

CLOUDY OUTLOOK FOR GROWTH IN EMERGING EUROPE AND CENTRAL ASIA

Presentation by
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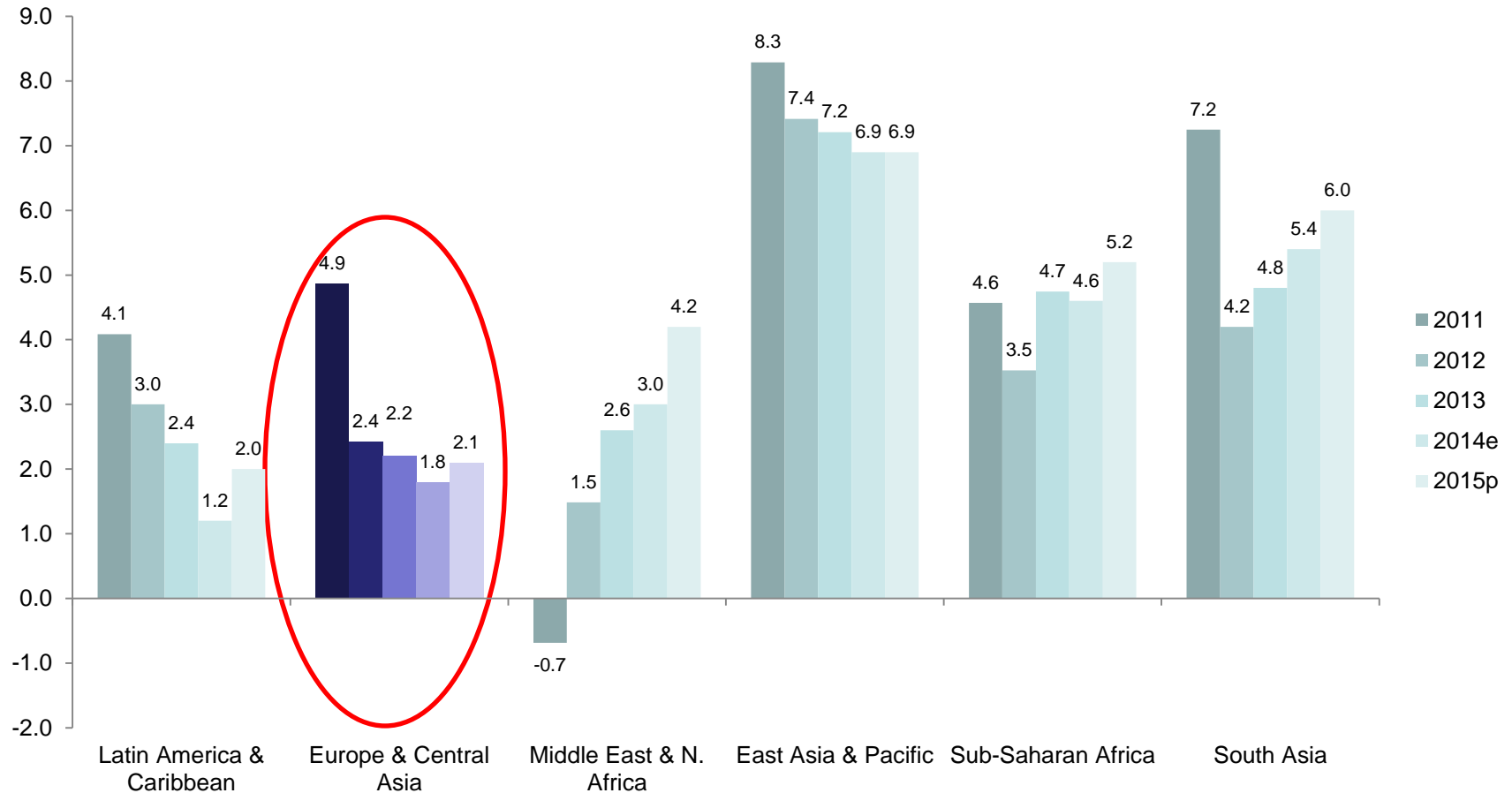
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Annual Meetings

Three key trends for Emerging Europe and Central Asia

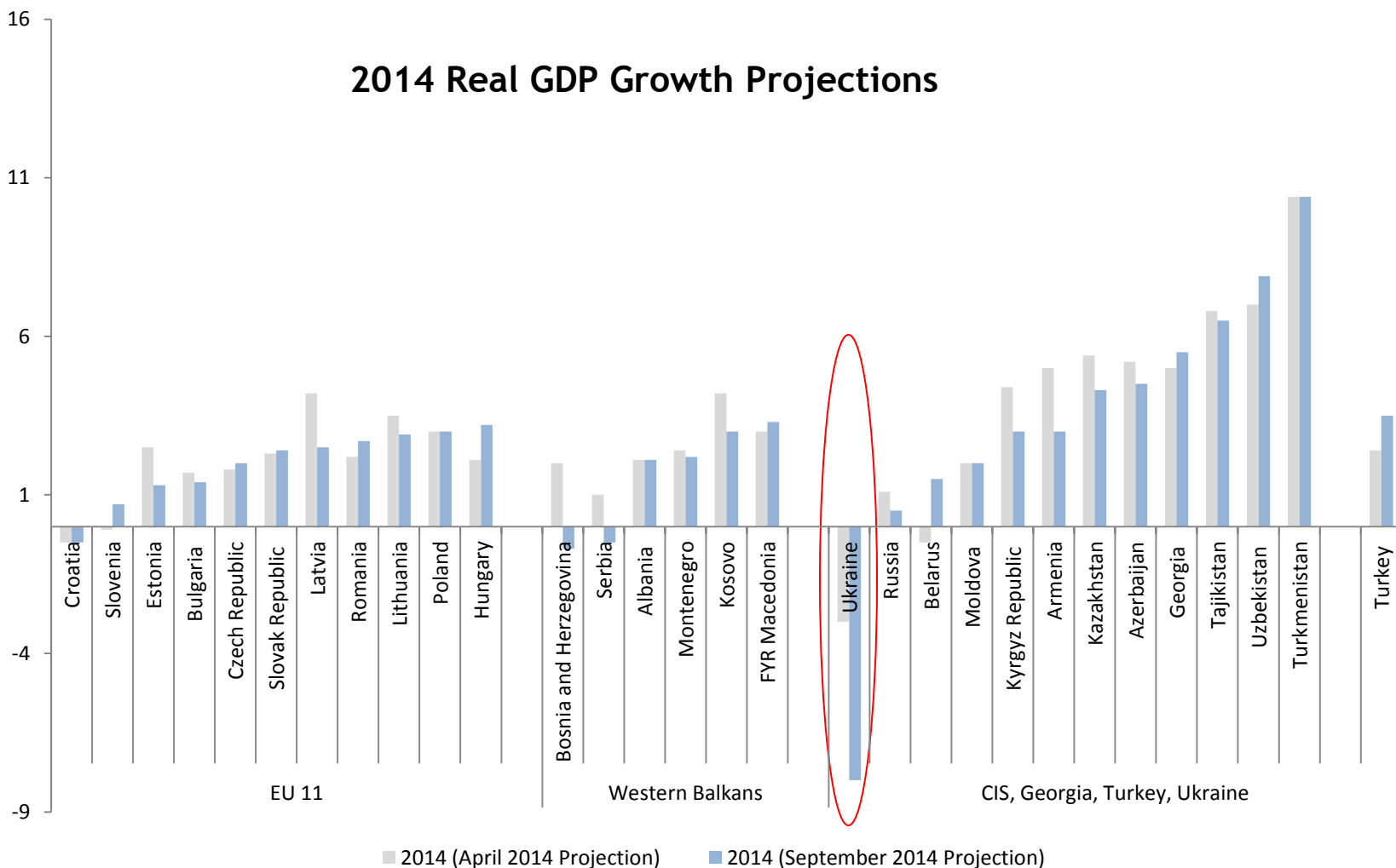
- Recovery in new EU member states remains tepid, but some signs of improvement.
- Deep crisis in Ukraine due to the tensions, however, with the exception of a few industries, has not materialized into stiff headwinds for ECA as a whole.
- Russia and some neighboring countries are slowing as past drivers 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

