

Economic trends in the EEC region

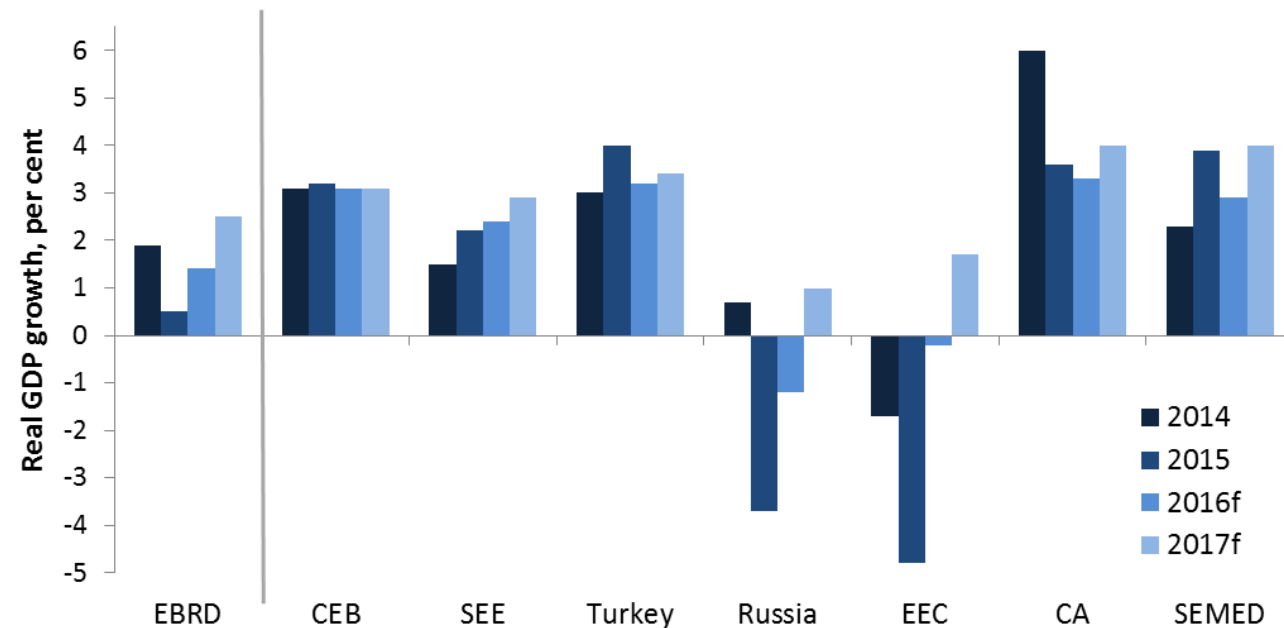
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June 2016

ECONOMIC CONTEXT: EAST EUROPE AND THE CAUCASUS (EEC*) REGION

* For the purposes of this presentation, the EEC region includes Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine

EEC performance in the broader regional context. Divergent trends driven partly by external factors.



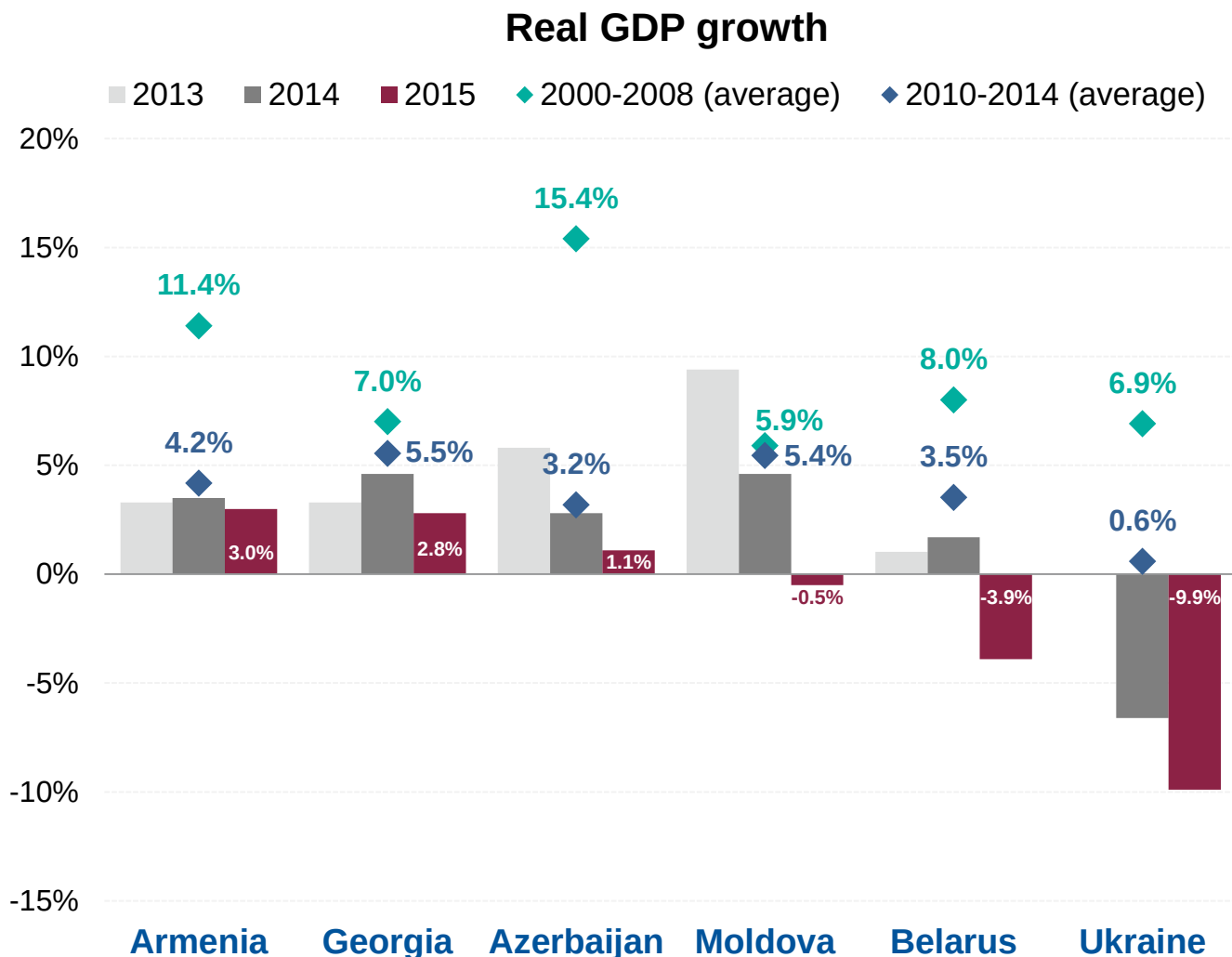
After five years of continued deceleration, average growth in the EBRD region is expected to pick up modestly, from 0.5 per cent in 2015 to 1.4 per cent in 2016.

Modest global growth and weak Eurozone growth constrain external demand. Monetary policy in the United States is being tightened gradually, negatively affecting net capital flows to the region and to emerging markets more broadly.

Low commodity prices and continued recession in Russia are weighing on the outlook for Central Asia (CA), Eastern Europe and the Caucasus (EEC).

