

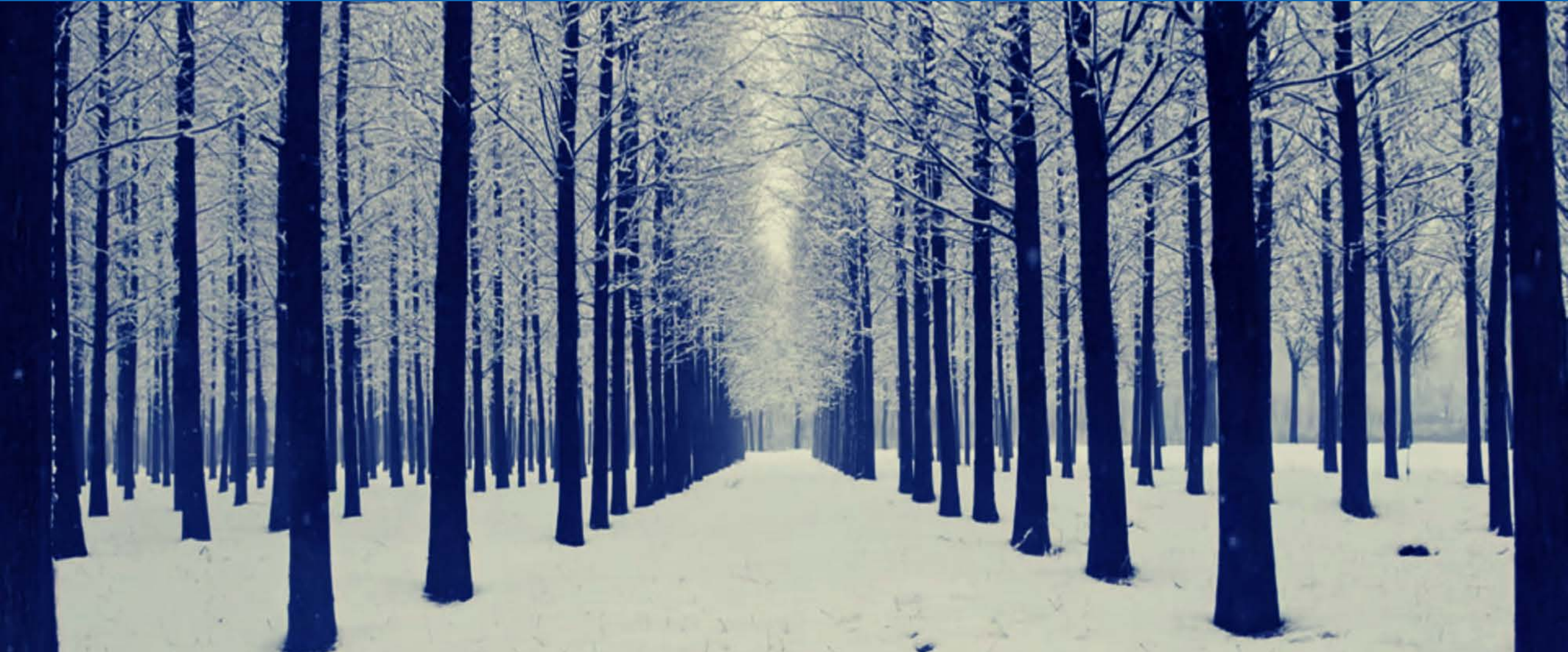
Not out of the woods yet

Regional Economic Prospects



European Bank
for Reconstruction and Development

February 2023 Update



Not out of the woods yet

Output in the EBRD regions is estimated to have grown by 3.2% yoy in Jan-Sep 2022, 2.4% in 2022 as a whole

Slower than in 2021 as the war on Ukraine took its toll and the post-Covid recovery has mostly run out of steam

Exceeding expectations, as private Covid-19 savings supported consumption in emerging Europe despite falling real wages

Parts of Central Asia / Caucasus benefitted from intermediating trade to Russia + inflows of capital and educated migrants

Growth forecasts have been revised down 0.9pp since Sep'22, to 2.1% in 2023 – but above no-gas scenario of Sep'22

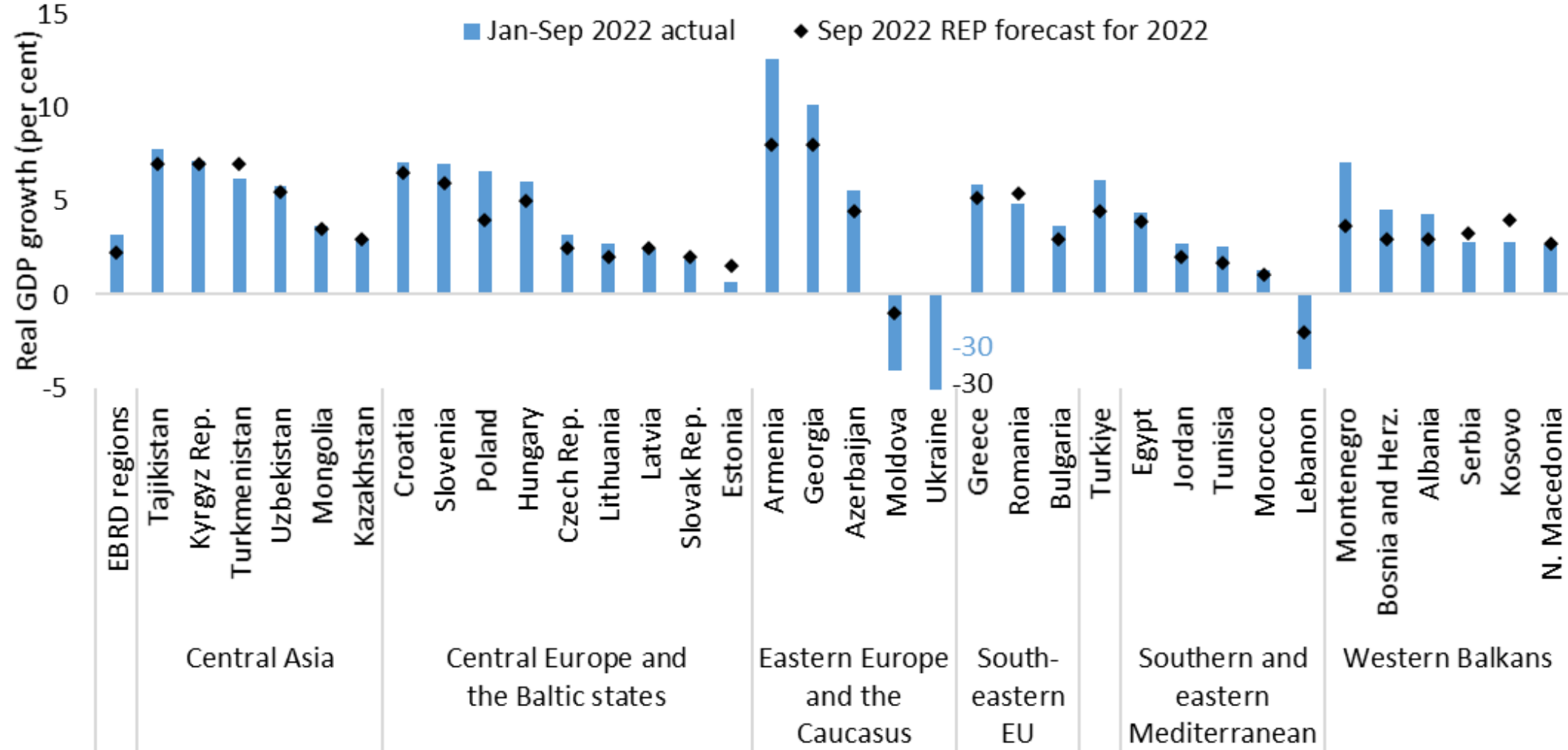
Growth is expected to pick up to 3.3% in 2024, broadly in line with estimates of medium-term potential growth

Commodity prices have eased from their recent peaks, but gas prices in Europe are expected to remain high

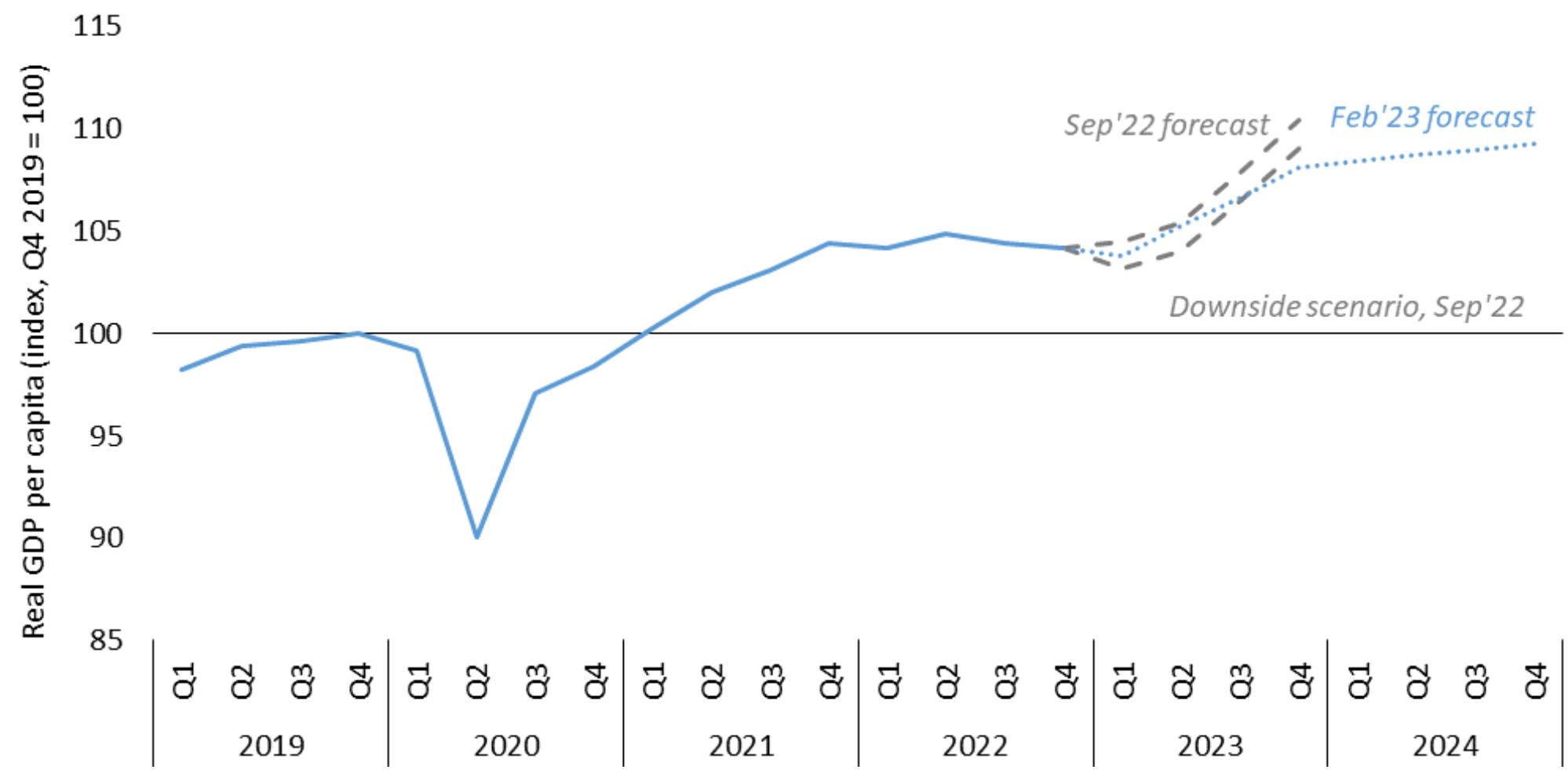
Inflation in the EBRD regions peaked at 17.5% in Oct'22, dropping to 16.5% in Dec'22, now declining in 26 out of 35 economies; past experiences suggest disinflation may be slower than currently expected

