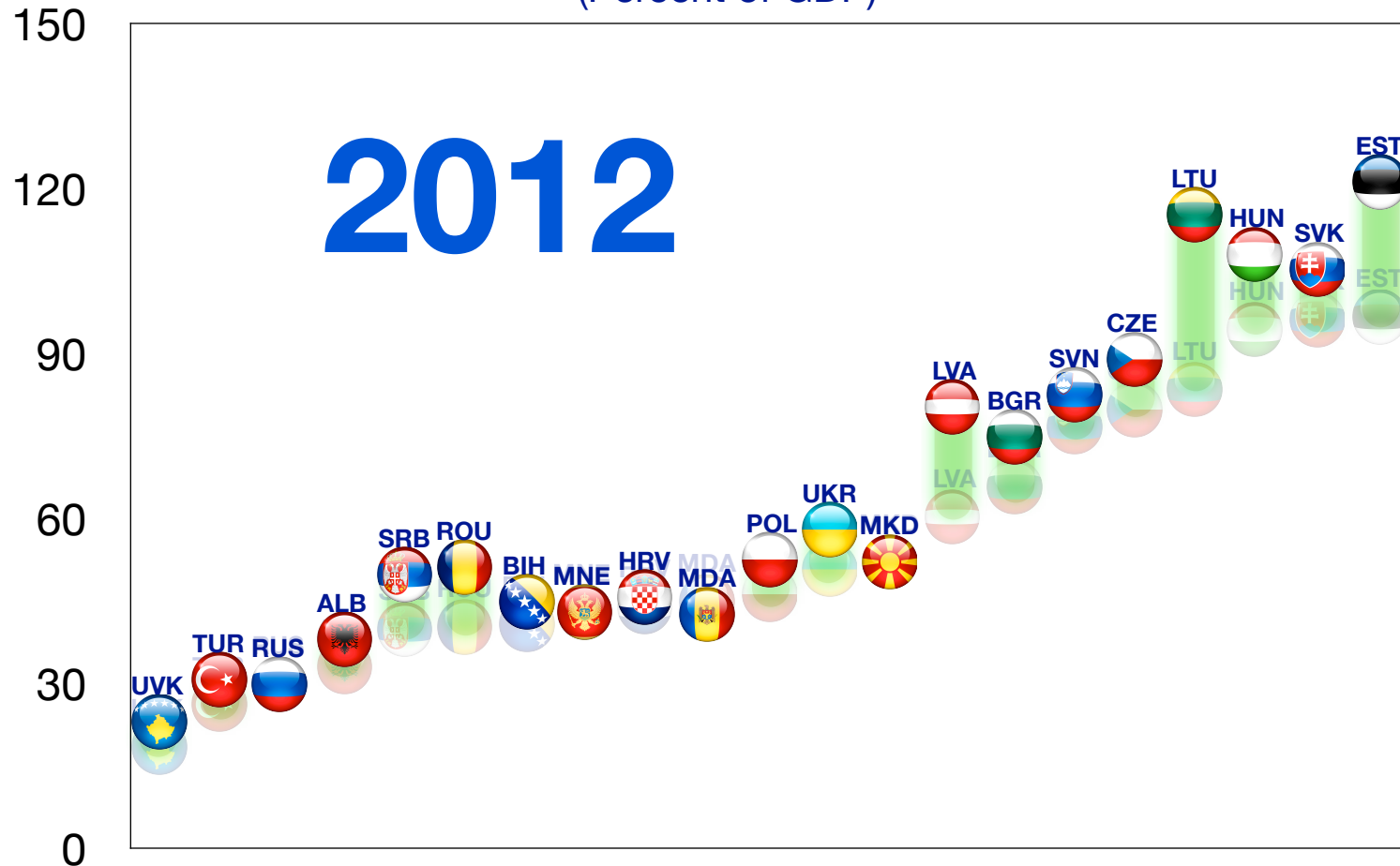
Exports of Goods and Services
(Percent of GDP)



