

**Recent Developments:** The slump in oil prices is increasing pressure on key oil exporters, including Azerbaijan, Kazakhstan, and Russia. Recent data point to continued weakness across much of the region. Exchange rates have come under pressure, and in some countries, non-performing loans have ticked upwards or remain at elevated levels. High inflation rates and efforts to defend exchange rates have led to tight or pro-cyclical tightening of monetary policy in oil exporters.

The western part of the region, comprised of commodity importers that are more closely linked to the European Union or belong to it, has been growing modestly. Lower fuel costs are helping to moderate inflation (Poland, Turkey) and boost consumer spending.

Russia, which accounts for about 37 percent of the GDP in the region, is struggling to adjust to continued low oil prices, trade embargoes, and geopolitical concerns, compounded by tight fiscal and monetary policy. However, there are tentative indications that the decline in some sectors may be bottoming out.

**Outlook:** The continuing contraction in Russia is keeping the forecast growth rate for the region at 1.2 percent in 2016, a 0.4 percentage point downward revision from the January outlook. Geopolitical concerns, including in eastern Ukraine and the Caucasus, terror attacks in Turkey, and the ongoing refugee crisis, are weighing on the outlook. Excluding Russia, the region is expected to expand at a faster 2.9 percent rate.

Growth projections for the eastern part of the region have been revised down from the January outlook as countries adjust to lower prices for oil, metals, and agricultural commodities. Activity in the western part of the region will benefit from moderate growth in the Euro Area and strengthening domestic demand, helped by subdued fuel costs.

Russia is expected to shrink by 1.2 percent in the year, led by declines in private investment and consumption. Growth is expected to slow to a 0.1 percent pace in Kazakhstan as falling oil revenues constrain public spending and exchange rate pressures compel the central bank to keep interest rates high.

Growth in Turkey is likely to slow in to a 3.5 percent pace in 2016, due to lower exports and policy uncertainty, which are weighing on business confidence. Ukraine's economy could return to a modest 1 percent rate of growth in 2016 after two years of recession, if there is no escalation of conflict in the east.

Commodity importers will reap windfalls in the form of low fuel prices, helping to strengthen current account balances and ease pressures on exchange rates. Countries that are oriented toward the European Union will benefit from some recovery in export demand, supported by exchange rate depreciation.

Financing conditions are expected to remain challenging for several countries in the region, including ones downgraded by ratings agencies (Armenia, Azerbaijan, Croatia, Kazakhstan, Poland).

**Risks:** Lower oil prices for longer than expected would increase pressure on oil exporters (Azerbaijan, Kazakhstan, Russia) and could bring about fiscal deterioration, exchange rate depreciation, and financial system instability. A deeper than expected recession in Russia in 2016 could generate intensified negative spillovers for neighboring countries through reduced remittances and lower demand for imports.

The western part of the region faces risks from policy uncertainty. Political polarization in some countries (Hungary, Poland, Turkey, Ukraine) could jeopardize the independence of key institutions and set back efforts to strengthen the overall policy framework. Geopolitical concerns in Turkey may further curtail tourism. Slower-than-expected growth in the Euro Area, with which the region has strong ties, could also hamper growth.

**Europe and Central Asia forecast summary**

(annual percent change unless indicated otherwise)

	2013	2014	Est. 2015	Forecast 2016	2017	2018
GDP at market prices (2010 US\$)						
<b>Albania</b>	1.1	2.0	2.6	3.2	3.5	3.8
<b>Armenia</b>	3.3	3.5	3.0	1.9	2.8	2.9
<b>Azerbaijan</b>	5.8	2.8	1.1	-1.9	0.7	1.3
<b>Belarus</b>	1.1	1.6	-3.9	-3.0	-1.0	0.3
<b>Bosnia and Herzegovina</b>	2.3	1.1	3.2	2.6	3.1	3.5
<b>Bulgaria</b>	1.3	1.6	3.0	2.2	2.7	3.0
<b>Croatia</b>	-1.1	-0.4	1.6	1.9	2.0	2.4
<b>Georgia</b>	3.4	4.6	2.8	3.0	4.5	5.0
<b>Hungary</b>	1.9	3.7	2.9	2.6	2.4	2.3
<b>Kazakhstan</b>	5.8	4.1	1.2	0.1	1.9	3.7
<b>Kosovo</b>	3.4	1.2	3.6	3.6	4.0	4.1
<b>Kyrgyz Republic</b>	10.9	4.0	3.5	3.4	3.1	4.1
<b>FYR Macedonia</b>	2.9	3.5	3.7	3.7	4.0	4.0
<b>Moldova</b>	9.4	4.6	-0.5	0.5	4.0	4.5
<b>Montenegro</b>	3.5	1.8	3.4	3.7	3.1	3.0
<b>Poland</b>	1.3	3.3	3.6	3.7	3.5	3.5
<b>Romania</b>	3.4	2.8	3.7	4.0	3.7	3.4
<b>Russian Federation</b>	1.3	0.7	-3.7	-1.2	1.4	1.8
<b>Serbia</b>	2.6	-1.8	0.8	1.8	2.3	3.5
<b>Tajikistan</b>	7.4	6.7	4.2	4.0	4.8	5.3
<b>Turkey</b>	4.2	3.0	4.0	3.5	3.5	3.6
<b>Turkmenistan</b>	10.2	10.3	6.5	5.0	5.0	5.0
<b>Ukraine</b>	0.0	-6.6	-9.9	1.0	2.0	3.0
<b>Uzbekistan</b>	8.0	8.1	8.0	7.3	7.2	7.2

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.