

# EUROPE AND CENTRAL ASIA



Albania	Croatia
Armenia	Georgia
Azerbaijan	Kazakhstan
Belarus	Kyrgyz Republic
Bosnia and Herzegovina	Macedonia, former Yugoslav Republic of
Bulgaria	

The Europe and Central Asia region enjoyed robust economic growth of 6.7 percent in 2007, continuing the strong growth and poverty reduction it has experienced since the mid-1990s. Nearly 50 million of the region's 480 million people moved out of poverty between 1999 and 2006. Large gains in productivity—the result of continued enterprise restructuring, technology diffusion, and double-digit growth in investment (supported by rapid credit expansion through lending by domestic and foreign banks)—as well as increased hydrocarbon production have driven rapid growth in some of the region's countries. Along with strong growth in remittance inflows in many countries, these factors have also boosted private consumption.

Despite these gains, by the end of 2006, some 180 million people—more than a third of the region's population—continued to subsist on less than \$2.15 a day (the definition of poverty in this region because of the additional expenditures for heating and warm clothing necessitated by the cold climate), and millions more were living on less than \$4.30 a day (the portion of the population that is "economically vulnerable" and could become poor in the event of an economic downturn).

Rising food and energy prices have complicated the conduct of macroeconomic management across the region. In 2007, food prices rose about 12 percent in Central and Eastern Europe and nearly 20 percent in the Commonwealth

of Independent States (CIS); energy prices rose about 8 percent in Central and Eastern Europe, 18 percent in middle-income CIS countries, and more than 30 percent in low-income CIS countries. Overall, inflation concerns are back on the front burner for policy makers in the region, as the CIS countries are now facing an average of 13.4 percent and the Central and Eastern European countries 6.1 percent in inflationary pressures.

## WORLD BANK ASSISTANCE

The Bank approved a total of 47 IBRD/IDA projects for \$4.2 billion in the region, including two food-crisis responses (one regular project and one additional financing) in the Kyrgyz Republic. In addition, the Bank approved one special financing operation and one special financing—additional financing in Tajikistan to respond to the food crisis. The Bank also completed 80 economic and sector work activities and delivered 88 nonlending technical assistance activities focusing on building country capacity. The Bank's newest flagship report on the region, *Unleashing Prosperity: Productivity Growth in Eastern Europe and the Former Soviet Union*, emphasizes the importance of continued policy reform—particularly in infrastructure, finance, and institutional quality—for increasing economic productivity, which drives growth.

## EUROPE AND CENTRAL ASIA FAST FACTS

Total population:	0.4 billion
Population growth:	0%
Life expectancy at birth:	69 years
Infant mortality per 1,000 births:	23
Female youth literacy:	98%
2007 GNI per capita:	\$6,051
Number of people living with HIV/AIDS:	1.6 million

**Note:** Life expectancy at birth and infant mortality rate per 1,000 live births are for 2006; female youth literacy is for 2005; HIV/AIDS data are from the *UNAIDS/WHO 2007 AIDS Epidemic Update*; other indicators are for 2007 from the World Development Indicators database.

## TOTAL FISCAL 2008

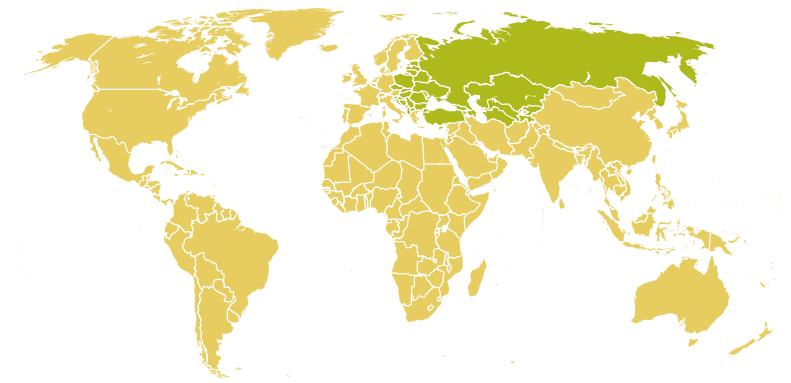
<b>New Commitments</b>
IBRD \$3,714 million
IDA \$457 million

## TOTAL FISCAL 2008

<b>Disbursements</b>
IBRD \$2,696 million
IDA \$527 million

Portfolio of projects under implementation as of June 30, 2008: \$18.1 billion

Moldova	Slovak Republic
Montenegro	Tajikistan
Poland	Turkey
Romania	Turkmenistan
Russian Federation	Ukraine
Serbia	Uzbekistan



Regional initiatives are particularly important to countries that have their sights set on joining the European Union (EU). The Bank is supporting the Energy Community of Southeastern Europe, which is establishing a market to share energy efficiently. Albania, Croatia, the former Yugoslav Republic of Macedonia, and Serbia are part of this effort.

