Regional Economic Prospects in

EBRD Countries of Operations: January 2013[1]

EBRD Office of the Chief Economist

Overview

Bottoming out

Growth in the transition region continued to slow down in the third quarter of 2012, but the deceleration is showing signs of bottoming out. We estimate that GDP growth in the transition region has dropped to 2.6 per cent last year from 4.6 per cent in 2011 and will moderately rise to 3.1 per cent this year. Downside risks to the outlook have continued to recede as the likelihood of further deterioration of the Eurozone crisis diminishes.

Annual growth in Central Europe and the Baltics (CEB) has further decelerated as expansion in Poland declined substantially. But the Baltic states all grew by well over one per cent quarter-on-quarter, better than expected for all three countries. And importantly, all CEB countries including recession-stricken Hungary and Slovenia, performed somewhat better in the third quarter of last year than a quarter earlier. These small improvements might signal that the negative impact of the Eurozone crisis, at least on some of the most vulnerable countries, is beginning to bottom out as the single currency area is itself showing signs that its recession is also drawing to a close. In contrast, South-eastern Europe (SEE) performed worse than expected, with Romania and Serbia returning to a contraction and Bulgaria slowing down as well. This sub-region remains under continued external pressures from Eurozone countries.

At the same time, growth in Russia slowed down substantially in the first three quarters of last year. Russian quarterly economic expansion in the third quarter of 2012 was less than a third of the one it saw a year earlier. Despite a bout of growth in the second quarter of last year, Turkey is continuing to slow down from an earlier foreign capital inflow-fuelled boom and barely grew at all in the third quarter of last year. Similarly, Ukraine contracted in the third quarter of last year following a reasonable second-quarter growth. Egypt performed reasonably well in the same quarter, even though its economic recovery remains fragile, hindered by on-going political uncertainty and investor caution.

Exports had a mixed year in 2012 but unlike our October report no longer show an unequivocal decline across all CEB and SEE countries (Chart 1). Within the CEB region, exports grew in the Baltic states and thus supported economic growth in the face of the Eurozone crisis. This was at least partly due to the persistently higher productivity in the Baltics relative to pre-2008 levels. Chart 2 shows that real unit labour costs in the Baltic states remain well below their pre-crisis peak. Exports also picked up perceivably in Croatia, Serbia and Turkey, all countries that send a large share of their goods to the single currency area. While exports from other CEB and

[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 2012 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).

SEE countries saw further declines, the falls moderated relative to measurements from last summer. Export levels remained stable in Russia and, more importantly, in Ukraine, another country vulnerable to swings in the Euro area economy.

Modest private capital inflows into the region that had returned in the second quarter continued in the third quarter (Chart 3). Flows into the CEB and SEE regions improved marginally, but they remained subdued relative to 2011 and non-FDI inflows stayed close to nil. More recent evidence confirms that through late autumn of 2012 the region saw neither substantial capital inflows nor a repeat of capital outflows from a year earlier. The main driver of turning net outflows into inflows in the second quarter was the shrinking of the very large outflows from Russia through early 2012 following the Russian presidential elections. **At the same time, cross-border bank deleveraging in the region and especially in the exposed CEB and SEE subregions continued through the autumn of 2012, albeit at a much slower pace** (Chart 4). A consistent set of policy steps in the Eurozone, starting with the ECB's liquidity measures a year ago and including the ECB's Outright Monetary Transactions (OMT) announcement as well as material - if still partial - progress in key policy areas such as banking union and medium-term fiscal frameworks, have finally calmed down the markets. This has decreased pressure on parent banks of the region's lenders, which in turn lowered the speed of cross-border deleveraging. A survey of lending conditions confirms that funding conditions have become less of an issue for banks in the region in the third quarter of 2012. Overall, conditions are still marginally tightening, though at a much slower pace than in late 2011.

While the main driver behind deleveraging continues to be supply side - parent bank - conditions, weak local demand is playing a role, too. A recent BIS study[2] explains that from the summer of 2011 through mid-2012 large deleveraging primarily reflected supply conditions in the form of significant withdrawals as parent banks were undergoing stress. As banks are now rebalancing their funding towards domestic / local currency sources and domestic demand conditions weaken, these factors have begun to play a role, too[3].

However, better funding conditions and reduced deleveraging has thus far been insufficient to translate into a consistent improvement in real credit growth (Chart 5). While in year-on-year terms real credit contracted in November 2012 in all new EU member countries, shorter horizon measures of lending growth paint a more mixed picture. Bulgaria and the Slovak Republic saw an increase in real lending expansion in September-November relative to the previous three months. Hungary and the Baltics registered a small improvement in credit growth in the fall relative to the summer, but Poland's lending expansion turned into mild contraction as the country's economic growth slowed down throughout last year relative to 2011. Elsewhere, credit expanded strongly across the eastern transition region including in Russia, perhaps partly due to the reduction in capital outflows from the country. Credit grew strongly in s in Turkey in late 2012 in year-on-year terms, however, higher frequency measures are pointing to a clear deceleration of lending growth as the country's foreign capital inflow-fuelled credit boom drew to a close. ,

---

[2] "The euro area crisis and cross-border bank lending to emerging markets" by S. Avdjiev, Z. Kuti and E. Takats in the *BIS Quarterly Review*, December 2012

[3] See also the forthcoming Vienna Initiative Quarterly Deleveraging Monitor Q3 2012

Outlook and risks

GDP growth in the transition region has likely slowed down substantially to 2.6 per cent in 2012 and is expected to modestly recover to 3.1 per cent in 2013, down from 4.6 per cent in 2011 (Chart 6)**.** The 2013 forecast represents a marginal worsening relative to our October figure. At the same time, downside risks to the outlook have continued to recede as the likelihood of further deterioration of the Eurozone crisis diminishes.

The Euro area crisis will continue to negatively impact growth in the transition region, but as the Eurozone recession bottoms out economic activity in the transition countries that depend on it is likely to stop deteriorating. The projection assumes a baseline scenario of continued slow and uneven progress towards containment of the Eurozone crisis. The policy decisions over the past months, including the ECB's readiness to help countries under pressure on the sovereign debt markets have both reduced the probability of a further substantial deterioration of the crisis and increased the chances that the single currency area may see a very slow and gradual improvement of its economy in the baseline. Real activity in the Eurozone will still continue to suffer in the near term both due to fiscal contraction and credit decline. But renewed stability in the financial and interbank markets as well as recent growth in equity markets together with the ECB's continued low interest rate policy may slowly start bearing fruit. It could mean that the Eurozone recession has started to bottom out and that the negative impact of the crisis on the transition region will decrease in magnitude both through the export and the cross-border lending channels.

In the baseline scenario, countries that are the most integrated with the Euro area will continue to see weak growth. While feeble demand and potentially growth in the Eurozone may not translate into further substantial decreases in exports from CEB and SEE countries, neither will it spur export growth in 2013. Similarly, thanks to calmer financial markets, cross-country deleveraging may continue to abate, but transition countries whose banking systems are deeply integrated with that of the single currency area are unlikely to recover lost funding in the near future. Therefore credit growth will likely only very slowly return to the CEB and SEE regions. These factors mean that the CEB region will grow at the largely unchanged 1.2 per cent this year, whereas growth in the SEE region will improve to 1.5 per cent, but from a very low 0.5 per cent last year. The Eastern Europe and Caucasus (EEC) region will witness a moderate improvement in its performance as meagre growth returns to a stagnating Ukraine. Turkey, having slowed down from its credit-boom expansion of 2011 throughout last year, will continue to see relatively moderate growth at 3.7 per cent.

Elsewhere in the region, growth will also remain slower than in the recovery year of 2011. In particular, Russia will grow more modestly at 3.5 per cent this year despite support from much milder capital outflows than those recorded a year ago and from high oil prices. Central Asian economies, many of which depend on Russia for exports and remittances, will also continue to expand as a somewhat more moderate pace relative to 2011. On the other hand, the SEMED region will deliver better results

than last year and a substantial improvement on 2011 as it remains on a recovery path from the political turmoil of the Arab Spring.

A possible further deterioration of the Eurozone crisis still poses the largest downside risk to the outlook. 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 October 2011, though at this point substantially less likely – the Eurozone troubles become much worse before they are ultimately resolved. In this scenario, the crisis would spread 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.

Chart 1: Export growth
(Average m-o-m, SA, Jan ’12 – latest, %)

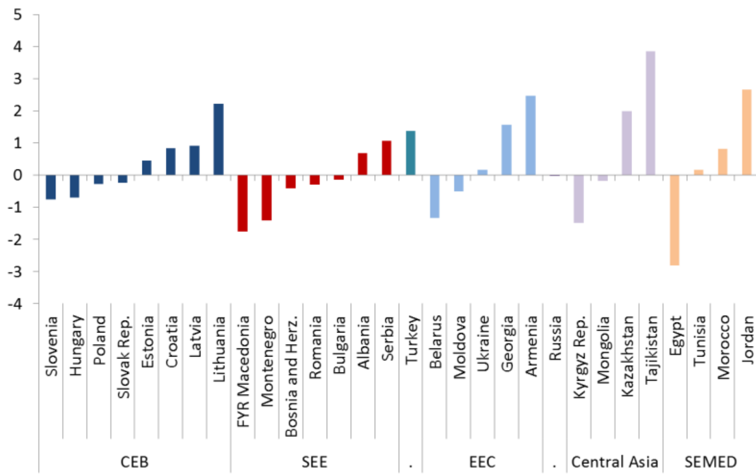


Chart 2. Real unit labour costs
(Index, Q3 2008 = 100)

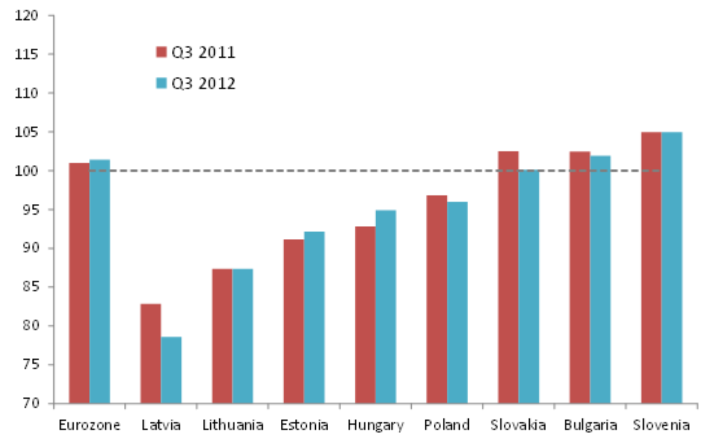


Chart 3. Private capital flows
(as % of 2011 GDP)

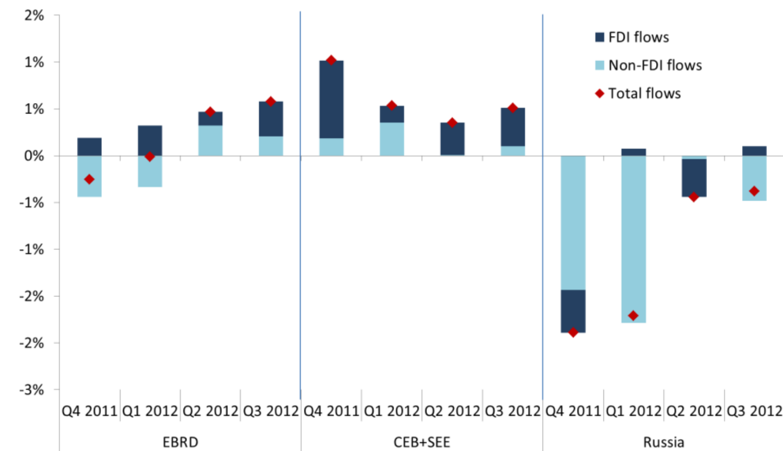


Chart 4. Banks’ liabilities to non-residents
(Index January 2011 = 100)

