



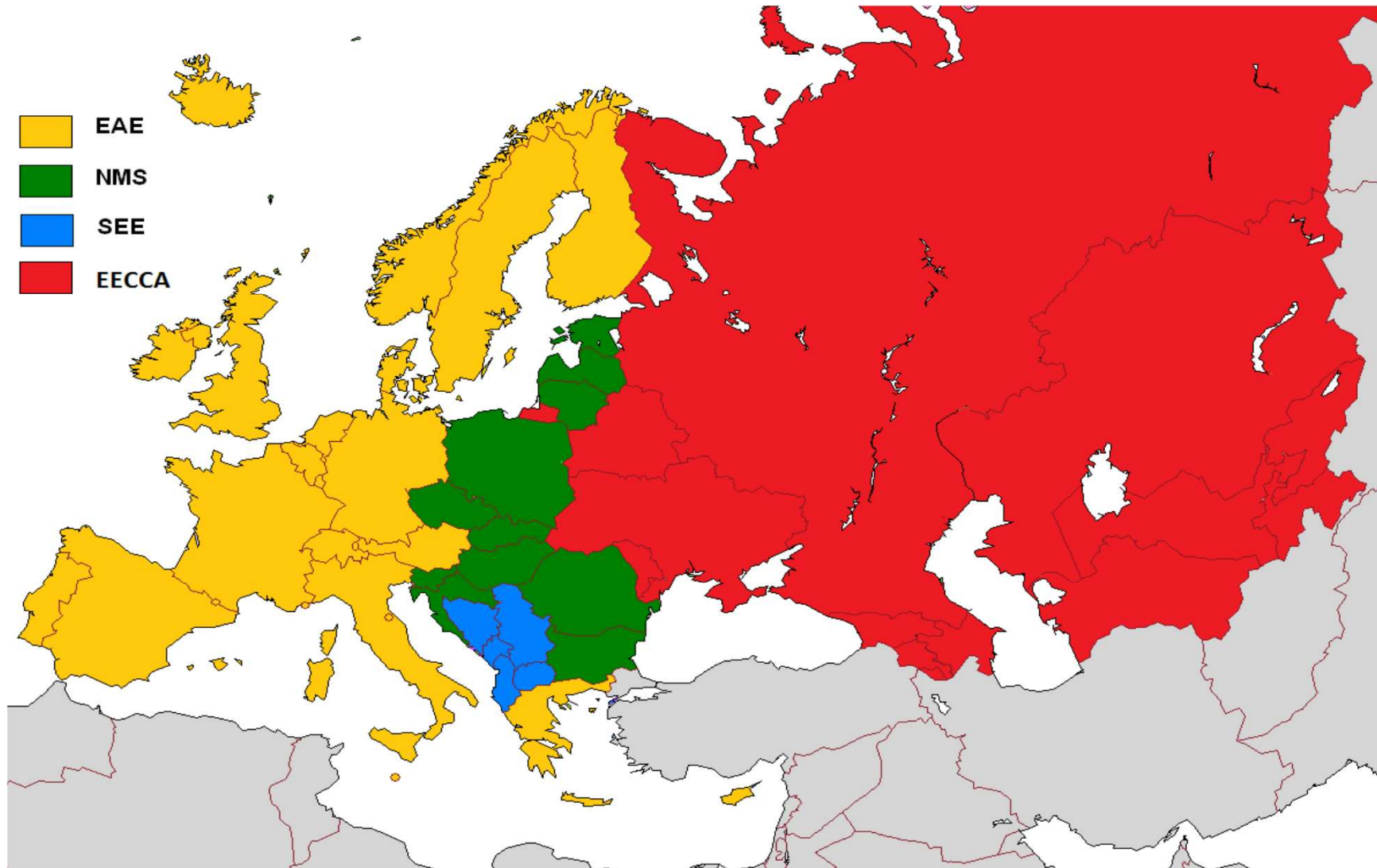
The Economies in Transition
Project LINK Conference
New York, NY
October 2013

Robert C. Shelburne

UN Economic Commission for Europe

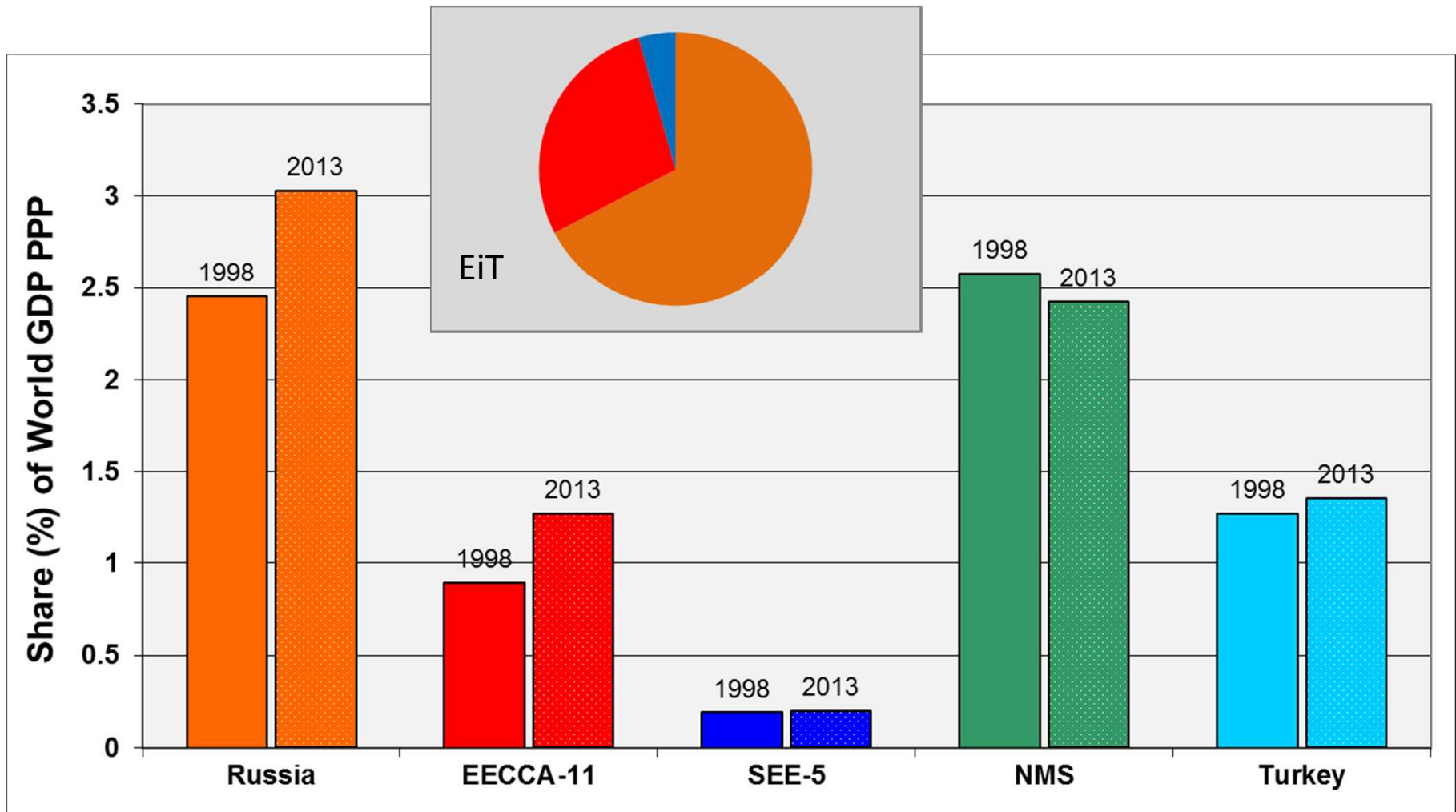


ECE Regions



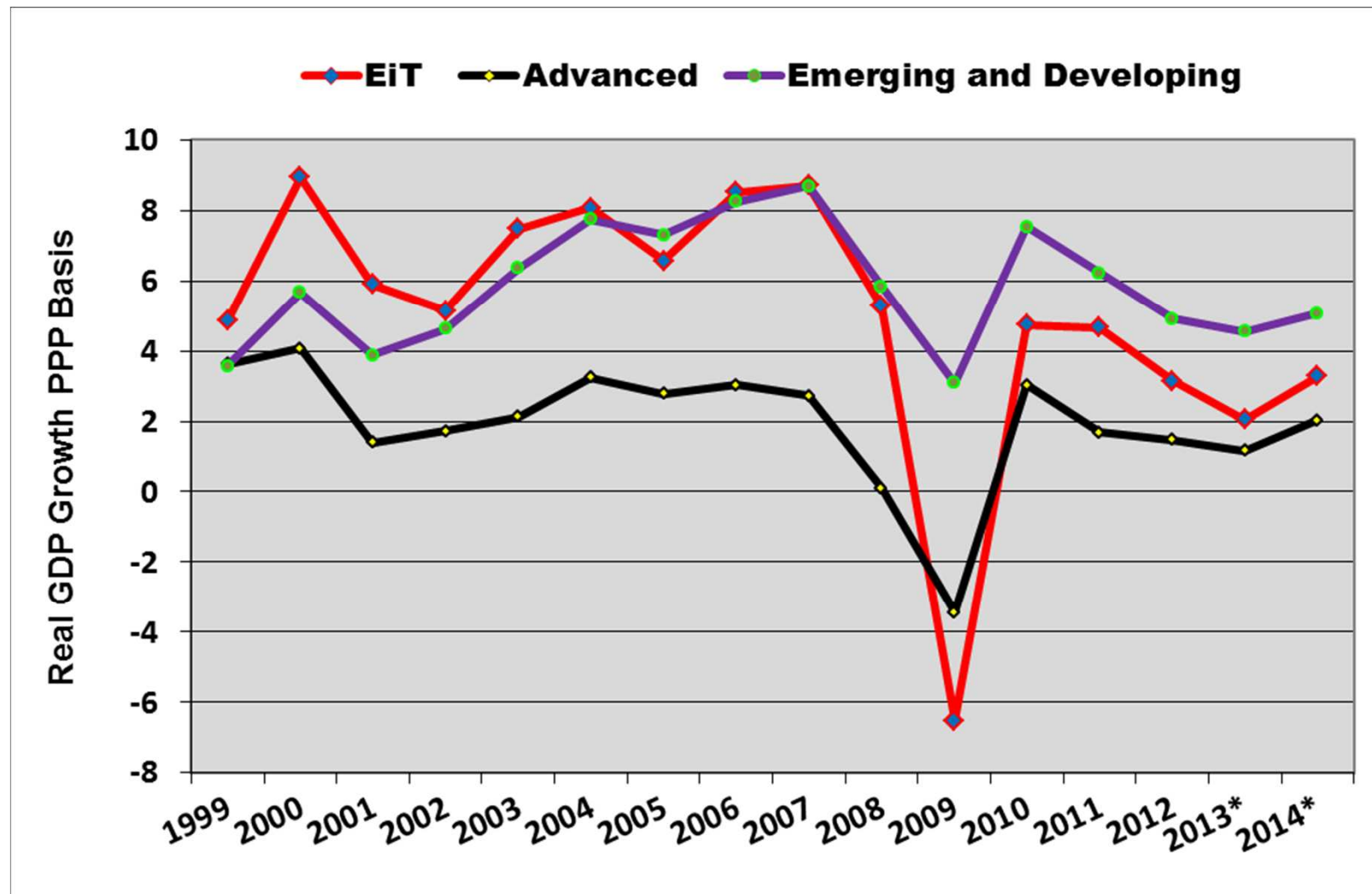


EiT & NMS Shares of the Global Economy





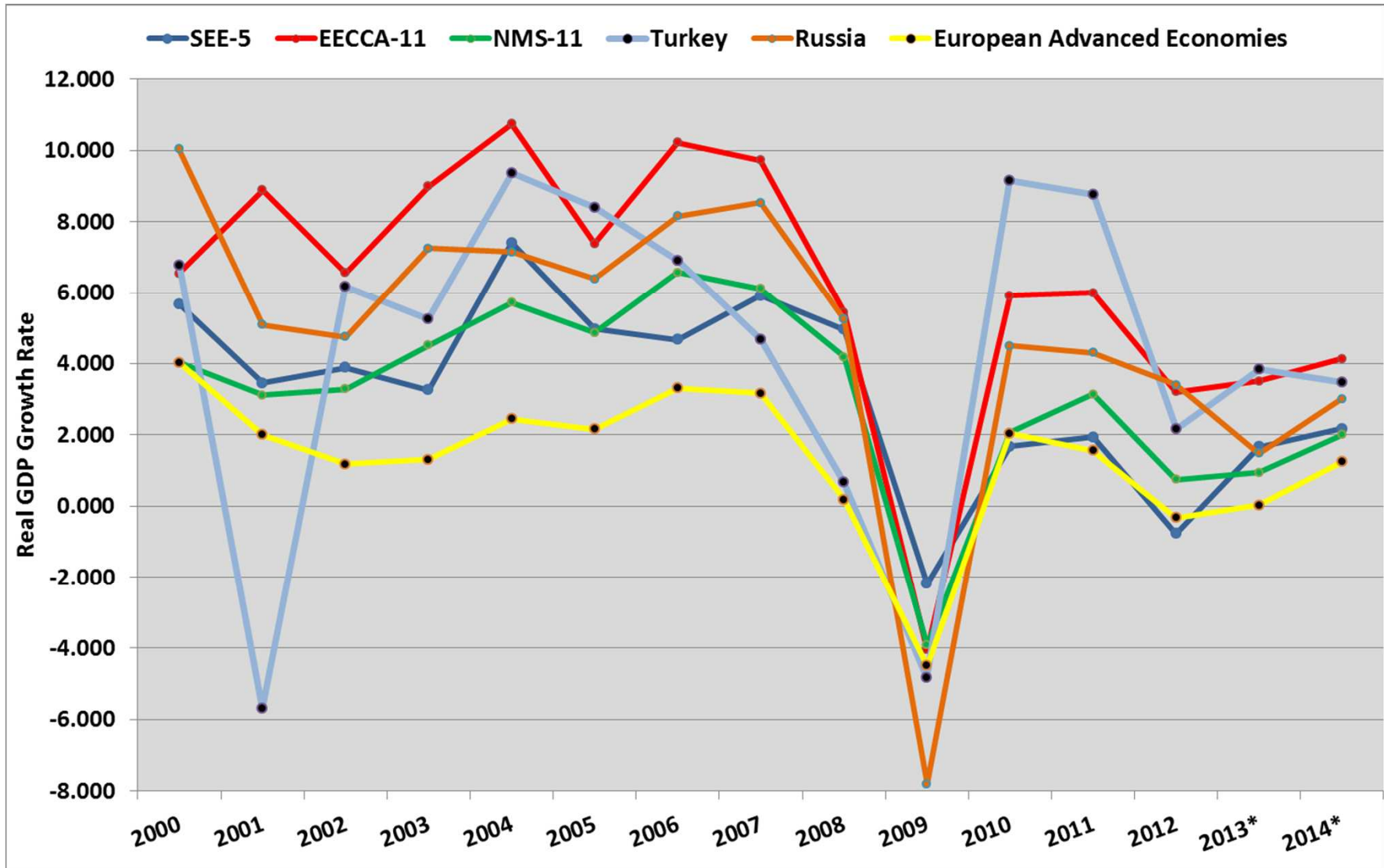
Growth in the EiT is more volatile than elsewhere and its post-crisis medium-run growth has slowed more





