Regional Economic Prospects in

EBRD Countries of Operations: October 2012[1]

EBRD Office of the Chief Economist

Overview

Transition region growth slows as Eurozone crisis bites

Growth in the transition region is expected to drop from 4.6 per cent in 2011 to 2.7 per cent in 2012 before modestly picking up to 3.2 per cent in 2013, as the Eurozone crisis continues to negatively affect economic performance. Most countries in central and south-eastern Europe as well as Ukraine will likely see lower growth than previously forecast as the baseline outlook for the Euro area has worsened further. At the same time, forecasts for Egypt and to a much lesser extent Russia and Turkey have been revised upwards, and our forecast for the region as a whole for 2012 and 2013 has not changed since July. The main downside risk for the transition region – an escalation of the Eurozone crisis – has however become slightly less likely.

The transition region as a whole performed substantially worse in the first half of this year than in the second half of last year as the effect of the Eurozone crisis spread further east (see Chart1). Central Europe and the Baltics (CEB) and South-eastern Europe (SEE) were first hit by the turmoil as they are the most integrated with the single currency area. Even though their growth rates recovered slightly in the second quarter of this year, they remained low and forward looking indicators suggest they may have fallen again in the third quarter. Turkey has continued its rapid slowdown following a capital inflow-funded credit boom in 2010-11. While Eastern Europe and Caucasus (EEC) recorded increasing growth rates since late last year, importantly for the region as a whole, Russian growth has been slowing down. Should this trend continue, it will negatively affect growth in the EEC and Central Asia and especially in the non-commodity exporting countries.

Exports from many countries in the region fell significantly since autumn of last year as the Eurozone, a major export destination, slowed down (see Chart 2). Exports from all CEB and SEE and some SEMED countries were lower in July of this year relative to September of last year, reflecting a fall in Eurozone imports over the same period. Exports from many EEC and Central Asian countries grew, however, as many of them are destined for Russia, whose economy started slowing down with a lag relative to that of the Eurozone.

Overall private capital outflows from the region in the second half of 2011 have since turned into mild inflows, mainly due to developments in Russia and Turkey. In the second half of 2011, flows into the CEB and SEE regions as well as Turkey fell substantially and non-FDI outflows from Russia intensified, partly as the

[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 2012 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).

Eurozone turmoil increased investors' risk aversion. More recently, inflows into Turkey increased somewhat and outflows from Russia moderated, returning positive private capital flows to the region as a whole.

Cross-border bank deleveraging related to the deepening Eurozone crisis was strong in the second half of 2011 and continued, albeit at a reduced pace, in the first half of 2012. Foreign banks' deleveraging eased in Q1 mainly as a result of the ECB's massive liquidity operations (LTROs). However, data from the Bank for International Settlements shows that deleveraging picked up in Q2 as the impact of the LTROs waned. Country differences have been significant. In the past 12 months through June 2012 many CEB and SEE countries suffered significant cross-border deleveraging, some to the tune of over 10 percentage points of GDP, and several between 5-10 percentage points of GDP (see Chart 3).

With less external funding available, real credit continues to contract in almost all CEB and SEE countries (see Chart 4). Within the CEB region, only Poland recorded mildly positive year-on-year real credit growth in August of this year. Slovakia saw a marginally negative change in real credit. All other CEB countries witnessed substantial real credit contractions. More recently, the credit situation seems to have deteriorated further in Hungary and Croatia, whose economies are struggling in double-dip recessions. Within the SEE region, Serbian and Romanian real credit marginally contracted whereas it slightly expanded in Bulgaria over the past year, even though most recently real credit appears to be contracting more substantially in the former two countries and mildly in the latter. The impact of the Eurozone crisis on CEB and SEE countries through the credit channel therefore continues.

High non-performing loan (NPL) ratios, which persist as a legacy of the 2008/09 crisis in many countries, have also contributed to low credit growth. In 2011 and the first half of 2012, there were further NPL increases in the SEE region where the average ratio is now above 15 per cent (compared to 4 per cent in 2008). A similar rise was seen in a few CEB countries. By contrast, efforts at resolution achieved some successes in the Baltic states where NPLs fell over the past year although they remain at high levels.

Unemployment has remained above pre-2008-09 crisis levels in most CEB countries as employment has generally failed to keep pace with GDP growth since 2010. In the SEE region there have been some apparent declines in unemployment (although from very high levels). In the SEMED region the political and economic turmoil in the first half of 2011 contributed to rising unemployment.

Outlook and risks

GDP growth in the transition region is expected to slow down substantially to 2.7 per cent in 2012 and 3.2 per cent in 2013 from 4.6 per cent in 2011 (see Chart 6)**.** Notwithstanding changes among individual country forecasts, the overall forecast for both years is the same as in July.

The Euro area crisis will continue to negatively impact growth in the transition region. The projection assumes a baseline scenario of continued slow and uneven progress towards containment of the Eurozone crisis. Recent policy makers' actions,

including the ECB announcement of Outright Market Transactions (OMT) and steps toward an eventual banking union have somewhat increased the probability of this scenario relative to a downside option of further worsening of the crisis. The baseline scenario implies a mild recession in the single currency area in 2012 and no growth in 2013, a slightly worse outcome than previously expected, as the Eurozone recovery will be delayed relative to earlier forecasts. Real activity in the Eurozone will suffer in the near term both due to fiscal contraction and credit decline although a full scale credit crunch should be avoided as the ECB has shown it will provide the necessary amount of liquidity to the financial system. This will continue to negatively impact the transition region's exports to the Eurozone as well as the availability of finance for the region's banks and therefore credit growth.

In the baseline scenario, which is more likely but also slightly worse than assumed in July, countries that are the most integrated with the Euro area will slow down somewhat more than previously predicted. Econometric analysis in the EBRD's forthcoming Transition Report 2012 confirms that many countries in the CEB and SEE regions as well as Ukraine are particularly exposed to variations in Eurozone output (see Chart 5). Exports to and FDI and bank funding from the Eurozone will continue to fall for these countries as the Euro area stagnates. With the worsening outlook for the Eurozone, CEB and SEE regions will slow down this year even more than previously forecast. Recessions in Croatia, Hungary and Slovenia will further deepen, but even the normally resilient Polish economy is now expected to grow less. The EEC region will see slower growth mainly due to the slowing Ukrainian economy, where idiosyncratic factors combine with the weak external environment of a Eurozone recession and slowing growth in Russia.

Growth elsewhere in the region will also decelerate relative to last year as the protracted Eurozone crisis is now affecting commodity prices and investor risk aversion. Weaker demand from the Euro area is impacting growth across emerging markets, depressing global commodity demand. This limits commodity prices, which in turn directly affects growth in Russia and other commodity exporters. Continued capital flight from Russia, partly due to higher investor risk aversion, further weakens domestic demand and particularly investment. Growth in Russia is projected to slow down from over 4 per cent last year to 3.2 per cent this year, a marginal improvement on the July forecast. Elsewhere, Turkey will likely perform slightly better this year than previously expected, as it seems to be avoiding a possible hard landing following its capital inflow-fuelled credit boom. Egypt's growth is expected to be substantially higher thanks to strong performance in the first half of this year in the manufacturing, construction, transport, and real estate sectors, as well as tourism, growing from a low base.

The Eurozone crisis poses further downside risks to the outlook, as any worsening 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, though less likely – 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. This scenario implies prolonged market turmoil and a severe western European recession with swift negative spill-overs for the global economy, resulting in lower growth in advanced and emerging economies and lower commodity prices. A

negative Eurozone crisis scenario would affect CEB and SEE countries via the same channels as in the baseline, including depressed exports and financing inflows, only more severely. Substantially 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. The probability of this downside scenario has reduced somewhat following the recent launch of the permanent European Stability Mechanism, but especially the ECB's decision to support sovereign debt markets in the Eurozone through OMTs conditional on EU-supported stabilization programmes in the countries concerned. The implementation of such a programme in Spain and consistent progress toward a banking union would further reduce the probability of this scenario.

Chart 1. Growth in transition sub-regions
(per cent, quarterly, year-on-year, %)

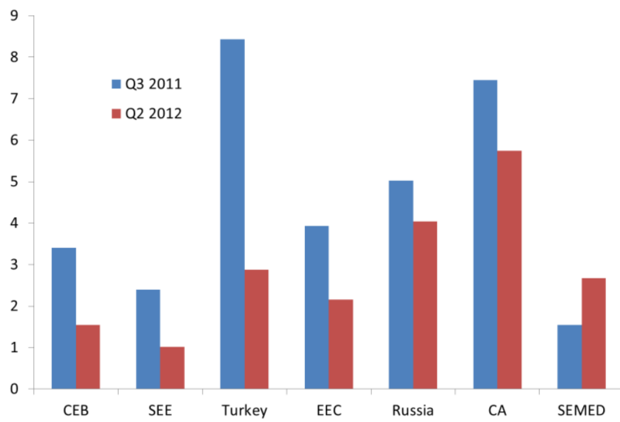


Chart 2. Exports
(avg. SA m-o-m export growth, Sep '11-Jul '12, %)

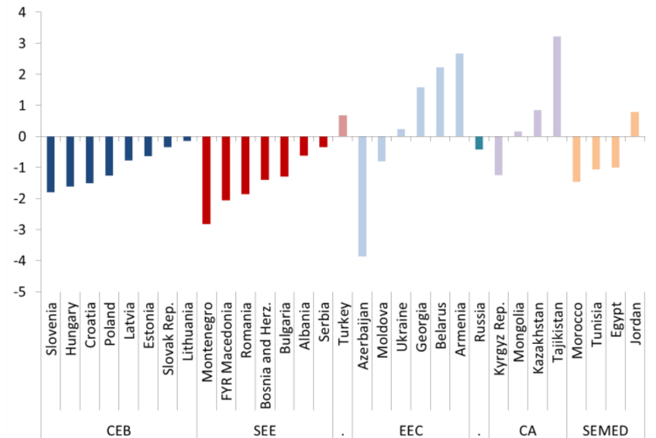


Chart 3. External positions of BIS-reporting banks[2]
(vis-à-vis all sectors, as % of 2011 GDP)

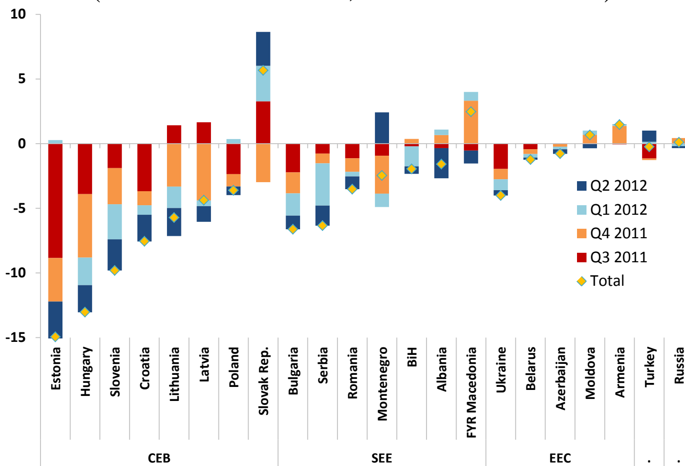


Chart 4. Real credit growth
(Year-on-year, August '12 or latest, %)

