World Bank
EU10 Regular Economic Report

Zlata Koruna Conference

Prague

March 16, 2010

Overview

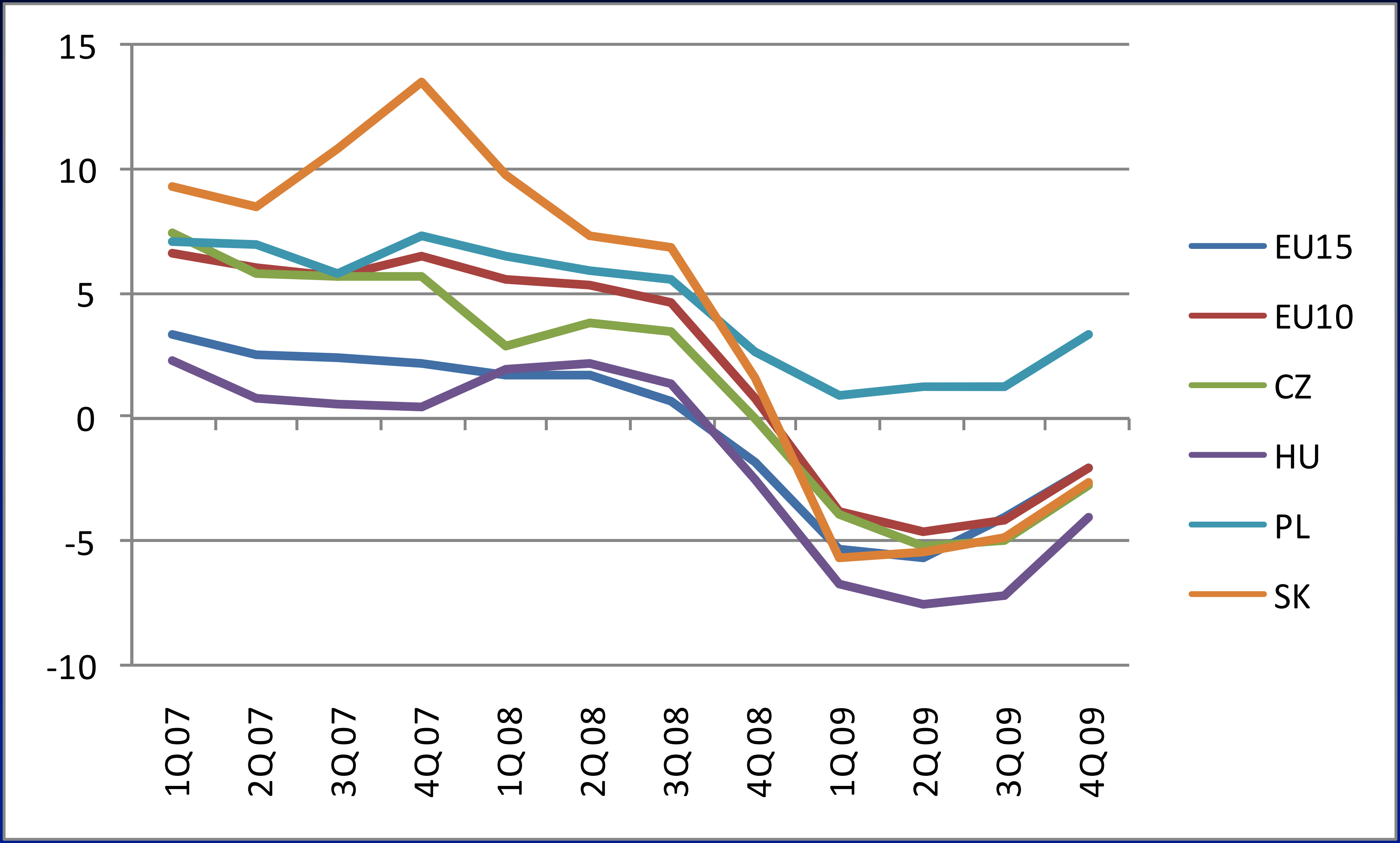
- What we have seen
  - Rebound
- What we can expect
  - Slow recovery
- What should be done
  - Exit strategies and structural reform

What we have seen

What we have seen

Economy – rebound

% change, yoy, nsa

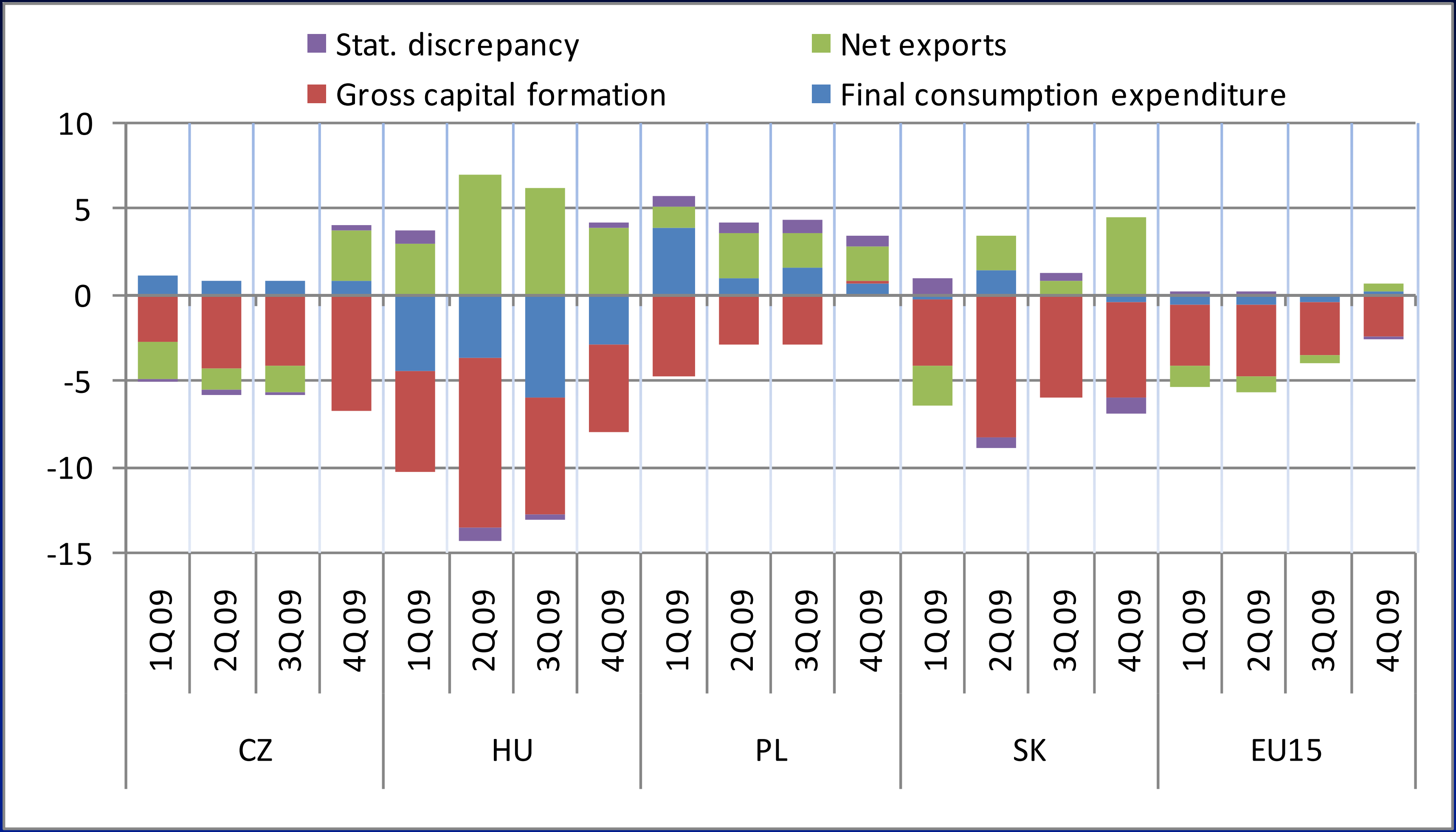


Source: Eurostat, World Bank Staff calculations.

