

Faster, Higher, Stronger Raising the Growth Potential of CESEE



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October 17, 2013

Outline



Risks from Global Turmoil

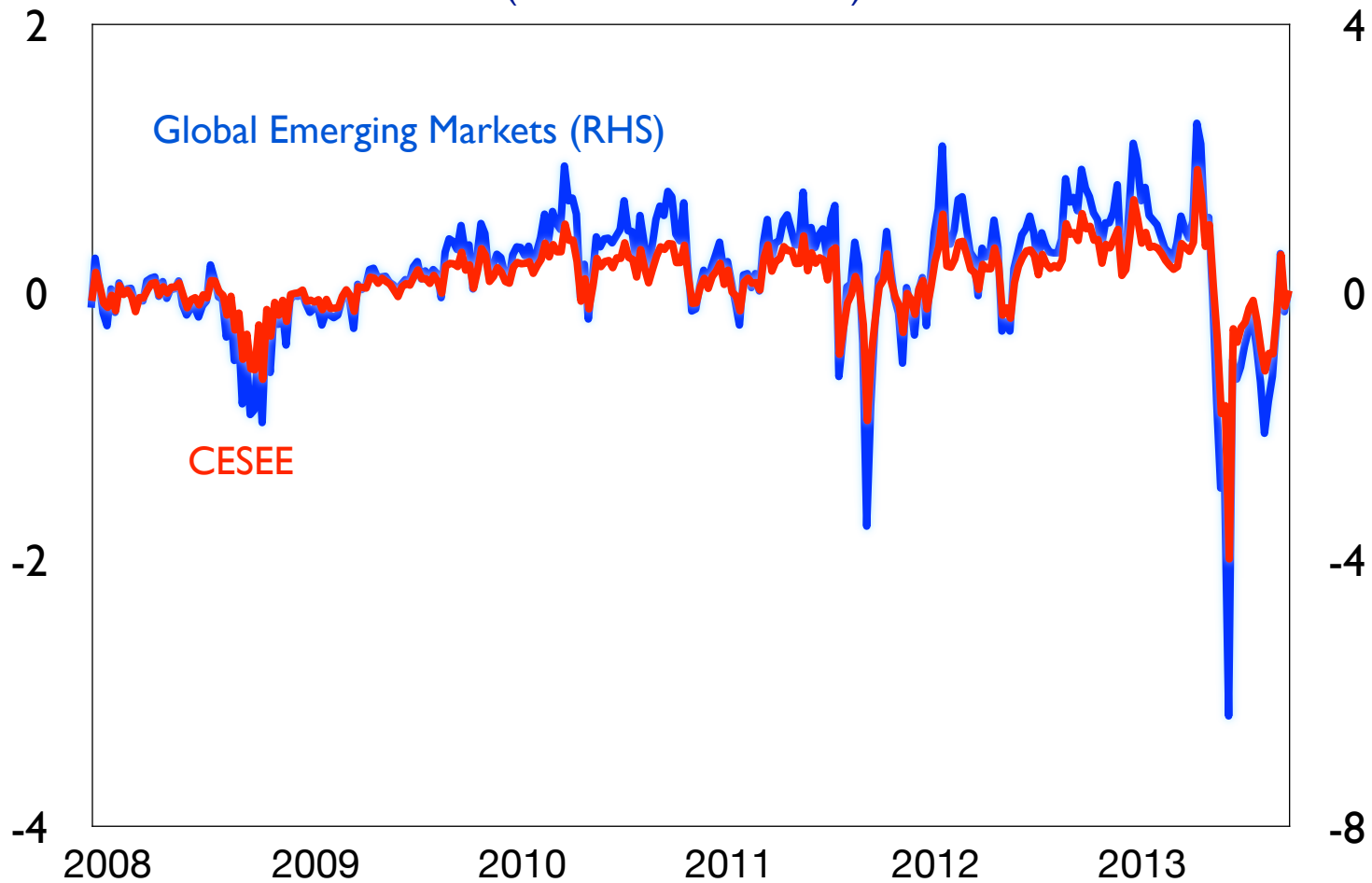
Headwinds to Growth

Addressing Growth Challenges

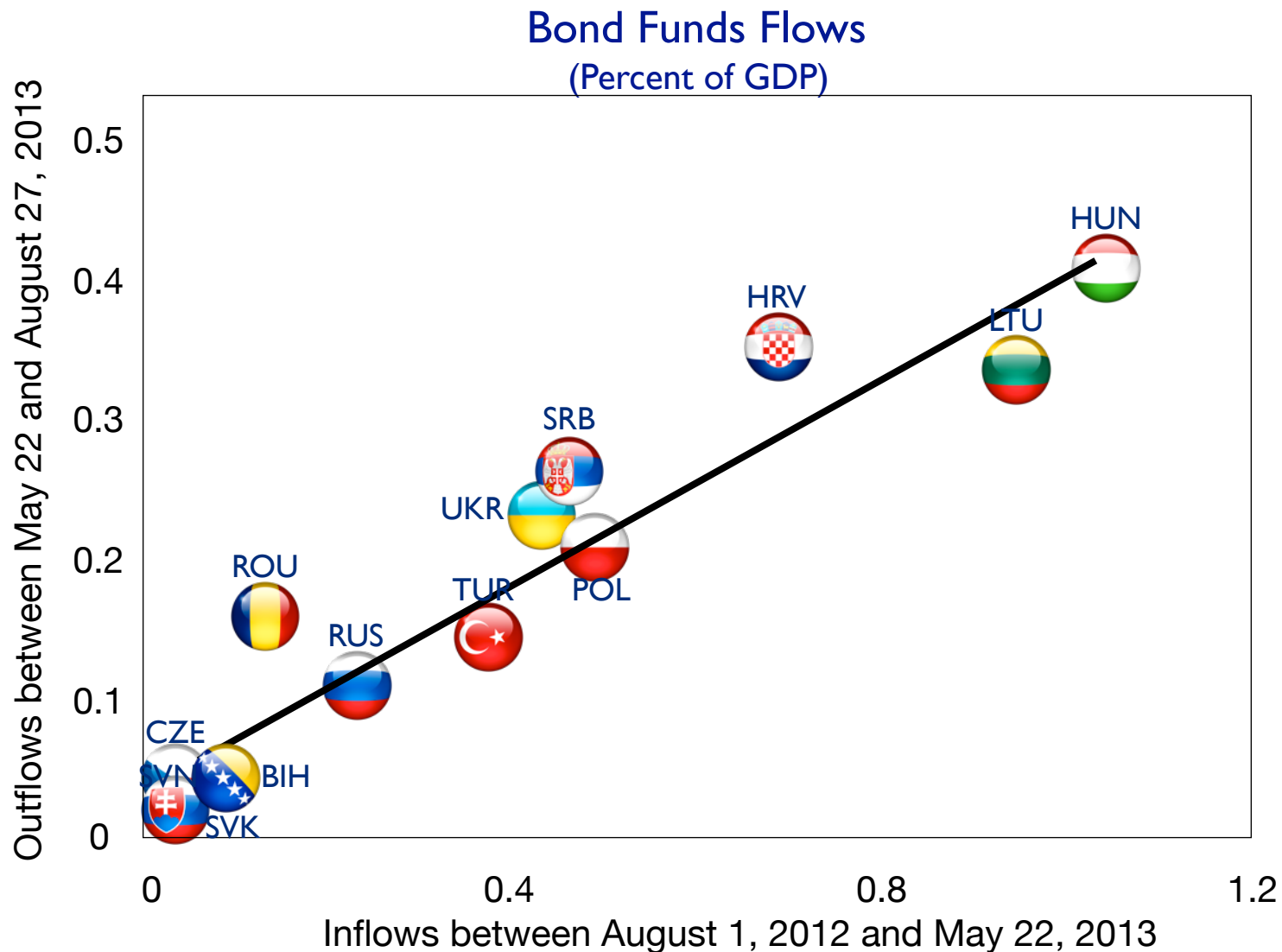
Financial markets in CESEE under pressure since Spring



Bond Funds Flows
(Billions of US dollars)



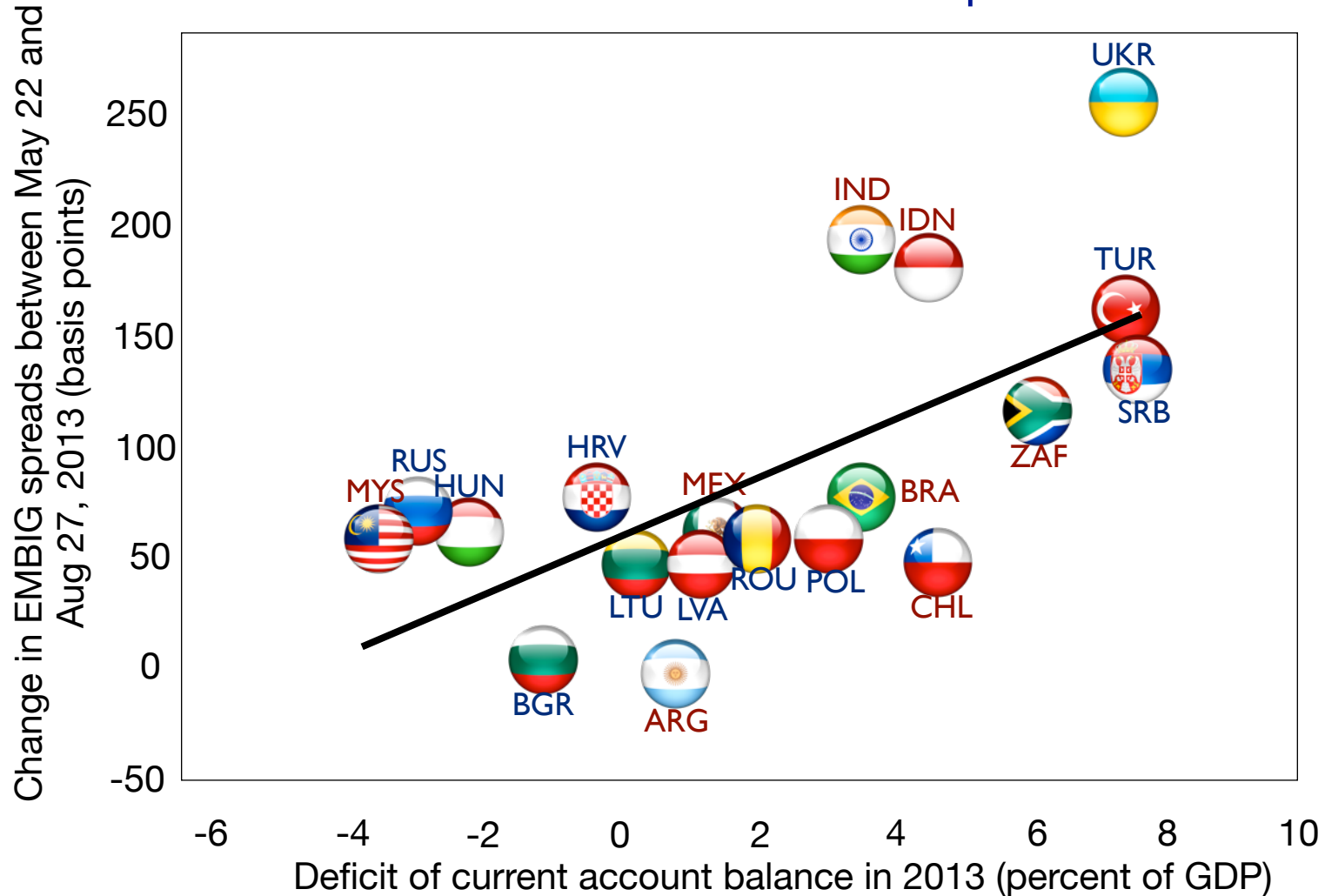
Countries with larger previous inflows were affected more ...



