

# CESEE: Defining a New Growth Model



Aasim M. Husain  
European Department, IMF  
Vienna, July 12, 2012



## Section I

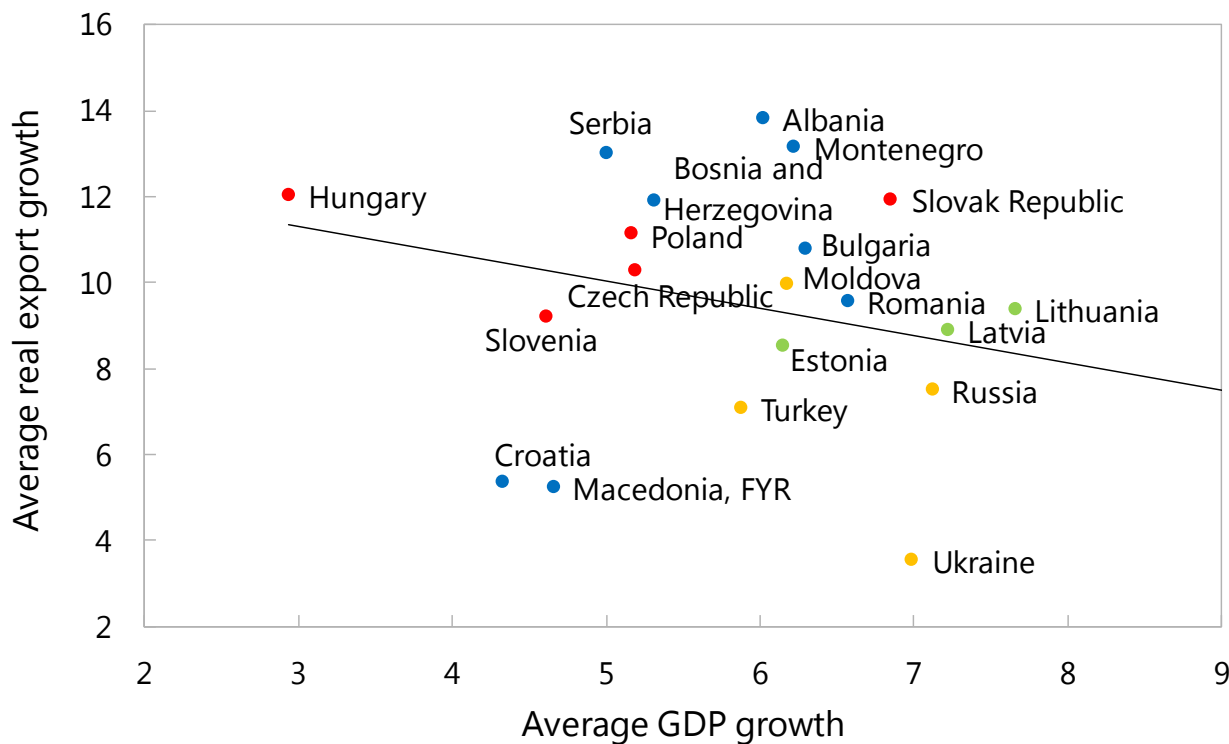
# THE OLD GROWTH MODEL

# Growth Concentrated in Nontradables



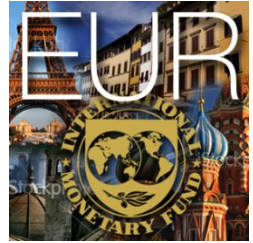
## GDP and Export Growth, 2003–08

(Percent)