What we have seen

Growth contributions – slump in investment

% change, yoy, nsa

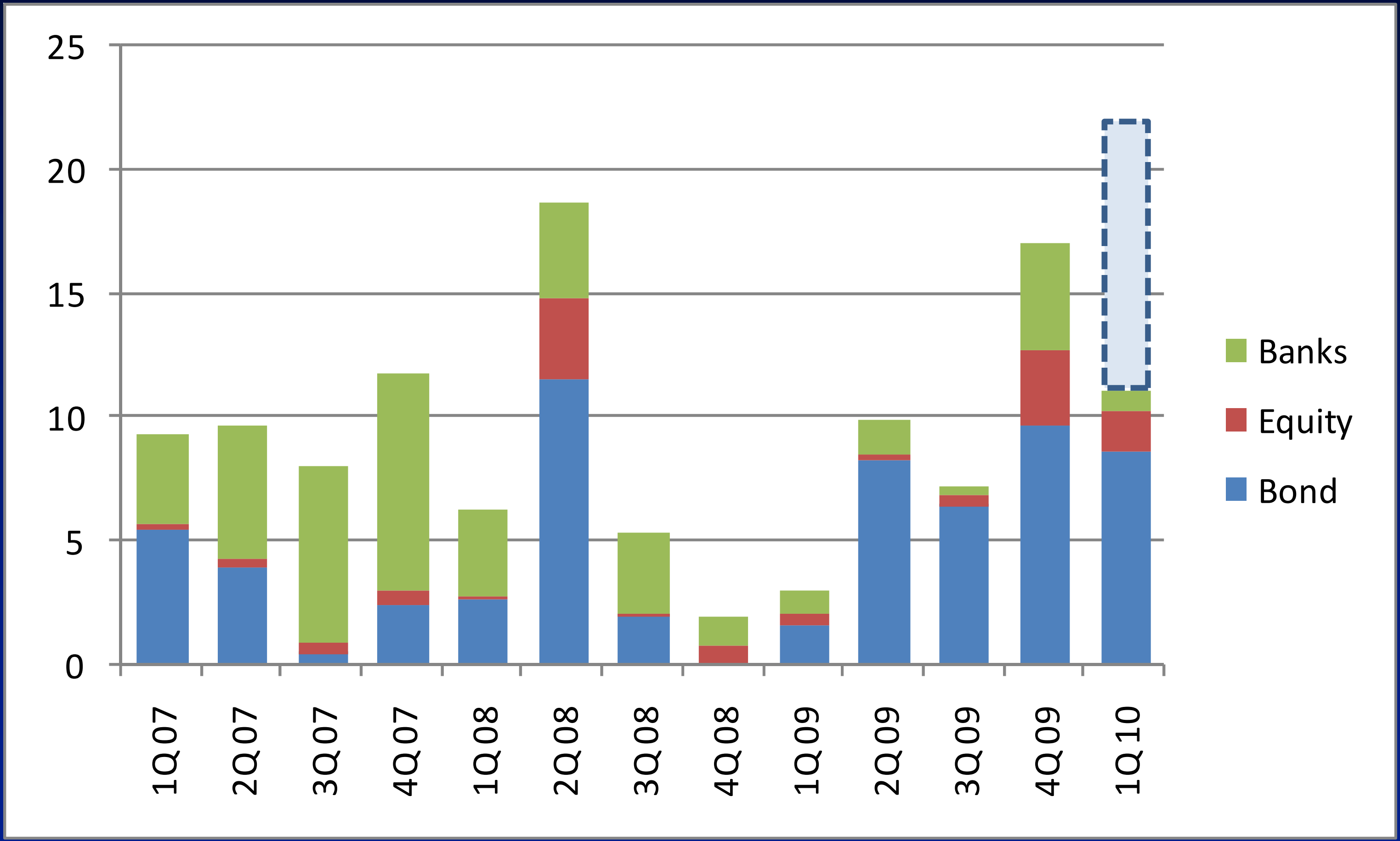


Source: Eurostat and World Bank.

What we have seen

Capital flows – strong bond issuance

Gross capital inflows to emerging EU9 (US$ billion)

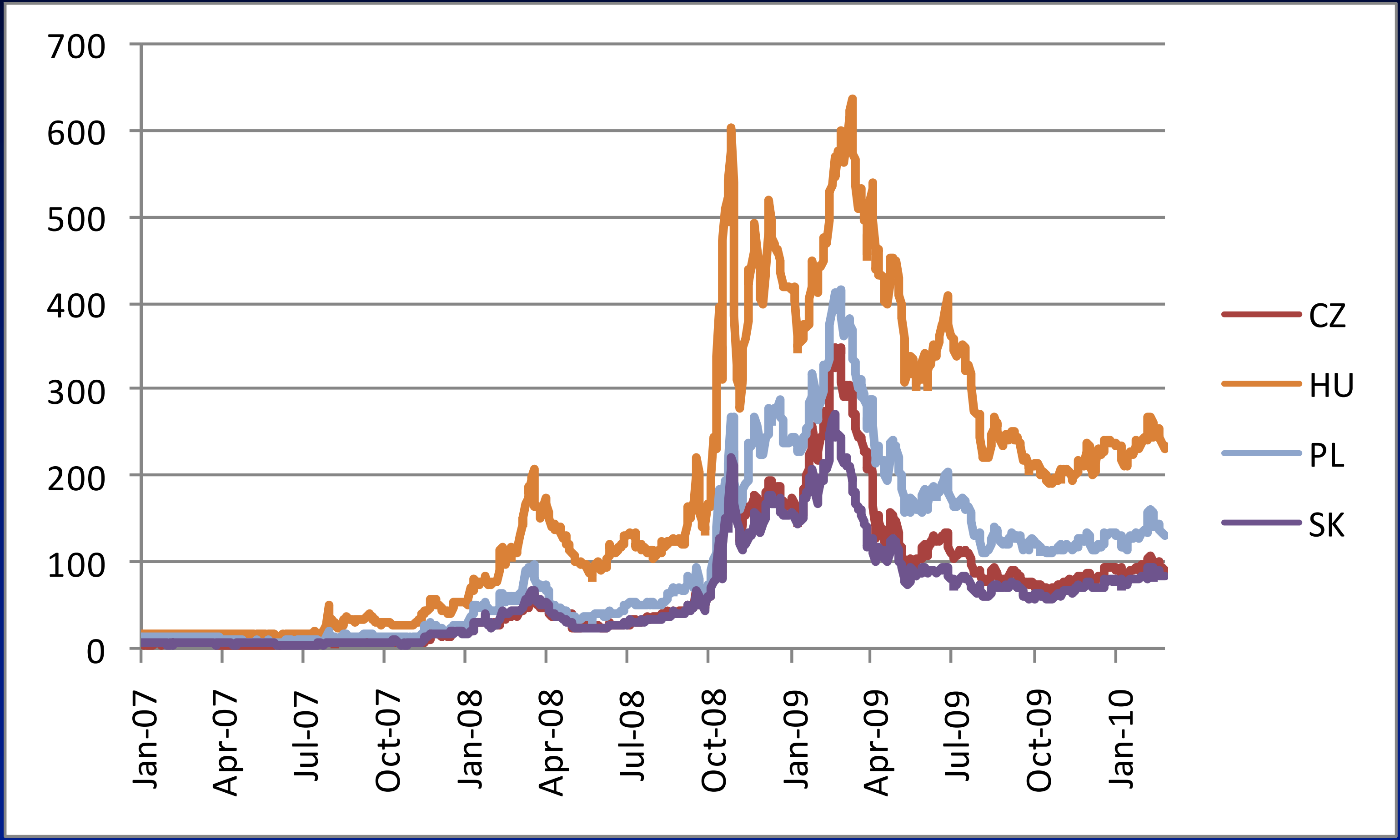


Source: World Bank Global Prospect Group, World Bank Staff calculations.
Note: Data for 1Q 2010 until mid February

What we have seen

Sovereign bonds – easing of CDS

5-Year Credit Default Swaps (bps)



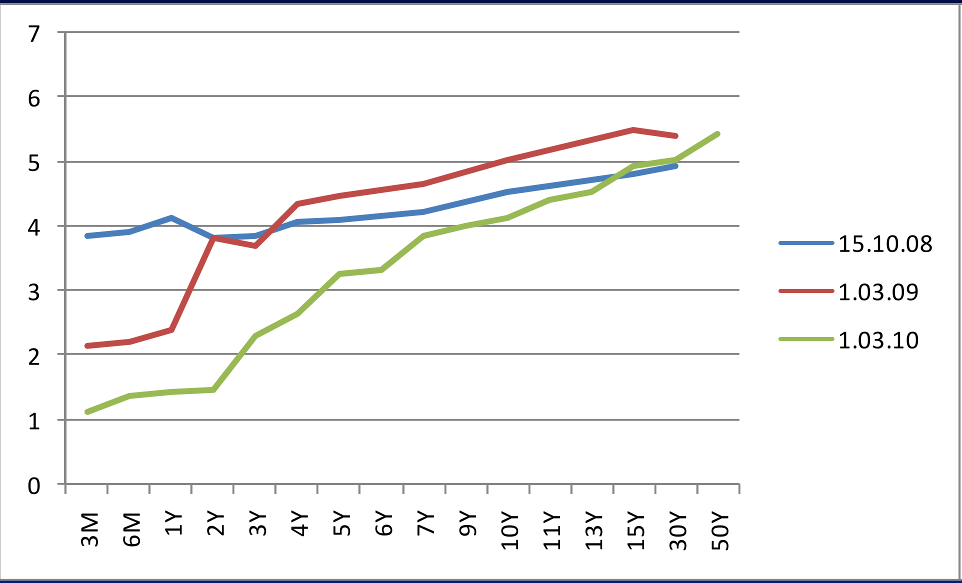
Source: JP Morgan. World Bank Global Prospect Group, World Bank Staff calculations.