... as were countries with weaker fundamentals



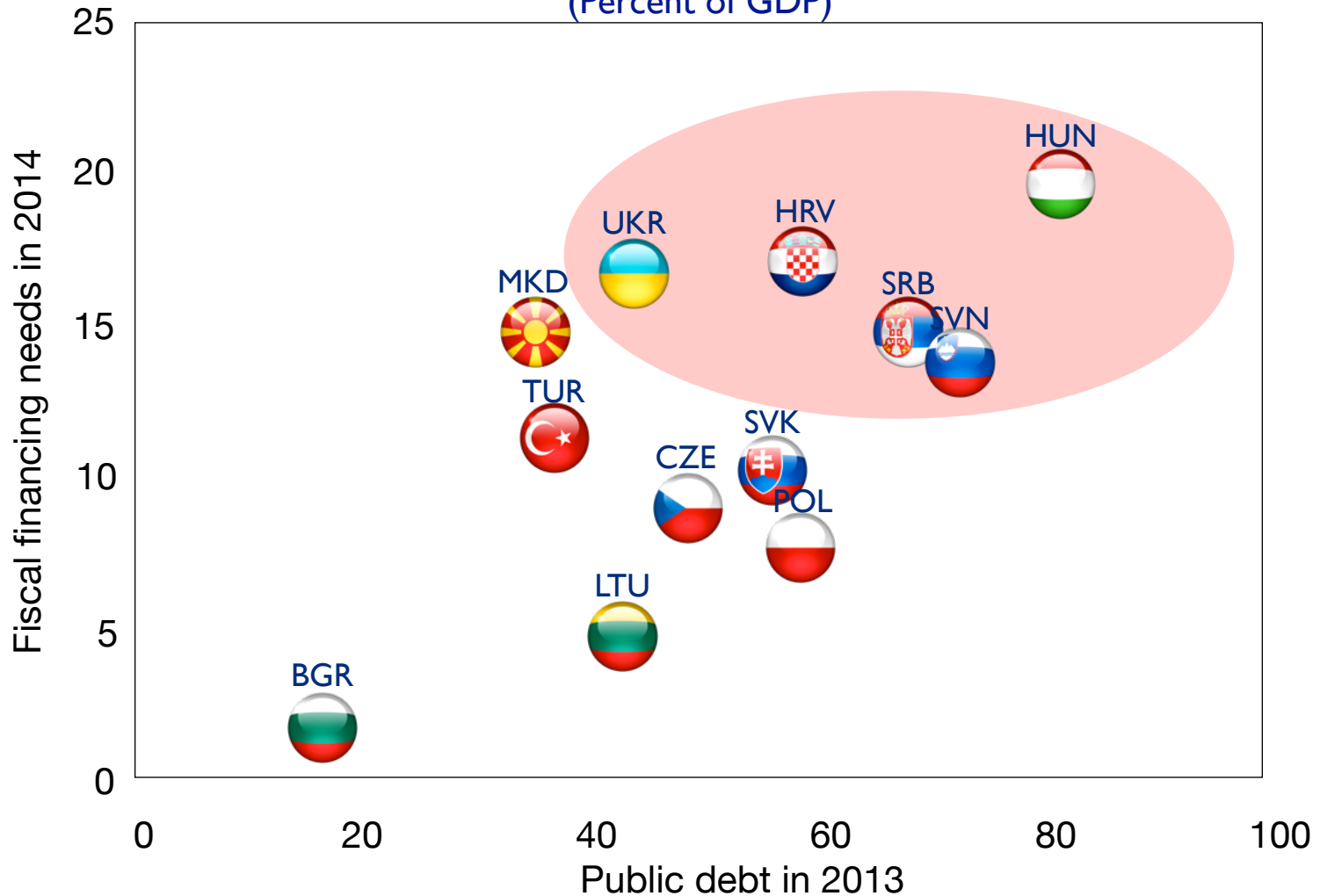
Current Account and EMBIG Spreads



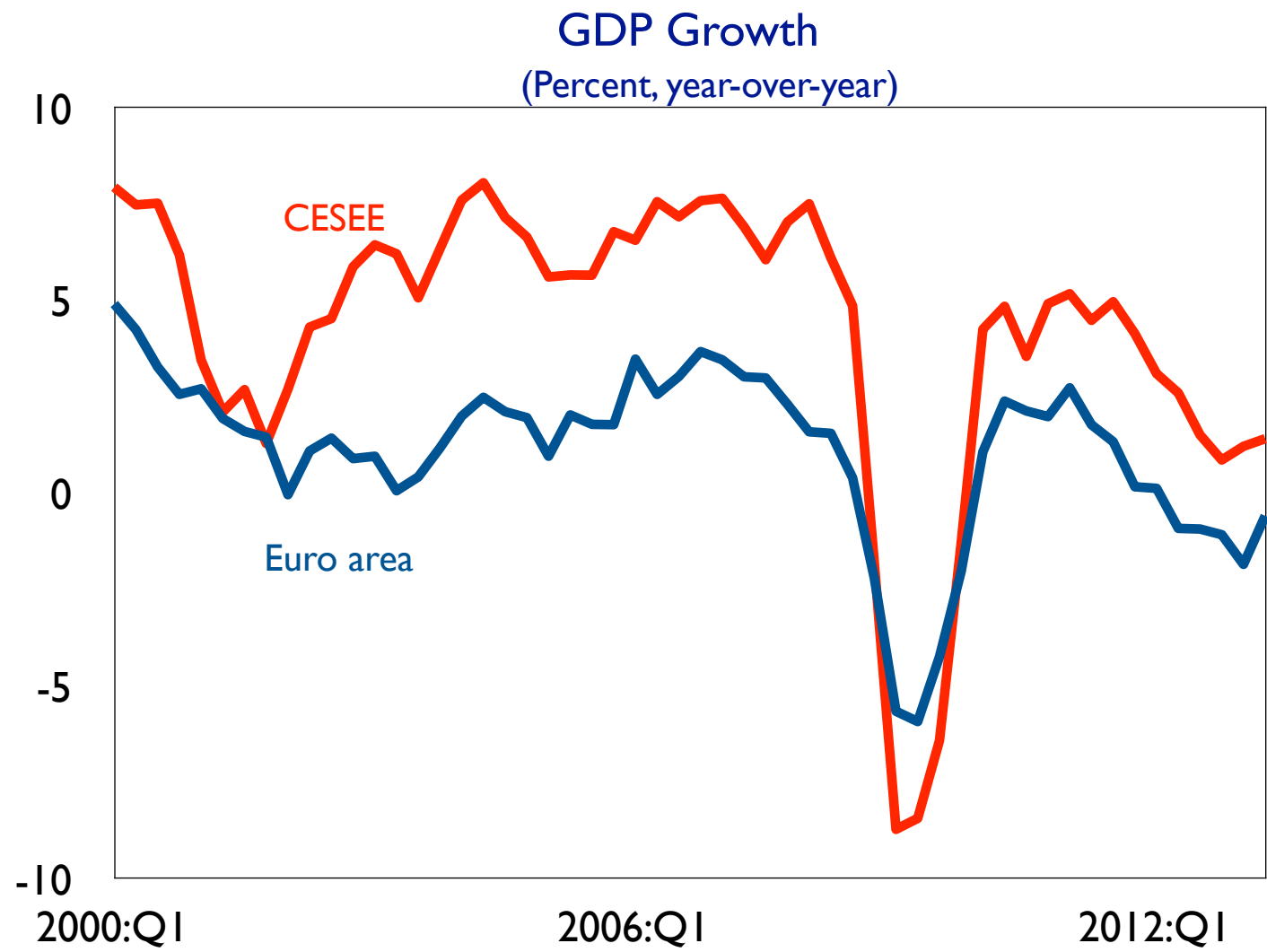
Region vulnerable to renewed turmoil



Public Debt and Fiscal Financing Needs
(Percent of GDP)



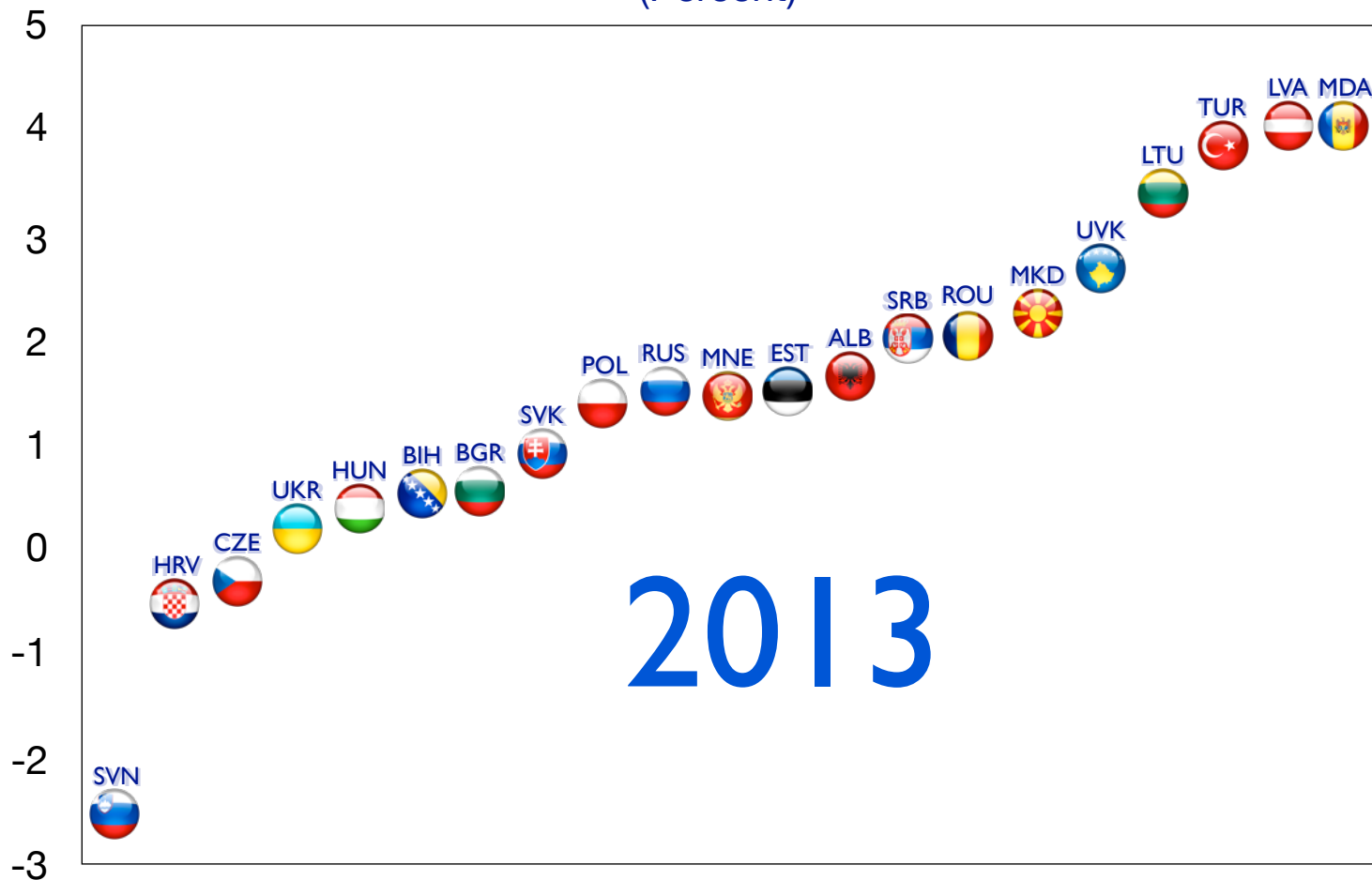
Region recovering from second downturn in five years



Renewed turmoil could jeopardize recovery



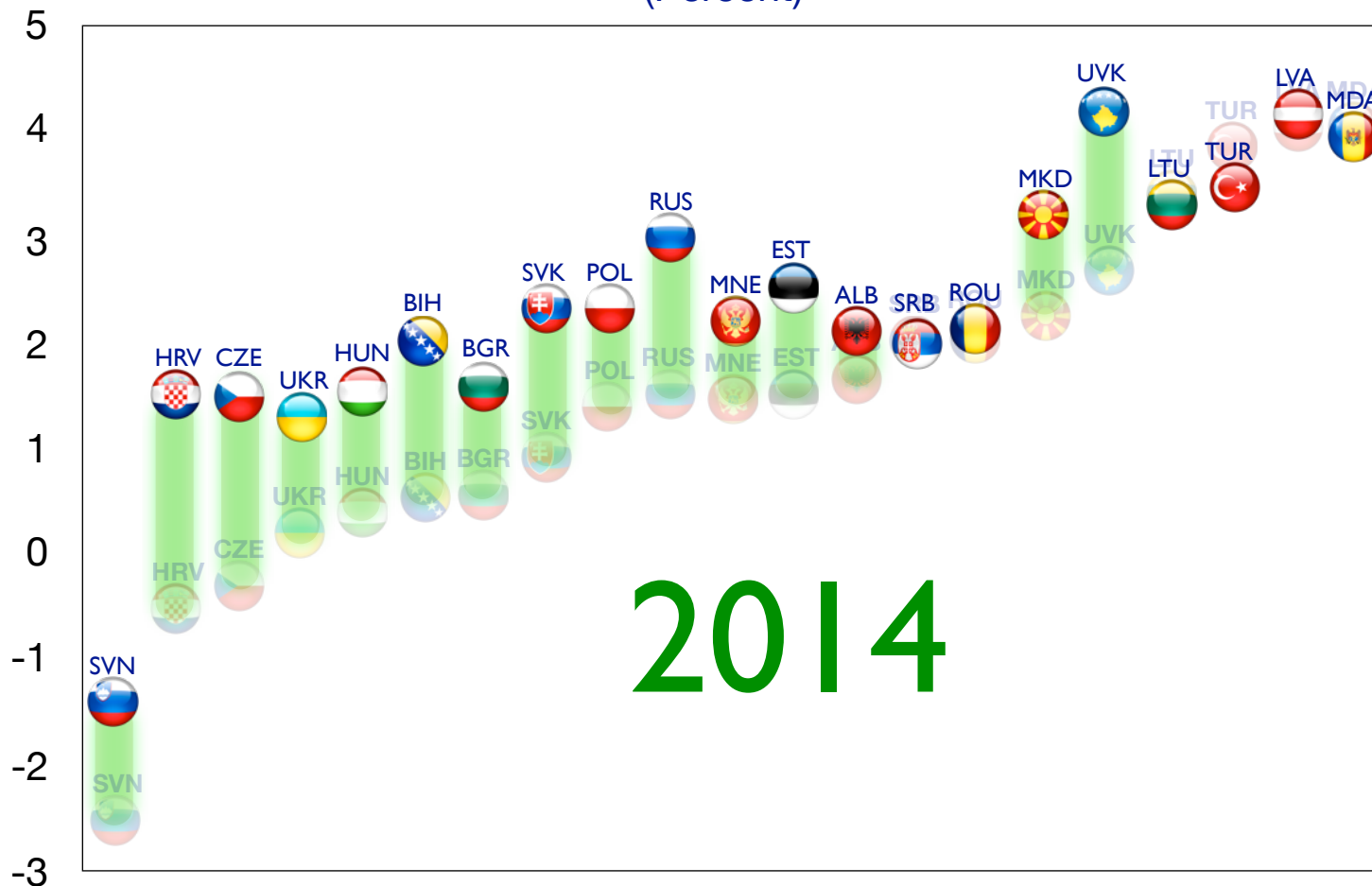
GDP Growth Projections (Percent)