Median yield in the EBRD regions up by 3.8 ppt since Feb'22, interest payments are particularly high in Egypt

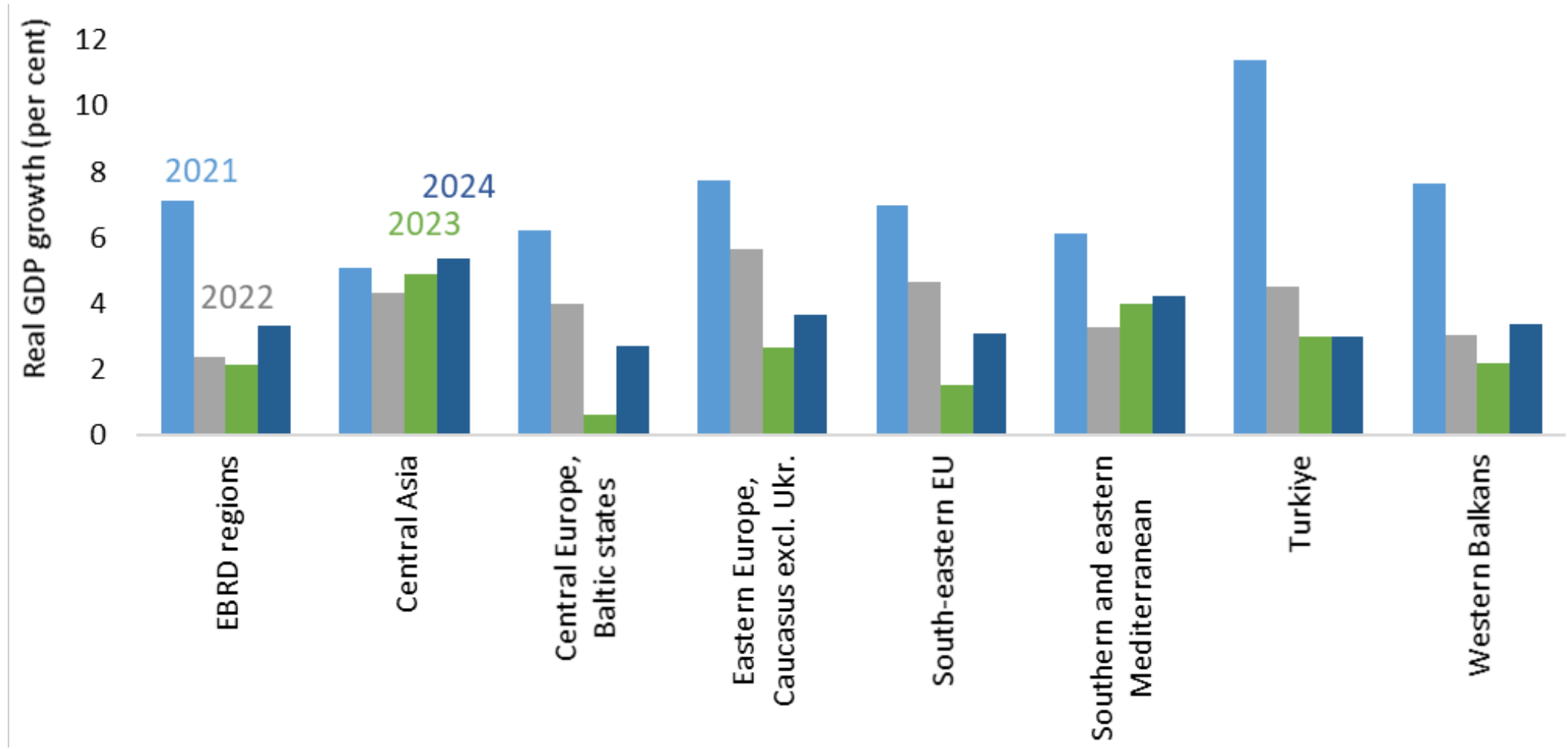
Output in the EBRD regions estimated to have grown by 3.2% yoy in Jan-Sep, slower than in 2021, but better than expected



Growth forecasts have been revised down 0.9pp relative to Sep'22 baseline scenario, to 2.1% in 2023 – but above downside (no-gas) scenario of Sep'22



Growth is expected to pick up to 3.3% in 2024, broadly in line with estimates of medium-term potential growth – above potential in Central Asia, below in CEB

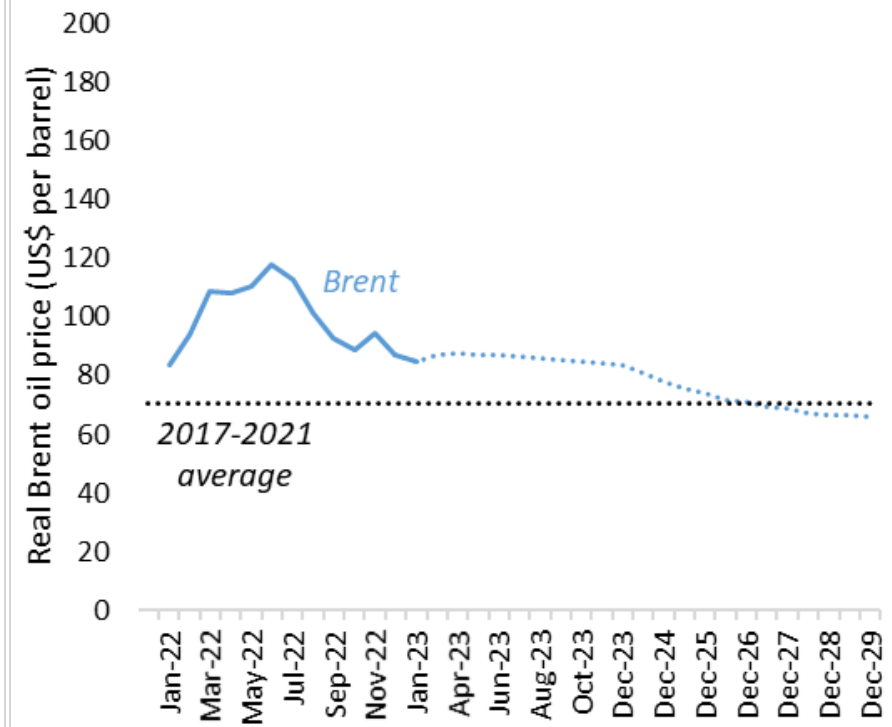
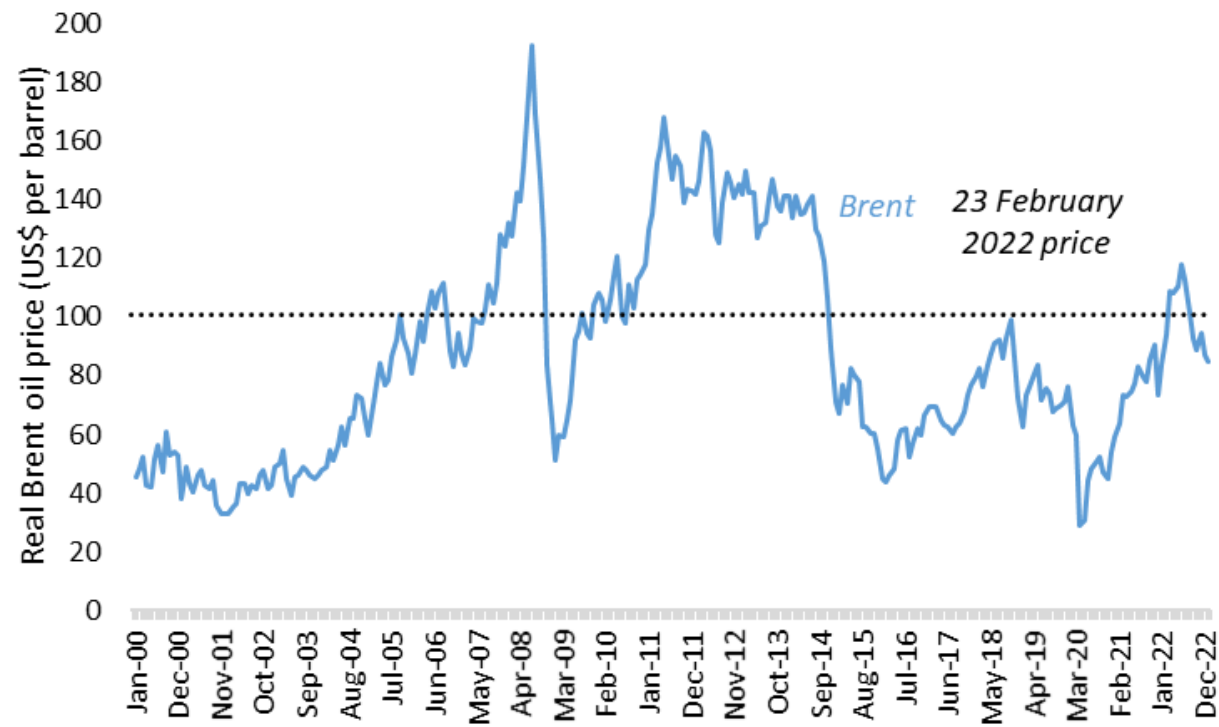




