Regional Economic Prospects in

EBRD Countries of Operations: November 2013[1]

EBRD Office of the Chief Economist

Overview

Weak growth despite eurozone pickup

Since our forecast in May 2013, the recovery in advanced economies, including the Eurozone, has taken hold, though growth in emerging markets has slowed. On balance, the outlook for growth in the transition region has weakened further. The region is now expected to grow at 2.0 per cent in 2013 compared with 2.7 per cent in 2012. The recovery in 2014 is also expected to be more modest than the May forecast suggested, with growth picking up only to 2.8 per cent. The current slowdown in the region is only partly cyclical. Many of its causes are structural, reflecting lower growth potential, limited sources of finance for investment and unfinished structural reforms, as highlighted in the forthcoming EBRD Transition Report 2013 entitled "Stuck in Transition?"

Regional overview

Growth across the transition region as a whole continued decelerating amidst weaker performance of emerging markets globally (Chart 1) and despite a moderately stronger performance of the advanced economies. This primarily reflects deceleration in Russia, Eastern Europe and Caucasus (EEC) and South-eastern Mediterranean (SEMED).

At the same time, in regions with closest links to the Eurozone -- Central Europe and the Baltics (CEB) and south-eastern Europe (SEE) -- **growth picked up in the second quarter of the year**, as the Eurozone finally showed signs of exiting recession. Preliminary data suggest that the output in the single currency area expanded by 0.3 per cent in the second quarter (1.3 per cent in annualised terms). A pickup in Hungary brought an end to a recession that lasted through 2012, and Lithuania and Latvia are set to remain growth leaders in Europe as a whole. Elsewhere, growth remains modest and the recession has deepened further in Slovenia, where domestic demand continues to be constrained by corporate and banking sector deleveraging. Unemployment has remained high across the region.

Stronger exports have supported growth across the transition region, including in CEB and SEE. Expansion of exports in these countries reflects signs of economic recovery and increased demand in the Eurozone, the region's key trading partner. In sharp contrast, Ukraine's exports have been contracting, reflecting in part trade

[1] This document is provided as a companion to the EBRD's growth forecasts for its countries of operations, which are released three times a year. For more comprehensive coverage of economic policies and structural changes, the reader is referred to the forthcoming EBRD's Transition Report 2013 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).

disputes in Russia and more stringent customs checks imposed on the Russia-Ukraine border. Belarus was the only other country in the region where exports declined significantly (Chart 2).

A number of economies in the region are yet to recover to their pre-crisis levels of output. Despite recent growth rates of 3 to 5 per cent, the levels of output in Latvia and Lithuania remain below the pre-crisis peak in real terms, reflecting the depth of post-crisis contractions. Other economies where the output remains below the pre-crisis levels are Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Hungary, Romania, Serbia, Slovenia and Ukraine. Of these, in Croatia, Slovenia and Ukraine the gap continues to widen.

Russia's slowdown deepened further. Investment has remained subdued, even though the economy has been operating closer to capacity limits and unemployment remains low. At the same time, commodity prices no longer provide a boost for the economy. The average price of Urals brand of oil increased each year between 2009 and 2012 but in the first ten months of 2013 crude oil was around 3 per cent cheaper on average than during the same period of 2012.

Growth in Eastern Europe and Caucasus (EEC) has remained constrained by a difficult external environment and domestic policy uncertainty. Ukraine has been in recession since the third quarter of 2012 and external vulnerabilities have increased as central bank reserves have fallen to around 2.5 months of imports. Growth has also slowed down considerably in Armenia, Belarus and Georgia but accelerated in Azerbaijan where oil output has stabilised and a sizable fiscal stimulus has been deployed ahead of the presidential elections.

Growth in Central Asia has remained strong. In commodity-rich countries, including Kazakhstan, Mongolia and Turkmenistan, growth was assisted by new large extraction projects, which came on stream in 2013, including the Kashagan oil field in Kazakhstan and the Oyu Tolgoi copper mine in Mongolia. In the Kyrgyz Republic and Tajikistan remittances from Russia continued growing, albeit at a slower rate, providing an important source of external financing and consumer demand.

More broadly, the growth of remittances to countries in EEC and Central Asia has remained relatively strong to date. This supported growth, in particular in the lower-income countries in the CIS where remittances sometimes reach 20 to 50 per cent of GDP. In part, continued strong performance of remittances reflects the relative resilience of the services and construction sectors in Russia, where most remittances originate and which have been less affected by the slowdown than the industry sector. However, these sectors are no longer immune to the overall deceleration of the Russian economy. Remittances also play an important role in a number of SEE countries. Here flows of remittances, which come mostly from the Eurozone countries, has been declining in recent years.

Growth in Turkey was stronger than expected in the first half of the year, despite domestic disturbances and increased market volatility. Monetary easing and a surge in government spending contributed to a pick-up in economic activity following a sharp slowdown in 2012.

Growth in the South-eastern Mediterranean (SEMED) region has generally weakened. In the region's largest economy, Egypt, the political turmoil and the curfew imposed by the interim government have had a significant impact on business activity. Domestic policy and political uncertainties also weigh on growth prospects in Tunisia. Countries across the region continue to face adverse external conditions and external bilateral or IFI financial support have been critical to contain economic and political stress. At the same time, growth accelerated markedly in Morocco thanks to an exceptionally strong harvest and a generally more favourable policy environment.

Against the background of weak demand, inflation remains under control. Headline rates of inflation have declined across the region, with the exception of Egypt, Kazakhstan, and the Kyrgyz Republic. Lower inflation reflects weaker demand pressures against the background of economic slowdown with high unemployment as well as a strong harvest and lower agricultural commodity prices. This potentially creates some room for accommodating monetary policies to support growth.

Capital inflows

Stock markets and currencies in the region have been affected by expectations of tapering of US Fed's asset purchases. The announcement and expectations of gradual tightening of monetary policy in the US in May 2013 led to a significant increase in US long-term interest rates. As returns on US bonds (and other advanced market debt) became more attractive, capital started predominantly flowing out of emerging markets into advanced economies, reversing the trend of previous quarters.

As a result, several currencies in the region came under pressure and stock markets experienced large downward corrections. Turkey and Mongolia were among the most affected emerging markets. The Fed's decision on 18 September 2013 to postpone the start of tapering brought about a rally in many emerging markets, though the expectation remains that the monetary policy in the US and other advanced economies will be gradually tightened.

Yet, the economies in CEB, as well as Bulgaria and Romania have been relatively little affected by the Fed's announcement and subsequent events. In part, this reflects their close integration with the Eurozone countries, which showed signs of coming out of recession in the second quarter, as well as recent improvements in economic fundamentals – narrowing of current account deficits and improvements in primary fiscal balances. But it also largely reflects subdued inflows of non-FDI capital in the preceding months and years.

Overall capital inflows into CEB and SEE weakened in the second quarter (Chart 3). Both FDI and non-FDI inflows were negative on balance. In part, this reflects the effects of the Fed announcements regarding tapering of its asset purchases, even though these effects appear to have been short-lived, according to high-frequency data for July. In Russia, net capital outflows persisted at similar rates as in 2012. Higher outflows recorded in the first quarter of 2013 reflected the deal between TNK-BP and Rosneft.

Credit conditions and credit growth

Cross-border deleveraging in the transition region continued, albeit at a slower pace. In particular, the speed of withdrawal of funds by foreign banks declined in SEE countries, perhaps reflecting the somewhat improving outlook for the Eurozone. Survey evidence on credit conditions suggests that demand for loans may be picking up and lending conditions stopped tightening.

Slower deleveraging has not yet led to a resumption of credit growth. While the rates of credit contraction have come down recently, credit growth remained negative or near-zero in real terms across CEB and SEE regions (Chart 4). Credit growth also moderated in EEC but has accelerated again in Turkey where it contributed to stronger-than-expected growth in the second quarter of 2013.

Non-performing loans (NPLs) continue to weigh heavily on bank balance sheets, in particular in Kazakhstan, virtually all SEE countries, Ukraine, Slovenia and Hungary. In all these countries NPL ratios continued rising over the past 12 months (Chart 5), reaching levels well over 20 per cent in several of them.

Outlook

GDP growth in the transition region is projected to slow down from 2.7 per cent in 2012 to 2.0 per cent in 2013. It is then expected to recover modestly to 2.8 per cent in 2014 (Chart 6). The forecast represents a further downward revision relative to our May forecast for 2013, which stood at 2.2 per cent. The forecast for 2014 has been also revised down by 0.4 percentage points. The revisions are largely driven by the worsening outlook for Russia and its knock-on effects in the EEC region and elsewhere. The deeper-than-expected slowdown in Poland and Egypt’s weak outlook also contribute to the overall deceleration.

The region will continue to operate in a weak (albeit slowly improving) external environment driven by the on-going Eurozone stress and economic deceleration in major emerging markets. The projection assumes a baseline scenario of continued slow and uneven recovery in the Eurozone:

- Recent data suggest that the single currency area may be exiting recession, even though it is likely to record negative growth in 2013 as a whole. Various earlier policy decisions have reduced the probability of a further substantial deterioration of the crisis.

- On the other hand, this effect may be largely offset by the continued deceleration in major emerging markets. Growth in China slowed down to 7.7 per cent year-on-year in the first three quarters of 2013 and is widely expected to decelerate further as the authorities put an increased emphasis on rebalancing of the economy away from strong reliance on investment and net exports and towards domestic consumption.

Under such a scenario, the Eurozone recession may have already bottomed out and the negative impact of the Eurozone crisis on the transition region should continue to decrease in magnitude through the export channel, remittances channel as well as its impact on cross-border lending. The more stable markets already appear to have contributed to stronger investor confidence in the new EU member states during the episode of sell-off of emerging market assets in May-July of this year.

At the same time, in the baseline scenario growth will remain weak in countries that are the most integrated with the Euro area. While economic weakness of the Eurozone may no longer lead to contraction of exports from CEB and SEE countries, the recovery of trade is expected to be moderate and gradual. While calmer financial markets may translate into lower rates of cross-border bank deleveraging, pressures may renew if the eurozone-wide stress tests imply significant recapitalisation needs of major banking groups operating in the CEB and SEE countries. Low domestic savings rates and underdeveloped local capital markets in these countries suggest that the foregone funding is unlikely to be swiftly replaced from the local sources. This in turn constrains potential investment growth in these countries.

Overall, the CEB region will grow at 0.9 per cent this year before modestly recovering to 1.9 per cent next year, as recovery finally takes hold in Croatia and gains momentum in Poland and the Slovak Republic. Competitiveness gains will support continued growth of above 3 per cent in Latvia and Lithuania, which are still recovering after large output declines during post-crisis years. Slovenia is expected to remain in recession in 2014, burdened by high indebtedness in the corporate sector and the likely additional need for bank recapitalisation.

Growth in the SEE region will continue recovering from the very low levels recorded in 2012 (0.4 per cent on average) but will remain modest. Growth in all countries is expected to be positive, reaching on average 1.6 per cent this year and 2.2 per cent next year. In Kosovo, the poorest economy in the region, growth is expected to accelerate to 3.5 per cent in 2014.

Economic growth in Russia will likely slow down substantially, from 3.4 per cent in 2012 to 1.3 per cent in 2013. It is expected to only partly recover in 2014, to 2.5 per cent, accelerating slightly in the medium term. The recovery in growth assumes accommodating fiscal policy, including increased spending on large public infrastructure projects. The rules governing the National Welfare Fund were amended to allow financing selected infrastructure projects out of assets of this sovereign wealth fund. At the same time, room for fiscal manoeuvre remains limited as oil trades below the levels needed to balance the budget. Structural reforms and improvements in the overall business environment are needed to boost investment, diversify the economy away from excessive reliance on oil and gas revenues and lift Russia’s potential growth above 3 per cent per annum.

Growth in EEC will also decelerate reflecting weaker performance of the Russian economy. Even though Ukraine is expected to exit recession in the fourth quarter of 2013, output for the year as a whole is expected to contract by 0.5 per cent, after virtually no growth in 2012. Other countries in the region will fare somewhat better, although growth will be constrained by weaker demand from Russia and slower growth of remittances. The exception is Azerbaijan’s economy, which is expected to expand by 4.5 per cent on that back of fiscal stimulus and oil output that is no longer declining.

Growth in Central Asia will remain relatively strong owing to a number of large natural resource projects. In Kazakhstan, Mongolia and Turkmenistan much of the effect of new natural resource deposits will be reflected in output growth in the first two to three quarters of 2014, while in the Kyrgyz Republic and Tajikistan growth is expected to decelerate somewhat in the light of weaker demand and remittances flows from Russia.

