

Macroeconomic Outlook and Risks for the Region and Romania



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Macroprudential Policy at Work:

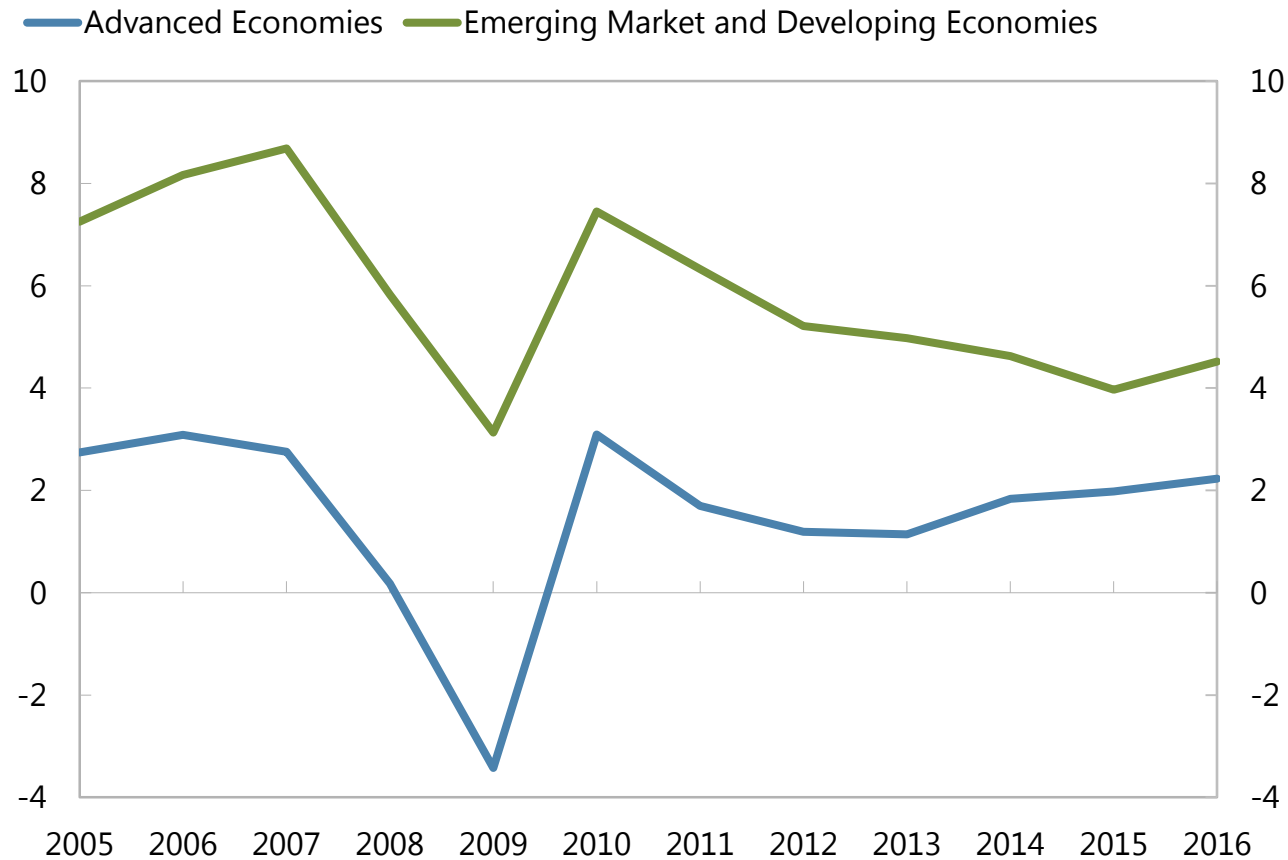
Systemic Risk and Macroprudential Instruments

1. Global macroeconomic outlook and risks



The uneven recovery continues.

Real GDP Growth (Percent)



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
2015	3.1	2.0	2.6	2.5	0.6	1.5	1.5	1.2
Revision from July 2015	-0.2	-0.1	0.1	0.1	-0.2	0.0	-0.1	0.0
2016	3.6	2.2	2.8	2.2	1.0	1.6	1.6	1.5
Revision from July 2015	-0.2	-0.2	-0.2	0.0	-0.2	-0.1	-0.1	0.0

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
2015	3.1	4.0	6.8	7.3	-3.0	-3.8	3.0	4.8
Revision from July 2015	-0.2	-0.2	0.0	-0.2	-1.5	-0.4	0.0	-0.3
2016	3.6	4.5	6.3	7.5	-1.0	-0.6	2.9	5.8
Revision from July 2015	-0.2	-0.2	0.0	0.0	-1.7	-0.8	-0.1	-0.4

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

1. Global macroeconomic outlook and risks



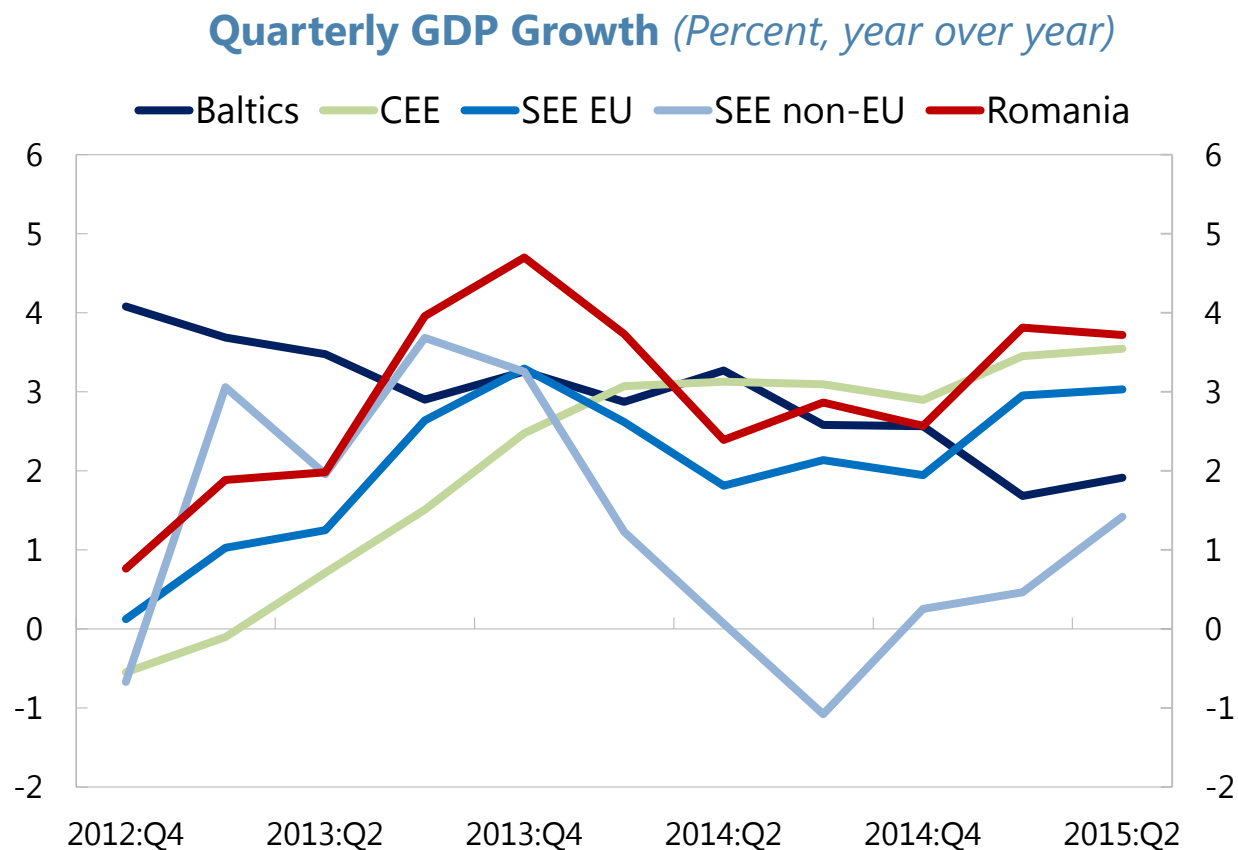
Greater downside risks, in particular for EMEs:

