
SPCC Economic Conference
November 19, 2009



**Economic Outlook—Current Economic Situation in
Europe and the Baltic Countries with Special
Emphasis on Poland**

Overview

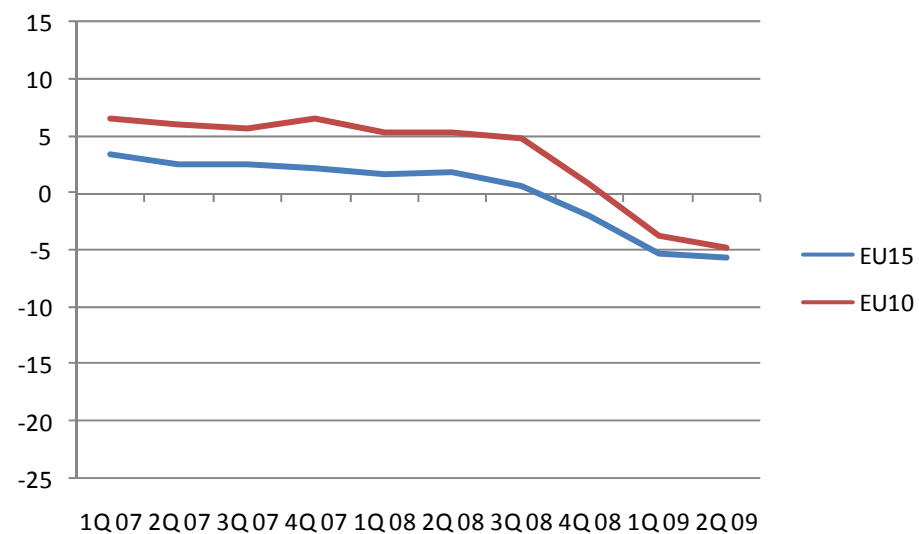
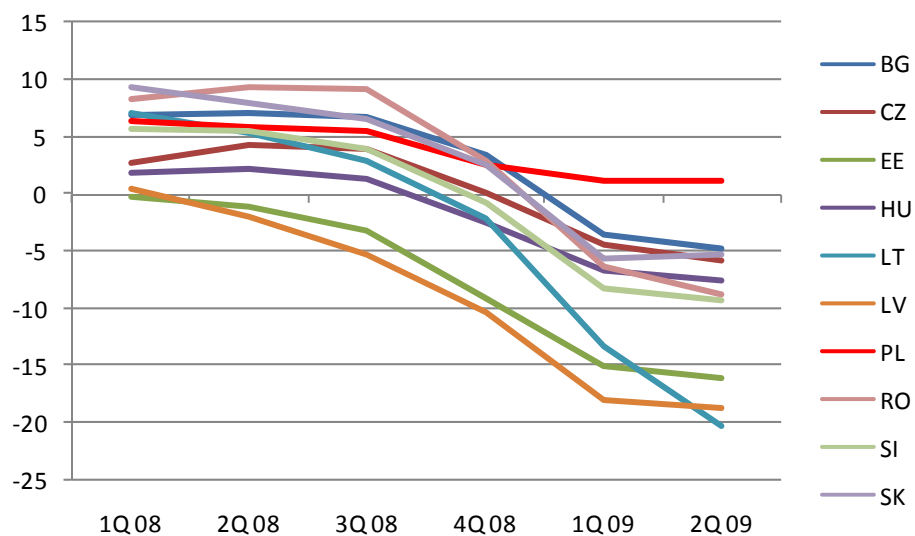
- **What we have seen**
 - Stabilization
- **Why Poland is different**
 - Initial conditions, depreciation, market size
- **What we can expect**
 - Slow recovery
- **What should be done**
 - Exit strategies and structural reform
- **What is World Bank doing?**

What we have seen

What we have seen

Economy – stabilization

% change, yoy, nsa

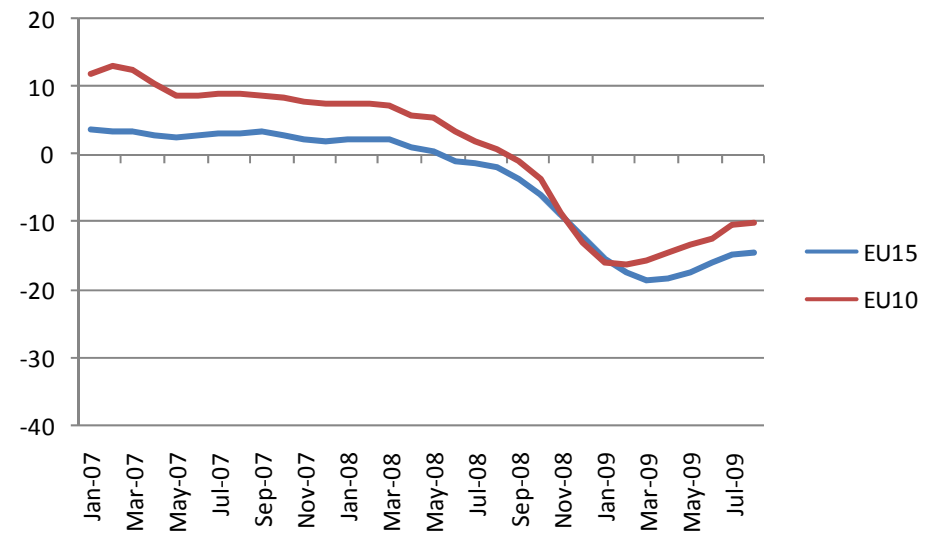
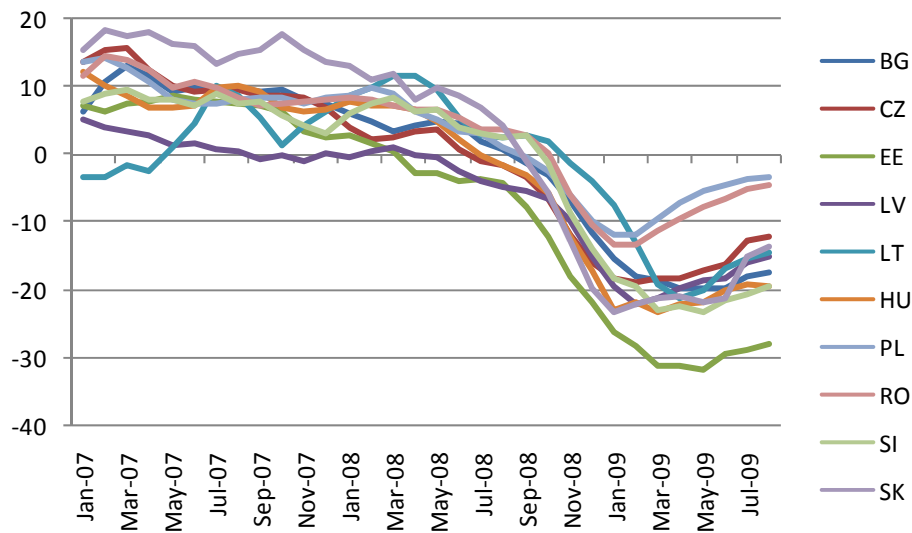


Source: Eurostat, World Bank Staff calculations.

What we have seen

Industrial production – modest rebound

3mma, wda, %change, yoy

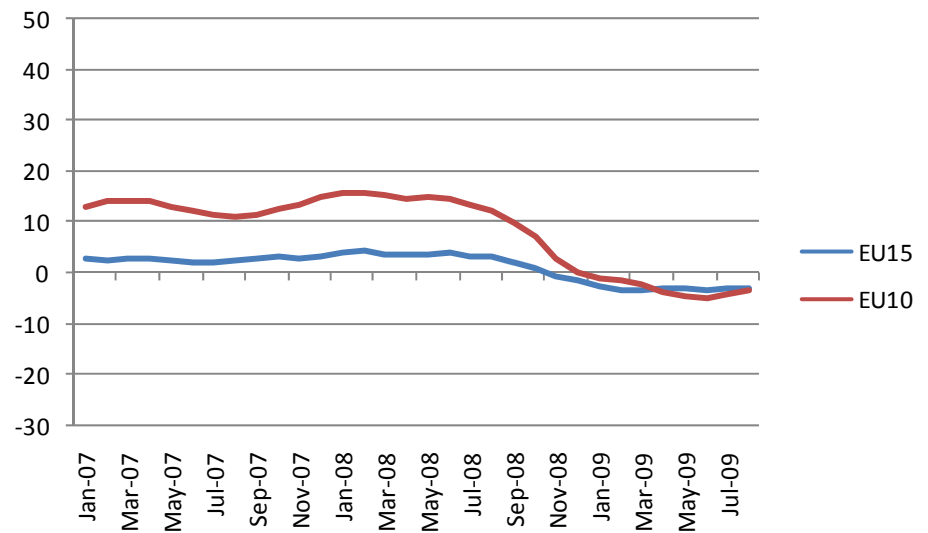
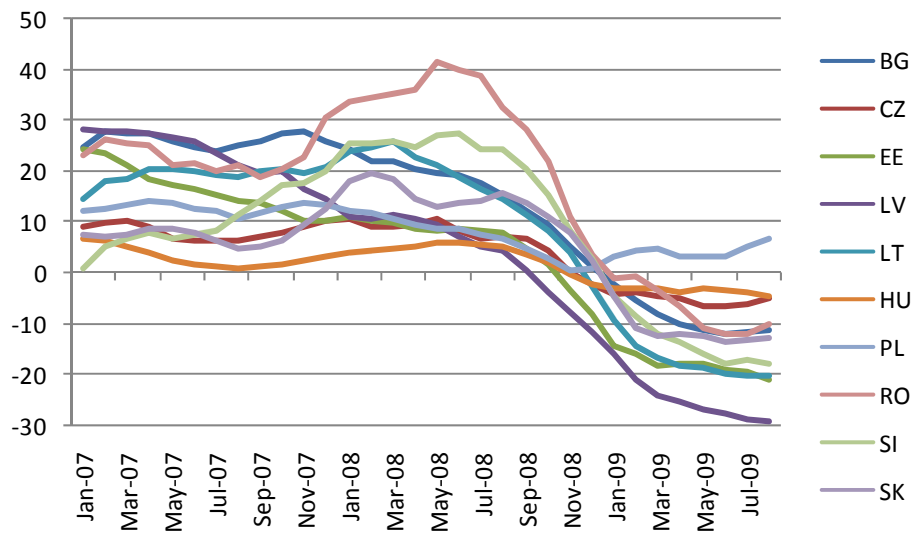


Source: Eurostat and World Bank.

