

# Regional Economic Prospects in EBRD Countries of Operations: January 2012<sup>1</sup>

EBRD Office of the Chief Economist

## Overview

### **Eurozone Crisis Takes the Steam out of Emerging Europe's Recovery**

*In line with our October forecast, growth in the EBRD region will substantially slow from about 4.8 per cent in 2011 to 3.1 per cent in 2012 assuming that the Eurozone sovereign debt crisis does not materially deteriorate further. The projected regional slowdown in 2012 is largely due to significantly weaker growth in central and south-eastern Europe, which is particularly exposed to Eurozone stress, and where a few countries are expected to return to recession this year. Growth is also slowing down in Eastern Europe and the Caucasus. In contrast, Russia and other CIS countries, much less integrated with Western Europe, are likely to continue to enjoy respectable growth rates assuming commodity prices remain high. For the first time since 2009 the region as a whole experienced net capital outflows in Q3 2011, and Western banks appear to be deleveraging since the autumn. Substantial risks to baseline growth stem from the possibility of an escalation of the Eurozone turmoil with systemic bank risks for emerging Europe, whose banking sector is deeply integrated with Eurozone-based banks, and the ensuing slowdown in the US and elsewhere coupled with lower commodity prices. In this scenario, uncoordinated banking sector regulations in both home and host countries of cross-border bank groups would contribute to a deeper fall in growth.*

**Growth performance of many transition economies in the third quarter of 2011 surprised on the upside as the Eurozone crisis had not yet translated into the expected substantial real slowdown, either** in the single currency area as a whole or in the transition countries that have the strongest links with it (Chart 1). Most countries grew faster than we forecasted in October, with Romania leading the group with the largest positive surprise thanks to a better-than-expected harvest. Romania was also one of the strongest overall performers in the third quarter among the new EU members, along with Latvia. The real output of the latter, however, and of its Baltic neighbours and some other transition economies, is still well below the pre-2008 level. Turkey's rapid expansion due to rising domestic demand, fuelled by an increasingly worrisome credit boom, continued largely unabated. As in the previous quarters, Central Asian economies continued to grow very strongly (especially Mongolia, the strongest performer among all transition countries in the third quarter), driven directly or indirectly by high commodity prices and in some cases ongoing expansionary fiscal policies. Finally, Georgia grew very strongly as the successful recovery in previous quarters in turn led to a sharp rise in the share of inventories in output to pre-crisis levels. However, Azerbaijan saw its real GDP shrink as the rapid expansion of its oil output seen in the previous years is over; Slovenia's output contracted as a decline in investment joined an already stagnating consumption in a largely deteriorating economic climate; and output in Belarus decreased by almost 4 per cent relative to the previous quarter as its balance of payments crisis took a toll on the real economy.

**Inflation continues to moderate in most countries and, except in Turkey, is not an immediate policy concern even in countries with stronger growth.** Many countries in the region, especially those further east, recorded large drops in their year-on-year inflation rates in November of 2011 relative to December of 2010 (Chart 2). Georgia saw its inflation tumble

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<sup>1</sup> 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 2011 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](http://www.ebrd.com)).

from 11 per cent to below 2 per cent in this period, whereas in the Kyrgyz Republic it more than halved from 19 per cent to just above 7 per cent. Armenia, Ukraine, but also Romania recorded substantial decreases in inflation rates, too. In many of these and other countries lower inflation rates reflected lowering global food and energy prices. Russia's inflation moderation by the end of 2011 was also due to a better harvest and a decrease in real effective exchange rate appreciation pressures. In contrast, Turkey's inflation has risen substantially to double digits. Inflation also increased in Slovakia and Latvia, with a potential impact on competitiveness given the lack of exchange rate as a policy instrument. Core inflation has been on the rise in some transition economies as they continued growing through the third quarter of 2011.

**While the most recent available GDP and other output measures do not at this point show clear signs of a Eurozone slowdown spreading in the region, financial sector, capital flows and leading indicators paint a gloomier picture:**

- **Real credit has been very weak or negative in most of central and south-eastern Europe since late last summer.** While in south-eastern Europe (SEE) it was negative on average in month-on-month terms for most of 2011, in central Europe and Baltics (CEB) it dropped slightly below zero in August following mildly positive growth in the first half of the year. It has been particularly weak in Croatia, Estonia, Hungary, Slovenia, Bulgaria and FYR Macedonia. Elsewhere in the region, strong monthly growth in Turkey in the earlier months of the year turned into an almost 7 per cent contraction in real credit in October, perhaps a first sign of a cooling economy. Ukrainian real credit growth has been slowing from its August peak reaching a virtual standstill by November. The International Institute of Finance's survey of lending conditions in Emerging Europe confirms a tightening of conditions in the third quarter of 2011 across all measures, including credit standards, demand for loans, funding conditions and trade finance. To the extent that credit continued to grow, this was tended to be driven mostly by local currency lending.<sup>2</sup>
- **The quality of credit portfolios has not improved in most countries with a high stock of non-performing loans (NPLs).** Among them, only Montenegro recorded a large drop in NPLs in the recent past, and the Kyrgyz Republic and Lithuania saw smaller reductions. On the other hand, loan-to-deposit ratios have been declining in most transition economies, albeit from sometimes very high starting levels, signalling a possible shift towards a more sustainable lending model.
- **The region as a whole experienced its first significant net capital outflow in the third quarter of 2011 since the first quarter of 2009, although on a much smaller scale** (Chart 3). Non-FDI capital has been flowing out of the region since last summer. FDI inflows have remained largely stable through the third quarter of 2011 and have even increased somewhat. Separate high-frequency fund flow data confirms that capital outflows from the whole EBRD region that peaked in August and September of last year continued through December, as investors flew to safety (Chart 4).
- **Worryingly for the CEB and SEE regions, Western bank deleveraging appears to be underway since the autumn.** The only country in this region that had positive bank-related cross-border capital inflows in the fall was Bulgaria, where they, however, followed earlier outflows. This suggests that transmission of the Eurozone crisis to the region via bank subsidiaries may have already begun in the fall of 2011, with further negative impact on credit and possibly growth.

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<sup>2</sup> A few countries, including Kazakhstan, Serbia and Ukraine, saw a contraction in FX lending late last year on a year-on-year basis that was more than compensated by local currency credit growth. Local currency lending constituted well over 80 per cent of total credit growth in Croatia and Russia.

- **Large losses have been recorded in equity markets across the region**, similarly to other emerging markets. While equity indexes in Hungary, Poland and Turkey dropped by about a fifth since summer, the Russian market has lost closer to a third and the Ukrainian one almost two fifth of its value, possibly reflecting the additional concerns over political developments.
- **Various leading indicators point to an impending economic slowdown, especially in the new EU countries.** In particular, both industrial and consumer confidence indicators have been weakening since August through December 2011, with both measures lower now than in the summer in each of the new EU members (Chart 5). New orders in manufacturing have dropped by almost 5 per cent in October after a full year of increases or only slight decreases, even though they seem to have recovered somewhat in November. Non-domestic new orders fell even more sharply by 7 per cent, a sign of declining demand from abroad in general and from the troubled Eurozone in particular.

### Outlook and risks

**The transition region is projected to have grown by 4.8 per cent in 2011 and to grow by about 3.1 per cent in 2012.** These figures are broadly in line with our projections from last October, which already took into account the expected impact of the Eurozone crisis by adjusting the 2012 growth forecasts substantially downwards (Chart 6). The 2011 growth rate represents a slight improvement on the earlier projection as the effect of the crisis on the transition region as a whole, and specifically on the countries most exposed to it, has been taking longer than originally expected to materialize. The better-than-expected performance in many countries in the third quarter of last year together reasonably strong higher-frequency output data for the last months of 2011 have translated into slightly higher projections for all transition sub-regions with the exception of Russia.

**In 2012, however, the crisis in the single currency area is expected to significantly impact economic performance in the transition region and especially in central and south-eastern Europe,** where countries' economies are the most intertwined with those of the Eurozone. The projection assumes a baseline scenario of a slow and uneven progress towards containment of the current turmoil. The Euro area's GDP is projected to decline by 0.5 per cent in 2012, implying mild recessions in the first half of the year, due to the short-term impact of fiscal adjustments and a period of instability both for the governments on the Eurozone periphery and the financial sector across the currency union. Real activity will suffer as credit growth declines, yet avoids a crunch thanks to the more accommodative monetary policy stance of the ECB. As in 2008-09, international coordination between governments, international agencies and banks, most likely in the context of a new "Vienna 2.0" framework, is assumed to manage the deleveraging process and forestall disruptive moves by individual bank groups or governments.

**The turmoil in Eurozone will affect output in transition economies via both trade and financial channels.** As in the 2008-09 global financial crisis, a standstill in the Eurozone translates into weaker export markets for its eastern neighbours, even though in the baseline this impact should remain modest relative to the 2008-09 experience, when global trade flows collapsed and Western Europe suffered a sharp recession. The single currency area is a very important source of foreign direct investment as well as shorter term financing for the region. Capitals flows into the region have already turned into outflows and are likely to remain so while capital is scarce and risks high in the single currency area. Most importantly in the current situation, subsidiaries of Eurozone banks form an important part of the financial system in many transition countries. As the parent banks face funding issues and higher capital requirements, their subsidiaries risk receiving considerably less support from their parents and might even be used as an auxiliary source of capital or liquidity for the latter. In addition, remittance flows from the Eurozone to CEB, SEE and a few other countries will suffer as well.

**All these channels will particularly impact those transition countries that are the most strongly integrated with the Eurozone.** Central Europe and the Baltics (CEB) and south-eastern Europe (SEE) receive large shares of their FDI and other capital inflows from the Euro area, and send most of their exports to it. Large portions of their banking systems are comprised of Eurozone bank subsidiaries. Growth in both CEB and SEE is thus expected to slow markedly in 2012 relative to last year. In contrast, regions further east will be much less affected by developments in Western Europe, both thanks to their weaker links to the Eurozone and because energy prices are likely to stay high in the baseline scenario. This will help the economies of commodity producers including Russia, which will in turn support growth in other CIS countries that depend on trade with and remittances from Russia.

- **The CEB and SEE regions will experience a significant slowdown in 2012 relative to last year.** They are estimated to have grown by 3.4 and 2.2 per cent in 2011, respectively, a slight improvement on our October forecast. For 2012, we are now forecasting growth of 1.4 per cent and 1.1 per cent growth, somewhat below our October forecasts, based on a slightly worse outlook, compared to our October assumptions, for the Euro area and a deteriorating situation in a few individual CEB countries. In particular, Slovenia is expected to return to recession as a result of lower exports to the Eurozone on top of the ongoing stress in its banking sector. Hungary, the most exposed country to the Euro zone in the EBRD region, has amplified the impact of external shocks by a series of domestic policy mistakes that have unnerved investors, hitting the Hungarian forint and equity markets and increasing sovereign spreads. While none of the SEE countries is expected to see negative growth in our baseline scenario, they will all expand only marginally as the region is exposed to the troubled Greek economy and its financial institutions as well as to the Eurozone more broadly.
- **Recovery further east will much less be 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 and will support expansion even in the non-commodity exporting countries of the CIS, which depend on Russia for exports and remittances. Expansion in Central Asia will be somewhat stronger than previously forecast. The already very fast growth in booming commodity-rich Mongolia has accelerated further, and is expected to maintain its pace in 2012 as well. At the same time, the outlook for Eastern Europe and Caucasus (EEC), the closest to Western Europe within the eastern transition regions, has somewhat worsened. The largest economy in the region, Ukraine, is likely to be quite affected by the Eurozone crisis, with the most recent industrial production data already suggesting a slowdown.

**The Eurozone crisis poses serious further risks to our outlook,** as any worsening of the situation beyond the baseline assumptions will have serious negative consequences for growth across the entire transition region. In a downside external scenario largely unchanged from last October, the Eurozone troubles become much worse before they are ultimately resolved. In particular, the crisis is not contained before spreading to larger single currency area members, which in turn may render several large European banks insolvent. Major parent banks would accelerate deleveraging in the region, triggering a credit crunch and recession in emerging Europe. Nation-based policies would intensify and left uncoordinated, with significant negative cross-border spillovers. This scenario implies a prolonged market turmoil and a severe western European recession with negative spillovers for the global economy, resulting in a standstill in the US and subsequent lower commodity prices. A negative Eurozone crisis scenario would affect especially CEB and SEE countries via the same channels as in the baseline, including depressed exports and FDI and financing inflows, only more severely.

**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.

Chart 1. EBRD region real GDP Growth<sup>1</sup>  
(per cent, quarterly, year-on-year)

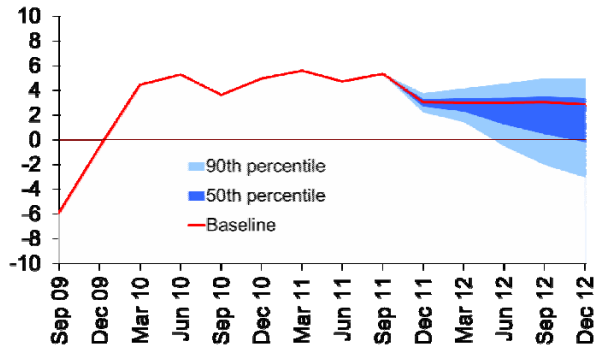


Chart 2. Inflation  
(per cent, year-on-year)

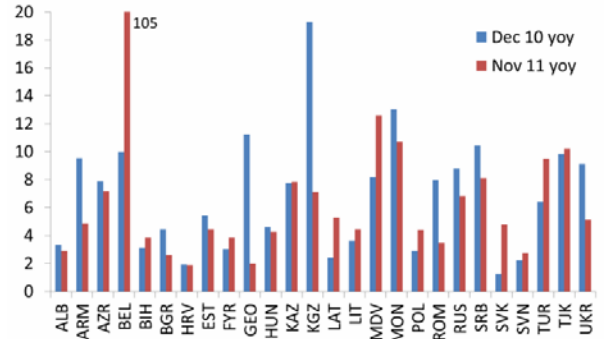


Chart 3. Capital flows  
(per cent of previous year's GDP)

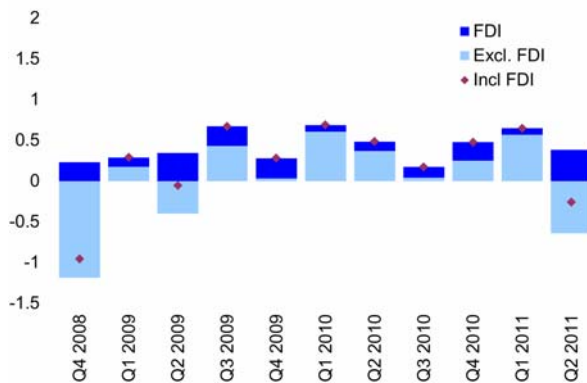


Chart 4. Fund flows  
(per cent of total allocation)