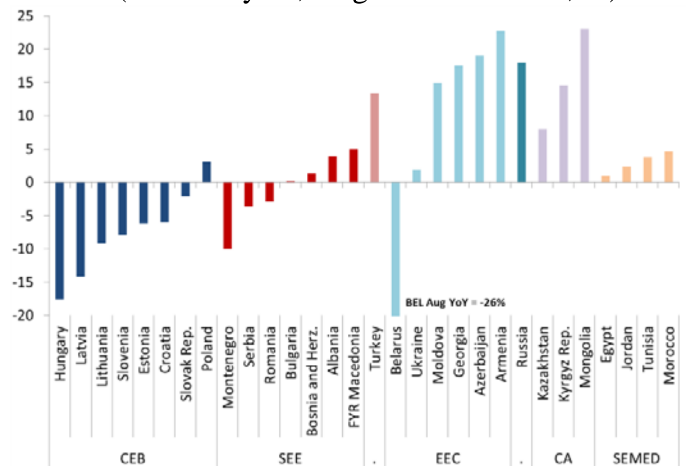


Chart 5: Exposure to the Eurozone[3]

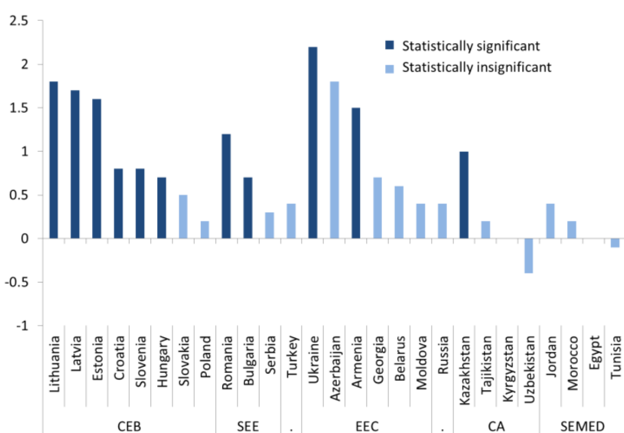
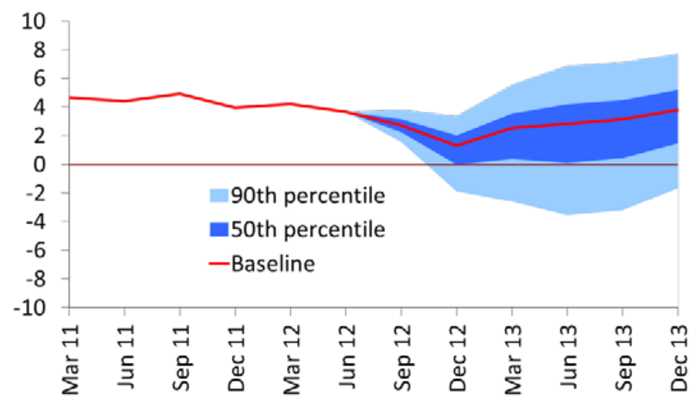


Chart 6. Transition region real GDP Growth[4]
(%, quarterly, year-on-year)



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[2] Sources: BIS, Vienna 2 initiative CESEE deleveraging monitor July 2012, updated.

[3] Quarterly y-o-y growth response to a 1 standard deviation shock to Eurozone growth, 4 quarters after the shock

[4] Y-o-y growth in aggregate real GDP of transition countries. The fan-chart is based on a Bayesian Vector Autoregression Model The baseline scenario assumes Eurozone real GDP growth of -0.4% in 2012 and 0% 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$100 per barrel. The downside scenario assumes a recession in the Eurozone, with growth of -1 per cent in 2012 and -2 per cent in 2013 and more volatile market, with VIX averaging 40 in the second half of 2012 and then slowly declining in the second half of the year. The upside scenario assumes a 0% and 1% growth in the Eurozone in 2012 and 2013, respectively, and an oil price of up to $115 per barrel by 2013.

Growth in real GDP

(In per cent; EBRD forecasts as of 12 October 2012)

		Current forecast		EBRD Forecast in July 2012			
	2011	2012	2013	2012	Change July-October	2013	Change July-October
Central Europe and the Baltic states							
Croatia	0.0	-1.9	1.2	-1.2	-0.7	1.5	-0.3
Estonia	8.3	2.3	2.5	2.4	-0.1	2.8	-0.3
Hungary	1.6	-1.5	0.4	-1.3	-0.2	0.4	0.0
Latvia	5.5	4.2	2.7	3.5	0.7	2.9	-0.2
Lithuania	5.9	2.7	2.4	2.8	-0.1	2.5	-0.1
Poland	4.3	2.5	2.2	2.9	-0.4	2.4	-0.2
Slovak Republic	3.3	2.7	2.3	2.6	0.1	2.3	0.0
Slovenia	0.6	-2.5	-2.0	-2.0	-0.5	-1.4	-0.6
Average[1,2]	***3.5***	***1.4***	***1.7***	***1.7***	***-0.3***	***1.9***	***-0.2***
South-eastern Europe							
Albania	3.1	0.6	1.3	1.2	-0.6	1.4	-0.1
Bosnia and Herzegovina	1.3	0.1	0.4	0.3	-0.2	0.6	-0.2
Bulgaria	1.7	1.2	1.7	1.2	0.0	1.7	0.0
FYR Macedonia	2.9	0.3	2.0	0.5	-0.2	2.0	0.0
Montenegro	3.2	0.3	0.8	0.4	-0.1	0.8	0.0
Romania	2.5	0.5	1.9	0.8	-0.3	1.8	0.1
Serbia	1.6	-0.7	1.1	0.1	-0.8	1.7	-0.6
Average[1]	***2.2***	***0.4***	***1.6***	***0.7***	***-0.3***	***1.7***	***-0.1***
Eastern Europe and the Caucasus							
Armenia	4.6	5.0	4.0	4.0	1.0	4.0	0.0
Azerbaijan	0.1	2.0	3.0	2.5	-0.5	3.0	0.0
Belarus	5.3	5.5	2.5	4.5	1.0	3.0	-0.5
Georgia	6.9	6.5	5.0	5.5	1.0	5.5	-0.5
Moldova	6.4	1.0	3.5	2.5	-1.5	3.5	0.0
Ukraine	5.2	1.0	2.5	2.5	-1.5	4.0	-1.5
Average[1]	***4.2***	***2.4***	***2.8***	***3.0***	***-0.6***	***3.7***	***-0.9***
Turkey	8.5	3.0	3.7	2.7	0.3	3.5	0.2
Russia	4.3	3.2	3.3	3.1	0.1	3.3	0.0
Central Asia							
Kazakhstan	7.5	5.5	6.0	5.0	0.5	6.0	0.0
Kyrgyz Republic	5.7	-1.1	7.0	0.5	-1.6	7.0	0.0
Mongolia	17.5	11.5	16.0	14.0	-2.5	16.0	0.0
Tajikistan	7.4	6.0	5.0	4.0	2.0	5.0	0.0
Turkmenistan	14.7	10.0	10.0	10.0	0.0	10.0	0.0
Uzbekistan	8.3	7.5	7.0	7.0	0.5	7.0	0.0
Average[1]	***8.6***	***6.3***	***6.9***	***6.0***	***0.3***	***6.9***	0.0
Average EBRD region (excluding SEMED) [1]	***5.0***	***2.7***	***3.1***	***2.7***	***0.0***	***3.1***	***0.0***
Southern and Eastern Mediterranean							
Egypt	-0.6	3.2	3.8	1.8	1.4	3.7	0.1
Jordan	2.6	2.6	3.0	2.7	-0.1	2.9	0.1
Morocco	5.0	2.3	4.5	2.4	-0.1	4.1	0.4
Tunisia	-1.5	2.4	3.0	2.3	0.1	3.2	-0.2
Average[1]	***0.9***	***2.9***	***3.8***	***2.1***	***0.8***	***3.7***	***0.1***
Average EBRD region (including SEMED) [1]	***4.6***	***2.7***	***3.2***	***2.7***	***0.0***	***3.2***	***0.0***

[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.

Central Europe and the Baltic States (CEB)

The CEB region remains highly exposed to the on-going deterioration of economic activity in the Eurozone and the deleveraging pressures by European banks. The eight countries can be roughly divided into one group that is still resilient to the crisis (the Baltics, the Slovak Republic, and to some extent Poland), and another group that will experience at least one year of recession (Slovenia, Hungary and Croatia). However, the resilient group has linkages either to stronger performing regions (the Nordic countries) or to industries (cars and electronics sectors), which will ultimately expose these countries to the broader downturn in international trade and industrial production. Even Poland is now showing a marked slowdown, underlining a possibly excessive reliance on public investment.

- In **Hungary** the economy contracted by 1.2 per cent over the first half of 2012 as the slowdown in export markets added to the continued weaknesses in domestic demand. Recent trends in industrial production and business confidence point to a further contraction during the remainder of the year, as indicators of household earnings and labour market trends remain weak. The EBRD's growth projections for 2012 and next year have been further downgraded. Worryingly, Hungary's traditional strength in attracting export-oriented investment appears increasingly in doubt. Against the background of substantial refinancing requirements next year the country remains uniquely vulnerable to a shift in investor sentiment. IMF/EU negotiations on a financial programme need to be urgently concluded. This would restore some policy credibility and put tax policy on a sustainable footing.
- Growth in **Poland** has experienced a marked slowdown in the second quarter, with retail sales and public investment both undershooting expectations by wide margins. Public investment will be further constrained, in particular due to slower absorption of EU funds, while private investment also seem to decline from levels seen earlier in the year. The government appears to allow automatic fiscal stabilizers to buffer some of this decline, thereby overshooting the previously announced fiscal deficit target by a small margin. As public debt levels are already close to legal limits the scope for doing so will, however, be more limited than during the European recession of 2009. External funding risks are, however, small given continued good funding conditions in secondary bond markets and access to a contingent credit line of the IMF.
- In **Slovenia** the all-too timid recovery of last year has turned into a second recession. Further fiscal consolidation and growing fears over asset quality in the banking sector have depressed domestic demand, and this is compounded a weak external environment. Along with Slovene official forecasts the EBRD continues to project a contraction in both 2012 and 2013. The government's reform package is promising, and in October 2012 a 'bad bank' proposal was adopted by parliament. Rescued banks will need further capital injections, and non-performing bank assets will require restructuring. Wide ranging reforms, in particular of the pensions system and in the labour market, will be needed to secure sovereign debt sustainability.
- In the face of the likely modest recession in the eurozone all three **Baltic economies** have proven resilient so far, with the GDP expansion in the first half 2012 ranging between 2.8 per cent (for Estonia) and 5.9 per cent (for Latvia) compared to a year earlier. In all three economies household consumption has become the most dynamic component of growth. While 2012

GDP growth in Estonia and Lithuania will both be around 2.5 per cent, the recovery in Latvia has proven much stronger than anticipated (in particular due to corporate investment), and the country should register the strongest growth in the EU this year at over 4.2 per cent. In the short term, however, all three economies will ultimately suffer from the global slowdown in industrial production and international trade (already evident in much weaker trends in key trading partners in the region).

