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MR LANKES: Welcome to all. I am going to provide just a brief overview of developments in the region, trying to identify what we see as being the main forces that are shaping those developments. Piroska will then go into more depth on developments and individual regions.

We have here with us our regional economists, who will be ready, during and after the press conference, to answer additional questions.

(Slide presentation)

Overall we expect growth this year to stagnate in our regions of operations in the aggregate. We predict zero per cent growth for the regions together, that is central and eastern Europe and the southern and eastern Mediterranean region. Behind that average stagnation lie two very different developments. The key factors shaping these developments are the quantitative easing in the eurozone which, over the past few months has begun to have an effect on countries that are particularly closely integrated with the eurozone; and the recession in Russia, which is having an impact in those countries that are more closely integrated with the Russian economy. Those are the two major factors that slightly differentiate the forecast now to the one we had in January.

Underlying this we see continuing investment insufficiency throughout the regions, which is a legacy of the global financial crisis. We would like to see investment levels, particularly private-sector investment levels, increase in order to ensure more sustainable longer-term growth.

In central and south-eastern Europe, the prospects have improved slightly since we looked at it last time as a result of the effects of quantitative easing in the eurozone. That has built confidence and has come on top of the trade benefits due to the lower oil price, and it has stimulated demand in these economies. That is what is allowing us to predict a resumption of growth and hopefully sustainable convergence with income levels further west.

We are positive about the southern and eastern Mediterranean region due to the resumption of growth in Egypt because of the decline in oil prices and also reforms and gradually improving confidence in the Egyptian economy. Growth in those countries of operations has been improving.

Further east we forecast a serious recession in Russia this year, with a 4.5 per cent decline in GDP. That will have significant spill-overs in countries around Russia, and those effects will be somewhat stronger than we expected even in January. You will hear more about this from Piroska.

For 2016 we would expect to see a gradually improving outlook, but there are certain risks, including the tightening of monetary policy in the United States. Most observers expect that to happen by the end of this year or early next year. That would mean that capital flows into parts of our region in recent years might reverse. Countries like Turkey might be caught up between diverging monetary policies in the US and in the eurozone.

There are also the uncertainties in regard to the outlook for Greece, even though we are moderately optimistic. There is the big unknown factor and that is the geopolitical uncertainty affecting Ukraine and Russia. Depending on the developments there the outlook could deteriorate or improve.

Taking those things together we have *this* picture of growth prospects for 2015 and 2016. This is a three-year view over the different regions, with 2014 on the left. On the very left you can see the EBRD region as a whole. In the middle we see the zero per cent growth prospect for this year, and then the improving prospects for next year. You can see the regions where the outlook is relatively positive in the middle; and on the right you can see those regions where, due to the impact primarily of the Russian recession, growth has deteriorated.

MS NAGY: I will put a little more meat on what Hans Peter has described, to give a regional flavour to the description.

One of the most important new factors that is impacting on our region is the quantitative easing of the ECB. You have heard a lot about this policy tool in the US and in the UK. Other central banks have used this tool previously. Japan is continuing to use it. The novelty in our region is that the ECB announced quantitative easing late last year, and started it in earnest this year. It is having an important impact on countries in central and south-eastern Europe but also a little bit further down in countries that are leaning to the eurozone one way or the other.

In *this* slide we remind ourselves of the main channels of transmission, using the jargon of the profession. What are the main ways in which the quantitative easing of the ECB can impact the emerging European region? There are quite a few. In our literature, in the new forecasts there is a box for that. Let me highlight the two most important positive channels and the one important risk in the longer term.

The most important positive-impact channel is the exchange rate channel. Currencies in emerging Europe, along with the euro, have depreciated against the dollar. Depending on the exact exchange-rate mechanism, they are benefiting from this. If they are linked to the euro they are moving with the euro. If they have flexible currencies, like Poland, Hungary or Romania, they are allowed to have more relaxed monetary conditions as a result of this policy. That has already been put into the interest rate channel.

The second important factor, which we see materialising from the newly-published eurozone forecast is the second-round real sector effects for the region. This is because if the QE works in the eurozone, that will boost external demand for emerging Europe and also for SEMED countries. That is a positive demand effect coming from the QE.