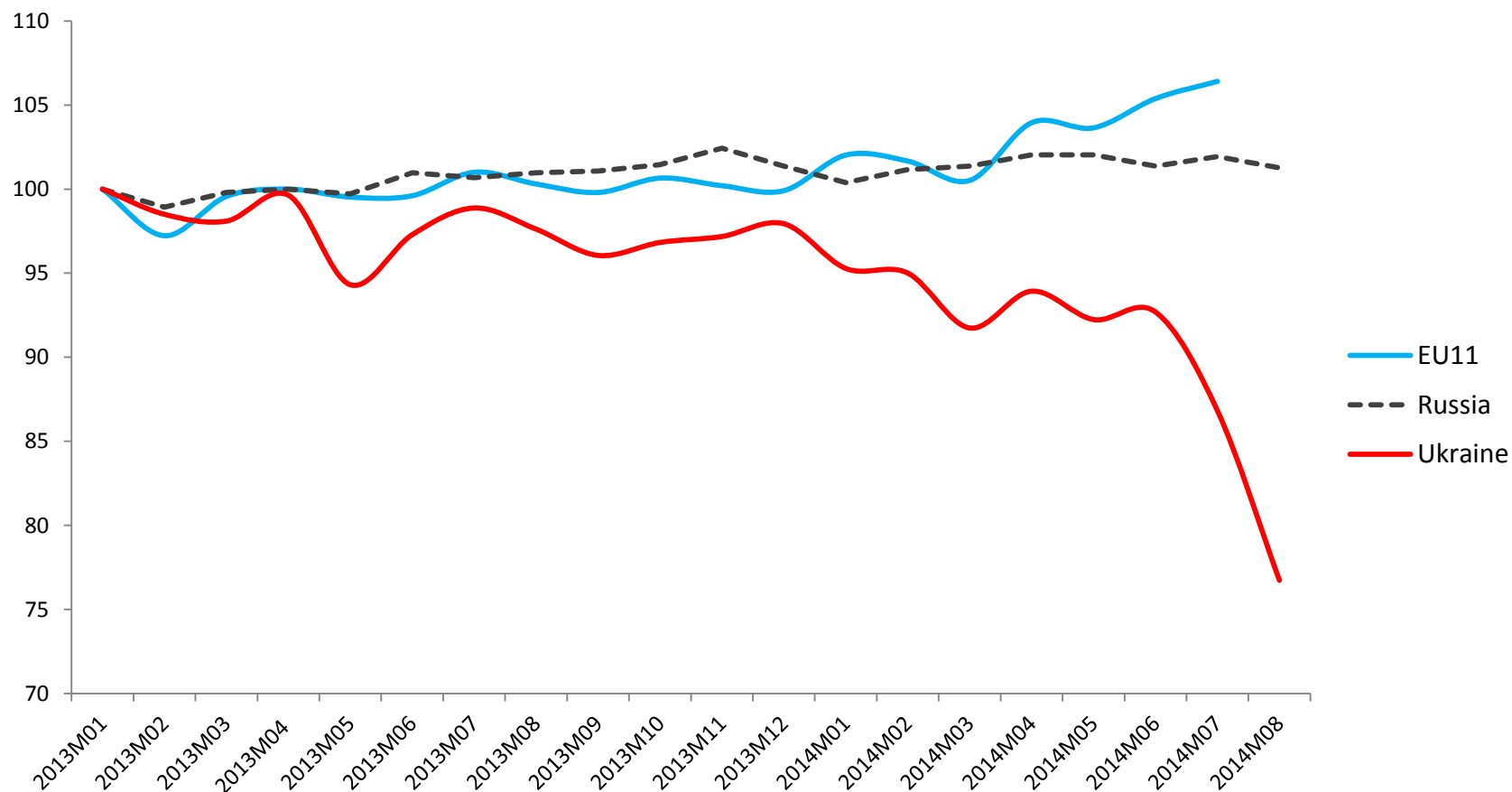


Drilling-down into the three trends for Emerging Europe and Central Asia

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Tepid growth in the new EU Member States, Crisis in Ukraine, and Stagnation in Russia

Industrial Production Index (January 2013=100)