Growth in Turkey is likely to accelerate to 3.7 per cent this year before moderating slightly in 2014. However, Turkey's large and persistent current account deficit (of around 6 per cent of GDP) and the country's dependence on volatile portfolio capital inflows to finance this deficit continue to be major sources of vulnerability. The associated risks were highlighted by the recent episode of capital flow reversal following increased expectations of monetary policy tightening in advanced markets. Global funds in search of higher yields may continue to provide the required external financing for the time being but this may only further exacerbate the underlying vulnerability of the economy to a sudden stop of capital inflows.

The SEMED region is likely to expand this year at a slightly lower rate than in 2012. Growth is expected to accelerate to 3.5 per cent in 2014 but is subject to a very high degree of uncertainty as political turmoil in Egypt and Tunisia continues to weigh on growth prospects and all countries in the region remain vulnerable to external shocks. These vulnerabilities are partially mitigated by the IMF programmes currently in place in Morocco, Tunisia, and Jordan as well as bilateral assistance from the Gulf Council Countries (GCC) and the United States.

Overall, reducing growth rates in the EBRD region may reflect in part declines in potential long-term growth. This mirrors a lower expected contribution from total factor productivity (TFP) growth[2], as TFP levels have largely converged to those observed in other emerging markets from their earlier low values under central planning. Potential growth has also weakened as a result of years of relatively low investment coupled with slower progress in structural reforms. These issues are explored in greater detail in the forthcoming *Transition Report 2013*.

Risks to the outlook

The economic outlook in the region remains highly dependent on the developments in the Eurozone. The downside external scenario has remained largely unchanged since October 2011, but is now perceived to be less likely. In this scenario, the crisis would engulf larger members of the single currency area, resulting in insolvencies of several major banks in Europe. In response to these events, parent banks would accelerate withdrawal of funding form the region, exacerbating the credit crunch and triggering recession in much of the emerging Europe.

While this scenario appears less likely, the risks of faster deceleration in China, and in large emerging markets more generally, have increased. The growth rate of the Chinese economy decelerated from 8-10 per cent over the past decade to 7.7 per cent in the first three quarters of 2013 and concerns are growing about rapid expansion of bank and non-bank credit since 2009 and the underlying quality of assets

[2] TFP refers to the efficiency with which factors of production such as labour and capital are utilised,

of financial institutions. A marked deterioration of the situation in the Eurozone or a hard landing in China would likely result in prolonged market turmoil and significant negative spill-overs for the global economy, leading to a lower growth in advanced and emerging economies, as well as a drop in commodity prices.

In addition, risks of a fiscal impasse in the United States remain. While the government shutdown in October was limited to two and a half weeks and the debt ceiling has been temporarily lifted, the bill signed on 17 October only covers a few months until February 2014 and fundamental disagreements over the extent and composition of fiscal adjustment remain to be resolved. A new impasse could have a profound effect on world's financial markets given the special role US Treasuries play internationally.

In the downside scenario, countries in Central and south-eastern Europe will be affected through the same channels as in the baseline scenario. These include primarily depressed exports and disrupted financing inflows, to a much higher degree than under the baseline assumptions. Russia and commodity exporters in Eastern Europe and Central Asia will be hit by a sustained drop in commodity prices, with a knock-on effect on other CIS economies via lower remittances and subdued demand for exports.

Growth in real GDP

(In per cent; EBRD forecasts as of 4 November 2013)

	Current forecast			EBRD Forecast in May 2013			
	2012	**2013**	**2014**	**2013**	Change May-November	**2014**	Change May-November
Central Europe and the Baltic states							
Croatia	-2.0	-0.8	15	-0.3	-0.5	19	-0.4
Estonia	3.9	12	2.5	3.0	-18	3.1	-0.6
Hungary	-17	0.5	12	-0.8	13	0.9	0.3
Latvia	5.0	4.2	3.2	3.5	0.7	3.2	0.0
Lithuania	3.7	3.0	3.5	2.8	0.2	3.0	0.5
Poland	19	12	2.3	12	0.0	2.0	0.3
Slovak Republic	2.0	0.9	2.0	10	-0.1	2.0	0.0
Slovenia	-2.5	-2.4	-2.5	-2.5	0.1	-0.9	-16
Average [1, 2]	**12**	**0.9**	**19**	**0.8**	**0.1**	**18**	**0.1**
South-eastern Europe							
Albania	16	12	2.0	15	-0.3	19	0.1
Bosnia and Herzegovina	-0.5	0.1	18	0.1	0.0	18	0.0
Bulgaria	0.8	0.4	2.0	10	-0.6	2.5	-0.5
FYR Macedonia	-0.3	2.4	2.7	15	0.9	2.6	0.1
Kosovo	2.5	2.5	3.5	3.0	-0.5	3.5	0.0
Montenegro	-0.5	15	2.0	10	0.5	2.0	0.0
Romania	0.7	2.2	2.4	14	0.8	2.2	0.2
Serbia	-17	14	17	2.2	-0.8	19	-0.2
Average [1]	**0.4**	**16**	**2.2**	**14**	**0.2**	**2.2**	**0.0**
Eastern Europe and the Caucasus							
Armenia	7.1	2.5	3.5	5.0	-2.5	4.0	-0.5
Azerbaijan	2.3	4.5	3.5	3.5	10	4.0	-0.5
Belarus	11	0.5	10	2.0	-15	2.5	-15
Georgia	6.2	2.0	4.0	3.0	-10	5.0	-10
Moldova	-0.8	3.5	3.5	2.5	10	4.0	-0.5
Ukraine	0.2	-0.5	15	-0.5	0.0	2.5	-10
Average [1]	**12**	**10**	**2.0**	**12**	**-0.2**	**3.0**	**-10**
Turkey	2.2	3.7	3.6	3.7	0.0	4.0	-0.4
Russia	3.4	13	2.5	18	-0.5	3.0	-0.5
Central Asia							
Kazakhstan	5.0	5.6	5.5	4.9	0.7	5.5	0.0
Kyrgyz Republic	-0.9	6.5	5.5	6.5	0.0	5.0	0.5
Mongolia	12.3	13.0	14.0	16.0	-3.0	17.0	-3.0
Tajikistan	7.5	7.1	5.0	5.0	2.1	5.0	0.0
Turkmenistan	11.1	10.0	10.0	10.0	0.0	10.0	0.0
Uzbekistan	8.2	7.7	7.0	7.5	0.2	7.0	0.0
Average [1]	**6.4**	**6.7**	**6.5**	**6.2**	**0.5**	**6.6**	**-0.1**
Average EBRD region (excluding SEMED) [1]	**2.6**	**2.0**	**2.8**	**2.1**	**-0.1**	**3.1**	**-0.3**
Southern and Eastern Mediterranean							
Egypt	3.3	19	3.2	2.0	-0.1	3.6	-0.4
Jordan	2.7	3.0	3.4	3.0	0.0	3.4	0.0
Morocco	2.7	4.8	4.0	5.0	-0.2	5.2	-12
Tunisia	3.7	3.2	4.0	3.8	-0.6	4.3	-0.3
Average [1]	**3.1**	**2.8**	**3.5**	**3.0**	**-0.2**	**4.1**	**-0.6**
Average EBRD region (including SEMED) [1]	**2.7**	**2.0**	**2.8**	**2.2**	**-0.2**	**3.2**	**-0.4**

[1] Weighted averages. The weights used for the growth rates are WEO estimates of nominal dollar-GDP for 2012.

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

Chart 1. Contributions to World growth

(year-on-year, %)

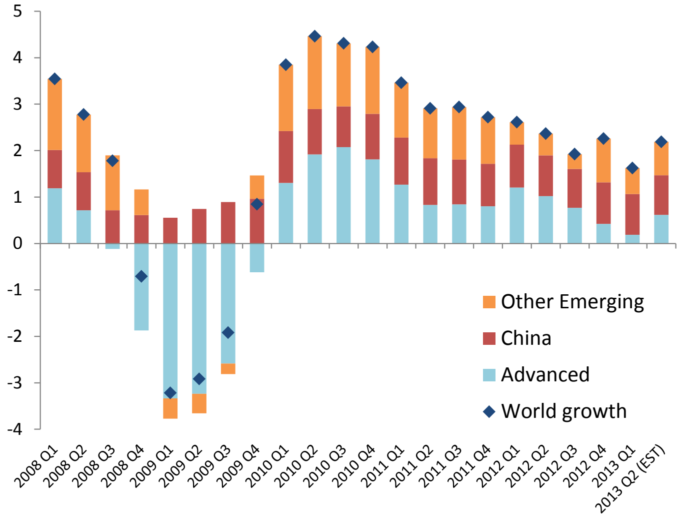


Chart 2: Exports

(Average month-on-month seasonally adj. growth latest 12 months, %)

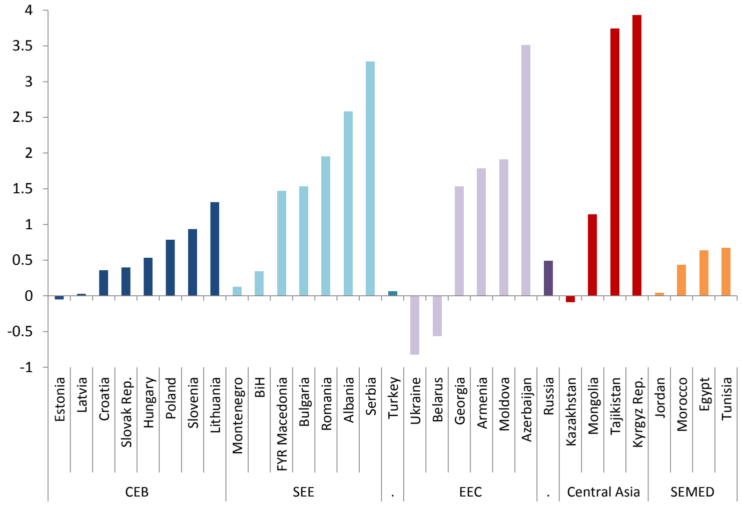


Chart 3. Private capital flows

(as % of 2012 GDP)

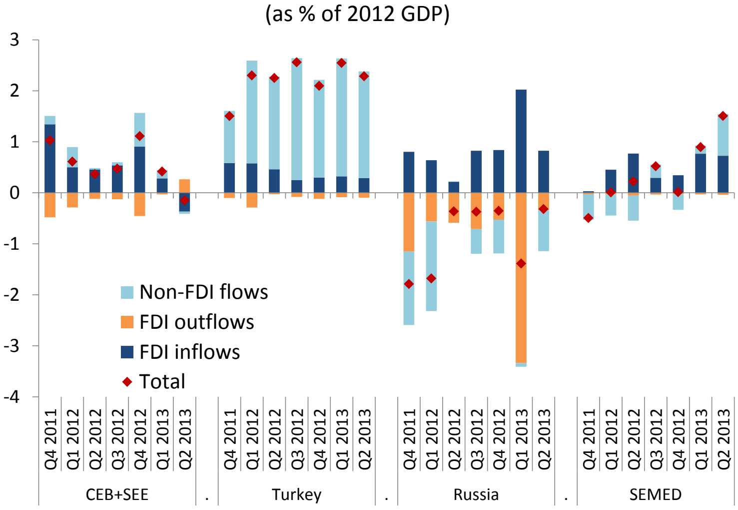


Chart 4. Real credit growth

(year-on-year, %)

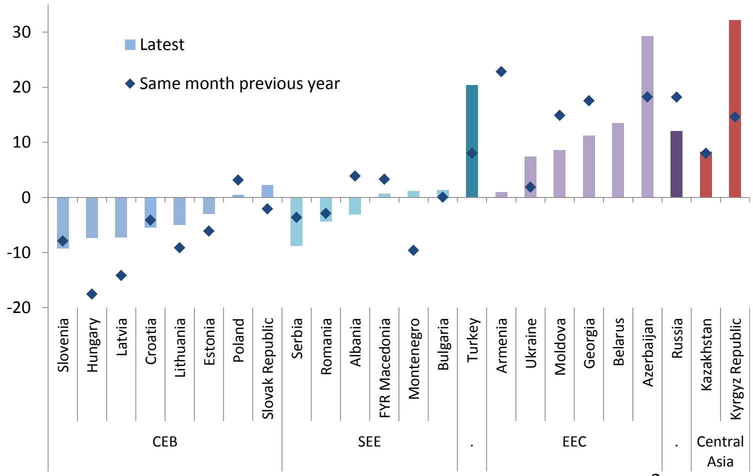


Chart 5. Non-performing loans

(% of all loans)

