Regional Economic Prospects in

EBRD Countries of Operations: May 2012[1]

EBRD Office of the Chief Economist

Overview

Transition Economies in the Shadow of the Eurozone Crisis: Managing the Fallout[2]

Growth in the transition region is expected to substantially slow from 4.6 per cent in 2011 to 3.1 per cent in 2012 before modestly picking up to 3.7 per cent in 2013, as the Eurozone debt crisis hurts the region via trade, financial as well as remittance linkages. Although the most recent data suggests that negative spillovers from advanced Europe may be leveling off, negative credit growth and declining exports will continue to impede expansion. A further worsening of the Eurozone crisis or an oil supply shock are both possible and pose significant downside risks for the region as a whole. In addition, domestic risks have risen in some countries.

The transition region grew last year slightly more than was expected in October and January, and its performance also turned out to be somewhat better than in 2010, as the Eurozone crisis came in late enough in the year so as not to derail the full-year performance.

- Benefiting from high commodity prices, commodity exporters in Central Asia grew robustly in 2011, led by Mongolia, which expanded by over 17 per cent on the back of its mining boom, related FDI inflows, and highly procyclical fiscal policy. Elsewhere, Turkey also saw very strong growth last year, as in the year before, fuelled by a large credit boom financed largely by capital inflows. Bouncing back from its deep and protracted 2008-2009 recession, Estonia was the best performer in Central Europe and Baltics (CEB). In Eastern Europe and Caucasus (EEC), Georgia and Moldova delivered unexpectedly strong rates of growth for the year, partly as they benefited from higher exports to neighbouring countries.
- At the opposite end, Egypt and Tunisia suffered recessions in 2011 as a result of declines in investment, tourism and FDI flows, reflecting political and economic uncertainties following their revolutions in the spring. South-eastern Europe (SEE) recorded weak growth. While most of the SEE countries grew faster last year than in 2010, their recovery was limited by the onset of the Eurozone crisis and the region's linkages with the Greek economy. Elsewhere, Slovenia underperformed the January forecast, as a double-dip recession arrived earlier than expected, reflecting a combination of negative external and domestic factors. The significant slowdown of the formerly booming Azerbaijani economy reflected a year of shrinking oil production.

Transmission lags from the Eurozone crisis have been short. Six CEB or SEE countries – Estonia, Croatia, FYR Macedonia, Romania, Serbia and Slovenia – suffered output contractions in the fourth-quarter, in which the output of Germany and many other Eurozone members also shrank. More recent industrial production data shows weak performance by several additional countries, including Bulgaria, Hungary, Latvia, Poland and Ukraine. The latest purchasing managers' index values for Hungary and Poland also suggest an impending further slowdown.

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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 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).

[2] This document and its forecasts cover, for the first time, four North African and Middle Eastern countries: Egypt, Jordan, Morocco and Tunisia. "Transition region" refers to the current EBRD countries of operation in addition to these four economies.

Falling exports in parts of the region suggest that, just as in 2008-09, the trade channel is at least partly responsible for slower growth in transition countries as the Eurozone crisis progresses (see Chart 2)**.** Export growth has been largely negative since fall of last year for the CEB and SEE regions, which are the most integrated with the crisis-stricken Euro area, as well as for the SEMED region. However, FDI flows have not, at least thus far, acted as a significant crisis transmission channel. Net FDI flows into the EBRD region remained positive through the last quarter of last year in almost all countries with the significant exception of Russia, where they (re)turned into negative territory in the last quarter of 2011 for idiosyncratic reasons.

While the negative impact of the Eurozone crisis on private capital flows may be leveling off, real credit is continuing to shrink in many countries:

- **Large crisis-related capital outflows from the transition region in the second half of 2011 seem to be abating, and may have reversed by Q1 of 2012.** In Q3, the transition region saw particularly large non-FDI outflows from CEB, SEE and EEC regions as well as Russia and Central Asia (see Chart 3). In Q4, however, non-FDI inflows returned into positive territory in CEB, SEE and EEC – the regions the most exposed to the Euro area crisis, where earlier outflows were most likely due to the related market turmoil. The unchanged total negative outflows from the region in Q4 relative to Q3 were thus driven by large fourth-quarter non-FDI outflows from Russia, Central Asia and SEMED, as well as renewed FDI outflows from Russia and a collapse of FDI into SEMED to virtually nil. All of these changes were likely due to factors other than the Eurozone crisis, such as political instability in SEMED, or uncertainty regarding the presidential elections in Russia where investor confidence is relatively weak and a more flexible exchange rate regime is discouraging "one-way bets". Net private capital outflows from Russia in Q1 2012 were US$ 35 billion (of which the net FDI outflow was US$ 4 billion), in line with earlier trends. However, higher frequency data show that fund flows into Emerging Europe have turned positive in both February and March of this year, which could herald the return of non-FDI capital inflows in the first quarter of 2012 (see Chart 4).
- **While no longer intensifying, cross-border bank deleveraging in the transition region continued largely unabated at least until early this year, especially in CEB.** Based on data from the BIS, exposures of foreign banks to the transition region decreased by less than 3 per cent in the last quarter of 2011, about half of the fall seen in the previous quarter. However, the CEB region saw cross-border bank claims decreased by about 5 per cent in both the third and fourth quarters of last year. More recent evidence[3] suggests that bank-related capital outflows in the new EU members, as well as Serbia, Turkey and Ukraine, peaked in November or December and appear to have continued at approximately the same or somewhat lower levels through February.
- **Subsequent real credit contraction has continued in almost all new EU members as well as Ukraine** (see Chart 5). A recent credit conditions survey points to continued, although milder, tightening compared to three months ago. It also confirms that while banks face much improved funding conditions following the ECB's LTROs, these do no translate into more credit as banks attempt to improve their capitalization and repair balance sheets. Continued increases in deposits in the region suggest that at least some of the cross-border bank funding is being replaced by local sources of finance, thus limiting potentially even more far-reaching consequences of Eurozone parent bank deleveraging on credit growth. Higher savings rates on the back of the global financial crisis have likely contributed to the rise in deposits, suggesting that additional local financing may continue to be available to partially offset the loss of cross-border financing as source of credit. EU-based bank deleveraging has also affected the government securities holdings of these banks.

Inflation is less of a policy concern than a year ago, even though core inflation has been on the rise. Countries in the CIS and SEE where food price increases drove high inflation through mid-2011 have seen inflation fall as food and commodity prices stabilized. While Georgia

[3] Based on monthly balance of payments data

recorded the most impressive inflation decrease, the rate of price increases halved in Armenia, Azerbaijan, Russia, Ukraine, as well as in Bulgaria, Romania and Serbia. It shot up last year in Belarus, driven by devaluations related to a domestically-induced balance of payments crisis, and has remained relatively high. At the same time, core inflation has become an issue in some of the faster growing economies of the region and has fed into headline inflation increases – especially in booming Turkey, but to some extent also in Lithuania, Poland and the Slovak Republic.

While the growth performance of a typical transition country in 2011 was on par with other emerging markets, their economies remain more vulnerable to external shocks. The EBRD region's growth last year improved slightly from 2010, bringing it close to that of Latin America figure as well as the (sharply lower) growth in Emerging Asia.[4] However, average unemployment rates show that growth in the transition region has yet to translate into more jobs. The unemployment gap that opened between the EBRD region and other emerging markets during the 2008-09 crisis has remained high. Governments in all three emerging market regions tended to spend less in 2011 than during the crisis and in 2010. Budget deficits in Emerging Asia, however, have been consistently lower since 2009 than in the transition region or Latin America, perhaps reflecting higher average debt levels. Importantly, while the global financial crisis brought about a substantial reduction of the average current account deficit in the transition region,[5] it remains well above the (roughly balanced) current accounts in Latin America and starkly contrasts with large average current surpluses in Emerging Asia (see Chart 6).

Outlook and risks

GDP growth in the transition region is expected to slow down substantially to 3.1 per cent in 2012 and 3.7 per cent in 2013 (see Chart 1)**.** The 2012 forecast is essentially unchanged since our January and October forecasts, which already considered a very similar external environment as assumed in the current baseline.

The Euro area crisis will continue to negatively impact those economies in the transition region that are the most intertwined with those of the Eurozone. The projection assumes a baseline scenario of continued slow and uneven progress towards containment of the Eurozone crisis – "muddling through". Despite gradual improvement, this will imply a mild recession in the single currency area in 2012, and could involve further bouts of economic instability. Real activity in the Eurozone will suffer in the near term both due to fiscal contraction and a credit decline, although a full scale credit crunch in the single currency area will be avoided thanks to supportive monetary policy by the ECB.

The recession in the Eurozone will continue to hurt transition country exports. The output declines in many Eurozone countries including in Germany that started in the last quarter of 2011 will impact exports from the transition region and especially from CEB and SEE with a lag as economic contraction gradually translates into lower orders. Export growth is expected to remain negative in the first half of this year and perhaps beyond.

Output in the transition region will also suffer from ongoing credit contraction due to cross-border deleveraging. In many CEB and SEE countries but also in Ukraine and elsewhere, Eurozone bank subsidiaries have a significant and often dominant presence in the local banking systems. As European parent banks continue to deleverage, subsidiaries in the transition countries will see reduced cross-border funding and therefore extend less credit.[6]

Together, trade and financial transmission channels of the debt crisis imply that growth in the CEB and SEE regions as well as in Ukraine will slow down noticeably this year. In particular, the CEB region will only grow by 1.6 per cent this year, slightly improving to 2.3 per

[4] Regional comparisons in this paragraph are based on simple (unweighted) averages. Latin America is defined to include Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Emerging Asia includes China, Hong Kong SAR, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan POC and Thailand.

[5] With very important within-region differences: While current account deficits fell significantly in CEB and SEE, they actually increased in much of SEMED and in Turkey.

[6] Global Financial Stability Report, April 2012

cent in 2013. In addition to Slovenia, which already contracted in 2011, Croatia and Hungary are expected to record negative growth rates, as idiosyncratic factors exacerbate the impact of the Eurozone crisis on their economies. The SEE region is expected to grow at an even lower rate of 1 per cent in 2012, picking up to about 2.4 per cent a year later. While no SEE country is expected to re-enter recession, most of them will see anaemic growth as weak confidence and the sharp drop in investment in the past two years amplify the overall Eurozone crisis impact. Ukraine, whose economy is somewhat integrated with both the Eurozone and Russia, will also slow down, to a growth of about 2.5 per cent this year. While the Eurozone crisis will also impact the SEMED economies, low but positive growth is expected in Egypt and Tunisia, assuming that macroeconomic stabilization is successful and risk perceptions begin to decline following last year's revolutions.

Commodity exporters further east in the transition region will continue to be less affected by the Eurozone crisis as commodity prices, and oil prices in particular, are expected to remain high due to both demand from strongly growing emerging markets and ongoing political instability in the Middle East. Economic expansion in commodity-exporting countries in Central Asia will remain the fastest in the transition region. Growth in Russia will remain reasonably strong and will support expansion even in non-commodity exporting countries of the CIS, which depend on Russia for exports and remittances, such as Armenia.