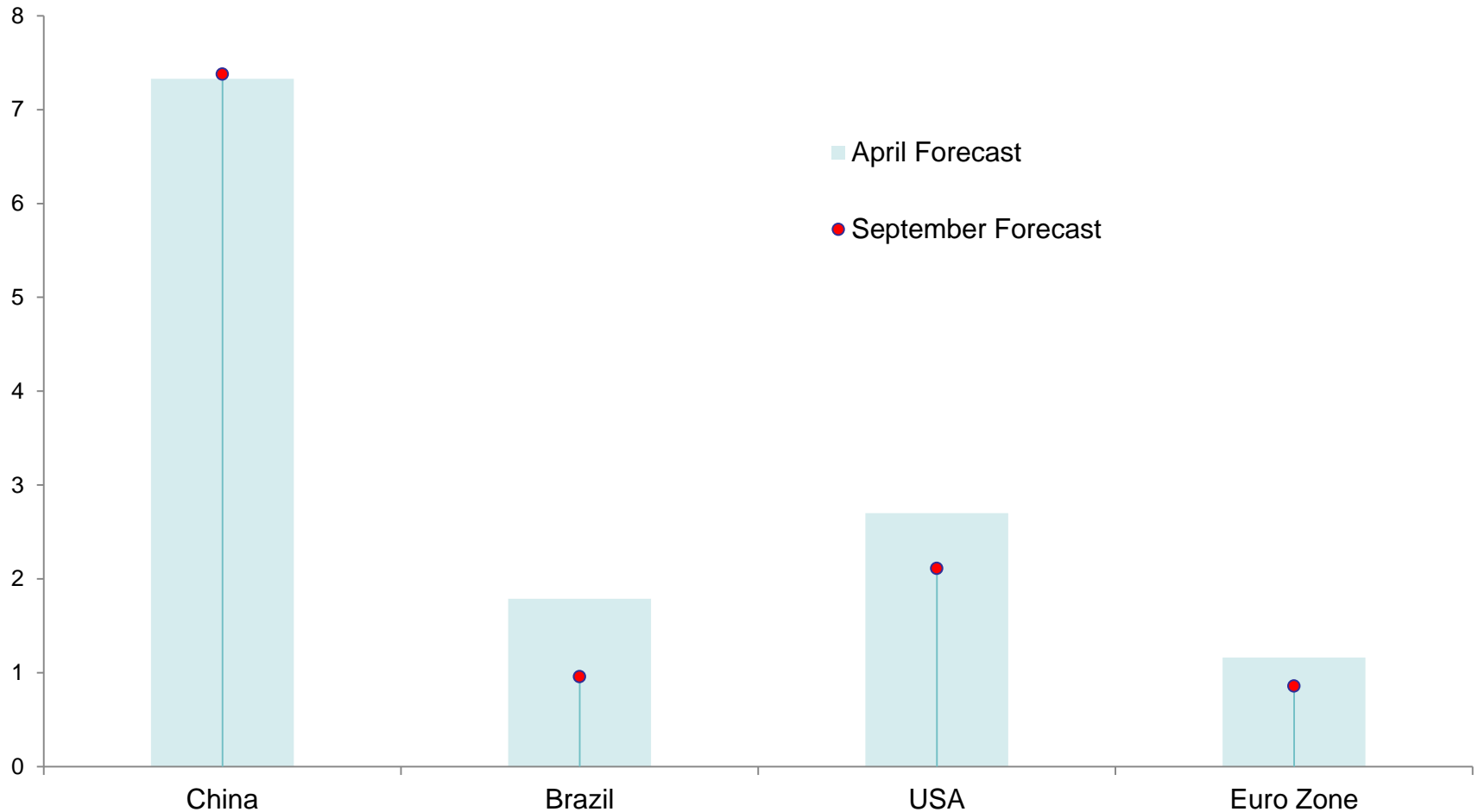


Note: The industrial sector includes manufacturing, mining, and utilities. Underlying data is in constant US\$, seasonally adjusted.

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)



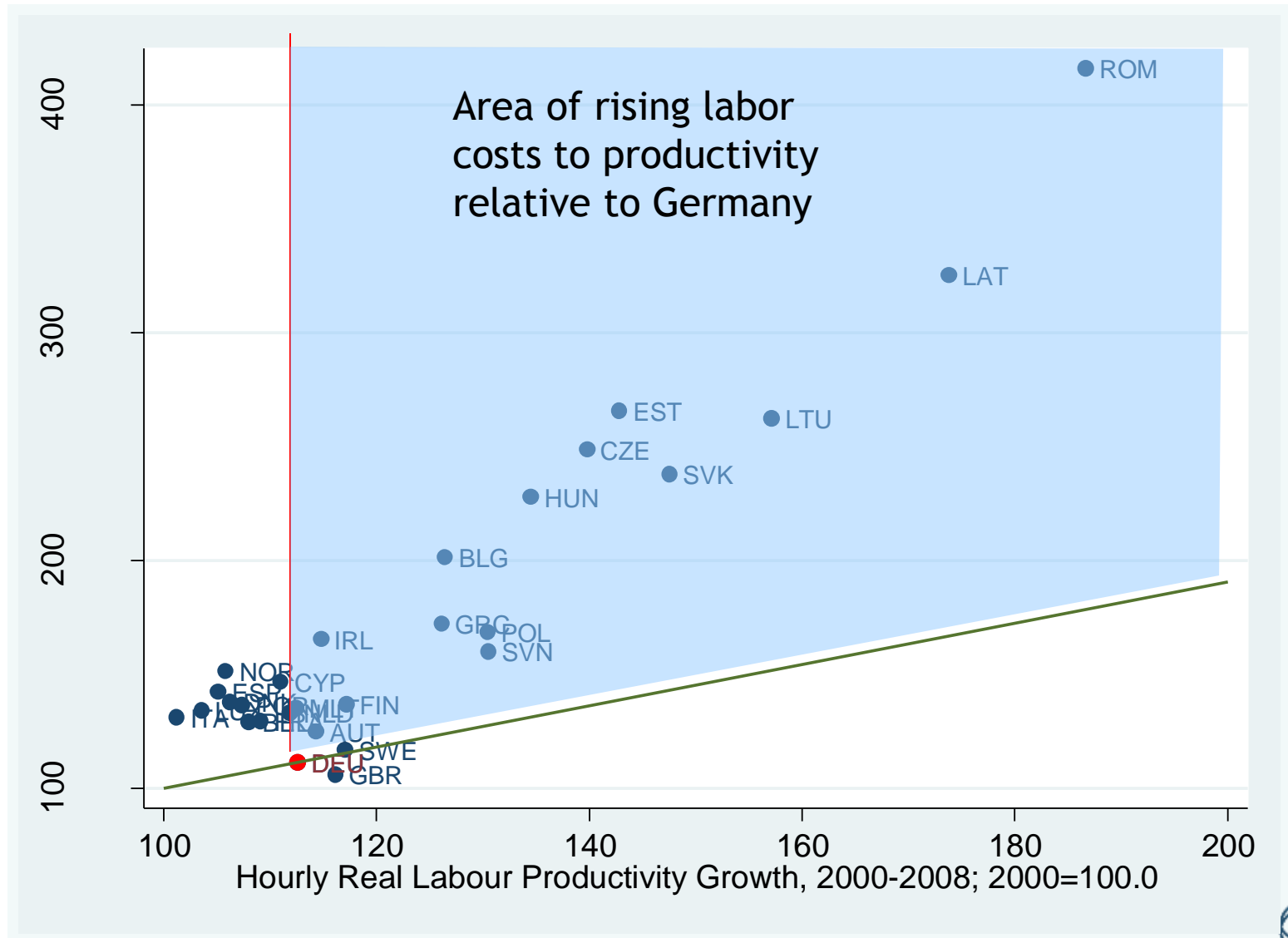
Source: Consensus Forecasts

Unwinding of fiscal imbalances has been slow, but progress has been made in Central and Eastern Europe (Percent Share of GDP)