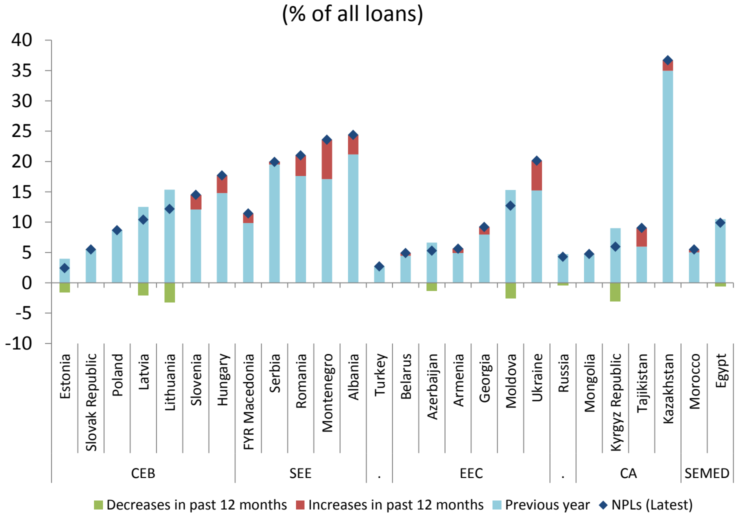
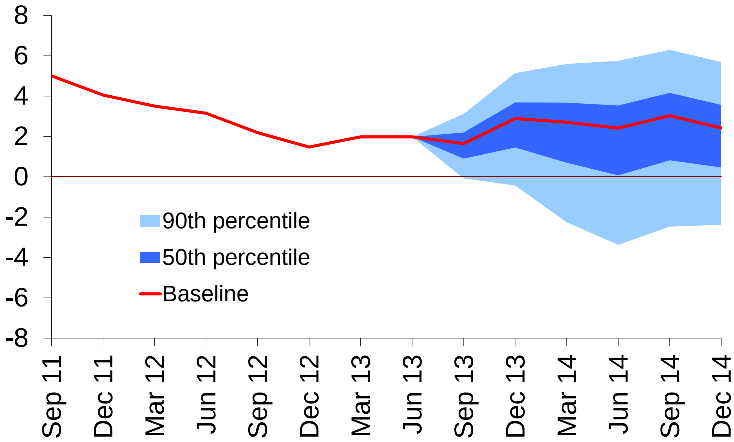


Chart 6. Transition region real GDP Growth[3]

(%, quarterly, year-on-year)



[3] 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 -0.3% in 2013, VIX around 17 in 2013, and an oil price of about US$100 per barrel. The downside scenario assumes a recession in the Eurozone, with growth of -2 per cent in 2013 and more volatile market, with VIX averaging 40 in the third quarter of 2013 and then slowly declining at the end of the year.

Central Europe and the Baltic States (CEB)

In the central Europe region key economies such as Poland and Hungary saw a welcome cyclical recovery in the second quarter, in the case of Hungary bringing a recession to an end that lasted throughout 2012. By contrast, recessions in Croatia and Slovenia still persist, and in the case of Slovenia the contraction is likely to carry over into 2014. In the low growth environment with contracting or stagnating credit volumes and no fiscal policy room, novel policy instruments are yet to show any effect on depressed investment volumes (such as the off-budget investments fund in Poland or the newly expanded special lending scheme through the central bank in Hungary).

- After a very weak first half of the year, when growth dropped to under 1 per cent compared to a year earlier, recent data in **Poland** point towards a recovery over the coming quarters. Retails sales have been growing consistently in annual terms (following drops up to December 2012), and will be helped by real wage trends, as consumer inflation has dropped to about 1.4 per cent at the latest reading in September 2013. Industrial production grew by 5 per cent in the third quarter, and the forward looking indicators PMI also points towards a further expansion. At the same time, the central bank continues to see weakness in domestic demand data, for instance in the still contracting construction sector, and does not envisage a rise in its historically low monetary policy rate. Wide-ranging changes to Poland's pension system will likely take effect early next year and reduce the contributions flowing into private pension funds. This could free about 0.8 per cent of GDP in fiscal spending. Should this be partly utilized for additional budgetary spending – amounting to a reduction in the aggregate savings rate – a considerable boost to demand could result. Public and private investment spending remain depressed, inhibiting a future recovery and trend growth. A state-backed investment fund announced over a year ago is yet to make an impact.

- The **Slovak Republic** similarly saw a revival in industrial production over last quarter, in particular in manufacturing. However, private consumption continued to stagnate in part due to the still serious unemployment problem in the country (which remained 18 per cent in August). Gross investment similarly remains a drag on growth, showing a contraction of 8 per cent in first half of the year. The government has made progress with its fiscal consolidation drive, though has further to go next year. Growth projections hence remain unchanged from our May forecast, at slightly under one per cent for this year, and about 2 per cent in 2014.

- **Hungary** has seen a surprising and welcome cyclical recovery, with a second quarter of growth in Q2 2013. This improvement was driven largely by public infrastructure spending, though also by some improvement in domestic consumption as real wage growth resumed. This has brought to an end a 'double-dip' recession that had lasted throughout 2012, though the level of economic output is still only back to where it was in early 2009. For 2013 as a whole we expect growth to be marginally positive, and for 2014 to edge up to 1.2 per cent. Over the medium term, the continuing lending contraction, but also growing uncertainty for investors in sectors such as utilities will continue to undermine Hungary's trend growth rate. The central bank's zero-interest lending scheme was further expanded (to almost 9 per cent of GDP over the coming 2 years), though it is unlikely to be effective unless more investor-friendly policies support loan demand.

- The recession in **Slovenia** deepened in the first half of 2013, and for the year as a whole a GDP contraction at 2.4 per cent is expected, roughly a similar pace as last year. While exports showed a certain recovery (growing at slightly over 2 per cent in volume terms in the first half), domestic demand continues to suffer in the context of corporate deleveraging, banking stress and fiscal tightening (excluding any potential recapitalisation spending). The privatisation of 15 companies got off to a promising start, though simplification of state asset holdings remains to be implemented. Bank restructuring through the newly established Bank Asset Management Company and parallel bank recapitalisation will only proceed once system-wide asset quality assessments and stress test are concluded, which is expected for December 2013. The institutional and legal basis for the long-overdue process of corporate debt restructuring, and parallel bank rehabilitation is in place. Even if this process is supported out of state resources alone, it will be slow to gather pace, so that the recession will not abate in 2014.

- The three **Baltic economies** also saw notable growth deceleration this year, though with growth rates of 3 per cent (Lithuania) and 4.2 per cent (Latvia), these two countries will remain growth leaders in Europe. These very open economies were impacted by the slowdown in external demand. Based on further productivity increases, and gains in export market shares all three economies seem well-poised to take advantage of the incipient European recovery. We expect growth rates between 2.5 and 3.5 per cent for 2014. Nevertheless, industrial production and exports may be exposed to shifts in individual industries, or in strategies by individual investors.

- The accession of **Croatia** to the European Union on July 01 2013 was preceded by a series of important reforms, but there have been few direct economic benefits so far, and the recession that took hold in 2009 has persisted into 2013. GDP fell by 1.5 per cent y/y in Q1 2013, on the back of a continued decline in household consumption, as well as further falls in investments and exports of goods. The recession moderated in Q2 with GDP declining by 0.7 per cent y/y. Upward pressures on prices have been subsiding in recent months, and inflation stood at 1.9 per cent y/y in August 2013. The economy remains weighed down by long-standing problems of uncompetitive industries, labour market inflexibility and a large and inefficient public sector. However, EU membership should enable the country to benefit from full access to the single market and to substantial EU funds, which should lead to some positive growth in 2014.

South-Eastern Europe (SEE)

The economies of South-eastern Europe are mostly stagnating or showing only minimal growth at present. Domestic demand is generally subdued and investment flows to the region continue to lag well behind levels seen in the pre-crisis years. The financial sectors in SEE remain calm but the level of non-performing loans continues to rise in most countries and is close to or has exceeded 20 per cent of total loans in several cases. All countries in the region face severe fiscal challenges as weak revenues heighten the need for expenditure restraint and sometimes painful cuts to public services. On the more positive side, exports are performing well in most cases, boosted by slightly improved economic performance in the Eurozone and increasing access to non-EU markets. Inflation is generally low throughout the region and has come down significantly in a couple of cases where it had been above the central bank's target. However, progress in deeper structural reforms remains hesitant throughout the region, being constrained by the difficult economic environment.

- Economic activity in **Albania** has been weakening through 2012 and the first months of 2013. In 2012, GDP grew by only 1.6 per cent, which was considerably lower than previous years when output increased by more than 3 per cent annually. The subdued economic performance has continued into 2013. The anaemic growth reflects the extent of difficulties in the Eurozone and particularly in periphery countries that are Albania's major economic partners. Fiscal challenges are severe, with public debt above 60 per cent of GDP, and financial sector vulnerabilities are evident with NPLs of around 25 per cent of total loans.

- **Bosnia and Herzegovina's** economy remains stable but growth so far in 2013 is only minimal at best after the recession in 2012. However, the authorities have shown a commitment to targets agreed under the IMF Stand-By Arrangement, approved in September 2012, with three reviews completed so far. The complex political structure and weak business environment continue to hold back growth prospects.

- The economy in **Bulgaria** is showing little signs of a sustained recovery in 2013. Export performance continues to improve but weak internal demand means that growth in 2013 is likely to be slightly lower than the 0.8 per cent growth recorded in 2012. On the positive side, prices are stable, public debt is the second lowest (relative to GDP) in the EU and the country continues to perform very strongly by EU standards on the fiscal side, notwithstanding a modest increase in the government deficit target (to 2 per cent of GDP) for 2013.

- The economy in **FYR Macedonia** has shown some signs of recovery in the first half of 2013. Output grew by 2.9 per cent year-on-year in the first quarter and 3.9 per cent year-on-year in the second quarter. It was driven primarily by continued strong rise in investment as well as some recovery of exports in the second quarter. Consumption meanwhile continues to be a drag on growth. Inflation has fallen in 2013. The country continues to make strong efforts to improve the business environment and attract much-needed FDI, which should help growth prospects in the coming years.

- Economic growth in **Kosovo** in 2012 was the highest in the region at 2.5 per cent, but the country also remains the poorest in SEE, with unemployment and poverty at elevated levels. The macroeconomic environment is stable, assisted by an IMF Stand-By Arrangement. Growth in 2013 is likely to be similar to last year.

- In **Montenegro**, economic activity picked up in the first half of this year especially on the back of recovering exports. However, the current account deficit at close to 20 per cent of GDP remains the highest in the region. The fiscal position has been weakened by payment of KAP guarantees, and public debt levels have risen sharply in recent years. Credit to the economy continues to contract and NPLs are high at close to one in five loans.

- In the first half of 2013, economic activity in **Romania** has improved. GDP rose by 2.1 per cent year-on-year in the first quarter, mainly on account of a strong export performance, and 1.3 per cent year-on-year in the second quarter. Inflation returned to the central bank's target range of 2-4 per cent, and fell further to 1.9 per cent year-on-year in September 2013. Fiscal performance has also been good and the country exited the European Commission's excessive deficit procedure earlier this year. However, growth prospects in the short term continue to be constrained by a weak Eurozone.

- **Serbia's** economy has recorded both positive and negative developments so far in 2013. Data from the first half of the year indicate that an export-led recovery is taking place, with GDP rising by 2.7 per cent year-on-year in the first quarter and 0.2 per cent year-on-year in the second quarter. Exports are growing strongly, boosted by the revival of the car industry, and the agriculture sector has also had a good harvest. Inflation has fallen significantly in recent months and is now back within the central bank's target zone. However, the country has major fiscal problems, with a government deficit projected by the IMF at between 7 and 8 per cent of GDP in 2013 and public debt having reached around 60 per cent of GDP and still rising. NPLs are around 20 per cent of total loans and also constitute a significant vulnerability for the economy.

Turkey

Economic activity in Turkey has picked up during the first half of 2013, following a sharp slowdown in 2012**.** Stronger-than-expected growth in the first half of 2013 was driven primarily by domestic demand, boosted by monetary easing and a surge in government spending. Nevertheless, growth prospects for the remainder of the year have dimmed following domestic disturbance and market volatility over the summer. While necessary to contain inflation pressures, the recent tightening by the central bank is expected to further moderate economic activity in the second half of the year.
Leading indicators point to weaker activity in the third quarter, with overall growth expected to reach 3.7 per cent in 2013.

Recent capital outflows have increased the risks facing the economy. Large macroeconomic imbalances remain, with the current account deficit still above 6 per cent of GDP, leaving Turkey vulnerable to sudden shifts in global market sentiment. Turkey continues to have persistently large external financing requirements (estimated at about 23 per cent of GDP) and is heavily reliant on short-term foreign borrowing and volatile portfolio inflows to meet those requirements.

The prospect of tapering of the US Fed's quantitative easing programme led to a reversal of capital flows since May 2013, and the currency weakened to record lows against the US dollar (losing about 15 per cent of its value at one point). However, markets have stabilised since then, following the Fed's decision to delay tapering. Nevertheless, with the current account deficit and gross external financing needs expected to remain elevated, a weakening or a reversal of capital flows would present a major challenge for the Turkish economy.