Renewed turmoil could jeopardize recovery



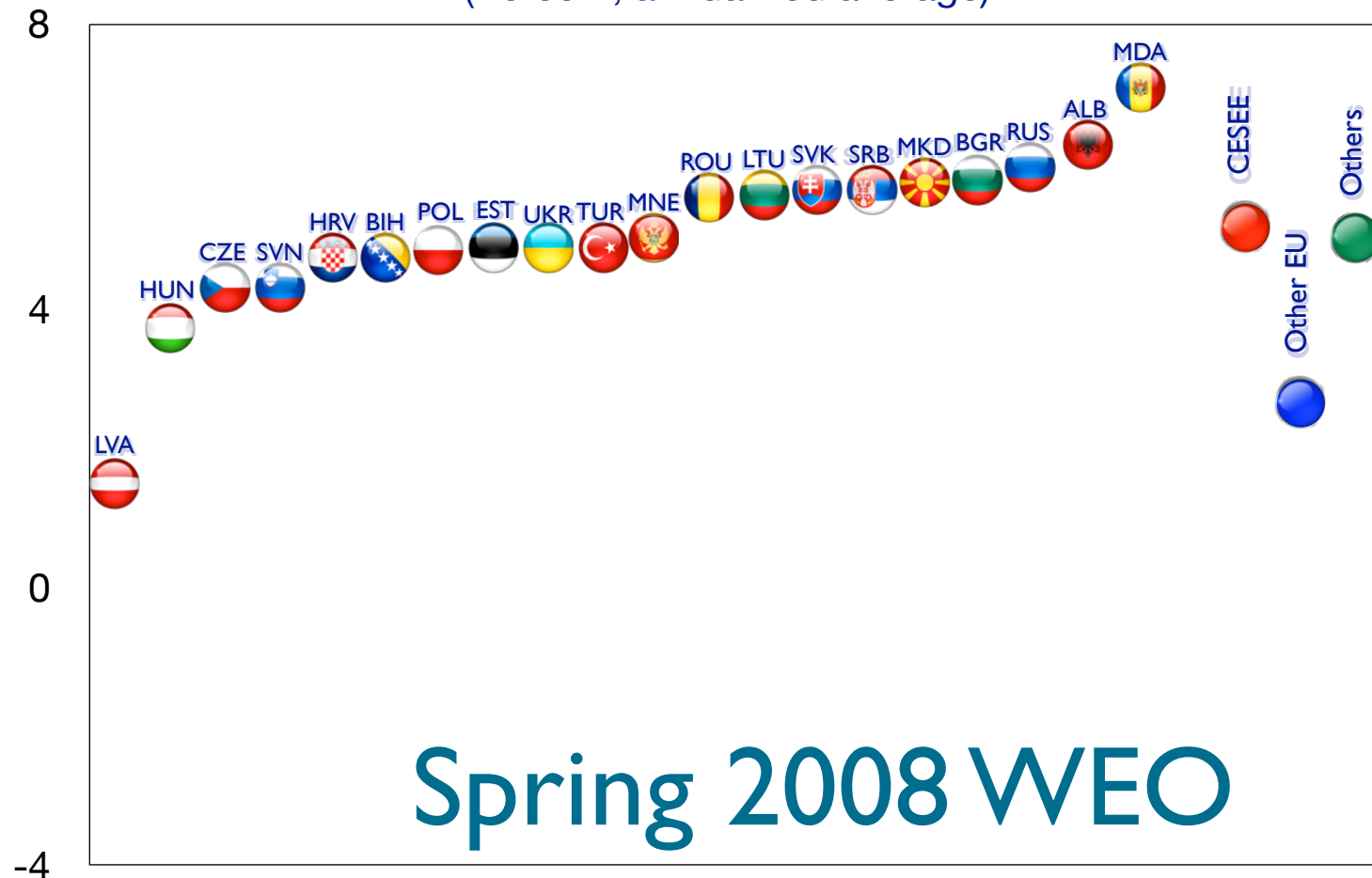
GDP Growth Projections (Percent)



Post-crisis growth disappointing ...



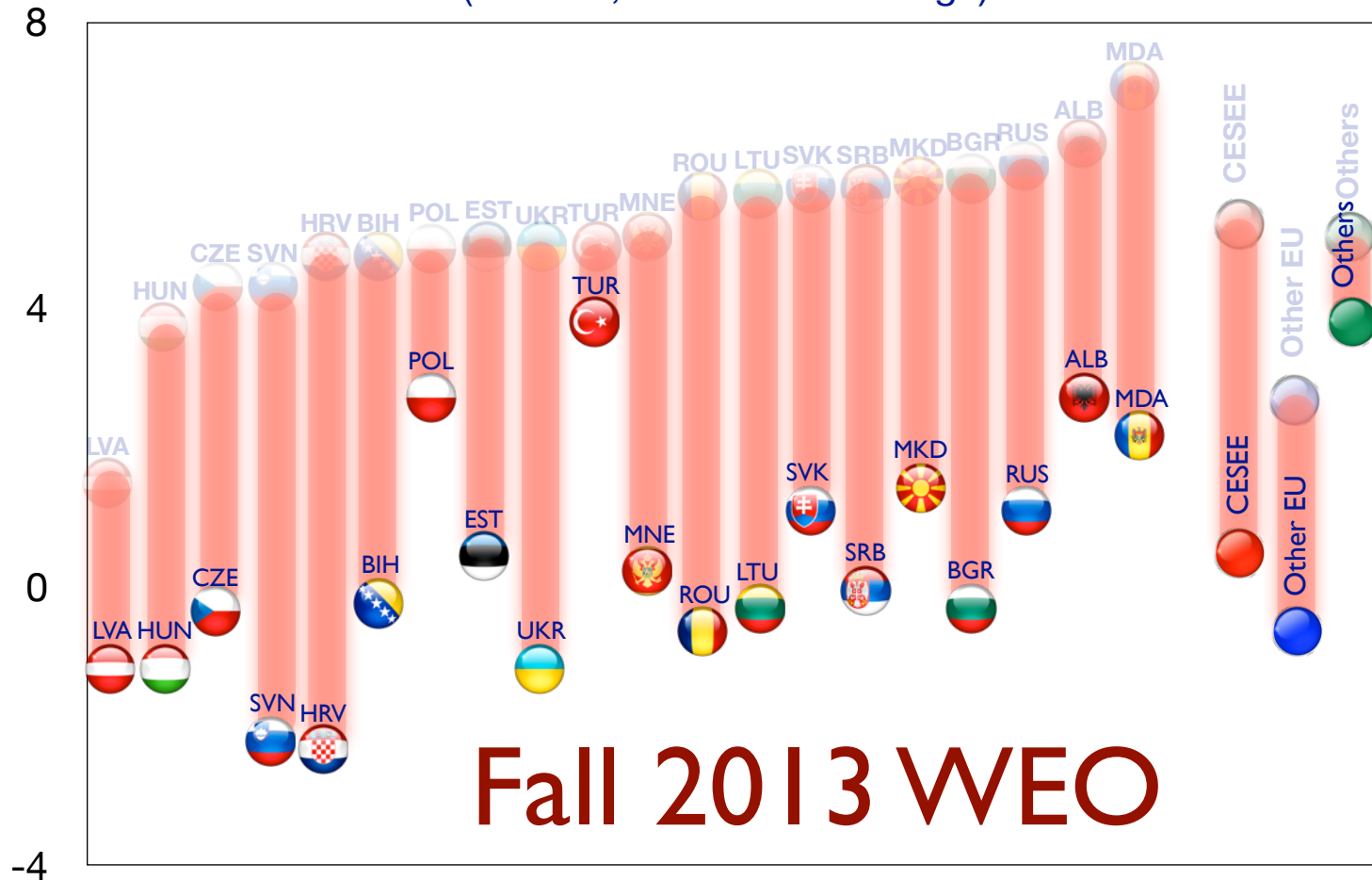
GDP Growth between 2008 and 2013 (Percent, annualized average)



Post-crisis growth disappointing ...



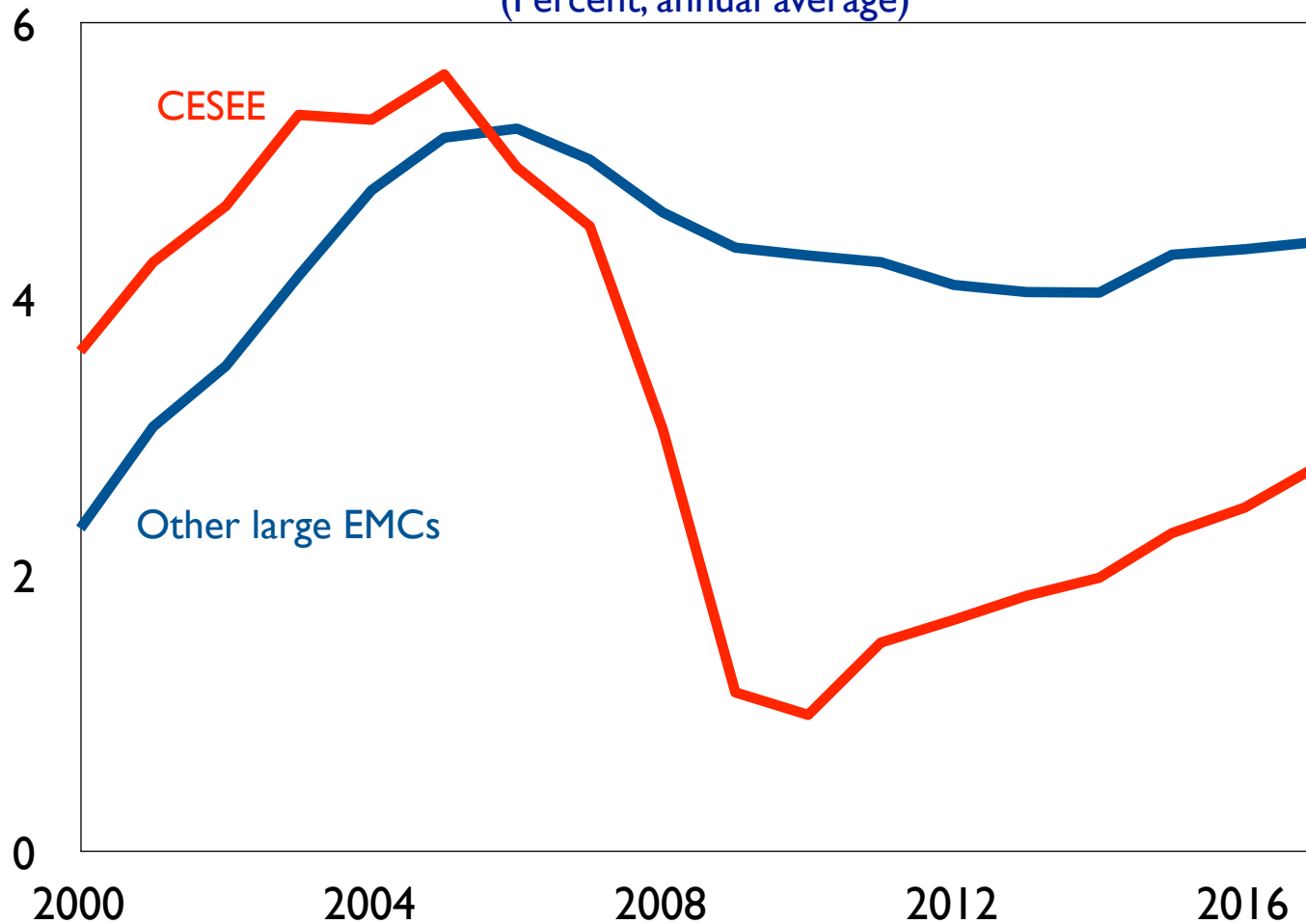
GDP Growth between 2008 and 2013
(Percent, annualized average)



... reflecting drop in growth potential ...