The Eurozone crisis poses further downside risks to the outlook, as any worsening of the situation beyond the baseline assumptions could have serious negative consequences for growth across the entire transition region. In a downside external scenario – largely unchanged since 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 renders several large European banks insolvent. Major parent banks would accelerate deleveraging in the region, triggering a credit crunch and recession in emerging Europe. Policy coordination at the European level would weaken, 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 lower growth in advanced and emerging economies and 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 financing inflows, only more severely. Lower commodity prices in the downside scenario would also 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.

A political and economic crisis in the Middle East presents another, if perhaps less likely, risk to growth in the transition region. A substantial political crisis affecting oil-rich countries could sharply increase the already elevated price of oil, further damaging growth in the Eurozone and in the transition economies in the CEB, SEE and elsewhere that are integrated with the single currency area. In contrast, Russia and other commodity exporters in the CIS as well as countries whose economies depend on them would benefit from the spike in oil prices, and could record higher growth in 2012. On the whole, however, the transition region would fare substantially worse than in the baseline, even if the relative deterioration under this scenario for the region as a whole would not be as large as in the case of a worsening of the Eurozone debt crisis.

Growth in real GDP

(In per cent; EBRD forecasts as of 16 May 2012)

	Current forecast			EBRD Forecast in January 2012			
	2011	2012	2013	2011	Change January-actual 2011	2012	Change January-May
Central Europe and the Baltic states							
Croatia	0.1	-0.6	1.7	0.3	-0.2	1.0	-1.6
Estonia	7.6	2.4	3.4	8.1	-0.5	2.6	-0.2
Hungary	1.7	-1.0	0.7	1.5	0.2	-1.5	0.5
Latvia	5.5	3.5	3.3	5.0	0.5	2.6	0.9
Lithuania	5.9	2.8	2.9	6.2	-0.3	2.3	0.5
Poland	4.3	2.7	2.9	4.2	0.1	2.3	0.4
Slovak Republic	3.3	2.2	2.6	3.2	0.1	1.3	0.9
Slovenia	-0.2	-2.0	-1.1	0.4	-0.6	-1.1	-0.9
Average [1,2]	***3.5***	***1.6***	***2.3***	***3.4***	***0.1***	***1.4***	***0.2***
South-eastern Europe							
Albania	3.1	1.2	1.8	1.8	1.3	1.2	0.0
Bosnia and Herzegovina	1.8	0.4	0.6	1.8	0.0	0.5	-0.1
Bulgaria	1.7	1.2	2.5	1.8	-0.1	1.2	0.0
FYR Macedonia	3.0	1.3	2.6	3.1	-0.1	1.8	-0.5
Montenegro	2.7	0.4	1.6	2.0	0.7	1.9	-1.5
Romania	2.5	1.2	2.6	2.5	0.0	0.8	0.4
Serbia	1.6	0.1	2.6	1.9	-0.3	1.1	-1.0
Average [1]	***2.2***	***1.0***	***2.4***	***2.2***	***0.0***	***1.0***	***0.0***
Eastern Europe and the Caucasus							
Armenia	4.7	4.0	4.0	4.5	0.2	3.0	1.0
Azerbaijan	0.1	3.5	3.0	0.0	0.1	3.5	0.0
Belarus	5.3	2.5	3.0	5.0	0.3	1.5	1.0
Georgia	7.0	5.5	5.5	6.0	1.0	5.0	0.5
Moldova	6.4	4.0	4.5	5.5	0.9	3.5	0.5
Ukraine	5.2	2.5	4.0	5.0	0.2	2.5	0.0
Average [1]	***4.3***	***2.9***	***3.7***	***4.0***	***0.3***	***2.6***	***0.3***
Turkey	8.5	2.5	3.5	8.0	0.5	2.5	0.0
Russia	4.3	4.2	4.3	4.0	0.3	4.2	0.0
Central Asia							
Kazakhstan	7.5	5.0	6.0	7.5	0.0	6.5	-1.5
Kyrgyz Republic	5.7	1.0	7.0	5.7	0.0	4.0	-3.0
Mongolia	17.3	14.0	16.0	17.3	0.0	14.0	0.0
Tajikistan	7.4	4.0	5.0	7.4	0.0	5.0	-1.0
Turkmenistan	14.7	10.0	10.0	14.7	0.0	10.0	0.0
Uzbekistan	8.3	7.0	7.0	8.3	0.0	7.0	0.0
Average [1]	***8.5***	***6.0***	***6.9***	***8.5***	***0.0***	***7.0***	***-1.0***
Average EBRD region (excluding SEMED) [1]	***5.0***	***3.2***	***3.7***	***4.8***	***0.2***	***3.1***	***0.1***
Southern and Eastern Mediterranean							
Egypt*	-0.6	1.7	3.7	…	…	…	…
Jordan	2.6	2.7	2.9	…	…	…	…
Morocco	4.8	3.5	4.3	…	…	…	…
Tunisia	-2.2	2.2	3.2	…	…	…	…
Average [1]	***0.7***	***2.2***	***3.7***	…	…	…	…
Average EBRD region (including SEMED) [1]	***4.6***	***3.1***	***3.7***	…	…	…	…

[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.

* Both actual and forecast GDP growth figures are on a calendar year basis in contrast to figures published by Egypt's national authorities, which are on a fiscal year basis ending in June.

Chart 1. EBRD region real GDP Growth[1]
(per cent, quarterly, year-on-year)

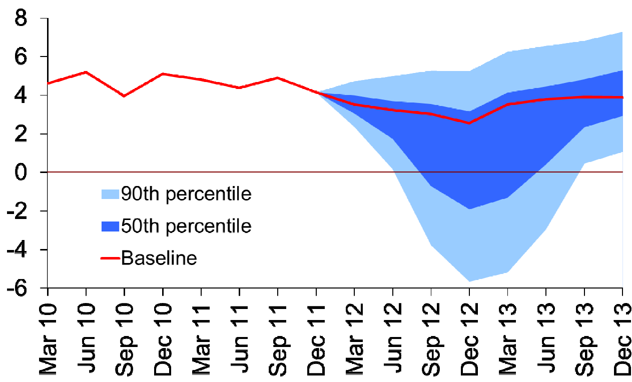


Chart 2. Export growth
(per cent, m-o-m, SA, 6-month moving average)

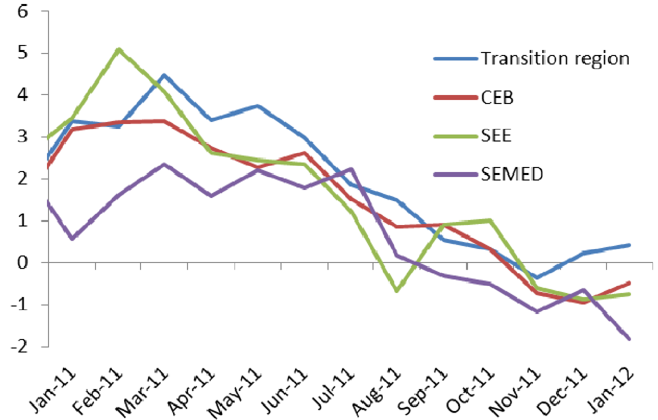


Chart 3. Private capital flows into EBRD region
(per cent of previous year's GDP)

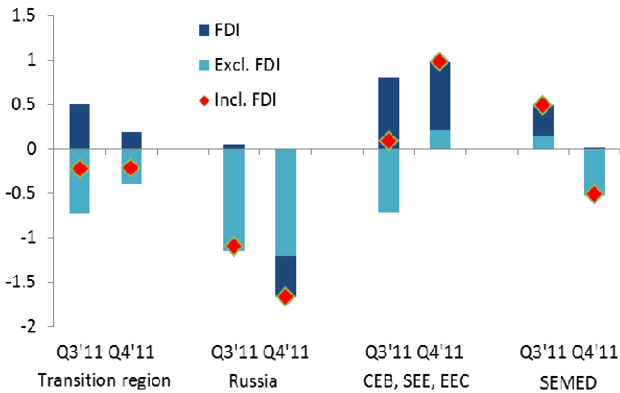


Chart 4. Fund flows into Emerging Europe
(US$ million)

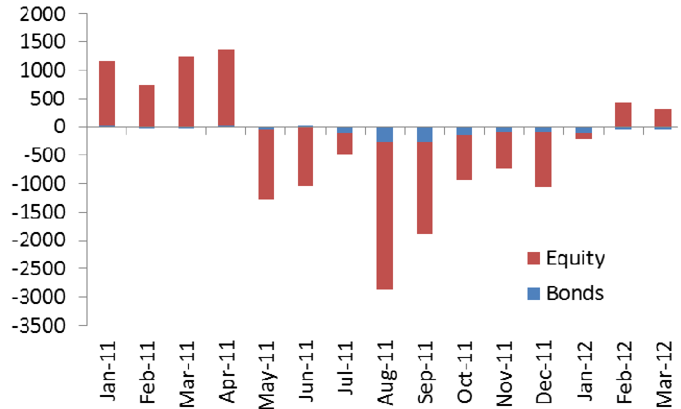


Chart 5. Real credit growth
(per cent, Jan-Mar or latest 3-month average)

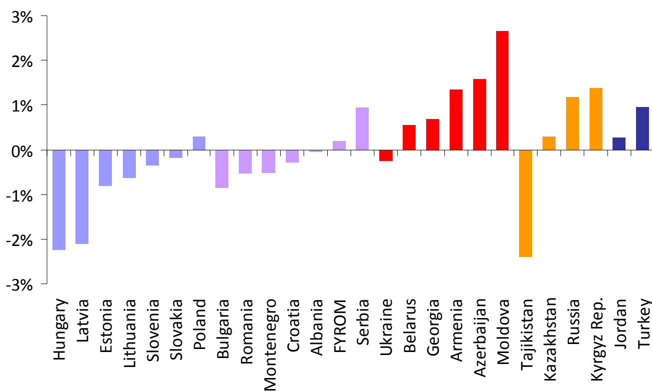
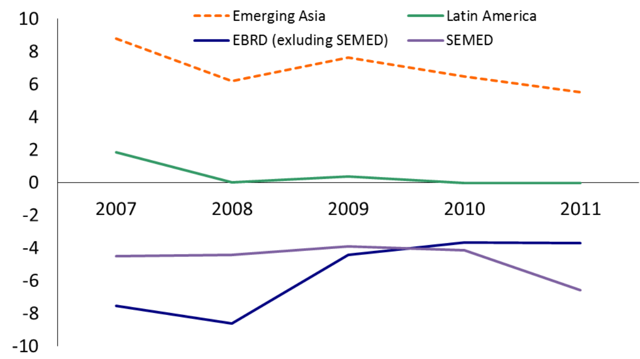


Chart 6. Current account balance
(per cent of GDP, simple regional averages)



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

[1] Year-on-year growth in aggregate real GDP of transition countries. 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 -0.3 per cent in 2012 and 0.9 per cent in 2013, a VIX around 20 in 2012-13, broadly constant Libor and slightly decreasing Euribor, and an oil price of about US$115 per barrel. The downside scenario assumes a recession in the Eurozone, with growth of -2.5 per cent in 2012 and -1 per cent in 2013 and more volatile market, with VIX averaging 40 in the second quarter of 2012 and then slowly declining in the second half of the year.