What we have seen

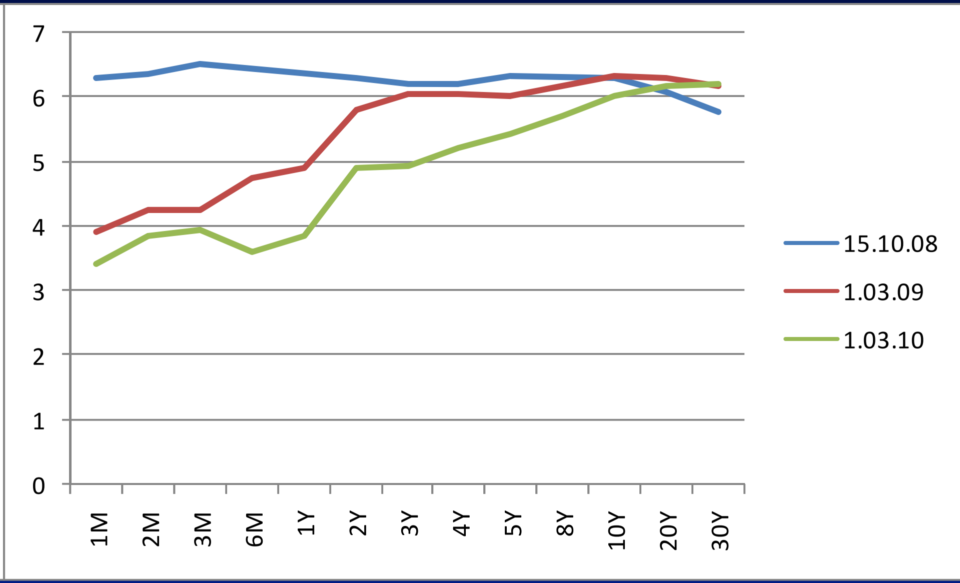
Sov. Bonds – normalization of yield curves

Changes in yield curves for selected countries over time (%)

Czech Republic



Poland

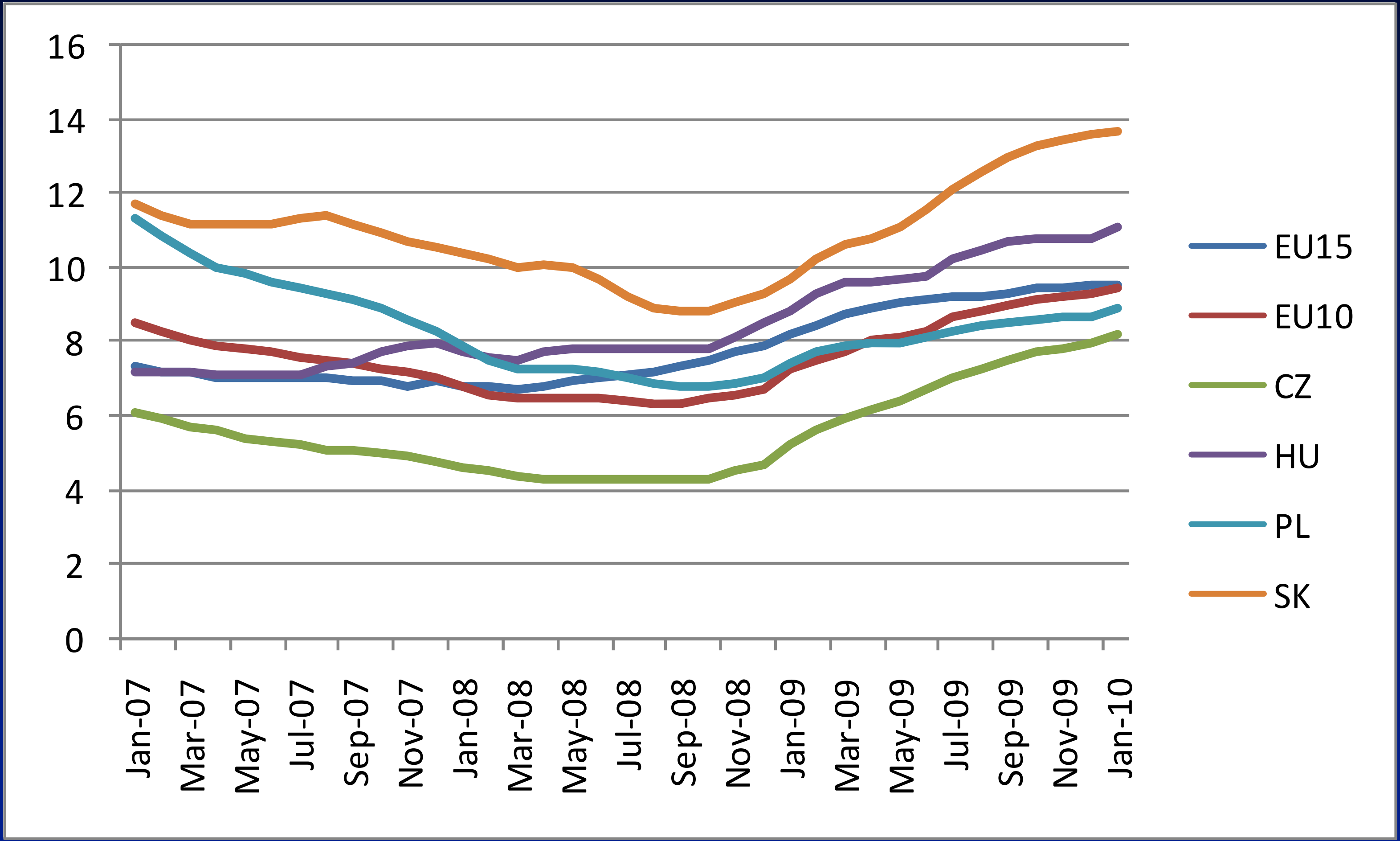


Source: Bloomberg, World Bank Staff calculations.

What we have seen

Labor – unemployment creeping up…

Harmonized unemployment rate (%)

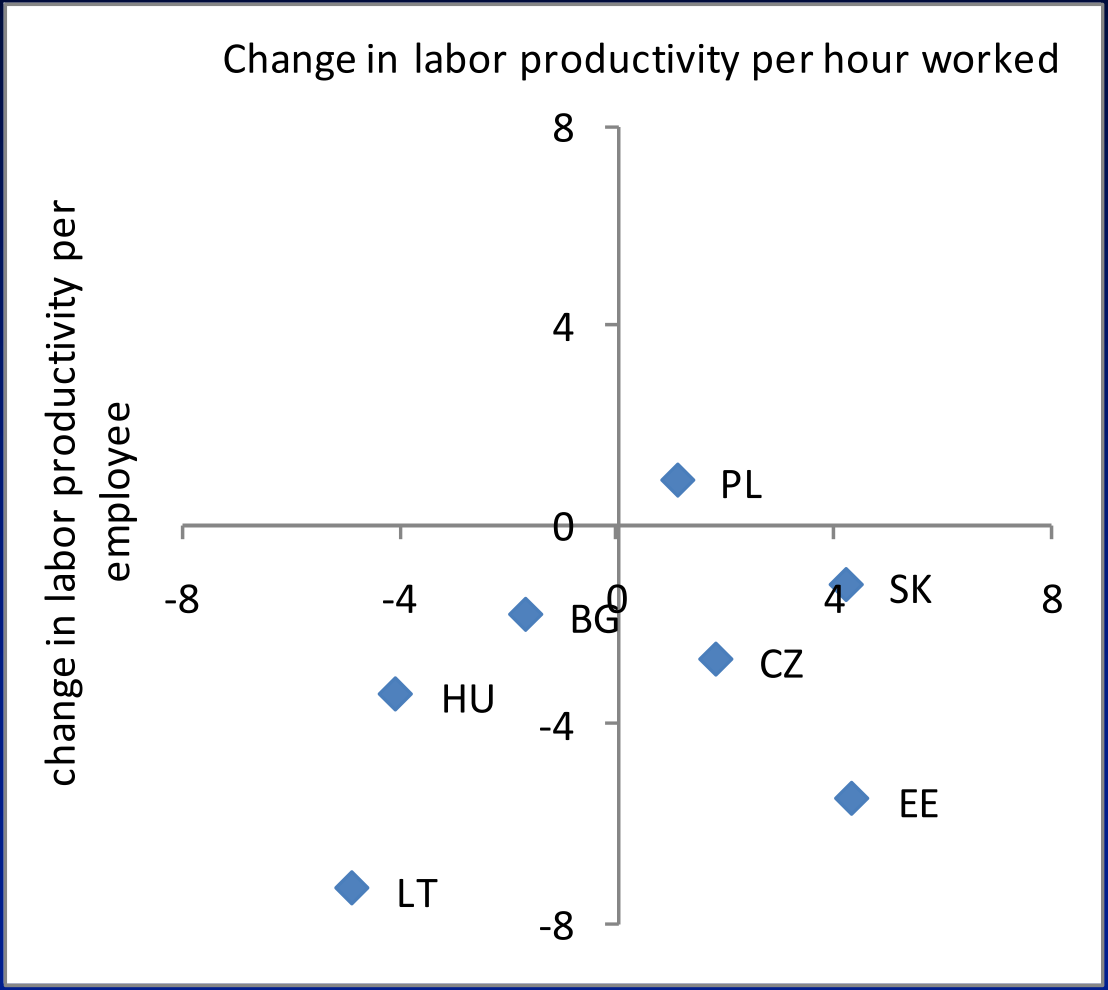


Source: Eurostat, Statistical Offices, World Bank Staff calculations

What we have seen

Labor - … in spite of labor hoarding

Change in labor productivity per employee vs. change in labor productivity per hour worked in 3Q 2009