In contrast, lower energy import bills benefit Central Europe and the Baltic States (CEB) and South-eastern Europe (SEE) where growth momentum is expected to be sustained. CEB and SEE economies also benefit from accommodative monetary policies in the Eurozone.

EEC economies lost growth momentum after the 2008-2009 crisis.



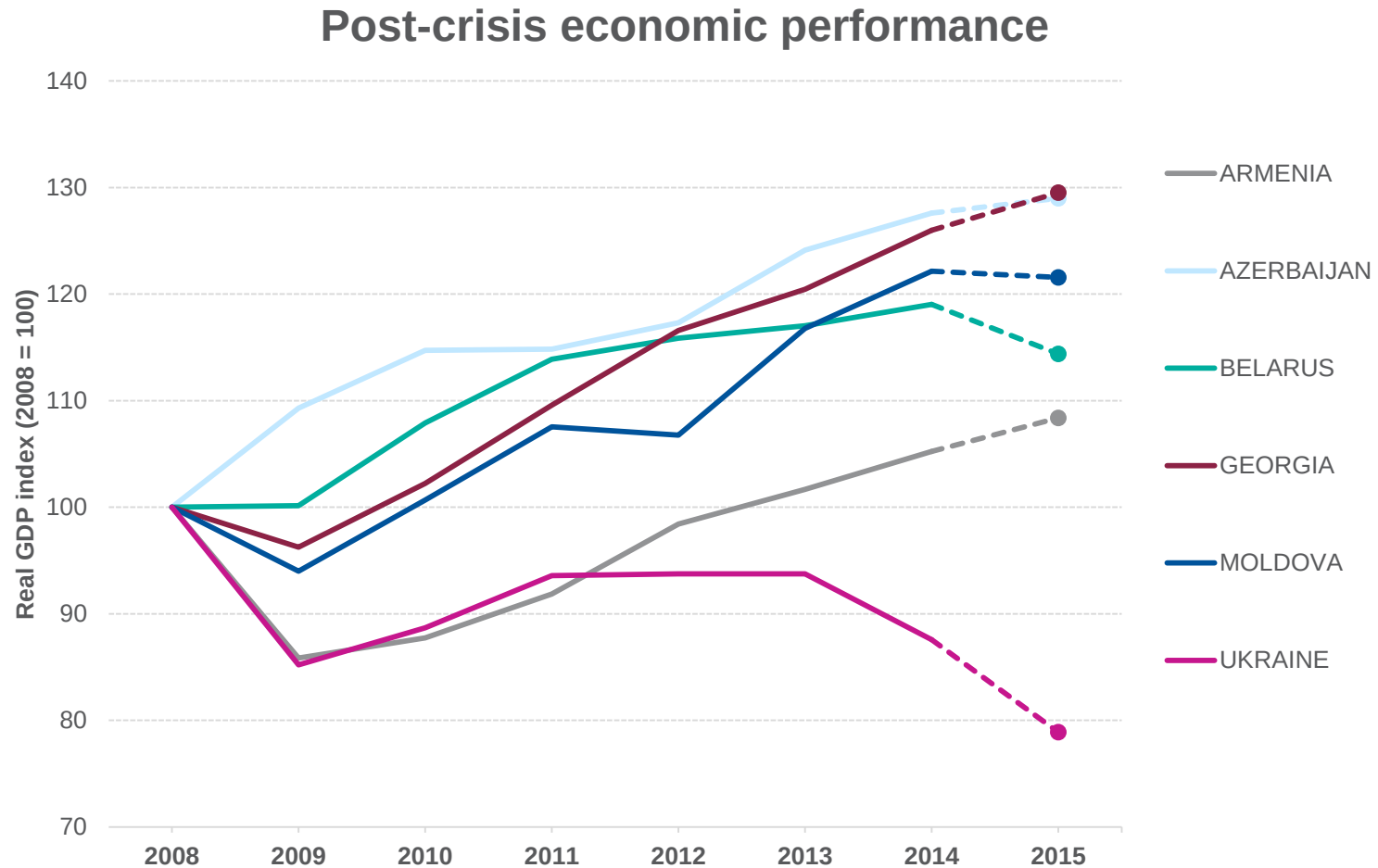
The EEC region contracted by 1.7 per cent in 2014*, driven by contraction in Ukraine.

In 2015, the EEC region contracted further by close to 4.8 per cent* as the economies of Belarus, Moldova and Ukraine, which collectively represent approximately two-thirds of the EEC region's GDP declined.

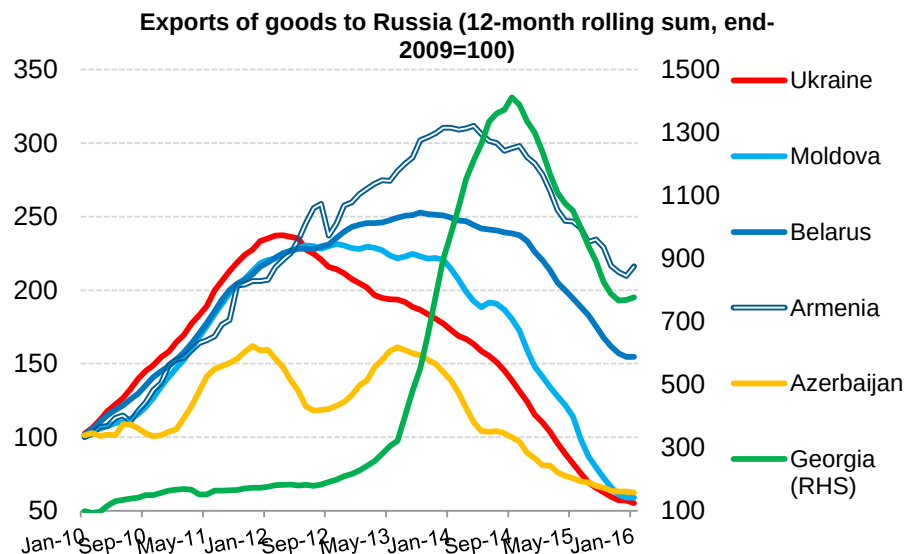
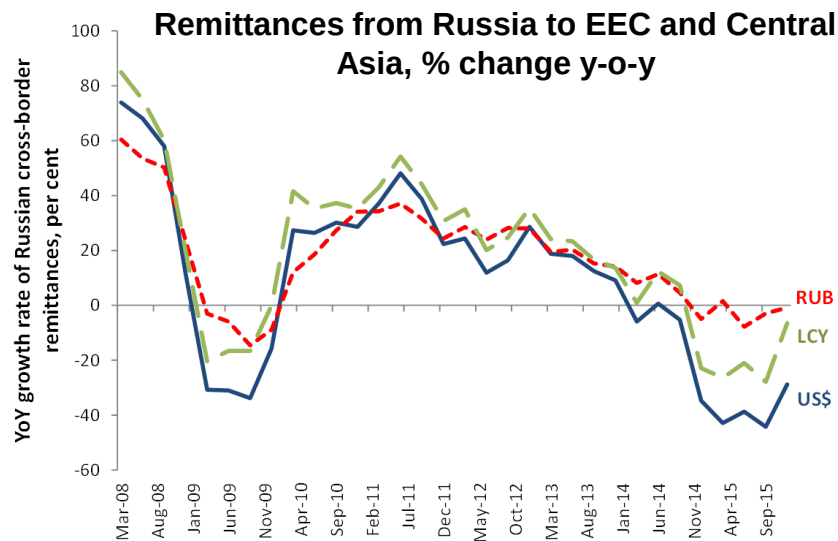
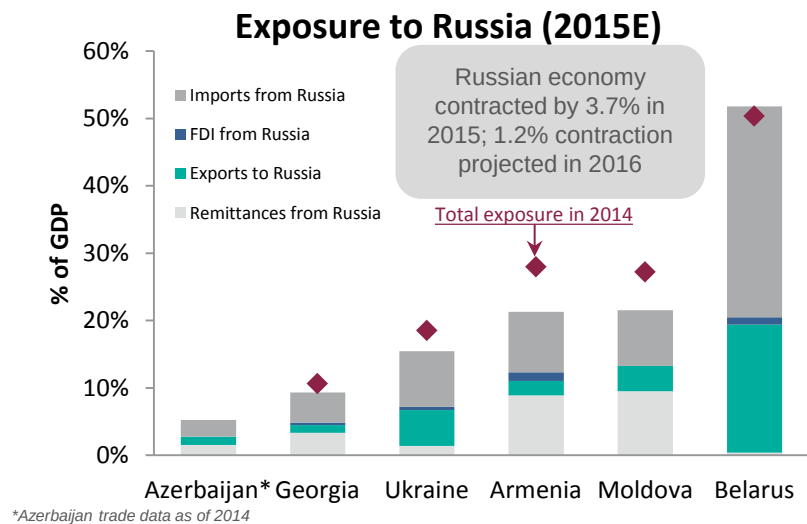
The rate of output decline in the EEC region is expected to moderate to 0.2 per cent in 2016, with such outlook contingent on a better regional economic environment, a reduction in geopolitical risks and other country-specific factors. The stabilization of output in Ukraine and growth in Armenia and Georgia are expected to help offset the negative growth forecasts for Azerbaijan and Belarus.