Central Europe and the Baltic States (CEB)

The CEB region remains exposed to the ongoing slowdown in European industrial production and the deleveraging by European banks. While so far these countries have withstood the impact of the former relatively well, the withdrawal of bank liquidity continues to weigh on credit access and investment by enterprises. These countries show much more modest public debt levels than elsewhere in the EU, though have nevertheless embarked on austerity programmes which has helped in preventing a deterioration in investor sentiment seen elsewhere in the EU.

- As one of the region's most open economies, **Hungary** saw a clear deceleration in industrial production and exports, which both showed a contraction in annual terms early this year. However, investment and household consumption have already detracted from growth, and will likely lead to a mild recession early this year. While the government has found some agreement with the banking industry over the long-standing issue of restructuring fx mortgages, deleveraging by the predominantly foreign-owned industry will further hold back growth. A new convergence programme underlined commitment to restore fiscal sustainability, though tax policies continue to weigh on the confidence of foreign direct investors. A new EU/IMF financial programme, for which negotiations are about to begin, will need not only to address refinancing challenges, but also to help give credibility to further structural reforms.
- By contrast, last year's growth outcome in **Poland** exceeded earlier expectations, and once again underlined the resilience of the economy to vulnerabilities in the eurozone. However, this year and next growth should be significantly held back as public infrastructure spending abates, and some social transfers are being scaled back.
- Revised GDP figures in **Slovenia** reveal that a second recession began already in early 2011. As credit extension remains impeded by delinquent bank assets this contraction is set to continue, aggravating the effects of the record recession of 2009. While public debt levels appear modest, restoring competitiveness to the economy remains a significant challenge, while future fiscal burdens within a rapidly ageing society and contingent liabilities vis-à-vis the banking system have rightly motivated bank recapitalisation and a fresh consolidation effort.
- The **Baltic countries** saw some surprisingly strong export-driven growth last year, though in Q4 also the early signs of this growth faltering, notably with a first minor contraction in **Estonia**. Still, growth figures ranging from 5.5 per cent in **Latvia** to 7.6 per cent in Estonia outperformed those in core EU economies. Differences in our projections for 2012, lowest for Estonia at 2.4 per cent, and highest in Latvia at 3.5 per cent essentially reflect differences in exposure to the more cyclical export markets. The year 2013 could see a further reduction in risk perceptions as Latvia, and possibly **Lithuania**, move closer to euro adoption in 2014.
- The **Slovak Republic** is similarly highly exposed to the slowing industrial cycle in the core eurozone, and the concentration of cyclical industries such as cars. Following the change in government an ambitious fiscal consolidation is being implemented which will further detract from growth this year. The government takes a more critical stance on for instance privatisation and PPPs, and will seek to engineer a more inclusive growth that benefits all regions.
- In **Croatia**, the economy appears to be stuck in a rather stagnant mode, and growth in 2012 is likely to be either non-existent or negative, reflecting the overall lack of competitiveness in the economy. However, the signing of the EU Accession Treaty at the end of last year and the realistic prospect of full EU membership in mid-2013 are positive signals 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 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. In some countries these banks also hold significant amounts of local treasury bills. While some recovery seemed evident in the first half of 2011, economic activity weakened in the second part of the year and the first three months of 2012. Growth in 2012 is likely to be minimal at best. In contrast, the Turkish economy continued to boom in 2011, with growth of 8.5 per cent, but the economy is expected to slow down significantly in 2012. Signs of slower economic activity in Turkey in the first quarter have already materialized. The current account deficit remains the key weakness of the economy, reaching 10 per cent of GDP in 2011. Inflation also exceeding 10 per cent by end-year, and is expected to remain elevated, especially in the second half of 2012.

- **Albania** continued to grow faster than other countries in the region in 2011 but it experienced a slowdown in economic activity in the second half of 2011 and early 2012 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 statutory limit of 60 per cent of GDP, 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 and consequent adoption of the budgets for 2011 and 2012 helped to enable the resumption of IFI funding. 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 to the projected downturn in export demand. However, the government's adherence to fiscal prudence is the strongest in the SEE region and the authorities remain fully committed to the currency board and entry in due course into the ERM-II mechanism.

- **FYR Macedonia** experienced a surprisingly strong growth in the first half of 2011 spurred by high exports and FDI, but growth slowed down substantially in the second half of the year and the beginning of 2012 due to unfavourable developments in the eurozone. The weak external environment will continue to negatively impact the economy of FYR Macedonia this year – GDP growth is forecast to decline from 3 per cent in 2011 to 1.5 per cent in 2012. However, the country still has access to both official sources of funding and to international capital markets.

- **Montenegro's** economy is still struggling to recover from the effects of the crisis. The country's current account deficit remains high, industrial production is volatile and credit growth is still negative on a year-on-year basis. The continued uncertainty over the future of the aluminium complex KAP, which has been making significant losses, is another source of concern. However, the country has significant long-term potential in the energy sector.

- Until recently, **Romania's** economy was on track to record robust growth in 2012, after a 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 eurozone 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. 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, but the latest review has been postponed until mid-year, after the elections.

- **Turkey**'s economy continued to grow buoyantly throughout the end of last year, reaching an overall growth rate of 8.5 per cent in 2011, but is headed towards significant slowdown this year brought about by a drop in domestic demand and the worsening economic conditions of the eurozone**.** Economic activity has already begun to slow in the first quarter, but inflation, which reached double digits at end-2011 as a result mainly of loose monetary policy, significant pass-through from nominal depreciation and several regulated price and tax increases, is likely to remain elevated throughout 2012.

Eastern Europe and the Caucasus (EEC)

The new bout of global economic instability and the eurozone crisis have had a moderate impact on this diverse region so far. Ukraine has been affected by lower external demand and tight financial conditions, compensated to some extent by buoyant domestic consumption. The economy of Belarus has been recovering from the balance of payments crisis as domestic producers benefited from real exchange rate devaluation. Azerbaijan's non-oil sector has expanded, but only partly compensating for the ongoing oil sector decline. Georgia's broad-based recovery has continued at a fast pace. The economies of Armenia 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 Azerbaijan are net energy importers, and the Caucasus countries depend on imports 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.

- **Ukraine's** economy has been affected by the new wave of instability in the eurozone. Lower external demand and subdued steel prices led to a contraction of the machine-building and steel sectors. Several significant public infrastructure investments related to the Euro-2012 football championship are now completed. Agricultural output also slowed down, affected by the unusually cold winter. Buoyant consumer demand, fuelled by rising real wages, has helped maintain growth of the retail sector. 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 the international environment stabilised in recent weeks, the authorities have been able to relax monetary policy somewhat. The authorities have maintained a tight fiscal policy in anticipation of large external debt payments later this year, although the recently adopted package of social expenditures may increase fiscal pressures. 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 in the months to come.

- **Armenia**'s recovery from the deep crisis has continued at a moderate pace, led by manufacturing and mining. 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 started to stabilise after a severe, policy-induced balance of payments crisis. The foreign exchange market was largely normalised after the devaluation, and as the central bank has maintained tight monetary policy and avoided directed lending. Improved trade balance, net sales of foreign exchange by households and loans from a CIS stabilization fund and bilateral loans from Russia have been used to replenish 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 the fiscal and monetary discipline needed to prevent another bout of instability.

- **Moldova**'s economic growth has been supported by rising remittances, exports and investment as sentiment about the country's prospects has improved, including after the recent elections of the President. However, industrial production decelerated in early 2012 in response to the weakening external environment. The economy remains vulnerable to weak growth in the main trading partners and uncertain remittance inflows.

- **Georgia**'s economic activity accelerated in the second half of 2011 and has remained strong. As the external financing package mobilised by a range of donors during the twin crises of 2008 has largely been exhausted, the authorities have pursued private sources of financing including with support of a public fund responsible for supporting private investment in key sectors. Uncertainty about the external environment has been mitigated by a new precautionary arrangement with the IMF.
- After successfully weathering the financial crisis, **Azerbaijan**'s economy has slowed as the pace of oil extraction decelerated. The oil output decline has been only partially offset by robust growth of the non-oil sector, stimulated by budget expenditures. Diversification of the economy remains an important objective as risks associated with high oil dependence became apparent during the crisis, when oil prices declined. Immediate macroeconomic risks continue to be mitigated by a very strong fiscal position, which has been acknowledged in recent sovereign rating upgrades by international rating agencies.

Russia and Central Asia

Russia and most Central Asian economies continued their recoveries from the 2009 global crisis through 2011, but growth is likely to slow down in 2012 driven by a combination of global and domestic factors. In Russia and Kazakhstan, the recovery has thus far mostly been supported by higher oil prices and large-scale fiscal stimulus packages. This, in turn, has helped the economies of the Kyrgyz Republic, Tajikistan, and Uzbekistan, which have benefited directly from higher commodity export prices and indirectly from increased remittances, FDI and export demand from Russia and Kazakhstan. However, the euro zone crisis and the increase in global risk aversion, combined with domestic and regional factors (e.g., the gold mine strike in the Kyrgyz Republic and increased tensions between Tajikistan and Uzbekistan), are likely to lead to lower growth in 2012 in most countries in the region. 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 remained robust in the fourth quarter of 2011 and averaged 4.3 per cent for the year as a whole. The economy further benefited from high oil prices in the first quarter of 2012. Growth is projected to reach 4.2 per cent in 2012 and 4.3 per cent in 2013. The turmoil in Europe and weak investor confidence have both had an impact on capital markets, where capital outflows persisted, including after the elections. The rouble remained broadly stable against the dollar-euro basket despite rising oil prices, and the fiscal reserve fund has been replenished for the first time since the crisis. However, 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 to 5 per cent in 2012. Bank credit growth, which had remained flat until early 2011, finally picked up during 2011, exceeding 16 per cent year-on-year in March, 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) 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 has further decelerated to 4.6 per cent in March, reflecting international commodity price developments and postponed tariff increases.

- 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. However, a strike at the Kumtor gold mine in early 2012 caused gold production to decline by about 65 per cent year-on-year during the first quarter of 2012, resulting in a drop in GDP by almost 7 per cent year-on-year (although non-gold GDP continued to grow by 4.5 per cent). As a result of this one-off factor, overall GDP growth in 2012 is projected to be low (1 per cent) and could even be negative, while GDP growth in 2013 will be high (7 per cent) reflecting the base effect. Inflation has fallen rapidly from a high of 23 per cent in June 2011 to around zero per cent in March 2012, but is expected to increase somewhat later in the year reflecting increases in international food prices.

- In **Tajikistan**, reported GDP growth was stronger than expected at 7.4 per cent in 2011 and remained high at 7.2 per cent year-on-year during the first quarter of 2012. However, growth is expected to slow down to 4 per cent in 2012 reflecting increased tensions with Uzbekistan that have limited gas supplies and railway transport. Inflation has decelerated from 15 per cent in mid-2011 to around 6 per cent in March 2012.

- **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. GDP continued to grow at over 10 per cent during the first quarter of 2012 and is projected to reach 10 per cent for 2012 as a whole. Average annual inflation increased slightly to 6 per cent in 2011, reflecting higher international commodity and food prices, but has remained lower than in other countries in the region given that many prices continue to be administered by the state.
- **Uzbekistan**'s GDP growth remained strong at 8.3 per cent in 2011, driven by public spending and is expected to remain strong at 7 per cent in 2012, mostly supported by continued large government spending. Inflation increased to over 13 per cent at the end of 2011, driven by international price developments, accommodative monetary conditions and increases in administrative prices.
- **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 40 per cent of GDP in 2011, and are expected to continue for a number of years. Inflation picked up again to 15 per cent at end-March 2012 and is likely to stay high as fiscal policy remains highly procyclical.