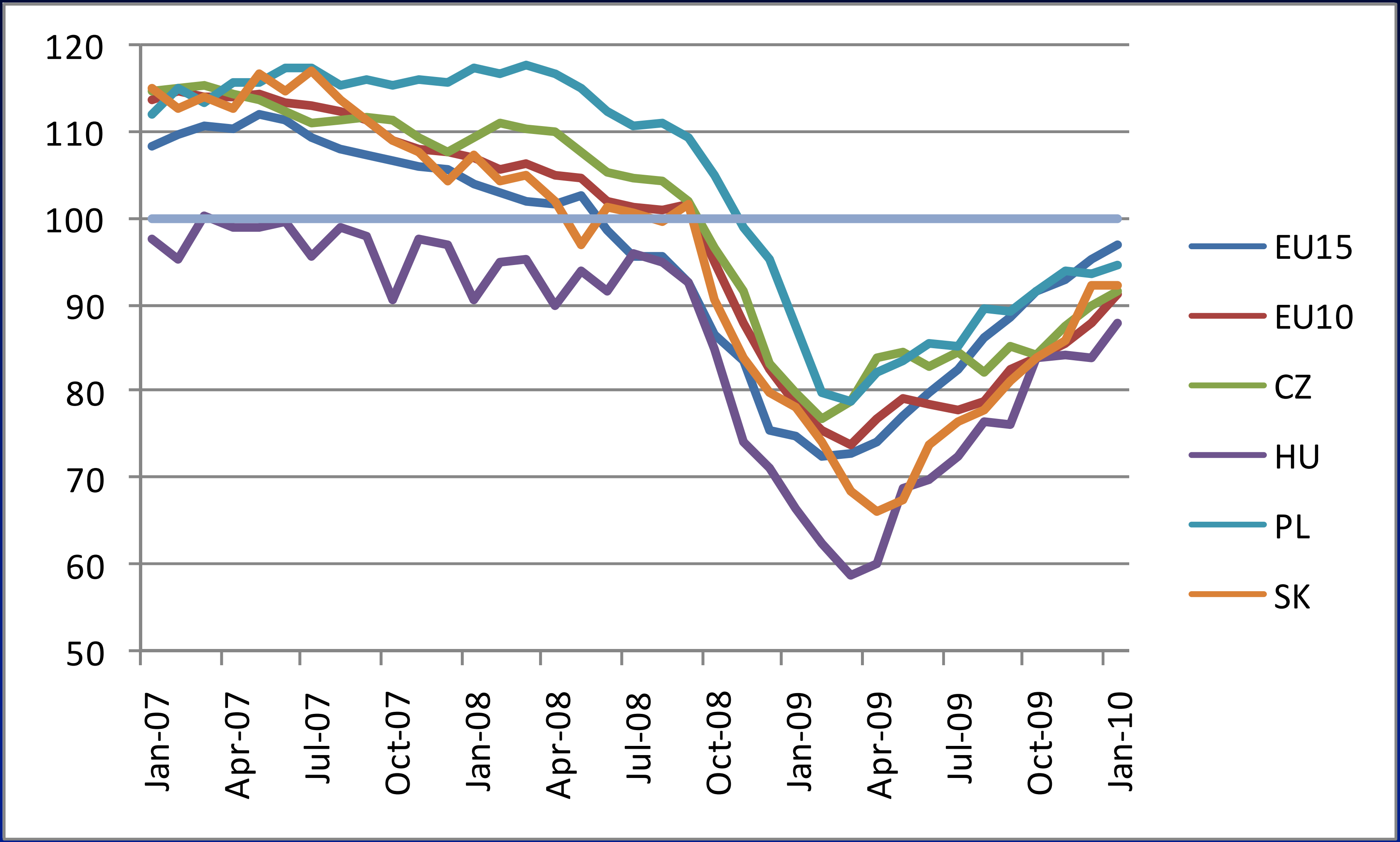
Source: Eurostat, Statistical Offices, World Bank Staff calculations

What we can expect

What we can expect

Economy – sentiment improving

Economic Sentiment Indicator (long-term mean = 100)

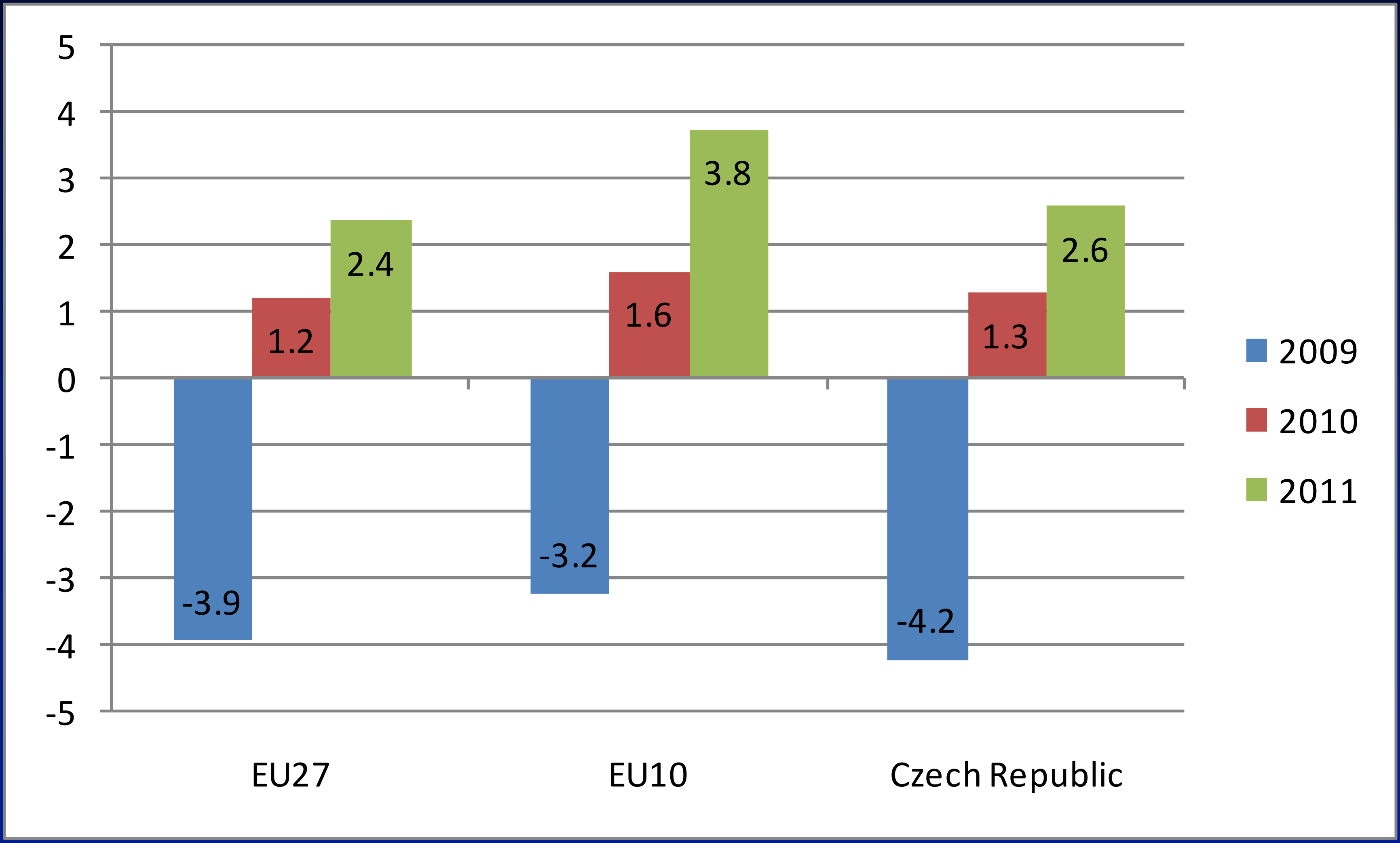


Source: European Commission, World Bank Staff Calculations

What we can expect

Growth – slow recovery

EU27, EU10, & Czech Republic - Real Growth 2009 - 2011, (% change, yoy)