Eastern Europe and the Caucasus (EEC)

The region has been affected by the unfavorable global economic environment and, in some cases, by domestic and international policy instability. Ukraine's economy has been in a recession for over a year. Economies of Armenia, Belarus and Georgia slowed significantly. Growth accelerated in Azerbaijan due to pre-election loosening of fiscal and monetary policies and in Moldova, as agriculture and related industries continued to rebound from the relatively poor harvests of recent years. Inflation has been subdued throughout much of the region and decelerated further in the case of Belarus, as global agriculture and energy prices declined and domestic demand has moderated.

- **Armenia's** economy slowed considerably in the middle of the year, affected by delays in public infrastructure spending and a significant increase of prices of Russian gas and related tariffs hikes. Remittance inflows have remained strong. Armenia's decision to seek membership of the Eurasian Customs Union may bring about a reduction of natural gas prices. Therefore, a moderate acceleration of growth is likely in 2014 and onwards.

- **Azerbaijan's** economy has accelerated in the course of the year, led by significant pre-election fiscal and monetary stimulus. The pace of hydrocarbon extraction has stabilized after the contraction of the past two years. The non-oil sector, supported by public spending and a credit boom, has expanded at double-digit rates and is at risk of overheating. Next year, growth rate is likely to stabilize at around 3-4 per cent as macroeconomic policies are normalized following the presidential elections and recovery of oil output is completed.

- The economy of **Belarus** has been unable to sustain the momentum of the short-lived recovery following the 2011 crisis and the economy is again showing signs of high stress. Export-oriented industry, the largest sector of the economy, is suffering from deteriorating external competitiveness in the traditional markets. Domestic demand, stimulated by public sector wage increase after the crisis, has helped support output growth but also contributed to the recent widening of the current account deficit. External risks are rising as the central bank continues to shed foreign exchange reserves and external sources of financing are drying up.

- **Georgia's** economic growth slowed considerably due to lower public and private investment and policy uncertainty related to the post-election political transition and the presidential elections. Under-spending of the capital budget by the government and contraction of private investments have contributed to a recession in construction and a marked slowdown in the industrial sector. Agriculture and trade have been buoyant, after Russia started to re-open access of Georgian foodstuffs to its market. Economic growth is expected to accelerate in 2014, provided both the political uncertainty subsides after the presidential elections and the improvement of Russian-Georgian commercial relations continues.

- After the drought-induced downturn in 2012, **Moldova's** output growth reached a healthy pace in the first half of 2013, led by manufacturing and trade. Short-term growth prospects are uncertain and depend on the evolution of remittances, exports and investment sentiment, while poor corporate governance in banks poses a risk to financial and broad macroeconomic stability.

- **Ukraine**'s economy has been contracting since the third quarter of 2012, affected by the difficult external environment, poor business environment and domestic policy uncertainty. Lower external demand and subdued steel and other commodity prices have led to a contraction of machine building, steel and chemicals sectors. The construction sector has continued to decline, as investment activity remains subdued. Credit activity has been sluggish, as real interest rates in local currency have hovered at around 20 per cent and the central bank has continued to expand capital controls. While the recession is likely to end by the fourth quarter of 2013, due to the favourable base effects and a close-to-record grain harvest, future recovery is likely to be very slow, unless the authorities implement much of their ambitious reform agenda. External risk are approaching a critical point as the central bank reserves have fallen to around 2.5 months of imports and the government is virtually cut off from the international capital markets.

Russia

Economic growth remained subdued in the second quarter of 2013. After growing at the rate of 3 to 5 per cent in 2010-12, the economy slowed down in the first quarter of 2013, growing at 1.6 per cent year-on-year. This corresponded to a contraction in seasonally adjusted quarter-on-quarter terms. In the second quarter output increased by only 1.2 per cent year-on-year.

A number of factors contributed to the deceleration. The external environment remains difficult, as growth in the Eurozone, Russia's key trading partner, is expected to be negative this year and the price of oil, Russia's dominant export, has declined in year-on-year terms for the first time since the 2008-09 crisis (Urals brand oil was around three per cent cheaper on average in the first nine months of 2013 compared with the same period in 2012). Further, the post-crisis recovery effect has subsided over time while investment has remained subdued, resulting in capacity constraints becoming binding on the supply side. Moreover, unemployment rate remained at historic lows, thus imposing upward pressure on wages. This eventually drained corporate profits thereby lowering the chances of the private sector-led investment revival.

Net private capital outflows persisted. They fell somewhat from US$ 81 billion in 2011 to US$ 54 billion in 2012 (around 3 per cent of GDP), but the rate of outflow picked up again in the first nine months of 2013 (to US$ 48 billion). The outflows and a relatively subdued investment activity may in part reflect concerns about the quality of the overall business environment and effective cost of investment. Against the background of higher capital outflows from emerging markets more generally and a widening current account deficit, the rouble weakened somewhat against the basket of the euro and the US dollar. Inflation has remained relatively high, at around 6.5 per cent year-on-year.

The slowdown also led to mounting pressures to increase government spending. A new fiscal rule, which came into force in 2013, was designed to make fiscal policy more conservative by linking budget expenditure to the average historical oil price calculated over a number of years. The rule may now be relaxed, and part of the savings in the National Welfare Fund may be channelled to finance selected infrastructure projects in the run-up to the 2018 FIFA World Cup.

GDP growth is expected to remain subdued at around 1.3 per cent in 2013. It is expected to pick up to only 2.5 per cent in 2014. Russia's medium-term outlook remains highly dependent on commodity prices, particularly oil and gas. However, there are increasing signs that growth potential has declined due to low investment and productivity in a generally weak business environment.

Central Asia

In most of Central Asia, economic growth remained relatively strong, albeit weaker than in recent years. The deceleration reflects a more difficult external environment, flattening of commodity prices, and weaker growth in Russia. The latter may have a further negative impact on growth in this region, mainly through the impact on remittance flows, which have so far continued growing. At the same time, certain delays notwithstanding, large natural resource exploration projects remain broadly on track throughout the region, and are expected to make a sizable contribution to growth over the medium term.

- In **Kazakhstan,** GDP growth slowed from 7.5 per cent in 2011 to around 5 per cent in 2012 owing to the more difficult external environment. Growth then picked up to 5.7 per cent in the first three quarters of 2013 on the back of resilient investment. It is expected to remain around this level in 2013, supported by an expansion of oil output. The banking sector remains weak, suffering from overhang of non-performing loans (in excess of 30 per cent of total loans). Inflation has slowed down somewhat, to 5.4 per cent in September 2013, and remains broadly within the targeted range.

- In the **Kyrgyz Republic,** a disruption at the Kumtor gold mine in early 2012 caused a significant temporary drop in gold production and resulted in an output contraction of around 1 per cent for the year as whole. Given the one-off nature of the disruption, output rebounded strongly in the first three quarters of 2013 and growth is expected to reach 6.5 per cent for 2013 as a whole, reflecting the base effect, before subsequently moderating. Inflation picked up from around 2 per cent in August 2012 to 8 per cent in summer 2013 but is expected to moderate.

- In **Tajikistan**, GDP growth remained strong at 7.5 per cent in 2012 and 7.4 per cent in the first three quarters of 2013. It is expected to moderate somewhat to 7.1 per cent in 2013 on account of slowing remittances, which come mainly from Russia. Moreover, the growth outlook in Tajikistan is particularly uncertain given weaknesses in the banking system and continued tensions with Uzbekistan that may lead to further interruptions in gas supplies and railway shipments. Inflation declined from 7 per cent in the beginning of the year to 4.6 per cent in August 2013 owing to lower growth of food prices.

- **Turkmenistan** continues to experience a buoyant economic expansion with GDP growth of 11.1 per cent in 2012 and 9.9 per cent in the first nine months of 2013, driven by large public construction projects and increased gas exports to China. GDP growth is expected to reach 10 per in 2013, as a new gas field comes on stream, and remain strong over the medium term, supported by exploration of Turkmenistan's abundant gas reserves and further diversification of export routes.

- **Uzbekistan's** GDP growth remained strong at 8.2 per cent in 2012 and 8 per cent in the first half of 2013. It was driven by a combination of increases in public spending, diversification of gas export routes and accommodating monetary conditions. Growth is expected to slow down somewhat to around 7.7 per cent in 2013.

- **Mongolia** continued to benefit from a mining boom, and in July 2013 the first commercial shipments of copper concentrate departed from Oyu Tolgoi, expected to become one of the world's largest copper mines. At the same time, growth slowed down slightly in the first half of 2013, to 11.3 per cent, amidst weaker external demand, decreases in prices of key commodities and delays at key mining projects. Growth is projected to reach 13 per cent in 2013 and edge up to 14 per cent in 2014, as the first phase of Oyu Tolgoi comes fully on stream. Inflation decelerated to around 8 per cent at end-September 2013 reflecting lower government spending growth and more moderate food price inflation.

Southern and Eastern Mediterranean (SEMED)

The economies of the SEMED countries continue to face adverse external conditions with considerable external financing need. In addition, in several countries political and economic policy uncertainty weigh on market and consumer confidence. As a response to social pressures, all SEMED countries have increased government spending on social benefits and subsidies, exacerbating fiscal deficits across the board. At the same time, all countries have taken some positive steps towards reforming expensive subsidy schemes, in particular by raising some energy prices. Balance of payments pressures persist in the SEMED countries, but the levels of international reserves have stabilised. IMF programmes in place in Jordan, Morocco, and Tunisia continue to provide buffers against any further deterioration of external conditions and bilateral support from GCC countries and the US continues to provide vital financing to the most affected countries. Growth for the region as a whole is expected to remain muted in 2013, picking up only in 2014. In Egypt and Tunisia, economic performance is expected to be impacted by domestic and political uncertainty. In Jordan and Morocco, the external environment will be a key factor in economic recovery. Ensuring fiscal and external sustainability remains a key challenge to restoring macroeconomic stability, but some countries have been facing difficulties in implementing their economic reform programmes, with politically sensitive reforms repeatedly postponed.

- The political turmoil in **Egypt** following the overthrow of President Morsi in July has weighed heavily on the economy, leading to a retrenchment of overall economic performance. A curfew imposed by the interim government has had a significant impact on business activity as the country remains in a state of emergency. In fact, business activity has weakened considerably as reflected by leading indicators. Real GDP is forecasted to inch up by just 1.9 per cent in 2013 and 3.2 per cent in 2014 with downside risks associated with heightened political uncertainty outnumbering those on the upside. In the meantime, aid inflows will temporarily support the economy, but are nonetheless no substitute for the required reforms to address the economy's unresolved fiscal and external pressures.

- Economic performance in **Jordan** remains weak amid continued regional turmoil, with growth projected at 3 per cent in 2013, well below the average growth rate of 6 per cent over the last decade. The conflict in Syria has disrupted trade and resulted in an influx of over half a million refugees (estimates including non-registered refugees are higher), which continues to strain public service provision, public finances, and labour market conditions. Furthermore, the recent political developments in Egypt, particularly in Sinai, could hinder the normalization of natural gas supply to Jordan, posing a downside risk to external balance. Leading indicators point to further weakening of economic activity as reflected by the subdued performance of industrial production and tourism.

- Output in **Morocco** continued to improve in 2013. This mainly comes on the back of the continued rebound in the agricultural sector (which accounts for around 13 per cent of GDP and 40 per cent of employment). Growth in non-agricultural production, however, slowed to 1.9 per cent in the second quarter down from 4.5 per cent a year earlier. Overall growth is expected to accelerate to about 4.8 per cent in 2013 on account of an exceptionally strong harvest and despite slower non-agricultural growth, but is expected to slow to 4.0 per cent in 2014 as agriculture growth normalizes. Meanwhile, inflation remains under control, and Morocco enjoys the lowest rate in SEMED.

- In **Tunisia**, recent political and security turmoil has impacted economic performance. Real GDP grew by 3.2 per cent in the second quarter of 2013, up from 2.6 per cent in the first quarter, regaining momentum following the killing of an opposition leader in February. However, the latest political crisis sparked by the killing of another opposition leader in July will likely drag down economic performance in the third and fourth quarters. Renewed protests and labour strikes have disrupted economic activity, particularly in tourism and manufacturing which were key growth drivers in the second quarter, and overall growth is expected to reach 3.2 per cent in 2013. The balance of payments remains under pressure, with tourist receipts severely affected. At the same time, the fiscal deficit target has been missed.