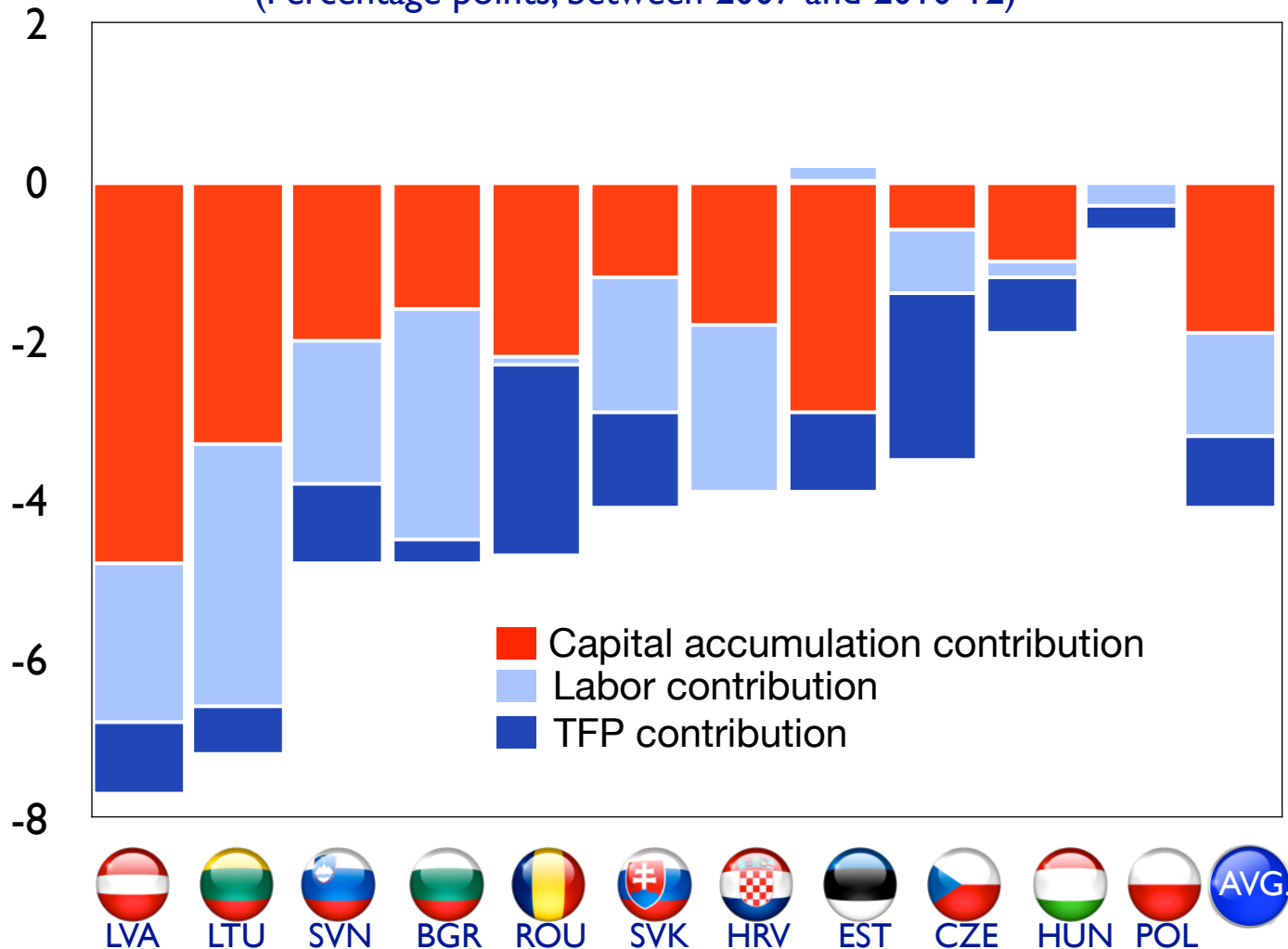
Potential Output Growth
(Percent, annual average)



... due to weaker investment



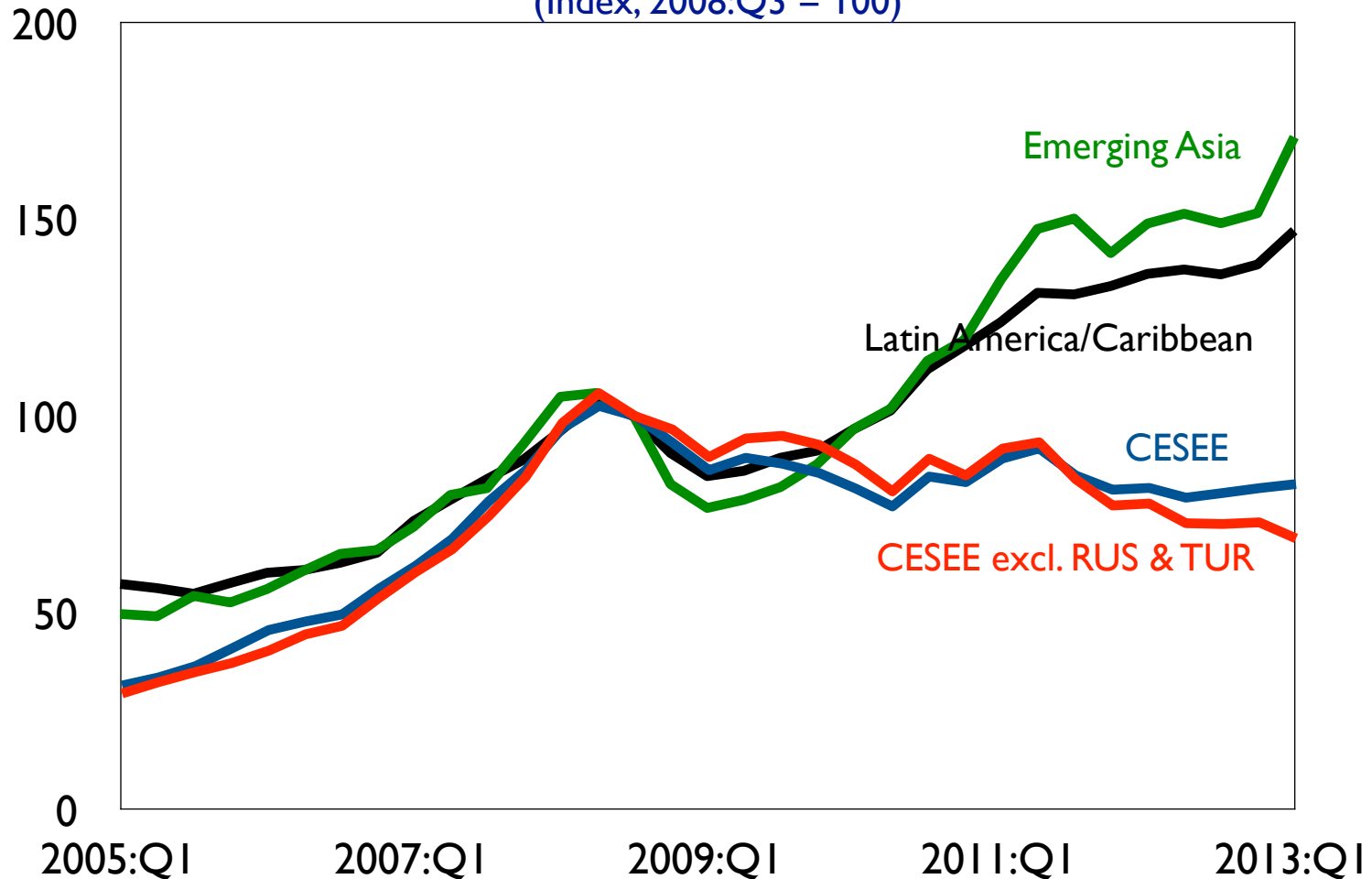
Decomposition of the Fall in Potential Growth (Percentage points, between 2007 and 2010-12)



Looking ahead, headwinds to potential growth are substantial



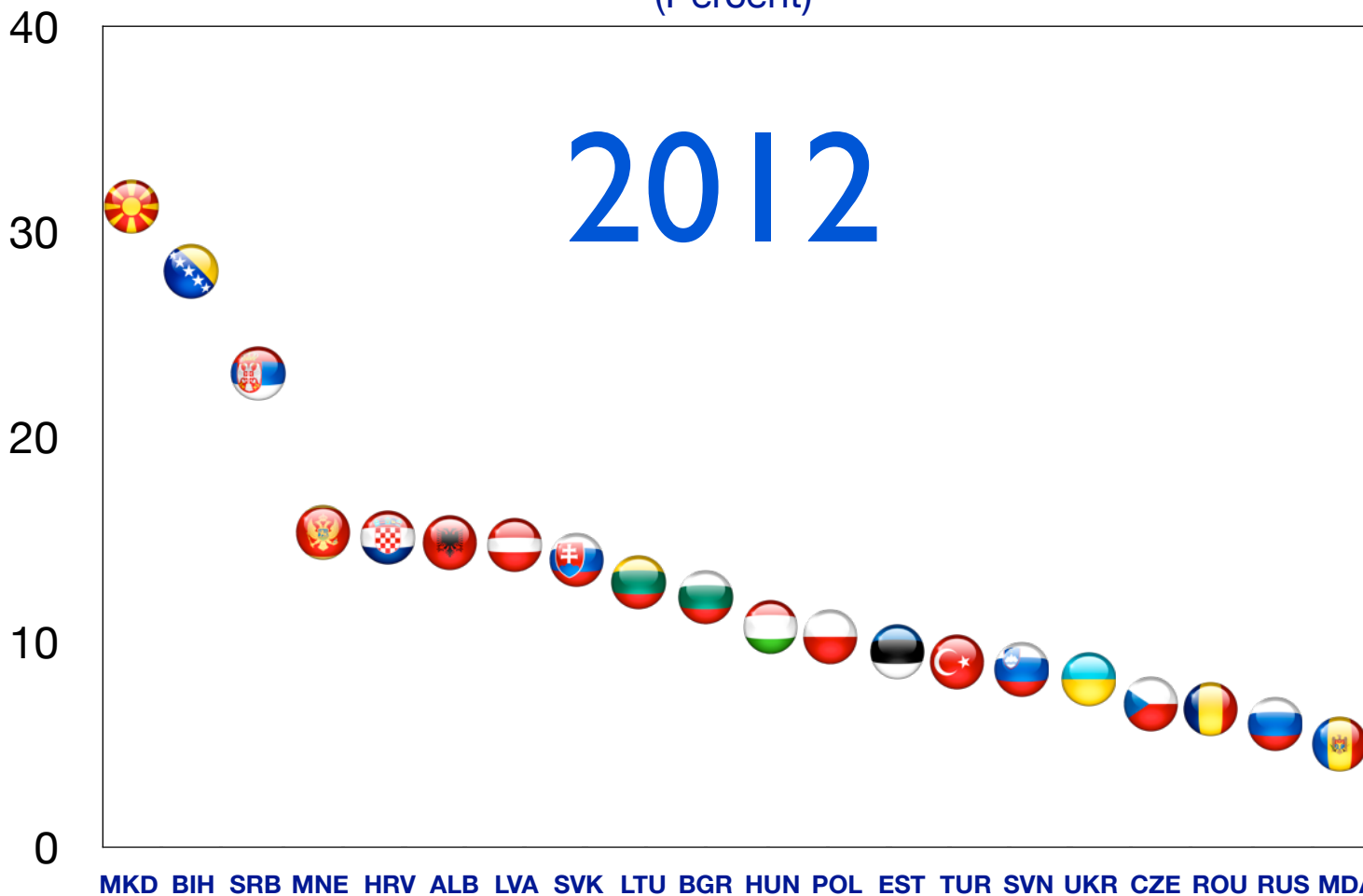
External Positions of BIS-Reporting Banks vis-à-vis CESEE
(Index, 2008:Q3 = 100)



Which will make it harder to reduce unemployment ...



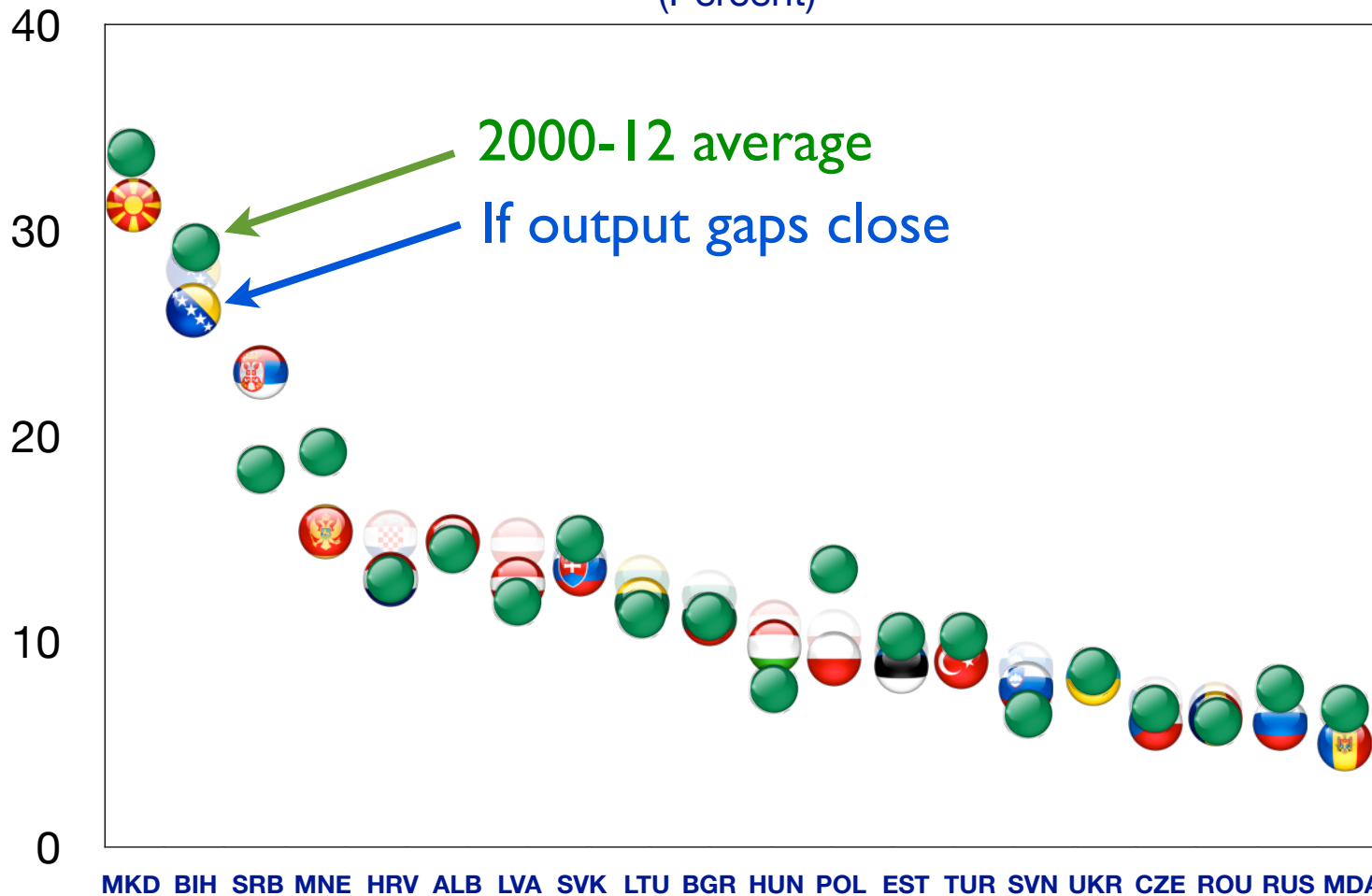
Unemployment Rate (Percent)



Which will make it harder to reduce unemployment ...



