Regional Economic Prospects in EBRD Countries of Operations: October 2011[1]

EBRD Office of the Chief Economist

Overview

Emerging Europe's Growth under Threat from Eurozone Crisis

In our baseline scenario of an ultimately contained but protracted eurozone debt crisis, growth in the EBRD region will substantially slow from about 4.5 per cent in 2011 to 3.2 per cent in 2012. This reflects much slower expected growth in central and southeastern European countries, which are particularly vulnerable to eurozone stress, and still quite strong growth in much less impacted Russia and other CIS countries. Lack of a resolution of the eurozone turmoil and a US recession would pose additional risks to growth across the region and increased risks to cross border banking relationships in emerging European countries. Although economic fundamentals in the region are stronger in many respects than before the 2008/9 crisis, policy coordination will again be critical to mitigate these risks.

Recovery with reasonable **growth** was under way in most transition countries through end June 2011, led by commodity exporting Central Asian countries and Turkey, but several Central European economies started to feel the impact of the euro zone's sharp slowdown in the second quarter and south-eastern Europe continued to be impacted by the ongoing Greek crisis. Growth was particularly strong in Mongolia, Kazakhstan, Uzbekistan and Tajikistan, which all benefited from elevated commodity prices. Turkey grew rapidly owing to domestic demand fuelled by an increasingly worrisome credit boom. On the other hand, the Hungarian and Serbian economies contracted in the second quarter and several countries in south-eastern Europe, the Kyrgyz Republic, Slovenia as well as Russia recorded very low positive growth rates. Lithuania and Armenia saw marked slowdowns from their vigorous recovery rates in the previous quarter.

Central banks were generally cautious to tighten policy where growth rebounded in view of lingering uncertainties over the strength of the recovery. As a result, **inflation** increased in the first half of 2011 in many countries (see Chart 2). But by August 2011 headline inflation eased in many countries and significantly so in some of them (Armenia, Georgia, Romania). In contrast to 2010, core inflation was increasingly driving the headline rate in 2011 in several countries (Poland, Russia, Serbia and Turkey). Rising core inflation reflected the second-round pass-through of last year's global commodity price increases with the monetary accommodation and also suggests that the deep output gaps in post-crisis recessions were closing. Non-core inflation, on the other hand, began to recede as global energy and food prices declined

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[1] This document is provided as a companion to the EBRD's growth forecasts for its countries of operations, which are released four times a year. For more comprehensive coverage of economic policies and structural changes, the reader is referred to the EBRD's Transition Report 2010 as well as country strategies and updates and statistical series on economic and structural reform variables, which are all available on the EBRD's website (www.ebrd.com). The Transition Report 2011 will be published in November 2011.

and the 2011 harvest was much stronger that the drought-damaged 2010 crop. Inflation more than quadrupled in Belarus since February, however, following large depreciations and continued lax policies.

Real private sector **credit growth** just below 3 per cent on average across the region through June continued to disguise large differences among countries, ranging from continued post-crisis deleveraging to potential overheating. Real credit growth was positive in only about a half of all transition countries. It was by far the highest in Mongolia at 70 per cent, driven by a rapid expansion of the commodity sector and related strong FDI inflows. Both in Armenia and Turkey real credit expanded by around 30 per cent, with continued concerns about an unsustainable boom regarding the latter. At the same time, real credit growth remains significantly negative in, among others, the Baltic states, where banks continue to deleverage and write off NPLs, and Hungary, where domestic demand remains weak and banks continue to deleverage as yet another government measure is likely to hit bank balance sheets (the early prepayment scheme of foreign exchange dominated loans). In some countries, foreign currency credit rebounded and was the main source of credit growth to the private sector (Armenia, Albania, Bulgaria, Georgia, Romania), while local currency was the main form of credit denomination in others such as Belarus, Poland, Russia, Serbia, Turkey and Ukraine, reflecting regulatory measures favouring local currency and/or government subsidy schemes.

The second quarter of this year saw the strongest total **capital inflows** into the region since the start of the financial crisis in late 2008, but more recent data point suggest that capital flows may have started to reverse, as portfolio investors seek liquid and less risky assets in their home markets. The second quarter increase reflected a rebound in portfolio inflows while FDI flows remained roughly unchanged over the past year and, with the exception of Armenia, Estonia, Mongolia and Serbia, well below pre-crisis levels (see Chart 3). Capital inflows were strongest in the new EU member countries. On the other hand, Russia and Kazakhstan saw significant non-FDI outflows. More recent higher-frequency data suggest that the newest bout of market instability that started in August 2011 likely caused significant non-FDI capital outflows from the region (see Chart 4).

Outlook and risks

The transition region is projected to grow by **4.5 per cent and 3.2 per cent in 2011 and 2012** (see Chart 1 and Table 1), respectively. While the 2011 growth is only slightly below our earlier projection, the 2012 figure represents a major downward revision (by 1.2 percentage point) due to the ongoing Eurozone sovereign debt crisis that increasingly threatens recovery from the 2008/09 global financial crisis. The projection assumes a baseline scenario of an eventual, but not immediate, containment of the current Eurozone problems. While the Euro area is expected to grind to a near standstill, it is assumed to avoid a full recession. It is also assumed that as in 2008-09, euro zone government support to their large cross-border bank groups will be available for their strategic subsidiaries in emerging Europe, and that any deleveraging by bank groups will be coordinated and managed.

Until the resolution of the eurozone crisis, a period of continued market instability, constrained credit as well as the resulting near standstill in western Europe is expected to seriously affect the outlook for the EBRD region. Even under the baseline scenario, recovery and growth will be thrown off track in many transition countries, although none of them is projected to see negative growth in 2011 or 2012.

Developments in the advanced economies of western Europe will particularly impact those transition countries that are most strongly integrated with the eurozone. As Table 2 suggests, the countries of the central Europe and, to a more limited extent, the Baltics (CEB) and south-eastern Europe (SEE) regions depend the most on the eurozone as the destination of their exports and source of both longer-term FDI inflows and shorter-term external debt funding. As the outlook for the eurozone worsens substantially, each of these channels will contribute to weaker growth in both regions. Moreover, large shares of the banking systems in CEB, SEE and some other countries (for example, Ukraine) are comprised of subsidiaries of eurozone banks. As these face funding and recapitalization pressures stemming from the sovereign debt crisis, their subsidiaries are likely to receive less support and therefore extend less private credit in the transition countries, bearing on credit growth.

- The CEB region is still expected to see a reasonable annual average growth rate of 3.0 percent in 2011 only to slow to 1.7 per cent in 2012. This figure is 1.7 percentage points below our July forecast, as the region's strong linkages to the stressed eurozone translate into much weaker growth performance. The 2012 growth forecast has been downgraded most substantially for Hungary and the Slovak Republic, the two transition countries that are the most exposed to the Eurozone according to the index in Table 2. Currently subdued growth in SEE will not take off significantly during the forecast period, and is expected to remain at 1.7 and 1.6 per cent in 2011 and 2012, respectively, with the 2012 growth rate more than 2 percentage points below our July forecast. The continuation of IMF-supported programs in several of the SEE countries will help buttress downturns. The outlook has worsened the most for Albania, Romania and Serbia, which are heavily exposed to the troubled Greek economy. Turkey's growth is expected to slow down significantly to 2.5 percent as a result of declining capital inflows and credit growth, as well as weakening external demand.
- Recovery further east will much less affected by the Eurozone turmoil in the baseline as commodity prices, its key driver, will remain elevated due to demand from still growing emerging markets. Growth in Russia will remain reasonably strong particularly in the run-up to elections in 2012 and will support expansion even in the non-commodity exporting countries of the CIS, which depend on Russia for exports and remittances. Expansion in eastern Europe and Caucasus (EEC) region and Central Asia will thus only abate by about 0.7 percentage points in 2012 relative to earlier projections.

The potential for worsening of the current situation in the Eurozone beyond the baseline scenario, pose **significant risks even to the lowered outlook** for the transition region. In the downside external scenario, the Eurozone troubles become much worse before they are resolved. In particular, the crisis is not contained before spreading to the larger single currency area members, which in turn renders several large European banks insolvent. Any help to Eurozone banks, is country-based and at risk of not being extended to subsidiaries in the EBRD region. This scenario implies a prolonged market turmoil and a western European recession with negative spillovers for the global economy, contributing to a downturn in the US and subsequent lower commodity prices.

This scenario would affect transition countries via the same channels as in the baseline, including depressed exports and FDI and financing inflows, only more severely. As with the current baseline, the impact of the downside scenario in the eurozone will impact especially hard countries in the **CEB** and **SEE** region. Their exports will be the most affected and capital inflows are likely to contract significantly. But the outlook for CEB and SEE countries may be most at risk from another crisis transmission channel – cross-border bank flows, which could be severely disturbed from increased parent bank stress under this scenario.

Separately from the Eurozone crisis impact, lower commodity prices in the downside scenario would cause a severe slowdown in **Russia** and other **CIS** commodity exporters. The weaker Russian economy would in turn seriously impact the non-commodity exporting countries of the CIS.

On the other hand, there is still a chance that the Eurozone quickly resolves the current sovereign debt crisis through effective and coordinated policy actions that will restore market confidence. The markets calm down relatively soon and Eurozone continues to grow, albeit at a slow rate. In this case, Eurozone banks only face limited funding issues that would not affect the EBRD region much. Demand from the single currency area supports exports from transition countries and especially the CEB and SEE economies therefore grow significantly more than in the baseline scenario – even if still below the rates foreseen in July.

Better fundamentals but potentially higher risks

The EBRD countries are, in some important respects, better prepared to withstand external shocks of the sort and magnitude they experienced in 2008. Significant external adjustment has already happened, as evidenced by much lower current account deficits. Unlike other emerging market countries, most countries have not experienced significant inflows of speculative capital since 2007, and banking systems have been recapitalised. In other respects, the situation has worsened: there is less fiscal space (despite significant adjustments), the stocks of nonperforming loans remain high and, notwithstanding increases in local currency use, FX loans stocks remain high with continued exchange rate risks, and domestic demand is fragile. But if a shock of the magnitude that the region suffered in late 2008 and early 2009 were to repeat itself, it is unlikely to lead to the extreme output collapses (well in excess of 5 percent) witnessed in many countries in 2009, as some of the macroeconomic drivers of these collapses – sharp current account reversals and bursting credit bubbles – would not be present this time.

However, external shocks may be more severe than in 2008/09 on account of higher stress in the euro zone, including the banking systems, particularly under the downside scenario. There is a risk that the ability of bank groups to pass on support to their subsidiaries in the transition region may be constrained by their national governments. This could result in a substantial reversal of bank debt flows and a large contraction of credit in the region, with potentially severe consequences for output. To mitigate these risks, policy coordination that includes emerging Europe is needed perhaps even more than at the time of the first “Vienna Initiative” in 2008-09.

Chart 1. EBRD region real GDP Growth[1]
(per cent)

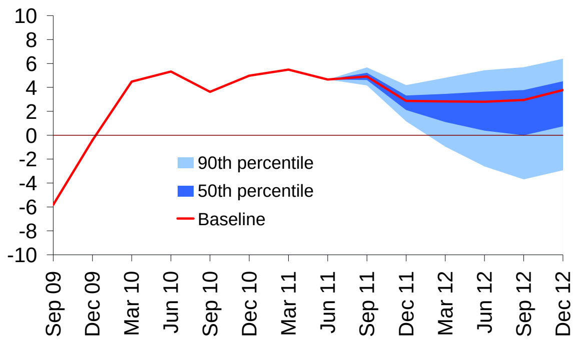


Chart 2. Inflation
(per cent)

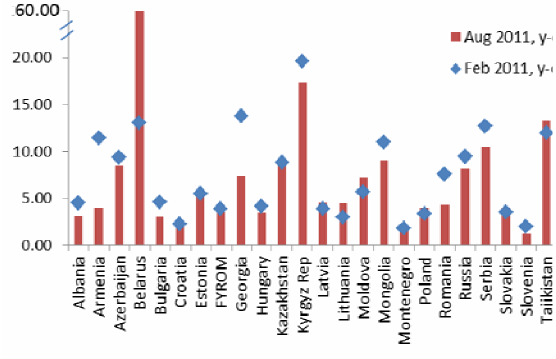


Chart 3. Capital inflows
(per cent of GDP)

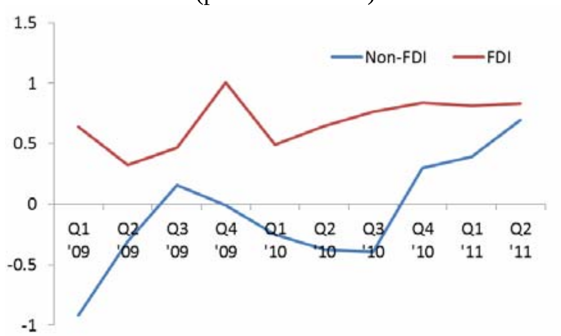
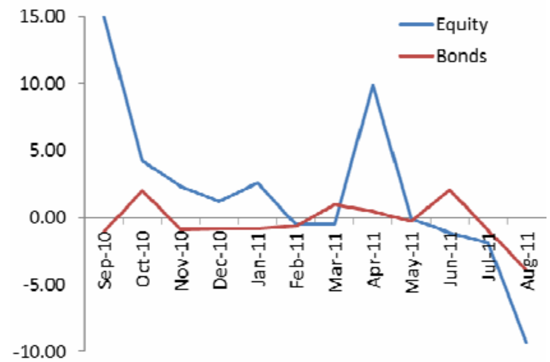


Chart 4. Fund flows
(per cent of net assets)



Source: CEIC database, Eurostat, IFS, Central Bank of Russia, other national authorities and EPFR database

[1] Year-on-year growth in aggregate real GDP (2000 prices and exchange rates) of the new EU member states, Croatia, Armenia, Moldova, Georgia, Ukraine, Azerbaijan, Kazakhstan, and Russia. The fanchart is based on a Bayesian Vector Autoregression Model that is described in more detail in the *Regional Economic Prospects May 2010*. The baseline scenario assumes Eurozone real GDP growth of 1.4 per cent in 2011 and 0.5 per cent in 2012, a VIX around 40 in Q4 2011 and declining thereafter, boadly constant Euribor and Libor, and an oil price or about $100 per barrel. The downside scenario assumes a recession in the eurozone, with growth of 1.2 per cent in 2011 and -2 per cent in 2012 (with low probability, growth in 2012 will be -4 per cent) and more volatile market, with VIX rising to 50 and then slowly declining through 2012. The upside scenario assumes calmer markets and a stronger eurozone growth of 1.6 per cent in 2011 and 1.1 per cent in 2012.

