

Europe and Central Asia Economic Update
Fall 2023

Sluggish Growth, Rising Risks

Office of the Chief Economist
Europe and Central Asia



Key messages

- **Growth for 2023 revised up to 2.4% from 1.4% projected in June**
 - A surge in government spending in Russia, consumer resiliency in Türkiye
 - Despite the upgraded projection, growth remains too slow to allow rapid convergence to high income levels
- **Inflation fell sharply this year owing to lower global food and fuel prices**
 - Inflation is still much higher than pre-COVID levels in most countries
 - Disinflation has slowed since midyear because of increases in global energy prices
- **Fiscal consolidation deferred in most countries**
 - Fiscal deficits modestly wider in 2023 despite earlier consolidation plans
 - Fiscal pressure to rise and make adjustment more difficult
- **Growth prospects for 2024-25 are subdued, 2.6% on average vs 4.2% during 2000-2019**
 - Russia's invasion, weak euro area and global growth, and tight financial conditions
 - Structural reforms needed to bolster growth potential

Upgraded ECA growth projection for 2023

(Real GDP growth at market prices in percent)

	2020	2021	2022	2023f	2024f	2025f	Percentage point difference from June 2023 projections		
							2023f	2024f	2025f
EMDE ECA	-1.7	7.2	1.2	2.4	2.5	2.7	1.0	-0.2	0.0
EMDE ECA excl. the Russian Federation and Ukraine	-1.0	8.5	4.8	3.0	3.2	3.7	0.5	-0.5	0.0
EMDE ECA excl. the Russian Federation, Türkiye, and Ukraine	-2.7	6.6	4.4	2.1	3.2	3.7	0.1	0.0	0.2
Poland, the Russian Federation, and Türkiye	-1.2	7.5	1.6	2.2	2.1	2.3	1.1	-0.4	0.0
Central Europe ^a	-3.0	7.1	5.0	1.1	2.9	3.5	-0.2	0.0	0.1
Western Balkans ^b	-3.1	7.7	3.2	2.5	3.0	3.5	-0.1	-0.1	-0.1
Eastern Europe excl. Ukraine ^c	-1.7	4.0	-4.7	2.7	1.3	1.3	1.9	-0.5	-0.4
South Caucasus ^d	-5.3	6.7	7.0	3.3	3.2	3.3	0.3	-0.2	-0.3
Central Asia ^e	-1.3	5.3	4.1	4.8	4.6	4.8	0.8	0.2	0.6
Russian Federation	-2.7	5.6	-2.1	1.6	1.3	0.9	1.8	0.1	0.1
Türkiye	1.9	11.4	5.5	4.2	3.1	3.9	1.0	-1.2	-0.2
Poland	-2.0	6.9	5.1	0.7	2.6	3.4	0.0	0.0	0.2

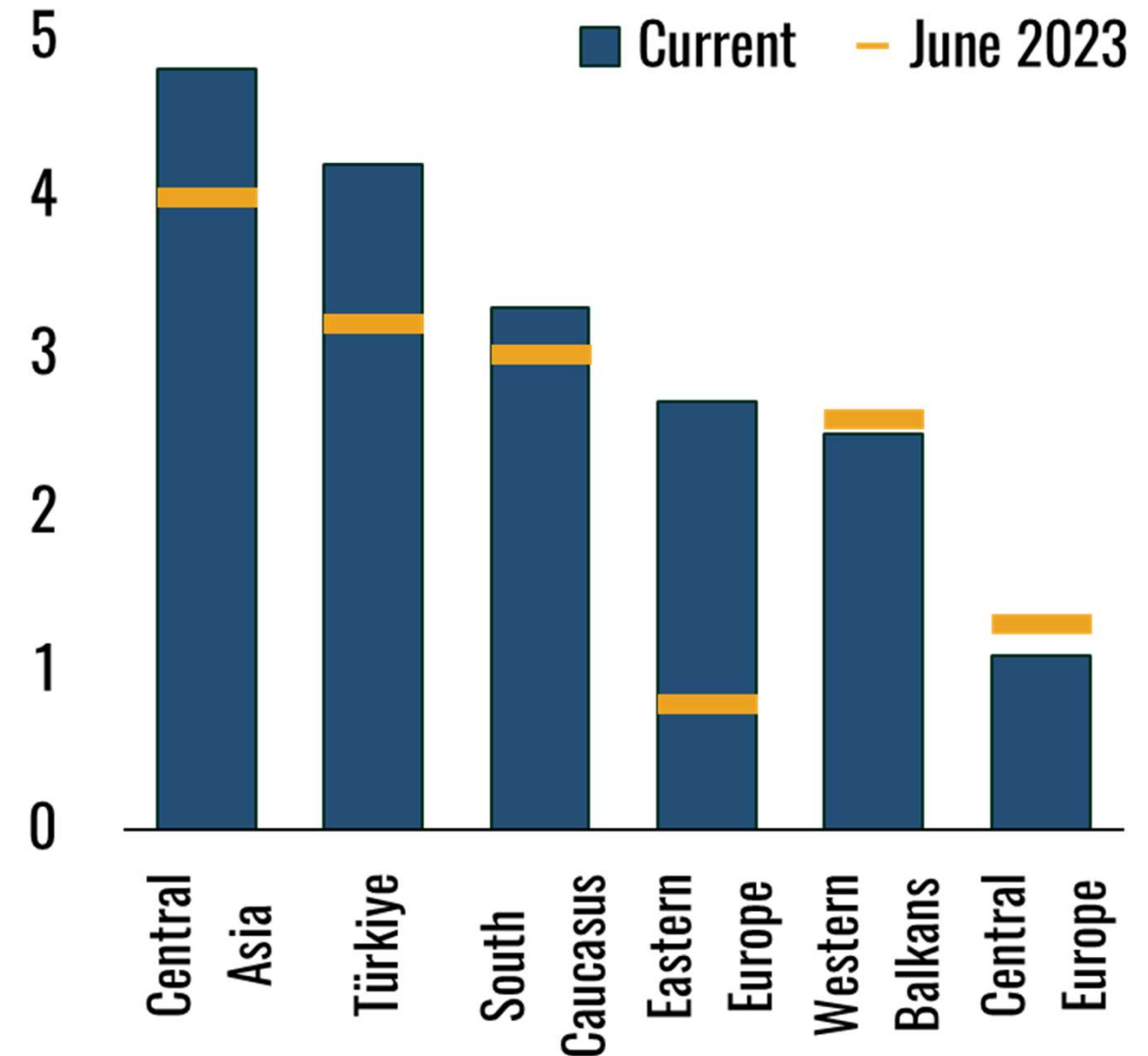
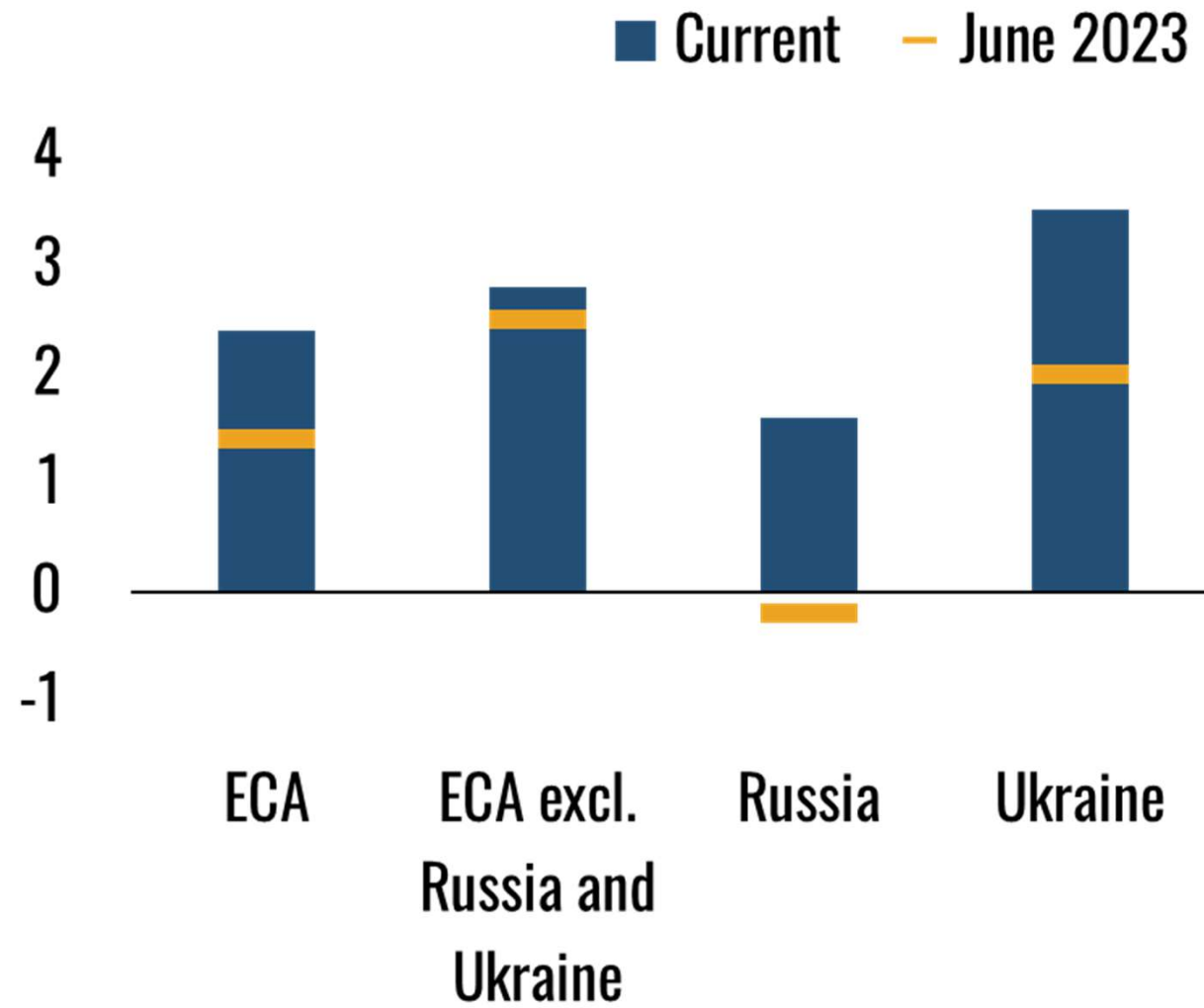
Source: World Bank.

Note: GDP and expenditure components are measured in average 2010–19 prices and market exchange rates. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, the projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. Due to lack of reliable data of adequate quality, the World Bank is currently not publishing economic output, income, or growth data for Turkmenistan, and Turkmenistan is excluded from cross-country macroeconomic aggregates. ECA = Europe and Central Asia; EMDE = emerging markets and developing economies; f = forecast; GDP = gross domestic product.

a. Includes Bulgaria, Croatia, Poland, and Romania. b. Includes Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. c. Includes Belarus and Moldova. d. Includes Armenia, Azerbaijan, and Georgia. e. Includes Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan.

Mostly due to better forecasts for Russia and Türkiye

GDP growth
Percent



Source: World Bank.

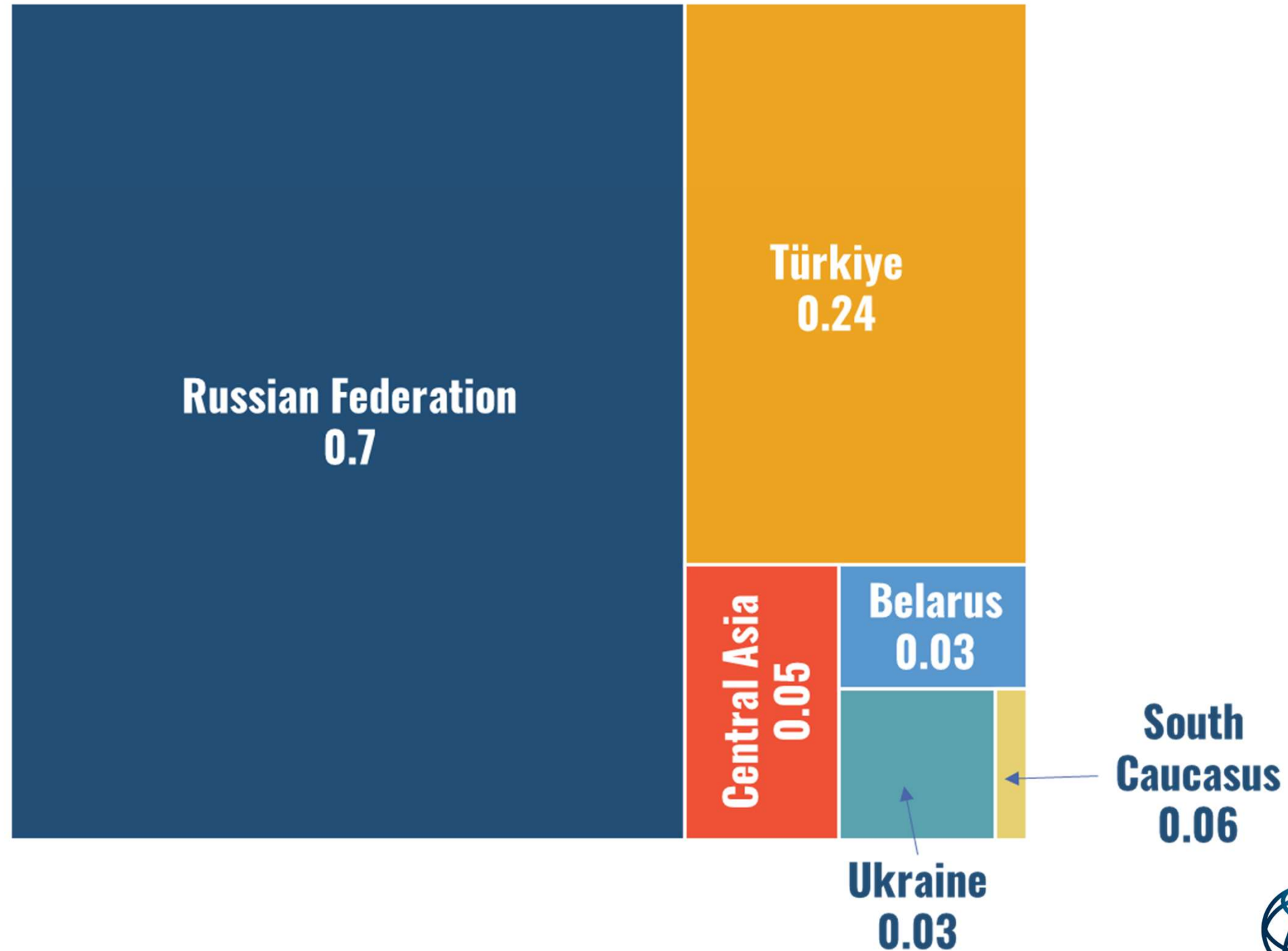
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Visualizing the projection revision

