

EMBARGOED UNTIL WEDNESDAY, 9 MAY 2018

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European Bank
for Reconstruction and Development

Regional Economic Prospects in the EBRD Regions May 2018

Has growth peaked?

2018 growth forecasts revised upwards as broad-based recovery continues

Following several years of weaker economic performance, growth in the EBRD regions averaged 3.8 per cent year-on-year in 2017. The acceleration, now sustained for two years, has been broad-based, with contributions from stronger investment activity and higher exports.

Average growth in the region may now have peaked and is expected to moderate to 3.3 per cent in 2018 and 3.2 per cent in 2019. Despite the projected deceleration, the expected average growth in 2018-19 is higher than in 2014-16. The projections are in line with moderate estimates of the potential medium-term growth in the EBRD regions, which, in turn, reflect the lower levels of productivity growth compared with those seen before the 2008-09 crisis as well as adverse demographic trends.

Growth in central and south-eastern Europe and Turkey is projected to moderate in 2018 from high levels seen in 2017 as the fiscal stimulus wears off in Turkey and shortages of skilled labour constrain medium-term growth potential in central Europe.

Growth in Russia is projected to remain around 1.5 per cent. Growth in Central Asia is expected to moderate to around 4.5 per cent in 2018-19 in light of lower commodity price growth and the need for fiscal consolidation. Growth in Eastern Europe and the Caucasus is projected to increase to 3 per cent in 2018 as the recovery in Ukraine gains momentum.

Growth in the southern and eastern Mediterranean (SEMED) region is projected to increase to around 4.4 per cent in 2018 and 4.8 per cent in 2019 on stronger external demand, a gradual recovery in tourism amid an improved security situation, rising investment and improved competitiveness. The projected growth corresponds to an annual increase in output per capita of around 2.5 per cent, reflecting relatively fast population growth in the SEMED region compared with that in emerging Europe.

The outlook is subject to numerous risks. As companies took advantage of favourable financing conditions, corporate debt as a percentage of GDP in the EBRD regions increased from around 40 per cent in 2007 to more than 60 per cent in 2018, much of it external and/or denominated in foreign currency. This presents a source of vulnerability should global financing conditions tighten rapidly, highlighting the need to further develop local currency and equity markets.

Strongest growth in EBRD regions since mid-2011

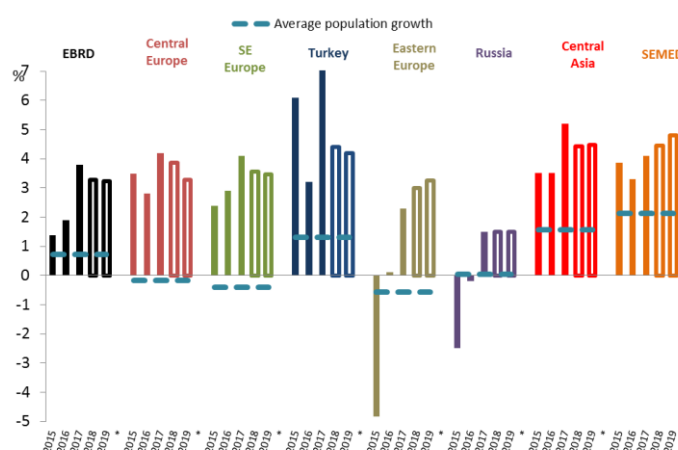
Chart 1. Real GDP growth rate in EBRD regions



Source: CEIC, national authorities, IMF and authors' calculations.

Population growth rates differ greatly across EBRD regions

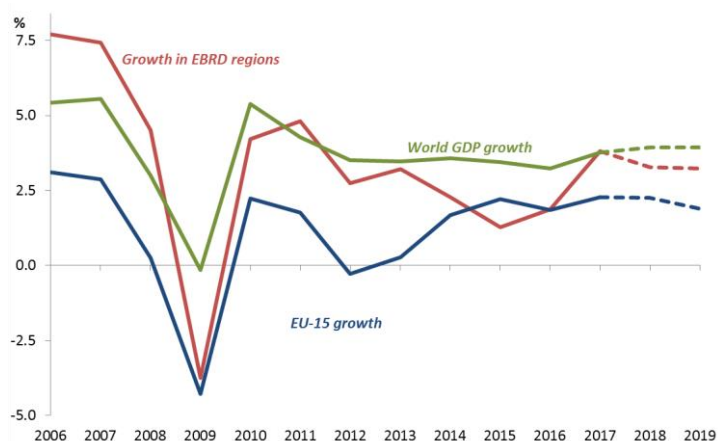
Chart 2. GDP growth and population growth by region, %



Source: CEIC, national authorities, IMF and authors' calculations.

Growth may have peaked, is expected to moderate

Chart 3. Real GDP growth, %, weighted at PPP



Source: IMF and the EBRD.

Emerging market equities up 14% in 2 years

Chart 4. Stock market indices, April 2016 = 100



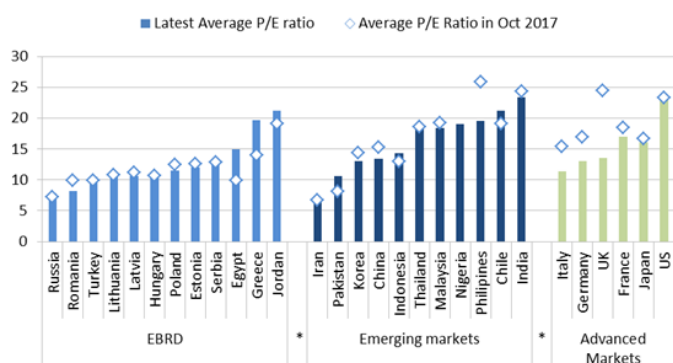
Source: Thomson Reuters.

Table 1. Real GDP growth

	Actual		Forecast (as of 9 May 2018)		Change in forecast 2018
	2016	2017	2018	2019	
EBRD region¹	1.9	3.8	3.3	3.2	0.3
Central Europe and the Baltic states	2.9	4.3	3.8	3.3	0.5
Croatia	3.2	2.8	2.7	2.5	0.1
Estonia	2.1	4.9	3.8	3.0	0.4
Hungary	2.2	4.0	3.8	3.0	0.4
Latvia	2.2	4.5	3.5	3.5	-0.6
Lithuania	2.3	3.8	3.2	2.8	-0.3
Poland	3.0	4.6	4.0	3.3	0.6
Slovak Republic	3.3	3.4	3.9	4.2	0.4
Slovenia	3.1	5.0	4.0	3.3	1.1
South-eastern Europe	3.0	4.1	3.6	3.5	0.3
Albania	3.4	3.8	3.8	3.9	0.1
Bosnia and Herzegovina	3.1	3.0	3.3	3.5	0.3
Bulgaria	3.9	3.6	3.6	3.4	0.4
Cyprus	3.4	3.9	3.2	3.0	0.7
FYR Macedonia	2.9	0.0	2.5	3.0	0.0
Greece	-0.2	1.4	2.2	2.3	0.0
Kosovo	4.1	3.7	3.7	4.0	0.2
Montenegro	2.9	4.4	3.3	2.7	0.0
Romania	4.8	6.9	4.6	4.2	0.4
Serbia	2.8	1.9	2.9	3.5	0.0
Eastern Europe and the Caucasus	0.1	2.3	3.0	3.3	0.3
Armenia	0.2	7.5	3.5	4.5	0.0
Azerbaijan	-3.1	0.1	2.5	3.5	0.5
Belarus	-2.5	2.4	3.0	3.0	1.0
Georgia	2.8	5.0	4.5	4.5	0.0
Moldova	4.3	4.5	3.5	4.0	0.0
Ukraine	2.4	2.5	3.0	3.0	0.0
Turkey	3.2	7.4	4.4	4.2	0.9
Russia	-0.2	1.5	1.5	1.5	-0.2
Central Asia	3.6	4.8	4.4	4.5	0.0
Kazakhstan	1.1	4.0	3.9	3.8	0.4
Kyrgyz Republic	3.8	4.5	3.7	4.0	-0.5
Mongolia	1.0	5.1	5.2	5.9	2.2
Tajikistan	6.9	7.1	5.0	5.5	0.0
Turkmenistan	6.2	6.5	5.0	5.0	-0.1
Uzbekistan	7.8	5.3	5.1	5.3	-1.1
Southern and eastern Mediterranean²	3.3	3.7	4.4	4.8	0.4
Egypt	4.3	4.2	5.3	5.5	0.8
Jordan	2.0	2.0	2.5	2.7	0.0
Lebanon	1.0	1.2	2.0	2.5	-0.5
Morocco	1.2	4.0	3.0	4.0	-0.5
Tunisia	1.0	1.9	2.7	3.0	0.0
"East": EEC, CA, Russia	0.4	2.2	2.2	2.2	-0.1
"West": CEB, SEE, SEMED, Turkey	3.1	5.1	4.1	4.0	0.6

¹ Weighted averages, based on the countries' nominal GDP values in PPP US dollars.

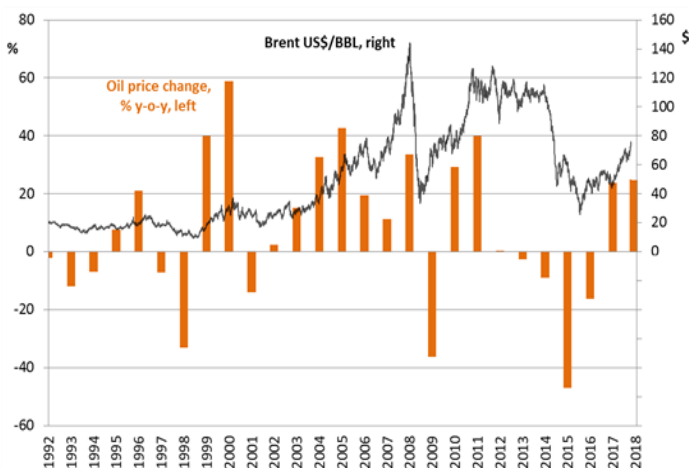
² EBRD figures and forecasts for Egypt's real GDP reflect the country's fiscal year, which runs from July to June.

P/E ratios have remained high in many markets**Chart 5. Price-to-earnings ratios**

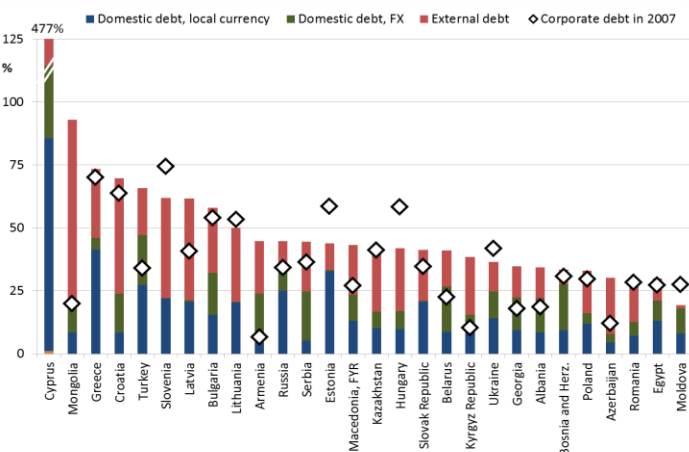
Source: Thomson Reuters, Bloomberg.

