

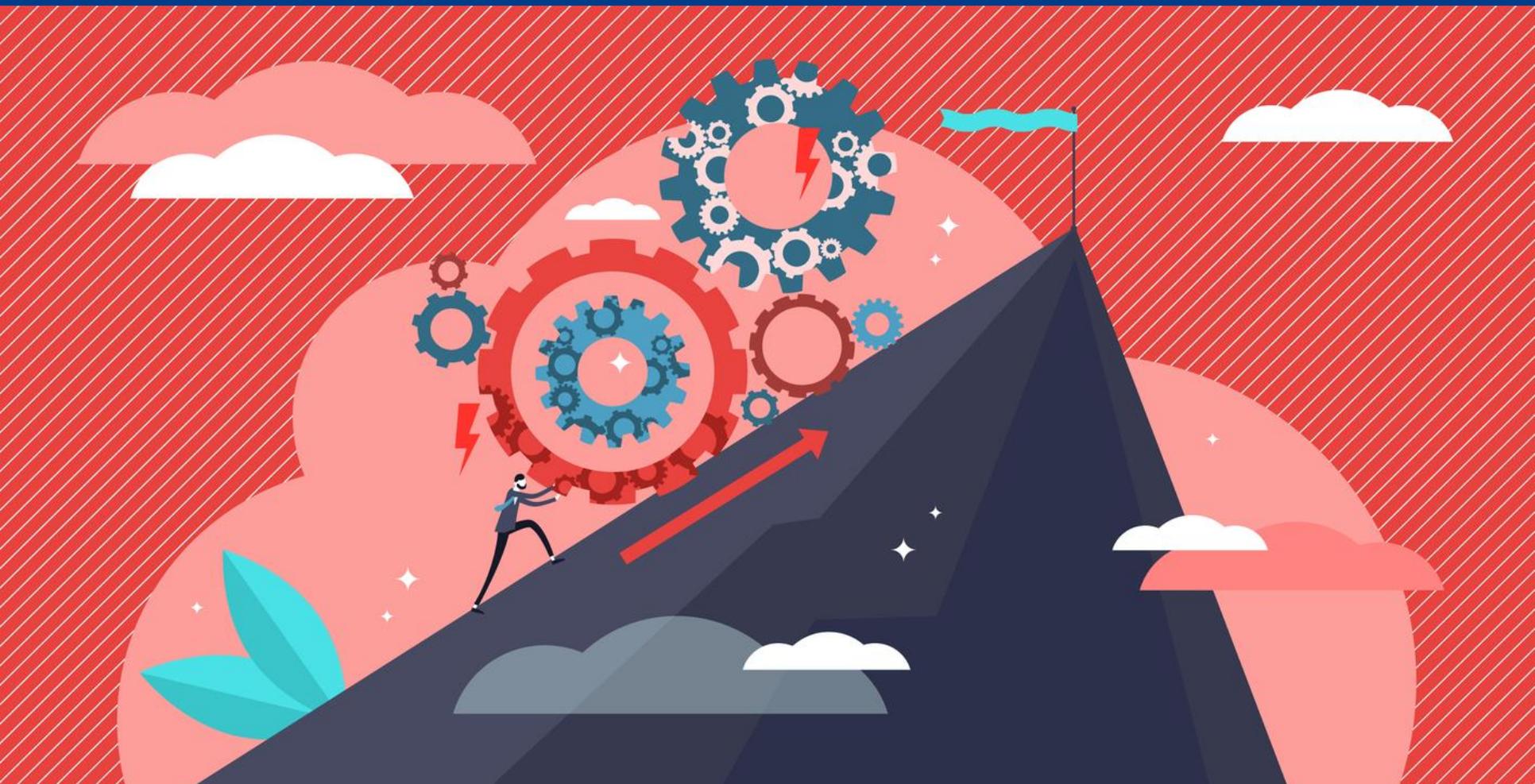
REGIONAL ECONOMIC PROSPECTS IN THE EBRD REGIONS

June 2021



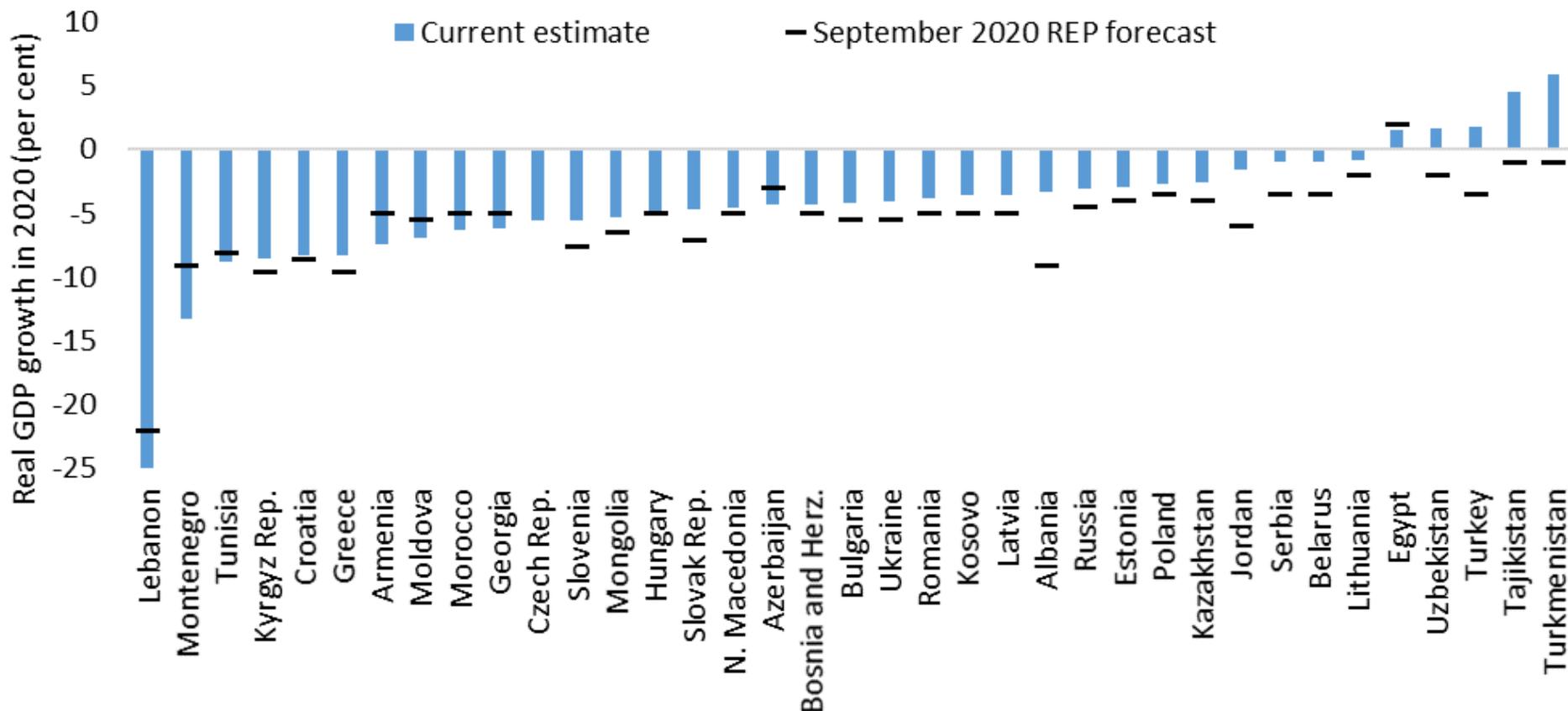
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Recovery gathering pace