Unemployment Rate (Percent)

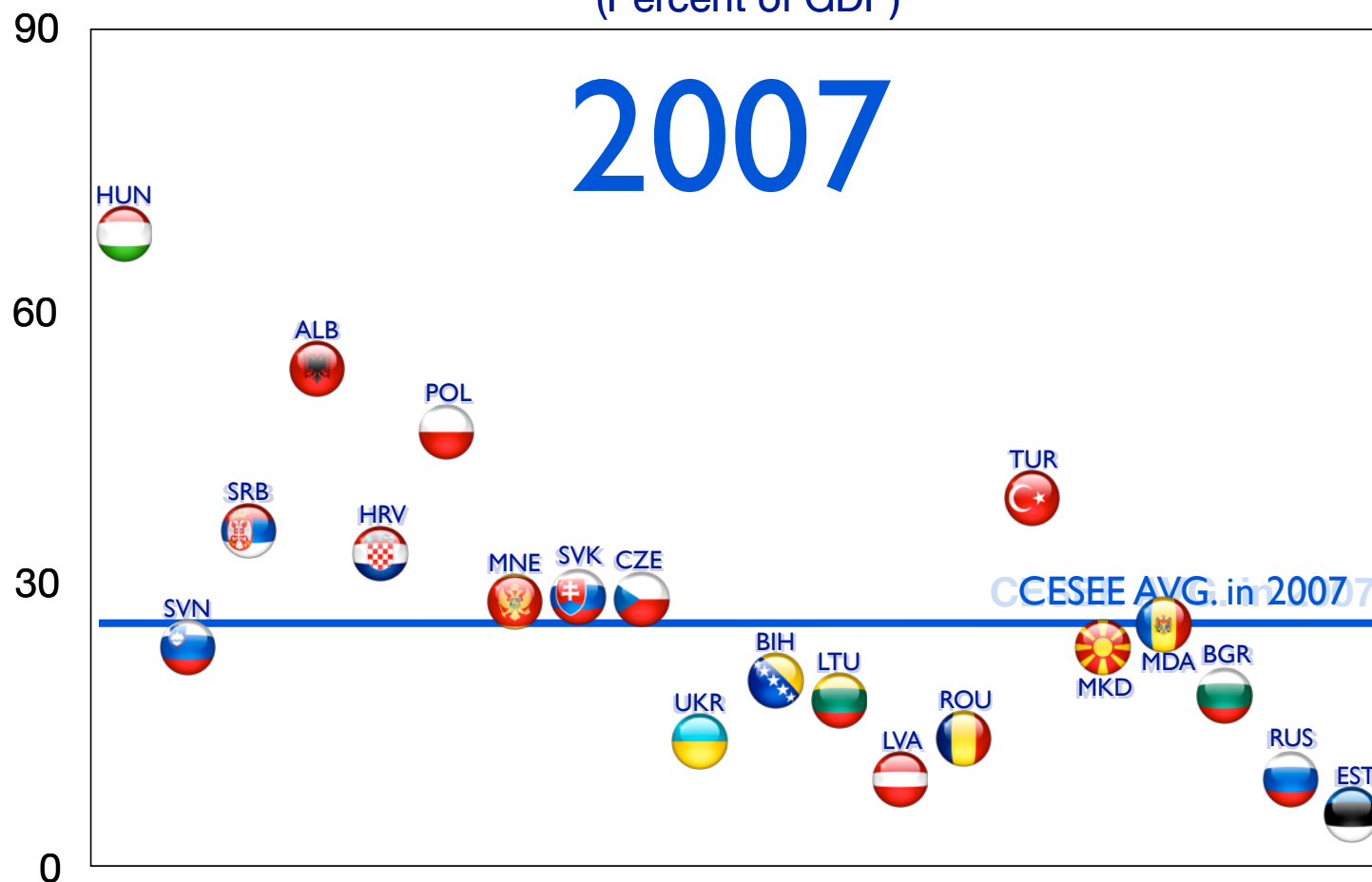


... and bring public debt ratios back to more comfortable levels



Public Debt (Percent of GDP)

2007

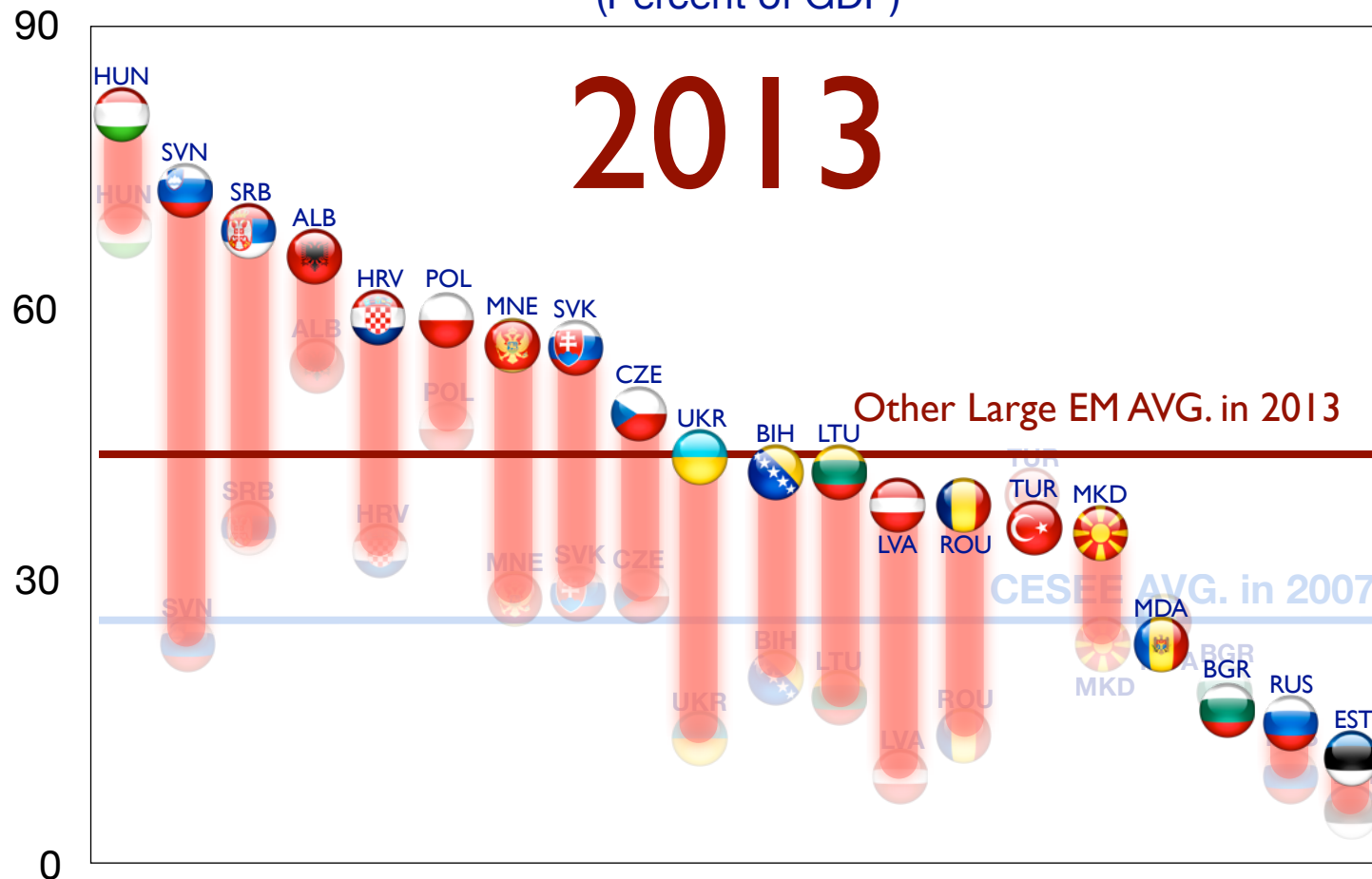


... and bring public debt ratios back to more comfortable levels

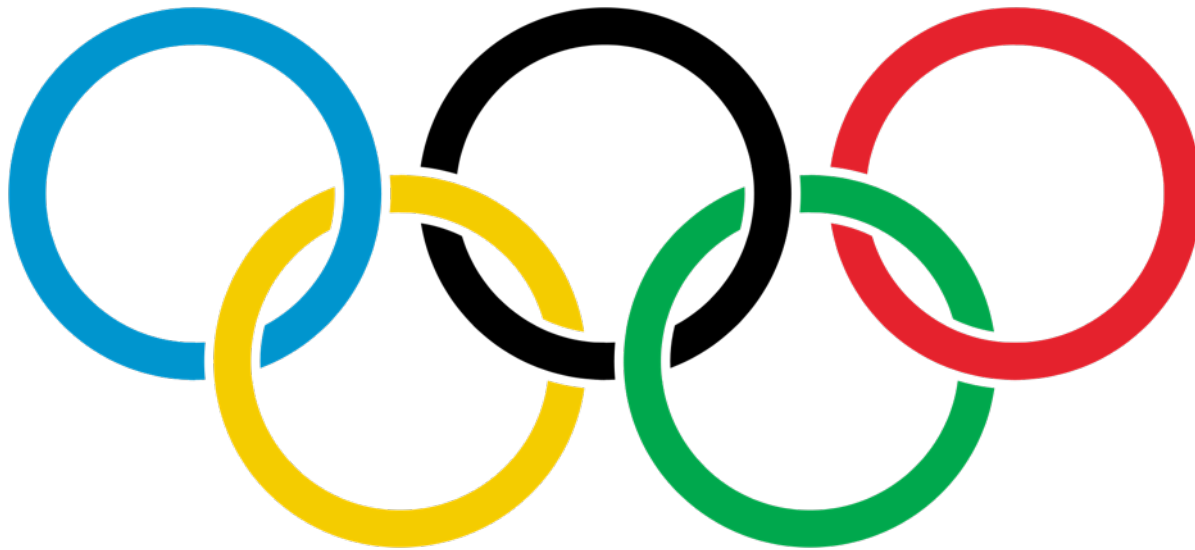


Public Debt
(Percent of GDP)

2013



Faster, Higher, Stronger growth is essential



Boosting growth: policy agenda



1. Address crisis legacies

2. Boost tradable sector

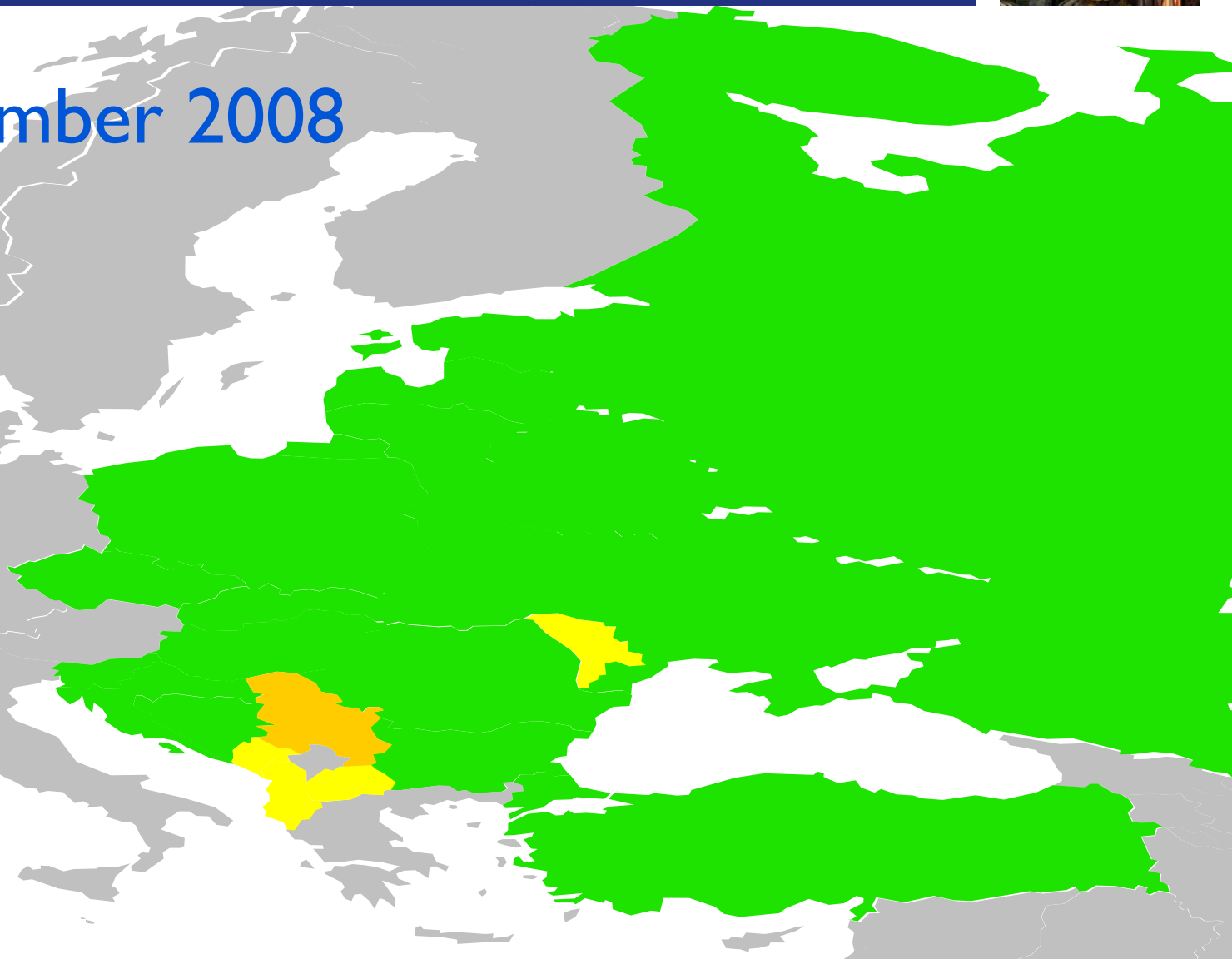
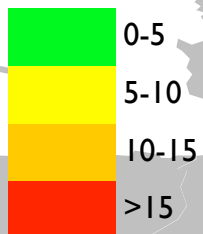
3. Improve investment

