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GEOPOLITICAL TENSIONS TAKING A TOLL

October 10, 2014

EXECUTIVE SUMMARY

Macroeconomic trends have increasingly diverged across Central, Eastern and Southeastern Europe (CESEE). While domestic demand is starting to recover in most countries helped by rising consumption and still accommodative global financial conditions, overall growth continues to disappoint and is slowing everywhere except Central and Eastern Europe (CEE). Inflation paths have also diverged. Declining world food and energy prices and disinflationary spillovers from the euro area have put inflation on a downtrend across most of the region except Turkey, Russia and the rest of the Commonwealth of Independent States (CIS), where high domestic food prices and exchange rate depreciation have kept inflation high.

Despite elevated geopolitical tensions, external financing conditions have been supportive for most CESEE countries except Russia and Ukraine. CESEE sovereign bond spreads, excluding Russia and Ukraine, compressed during 2014:H1 to below pre-taper-talk levels and net capital flows, after a drop in Q1, turned positive in Q2. In contrast, Russia saw a sharp pick up in outflows in H1 and corporate bond issuance has almost completely dried up since the onset of geopolitical tensions. Meanwhile, Ukraine continues to weather significant pressures on the currency.

Growth is projected to weaken this year in CESEE, notably in Russia and other CIS countries, before strengthening somewhat in 2015. Relative to the April 2014 REI, growth for 2014 has been revised down by about ½ percentage point to 1.2 percent largely reflecting the effects of Ukraine-Russia tensions. Growth is projected to strengthen in 2015 to 1.7 percent, assuming tensions gradually ease and sanctions and counter-sanctions are lifted or expire over the coming year.

The near-term outlook is subject to significant downside risks, including an intensification or prolongation of geopolitical tensions, a protracted period of weak growth in the euro area, and possible bouts of financial market volatility as monetary policy in the U.S. begins to normalize. The negative spillovers from these shocks on growth could be significant given the region's close ties with Russia (especially its dependence on Russian gas, much of which is transported through Ukraine) and the euro area, as well as significant reliance on external funding.

Securing a robust recovery remains the key near-term policy priority, while in the medium term, improving potential growth is essential. Repair of private sector balance sheets needs to be completed, underpinned by a comprehensive strategy for resolving the debt overhang and high nonperforming loans, which are holding back recovery of investment and corporate credit, particularly in Southeastern Europe. Significant external risks facing the region also put a premium on building buffers, particularly in view of the limited policy space in many countries. Given their heavy dependence on energy imports compared to other emerging market economies, CESEE countries also need to make a concerted effort to establish a more integrated energy market to help pool energy reserves and limit the impact of energy shocks on individual countries. In the medium term, CESEE countries need to lift their growth potential by improving the regulatory environment and the functioning of labor markets.

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I. RECENT DEVELOPMENTS

Macroeconomic trends are diverging across Central, Eastern, and Southeastern Europe (CESEE).[1] *Although domestic demand is taking hold, growth is slowing across most of the region except Central and Eastern Europe (CEE) and the Baltics, while inflation is falling everywhere outside Turkey and the Commonwealth of Independent States (CIS). Despite geopolitical tensions, external financing conditions remain favorable for most CESEE countries, except Ukraine and Russia.*

Global growth continues to be disappointing even though global financial conditions remain accommodative. The euro area—CESEE's main trading partner—stagnated in 2014:Q2 as investment surprised on the downside in several large economies (Figure 1). Weaker investment and subdued exports also pulled down growth in emerging market economies despite recent improvements in global financial conditions and a rebound in portfolio flows.

Against this backdrop, growth became increasingly divergent across CESEE countries in 2014:H1, slowing everywhere except in the CEE and the Baltics (Figure 1):

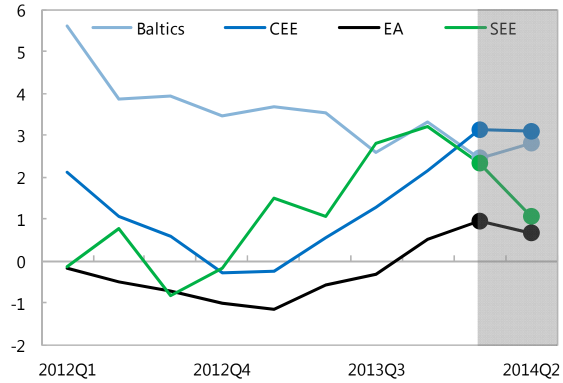
- *Russia* and *other CIS economies* were affected by deepening geopolitical tensions surrounding eastern Ukraine and related sanctions and counter-sanctions. Russia's growth weakened in 2014:H1 on account of contracting investment, declining real household income, and an increase in capital outflows.
- Growth in *Southeastern Europe (SEE)* and *Turkey* decelerated due to country-specific factors. The SEE countries were hit by floods. In Turkey, stronger net exports were partly offset by faltering private investment following previous policy tightening, causing growth to slow in 2014:H1.
- In contrast, activity accelerated further in the *CEE* countries, which benefited from a pick-up in investment, falling unemployment, and higher public spending in Hungary. In the Baltic countries, growth was supported by favorable labor market conditions.

Domestic demand has strengthened in many countries on the back of rising private consumption (Figure 2). Private consumption has become the key growth driver in CEE (with the exception of Hungary) and in much of the Baltics and SEE, supported by improving labor market conditions and positive consumer credit growth. In contrast, consumption in Russia and Turkey, which was the main driver of growth in 2013, declined in 2014:H1 due to weaker confidence and credit growth (Figure 1). Investment remains a drag on growth across most of the region except CEE and the Baltics, where an incipient recovery of corporate credit is helping. Investment weakness elsewhere in the region is largely driven by uncertainties about the strength of the euro area recovery, geopolitical tensions, and in some cases, private sector balance sheet weaknesses (corporate debt overhang and high nonperforming loan levels), which are holding back credit growth.

[1] CESEE region includes Turkey and the following four sub-regions: Central and Eastern Europe (CEE) consists of the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia (21 percent of regional GDP); Southeastern Europe (SEE) consists of Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Montenegro, Romania and Serbia (8 percent of regional GDP); the Baltic region consists of Estonia, Latvia and Lithuania (2 percent of regional GDP); the CIS group consists of Belarus, Moldova, Russia and Ukraine (51 percent of regional GDP).

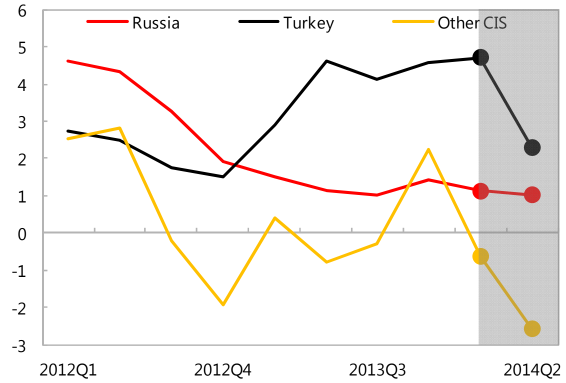
Figure 1. GDP Growth, Inflation, and Credit Growth

Quarterly GDP Growth, 2012:Q1–2014:Q2, the Baltics, CEE, Euro Area, and SEE (Percent, year-over-year)



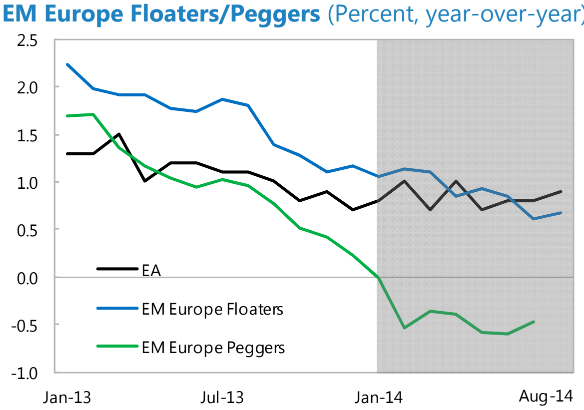
Sources: Haver Analytics; and IMF staff calculations.

Quarterly GDP Growth, 2012:Q1–2014:Q2, Other CIS, Russia, and Turkey (Percent, year-over-year)

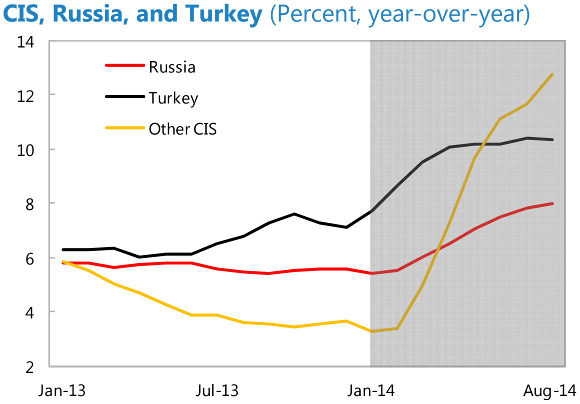


Sources: Haver Analytics; and IMF staff calculations.