Let us not forget about the risks. These are not on the growth side but are longer-term and relate to financial sector stability. We are sitting a country, of which there are quite a few in this region, that are highly dollarised. Depreciation of the dollar and depreciation against the dollar of the local currency is of course a risk. There is an increasing consensus that in the longer term there could be other disincentives for saving and the like.

Overall the impact is positive. I will give just a few illustrations. In *these* two charts we show that stock markets have rallied, following the ECB announcement, not only in the euro stock market, which is on the left-hand side in red, but also in countries of operations such as Hungary, which is shown in green. On the right-hand panel we see that this has allowed policy rates in south-eastern and central Europe to go down significantly, even becoming negative in some countries. Some of these already had deflation. We are not saying that QE is causing this, but it is adding to the already very low interest rates, cutting them even further.

We hope that finally this will ease monetary conditions so that in the end credit growth is stimulated. This is a big issue for the region here in emerging Europe, but also in the east. Post-crisis credit growth has been minimal and has only been related to a market-based caveat and not simply stimulated by subsidised instruments where these have been used.

On the left-hand side, in central and south-eastern Europe total credit, shown by the little black diamond, has increased very little. What has really suffered has been corporate credit.

As a little footnote, there are of course serious reasons for this. One is the legacy of very high non-performing loans in the region, which have to be tackled before credit can benefit from quantitative easing demand-side and improved conditions.

Credit conditions are different further east. Turkey has seen a relative boost, which, as Hans Peter signaled, has also brought significant vulnerabilities. Credit has of course been quite important but in the eastern countries and the Caucasus, credit has declined.

There is then a little more detailed, region by region and slide by slide. We will not go into details but are happy to answer your questions. Again, central and south-eastern Europe: the growth momentum is there. We see nominal convergence, which used to be the game pre-crisis, returning in a more moderate but nevertheless positive form. We see in *this* graph the red line for GDP growth and average consumption shown by a blue bar. After the crisis there was a blip but since the beginning of 2014 growth has resumed. It is less than it was before, but it seems to be self-sustaining. This growth has been driven more by domestic demand. We have seen declining unemployment and an increase in incomes, fuelled in part by the recent declining oil prices, and receiving a further boost from quantitative easing.

Turkey is in the cross current of two monetary policies. It is being impacted on the export side by the ECB’s quantitative easing. As you probably know, the main export market for Turkey is the eurozone; so to the extent that the euro depreciates very strongly and the leader does or does not keep in DF terms, corrected for inflation, then Turkey loses competitiveness. It potentially gets a little squeeze on the export side from the quantitative easing in the eurozone. At the same time the mirror image is that financing costs are rising as a result of the appreciation in the dollar and the Fed's expected exit from quantitative easing. On the financial side, that service can increase and there is a risk of capital outflows, as Hans Peter signaled earlier.

Turkey is potentially squeezed on the export side because of the eurozone and the import side because most of that is in dollars, and corporate debt in particular, which underpinned the big credit growth that I showed you earlier. Of course, these are potential risks. We still think growth will be around 3 per cent in Turkey.

The outlook is better in the relatively new region of SEMED. In *this* chart GDP growth is in red in Egypt. Fixed investments are increasing. It is good news. There is a recovery in investment, a better macroeconomic setting and a better business environment with more political stability. However, unemployment in the whole region remains high and there are risks related to geopolitical tensions in some regions.

Going further east, the picture is considerably bleaker, much starker. Russia is in a deep recession. It has been triggered by the oil shock and continued sanctions, but it also reflects the deep structural reforms. There is a lack of sufficient reforms and this has reduced potential growth.

The negative spill-overs from Russia's recession are significantly higher in the Caucasus region than we saw in January, and we have downgraded almost all of our forecasts accordingly. Some countries have slipped into recession along with Russia.

Ukraine is going through a very difficult adjustment period, and is in deep recession, as we confirm in this new forecast. However, it is on the right policy track.

Here are a few slides to highlight that in Russia real sales and real wages declined by a very significant amount in the first few months of this year, namely close to 10 per cent. On the chart we show that international reserves (the blue bar) have declined by 32 per cent since the beginning of 2014. That is a significant loss although reserves are still sizeable, as the chart shows. That happened even though there was allowance for exchange-rate depreciation. As the blue line indicates, that has been partially reversed.

