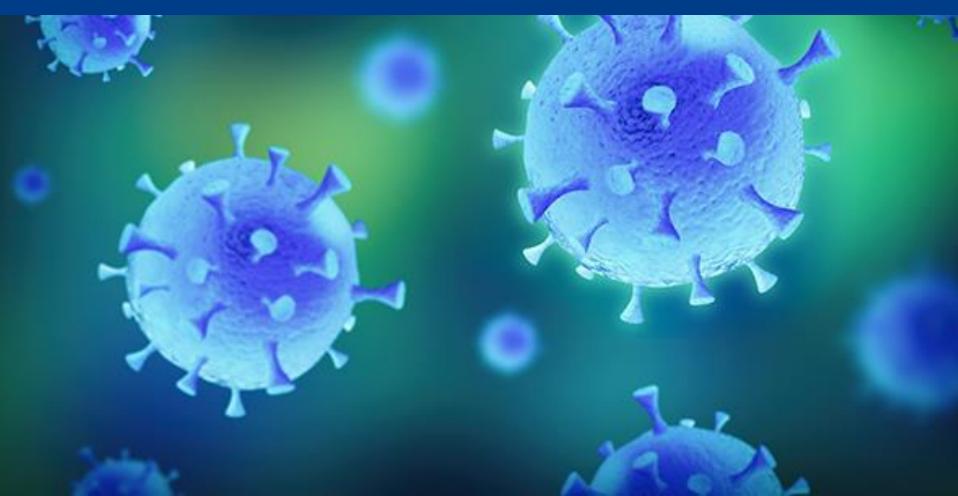
REGIONAL ECONOMIC PROSPECTS IN THE EBRD REGIONS

September 2020



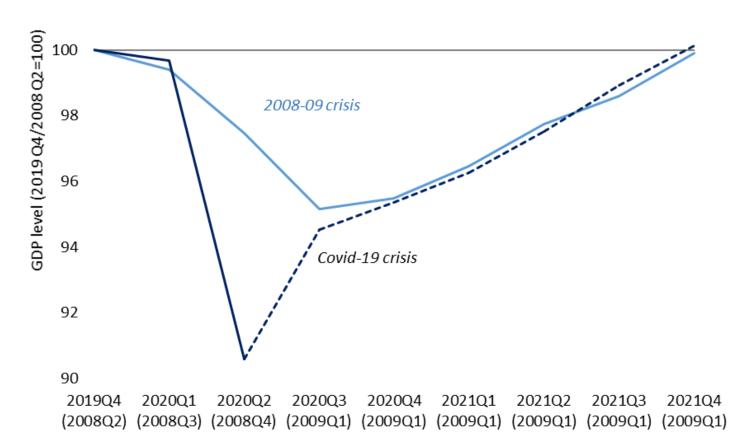
Covid-19: Early estimates of the damage, uncertain prospects



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

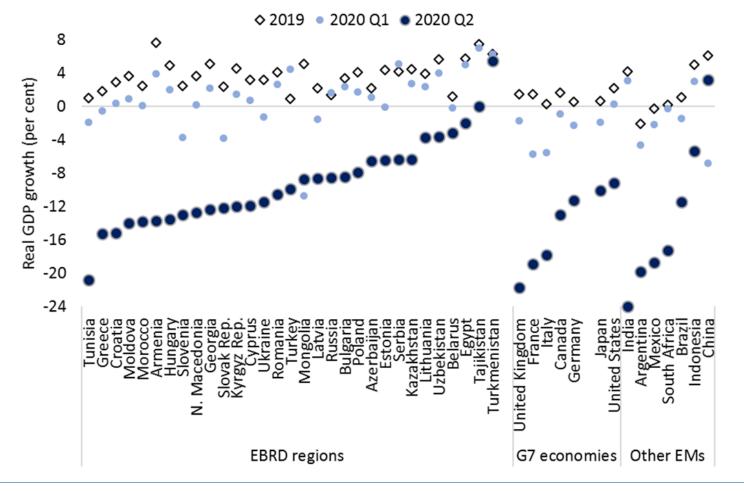


Growth in the EBRD regions slowed in Q1 2020 and contracted sharply in Q2 2020



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

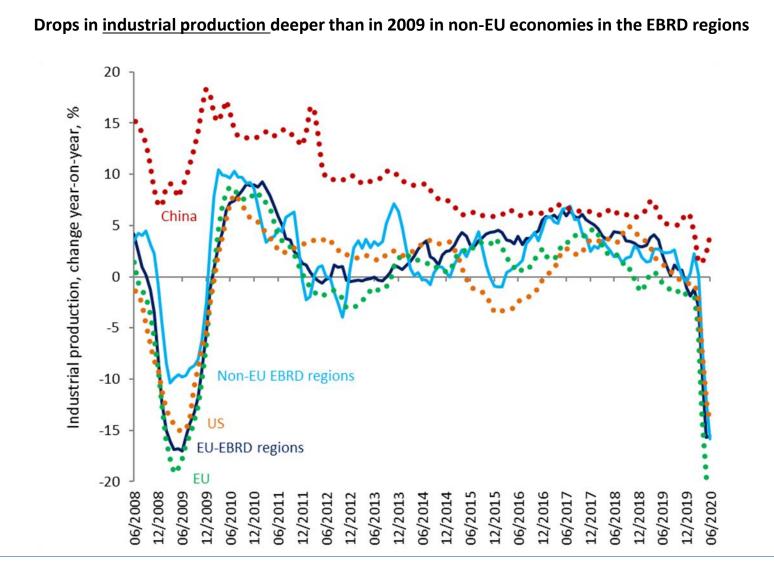
Real GDP growth turned sharply negative in the second quarter of 2020



Sources: CEIC and national authorities. Note: 2020 H1 figure used for both quarters for Tajikistan.