- In the **Slovak Republic**, growth up to mid-2012 has remained resilient, though is increasingly dependent on exports, traditionally dominated by a small number of industries, such as cars. The country hence remains heavily exposed to the slowing cycle elsewhere in the Eurozone, while confidence indicators point to rapidly slowing domestic demand. The new government has swiftly enacted fiscal consolidation measures in an effort to meet the EU deficit target next year, even though government debt remains manageable at below 45 per cent of GDP. There is a risk that a more active tax policy – in particular impacting banks or higher earning individuals, could detract from Slovakia's otherwise sound qualities as an investment destination.
- In **Croatia**, the economic situation remains very difficult. GDP declined by 1.3 and 2.1 per cent y-o-y in Q1 and Q2 respectively on the back of falling external demand and weak domestic demand, and overall growth for 2012 seems certain to be negative, reflecting the overall lack of competitiveness in the economy. However, Croatia will join the EU on July 01 2013, and this should help to revive confidence and investment.

South-Eastern Europe (SEE)

Short-term economic prospects for the SEE region are highly uncertain in the present economic climate. Financial sector vulnerabilities constitute the biggest risk, given that the vast majority of the banking system is foreign-owned and given the ongoing deleveraging pressures and the need to restructure bank balance sheets. In some countries these banks also hold significant quantities of local treasury bills. In the first three months of 2012, several countries reported output contractions relative to the previous quarter, and while the second quarter was comparatively better and growth was positive in most countries, there is no sign anywhere of a return of the confidence and investment needed to restore growth to the region.

- **Albania** continued to grow faster than other countries in the region in 2011 but it has experienced a significant slowdown in economic activity in the first half of 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 constrain growth in the coming year, and public debt, which is close to the statutory limit of 60 per cent of GDP, will limit the room for fiscal manoeuvre.

- **Bosnia and Herzegovina's** economy has been relatively stable in the past couple of years, but domestic consumption has remained subdued, largely due to fiscal austerity measures, falling remittances and slow credit growth. High frequency indicators point to substantial weakening in the economy this year, which has also affected public finances. The newly-approved 24-month US$ 520.6 million Stand-by Arrangement with the IMF provide a buffer against

external shocks from the on-going eurozone crisis as well as a policy anchor for important outstanding structural reforms.

- Recovery is expected to continue to be modest in **Bulgaria** into 2012, in contrast to earlier projections of vigorous growth, due mainly to sluggish export demand. However, the government continues to adhere to fiscal prudence, with the government budget marginally in surplus in the first eight months of the year. This was reflected in a very successful Eurobond issue in July 2012. The five-year €950 million bond issue was heavily oversubscribed and achieved an impressively low coupon of 4.25 per cent. As a result, Bulgaria has significant fiscal and monetary buffers to help the country withstand further shocks, but growth in 2012 is likely to be around 1 per cent only, with a modest forecast increase in 2013 to between 1 and 2 per cent.

- **FYR Macedonia** was shielded from the impact of the eurozone crisis in 2011 mainly on account of the country's prudent fiscal policy, absence of major imbalances and a financial system that is not reliant on significant parent bank capital. This year, however, the impact from the adverse external developments is being felt more strongly and economic growth has slowed down substantially as a result of the weaker demand for exports, lower FDI and reduced remittance flows. The economy contracted in the first six months on a year-to-year basis, and only minimal growth is forecast for the year.

- **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.

- The slowdown in the eurozone, significant drop in agricultural output and the heightened political uncertainty have had significant dampening effect on **Romania's** growth this year. GDP is currently forecast to increase by only 0.5 per cent this year, despite the strong second quarter. Financial support from the IMF and other IFIs has provided an important buffer, especially in light of the country's strong financial linkages with the eurozone.

- **Serbia's** economy is showing several weaknesses at present. Growth was around 2 per cent in 2011 but is now forecast to be negative in 2012, especially in light of the weak output figures in the first quarter of 2012 (GDP contracted by 1.3 per cent y-o-y) and only a marginally better second quarter. Major risks remain, mainly from exposure to the eurozone, and, after declining to record lows, inflation is on the rise again and reached double-digit levels in September. Domestic policies have added to uncertainty in the run-up and since the elections. The IMF programme is on hold and the government faces a major challenge in reducing the fiscal deficit (currently around 7 per cent of GDP) and bringing down public debt, which has risen close to 60 per cent of GDP, way above the legal limit of 45 per cent.

Turkey

After a strong growth performance in 2011, the Turkish economy has slowed down significantly in 2012. Real GDP slowed to 2.9 per cent in the second quarter of 2012, down from 8.5 per cent reached in 2011. The deceleration is mostly attributed to a drop in domestic demand, a key driver of growth, which fell by 2.2 per cent y-o-y in Q2, along with an 8 per cent fall in private investment. In addition, credit to the private sector continued to slow in the first half of the year, falling from around 33 per cent y-o-y in December to 19 per cent in August.

The economy is however, expected to achieve a soft landing in 2012, and we expect overall growth to reach 3.0 per cent. While external rebalancing of the economy has started already throughout the first half of 2012, the pace may not be sufficient to achieve a sustainable current account deficit, which remains a key risk facing the economy. The current account 12-month rolling deficit reached 7.9 per cent of GDP in July, down from 10 per cent in 2011, on the back of strong exports and tourism receipts, and a decline in oil prices and non-energy imports. However, concerns remain about the speed of correction, and whether the momentum can be sustained in the second half of the year. Fears of lacklustre growth led the central bank to cut a key interest rate for the first time in seven months in September, and it increased banks' reserve option coefficients in order to manage currency pressures associated with potential capital inflows brought about by quantitative easing in the US and the ECB's bond purchase program. While inflation has moderated since April, it is nevertheless expected to remain above the central bank's year-end target of 5.5 per cent, especially given the recent rise in agricultural prices.

Eastern Europe and the Caucasus (EEC)

The global economic instability and the eurozone crisis have had an impact on this diverse region. Ukraine has been affected by lower external demand and tight financial conditions, compensated to some extent by domestic consumption. The economy of Belarus has been recovering from last year's 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 on-going oil sector contraction. Georgia's broad-based recovery has continued at a fast pace. Moldova has been slowing down recently as external demand and remittances inflows have decelerated. Armenia has demonstrated some resilience so far, in part due to its lower integration in the European market. The region's vulnerabilities remain significant due to the reliance on external demand (in particular from the EU and Russia) to support growth, 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 and re-ignite balance-of-payments pressures.

- **Ukraine**'s economy has been affected by the worsening external environment. Lower external demand and subdued steel prices led to a contraction of machine building and steel sectors. Completion of significant public infrastructure investments related to the Euro-2012 football championship has

led to a deceleration of construction. Agricultural output has also slowed down this year after an unusually cold winter was followed by a very hot summer. Buoyant consumer demand, fuelled by rising real wages, has helped maintain growth of the retail sector although retail turnover has slowed down recently. While 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 central bank tightened monetary conditions and utilised administrative measures to maintain the hryvnia's external stability, credit growth came to a halt. After pursuing fiscal consolidation policies over the past two years, the authorities adopted a package of social and wage expenditures that has increased fiscal pressures ahead of the parliamentary elections in October. Ukraine's economy is very much exposed to the Eurozone, and developments in the EU will remain important for the country's growth and economic stability.

- **Armenia**'s output growth has accelerated, 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 concentration.

- The economy of **Belarus** has recovered from 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 2011, tightened monetary policy and curbed directed lending. Soft loans from a CIS stabilization fund and bilateral loans as well as windfall hydrocarbon revenues from Russia have been used to replenish critically low external reserves. However, the recently implemented public wage increases may lead to a new bout of macroeconomic instability down the road.

- After two years of fast paced recovery from the financial crisis, **Moldova**'s output growth has decelerated in response to the weakening external demand and unfavourable weather conditions. Short-term growth prospects are uncertain and depend on the evolution of remittances, exports and investment sentiment.

- **Georgia**'s economic activity accelerated in the first half of 2012 and remains strong. As the external financing package mobilised by a range of donors during the twin crisis 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 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, mainly stimulated by budget expenditures. The diversification of the economy remains important 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.

Russia

The Russian economy continues to be affected by the global slowdown through weaker external demand, and increasingly through lower domestic demand growth as well. Year-on-year GDP growth slowed from 4.9 per cent in Q1 2012 to 4 per cent in Q2, while the output growth of Russia's five basic sectors (the monthly GDP proxy) slowed to 1.9 per cent y-o-y in August, reflecting both a slowdown in industrial production (to 2.1 per cent) and adverse weather conditions that caused a 3.7 per cent y-o-y contraction in agricultural output. Retail sales growth, which had remained robust at around 7 per cent during the first half of the year, slowed to 4.3 per cent y-o-y in August, while imports and construction sector growth slowed down significantly as well. When taking into account seasonal factors, the slowdown was even more significant and appears to have started already in Q4 2011. Net capital outflows have continued and amounted to around US$ 57 billion during the first nine months of 2012, suggesting that continued political and economic uncertainty continues to affect the investment climate. On current trends, GDP growth is expected to slow to 3.2 per cent in 2012 and pick up slightly to 3.3 per cent in 2013.

Since reaching a record low of 3.6 per cent in April-May, inflation has been on the rise and reached 6.6 per cent in September, mostly reflecting higher food prices and regulated tariff increases. End-year inflation is expected to reach 6.8 per cent – well above the 5-6 per cent inflation target. The CBR aims to keep its end-year inflation target at 5-6 per cent for 2013, reducing it to 4-5 per cent for 2014-5. It now plans to complete the formal transition to inflation targeting and a free floating rouble by 2015, which should help to improve the economy's resilience to shocks, and thereby investor confidence.

Central Asia

In most of Central Asia, economic growth rates have started to fall in response to the global economic slowdown, combined with one-off exogenous factors (including poor agricultural harvests and a gold mine strike in the Kyrgyz Republic). The slowdown in Russia, in turn, is likely to negatively affect many of its trade partners in this region through slowing remittances, FDI and export demand from Russia.

- In **Kazakhstan,** GDP growth slowed to 5.6 per cent in the first half of 2012, down from 7.5 per cent in 2011, and is expected to average 5.5 per cent during 2012 as a whole. Bank credit growth has been sustained since mid-2011 (at the rate of 13 per cent year-on-year as of August), but this appears to have been largely driven by state-sponsored subsidised loan programmes. Otherwise, the banking sector remains weak: non-performing loans (NPLs) exceed 30 per cent of total loans (although provisioning for NPLs is sufficient according to official data) and the third largest bank, BTA, is seeking a second debt restructuring in less than two years. Inflation has remained moderate, at 5 per cent in September, but may accelerate somewhat due to higher food prices.
- In the **Kyrgyz Republic,** a strike and weather-related disruption 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 of 4.6 per cent in January-August year-on-year (even though non-gold GDP continued to

grow at the rate of nearly 4 per cent). As a result of this one-off factor, GDP is projected to contract by at least 1 per cent in 2012, while in 2013 output is expected to rebound strongly (by 7 per cent) reflecting the base effect. Inflation has fallen rapidly from a high of 23 per cent in June 2011 to around 2 per cent in August 2012. It is expected to increase somewhat later in the year reflecting higher international food prices.