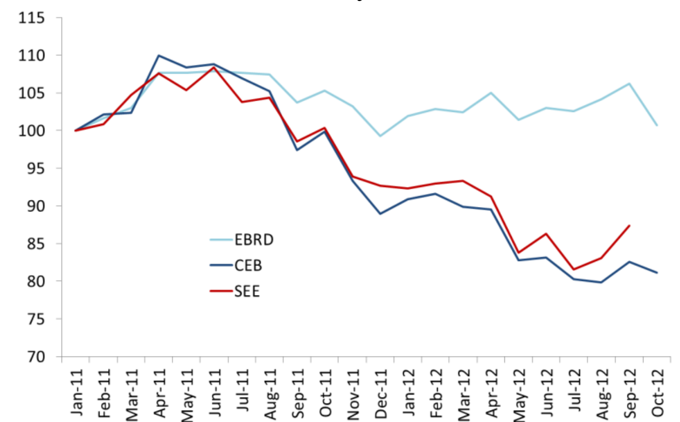


Chart 5. Real credit growth
(Month-on-month, 3-month average, %)

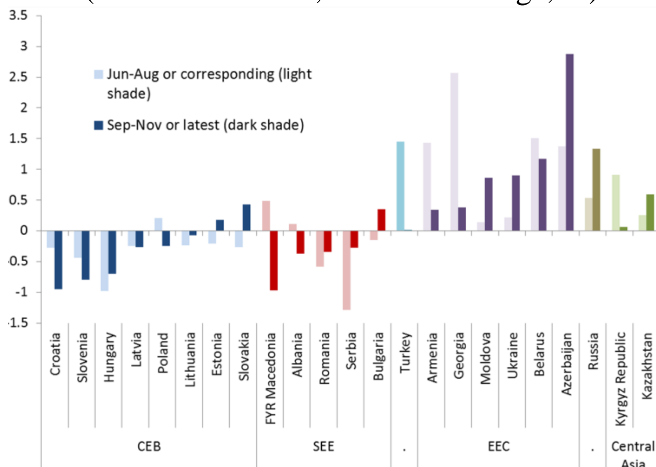
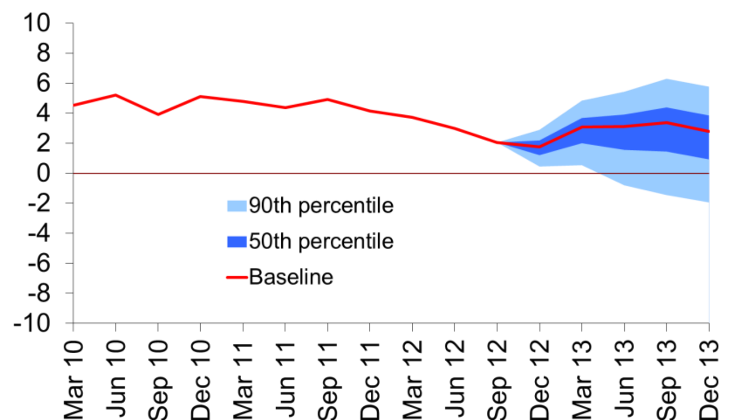


Chart 6. Transition region real GDP Growth[4]
(%, quarterly, year-on-year)



[4] Y-o-y growth in aggregate real GDP of transition countries. The fan-chart is based on a Bayesian Vector Autoregression Model The baseline scenario assumes Eurozone real GDP growth of 0% in 2013, VIX around 17 in 2013, and an oil price of about US$105 per barrel. The downside scenario assumes a recession in the Eurozone, with growth of -2 per cent in 2013 and more volatile market, with VIX averaging 40 in the second quarter of 2013 and then slowly declining in the second half of the year.

Growth in real GDP

(In per cent; EBRD forecasts as of 11 January 2013)

	Current forecast			EBRD Forecast in October 2012			
	2011	**2012**	**2013**	**2012**	Change October-January	**2013**	Change October-January
Central Europe and the Baltic states							
Croatia	0.0	-1.9	0.8	-1.9	0.0	1.2	-0.4
Estonia	8.3	3.3	3.1	2.3	1.0	2.5	0.6
Hungary	1.6	-1.5	-0.1	-1.5	0.0	0.4	-0.5
Latvia	5.5	5.4	3.0	4.2	1.2	2.7	0.3
Lithuania	5.9	3.2	2.9	2.7	0.5	2.4	0.5
Poland	4.3	2.0	1.5	2.5	-0.5	2.2	-0.7
Slovak Republic	3.2	2.2	1.7	2.7	-0.5	2.3	-0.6
Slovenia	0.6	-2.1	-2.0	-2.5	0.4	-2.0	0.0
Average[1,2]	***3.5***	***1.3***	***1.2***	***1.4***	***-0.1***	***1.7***	***-0.5***
South-eastern Europe							
Albania	3.1	1.8	2.0	0.6	1.2	1.3	0.7
Bosnia and Herzegovina	1.0	-0.5	0.6	0.1	-0.6	0.4	0.2
Bulgaria	1.7	1.1	1.9	1.2	-0.1	1.7	0.2
FYR Macedonia	2.9	-0.5	1.8	0.3	-0.8	2.0	-0.2
Kosovo	5.0	2.5	3.0	…	…	…	…
Montenegro	3.2	0.3	0.8	0.3	0.0	0.8	0.0
Romania	2.5	0.3	1.4	0.5	-0.2	1.9	-0.5
Serbia	1.6	-1.9	2.1	-0.7	-1.2	1.1	1.0
Average[1]	***2.2***	***0.1***	***1.5***	***0.4***	***-0.3***	***1.6***	***-0.1***
Eastern Europe and the Caucasus							
Armenia	4.6	6.0	5.0	5.0	1.0	4.0	1.0
Azerbaijan	0.1	2.2	4.0	2.0	0.2	3.0	1.0
Belarus	5.3	1.5	1.5	5.5	-4.0	2.5	-1.0
Georgia	7.1	6.5	5.0	6.5	0.0	5.0	0.0
Moldova	6.4	0.0	3.0	1.0	-1.0	3.5	-0.5
Ukraine	5.2	0.0	1.0	1.0	-1.0	2.5	-1.5
Average[1]	***4.3***	***1.2***	***2.1***	***2.4***	***-1.2***	***2.8***	***-0.7***
Turkey	8.5	2.6	3.7	3.0	-0.4	3.7	0.0
Russia	4.3	3.5	3.5	3.2	0.3	3.3	0.2
Central Asia							
Kazakhstan	7.5	5.0	6.0	5.5	-0.5	6.0	0.0
Kyrgyz Republic	6.0	-0.9	7.0	-1.1	0.2	7.0	0.0
Mongolia	17.5	11.0	16.0	11.5	-0.5	16.0	0.0
Tajikistan	7.4	7.5	5.0	6.0	1.5	5.0	0.0
Turkmenistan	14.7	11.1	10.0	10.0	1.1	10.0	0.0
Uzbekistan	8.3	8.2	7.0	7.5	0.7	7.0	0.0
Average[1]	***8.6***	***6.2***	***6.9***	***6.3***	***-0.1***	***6.9***	***0.0***
Average EBRD region (excluding SEMED) [1]	***5.0***	***2.6***	***3.0***	***2.7***	***-0.1***	***3.1***	***-0.1***
Southern and Eastern Mediterranean							
Egypt	-0.8	3.1	3.8	3.2	-0.1	3.8	0.0
Jordan	2.6	2.6	3.0	2.6	0.0	3.0	0.0
Morocco	5.0	2.6	5.2	2.3	0.3	4.5	0.7
Tunisia	-1.5	2.4	3.0	2.4	0.0	3.0	0.0
Average[1]	***0.8***	***2.9***	***4.0***	***2.9***	***0.0***	***3.8***	***0.2***
Average EBRD region (including SEMED) [1]	***4.6***	***2.6***	***3.1***	***2.7***	***-0.1***	***3.2***	***-0.1***

[1] Weighted averages. The weights used for the growth rates are WEO estimates of nominal dollar-GDP for 2011.

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

Central Europe and the Baltic States (CEB)

Recent developments in the CEB region suggest that stagnation in the core eurozone has finally caught up with the two erstwhile strongest performers, Poland and the Slovak Republic. Slovenia and Hungary remain mired in recession, with banking sectors in both countries contracting sharply. In contrast, growth outcomes in the second half of last year appear to exceed expectations in the Baltic countries.

- **Hungary** entered a renewed recession in early 2012 as weaknesses in export markets added to the ongoing stagnation in domestic demand, resulting in an overall contraction of about 1.5 per cent in 2012. The investment rate is now among the lowest in the EU. This slowdown accelerated due to further retrenchment in credit to the private sector (which contracted by over 6 per cent of GDP in 2012), as the country shows the most rapid pace of bank deleveraging of any transition country. This only partially reflected one off measures such as the scheme that allowed early repayment of foreign exchange denominated mortgages. As negotiations over an EU/IMF programme have been suspended, refinancing needs will be increasingly contingent on the sustained investor interest in the local bond markets, where non-resident participation is already one of the highest of any emerging market.
- The effects of the Eurozone slowdown are belatedly catching up with **Poland**. Growth has declined markedly since Q2 2012, to likely around 2 per cent average for last year. Weaker exports, coupled with reduced private investment and the fiscal consolidation evident reduced public capital spending will persist in the first half of this year, and the EBRD’s reduced 2013 forecast is 1.5 per cent. At present, room for additional policy stimulus is limited. The National Bank in November began the long awaited easing phase, though its latest statement indicated this may come to an end in the first quarter. The government has set up the new Polish Investment Fund, though this is unlikely to bring substantial stimulus in the short term.
- Forecasts for the **Baltic countries** have been raised for both 2012 and 2013 relative to the October version, largely due to an unexpectedly strong third quarter. Projected rates of expansion in 2012 of slightly over 3 per cent (Lithuania and Estonia) and over 5 per cent (Latvia) occupy the top positions in the EU. Well diversified export destinations, and the gains in market shares on the back of improved competitiveness helped sustain growth despite a much weakened rest of the Eurozone. Latvia appears to be on track to Eurozone accession in 2014, though for Lithuania this timing is as yet unclear. The new Lithuanian government came to office in mid-December and has announced a number of unorthodox policies in tax and labour policies, designed to raise income growth of the low income segments.
- In the **Slovak Republic** a slowdown is clearly evident now, and the dependence on a small number of export-oriented sectors is a concern in this context. As growth falls to under two per cent next year, consolidation of the budget and making a dent in structural unemployment will be more daunting tasks.
- In the southern part of the CEB, **Slovenia** is likely to create a ‘bad bank’ vehicle and a state asset holding, both key reform steps to overcome the severe banking crisis. Adoption of the long-delayed pension reform in December

2012 was another milestone. Nevertheless confidence remains low, investment depressed, and external demand subdued, given the state of key trade partners. Given the fiscal austerity envisaged under the new budget the country seems set for another year of GDP contraction, likely at a similar pace as last year (about 2 per cent). While the key reform elements have been put in place the country has now entered a protracted period of debt reduction and corporate restructuring which are much-needed to regain viability of its corporate sector.

- **Croatia** continues to be in recession with negative growth of around 2 per cent in 2012 (notwithstanding the uptick in Q3), and little prospect of a major recovery in 2013. The economy remains weighed down by long-standing problems of uncompetitive industries, labour market inflexibility and a large and inefficient public sector. However, the country may gain a boost from EU membership, scheduled for July 2013.

South-Eastern Europe (SEE)

South-eastern Europe has had another year of weak economic performance in 2012. Confidence and investment remain at low levels, macroeconomic policy is highly constrained on the fiscal side and financial sector vulnerabilities are still significant. The region is highly exposed to developments in the Eurozone, and within it to its periphery, the main market for exports. Parts of the region also suffered from drought last year, leading to much-reduced agricultural production in the second half of the year.