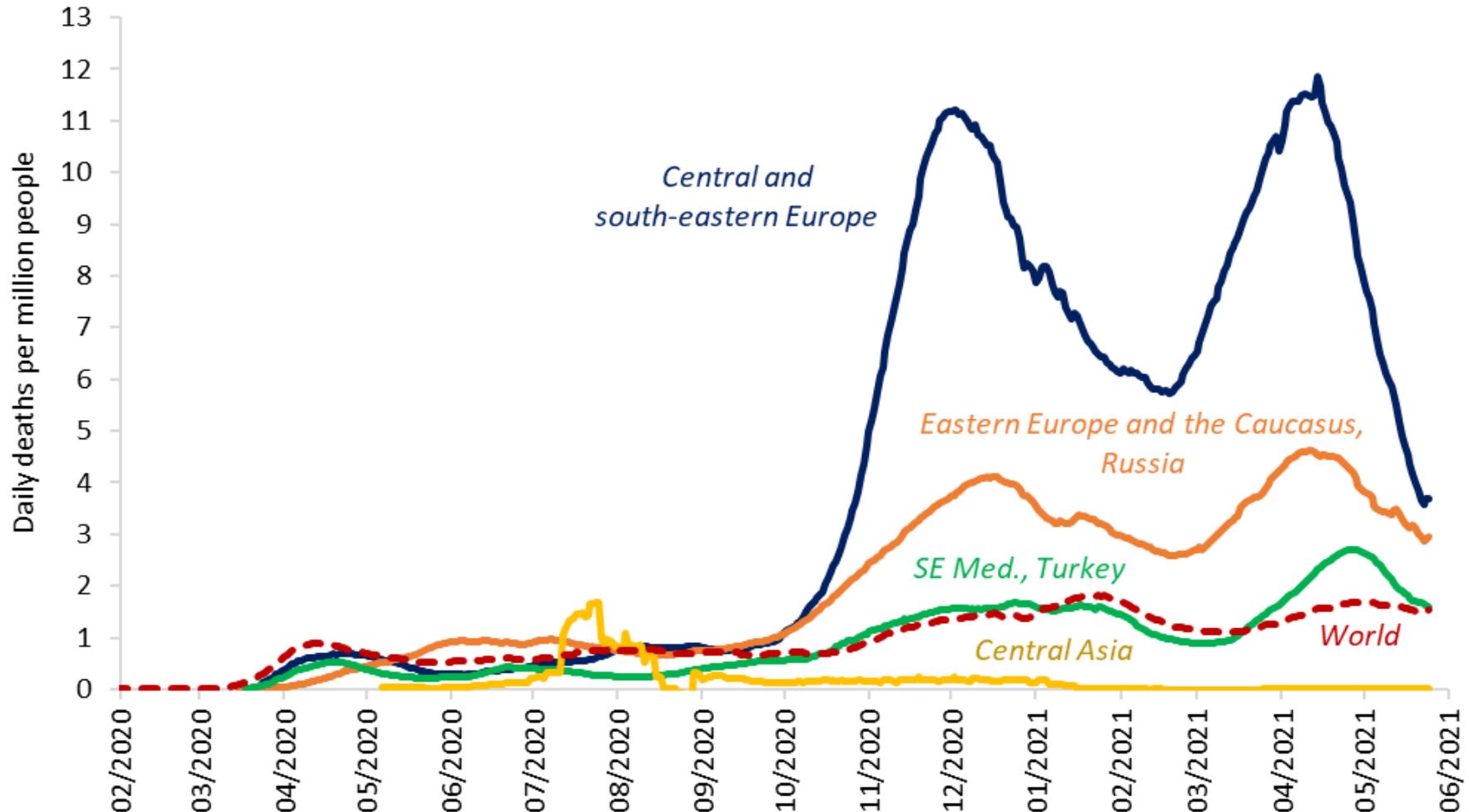
Output in the EBRD regions contracted by 2.3% in 2020 – milder contraction than expected