Core CPI Inflation, Dec 2013–August 2014, Euro Area, EM Europe Floaters/Peggers (Percent, year-over-year)

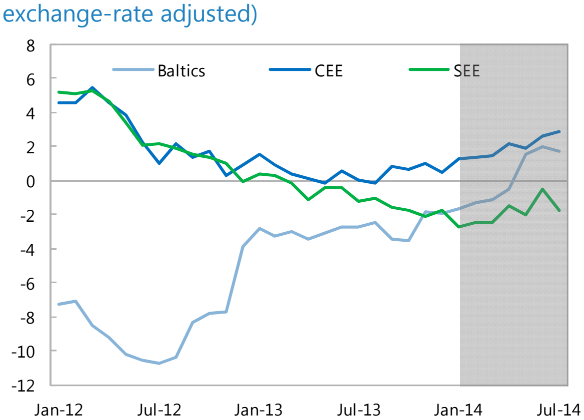


Core CPI Inflation, Dec 2013–August 2014, Other CIS, Russia, and Turkey (Percent, year-over-year)



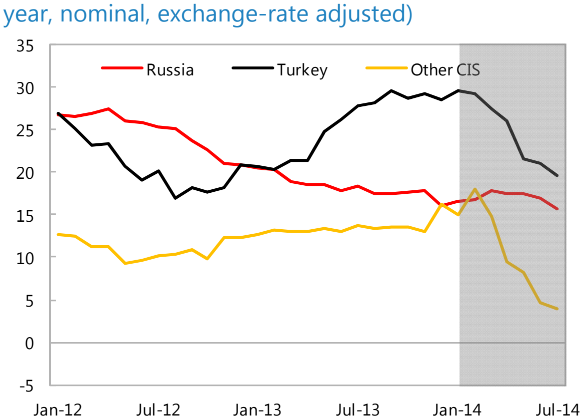
Note: Emerging market (EM) Europe peggers include Bulgaria, Croatia, Lithuania, and Macedonia. EM Europe floaters include Albania, Czech Republic, Hungary, Poland, Romania, and Serbia. Other CIS includes Belarus, Moldova, and Ukraine.
Sources: Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.

Total Credit, January 2012–July 2014, Baltics, CEE, and SEE (Percent change, year-over-year, nominal, exchange-rate adjusted)



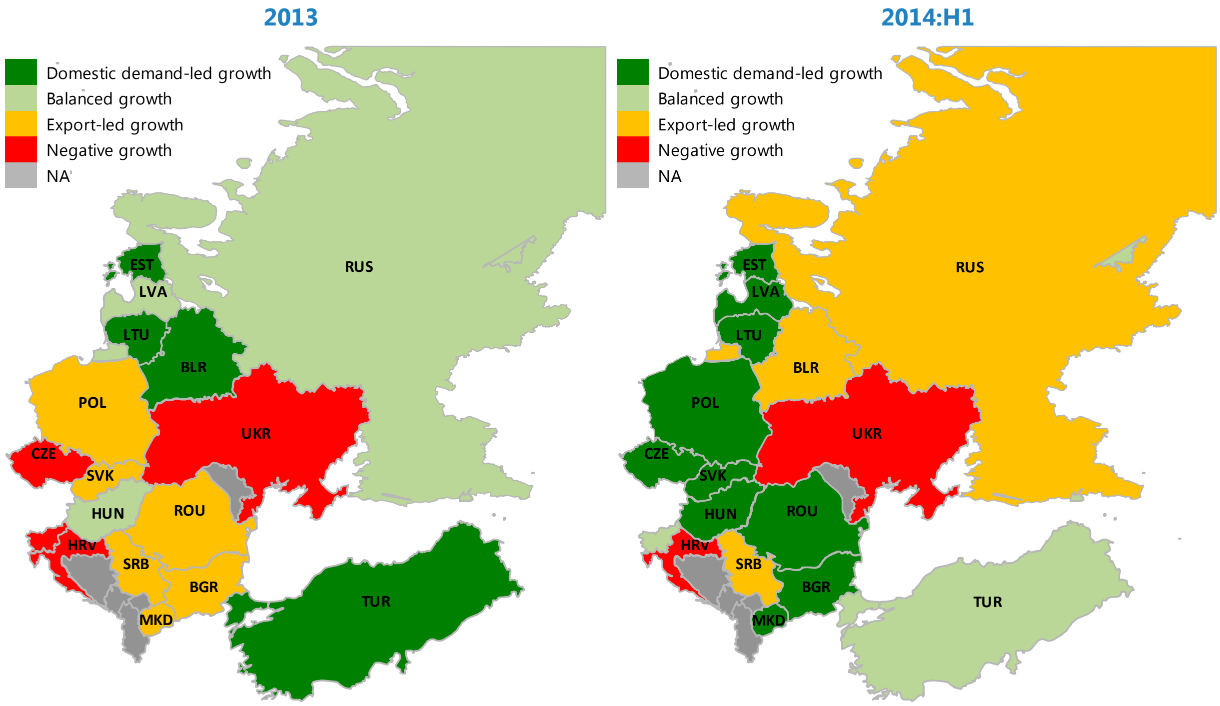
Source: European Bank for Reconstruction and Development.

Total Credit, January 2012–July 2014, Russia, Turkey, and Other CIS (Percent change, year-over-year, nominal, exchange-rate adjusted)



Source: European Bank for Reconstruction and Development.

Figure 2. Growth Composition



Note: Domestic demand-led growth means net exports contribute less than a fourth of total growth; export-led growth means domestic demand contributes less than a fourth of total growth. For Serbia 2014:H1 shows Q1 data only.
Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.

Inflation paths have continued to diverge as well, with inflation falling across most of the region, while picking up in Turkey, **Russia, and other CIS countries** (Figure 3).

- Declining world food and energy prices, only gradually-closing output gaps, and low imported inflation from the euro area have continued to pull down prices in the *CEE, SEE* and *Baltic regions* (Box 1).
- In contrast, high domestic food prices, inflation expectations, and exchange rate depreciations have kept inflation persistently high in *Russia, Other CIS,* and *Turkey*. The recent ban on food imports added to the upward pressure on prices in Russia. In Turkey, lax monetary policy contributed as well.

External funding conditions have remained supportive for most of the region, despite the start of tapering by the U.S Federal Reserve early in the year and rising geopolitical tensions surrounding Ukraine and Russia. Sovereign bond spreads of CESEE countries, excluding Russia and Ukraine, compressed during 2014:H1 to below pre-taper-talk levels on the back of low or declining policy rates in advanced economies and depressed market volatility (Figure 3). In contrast, sovereign bond spreads of Russia and Ukraine widened significantly amid intensifying geopolitical tensions, with bouts of volatility linked to the worsening of the situation in eastern Ukraine and the imposition of sanctions on Russia (Figure 3). Equities and currencies in the CIS countries came under pressure as well. For example, the Ukrainian hryvnia lost more than half its nominal value in 2014:H1, leading to tightening of capital controls and imposition of exchange restrictions.

Box 1. Are Non-Euro Area EU Countries Importing Low Inflation from the Euro Area?

This analysis shows that non-euro-area European Union (EU) countries are indeed importing low inflation from the euro area, and euro peggers are more exposed than inflation targeters. However, the key deflation drivers are falling world food and energy prices as well as related administered prices.

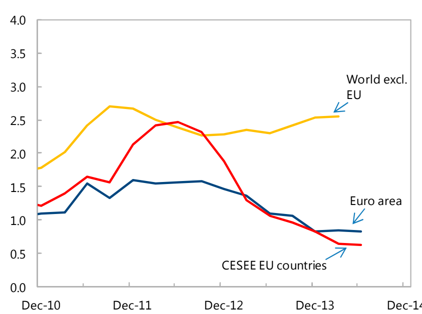
Inflation has declined sharply across Europe since 2012. At present, 12-month inflation is well below the European Central Bank's price stability objective in the euro area and in Central, Eastern, and Southeastern Europe (CESEE) EU inflation targeters, while a number of CESEE EU euro peggers are experiencing outright deflation.[1] At the same time, core inflation in the euro area and CESEE EU countries, euro peggers, and inflation targeters has decoupled from developments in the rest of the world since 2012:Q4 (Box Figure 1.1). This suggests that noncommodity price spillovers between trade partners might also have played a role in declining inflation. Domestic factors might be at play as well given that all CESEE EU countries have been experiencing a slow recovery.

A region-wide, open-economy New Keynesian Phillips curve is estimated to explain factors behind disinflation. The model is estimated with panel data for the 10 current, non-euro-area EU countries over the period 2004–14. The regression specification captures the average response of headline inflation across the region to a set of global and domestic factors, while allowing for country-specific inflation spillovers from the euro area. Explanatory variables include expected inflation, the unemployment gap, exchange rate movements, and the contribution of taxes and administered prices to headline inflation.

Regression-based variance decomposition shows that disinflation across the CESEE EU has been primarily driven by external factors, with spillovers from the euro area playing an important role (Box Figure 1.2):

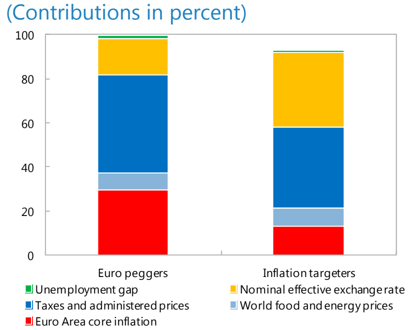
- *Changes in world food and energy prices,* together with related changes in administered prices and taxes, have accounted for about two-thirds of headline inflation variance in both CESEE EU euro peggers and inflation targeters since end-2011.
- *Disinflation spillovers from the euro area* have been an important factor for euro peggers, and to a smaller extent for inflation targeters. The contribution of euro area core inflation to the variance is about 30 percent in euro peggers and half that in inflation targeters.
- *Nominal effective exchange rates* also play an important role, particularly in inflation-targeting countries.
- Since 2004, the *unemployment gap* has accounted for a greater share of inflation variance in CEE euro peggers than in inflation targeters, but its contribution to the most recent disinflation episode has been very small. This is consistent with the empirical finding of a flattening of the Phillips curve across advanced economies after 2008 (see Chapter 3 in the April 2013 *World Economic Outlook*).

Box Figure 1.1. Core Inflation
(12-month growth rate in percent)



Note: Data for CESEE EU countries are weighted averages, using country Harmonised Index of Consumer Prices (HICP) weights for 2013. Data for the world excluding EU countries are weighted averages, using country GDP weights.
Sources: Eurostat; Haver Analytics; and IMF staff calculations.