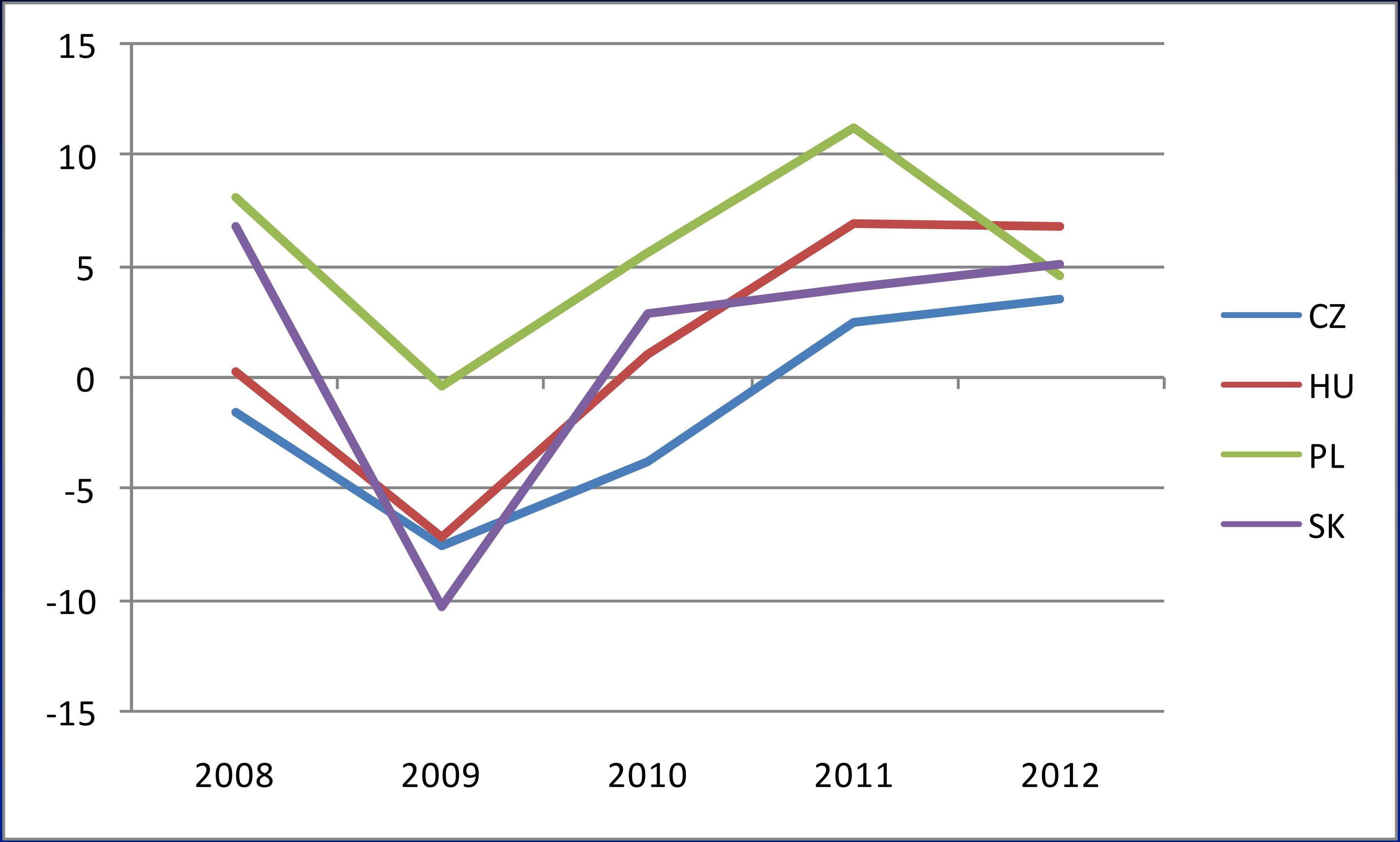


Source: Convergence Program Updates, January 2010

What we can expect

Growth – … helped by investment

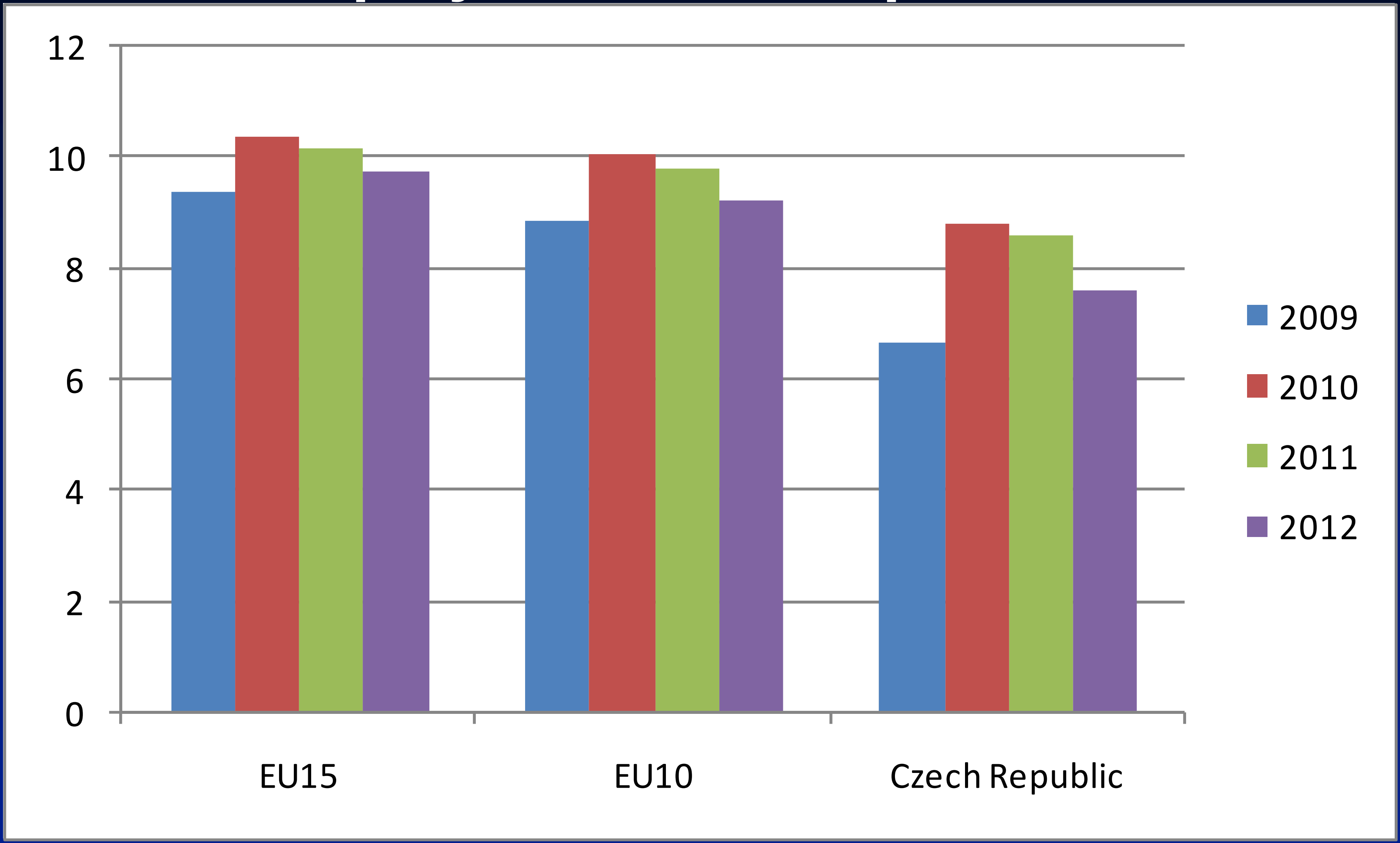
Gross fixed capital formation, (% change, yoy)



Source: Convergence Program Updates, January 2010

What we can expect

Unemployment rates – peak in 2010



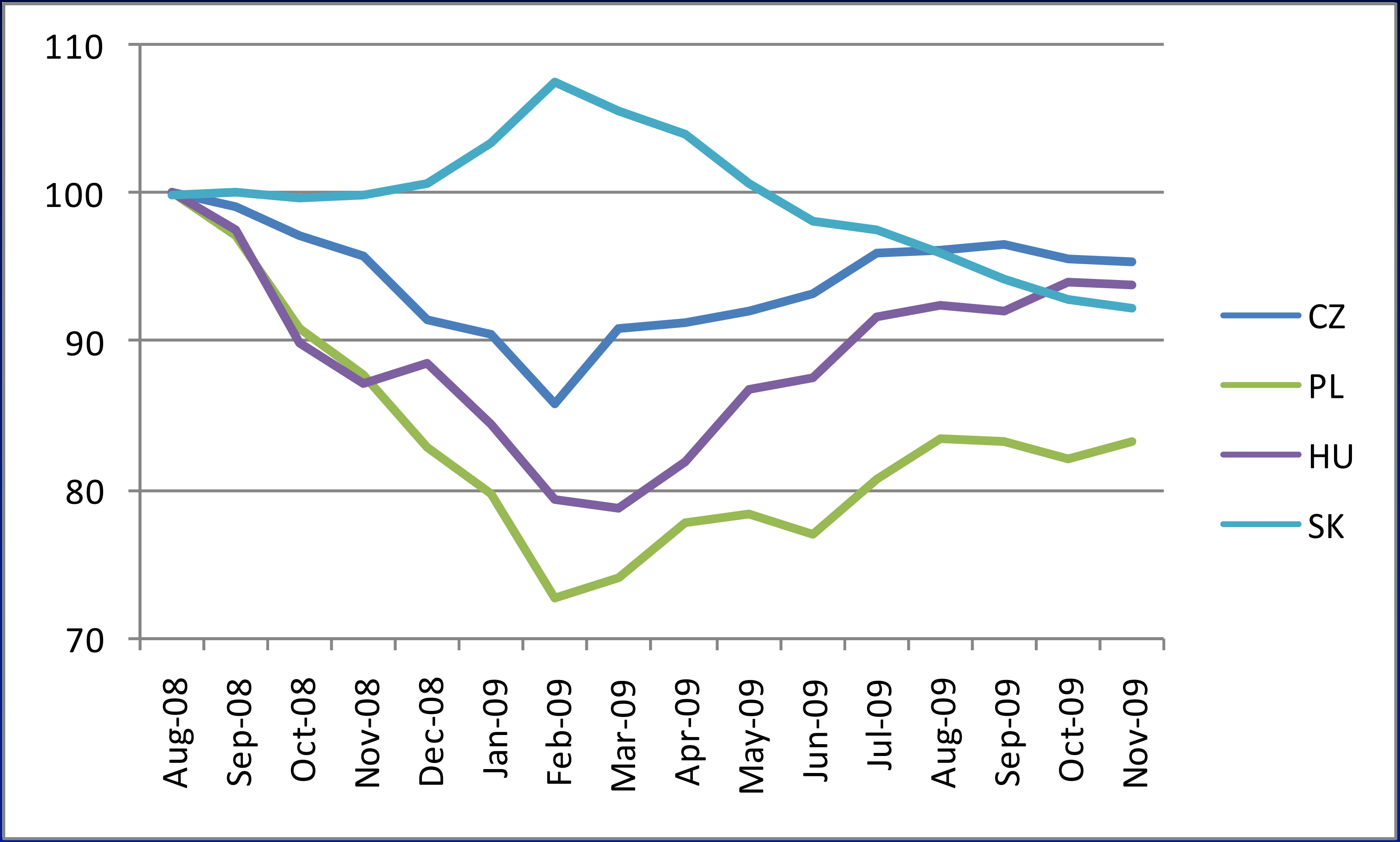
Source: Convergence Program Updates, January 2010