Table 1. Transition Region: Vulnerability Indicators 1/

	Public and External Debt /2				Gross reserves /2				Bank dep.	Loans/ dep.	Country risk			Domestic FX loan stocks (latest)				Nonperforming loans /3	Unem-ployment
	(% of GDP)								latest					(% GDP)					
	Government (end 2012)	External			billions US$ (latest)	in percent of					28-Oct-13	Latest		Total pvt sector	of which		% FX credit in total loan stock		
		Total (end 2012)	Private (end 2012)	Short term (remaining maturity)		GDP	Short term debt	month of prosp. Imports	% of GDP	Private sector, in %	(CDS spread, bps)	S&P sovereign country ratings	Fitch sovereign country ratings		Corp.	HH		latest	% (latest avail.)
Central Europe and Baltics																			
Croatia	53.7	104.5	79.9	33.4	15.7	27.7	83.0	7.6	68.2	110.4	331.3	BB+	BB+	52.5	23.5	29.0	72.8	14.4	18.0
Estonia*	10.1	90.8	83.5	51.4	…	…	…	…	50.6	150.4	…	AA-	A+	1.1	1.0	0.0	1.4	2.2	7.9
Hungary	79.2	130.3	73.6	29.4	40.3	32.1	109.2	4.3	41.4	118.7	265.6	BB	BB+	27.8	13.2	13.7	54.8	17.7	10.2
Latvia	40.6	139.8	106.7	60.2	7.3	25.6	42.5	4.5	33.7	169.8	121.9	BBB+	BBB+	49.9	24.7	25.2	86.5	10.4	11.4
Lithuania	40.7	73.3	36.5	33.0	7.6	17.9	54.3	2.4	37.3	120.1	…	BBB	BBB+	32.0	16.0	16.0	71.4	12.2	12.3
Poland	55.6	74.4	43.7	20.6	104.8	21.4	103.8	5.5	45.8	110.1	85.3	A-	A-	15.6	3.9	11.6	30.9	8.7	10.3
Slovak Republic*	52.4	77.2	34.8	30.6	…	…	…	…	48.2	97.4	81.8	A	A+	0.1	0.1	0.0	0.3	5.5	14.0
Slovenia*	54.4	115.6	59.6	29.4	…	…	…	…	53.6	141.9	…	A-	BBB+	3.2	0.6	2.6	4.1	14.6	10.4
South-Eastern Europe																			
Albania	61.4	38.3	10.7	3.2	2.6	20.6	637.7	6.1	69.3	57.0	…	B+	…	24.3	18.6	5.7	61.6	24.4	12.8
Bosnia and Herzegovina	44.3	52.6	24.3	13.7	4.3	25.1	182.3	4.6	43.7	132.1	…	B	…	39.0	21.5	17.5	66.5	14.3	28.0
Bulgaria	17.6	97.2	88.5	35.3	17.9	35.1	99.4	5.9	65.2	105.6	118.6	BBB	BBB-	42.4	33.0	9.5	61.7	17.0	13.0
FYR Macedonia	34.0	70.7	48.6	27.8	2.5	25.5	91.8	3.7	52.0	93.8	…	BB-	BB+	25.7	16.2	9.5	52.9	11.8	28.8
Kosovo	17.0	15.6	…	…	1.2	17.9	…	3.8	42.2	82.2	…	…	…	34.7	24.2	10.4	0.8	7.5	30.9
Montenegro	51.9	108.4	68.9	…	0.4	9.9	…	1.7	58.5	100.4	…	BB-	…	…	…	…	…	23.6	13.4
Romania	38.2	77.3	50.1	28.6	42.6	25.1	87.9	6.6	32.3	115.6	185.1	BB+	BBB-	23.2	11.4	11.8	62.3	21.0	7.5
Serbia	61.8	88.1	46.3	13.8	13.5	35.1	254.2	6.8	43.3	125.4	348.0	BB-	BB-	39.3	26.8	12.5	72.5	19.9	24.1
Eastern Europe and the Caucasus																			
Armenia	38.9	77.0	38.8	5.4	1.8	18.1	333.5	4.2	23.8	163.9	…	…	BB-	24.7	19.3	5.3	63.2	5.9	5.9
Azerbaijan	11.6	9.2	…	…	13.3	19.3	…	8.1	16.2	148.1	…	BBB-	BBB-	7.0	4.0	3.0	29.0	5.3	5.4
Belarus	41.9	55.1	31.9	29.2	5.8	9.1	31.1	1.5	27.8	160.6	…	B-	…	21.0	20.8	0.0	47.0	4.9	0.5
Georgia	32.3	85.2	54.7	30.0	3.1	19.6	111.3	4.1	33.4	102.6	…	BB-	BB-	22.4	11.9	10.5	65.2	9.2	15.0
Moldova	23.9	84.6	61.1	33.7	2.5	33.9	100.7	4.3	48.9	85.2	…	…	…	17.2	16.8	0.4	41.3	12.7	4.7
Ukraine	37.4	76.6	58.4	35.2	19.8	11.2	31.9	2.4	42.6	129.0	935.2	B	B	20.5	15.2	5.3	37.3	20.1	6.9
Turkey	36.2	42.8	29.7	18.7	108.6	13.8	73.6	4.9	44.2	151.8	180.5	BB+	BBB-	18.5	18.5	0.0	27.6	2.7	9.3
Russia	12.5	28.6	25.9	7.8	464.2	22.9	291.8	12.2	42.9	126.4	156.6	BBB	BBB	7.1	6.7	0.4	13.1	4.3	5.6
Central Asia																			
Kazakhstan	12.4	67.6	64.9	7.0	19.8	9.8	138.6	3.8	32.7	109.1	171.2	BBB+	BBB+	10.5	8.8	1.7	29.4	36.7	5.2
Kyrgyz Republic	48.9	75.6	29.8	8.5	1.9	29.8	350.7	3.6	…	…	…	…	…	…	…	…	51.0	5.9	2.4
Mongolia	…	131.9	86.3	…	2.8	27.7	…	4.6	…	…	…	BB-	B+	15.3	14.1	1.2	…	5.3	7.3
Tajikistan	32.3	46.2	19.1	1.3	0.3	4.1	313.2	0.7	13.9	130.3	…	…	…	…	…	…	…	9.0	2.5
Turkmenistan	18.1	18.1	0.0	0.3	…	…	…	…	…	…	…	…	…	…	…	…	…	...	…
Uzbekistan	8.6	13.0	4.8	0.8	…	…	…	…	…	…	…	…	…	…	…	…	…	...	…
Southern and Eastern Mediterranean														…	…	…			
Egypt	80.6	13.4	0.8	2.0	18.7	7.3	359.1	3.5	69.0	47.9	678.0	CCC+	B-	8.9	8.7	0.2	…	9.9	13.3
Jordan	79.6	23.4	0.0	2.2	11.1	35.5	1628.4	5.7	113.7	70.9	…	BB-	…	11.4	…	…	…	7.7	14.0
Morocco	60.5	29.8	3.5	2.0	17.7	18.4	931.4	4.2	69.6	103.6	…	BBB-	BBB-	…	…	…	…	5.3	8.8
Tunisia	44.0	51.4	15.1	15.1	7.2	15.8	104.6	3.1	54.2	…	…	B	BB+	…	…	…	…	13.0	15.9

1/ National sources based on CEIC and IFS, unless stated otherwise.
2/ WEO October 2013 estimates. 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 GDP)
		Forecast 2/				Forecast 2/		Forecast 2/	3/	3/	3/	3/	3/
	2012	2013	2014	2011	2012	2013	2012	2013	2012	2012	2012	2012	2012
Central Europe and Baltics													
Croatia	-2.0	-0.8	1.5	-0.3	-2.3	0.3	3.4	2.5	-3.8	-1.2	140.6	-0.2	2.6
Estonia	3.9	1.2	2.5	5.2	4.9	1.9	4.2	3.5	-0.2	0.0	22.2	-1.8	2.5
Hungary	-1.7	0.5	1.2	1.3	-2.7	1.7	5.7	2.0	-1.9	2.3	170.3	1.0	2.3
Latvia	5.0	4.2	3.2	5.1	4.5	4.3	2.3	0.0	-1.3	0.0	98.4	-2.5	2.7
Lithuania	3.7	3.0	3.5	5.7	4.0	2.6	3.2	1.4	-3.3	-1.4	126.9	-0.2	0.7
Poland	1.9	1.2	2.3	4.9	0.7	1.5	3.7	1.0	-3.9	-1.1	144.8	-3.7	1.1
Slovak Republic	2.0	0.9	2.0	3.8	0.7	1.3	3.7	1.5	-4.5	-2.7	157.5	2.2	3.2
Slovenia	-2.5	-2.4	-2.5	-2.0	-3.3	-1.2	2.8	2.3	-3.8	-1.7	120.2	3.3	0.5
South-Eastern Europe													
Albania	1.6	1.2	2.0	2.2	1.7	1.9	2.0	2.1	-3.2	-0.1	251.1	-10.5	7.5
Bosnia and Herzegovina	-0.5	0.1	1.8	…	…	…	1.9	1.0	-2.8	-2.0	96.9	-9.4	2.0
Bulgaria	0.8	0.4	2.0	0.6	0.3	1.2	2.4	1.0	-0.8	0.1	53.1	-1.4	3.0
FYR Macedonia	-0.3	2.4	2.7	0.9	0.4	1.1	3.3	2.8	-3.9	-2.9	113.9	-3.1	1.0
Kosovo	2.5	2.5	3.5	…	…	…	3.3	2.5	-2.6	-2.4	61.1	-7.6	4.3
Montenegro	-0.5	1.5	2.0	…	…	…	3.6	2.6	-4.3	-2.5	134.9	-18.3	14.0
Romania	0.7	2.2	2.4	2.1	0.9	2.4	3.4	3.8	-2.5	-0.7	116.1	-4.4	1.7
Serbia	-1.7	1.4	1.7	0.7	-2.1	1.4	7.3	8.7	-7.1	-5.1	148.3	-10.6	0.8
Eastern Europe and the Caucasus													
Armenia	7.1	2.5	3.5	5.2	6.2	1.3	2.6	6.3	-1.6	-0.6	187.7	-11.3	4.8
Azerbaijan	2.3	4.5	3.5	-3.8	4.3	2.9	1.1	2.7	3.0	3.2	29.0	21.8	1.2
Belarus	1.1	0.5	1.0	0.3	-2.0	2.4	59.2	18.7	0.6	2.0	102.7	-2.7	2.1
Georgia	6.2	2.0	4.0	8.5	2.8	3.4	-0.9	0.0	-2.3	0.2	112.5	-11.7	3.9
Moldova	-0.8	3.5	3.5	5.8	-2.5	4.1	4.7	4.4	-2.1	-1.3	62.7	-6.8	2.1
Ukraine	0.2	-0.5	1.5	5.0	-2.5	0.5	0.7	0.8	-4.5	-1.1	84.0	-8.1	3.8
Turkey	2.2	3.7	3.6	5.3	1.4	3.4	8.9	7.7	-1.6	1.9	104.0	-6.1	1.1
Russia	3.4	1.3	2.5	5.1	2.1	1.5	5.1	6.6	-0.2	1.0	33.3	3.5	0.1
Central Asia													
Kazakhstan	5.0	5.6	5.5	8.7	4.5	5.4	5.2	6.1	4.5	5.0	46.0	0.3	6.1
Kyrgyz Republic	-0.9	6.5	5.5	4.6	8.1	2.4	2.8	6.8	-5.8	-4.8	141.8	-21.8	4.5
Mongolia	12.3	13.0	14.0	20.2	10.6	17.0	14.9	9.9	-7.7	-6.8	159.2	-32.8	43.0
Tajikistan	7.5	7.1	5.0	7.2	7.5	6.4	5.8	5.5	0.5	1.1	128.7	-3.3	2.6
Turkmenistan	11.1	10.0	10.0	…	…	…	4.9	5.7	6.4	...	85.9	0.0	8.9
Uzbekistan	8.2	7.7	7.0	8.5	8.2	7.3	12.1	11.0	8.5	8.6	20.8	0.7	1.3
Southern and Eastern Mediterranean													
Egypt	3.3	1.9	3.2	0.4	2.2	1.7	7.1	9.4	-10.7	-4.7	356.0	-2.7	1.0
Jordan	2.7	3.0	3.4	3.1	2.2	3.5	4.8	5.6	-8.8	-5.6	251.0	-17.2	4.8
Morocco	2.7	4.8	4.0	4.6	2.3	5.7	1.3	2.5	-7.4	-5.2	215.1	-10.0	2.6
Tunisia	3.7	3.2	4.0	-1.6	4.0	3.9	5.6	6.1	-4.9	-3.1	143.7	-8.0	3.5

1/ EBRD data and projections unless otherwise stated.

2/ As of November 4, 2013.

3/ WEO October 2013. CEB figures from Eurostat.

4/ Ukraine: Augmented general government balance: overall government balance includes Naftogaz and other debt-creating flows.