Southern and Eastern Mediterranean (SEMED)

The countries of the SEMED region continue to face serious macroeconomic challenges and heightened uncertainty, especially in light of ongoing social and political transitions. The economies of these four countries have been hit to different degrees by declining tourism, FDI and trade, and investors have adopted a wait-and-see approach, at least in the short term. As a response to social pressures, all SEMED countries have increased government spending on social benefits and subsidies, exacerbating fiscal deficits across the board. Trade balances have also weakened, partly driven by a slowdown in the euro zone, and this development, combined with the drop in tourism and outflow of capital, has led to higher current account deficits. As a result, financing gaps have increased, and the need to fill them with foreign funding sources has risen. Unemployment, especially among the youth, remains a structural problem in all four countries, the solution to which is likely to be protracted in light of subdued economic activity.

- **Egypt's** economy continues to face an uphill battle, improving only slightly in the first quarter. Recently released growth figures show an annualised real GDP growth rate of 0.4 per cent y-o-y in the final quarter of 2011, indicating that the Egyptian economy is growing only very moderately. Tourism, industrial production, and FDI have yet to recover as an uncertain political outlook continues to weight on business and investor confidence. Egypt has found itself in a precarious external position as a result, with foreign reserves falling to barely three months of import cover. Government spending on social benefits and other subsidies has increased the pressure on the fiscal balance, which has in turn led to a rise in the cost of government borrowing. Egypt has yet to secure complete political backing for an IMF program that would release a US$ 3.2 billion loan, which is much needed to shore up the country's rapidly deteriorating external position, and ease some of the pressure on the currency.

- Economic prospects in **Jordan** remain subdued in 2012 driven both by the recent hike in energy prices as well as the regional political turmoil. Real GDP growth in 2011 reached 2.6 per cent y-o-y up slightly from 2.3 per cent in 2010 brought about by a modest increase in the mining and financial services sectors. However, the ongoing political turmoil in the Middle East has translated into depressed tourist receipts and FDI in Jordan, which remains vulnerable to external shocks. Consequently, Jordan has seen both its fiscal and current account deficits deteriorate, the latter reaching around 13 per cent of GDP (excl grants) mostly due to a tripling of the subsidies bill.

- In **Morocco,** real GDP growth reached 4.8 per cent in 2011, buoyed by strong non-agricultural performance. There was, however, a slight slowdown in activity towards the end of the year, with exports and tourist receipts showing slight deceleration. Growth in 2012 is expected to be weaker, at around 2-3 per cent, on the back of continued droughts that have halved cereal output. Morocco's close links to the eurozone, which accounts for the majority of its exports, tourist receipts, and remittances, has led to a widening of its current account deficit amid weak external demand. In addition, the fiscal deficit has risen to a 20-year high due to a surge in government expenditure on subsidies and social transfers.

- The mild economic recovery seen in **Tunisia** after the Arab spring and the end of the Libya conflict has slowed in the fourth quarter, leading to an overall growth contraction of 2.2 per cent in 2011. Tourism and FDI fell sharply in 2011, picking up only slightly in the first quarter of 2011. The economy, however, continues to be plagued by weak domestic and external demand, as well as the uncertainty of its current political transition, and this will delay reducing the country's high structural unemployment. The current account deficit widened in 2011 mostly due to weakness from the euro zone, but slight signs of improvement have begun to show in Q1 2012. However, the fiscal deficit worsened on the back of increased social spending. This has increased the pressure on the government to

secure domestic and foreign sources of funding, and as a result, there is little room to further expand fiscal stimulus.

Tables

Table 1. Transition Region: Vulnerability Indicators 1/

	Public and External Debt /2 (% of GDP): Government (end 2011)	Public and External Debt /2 (% of GDP): External: Total (end 2011)	Public and External Debt /2 (% of GDP): External: Private (end 2011)	Public and External Debt /2 (% of GDP): External: Short term (remaining maturity)	Gross reserves /2: billions US$ (latest)	Gross reserves /2: in percent of GDP	Gross reserves /2: in percent of Short term debt	Gross reserves /2: in percent of month of prosp. Imports	Bank dep. (latest): % of GDP	Loans/dep. (latest): Private sector, in %	Country risk: 03-May-12 (CDS spread, bps)	Country risk: Latest: S&P sovereign country ratings	Country risk: Latest: Fitch sovereign country ratings	Domestic FX loan stocks (latest) (% GDP): Total pvt sector	Domestic FX loan stocks (latest) (% GDP): of which Corp.	Domestic FX loan stocks (latest) (% GDP): of which HH	% FX credit in total loan stock	Nonperforming loans: latest	Unemployment: % (latest avail.)
Central Europe and Baltics																			
Croatia	45.6	93.8	66.2	32.1	15.6	24.4	76.0	8.2	60.3	120.2	431.5	BBB-	BBB-	70.8	33.5	37.3	72.4	12.4	12.2
Estonia*	6.0	98.5	94.7	51.8	…	…	…	…	62.8	129.9	…	AA-	A+	1.2	1.2	0.0	1.5	4.5	11.7
Hungary	80.4	131.3	78.8	55.7	37.8	38.3	68.8	5.3	41.5	131.1	495.5	BB+	BB+	32.1	15.2	16.9	59.0	13.6	11.2
Latvia	37.8	137.2	107.0	56.3	26.1	22.5	39.9	4.3	32.8	226.2	244.0	BBB-	BBB-	65.8	32.6	33.2	88.7	17.2	14.6
Lithuania	39.0	75.1	47.1	36.0	21.8	19.1	53.2	2.8	36.5	136.7	…	BBB	BBB	37.0	18.8	18.2	74.0	16.3	14.3
Poland	55.4	64.9	64.9	25.0	97.5	20.3	75.9	4.7	45.8	110.8	200.5	A-	A-	16.9	3.9	13.0	33.6	8.5	10.1
Slovak Republic*	43.3	…	33.5	54.1	…	…	…	…	…	…	241.4	A	A+	13.7	13.2	0.4	1.0	5.6	13.9
Slovenia*	47.6	…	65.7	22.4	…	…	…	…	54.0	153.6	…	A+	A	4.1	0.8	3.3	4.9	...	8.5
South-Eastern Europe																			
Albania	58.9	36.5	11.3	5.8	2.7	20.7	358.8	4.5	67.0	58.6	…	B+	…	25.8	19.6	6.1	65.8	18.9	13.3
Bosnia and Herzegovina	40.6	46.6	22.3	12.4	3.4	18.8	151.1	3.5	35.3	155.0	…	B	…	2.7	…	…	72.3	8.8	43.3
Bulgaria	17.0	86.2	78.9	33.6	16.9	31.6	94.1	5.5	59.2	…	286.3	BBB	BBB-	44.1	34.1	10.0	64.0	14.9	11.4
FYR Macedonia	28.1	63.5	43.4	22.1	2.4	22.9	103.6	4.1	49.5	93.2	…	BB	BB+	24.2	17.0	7.2	52.4	9.5	31.8
Montenegro	45.8	94.6	…	…	0.4	9.6	…	1.9	47.6	116.7	…	BB	…	…	…	…	…	15.0	13.4
Romania	33.0	68.5	45.4	24.8	46.8	24.7	99.4	6.8	30.4	124.5	335.1	BB+	BBB-	24.3	12.3	12.0	64.1	13.4	7.7
Serbia	47.9	78.8	55.5	22.4	15.3	34.0	151.3	7.9	…	…	…	BB	BB-	35.5	22.4	13.1	71.5	18.8	23.7
Eastern Europe and the Caucasus																			
Armenia	35.1	65.5	16.6	2.3	2.0	19.4	833.9	4.8	17.9	178.6	…	…	BB-	19.9	16.1	3.9	62.3	...	5.9
Azerbaijan	10.2	7.7	…	…	10.4	16.7	…	6.7	13.5	147.4	…	BBB-	BBB-	7.1	…	…	35.3	6.4	…
Belarus	50.2	61.1	33.4	32.0	6.9	12.4	38.6	1.6	30.3	103.3	…	B-	…	11.2	10.5	0.6	35.6	4.3	0.5
Georgia	33.9	53.1	23.8	13.0	2.9	20.3	156.0	4.2	30.7	104.8	…	BB-	BB-	17.4	…	…	74.3	7.4	16.3
Moldova	23.4	67.0	45.8	33.6	2.1	29.5	87.8	3.8	10.0	95.6	…	…	…	16.2	16.0	0.3	44.1	10.7	6.2
Ukraine	36.5	75.8	55.9	35.7	31.6	19.2	53.7	3.6	35.5	165.6	764.1	B+	B	24.4	16.0	8.4	41.4	15.8	8.2
Turkey	39.4	41.7	28.8	17.2	78.5	10.1	58.8	3.7	41.7	112.7	227.5	BB	BB+	14.4	…	…	27.7	2.8	10.2
Russia	9.6	25.0	22.4	8.2	473.4	25.6	312.6	11.9	35.2	124.4	185.3	BBB	BBB	8.1	7.6	0.5	18.5	5.0	6.3
Central Asia																			
Kazakhstan	10.9	76.1	73.2	8.9	38.5	21.6	242.3	9.0	17.2	191.8	211.2	BBB+	BBB	11.7	9.2	2.5	35.0	31.0	5.4
Kyrgyz Republic	52.4	59.2	11.2	7.5	1.7	29.1	389.1	3.6	17.2	77.4	…	…	…	6.7	…	…	56.0	10.2	8.4
Mongolia	…	39.3	15.1	…	2.9	34.4	…	4.9	…	…	…	BB-	B+	…	…	…	…	5.5	9.4
Tajikistan	35.3	48.0	19.1	1.1	0.6	9.1	815.8	1.7	14.5	100.2	…	…	…	8.2	…	…	59.3	7.0	2.6
Turkmenistan	15.4	15.4	0.0	2.7	22.2	86.3	3231.5	18.0	…	…	…	…	…	2.4	…	…	…	0.6	…
Uzbekistan	9.1	13.3	4.8	0.4	13.8	30.3	8226.5	10.9	…	…	…	…	…	…	…	…	…	0.8	0.2
Southern and Eastern Mediterranean																			
Egypt	76.4	14.8	0.9	2.1	15.2	11.7	549.5	5.3	63.5	51.9	…	B	BB-	7.2	7.0	0.2	24.8	11.0	12.4
Jordan	69.8	21.6	0.0	4.0	11.4	38.8	974.7	6.4	110.8	71.1	…	BB	…	9.6	…	…	10.8	8.5	12.9
Morocco	54.4	24.6	1.6	1.7	20.1	20.3	1203.4	4.9	65.3	107.6	…	BBB-	BBB-	…	…	…	…	5.0	8.9
Tunisia	42.4	47.9	14.2	14.8	6.8	17.3	116.5	3.7	…	…	…	BBB-	BBB-	…	…	…	…	13.0	19.4

1/ National sources based on CEIC and IFS, unless stated otherwise.
2/ WEO April 2012.
* Euro area members

