

The Regional Perspective

ECFIN Workshop on the Czech Republic – Drivers of Growth

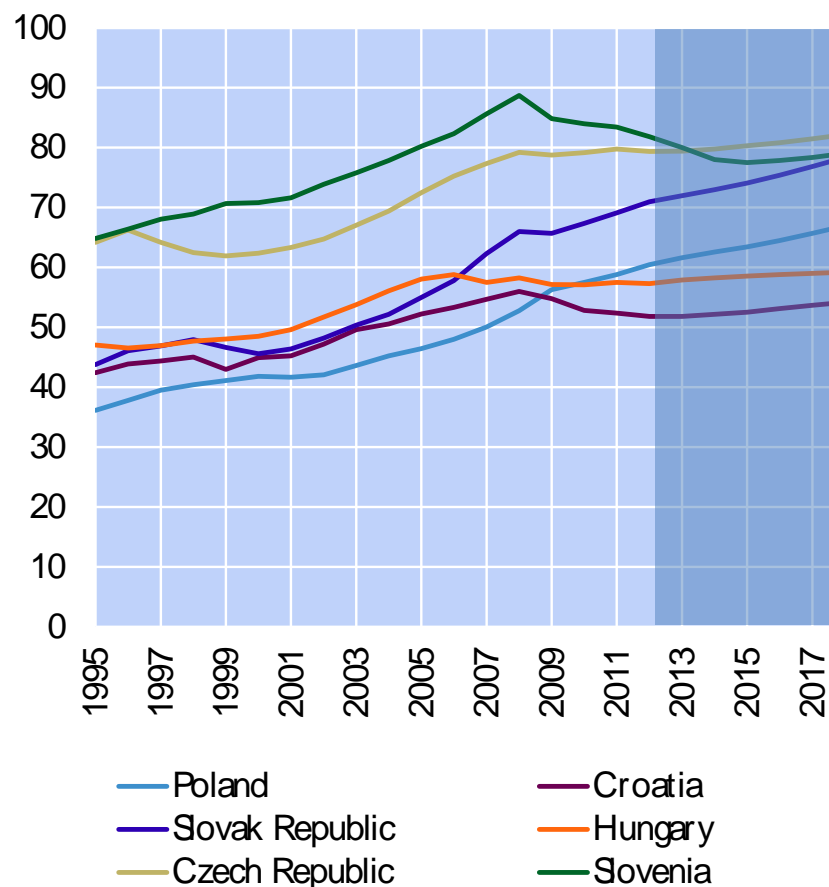
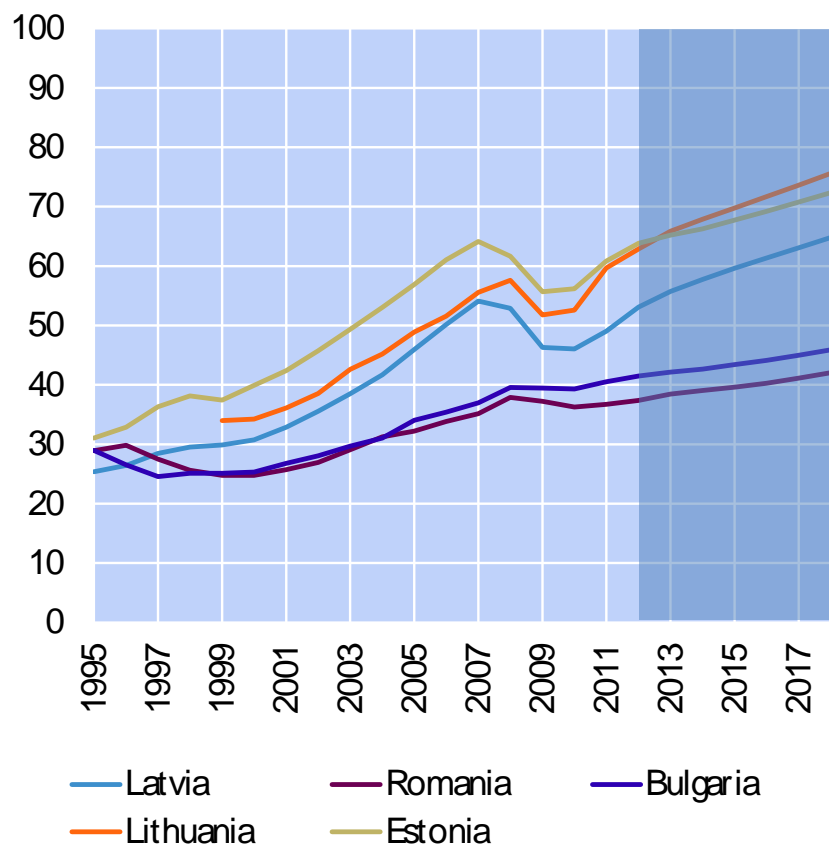
Dr. Doris Ritzberger-Grünwald

Director of the Economic Analysis and Research Department
Oesterreichische Nationalbank

The region before and during the crisis

Unprecedented catching-up process of the CESEE countries

GDP per capita (at PPP) of the CESEE EU MS in percent of the EA average

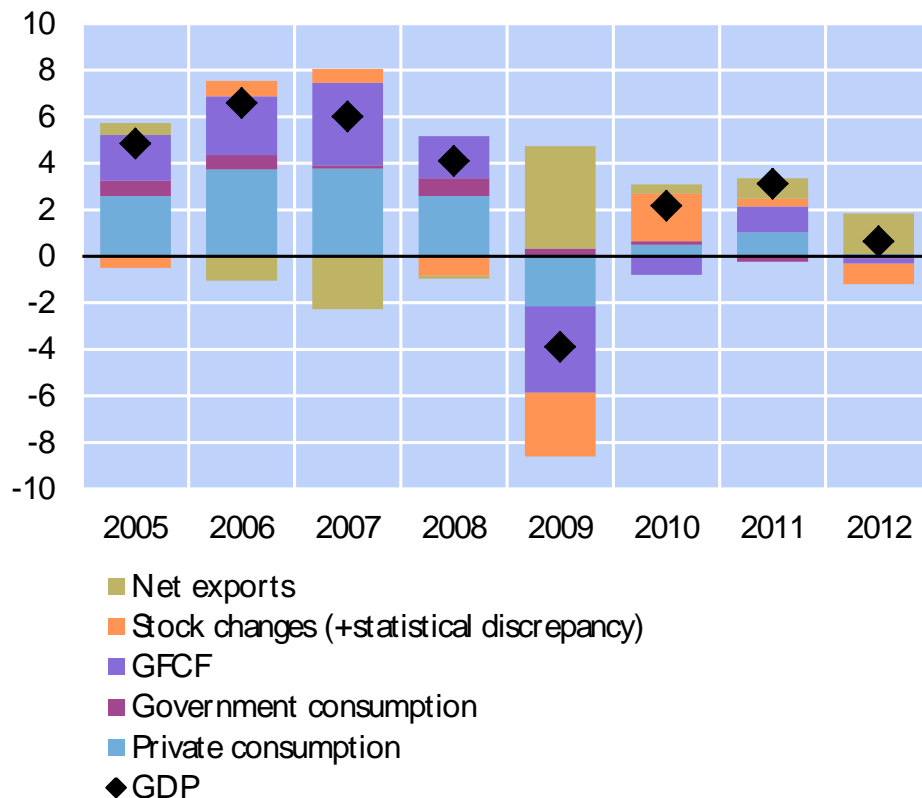


Source: IMF.

When the crisis hit, growth drivers were reversed...