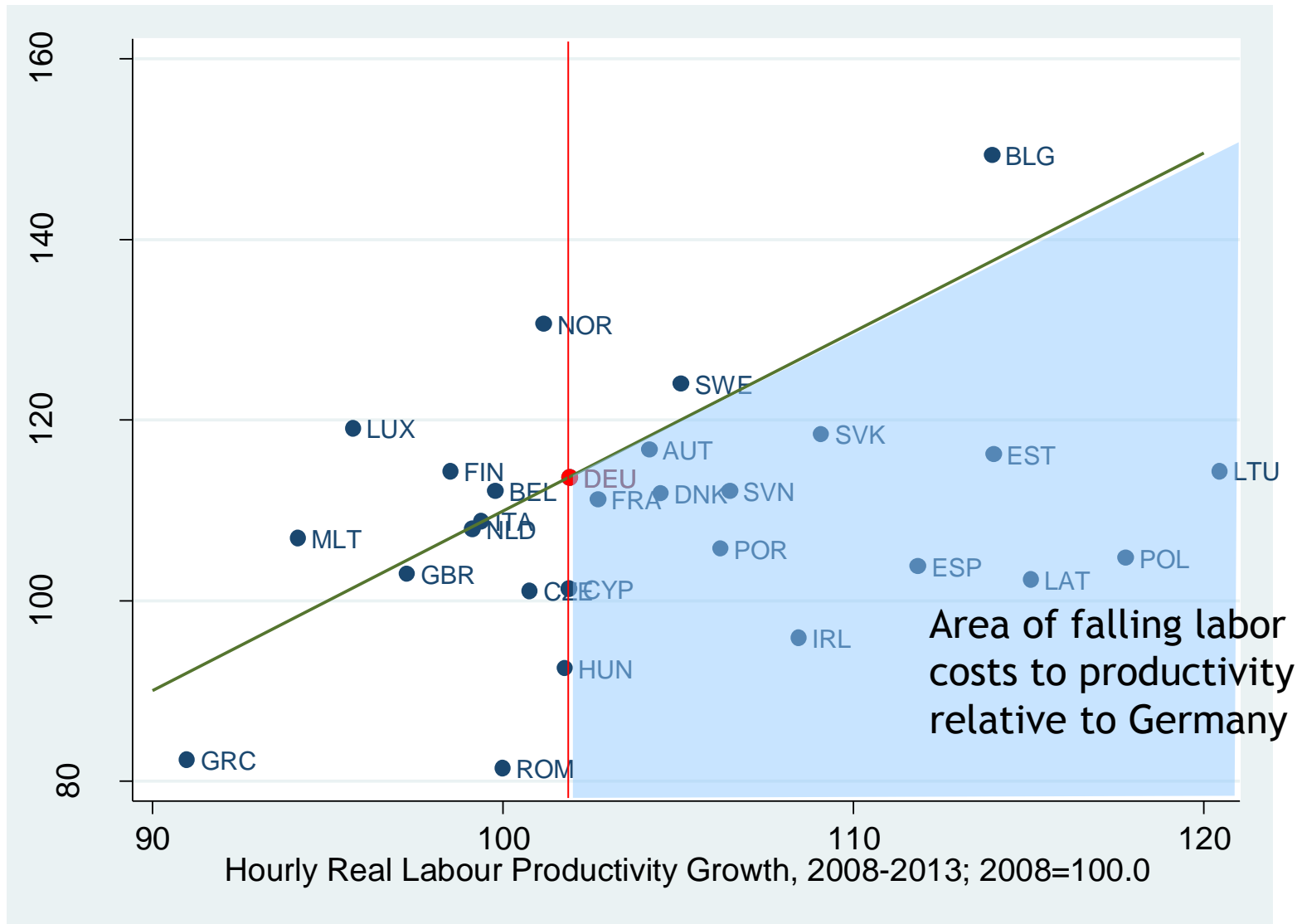


Source: National authorities, IMF, DEC GEP and ECSPE country teams' estimates/projections.

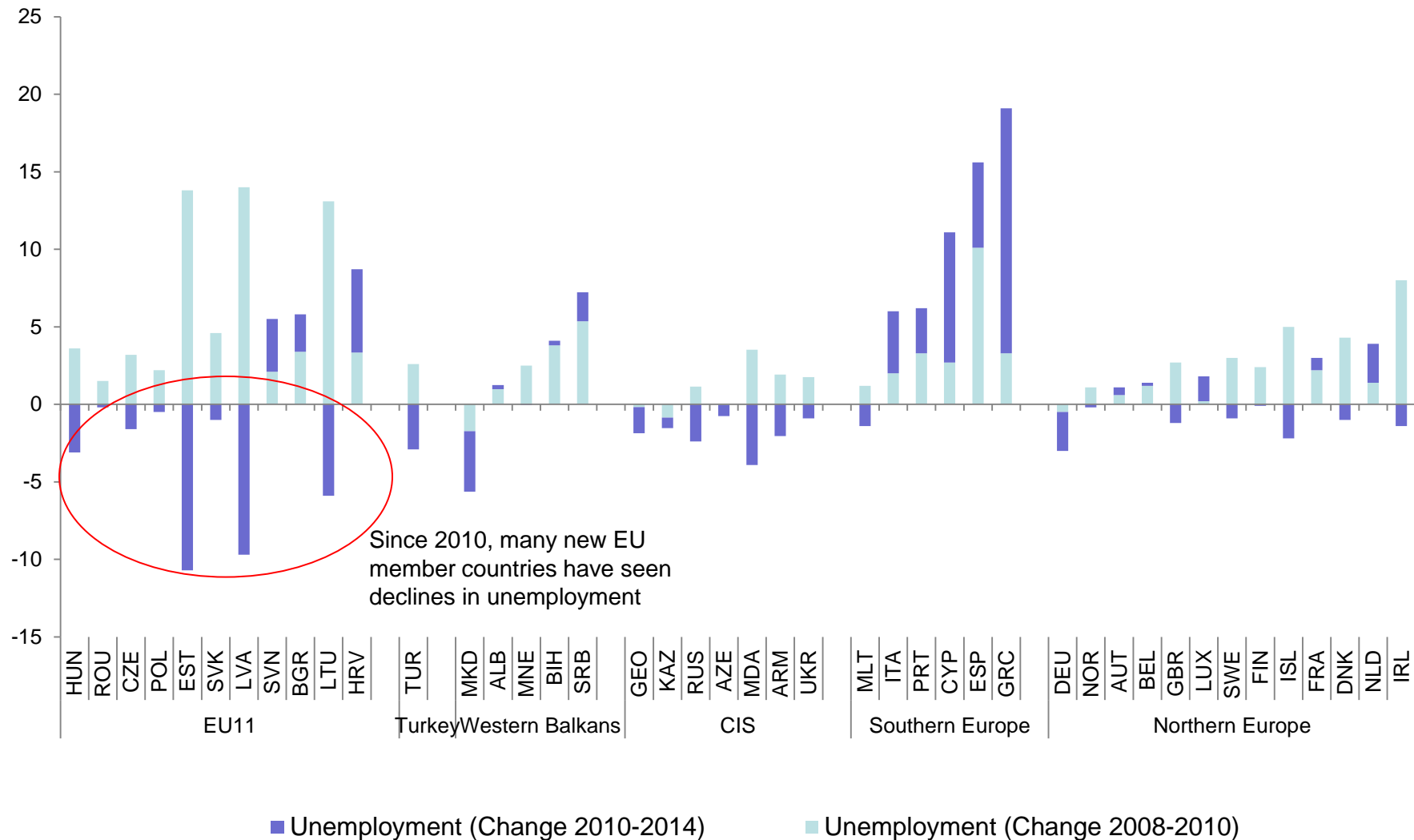
Labor had become more expensive across all European countries before the 2008 crisis



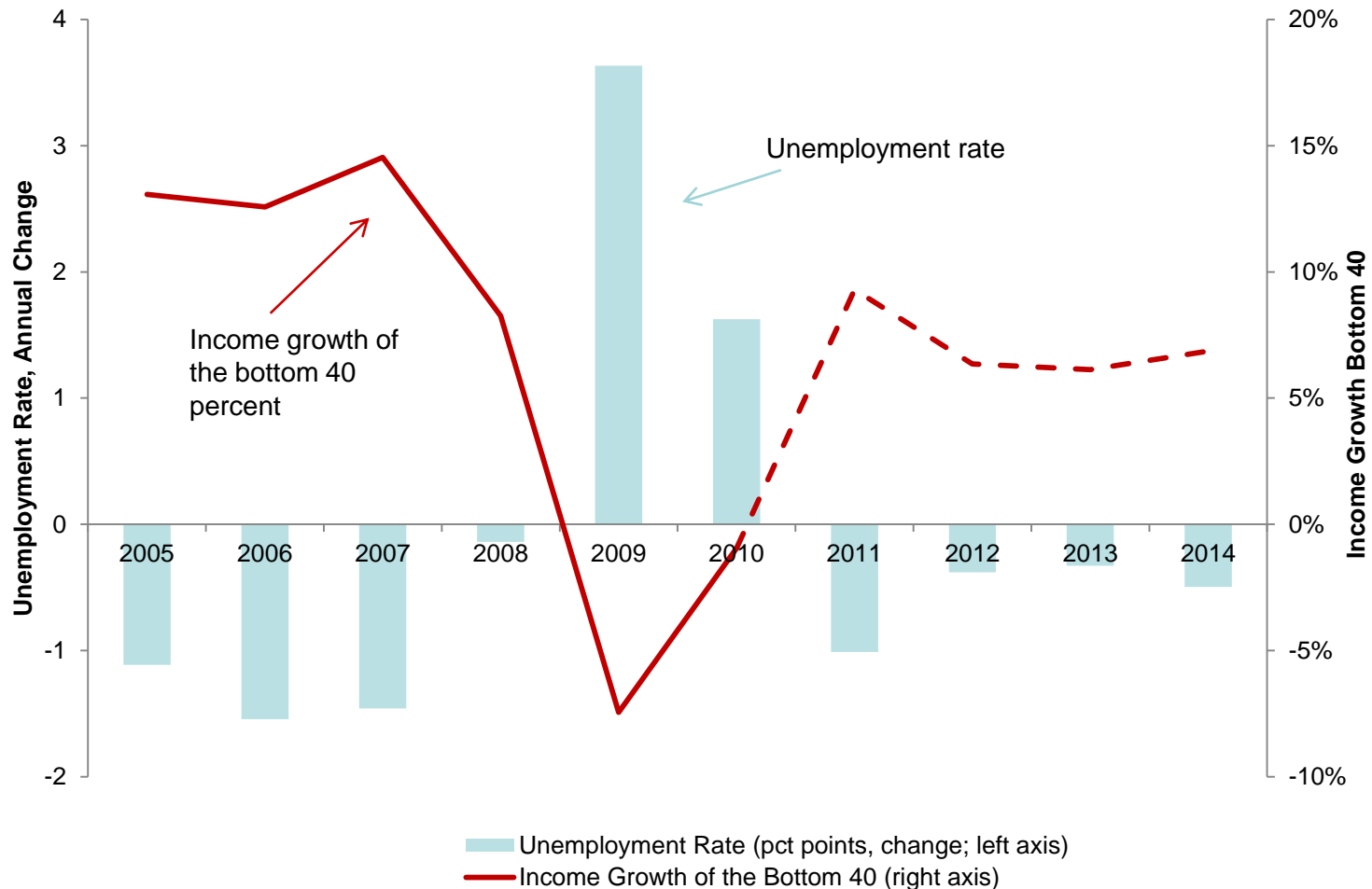
Post-2008 crisis labor costs have adjusted downward



