

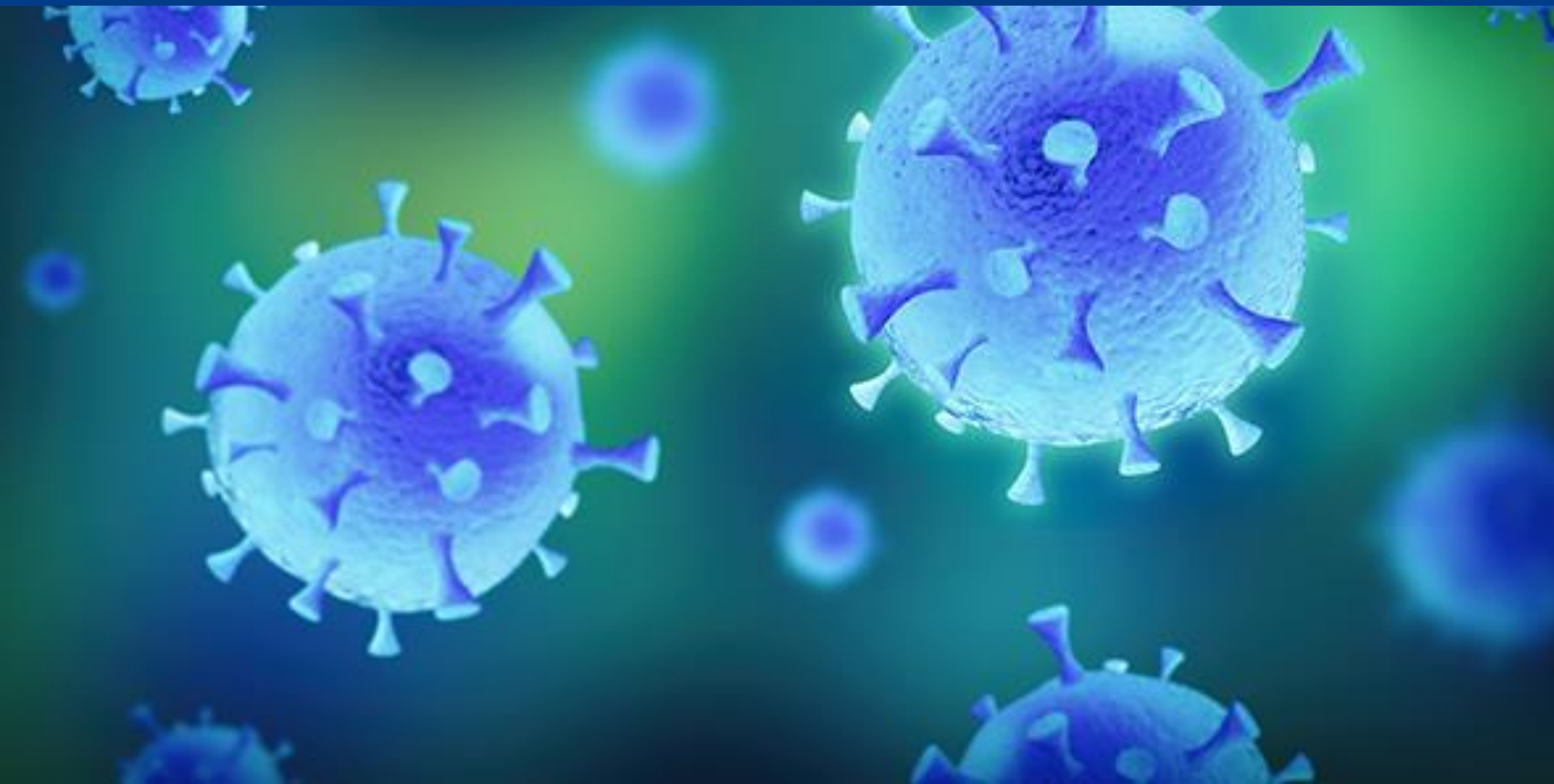
REGIONAL ECONOMIC PROSPECTS IN THE EBRD REGIONS

September 2020



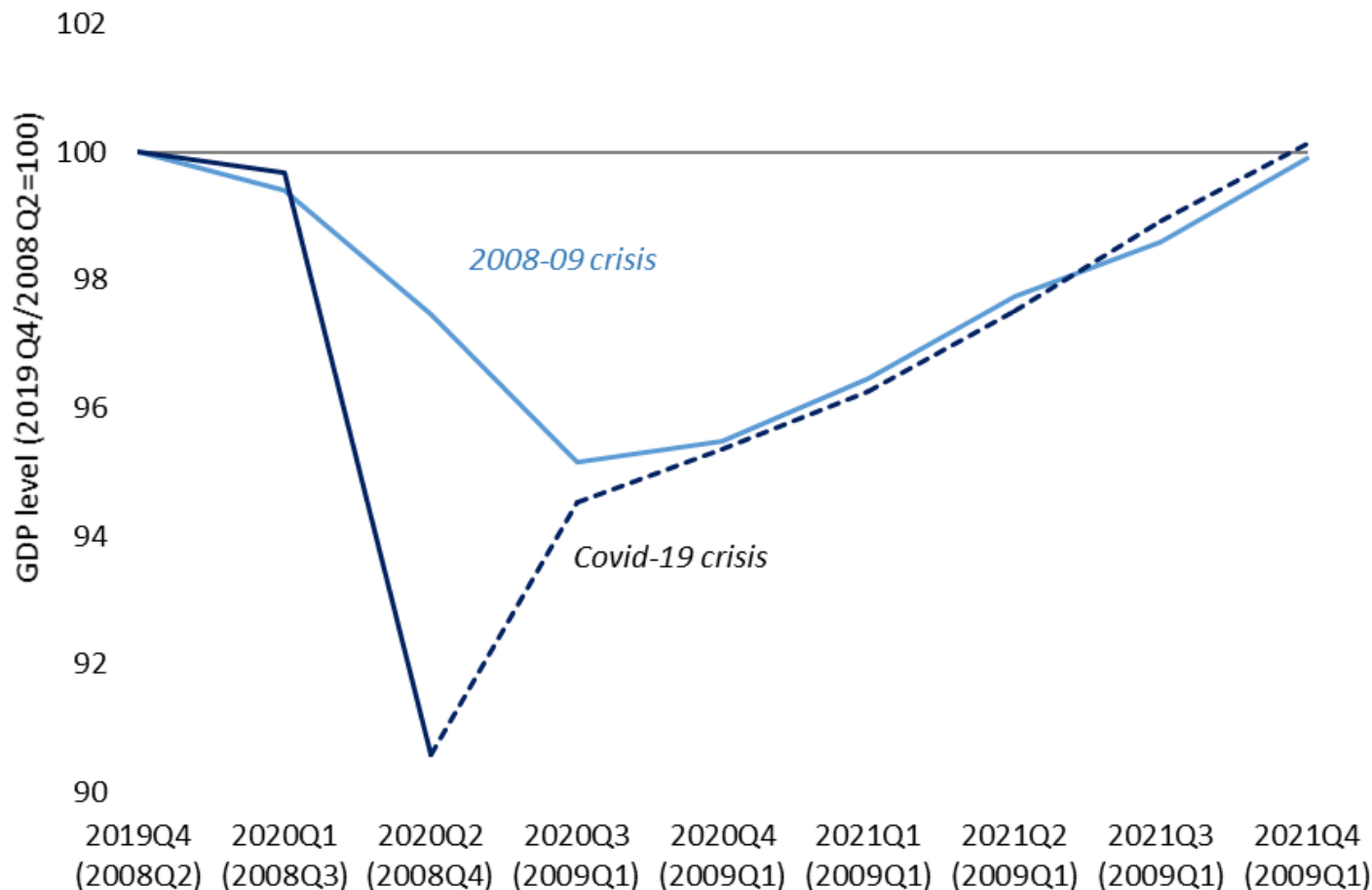
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Covid-19: Early estimates of the damage, uncertain prospects



Deeper contraction in GDP than during the GFC, but similar speed of recovery expected

Pre-crisis GDP level in the EBRD regions is expected to be attained towards the end of 2021



Growth in the EBRD regions slowed in Q1 2020 and contracted sharply in Q2 2020

On top of **ongoing deceleration** of growth: down from 3.4 per cent in 2018 and 2.6 per cent in 2019

Real GDP growth turned sharply negative in the second quarter of 2020

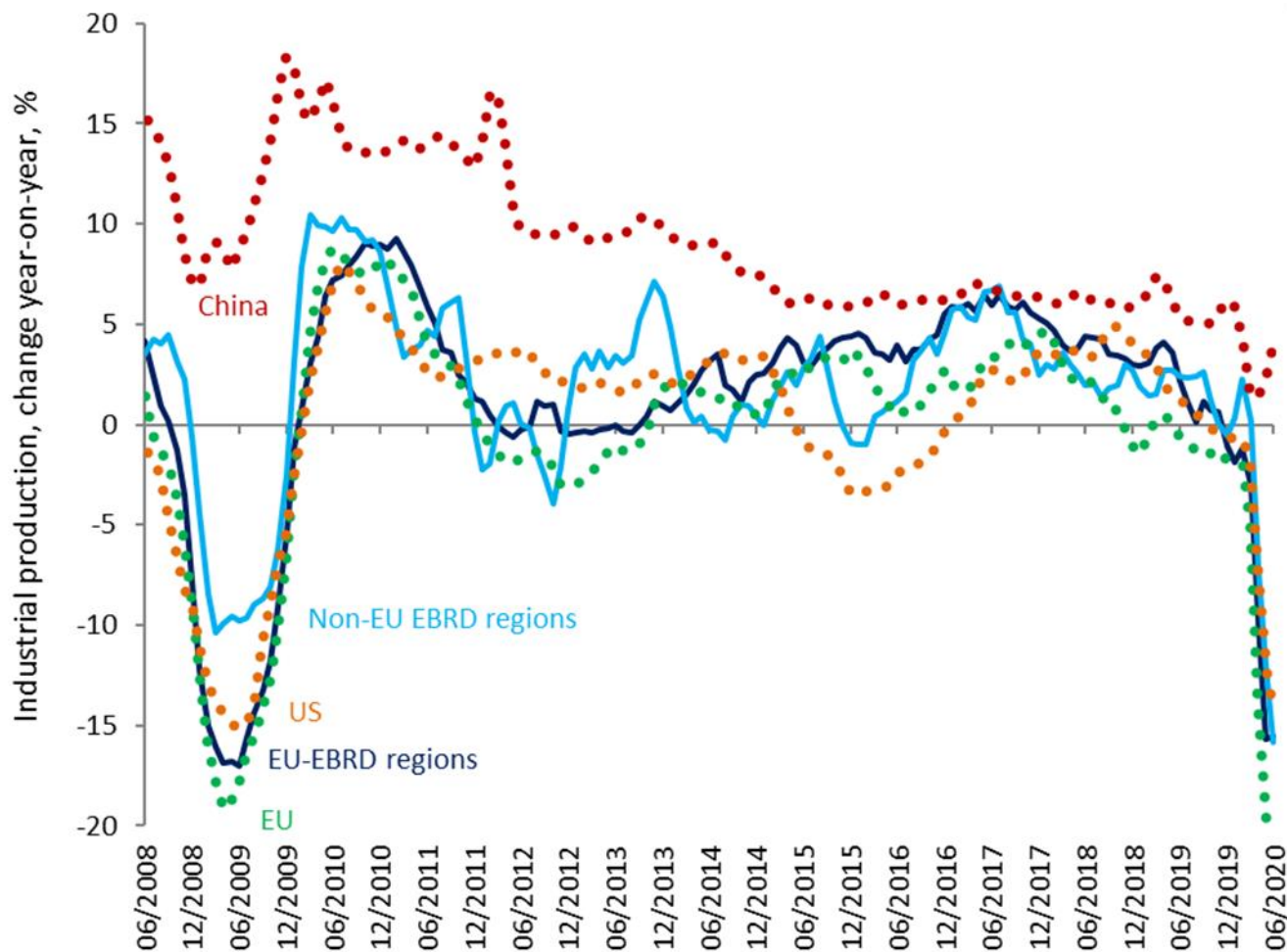


In many economies, declines in industrial production are larger than those seen in 2008-09



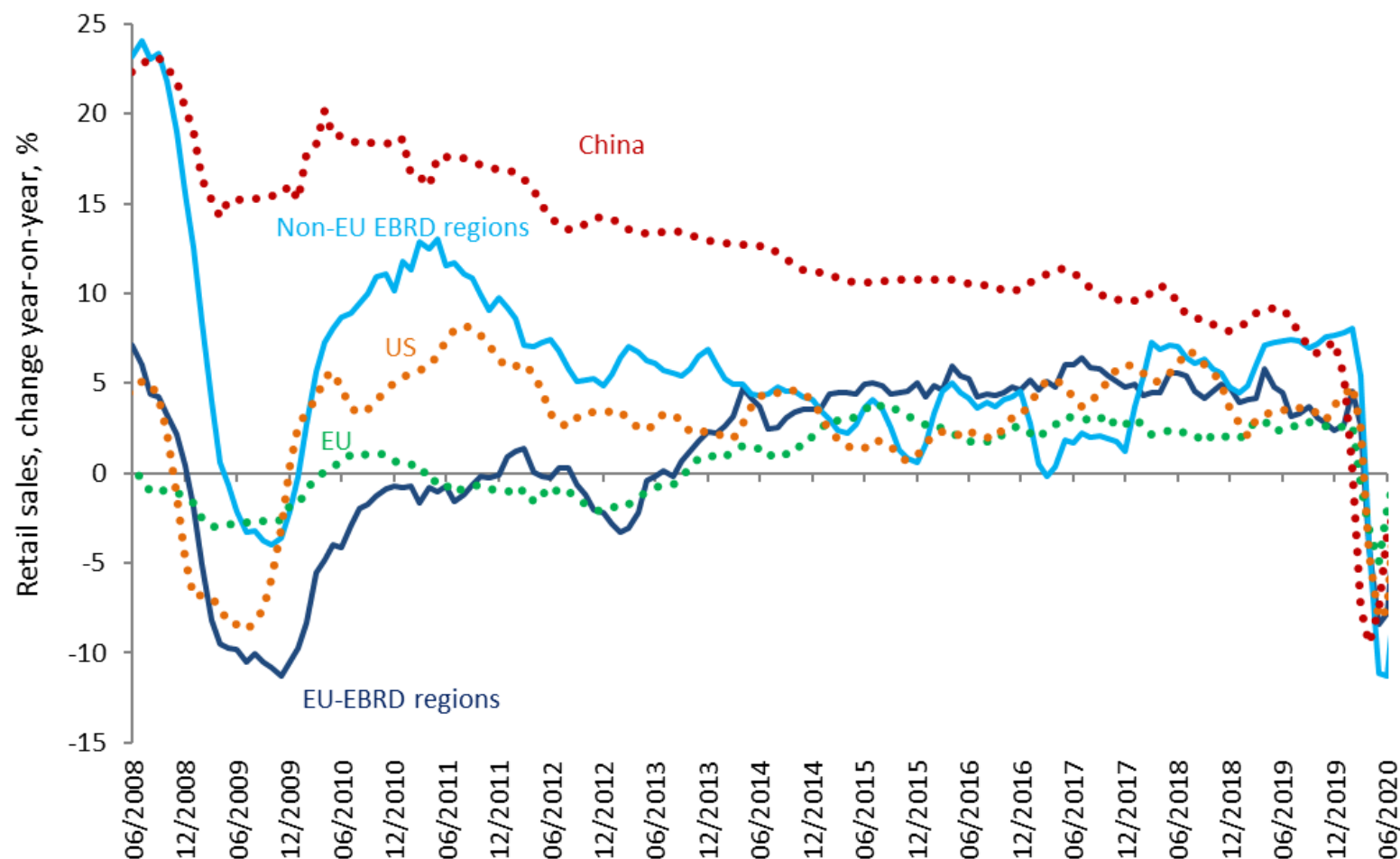
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Drops in industrial production deeper than in 2009 in non-EU economies in the EBRD regions