What we have seen

Retail sales – stabilization

3mma, wda, %change, yoy

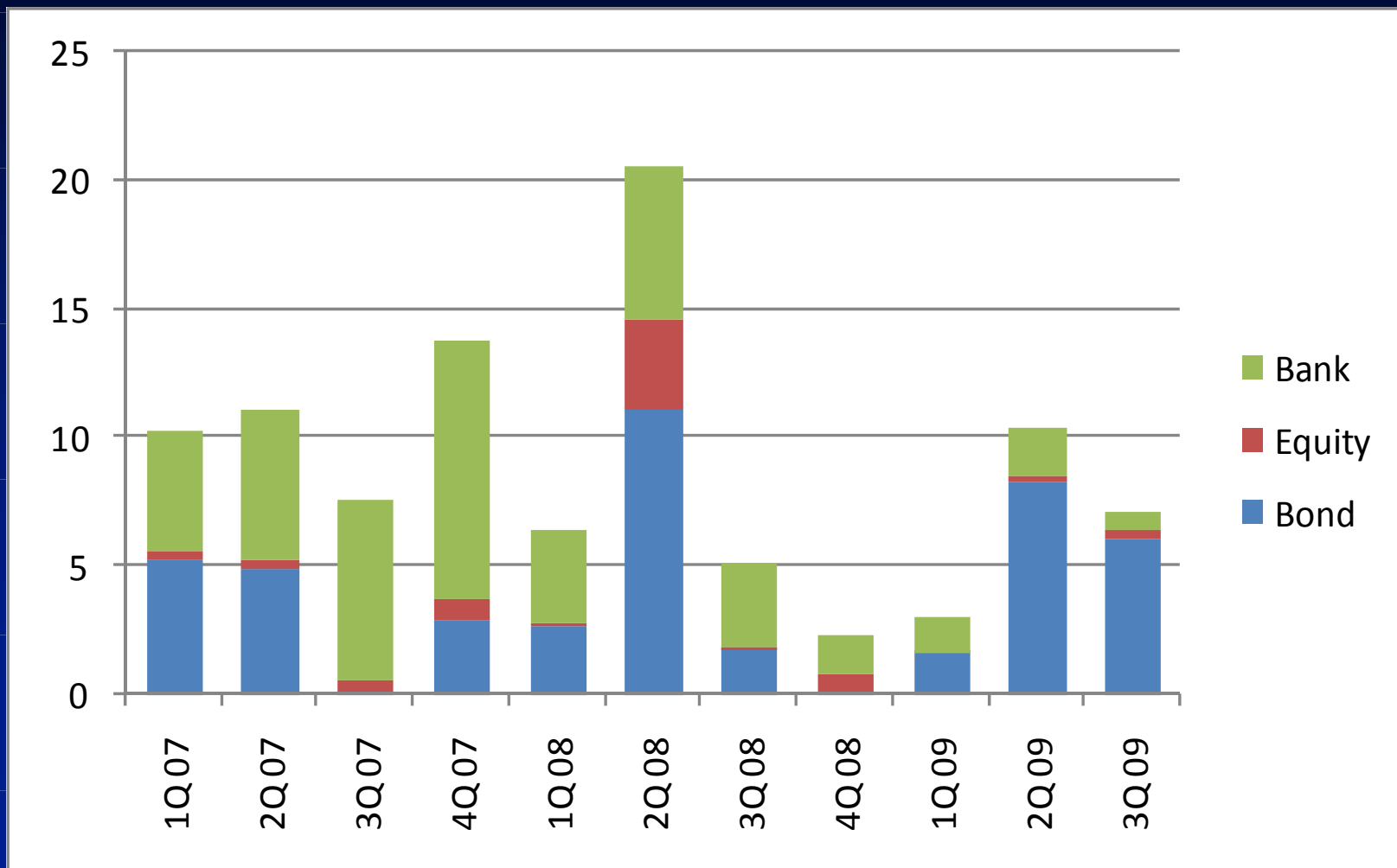


Source: Eurostat and World Bank.

What we have seen

Capital flows – strong bond issuance

Gross capital inflows to emerging EU10 (US\$ billion)

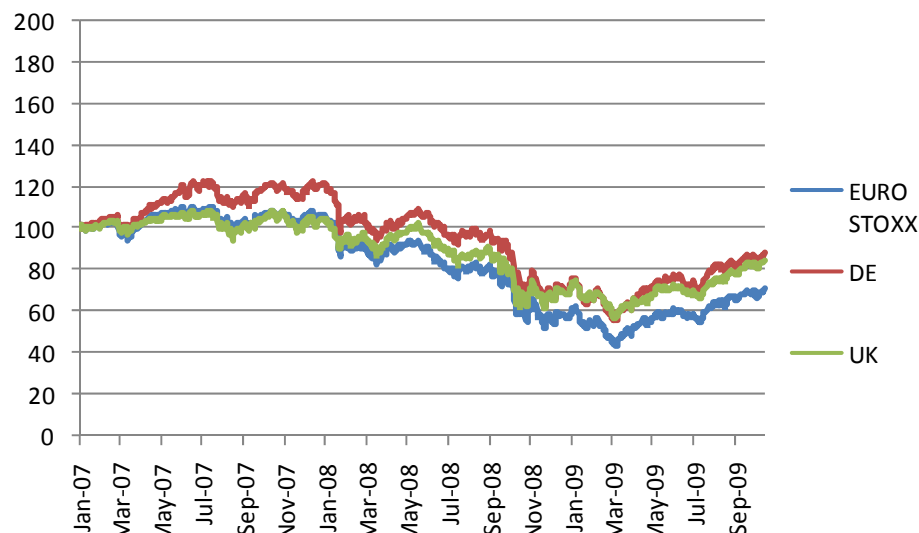
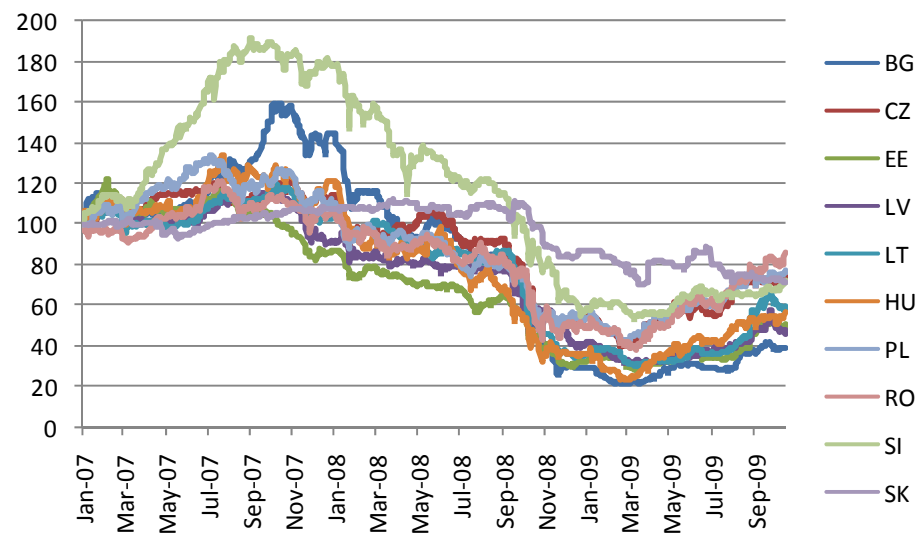


Source: World Bank Global Prospect Group, World Bank Staff calculations.

What we have seen

Stock market – recovery

Stock Market Indices (January 2008=100)

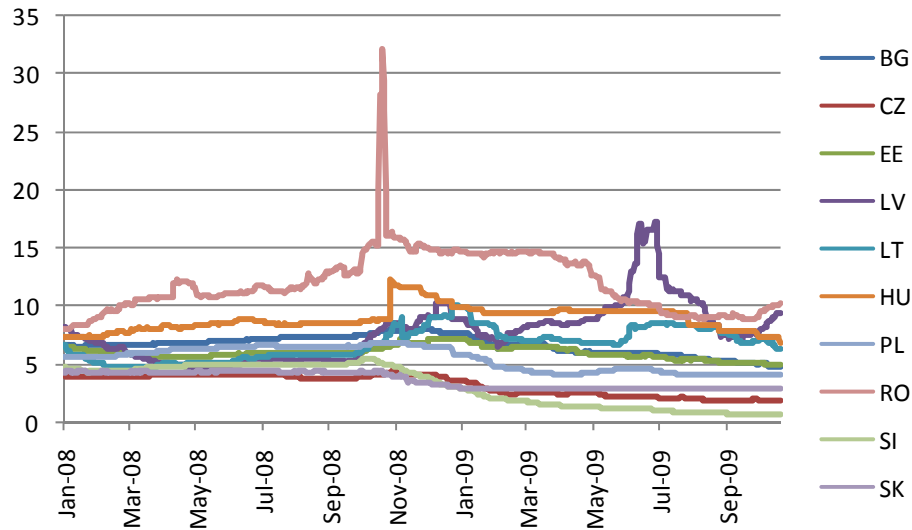


Source: Reuters, World Bank Staff Calculations

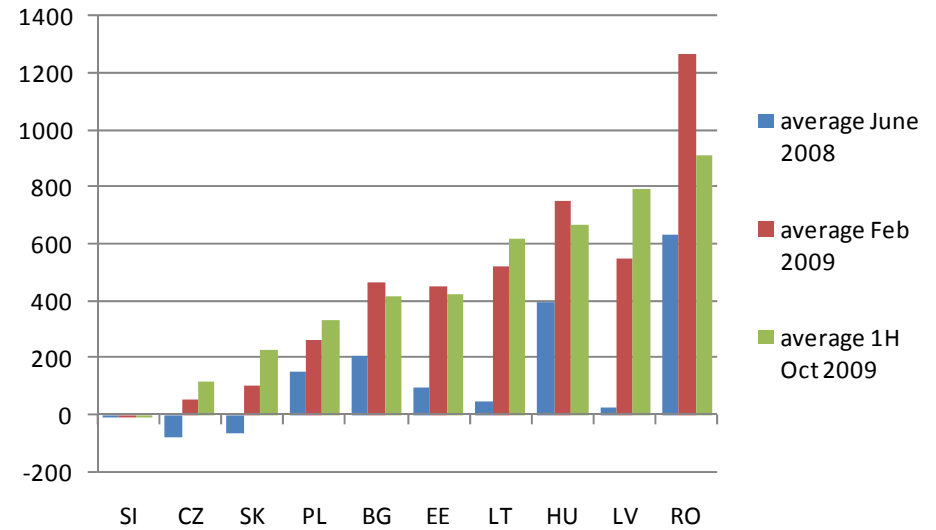
What we have seen

Banks – interbank rates down, spreads persistent

Interbank rates (3 months)