Contributions to the forecast revision of the ECA GDP growth

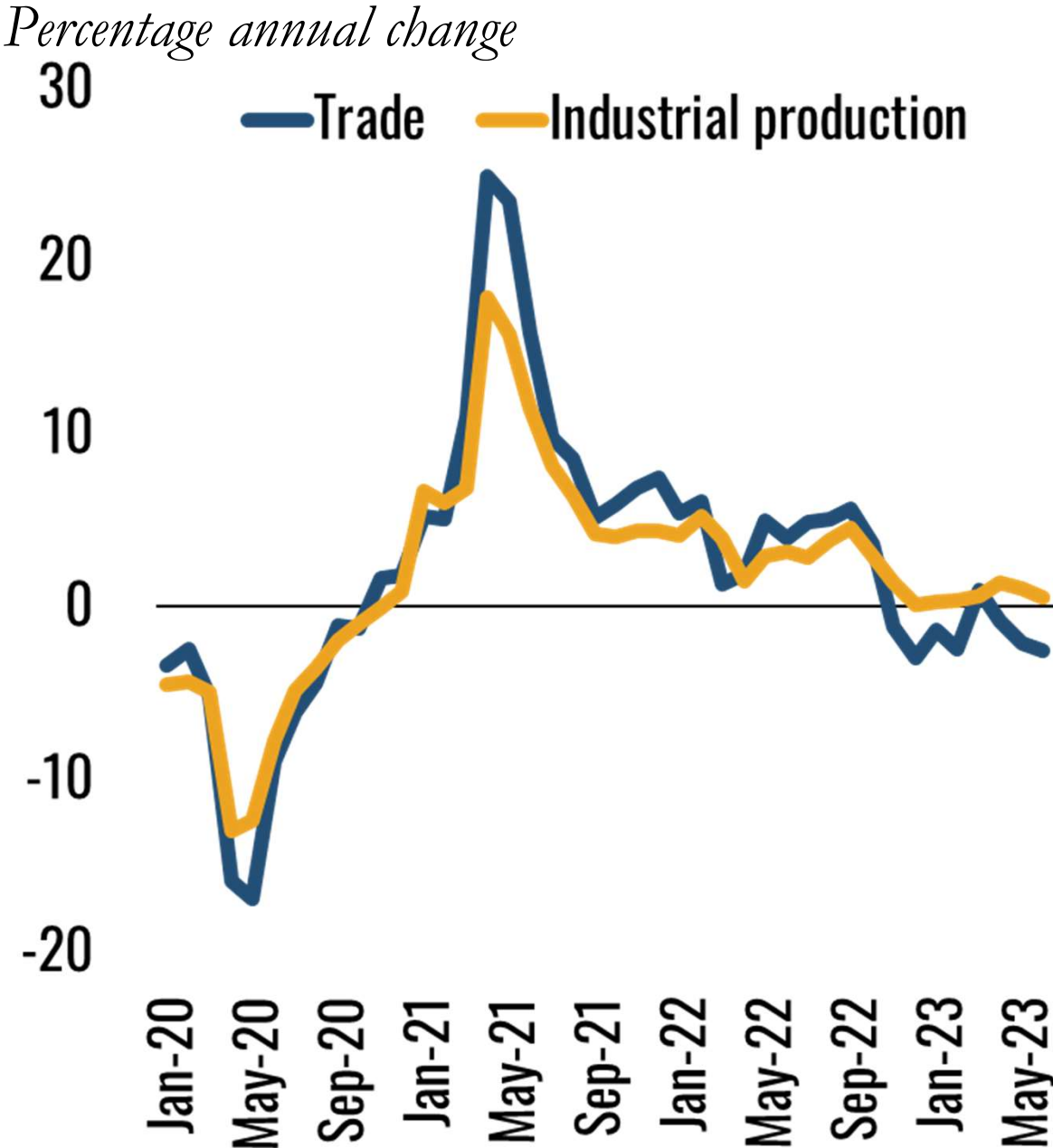
Percentage points



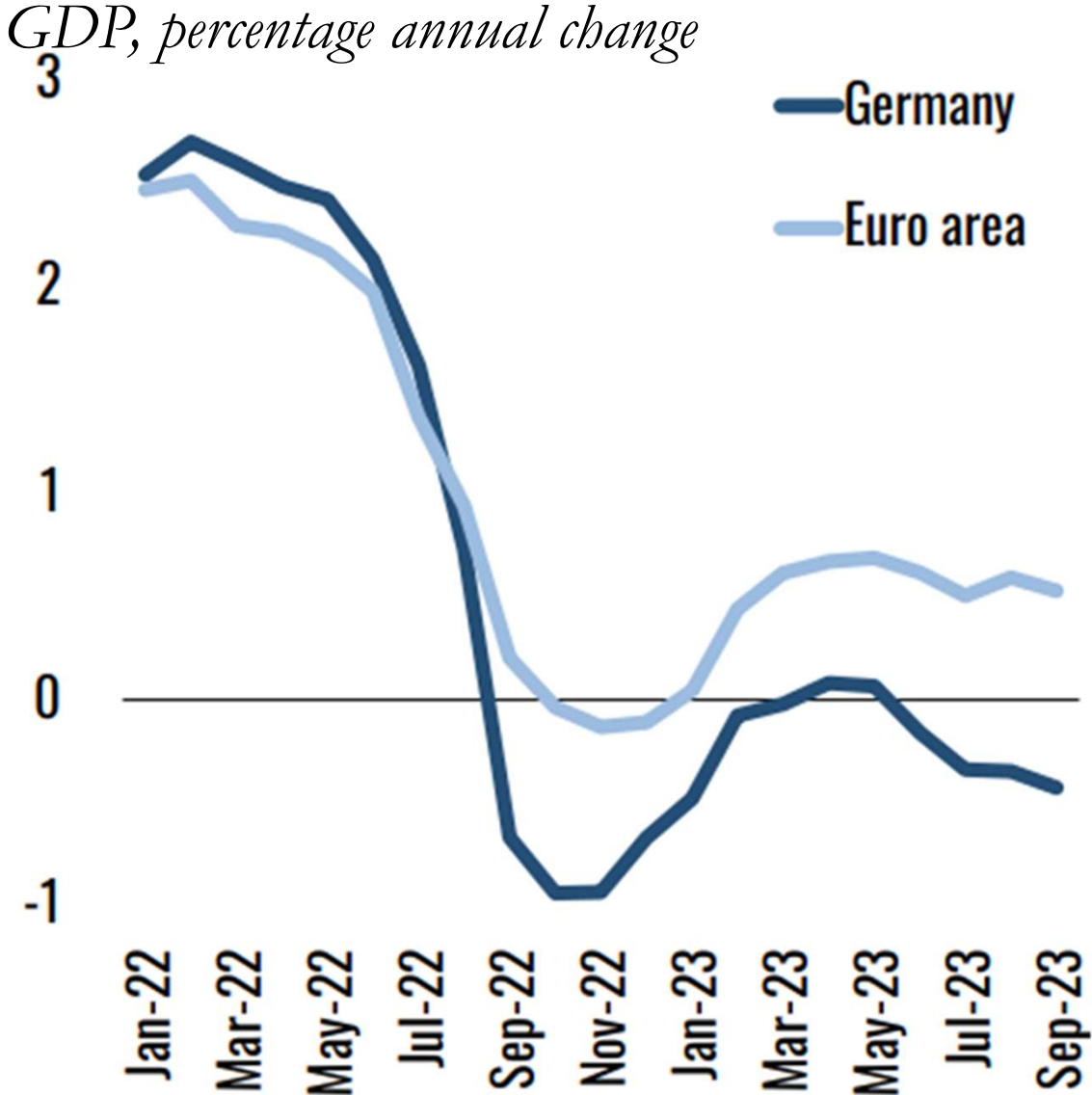
Source: World Bank.

Globally, the weakest five-year growth since 1990

Global trade and industrial production



2023 Consensus forecast for the euro area

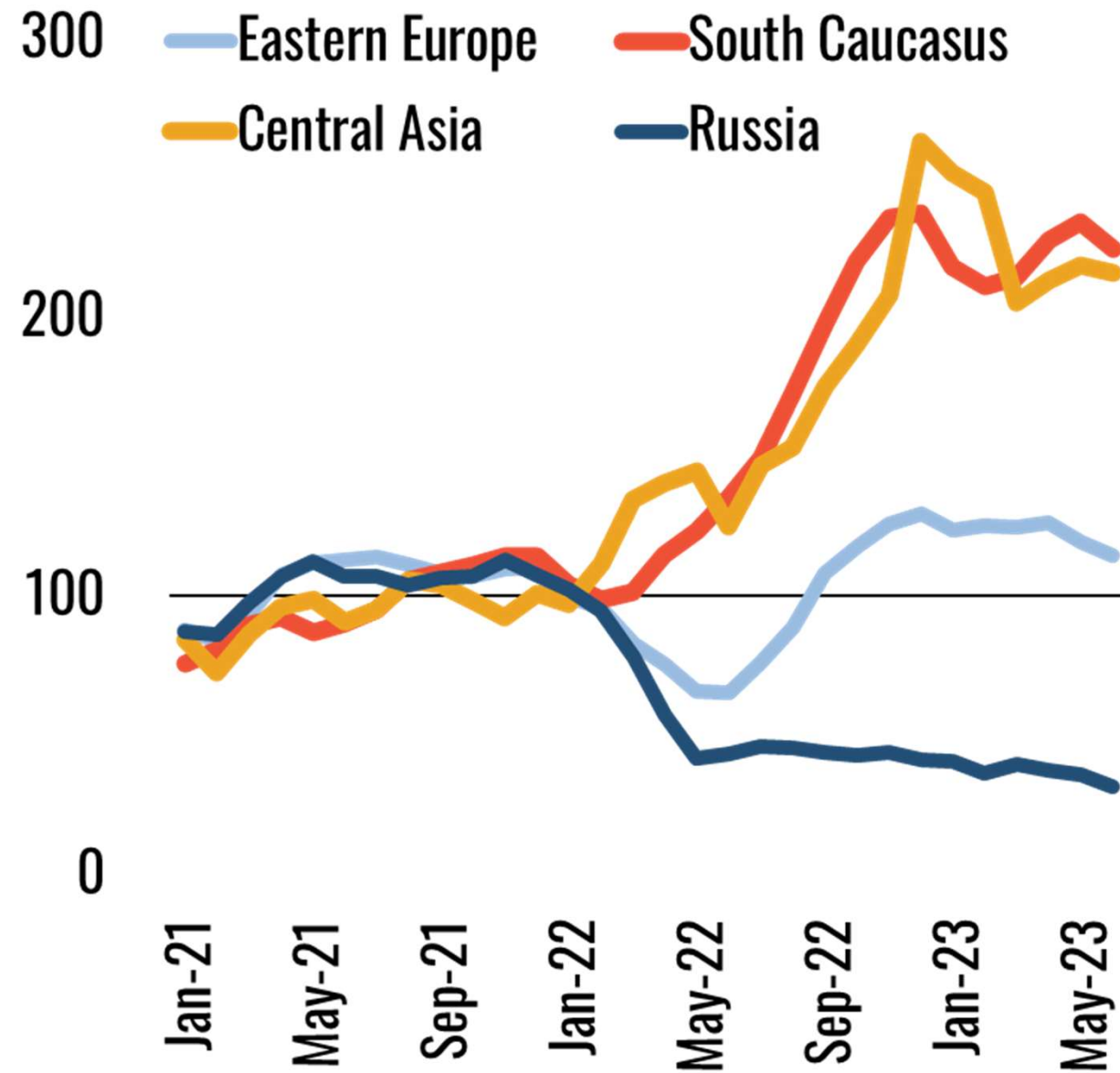


Source: Consensus Economics; CPB Netherlands Bureau for Economic Policy Analysis; World Bank.
 Note: Left Panel: Last observation is June 2023. Right Panel: Last observation is September 2023.

