Regional Economic Prospects in

EBRD Countries of Operations: July 2012[1]

EBRD Office of the Chief Economist

Overview

Eurozone Crisis Impact Spreads Further East in the Transition Region

Growth in the transition region is expected to drop from 4.6 per cent in 2011 to 2.7 per cent in 2012 before modestly picking up to 3.2 per cent in 2013, as negative spillovers from the Eurozone crisis spread further East. Most exposed countries in central and south-eastern Europe have already seen lower growth but falling commodity prices have now begun to affect Russia and other commodity exporters as well. The Eurozone crisis also affects some of the Northern African countries, although political uncertainties and weak investor confidence are the key drivers of sluggish growth in that region. The biggest downside risk for the transition region is a possible further deterioration of the Eurozone crisis; a timely implementation of the latest EU summit decisions may reduce such risks.

Growth in countries across the transition region slowed down markedly as a result of the widening spillovers from the Eurozone crisis. A large majority of transition economies recorded weaker year-on-year growth in the first quarter of this year, relative to the third quarter of last year (see Chart 1).

- Unsurprisingly, most of the Central Europe and Baltics (CEB) countries, which are the most vulnerable to developments in the single currency area, saw slower expansion. Two of them recorded quarter-on-quarter contractions in the first quarter of this year, with Croatia already in a double-dip recession and Hungary likely at the start of one. Poland and the Slovak Republic were the two brighter spots in the region with continued healthy growth as their first-quarter performance surprised on the upside. In South-Eastern Europe (SEE), particularly vulnerable to the on-going crisis due to exposures to the Greek and other euro zone periphery economies, Bulgaria and Romania also slowed down, and the Serbian economy continued its already year-long contraction. In Eastern Europe and Caucasus (EEC), the two economies more closely intertwined with the Eurozone, Ukraine and Moldova, saw their total six-month growth in the last quarter of 2011 and first quarter of this year dwindle to zero and even negative territory, respectively.
- Economies further east have also begun to slow down. Since early this year, the crisis has negatively impacted oil and other commodity prices as well as investor confidence, which has in turn led to lower growth in Central Asia and particularly in Russia, where quarterly GDP and industrial production slowed down significantly during the first half of 2012. Most Central Asian economies recorded perceivably lower rates of growth as a result of both lower commodity prices and idiosyncratic events (such as a gold mine strike in the Kyrgyz Republic).
- In the Southern and Eastern Mediterranean (SEMED) region, political uncertainty remained the main culprit behind weakening growth performance, although timid signs of recovery are emerging in some countries[2].

[1] This document is provided as a companion to the EBRD's growth forecasts for its countries of operations, which are released four times a year. For more comprehensive coverage of economic policies and structural changes, the reader is referred to the EBRD's Transition Report 2011 as well as country strategies and updates and statistical series on economic and structural reform variables, which are all available on the EBRD's website (www.ebrd.com).

[2] The overall better SEMED year-on-year performance in Q1 2012 relative to Q3 2011 is driven by base effects for Egypt, which expanded sharply in Q2 2011 (included in the Q1 2012 year-on-year figure) after a large contraction in Q1 2011 (included in the Q3 2011 year-on-year figure).

While the direct negative impact of the Eurozone crisis on growth in the region through overall capital outflows may have receded, its effect on lending through cross-border bank deleveraging seems to continue.

- **Capital outflows in direct reaction to the sovereign debt crisis have likely abated by early this year.** Private capital outflows from the transition region as a whole, which started in the third quarter of last year, have somewhat abated in the first quarter (see Chart 2). Volatile non-FDI flows that are especially vulnerable to the crisis have even returned to the part of the transition region that is the most exposed to the Eurozone – the CEB, SEE and EEC regions – after they hovered around nil in the last quarter of 2011. On the other hand, non-FDI outflows from Russia further increased in the first quarter of this year and became a major factor responsible for the negative flows for the transition region as a whole. Outflows from Russia may have been driven by the second round effects of the EEurozone debt crisis, which has made markets more risk averse, as well as low investor confidence in the country. The most recent available data on fund flows suggest that capital outflows from Emerging Europe including Russia have moderated but continued.
- **Crisis-driven cross-border bank deleveraging in the region, however, seems to be carrying on, albeit at a slower pace.** Latest balance of payments data suggest that, with a few exceptions, cross-border funding of local banks in the CEB and SEE regions is still shrinking. At the same time, the speed of deleveraging has moderated in the transition region as a whole and even more significantly in the CEB. In the SEE region, it has continued largely unabated due to continued decreases in exposures in Bulgaria and especially Serbia.
- **Reduced availability of cross-border finance for local banks has translated into continued credit contraction in most of the new EU members,** notwithstanding bank efforts to at least partially replace cross border funding with higher deposits (see Chart 3)**.** Among them, in February-April of this year real credit only expanded in Poland and marginally in Slovakia, the two economies in the CEB with reasonably healthy growth through the first quarter of this year, and in Bulgaria, the strongest performer in the SEE. Real credit growth hovered around nil in Ukraine.
- **The ongoing fragmentation of European financial markets is impacting growth**. While the impact of rapid financial disintegration is difficult to quantify as the level of financial interconnectedness between West and Eastern Europe has few parallels in economic history, recent research[3] shows that sudden declines in the supply of cross-border credit can harm local industries that depend on external finance and contribute to sharp output contractions. Industries that are more dependent on external finance have to reduce output in particular in financially less-developed countries, where local markets and financial intermediaries that could act as a “spare wheel” are absent.

The Eurozone crisis is also delaying the return of investment levels to pre-2009 levels in many countries, reducing potential output and impeding a robust recovery in the future. In particular, investment in 2011 as a share of output remained more than 5 percentage points below its average 2000-2008 levels in the average CEB, SEE and EEC country (see Chart 4). It rose most significantly in Belarus, Kazakhstan and Mongolia. In the latter two it was driven by an expansion in the commodity sector and government involvement in the economy. More recent data for the new EU members show that the share of investment in output is falling further in several of them.

Unemployment in parts of the SEMED region, as well as in most CEB countries, is high relative to pre-2009 levels (see Chart 5). In particular, political developments over the past year

[3] G. Clarke, R. Cull and G. Kisunko (2012), “External Finance and Firm Survival in the Aftermath of the Crisis: Evidence from Eastern Europe and Central Asia,” World Bank Policy Research Working Paper Series 6050*;* K. Cowan and C. Raddatz (2011), “Sudden stops and financial frictions : evidence from industry level data,” World Bank Policy Research Working Paper Series 5605.

have combined with structural issues in the labor market, such as high youth unemployment, and an unfavourable external environment to raise unemployment in Egypt, by about 2.5 per cent, and in Tunisia, by over 5 per cent, since 2010. These two countries now have substantially higher unemployment than during the pre-2009 years, together with most of the CEB countries. In the latter group, the Baltic countries, but especially Estonia, have seen recovery-induced unemployment decreases after the initial crisis-related rise.

Outlook and risks

GDP growth in the transition region is expected to slow down substantially to 2.7 per cent in 2012 and 3.2 per cent in 2013 from 4.6 per cent in 2011 (see Chart 6)**.** The forecast for both years represents a slight deterioration relative to our May forecast, mainly driven by a downgrade of projections for growth in Russia.

The Euro area crisis will continue to negatively impact economies in the transition region that are the most intertwined with those of the Eurozone. The projection assumes a baseline scenario of continued slow and uneven progress towards containment of the Eurozone crisis – "muddling through". The latest EU Summit decisions have increased somewhat the probability of this scenario compared to the downside scenario described below. Nonetheless this will still imply a mild recession in the single currency area in 2012, and could involve further bouts of economic instability. Real activity in the Eurozone will suffer in the near term both due to fiscal contraction and credit decline, although a full scale credit crunch in the single currency area should be avoided through a generally supportive policy stance by the ECB. This will continue to negatively impact the transition region's exports to the Eurozone as well as availability of finance for the region's banks and therefore credit growth. Under this baseline scenario, the recession in Croatia and Hungary and the slowdown in Romania will be even more pronounced than we predicted in May. In contrast, the positive developments in Poland and Slovakia imply somewhat better growth this year than previously forecast, thanks to the former's reliance on a large domestic market and good policy track record and the latter's dependence on Germany's import demand.

The protracted Eurozone crisis is now impacting growth across emerging markets, depressing global commodity demand and hence prices, and directly affecting growth in Russia and other commodity exporters. Growth in Russia is now projected to slow down from over 4 per cent last year to 3.1 per cent this year and only 3.3 per cent in 2013. Continued capital flight from the country further weakens domestic demand and particularly investment.

The Eurozone crisis poses further downside risks to the outlook, as any worsening beyond the baseline assumptions could have serious negative consequences for growth across the entire transition region. In a downside external scenario – largely unchanged since last October – the Eurozone troubles become much worse before they are ultimately resolved. In particular, the crisis is not contained before spreading to larger single currency area members, which in turn renders several large European banks insolvent. Major parent banks would accelerate deleveraging in the region, triggering a credit crunch and recession in emerging Europe. This scenario implies prolonged market turmoil and a severe western European recession with swift negative spill-overs for the global economy, resulting in lower growth in advanced and emerging economies and lower commodity prices. A negative Eurozone crisis scenario would affect CEB and SEE countries via the same channels as in the baseline, including depressed exports and financing inflows, only more severely. Substantially lower commodity prices in the downside scenario would also cause a severe slowdown in Russia and other CIS commodity exporters. The weaker Russian economy would in turn seriously impact the non-commodity exporting countries of the CIS. The probability of this downside scenario has reduced somewhat following the recent EU Summit decisions on 'more Europe' with the prospects of a banking union in the future, but remains substantial. Consistent firming up of plans and full implementation would reduce this risk.

A (lower likelihood) upside risk to the outlook stems from a chance that the Eurozone crisis is resolved quicker than expected. This outcome would require that the single currency area policy makers approach the Eurozone problems significantly more resolutely than they have thus far and commit to policy measures that will convince the markets that the Eurozone can manage its fiscal and financial issues. Even then, the fiscal contractions and credit reductions that have already occurred will present a significant drag on growth, and its performance in 2012 will only be marginally better than in the baseline, at 0%. In 2013, the single currency area will, under this scenario, start recovering slowly, achieving a 1% growth rate. This will in turn support demand for exports from transition countries and slightly improve the health of Eurozone banks and therefore financing available to their subsidiaries in the transition region relative to the baseline. It will also contribute to a somewhat higher global demand for commodities and thus a slightly higher oil price. Both the regions more integrated with the Eurozone, the CEB and SEE, and commodity exporters such as Russia, will thus benefit with moderately higher growth.