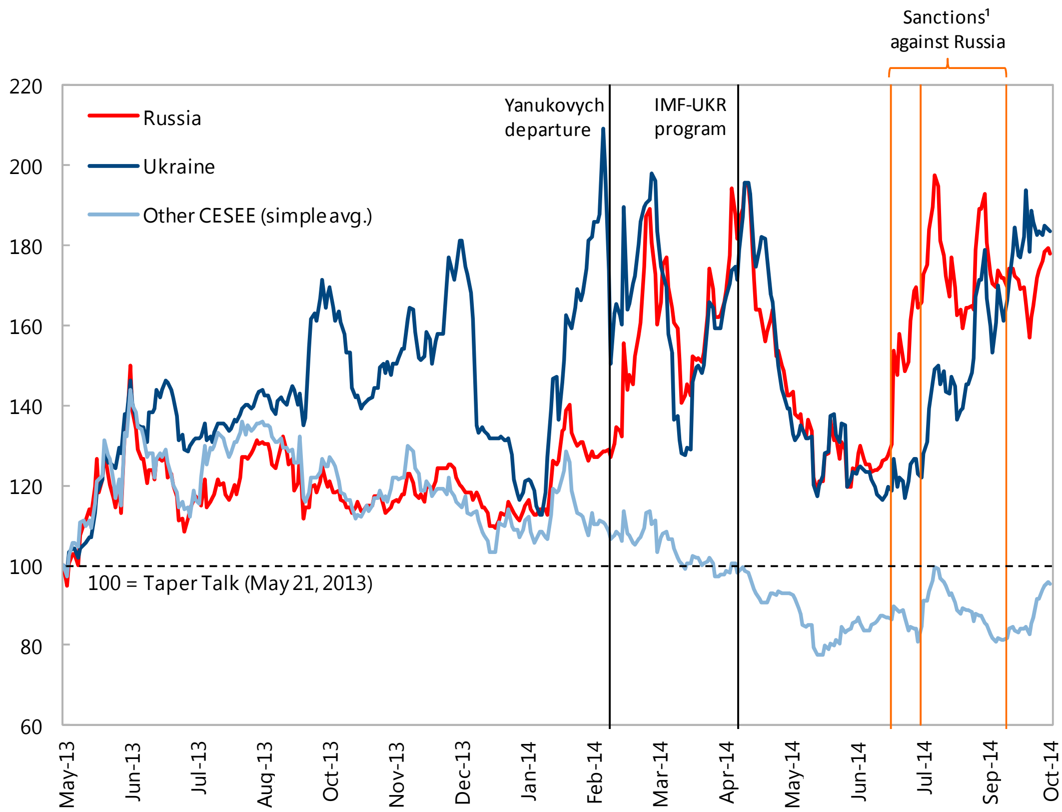
Box Figure 1.2. Headline Inflation Variance Decomposition, 2012:Q1–2014:Q1
(Contributions in percent)



Note: Inflation variances are normalized to the variance of CEE euro peggers. Based on full-sample regression coefficients.
Source: IMF staff calculations.

[1] Inflation-targeting CESEE EU countries are the Czech Republic, Hungary, Poland, and Romania, while euro peggers included in this analysis are Bulgaria, Croatia and Lithuania. Source: The analysis in this box is based on Iossifov and Podpiera (forthcoming).

Figure 3. EMBIG Spreads Indices
(May 21, 2013 = 100)

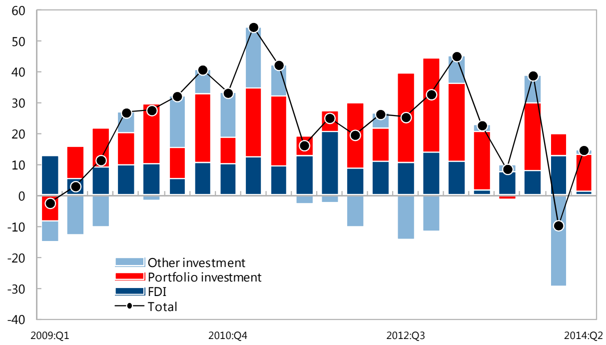


Note: Sanctions include U.S. and EU sanctions imposed on Russian banks and corporates. EMBIG = Emerging Markets Bond Index Global.
Source: Bloomberg L.P.

After turning negative in 2014:Q1, net capital flows recovered in 2014:Q2 (Figure 4). The region, excluding Russia, saw a sharp decline in net capital flows in 2014:Q1 due to resident outflows, partly reflecting debt repayments, and a pick-up in bank deleveraging, while net portfolio flows remained positive. In Russia, portfolio flows were negative. External bond issuance by CESEE sovereigns and corporates remained strong in 2014:H1, apart from the Russian corporates that have been shut out of the international markets since March 2014 (with a brief respite in June). Western parent banks have continued to scale back cross-border funding to CESEE, with cumulative reductions to date amounting to 4½ percent of the region's GDP. Latest bank surveys suggest that weaknesses in domestic banking systems across CESEE are prompting foreign banks to take a more differentiated approach across countries, which is contributing to the uneven credit recovery (Box 2).

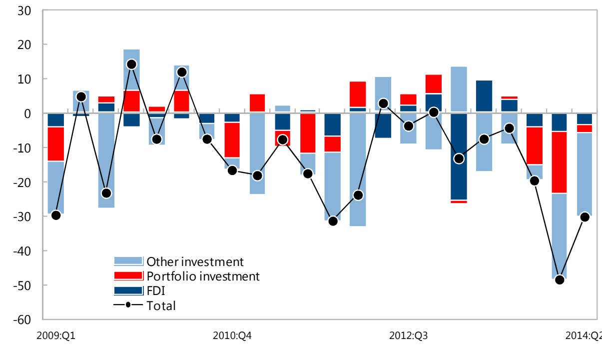
Figure 4. External Funding and Domestic Credit Developments

Net Capital Flows: CESEE excluding Russia
(Billions of U.S. dollars)



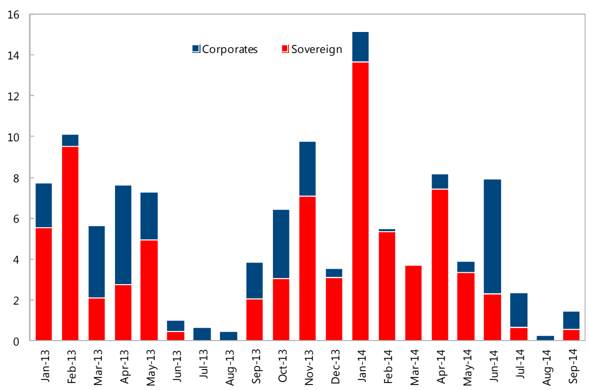
Note: FDI = foreign direct investment.
Sources: EPFR; and Haver Analytics.

Net Capital Flows: Russia
(Billions of U.S. dollars)



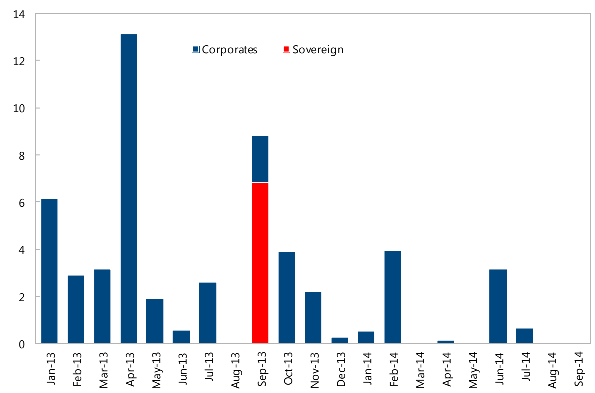
Note: FDI = foreign direct investment.
Sources: EPFR; and Haver Analytics.

International Bond Issuance: CESEE excluding Russia (Billions of U.S. dollars)



Source: Dealogic.

International Bond Issuance: Russia
(Billions of U.S. dollars)



Source: Dealogic.

Box 2. Foreign Bank Funding and Credit Growth in CESEE

Funding by foreign banks to Central, Eastern, and Southeastern Europe (CESEE) has been on a declining trend since late 2008, in part reflecting unwinding of the pre-crisis credit boom. Foreign banks now appear to be taking a more differentiated approach across countries, reflecting differences in domestic bank fundamentals and growth prospects. Countries with healthier fundamentals are seeing a resumption in foreign bank funding, as well as domestic deposit and credit growth.

Funding by foreign banks to the CESEE region has continued to fall since late 2008, with the intensity of the reduction varying across countries (Box Figure 2.1). The overall external position of Bank for International Settlements (BIS) reporting banks vis-à-vis the region declined from nearly US$1 trillion in 2008:Q4 to around US$775 billion in 2014:Q1, a reduction of over 20 percent that was equivalent to 4½ percent of the region's GDP in 2013. This reduction has been uneven for CESEE countries, in part related to unwinding of previous unsustainable credit booms, with some (Latvia and Estonia) seeing cumulative gross declines of foreign bank funding close to 40 percent of GDP, and others (Albania and Macedonia) experiencing a short deleveraging spell resulting in overall positive inflows during this period.

Both external and domestic factors have contributed to funding reductions by foreign banks. Externally, some foreign banks were confronted with liquidity and capital shortages after the outbreak of the crisis, and saw themselves forced to stop new lending to CESEE countries or even cut back exposure (see IMF, 2013a). Domestically, lower demand for credit and tighter lending standards also contributed to credit contraction. The growth of domestic deposits in the banking system—partly reflecting the swing of current accounts into surplus—helped offset the reduction of liabilities vis-à-vis parent banks. Econometric analysis shows that weaker macroeconomic and banking sector fundamentals and a high degree of reliance on parent funding are related to larger foreign bank funding reductions (IMF, 2014).

