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MR WILLIAMS: Thank you very much for coming. We are just about to present the latest Regional and Economic Prospects. We have until 2 o'clock. Sergei Guriev will be presenting the global picture and Artur Radziwill will be presenting the country-by-country, region-by-region outlook. Straight after this press conference we will be moving into a discussion with our representatives from southern and eastern Mediterranean, so if you would like to stay for that as well, do. But if anybody wants to have individual conversations with one of our specialist regional economists, we can arrange for that to be next door so we can smoothly move into the next session.

We are live-streaming this, so welcome to anybody who is watching this on live streaming. The presentation will be made available at the back of the room after this session but you will see it on the screen in two minutes. Without any further ado, I will hand over to Sergei.

MR GURIEV: Thank you very much, Tony, and can you please upload the slides.

(Slide presentation)

This is our Regional Economic Prospects dated May 2018. And basically, as you keep hearing from all parts of the world, and from global forecasters, this is the year when we report good news and when we actually upgrade our reports and forecasts relative to half a year ago, and a year ago. Basically, when you look at the data for Q3 and Q4 last year, these data are actually looking better than we expected; and we can even say they are the best in the last few years. In terms of annual growth rates, they are even better than any time since the global economic crisis.

Basically, our growth forecast for 2017 this year has ended but the data are still coming in. Our growth forecast for 2017 is 3.8 per cent. We believe that this year will not be as good as 2017 but still better than we expected; we are expecting 3.3 per cent in our regions on average. Next year we expect a roughly similar growth rate of 3.2 per cent in our regions, which, as you can see, is a bit below the world average but above western European and the advanced countries' average of course.

The story is quite different in different parts of our countries of operations, different parts of our regions. Basically, we have different growth rates in different countries. I should also say that when we talk about growth rates, say, in emerging Europe or in the SEMED region, or in central Asia and Turkey, we also need to think about population growth. Roughly speaking, a 4 percentage point growth in a fast-growing country in terms of population may only represent 2 per cent growth in terms of GDP per capita, while in countries with a shrinking population, 3 or 4 per cent growth may actually mean more than 3 or 4 per cent growth in terms of per capita income increase.

When Artur takes the floor he will talk about country-by-country trends. But let me just say a few words about why we think this year and next year may not be as good as the previous year, 2017. First and foremost, this is a cyclical global recovery, so global growth will not be accelerating this year and next year, so our countries will also not benefit from the support of the global economy that happened last year. Second, in many of our countries – and probably Turkey is the best example – governments rolled out major stimuli and therefore what is happening now is, roughly speaking, overheating. This is what we observe in Turkey and this is unlikely to be sustainable in 2018 and 2019. As growth is reaching its potential in central and eastern Europe, we also see how labour shortages push wages up, and therefore constrain opportunities for the profitable expansion of business. This is also a sign of overheating, which takes the form not of inflation being too high, but wage growth being too high, and therefore reducing the profitability of investment.

Last year was very good for oil exporting countries. Oil prices went up substantially. This year is unlikely to see such high oil price growth. This is what we wrote in the report before the American administration last night made a decision about the Iranian deal, which may actually add to oil price growth this year, but this is something which remains to be seen. In any event, as oil prices go up, US shale oil production is also expanding, which of course makes sure that in the medium term, over the next couple of years, the oil price will be bound to come down to levels much below those of 2017.

Overall, the rest of the presentation will be how good everything is, but then I will also say a few words about the risks we see. One issue which worried us was investment. This year investment has pretty much grown in almost all of our countries of operations. We also see how our countries have benefited from trade growth. Again, if you go back two years, we were worrying that global trade growth was lagging behind global GDP growth. Now these have reversed: trade growth has caught up. It has not beaten global GDP growth by much but it is still not lagging behind global GDP growth in any event, and our countries of course benefit. Most of our countries have open economies which depend on exports, and the fact that the global economy is growing and global trade is growing benefits our countries.

On this chart we show export growth.

One other important thing, as I mentioned, is the oil price. 2017 was a great year for oil prices. Part of that is explained by global recovery, part is explained by the OPEC-plus deal, which surprisingly worked, and supported oil prices. To what extent 2018, this year, or next year, 2019, will be as good in terms of further growth in oil prices; if you had asked me the day before yesterday, I would have said unlikely. Today it is very hard to say. If the United States really exits the Iranian deal in half a year, that should drive prices up, with different estimates from 5 to 10 dollars per barrel. So this year should also be good for oil exporters. However, the industry consensus is for shale oil in the US; the breakeven price is 55, and that takes into account capital expenditure. Oil prices cannot stay above 55 or 60 for too long. So in the next couple of years, we will see oil prices coming down at some point.