- In **Tajikistan**, reported GDP growth remained stronger than expected at 7.4 per cent during the first half of 2012, the same level as in 2011. However, growth is expected to slow down to 6 per cent in 2012 on account of slowing remittances, particularly from Russia, and continued tensions with Uzbekistan that have had an impact on gas supplies and railway transport. Inflation has decelerated from 15 per cent in mid-2011 to around 5 per cent in August 2012.
- **Turkmenistan** continues to experience a buoyant economic expansion, although GDP growth slowed down slightly from 14.7 per cent in 2011 to 11.1 per cent in the first half of 2012, driven by large public construction projects and increased gas exports to China and Iran. GDP growth is projected to average 10 per cent for 2012 as a whole and should remain strong over the medium term given the abundant gas reserves of the country and its relative isolation from global developments. Inflation remained moderate, at around 6 per cent in 2011, in part reflecting the fact that many prices continue to be administered by the state. At the same time, the price of bread increased threefold in July 2012.
- **Uzbekistan**'s GDP growth remained strong at 8.1 per cent in the first half of 2012, broadly unchanged from 2011 and largely driven by public spending. Growth is expected to slow down marginally to around 7.5 per cent in 2012, supported by continued large government spending and accommodative monetary conditions.
- **Mongolia** continued to benefit from a mining boom, with GDP growth of 13.2 per cent in the first half of 2012. Growth is projected to slow down but remain strong at 11.5 per cent in 2012, reflecting high copper prices and substantial mining-related FDI inflows, which exceeded 50 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-August 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 dire macroeconomic challenges, amid on-going social and political uncertainty, and other region-wide tensions. The economies of these four countries have slowly rebounded from the lows seen in 2011 following regional turmoil, but economic activity remains significantly below levels seen in 2010 and signs of recovery are still fragile. Investors continue to adopt 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, and, combined with the drop in tourism and outflow of capital, have 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. To that effect, Morocco and Jordan, have both received IMF assistance to help buffer their economies from adverse external developments, while Egypt has resumed negotiations on an IMF loan. Unemployment, especially among the youth, remains a chronic problem in all

four countries; the solution to this problem is likely to be protracted in light of subdued economic activity.

- **Egypt's** economy showed some signs of recovery in the first half of 2012, posting strong growth of 3.3 per cent y-o-y in the second quarter, (up from 0.3 per cent in the same period last year). This was driven by strong performance in the manufacturing, construction, transport, and real estate sectors, growing from a low base. Tourism is rebounded, growing by 22 per cent y-o-y in Q2. The second quarter also witnessed a large build-up of inventories, rising by 16 per cent y-o-y, helping to boost manufacturing and industrial production. Strong performance in the first two quarters has led to an upward revision of the calendar-year growth forecast for 2012 to 3.2 per cent. Nevertheless, Egypt's balance of payments remains under significant pressure, mostly due to continued capital flight, and foreign reserves stand at a critical level of three months of imports. The fiscal deficit also widened, reaching 11 per cent of GDP in FY 2011-12, on the back of higher spending on wages, social benefits, and fuel subsidies. As policy space has eroded, the authorities formally requested a US$ 4.8 billion loan from the IMF in August and negotiations are still under way. Investors have continued to adopt a wait-and-see approach amid uncertainties.
- The **Jordanian** economy continued to grow only moderately during the first half of 2012**.** Real GDP growth reached 3.0 per cent in Q1 2012, and slowed only slightly to 2.9 per cent in Q2, propped up by a rebound in tourism and strong performance of the financial services sector, a key driver of economic growth. However, growth in the first half of the year was dragged down by slowing down of manufacturing activity, along with contractions in agriculture, mining, and construction. Leading indicators of industrial and manufacturing production have steadily declined since the beginning of the year, pointing at continued muted in the second half of the year. Policy space has been substantially constrained this year, limiting the government's ability to boost economic growth, which is expected to remain largely unchanged from last year, at 2.6 per cent. Meanwhile, fiscal and balance of payments pressures have intensified this year, prompting Jordan to seek and receive IMF assistance (US$ 2 billion Stand-by Agreement).
- In **Morocco,** economic activity slowed down during the first half of 2012, with real GDP growth at 2.6 per cent y-o-y in the first half of 2012 compared to 5 per cent in H1 2011. Real GDP growth slowed to 2.3 per cent in Q2 2012, mostly due to a weak agricultural harvest, and a decline in external demand for tourism and mining. Agricultural production (which accounts for 15 per cent of GDP) still remains significantly weak following severe droughts at the beginning of the year. Non-agricultural production held up, however, growing at 4.3 per cent y-o-y in the second quarter of the year, underpinned by strong performance in the services sectors (telecommunication and financial services in particular) and public works. Manufacturing and mining declined throughout the first six months of the year, and capacity utilization rates in the past three months point to continued weakness in the third quarter. Construction (which was a driver of growth in the first quarter) slowed, dragged down by diminished business confidence and a slowdown in the real estate sector. The economy remains vulnerable to external developments, particularly high oil prices and a weak external environment, leading to a

widening of Morocco's fiscal and current account deficits, and prompting the authorities to obtain a US$ 6.2 billion Precautionary and Liquidity Line from the IMF.

- **Tunisia**'s volatile political and security conditions, along with weak external environment, have weighed on the economy, leading to a sharp slowdown in the second quarter of 2012, with real GDP growing by 2.7 per cent y-o-y. This was largely driven by slumping manufacturing and industrial activity, but agriculture and the services sector remained resilient. In particular, tourism has continued to recover, posting its second consecutive y-o-y growth in five quarters. Faltering exports and a high energy import bill have led to a deterioration of the current account during the first half of the year. The fiscal deficit also continues to widen, owing to higher spending on development, job creation, and increases in the subsidy bill. Investors continue to adopt a wait-and-see approach, especially in an environment of heightened political and economic uncertainty, brought about by, among other political tensions, the resignation of the minister of finance and the dismissal of the central bank governor.

Tables

Table 1. Transition Region: Vulnerability Indicators 1/

	Public and External Debt /2 (% of GDP)				Gross reserves /2				Bank dep. (latest)	Loans/ dep. (latest)	Country risk			Domestic FX loan stocks (latest) (% GDP)				Nonperforming loans /3	Unem- ployment
	Government (end 2011)	External			billions US$ (latest)	in percent of			% of GDP	Private sector, in %	11-Oct-12	Latest		Total pvt sector	of which		% FX credit in total loan stock	latest	% (latest avail.)
		Total (end 2011)	Private (end 2011)	Short term (remaining maturity)		GDP	Short term debt	month of prosp. Imports			(CDS spread, bps)	S&P sovereign country ratings	Fitch sovereign country ratings		Corp.	HH			
Central Europe and Baltics																			
Croatia	46.7	94.9	68.8	29.6	14.5	23.2	78.3	7.2	63.0	118.2	295.4	BBB-	BBB-	45.4	16.7	28.8	72.2	14.8	14.9
Estonia*	6.0	98.5	94.8	52.0	…	…	…	…	53.2	154.2	…	AA-	A+	2.2	2.1	0.0	2.6	4.0	10.1
Hungary	80.6	123.5	72.6	33.3	45.5	35.3	97.4	4.5	42.2	121.9	304.0	BB+	BB+	28.5	13.7	14.8	55.4	14.8	10.7
Latvia	42.6	137.2	107.0	56.7	7.3	28.0	45.7	5.1	35.3	191.6	165.0	BBB-	BBB-	59.0	29.0	30.1	87.3	12.5	15.9
Lithuania	38.5	76.1	48.3	34.4	7.8	19.7	53.3	2.8	38.2	130.8	…	BBB	BBB	36.6	18.9	17.7	73.4	15.4	12.9
Poland	56.3	64.8	64.8	20.7	106.9	22.4	100.6	5.4	44.9	115.2	96.5	A-	A-	16.9	4.0	12.9	32.6	8.7	10.1
Slovak Republic*	43.3	77.3	33.5	54.1	…	…	…	…	48.4	96.8	116.9	A	A+	0.4	0.4	0.0	0.8	5.4	14.2
Slovenia*	47.6	131.3	65.7	22.1	…	…	…	…	52.6	152.4	…	A	A-	3.7	0.7	3.0	4.6	17.0	8.4
South-Eastern Europe																			
Albania	58.6	33.7	8.9	3.3	2.4	18.3	553.5	4.2	67.0	58.3	…	B+	…	26.4	20.5	5.9	64.5	21.4	13.3
Bosnia and Herzegovina	40.3	46.5	22.2	11.8	3.6	19.9	167.9	4.0	41.6	140.3	…	B	…	36.4	19.0	17.3	66.8	12.6	27.6
Bulgaria	15.5	87.1	80.2	30.2	16.8	31.5	104.3	5.6	62.7	112.8	147.7	BBB	BBB-	45.1	35.0	10.2	63.8	14.9	12.3
FYR Macedonia	27.7	65.0	45.5	24.0	2.3	21.5	89.8	3.6	49.2	95.9	…	BB	BB+	26.7	17.9	8.7	57.4	10.0	31.6
Montenegro	46.9	94.6	…	…	0.5	11.0	…	2.2	51.5	108.2	…	BB-	…	…	…	…	0.0	15.0	18.1
Romania	33.0	68.4	45.3	24.5	38.9	20.5	83.7	6.1	31.2	126.7	258.6	BB+	BBB-	24.7	12.4	12.3	63.6	17.3	7.2
Serbia	50.1	84.9	59.8	18.8	11.7	27.0	143.2	6.3	43.6	137.3	…	BB-	BB-	43.5	29.5	14.0	72.2	20.4	25.5
Eastern Europe and the Caucasus																			
Armenia	35.1	70.7	16.6	2.3	1.7	16.5	716.5	4.1	19.8	185.9	…	…	BB-	23.7	19.0	4.7	64.2	...	6.2
Azerbaijan	10.0	7.3	…	…	10.7	16.5	…	7.2	14.0	132.9	…	BBB-	BBB-	6.3	3.8	2.5	33.6	6.6	6.0
Belarus	49.8	62.5	35.5	32.2	8.1	14.8	45.9	2.0	43.0	143.3	…	B-	…	27.5	27.0	0.5	42.3	4.5	0.6
Georgia	33.9	58.5	29.2	17.8	2.9	20.3	113.9	3.8	34.0	94.9	…	BB-	BB-	22.7	17.3	5.4	68.2	7.9	15.0
Moldova	23.2	64.4	43.5	32.3	2.3	33.1	102.5	4.3	4.4	66.2	…	…	…	17.0	16.7	0.3	43.3	13.6	4.5
Ukraine	36.0	76.4	56.2	35.8	28.1	17.0	47.6	3.2	37.6	145.1	728.7	B+	B	21.9	14.7	7.1	39.9	16.0	7.1
Turkey	39.3	39.6	27.4	15.9	91.4	11.8	74.4	4.3	39.7	134.7	159.6	BB	BB+	14.4	…	…	26.9	2.8	8.0
Russia	12.0	27.6	25.2	8.2	468.0	25.3	307.8	12.7	40.2	132.0	144.3	BBB	BBB	7.2	6.7	0.5	13.5	4.7	5.2
Central Asia																			
Kazakhstan	10.5	66.5	63.8	7.4	24.1	13.0	174.5	5.1	33.6	101.1	161.3	BBB+	BBB	10.9	8.8	2.2	31.8	31.7	5.2
Kyrgyz Republic	52.4	80.8	32.7	7.1	1.8	29.9	419.5	3.6	16.8	74.8	…	…	…	6.7	…	…	56.0	9.0	8.4
Mongolia	…	109.1	85.3	…	2.7	31.3	…	4.0	…	…	…	…	B+	17.7	16.5	1.2	31.8	4.7	8.4
Tajikistan	35.5	48.1	19.1	1.1	0.2	2.4	247.6	1.6	14.4	96.7	…	…	…	…	…	…	…	6.8	2.6
Turkmenistan	7.3	7.3	0.0	0.7	…	…	…	…	…	…	…	…	…	2.4	…	…	…	...	…
Uzbekistan	9.1	13.3	4.8	0.4	13.8	30.3	…	10.9	…	…	…	…	…	…	…	…	…	...	…
Southern and Eastern Mediterranean																			
Egypt	80.6	13.1	2.8	9.0	15.1	6.1	520.7	2.7	66.5	51.3	…	B	B+	9.0	8.8	0.2	26.0	10.7	12.6
Jordan	70.4	59.9	35.0	34.4	8.3	28.7	83.7	4.3	114.6	71.7	…	BB	…	10.4	…	…	…	8.5	11.6
Morocco	53.7	31.5	15.7	4.1	15.1	15.2	371.3	3.5	67.8	111.7	…	BBB-	BBB-	…	…	…	…	5.0	8.1
Tunisia	43.9	51.4	24.5	…	6.9	14.8	…	2.5	54.8	107.7	…	BB	BBB-	…	…	…	…	13.0	17.6