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 /4 (Gen. gov; % of GDP)	Primary fiscal balance to GDP /4	GG Debt/revenues	Current Account (% of GDP)	Net FDI (% of GDI
			Forecast 2/				Forecast 2/			Forecast 2/	3/	3/	3/	3/	3/
	2010	2011	2012	2013	2010	2011	2012	2013	2011	2012	2011	2011	2011	2011	2011
Central Europe and Baltics															
Croatia	-1.2	0.1	-0.6	1.7	-0.6	-0.4	-0.2	2.1	2.1	1.8	-5.5	-3.1	126.9	0.9	.. 2.2
Estonia	2.3	7.6	2.4	3.4	6.1	5.1	2.9	3.6	5.1	3.0	1.0	1.1	13.7	3.5	0.2
Hungary	1.3	1.7	-1.0	0.7	2.5	1.5	-1.3	0.8	3.9	4.0	4.3	8.3	153.5	1.4	3.0
Latvia	-0.3	5.5	3.5	3.3	3.2	5.9	1.9	4.3	4.2	2.8	-3.5	-2.0	105.1	-0.8	4.0
Lithuania	1.4	5.9	2.8	2.9	4.4	5.2	1.7	3.9	4.1	3.0	-5.5	-3.7	114.3	-1.6	2.9
Poland	3.9	4.3	2.7	2.9	4.1	4.3	1.9	3.2	3.9	3.2	-5.1	-2.4	141.1	-4.1	2.6
Slovak Republic	4.2	3.3	2.2	2.6	3.4	3.4	1.6	3.0	4.1	4.0	-4.8	-3.2	135.9	0.1	1.0
Slovenia	1.4	-0.2	-2.0	-1.1	2.3	-1.5	-1.5	-0.5	2.1	1.5	-6.4	-4.5	112.6	-1.0	2.0
South-Eastern Europe															
Albania	3.3	3.1	1.2	1.8	5.5	3.8	1.5	2.0	3.5	1.8	-3.5	-0.4	232.9	-13.2	7.5
Bosnia and Herzegovina	0.7	1.8	0.4	0.6	…	…	…	…	...	...	-3.1	-2.4	87.8	-8.3	2.5
Bulgaria	0.4	1.7	1.2	2.5	3.1	0.3	2.7	1.9	3.4	2.0	-2.1	-1.4	52.5	1.9	2.4
FYR Macedonia	1.9	3.0	1.3	2.6	3.8	0.2	2.4	2.2	3.9	1.6	-2.6	-1.8	95.1	-2.8	4.1
Montenegro	2.5	2.7	0.4	1.6	…	…	…	…	2.9	3.1	-6.5	-5.0	121.7	-19.4	11.9
Romania	-1.7	2.5	1.2	2.6	-1.0	1.9	2.3	2.2	5.9	3.0	-4.1	-2.6	105.0	-4.2	1.4
Serbia	1.0	1.6	0.1	2.6	1.7	0.4	2.5	1.9	11.2	3.1	-4.0	-2.8	121.4	-9.1	5.6
Eastern Europe and the Caucasus															
Armenia	2.2	4.7	4.0	4.0	2.4	5.0	5.0	4.6	7.7	4.3	-2.7	-1.8	161.3	-12.3	5.8
Azerbaijan	5.0	0.1	3.5	3.0	3.1	-0.5	6.5	0.9	8.5	3.3	13.3	13.6	22.2	26.3	0.1
Belarus	7.7	5.3	2.5	3.0	10.2	0.0	3.1	4.8	52.9	56.3	3.3	4.5	120.4	-10.4	7.1
Georgia	6.3	7.0	5.5	5.5	6.1	8.8	2.7	6.5	8.5	2.0	-0.9	0.3	119.5	-12.7	6.4
Moldova	7.1	6.4	4.0	4.5	9.0	5.8	2.1	5.1	7.2	4.0	-2.4	-1.6	63.7	-10.6	3.7
Ukraine	4.1	5.2	2.5	4.0	3.7	4.7	3.6	3.5	7.7	4.0	-4.5	-2.0	0.0	-5.6	4.0
Turkey	9.2	8.5	2.5	3.5	9.3	5.2	2.1	3.4	6.5	10.3	-1.4	1.8	116.3	-10.0	1.7
Russia	4.3	4.3	4.2	4.3	4.9	4.8	3.0	5.0	8.4	4.7	-1.2	2.2	25.0	4.6	-0.5
Central Asia															
Kazakhstan	7.3	7.5	5.0	6.0	7.1	8.7	7.3	0.3	8.4	5.5	5.7	6.2	38.2	7.6	5.7
Kyrgyz Republic	-0.5	5.7	1.0	7.0	1.0	4.3	3.3	4.5	16.6	2.4	-4.8	-3.8	157.3	-3.1	6.6
Mongolia	6.4	17.3	14.0	16.0	0.4	19.3	20.4	14.6	9.1	13.8	-2.0	-3.2	...	-21.6	28.4
Tajikistan	6.5	7.4	4.0	5.0	7.1	7.2	2.0	6.3	12.5	6.6	-2.1	-1.6	142.0	-2.3	0.3
Turkmenistan	9.2	14.7	10.0	10.0	…	…	…	…	5.8	6.0	3.5	...	76.0	1.8	14.0
Uzbekistan	8.5	8.3	7.0	7.0	9.6	8.5	6.1	7.3	12.8	12.0	9.0	7.6	22.6	5.8	3.2
Southern and Eastern Mediterranean															
Egypt*	5.5	-0.6	1.7	3.7	5.7	0.4	0.2	3.7	10.1	9.3	-9.9	-4.4	347.2	-2.0	0.5
Jordan	2.3	2.6	2.7	2.9	3.2	3.1	2.2	3.2	4.4	5.8	-6.7	-4.1	267.5	-10.0	5.1
Morocco	3.9	4.8	3.5	4.3	4.5	5.3	0.9	6.4	0.9	1.8	-6.9	-4.7	197.4	-8.0	2.5
Tunisia	3.5	-2.2	2.2	3.2	2.2	-0.4	1.4	4.2	3.5	5.1	-3.5	-1.6	135.7	-6.6	1.0

1/ EBRD data and projections unless otherwise stated.

2/ As of April 30, 2012.

3/ WEO April 2012. CEB figures for fiscal and primary fiscal balance from national sources.

4/ Ukraine: Augmented general government balance: overall government balance includes Naftogaz and other debt-creating flows. Jordan: fiscal deficit excluding grants is 12.7

* Both actual and forecast GDP growth figures are on a calendar year basis in contrast to figures published by Egypt's national authorities, which are on a fiscal year basis ending in June.

Table 3. Transition Region: Quarterly GDP actuals and projections, Q1 2010- Q1 2012 1/

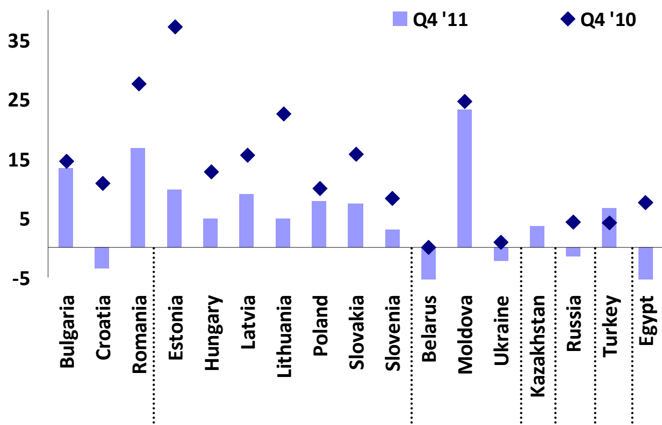
	Quarterly GDP Growth (seasonally adjusted, quarter-on-quarter percent change)									Quarterly GDP Growth (year-on-year percent change)									GDP Growth (average) (year over year percent change)			
									Estimates 1/									Estimates 1/			Forecast 1/	
	2010				2011				2012	2010				2011				2012				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	2010	2011	2012	2013
Central Europe and Baltics																						
Croatia	-1.2	-0.5	1.0	0.0	-0.8	0.7	0.5	-0.8	-0.5	-2.3	-2.3	0.3	-0.6	-0.8	0.8	0.7	-0.4	0.8	-1.2	0.1	-0.6	1.7
Estonia	-0.3	2.7	1.1	2.5	2.8	1.6	0.9	-0.2	0.5	-4.2	2.5	5.0	6.1	9.4	8.2	8.0	5.1	2.8	2.3	7.6	2.4	3.4
Hungary	1.1	0.4	0.7	0.2	0.7	0.1	0.4	0.3	-1.3	-0.8	0.8	2.5	2.5	2.1	1.7	1.5	1.5	-0.5	1.3	1.7	-1.0	0.7
Latvia	1.1	0.0	0.8	1.1	1.1	2.0	1.5	1.1	1.0	-5.8	-4.6	3.2	3.2	3.2	5.2	5.9	5.9	5.8	-0.3	5.5	3.5	3.3
Lithuania	0.5	0.6	1.0	2.2	1.6	1.5	1.2	0.8	0.8	-0.7	0.6	1.3	4.4	5.6	6.5	6.7	5.2	4.3	1.4	5.9	2.8	2.9
Poland	0.7	1.0	1.4	0.9	1.0	1.2	1.0	1.1	0.4	3.2	3.7	4.8	4.1	4.5	4.6	4.2	4.3	3.7	3.9	4.3	2.7	2.9
Slovak Republic	0.8	0.9	0.9	0.8	0.8	0.8	0.8	0.9	0.3	4.9	4.5	4.0	3.4	3.4	3.4	3.2	3.4	2.8	4.2	3.3	2.2	2.6
Slovenia	0.2	1.1	0.4	0.7	-0.3	-0.1	-0.4	-0.7	-0.8	-0.3	1.4	1.5	2.3	1.8	0.6	-0.2	-1.5	-2.0	1.4	-0.2	-2.0	-1.1
South-Eastern Europe																						
Albania	2.8	2.4	0.0	0.3	2.3	-1.6	2.4	0.1	0.0	1.6	2.2	3.7	5.5	4.8	1.1	2.8	3.8	0.4	3.3	3.1	1.2	1.8
Bosnia and Herzegovina	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	0.7	1.8	0.4	0.6
Bulgaria	1.2	1.5	0.8	0.4	0.5	0.5	0.2	0.3	0.0	-4.5	1.2	0.8	3.1	2.0	2.7	1.9	0.3	0.5	0.4	1.7	1.2	2.5
FYR Macedonia	-1.6	1.1	1.7	2.2	0.4	0.7	-0.8	-0.3	0.5	-0.5	1.5	2.1	3.8	5.1	5.3	2.3	0.2	1.0	1.9	3.0	1.3	2.6
Montenegro	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	2.5	2.7	0.4	1.6
Romania	-0.7	0.4	-0.8	0.9	1.1	0.2	1.1	-0.2	-0.1	-2.6	-1.1	-2.2	-1.0	1.7	1.4	4.4	1.9	0.3	-1.7	2.5	1.2	2.6
Serbia	1.0	0.1	1.2	-0.2	1.5	-0.1	-0.5	-0.3	-0.1	-0.3	0.5	1.6	1.7	3.0	2.5	0.7	0.4	-1.3	1.0	1.6	0.1	2.6
Eastern Europe and the Caucasus																						
Armenia	6.4	-2.1	-4.0	2.9	3.2	0.7	0.7	1.0	1.6	3.4	8.2	-2.9	2.4	1.4	3.1	6.9	5.0	0.5	2.2	4.7	4.0	4.0
Azerbaijan	-1.6	3.8	0.6	0.0	-2.2	2.1	0.0	-0.5	-2.8	5.4	8.0	5.0	3.1	1.6	0.3	-0.1	-0.5	0.5	5.0	0.1	3.5	3.0
Belarus	2.1	3.7	0.4	3.4	2.6	3.9	-7.8	1.7	4.1	4.3	9.2	7.0	10.2	10.4	11.0	1.5	0.0	1.9	7.7	5.3	2.5	3.0
Georgia	1.5	2.5	-0.1	1.8	1.8	1.4	2.5	2.7	0.5	3.7	8.3	6.7	6.1	6.1	4.9	7.5	8.8	7.2	6.3	7.0	5.5	5.5
Moldova	0.8	2.7	2.4	2.3	0.9	1.2	1.6	1.7	1.0	4.7	5.6	6.5	9.0	8.4	6.7	6.0	5.8	5.7	7.1	6.4	4.0	4.5
Ukraine	0.6	2.2	-0.7	1.5	2.5	0.6	1.6	0.0	-0.1	4.5	5.4	3.3	3.7	5.4	3.9	6.5	4.7	1.8	4.1	5.2	2.5	4.0
Turkey	1.3	2.2	0.0	5.6	2.6	0.5	0.4	1.6	0.2	12.6	10.4	5.3	9.3	11.9	9.1	8.4	5.2	1.9	9.2	8.5	2.5	3.5
Russia	1.5	0.8	0.8	0.4	1.0	0.6	1.8	1.1	1.0	3.8	4.9	3.8	4.9	4.0	3.4	5.0	4.8	4.7	4.3	4.3	4.2	4.3
Central Asia																						
Kazakhstan	0.2	3.1	2.4	0.7	1.5	2.4	2.0	2.0	-0.4	5.8	8.5	7.7	7.1	6.8	7.4	6.8	8.7	5.6	7.3	7.5	5.0	6.0
Kyrgyz Republic	6.8	-11.8	0.3	5.4	5.5	-2.2	1.1	-0.9	-4.3	17.9	-4.4	-7.5	1.0	-1.8	7.9	9.6	4.3	-6.8	-0.5	5.7	1.0	7.0
Mongolia	1.7	-0.3	2.7	-2.6	10.0	6.2	5.2	-2.0	4.2	8.2	6.3	12.0	0.4	9.8	16.8	20.7	19.3	13.7	6.4	17.3	14.0	16.0
Tajikistan	1.0	2.4	0.6	2.4	1.4	2.5	1.8	1.2	1.7	6.8	7.8	4.9	7.1	6.5	7.2	8.1	7.2	7.2	6.5	7.4	4.0	5.0
Turkmenistan	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	9.2	14.7	10.0	10.0
Uzbekistan	2.7	2.4	1.9	2.1	1.4	2.6	2.1	1.9	1.5	8.0	8.0	8.0	9.6	7.6	8.3	8.4	8.5	9.4	8.5	8.3	7.0	7.0
Southern and Eastern Mediterranean																						
Egypt *	1.7	1.3	1.5	1.1	-7.6	5.7	1.8	0.9	-1.4	5.6	5.4	5.5	5.7	-3.8	0.3	0.4	0.4	6.7	5.5	-0.6	1.7	3.7
Jordan	0.7	0.8	1.4	0.2	0.1	0.9	1.1	0.9	0.2	2.4	1.4	2.2	3.2	2.3	2.4	2.6	3.1	3.6	2.3	2.6	2.7	2.9
Morocco	-1.3	1.2	1.3	2.0	0.5	0.4	1.8	2.2	0.3	3.5	5.0	3.1	4.5	4.1	4.2	4.8	5.3	5.1	3.9	4.8	3.5	4.3
Tunisia	1.5	0.3	0.5	0.0	-3.8	1.8	1.4	0.8	0.0	4.4	4.1	3.4	2.2	-3.1	-1.6	-0.7	-0.4	4.4	3.5	-2.2	2.2	3.2

