

Getting by

High inflation weighs on purchasing power of households

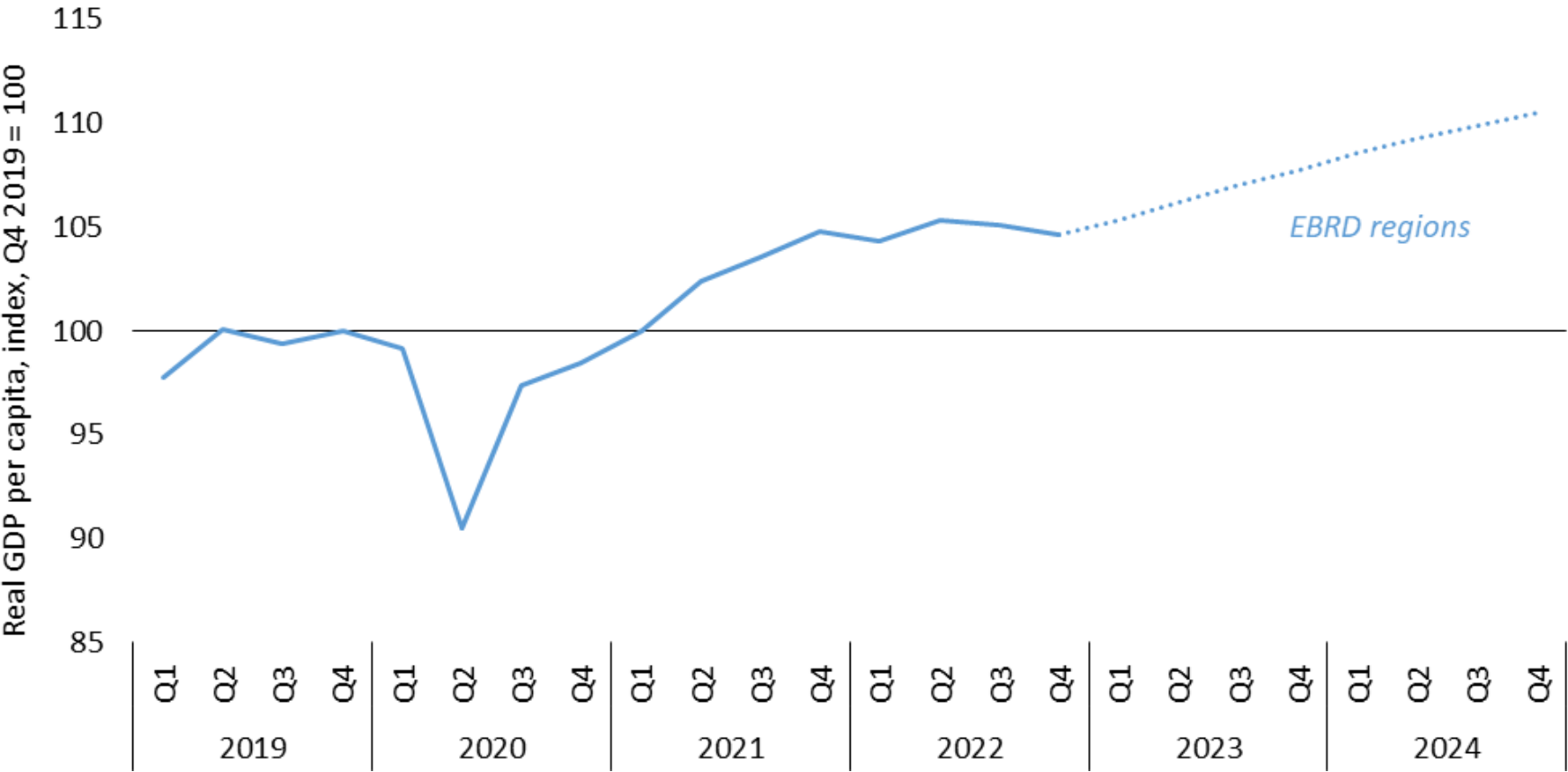
Regional Economic Prospects, May 2023



European Bank
for Reconstruction and Development

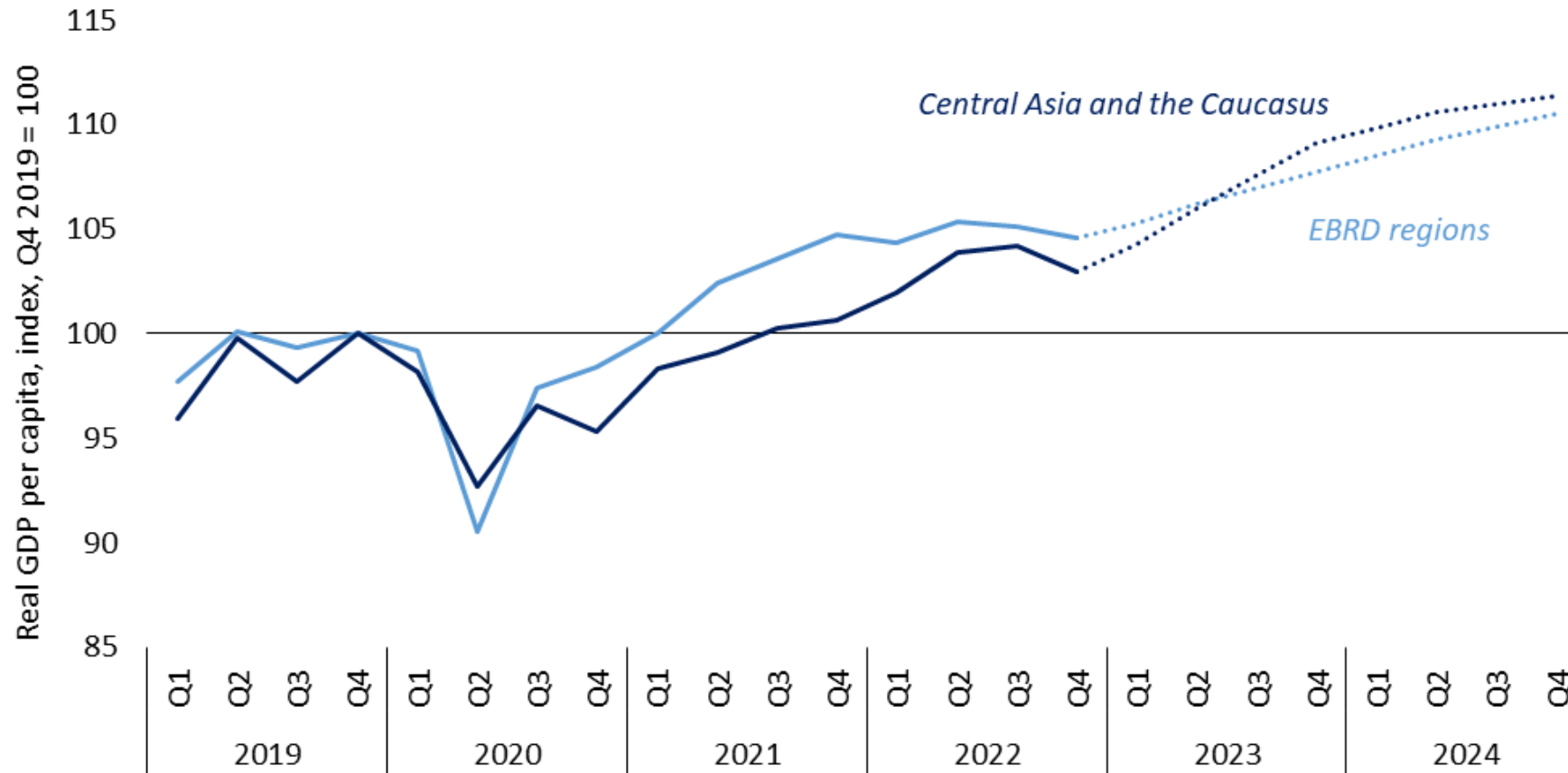


Growth in the EBRD regions is expected to slow from 3.3% in 2022 to 2.2% in 2023, picking up to 3.4% in 2024 as inflationary pressures subside