Interbank rate spreads over Libor

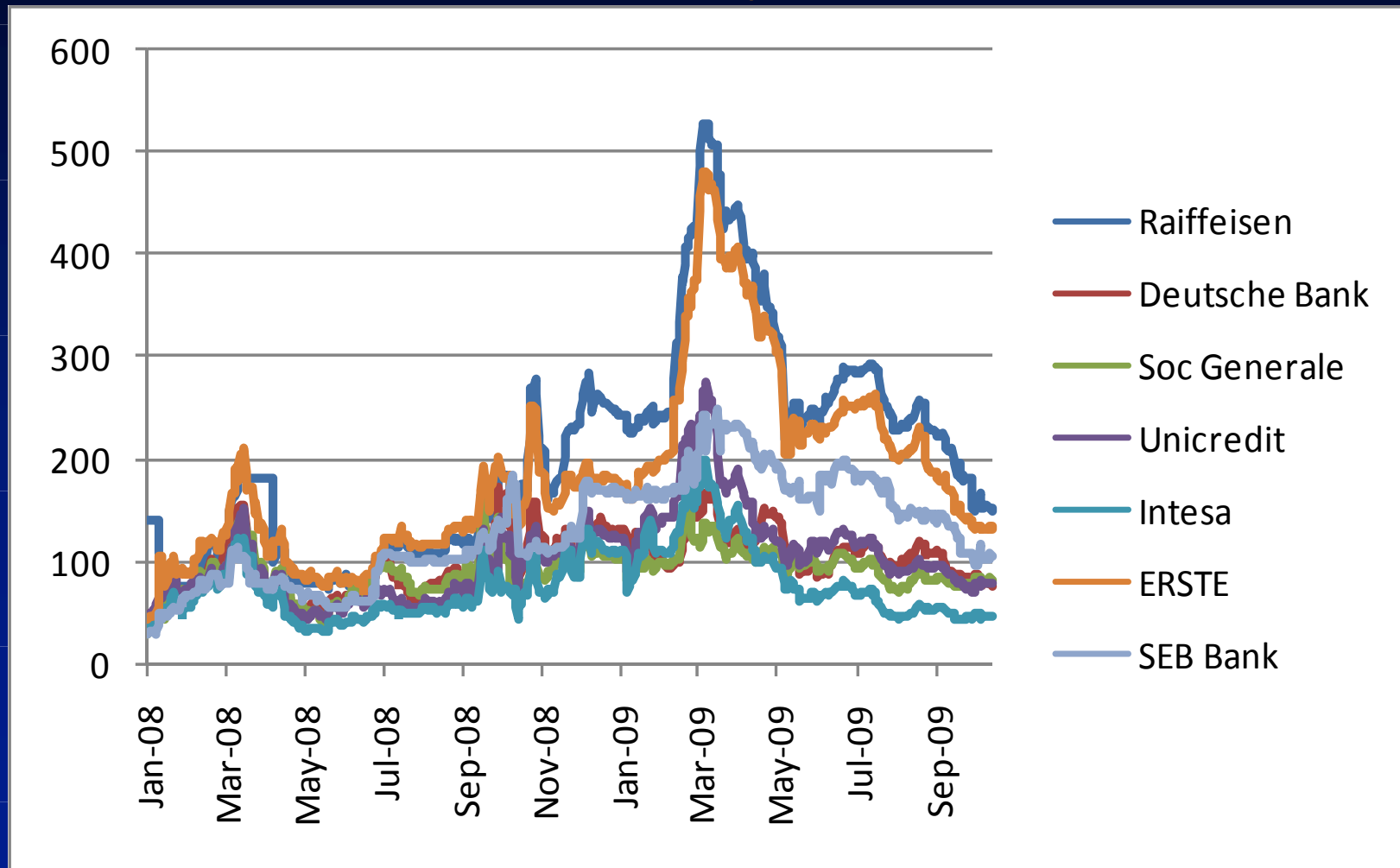


Source: World Bank Global Prospect Group, World Bank Staff calculations.

What we have seen

Parent banks – easing of CDS

European Banks' 5-year CDS (bps)

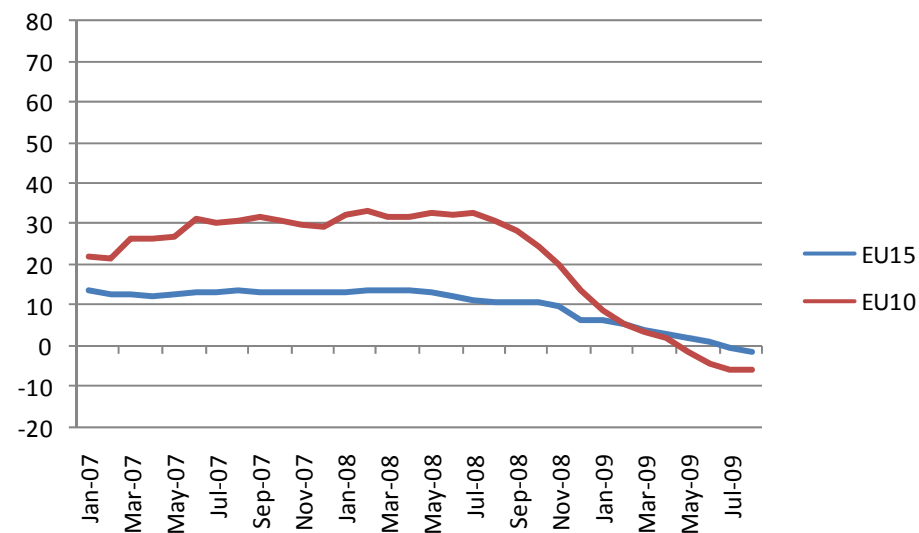
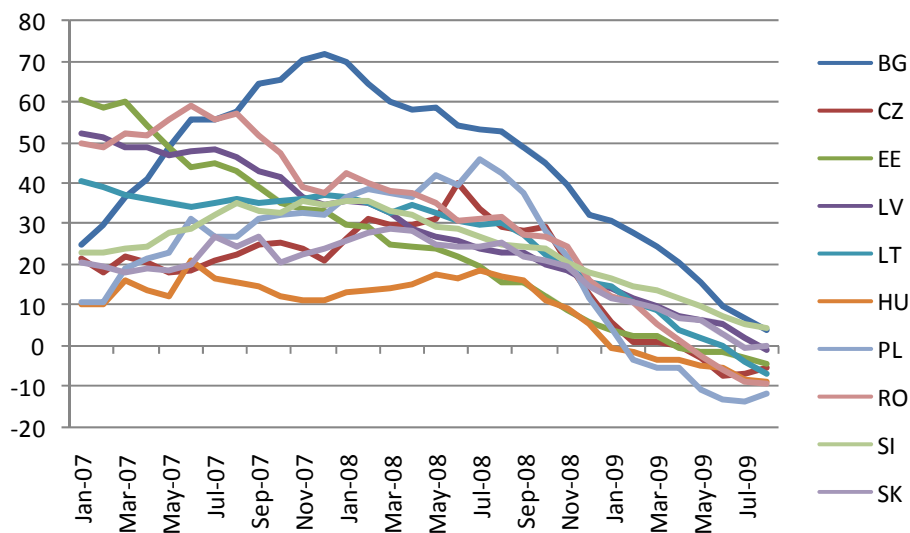


Source: Bloomberg, Datastream, World Bank Staff calculations.

What we have seen

Credit growth – turning negative

Credit growth to non-financial enterprises (% , y-o-y)

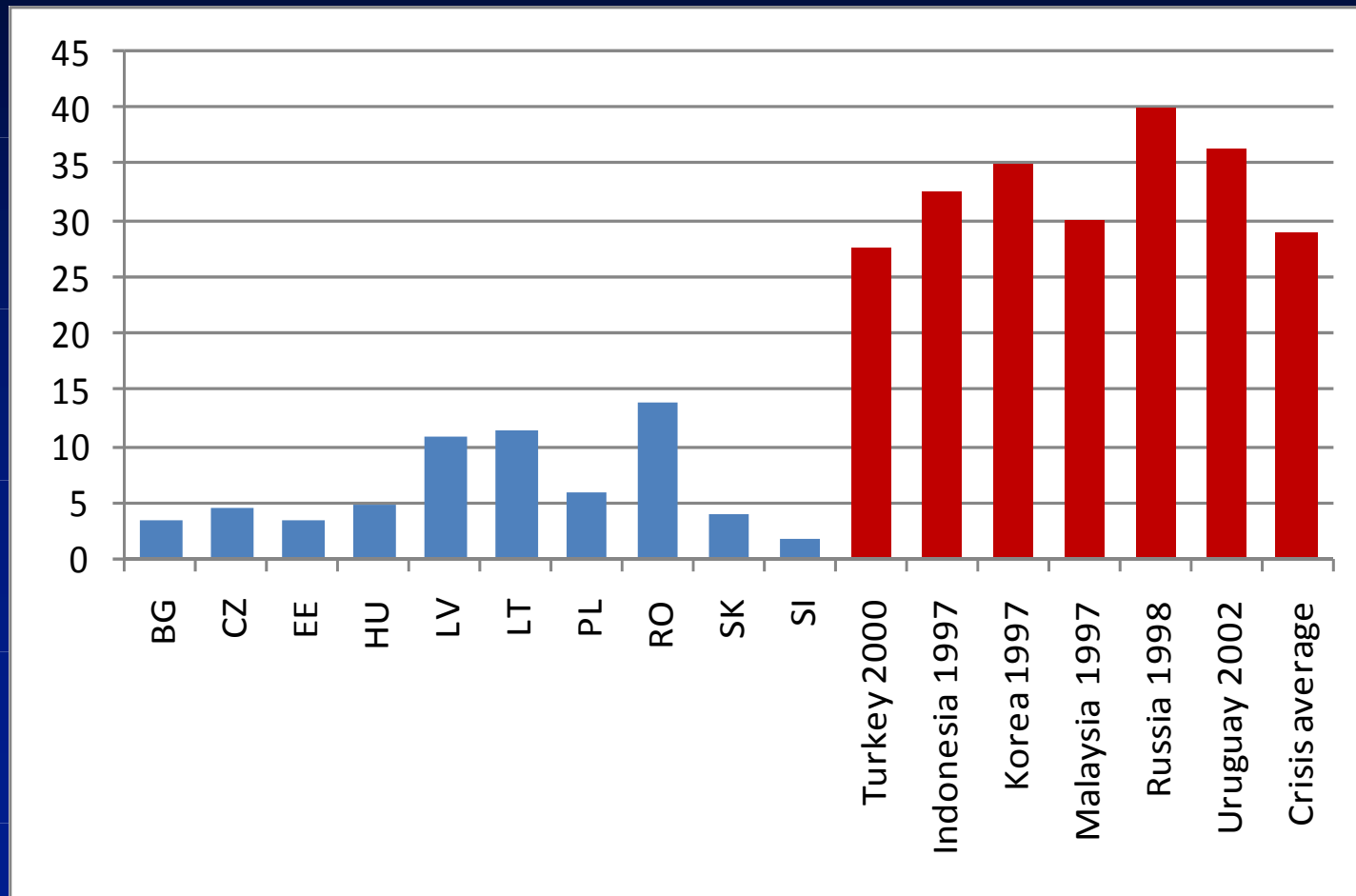


Source: World Bank Global Prospect Group, World Bank Staff calculations.