Growth in real GDP

(In per cent; EBRD forecasts as of 13 July 2012)

		Current forecast		EBRD Forecast in May 2012			
	2011	2012	2013	2012	Change May-July	2013	Change May-July
Central Europe and the Baltic states							
Croatia	0.0	-1.2	1.5	-0.6	-0.6	1.7	-0.2
Estonia	7.6	2.4	2.8	2.4	0.0	3.4	-0.6
Hungary	1.6	-1.3	0.4	-1.0	-0.3	0.7	-0.3
Latvia	5.5	3.5	2.9	3.5	0.0	3.3	-0.4
Lithuania	5.9	2.8	2.5	2.8	0.0	2.9	-0.4
Poland	4.3	2.9	2.4	2.7	0.2	2.9	-0.5
Slovak Republic	3.3	2.6	2.3	2.2	0.4	2.6	-0.3
Slovenia	-0.2	-2.0	-1.4	-2.0	0.0	-1.1	-0.3
Average[1,2]	***3.5***	***1.7***	***1.9***	***1.6***	***0.1***	***2.3***	***-0.4***
South-eastern Europe							
Albania	3.1	1.2	1.4	1.2	0.0	1.8	-0.4
Bosnia and Herzegovina	1.8	0.3	0.6	0.4	-0.1	0.6	0.0
Bulgaria	1.7	1.2	1.7	1.2	0.0	2.5	-0.8
FYR Macedonia	3.1	0.5	2.0	1.3	-0.8	2.6	-0.6
Montenegro	2.7	0.4	0.8	0.4	0.0	1.6	-0.8
Romania	2.5	0.8	1.8	1.2	-0.4	2.6	-0.8
Serbia	1.6	0.1	1.7	0.1	0.0	2.6	-0.9
Average[1]	***2.2***	***0.7***	***1.7***	***1.0***	***-0.3***	***2.4***	***-0.7***
Eastern Europe and the Caucasus							
Armenia	4.6	4.0	4.0	4.0	0.0	4.0	0.0
Azerbaijan	0.1	2.5	3.0	3.5	-1.0	3.0	0.0
Belarus	5.3	4.5	3.0	2.5	2.0	3.0	0.0
Georgia	6.9	5.5	5.5	5.5	0.0	5.5	0.0
Moldova	6.4	2.5	3.5	4.0	-1.5	4.5	-1.0
Ukraine	5.2	2.5	4.0	2.5	0.0	4.0	0.0
Average[1]	***4.3***	***3.0***	***3.7***	***2.9***	***0.1***	***3.7***	***0.0***
Turkey	8.5	2.7	3.5	2.5	0.2	3.5	0.0
Russia	4.3	3.1	3.3	4.2	-1.1	4.3	-1.0
Central Asia							
Kazakhstan	7.5	5.0	6.0	5.0	0.0	6.0	0.0
Kyrgyz Republic	5.7	0.5	7.0	1.0	-0.5	7.0	0.0
Mongolia	17.3	14.0	16.0	14.0	0.0	16.0	0.0
Tajikistan	7.4	4.0	5.0	4.0	0.0	5.0	0.0
Turkmenistan	14.7	10.0	10.0	10.0	0.0	10.0	0.0
Uzbekistan	8.3	7.0	7.0	7.0	0.0	7.0	0.0
Average[1]	***8.5***	***6.0***	***6.9***	***6.0***	***0.0***	***6.9***	0.0
Average EBRD region (excluding SEMED) [1]	***5.0***	***2.7***	***3.1***	***3.2***	***-0.5***	***3.7***	***-0.6***
Southern and Eastern Mediterranean							
Egypt*	-0.6	1.8	3.7	1.7	0.1	3.7	0.0
Jordan	2.6	2.7	2.9	2.7	0.0	2.9	0.0
Morocco	5.0	2.4	4.1	3.5	-1.1	4.3	-0.2
Tunisia	-2.2	2.3	3.2	2.2	0.1	3.2	0.0
Average[1]	***0.8***	***2.1***	***3.7***	***2.2***	***-0.1***	***3.7***	***0.0***
Average EBRD region (including SEMED) [1]	***4.6***	***2.7***	***3.2***	***3.1***	***-0.4***	***3.7***	***-0.5***

[1] Weighted averages. The weights used for the growth rates are WEO estimates of nominal dollar-GDP lagged by one year.

[2] Weighted averages do not include the Czech Republic, for which EBRD no longer produces a forecast.

* Both actual and forecast GDP growth figures are on a calendar year basis in contrast to figures published by Egypt's national authorities, which are on a fiscal year basis ending in June.

Chart 1. Growth in transition sub-regions
(per cent, quarterly, year-on-year)

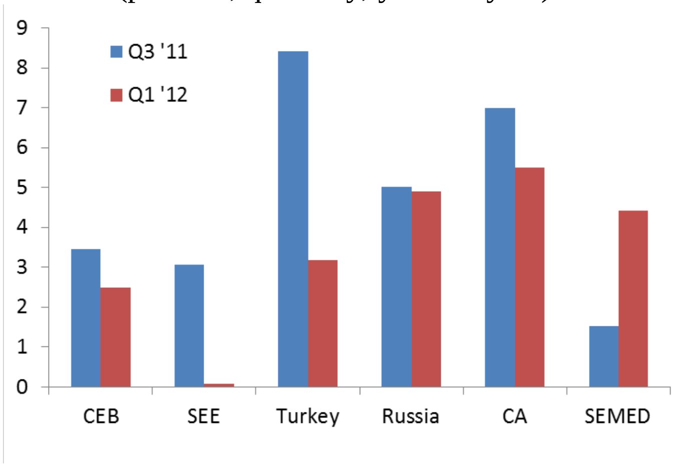


Chart 2. Private capital flows into EBRD region
(per cent of previous year's GDP)

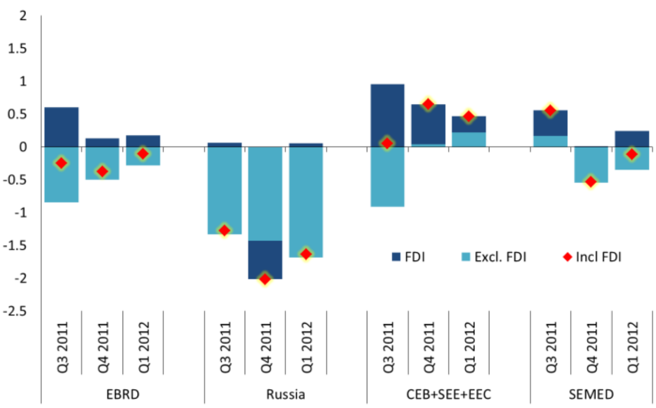


Chart 3. Real credit growth
(Monthly average, Mar-May[1])

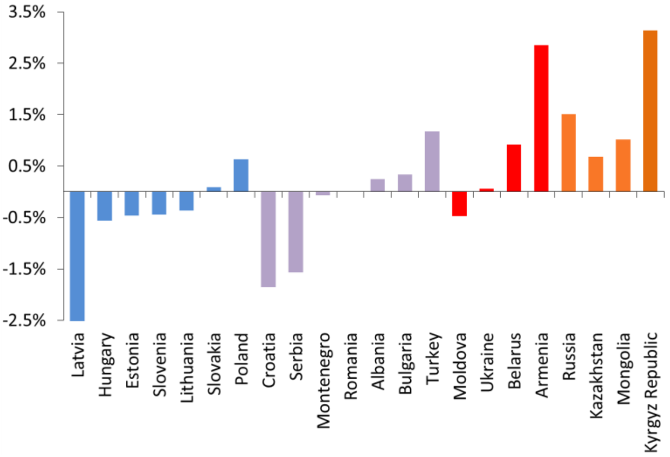


Chart 4. Investment
(In 2011, % of GDP, index, '00-'08 average=100)

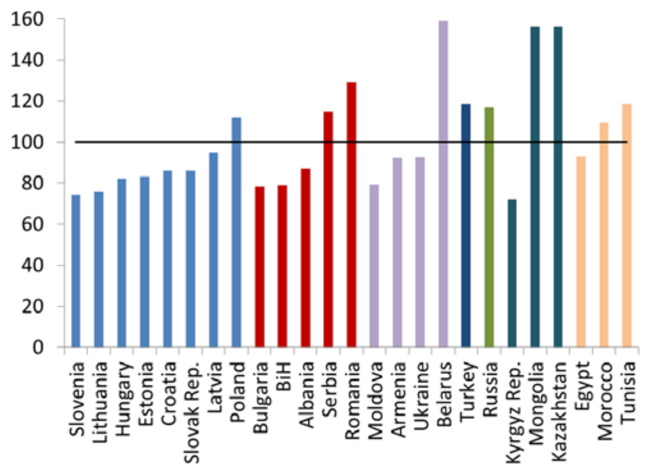


Chart 5. Unemployment
(Latest, per cent)

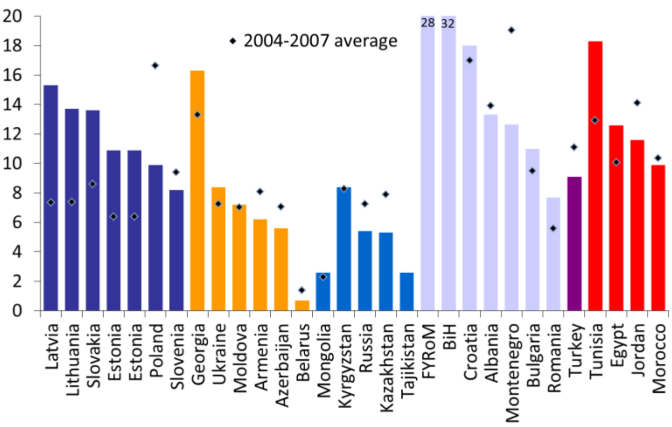
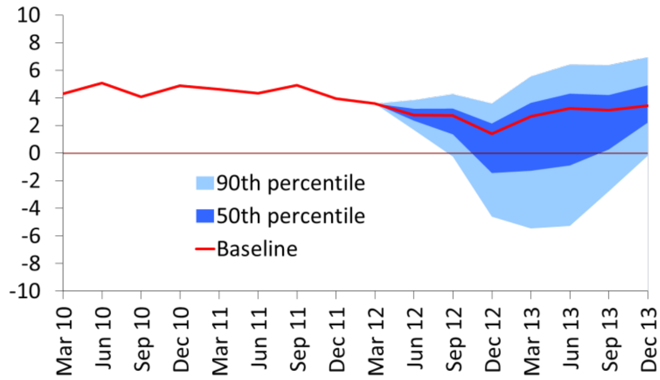


Chart 6. Transition region real GDP Growth[2]
(per cent, quarterly, year-on-year)



Source: CEIC database, Eurostat, IFS, national authorities and EPFR database

[1] For Kygyz Republic, Mongolia and Ukraine, chart shows average from February to April

[2] Year-on-year growth in aggregate real GDP of transition countries. The fan-chart is based on a Bayesian Vector Autoregression Model that is described in more detail in the *Regional Economic Prospects May 2010*. The baseline scenario assumes Eurozone real GDP growth of -0.3 per cent in 2012 and 0 per cent in 2013, a VIX around 20 in 2012-13, broadly constant Libor and slightly decreasing Euribor, and an oil price of about US$100 per barrel. The downside scenario assumes a recession in the Eurozone, with growth of -1 per cent in 2012 and -2 per cent in 2013 and more volatile market, with VIX averaging 40 in the second half of 2012 and then slowly declining in the second half of the year. The upside scenario assumes a 0% and 1% growth in the Eurozone in 2012 and 2013, respectively, and an oil price of up to $115 per barrel by 2013.

Central Europe and the Baltic States (CEB)

The CEB region remains the most exposed to the on-going slowdown in European industrial production and the deleveraging by European banks. Growth rates will roughly halve in the three Baltic countries, though hold up better in the Slovak Republic (which continued to benefit from foreign investment), and Poland (with more resilient domestic demand). By contrast Slovenia and Hungary have entered recessions.

- The contraction in **Hungary** now appears slightly worse than expected in the last EBRD forecast in May. Industrial production trends have been poor since the end of last year (even though several foreign producers have recommitted to expansion plans). Contraction in domestic consumption remains the main factor in the recession this year. Deleveraging by the predominantly foreign-owned banking industry will further hold back growth, and sentiment in the sector was not helped by a newly adopted financial transactions tax that adds to the already high tax burden on the industry. The tax also extends to central bank operations with no net revenue to the budget. A new convergence programme submitted to the EU stressed commitment to restore fiscal sustainability. Along with measures aiming to address earlier EU concerns in various areas, this has led to lifting the suspension of EU structural funds. And the start of negotiations of a financial support programme through the EU and IMF in mid-July can raise expectations that fiscal and external vulnerabilities would be addressed, though the multiple tax and regulatory issues will pose formidable challenges to an early completion of the discussions.
- By contrast, last year's growth outcome in **Poland** again exceeded earlier expectations, and underlined the resilience of the economy to vulnerabilities in the Eurozone and the importance of an investor-friendly domestic policy environment. Domestic demand in the first half of 2012 continued to support to growth. However, fiscal adjustments will reduce public infrastructure spending, just as some social transfers are being scaled back.
- GDP in **Slovenia** continues to contract as credit extension by banks remains impeded due to poor asset quality. The fiscal consolidation package adopted by the new government will continue to weigh on domestic demand. Exports remain weak given recessions trading partners, in particular in Italy. The government failed to attract an investor to the dominant state-owned bank, and a recently introduced temporary recapitalisation measure will need to put on a more permanent footing by the end of the year. Nevertheless, the new government managed to reach an agreement with key unions which should bode well for further reforms.
- The **Baltic countries** seem as yet reasonably resilient in the face of the slowing European industrial cycle. Growth expectations for 2012-13 remain as projected in May, with Latvia, in sustained recovery from the deep 2009 crisis being still the strongest performer in the CEB region. Latvia and possibly Lithuania remain committed to euro adoption in 2014.
- Even though the **Slovak Republic** is the most exposed to the slowing industrial cycle in the core Eurozone through the concentration in a number of cyclical industries growth remains resilient given additional foreign direct investment in productive capacity. Based on the outcome if the first quarter an even higher growth of 2.6 per cent now seems likely. The new government has announced its manifesto and as expected takes a more critical stance on privatisations and will implement greater differentiation in personal and corporate income taxation, including through extending the base of the bank tax.
- In **Croatia**, the economic situation appears to be worsening. Output has declined for two consecutive quarters (-0.7 per cent q-o-q in Q4 2011 and -1.6 per cent q-o-q Q1 2012) and thus the economy is now technically in recession. Growth for the rest of the year is likely to be either non-existent or negative, reflecting the overall lack of competitiveness in the economy. However, the signing of the EU Accession Treaty at the end of last year and the

realistic prospect of full EU membership in mid-2013 are positive signals for the medium term and may help to revive confidence and investment.