4. Reduce labor market rigidity

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



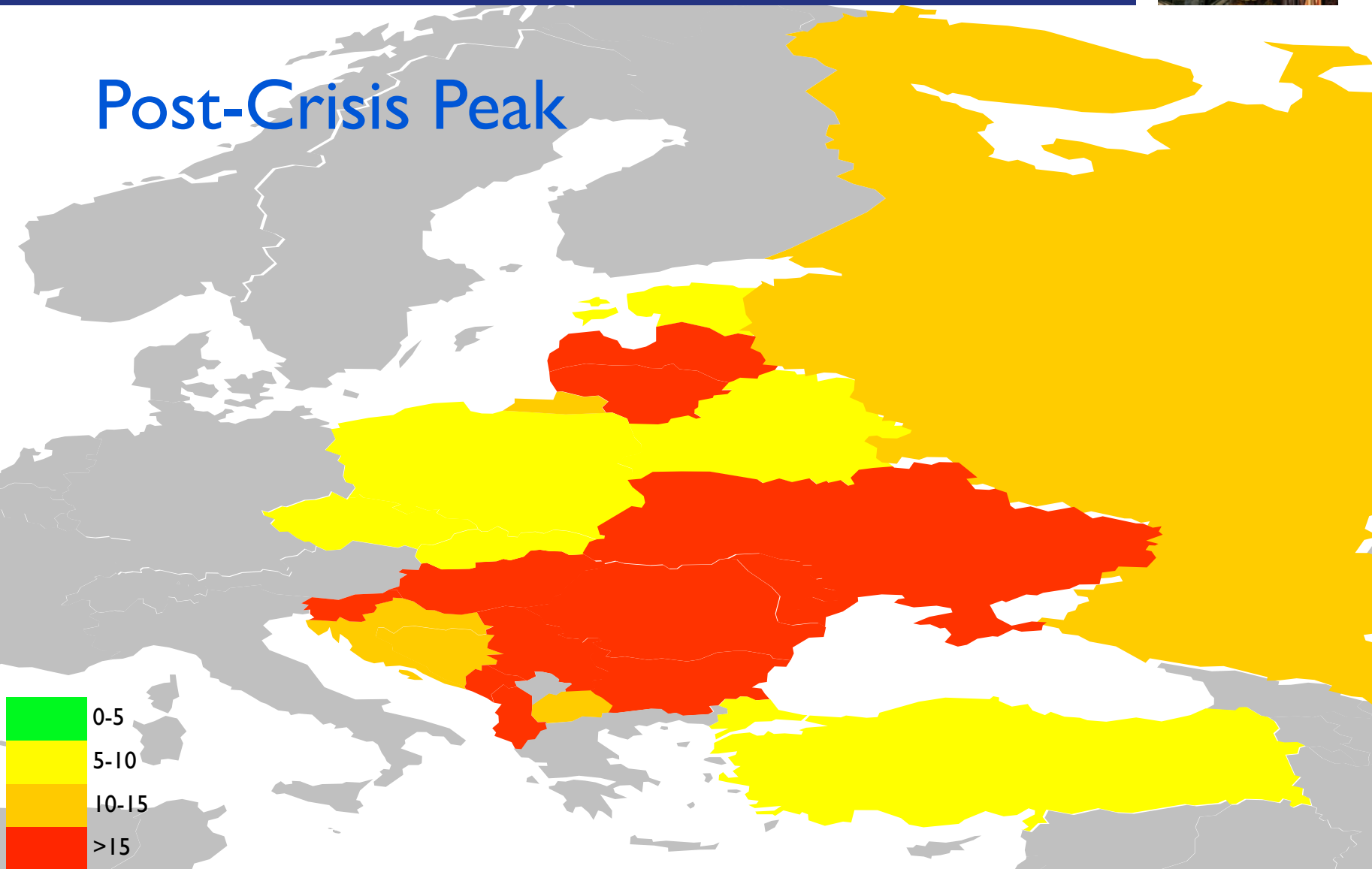
December 2008



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



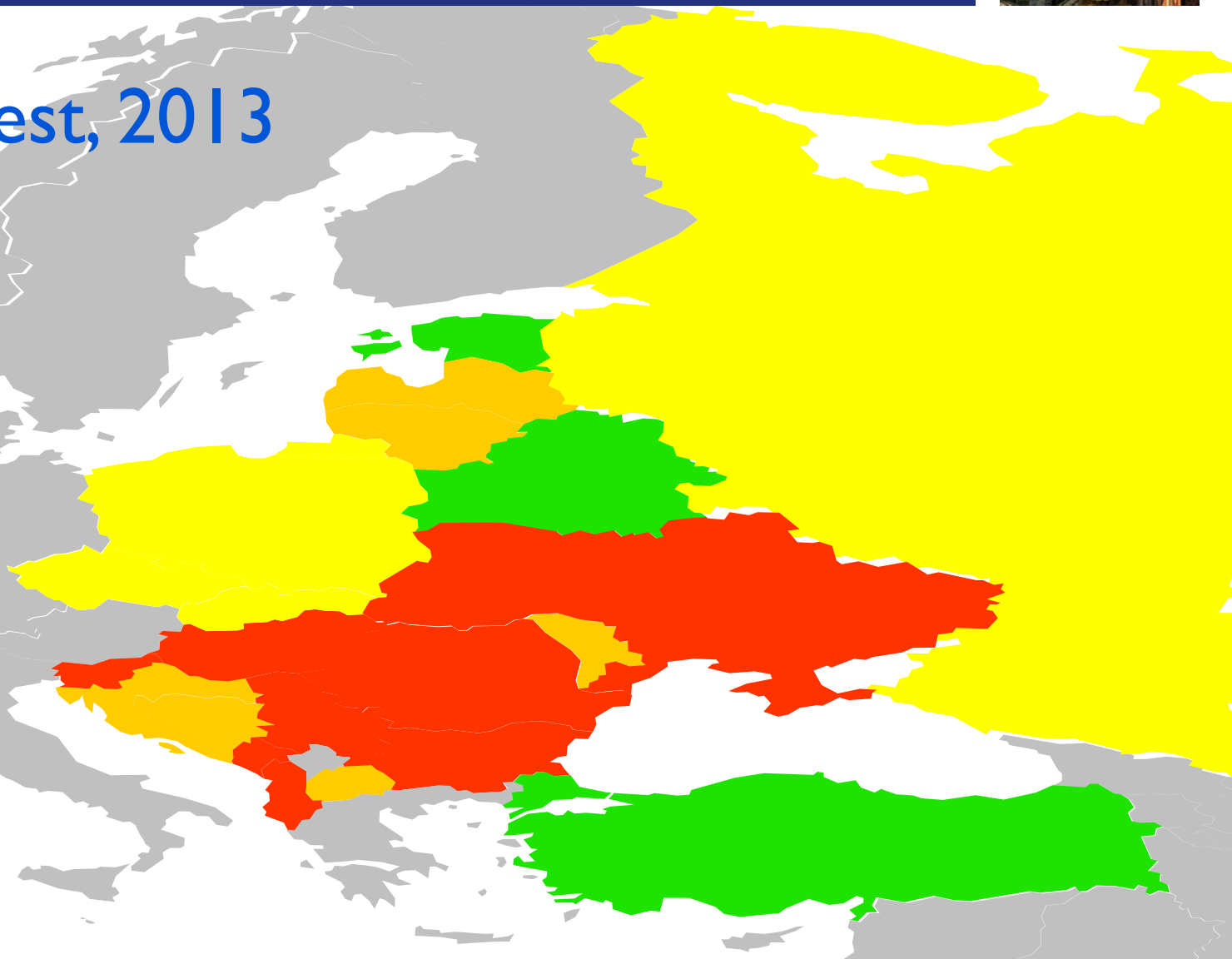
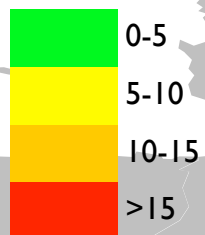
Post-Crisis Peak



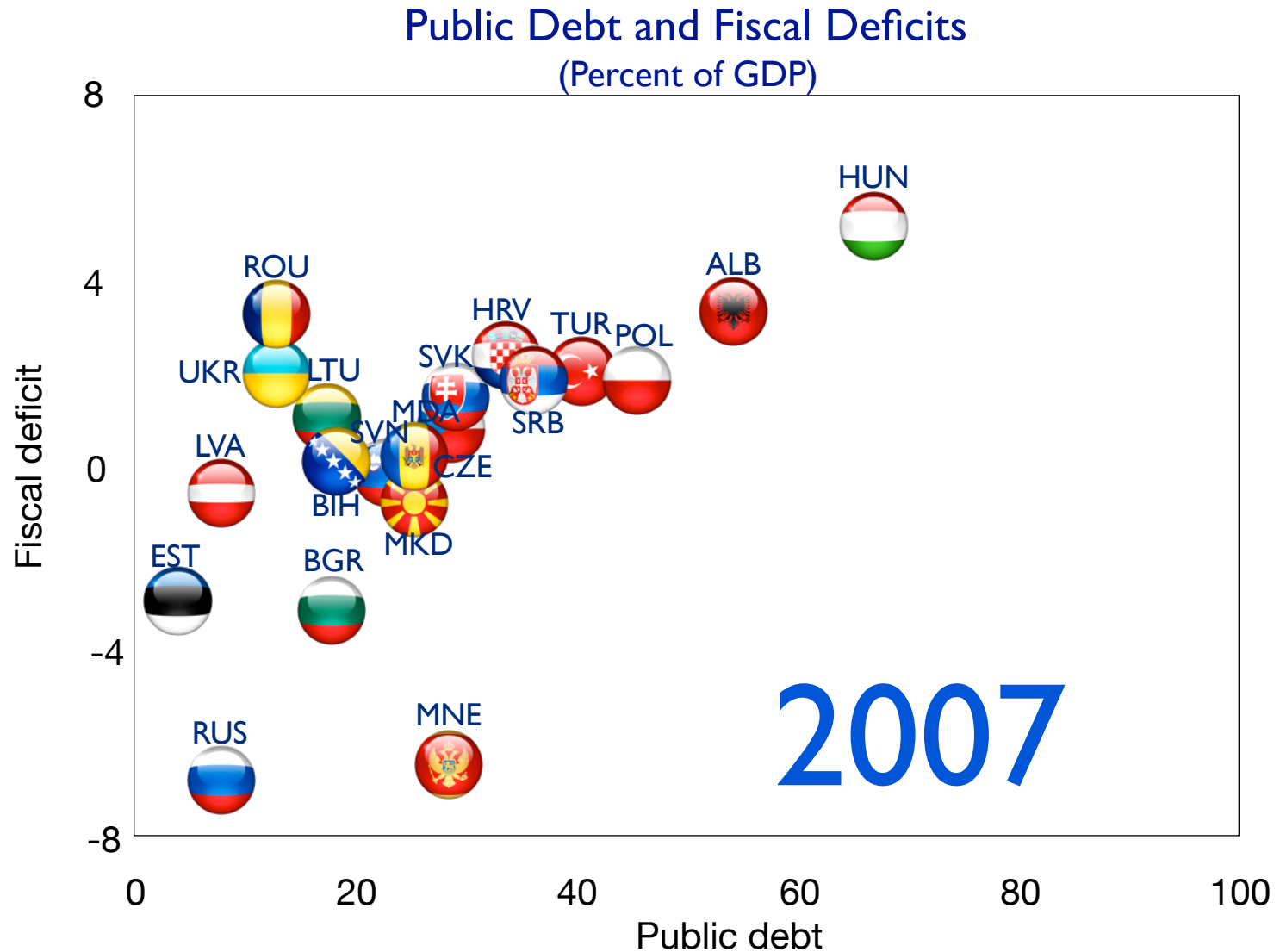
I. Address crisis legacies: clean up NPLs ...