**Weighted average, based on the countries' nominal GDP values in PPP USD terms*

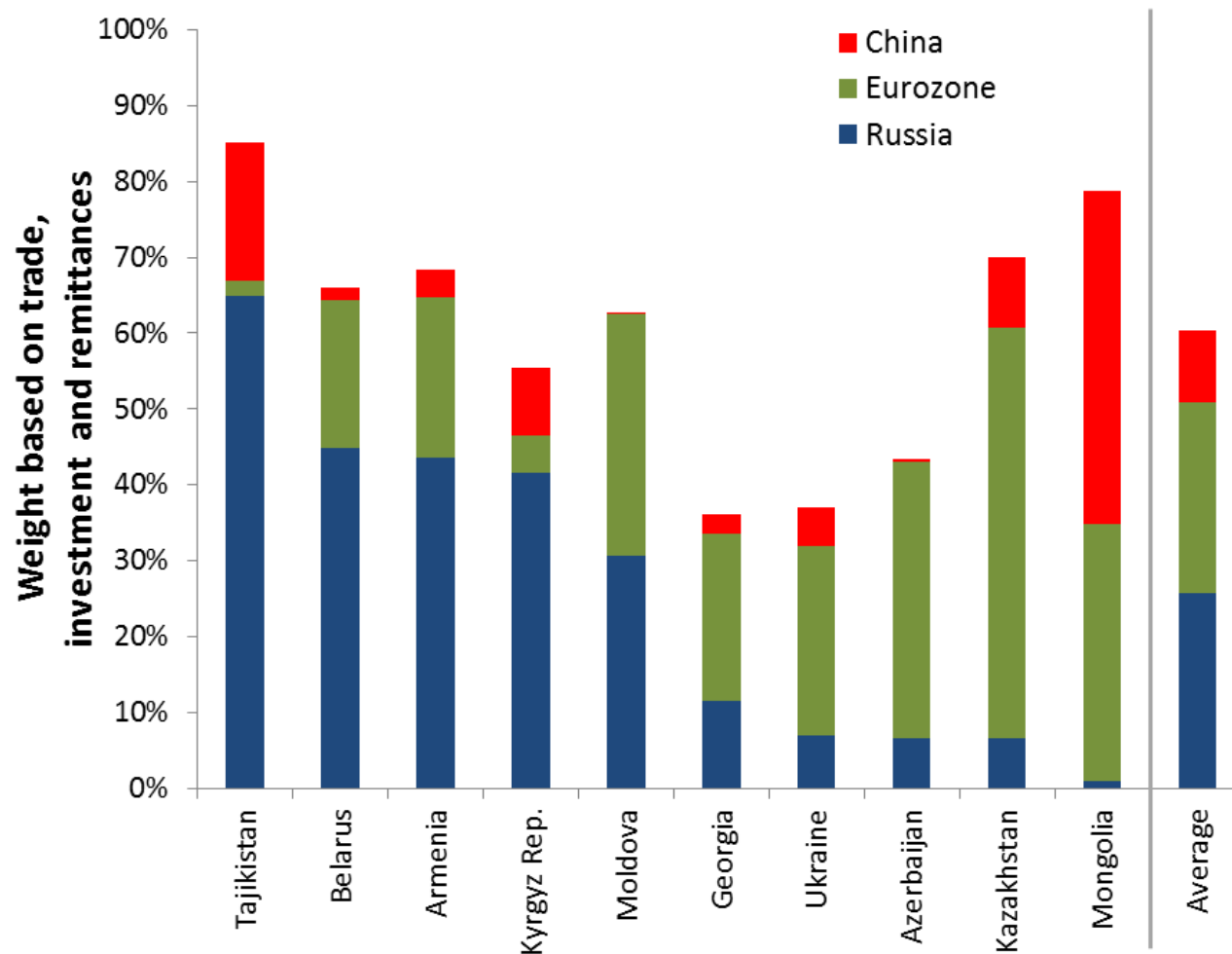
All EEC economies except Ukraine have by now surpassed their pre-crisis output levels. In 2015, some of the gains reversed in Belarus and Moldova due to economic contraction.