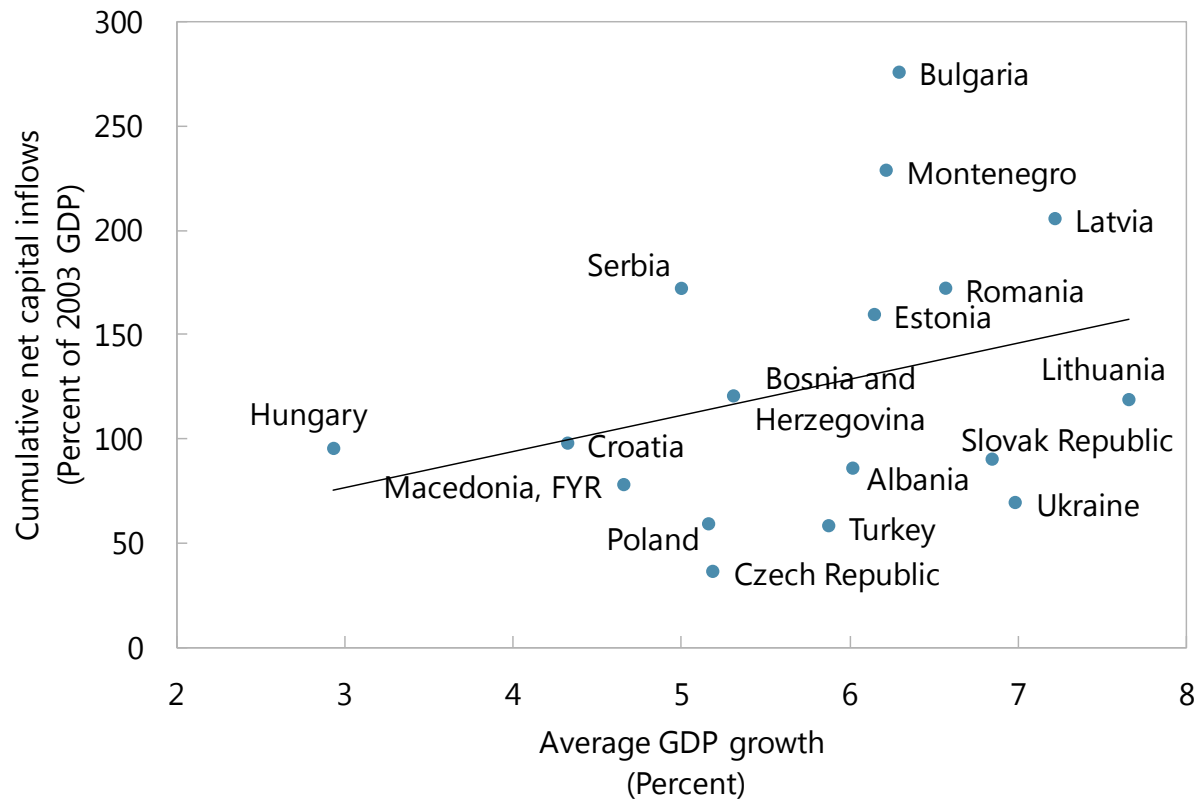


Source: IMF, World Economic Outlook database.

# Growth Driven by Large Capital Inflows

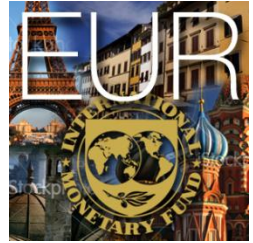


## GDP Growth and Capital Inflows, 2003–08

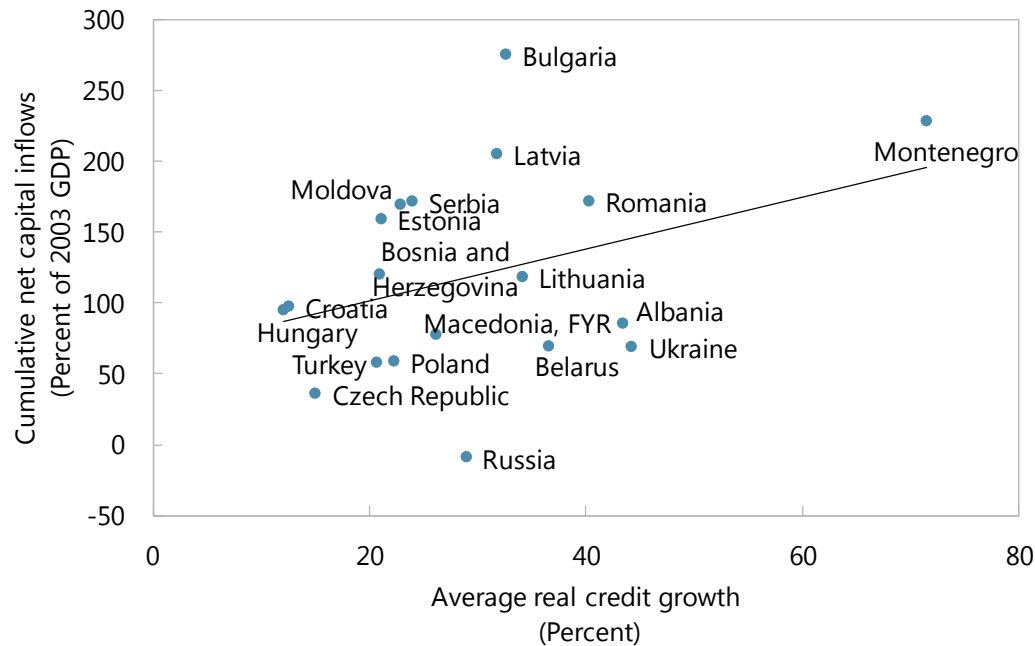


Source: IMF, World Economic Outlook database.

# Which in Turn Fueled Rapid Credit Growth



## Real Credit Growth and Net Capital Inflows, 2003–08



Source: IMF, World Economic Outlook database.