In many economies, retail sales declined more than during the global financial crisis

Drops in retail sales comparable to those seen in 2009 in EU economies within the EBRD regions

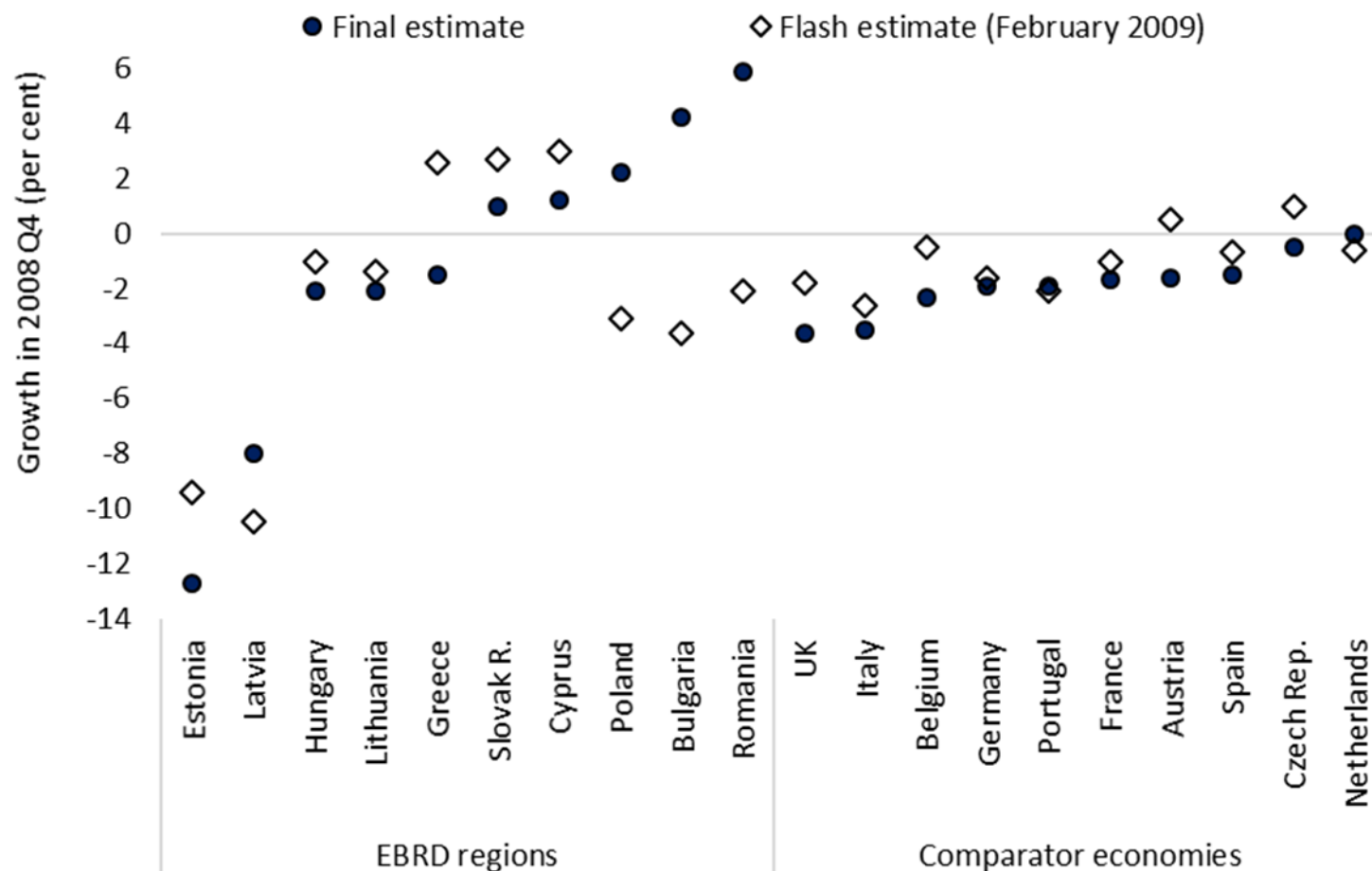


Forecasts are sensitive to assumptions about social distancing and precision of early estimates of growth



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Initial estimates of GDP contractions during the Global Financial Crisis were subject to major subsequent revisions



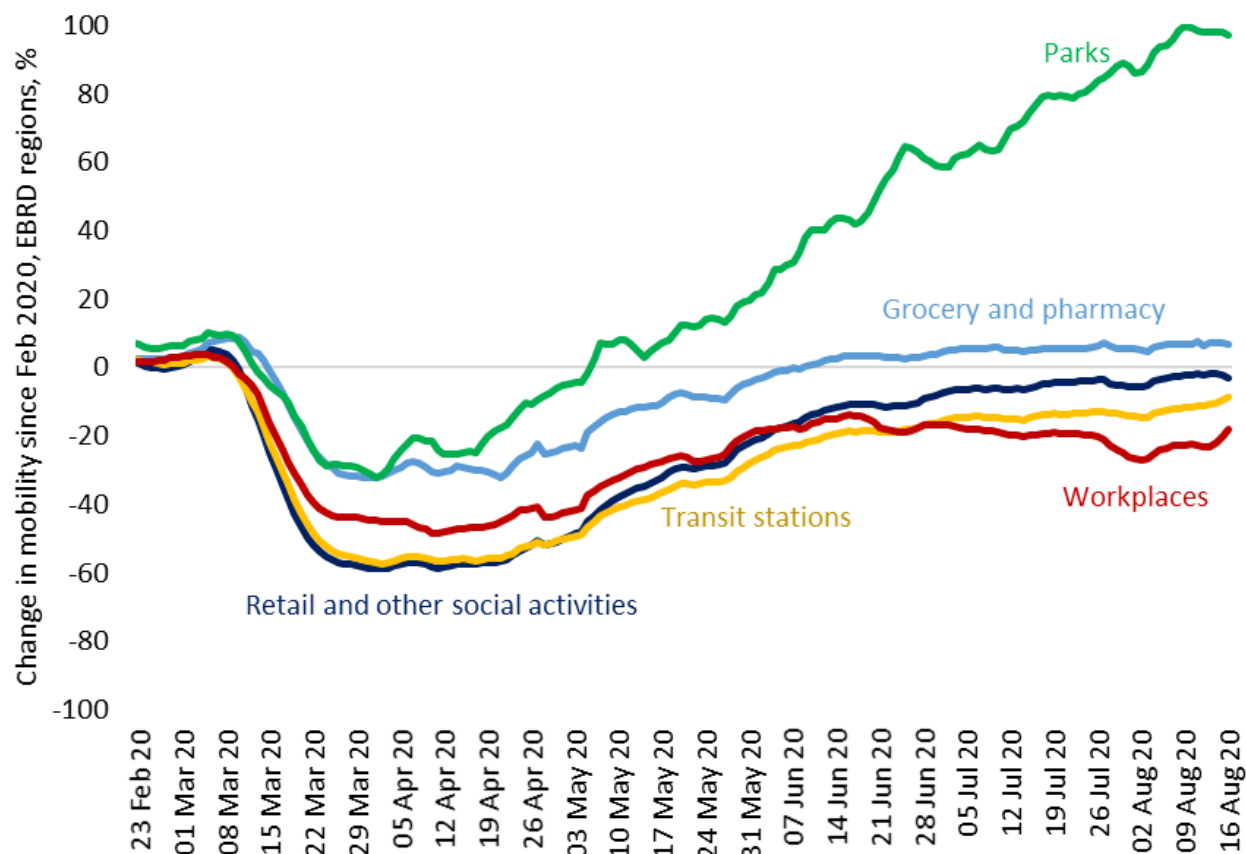
Mobility, in particular to workplaces, remains down reflecting widespread social distancing



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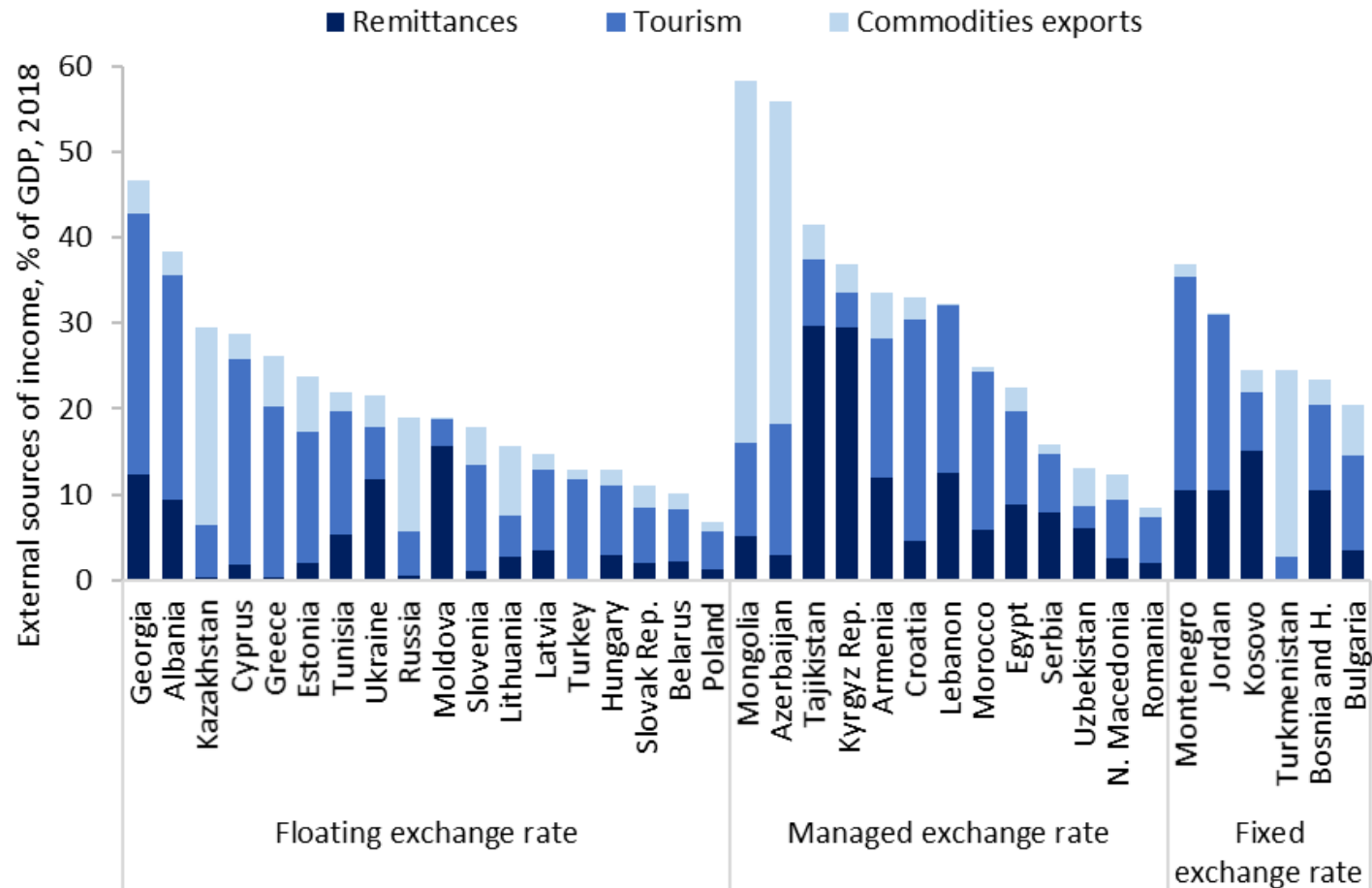
Trips to retail and recreation facilities, groceries and pharmacies have almost recovered to February levels, but activity in the hospitality sector, in particular, would normally be expected to be higher during the summer

Mobility in the EBRD regions has not recovered to February levels



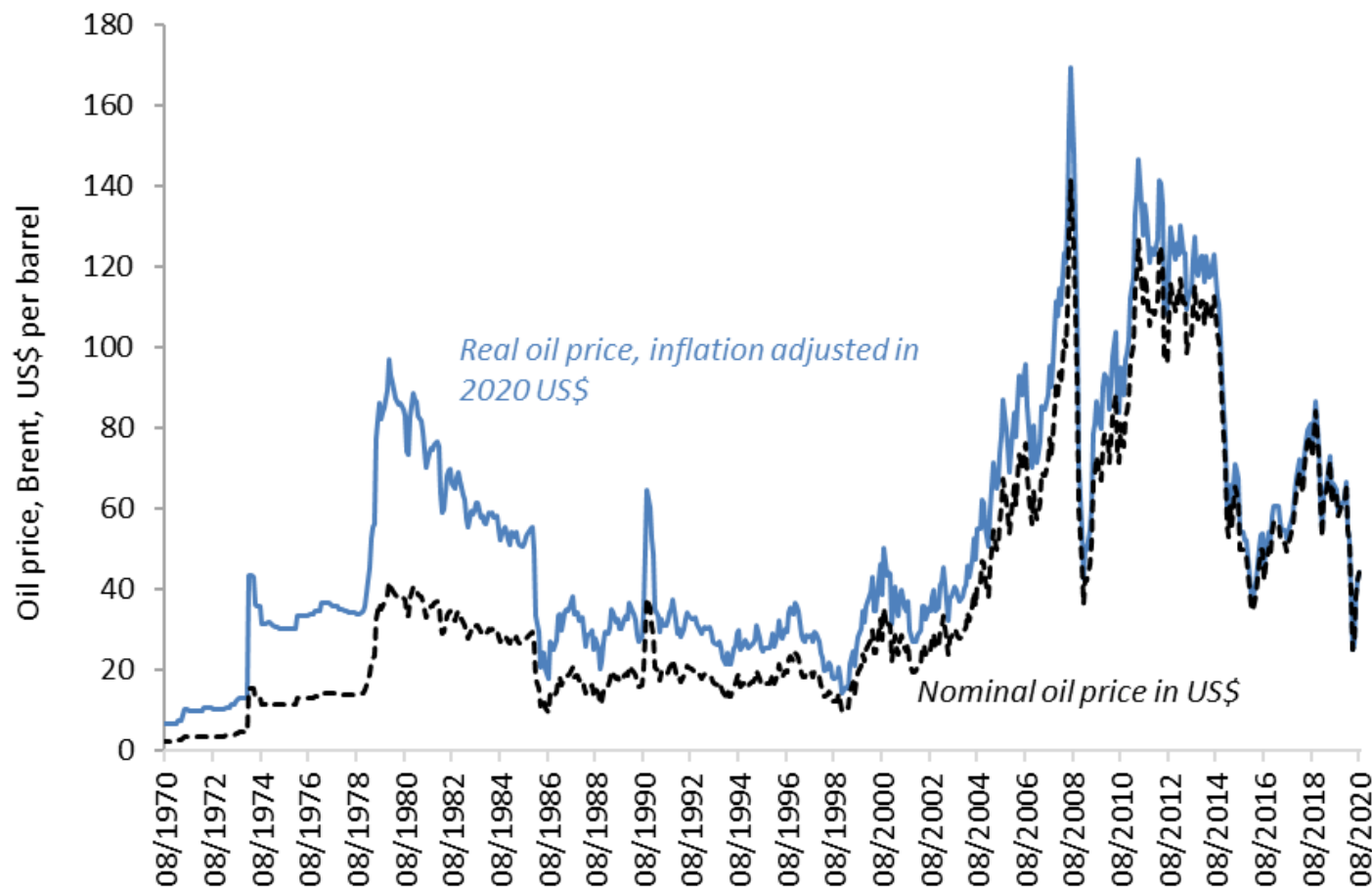
EBRD regions are highly dependent on external sources of income