Financing conditions have remained very favourable**Chart 6. Bond yields**

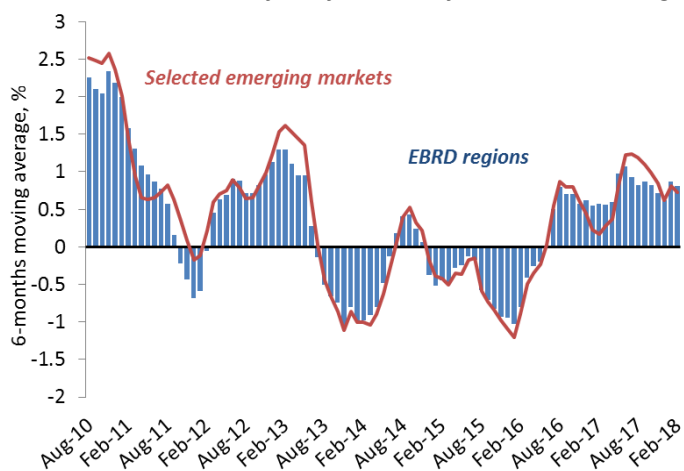
Source: Bloomberg.

Rising oil prices supported growth in Russia, Central Asia**Chart 7. Change in annual average oil price (Brent), %**

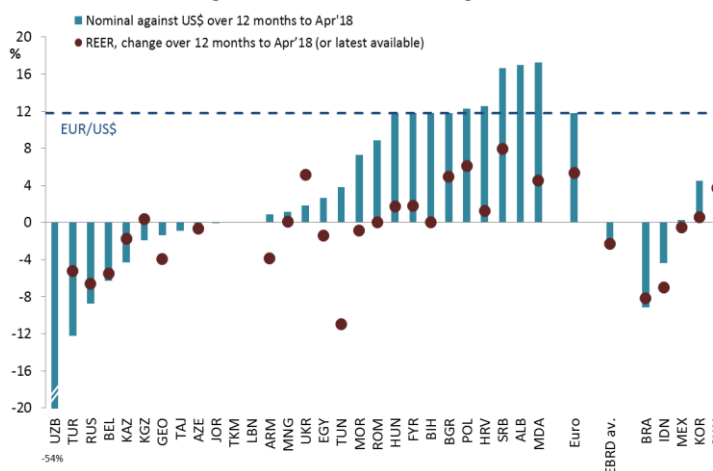
Source: Thomson Reuters and authors' calculations.

Corporate debt rose markedly, much of it in forex**Chart 8. Non-financial sector corporate debt, % of GDP**

Source: CEIC, national authorities, IMF, World Bank, BIS, OECD.

Capital flows to the EBRD regions have remained resilient**Chart 9. Net mutual fund flows, % of assets under mng.**

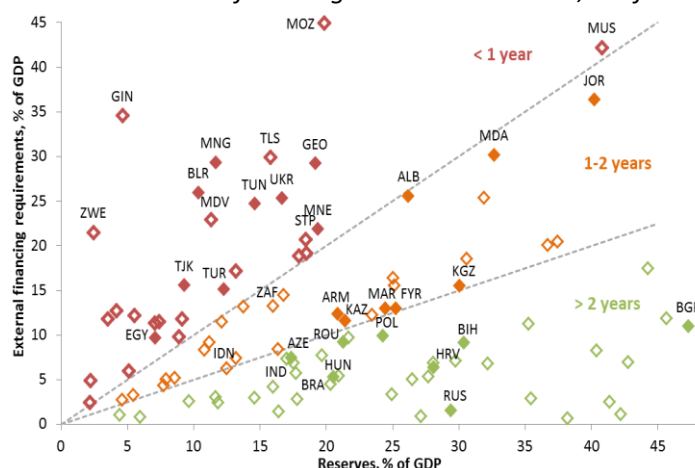
Source: EPFR Global and authors' calculations.

Weaker US\$ sustained favourable financing conditions**Chart 10. Exchange rate movements against the US dollar, %**

Source: CEIC, national authorities, Thomson Reuters. PPP-weighted.

Reserve coverage of external financing needs varies

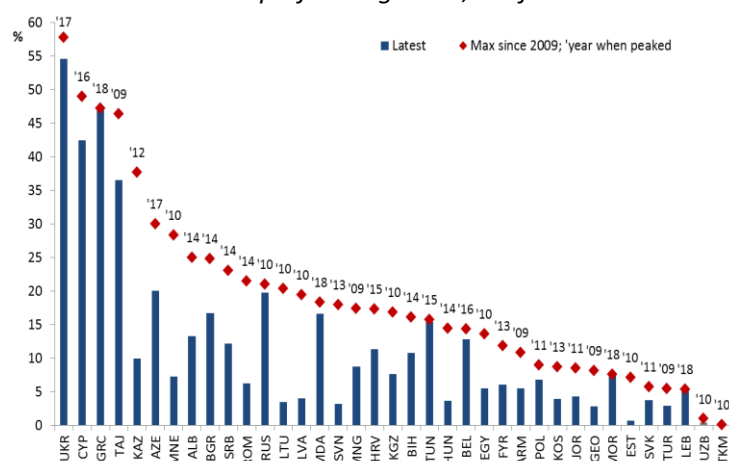
Chart 11. External financing needs and reserves, % of GDP



Source: World Bank and authors' calculations.

Policies, recovery help to reduce non-performing loans

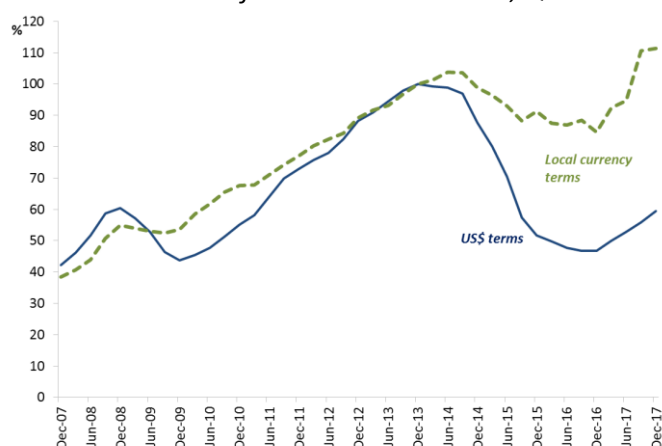
Chart 12. Non-performing loans, % of total loans



Source: CEIC, national authorities, World Bank and Moody's.

Remittances recovered in local-currency terms

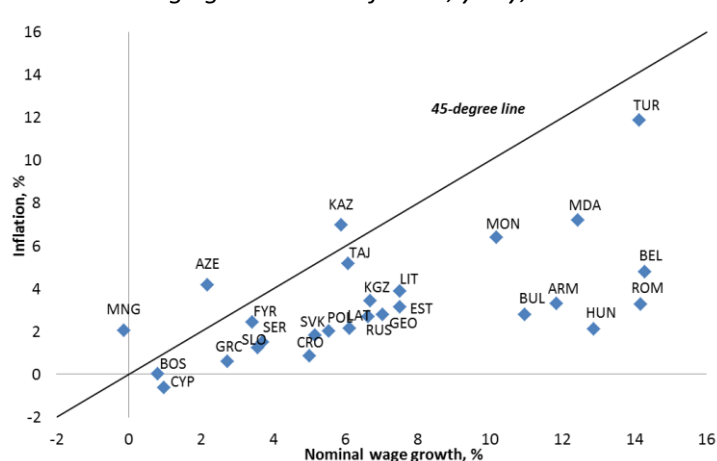
Chart 13. Remittances from Russia to CA+EEC, Q2013 = 100



Source: Central Bank of Russia and authors' calculations.

Faster wage growth supported growth performance

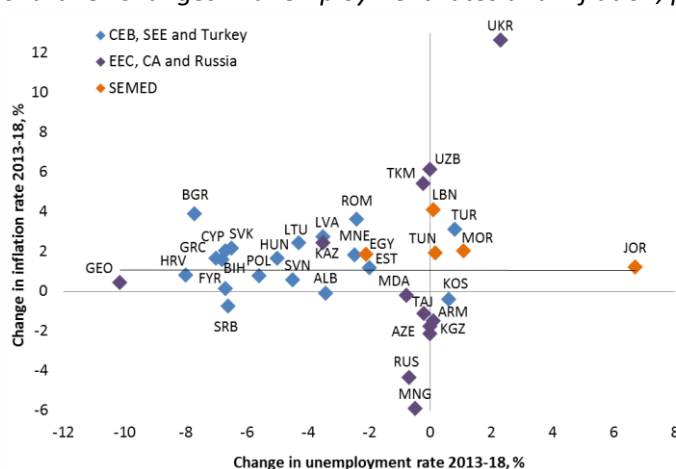
Chart 14. Wage growth and inflation, y-o-y, Feb'18 or latest



Source: CEIC, national authorities, ILO and authors' calculations.

As unemployment rates have been falling since 2013

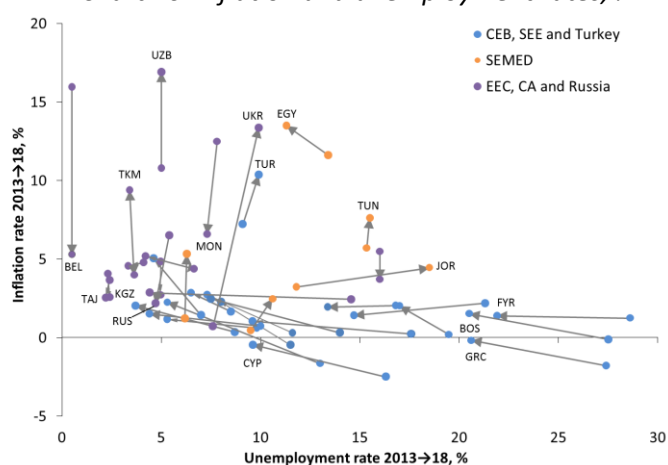
Chart 15. Changes in unemployment rates and inflation, pp



Source: Thomson Reuters and authors' calculations.

So far, falling unemployment has not pushed up inflation

Chart 16. Inflation and unemployment rates, %



Source: Thomson Reuters and authors' calculations.

Strong growth momentum

Growth in the EBRD regions accelerated from 1.9 per cent in 2016 to 3.8 per cent in 2017 (Table 1). Growth in the third quarter of the year, estimated at 5 per cent year-on-year (weighted using the values of countries' gross domestic product [GDP] at purchasing power parity [PPP]), was the strongest since the third quarter of 2011 and the second strongest since the third quarter of 2008, albeit short of the levels seen in the middle of the previous decade (6 to 8 per cent, Chart 1).

The growth momentum has been broadly shared across the region's economies. In more than a third of the region's economies, growth in 2017 was the strongest since 2011. Important contributions to stronger growth came from a rebound in investment activity and robust export performance. Gross inflows of foreign direct investment amounted to around 2.3 per cent of GDP in a typical (median) economy, in line with the average value for the preceding five years.