Source: National authorities via CEIC and EBRD forecasts. Note: EBRD average based on the values of gross domestic product in 2022 in current US dollars from the IMF.

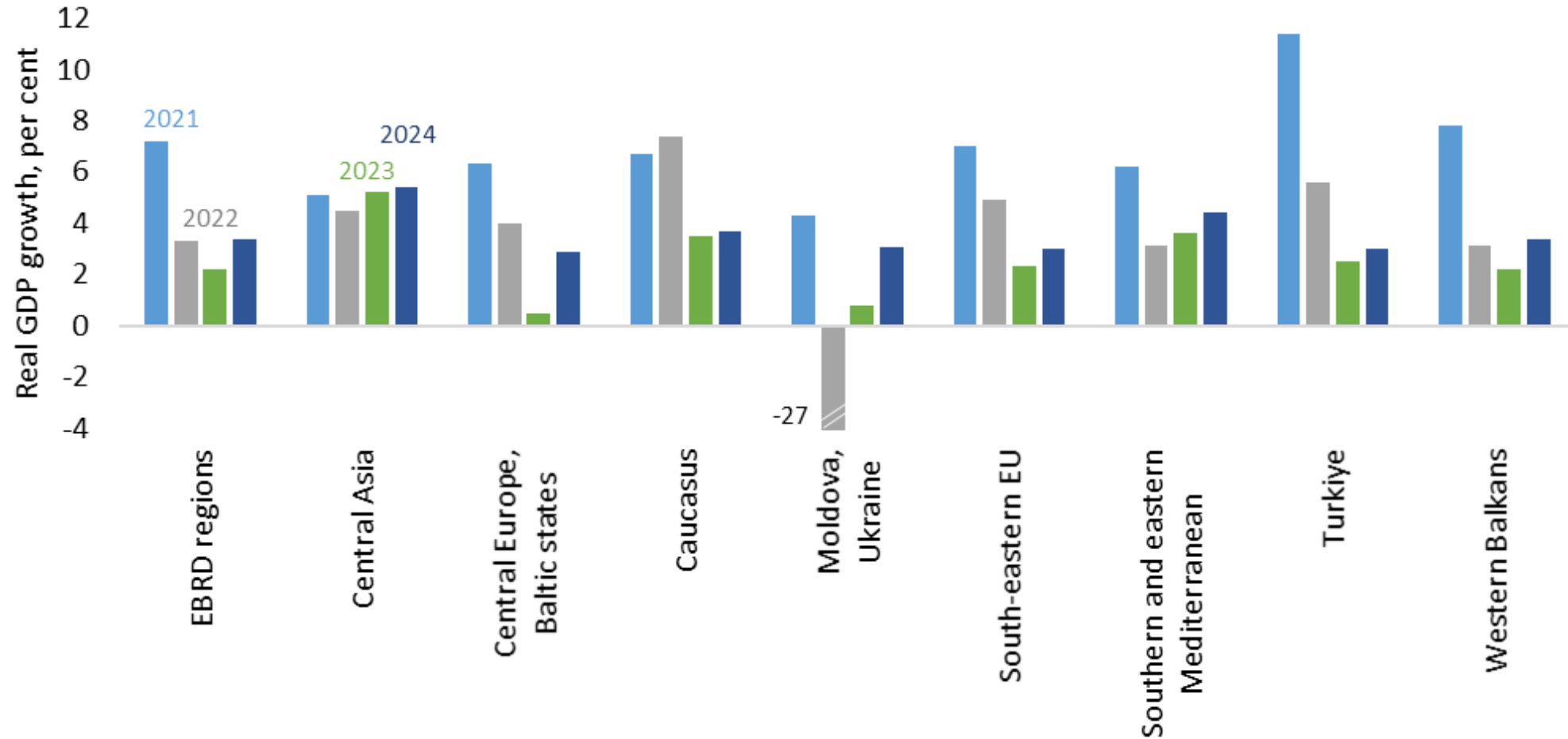
Faster growth in Central Asia / Caucasus on increased intermediated trade, inflows of capital, migrants from Russia – after slower per capita rebound in 2021



Source: National authorities via CEIC and EBRD forecasts.