#### USING A DIFFERENTIATED BUSINESS MODEL

The Bank supports poor countries and fragile states in a number of ways, including by decentralizing more staff to locations where capacity constraints are severe and by helping with donor coordination, harmonization, and alignment. On the other hand, Europe and Central Asia's middle-income countries, given their diversity, also receive tailored support. For example, in lower-middle-income countries, investment climate issues are important and require Bank assistance, while in resource-rich countries, the Bank provides support for diversifying the economic base of clients. In EU-candidate countries, the Bank supports the EU accession agenda, whereas in new EU member states, the Bank supports countries in their aim to achieve convergence with EU average income levels.

#### IMPROVING INFRASTRUCTURE

The Bank extended several loans for infrastructure in the region. Among these were \$200 million to improve housing in the Russian Federation, \$450 million for railroad rehabilitation in Azerbaijan, \$200 million to improve power transmission in Ukraine, \$105 million to improve regional and local roads in FYR Macedonia, and \$140 million to improve urban infrastructure in Ukraine.

#### CREATING AN ATTRACTIVE BUSINESS ENVIRONMENT

Structural reforms in most countries have driven the region's ongoing success in creating an attractive business climate. Europe and Central Asia is reforming more rapidly than any other region in the world, surpassing even East Asia in terms

of the ease of doing business. Four countries (Croatia, FYR Macedonia, Georgia, and Bulgaria) were among the top 10 reformers worldwide in 2007.

In November 2007, the World Bank opened the Centre for Financial Reporting Reform in Vienna. Its goal is to help countries, primarily in Southeast Europe and the new EU member states, to enhance the quality of financial reporting standards in order to improve their investment climates.

#### STRENGTHENING THE LEGAL, INSTITUTIONAL, AND STRUCTURAL FRAMEWORK

The Bank approved a \$400 million Public Sector Development Policy Loan to Turkey to support a sustained medium-term process of legal, institutional, and structural development via improved quality of fiscal adjustment as well as social protection through pension reform, implementation of administrative reforms intended to strengthen administrative capacity, and support of efficiency-increasing and cost-saving measures in the health system to sustain implementation of the Public Financial Management and Control Law. The law has underpinned the outstanding improvements in Turkey's public expenditure management system.

#### IMPROVING GOVERNANCE AND FIGHTING CORRUPTION

The Bank continues to work with the European Bank for Reconstruction and Development in conducting the Business Environment and Enterprise Performance Survey (BEEPS). BEEPS data have been used in studies of corruption, judicial systems, and other areas. These data provided the backbone for the *Anticorruption in Transition* series of studies as well as for *Judicial Systems in Transition Economies*. Both studies monitor changes over time to gain insights into what is working and what challenges, notably corruption, remain in areas that affect the business environment.

#### ADDRESSING GLOBAL AND REGIONAL ISSUES

The Bank is also addressing a few broad strategic themes, such as climate change and energy, at the regional level by

FIGURE 2.7

**EUROPE AND CENTRAL ASIA**

IBRD AND IDA LENDING BY THEME | FISCAL 2008  
SHARE OF TOTAL OF \$4.2 BILLION

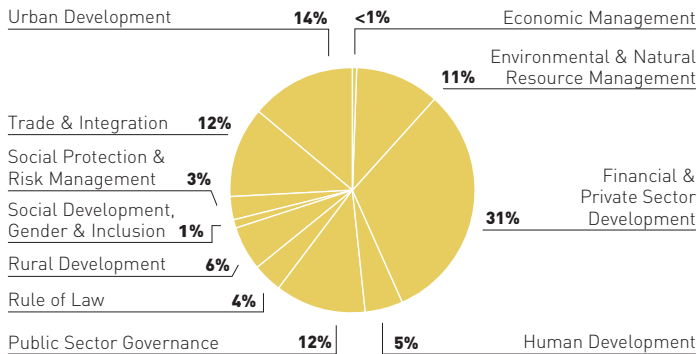
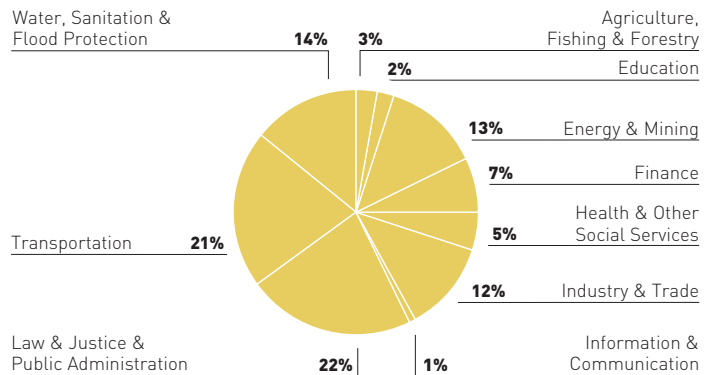


