

Economic Prospects for Central, East and Southeast Europe

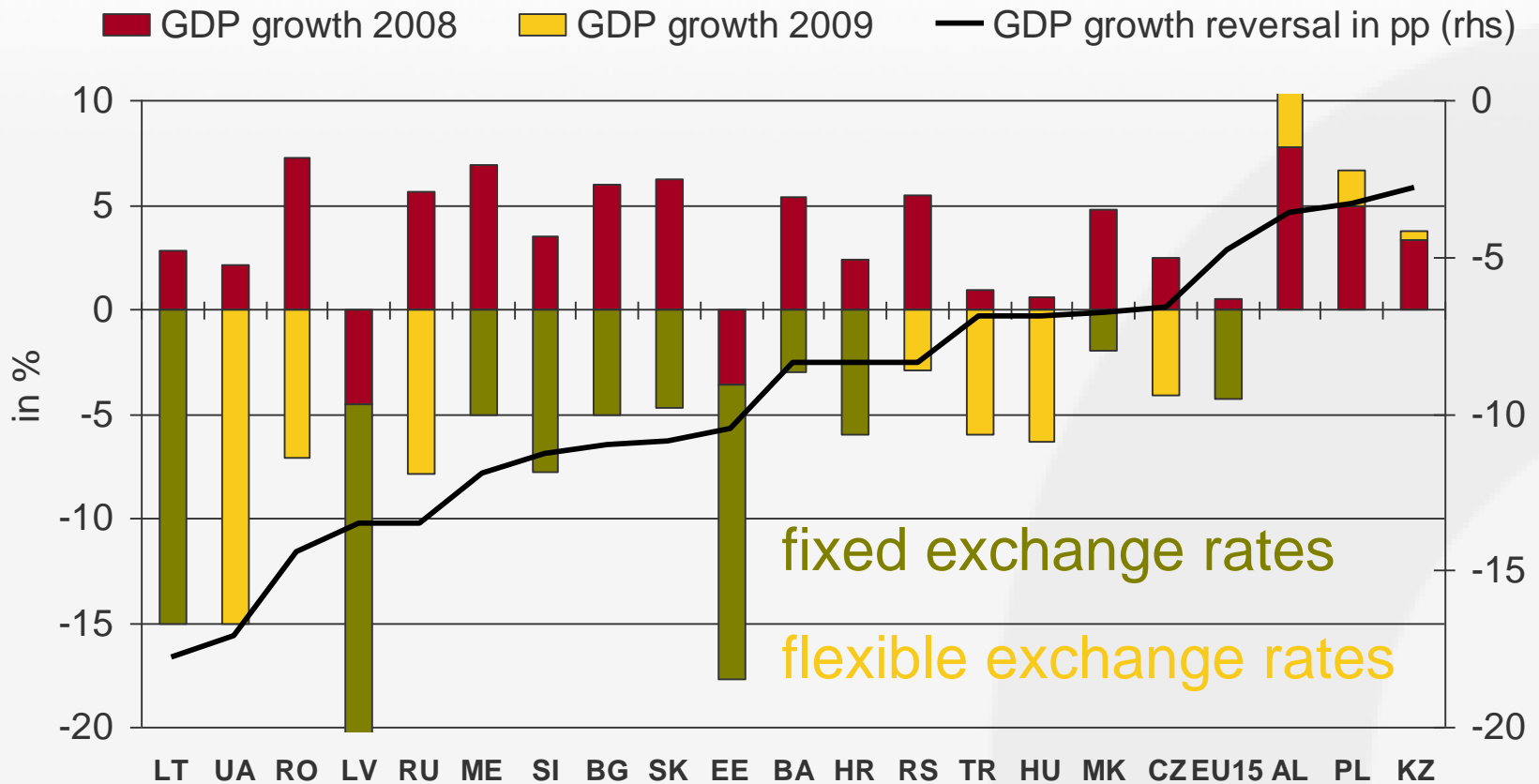
Crisis is Over, but Problems Loom Ahead

Peter Havlik

The main topics

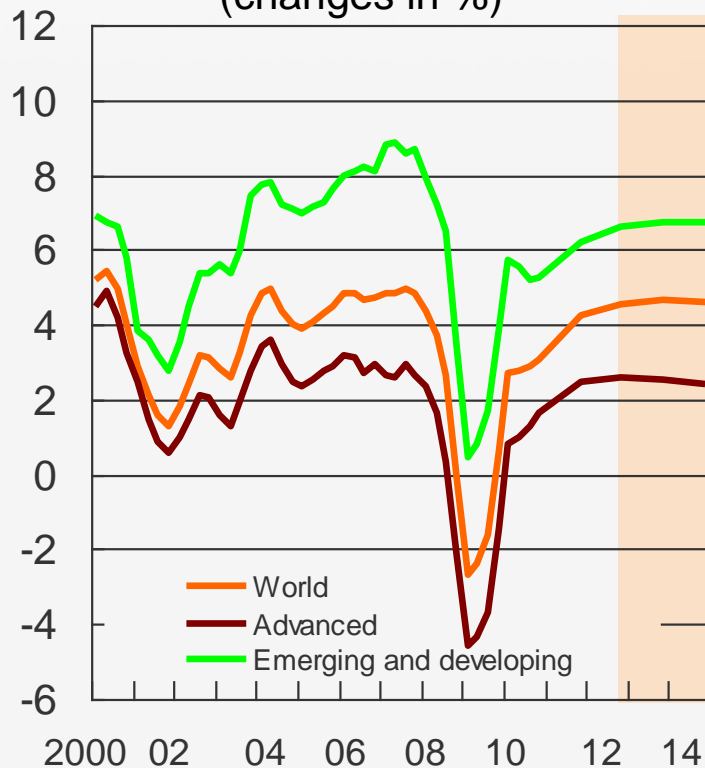
- Deep recession followed by shallow upswing
- Transmission channels of the crisis
- Driving forces of an upswing
- Short- and medium-term challenges
- Growth forecasts and catching-up scenarios

Mixed patterns and causes of the growth reversal, but recession deeper than expected



