

**European
Banking
Coordination
(Vienna 2)
Initiative**

**Full Forum Meeting
Vienna**

November 13, 2014

**Macroeconomic Outlook for
Central, Eastern and Southeastern Europe (CESEE)***

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Recent Developments

Growth

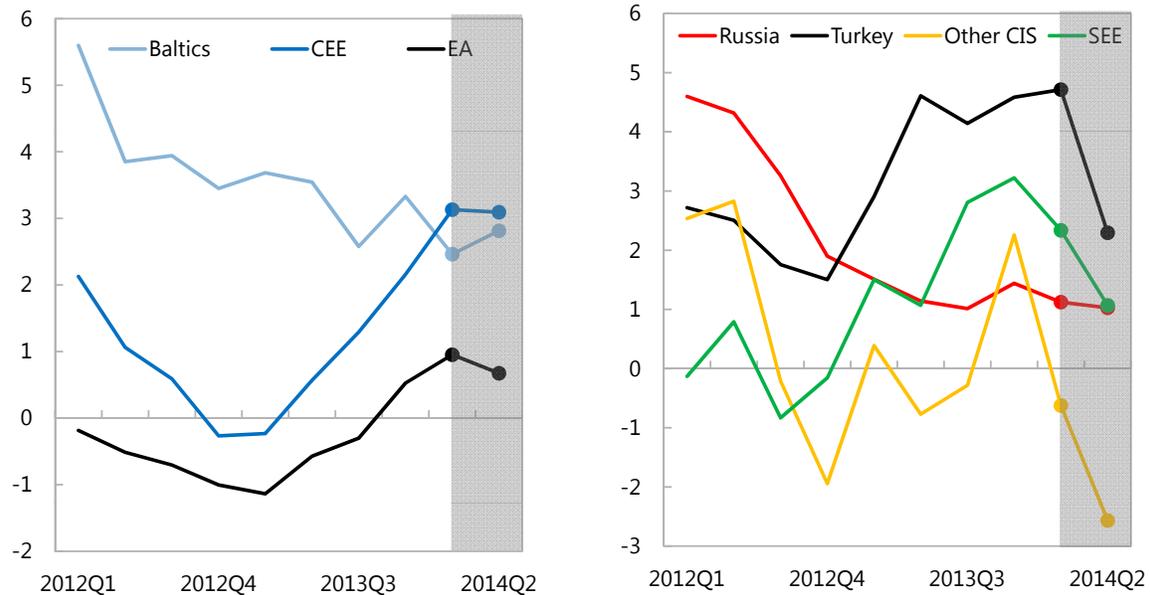
Inflation

**Global
Financial
Conditions**

Confidence

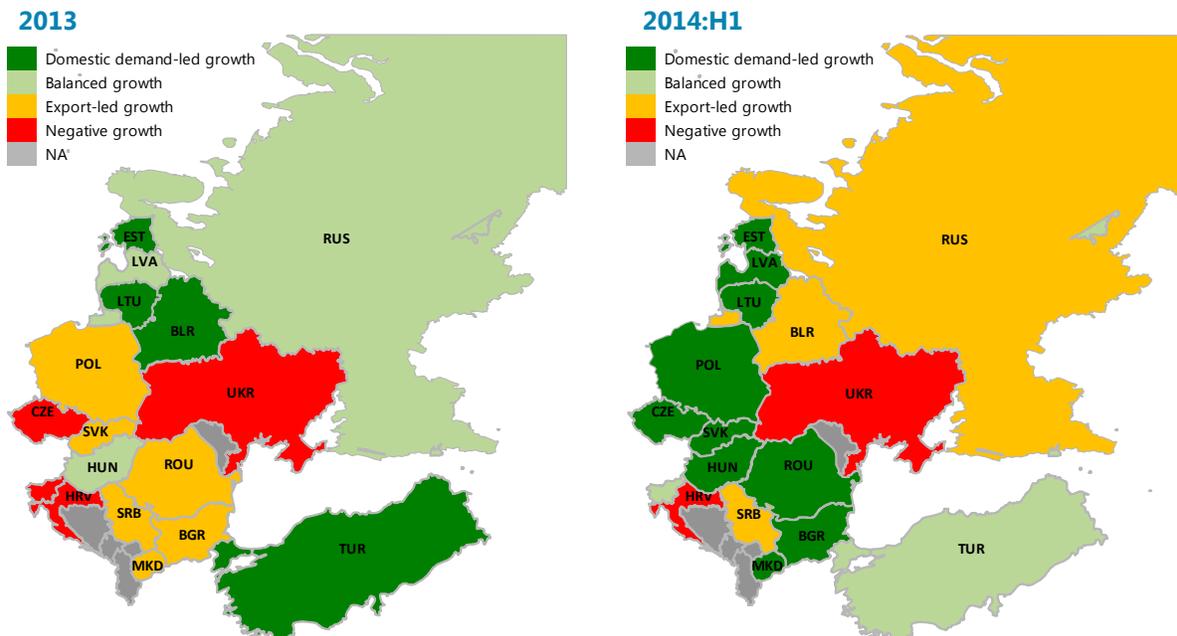
Growth has slowed in 2014 Q2, except in CEE and Baltics

