

Recent developments: Despite robust economic activity in late 2017, momentum has eased in the Europe and Central Asia region amid moderating export growth and less accommodative policies. For commodity importers, growth-supporting factors, such as stronger demand from the Euro Area and disbursement of EU structural funds in Central Europe, have started to wane. In Turkey, the effects of the rebound from political turmoil in 2016, tax cuts, public transfers, and credit support for small and medium enterprises have started to dissipate. The effect of fiscal support measures in Romania have gradually faded this year.

Among commodity importers, inflation expectations are on the rise in Bulgaria, Croatia, Hungary, Poland and Romania while inflation rates remain close to target in most of the countries of the region. Closing output gaps and fiscal policies are contributing to rising domestic inflation and widening current account deficits in Romania and Turkey.

Among commodity exporting economies including Azerbaijan, Kazakhstan and Russia, inflation has generally moderated, reflecting the unwinding of the effects of past exchange rate depreciations.

Outlook: Growth in the region is projected to moderate to an upwardly revised 3.2 percent in 2018 and edge down to 3.1 percent in 2019 as a modest recovery among commodity exporting economies is only partially offset by a slowdown among commodity importers.

In Turkey, growth is forecast to slow to 4.5 percent in 2018 and to 4.0 percent in 2019 as delays in fiscal consolidation and the extension of the credit support program temper an anticipated slowdown following the strong recovery last year. Growth in Russia is anticipated to hold steady at a 1.5 percent rate this year and accelerate to 1.8 percent next year as the effects of rising oil prices and monetary policy easing are offset by oil production cuts and uncertainty around economic sanctions. Economic activity in Poland is expected to advance by an upwardly revised 4.2 percent in 2018 and decelerate to 3.7 percent next year.

Growth in Ukraine is forecast to pick up to 3.5 percent in 2018 and 4 percent in 2019, assuming an easing of geopolitical tensions and progress on structural reforms. Azerbaijan is anticipated to grow an upwardly revised 1.8 percent this year and 3.8 percent next year, mainly in response to fiscal stimulus measures supported by higher oil prices. Kazakhstan is expected to moderate to a 3.7 percent rate of expansion this year and 3.3 percent growth next year as the effect of the opening of the Kashagan oil field fades.

Risks: Risks to the outlook are tilted to the downside. A disorderly tightening of global financial conditions could trigger a sharp deterioration of external financing conditions and lead to a reversal of capital flows and weakening economic activity. In countries with current account deficits such as Turkey, filling external financing needs could become challenging. An escalation of policy uncertainty could dampen economic activity in the region. Policy disputes among European Union members and EU institutions could deter international investors. Finally, since the region is open to trade and is integrated into global supply chains, it would be vulnerable to a rise in global protectionism.

Europe and Central Asia Country Forecasts

(Annual percent change unless indicated otherwise)

	2015	2016	2017e	2018f	2019f	2020f
GDP at market prices (2010 US dollars)						
Albania	2.2	3.4	3.8	3.6	3.5	3.5
Armenia	3.2	0.2	7.5	4.1	4.0	4.0
Azerbaijan	1.1	-3.1	0.1	1.8	3.8	3.2
Belarus	-3.8	-2.5	2.4	2.9	2.7	2.5
Bosnia and Herzegovina	3.1	3.1	3.0	3.2	3.4	4.0
Bulgaria	3.6	3.9	3.6	3.8	3.6	3.6
Croatia	2.3	3.2	2.8	2.6	2.7	2.8
Georgia	2.9	2.8	5.0	4.5	4.8	5.0
Hungary	3.1	2.0	4.0	4.1	3.2	3.0
Kazakhstan	1.2	1.1	4.0	3.7	3.3	2.8
Kosovo	4.1	4.1	4.4	4.8	4.8	4.8
Kyrgyz Republic	3.9	4.3	4.6	4.2	4.8	5.0
Macedonia, FYR	3.9	2.9	0.0	2.3	2.7	3.0
Moldova	-0.4	4.5	4.5	3.8	3.7	3.5
Montenegro	3.4	2.9	4.4	2.8	2.5	2.1
Poland	3.8	2.9	4.6	4.2	3.7	3.5
Romania	3.9	4.8	7.0	5.1	4.5	4.1
Russia	-2.5	-0.2	1.5	1.5	1.8	1.8
Serbia	0.8	2.8	1.9	3.0	3.5	4.0
Tajikistan	6.0	6.9	7.1	6.1	6.0	6.0
Turkey	6.1	3.2	7.4	4.5	4.0	4.0
Turkmenistan	6.5	6.2	6.5	6.3	6.3	6.3
Ukraine	-9.8	2.3	2.5	3.5	4.0	4.0
Uzbekistan	7.9	7.8	5.3	5.0	5.1	5.5

Source: World Bank.

Notes: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.