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

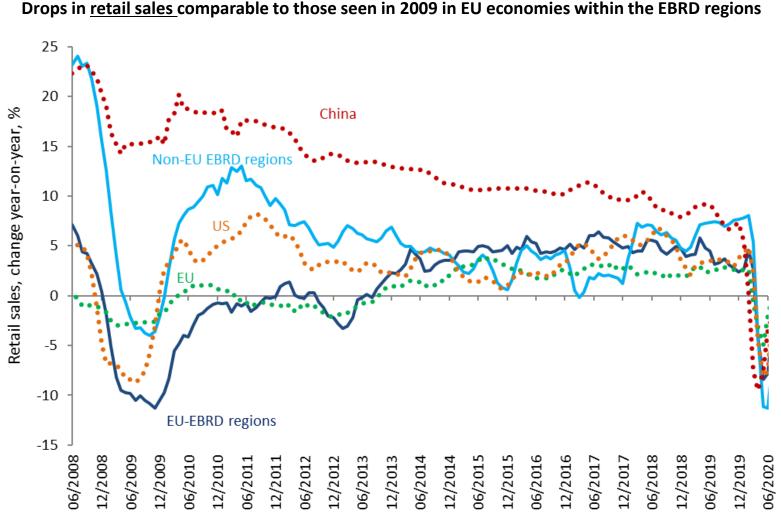




Sources: CEIC and national authorities. Notes: 3-month moving average.

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

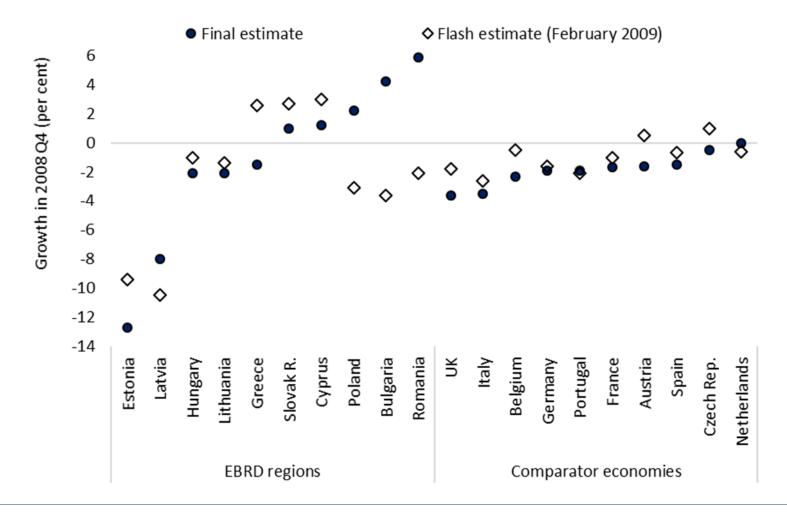




Sources: CEIC and national authorities. Notes: 3-month moving average.



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



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

100 Parks % Change in mobility since Feb 2020, EBRD regions, 80 60 40 20 Grocery and pharmacy -20 Workplaces -40 Transit stations -60 Retail and other social activities -80 -100 24 May 20 05 Apr 20 26 Apr 20 19 Jul 20 23 Feb 20 31 May 20 01 Mar 20 **08 Mar 20** L5 Mar 20 22 Mar 20 29 Mar 20 12 Apr 20 19 Apr 20 03 May 20 L0 May 20 17 May 20 07 Jun 20 14 Jun 20 21 Jun 20 28 Jun 20 05 Jul 20 12 Jul 20 02 Aug 20 09 Aug 20 16 Aug 20 26 Jul 20

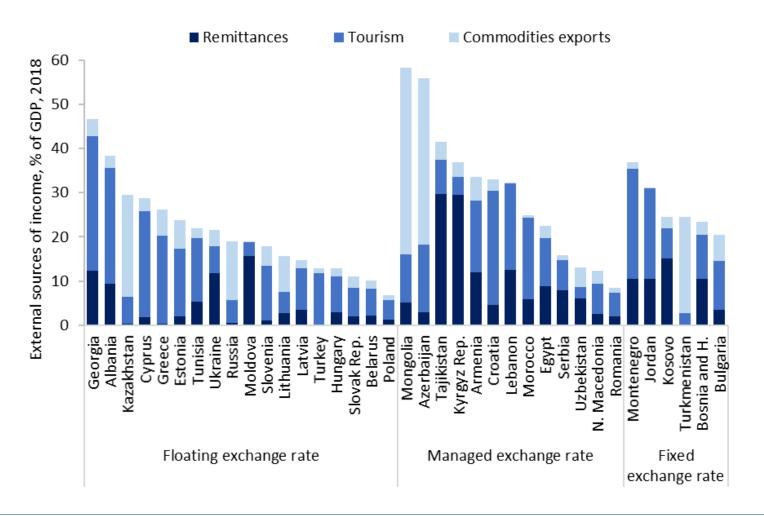
Mobility in the EBRD regions has not recovered to February levels

Sources: Google mobility trends and authors' calculations. Notes: 7 day moving average. The baseline is the median value, for the corresponding day of the week, during the 5- week period January 3–February 6 2020.

