

# Macroeconomic Outlook and Risks for the Region and Romania



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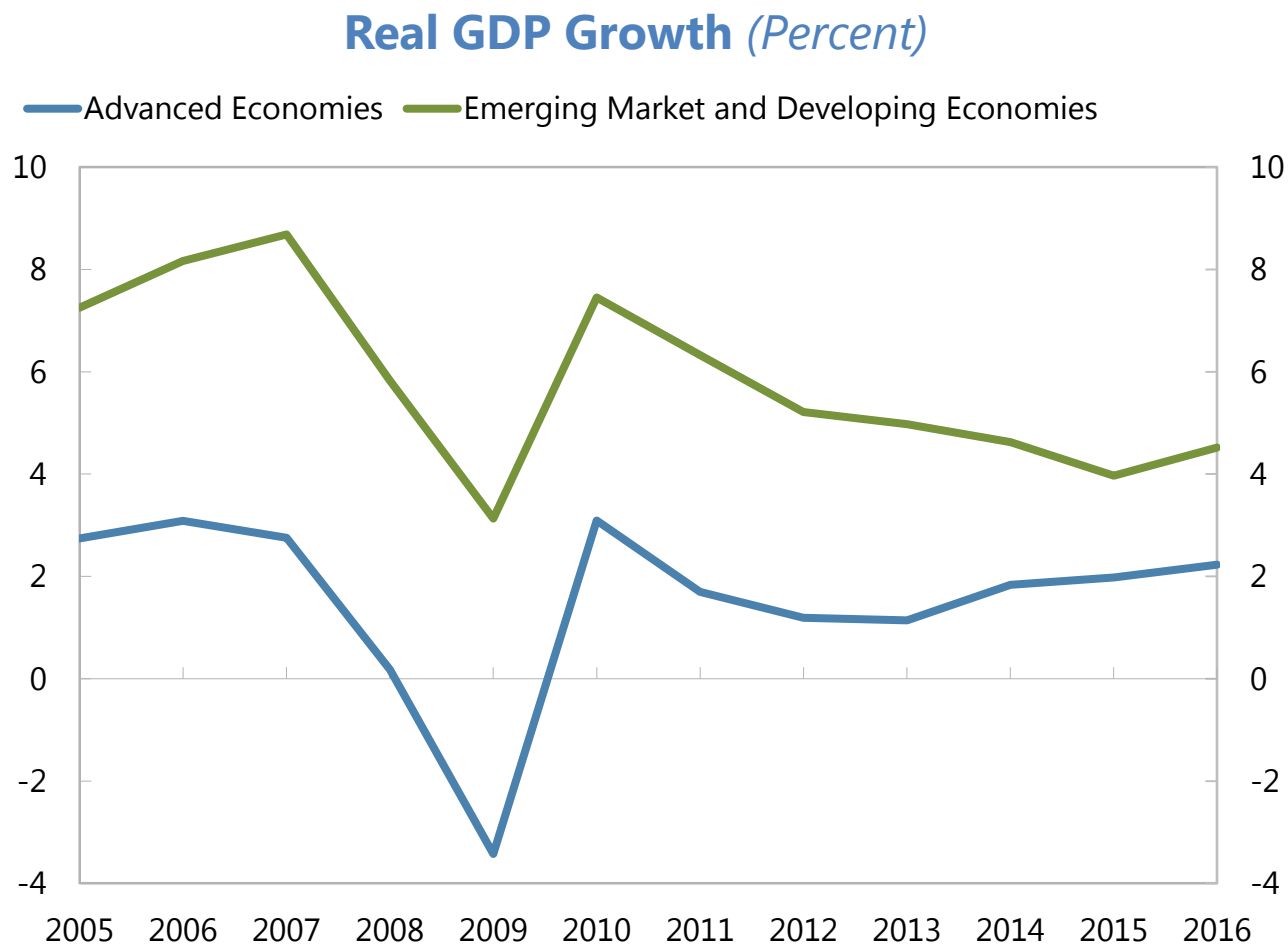
*Macroprudential Policy at Work:*

*Systemic Risk and Macroprudential Instruments*

# 1. Global macroeconomic outlook and risks



The uneven recovery continues.



Source: IMF *World Economic Outlook*, October 2015.

# 1. Global macroeconomic outlook and risks



Slight pick-up expected in many advanced economies.

## Growth Projections: Advanced Economies

*(Percent change from previous year)*

	World	Advanced Economies	U.S.	U.K.	Japan	Euro Area	Germany	France
<b>2015</b>	<b>3.1</b>	<b>2.0</b>	<b>2.6</b>	<b>2.5</b>	<b>0.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.2</b>
Revision from July 2015	<b>-0.2</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>-0.2</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>
<b>2016</b>	<b>3.6</b>	<b>2.2</b>	<b>2.8</b>	<b>2.2</b>	<b>1.0</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>
Revision from July 2015	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.0</b>

Source: IMF *World Economic Outlook*, Oct. 2015.

# 1. Global macroeconomic outlook and risks



Weaker prospects in many emerging economies.

## Growth Projections: Emerging Markets and LIDCs

*(Percent change from previous year)*

	World	Emerging Market & Developing Economies	China	India	Brazil	Russia	Turkey	Low Income Developing Countries
<b>2015</b>	<b>3.1</b>	<b>4.0</b>	<b>6.8</b>	<b>7.3</b>	<b>-3.0</b>	<b>-3.8</b>	<b>3.0</b>	<b>4.8</b>
Revision from July 2015	<b>-0.2</b>	<b>-0.2</b>	<b>0.0</b>	<b>-0.2</b>	<b>-1.5</b>	<b>-0.4</b>	<b>0.0</b>	<b>-0.3</b>
<b>2016</b>	<b>3.6</b>	<b>4.5</b>	<b>6.3</b>	<b>7.5</b>	<b>-1.0</b>	<b>-0.6</b>	<b>2.9</b>	<b>5.8</b>
Revision from July 2015	<b>-0.2</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>-1.7</b>	<b>-0.8</b>	<b>-0.1</b>	<b>-0.4</b>

Source: IMF *World Economic Outlook*, Oct. 2015.