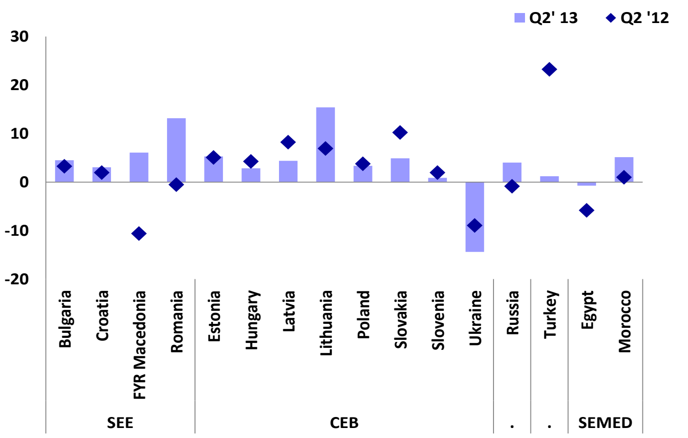
Table 3. Transition Region: Quarterly GDP actuals and projections, Q1 2011- Q3 2013 1/

	Quarterly GDP Growth (seasonally adjusted, quarter-on-quarter percent change)								Estimates 1/	Quarterly GDP Growth (year-on-year percent change)								Estimates 1/	GDP Growth (average) (year over year percent change)		
	2011				2012				2013	2011				2012				2013		Forecast 1/	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q3	2012	2013	2014
Central Europe and Baltics																					
Croatia	-1.0	0.9	0.2	-0.7	-1.1	-0.8	0.1	-0.6	0.5	-1.4	0.6	0.8	-0.3	-1.1	-2.5	-1.9	-2.3	-1.2	-2.0	-0.8	1.5
Estonia	3.2	2.2	1.0	-0.2	2.3	-0.1	1.3	0.5	0.8	11.7	11.7	10.1	5.2	5.0	2.5	3.4	4.9	0.6	3.9	1.2	2.5
Hungary	1.1	-0.1	0.0	0.3	-1.5	-0.5	0.0	-0.5	0.3	2.6	1.3	1.4	1.3	-0.6	-1.7	-1.7	-2.7	0.5	-1.7	0.4	0.6
Latvia	1.2	2.6	1.0	0.4	0.6	2.1	1.8	0.8	0.3	2.7	5.8	7.3	5.1	6.8	4.3	4.8	4.5	5.3	5.0	4.2	3.2
Lithuania	2.0	1.5	0.8	1.1	0.4	0.6	1.7	0.7	1.0	5.7	5.6	7.1	5.7	3.8	1.8	5.0	4.0	2.2	3.7	3.0	3.5
Poland	1.3	1.4	0.8	1.0	0.3	0.0	0.4	0.1	0.8	4.1	4.7	4.3	4.9	3.5	1.9	1.6	0.7	1.3	1.9	1.2	2.3
Slovak Republic	0.8	0.8	0.7	1.0	0.4	0.3	0.2	0.1	0.4	3.2	3.4	2.6	3.8	2.9	2.6	2.1	0.7	0.9	2.0	0.9	2.0
Slovenia	0.0	0.3	-0.3	-0.6	-0.5	-1.3	-0.4	-1.0	-0.8	2.7	1.5	0.6	-2.0	-0.2	-3.5	-3.0	-3.3	-2.3	-2.5	-2.4	-2.5
South-Eastern Europe																					
Albania	2.6	-1.4	0.7	0.5	-0.1	1.3	0.7	-0.3	0.4	5.6	0.9	2.9	2.2	-0.4	2.1	2.9	1.7	0.2	1.6	1.2	2.0
Bosnia and Herzegovina	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	-0.5	0.1	1.8
Bulgaria	0.3	0.5	0.2	0.1	0.2	0.2	0.1	0.1	0.2	2.1	2.9	1.9	0.6	1.0	1.1	0.8	0.3	-0.2	0.8	0.4	2.0
FYR Macedonia	0.6	0.4	-0.8	0.6	-1.3	0.5	0.5	0.5	-0.3	5.1	5.3	2.3	0.9	-1.3	-0.8	0.3	0.4	1.9	-0.3	2.4	2.7
Kosovo	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	2.5	2.5	3.5
Montenegro	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	-0.5	1.5	2.0
Romania	0.7	-0.4	2.5	-0.9	-1.0	1.4	-0.5	1.0	1.0	1.3	0.9	4.4	2.1	-0.1	1.9	-1.1	0.9	2.6	0.7	2.2	2.4
Serbia	1.3	-0.3	-0.1	0.0	-2.6	2.5	-1.8	0.0	-0.5	2.8	2.3	0.7	0.7	-2.7	-0.1	-2.1	-2.1	1.5	-1.7	1.4	1.7
Eastern Europe and the Caucasus																					
Armenia	1.9	1.2	-0.9	2.9	1.2	4.1	0.8	0.1	0.2	1.9	3.1	6.7	5.2	5.4	7.1	9.1	6.2	2.3	7.1	2.5	3.5
Azerbaijan	-7.4	4.3	0.2	-1.4	0.3	1.3	1.7	0.4	1.2	-2.5	0.4	-0.3	-3.8	1.9	0.0	1.7	4.3	5.5	2.3	4.5	3.5
Belarus	0.2	1.4	-2.6	2.0	0.9	1.3	-1.3	-2.2	-0.5	10.6	11.2	1.7	0.3	3.0	2.5	2.7	-2.0	0.0	1.1	0.5	1.0
Georgia	2.4	1.4	1.8	2.7	0.8	2.6	1.1	-1.6	0.5	5.8	6.0	7.9	8.5	6.7	8.2	7.5	2.8	0.9	6.2	2.0	4.0
Moldova	1.0	0.8	1.9	1.6	-3.2	0.4	-0.3	0.5	1.5	8.4	6.7	6.0	5.8	1.0	0.6	-1.7	-2.5	4.4	-0.8	3.5	3.5
Ukraine	2.0	0.2	2.6	0.4	-0.7	0.5	-1.4	-0.7	-0.5	5.1	3.9	6.5	5.0	2.2	3.0	-1.3	-2.5	-0.4	0.2	-0.5	1.5
Turkey	2.2	0.8	1.3	0.7	-0.4	1.4	0.2	0.2	-0.5	12.4	9.3	8.7	5.3	3.1	2.8	1.5	1.4	4.2	2.2	3.7	3.6
Russia	0.7	0.9	1.7	1.4	0.6	0.6	0.4	0.3	-0.3	3.5	3.4	5.0	5.1	4.8	4.3	3.0	2.1	0.8	3.4	1.3	2.5
Central Asia																					
Kazakhstan	1.5	2.9	1.8	1.5	0.0	2.0	1.0	1.0	2.3	6.8	7.4	6.8	8.7	5.6	5.6	4.6	4.5	6.6	5.0	5.6	5.5
Kyrgyz Republic	11.5	-5.1	-0.6	-1.0	-2.9	0.5	2.2	9.0	2.8	-1.5	8.2	10.0	4.6	-7.1	-4.8	-3.9	8.1	9.2	-0.9	6.5	5.5
Mongolia	13.5	1.1	8.2	-2.7	7.5	1.0	4.1	-1.5	2.4	12.7	14.8	20.7	20.2	14.6	14.4	10.5	10.6	11.3	12.3	13.0	14.0
Tajikistan	1.4	2.3	1.8	1.3	1.9	2.2	2.0	1.2	1.7	6.5	7.2	8.1	7.2	7.2	7.5	7.6	7.5	7.3	7.5	7.1	5.0
Turkmenistan	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	11.1	10.0	10.0
Uzbekistan	1.9	2.3	2.1	1.7	1.7	2.7	2.0	1.4	1.5	7.6	8.3	8.4	8.5	7.5	8.5	8.3	8.2	7.8	8.2	7.7	7.0
Southern and Eastern Mediterranean																					
Egypt	-6.2	4.7	1.1	0.9	-1.0	1.9	0.7	0.3	-1.2	-4.2	0.4	0.3	0.4	5.2	3.3	2.6	2.2	0.9	3.3	1.9	3.2
Jordan	0.2	0.8	1.1	0.9	0.3	0.5	0.7	0.6	0.9	2.3	2.4	2.6	3.1	3.0	2.9	2.6	2.2	2.7	2.7	3.0	3.4
Morocco	1.2	0.2	1.5	1.4	-0.3	0.3	1.5	0.7	1.0	4.1	4.5	5.0	4.6	2.8	2.7	2.9	2.3	4.5	2.7	4.8	4.0
Tunisia	-3.9	4.3	-0.4	0.5	1.5	0.3	0.7	0.1	0.9	-3.7	-0.9	-1.2	-1.6	4.9	2.2	3.7	4.0	2.6	3.7	3.2	4.0

1/ As of November 4, 2013.

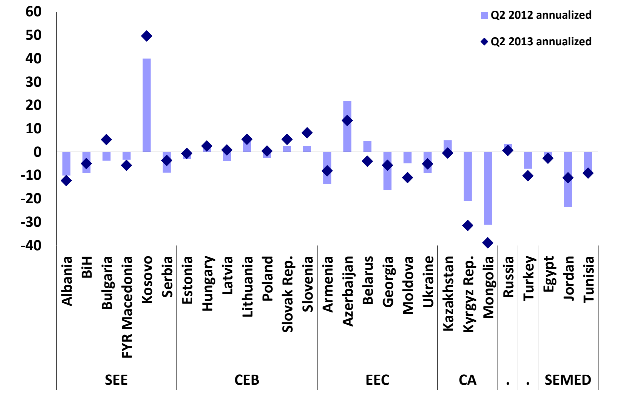
Figure 1. External environment

Export volumes, y-o-y, %



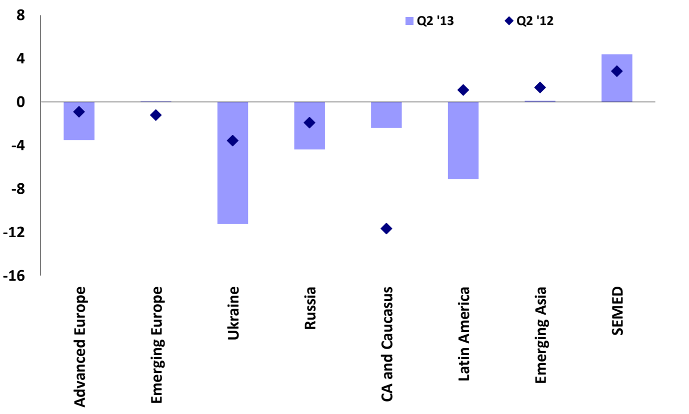
Source: National authorities via CEIC data service.

Current account, % of previous year GDP



Source: National authorities via CEIC data service.

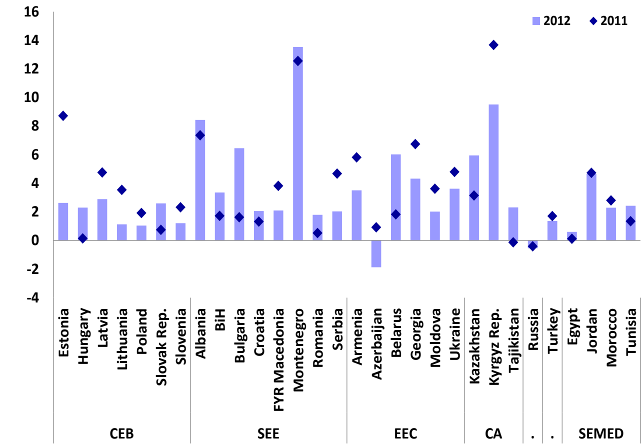
Net lending from BIS-reporting banks, exch. rate adjusted, q-o-q



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

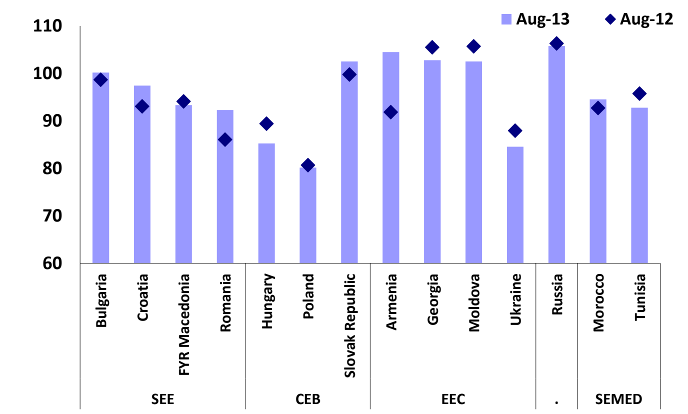
Source: BIS via CEIC data service.

