

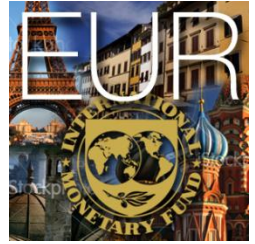
NBRM conference 20 years Monetary Independence

Challenges for Southeastern Europe



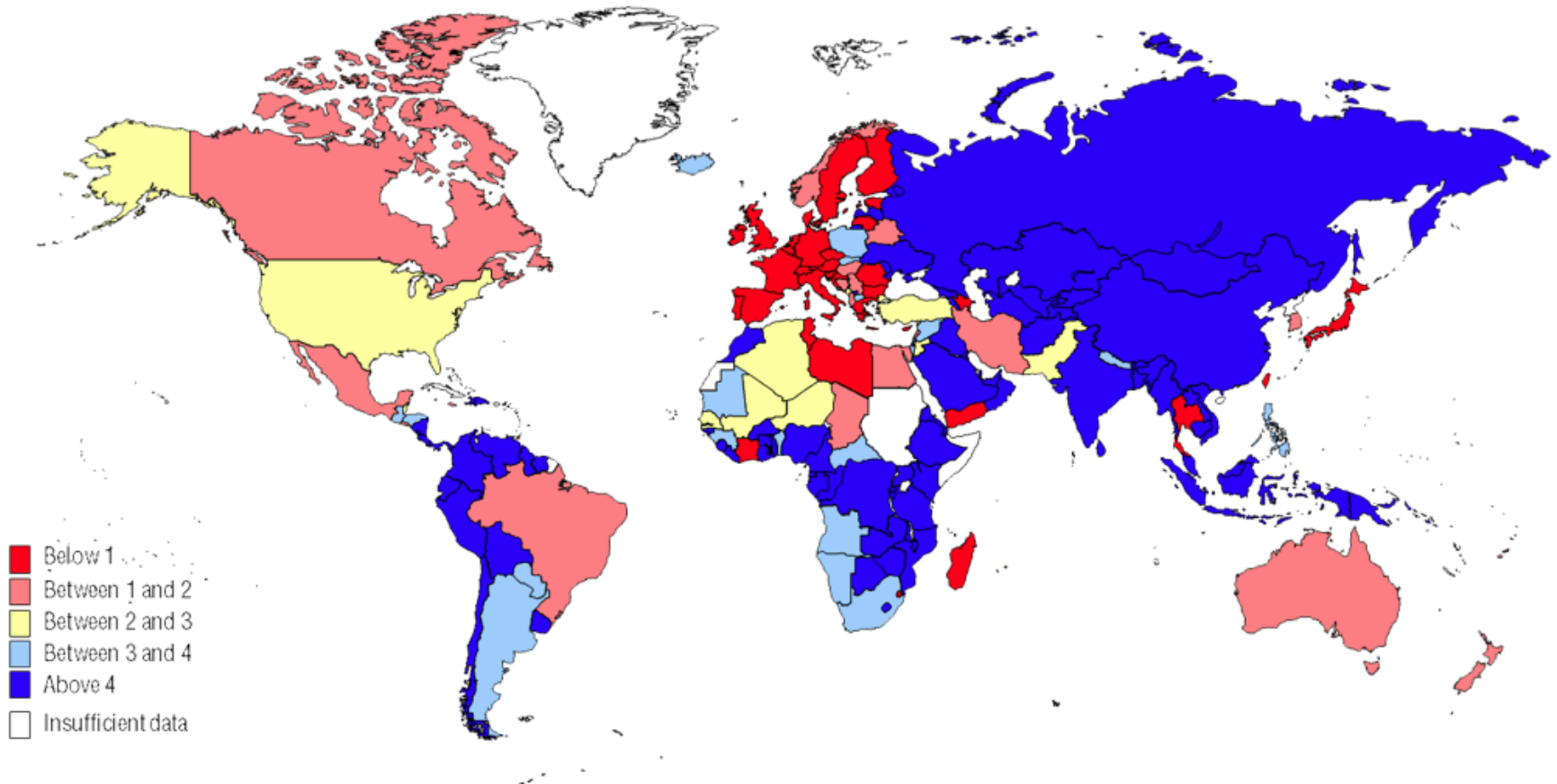
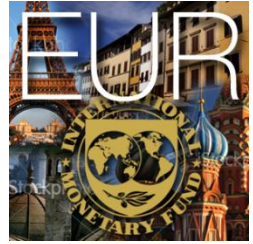
Alexander F Tieman
IMF Resident Representative
European Department
27 April, 2012