2. Boost tradable sector ...



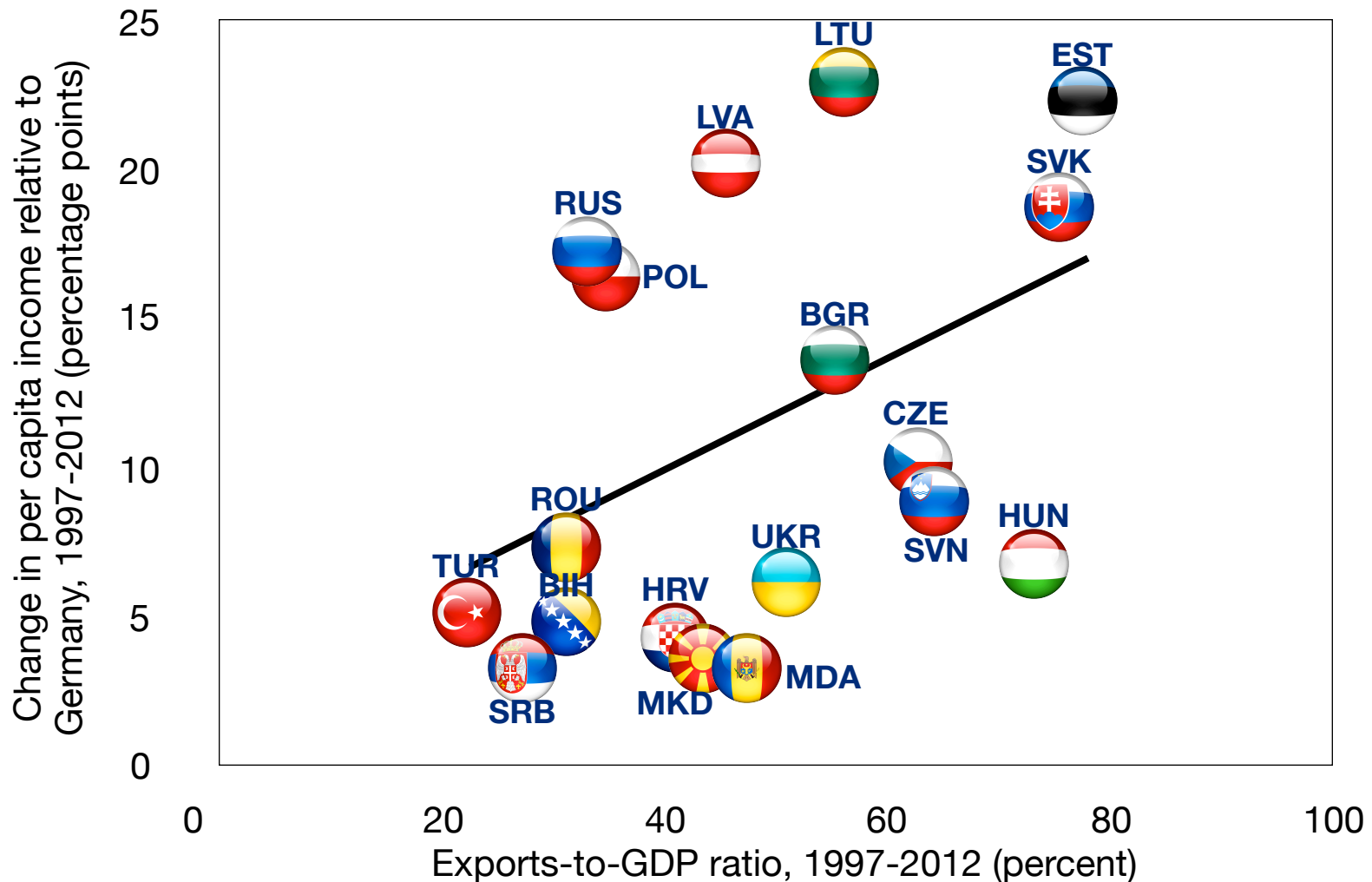
Exports of Goods and Services
(Percent of GDP)