Global growth bounced back late 2009, short- and medium-term outlook clouded

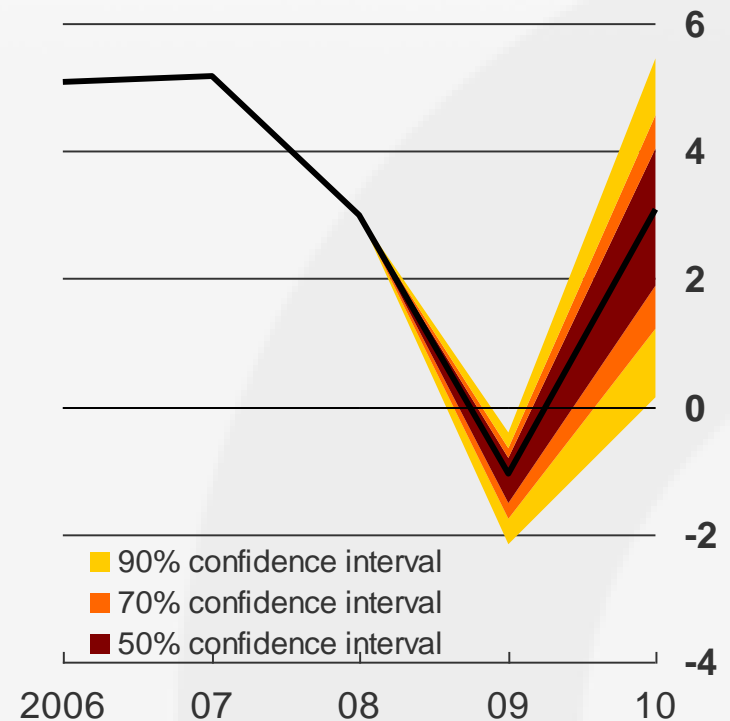
Real GDP in World Regions¹
(changes in %)



¹ Quarterly data until 2010, annual data thereafter.

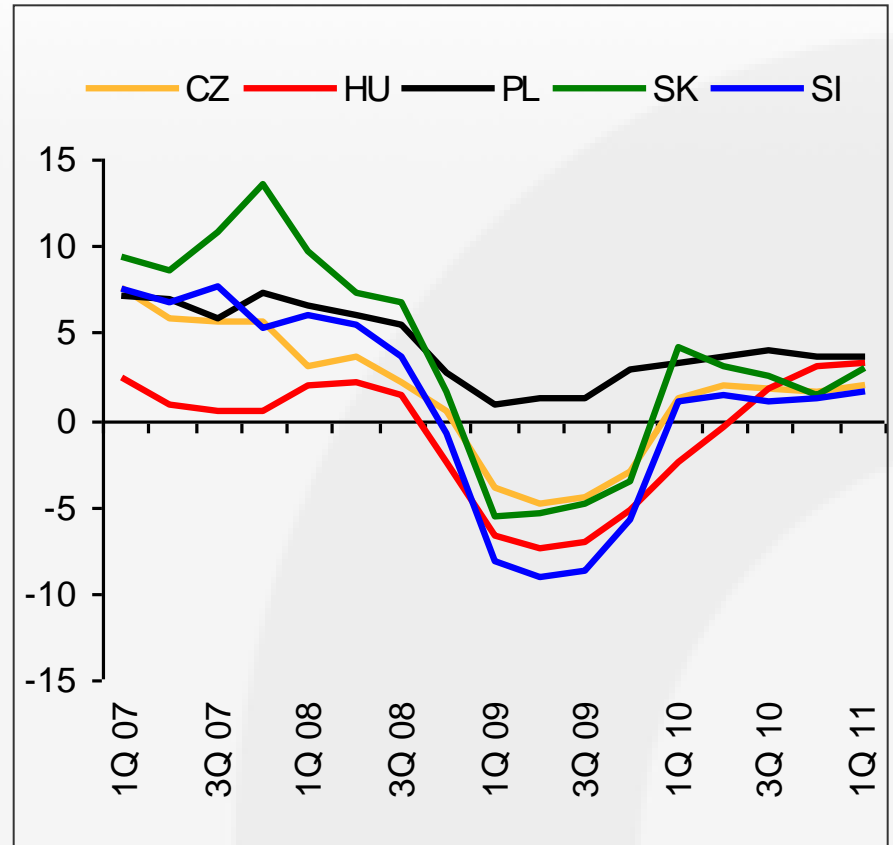
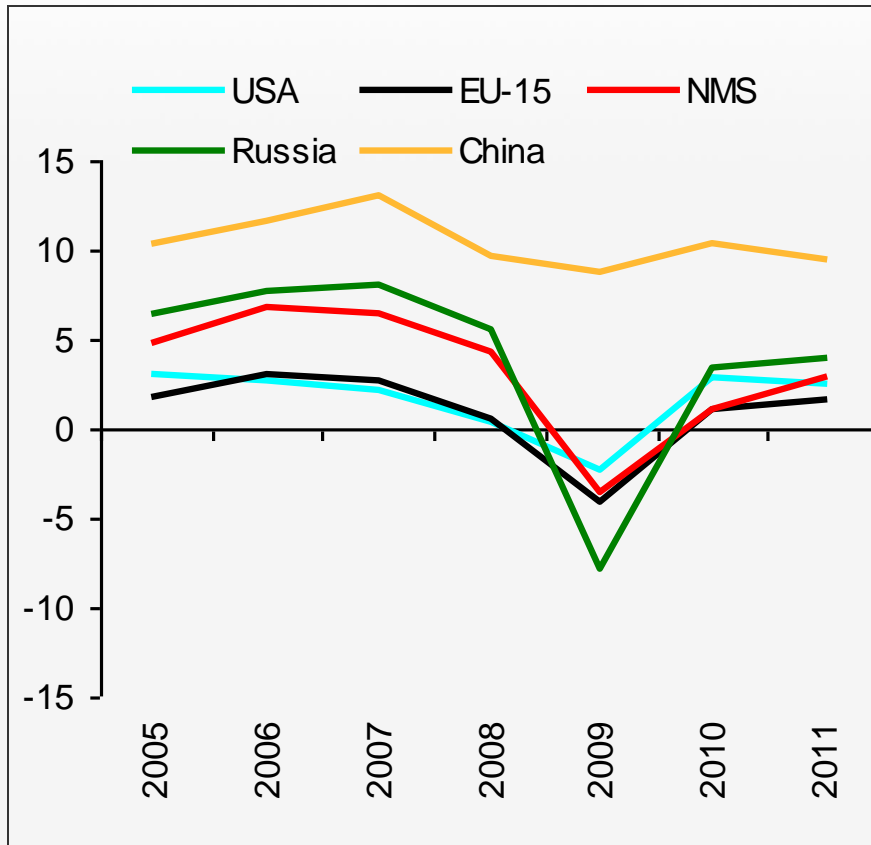
Source: IMF, World Economic Outlook.