Quarterly Real GDP Growth, 2012Q1-2014Q2 (percent, year-on-year)



Sources: Haver Analytics; and IMF staff calculations.
 Note: CEE: Central and Eastern Europe; EA: Euro Area; SEE: Southeastern Europe.

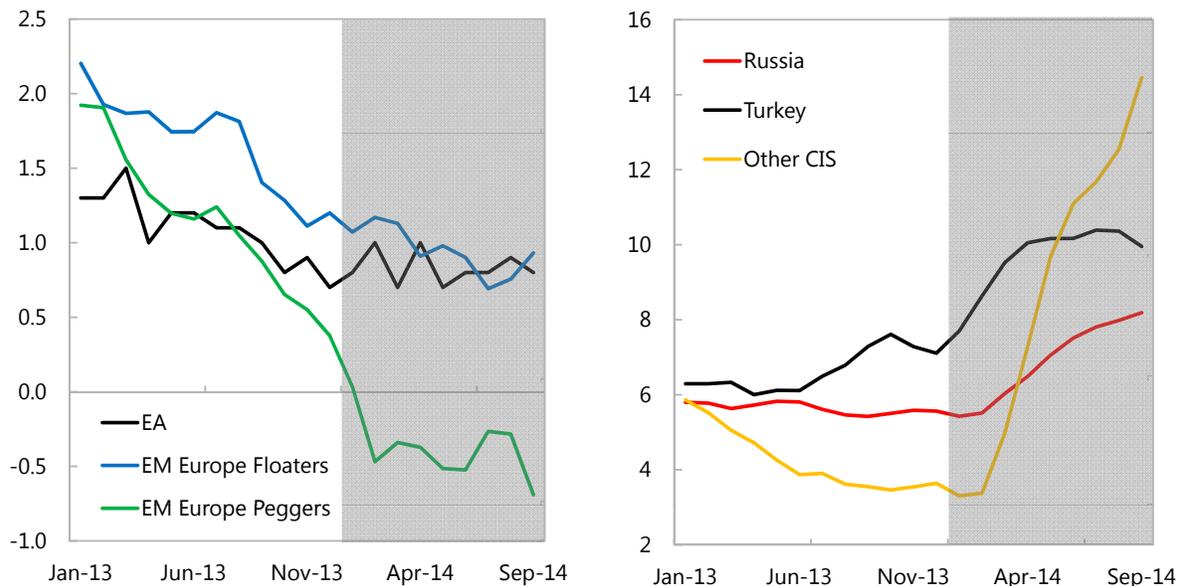
...where it is increasingly driven by domestic demand



Note: Domestic demand-led growth means net exports contribute less than a fourth of total growth; export-led growth means domestic demand contributes less than a fourth of total growth. For Serbia 2014:H1 shows Q1 data only.
 Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.

Inflation trends are sharply divergent across CESEE

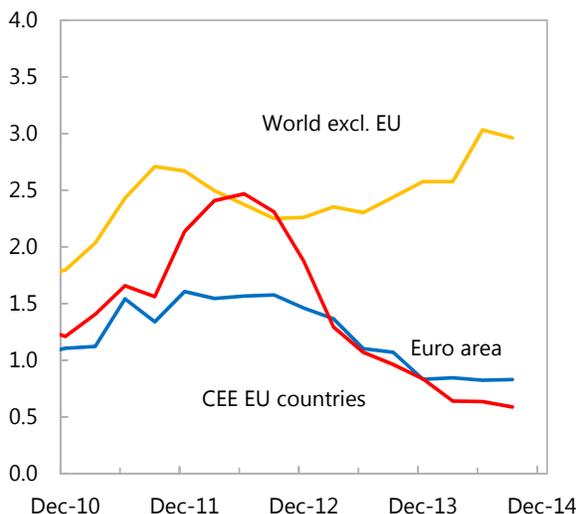
Headline Inflation, Jan 2013 - Sept 2014 (percent, year-on-year)