One other thing – and I think this is a very important chart – is the chart about the financials. We see that stock market valuations are reflecting recovery, reflecting expectations. The economies in our countries but also in emerging markets in general are doing well. In some of our countries this year, in terms of valuation, it was a record year. In some of our countries the P/E ratio, so the stock market prices measured in terms of annual profits, annual earnings, are historically high. In many of our countries the history of stock market trading is not very long but it is a moment in history when stock prices are as high as they have ever been in our countries.

In the West, some would say that stock prices in some countries are as high as they have been since 1929, so there is reason to worry. Of course, when interest rates are low, stock prices should be high. And especially this measure, the P/E ratio, is pretty much the inverse of interest rates. But still, it is something to think about: to what extent further stock market growth is likely. We would probably say not really, except for some countries where P/E ratios are at the level of 5 or 6, such as Russia, where further improvement in governance and corporate governance can of course increase stock market prices.

One other important thing is credit conditions, access to capital. Again, the markets believe that the spreads are low and should stay low in emerging markets. And for our countries of course, it is good news. Again, interest rates in advanced economies are low. But what is more important for our countries is that interest rate spreads on top of the advanced economies' interest rates are also staying low. So markets are not nervous about what is going to happen in emerging markets in time.

This is the chart about currencies. Our countries have benefited from the weaker US dollar. The dollar in weighted real terms lost 2 per cent last year. And of course, for our markets, some of which depend on dollar financing, it is actually good news, which also shows the risk; so if the dollar gets stronger that will represent a problem. This is something I will talk about a little later.

This is the chart about risk. Basically, in terms of access to capital it has been a good year and countries have benefited from that. But if you look back at the last ten years, corporate indebtedness went up a lot, from something like 40 per cent of GDP to 60 per cent. And when we go country by country, in many countries, much corporate debt is foreign currency-denominated, which of course brings us to the previous point I made: if interest rates go up, if the dollar gets stronger, this burden of corporate debt may become substantially higher. Together with the very high stock prices, high corporate debt – especially foreign exchange dollar-denominated, euro-denominated debt – is the major risk we now see. If you look at levels of corporate debt, we see that in some of our countries, the level of corporate debt in terms of percentage of GDP is actually similar to developed countries.

This is where we look at non-performing loans. The good news is when interest rates are low, when growth rates are high, countries reduce NPLs, countries grow out of NPLs. So again, last year was good, and the last couple of years were good for reducing NPLs, so on balance this is a very optimistic picture.

This is a picture which shows capital inflows. Again, capital inflows continue into our countries. So it is not just that interest rates are low but also volumes are not coming down, which is also good news.

We also look country by country at how much reserves countries have relative to their external financing needs. Most of our countries – here we show our countries, but also countries outside the EBRD regions – are in the range where you have at least a year and sometimes two years of financing needs in reserves, which means good news and financial sustainability.

This is a chart we always show for countries which are getting remittances from Russia. It has also been a good year. Remittances in real terms finally beat the previous peak of 2013. As oil prices came up, the rouble appreciated, which has been good news for those countries.

There is one other thing I wanted to say. As I said, wage growth was a signal of labour shortages in many of our countries. But I should say that in most countries, governments and central banks have managed it well, so at least wage growth did not translate into inflation. If you look at the dynamics of unemployment and inflation in our countries, some countries still have high inflation inherited from devaluation a year or two years ago, such as Uzbekistan or Egypt.

Some countries unfortunately have high inflation due to overheating because of excessive stimuli, like the country I already mentioned, our biggest country of operations. On average the inflation is under control, which suggests that our central banks know what to do, again except for a couple of countries.

Before I hand over to Artur, I would like to conclude by saying that it has been a good year. This year will be probably slightly less fast-growing, and next year will be similar to this year. Overall, there has been a very strong year this year – better than we expected. In that sense, we have lots of good news to discuss.

There is one major risk that I would like to reiterate, which is that our countries depend on external financing, some of which is denominated in foreign currencies; and so the risk of depreciation in our countries may create additional indebtedness, and that would be a burden for further growth.

Let me stop here and hand over to Artur.

MR WILLIAMS: Before we hand over to Artur, because Sergei has to dash fairly early and cannot stay to the end of the press conference, it might be useful to take one or two questions if you have them for Sergei on the global picture, before we get on to the individual country and region.

MR RACZ (Hungarian daily Magyar Idok): You mentioned that this is a cyclical recovery. What will the end of it be? Is this going to end in another crisis? If so, do you see particular risks? Or maybe stagnation will be the worst we get.

MR RADZIWILL: The exit of every cyclical recovery can be one of those outcomes you mentioned and that depends on how we exit the cyclical recovery. If you apply excessive stimulus, then you may push asset prices too high and at some point, you may have a problem. Much depends on what advanced economies do. We see that ECB is very cautious, thinking that in Europe, there are reasons not to raise interest rates immediately and rapidly. The US is raising interest rates, but also cautiously.

