



WORLD BANK

Emerging Europe and Central Asia

Presentation by Laura Tuck,
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October 11, 2013
Annual Meetings



The Good, the Bad and the...

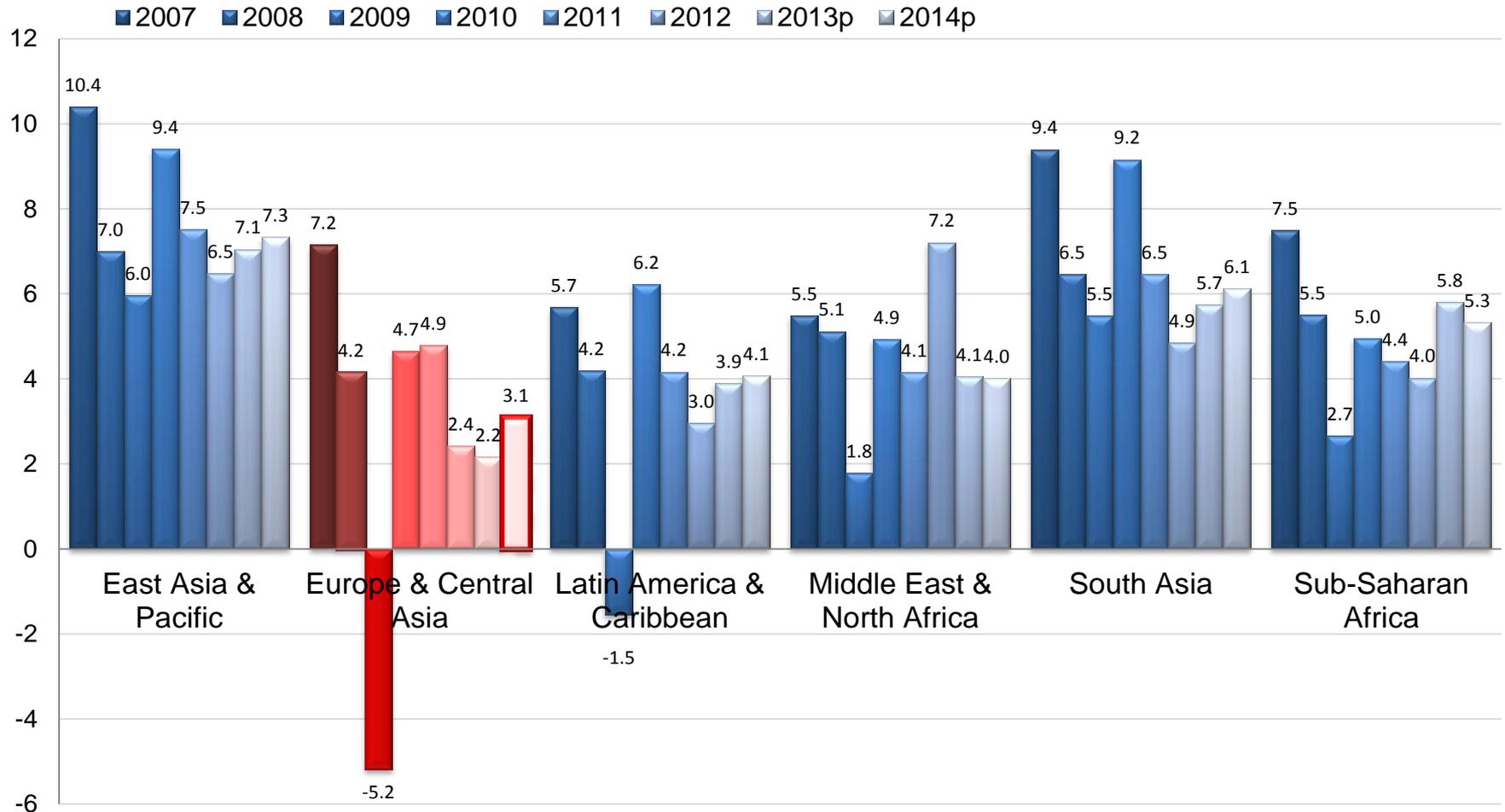
The Good, the Bad and the...

- **The good news:** the risk of a crisis in the Euro Area has receded and Europe is slowly coming out of recession.



ECA is on rebound

GDP Growth, %, weighted average by region



The Good, the Bad and the...

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- **The bad news:** new financial risks, including from the United States, are emerging



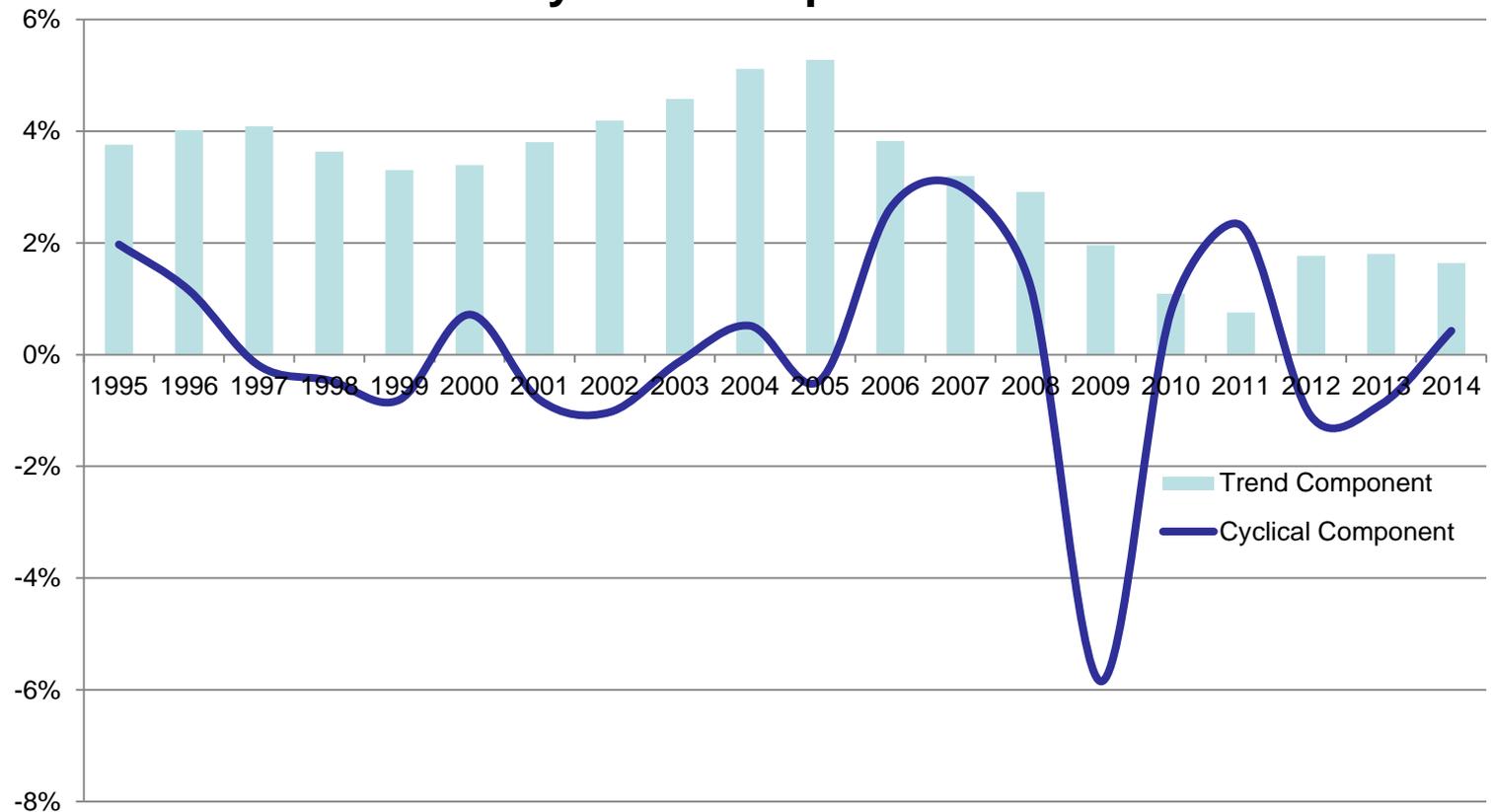
The Good, the Bad and the...