Sources: Haver Analytics; National authorities; World Economic Outlook database; and IMF staff calculations.
 Note: EM Europe peggers includes Bulgaria, Croatia, Kosovo, and Lithuania. Em Europe floaters includes Czech Republic, Hungary, Poland, Romania, and Serbia. CIS includes Belarus, Moldova, Russia, and Ukraine.

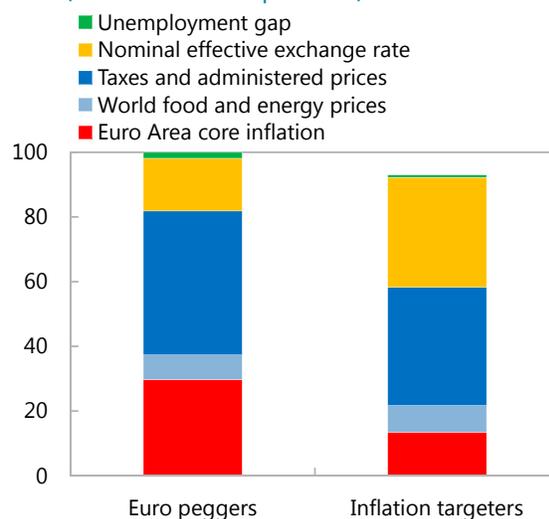
Disinflation in CEE and SEE is driven by lower world energy and food prices, as well as spillovers from euro area

Core Inflation (12-month growth rate in percent)



Notes: Data for CESEE EU countries are weighted averages, using country HICP weights for 2013. Data for the world excluding EU countries are weighted averages, using country GDP weights.
 Source: Haver, Eurostat and Fund staff calculations.

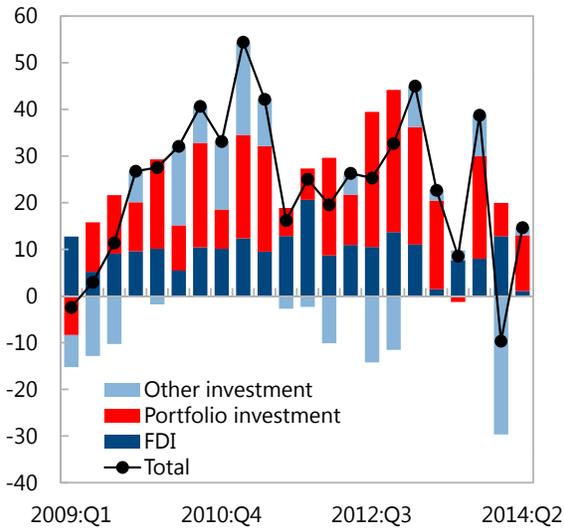
CESEE EU: Headline Inflation Variance Decomposition, 2012:Q1 - 2014:Q1 (Contributions in percent¹)



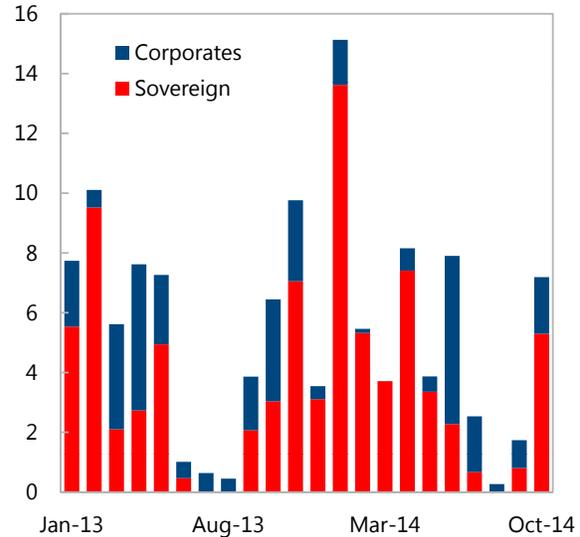
Note: ¹ Inflation variances are normalized to the variance of CEE euro peggers. Based on full-sample regression coefficients.
 Source: IMF staff calculations.