Note: Annual average real credit growth is over 2004–08 for Hungary, Latvia, Macedonia, and Serbia; 2005–08 for Belarus, Lithuania, and Poland; and 2006–08 for Moldova.

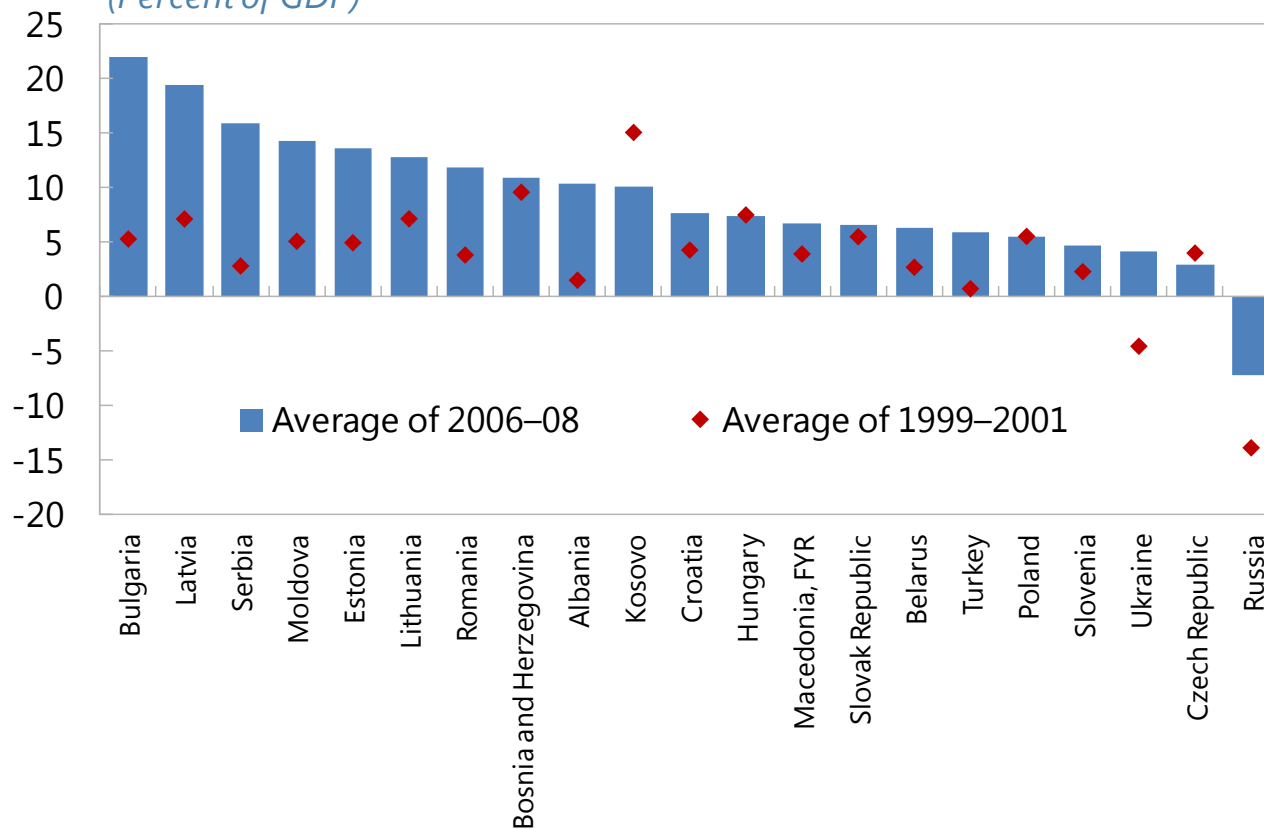
# Problems with Old Growth Model

## Macroeconomic imbalances



### Current Account Deficits

(Percent of GDP)



