Recovery Strengthens in Central and Eastern Europe, Yet Risks Remain, says World Bank

Recovery Strengthens in Central and Eastern Europe, Yet Risks Remain, says World Bank

Economic growth is expected to almost double in the EU11* countries in 2014, and to continue to strengthen in 2015, according to the World Banks latest EU11 Regular Economic Report (EU11 RER). The report says that, overall, EU11 GDP growth is forecast to strengthen from 1.4 percent in 2013 to 2.6 percent in 2014.
"The economic recovery is strengthening in the EU11, bolstered by the gradual upturn in the EU15** and supportive domestic policies," said Mamta Murthi, World Bank Regional Director for Central Europe and the Baltic Countries. "Nonetheless, the recovery is expected to be gradual, with growth not reaching pre-crisis rates for some time."
According to Theo Thomas, Lead Economist in the World Banks Europe and Central Asia region and Team Leader of the EU11 RER, "Growth in the EU11 region rose from 0.8 percent in 2012 to 1.4 percent in 2013, driven by favorable external conditions and a rebound in EU11 countries, in particular in Romania. Growth is supported by domestic demand, which began to recover during the year. Encouragingly, investment is expected to pick up, having declined for the last two years, as business and consumer confidence continues to rise."
According to the report, the initial reliance on net export growth, with rising demand from the rest of the EU, is gradually giving way to more balanced growth as domestic demand picks up, notably in Romania, Slovakia, and Poland.
The northern countries of Estonia, Latvia, and Lithuania (EU11-North) will continue to be among the fastest growing countries in the EU. The report notes that Croatia is the only country expected to remain in recession, for a sixth consecutive year, in 2014, as declining domestic demand, in part stemming from the need for further fiscal consolidation, continues to outweigh export growth.
The report warns that economic growth forecasts in the EU11 are subject to multiple risks, mainly on the downside, as the global financial situation remains fragile. Rising global interest rates coupled with volatile capital markets, or an extended period of regional geopolitical tensions could slow the European recovery and constrain exports, credit, and investment in the EU11.
Economic recovery has started to translate into new jobs, but slowly, the report says. According to Thomas, "EU11 employment began to rise in the second half of 2013, as economic prospects started improving. Given the usual lagged response of employment to changes in output - due to spare capacity and the need for confidence in the outlook - limited net job creation occurred in 2013, but with notable differences across the sub-regions."
Specifically, employment picked up more strongly in the EU11-Continental countries (the Czech Republic, Hungary, Poland, and the Slovak Republic) with the exception of Slovakia, where the recovery in the labor market has yet to materialize. Labor market conditions tightened in EU11-North, on the back of growing wages, skills mismatches, and unfilled vacancies. Labor shedding continued in EU11-South, especially in Romania, in spite of strong growth. The report says that while labor market conditions have started to improve, the pace of job creation and reduction in unemployment rates are likely to be gradual.
The report notes that many of the economies in the EU11 face the twin challenge of high youth unemployment and rapidly ageing populations. Furthermore, countries in the region with high rates of inactive young people - not involved in employment, education, or training - also tend to be those with the fastest population declines, including Bulgaria, Romania, Croatia, and Hungary.
EU11 countries also struggle to equip the next generation with the skills necessary to achieve their full potential, for example, in literacy, math, and science. The persistence of large numbers of inactive youth poses unique risks of creating a "lost generation" of workers.
The report recommends that understanding the cyclical and structural nature of youth inactivity is, therefore, important to mitigate the potentially damaging cycle between youth unemployment and broader economic growth and productivity.
The report contains a "Spotlight" on 10 Years of EU membership of eight countries in Central and Eastern Europe. According to the report, this has been a positive decade with rapid economic convergence despite the global and European crises. The process of European integration has left its imprint on their financial markets and foreign trade as well as labor markets and regulatory frameworks. Accession to the EU has fundamentally changed the institutional landscape not only of the new member states, but also of Europe as a whole, with accession being a catalyst for renewal. Without it, many structural adjustments would probably have occurred either later or not at all. The report says that what is now necessary is to ensure that convergence is durable, and to distribute the benefits more equally, particularly to the poorest members of society.
A second "Spotlight", EU Membership Structural Policies for Building Growth, highlights the ongoing medium-term structural reform agendas that include differentiated, growth-friendly fiscal consolidation; restoring normal lending conditions and measures to bolster private investment; promoting growth and competitiveness; addressing unemployment, inequality, and poverty; and modernizing public administrations.
The reports "Focus Note" on Youth Unemployment in the EU11 is elaborated on in the feature story - Growing Together: Ensuring Young People Benefit from New Growth in Europe
The EU11 RER is a semiannual publication of the World Banks Europe and Central Asia Region. It monitors macroeconomic and reform developments in the EU11 countries, and provides in-depth analyses of key policy issues.
* In this Report, the EU11 is divided into the following sub-regions: Estonia, Latvia, and Lithuania (North); the Czech Republic, Hungary, Poland, and the Slovak Republic (Continental); and Bulgaria, Croatia, Romania and Slovenia (South).
** In this Report, the EU15 is divided into the following sub-regions: Denmark, Finland, Ireland, Sweden, and the United Kingdom (North); Austria, Belgium, France, Germany, Luxembourg and the Netherlands (Continental); and Greece, Italy, Portugal, and Spain (South).

The World Bank
1818 H Street, NW
DC 20433 Washington
USA
Telefon: (202) 473-1000
Telefax: (202) 477-6391
Mail: investigations_hotline@worldbank.org
URL: http://www.worldbank.org/
<img src="http://www.pressrelations.de/new/pmcounter.cfm?n_pinr_=570148" width="1" height="1">

Pressekontakt

The World Bank

DC 20433 Washington

worldbank.org/
investigations_hotline@worldbank.org

Firmenkontakt

The World Bank

DC 20433 Washington

worldbank.org/
investigations_hotline@worldbank.org

The World Bank is a vital source of financial and technical assistance to developing countries around the world.