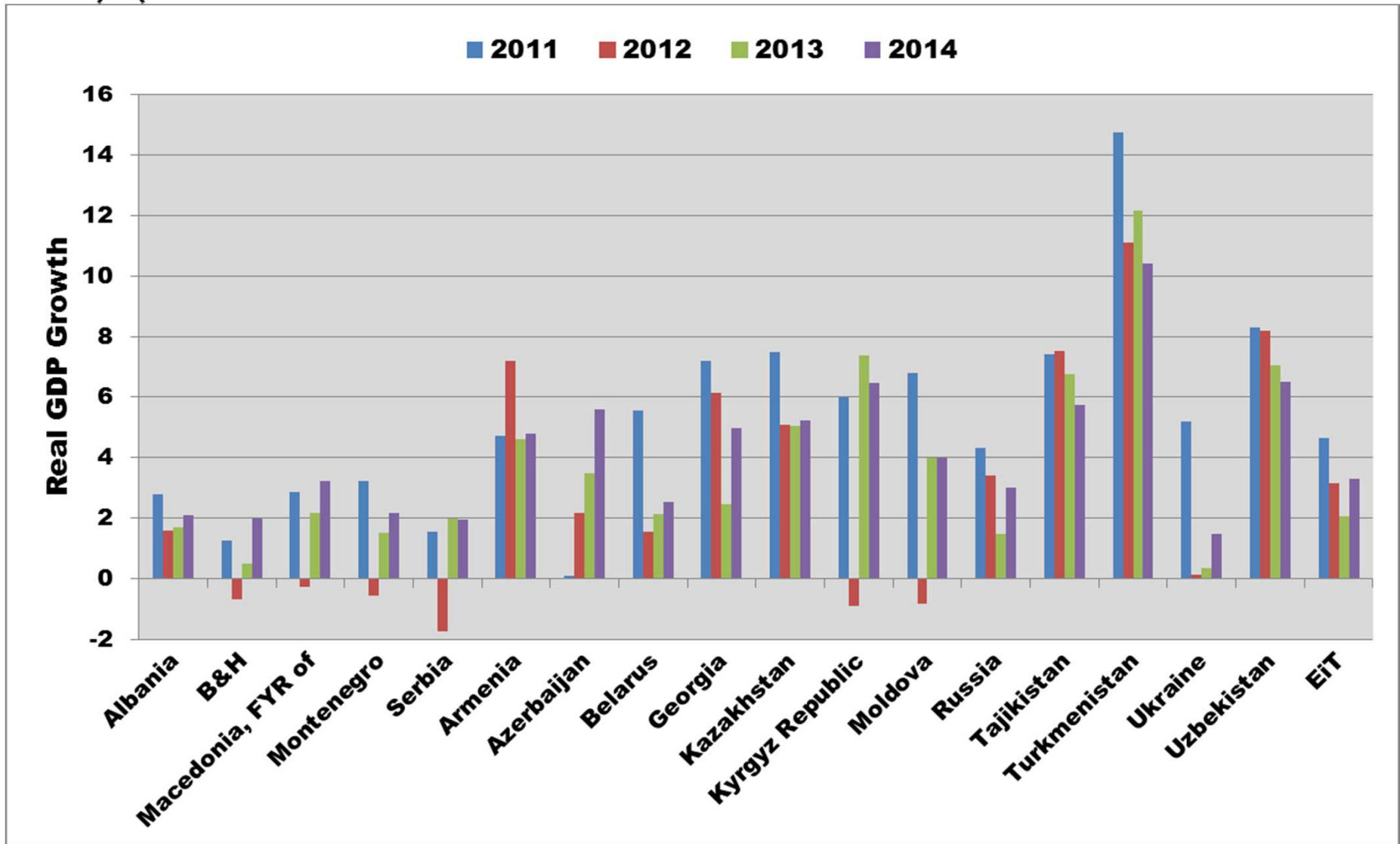
Real GDP growth in the ECE sub-regions

Pre-crisis patterns have returned except at a much lower level of growth



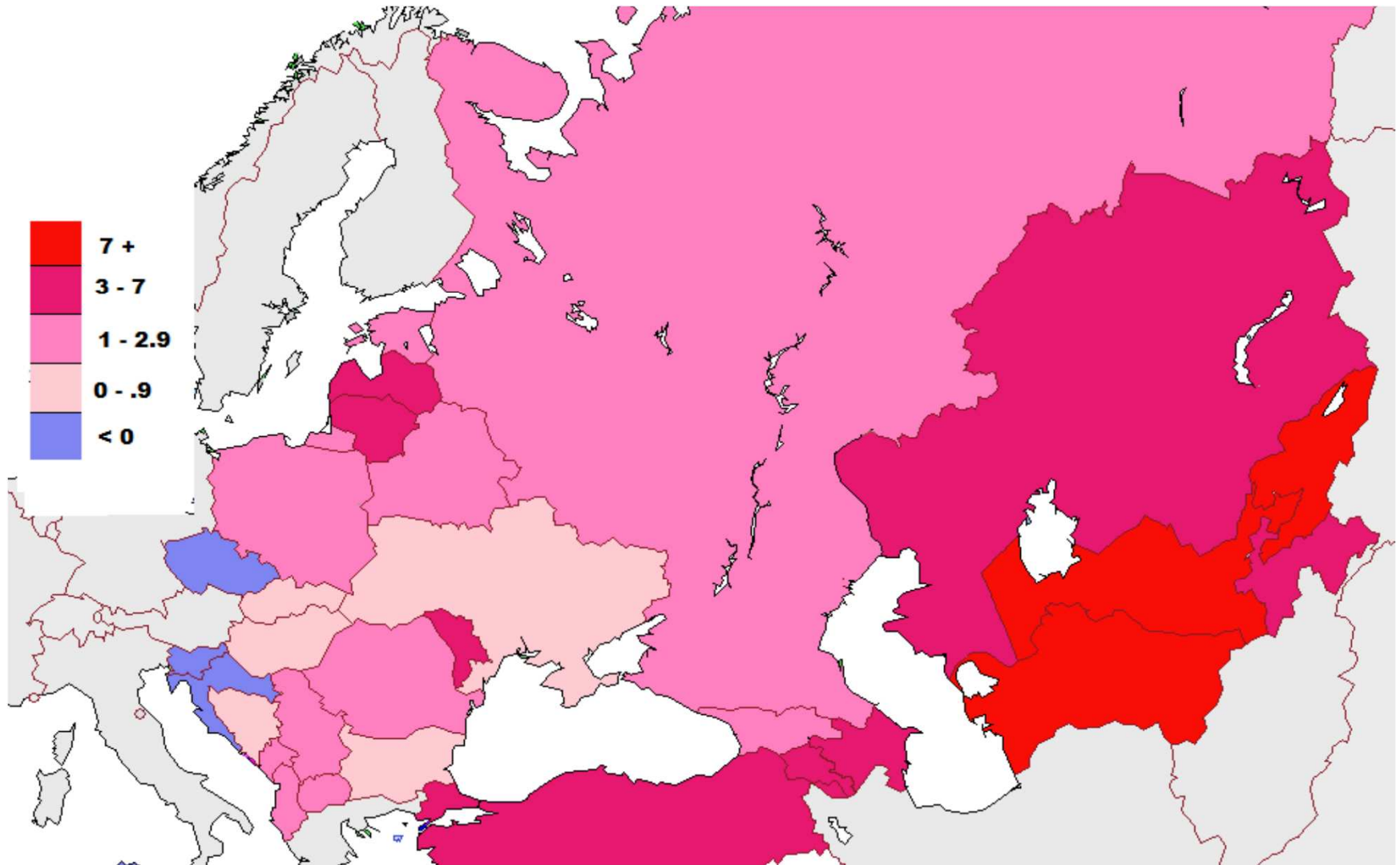


Growth in the EiT, 2011-14



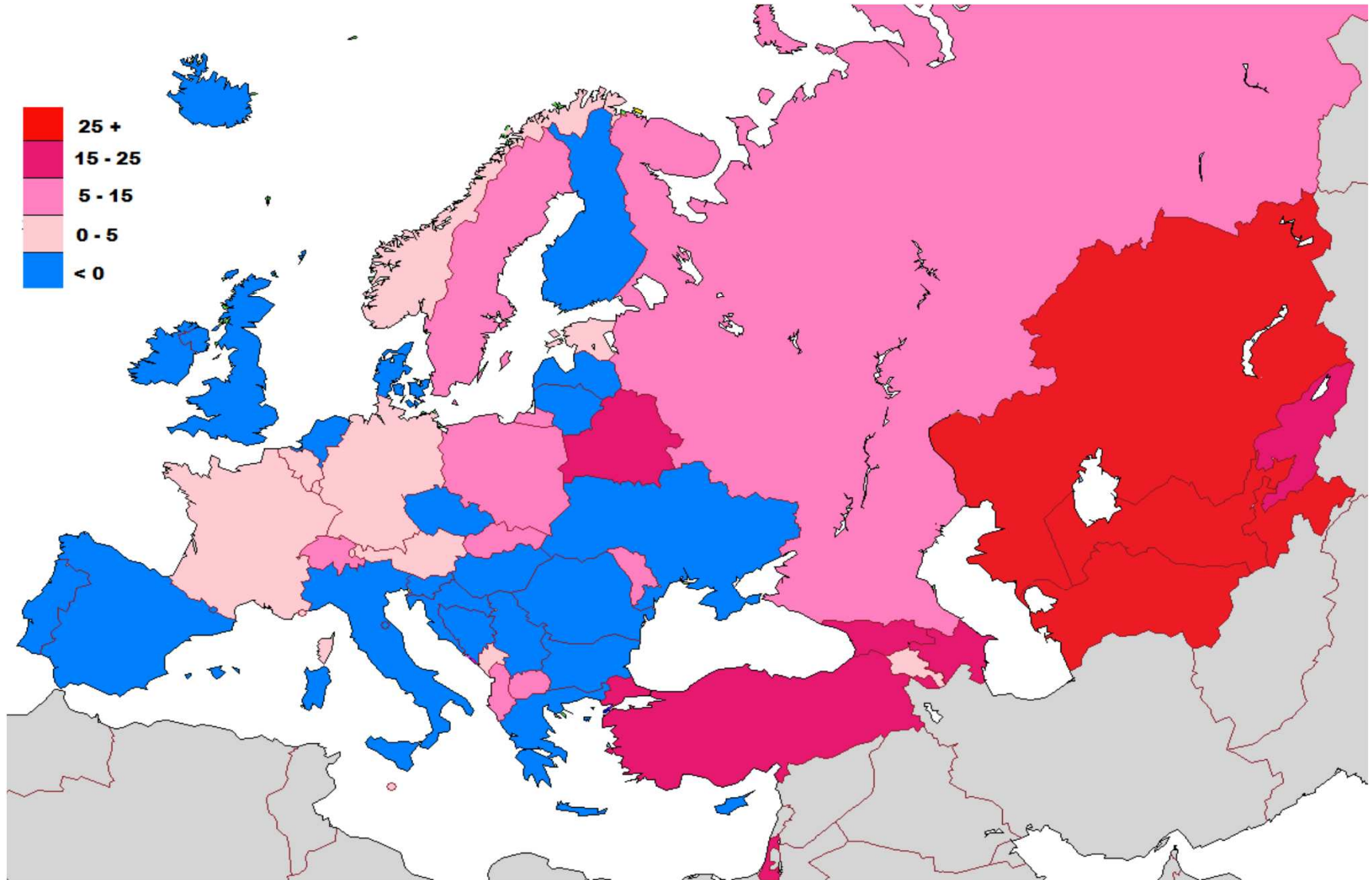


Real GDP Growth in 2013



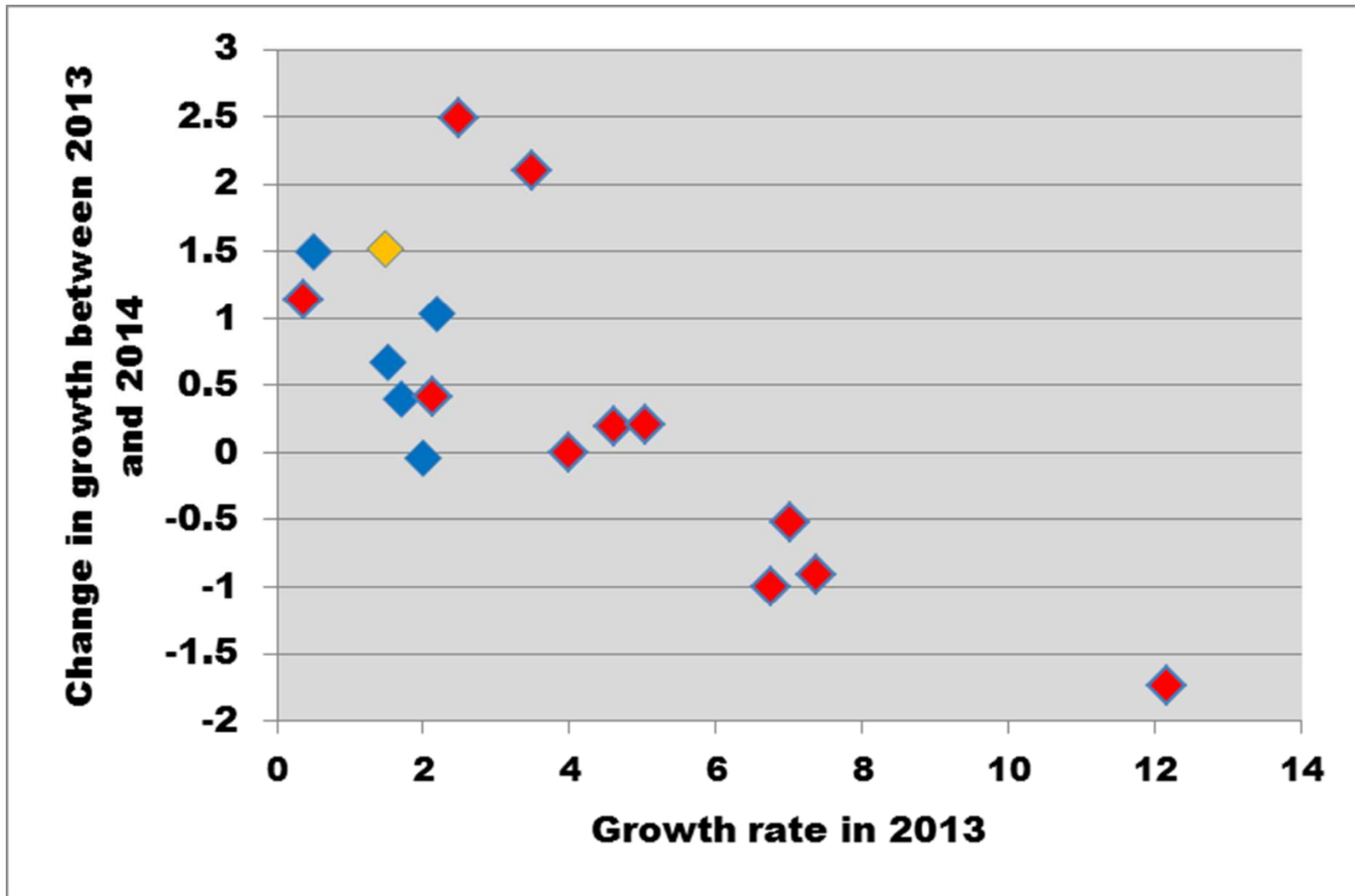


Real GDP Growth 2008-2013



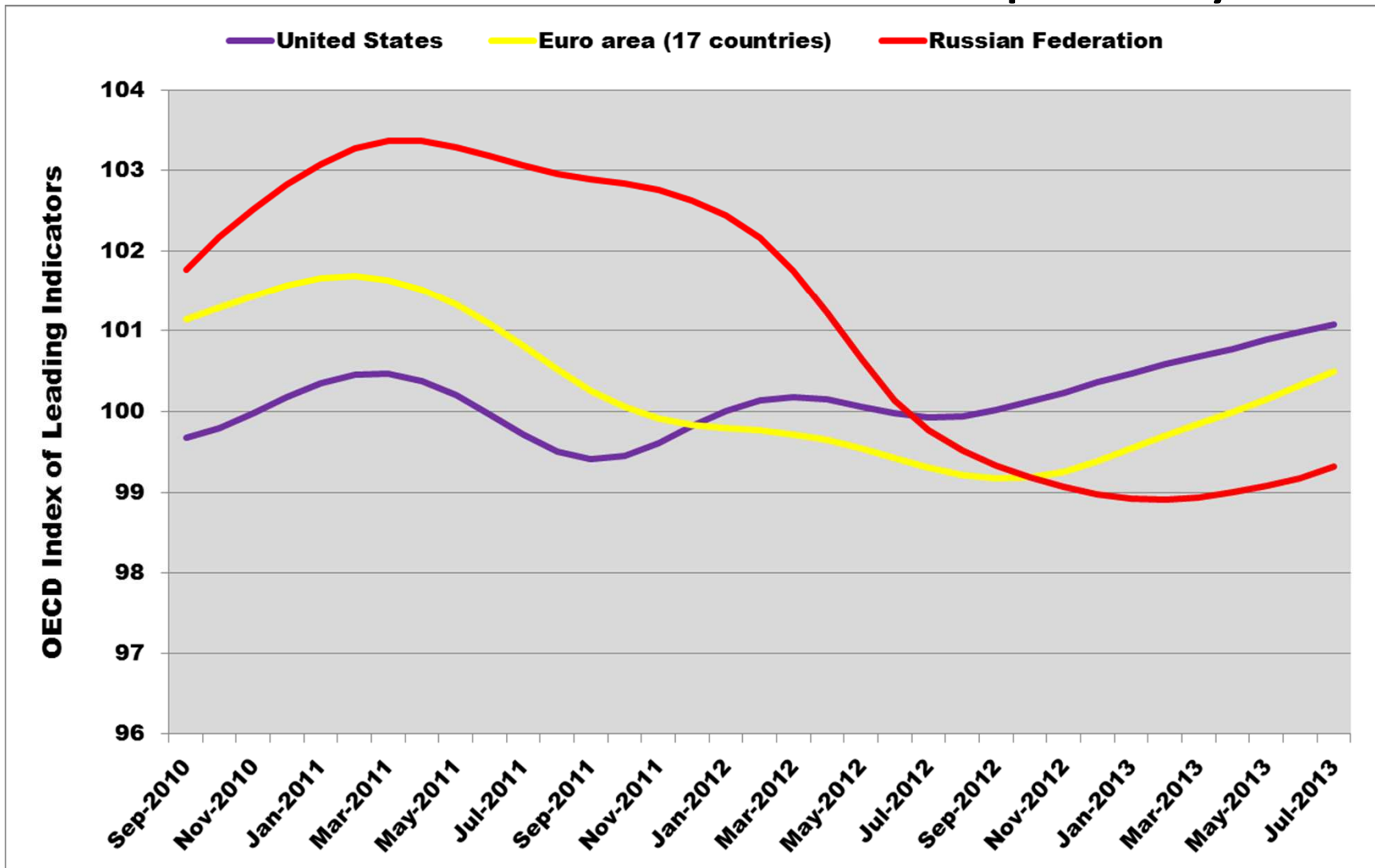


The worse the performance in 2013, the more the improvement in 2014





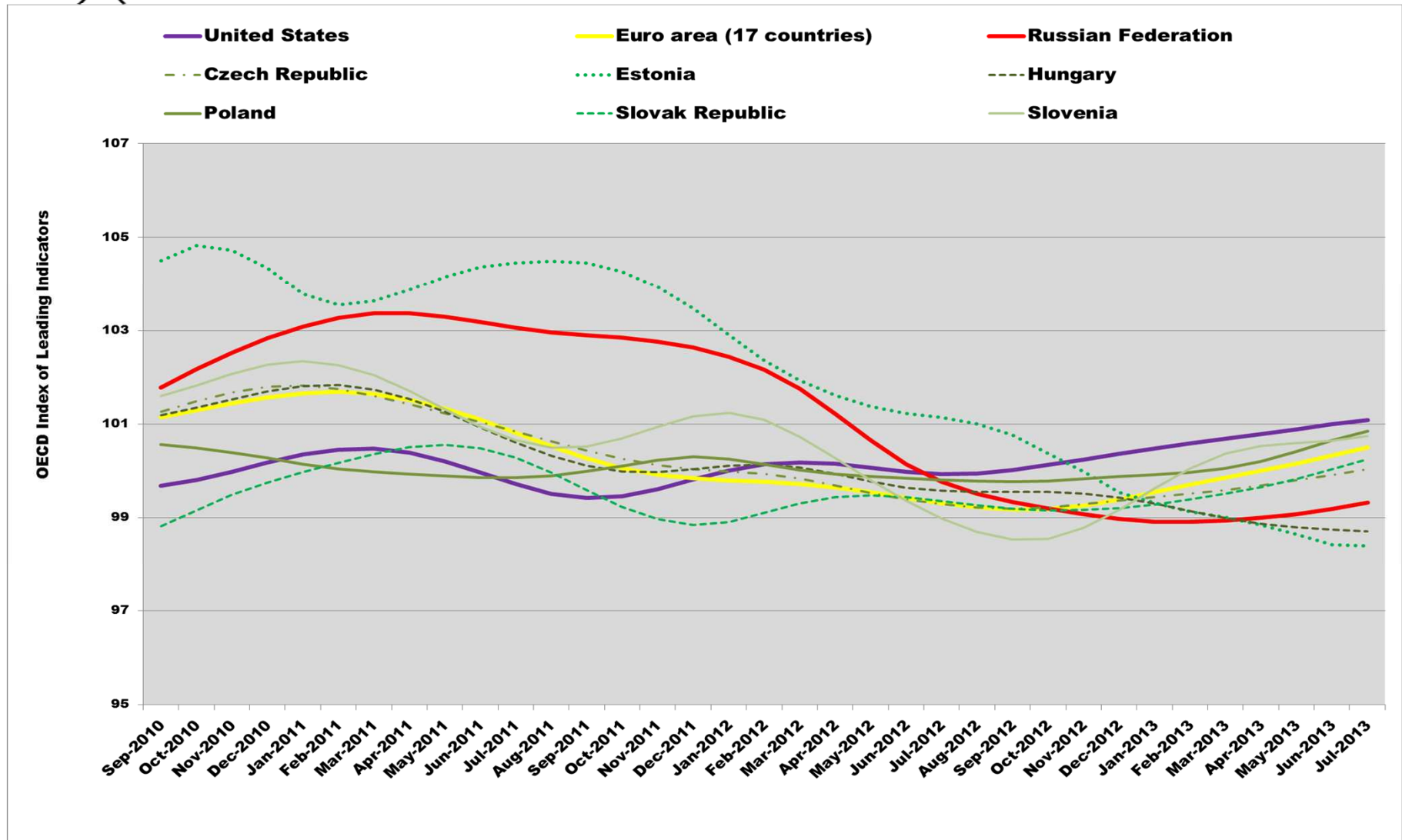
Leading indicators have recently turned down for Eurozone and especially Russia