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Commodity prices

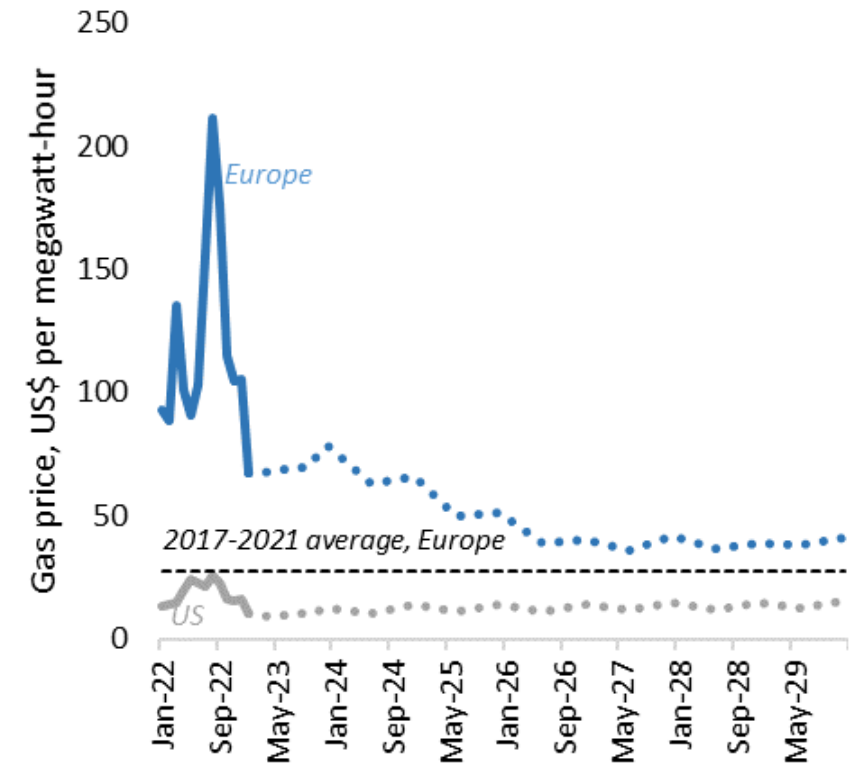
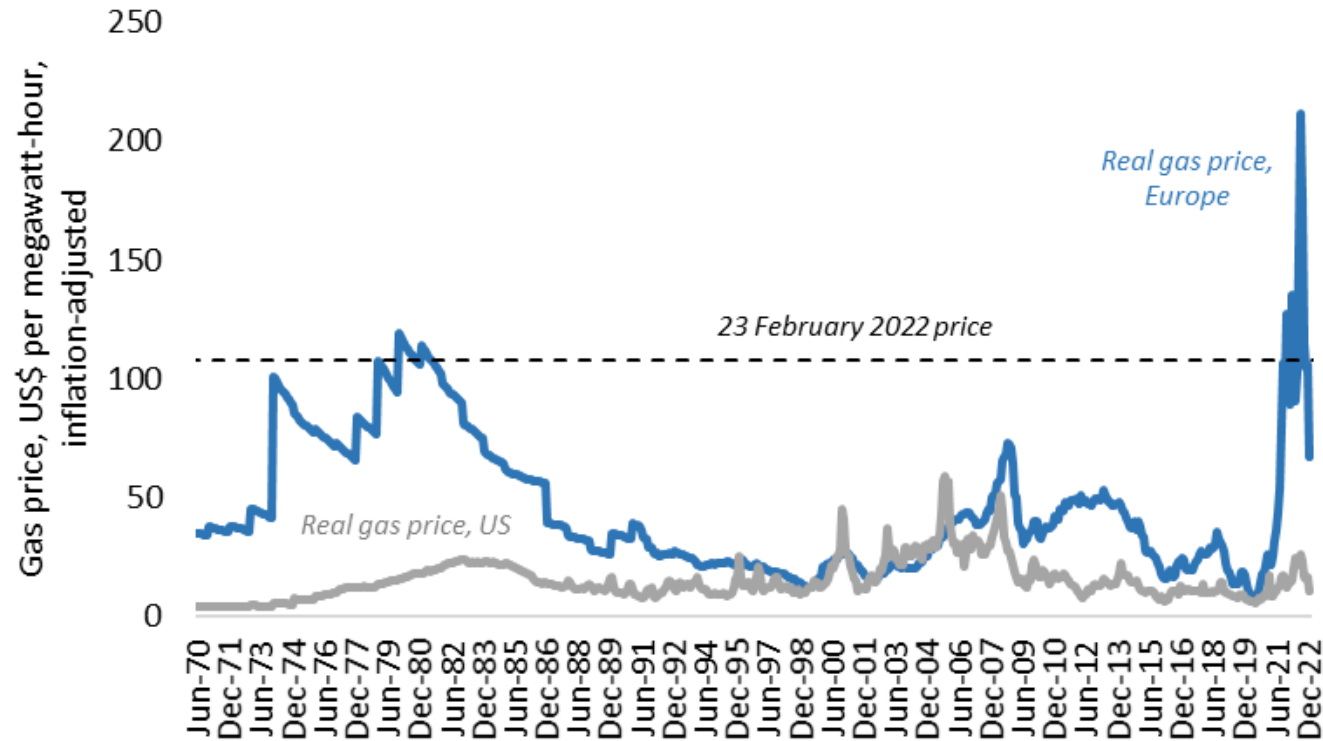
Oil prices eased to pre-war levels and are expected to decline gradually



Source: Bloomberg, Refinitiv Eikon and authors' calculations.

Notes: Prices adjusted for US inflation. Dashed line denotes futures.

Markets expect high gas prices in Europe to persist throughout the 2020s, in line with previous episodes of high gas prices in Europe which lasted 7-13 years



Source: Bloomberg, CEIC and authors' calculations.

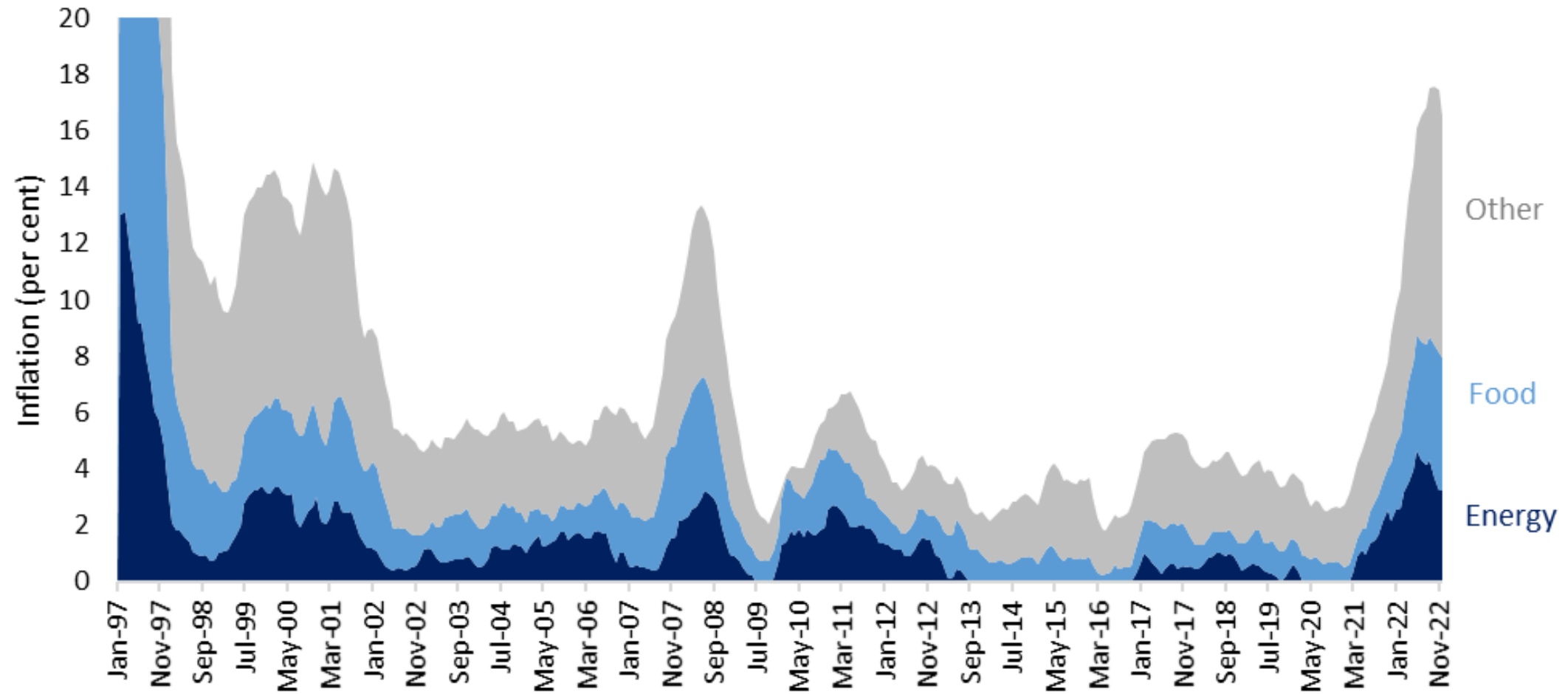
Notes: Prices adjusted for US inflation. Dashed lines denote futures.



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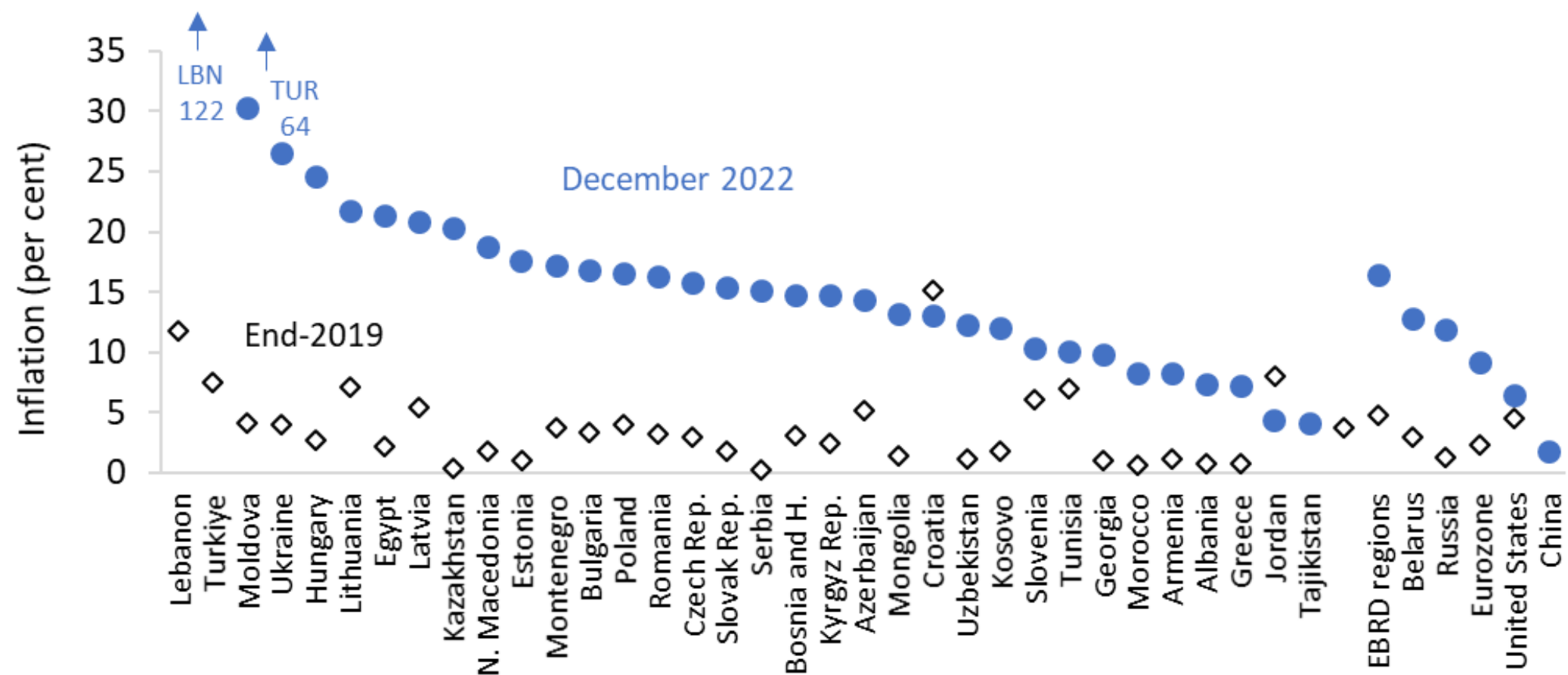
Inflation

Average inflation in the EBRD regions peaked at 17.5% in Oct'22 and stood at 16.5% in Dec'22, with energy and food prices contributing half of inflation



Source: Bloomberg, national authorities via CEIC and authors' calculations. Notes: Year-on-year changes. Headline inflation is a simple average across 33 economies in the EBRD regions. The decomposition is based on an unbalanced panel ranging from 5 economies in 1997 to 11 economies from 2001. The decomposition is scaled to overall inflation in the EBRD regions.