1/ National sources based on CEIC and IFS, unless stated otherwise.
2/ WEO October 2012. CEB figures from Eurostat.
3/ Slovenia NPLs: EBRD estimate
* 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	2011	2012	2011	2011	2011	2011	2011
Central Europe and Baltics														
Croatia	-1.4	0.0	-1.9	1.2	-0.2	-0.4	-1.7	2.3	3.2	-5.2	-2.9	126.8	-1.0	2.3
Estonia	3.3	8.3	2.3	2.5	7.6	5.9	1.1	5.1	4.3	1.0	1.1	15.3	2.1	7.7
Hungary	1.3	1.6	-1.5	0.4	1.9	1.4	-2.1	3.9	5.5	4.3	8.3	152.4	0.9	-0.1
Latvia	-0.9	5.5	4.2	2.7	2.8	5.7	3.2	4.2	2.4	-3.5	-2.0	119.7	-2.4	5.2
Lithuania	1.5	5.9	2.7	2.4	5.0	5.7	1.8	4.1	3.0	-5.5	-3.7	120.3	-3.7	2.5
Poland	3.9	4.3	2.5	2.2	4.3	4.3	1.7	3.9	4.0	-5.1	-2.4	146.2	-4.9	1.8
Slovak Republic	4.2	3.3	2.7	2.3	3.7	3.4	2.2	4.1	4.0	-4.8	-3.2	129.6	0.1	1.7
Slovenia	1.2	0.6	-2.5	-2.0	2.3	-2.4	-3.4	2.1	2.5	-6.4	-4.5	107.0	0.0	1.8
South-Eastern Europe														
Albania	3.5	3.1	0.6	1.3	5.5	3.8	0.5	3.5	2.1	-3.5	-0.3	233.7	-12.3	7.6
Bosnia and Herzegovina	0.7	1.3	0.1	0.4	…	…	…	3.7	1.9	-3.1	-2.4	86.8	-8.8	2.3
Bulgaria	0.4	1.7	1.2	1.7	3.1	0.3	2.8	3.4	2.8	-2.0	-1.3	47.6	0.9	3.1
FYR Macedonia	2.9	2.9	0.3	2.0	3.8	0.9	1.8	3.9	3.5	-2.5	-1.7	96.7	-2.7	4.0
Montenegro	2.5	3.2	0.3	0.8	…	…	…	2.9	3.2	-6.5	-4.9	124.4	-19.5	11.9
Romania	-1.7	2.5	0.5	1.9	-1.0	1.9	1.4	5.8	3.5	-4.1	-2.6	105.0	-4.4	1.4
Serbia	1.0	1.6	-0.7	1.1	1.7	0.4	-0.2	11.1	7.1	-4.2	-2.9	122.0	-9.5	5.8
Eastern Europe and the Caucasus														
Armenia	2.2	4.6	5.0	4.0	2.4	5.0	3.6	7.7	3.0	-2.8	-1.9	160.7	-10.9	4.4
Azerbaijan	5.0	0.1	2.0	3.0	3.1	-0.5	2.2	8.5	1.5	11.3	11.7	21.9	26.5	1.4
Belarus	7.7	5.3	5.5	2.5	10.2	0.0	4.8	52.9	60.0	3.3	4.5	118.5	-10.5	7.1
Georgia	6.3	6.9	6.5	5.0	6.1	8.8	3.9	8.5	0.0	-0.9	0.3	119.5	-11.8	5.8
Moldova	7.1	6.4	1.0	3.5	9.0	5.8	0.2	7.2	4.0	-2.4	-1.6	63.1	-11.5	3.6
Ukraine	4.1	5.2	1.0	2.5	3.7	4.7	-0.4	7.7	1.5	-2.7	-2.1	84.9	-5.5	4.2
Turkey	9.2	8.5	3.0	3.7	9.3	5.0	2.0	6.5	9.1	-1.4	1.8	113.6	-10.0	1.7
Russia	4.3	4.3	3.2	3.3	4.9	4.8	0.7	8.4	5.1	0.8	2.2	31.2	5.3	-0.8
Central Asia														
Kazakhstan	7.3	7.5	5.5	6.0	7.1	8.7	4.5	8.4	5.3	5.9	6.3	37.8	7.6	4.5
Kyrgyz Republic	-0.5	5.7	-1.1	7.0	1.0	4.3	2.5	16.6	2.7	-4.9	-3.8	157.3	-6.3	11.7
Mongolia	6.4	17.5	11.5	16.0	5.4	19.3	11.6	9.1	15.0	-3.5	-3.2	...	-31.8	53.1
Tajikistan	6.5	7.4	6.0	5.0	7.1	7.2	4.2	12.5	6.5	-2.1	-1.6	142.5	0.6	0.2
Turkmenistan	9.2	14.7	10.0	10.0	…	…	…	5.8	6.0	3.6	...	38.6	2.0	12.1
Uzbekistan	8.5	8.3	7.5	7.0	9.6	8.5	6.6	12.8	10.0	9.0	9.1	22.6	5.8	3.2
Southern and Eastern Mediterranean														
Egypt	5.5	-0.6	3.2	3.8	5.7	0.4	1.9	10.1	8.0	-10.1	-4.4	347.2	-2.2	0.5
Jordan	2.3	2.6	2.6	3.0	3.2	3.1	2.5	4.4	5.0	-6.8	-4.7	266.3	-12.0	5.0
Morocco	3.6	5.0	2.3	4.5	4.5	4.9	1.8	0.9	1.9	-6.9	-4.7	196.9	-8.0	2.3
Tunisia	3.2	-1.5	2.4	3.0	2.0	0.6	0.8	3.5	5.3	-3.2	-1.4	140.0	-7.4	1.0

1/ EBRD data and projections unless otherwise stated.

2/ As of October 12, 2012.

3/ WEO October 2012. CEB figures from Eurostat.

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

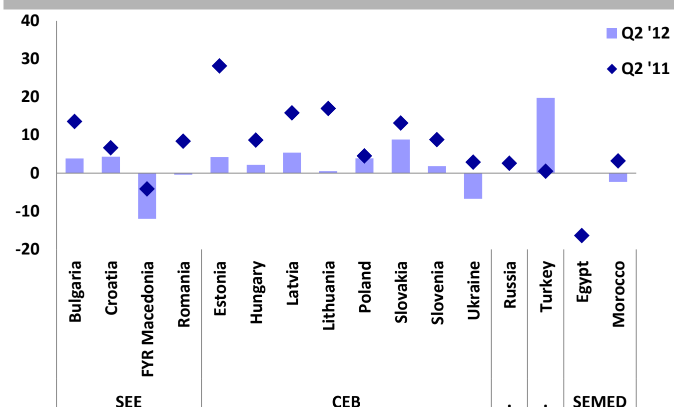
Table 3. Transition Region: Quarterly GDP actuals and projections, Q1 2010- Q3 2012 1/