# 1. Global macroeconomic outlook and risks



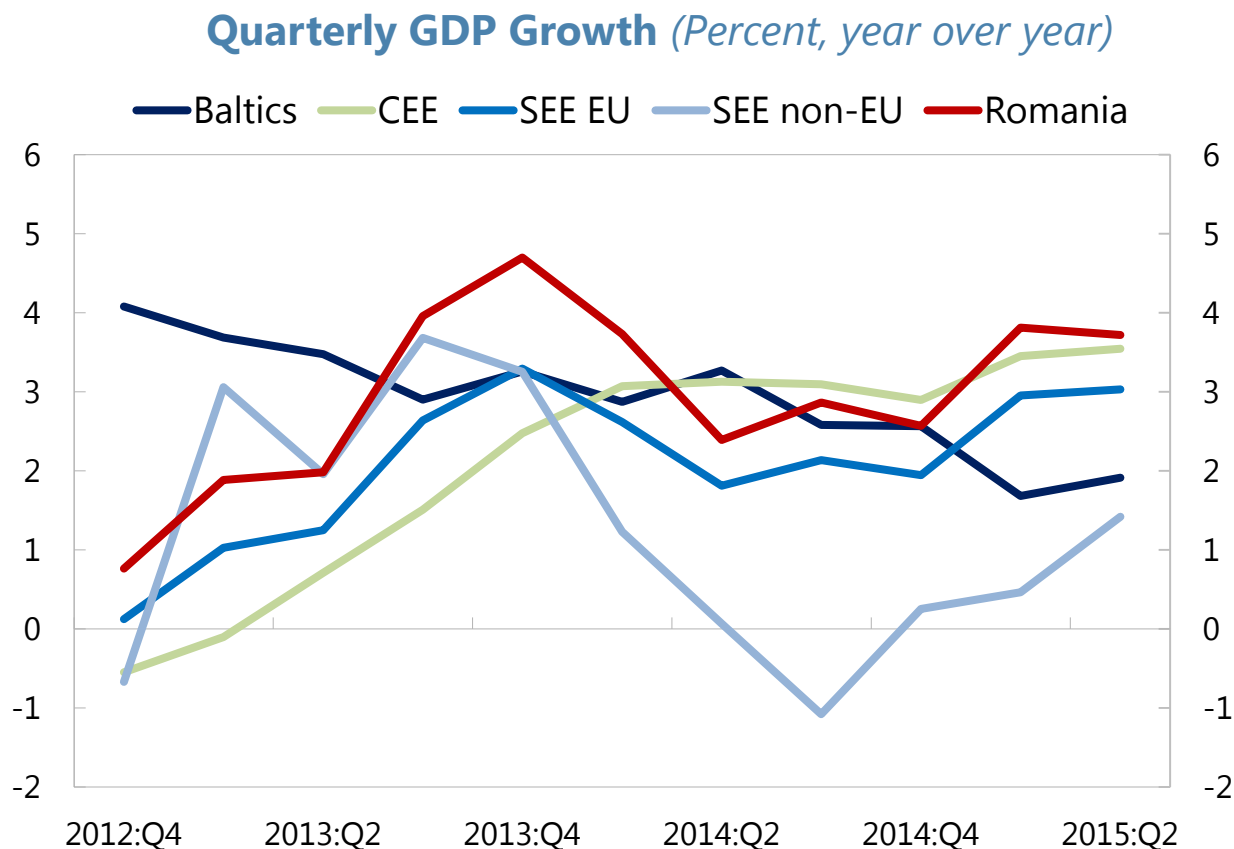
## **Greater downside risks, in particular for EMEs:**

- Impact of weakening of commodity prices in emerging economies and low-income countries.
- China's growth transition and deceleration in the growth of global trade.
- Global realignment triggering broad financial market volatility.
- Lower potential growth outlook in the "Mediocre New Normal."
- Geopolitical risks.

## 2. Regional macroeconomic outlook and risks



Growth divergence: Strong growth in CEE and SEE-EU; underperformance in the Baltics and Western Balkans.



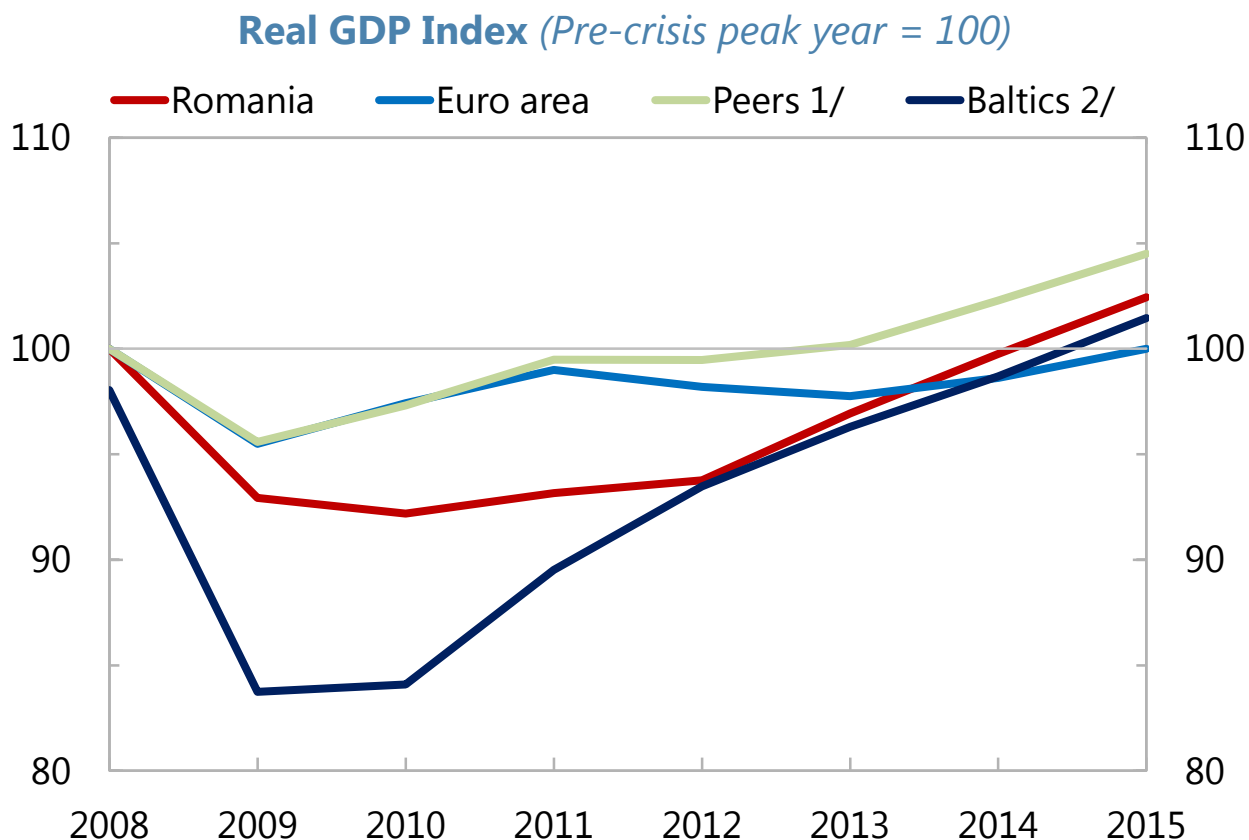
Sources: Haver Analytics, IMF *World Economic Outlook*, Eurostat, and IMF staff estimates.

Note: CEE= central, eastern Europe; SEE = southeastern Europe.

## 2. Regional macroeconomic outlook and risks



In Romania, real GDP reached its pre-crisis level in 2014, the growth momentum has become more entrenched, and the output gap is set to close in 2016.



Sources: IMF *World Economic Outlook* (Oct. 2015) and IMF staff calculations and estimations.

1/ Unweighted average for BGR, HRV, CZE, HUN, POL, and SVK.