South-Eastern Europe (SEE) and Turkey

Short-term economic prospects for the SEE region are highly uncertain in the present economic climate. Financial sector vulnerabilities constitute the biggest risk, given that the vast majority of the banking system is foreign-owned and given the reliance in most countries on funding from abroad. In some countries these banks also hold significant quantities of local treasury bills. While some recovery seemed evident in the first half of 2011, economic activity weakened in the second part of the year. In the first three months of 2012, several countries reported output contractions relative to the previous quarter. An exception was Bulgaria, where output remained flat on the quarter. Growth in the region for the whole year is likely to be minimal at best. In contrast, the Turkish economy continued to boom in 2011, with growth of 8.5 per cent, but the economy is expected to slow down significantly in 2012. Signs of rebalancing and slower economic activity in Turkey in the first quarter have already materialized. The current account deficit however remains still the key weakness of the economy, dropping only slightly to 8.4 per cent of GDP in the first quarter of 2012 from 10 per cent in 2011. Inflation is slowly declining from its double digit high at the end of 2011 to 8.9 per cent in June, mainly driven by declining food prices, but is expected to remain elevated, especially in the second half of 2012.

- **Albania** continued to grow faster than other countries in the region in 2011 but it experienced a slowdown in economic activity in the second half of 2011 and in early 2012 largely due to the weak performance of its key EU markets, Greece and Italy. Albania's strong trade, investment and remittance ties to these countries are likely to continue to constrain growth in the coming year, while public debt is close to the statutory limit of 60 per cent of GDP, limiting the room for fiscal manoeuvre.

- **Bosnia and Herzegovina's** economy has been relatively stable in the past couple of years, but domestic consumption has remained subdued, largely due to fiscal austerity measures and to falling remittances. In the short term the country could benefit from a continued strong demand for certain export products such as metals and timber, which may compensate for weaknesses elsewhere in the economy. The formation of a government at state level and consequent adoption of the budgets for 2011 and 2012 have enabled the resumption of talks for IFI funding, but the overall economic outlook remains weak.

- Recovery is expected to continue to be modest in **Bulgaria** into 2012, in contrast to earlier projections of vigorous growth, due to sluggish export demand. However, the government's continues to adhere to fiscal prudence, with the government budget marginally in surplus in the first five months of the year. The country also accessed capital markets in July 2012 on favourable terms, with a five-year €950 million Eurobond being heavily oversubscribed and achieving a yield of 4.25 per cent.

- **FYR Macedonia** experienced a surprisingly strong growth in the first half of 2011 spurred by high exports and FDI, but growth slowed down substantially in the second half of the year due to the impact of the Eurozone crisis. The weak external environment will continue to negatively impact the economy of FYR Macedonia this year. GDP fell by 1.4 per cent y-o-y in Q1 of 2012 and growth for the year is forecast to decline significantly relative to the previous year.

- **Montenegro's** economy is still struggling to recover from the effects of the crisis. The country's current account deficit remains high, industrial production is volatile and credit growth is still negative on a year-on-year basis. The continued uncertainty over the future of the aluminium complex KAP, which has been making significant losses, is another source of concern.

- Until recently, **Romania's** economy was on track to record robust growth in 2012, after a recovery in 2011. However, the slowdown in the Eurozone is already having a significant dampening effect on Romania's exports and evidence of deleveraging from cross-border banks highlights the importance of the financial sector crisis transmission channel. In the first quarter of 2012, seasonally adjusted output fell by 0.1 per cent relative to the previous quarter. The weak external environment and the political crisis that arose in July could negatively affect short-term growth. Strong financial support from the IMF and other IFIs has provided an important buffer.

- **Serbia's** economy is showing several weaknesses at present. Growth was around 2 per cent in 2011 but is likely to be much lower in 2012, especially in light of the weak output figures in the first quarter of 2012 (GDP contracted by 1.3 per cent y-o-y). Major risks remain, mainly from exposure to the Eurozone, and, after declining to record lows, inflation is on the rise again. Domestic policies have added to uncertainty in the run-up and since the elections. The IMF programme is on hold and the new government, not yet in place as of 09 July 2012, faces a major challenge in getting the fiscal accounts under control and bringing down public debt.

- **Turkey**'s economy is heading for a substantial slowdown in growth from the 8.5 per cent in 2011 to 3.2 per cent y-o-y in the first quarter of 2012 (GDP growth contracted for the first time since Q1 2009 by an annualized 1.7 per cent). Key drivers are substantially declining domestic demand, and spill-overs from the Eurozone. Inflation remains elevated, but a combination of tighter monetary policy and lower global food and energy prices has contributed to a declining trend from its double-digit high of end- 2011.

Eastern Europe and the Caucasus (EEC)

The global economic instability and the Eurozone crisis have had an impact on this diverse region. Ukraine has been affected by lower external demand and tight financial conditions, compensated to some extent by buoyant domestic consumption. The economy of Belarus has been recovering from last year's balance of payments crisis as domestic producers benefited from a real exchange rate devaluation. Azerbaijan's non-oil sector has expanded, but only partly compensating for the on-going oil sector contraction. Georgia's broad-based recovery has continued at a fast pace. Moldova has been slowing down recently as external demand and remittances inflows have decelerated. Armenia has demonstrated some resilience so far, in part due to its lower integration in the European market. The region's vulnerabilities remain significant due to the reliance on external demand to support growth (in particular in the EU and Russia), terms of trade pressures (as all countries except for Azerbaijan are net energy importers, and the Caucasus countries depend on import of foodstuffs), and volatility of remittances (Armenia, Georgia and Moldova). Risks to the outlook are related to developments in external demand, commodity prices, and stability of the domestic and, in some cases, broader European financial sectors, as well as domestic policy slippages, which may in some cases threaten needed international support and re-ignite balance-of-payments pressures.

- **Ukraine**'s economy has been affected by the worsening external environment. Lower external demand and subdued steel prices led to a contraction of machine building and steel sectors. Completion of significant public infrastructure investments related to the Euro-2012 football championship has led to a deceleration of construction. Agricultural output also slowed down, affected by the unusually cold winter. Buoyant consumer demand, fuelled by rising real wages, has helped maintain growth of the retail sector. Although the authorities implemented some of the conditions under the 2010 IMF programme (including parametric pension reform), critical measures necessary to stabilise the gas sector, including household tariff increases, continue to face political resistance. As the central bank tightened monetary conditions and utilised administrative measures to maintain the hryvnia's external stability, credit growth came to a halt. After pursuing fiscal consolidation policies over the past two years, the authorities adopted a package of social and wage expenditures that may increase fiscal pressures before the parliamentary elections in October. As Ukraine's economy is very much exposed to the Eurozone, developments in the EU will remain important for the country's growth and economic stability for the months to come.

- **Armenia**'s recovery from the crisis has continued at a moderate pace, led by manufacturing and mining. The authorities are pursuing fiscal consolidation and structural reforms under an IMF-supported programme. The economy continues to benefit from large remittance inflows and substantial official financing. Immediate risks are related to the uncertain external environment, in light of the country's dependence on remittances and export of few commodities.

- The economy of **Belarus** has been stabilising after a deep, policy-induced balance of payments crisis. The foreign exchange market was largely normalised after the central bank unified the exchange rates in October, tightened monetary policy and curbed directed lending. Soft loans from a CIS stabilization fund and bilateral loans from Russia have been used to replenish critically low external reserves. However, recently announced public wage increases may lead to a new bout of macroeconomic instability after the September parliamentary elections.

- After two years of fast paced recovery from the financial crisis, **Moldova**'s output growth has slowed down in response to the weakening external demand and unfavourable weather conditions. Short-term growth prospects are uncertain and depend on the evolution of remittances, exports and investment sentiment, including after the recent elections of the President.

- **Georgia**'s economic activity accelerated in the second half of 2011 and remains strong. As the external financing package mobilised by a range of donors during the twin crisis of 2008 has largely been exhausted, the authorities have pursued private sources of financing including with support of a public fund responsible for supporting private investment in key sectors. Uncertainty about the external environment has been mitigated by a new precautionary arrangement with the IMF.

- After successfully weathering the financial crisis, **Azerbaijan**'s economy has slowed as the pace of oil extraction decelerated. The oil output decline has been only partially offset by robust growth of the non-oil sector, mainly stimulated by budget expenditures. The diversification of the economy remains important as risks associated with high oil dependence became apparent during the crisis, when oil prices declined. Immediate macroeconomic risks continue to be mitigated by a very strong fiscal position.

Russia and Central Asia

Russia and most Central Asian economies continued their recoveries from the 2009 global crisis through 2011, but growth in most countries has now started to slow down driven by a combination of global and domestic factors. In Russia and Kazakhstan, the recovery had mostly been supported by higher oil prices and large-scale fiscal stimulus packages. This, in turn, had helped the economies of the Kyrgyz Republic, Tajikistan, and Uzbekistan, which benefited directly from higher commodity export prices and indirectly from increased remittances, FDI and export demand from Russia and Kazakhstan. However, economic growth is now slowing down in most countries as a result of the Eurozone crisis and associated drop in commodity prices, combined with domestic and regional factors (e.g., one-off problems in the Kyrgyz mining sector and continued tensions between Tajikistan and Uzbekistan). An additional risk is that state ownership and interference in the region's banking sectors remain high. Together with incomplete restructuring efforts, this is contributing to an inefficient allocation of credit and continued high levels of nonperforming loans (NPLs), particularly in Kazakhstan and Tajikistan.

- In **Russia**, year-on-year GDP growth slowed down from 4.9 per cent in the first quarter of 2012 to an estimated 3.9 per cent in the second quarter, while seasonally adjusted quarterly growth halved, from 0.8 per cent in Q1 to 0.4 per cent in Q2. Lower oil prices, combined with election-related uncertainy, led to a major drop in the stock market by around 25 per cent during the second quarter, while the rouble depreciated by over 10 per cent against the U.S. dollar. Net capital outflows reached $US 43.4 billion in the first half of the year, mostly due to large outflows during the first quarter. Inflation picked up to 4.3 per cent in June and could exceed the Central Bank's inflation target of 6 per cent by December 2012 as a result of regulated tariff increases in July and the impact of rouble deprecation on import prices. GDP growth during the second half of the year is likely to be negatively affected by higher inflation and an expected poor agricultural harvest. Assuming no major pickup in oil prices or global demand, GDP growth is therefore expected to slow down to 3.1 per cent in 2012 and 3.3 per cent in 2013.