Considerable risks – even for 2010



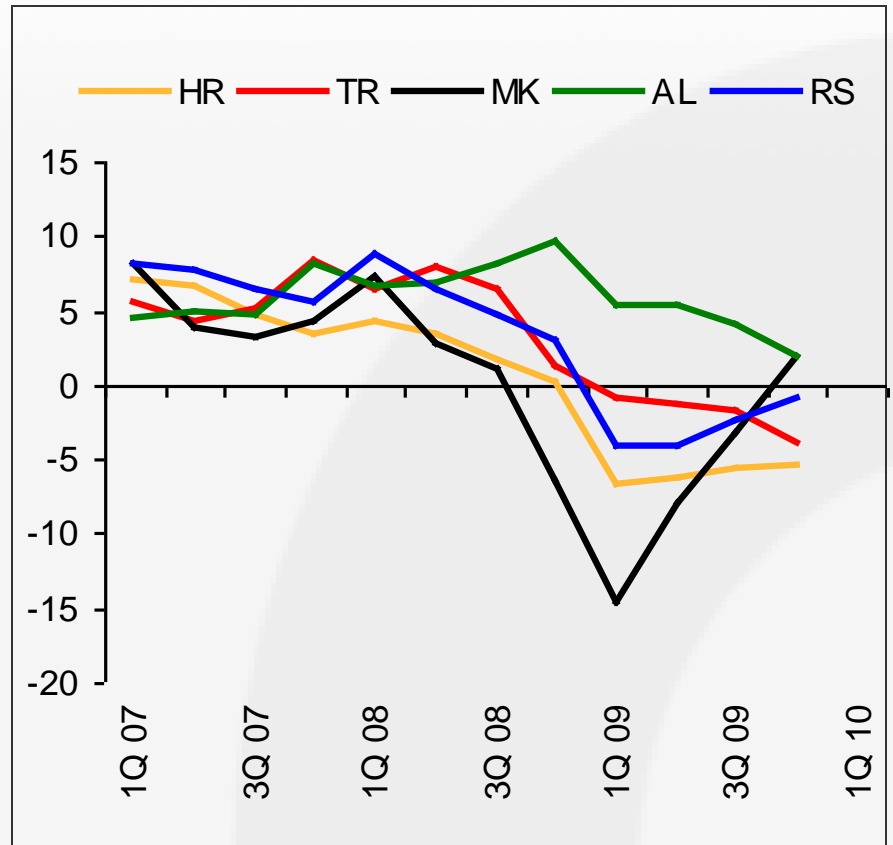
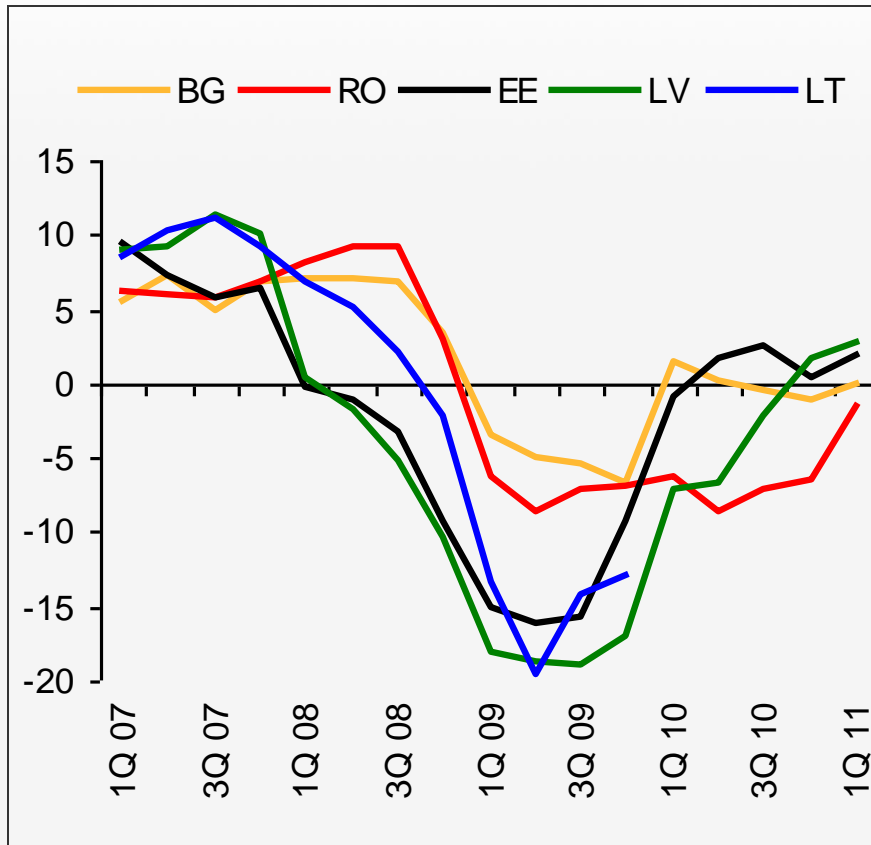
GDP, 2005-2011

annual changes in %



GDP, 2007-2011

annual changes in %



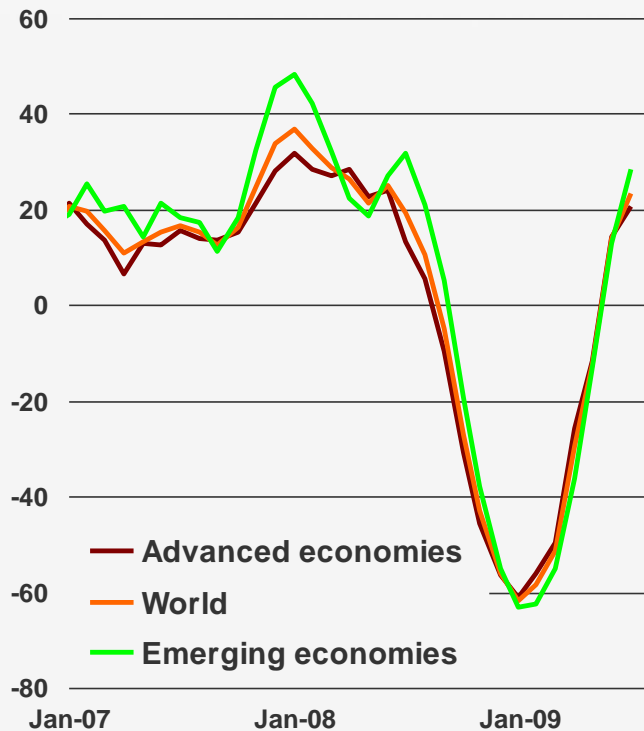
Three transmission channels of the crisis