- The good news: the risk of a crisis in the Euro Area has receded and Europe is slowly coming out of recession.
- The bad news: new financial risks, including from the United States, are emerging
- **The ugly**, or better the tough reality: the central problems in ECA are of a structural nature and require domestic, structural solutions.

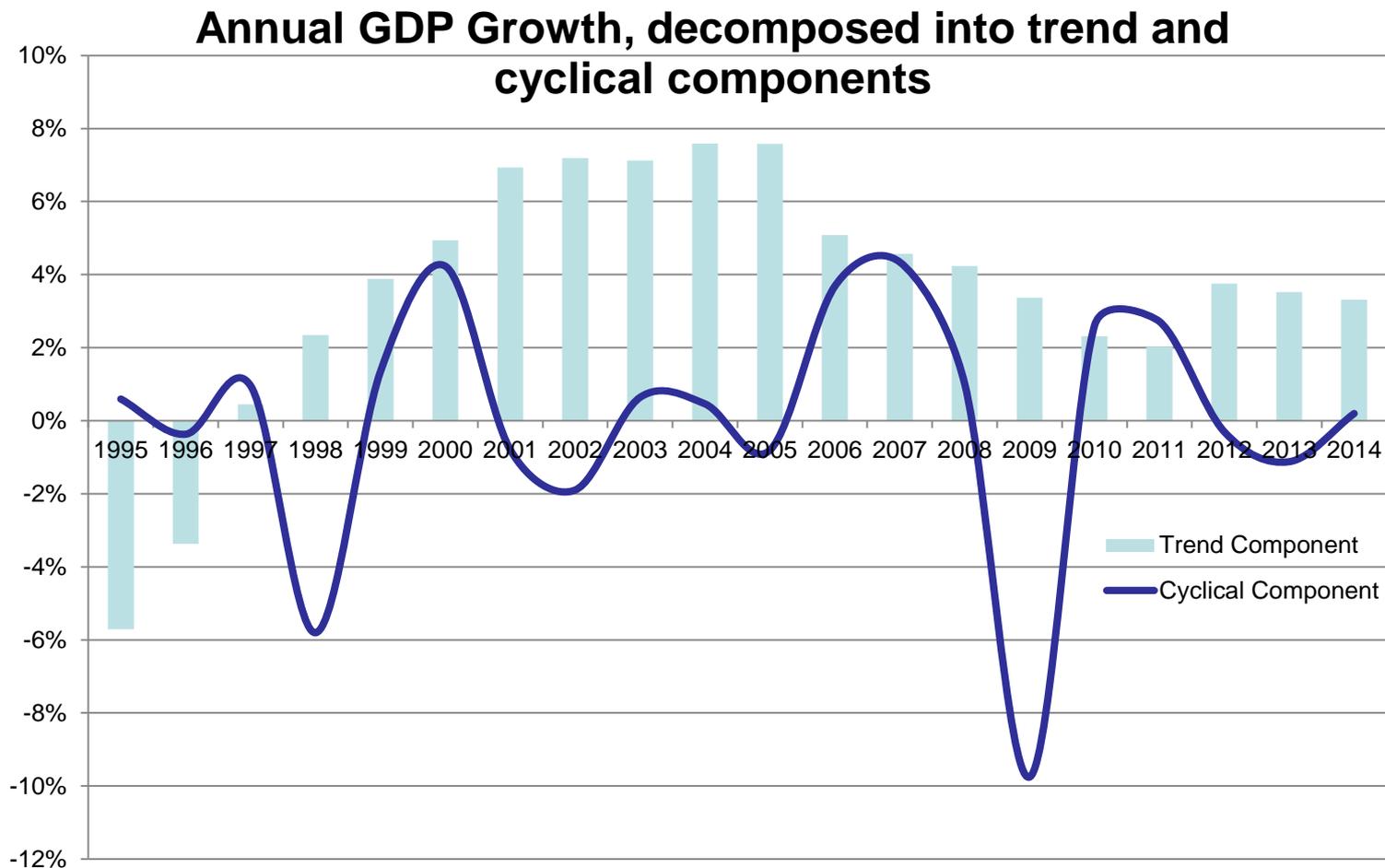


Central Europe and the Baltics should reverse the slowing of potential growth...