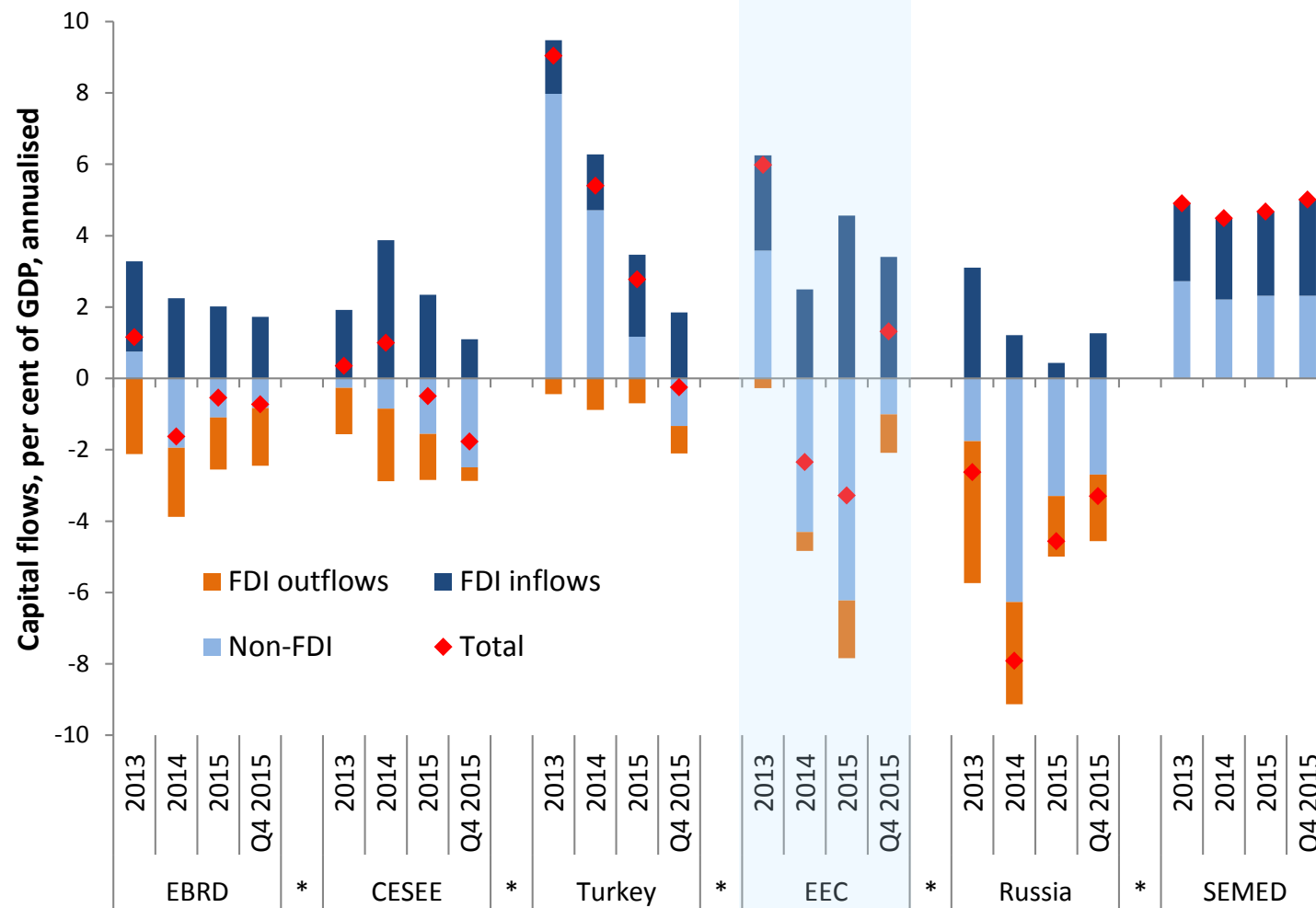
Countries in the EEC, impacted through investment, trade and remittances links with Russia; by first and second round effects of the oil price collapse



Russia remains a leading economic partner for many economies in EEC and Central Asia

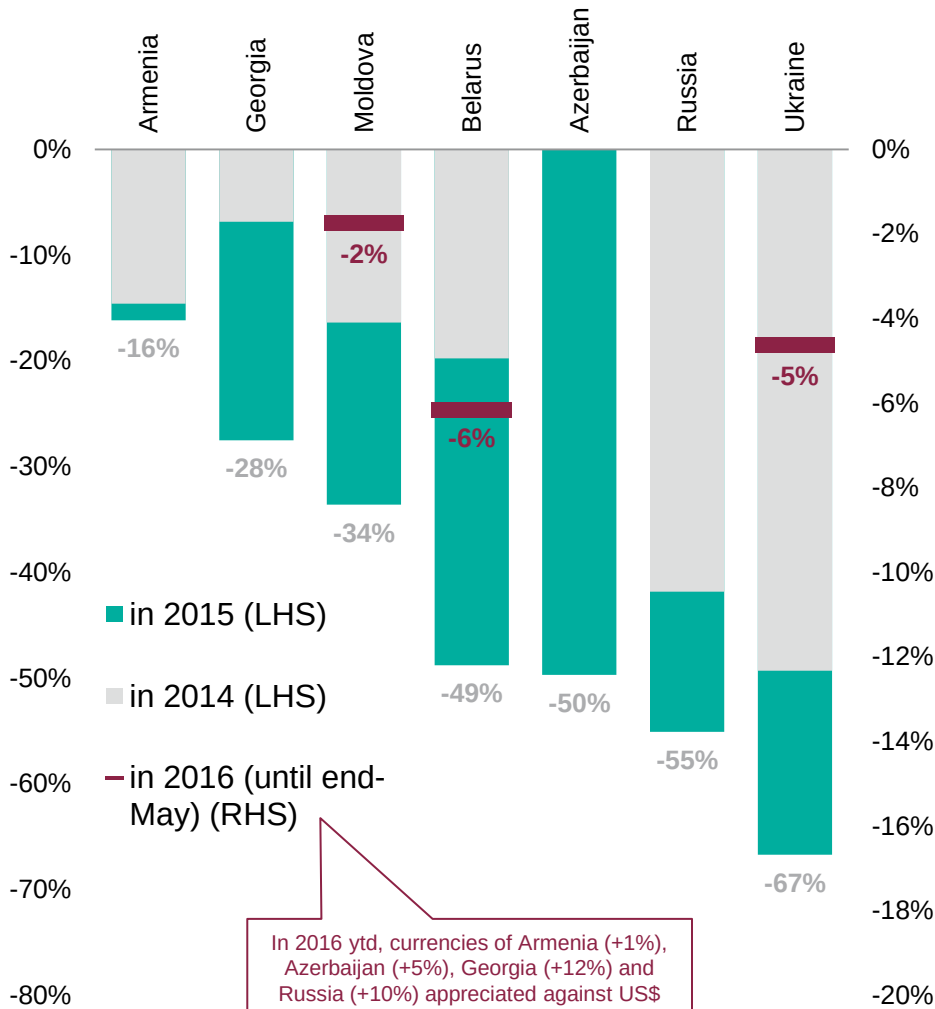


Net capital outflows from the EEC region in 2014-2015 contributed to pressures on exchange rates and foreign reserves; in Russia outflows represent continued external deleveraging