Source:OECD



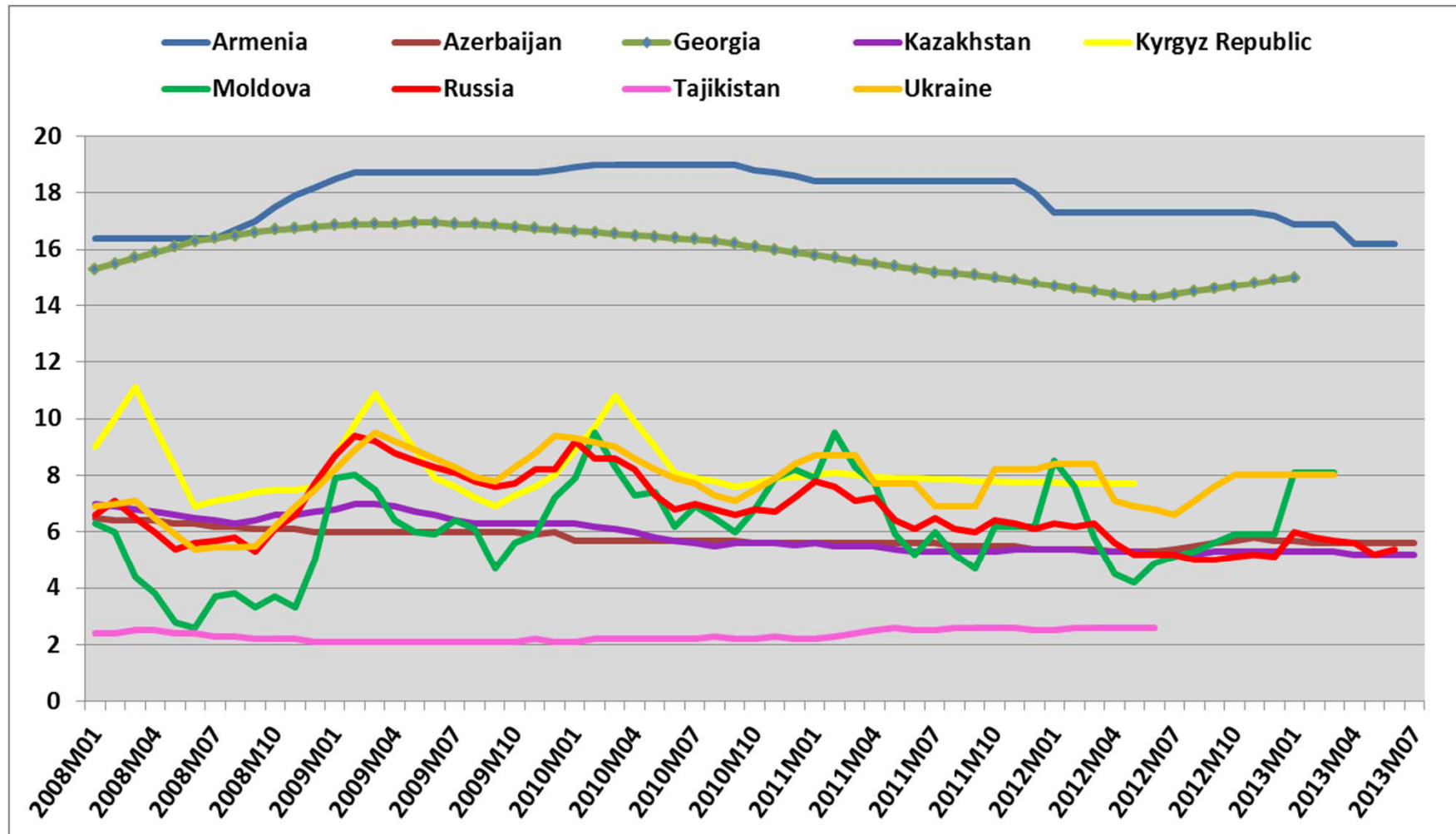
NMS leading indicators vary



Source: OECD



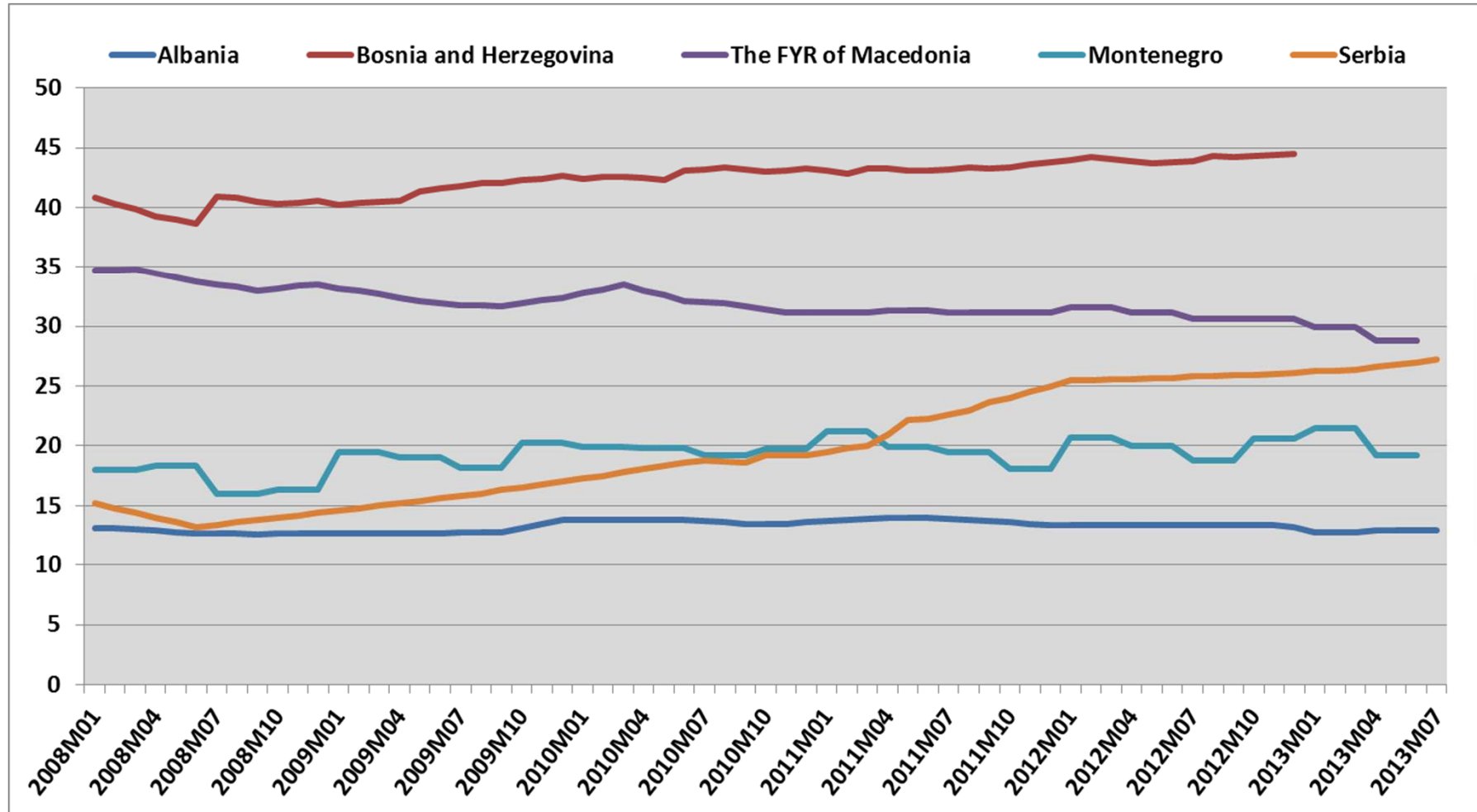
Unemployment in EECCA (CIS)



ECE estimates, cross-country comparisons should not be made as no common methodology



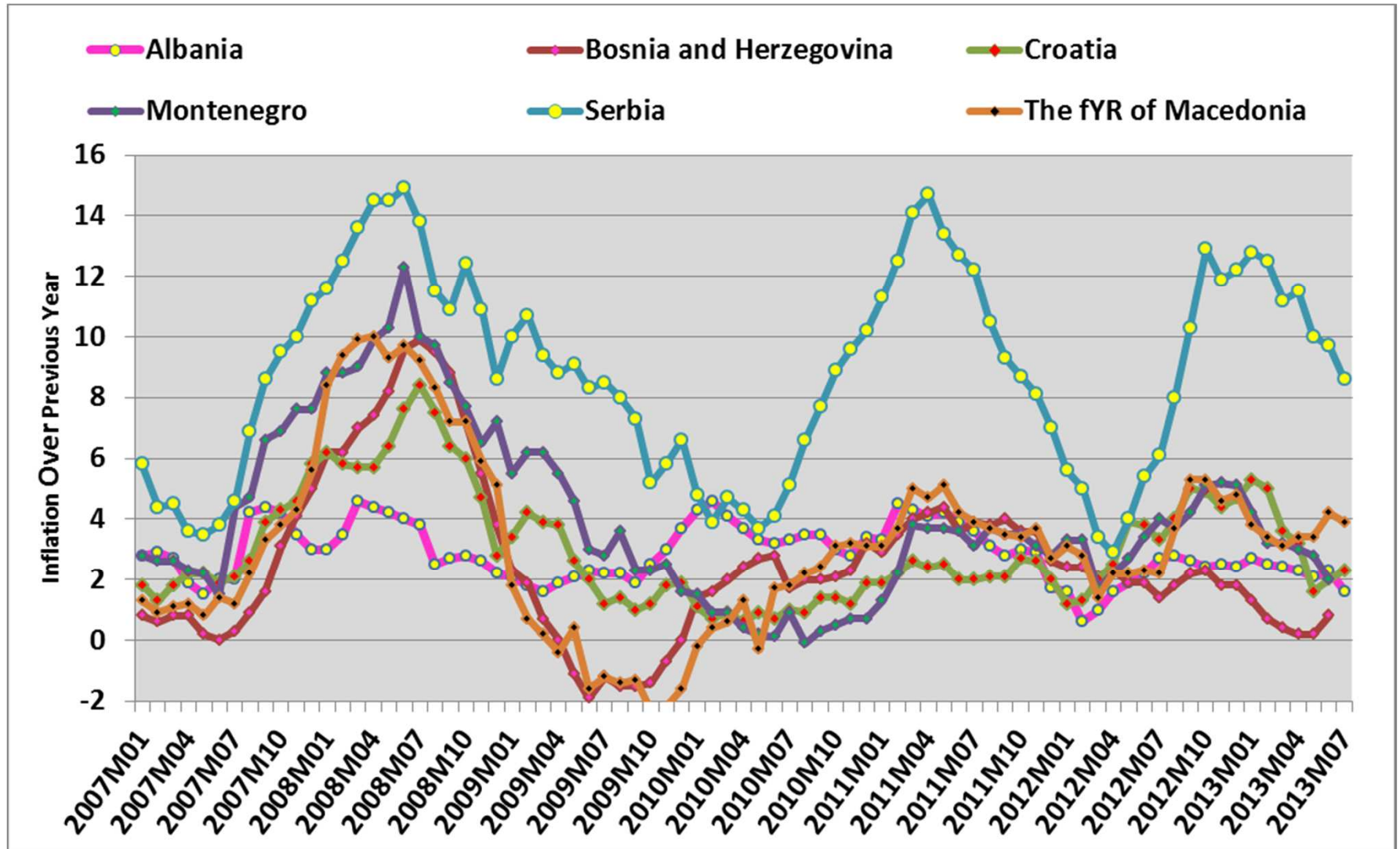
Unemployment in SEE; largely structural



ECE estimates, cross-country comparisons should not be made as no common methodology