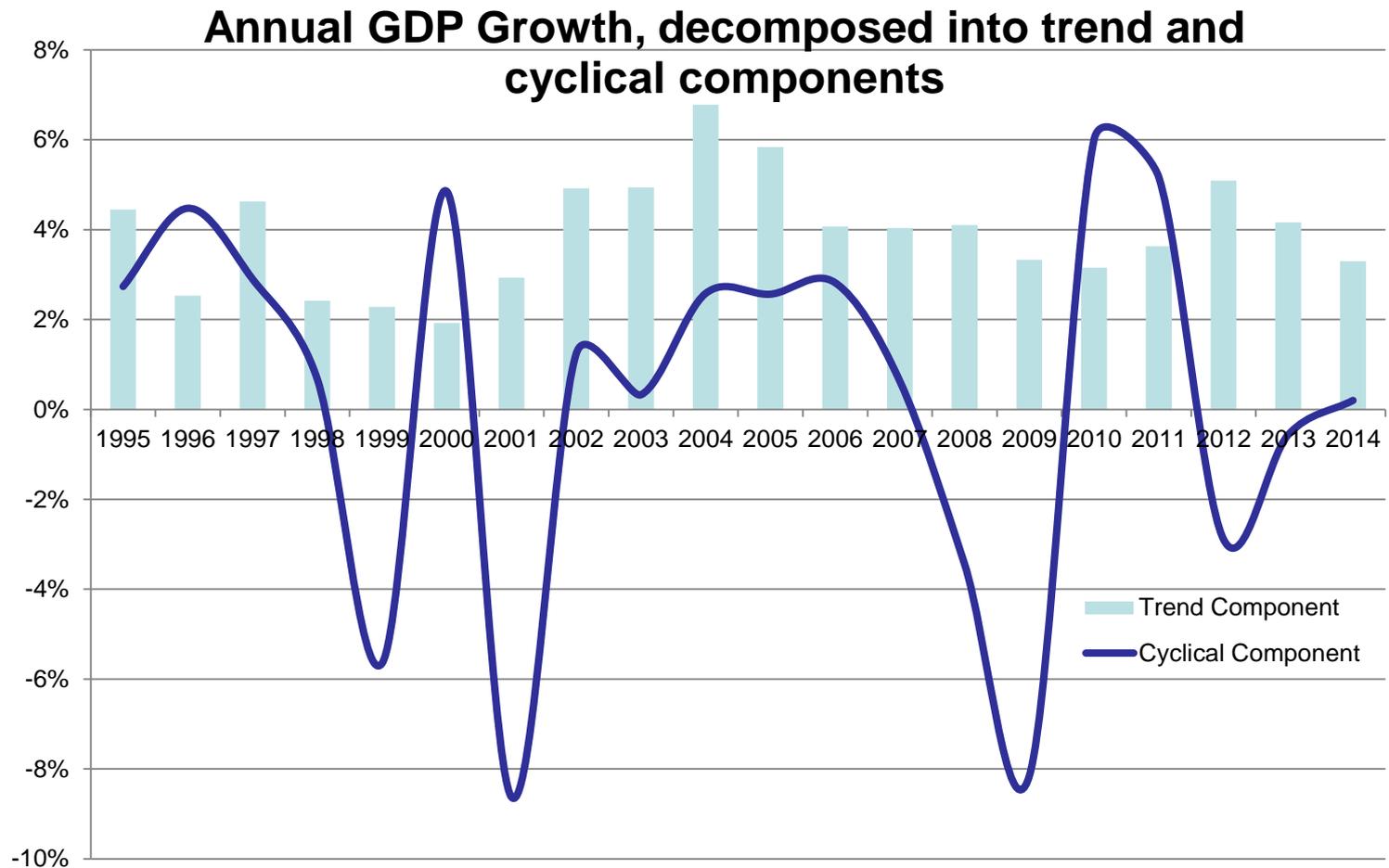
Annual GDP Growth, decomposed into trend and cyclical components



... and so should the CIS countries...