- 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.



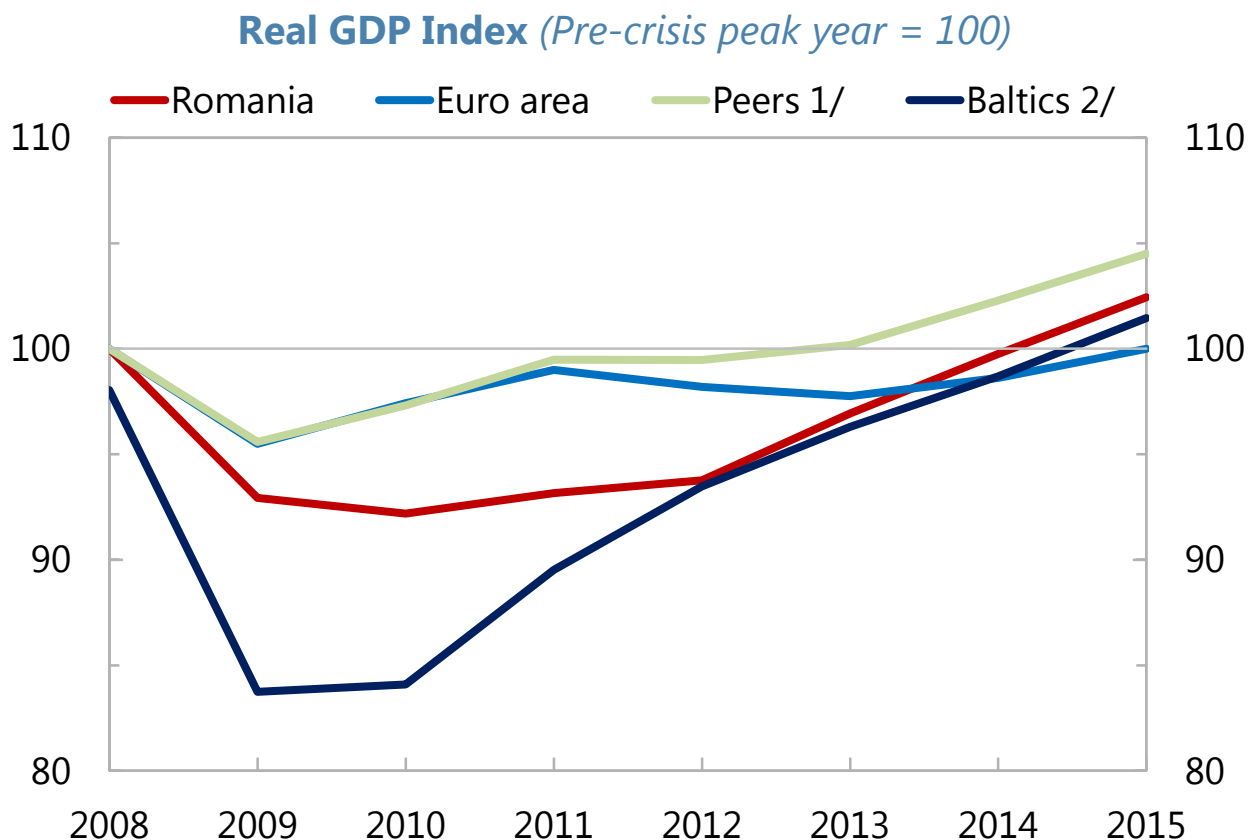
Sources: Haver Analytics, IMF *World Economic Outlook*, Eurostat, and IMF staff estimates.

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.