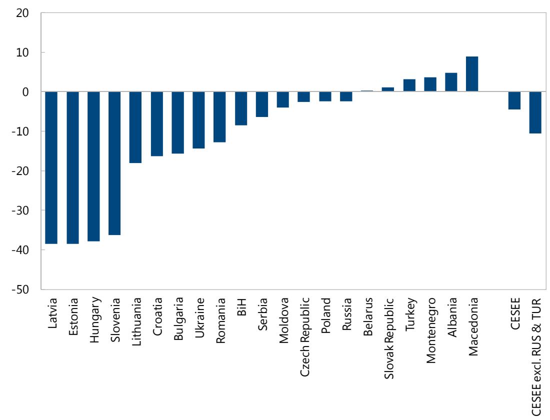
Deleveraging by foreign banks had a clear bearing on the credit slowdown. Since 2008, credit growth of foreign bank subsidiaries, on average, has slowed more than that of domestic banks (Box Figure 2.2). Most of the credit slowdown by foreign bank subsidiaries in excess of that by domestic banks can be explained by the worsening of parent banks' fundamentals (IMF, 2013a). At the aggregate level, there is a strong positive correlation between foreign bank funding reductions and the credit slowdown that is not explained by domestic demand in CESEE countries (Box Figure 2.3).

But there are some green shoots. The still accommodative external funding conditions, supported by current European Central Bank policies, along with recovering domestic demand, will help mitigate deleveraging pressures. To the extent the Asset Quality Review/stress tests of the euro area banks (to be completed in October 2014) will help restore confidence and complete the repair of bank balance sheets, this will be a positive factor for CESEE. The growth in domestic deposits in the region is also increasingly offsetting the negative impact of funding reductions (Box Figure 2.4).

While these developments point to favorable conditions for the resumption of credit, there are also constraining factors. In the near term, high levels of nonperforming loans (NPLs) and uncertainty surrounding the regulatory environment are key concerns for banks, and have led them to take a more differentiated strategy across countries (EIB, 2014, Box Figures 2.5–2.6). This underscores the importance of addressing high levels of NPLs and overleveraged private balance sheets for resumption of credit growth.

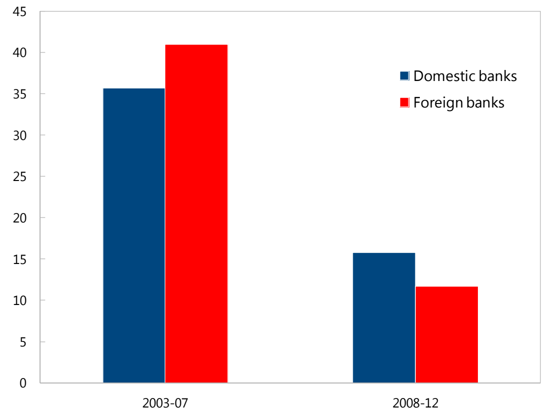
Box 2. Foreign Bank Funding and Credit Growth in CESEE (concluded)

Box Figure 2.1. External Positions of BIS Reporting Banks (Change, percent of 2013 GDP, foreign-exchange-adjusted, vis-à-vis all sectors)



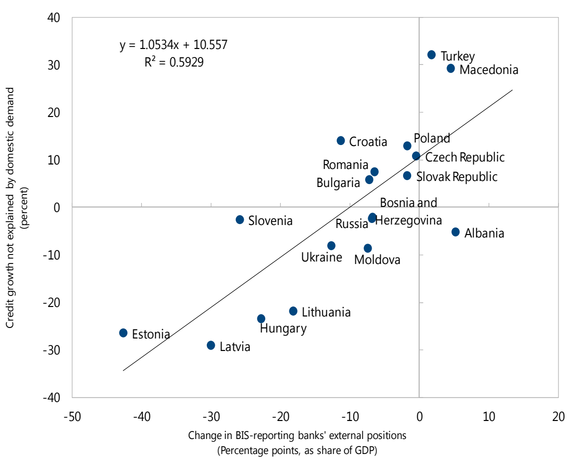
Sources: BIS; IMF, WEO database; and IMF staff calculations.

Box Figure 2.2. Average Annual Credit Growth by Banks (Percent)



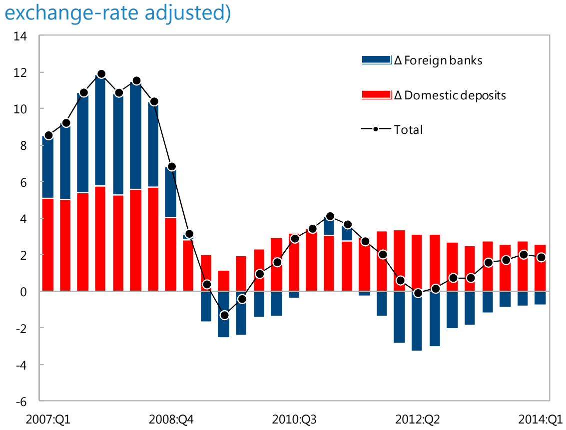
Sources: BankScope; IMF staff calculations.

Box Figure 2.3. Deleveraging and Credit Growth, 2008–13 (Percent)



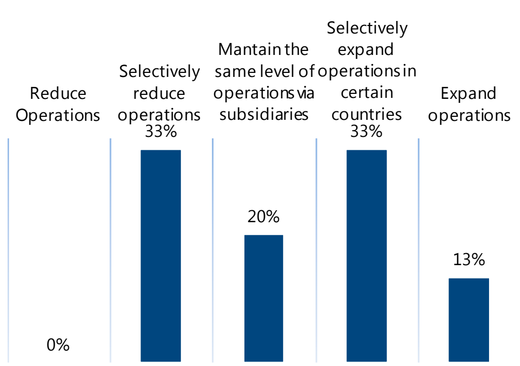
Note: Residuals from regressing cumulative credit growth on cumulative domestic demand growth between 2008 and 2013. Sources: Bank for International Settlements; IMF, World Economic Outlook database; and IMF staff estimates.

Box Figure 2.4. Evolution of Main Bank Funding Sources, 2007:Q1–2014:Q1 (Percent of GDP, year-over-year, exchange-rate adjusted)



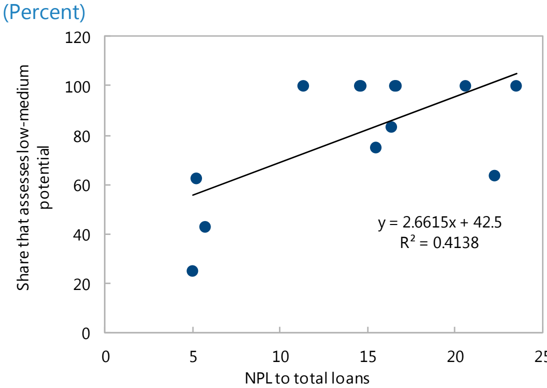
Note: CESEE excluding Russia and Turkey; changes in the stock of BIS banks' exposure and domestic deposits in percent of GDP. Excludes Latvia prior to 2011:Q3, Montenegro, and Kosovo because of data unavailability. Sources: Bank for International Settlements; IMF, International Financial Statistics and WEO databases; and IMF staff calculations.

Box Figure 2.5. Longer-Term Operations in CESEE—Groups' Intentions (Percent)



Source: European Investment Bank (2014).

Box Figure 2.6. Nonperforming Loans and Foreign Banks' Perception of Market Potential in CESEE Countries (Percent)



Source: European Investment Bank (2014); and IMF, Financial Soundness Indicators.

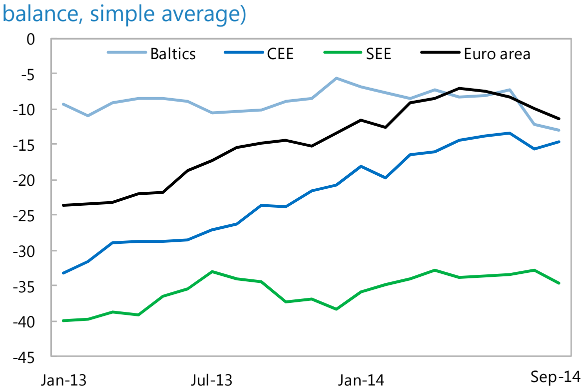
II. OUTLOOK AND RISKS

Growth is projected to weaken in 2014, with downward revisions relative to the April 2014 REI reflecting mostly the impact of Ukraine-Russia tensions, but then recover gradually in 2015. The outlook is subject to significant downside risks, including a protracted period of weak growth in the euro area, sustained Ukraine-Russia tensions, and surges in global financial market volatility.

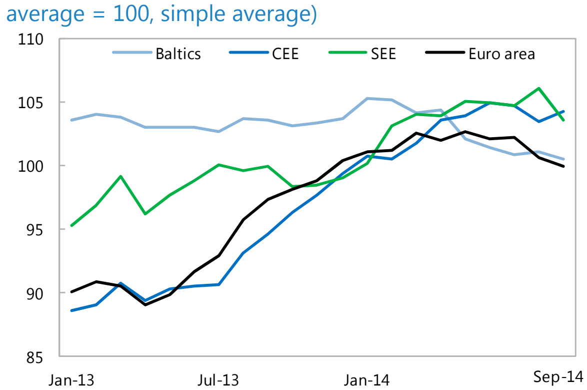
High frequency indicators point to a weakening in activity and confidence in recent months. Despite the policy actions by the European Central bank (ECB) announced over the summer—including targeted long-term refinancing operations for euro area banks and, more recently, a reduction of all policy rates as well as the announcement of programs for the outright purchase of asset-backed securities and covered bonds—leading euro area indicators (such as the Purchasing Managers Index) signal lingering weaknesses. Both consumer and business confidence in CEE and Baltic countries, as well as in the euro area, dipped in recent months (Figure 5). Lower confidence appears to be partly due to geopolitical uncertainties, as evidenced in greater effect on CESEE countries with stronger links to Russia (Figure 5). There is also some evidence, albeit weaker, that dips in confidence were larger in Western European countries with stronger ties to CESEE. Further weakening of confidence and activity in the euro area will have knock-on effects on CESEE.