Growth showed signs of slight moderation in late 2017 and early 2018 but the overall momentum remained strong. The average estimate in the fourth quarter stood at 3.7 per cent compared with close to 5 per cent in the previous quarter. The latest economic indicators such as industrial production and international trade point towards a further moderation of growth in the first months of 2018, to a range of 3 to 3.5 per cent (Chart 1). These estimates are derived using a principal-component-based nowcasting model.¹

Mirroring global trends

Strong recovery in the EBRD regions mirrored trends in the global economy, which also grew at an average rate of 3.8 per cent in 2017 (in PPP-weighted terms). Having picked up by 0.6 percentage points last year, global growth is expected to edge up further in 2018-19 to 3.9 per cent, according to the latest projections of the International Monetary Fund (IMF). In the EU-15, growth accelerated from 1.8 per cent in 2016 to 2.3 per cent in 2017. It is projected to remain at this level in 2018 and moderate to 1.9 per cent in 2019 (Chart 3).

Global trade expanded at a significantly higher pace than global GDP (4.7 per cent) for the first time since 2011 (Chart 3), aided in part by higher investment (investment goods tend to be traded more across borders) and weakening of the US dollar (the prevailing unit of pricing for cross-border sales).² In the EBRD regions, exports strengthened across the board in 2017, contributing to the recovery. At the same time, global trade tensions continued escalating, with the United States and China imposing high tariffs on selected imports.

¹ See the November 2017 edition of the *Regional Economic Prospects* for a discussion of the model.

² See Boz, Emine, Gita Gopinath and Mikkel Plagborg-Møller (2017), "Global Trade and the Dollar", IMF Working Paper 17/239.

Favourable financing conditions sustained

The global search for yield sustained exceptionally favourable financing conditions in emerging markets even as the US Federal Reserve raised its policy rate in December 2017 and March 2018 by a cumulative 0.5 percentage points to the range of 1.5 to 1.75 per cent. The yield on 10-year US Treasuries also edged up, albeit with a delay. In contrast, the European Central Bank (ECB) has left its quantitative easing programme in place (albeit with a reduced amount of monthly asset purchases) as inflation in the eurozone remained below the 2 per cent inflation target.

Global stock markets experienced a correction in February 2018, followed by a period of somewhat higher volatility. The February correction reflected higher inflation expectations as well as unwinding of speculative bets made on sustained low volatility itself. The correction has been relatively limited to date. Increased stock market volatility notwithstanding, equities in emerging Europe traded 14 per cent higher in mid-April 2018 than two years earlier (Chart 4). Russian stocks experienced a greater downward correction upon announcement of the new round of US sanctions in April 2018, which included Rusal, a major aluminium producer (Chart 5; see also the Regional Update section, which discusses in more detail country-specific factors shaping the economic outlook in individual countries).

Yields on emerging market bonds were little affected by the increase in stock market volatility, both in the EBRD regions (Chart 6) and globally.

Second year of rising oil prices

The oil price surpassed the US\$ 70 per barrel of Brent mark briefly in January 2018 and then again in April 2018 owing to stronger demand, production cuts by the members of the Organization of Petroleum Exporting Countries (OPEC) and Russia as well as concerns about supply disruptions. As a result, the average oil price in 2018 is up 25 per cent year-on-year, following a 24 per cent increase in 2017 (Chart 7). In revenue terms, higher prices have so far more than offset the impact of lower production for Russia and other exporters that committed to production caps.

Oil price increases thus provided a sustained boost to year-on-year growth in Russia and Central Asia in the first months of 2018. The adverse impact on commodity importers has been limited in comparison as global consumption of oil tends to be spread fairly evenly across countries while global production is concentrated in a relatively small number of major oil exporters.

Analysts expect the oil price to remain around the current level in the short term as upward price pressure is expected to prompt a significant increase in shale oil production. In the longer term, continued technological improvements in shale oil production may further bring down the break-even price.

Stronger growth momentum across the EBRD regions

Growth in **central Europe and the Baltic States** (CEB) picked up markedly, from an average of 2.9 per cent in 2016 to 4.3 per cent in 2017 (Chart 2), boosted by stronger investment and higher wage growth. Growth strengthened in every economy in the region with the exception of Croatia. In Poland, an increase in social welfare payments also contributed to the growth momentum.

Growth followed a similar trajectory in **south-eastern Europe** accelerating from 3 per cent in 2016 to 4.1 per cent in 2017. In Romania, the growth rate approached 7 per cent, well above the estimated potential long-term growth, on the back of expansionary fiscal policy and rising wages. A number of major investment projects contributed to the growth momentum in the Western Balkans while GDP increased modestly in Greece after two years of marginally negative growth. In FYR Macedonia, however, growth came to a standstill as the earlier political crisis took a toll on investor confidence.

Growth in **Eastern Europe and the Caucasus** rose to 2.3 per cent in 2017 from near-zero in 2016, as economic activity expanded vigorously in Armenia and Georgia while Belarus and Azerbaijan returned to growth.

Various stimulus measures, including the establishment of the Credit Guarantee Fund for small and medium-sized enterprises and various tax incentives, boosted **Turkey's** growth to 7.4 per cent in 2017, up from 3.2 per cent in 2016.

Russia's economy returned to growth in 2017, expanding by 1.5 per cent, following a cumulative contraction of around 3 per cent in 2015-16. At the same time, the new round of US economic sanctions added to economic uncertainty faced by investors.

Growth in **Central Asia** picked up from 3.6 per cent in 2016 to 4.8 per cent in 2017, supported by higher average prices of oil and other commodities. Uzbekistan continued implementing an ambitious programme of liberalisation reforms.

Growth in the **southern and eastern Mediterranean** picked up from 3.3 per cent in 2016 to 3.7 per cent in 2017 as agricultural output rebounded in Morocco and Tunisia and improved competitiveness and greater investor confidence supported growth in Egypt. On the other hand, economic activity in Jordan and Lebanon continued to be negatively impacted by the geopolitical uncertainty in the region and the resulting refugee crisis.

Domestic credit growth in line with GDP growth

Domestic credit growth in the EBRD regions (adjusted for inflation and exchange rate movements) has been in line with real GDP growth over the last three years, keeping the credit-to-GDP ratio broadly constant, reflecting the already high levels of corporate and household debt relative to incomes in a number of countries.

Corporate debt-to-GDP ratios up 1.5 times since the crisis owing to external borrowing

At the same time, the overall levels of the non-financial-sector corporate debt in the EBRD regions increased markedly over the last decade, from an average of 42 per cent of GDP in 2007 to 61 per cent of GDP in 2017, as countries took advantage of favourable financing conditions (Chart 6). In many countries, levels of corporate debt are comparable to those in Germany and the United States although they remain below the levels seen in many other advanced economic and emerging markets. In this regard, the composition of debt is a greater source of risk than the current levels.

In particular, much of the recent increase in corporate debt in the EBRD regions is accounted for by external borrowing or domestic borrowing denominated in foreign currency (Chart 8). This presents a potential source of vulnerability should global financing conditions tighten rapidly and should net inflows of capital into emerging markets weaken substantially.

Capital flows remain resilient

So far, capital inflows into emerging markets have remained resilient amidst the search for yield. Bond and equity inflows in the EBRD regions remained strong, in line with global trends (Chart 9).

Weak US dollar sustains favourable financing conditions for emerging markets

The relative weakness of the US dollar also contributed to easing financial conditions for emerging markets as a weaker US dollar makes it easier to service debt obligations denominated in US dollars and raises dollar-referenced returns for emerging market investors. The region's currencies have remained broadly stable, on average appreciating somewhat against the US dollar and depreciating slightly against the euro (Chart 10).

Resilience to capital flow reversals varies from country to country

Most countries in the region have significant buffers in case of a major reversal in capital flows of emerging markets (an episode that could have similarities with the “taper tantrum” of 2013). In the vast majority of the region's markets, international reserves more than fully cover the short-term gross external refinancing needs (calculated as the current account deficit plus short-term external debt, that is, external debt due to be repaid within the next 12 months).

The coverage ratio remains weaker, however, in several economies, including Belarus, Georgia, Mongolia, Tajikistan, Tunisia, Turkey and Ukraine (Chart 11). Globally, reserve coverage ratios are also on the low side in a number of economies in sub-Saharan Africa and in selected small island economies. In contrast, most emerging markets have built up substantial international reserves.

Policy actions and economic recovery led to lower non-performing loan ratios

Further progress has been made in terms of reducing the levels of non-performing loans (NPL) in the region, as policy actions leading to NPL reductions and the economic upswing reinforced each other in a virtuous loop. A typical (median) country saw the ratios of NPLs to total loans decline by 5.3 percentage points from the post-2008-09 crisis peaks (Chart 12). At the same time, NPL ratios remain in double digits in more than a third of the countries.

On the other hand, a banking scandal in Latvia in February 2018 highlighted remaining challenges in terms of banking regulation and supervision in the region. Following accusations of money-laundering and corruption, ABLV, Latvia's third largest commercial bank, submitted a voluntary liquidation plan and is expected to be wound up with the assistance of independent international auditors. The governor of Latvia's Central Bank was briefly detained in connection with an anti-corruption probe but subsequently released.

Remittances are growing again, reaching new records in local currency terms

Remittances from Russia to Central Asia, Moldova and the Caucasus picked up by 28 per cent in US dollar terms in 2017. This trend has continued in 2018. While in US dollar terms the level of remittances was still around 40 per cent below the 2013 peak, in real local currency terms (adjusted for local inflation), remittances have now surpassed their previous peak levels (Chart 13).

Wage growth picks up on tighter labour markets

Faster wage growth played an important role in explaining stronger-than-expected performance in 2017, from Romania to Turkey and from Hungary to Belarus. Faster wage growth (Chart 14) reflected in part much tighter labour markets: the median (typical) unemployment rate in the region declined by 3.1 percentage points since its peak in 2013 to the still elevated level of 8.7 per cent (Chart 15).

Falling unemployment has had limited impact on inflation so far

Falling rates of unemployment in the region have not yet resulted in strong inflationary pressures (Charts 15 and 16), mirroring trends in advanced economies. Several factors may explain low inflationary pressures despite tighter labour market conditions. The substantial economic slack following a prolonged period of modest economic growth since the 2008-09 financial crisis plays a role (a detailed discussion of the region's growth performance can be found in the *EBRD Transition Report 2017-18*).

Technological change also contributed to a weakening of the Phillips curve relationship between lower unemployment and higher inflation.³ On the one hand, technology makes it easier for workers to be matched with job openings, reducing the structural rate of unemployment in the economy. On the other hand, the risk of automation of a significant number of occupations may limit workers' ability or willingness to seek pay rises, even when labour markets are tighter.

In several countries, however, inflation has been high and rising. In Turkey, for instance, persistent double-digit inflation reflects expansionary fiscal and monetary policies deployed to boost growth above its long-term potential level and resulting in overheating of the economy. In Egypt, inflation spiked following the November 2016 depreciation of the pound and subsequently moderated from the average rate of 29 per cent in 2017 to the still elevated rate of 13 per cent in March 2018. Inflation in Ukraine also stood at 13 per cent in March 2018 and the National Bank of Ukraine repeatedly increased its policy rate in recent months to 17 per cent. In Uzbekistan, inflation is expected to be in double digits, reflecting earlier exchange rate liberalisation.

