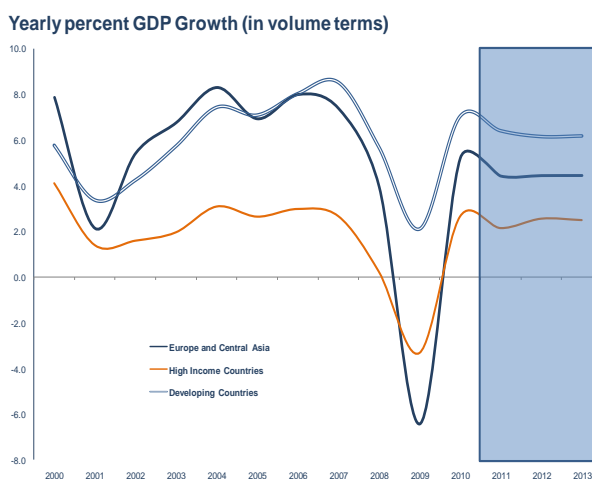


Europe and Central Asia

GDP growth in developing Europe and Central Asia¹ rebounded to an estimated 5.2 percent in 2010, following a 6.5 percent contraction in 2009 (table ECA.1 and figure ECA.1). Limited credit growth, the deleveraging of household-sector balance sheets and continued industrial sector restructuring following the easy-credit excesses of the boom period are expected to continue weighing on GDP. Because of that, output is projected to expand at a relatively subdued (by developing countries' standards) growth rate of 4.7 percent in 2011 and averaging 4.5 percent during 2012 and 2013. These aggregate figures hide significant variation across countries within the region, with those most affected during the above-average credit growth period performing least well, while resource-rich economies are benefitting from high commodity prices.

Figure ECA.1 A deep recession followed by a relatively modest recovery



Source: World Bank.

Table ECA.1 Europe and Central Asia forecast summary

(annual percent change unless indicated otherwise)	98-07 ^a	2008	2009	Est.	Forecast		
				2010	2011	2012	2013
GDP at market prices (2005 US\$) ^b	5.4	4.0	-6.4	5.2	4.7	4.4	4.6
GDP per capita (units in US\$)	5.4	3.9	-6.5	5.2	4.7	4.3	4.5
PPP GDP ^c	5.6	4.5	-6.6	5.0	4.5	4.5	4.5
Private consumption	6.3	6.6	-5.7	3.9	4.9	4.3	4.1
Public consumption	2.5	3.2	1.8	1.1	2.8	2.6	2.1
Fixed investment	8.8	6.6	-16.7	7.6	9.5	8.4	8.1
Exports, GNFS ^d	7.2	3.1	-7.3	9.5	6.6	5.9	6.3
Imports, GNFS ^d	10.2	8.7	-24.3	9.2	9.2	7.3	6.9
Net exports, contribution to growth	-0.3	-2.0	6.4	0.4	-0.5	-0.3	0.0
Current account bal/GDP (%)	2.6	0.6	0.7	0.9	-0.1	-1.8	-1.4
GDP deflator (median, LCU)	11.2	12.4	3.5	7.8	10.9	5.8	6.4
Fiscal balance/GDP (%)	-2.1	1.7	-5.4	-3.2	-0.5	-0.2	-0.4
Memo items: GDP							
Transition countries ^e	6.2	5.3	-7.0	3.8	4.2	4.1	4.3
Central and Eastern Europe ^f	4.7	6.1	-7.1	0.0	2.4	3.8	4.0
Commonwealth of Independent States ^g	6.5	5.2	-7.0	4.5	4.5	4.2	4.3
Russia	6.3	5.2	-7.8	4.0	4.4	4.0	4.1
Turkey	3.7	0.7	-4.8	8.9	6.1	5.1	5.3
Romania	4.3	7.1	-7.1	-1.2	1.6	3.7	4.0

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.

b. GDP measured in constant 2005 U.S. dollars.

c. GDP measured at PPP exchange rates.

d. Exports and imports of goods and non-factor services (GNFS).

e. Transition countries: f + g below.

f. Central and Eastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Georgia, Kosovo, Lithuania, Macedonia, FYR, Montenegro, Romania, Serbia.

g. Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

h. Estimate.

i. Forecast.

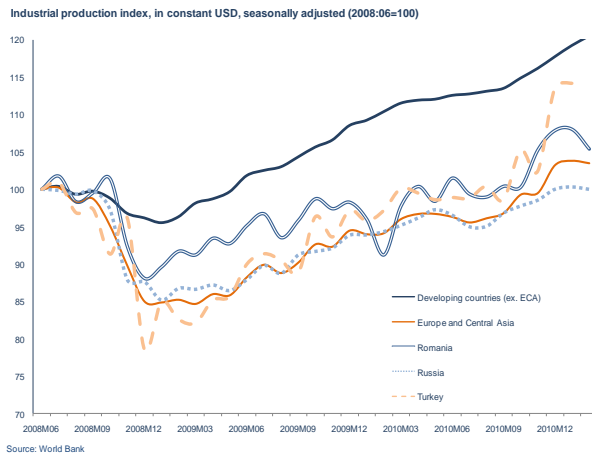
Source: World Bank.