Pre-crisis, external sources of income averaged 25 per cent of GDP in the EBRD regions



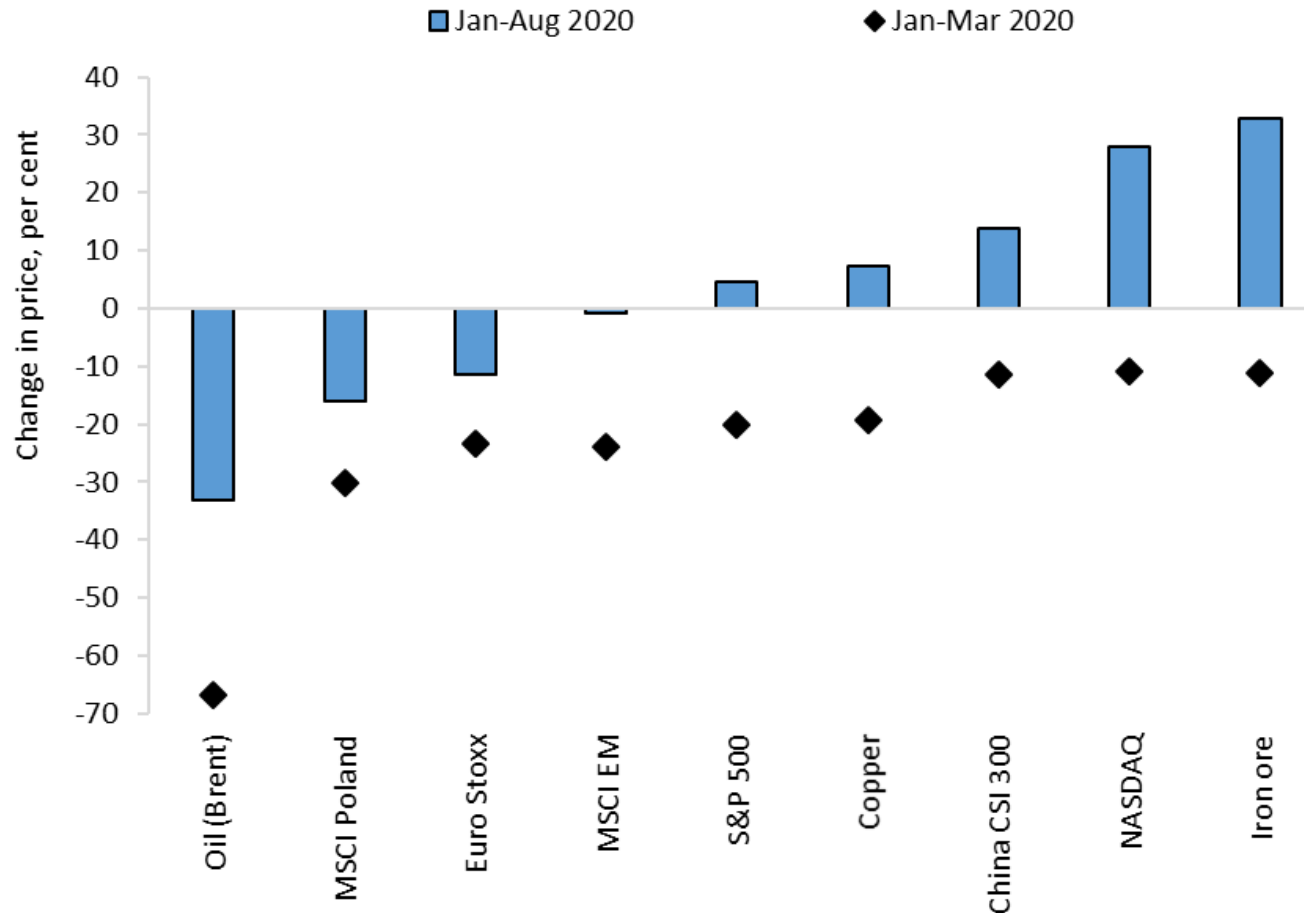
Oil recovered somewhat (US\$ 44 per barrel of Brent in August 2020) but remain at around 2004 levels

Notwithstanding recent increases, oil prices are at around their 2004 levels



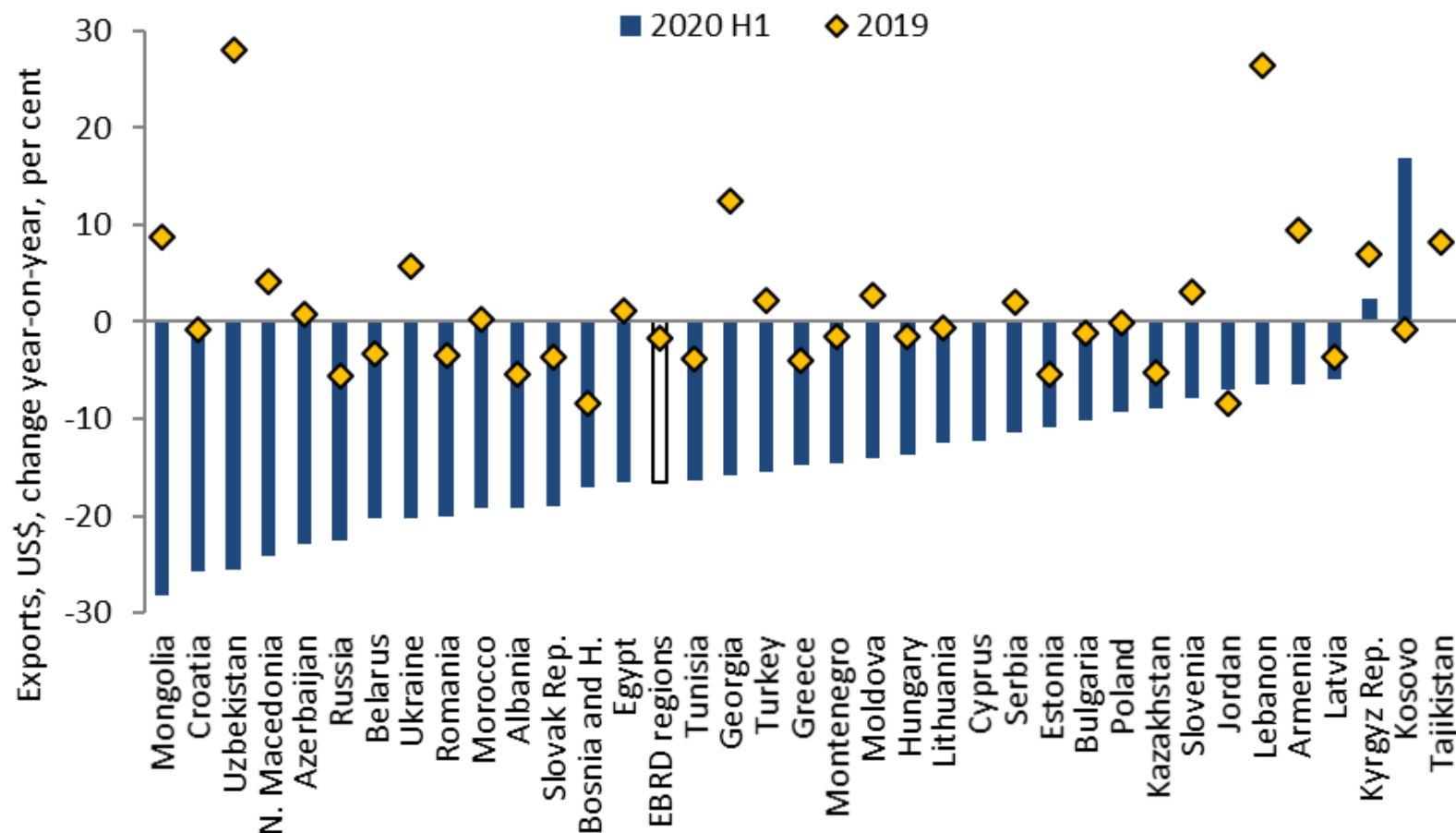
Prices of some metal commodities have increased relative to Jan 2020 on strong demand from China

Prices of copper and iron ore have surpassed their January 2020 levels



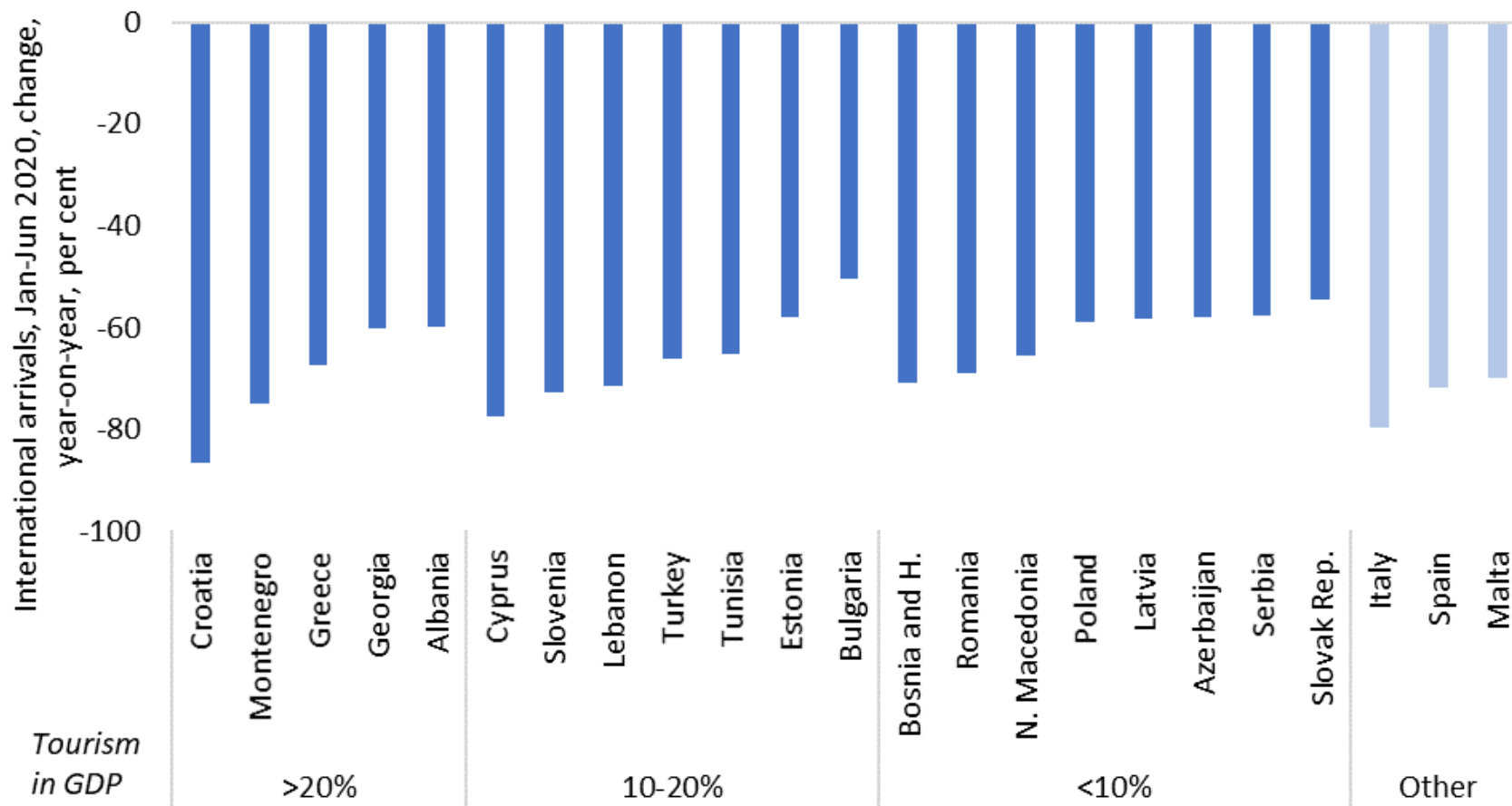
Decline in exports in most economies in the EBRD regions

Exports from the EBRD regions dropped by 14 per cent year-on-year in the first half of 2020