Note: EBRD average based on the values of gross domestic product in 2022 in current US dollars from the IMF.

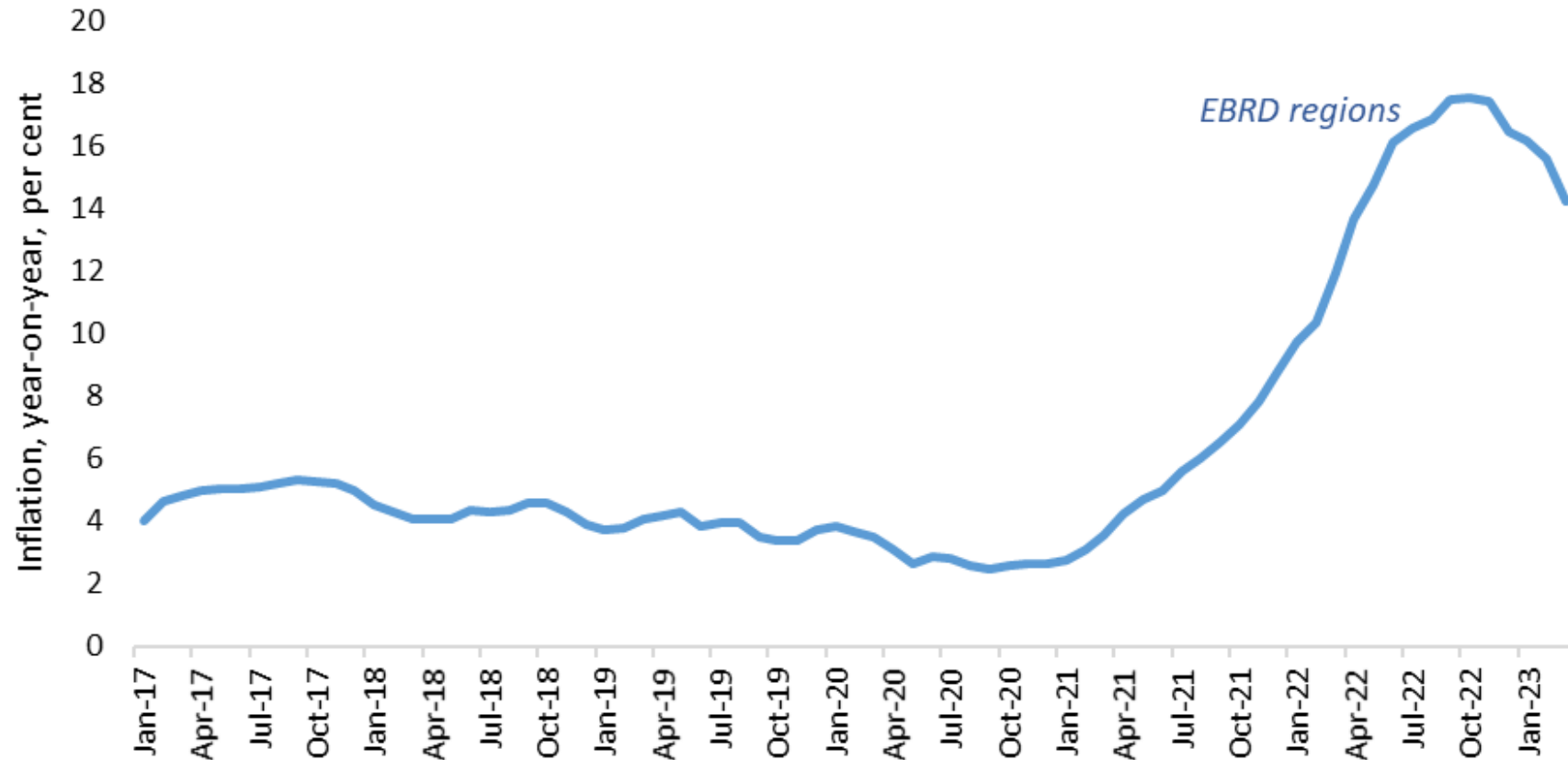
Growth in 2023 has been revised down -0.1pp reflecting earthquakes in Turkiye, slow reforms in southern and eastern Mediterranean, inflation in central Europe



Source: National authorities via CEIC and EBRD forecasts.

Note: EBRD average based on the values of gross domestic product in 2022 in current US dollars from the IMF.