Due to better than expected outturns in Q3 and Q4 (less social distancing, fiscal support)



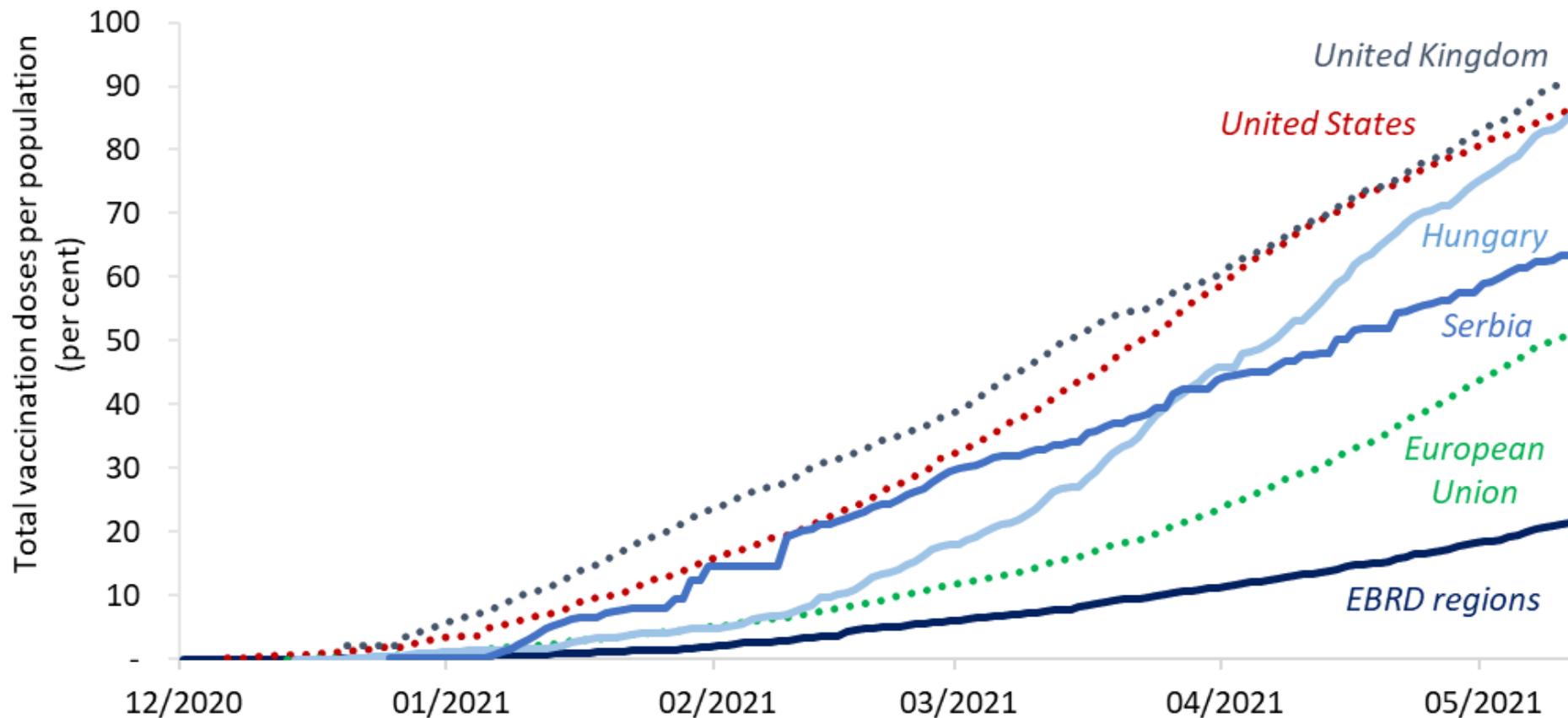
The health situation in the EBRD regions appears to be improving

As of end-May 2021, Covid mortality rates in the EBRD regions exceed world average by 30%



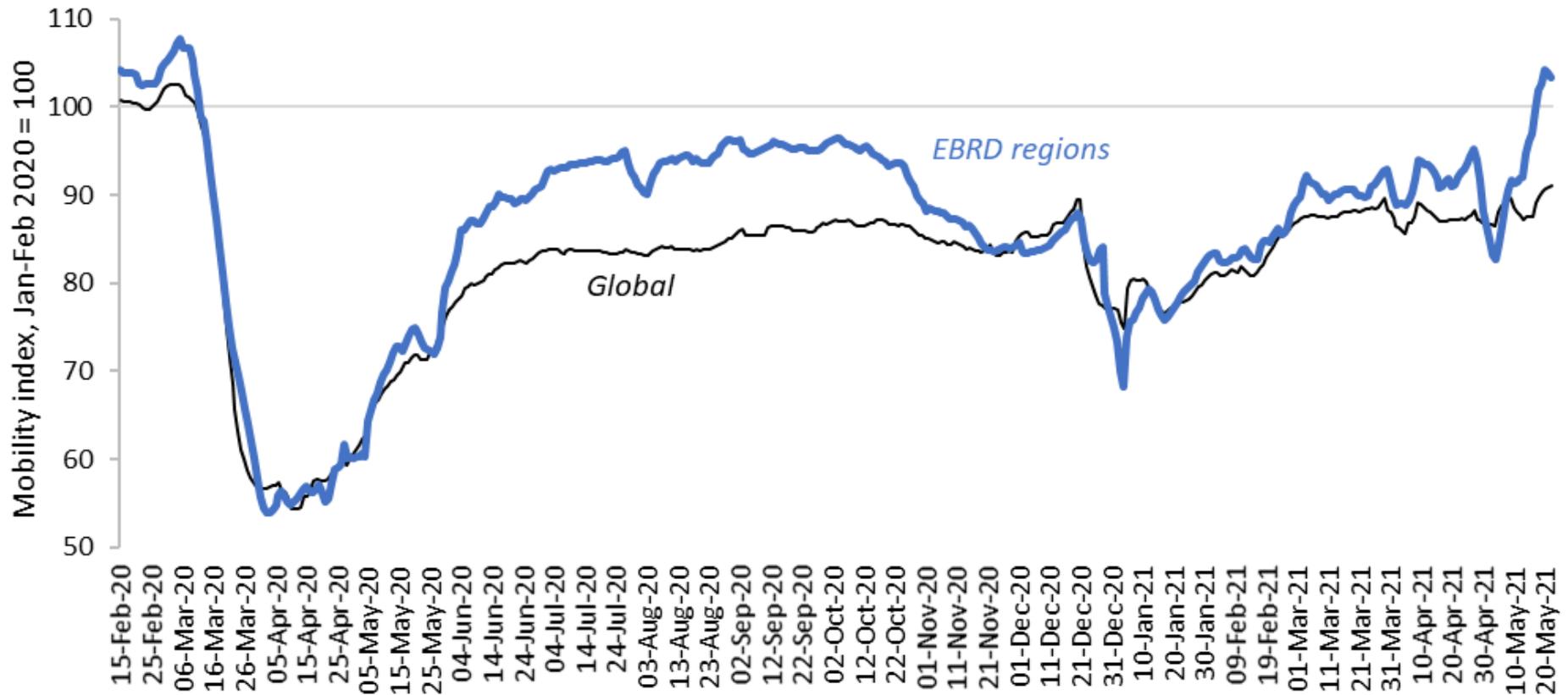
Vaccination in progress, with variation across countries