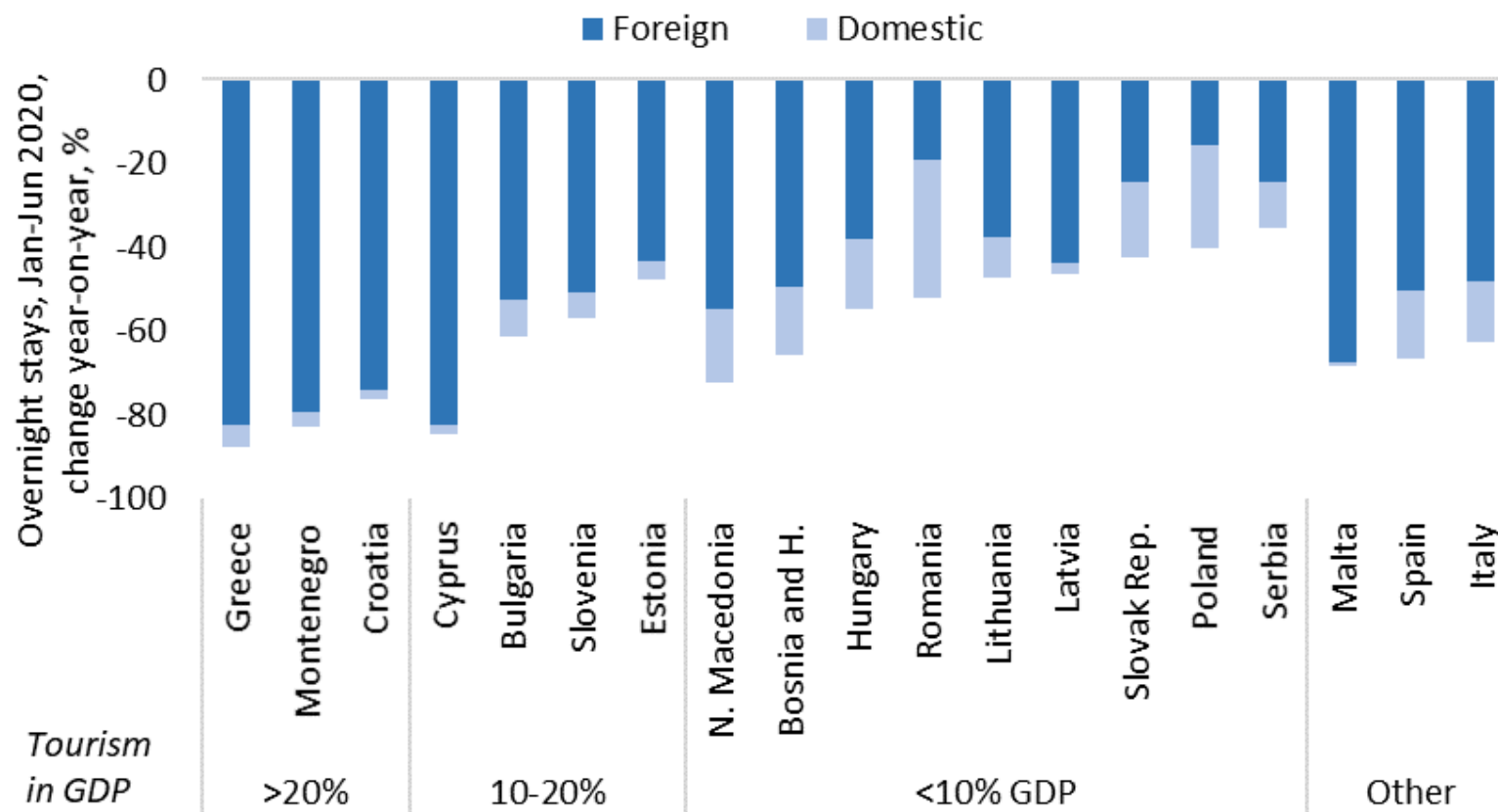
Sharp fall in international tourism

International tourism collapsed in the first half of 2020



Sharp fall in international and domestic tourism

Domestic tourism was also weaker in January-June 2020



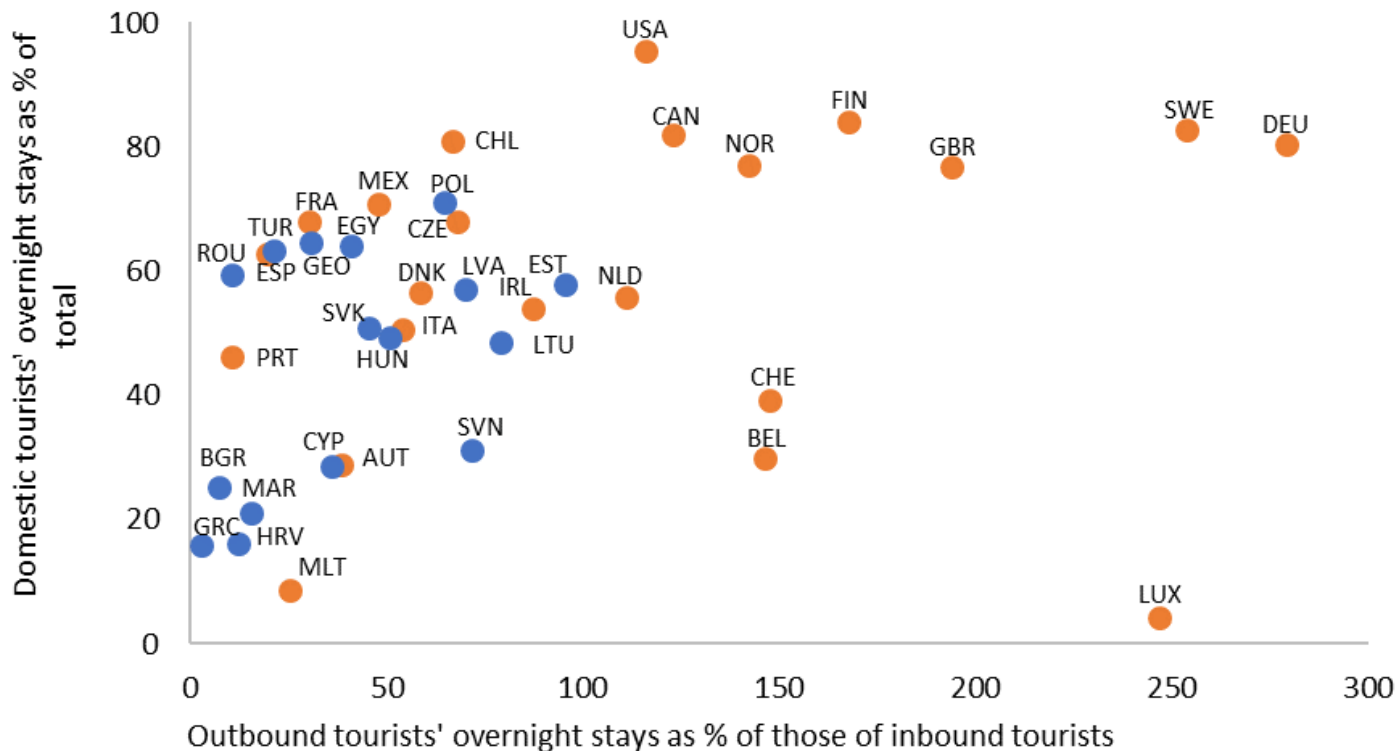
Going forward, domestic tourism will not be able to compensate for decline in international tourism



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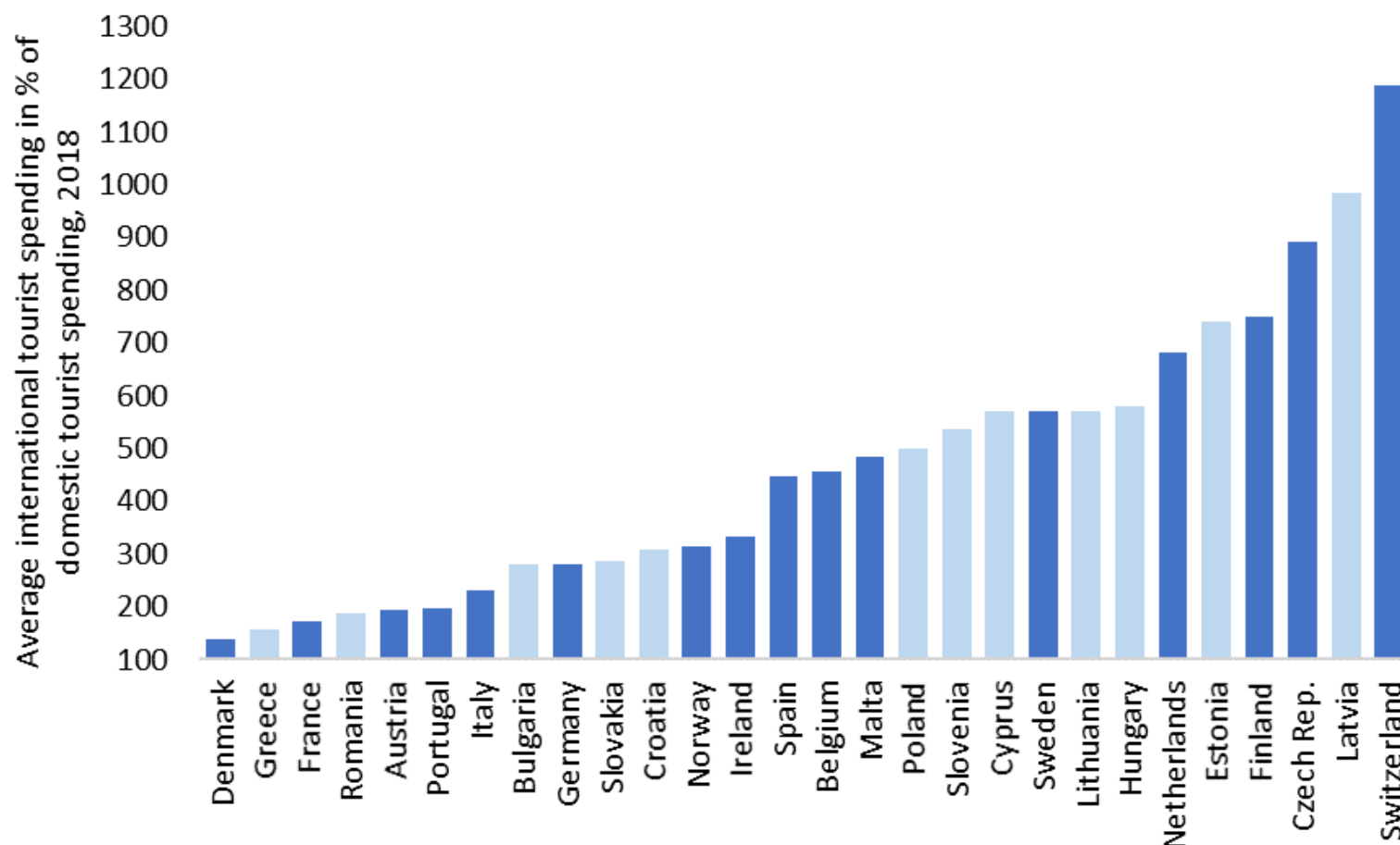
Countries in the EBRD regions host more international tourists than what they contribute in international tourism – even if all outbound tourists were to spend their holidays domestically, this would not be able to compensate for the loss of foreign tourists

Domestic tourism in the EBRD regions has been limited to date



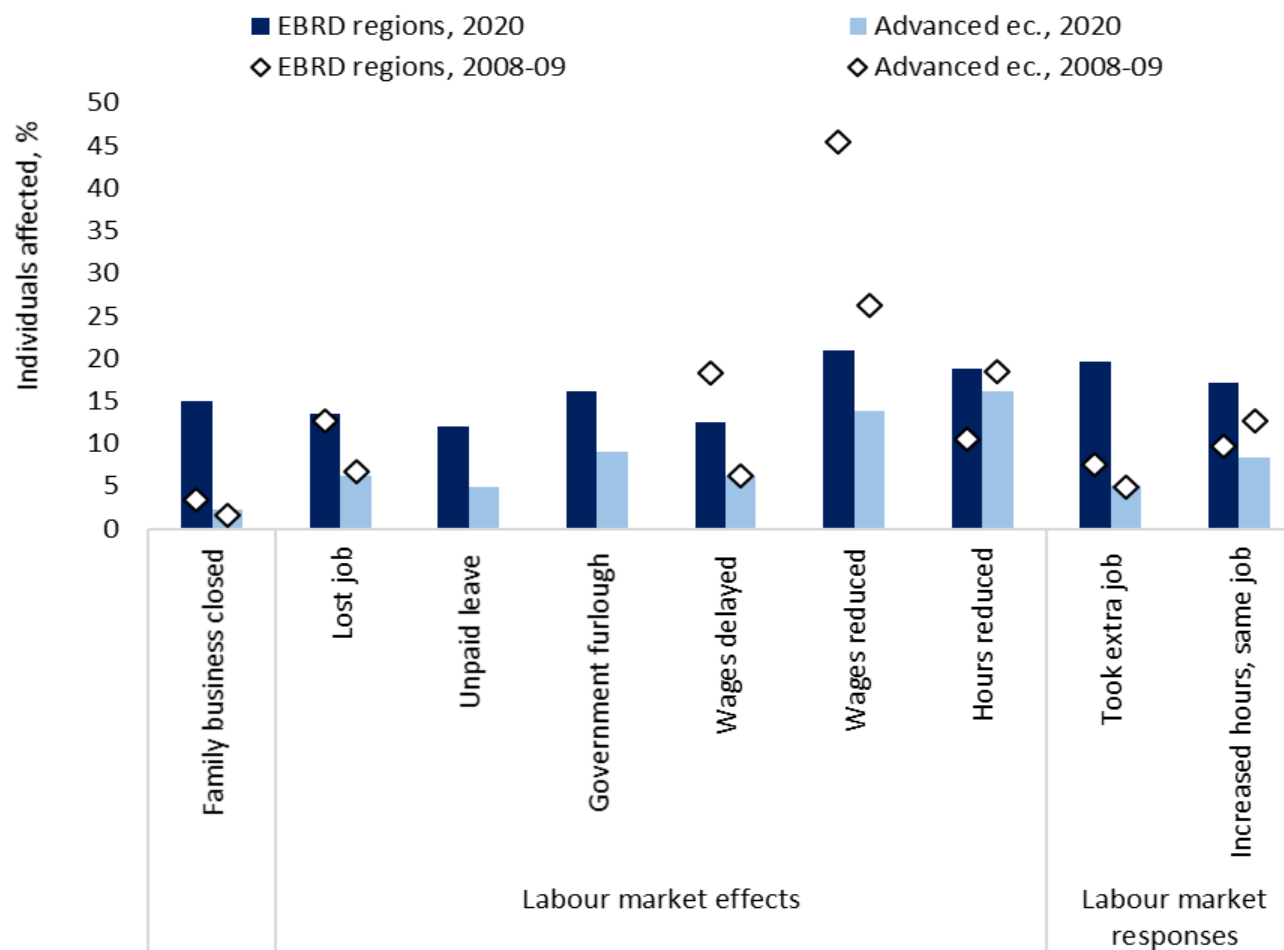
In the EBRD regions, as elsewhere, foreign tourists spend multiples of what domestic tourists spend

Average international tourist spending far exceeds domestic tourist spending



Widespread job losses and business closures

15 per cent of survey respondents in the EBRD regions lost a job and 15 per cent had to close family business