FDI net inflows, % of GDP



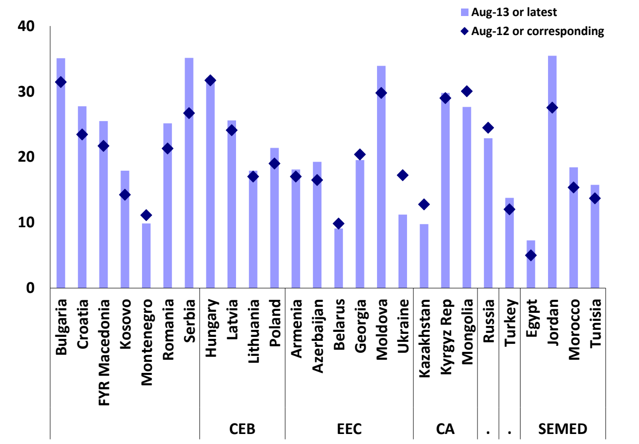
Source: National authorities via CEIC data service.

Real effective exchange rate, July 2008=100



Source: IMF International Financial Statistics.

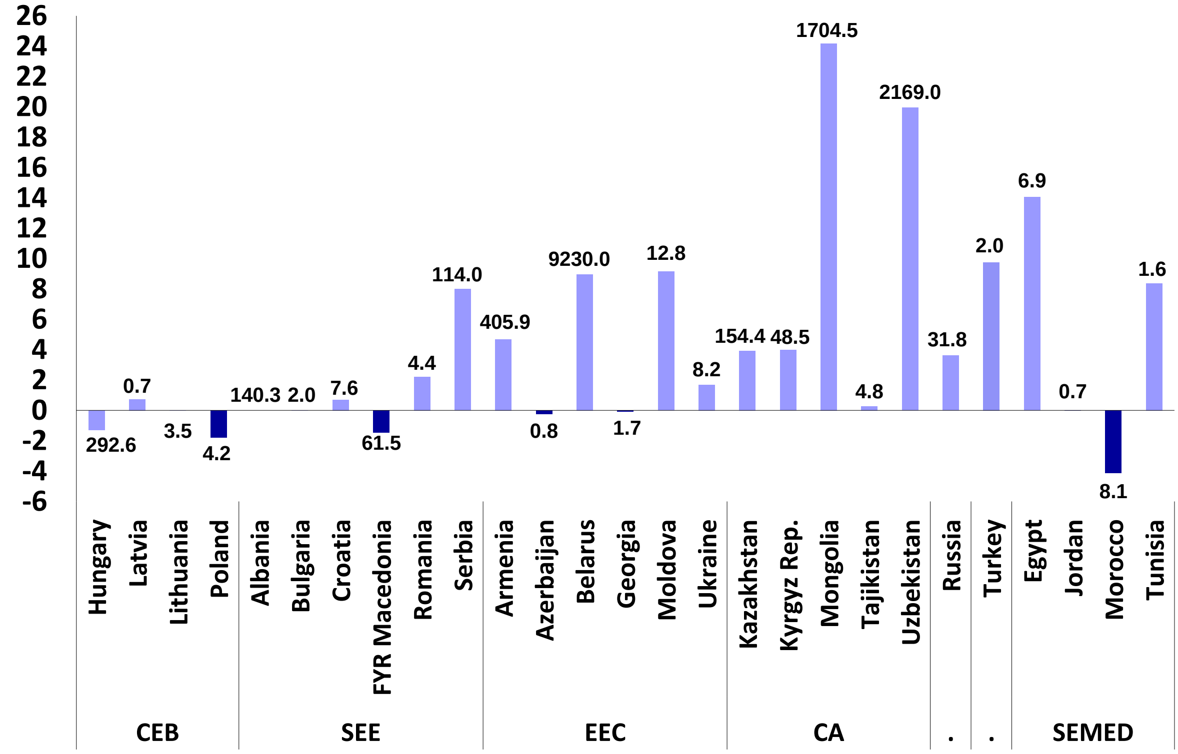
Reserves, end of period, % of previous year GDP



Source: IMF International Financial Statistics.

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

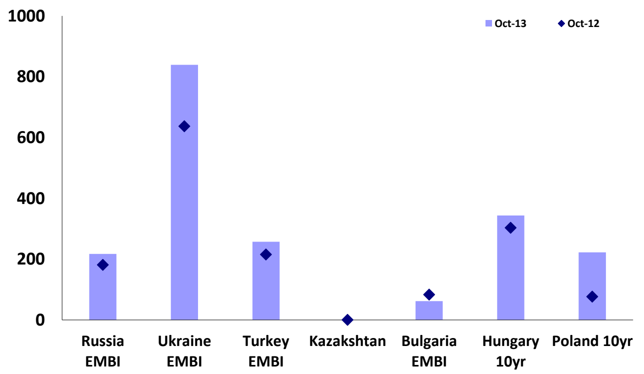
Currencies (change since 25/01/2012)



Source: Bloomberg.

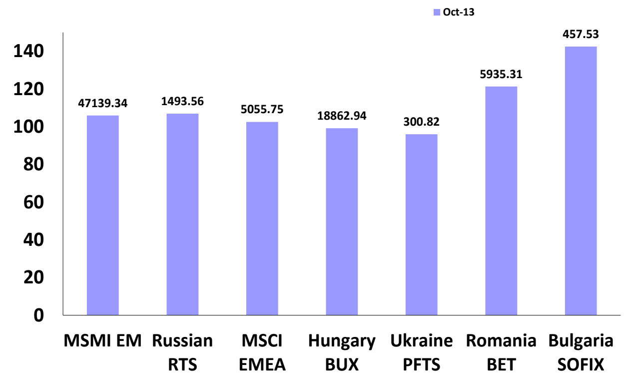
For EEC, CA, SEMED, Turkey and Russia the reference currency is U.S. dollar; For CEB and SEE the reference currency is Euro. A decrease represents an appreciation. Numbers on bars represent actual exchange rate values

Sovereign risk (bond spreads, bp)



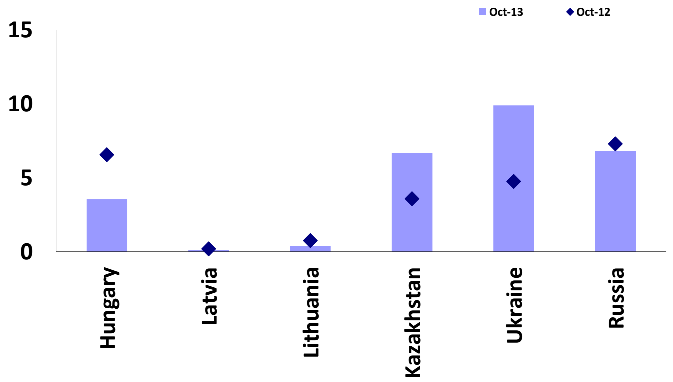
Source: Bloomberg.

Stock markets (January 2011=100)

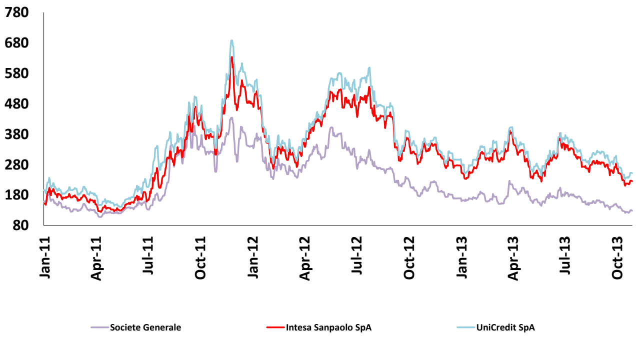


Numbers on bars represent actual values of stock indices.

Interbank rates (%)



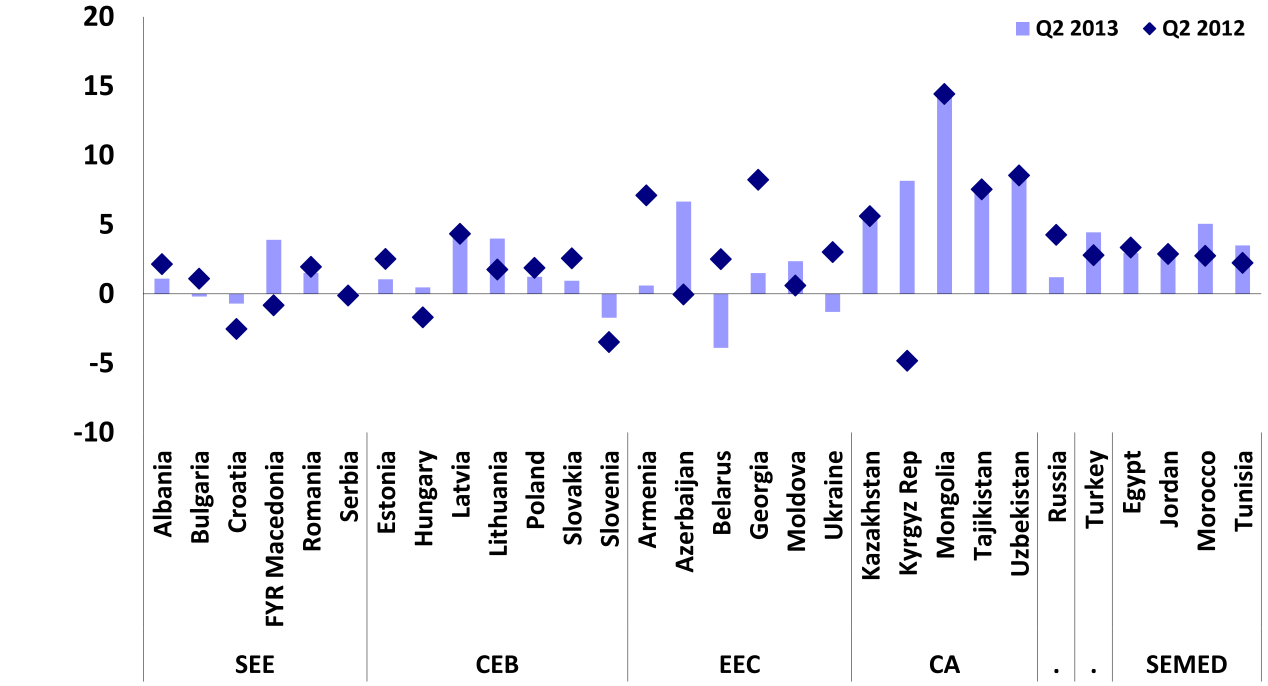
Parent banks CDS spreads (bp)



Source: Bloomberg.

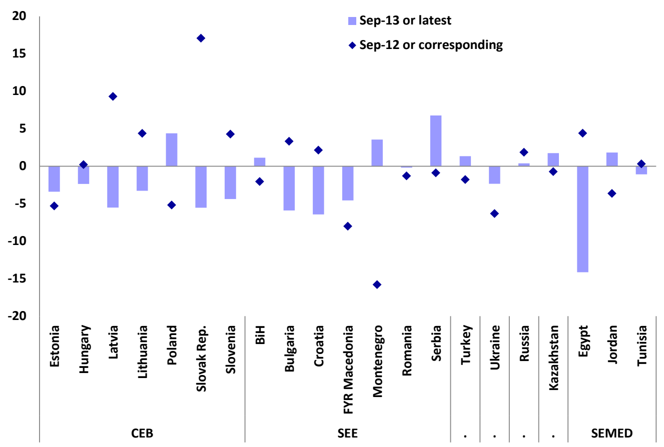
Figure 3. Indicators of real activity

Real GDP, y-o-y change, %

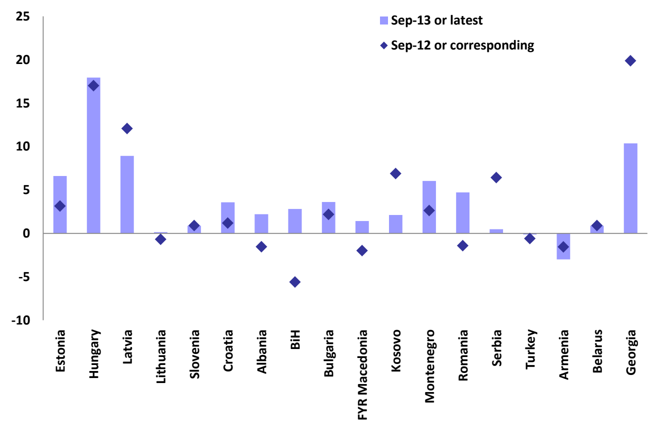


Source: National authorities via CEIC data service.