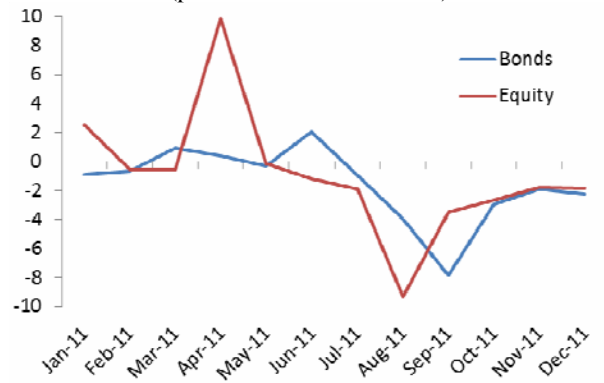


Chart 5. Confidence indicators, new EU members  
(Eurostat indicator, simple average)

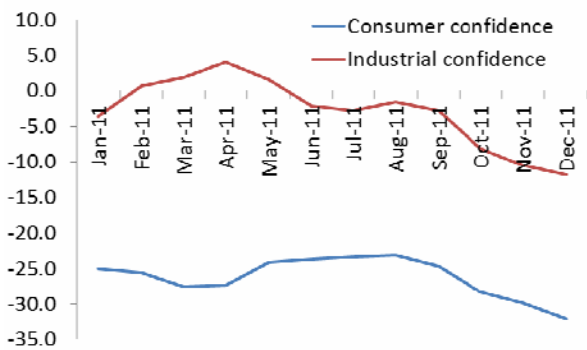
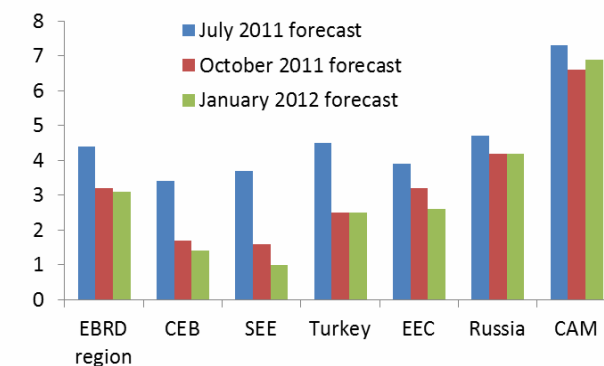


Chart 6. Comparison of EBRD GDP growth forecast for 2012  
(per cent, year-on-year)



Source: CEIC database, Eurostat, IFS, national authorities and EPFR database

<sup>1</sup> 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 1.6 per cent in 2011 and 0 per cent in 2012, a VIX around 30 in Q4 2011 and declining thereafter, broadly constant Euribor and Libor, and an oil price of about \$100 per barrel. The downside scenario assumes a recession in the eurozone, with growth of 1.6 per cent in 2011 and -3.5 per cent in 2012 and more volatile market, with VIX averaging 40 in the first half of 2012 and then slowly declining in the second half of the year.

## Real GDP Growth in the EBRD region

(In per cent; EBRD forecasts as of January 23, 2011)

	Current forecast				EBRD Forecast in October 2011			
	2009	2010	2011	2012	2011	Change October-January	2012	Change October-January
<b>Central Europe and the Baltic states</b>								
Croatia	-6.0	-1.2	0.3	1.0	0.5	-0.2	1.9	-0.9
Estonia	-14.3	2.3	8.1	2.6	7.5	0.6	2.6	0.0
Hungary	-6.5	1.1	1.5	-1.5	1.0	0.5	0.5	-2.0
Latvia	-17.1	-1.2	5.0	2.6	3.9	1.1	2.4	0.2
Lithuania	-14.6	1.3	6.2	2.3	6.1	0.1	2.3	0.0
Poland	1.6	3.9	4.2	2.3	3.7	0.5	2.2	0.1
Slovak Republic	-4.9	4.2	3.2	1.3	3.1	0.1	1.1	0.2
Slovenia	-8.1	1.3	0.4	-1.1	1.0	-0.6	0.5	-1.6
<b>Average<sup>1,2</sup></b>	<b>-2.8</b>	<b>2.8</b>	<b>3.4</b>	<b>1.4</b>	<b>3.1</b>	<b>0.3</b>	<b>1.7</b>	<b>-0.3</b>
<b>South-eastern Europe</b>								
Albania	3.6	3.6	1.8	1.2	1.9	-0.1	1.0	0.2
Bosnia and Herzegovina	-2.8	0.7	1.8	0.5	2.1	-0.3	2.3	-1.8
Bulgaria	-4.9	0.2	1.8	1.2	1.6	0.2	2.3	-1.1
FYR Macedonia	-1.0	1.8	3.1	1.8	3.0	0.1	2.4	-0.6
Montenegro	-5.7	2.5	2.0	1.9	2.0	0.0	2.6	-0.7
Romania	-7.1	-1.3	2.5	0.8	1.5	1.0	1.1	-0.3
Serbia	-3.5	1.0	1.9	1.1	2.1	-0.2	2.1	-1.0
<b>Average<sup>1</sup></b>	<b>-5.4</b>	<b>-0.3</b>	<b>2.2</b>	<b>1.0</b>	<b>1.7</b>	<b>0.5</b>	<b>1.6</b>	<b>-0.6</b>
<b>Eastern Europe and the Caucasus</b>								
Armenia	-14.1	2.1	4.5	3.0	4.5	0.0	3.5	-0.5
Azerbaijan	9.3	5.0	0.0	3.5	0.5	-0.5	4.0	-0.5
Belarus	0.2	7.6	5.0	1.5	4.5	0.5	1.5	0.0
Georgia	-3.8	6.4	6.0	5.0	5.0	1.0	4.0	1.0
Moldova	-6.0	6.9	5.5	3.5	6.0	-0.5	4.0	-0.5
Ukraine	-14.8	4.2	5.0	2.5	4.5	0.5	3.5	-1.0
<b>Average<sup>1</sup></b>	<b>-6.3</b>	<b>5.1</b>	<b>4.0</b>	<b>2.6</b>	<b>3.8</b>	<b>0.2</b>	<b>3.2</b>	<b>-0.6</b>
<b>Turkey</b>	-4.8	9.0	8.0	2.5	7.5	0.5	2.5	0.0
<b>Russia</b>	-7.8	4.0	4.0	4.2	4.0	0.0	4.2	0.0
<b>Central Asia</b>								
Kazakhstan	1.2	7.3	7.5	6.5	7.0	0.5	6.5	0.0
Kyrgyz Republic	2.9	-0.5	5.7	4.0	6.0	-0.3	4.0	0.0
Mongolia	-1.3	6.4	17.3	14.0	11.0	6.3	12.0	2.0
Tajikistan	3.9	6.5	7.4	5.0	6.5	0.9	5.0	0.0
Turkmenistan	6.1	9.2	14.7	10.0	10.0	4.7	8.0	2.0
Uzbekistan	8.1	8.5	8.3	7.0	7.5	0.8	6.0	1.0
<b>Average<sup>1</sup></b>	<b>2.9</b>	<b>7.5</b>	<b>8.5</b>	<b>7.0</b>	<b>7.4</b>	<b>1.1</b>	<b>6.6</b>	<b>0.4</b>
<b>All transition countries</b>								
<b>Average<sup>1</sup></b>	<b>-5.2</b>	<b>4.6</b>	<b>4.8</b>	<b>3.1</b>	<b>4.5</b>	<b>0.3</b>	<b>3.2</b>	<b>-0.1</b>

<sup>1</sup> Weighted averages. The weights used for the growth rates are WEO estimates of nominal dollar-GDP lagged by one year.

<sup>2</sup> Weighted averages do not include the Czech Republic, for which EBRD no longer produces a forecast.

## Central Europe and the Baltic States (CEB)

The CEB region has seen a better than expected year 2011, with our estimate for the year revised up to 3.4 per cent (up from 3.1 per cent forecast in October). There remains a clear division between growth laggards Slovenia and Hungary on the one hand, and the Baltic states and Poland on the other. At the same time industrial production and export figures pointed to a clear deceleration at the turn of the year, as did forward-looking confidence indicators. Ambitious further fiscal consolidation steps, most notably in Poland and Latvia, will be a further drag on growth. Bank-related balance of payments flows show a clear ebbing in Poland, and substantial outflows in the Baltic countries and in Hungary (an annual outflow of about 3 per cent of GDP), as banks normalise their funding patterns. In Hungary domestic risks will likely re-enforce this trend in the absence of international assistance and credit to both household and corporate sectors contracted by about 2 per cent of GDP last year. Spill-over effects from the deterioration in Hungary are likely to be limited, and risk spreads have not widened significantly in other countries.

- In **Hungary** the adoption of the new constitution, the implementing laws that potentially curtail the independence of the central bank and various other economic policy initiatives have led to a stand-off with the EU and IMF over the initiation of negotiations on a new financial programme. Meanwhile, the downgrade of sovereign risk into speculative grade and several failed domestic debt auctions have led to uncertainty over the refinancing of the considerable public debt roll-over requirements falling due over the coming months. Given the large share of foreign investment in its domestic bond market, investor uncertainty has already translated into a rapid widening in yield spreads and forint weakness. Despite an agreement with the banking industry over the restructuring of households' foreign exchange debt the country remains highly vulnerable to forint depreciation. Attempts by the national bank to defend the currency, which has already raised policy interest rates by 100 basis points at the end of 2011, would equally further depress growth. Given the uncertainty over the timing and nature of an EU/IMF programme, the projection foresees a contraction in GDP this year by 1.5 per cent.
- The growth outcome for **Poland** for 2011 has been revised upwards to 4.2 per cent, though the projection for this year revised down to 2.3 per cent (which is close to the government's own projection). The country will benefit from considerable weakness in the PLN, which has fallen by over 12 per cent against the euro since the summer. At the same time, the re-elected government has announced ambitious consolidation which will target deficit close to 3 per cent of GDP, and the implementation of long-delayed reforms, importantly in pension rights, which has been welcomed by the markets.
- **Slovenia** has seen a renewed contraction in GDP in the third quarter of last year. While there has been a temporary acceleration in exports and industrial production between Q2 2010 and Q3 last year, stagnating consumption, and the rapid contraction in investment will continue to hold back a meaningful recovery; a recession is expected for 2012 with GDP contracting by about 1 per cent. It is unclear whether a coalition assembled under the new government could adopt the much-needed reforms to raise productivity in the corporate sector, and recapitalise the state banks sufficiently to revive lending.
- All three **Baltic economies** have seen surprisingly strong export-led growth in the third quarter of 2011, and growth estimates for that year have been revised upwards to between 5.0 per cent (for Latvia) and 8.1 per cent (for Estonia). Lithuania has swiftly resolved the failure of a mid-sized bank in November. Latvia successfully concluded the EU/IMF programme and now targets Maastricht compliance this year and euro adoption in 2014.
- The **Slovak Republic** is highly exposed to the slowing industrial cycle in the core eurozone, and the concentration of cyclical industries such as cars. A change in the

government following elections in March may lead to revision in the government's economic policy priorities, though continued fiscal consolidation is likely. Growth is projected to fall to between 1 and 2 per cent.

- In **Croatia**, the economy appears to be stuck in a rather stagnant mode, and growth in 2012 is not likely to surpass 1 per cent, with significant downside risk. However, the signing of the EU Accession Treaty at the end of last year, its anticipated ratification by the Croatian parliament following the positive referendum result on 22 January 2012 and the realistic prospect of full EU membership in mid-2013 are positive signs for the medium term and may help to revive confidence and investment.



## South-Eastern Europe (SEE) and Turkey

The short-term economic prospects for the SEE region remain weak, and vulnerabilities have increased as a result of the eurozone sovereign debt crisis. Financial sector vulnerabilities are a particular concern, given that the vast majority of the banking system is foreign-owned and given the reliance in most countries on funding from abroad. While some recovery seemed evident in the first half of 2011, economic activity weakened in the second part of the year, and growth in 2012 is likely to be minimal at best. In contrast, the Turkish economy continued to boom in 2011, with growth of around 8 per cent, but signs of overheating are increasingly apparent, with inflation exceeding 10 per cent by end-year and the current account deficit also at double-digit levels as a per cent of GDP.

- **Albania** experienced a slowdown in economic activity in the second half of 2011 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, while public debt is close to the legal maximum, limiting the room for fiscal manoeuvre.
- **Bosnia and Herzegovina's** economy has been relatively stable in the past couple of years, 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 certain export products such as metals and timber, which may compensate for weaknesses elsewhere in the economy. The formation of a government at state level may help to enable the resumption of IFI funding in 2012. However, 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 Greece 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 estimated to have slowed 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. The continued uncertainty over the future of the aluminium complex KAP, which has been making significant losses, is another source of concern
- Until recently, **Romania's** economy was on track to record robust growth in 2012, after a modest recovery in 2011. However, the slowdown in the eurozone is already having a significant dampening effect on Romania's exports, and further weakening is likely 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 estimated at around 2 per cent in 2011 but is likely to be lower in 2012, while inflation has dropped to 7 per cent by end-2011. 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 shows increasing 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.

After growing strongly over the first nine months of 2011, the pace of the region's recovery from the effects of the 2008-9 crisis has slowed down recently in response to the deteriorating external environment and, in several countries, unfavourable domestic factors. Ukraine has suffered from lower external demand and tightening financial conditions. Azerbaijan's oil sector contracted and economic activity in Belarus slowed down as the authorities tightened monetary and fiscal policies to contain the balance of payments crisis. The economies of Armenia, Georgia and Moldova have demonstrated some resilience so far, in part due to their lower integration in the European market. 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). 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, output growth slowed down in the fourth quarter and risk aversion in the financial markets has increased. 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. As financial conditions deteriorated and international capital markets became effectively closed, the authorities tightened monetary and fiscal policies. As Ukraine's economy is very much exposed to the eurozone, developments in the EU would remain an important factor for the country's growth and economic stability for the months to come.
- **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.
- The economy of **Belarus** has been stabilising after a deep, policy-induced balance of payments crisis. The foreign exchange market was largely normalised after the central bank unified the exchange rates in October, tightened monetary policy and curbed directed lending. Soft loans from a CIS stabilization fund and bilateral loans from Russia have been used to replenish critically low external reserves. However, a credible and consistent stabilisation programme is yet to be unveiled and it remains to be seen whether the authorities would be able to maintain fiscal and monetary discipline needed to prevent another bout of instability.
- **Moldova**'s robust growth has been supported by rising remittances, exports and investment as sentiment about the country's prospects has improved. However, there are recent signs of output slowdown in response to the weakening external environment. The economy remains 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 6 per cent in 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 and is expected to remain subdued over the next year. 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, and much of the non-oil sector growth is related to fiscal activities of the state. Immediate macroeconomic risks continue to be 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 2011, but growth and inflation are likely to slow down somewhat in 2012. In Russia and Kazakhstan, the recovery had mostly been driven by higher oil prices, large-scale fiscal stimulus packages and banking-system support. These countries' 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 their positive link with remittances, FDI and export demand from Russia and Kazakhstan. However, 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 accelerated in the third quarter of 2011, largely due to poor performance in the third quarter of 2010 when Central Russia was engulfed by forest fires. Growth stood at 4.1 per cent year-on-year during the first nine months of 2011 and is estimated at 4 per cent for the year as a whole. It is projected to reach 4.2 per cent in 2012 and 4.3 per cent in 2013. The turmoil in Europe had an impact on capital markets, where capital outflows persisted, stock markets experienced a correction, and the rouble depreciated somewhat against the dollar-euro basket. While depletion of the fiscal reserve fund has been postponed and the budget deficit is expected to be contained below 3 per cent of GDP in 2012, 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 remained strong in 2011 at 7.5 per cent, and is expected to slow down slightly to 6.5 per cent in 2012. Bank credit growth, which had remained flat until early 2011, finally picked up during 2011, reaching 14 per cent year-on-year in November, but this appears to have been driven mostly by state-sponsored subsidised loan programmes. Otherwise, the banking sector remains weak, with non-performing loans (NPLs) now exceeding 30 per cent of total loans, provisioning for NPLs remaining insufficient, and the third largest bank, BTA, seeking a second debt restructuring in less than two years. 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 above 9 per cent in August, decelerated to 7.4 per cent in December, thus remaining within the NBK's 6-8 per cent target range.
- The **Kyrgyz Republic's** economy grew by 5.7 per cent in 2011, reflecting the recovery from the 2010 domestic crisis, increasing reconstruction and social expenditure by the government and good performance in manufacturing, transport and telecoms sectors. GDP growth is expected to slow down to 4 per cent in 2012. Inflation decelerated rapidly from a high of 23 per cent in June to 7.1 per cent in December, and is expected to remain at around 5 per cent on average in 2012, as international commodity and food prices stabilise.
- In **Tajikistan**, GDP growth was stronger than expected at an estimated 7.4 per cent in 2011, but is expected to slow down to 5 per cent in 2012. Inflation has decelerated from 15 per cent in mid-2011 to around 9 per cent in December.
- **Turkmenistan** continues to experience a buoyant economic expansion with GDP growth in 2011 estimated at 14.7 per cent, driven by large public construction projects and increased gas exports to China and Iran. Given that many prices remain administered, inflation has remained low.