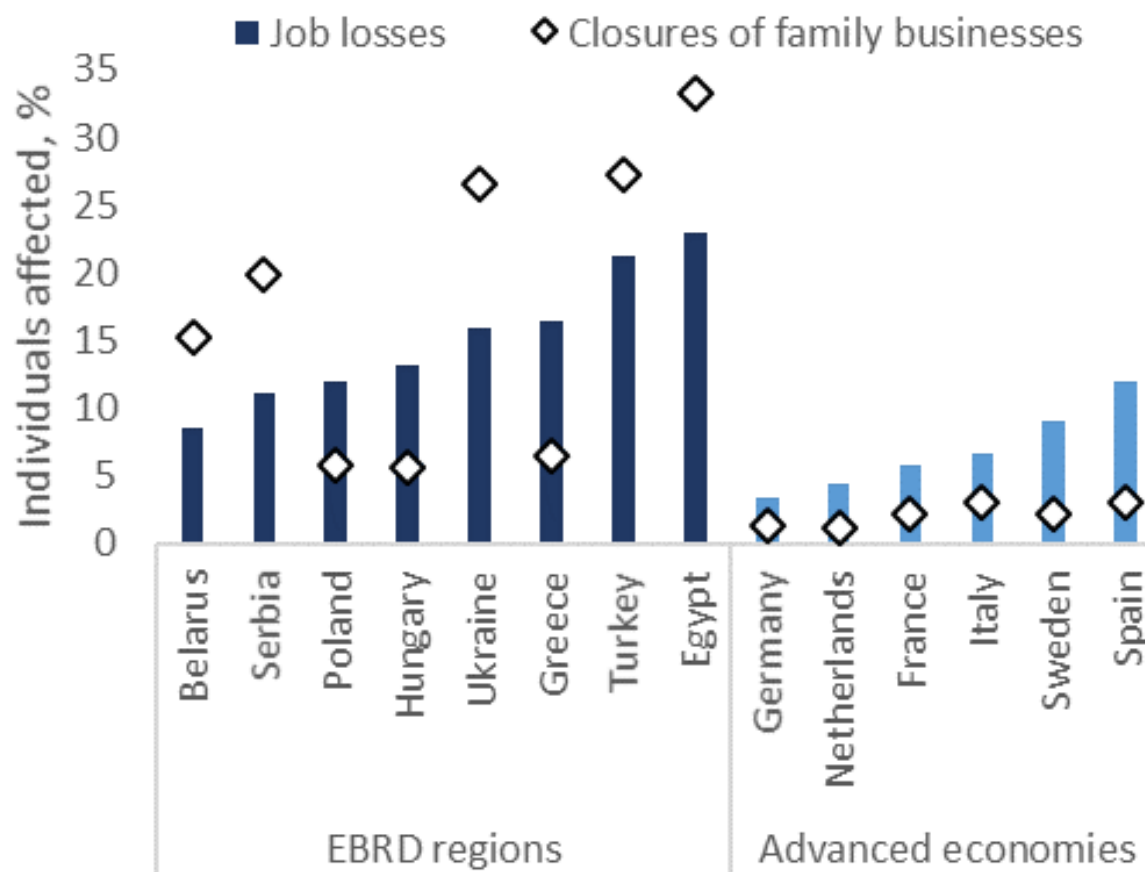


Widespread job losses and business closures



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9-23 per cent of survey respondents in the EBRD countries lost a job because of the Covid-19 crisis

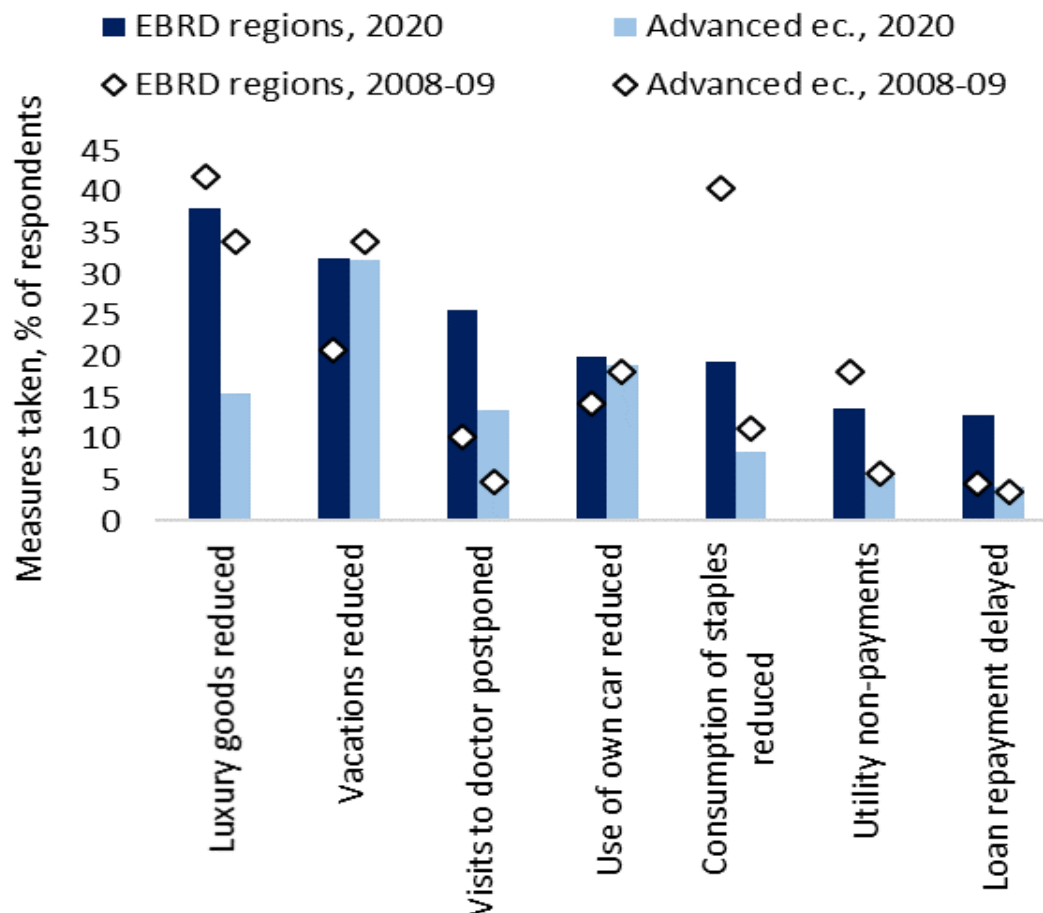


A fifth of households reduced their consumption of staples, 40%+ cut on luxury goods in EBRD regions



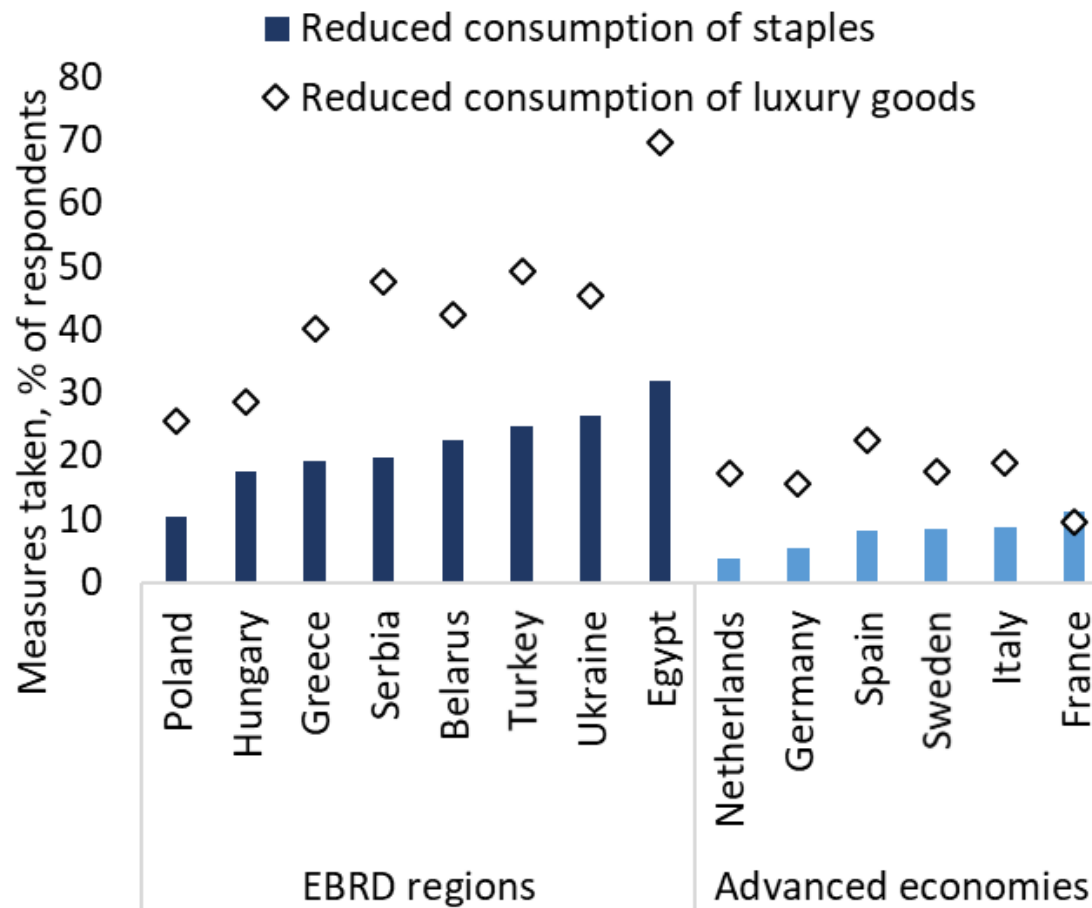
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Many households had to reduce their spending due to the Covid-19 crisis



Many households had to reduce their spending

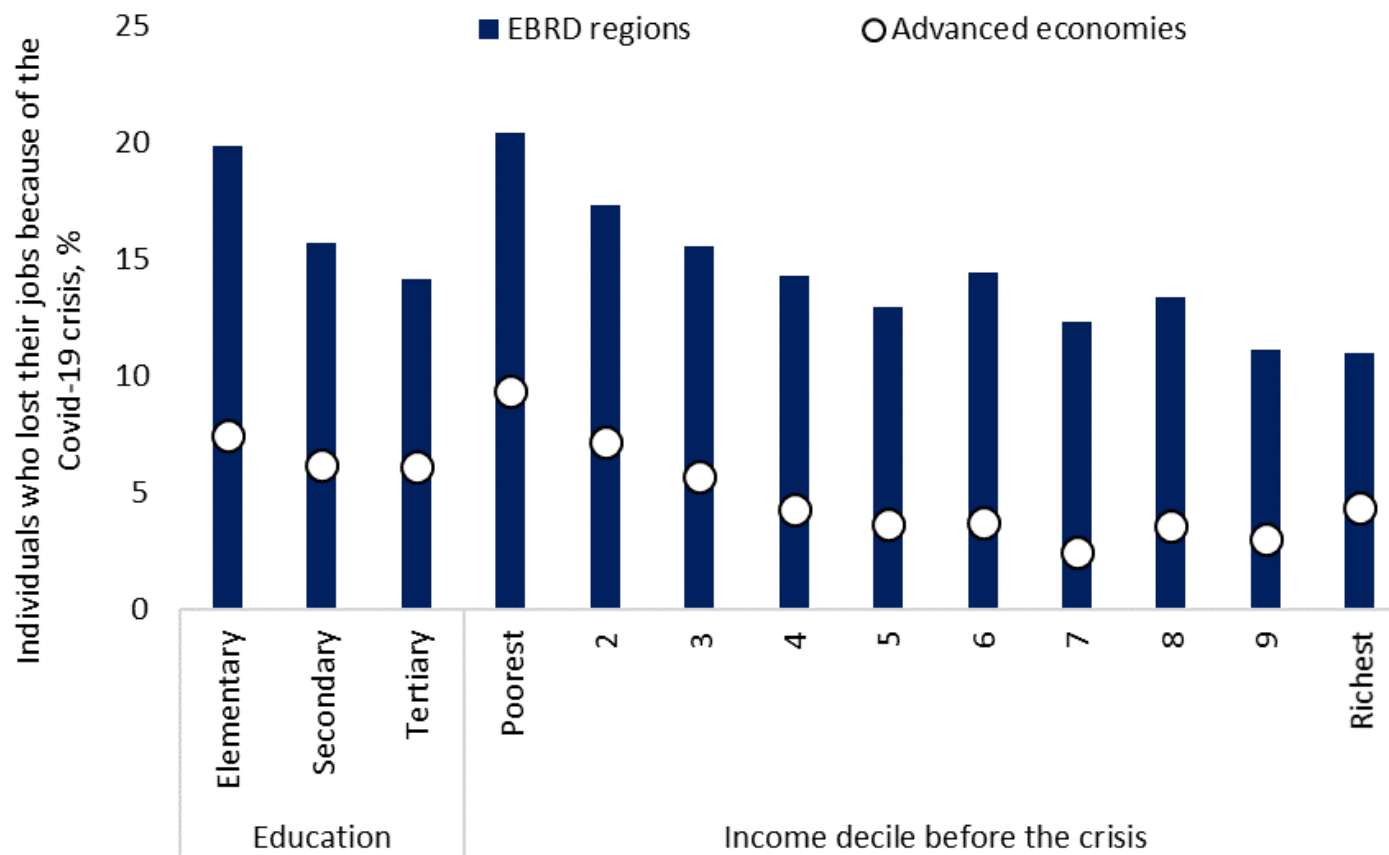
10-32 per cent of households in the EBRD regions had to reduce their consumption of staples



Burden of the crisis disproportionately borne by those with lower levels of education and income

As well as the young, those working for smaller firms, in the private sector (as opposed to public sector/SOEs)

Burden of the crisis disproportionately borne by those with lower levels of education and income

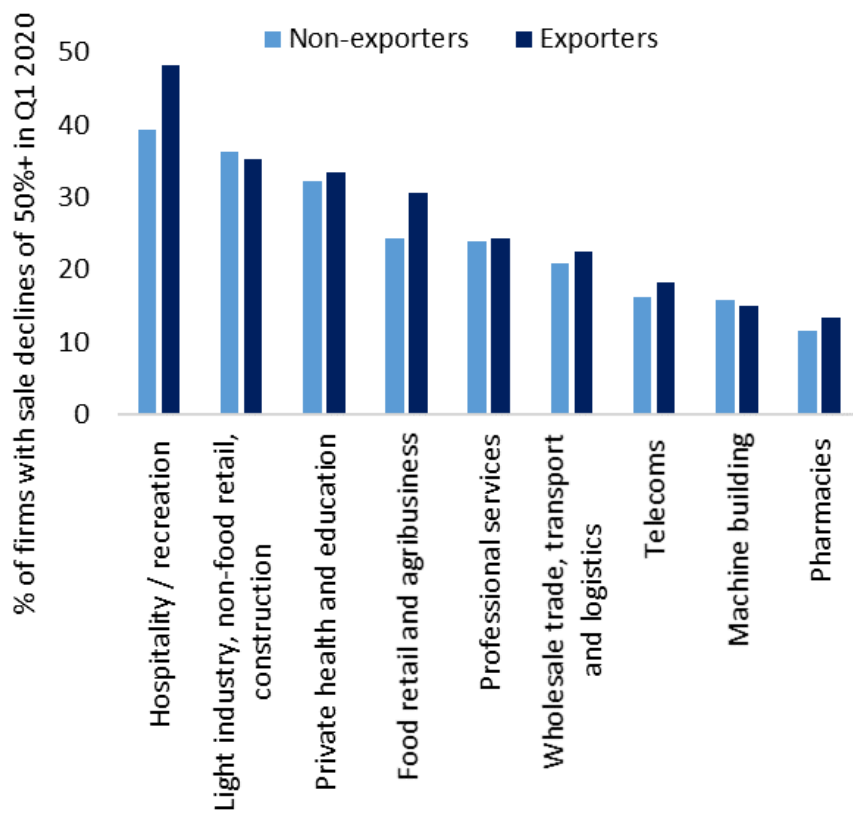


Crisis affected SMEs in hospitality and recreation most; exporters pessimistic about recovery