Table 1: Real GDP Growth in the EBRD region

(In per cent; EBRD forecasts as of October 5, 2011)

			Current forecast		EBRD Forecast in July 2011			
	2009	2010	2011	2012	2011	Change July-October	2012	Change July-October
Central Europe and the Baltic states								
Croatia	-6.0	-1.2	0.5	1.9	1.1	-0.6	2.8	-0.9
Estonia	-14.3	2.3	7.5	2.6	6.5	1.0	4.1	-1.5
Hungary	-6.5	1.1	1.0	0.5	2.7	-1.7	2.8	-2.3
Latvia	-17.1	-1.2	3.9	2.4	2.9	1.0	4.0	-1.6
Lithuania	-14.7	1.3	6.1	2.3	6.5	-0.4	3.5	-1.2
Poland	1.6	3.8	3.7	2.2	3.8	-0.1	3.5	-1.3
Slovak Republic	-4.8	4.0	3.1	1.1	3.7	-0.6	4.1	-3.0
Slovenia	-8.1	1.3	1.0	0.5	2.0	-1.0	2.0	-1.5
Average [1,2]	***-2.8***	***2.7***	***3.1***	***1.7***	***3.5***	***-0.4***	***3.4***	***-1.7***
South-eastern Europe								
Albania	3.6	3.8	1.9	1.0	2.5	-0.6	3.1	-2.1
Bosnia and Herzegovina	-2.8	0.7	2.1	2.3	2.0	0.1	2.5	-0.2
Bulgaria	-5.5	0.2	1.6	2.3	3.0	-1.4	3.7	-1.4
FYR Macedonia	-1.0	1.8	3.0	2.4	3.1	-0.1	3.0	-0.6
Montenegro	-5.7	2.5	2.0	2.6	2.1	-0.1	3.0	-0.4
Romania	-7.1	-1.3	1.5	1.1	1.9	-0.4	3.8	-2.7
Serbia	-3.5	1.0	2.1	2.1	3.3	-1.2	4.1	-2.0
Average [1]	***-5.5***	***-0.3***	***1.7***	***1.6***	***2.3***	***-0.6***	***3.7***	***-2.1***
Eastern Europe and the Caucasus								
Armenia	-14.1	2.1	4.5	3.5	4.5	0.0	4.0	-0.5
Azerbaijan	9.3	5.0	0.5	4.0	3.0	-2.5	3.0	1.0
Belarus	0.2	7.6	4.5	1.5	5.0	-0.5	3.0	-1.5
Georgia	-3.8	6.4	5.0	4.0	5.0	0.0	4.5	-0.5
Moldova	-6.0	6.9	6.0	4.0	5.5	0.5	4.5	-0.5
Ukraine	-14.6	4.2	4.5	3.5	5.0	-0.5	4.5	-1.0
Average [1]	***-6.2***	***5.1***	***3.8***	***3.2***	***4.6***	***-0.8***	***3.9***	***-0.7***
Turkey	-4.8	8.9	7.5	2.5	7.0	0.5	4.5	-2.0
Russia	-7.9	4.0	4.0	4.2	4.6	-0.6	4.7	-0.5
Central Asia								
Kazakhstan	1.2	7.3	7.0	6.5	7.0	0.0	7.0	-0.5
Kyrgyz Republic	2.9	-1.4	6.0	4.0	6.3	-0.3	6.0	-2.0
Mongolia	-1.3	6.4	11.0	12.0	9.0	2.0	12.0	0.0
Tajikistan	3.9	6.5	6.5	5.0	6.0	0.5	5.0	0.0
Turkmenistan	6.1	9.2	10.0	8.0	10.0	0.0	8.0	0.0
Uzbekistan	8.1	8.5	7.5	6.0	7.0	0.5	7.5	-1.5
Average [1]	***2.9***	***7.5***	***7.4***	***6.6***	***7.3***	***0.1***	***7.3***	***-0.7***
All transition countries								
Average [1]	***-5.2***	***4.6***	***4.5***	***3.2***	***4.8***	***-0.3***	***4.4***	***-1.2***

[1] Weighted averages. The weights used for the growth rates are WEO estimates of nominal dollar-GDP lagged by one year.

[2] Weighted averages do not include the Czech Republic, for which EBRD no longer produces a forecast.

Table 2. Exposure of EBRD countries to the eurozone

	Exposure to eurozone (% of GDP)			
	Exports I	External debt II	FDI III	INDEX
Hungary	34	34	50	117
Slovak Republic	33	45	35	113
Bulgaria	18	36	58	112
Croatia	9	31	42	82
Slovenia	33	22	21	76
Romania	16	21	21	58
Poland	17	15	25	57
Estonia	25	3	22	51
Ukraine	5	25	8	38
Kazakhstan	15	5	16	36
Lithuania	14	3	9.6	27
Turkey	7	10	9	25
Russia	9	5	10	24
Latvia	8	8	6	22
Armenia	4	0	9	13
Georgia	2	2	7	11
Kyrgyz Republic	1	7	0	7
FYR Macedonia	18	25	…	43
Serbia	8	18	…	25
Belarus	7	8	…	15
Moldova	5	10	…	15
Albania	8	5	…	13
Bosnia and Herzegovina	8	3	…	11
Tajikistan	7	1	…	8
Uzbekistan	1	0	…	1
Azerbaijan	19	…	…	19
Mongolia	2	…	…	2

Source: Eurostat, Direction of Trade Statistics IMF, Bank for International Settlements (BIS) and EBRD calculations.

Note: The index is calculated as the sum of the share of eurozone countries in exports weighted by the share of exports in GDP (column I), the share of eurozone in cross-border claims on the EBRD country GDP weighted by the short term external debt as a share of GDP ((column II), the share of eurozone countries in FDI weighted by the share of FDI in GDP (column III).

Central Europe and the Baltic States (CEB)

The growth dynamic in the CEB region has slowed markedly in the second quarter as the eurozone began to stagnate. In the first half of this year Slovenia and Hungary showed the poorest growth record while Estonia, Lithuania, Latvia and Poland showed among the strongest growth in the entire EU (albeit after deep contractions in the three Baltic states). For the year as a whole growth projections range widely between very modest growth of about one per cent in Hungary and Slovenia to still very dynamic export-led growth in the Baltic countries and the growth led by domestic demand in Poland (ranging from over 7 per cent to just under 4 per cent, respectively).

For next year there is an exceptional uncertainty about the course of developments in the eurozone, and the ramifications for central Europe. If EBRD countries are ranked in terms of linkages to the eurozone through exports, short term external debt and FDI, then Hungary, the Slovak Republic and Slovenia are among the five most vulnerable countries (see Table 1). Vulnerabilities are more muted for the Baltic countries with their larger share of trade and investment with countries outside the eurozone. Poland has relatively low external debt, and much lower export dependence than these countries, though it has recently been impacted by a repatriation of capital on the side of foreign portfolio investors. The resulting weakness in the zloty prompted an unusual intervention by the central bank. A large imponderable is how concerns over the capitalization of the major eurozone banks would impact the funding to, and lending capacity of, their subsidiaries in the CEB region.

Risks arise within the region where low growth or policy uncertainty could derail fiscal adjustment programmes, as in Hungary, or where the lack of structural reforms will impede medium term growth prospects and hence undermine bank asset quality, as in Slovenia.

- **Hungary** is highly exposed to risks emanating from the eurozone, given close direct investment linkages, and the substantial participation of foreign investors in the local bond market. The government is committed to meeting fiscal deficit targets next year, in support of which it has implemented additional tax measures. As structural reforms in support of consolidation are progressing only slowly risk premia may rise over time. Following the adoption of so-called crisis taxes on a number of sectors and the return of the second pillar private pension funds to the state, Parliament in September adopted a law that gives household borrowers an option to pre-pay foreign currency loans at discounted fx rates. This is likely to further undercut bank capital positions and lending capacity, potentially setting back credit recovery and growth.

- The growth outlook for **Poland** has moderated, in particular for 2012. Fiscal and financial sector vulnerabilities are contained and as the economy depends to a greater extent on domestic demand, making it more resilient to a eurozone slowdown. Following elections in October additional measures will need to be taken to meet the ambitious, though much-needed, target for deficit reduction.

- **Slovenia** continues to stagnate, and the government was defeated on a number of initiatives in referenda and finally lost a confidence vote. Problems from mounting loan delinquencies on bank balance sheets, and from poor bank capitalisation are likely to continue to fester. The country is highly exposed to real and financial sector risks in the eurozone.

- All three **Baltic economies** will likely exceed growth forecasts made in early 2011, given strong growth in their principal export markets. Foreign exchange risks have diminished as **Estonia** adopted the euro in January 2011, and **Latvia** and Lithuania have put fiscal adjustment in place with a view to adopting the euro in 2014.
- The **Slovak Republic** has benefited from an export-led recovery with growth likely to be about 3 per cent this year. As economic developments in 2009 underlined, the economy is highly exposed to the stagnation in the rest of the eurozone, and further fiscal consolidation will take an additional toll, leading us to a substantial revision in growth forecast for 2012 to just over 1 per cent. The substantial fiscal consolidation package should arrest public debt accumulation, though the political resolve to implement reforms remains uncertain.
- **Croatia's** economy has stabilised but short-term growth prospects remain very weak, while significant vulnerabilities associated with the high level of external debt and high degree of euroisation. However, the successful completion of accession negotiations this year, and the realistic prospect of full EU membership in mid-2013 are positive signs for the medium term.

South-Eastern Europe (SEE) and Turkey

The economic recovery for the SEE region has been slow to materialise, and is now under serious threat from the eurozone sovereign debt crisis. In contrast, the Turkish economy has continued to boom this year, but a sharp slowdown next year is likely as the economy copes with the aftermath of an unsustainable boom and funding issues. The modest growth in the rest of region over the past year has been led mainly by exports to countries in the eurozone. Most countries, with the exception of Serbia, experienced positive but low growth rates in the second quarter of 2011. Low growth is expected in 2011 and 2012, but a return to recession certainly cannot be ruled out. The main risk is a deepening of the eurozone crisis, which will negatively impact the region’s exports and capital inflows, and even more so financial sector stability and private credit growth.

- **Albania** experienced a slowdown in economic activity in the past quarter largely due to the weak performance of its key EU markets, Greece and Italy. Albania’s strong trade, investment and remittance ties to these countries are likely to continue to hold back growth in the coming year.
- Although **Bosnia and Herzegovina** experienced modest growth in 2010, domestic consumption has remained subdued, largely due to fiscal austerity measures and to falling remittances. In the short-term the country could benefit from a continued strong demand for metals and timber, which may compensate for weaknesses elsewhere in the economy. However, a prolonged political crisis and a downturn in the eurozone, Bosnia’s key trading partner, will continue to threaten the country’s economic outlook.
- Recovery is expected to continue to be modest in **Bulgaria** into 2012, in contrast to earlier projections of vigorous growth, due the projected downturn in export demand and the impact of the ongoing Greek crisis. Measures to reduce the fiscal deficit will continue to be implemented and the government is committed to the currency board and entry in due course into the ERM-II mechanism. The main risk the country faces is that its close links to the eurozone could lead to negative spill-over effects in terms of trade, investment and the financial sector.
- **FYR Macedonia** experienced a surprisingly strong growth in the first half of 2011 spurred by high exports and FDI, but growth is likely to slow down for the remainder of the year. Growth should continue into 2012 if there is strong demand for the country’s metal exports. The precautionary credit line that the country received from the IMF in January 2011 will also help maintain macroeconomic stability. The country is highly vulnerable to a eurozone recession, and turbulence in neighbouring Greece.
- **Montenegro’s** recovery has continued in 2011, but the country’s current account deficit remains high and industrial production is volatile. Positive growth is expected to continue as measures to improve the business environment continue. However, this outlook could be worsened if the regional and global economic prospects deteriorate substantially.
- Until recently, **Romania’s** economy was on track to record modest growth in 2011 and a much more robust growth in 2012. However, the slowdown in the eurozone is already having a significant dampening effect on Romania’s exports to that region (although exports outside the eurozone are holding up

well), and further weakening is possible in the coming months. The Greek crisis has a dampening effect mainly through cross-border banking relationships. Continued IMF support provides an important buffer.

- **Serbia’s** economy has stabilised but growth remains low. Growth is expected to be around 2 per cent this year and next year. Pre-election spending may support short-term economic growth, but major risks remain, mainly from exposure to the eurozone, while inflation remains above levels in regional peers. Continued IMF support provides an important buffer for Serbia too.
- **Turkey**'s economy continues to show signs of overheating. The economy grew by more than 10 per cent in the first half of the year, but signs of a cooling-off are now apparent, and the economy is likely to slow down sharply in 2012 due to a downturn of external demand and declining capital inflows.

Eastern Europe and the Caucasus (EEC)

The future pace of the region's recovery from the effects of the 2008-9 crisis is likely to slow down primarily due to the deteriorating external environment. Over the last several quarters, this region has benefited from stronger external demand, commodity price increases, and a revival of remittance flows. However, the region's vulnerabilities remain significant due to the reliance on external demand to support growth (in particular in the EU and Russia), terms of trade pressures (as all countries except for Azerbaijan are net energy importers, and the Caucasus countries depend on import of foodstuffs), and volatility of remittances (Armenia, Georgia and Moldova). Most of the region's economies have continued to expand through the summer, although Azerbaijan's oil sector contracted and economic activity in Belarus appears to have slowed down as the government has struggled to contain the balance of payments crisis. Risks to the outlook are related to developments in external demand, commodity prices, and stability of the domestic and, in some cases, broader European financial sectors, as well as domestic policy slippages, which may in some cases threaten needed international support.

- Before the latest bout of global instability, **Ukraine**'s economy had been recovering at a healthy pace stimulated by external and, more recently, domestic demand. However, signs of output slowdown and rising risk aversion in the financial sector have recently emerged. Although the authorities implemented some of the conditions under the 2010 IMF programme (including parametric pension reform), critical measures necessary to stabilise the gas sector, including household tariff increases, continue to face political resistance. After taking the delays of the IMF programme reviews in stride for almost a year, market sentiment has deteriorated rapidly and funding for the government has become gradually more expensive.

- **Armenia**'s recovery from an exceptionally sharp crisis-related output contraction has been slow. The authorities are pursuing fiscal consolidation and structural reforms under an IMF-supported programme. The economy continues to benefit from large remittance inflows and substantial official financing. Immediate risks are related to the uncertain external environment, in light of the country's dependence on remittances and export of few commodities.

- After coping relatively well with the crisis of 2008-9, the economy of **Belarus** is suffering from a balance of payments crisis. The central bank lost most of its reserves due to loose fiscal, including quasi-fiscal directed lending as well as monetary policies. After a one-off devaluation in May, the authorities pursued a stabilisation strategy based on various administrative measures and foreign exchange controls. But as most of foreign exchange trading migrated off shore and inflation accelerated, in September the central bank tightened its monetary policy and took steps to begin to unify the official and market exchange rates. Soft loans from a CIS stabilization fund that the government has secured help avoid an escalation of the balance of payments crisis on the short term. However, a credible and consistent stabilisation programme is yet to be unveiled.

- **Moldova**'s robust growth has been supported by rising remittances, exports and investment as sentiment about the country's prospects has improved. However, the economy is vulnerable to weak growth in the main trading partners and uncertain remittance inflows. The immediate growth prospects are also limited by continuing political uncertainty.
- The economy of **Georgia** has continued to recover from the twin security and financial crises of 2008-9, with output expanding by 5.2 per cent in the first half of 2011. As the external financing package mobilised by a range of donors has largely been exhausted, the authorities adopted fiscal responsibility legislation and have pursued private sources of financing. Uncertainty about the external environment and large stock of non-performing loans in the financial sector are among the key vulnerabilities.
- Economic growth in **Azerbaijan** has slowed down as oil and gas production declined, arguably due to extended maintenance works. The diversification of the economy remains important as risks associated with high oil dependence became apparent during the crisis, when oil prices declined. FDI inflows into the non-oil sector remain low. Immediate macroeconomic risks are mitigated by a very strong fiscal position.

Russia and Central Asia

Russia and most Central Asian economies continued their recoveries from the 2009 global crisis through the first half of 2011, but growth and inflation are likely to slow down due to the deteriorating outlook for global commodity prices. In Russia and Kazakhstan, the recovery had mostly been driven by higher oil prices, large-scale fiscal stimulus packages and banking-system support. Their recovery in turn helped the economies of the Kyrgyz Republic, Tajikistan, and Uzbekistan, which benefited directly from higher commodity export prices and indirectly from higher oil prices through the pick-up in remittances and trade with Russia and Kazakhstan. However, now that the outlook for oil and other commodity prices has become less favourable, growth in most countries is expected to decline in 2012 and risks slowing down further unless global developments are offset by increased domestic government support or major new reforms. An additional risk is that state ownership and interference in the region's banking sectors remain high. Together with incomplete restructuring efforts, this is contributing to an inefficient allocation of credit and continued high levels of nonperforming loans (NPLs), particularly in Kazakhstan and Tajikistan.

- In **Russia**, growth slowed down in the second quarter of 2011 (and stood at 3.7 per cent year-on-year during the first half of the year), as investment remained subdued and import growth accelerated. Output is expected to grow at 4 per cent in 2011 (equal to the 2010 rate) and 4.2 per cent in 2012. Capital outflows persisted, and the rouble depreciated somewhat against the dollar-euro basket in August-September, along with a correction in the stock markets. While depletion of the fiscal reserve fund has managed to be postponed and the budget deficit is expected to be contained below 1.5 per cent of GDP in 2011, the implicit budget-balancing oil price has increased significantly. This could make the economy and the currency more volatile in response to swings in commodity prices.
- In **Kazakhstan,** GDP growth was 7 per cent year-on-year during 2011 H1 and is forecasted to remain at 7 per cent in 2011 but slow down to 6 per cent in 2012,

reflecting the deteriorated oil price outlook. Bank credit growth, which had remained flat until early 2011, increased to 10 per cent year-on-year in August, but this was driven mostly by state-sponsored subsidised loan programmes. At the same time, total non-performing loans (NPLs) continued to rise to nearly 30 per cent of total loans, while provisioning for NPLs continued to fall. Despite formally abolishing the exchange rate corridor in late February 2011, the National Bank of Kazakhstan (NBK) has continued to intervene heavily to keep the exchange rate stable. Inflation, after having risen to 9 percent in August, began to decelerate in September and is expected to average 8.7 per cent during 2011.