- **Uzbekistan's** GDP growth remained strong at 8.3 per cent in 2011, driven by public spending, but is expected to slow to 7 per cent in 2012 given the deteriorated commodity price outlook. Reliable data on inflation are not yet available.
- **Mongolia** continued to benefit from a mining boom, with GDP growth accelerating to 17.3 per cent in 2011. Growth is projected to reach 14 per cent in 2012, reflecting high copper prices and substantial mining-related FDI inflows, which exceeded 25 per cent of GDP in 2010 and 30 per cent of GDP in 2011, and are expected to continue for a number of years. Inflation picked up again to 10 per cent at end-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)			% FX credit in total loan stock	Public and External Debt /2				Gross reserves /2				Banking system			Bank dep.	Loans/ dep.	Country risk	Nonperforming loans		Unemployment
	(% GDP)				(% of GDP)								(end of 2010)/3			latest					
	Total pvt sector	of which			Government (end 2010)	External			billions US\$ (latest)	in percent of			Share in total assets:			% of GDP	Private sector, in %	16-Jan-12 (CDS spread, bps)	NPL in % Dec 2010 /4	NPL in % latest	% (latest avail.)
		Corp.	HH			Total (end 2010)	Private (end 2010)	Short term (remaining maturity)		GDP	Short term debt	month of prosp. Imports	Total assets as share of GDP	State-owned banks	Foreign owned banks						
<b>Central Europe and Baltics</b>																					
Croatia	55.4	32.6	38.4	76.0	40.6	102.1	73.5	34.5	15.0	24.7	71.5	...	116.8	4.3	90.3	62.1	117.3	555.3	11.2	11.5	12.7
Estonia*	1.4	1.4	0.0	1.6	6.6	117.6	111.5	57.9	2.7	13.9	24.1	1.8	135.0	0.0	97.9	66.7	137.0	...	6.5	3.2	11.3
Hungary	37.7	16.6	21.1	62.5	80.2	143.3	86.0	55.2	48.1	34.5	66.8	4.5	103.7	0.0	0.0	43.9	137.6	686.3	9.1	10.2	10.7
Latvia	76.3	38.5	37.8	89.2	39.9	165.0	131.9	75.0	7.6	31.7	42.2	5.3	172.5	15.5	69.0	35.9	239.3	361.3	19.0	18.7	14.8
Lithuania	43.7	23.0	20.8	73.4	38.7	85.7	55.9	40.4	7.2	19.7	48.8	2.5	86.3	0.0	90.8	41.0	145.2	...	19.7	17.8	15.3
Poland	19.7	4.6	15.2	35.8	55.0	73.0	67.0	20.2	91.2	19.6	96.4	4.6	76.8	22.9	70.5	46.7	115.8	284.0	8.8	8.3	10.0
Slovak Republic*	9.7	9.3	0.5	0.7	42.0	75.4	37.6	47.5	0.7	0.9	1.1	0.1	83.1	0.9	91.8	...	...	304.0	5.8	5.5	13.5
Slovenia*	4.2	0.9	3.3	5.0	38.0	115.2	65.7	23.5	0.9	2.3	8.5	0.3	139.9	18.9	28.7	52.9	158.3	...	2.2	6.9	8.2
<b>South-Eastern Europe</b>																					
Albania	27.2	20.4	6.8	66.5	58.2	36.6	11.0	6.3	2.7	22.7	362.0	4.5	77.0	0.0	92.4	70.0	58.5	...	13.9	14.4	13.3
Bosnia and Herzegovina	2.7	...	...	72.3	39.7	56.9	30.9	10.5	3.4	20.5	196.5	3.5	86.7	0.8	94.5	35.8	158.3	...	11.4	11.7	43.3
Bulgaria	46.5	35.9	10.6	63.1	17.4	101.6	93.7	39.7	16.7	35.0	88.1	6.1	104.6	3.2	80.7	61.6	118.8	413.7	11.9	13.5	9.6
FYR Macedonia	25.2	17.6	7.6	52.2	24.6	59.0	42.8	21.6	1.9	21.0	97.3	3.2	65.4	1.4	93.3	50.6	94.8	...	9.0	9.1	...
Montenegro	...	...	...	...	44.1	100.2	...	...	0.6	14.8	...	2.6	97.4	0.0	88.4	52.5	116.6	...	21.0	19.7	11.5
Romania	27.1	13.7	13.4	63.8	31.7	74.6	52.1	25.0	45.5	28.1	112.6	6.8	61.8	7.9	84.1	33.0	128.7	454.0	11.9	13.4	7.5
Serbia	36.6	22.6	14.0	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	18.6	23.7
<b>Eastern Europe and the Caucasus</b>																					
Armenia	20.0	16.0	4.0	60.7	39.2	45.0	16.6	1.0	1.9	19.9	1931.9	4.7	44.6	0.0	67.5	18.1	177.3	...	...	...	5.9
Azerbaijan	8.3	...	...	37.1	10.8	20.0	...	...	6.9	12.7	...	5.0	30.4	41.6	9.1	14.1	...	...	5.4	6.5	...
Belarus	24.6	23.2	1.4	36.8	26.5	52.1	30.0	25.2	4.1	9.2	29.4	1.0	51.6	77.9	20.6	47.5	142.3	...	3.8	4.7	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	32.4	112.2	...	12.5	9.3	16.3
Moldova	16.2	15.0	1.2	43.4	26.6	68.1	45.2	34.3	1.8	31.0	89.0	3.6	58.9	12.5	41.5	41.5	90.8	...	13.3	11.2	5.3
Ukraine	29.8	18.9	10.9	41.9	40.1	85.1	61.5	34.2	34.1	25.0	72.2	4.6	86.1	16.9	47.8	41.1	174.3	921.8	16.4	16.4	...
Turkey	17.7	...	...	28.9	42.2	39.5	27.4	15.7	83.9	11.4	72.6	4.0	91.1	31.6	16.6	47.7	112.9	323.4	3.5	2.6	9.1
Russia	10.6	9.9	0.7	20.4	11.7	33.3	29.9	9.3	454.5	30.3	331.0	13.4	75.9	39.2	18.3	41.6	121.3	260.3	5.5	4.9	6.4
<b>Central Asia</b>																					
Kazakhstan	14.0	10.9	3.1	36.3	10.7	80.5	79.4	9.2	28.3	17.3	187.1	6.1	68.0	0.6	17.2	21.3	181.6	290.8	25.2	31.0	5.4
Kyrgyz Republic	...	...	...	55.8	62.6	68.3	28.0	8.1	1.7	34.9	432.2	4.2	29.3	9.9	72.0	17.2	77.4	...	15.8	11.4	2.5
Mongolia	...	...	...	...	...	65.8	7.2	...	2.6	37.3	...	4.4	73.9	38.3	27.1	...	...	...	11.5	6.3	...
Tajikistan	10.4	...	...	57.1	36.7	34.4	...	0.6	0.4	9.1	1593.7	1.4	23.9	...	...	16.7	113.1	...	7.5	11.1	2.6
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/ WEO October 2011

3/ End of 2009 for Albania, Bosnia and Herzegovina, FYR Macedonia, Kazakhstan, Russia, Tajikistan. End of 2008 for Belarus, Kyrgyz Republic, Serbia, Turkmenistan

4/ 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)				GDP Growth (end year)				Inflation (average)		Fiscal Balance		Primary fiscal	GG	Current Account		Net FDI	
	(year over year percent change)				(Q4 over Q4 percent change)				(year over year percent change)		(Gen. gov; % of GDP)		balance to	Debt/reven	(% of GDP)		(% of GDP)	
	2009	2010	Forecast 2/ 2011 2012		2009	2010	Forecast 2/ 2011 2012		2010	Forecast 2/ 2011	2010	Forecast 4/ 2011	3/ 2010	3/ 2010	Forecast 4/ 2010 2011		2010	Forecast 3 2011
<b>Central Europe and Baltics</b>																		
Croatia	-6.0	-1.2	0.3	1.0	-4.6	-0.6	1.8	0.5	1.0	2.1	-5.0	-5.7	-3.0	109.0	-1.1	-1.8	0.7	1.5
Estonia	-14.3	2.3	8.1	2.6	-8.7	6.2	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	1.5	-1.5	-5.1	2.5	0.8	0.5	4.9	3.9	-4.2	1.0	-0.1	179.8	3.6	3.0	0.6	-1.4
Latvia	-17.1	-1.2	5.0	2.6	-15.8	3.1	3.4	4.1	-1.1	4.2	-7.7	-6.5	-6.4	110.3	3.0	-1.5	1.4	3.7
Lithuania	-14.6	1.3	6.2	2.3	-14.7	4.4	4.9	2.5	1.3	4.1	-7.1	-5.5	-5.3	111.9	1.8	-1.9	1.3	2.6
Poland	1.6	3.9	4.2	2.3	2.8	4.1	2.6	3.0	2.7	3.9	-7.9	-5.7	-5.2	145.3	-4.5	-4.8	0.7	1.6
Slovak Republic	-4.9	4.2	3.2	1.3	-4.7	3.4	2.3	1.3	0.9	4.1	-7.9	-5.5	-6.5	126.2	-3.0	-1.5	0.2	0.9
Slovenia	-8.1	1.3	0.4	-1.1	-5.9	2.2	0.2	1.1	1.8	2.1	-5.6	-6.0	-3.9	90.6	-0.8	1.1	0.9	0.9
<b>South-Eastern Europe</b>																		
Albania	3.6	3.6	1.8	1.2	-0.6	5.6	2.1	3.5	3.5	3.5	-4.2	-3.7	-0.8	225.5	-11.8	-10.9	9.2	6.9
Bosnia and Herzegovina	-2.8	-3.0	1.8	0.5	...	...	...	...	2.1	3.7	-4.5	-3.5	-3.9	86.5	-5.6	-6.2	0.1	1.2
Bulgaria	-4.9	0.2	1.8	1.2	-7.6	3.1	1.4	3.9	3.0	3.4	-3.9	-2.5	-3.3	53.1	-1.0	1.6	4.1	1.5
FYR Macedonia	-1.0	1.8	3.1	1.8	2.0	3.8	-0.9	6.3	1.6	4.1	-2.5	-2.5	-1.7	81.9	-2.8	-5.5	3.2	4.9
Montenegro	-5.7	2.5	2.0	1.9	...	...	...	...	0.5	3.0	-3.4	-3.4	-2.8	104.5	-25.6	-24.5	17.9	15.4
Romania	-7.1	-1.3	2.5	0.8	-6.5	-0.6	1.4	3.6	6.1	5.8	-6.5	-4.4	-5.1	96.7	-4.3	-4.5	2.2	2.2
Serbia	-3.5	1.0	1.9	1.1	-2.6	1.4	2.4	4.4	5.9	11.2	-4.6	-4.6	-2.5	109.4	-7.2	-7.7	3.0	4.6
<b>Eastern Europe and the Caucasus</b>																		
Armenia	-14.1	2.1	4.5	3.0	-7.8	2.4	5.4	3.9	8.2	7.6	-4.5	-3.6	-4.1	186.8	-14.7	-12.2	6.0	6.4
Azerbaijan	9.3	5.0	0.0	3.5	12.3	3.1	-0.8	6.1	5.7	8.5	15.0	8.5	13.7	24.4	29.1	24.2	0.2	0.2
Belarus	0.2	7.6	5.0	1.5	1.0	10.2	-2.5	7.4	7.7	52.9	-4.3	-3.3	-1.2	63.2	-15.5	-13.4	2.4	3.2
Georgia	-3.8	6.4	6.0	5.0	0.0	6.1	3.7	4.3	7.1	8.5	-6.6	-3.9	-3.8	138.5	-9.6	-10.8	4.2	5.5
Moldova	-6.0	6.9	5.5	3.5	-6.5	9.0	2.9	4.8	7.5	7.2	-2.5	-1.9	-1.7	69.5	-8.3	-9.9	3.3	3.7
Ukraine	-14.8	4.2	5.0	2.5	-6.7	3.3	2.6	7.0	9.4	7.7	-9.9	-4.0	-4.1	93.7	-2.1	-3.9	4.2	3.9
<b>Turkey</b>	-4.8	9.0	8.0	2.5	5.9	9.2	2.5	6.1	8.6	6.5	-2.9	-0.9	1.6	129.0	-6.6	-10.3	1.0	1.6
<b>Russia</b>	-7.8	4.0	4.0	4.2	-2.6	4.5	3.6	2.9	6.9	6.1	-3.6	-1.2	-2.9	33.6	4.9	4.6	-0.7	0.3
<b>Central Asia</b>																		
Kazakhstan	1.2	7.3	7.5	6.5	10.3	7.1	6.2	5.1	7.1	8.4	1.5	1.8	1.9	44.6	2.9	5.9	1.5	4.5
Kyrgyz Republic	2.9	-0.5	5.7	4.0	5.2	1.0	0.8	5.1	8.0	16.6	-6.1	-8.0	-5.2	197.5	-7.2	-7.7	9.5	4.6
Mongolia	-1.3	6.4	17.3	14.0	0.3	5.4	7.2	22.1	10.1	9.1	0.0	-2.0	1.7	...	-15.3	-21.6	25.2	15.6
Tajikistan	3.9	6.5	7.4	5.0	4.7	7.1	4.5	5.0	6.4	12.5	-3.0	-4.9	-2.5	158.3	2.1	-3.6	0.3	1.6
Turkmenistan	6.1	9.2	14.7	10.0	...	...	...	...	4.8	6.0	2.3	0.5	...	66.0	-11.7	-2.9	18.2	13.2
Uzbekistan	8.1	8.5	8.3	7.0	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 January 23, 2012.