Global financial conditions remain supportive for most CESEE excluding Russia

Net Capital Flows: CESEE excluding Russia
(Billions of U.S. dollars)



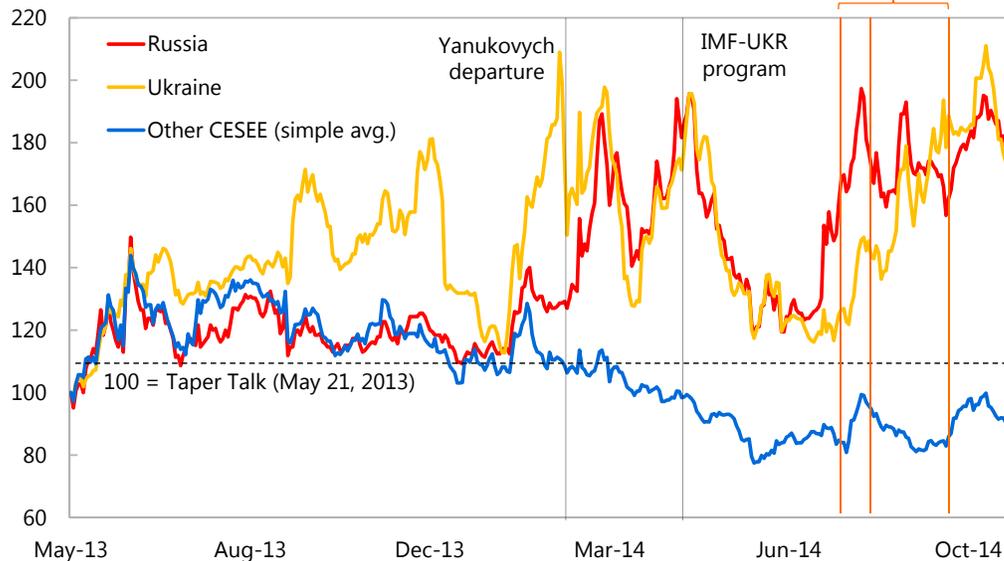
International Bond Issuance: CESEE excluding Russia
(Billions of U.S. dollars)



Note: FDI = foreign direct investment.
Sources: EPFR; and Haver Analytics.

Russian sovereign credit spreads remain under pressure due to geopolitical tensions and sanctions

EMBIG Spread Indices (100=May 21,2013)

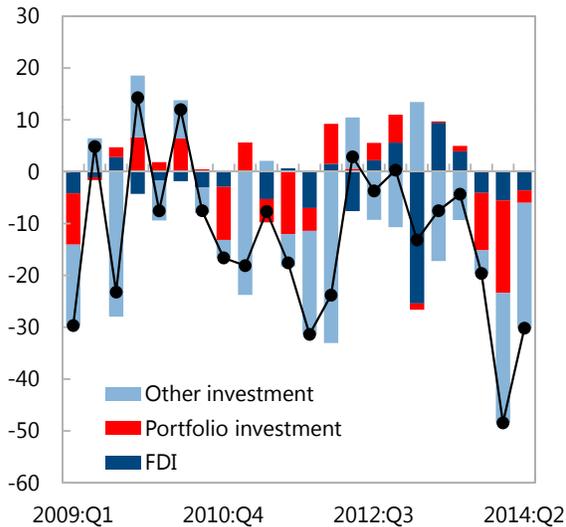


Source: Bloomberg.

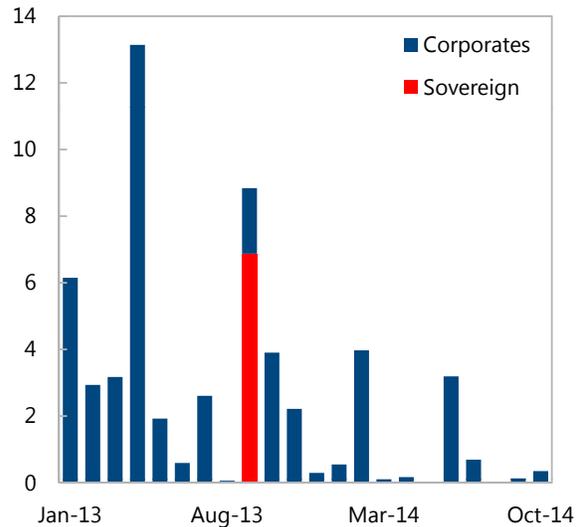
Notes: Sanctions include U.S. and EU sanctions imposed on Russian banks and corporates. EMBIG = Emerging Markets Bond Index Global.