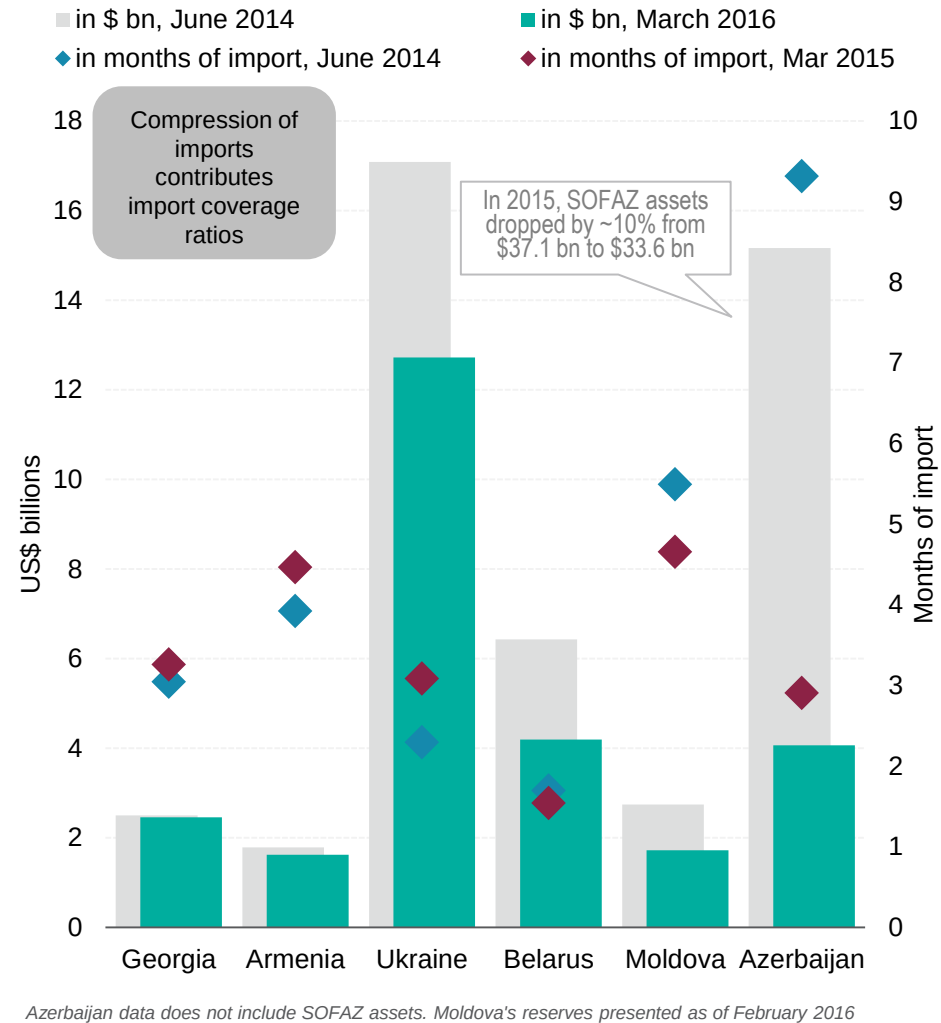


Currencies and foreign reserves declined...

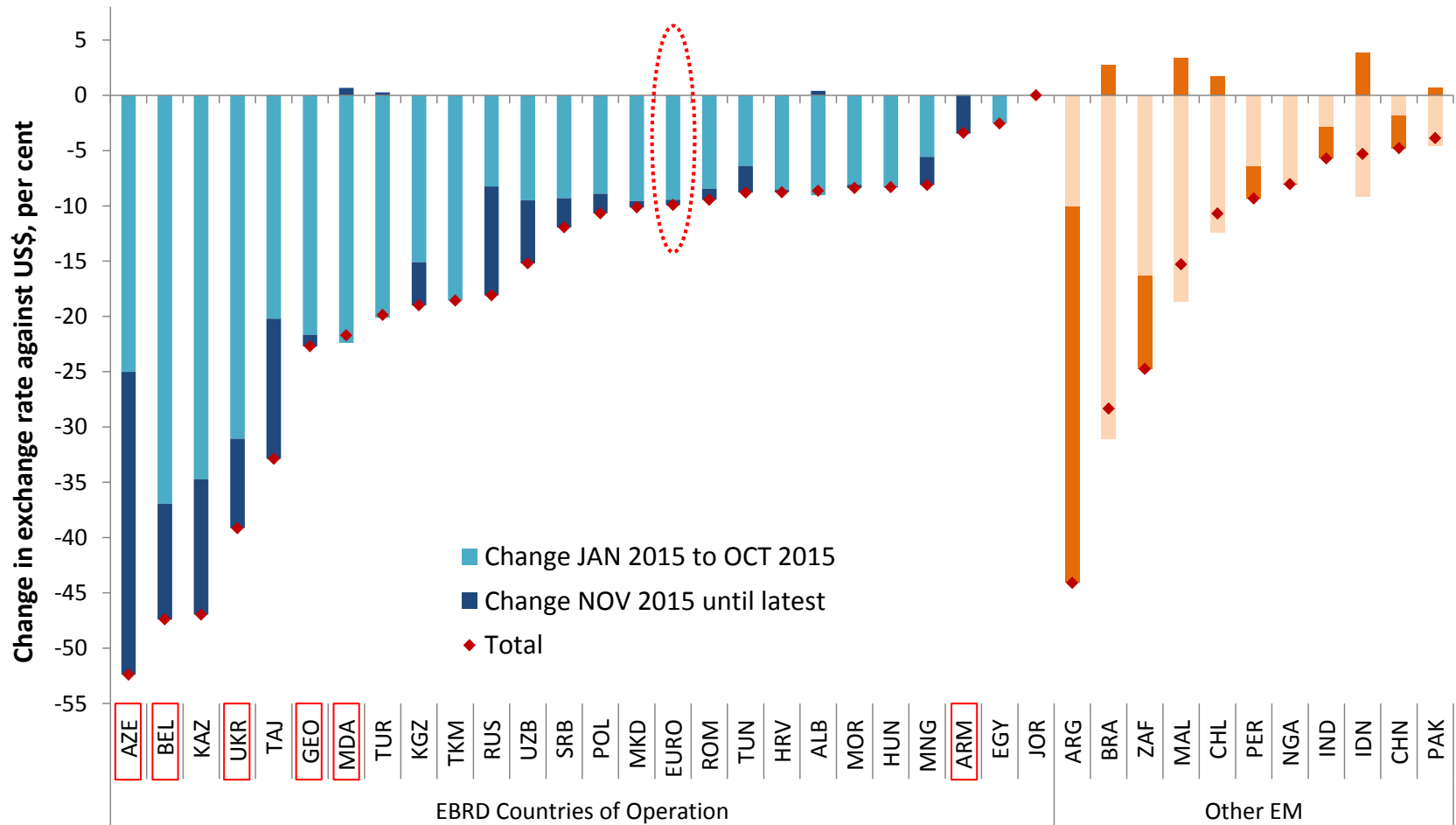
Currency depreciation vs. US\$ since January 2014