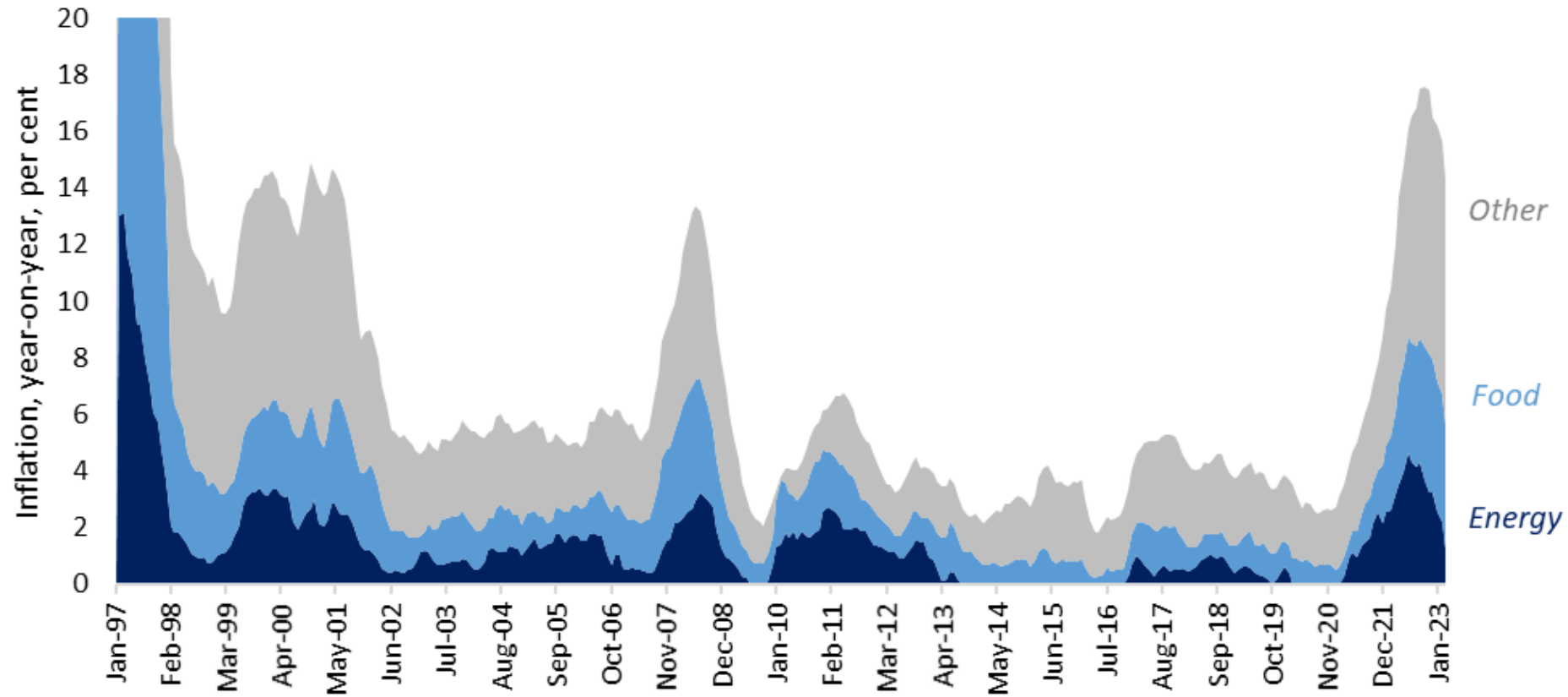
Inflation in the EBRD regions peaked in Oct 2022 at 17.5% and has since declined to 14.3% in March 2023



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

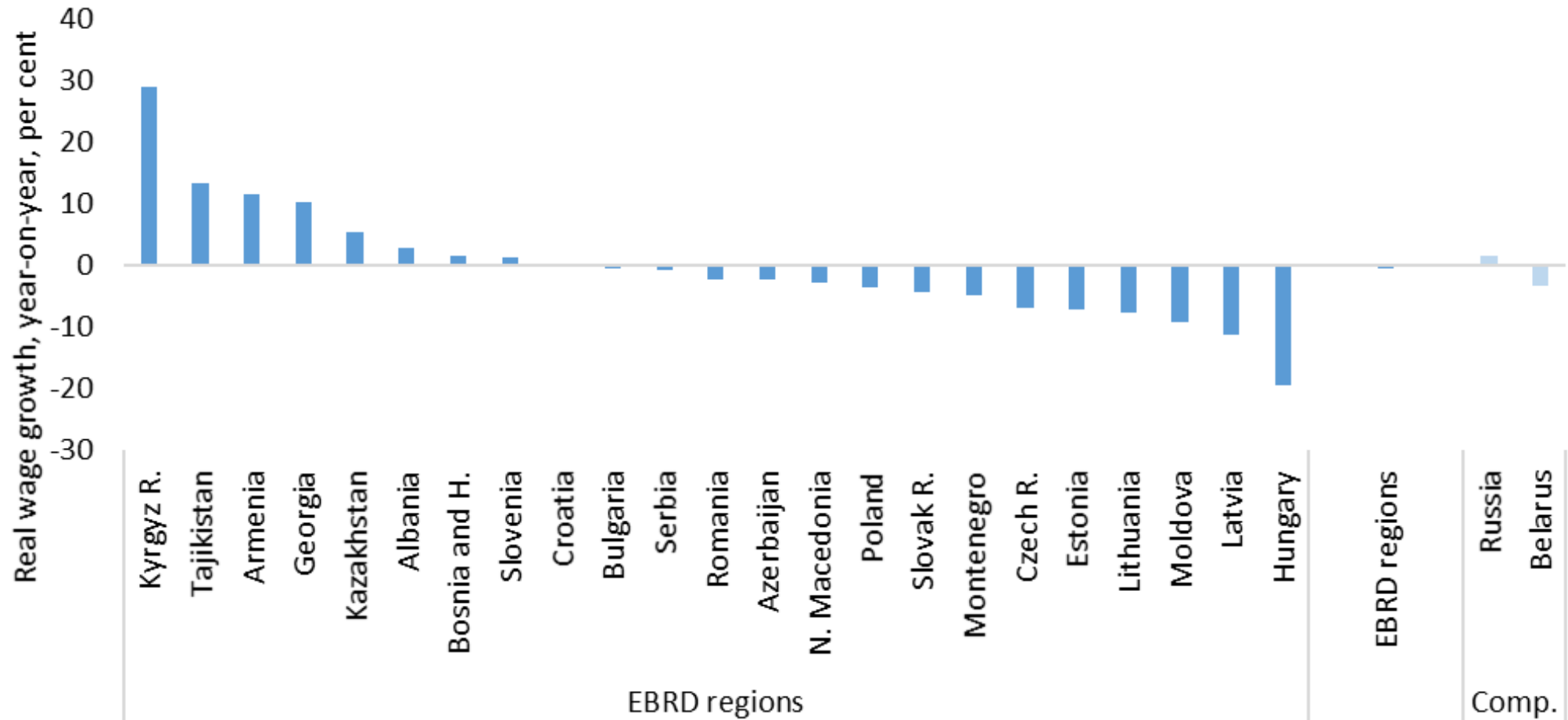
Note: EBRD regions refers to a simple average across 33 economies, excludes Lebanon.