Recent developments

The recession in Europe and Central Asia was much deeper than elsewhere in the developing world, because substantial trade and financial market linkages with high-income Europe. Overall, regional industrial production, which had been growing at a 6.2 percent pace in the four years before the crash, fell 10 percent in 2009—more than three times as much as in other developing regions. Partly as a result of this, output only regained pre-crisis levels at the end of 2010, versus mid-2009 for the rest of the developing world.

As of the first quarter of 2011, industrial production in the region was expanding at a 9.3 percent annualized pace. If sustained, such an expansion should begin to close the still large 20 percent gap between current activity levels and those that might have been observed if the boom and bust not occurred. Progress at the sub-regional level has been mixed, with Russian (which represents over 50 percent of the region’s total industrial product) growth of 8.3 percent during 2010 underperforming the regional aggregate, and well below the impressive performance of Turkey, up 13.2 percent in 2010 (figure ECA.2). As a whole, seasonally adjusted industrial production in the region grew almost 8.0 percent, ranging from an over 19 percent

Figure ECA.2 Only by end-2010 industrial production regained pre-crisis activity levels and remains well below earlier trends



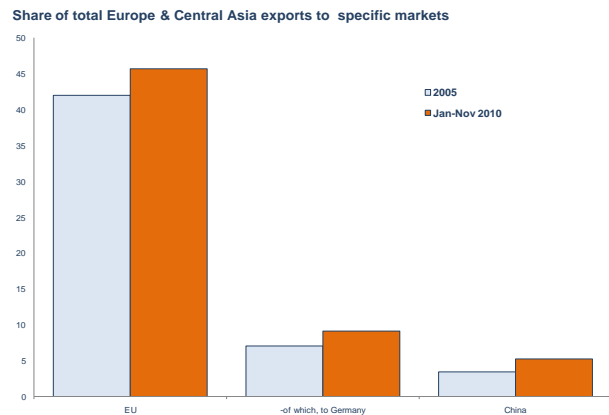
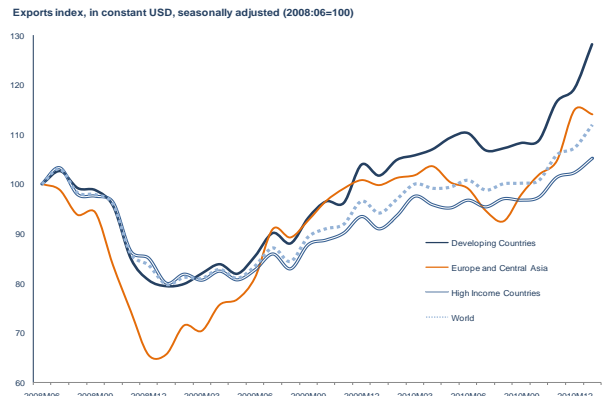
Sources: World Bank.

increase in Lithuania for the 12 months ending March 2011 to a 5.3 percent contraction in Kazakhstan (for the 12 months ending April 2011).

Much of the initial impetus for recovery in Europe and Central Asia reflected the region’s strong export performance, that saw real merchandise exports expanding at a 25 percent annualized pace during the final three months of 2010. Lithuania and Romania, exporters of manufactured goods to the EU market, recorded some of the fastest growth rates (a more than 40 percent increase during the final 3 months of 2010), while economies in the Southern Caucasus and Central Asia sub-region, such as Armenia and Uzbekistan, reported the slowest export growth rates (figure ECA.3).

The acceleration in regional trade reflects the

Figure ECA.3 Regional exports outpaced other developing countries, reflecting growing market share in high-income and Chinese markets

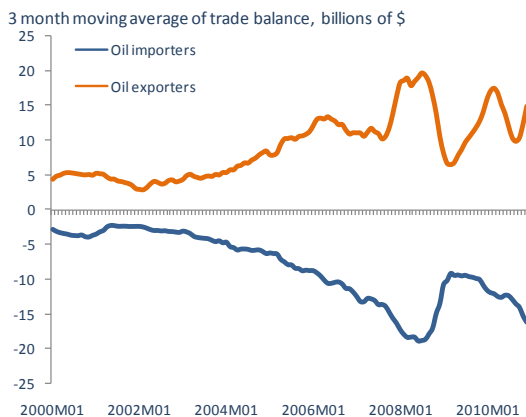


global recovery, but also the increased trade ties of several countries in the region towards faster growing economies inside and outside the region. Between 2005 and 2010, the share of the exports of countries going to the Commonwealth of Independent States² (CIS) and Russia was broadly stable, while shares going to Turkey, the EU (notably, Germany) and China increased significantly (by more than 55 percent in the case of China: figure ECA.3).³

This overall pattern has particular sub-regional dimensions. The EU is a more important trading partner for the western CIS, the Southern Caucasus and countries like Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro and Serbia, while China is a relatively more relevant trade partner for countries in Central Asia (albeit the EU still remains, on aggregate, the largest trade partner of this sub-region).