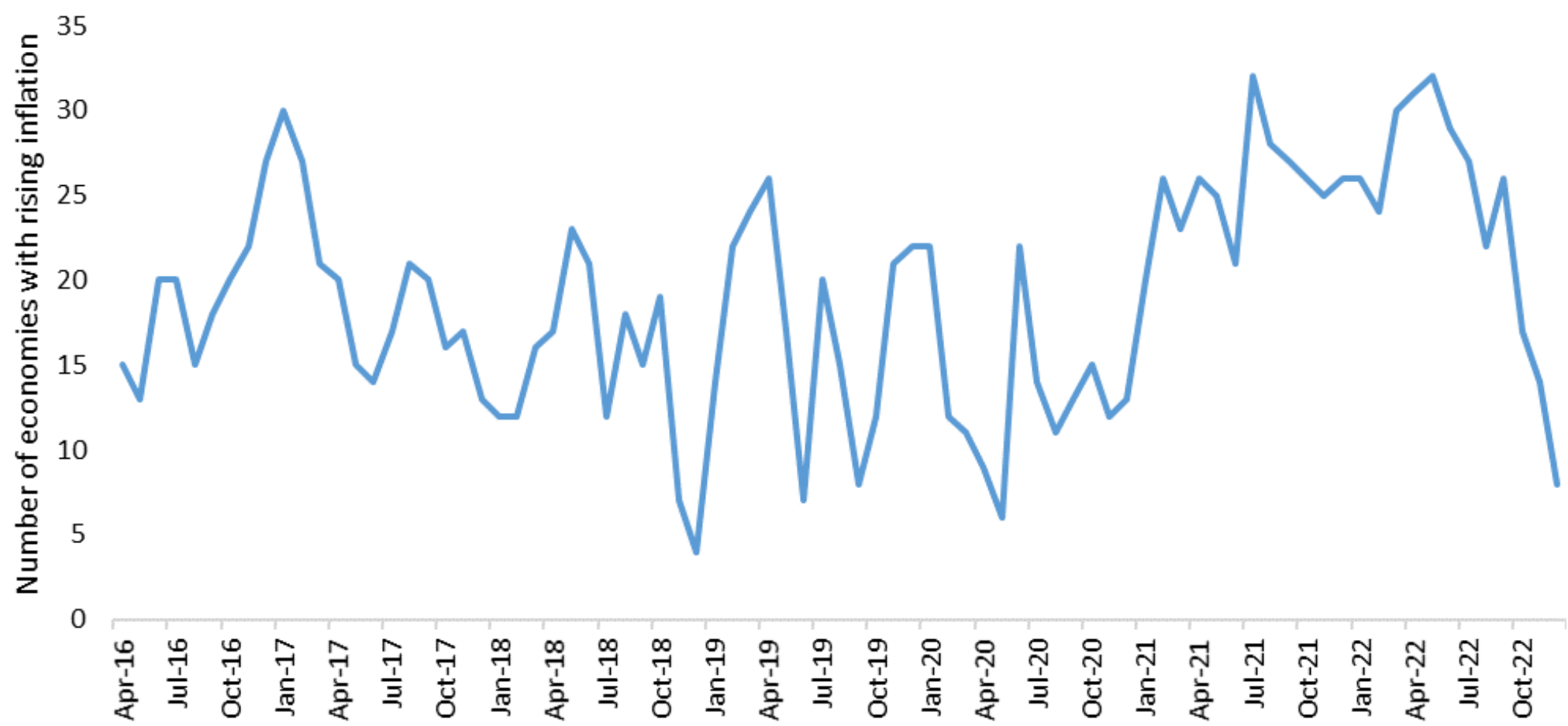
Inflation was in double-digits in 80% of economies in the EBRD regions in Dec'22



Source: National authorities via CEIC and authors' calculations.

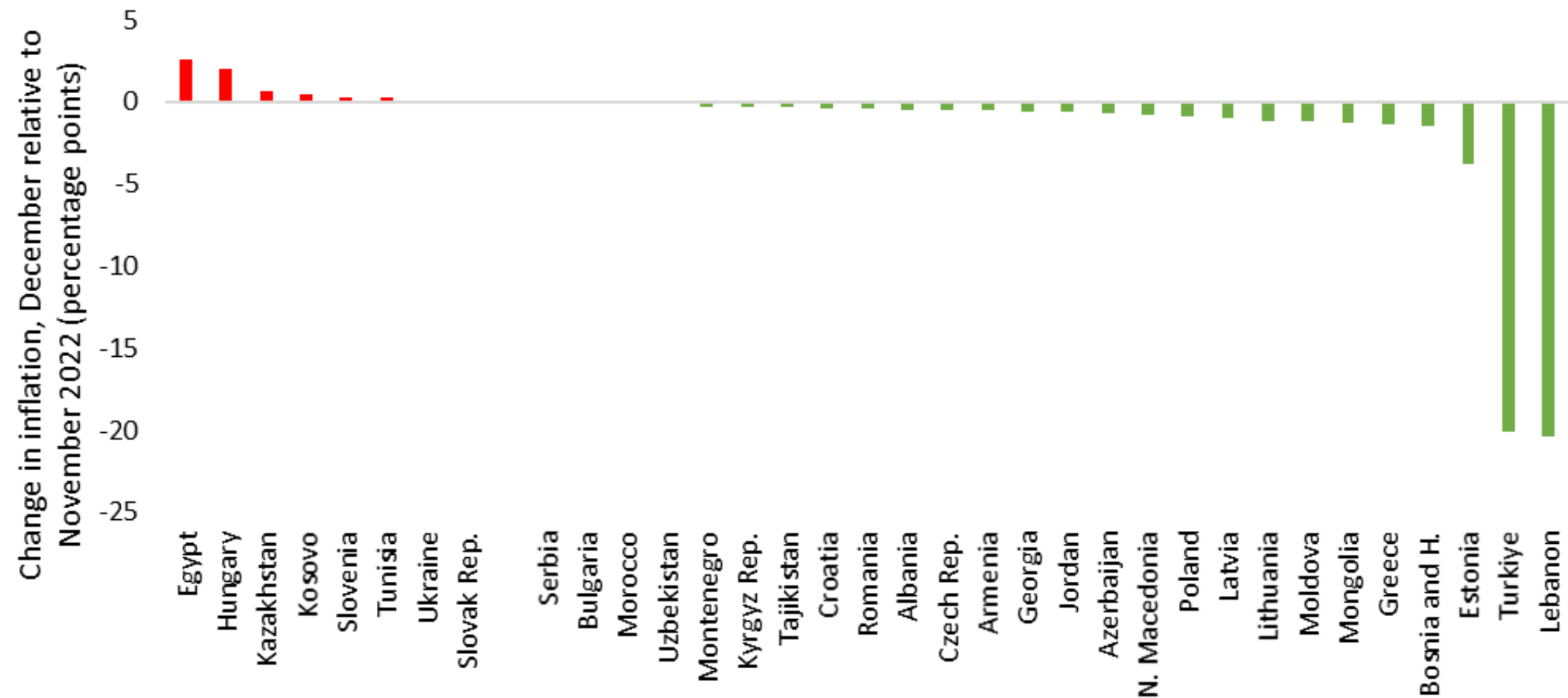
Notes: Year-on-year changes.

In 26 economies in the EBRD regions inflation was down in December relative to November



Source: Bloomberg, national authorities via CEIC and authors' calculations. Notes: Number of economies where y/y inflation in a given month is higher than y/y inflation in the previous month. Inflation continued rising in Egypt, Hungary, Kazakhstan, a number of other economies, reflecting in part currency depreciations.

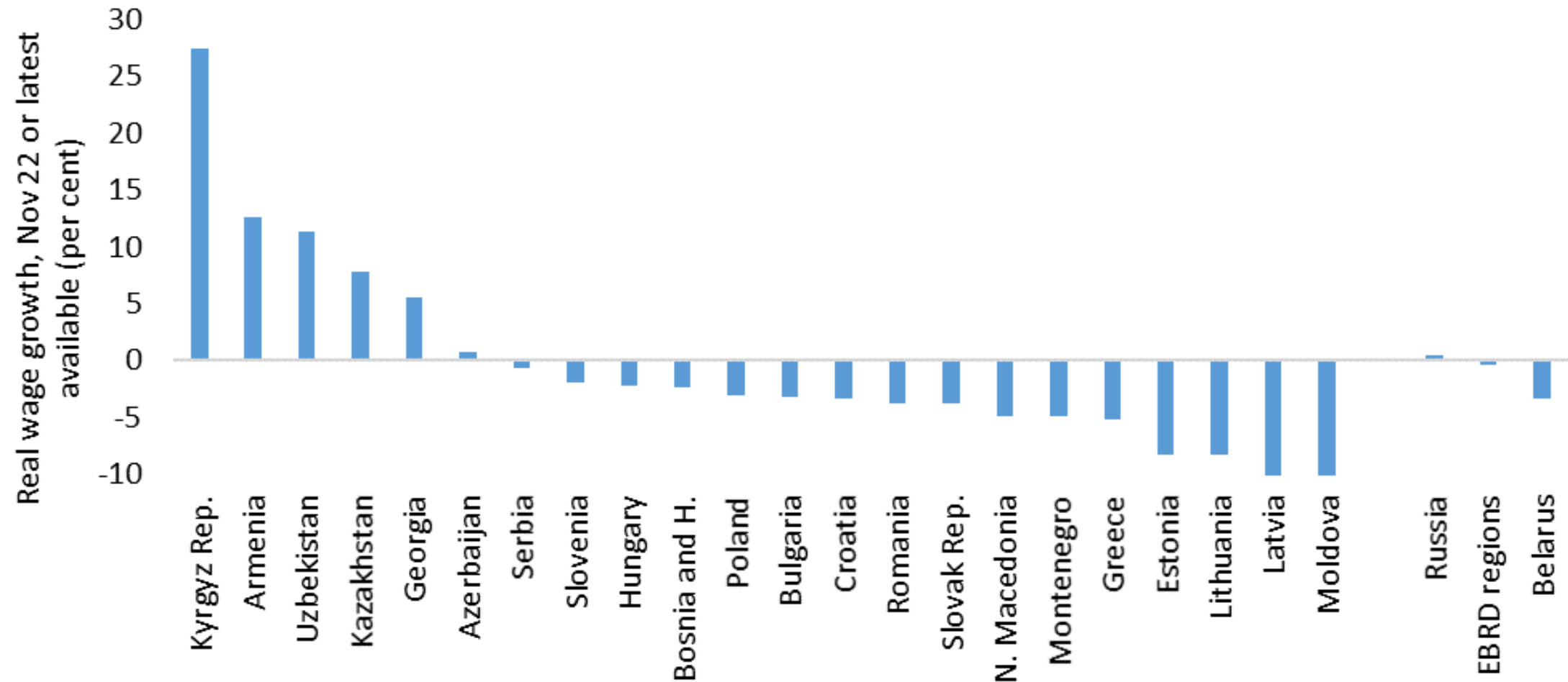
In Egypt, Hungary, Kazakhstan inflation continued rising in part reflecting pressures from currency depreciations



Source: Bloomberg, national authorities via CEIC and authors' calculations.