Figure 5. Consumer and Business Confidence

Consumer Confidence (Seasonally Adjusted, percent balance, simple average)

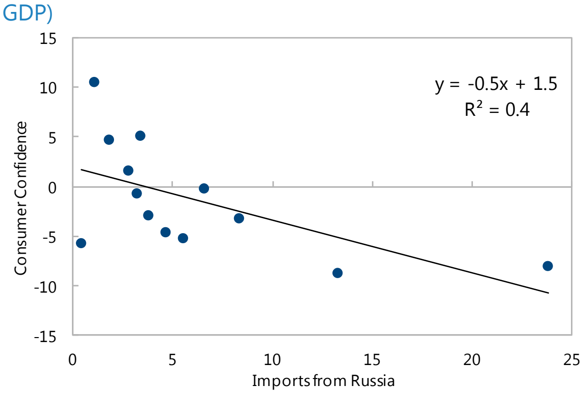


Business Confidence (Seasonally Adjusted, long-term average = 100, simple average)

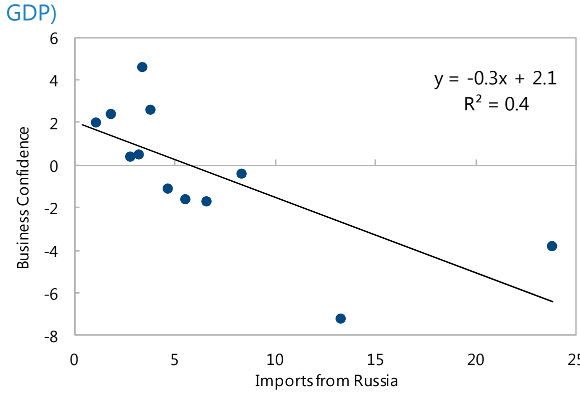


Note: SEE includes Bulgaria, Croatia, and Romania only because of data availability. Sources: Haver Analytics.

CESEE: Consumer Confidence and Imports from Russia (Change, May–September 2014; imports in percent of GDP)



CESEE: Business Confidence and Imports from Russia (Change, May–September 2014; imports in percent of GDP)



Note: Sample includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia, and Turkey. For Turkey, business confidence shows the change between May and August 2014 due to data availability. Sources: Haver Analytics; IMF, Direction of Trade database; and IMF staff calculations.

As a result, growth in the region will be weaker in 2014, with significant differences in outlook across subregions. Overall, GDP growth is expected to fall to 1.2 percent in 2014 from 1.8 percent in 2013 (Figure 6). Growth is projected to weaken in most of the region relative to 2013, but most dramatically in Russia and other CIS countries, largely due to geopolitical tensions (see below). Growth in Russia has been revised down to 0.2 percent from 1.3 percent in the April 2014 REI. In contrast, growth in CEE is expected to almost triple in 2014 relative to 2013, despite some softening in 2014:H2.

For 2015, growth is projected to strengthen, as geopolitical tensions are assumed to ease gradually and sanctions and counter-sanctions are lifted or expire over the coming year. Growth in CESEE is expected to accelerate to 1.7 percent, on the back of improving net export in Russia and recovering domestic demand growth—both consumption and investment—in the rest of CESEE.

Inflation paths are expected to continue to diverge across CESEE. Consensus forecasts show continued upward revisions for inflation in 2015 for the CIS and Turkey, and downward revisions elsewhere (Figure 6). In Turkey and several CIS countries, high inflation in 2014 is feeding into inflation expectations for 2015. In CEE and SEE countries, on the other hand, inflation is projected to stay low in 2014 and, following declines in core inflation, expectations have gradually set in for lower inflation in 2015. However, the risk of a deflationary spiral appears limited to date, as survey data suggest prices are expected to rise in the next 12 months.

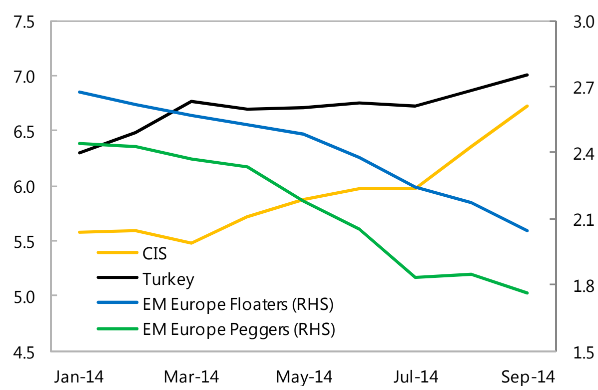
Figure 6. GDP Growth and Inflation Forecasts

Revisions to Real GDP Growth (Percent)

	REI October 2014			REI April 2014	
	2013	2014	2015	2014	2015
Baltics	3.2	2.5	3.1	3.2	3.7
CEE	0.9	2.9	2.9	2.6	2.7
SEE	2.3	1.5	2.2	1.8	2.3
Other CIS	0.5	-4.0	1.2	-2.7	2.7
Russia	1.3	0.2	0.5	1.3	2.3
Turkey	4.0	3.0	3.0	2.3	3.1
CESEE	1.8	1.2	1.7	1.6	2.5

Note: Highlighted areas are downward revisions relative to the April 2014 REI. Ukraine did not publish growth projections in the April 2014 REI, so program forecasts (published on May 1, 2014) were used instead.
Source: IMF, World Economic Outlook database.

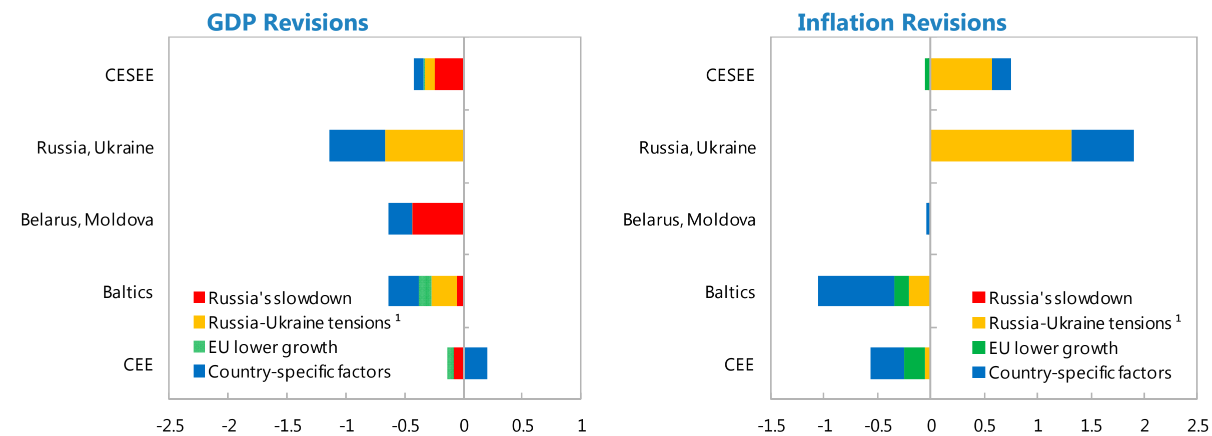
Consensus Inflation Forecast, 2015 (Percent)



Note: EM Europe peggers include Bulgaria, Croatia, Lithuania, and Macedonia. EM Europe floaters include Albania, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Serbia, Slovak Republic, and Slovenia. The CIS includes Belarus, Moldova, Russia, and Ukraine.
Sources: Consensus Forecasts; IMF, World Economic Outlook database; and IMF staff calculations.

The markdown of 2014 growth prospects in CESEE is largely due to Ukraine-Russia tensions, sanctions, and counter-sanctions, and to the slowdown of the Russian economy. Most of the downward revision in 2014 growth from the April 2014 REI is due to the impact of Ukraine-Russia tensions and related U.S. and EU sanctions and Russian counter-sanctions. The estimated impact is largest on Russia and Ukraine, followed by Belarus and Moldova (due to slowdown in Russia), and the Baltics (due to Russia's ban on food imports) (Figure 7). For CEE, which has less tight links with Russia, the impact is so far estimated to be limited due to the ability to partially redirect banned exports. While counter-sanctions are expected to raise inflation in Russia by as much as 1.5 percentage points, inflation in CEE and SEE countries is estimated to be only marginally lower due to falling food prices amid domestic oversupply resulting from the import ban (Figure 7).

Figure 7. Key Drivers of GDP and Inflation Forecast Revisions (October vs. April 2014 REIs)



[1]"Russia-Ukraine tensions" refers to the effects from the conflict in eastern Ukraine, sanctions against Russia, and Russian counter-sanctions. The April 2014 REI forecast for Ukraine was not published, so the program forecast (published on May 1, 2014) was used instead as a base for revisions.

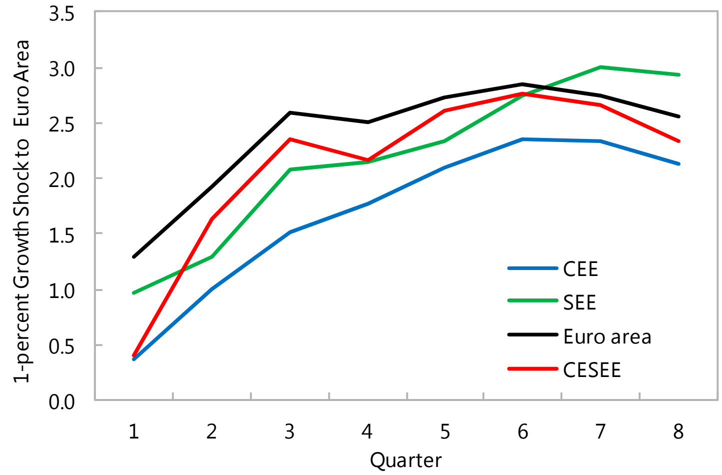
Source: IMF country teams' estimates.