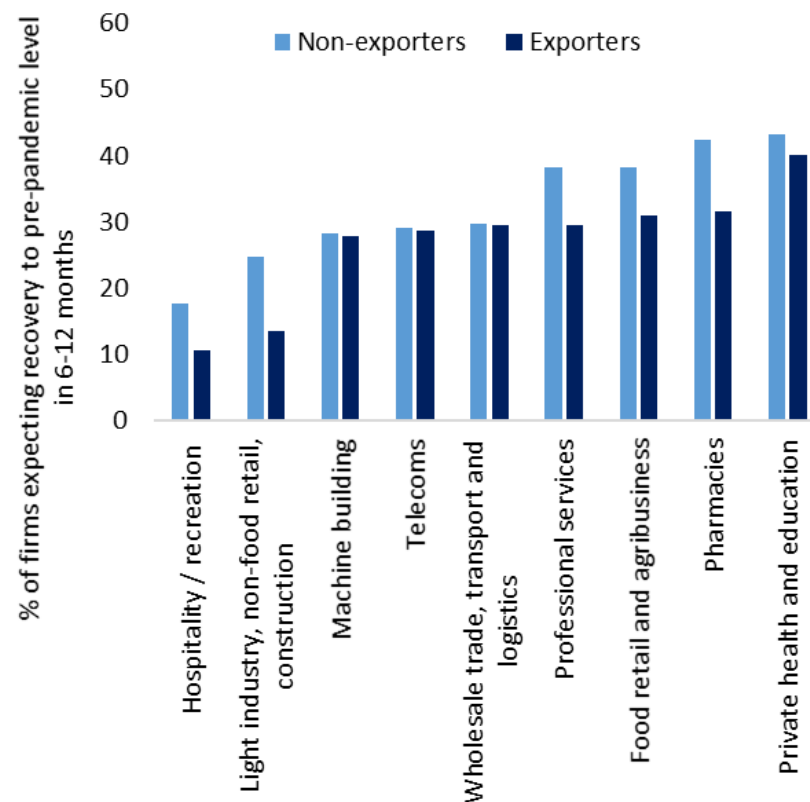


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Share of firms whose sales declined by >50 per cent in Q1 2020 (per cent)

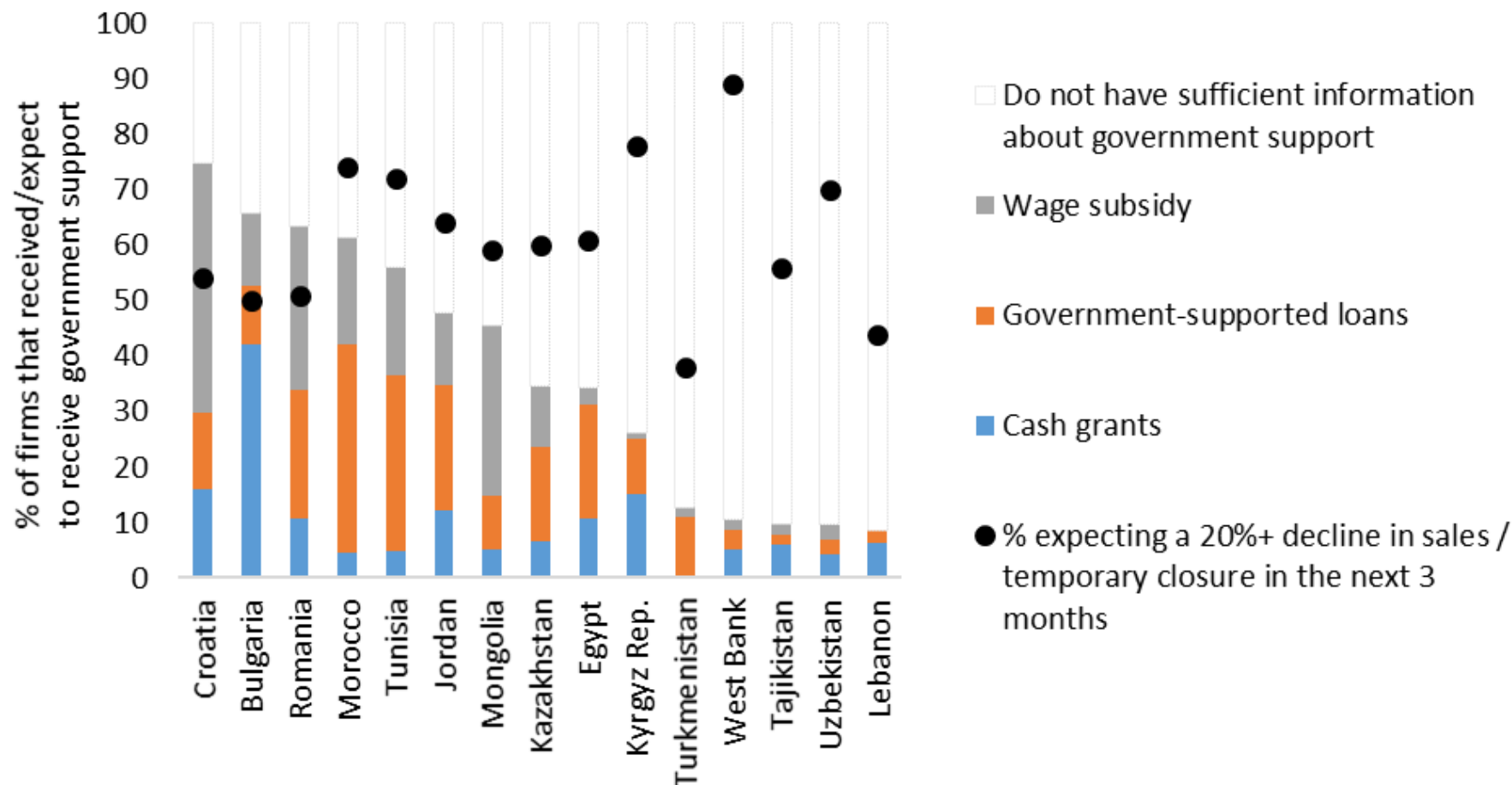


Share of firms expecting recovery to pre-pandemic level in 6-12 months (per cent)



Government support, received or expected, varies widely across countries

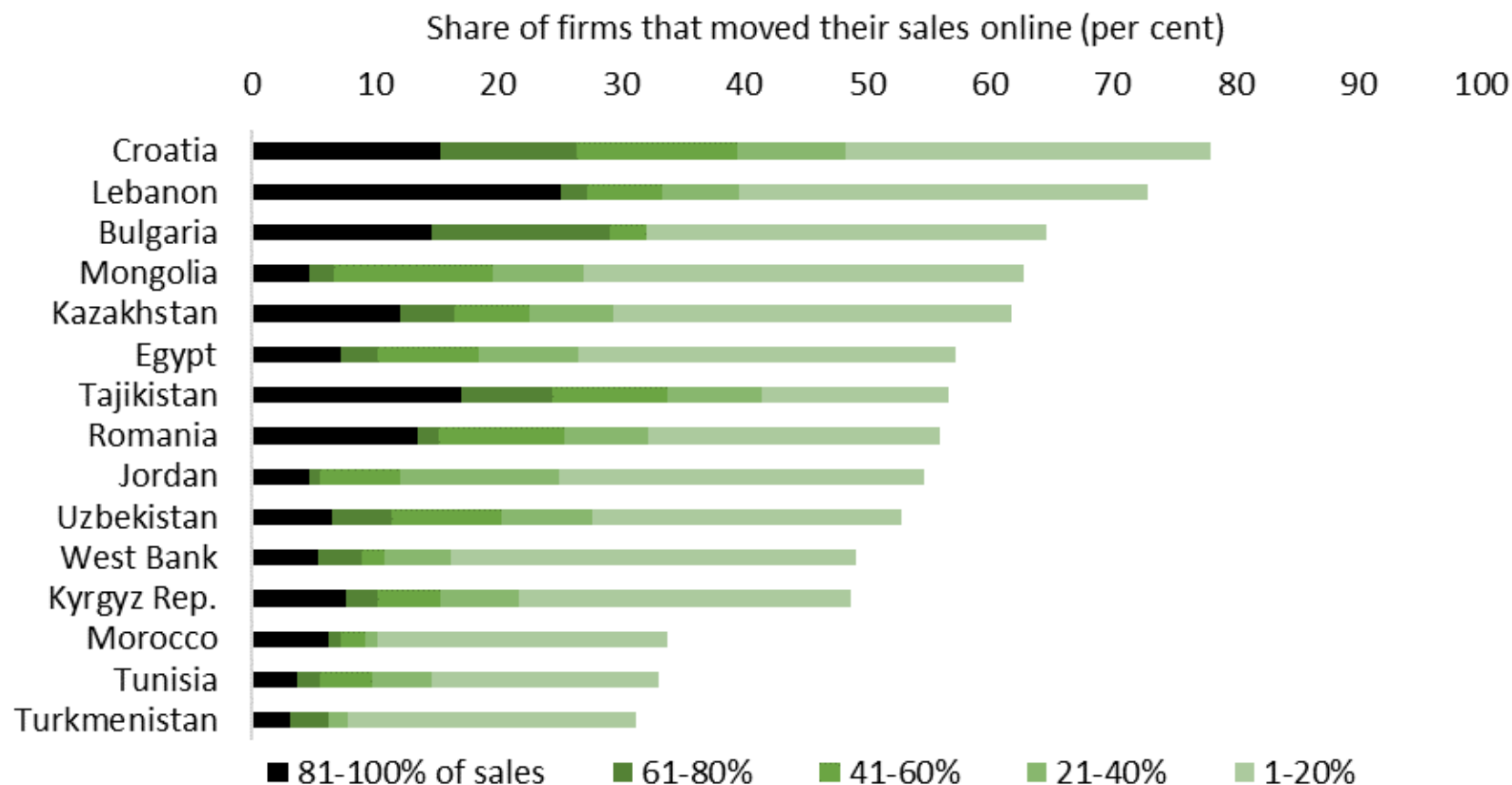
Share of firms that received/expect to receive government support varies



Around half of SMEs moved at least some of their sales online

Though rates much lower rates in Central Asia and the Southern and Eastern Mediterranean where economies are characterized by large informal sectors and relatively low levels of online retail

Around half of SMEs moved some of their sales online in response to the pandemic



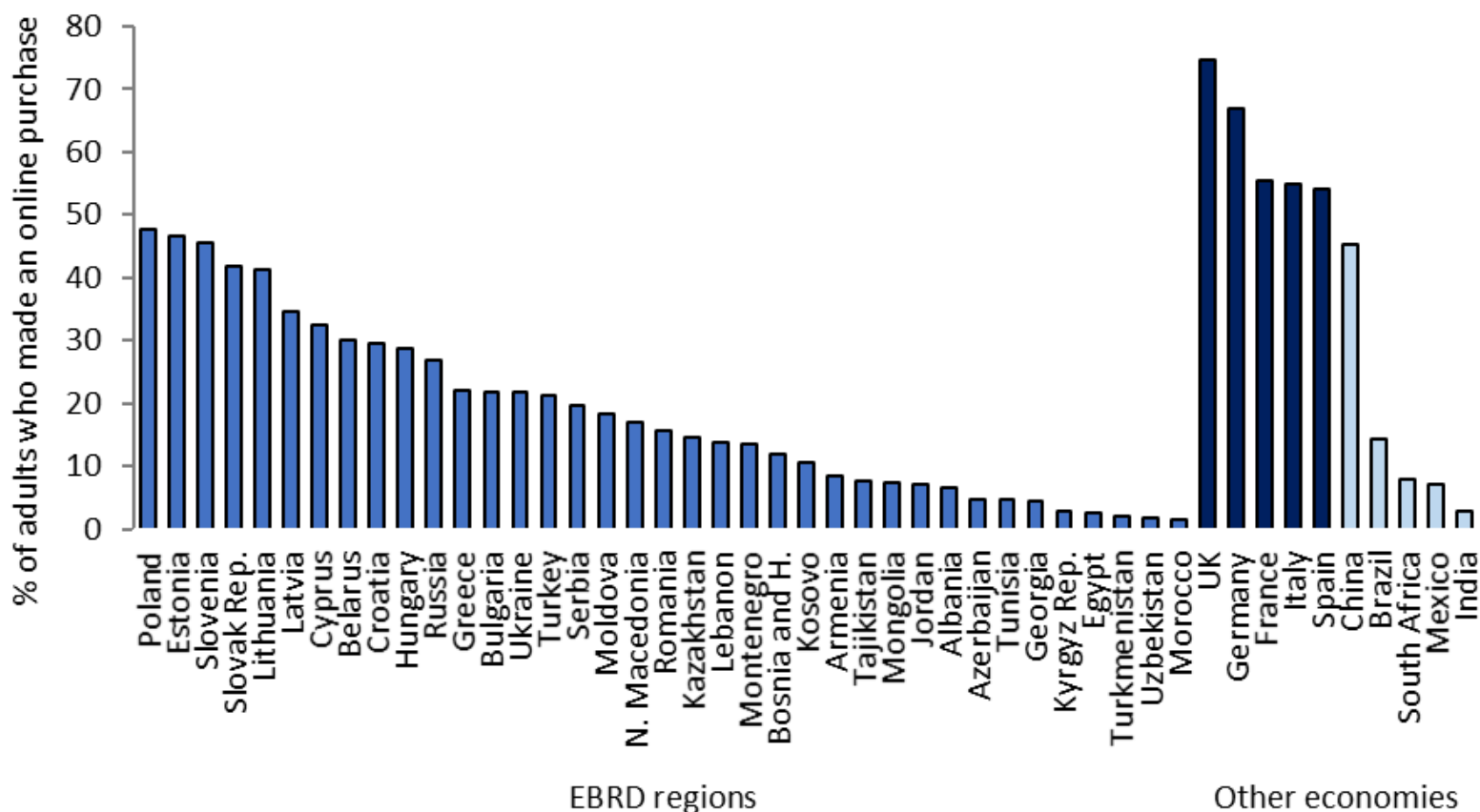
Gains in e-commerce likely to be largest where it is already a non-negligible share of sales