Diversion of trade and increased money flows

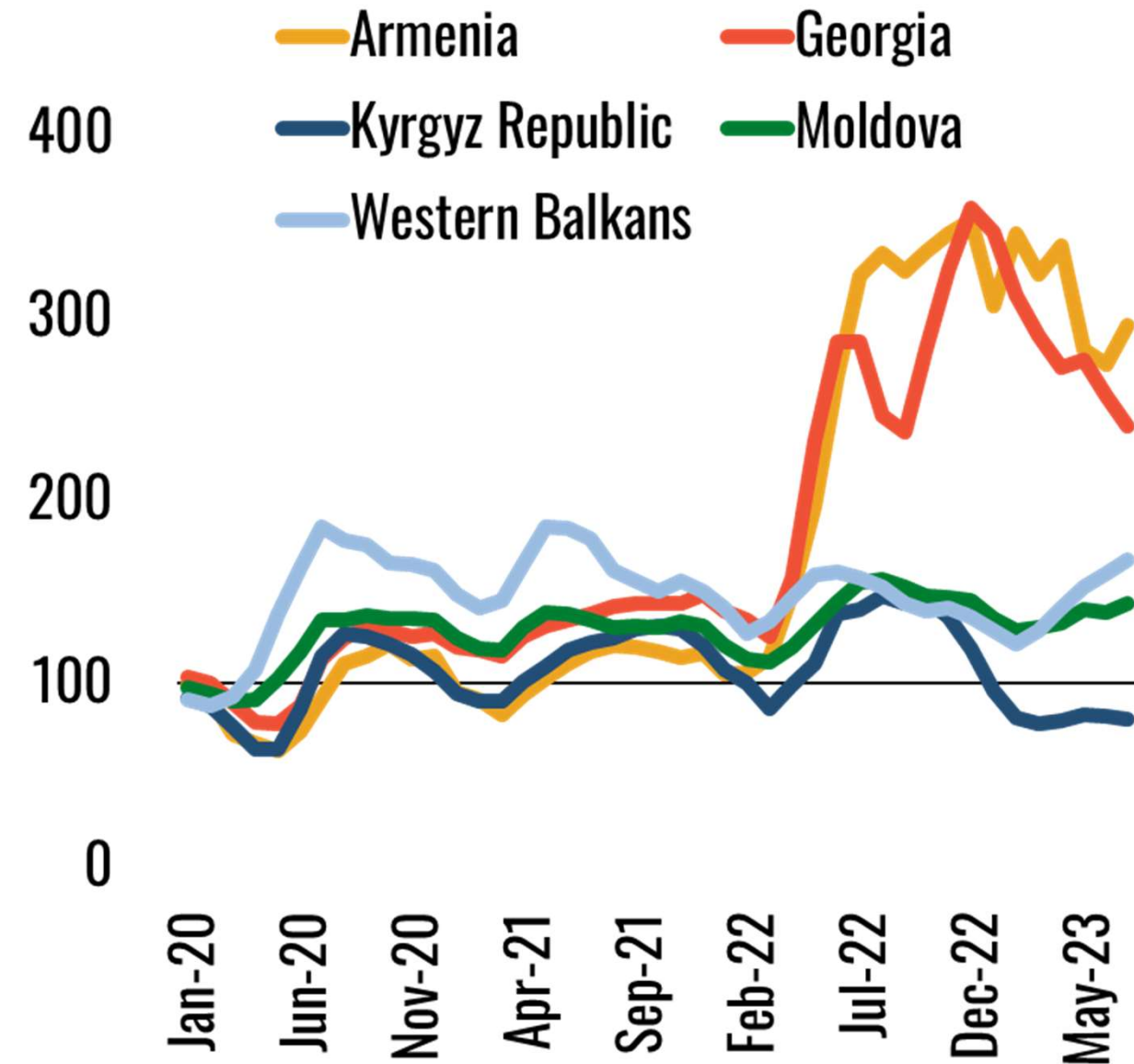
Imports from Germany

Index, 2018-19 = 100



Remittances and other money inflows

Index, 2019 = 100



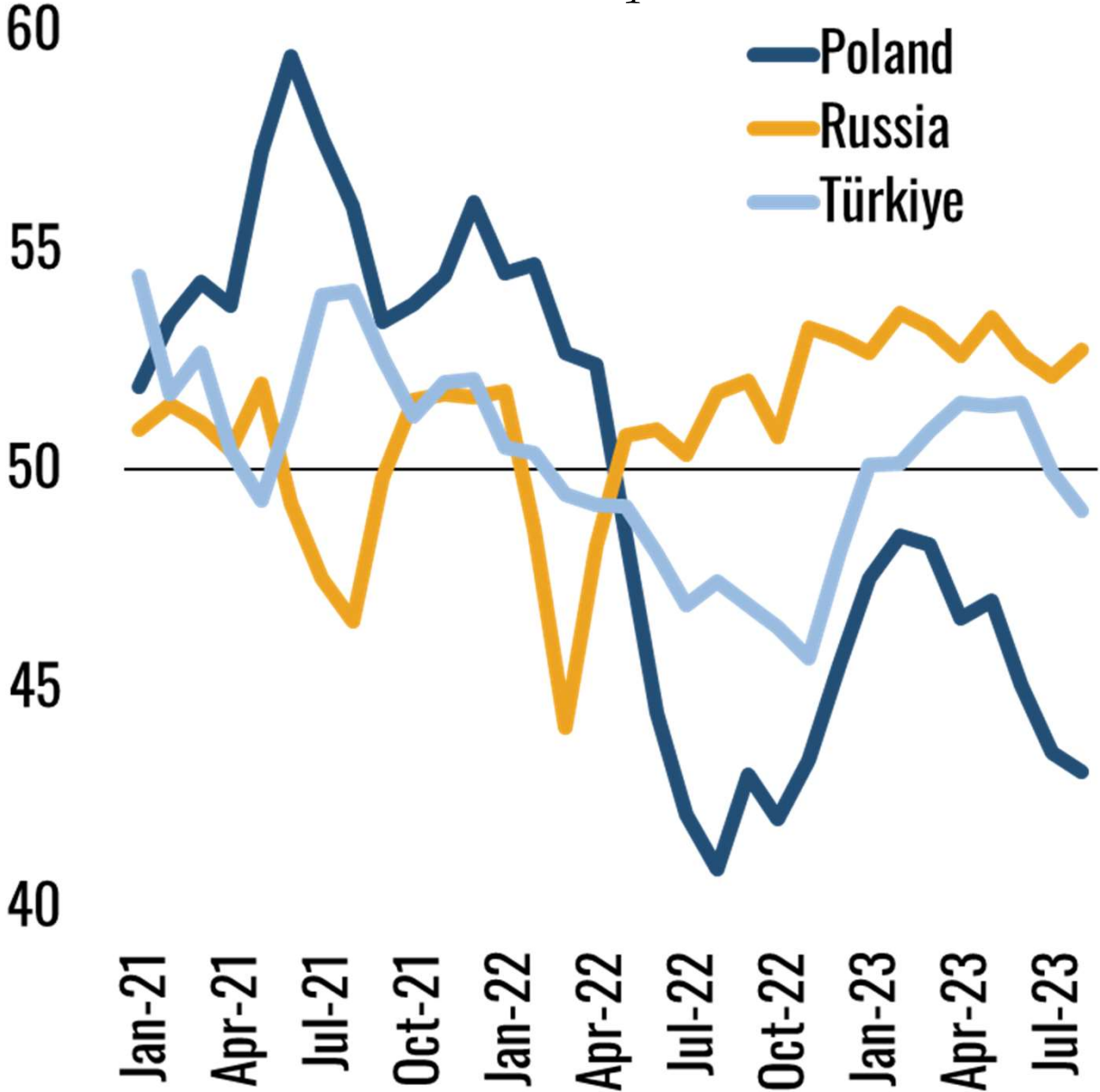
Source: Haver Analytics; The Federal Statistical Office of Germany; World Bank.

Note. Left Panel: Values are three-months moving averages.; Eastern Europe includes Belarus and Moldova; the South Caucasus includes Armenia and Georgia. The last observation is June 2023.

Growth differences among the ECA countries have increased

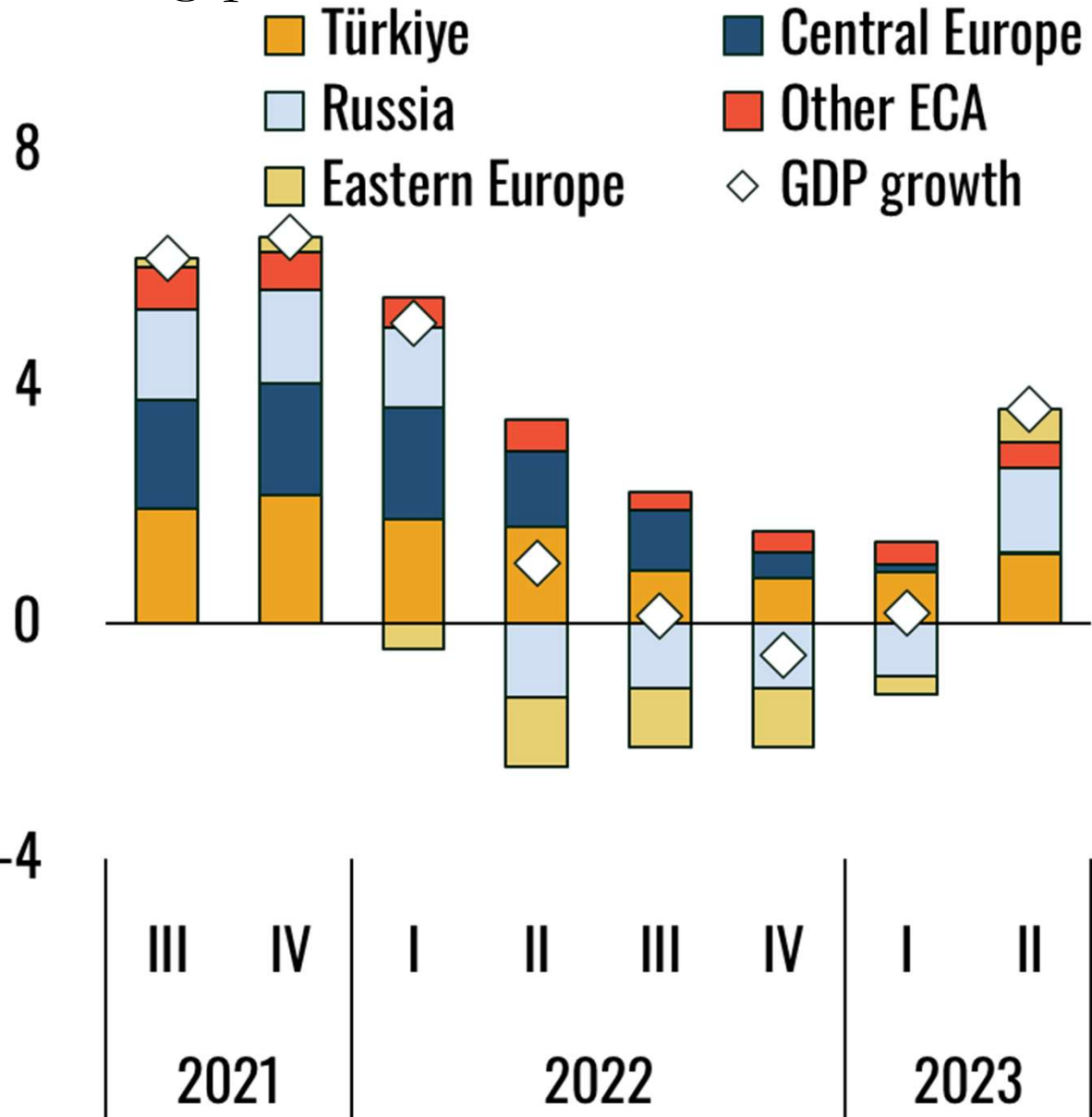
Purchasing Managers Indices

Index, a value above 50 = expansion



Contributions to growth by major economies

Percentage points



Source: Haver Analytics; Eurostat; National statistical offices; World Bank.