Around 22% of the EBRD regions' population partially vaccinated as of end-May 2021



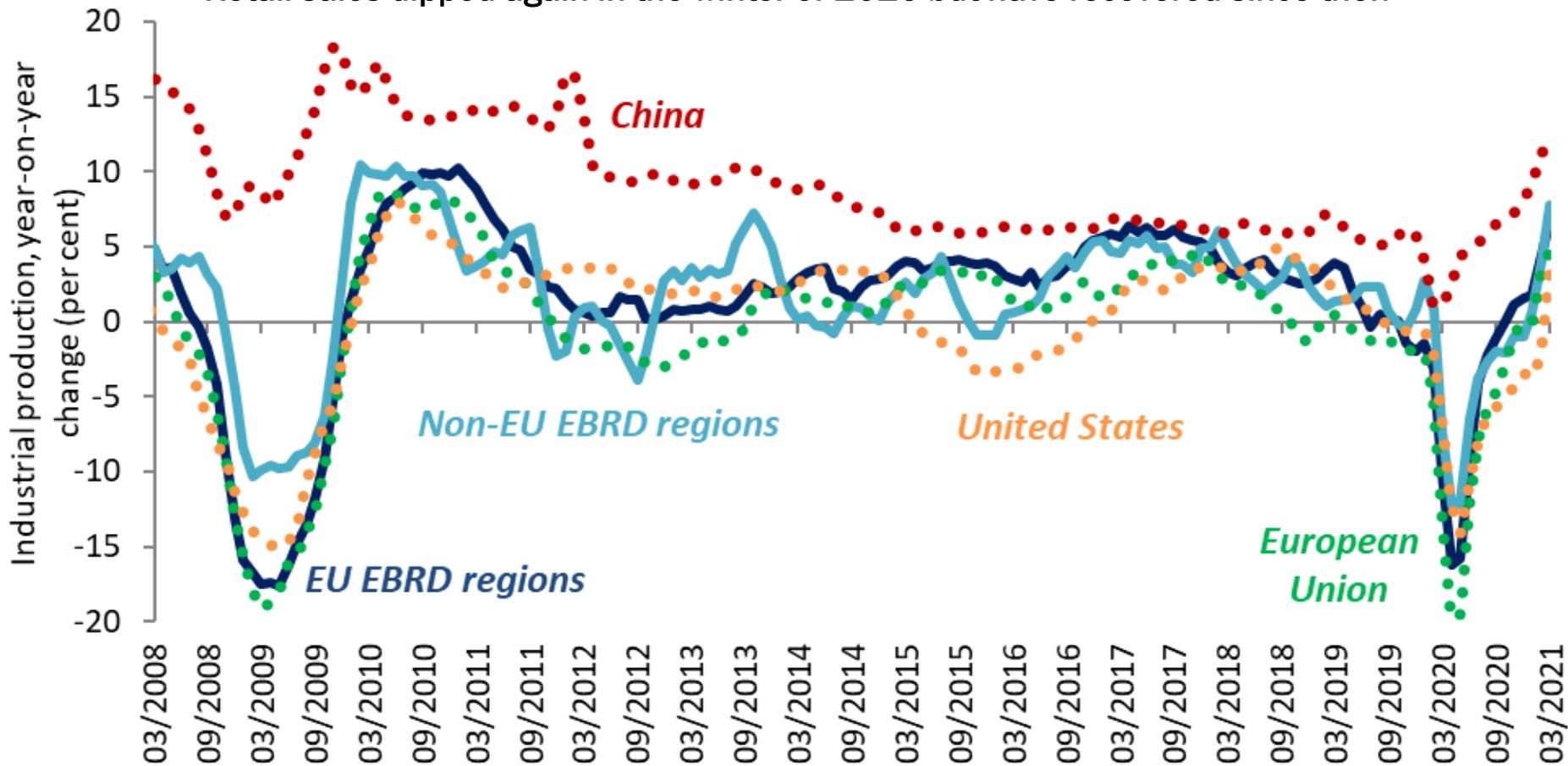
Mobility in the EBRD regions has returned to its pre-pandemic level (Jan-Feb 2020)

Mobility could be expected to be higher in the summer in tourism-dependent economies