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...

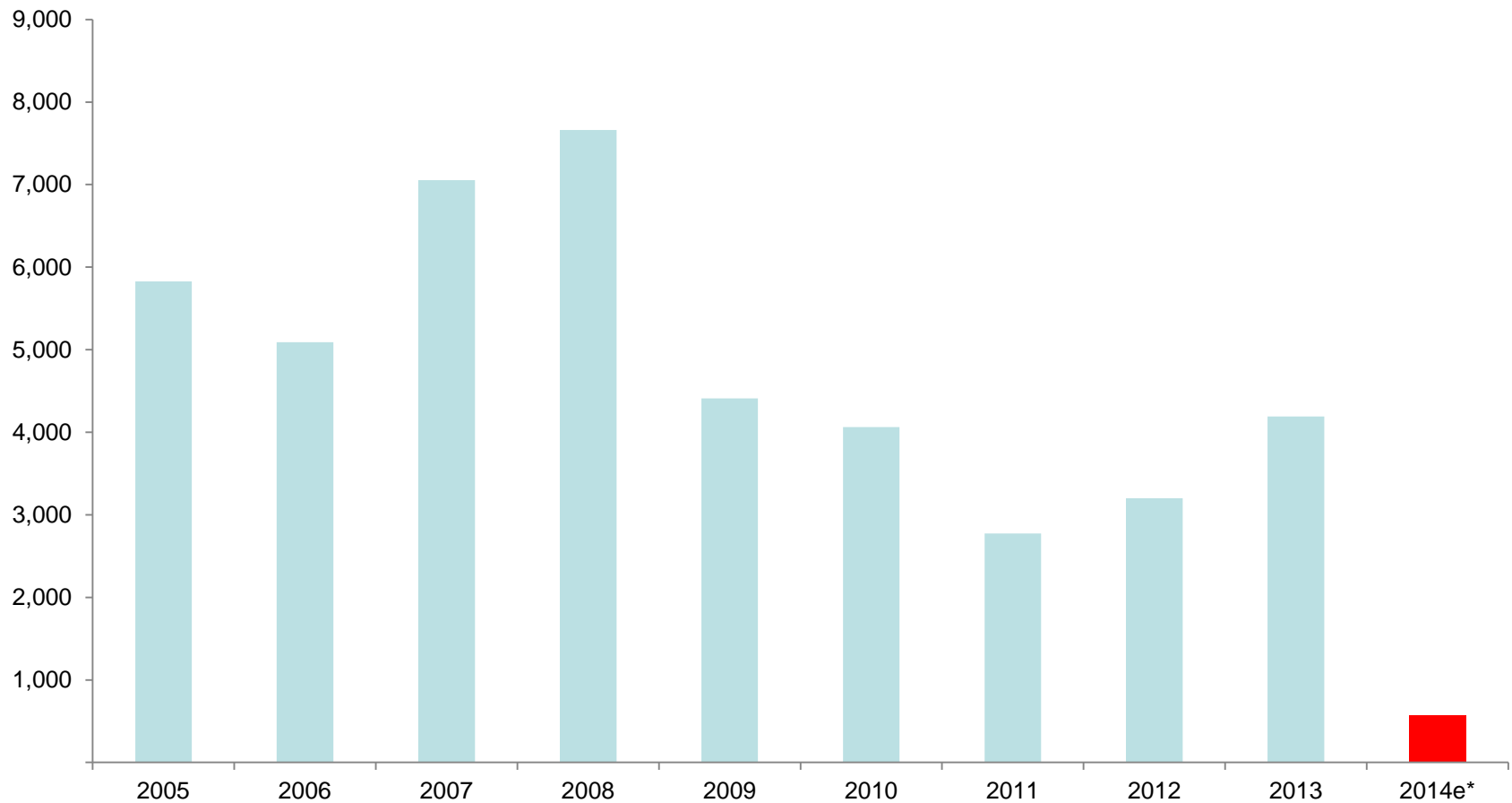


Note: Shared prosperity figures from 2011 onwards are forecasted using an OLS regression of income growth of the bottom 40 on changes in unemployment, controlling for GDP growth and country level trends.