Food and energy price increases started coming down but core inflation (other goods and services) has been on the rise



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

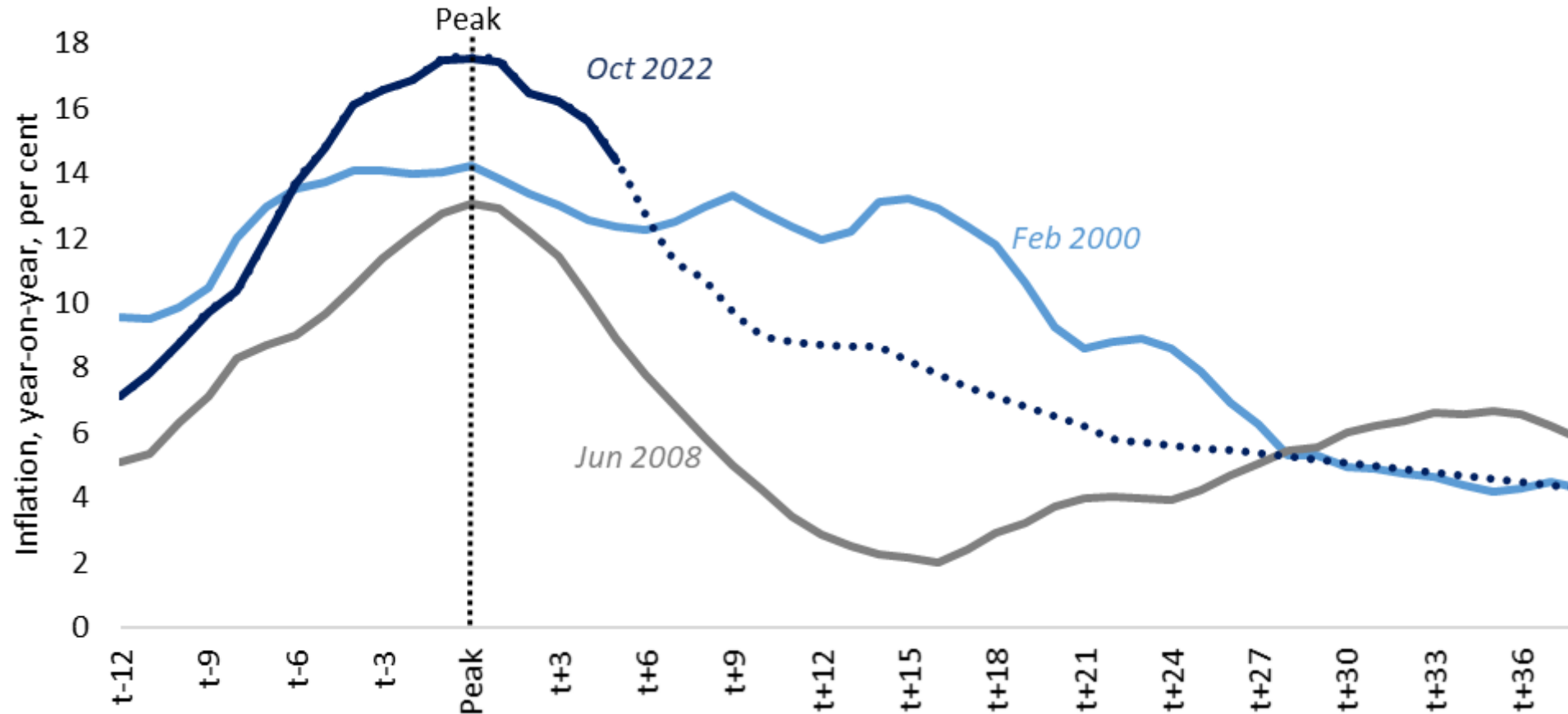
Wage growth lagged behind inflation in most economies in the EBRD regions, but remained strong in Central Asia and parts of the Caucasus



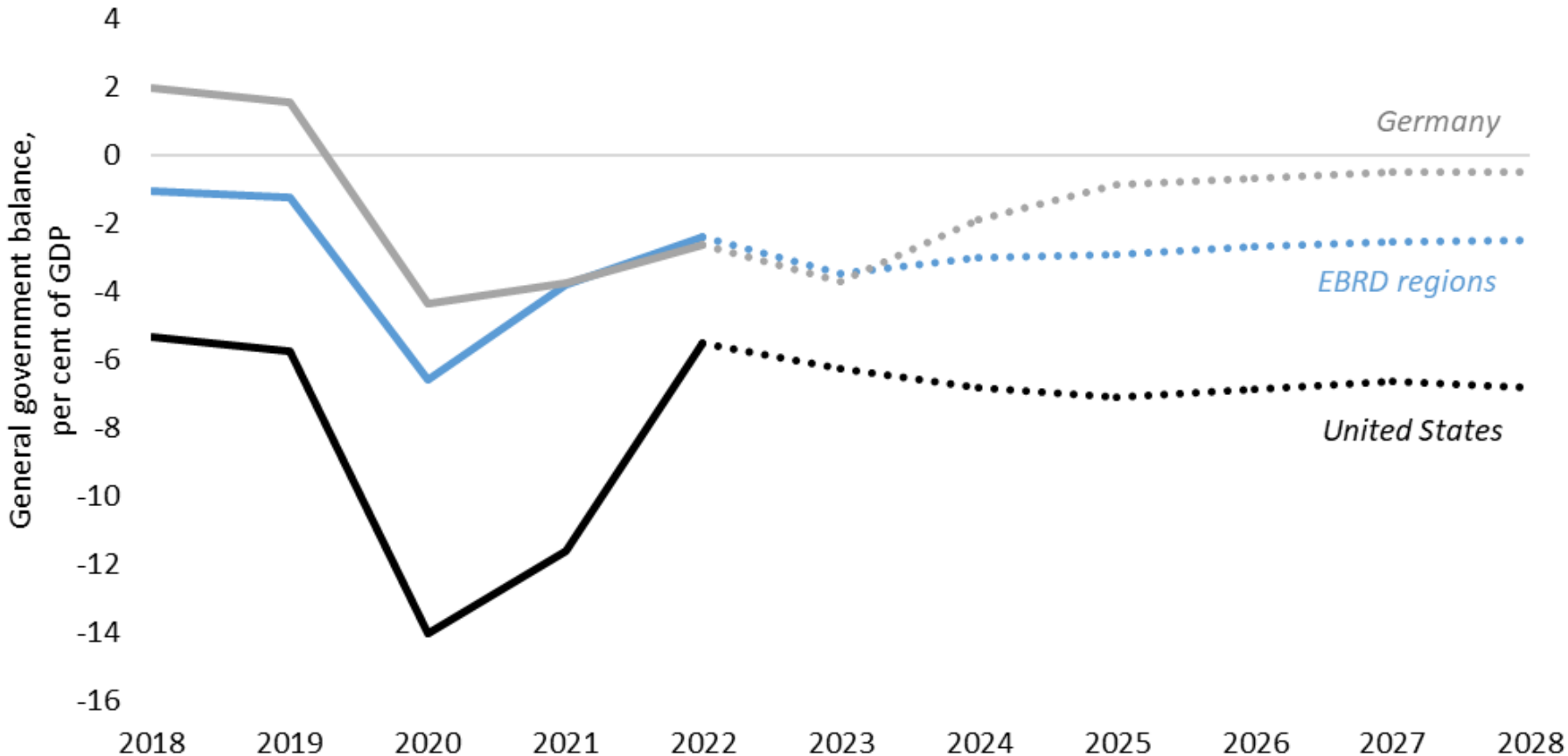
Source: Refinitiv Eikon and authors' calculations.