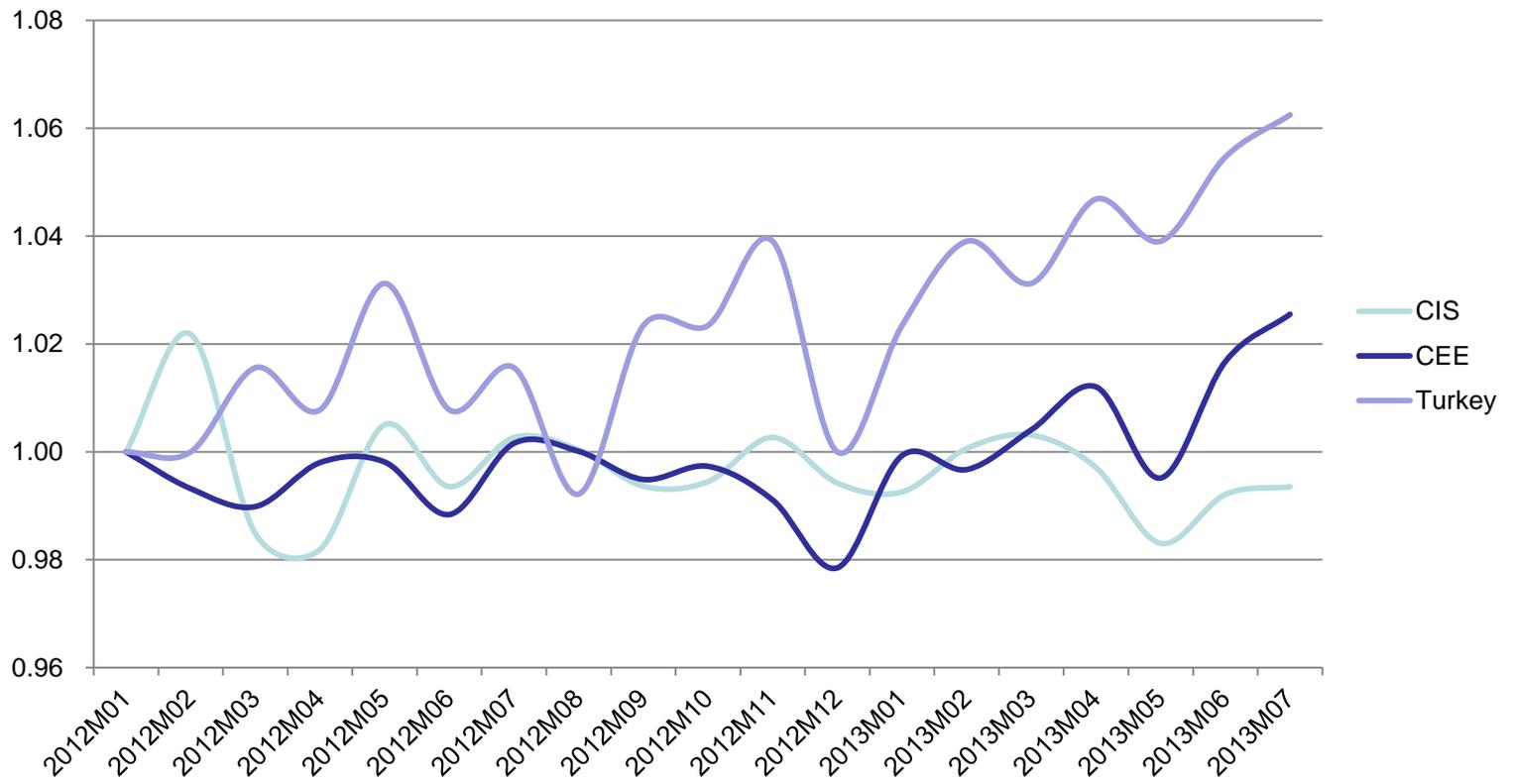


... while Turkey experiences the shadow side of successful stimulus



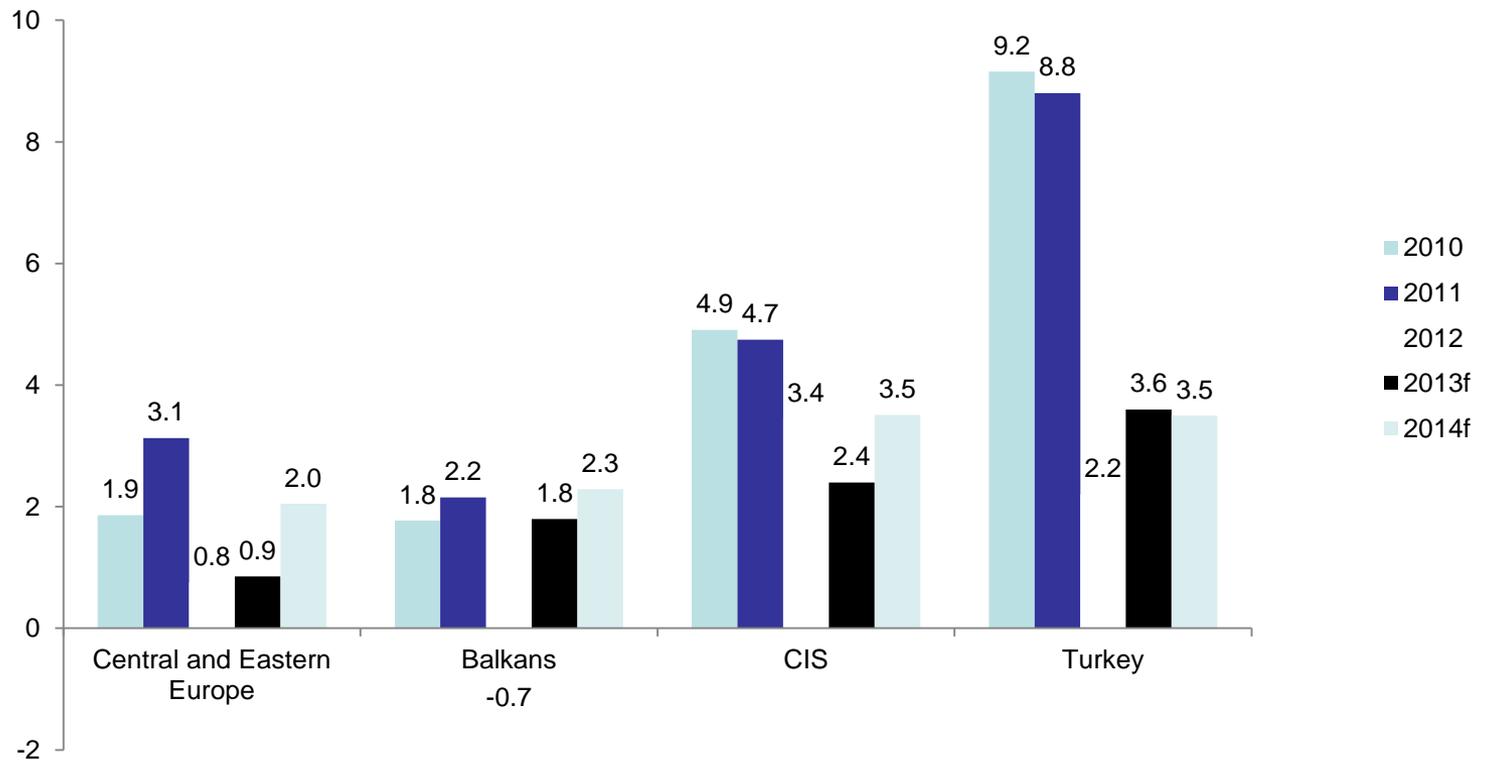
Rebound has started

Industrial Production Index (Jan. 2012=1.00)



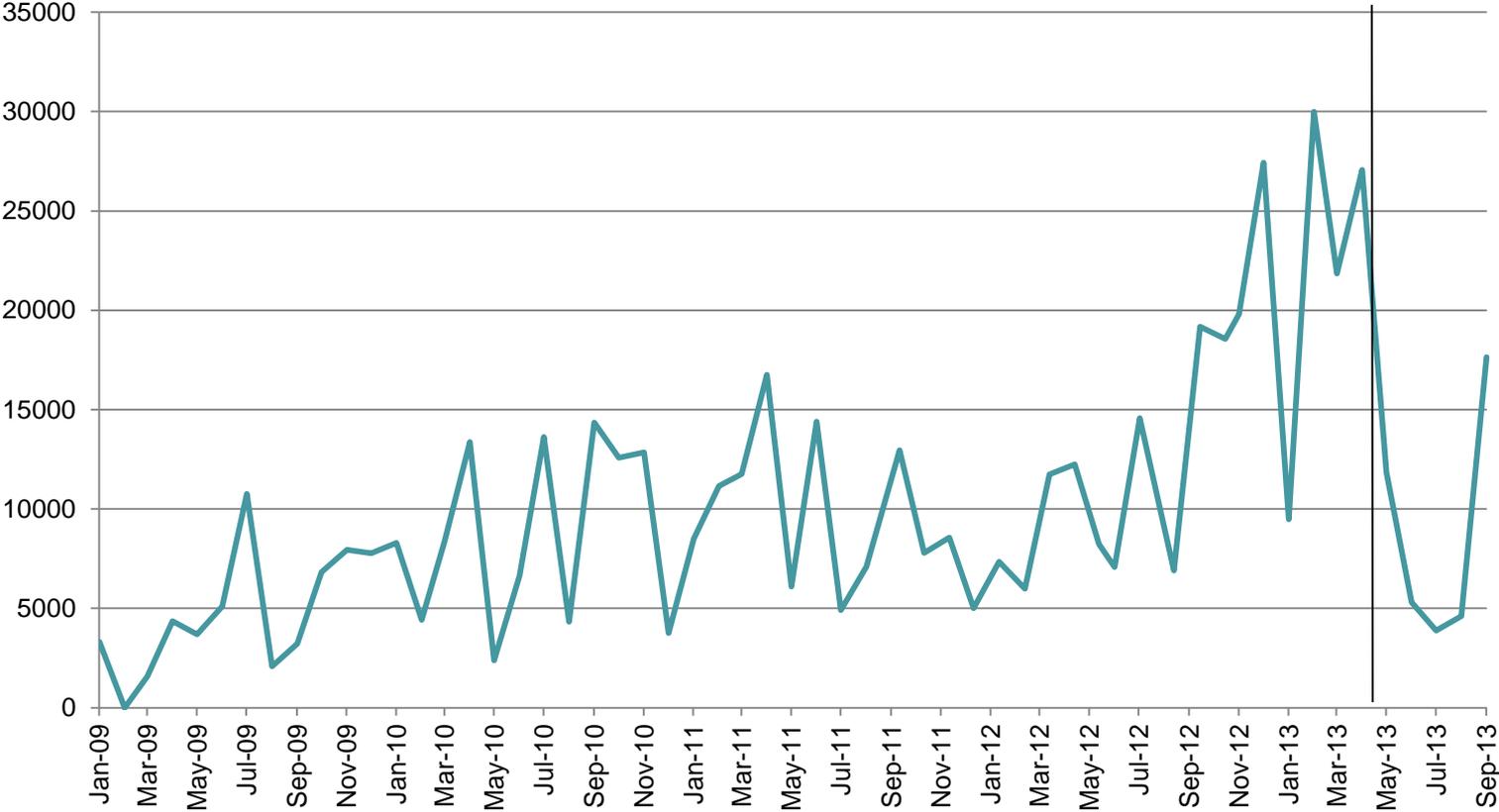
Modest Recovery

Annual Growth (%)