Overview



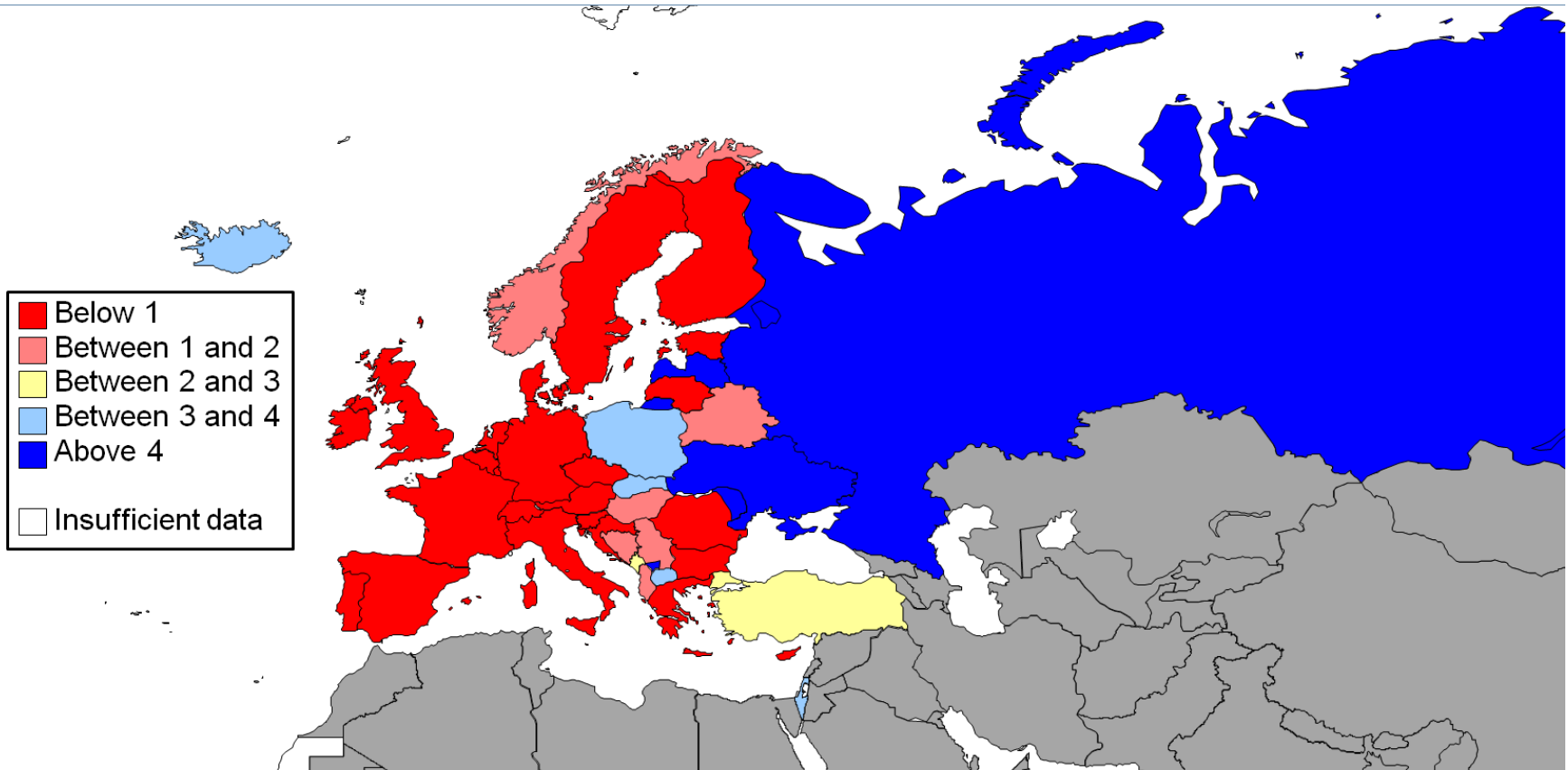
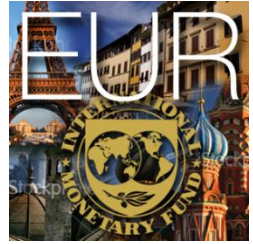
- **Where are we now?**
- **Where are we going?**
- **Risks**
- **Policy challenges**

Where are we now? Output Growth 2011Q4

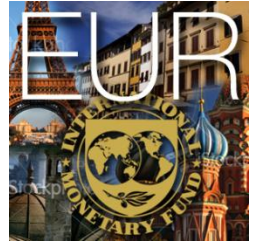


Where are we now?

Output Growth 2011Q4

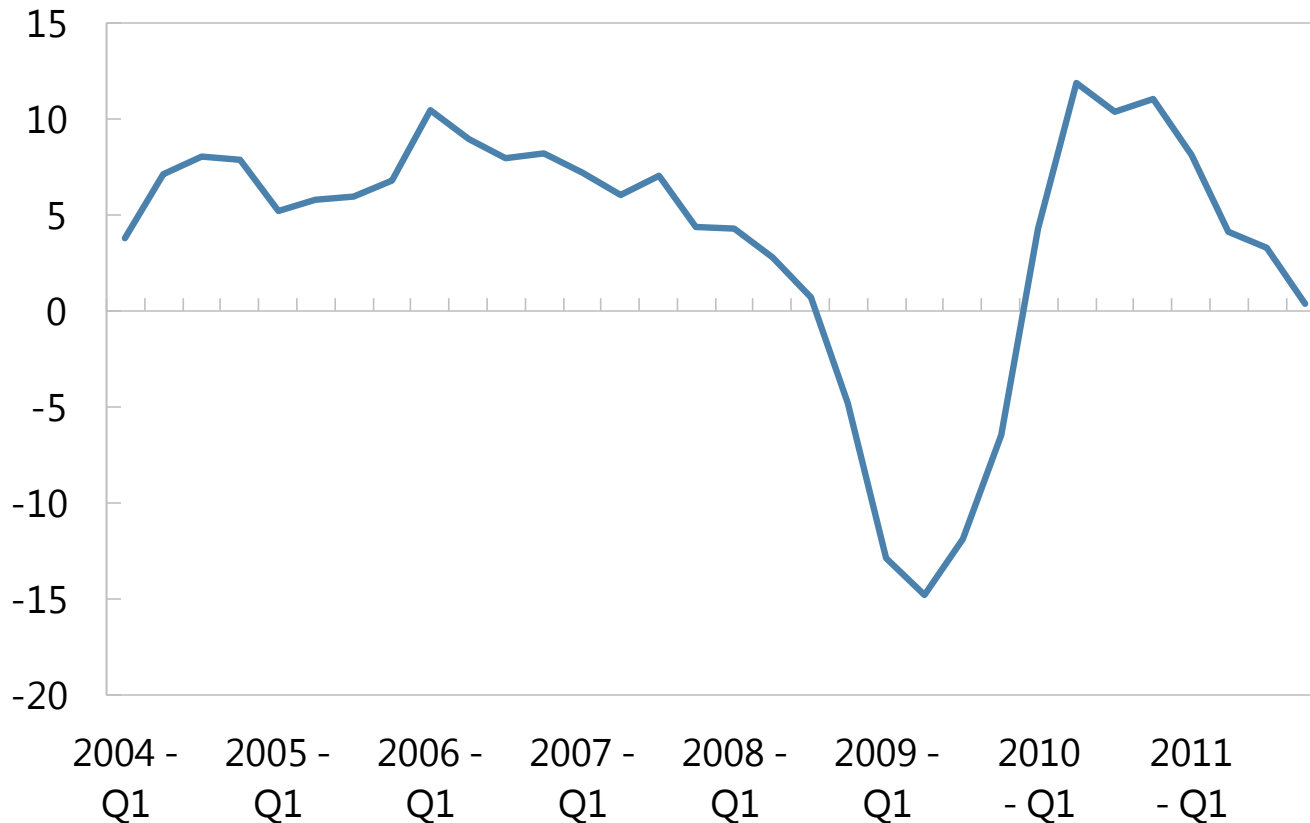


2011H2: Growth slowdown, due to Euro area slowdown



Euro area: real imports of goods and services

(y/y, percent)