- The **Kyrgyz Republic**'s economy grew by 5.5 per cent year-on-year during the first half of 2011, reflecting mainly the recovery from the 2010 domestic crisis combined with increasing reconstruction and social expenditure by the government. As these one-off factors wear out and the global and regional outlook is deterioriating, GDP growth is likely to slow down to 4 per cent in 2012. Inflation started decelerating from a high of 23 per cent in June to 17 per cent in August and is expecting to fall further to around 10 per cent by December 2011 and 8.3 per cent during 2012.
- In **Tajikistan**, economic growth remained strong at around 7 per cent year-on-year in 2011 H1, but is expected to slow down slightly to 6.5 per cent in 2011 and 5 per cent in 2012, driven by lower regional growth, lower aluminium and cotton prices and slowing remittances. Inflation, which had accelerated rapidly from around 5 per cent in mid-2010 to 15 per cent in mid-2011, has started to decelerate and is expected to fall below 10 per cent in 2012, reflecting stable or even lower global food and fuel prices.
- **Turkmenistan** continues to experience a buoyant economic expansion with economic growth in 2011 still expected to be around 10 per cent. This is mainly driven by ongoing large public construction projects and increased gas exports to China and Iran. Given that many prices remain administered, annual average inflation is expected to remain relatively low at around 6 per cent in 2011. Medium-term growth prospects are good, but the economy remains highly dependent on oil and gas.
- **Uzbekistan**'s GDP growth slowed down from 8.5 per cent in 2010 to 8 per cent in H1 2011 and is expected to slow down further to 7.5 per cent in 2011 and 6 per cent in 2012 given the deteriorated commodity price outlook. Average annual inflation is expected to average around 13 per cent in 2011
- **Mongolia** has continued to benefit from a mining boom, with GDP growth estimated at 6.4 per cent in 2010 and 14.3 per cent year-on-year in the first half of 2011. Growth is expected to reach 11 per cent in 2011 and 12 per cent in 2012, reflecting high copper prices and substantial mining-related FDI inflows, which totalled 26 per cent of GDP in 2010 and are expected to continue for a number of years. Inflation picked up again, to 9 per cent in August 2011 and is likely to stay high as fiscal policy remains highly procyclical.

Tables

Table 1. Transition Region: Vulnerability Indicators 1/

	Domestic FX loan stocks (latest) (% GDP) Total pvt sector	of which Corp.	of which HH	% FX credit in total loan stock /2	Public and External Debt /3 (% of GDP) Government (end 2010)	External Total (end 2010)	External Private (end 2010)	External Short term (remaining maturity)	Gross reserves /3 billions US$ (latest)	in percent of GDP	in percent of Short term debt	in percent of month of prosp. Imports	Banking system (end of 2010)/4 Total assets as share of GDP	Share in total assets: State-owned banks	Share in total assets: Foreign owned banks	Bank dep. (latest) % of GDP	Loans/dep. (latest) Private sector, in %	Country risk 12-Oct-11 (CDS spread, bps)	Nonperforming loans NPL in % Dec 2010 /6	Nonperforming loans NPL in % latest	Unemployment % (latest avail.)
Central Europe and Baltics																					
Croatia	55.2	32.2	38.7	76.0	40.6	102.1	73.5	34.5	15.0	24.7	71.5	…	116.8	4.3	90.3	61.8	117.5	492.5	...	...	13.5
Estonia*	1.4	1.4	0.0	1.5	6.6	117.6	111.5	57.9	2.7	13.9	24.1	1.8	135.0	0.0	97.9	64.3	142.8	…	6.5	6.2	7.4
Hungary	35.6	15.0	20.6	61.1	80.2	143.3	86.0	55.2	48.1	34.5	66.8	4.5	103.7	0.0	0.0	42.4	137.4	542.0	9.0	10.0	10.3
Latvia	78.1	39.5	38.7	90.4	39.9	165.0	131.9	75.0	7.6	31.7	42.2	5.3	172.5	15.5	69.0	36.0	240.2	309.0	18.7	18.4	11.8
Lithuania	43.7	22.7	21.0	73.7	38.7	85.7	55.9	40.4	7.2	19.7	48.8	2.5	86.3	0.0	90.8	40.5	146.1	…	19.7	18.4	15.6
Poland	18.2	3.9	14.3	34.6	55.0	73.0	67.0	20.2	91.2	19.6	96.4	4.6	76.8	22.9	70.5	45.5	116.3	268.6	8.8	8.4	11.6
Slovak Republic*	13.5	13.0	0.5	0.9	42.0	75.4	37.6	47.5	0.7	0.9	1.1	0.1	83.1	0.9	91.8	…	…	238.2	5.8	5.6	13.1
Slovenia*	4.5	1.0	3.5	5.4	38.0	115.2	65.7	23.5	0.9	2.3	8.5	0.3	139.9	18.9	28.7	53.2	158.0	…	2.2	6.9	11.5
South-Eastern Europe																					
Albania	26.3	19.5	6.8	66.6	58.2	36.6	11.0	6.3	2.7	22.7	362.0	4.5	77.0	0.0	92.4	68.3	58.8	…	7.6	8.7	13.3
Bosnia and Herzegovina	3.9	…	…	72.3	39.7	56.9	30.9	10.5	3.4	20.5	196.5	3.5	86.7	0.8	94.5	34.8	161.8	…	...	...	43.1
Bulgaria	45.5	35.2	10.3	62.4	17.4	101.6	93.7	39.7	16.7	35.0	88.1	6.1	104.6	3.2	80.7	58.9	123.0	360.7	11.9	12.9	9.5
FYR Macedonia	24.6	17.2	7.4	51.9	24.6	59.0	42.8	21.6	1.9	21.0	97.3	3.2	65.4	1.4	93.3	50.2	94.3	…	...	...	31.3
Montenegro	…	…	…	…	44.1	100.2	…	…	0.6	14.8	…	2.6	97.4	0.0	88.4	51.2	126.5	…	21.0	...	11.0
Romania	26.3	13.1	13.1	63.2	31.7	74.6	52.1	25.0	45.5	28.1	112.6	6.8	61.8	7.9	84.1	32.4	128.3	393.5	11.9	13.6	7.3
Serbia	36.0	22.3	13.7	71.3	44.9	83.1	59.1	19.4	13.6	35.7	184.1	6.8	65.3	16.0	75.3	…	…	…	16.9	17.1	26.2
Eastern Europe and the Caucasus																					
Armenia	18.2	14.4	3.8	59.9	39.2	45.0	16.6	1.0	1.9	19.9	1931.9	4.7	44.6	0.0	67.5	17.4	174.4	…	...	...	6.1
Azerbaijan	7.8	…	…	37.2	10.8	20.0	…	…	6.9	12.7	…	5.0	30.4	41.6	9.1	14.1	…	…	5.4	6.4	…
Belarus	15.4	14.4	1.0	27.6	26.5	52.1	30.0	25.2	4.1	9.2	29.4	1.0	51.6	77.9	20.6	31.9	175.0	…	3.8	3.5	0.7
Georgia	20.2	…	…	74.3	39.1	61.6	27.8	17.8	2.3	20.5	111.5	3.7	50.8	0.0	89.3	31.8	109.3	…	12.5	9.7	16.3
Moldova	15.6	14.3	1.2	42.9	26.6	68.1	45.2	34.3	1.8	31.0	89.0	3.6	58.9	12.5	41.5	30.6	97.1	…	13.3	8.9	6.2
Ukraine	30.8	18.8	12.0	43.9	40.1	85.1	61.5	34.2	34.1	25.0	72.2	4.6	86.1	16.9	47.8	40.3	174.2	982.8	16.4	16.5	7.7
Turkey	16.2	…	…	28.5	42.2	39.5	27.4	15.7	83.9	11.4	72.6	4.0	91.1	31.6	16.6	47.5	109.2	266.5	3.5	2.9	9.2
Russia	9.6	8.9	0.7	20.3	11.7	33.3	29.9	9.3	454.5	30.3	331.0	13.4	75.9	39.2	18.3	39.4	120.7	270.5	5.5	5.3	6.1
Central Asia												…									
Kazakhstan	14.3	11.1	3.2	37.7	10.7	80.5	79.4	9.2	28.3	17.3	187.1	6.1	68.0	0.6	17.2	20.0	163.5	284.8	25.2	28.7	5.3
Kyrgyz Republic	…	…	…	52.7	62.6	68.3	11.1	8.1	1.7	34.9	432.2	4.2	29.3	9.9	72.0	17.2	77.4	…	15.8	13.8	…
Mongolia	…	…	…	…	…	65.8	7.2	…	2.6	37.3	…	4.4	73.9	38.3	27.1	…	…	…	11.5	7.7	…
Tajikistan	9.6	…	…	55.2	36.7	34.4	19.1	0.6	0.4	9.1	1593.7	1.4	23.9	…	…	13.0	116.0	…	7.5	7.5	…
Turkmenistan	…	…	…	…	11.8	11.8	0.0	0.3	…	…	…	…	85.0	96.3	1.2	…	…	…	...	...	…
Uzbekistan	…	…	…	…	10.0	14.8	5.4	0.9	11.3	29.1	3257.9	9.7	…	…	…	…	…	…	...	...	…

1/ National sources based on CEIC and IFS, unless stated otherwise.
2/ July 2011 for Estonia, Montenegro, Romania, Azerbaijan, Turkey
3/ WEO October 2011
4/ End of 2009 for Albania, Bosnia and Herzegovina, FYR Macedonia, Kazakhstan, Russia, Tajikistan. End of 2008 for Belarus, Kyrgyz Republic, Serbia, Turkmenistan
5/ June 2009 for Serbia and Mongolia
6/ Dec 2009 for Slovenia. Serbia: data according to the National Bank of Serbia
* Euro adoption

Table 2. Transition Region: Annual indicators and projections 1/

	GDP Growth (average) (year over year percent change)				GDP Growth (end year) (Q4 over Q4 percent change)				Inflation (average) (year over year percent change)		Fiscal Balance (Gen. gov; % of GDP)		Primary fiscal balance to GDP	GG Debt/revenues	Current Account (% of GDP)		Net FDI (% of GDP)	
			Forecast 2/				Forecast 2/			Forecast 2/		Forecast 4/	3/	3/		Forecast 4/		Forecast 3
	2009	2010	2011	2012	2009	2010	2011	2012	2010	2011	2010	2011	2010	2010	2010	2011	2010	2011
Central Europe and Baltics																		
Croatia	-6.0	-1.2	0.5	1.9	-4.6	-0.6	1.8	0.5	1.0	2.3	-5.0	-5.7	-3.0	109.0	-1.1	-1.8	0.7	1.5
Estonia	-14.3	2.3	7.5	2.6	-8.8	6.3	5.4	3.0	3.0	5.1	0.1	0.0	0.4	14.4	3.6	2.4	6.2	4.0
Hungary	-6.5	1.1	1.0	0.5	-4.3	2.4	0.8	0.5	4.9	3.8	-4.2	1.0	-0.1	179.8	3.6	3.0	0.6	-1.4
Latvia	-17.1	-1.2	3.9	2.4	-16.8	3.0	3.4	4.1	-1.1	4.6	-7.7	-6.5	-6.4	110.3	3.0	-1.5	1.4	3.7
Lithuania	-14.7	1.3	6.1	2.3	-14.5	4.6	4.9	2.5	1.3	4.0	-7.1	-5.5	-5.3	111.9	1.8	-1.9	1.3	2.6
Poland	1.6	3.8	3.7	2.2	3.5	3.9	2.6	3.0	2.7	3.8	-7.9	-5.5	-5.2	145.3	-4.5	-4.8	0.7	1.6
Slovak Republic	-4.8	4.0	3.1	1.1	-3.6	3.3	2.3	1.3	0.9	3.9	-7.9	-5.7	-6.5	126.2	-3.0	-1.5	0.2	0.9
Slovenia	-8.1	1.3	1.0	0.5	-6.2	2.2	0.2	1.1	1.8	1.7	-5.6	-6.0	-3.9	90.6	-0.8	1.1	0.9	0.9
South-Eastern Europe																		
Albania	3.6	3.8	1.9	1.0	-0.6	5.6	2.1	3.5	3.5	3.7	-4.2	-3.7	-0.8	225.5	-11.8	-10.9	9.2	6.9
Bosnia and Herzegovina	-2.8	-3.0	2.1	2.3	…	…	…	…	2.1	...	-4.5	-3.5	-3.9	86.5	-5.6	-6.2	0.1	1.2
Bulgaria	-5.5	0.2	1.6	2.3	-7.6	3.1	1.4	3.9	3.0	3.5	-3.9	-2.5	-3.3	53.1	-1.0	1.6	4.1	1.5
FYR Macedonia	-1.0	1.8	3.0	2.4	2.0	3.8	-0.9	6.3	1.6	4.0	-2.5	-2.5	-1.7	81.9	-2.8	-5.5	3.2	4.9
Montenegro	-5.7	2.5	2.0	2.6	…	…	…	…	0.5	2.9	-3.8	-3.4	-2.8	104.5	-25.6	-24.5	17.9	15.4
Romania	-7.1	-1.3	1.5	1.1	-6.5	-0.6	1.4	3.6	6.1	6.0	-6.5	-4.4	-5.1	96.7	-4.3	-4.5	2.2	2.2
Serbia	-3.5	1.0	2.1	2.1	-2.6	1.4	2.4	4.4	5.9	11.3	-4.6	-4.6	-2.5	109.4	-7.2	-7.7	3.0	4.6
Eastern Europe and the Caucasus																		
Armenia	-14.1	2.1	4.5	3.5	-7.8	2.4	5.4	3.9	8.1	7.2	-4.9	-3.8	-4.0	186.8	-13.9	-11.5	6.1	6.2
Azerbaijan	9.3	5.0	0.5	4.0	12.3	3.1	-0.8	6.1	5.7	8.5	13.6	9.8	13.7	24.4	27.7	23.0	0.6	-0.8
Belarus	0.2	7.6	4.5	1.5	1.0	10.2	-2.5	7.4	7.7	50.0	-4.3	-3.3	-3.6	63.2	-15.5	-13.4	2.4	3.2
Georgia	-3.8	6.4	5.0	4.0	0.0	6.0	3.7	4.3	7.1	9.5	-6.6	-3.9	-5.6	138.5	-9.8	-10.8	4.2	5.5
Moldova	-6.0	6.9	6.0	4.0	-6.5	9.0	2.9	4.8	7.5	7.9	-2.5	-1.9	-1.7	69.5	-8.3	-9.9	3.3	3.7
Ukraine	-14.6	4.2	4.5	3.5	-6.7	3.3	2.6	7.0	9.4	8.4	-9.9	-4.0	-8.3	0.0	-2.1	-3.9	4.2	3.9
Turkey	-4.8	8.9	7.5	2.5	5.9	9.2	2.5	6.1	8.6	6.2	-2.9	-0.9	1.6	129.0	-6.6	-10.3	1.0	1.6
Russia	-7.9	4.0	4.0	4.2	-2.6	4.5	3.6	2.9	6.9	8.7	-3.6	-1.2	-2.9	33.6	4.9	4.6	-0.7	0.3
Central Asia																		
Kazakhstan	1.2	7.3	7.0	6.5	10.3	7.1	6.2	5.1	7.1	8.7	1.5	1.8	1.9	44.6	2.9	5.9	1.5	4.5
Kyrgyz Republic	2.9	-1.4	6.0	4.0	5.2	0.1	0.8	5.1	8.0	17.9	-6.1	-8.0	-5.2	197.5	-7.2	-7.7	9.5	4.6
Mongolia	-1.3	6.4	11.0	12.0	0.3	5.4	7.2	22.1	10.1	8.6	0.0	-3.5	1.7	...	-15.3	-21.6	25.2	15.6
Tajikistan	3.9	6.5	6.5	5.0	5.4	7.1	4.5	5.0	6.4	13.1	-3.0	-4.9	-2.5	158.3	2.1	-3.6	0.3	1.6
Turkmenistan	6.1	9.2	9.9	8.0	…	…	…	…	4.8	6.0	2.3	0.5	...	66.0	-11.7	-2.9	18.2	13.2
Uzbekistan	8.1	8.5	7.5	6.0	8.3	9.6	6.8	5.7	9.4	13.0	2.7	3.3	2.8	26.8	6.7	8.0	4.2	3.2

