The World Bank

Europe and Central Asia Region

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WORLD BANK PROJECTS DECELERATING GROWTH IN SHORT-TERM FOR EUROPE AND CENTRAL ASIA

Report on global prospects forecasts solid long-term growth in region

WASHINGTON, October 31, 2001—In Europe and Central Asia, average GDP growth is projected to decelerate markedly in 2001 to about 2.1 percent, down from 6.3 percent in 2000. The drop in output growth, according to a World Bank report released today, is larger than in any other region, in part reflecting the sharp contraction in Turkey. There was also a drop in the region's export market growth from 12 percent in 2000 to 5 percent in 2001 reflecting a slowdown in Western Europe which accounts for 50 percent of the region's exports. The transition countries in Europe and Central Asia are doing well overall, given an increasingly harsh external environment, and are expected to post growth of 4 percent on average in 2001. The Bank is forecasting stronger output growth in 2003, assuming the process of economic recovery accelerates in Turkey and as the revival in external demand gains momentum.

Global Economic Prospects and the Developing Countries 2002: Making Trade Work for the World's Poor, the Bank's yearly report on prospects for developing countries, notes that the rapid slowdown in the Europe and Central Asia region's aggregate growth in 2001 is dominated by three main factors: in Turkey, domestic demand collapsed because of past difficulties in controlling fiscal accounts and financial sector weaknesses in a context of severe economic disruption in the wake of the financial crises in late-2000 and early-2001; a return to more moderate growth rates in Russia after an unusually robust expansion of near 8 percent in 2000; and the marked slowdown in global demand.

With financial stress in Turkey, Western Europe needing time to recover, and oil prices expected to continue to decline, a sharp and quick recovery of economic activity in the region is unlikely.

Contagion from the financial strains in Turkey have been limited thus far. This development has been supported by higher oil prices serving to ease some of the financial tensions that caused the Russian crisis. Nonetheless, financial risks remain and could significantly change the outlook.

Over the near-term (2002-3), the report says that a gradual recovery to stronger performance in the region would yield growth of 3 percent in 2002, rising to about 4.5 percent in 2003. The severity and duration of the current slowdown in the EU, along with policy responses in all countries – particularly in Turkey, will be important factors for near-term prospects. In the EU, recovery is not expected until 2003, and much stronger demand from the EU is not anticipated until 2003. This is especially significant for the Central and Eastern European countries, because their economies have become well integrated with the EU.

One important near-term assumption is the combination of slowing world energy demand and an accommodating stance by the Organization of Petroleum Exporting Countries (OPEC) will likely translate into lower nominal and real oil process. For the hydrocarbon exporters in the CIS, this scenario implies a further slowdown in growth in 2002. In the Commonwealth of Independent States (CIS), GDP growth is forecast to decelerate further to 3.2 percent in 2002 from 4.9 percent in 2001, due in large part to the easing of oil prices. In the absence of high oil prices, significant institutional and structural obstacles remain a constraint to achieving higher sustained rates of growth.

In Central and Eastern Europe, the potential for solid growth exists in the medium-term based on two underlying assumptions—EU accession process generally stays on track, albeit with some transitory difficulties, and that Turkey is successful in reestablishing macroeconomic stability, paving the way for a recovery over the coming period, driven in part by strong export growth, due to some extent to the fall of the Turkish lire.

Over the coming decade through 2010, GDP growth for the Europe and Central Asia region as a whole is forecast to average between 3.5 and 4 percent. The main drivers of higher growth are an improved policy environment and a greater degree of macroeconomic stability leading to higher investment and savings rates as a share of GDP.

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