- **Albania's** economy slowed down significantly in the first half of 2012, but some growth returned in the third quarter, largely as a result of recovery in manufacturing and extractive industries. However, Albania's strong trade, investment and remittance ties to Greece and Italy, both of which face continued economic gloom, are likely to continue to constrain growth in the coming year, and the high level of public debt, at close to the statutory limit of 60 per cent of GDP, will limit 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, falling remittances and slow credit growth. Growth in 2012 is likely to have been zero or slightly negative, and prospects for this year are little better. The 24-month US$ 520.6 million Stand-by Arrangement with the IMF, approved in September 2012, provides a buffer against external shocks from the on-going eurozone crisis as well as a policy anchor for outstanding structural reforms.
- Recovery is expected to continue to be modest in **Bulgaria** into 2012, due mainly to sluggish export demand. Fiscal performance remains very good, with only a very small deficit recorded in 2012. There was also a successful Eurobond issue in July 2012; the five-year €950 million bond issue was heavily oversubscribed and achieved an impressively low coupon of 4.25 per cent. As a result, Bulgaria has significant fiscal and monetary buffers to help the country withstand further shocks. But growth in 2012 is likely to have ended up at around 1 per cent only, with a modest forecast increase in 2013 to between 1 and 2 per cent.

- **FYR Macedonia** was affected significantly by the Eurozone crisis in 2012, which weakened demand for exports and led to a drop in investment and remittances. The fiscal deficit target was raised from 2.5 per cent of GDP to 3.5 per cent. The economy contracted in the first six months on a year-to-year basis, with no discernible recovery in the rest of the year. A modest upturn is likely in 2013.
- The economy in **Kosovo** continues to out-perform the rest of the region in terms of growth, albeit from a low base, partly because, with its low export base, it has been more insulated than others from the direct impact of the Eurozone crisis. Real GDP growth was likely around 2.5 – 3 per cent in 2012, below previous years because of a slowdown in the growth of key variables, including exports, FDI and remittances. Inflation is low, fiscal policy has been prudent and the banking sector is reasonably capitalised, has a low level of NPLs (7 per cent) by regional standards and appears profitable. However, unemployment and poverty remain significant problems.
- **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. However, significant inflows of foreign direct investment continue to arrive from abroad. The continued uncertainty over the future of the aluminium complex KAP, which has been making significant losses, is another source of concern.
- The slowdown in the eurozone and a significant drop in agricultural output have had significant dampening effects on **Romania's** growth in 2012, resulting in only negligible growth for the year as a whole, according to preliminary estimates. However, fiscal discipline has been broadly maintained, inflation is around 5 per cent, and the country continues to have good reserve coverage. Some recovery in growth is likely in 2013.
- **Serbia's** economy is showing several weaknesses at present. Real GDP fell by around 2 per cent in 2012, reflecting low domestic demand and fallout from the eurozone crisis, which has affected export demand. This, together with political and related policy uncertainty have impacted investment and general confidence. Inflation has risen sharply to around 13 per cent by year-end reflecting exchange rate depreciation and food price hikes, the latter partly caused by a summer drought which badly affected agricultural output. The government faces a major challenge in reducing the fiscal deficit (currently close to 7 per cent of GDP) and bringing down public debt, which has risen to above 60 per cent of GDP, way above the legal limit of 45 per cent. The current IMF Standby Arrangement, which has been frozen for nearly a year, will expire soon. The IMF's continued anchoring role under a potential new arrangement, currently being discussed, could be critical for stabilising market confidence under the current challenging external and domestic policy conditions.

Turkey

After a strong growth performance in 2011, the Turkish economy has slowed down significantly in 2012, highlighting the challenges of achieving a "soft" landing. Real GDP slowed from 8.5 per cent last year to a growth rate of around 2.6 per cent in the first nine months of 2012, driven by monetary tightening throughout the year and by the impact of high oil prices and weakening external conditions on investor confidence. The economy grew at a much less-than-expected rate of 1.6 per cent y-o-y in the third quarter, driven by continued weak domestic demand and a drop in fixed capital formation. The slowdown in growth has taken place in tandem with a substantial rebalancing away from domestic demand and towards exports, which have performed well partly on the back of a shift from Europe to new markets in the Middle East and North Africa. The decline in domestic demand reflects a sharp slowdown in credit throughout the year, which fell from 33 per cent in December to 18 per cent in November, as the central bank tightened liquidity provision and increased lending rates. Concerns over a hard landing for the Turkish economy have not fully materialized, and instead, the easing of macro-financial risks and the fact that Turkey had managed to rebalance the economy while avoiding recession led to an upgrade by Fitch of Turkey's long-term foreign currency credit rating to investment grade. This has led to improvements in leading indicators and business confidence, pointing to a possible pickup in economic activity in the fourth quarter. Nevertheless, the weaker-than-expected Q3 figures have prompted a revision of end-year growth forecast from 3.0 per cent to 2.6 per cent.

Slower and more balanced growth has, however, assisted with the external rebalancing of the economy. The current account 12-month rolling deficit reached 6.7 per cent of GDP in November, down from 10 per cent in 2011, on the back of strong exports and tourism receipts, and a decline in oil prices and non-energy imports. Fears of lacklustre growth led the central bank to cut its key policy rate (one-week repo rate) by 25 basis points in December for the first time in over a year, following successive cuts to the overnight lending rates September and October. Moderating demand has led to a slowdown in inflation, which in December reached of 6.2 per cent, down from 10.4 per cent at end-2011, but still above the central bank's target of 5.5 per cent.

Eastern Europe and the Caucasus (EEC)

The global economic instability and the eurozone crisis have had an impact on this diverse region. The region's vulnerabilities remain significant due to the reliance on external demand (in particular both from the EU and Russia) to support growth, 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. The latter may in some cases threaten the delivery of needed international support and to re-ignite balance-of-payments pressures.

- **Ukraine**'s economy has been affected by the difficult external environment but also domestic policy uncertainty in some critical areas. 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 has also slowed down in 2012 after an unusually cold winter was followed by a very hot summer. Buoyant consumer demand, fuelled by rising real wages, has helped maintain growth of the retail sector although retail turnover has slowed down recently. While 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 a combination of foreign exchange interventions and administrative measures to maintain the hryvnia's external stability, private sector credit growth came to a halt. In 2012 the National Bank lost about a quarter of gross external reserves which now cover less than 3 months of projected imports. Introduction of a package of social and wage expenditures before the October parliamentary elections had increased fiscal pressures. Ukraine's economy is very much exposed to the Eurozone, and developments in the EU will remain important for the country's growth and economic stability.
- **Armenia**'s output growth has accelerated, 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 concentration, and financial sector dollarization.
- After recovering from a deep, policy induced crisis of 2012, the economy of **Belarus** has been unable to maintain momentum. Domestic investment and construction had to be curtailed as the government cut back on the direct investment programmes. Industrial production also slowed down, likely due to falling external demand. Domestic consumption grew fast in mid-2012 after the authorities implemented significant public wage increases, but slowed down more recently. Soft loans from a CIS stabilization fund and bilateral loans as well as windfall hydrocarbon revenues from Russia have been used to increase critically low external reserves.
- After two years of fast paced recovery from the financial crisis, **Moldova**'s output growth came to a halt 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.
- **Georgia**'s economy expanded at fast pace through much of 2012 and remains strong. However, some signs emerged that it may be slowing due to lower investment and uncertainty related to post-election political transition. As the external financing package mobilised by a range of donors during the twin crises of 2008 has largely been exhausted, the new authorities' challenge will be to mobilise private sources of financing for supporting investment in key

sectors. Uncertainty about the external environment has been mitigated by a precautionary arrangement with the IMF. Further normalisation of trade relations with Russia should help support export-led growth over time.

- 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 lack of diversification of the economy remains important as risks associated with high oil dependence became apparent during the crisis, when oil prices declined. Some recovery of the oil sector and continued expansion of the non-oil economy should lead to an acceleration of output growth in 2013. Immediate macroeconomic risks continue to be mitigated by a very strong fiscal position including from oil reserves.

Russia

The Russian economy has not been immune to the impact of the eurozone crisis. In 2012, the weaker global environment and lower investor and consumer confidence led to a significant slowdown in both external and domestic demand. Year-on-year GDP growth slowed from 4.9 per cent in the first quarter of 2012 to 2.9 per cent in the third quarter, which on a seasonally adjusted basis was less than one third of quarterly growth reached a year earlier. The output of Russia's five basic sectors, a proxy for monthly GDP, grew by only 1.2 per cent year-on-year in November, reflecting both a slowdown in industrial production and adverse weather conditions that caused a significant contraction in agricultural output during the second half of the year. Meanwhile, year-on-year inflation increased from a record low of 3.6 per cent in May to 6.6 per cent in December, driven mostly by higher food prices and tariff increases.

On current trends, we estimate GDP growth to have reached 3.5 per cent in 2012 and expect it to remain around 3.5 per cent in 2013 and the medium term, which is less than half of the rapid growth rate Russia enjoyed in the years before the 2008-9 crisis. The country's growth outlook, however, remains highly dependent on global commodity price developments, given its continued strong dependence on natural resources (particularly oil and gas, which now account for nearly 70 per cent of total merchandise exports and for around one half of government revenues). The government has recognised the need to reduce macroeconomic volatility by speeding up economic diversification, which in turn requires significantly improving the continued weak business environment, addressing skills gaps at the regional level, and leveraging Russia's enormous regional diversity.[5]

Central Asia

In most of Central Asia, economic growth continued decelerating in response to the global economic slowdown, combined with one-off exogenous factors (including poor agricultural harvests and a gold mine strike in the Kyrgyz Republic). The slowdown in

[5] See our recent report "Diversifying Russia. Harnesssing regional diversity", available at: http://www.ebrd.com/pages/research/publications/special/diversifying-russia.shtml

Russia may have a further negative impact on growth in this region, mainly through the impact on remittance flows, which have so far performed strongly.

- In **Kazakhstan,** GDP growth slowed from 7.5 per cent in 2011 to around 5 per cent in 2012 owing to more difficult external environment. It is expected to pick up again in 2013 as a new phase of Kashagan field comes on stream. BTA, the third largest bank, successfully completed its second debt restructuring in two years, but overall the banking sector remains weak suffering from overhang of non-performing loans. Inflation has remained moderate, at 6 per cent in December 2012, but may accelerate further somewhat due to higher food prices.

- In the **Kyrgyz Republic,** a strike and weather-related disruption at the Kumtor gold mine in early 2012 caused gold production to decline by about 65 per cent year-on-year during the first quarter of 2012 and resulted in an output contraction of around 1 per cent for the year as whole even though non-gold GDP continued expanding at the rate of around 5 per cent). Given the one-off nature of the disruption, output is expected to rebound strongly in 2013 (by 7 per cent) reflecting the base effect, with growth subsequently moderating. Inflation picked up from around 2 per cent in August 2012 to 7.5 per cent in December 2012 owing to higher food prices and may rise further.

- In **Tajikistan**, GDP growth remained strong at 7.5 per cent in 2012, broadly unchanged from 2011. However, growth is expected to slow down to 5 per cent in 2013 on account of slowing remittances, particularly from Russia. Moreover, growth outlook in Tajikistan is particularly uncertain given fundamental weakness of the banking system and continued tensions with Uzbekistan that lead to interruptions in gas supplies and railway shipments. Inflation picked up somewhat from 5 per cent in August 2012 to around 6.4 per cent in December 2012 owing to higher food prices.

- **Turkmenistan** continues to experience a buoyant economic expansion with GDP growth of 14.7 per cent in 2011 and around 11 per cent in 2012, driven by large public construction projects and increased gas exports to China and Iran. GDP growth is expected to reach 10 per in 2013 and remain strong over the medium term, supported by exploration of Turkmenistan's abundant gas reserves and further diversification of export routes. Overall inflation remained moderate, even though price of bread increased threefold in July 2012 following a poor harvest.

- **Uzbekistan**'s GDP growth remained strong at 8.3 in 2011 and a similar level in 2012 largely driven by public spending, diversification of gas export routes and accommodating monetary conditions. Growth is expected to slow down somewhat to around 7 per cent in 2013.