CESEE: Contributions to real GDP growth

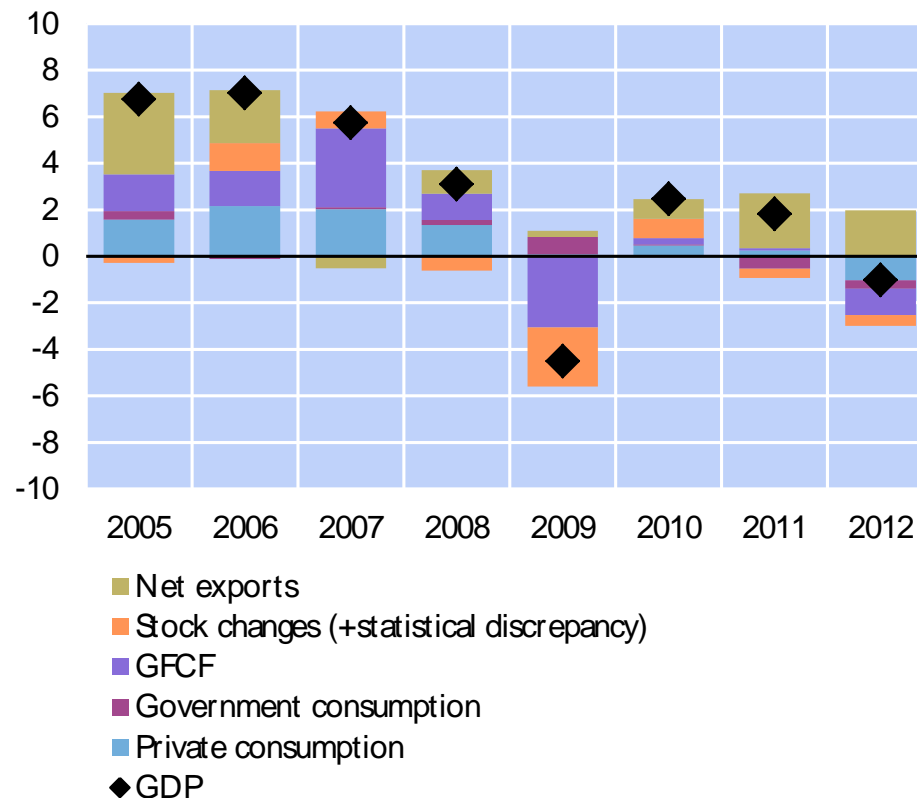
in percentage points, GDP growth in %



Source: Eurostat, OeNB

CZ: Contributions to real GDP growth

in percentage points, GDP in %



Source: Eurostat, OeNB

...and the external accounts improved strongly

CESEE: Current account

in % of GDP



CZ: Current account

in % of GDP

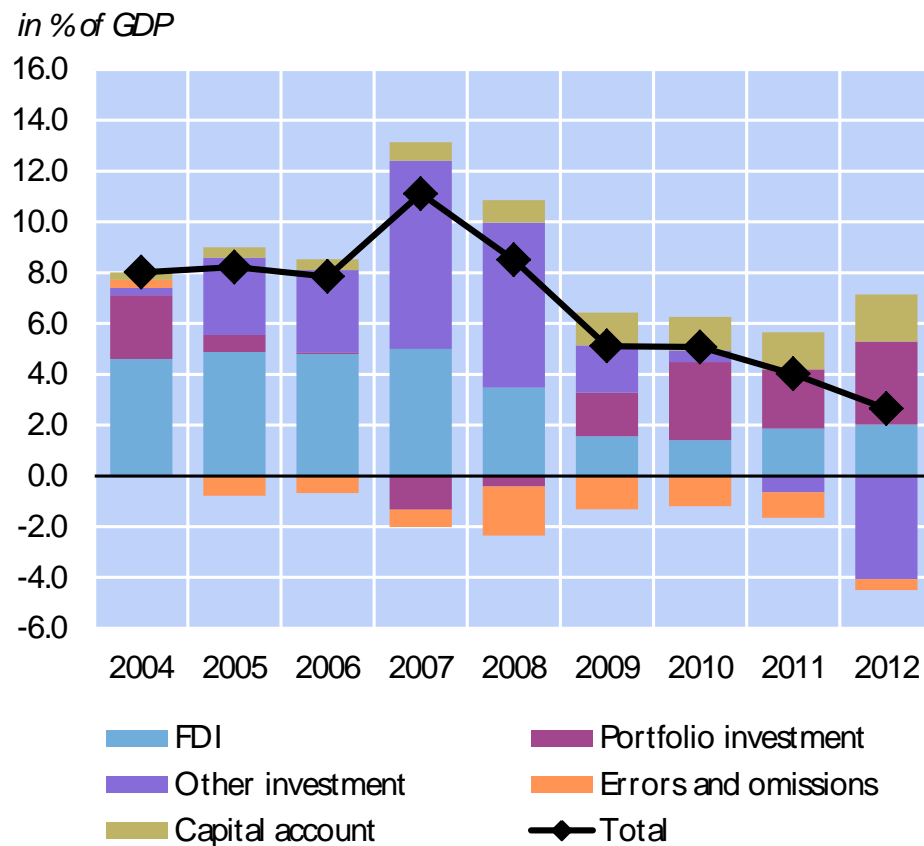


Source: NCBs, Eurostat, OeNB

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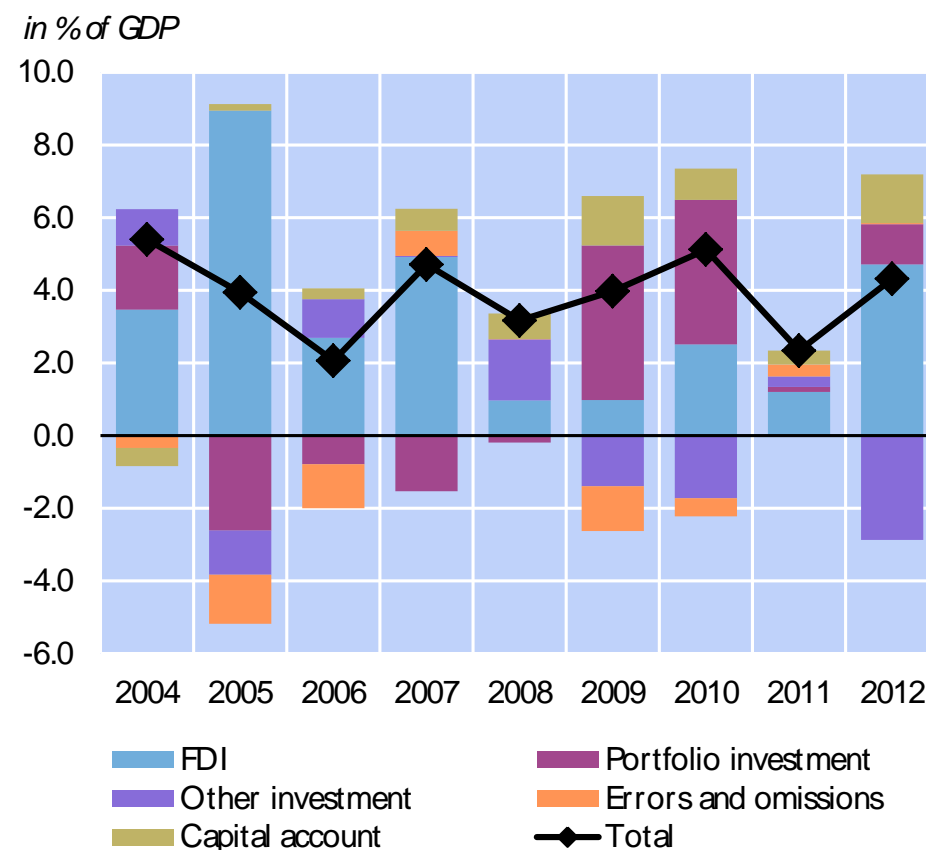
Capital inflows slowed down...