Note: Simple average across 15 economies in the EBRD regions. February 2023 or latest available.

Past experience (including inflation spikes in 2000, 2008) points to slow disinflation ahead, with pre-Covid levels not achieved by end-2025



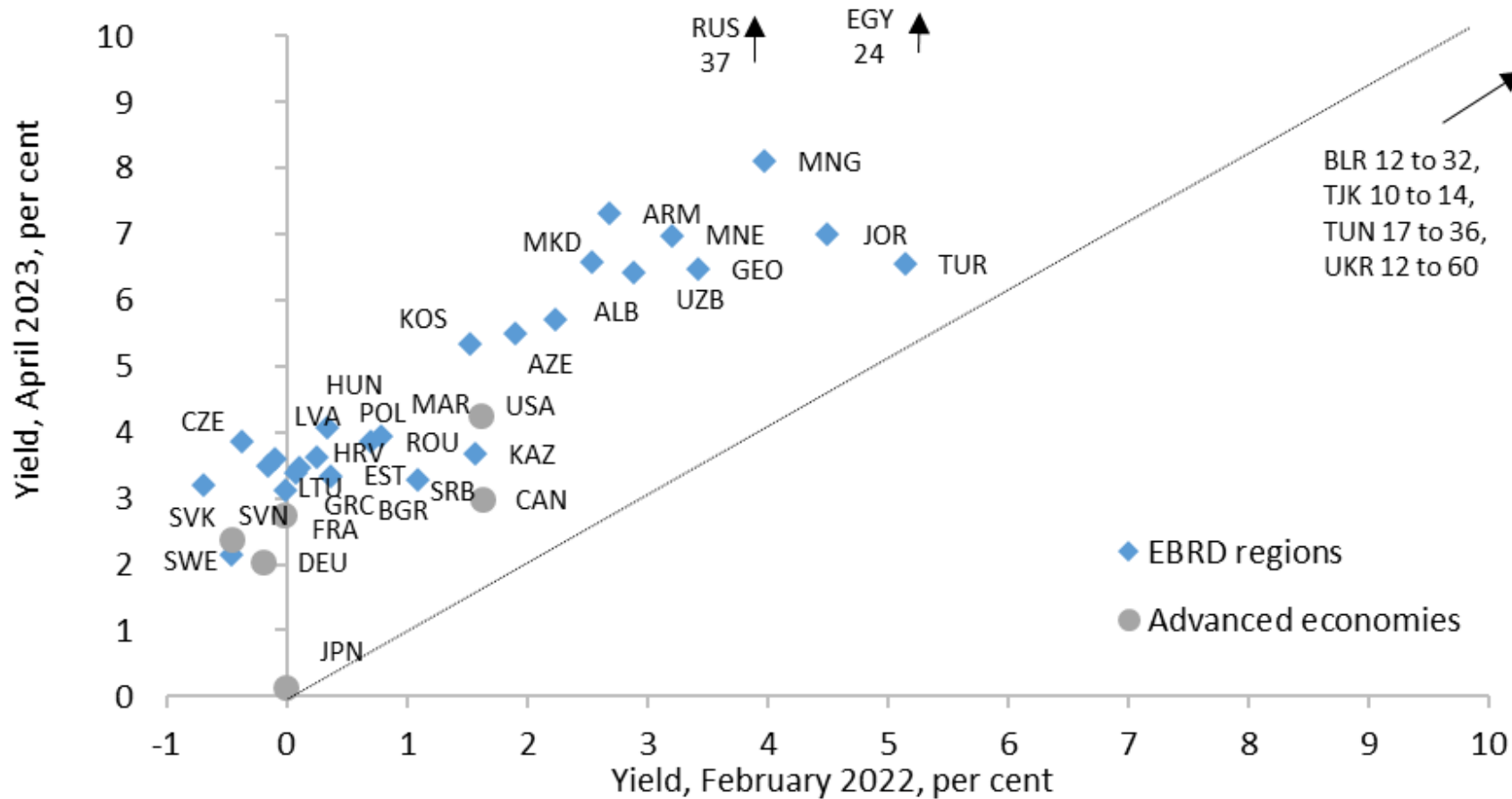
Fiscal deficits moderated in 2022 but expected to persist – reflecting increases in government spending and a weaker outlook for government revenues



Source: IMF April 2023 World Economic Outlook and authors' calculations.

Note: Simple average based on 34 economies in the EBRD regions. Dashed lines denote IMF forecasts.