Outlook: growth is projected to remain robust but it may now have peaked

Average growth in the region may have now peaked and is expected to moderate to 3.3 per cent in 2018 and to 3.2 per cent in 2019 (Table 1 and Chart 2). This trajectory differs from the expected path of world GDP growth, which is expected to pick up from the same level in 2017 (3.8 per cent) to 3.9 per cent in 2018 and 2019, according to the projections published in the April 2018 *World Economic Outlook* of the International Monetary Fund.

The new 2018 projections for the EBRD regions are nonetheless higher than in November 2017 (an upward revision of 0.3 percentage points) on account of stronger expected performance in central Europe, the Baltic states and Turkey, as well as south-eastern Europe and Eastern Europe and the Caucasus which, in turn, reflect expectations of a stronger external environment. And despite the projected deceleration, the expected average growth in 2018-19 is higher than in 2014-16. The economic indicators available for the first months of 2018 such as trade, industrial production and, for some economies, growth, are consistent with the projected growth moderation (Chart 1).

Constraints on medium-term growth

The projected average growth in 2018-19 implies broadly unchanged views about the long-term growth rate in the region even though the region's economies managed to converge to this rate faster than previously expected, helped by the cyclical recovery in the advanced economies. In turn, the moderate estimates of potential growth reflect the lower levels of productivity growth in advanced economies and in emerging markets compared with the

³ See <http://bruegel.org/2017/11/has-the-phillips-curve-disappeared/> for a recent blog discussion by Silvia Merler. The original paper by Phillips was published in 1958: Phillips, A. (1958), "The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom 1861–1957", *Economica*, Vol. 25, pp. 283-299.

levels seen before the 2008-09 crisis, as well as adverse demographic trends as discussed in the EBRD's forthcoming *Transition Report 2018-19*.

Outlook by region

Growth in **central Europe and the Baltic States** is projected to moderate gradually, from 4.3 per cent in 2017 to 3.8 per cent in 2018 and 3.3 per cent in 2019, as shortages of skilled labour continue to constrain medium-term growth potential in the region.

In **south-eastern Europe**, growth momentum is also expected to subside but remain strong overall, with the average growth declining from 4.1 per cent in 2017 to 3.6 per cent in 2018 and 3.5 per cent in 2019. Growth in Romania is expected to gradually moderate from close to 7 per cent in 2017 to 4.2 per cent in 2019 as wage growth subsides. Recovery in Greece, on the other hand, is expected to gradually take hold, with growth slightly exceeding the 2 per cent mark in 2018 and 2019. Growth is also expected to pick up this year in the Western Balkans on the back of significant improvements in FYR Macedonia and Serbia and continued robust growth in the remaining countries.

The economies of **Eastern Europe and the Caucasus** are projected to continue gaining growth momentum in 2018 and 2019, with average growth accelerating from 2.3 per cent in 2017 to 3 per cent in 2018 and further to 3.3 per cent in 2019. This trajectory mainly reflects the continued recovery in Ukraine following a major contraction in 2015-16. Growth in Azerbaijan is also expected to pick up gradually as oil production stabilises.

Growth in **Turkey** is projected to moderate from 7.4 per cent in 2017 to 4.4 per cent in 2018 as the effect of fiscal stimulus wears off and limits to credit growth lead to a cooling down of domestic demand. Higher exports and lower imports are likely to partly offset these effects, as a result of the ongoing weakness of the lira and increasing demand in key export markets. Growth is expected to moderate further in 2019.

Russia's growth is projected to remain around 1.5 per cent in 2018 and 2019, in line with the outcome in 2017, as investment activity remains sluggish and oil prices stabilise or decline somewhat.

Growth is also expected to moderate in **Central Asia**, from 4.8 per cent in 2017 to close to 4.5 per cent in 2018-19, reflecting in part lower commodity price growth and the need for fiscal consolidation.

Growth in **the southern and eastern Mediterranean** is projected to increase from 3.7 per cent in 2017 to around 4.4 per cent in 2018 and further to 4.8 per cent in 2019 on stronger external demand, gradual recovery of the tourism sector amid an improved security situation, rising investment and improved competitiveness. Recovery in Jordan is expected to gain momentum on the back of an improved outlook for the tourism sector and higher revenues from the sale of phosphates and other mining products. The projected growth corresponds to an annual increase in output per capita of around 2.5 per cent, reflecting relatively fast population growth in the SEMED region compared with that in emerging Europe (Chart 2).

Significant risks to the outlook: indebtedness

The outlook is subject to numerous risks. A substantial rise in corporate indebtedness, much of it in the form of either external debt or domestic debt denominated in local currency, is a source of concern. The resilience of corporates to a significant tightening of global financing conditions is yet to be tested.

Record-high stock market valuations

Stock markets valuations in the United States (as reflected in price-to-earnings ratios) have climbed up to the levels seen only in 1929 (in the run-up to the Great Depression) and in 2000 at the height of the dotcom bubble. Stock markets in the EBRD regions and other emerging markets have broadly traced the trajectory of S&P 500 on the back of sustained capital inflows (Chart 4). The high valuations (Chart 5) reflect optimism about the current growth momentum but also point to the risk of a sizable downward correction should the mood change. Yet, with constrained fiscal space and very accommodative monetary policy, governments may have limited ammunition to respond to a major dip in market confidence.

Rising populism and escalating trade tensions

The attraction of populist parties may continue to rise in an environment of moderate growth and high and rising inequality, as discussed in the EBRD *Transition Report 2016-17*. This means a challenging backdrop for deeper structural reforms. Further escalation of trade tensions may have significant repercussions for major exporters of manufacturing goods in central Europe and elsewhere. Other major risks to the outlook include persistent security threats and geopolitical tensions as well as a high degree of concentration of sources of global growth, with China accounting for up to half of the total.

Regional updates

Central Europe and the Baltic States (CEB)

GDP growth in the CEB region accelerated to 4.3 per cent in 2017, the fastest such rate since 2007. Private consumption strengthened further but a key growth driver was the recovery in investment, which grew by 6.3 per cent. An upswing in the utilisation of EU funds, which is one of the powerful drivers of public investment, has been recorded in almost all CEB economies, with the exception of the Slovak Republic. Tightening labour markets are supporting strong wage growth but the drying labour supply pool is a key factor limiting industrial production. Relative to advanced Europe, labour force participation rates remain low for women, the disabled and the elderly. A greater mobilisation of those groups could thus somewhat offset the negative consequences of the already shrinking employment pool. Tying the retirement age to the expected average life expectancy (as implemented in Estonia or the Slovak Republic) would also support potential growth. A short term risk to GDP growth stems from uncertainty related to external demand in advanced Europe, including the possibility of a potential trade war that would indirectly affect some industries in CEB, such as the automotive sector in Hungary and the Slovak Republic.

Croatia

The Croatian economy grew by 2.8 per cent in 2017, a slight slowdown from 3.2 per cent the previous year. The deceleration was primarily due to a pick-up in imports. Growth was supported by another good tourist season, strong household consumption and investment. Fiscal consolidation continued with the general government balance turning to a surplus of 0.8 per cent of GDP. Although public debt started to decrease in 2016, it is still high at 78 per cent of GDP. Growth is expected to decelerate further in 2018 and 2019 as supportive cyclical factors (primarily a boost from tax cuts) are running out. However, the slowdown is expected to be rather marginal (to 2.7 and 2.5 per cent, respectively) as early indicators point to possibly another record tourist season in 2018 and the country is expected to put EU funds to better use. Higher productivity and long-term economic growth will require tackling corporate over-indebtedness and improving corporate governance. Also, the potential spill-over of Agrokor's financial problems to its subsidiaries and suppliers still poses a downside risk in the short term.

Estonia

GDP growth in Estonia accelerated to 4.9 per cent in 2017, fuelled by recovering investment. After contracting by a cumulative 11 per cent since 2013, gross fixed capital formation increased by 13.1 per cent last year, driven by substantial corporate purchases of transport and ICT equipment. A buoyant labour market has positively stimulated private consumption, which is expected to remain strong during the forecast horizon. In particular, a strong positive impact on consumption is expected to be noticeable in 2019 when the recently-introduced higher personal income tax exemptions will materialise in real cash transfers and thus effectively increase the disposable incomes of households. Export volumes have

continued to rise, especially to euro area countries such as the Slovak Republic and Germany. However, thanks to the investment-driven strong imports, net export growth was negative last year and is likely to remain so as the real effective exchange rate reaches record levels. In 2018 we anticipate a moderation in the growth rate to 3.8 per cent, followed by a further reduction to 3.0 per cent in 2019.

Hungary

In Hungary, GDP growth accelerated to 4 per cent in 2017, underpinned by strong private consumption and a recovery in investment. Following a major contraction in 2016, investment growth reached 16.8 per cent last year, which was the second highest increase in the EU. This recovery has been largely supported by improved EU funds absorption but also by the long-awaited revival in corporate lending. Annual credit growth to the private sector had been negative since September 2009 and it turned positive only in April 2017, accompanied by a successful reduction in non-performing loans to below 5 per cent of total loans by end-2017. Private consumption has remained the key growth driver, boosted by substantially increased disposable incomes. Minimum wages were increased by 15 and 8 per cent in 2017 and 2018 respectively. GDP growth is expected to remain strong, at 3.8 per cent in 2018, before it decelerates to 3 per cent in 2019. The key risks to that scenario are value chain effects of a potential euro area slowdown and mounting labour shortages. Labour constraints constituted a limitation for production in almost 9 out of 10 companies in the industry in the first quarter of 2018, the highest such ratio in the EU, according to the EC's business and consumer survey.

Latvia

The Latvian economy grew by 4.5 per cent in 2017, strongly supported by rising investment and solid private consumption. The strongest growth of fixed assets was largely induced by major purchases of transport equipment, intellectual property products and higher construction (except dwellings). This strong corporate investment happened despite contracting credit to the private sector and still weak EU funds absorption. In 2017, internal funds accounted for the highest share of investment finance (76 per cent). Falling unemployment and rising disposable incomes underpin robust private consumption, though persistent skill mismatches and rising labour costs have already started to weigh on Latvia's international competitiveness. Despite the expected further recovery in investment as well as the continued solid domestic demand, we downgrade our GDP forecast for 2018 to 3.5 per cent. The key factor behind this is the ongoing restructuring of banks' portfolios, which may result in a substantial withdrawal of non-resident deposits from the banking system. In 2019, GDP growth will likely remain at 3.5 per cent.

Lithuania

GDP growth in Lithuania reached 3.8 per cent in 2017, the strongest rate since 2012 but slightly below its Baltic neighbours. Robust private consumption was accompanied by recovering investment as the key drivers of growth last year. Investment grew by 7.3 per cent, largely supported by private sector purchases of fixed assets. Public sector investment

is set to recover in line with the anticipated acceleration in EU funds absorption in 2018-19. Following two consecutive years of contraction, export volumes have finally recovered, rising by 13.6 per cent in 2017. However, we downgrade our GDP growth projections to 3.2 per cent this year. In 2019 we expect a further slowdown to 2.8 per cent, as the strong investment-led imports will likely negatively contribute to GDP growth and domestic demand will ease.