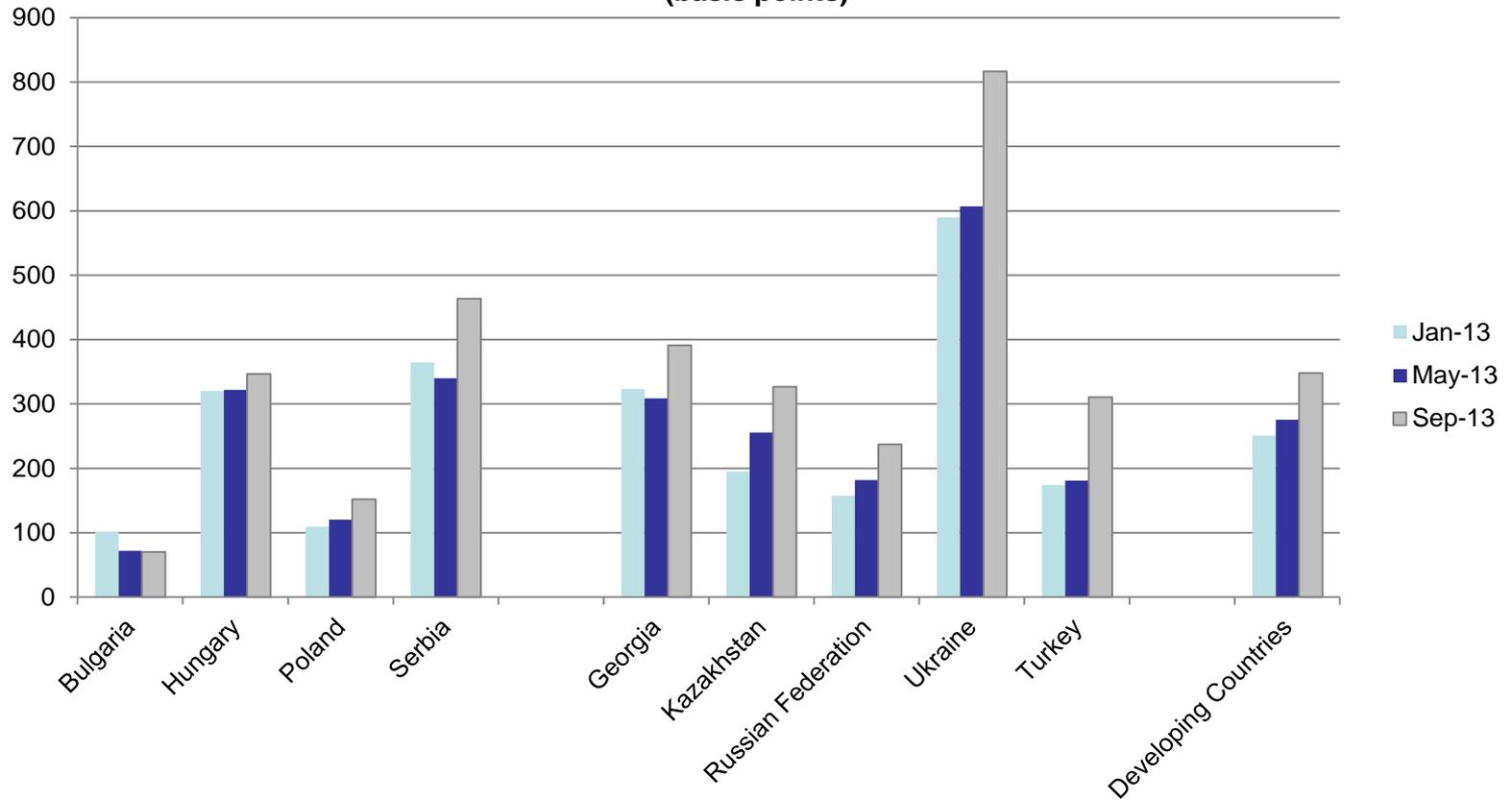
After Bernanke's suggestion of tapering off, capital flows dried up....

Gross Capital Flows to ECA
(millions of US dollars)



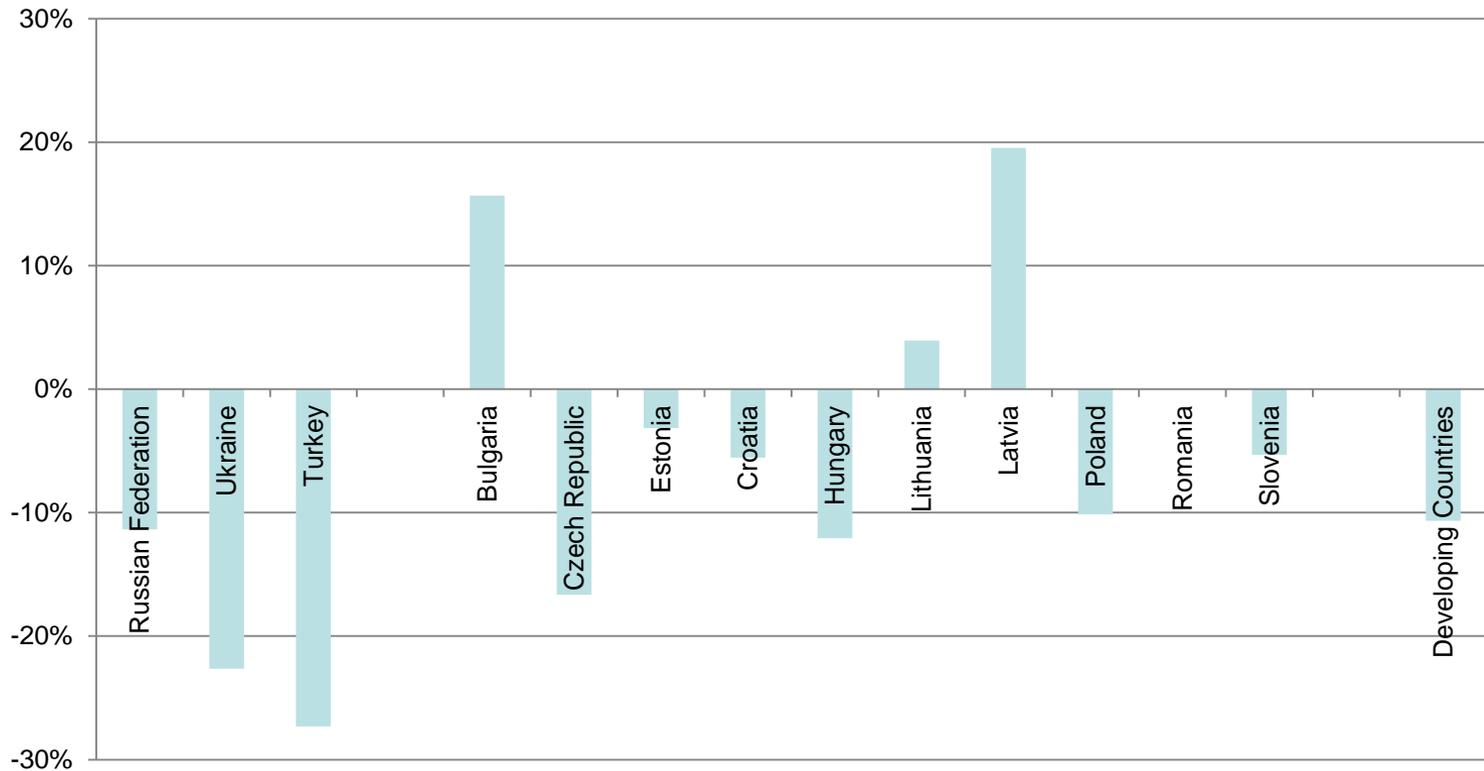
....and yields moved up....