CESEE: Financial account



Source: NCB, OeNB

CZ: Financial account

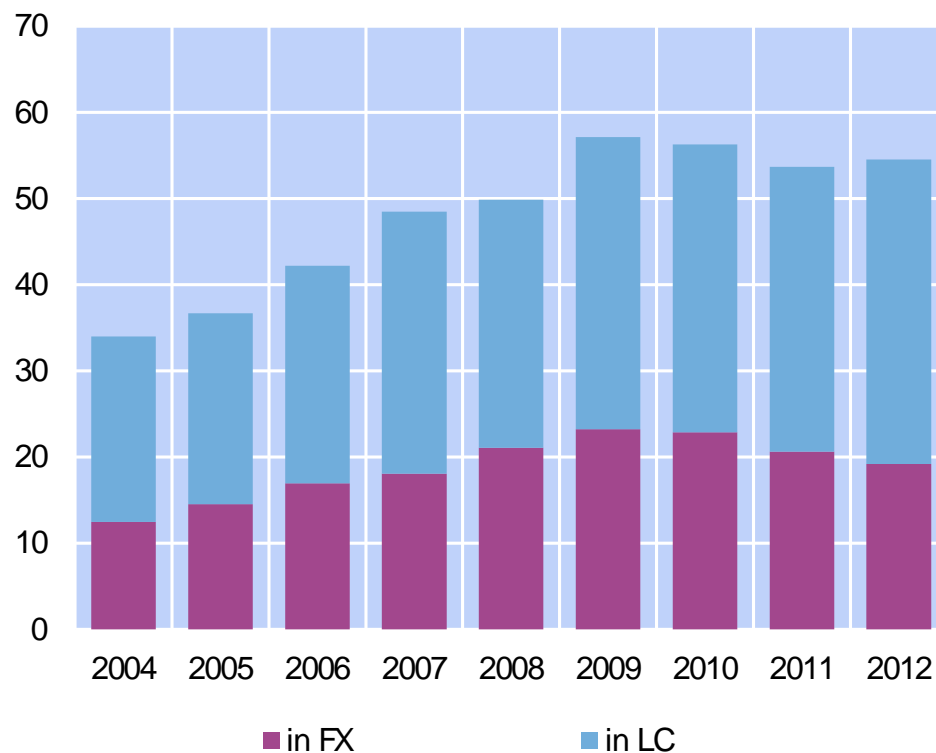


Source: NCB, OeNB

...and credit growth came to a halt

CESEE: Credit to other resident sectors

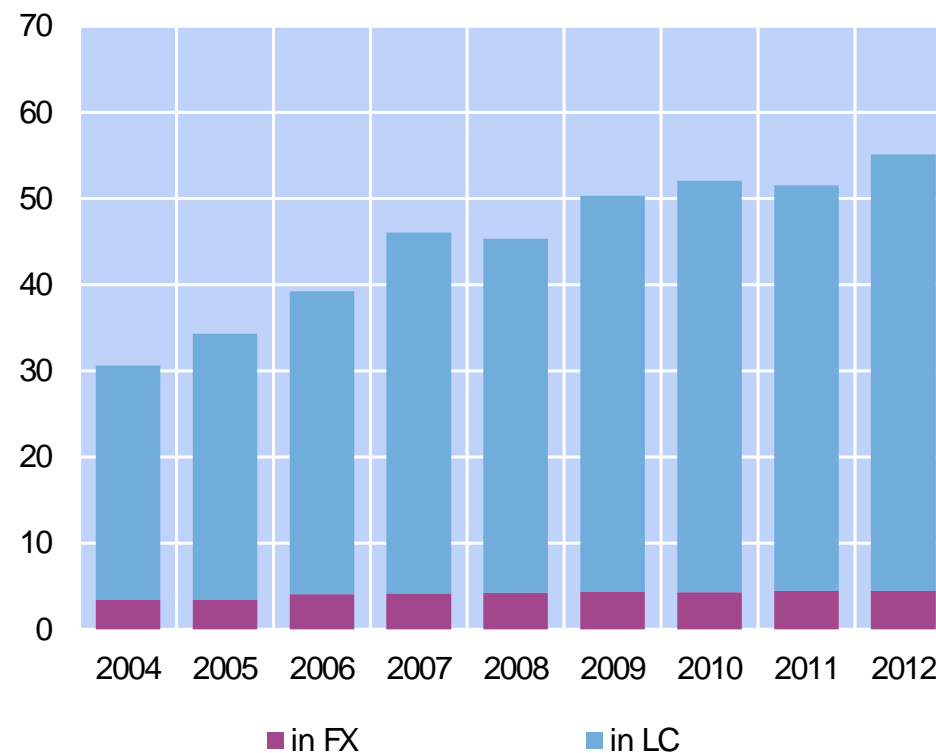
In % of GDP



Source: NCB, OeNB

CZ: Credit to other resident sectors

In % of GDP

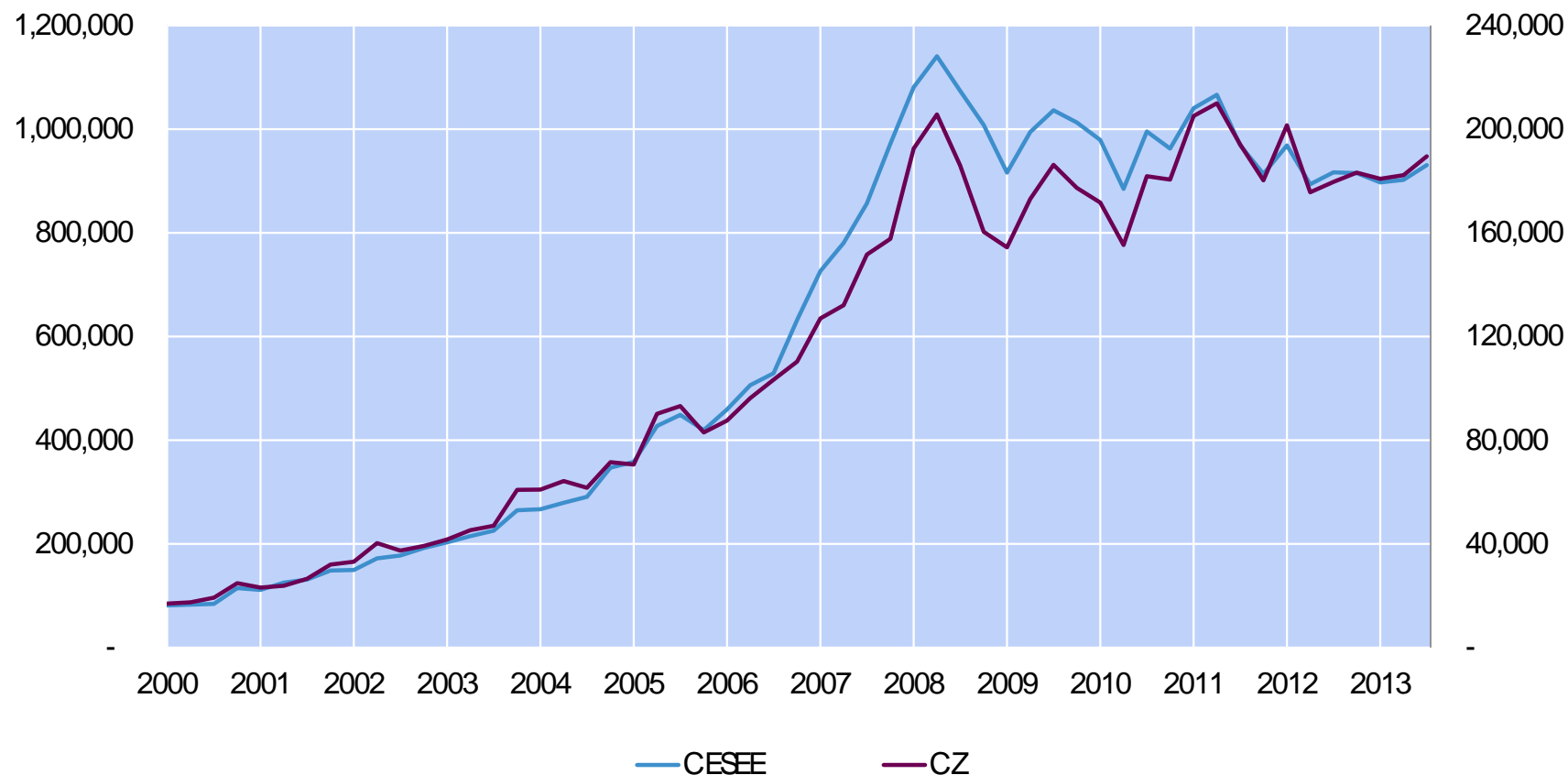


Source: NCB, OeNB

Broadly stable exposure of European banks vis-à-vis CESEE

Consolidated foreign claims of European BIS reporting banks

immediate borrower basis, in USD mn

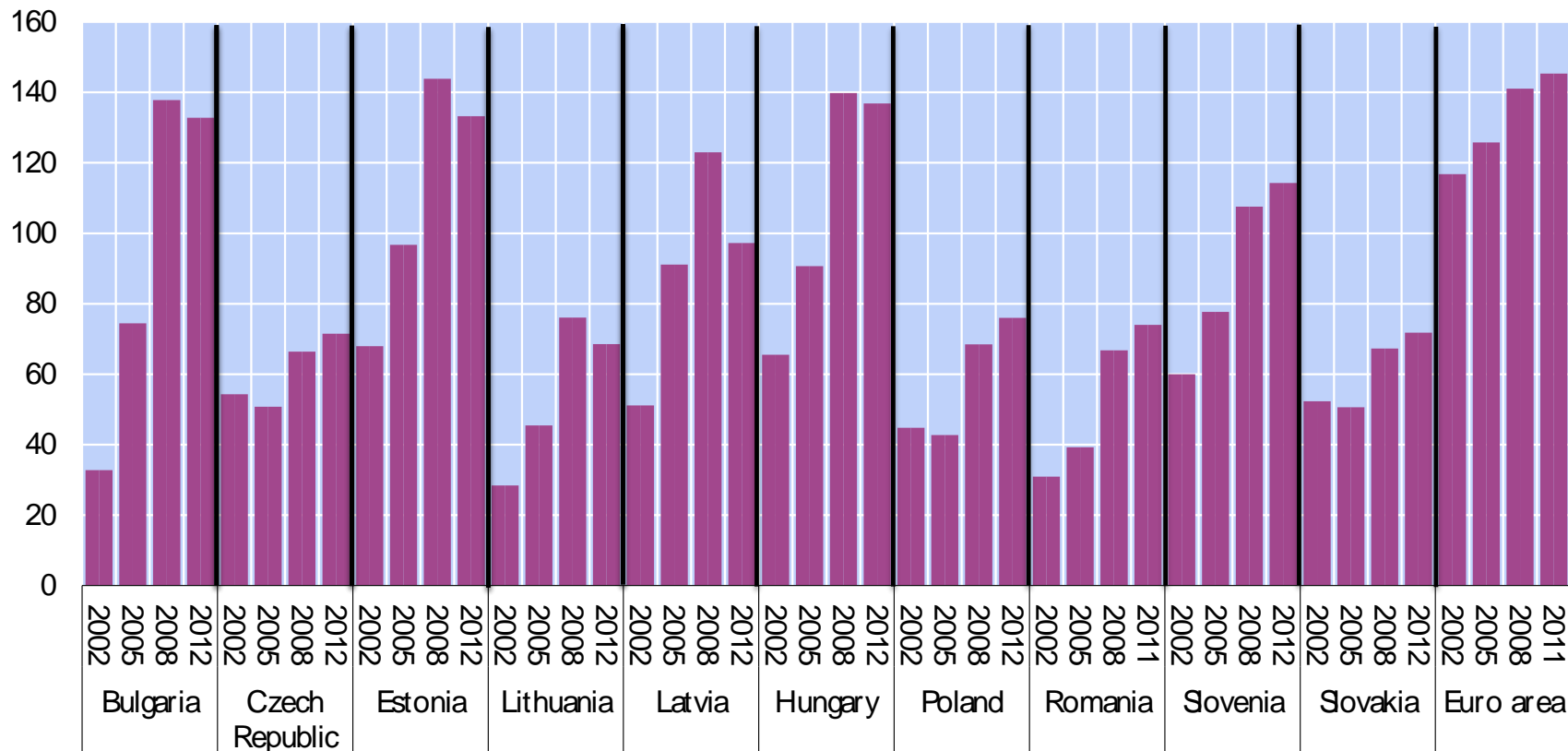


Source: BIS, OeNB

Private sector debt levels – deleveraging proceeds slowly

Private Sector Debt

in % of GDP



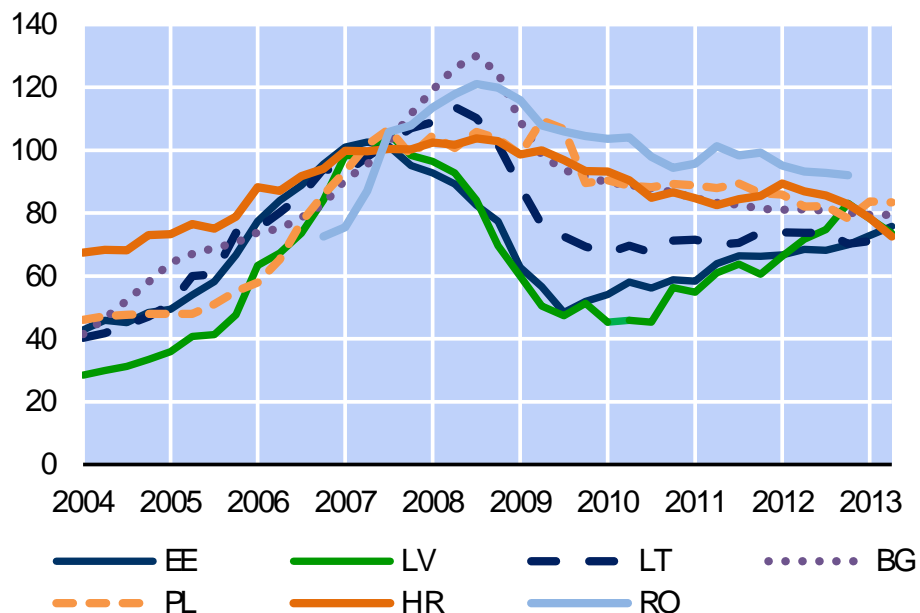
Source: Eurostat, OeNB

Note: Based on consolidated data.

House price bubbles in several countries

Countries with larger house price changes

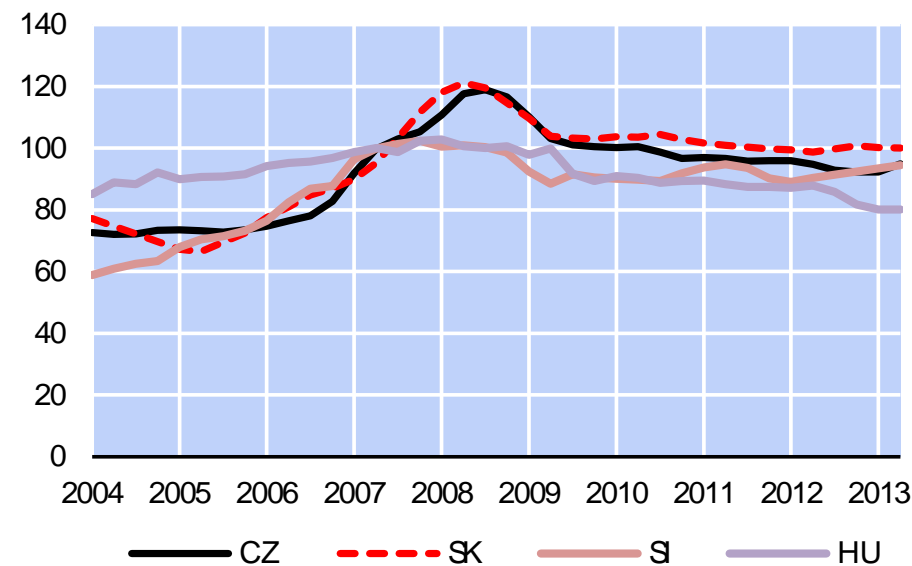
Nominal house prices, Index (2007=100)



Source: Eurostat, BIS, ECB, REAS (Residential Advisors), NCB, NSO, OeNB

Countries with smaller house price changes

Nominal house prices, Index (2007=100)

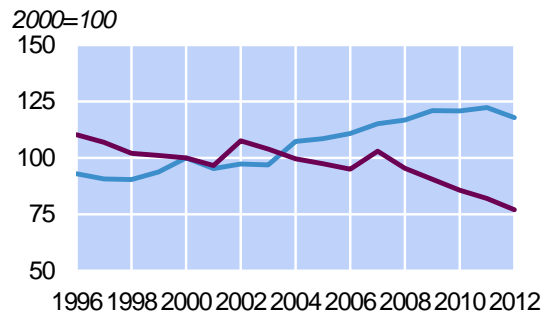


Source: BIS, ECB, FHB, NCB, NSO, OeNB

Loss of price competitiveness compensated for by quality improvements

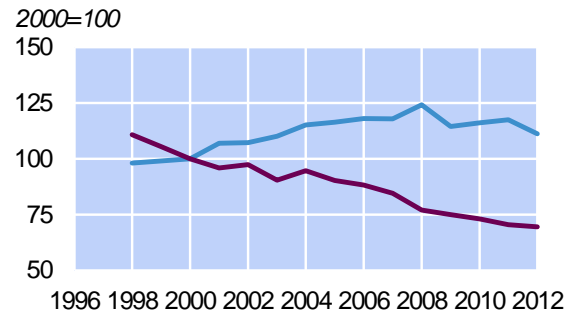
Export Price Index, Adjusted for Changes in Quality and Tastes