- **Mongolia** continued to benefit from a mining boom, with GDP growth of 17.5 per cent in 2011 and around 11 per cent in 2012. Growth is projected to pick up again in 2013, to 16 per cent, as the first phase of Oyu Tolgoi, one of the world's largest copper mines, comes on stream. Substantial mining-related FDI inflows, which exceeded 50 per cent of GDP in 2011, are expected to continue for a number of years. Inflation remains high at over 14 per cent at end-November 2012 and may even accelerate further given highly procyclical fiscal policy.

Southern and Eastern Mediterranean (SEMED)

Most countries of the SEMED region continue to face dire macroeconomic challenges, amid on-going social and political uncertainty, and other region-wide tensions. Economic recovery in the four countries remains fragile, hindered by on-going political uncertainty and investor caution. 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 led to weakening current account balances. As a result, financing gaps have increased, and the need to fill them with foreign funding sources has risen. To that effect, Morocco and Jordan, have both received IMF assistance to help buffer their economies from adverse external developments, while Egypt has resumed negotiations on an IMF loan. 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. Signs of recovery are beginning to emerge in some countries.

- Economic recovery in **Egypt** continues to face significant headwinds. The renewal of political turmoil and widespread protests are likely to weigh on the Egyptian economy, impacting normal business activity, tourism, and confidence, and reducing the forecasted end-year growth rate to 3.1 per cent. Egypt's balance of payments remains under significant pressure, mostly due to continued capital flight, and foreign reserves stand at a critical level of three months of imports. The fiscal deficit also widened, reaching 11 per cent of GDP in FY 2011-12, on the back of higher spending on wages, social benefits, and fuel subsidies. The deterioration of macroeconomic fundamentals has exhausted almost all available policy space and resulted in a large financing gap, prompting the authorities to initially reach a US$4.8 billion Stand-by Agreement with the IMF in December. However, the request was subsequently postponed following the suspension of key prior action fiscal measures. The programme will need to be re-evaluated to account for changes in the economic landscape since the initial agreement. Meanwhile, increasing pressure on the currency and depleting foreign reserves prompted the central bank to adopt a new currency regime, selling foreign exchange in auctions to banks rather than setting the price. Negotiations on a new package will depend on the credibility and strength of the government's economic reform programme and the degree of burden sharing by funding partners.

- The **Jordanian** economy continued to grow at a lacklustre pace throughout 2012, amid on-going regional and external shocks. Real GDP growth reached 2.6 per cent in Q3 2012, down from 2.9 per cent in Q2, and unchanged from the same period last year. Jordan's vulnerability to its external environment has intensified fiscal and balance of payments pressures, made worse by the disruption of the flow of natural gas, higher oil prices, and a shortfall in foreign grants. The US$ 6.2 billion Stand-by Agreement with the IMF has been complemented by macroeconomic policies aimed at reducing fiscal and external imbalances. In particular, the government removed all fuel subsides (except on LPG) in November, introducing targeted transfers in parallel. Policy space has been substantially constrained this year, limiting the government's ability to boost economic growth, which is expected to remain

largely unchanged from last year, at 2.6 per cent. Prospects for economic recovery are fragile as the external environment is expected to remain weak in the near term, exacerbated by a need for fiscal consolidation and mounting political tensions, hindering tourism and capital inflows.

- In **Morocco,** economic activity slowed down during 2012 following robust growth in 2011. Real GDP expanded by 2.9 per cent y-o-y in seasonally adjusted terms in the third quarter of the year, improving from 2.3 per cent growth in Q2. However, growth still remains below potential, falling from 5.0 per cent a year earlier in 2011 Q3, and still beset by external weakness due to the Eurozone crisis. Agricultural production (which accounts for 15 per cent of GDP) still remains significantly weak following severe droughts at the beginning of the year and has been the leading cause of weaker household consumption, as the sector accounts for around 40 per cent of employment. However, non-agricultural production held up, underpinned by strong performance in the telecommunications and energy sectors, as well as in the services sector, which is the fastest-growing employment sector. As a result, the economy is expected to slow to around 2.7 per cent in 2012 relative to 5 per cent in 2011, notwithstanding robust non-agricultural performance. Unemployment has edged up to 9.4 per cent in Q3. The economy remains vulnerable to external developments, particularly high oil prices and a weak external environment, leading to a widening of Morocco's fiscal and current account deficits. The current account deficit is expected to widen to 8 per cent this year, but official reserves have stabilised at around four months of imports. While the budget deficit will likely remain a concern next year, the IMF's US$6.2 billion PLL does provide a safety net. This is complemented by Morocco's sale in December of US$1.5 billion in a dual-tranche bond issue, which affirmed strong investor demand and resulted in better-than-expected pricing.

- **Tunisia**'s volatile political and security conditions, along with weak external environment, have weighed on the economy. Economic recovery from the recession in 2011 has been fragile, while unemployment increased by 5 per cent since the revolution, reaching 17 per cent in Q3 2012. Real GDP grew by 3 per cent in the first three quarters, but still remains below a historical average of 4.4 per cent over the last decade. This was underpinned by strong agricultural production and a recovery in services led by a rebound in tourism (though the sector has not yet reached pre-revolution levels), but overall industrial production remains subdued. Political instability and the longer-than-expected transition continue to loom over the economic outlook, which, along with large twin fiscal and current account deficits and worsening external and public debt positions, prompted Fitch to downgrade Tunisia's credit ratings in December. The deterioration of the current account continued in the first nine months of 2012 despite a rebound in tourism, on the back of faltering exports and higher imports of energy and consumer products. Capital inflows have started to recover, but remain low by historical standards, and insufficient to offset the widening of the current account. As a result, gross central bank reserves have kept declining, reaching a critical 3 months of imports, leaving the country more vulnerable to external shocks. The fiscal deficit also continues to widen, owing to higher spending on development, job

creation, and increases in the subsidy bill. In this regard foreign financing has materialized as the government secured a US$500 million credit facility from the World Bank and a €387 million loan agreement with the AfDB in December. In addition, the government issued in January a ten-year US$300 million Samurai bond on advantageous terms, which should also help finance the growing fiscal deficit and boost the country's foreign reserves.

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	In percent of: Short term debt	In percent of: month of prosp. Imports	Bank dep. (latest): % of GDP	Loans/dep. (latest): Private sector, in %	Country risk: 15-Jan-13 (CDS spread, bps)	Latest: S&P sovereign country ratings	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 /3: latest	Unemployment: % (latest avail.)
Central Europe and Baltics																			
Croatia	46.7	94.9	68.8	29.6	14.5	23.2	78.3	7.2	63.1	112.5	233.3	BB+	BBB-	44.9	16.2	28.7	71.2	14.1	14.5
Estonia*	6.1	98.5	94.8	52.0	…	…	…	…	53.2	154.2	…	AA-	A+	2.0	2.0	0.0	2.4	3.3	9.6
Hungary	81.4	123.5	72.6	33.3	45.5	38.3	97.4	4.5	42.2	117.3	276.8	BB	BB+	28.5	13.7	14.8	54.3	15.6	10.8
Latvia	42.2	137.2	107.0	56.7	7.3	22.5	45.7	5.1	36.5	191.6	103.6	BBB	BBB	59.0	29.0	30.1	86.7	12.0	14.2
Lithuania	38.5	76.1	48.3	34.4	7.8	19.1	53.3	2.8	38.2	130.8	…	BBB	BBB	36.6	18.9	17.6	72.5	15.8	12.4
Poland	56.4	64.8	55.1	20.7	106.9	19.0	100.6	5.4	44.9	115.2	76.9	A-	A-	16.3	4.0	12.5	31.6	8.8	10.4
Slovak Republic*	43.3	77.3	33.5	54.1	…	…	…	…	48.4	96.8	90.4	A	A+	0.4	0.4	0.0	0.6	5.4	14.0
Slovenia*	46.9	131.3	65.7	22.1	…	…	…	…	52.6	152.4	…	A	A-	3.6	0.7	2.9	4.5	17.0	8.6
South-Eastern Europe																			
Albania	58.6	33.7	8.9	3.3	2.4	18.3	553.5	4.2	69.7	59.0	…	B+	…	25.6	19.6	6.0	62.2	22.7	13.3
Bosnia and Herzegovina	40.3	46.5	22.2	11.8	3.6	19.9	167.9	4.0	41.9	140.6	…	B	…	36.8	19.4	17.4	66.9	12.7	27.6
Bulgaria	15.5	87.1	80.2	30.2	16.8	31.5	104.3	5.6	63.8	112.1	90.0	BBB	BBB-	45.3	35.3	10.1	63.4	16.9	11.5
FYR Macedonia	27.7	65.0	45.5	24.0	2.3	21.5	89.8	3.6	48.7	94.8	…	BB	BB+	25.6	16.8	8.9	54.7	10.9	30.6
Kosovo	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	7.0	45.1
Montenegro	46.9	94.6	…	…	0.5	11.0	…	2.2	53.4	101.9	…	BB-	…	…	…	…	0.0	13.2	18.1
Romania	33.0	68.4	45.3	24.5	38.9	20.5	83.7	6.1	33.8	115.9	188.7	BB+	BBB-	24.8	12.4	12.3	63.3	17.3	6.8
Serbia	50.1	84.9	59.8	18.8	11.7	27.0	143.2	6.3	43.5	138.7	…	BB-	BB-	43.3	29.7	13.6	71.8	19.9	25.5
Eastern Europe and the Caucasus																			
Armenia	35.1	70.7	16.6	2.3	1.7	16.5	716.5	4.1	21.6	177.7	…	…	BB-	24.6	19.9	4.8	64.2	4.9	6.2
Azerbaijan	10.0	7.3	…	…	10.7	16.5	…	7.2	15.0	139.5	…	BBB-	BBB-	6.8	3.8	2.5	32.7	6.3	6.0
Belarus	49.8	62.5	35.5	32.2	8.1	14.8	45.9	2.0	45.4	156.6	…	B-	…	31.6	31.2	0.5	44.5	5.7	0.6
Georgia	33.9	58.5	29.2	17.8	2.9	20.3	113.9	3.8	34.6	96.6	…	BB-	BB-	23.1	17.3	5.4	68.1	9.6	15.0
Moldova	23.2	64.4	43.5	32.3	2.3	33.1	102.5	4.3	42.8	90.3	…	…	…	17.2	16.9	0.3	43.4	14.7	4.8
Ukraine	36.0	76.4	56.2	35.8	28.1	17.0	47.6	3.2	39.0	144.5	590.5	B	B	22.3	15.6	6.7	39.5	14.6	6.6
Turkey	39.3	39.6	27.4	15.9	98.5	11.8	74.4	4.3	41.6	137.8	121.9	BB	BBB-	14.9	…	…	26.7	2.9	9.1
Russia	12.0	27.6	25.2	8.2	537.6	27.0	307.8	12.7	41.6	132.2	125.7	BBB	BBB	7.0	6.5	0.5	12.9	4.6	5.4
Central Asia																			
Kazakhstan	10.5	66.5	63.8	7.4	28.3	15.0	174.5	5.1	30.0	107.2	146.0	BBB+	BBB+	10.7	8.6	2.1	30.0	29.6	5.3
Kyrgyz Republic	52.4	80.8	32.7	7.1	1.9	31.9	419.5	3.6	16.8	77.2	…	…	…	6.7	…	…	53.0	8.5	8.4
Mongolia	…	109.1	85.3	…	2.7	29.0	…	4.0	33.2	138.2	…	BB-	B+	18.5	17.2	1.4	32.3	4.3	6.3
Tajikistan	35.5	48.1	19.1	1.1	0.2	4.0	247.6	1.6	14.9	111.8	…	…	…	…	…	…	62.4	8.2	2.5
Turkmenistan	7.3	7.3	0.0	0.7	…	…	…	…	…	…	…	…	…	2.4	…	…	…	...	…
Uzbekistan	9.1	13.3	4.8	0.4	13.8	30.3	…	10.9	…	…	…	…	…	…	…	…	…	...	…
Southern and Eastern Mediterranean																			
Egypt	80.6	13.1	2.8	9.0	15.1	6.1	520.7	3.0	69.0	49.9	461.0	B-	B+	9.2	9.0	0.2	…	10.1	12.5
Jordan	70.4	59.9	35.0	34.4	7.6	28.7	82.6	3.9	114.2	72.1	…	BB	…	10.4	…	…	…	8.5	12.5
Morocco	53.7	31.5	15.7	4.1	14.8	15.2	370.7	3.4	68.3	112.0	…	BBB-	BBB-	…	…	…	…	5.1	9.4
Tunisia	43.9	51.4	24.5	…	6.7	15.0	…	2.9	54.8	107.7	322.6	BB	BB+	…	…	…	…	13.0	17.0

