

June 2019

Recent developments: Growth in Europe and Central Asia is estimated to have slowed to 1.6% in 2019, a four-year low, partly reflecting a sharp weakening of activity in Turkey. Trade continues to weaken across the region, as goods trade volumes have slowed in parallel with sluggish activity in the Euro Area, the region's largest export destination. Monetary policy tightening has paused in the region and fiscal policy has loosened in 2019. Inflation has been trending up in some of the larger economies in the region since the start of the year, notably in Hungary, Poland, and Russia, driven in part by rising oil prices.

Industrial activity in Russia slowed at the start of 2019, as compliance with agreed-upon oil production cuts took effect. Russia is estimated to slow to 1.2% growth this year. Turkey, which experienced sharp declines in investment and private consumption from acute financial pressure in the second half of last year, is projected to contract by 1% in 2019. Poland is expected to moderate to 4% growth this year even as subdued inflation and interest rates enable authorities to undertake accommodative monetary and fiscal policies.

Outlook: Regional growth is expected to firm to 2.7% in 2020 as Turkey recovers from a sharp growth slowdown. Excluding Turkey, regional growth is expected to moderate to 2.6%, with modest growth in domestic demand and a small drag from net exports.

In Central Europe, fiscal stimulus and the resulting boost to private consumption will begin to fade in some of the subregion's largest economies, including Hungary, Poland, and Romania, by 2020. The subregion is expected to slow to 3.3% next year from 3.7% in 2019. Growth is expected to modestly recover to 2.7% in Eastern Europe and moderate to 4% in Central Asia in 2020. Both regions face a more challenging external environment as growth slows in major trading partners, including the Euro Area and Russia. In the South Caucasus subregion, growth is projected to strengthen to 3.9% in 2020 from 3.7% this year, assuming continuation of domestic reforms and infrastructure investment. Growth in the Western Balkans is anticipated to hold stable at 3.8% in 2020, as infrastructure investment and private consumption help deliver growth in economies including Kosovo, North Macedonia, and Serbia.

Growth in Russia is expected to pick up to 1.8% next year amid tepid private investment. Turkey has more recently experienced another bout of market volatility. Growth in Turkey is expected to accelerate to 3% in 2020 through a gradual improvement in domestic demand and continued strength in net exports. Growth in Poland is expected to moderate to 3.6% in 2020 as domestic capacity constraints and slowing investment weigh on activity, despite a boost from a fiscal stimulus package.

Risks: The region's outlook remains subject to significant downside risks. Chief among these is a sharper-than-expected slowdown in the region's most important trading partner, the Euro Area. In Central Asia and Eastern Europe, slowing activity in Russia could impact remittances, which account for an important portion of income in countries including the Kyrgyz Republic, Moldova, Tajikistan, and Ukraine. Countries with large current account deficits, heavy reliance on capital inflows, or sizeable foreign-currency denominated debt – Belarus, Croatia, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Ukraine – could be subject to sudden shifts in investor sentiment. Increases in policy uncertainty could undermine business and investor confidence in the region.

Policy disagreements between some Central European countries and the European Union, election outcomes, an escalation of international trade restrictions, and backpedaling on structural reforms could also unsettle business and investor confidence. A substantial increase in private-sector debt in the region also raises the possibility of significant contingent liabilities for the public sector.

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Europe and Central Asia Country Forecasts

(Annual percent change unless indicated otherwise)

	2016	2017	2018e	2019f	2020f	2021f
GDP at market prices (2010 US\$)						
Albania	3.3	3.8	4.1	3.7	3.7	3.8
Armenia	0.2	7.5	5.2	4.2	4.9	5.2
Azerbaijan	-3.1	0.1	1.4	3.3	3.5	3.7
Belarus	-2.5	2.5	3.0	1.8	1.3	1.2
Bosnia and Herzegovina^a	3.1	3.2	3.1	3.4	3.9	4.0
Bulgaria	3.9	3.8	3.1	3.0	2.8	2.8
Croatia	3.5	2.9	2.6	2.5	2.5	2.4
Georgia	2.8	4.8	4.7	4.6	4.8	5.0
Hungary	2.3	4.1	4.9	3.8	2.8	2.6
Kazakhstan	1.1	4.1	4.1	3.5	3.2	3.2
Kosovo	4.1	4.2	4.2	4.4	4.5	4.5
Kyrgyz Republic	4.3	4.7	3.5	4.3	4.0	4.1
Moldova	4.4	4.7	4.0	3.4	3.6	3.8
Montenegro	2.9	4.7	4.9	2.9	2.4	2.3
North Macedonia	2.8	0.2	2.7	2.9	3.2	3.6
Poland	3.1	4.8	5.1	4.0	3.6	3.3
Romania	4.8	7.0	4.1	3.6	3.3	3.1
Russia	0.3	1.6	2.3	1.2	1.8	1.8
Serbia	3.3	2.0	4.3	3.5	4.0	4.0
Tajikistan	6.9	7.1	7.3	6.0	6.0	6.0
Turkey	3.2	7.4	2.6	-1.0	3.0	4.0
Turkmenistan	6.2	6.5	6.2	5.6	5.1	4.9
Ukraine	2.4	2.5	3.3	2.7	3.4	3.8
Uzbekistan	6.1	4.5	5.1	5.3	5.5	6.0

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.

a. GDP growth rate at constant prices is based on production approach.

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