... as trade openness fosters growth



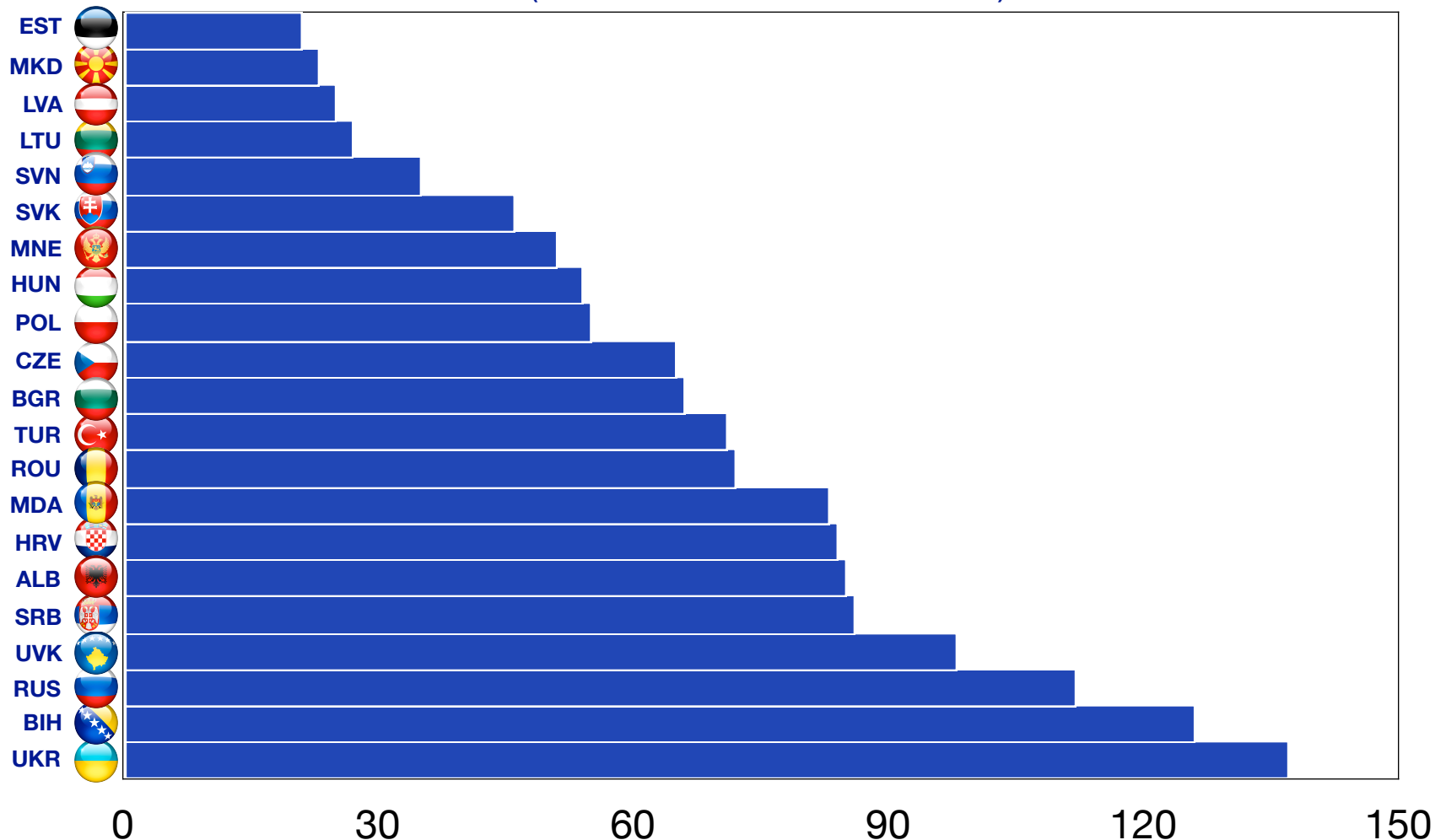
Exports and Per Capita Income