Sovereign Bond Yields (basis points)



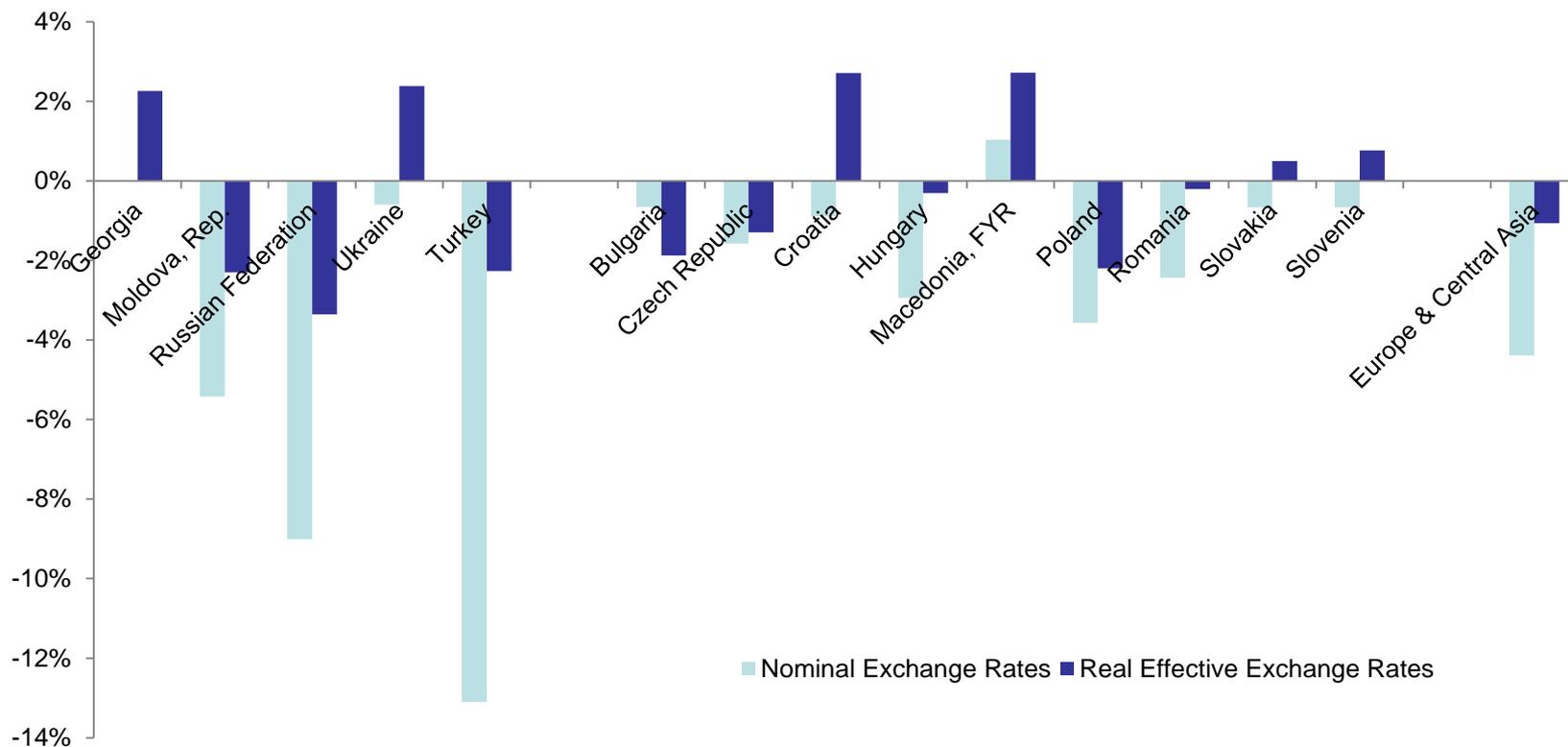
....stock markets sharply declined....

% Change in Stock Market Index (Jan 2013 - Sep 2013)