	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	Q2	Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	2010	2011	2012	2013
Central Europe and Baltics																										
Croatia	-1.7	-0.4	1.1	0.2	-1.5	1.1	0.7	-1.0	-1.6	-0.1	0.5	-2.7	-3.0	0.1	-0.2	-1.2	0.6	0.8	-0.4	-1.3	-2.1	-2.6	-1.4	0.0	-1.9	1.2
Estonia	1.2	3.0	1.2	3.0	2.6	1.4	1.3	0.7	0.2	0.5	0.2	-3.0	3.3	5.2	7.6	9.9	8.3	9.3	5.9	3.4	2.2	1.6	3.3	8.3	2.3	2.5
Hungary	1.0	0.4	0.4	0.2	1.4	-0.3	0.0	0.1	-1.0	-0.2	-0.5	0.1	1.0	1.8	1.9	2.6	1.4	1.4	1.4	-0.7	-1.3	-1.7	1.3	1.6	-1.5	0.4
Latvia	0.7	0.4	0.7	1.0	1.5	2.0	1.4	0.8	1.1	1.2	0.5	-6.2	-4.0	3.1	2.8	3.6	5.7	6.6	5.7	6.9	5.0	3.7	-0.9	5.5	4.2	2.7
Lithuania	0.6	0.9	0.8	2.0	1.6	1.7	1.2	1.0	0.1	0.5	0.7	-1.0	1.1	0.9	5.0	5.5	5.6	6.6	5.7	4.5	2.8	2.3	1.5	5.9	2.7	2.4
Poland	0.7	1.2	1.3	0.9	1.1	1.3	0.7	0.8	0.6	0.4	0.3	2.5	3.8	4.8	4.3	4.2	4.6	4.2	4.3	3.6	2.1	2.1	3.9	4.3	2.5	2.2
Slovak Republic	0.8	0.9	0.9	0.8	0.9	0.9	0.7	0.8	0.7	0.7	0.4	4.9	4.4	4.0	3.7	3.4	3.5	3.0	3.4	3.0	2.8	2.7	4.2	3.3	2.7	2.3
Slovenia	0.1	1.1	0.4	0.9	-0.2	0.6	-0.2	-1.1	0.0	-1.0	-1.5	-1.0	1.7	1.9	2.3	2.5	1.6	0.8	-2.4	0.2	-3.2	-3.5	1.2	0.6	-2.5	-2.0
South-Eastern Europe																										
Albania	4.2	2.9	-0.7	-0.6	2.9	-0.5	0.9	0.7	-1.1	1.6	-1.0	1.6	2.2	3.7	5.5	4.8	1.1	2.8	3.8	-0.2	2.0	-0.1	3.5	3.1	0.6	1.3
Bosnia and Herzegovina	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	0.7	1.3	0.1	0.4
Bulgaria	1.2	1.0	0.8	0.6	0.4	0.3	0.1	0.1	0.0	0.3	1.0	-4.5	1.2	0.8	3.1	2.0	2.7	1.9	0.3	0.9	1.0	0.1	0.4	1.7	1.2	1.7
FYR Macedonia	-1.2	1.5	2.5	0.9	0.9	0.3	-0.8	0.4	-0.8	0.2	1.5	-0.5	1.5	2.1	3.8	5.1	5.3	2.3	0.9	-1.3	-0.9	1.1	2.9	2.9	0.3	2.0
Montenegro	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	2.5	3.2	0.3	0.8
Romania	-0.7	0.4	-0.8	0.9	1.2	0.0	1.1	-0.1	0.1	0.5	-0.5	-2.6	-1.1	-2.2	-1.0	1.7	1.4	4.4	1.9	0.3	1.2	-0.9	-1.7	2.5	0.5	1.9
Serbia	1.0	0.1	1.2	-0.2	1.5	-0.1	-0.5	-0.3	-0.2	0.5	-0.5	-0.3	0.5	1.6	1.7	3.0	2.5	0.7	0.4	-1.3	-0.6	-0.7	1.0	1.6	-0.7	1.1
Eastern Europe and the Caucasus																										
Armenia	6.4	-2.2	-3.8	2.9	3.1	0.5	0.8	0.9	2.3	2.0	-1.2	3.4	8.2	-2.9	2.4	1.4	3.1	6.9	5.0	5.6	6.6	5.6	2.2	4.6	5.0	4.0
Azerbaijan	-0.5	2.5	0.7	0.1	-1.0	0.5	0.2	-0.2	0.7	1.4	0.2	5.4	8.0	5.0	3.1	1.6	0.3	-0.1	-0.5	0.5	2.4	2.5	5.0	0.1	2.0	3.0
Belarus	1.8	3.5	0.7	3.8	2.1	3.7	-7.5	2.3	4.8	3.3	-1.3	4.3	9.2	7.0	10.2	10.4	11.0	1.5	0.0	3.1	2.6	9.6	7.7	5.3	5.5	2.5
Georgia	1.7	2.3	-0.3	1.8	2.1	1.1	2.4	2.7	0.4	2.4	1.0	3.7	8.3	6.7	6.1	6.1	4.9	7.5	8.8	6.8	8.2	7.4	6.3	6.9	6.5	5.0
Moldova	1.2	2.6	1.9	2.5	1.5	1.1	0.8	2.0	-2.5	0.7	1.7	4.7	5.6	6.5	9.0	8.4	6.7	6.0	5.8	1.0	0.6	2.0	7.1	6.4	1.0	3.5
Ukraine	0.5	2.4	-0.8	1.5	2.4	0.8	1.5	-0.1	0.0	1.7	-1.8	4.5	5.4	3.3	3.7	5.4	3.9	6.5	4.7	2.0	3.0	-0.2	4.1	5.2	1.0	2.5
Turkey	1.2	2.3	0.1	5.5	2.7	0.4	0.4	1.4	0.7	0.4	0.4	12.6	10.4	5.3	9.3	12.1	9.1	8.4	5.0	3.3	2.9	3.9	9.2	8.5	3.0	3.7
Russia	1.3	1.1	0.3	1.8	0.6	1.0	1.6	1.3	0.8	0.4	0.5	3.8	4.9	3.8	4.9	4.0	3.4	5.0	4.8	4.9	4.0	3.3	4.3	4.3	3.2	3.3
Central Asia																										
Kazakhstan	0.3	3.5	1.8	0.5	2.0	3.0	1.1	1.8	0.3	2.4	1.7	5.8	8.5	7.7	7.1	6.8	7.4	6.8	8.7	5.6	5.6	6.4	7.3	7.5	5.5	6.0
Kyrgyz Republic	4.0	-8.5	-0.8	4.9	3.9	0.6	0.3	-1.8	-4.7	1.9	4.0	17.9	-4.4	-7.5	1.0	-1.8	7.9	9.6	4.3	-6.8	-4.6	0.4	-0.5	5.7	-1.1	7.0
Mongolia	2.1	-0.3	1.7	2.2	5.7	6.4	4.7	1.6	2.9	1.3	3.1	8.7	5.0	7.5	5.4	9.8	16.8	20.7	19.3	16.7	10.9	8.5	6.4	17.5	11.5	16.0
Tajikistan	0.9	2.3	0.7	2.5	1.4	2.3	1.9	1.2	1.8	2.4	0.5	6.8	7.8	4.9	7.1	6.5	7.2	8.1	7.2	7.2	7.5	6.6	6.5	7.4	6.0	5.0
Turkmenistan	…	…	…	…	…	…	…	…	…	…	… ..	…	…	…	…	…	…	…	…	…	…	…	9.2	14.7	10.0	10.0
Uzbekistan	2.9	2.3	1.8	2.0	1.8	2.3	2.2	1.7	1.5	2.9	1.2	8.0	8.0	8.0	9.6	7.6	8.3	8.4	8.5	7.5	8.5	7.7	8.5	8.3	7.5	7.0
Southern and Eastern Mediterranean																										
Egypt	2.5	0.7	1.3	0.9	-6.2	4.4	1.8	0.6	-1.1	1.9	0.7	5.6	5.4	5.5	5.7	-3.8	0.3	0.4	0.4	5.2	3.3	2.5	5.5	-0.6	3.2	3.8
Jordan	0.8	0.8	1.3	0.1	0.2	0.9	1.0	0.8	0.4	0.7	0.8	2.4	1.4	2.2	3.2	2.3	2.4	2.6	3.1	3.0	2.9	1.9	2.3	2.6	2.6	3.0
Morocco	-1.5	1.5	1.1	1.9	1.1	0.6	1.2	1.6	-0.5	0.3	1.1	3.5	5.0	3.1	4.5	4.1	4.5	5.0	4.9	2.8	2.3	2.4	3.6	5.0	2.3	4.5
Tunisia	1.1	0.5	0.4	0.0	-4.3	2.8	1.9	0.3	0.2	0.3	0.3	4.1	3.7	3.0	2.0	-3.5	-1.3	0.3	0.6	5.3	2.7	1.0	3.2	-1.5	2.4	3.0

1/ As of October 12, 2012.

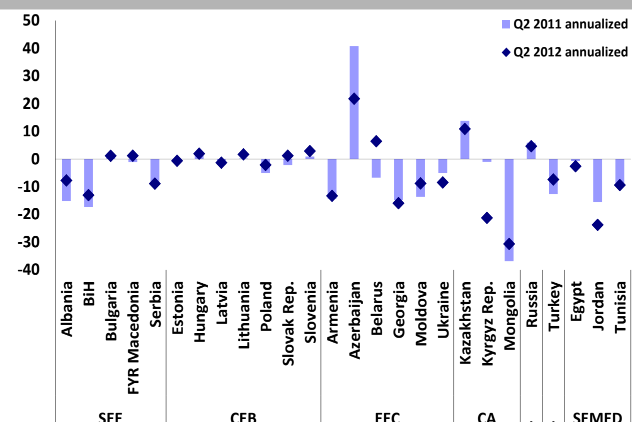
Figure 1. External environment

Export volumes, y-o-y, %



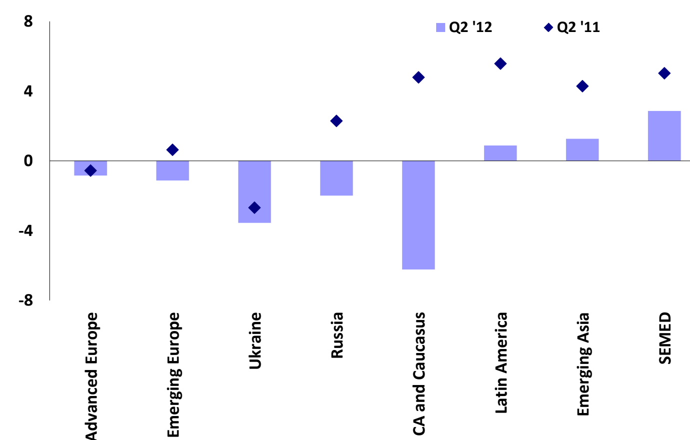
Source: National authorities via CEIC data service.

Current account, % of GDP



Source: National authorities via CEIC data service.

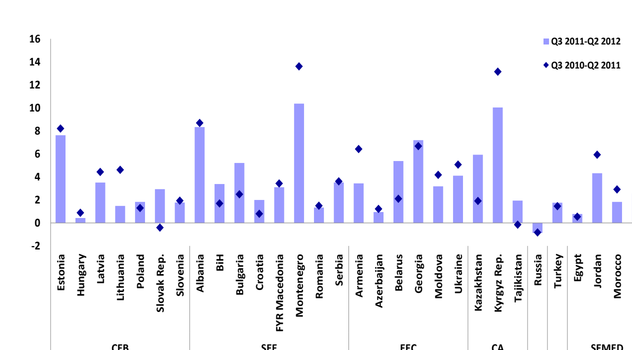
Net lending from BIS-reporting banks, exch. rate adjusted, q-o-q



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

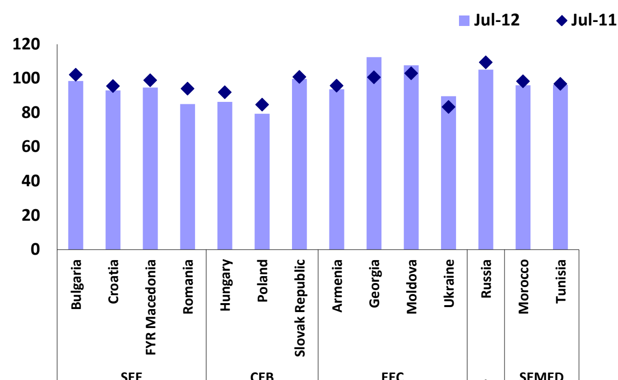
Source: BIS via CEIC data service.