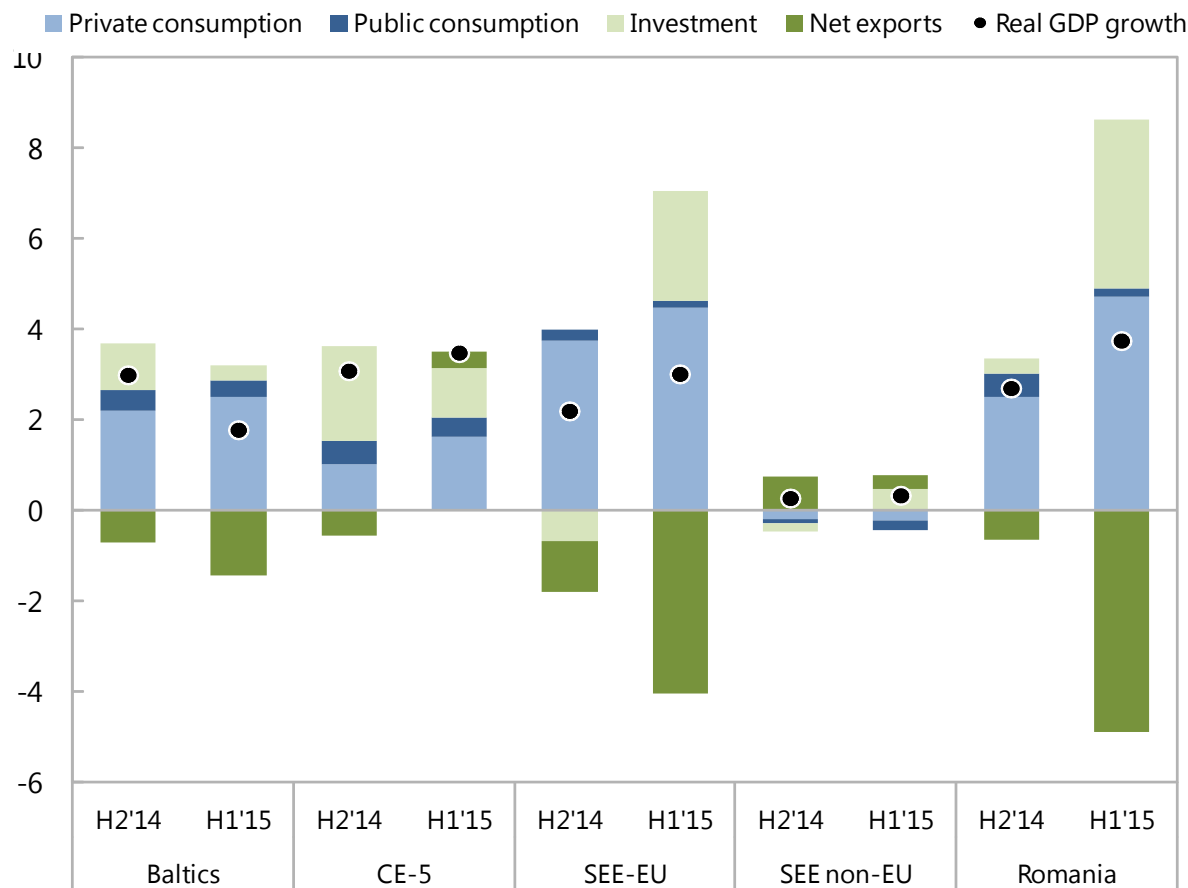
2/ Unweighted average for EST, LVA, and LTU. Peak pre-crisis GDP for EST and LVA was 2007.

## 2. Regional macroeconomic outlook and risks



Domestic demand has been robust.

### Contributions to Real GDP Growth (Percent, year over year)



Sources: Haver Analytics and IMF Staff calculations.

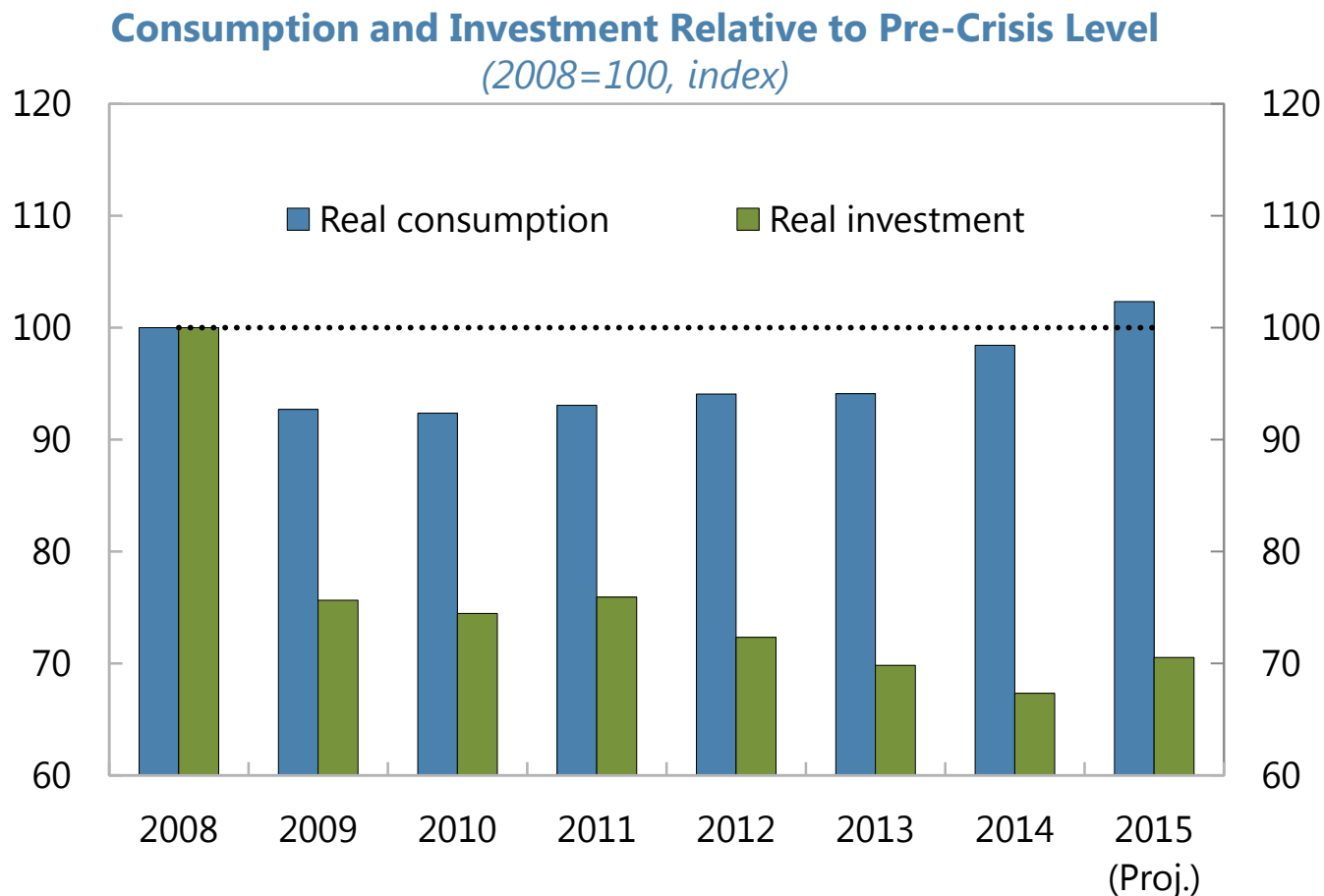
Note: CESEE = central, eastern, and southeastern Europe. Semi-annual data constructed as the average of respective quarterly data.



## 2. Regional macroeconomic outlook and risks



In Romania, consumption has strengthened considerably, while investment has just started to gain momentum.



Sources: IMF World Economic Outlook, Oct. 2015; IMF staff calculations and projections.

## 2. Regional macroeconomic outlook and risks



For 2016, growth is expected to strengthen somewhat in most countries of the region, but less than projected earlier.

<b>Near-Term Outlook for Real GDP Growth (Percent)</b>			
	2014	2015	2016
Baltics	2.8	1.9	2.9
CEE	3.1	3.4	3.1
SEE EU	2.1	2.6	3.0
SEE Non- EU	0.4	1.8	1.8
Other CIS	-3.9	-7.1	0.7
Russia	0.6	-3.8	-0.6
Turkey	2.9	3.0	2.9

Source: IMF *World Economic Outlook*, Oct. 2015.

Note: Highlighted cells denote downward revisions. CEE = central and eastern Europe; EU = European Union; SEE = southeastern Europe; CIS = Commonwealth of Independent States

## 2. Regional macroeconomic outlook and risks



For Romania, we expect stronger GDP growth driven by domestic demand and pro-cyclical fiscal loosening.