Bulgaria



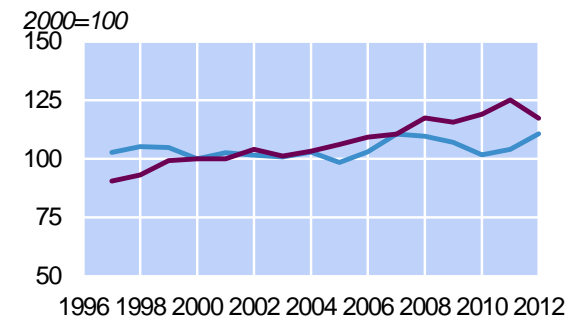
— Conventional
— Quality-adjusted

Czech Republic



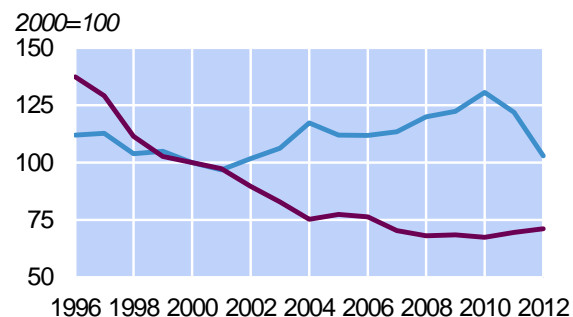
— Conventional
— Quality-adjusted

Croatia



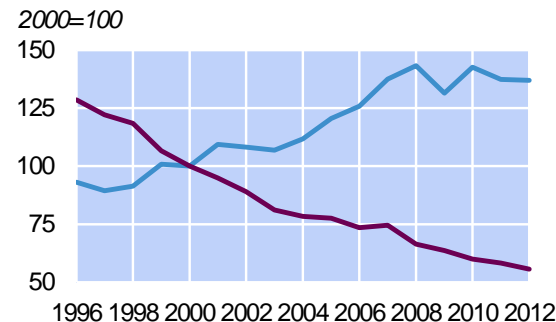
— Conventional
— Quality-adjusted

Hungary



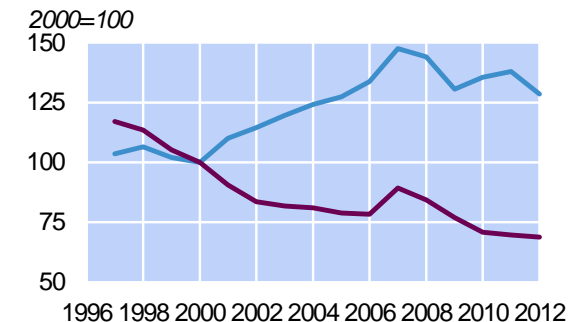
— Conventional
— Quality-adjusted

Poland



— Conventional
— Quality-adjusted

Romania



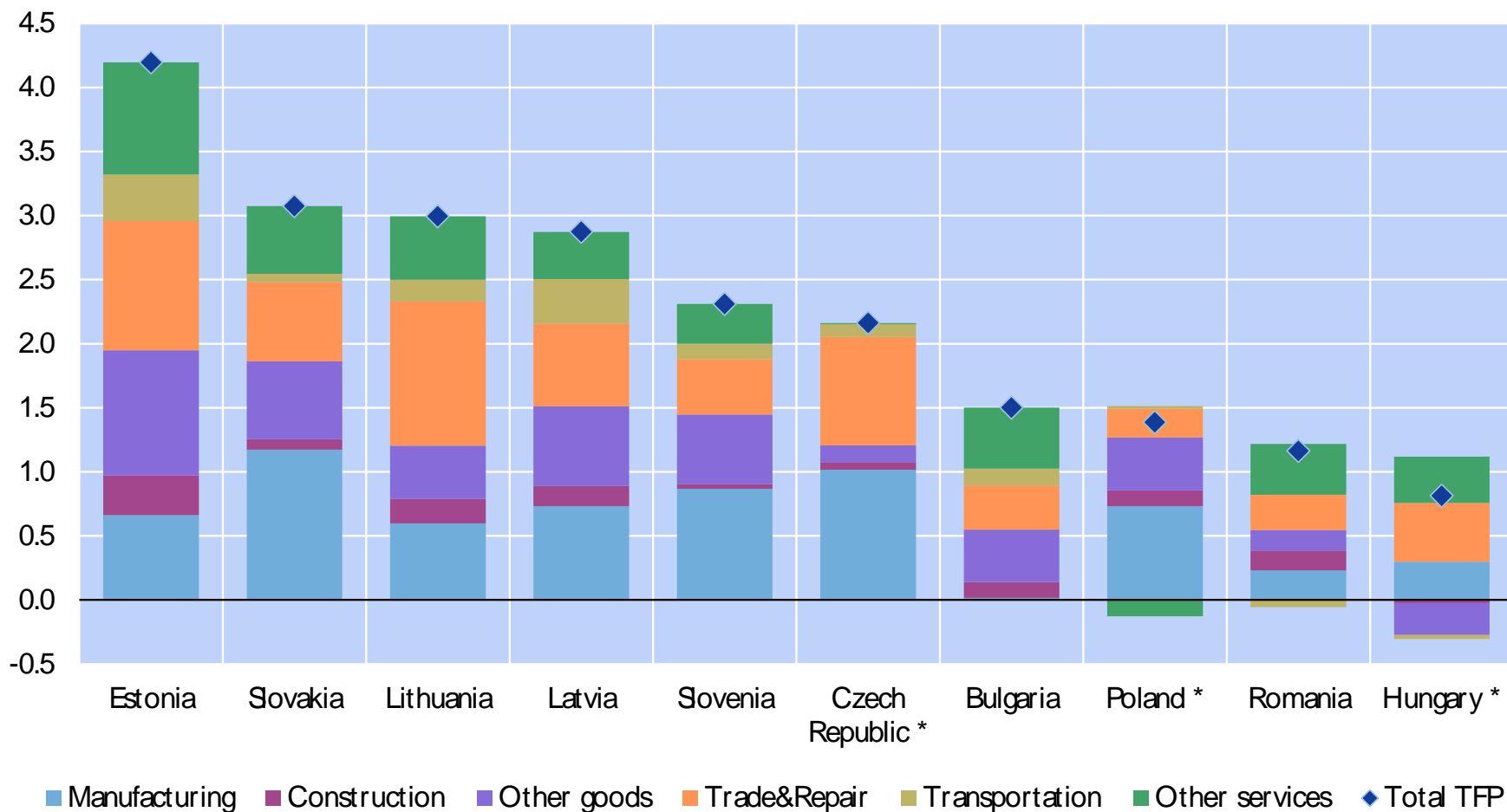
— Conventional
— Quality-adjusted

Remark: falling prices = rising competitiveness.

Source: calculations by Latvijas Banka and OeNB

Total Factor Productivity Growth by Industries, 1996-2009

in percentage points, TFP growth in %

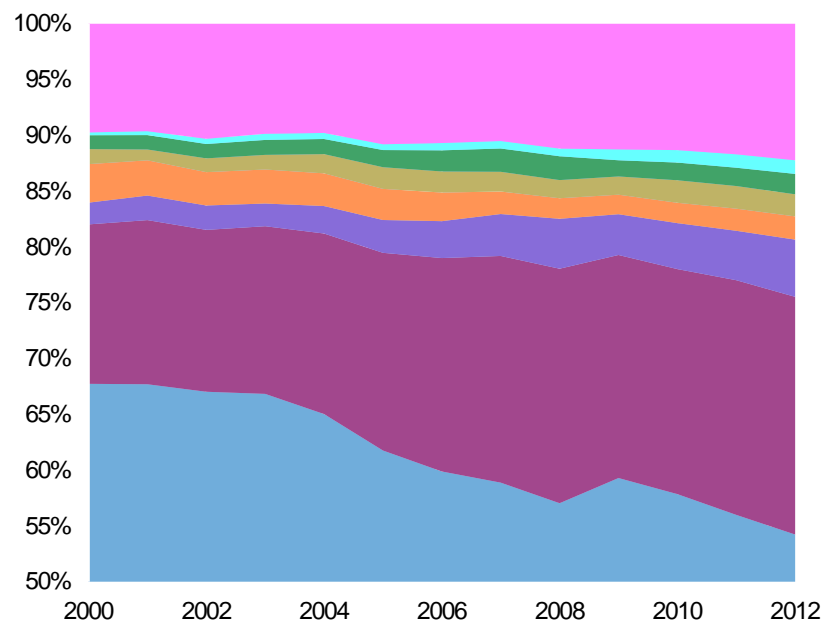


*) 1996-2007.

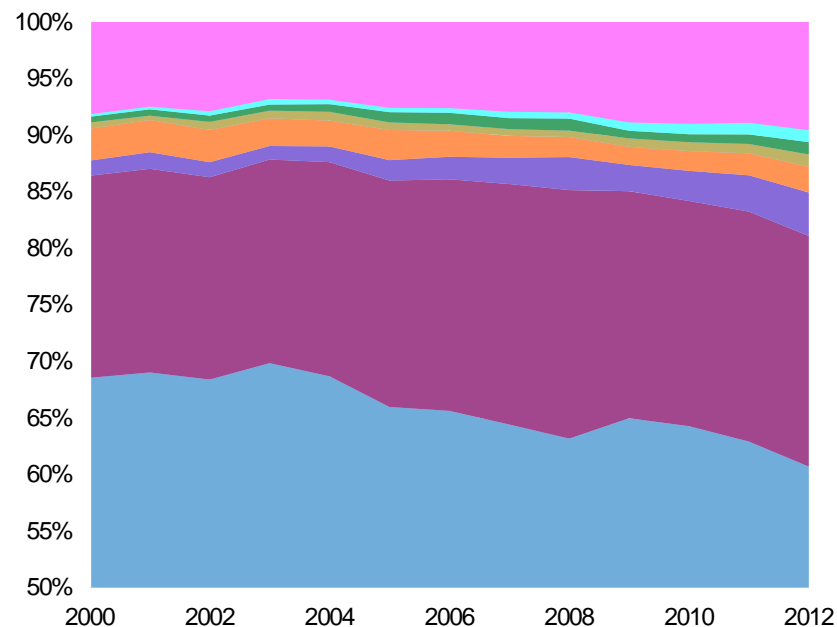
Importance of EU15 as an export destination declines

Exports by partner countries (in % of total exports)

CESEE



Czech Republic



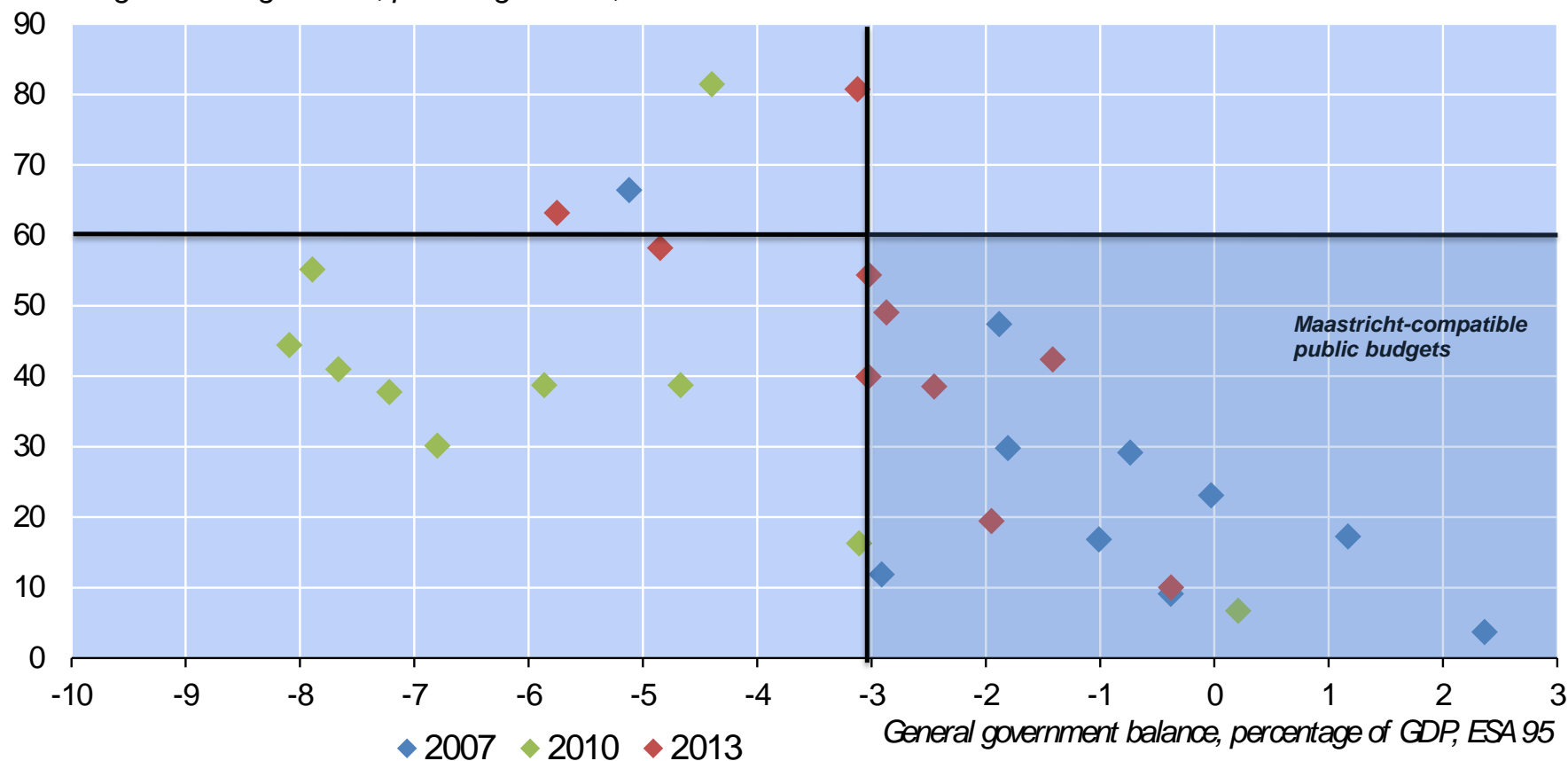
- EU-15
- CESEE
- Russia
- USA
- Turkey
- Ukraine
- China
- Rest of the world

