

Recent developments: Growth in **Europe and Central Asia** strengthened more than expected to 3.8 percent in 2017 from 1.7 percent the previous year. The advance followed three years of subpar growth after the 2014 oil price collapse. Growth strengthened in both the commodity-importing western part of the region as well as the commodity-exporting eastern part. The acceleration in activity was largely driven by private consumption and investment. Net exports contributed to the expansion in the western part of the region.

The region's two largest economies, Russia and Turkey, accounted for most of the region's expansion. Russia expanded by 1.7 percent after two years of recession thanks to stabilizing oil prices, supportive monetary policies, and lower inflation. Turkey's growth leap – to 6.7 percent in 2017 from 3.2 percent the preceding year – came with the help of fiscal stimulus. Export growth also rose on the back of strengthening demand from the European Union and competitiveness gains from the 2016 currency depreciation.

In the western part of the region, the continued expansion of the advanced economies of Europe supported growth. Central European economies benefitted from export growth, strong consumption, robust labor markets, and some fiscal stimulus. In the east, Kazakhstan jumped to a 3.7 percent growth rate in the year just ended from a 1.1 percent expansion in 2016 boosted by increased production at the Kashagan oil field, which was exempted from production cuts agreed upon by members of the Organization of the Petroleum Exporting Countries (OPEC).

Outlook: Growth in Europe and Central Asian region is expected to slow to 2.9 percent in 2018 amid a slowdown of the Turkish economy while output expands in the commodity-exporting eastern part of the region, and stabilize at 3 percent in 2019-20.

Russia has adjusted to the new level of oil prices and is expected to continue to expand at a 1.7 percent rate (this year). Kazakhstan is anticipated to moderate to a 2.6 percent growth rate as the one-time effects of increased oil production and fiscal stimulus wane. Ukraine's economy is expected to strengthen to 3.5 percent from 2 percent in the year just ended as geopolitical tensions subside.

Growth in Turkey is expected to moderate to 3.5 percent in 2018 as the impact of fiscal measures fades. The expected slowdown in European Union growth is anticipated to weigh on export growth in Central Europe, and Poland's output is seen slowing to 4.0 percent from 4.5 percent in the year just ended. Growth in Hungary is anticipated to moderate to 3.8 percent from 3.9 percent.

Risks: Risks to the outlook have become more balanced but are still tilted to the downside. A disorderly tightening of global financing conditions could raise financing costs. Lower-than-expected oil prices could slow growth among countries heavily reliant on oil revenues, undermining their fragile recoveries and spilling over into smaller neighboring countries through trade and remittance channels. Geopolitical tensions in Ukraine, a tightening of international sanctions on Russia, or heightened tensions with the European Union could deter international investors and weigh on growth.

Faster-than-expected growth in the European Union – which is the largest trading partner and financing source of countries in the region – could spur faster growth than anticipated, as could an acceleration in structural reforms.

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	3.7	3.8	4.0	4.0
Azerbaijan	1.1	-3.1	-1.4	0.9	1.5	2.6
Belarus	-3.8	-2.6	1.8	2.1	2.4	2.4
Bosnia and Herzegovina	3.0	3.1	3.0	3.2	3.4	3.5
Bulgaria	3.6	3.9	3.8	3.9	4.0	3.9
Croatia	2.3	3.2	3.0	2.6	2.8	3.0
Georgia	2.9	2.8	4.3	4.2	4.7	5.0
Hungary	3.4	2.2	3.9	3.8	3.1	2.9
Kazakhstan	1.2	1.1	3.7	2.6	2.8	3.0
Kosovo	4.1	3.4	4.4	4.8	4.8	4.7
Kyrgyz Republic	3.9	3.8	3.5	4.2	4.8	4.6
Macedonia, FYR	3.8	2.4	1.5	3.2	3.9	4.0
Moldova	-0.4	4.3	3.5	3.8	3.6	3.3
Montenegro	3.4	2.9	4.2	2.8	2.5	2.1
Poland	3.8	2.9	4.5	4.0	3.5	3.1
Romania	3.9	4.8	6.4	4.5	4.1	3.5
Russia	-2.8	-0.2	1.7	1.7	1.8	1.8
Serbia	0.8	2.8	2.0	3.0	3.5	4.0
Tajikistan	6.0	6.9	5.2	5.0	5.5	5.7
Turkey	6.1	3.2	6.7	3.5	4.0	4.0
Turkmenistan	6.5	6.2	6.4	6.3	6.3	6.3
Ukraine	-9.8	2.3	2.0	3.5	4.0	4.0
Uzbekistan	8.0	7.8	6.2	5.6	6.3	6.5

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.