### Romania: October 2015 WEO Projections of Medium-Term Outlook, 2014–17

	2014 Prel.	2015 Proj.	2016 Proj.	2017 Proj.
<b>GDP and prices (annual percent change)</b>				
Real GDP	2.8	3.4	3.9	3.4
Consumption	4.6	4.0	5.0	4.1
Investment	-3.5	4.8	4.5	3.6
Exports	8.1	6.4	6.1	6.2
Imports	7.7	7.8	8.3	7.3
Potential GDP	2.5	2.7	3.1	3.2
Consumer price index (CPI, end of period)	0.8	-0.5	1.1	2.5
<b>General government (in percent of GDP)</b>				
Fiscal balance (cash basis)	-1.9	-1.8	-2.6	-3.0
Fiscal balance including policy risk			close to -3	> -3.0
Structural fiscal balance (cash basis)	-0.5	-1.2	-2.4	-2.9
Gross general government debt (incl. guarantees)	40.6	40.9	41.5	42.2
<b>Current account (percent of GDP)</b>	<b>-0.4</b>	<b>-0.7</b>	<b>-1.5</b>	<b>-2.0</b>

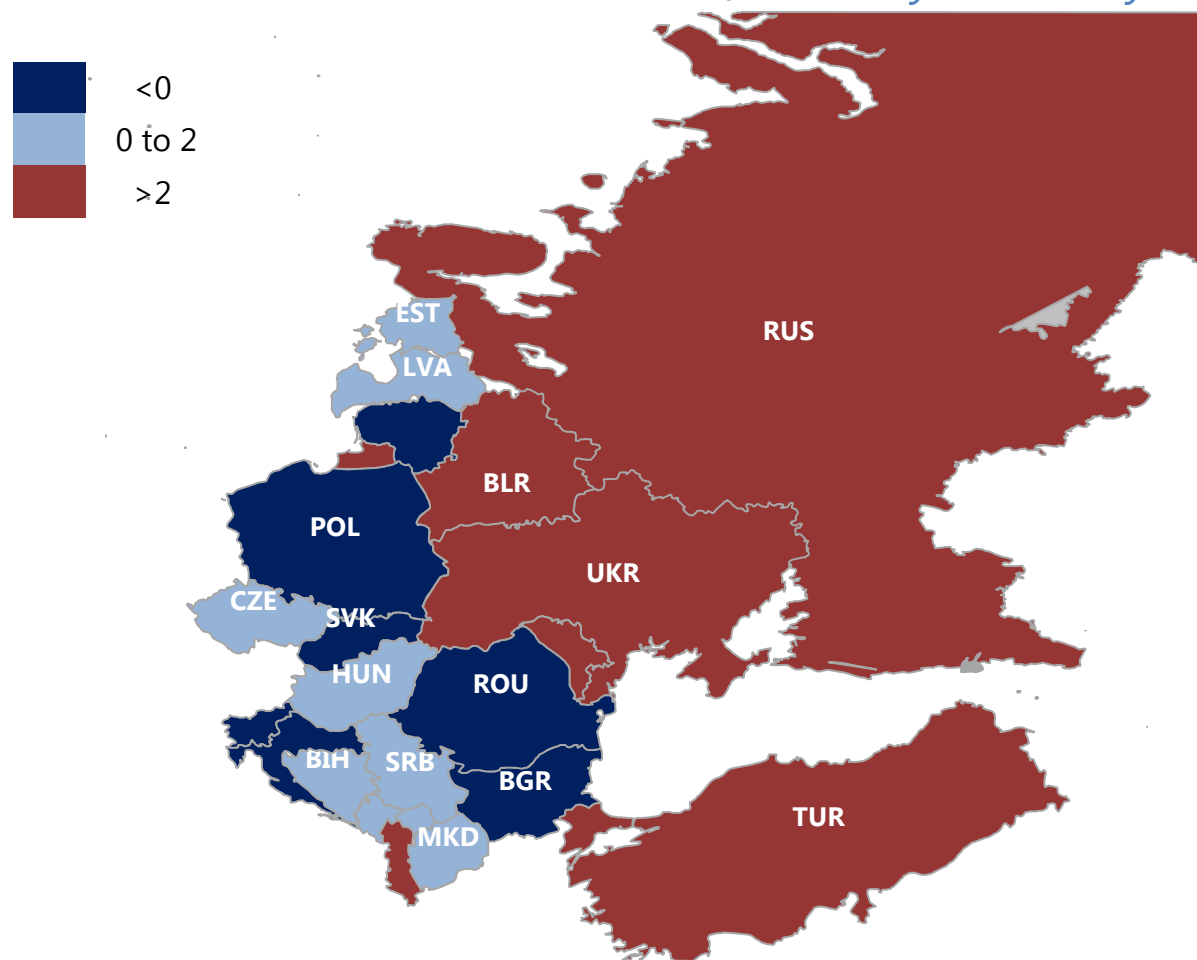
Sources: IMF *World Economic Outlook*, October 2015; and IMF staff estimates and projections.

## 2. Regional macroeconomic outlook and risks



Sustained disinflation or deflation, except for CIS and Turkey.

### CESEE: Headline Inflation, 2015 *(Percent, year-over-year)*



Source: IMF *World Economic Outlook*, October 2015.

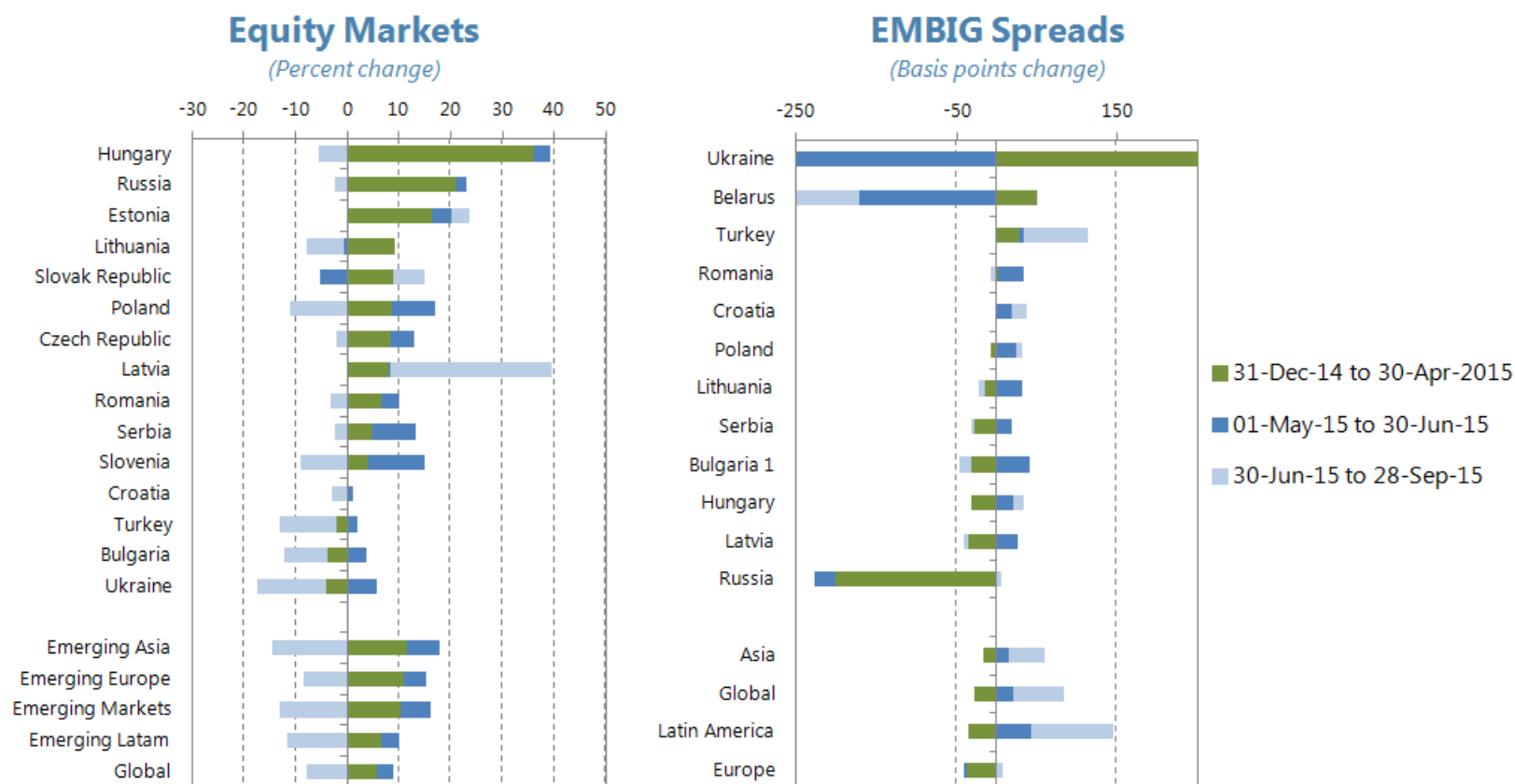
## 2. Regional macroeconomic outlook and risks