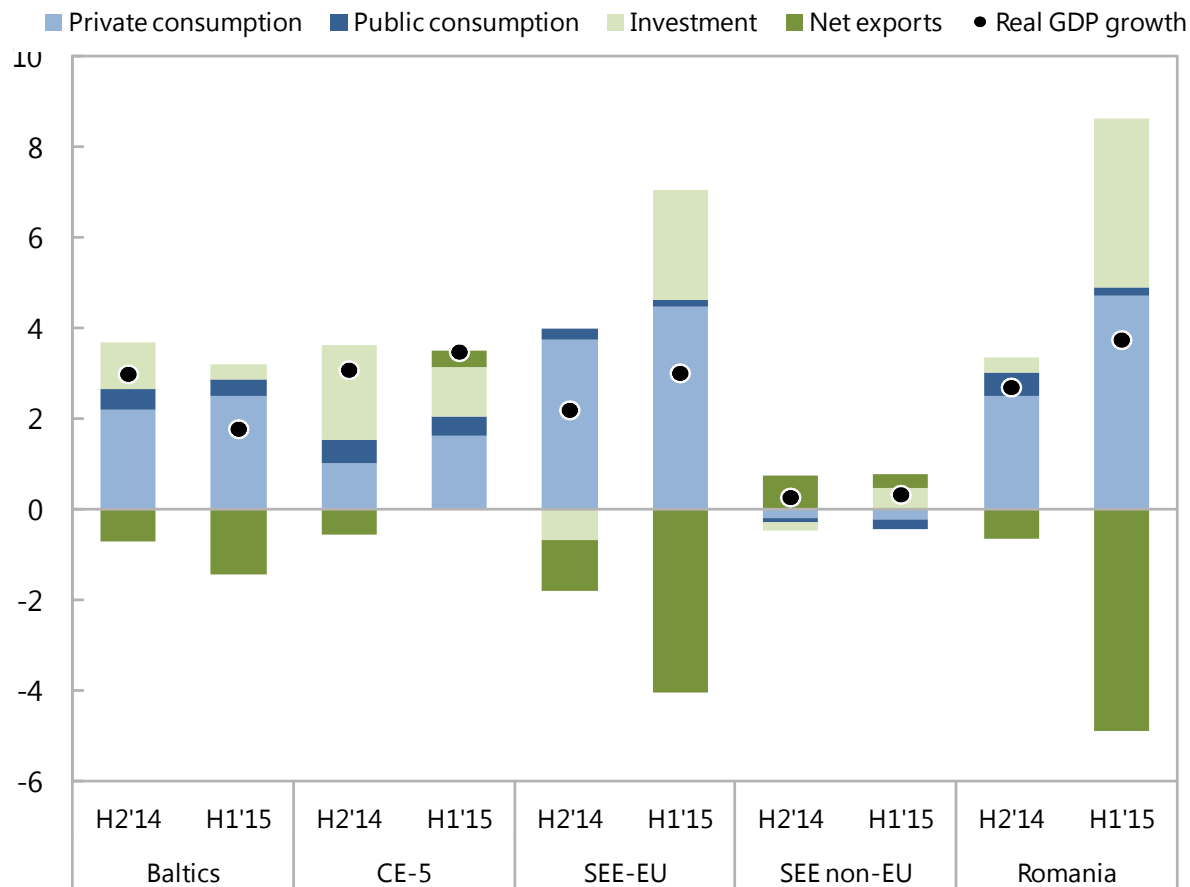
2/ Unweighted average for EST, LVA, and LTU. Peak pre-crisis GDP for EST and LVA was 2007.

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.

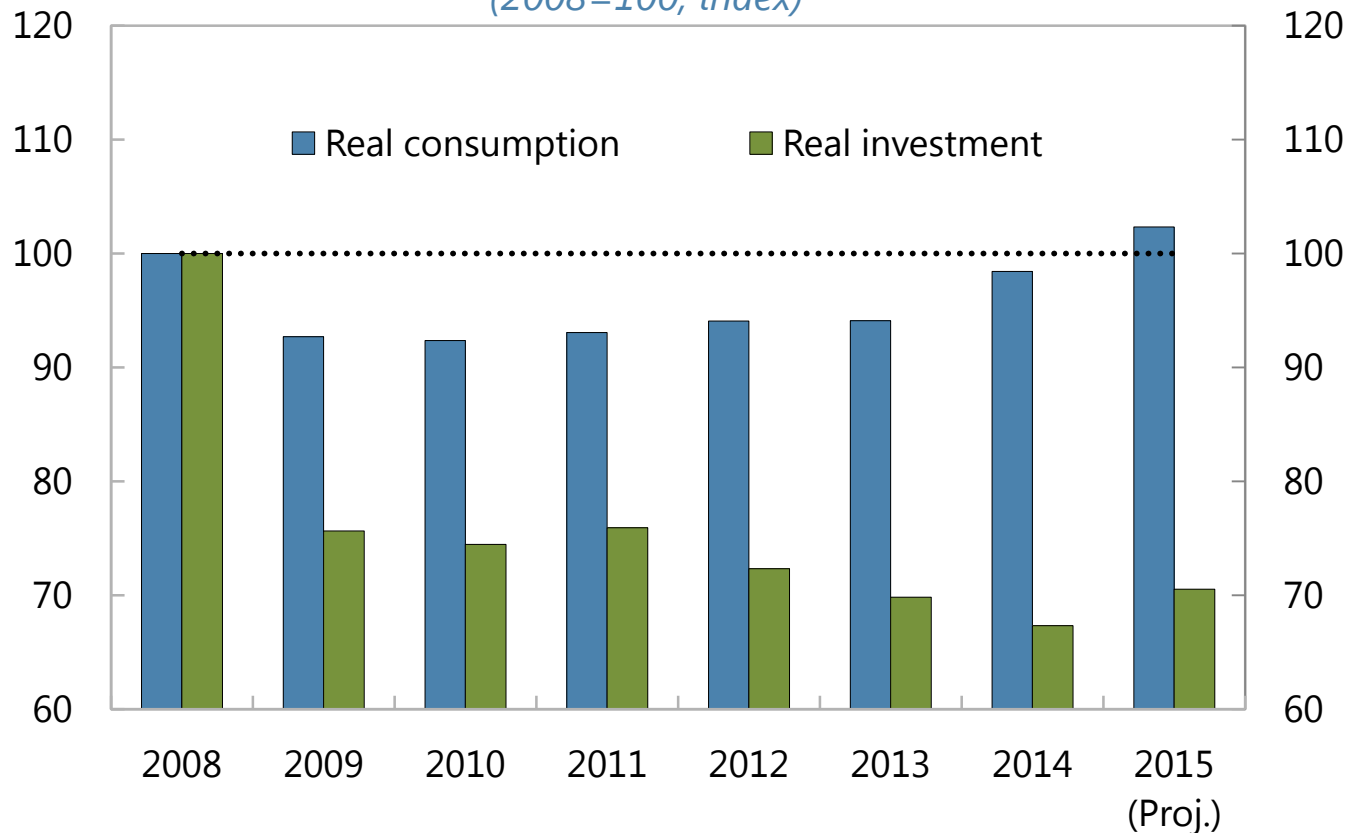
Note: CESEE = central, eastern, and southeastern Europe. Semi-annual data constructed as the average of respective quarterly data.

2. Regional macroeconomic outlook and risks



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

Consumption and Investment Relative to Pre-Crisis Level
(2008=100, index)



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.