What we have seen

Credit growth – turning negative

Non-performing loans in the EU10 in 2009 and Historical Data for Banking and Currency Crisis Countries (in percent of bank loans)

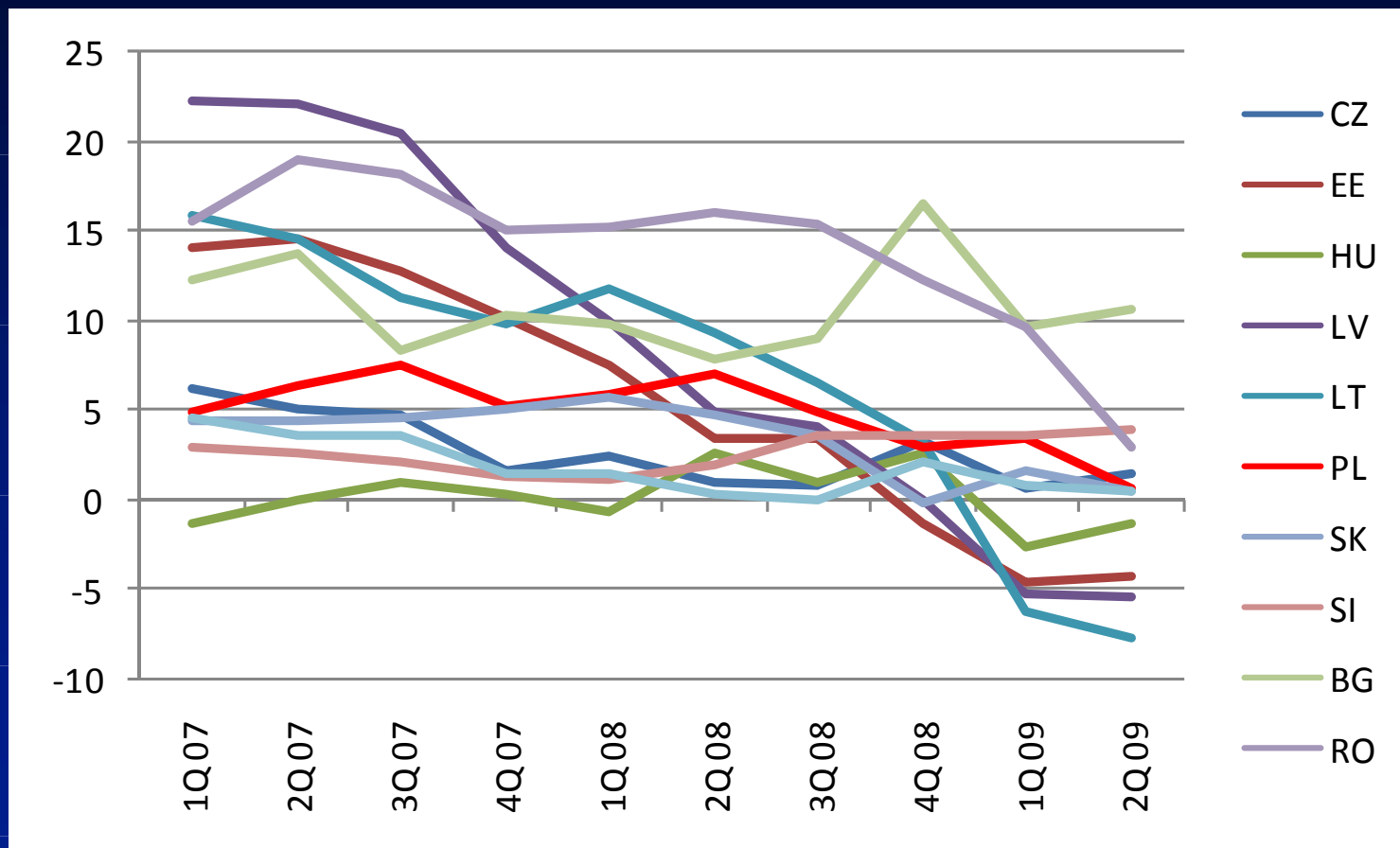


Source: IMF, World Bank.

What we have seen

Labor – wage growth slowing

Real wage growth (% change, yoy)

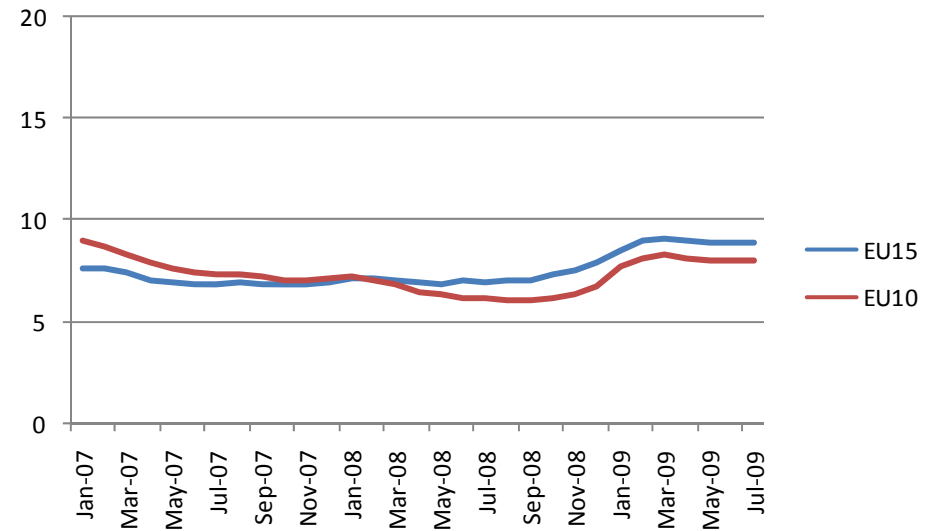
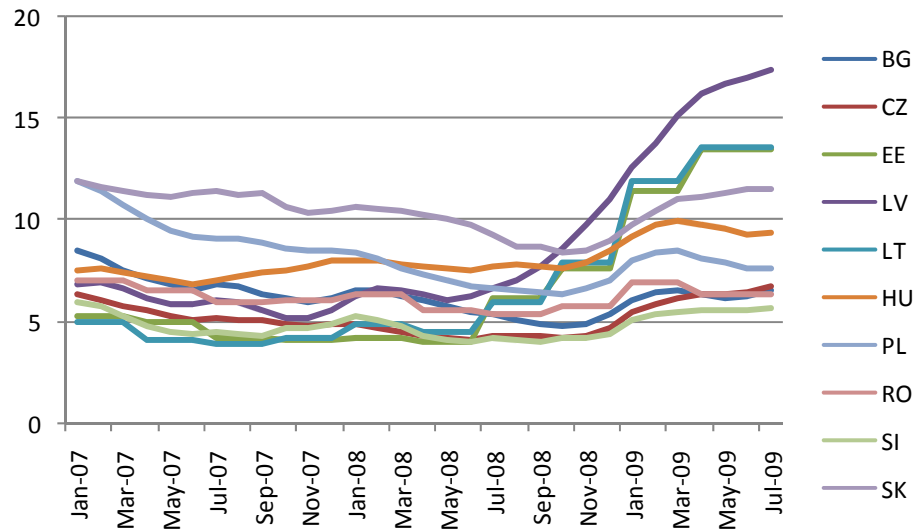


Source: Statistical Offices, World Bank Staff calculations

What we have seen

Labor – unemployment rising slowly only

Harmonized unemployment rate



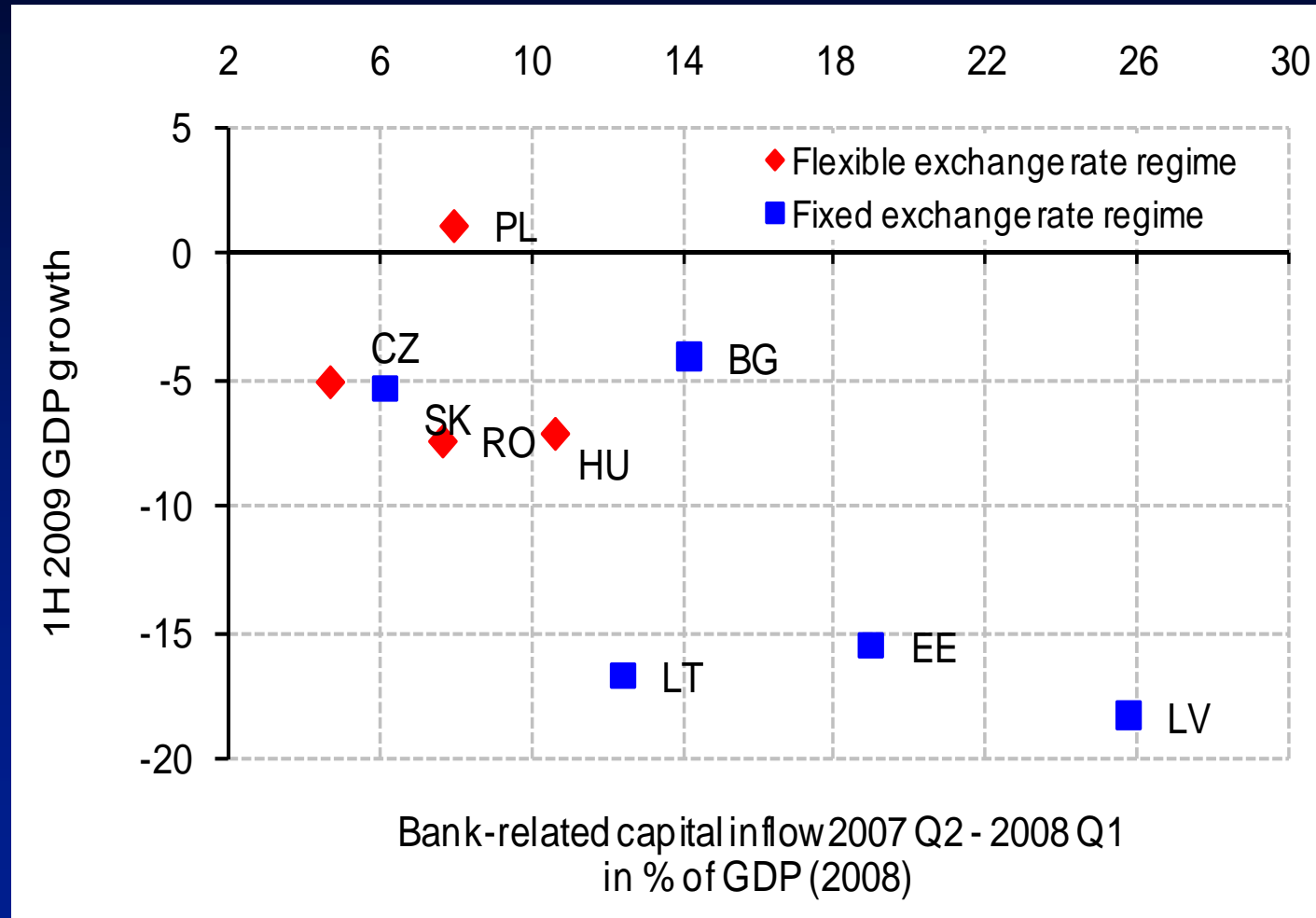
Source: Eurostat, Statistical Offices, World Bank Staff calculations