The combination of growing exports volumes and rising commodity prices, especially oil, has contributed to a large fall in the region's trade deficit, from \$3.6 billion at end 2010 to \$0.7 billion in early 2011. Higher oil prices were reflected in a sharp increase in the trade surplus of oil exporters, from \$10 billion in August 2010 to \$14 billion in December, and a deterioration among oil importers, from a \$-13 to \$-16 billion trade deficit over the same period (figure ECA.4).

Figure ECA.4 Rising commodity prices improve oil exporter's trade balances

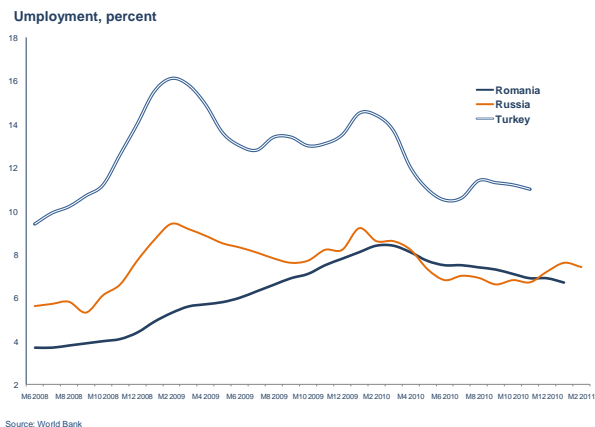


Sources: World Bank.

Despite the depth of the recession and the massive disruption to the construction industry and still large industrial sectors of the regional economy, unemployment rose relatively little from 7 percent in 2007 to a peak of 9.3 percent in 2009 and has fallen relatively rapidly, coming in at 8.6 percent at the end of 2010, a nevertheless still elevated level that makes it a ongoing cause for concern. The regional aggregate is significantly influenced by developments in Russia, Turkey and Ukraine (figure ECA.5), which represent two thirds of the region's total population. Unemployment in these countries rose by 2.6 percentage points between 2008 and 2009, before falling by 1.5 percentage points between 2009 and 2010. In the remaining countries of the region unemployment averages 15.6 percent of the labour force (ranging from close to full formal employment in places like Belarus and Tajikistan⁴ to as much as 45 percent unemployment in Bosnia and Herzegovina). Developments in these countries have been equally varied, but there not only the average unemployment rate was considerably higher previous to the crisis, it actually rose somewhat during 2010.

As observed elsewhere (see main text and Financial annex), private capital inflows into Europe and Central Asia, which were strong in the second and third quarters of 2010 eased in the fourth quarter of that year and into 2011 (for

Figure ECA.5 Unemployment down

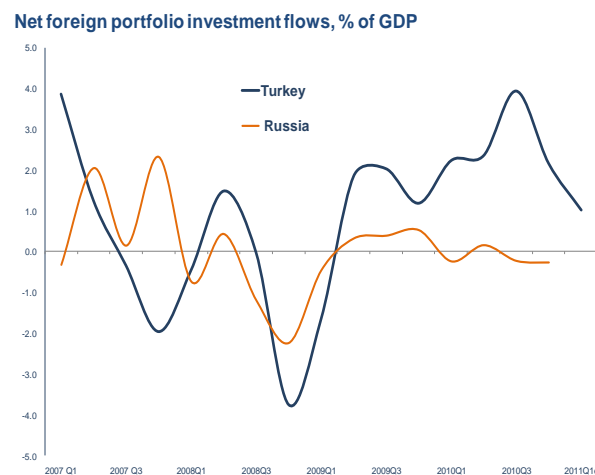


Sources: IMF.

the year as a whole they were still up 88 percent, table ECA.3). The decline in portfolio flows was most evident in Turkey, and roughly coincided with the authorities' decision to lower interest rates in an effort to deter capital inflows being attracted by high-interest rate differentials, while restricting credit growth by simultaneously raising reserve requirements. Russia experienced significant outflows, despite high and rising energy prices (figure ECA.6). FDI flows increased the most in Ukraine, reflecting the recapitalization of banks, while they declined more in Kazakhstan and Romania. Significant improvements will likely be delayed until the regional recovery matures further and until there are substantial improvements in the region's investment climate.⁵

Rising food prices following the extreme drought in the summer of 2010 contributed to a pickup in inflation in the region during 2010.⁶ Food prices rose at a 12 percent annualized pace in the three months ending September 2010, which contributed, with a lag, to an acceleration in overall inflation to a 7.6 percent annualized rate in the fourth quarter of the year. Year-over-year, all-goods inflation picked up from 6.3 percent in June 2010, to 7.6 percent in the fourth quarter of the year. Inflation now exceeds 10 percent in almost forty percent of the countries in the region, but it has been easing as the inflationary impact of the 2010 higher food

Figure ECA.6 Hot money flows easing



Source: World Bank, CBR.