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

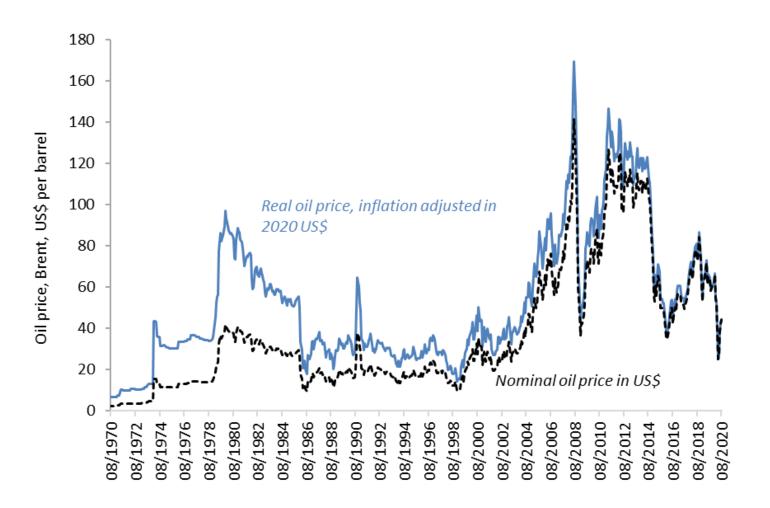


Sources: World Bank, World Travel and Tourism Council, International Trade Center. Notes: Direct and indirect contributions of tourism and travel; commodity exports are the sum of HS-26 (ores) and HS-27 (mineral products) product group exports.

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

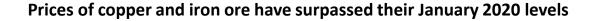


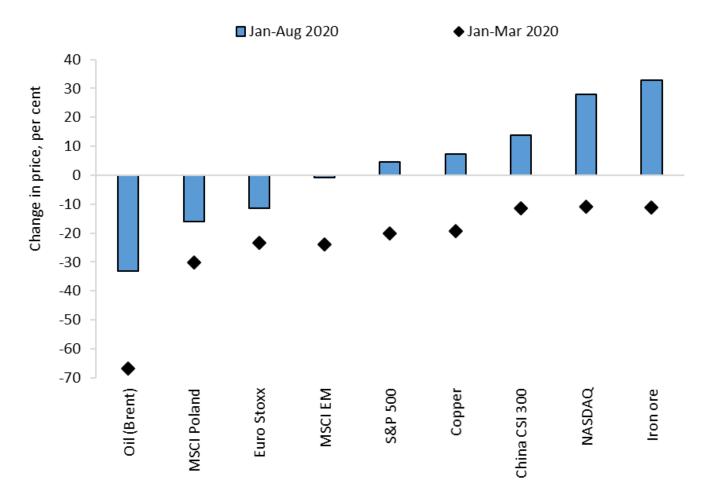
Notwithstanding recent increases, oil prices are at around their 2004 levels



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





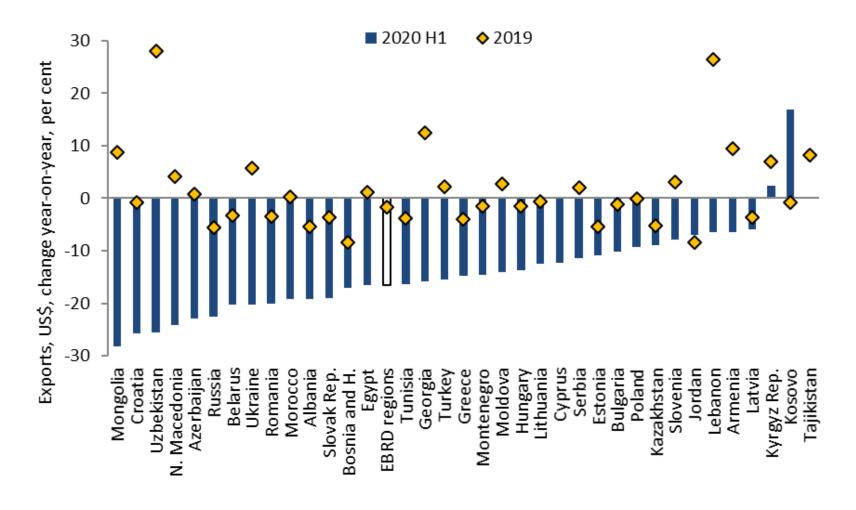


Sources: Thomson Reuters and authors' calculations. Notes: The US\$ Broad Exchange Index is a trade-weighted measure of the value of the US dollar relative to other currencies.

Decline in exports in most economies in the EBRD regions

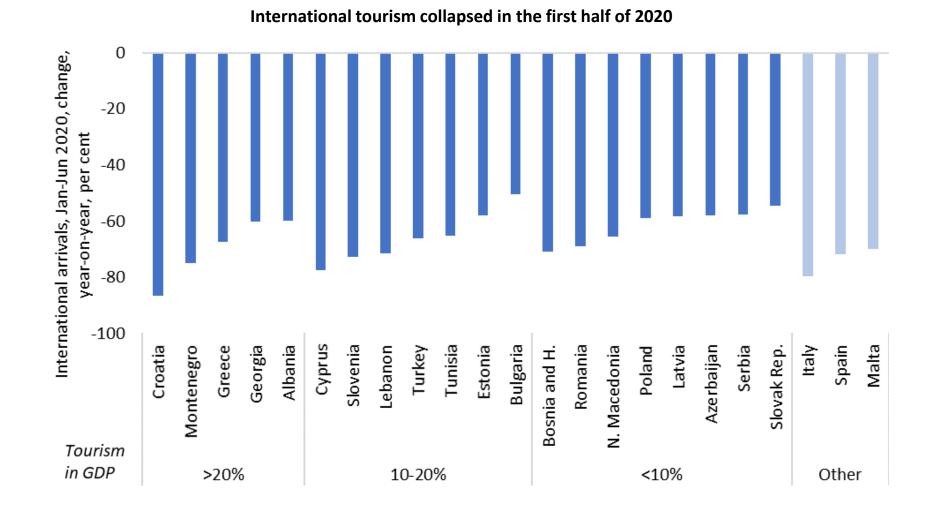


Exports from the EBRD regions dropped by 14 per cent year-on-year in the first half of 2020