Poland

The 2017 GDP growth rate in Poland exceeded our previous expectations and reached 4.6 per cent. The strengthened private consumption and recovering investment were the key growth drivers, with the latter registering a 3.4 per cent increase. At the same time, investment as a percentage of GDP still remains subdued at only 17.7 per cent, substantially below some of Poland's regional peers. Following a slowdown in 2016 and the first half of 2017, EU funds absorption and public investment have finally accelerated since the second half of 2017. Private outlays, however, remain slow due to policy uncertainty and the tight labour market. Labour shortages are seen as the main factor limiting industry production by nearly half of companies, according to the EC's business and consumer survey. The flip side for households is high wage growth, which is supporting consumption growth. Unemployment fell to a new record low of 4.4 per cent in February 2018 but the growth of the employment share in total population has grinded to a halt. While female employment rates in Poland are among the lowest in the EU, recently-introduced policies (such as a decrease of the retirement age or generous social transfers) have reduced female employment since the second half of 2017. Unless addressed by policy-makers, labour shortages, which are exacerbated by low participation rates of the disabled and the elderly, will likely weigh on future growth potential. GDP growth in 2018 is expected to remain strong, at 4.0 per cent, before it slows down to 3.3 in 2019, as the supply problems and rapidly appreciating real exchange rate start to weigh on Poland's competitiveness.

Slovak Republic

Economic growth in the Slovak Republic reached 3.4 per cent in 2017, supported by the EU economic expansion, high employment and accelerating wage growth. Investment, which was a major drag on growth in 2016, started to recover in late 2017. Unemployment and labour participation rates have been impressive but labour shortages are limiting production in over 20 per cent of companies (and above 30 per cent only in industry) according to surveys. The first signs of overheating in household credit have started to appear in the otherwise small, profitable and well-capitalised banking sector. We anticipate a growth rate of 3.9 per cent this year and 4.2 per cent in 2019. However, the near-term growth outlook will crucially depend on German industrial output and on progress in public investment deployment. A particular risk is the escalation of global trade tensions, especially in the automotive sector.

Slovenia

The Slovenian economy expanded strongly in 2017 by 5 per cent (speeding up from 3.1 per cent in 2016) on the back of growing investment and private consumption as well as exports. The growth is likely to slow down in the near term but will remain relatively strong, projected at 4.0 per cent in 2018 and 3.3 per cent in 2019. The medium-term outlook will depend primarily on the speed of structural reforms, which have progressed but are still far from completed. Although fiscal consolidation resulted in the budget deficit falling from 5.5 per cent of GDP in 2014 to 0 per cent in 2017, public debt remains high at 74 per cent of GDP at end-2017, implying a need for more reforms supporting fiscal sustainability in areas such as public wages, pensions, health and education. In addition, high corporate over-indebtedness as well as the slow pace of business environment reforms and privatisation could act as a drag on growth.

South-Eastern Europe (SEE)

Economic growth was positive in all SEE countries in 2017, with the exception of FYR Macedonia where a sharp drop in investment contributed to a recession in the first half of the year and an overall growth rate of zero in the whole year. However, all countries in this region are projected to grow in 2018 and 2019, with prospects improving significantly in Serbia and several other Western Balkans countries and continued robust performance in Bulgaria and Romania. After a return to growth in 2017, the Greek economy is expected to further improve this year and next, even though further austerity measures are in the pipeline, while the Cypriot economy continues to show a strong recovery from the crisis of several years ago.

Albania

Overall economic performance in Albania was robust in 2017 and the economy grew by 3.8 per cent. Growth was influenced equally by private consumption and investment (in terms of contribution to growth, of 2.2 and 2.0 percentage points respectively). The construction of two major energy sector projects is driving investment, although the direct economic impact on GDP is expected to decelerate in the short term before the economy starts enjoying the operational benefits of the two projects from 2020 onwards. Average inflation in 2017 was just 2 per cent, still below the central bank's target of 3 per cent and despite the continuation of the historically low policy rate of the Bank of Albania, at 1.25 per cent. In light of the strong positive dynamics in the economy, we are raising our 2018 forecast marginally to 3.8 per cent in 2018, with a similar rate (3.9 per cent) projected for 2019. The high level of public debt remains a significant constraint on any fiscal stimulus but credit growth is expected to continue as the health of the banking sector improves and as the level of non-performing loans declines further.

Bosnia and Herzegovina

The Bosnian economy grew by an estimated 3.0 per cent in 2017, following similar growth rates in the previous two years, and has once again proved to be resilient to reform slowdowns and political uncertainty. Services, and particularly domestic trade, were the main growth drivers, supported by private consumption. Industry also performed well last year, although the agriculture sector had a slight drag on growth. At the same time, there was a significant slowdown in investments, partly due to the significant delays in implementing reforms needed to unlock major infrastructure projects. The passing by parliament of a law on increase of the fuel excise tax in December 2017 was therefore a major step forward, paving the way for a resumption of infrastructure financing in the roads sector, including for corridor Vc. We therefore expect that investment will play a more growth-supportive role in the coming period. We also expect exports to rise further, due to the more favourable external environment. We are thus raising our forecast for 2018 from 3.0 to 3.3 per cent in 2018 and projecting 3.5 per cent growth in 2019. Uncertainty associated with general elections later in 2018 and possible reform paralysis remains an important downside risk.

Bulgaria

The Bulgarian economy grew by 3.6 per cent in 2017. Private consumption was the main driver of growth, as average wages increased on account of the tightness of the labour market and a 10 per cent increase in the minimum wage. Improved absorption of EU structural funds saw investment start to pick up in 2017, following a decline in 2016. However, the impact of net exports on growth turned negative due to the consumption-driven increase in imports. Following a three-year deflation, consumer prices increased in 2017, driven by growing household consumption. The government stuck to tight fiscal policies throughout 2017, leading to a budget surplus standing at 0.9 per cent of GDP at the end of the year. Growth is expected to remain around 3.6 per cent in 2018, declining slightly to 3.4 per cent in 2019. Growth will continue to be driven by domestic demand, as tight labour market conditions spur consumption and investment strengthens as work on infrastructure projects financed under the EU's 2014-20 budget continues.

Cyprus

Economic activity in Cyprus sped up in 2017 and GDP growth is estimated at 3.9 per cent, the highest rate of growth since 2008. Growth in 2017 was mainly driven by investment and private consumption. Gross fixed capital formation accounted for more than 20 per cent of GDP for the first time after 2010 and is on an upward trend. After many years of negative contribution to growth, government spending also provided a small growth boost. Net exports were the only drag on growth as imports, supported by rising private consumption and investments, grew by a higher rate than exports. Tourist arrivals in 2017 increased by almost 15 per cent and the leading indicators in the first quarter of 2018 point to another strong year for tourism in Cyprus, which is continuing to benefit from instability elsewhere. Meanwhile, unemployment has dropped to single-digit levels, reaching 9.6 per cent in February 2018, three percentage points lower than a year previously. Fiscal performance remains strong and in 2017 the general government budget remained in surplus at 1 per cent of GDP with the primary surplus reaching 3.5 per cent of GDP. The economic recovery is expected to continue. In light of these trends, we are upgrading our annual GDP growth forecast for 2018 from 2.5 to 3.2 per cent and forecasting a further 3.0 per cent growth in 2019. However, the legacies of the crisis, such as high public and private sector debt and a large overhang of NPLs, remain important downside risks.

FYR Macedonia

The political crisis of recent years, which lasted well into the first half of 2017, had a measurable cost on economic growth. The economy was in recession in the first half of the year but recovered somewhat in the second half of the year, leaving growth for the year as a whole at zero per cent. Private consumption was the only growth contributor last year, while investment declined significantly. A recovery is under way in 2018, helped by political stability and the impact of the rising minimum wage and other social protection measures on private consumption. Credit to the economy is also expected to rise further as lending conditions ease. Exports grew strongly by 18 per cent in 2017 and a further rise is expected in the short term in light of the strengthening of economic prospects in the EU, the country's

key trading partner. We are keeping our growth forecast for 2018 at 2.5 per cent and we expect growth to accelerate to 3.0 per cent in 2019. However, downside risks remain significant and investor sentiment could deteriorate if political uncertainty were to increase.

Greece

After two years of marginally negative growth, the Greek economy grew by 1.4 per cent in 2017. Growth was partly driven by investment, with gross fixed capital formation contributing 1.1 percentage points to overall growth. Exports also performed well (an increase of 6.8 per cent compared to 2016 in real terms) although the higher rate of imports increase meant that net exports had a small drag on growth. Business confidence has risen steadily, with the purchasing managers index (PMI) reaching a level in February 2018 not seen since June 2000, but consumer confidence has plateaued in recent months after rising steadily in 2017. Growth last year was also supported by another excellent tourism season, including a 10.8 per cent increase in travel receipts (which, at € 14.6 billion, account for 8 per cent of GDP). Employment has also been on an increasing trend and the (seasonally adjusted) unemployment rate in January 2018 was 20.6 per cent, down from 23.2 per cent in January 2017. Looking ahead, we expect the improving trends in investment, employment and confidence to continue through 2018 and 2019, leading to further growth of 2.2 per cent in 2018 and 2.3 per cent in 2019. However, the downside risks remain significant amid uncertainty about the post-programme framework and reform programme and Greece's long-term debt sustainability.

Kosovo

Economic growth in Kosovo in 2017 is estimated at 3.7 per cent, a small deceleration compared to the two previous years. Growth was mainly investment driven, although net exports were also a positive contributor to growth. The unemployment rate continued its declining path over the last three years and now stands at 27.5 per cent. However, the low rate of labour force participation, especially among women, represents a key bottleneck for further economic development. We are marginally increasing our 2018 GDP growth forecast to 3.7 per cent, and projecting 4.0 per cent growth in 2019, due mainly to a more favourable external environment and hence higher remittances and exports, as well as an anticipated acceleration of investment, including in public infrastructure. Future growth may also depend on the pace of implementation of the planned new 500MW thermal power plant, for which a contract was signed between the government and the US firm ContourGlobal in December 2017.

Montenegro

Economic activity in 2017 was higher than expected and growth is now estimated at 4.4 per cent, mainly driven by private consumption which in turn was fuelled by the relatively high rate of lending growth. However, investment was also a significant contributor. The construction sector of the priority section of the highway connecting the Montenegrin coast with Serbia (financed by the Chinese Exim Bank and implemented by the Chinese CRBC) is ongoing, as well as some flagship tourism investments on the coast. Tourist arrivals were up

by 10.3 per cent in 2017. Risks in the financial sector have diminished as the asset quality of the banking sector has improved and NPLs dropped to just 7.2 per cent of total loans. However, sustainability of the public finances is still a major risk and has necessitated the implementation of several austerity measures. We are keeping our 2018 growth forecast at 3.3 per cent in 2018, while we expect a further growth deceleration in 2019 to 2.7 per cent as the fiscal austerity measures start to bite and the current construction cycle comes to its end.

