

Seminar on the IMF's Regional Economic Issues: "Faster, Higher, Stronger – Raising the Growth Potential of CESEE"

Compiled by
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On October 18, 2013, the OeNB hosted a seminar on the IMF's Regional Economic Issues (REI) for Central, Eastern and Southeastern Europe (CESEE¹). *Aasim Husain*, Deputy Director of the IMF's European Department, analyzed the current economic situation and near-term outlook, while *Bas Bakker*, Chief of the Emerging Economies Division in the IMF's European Department, focused on longer-term growth perspectives and policies to improve them. The two presentations were followed by a lively discussion among journalists, OeNB economists and experts from various economic institutions and commercial banks.

The seminar was opened by *Kurt Pribil*, Executive Director of the OeNB, and chaired by *Doris Ritzberger-Grünwald*, Director of the OeNB's Economic Analysis and Research Department. In his opening remarks, Pribil stressed that the issue of reviving growth in the CESEE region – a region that has always been of strategic interest for the OeNB – was key in order to ensure a renewed phase of economic catching-up.

In his presentation, *Aasim Husain* explained that the current REI, in contrast to its predecessor Regional Economic Outlook (REO), focuses entirely on the CESEE region and is more strongly issues oriented. He stated that financial markets in CESEE have been under pressure since spring 2013. According to Husain, CESEE countries with weaker fundamentals and with larger previous inflows have been affected more strongly. The past five years have been a setback for convergence with Western Europe.

Bas Bakker then explained that, due to a drop in growth potential that was worse than in other emerging market economies, post-crisis growth in CESEE has been disappointing. Looking ahead, headwinds to potential growth are substantial. He confirmed, however, that CESEE is starting to come out of this downturn, as it benefits from the pickup in the euro area. Bakker further remarked that space for countercyclical policies is limited in many countries: fiscal deficits are still elevated and public debt is rising. Thus, it is essential to achieve "faster, higher, stronger" growth in CESEE by taking four decisive steps:

(1) *Addressing crisis legacies*: Cleaning up the existing stock of nonperforming loans (NPLs) will be crucial to break the vicious circle of high NPLs and low growth. (2) *Boosting the tradable sector*: Bakker outlined how more balanced growth and trade openness foster growth. Attracting productive FDI inflows could help the tradable sector grow faster. (3) *Improving the investment climate*: Many countries should simplify regulations, strengthen competition and increase investor protection in order to improve the investment climate. (4) *Ensuring a well-functioning labor market*: High unemployment has a large structural component, but is also caused by weak growth and corporate balance sheet adjustments. Enhanced active labor market policies and education are needed to improve labor market outcomes.

¹ CESEE refers to Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, FYR Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, the Slovak Republic, Slovenia, Turkey and Ukraine.