The near-term outlook for the region is subject to significant downside risks, as outlined below.

A protracted period of slow growth and persistently low inflation in the euro area: Weaker-than-expected Q2 data and flattening leading indicators may signal a more protracted slowdown in the euro area than currently envisaged, which would imply negative spillovers to growth and inflation in the region. Vector autoregression simulations show that a negative growth shock in the euro area translates into nearly a one-to-one decline in growth in CESEE (Figure 8), both on impact and over the subsequent six to eight quarters (Figure 8).

Figure 8. Growth Spillover from the Euro Area to CESEE

(Accumulated response of GDP, percent)



Source: IMF staff calculations.

Renewed surges in global financial market volatility: The region's high dependence on foreign funding makes it particularly vulnerable to a tightening in global financial conditions and spikes in financial market volatility. The April 2014 REI provided an in-depth analysis of CESEE sensitivities to these risks, taking into account the countries' stock and flow exposures and external imbalances (IMF, 2014). An update of this exercise based on the latest data still identifies Croatia, Hungary, Serbia, Belarus, Ukraine, and Turkey as relatively more vulnerable compared to other CESEE countries to external financial shocks.

Sustained tensions surrounding Ukraine/Russia: While nonenergy trade links with Russia and Ukraine are sizable for only a few neighboring countries, most CESEE countries depend heavily on Russian gas supplies, a large share of which is transported via Ukraine.[2] Thus, any price increases or disruptions in Russian gas supplies would have a strong negative impact on countries where gas imports from Russia account for a significant part of total energy consumption, particularly countries with limited short-term replacement options (Figure 9). Even countries with replacement options would be affected through potentially higher gas prices and an adverse effect on the still-fragile recovery.

An oil price spike due to conflicts in the Middle East: An escalation of conflicts could lead to disruptions in global oil production, causing a sharp rise in prices. Given that all countries in the region are oil importers (with the exception of Russia), the impact on the region could be significant (Figure 9). Analysis based on the oil shock scenario presented in the October 2014 *World Economic Outlook* shows that a potential cumulative loss of output could range between 0.3 to 1.7 percent across CESEE countries, excluding Russia.[3] While the impact of the oil price shock on the region is on

[2] See the April 2014 CESEE REI and the IMF Direct blog (http://blog-imfdirect.imf.org/2014/08/01/europes-russian-connections/) for a discussion of CESEE countries' trade, financial, and energy links to Russia.

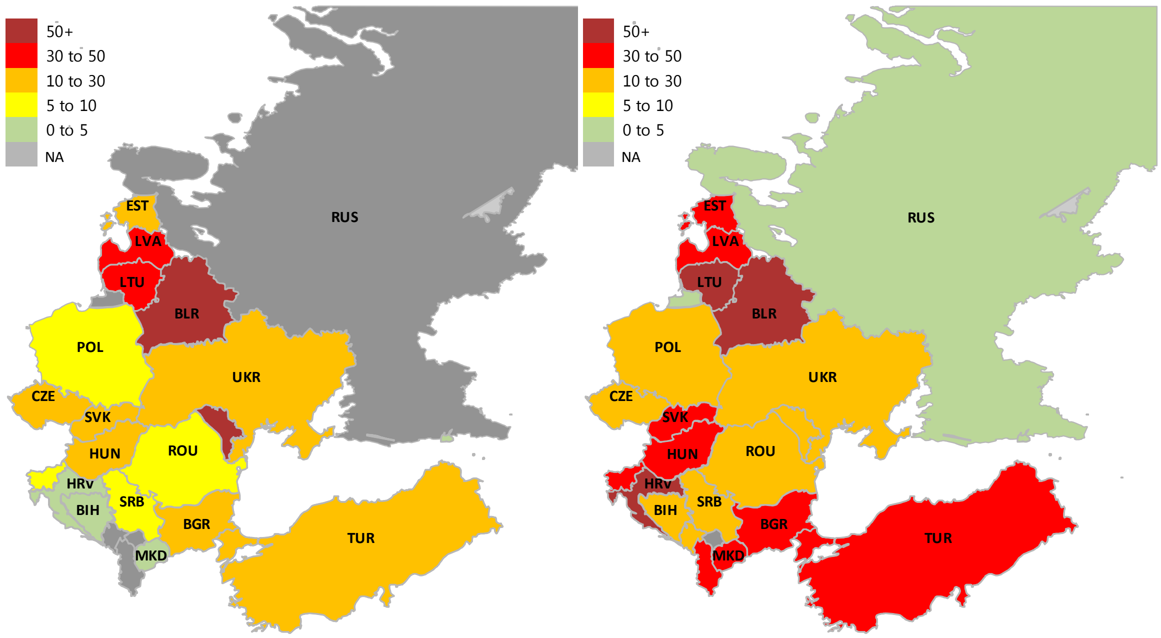
[3] The estimates are based on simulations using IMF's Flexible System of Global Models done by Patrick Blagrave (IMF's Research Department).

average similar to that in other emerging market regions, the impact on investment would be larger due to its greater dependence on oil imports as well as greater openness, which makes these countries more vulnerable to the decline in external demand.

Figure 9. Dependence on Energy Imports

Russian Gas Imports (Percent of total energy consumption, 2012)

Oil Imports (Percent of total energy consumption, 2013 or latest)



Sources: BP; Eurostat; International Energy Agency; Organization for Economic Cooperation and Development; and U.S. Energy Information Administration.

Table 1 summarizes the relative likelihood of these risks and IMF staff's assessment of their impact on CESEE. Compared with April 2014, the likely impact of protracted slow growth in the euro area is somewhat lower, but there is a new risk of an oil price spike due to conflicts in the Middle East.

Table 1. CESEE Regional Risk Assessment Matrix

Source of Risks	**Relative Likelihood**	**Relative Impact**
Lower-than-anticipated potential growth and persistently low inflation in the euro area	**High**	**Medium**
Surges in global financial market volatility	**High**	**Medium**
Sustained Ukraine/Russia tensions depressing business confidence and heightening risk aversion	**Medium**	**Medium-High**
A sharp rise in oil prices (due to Middle East conflicts)	**Medium**	**Low-Medium**

Note: The relative likelihood of risks reflects subjective assessment by IMF staff of the risks surrounding the baseline. "Low" indicates a probability below 10 percent, "Medium" indicates a probability of 10–30 percent, and "High" indicates a probability of 30 percent or more. Relative impact reflects aggregated country team assessments.

III. POLICY PRIORITIES

Securing robust recovery remains the key near-term priority, while lifting potential growth is the main medium-term goal. Significant external risks facing CESEE countries also put a premium on having adequate buffers and credible policy frameworks.

Recovery in corporate credit and investment is essential for robust and balanced growth. Some countries, where the process of private balance sheet repair is still not complete (including many in SEE), need a comprehensive strategy to address corporate debt overhang and the large stock of nonperforming loans. Such a strategy should include fostering more out-of-court debt workouts and addressing legal, regulatory and tax impediments to NPL disposals for banks, as well as promoting more distressed asset sales (see European Banking Coordination "Vienna" Initiative, 2012).

In view of significant downside risks, CESEE countries should continue reducing vulnerabilities and rebuilding buffers. For some countries, urgent actions are needed to ensure fiscal sustainability (e.g., Croatia and Serbia), while others (e.g., Belarus, Ukraine, and Turkey) need to reduce external imbalances. In the event of external funding shocks, countries should use monetary and exchange rate flexibility where possible, and let automatic stabilizers operate if there is fiscal space. In the judgment of IMF country teams, only half of the countries in the region have fiscal policy space, i.e., room to allow automatic stabilizers full play in the event of an economic downturn without jeopardizing longer term fiscal sustainability. Conventional monetary policy space is also limited (less than a quarter of countries), as is exchange rate flexibility (less than half) (Figure 10). Some countries that have conventional monetary policy space may actually not be able to use it fully given financial stability concerns related to net foreign exchange open positions (e.g., Hungary). Only two countries, Poland and Romania, show flexibility on all three policy fronts.

Figure 10. CESEE Countries: Policy Space

CESEE country	Fiscal policy space	Monetary policy space	Exchange rate flexibility
Some policy space			
Albania	🔴	🟢	🟢
Belarus	🔴	🔴	🟢
Bosnia and Herzegovina	🟢	🔴	🔴
Bulgaria	🟢	🔴	🔴
Czech Rep	🟢	🔴	🟢
Estonia	🟢	🔴	🔴
Hungary	🔴	🟢	🟢
Latvia	🟢	🔴	🔴
Lithuania	🟢	🔴	🔴
Moldova	🔴	🔴	🟢
Montenegro	🟢	🔴	🔴
Poland	🟢	🟢	🟢
Romania	🟢	🟢	🟢
Russia	🟢	🔴	🟢
Serbia	🔴	🟢	🟢
Turkey	🟢	🔴	🟢
No policy space			
Croatia	🔴	🔴	🔴
Kosovo	🔴	🔴	🔴
Macedonia	🔴	🔴	🔴
Slovak Republic	🔴	🔴	🔴
Slovenia	🔴	🔴	🔴
Ukraine	🔴	🔴	🔴

Source: IMF country teams.
Note: Fiscal policy space indicates a country's ability to allow for automatic stabilizers to work in a downturn, based on IMF staff assessment; monetary policy space reflects space based on conventional metric, i.e., a flexible exchange rate regime, below-target inflation, and a policy rate above zero bound; and exchange rate flexibility indicates nonpegged regimes outside the euro area. Green = data available; red = data not available.

Given their high energy import dependence, CESEE countries need to make a concerted effort to improve their resilience to energy shocks. This could be achieved, for example, through a more integrated regional energy market to help pool energy reserves and limit the impact of energy shocks on individual countries.

The CESEE region faces disparate inflation risks across countries.