Sharp fall in international tourism

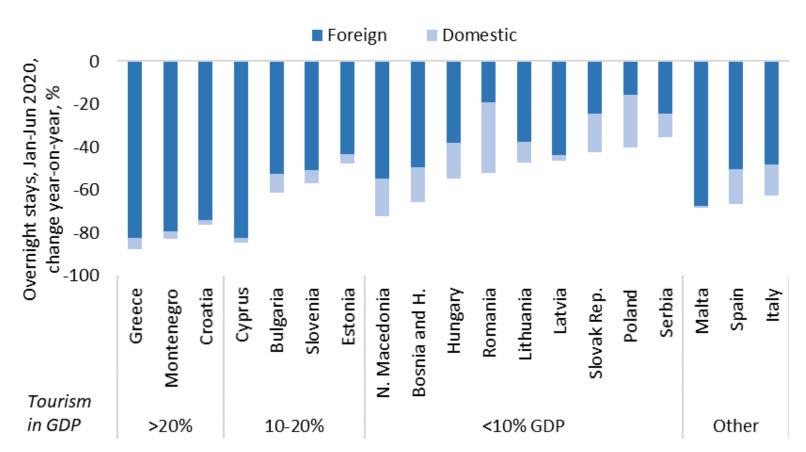




Sources: Eurostat, national statistical offices, UNWTO, World Travel and Tourism Council and authors' calculations. Notes: Countries grouped by tourism as a share of GDP in 2019. January-May for Cyprus and Lebanon.

Sharp fall in international and domestic tourism





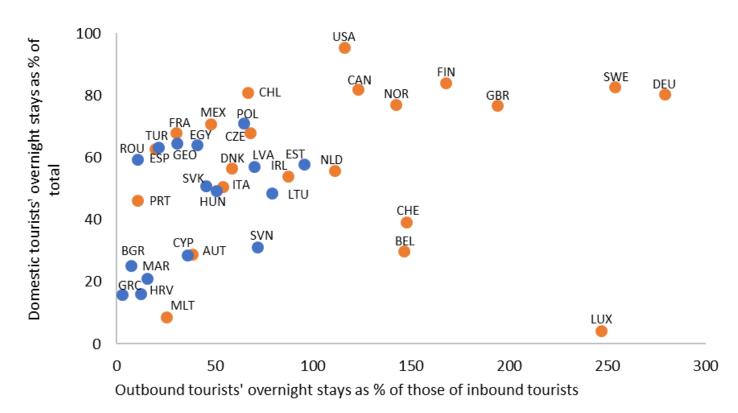
Domestic tourism was also weaker in January-June 2020

Sources: Eurostat, national statistical offices, UNWTO, World Travel and Tourism Council and authors' calculations. Notes: Countries grouped by tourism as a share of GDP in 2019. January-May for Cyprus.