Why Poland is different

Why Poland is different

Downturn increases with initial macro imbalances

GDP growth in 1H 2009 vs. bank-related capital inflows in 2Q 07-1Q 08

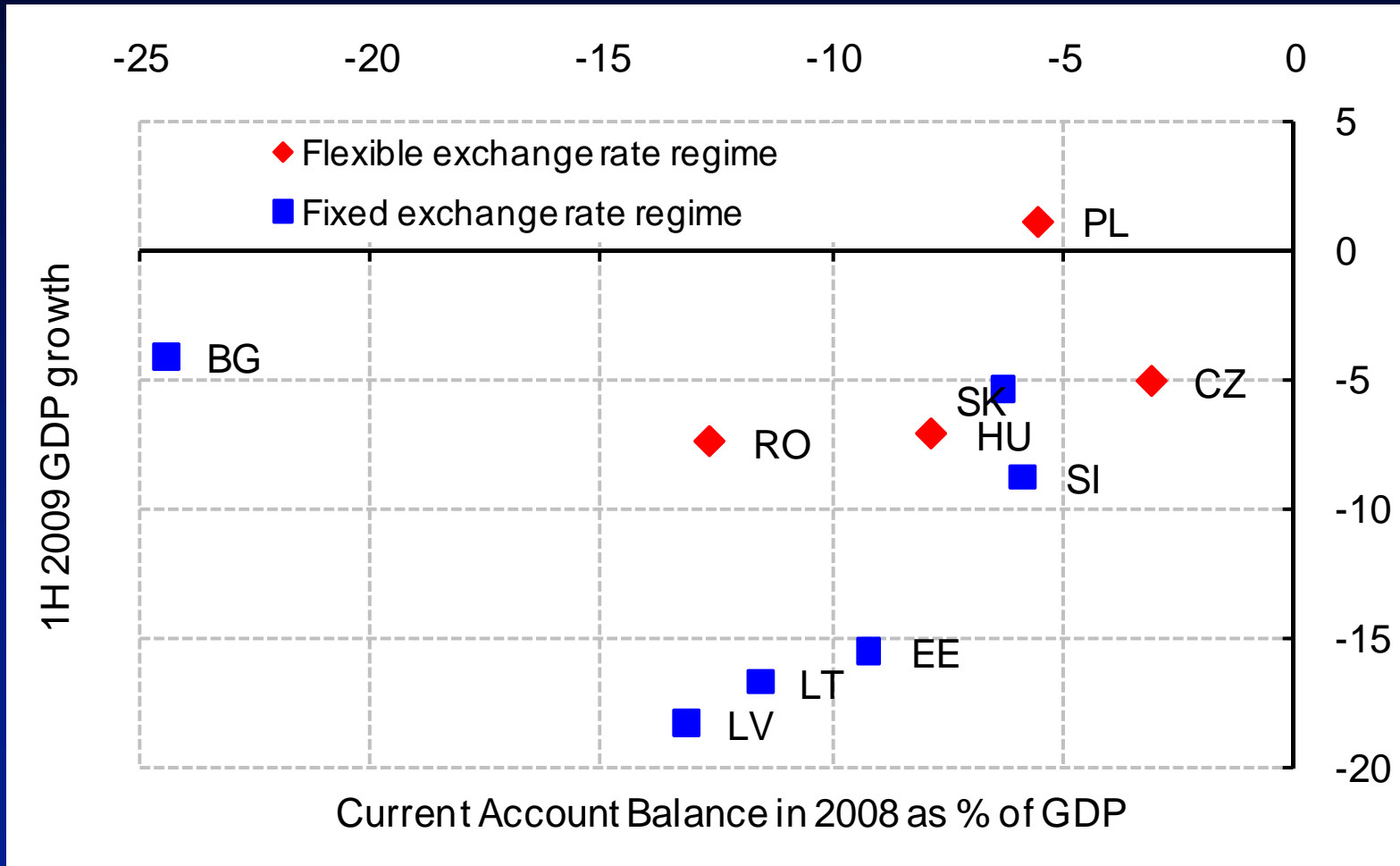


Source: IMF, World Bank, DEC PG, World Bank Staff calculations

Why Poland is different

Downturn increases with initial macro imbalances

GDP growth in 1H 2009 vs. current account balance in 2008

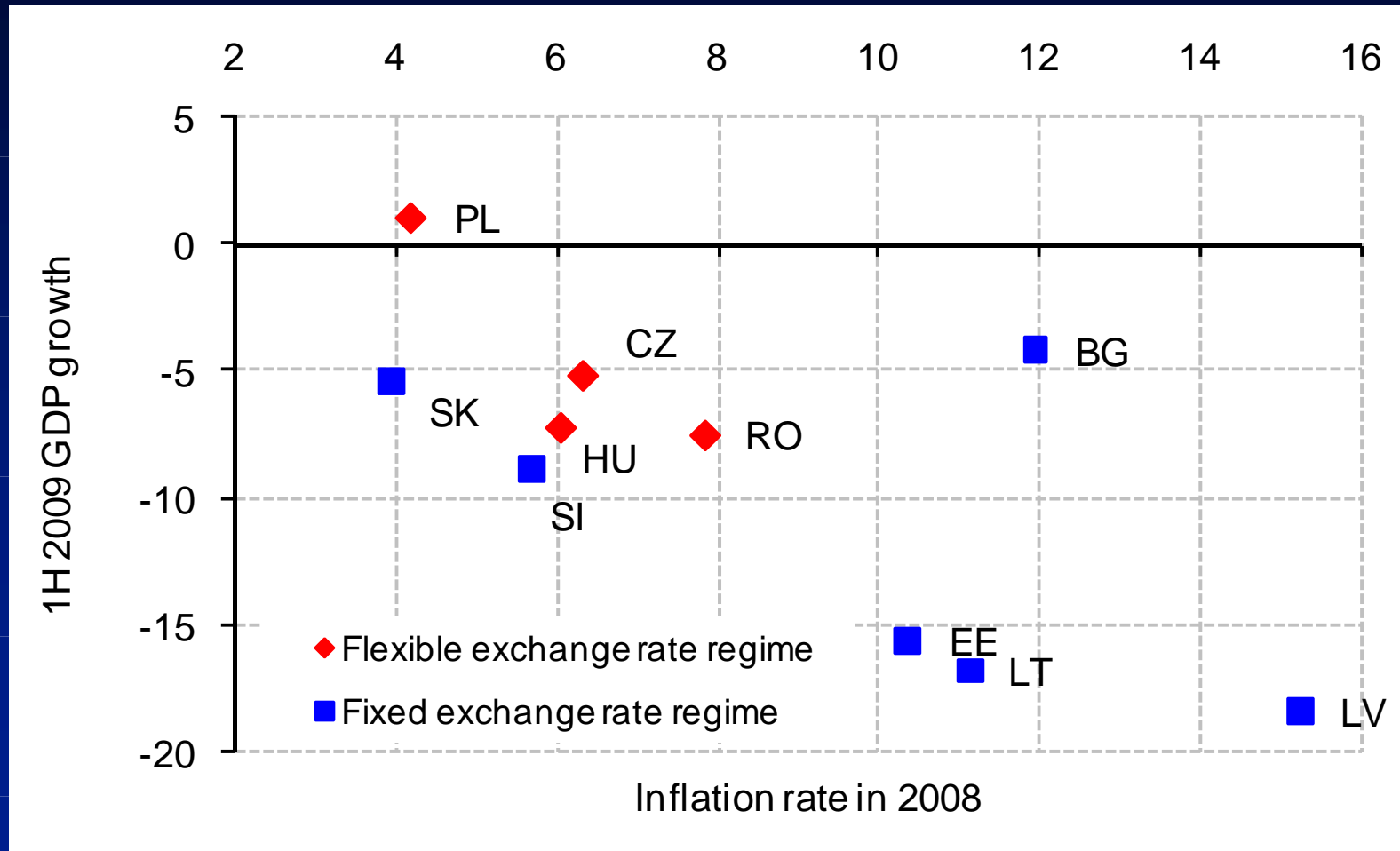


Source: IMF, World Bank Staff calculations

Why Poland is different

Downturn increases with initial macro imbalances

GDP growth in 1H 2009 vs. inflation rate in 2008

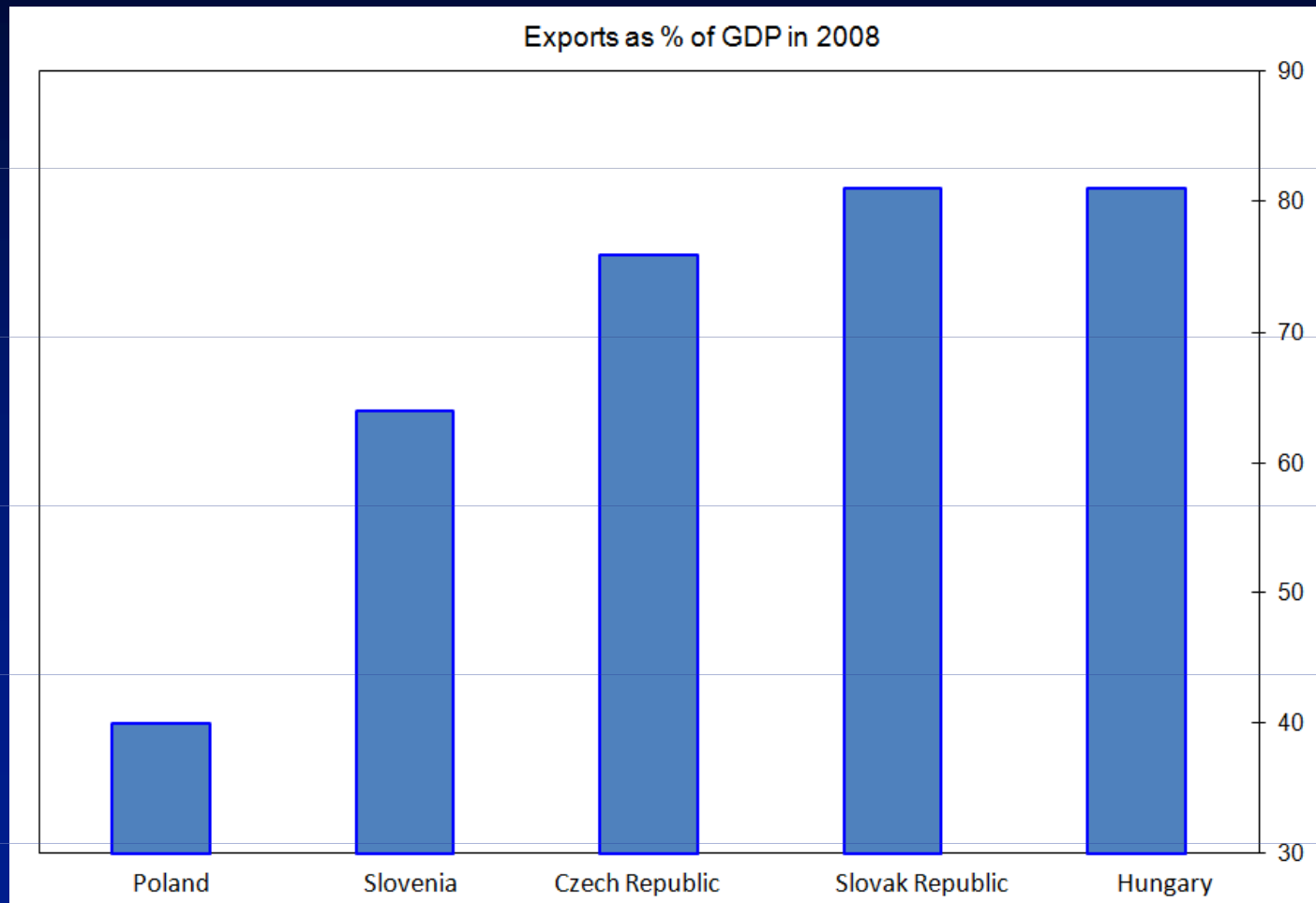


Source: IMF, World Bank Staff calculations

Why Poland is different

Large domestic market