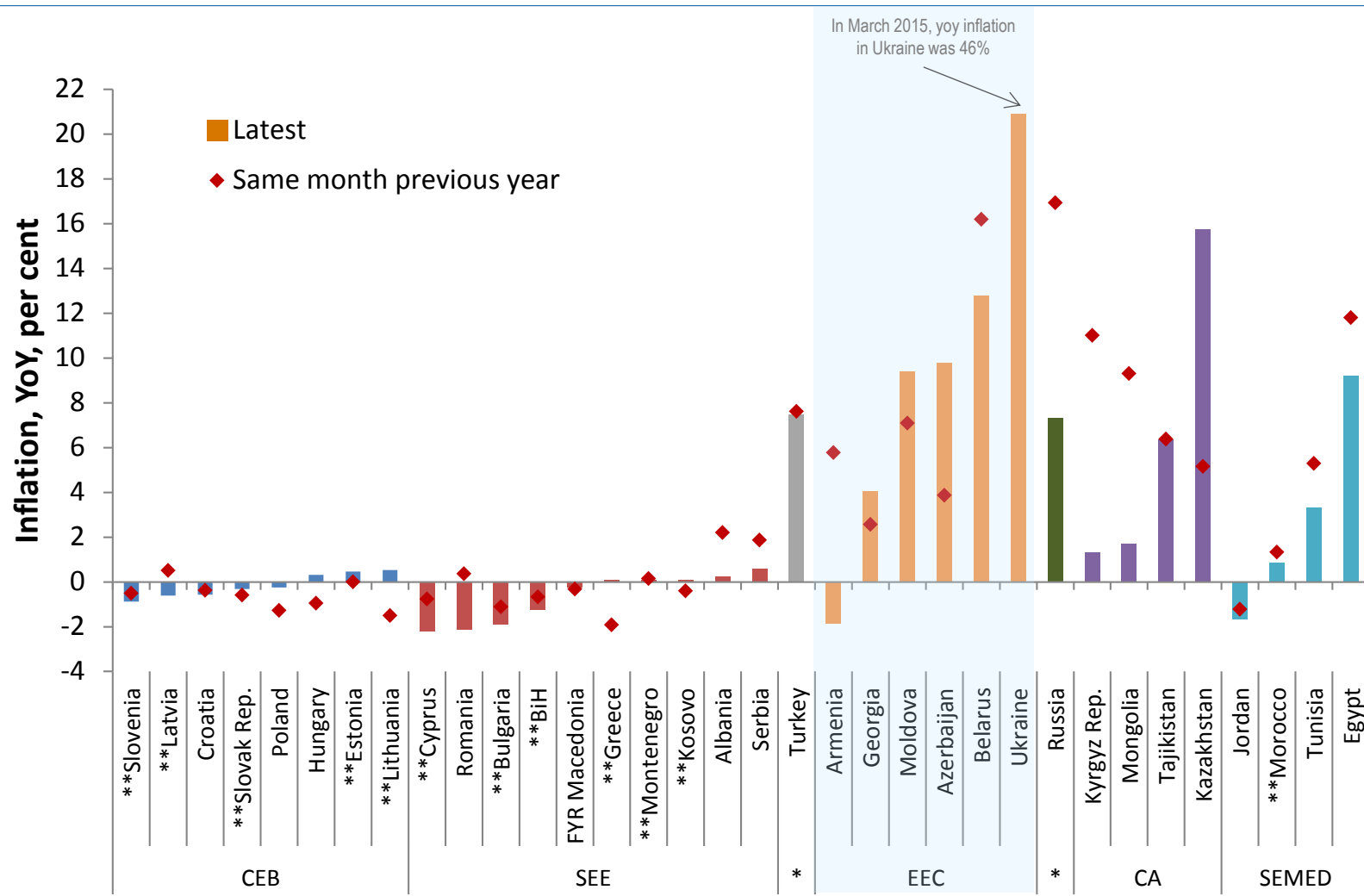
International Reserves



...alongside other EM currencies and the Euro



Relatively high inflation in the EEC countries reflects currency depreciation

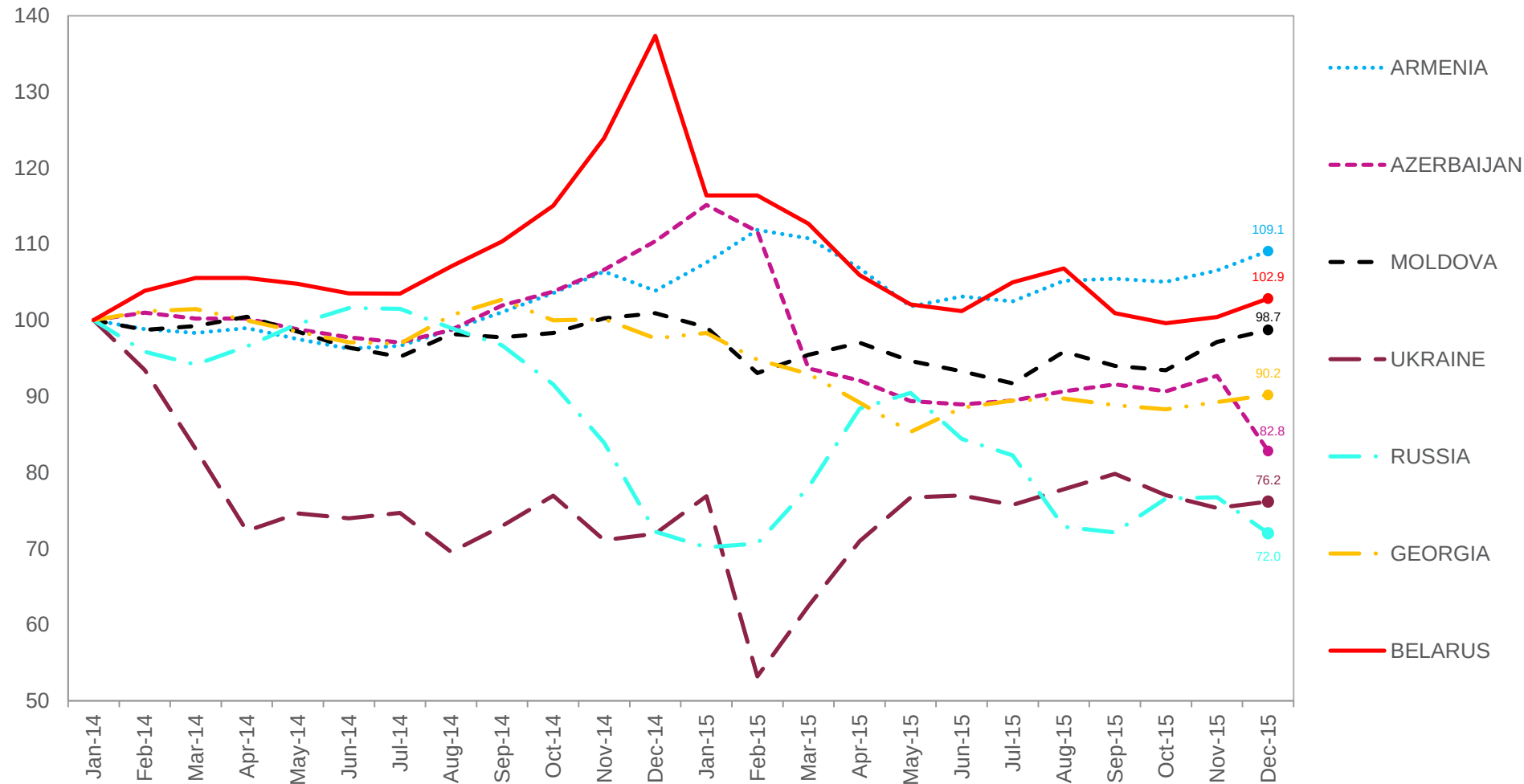


Nominal currency depreciations influence the real effective exchange rates' (REER) dynamics (with other factors being e.g. domestic inflation and structure of trade).