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



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

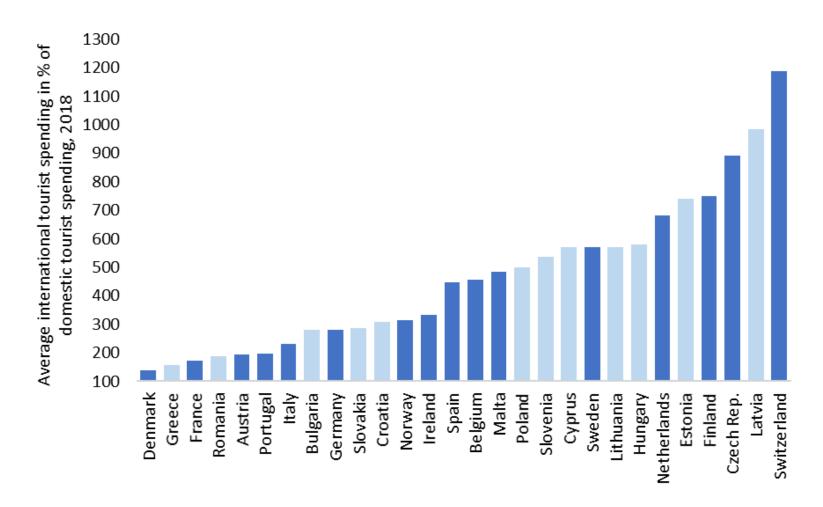


Domestic tourism in the EBRD regions has been limited to date

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

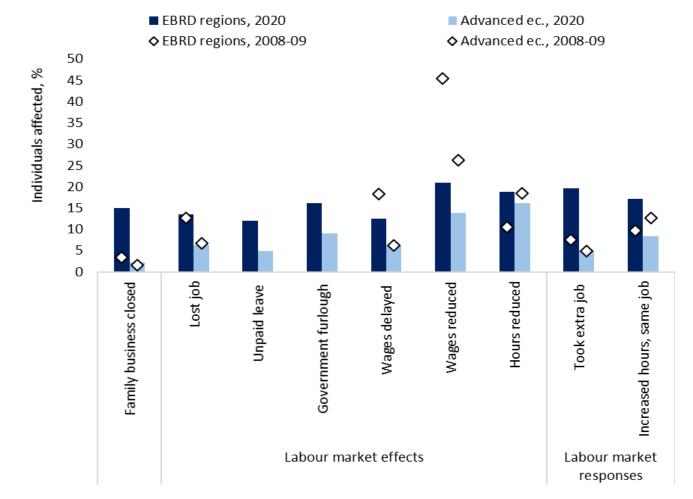


Average international tourist spending far exceeds domestic tourist spending





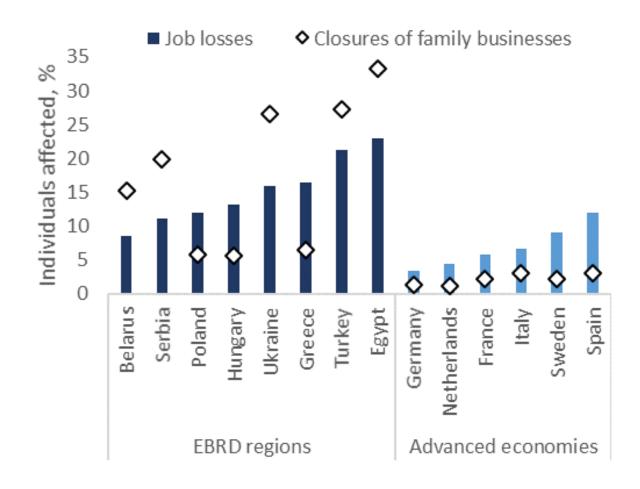
15 per cent of survey respondents in the EBRD regions lost a job and 15 per cent had to close family business

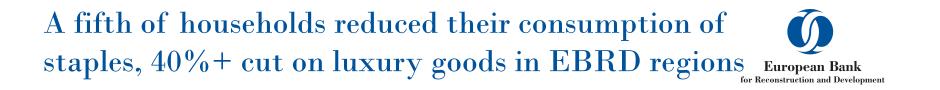


Sources: Ifo-EBRD Survey, LITS 2010 and authors' calculations. Notes: EBRD regions includes Belarus, Hungary, Poland, Serbia, Turkey and Ukraine, advanced economies includes France, Germany, Italy and Sweden.

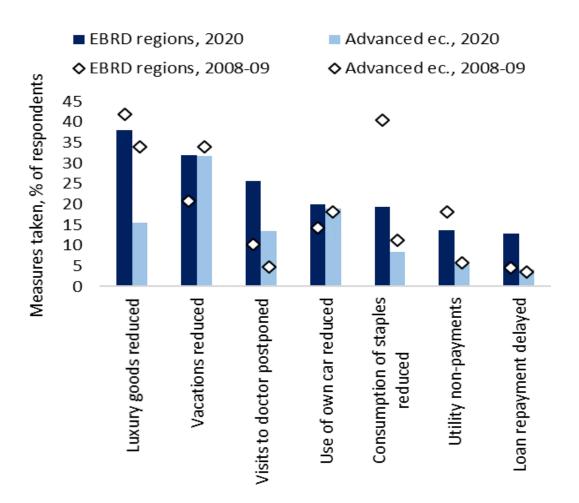


9-23 per cent of survey respondents in the EBRD countries lost a job because of the Covid-19 crisis





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

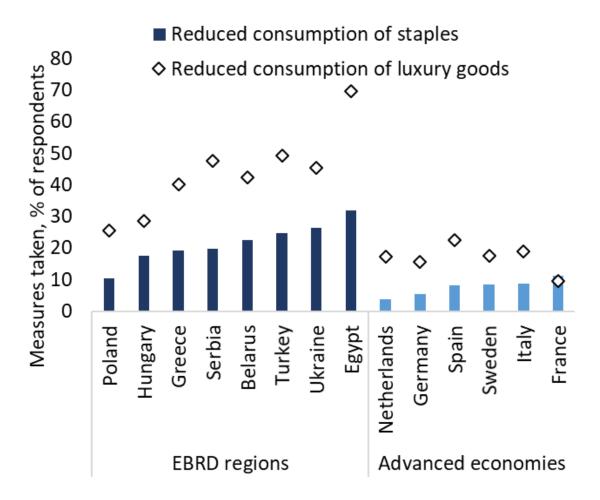


Sources: Ifo-EBRD Survey, LITS 2010 and authors' calculations. Notes: EBRD regions includes Belarus, Hungary, Poland, Serbia, Turkey and Ukraine, advanced economies includes France, Germany, Italy and Sweden.

Many households had to reduce their spending



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

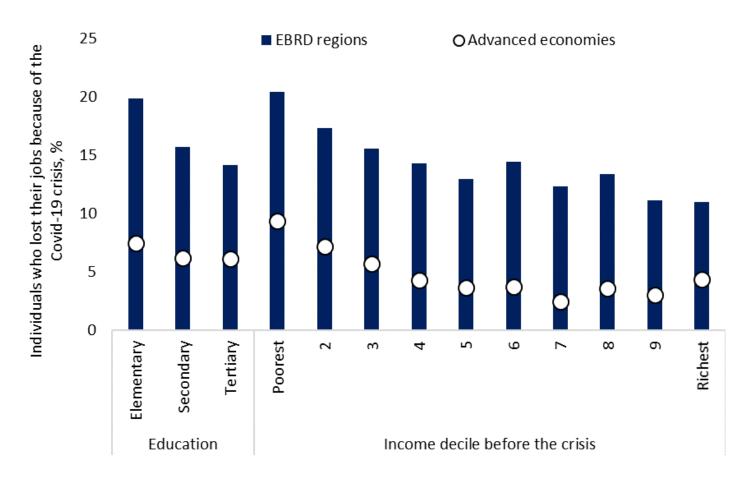


Burden of the crisis disproportionately borne by those with lower levels of education and income