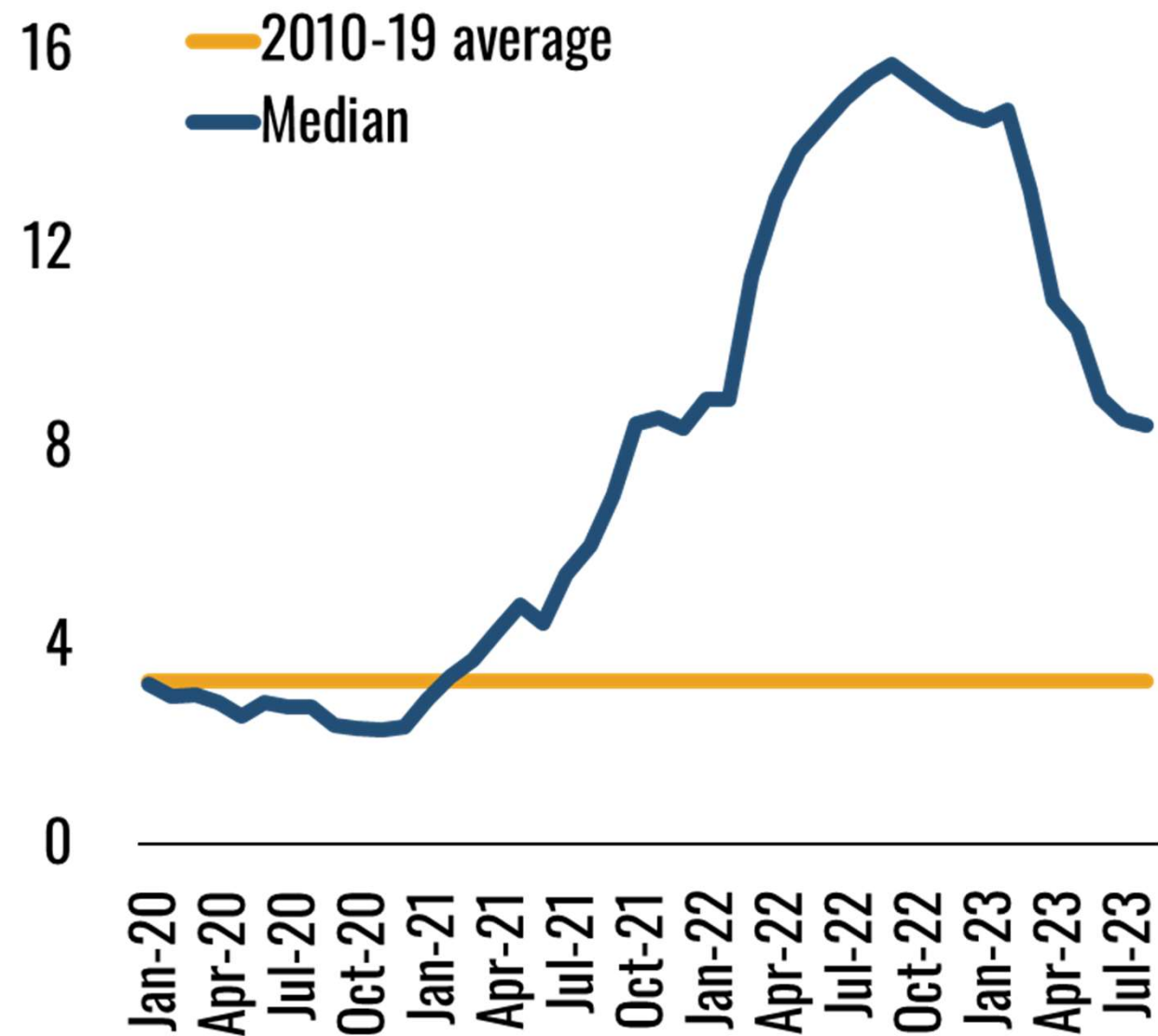
Note. Left Panel: Last observation is August 2023. Right Panel: Sample includes 17 ECA EMDEs, representing almost 99 percent of the aggregate ECA GDP. Eastern Europe Includes Ukraine. Other ECA includes Central Asia (Kazakhstan and Uzbekistan), South Caucasus (Armenia, Azerbaijan, and Georgia), and the Western Balkans (Montenegro, North Macedonia, and Serbia). Quarterly GDP growth rates for Ukraine are estimates by the National Bank of Ukraine. For some countries and quarters quarterly growth rates are derived from the cumulative GDP growth rates (Azerbaijan, Belarus, Kazakhstan, and Uzbekistan). Regional and sub-regional aggregates are calculated using GDP weights at average 2010-19 prices and market exchange rates.



Inflation is sharply lower but mostly above pre-COVID levels

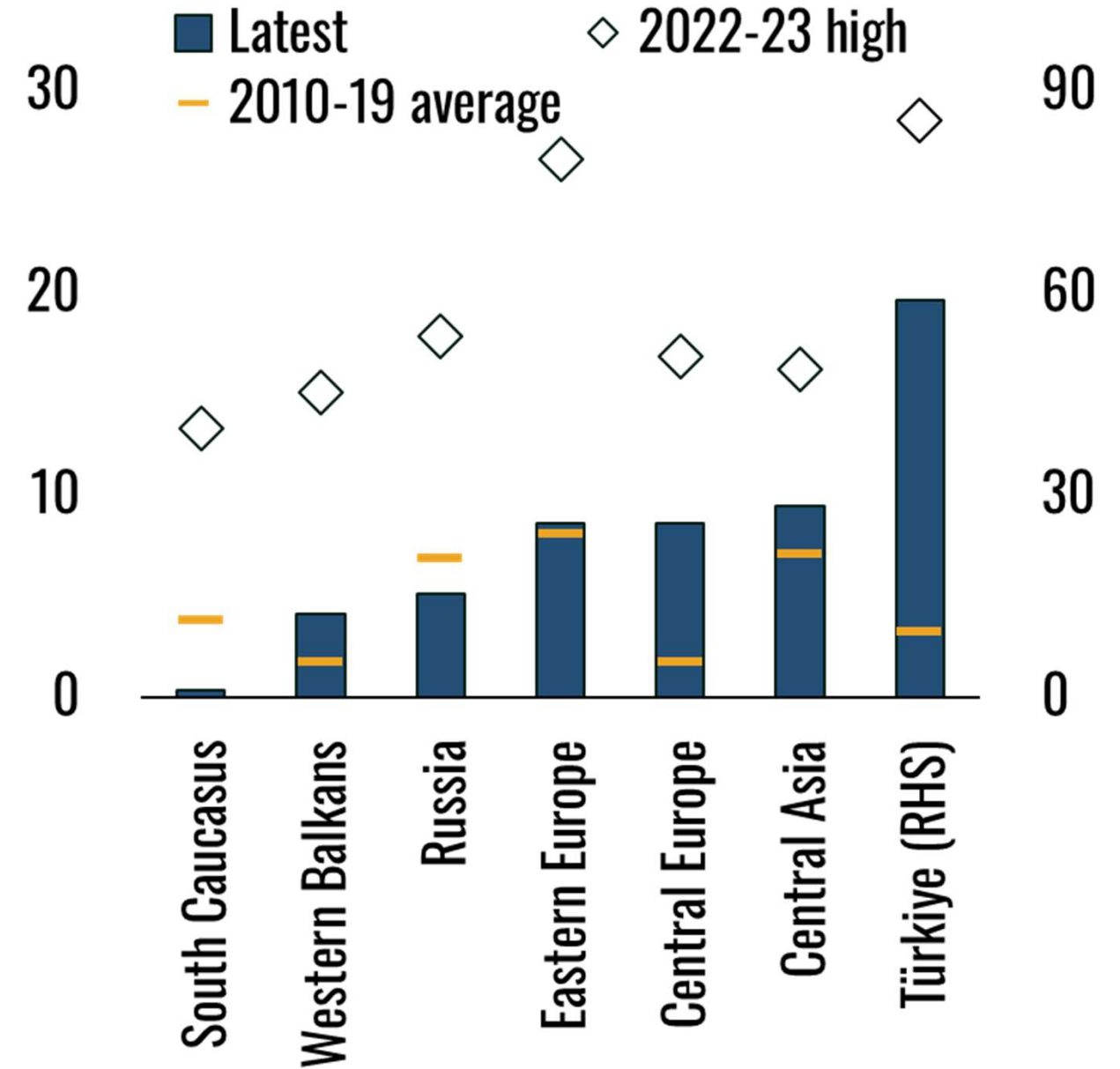
Headline inflation in ECA

Percent



Headline inflation by subregion

Percent, median

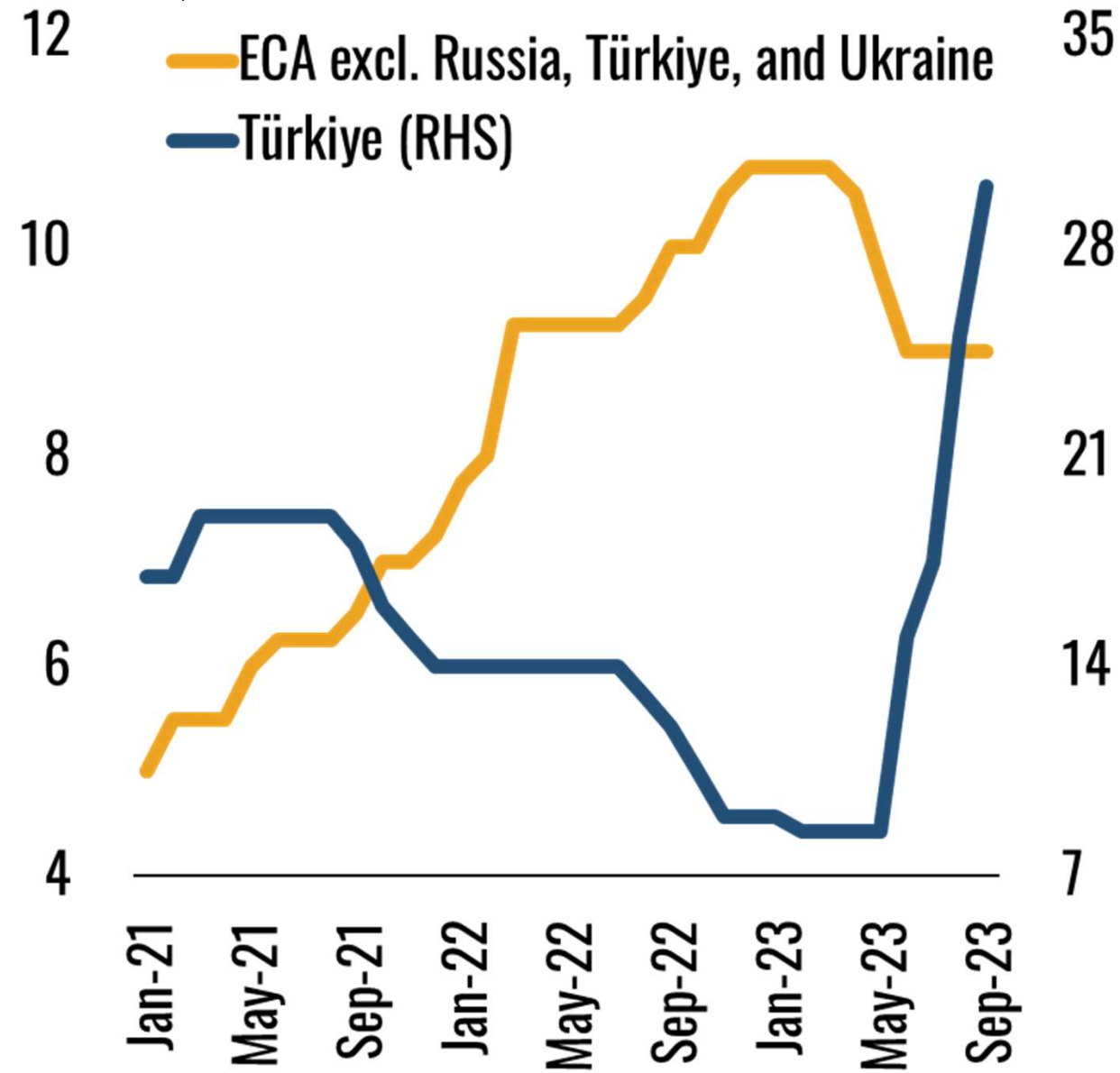


Source: Haver Analytics; Eurostat; National statistical offices; World Bank.
 Note. Sample includes 20 ECA EMDEs. Last observation is August 2023.