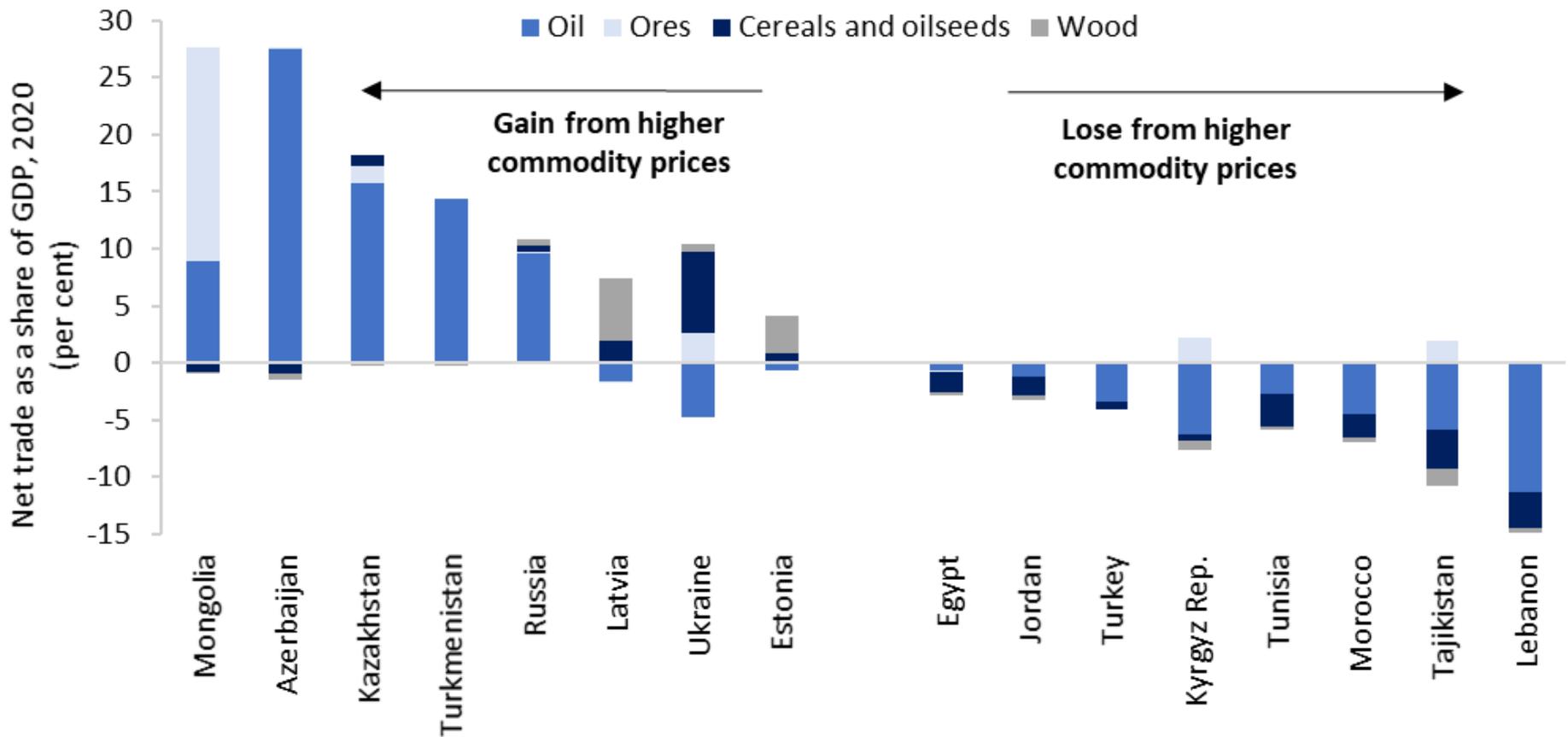
Industrial production recovered in 2021

The contraction in the spring of 2020 was similar to the one in 2009, but the rebound was faster
Retail sales dipped again in the winter of 2020 but have recovered since then



Rising commodity prices have boosted revenues in commodity exporters

...but weighed on the trade balances of oil and food importers, in particular in the southern and eastern Mediterranean