Source: Eurostat, OeNB

Progress on the fiscal front

Fiscal Developments in the CESEE EU Member States

General government gross debt, percentage of GDP, ESA 95



Source: European Commission., OeNB

Things that have been achieved

- **Getting growth started on average**
- **Some reduction of private and public sector indebtedness**
- **Reduction of FX lending**
- **Some improvement in local funding**
- **House price corrections**
- **Tightening prudential regulation/supervision**

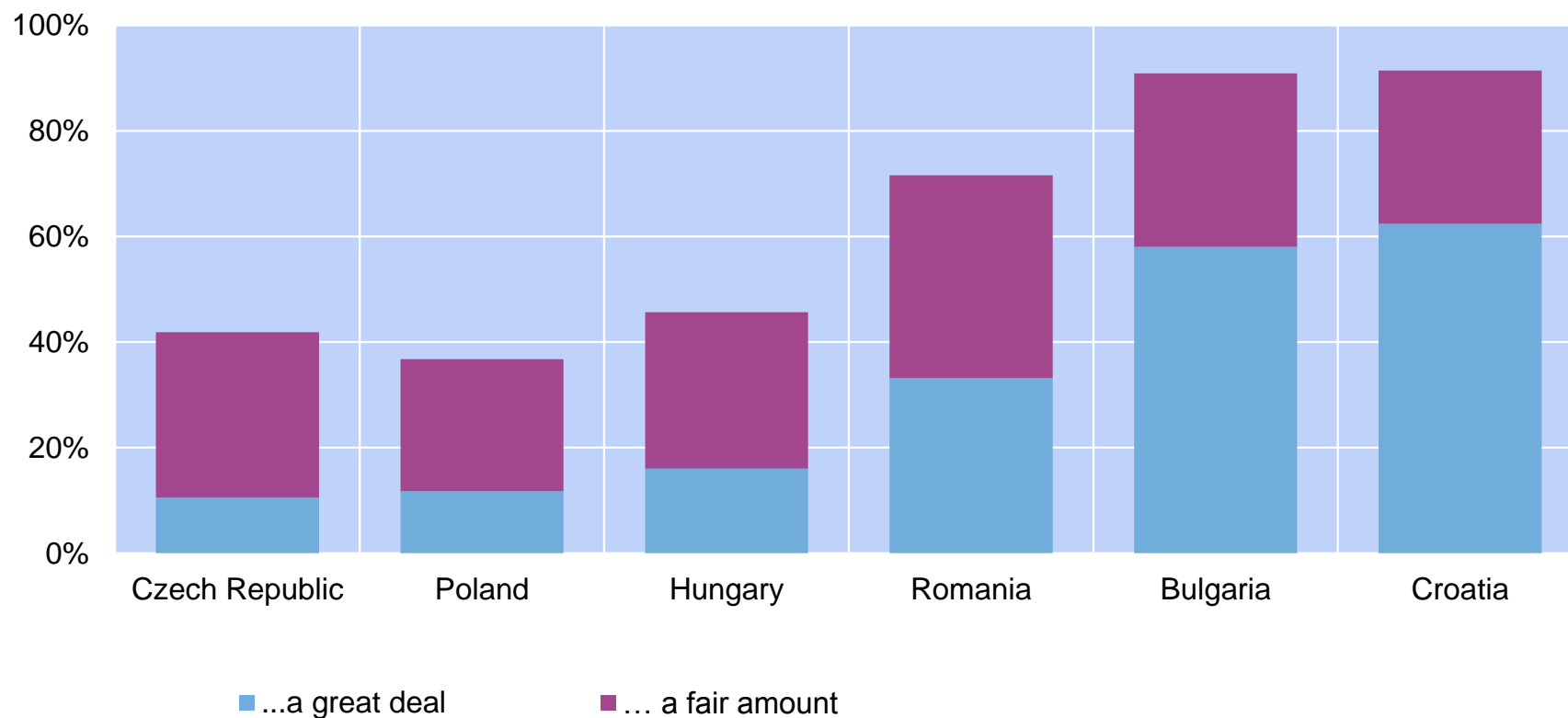
Things that remain to be done

- **Consolidating the growth momentum**
- **Further reduction of public and private sector indebtedness**
- **External rebalancing needs to be continued**
- **Restarting credit growth (incl. banks' balance sheet clean up)**
- **Find resilient future growth model**
 - Fostering domestic savings and deposit financing and encouraging lending in domestic currencies
 - Improving competitiveness by investment in human capital and R&D
 - Supporting economic diversification
 - Increase domestic value creation in exports

Recent findings from the OeNB Euro Survey

Impact of the crisis on households differs in the region

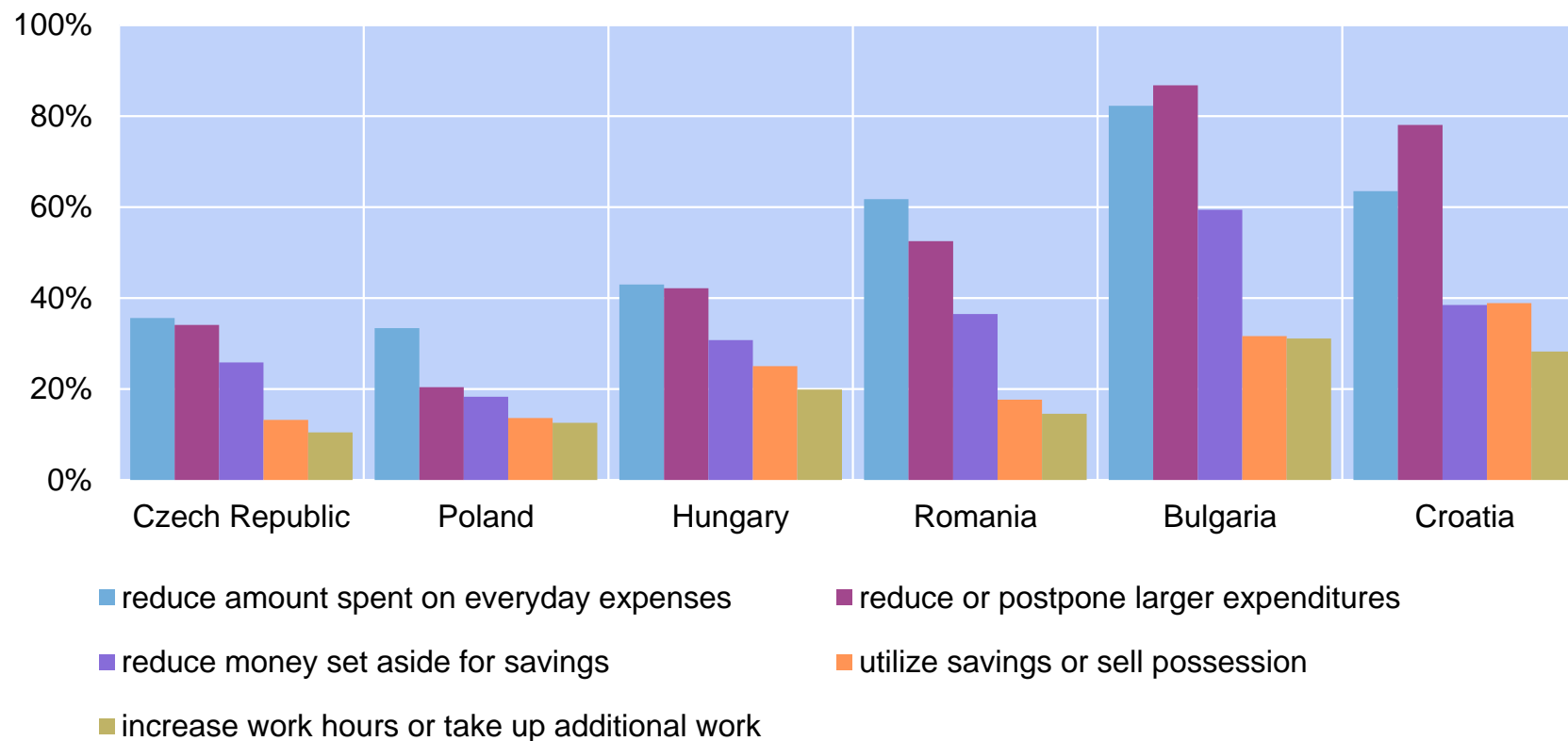
Households Have Been Affected by the Global Financial Crisis



Source: OeNB Euro Survey, Fall 2013.

Reduction of consumption expenditure most important response to the crisis

Measures Households Took to Cope with Crisis



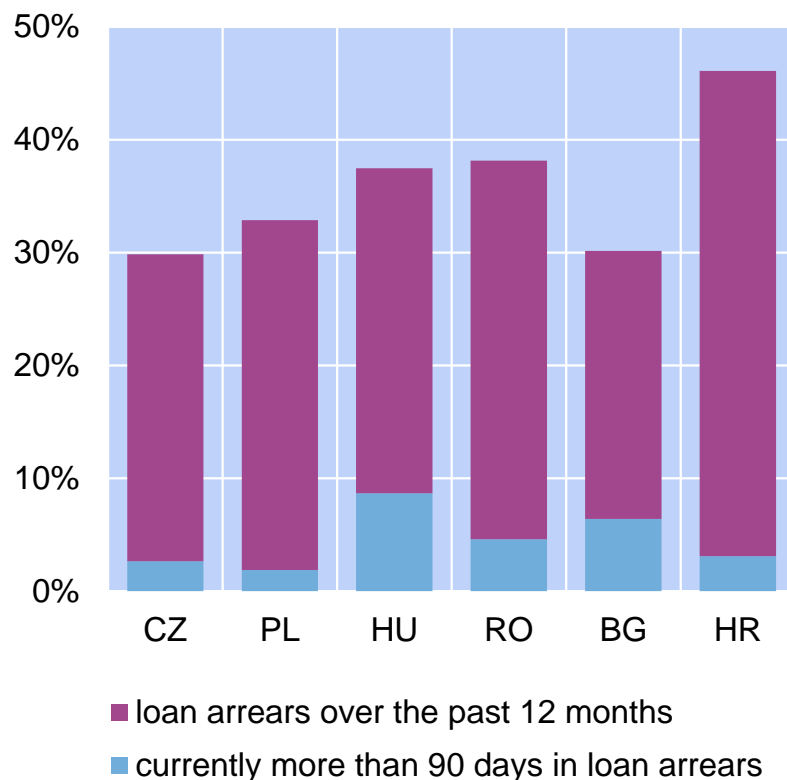
Source: OeNB Euro Survey, Fall 2013.