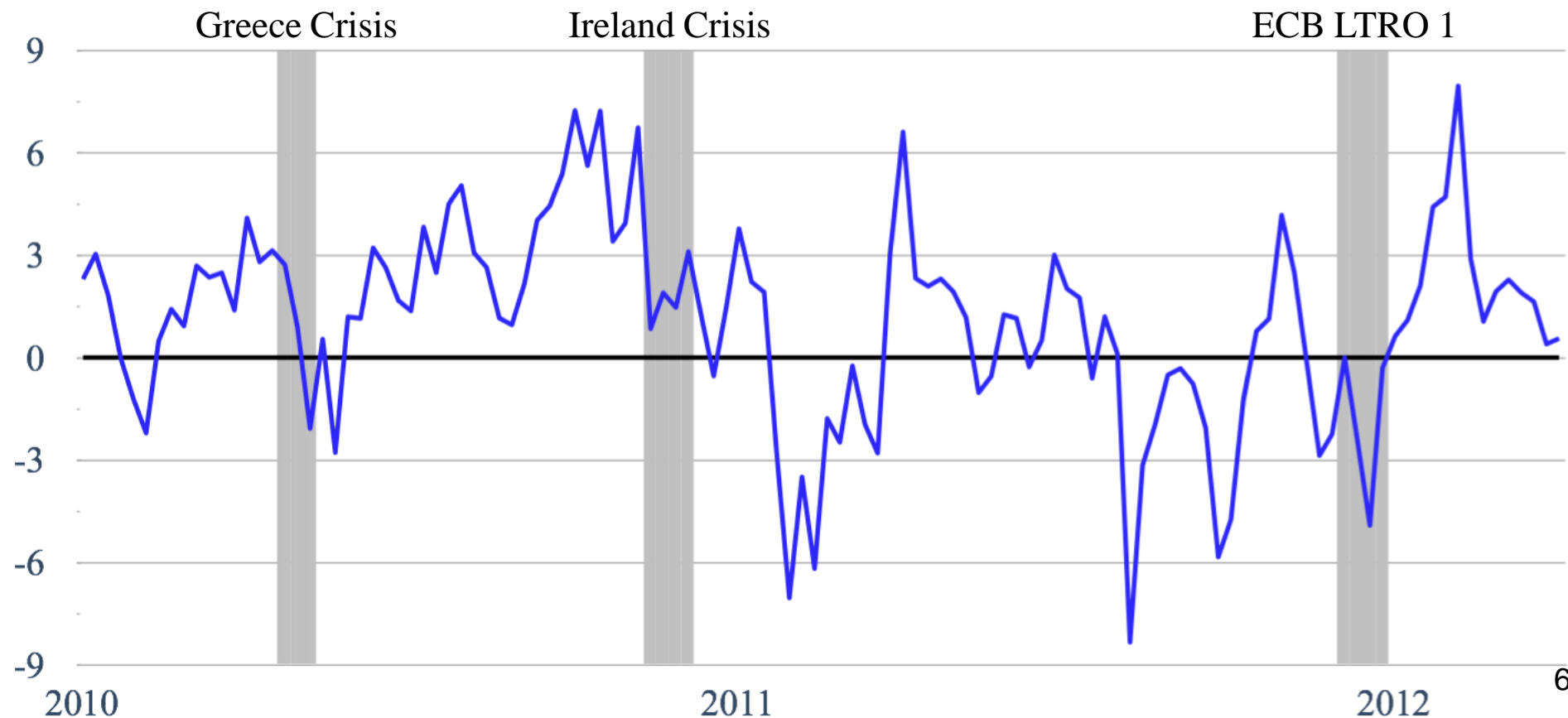
Sources: Haver Analytics

Capital flows to Emerging Markets have also slowed, both worldwide....



Capital Flows to Emerging Markets and Developing Economies

(billions of U.S. dollars; weekly)



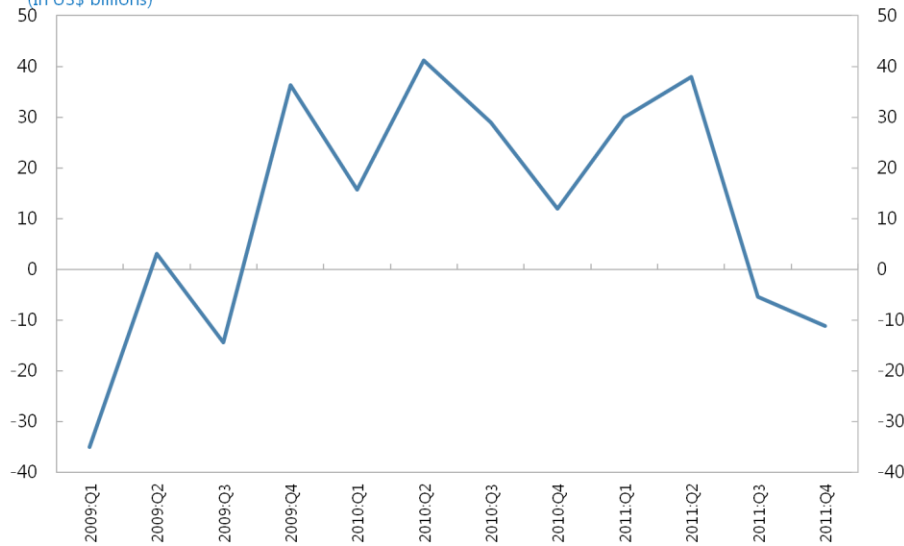
...and to Central, Eastern, and Southeastern Europe (CESEE)....



Capital inflows turned negative...