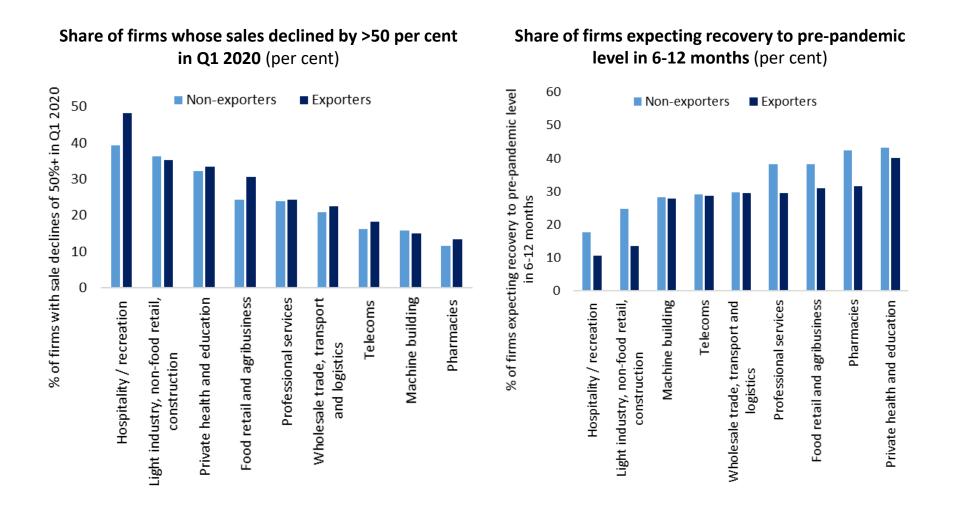
As well as the young, those working for smaller firms, in the private sector (as opposed to public sector/SOEs)

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

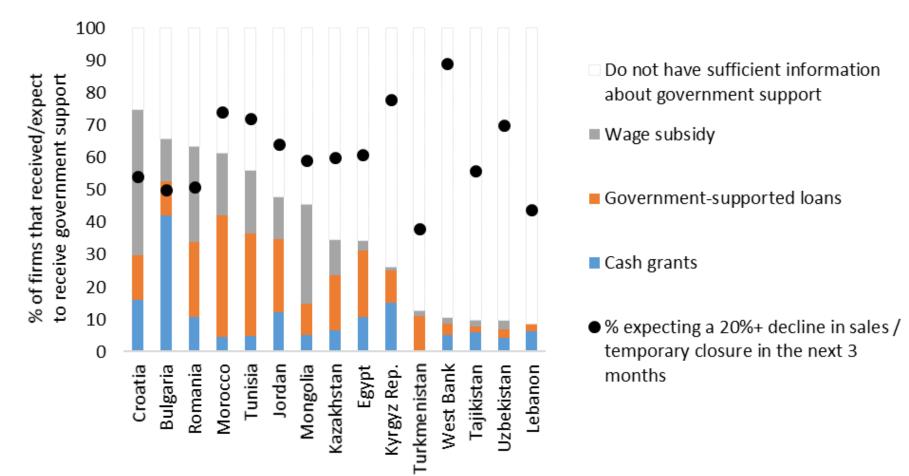




Sources: EBRD SME survey.

Government support, received or expected, varies widely across countries





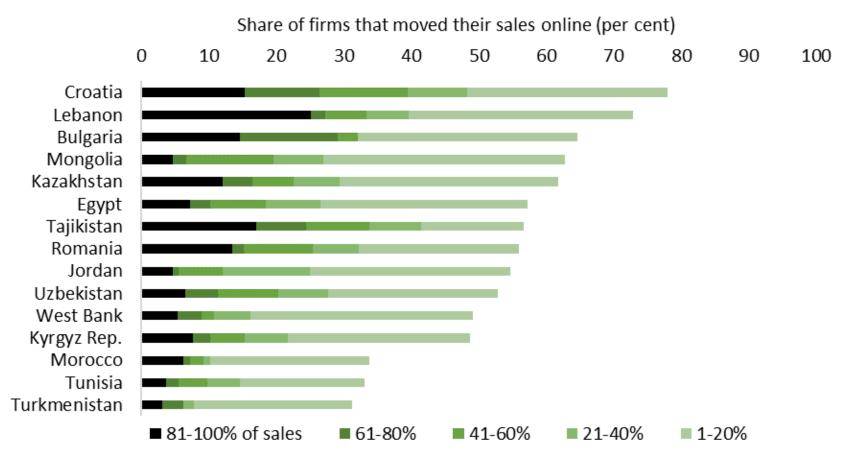
Share of firms that received/expect to receive government support varies

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

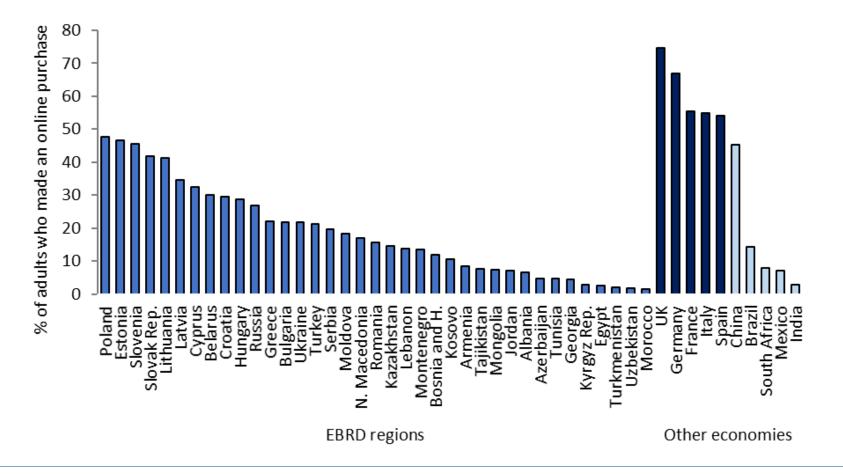


Gains in e-commerce likely to be largest where it is already a non-negligible share of sales



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.