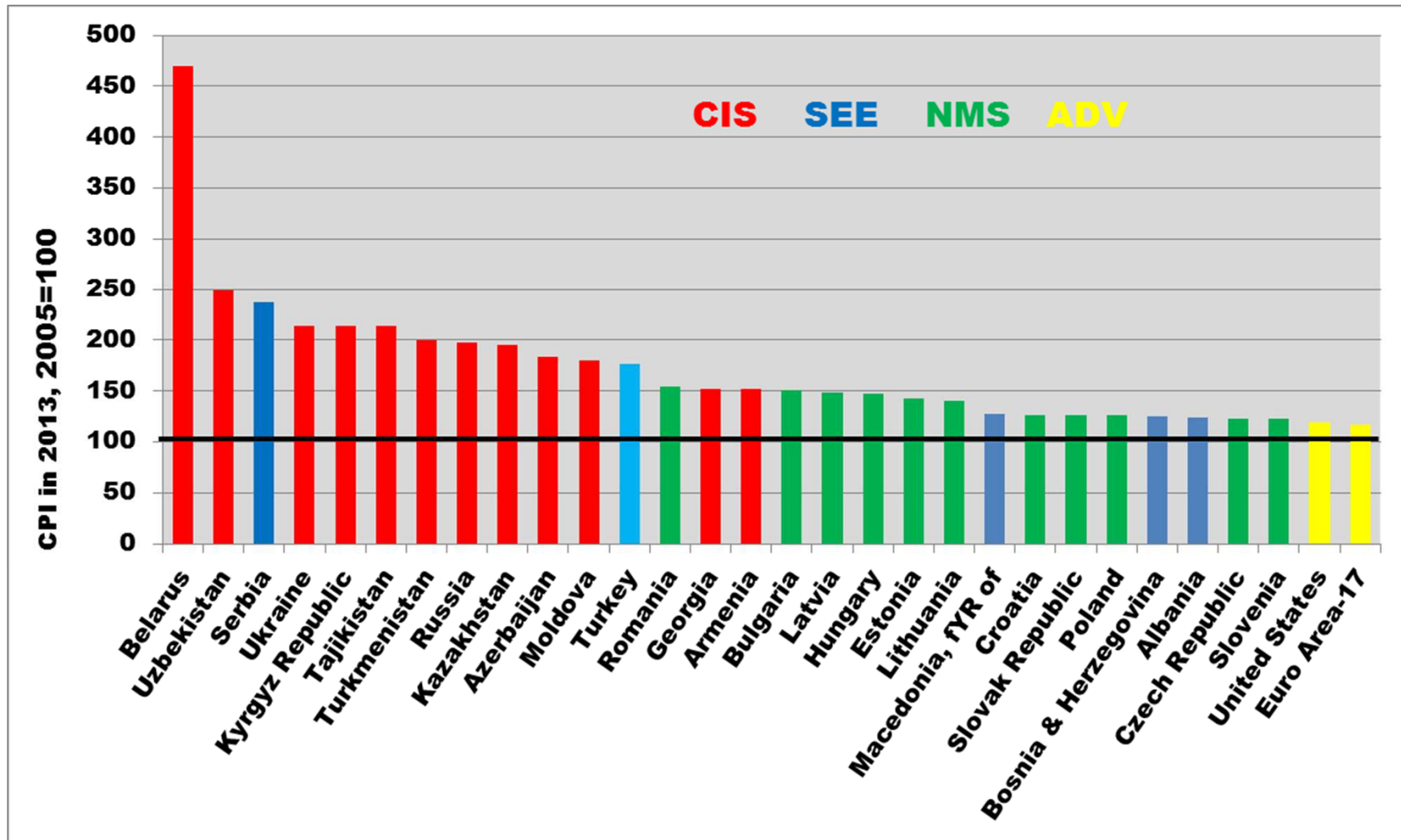


Inflation in SEE



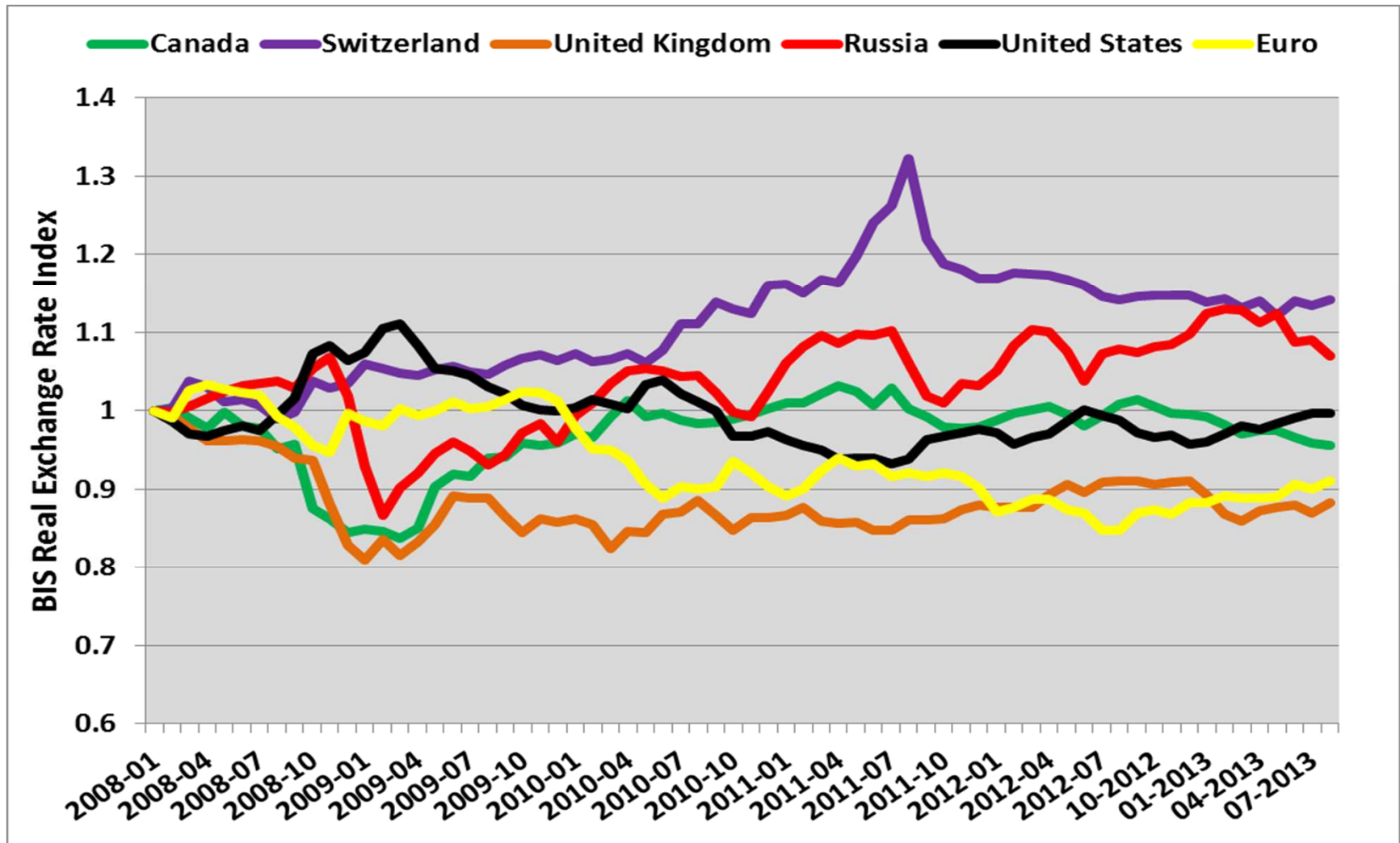


Medium-term inflation trends





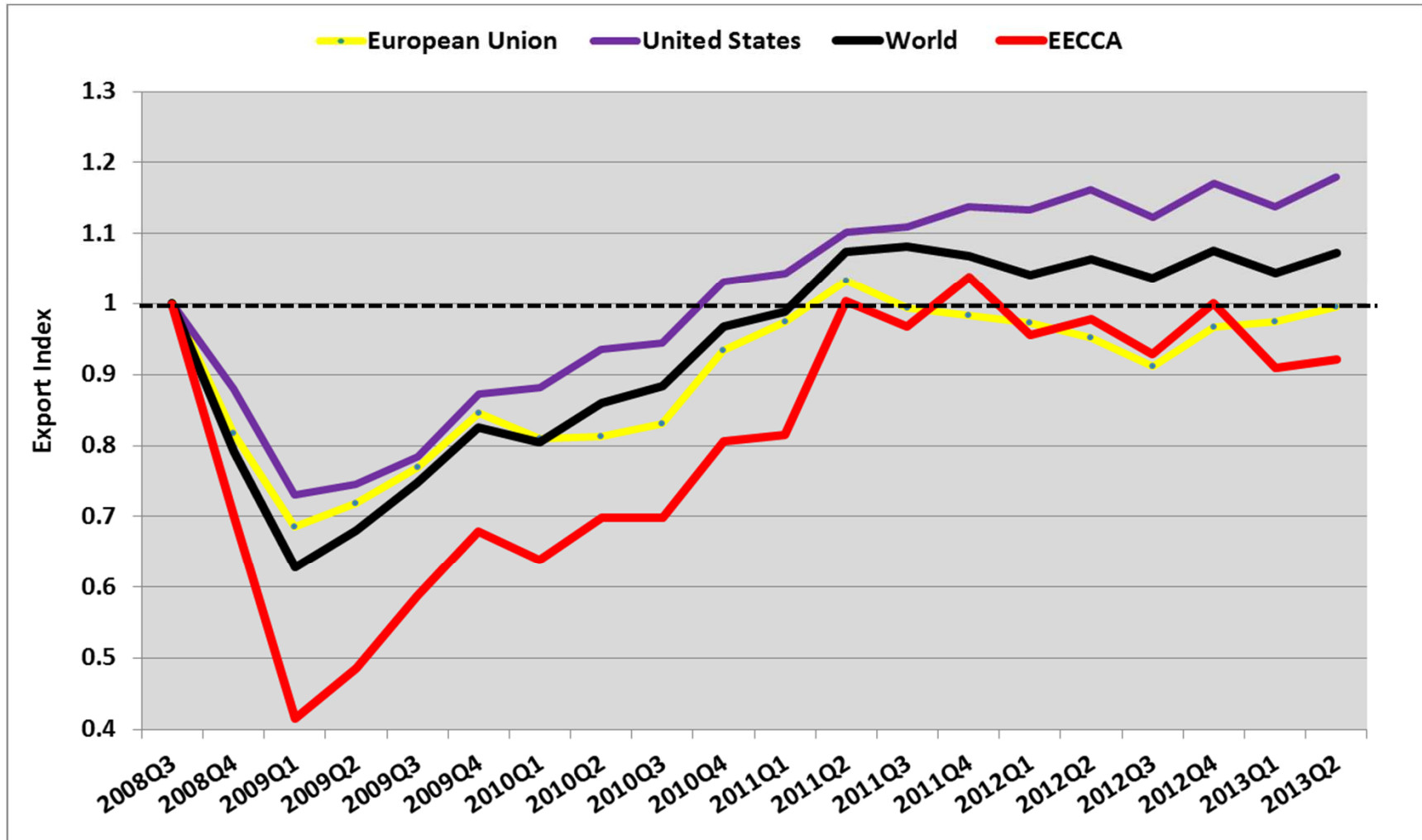
Russian ruble has been appreciating in real terms



Source: BIS- Real trade weighted exchange rates



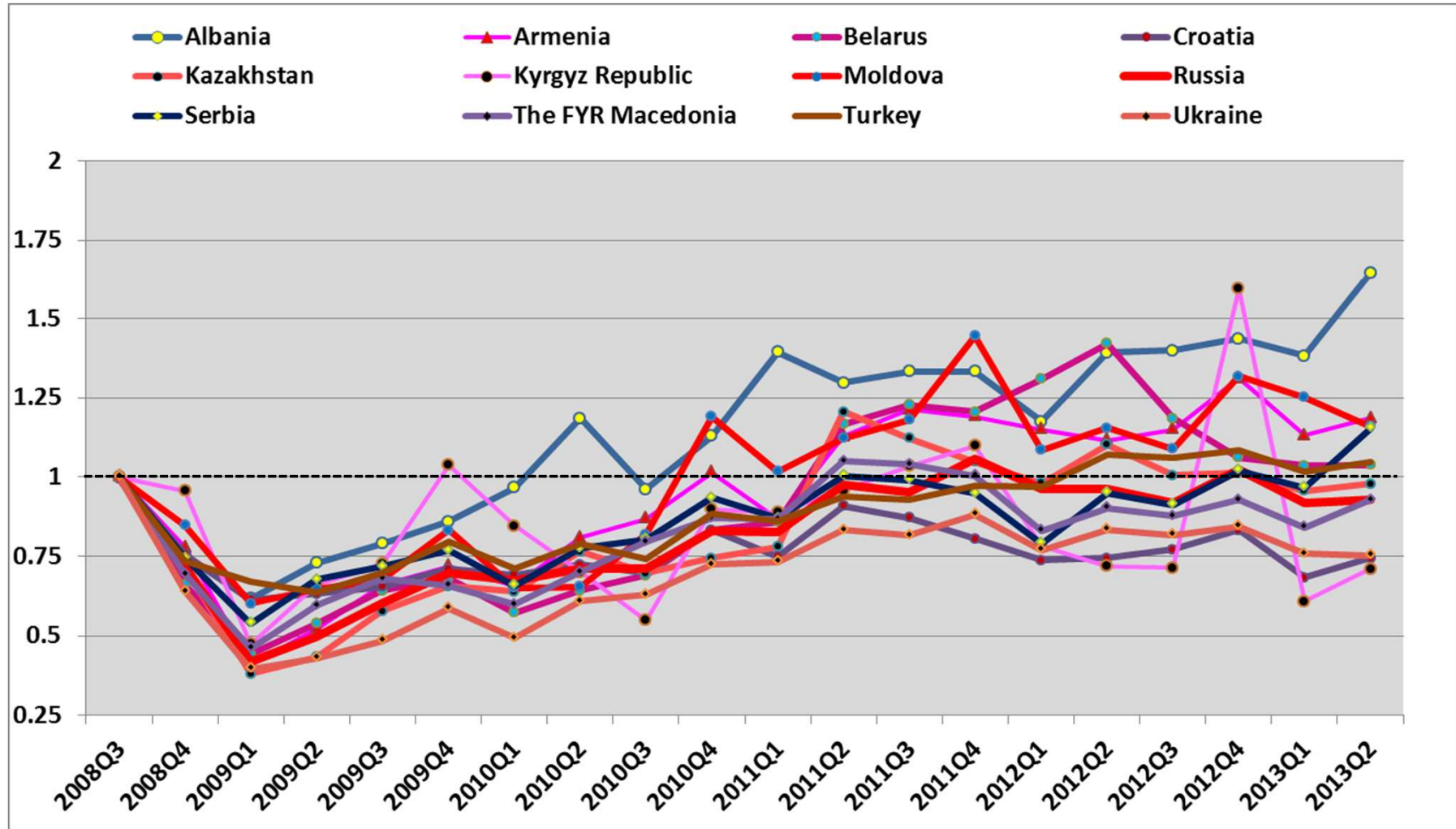
Exports from CIS still below peak in 2008Q3



Source: Data from WTO



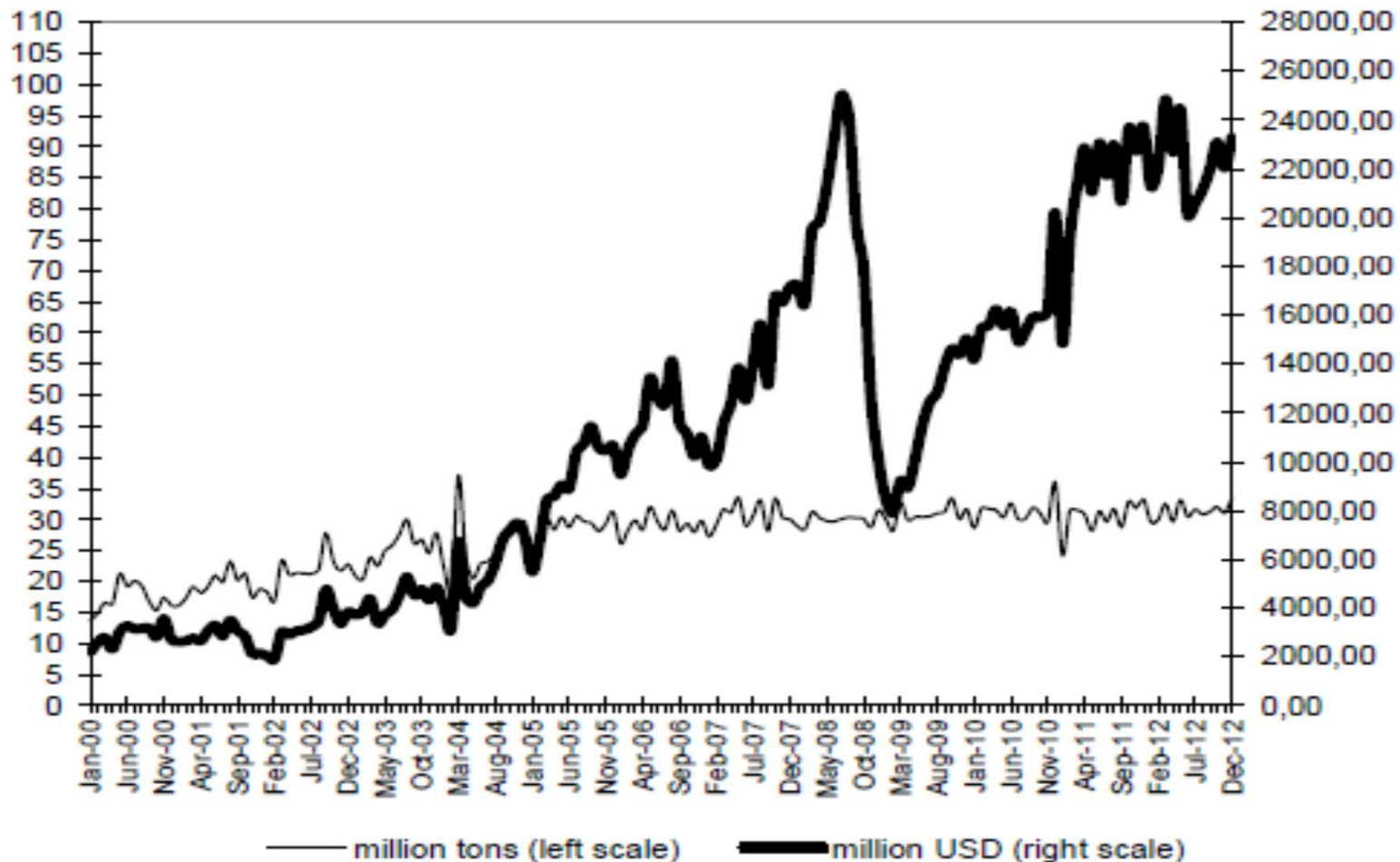
Export indexes, in about half EiT exports still below 2008Q3



Source: Data from WTO



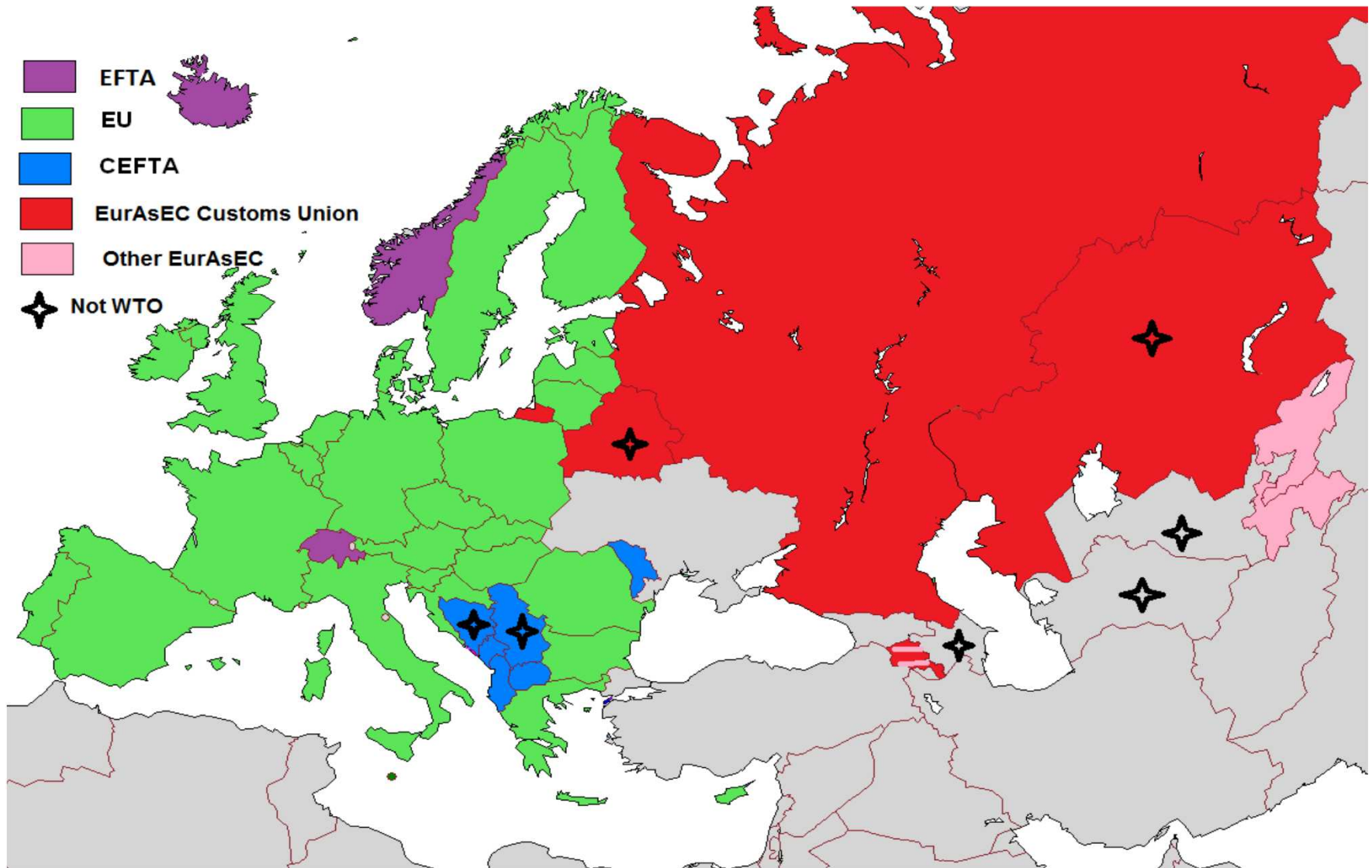
Russian exports of crude oil and oil products: Stable volumes with export revenues dependent on price