1/ As of April 30, 2012.

* Both actual and forecast GDP growth figures are on a calendar year basis in contrast to figures published by Egypt's national authorities, which are on a fiscal year basis ending in June.

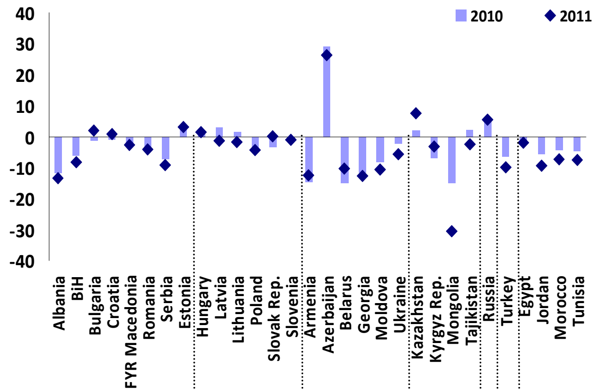
Figure 1. External environment

Export volumes, y-o-y, %



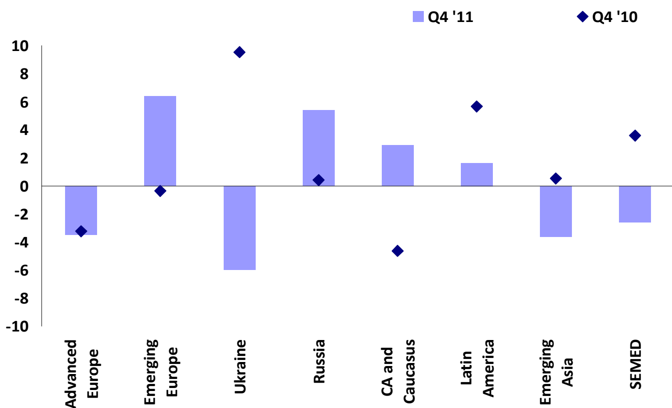
Source: National authorities via CEIC data service.

Current account, % of GDP



Source: National authorities via CEIC data service.

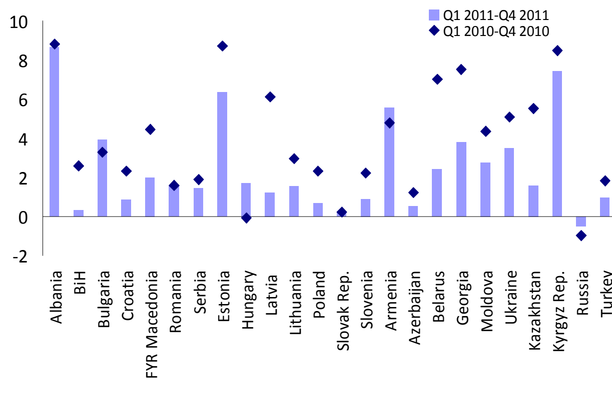
Net lending from BIS-reporting banks, exch. rate adjusted, q-o-q



1/ Emerging Europe excludes Russia and Ukraine.
2/ Emerging Asia excludes China, Central Asia and Caucasus.

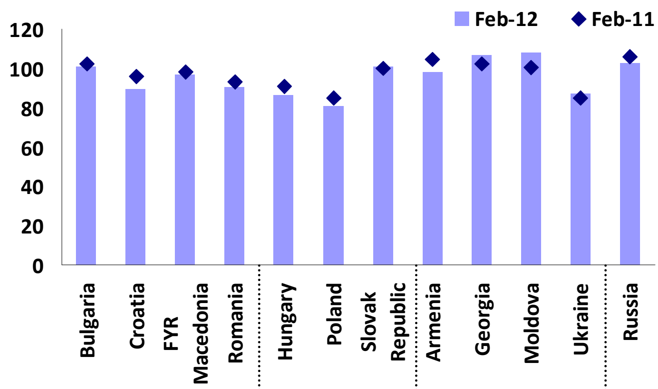
Source: BIS via CEIC data service.

FDI net inflows, % of GDP



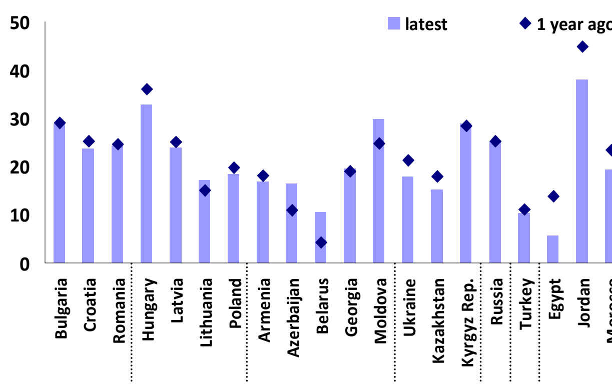
Source: National authorities via CEIC data service.

Real effective exchange rate, July 2008=100



Source: IMF International Financial Statistics.

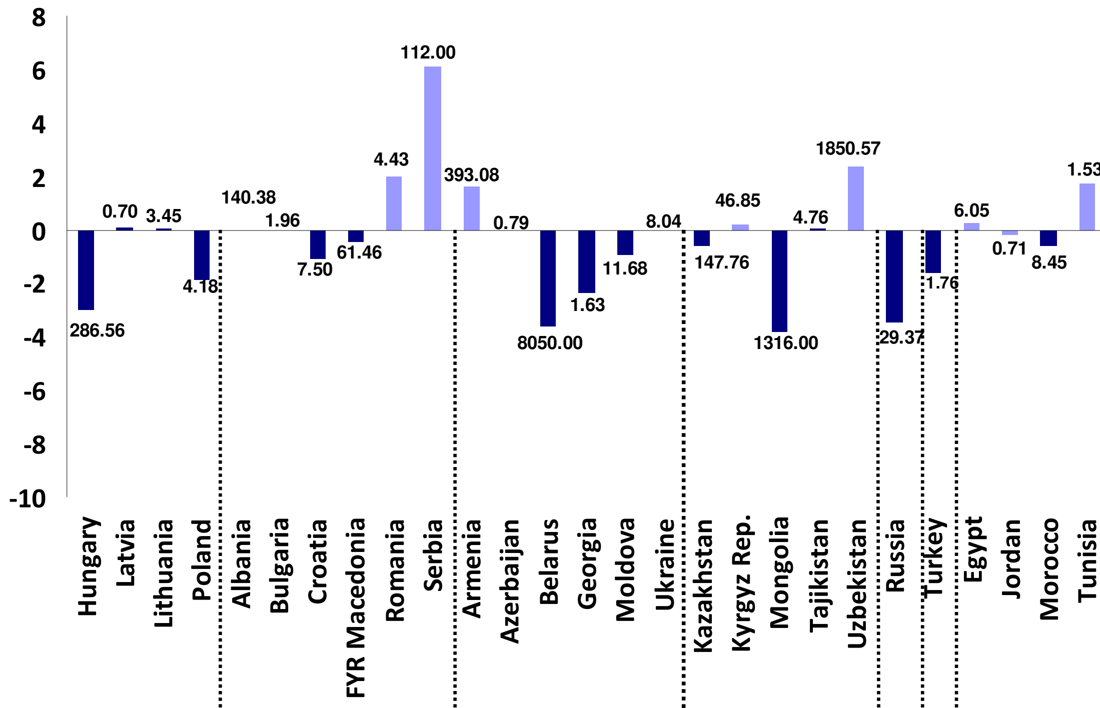
Reserves, end of period, % of GDP



Source: IMF International Financial Statistics.