CESEE: Net Capital Inflows, 2009:Q1-2011:Q4

(In US\$ billions)

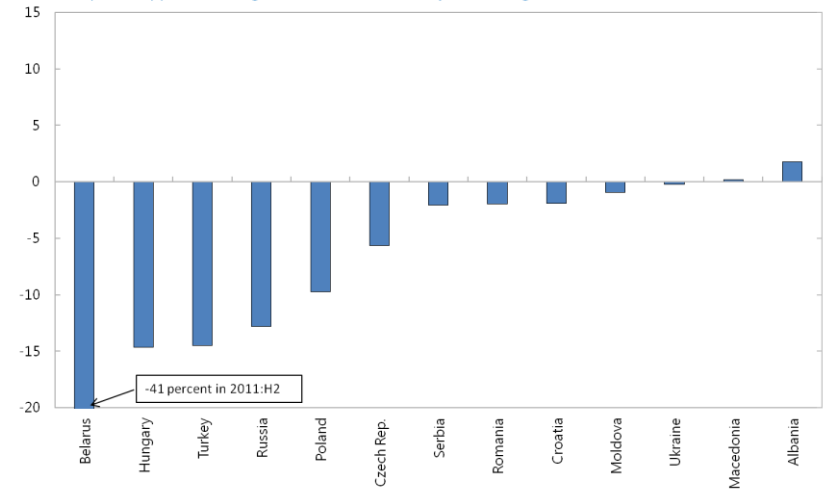


Sources: Haver Analytics; and IMF staff calculations.

... and exchange rates came under pressure

CESEE: Exchange Rate Developments in 2011:H2

(Percent; plus = appreciation; against euro, but for Turkey and CIS against US\$)



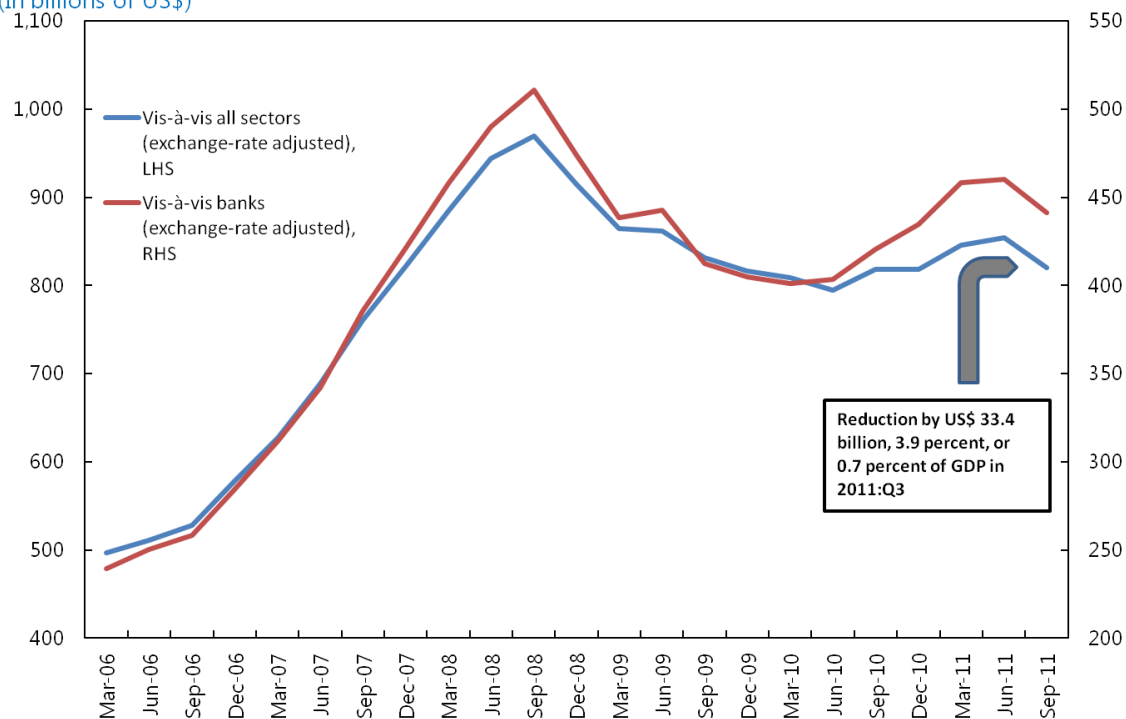
Sources: Haver Analytics; National Bank of Albania; National Bank of Moldova; and IMF staff calculations.

...with Western European banks reducing their exposure to the region in 2011Q3 (and likely in Q4)