Rallies across financial markets were dented by worries about Grexit and the slowdown in China.

### CESEE: Financial Market Developments

(Year-to-date)



Source: Bloomberg

Note: CESEE = central, eastern, and southeastern Europe.

## 2. Regional macroeconomic outlook and risks



Risks are tilted to the downside.

### Global risks:

- Protracted slow growth in the euro area.
- Contagion risks from Greece-related events.
- Downside risks to growth in EMEs.
- Surge in financial market volatility.
- Geopolitical risks.



### Regional risks:

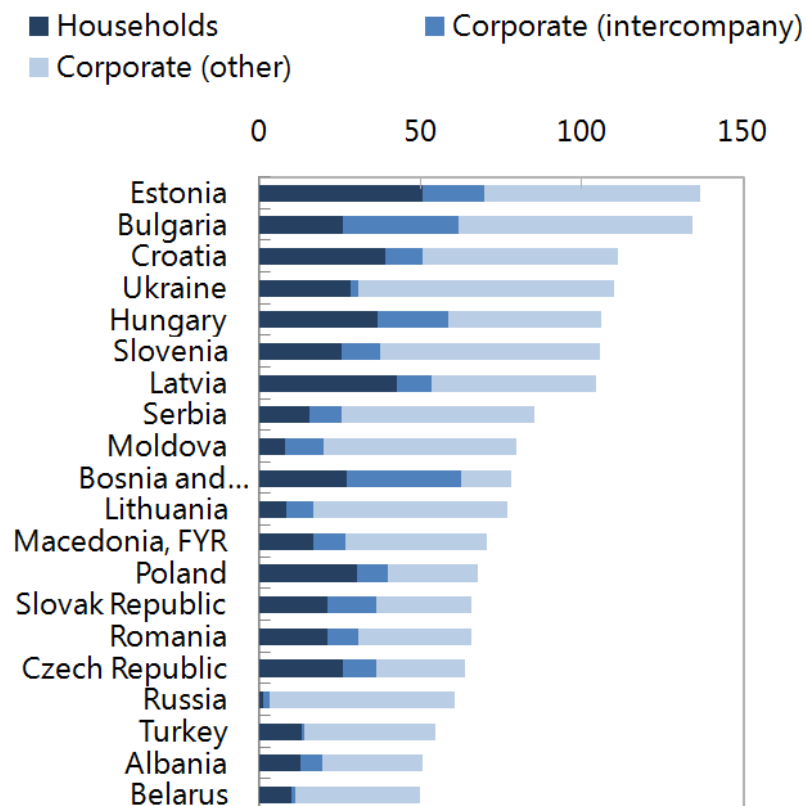
- Un-anchoring of inflation expectations.
- Increased pressures for populist economic policies.
- Impact from refugee crisis.

### 3. Credit growth and private sector debt

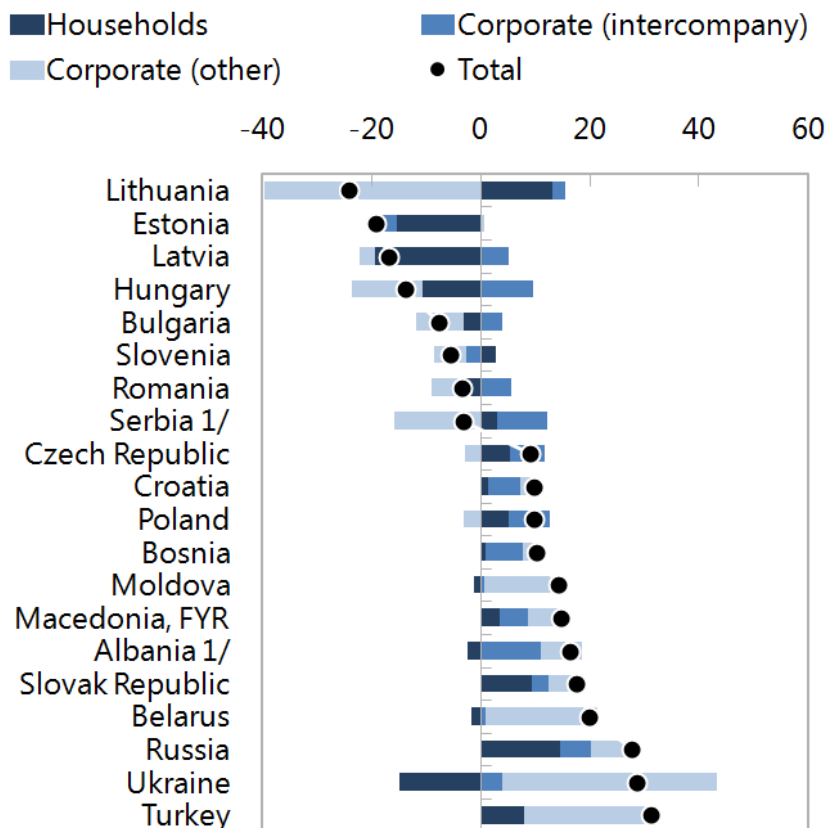


Private sector debt remains high in many countries despite large corrections in some, in particular the Baltics.