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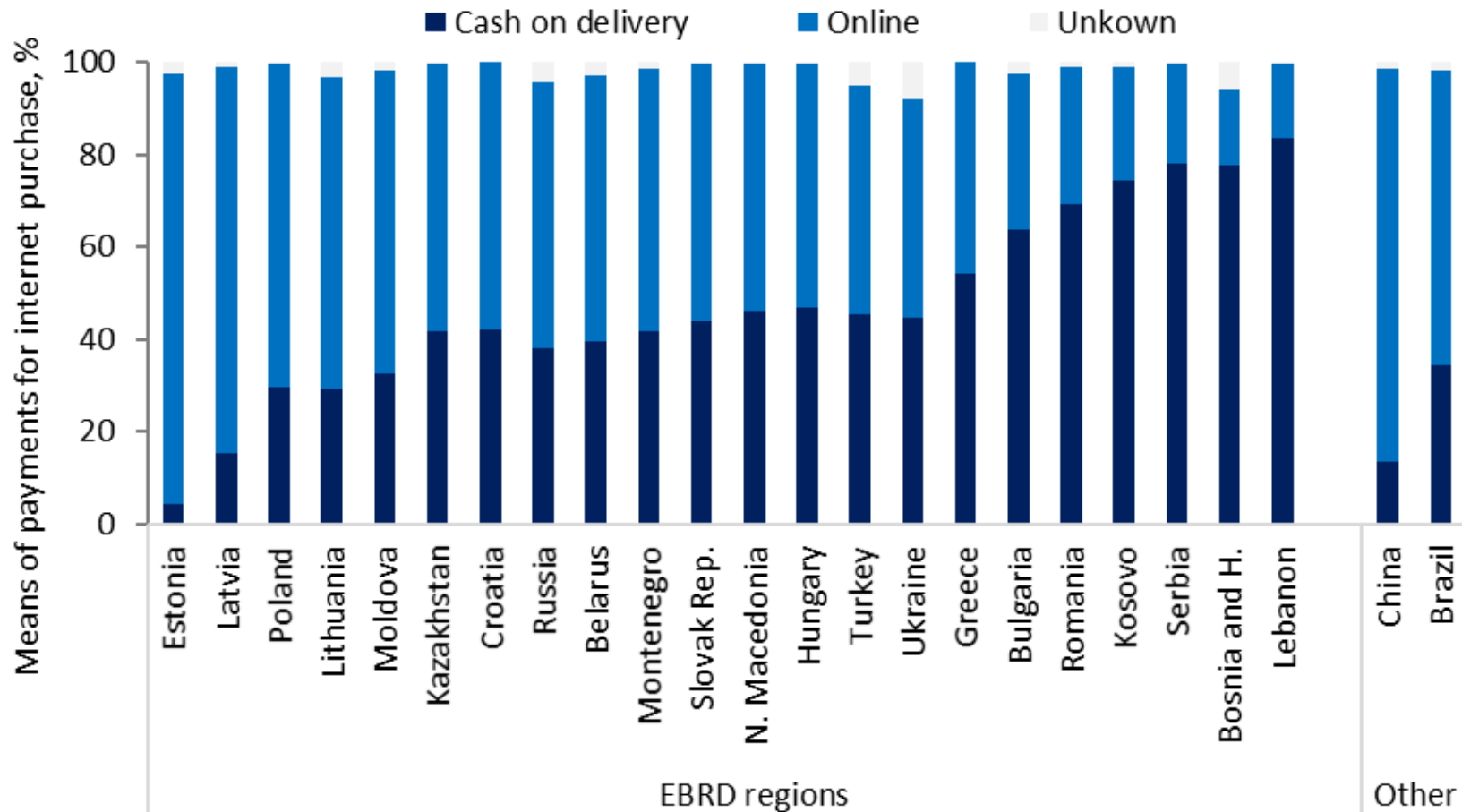
Higher share of the population in the EBRD regions orders online than in many other emerging markets (with the notable exception of China), though with much lower rates in Central Asia and Southern and Eastern Med.

Significant shares of adult populations of the EBRD regions used the internet to make a purchase online



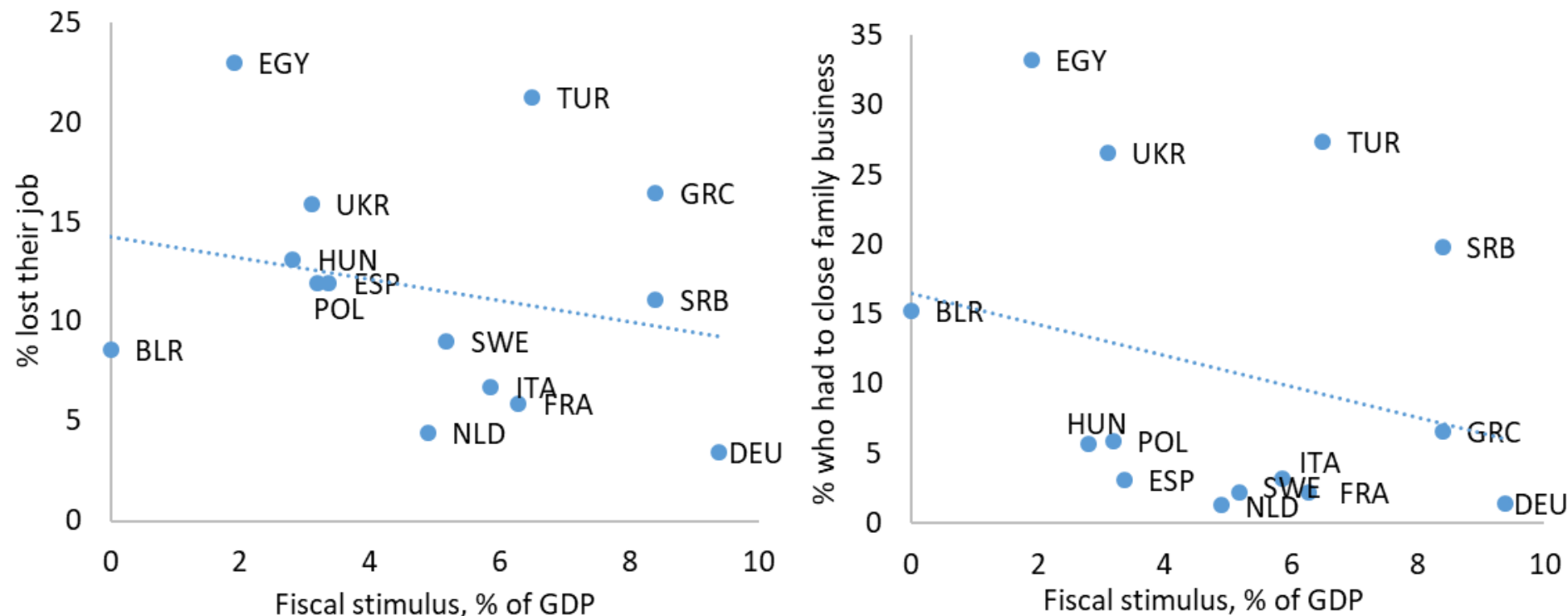
Gains in e-commerce likely to be largest where it is already a non-negligible share of sales

Online payments remain less common in the EBRD regions than in many other emerging markets



Many countries in the EBRD regions responded with large fiscal packages averaging 4.2% of GDP

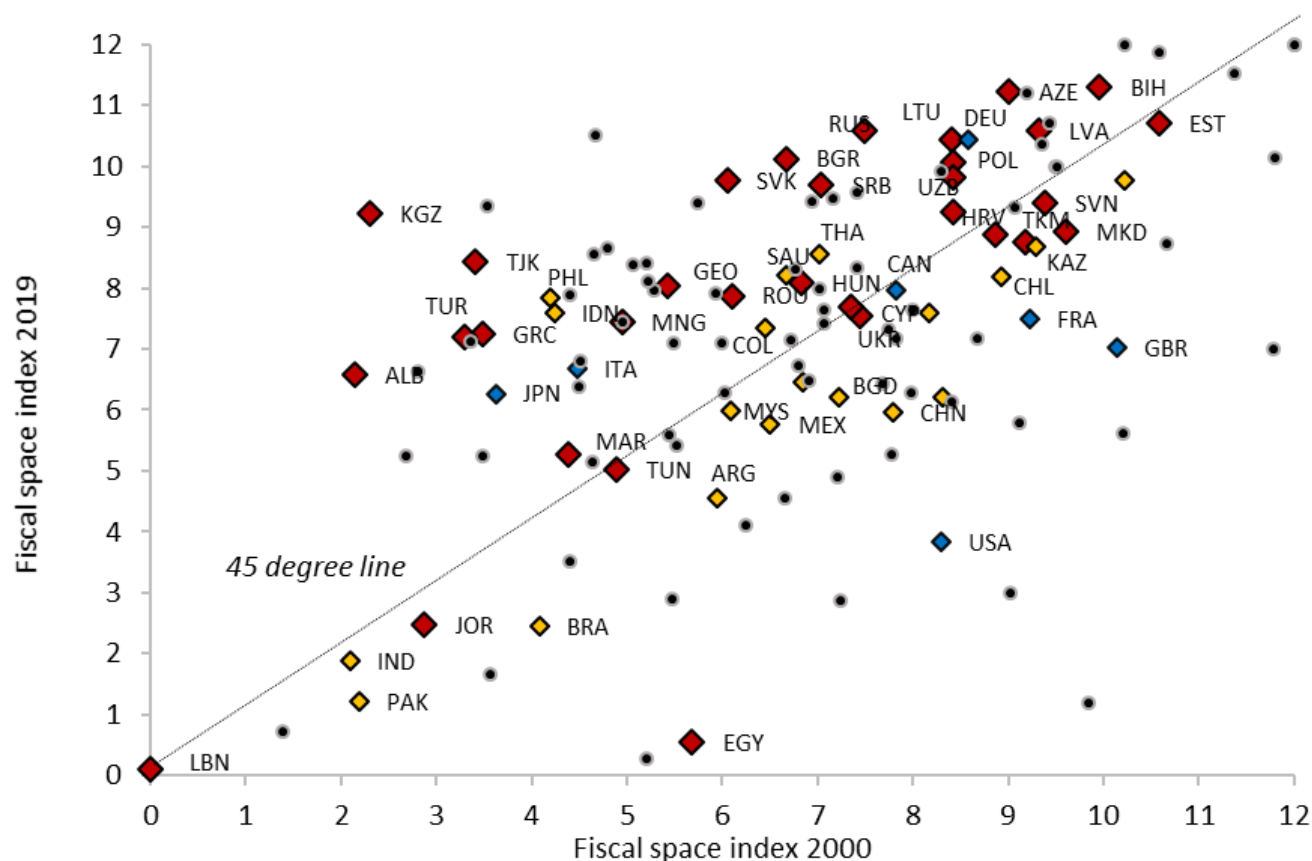
Job losses and business closures were less common in economies with larger fiscal stimulus packages



Most countries in the EBRD regions had sufficient fiscal space before the pandemic

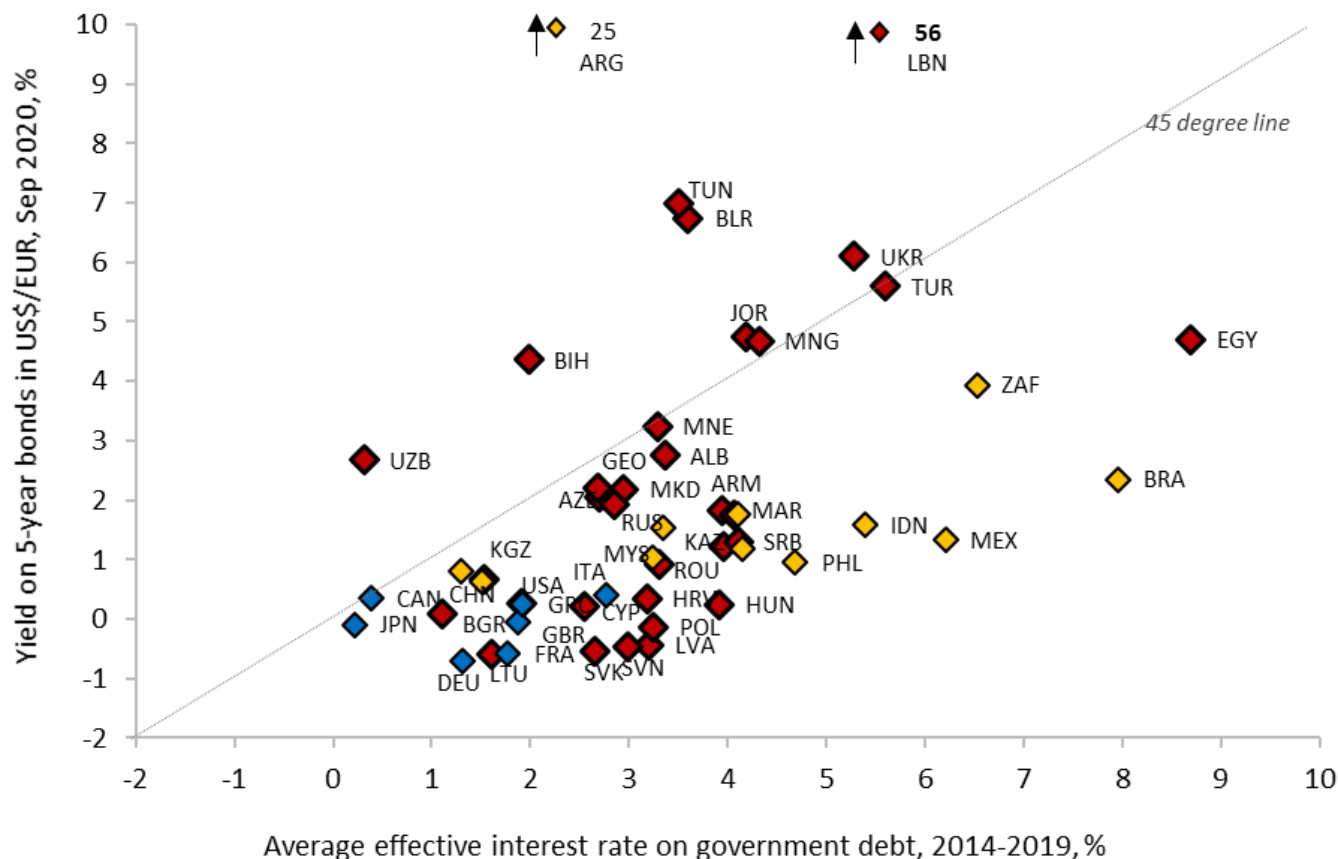
Based on government debt; fiscal deficit, cost of borrowing and government revenue relative to GDP

More ample fiscal space on account of lower borrowing costs



Borrowing costs remain low, though in Belarus, Lebanon, Tunisia they have risen sharply