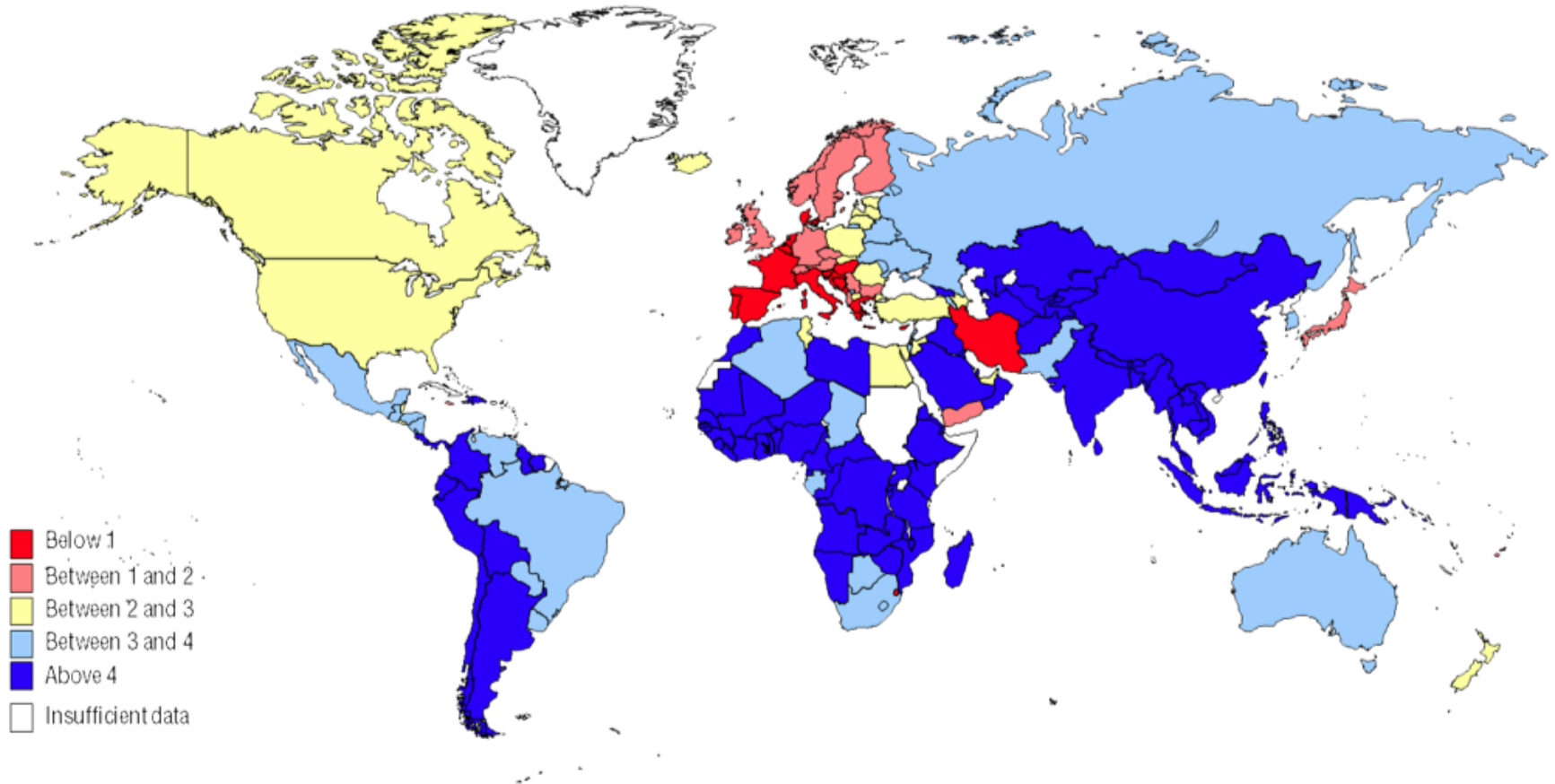
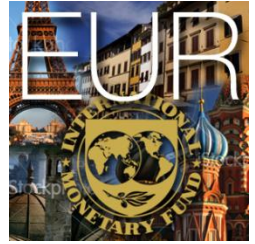
Exposure of BIS-Reporting Banks to CESEE, 2006-2011:Q3

(In billions of US\$)

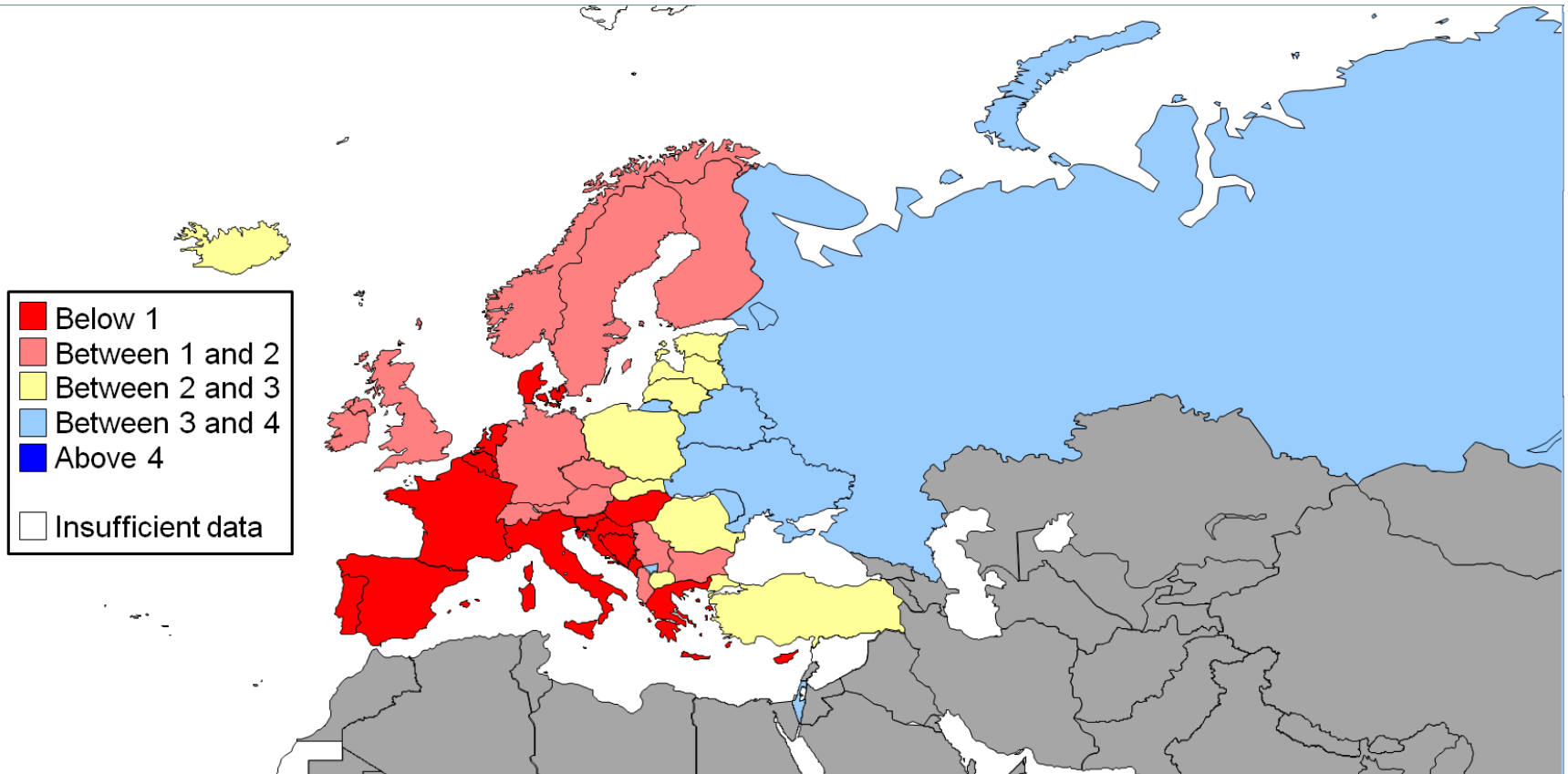
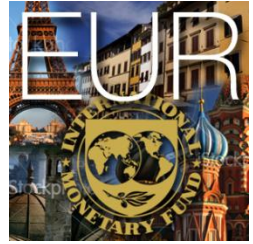


Sources: BIS, Locational Banking Statistics; and IMF staff calculations.