- In **Kazakhstan,** growth decelerated significantly in the first quarter of 2012 due to weaker performance in extraction and construction, and was even negative on a quarterly seasonally adjusted basis, in part because of unusually cold weather. According to preliminary estimates, the economy rebounded in the second quarter but overall growth slowed down to 5.6 per cent in the first half of 2012, from 7.5 per cent economic growth in 2011. Assuming no further deceleration during the second half of the year, GDP growth would average around 5 per cent in 2012. Bank credit growth, which had remained flat until early 2011, finally picked up during 2012, exceeding 17 per cent year-on-year in May, but this appears to have been driven in part by state-sponsored subsidised loan programmes. Otherwise, the banking sector remains weak, with non-performing loans (NPLs) exceeding 30 per cent of total loans, provisioning for NPLs remaining insufficient, and the third largest bank, BTA, is seeking a second debt restructuring in less than two years. Despite formally abolishing the exchange rate corridor in late February 2011, the National Bank of Kazakhstan (NBK) has continued to intervene heavily to keep the exchange rate stable. Inflation has remained broadly stable at around 5 per cent during the first half of the year.

- In the **Kyrgyz Republic,** GDP fell by 5.6 per cent in the first half of 2012 following robust growth of 5.7 per cent in 2011. This was almost exclusively driven by a strike at the Kumtor gold mine in early 2012, which caused gold production to decline temporarily by about 65 per cent . However, since non-gold GDP continued to grow by almost 4 per cent during the first half of the year, overall GDP growth in 2012 is expected to remain positive at around 0.5 per cent. GDP growth in 2013 would then pick up to around 7 per cent, reflecting the base effect. Inflation fell dramatically from a high of 23 per cent in June 2011 to below zero per cent in June 2012, given the high share of imported food in the CPI, but is expected to pick up somewhat later in the year.

- In **Tajikistan**, reported GDP growth was stronger than expected at 7.4 per cent in 2011 and remained high at 7.2 per cent year-on-year during the first quarter of 2012. However, growth could slow down to 4 per cent in 2012, reflecting falling international commodity prices and continued tensions with Uzbekistan that have limited gas supplies and railway transport. Inflation decelerated from 15 per cent in mid-2011 to below 5 per cent in May 2012. The banking system remains weak with low capitalisation and high NPLs. In May 2012, the three-year IMF programme was completed.
- **Turkmenistan** continues to experience a buoyant economic expansion with GDP growth during the first quarter of 2012 estimated at over 10 per cent, driven by large public construction projects and increased gas exports to China and Iran. GDP growth is projected to remain in double digits during 2012. Average annual inflation increased slightly to 6 per cent in 2011, reflecting higher international commodity and food prices, but has remained lower than in other countries in the region given that many prices continue to be administered by the state.
- **Uzbekistan**'s GDP growth remained strong at 8.3 per cent in 2011, driven by public spending and is expected to remain strong at 7 per cent in 2012, mostly supported by continued large government spending. Inflation increased to over 13 per cent at the end of 2011, driven by international price developments, accommodative monetary conditions and increases in administrative prices.
- **Mongolia** continued to benefit from a mining boom, with GDP growth accelerating to 17.3 per cent in 2011. Growth is projected to reach 14 per cent in 2012, reflecting high copper prices and substantial mining-related FDI inflows, which exceeded 40 per cent of GDP in 2011 and are expected to continue for a number of years. Inflation remained high at over 15 per cent at end-May 2012 and is likely to stay around that level as fiscal policy remains highly procyclical.

Southern and Eastern Mediterranean (SEMED)

The countries of the SEMED region continue to face dire macroeconomic challenges, as social and political transitions are marred with heightened uncertainty. The economies of these four countries have taken a hit from declining tourism, FDI, and trade, and investors have adopted a wait-and-see approach, at least in the short term. As a response to social pressures, all SEMED countries have increased government spending on social benefits and subsidies, exacerbating fiscal deficits across the board. Trade balances have also weakened, and, combined with the drop in tourism and outflow of capital, have lead to weakening current account balances. As a result, financing gaps have increased, and the need to fill them with foreign funding sources has risen. Unemployment, especially among the youth, remains a chronic problem in all four countries; the solution to this problem is likely to be protracted in light of subdued economic activity. At the same time, some signs of recovery are beginning to emerge in some countries.

- While **Egypt**'s economy showed signs of rebound in the first quarter of 2012, registering real GDP growth of 5.3 per cent y-o-y, it was largely driven by favourable base effects reflecting severe disruptions in economic activity in the same quarter last year. On a quarterly basis, however, seasonally adjusted growth contracted. Overall growth continues to be held back by weaknesses in the transport, manufacturing, and tourism sectors. While various sectors (including manufacturing, tourism and construction) saw y-o-y improvements, a sharp slowdown in construction and tourism on a q-o-q basis in Q1 was registered on the back of security incidents and uncertainty about the elections. FDI has yet to recover, and Egypt is still in a precarious external position. However, Egypt has stopped shedding reserves in the last two months thanks to a US$1 billion loan from Saudi Arabia and a US$1 billion loan from the Islamic Development Bank, both of which have gone some way in preventing further deterioration of the balance of payments.
- While overall growth in **Jordan** is expected to remain muted in 2012 on the back of energy price hikes and regional political turmoil, output growth in the first quarter surprised on the upside, growing by 3 per cent y-o-y. This was largely driven by a combination of strong performance in utilities, transport, and mining coupled with a revival of tourism, especially in the hotel and restaurant sub-sectors. However, a number of driving factors could be temporary in nature, and output continues to be held up by protracted adverse regional developments and Jordan's vulnerability to external shocks, which have translated into depressed FDI. Consequently, Jordan has seen the current account deficit widen significantly in the first quarter, brought about by a rising trade deficit. The authorities are seeking an IMF programme.
- **Morocco's** real GDP growth slowed to 2.8 per cent in 2012Q1, mostly due to a weak agricultural harvest, and a decline in external demand for tourism and mining. Declining private consumption over the quarter also contributed to the slowdown in non-agricultural sectors such as mining, hotels and restaurants, and fishing. Other sectors, such as telecommunications and constructions, did hold up however. Growth is expected to be weaker in 2012 given Morocco's close links to the Eurozone, which accounts for the majority of its exports, tourist receipts, and remittances. Lower growth has led to a widening of its current account deficit in the first quarter.
- **Tunisia's** showed some signs of recovery in Q1 2012 as GDP grew by 4.8 per cent over the same period of last year, although some of this reflected the effect of a low base. Growth seems to be broad-based, including exports, tourism, and industrial production. On a quarterly basis relative to Q4 2011 however while the agriculture and services sectors performed strongly, industrial activity declined and exports slowed because of continued weak external demand from the Eurozone. Tourism and FDI picked up in Q1 2012, rising by 33 and 29 per cent respectively, but the exports slowdown led to an increase in the current account deficit in Q1 2012. Fiscal pressures continue to mount on the back of increased social spending and asset quality risks in the banking sector remain elevated.

Tables

Table 1. Transition Region: Vulnerability Indicators 1/

	Public and External Debt /2 (% of GDP): Government (end 2011)	External: Total (end 2011)	External: Private (end 2011)	External: Short term (remaining maturity)	Gross reserves /2: billions US$ (latest)	Gross reserves, in percent of: GDP	Gross reserves, in percent of: Short term debt	Gross reserves, in percent of: month of prosp. Imports	Bank dep. (latest): % of GDP	Loans/dep. (latest): Private sector, in %	Country risk: 12-Jul-12 (CDS spread, bps)	Country risk, Latest: S&P sovereign country ratings	Country risk, Latest: Fitch sovereign country ratings	Domestic FX loan stocks (latest) (% GDP): Total pvt sector	of which: Corp.	of which: HH	% FX credit in total loan stock	Nonperforming loans: latest	Unemployment: % (latest avail.)
Central Europe and Baltics																			
Croatia	45.6	93.8	66.2	32.1	15.6	24.4	76.0	8.2	59.9	118.4	510.3	BBB-	BBB-	44.7	16.4	28.3	72.3	12.4	18.0
Estonia*	6.0	98.5	94.7	51.8	…	…	…	…	…	125.1	…	AA-	A+	2.1	2.1	0.0	2.6	4.1	10.9
Hungary	80.4	131.3	78.8	55.7	37.8	38.3	68.8	5.3	41.5	129.4	512.7	BB+	BB+	31.1	15.1	16.1	57.8	13.7	10.9
Latvia	37.8	137.2	107.0	56.3	26.1	22.5	39.9	4.3	32.6	210.0	259.7	BBB-	BBB-	60.3	29.3	31.0	88.0	13.7	15.3
Lithuania	39.0	75.1	47.1	36.0	21.8	19.1	53.2	2.8	37.5	133.2	…	BBB	BBB	36.8	18.9	18.0	73.8	15.9	13.7
Poland	55.4	64.9	64.9	25.0	97.5	20.3	75.9	4.7	43.6	114.4	201.0	A-	A-	17.9	4.2	13.7	34.5	8.4	9.9
Slovak Republic*	43.3	…	33.5	54.1	…	…	…	…	49.1	…	221.7	A	A+	5.0	4.9	0.1	1.1	5.5	13.6
Slovenia*	47.6	…	65.7	22.4	…	…	…	…	53.6	152.9	…	A+	A	3.9	0.8	3.1	4.7	...	8.2
South-Eastern Europe																			
Albania	58.9	36.5	11.3	5.8	2.7	20.7	358.8	4.5	67.0	58.3	…	B+	…	27.1	21.0	6.1	65.3	20.5	13.3
Bosnia and Herzegovina	40.6	46.6	22.3	12.4	3.4	18.8	151.1	3.5	35.7	156.1	…	B	…	36.3	19.1	17.2	66.3	11.8	27.6
Bulgaria	17.0	86.2	78.9	33.6	16.9	31.6	94.1	5.5	60.4	…	311.3	BBB	BBB-	34.8	26.6	8.2	63.3	14.9	11.0
FYR Macedonia	28.1	63.5	43.4	22.1	2.4	22.9	103.6	4.1	65.4	95.9	…	BB	BB+	21.6	15.7	5.9	46.9	9.5	31.6
Montenegro	45.8	94.6	…	…	0.4	9.6	…	1.9	48.5	115.7	…	BB-	…	…	…	…	0.0	15.5	12.7
Romania	33.0	68.5	45.4	24.8	46.8	24.7	99.4	6.8	31.2	124.3	432.0	BB+	BBB-	25.1	12.7	12.3	64.7	16.3	7.7
Serbia	47.9	78.8	55.5	22.4	15.3	34.0	151.3	7.9	…	…	…	BB	BB-	25.5	12.8	12.7	51.6	18.8	26.1
Eastern Europe and the Caucasus																			
Armenia	35.1	65.5	16.6	2.3	2.0	19.4	833.9	4.8	18.9	185.3	…	…	BB-	22.3	17.9	4.4	63.6	...	6.2
Azerbaijan	10.2	7.7	…	…	10.4	16.7	…	6.7	14.8	134.6	…	BBB-	BBB-	6.3	…	…	34.1	6.9	…
Belarus	50.2	61.1	33.4	32.0	6.9	12.4	38.6	1.6	35.8	97.6	…	B-	…	24.5	23.9	0.6	42.0	4.0	0.7
Georgia	33.9	53.1	23.8	13.0	2.9	20.3	156.0	4.2	27.8	105.1	…	BB-	BB-	17.4	…	…	68.2	7.4	16.3
Moldova	23.4	67.0	45.8	33.6	2.1	29.5	87.8	3.8	10.0	95.6	…	…	…	15.6	15.2	0.3	42.4	13.5	7.2
Ukraine	36.5	75.8	55.9	35.7	31.6	19.2	53.7	3.6	36.3	161.7	833.4	B+	B	22.6	14.9	7.7	42.1	15.8	8.4
Turkey	39.4	41.7	28.8	17.2	77.1	9.9	57.6	3.6	41.9	121.7	225.3	BB	BB+	13.1	…	…	26.6	2.8	9.1
Russia	9.6	25.0	22.4	8.2	473.4	25.6	312.6	11.9	38.4	123.6	215.1	BBB	BBB	7.0	6.5	0.5	14.0	5.0	5.4
Central Asia																			
Kazakhstan	10.9	66.6	73.2	8.9	29.3	15.7	242.3	6.1	18.3	190.4	240.3	BBB+	BBB	11.5	9.1	2.3	33.0	32.0	5.3
Kyrgyz Republic	52.4	59.2	11.2	7.5	1.7	29.1	389.1	4.1	16.8	74.8	…	…	…	6.7	…	…	56.0	9.9	8.4
Mongolia	…	39.3	15.1	…	2.9	34.4	…	4.9	…	…	…	BB-	B+	…	…	…	30.8	5.2	10.3
Tajikistan	34.3	48.0	19.1	1.1	0.6	9.1	815.8	1.6	14.4	103.3	…	…	…	0.0	…	…	…	6.3	2.6
Turkmenistan	15.4	15.4	0.0	2.7	22.2	86.3	…	18.0	…	…	…	…	…	2.4	…	…	…	0.6	…
Uzbekistan	9.1	13.3	4.8	0.4	13.8	30.3	…	10.9	…	…	…	…	…	…	…	…	…	0.8	…
Southern and Eastern Mediterranean																			
Egypt	79.8	15.5	0.9	2.1	15.5	6.9	560.3	3.1	64.5	51.9	…	B	B+	9.0	8.8	0.2	26.7	10.9	12.6
Jordan	66.7	59.4	37.5	33.9	8.5	29.5	86.8	5.0	111.9	71.4	…	BB	…	9.7	…	…	12.0	8.5	11.6
Morocco	53.7	31.5	17.8	4.1	15.8	17.4	425.1	3.8	64.9	107.8	…	BBB-	BBB-	…	…	…	…	5.0	9.9
Tunisia	43.8	51.3	24.5	…	6.2	15.0	…	3.4	58.1	126.5	…	BB	BBB-	…	…	…	…	15.0	18.1