1/ National sources based on CEIC and IFS, unless stated otherwise.
2/ WEO October 2012. CEB figures from Eurostat.
3/ Slovenia NPLs: EBRD estimate
* 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	2011	2012	2011	2011	2011	2011	2011
Central Europe and Baltics														
Croatia	-1.4	0.0	-1.9	0.8	-0.2	-0.4	-2.3	2.3	3.4	-5.2	-2.9	126.8	-1.0	2.3
Estonia	3.3	8.3	3.3	3.1	7.6	5.9	3.9	5.1	4.2	1.1	1.3	15.5	2.1	7.7
Hungary	1.3	1.6	-1.5	-0.1	2.0	1.3	-1.9	3.9	5.7	4.3	8.5	134.1	0.9	-0.1
Latvia	-0.9	5.5	5.4	3.0	2.8	5.7	4.9	4.2	2.3	-3.4	-2.0	121.9	-2.2	5.2
Lithuania	1.5	5.9	3.2	2.9	5.0	5.7	2.5	4.1	3.2	-5.5	-3.7	120.8	-3.7	2.5
Poland	3.9	4.3	2.0	1.5	4.3	4.6	1.1	3.9	3.7	-5.0	-2.3	135.3	-4.9	1.8
Slovak Republic	4.4	3.2	2.2	1.7	3.9	3.8	1.5	4.1	3.7	-4.9	-3.4	130.2	0.1	1.7
Slovenia	1.2	0.6	-2.1	-2.0	2.3	-2.4	-1.7	2.1	2.8	-6.4	-4.5	105.7	0.0	1.8
South-Eastern Europe														
Albania	3.5	3.1	1.8	2.0	5.5	3.8	2.4	3.5	1.9	-3.5	-0.3	233.7	-12.3	7.6
Bosnia and Herzegovina	1.4	1.0	-0.5	0.6	…	…	…	3.7	1.9	-3.1	-2.4	86.8	-8.8	2.3
Bulgaria	0.4	1.7	1.1	1.9	3.1	0.3	1.4	3.4	2.4	-2.0	-1.3	47.6	0.9	3.1
FYR Macedonia	2.9	2.9	-0.5	1.8	3.8	0.9	-0.1	3.9	3.3	-2.5	-1.7	96.7	-2.7	4.0
Kosovo	3.2	5.0	2.5	3.0	…	…	…							
Montenegro	2.5	3.2	0.3	0.8	…	…	…	2.9	3.2	-6.5	-4.9	124.4	-19.5	11.9
Romania	-1.7	2.5	0.3	1.4	-1.0	1.9	0.7	5.8	3.4	-4.1	-2.6	105.0	-4.4	1.4
Serbia	1.0	1.6	-1.9	2.1	1.7	0.4	-2.9	11.1	7.1	-4.2	-2.9	122.0	-9.5	5.8
Eastern Europe and the Caucasus														
Armenia	2.2	4.6	6.0	5.0	2.4	5.0	2.4	7.7	2.6	-2.8	-1.9	160.7	-10.9	4.4
Azerbaijan	5.0	0.1	2.2	4.0	3.1	-0.5	4.5	8.5	1.0	11.3	11.7	21.9	26.5	1.4
Belarus	7.7	5.3	1.5	1.5	10.2	0.0	-0.2	52.9	58.9	3.3	4.5	118.5	-10.5	7.1
Georgia	6.3	7.1	6.5	5.0	6.1	8.5	3.9	8.5	-1.0	-0.9	0.3	119.5	-11.8	5.8
Moldova	7.1	6.4	0.0	3.0	9.0	5.8	-1.0	7.2	3.5	-2.4	-1.6	63.1	-11.5	3.6
Ukraine	4.1	5.2	0.0	1.0	3.7	4.7	-3.0	7.7	0.7	-2.7	-2.1	84.9	-5.5	4.2
Turkey	9.2	8.5	2.6	3.7	9.3	5.0	2.4	6.5	8.9	-1.4	1.8	113.6	-10.0	1.7
Russia	4.3	4.3	3.5	3.5	4.9	4.8	2.5	8.4	5.1	0.8	2.2	31.2	5.3	-0.8
Central Asia														
Kazakhstan	7.3	7.5	5.0	6.0	7.1	8.7	4.4	8.4	5.2	5.8	6.3	37.8	7.6	4.5
Kyrgyz Republic	-0.5	6.0	-0.9	7.0	1.0	4.6	8.1	16.6	2.8	4.8	-3.8	157.3	-6.3	11.7
Mongolia	6.4	17.5	11.0	16.0	5.4	19.3	12.8	9.1	15.0	-3.5	-3.2	...	-31.8	53.1
Tajikistan	6.5	7.4	7.5	5.0	7.1	7.2	7.5	12.5	5.8	-2.1	-1.6	142.5	0.6	0.2
Turkmenistan	9.2	14.7	11.1	10.0	…	…	…	5.8	4.5	3.6	...	38.6	2.0	12.1
Uzbekistan	8.5	8.3	8.2	7.0	9.6	8.5	8.2	12.8	10.0	9.0	9.1	22.6	5.8	3.2
Southern and Eastern Mediterranean														
Egypt	5.5	-0.8	3.1	3.8	5.6	0.4	1.6	10.1	7.9	-11.0	-4.4	347.2	-2.2	0.5
Jordan	2.3	2.6	2.6	3.0	3.2	3.1	2.2	4.4	4.8	-6.8	-4.7	266.3	-12.0	5.0
Morocco	3.6	5.0	2.6	5.2	4.5	4.9	2.4	0.9	1.3	-6.9	-4.7	196.9	-8.0	2.3
Tunisia	3.2	-1.5	2.4	3.0	2.1	0.4	…	3.5	5.4	-3.8	-1.4	140.0	-7.4	1.0

1/ EBRD data and projections unless otherwise stated.

2/ As of January 11, 2013.

3/ WEO October 2012. CEB figures 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

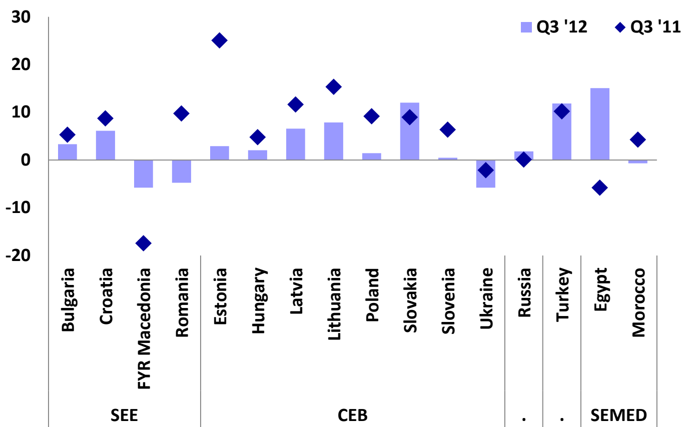
Table 3. Transition Region: Quarterly GDP actuals and projections, Q1 2010- Q4 2012 1/

