

January 2019

**Recent developments:** Activity in Europe and Central Asia is estimated to have slowed to 3.1 percent in 2018, reflecting weakness in Turkey in the second half of the year. Excluding Turkey, regional growth held steady at a 2.9 percent pace, as slowing activity in the western part of the region, including in Bulgaria and Romania was offset by an acceleration in the eastern part of the region, which benefitted from higher oil prices.

In Turkey, the lira declined sharply in 2018 as capital flowed out of the country in response to inflation, the perception that monetary tightening was delayed, and rising private sector debt. Despite a contraction in output in the latter half of the year, strong growth in the first half of the year allowed Turkey to expand by 3.5 percent in the year just ended.

Softening exports and labor shortages held back growth in Bulgaria, Croatia, and Romania, while fiscal support and strong consumption enabled Poland to grow a faster 5 percent. Robust demand supported activity in the Western Balkans.

Russia and other oil exporters maintained steady growth in 2018 as oil prices rose. Although economic sanctions against Russia tightened, its economy experienced relatively low and stable inflation and it increased oil production. As a result of robust domestic activity, the Russian economy expanded at a 1.6 percent pace in the year just ended. Higher than expected oil production supported growth at a 3.8 percent rate in Kazakhstan.

**Outlook:** The lingering effects of financial stress in Turkey are anticipated to weigh on regional growth this year, slowing it to 2.3 percent. The outlook is predicated on an orderly tightening of global financial conditions, oil prices averaging \$67 per barrel over the next three years, gradual slowing in the Euro Area, and no escalation of geopolitical tensions.

Turkey is forecast to experience weak activity and slow to a 1.6 percent pace due to high inflation, high interest rates, and low confidence, dampening consumption and investment. The outlook assumes that fiscal and monetary policy avert further steep declines in the lira and corporate debt restructurings help avoid damage to the financial system.

Growth in the western part of the region, excluding Turkey, is projected to slow, driven by a moderation in Central European economies. Poland is anticipated to slow to 4 percent as Euro Area growth slows. Growth in the eastern part of the region is anticipated to slow as Russia decelerates to a 1.5 percent pace. Kazakhstan's growth is expected to ease to 3.5 percent, as oil production growth levels off and fiscal consolidation efforts continue.

**Risks:** The balance of risks is tilted down. Most important is the possibility of an escalation of financial stress in Turkey and widespread bank failures in that country. While direct linkages between Turkey and the rest of the region are small, an intensification of financial turbulence there could lead investors to reevaluate their exposure to the region, likely leading to capital outflows, currency depreciations and rising borrowing costs.

The potential for financial stress is relatively greater in countries with domestic vulnerabilities, such as Romania and Belarus, which have large current account deficits or large foreign-currency denominated debt. High public and private debt make Central European countries subject to financial pressure. A slowdown or reversal of structural reforms in Armenia, Azerbaijan, Belarus, Ukraine and Turkey would heighten policy uncertainty, while tensions around Syria or Ukraine could trigger new sanctions and dampen confidence in the region.

## Europe and Central Asia Country Forecasts

(Annual percent change unless indicated otherwise)

|   | 2016 | 2017 | 2018e | 2019f | 2020f | 2021f |
|---|------|------|-------|-------|-------|-------|
| GDP at market prices (2010 US dollars ) |      |      |       |       |       |       |
| <b>Albania</b>                          | 3.4  | 3.8  | 4.0   | 3.6   | 3.5   | 3.5   |
| <b>Armenia</b>                          | 0.2  | 7.5  | 5.3   | 4.3   | 4.6   | 4.6   |
| <b>Azerbaijan</b>                       | -3.1 | 0.1  | 1.1   | 3.6   | 3.3   | 2.7   |
| <b>Belarus</b>                          | -2.5 | 2.4  | 3.4   | 2.7   | 2.5   | 2.5   |
| <b>Bosnia and Herzegovina</b>           | 3.1  | 3.0  | 3.2   | 3.4   | 3.9   | 4.0   |
| <b>Bulgaria</b>                         | 3.9  | 3.8  | 3.3   | 3.1   | 3.0   | 2.8   |
| <b>Croatia</b>                          | 3.5  | 2.9  | 2.7   | 2.8   | 2.8   | 2.6   |
| <b>Georgia</b>                          | 2.8  | 4.8  | 5.3   | 5.0   | 5.0   | 5.0   |
| <b>Hungary</b>                          | 2.3  | 4.1  | 4.6   | 3.2   | 2.8   | 2.4   |
| <b>Kazakhstan</b>                       | 1.1  | 4.1  | 3.8   | 3.5   | 3.2   | 3.2   |
| <b>Kosovo</b>                           | 4.1  | 4.2  | 4.2   | 4.5   | 4.5   | 4.5   |
| <b>Kyrgyz Republic</b>                  | 4.3  | 4.6  | 3.1   | 3.4   | 3.9   | 4.0   |
| <b>Macedonia, FYR</b>                   | 2.8  | 0.2  | 2.5   | 2.9   | 3.2   | 3.3   |
| <b>Moldova</b>                          | 4.5  | 4.5  | 4.8   | 3.8   | 3.5   | 3.2   |
| <b>Montenegro</b>                       | 2.9  | 4.7  | 3.8   | 2.8   | 2.5   | 2.5   |
| <b>Poland</b>                           | 3.1  | 4.8  | 5.0   | 4.0   | 3.6   | 3.3   |
| <b>Romania</b>                          | 4.8  | 6.9  | 4.1   | 3.5   | 3.1   | 2.8   |
| <b>Russia</b>                           | -0.2 | 1.5  | 1.6   | 1.5   | 1.8   | 1.8   |
| <b>Serbia</b>                           | 2.8  | 1.9  | 3.5   | 3.5   | 4.0   | 4.0   |
| <b>Tajikistan</b>                       | 6.9  | 7.1  | 6.0   | 6.0   | 6.0   | 6.0   |
| <b>Turkey</b>                           | 3.2  | 7.4  | 3.5   | 1.6   | 3.0   | 4.2   |
| <b>Turkmenistan</b>                     | 6.2  | 6.5  | 6.2   | 5.6   | 5.1   | 4.9   |
| <b>Ukraine</b>                          | 2.3  | 2.5  | 3.5   | 2.9   | 3.4   | 3.8   |
| <b>Uzbekistan</b>                       | 7.8  | 5.3  | 5.0   | 5.1   | 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.

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