Latest, 2013

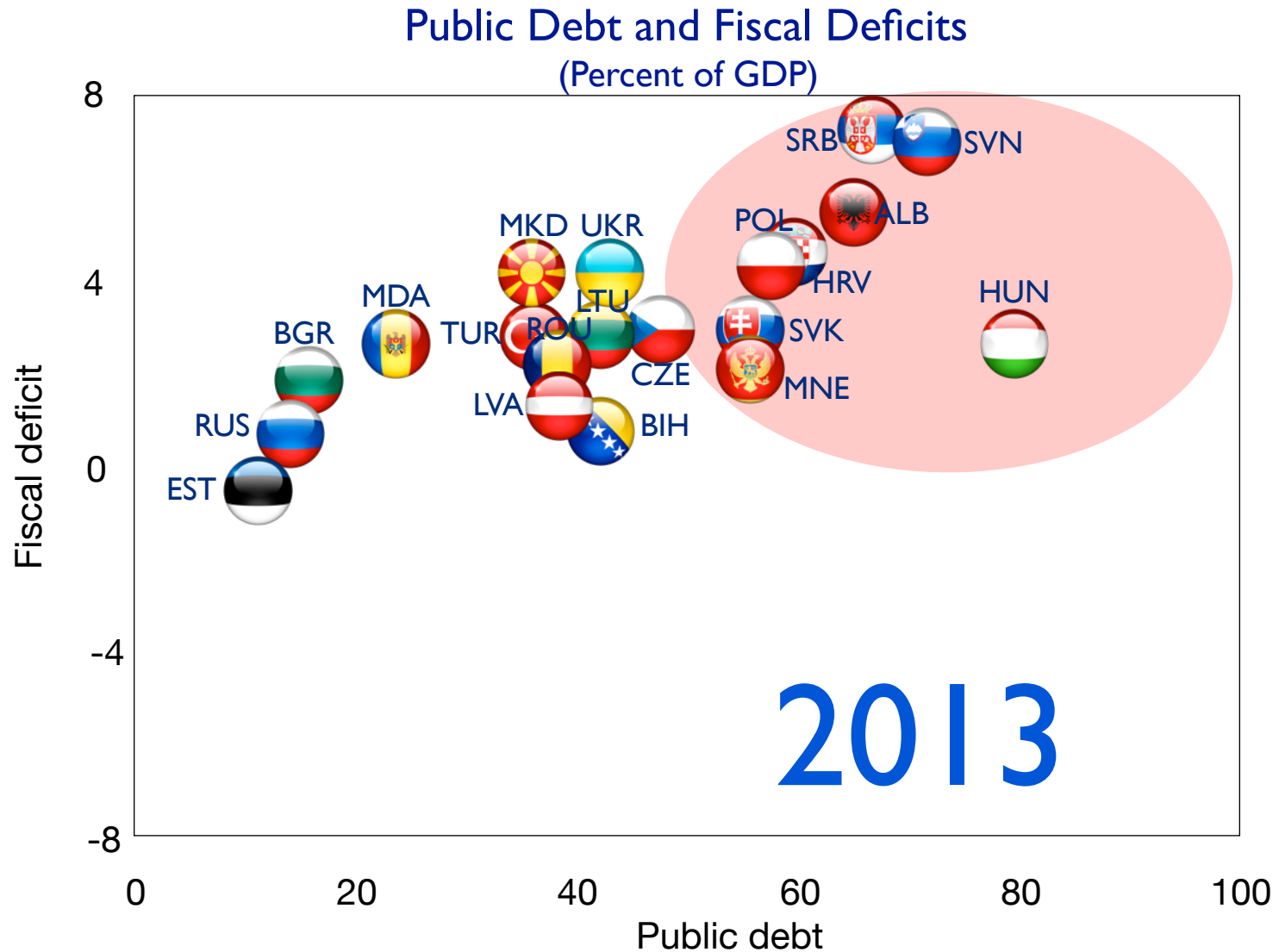


... and rebuild fiscal buffers



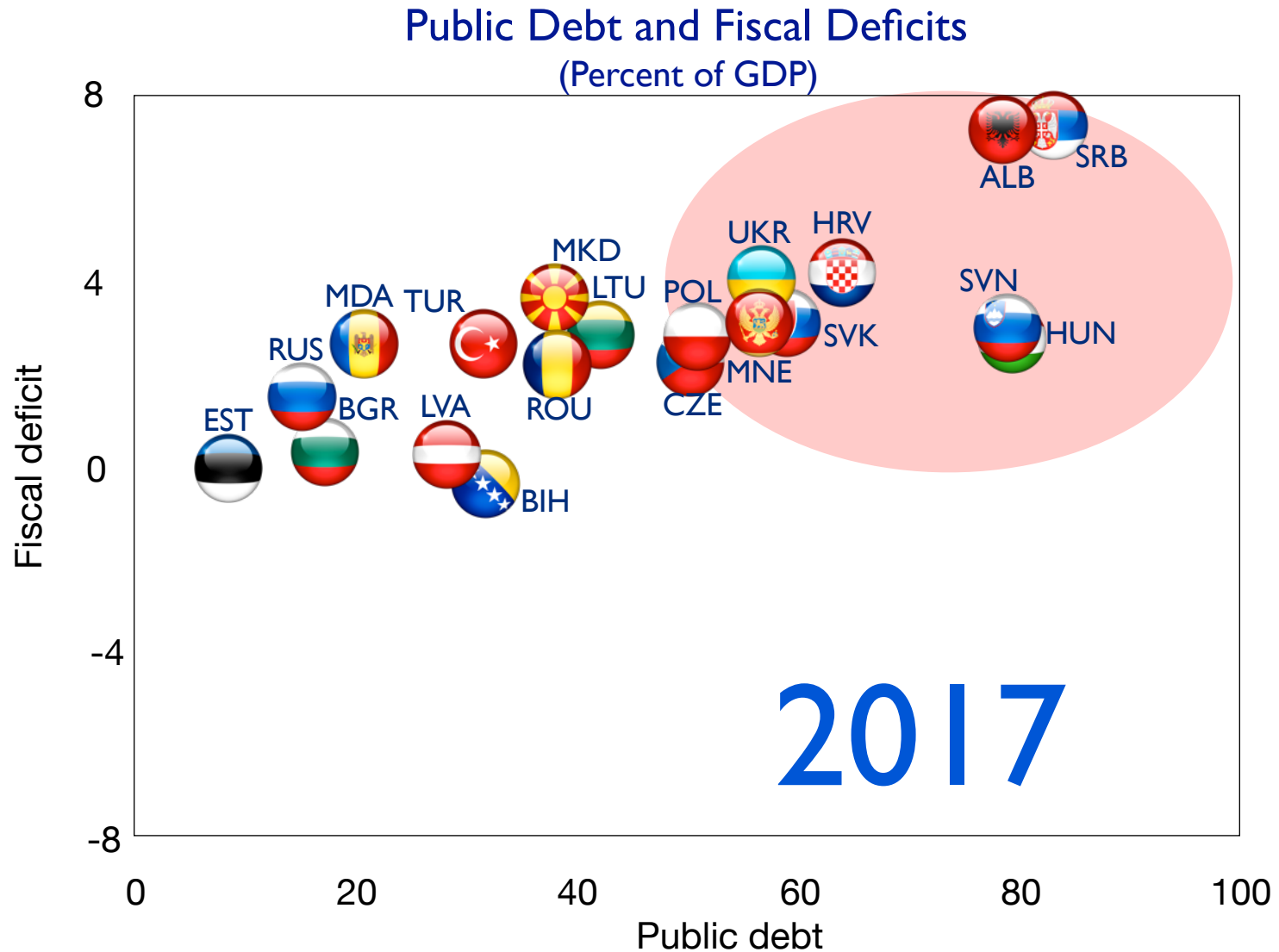
2007

... and rebuild fiscal buffers



2013

... and rebuild fiscal buffers

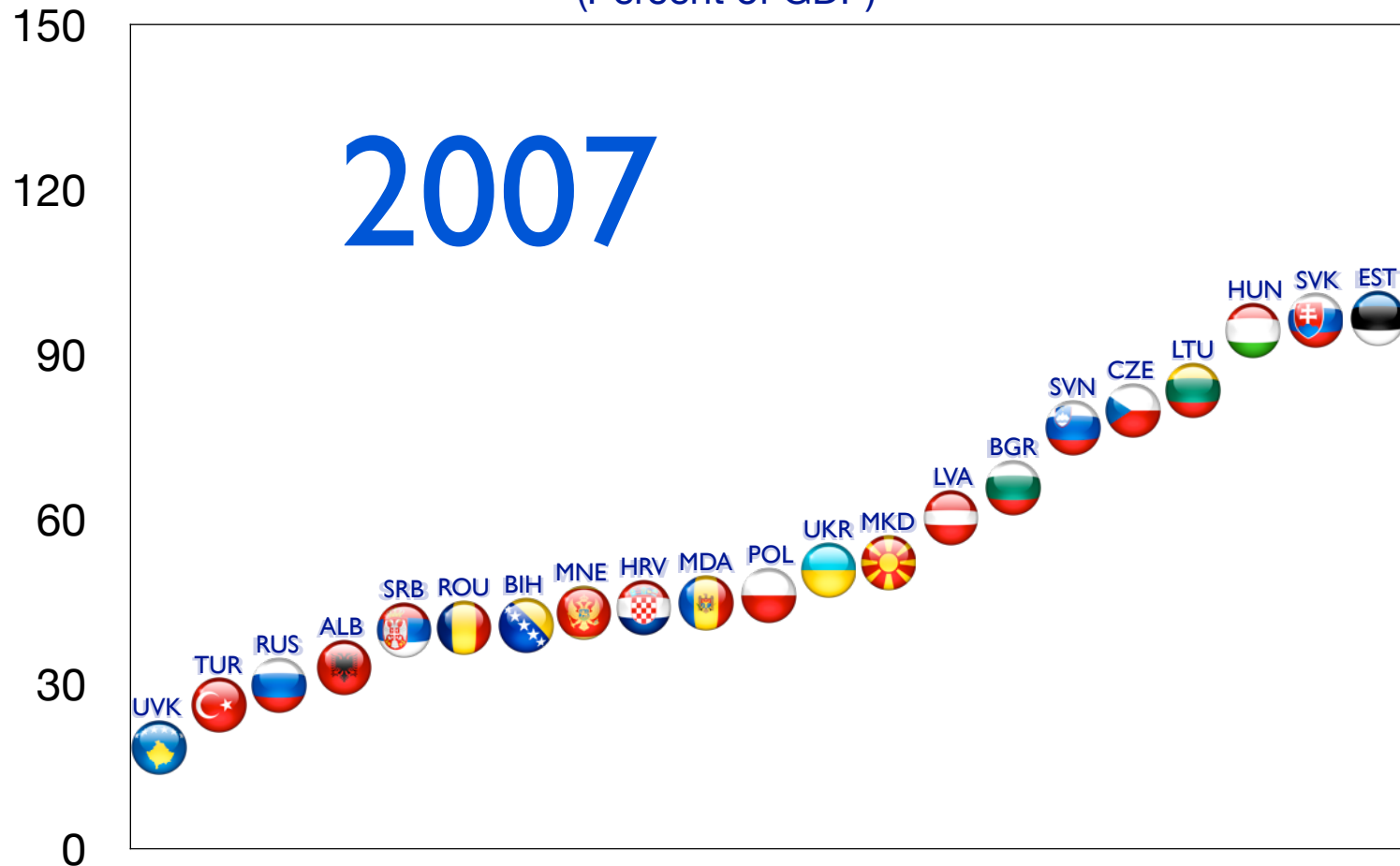


2017

2. Boost tradable sector



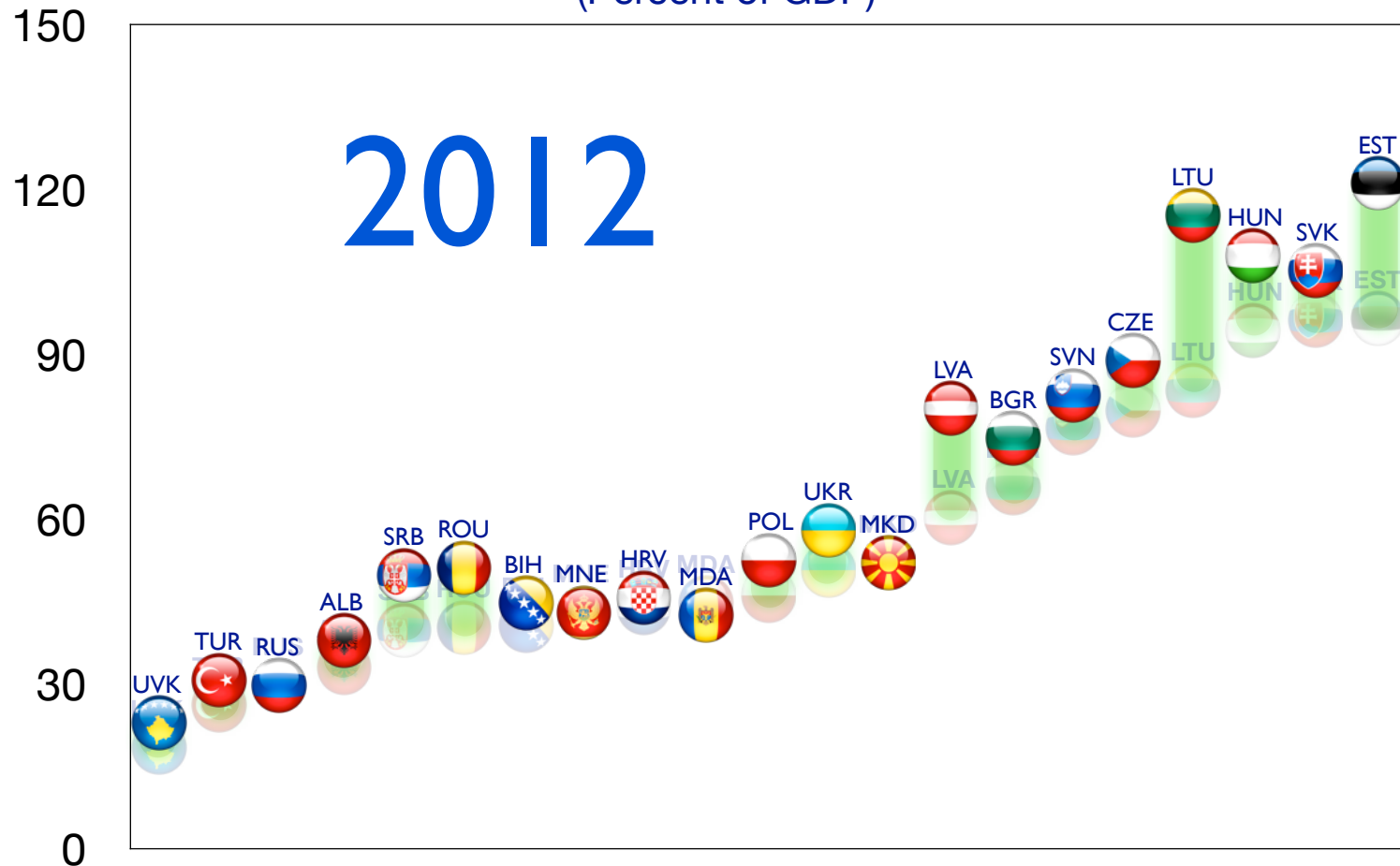
Exports of Goods and Services
(Percent of GDP)