Change in Real Effective Exchange Rate Index

January 2014 - December 2015

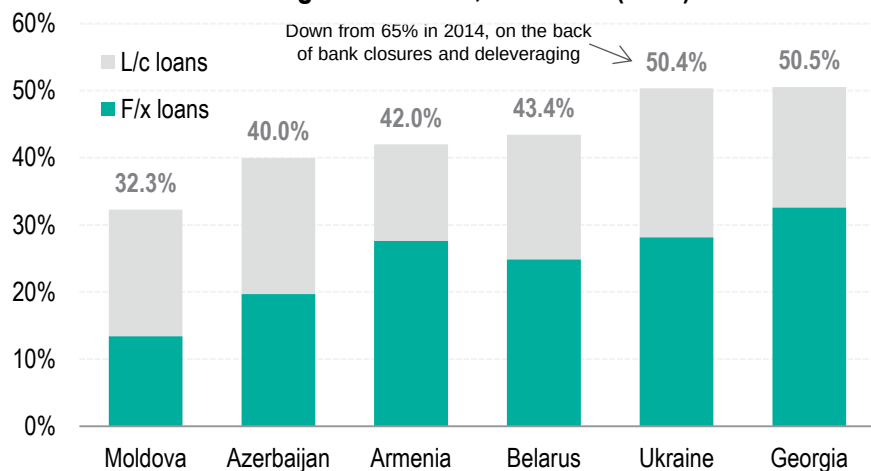
(Jan 2014=100, increase means appreciation)



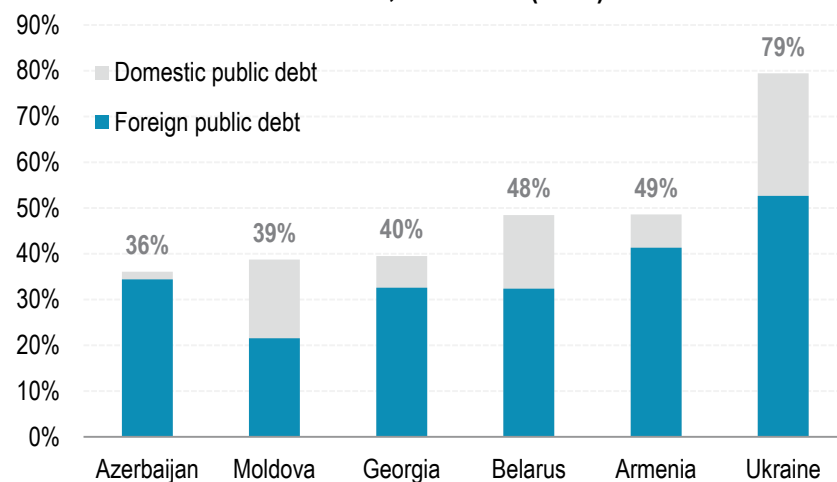
Sources: National central banks and CEIC

Economic vulnerabilities in the EEC countries are primarily related to external imbalances and to exposure to f/x risks

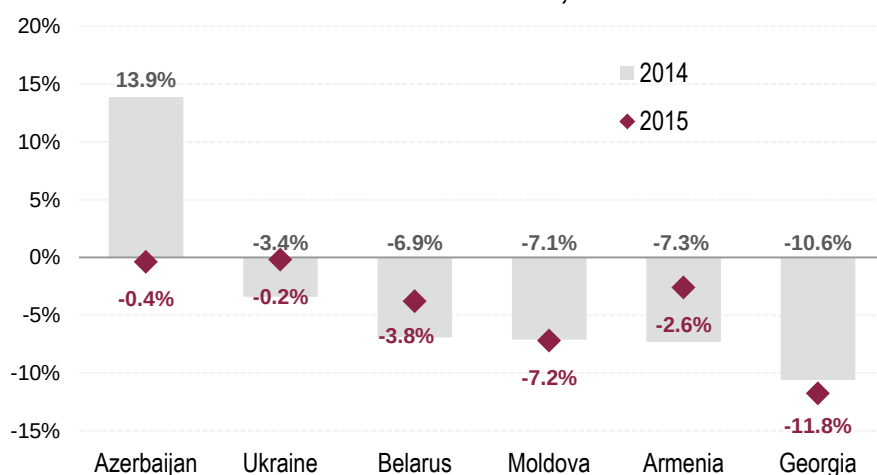
Banking sector loans, % of GDP (2015)



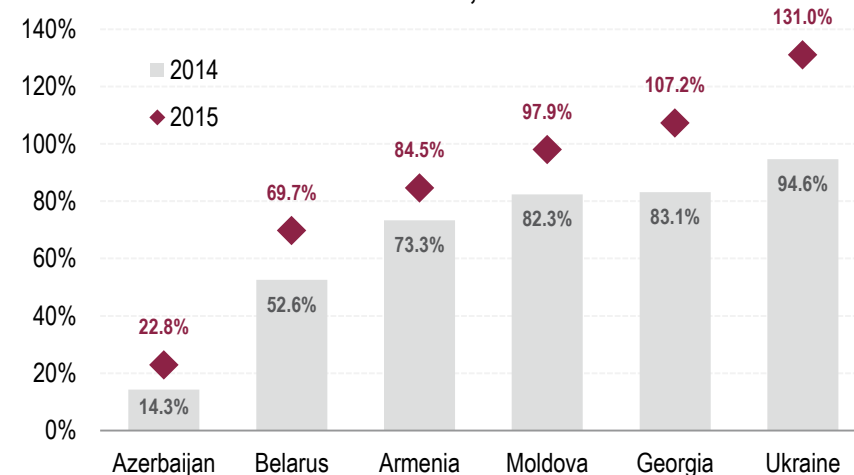
Public debt, % of GDP (2015)



Current account balance, % of GDP

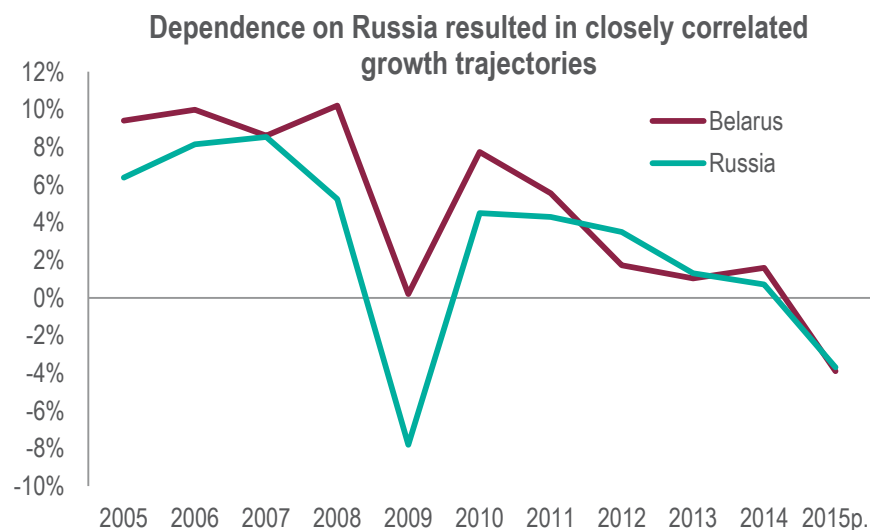
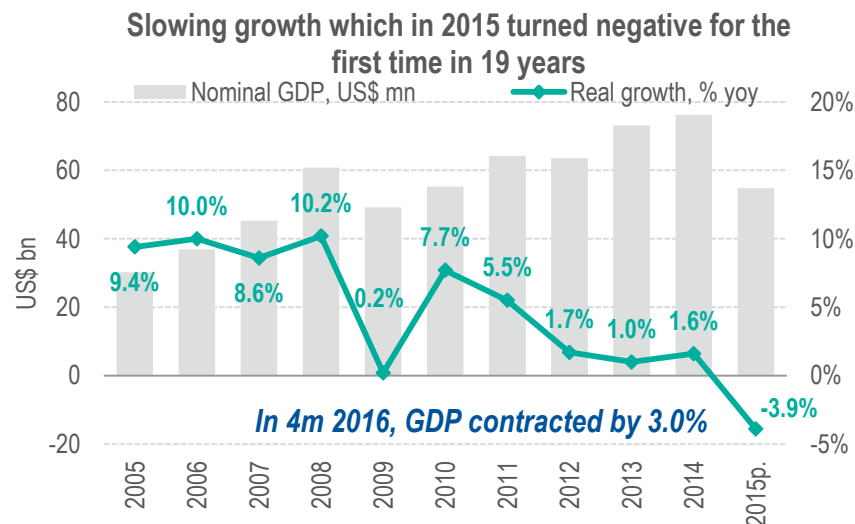