There is in general good macroeconomic management of the shocks that have faced Russia, but of course that does not solve a number of problems including the lack of structural reforms.

Spill-overs are very significant. The item that has declined very greatly is remittances from Russia to the Caucasus and Central Asia not only in relation to what is being sent home but in terms of the return of migrant workers. This of course raises a number of issues in Tajikistan, Kyrgyzstan and other countries.

There are risks in this outlook. They are more balanced than previously, but nevertheless we believe that they will tilt more on the negative side. One of the risks is the uncertainty surrounding Greece. This is a new country of operation for the EBRD and it is the first time we have had a forecast for Greece, with a timid zero per cent growth for this year, with perhaps some pick-up next year. The risk is that if things go wrong in the worst-case scenario, then that could have a negative knock-on effect on south-eastern countries and potentially the eurozone.

As Hans Peter mentioned, we do not know the exact impact of the situation in the US. We know the direction in which it will go. There are historical precedents from the eighties and the nineties in regard to the impact of interest-rate rises in the US so we will know what will happen, but when exactly it will happen and how big the impact will be is unknown. The size of the quantitative easing and thus the reversal of quantitative easing is unprecedented. We know the direction but we do not know the exact impact. In this part of the world it is well understood that there is geopolitical uncertainty, particularly in regard to the Ukraine/Russia conflict.

I will finish with *this* chart, in the interests of leaving time for your questions. For the region as a whole, average growth following the big decline we are now entering zero territory this year. We have not significantly changed our January forecast, on account of the Russian recession and its negative impact. We see a timid return to recovery next year.

THE CHAIRMAN: We will take questions. Could you say who you are and who you represent?

MR ARIS (Business New Europe): Could you expand a bit more on Ukraine economic prospects in so much as the forecast at the start of the year was recently significantly downgraded? Is it a shock as a result of the political and economic problems of the war or are they going into a 1993 moment that Russia passed through, so that this will be something more significant and more sustained rather than a shock from which they can rebound?

MS NAGY: Yes, we have indeed downgraded the forecast. I would like to ask Dmitri to go into more detail. He is the regional economist stationed in Ukraine and he has his finger on the pulse of the economy, so to speak, on our behalf. However, let me just say that the decline this year is deeper than we had expected in January. At the same time we forecast a rebound next year. We can see that the economy is on the right track. Reforms are in place, many of which were a pre-condition for the IMF package. These are continuing. Many unprecedented reforms are under way. They have a short-term cost in terms of output and unemployment.

Dimitri Gvindadze, economist : This is the second consecutive year of recession in Ukraine. There was a shrinkage of real GDP of almost 7 per cent, 6.8 per cent. Last year we forecast minus 7.5 per cent. This is due to many factors. When the political change happened at the beginning of 2014 the new government inherited a very pronounced twin deficit and it took some time to unravel the cause of the fiscal deficit and the imbalance in the current account. The unravelling and unwinding of those balances coincided with the geopolitical shock. This is a protracted shock, not one-off; it has had long-lasting effects at have impacted on the economy in the recent past.

We have to add to that the destruction taking place in the banking sector with many banks having been transferred into the deposit guarantee fund for resolution. You have to add to that the spike in inflation, the very sharp depreciation of the currency, which has lost almost two-thirds of its value since the beginning of the crisis.

On the positive side we see that the new government has taken very drastic measures to correct the imbalances and to address the structural issues and bottlenecks. There was a very ambitious set of ex ante conditionalities under the IMF programme, and as you know Ukraine shifted from the short-term standby arrangement to a longer term extended fund facility, which is a four-year arrangement. There was a concerted effort on the part of the new government to implement significant deep, comprehensive structural reforms, for example unlimited liability for the banking sector for related party exposures; reduction and eventual elimination within two years of the quasi fiscal losses in the energy sector; and enhancement of competition in the gas market by unbundling Naftogas, to allow private-sector participation. Those are politically onerous reforms, but we saw first-hand a pretty strong consolidation of the political spectrum in the parliament and in the government, because it is a coalition government, to push forward with structural changes.

