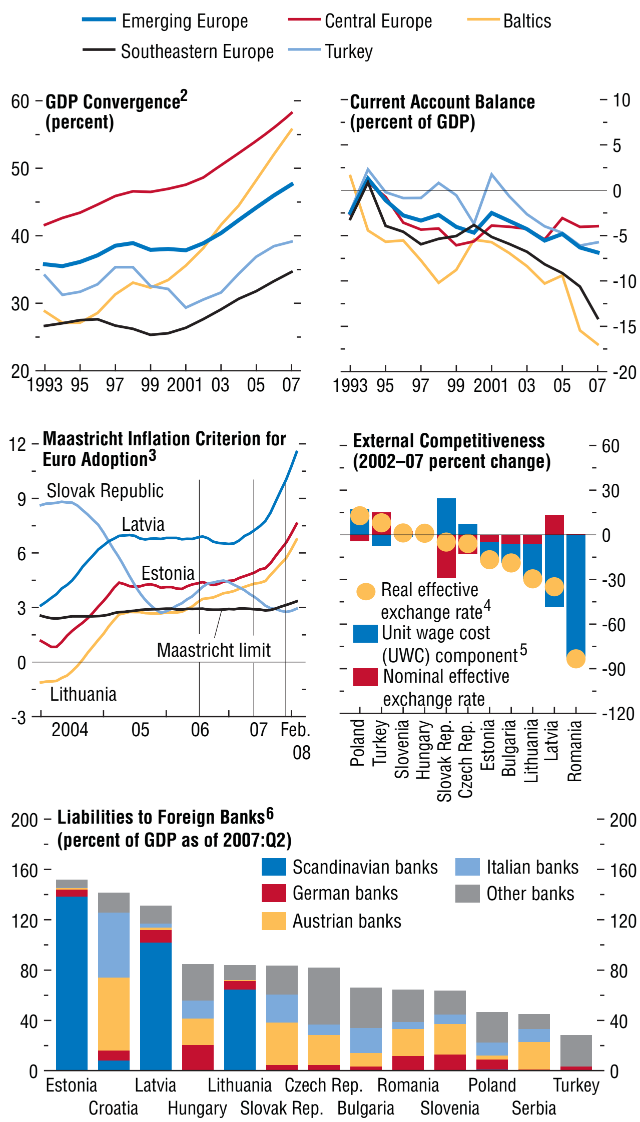
Figure 2.6. Emerging Europe: Macroeconomic Vulnerabilities on the Rise[1]

Strong GDP growth, driven primarily by domestic demand, has supported a substantial narrowing of income differentials with the euro area. At the same time, increasing inflationary pressures, losses in competitiveness, and dependence on external financing flows—especially from western European banks—have given rise to substantial macroeconomic and financial vulnerabilities.



Sources: Bank for International Settlements, *Consolidated Banking Statistics*; European Commission; IMF, *International Financial Statistics*; and IMF staff calculations.

[1]Emerging Europe includes Baltics, central Europe, southeastern Europe, and Turkey. Central Europe includes Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia. Baltics includes Estonia, Latvia, and Lithuania. Southeastern Europe includes Albania; Bosnia and Herzegovina; Bulgaria; Croatia; Macedonia, FYR; Romania; and Serbia.

[2]Purchasing-power-parity-based per capita GDP relative to the euro area.

[3]Twelve-month rolling average of year-over-year inflation. Vertical lines represent assessment dates for Estonia, Lithuania, Latvia, and Slovak Republic.

[4]UWC based. A positive value represents a depreciation.

[5]Differential in the growth of UWC in the manufacturing sector relative to trade partners.

[6]Total financial claims net of interoffice accounts.