1/ EBRD data and projections unless otherwise stated
2/ As of October 5, 2011.
3/ WEO October 201.
4/ EBRD staff estimates for: Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia, Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine. WEO October 2011 for the rest of the countries

Table 3. Transition Region: Quarterly GDP actuals and projections, Q1 2009- Q2 2011 1/

	Quarterly GDP Growth (seasonally adjusted, quarter-on-quarter percent change)						Quarterly GDP Growth (year-on-year percent change)										GDP Growth (average) (year over year percent change)			
	2010				2011		2009				2010				2011				Forecast 1/	
	Q1	Q2	Q3	Q4	Q1	Q2 Est.	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 Est.	2009	2010	2011	2012
Central Europe and Baltics																				
Croatia	-1.0	-0.5	1.2	-0.5	-0.6	0.8	-6.7	-6.9	-5.7	-4.6	-2.3	-2.3	0.3	-0.6	-0.8	0.8	-6.0	-1.2	0.5	1.9
Estonia	0.0	2.7	1.4	2.0	3.1	1.7	-14.6	-16.6	-15.4	-8.8	-4.5	2.4	5.2	6.3	9.5	8.4	-14.3	2.3	7.5	2.6
Hungary	1.1	0.1	0.8	0.5	0.3	0.0	-7.1	-8.0	-7.5	-4.3	-0.9	0.7	2.4	2.4	1.7	1.2	-6.5	1.1	1.0	0.5
Latvia	1.1	0.0	1.1	0.8	1.1	2.0	-17.8	-18.1	-19.1	-16.8	-5.7	-4.8	3.4	3.0	2.9	5.0	-17.1	-1.2	3.9	2.4
Lithuania	1.4	1.0	0.3	1.8	3.5	0.4	-14.0	-15.9	-14.5	-14.5	-1.9	1.2	1.6	4.6	6.8	6.2	-14.7	1.3	6.1	2.3
Poland	0.7	1.1	1.3	0.9	1.1	1.1	0.6	1.1	1.2	3.5	3.1	3.6	4.6	3.9	4.4	4.5	1.6	3.8	3.7	2.2
Slovak Republic	0.7	0.9	0.9	0.9	0.9	0.9	-5.1	-5.4	-5.0	-3.6	4.5	4.3	4.0	3.3	3.5	3.5	-4.8	4.0	3.1	1.1
Slovenia	-0.1	1.1	0.3	0.6	0.1	0.1	-8.4	-9.5	-9.3	-6.2	-0.3	1.6	1.5	2.2	2.1	1.0	-8.1	1.3	1.0	0.5
South-Eastern Europe																				
Albania	1.6	1.9	1.3	0.7	1.2	0.0	3.5	7.5	3.9	-0.6	2.0	2.7	4.7	5.6	3.4	1.8	3.6	3.8	1.9	1.0
Bosnia and Herzegovina	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	-2.8	0.7	2.1	2.3
Bulgaria	0.9	1.6	0.7	0.5	0.5	0.3	-4.9	-4.1	-5.0	-7.6	-4.8	1.0	0.3	3.1	1.5	2.2	-5.5	0.2	1.6	2.3
FYR Macedonia	-1.2	1.5	1.2	1.8	0.8	1.4	-1.4	-2.4	-2.1	2.0	-0.5	1.5	2.1	3.8	5.1	5.3	-1.0	1.8	3.0	2.4
Montenegro	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	-5.7	2.5	2.0	2.6
Romania	0.0	0.1	-0.2	0.4	0.5	0.5	-6.1	-8.7	-7.1	-6.5	-2.2	-0.4	-2.2	-0.6	1.7	1.4	-7.1	-1.3	1.5	1.1
Serbia	0.7	0.6	1.3	-1.0	2.2	-0.2	-3.9	-4.6	-3.1	-2.6	-0.6	0.8	2.0	1.4	3.4	2.2	-3.5	1.0	2.1	2.1
Eastern Europe and the Caucasus																				
Armenia	3.6	-0.8	-3.6	3.3	1.5	1.8	-6.3	-18.6	-19.7	-7.8	3.4	8.2	-2.9	2.4	1.2	3.9	-14.1	2.1	4.5	3.5
Azerbaijan	-1.4	3.7	0.6	-0.2	-1.5	1.4	4.1	8.4	9.7	12.3	5.4	8.0	5.0	3.1	1.6	0.7	9.3	5.0	0.5	4.0
Belarus	1.8	3.9	0.0	4.1	2.8	3.7	1.1	-0.4	-0.8	1.0	4.0	8.9	6.7	10.2	10.9	11.2	0.2	7.6	4.5	1.5
Georgia	1.3	2.3	-0.5	2.6	1.2	1.3	-4.8	-9.0	-1.5	0.0	3.9	8.7	6.7	6.0	5.8	4.7	-3.8	6.4	5.0	4.0
Moldova	0.9	2.4	2.5	2.6	0.9	1.8	-6.9	-7.8	-7.7	-6.5	4.7	5.6	6.5	9.0	8.4	8.0	-6.0	6.9	6.0	4.0
Ukraine	0.2	2.3	-0.1	0.8	2.0	0.9	-19.6	-17.3	-15.7	-6.7	4.8	5.5	3.6	3.3	5.3	3.8	-14.6	4.2	4.5	3.5
Turkey	0.8	3.7	1.3	3.6	1.7	2.7	-14.7	-7.8	-2.8	5.9	12.0	10.3	5.2	9.2	11.6	8.8	-4.8	8.9	7.5	2.5
Russia	1.2	0.8	0.4	1.8	1.0	0.3	-9.2	-11.1	-8.6	-2.6	3.5	5.0	3.1	4.5	4.1	3.4	-7.9	4.0	4.0	4.2
Central Asia																				
Kazakhstan	0.2	3.3	1.8	1.1	1.2	3.0	-4.5	-2.6	-0.3	10.3	5.8	8.5	7.7	7.1	6.8	7.2	1.2	7.3	7.0	6.5
Kyrgyz Republic	0.4	-10.2	2.0	8.1	0.6	0.3	-1.4	-0.1	4.8	5.2	16.8	-5.2	-8.3	0.1	0.4	10.4	2.9	-1.4	6.0	4.0
Mongolia	3.8	-1.8	3.4	0.1	7.8	5.3	-2.3	-0.6	-2.9	0.3	8.7	5.0	7.5	5.4	9.7	17.5	-1.3	6.4	11.0	12.0
Tajikistan	0.8	2.4	0.9	2.2	1.3	2.4	4.0	2.7	3.0	5.4	6.8	7.8	4.9	7.1	6.5	7.2	3.9	6.5	6.5	5.0
Turkmenistan	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	6.1	9.2	9.9	8.0
Uzbekistan	2.6	2.3	2.0	2.2	1.2	2.6	7.9	8.4	7.8	8.3	8.0	8.0	8.0	9.6	7.6	8.3	8.1	8.5	7.5	6.0

1/ As of October 5, 2011.

Table 4. Transition Region: Financial Market Indicators

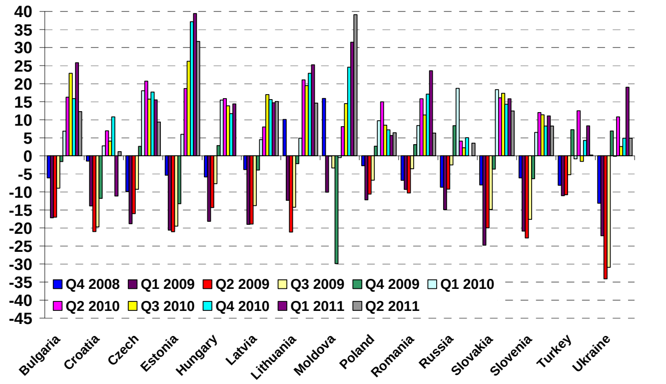
updated
05 Oct 11

	Country Risk CDS spread (bps)			Interbank rates (three month)			Equities (index, July 1, 2008 = 100)			Currencies (national currency per € or US$) 1/		
	Mar 1 2009	week ago	latest	Mar1 2009	week ago	latest	Mar 1 2009	week ago	latest	Mar 1 2009	week ago	latest
Central Europe and Baltics												
Croatia	527.4	309.3	313.4	11.8	2.5	2.5	39.4	61.8	61.8	7.4	7.5	7.4
Czech Republic	305.0	86.2	91.2	2.5	1.2	1.2	43.9	82.6	81.2	28.1	24.4	24.2
Hungary	563.6	297.5	305.8	9.5	6.1	6.1	50.7	108.7	107.5	299.4	269.1	268.2
Latvia	1050.0	218.3	220.3	8.1	0.3	0.3	41.5	84.7	83.3	0.7	0.7	0.7
Poland	366.0	164.0	164.4	4.4	4.6	4.6	53.6	106.9	107.0	4.6	4.0	4.0
Slovak Republic	211.7	120.2	121.4	...	...	...	76.4	53.7	53.7	...	...	...
South-Eastern Europe												
Bulgaria	597.4	225.1	220.9	6.8	3.8	3.8	23.4	37.2	37.1	2.0	2.0	2.0
Romania	723.6	241.7	238.6	14.7	5.1	5.0	30.1	85.9	85.6	4.3	4.3	4.2
CIS												
Russia	761.1	145.7	140.8	22.8	4.3	4.3	24.3	88.3	89.2	35.9	27.7	27.5
Kazakhstan	1494.2	158.4	161.2	15.0	1.6	1.7	24.1	58.6	59.0	150.6	145.9	146.3
Ukraine	3741.0	467.2	449.0	34.8	6.1	7.0	28.9	124.2	122.9	8.6	8.0	8.0
Turkey	487.4	191.6	192.7	12.6	8.9	8.9	72.4	183.8	188.3	1.7	1.7	1.7

1/ For CEB and SEE countries: reference currency is Euro; for CIS and Turkey reference currency is US dollar

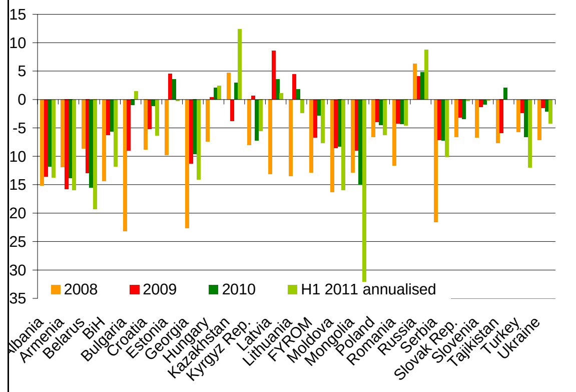
Figure 1. External environment

Export volumes, y-o-y, %



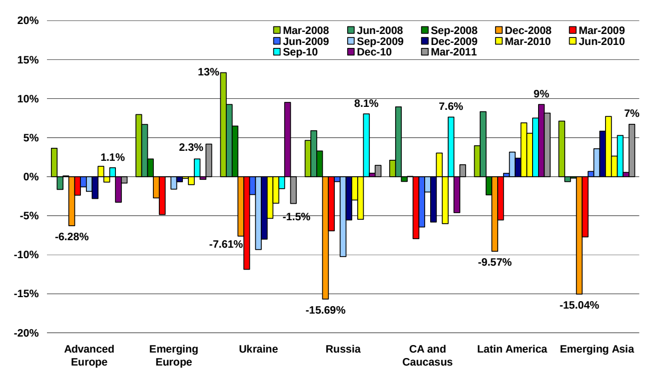
Source: National authorities via CEIC data service.

Current account (annualized), % of GDP



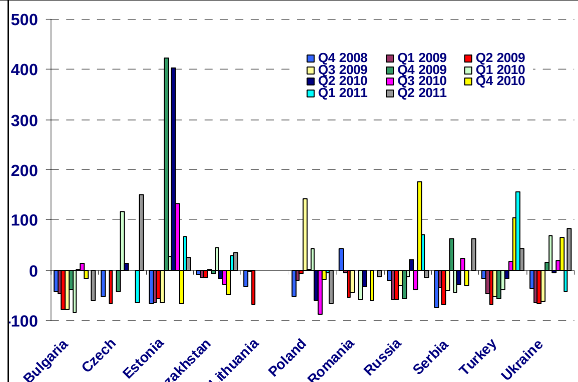
Source: National authorities via CEIC data service.

Net lending from BIS-reporting banks, exch. rate adjusted, US$ bn



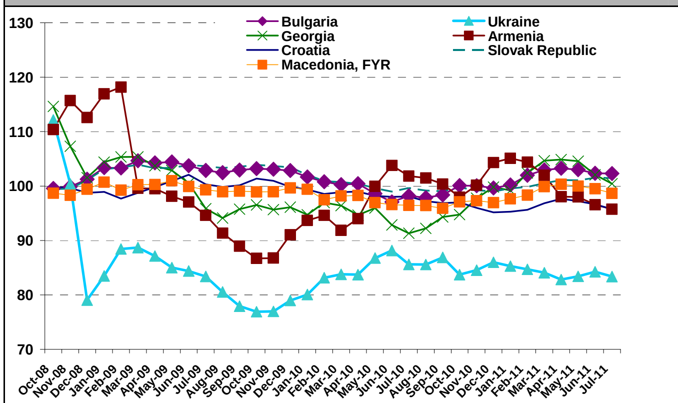
1/ Emerging Europe excludes Russia and Ukraine.
2/ Emerging Asia excludes China, Central Asia and Caucasus.
Source: BIS via CEIC data service.

FDI gross inflows, y-o-y, %



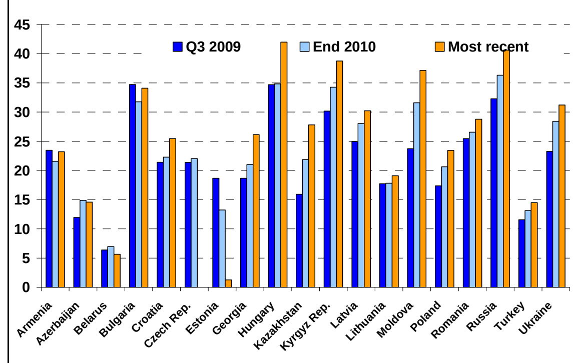
Source: National authorities via CEIC data service.

Real effective exchange rate, July 2008=100



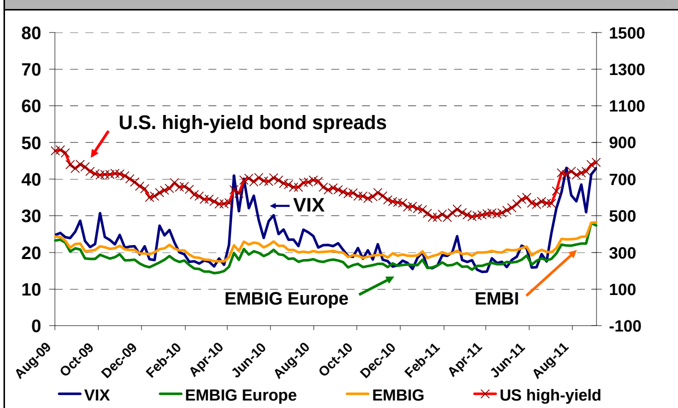
Source: IMF International Financial Statistics.

Reserves, end of period, % of GDP



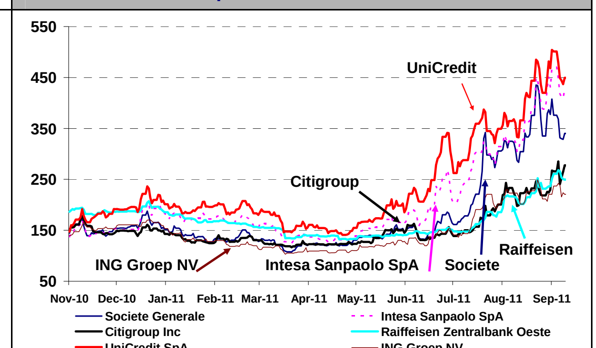
Source: IMF International Financial Statistics.

Global risk



Source: Bloomberg.