Source: Sergey Sinelnikov-Murylev et al, Gaidar Institute Russian Outlook, 2013

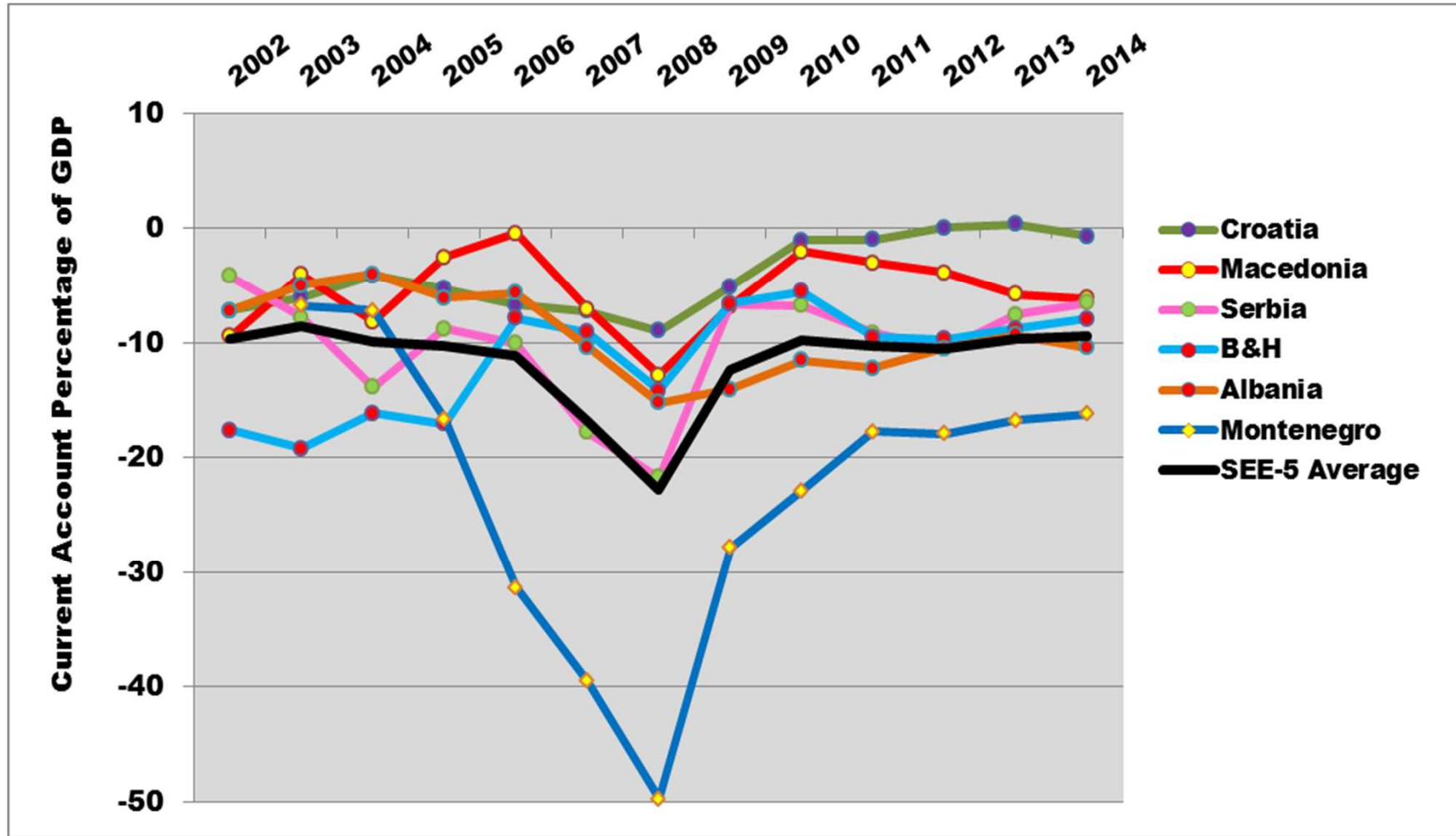


Regional PTAs in the ECE Region



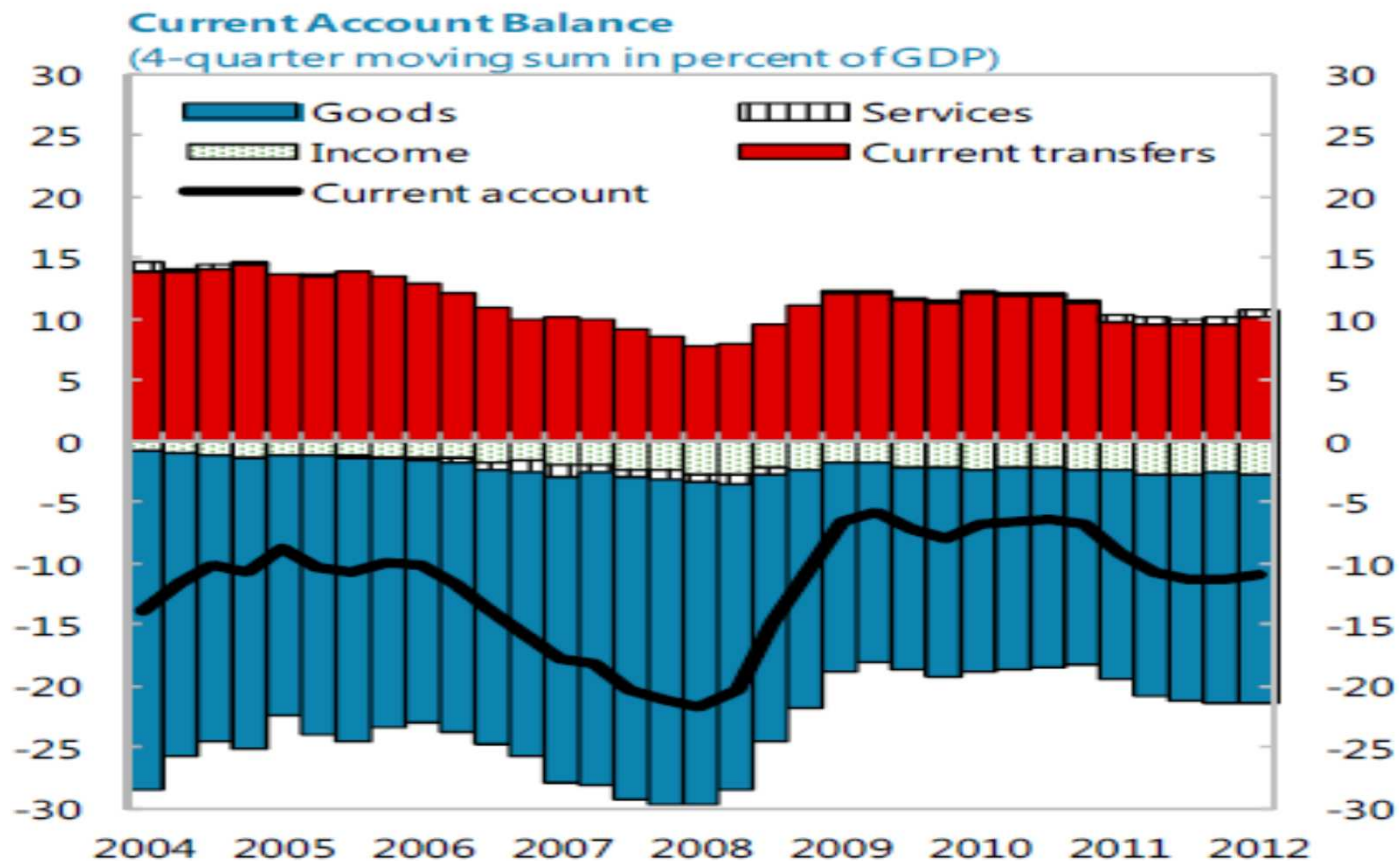


Current accounts remain somewhat problematic in SEE



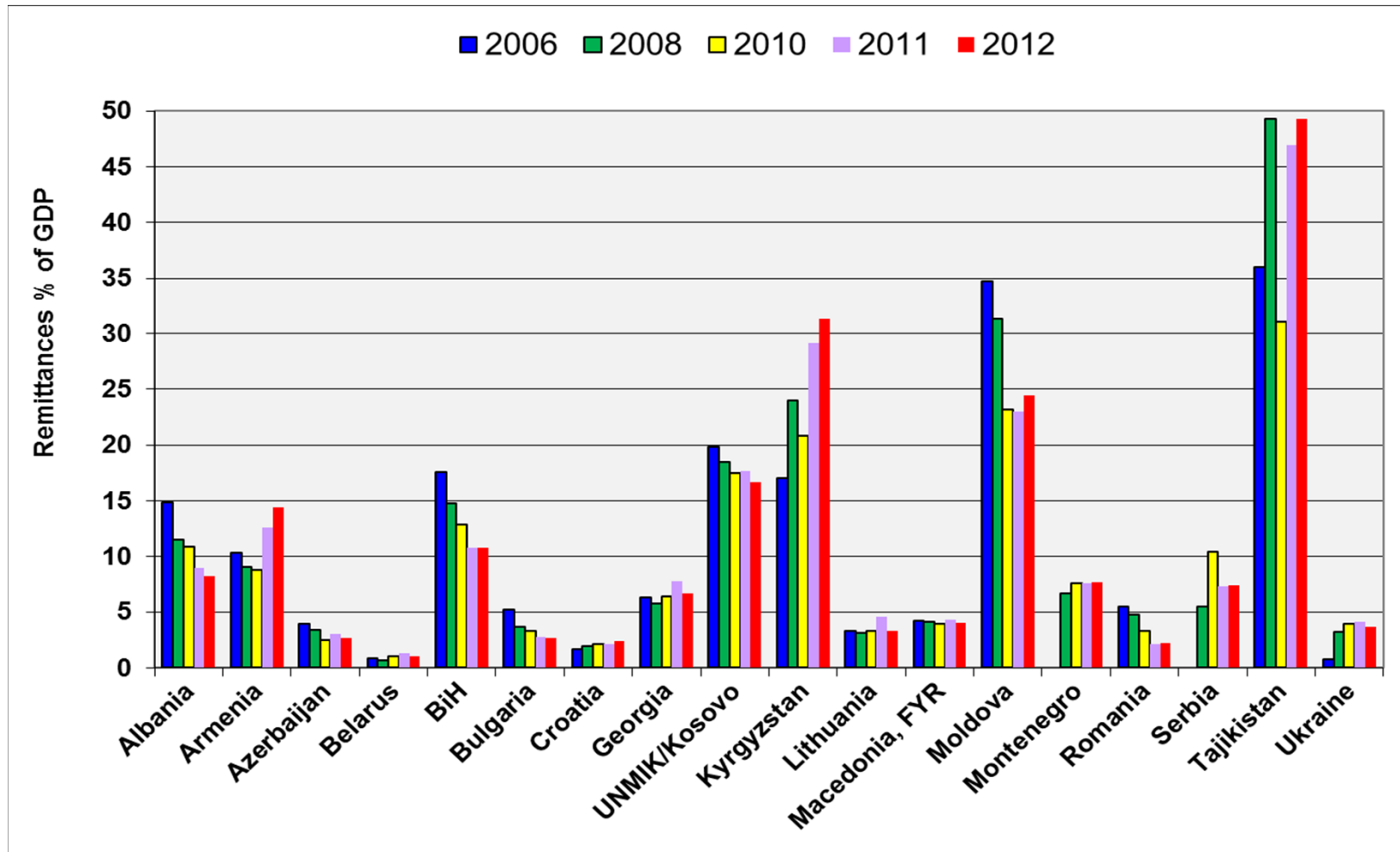
IMF projections for 2014

Trade deficit partially covered by transfers (Serbia)



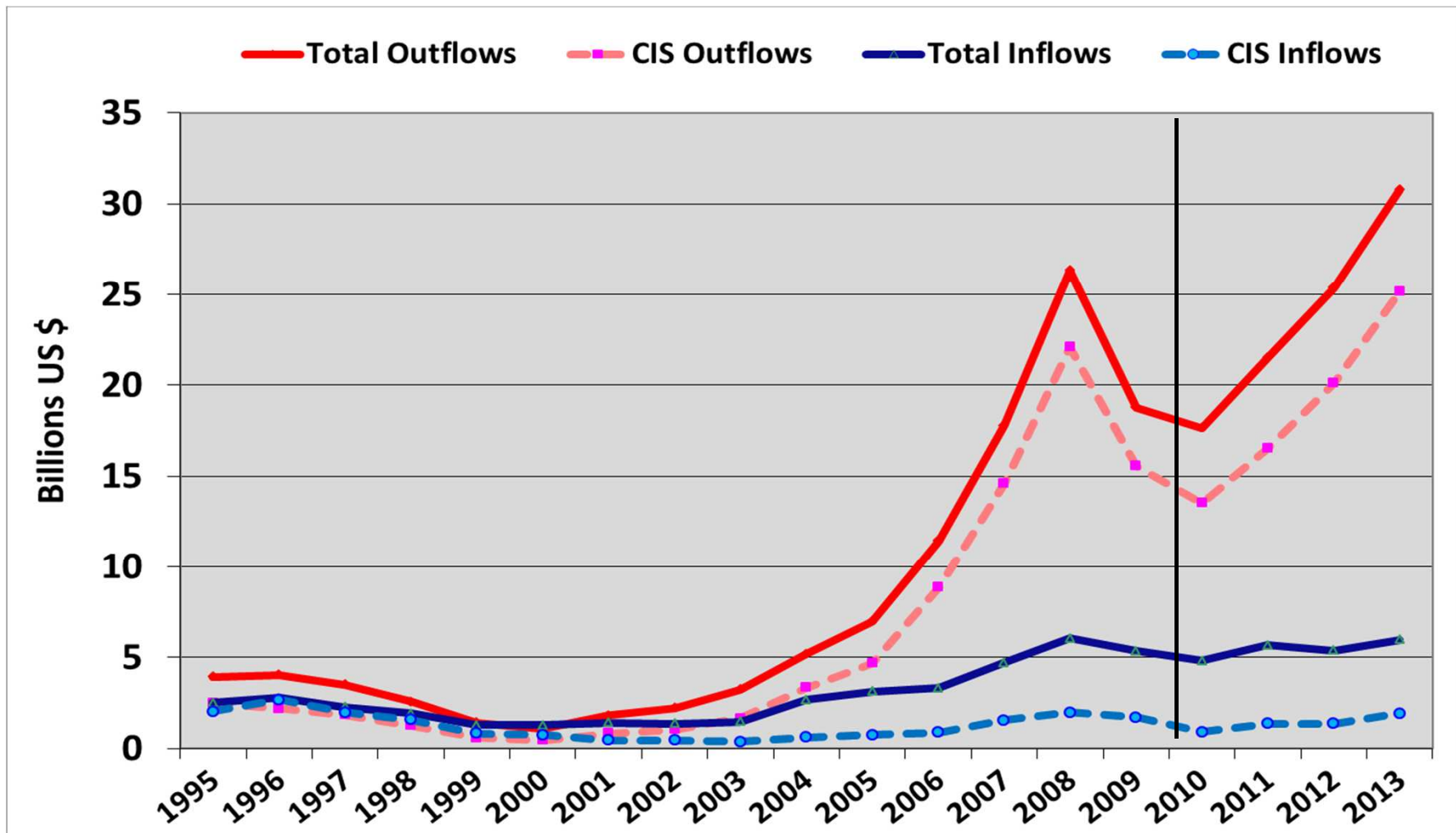


Remittances remain significant for many EiT;
SEE about 5-10%, CIS varies considerably





Economic downturn in Russia reduced remittance outflows to CIS-10 significantly but they have now recovered



Note: 2009-2010 break in series due to move from BMP5 to BMP6 in BOP data; 2013 estimated from partial year data during the "Shelburne Method".



FDI inflows are still depressed in SEE and Russia, but not EECCA-11 (CIS-11), longer-term FDI is significant

Eit receive about 6% of world FDI

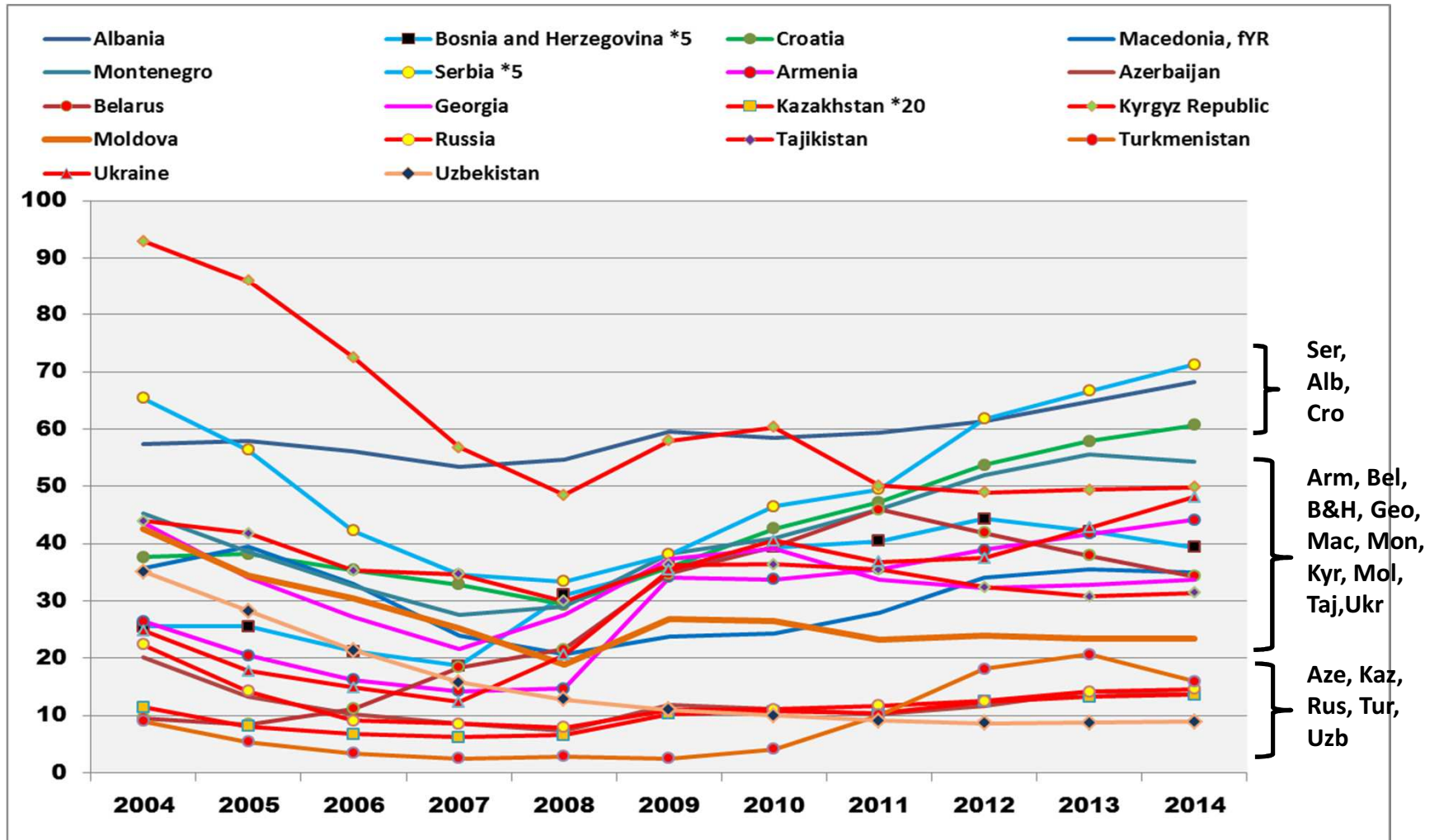
Will WTO accession boost FDI to Russia?