What should be done

What should be done

Monetary policy – supports recovery

Real Effective Exchange Rates (Aug08 = 100)

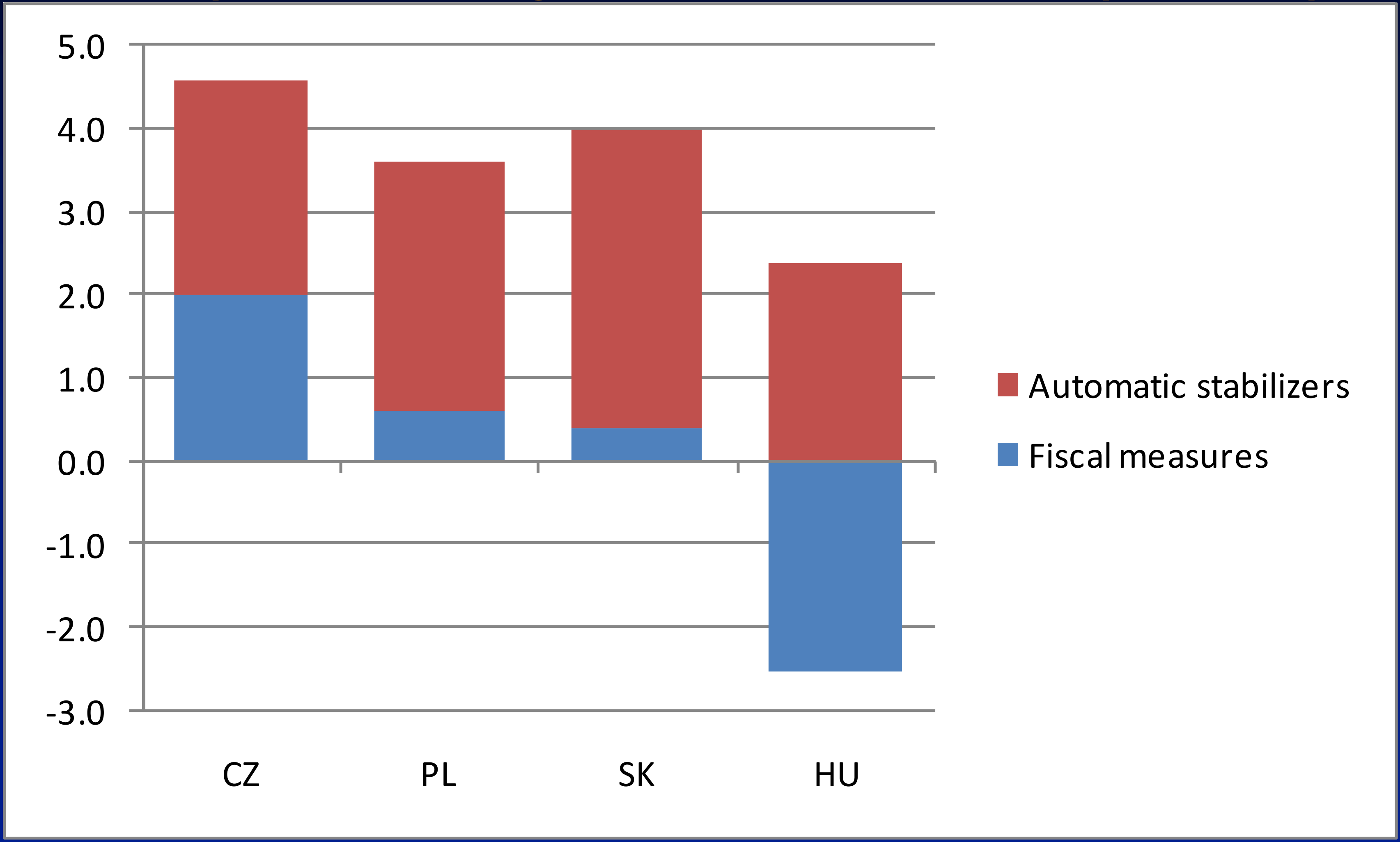


Source: IMF IFS. World Bank Staff Calculations

What should be done

Fiscal policy – fiscal support to the economy ...

Composition of budget deficit increase in 2009 (% of GDP)