3/ WEO October 2011.

4/ EBRD staff estimates for: Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia, Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine, Mongolia. WEO October 2011 for the rest of the countries



**Table 3. Transition Region: Quarterly GDP actuals and projections, Q1 2009- Q3 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				2009	2010	Forecast 1/	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3 Est.	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3 est.	Q4	2009	2010	2011	2012
<b>Central Europe and Baltics</b>																								
Croatia	-1.0	-0.5	1.1	-0.4	-0.6	0.8	0.6	-6.7	-6.9	-5.7	-4.6	-2.3	-2.3	0.3	-0.6	-0.8	0.8	0.7	-6.0	-1.2	0.3	1.0		
Estonia	-0.1	2.8	1.3	2.1	3.1	1.8	1.2	-13.0	-17.3	-17.5	-8.7	-4.3	2.5	5.1	6.2	9.5	8.4	8.3	-14.3	2.3	8.1	2.6		
Hungary	1.1	0.4	0.7	0.2	0.3	0.2	0.5	-6.6	-7.5	-7.4	-5.1	-0.8	0.9	2.5	2.5	1.9	1.7	1.5	-6.5	1.1	1.5	-1.5		
Latvia	1.2	0.0	0.9	0.9	1.1	2.1	1.7	-16.7	-17.6	-18.2	-15.8	-5.8	-4.6	3.3	3.1	3.1	5.3	6.1	-17.1	-1.2	5.0	2.6		
Lithuania	1.2	0.7	0.7	1.8	2.1	1.8	1.4	-13.4	-15.8	-14.3	-14.7	-1.1	0.9	1.2	4.4	5.4	6.5	7.3	-14.6	1.3	6.2	2.3		
Poland	0.7	1.0	1.4	0.9	1.1	1.2	1.0	1.5	1.3	0.9	2.8	3.2	3.7	4.8	4.1	4.5	4.6	4.2	1.6	3.9	4.2	2.3		
Slovak Republic	0.8	0.9	0.9	0.8	0.9	0.8	0.8	-5.0	-5.0	-5.0	-4.7	5.0	4.5	4.1	3.4	3.4	3.4	3.2	-4.9	4.2	3.2	1.3		
Slovenia	0.2	1.2	0.5	0.3	0.1	0.0	-0.2	-7.9	-9.4	-9.3	-5.9	-0.3	1.5	1.6	2.2	1.9	0.7	-0.1	-8.1	1.3	0.4	-1.1		
<b>South-Eastern Europe</b>																								
Albania	1.6	1.9	1.3	0.7	1.4	-1.7	1.0	3.5	7.5	3.9	-0.6	2.0	2.7	4.7	5.6	3.4	0.5	0.5	3.6	3.6	1.8	1.2		
Bosnia and Herzegovina	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	-2.8	0.7	1.8	0.5	
Bulgaria	0.9	1.6	0.7	0.5	0.5	0.3	0.3	-4.9	-4.1	-5.0	-7.6	-4.8	1.0	0.3	3.1	1.5	2.2	2.3	-4.9	0.2	1.8	1.2		
FYR Macedonia	-1.4	1.2	1.9	1.7	0.4	1.1	-0.7	-1.4	-2.4	-2.1	2.0	-0.5	1.5	2.1	3.8	5.1	5.3	2.3	-1.0	1.8	3.1	1.8		
Montenegro	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	-5.7	2.5	2.0	1.9	
Romania	-0.1	0.3	-0.6	0.5	1.2	0.9	1.8	-6.1	-8.7	-7.1	-6.5	-2.2	-0.4	-2.2	-0.6	1.6	1.4	4.4	-7.1	-1.3	2.5	0.8		
Serbia	0.9	0.3	1.8	-1.4	2.5	-0.5	0.1	-3.9	-4.6	-3.1	-2.6	-0.6	0.8	2.0	1.4	3.7	2.4	0.7	-3.5	1.0	1.9	1.1		
<b>Eastern Europe and the Caucasus</b>																								
Armenia	7.4	-2.5	-3.7	1.9	4.0	1.0	0.7	-6.3	-18.6	-19.7	-7.8	3.4	8.2	-2.9	2.4	1.2	3.9	6.5	-14.1	2.1	4.5	3.0		
Azerbaijan	-0.4	2.5	0.5	0.1	-0.9	0.8	-0.1	4.1	8.4	9.7	12.3	5.4	8.0	5.0	3.1	1.6	0.3	-0.1	9.3	5.0	0.0	3.5		
Belarus	1.5	3.6	0.4	3.9	2.6	3.6	-7.7	1.1	-0.4	-0.8	1.0	4.0	8.9	6.7	10.2	10.9	11.4	1.9	0.2	7.6	5.0	1.5		
Georgia	1.3	2.4	-0.6	2.7	1.1	1.5	2.3	-4.8	-9.0	-1.5	0.0	3.7	8.3	6.7	6.1	5.8	4.7	7.5	-3.8	6.4	6.0	5.0		
Moldova	0.9	2.7	2.4	2.3	0.9	1.2	1.6	-6.9	-7.8	-7.7	-6.5	4.7	5.6	6.5	9.0	8.4	6.7	6.0	-6.0	6.9	5.5	3.5		
Ukraine	0.3	2.6	-0.4	0.9	1.9	0.9	0.5	-19.6	-17.3	-15.7	-6.7	4.8	5.5	3.6	3.3	5.3	3.8	6.6	-14.8	4.2	5.0	2.5		
<b>Turkey</b>	0.7	3.8	1.3	3.6	1.9	1.1	1.7	-14.7	-7.8	-2.8	5.9	12.0	10.3	5.2	9.2	12.0	8.8	8.2	-4.8	9.0	8.0	2.5		
<b>Russia</b>	1.2	1.1	1.1	0.2	1.0	0.8	1.6	-9.2	-11.1	-8.6	-2.6	3.5	5.0	3.1	4.5	4.1	3.4	4.8	-7.8	4.0	4.0	4.2		
<b>Central Asia</b>																								
Kazakhstan	-0.8	3.8	2.2	1.1	0.4	3.4	1.9	-4.5	-2.6	-0.3	10.3	5.8	8.5	7.7	7.1	6.8	7.4	6.8	1.2	7.3	7.5	6.5		
Kyrgyz Republic	2.5	-10.8	2.7	4.2	4.5	-2.7	1.6	-1.4	-0.1	4.8	5.2	17.9	-4.4	-7.5	1.0	-1.8	7.9	9.6	2.9	-0.5	5.7	4.0		
Mongolia	3.4	-1.4	1.9	1.7	7.2	5.6	4.8	-2.3	-0.6	-2.9	0.3	8.7	5.0	7.5	5.4	9.7	17.5	20.9	-1.3	6.4	17.3	14.0		
Tajikistan	1.0	2.4	0.6	2.4	1.4	2.5	1.8	3.5	2.3	2.6	4.7	6.8	7.8	4.9	7.1	6.5	7.2	8.1	3.9	6.5	7.4	5.0		
Turkmenistan	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	6.1	9.2	14.7	10.0	
Uzbekistan	2.7	2.4	1.9	2.1	1.4	2.6	2.1	7.9	8.4	7.8	8.3	8.0	8.0	8.0	9.6	7.6	8.3	8.4	8.1	8.5	8.3	7.0		

1/ As of January 23, 2012.

**Table 4. Transition Region: Financial Market Indicators**

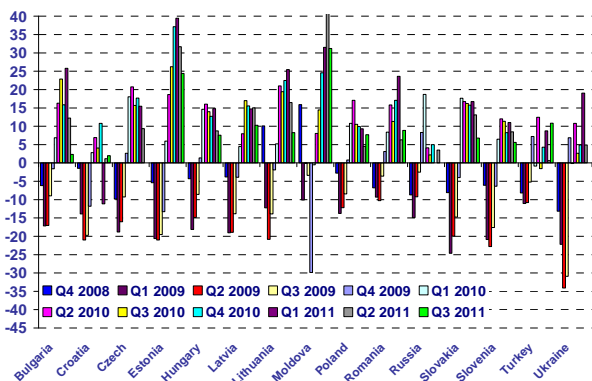
updated  
16 Jan 12

	<b>Country Risk</b>			<b>Interbank rates</b>			<b>Equities</b>			<b>Currencies</b>		
	CDS spread (bps)			(three month)			(index, July 1, 2008 = 100)			(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
<b>Central Europe and Baltics</b>												
Croatia	527.4	568.3	555.3	11.8	4.6	4.6	39.4	49.6	48.9	7.4	7.5	7.6
Hungary	563.6	690.0	686.3	9.5	7.6	7.6	50.7	82.9	86.4	299.4	315.6	311.9
Latvia	1050.0	369.4	361.3	8.1	1.2	1.1	41.5	73.2	72.9	0.7	0.7	0.7
Poland	366.0	294.6	284.0	4.4	4.9	4.9	53.6	83.1	85.3	4.6	4.5	4.4
Slovak Republic	211.7	310.1	304.0	...	...	...	76.4	49.6	49.0	...	...	...
<b>South-Eastern Europe</b>												
Bulgaria	597.4	421.9	413.7	6.8	3.4	3.3	23.4	27.8	27.7	1.5	1.5	1.5
Romania	723.6	465.0	454.0	14.7	5.4	5.2	30.1	69.4	69.6	4.3	4.4	4.3
<b>CIS</b>												
Russia	761.1	275.8	260.3	22.8	7.2	7.0	24.3	63.8	64.9	35.9	31.9	31.7
Kazakhstan	1494.2	309.3	290.8	15.0	2.0	2.0	24.1	44.0	44.1	150.6	148.6	148.4
Ukraine	3741.0	874.8	921.8	34.8	20.8	16.1	28.9	74.9	73.1	8.6	8.0	8.0
<b>Turkey</b>	487.4	341.0	323.4	12.6	11.4	11.5	72.4	150.1	159.0	1.7	1.9	1.9

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

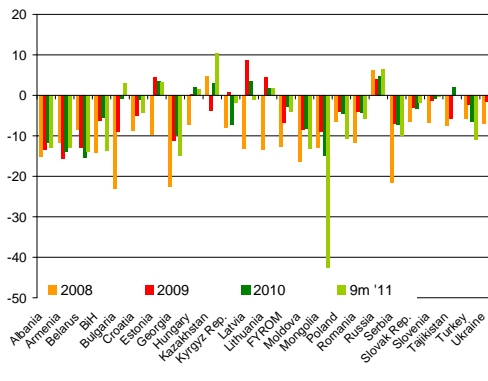
Figure 1. External environment

Export volumes, y-o-y, %



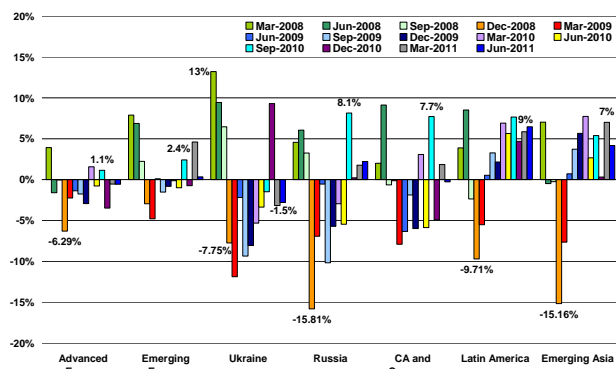
Source: National authorities via CEIC data service.

Current account (annualized), % of GDP



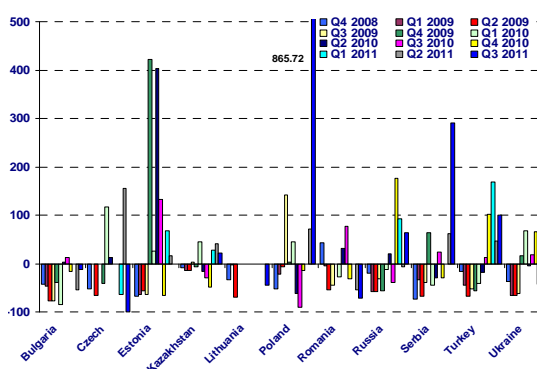
Source: National authorities via CEIC data service.

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



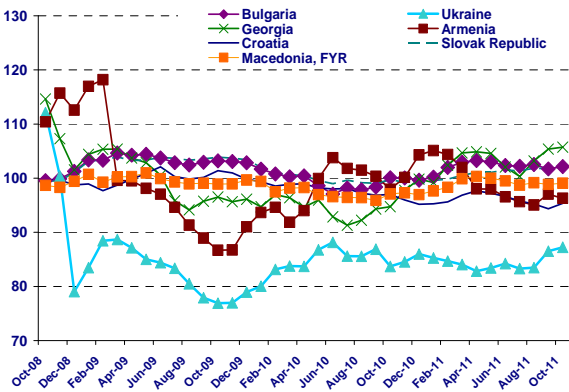
1/ Emerging Europe excludes Russia and Ukraine.  
2/ Emerging Asia excludes China, Central Asia and Caucasus.  
Source: BIS via CEIC data service.

FDI gross inflows, y-o-y, %



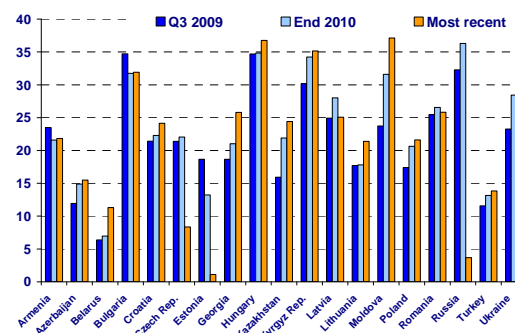
Source: National authorities via CEIC data service.

Real effective exchange rate, July 2008=100



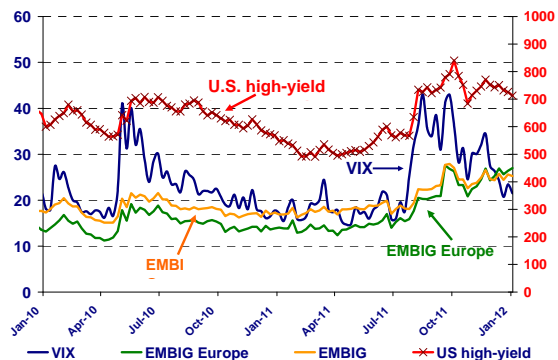
Source: IMF International Financial Statistics.

Reserves, end of period, % of GDP



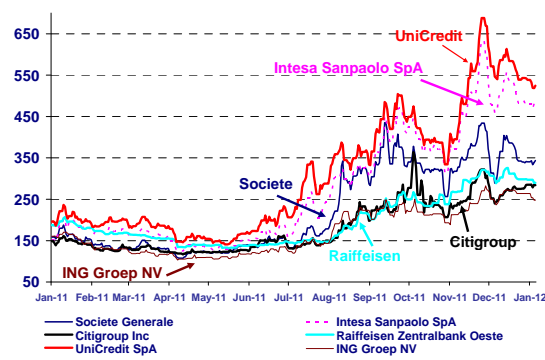
Source: IMF International Financial Statistics.

Global risk



Source: Bloomberg.