**CESEE: Private Sector Debt, 2008**  
(Percent of GDP)



**CESEE: Change in Private Debt-to-GDP Ratios, 2008-14**  
(Percent)



Sources: IMF Data, Eurostat

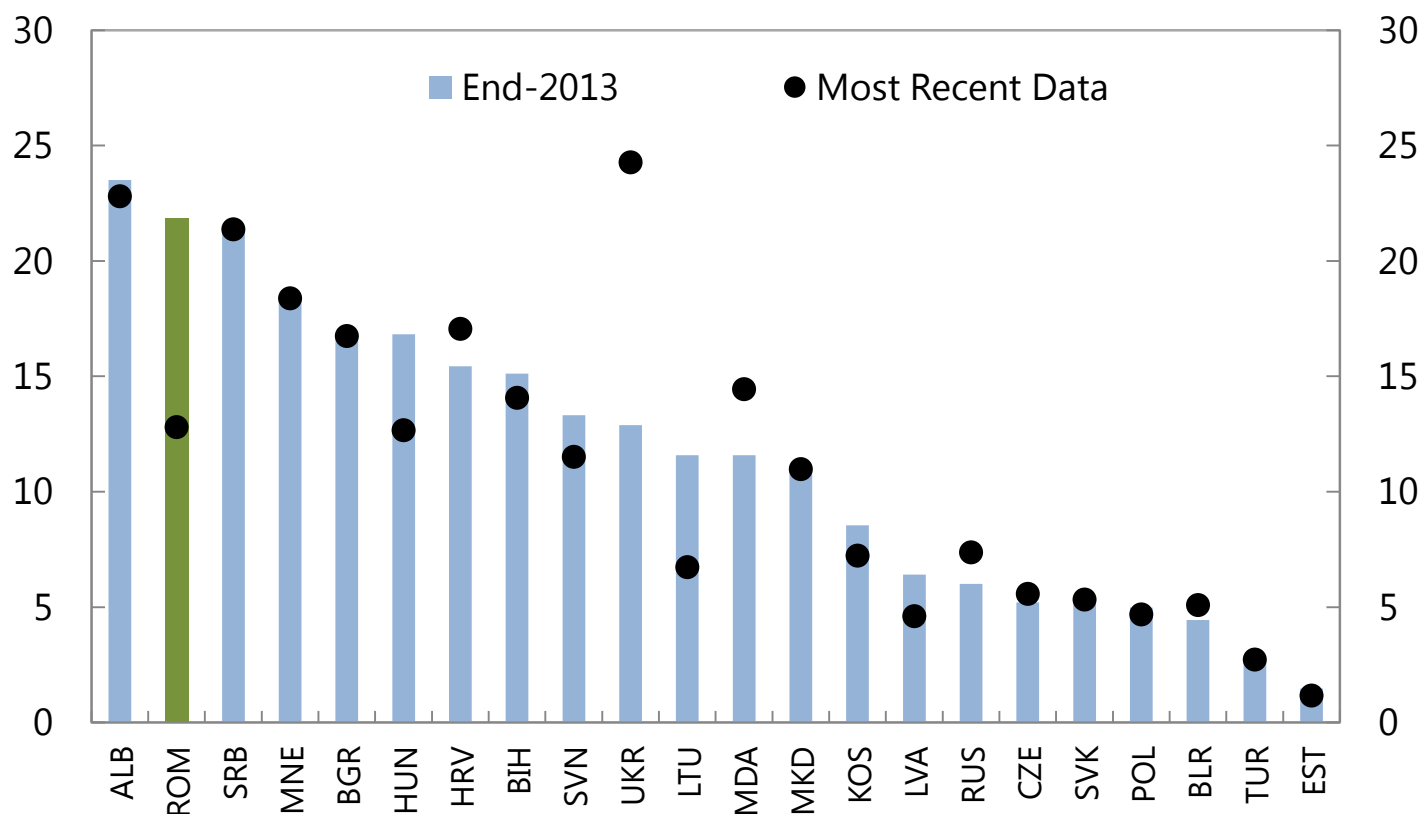
1/ Only 2013 data available for Albania and Serbia

### 3. Credit growth and private sector debt



Balance sheets remain weak. NPLs are still elevated, though they have come down significantly in some countries, e.g. Romania.

#### Nonperforming Loans (*Percent of total loans*)



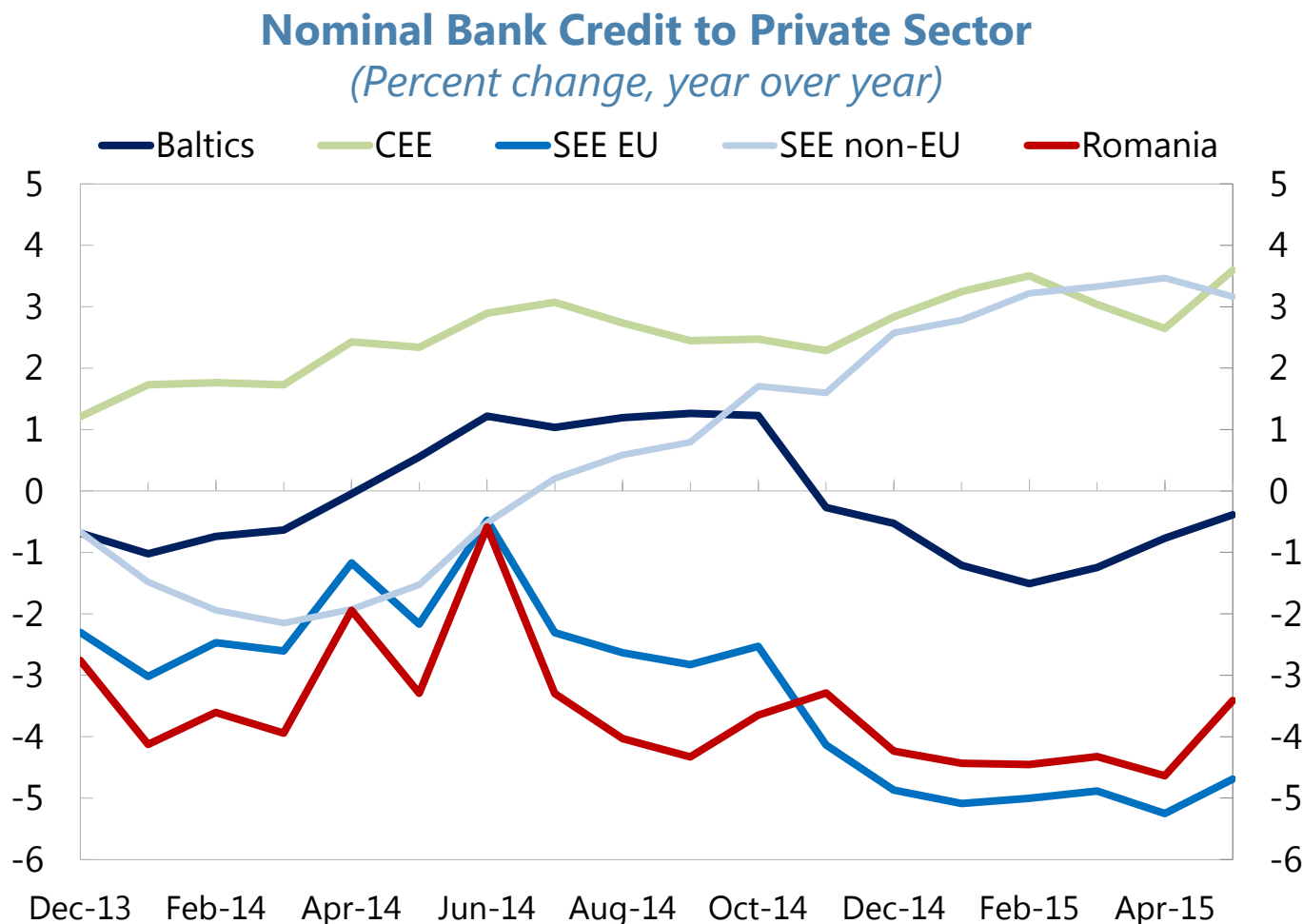
Source: IMF *Financial Soundness Indicators*



### 3. Credit growth and private sector debt



Credit growth is still weak but a turnaround appears incipient for some countries.



Sources: EBRD, ECB, Haver Analytics, IMF IFS, and IMF staff estimates.