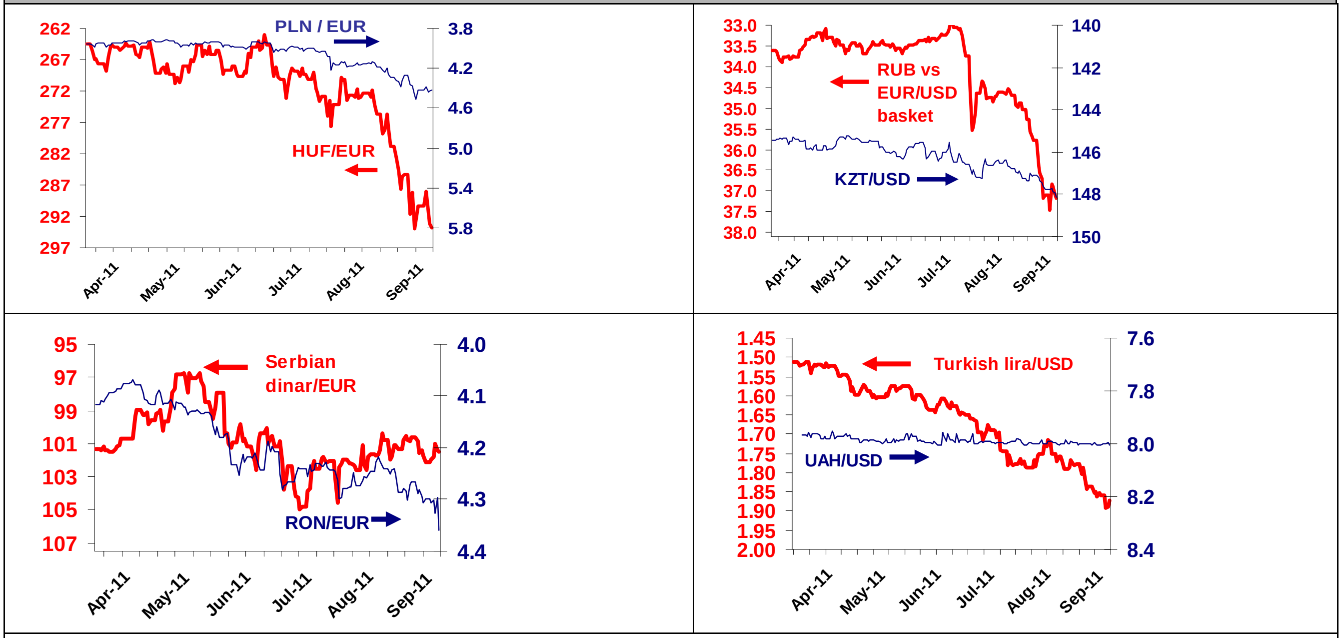
Parent banks CDS spreads



Source: Bloomberg.

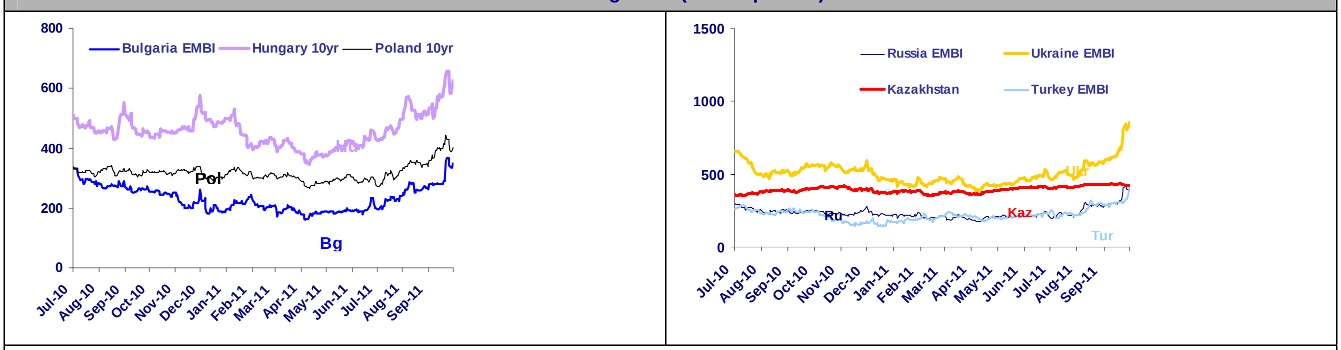
Figure 2. Currencies and financial market indicators (daily frequency)

Currencies



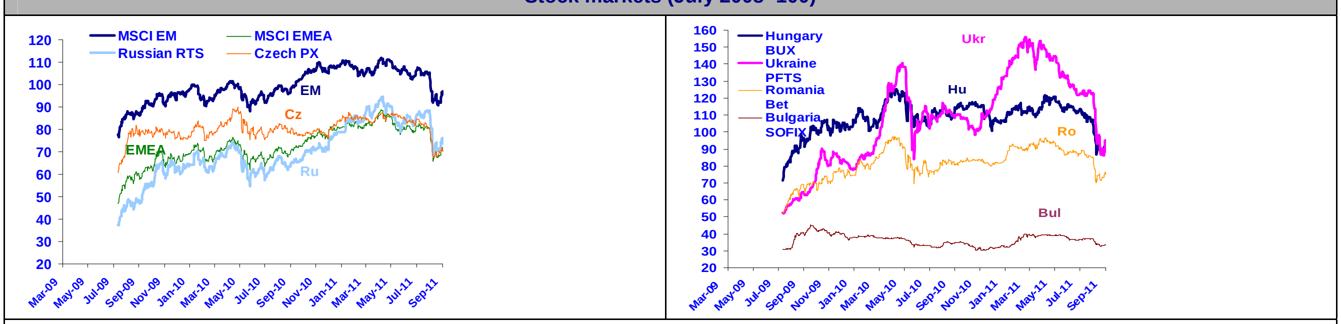
Source: Bloomberg.

Sovereign risk (bond spreads)



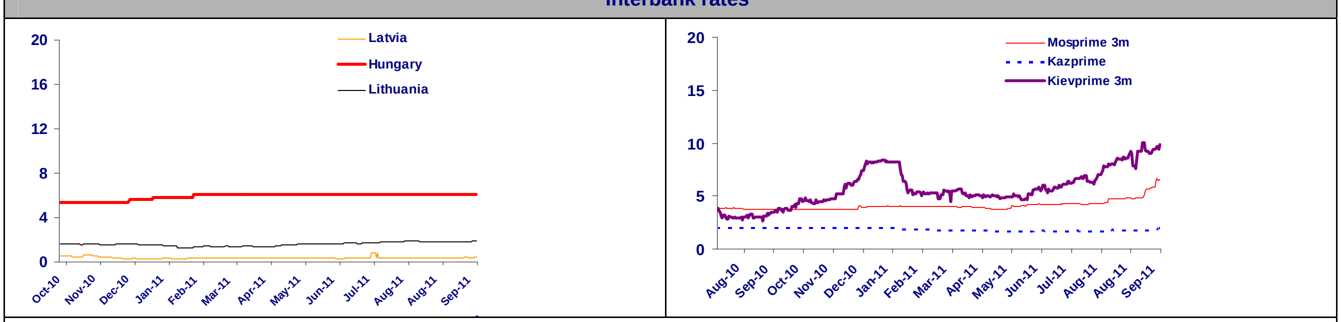
Source: Bloomberg.

Stock markets (July 2008=100)



Source: Bloomberg.

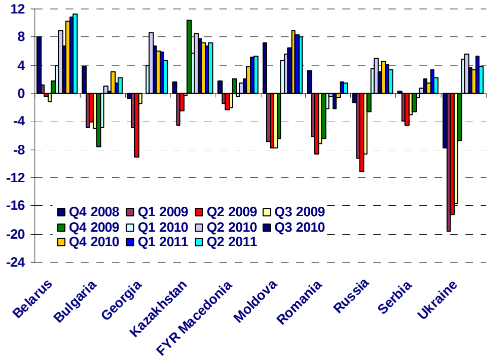
Interbank rates

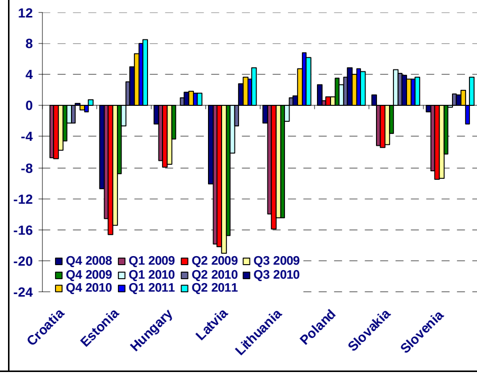


Source: Bloomberg.

Figure 3. Indicators of real activity: GDP and industrial production

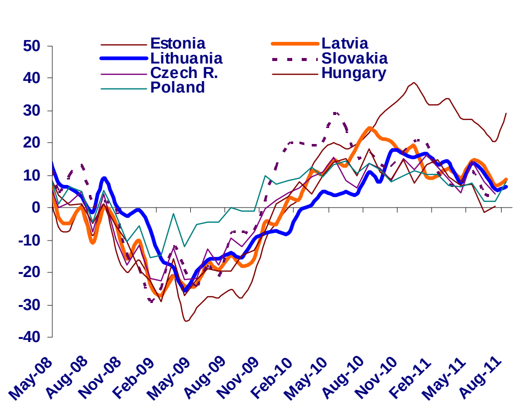
Real GDP, y-o-y change, %

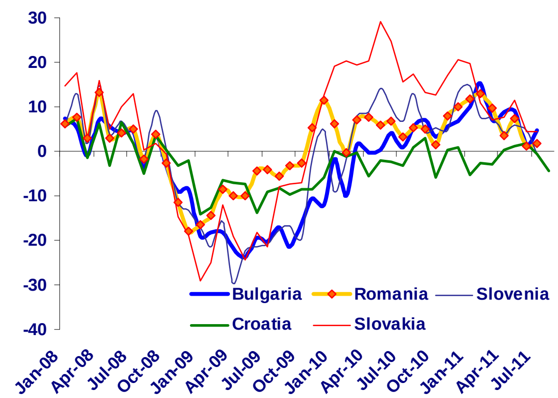




Source: National authorities via CEIC data service.

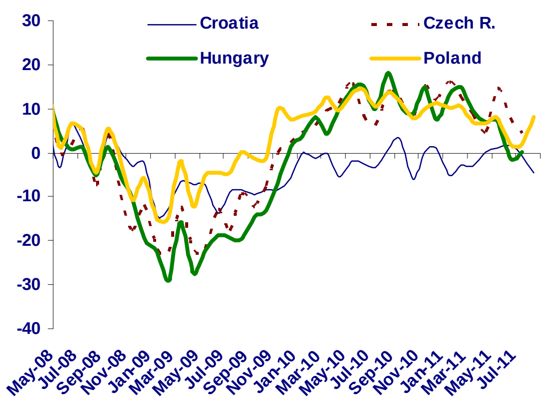
Industrial production, index, 2005=100, seasonally adjusted

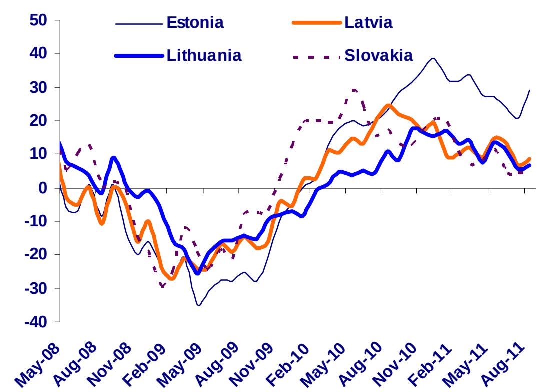


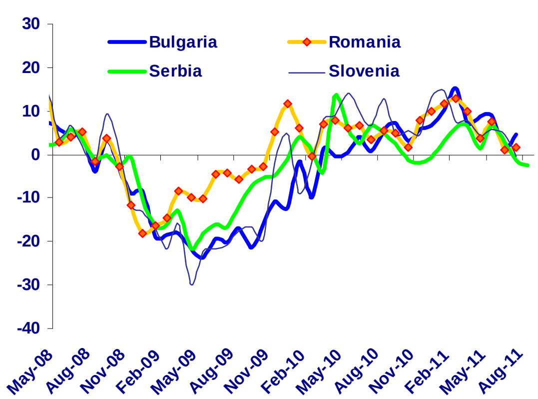


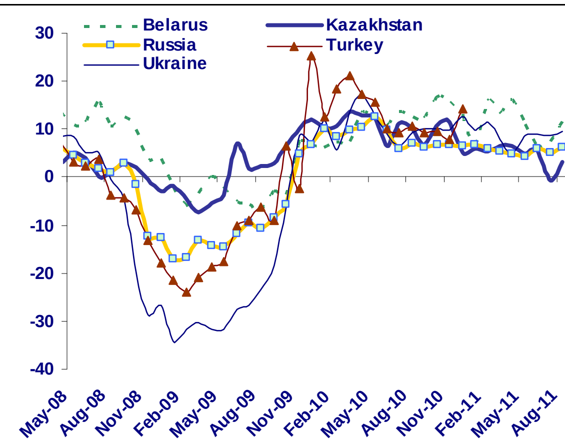
Source: Eurostat.

Industrial production, y-o-y change, %





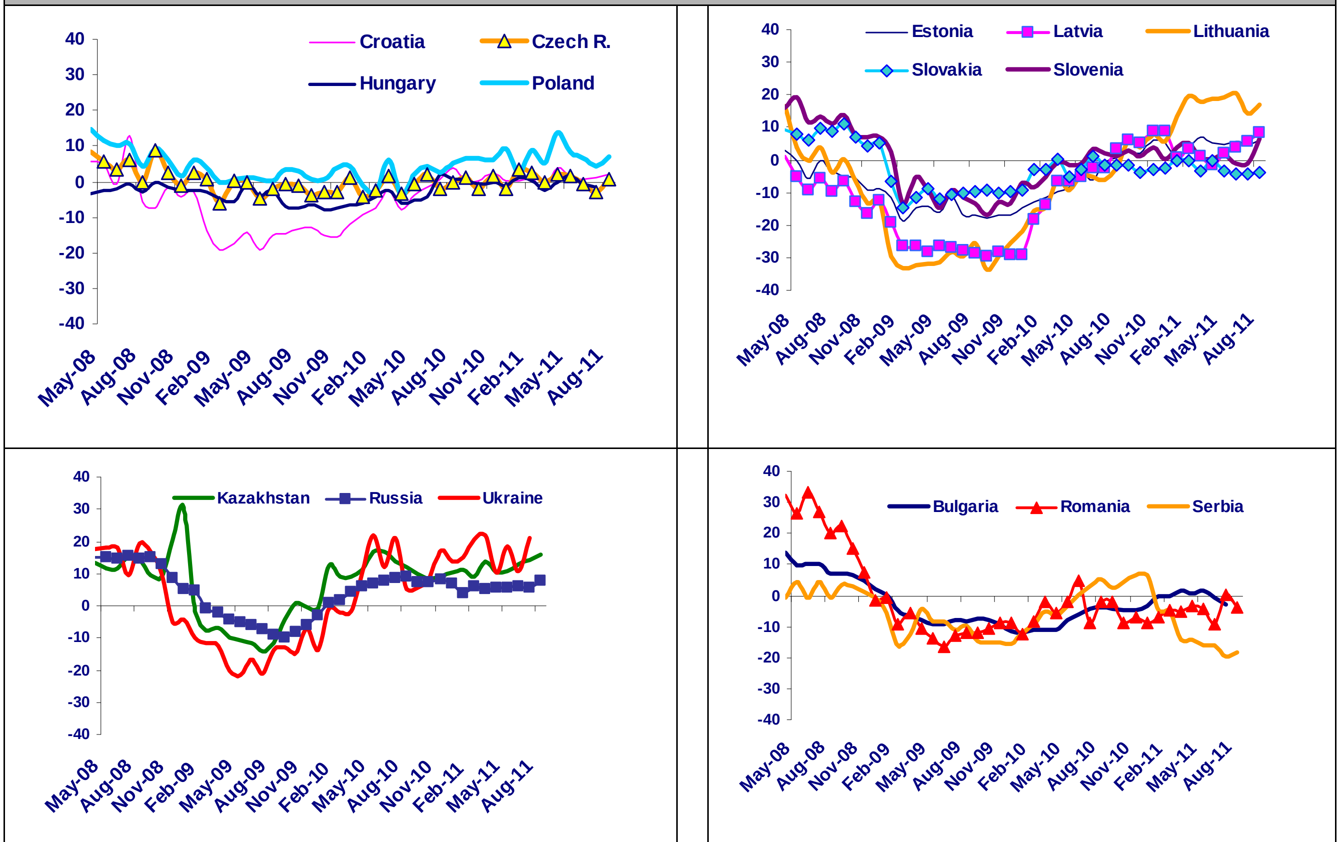




Source: National authorities via CEIC data service.