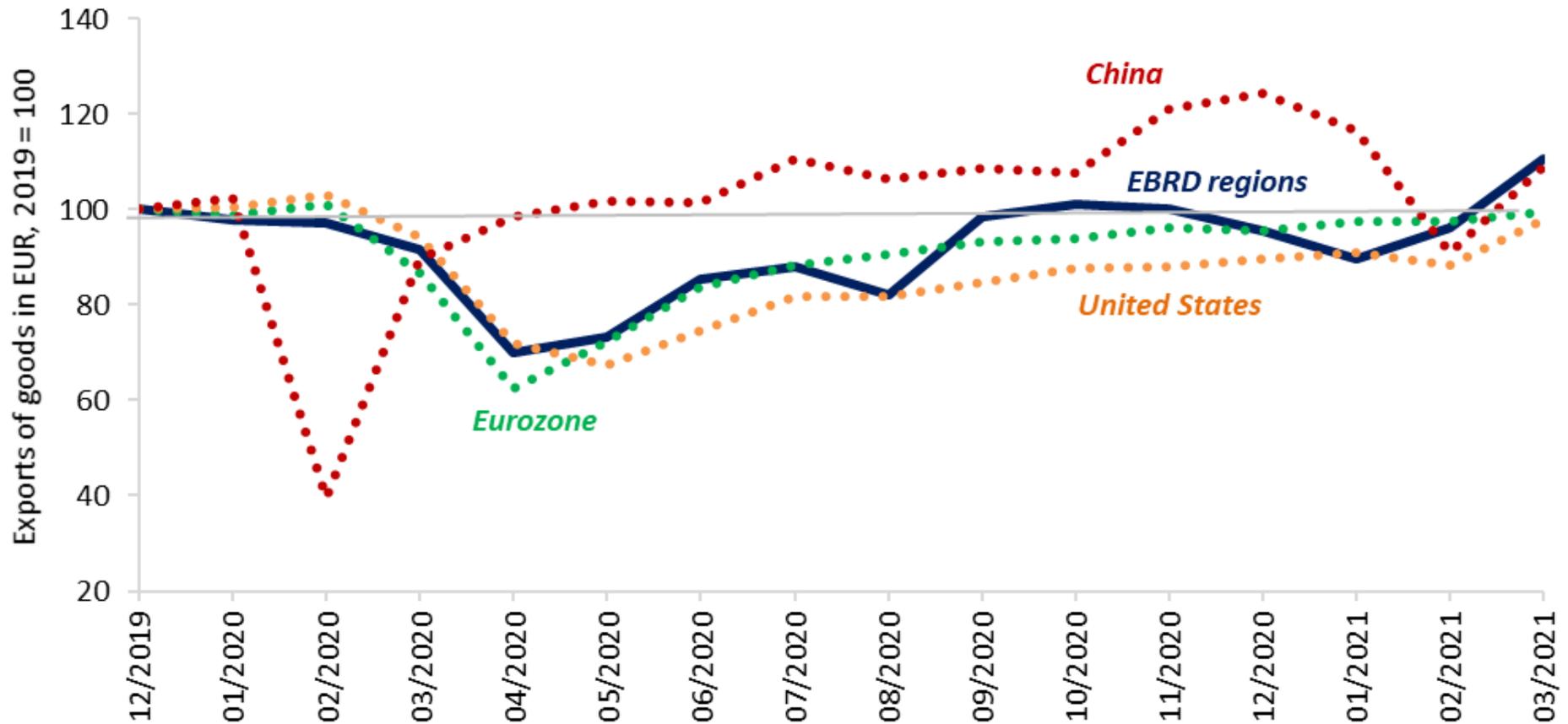


Exports of goods have recovered to pre-pandemic levels



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...supported by higher global demand for manufactured goods since the second half of 2020