Near-Term Outlook for Real GDP Growth (Percent)

	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	2015	2016	2017
	Prel.	Proj.	Proj.	Proj.
GDP and prices (annual percent change)				
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
General government (in percent of GDP)				
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
Current account (percent of GDP)	-0.4	-0.7	-1.5	-2.0

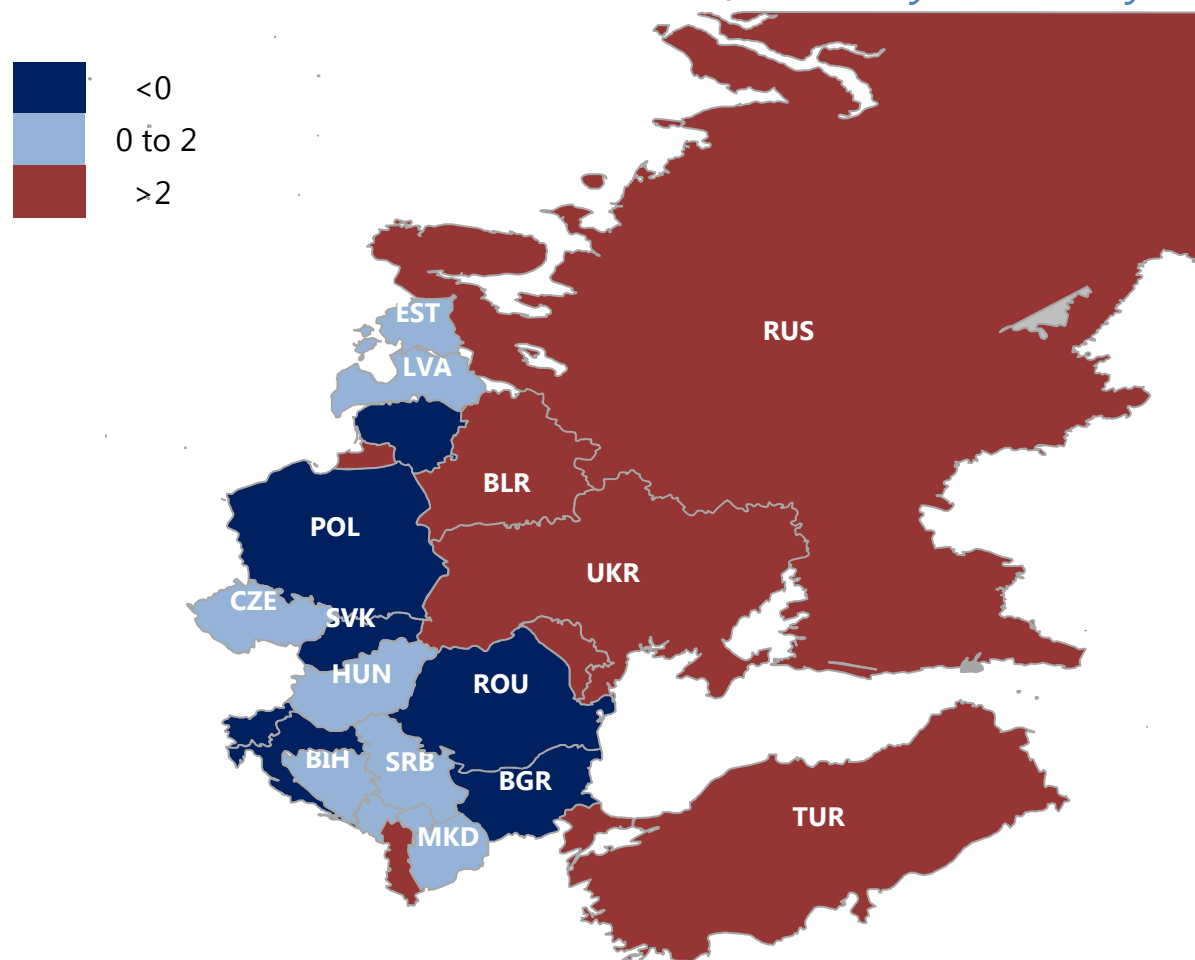
Sources: IMF *World Economic Outlook*, October 2015; and IMF staff estimates and projections.

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.

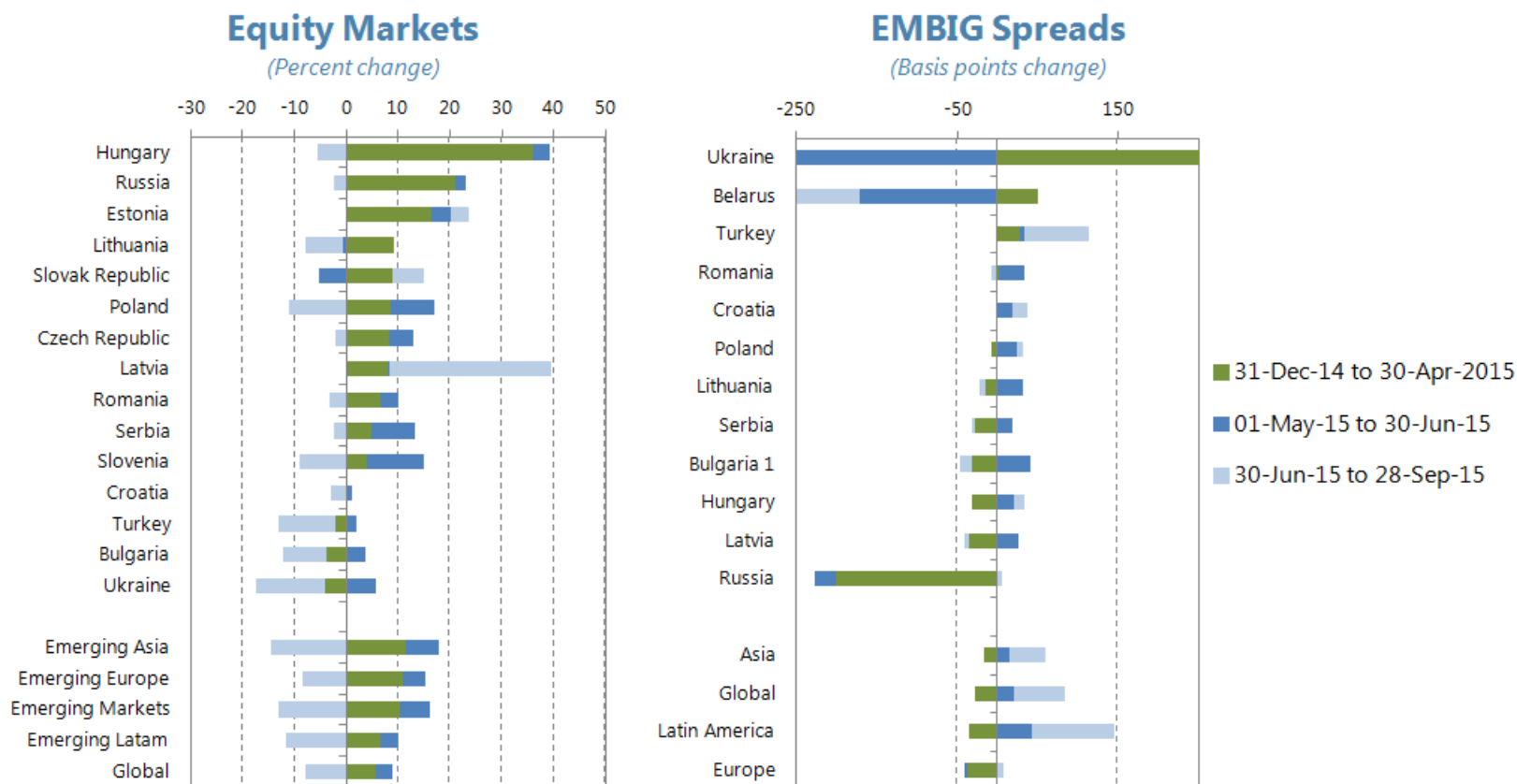
2. Regional macroeconomic outlook and risks