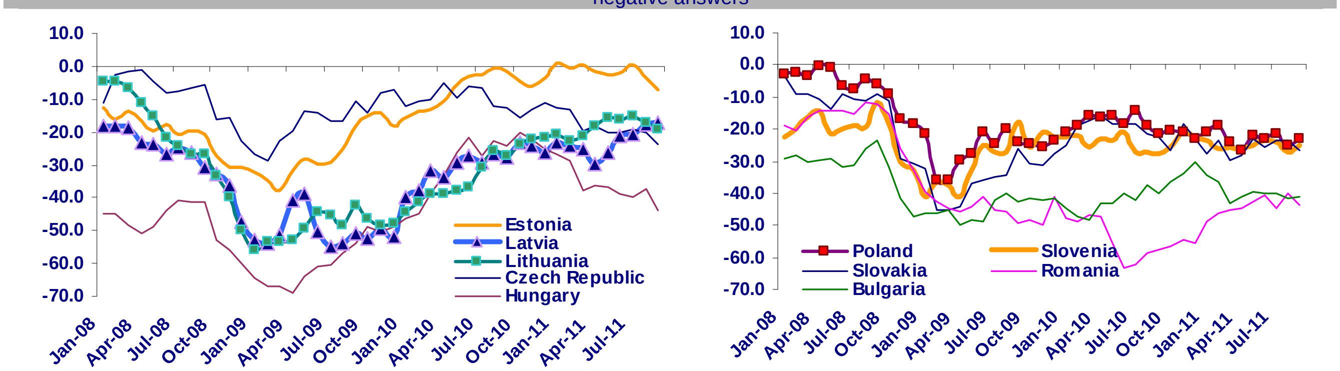
Figure 4. Indicators of real activity: retail sales and confidence indexes

Retail sales, y-o-y change, %



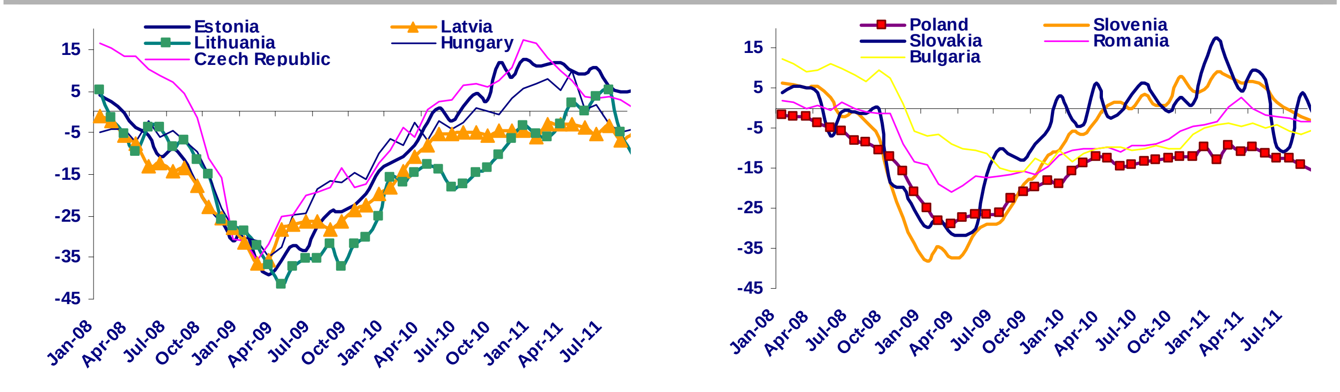
Source: National authorities via CEIC data service.

Consumer confidence, seasonally adjusted balances, defined as the difference (in percentage points of total answers) between positive and negative answers



Source: Eurostat.

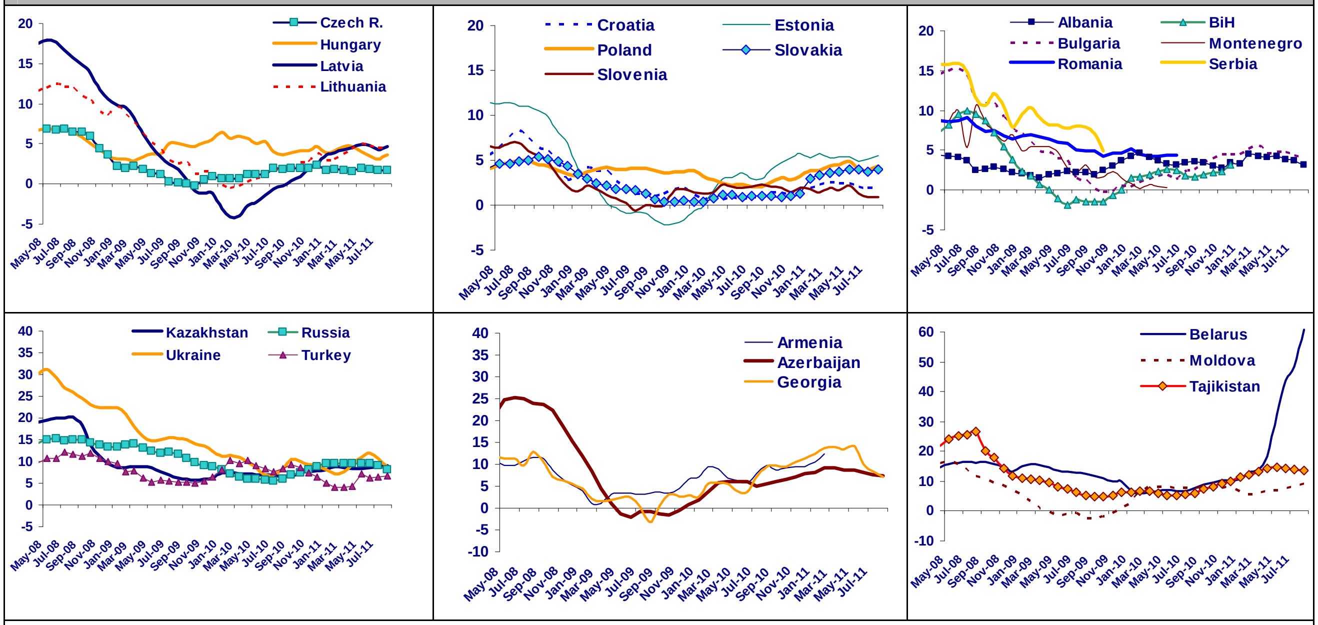
Industrial confidence, seasonally adjusted balances, defined as the difference (in percentage points of total answers) between positive and negative answers



Source: Eurostat.

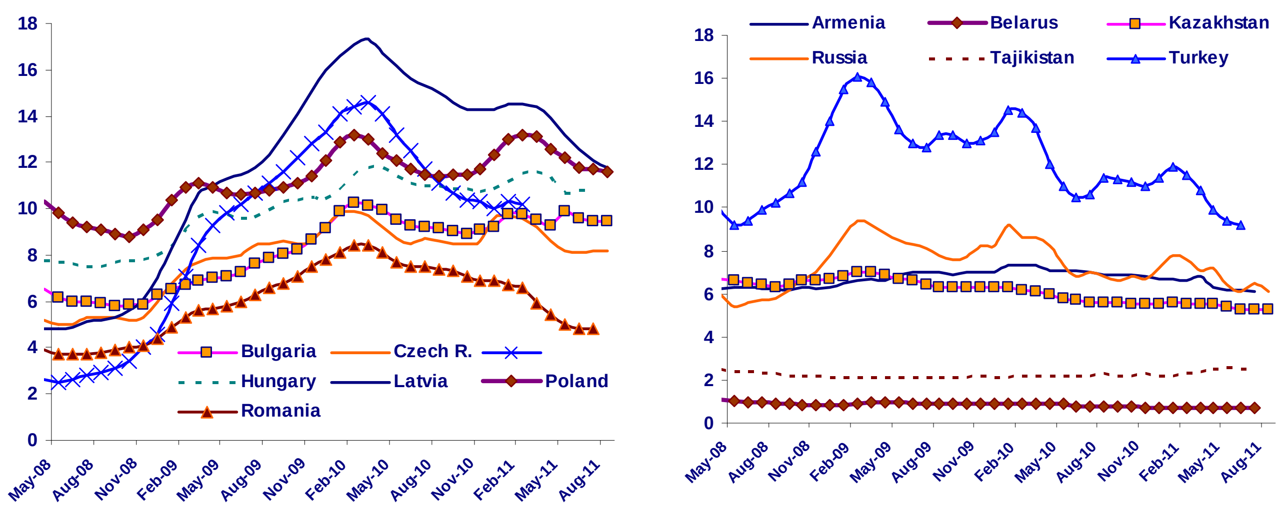
Figure 5. Indicators of real activity: CPI and unemployment

CPI, y-o-y change, %



Source: National authorities via CEIC data service.

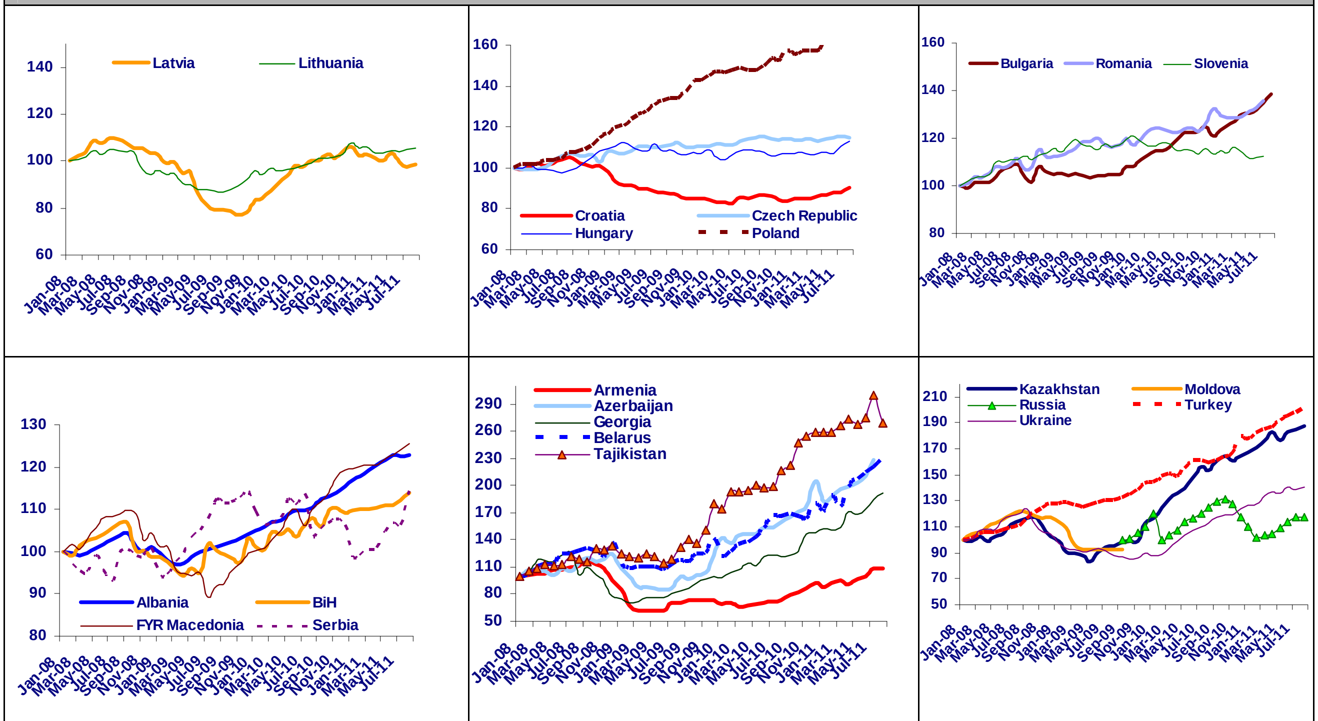
Unemployment rate, %



Source: National authorities via CEIC data service.

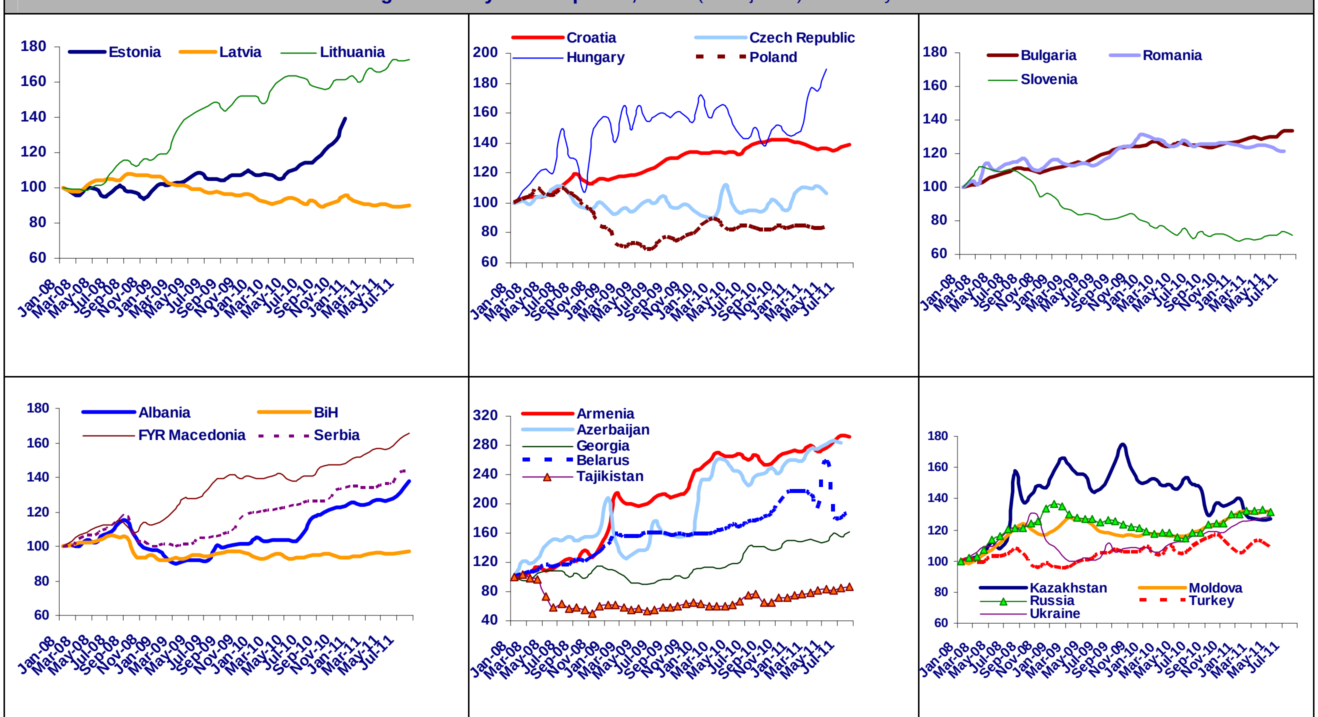
Figure 6. Financial sector indicators: deposits by currency

Local currency total deposits, stocks. January 2008 = 100



Source: National authorities via CEIC data service.