Some monetary policy easing despite still high inflation

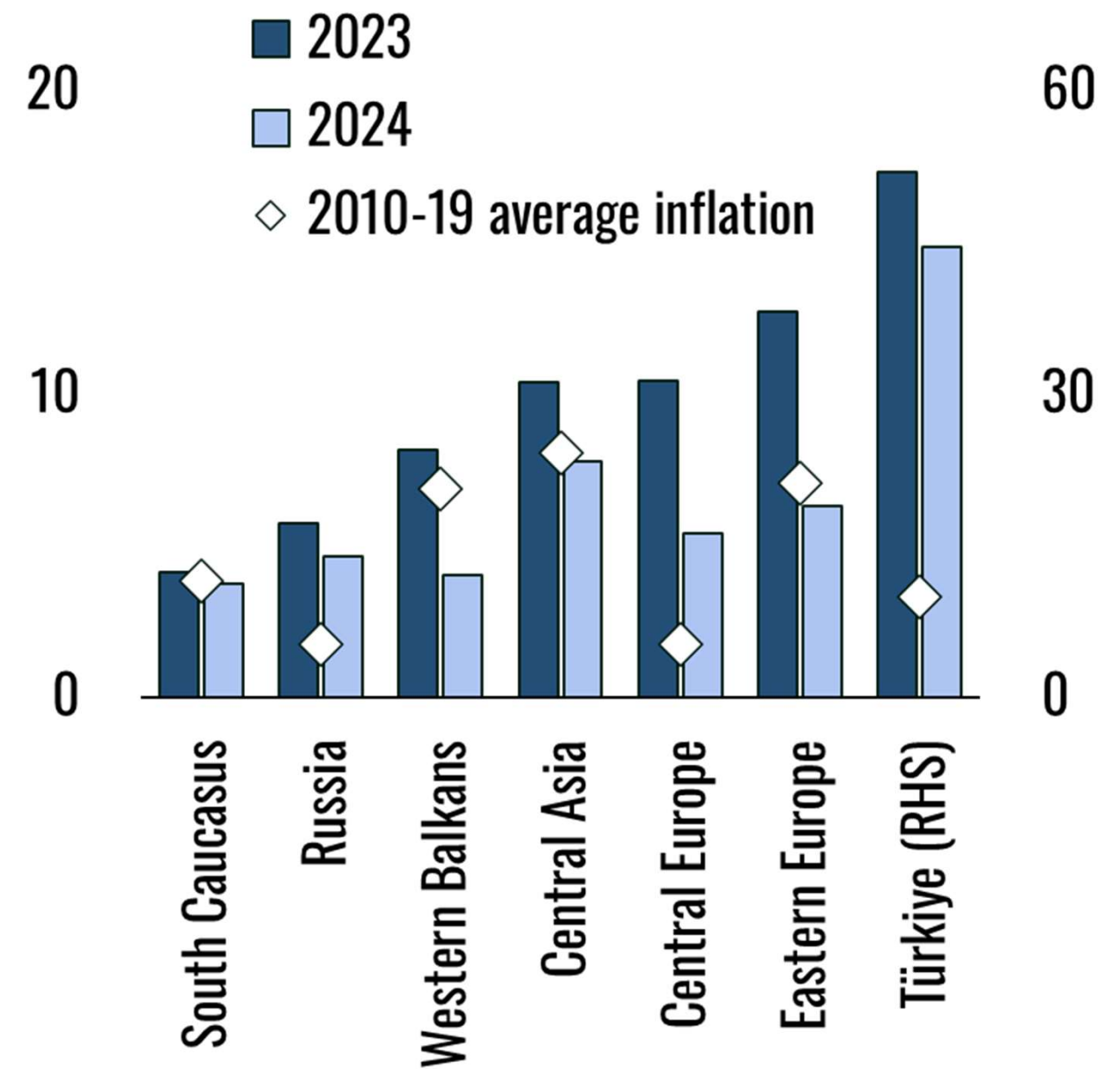
Nominal policy rates

Percent, median



Inflation expectations

Percent, median



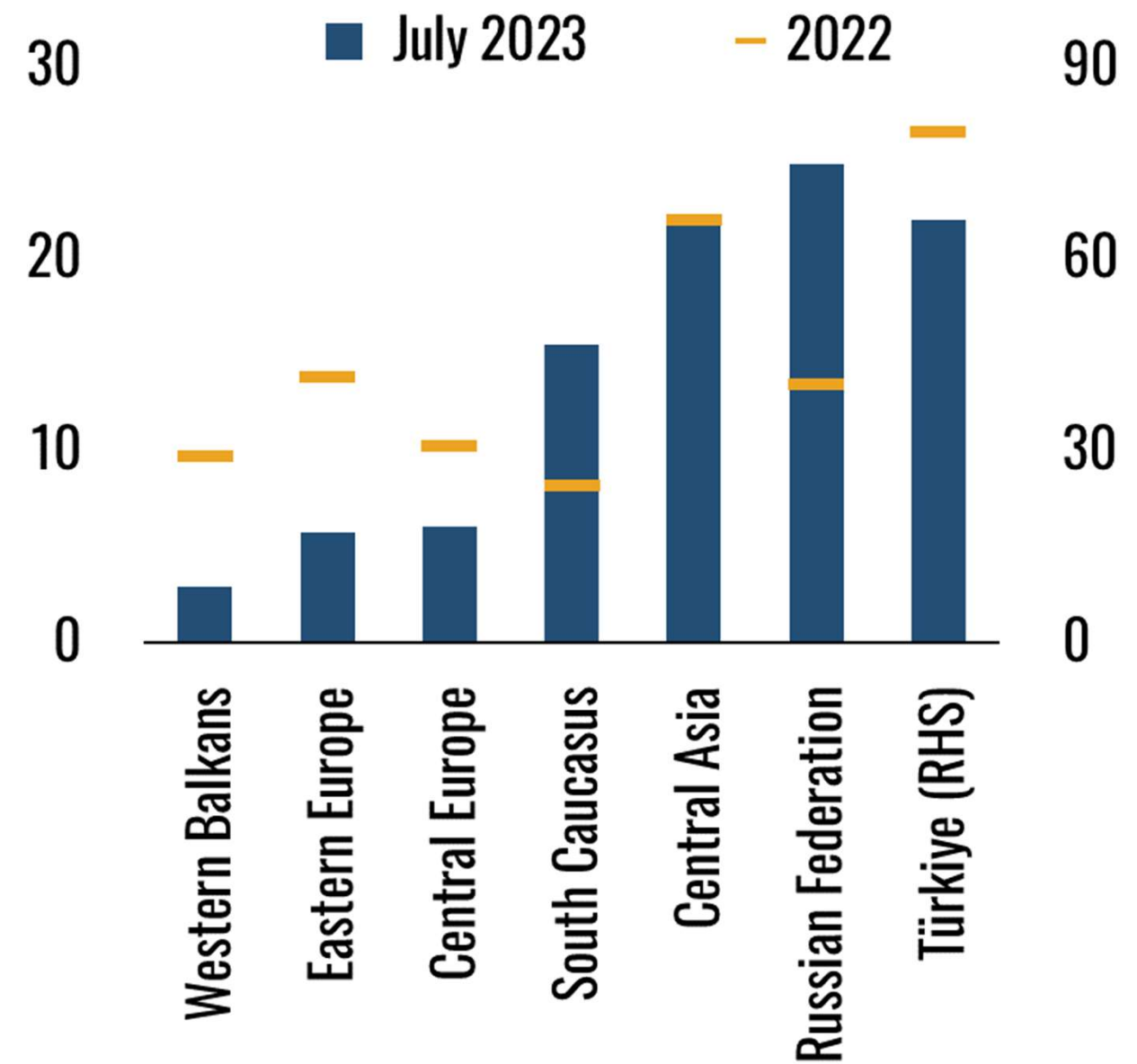
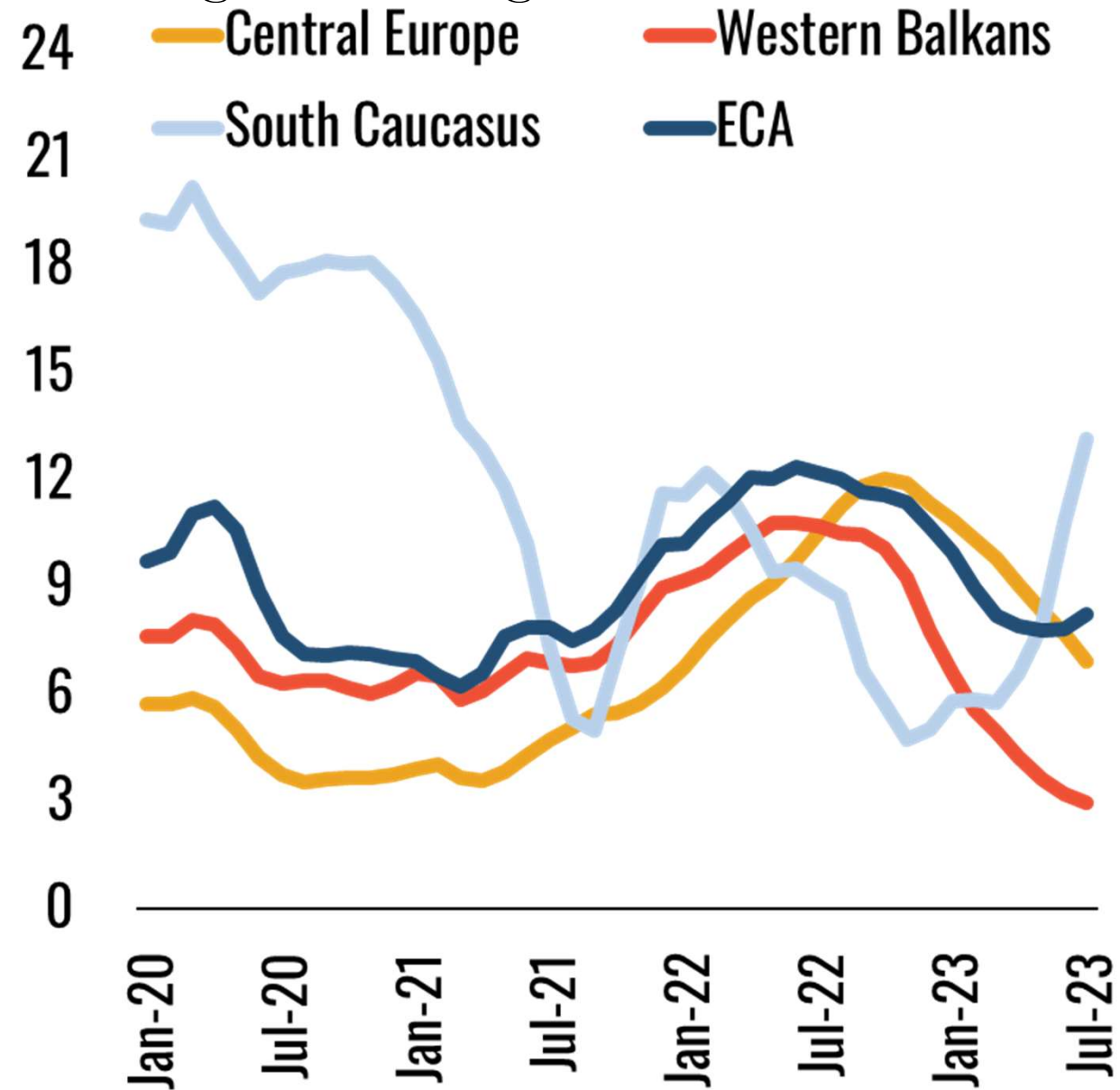
Source: Consensus Economics; Haver Analytics; World Bank..

Note. Left Panel: Sample includes 16 ECA EMDEs. Last observation is September 2023. Right Panel: Sample includes 22 ECA EMDEs. Last observation is September 2023.

Slowing credit growth

Credit growth

Percentage annual change

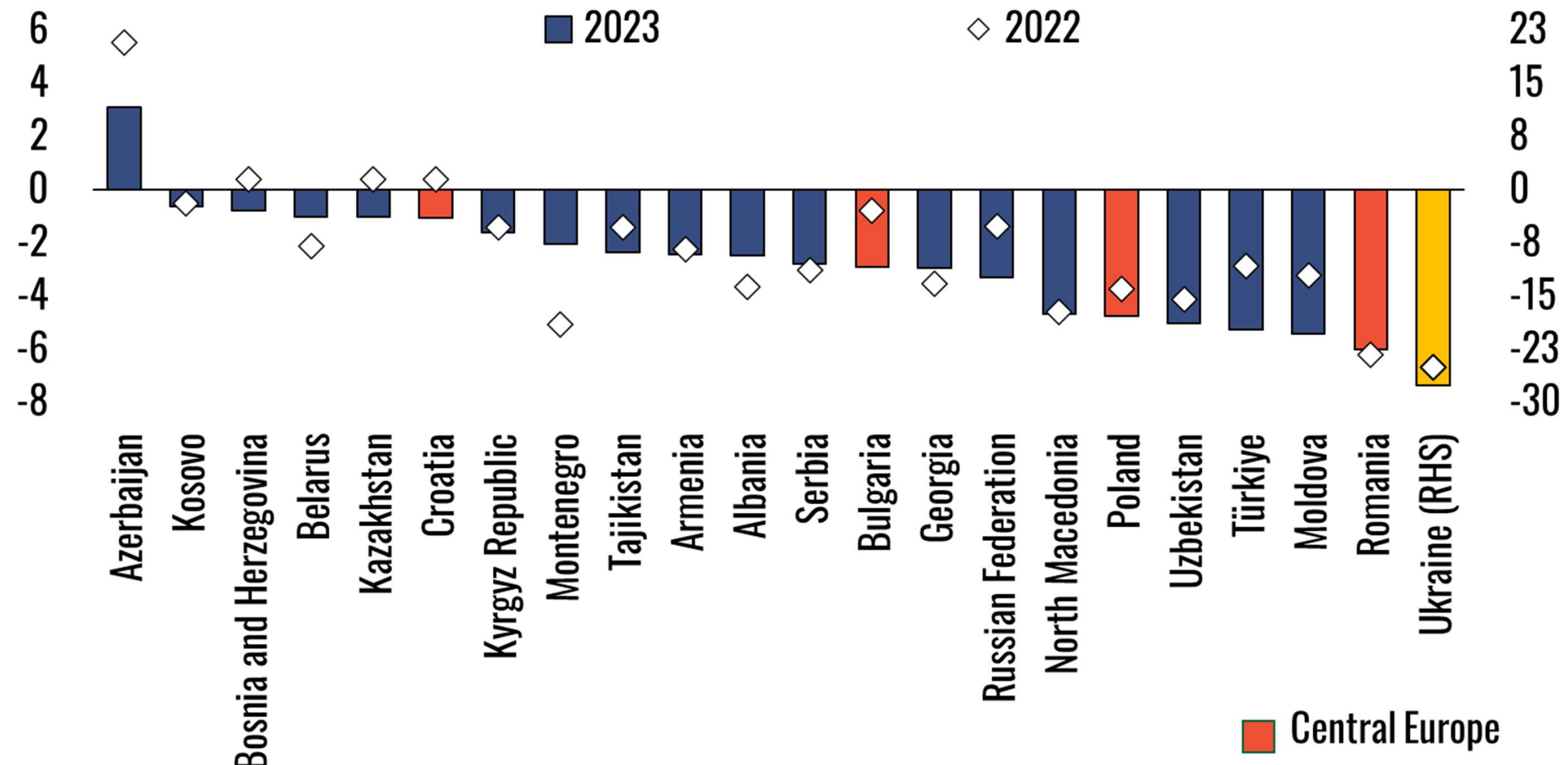


Source: Haver Analytics; National central banks; World Bank

Note. Left Panel. 3-month moving averages. Median for the sample includes of 16 ECA EMDEs (excluding Russia and Türkiye). Eastern Europe excludes Ukraine.

Fiscal deficits likely to be modestly higher in 2023

Fiscal deficit
Percent of GDP



Source: World Bank
Note: Macro Poverty Outlooks, Fall 2023

Government debt in ECA is down from the pandemic highs ...