Problems with loan servicing mostly related to lower earnings

Loan Arrears and Reasons for Arrears

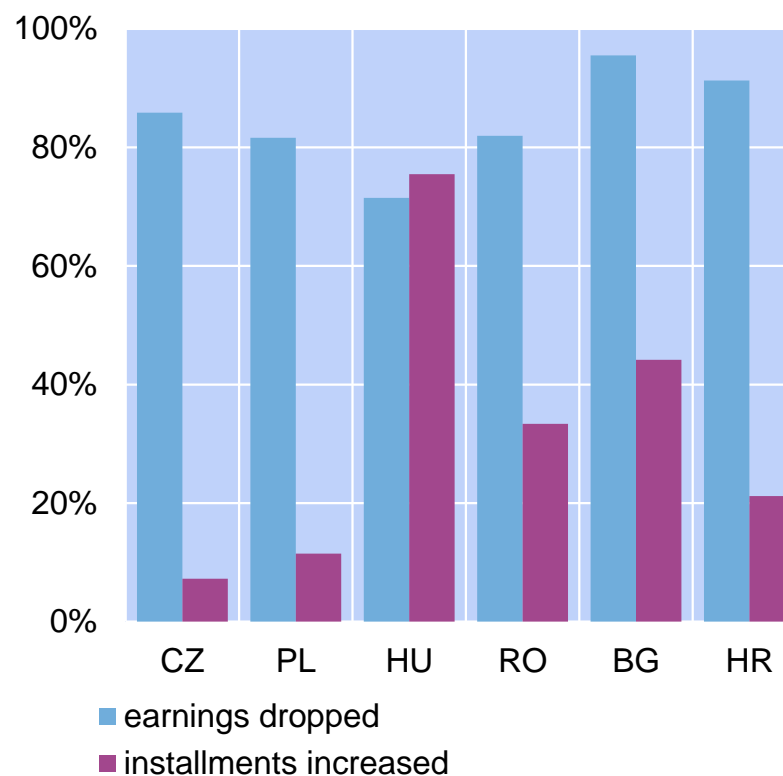
Loan Arrears

% of respondents with a loan



Reason for Loan Arrears

% of respondents in arrears

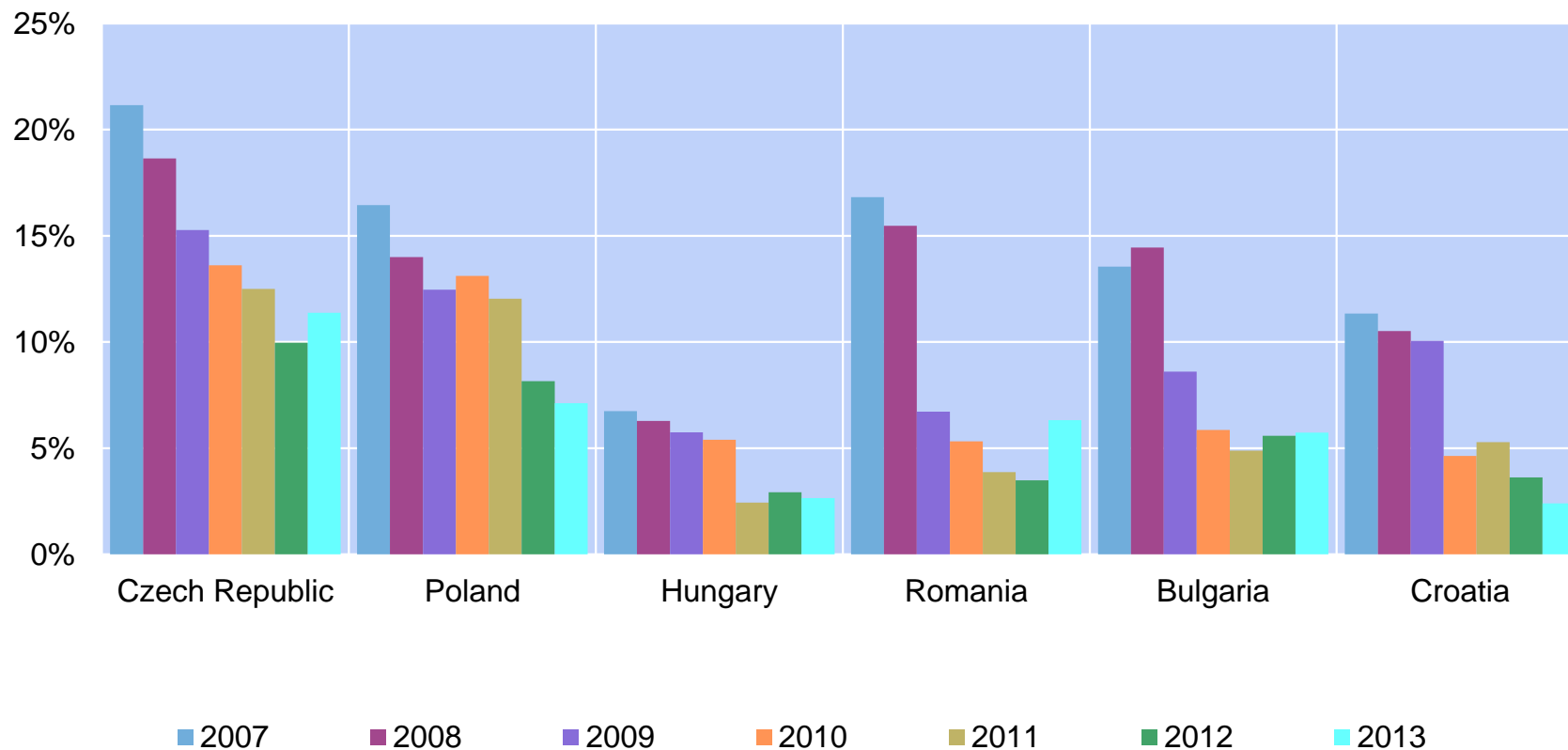


Source: OeNB Euro Survey, 2013.

Rising loan demand in the offing?

Plan to Take Out a Loan in the Next 12 Months

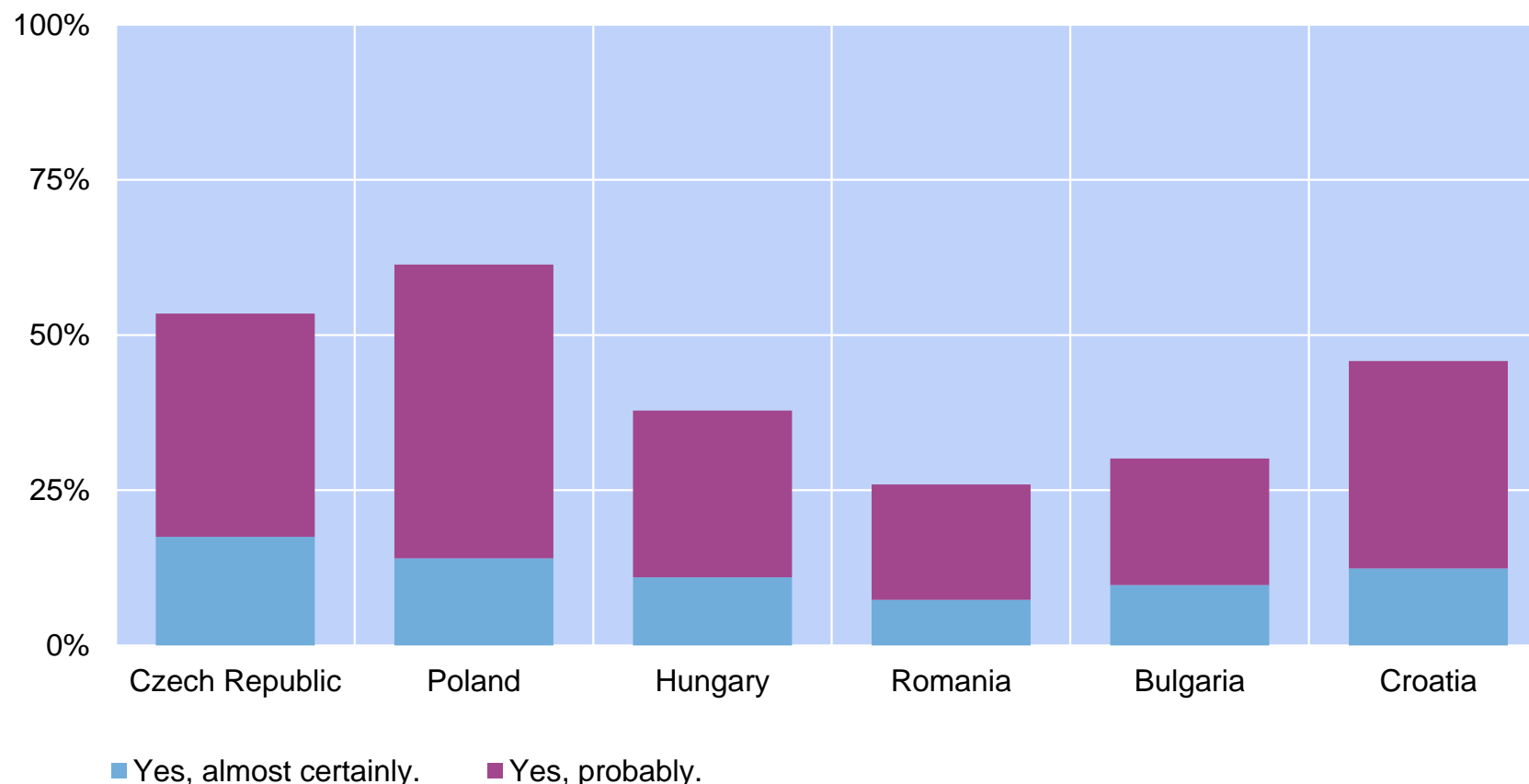
% of respondents



Source: OeNB Euro Survey.

Different perceptions concerning the access to finance

Generally speaking, would you have the possibility to borrow a significant amount of money from a bank?



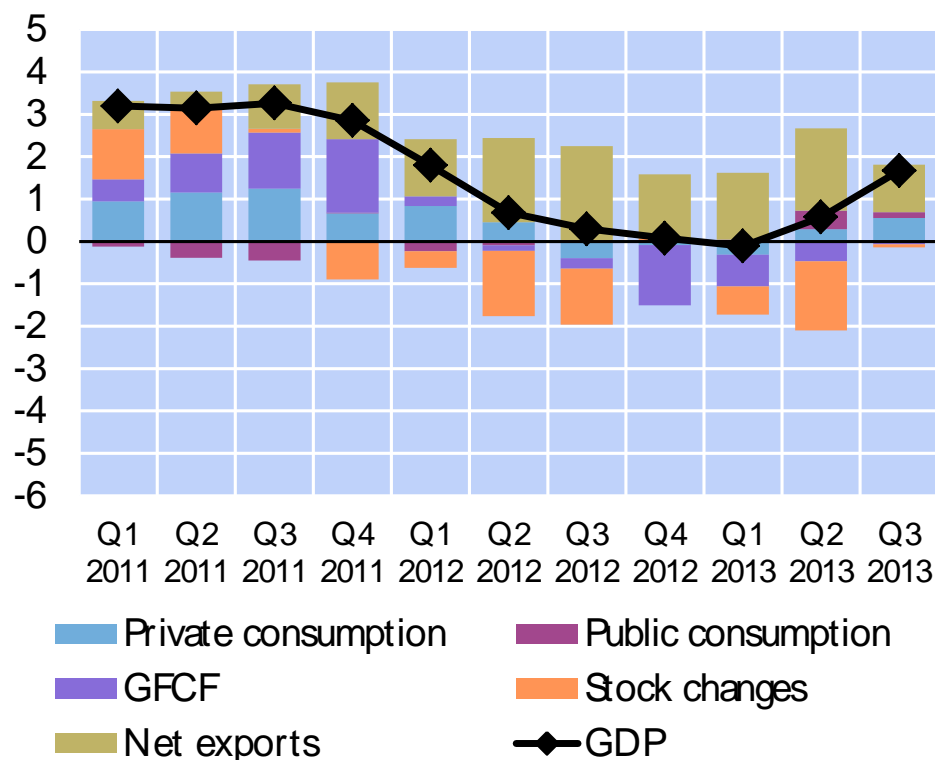
Source: OeNB Euro Survey, Fall 2013.