Exports as % of GDP in 2008

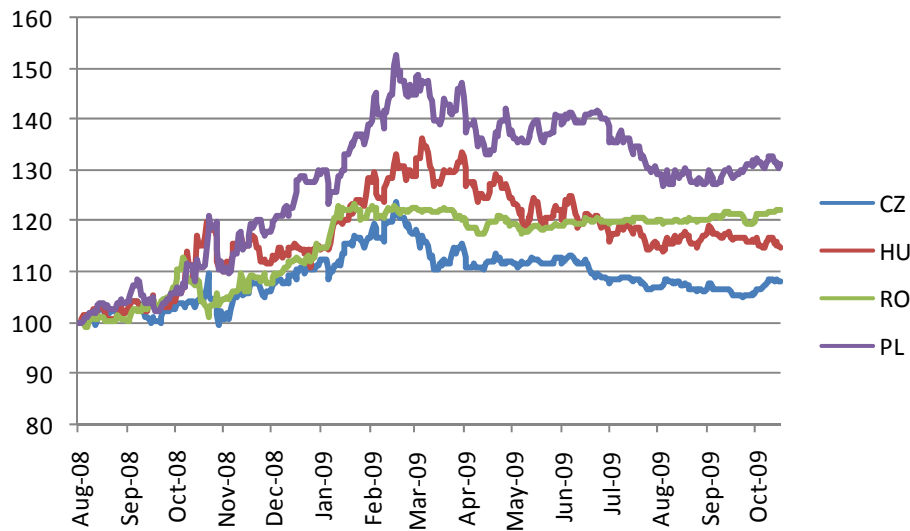


Source: World Bank

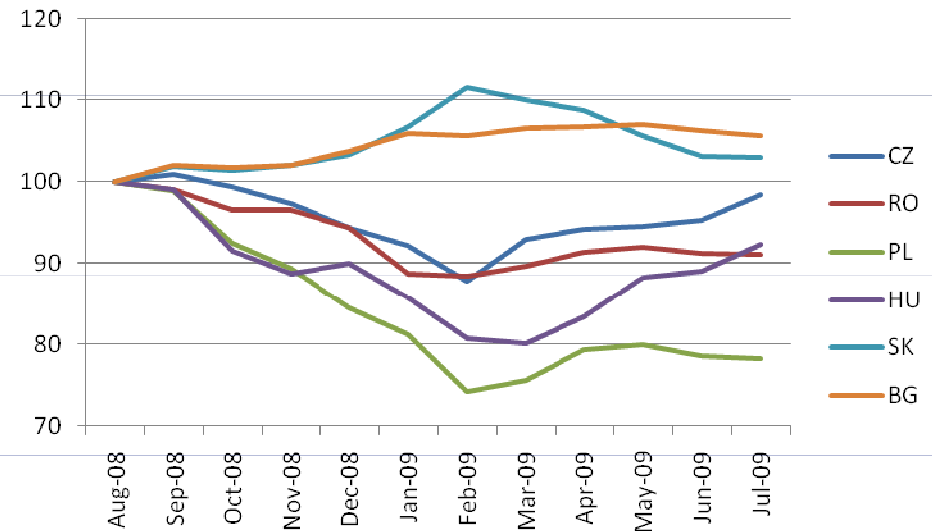
Why Poland is different

Monetary policy – depreciation, modest appreciation

Exchange Rates vs. Euro (Aug08 = 100)



Real Effective Exchange Rates (Aug08 = 100)



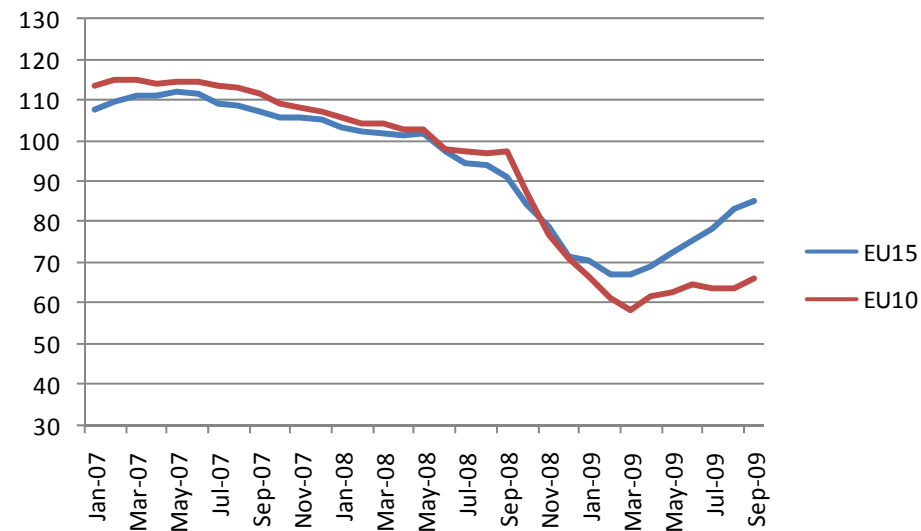
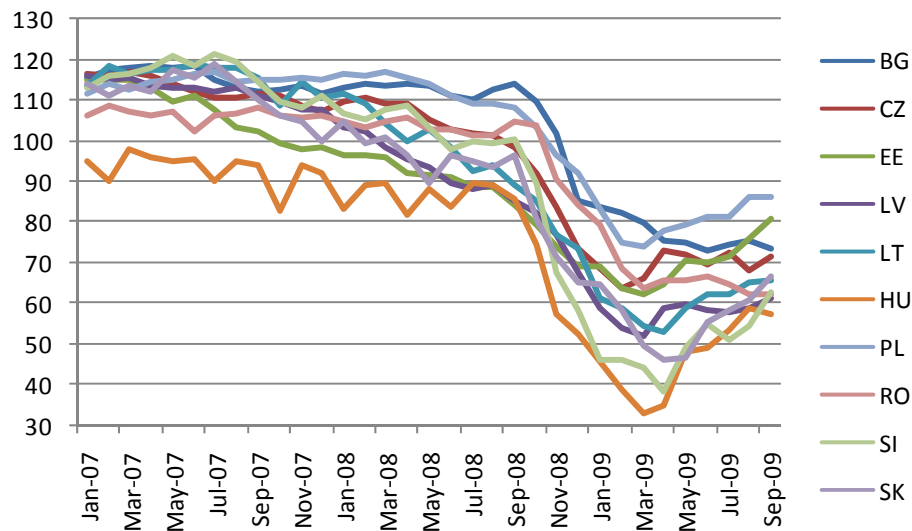
Source: ECB. World Bank Staff Calculations

What we can expect

What we can expect

Economy – sentiment improving

Economic Sentiment Indicator (long-term mean = 100)

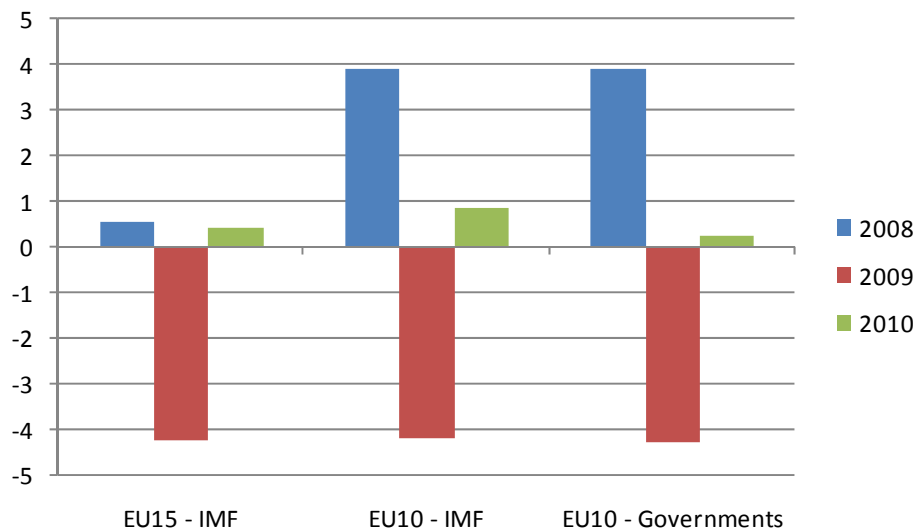


Source: European Commission, World Bank Staff Calculations

What we can expect

Growth – slow recovery

EU10, EU15, & Poland - Real Growth 2008 - 2010, (% change, yoy)