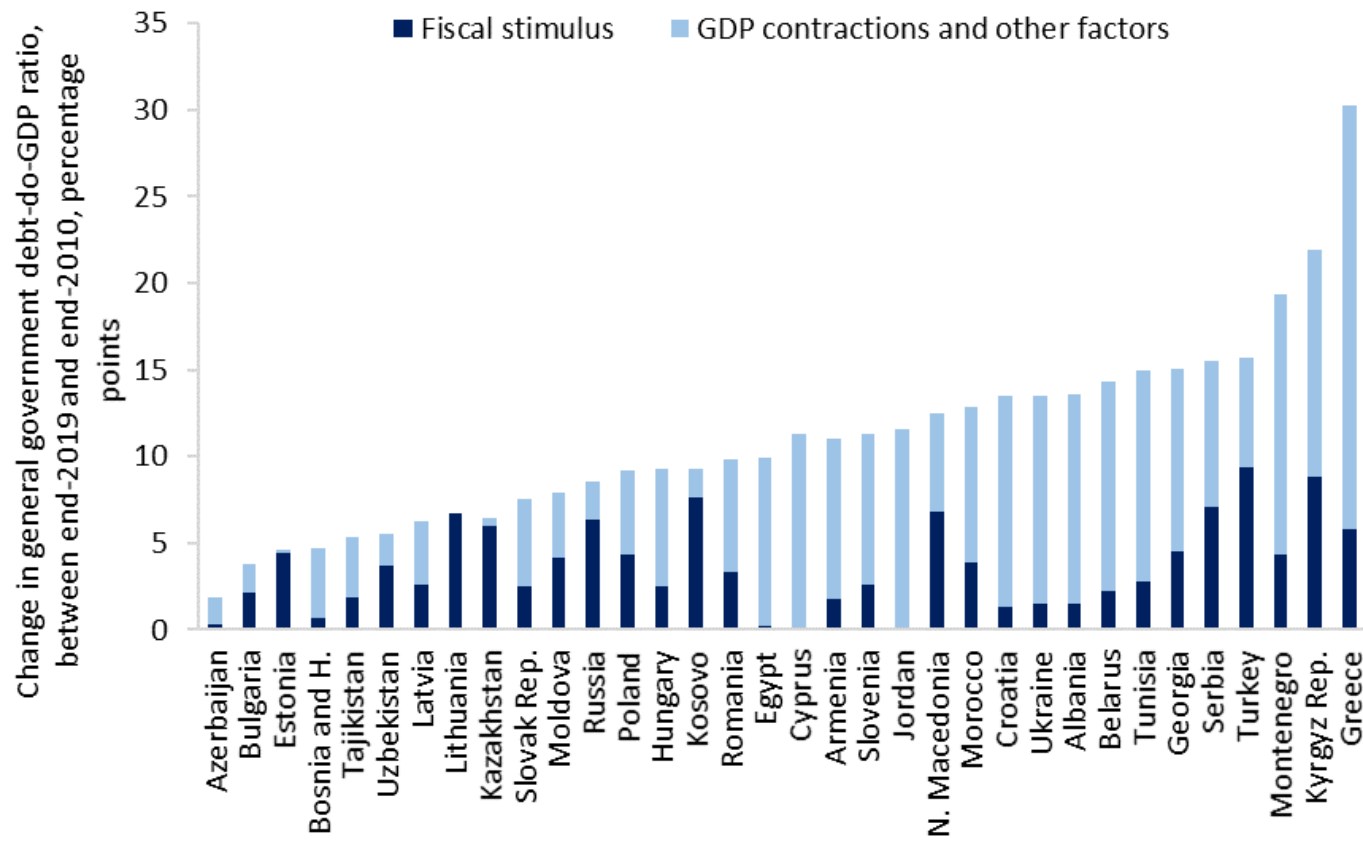
Most economies face lower borrowing costs, compared with the 2014-2019 average



Public debt is expected to increase significantly, 1/3 of it due to extra spending

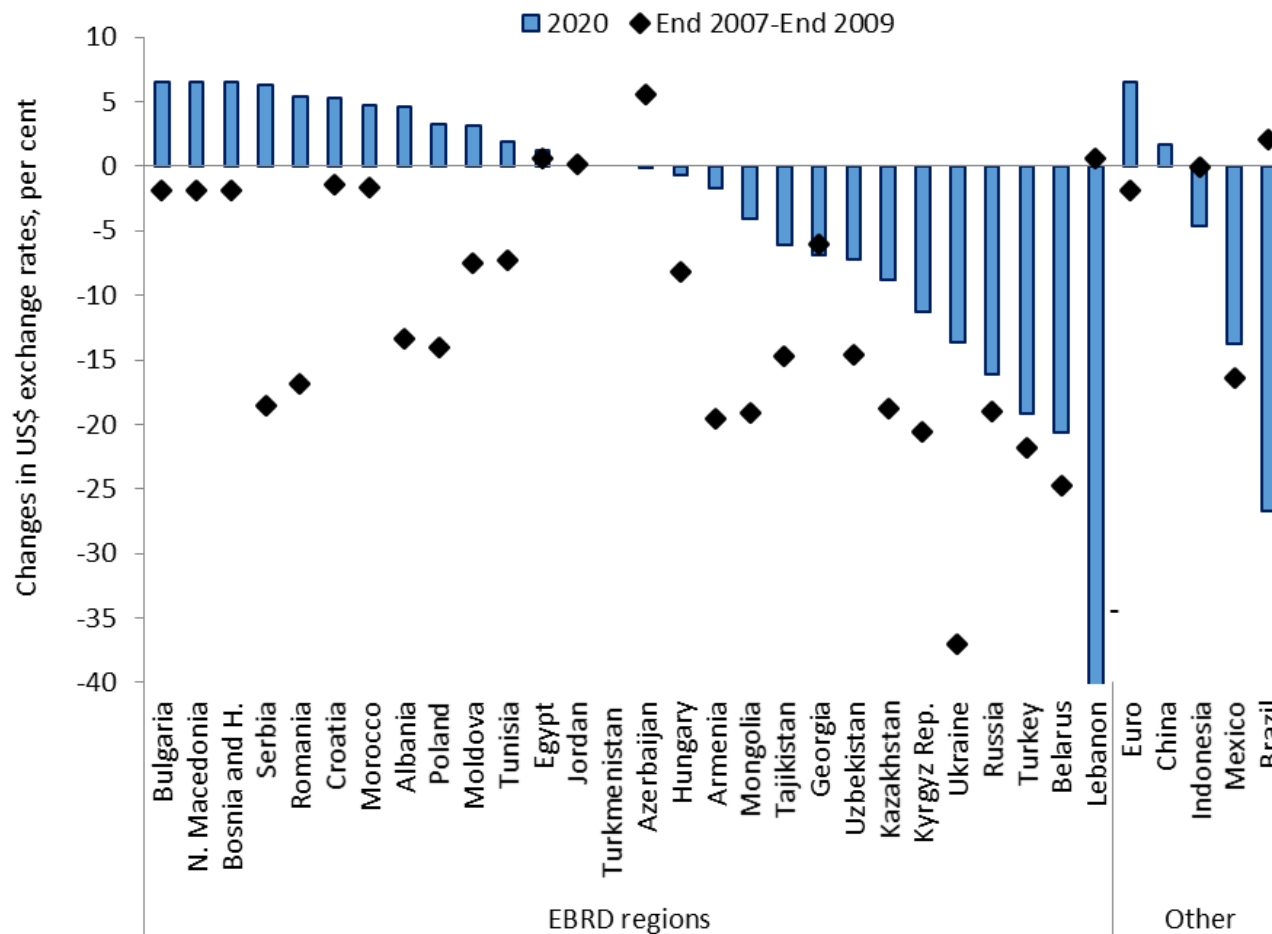
The rest is primarily due to sharp contractions in GDP (currency depreciations also contribute)

Debt-to-GDP ratios are projected to increase by 11 percentage points, on average, by end-2020



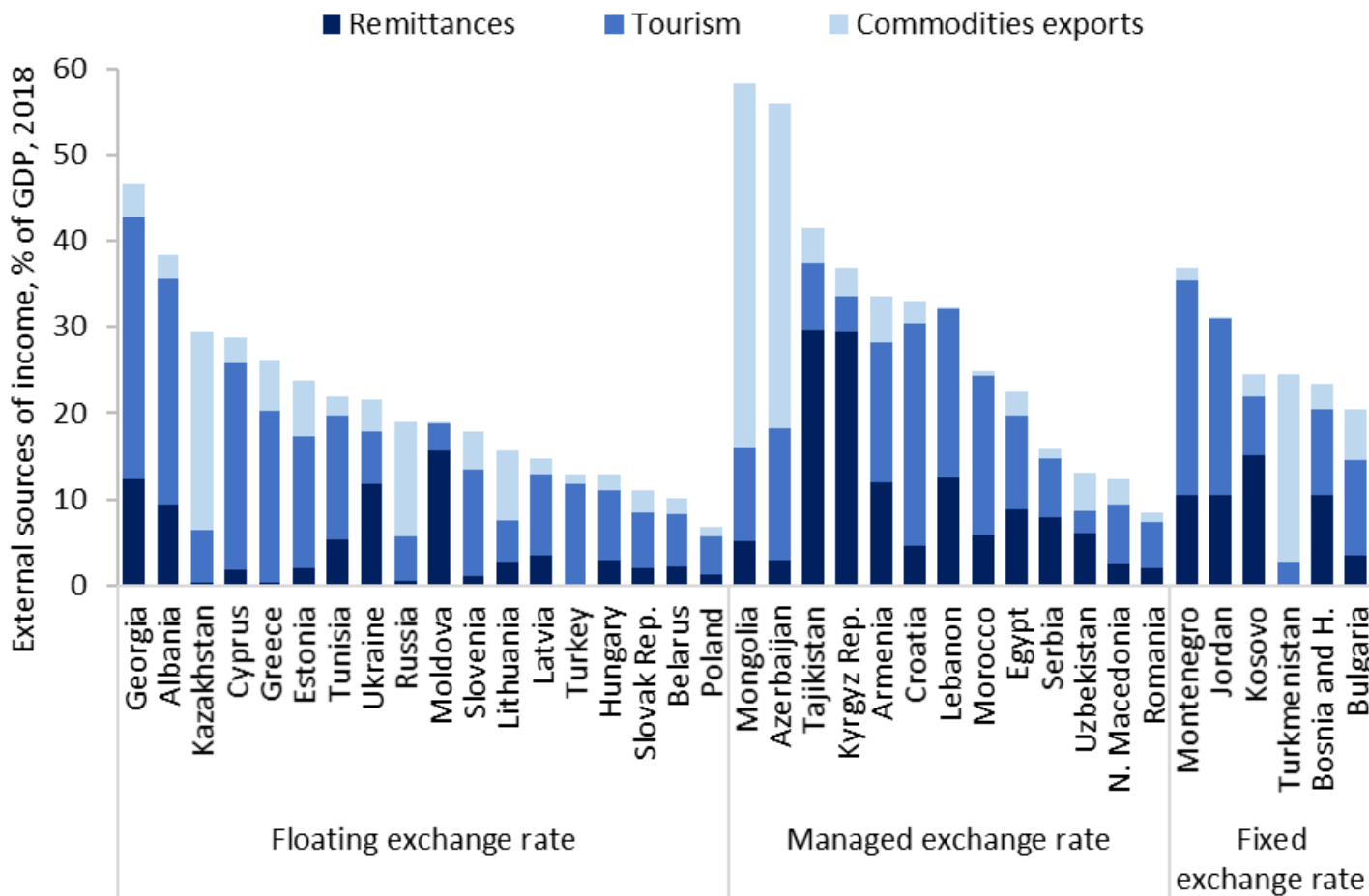
Limited exchange rate movements relative to developments during the GFC

Limited movements in exchange rates against the US dollar in January-August 2020



Flexible exchange rates could help to offset the impact of drops in external sources of income

Pre-crisis, external sources of income averaged 25 per cent of GDP in the EBRD regions



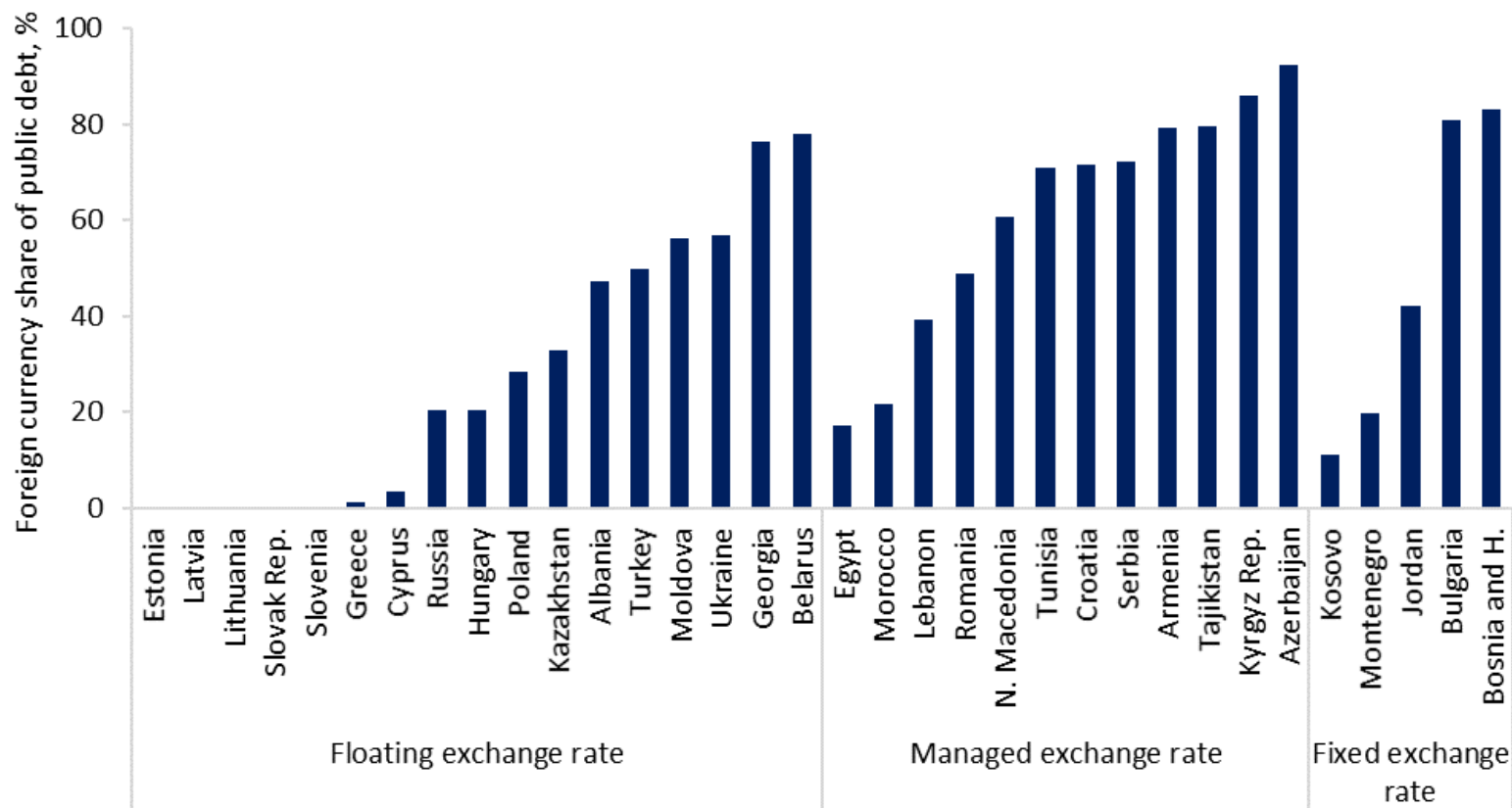
In some countries, a large share of government debt is denominated in foreign currency



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There currency depreciations can raise debt-to-GDP ratios and interest payment bills even where nominal interest rates are relatively low

Foreign-currency share of public debt remains high in a number of economies



Output in the EBRD regions is expected to contract by 3.9 per cent in 2020

Growth forecasts have been revised down since the May 2020 Update reflecting worse-than-projected outcomes in H1 2020 in many economies and longer than previously expected social distancing

Real GDP growth in the EBRD regions (per cent)