- I. Collapsing demand for imports from the region
 - => collapsing exports
 - => collapsing industry
 - => collapsing commodity prices (RU, UA, KZ)
- II. Tightened credit financing for households, firms and governments after September 2008 (Lehman Brothers)
- III. Hardly any anti-crisis stimuli (except Russia, Kazakhstan and partly Poland)

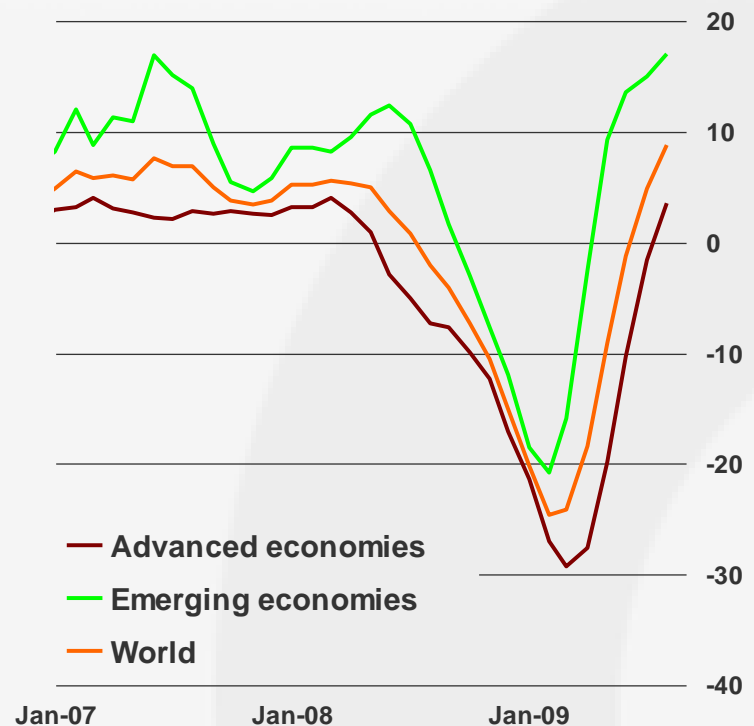
Global exports and industrial production

(annual changes in %, 3-month moving averages)

Merchandise exports



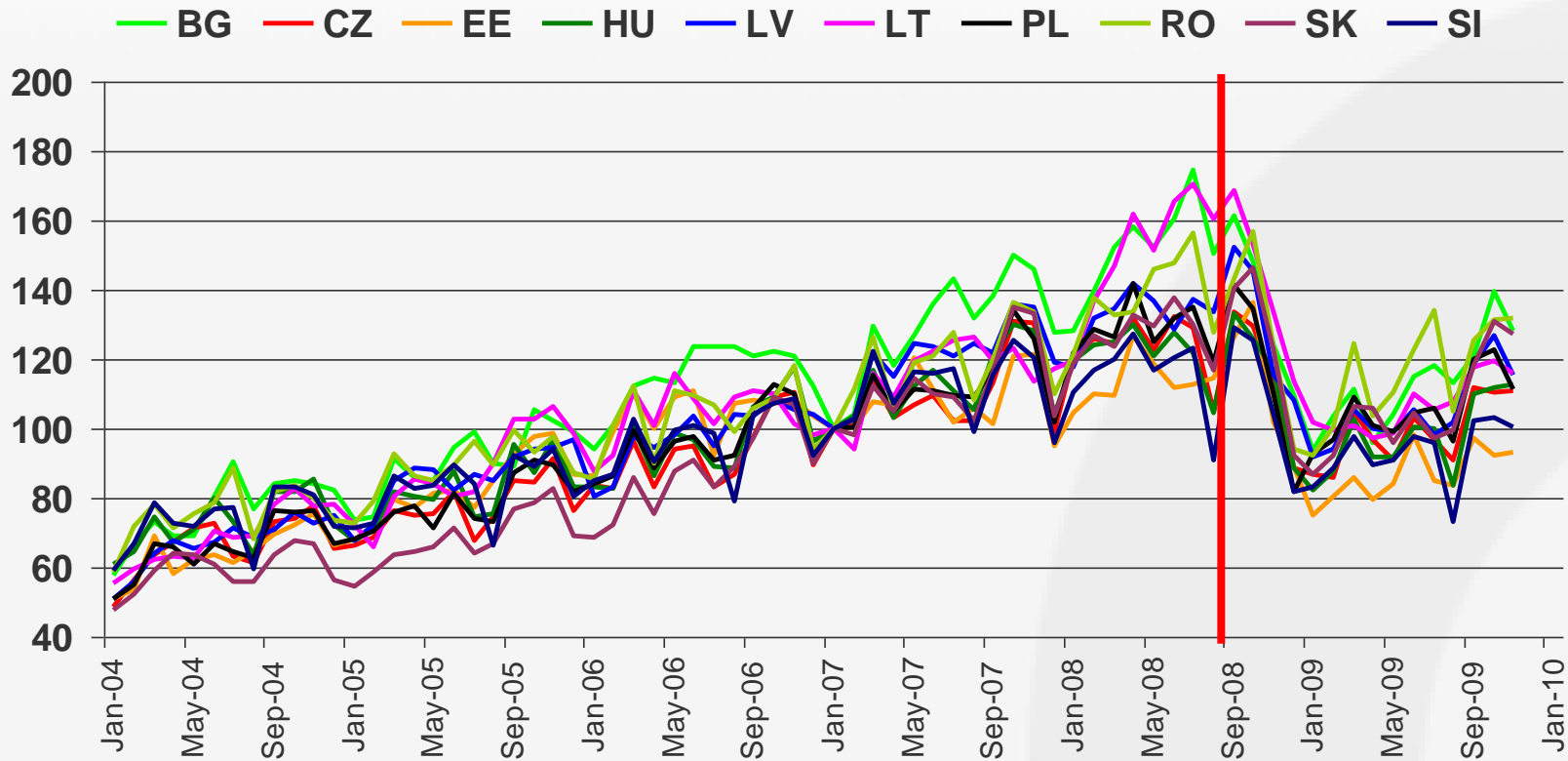
Industrial production



Source: IMF, World Economic Outlook.