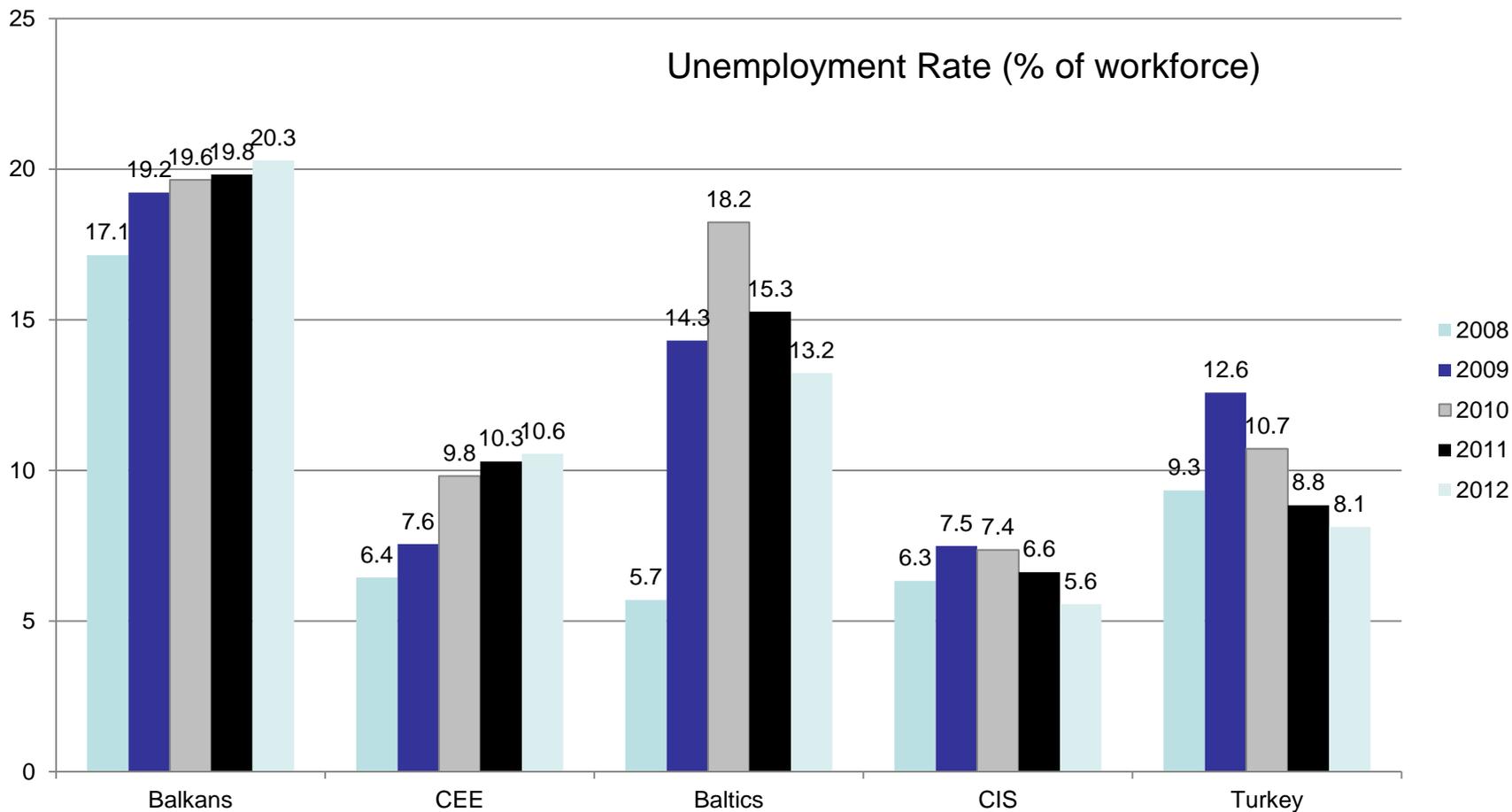


....and currencies depreciated

Exchange Rates (% change, Jan 2013-Sep 2013)