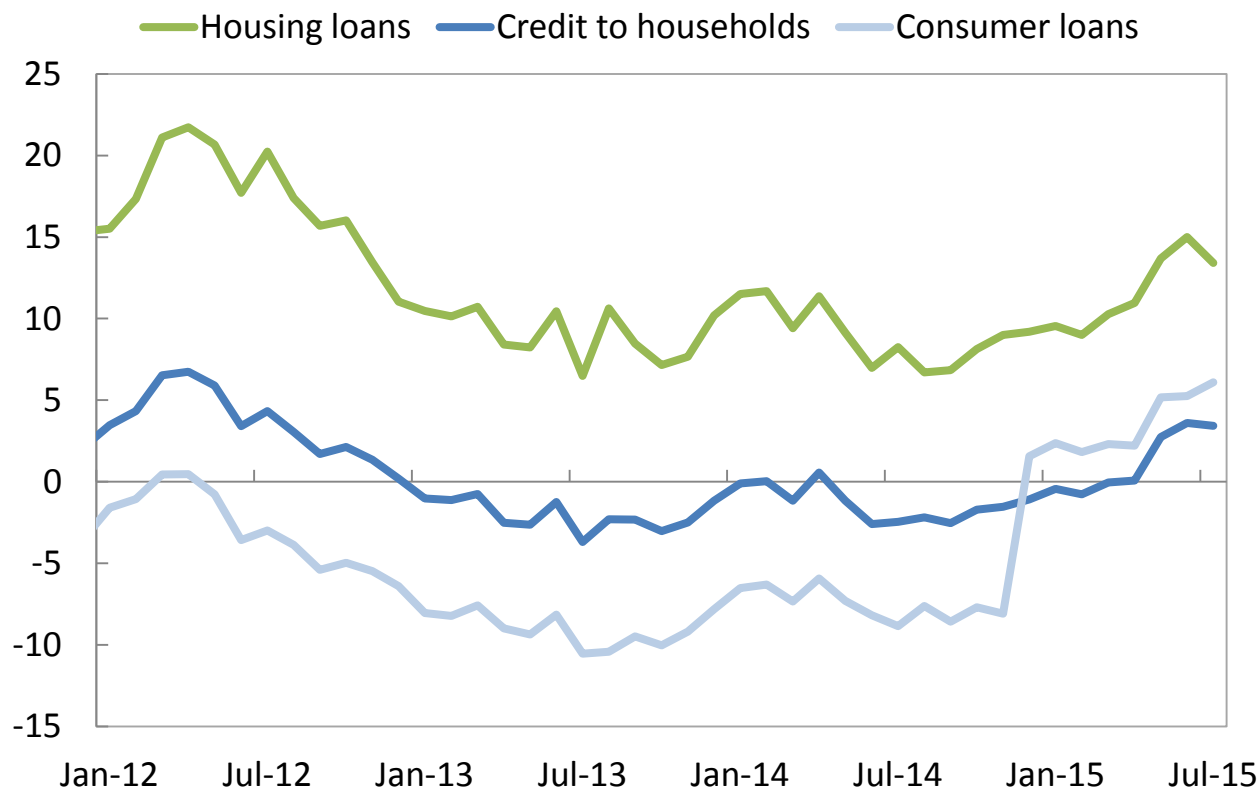
Note: CESEE = central, eastern, and southeastern Europe; CEE = central and eastern Europe; SEE = southeastern Europe.

### 3. Credit growth: are the gaps closing?



For example, in Romania the recovery in lending to households, after two years of negative credit growth, has become more entrenched.

#### **Romania: Household Credit** *(Percent change, year-over-year)*



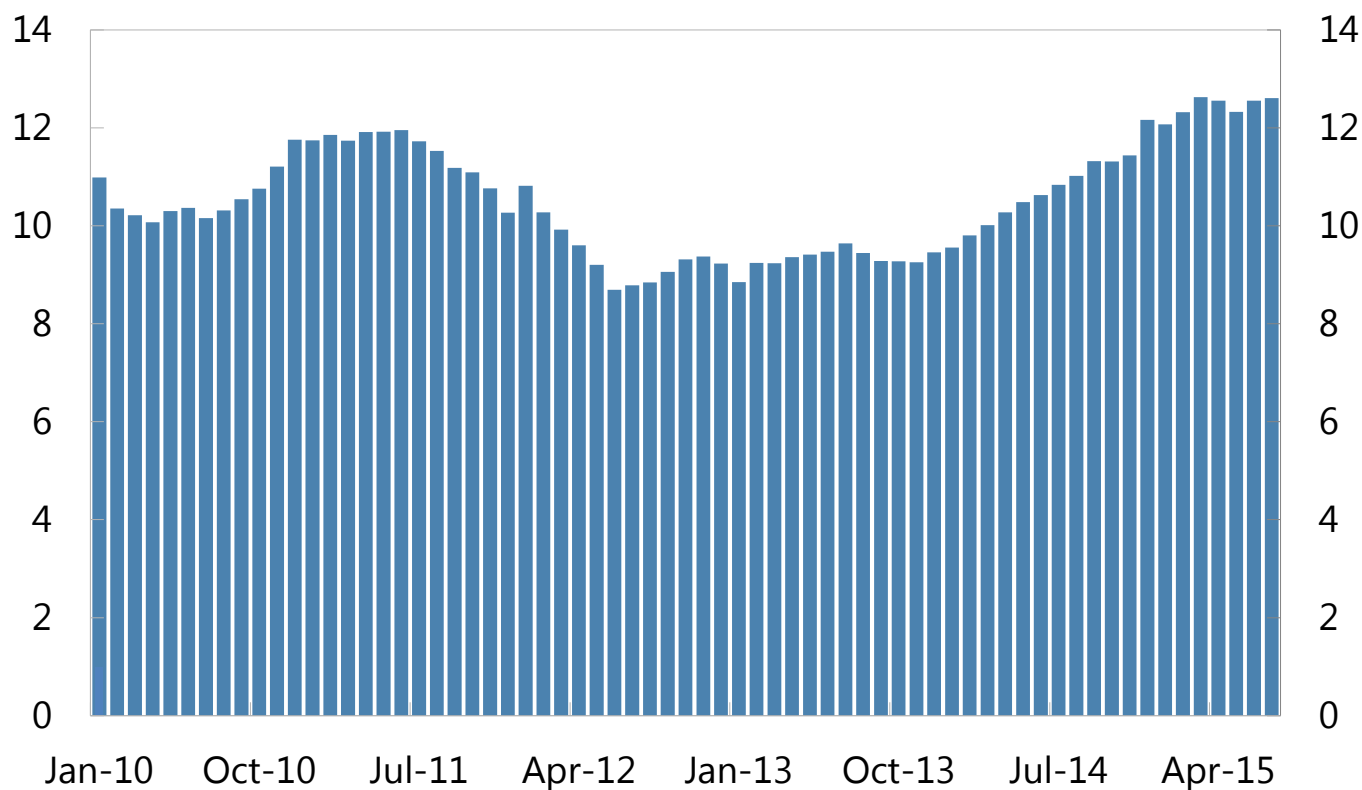
Sources: National Bank of Romania, Haver Analytics and IMF staff calculations

### 3. Credit growth and private sector debt



Where is consumer lending strong? For example, Slovakia.