	FDI Inward Stock			FDI Inflows					Per Cent Change 2008 to 2012
	2000	2012	Per Cent Increase 2000 to 2012	2008	2009	2010	2011	2012	
SEE-5	2.9	47.9	1,552	6.5	4.8	3.7	5.2	2.7	-58
Russia	32.2	508.9	1,480	74.8	36.6	43.2	55.1	51.4	-31
EECCA-11	22.2	245.6	1,006	33.4	27.6	27.3	34.0	31.7	-5
EIT	57.3	802.4	1,300	114.7	69.0	74.2	94.3	85.8	-25
NMS	108.1	745.5	590	69.4	30.7	32.0	39.2	39.1	-44
Turkey	18.8	181.1	863	19.8	8.7	9.0	16.0	12.4	-37
ECA	184.2	1,729.0	839	203.9	108.4	115.2	149.5	137.3	-33



Government gross debt to GDP

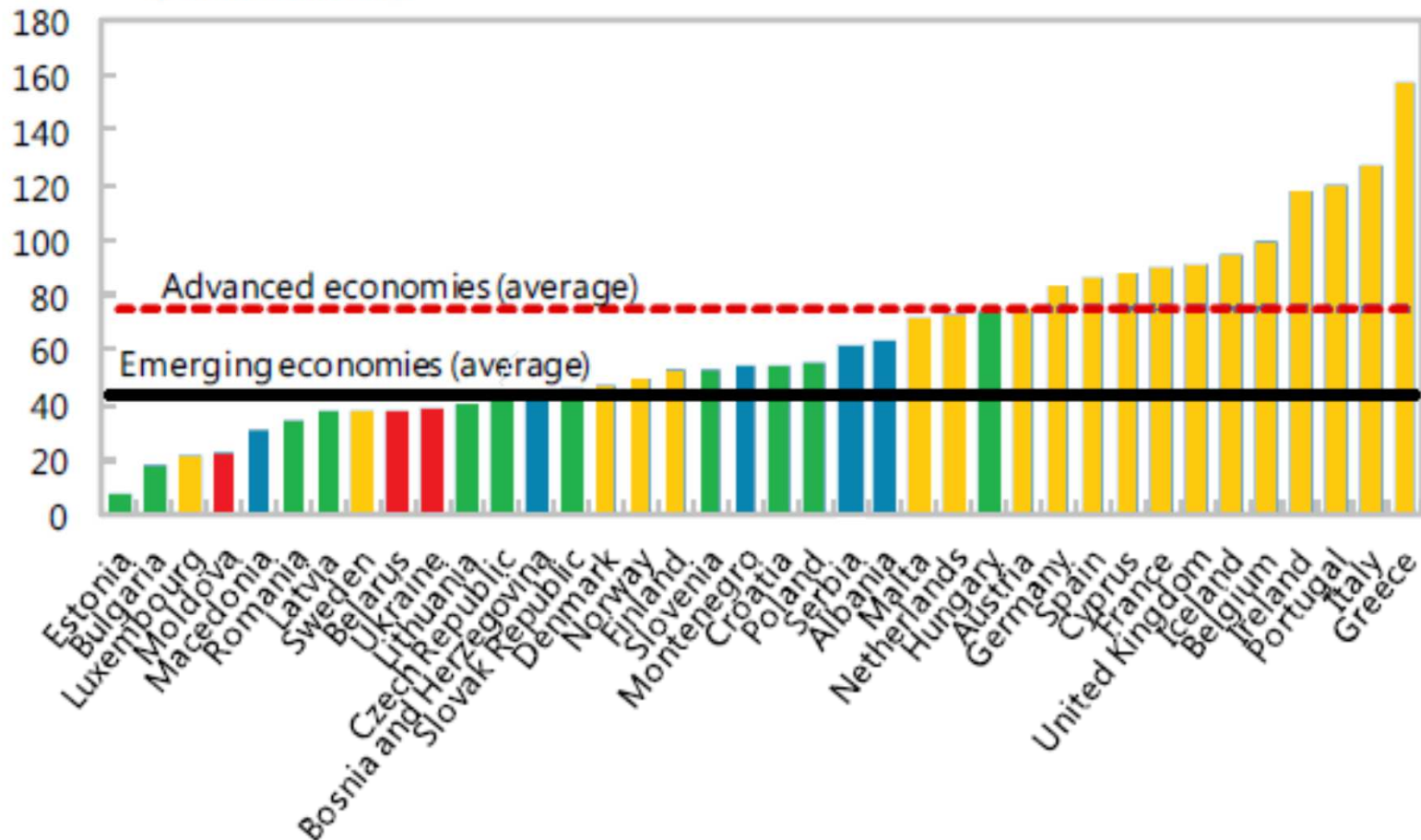
Note: for most net debt=gross debt or net is not provided; a * gives the amount net is less than gross as % of GDP





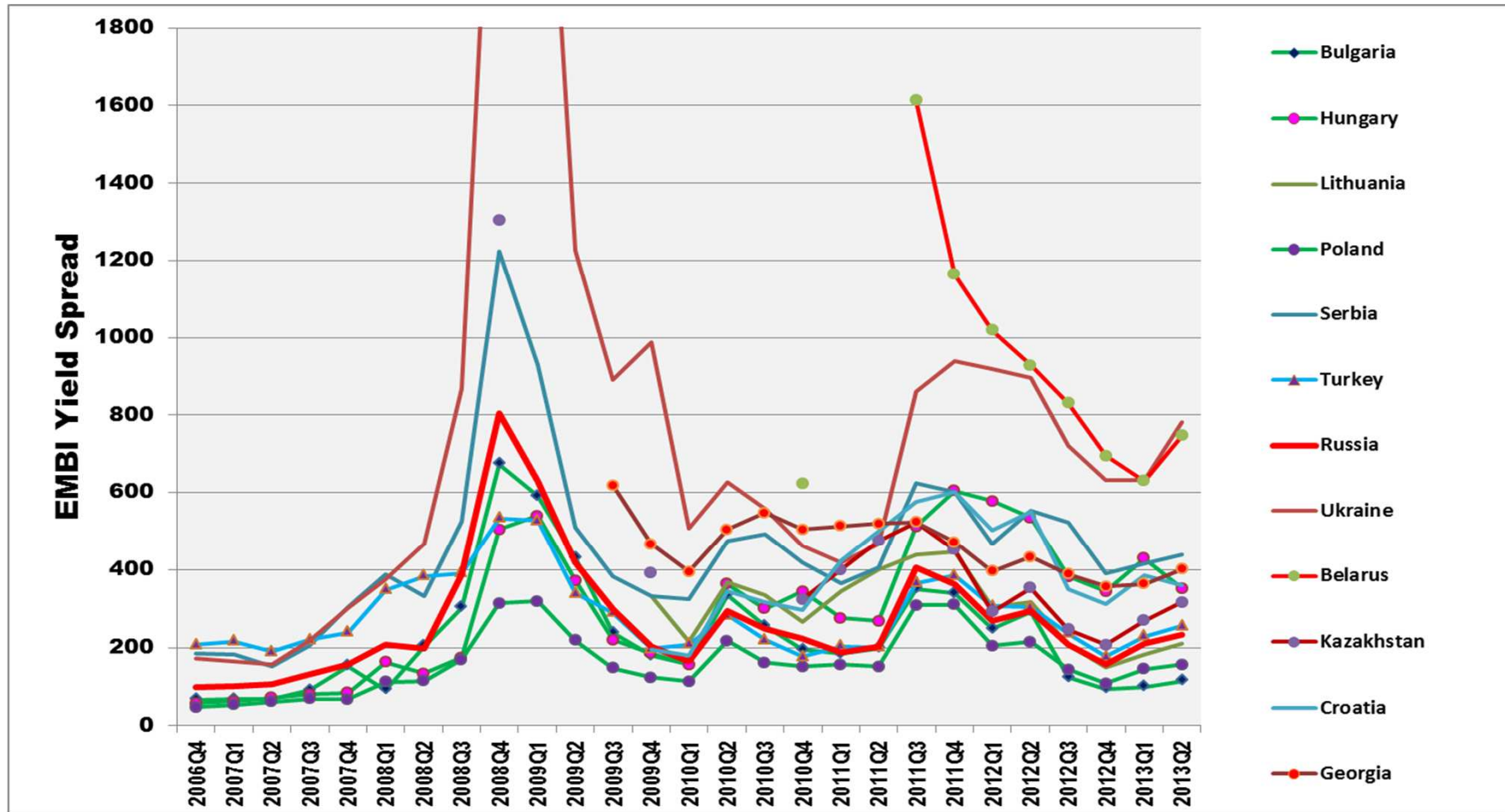
Except for a few, public debt is not excessive

Public Debt in Selected Economies, 2012
(Percent of GDP)





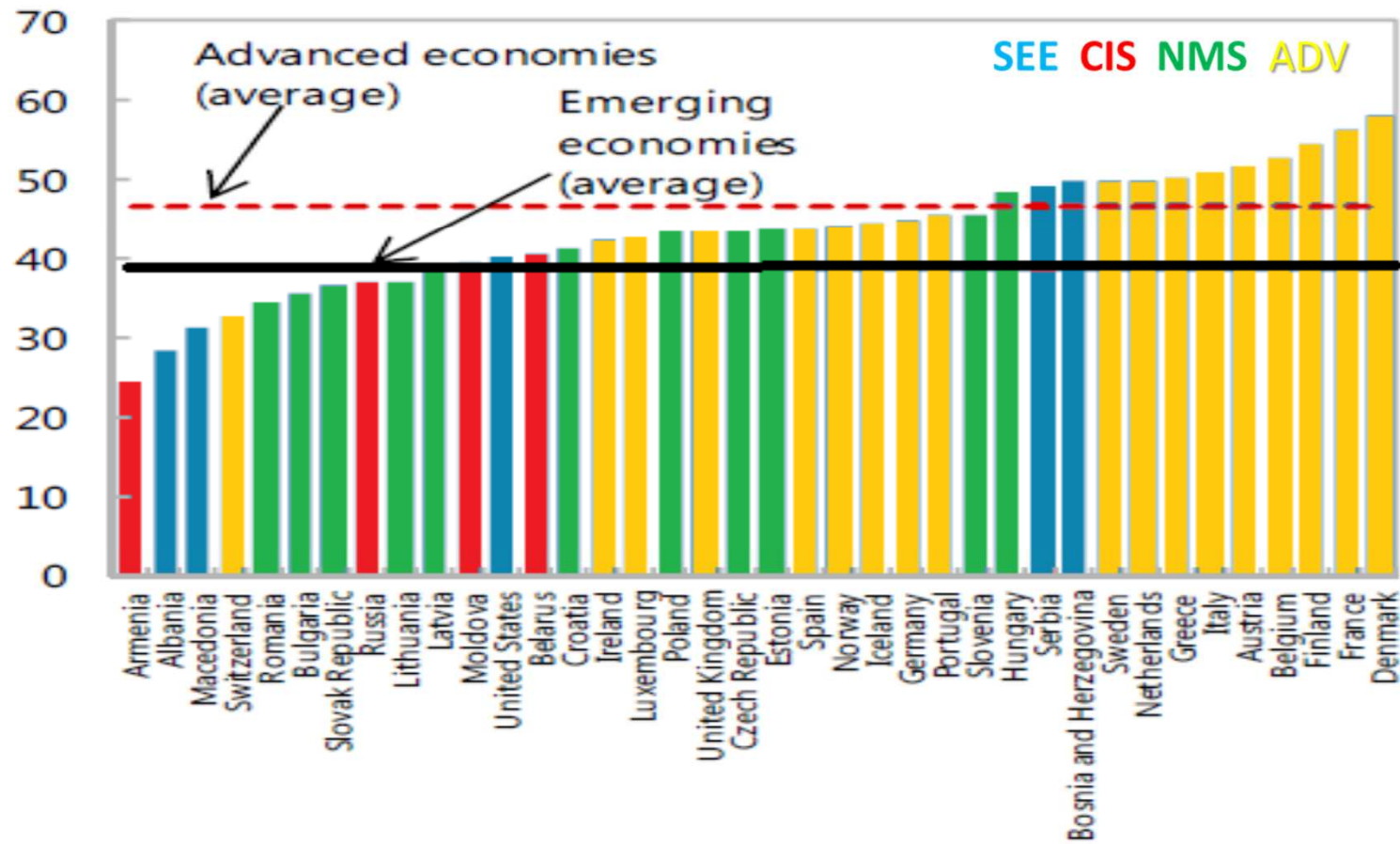
Sovereign yields, some uptick over the last year





Size of EiT Governments Vary Considerably

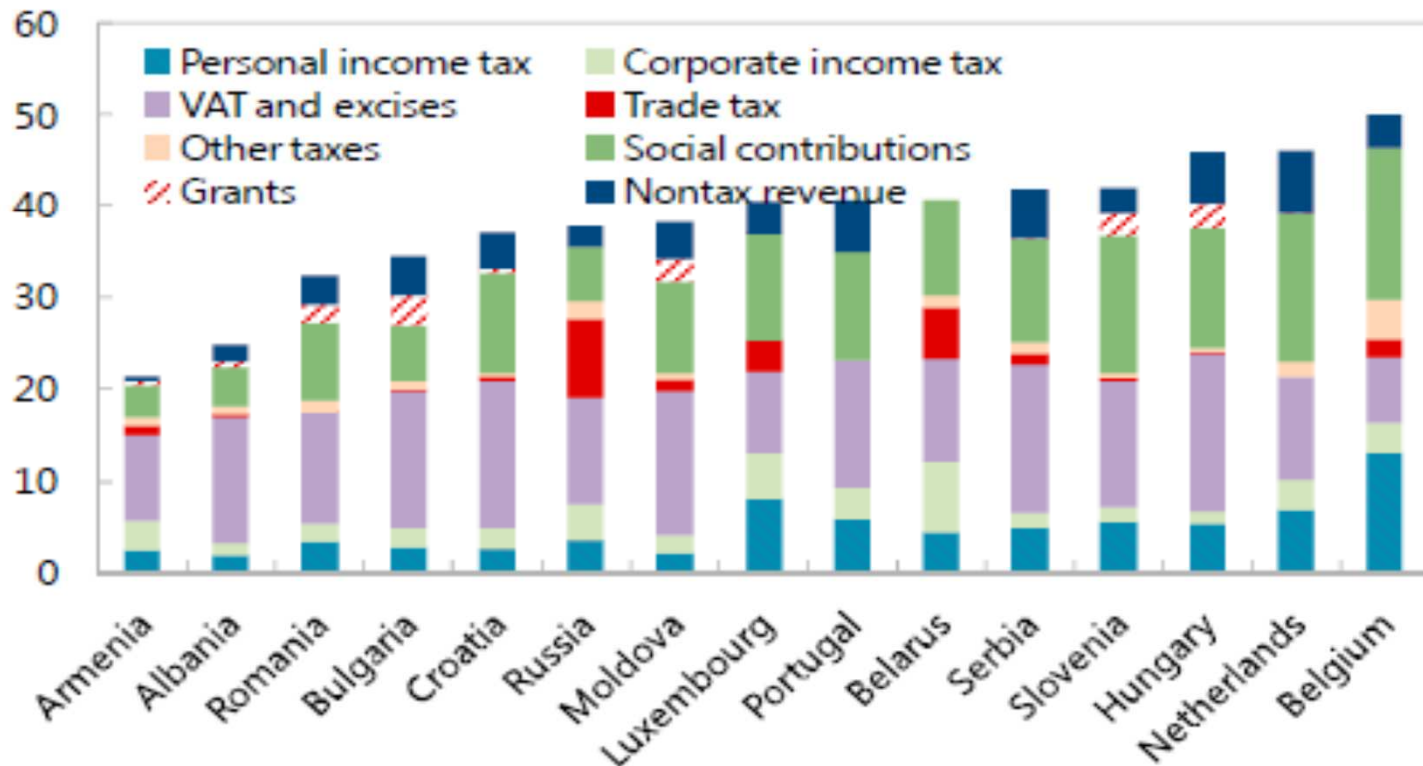
Total Government Expenditure , 2012
(Percent of GDP)





EiT, NMS and Western Europe have similar tax structures

Structure of Government Revenue, 2012 (Percent of GDP)

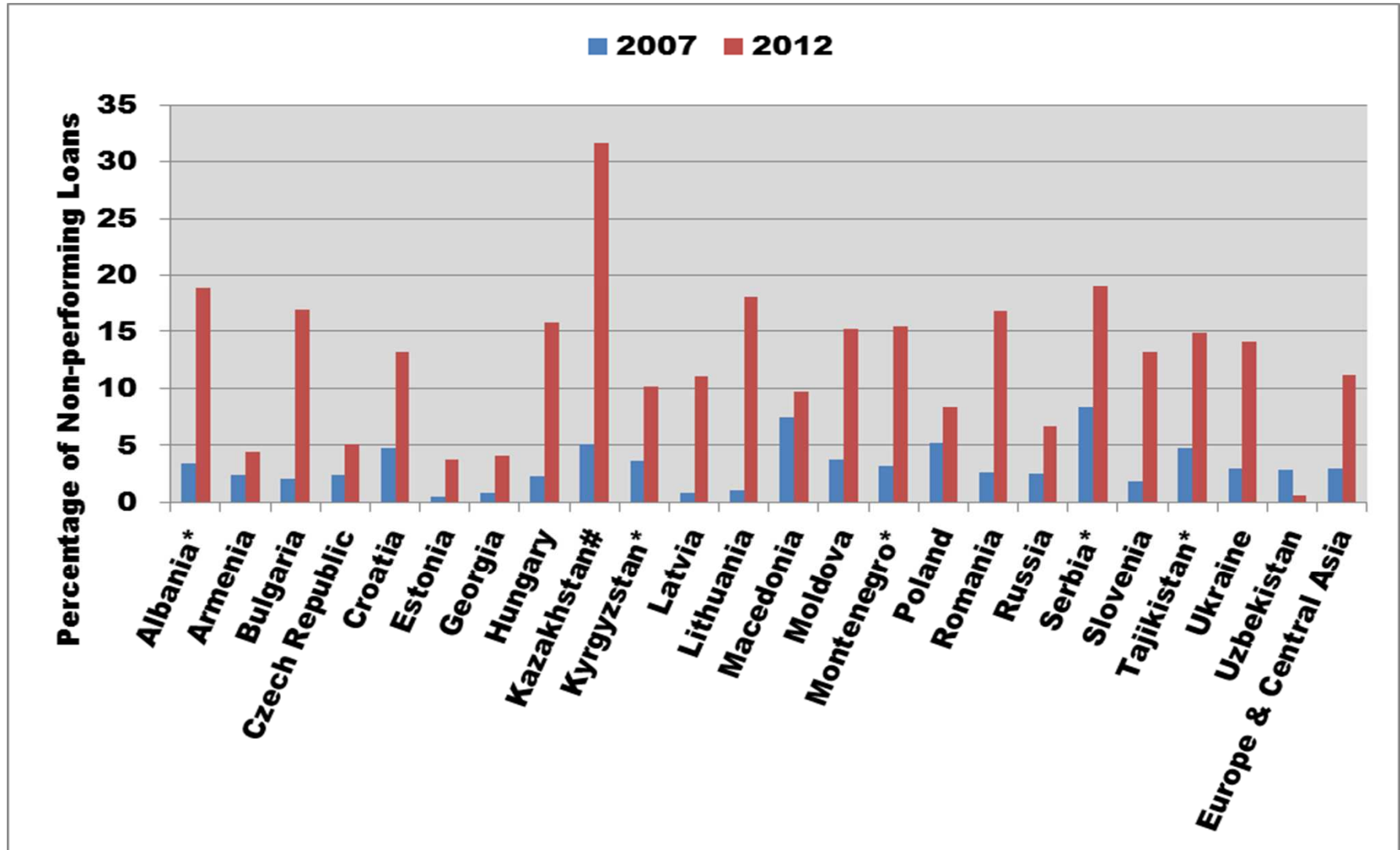


Sources: National authorities and World Economic Outlook.