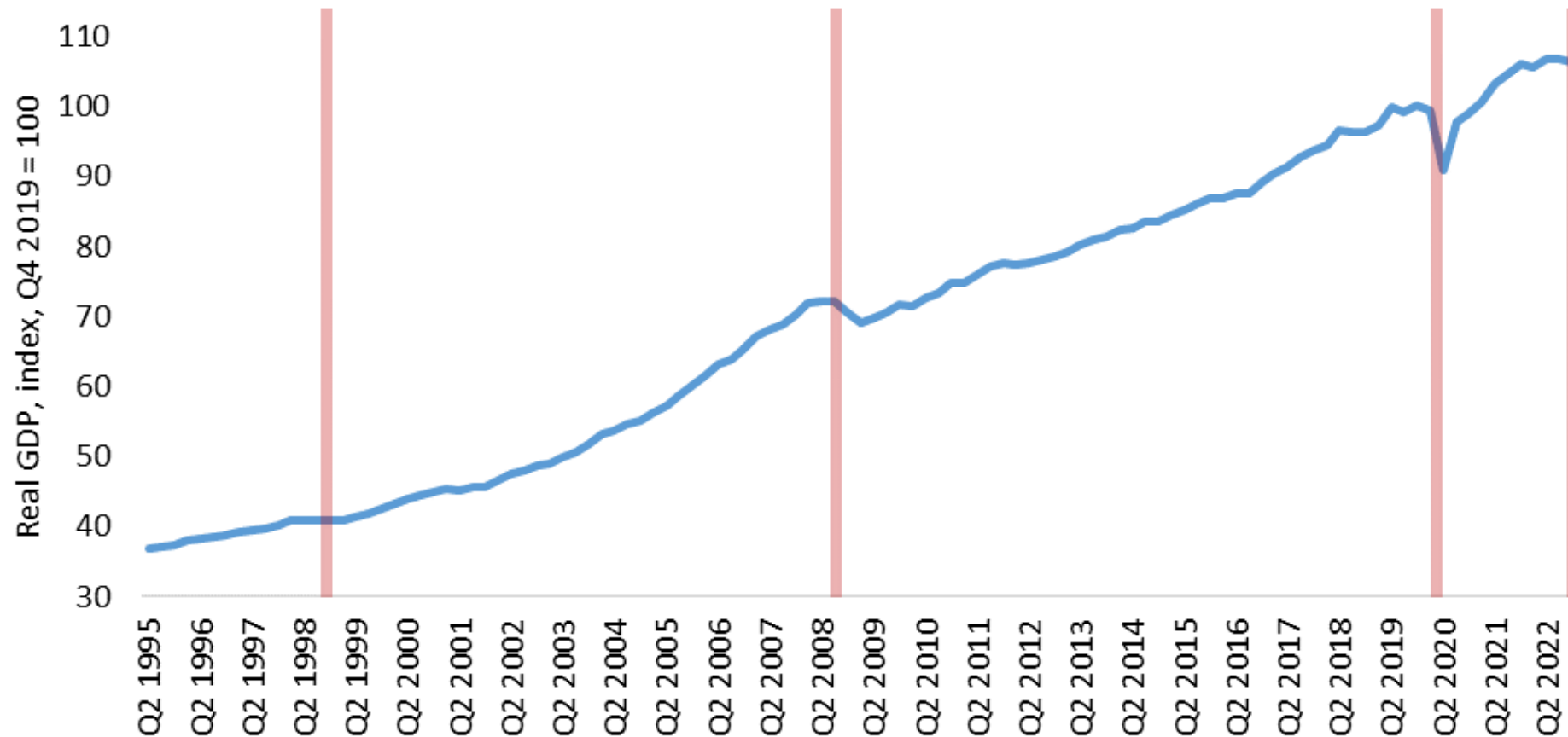
Median bond yields in the EBRD regions increased by 3.8 pp between Feb'22 and Apr'23, of which 1.4 pp increased spread relative to US/ German bonds



Source: Bloomberg and authors' calculations.

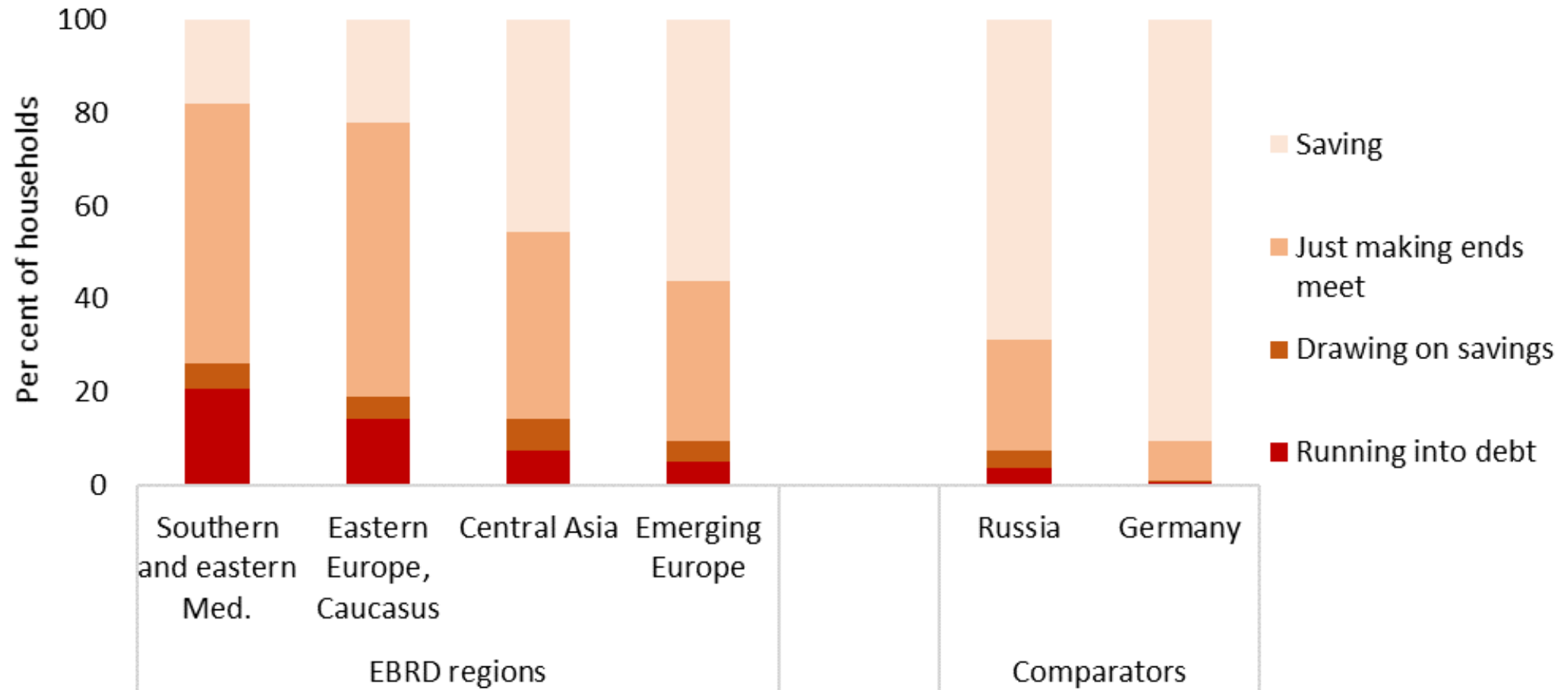
Note Yields on 5-year government bonds in US dollars or closest benchmark available. As of 1 February 2022 and 27 April 2023.