3. Improve investment climate



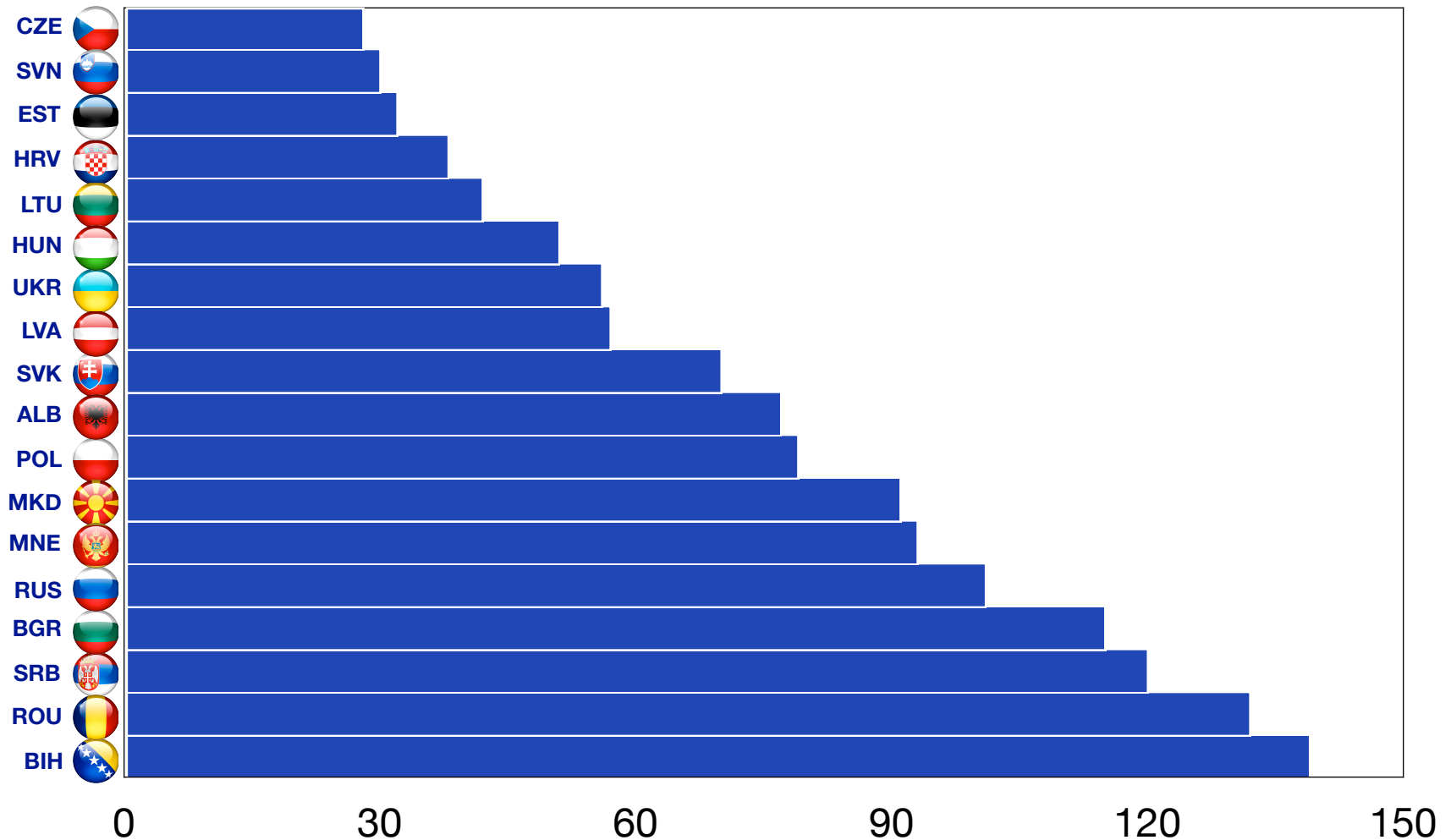
Doing Business Ranking (2013, lower number is better)