Romania

Romania was one of the best performing economies in the EU in 2017, with GDP growth of 6.9 per cent. Private consumption was the main driver of growth, supported by a pro-cyclical fiscal policy, strong wage growth and low unemployment. Investment started to pick up in the second half of the year, driven by increased absorption of EU funds. Overheating risks are becoming apparent, however, notably in the tightening of the labour market and the increase in inflation to 5 per cent in March 2018. The central bank has started to tighten monetary policy, raising its main policy rate twice so far in 2018, with further rate increases expected this year. External vulnerabilities are rising, with the current account deficit widening to 3.4 per cent of GDP in 2017 due to rising imports, while the government's policies are having an adverse impact on the fiscal deficit, which is expected to exceed 3 per cent of GDP in 2018. GDP growth is expected to slow over the next two years as it returns to more sustainable levels, with growth of 4.6 per cent expected in 2018 and 4.2 per cent in 2019.

Serbia

After 2.8 per cent growth in 2016, the Serbian economy grew by only 1.9 per cent in 2017, primarily due to somewhat weaker exports and fast imports growth. On the production side, the main contributors to the growth slowdown have been the summer drought that badly affected the agriculture sector and problems in mining and electricity generation. Fiscal performance has continued to be better than envisaged. In recent years the budget deficit turned from 6.6 per cent of GDP in 2014 to a surplus of 1.2 per cent of GDP in 2017, while public debt dropped below 65 per cent of GDP by the end of 2017. Despite relatively high FDI inflows (at 6.6 per cent of GDP in 2017), total investment remains below 20 per cent of GDP, a level which is lower than needed for a meaningful convergence towards EU standards. Economic growth is expected to accelerate to 2.9 per cent in 2018 and 3.5 per cent in 2019. Faster growth should be supported by the low base as well as strengthening consumption and investment activities, with offsetting effects from higher imports. A possible slowdown or pause in fiscal and structural reforms represents the main downside risk to the projection.

Turkey

After a challenging year following the failed military coup attempt in 2016, the Turkish economy grew by 7.4 per cent in 2017 as the government enacted a series of stimulus measures, most significantly an expansion of government-backed credit guarantees to SMEs under the TRY 250 billion Credit Guarantee Fund (CGF). However, the rapid pace of growth – significantly in excess of potential growth of 4-4.5 per cent – has seen inflation increase to double figures and a widening of the current account deficit to around 6 per cent of GDP. This has led to concerns about overheating in the economy.

The large current account deficit, alongside the extensive FX-denominated corporate debt and investor uncertainty due to domestic and geopolitical risks, has resulted in volatility of the lira, which depreciated on average by 20 per cent against the US dollar in 2017. The depreciation has continued in 2018.

With elections brought forward from November 2019 to June 2018, the government will have scope to rebalance policy sooner, adjusting fiscal and macroprudential policy to address overheating concerns and reducing domestic and external imbalances. It will also be important to address inflation and anchor inflation expectations by tightening monetary policy. This is key to reassuring investors at a time when the global cycle is turning. With gross external financing needs likely to exceed 25 per cent of GDP in 2018, the country will remain highly exposed to changing global liquidity conditions, particularly given weak FDI inflows and limited FX reserves.

Strong public finances and a stable banking system remain the key anchors of the economy, despite the recent loosening of fiscal policies and growing contingent liabilities. A significant strength of Turkey is its low public debt (of around 29 per cent of GDP) and its low budget deficit (which stood at 1.5 per cent of GDP at end 2017 notwithstanding a slight increase as a result of the expansionary fiscal policies). The banking system remains well capitalised, with an NPL ratio below 3 per cent, although the effects of the rapid credit growth associated with the CGF remain to be seen.

Growth of around 4.4 per cent is expected in 2018, moderating to around 4.2 per cent in 2019, in line with potential growth, as limits to credit growth lead to a cooling down of domestic demand. Net exports are likely to partly offset this, as a result of the ongoing weakness of the lira and increasing demand in key export markets. Key risks to the outlook are potential moderation in global liquidity, investor uncertainty in the context of the domestic and geopolitical environment, and further depreciation of the lira. In the medium term the government needs to undertake structural reforms to improve competitiveness and achieve external rebalancing to generate sustainable growth. The early elections should provide a window for the government to do this.

Eastern Europe and the Caucasus (EEC)
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All EEC economies are experiencing growth although the pace and context vary. In Ukraine, economic growth remains relatively slow even though it is forecasted to pick up slightly in 2018. Azerbaijan exited recession in 2017 and is undergoing a gradual recovery. Belarus's economic recovery is gaining speed. Moldova is generating growth despite significant downside risks. The Armenian economy has rebounded strongly after growth came almost to a standstill. Growth momentum remains strong in Georgia. The EEC region is forecast to grow by 3.0 per cent in 2018 and 3.3 per cent in 2019, contingent on a non-intensification of geopolitical and political tensions, continued improvement in regional economic context and other country-specific factors.

Armenia

Armenia's real GDP growth rebounded strongly in 2017. The economy grew by 7.5 per cent last year, benefiting from positive trends in major trading partners and a recovery in domestic demand. Annual growth in exports of goods and services averaged 19.4 per cent in 2016-17 in real volume terms. In 2017, the revival of growth in household consumption was supported by a 14.6 per cent rise in money transfers from abroad. On a sectoral level, growth was broad-based with construction output returning to growth in 2017 after several consecutive years of decline. Inflation gradually increased to 1 per cent in 2017 and further to 3.3 per cent year-on-year in the first quarter of 2018 but it remains below the central bank's target of 4 per cent. The public debt-to-GDP ratio was estimated at close to 59 per cent of GDP in 2017. To put it on a declining path, Armenia has pursued fiscal consolidation and took steps to optimise planning of investment projects funded by international donor organisations. Economic indicators remained on a positive trajectory in the first quarter of 2018. We forecast Armenia's economy to grow by 3.5 per cent in 2018 and by 4.5 per cent in 2019. However, domestic political uncertainty might weigh on the pace of output expansion this year. Unresolved conflict over the Nagorno-Karabakh region also poses a risk to the growth outlook.

Azerbaijan

After the GDP decline in 2016, economic growth in Azerbaijan was almost flat in 2017. Growth accelerated to 2.3 per cent year-on-year in the first quarter of 2018, driven by a 2.9 per cent year-on-year growth in non-oil GDP. Since April 2017, exchange rate fluctuations have remained within a narrow band amid stringent monetary conditions and a recovery in the oil price. Inflation fell from 12.9 per cent in 2017 to 4.0 per cent year-on-year in the first quarter of 2018, paving the way for monetary policy relaxation. The central bank of Azerbaijan (CBA) has recently lowered the refinancing rate two times from 15 per cent in February 2018 to 11 per cent in April 2018. The current account switched from a deficit in 2016 to a surplus of 4.1 per cent of GDP in 2017 on the back of higher hydrocarbon revenues. Official foreign exchange reserves of the CBA increased from US\$ 4 billion in December 2016 to US\$ 5.5 billion in March 2018. As of the first quarter of 2018, the combined assets of the State Oil Fund of Azerbaijan (SOFAZ) and of the foreign exchange reserves of the CBA stood at US\$ 43.1 billion, which is approximately equivalent to the

country's 2017 GDP. The authorities have declared a plan to privatise the International Bank of Azerbaijan in 2018 as part of the continuing banking sector restructuring effort. We forecast Azerbaijan's real GDP to grow by 2.5 per cent in 2018 and by 3.5 per cent in 2019. Unresolved conflict over the Nagorno-Karabakh region poses a risk to the growth outlook.

Belarus

Belarus's economic recovery is accelerating. Real GDP grew by 2.4 per cent in 2017 and by 5.1 per cent year-on-year in the first quarter of 2018, owing mainly to rising external demand, a recovery in household consumption and the low comparison base of the previous year. Resolution of the energy dispute with Russia, disbursements by the Eurasian Fund for Stabilisation and Development and external financing raised from international capital markets all combined to ease near-term funding pressures and led to improvements in Belarus's sovereign ratings. Inflation has fallen to its lowest level, averaging 6 per cent in 2017 and slowing down further to 4.9 per cent year-on-year in the first quarter of 2018. International reserve assets increased to US\$ 7 billion (covering close to two months of imports) as of 1 April 2018 following the recent issuance of sovereign Eurobonds in February 2018, but they are still relatively low compared to external liabilities. Current account deficit decreased from 10.0 per cent in 2013 to 1.7 per cent of GDP in 2017 on the back of import compression and stronger demand in the key trading partners. Longer-term prospects continue to depend on the extent of structural reforms. We forecast Belarus's economy to grow by 3.0 per cent in 2018 and 2019.

Georgia

The Georgian economy gained strong momentum in 2017. Real GDP growth picked up from 2.8 per cent in 2016 to 5.0 per cent in 2017 and was estimated at 4.9 per cent year-on-year in January and February 2018. The favourable regional economic environment helped to boost Georgia's exports of goods and services, which grew by 22.1 per cent in 2017 in US dollar terms. The continued strong performance of FDI and hospitality and construction sectors stimulated economic growth. FDI increased from 11.1 per cent of GDP in 2016 to 12.3 per cent of GDP in 2017. In 2017, the influx of international tourists to Georgia increased sharply by 27.9 per cent year-on-year. The current account deficit declined from 12.9 per cent of GDP in 2016 to a still high 8.6 per cent of GDP in 2017 on the back of increased export receipts as well as inflows of remittances. Following the exchange rate volatility in 2017, the lari appreciated by 7.4 per cent against the US dollar in the first quarter of 2018. Inflation slowed from an average of 6.0 per cent in 2017 to 2.8 per cent year-on-year in March 2018, consistent with the 3 per cent target of the National Bank of Georgia. We forecast Georgia's economy to grow by 4.5 per cent in 2018 and 2019.

Moldova

Moldova's economy has benefited from a period of relative calm after the banking crisis and recession in 2014-15. Real output growth of 4.5 per cent in 2017 was supported by benign external economic conditions, good agricultural outturns and a strengthening of domestic demand. Money transfers from abroad increased by 11.2 per cent in 2017 following a sizable contraction in the previous two years. The Moldovan lei appreciated by approximately 16.8

per cent against the US dollar in 2017 and upward currency pressures persisted in the first four months of 2018. The current account deficit widened from approximately 4.2 per cent of GDP in 2016 to approximately 7.6 per cent of GDP in 2017. International reserve assets increased from US\$ 2.2 billion in January 2017 to US\$ 2.9 billion in March 2018, offering six months of import coverage. A major breakthrough was achieved in the beginning of 2018 in restoring transparent ownership at one of the largest commercial banks but significant vulnerabilities in the financial sector remain. In March 2018, IMF reached staff-level agreement with the authorities concerning the third programme review, indicating that the country's cooperation with the IMF remains broadly on track. We forecast Moldova's economy to grow by 3.5 per cent in 2018 and by 4 per cent in 2019.