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

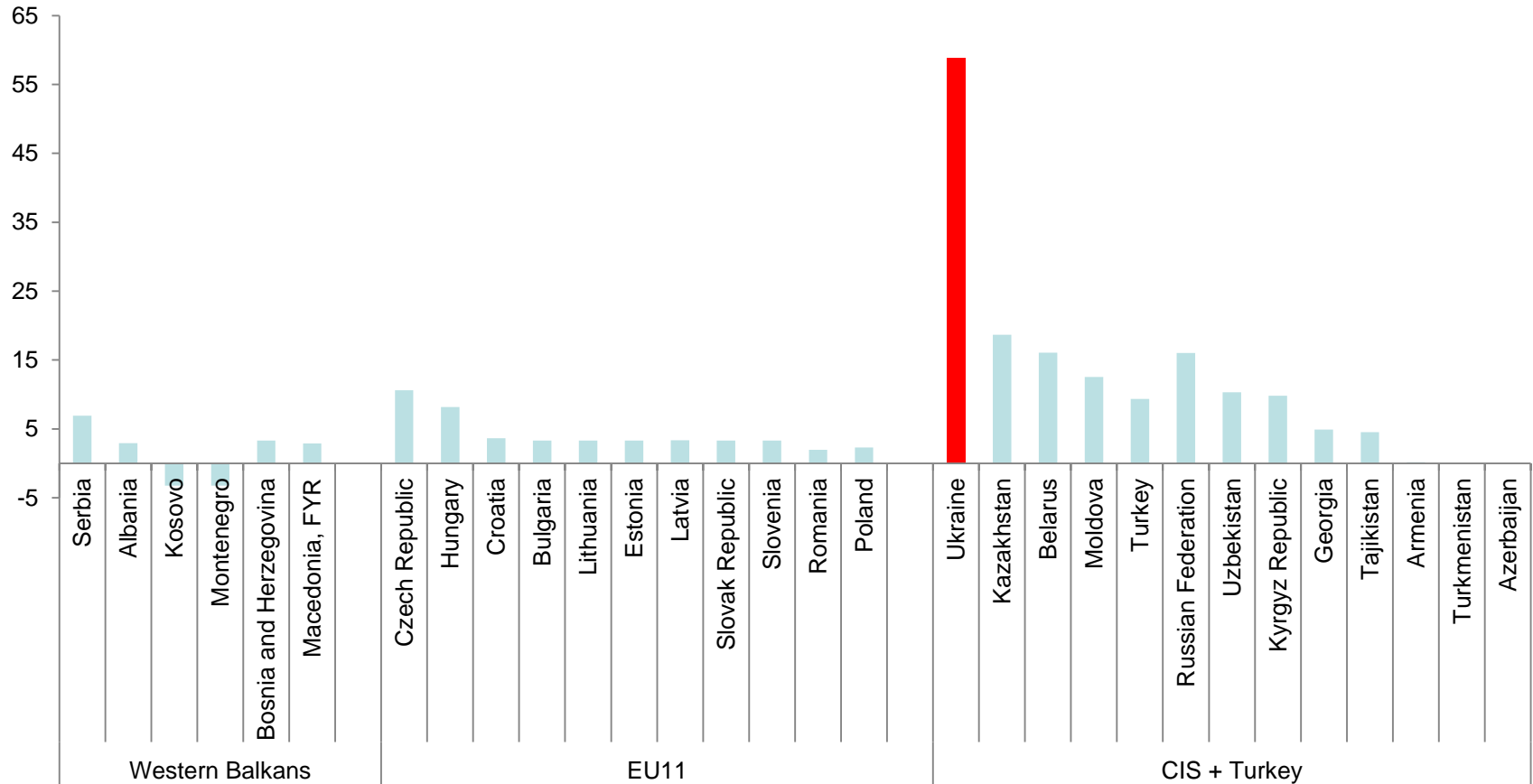


Source: JP Morgan

14 Note: Annualized, based on data through August 2014. World Bank staff estimates

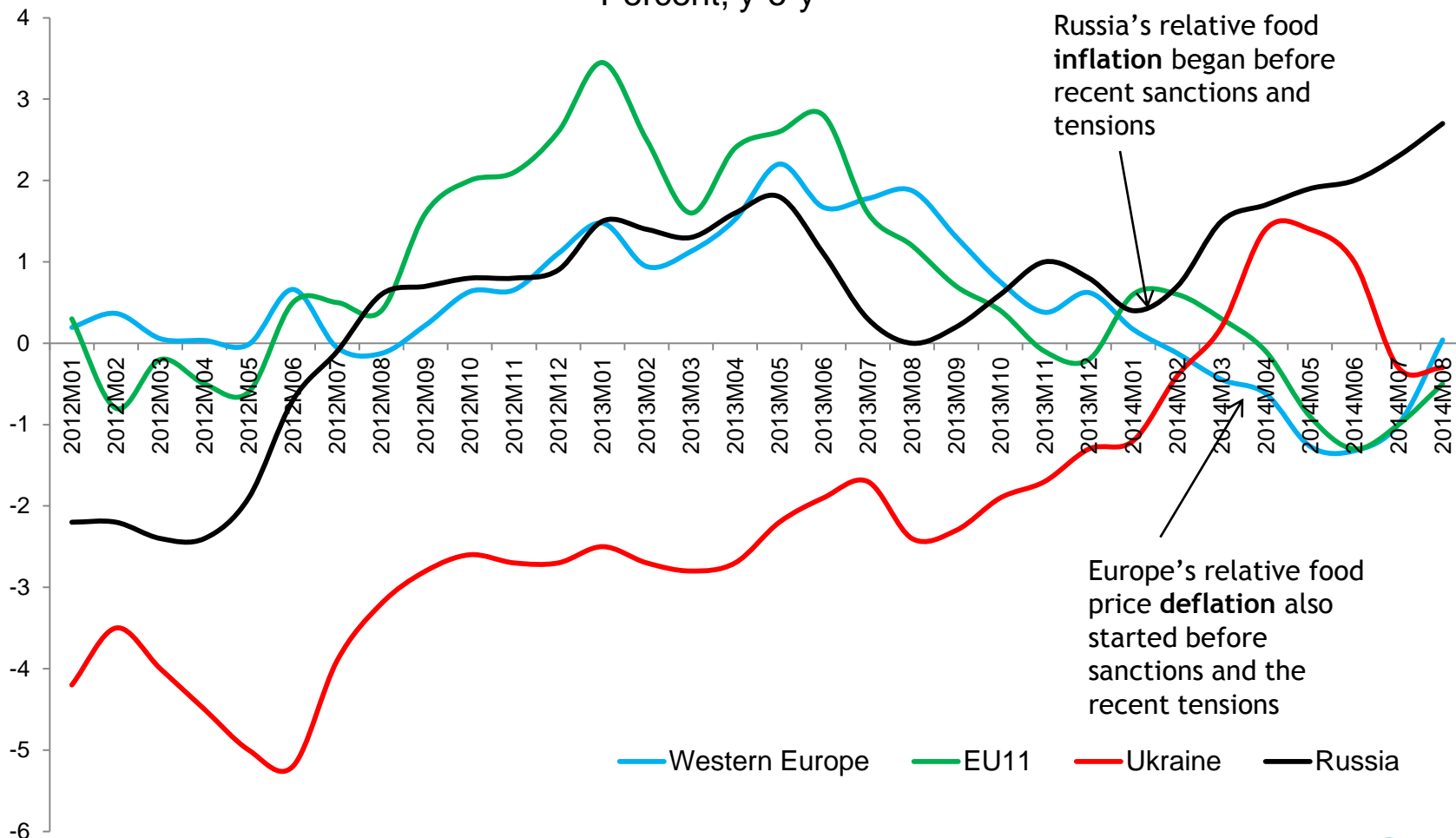
Nominal devaluations in the CIS have reflected high uncertainty

Exchange Rate
(US\$-LCU Sep 2014/ Sep 2013)