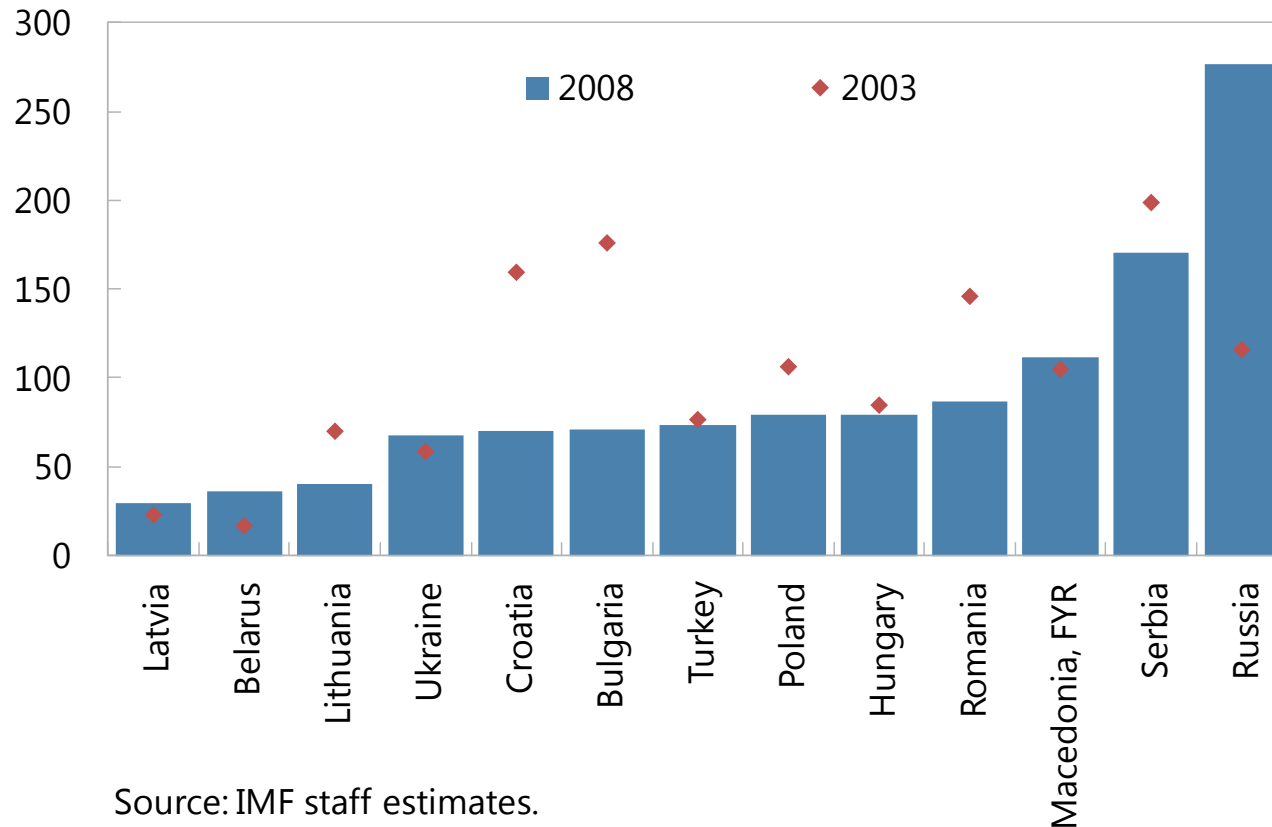
Source: IMF, World Economic Outlook database.

# Problems with Old Growth Model

Mounting vulnerabilities



## Gross International Reserves to Short-Term External Debt (Percent)



Source: IMF staff estimates.