General government gross debt

Percent of GDP

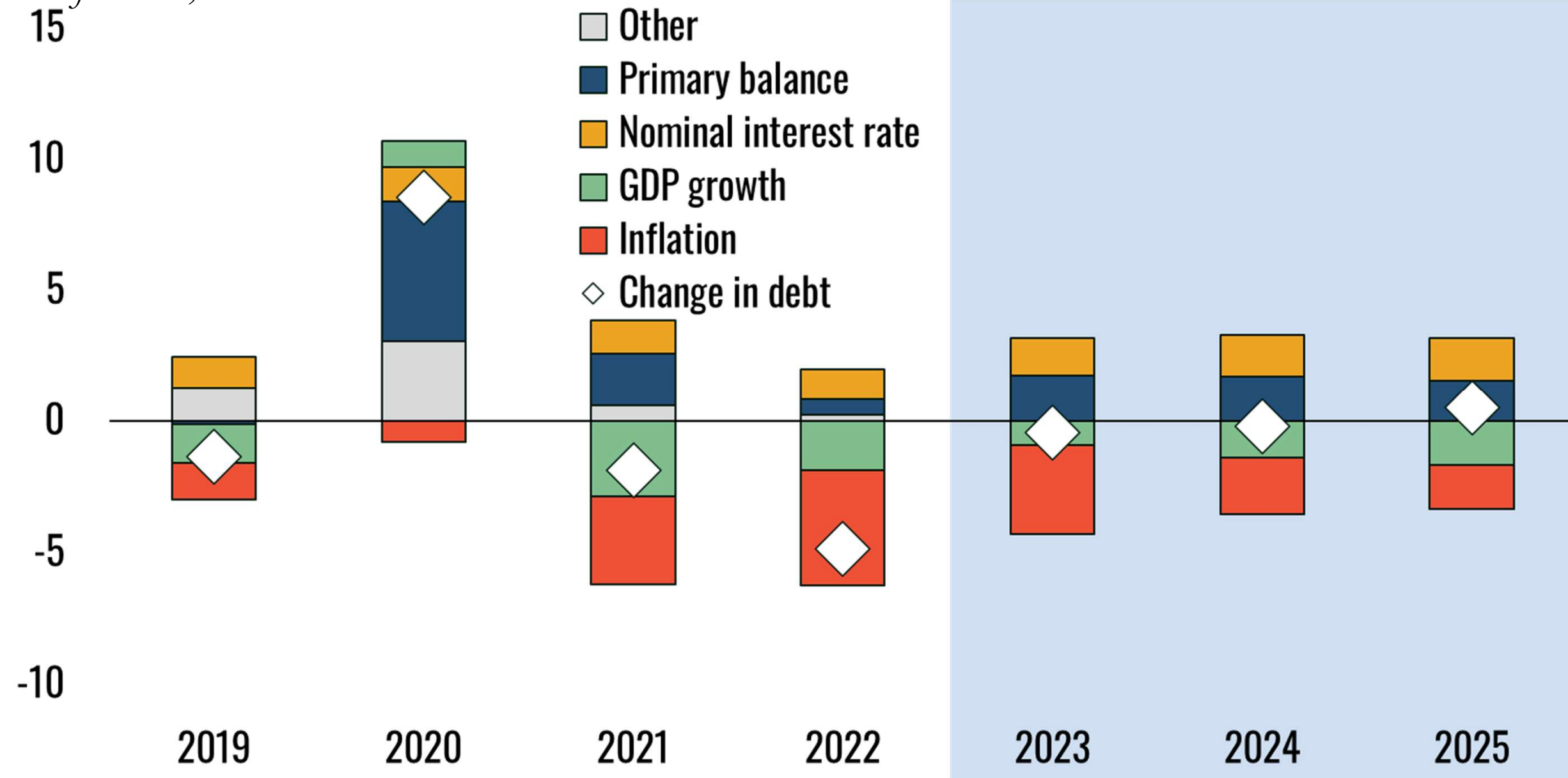


Source: International Monetary Fund; World Bank
Note. 2023 projections are from the World Economic Outlook, April 2023.

... but fiscal pressures likely to materialize and push up debt

Drivers of change in general government debt

Percent of GDP, median



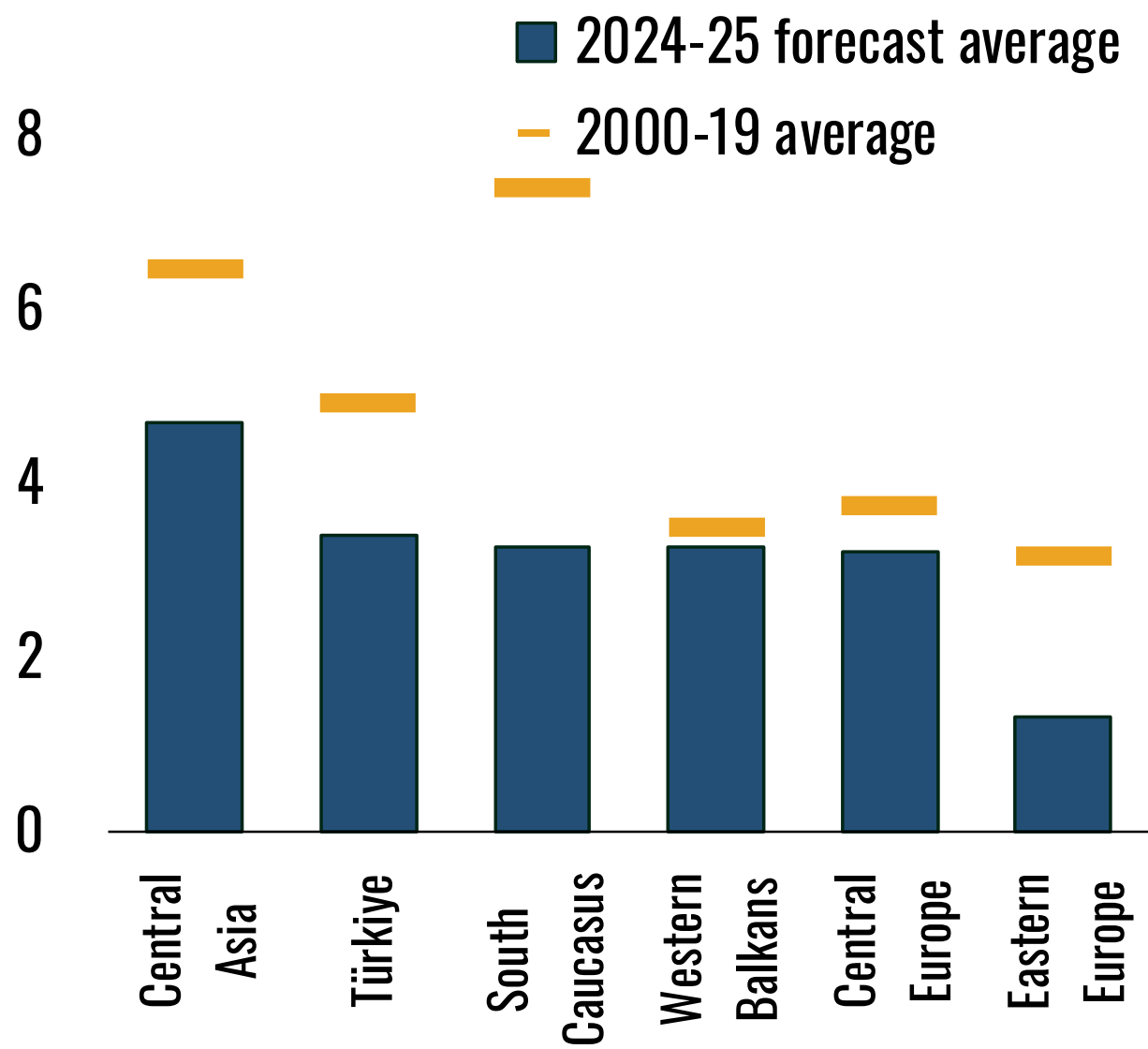
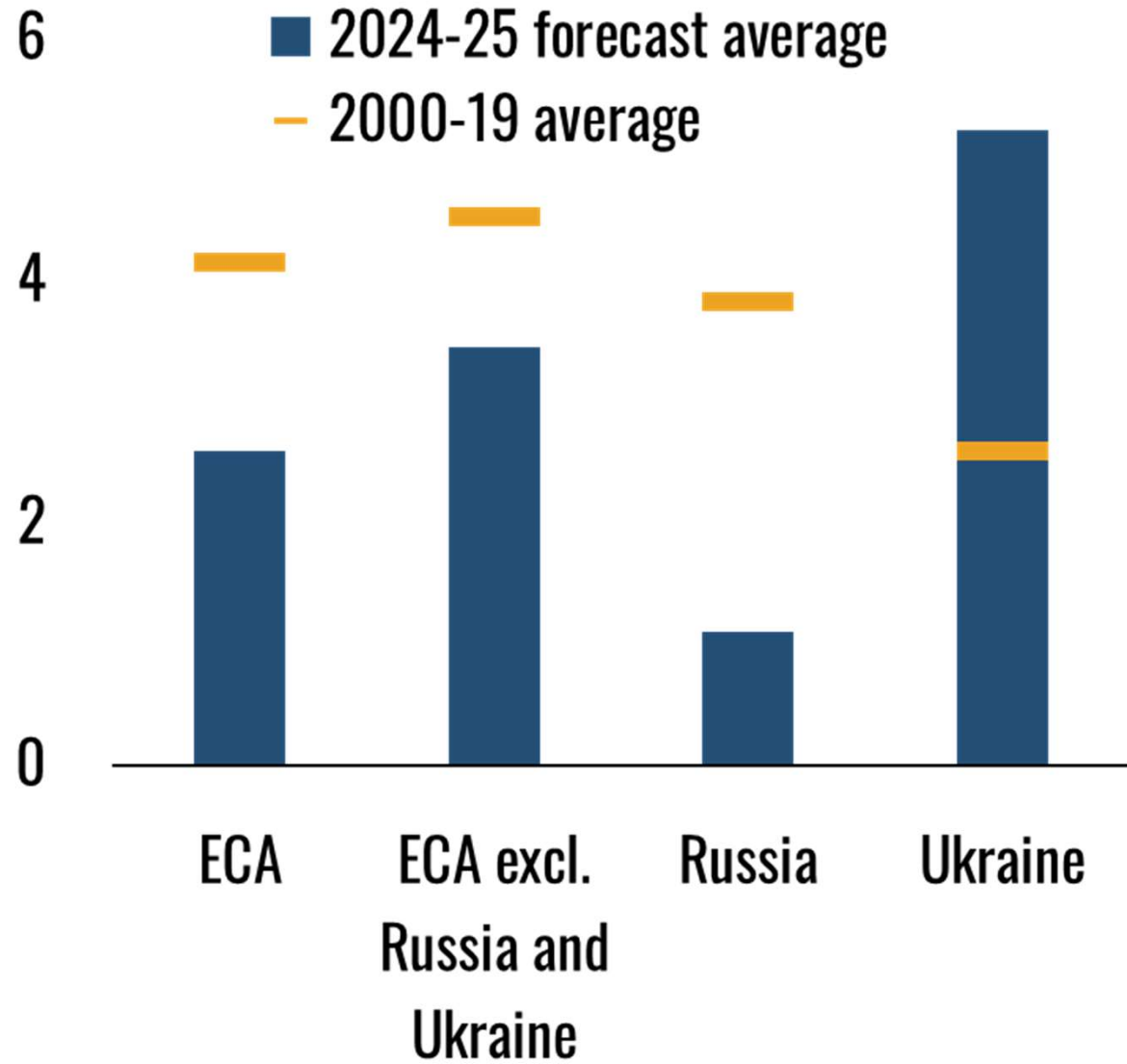
Source: International Monetary Fund; National central banks; World Bank

Note. Values are contributions to annual changes in the debt-to-GDP ratio in a median ECA country, following Escolano (2010). The sample excludes Eastern Europe and the Russian Federation. Other drivers include the effects of stock-flow adjustment and exchange rate depreciations. Shaded area indicates forecast based on projections from the *World Economic Outlook April 2023*.