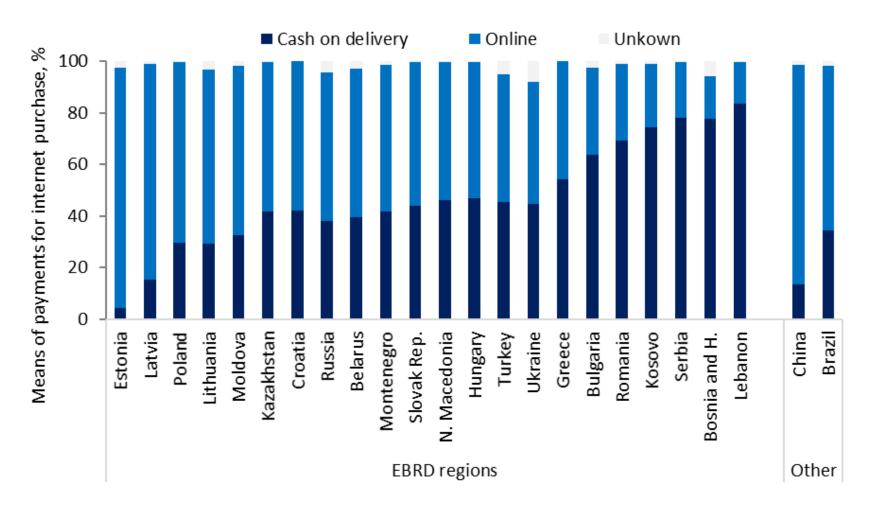
Significant shares of adult populations of the EBRD regions used the internet to make a purchase online



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



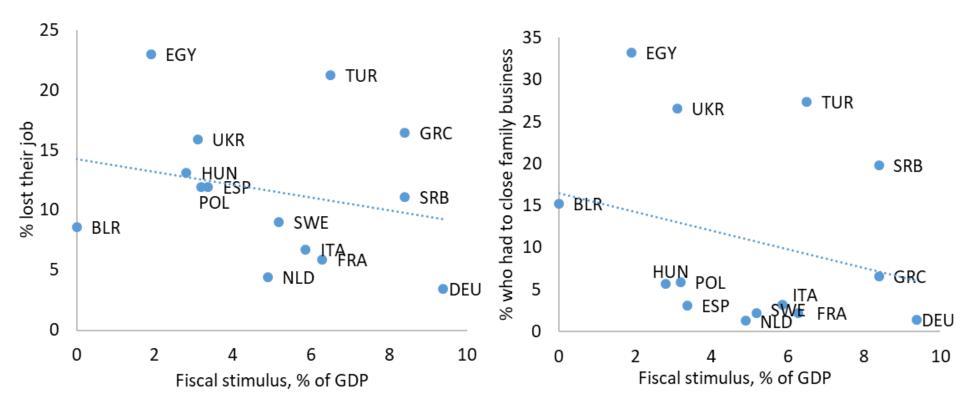
Online payments remain less common in the EBRD regions than in many other emerging markets



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

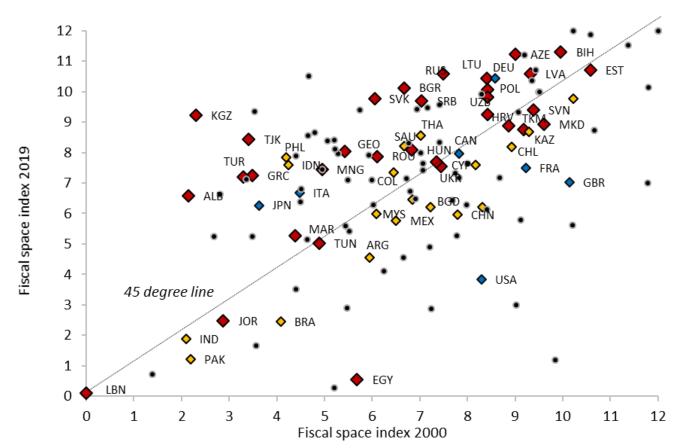


Sources: Ifo-EBRD Survey, EBRD, European Commission and IMF estimates and authors' calculations. Note: Fiscal stimulus estimates include only above-the-line items.

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

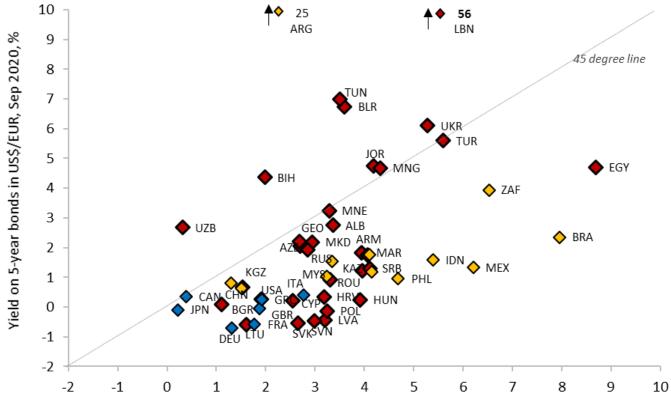


More ample fiscal space on account of lower borrowing costs

Sources: IMF, national authorities and authors' calculations. Notes: The indicator ranges 0-12 based on the sum of the 4 renormalized indicators.