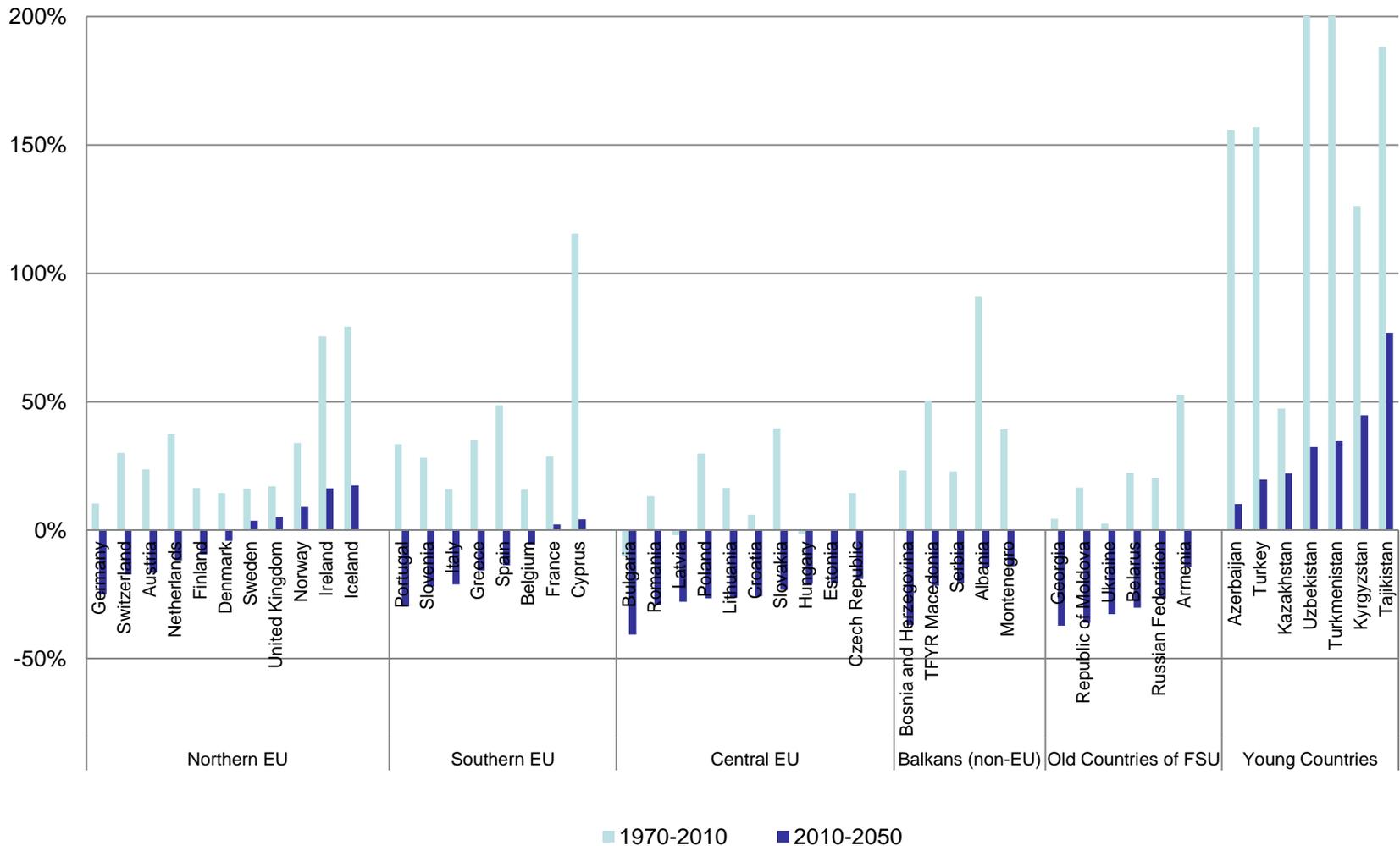


Key structural problem: not enough jobs are being created



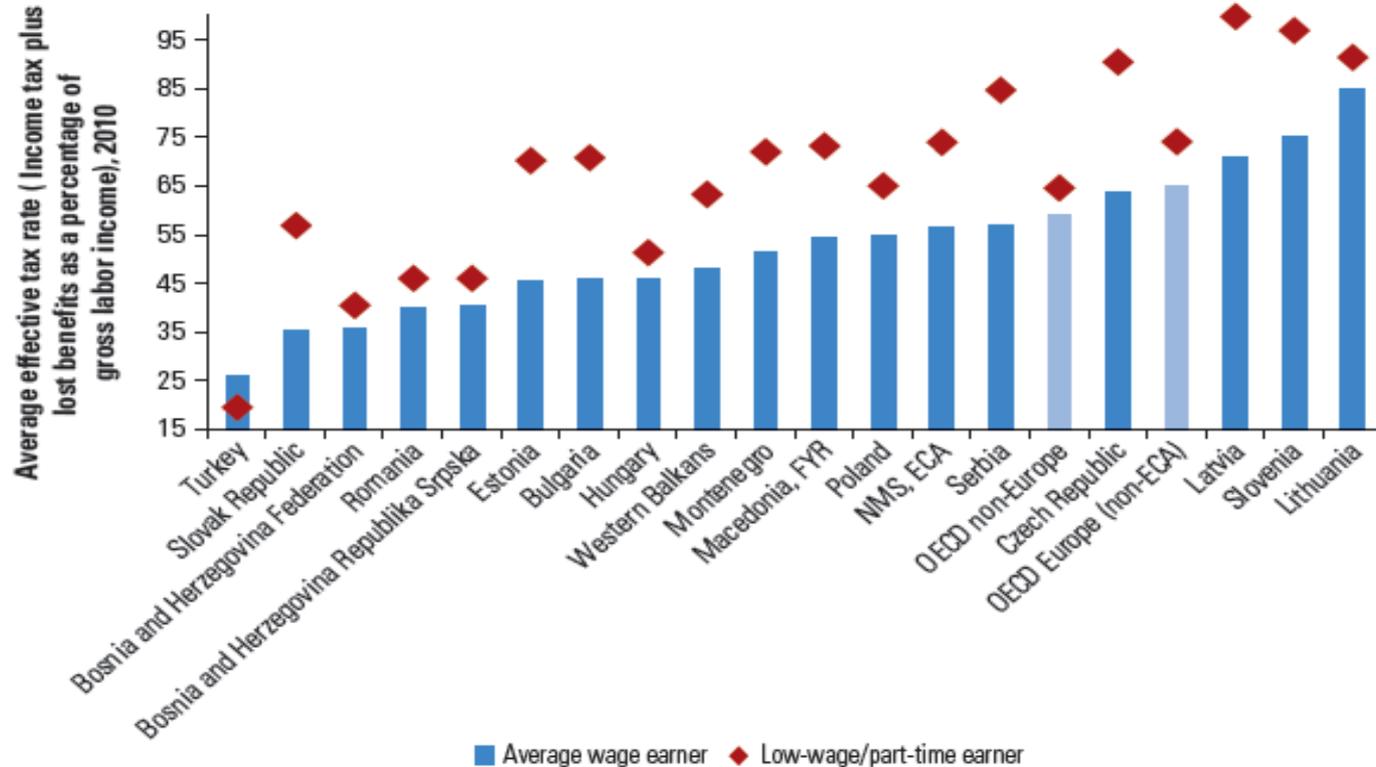
With shrinking labor force, participation should increase

Change in Working Age Population, 1970-2010 and 2010-2050

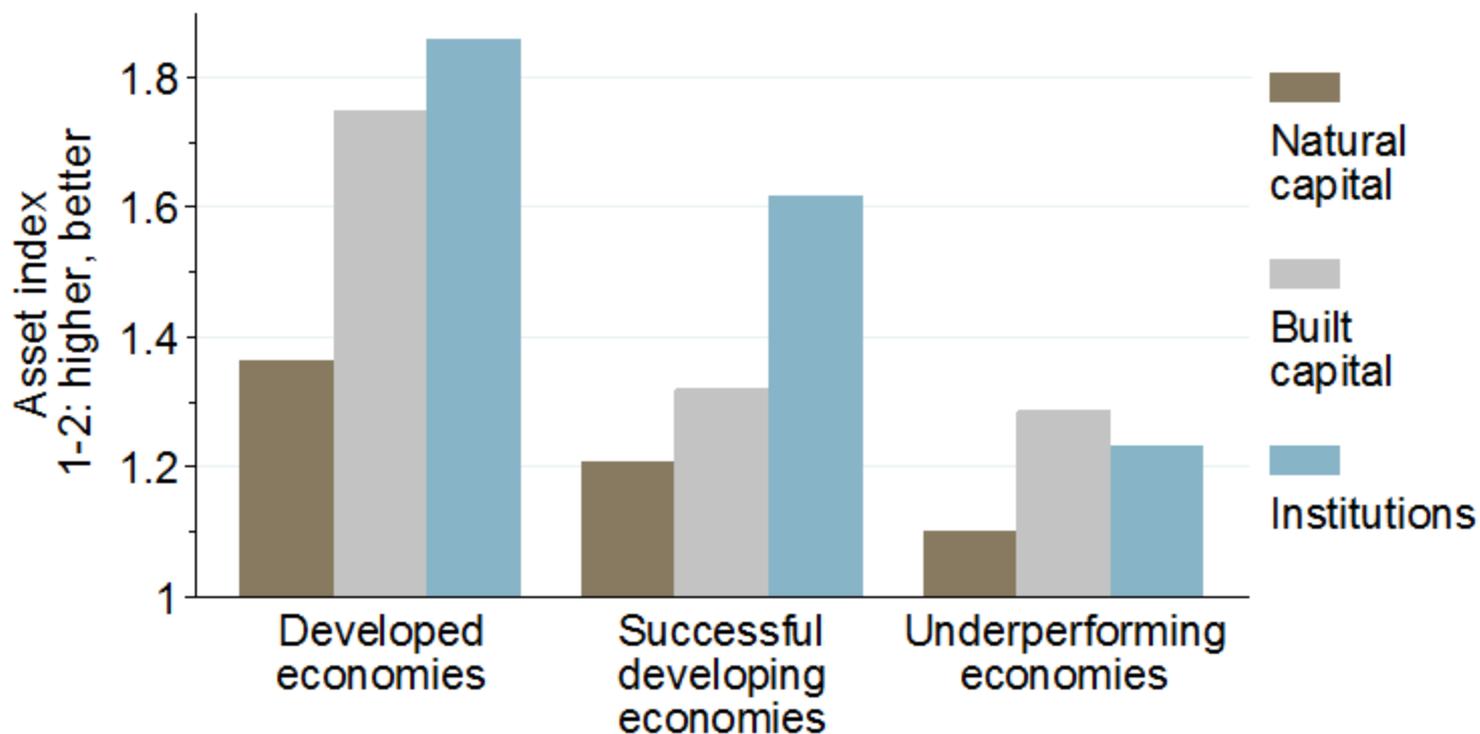


Better incentives needed to move into formal jobs, especially for low-wage earners and part-time workers

The Inactivity Trap



Resource-rich economies can only be successful in the long run when they build better institutions





The short-term prospects are mixed, but significant improvements possible in the long run with the right policy choices