	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/			Estimates 1/			Forecast 1/	
	2010				2011				2012				2010				2011				2012								
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012	2013
Central Europe and Baltics																													
Croatia	-1.6	-0.4	1.0	0.3	-1.5	1.1	0.5	-0.8	-1.6	-0.1	0.3	0.0	-2.7	-3.0	0.1	-0.2	-1.2	0.6	0.8	-0.4	-1.3	-2.1	-1.9	-2.3	-6.9	-1.4	0.0	-1.9	0.8
Estonia	1.6	2.4	1.7	2.8	2.5	1.8	1.0	0.8	0.3	0.9	1.6	0.4	-3.0	3.3	5.2	7.6	9.9	8.3	9.3	5.9	3.4	2.2	3.5	3.9	-14.1	3.3	8.3	3.3	3.1
Hungary	1.1	0.4	0.4	0.2	1.4	-0.3	0.1	0.1	-1.1	-0.4	-0.2	-0.2	0.2	1.1	1.8	2.0	2.6	1.3	1.4	1.3	-0.7	-1.5	-1.5	-1.9	-6.8	1.3	1.6	-1.5	-0.1
Latvia	0.7	0.4	0.6	1.1	1.5	2.0	1.2	1.0	1.2	1.3	1.7	0.5	-6.2	-4.0	3.1	2.8	3.6	5.7	6.6	5.7	6.9	5.0	5.2	4.9	-17.7	-0.9	5.5	5.4	3.0
Lithuania	0.6	0.9	0.8	2.0	1.6	1.7	1.2	1.0	0.3	0.6	1.3	0.5	-1.0	1.1	0.9	5.0	5.5	5.6	6.6	5.7	3.9	2.1	4.4	2.5	-14.8	1.5	5.9	3.2	2.9
Poland	0.7	1.1	1.3	0.9	1.1	1.3	0.8	0.8	0.5	0.2	0.4	0.5	2.5	3.8	4.8	4.3	4.1	4.4	4.1	4.6	3.7	2.0	1.6	1.1	1.6	3.9	4.3	2.0	1.5
Slovak Republic	0.9	0.9	0.9	0.7	0.8	0.8	0.7	0.8	0.5	0.6	0.6	0.4	5.1	4.6	4.1	3.9	3.2	3.4	2.6	3.8	2.9	2.6	2.1	1.5	-4.9	4.4	3.2	2.2	1.7
Slovenia	0.1	1.1	0.5	0.9	-0.3	0.5	0.0	-1.2	0.0	-1.1	-0.6	-1.0	-1.0	1.7	1.9	2.3	2.5	1.6	0.8	-2.4	0.1	-3.2	-3.3	-1.7	-7.8	1.2	0.6	-2.1	-2.0
South-Eastern Europe																													
Albania	4.2	2.9	-0.7	-0.6	2.9	-0.5	0.9	0.7	-1.1	1.6	1.8	-0.5	1.6	2.2	3.7	5.5	4.8	1.1	2.8	3.8	-0.2	2.0	2.7	2.4	3.6	3.5	3.1	1.8	2.0
Bosnia and Herzegovina	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	-2.8	1.4	1.0	-0.5	0.6
Bulgaria	1.2	1.0	0.8	0.6	0.4	0.3	0.1	0.1	0.0	0.3	0.1	0.5	-4.5	1.2	0.8	3.1	2.0	2.7	1.9	0.3	0.9	1.0	0.9	1.4	-5.5	0.4	1.7	1.1	1.9
FYR Macedonia	-1.2	1.5	2.5	0.9	0.9	0.3	-0.8	0.4	-0.9	0.2	0.5	0.5	-0.5	1.5	2.1	3.8	5.1	5.3	2.3	0.9	-1.3	-0.9	0.2	-0.1	-0.9	2.9	2.9	-0.5	1.8
Kosovo	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…		3.5	3.2	5.0	2.5	3.0
Montenegro	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	-5.7	2.5	3.2	0.3	0.8
Romania	-0.7	0.4	-0.8	0.9	1.2	-0.1	1.3	-0.2	-0.2	0.1	-0.4	1.0	-2.6	-1.1	-2.2	-1.0	1.7	1.4	4.4	1.9	0.3	1.1	-0.6	0.7	-6.6	-1.7	2.5	0.3	1.4
Serbia	1.0	0.1	1.3	-0.2	1.5	-0.1	-0.5	-0.4	-0.3	0.5	-2.1	-1.5	-0.3	0.5	1.6	1.7	3.0	2.5	0.7	0.4	-1.3	-0.6	-2.5	-2.9	-3.5	1.0	1.6	-1.9	2.1
Eastern Europe and the Caucasus																													
Armenia	6.6	-2.1	-4.2	3.1	3.3	0.7	0.0	1.4	2.5	2.4	2.8	-6.3	3.4	8.2	-2.9	2.4	1.4	3.1	6.9	5.0	5.6	6.6	5.6	2.4	-14.2	2.2	4.6	6.0	5.0
Azerbaijan	-1.9	4.5	0.0	0.1	-2.1	2.3	-0.6	-0.2	-0.4	1.0	1.7	2.9	5.4	8.0	5.0	3.1	1.6	0.3	-0.1	-0.5	0.5	-0.4	2.5	4.5	9.3	5.0	0.1	2.2	4.0
Belarus	0.8	1.6	4.6	2.9	0.5	1.1	-2.0	0.6	2.7	0.6	-1.3	-2.6	4.3	9.2	7.0	10.2	10.4	11.0	1.5	0.0	3.1	2.9	1.9	-0.2	0.2	7.7	5.3	1.5	1.5
Georgia	2.3	1.3	0.2	1.8	2.5	1.3	2.3	2.0	0.9	2.7	1.8	-1.0	3.7	8.3	6.7	6.1	5.8	6.0	7.9	8.5	6.7	8.2	7.5	3.9	-3.8	6.3	7.1	6.5	5.0
Moldova	1.1	2.6	2.1	2.3	1.4	1.0	1.2	1.6	-2.6	0.6	0.7	1.2	4.7	5.6	6.5	9.0	8.4	6.7	6.0	5.8	1.0	0.6	0.2	-1.0	-6.0	7.1	6.4	0.0	3.0
Ukraine	0.5	1.8	0.0	1.4	2.1	0.2	2.7	-0.4	-0.3	0.8	-1.2	-2.3	4.5	5.4	3.3	3.7	5.4	3.9	6.5	4.7	2.0	3.0	-1.3	-3.0	-14.8	4.1	5.2	0.0	1.0
Turkey	0.9	3.5	1.0	4.2	2.1	0.9	1.3	0.3	-0.1	1.7	0.2	1.0	12.6	10.4	5.3	9.3	12.1	9.1	8.4	5.0	3.4	3.0	1.6	2.4	-4.8	9.2	8.5	2.6	3.7
Russia	2.1	0.6	0.1	1.8	1.1	0.7	1.6	1.5	0.7	0.4	0.8	0.5	3.8	4.9	3.8	4.9	4.0	3.4	5.0	4.8	4.9	4.0	2.9	2.5	-7.8	4.3	4.3	3.5	3.5
Central Asia																													
Kazakhstan	0.2	3.2	2.4	0.4	1.6	2.6	2.1	1.5	-0.2	1.9	1.5	2.9	5.8	8.5	7.7	7.1	6.8	7.4	6.8	8.7	5.6	5.6	4.6	4.4	1.2	7.3	7.5	5.0	6.0
Kyrgyz Republic	6.2	-10.5	-0.1	4.3	5.8	-0.5	1.1	-3.3	-3.8	1.7	2.4	6.2	17.9	-4.4	-7.5	1.0	-1.5	8.2	10.0	4.6	-7.1	-4.8	-3.9	8.1	2.9	-0.5	6.0	-0.9	7.0
Mongolia	2.3	-0.7	2.2	1.8	6.0	5.9	5.4	1.0	3.3	0.8	0.1	7.8	8.7	5.0	7.5	5.4	9.8	16.8	20.7	19.3	16.7	10.9	5.3	12.8	-1.3	6.4	17.5	11.0	16.0
Tajikistan	0.9	2.3	0.7	2.5	1.4	2.4	1.8	1.3	1.8	2.4	1.9	1.2	6.8	7.8	4.9	7.1	6.5	7.2	8.1	7.2	7.2	7.5	7.6	7.5	3.9	6.5	7.4	7.5	5.0
Turkmenistan	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	6.1	9.2	14.7	11.1	10.0
Uzbekistan	2.7	2.4	1.9	2.1	1.3	2.7	2.1	1.9	0.8	3.5	2.0	1.6	8.0	8.0	8.0	9.6	7.6	8.3	8.4	8.5	7.5	8.5	8.3	8.2	8.1	8.5	8.3	8.2	7.0
Southern and Eastern Mediterranean																													
Egypt	3.6	-0.4	1.1	0.8	-5.0	3.3	1.4	0.6	0.3	0.9	0.9	0.2	5.5	5.4	5.5	5.6	-4.2	0.4	0.3	0.4	5.2	3.3	2.6	1.6	4.7	5.5	-0.8	3.1	3.8
Jordan	0.8	0.8	1.4	0.1	0.2	0.9	1.1	0.8	0.4	0.7	0.7	0.5	2.4	1.4	2.2	3.2	2.3	2.4	2.6	3.1	3.0	2.9	2.6	2.2	5.5	2.3	2.6	2.6	3.0
Morocco	-2.7	3.2	0.8	2.2	-0.6	2.1	1.3	2.1	-2.6	1.6	1.9	1.6	3.5	5.0	3.1	4.5	4.1	4.5	5.0	4.9	2.8	2.3	2.9	2.4	4.8	3.6	5.0	2.6	5.2
Tunisia	1.2	0.6	0.5	-0.2	-4.4	2.8	1.9	0.2	0.3	0.8	…	…	3.9	3.6	3.1	2.1	-3.5	-1.4	0.0	0.4	5.3	3.3	…	…	3.3	3.2	-1.5	2.4	3.0

1/ As of January 11, 2013.

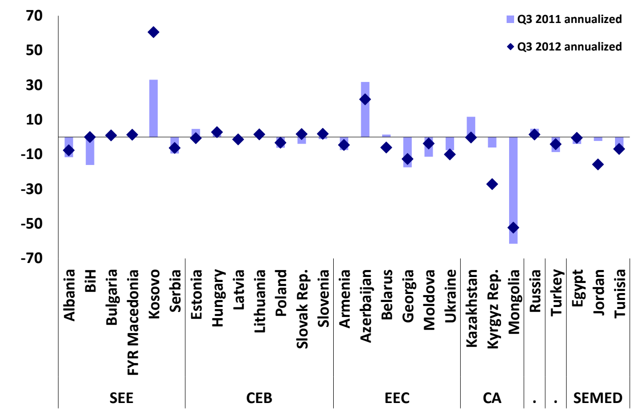
Figure 1. External environment

Export volumes, y-o-y, %



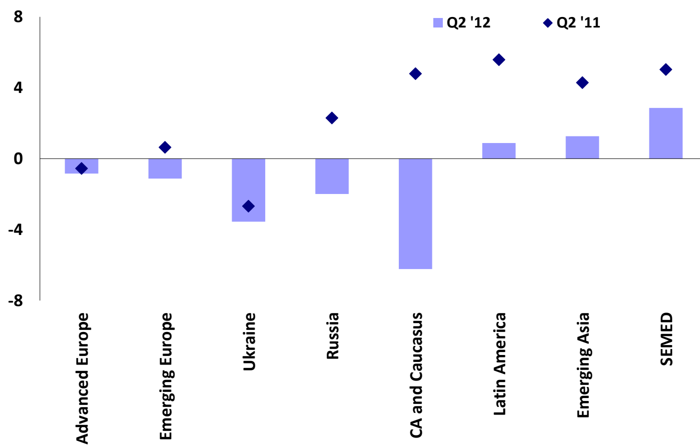
Source: National authorities via CEIC data service.

Current account, % of GDP



Source: National authorities via CEIC data service.

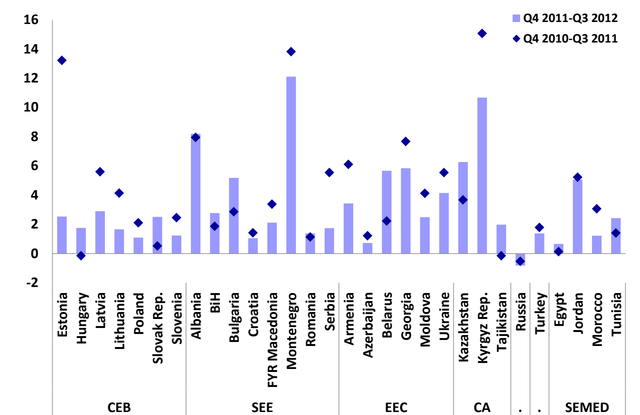
Net lending from BIS-reporting banks, exch. rate adjusted, q-o-q



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

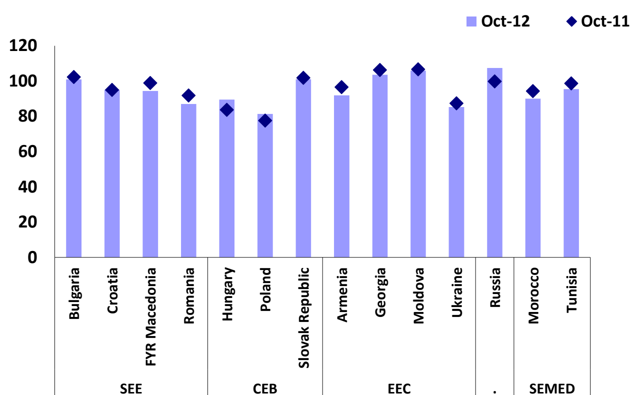
Source: BIS via CEIC data service.

FDI net inflows, % of GDP



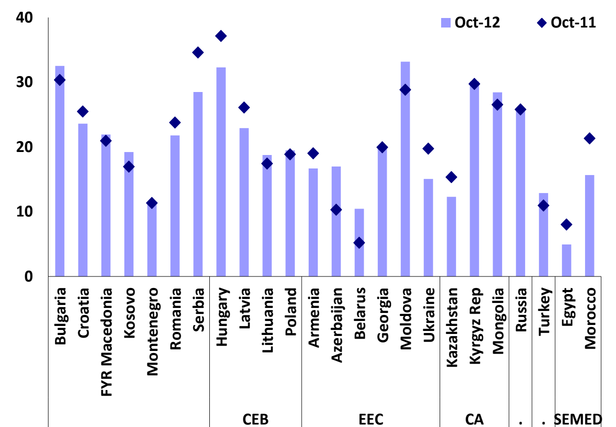
Source: National authorities via CEIC data service.

Real effective exchange rate, July 2008=100



Source: IMF International Financial Statistics.

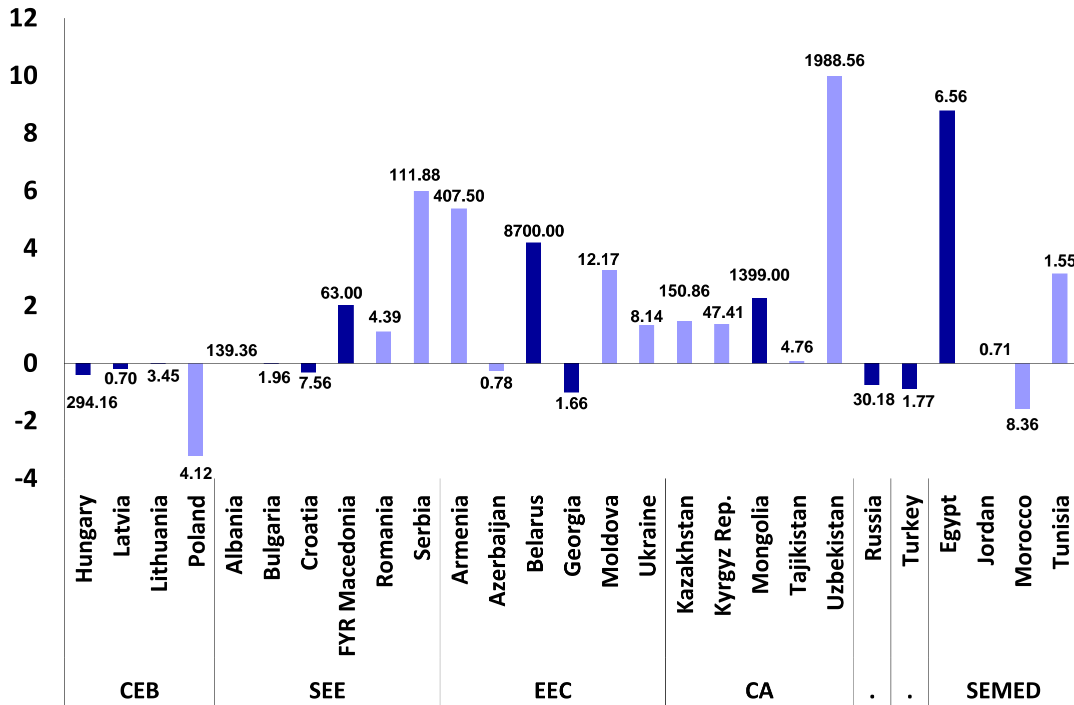
Reserves, end of period, % of GDP



Source: IMF International Financial Statistics.