Non-performing loans have generally tripled

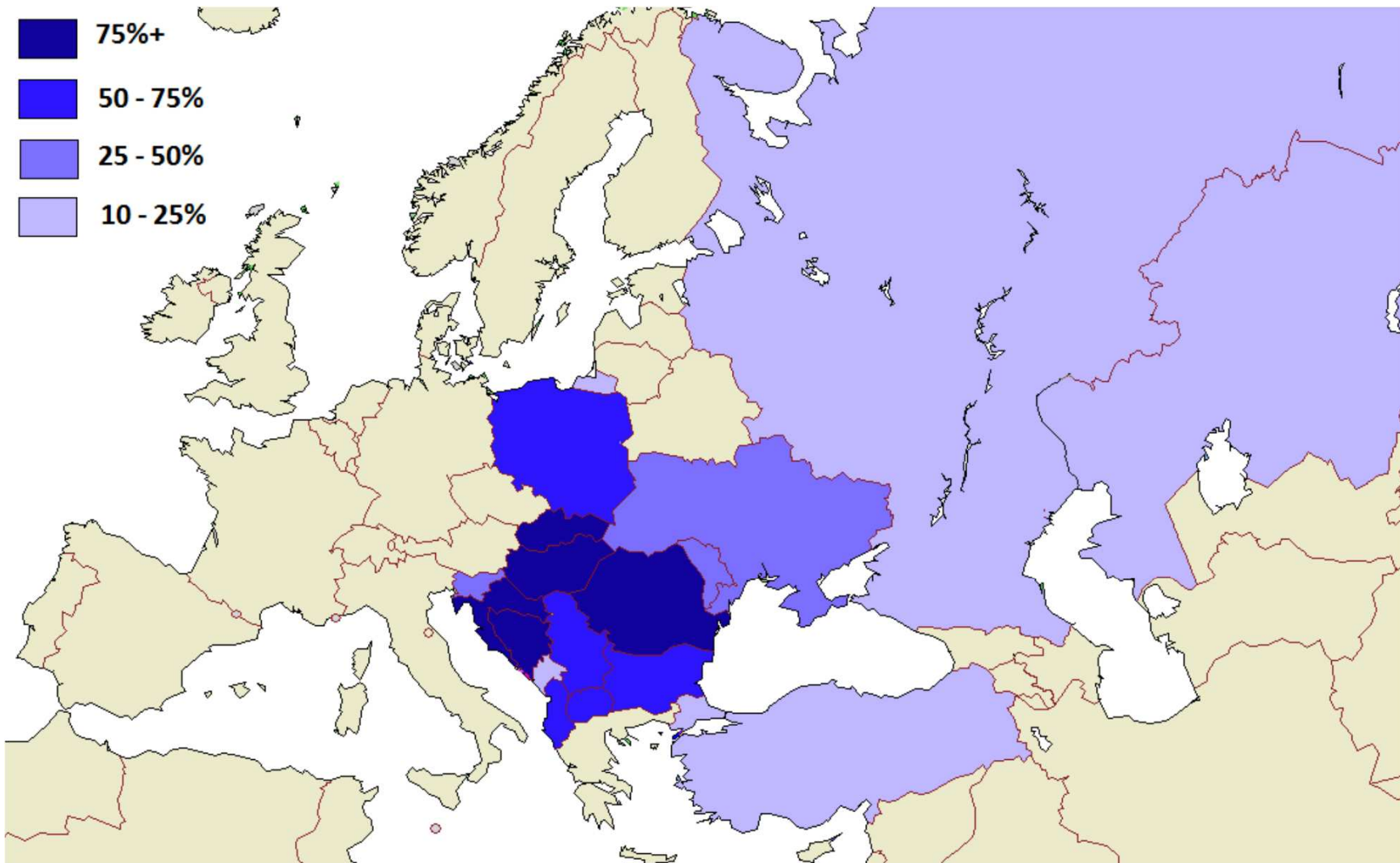
2007 (#-2008) vs 2012 (*-2011)





Bank-assets owned by eurozone banks (mainly Italy & Austria)

Note: Baltic banks largely owned by Sweden & Norway

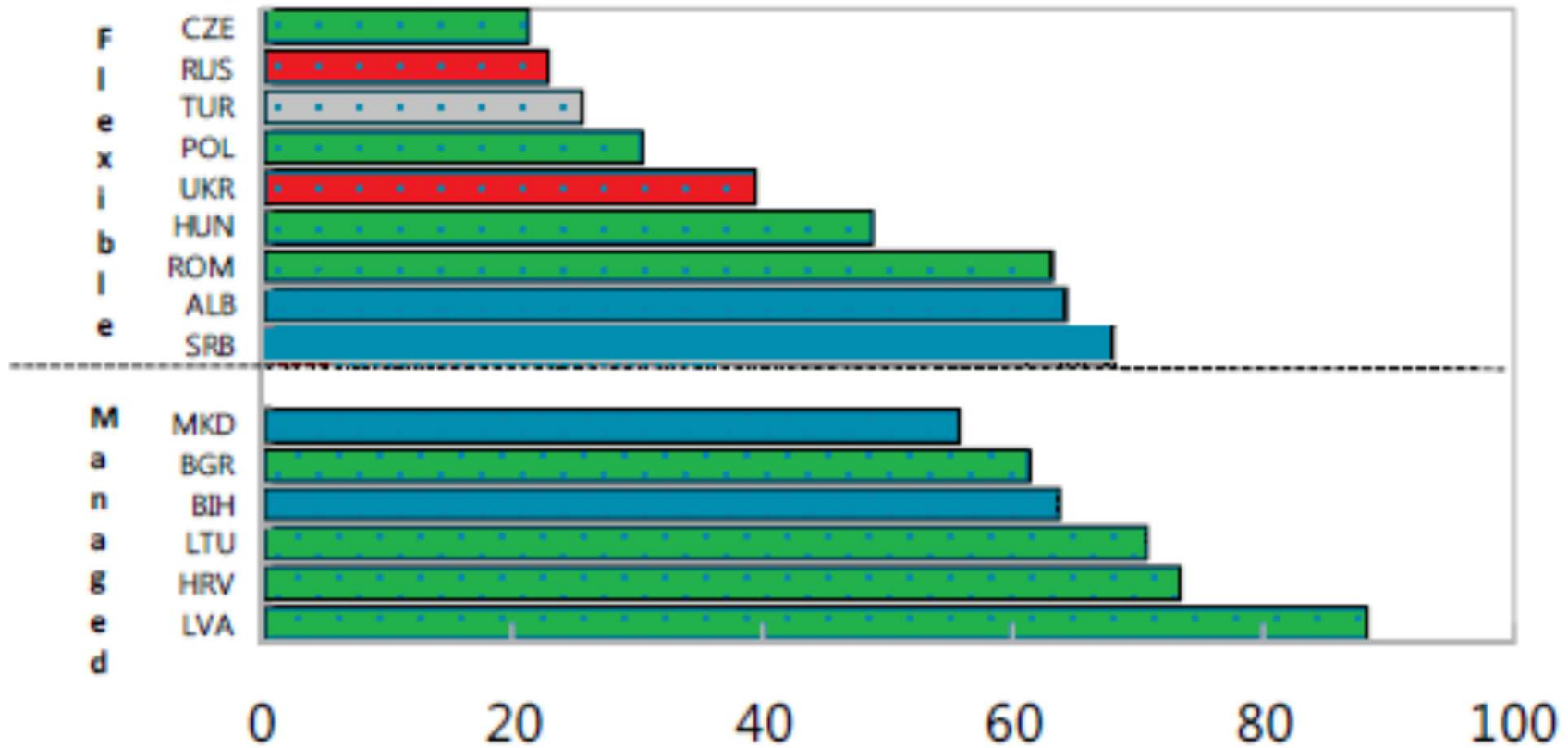




Foreign exchange denominated loans are excessive throughout EiT; Euroization less in those with flexible exchange rates

Loan Euroization, September 2012

(by exchange rate regime; Percent)



Source: IMF, Serbia Article IV Report, 2013



EiT Foreign Exchange Flows 2005-07



Very large capital inflows and a substantial current account surplus provided foreign exchange to cover large capital outflows and a large accumulation of international reserves.



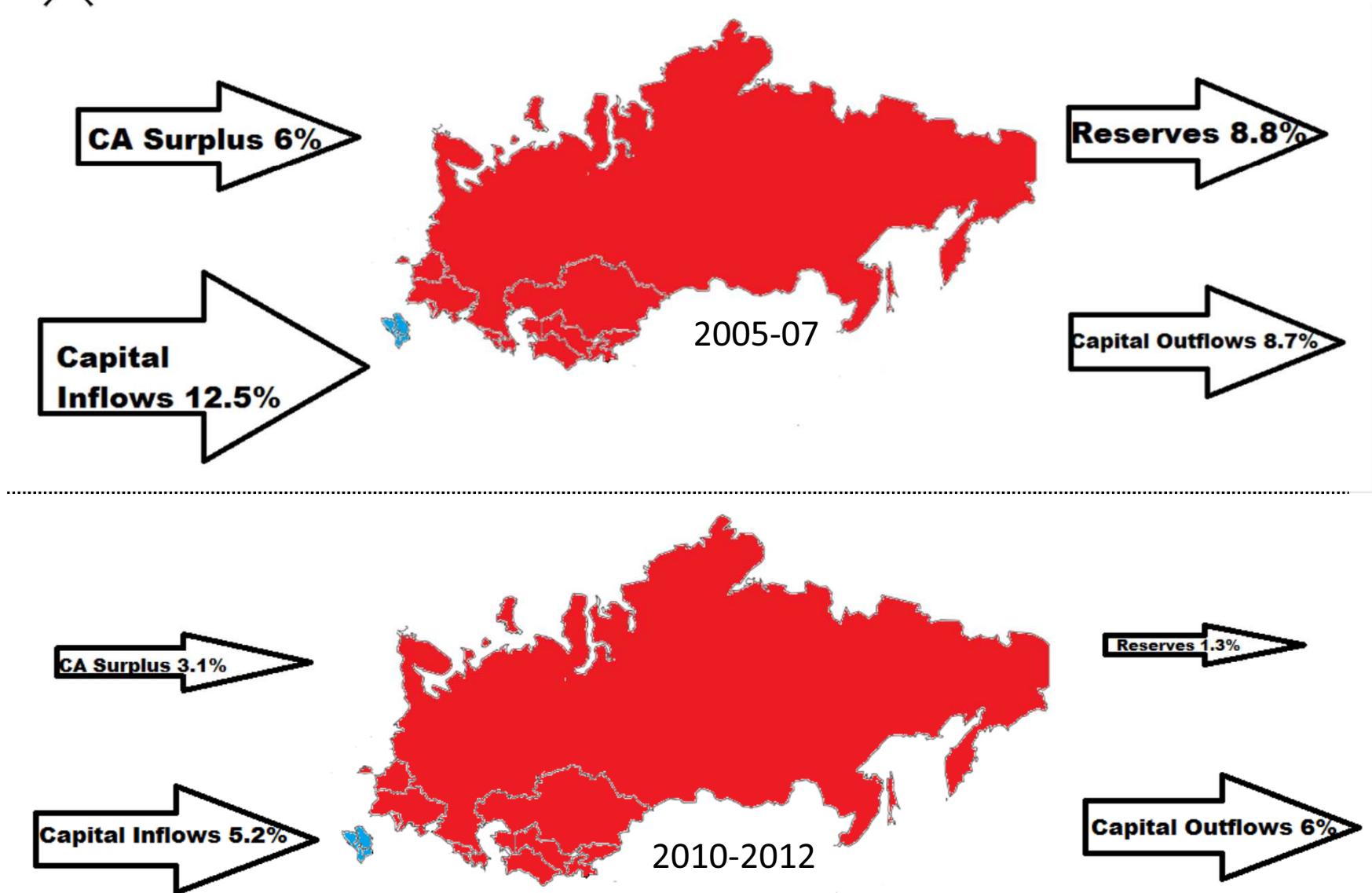
EiT Foreign Exchange Flows 2010-12



Moderate capital inflows and a moderate current account surplus provided foreign exchange to cover moderate capital outflows and a very small increase in international reserves.



EiT FX Flows Before and After the Financial Crisis

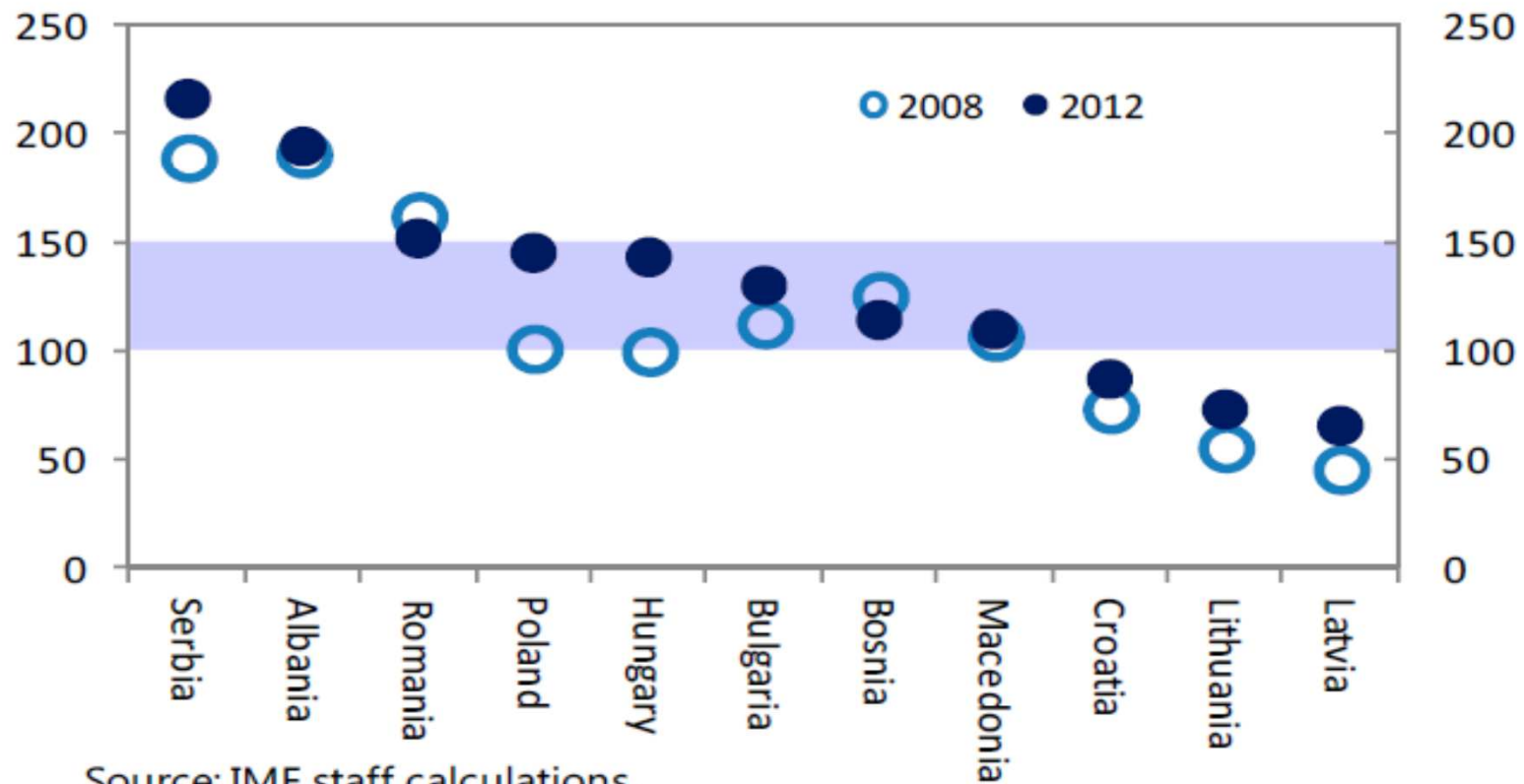




IMF Risk-Weighted Metric

In 2011 the IMF proposed a new metric to measure actual reserves against some estimate of need; the formula varies based upon exchange rate regime. For countries with floating exchange rate it is computed as $0.3 \times \text{short-term debt (at remaining maturity)} + 0.1 \times \text{(stock of portfolio and other investment liabilities)} + 0.05 \times \text{(broad money)} + 0.05 \times \text{(exports of goods and services)}$. (Russia about 175%)

International Reserves (percent of risk-weighted metric)



Source: IMF staff calculations.