## Section II

# THE NEW GROWTH MODEL

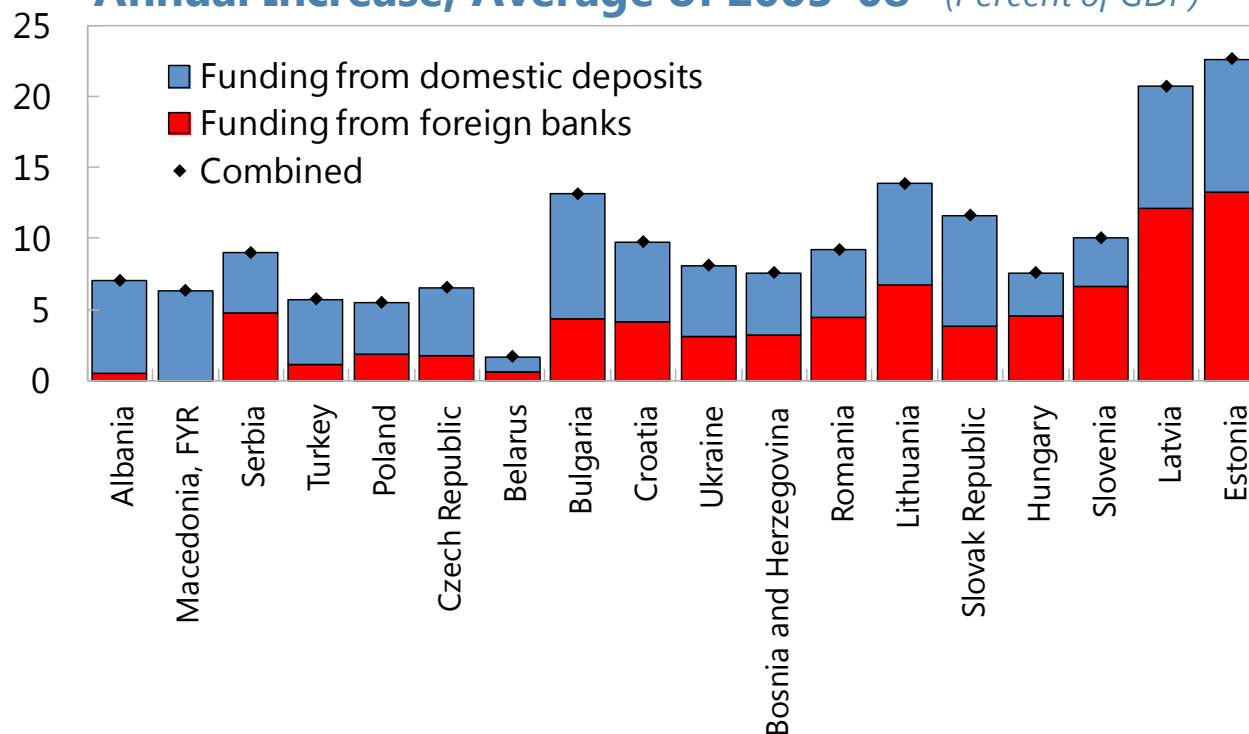


# Bank Reliance on External Funding Pre-Crisis



## Banks' Funding Sources

Annual Increase, Average of 2003–08<sup>1</sup> (Percent of GDP)



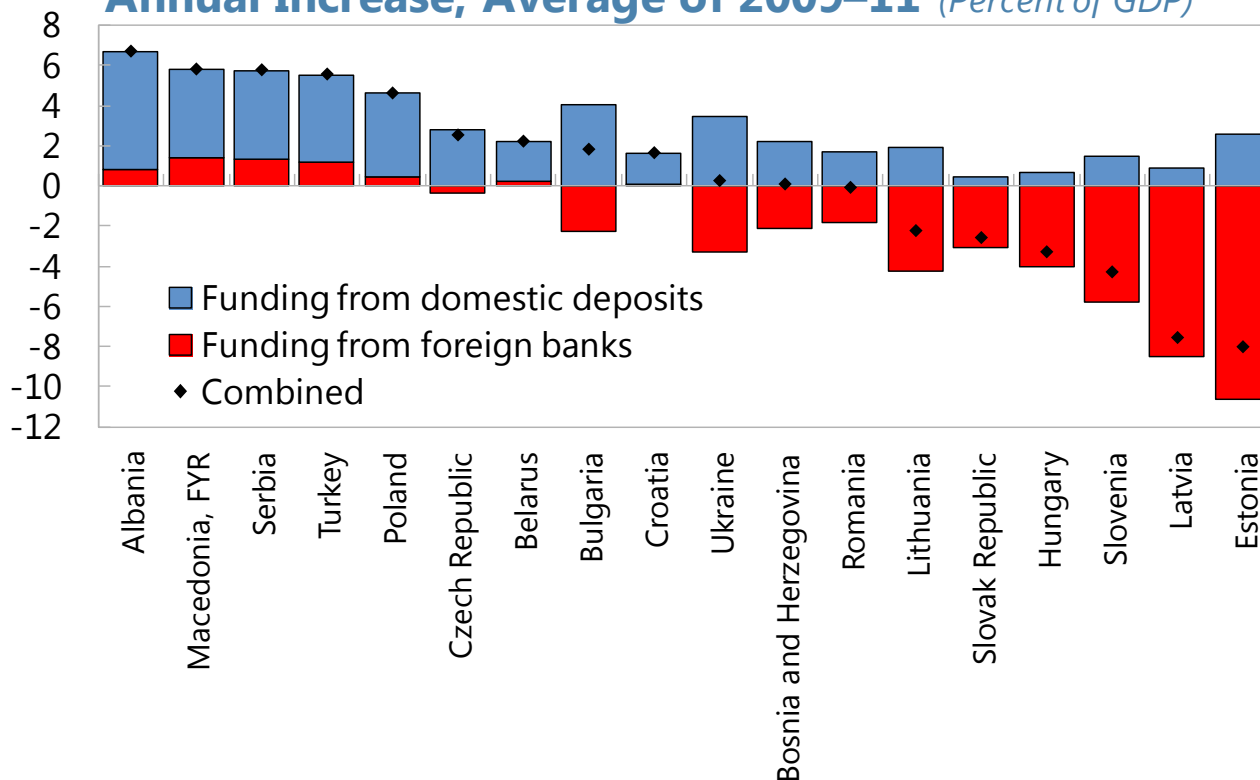
Note: Coverages for deposits vary by country, 2004–08 for Macedonia, FYR, Hungary, and Serbia (2006–08 for foreign banks); 2005–08 for Poland and Slovak Republic; 2006–08 for Slovenia; 2004–07 for Latvia; and 2005–07 for Estonia and Lithuania.