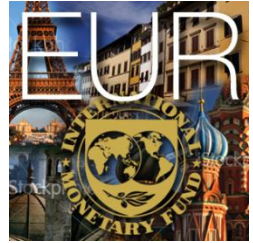
Where are we going? Output Growth 2012-13



Where are we going? Output Growth 2012-13



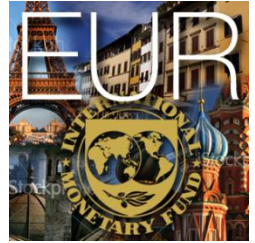
The External Environment for CESEE in 2012 is difficult, with the euro area in recession



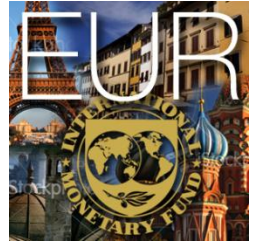
External pressures eased somewhat from late 2011, but:

- The euro area is in a mild recession, with GDP declining 0.3 percent.
 - Weak activity in euro area reflects the sovereign debt crisis, weak confidence, fiscal consolidation needs, and bank deleveraging
- Western European banks are deleveraging, which is reducing capital flows to, and credit growth in, emerging Europe

Main Risks –Euro area crisis (and oil)



Main Risks – Feedback loop



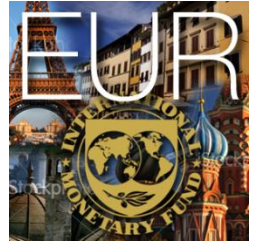
GROWTH



FISCAL

BANKS

Policy Challenges: Multilateral efforts are important...



- Multilateral efforts to resolve the euro area crisis;
- Coordination to reduce spillovers to CESEE (Vienna 2.0);
- IMF/EU-supported programs as backstops

...but with risks of spillovers from euro area, domestic policies will need to be prudent.



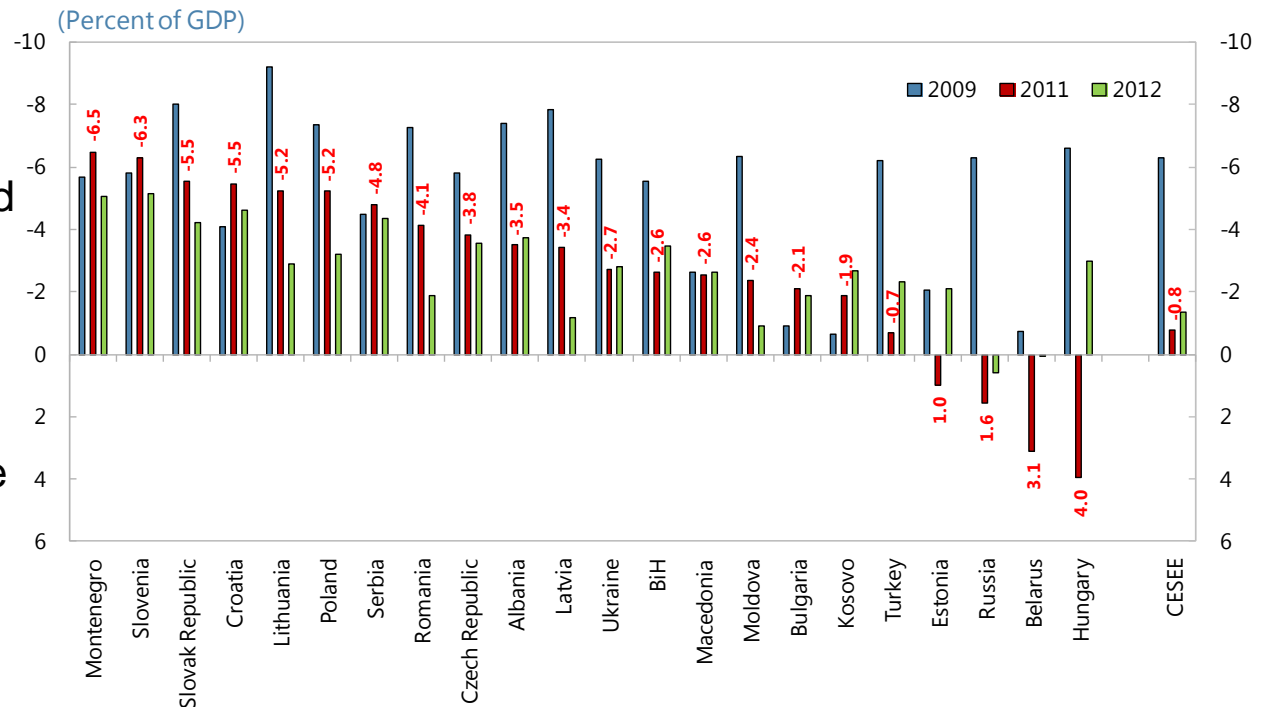
- Volatile times put a premium on prudent domestic policies
- Persistent efforts to reduce stock vulnerabilities over time
 - **Fiscal** area: lasting consolidation; improving debt profiles; pre-financing
 - **Financial** sector: developing alternatives to parent-bank funding; close monitoring of financial soundness and funding pressures; enhancing crisis management tools; resolving NPLs; reducing fx lending
- With CESEE economies stabilized, focus shifts to growth enhancing structural reforms (e.g., Romania and Serbia programs)

Fiscal: Repair of public finances remains work-in-progress



- Much progress has been made in bringing down deficits since 2009
- Countries with still elevated deficits plan further consolidation in 2012
- Nonetheless, 9 countries will still have deficits above 3 percent of GDP and public debt will exceed 50 percent of GDP in 6 countries in 2012
- Overall, the region is falling back further compared to other emerging economies in fiscal vulnerabilities

CESEE: General Government Balance, 2009, 2011, 2012



Source: IMF, WEO database.

Note: General government overall balance is as defined by WEO and corrected for policy lending where available; net lending/borrowing is used elsewhere. Hungary's 2011 surplus reflects transfers of private pension fund assets. Belarus' balance is before bank recapitalization costs and excludes substantive quasi-fiscal operations.