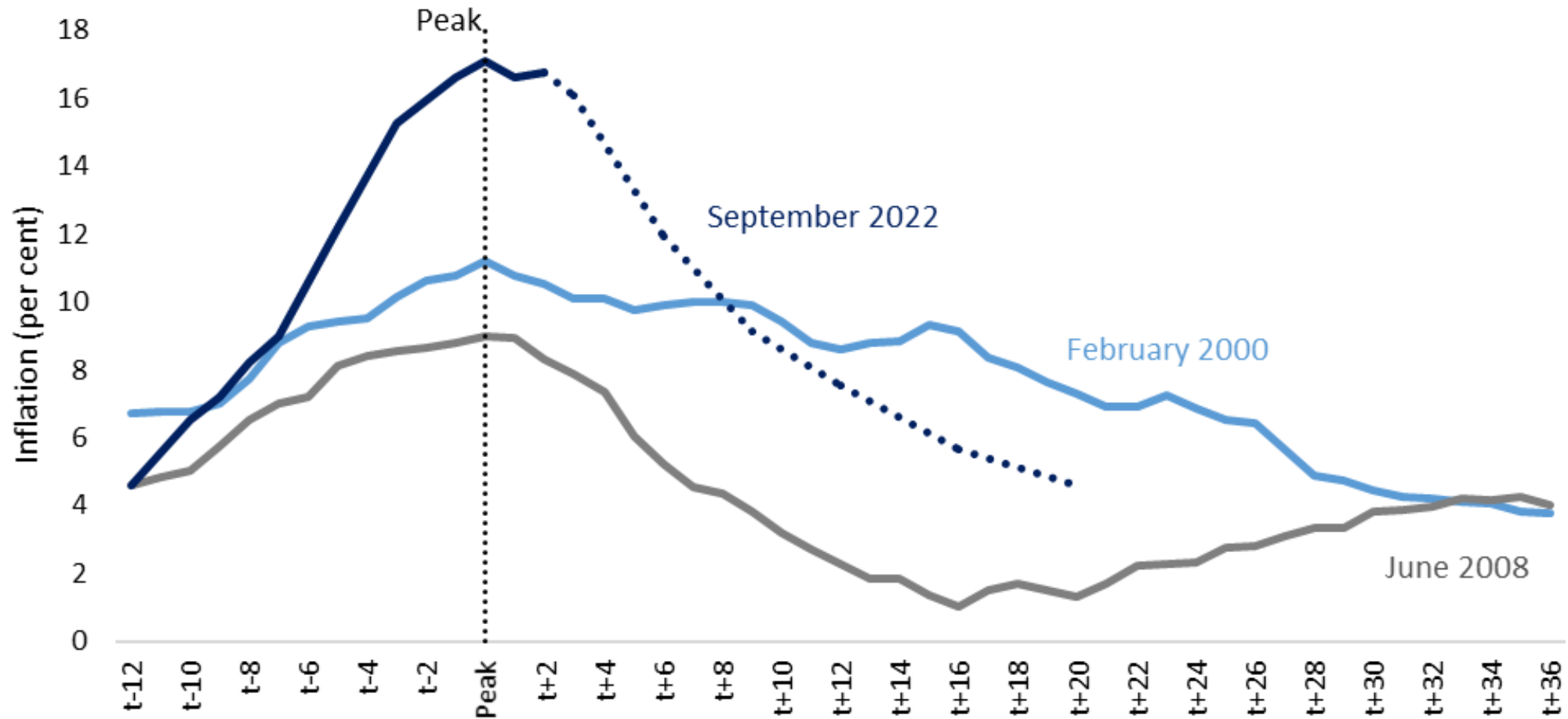
Notes: Changes in year-on-year inflation.

Real wage growth has been strong in Central Asia and the Caucasus; elsewhere real incomes have been falling



Source: Bloomberg and authors' calculations. Notes: October or November 2022. September 2022 for Belarus, Estonia, Greece, Latvia, Lithuania, Slovak Rep., Slovenia and Uzbekistan.

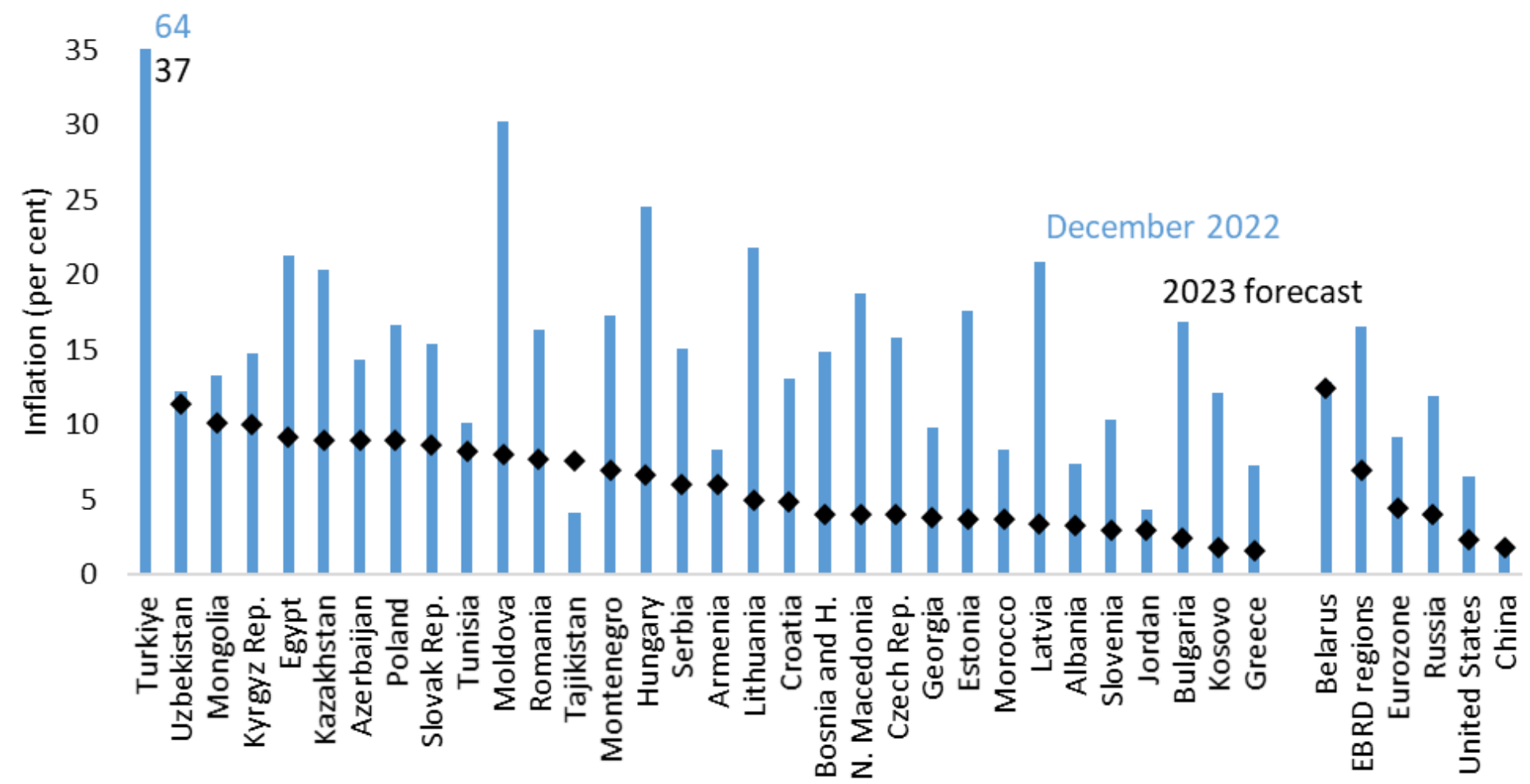
Past experience (including inflation spikes in 2000, 2008) point to slower-than-currently-expected disinflation



Source: Bloomberg and authors' calculations.

Notes: Simple average across 11 economies in central and south-eastern EU. Dashed line denotes forecast based on 6 economies. T + 4 refers to 4 months after inflation peaks.

Based on the latest IMF forecasts, average inflation will remain close to 10% at end-2023



Source: Bloomberg, IMF WEO October 2022 forecasts and authors' calculations.

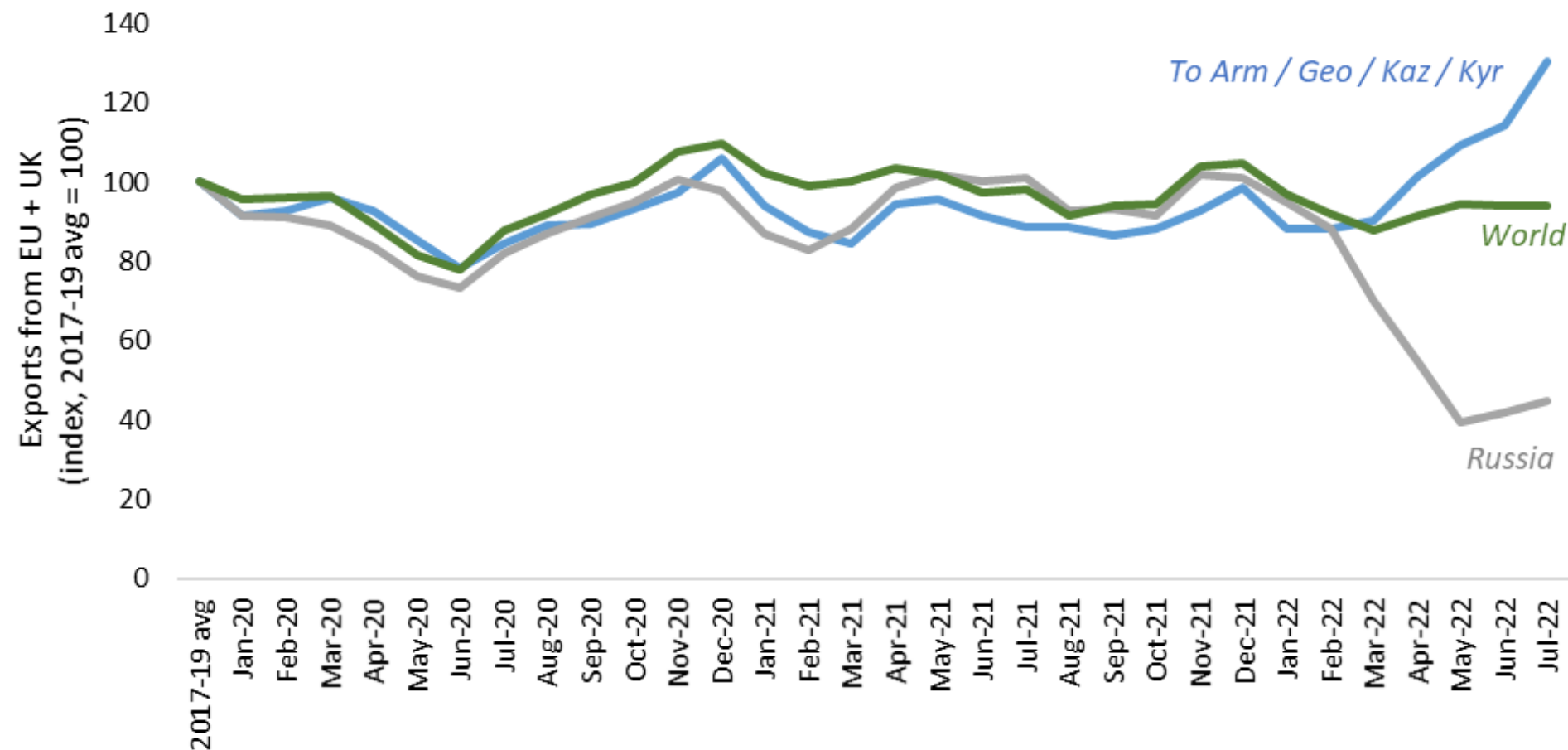
Notes: End-of-period inflation for 2023.