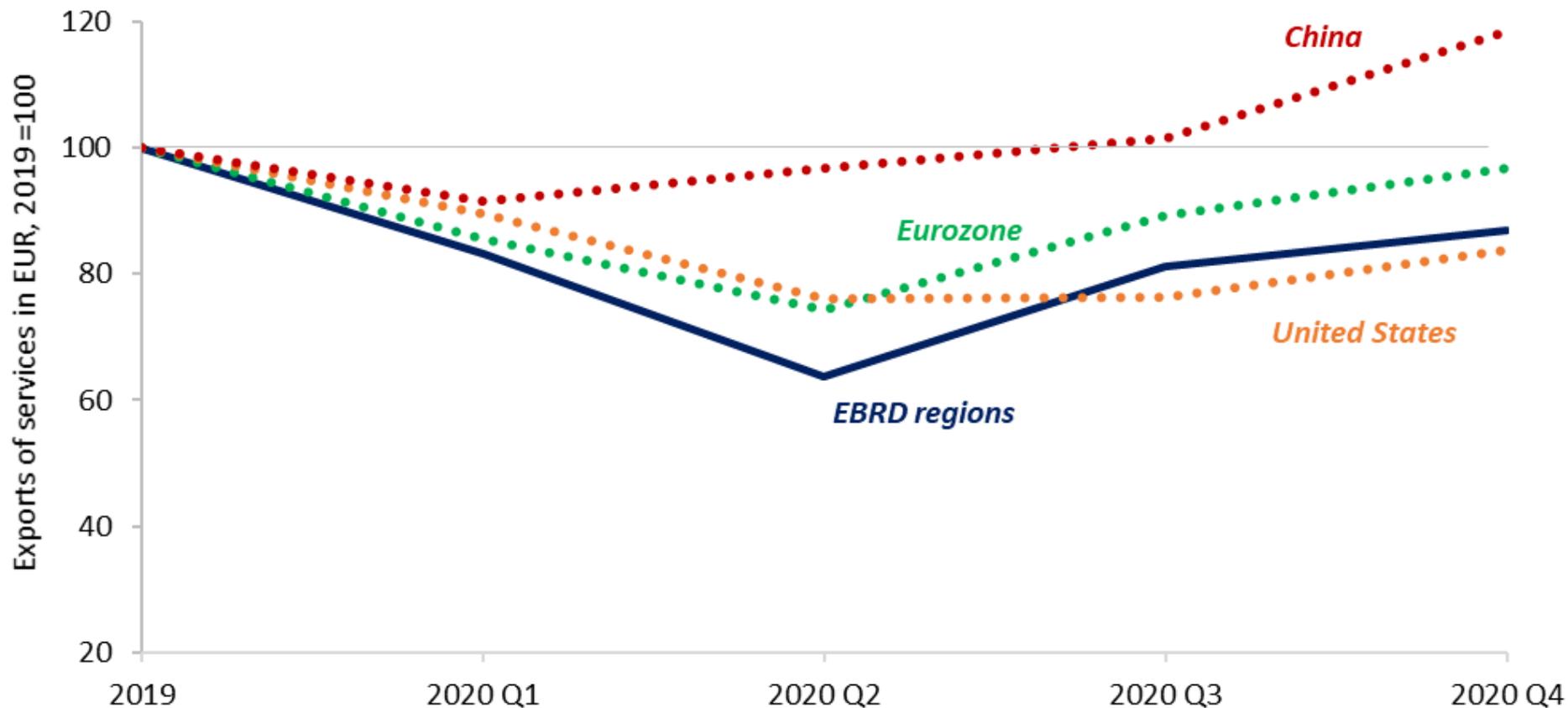


Exports of services remain below their pre-pandemic levels



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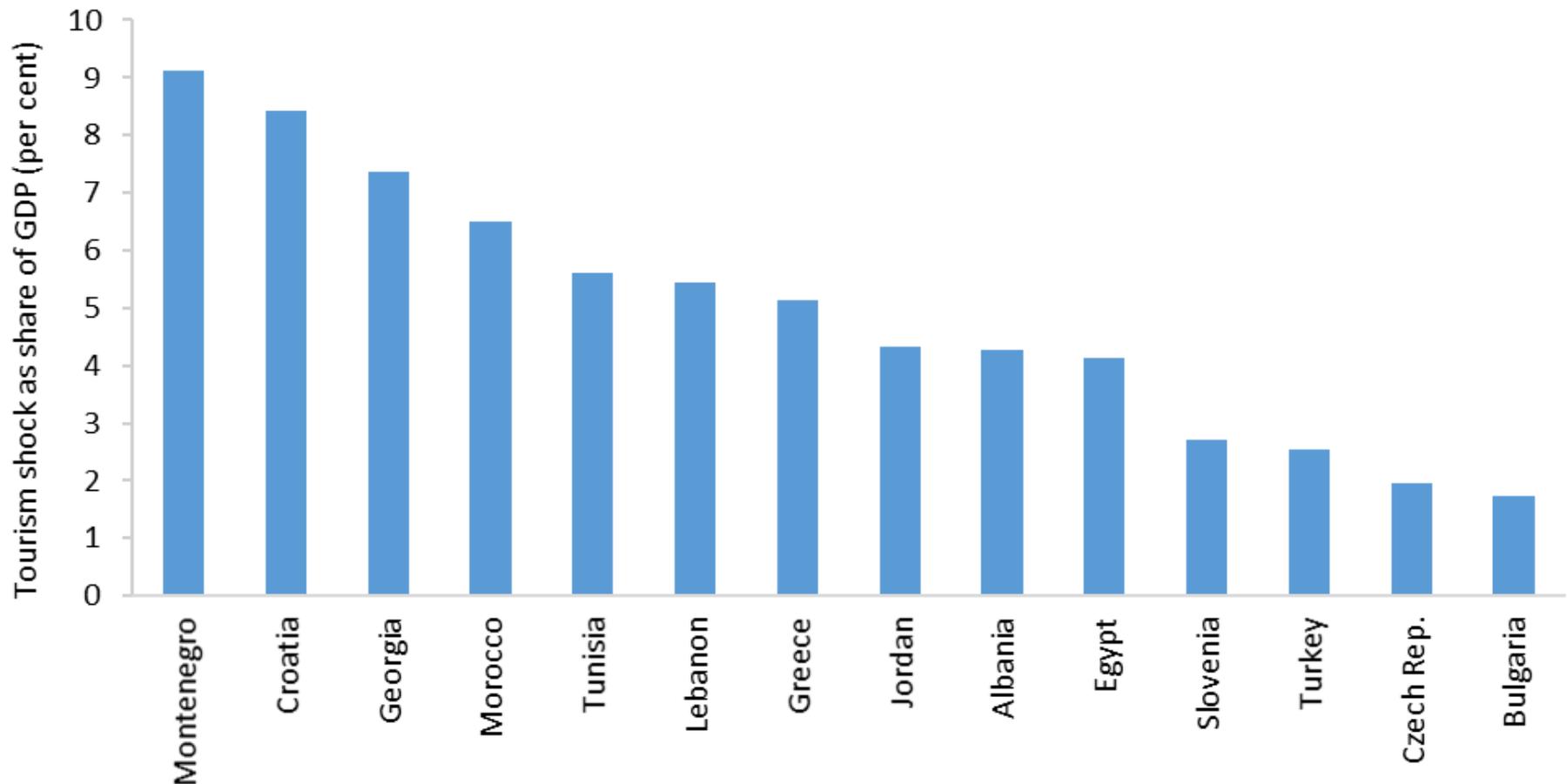
Like retail sales, these are more affected by lockdowns than exports of goods and industrial production



Sources: CEIC, International Trade Center 2021 and authors' calculations. Note: Based on 20 economies in the EBRD regions with quarterly data for Q1-Q4 2020. These accounted for 75 per cent of total services exports in the EBRD regions in 2019.