# Domestic Funding Important Going Forward



## Banks' Funding Sources

Annual Increase, Average of 2009–11 (Percent of GDP)



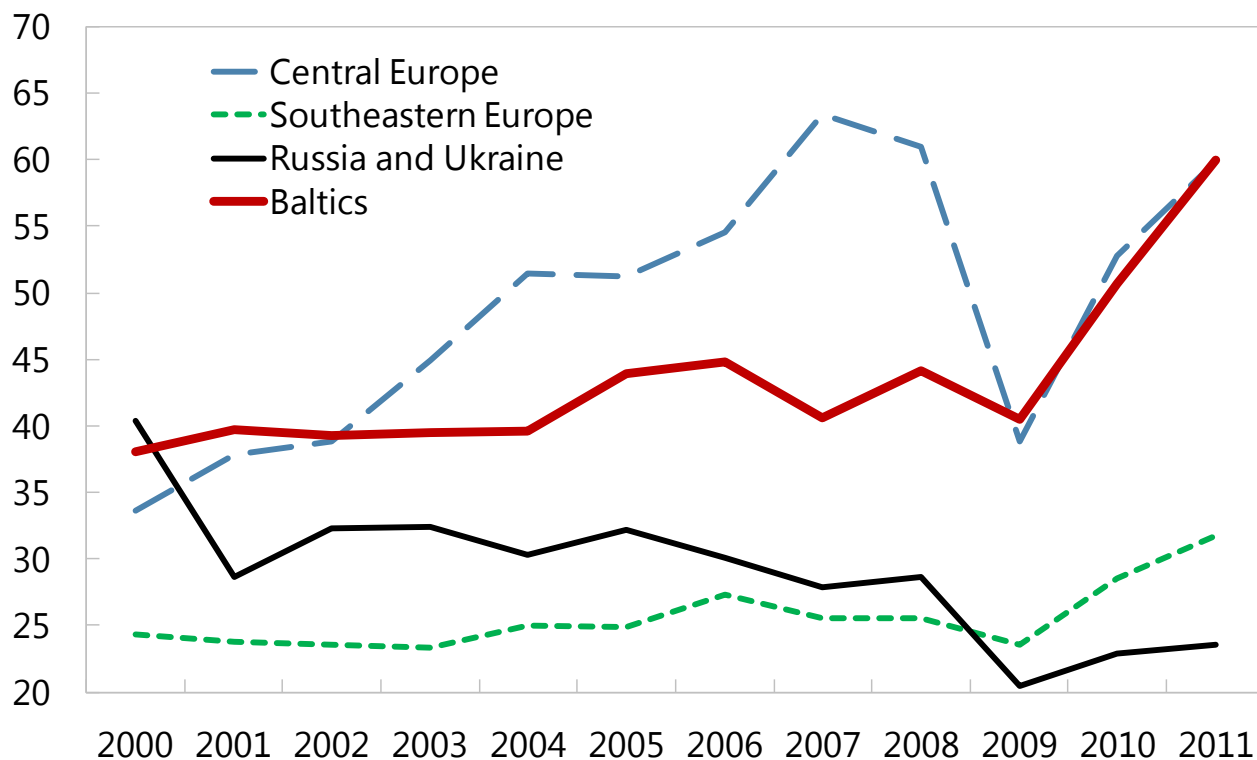
Sources: BIS, Locational Banking Statistics; IMF BSA template; and IMF staff calculations.

# Greater External Orientation



## Exports of Goods, 2000–11

(Percent of GDP)