Two quarters of negative q-o-q growth mark the fourth (technical) recession since the mid-1990s, now in quick succession after the Covid-19 crisis



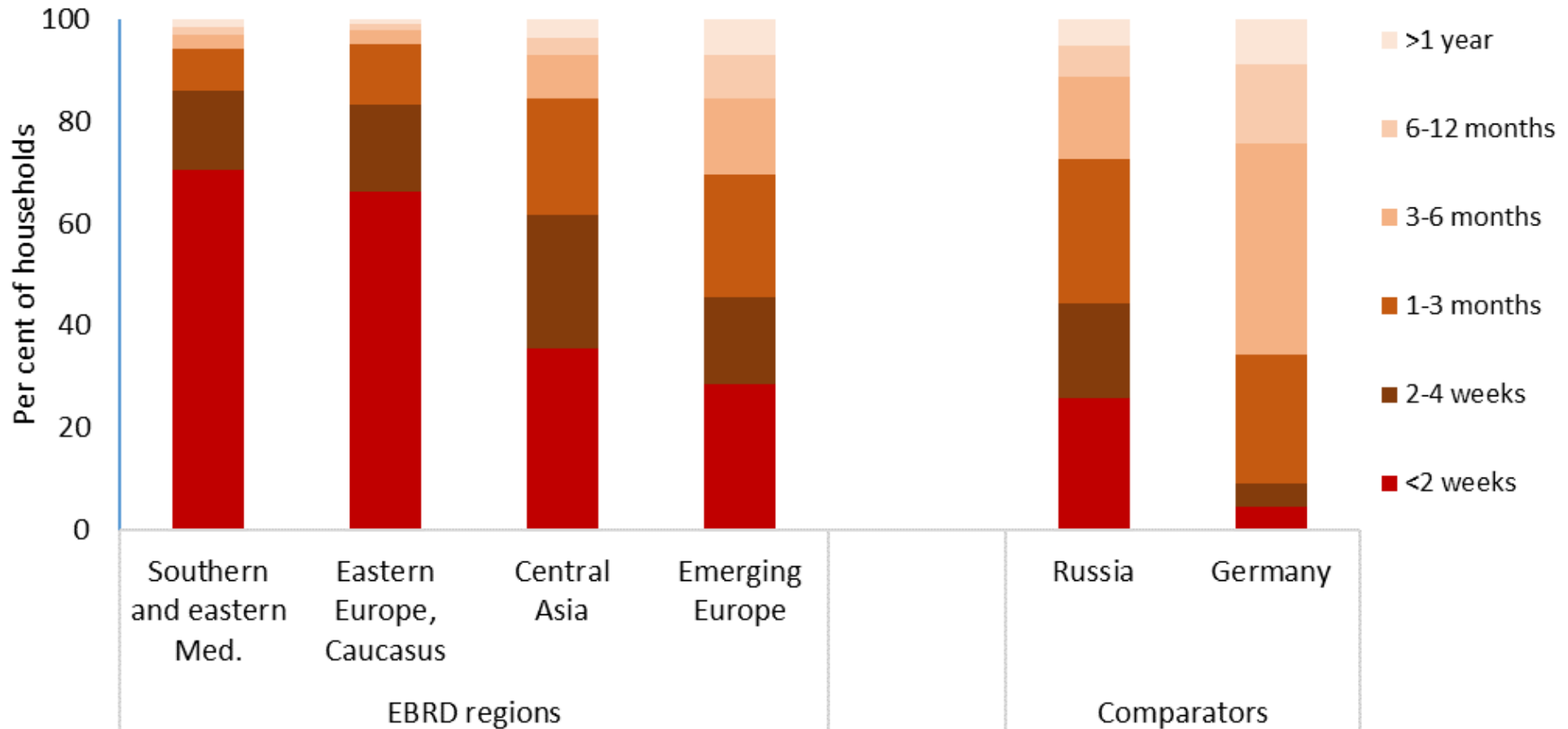
Source: Refinitiv Eikon, national sources, Oxford Economics and authors' calculations. Based on 33 economies before 2003 and 35 economies afterwards. Highlights are at least 2 consecutive quarters of negative q-on-q growth. Since q-on-q growth was strong at end-2021 and at the start of 2022, the annual reading for 2022 came nonetheless firmly positive.

New EBRD survey: Repeated crises weighed on the financial situation of households – 55% cannot save, of which 10% running up debt, unlike in Germany



Source: Life in Transition Survey 2022 and authors' calculations. Note: Based on preliminary data, sample-weighted averages across 29 economies in the EBRD regions with at least 100 interviews each; 19 economies have at least 1000 interviews each. The survey started in October 2022 and is expected to be finalized across all economies later in 2023.

If they lost their main source of income, 59 per cent of households could only cover their basic expenses for up to a month



Source: Life in Transition Survey 2022 and authors' calculations. Note: Based on preliminary data, sample-weighted averages across 29 economies in the EBRD regions with at least 100 interviews each; 19 economies have at least 1000 interviews each. The survey started in October 2022 and is expected to be finalized across all economies later in 2023.

Most expect very negative economic effects from the war on Ukraine (more so than in Germany), including in the Caucasus