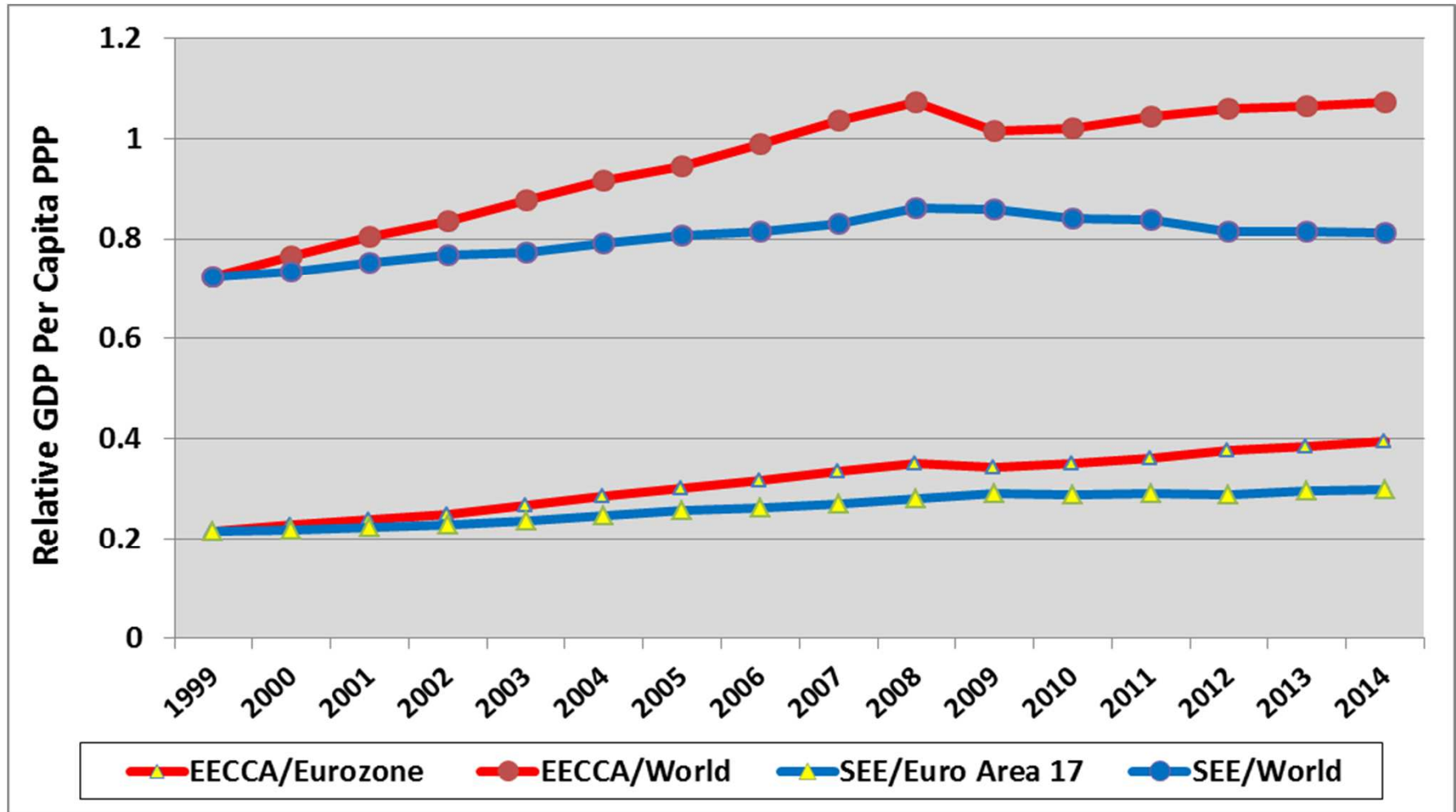


Key Vulnerabilities in EiT in 2013 Compared to 2008

- **Worse**
 - Fiscal policy space
 - Health of western European parent banks
 - Level of non-performing loans
 - Overall situation in Ukraine and Belarus
 - Political tension between Russia and EU over the future alliances of Ukraine, Moldova, Georgia, etc.
- **The same**
 - Reserves
 - Exchange rate flexibility
 - Level of foreign currency denominated loans
- **Better**
 - Less short-term external debt and capital to reverse
 - Bank leverage ratios
 - Current account deficits, although still large in SEE
 - Key western European markets likely to be growing instead of collapsing

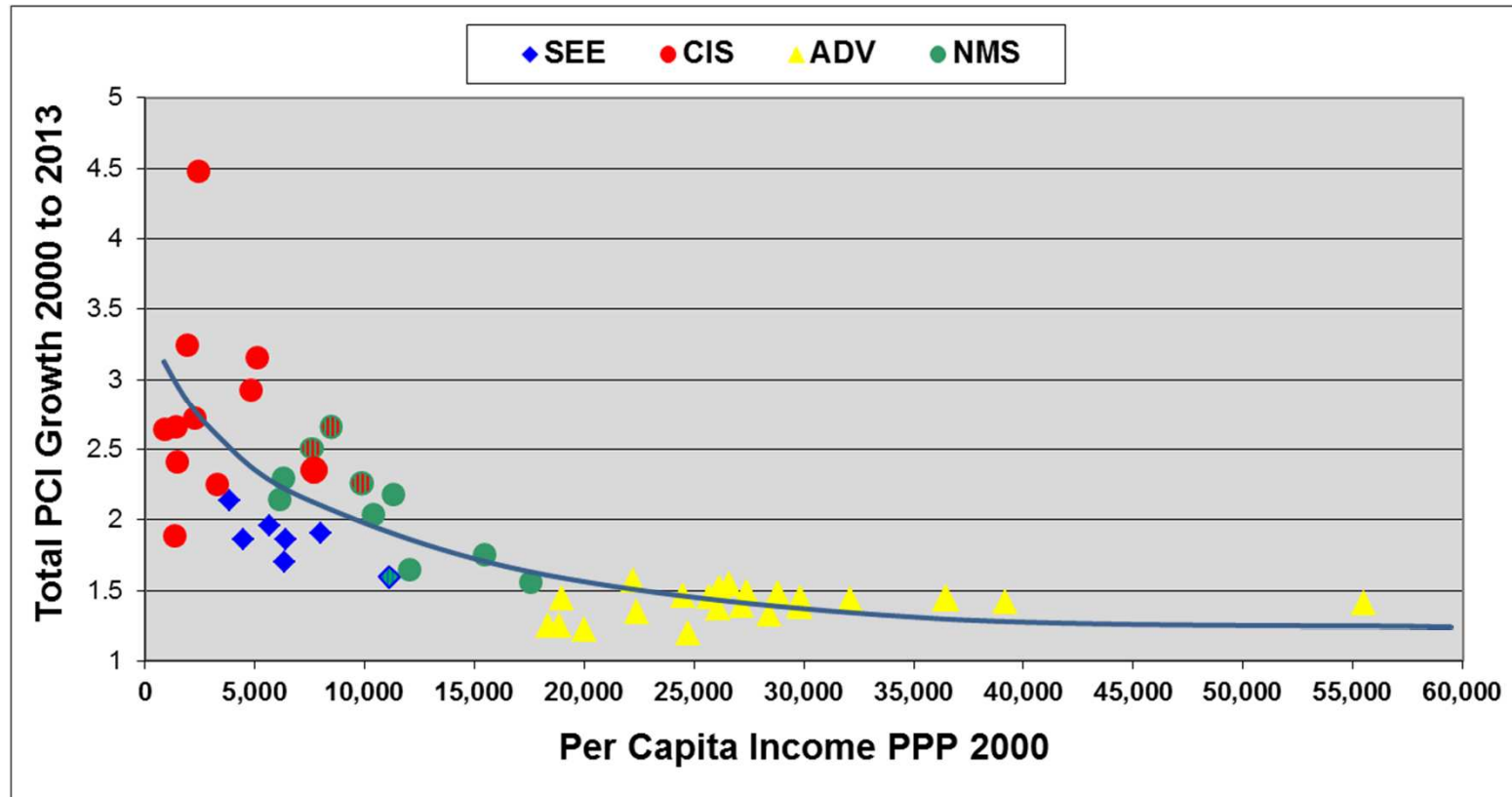


Per capita income of EECCA (CIS) and SEE relative to the world and eurozone



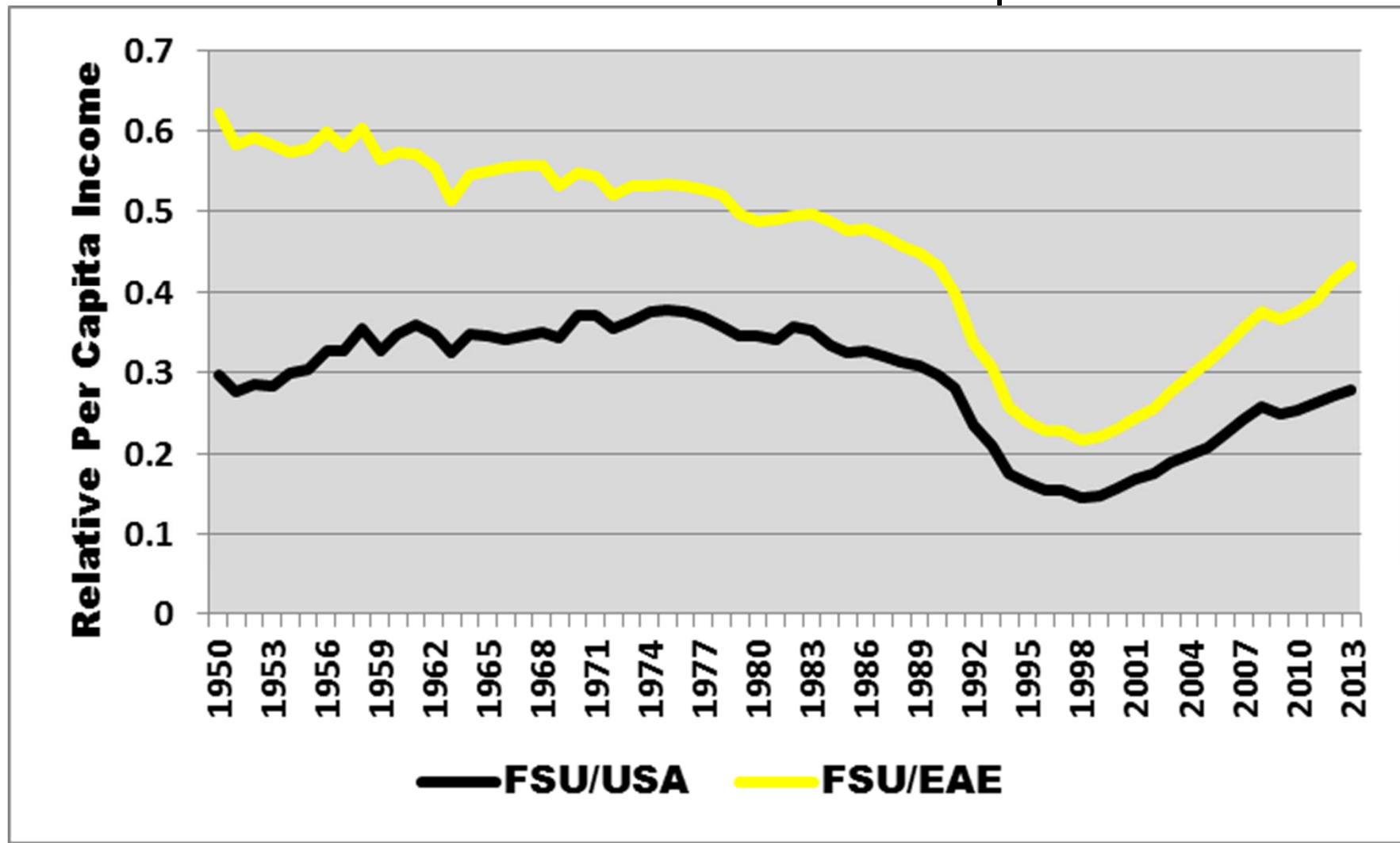


Convergence of per capita incomes over the last decade





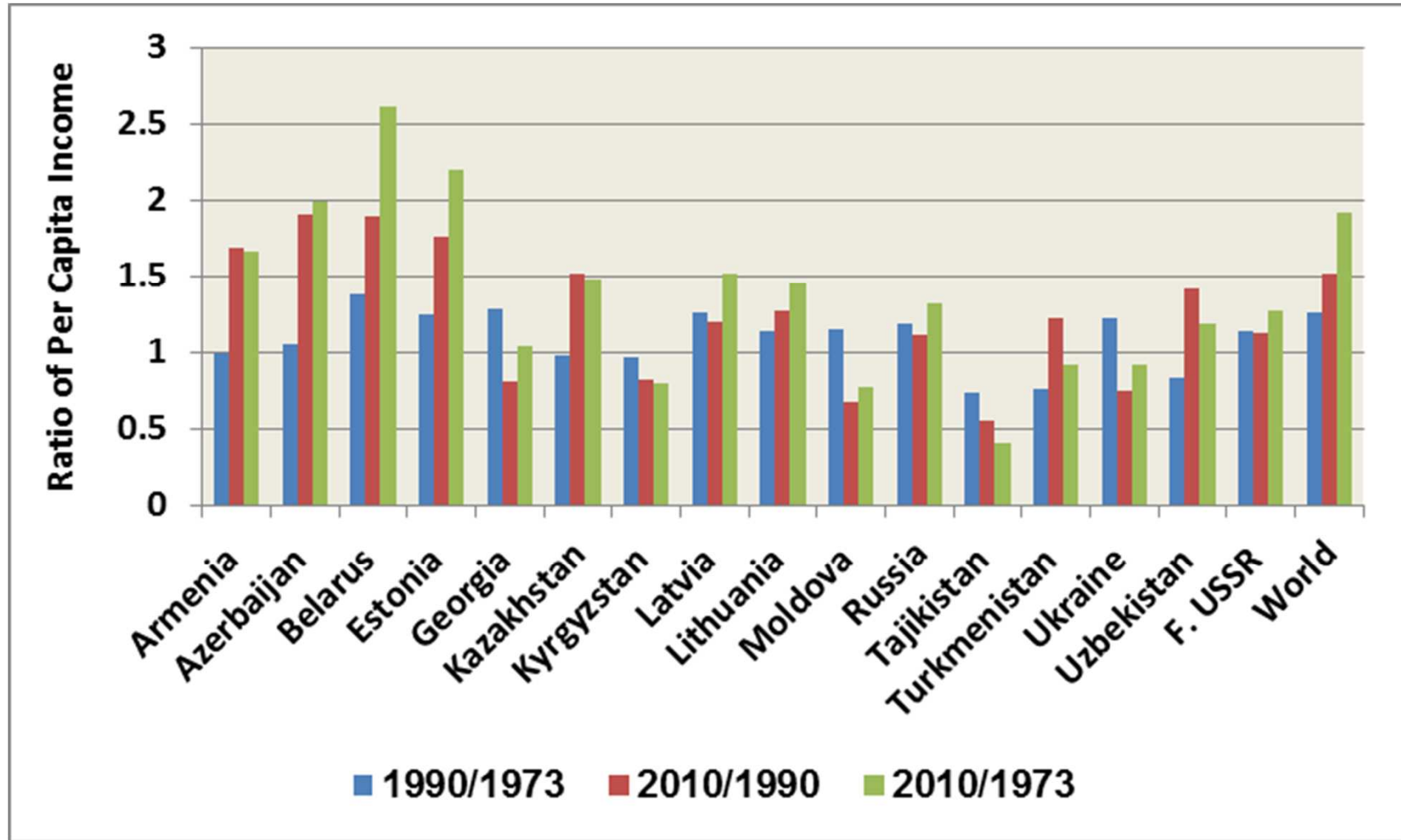
Over the long-term there has been no convergence in the per capita income of FSU (USSR) with the USA or Western Europe





Long-term Growth in the FSU

AZE, BEL, EST have grown faster than world since 1973 and since 1990

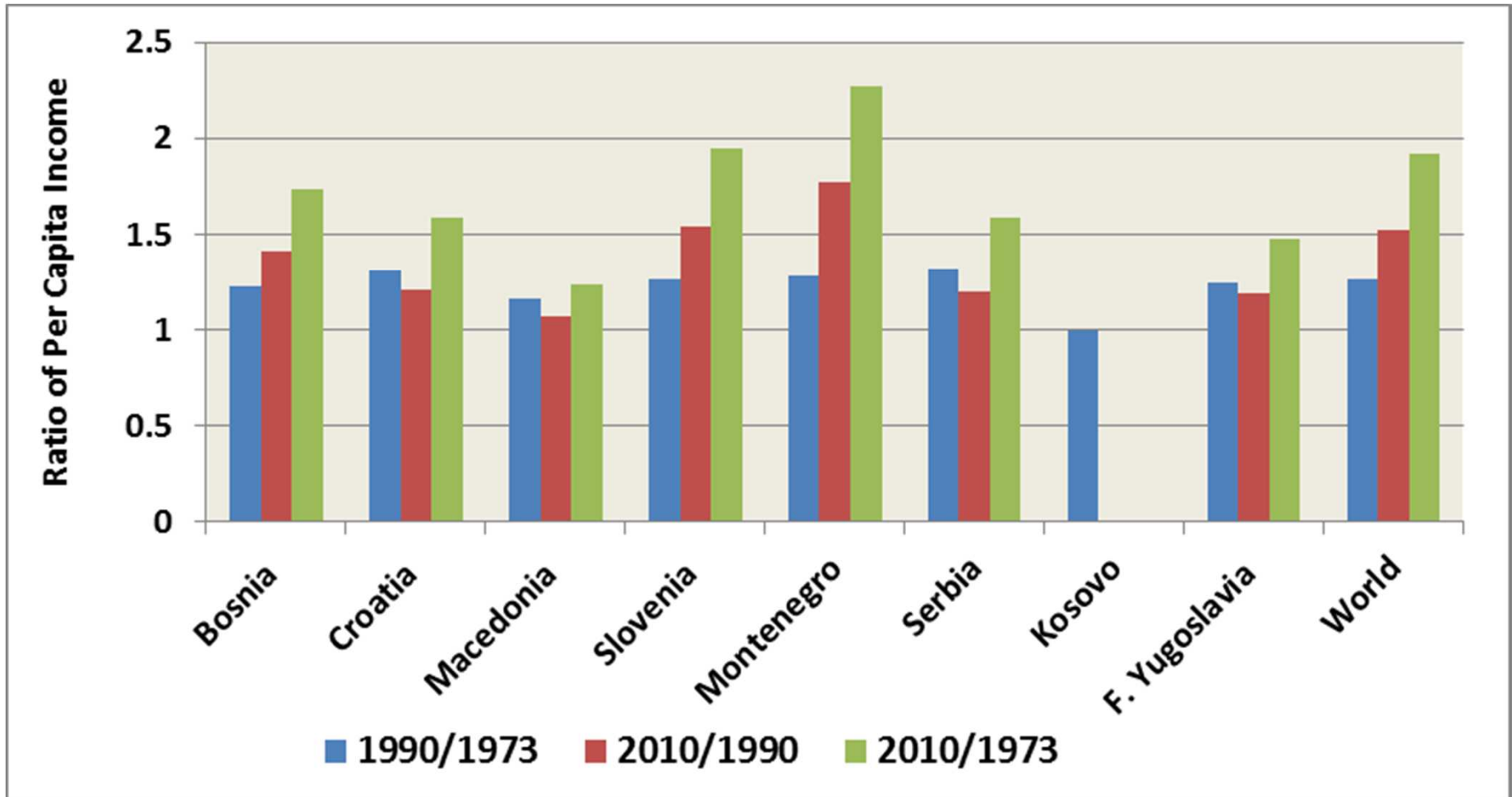


Based on data from Maddison, 2013; uses 1990 International GK\$ per capita GDP



Long-term Growth in Former Yugoslavia

Slovenia and Montenegro have growth faster than world since 1973 and since 1990



Based on data from Maddison, 2013; uses 1990 International GK\$ per capita GDP



No Convergence Since 1973