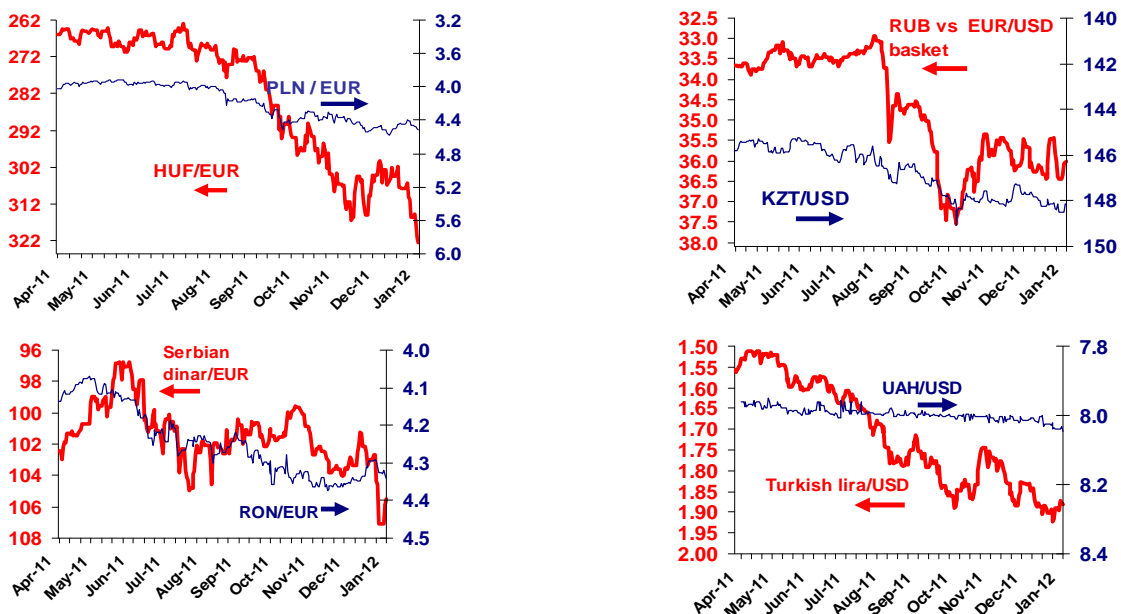
Parent banks CDS spreads



Source: Bloomberg.

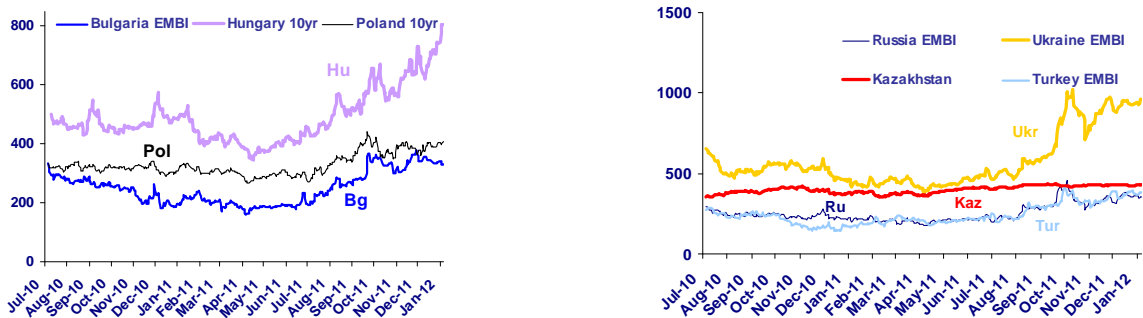
Figure 2. Currencies and financial market indicators (daily frequency)

Currencies



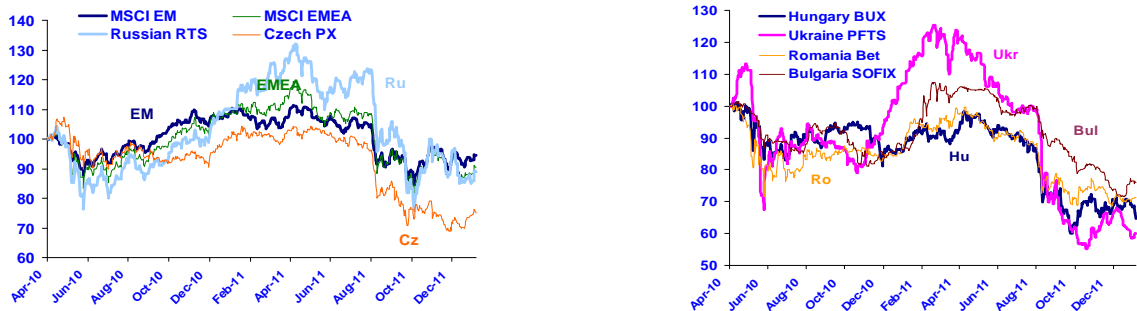
Source: Bloomberg.

Sovereign risk (bond spreads)



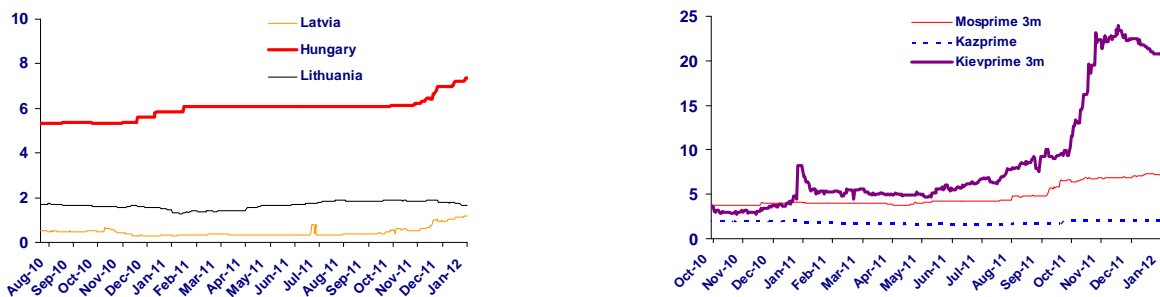
Source: Bloomberg.

Stock markets (April 2010=100)



Source: Bloomberg.

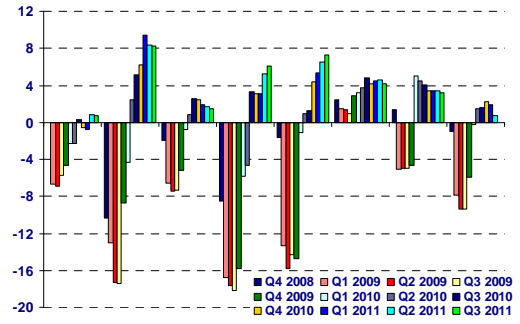
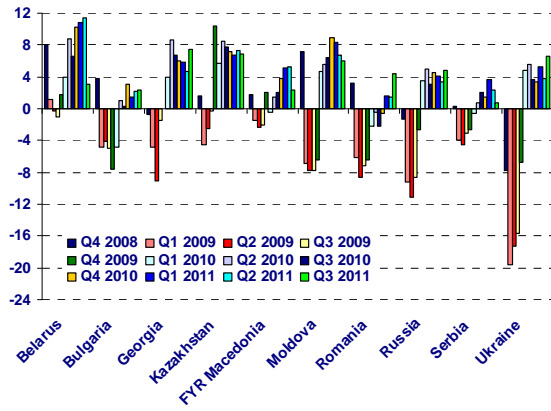
Interbank rates



Source: Bloomberg.

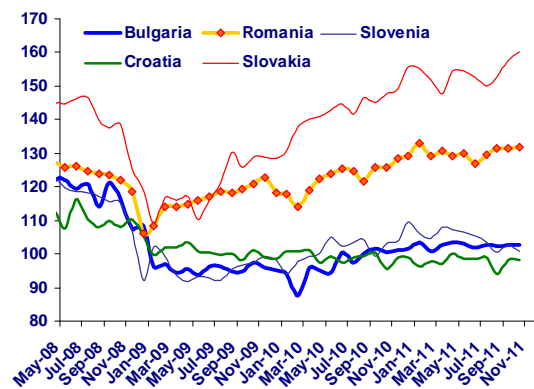
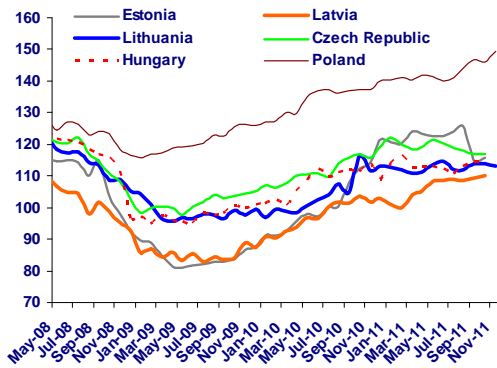
Figure 3. Indicators of real activity: GDP and industrial production

Real GDP, y-o-y change, %



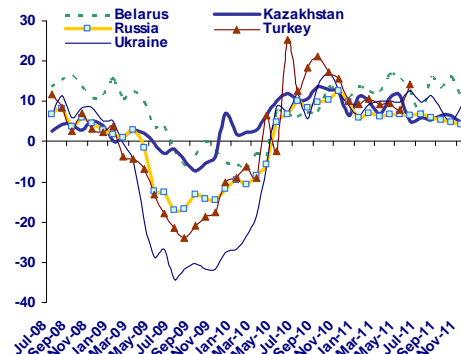
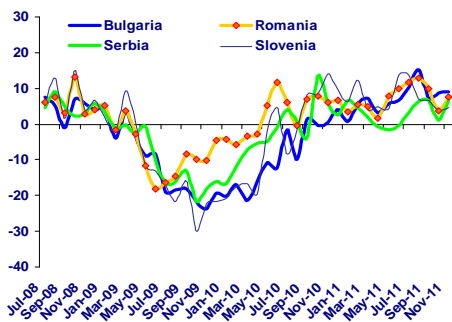
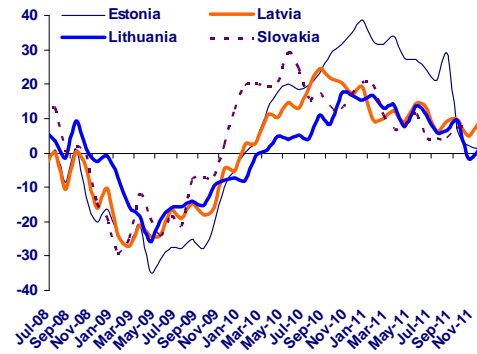
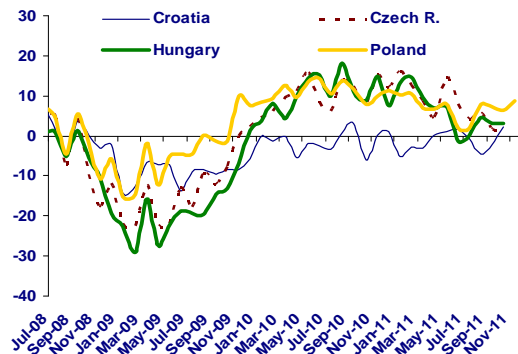
Source: National authorities via CEIC data service.

Industrial production, index, 2005=100, seasonally adjusted



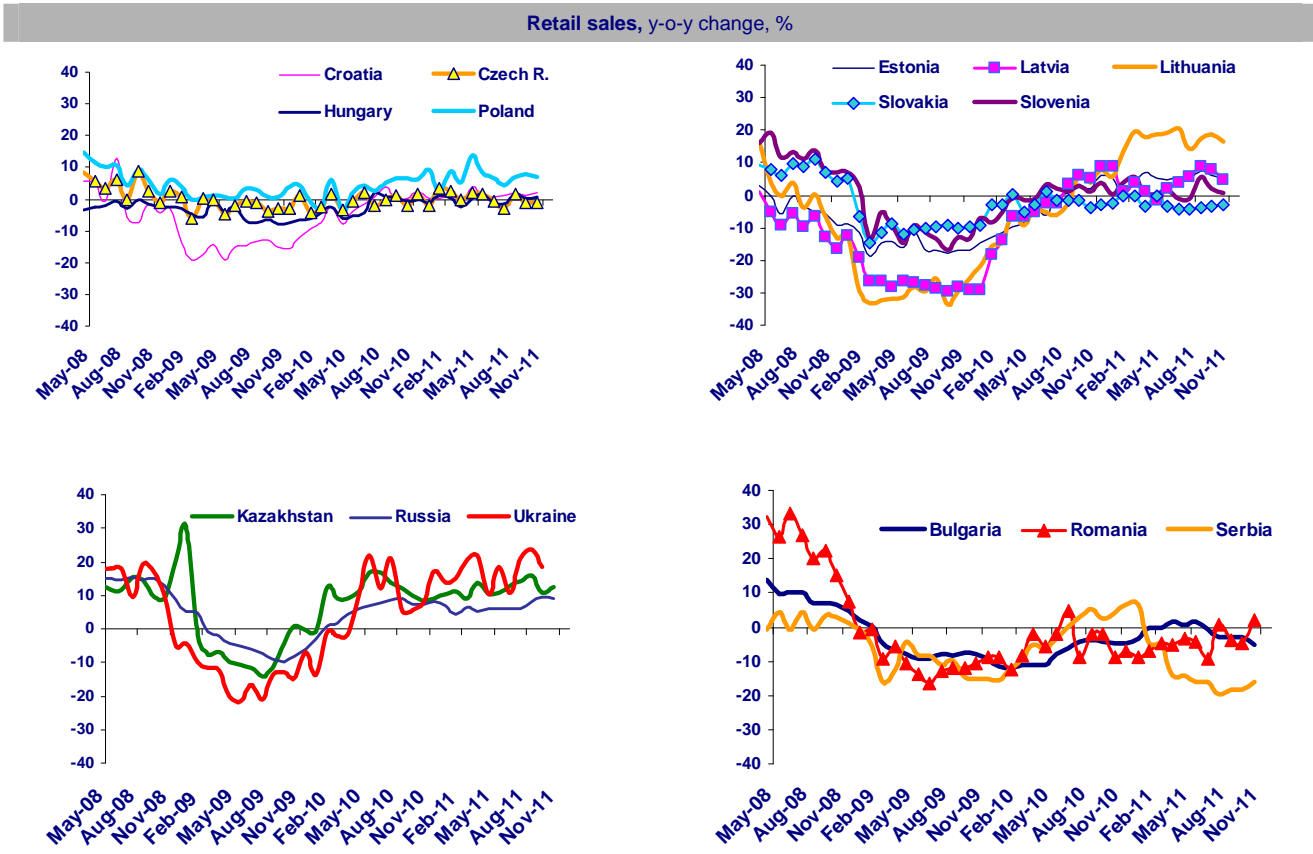
Source: Eurostat.

