CLOUDY OUTLOOK FOR GROWTH IN EMERGING EUROPE AND CENTRAL ASIA

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Annual Meetings
Three key trends for Emerging Europe and Central Asia

• Recovery in new EU member states remains tepid, but some signs of improvement.

• Deep crisis in Ukraine due to the tensions, however, with the exception of a few industries, has not materialized into stiff headwinds for ECA as a whole.

• Russia and some neighboring countries are slowing as past drivers of strong growth have largely run their course. In Russia, geopolitical tensions and an uncertain policy environment are casting the longest shadow on Russia’s medium-term prospects.
Economic Growth in ECA remains weak among developing regions in 2014 and 2015

GDP Growth (%), weighted average by region
ECA growth prospects have been adjusted down since the Spring, particularly for Ukraine

2014 Real GDP Growth Projections

- Croatia, Slovenia, Estonia, Bulgaria, Czech Republic, Slovak Republic, Latvia, Romania, Lithuania, Poland, Hungary, Bosnia and Herzegovina, Serbia, Albania, Montenegro, Kosovo, FYR Macedonia, EU 11
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2014 (April 2014 Projection)  2014 (September 2014 Projection)
Drilling-down into the three trends for Emerging Europe and Central Asia

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- Russia and some neighboring countries are slowing as past drivers of strong growth have largely run their course. In Russia, geopolitical tensions and an uncertain policy environment are casting the longest shadow on Russia’s medium-term prospects.
Tepid growth in the new EU Member States, Crisis in Ukraine, and Stagnation in Russia

Industrial Production Index (January 2013=100)

Note: The industrial sector includes manufacturing, mining, and utilities. Underlying data is in constant US$, seasonally adjusted.
Recovery in new EU member states remains tepid, but some signs of improvement
The external environment is weak, and expectations have deteriorated
(Consensus Real GDP Forecast, Percent, April vs. September 2014)
Unwinding of fiscal imbalances has been slow, but progress has been made in Central and Eastern Europe

(Percent Share of GDP)

Source: National authorities, IMF, DEC GEP and ECSPE country teams' estimates/projections.
Labor had become more expensive across all European countries before the 2008 crisis.
Post-2008 crisis labor costs have adjusted downward

Area of falling labor costs to productivity relative to Germany
Consequently, unemployment is declining across most of new EU member countries.
Declining unemployment rates in new EU member countries may bring income growth back in the bottom 40 percent...

Note: Shared prosperity figures from 2011 onwards are forecasted using an OLS regression of income growth of the bottom 40 on changes in unemployment, controlling for GDP growth and country level trends.
Deep crisis in Ukraine due to the tensions, but with the exception of a few industries has not materialized into stiff headwinds for ECA as a whole
Crisis takes toll on Ukraine’s economy

Ukraine FDI Inflows,
Cross border CAPEX investments in $ millions

Source: JP Morgan
Note: Annualized, based on data through August 2014. World Bank staff estimates
Nominal devaluations in the CIS have reflected high uncertainty

Source: JP Morgan
Russia’s relative food price inflation was accelerating before it imposed sanctions on European food imports. The impact on Europe has also been modest.

Difference between Food and headline CPI Inflation, Percent, y-o-y

Russia’s relative food inflation began before recent sanctions and tensions.

Europe’s relative food price deflation also started before sanctions and the recent tensions.

Source: Eurostat, Bloomberg
Increased financial uncertainty in Ukraine and Russia, but Russia is still close to EMBI Global spreads

Source: JP Morgan
Russia and some neighboring countries are slowing as past drivers of strong growth have largely run their course. In Russia, geopolitical tensions and an uncertain policy environment are casting the longest shadow on Russia’s medium-term prospects.
Russia’s investment and GDP growth were declining before the recent turmoil.
While stable to recently declining oil prices have not been a big boost to the Russian economy or CIS energy exporters over the last year.

Note: Russian domestic crude oil Volgo-Uraltec average price, benchmarked to east Siberian export price, US dollars/barrel.
Russia’s stagnation and Ukraine’s crisis matters for neighboring countries, less so for the rest of ECA

% of total exports, 2013

Source: UN Comtrade
ECA forecast remains tepid as drivers of growth drivers have slowed.

The Ukraine tensions have developed into a deep crisis for Ukraine but spill-overs to other countries have been limited so far.

Growth in Russia and some neighboring countries is limited by structural impediments. In Russia, geopolitical tensions and an uncertain policy environment are casting the longest shadow on Russia’s medium-term prospects.
Thank you!