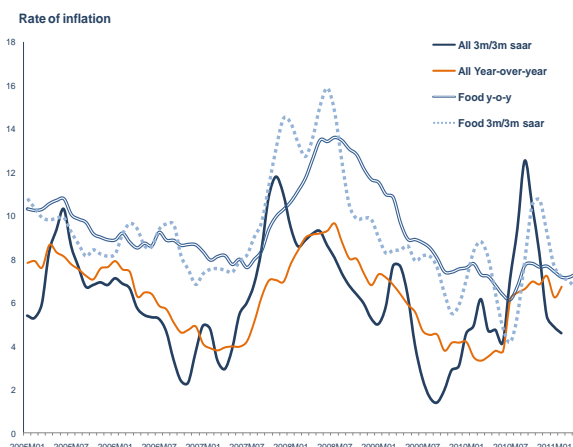
prices fades (figure ECA.7). However, the recent rise in oil prices is likely to yield a second acceleration, which may be exacerbated by planned increases in regulated prices in Belarus and Ukraine (and, in the case of Belarus, by a devaluation of the currency).

Remittances are both an important source of foreign currency for several countries in the region and an important source of income for households, and therefore an important determinant of domestic demand. Remittances are around 10 percent of GDP for countries like Armenia and Bosnia and Herzegovina, and between 18 and 35 percent of GDP for Albania, the Kyrgyz Republic, Moldova and Tajikistan. After falling by almost a quarter between 2008 and 2009, they rose by a meager 1.3 percent in 2010. Looking forward, high commodity prices and stronger growth in migration destination countries are expected to contribute to a 7.5 percent increase in remittances in 2011 and a 9.4 percent increase in 2012 (table ECA.2).

Fiscal and monetary policy

Monetary authorities in the region have responded to the uptick in inflation by tightening monetary policy via both higher interest rates (Belarus, Russia, three times in the case of the later, and four times already in the case of the former) and increased reserve requirement (Turkey). Despite rising policy rates, foreign

Figure ECA.7 Inflationary impulse from food prices appears to be easing



Source: World Bank.

Table ECA.2 Workers' remittances, compensation of employees, and migrant transfers, credit (US\$ million)

	2003	2004	2005	2006	2007	2008	2009	2010p	2011f	2012f
All developing countries	137,500	159,258	191,779	226,297	278,181	324,972	307,569	324,714	348,576	374,501
Europe and Central Asia	11,597	15,998	23,262	28,397	39,332	45,832	35,433	35,879	38,681	42,308
% of developing countries	8.4	10.0	12.1	12.5	14.1	14.1	11.5	11.0	11.1	11.3
	Growth (%)									
All developing countries	23.9%	15.8%	20.4%	18.0%	22.9%	16.8%	-5.4%	5.6%	7.3%	7.4%
Europe and Central Asia	8.2%	37.9%	45.4%	22.1%	38.5%	16.5%	-22.7%	1.3%	7.8%	9.4%
LDCs (UN-classification)	13.9%	12.9%	11.0%	18.5%	22.9%	32.8%	5.2%	5.8%	10.9%	7.3%
Fragile States		26.5%	8.4%	8.2%	12.6%	-2.1%	-9.1%	7.5%	6.7%	
Small States		12.6%	-1.3%	22.8%	27.8%	31.3%	-11.4%	8.4%	7.8%	