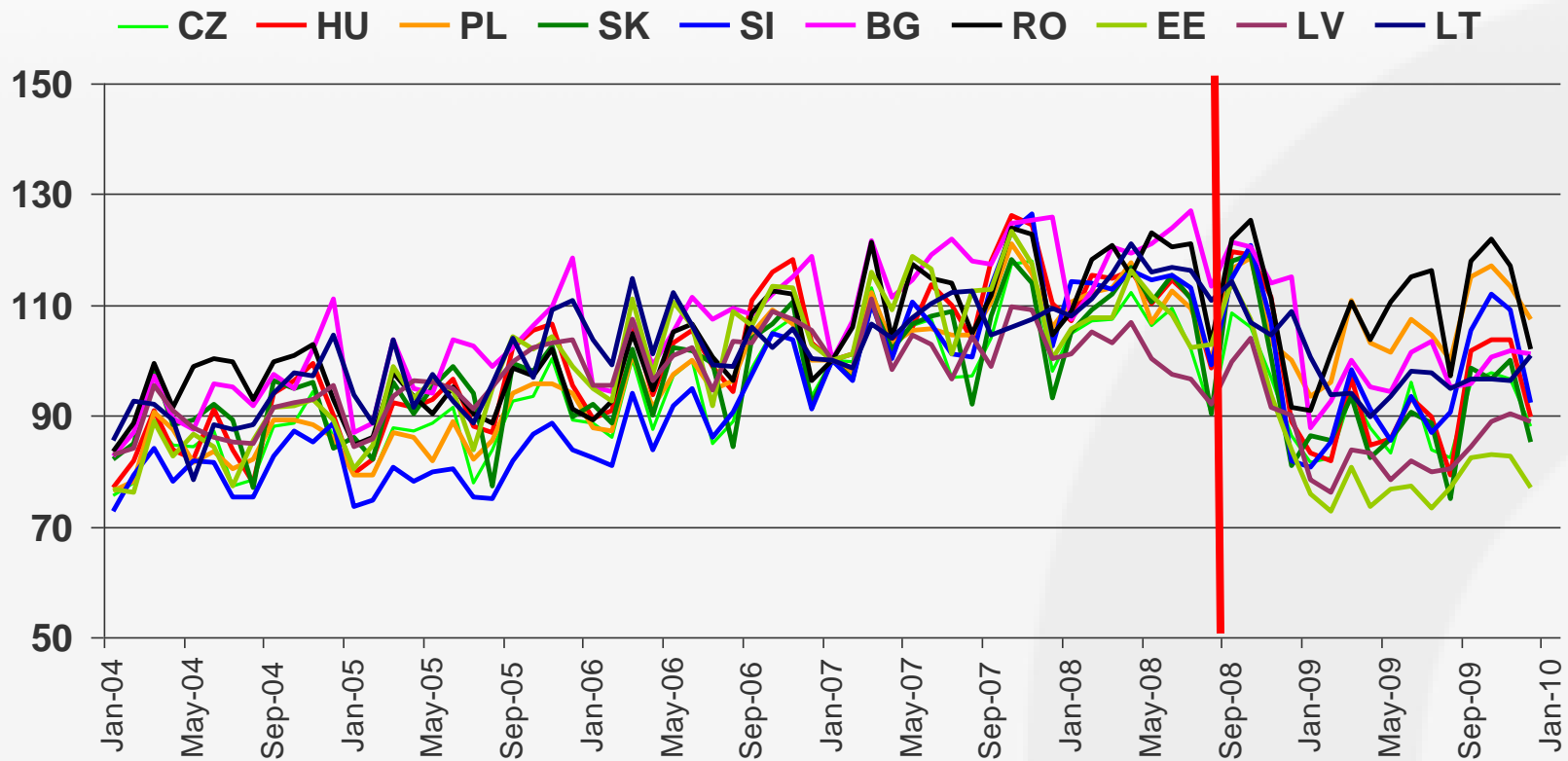
Collapsing exports after September 2008 ...