Net capital outflows from Russia continue and international bond issuance by Russian entities came to a halt

Net Capital Flows: Russia
(Billions of U.S. dollars)



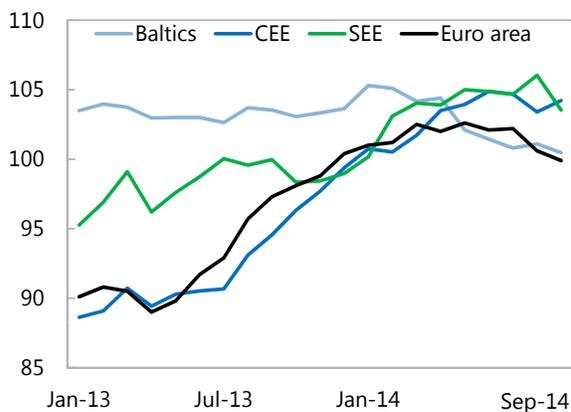
International Bond Issuance: Russia
(Billions of U.S. dollars)



Source: Dealogic.

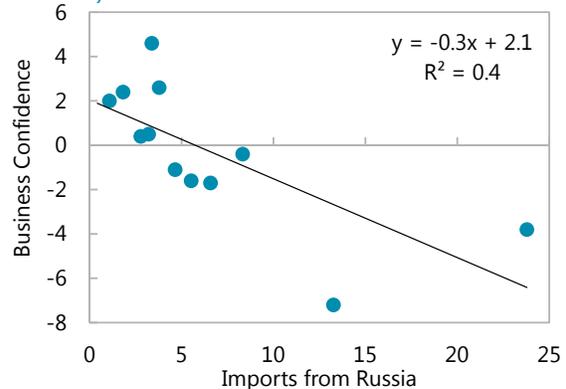
Geopolitical tensions are taking a toll on confidence

Business Confidence
(Seasonally Adjusted, long-term average = 100, simple average)



Note: SEE includes Bulgaria, Croatia, and Romania only because of data availability.
Sources: Haver Analytics.

CESEE: Business Confidence and Import from Russia
(Change May-Aug 2014; Import in percent of GDP)



Note: Sample includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia, and Turkey. For Turkey, business confidence shows the change between May and August 2014 due to data availability.
Sources: Haver Analytics; IMF, Direction of Trade database; and IMF staff calculations.