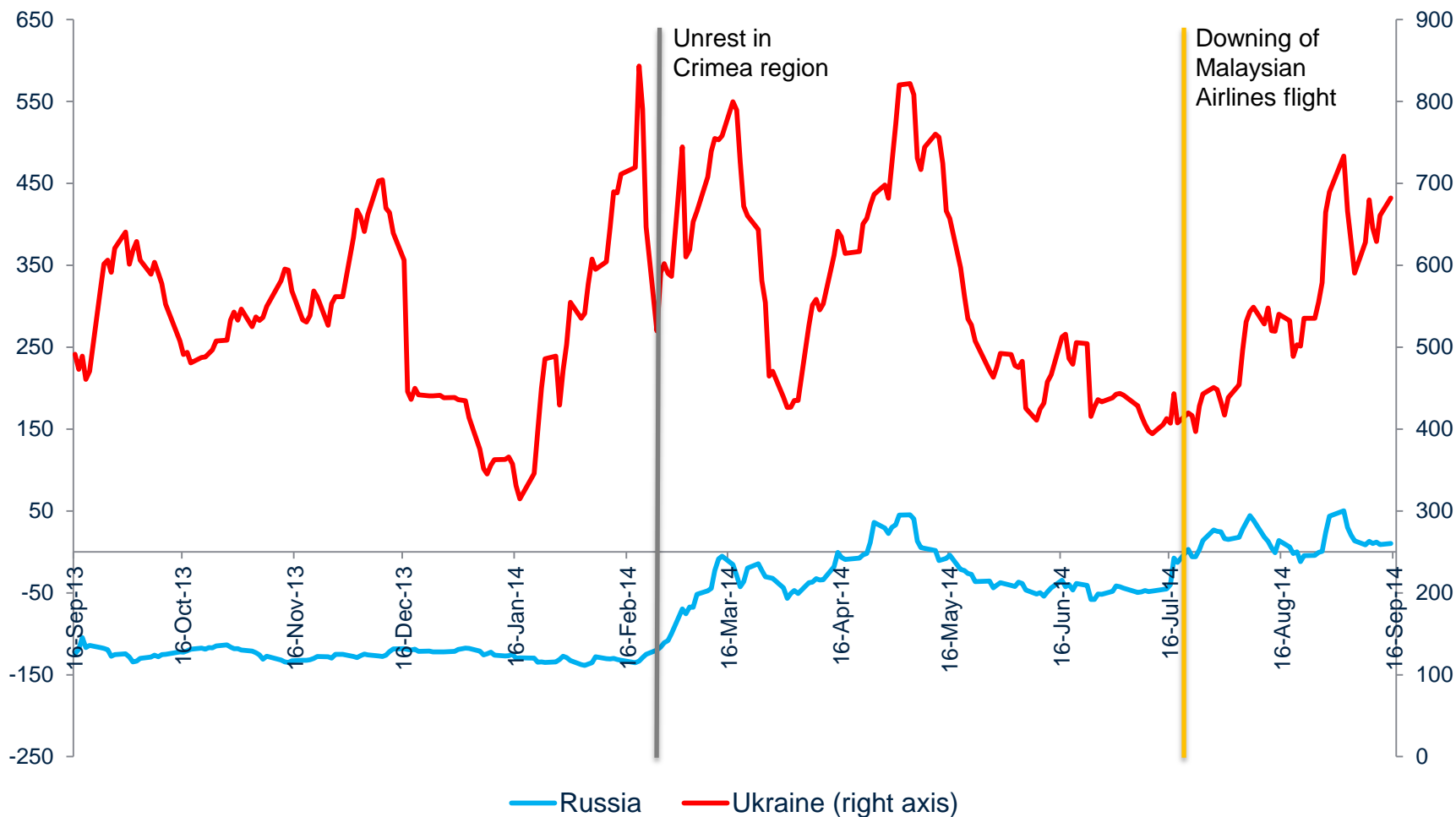
Russia's relative food price inflation was accelerating before it imposed sanctions on European food imports. The impact on Europe has also been modest.

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



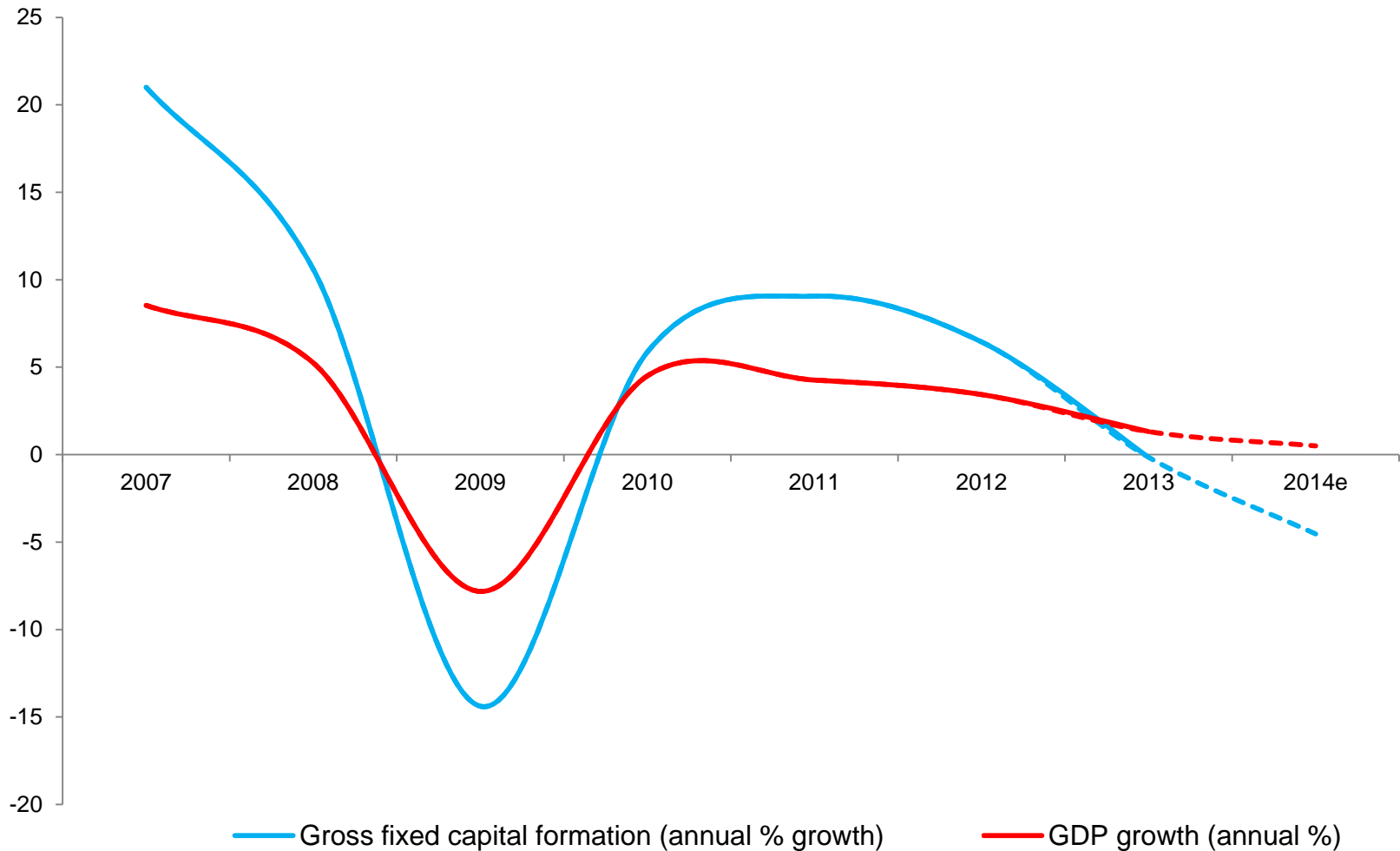
Increased financial uncertainty in Ukraine and Russia, but Russia is still close to EMBI Global spreads

Country EMBI spread relative to EMBI Global Strip Spread (bps)