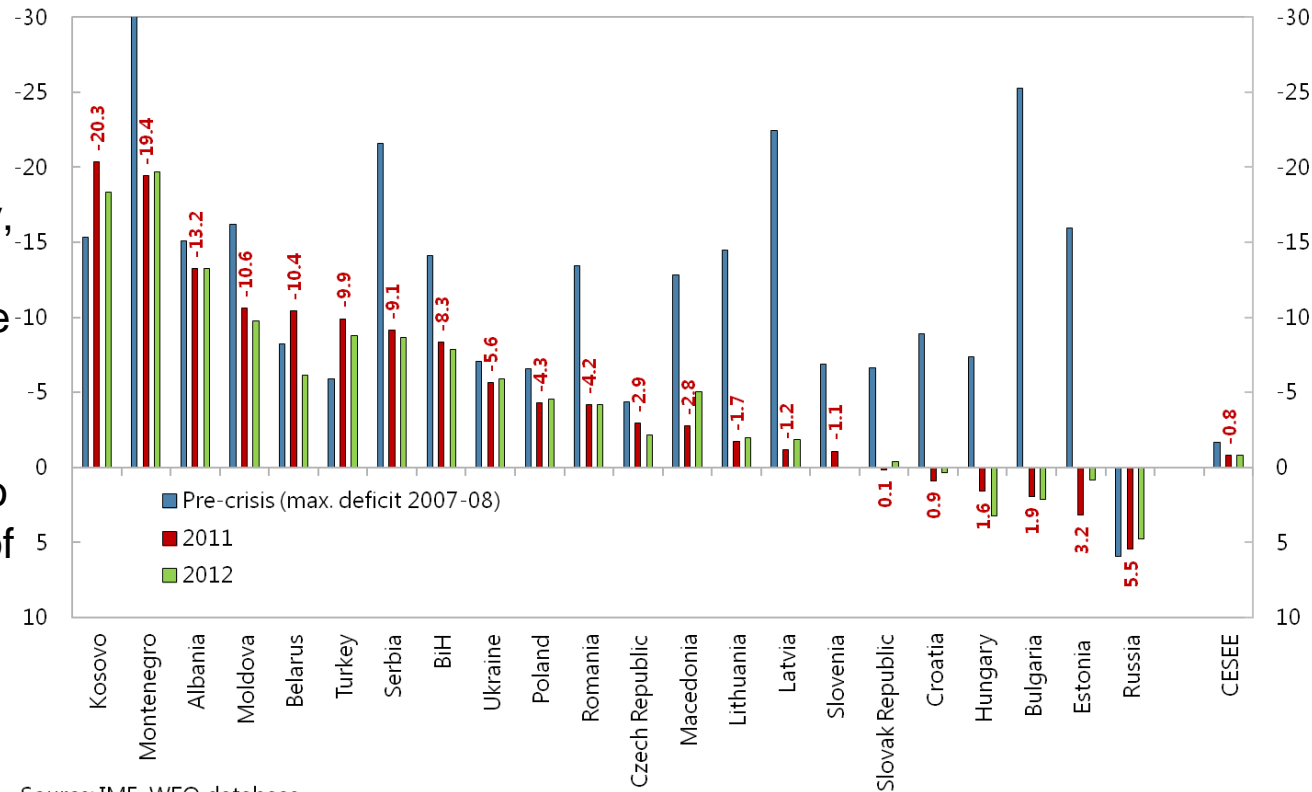
External: flow vulnerabilities have eased but stock vulnerabilities remain



- Pre-crisis external imbalances have largely corrected
- However, large current account deficits in Turkey, as well as several Balkan countries, remain a cause for concern
- External debt projected to still exceeds 75 percent of GDP in 8 countries in 2012. Gross external financing needs are accordingly high

CESEE: Current Account Deficits, pre-crisis, 2011, 2012

(Percent of GDP)



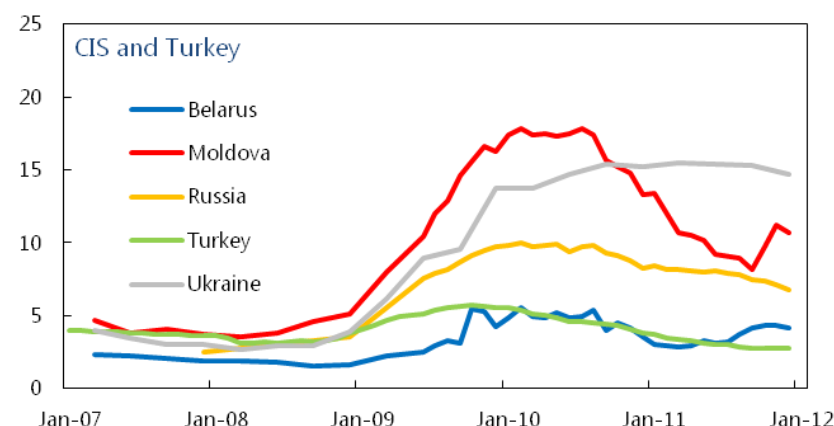
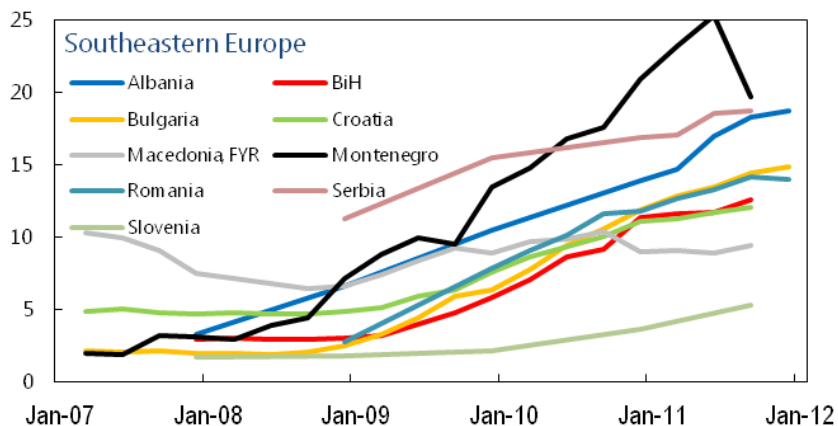
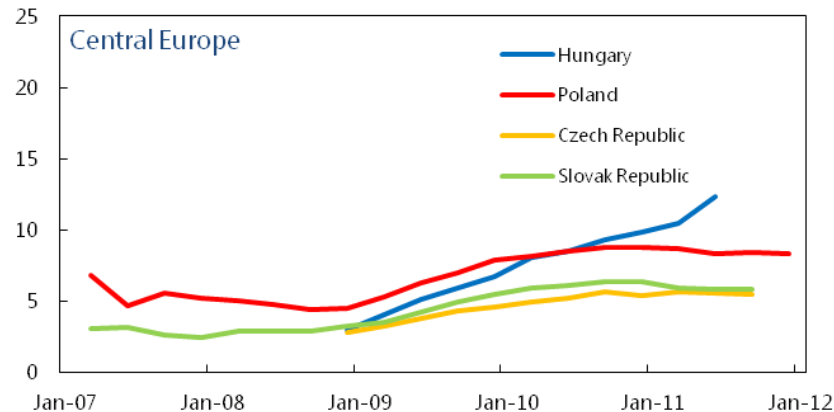
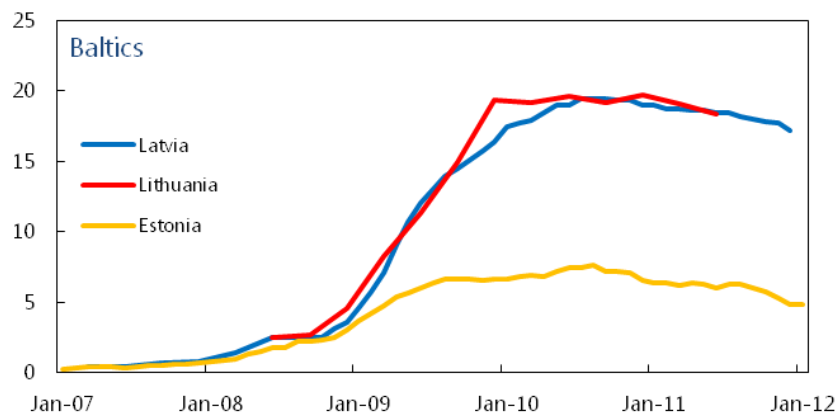
Source: IMF, WEO database.