On that assumption we have factored a rebound into our forecast for next year. This year the country is daunted and pushed down by the very significant geopolitical challenges, which impact investor/consumer/lender/depositor confidence. There is also the history, the legacy of the twin imbalances, which are being unraveled as we speak.

MR Brueggmann (Handelsblatt): I would like you to explain the situation in Ukraine and why you think Russia is a little bit better now than in January.

MR LANKES: The big issue there is that oil prices have slightly improved and there has been a certain stabilisation of expectation/confidence factors surrounding the imposition of sanctions last year. These two factors together have helped the exchange rate to improve and have provided a certain confidence buffer for the economy.

Nevertheless, we have seen this very steep decline in retail sales and real wages, so we would expect that to play out during the year. We also see underlying structural problems that have been coming for several years: the growth trend in Russia has declined over several years, and this is not a new factor. The current situation is probably making it more difficult to address these structural factors because in order to diversify the economy and build new dynamic growth poles you need to invest. You need private investment, and in the current circumstances that is fairly limited.

We see a slight rebound in confidence through the exchange rate, in the sense that people have money in their pockets, which has had its impact on our forecast.

MR WRIGHT (Emerging Markets; Euro Money Magazine): I saw in your North Africa and Middle East nations (SEMED) that you are now relatively positive on Egypt, but how about the rest of that region? Is there reason for optimism for any other states that you cover in that area, and why?

HANAN MORSY – Economist : For Egypt we see a pick-up in growth momentum. This is driven by two factors: continued resilient domestic consumption, which has helped growth over the last three years with growth rates of 5 to 6 per cent. The good news is the resumption of investment, which is the new driver that is improving the outlook for growth. That had been almost negative for about a year and a half, but for the last five quarters it has been the second strongest contributor to growth. It is also driven by a combination of policy reforms to reduce macroeconomic imbalances and to improve the business environment, by the support that Egypt has received from the GCC and increased political stability.

In Morocco growth is rebounding from last year to about 4 per cent, driven by a rebound in the agricultural sector, which contracted last year because of weather conditions. There has also been strong growth in the new value-added sectors: aerospace, automobiles and electronics. This will help drive growth in Morocco.

Tunisia and Jordan have been affected by the regional turmoil. Jordan has had 10 per cent of the refugees, which has led to strain on public finances and has affected exports, transit routes and so on. This has affected growth in Jordan.

We see a gradual improvement and are forecasting 3.1 for the current year and
We are forecasting 3.1 per cent growth for the current year and then a gradual improvement to 3.6 for Jordan.

For the region we are forecasting for this year a growth rate of 4 per cent and for next year 4.3 per cent.

As for Tunisia, we also see a gradual, modest recovery, but also we expect that the heightened security risks in Tunisia will impact on tourism and will weigh on recovery in the short term at least. In addition, the challenge in Tunisia concerns the reforms particularly for the banking sector and how quickly these will go.

THE CHAIRMAN: Thank you, Hanan. The next person is Margarita Antidze.

MS ANTIDZE: Russia’s Deputy Finance Minister, Mr Storchak, will deliver his speech later today. He will talk about the current problems concerning relations between Russia and the EBRD and about losses that the EBRD suffered last year. The main topic of his speech to the EBRD will be to depoliticise this bank. What would be your response in terms of how you see the current relations between Russia and the Bank, and what do you think about his message?

THE CHAIRMAN: Margarita, with the very best intentions, this is a press conference about the economic forecasts. Tomorrow we can deal with other questions about the institutional affairs of the Bank with the President, and there will be other opportunities. Thank you very much.

BBC NEWS: The EBRD prides itself on being the only investor in Ukraine at a time of crisis. However, as I understand it, you have experienced losses and, with your forecasts now, are you planning to invest further in Ukraine; and, if so, why and how much?