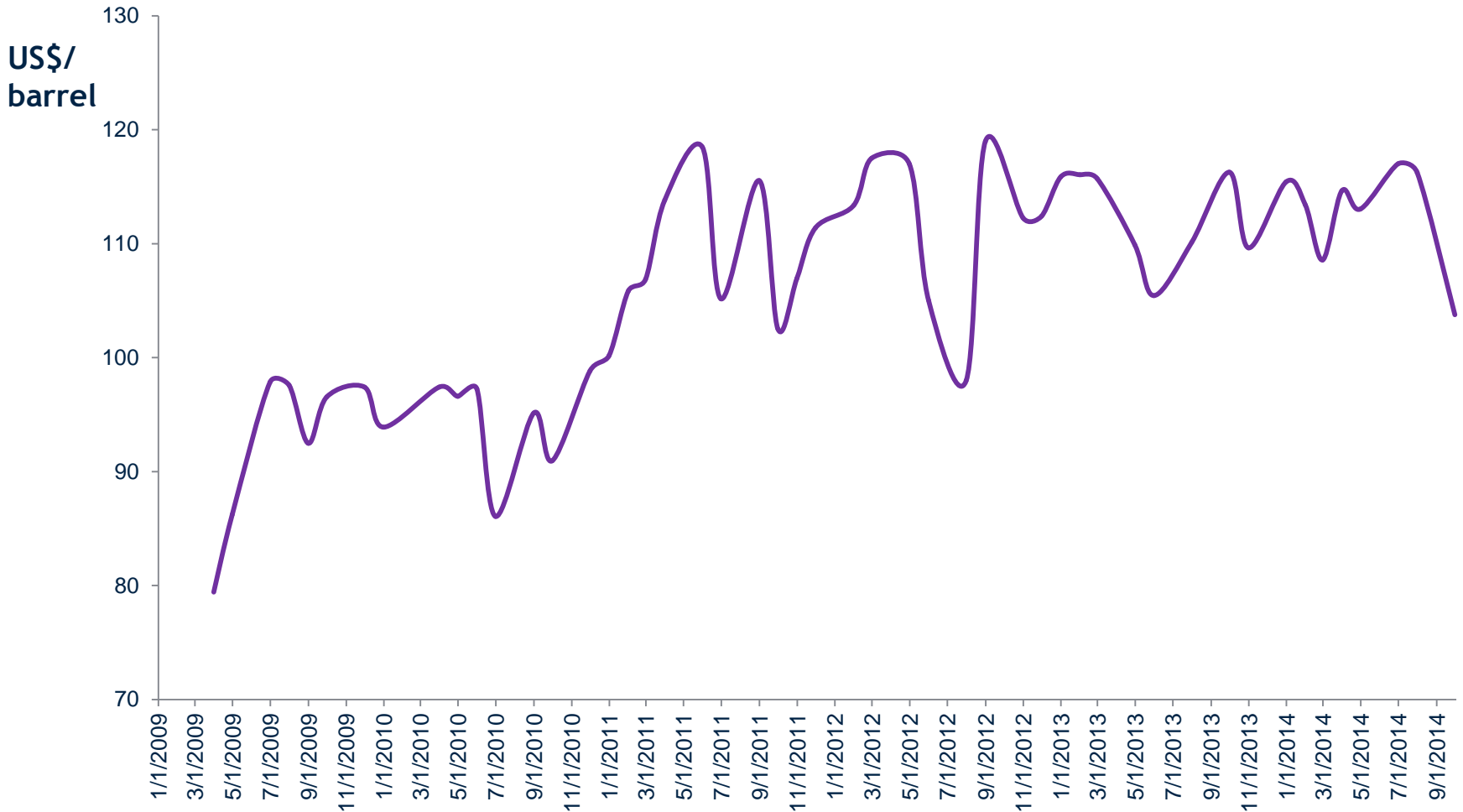


Russia and some neighboring countries are slowing as past drivers of strong growth have largely run their course. In Russia, geopolitical tensions and an uncertain policy environment are casting the longest shadow on Russia's medium-term prospects.

Russia's investment and GDP growth were declining before the recent turmoil



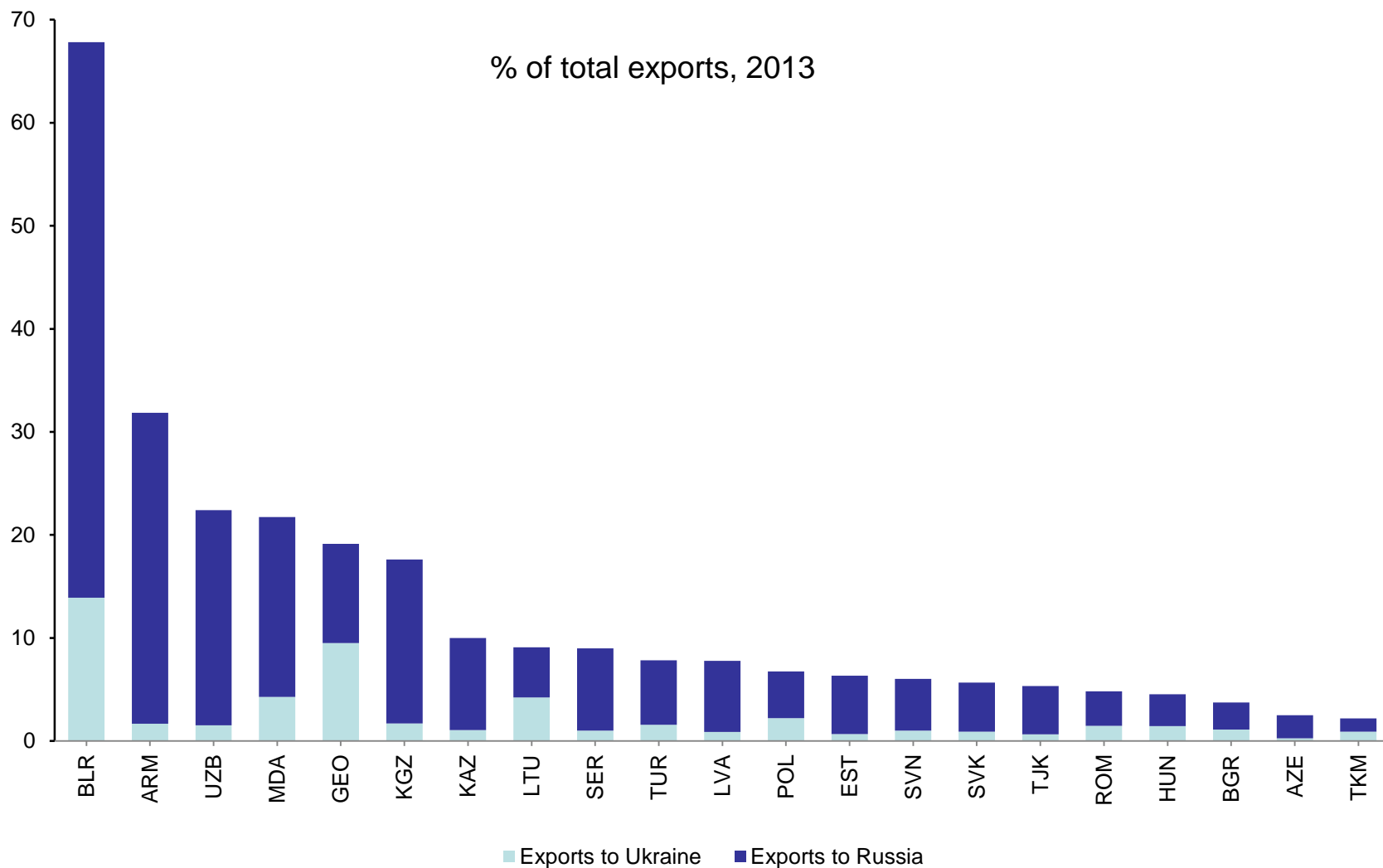
While stable to recently declining oil prices have not been a big boost to the Russian economy or CIS energy exporters over the last year



Source: Bloomberg

Note: Russian domestic crude oil Volgo-Uraltic 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



Bottom-Line...

- 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.

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Thank you!