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

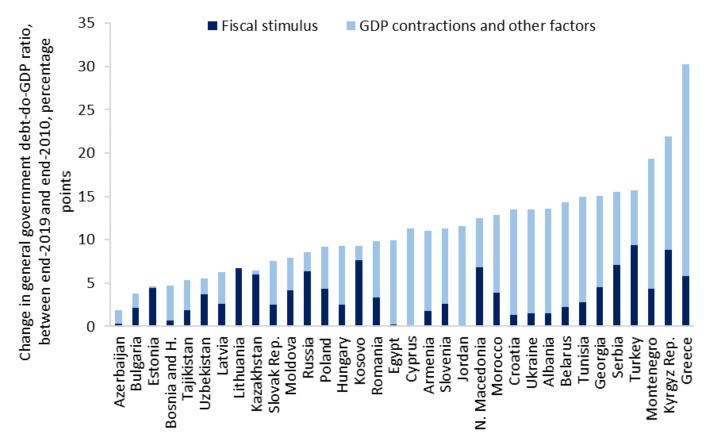
Average effective interest rate on government debt, 2014-2019, %

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)

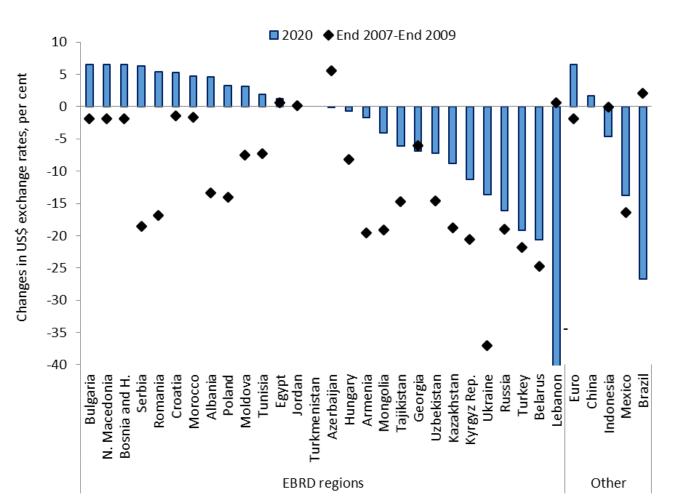
Debt-to-GDP ratios are projected to increase by 11 percentage points, on average, by end-2020



Sources: EBRD, European Commission, IMF, national authorities and authors' calculations. Notes: Fiscal stimulus estimates include above-theline items only. Other debt dynamics includes the effects of growth, inflation and exchange rate changes.

Limited exchange rate movements relative to developments during the GFC



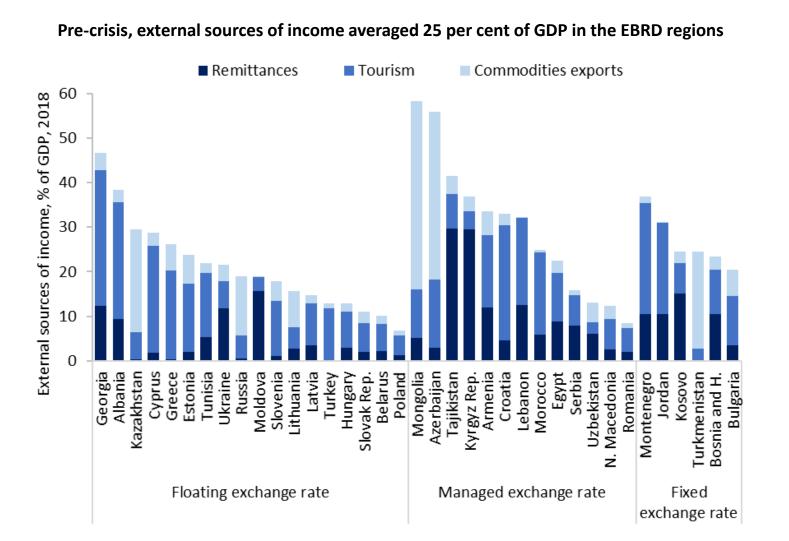


Limited movements in exchange rates against the US dollar in January-August 2020

Sources: Bloomberg, Thomson Reuters and authors' calculations. Note: As of end-August 2020. Black market exchange rate for Lebanog₀

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



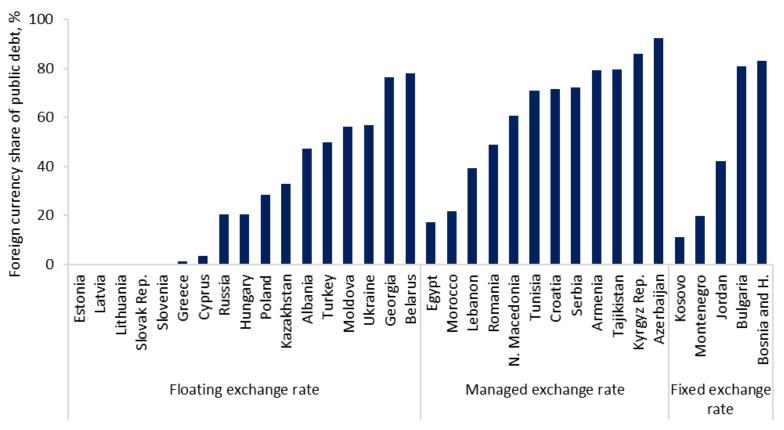


Sources: World Bank, World Travel and Tourism Council, International Trade Center. Notes: Direct and indirect contributions of tourism and travel; commodity exports are the sum of HS-26 (ores) and HS-27 (mineral products) product group exports.

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



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

Sources: Eurostat, ministries of finance, national statistical offices. Notes: If data unavailable all external (domestic) public debt is assumed to be in foreign (local) currency. 2017 for Egypt, 2018 for Tajikistan. Countries' exchange rate arrangements based on the IMF's 2019 AREAER database

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)