FIGURE 2.8

**EUROPE AND CENTRAL ASIA**

IBRD AND IDA LENDING BY SECTOR | FISCAL 2008  
SHARE OF TOTAL OF \$4.2 BILLION



building up its stock of knowledge and expertise and then operationalizing on a case-by-case basis. Through lending and advisory services, the Bank is also increasingly supporting activities on energy efficiency, cleaner production, and waste management.

**DEVELOPING LIFETIME SKILLS**

After the political and economic transitions of the past, countries in the region now face a third transition: aging

populations, which will lead to a declining working-age population and the challenge of how to pay for the necessary social safety nets while dealing with development progress. The region produced a flagship study, *Red to Gray: The "Third Transition" of Aging Populations in Eastern Europe and the Former Soviet Union*, that sets the analytical basis for policy reforms that should help client countries deal with issues from pension policies to technology absorption and innovation. (See <http://www.worldbank.org/eca>.)

**BOX 2.1**

**IMPROVING THE LIVES OF PEOPLE IN EUROPE AND CENTRAL ASIA**

The Bank held its first annual "Improving the Lives of People in ECA: A Week of Celebration and Learning" in March 2008. Awards of recognition were granted to 22 Bank activities, including projects for improving dam

safety in Armenia, increasing access to health services in the Kyrgyz Republic, providing higher-quality education for rural students in Romania, and restoring the Northern Aral Sea.

TABLE 2.4

**WORLD BANK LENDING TO BORROWERS IN EUROPE AND CENTRAL ASIA** BY THEME AND SECTOR | FISCAL 2003–2008  
 MILLIONS OF DOLLARS

THEME	2003	2004	2005	2006	2007	2008
Economic Management	19.5	242.0	17.4	4.6	5.7	2.6
Environmental and Natural Resource Management	122.7	309.4	394.4	148.8	397.6	461.4
Financial and Private Sector Development	483.3	950.2	933.9	1,461.1	823.6	1,295.9
Human Development	550.4	297.1	539.4	360.3	258.3	228.8
Public Sector Governance	317.7	895.1	272.3	589.1	328.8	515.0
Rule of Law	289.8	132.3	66.8	401.6	230.4	170.6
Rural Development	194.9	117.4	161.5	238.5	150.1	260.2
Social Development, Gender, and Inclusion	55.9	33.9	246.6	95.1	23.2	24.4
Social Protection and Risk Management	288.5	305.3	668.8	335.9	346.7	125.6
Trade and Integration	130.6	182.6	424.4	226.6	539.5	497.9
Urban Development	216.7	93.6	368.0	183.0	658.2	588.8
<b>Theme Total</b>	<b>2,670.0</b>	<b>3,559.1</b>	<b>4,093.5</b>	<b>4,044.6</b>	<b>3,762.2</b>	<b>4,171.1</b>
<b>SECTOR</b>						
Agriculture, Fishing, and Forestry	335.4	168.6	107.0	117.9	53.4	126.3
Education	395.0	164.0	263.8	126.7	81.9	67.4
Energy and Mining	262.9	352.2	657.9	1,108.3	337.6	546.7
Finance	195.8	836.9	259.1	374.5	353.5	311.5
Health and Other Social Services	415.3	244.3	484.9	339.9	192.9	215.9
Industry and Trade	269.0	126.3	253.5	274.8	395.5	499.0
Information and Communication	1.0	7.0	10.9	0.0	0.0	23.6
Law and Justice and Public Administration	698.9	1,176.8	1,160.6	1,271.7	812.6	919.0
Transportation	30.6	321.2	557.9	416.7	712.3	893.7
Water, Sanitation, and Flood Protection	66.3	162.0	337.9	14.2	822.4	568.0
<b>Sector Total</b>	<b>2,670.0</b>	<b>3,559.1</b>	<b>4,093.5</b>	<b>4,044.6</b>	<b>3,762.2</b>	<b>4,171.1</b>
Of which IBRD	2,089.2	3,012.9	3,588.6	3,531.9	3,340.1	3,714.3
Of which IDA	580.8	546.2	504.9	512.8	422.1	456.8

Note: Effective fiscal 2005, lending includes guarantees and guarantee facilities.