1/ National sources based on CEIC and IFS, unless stated otherwise.
2/ WEO April 2012.
* Euro area members

Table 2. Transition Region: Annual indicators and projections 1/

	GDP Growth (average) (year over year percent change)				GDP Growth (end year) (Q4 over Q4 percent change)				Inflation (average) (year over year percent change)		Fiscal Balance /4 (Gen. gov; % of GDP)	Primary fiscal balance to GDP /4	GG Debt/revenues	Current Account (% of GDP)	Net FDI (% of GD
			Forecast 2/				Forecast 2/			Forecast 2/	3/	3/	3/	3/	3/
	2010	2011	2012	2013	2010	2011	2012	2013	2011	2012	2011	2011	2011	2011	2011
Central Europe and Baltics															
Croatia	-1.4	0.0	-1.2	1.5	-0.2	-0.4	-1.1	1.3	2.3	3.3	-5.5	-3.1	126.9	0.9	2.2
Estonia	2.3	7.6	2.4	2.8	6.0	4.5	2.1	3.0	5.1	3.0	1.0	1.1	13.7	2.1	1.2
Hungary	1.3	1.6	-1.3	0.4	1.9	1.4	-1.2	0.4	3.9	4.0	4.3	8.3	153.5	1.4	3.0
Latvia	-0.3	5.5	3.5	2.9	3.6	5.7	2.0	4.3	4.2	2.8	-3.5	-2.0	105.1	-0.8	4.0
Lithuania	1.4	5.9	2.8	2.5	4.8	4.4	1.7	3.2	4.1	3.4	-5.5	-3.7	114.3	-1.6	2.9
Poland	3.9	4.3	2.9	2.4	4.3	4.3	2.1	2.8	3.9	3.2	-5.1	-2.4	141.1	-4.1	2.6
Slovak Republic	4.2	3.3	2.6	2.3	3.7	3.4	2.1	2.6	4.1	4.0	-4.8	-3.2	135.9	0.1	2.2
Slovenia	1.4	-0.2	-2.0	-1.4	2.3	-2.8	-2.8	0.5	2.1	1.5	-6.4	-4.5	112.6	0.0	2.0
South-Eastern Europe															
Albania	3.3	3.1	1.2	1.4	5.5	3.8	1.5	1.0	3.5	1.9	-3.5	-0.4	232.9	-13.2	7.5
Bosnia and Herzegovina	0.6	1.8	0.3	0.6	…	…	…	…	3.7	…	-3.1	-2.4	87.8	-8.3	2.5
Bulgaria	0.4	1.7	1.2	1.7	3.1	0.3	3.0	0.8	3.4	2.0	-2.1	-1.4	52.5	1.9	2.4
FYR Macedonia	2.9	3.1	0.5	2.0	3.8	0.7	1.8	1.1	3.9	2.2	-2.6	-1.8	95.1	-2.8	4.1
Montenegro	2.5	2.7	0.4	0.8	…	…	…	…	2.9	3.1	-6.5	-5.0	121.7	-19.4	11.9
Romania	-1.7	2.5	0.8	1.8	-1.0	1.9	2.1	1.2	5.8	2.6	-4.1	-2.6	105.0	-4.2	1.4
Serbia	1.0	1.6	0.1	1.7	1.7	0.4	2.3	1.3	11.1	3.4	-4.0	-2.8	121.4	-9.1	5.6
Eastern Europe and the Caucasus															
Armenia	2.2	4.6	4.0	4.0	2.4	5.0	4.3	4.4	7.7	2.5	-2.7	-1.8	161.3	-12.3	5.8
Azerbaijan	5.0	0.1	2.5	3.0	3.1	-0.5	3.9	1.9	8.5	2.5	13.3	13.6	22.2	26.3	0.1
Belarus	7.7	5.3	4.5	3.0	10.2	0.0	5.5	4.1	52.9	60.0	3.3	4.5	120.4	-10.4	7.1
Georgia	6.3	6.9	5.5	5.5	6.1	8.8	2.9	6.4	8.5	1.0	-0.9	0.3	119.5	-12.7	6.4
Moldova	7.1	6.4	2.5	3.5	9.0	5.8	1.4	2.6	7.2	3.5	-2.4	-1.6	63.7	-10.6	3.7
Ukraine	4.1	5.2	2.5	4.0	3.7	4.7	3.3	3.9	7.7	3.0	-4.2	-2.0	…	-5.6	4.0
Turkey	8.9	8.5	2.7	3.5	9.3	5.2	1.9	4.3	6.5	9.0	-1.4	1.8	116.3	-10.0	1.7
Russia	4.3	4.3	3.1	3.3	4.9	4.8	0.6	3.7	8.4	5.0	-1.2	2.2	25.0	4.6	-0.5
Central Asia															
Kazakhstan	7.3	7.5	5.0	6.0	7.1	8.7	3.6	5.0	8.4	5.4	5.5	6.0	38.2	7.6	5.7
Kyrgyz Republic	-0.5	5.7	0.5	7.0	1.0	4.3	5.5	0.0	16.6	2.0	-4.8	-3.8	157.3	-3.1	6.6
Mongolia	6.4	17.3	14.0	16.0	5.4	19.3	14.5	17.2	9.1	14.7	-2.0	-3.2	...	-21.6	28.4
Tajikistan	6.5	7.4	4.0	5.0	7.1	7.2	1.9	6.3	12.5	6.2	-2.5	-1.6	142.0	-2.3	0.3
Turkmenistan	9.2	14.7	10.0	10.0	…	…	…	…	5.8	6.0	3.5	...	76.0	1.8	14.0
Uzbekistan	8.5	8.3	7.0	7.0	9.6	8.5	6.8	6.4	12.8	12.0	9.0	7.6	22.6	5.8	3.2
Southern and Eastern Mediterranean															
Egypt*	5.5	-0.6	1.8	3.7	5.7	0.4	0.5	4.0	10.1	8.5	-9.9	-4.4	347.2	-2.1	0.5
Jordan	2.3	2.6	2.7	2.9	3.2	3.1	2.5	3.0	4.4	5.4	-6.8	-4.1	267.5	-10.0	5.1
Morocco	3.6	5.0	2.4	4.1	4.5	4.9	1.1	4.3	0.9	1.9	-7.0	-4.7	197.4	-8.0	2.5
Tunisia	3.5	-2.2	2.3	3.2	2.2	-0.4	1.5	4.2	3.5	5.3	-3.8	-1.6	135.7	-7.4	1.0

1/ EBRD data and projections unless otherwise stated.

2/ As of July 13, 2012.

3/ WEO April 2012. CEB figures for fiscal and primary fiscal balance from Eurostat.

4/ Ukraine: Augmented general government balance: overall government balance includes Naftogaz and other debt-creating flows. Jordan: fiscal deficit excluding grants is 12.7

* Both actual and forecast GDP growth figures are on a calendar year basis in contrast to figures published by Egypt's national authorities, which are on a fiscal year basis ending in June.

Table 3. Transition Region: Quarterly GDP actuals and projections, Q1 2010- Q2 2012 1/