External debt, % of GDP

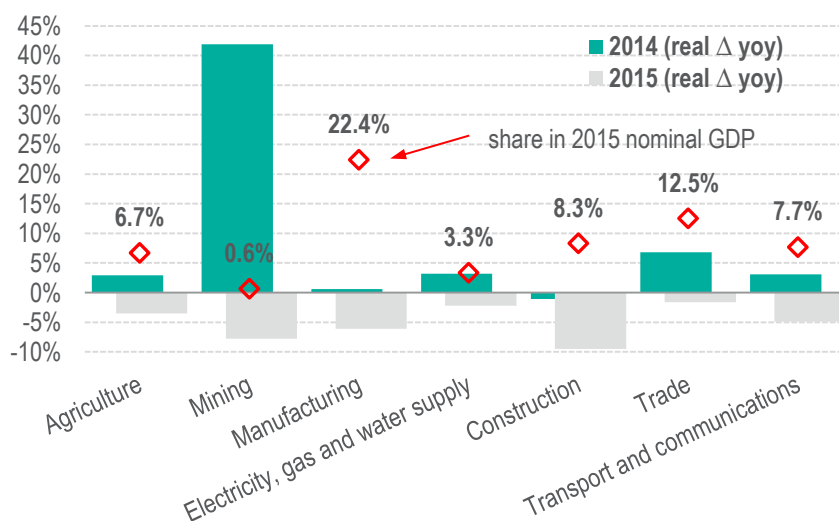


ECONOMIC TRENDS IN BELARUS

BELARUS

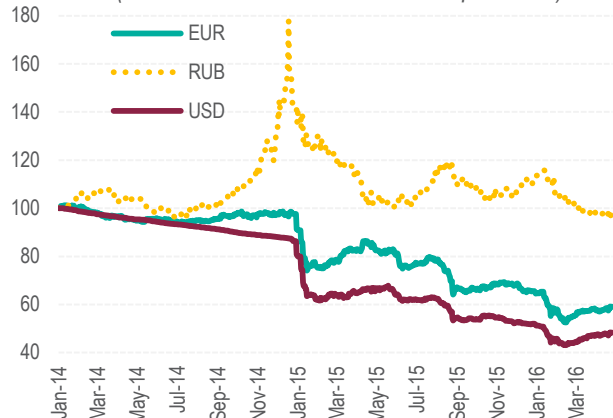


In 2015, output growth in main sectors contracted

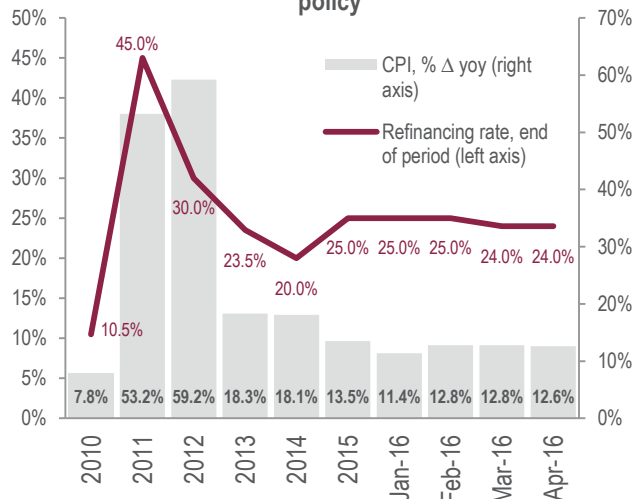


BELARUS

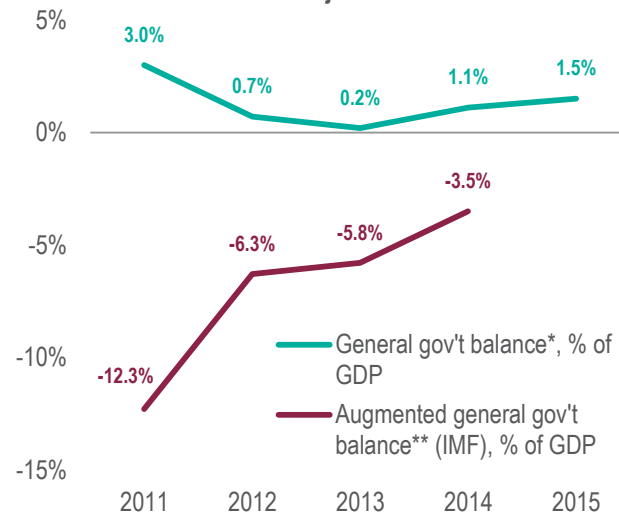
Exchange rate indexes: currency pressures linger
(decrease means Belarus rouble depreciation)



Inflation has been subsiding despite BYR depreciation, amid generally tight monetary policy



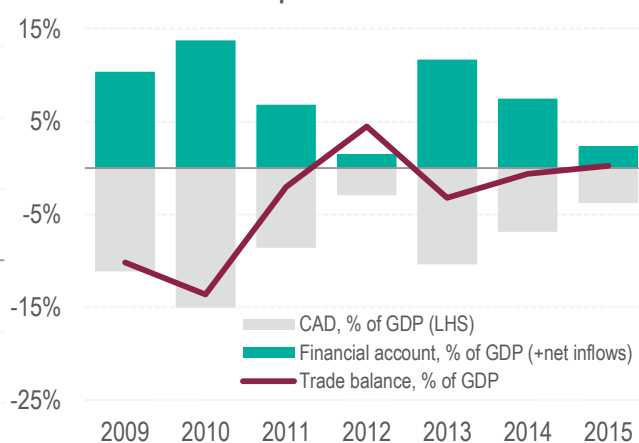
Fiscal adjustment



Export of goods, % Δ yoy



Current account deficit narrowed supported by import contraction



International reserve assets are low