Note: Montenegro's pre-crisis deficit exceeded 50 percent of GDP.

Financial: Bank sectors in many countries remain burdened by high NPLs



CESEE: Bank NPLs to Total Loans, Jan:2007–Jan:2012*
(Percent)



Sources: Country authorities; IMF country desks; and IMF, Statistics Department.

* Data are not fully comparable across countries due to differences in national classification practices.

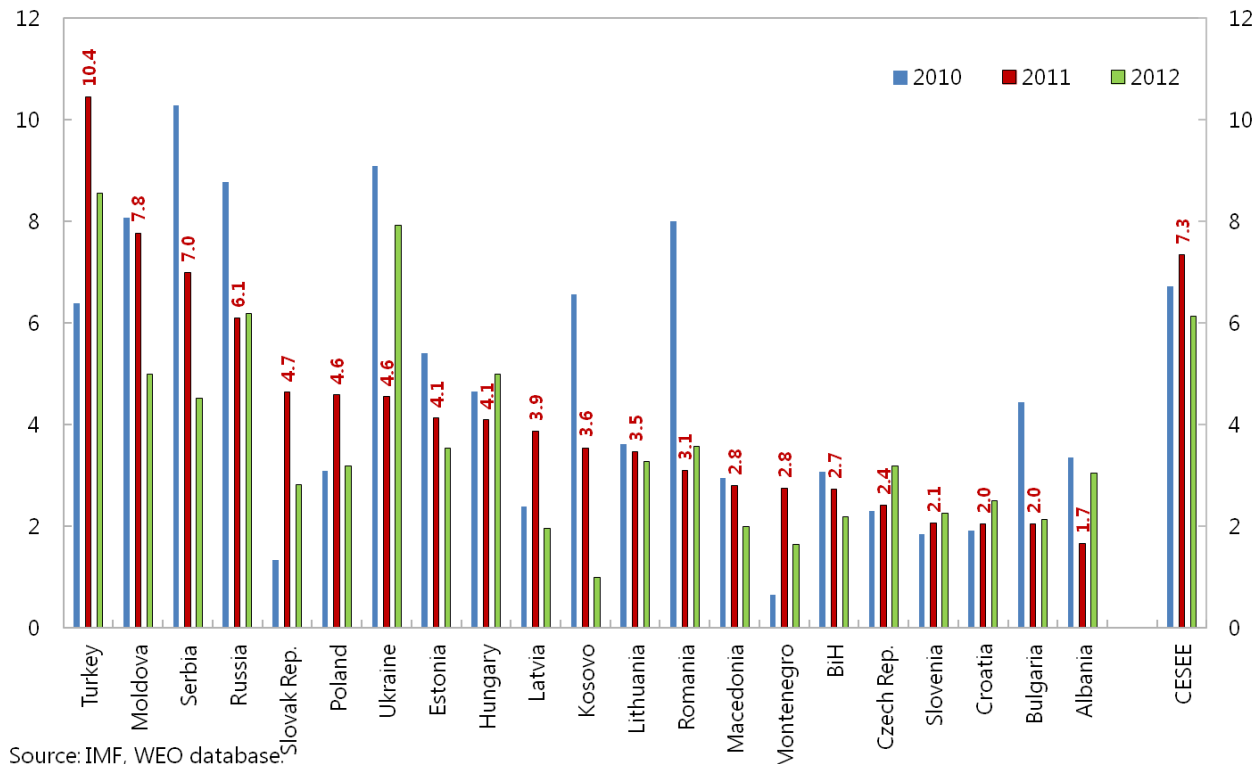
Real: Inflation developments are generally not a prime cause of concern



- Inflation remained contained in most countries reflecting economic slack
- But energy and food prices are key risk

CESEE: Inflation, 2010-2012

(Percent, e.o.p.)



Source: IMF, WEO database.

Note: Belarus not shown, but included in regional average. Inflation was 109 percent in 2011 and is projected to decline to 38 percent by end-2012.



Thank you!

Questions?

www.imf.org/skopje