Ukraine

The growth of Ukrainian economy remains subdued. Real GDP expanded by 2.5 per cent in 2017. Household consumption and domestic investment in fixed assets fueled, in turn, by residential construction were the main drivers of the output growth in this period. In 2017, exports of goods and services increased modestly in real volume terms following five consecutive years of contraction. Inflows of remittances are estimated to have reached close to 8.5 per cent of GDP in 2017 as a result of intensified labour migration from Ukraine in recent years. Consumer price inflation has slowed from peak levels of 2015 but remains elevated at 13.8 per cent year-on-year in the first quarter of 2018. To bring inflation down into the target range, the NBU reversed its monetary policy direction by raising the key policy rate four consecutive times from 12.5 per cent in September 2017 to 17 per cent in March 2018. Ukraine's official reserve assets stood at US\$ 18.2 billion as of March 2018, covering approximately three and a half months of imports. Continuation of the IMF programme is uncertain due to the lacking commitment on the part of the authorities to meet key reform requirements. We forecast the Ukrainian economy to grow by 3 per cent in 2018 and 2019 but large foreign exchange debt repayments by the public sector falling due in 2018-20 and the forthcoming elections cycle in 2019 represent important risks to the growth outlook.

Russia

After GDP fell by 0.2 per cent in 2016, the Russian economy has returned to growth in 2017. It expanded by 1.5 per cent on the back of recovering domestic demand, mainly household consumption and investment. Higher demand, however, fuelled imports whose growth significantly outpaced the growth of exports (17 per cent versus 5 per cent). Private sector capital outflows exceeded US\$ 30 billion in 2017, almost 60 per cent higher than in 2016, but, unlike the year before, they were driven by banking sector outflows. Syndicated borrowing also declined by around 10 per cent (to US\$ 14 billion). On the other hand, Eurobond issuances almost doubled, to US\$ 31 billion.

A falling inflation rate has enabled further monetary policy easing as inflation decelerated from 5.4 per cent at end-2016 to 2.4 per cent in March 2018, significantly below the CBR target of the Central Bank of Russia [CBR], (4 per cent). The CBR cut the key policy rate by a cumulative 2.25 percentage points in 2017 and by another 0.5 percentage points to 7.25 per cent in the first quarter of 2018. Disinflation was supported by the strengthening rouble, which appreciated by around 15 per cent in 2017, and still weak domestic demand. Meanwhile, fiscal policy has tightened with the general government deficit falling to 1.5 per cent of GDP in 2017, from 3.6 per cent a year before. In July 2017 a new fiscal rule was adopted with the intention to reduce the effect of oil prices on the federal budget. The rule envisages that government expenditures cannot exceed the sum of three components. These are oil and gas revenues (based on a conservative oil price assumption of US\$ 40/barrel in 2017 [increasing by 2 per cent each subsequent year], the corresponding rouble rate and the base export price for gas); forecasted non-oil revenues; and interest expenses on state debt and budget balances.

Financial stability is supported by the central bank's policy of closing weakly performing banks with poor corporate governance. In March 2018 there were 542 banks operating in Russia (around 415 fewer than in mid-2013). New bank resolution rules from mid-2017 envisage that the CBR acquires the troubled banks and recapitalises them via the Bank Consolidation Fund before re-selling. By March 2018, the CBR had bailed out three banks. The non-performing loans ratio rose slightly, to over 10 per cent in September 2017.

Economic growth in 2018 and 2019 is expected to stay at a similar level as in 2017, projected at 1.5 per cent in both years. Growth should be supported by the continuing recovery in consumption and investment but also by higher oil prices and macroeconomic stabilisation. The main risks for the projection come from the oil price, lack of business environment reforms to support investment, geopolitical tensions and the prolongation of sanctions. Without significant reforms, long-term growth may remain at around 1 to 2 per cent annually. The main constraints to faster growth, as before, remain the low investments, outdated production capacities and unfavourable internal structural factors (weak demographics, outdated infrastructure and strong state influence on the economy).

Central Asia

Economic growth in Central Asia reached 4.8 per cent in 2017, partly due to the base effect of low growth in 2016. A slight decline is expected in the short term, with growth reaching 4.4 per cent and 4.5 per cent in 2018 and 2019 respectively. The rise in commodity prices, which has been supporting growth so far in 2018, is forecast to reverse to a moderate decline in 2019 but the impact will be offset in part by rising oil and metals output. Throughout the region, higher investment, especially in mining and infrastructure, will be an important driver of growth. In Kazakhstan and Mongolia, higher private consumption, helped by the rise in real incomes, should underpin growth. National currencies and foreign exchange reserves have stabilised, except in Turkmenistan, thanks to the more conducive external environment. Combined with inflation rates that are generally within or below targets, this may allow moderate monetary easing but the impact on credit growth will likely be rather small given persistent banking sector challenges throughout the region. Contributions to growth from government spending will also remain limited, given the need for fiscal restraint and projected decline in commodity revenues in the longer run due to the transition to the green economy.

Kazakhstan

The Kazakh economy grew by 4 per cent in 2017, aided by higher oil production and rising oil prices. Fixed investment accelerated, but growth in private consumption has remained sluggish due to the fall in real incomes in 2017. However, real incomes have begun to rise again in early 2018. The exchange rate was broadly stable in 2017 and early 2018, albeit with fluctuations related to fears of ruble weakening due to US sanctions against Russia. Inflation has eased and is currently within the central bank's target range of 5-7 per cent for 2018. This has allowed the central bank to cut its policy rate stepwise from 12 per cent in January 2017 to 9.25 per cent in April 2018. Banking sector consolidation is progressing slowly – the two largest banks are merging and five smaller ones were recapitalised. However, NPLs still constitute 10 per cent of all loans in early 2018, limiting the scope for credit growth. GDP growth is expected to reach 3.9 per cent in 2018 and 3.8 per cent in 2019, underpinned in the short term by higher oil prices and supported by slightly higher oil output and ongoing large investment projects, such as in the Tengiz oil field development and in the gasification of the country. New economic initiatives by the authorities aim at the provision of affordable housing, lower tax rates for low-income groups and the gasification of Astana and other regions. While financing is in part to come from the budget, the space for fiscal loosening is limited. The authorities' three-year budget plan envisages the narrowing of the consolidated budget deficit to 1.1 per cent in 2018 and 1.0 of GDP in 2019-20 from an estimated 4.1 per cent in 2017.

Kyrgyz Republic

Growth in the Kyrgyz Republic in 2017 was driven by a high base effect in the first half of the year and reached 4.5 per cent for the year as a whole. Remittances from Russia to the Kyrgyz Republic increased by 27 per cent in US dollar terms. Exports also performed strongly, rising 13.8 per cent in 2017 in total and 27 per cent to the Eurasian Economic Union. Inflation

subsidised to 2.7 per cent year-on-year in March 2018, well below the target range of 5-7 per cent. However, the central bank has kept its policy rate unchanged from 2017 at 5 per cent, signalling little willingness to loosen its monetary stance. Thanks to stronger revenues the fiscal deficit narrowed to 3.3 per cent of GDP in 2017 from 4.6 per cent in 2016 despite significant expenditure growth. In 2018 the growth of the economy will likely slow to 3.7 per cent (as the base effect is removed) but rise to 4.0 per cent in 2019. Infrastructure investment and continued strong remittance inflows from Russia and Kazakhstan should support the economy, compensating for declining gold output at Kumtor field brought about by decreasing ore grades. Under the IMF's three-year Extended Credit Facility programme, approved in 2015, the Kyrgyz Republic has to reduce the fiscal deficit further to 2.5 per cent of GDP by 2018. Contributions to GDP growth from public spending will thus be rather limited.

Mongolia

The past year has seen a significant acceleration of growth in Mongolia, with a GDP rise of 5.1 per cent, compared with just 1 per cent in 2016. In 2017, the decrease in copper and gold output due to the deterioration in the grades mined was partially offset by stronger coal mining and higher prices. Increased export revenues lifted corporate and household earnings, thereby supporting fixed investment and private consumption. Inflation accelerated significantly as a result to 6.6 per cent in March 2018 from 1.9 per cent in early 2017 but remained below the Bank of Mongolia's 8 per cent target. The Bank of Mongolia slightly cut its policy rate from 11 per cent to 10 per cent in March 2018 in response. The favourable economic environment and fiscal consolidation measures narrowed the general government deficit to an estimated 6.4 per cent of GDP in 2017 versus a targeted 10.6 per cent under the IMF's Extended Fund Facility. Public debt fell by three percentage points to 84.6 per cent of GDP during 2017. Export growth together with funds received from IFIs and bilateral lenders allowed the authorities to rebuild foreign exchange reserves to US\$ 3.0 billion as of February 2018 from a low of US\$ 1.0 billion in October 2016. The increase was also supported by US\$ 1.4 billion in bond issues in 2017. Exchange rate pressures have subsided and Mongolia's economic outlook has strongly improved from a year ago. As a result, growth is forecast to remain above 5 per cent in the short term, reaching 5.2 per cent in 2018 and 5.9 per cent in 2019. Major contributors will be ongoing investments in the Oyu Tolgoi mine development (including the doubling of gold production at the mine) and a continued pick up in private consumption.

Tajikistan

In 2017, the economy in Tajikistan grew by 7.1 per cent. Private consumption was boosted by a 32 per cent year-on-year increase, in US dollar terms, in remittances from Russia. Fixed investment rose by 4.1 per cent, mostly driven by higher investment in state-owned enterprises (SOEs). Following a Eurobond issue to finance the Rogun dam construction, government debt rose from 44.8 per cent of GDP in 2016 to 51.4 per cent in 2017, according to official figures. Currency pressures have eased and the parallel market rate has approached the official exchange rate, which has been stable since June 2017. Inflation rapidly declined from 6.7 per cent in December 2017 to 2.5 per cent year-on-year in March

2018, indicating weakening household demand. The central bank cut its policy rate marginally from 14.75 to 14.0 per cent as of March 2018. Growth in Tajikistan is projected to slow down somewhat to 5.0 per cent in 2018 and 5.5 per cent in 2019. Completion of the first part of the Rogun dam in late 2018 will allow electricity production to take off and this should support growth in 2019. By contrast, banking sector challenges, along with the needed consolidation of some public utilities, are likely to weigh on the budget and on overall growth. With (30 days) overdue and non-performing loans at around 36.5 per cent in 2017, credit growth is expected to remain slow.

Turkmenistan

The Turkmen economy grew by 6.5 per cent in 2017. However, despite this apparently high growth rate, the economy faces a range of challenges. Meagre export growth has resulted in foreign exchange rationing by the central bank and heightened exchange rate pressures. The parallel market rate stood at 14 manats per US dollar in March 2018 against the official rate of 3.5 manats per US dollar. Average annual inflation accelerated officially to 8 per cent on average in 2017 from 3.6 per cent in 2016. It stood at 10.4 per cent in December 2017. Imports sharply contracted by 23 per cent year-on-year in US dollar terms in 2017, according to official data, while exports increased only by 4 per cent after a deep slump in the previous two years. The current account deficit narrowed from around 20 per cent of GDP in 2016 to 11.5 per cent in 2017, according to IMF estimates. Fiscal pressures prompted the government to set both revenues and expenditures of the 2018 state budget significantly lower than those budgeted for 2017. Turkmenistan is trying to overcome foreign exchange scarcity by building new gas export routes, export diversification and import substitution. However, these effects will take time and, in the short term, economic growth in Turkmenistan is forecasted to slow to 5.0 per cent in 2018 and 2019. The forecast risk is high, given the scarcity of publicly available reliable data. The Programme for Social and Economic Development of Turkmenistan in 2018-24 foresees investments of over 240 billion manat (US\$ 69 billion at the official exchange, 1.7 times the 2017 GDP) during the seven-year period, with 66 per cent to be allocated to the oil and gas sector. However, there are significant financial and security risks associated with these projects and their financing is not yet secured.