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:

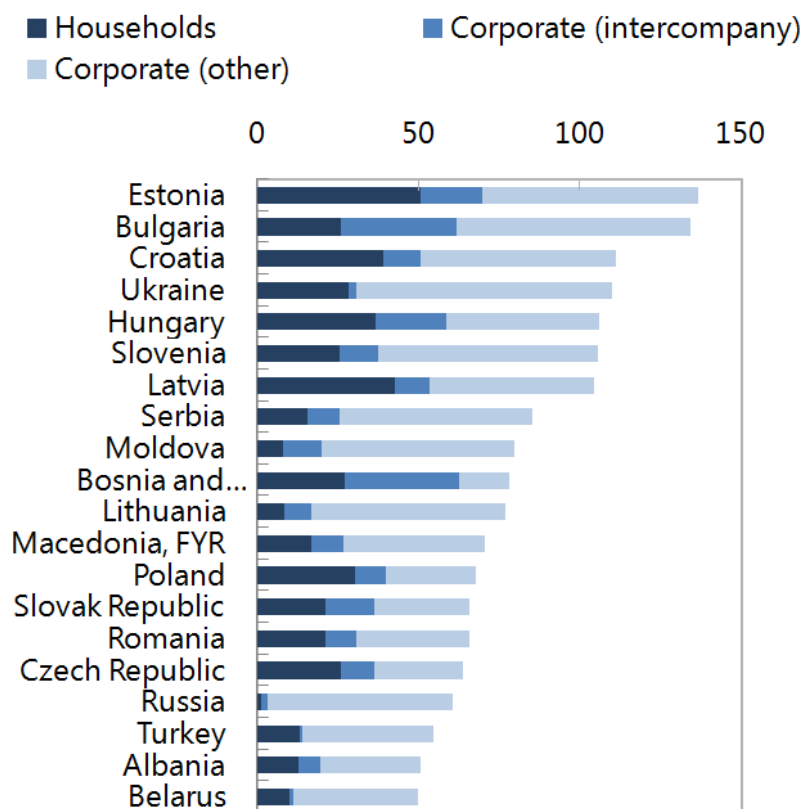
- Un-anchoring of inflation expectations.
- Increased pressures for populist economic policies.
- Impact from refugee crisis.

3. Credit growth and private sector debt

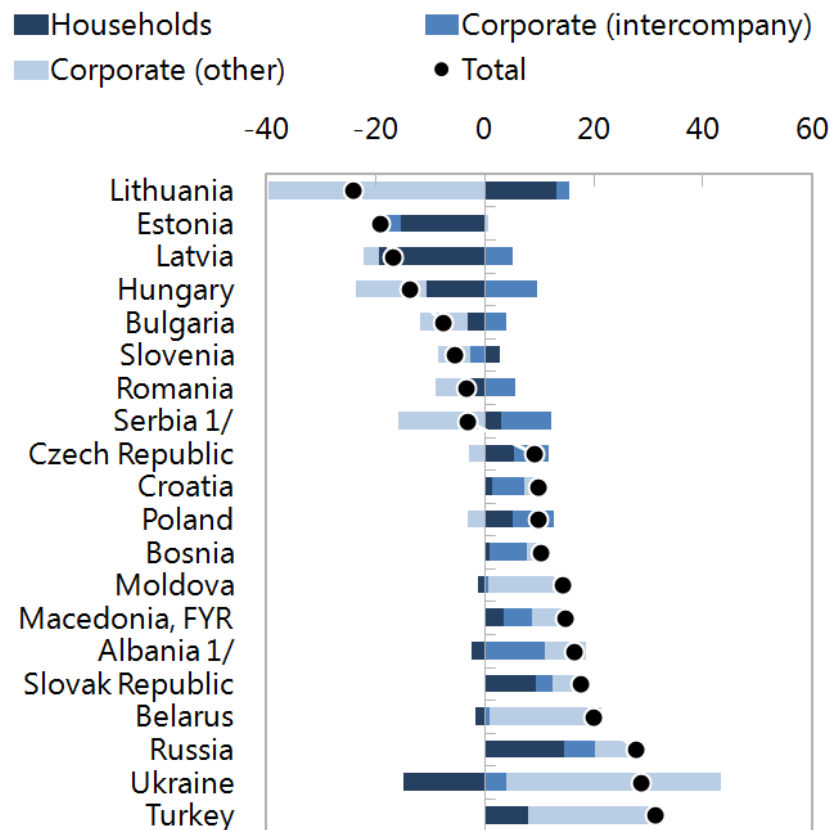


Private sector debt remains high in many countries despite large corrections in some, in particular the Baltics.