Growth is expected to remain weak in 2024-25

GDP growth

Percent



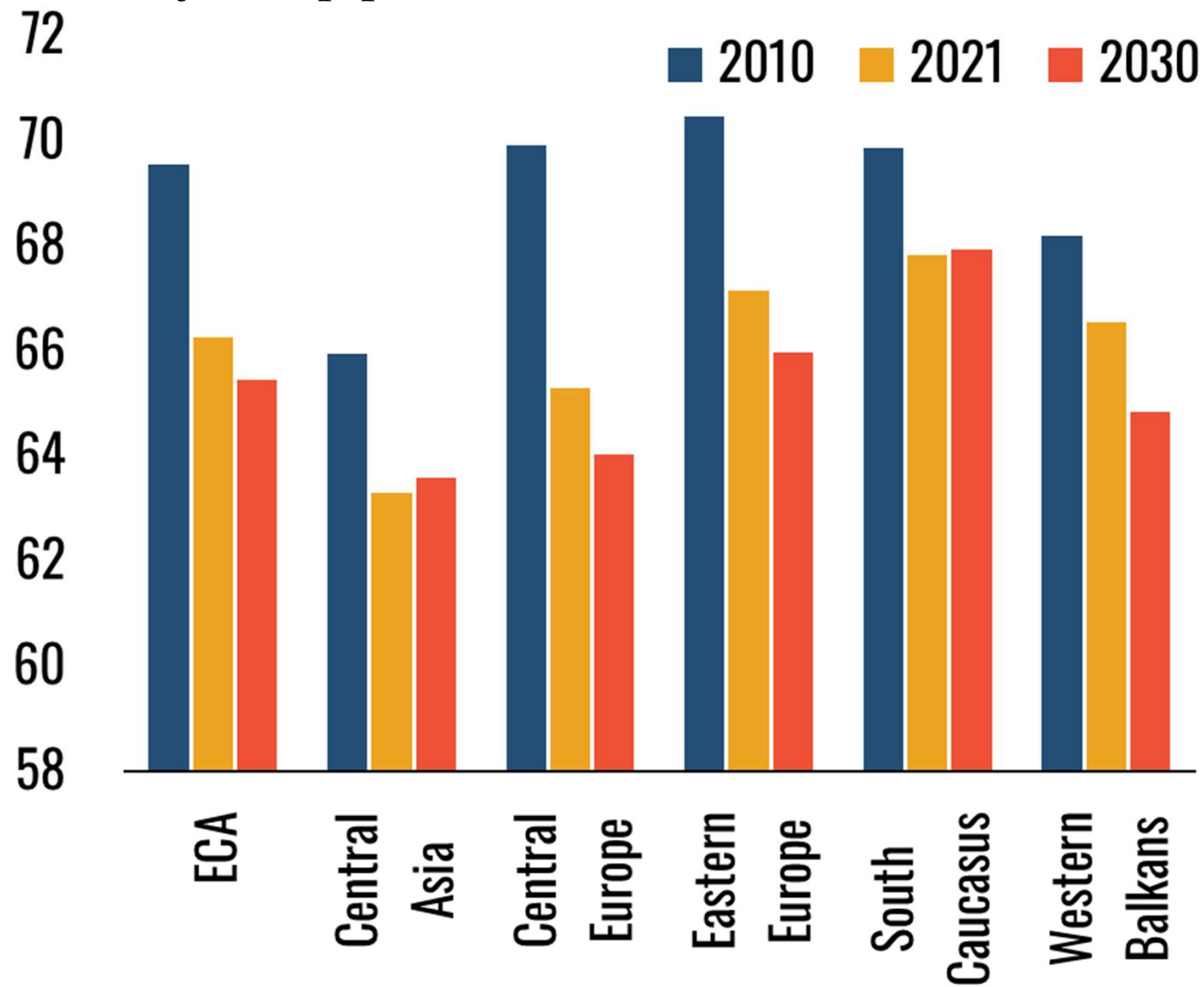
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Deteriorating demographics will weigh on growth ...

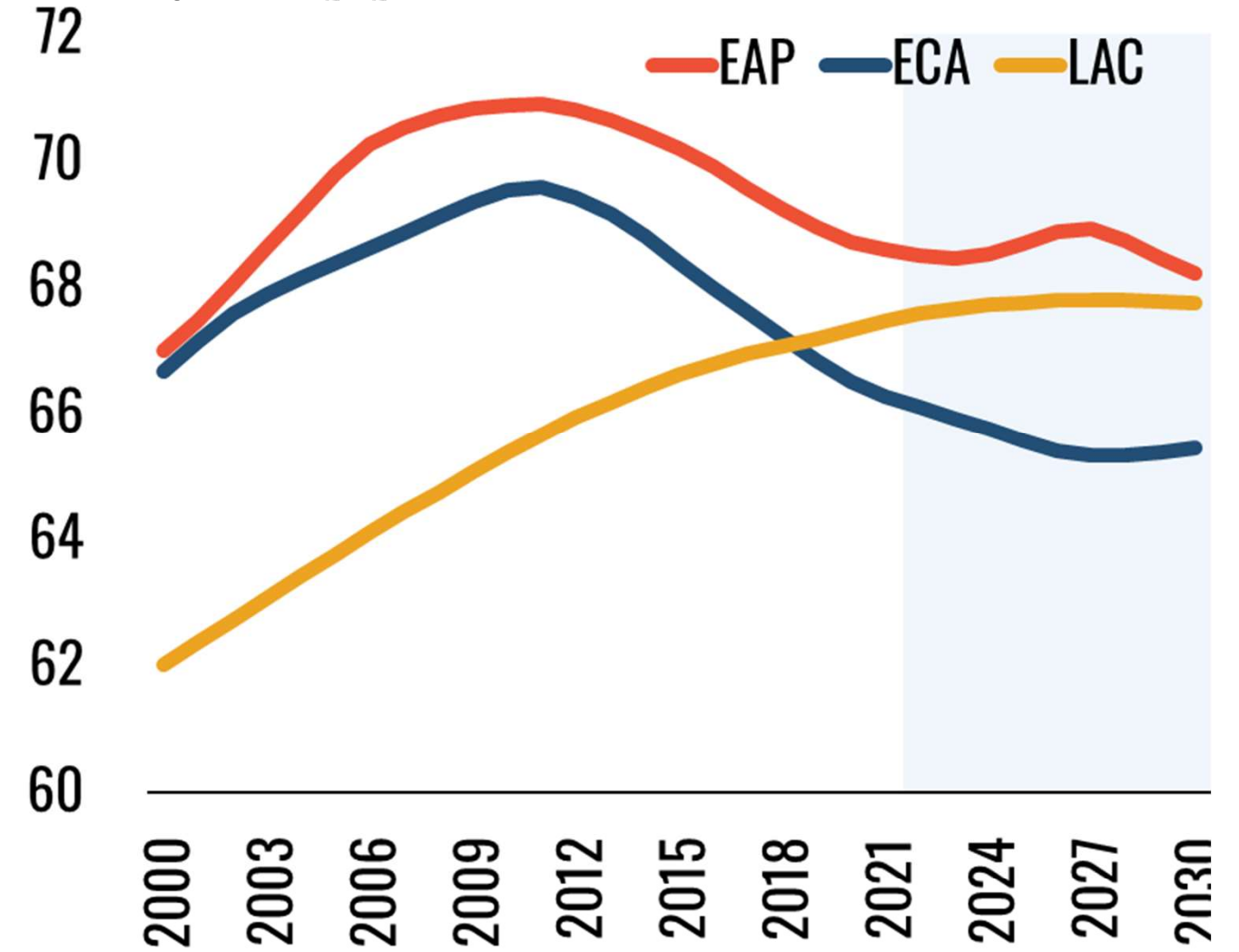
Working age population in ECA

Percent of total population



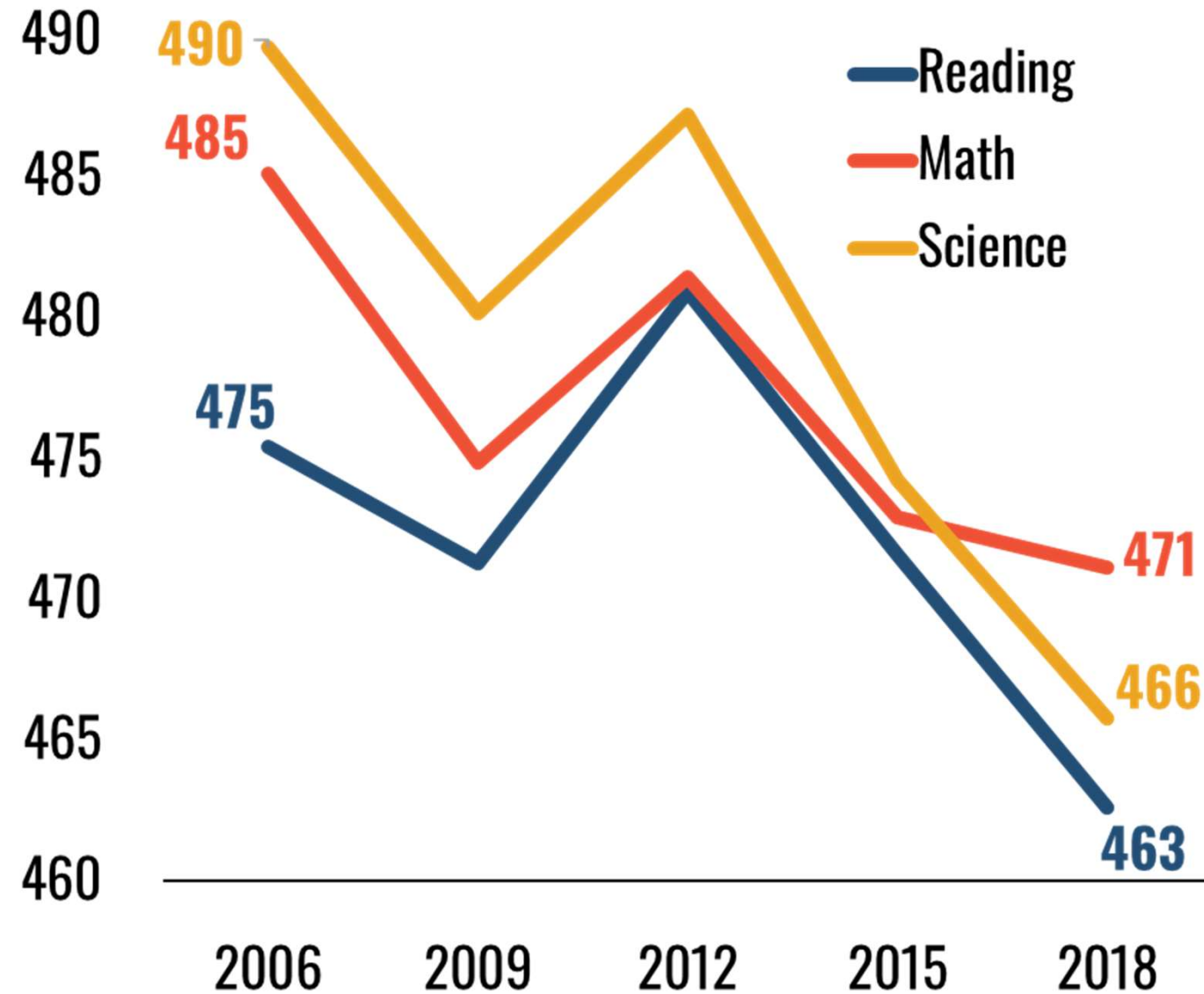
Working age population, by region

Percent of total population

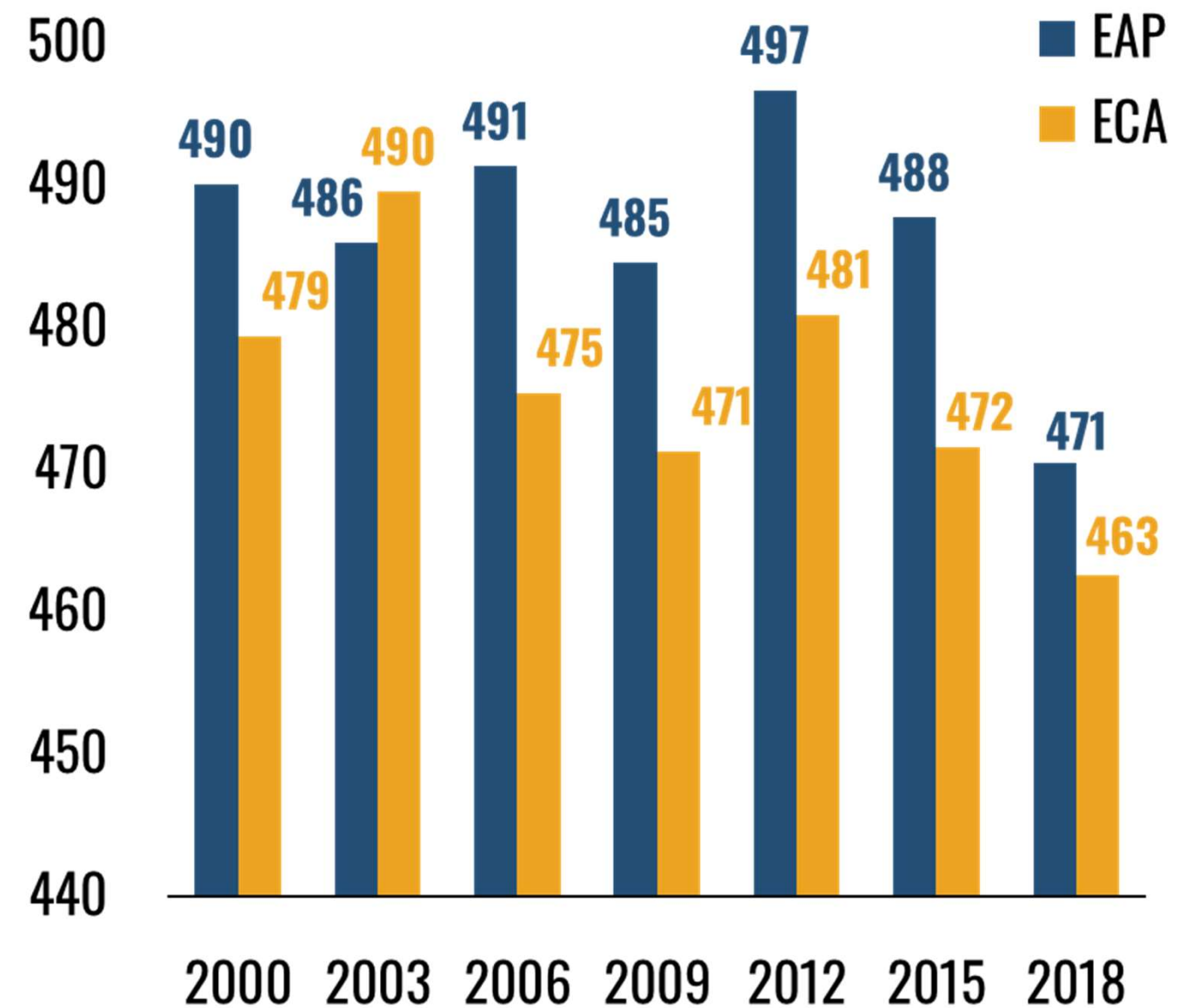


... as will problems with student performance ...

