

Recent developments: Growth in the **Europe and Central Asia** region¹ is estimated to have accelerated to 1.2 percent in 2016, due mainly to an easing of the recession in Russia, which accounts for almost 40 percent of regional GDP, as oil prices stabilized. Excluding Russia, regional growth eased to 2.4 percent, reflecting a slowdown in Turkey amid political uncertainty.

Russia contracted by 0.6 percent in 2016, a shallower recession than expected, due to the suspension of a fiscal rule and injections of capital and liquidity into the banking sector. The depreciation of the currency was also a supporting factor. For two other large energy exporters in the region, Azerbaijan and Kazakhstan, the acute phase of the shock of lower commodity prices may be over, but contractions in non-oil activity weighed on growth. Azerbaijan contracted 3 percent in 2016 while Kazakhstan eked out a 0.9 percent growth pace.

In the Eastern part of the region, activity in Ukraine picked up in 2016 after two years of deep recession. Growth in Moldova strengthened to 2.2 percent and the contraction in Belarus moderated to a 2.5 percent decline, partly because of improvements of the situation in Russia and Ukraine. Growth in the western part of the region has generally remained strong. Output accelerated in Albania, Croatia, Romania, and Serbia thanks to strong domestic demand. However, growth slowed in Hungary, Poland, and Turkey last year. In Turkey, activity contracted in the third quarter of 2016 for the first time since 2009, amid a failed coup attempt.

Outlook: Growth in the region is projected to pick up to 2.4 percent in 2017, driven by a recovery in commodity-exporting economies and improved confidence. The forecast depends on a recovery in commodity prices and an easing of geopolitical tensions.

Russia is expected to grow at a 1.5 percent pace in the year, as the adjustment to low oil prices is completed. Azerbaijan is expected to expand 1.2 percent and Kazakhstan is anticipated to grow by 2.2 percent as commodity prices stabilize and as economic imbalances narrow. Strengthening activity in Russia and Kazakhstan will support other economies in the region, including Armenia, Belarus and the Kyrgyz Republic, through rising trade and remittances.

Growth in Ukraine is projected to accelerate to a 2 percent rate this year as the security situation improves and domestic economic reforms gain traction. Growth is expected to remain steady in Central Europe despite lower trading partner growth and rising prices for commodity imports. Romania's output is forecast to grow at a 3.7 percent pace after a 4.7 percent growth rate last year. In Hungary, infrastructure spending will boost growth to a 2.6 percent rate.

In Turkey, growth is projected to recover to 3.0 percent in 2017 and 3.6 percent on average in 2018-19 as temporary effects of the failed coup eases. However, downside risks to the outlook increased compared to previous forecasts, reflecting political uncertainty and financial market volatility. Poland is seen accelerating to a 3.1 percent rate in 2017, supported by robust domestic demand and private consumption.

¹ The Europe and Central Asia section of Chapter 2 of the Global Economic Prospects covers the Emerging Market and Developing Economies (EMDEs) of the ECA region as defined in Annex Table 1 of the Global Economic Prospects (page 47). The eastern part of the ECA region comprises Eastern Europe (Belarus, Moldova, Ukraine), South Caucasus (Armenia, Azerbaijan and Georgia), Central Asia (Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan) and Russia. The western part of the region includes Central Europe (Bulgaria, Croatia, Hungary, Poland, Romania) and the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, Serbia), and Turkey.

Risks: The balance of risks in the region remains tilted to the downside and could come from falling commodity prices, financial market disruption, political uncertainty in major economies, and geopolitical tensions. The chief worry for Russia and the eastern region is the possibility of a stalling or reversing of the recovery of energy prices. A deeper or longer-than-expected Russian recession would generate spillovers for neighboring countries.

The anticipated U.S. monetary policy tightening could bring greater risk aversion or financial stress, which would slow international capital flows with damaging consequences for activity and employment. Slower-than-expected growth in the advanced economies would hit the economies of the western part of the region especially hard. The U.K. vote to leave the European Union softened prospects for remittances to Eastern Europe.

Europe and Central Asia Country Forecasts

(annual percent change unless indicated otherwise)

	Est. Forecast					
	2014	2015	2016	2017	2018	2019
GDP at market prices (2010 US dollars)						
Albania	1.8	2.6	3.2	3.5	3.5	3.7
Armenia	3.6	3.0	2.4	2.7	3.0	3.2
Azerbaijan	2.0	1.1	-3.0	1.2	2.3	2.3
Belarus	1.7	-3.9	-2.5	-0.5	1.3	1.4
Bosnia and Herzegovina	1.1	3.0	2.8	3.2	3.7	3.9
Bulgaria	1.3	3.6	3.5	3.2	3.1	3.1
Croatia	-0.4	1.6	2.7	2.5	2.5	2.6
Georgia	4.6	2.8	3.4	5.2	5.3	5.0
Hungary	4.0	3.1	2.1	2.6	2.8	2.7
Kazakhstan	4.2	1.2	0.9	2.2	3.7	4.0
Kosovo	1.2	4.1	3.6	3.9	3.7	3.6
Kyrgyz Republic	4.0	3.5	2.2	3.0	3.7	4.9
Macedonia, FYR	3.6	3.8	2.0	3.3	3.7	4.0
Moldova	4.8	-0.5	2.2	2.8	3.3	3.7
Montenegro	1.8	3.4	3.2	3.6	3.0	3.0
Poland	3.3	3.9	2.5	3.1	3.3	3.4
Romania	3.1	3.7	4.7	3.7	3.4	3.2
Russia	0.7	-3.7	-0.6	1.5	1.7	1.8
Serbia	-1.8	0.8	2.5	2.8	3.5	3.5
Tajikistan	6.7	6.0	6.0	4.5	5.2	4.5
Turkey	5.2	6.1	2.5	3.0	3.5	3.7
Turkmenistan	10.3	6.5	6.2	6.5	6.8	7.0
Ukraine	-6.6	-9.9	1.0	2.0	3.0	3.0
Uzbekistan	8.1	8.0	7.3	7.4	7.4	7.4

Source: World Bank.

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.