Foreign currency total deposits, stocks (FX adjusted) /1. January 2008 = 100

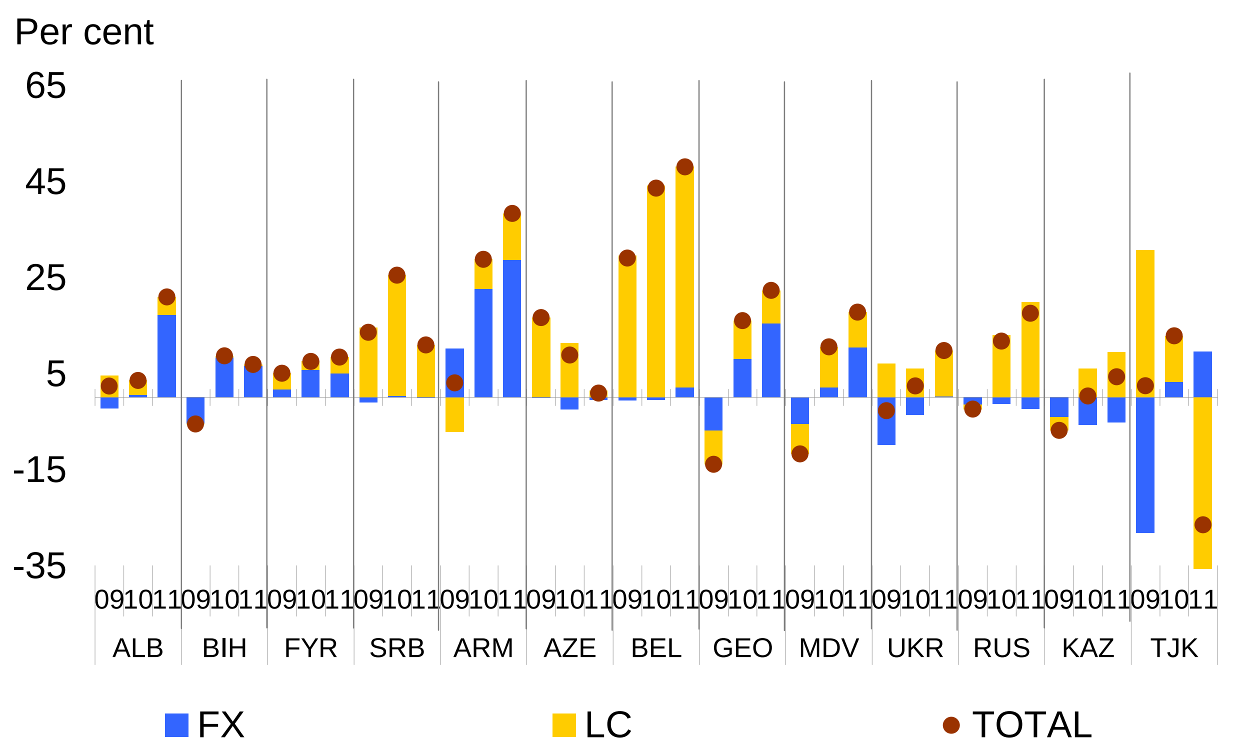


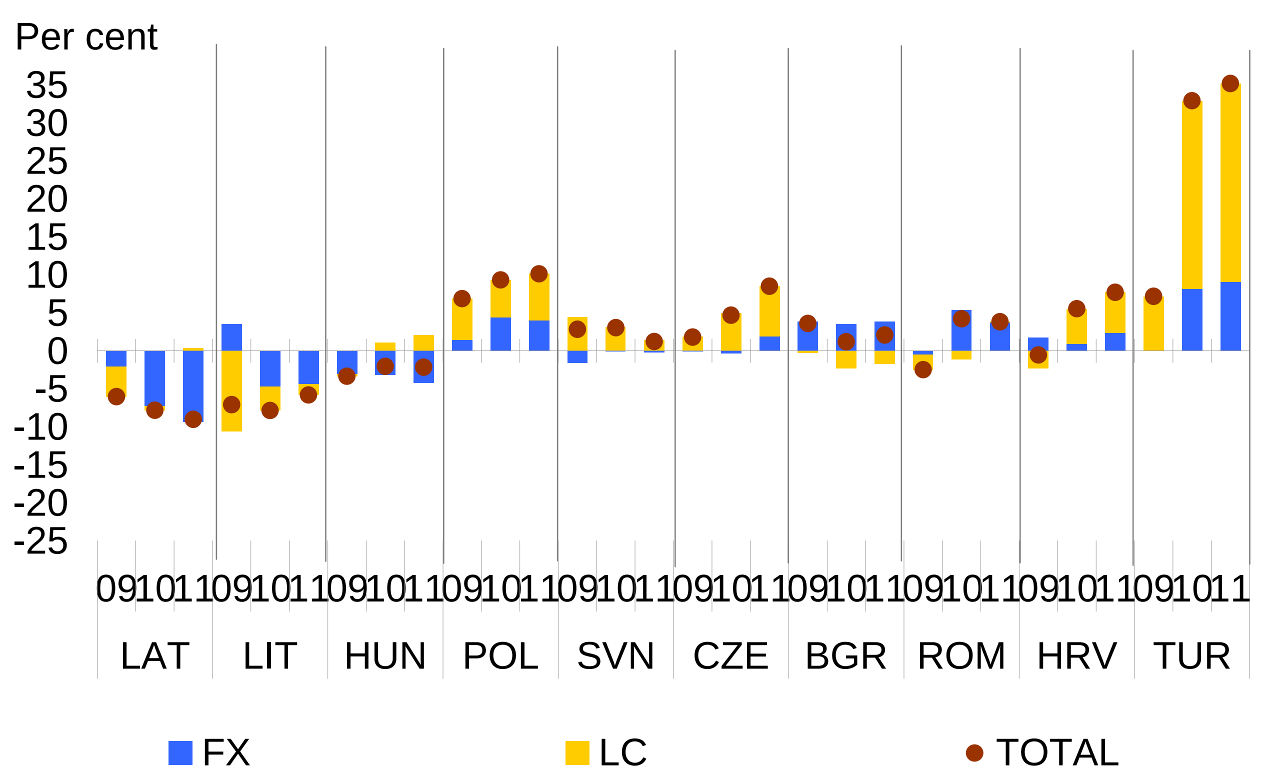
/1Composition of assumed FX Baskets (€ : $ weights): 100:0 for Bulgaria, Latvia, Lithuania, Poland, Serbia; 90:10 for Croatia and Romania; 50:50 for Albania, Armenia, Bosnia, Czech Republic, Estonia, FYR Macedonia, Georgia, Hungary, Moldova and Turkey; 20:80 for Ukraine; 15:85 for Russia, 10:90 for Kazakhstan, 0:100 for Azerbaijan and Tajikistan and 30:40:30 as a €-$-RUB basket for Belarus.

Source: National authorities via CEIC data service.

Figure 7a. Financial sector indicators: foreign and local currency lending

Contribution to private sector growth (year-on-year, in %)

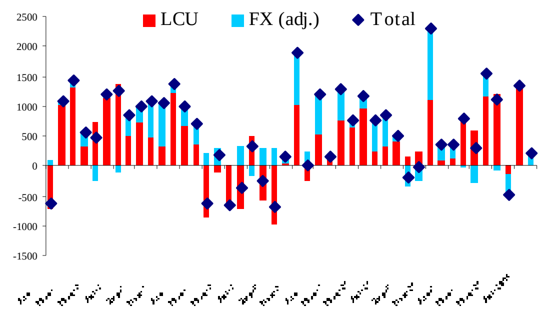


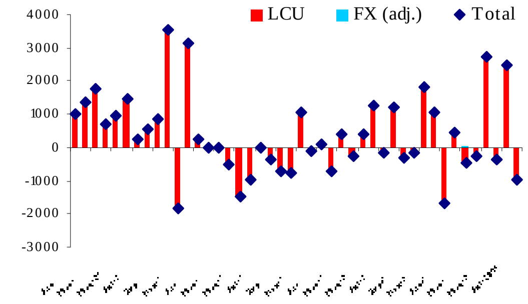


Source: National authorities via CEIC service.

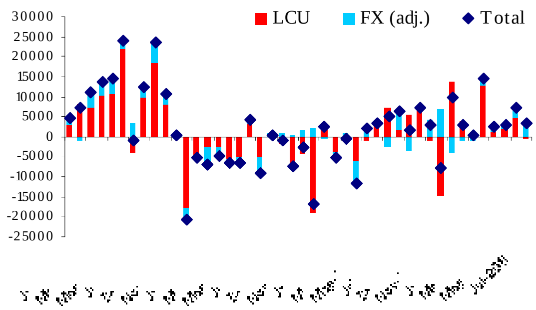
Figure 7b. Financial sector indicators: new credit to private sector

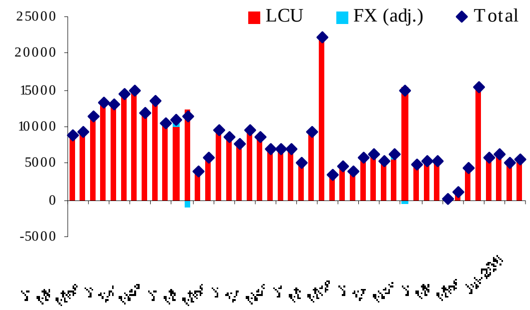
Croatia (HRK mln) | **Net new credit (corporate)** | **Net new credit (household)**



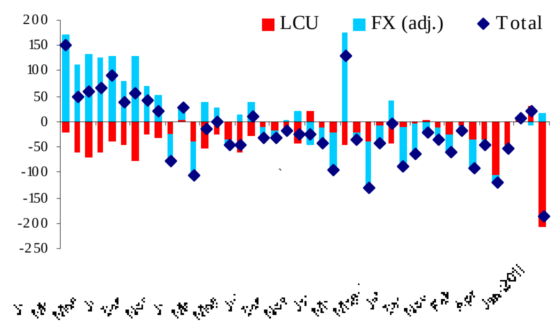


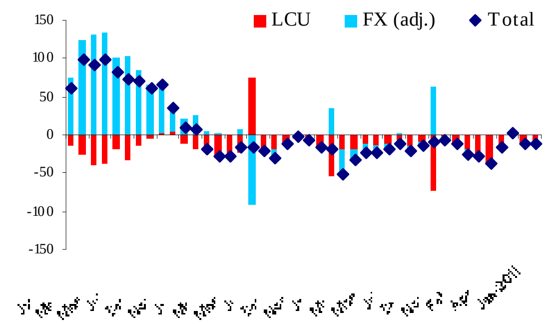
Czech Republic (CZK mln) | **Net new credit (corporate)** | **Net new credit (household)**



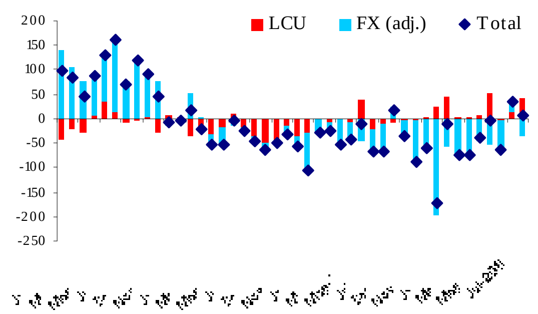


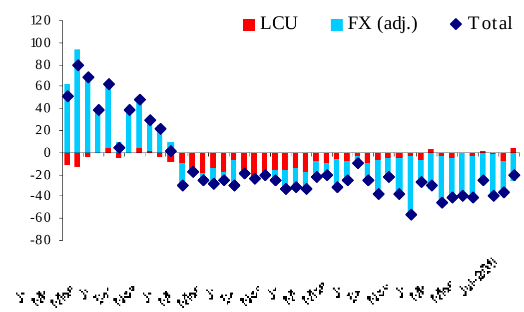
Estonia (EEK mln) January 2009 is excluded | **Net new credit (corporate)** | **Net new credit (household) January 2009 is excluded**



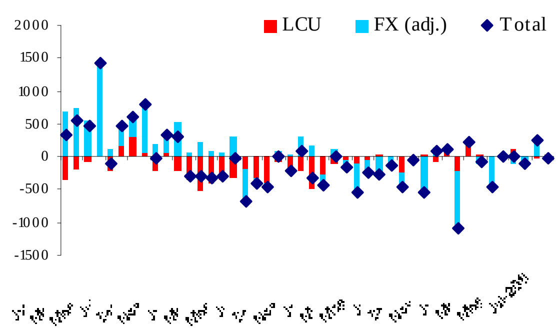


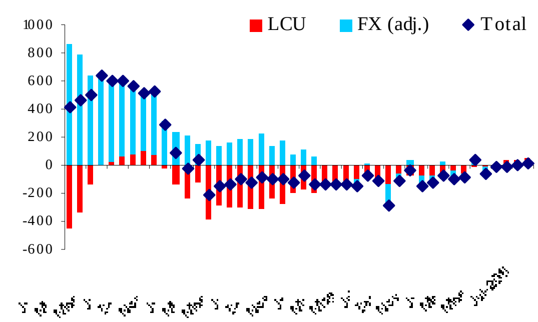
Latvia (mln LVL) | **Net new credit (corporate)** | **Net new credit (household)**

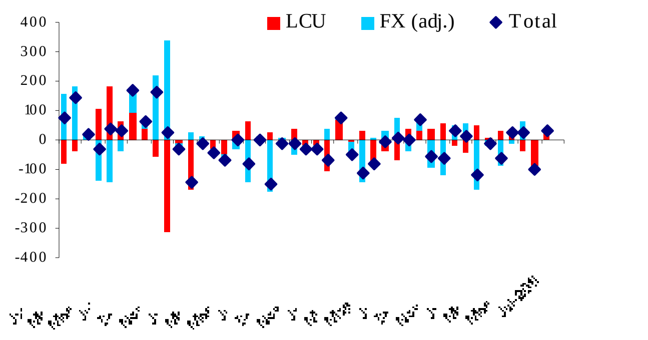
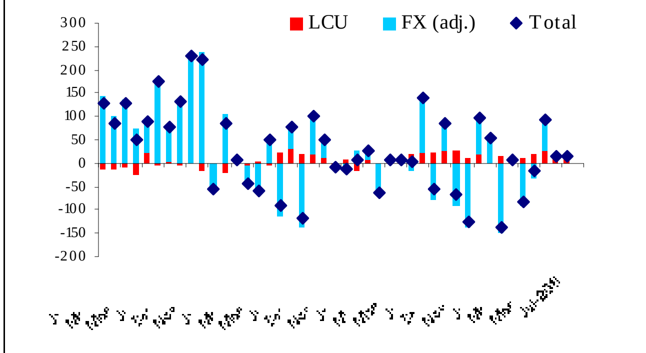
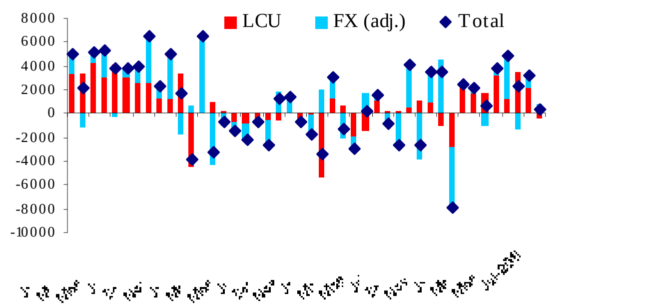
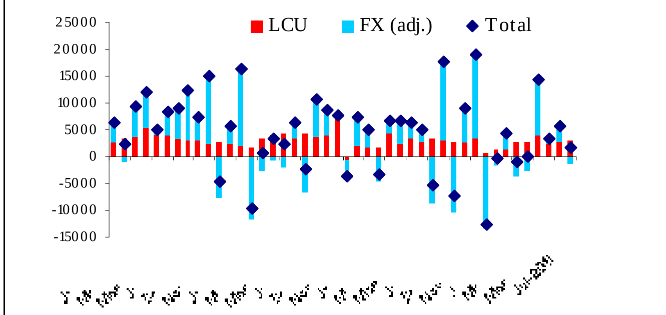
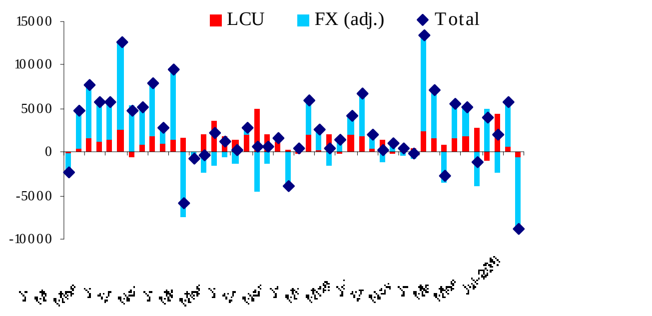
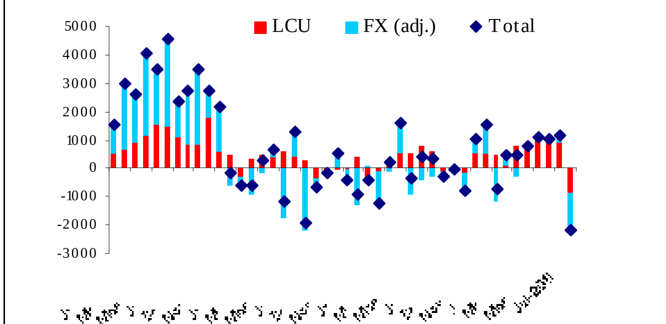
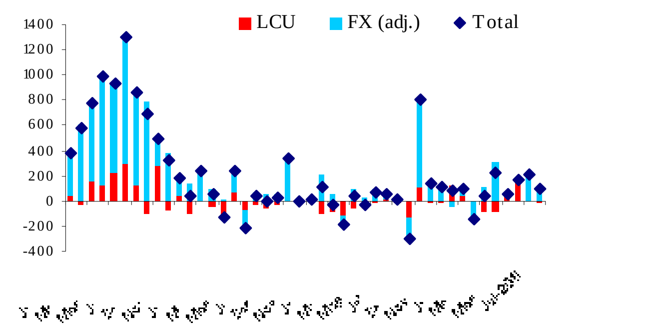
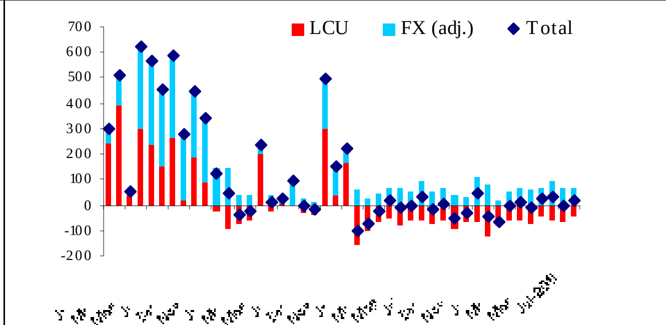
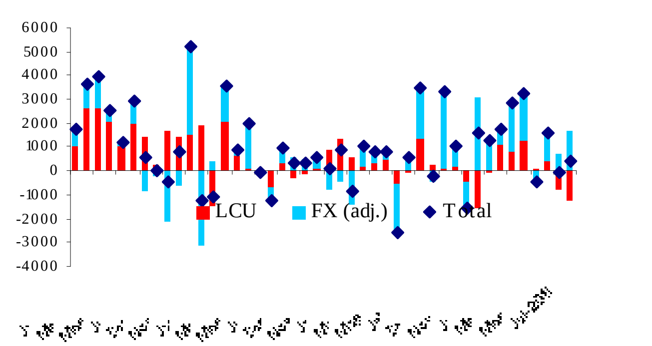
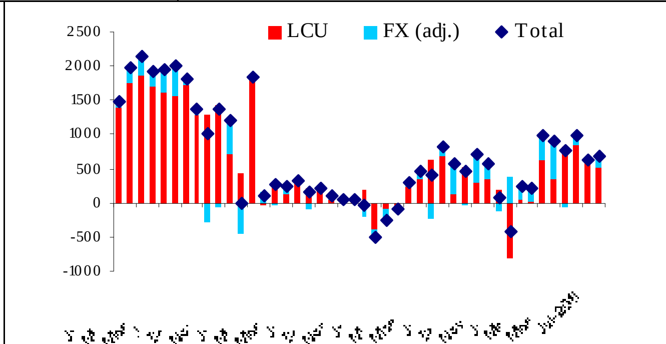