January 2007 = 100

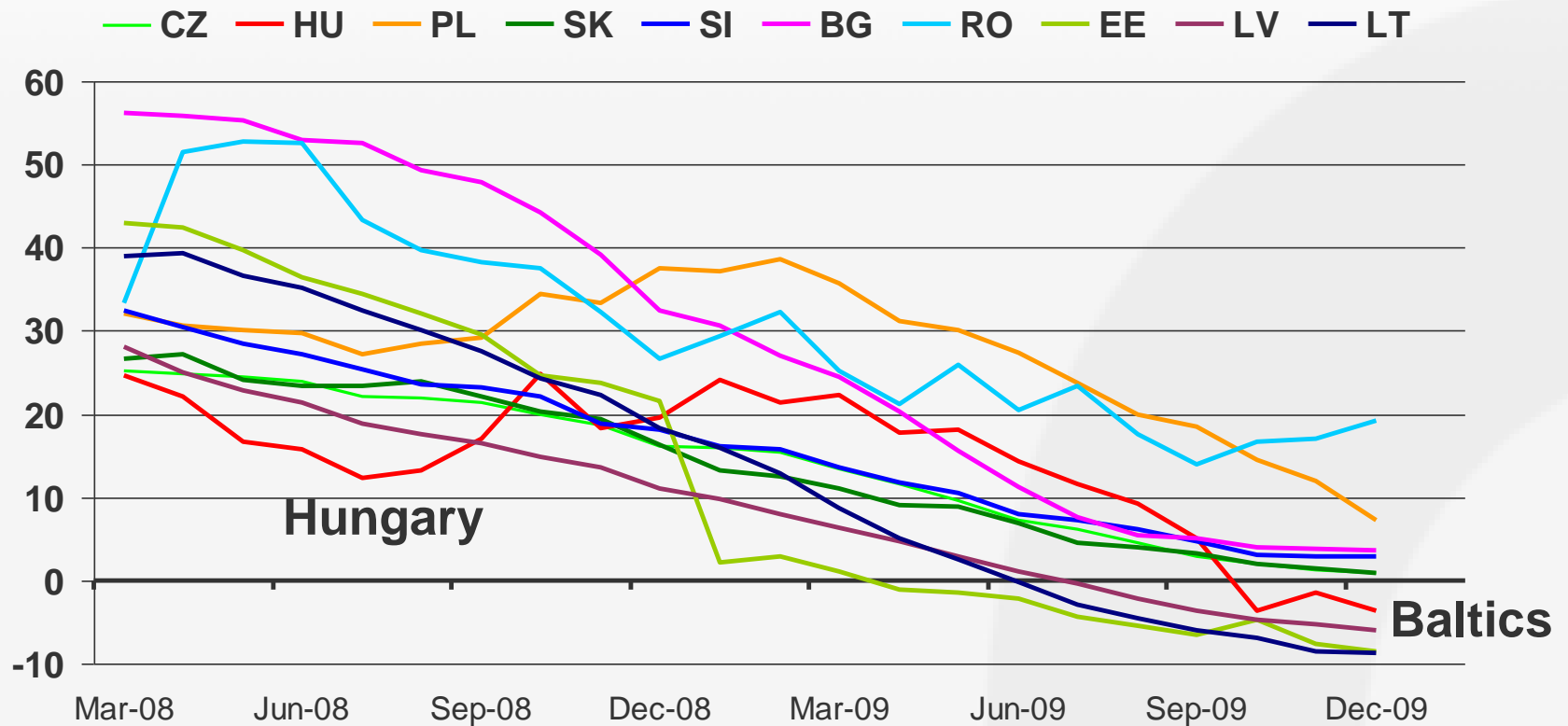


Collapsing industry (with a 2-month lag) ...