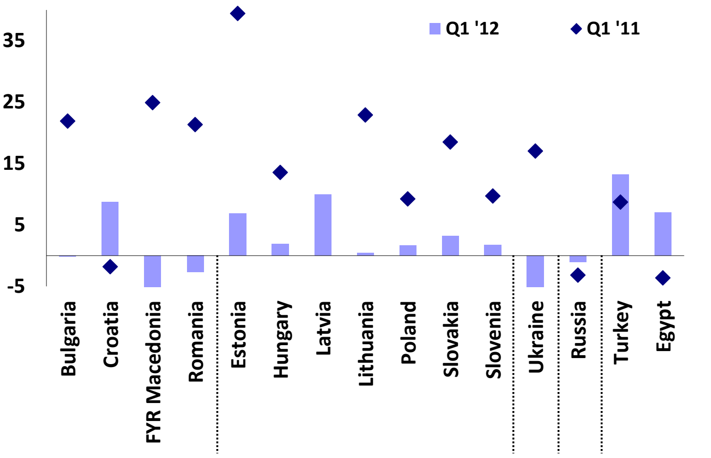
	Quarterly GDP Growth (seasonally adjusted, quarter-on-quarter percent change)										Quarterly GDP Growth (year-on-year percent change)										GDP Growth (average) (year over year percent change)			
									Estimates 1/										Estimates 1/				Forecast 1/	
	2010				2011				2012		2010				2011				2012					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	2010	2011	2012	2013
Central Europe and Baltics																								
Croatia	-1.6	-0.6	1.2	0.3	-1.4	0.7	0.8	-0.7	-1.6	0.5	-2.7	-3.0	0.1	-0.2	-1.2	0.6	0.8	-0.4	-1.3	-0.6	-1.4	0.0	-1.2	1.5
Estonia	-1.5	3.2	1.4	3.0	1.6	1.8	1.4	0.1	0.3	0.5	-4.2	2.5	4.5	6.0	9.5	8.4	8.5	4.5	3.6	2.3	2.3	7.6	2.4	2.8
Hungary	1.0	0.4	0.4	0.1	1.4	-0.2	0.0	0.0	-1.2	-0.2	0.1	1.0	1.8	1.9	2.6	1.4	1.4	1.4	-0.7	-1.4	1.3	1.6	-1.3	0.4
Latvia	1.1	0.1	0.9	1.1	1.2	1.9	1.4	1.0	1.1	0.2	-5.5	-3.5	3.5	3.6	3.5	5.6	6.6	5.7	6.9	3.8	-0.3	5.5	3.5	2.9
Lithuania	0.5	0.6	1.0	2.2	1.6	1.5	1.2	0.8	0.8	0.3	-0.9	0.9	0.8	4.8	5.9	6.5	6.7	4.4	3.9	3.1	1.4	5.9	2.8	2.5
Poland	0.7	1.2	1.3	0.9	1.2	1.1	0.9	1.0	0.8	0.4	2.5	3.8	4.8	4.3	4.2	4.6	4.2	4.3	3.6	3.1	3.9	4.3	2.9	2.4
Slovak Republic	0.8	0.9	0.9	0.8	0.9	0.8	0.7	0.8	0.7	0.3	4.9	4.4	4.0	3.7	3.4	3.5	3.0	3.4	3.0	2.6	4.2	3.3	2.6	2.3
Slovenia	0.1	1.1	0.4	0.7	-0.4	-0.1	-0.3	-0.6	0.2	-1.0	-0.7	2.0	1.7	2.3	2.1	0.7	-0.5	-2.8	-0.2	-1.8	1.4	-0.2	-2.0	-1.4
South-Eastern Europe																								
Albania	4.0	2.9	-0.6	-0.5	2.6	0.0	1.1	0.7	-1.4	1.8	1.6	2.2	3.7	5.5	4.8	1.1	2.8	3.8	-0.2	2.1	3.3	3.1	1.2	1.4
Bosnia and Herzegovina	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	0.6	1.8	0.3	0.6
Bulgaria	1.2	1.0	0.8	0.6	0.4	0.3	0.1	0.1	0.0	1.5	-4.5	1.2	0.8	3.1	2.0	2.7	1.9	0.3	0.9	-0.2	0.4	1.7	1.2	1.7
FYR Macedonia	-1.7	1.7	2.8	1.0	1.0	0.6	-1.8	0.7	-0.7	1.0	-0.5	1.5	2.1	3.8	5.1	5.3	2.3	0.7	-1.4	-0.9	2.9	3.1	0.5	2.0
Montenegro	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	2.5	2.7	0.4	0.8
Romania	-0.7	0.4	-0.8	0.8	1.2	0.2	1.0	-0.2	-0.1	0.0	-2.6	-1.1	-2.2	-1.0	1.7	1.4	4.4	1.9	0.3	0.8	-1.7	2.5	0.8	1.8
Serbia	1.0	0.1	1.2	-0.2	1.5	-0.1	-0.5	-0.3	-0.2	0.0	-0.3	0.5	1.6	1.7	3.0	2.5	0.7	0.4	-1.3	-1.1	1.0	1.6	0.1	1.7
Eastern Europe and the Caucasus																								
Armenia	6.7	-2.2	-3.9	2.7	3.4	0.7	0.5	0.7	1.8	0.4	3.4	8.2	-2.9	2.4	1.4	3.1	6.9	5.0	4.7	2.9	2.2	4.6	4.0	4.0
Azerbaijan	-1.1	3.2	0.6	0.0	-1.6	1.4	0.1	-0.4	0.0	1.9	5.4	8.0	5.0	3.1	1.6	0.3	-0.1	-0.5	0.5	0.8	5.0	0.1	2.5	3.0
Belarus	1.8	3.7	0.6	3.7	2.0	4.1	-7.6	2.2	4.6	0.7	4.3	9.2	7.0	10.2	10.4	11.0	1.5	0.0	3.1	-1.1	7.7	5.3	4.5	3.0
Georgia	1.7	2.4	-0.3	1.8	2.1	1.2	2.4	2.7	0.3	1.1	3.7	8.3	6.7	6.1	6.1	4.9	7.5	8.8	6.8	6.7	6.3	6.9	5.5	5.5
Moldova	1.1	2.6	2.1	2.6	1.2	0.9	1.1	2.2	-2.9	3.1	4.7	5.6	6.5	9.0	8.4	6.7	6.0	5.8	1.0	3.8	7.1	6.4	2.5	3.5
Ukraine	0.6	2.3	-0.7	1.5	2.4	0.7	1.6	0.0	0.0	1.1	4.5	5.4	3.3	3.7	5.4	3.9	6.5	4.7	2.0	2.4	4.1	5.2	2.5	4.0
Turkey	1.4	2.2	0.0	5.5	2.7	0.5	0.4	1.5	0.4	0.2	12.6	10.4	5.3	9.3	11.9	9.1	8.4	5.2	3.2	2.2	8.9	8.5	2.7	3.5
Russia	1.3	1.1	0.3	1.8	0.6	1.0	1.6	1.3	0.8	0.4	3.8	4.9	3.8	4.9	4.0	3.4	5.0	4.8	4.9	3.9	4.3	4.3	3.1	3.3
Central Asia																								
Kazakhstan	0.2	3.1	2.4	0.7	1.5	2.4	2.0	2.0	-0.4	1.8	5.8	8.5	7.7	7.1	6.8	7.4	6.8	8.7	5.6	5.5	7.3	7.5	5.0	6.0
Kyrgyz Republic	4.0	-8.5	-0.8	4.9	3.9	0.6	0.3	-1.8	-4.7	1.9	17.9	-4.4	-7.5	1.0	-1.8	7.9	9.6	4.3	-6.8	-4.6	-0.5	5.7	0.5	7.0
Mongolia	2.5	-1.0	2.0	2.1	6.3	5.6	5.1	1.4	3.5	3.2	8.7	5.0	7.5	5.4	9.8	16.8	20.7	19.3	16.7	14.3	6.4	17.3	14.0	16.0
Tajikistan	0.9	2.3	0.7	2.5	1.3	2.5	1.2	1.0	1.1	0.4	6.8	7.8	4.9	7.1	6.5	7.2	8.1	7.2	7.2	5.0	6.5	7.4	4.0	5.0
Turkmenistan	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	9.2	14.7	10.0	10.0
Uzbekistan	2.8	2.3	1.8	2.0	1.6	2.5	2.1	1.8	1.2	1.9	8.0	8.0	8.0	9.6	7.6	8.3	8.4	8.5	7.5	6.6	8.5	8.3	7.0	7.0
Southern and Eastern Mediterranean																								
Egypt *	2.4	1.0	1.3	0.7	-6.4	4.9	1.6	0.3	-1.3	0.7	5.6	5.4	5.5	5.7	-3.8	0.3	0.4	0.4	5.2	0.8	5.5	-0.6	1.8	3.7
Jordan	0.8	0.8	1.4	0.1	0.2	0.8	1.1	0.8	0.4	0.7	2.4	1.4	2.2	3.2	2.3	2.4	2.6	3.1	3.0	3.4	2.3	2.6	2.7	2.9
Morocco	-1.4	1.0	1.6	1.9	1.3	-0.3	2.1	1.5	-0.3	0.0	3.5	5.0	3.1	4.5	4.1	4.5	5.0	4.9	2.8	3.5	3.6	5.0	2.4	4.1
Tunisia	1.6	0.3	0.4	-0.1	-3.7	1.8	1.4	0.6	-0.1	0.3	4.4	4.1	3.4	2.2	-3.1	-1.6	-0.7	-0.4	4.8	2.1	3.5	-2.2	2.3	3.2

1/ As of July 13, 2012.

* Both actual and forecast GDP growth figures are on a calendar year basis in contrast to figures published by Egypt's national authorities, which are on a fiscal year basis ending in June.

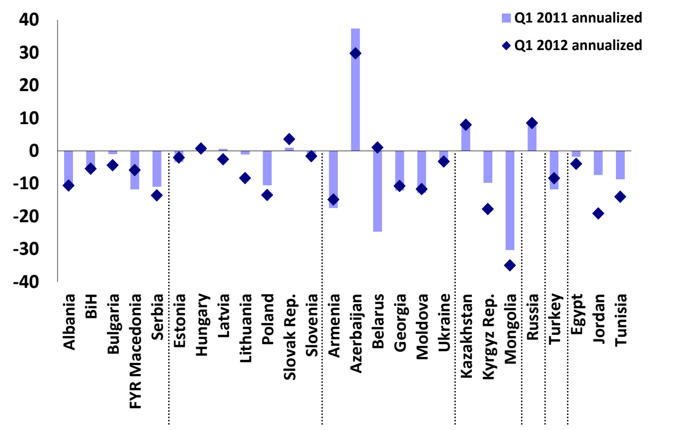
Figure 1. External environment

Export volumes, y-o-y, %



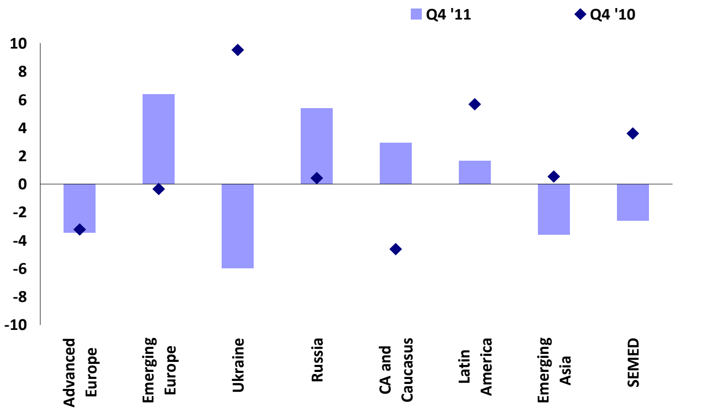
Source: National authorities via CEIC data service.

Current account, % of GDP



Source: National authorities via CEIC data service.

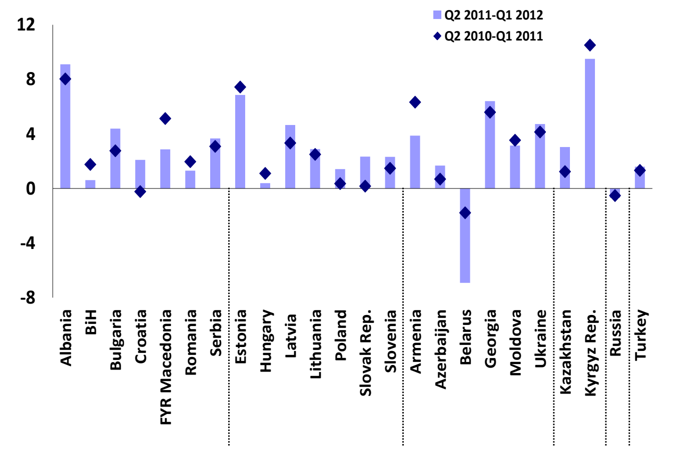
Net lending from BIS-reporting banks, exch. rate adjusted, q-o-q



1/ Emerging Europe excludes Russia and Ukraine.
2/ Emerging Asia excludes China, Central Asia and Caucasus.

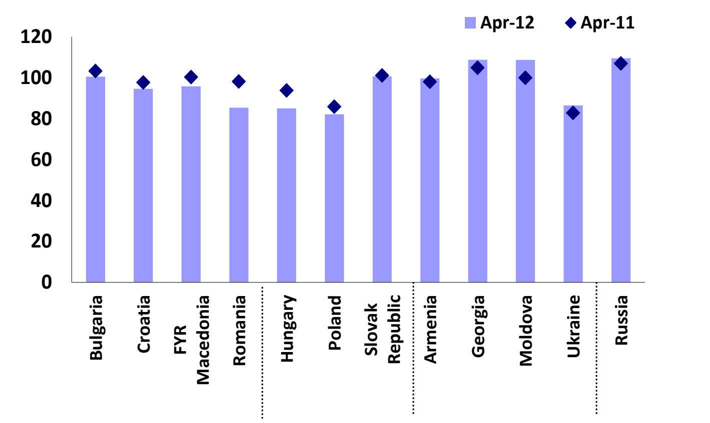
Source: BIS via CEIC data service.

FDI net inflows, % of GDP



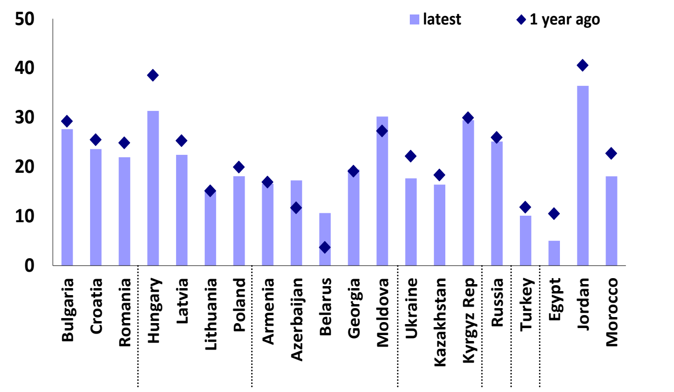
Source: National authorities via CEIC data service.

Real effective exchange rate, July 2008=100



Source: IMF International Financial Statistics.