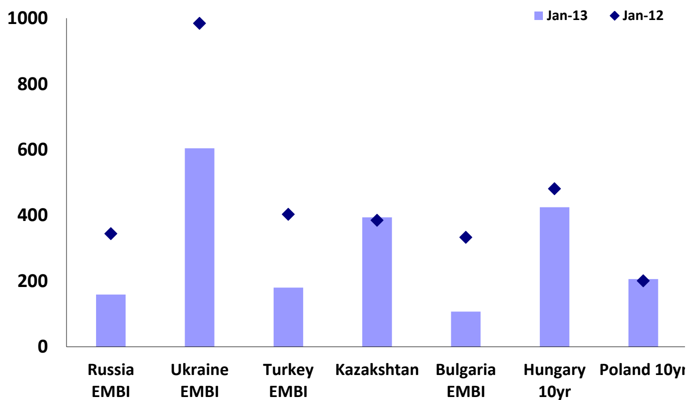
Figure 2. Currencies and financial market indicators (daily frequency)

Currencies (change since 30/01/2012)

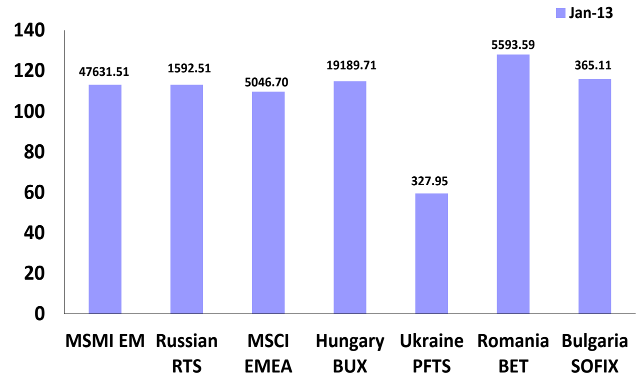


Source: Bloomberg.
For EEC, CA, SEMED, Turkey and Russia the reference currency is U.S. dollar; For CEB and SEE the reference currency is Euro.
A decrease represents an appreciation. Numbers on bars represent actual exchange rate values

Sovereign risk (bond spreads, bp)



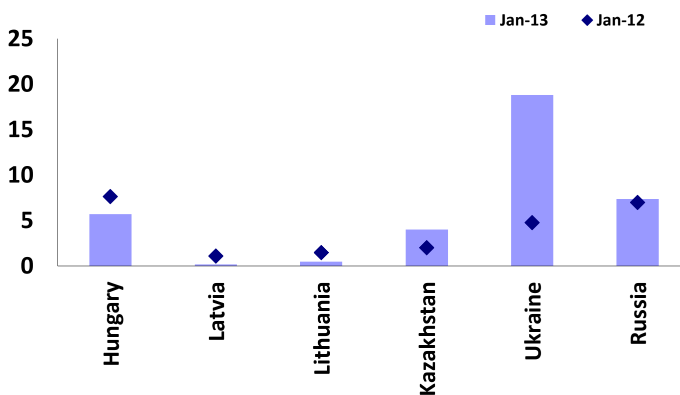
Stock markets (January 2011=100)



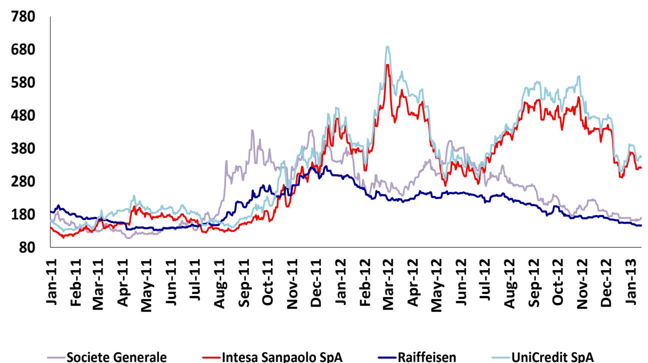
Source: Bloomberg.

Numbers on bars represent actual values of stock indices.

Interbank rates (%)



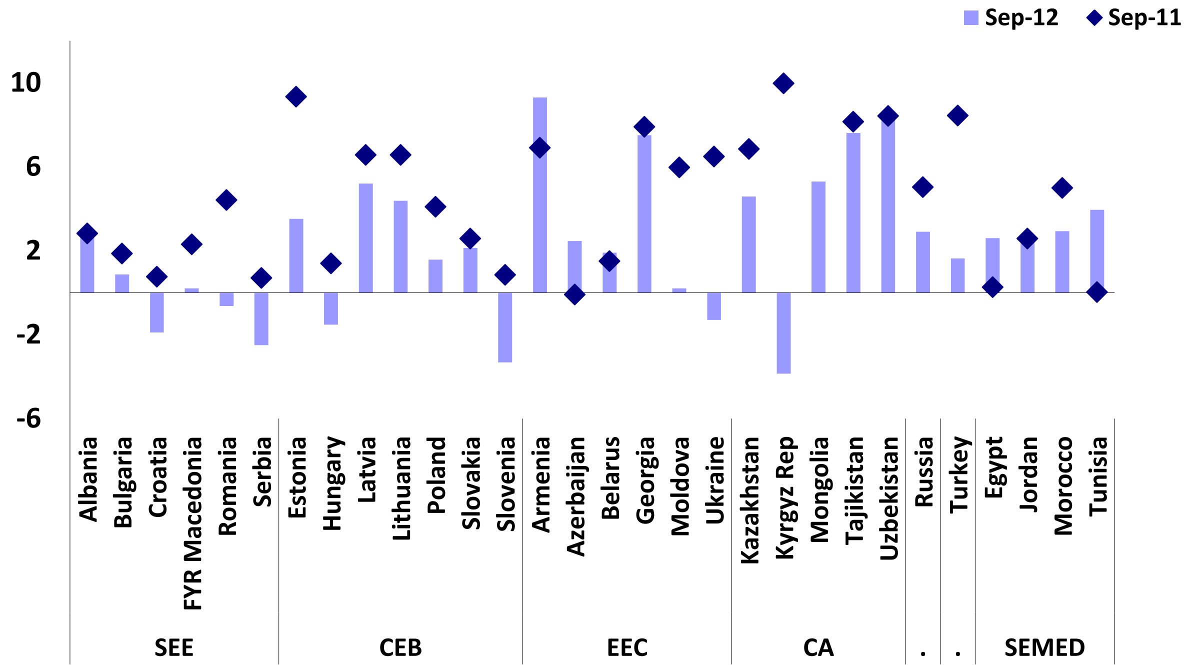
Parent banks CDS spreads (bp)



Source: Bloomberg.

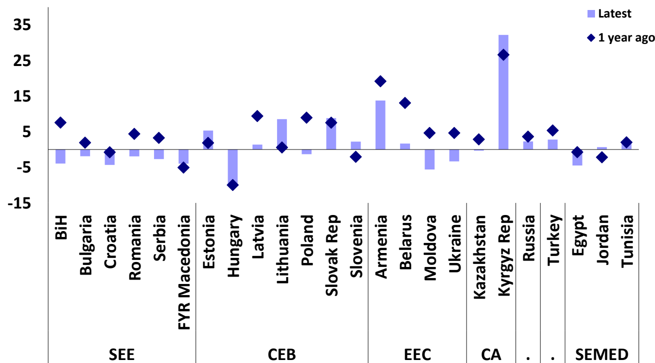
Figure 3. Indicators of real activity

Real GDP, y-o-y change, %

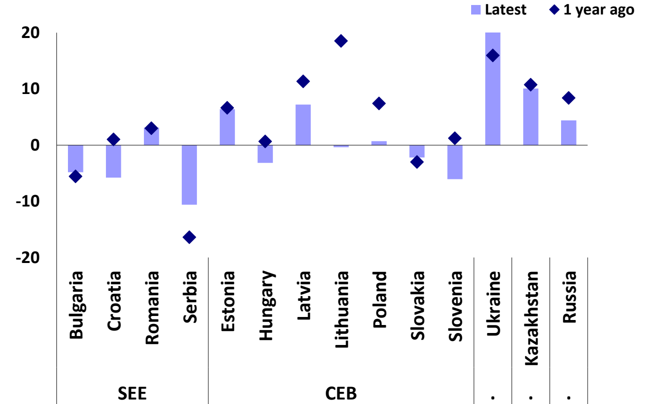


Source: National authorities via CEIC data service.

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

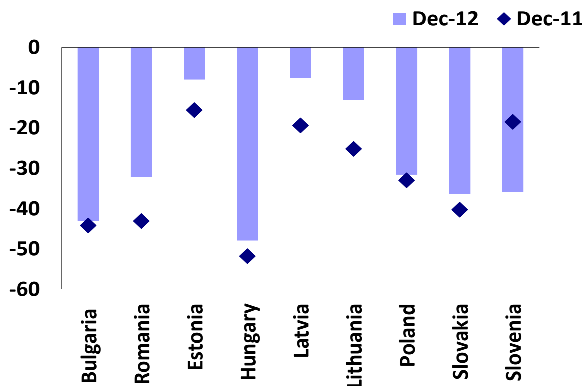


Retail sales, monthly y-o-y change, %



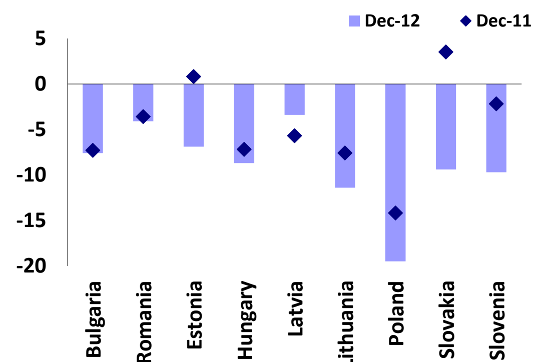
Source: National authorities via CEIC data service.