Source: World Bank

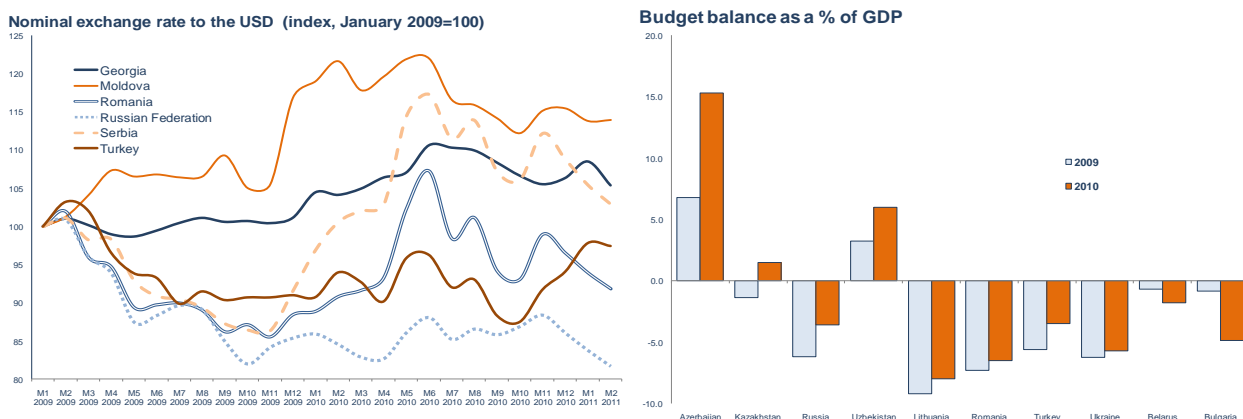
capital inflows to the region have declined and upward pressure on exchange rates eased (figure ECA.8). Domestic bank credit has started to grow again, but so far at moderate rates.

The rebound in commodity prices during the course of 2009 and 2010 helped to reduce government deficits among regional energy exporters from -5.4 percent of GDP in 2009 to -2.4 percent in 2010. Declines among importers were also noticeable, as increased activity helped restore government coffers at the same time as initial attempts towards discretionary fiscal consolidation were announced (especially among EU members). These broad aggregates hide significant differences at the national level, where government balances range from double digit surpluses in Azerbaijan to almost double

digit deficits in post-conflict Kyrgyz Republic. A few countries bucked the deficit reduction trend (figure ECA.8), like Belarus, but the country's stock of public debt to GDP is still low, at around 25 percent in 2010 (the largest share in the region is to be found in the Kyrgyz Republic, at 63 percent). Bulgaria also experienced an increase in the cash fiscal deficit, nevertheless fiscal adjustment in that country continued through a reduction in previously accrued and unpaid obligations.

Outlook

GDP in developing Europe and Central Asia grew an estimated 5.2 percent in 2010, a modest rebound given the steep decline in activity that preceded it, but one which nevertheless served to

Figure ECA.8 Exchange rates begin to fall, at the same time that the budgetary position becomes more sustainable

Source: World Bank, IMF.

reduce unemployment and improve fiscal positions. Ongoing household and banking-sector restructuring is expected to continue to constrain growth, with GDP projected to expand by 4.7 percent in 2011, and by around 4.5 percent in 2012 and 2013. While these growth rates are close to estimates of the region's potential growth rate, growth is not likely to be strong enough to make significant inroads into the spare capacity generated by the crisis. As a result, unemployment, although declining, is projected to remain relatively high throughout the projection period.

Overall, the external sector is projected to contribute between -0.5 and 0 percent to overall growth during the projection period. Among oil exporters, the additional revenues from higher prices are expected to boost domestic demand and imports, such that in volume terms the external sector subtracts somewhat from growth in the economy. On the other hand, given strong growth in other developing regions and the projected firming of the recovery in high-income Europe, the pick-up in regional manufacturing

export volumes is expected to continue outpacing imports among oil importing countries.

Higher commodity prices will increase current account balances for commodity-rich countries in the region, while having the opposite effect among importers. However, revenues are projected to leak into additional spending and imports relatively quickly such that by 2013 current account surpluses of oil exporters, which reached 5.5 percent of GDP in 2010, are projected to return to 2.3 percent of GDP. Current account deficits among oil importers are projected to exceed -6 percent of GDP in 2011 and to improve only slightly to around -5.7 percent of GDP in 2013.

Higher commodity prices should boost government revenues in resource-rich countries in the region, reducing government deficits from -2.5 of GDP in 2010 to a surplus of 1.1 of GDP by 2013. At the same time, improving activity levels and ongoing fiscal consolidation measures are projected to reduce government deficits in oil