**Slovakia: Household Credit**  
*(Percent change, year over year)*



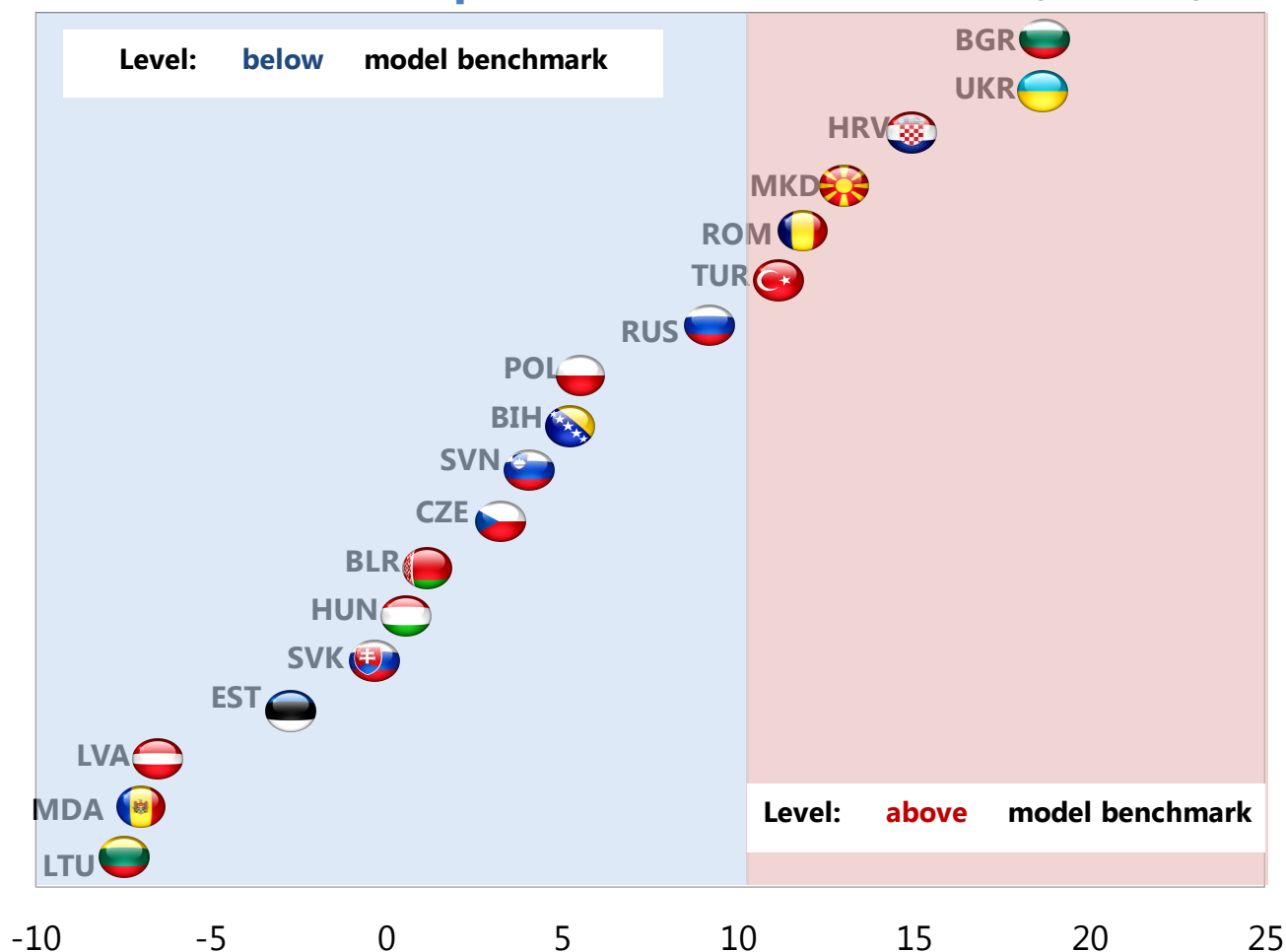
Sources: Haver Analytics, ECB

### 3. Credit growth and private sector debt



The “credit gap” has started to close in several countries in the region.

**2013 Credit Gap as Ratio to GDP in 2020 (Percent)**



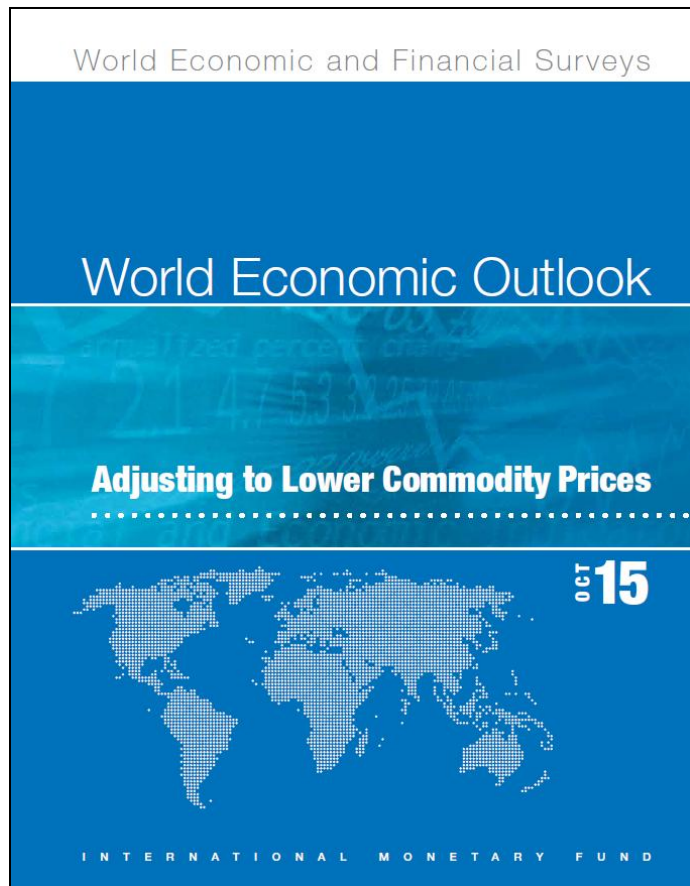
Source: IMF Central, Eastern, and Southeastern Europe. Regional Economic Issues, May 2015.

## 4. Conclusions and links to macro-prudential policies

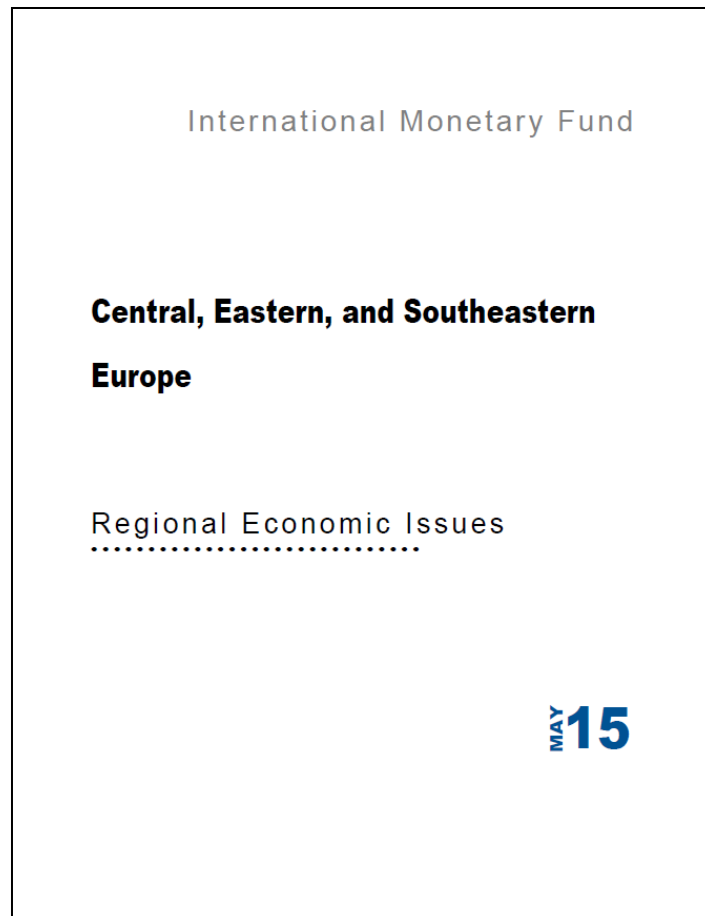


- Diverse growth performance in the region. Greater global and regional downside risks.
- Domestic demand is firming in several countries, in particular consumption.
- Credit intermediation still weak but indications for a turnaround, in particular for consumer loans.
- In most countries, focus should still be on strengthening balance sheets.
- In a few countries, the speed of consumer lending already calls for a increased vigilance by supervisors.

# Further reading



<http://www.imf.org/external/pubs/ft/weo/2015/02/>



<http://www.imf.org/external/pubs/ft/reo/2015/eur/eng/erei0515.htm>