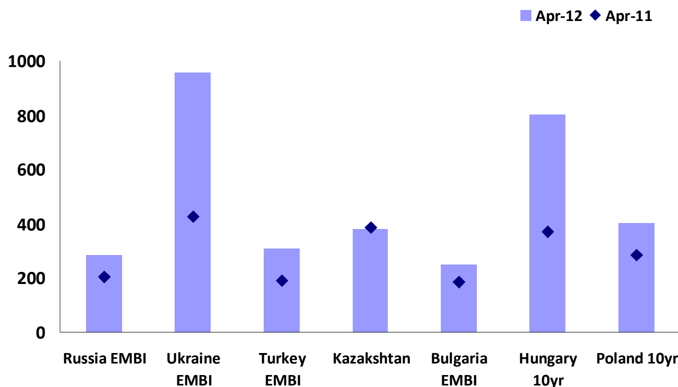
Figure 2. Currencies and financial market indicators (daily frequency)

Currencies (change since 30/01/2012)



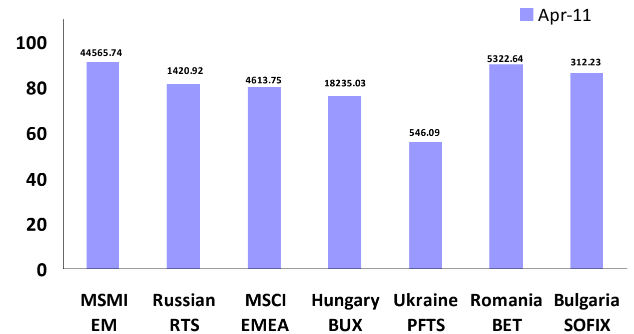
Source: Bloomberg.
For EEC, CA, SEMED, Turkey and Russia the reference currency is U.S. dollar; For CEB and SEE the reference currency is Euro.
A decrease represents an appreciation. Numbers on bars represent actual exchange rate values

Sovereign risk (bond spreads, bp)



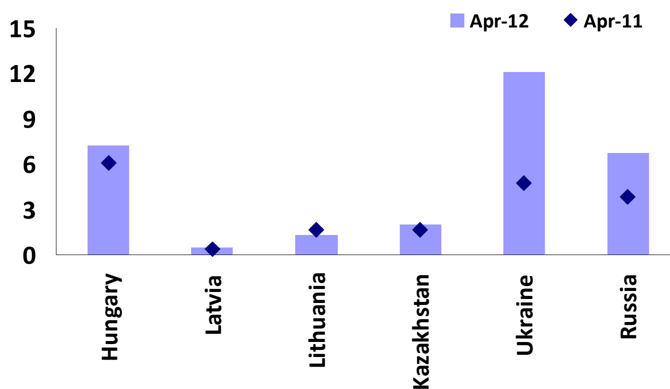
Source: Bloomberg.

Stock markets (January 2011=100)



Numbers on bars represent actual values of stock indices.

Interbank rates (%)



Source: Bloomberg.

Parent banks CDS spreads (bp)

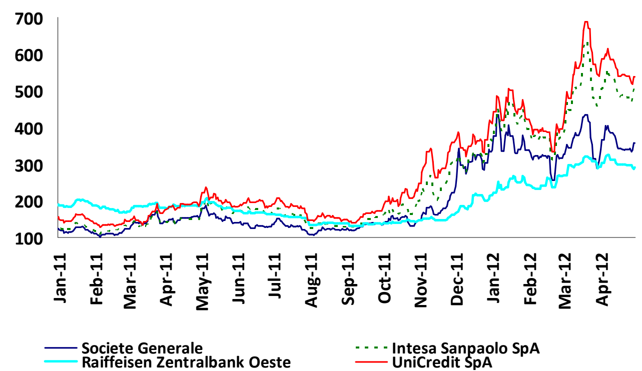
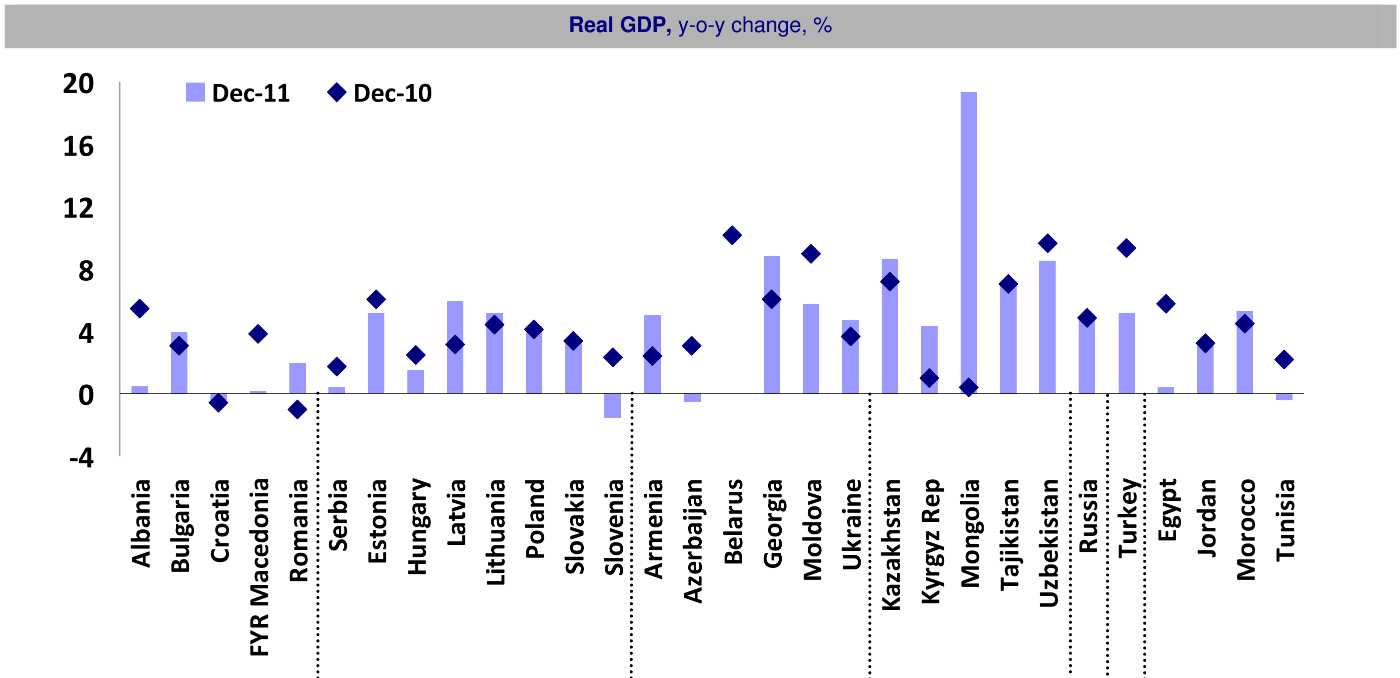
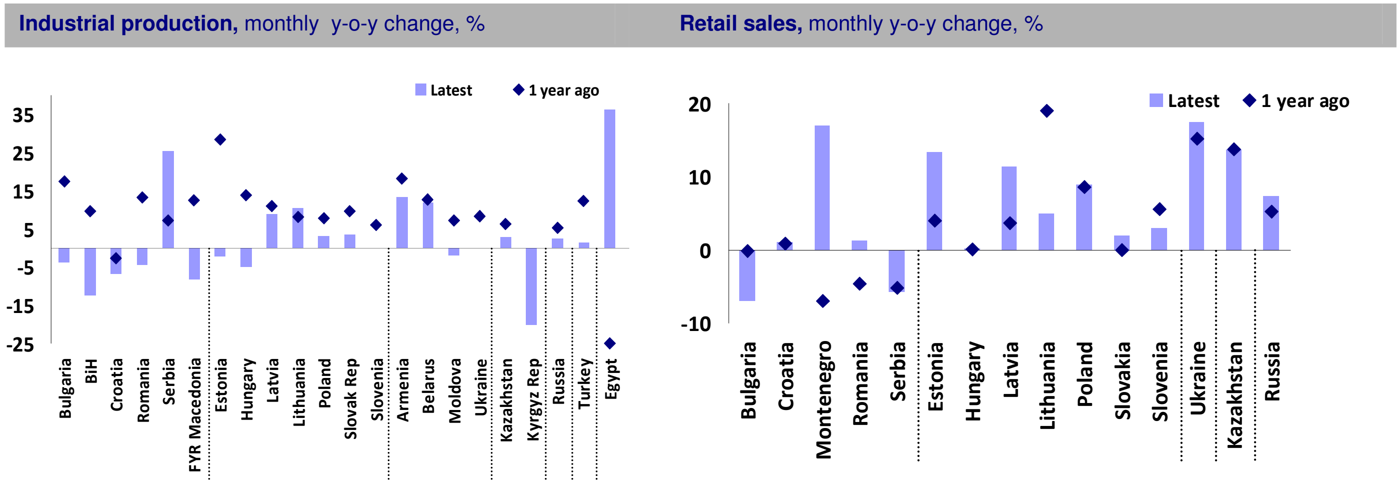


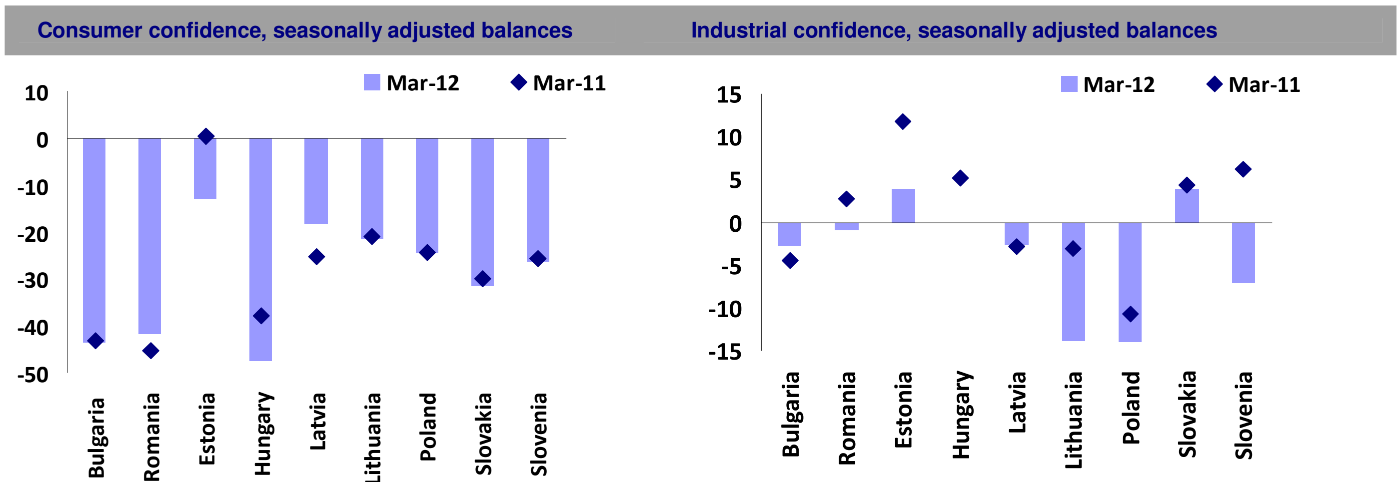
Figure 3. Indicators of real activity



Source: National authorities via CEIC data service.