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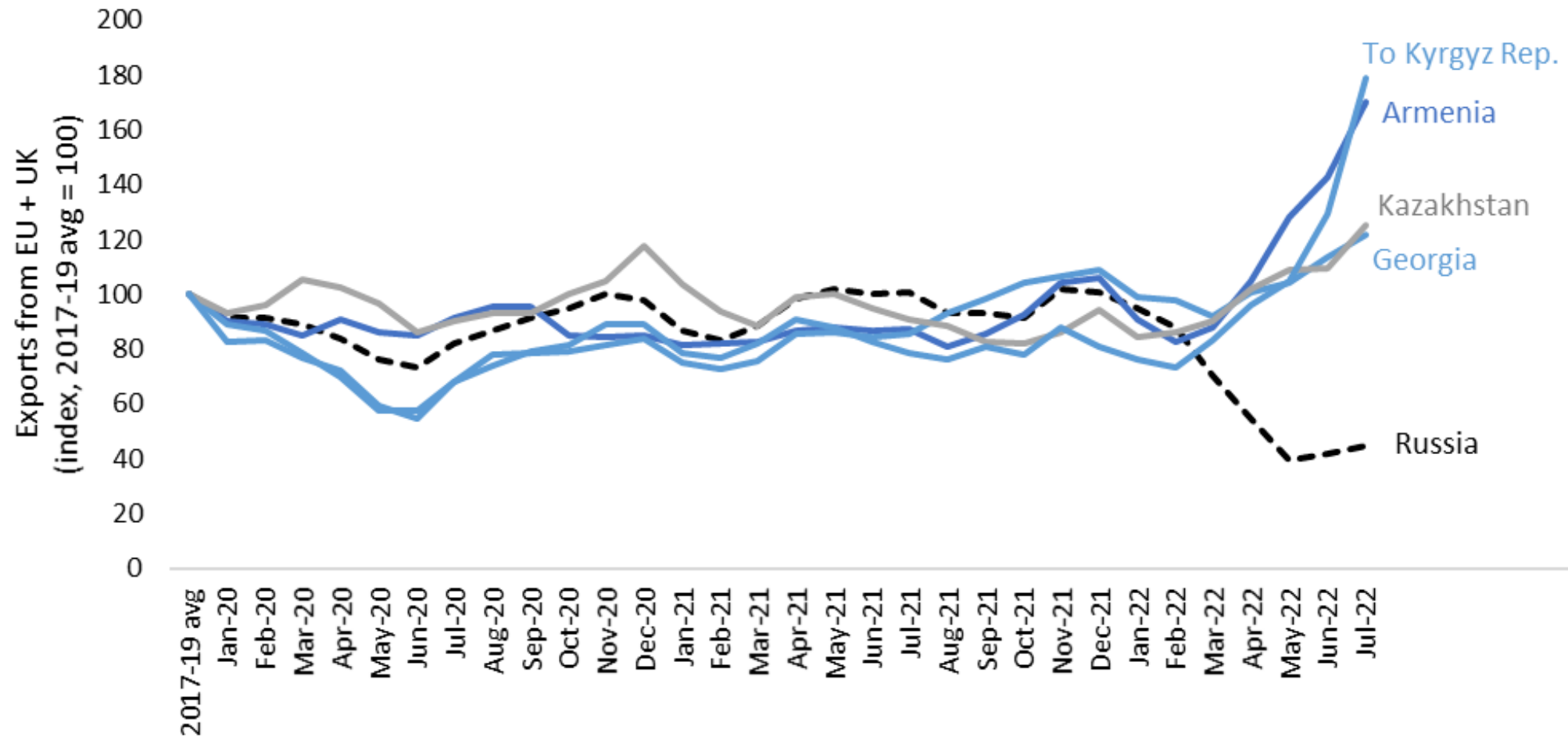
Changing patterns of trade

EU + UK to Russia trade halved – Germany’s exports to Armenia/ Georgia/ Kazakhstan/ Kyrgyz Republic increased markedly



Source: Chupilkin et al. (2023) based on data from Comtrade.
Notes: As reported by exporters. Trade in nominal US dollars is adjusted for US inflation. 3-month moving average. Monthly average taken across all months in 2017-19.

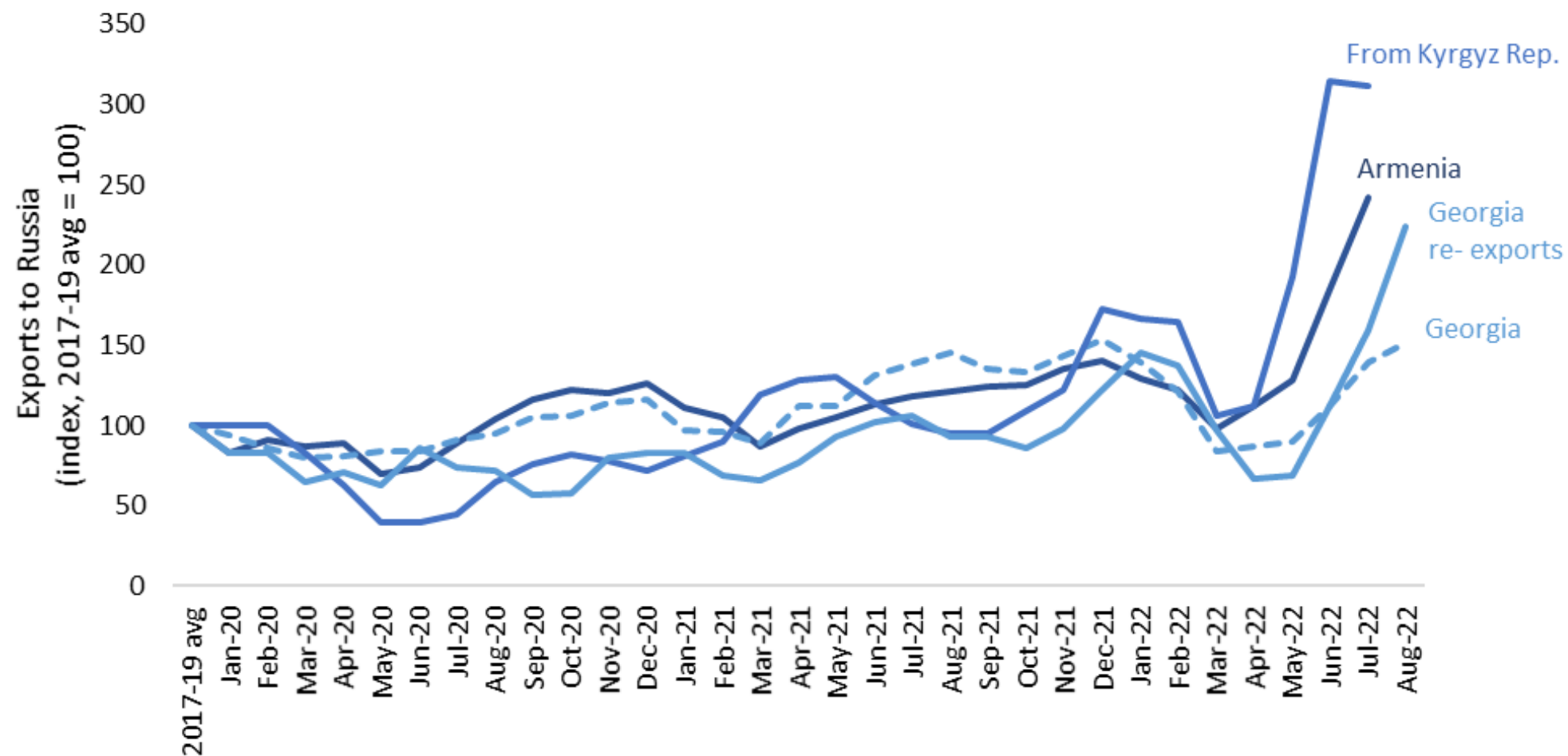
Increases in imports from “the West” have been particularly pronounced for the Kyrgyz Republic and Armenia



Source: Chupilkin et al. (2023) based on data from Comtrade.

Notes: As reported by exporters. Trade in nominal US dollars is adjusted for US inflation. 3-month moving average. Monthly average taken across all months in 2017-19.

Exports to Russia from the Kyrgyz Republic and Armenia have increased substantially, as have as re-exports from Georgia



Source: Chupilkin et al. (2023) based on data from Comtrade.

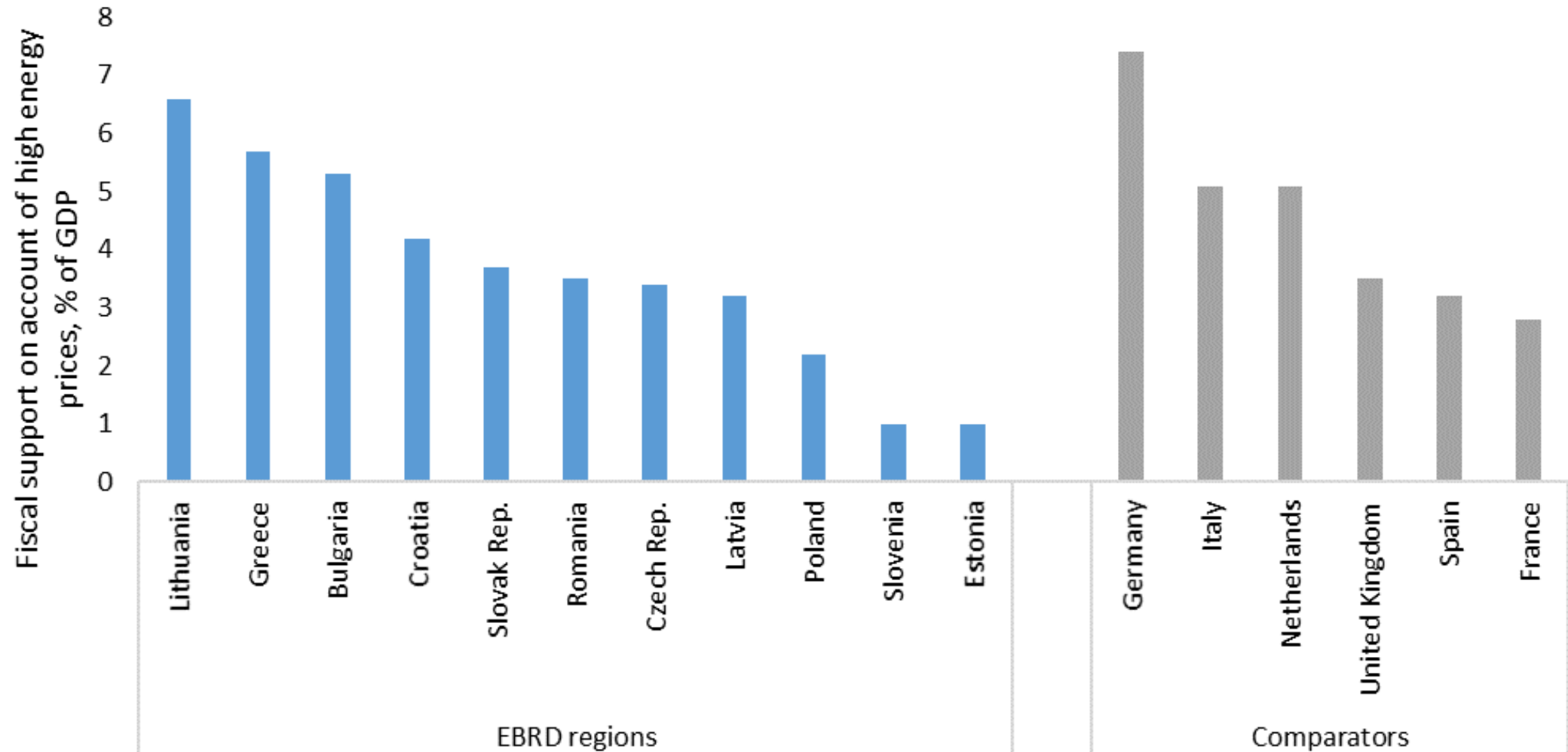
Notes: As reported by exporters. Trade in nominal US dollars is adjusted for US inflation. 3-month moving average. Monthly average taken across all months in 2017-19.