- When facing *deflation risks*, which may endanger public debt dynamics and slow private deleveraging, inflation-targeting countries should stand ready to respond by frontloading monetary easing in the event of a negative feedback loop between falling inflation expectations and actual inflation. The space for policy maneuver will also depend on the financial stability considerations.

- For countries facing *high inflation*, policies should aim to reestablish a nominal anchor (Turkey) or further tighten monetary policy while supporting confidence in the currency (Russia).

Lifting potential growth is a key medium-term goal for CESEE countries, as for most EMs. The policy agenda is well known and requires simplifying regulations, reducing barriers to entry, and improving functioning of the labor market, particularly in SEE (for more details, see IMF 2013b). For many CIS and some SEE countries, the transition agenda remains incomplete. For these countries, competitiveness could be strengthened by improving governance and transparency, increasing the role of the private sector, and accelerating the restructuring of loss-making state-owned enterprises. For CESEE countries in the EU, boosting absorption of EU funds to improve the infrastructure would also help improve competitiveness.

ANNEXES

Table A1. CESEE: Growth of Real GDP, Domestic Demand, Exports, and Private Consumption, 2012–15

(Percent)

	Real GDP Growth				Real Domestic Demand Growth				Real Export Growth (goods and services)				Real Private Consumption Growth			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
Baltics[1]	4.3	3.2	2.5	3.1	1.4	2.5	3.6	4.2	10.3	5.5	2.9	4.1	4.7	4.8	3.6	3.7
Estonia	4.7	1.6	1.2	2.5	4.6	1.0	4.6	3.4	8.3	2.6	0.7	2.4	5.1	3.8	3.9	3.7
Latvia	5.2	4.1	2.7	3.2	2.4	2.4	2.3	4.4	9.4	1.0	2.0	2.9	5.8	5.4	2.9	3.9
Lithuania	3.7	3.3	3.0	3.3	-0.7	3.2	4.0	4.3	11.8	9.5	4.5	5.6	3.9	4.8	3.8	3.6
Central and Eastern Europe[1]	0.7	0.9	2.9	2.9	-1.6	-0.2	3.6	3.4	4.1	3.8	5.2	5.2	-0.1	0.3	2.1	2.9
Czech Republic	-1.0	-0.9	2.5	2.5	-2.9	-0.8	1.8	2.9	4.5	0.2	7.2	5.0	-2.1	0.1	1.3	2.5
Hungary	-1.7	1.1	2.8	2.3	-3.5	0.8	3.8	2.5	1.7	5.3	6.3	5.3	-1.7	0.0	1.3	1.5
Poland	2.0	1.6	3.2	3.3	0.0	-0.1	4.5	4.2	3.9	4.6	4.1	5.1	1.3	0.8	2.6	3.5
Slovak Republic	1.8	0.9	2.4	2.7	-4.5	-0.9	2.3	2.1	9.9	4.5	6.3	6.4	-0.2	-0.1	2.4	2.4
Slovenia	-2.6	-1.0	1.4	1.4	-5.6	-2.1	0.4	1.4	0.3	2.6	5.0	3.5	-3.0	-3.9	0.8	2.0
Southeastern Europe-EU[1]	0.1	2.3	1.7	2.1	0.8	-1.0	1.1	2.1	-1.0	11.1	8.0	5.8	1.3	0.2	2.8	2.3
Bulgaria	0.6	0.9	1.4	2.0	3.1	-0.8	1.0	2.4	-0.4	8.9	5.2	6.0	3.7	-2.3	0.8	2.0
Croatia	-2.2	-0.9	-0.8	0.5	-3.3	-2.8	-1.8	-0.7	0.3	3.8	1.6	4.4	-3.0	-1.3	-1.5	1.0
Romania	0.6	3.5	2.4	2.5	1.0	-0.7	1.7	2.6	-1.5	13.5	10.3	6.0	1.5	1.3	4.3	2.8
Southeastern Europe-non-EU[1]	-0.6	2.3	1.0	2.4	-1.1	-1.2	1.8	1.7	-0.2	11.0	5.5	7.3	-2.2	0.1	-0.5	0.6
Albania	1.1	0.4	2.1	3.3	-3.5	0.1	1.9	5.0	-2.8	6.7	6.5	6.8	-2.2	1.0	-1.2	3.8
Bosnia and Herzegovina	-1.2	2.1	0.7	3.5	-2.0	-0.7	6.0	0.4	-2.8	8.3	-0.4	11.7	-2.1	-0.8	5.4	-0.1
Kosovo	2.8	3.4	2.7	3.3	-1.2	1.7	2.7	4.4	0.5	2.5	1.9	2.6	2.7	2.0	2.7	2.6
Macedonia	-0.4	2.9	3.4	3.6	2.0	-0.8	3.4	3.7	0.0	4.5	9.9	9.4	-3.0	4.2	3.5	3.4
Montenegro	-2.5	3.5	2.3	3.4	-0.7	0.5	5.6	9.6	-0.9	0.1	-2.1	3.6	-5.4	3.6	5.9	5.5
Serbia	-1.5	2.5	-0.5	1.0	-0.9	-2.2	-0.9	-0.4	1.8	16.6	7.1	5.3	-1.8	-1.5	-4.7	-1.5
European CIS countries[1]	3.0	1.2	-0.3	0.6	5.3	1.4	-2.7	-0.6	1.0	2.1	-2.1	1.3	8.0	5.1	1.0	0.4
Belarus	1.7	0.9	0.9	1.5	2.6	8.9	1.0	2.0	11.2	-16.0	1.0	1.3	10.7	12.1	1.7	2.5
Moldova	-0.7	8.9	1.8	3.5	0.6	4.5	2.9	2.8	1.7	10.7	-0.3	3.8	1.0	6.5	1.7	3.4
Russia	3.4	1.3	0.2	0.5	5.6	1.2	-2.0	-0.8	1.4	4.2	-1.2	1.2	7.8	4.5	1.6	0.3
Ukraine	0.3	0.0	-6.5	1.0	3.9	0.4	-11.4	-0.3	-7.2	-8.8	-12.2	2.0	8.8	7.9	-5.6	0.8
Turkey	2.1	4.0	3.0	3.0	-1.8	6.3	1.4	3.4	16.3	0.1	7.7	4.4	-0.5	4.6	1.1	2.2
CESEE[1,2]	2.1	1.8	1.2	1.7	2.1	1.8	-0.2	1.3	4.3	3.0	2.2	3.2	4.1	3.6	1.4	1.5
Emerging Europe[1,3]	2.3	1.9	1.1	1.7	2.5	1.9	-0.3	1.2	4.2	3.1	1.9	3.1	4.5	3.8	1.3	1.4
New EU member states[1,4]	0.8	1.4	2.6	2.7	-0.8	-0.3	3.0	3.1	3.3	5.7	5.7	5.2	0.6	0.6	2.3	2.8
Memorandum																
Euro Area[1]	-0.7	-0.4	0.8	1.3	-2.2	-0.9	0.7	1.0	2.5	1.4	3.5	4.2	-1.3	-0.7	0.7	1.2
European Union[1]	-0.3	0.2	1.4	1.8	-1.4	-0.4	1.4	1.6	2.3	2.1	3.3	4.3	-0.6	0.0	1.2	1.7

Source: IMF, World Economic Outlook database.

[1] Weighted average. Weighted by GDP valued at purchasing power parity.

[2] Includes Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovak Republic, Slovenia, Turkey, and Ukraine.

[3] CESEE excluding Czech Republic, Estonia, Latvia, Slovak Republic, and Slovenia.

[4] Includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.

Table A2. CESEE: CPI Inflation, Current Account Balance, and External Debt, 2012–15

(Percent)