2. Boost tradable sector



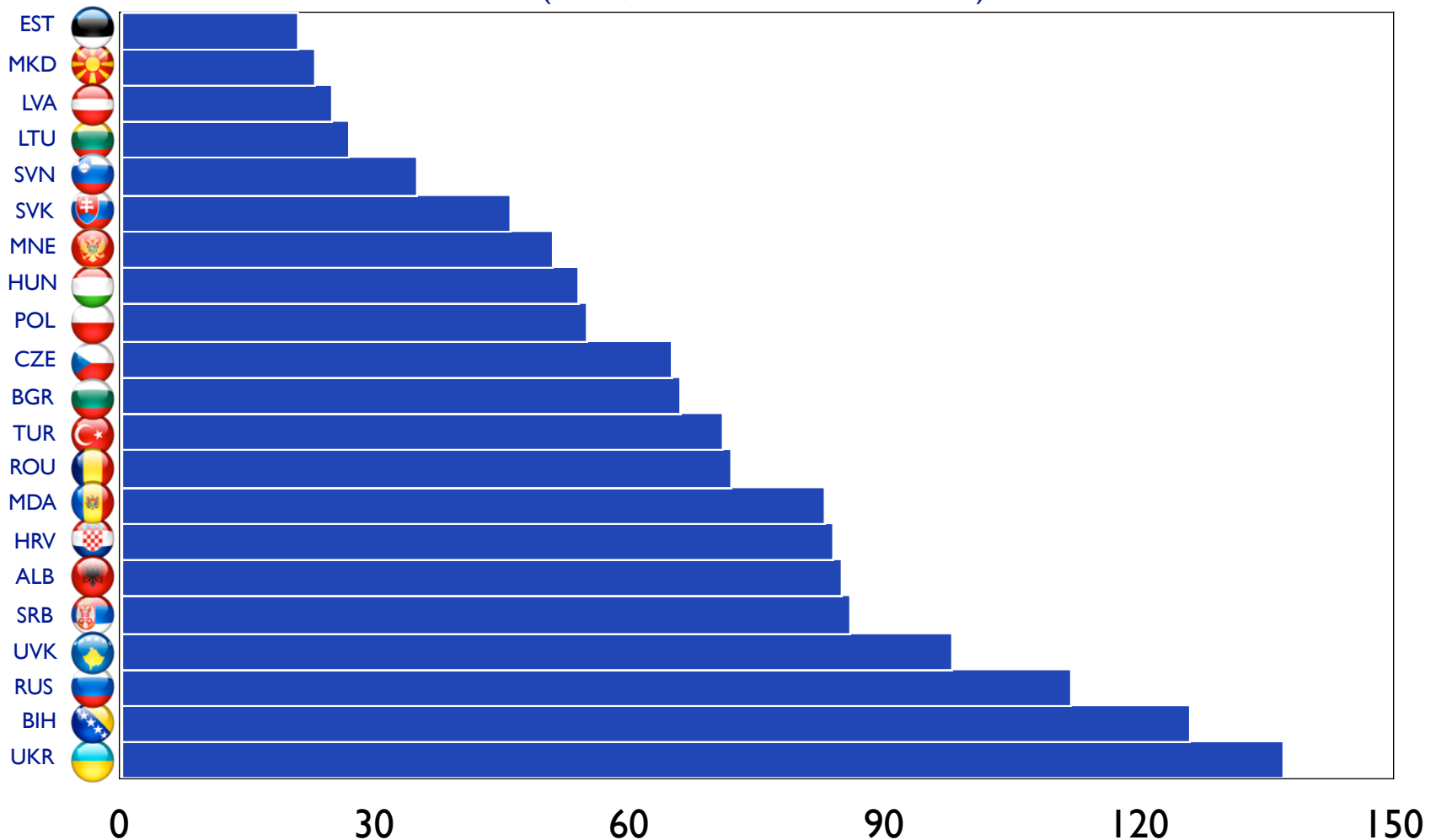
Exports of Goods and Services (Percent of GDP)



3. Improve investment climate



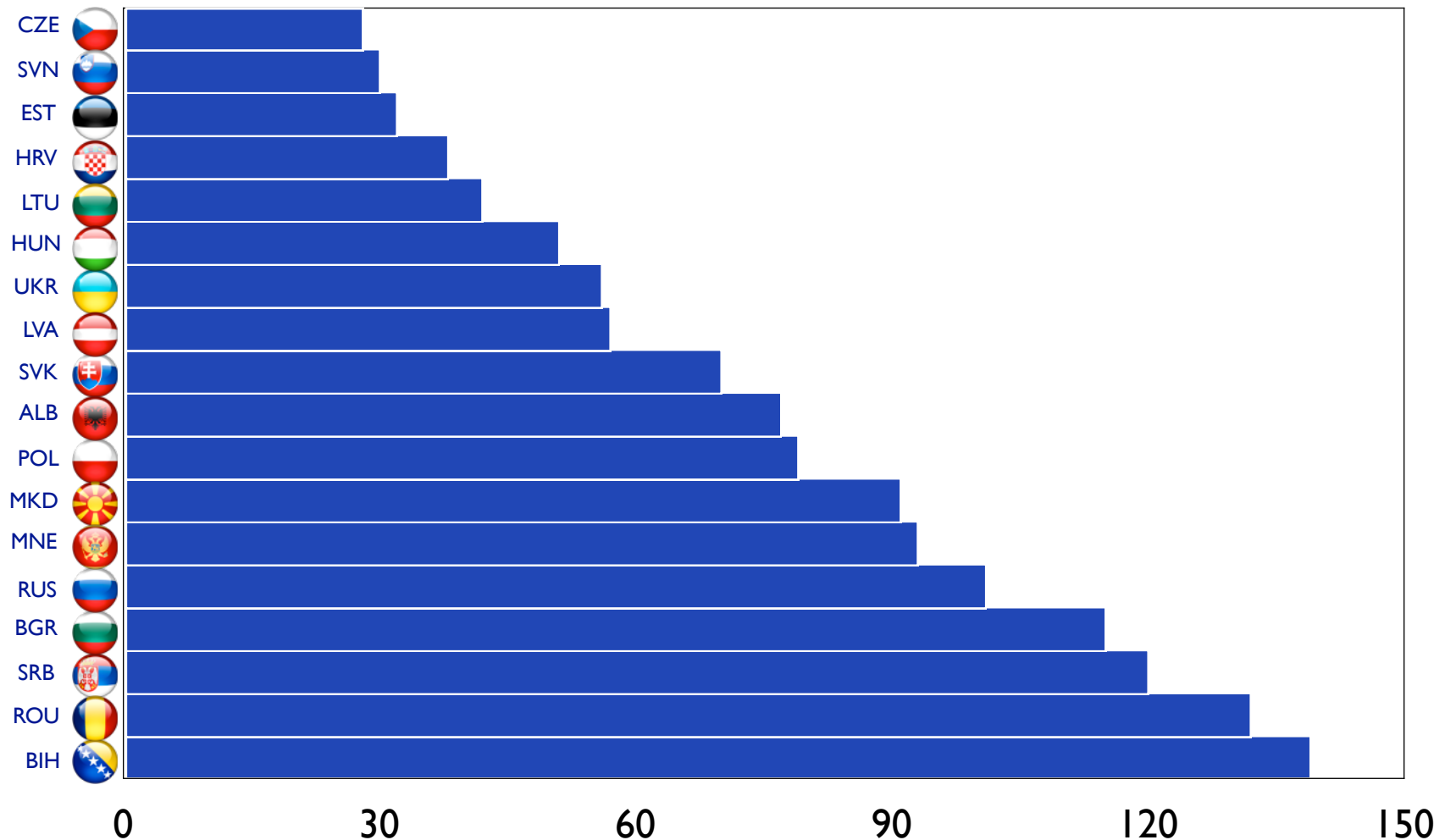
Doing Business Ranking
(2013, lower number is better)



3. Improve investment climate



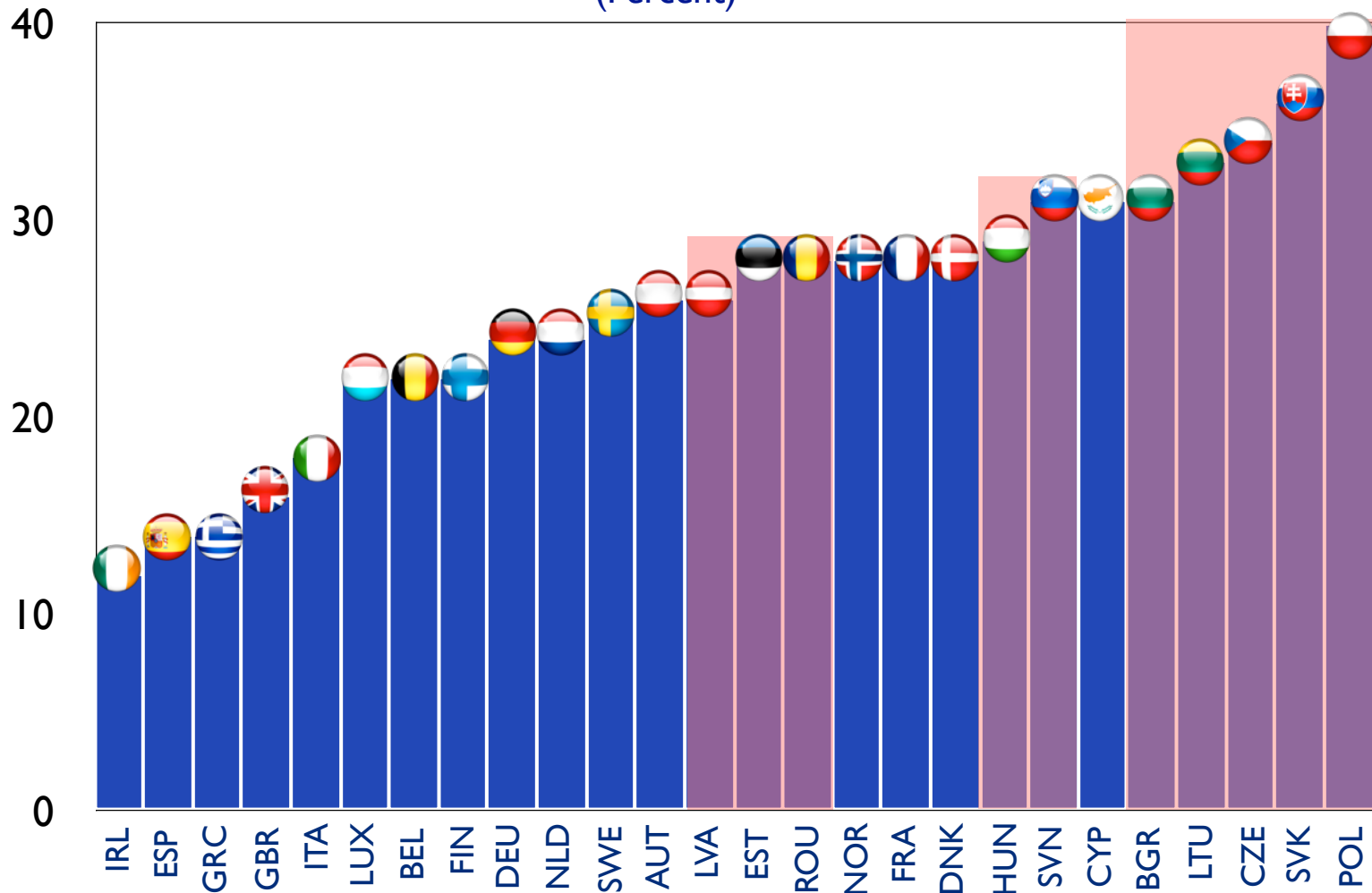
Infrastructure Ranking in Global Competitiveness Indicator
(2011, lower number is better)



4. Reduce labor market rigidity



Mismatch of Education Field (Percent)



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