The Economic Situation in the Transition Economies

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EiT & NMS Shares of the Global Economy

[Diagram showing the share of world GDP PPP for countries like Russia, EECCA-11, SEE-5, NMS, and Turkey for the years 1998 and 2013. The diagram includes a pie chart showing the share of EiT.]
Growth in the EiT is more volatile than elsewhere and its post-crisis medium-run growth has slowed more.
Real GDP growth in the ECE sub-regions
Pre-crisis patterns have returned except at a much lower level of growth
Growth in the EiT, 2011-14

The chart depicts the real GDP growth for various countries in the EiT region from 2011 to 2014. Each bar represents a country, with the height indicating the growth rate for each year. The countries listed include Albania, B&H, FYR of Macedonia, Montenegro, Serbia, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, and the EiT region as a whole.
Real GDP Growth in 2013
Real GDP Growth 2008-2013
The worse the performance in 2013, the more the improvement in 2014.
Leading indicators have recently turned down for Eurozone and especially Russia

Source: OECD
NMS leading indicators vary

Source: OECD
Unemployment in EECCA (CIS)

ECE estimates, cross-country comparisons should not be made as no common methodology.
Unemployment in SEE; largely structural

ECE estimates, cross-country comparisons should not be made as no common methodology
Inflation in EECCA (CIS)

Uzbekistan has inflation in double digits but limited data
Inflation in SEE

![Graph showing inflation in SEE countries over time, with data points for Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia, and the fYR of Macedonia.]
Medium-term inflation trends
Exchange rates versus the US$

Declines since 2008 but general stability since 2009
Russian ruble has been appreciating in real terms

Source: BIS- Real trade weighted exchange rates
Exports from CIS still below peak in 2008Q3

Source: Data from WTO
Export indexes, in about half EiT exports still below 2008Q3

Source: Data from WTO
Russian exports of crude oil and oil products: Stable volumes with export revenues dependent on price

Source: Sergey Sinelnikov-Murylev et al, Gaidar Institute Russian Outlook, 2013
Regional PTAs in the ECE Region
Current accounts remain somewhat problematic in SEE

IMF projections for 2014
Trade deficit partially covered by transfers (Serbia)
Remittances remain significant for many EiT; SEE about 5-10%, CIS varies considerably.
Economic downturn in Russia reduced remittance outflows to CIS-10 significantly but they have now recovered.

Note: 2009-2010 break in series due to move from BMP5 to BMP6 in BOP data; 2013 estimated from partial year data during the “Shelburne Method”.
FDI inflows are still depressed in SEE and Russia, but not EECCA-11 (CIS-11), longer-term FDI is significant

Eit receive about 6% of world FDI

Will WTO accession boost FDI to Russia?

<table>
<thead>
<tr>
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<th>FDI Inward Stock</th>
<th>FDI Inflows</th>
<th>Per Cent Change 2008 to 2012</th>
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<tbody>
<tr>
<td>SEE-5</td>
<td>2.9</td>
<td>47.9</td>
<td>1,552</td>
</tr>
<tr>
<td>Russia</td>
<td>32.2</td>
<td>508.9</td>
<td>1,480</td>
</tr>
<tr>
<td>EECCA-11</td>
<td>22.2</td>
<td>245.6</td>
<td>1,006</td>
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<tr>
<td>EiT</td>
<td>57.3</td>
<td>802.4</td>
<td>1,300 (circled)</td>
</tr>
<tr>
<td>NMS</td>
<td>108.1</td>
<td>745.5</td>
<td>590</td>
</tr>
<tr>
<td>Turkey</td>
<td>18.8</td>
<td>181.1</td>
<td>863</td>
</tr>
<tr>
<td>ECA</td>
<td>184.2</td>
<td>1,729.0</td>
<td>839</td>
</tr>
</tbody>
</table>
Government gross debt to GDP

Note: for most net debt=gross debt or net is not provided; a * gives the amount net is less than gross as % of GDP
Except for a few, public debt is not excessive
Sovereign yields, some uptick over the last year

Source: IMF Global Financial Stability Reports
Size of EiT Governments Vary Considerably
EiT, NMS and Western Europe have similar tax structures
Non-performing loans have generally tripled
Bank-assets owned by eurozone banks (mainly Italy & Austria)
Note: Baltic banks largely owned by Sweden & Norway
Foreign exchange denominated loans are excessive throughout EiT; Euroization less in those with flexible exchange rates rates.

Source: IMF, Serbia Article IV Report, 2013
Very large capital inflows and a substantial current account surplus provided foreign exchange to cover large capital outflows and a large accumulation of international reserves.
Moderate capital inflows and a moderate current account surplus provided foreign exchange to cover moderate capital outflows and a very small increase in international reserves.
EiT FX Flows Before and After the Financial Crisis

2005-07

CA Surplus 6%
Capital Inflows 12.5%

Reserves 8.8%
Capital Outflows 8.7%

2010-2012

CA Surplus 3.1%
Capital Inflows 5.2%

Reserves 1.3%
Capital Outflows 6%
IMF Risk-Weighted Metric

In 2011 the IMF proposed a new metric to measure actual reserves against some estimate of need; the formula varies based upon exchange rate regime. For countries with floating exchange rate it is computed as $0.3 \times \text{short-term debt (at remaining maturity)} + 0.1 \times \text{stock of portfolio and other investment liabilities} + 0.05 \times \text{broad money} + 0.05 \times \text{exports of goods and services}$. (Russia about 175%)
Key Vulnerabilities in EiT in 2013 Compared to 2008

• **Worse**
  – Fiscal policy space
  – Health of western European parent banks
  – Level of non-performing loans
  – Overall situation in Ukraine and Belarus
  – Political tension between Russia and EU over the future alliances of Ukraine, Moldova, Georgia, etc.

• **The same**
  – Reserves
  – Exchange rate flexibility
  – Level of foreign currency denominated loans

• **Better**
  – Less short-term external debt and capital to reverse
  – Bank leverage ratios
  – Current account deficits, although still large in SEE
  – Key western European markets likely to be growing instead of collapsing
Per capita income of EECCA (CIS) and SEE relative to the world and eurozone
Convergence of per capita incomes over the last decade
Over the long-term there has been no convergence in the per capita income of FSU (USSR) with the USA or Western Europe.
Long-term Growth in the FSU

AZE, BEL, EST have grown faster than world since 1973 and since 1990

Based on data from Maddison, 2013; uses 1990 International GK$ per capita GDP
Long-term Growth in Former Yugoslavia

Slovenia and Montenegro have growth faster than world since 1973 and since 1990

Based on data from Maddison, 2013; uses 1990 International GK$ per capita GDP
No Convergence Since 1973