Currently, we do not see the risk of a big 2008 event. But crises, by definition, are events that happen suddenly and unexpectedly, and so I will not bet my money on avoiding a crisis. A lot of people know the risks and try to prevent them. This risk that I mentioned means that in some country, you may have a sudden stop, you may have a reversal of capital flows, you may have devaluation and a sudden increase in debt-GDP ratio; because if your debt is in foreign currency and your own currency becomes weaker, suddenly the debt-GDP ratio goes up; and not just by a percent or two, but by maybe ten percentage points of GDP. We have seen that as well. There are major risks but overall, there is no reason to say that we are going to have a crisis. We forecast no crisis, as you can imagine. And we forecast that this year will be better than we expected before, and next year will be like this year.

MS KLASSA (FDI and the Banker magazines of The Financial Times): You mentioned that Fed tightening is likely to happen in the next year. Given the events of the past 24 hours, and also the increasing likelihood of a trade war with China, do you think that the likelihood of Fed rises going at pace will slow down, and that therefore there is less risk of the dollar being pushed up as a consequence?

MR GURIEV: That is a good question. If Iranian oil is removed from the market – and this is what President Trump seems to suggest in the next month/180 days – that means that oil prices will go up by several dollars per barrel. These are the estimates of elasticity of oil price to supply, which means that the American economy will have to adjust somehow. And probably the Fed will be less aggressive in increasing interest rates.

The trade war impact is estimated by WTO and IMF as not having a major impact. And the United States is not our country of operations, so we do not really do analysis on the US economy.

MR WILLIAMS: Thank you, Sergei. Now over to Artur Radziwill.

MR RADZIWILL: I will speak about a few of our countries of operations, starting with Turkey. We see this pattern of very strong growth in 2017 and slightly slower growth in 2018. These dynamics on aggregate in our region are driven primarily by Turkey, and by central Europe and the Baltics. In Turkey we clearly witness overheating of the economy fuelled by different stimulus measures. So we had very strong growth rates. But we also saw high inflation and an increasing current account deficit, which also increases exposure to short-term capital flows, which creates certain risks. So slowdown in Turkey is something, looking forward, that the economy needs.

It is a slightly different story in Europe and the Baltics. Part of the slowdown is cyclical and has to do with the fading impact of some of the fiscal measures introduced in those countries. More fundamentally, growth in the region starts to be constrained and is increasingly constrained by labour supply shortages. There is a quite striking statistic that nine out of ten companies in Hungary view labour shortages as a key obstacle to increasing production.

In other places the picture is more mixed. Russia finally recovered on the back of oil prices, but also on increasing domestic demand. However, we do not see growth strengthening going forward, because of structural problems in the Russian economy and little hope for more dynamic reforms. We heard President Putin talking about the modernisation of the Russian economy, so we shall see whether things will change on this front. But projections based on the current status quo lead us to think that growth would stabilise at below 2 per cent.

We had strong growth in Central Asia in 2017; and a number of external factors fuelled growth, including oil price remittances from Russia, exports and an increase of investment in a couple of countries. We think that this growth will continue but will not really strengthen further. It will moderate in several countries. We hope very much that the very ambitious reform in Uzbekistan will lead to stronger growth going forward but it is a bit too early to make projections based on this.

The Western Balkans is the region where we see growth strengthening. We see credit growth, which really starts to fuel above consumption and investment. 2017 in the Western Balkans was influenced by these special factors in Serbia and Macedonia. We see this growth being higher in the next two years.

We are particularly happy about the developments in Eastern Europe and the Caucasus. That was the region that really lagged behind in terms of recovery with countries in the recession and even last year. So we see growth picking up across the board, and in particular in Ukraine, again on the back of the reforms that have been implemented over the last two years.

Finally, in the region where we are right now, we see growth strengthening. It is fuelled again by stronger external demand; a gradual recovery in tourism, which improves confidence that leads to a moderate pick-up in investment; improved competitiveness particularly in Egypt following the liberalisation of the exchange rate.

What is worrying is that in all countries where the EBRD operates, except for Egypt, growth rates are well below the averages in the decade before the Arab Spring; and these rates are very low compared to the rate of growth of the population. That is a particular issue because job creation is a challenge in the region.

We are in Jordan, and we expect the Jordanian economy to accelerate from 2 per cent in 2015 to 2.5 this year, to 2.7 in 2019. But these are pretty low growth rates, and obviously all kinds of headwinds are still faced by Jordan and an economy that was really very much dependent on trade, remittances and tourism. All these sectors were badly hit following events in the region. These factors seem to be improving but rather slowly. We also see very ambitious reforms being implemented, so we hope for better. But so far, unfortunately, we do not see a stronger upswing in Jordan.