MR LANKES: Yes, we registered financial losses last year, in particular because of a very steep increase in what we classify as non-performing loans. Actually we have not made a large number of realised losses, and as conditions improve in the future we may recoup some of the financial losses that we showed. That is the first thing.
As the President mentioned this morning at the opening of the Board of Governors, the EBRD is very committed to helping with the reform process in Ukraine. We more than

doubled our investments from about €500 million in 2013 to €1.1 billion last year, and we are continuing to be committed to finding opportunities to support the economy. A lot of our investment pipeline will depend on reforms moving ahead, especially in the financial sector, where we are looking at opportunities to strengthen the capital base of the banks and helping to restructure them, many of which are under great pressure, as you know; and in the energy sector we are very heartened by the reforms that have been announced and now have to play out, which will open opportunities for the EBRD.

I would therefore expect our investments this year to be strong but somewhat back-loaded during the year and dependent on these very particular reform steps going ahead. We are of course also working with the Ukrainian authorities to help them in designing these reforms. Where they have asked for assistance, we have been quite impressed with the competence of the economic team, but of course it is quite an agenda, so we have provided quite a bit of technical assistance there as well.

THE CHAIRMAN: It would be advisable to keep to economic questions as much as possible.

MR DA ROLD Il sole 24 Ore: I see that the growth prediction for Poland is 3.4 per cent. Can I be given some reason for that? It is very interesting because it is a country near Germany, therefore near the eurozone, and it has had impressive, constant growth year on year.

MS NAGY: I agree with you that it is a very impressive record. I will ask Alex to give a brief overview of the details.

MR LEHMANN: I am the Regional Economist for central Europe. It is true not just of Poland but also of other countries in central Europe that the strong recovery that we now see was a bit of a surprise, given the still weak eurozone growth.

There are two points. First, the quite strong domestic demand in retail consumption in particular. As wage labour markets have become tighter and inflation is quite low, disposable incomes have grown quite strongly, so you see that in the retail sales. Secondly, we have seen the last elements of the investment programmes out of EU spending, which has been quite strong; and, as Piroska mentioned, the monetary easing on the back of the quantitative easing programme of the ECB has brought a little easing of credit conditions and hence of private investment as well.

Therefore, while we were still quite modest in our assumptions about eurozone growth, it has been the domestic demand that has been quite strong in Poland, and the external risk factors have not really materialised – so far, at least, unfortunately.

THE CHAIRMAN: The next question, please.

MS MEGRELIDZE (Interpretation): From *Business Time*, an economic magazine in Georgia. As far as I understand the position of the EBRD, the main reasons for the lower figures for Georgia are external factors such as Russia and Ukraine. In your paper you say that in 2015 the economic growth in Georgia will be down to 2.3 per cent and even lower in 2016. My question is: do I understand correctly that we have some externalities that have an impact on these figures, and why are you saying that in 2016 there will be growth of 0.3 percent in the Georgian economy? The figure for the Georgian economy will be lower.

MR LANKES: The difference between our forecasts of today and a few months ago primarily has to do with the impact of external factors, which has been a little stronger than we had expected, and the key there is the development of the Russian economy, the impact on remittances and effects on the exchange rates that have come along with that. In our view, Georgia is still performing relatively strongly in the regional context.

As I mentioned at the beginning, there has been a negative effect throughout the region from the development in Russia, and Georgia has not been immune to that, but in that regional context it is still performing rather strongly. We see a number of vulnerabilities that will need to be managed, in particular given the exchange rate depreciation, which is very much in line with the depreciation of other countries in the region. We would nevertheless feel that this will have to be managed carefully in the banking sector. The depreciation also has an impact on purchasing power and on people's behaviour in relation to consumption.

I will hand over to Piroska to provide more detail.

MS NAGY: I very much agree. In addition, Georgia has significant trade relations with Ukraine, which of course is going into a deeper recession than previously we had assumed, so that also plays a role. However, as Hans Peter said, they have the strongest growth projection in this region for 2015, and in broader terms, on a historic view, we see the strength of the economic institutions working. Of course, the well known figures that everybody quotes are on doing business but in other areas as well, on other measures, Georgia has done an excellent job in terms of institutional economic reforms.

Agris - are there any figures that we want our economists to cover in the country?