Table ECA.3 Net capital flows to Europe and Central Asia

\$ billions											
	2003	2004	2005	2006	2007	2008	2009	2010e	2011f	2012f	2013f
Current account balance	20.3	36.7	48.5	37.6	-14.1	13.3	14.1	22.3	-8.3	-76.9	-69.6
as % of GDP	2.0	2.8	2.9	1.8	-0.5	0.4	0.5	0.7	-0.2	-1.8	-1.4
Financial flows:											
Net private and official inflows	81.0	99.9	127.8	218.2	410.4	262.1	89.8	132.1			
Net private inflows (equity+private deb	85.8	107.2	156.2	248.9	413.5	251.0	57.6	108.4	146.9	176.1	190.4
..Net private inflows (% GDP)	8.5	8.0	9.3	12.0	15.5	7.6	2.2	3.5	4.0	4.1	3.9
Net equity inflows	25.3	43.7	57.8	104.6	160.2	145.0	90.0	83.4	96.9	116.1	135.4
..Net FDI inflows	23.8	41.9	51.1	92.3	133.2	160.1	85.1	76.4	90.9	107.1	124.4
..Net portfolio equity inflows	1.5	1.8	6.7	12.3	27.0	-15.1	5.0	7.0	6.0	9.0	11.0
Net debt flows	55.8	56.2	70.0	113.6	250.2	117.1	-0.2	48.7			
..Official creditors	-4.7	-7.3	-28.4	-30.7	-3.0	11.1	32.2	23.7			
....World Bank	-0.2	1.0	-0.7	0.2	0.2	0.7	2.8	2.2			
....IMF	-2.0	-5.9	-9.8	-5.8	-5.0	6.2	20.2	10.5			
....Other official	-2.5	-2.5	-18.0	-25.1	1.8	4.2	9.3	11.0			
..Private creditors	60.5	63.5	98.4	144.3	253.3	106.0	-32.5	25.0	50.0	60.0	55.0
....Net M-L term debt flows	34.0	52.2	80.0	108.9	177.5	121.3	5.3	24.0			
.....Bonds	7.3	14.4	16.6	32.3	55.9	16.2	-1.7	13.5			
.....Banks	27.1	39.0	64.7	77.5	122.6	105.7	7.3	10.5			
.....Other private	-0.4	-1.3	-1.3	-0.8	-1.0	-0.6	-0.4	0.0			
....Net short-term debt flows	26.5	11.3	18.4	35.4	75.7	-15.3	-37.7	6.9			
Balancing item /a	-52.3	-67.7	-89.3	-84.2	-170.2	-333.3	-77.9	-107.2			
Change in reserves (- = increase)	-49.1	-68.8	-87.0	-171.6	-226.1	57.8	-26.0	-47.2			
Memorandum items											
Workers' remittances	11.6	16.0	23.3	28.4	39.3	45.8	35.4	35.9	38.7	42.3	

Note:

e = estimate, f = forecast

/a. Combination of errors and omissions and transfers to and capital outflows from developing countries.

Source: World Bank.

importers from -4.4 percent of GDP in 2010 to about -2.1 percent of GDP in 2013.

Russia, the largest regional economy, is set to grow by around 4.2 percent yearly over the forecast period, fueled in part by higher oil revenues. Improving employment prospects are projected to bring unemployment down to around 6 percent in 2013 and this, together with higher oil revenues, should be reflected in a larger contribution from domestic consumption and investment demand to growth. Parliamentary elections in late 2011, and Presidential ones during the first quarter of 2012 may result in some election-year spending that could reduce the large but mainly cyclically induced expected improvement in the general government balance. The limited diversification of the economy and constraints to the increase of energy-related exports remain key medium-term challenges that are expected to prevent output from expanding much more than 4 percent per annum over the projection period. As a result, much of the additional oil-revenue is expected to fuel an increase in demand that will be met by increased imports, so that the country's current account surplus is projected to decline to around 1.4 percent by 2013.

Growth in Turkey, the second largest developing economy in the region, which rebounded sharply in 2010 when the economy grew by 8.9 percent, is forecast to grow by a still robust 5.5 percent average over the forecast period. Turkey's large current account deficit, and its high oil import bill, at around 5 percent of GDP, represent a source of vulnerability, should investor sentiment sour or oil prices rise (see scenario in main text).

Growth among the European Union's members in developing Europe (Bulgaria, Lithuania and Romania) is projected to accelerate to around 3.4 percent during the projection period, aided by the relatively diversified nature of these economies, significant EU and IMF support programs, and the recovery in the euro area. Lithuania is also projected to benefit from the robust performance of the Polish economy (now a high-income country). Although these

countries have so far not been affected by concerns about high-income Europe fiscal sustainability, contagion via financial sector links remains a possibility — placing a premium on restoring an adequate degree of fiscal space to their public finances.

The countries of the Western part of the Commonwealth of Independent States (Belarus, Moldova and Ukraine) are projected to grow by an average of 4 percent between 2011 and 2013. However, these economies face significant potential downside risks, given their large current account deficits (Belarus and Moldova), and their relatively undiversified economies (and, in the case of Belarus, by its over-reliance on the Russian market for its exports). Ukraine is also susceptible to external shocks, notably from higher energy prices. Medium-term growth is expected to be constrained to around 4.3 percent because of weak productivity growth tied in part to the undiversified nature of the economy and lack of competition.