FDI net inflows, % of GDP



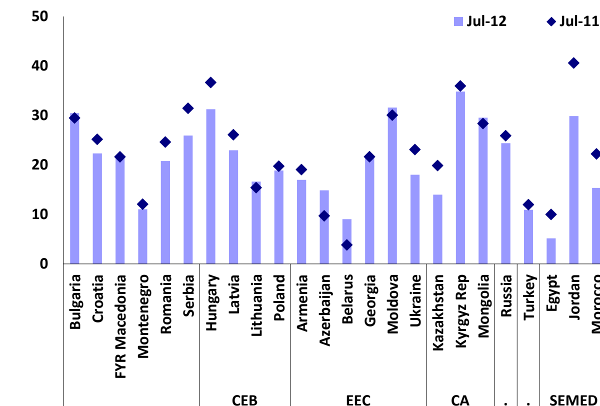
Source: National authorities via CEIC data service.

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)

CEB: Hungary 281.87, Latvia 0.70, Lithuania 3.45, Poland 4.09
SEE: Albania 139.86, Bulgaria 1.96, Croatia 7.52, FYR Macedonia 61.73, Romania 4.57, Serbia 113.65
EEC: Armenia 406.95, Azerbaijan 0.78, Belarus 8615.00, Georgia 1.67, Moldova 12.14, Ukraine 8.03
CA: Kazakhstan 150.45, Kyrgyz Rep. 47.10, Mongolia 1378.50, Tajikistan 4.76, Uzbekistan 1942.25
Russia 31.02, Turkey 1.81
SEMED: Egypt 6.10, Jordan 0.71, Morocco 8.59, Tunisia 1.57

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)

Oct-12 | Oct-11

Russia EMBI, Ukraine EMBI, Turkey EMBI, Kazakhstan, Bulgaria EMBI, Hungary 10yr, Poland 10yr

Source: Bloomberg.

Stock markets (January 2011=100)

Oct-12

MSMI EM 44294.95, Russian RTS 1494.74, MSCI EMEA 4739.40, Hungary BUX 19189.71, Ukraine PFTS 347.02, Romania BET 4767.46, Bulgaria SOFIX 321.31

Numbers on bars represent actual values of stock indices.

Interbank rates (%)

Oct-12 | Oct-11

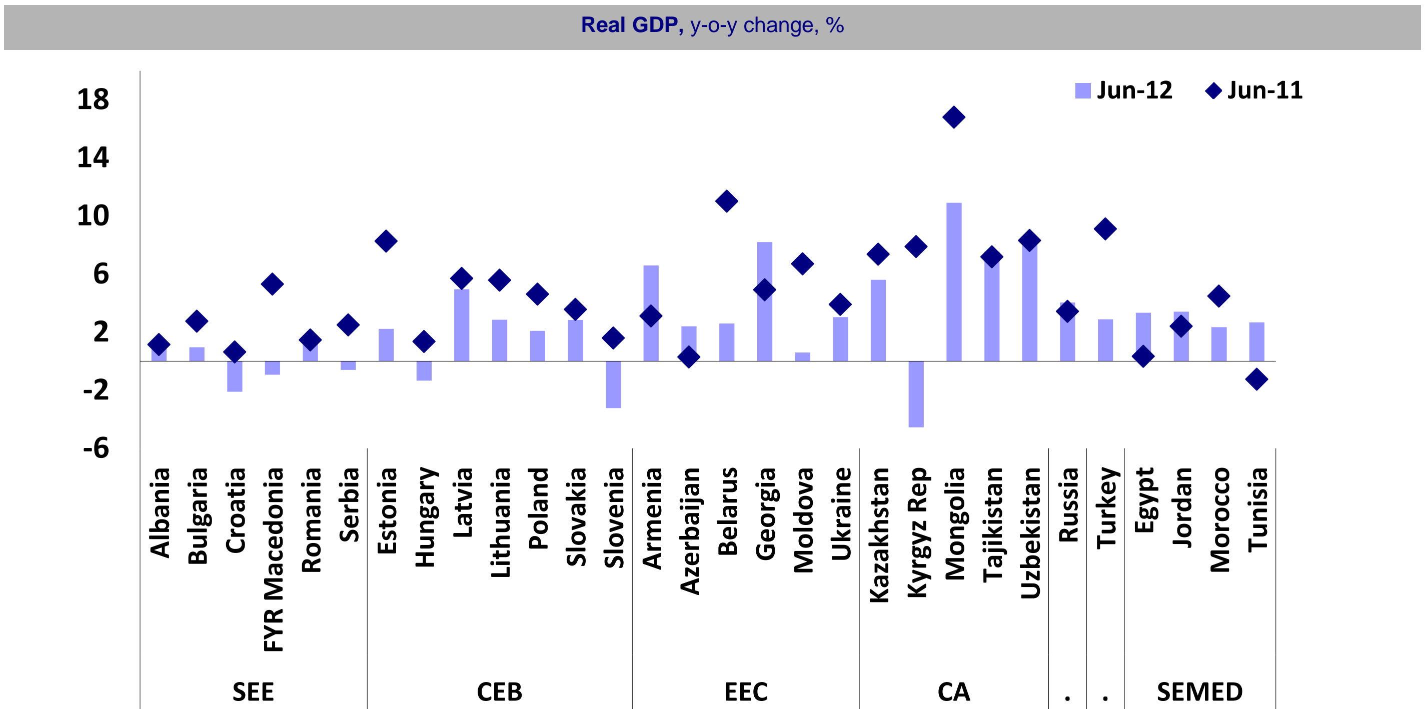
Hungary, Latvia, Lithuania, Kazakhstan, Ukraine, Russia

Parent banks CDS spreads (bp)

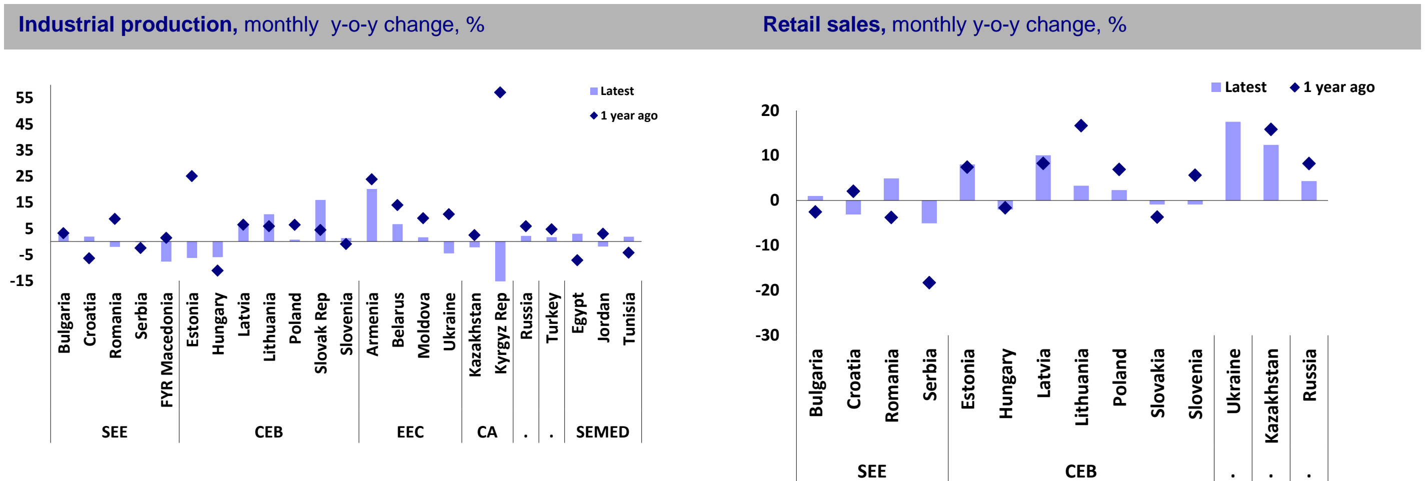
Societe Generale, Intesa Sanpaolo SpA, Raiffeisen, UniCredit SpA

Source: Bloomberg.

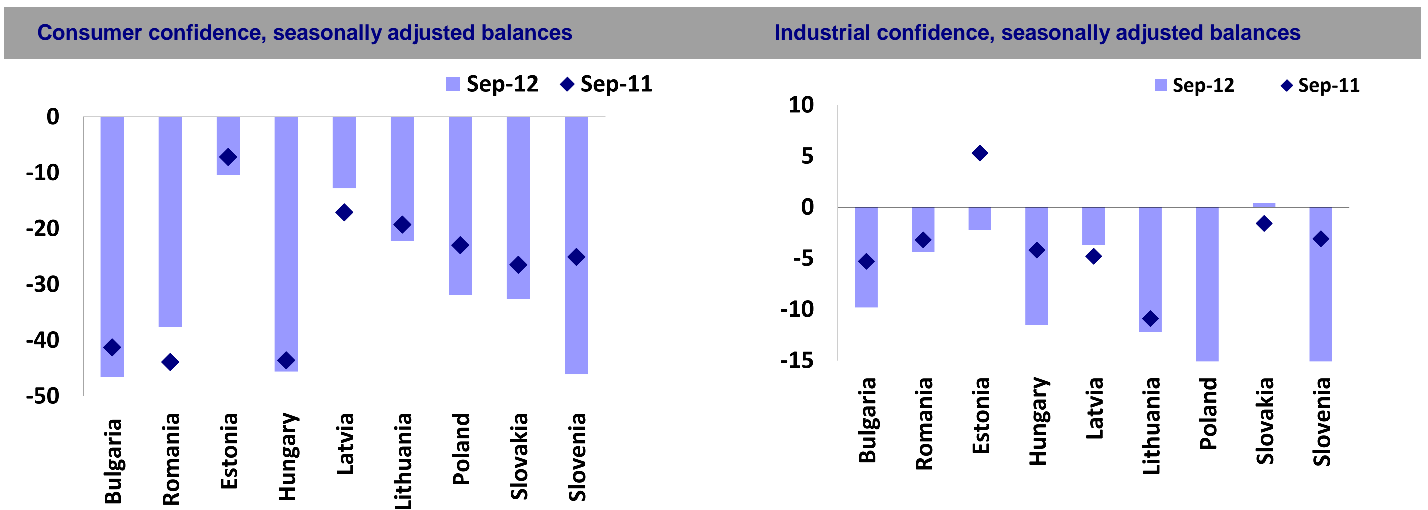
Figure 3. Indicators of real activity



Source: National authorities via CEIC data service.



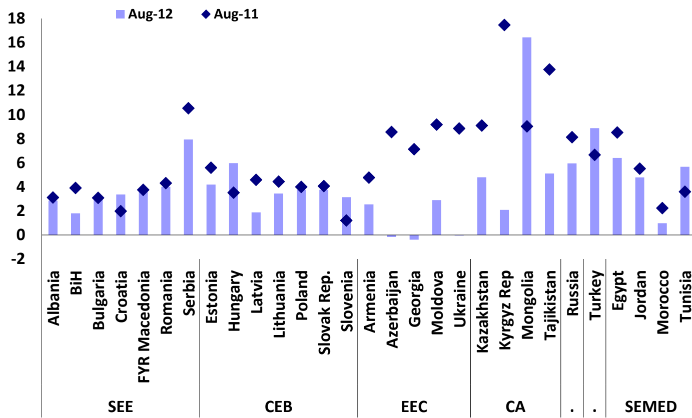
Source: National authorities via CEIC data service.