Outlook

Current situation: lights at the end of the tunnel

CESEE

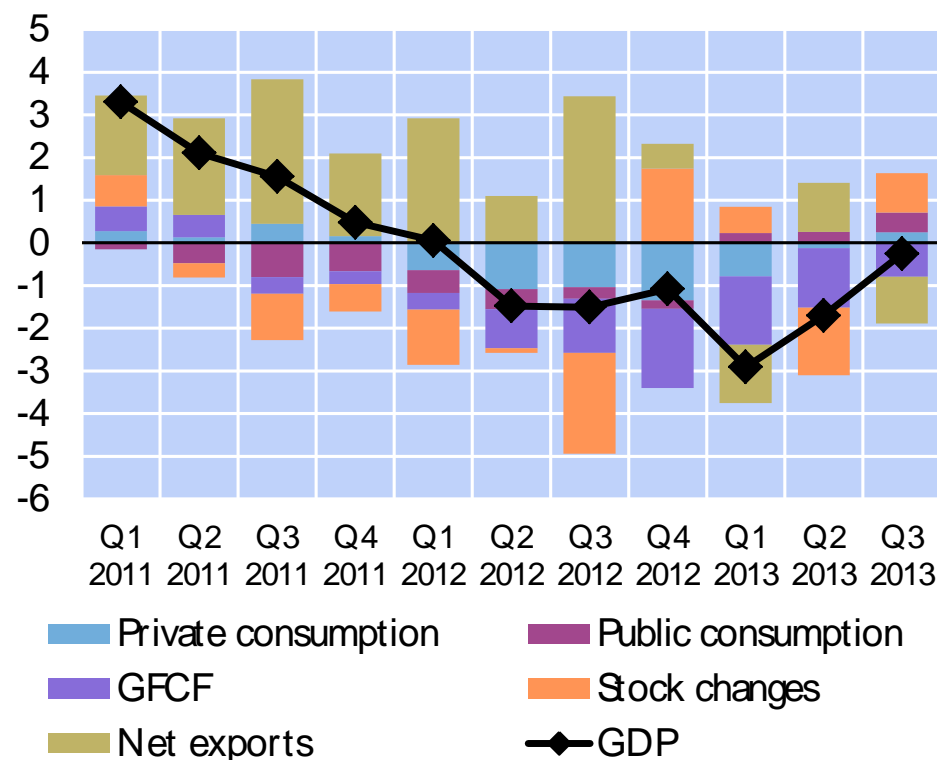
in percentage points, GDP growth in %



Source: Eurostat.

Czech Republic

in percentage points, GDP growth in %

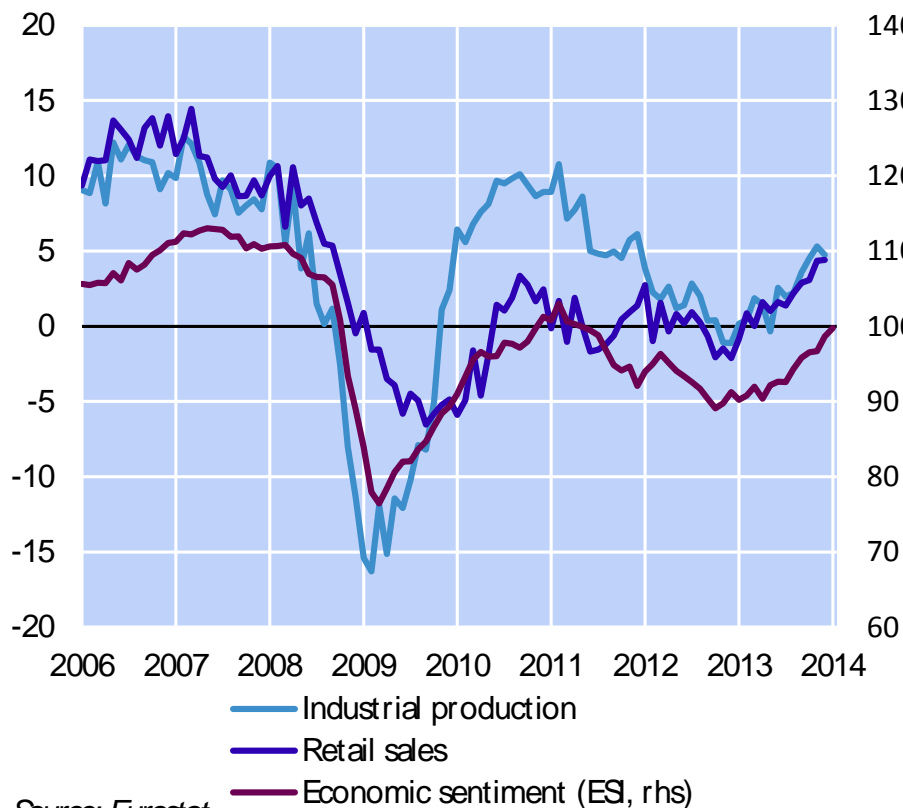


Source: Eurostat.

Current situation cont.

CESEE: Leading indicators

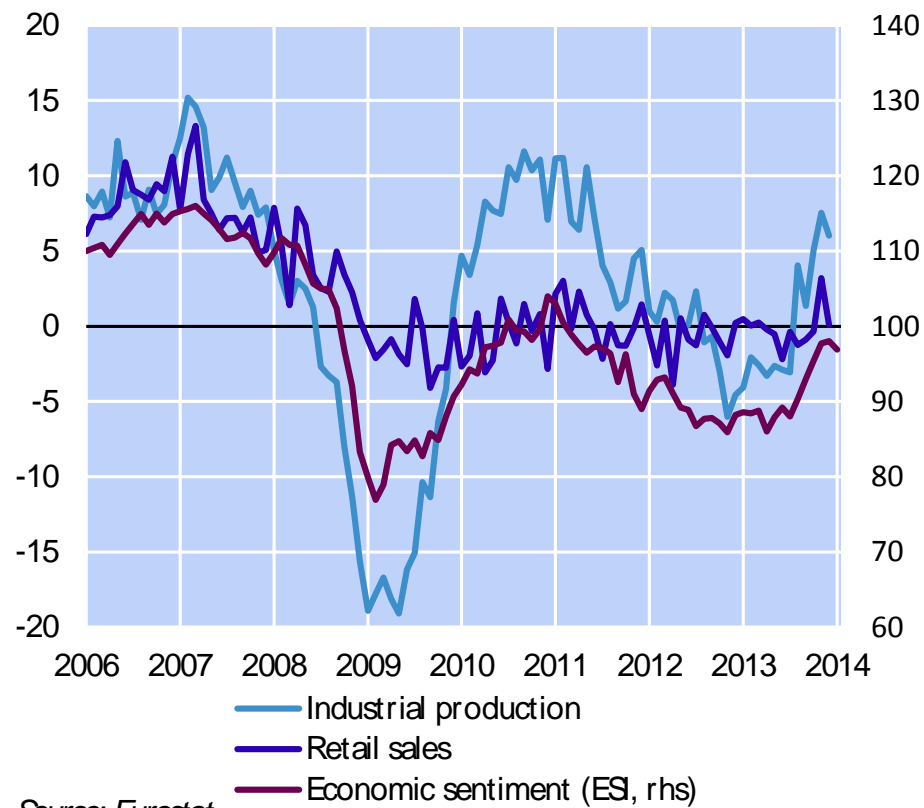
annual change in % and in points



Source: Eurostat.

CZ: Leading indicators

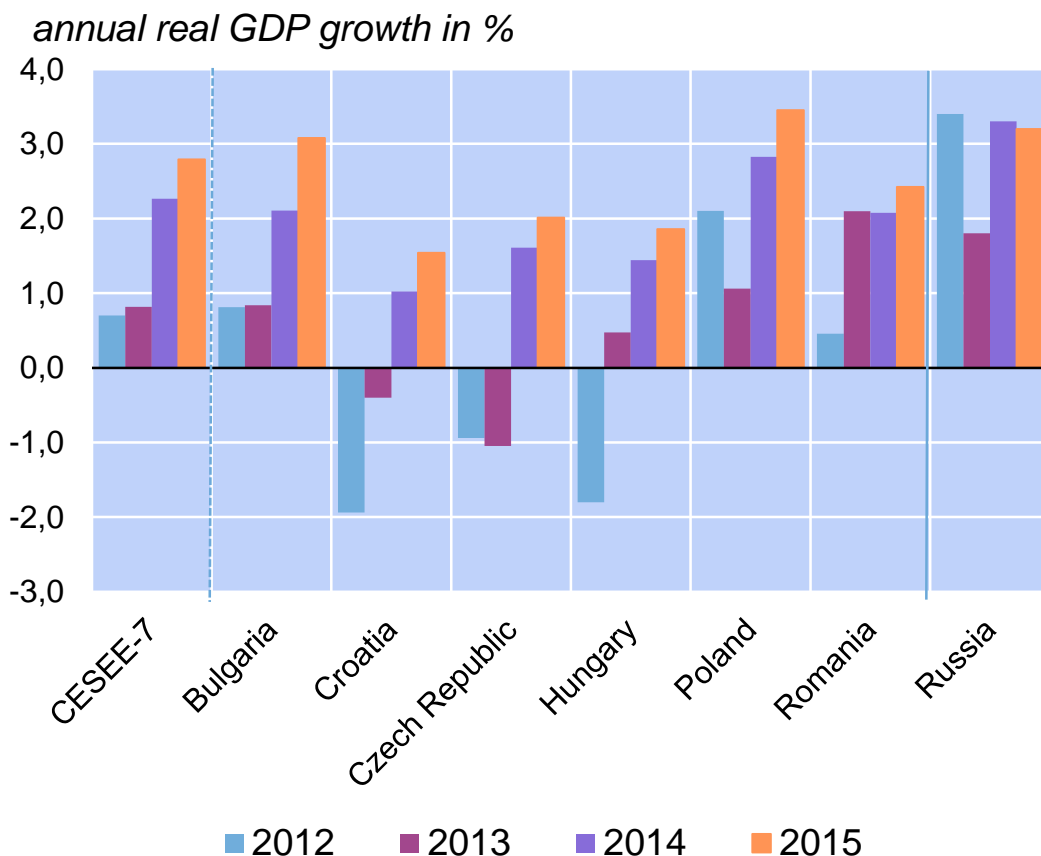
annual change in % and in points



Source: Eurostat.

Recovery to Gain Traction Gradually - Downside Risks Still Prevail

OeNB CESEE forecast, Oct. 2013



- **Rebound expected in 2014 after two consecutive years of GDP growth below 1%**
- **Growth driven by reviving domestic and external demand, in particular by private consumption and gross fixed capital formation**
- **Contribution of net exports will recede due to strengthening import demand**
- **Downside risks prevail**

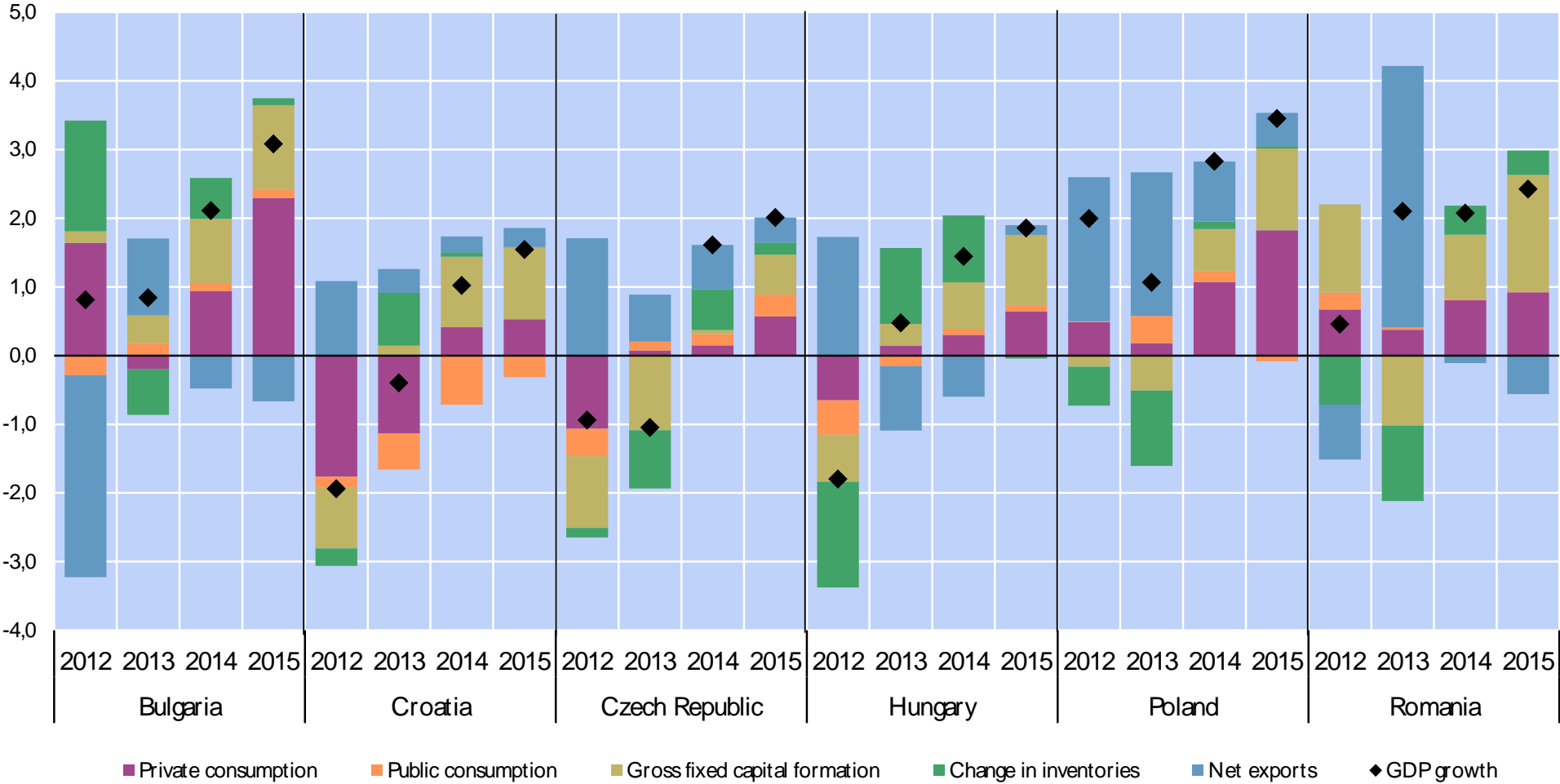
CESEE-7 = Non-Euro Area EU Member States in Central-, Eastern and Southeastern Europe.