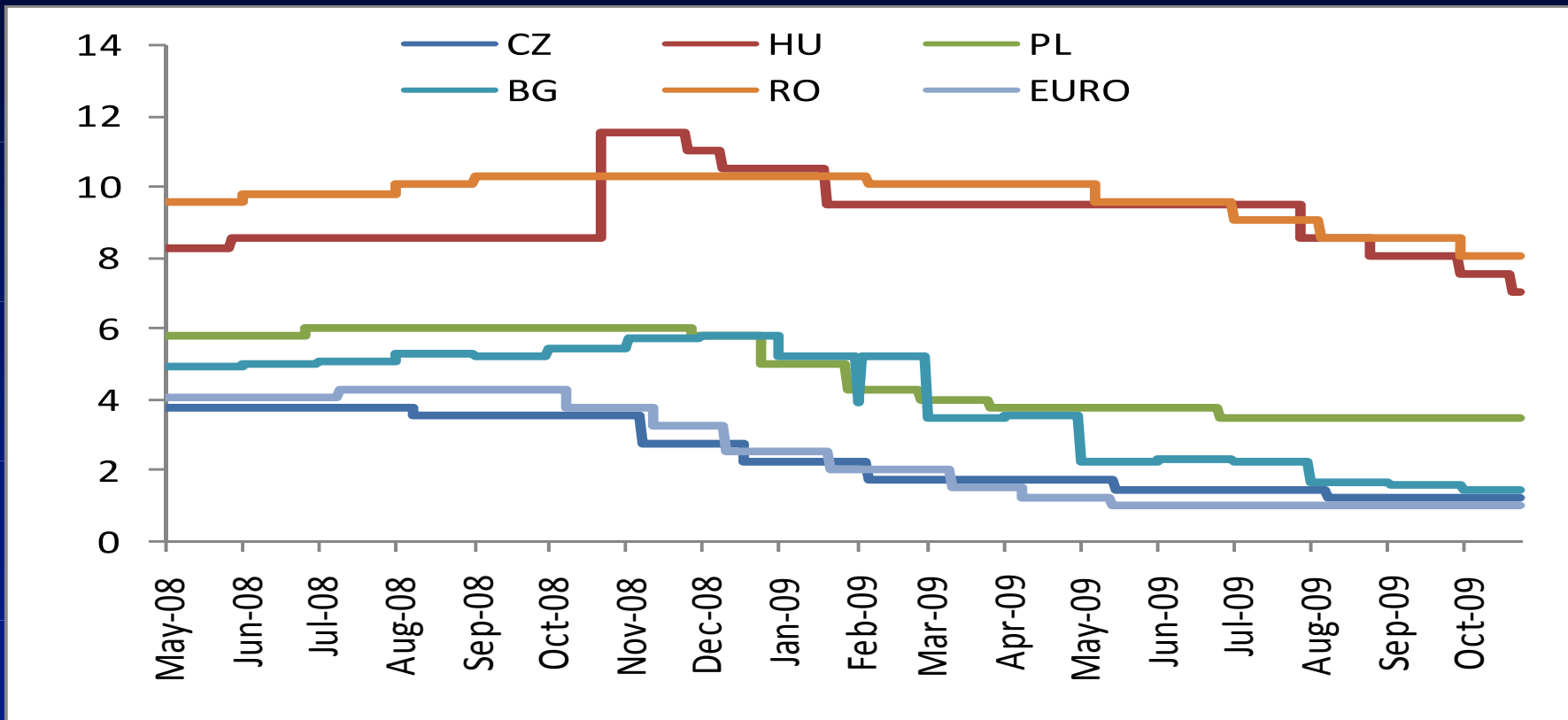
Source: IIMF WEO, Government Budget 2010, World Bank

What should be done

What should be done

Monetary policy – cautious easing to support demand

Policy interest rates (percent)



Source: Central Banks

What should be done

Fiscal policy – stimulus spending not an option

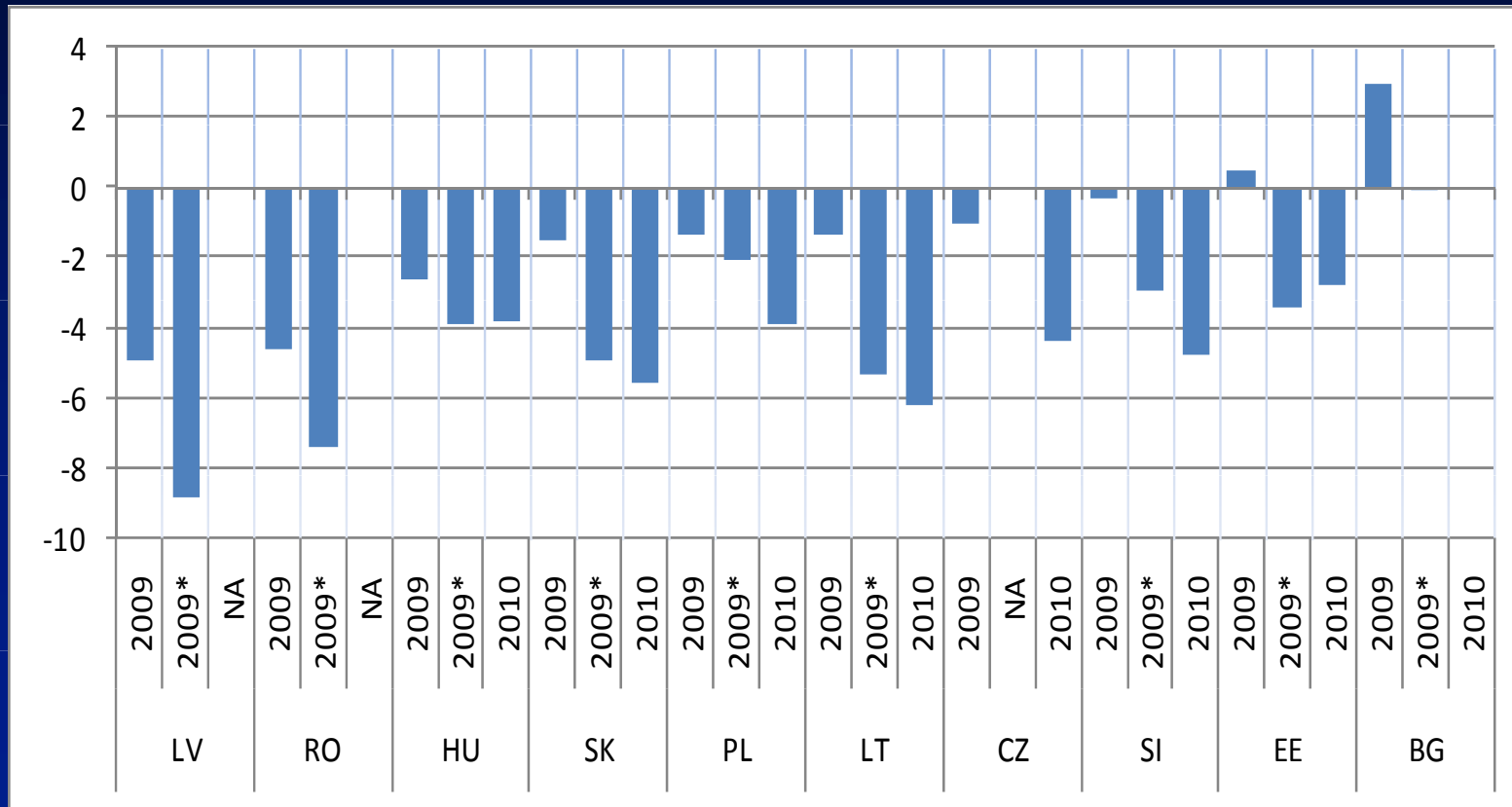
		Pensions		Public wages		New revenue measures			Supplementary budget in 2009
		Freeze	No change	Freeze (or cut)	No change	VAT	Direct Tax	Others	
BG	2009								N
	2010	Y		Y				Y	
CZ	2009								N
	2010	Y		Y		Y	Y	Y	
EE	2009		Y	Y		Y	Y	Y	Y
	2010		Y	Y				Y	
LV	2009	Y		Y		Y	Y	Y	Y
	2010	Y		Y			Y	Y	
LT	2009		Y	Y		Y	Y	Y	Y
	2010	Y		Y				Y	
HU	2009	Y		Y		Y	Y	Y	Y
	2010	Y		Y			Y	Y	
PL	2009		Y		Y		Y	Y	Y
	2010		Y		Y	Y		Y	
RO	2009		Y	Y			Y		Y
	2010								
SI	2009		Y		Y			Y	Y
	2010		Y		Y				
SK	2009		Y		Y		Y		Y
	2010		Y				Y	Y	

Source: EU10 Governments.