3. Improve investment climate



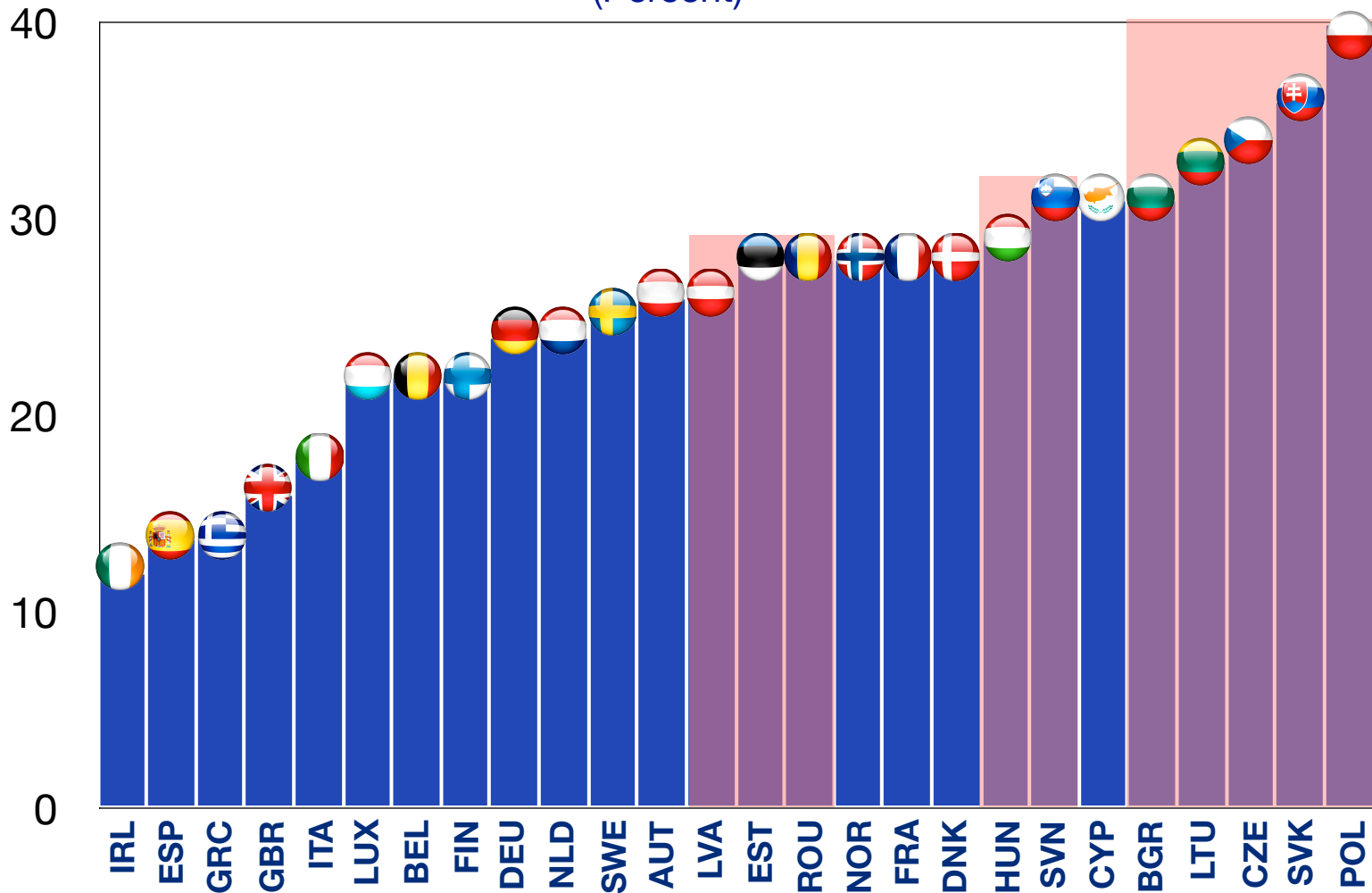
Infrastructure Ranking in Global Competitiveness Indicator (2011, lower number is better)



4. Reduce labor market rigidity



Mismatch of Education Field (Percent)



Faster, Higher, Stronger

Raising the Growth Potential of CESEE