Industrial production, y-o-y change, %

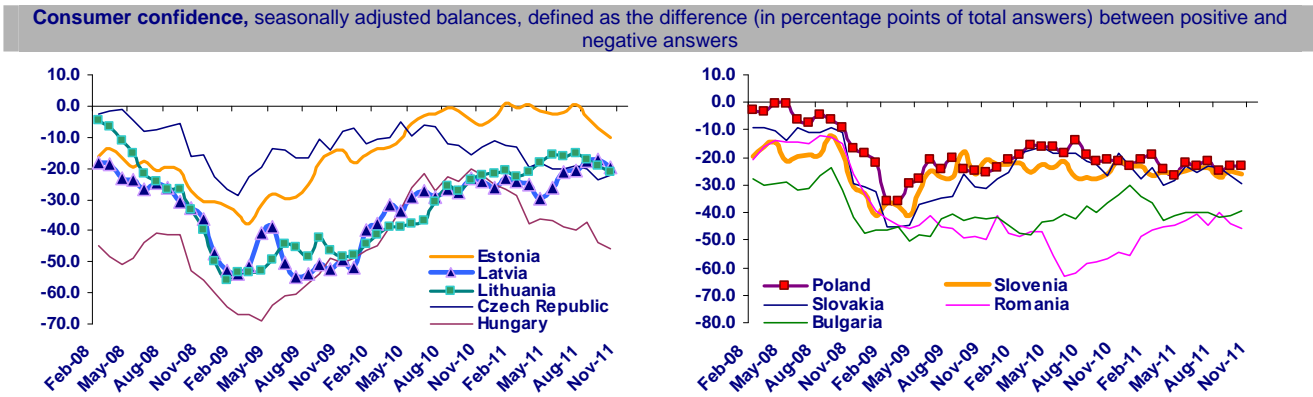


Source: National authorities via CEIC data service.

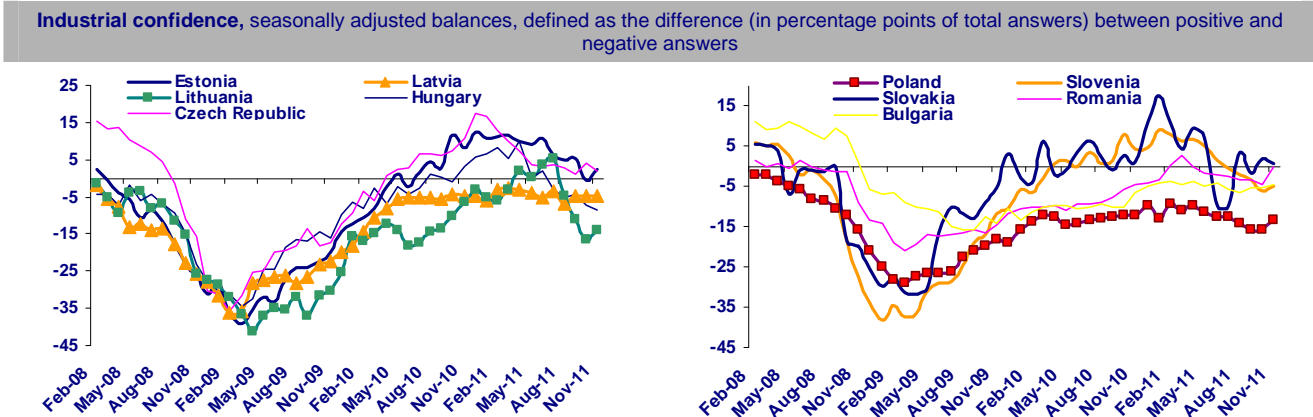
Figure 4. Indicators of real activity: retail sales and confidence indexes



Source: National authorities via CEIC data service.

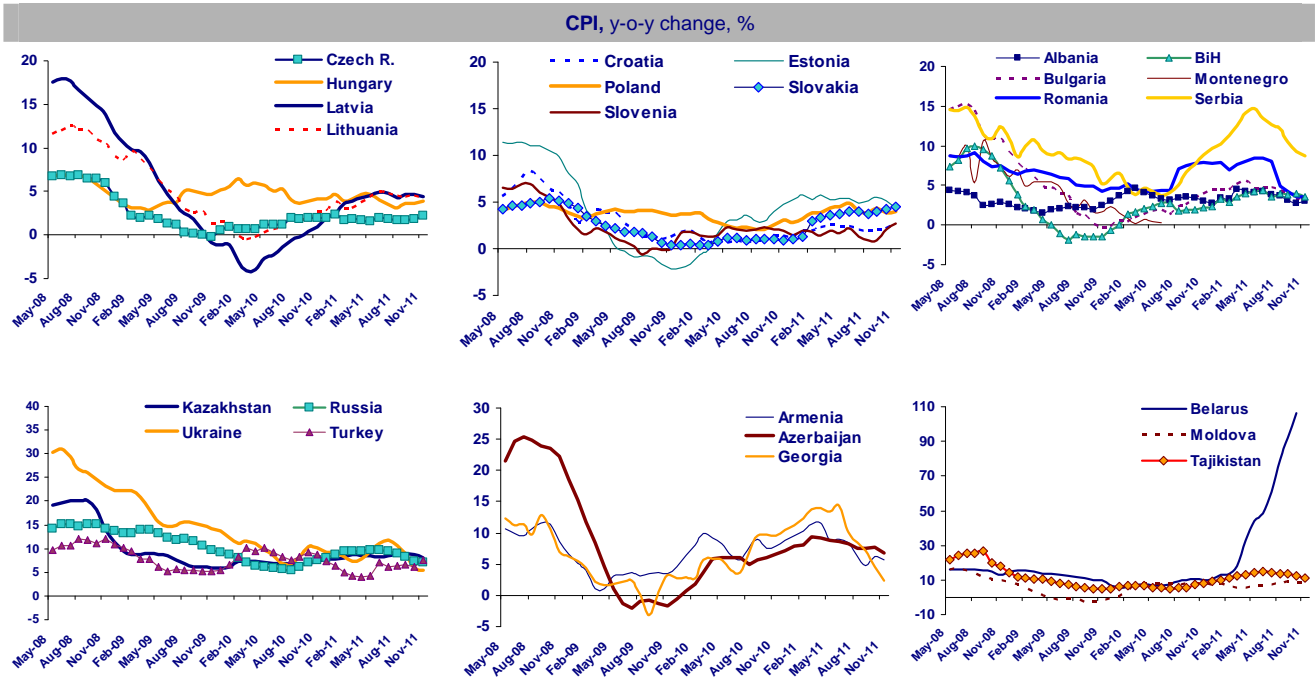


Source: Eurostat.

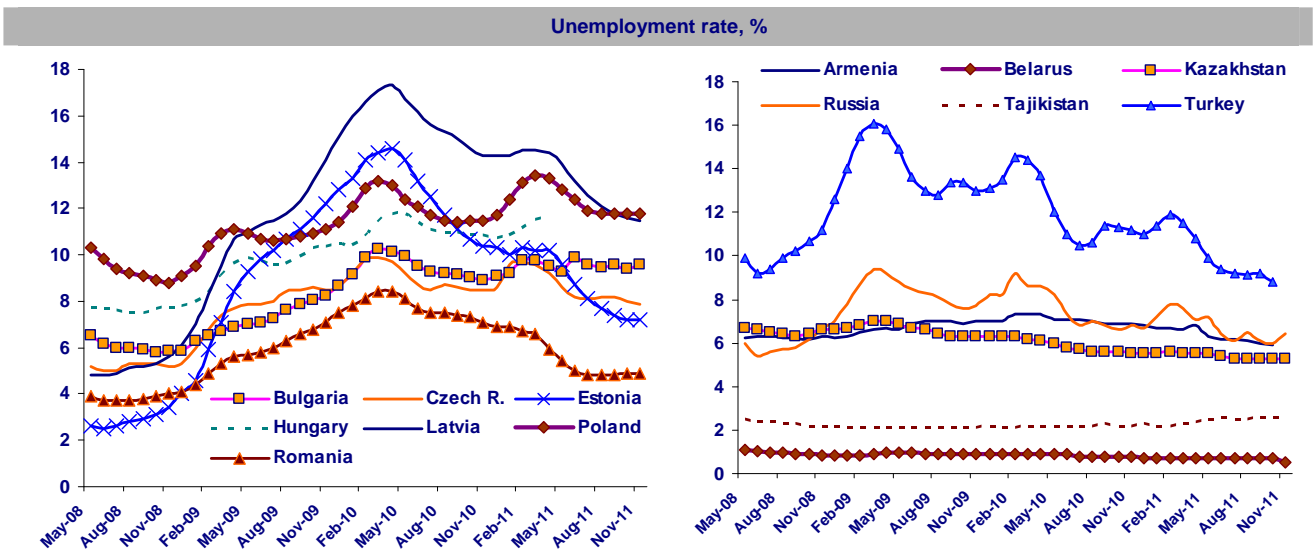


Source: Eurostat.

Figure 5. Indicators of real activity: CPI and unemployment

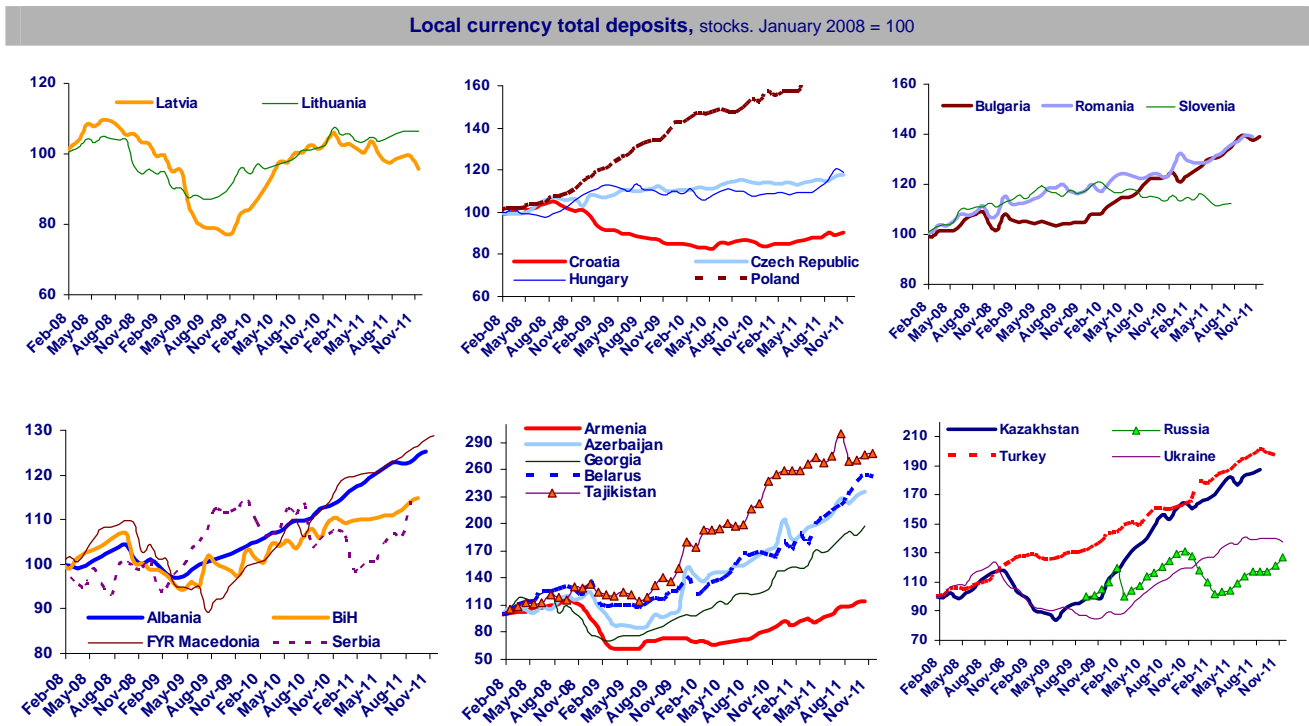


Source: National authorities via CEIC data service.

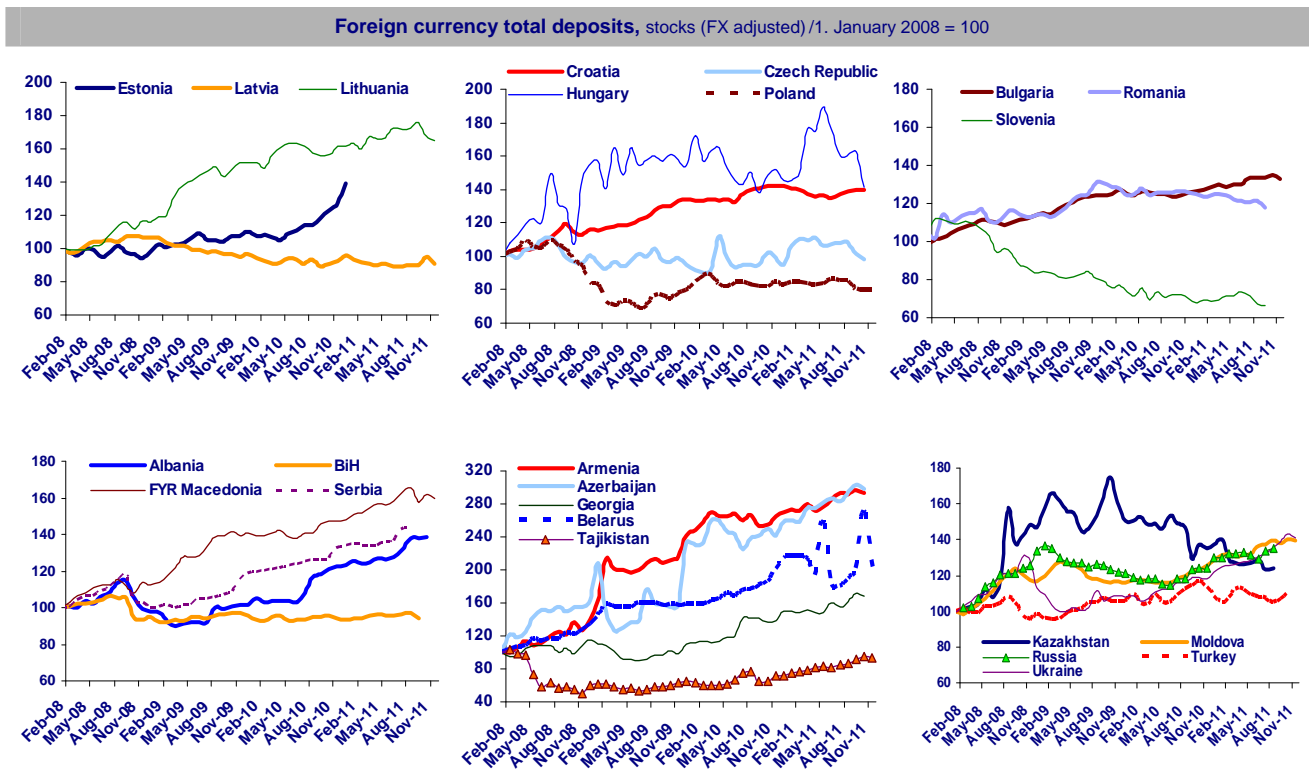


Source: National authorities via CEIC data service.

Figure 6. Financial sector indicators: deposits by currency



Source: National authorities via CEIC data service.