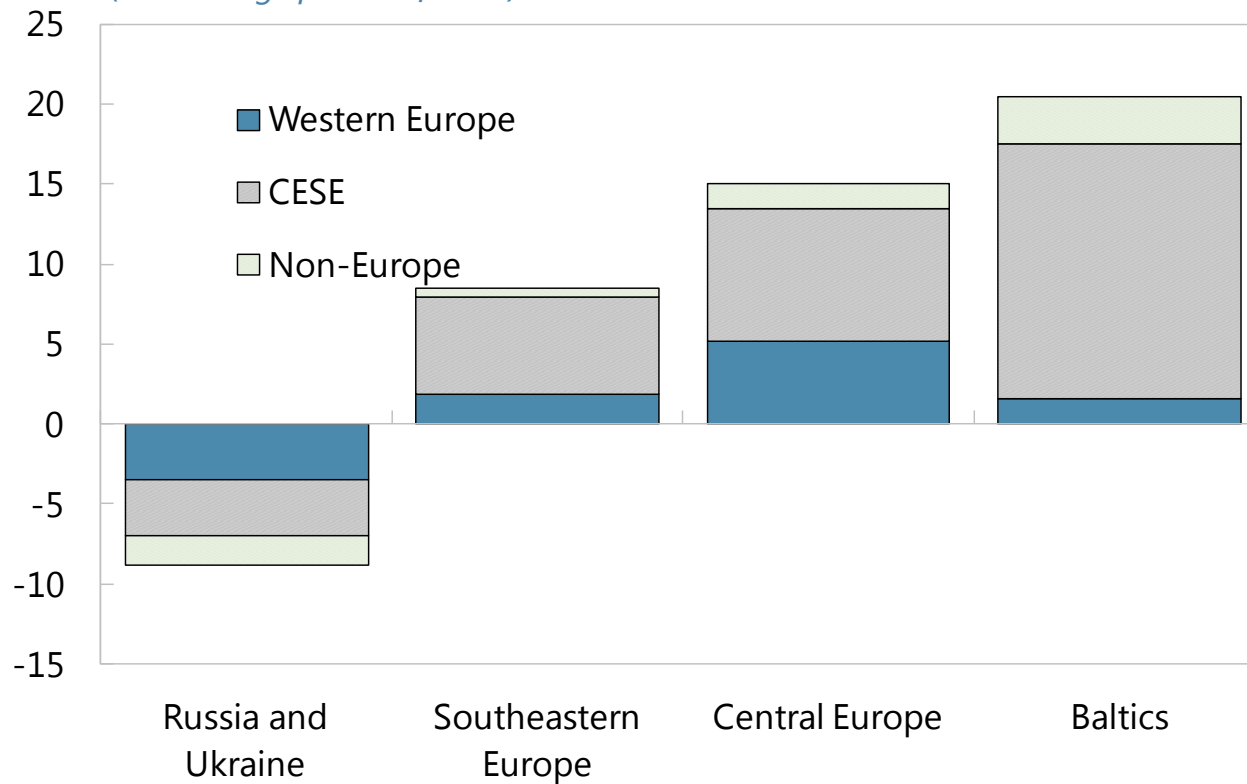
Source: IMF, DOTS.

# Changing Trade Patterns



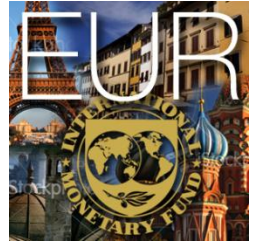
## Increase in Exports to GDP ratio, 2003–11

(Percentage points of GDP)