AGRIS PREIMANI: There is very little that I can add to that very comprehensive answer. However, your question about why growth will be better next year is related directly to the recovery that we see in terms of the external factors. We see an improvement in the broader region around Russia. As a result, some of those very significant very negative impacts on remittances, trade and tourism in a country will start to be reversed. On the other hand, of course, because of the slide of currency and the slow-down in the economy, we expect to see an increasing pressure on the balance sheets of companies and households, potentially increasing the level of (?) in the country as well, and that effect will continue to be a drag on the growth next year as well, so we see those two balancing effects – on the one hand, a more positive external environment, on the other hand, some of the legacy issues from this year will continue to affect growth next year as well.

THE CHAIRMAN: Thank you. We have about five minutes left before Hans Peter has to leave. I hope that some of the regional economists will be able to stay here a little after that. Perhaps we can take two more questions now – the first from Mark Jones, and an economic question.

MR JONES (Reuters): It will be. I have three basic questions. First, on Ukraine, in your forecast are you factoring in restructuring? Secondly, on Greece, you are talking about the worst case scenario that could have an impact on other parts of the region. If Greece left the eurozone, can you tell us would be most affected in the region and how dramatic would it be? I have forgotten the other question that I had, so I will leave it with those two questions and come back to you with the third one.

MR LANKES: Let me take your second question and Dimitri can answer the question on Ukraine.

Spill-overs from Greece, yes, are a risk factor. We all know that Greece is at a fairly difficult time. As I said, in principle we expect a resolution that at least allows Greece to stay in the eurozone, allows it not to default and allows certain steps forward with the reform programme to be taken. We therefore assume a resumption in financing.

We also feel that especially over the past few weeks often the risks – a 'graccident' as they call it – have reduced, and I think that we are supported by views in the market as well. Nevertheless, if that happened – and you are asking it hypothetically – the eurozone as a whole is certainly more insulated today than it was a few years ago, and you are aware of that, but countries in the neighbourhood of Greece are still economically linked through trade and investment and through Greek banks in the countries of south eastern Europe in particular. Greece is a major economic factor in south eastern Europe, and even though over the past few years there have been steps to protect the banking subsidiaries in the neighbouring countries, there would still be a major confidence effect – we have very little doubt about that – in addition to a direct effect if the Greek economy were to take a big hit in that context.

Of course, there is also the possibility of a wider eurozone confidence effect even though it is no longer as much at the centre of the attention as it used to be, but we all have heard about the concerns that a Greek exit would have a psychological impact on perceptions on the future of the eurozone. Personally, I do not think that this is really such a major factor any longer today, but views on that differ.

MS NAGY: Until you remember your third question, let me very quickly say that that restructuring is part of the IMF programme and part of our assumptions. There is 50 million out of the 40 billion financing package that is assumed and we expect this to happen.

MR JONES: I have remembered the third question. You have talked a lot about the benefits of ECB and quantitative easing and the effect that it has had on borrowing costs across the region, but over the past month the effect seems almost to have run out, the bond markets are selling off a bit and we are seeing yields rise, so what does that mean for the region?

MS NAGY: There is some reversal but it is only partial. I would say that it is linked partly to the timetable of the US monetary tightening, which has been pushed. If you recall, we expected it at the end of last year, then for this year in March/April, then it shifted to June, then September, and now we are in December/January. Why this is happening is something that we actually addressed in our previous forecast in January in more detail. It is also because for the US the very low inflation environment allows many more options in the timetable for tightening than one would have sought earlier. Given that inflation is very low, there is still some volatility in the recovery days. High frequency indicators are coming out one day or the other, so the US is not in a rush to tighten its policies. That of course directly impacts on the most important transmission channel, which is the exchange rate channel – the quantitative easing.

Be that as it may, though, personally I think that this is a noise in the system. The US will tighten in the end – the general expectation is at the end of this year or early next year. Therefore, unless there is a big surprise in the eurozone of a huge rebound of output, which is not a central scenario, a big recovery but not a huge one, we expect quantitative easing to continue and to have a positive impact.

THE CHAIRMAN: Thank you very much indeed, Piroska. That is the end of the formal part of the press conference. Please feel free to ask questions of our regional economists and, if you do not have time now, feel free to come into the press filing centre and if you have any specific questions about specific countries, we will try to sort them out for you over the next 24 hours. Thank you very much indeed.