Outlook and Risks

Euro Area Spillovers
Weak Growth & Lowflation

Russia-Ukraine Spillovers
Geopolitical Tensions

Financial Shocks

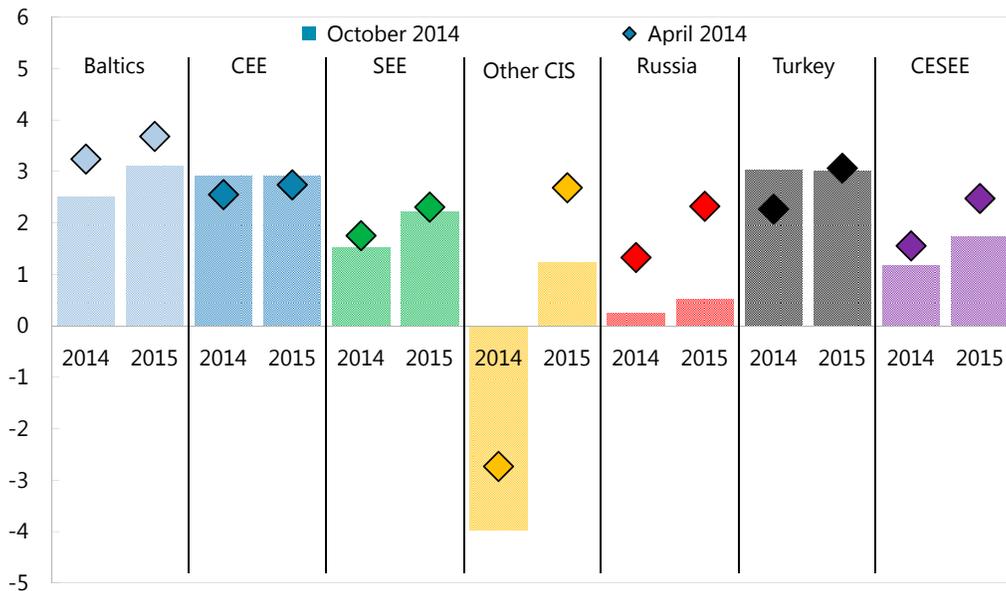
Energy Shocks

EBCI | Vienna Initiative

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2014-2015 growth forecasts revised down for most CESEE countries, except CEE

2014-2015 Real GDP Growth: October and April 2014 WEO forecasts (percent)

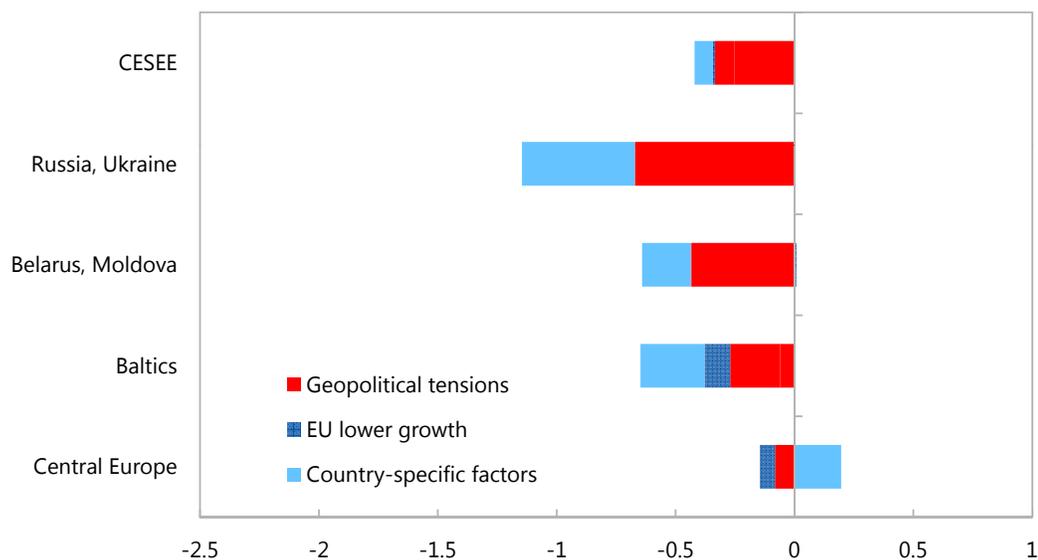


Sources: World Economic Outlook database; and IMF staff calculations.

Note: CEE: Central and Eastern Europe; EA: Euro Area; SEE: Southeastern Europe.

Mostly due to effects of geopolitical tensions and related sanctions and countersanctions