October 2013 OENB Forecast: Nascent Domestic Demand, Contribution of Net Exports Recedes

Chart 1

GDP and GDP components, projections for 2013-2015

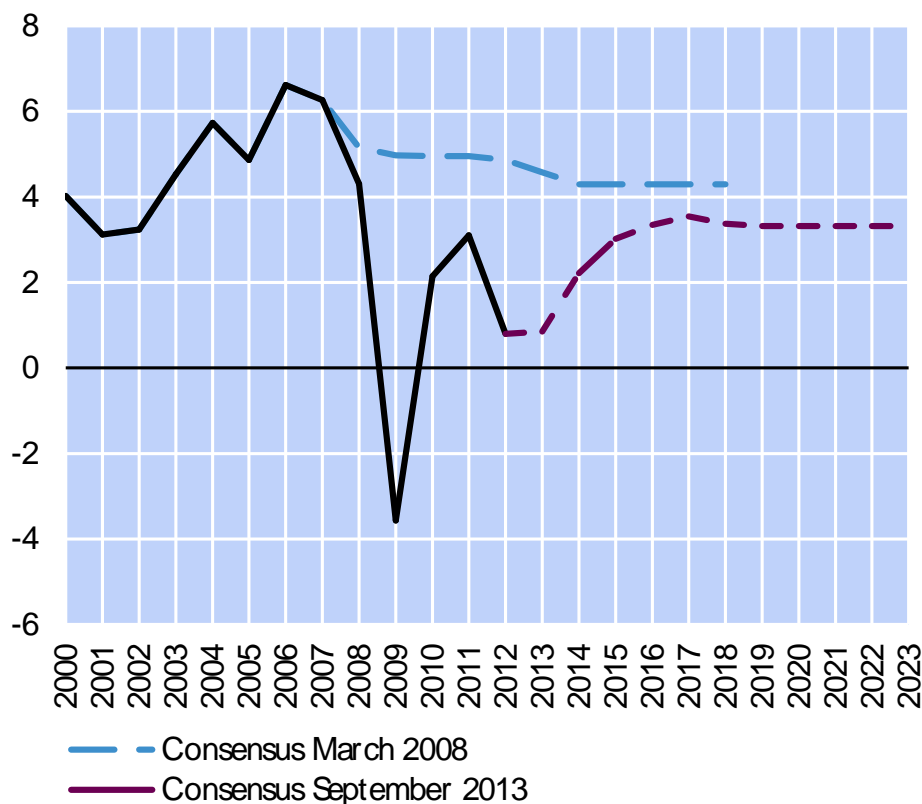
in percentage points, GDP growth: year-on-year in %



The long term perspective: Comparison on of different forecast vintages

CESEE

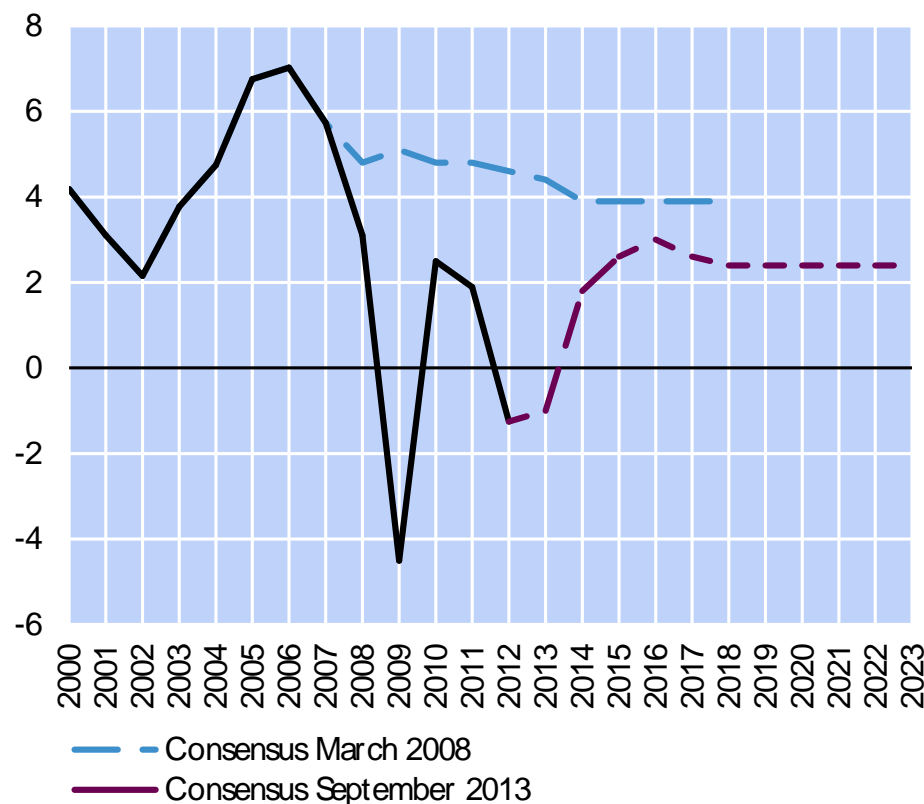
real GDP growth in %



Source: Consensus Economics, OeNB

CZ

real GDP growth in %



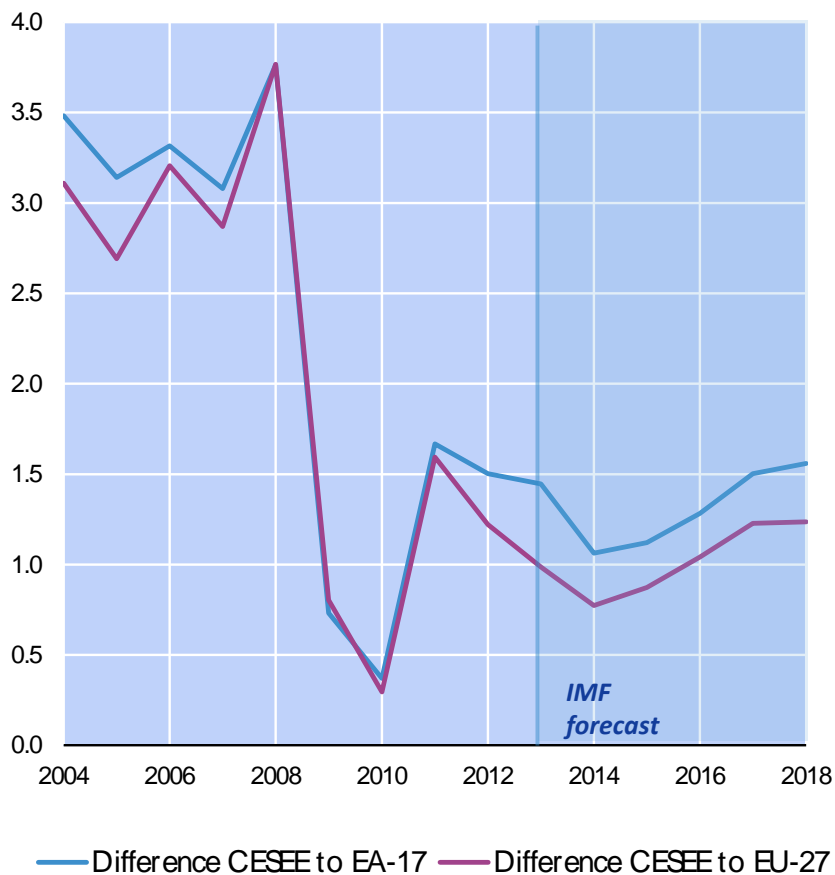
Source: Consensus Economics

Convergence has slowed down considerably

Convergence between CESEE-11 and the Euro area

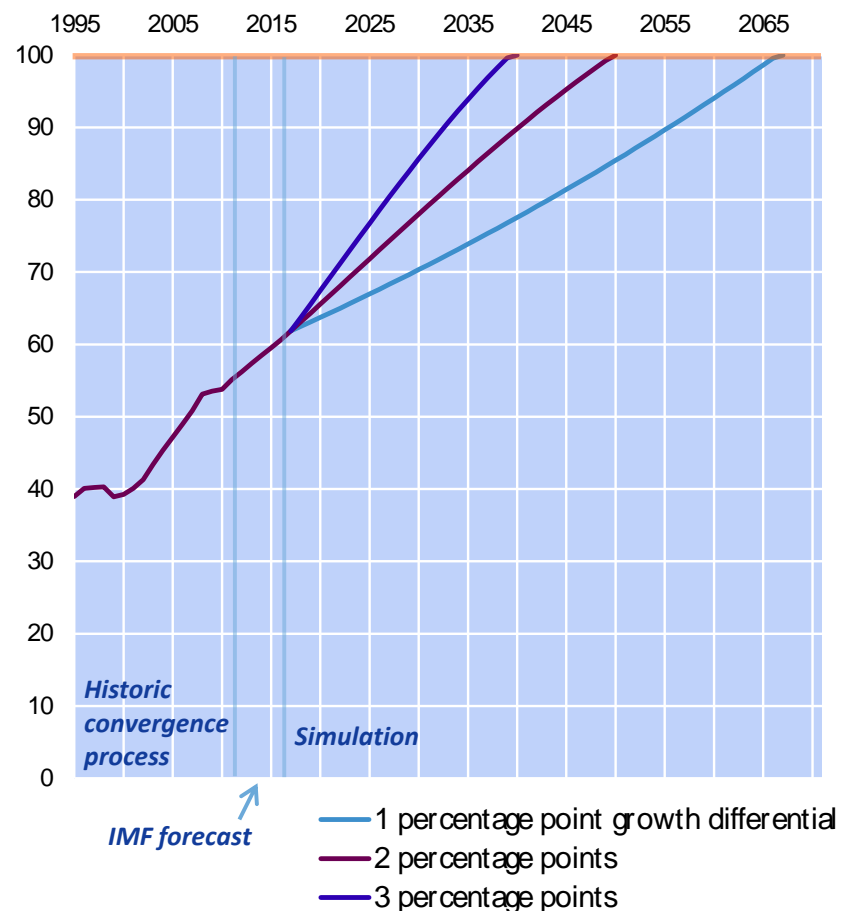
GDP growth differential

Year-on-year change in %



Simulated convergence paths

per capita GDP at FPP in % of Euro area (EA-12)



Sources: OeNB, IMF World Economic Outlook October 2013.