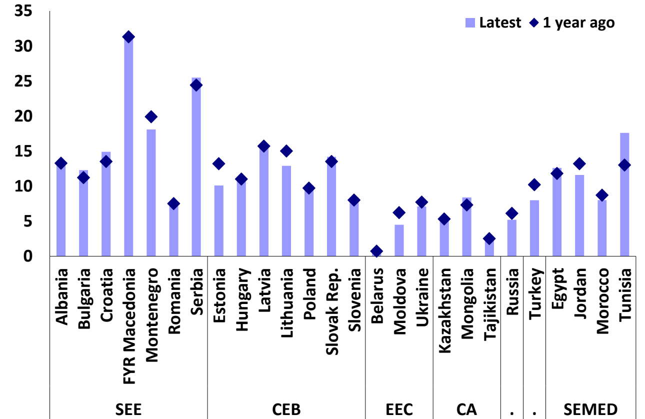
defined as the difference (in percentage points of total answers) between positive and negative answers
Source: Eurostat

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

CPI, y-o-y change, %



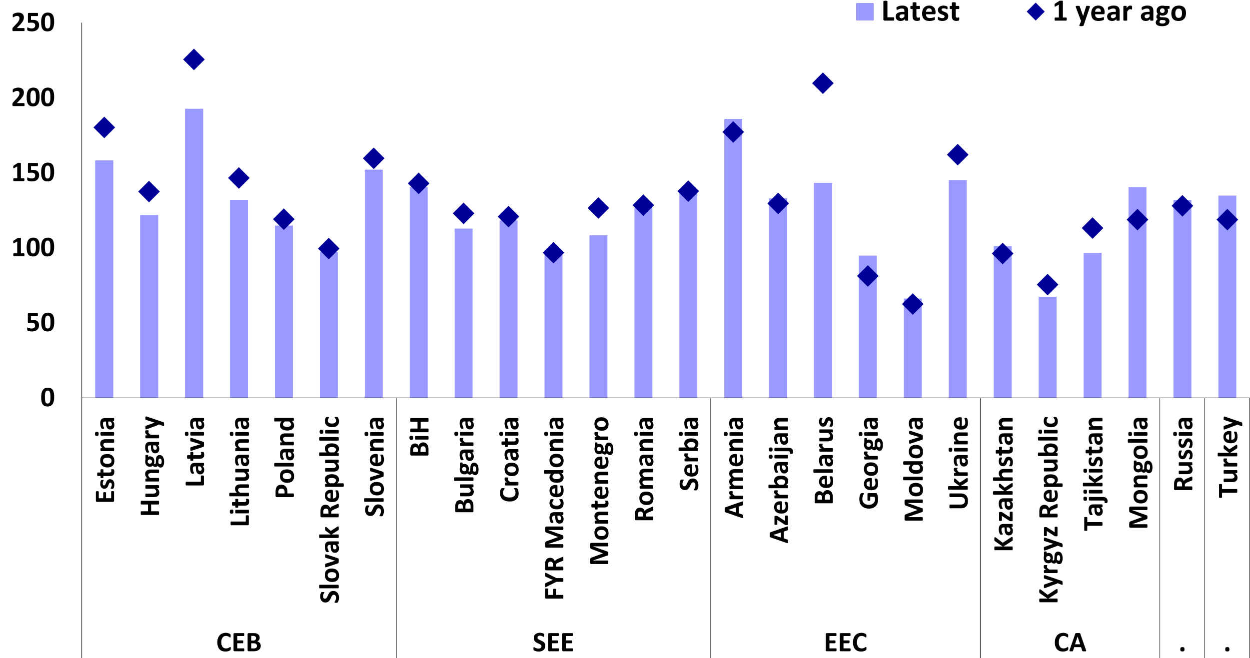
Unemployment rate, %



Source: National authorities via CEIC data service, Eurostat

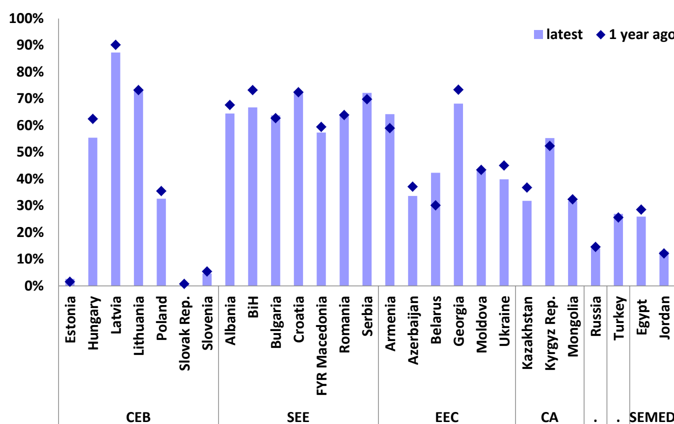
Figure 4: Financial sector indicators: loans and deposits

Loan to deposit ratio, (%)

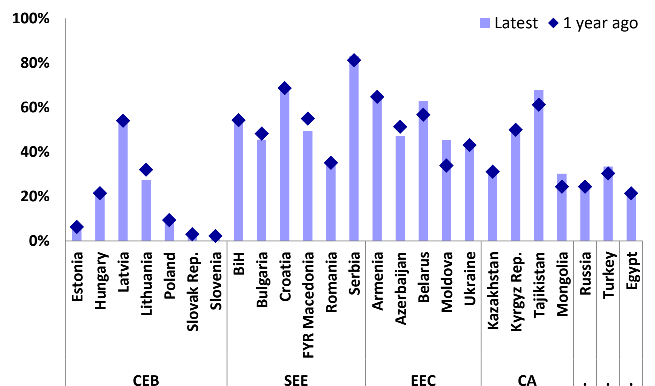


Source: National authorities via CEIC data service.

Foreign currency loans to total loans ratio, (%)



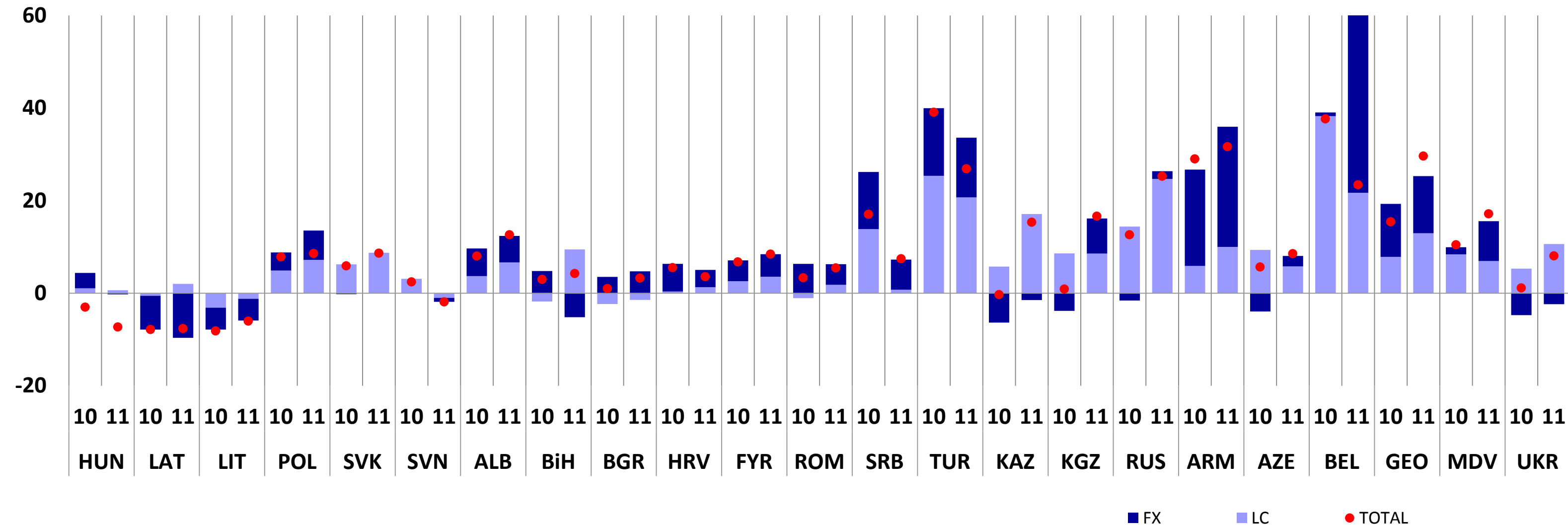
Foreign currency deposits to total deposits ratio, (%)



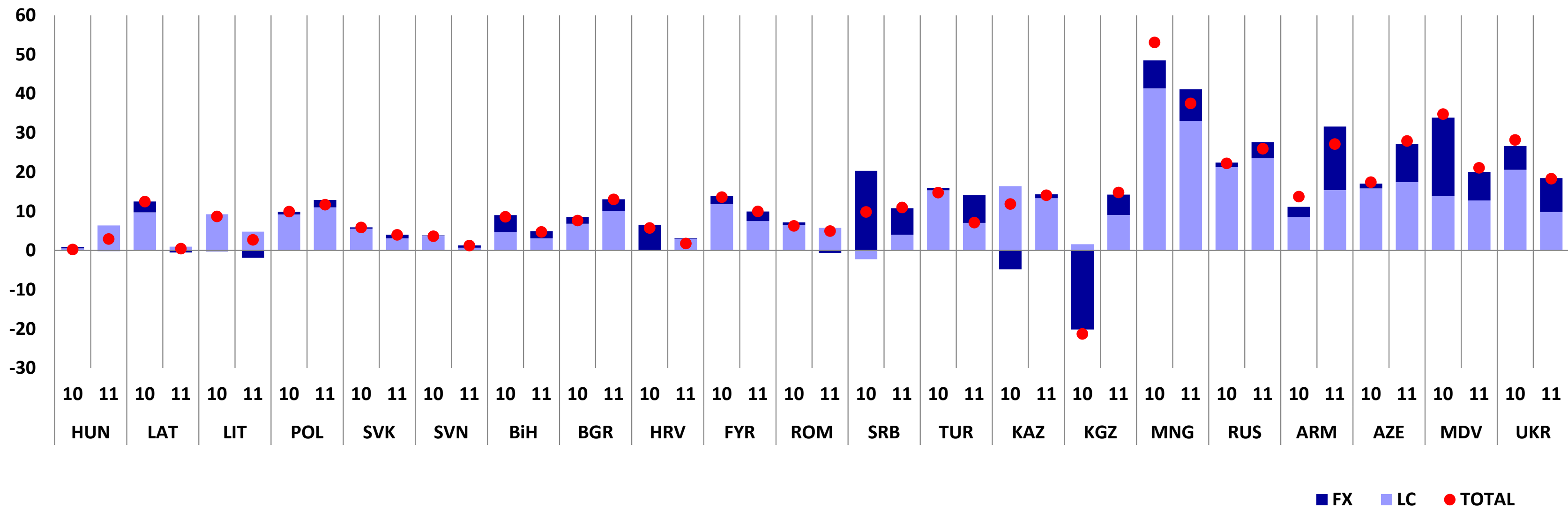
Source: National authorities via CEIC data service

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 data service