Uzbekistan

Economic growth in Uzbekistan eased to 5.3 per cent in 2017 from 7.8 per cent in 2016, with data suggesting slower growth in construction, industrial output and agriculture. However, the lower readings likely reflect more proper accounting in order to improve the reliability of statistics. Exports grew by 15 per cent year-on-year in US dollar terms in 2017 and remittances from Russia surged by 42.4 per cent in US dollars. Uzbekistan's external position is strong, with US\$ 27 billion in net international reserves in March 2018 and external debt at only around US\$ 16 billion (33 per cent of GDP). The exchange rate has remained stable at 8,000-8,100 sum per US dollar following the September 2017 devaluation. Average inflation accelerated from 8 per cent year-on-year in 2016 to 12.5 per cent in 2017, reaching 14.4 per cent by end-2017. The impact of the currency devaluation on inflation has been relatively limited due to the fact that the unofficial exchange rate had already been much weaker than

the official one prior to the exchange rate unification. Inflation is expected to remain in low double digits in 2018 and 2019 because of further price liberalisation and the resulting adjustment in relative prices. The central bank loosened monetary policy during the first half of 2017 but tightened it again prior to the run-up to the foreign exchange liberalisation in September. Data for the first quarter of 2018 point to a significant re-acceleration in credit growth in early 2018. Uzbekistan's consolidated budget deficit is estimated to have remained below 1 per cent of GDP in 2017 and is expected to widen only slightly thanks to the unwinding of the government's housing and infrastructure programmes. Public debt is estimated to total about 25 per cent of GDP. The economy is projected to grow by 5.1 per cent in 2018 and 5.3 per cent in 2019 on the back of increased investment and public spending on infrastructure, as well as export growth. However, the impact of deep structural reforms, including tax and customs reform and the overhauling of the role played by extra-budgetary funds, and changes in statistical methodology and data collection make forecasts subject to significant uncertainty.

Southern and Eastern Mediterranean (SEMED)

In the SEMED region, growth in 2017 has been revised downwards slightly to 3.7 per cent, reflecting worse-than-expected performance across the region, with the exception of the strong activity in Egypt where higher confidence and competitiveness supported growth since the start of the IMF-supported reform programme in late 2016. Meanwhile, Jordan and Lebanon continued to be negatively impacted by regional uncertainty and the influx of refugees, and Morocco and Tunisia witnessed delays in reform implementation and diversification and thus remained somewhat dependent on agriculture. This contributed to the downward revision of the growth rate by 0.2-0.3 percentage points in Jordan, Morocco and Tunisia and by 1.1 percentage points in Lebanon where political uncertainty near the end of the year impacted the sentiment. At the same time, the forecast for 2018 has been revised upwards to 4.4 per cent from 4.0 per cent in the November 2017 edition of *Regional Economic Prospects*, owing to a stronger performance in the first half of the fiscal year in Egypt and positive developments in the rest of the region. Serious security risks continue to exist in the eastern Mediterranean but there have been significant efforts to stem these risks and mitigate their potential impacts. These efforts and improvements in the political situation sustain the pick-up in external demand, rising confidence, recovery in tourism and increased investment, in addition to improved competitiveness, strengthened exports in light of higher commodity prices and the implementation of structural reforms. On the upside, Jordan and Lebanon would be well placed to benefit from any progress in the reconstruction of Iraq and Syria. Meanwhile, downside risks stem from slippages in reform implementation, increases in global oil prices, escalation of regional conflict and the exposure of agriculture to weather and price developments. Likewise, a surge in the US dollar would undermine competitiveness and magnify debt vulnerabilities. Average growth in SEMED is expected to reach 4.8 per cent in 2019.

Egypt

In Egypt, growth continued to accelerate for the fifth consecutive quarter and reached 5.3 per cent year-on-year in the second quarter of the country's 2017-18 fiscal year (FY) (which runs from July-June). The acceleration was driven by manufacturing, trade, tourism and construction, as well as the recovery in mining. Exports and investment picked up and became more prominent drivers of growth thanks to the liberalisation of the exchange rate in November 2016, the resolution of foreign exchange shortages and the strong performance under the IMF-supported programme. Meanwhile, private consumption slowed down and its contribution to growth declined, the result of the record levels of inflation which reached its peak in July 2017 and averaged 29.6 per cent in 2017, thus eroding purchasing power. Economic activity is expected to grow at 5.3 and 5.5 per cent in FY2017-18 and FY2018-19, supported by the continued boost in confidence, recovery in tourism, increase in foreign direct investment, improved competitiveness, continued strengthening of exports, the start of natural gas production from the Zohr field, the implementation of business environment reforms and prudent macroeconomic policies. The main risks to the outlook arise from a slowdown in reforms, resurgence of inflation resulting from the next round of subsidy reforms expected in July 2018, and increases in global oil

prices which would delay fiscal consolidation. These risks are mitigated by the authorities' strong commitment and ownership of the economic reform programme.

Jordan

The rate of growth in Jordan remained subdued in 2017 at 2 per cent, below the average of 2.5 per cent recorded between 2010 and 2016, a period when the instability in Iraq and Syria and the large influx of Syrian refugees – estimated at 1.3 million – have curbed growth. This is compared to an average growth of 6.3 per cent between 2001 and 2010. In 2017, the modest growth was driven by services (transportation, financial services and real estate), the strong rebound in mining and the slight pick-up in manufacturing and agriculture, while construction continued to slow down. Tourism arrivals increased for the first time since 2010, by 7.8 per cent, signalling the best tourism season since the Arab uprising. Growth is expected to rise only modestly to 2.5 per cent in 2018 and 2.7 per cent in 2019, supported by stronger private consumption from the higher refugee population, the implementation of structural reforms, investment in the context of the government's programme to offer citizenship to foreign investors meeting certain requirements, an improved global outlook, and greater certainty and confidence stemming from fiscal consolidation. Moreover, exports will benefit from higher mining output, higher phosphate prices and the re-opening of the border with Iraq. Risks to the outlook include slippages in implementing reforms under the IMF-supported programme, an escalation of regional conflict and protracted conflict in Syria and Iraq (which are Jordan's main export markets), additional refugee inflows, tighter liquidity in the GCC and a surge in the US dollar which would undermine competitiveness. On the upside, the involvement of Jordanian businesses in the reconstruction of Syria and Iraq would positively support growth.

Lebanon

Lebanon has been in a protracted period of low growth since 2011. Growth averaged 1.6 per cent between 2011 and 2017, compared to 5.6 per cent in the decade before, due to declining investment and exports and subdued private consumption. This is a result of political and security conditions, both domestic and regional, which affected the traditional growth drivers – tourism, real estate and construction – and resulted in the large influx of Syrian refugees, estimated at 1.5 million. It is estimated that the economy grew by 1.2 per cent in 2017, driven mainly by exports and private consumption. The latter is, in turn, sustained by remittances from Lebanese diaspora, despite declining investment. Lebanon's outlook remains uncertain and growth is expected to remain low at 2-2.5 per cent in 2018-19. Growth will gradually rise as external demand picks up due to the global recovery and continued confidence in the banking sector, contingent on political stability and strong implementation of the reforms to which the authorities have committed in the context of the CEDRE conference. Upside risks that Lebanon would be well placed to benefit from include the reconstruction effort in the event of an early resolution of the Syrian crisis, as well as from the re-establishment of trade and an improvement in regional investor confidence. Downside risks stem from the outcome of parliamentary elections scheduled for May 2018, an escalation in regional turmoil, and any deceleration in inflows from the diaspora which sustain the banking sector and consumption. In addition, increased spending

pressures and a possible strengthening of the US dollar would hurt competitiveness and slow down the recovery in growth.

Morocco

Growth in Morocco recovered in 2017 to reach 4.0 per cent, from 1.2 per cent in 2016, mostly driven by the rebound in agriculture, while non-agricultural activity remained subdued. In the non-agriculture sector, Morocco's industrial strategy of developing high value-added sectors, such as automotive and aeronautics industries, is showing positive results and is offsetting the more modest growth in traditional sectors such as mining and quarrying. On the demand side, growth has been mainly supported by private consumption, an uptick in exports following higher prices of phosphates. Growth is expected to slow down in 2018 to 3.0 per cent due to the negative base effect following favourable weather conditions for agriculture in 2017 and to normalise at 4.0 per cent in 2019, supported by the continued recovery in tourist arrivals, an increase in foreign direct investment, the upturn in the euro zone, greater competitiveness from the move to a more flexible exchange rate regime, a rebound in services and manufacturing, stronger export growth notably in automotive and aeronautics industries, and expanded mining capacity. The sustained growth is predicated on continuing the implementation of reforms to improve the business environment and boost productivity, and diversifying the economy away from agriculture. Downside risks include delays in implementing reform; possible declines in the prices of phosphates, wheat and vegetables; weak growth in trading partners; and the vulnerability of agricultural activity to weather and price developments.

Tunisia

In Tunisia, economic growth improved in 2017 but remained sluggish at 1.9 per cent, compared to 1.0 per cent in 2016. The modest growth was driven by the sustained improvements in security, tourism, and phosphate production; a recovery in services; and a good agricultural season, all of which offset contractions in oil and gas extraction and refining. Investment rose and exports are recovering. Meanwhile, macroeconomic vulnerabilities increased; the current account deficit in per cent of GDP reached double digits for the first time; foreign reserves fell to critical levels and cover less than three months of imports; the dinar depreciated by more than 20 per cent year-on-year; and inflation is at its highest level in 25 years driven by the currency depreciation, energy price increases and wage inflation. Growth is nevertheless expected to increase to 2.7 per cent in 2018 and gradually pick up to 3.0 per cent in 2019, driven by a continued recovery in tourism and investment, stronger growth in major export markets in Europe and the implementation of structural reforms. Risks stem from the 2019 election-related uncertainties and socio-economic protests disrupting production in the phosphate and hydrocarbon sectors. The depreciation of the dinar and the reintroduction of a mechanism that adjusts fuel prices in line with fluctuations both in currencies and international oil prices may further raise inflationary pressures. Furthermore, a faster-than-anticipated normalisation of monetary policy in the United States could lead to a stronger US dollar and amplify debt vulnerabilities, given that two-thirds of debt in Tunisia is denominated in foreign currency.

About this report

Regional Economic Prospects are published twice a year. The report is prepared by the Office of the Chief Economist and the Department of Economics, Policy and Governance and contains a summary of regional economic developments and outlook alongside the EBRD's growth forecasts for the economies where it invests.

For more comprehensive coverage of economic policies and structural changes, the reader is referred to country strategies and updates, as well as the *Transition Report 2017-18*, which are all available on the EBRD's website (www.ebrd.com).

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