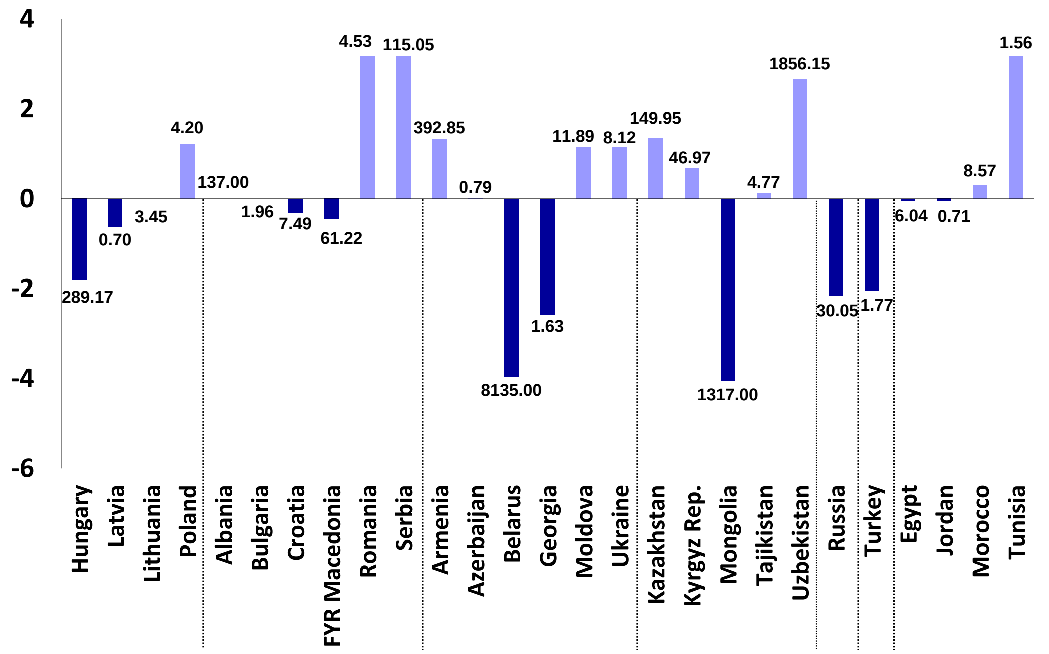
Reserves, end of period, % of GDP



Source: IMF International Financial Statistics.

Figure 2. Currencies and financial market indicators (daily frequency)

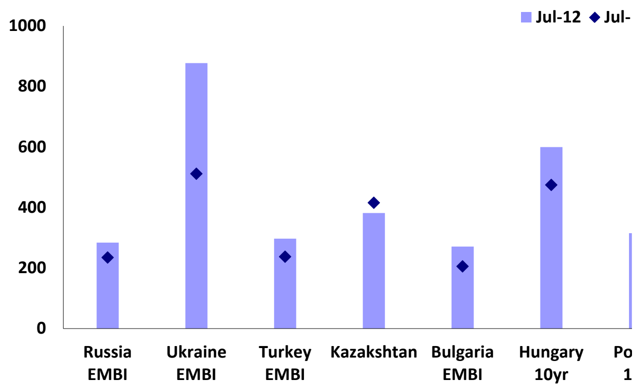
Currencies (change since 30/01/2012)



Source: Bloomberg.

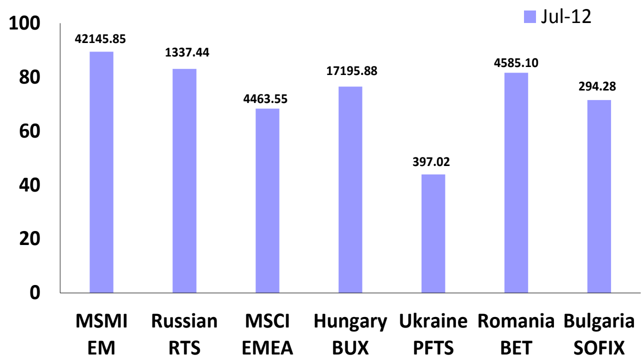
For EEC, CA, SEMED, Turkey and Russia the reference currency is U.S. dollar; For CEB and SEE the reference currency is Euro. A decrease represents an appreciation. Numbers on bars represent actual exchange rate values

Sovereign risk (bond spreads, bp)



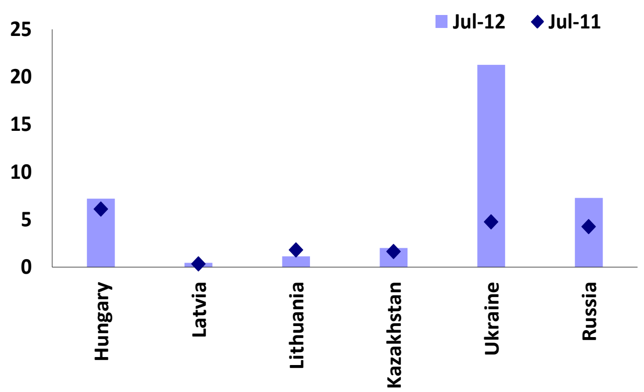
Source: Bloomberg.

Stock markets (January 2011=100)



Numbers on bars represent actual values of stock indices.

Interbank rates (%)



Source: Bloomberg.

Parent banks CDS spreads (bp)

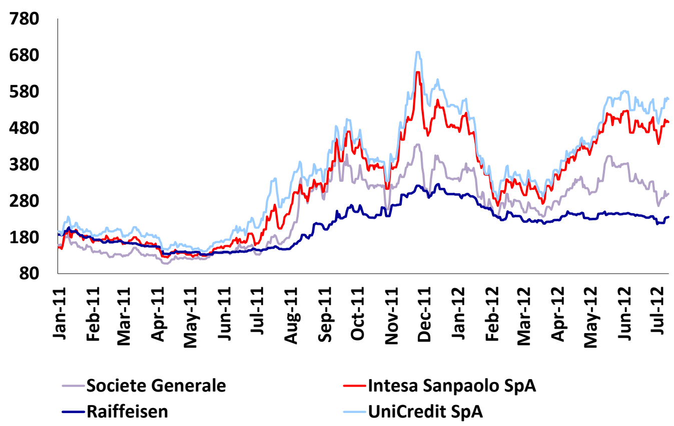
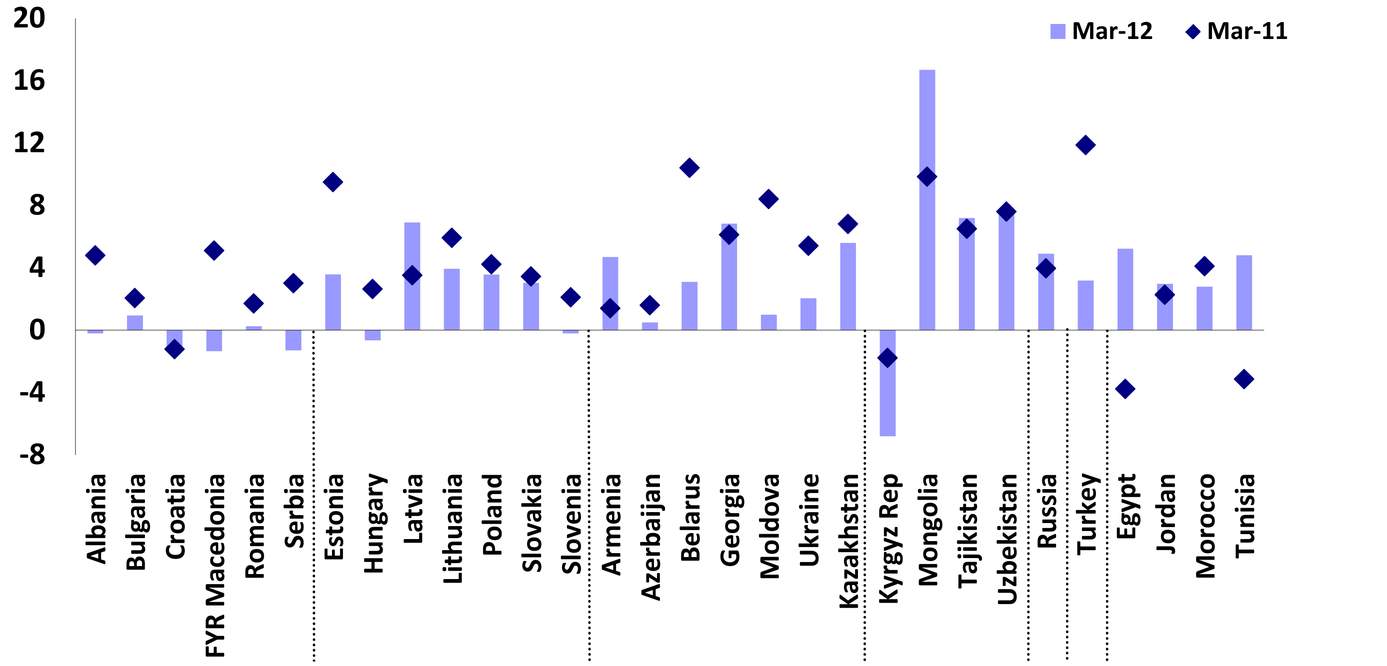


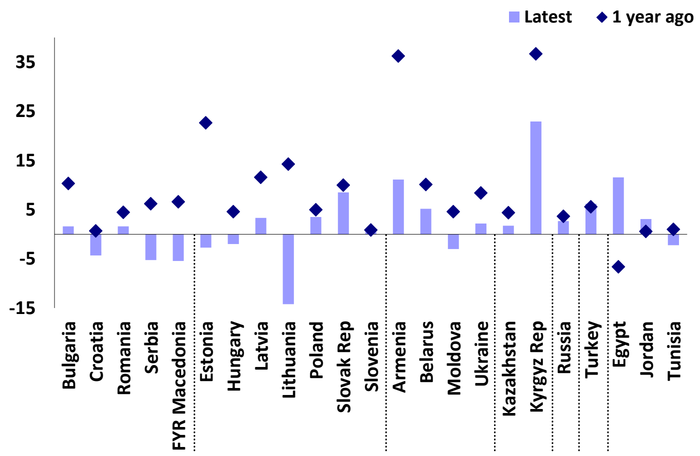
Figure 3. Indicators of real activity

Real GDP, y-o-y change, %

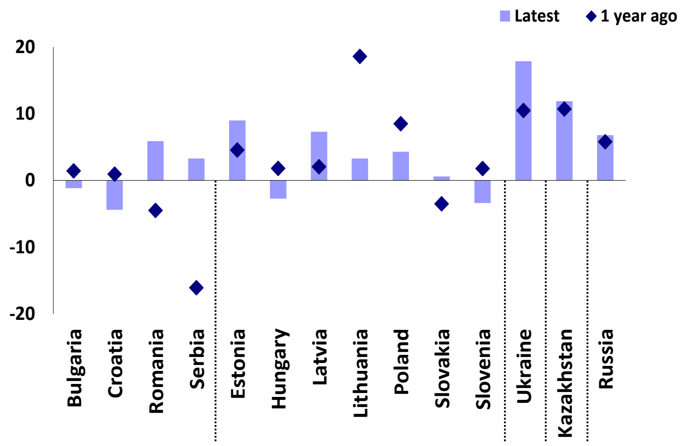


Source: National authorities via CEIC data service.

Industrial production, monthly y-o-y change, %

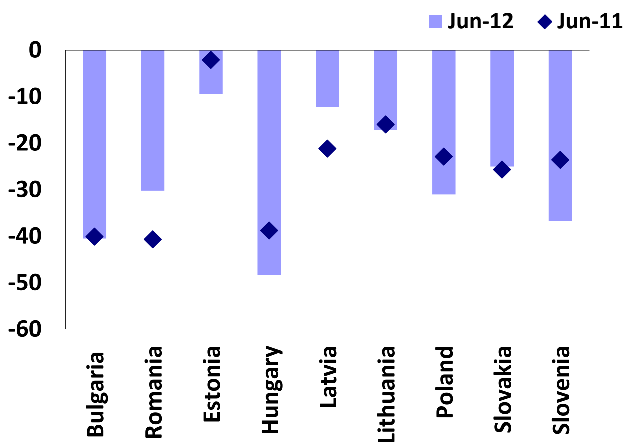


Retail sales, monthly y-o-y change, %



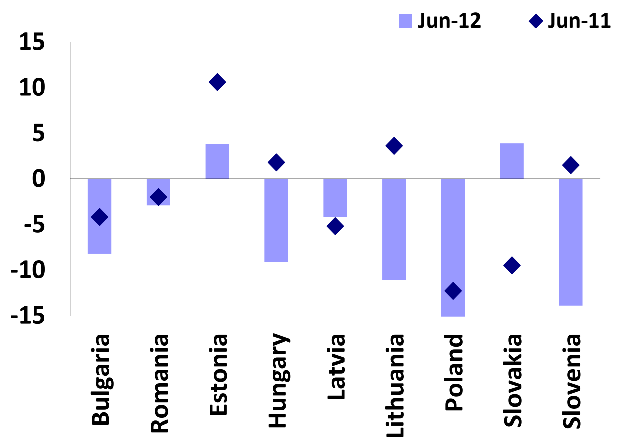
Source: National authorities via CEIC data service.