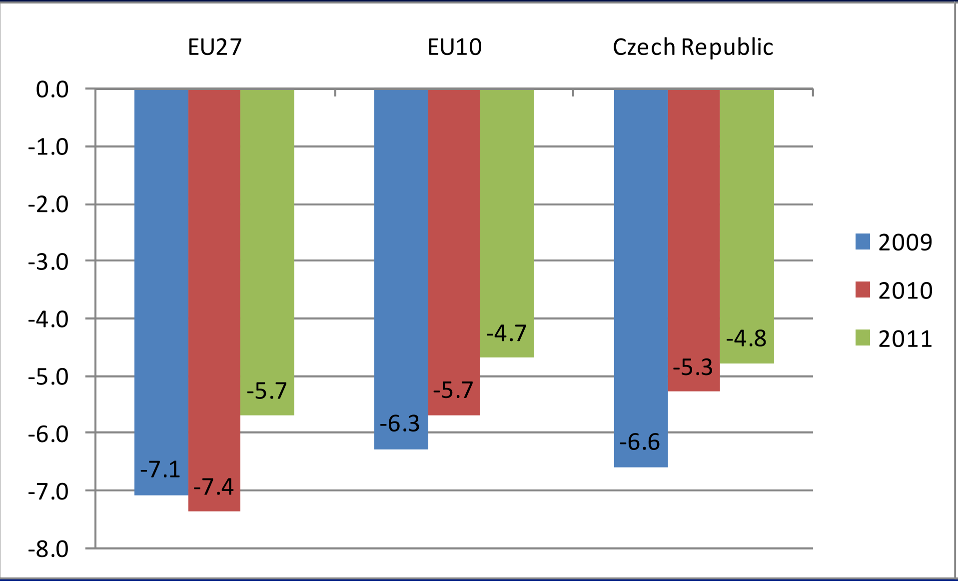


Source: Convergence Program Updates, January 2010

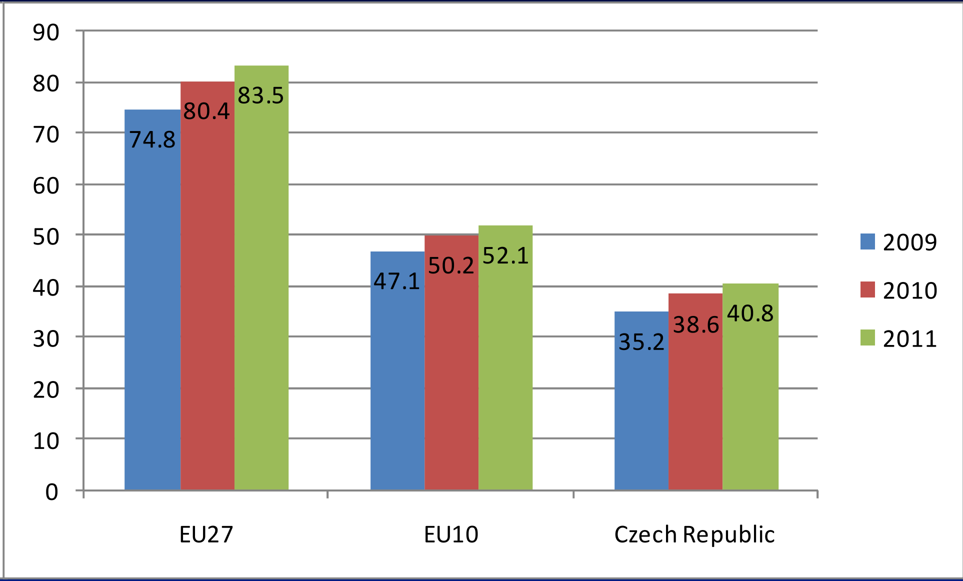
What should be done

Fiscal policy – … has to gradually unwind …

Fiscal deficit as % of GDP



Public debt as % of GDP

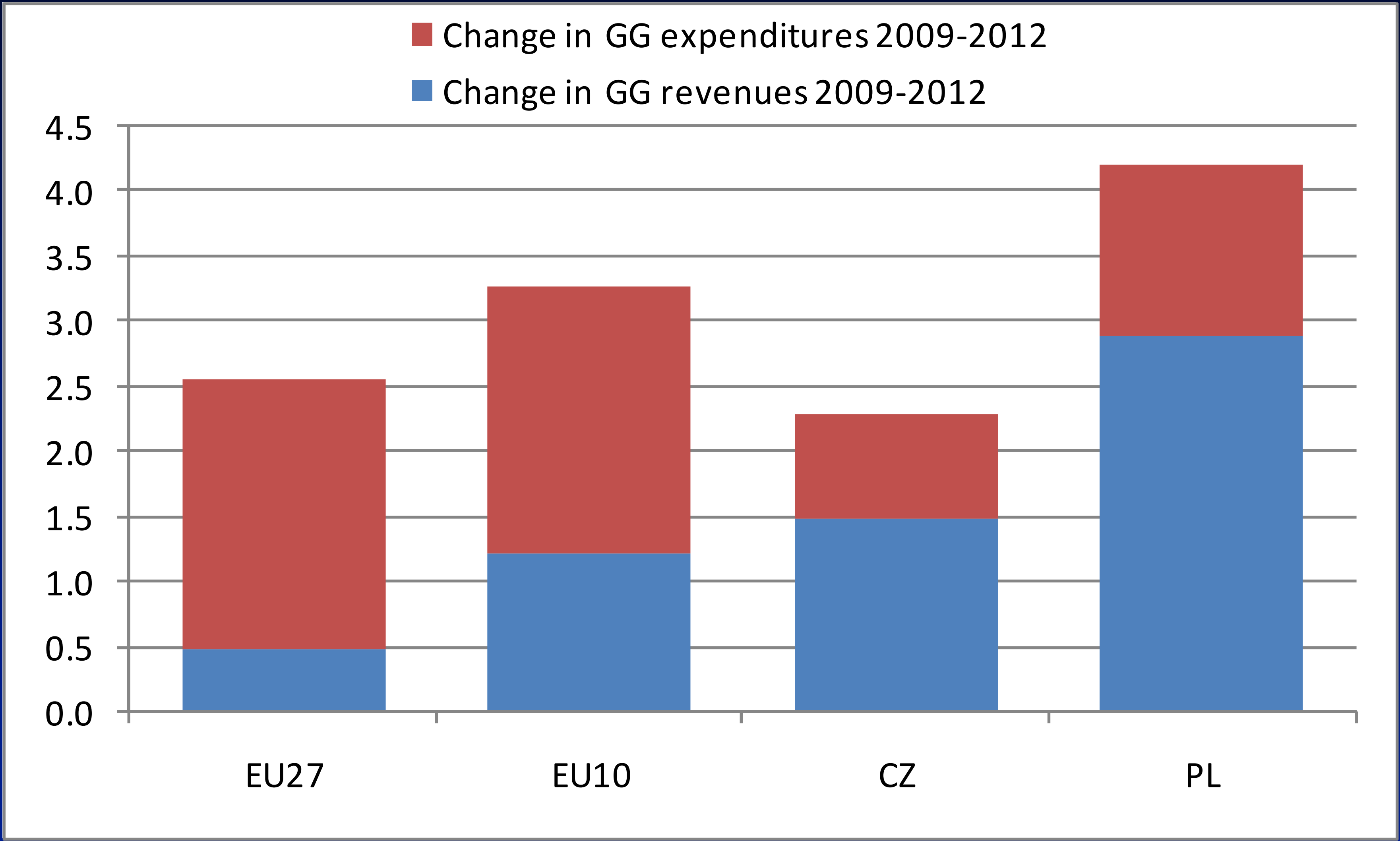


Source: Convergence Program Updates, January 2010

What should be done

Fiscal policy – … through rev. and exp. measures …

Composition of fiscal deficit reduction (% of GDP)



Source: Convergence Program Updates, January 2010

What should be done

Fiscal policy – … to reach 3% deficit target …

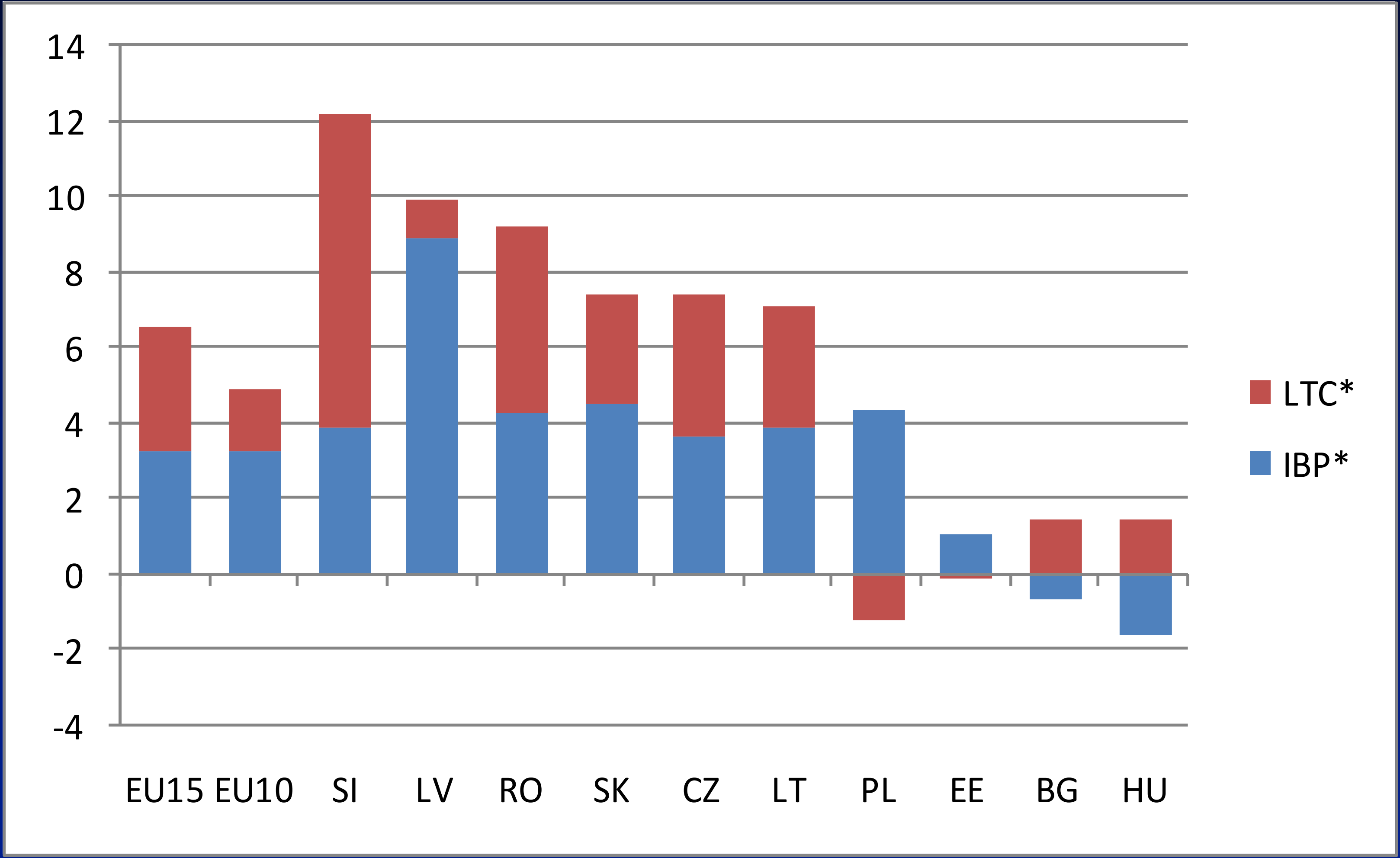
No	Country	Date of the Commission report	Council Decision on existence of excessive deficit	Current deadline for correction
1	Austria	7-Oct-09	2-Dec-09	2013
2	Belgium	7-Oct-09	2-Dec-09	2012
3	**Czech Republic**	**7-Oct-09**	**2-Dec-09**	**2013**
4	Germany	7-Oct-09	2-Dec-09	2013
5	Italy	7-Oct-09	2-Dec-09	2012
6	The Netherlands	7-Oct-09	2-Dec-09	2013
7	Portugal	7-Oct-09	2-Dec-09	2013
8	**Slovenia**	**7-Oct-09**	**2-Dec-09**	**2013**
9	**Slovakia**	**7-Oct-09**	**2-Dec-09**	**2013**
10	**Poland**	**13-May-09**	**7-Jul-09**	**2012**
11	**Romania**	**13-May-09**	**7-Jul-09**	**2011**
12	**Lithuania**	**13-May-09**	**7-Jul-09**	**2011**
13	Malta	13-May-09	7-Jul-09	2010
14	France	18-Feb-09	27-Apr-09	2013
15	**Latvia**	**18-Feb-09**	**7-Jul-09**	**2012**
16	Ireland	18-Feb-09	27-Apr-09	2014
17	Greece	18-Feb-09	27-Apr-09	2010
18	Spain	18-Feb-09	27-Apr-09	2013
19	UK	11-Jun-08	8-Jul-08	financial year 2014/15
20	**Hungary**	**12-May-04**	**5-Jul-04**	**2011**

Source: European Commission

What should be done

Fiscal policy – ... especially as aging adds to fiscal strain

Sustainability gap calculations (Percent of GDP)



* IBP = required adjustment given the initial budgetary position, LTC = required adjustment given the long-term change in the primary balance due demographic ageing. Source: EC 2009.

