

Recent developments: Growth in the **Europe and Central Asia** region continued to pick up in the first half of 2017, with commodity exporters and commodity importers alike achieving recovery. The region has benefited from rising oil prices, benign global financing conditions, robust growth in the Euro Area, and generally supportive policies in several large countries in the area.

Strengthening activity indicators suggest Russia continues to expand in the first half of 2017, and modest monetary easing is anticipated to support growth in the near term. Among other commodity exporters, Kazakhstan's rebound accelerated, helped by fiscal stimulus, and Azerbaijan showed some signs of improvement. However, renewed conflict in Ukraine was having negative effects, as evidenced by weak industrial production data.

Among commodity-importing economies, robust construction activity in Central Europe, for example in Hungary and Poland, signals firming investment. Early data suggest a continued recovery in Turkey despite elevated policy uncertainty amid a continued state of emergency, even after the approval of the government-proposed constitutional referendum that created a powerful executive presidency. The recession in Belarus shows some signs of abating, helped by Russia's recovery.

Outlook: Growth in Europe and Central Asia is forecast to accelerate broadly to 2.5 percent in 2017, and to 2.7 percent in 2018, supported by continued recovery among commodity exporters and unwinding of geopolitical risks and domestic policy uncertainty in major economies in the region.

Russia is expected to grow at a 1.3 percent rate in 2017 after a two-year recession and by 1.4 percent in 2018, with growth helped by gains in consumption. Kazakhstan is projected to expand at a 2.4 percent rate this year and 2.6 percent in 2018 as strengthening oil prices and an accommodative macroeconomic policy stance support economic activity. Growth in Ukraine is projected to slow to 2 percent in 2017 before accelerating to 3.5 percent in 2018. Azerbaijan is anticipated to remain in recession, contracting by 1.4 percent as weaknesses in the banking system as well as tight monetary and fiscal policies continue to weigh on growth, before growing at a modest 0.6 percent rate in 2018.

Among commodity importing economies, Turkey is projected to expand by 3.5 percent in 2017, supported by accommodative fiscal policy, and by 3.9 percent in 2018 as uncertainty abates, tourism recovers, and corporate balance sheets mend. Belarus is anticipated to shrink by 0.4 percent this year, held back by continued fiscal tightening, but could resume growing at a modest 0.5 percent pace next year.

Risks: The projected upturn in the region is fragile and is at risk from heightened policy uncertainty and geopolitical risk both within and outside the region. A renewed decline in commodity prices and international financial market disruption pose additional risks to the outlook. Domestic banking system weaknesses are vulnerabilities. An unwinding of European integration would have implications for Europe and Central Asia given close trade and financial ties between the regions.

Geopolitical tension in the region or at its periphery could suppress growth. A re-escalation of violence in Syria could undermine investor and consumer confidence. A terrorist attack in Russia, a cargo blockade in the eastern region of Ukraine, and a continued territorial dispute between Armenia and Azerbaijan are instances of turbulence in the region. In contrast, strengthening relations between Central Asian countries, including a provisional agreement on the demarcation between the Kyrgyz Republic and Uzbekistan, and restoration of direct flights between Tajikistan and Uzbekistan, point to an upside risk.

A renewed decline in commodity prices is another threat to the growth of commodity exporters in the region, and a disorderly tightening of global financial conditions could pressure currencies, raising borrowing costs and leading to capital outflows.

Europe and Central Asia Country Forecasts

(annual percent change unless indicated otherwise)

	Est. Forecast					
	2014	2015	2016	2017	2018	2019
GDP at market prices (2010 US dollars)						
Albania	1.8	2.6	3.2	3.5	3.5	3.8
Armenia	3.6	3.0	0.2	2.7	3.1	3.4
Azerbaijan	2.0	1.1	-3.8	-1.4	0.6	1.3
Belarus	1.7	-3.9	-2.6	-0.4	0.5	1.2
Bosnia and Herzegovina	1.1	3.0	2.8	3.2	3.7	4.0
Bulgaria	1.3	3.6	3.4	3.0	3.2	3.3
Croatia	-0.4	1.6	2.9	2.9	2.5	2.6
Georgia	4.6	2.9	2.7	3.5	4.0	4.5
Hungary	4.0	3.1	2.0	3.7	3.7	3.0
Kazakhstan	4.2	1.2	1.0	2.4	2.6	2.9
Kosovo	1.2	4.1	3.6	3.9	4.2	4.4
Kyrgyz Republic	4.0	3.9	3.8	3.4	4.0	4.8
Macedonia, FYR	3.6	3.8	2.4	2.8	3.3	3.8
Moldova	4.8	-0.5	4.1	4.0	3.7	3.5
Montenegro	1.8	3.4	2.5	3.3	3.0	2.0
Poland	3.3	3.9	2.8	3.3	3.2	3.2
Romania	3.1	3.9	4.8	4.4	3.7	3.5
Russia	0.7	-2.8	-0.2	1.3	1.4	1.4
Serbia	-1.8	0.8	2.8	3.0	3.5	3.5
Tajikistan	6.7	6.0	6.9	5.5	5.9	6.1
Turkey	5.2	6.1	2.9	3.5	3.9	4.1
Turkmenistan	10.3	6.5	6.2	6.3	6.5	6.5
Ukraine	-6.6	-9.8	2.3	2.0	3.5	4.0
Uzbekistan	8.1	8.0	7.8	7.6	7.7	7.8

Source: World Bank.

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.