Industrial production, monthly y-o-y change, %

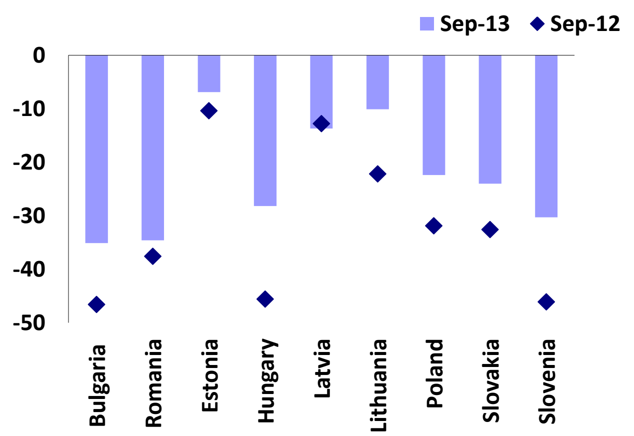


Retail sales, monthly y-o-y change, %



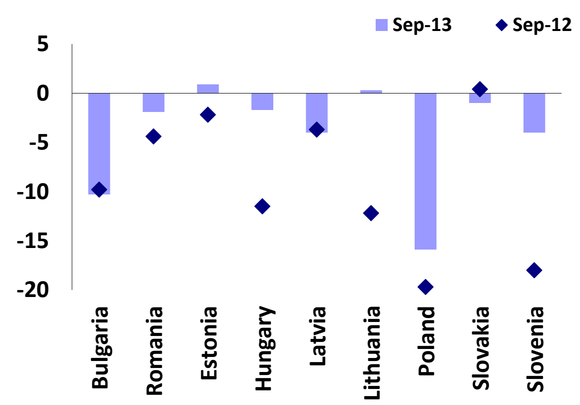
Source: National authorities via CEIC data service.

Consumer confidence



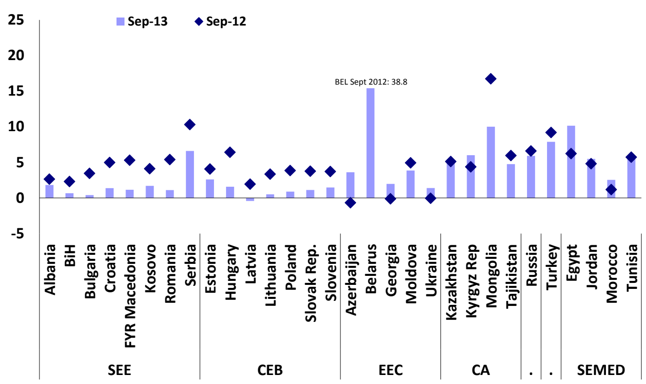
defined as the difference (in percentage points of total answers) between positive and negative answers
Source: Eurostat

Industrial confidence

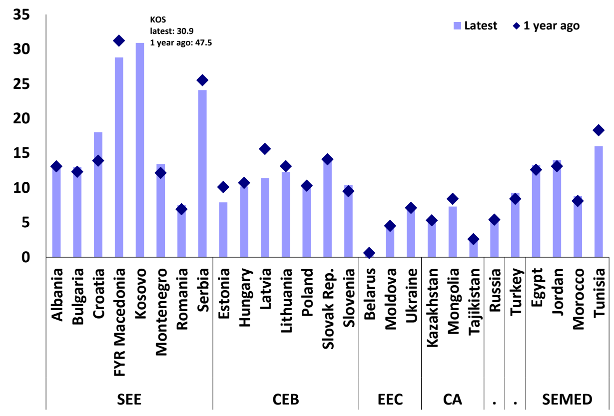


defined as the difference (in percentage points of total answers) between positive and negative answers

CPI, y-o-y change, %



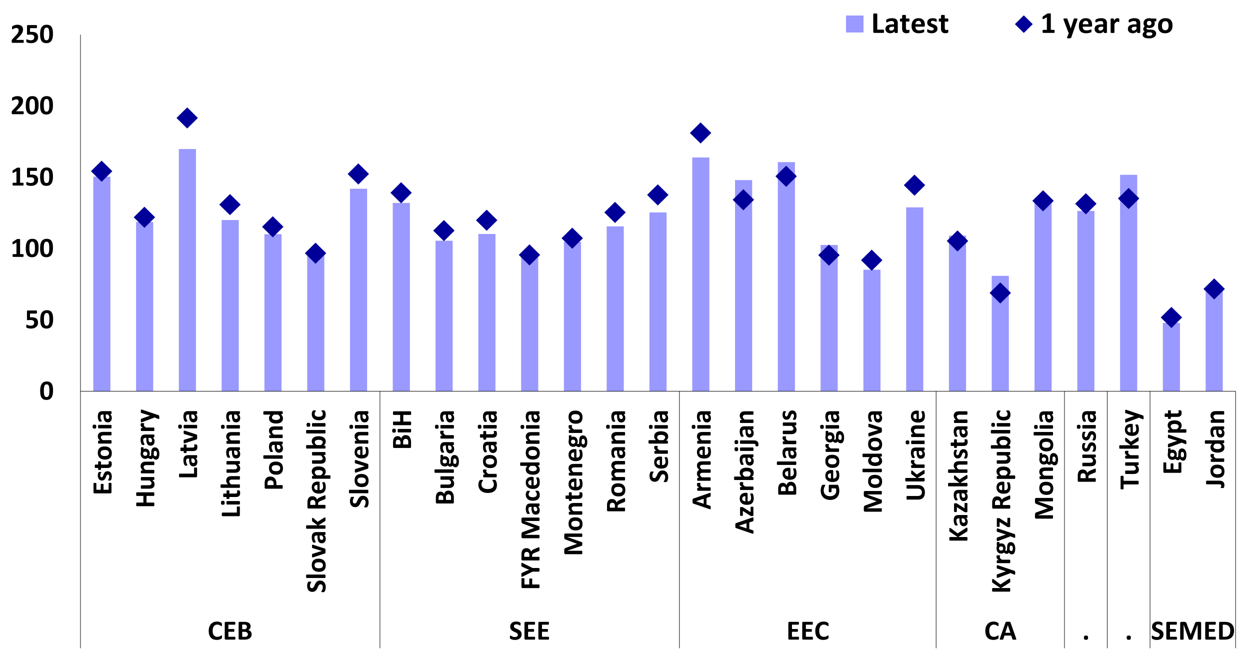
Unemployment rate, %



Source: National authorities via CEIC data service, Eurostat

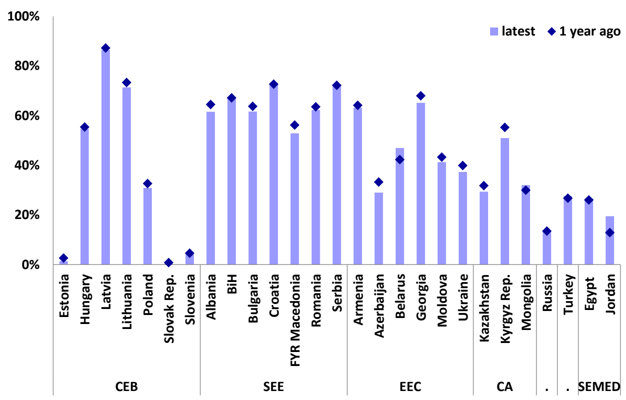
Figure 4: Financial sector indicators: loans and deposits

Loan to deposit ratio, (%)

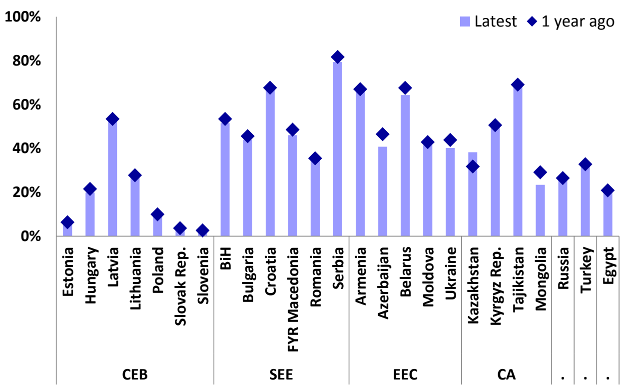


Source: National authorities via CEIC data service.

Foreign currency loans to total loans ratio, (%)



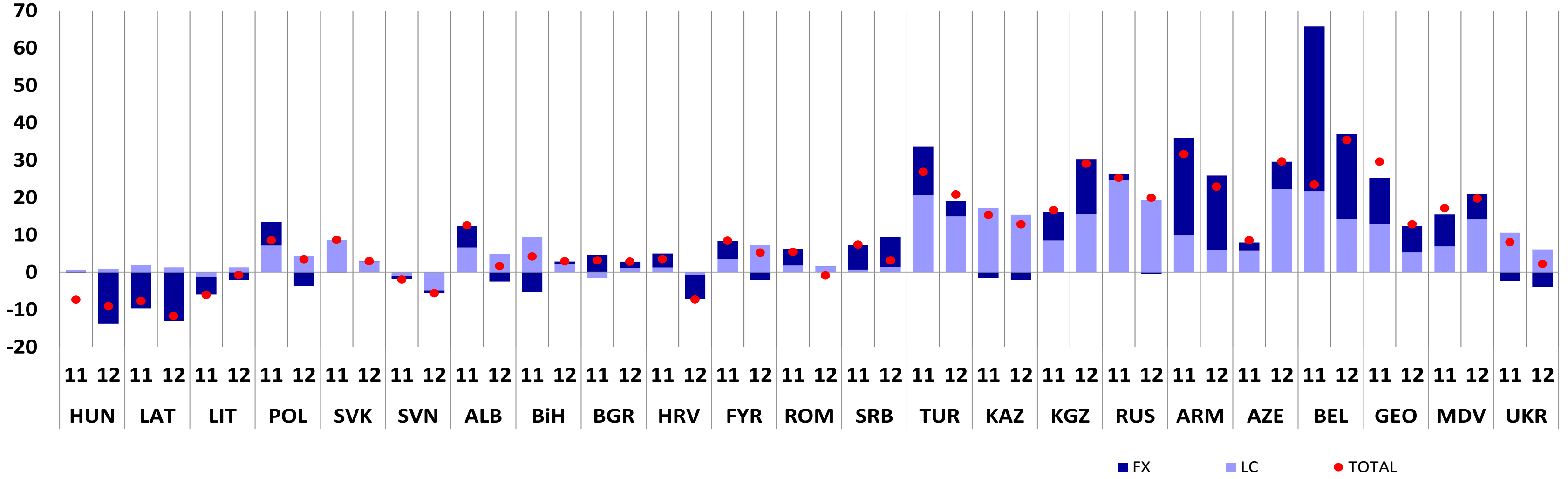
Foreign currency deposits to total deposits ratio, (%)



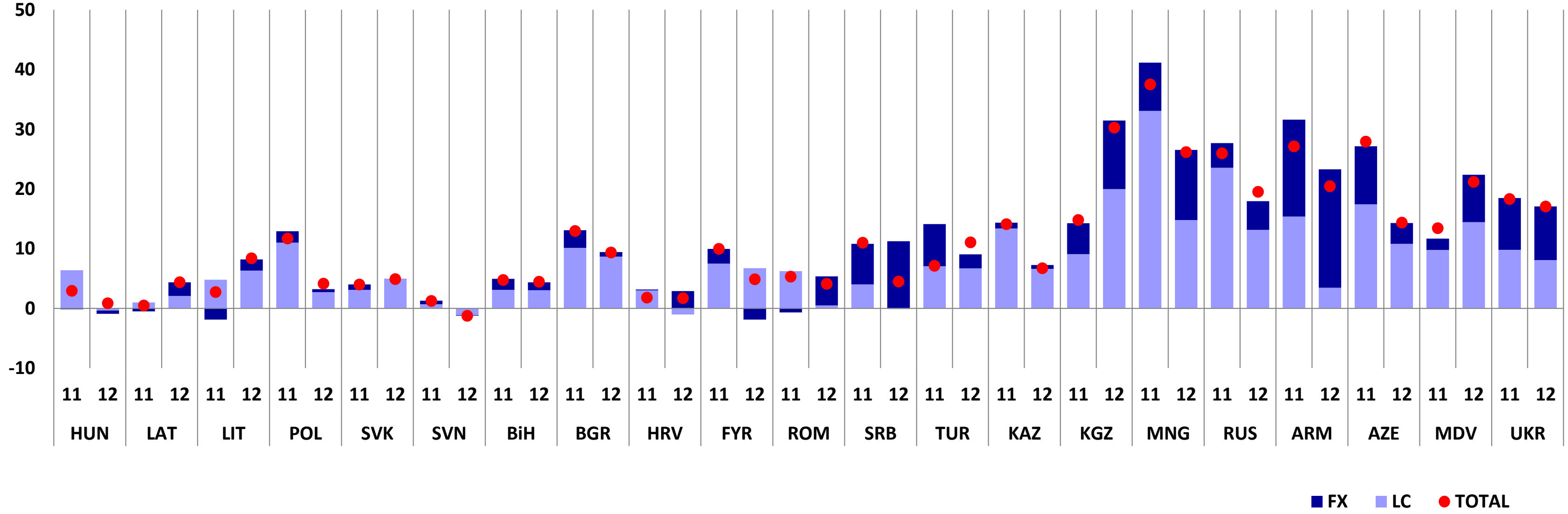
Source: National authorities via CEIC data service

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