In Central Asia, GDP in Kazakhstan (over two thirds of the sub-regional GDP) is set to expand by around 5.7 percent yearly during the next three years on the back of high commodity prices and deepening links with other developing Asian economies. The sub-region will do even better, growing by 6.1 percent. Strong commodity prices should contribute to improved public and external balances among the sub-regional resource exporters — Kazakhstan, Turkmenistan and Uzbekistan (Tajikistan is also a significant cotton exporter). The Kyrgyz Republic and Tajikistan are projected to make inroads into their large external and fiscal deficits, thanks in part to significant remittances receipts and official aid, linked in the Kyrgyz Republic to post-conflict reconstruction efforts.

Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro and Serbia are anticipated to grow by around 4.5 percent during the next three years, supported by their close economic ties with the recovering EU, including significant financial and technical support. Despite improved growth, these economies are expected to continue to suffer on average from

Table ECA.4 Europe and Central Asia country forecasts

(annual percent change unless indicated otherwise)	98-07 ^a	2008	2009	Est. 2010	Forecast 2011	2012	2013
Albania							
GDP at market prices (2005 US\$) ^b	5.5	7.7	3.3	3.5	4.0	4.5	5.0
Current account bal/GDP (%)	-6.2	-14.6	-16.0	-12.4	-10.8	-9.5	-7.9
Armenia							
GDP at market prices (2005 US\$) ^b	9.6	6.8	-14.1	2.1	4.6	4.3	4.2
Current account bal/GDP (%)	-8.6	-11.6	-15.8	-13.9	-11.6	-10.3	-9.3
Azerbaijan							
GDP at market prices (2005 US\$) ^b	14.2	10.8	9.3	5.0	4.2	4.1	4.4
Current account bal/GDP (%)	-7.2	35.6	21.6	25.7	25.8	22.4	21.5
Belarus							
GDP at market prices (2005 US\$) ^b	6.9	10.2	0.2	7.6	2.5	3.0	4.0
Current account bal/GDP (%)	-3.9	-8.6	-13.0	-15.6	-9.3	-9.1	-9.3
Bulgaria							
GDP at market prices (2005 US\$) ^b	4.8	6.2	-5.5	0.2	2.9	3.4	3.9
Current account bal/GDP (%)	-8.7	-22.9	-8.9	-1.0	-2.1	-2.4	-2.7
Georgia							
GDP at market prices (2005 US\$) ^b	6.6	2.3	-3.8	6.4	5.5	5.3	5.0
Current account bal/GDP (%)	-9.8	-25.3	-11.2	-9.6	-10.8	-9.7	-8.1
Kazakhstan							
GDP at market prices (2005 US\$) ^b	8.3	3.3	1.2	7.0	5.7	5.5	5.8
Current account bal/GDP (%)	-2.7	4.7	-3.8	2.9	5.2	4.4	3.9
Kosovo							
GDP at market prices (2005 US\$) ^b		6.9	2.9	4.0	5.7	5.2	4.9
Current account bal/GDP (%)		-22.8	-25.0	-24.8	-28.8	-29.3	-26.9
Kyrgyz Republic							
GDP at market prices (2005 US\$) ^b	3.9	8.4	2.3	-1.4	5.0	6.0	6.4
Current account bal/GDP (%)	-8.4	-14.6	2.0	-3.6	-10.8	-9.2	-5.0
Lithuania							
GDP at market prices (2005 US\$) ^b	5.8	2.9	-14.7	1.3	3.8	3.9	3.5
Current account bal/GDP (%)	-8.5	-12.3	4.4	1.9	-1.0	-2.6	-2.5
Moldova							
GDP at market prices (2005 US\$) ^b	4.1	7.8	-6.0	6.9	4.2	4.5	4.8
Current account bal/GDP (%)	-8.4	-17.3	-9.3	-10.5	-10.7	-10.3	-10.8
Macedonia, FYR							
GDP at market prices (2005 US\$) ^b	2.6	4.8	-0.7	0.8	2.9	3.7	4.2
Current account bal/GDP (%)	-5.3	-12.8	-6.7	-2.9	-4.9	-5.1	-4.7
Romania							
GDP at market prices (2005 US\$) ^b	4.3	7.1	-7.1	-1.2	1.6	3.7	4.0
Current account bal/GDP (%)	-7.0	-11.9	-4.3	-4.2	-5.1	-5.4	-5.7
Russian Federation							
GDP at market prices (2005 US\$) ^b	6.3	5.2	-7.8	4.0	4.4	4.0	4.1
Current account bal/GDP (%)	9.5	6.2	3.9	5.0	3.5	0.5	1.4
Serbia							
GDP at market prices (2005 US\$) ^b	3.3	5.5	-3.1	1.8	3.0	5.0	5.5
Current account bal/GDP (%)	-7.4	-17.6	-6.9	-7.1	-7.3	-6.5	-5.7
Tajikistan							
GDP at market prices (2005 US\$) ^b	8.1	7.9	3.8	6.5	5.7	5.0	5.0
Current account bal/GDP (%)	-3.8	-7.6	-5.9	2.2	-4.3	-6.4	-6.1
Turkey							
GDP at market prices (2005 US\$) ^b	3.7	0.7	-4.8	8.9	6.1	5.1	5.3
Current account bal/GDP (%)	-2.4	-5.7	-2.2	-6.6	-7.7	-7.3	-6.9
Ukraine							
GDP at market prices (2005 US\$) ^b	5.9	2.1	-14.8	4.2	4.0	4.5	4.6
Current account bal/GDP (%)	3.2	-7.1	-1.5	-2.0	-3.1	-3.4	-3.6
Uzbekistan							
GDP at market prices (2005 US\$) ^b	5.2	9.0	8.1	8.5	8.0	7.8	7.5
Current account bal/GDP (%)	7.8	13.0	3.1	8.3	13.2	11.1	11.4