2014 Real GDP Growth Revisions: October vs April 2014 WEO forecasts (in percentage points)

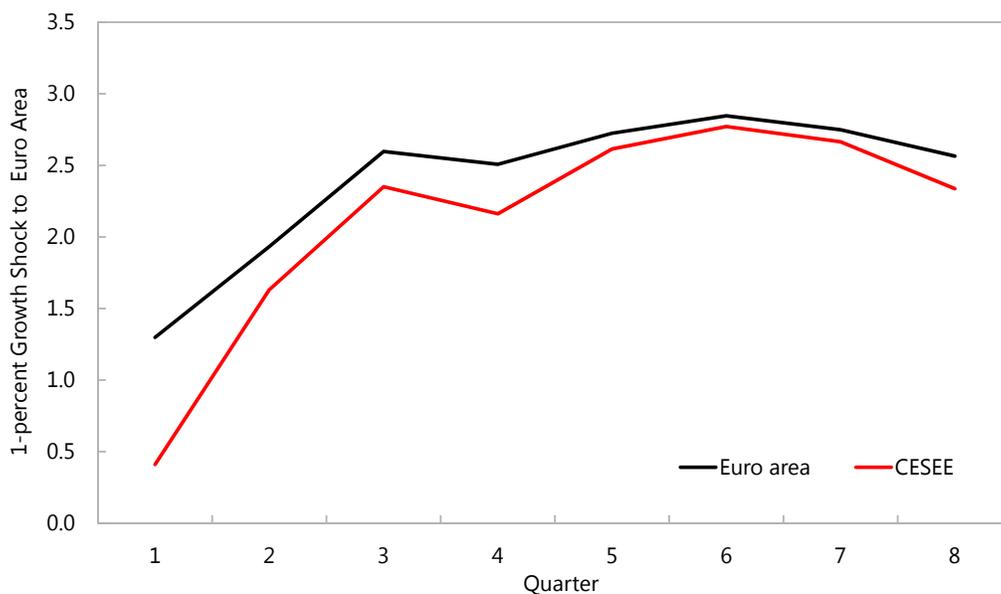


1/ "Russia-Ukraine tensions" refers to the effects from the conflict in eastern Ukraine, sanctions against Russia, and Russian counter-sanctions. The April 2014 REI forecast for Ukraine was not published, so the program forecast (published on May 1, 2014) was used instead as a base for revisions.

Source: IMF country teams' estimates.

CESEE countries remain vulnerable to -- spillovers from lower growth and lowflation in euro area

Growth Spillovers from Euro Area to CESEE
(Cumulative response of GDP, percent)

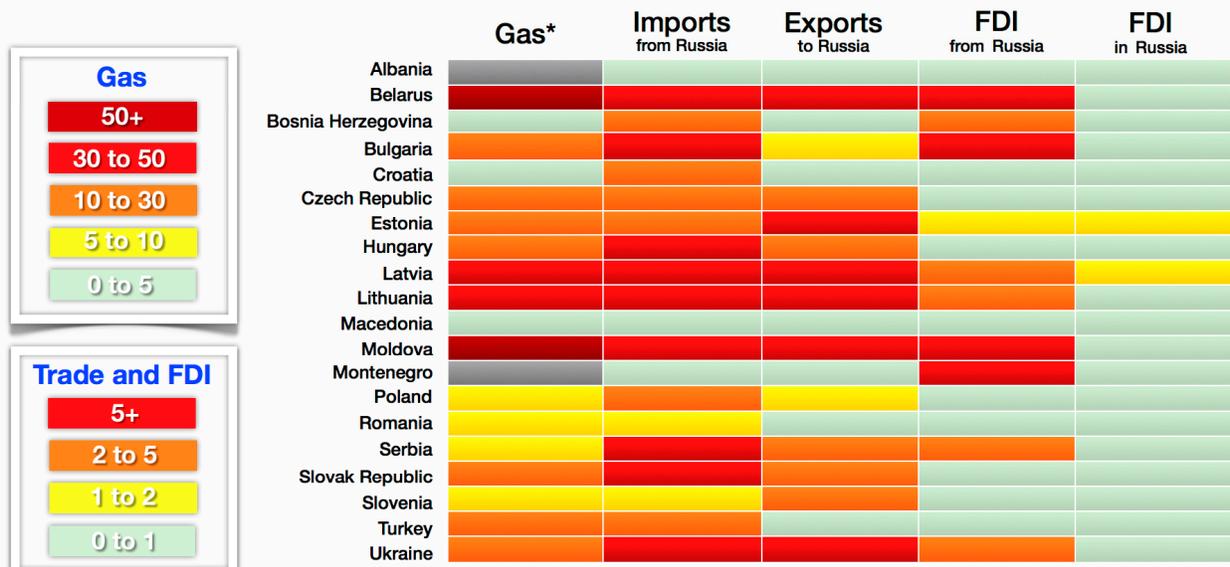


Source: IMF staff calculations.

-- spillovers from geopolitical tensions

Central, Eastern and Southeastern Europe – Russia Links

(in percent of GDP unless indicated otherwise)