What should be done

Fiscal policy – fiscal consolidation in 2010 only in some countries

Fiscal deficit in EU10 countries according to 2009 budget, 2009* supplementary budget and budget proposal for 2010, percent of GDP

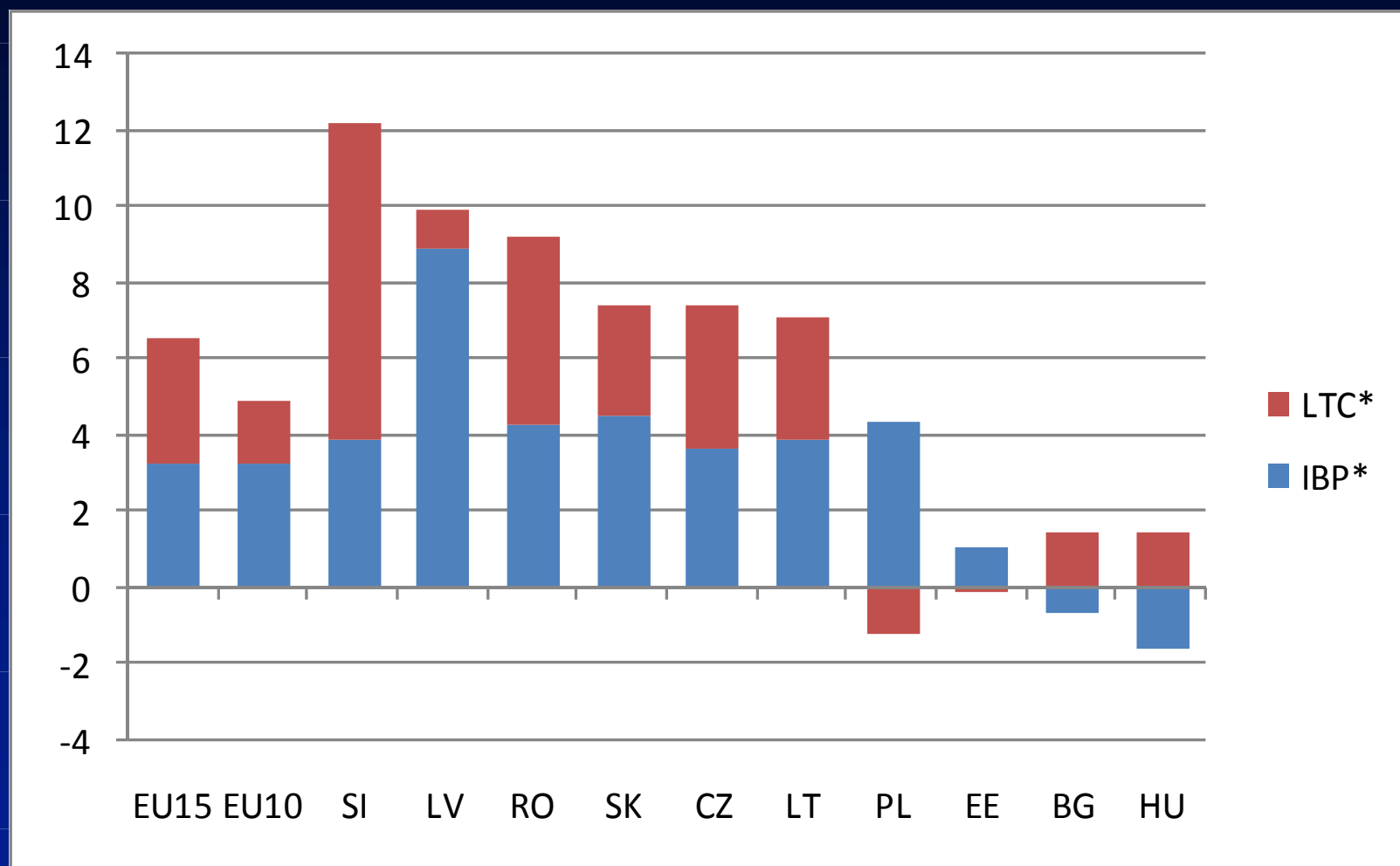


Notes: General government: Latvia, Romania, Hungary, Bulgaria, State Budget for the remaining countries. Source: EU10 Governments.

What should be done

Fiscal policy – need for medium-term fiscal consolidation

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.

Poland: Fiscal Reform Options

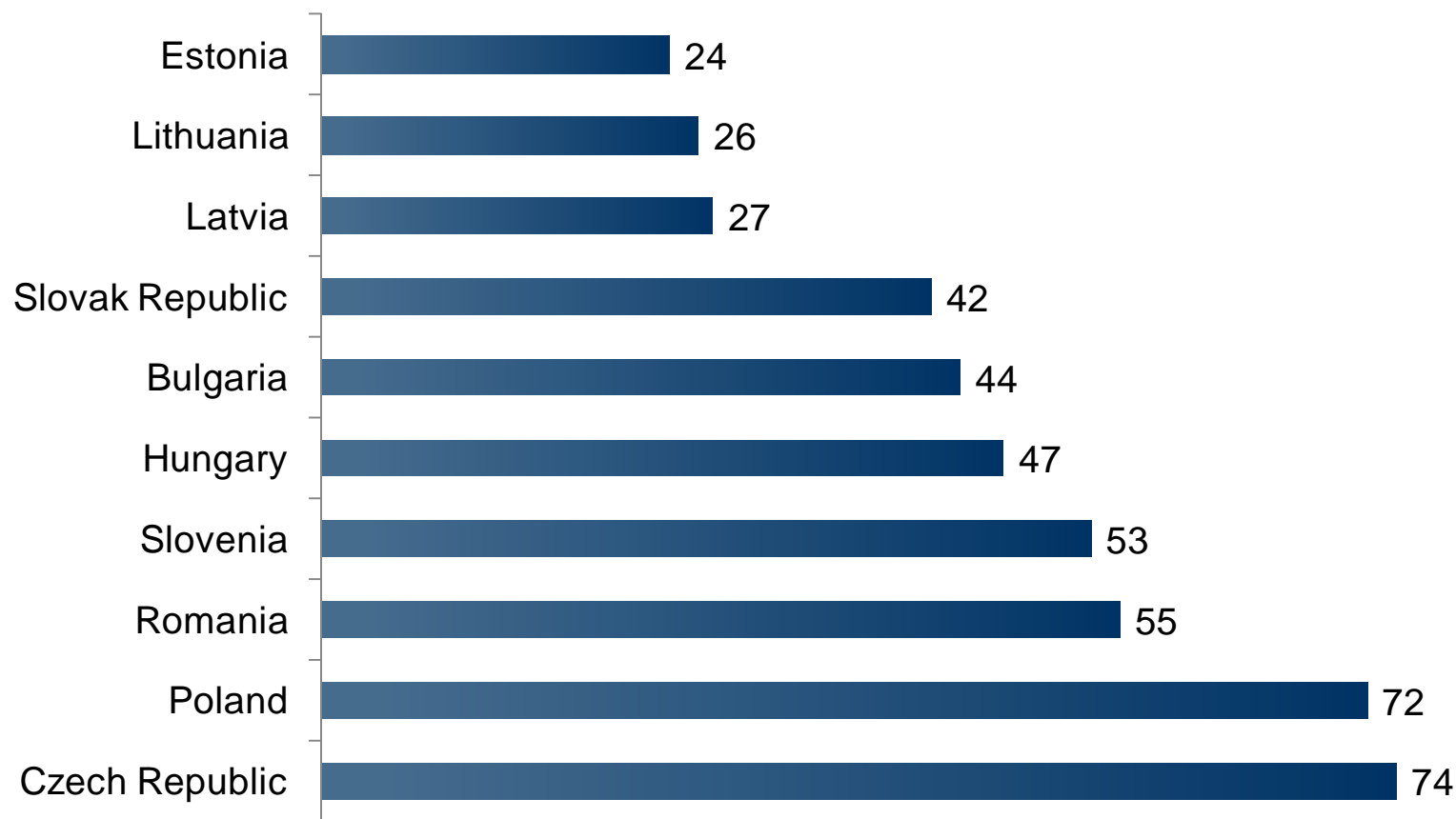
- Public wages: contain wage bill growth
- Pensions: link retirement ages to life expectancy and phase out remaining special pension schemes
- Education: align subsidy with declining school class size to encourage adjustment of teacher work force
- Health: improve efficiency through corporatization of hospitals and competitive health insurance
- Public finance management: continue to develop performance-based budgeting and MTEF

Top 30 on the ease of Doing Business 2010

	1. Singapore		16. Finland
	2. New Zealand		17. Mauritius
	3. Hong Kong, China		18. Sweden
	4. United States		19. Korea, Rep.
	5. United Kingdom		20. Bahrain
	6. Denmark		21. Switzerland
	7. Ireland		22. Belgium
	8. Canada		23. Malaysia
	9. Australia		24. Estonia
	10. Norway		25. Germany
	11. Georgia		26. Lithuania
	12. Thailand		27. Latvia
	13. Saudi Arabia		28. Austria
	14. Iceland		29. Israel
	15. Japan		30. Netherlands

Estonia – best ranked country among the EU-10

Ranking on the ease of doing business



Doing Business 2010

Reforming through Difficult Times

COMPARING REGULATION IN 183 ECONOMIES

Poland



Region: Eastern Europe & Central Asia
Income category: Upper middle income
Population (m): 38.1
GNI per capita (US\$): 11,883

Ease of Doing Business (rank)	72	Registering property (rank)	88	Trading across borders (rank)	42
		Procedures (number)	6	Documents to export (number)	5
Starting a business (rank)	117	Time (days)	197	Time to export (days)	17
Procedures (number)	6	Cost (% of property value)	0.5	Cost to export (US\$ per container)	884
Time (days)	32			Documents to import (number)	5
Cost (% of income per capita)	17.9	Getting credit (rank)	15	Time to import (days)	25
Min. capital (% of income per capita)	15.3	Strength of legal rights index (0-10)	9	Cost to import (US\$ per container)	884
		Depth of credit information index (0-6)	4		
Dealing with construction permits (rank)	164	Public registry coverage (% of adults)	0.0	Enforcing contracts (rank)	75
Procedures (number)	30	Private bureau coverage (% of adults)	68.3	Procedures (number)	38
Time (days)	308			Time (days)	830
Cost (% of income per capita)	124.2	Protecting investors (rank)	41	Cost (% of claim)	12.0
		Extent of disclosure index (0-10)	7		
Employing workers (rank)	76	Extent of director liability index (0-10)	2	Closing a business (rank)	85
Difficulty of hiring index (0-100)	11	Ease of shareholder suits index (0-10)	9	Time (years)	3.0
Rigidity of hours index (0-100)	33	Strength of investor protection index (0-10)	6.0	Cost (% of estate)	20
Difficulty of redundancy index (0-100)	30			Recovery rate (cents on the dollar)	29.8
Rigidity of employment index (0-100)	25	Paying taxes (rank)	151		
Redundancy costs (weeks of salary)	13	Payments (number per year)	40		
		Time (hours per year)	395		
		Total tax rate (% of profit)	42.5		



THE WORLD BANK

Access the data at www.doingbusiness.org



International Finance Corporation
World Bank Group

What is World Bank
doing?

What is the World Bank doing?

- Joint IFI Action Plan (WB, EIB, EBRD) euro 16 billion to support financial sectors in region
- Participation in IMF-led bailouts in Hungary, Latvia, and Romania
- Non-crisis related policy loans (euro 3 billion) and line of credit for SMEs in Poland (under discussion)
- Also several policy loans being prepared for other countries in the region
- Ongoing discussions of post-crisis role in region

THANK YOU!