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.

Bosnia and Herzegovina, Turkmenistan, Montenegro are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.

b. GDP measured in constant 2005 U.S. dollars.

c. Estimate.

d. Forecast.

Source: World Bank.

very large and persistent formal unemployment, limited state capacity and relatively fragile fiscal and external positions (covered by remittances and FDI inflows), which are set to improve only slightly through the forecast horizon.

The economies of the South Caucasus sub-region are expected to expand by an average of 4.5 percent over the next three years, due to higher commodity prices and on the back of the recoveries in the EU and in Russia. Oil-fueled Azerbaijan is project to grow by a robust 4.2 and to experience improvements in its external and fiscal positions. Although both Armenia and Georgia are projected to enjoy growth of, respectively, around 4.3 and 4.9 percent going forward, both these economies will remain sensitive to changes in sentiment given persistent double-digit current account and budget deficits.

Risks

Although the forces of recovery in the global economy and in developing Europe and Central Asia are well established, there are a number of important evolving tensions that have the potential to disrupt the relatively robust recovery that is projected for the region.

Continued uncertainties and political tensions in the Middle-East and North Africa or a further disruption to oil supplies could send oil prices even higher. Simulations reported in the main text suggest that growth among regional oil exporters could accelerate by between 0.1 and 2.0 percentage points in the 2011-2013 period if tensions were to give rise to a sustained \$50 increase in oil prices. The estimated 0.5 to 0.6 percentage point reductions in regional oil importers growth between 2011 and 2013 is somewhat less severe than for oil importers elsewhere, partly because of offsetting benefits of higher remittances and increased imports from regional oil exporters, which represent around 60 percent of the regional economy.

A second major risk for the region centers on the evolution of the fiscal sustainability crisis in high-income Europe. So far, these challenges have had limited impact in countries in

developing Europe and Central Asia—with spreads having increased relatively little and capital flows recovering in line with domestic conditions. Should events in high-income Europe force banks to repatriate capital or just reduce the pace at which regional profits are reinvested, capital flows to the region could dry up—with potentially large negative effects on those countries with high-levels of debt and/or large current account deficits.

Finally, the region was buffeted by a very poor crop year in 2010. If domestic production does not improve, a second year of disappointing harvests could reinforce recent upticks in inflation—possibly even resulting in second-round effects that would increase inflation expectations, especially if combined with the direct effects of the energy price shock, forcing a further tightening of monetary policies and increasing the already daunting challenges of recovering from the excesses of the boom period.

Notes:

1. For the purposes of this report, the developing Europe and Central Asia region is comprised of only low- and middle-income countries (22 in total). Thus the aggregate excludes high-income Western European countries (among which Croatia, the Czech Republic and Hungary), but includes low- and middle-income EU member states (Bulgaria, Lithuania and Romania).
2. The CIS is a loose organization that includes most of the countries from the former Soviet Union, notably Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. Turkmenistan discontinued its membership of the CIS as of 26 August 2005, and is now an associate member, while Georgia has left the group in August 2009. Ukraine has never ratified the CIS Treaty,
3. The ongoing creation process of a Customs

Union between three members of the so-called “Eurasian Economic Community” (EurAsEC), namely Belarus, Kazakhstan and Russia may conceivably increase the regional share of intra-CIS trade (albeit possibly at the cost of welfare-reducing trade diversion).

4. Low measured unemployment likely reflects hidden unemployment due to limited economic restructuring in Belarus, and imperfect official statistics in Tajikistan
5. The World Bank’s “Doing Business” indicator, a useful proxy for investment climate, shows that, while the region broadly stagnated between 2010 and 2011 (the average value for the aggregate indicator remained at 78, or over twice the EU average), each of the three largest regional economies worsened their relative positions (and Russia by a significant 7 slots).
6. See also “Rising Food and Energy Prices in Europe and Central Asia” (World Bank 2011) for an analysis of the regional effects of increasing commodity prices.