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Fiscal and external vulnerabilities

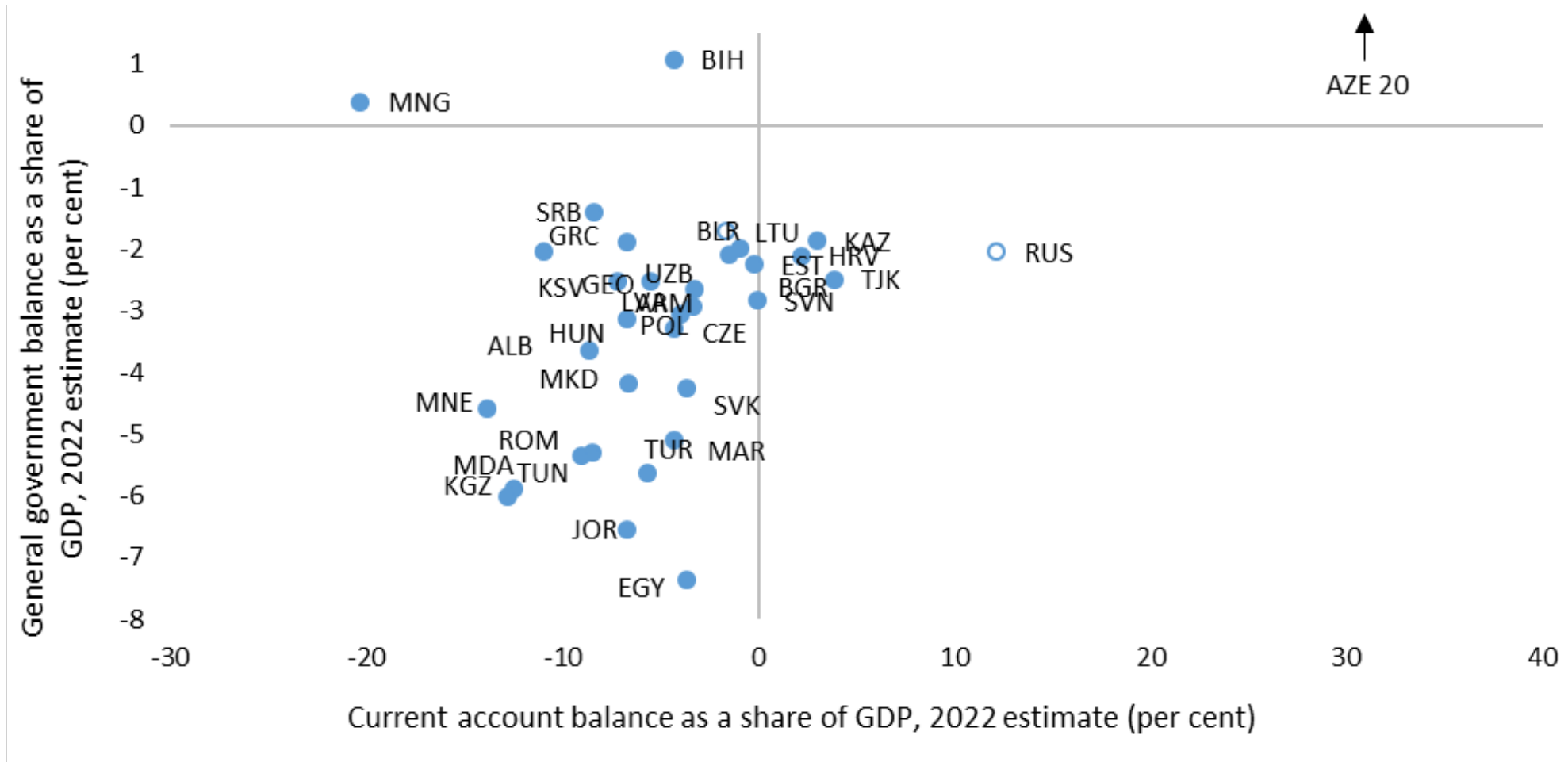
Support measures have shielded consumers and producers from the full impact of the energy shock, at a high cost to governments



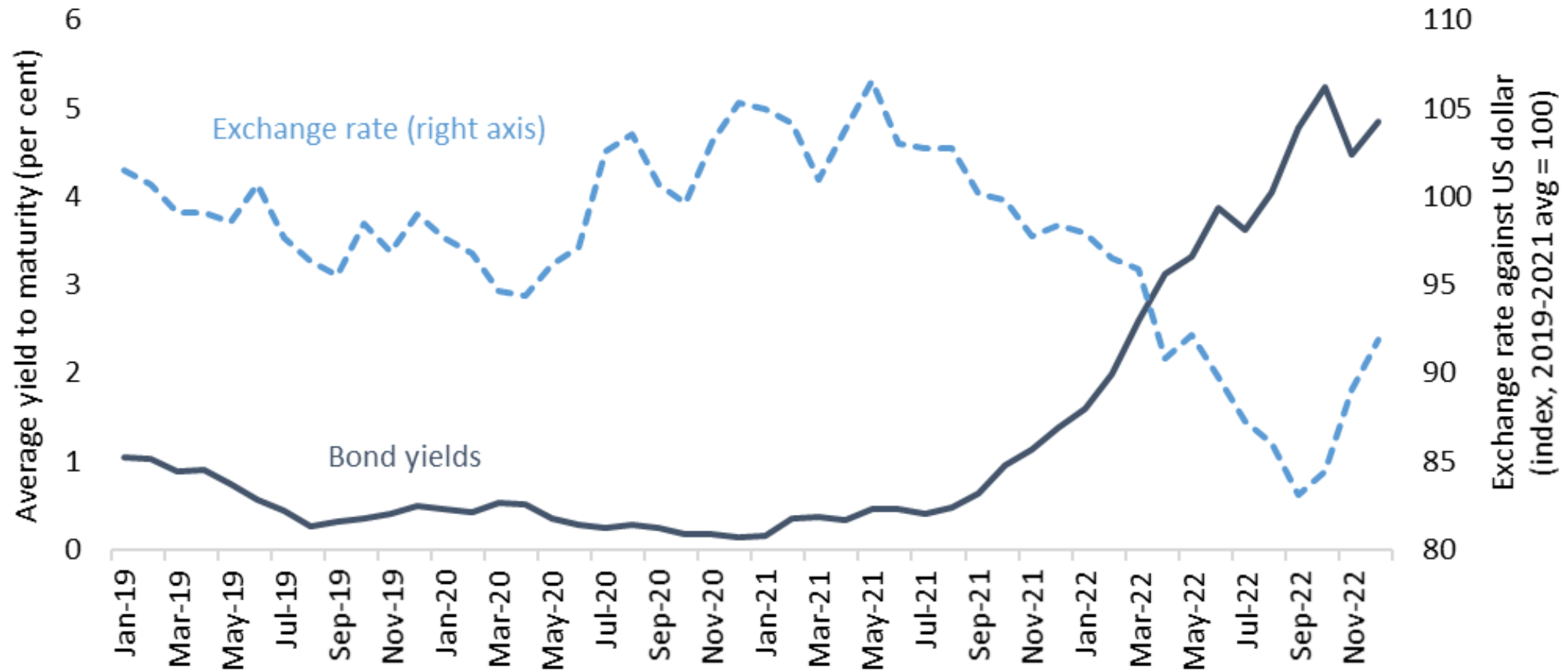
Sources: Bruegel, Fitch Ratings.

Notes: Data as of 29 November 2022.

80% economies in EBRD regions run fiscal + external deficits on high energy prices – 5%+ of GDP in Jordan, Kyrgyz Rep., Moldova, Romania, Tunisia and Turkiye

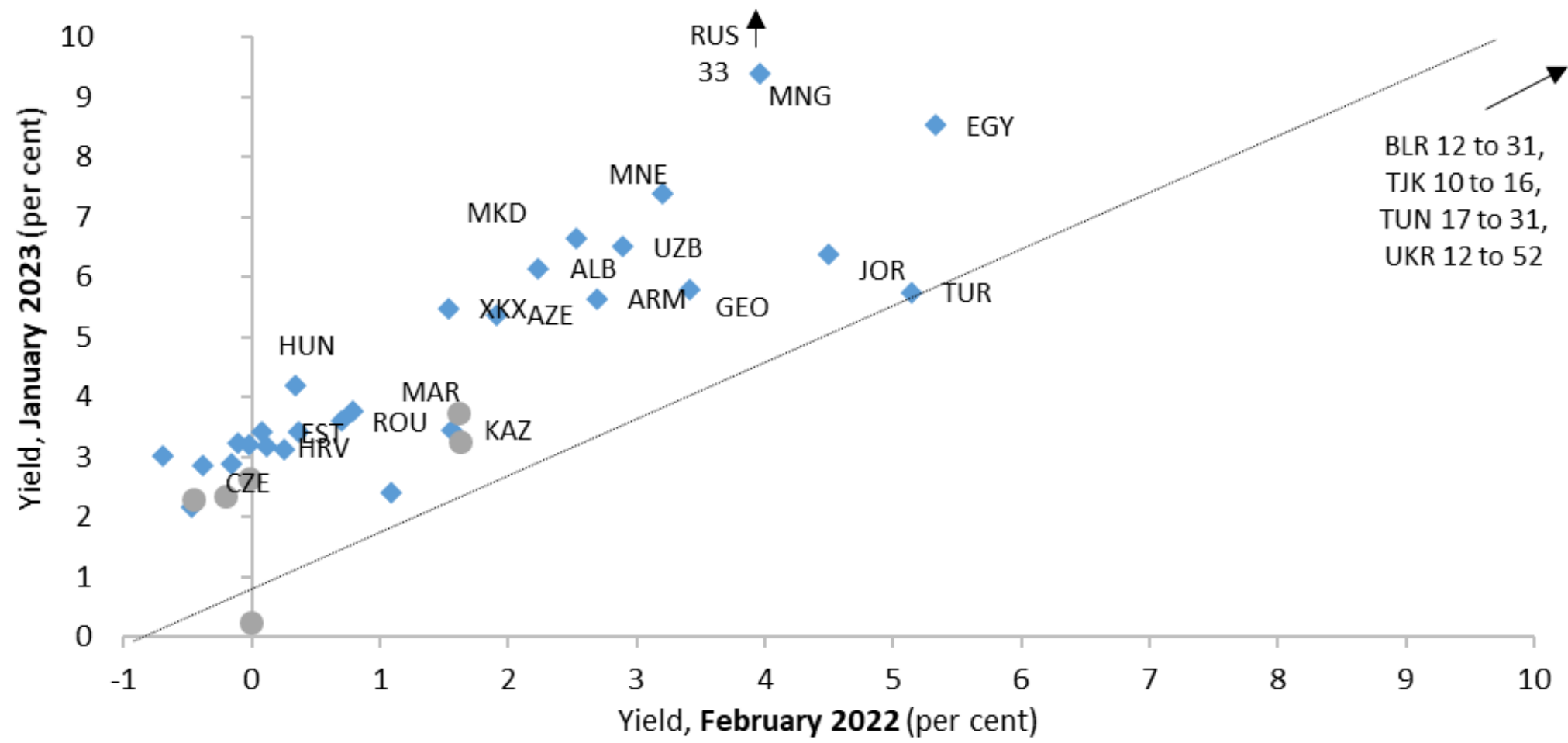


As inflation peaked in Oct'22, bond yields in central Europe stopped rising; typical yield on government bonds in the EBRD regions up by 3.8ppt from Feb'22



Sources: Bloomberg and authors' calculations. Notes: Bond yields is an average of 5-year government bond yields in local currency based on 8 economies (Croatia, Czech Republic, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia).