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



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



Sources: IMF Data, Eurostat

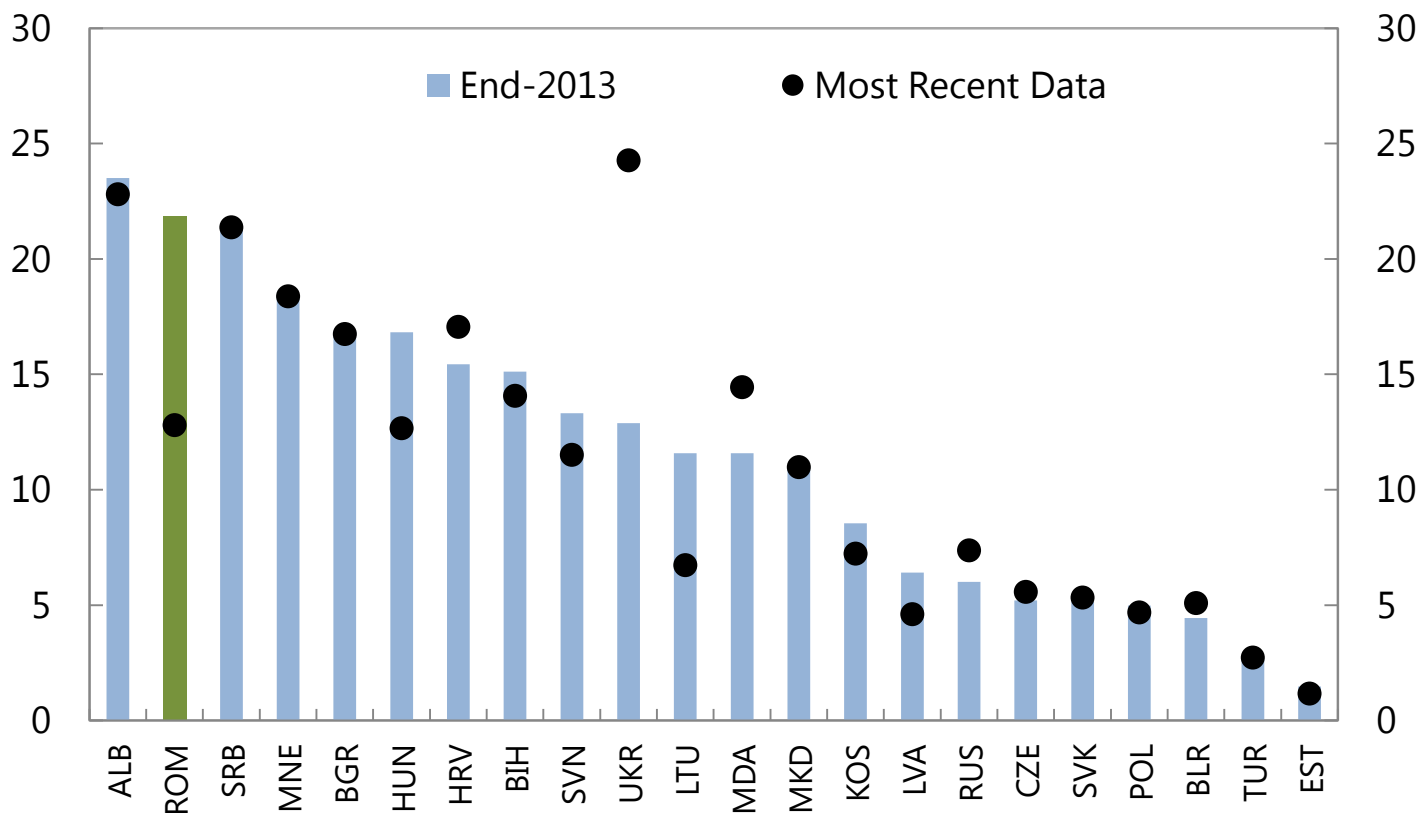
1/ Only 2013 data available for Albania and Serbia

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*)



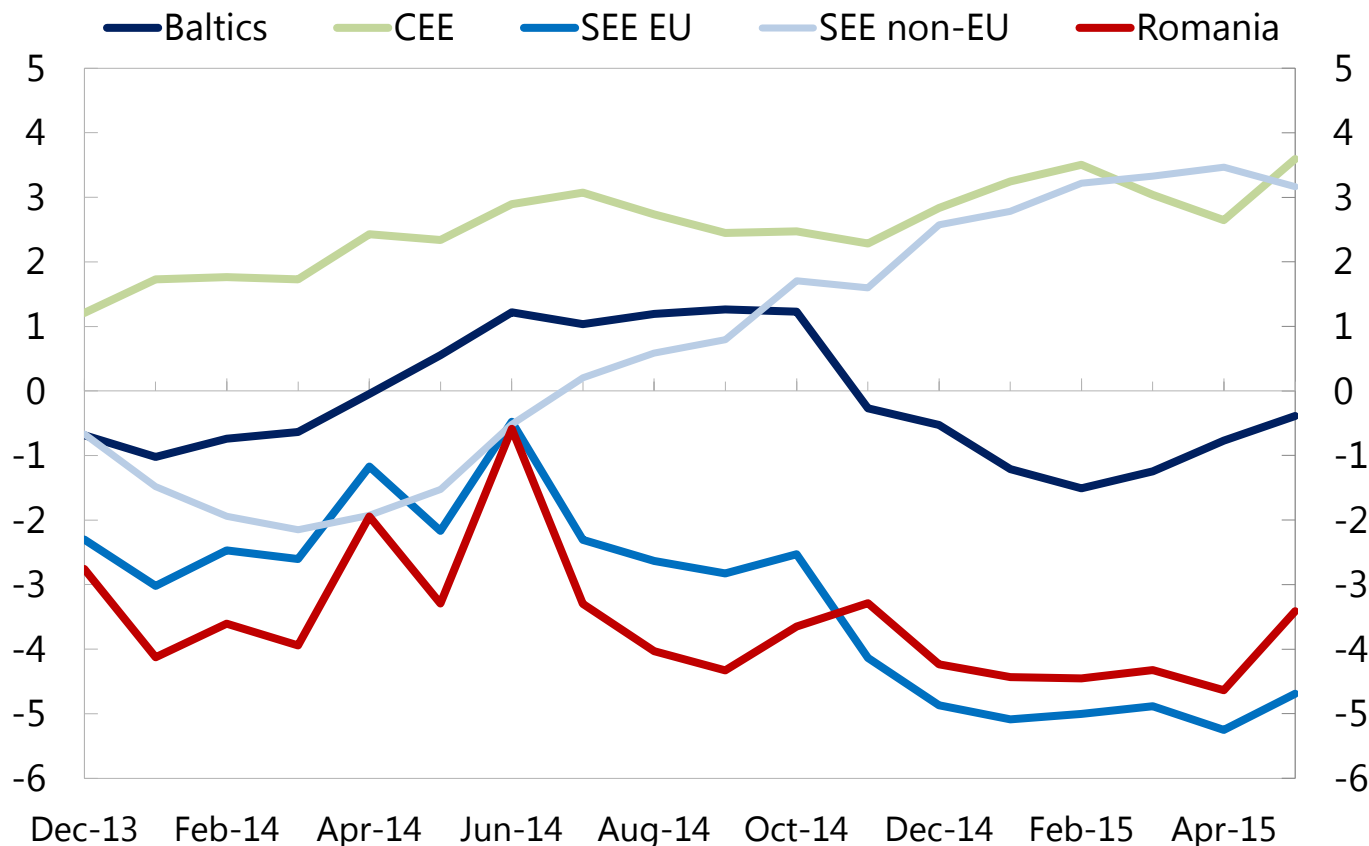
Source: IMF *Financial Soundness Indicators*