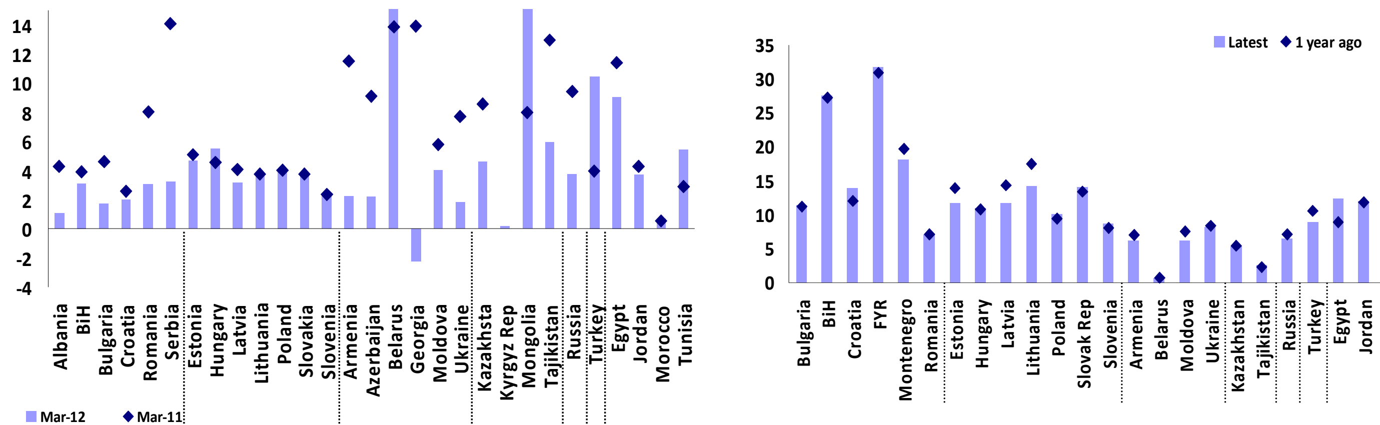


Source: National authorities via CEIC data service.



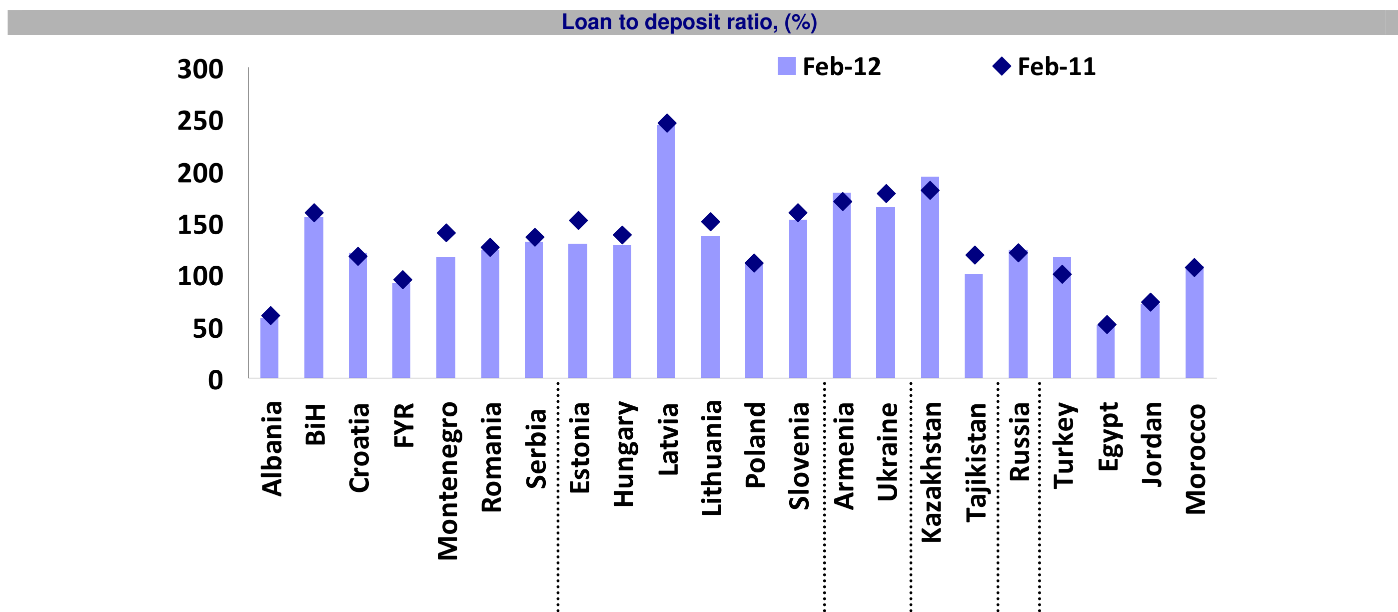
defined as the difference (in percentage points of total answers) between positive and negative answers
Source: Eurostat

defined as the difference (in percentage points of total answers) between positive and negative answers

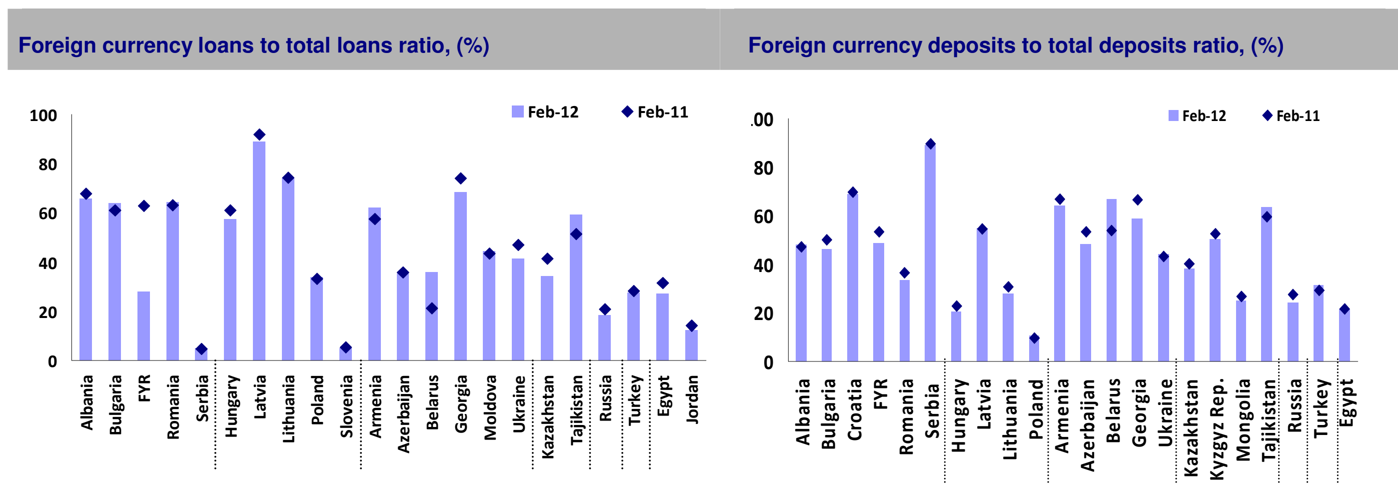


Source: National authorities via CEIC data service,Eurostat

Figure 4: Financial sector indicators: loans and deposits



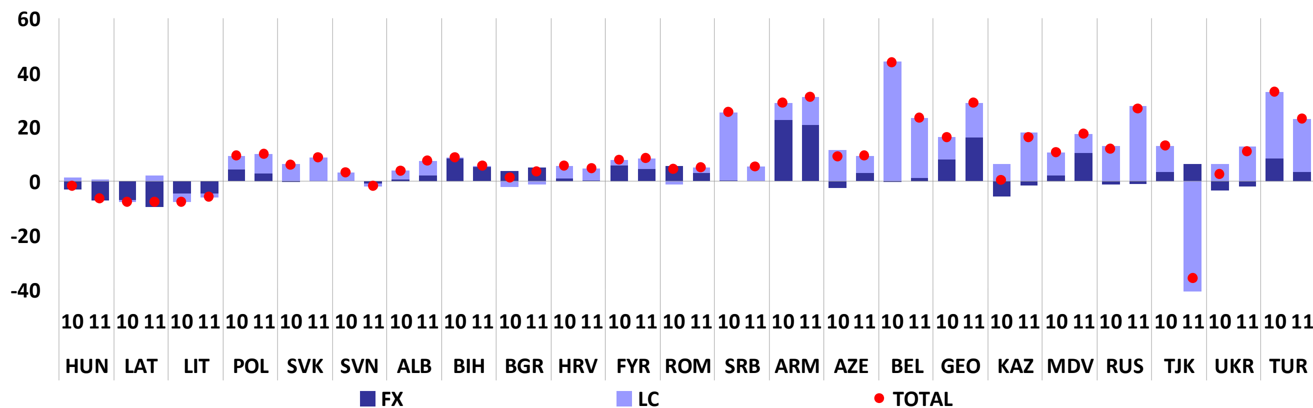
Source: National authorities via CEIC data service.



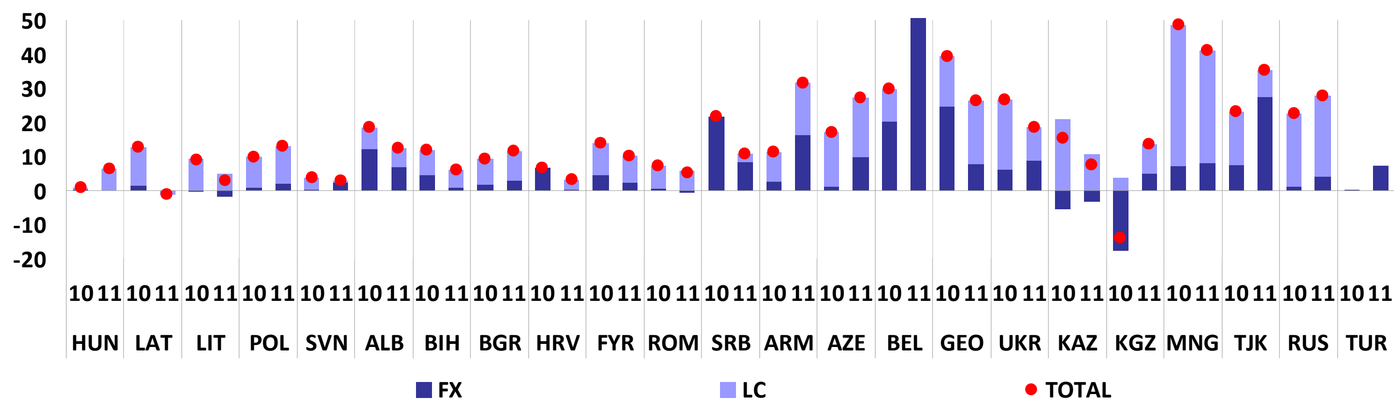
Source: National authorities via CEIC data service

Figure 5. Financial sector indicators: foreign and local currency lending and deposits

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



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



Source: National authorities via CEIC service.