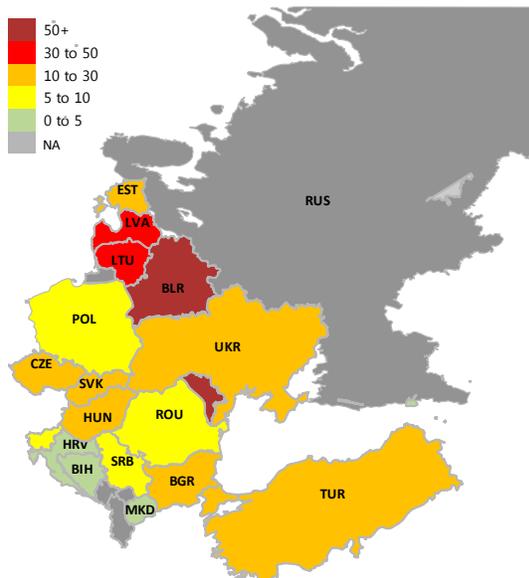


*Gas imports as a share of total energy consumption

-- energy price shocks due to high dependence on oil and gas imports

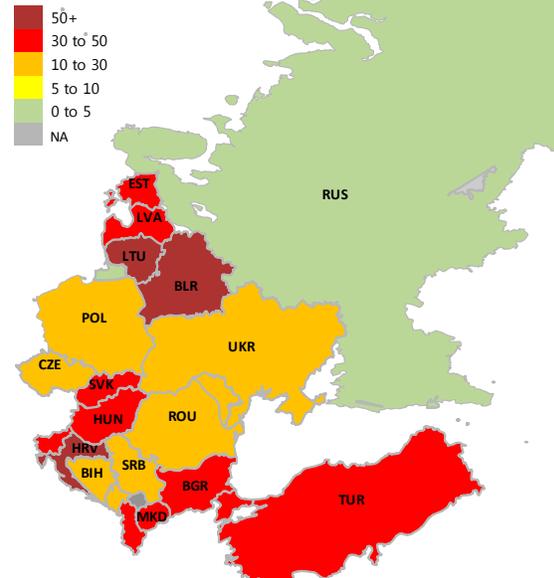
Russian Gas Imports

(Percent of total energy consumption, 2012)



Oil Imports

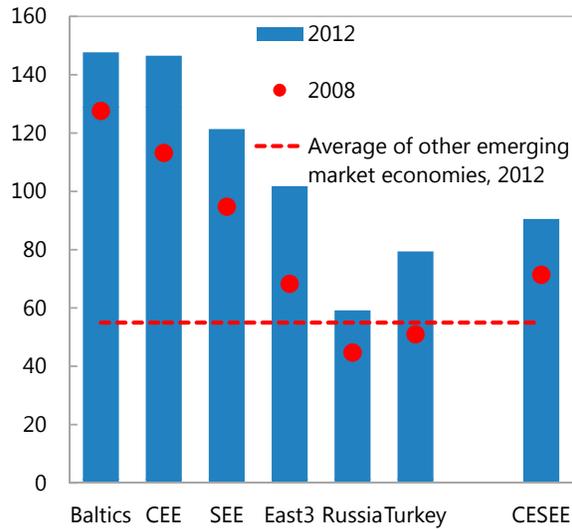
(Percent of total energy consumption, 2013 or latest)



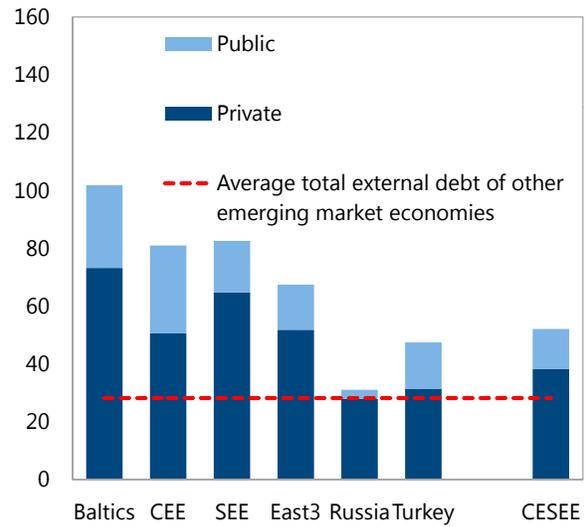
Sources: BP; Eurostat; International Energy Agency; Organization for Economic Cooperation and Development; and U.S. Energy Information Administration.

-- financial shocks due to high reliance on external funding

CESEE: Gross External Liabilities
(Percent of GDP, 2012)



CESEE: External Debt
(Percent of GDP, 2012)



Source: CESEE Regional Economic Issues Report, April 2014.

Thank you

*This presentation is based on the
Fall 2014 IMF's CESEE Regional Economic Issues Update
<http://www.imf.org/external/pubs/ft/reo/2014/eur/eng/pdf/erei1014.pdf>