3. Credit growth and private sector debt



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

Nominal Bank Credit to Private Sector (Percent change, year over year)



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

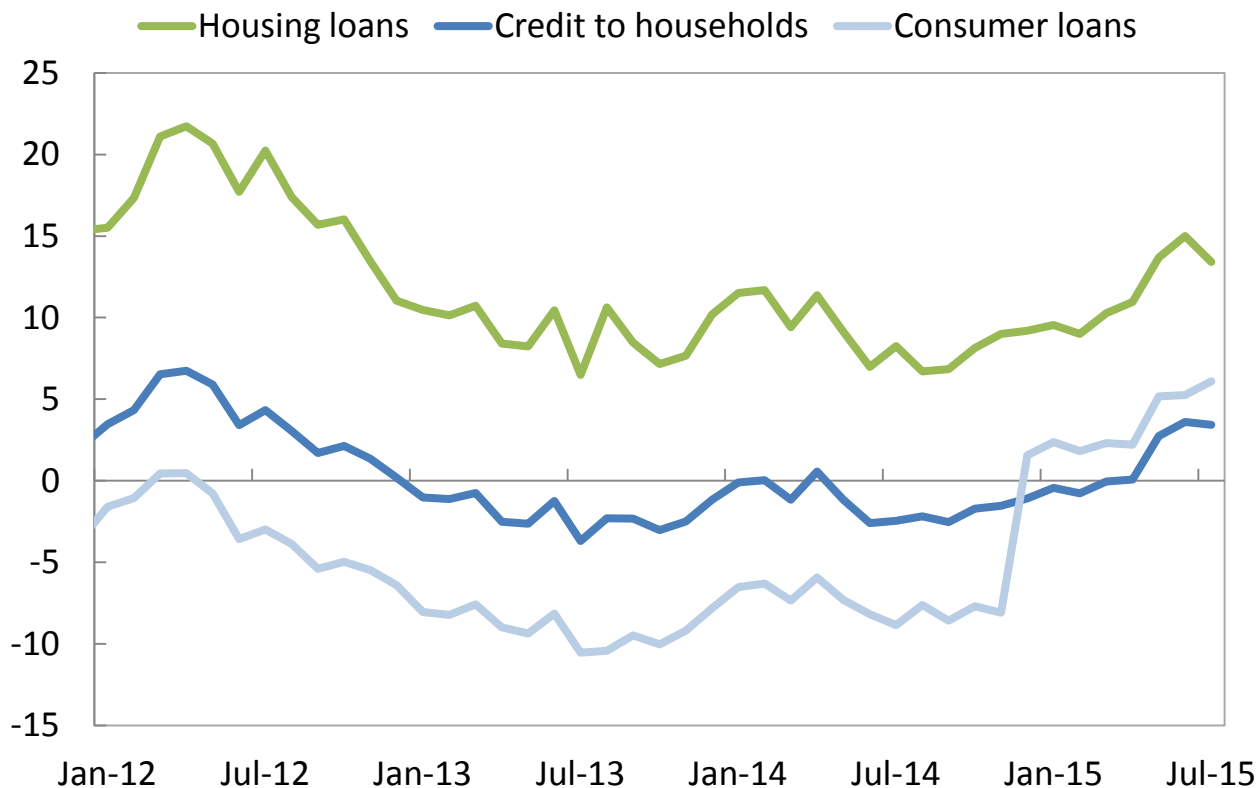
Note: CESEE = central, eastern, and southeastern Europe; CEE = central and eastern Europe; SEE = southeastern Europe.

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)



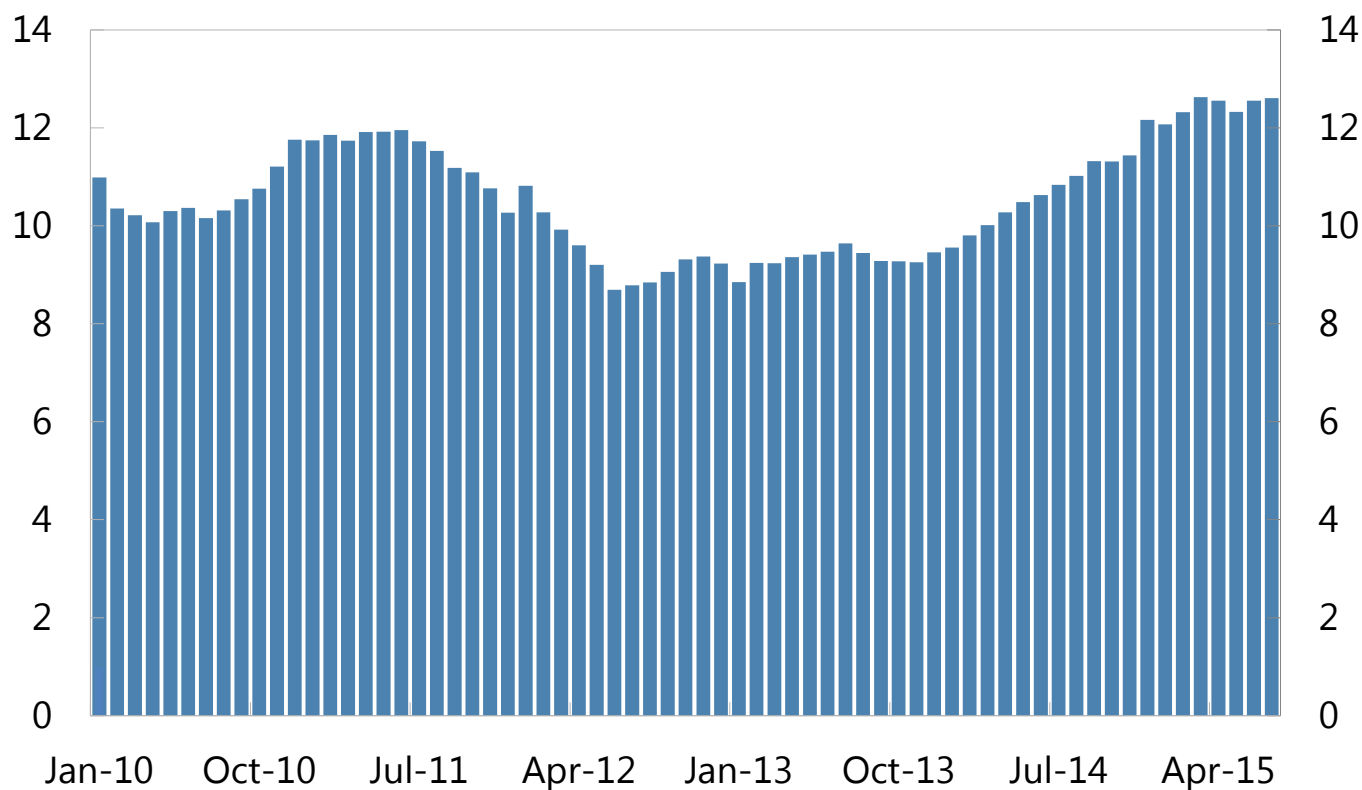
Sources: National Bank of Romania, Haver Analytics and IMF staff calculations

3. Credit growth and private sector debt



Where is consumer lending strong? For example, Slovakia.