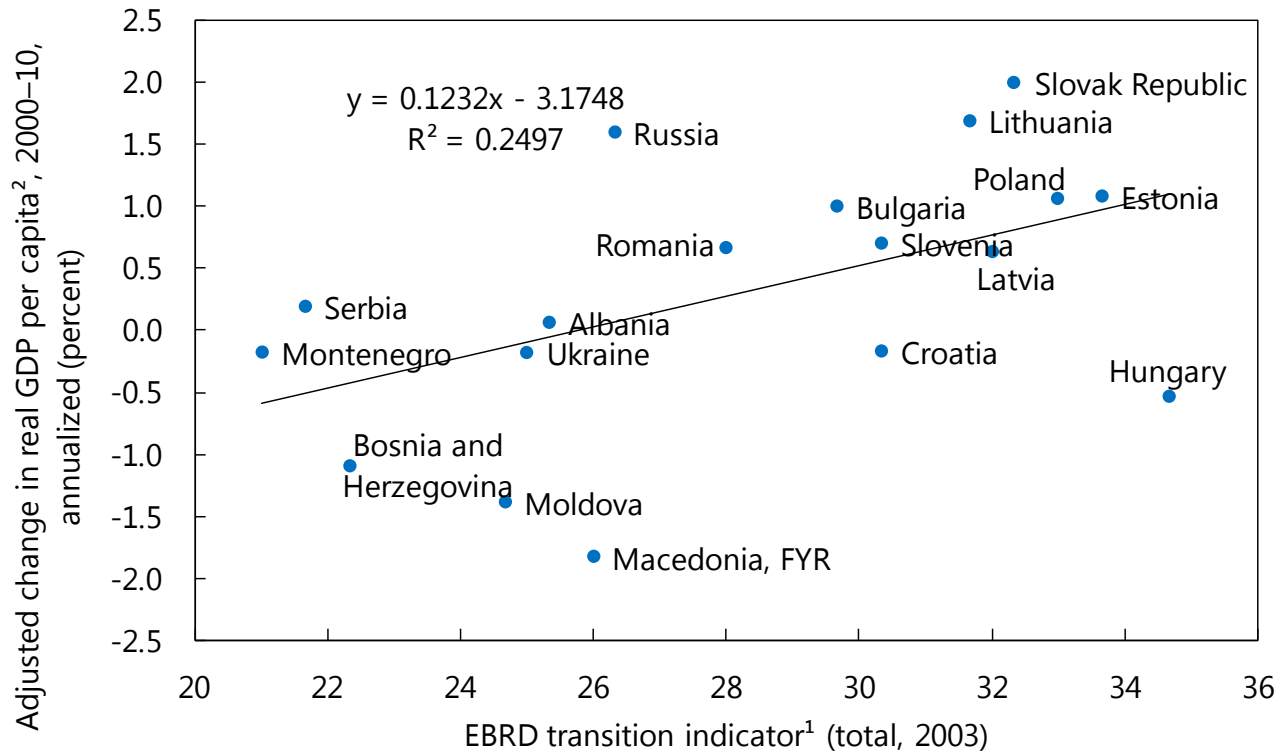


Source: IMF, DOTS

# Structural Reform Will Remain Key



## Economic Transition and Growth, 2000–10

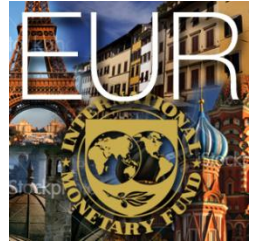


Source: European Bank for Reconstruction and Development.

<sup>1</sup> Higher value means better score.

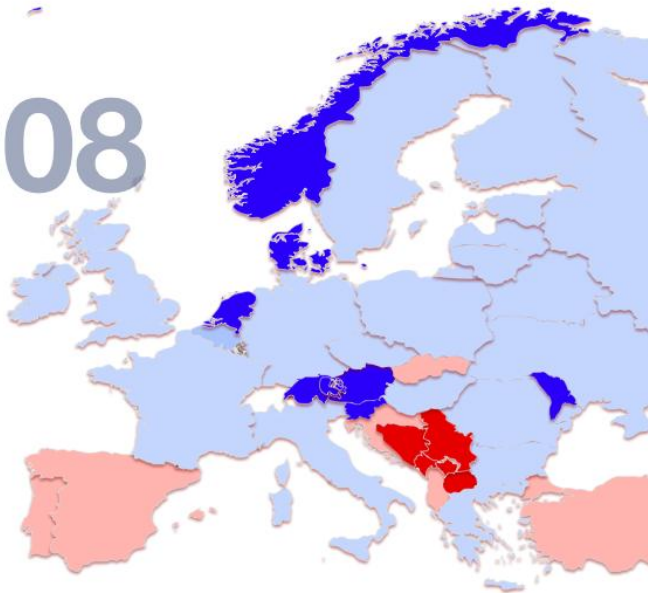
<sup>2</sup> Adjusted growth is growth adjusted for initial income level.

# Labor Market Flexibility



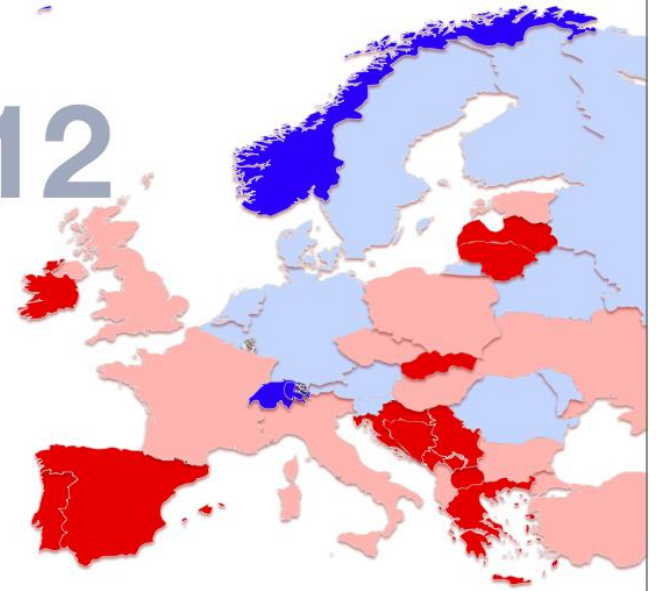
2008

- 0>4
- 4>8
- 8>12
- 12+

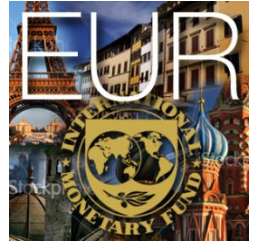


2012

- 0>4
- 4>8
- 8>12
- 12+



# Policies to Support New Growth Model



- Macro-economic policies
  - Prevent overheating
  - Vigilant over credit growth, asset prices, external imbalance
  - Avoid excessive resources to non-tradables
  - Build up buffers—fiscal and external
- Structural policies
  - Make labor and products markets more flexible
  - Make it easier to shift resources across sectors
  - Encourage competition and innovation