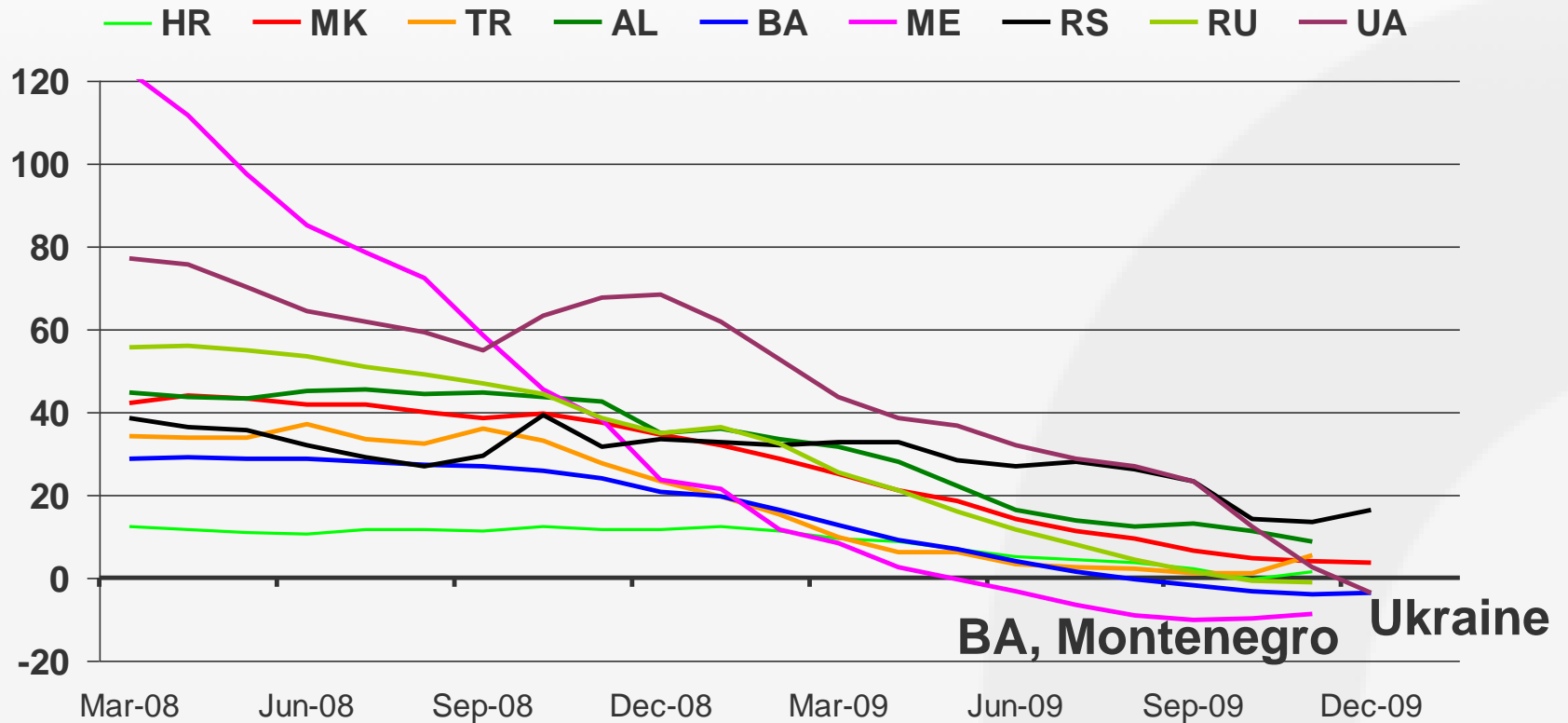
January 2007 = 100



Bank loans to non-financial private sector annual changes in %



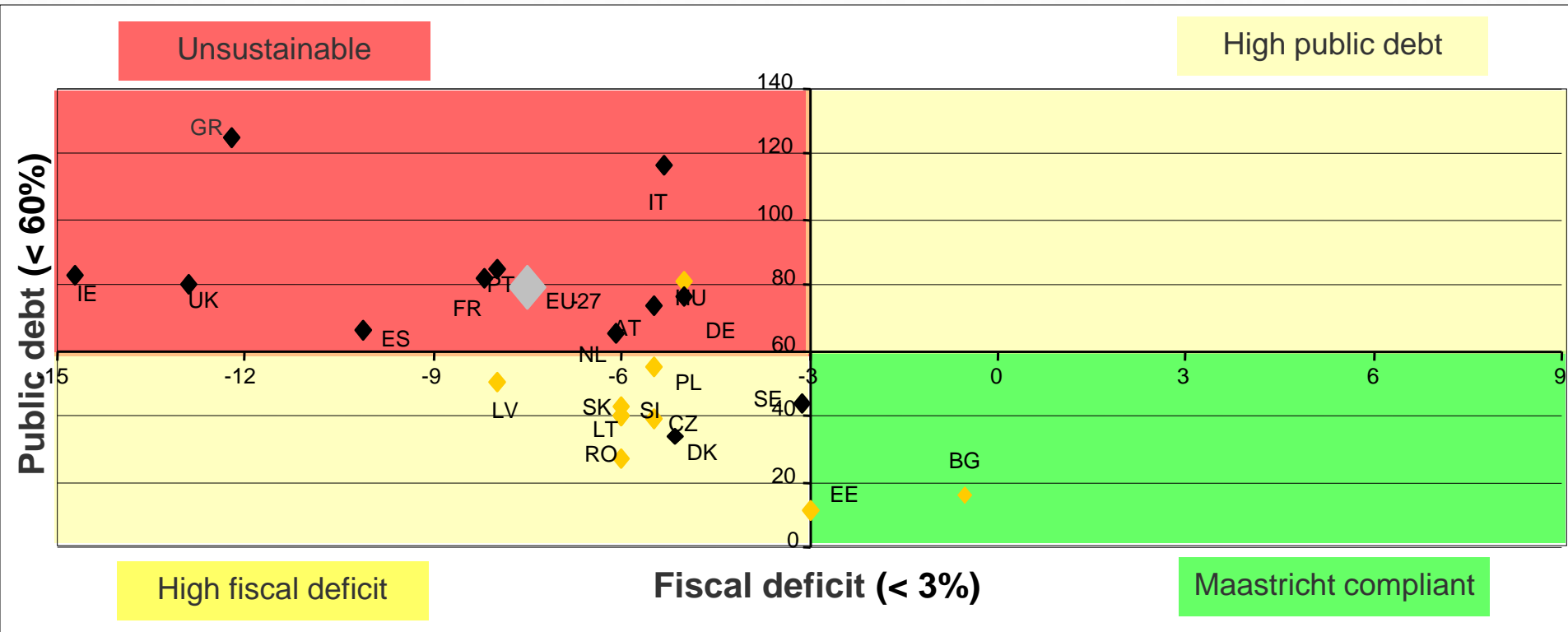
Bank loans to non-financial private sector annual changes in %



Fiscal deficit and public debt, 2010

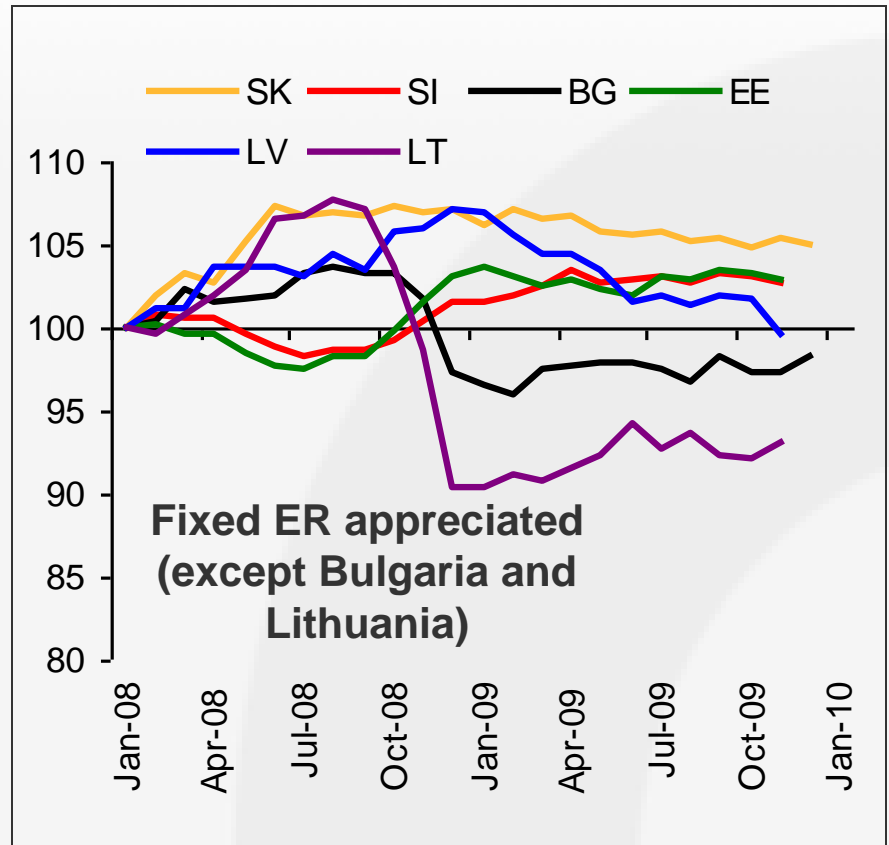
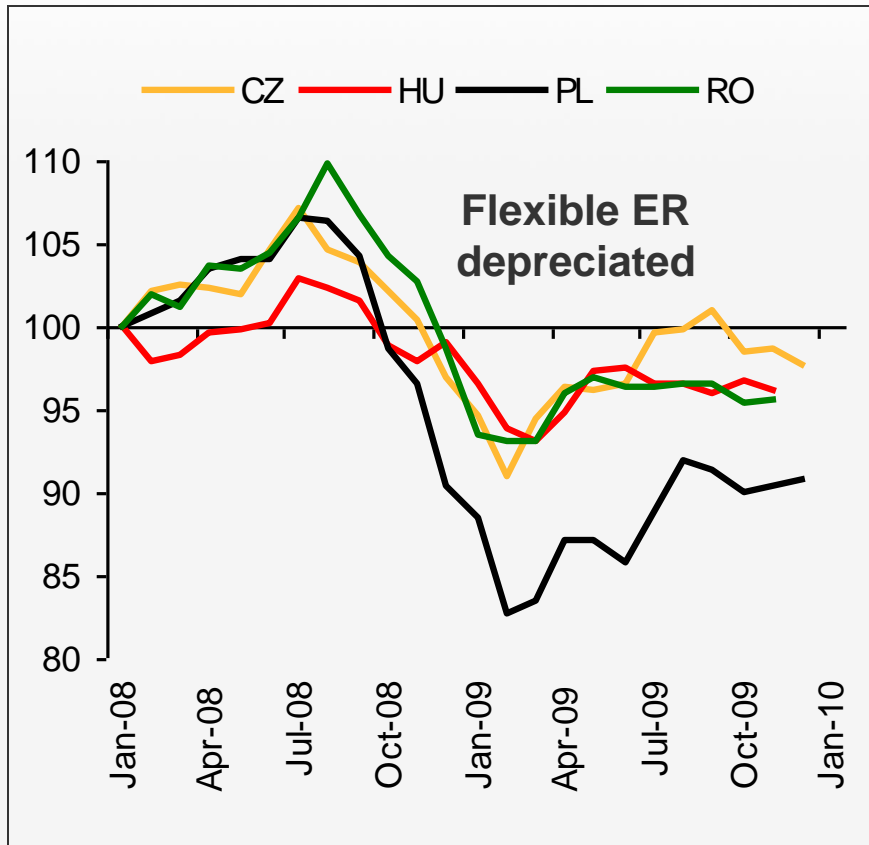
in % of GDP (Maastricht criteria)

◆ NMS ◆ OMS ◆ EU-27



Real exchange rates, 2008-2009

EUR per NCU, PPI-deflated, January 2008 = 100



Note: Values over 100 indicate real appreciation compared to January 2008.