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



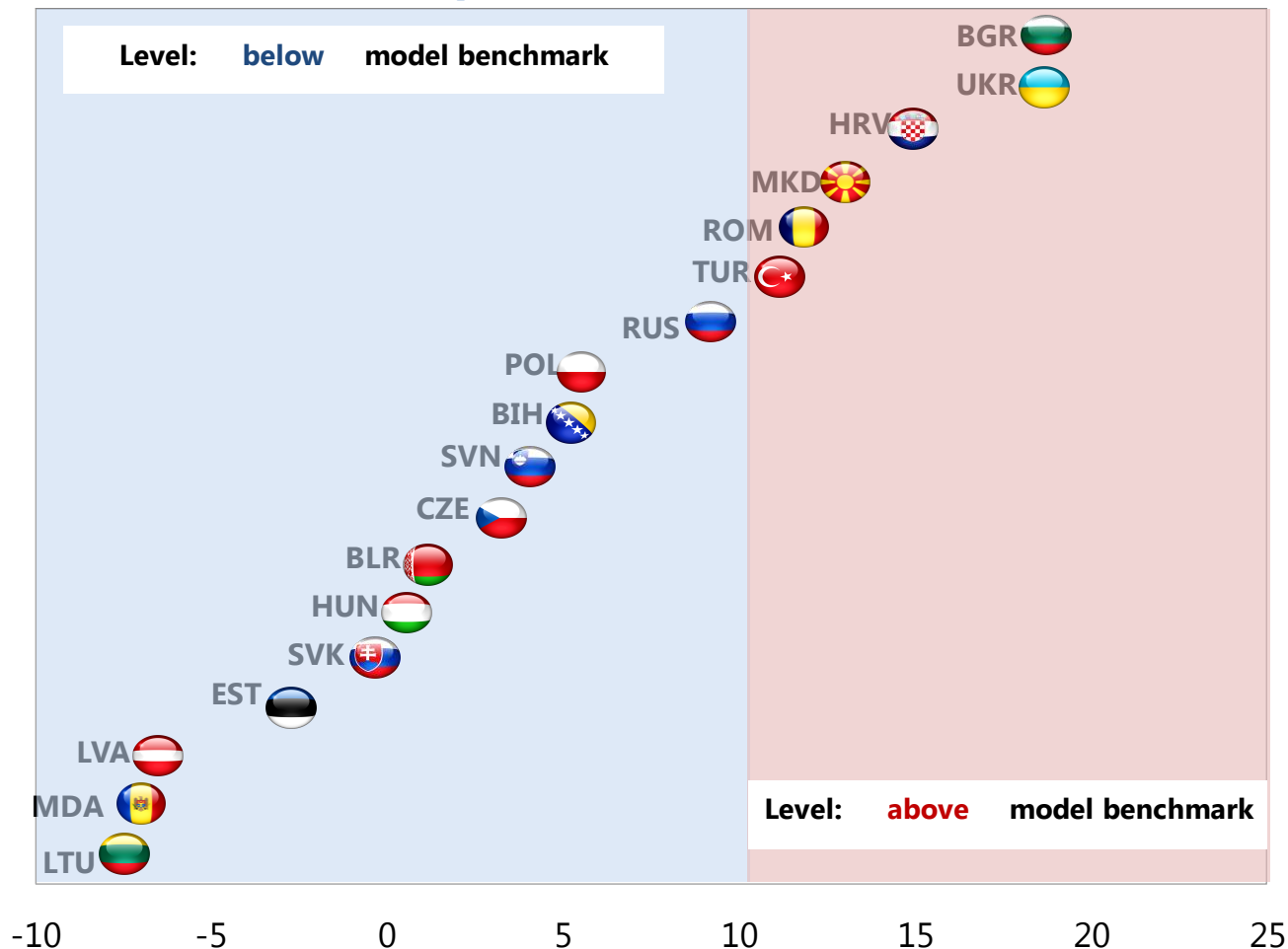
Sources: Haver Analytics, ECB

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)



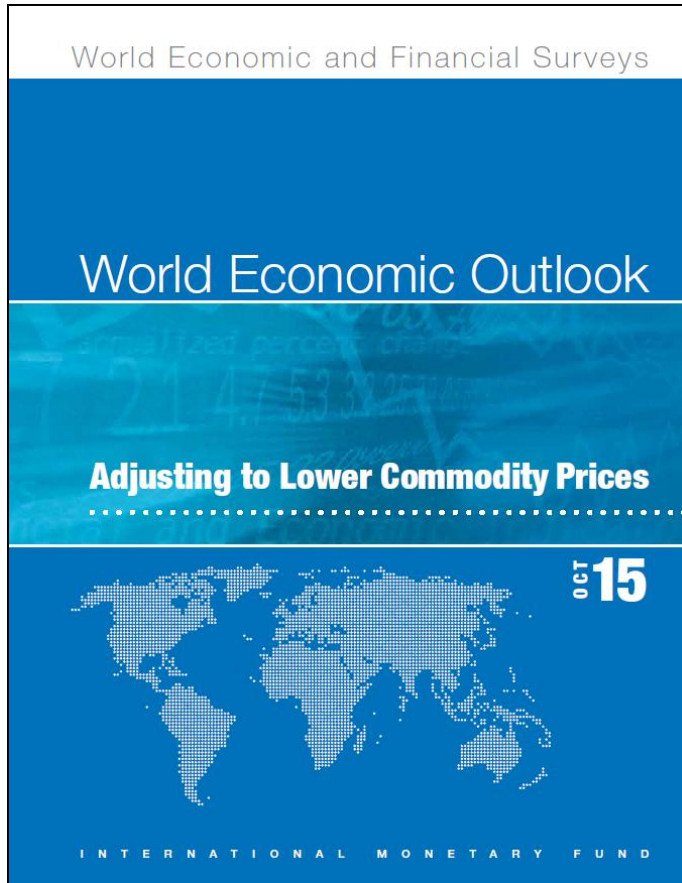
Source: IMF Central, Eastern, and Southeastern Europe. Regional Economic Issues, May 2015.

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>