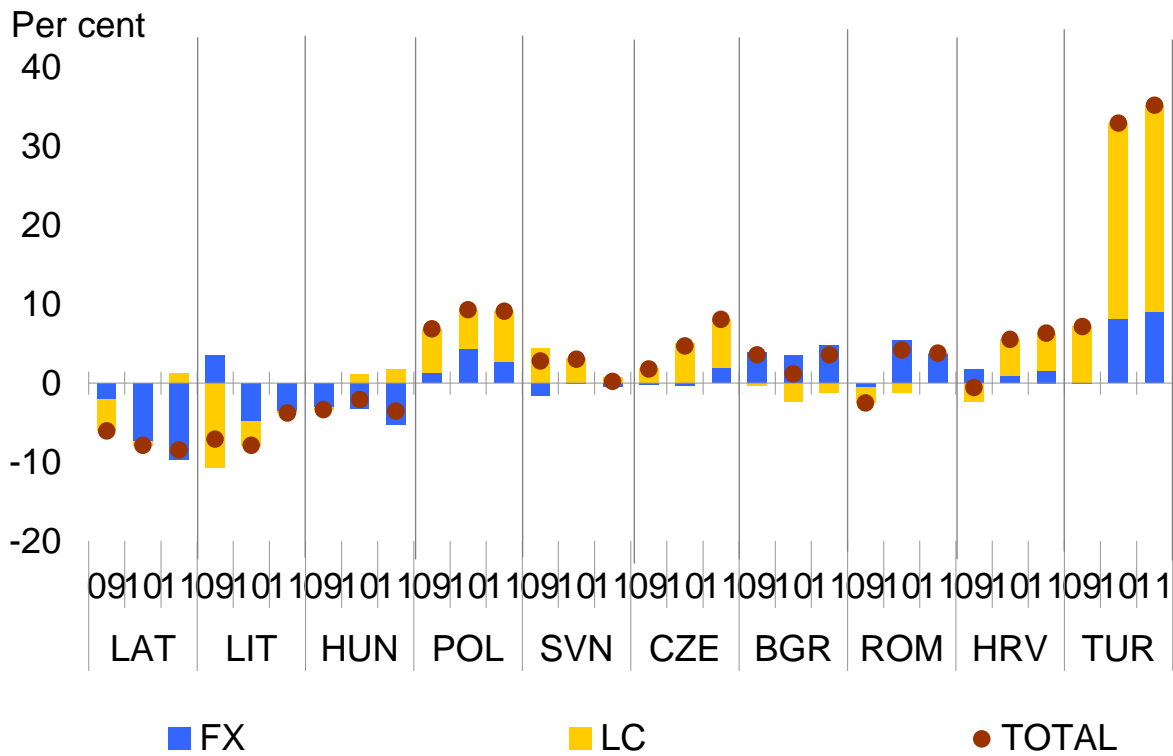
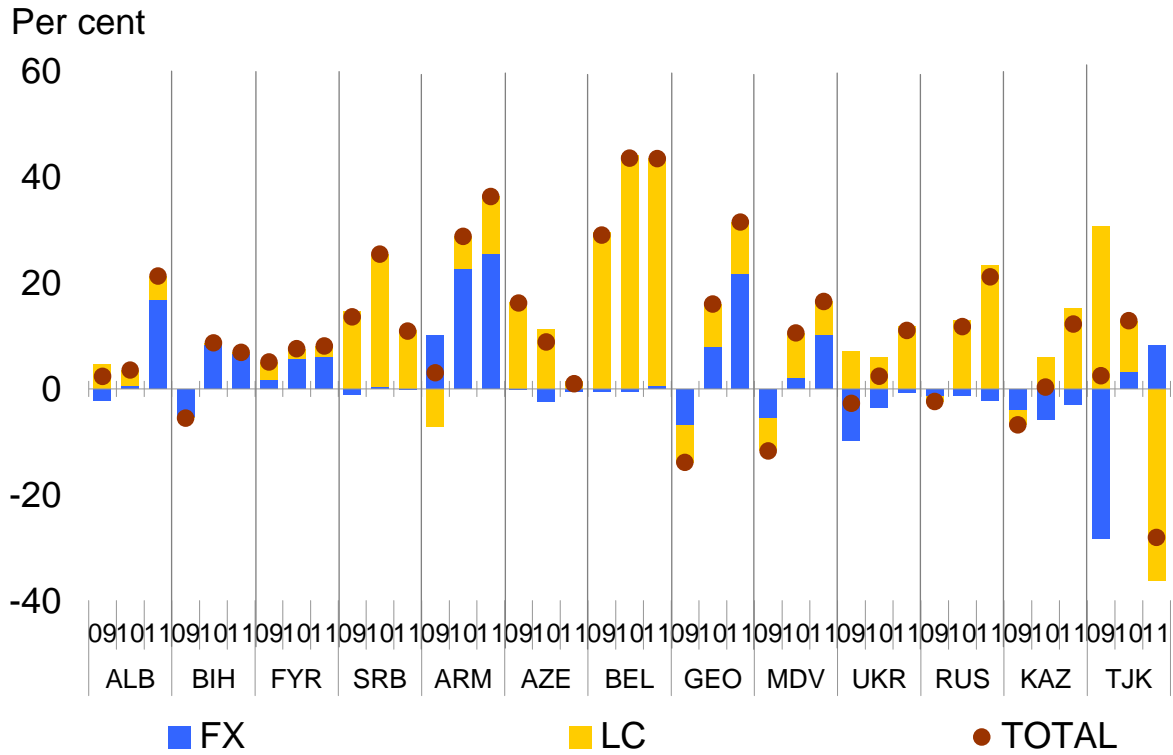
/1Composition of assumed FX Baskets (€: \$ weights): 100:0 for Bulgaria, Latvia, Lithuania, Poland, Serbia; 90:10 for Croatia and Romania; 50:50 for Albania, Armenia, Bosnia, Czech Republic, Estonia, FYR Macedonia, Georgia, Hungary, Moldova and Turkey; 20:80 for Ukraine; 15:85 for Russia, 10:90 for Kazakhstan, 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 %)

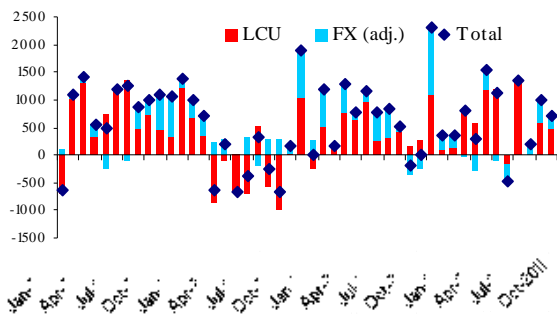


Source: National authorities via CEIC service.

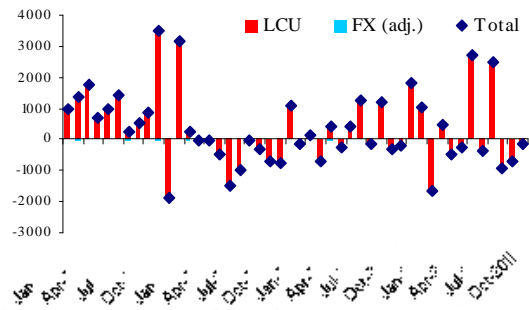
Figure 7b. Financial sector indicators: new credit to private sector