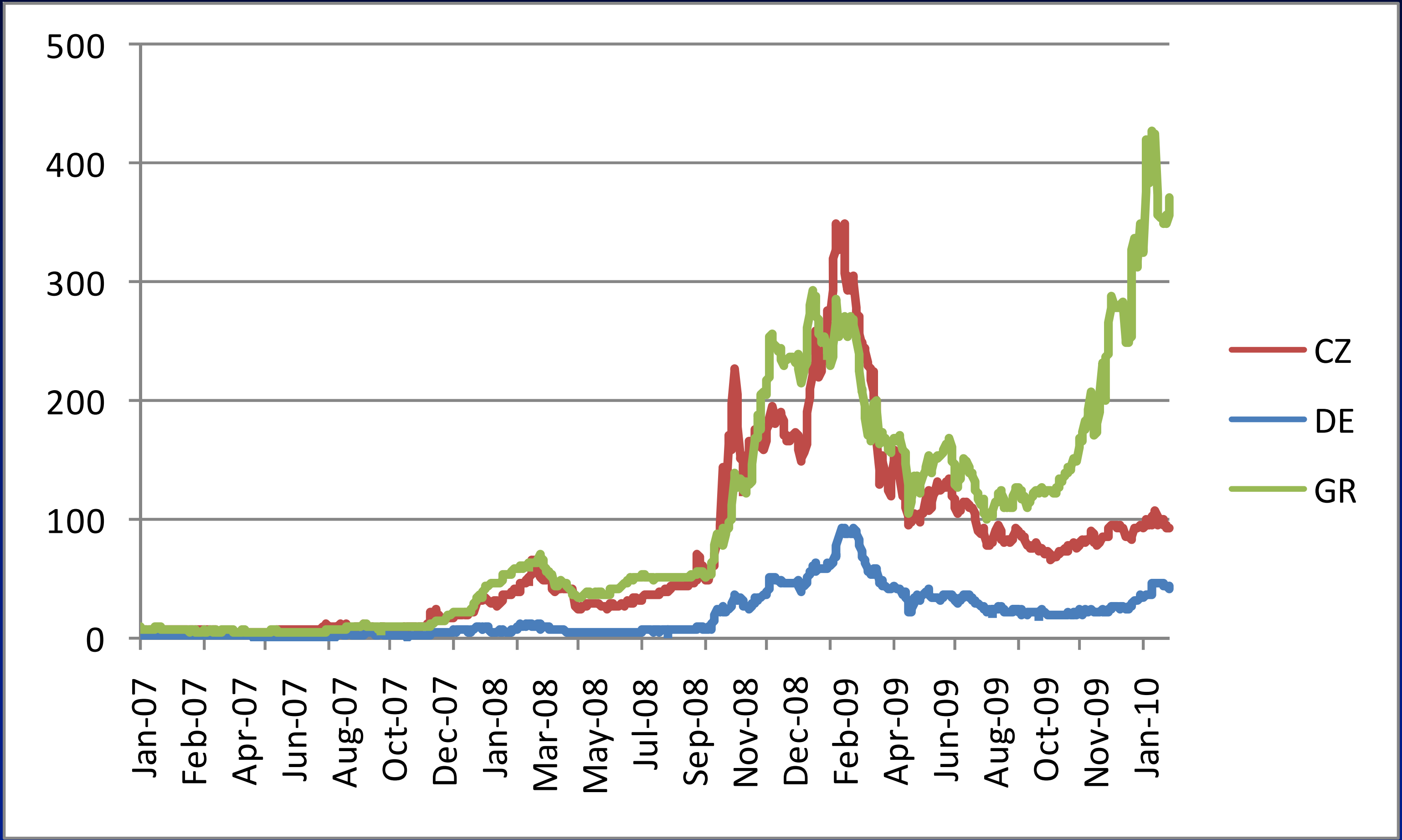

5%
World Bank Group

Greece

Greece

Sovereign bonds – CDS shoot up

5-Year Credit Default Swaps (%)

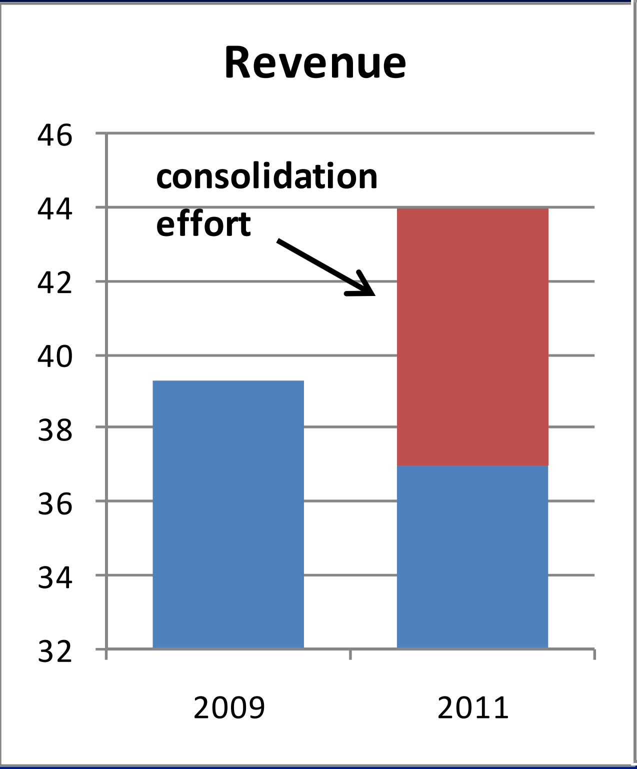


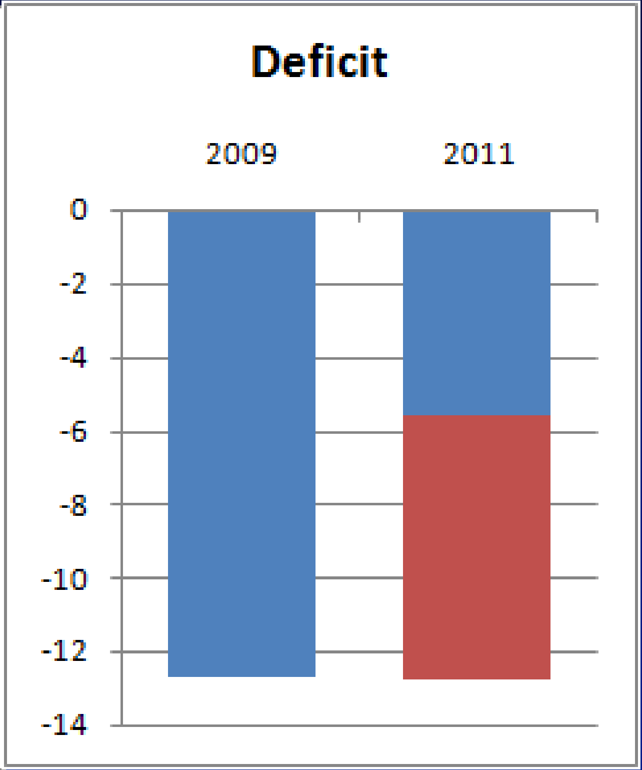
Source: JP Morgan. World Bank Global Prospect Group, World Bank Staff calculations.

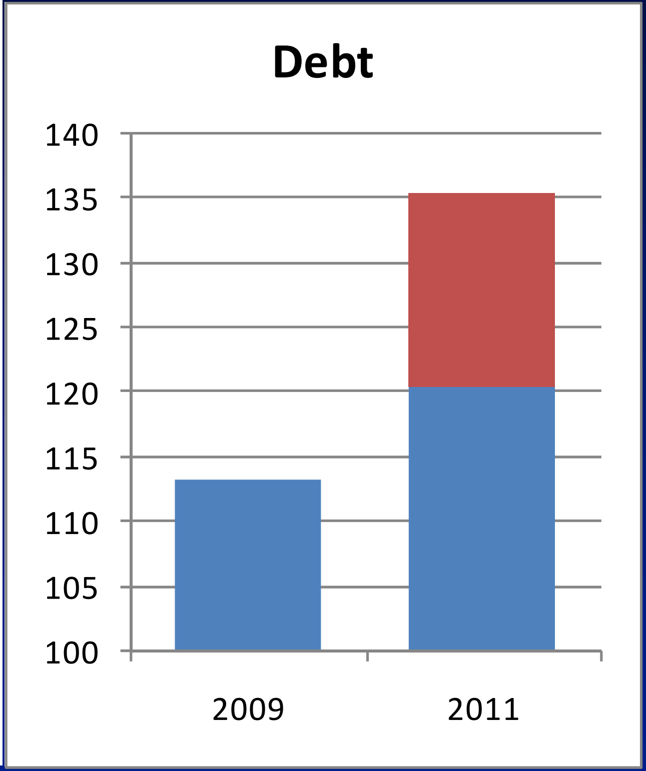
Greece

Fiscal Policy – sharp adjustment ahead?

% of GDP







THANK YOU!

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