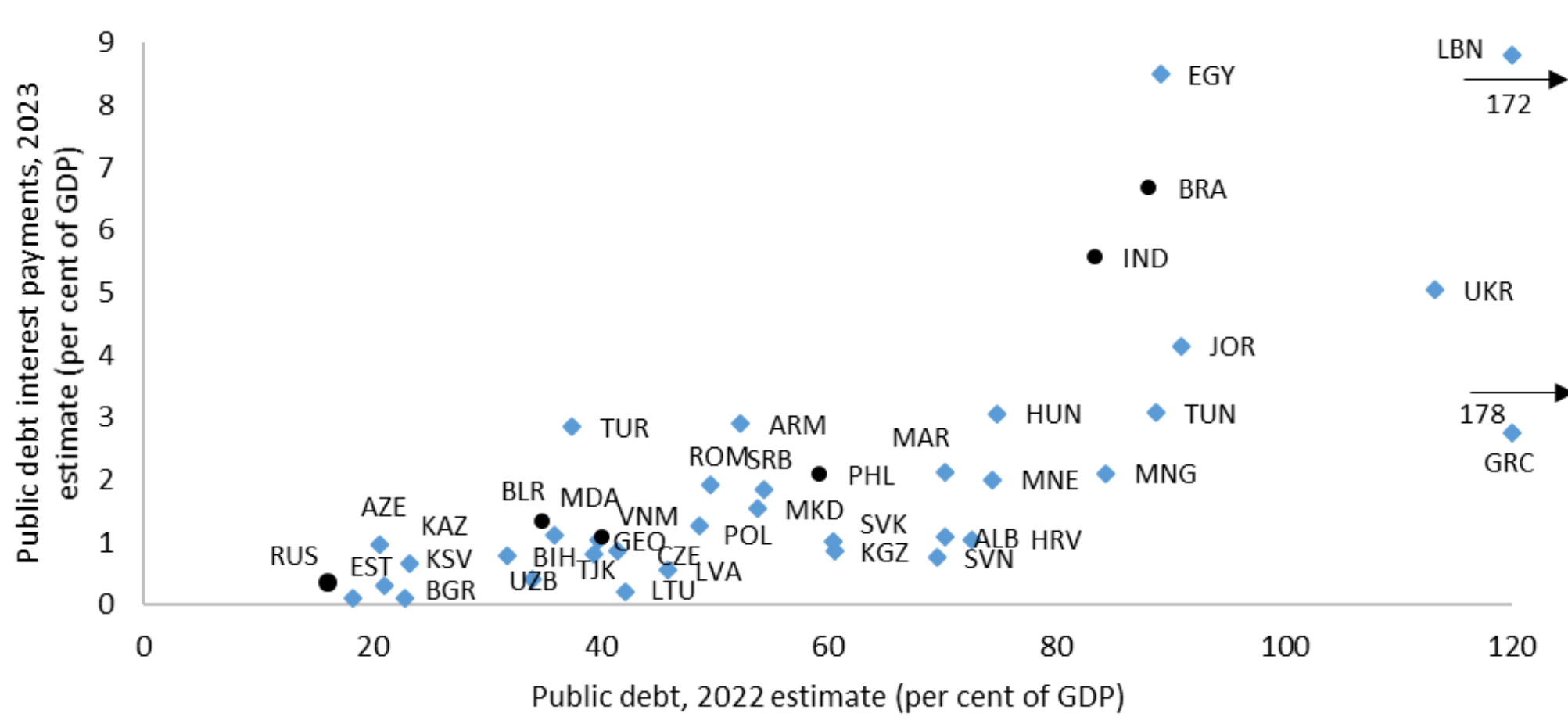
Median yield in the EBRD regions increased by 3.8 percentage points (spread relative to advanced economies up by 1.4 percentage points)



Source: Bloomberg and authors' calculations.

Notes: Yields on 5-year government bonds in US dollars or closest benchmark available, 24 Jan 2023 and 23 Feb 2022.

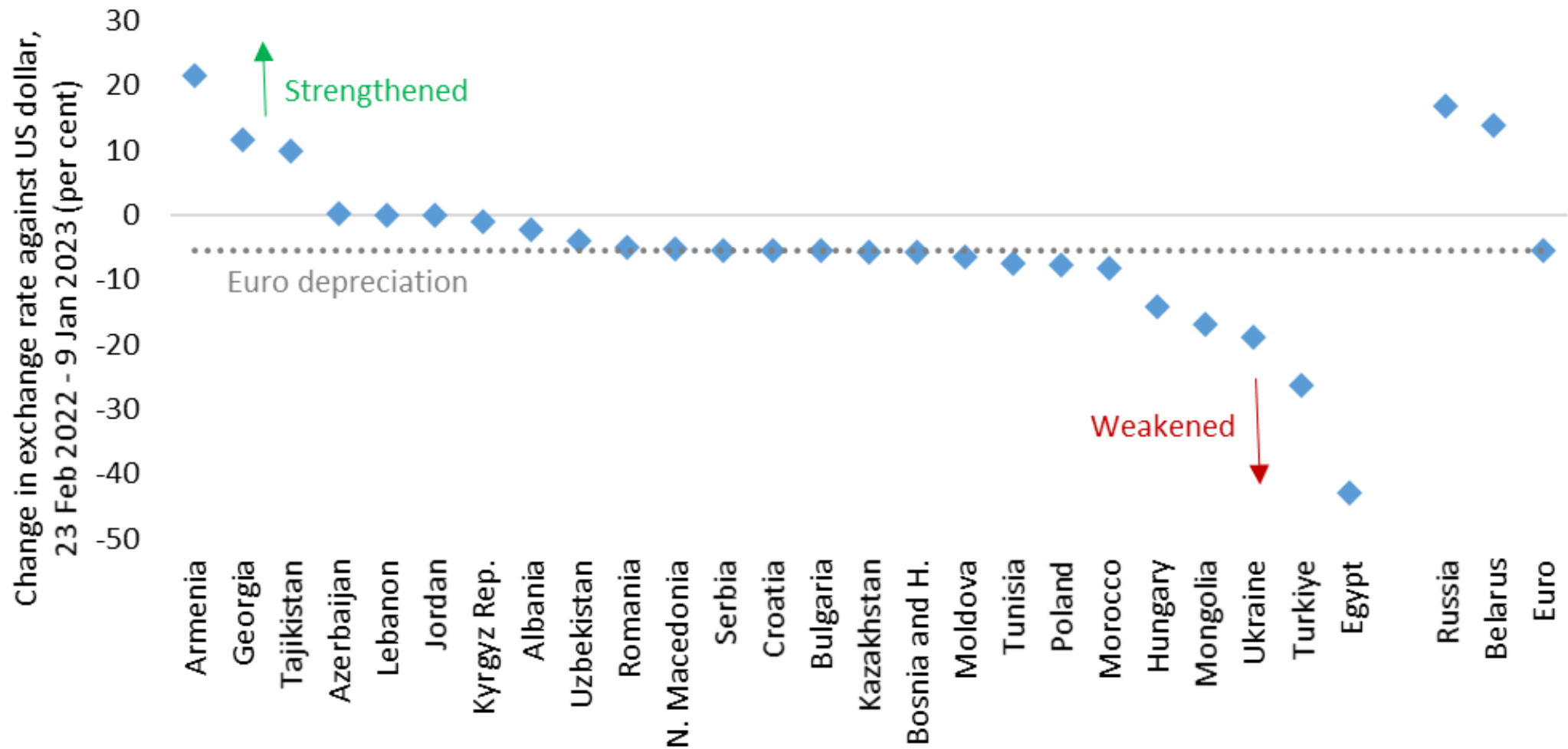
Interest payments on public debt are high and rising in Egypt (projected at 43% of government revenues), Lebanon, Ukraine, Jordan, Tunisia



Source: IMF WEO October 2022, IMF Staff Reports, Oxford Economics and authors' calculations.

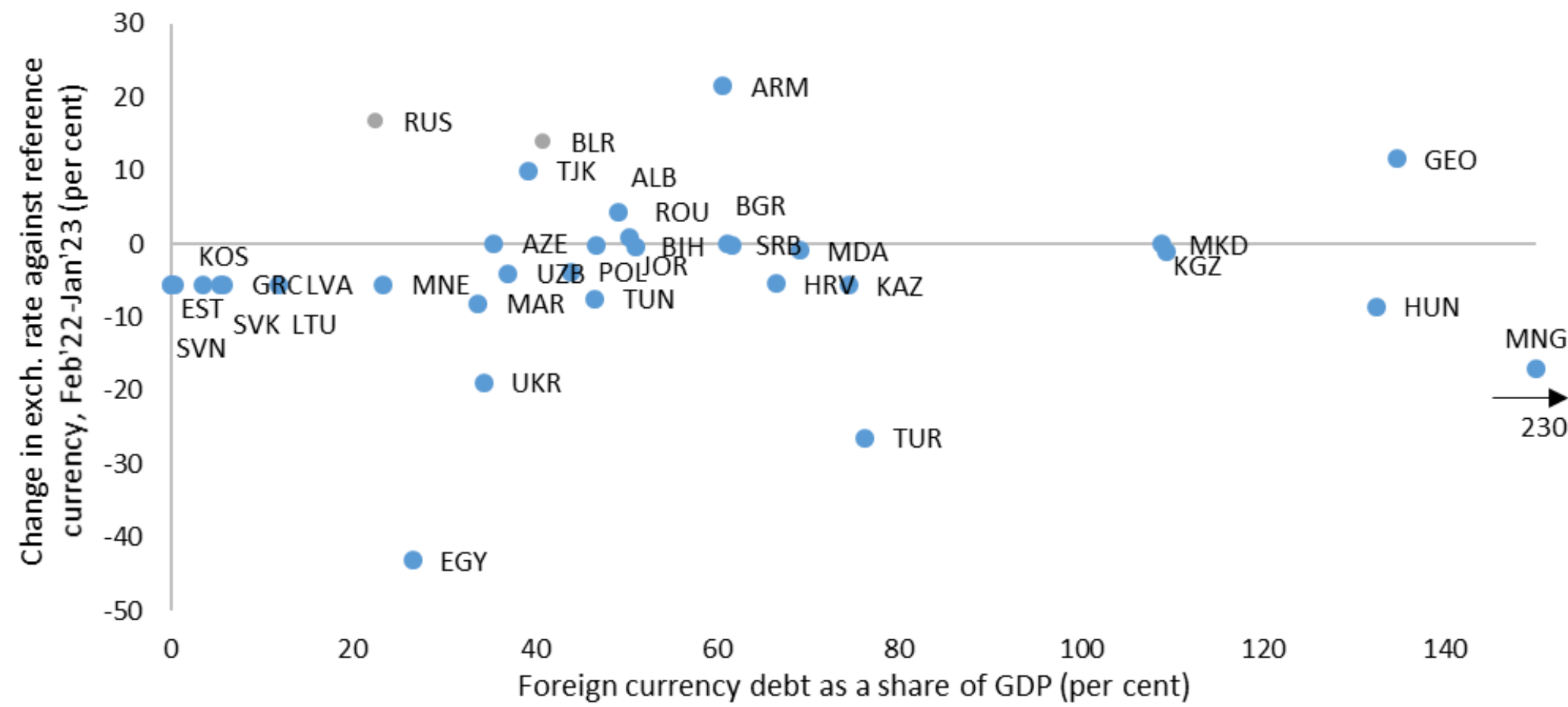
Notes: Public debt for Lebanon is based on 2020 numbers, for Ukraine forecast of Oxford Economics is used.

While currency depreciations make domestic producers more competitive, they can significantly increase debt service burden where debt is in hard currency



Source: National authorities via CEIC and authors' calculations.

Exchange rate depreciations can significantly raise debt servicing burdens



Sources: Bloomberg, CEIC, IMF, World Bank, national authorities and authors' calculations. Notes: Euro used as reference currency for Albania, Bosnia and Herz., Bulgaria, Hungary, Moldova, N. Macedonia, Poland, Romania and Serbia; US dollar used for all other economies. Foreign currency debt is calculated based on latest available estimates of external public debt, household and corporate loans in foreign currency.