**Croatia (HRK mln)**

**Net new credit (corporate)**

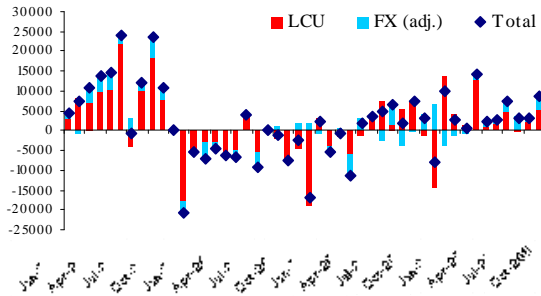


**Net new credit (household)**

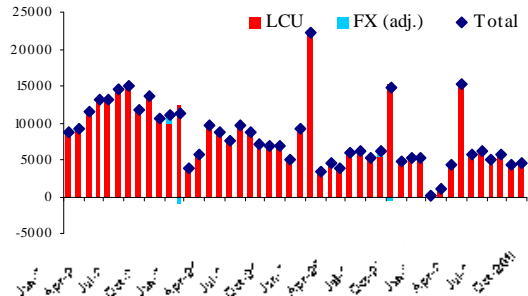


**Czech Republic (CZK mln)**

**Net new credit (corporate)**

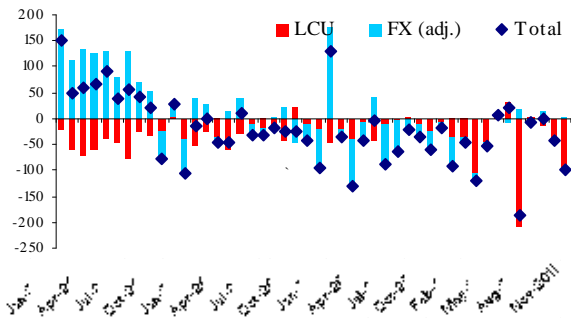


**Net new credit (household)**

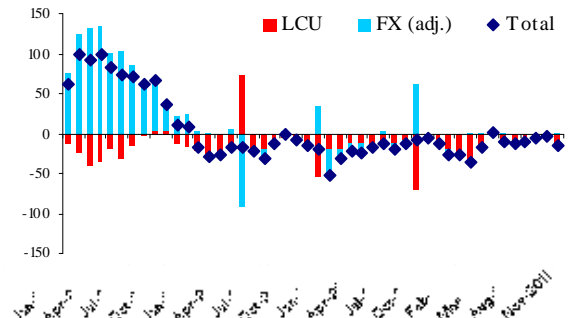


**Estonia (EEK mln) January 2009 is excluded**

**Net new credit (corporate)**

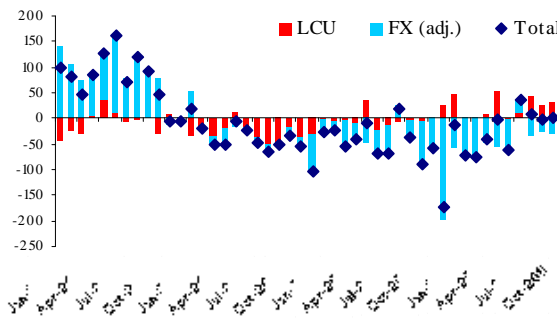


**Net new credit (household) January 2009 is excluded**

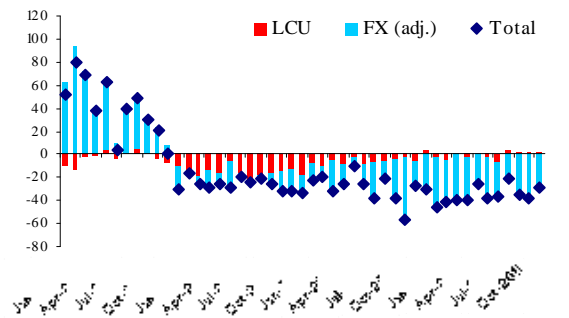


**Latvia (mln LVL)**

**Net new credit (corporate)**

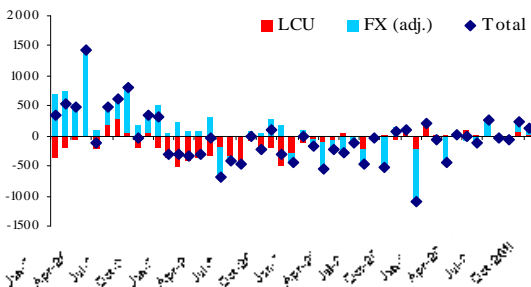


**Net new credit (household)**

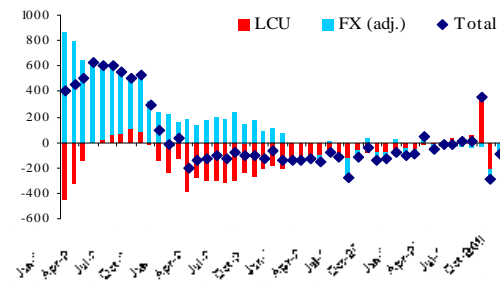


**Lithuania (mln LTL)**

**Net new credit (corporate)**

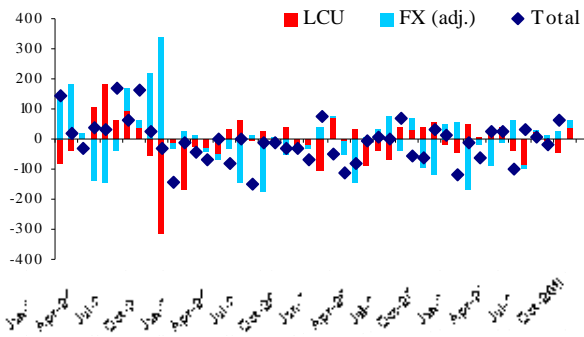


**Net new credit (household)**

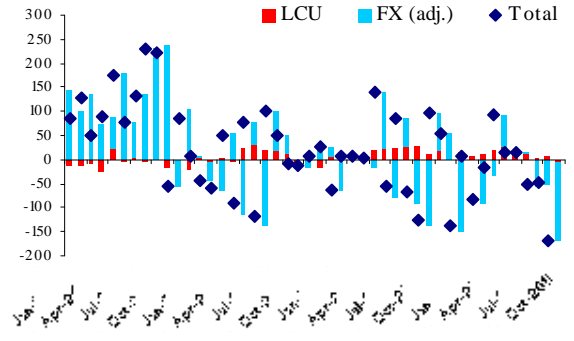


**Hungary (bn HUF)**

**Net new credit (corporate)**

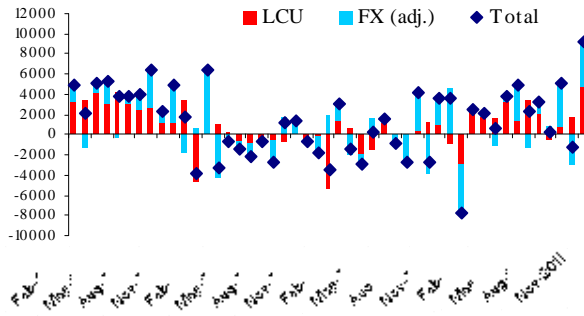


**Net new credit (household)**

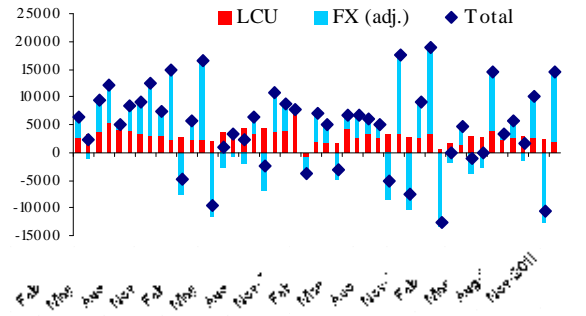


**Poland (mln PLN)**

**Net new credit (corporate)**

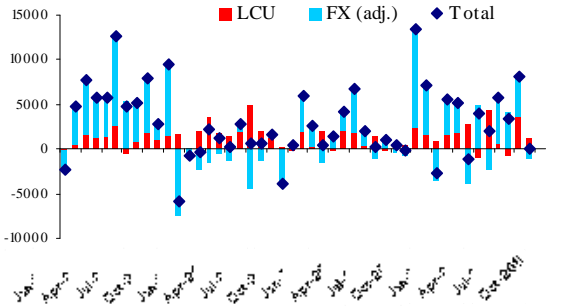


**Net new credit (household)**

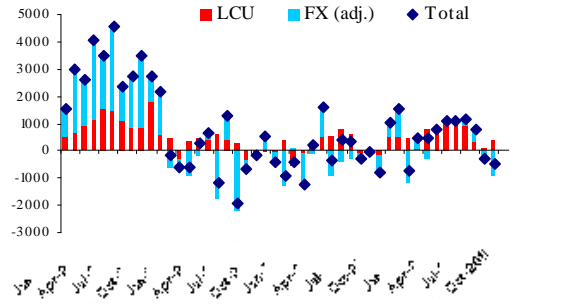


**Albania (mln ALL)**

**Net new credit (corporate)**

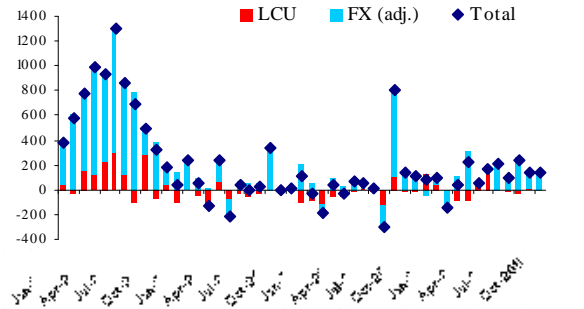


**Net new credit (household)**

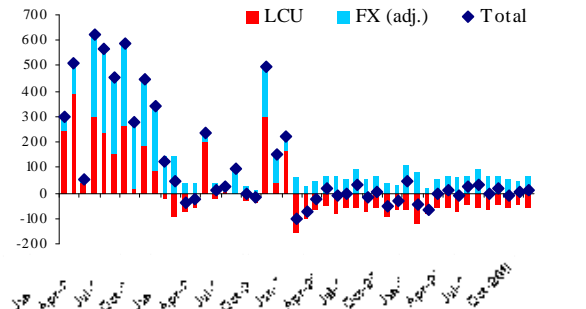


**Bulgaria (mln BGN)**

**Net new credit (corporate)**

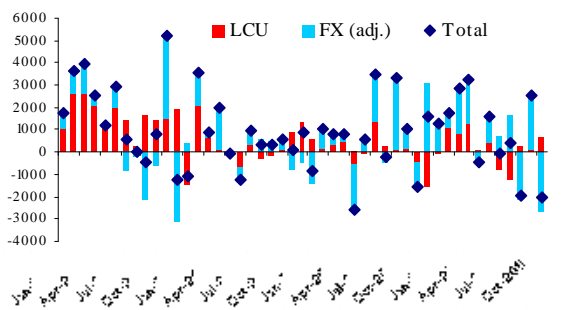


**Net new credit (household)**

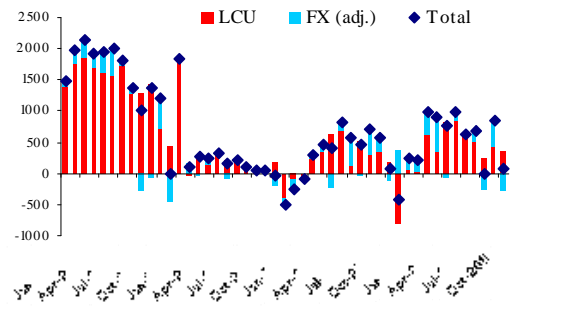


**FYR Macedonia (mln MKD)**

**Net new credit (corporate)**

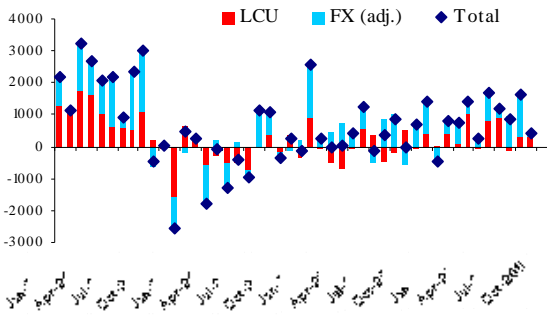


**Net new credit (household)**

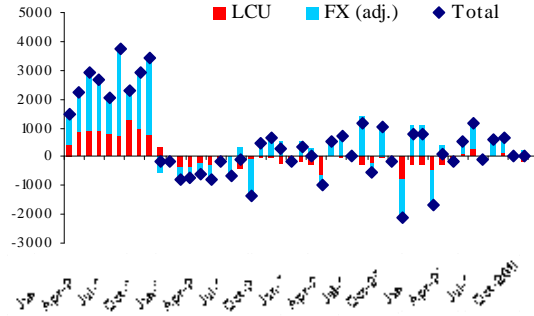


**Romania (mln RON)**

**Net new credit (corporate)**

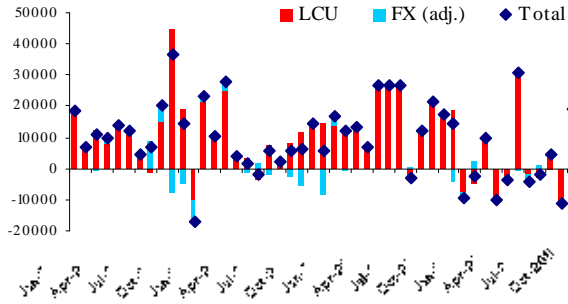


**Net new credit (household)**

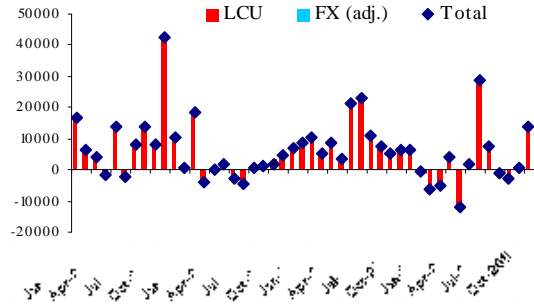


**Serbia (mln RSD)**

**Net new credit (corporate)**

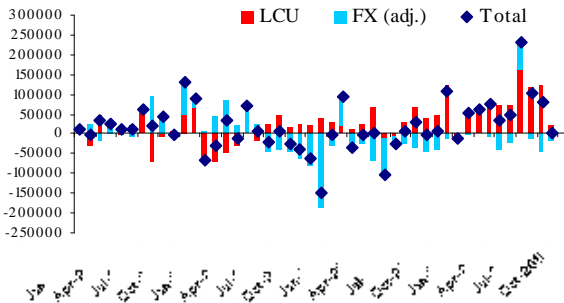


**Net new credit (household)**

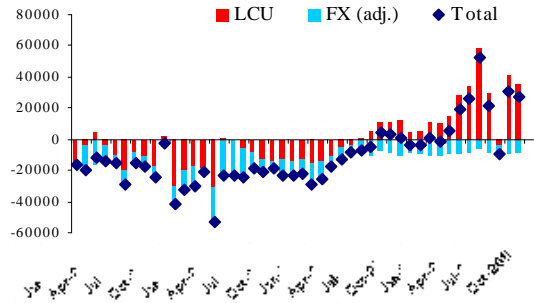


**Kazakhstan (mln KZT)**

**Net new credit (corporate)**

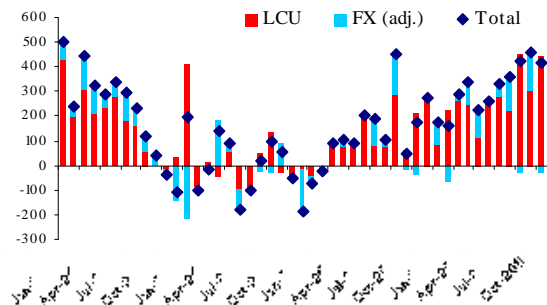


**Net new credit (household)**

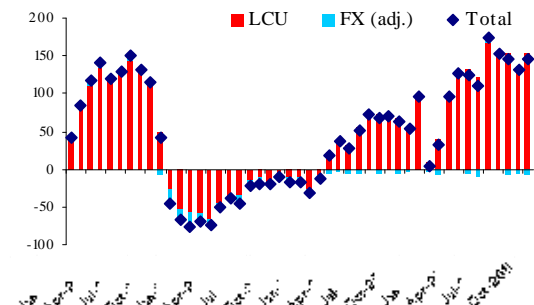


**Russia (bn RUB)**

**Net new credit (corporate)**

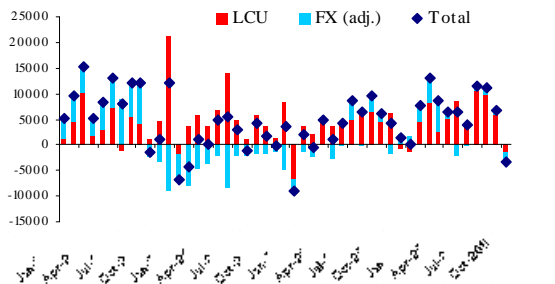


**Net new credit (household)**

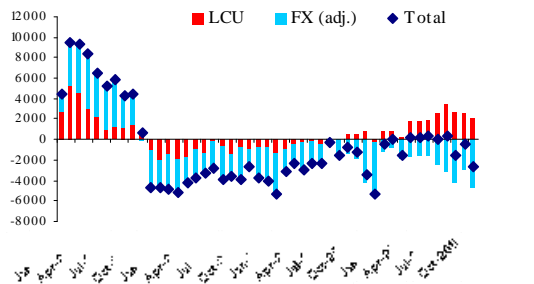


**Ukraine (mln UAH)**

**Net new credit (corporate)**



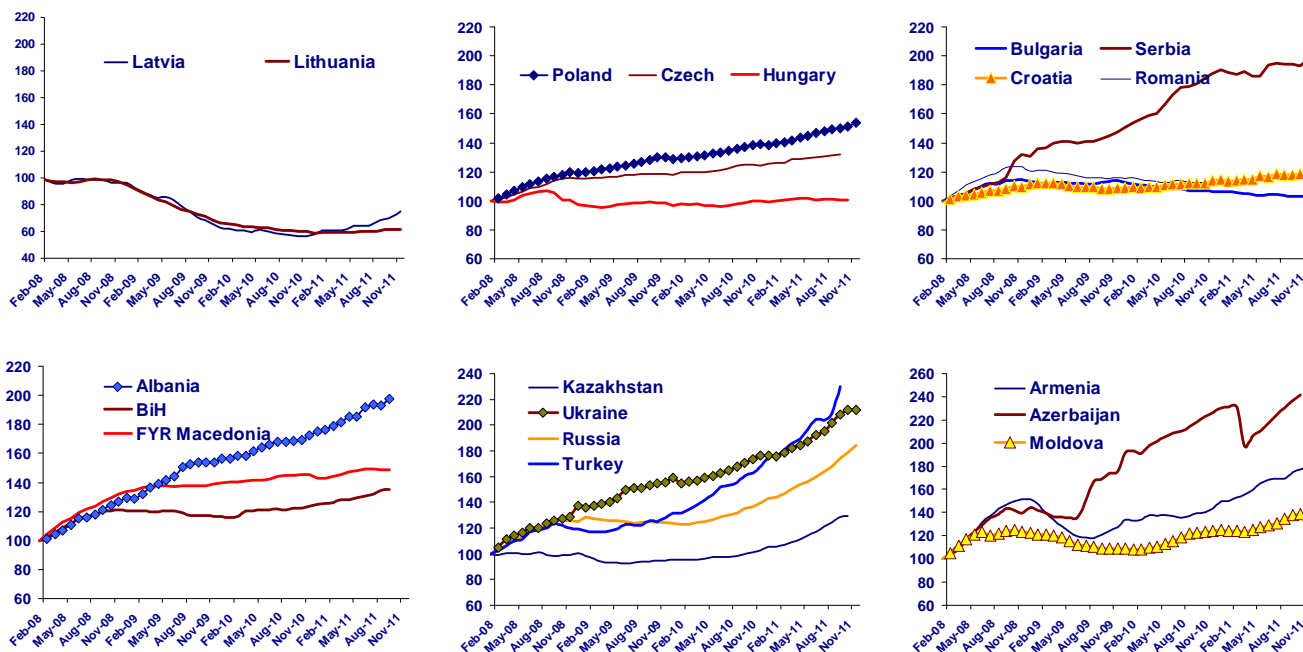
**Net new credit (household)**



Source: National authorities via CEIC data service.

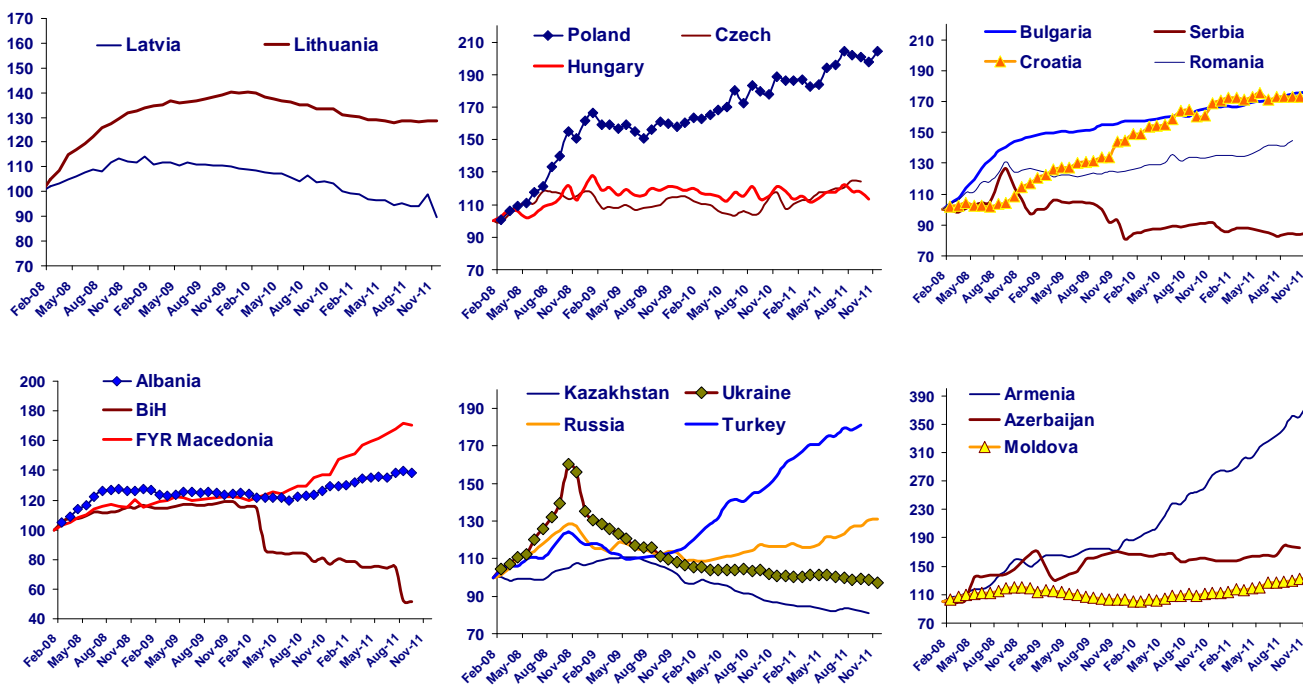
Figure 8. Financial sector indicators: private sector credit by currency components

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.