Source: wiiw Monthly Database.

Wrap-up and some questions

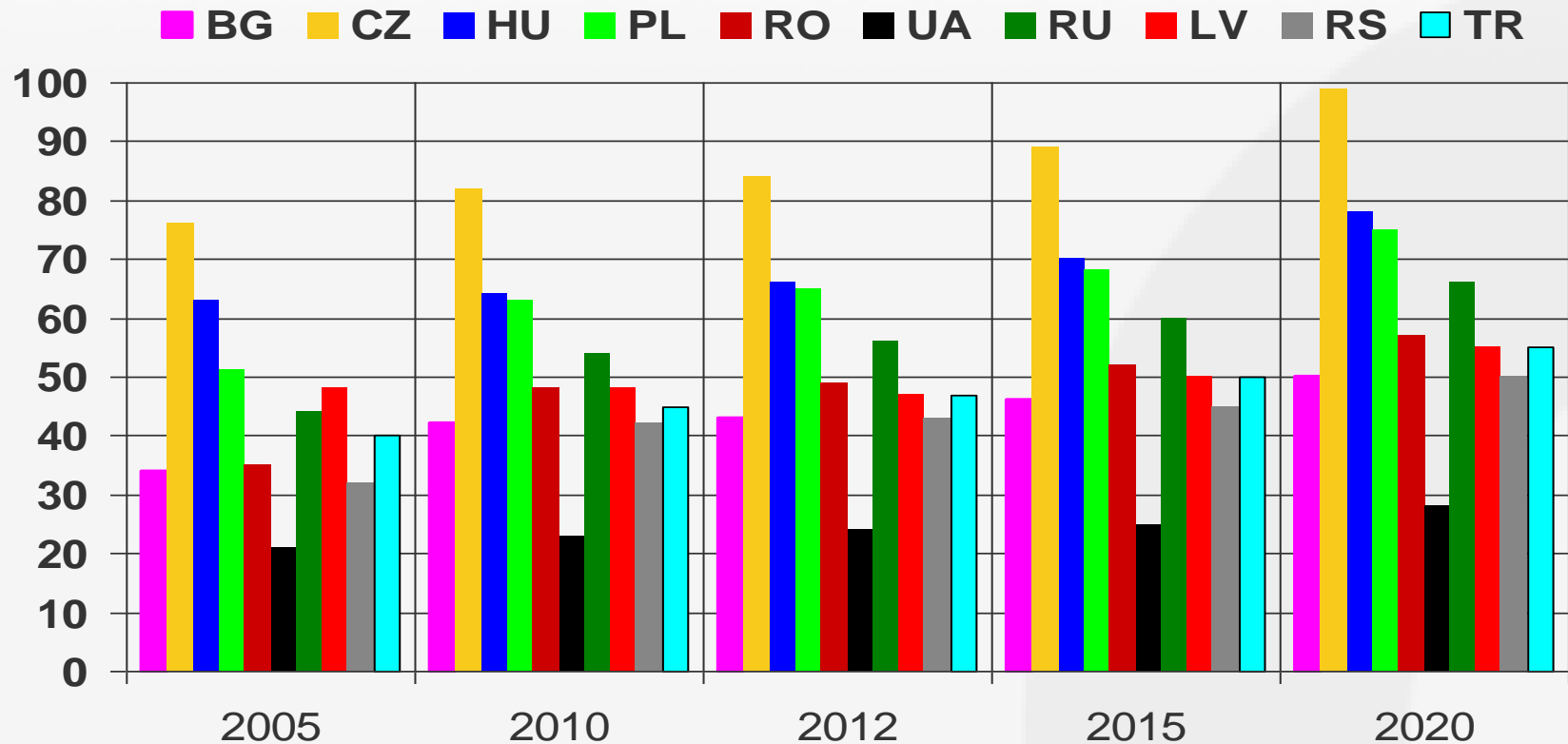
- Broad spectrum of crisis transmission channels
- Is the recession already over?
- Where are the driving forces of future growth?
- Selected internal and external downward risks:
 - competitiveness losses
 - more difficult access to credits
 - meagre FDI flows

 - too early exits from fiscal stimulus
 - fiscal consolidation strategies

Catching-up: real GDP per capita at PPP

Scenario: 2 pp growth differential against EU after 2012

EU-27 average = 100



Summary points (I)

- Recession was deep, yet relatively short
- Credit financing will remain difficult – for both households and firms
- Governments will have to scale back excessive deficits
- Transfers from the EU budget will gain importance as a source of financing for infrastructure investments in the NMS
- Cost competitiveness will remain a challenge
- Mixed driving forces of an upswing

Summary points (II)

- Post-crisis GDP growth will be slower than before
- Unemployment rates will peak in 2010 before falling slowly to pre-crisis levels
- Low-skill workers again most affected
- The crisis interrupted the catching-up process, some countries (Hungary, Baltics, Ukraine) fell back several years
- **The worst is over, yet the best as well!**
- **More information and analysis available at: www.wiiw.ac.at**

Country codes

- BG Bulgaria
- CZ Czech Republic
- HU Hungary
- PL Poland
- RO Romania
- SK Slovakia
- SI Slovenia
- EE Estonia
- LT Lithuania
- LV Latvia
- NMS new EU member states
- AL Albania
- BA Bosnia and Herzegovina
- HR Croatia
- MK Macedonia
- ME Montenegro
- RS Serbia
- TR Turkey
- RU Russia
- UA Ukraine
- KZ Kazakhstan