	CPI Inflation (Period average)				CPI Inflation (End of period)				Current Account Balance to GDP				Total External Debt to GDP			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
Baltics[1]	3.1	1.3	0.5	1.4	2.7	0.6	0.6	2.2	-1.4	0.1	-0.1	-1.0	100.7	94.1	90.9	89.4
Estonia	4.2	3.2	0.8	1.5	3.6	2.0	0.5	2.0	-2.1	-1.4	-2.2	-2.4	104.0	96.6	97.7	101.1
Latvia	2.3	0.0	0.7	1.6	1.6	-0.4	0.8	2.9	-2.5	-0.8	-0.1	-1.5	139.1	134.7	128.0	121.9
Lithuania	3.2	1.2	0.3	1.3	2.9	0.5	0.5	1.8	-0.2	1.5	0.9	0.1	73.1	65.7	62.4	61.4
Central and Eastern Europe[1]	3.9	1.2	0.2	1.3	2.9	0.8	0.6	1.7	-1.7	-0.1	-0.1	-0.5	78.2	77.8	73.8	69.7
Czech Republic	3.3	1.4	0.6	1.9	2.4	1.4	1.4	2.0	-1.3	-1.4	-0.2	-0.3	52.2	56.1	54.4	52.0
Hungary	5.7	1.7	0.3	2.3	5.0	0.4	1.8	2.8	0.9	3.0	2.5	2.0	131.5	120.6	115.0	108.4
Poland	3.7	0.9	0.1	0.8	2.4	0.7	0.0	1.5	-3.7	-1.4	-1.5	-2.1	74.2	73.3	68.1	63.3
Slovak Republic	3.7	1.5	0.1	1.3	3.4	0.4	0.7	1.4	2.2	2.1	1.9	2.2	77.6	85.9	82.5	81.3
Slovenia	2.6	1.8	0.5	1.0	2.6	0.7	0.6	1.2	3.5	6.8	5.9	5.8	89.1	83.2	90.6	93.1
Southeastern Europe-EU[1]	3.2	3.0	0.7	2.1	4.5	0.9	1.6	2.3	-2.9	-0.2	-0.4	-1.1	86.6	82.3	75.8	70.9
Bulgaria	2.4	0.4	-1.2	0.7	2.8	-0.9	0.0	1.3	-0.9	1.9	-0.2	-2.3	96.6	96.5	96.5	92.3
Croatia	3.4	2.2	-0.3	0.2	4.7	0.3	-0.1	0.4	-0.1	0.9	2.2	2.2	105.4	110.6	106.8	102.4
Romania	3.3	4.0	1.5	2.9	5.0	1.6	2.5	3.0	-4.4	-1.1	-1.2	-1.8	77.3	69.7	61.2	56.4
Southeastern Europe-non-EU[1]	4.8	4.4	1.7	2.5	7.3	1.5	2.1	3.1	-10.3	-6.7	-8.2	-8.1	74.0	73.0	70.8	68.2
Albania	2.0	1.9	1.8	2.7	2.4	1.9	1.8	3.0	-10.0	-10.4	-11.0	-12.7	36.5	36.3	39.5	41.4
Bosnia and Herzegovina	2.0	-0.1	1.1	1.5	2.0	-0.1	1.1	1.5	-9.3	-5.4	-11.0	-9.1	52.2	50.8	54.6	54.2
Kosovo	2.5	1.8	1.0	1.6	3.7	0.5	1.7	1.2	-7.5	-6.4	-7.2	-7.6	...	...	...	...
Macedonia	3.3	2.8	1.0	1.5	4.7	1.4	0.6	2.3	-3.0	-1.9	-4.6	-5.7	70.8	75.4	70.3	67.7
Montenegro	3.6	2.2	-0.6	1.3	5.1	0.3	0.4	1.3	-18.7	-14.6	-17.8	-23.7	115.1	118.9	121.0	127.0
Serbia	7.3	7.7	2.3	3.4	12.2	2.2	3.3	4.2	-12.3	-6.5	-6.1	-5.1	92.0	88.0	82.7	77.4
European CIS countries[1]	6.9	6.5	8.3	8.3	6.5	6.3	9.7	7.2	2.4	0.4	2.0	2.3	35.8	38.2	40.0	41.3
Belarus	59.2	18.3	18.6	16.9	21.8	16.5	18.4	17.0	-2.9	-10.1	-8.5	-7.4	54.2	54.1	52.1	51.3
Moldova	4.6	4.6	5.1	5.7	4.0	5.2	5.0	6.5	-6.8	-4.8	-6.2	-7.3	82.2	83.2	87.2	85.6
Russia	5.1	6.8	7.4	7.3	6.6	6.5	8.3	6.5	3.5	1.6	2.7	3.1	31.5	34.1	35.3	36.5
Ukraine	0.6	-0.3	11.4	14.0	-0.2	0.5	19.0	9.0	-8.1	-9.2	-2.5	-2.5	76.5	78.6	102.2	106.4
Turkey	8.9	7.5	9.0	7.0	6.2	7.4	9.0	7.1	-6.1	-7.9	-5.8	-6.0	42.8	47.3	50.0	50.2
CESEE[1,2]	6.2	5.2	5.9	5.9	5.5	4.8	6.7	5.5	-0.6	-1.4	-0.3	-0.3	51.3	53.0	53.5	53.0
Emerging Europe[1,3]	6.4	5.5	6.3	6.2	5.7	5.0	7.2	5.7	-0.7	-1.5	-0.4	-0.4	49.3	50.9	51.5	51.1
New EU member states[1,4]	3.6	1.6	0.4	1.5	3.2	0.8	0.8	1.9	-1.9	-0.1	-0.2	-0.7	81.6	80.0	75.5	71.4
Memorandum																
European Union[1]	2.6	1.5	0.7	1.1	2.3	0.9	0.7	1.3	1.0	1.7	1.4	1.4	...	...	...	...

Source: IMF, World Economic Outlook database.

[1] Weighted average. Consumer Price Index (CPI) inflation is weighted by GDP valued at purchasing power parity, and current account balances and external debt are weighted by GDP in U.S. dollars.

[2] Includes Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovak Republic, Slovenia, Turkey, and Ukraine.

[3] CESEE excluding Czech Republic, Estonia, Latvia, Slovak Republic, and Slovenia.

[4] Includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.

Table A3. CESEE: Evolution of Public Debt and General Government Balance, 2012–15[1]

(Percent of GDP)

	General Government Balance				Public Debt			
	2012	2013	2014	2015	2012	2013	2014	2015
Baltics[2]	-1.5	-1.4	-1.3	-1.0	32.0	30.8	31.5	31.1
Estonia	-0.2	-0.2	-0.3	-0.3	9.7	9.8	10.2	10.4
Latvia[3]	0.1	-1.1	-0.8	-0.7	36.4	35.0	36.0	35.3
Lithuania	-3.3	-2.2	-2.2	-1.7	41.0	39.3	40.0	39.5
Central and Eastern Europe[2]	-3.8	-3.8	-2.9	-2.4	56.4	58.3	54.1	53.7
Czech Republic	-4.2	-1.5	-1.2	-1.4	46.2	46.0	44.4	44.4
Hungary	-2.0	-2.4	-2.9	-2.8	79.8	79.3	79.1	79.2
Poland	-3.9	-4.3	-3.2	-2.5	55.6	57.1	49.4	49.0
Slovak Republic	-4.5	-2.8	-2.9	-2.3	52.7	55.4	55.7	55.7
Slovenia[3]	-4.2	-14.3	-5.5	-4.4	53.3	70.0	77.4	75.6
Southeastern Europe-EU[2]	-2.3	-3.0	-2.8	-2.0	37.6	39.3	42.2	42.3
Bulgaria[3]	-0.5	-1.9	-2.7	-2.0	17.5	16.4	25.2	25.1
Croatia[3]	-3.3	-5.5	-4.7	-2.9	54.2	60.2	66.3	68.5
Romania	-2.5	-2.5	-2.2	-1.8	38.2	39.4	39.9	39.6
Southeastern Europe-non-EU[2]	-5.2	-4.6	-6.3	-5.9	54.9	57.9	63.4	65.0
Albania[3]	-3.5	-5.2	-6.7	-5.9	62.9	70.5	72.1	71.6
Bosnia and Herzegovina	-2.2	-1.9	-4.3	-2.5	44.6	42.5	46.1	46.0
Kosovo[3,4]	-2.6	-3.1	-2.2	-4.3	16.8	17.2	18.5	21.2
Macedonia	-3.9	-4.1	-3.5	-3.2	33.4	35.9	36.3	37.5
Montenegro[3]	-5.9	-3.2	-1.5	-6.6	54.0	58.0	60.3	62.9
Serbia[3]	-7.7	-6.0	-8.9	-8.6	62.4	65.8	75.6	79.6
European CIS countries[2]	0.1	-1.5	-1.3	-1.3	15.3	16.7	19.5	20.6
Belarus[3,5]	0.5	-0.8	-3.3	-3.6	38.5	37.0	35.7	35.1
Moldova[3]	-2.2	-1.8	-1.7	-5.4	24.5	23.8	25.4	28.0
Russia[3]	0.4	-1.3	-0.9	-1.1	12.7	13.9	15.7	16.5
Ukraine[3]	-4.3	-4.8	-5.8	-3.9	37.4	40.9	67.6	73.4
Turkey[3]	-1.9	-2.0	-2.5	-2.4	36.2	36.3	33.6	33.1
CESEE[2,6]	-1.4	-2.2	-2.1	-1.9	30.2	31.6	32.4	32.9
Emerging Europe[2,7]	-1.2	-2.2	-2.1	-1.9	28.8	30.1	30.9	31.5
New EU member states[2,8]	-3.3	-3.5	-2.7	-2.2	50.7	52.2	49.9	49.5
Memorandum								
European Union[1]	-4.2	-3.2	-3.0	-2.5	86.1	88.0	89.1	88.9

Source: IMF, World Economic Outlook database.

[1] As in the WEO, general government balances reflect IMF staff's projections of a plausible baseline, and as such contain a mixture of unchanged policies and efforts under programs, convergence plans, and medium-term budget frameworks. General government overall balance where available; general government net lending/borrowing elsewhere. Public debt is general government gross debt.

[2] Average weighted by GDP in U.S. dollars.

[3] Reported on a cash basis.

[4] Public debt includes former Yougoslav debt, not yet recognized by Kosovo.

[5] General government balance: the measure reflects augmented balance, which adds to the balance of general government outlays for banks recapitalizations and is related to called guarantees of publicly-guaranteed debt.

[6] Includes Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovak Republic, Slovenia, Turkey, and Ukraine.

[7] CESEE excluding Czech Republic, Estonia, Latvia, Slovak Republic, and Slovenia.

[8] Includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.

ABBREVIATIONS

Abbreviation	Full Name
ALB	Albania
AQR	Asset Quality Review
AUT	Austria
BGR	Bulgaria
BiH	Bosnia and Herzegovina
BIS	Bank for International Settlement
BLR	Belarus
CEE	Central and Eastern Europe
CESEE	Central, Eastern, and Southeastern Europe
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
CZE	Czech Republic
DEU	Germany
ECB	European Central Bank
EIB	European Investment Bank
EM	Emerging Markets
EMBIG	Emerging Markets Bond Index Global
EPFR	Emerging Portfolio Fund Research
EST	Estonia
EU	European Union
FIN	Finland
FDI	Foreign direct investment
GDP	Gross domestic product
GRC	Greece
HICP	Harmonised Index of Consumer Prices
HUN	Hungary
IMF	International Monetary Fund
ITA	Italy
LTU	Lithuania
LVA	Latvia
LUX	Luxembourg
MDA	Moldova
MKD	Former Yugoslav Republic of Macedonia
MNE	Montenegro
NPL	Nonperforming loan
PMI	Purchasing Managers Index
POL	Poland
REI	Regional Economic Issues
ROU	Romania
RUS	Russia
SA	Seasonally adjusted
SEE	Southeastern Europe
SRB	Serbia
SVK	Slovak Republic
SVN	Slovenia
TUR	Turkey
UKR	Ukraine
UVK	Kosovo
WEO	World Economic Outlook

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