Consumer confidence, seasonally adjusted balances



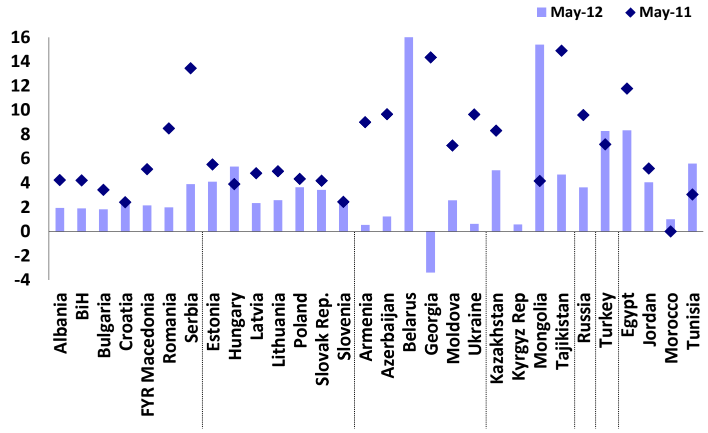
defined as the difference (in percentage points of total answers) between positive and negative answers
Source: Eurostat

Industrial confidence, seasonally adjusted balances

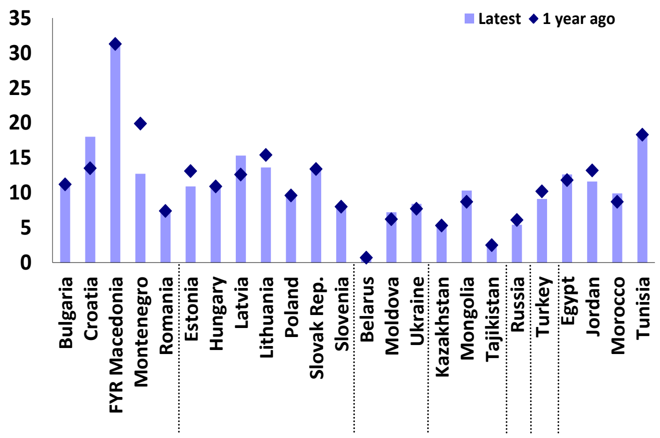


defined as the difference (in percentage points of total answers) between positive and negative answers

CPI, y-o-y change, %



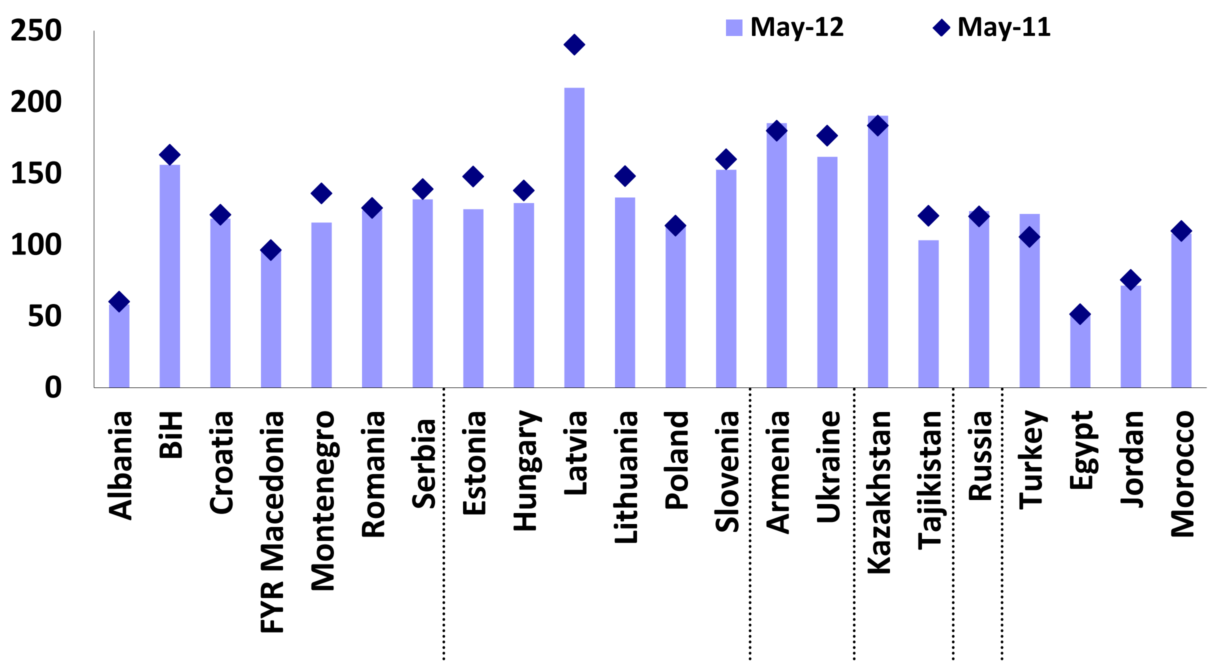
Unemployment rate, %



Source: National authorities via CEIC data service, Eurostat

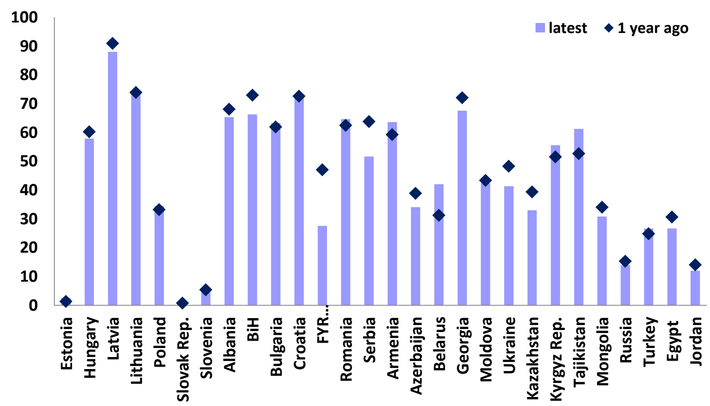
Figure 4: Financial sector indicators: loans and deposits

Loan to deposit ratio, (%)

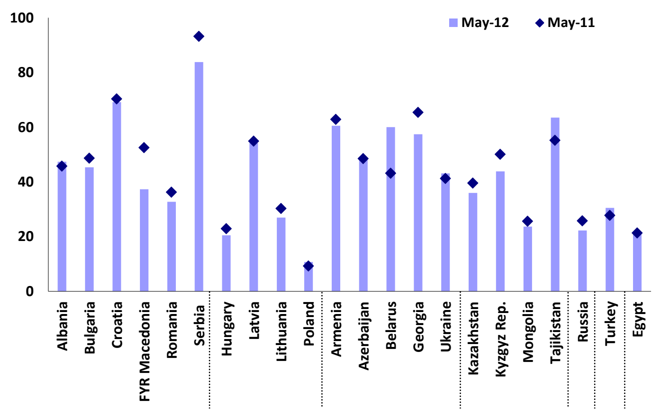


Source: National authorities via CEIC data service.

Foreign currency loans to total loans ratio, (%)



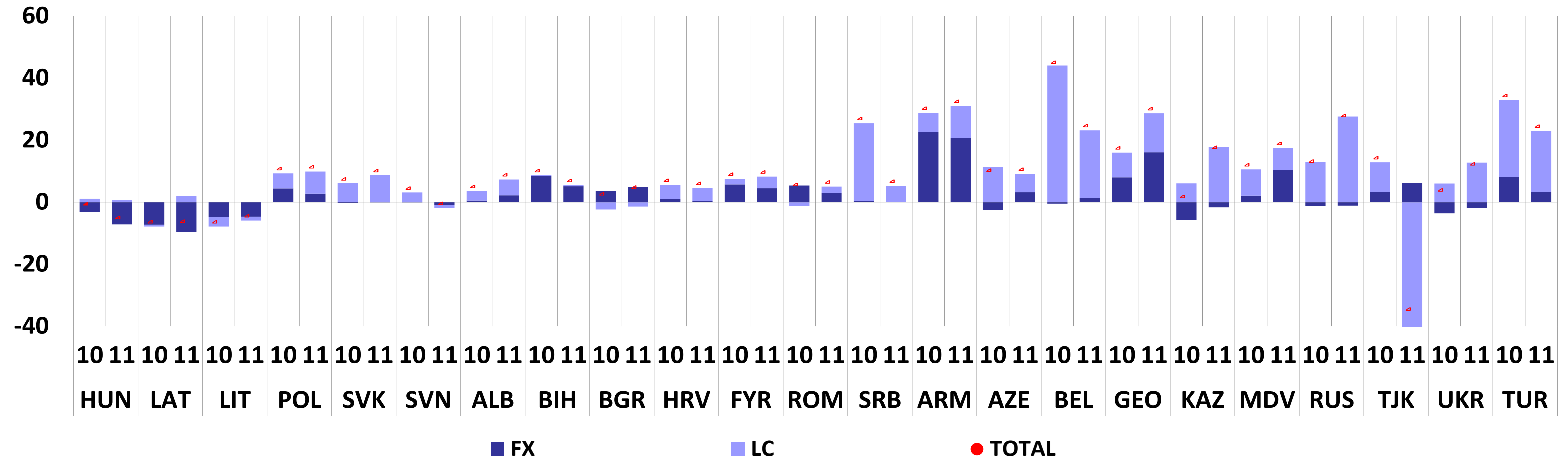
Foreign currency deposits to total deposits ratio, (%)



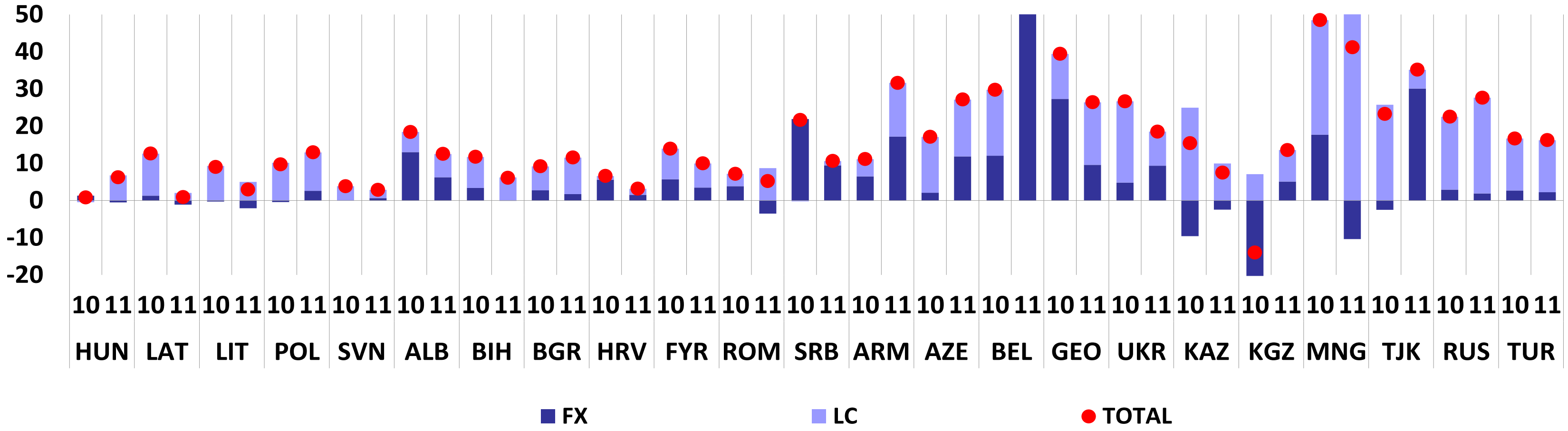
Source: National authorities via CEIC data service

Figure 5. Financial sector indicators: foreign and local currency lending and deposits

Contribution to private sector credit growth (year-on-year, in %)



Contribution to private sector deposits growth (year-on-year, in %)



Source: National authorities via CEIC data service