Consumer confidence, seasonally adjusted balances



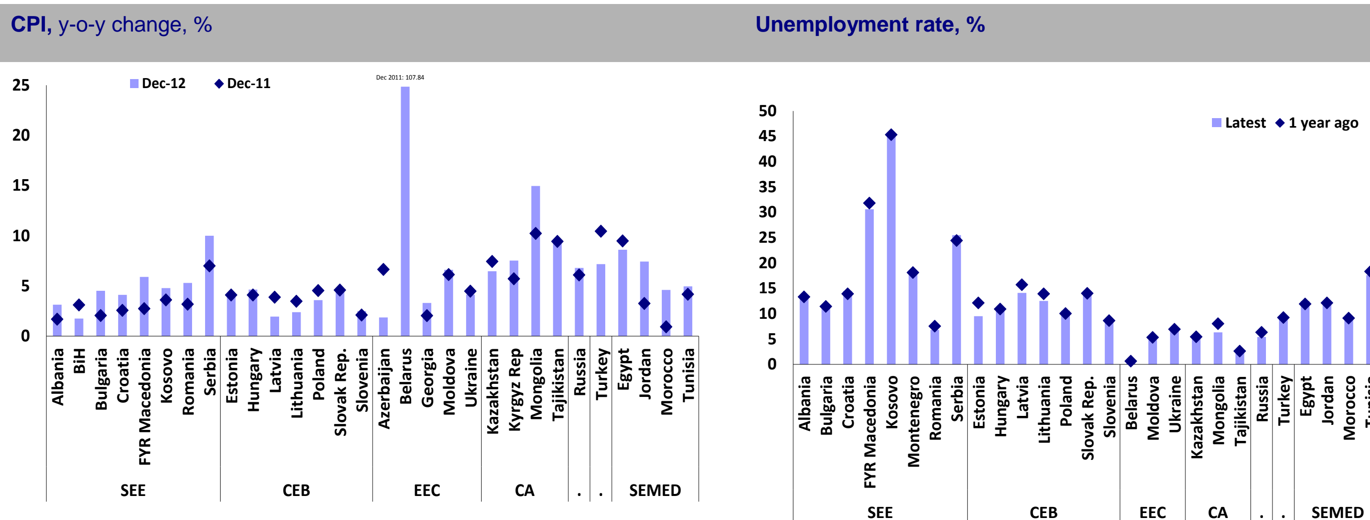
defined as the difference (in percentage points of total answers) between positive and negative answers
Source: Eurostat

Industrial confidence, seasonally adjusted balances



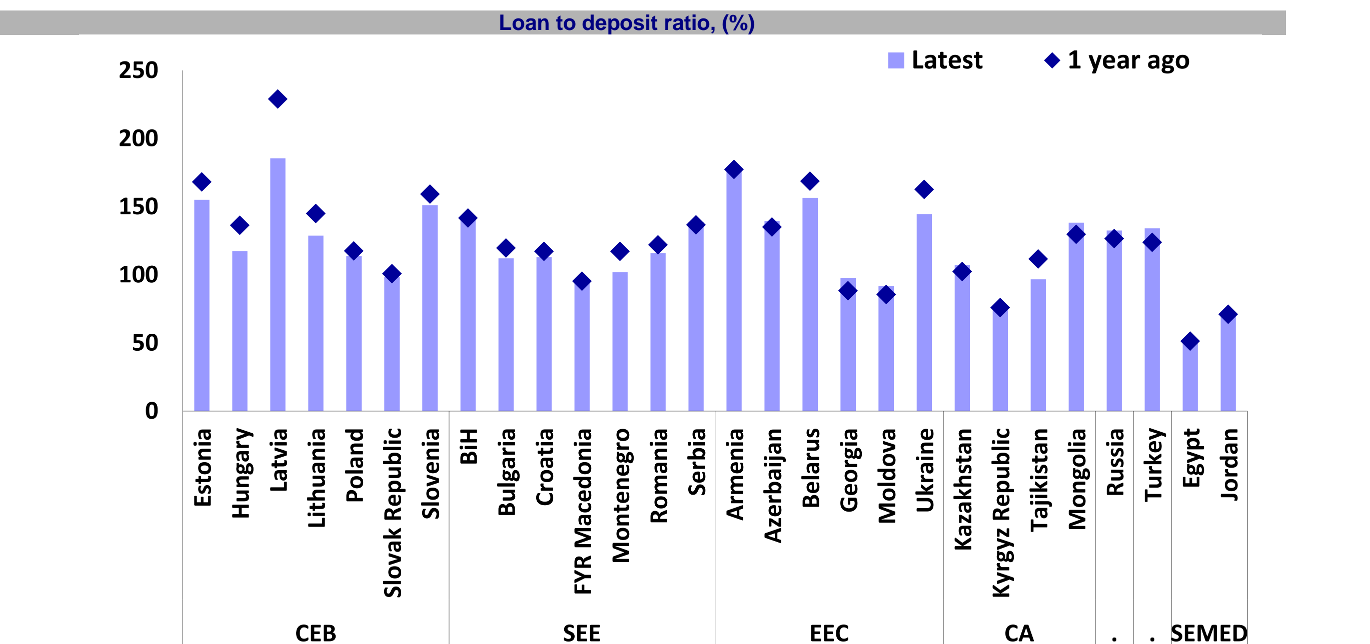
defined as the difference (in percentage points of total answers) between positive and negative answers

Figure 4: Financial sector indicators: loans and deposits

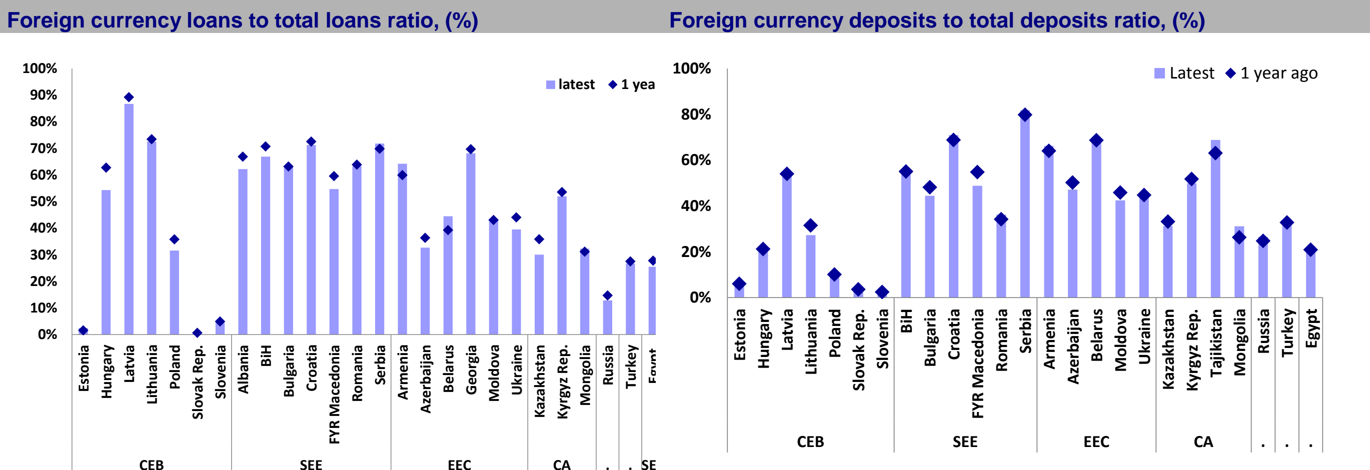


Source: National authorities via CEIC data service, Eurostat

Figure 4: Financial sector indicators: loans and deposits



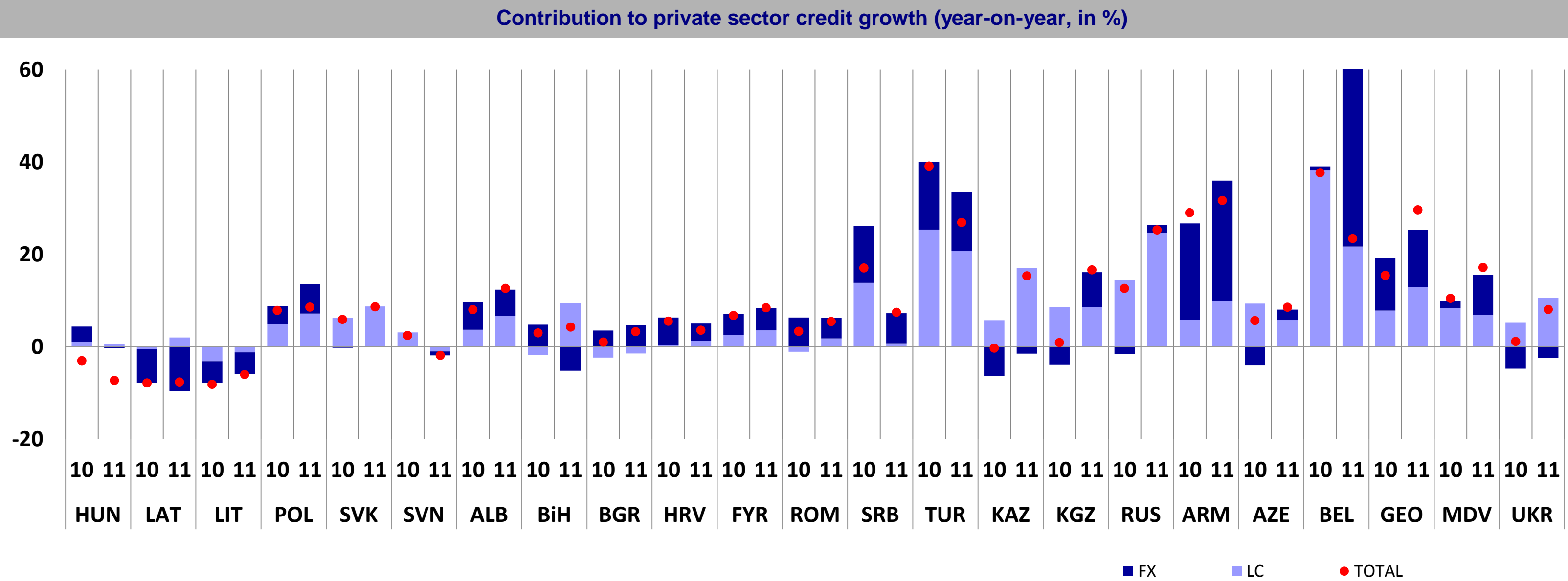
Source: National authorities via CEIC data service.



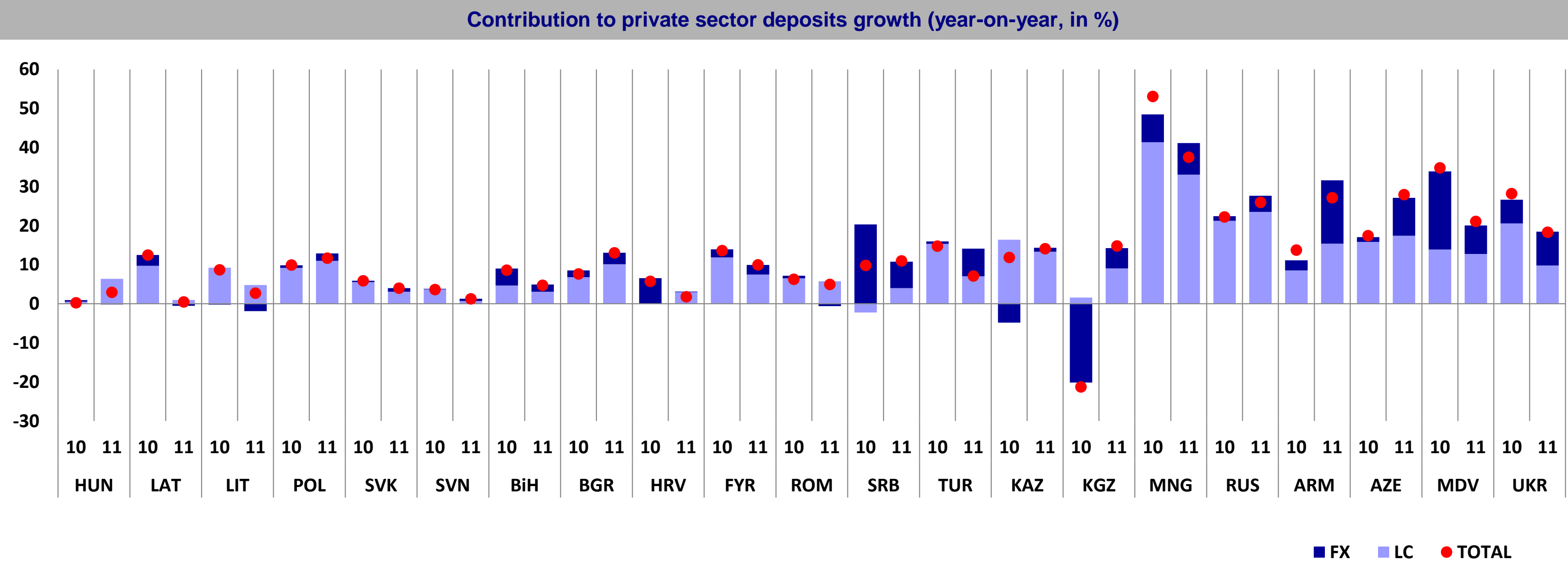
Source: National authorities via CEIC data service

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