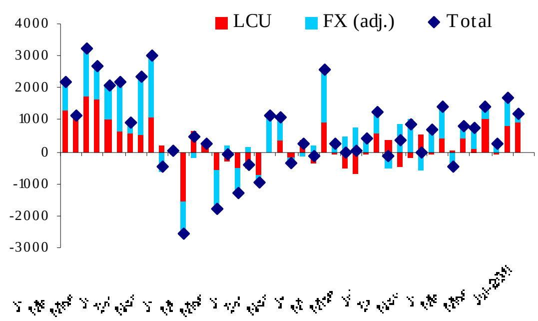
Lithuania (mln LTL) | **Net new credit (corporate)** | **Net new credit (household)**

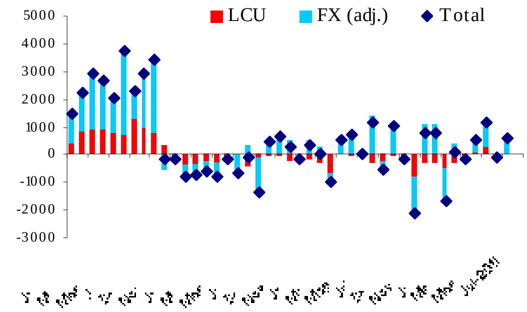




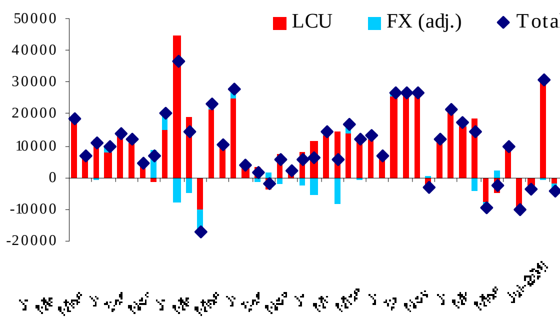
Hungary (bn HUF)	Net new credit (corporate)	Net new credit (household)
		
Poland (mln PLN)	**Net new credit (corporate)**	**Net new credit (household)**
		
Albania (mln ALL)	**Net new credit (corporate)**	**Net new credit (household)**
		
Bulgaria (mln BGN)	**Net new credit (corporate)**	**Net new credit (household)**
		
FYR Macedonia (mln MKD)	**Net new credit (corporate)**	**Net new credit (household)**
		

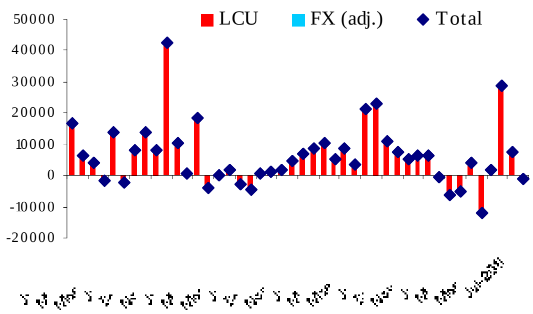
Romania (mln RON) | **Net new credit (corporate)** | **Net new credit (household)**



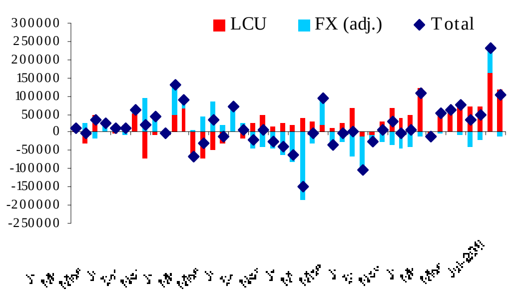


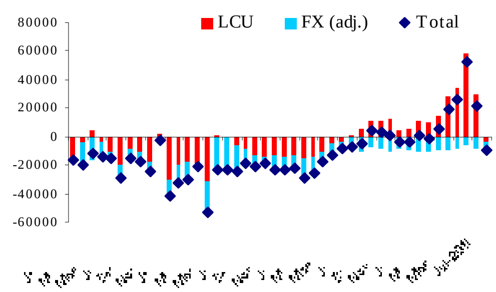
Serbia (mln RSD) | **Net new credit (corporate)** | **Net new credit (household)**



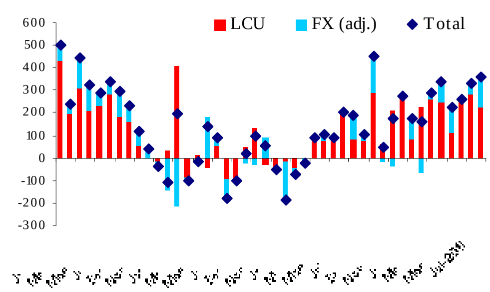


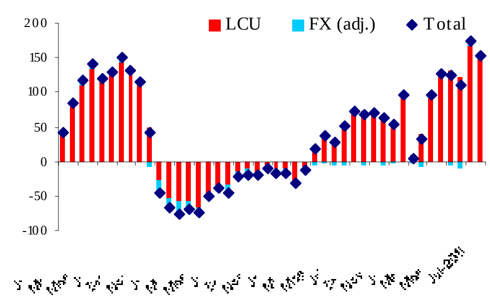
Kazakhstan (mln KZT) | **Net new credit (corporate)** | **Net new credit (household)**



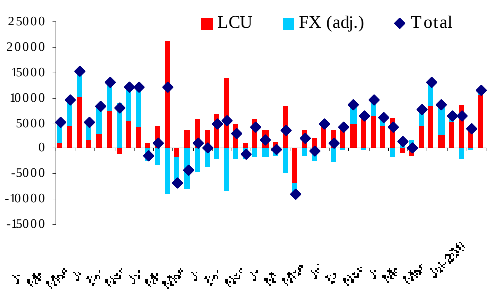


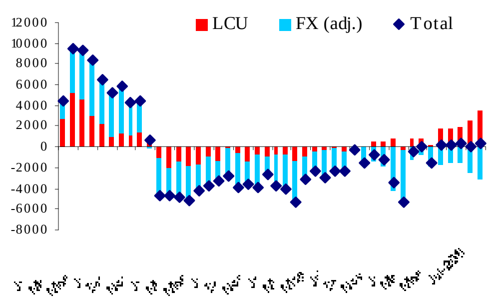
Russia (bn RUB) | **Net new credit (corporate)** | **Net new credit (household)**





Ukraine (mln UAH) | **Net new credit (corporate)** | **Net new credit (household)**

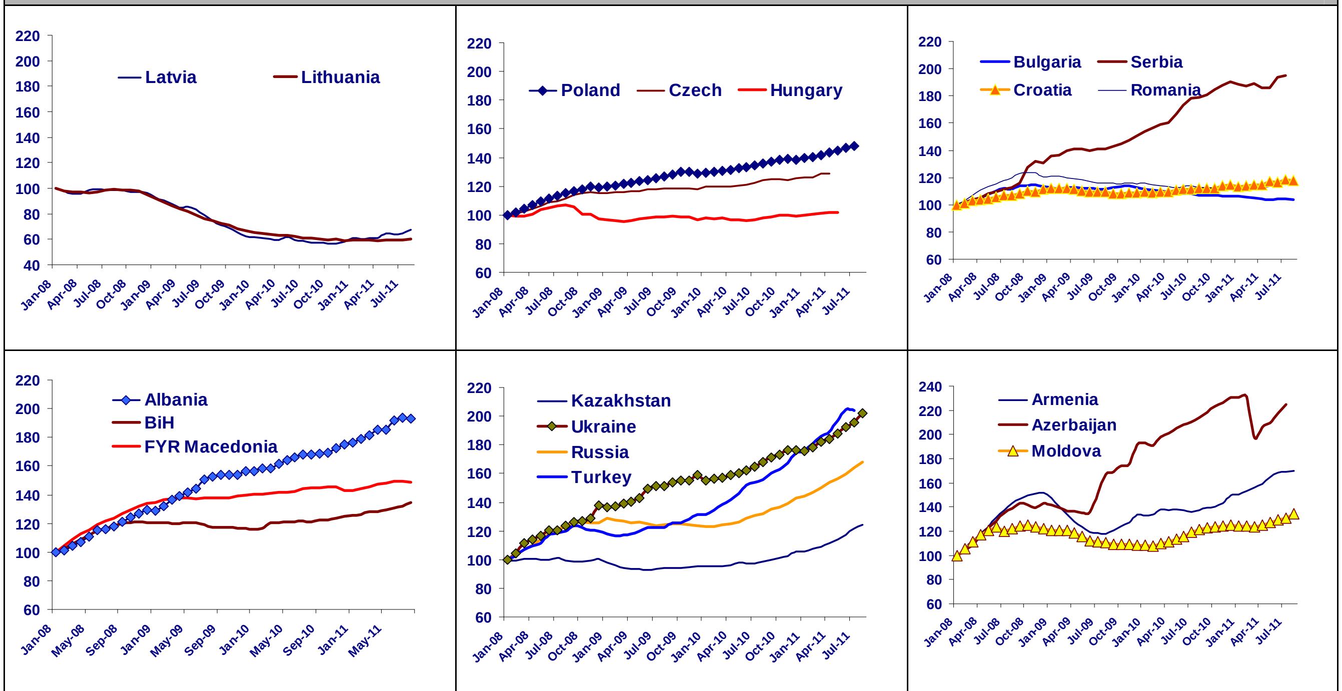




Source: National authorities via CEIC data service.

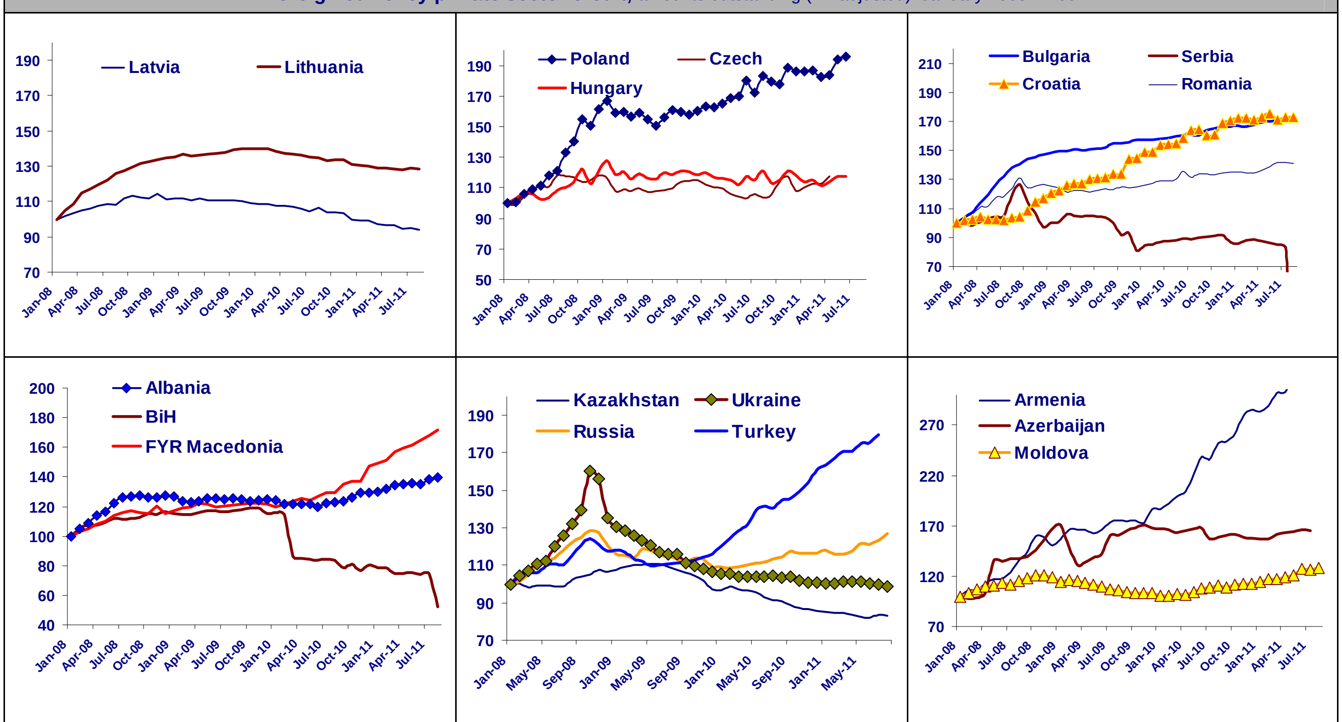
Figure 8. Financial sector indicators: private sector credit by currency components

Local currency private sector credit, amounts outstanding. January 2008 = 100



Source: National authorities via CEIC data service.

Foreign currency private sector credit, amounts outstanding (FX adjusted). January 2008 = 100



/1Composition of assumed FX Baskets (€ :$ weights): 100:0 for Bulgaria, Latvia, Lithuania, Poland, Serbia; 90:10 for Croatia and Romania; 50:50 for Albania, Armenia, BiH, Czech Republic, Estonia, FYR Macedonia, Georgia, Hungary, Moldova and Turkey; 20:80 for Ukraine; 15:85 for Russia, 10:90 for Kazakhstan, 0:100 for Azerbaijan and Tajikistan and 30:40:30 as a €-$-RUB basket for Belarus.

Source: National authorities via CEIC data service.