ECA PISA Scores



PISA Reading Scores

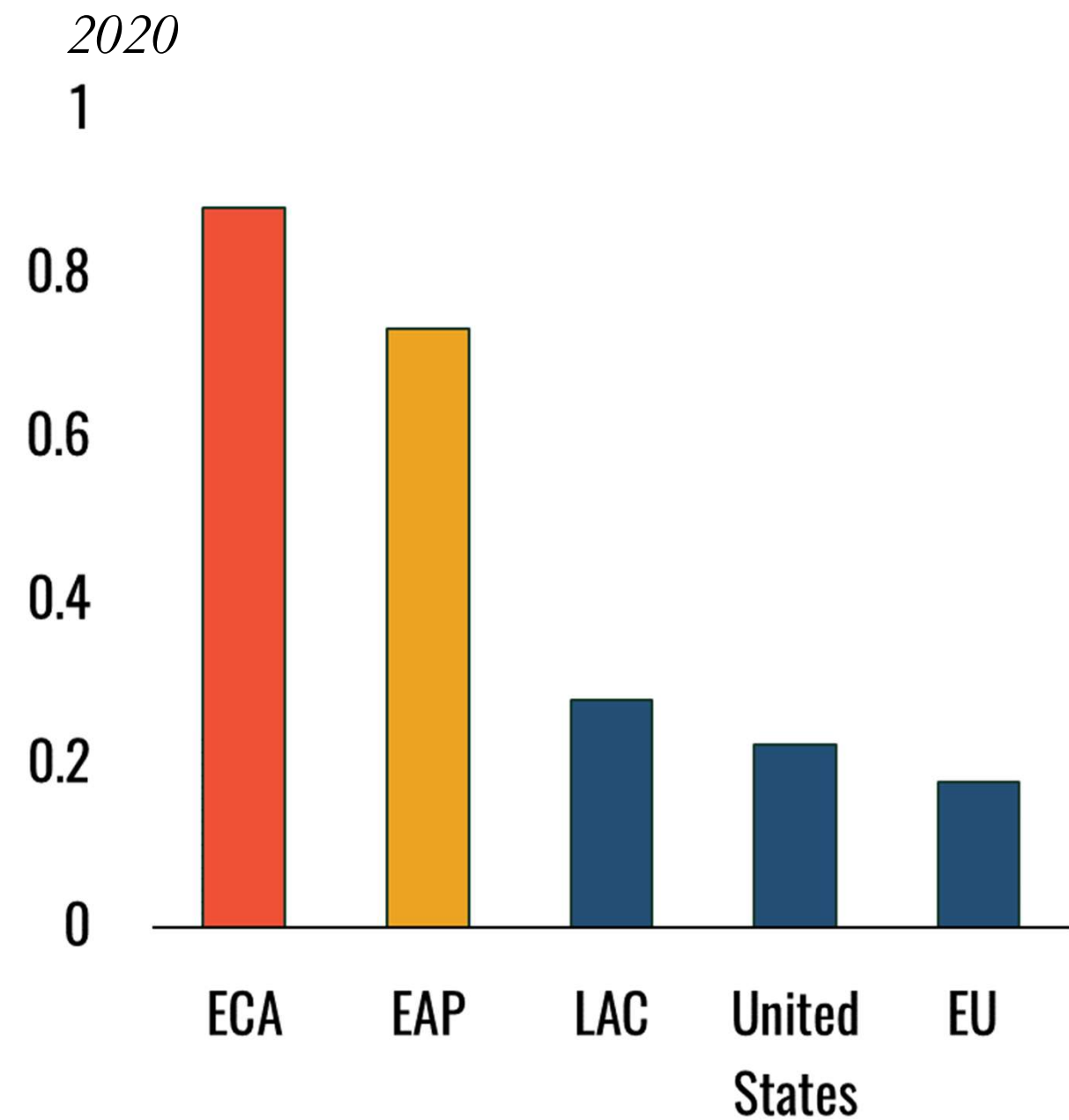
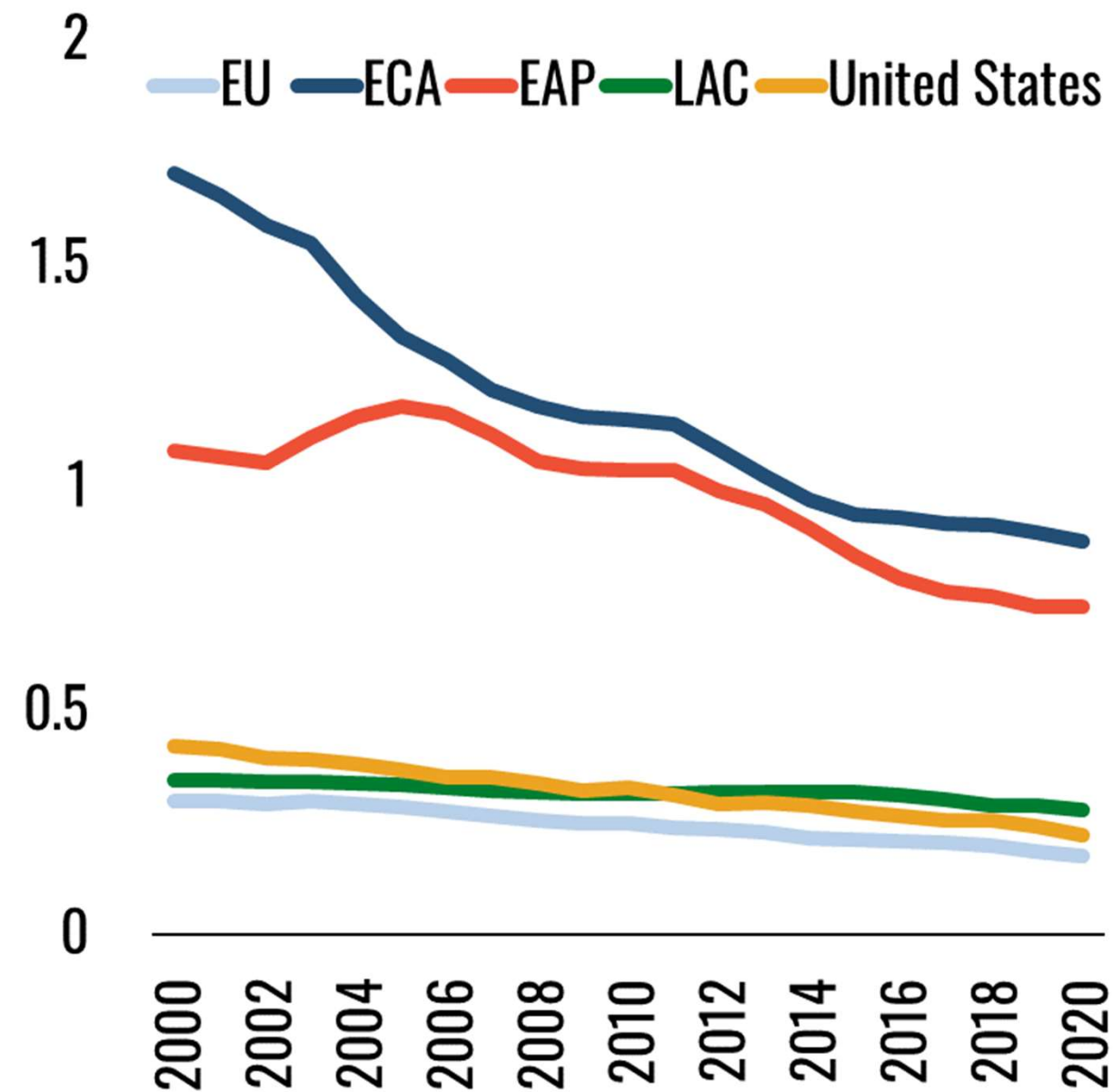


Sources: OECD PISA 2018 Results (Volume I); World Bank.

... and without ambitious reforms, the cost of the green transition

Carbon intensity

Kilograms of CO₂ emitted per dollar of GDP



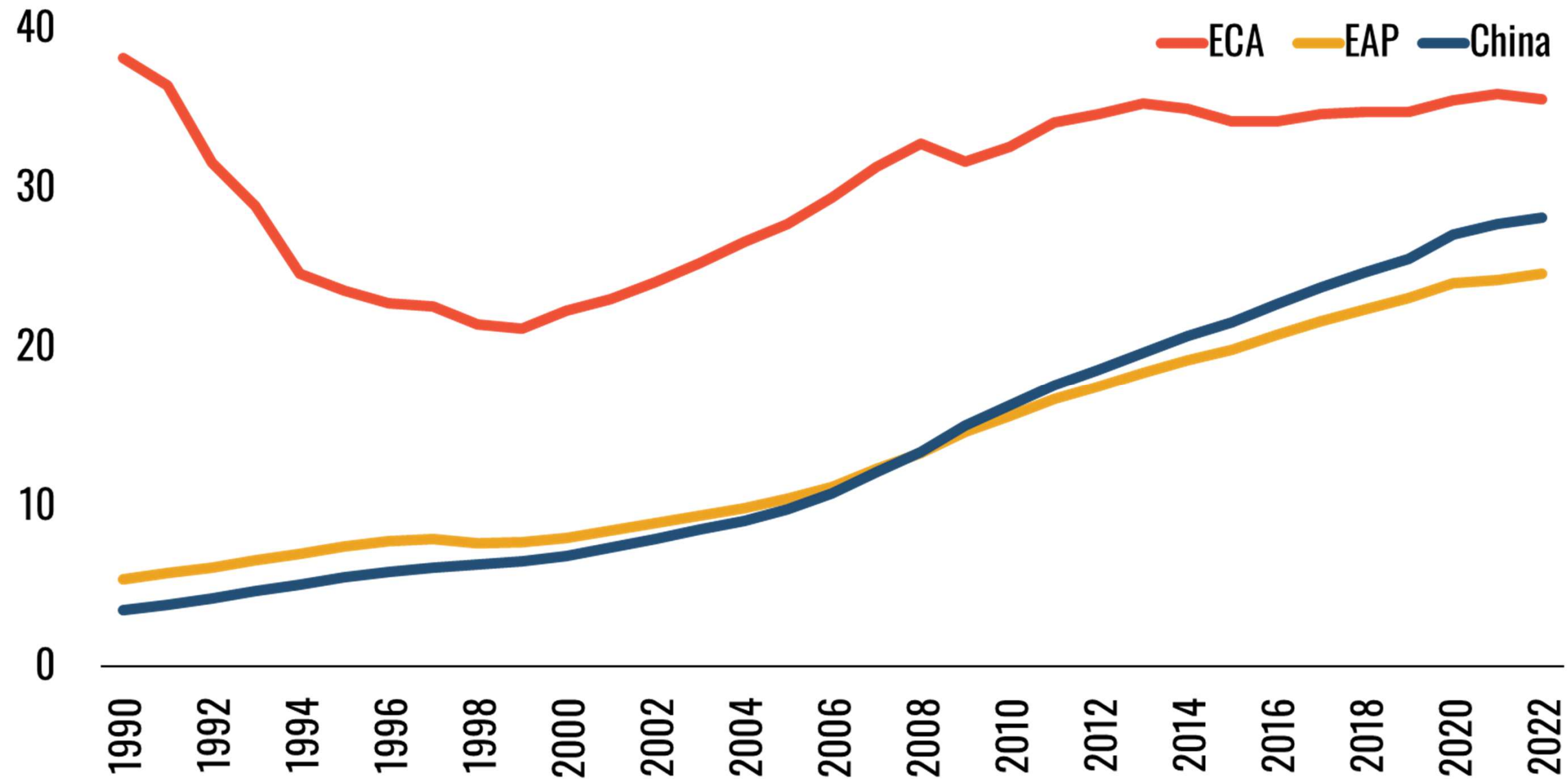
Source: World Bank

Note: GDP is in constant 2015 international dollars. ECA = Europe and Central Asia; EAP = East Asia and Pacific EMDEs; EU = European Union; LAC = Latin America and Caribbean.

ECA's convergence has stalled. EAP is catching up

GDP per capita PPP relative to the US levels

United States GDP per capita = 100



Source: World Bank WDI.
GDP per capita in PPP (constant 2017 international \$)

Conclusions

- **Weak growth remains the greatest challenge for ECA**
 - Growth projected at 2.6 percent for 2024-25 vs 4.2% average in 2000-2019
 - Much weaker external environment, sharp slowdown in the euro area
 - Low growth strains prospects for convergence to high-income
- **High inflation will continue to hurt households and keep policies tight**
 - Disinflation appears to have slowed this summer
 - Wage pressures remain elevated due to migration. Lack of people. Skill shortages.
- **Countries in ECA urgently need to rebuild their fiscal space**
 - Higher interest outlays. Cost of aging. Low education outlays.
 - Climate change and resilience-related spending.
- **The impacts of climate change are constraining growth**
 - Actions to address climate change coupled with structural reforms can boost growth and facilitate the green transition.

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