MR WILLIAMS: Thank you, Artur. Let us take some questions from the floor.

MS NADETTE TIER (Venture Magazine): I have two questions. First, I would like to hear your opinion on the recent tax hikes. Do you think they will contribute significantly to the economy in Jordan?

My second question is regarding the Central Bank. They continue to increase prices, and I would like to know whether you think that is going to be very effective.

MR WILLIAMS: Let us have your answer, Rafik, and we will have another question later. Rafik is the regional economist based in Cairo for this region.

MR SELIM: On the Central Bank raising interest rates, this is expected in terms of the peg, and the tightening in federal reserves interest rates. In this sense it will continue. For us, this is a risk to competitiveness and to the attractiveness of Jordanian exports and tourism.

On the first question about taxes, we encourage tax compliance reforms, to broaden the tax base and to improve and enhance compliance. Right now, in Jordan and some other SEMED countries, the tax rates are reformed but not the tax performance. In this sense, we encourage more fiscal consideration efforts to increase the tax base and to increase tax performance in general.

MR WILLIAMS: Any further questions either for Artur or Sergei? If there are no further questions… Yes, please? The third row back, it is Stefanie.

MS LINHARDT (The Banker): One of the risks to the economies you have mentioned is increasing corporate debt. Where specifically do you see that, and is it just related to external foreign currencies and potential interest rate rises?

MR GURIEV: Artur will scroll back to the chart where we go country by country and break down corporate debt. The previous chart, where we have country by country, and also composition, internal-denominated, external-denominated.

Let me take the example of Turkey, which depends substantially on external flows. We see that the government takes it extremely seriously and recently introduced special legislation constraining the access of smaller firms to FX-denominated borrowing. That of course creates a major challenge for such companies because long-term financing in lira is also limited by virtue of having very high inflation in Turkey. That, in turn, depends on the stimulus being rolled out and, as the economy is overheated – inflation is above 10 per cent – if everything goes well, it goes down to 7 per cent in a couple of years. If inflation is at 7 per cent, it means the long-term yield curve in lira still does not exist. So there is a major challenge in how to refinance your debt and roll over your debt if you have neither local currency nor FX borrowing. That creates a major challenge.

The Turkish economy is doing well. Even though growth will be coming down from last year to this year, it still has strong fundamentals. But the issue of rolling back the stimulus, bringing inflation down, rebuilding a lira-denominated financial system – that is a challenge that has to be addressed as soon as possible. This is a typical story of foreign-currency-denominated corporate debt.

MR WILLIAMS: Thank you, Sergei. Any further questions? Yes. Marc Jones from Reuters.

MR JONES (Reuters): I missed the first bit of the press conference, unfortunately. I am sure you went head-on at it with the lira. How much of it is a problem? Also, you talked a lot about the rising dollar and all of this. Is there a risk of some currency crises occurring here?

MR GURIEV: If you ask me can a government that wants to arrange a currency crisis arrange a currency crisis, the answer is yes. If you ask me do we foresee a crisis in our countries, our forecast for the next two years assumes a negative answer to this question. We foresee strong growth in all of our countries: 3.3 per cent this year, 3.2 per cent next year.

We assume that the policy will be reasonable, that countries will manage their problems in a responsible way. But as we have already discussed, things may change. Relative prices can change, commodity prices can change. If interest rates suddenly go up in advanced economies – which I do not see, but who knows? – then some of that which used to be sustainable becomes less sustainable. There are many moving parts, and yet the baseline scenario is quite optimistic. And, if the policy response is reasonable, then we do not foresee major currency crises.

I would also say, with all the issues that people talk about – Turkey and the volatility of the lira – that I think it is actually a very important part of the solid fundamentals of the Turkish economy that the lira is flexible and therefore helps to restore the competitiveness of the Turkish economy if there is some change of financing flows.

This is something that is great, and that is why we support moving to a flexible exchange rate in countries like Egypt or Uzbekistan. That was a smart move and, even though inflation is still high, it was a very important step in promoting reforms.

MR WILLIAMS: Thank you, Sergei. Any further questions for either Sergei or Artur? If that is not the case, we will move seamlessly into our press conference with our representatives from the southern and eastern Mediterranean region.

I would like to point out that, after the plenary session with the President and the Board of Governors this afternoon, which finishes at 17.30, the President will come up with Minister Fakhoury to present the results of the deliberations of the Bank with the Board of Governors. They are obviously having some important discussions about the future of the Bank, so I invite you to come back here shortly after 17.30. In the meantime, thank you very much indeed for coming.