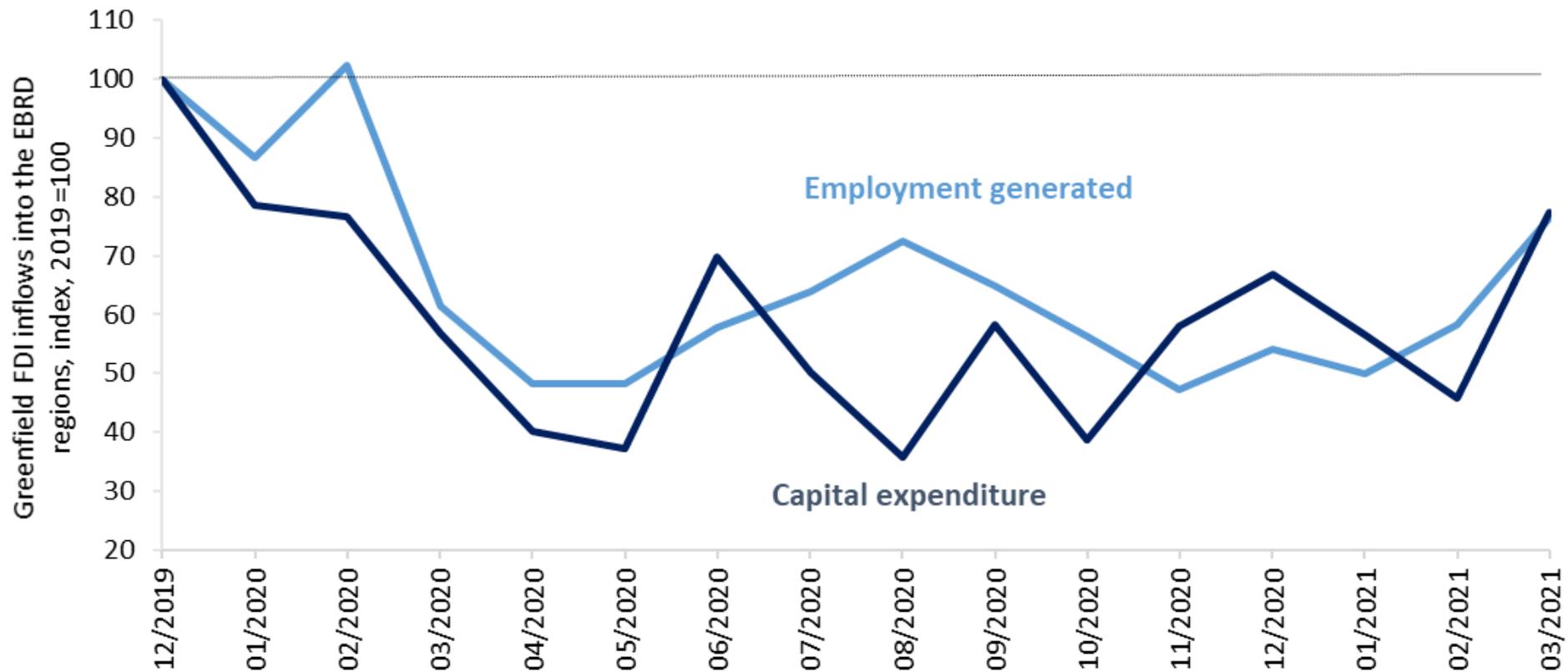
Tourism-dependent economies have seen large declines in tourism revenues

Losses due to foregone tourism around 7-9 % of GDP pa in Croatia, Georgia and Montenegro



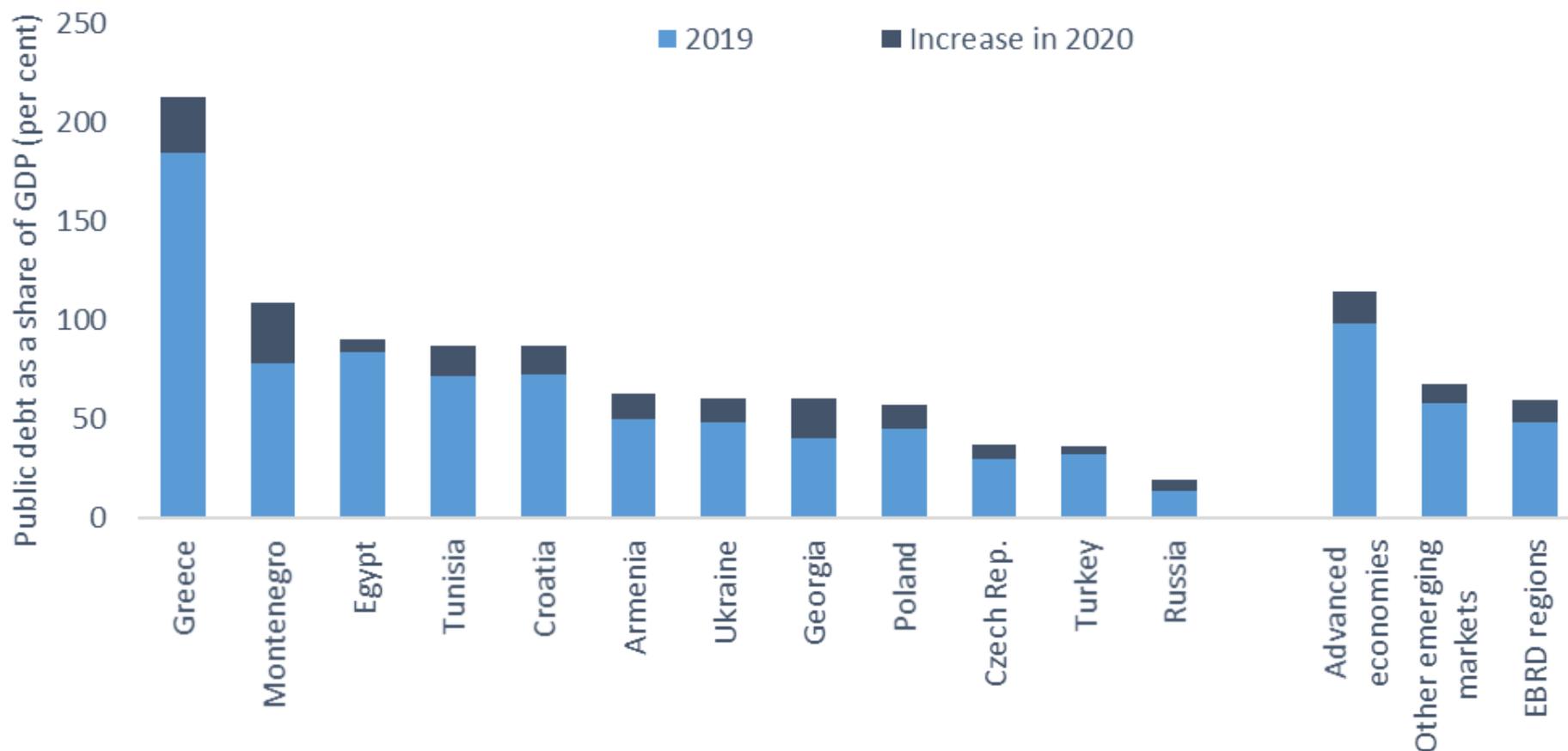
Greenfield FDI inflows remain well below their pre-pandemic levels

Greenfield FDI recovered only in central Europe driven by manufacturing



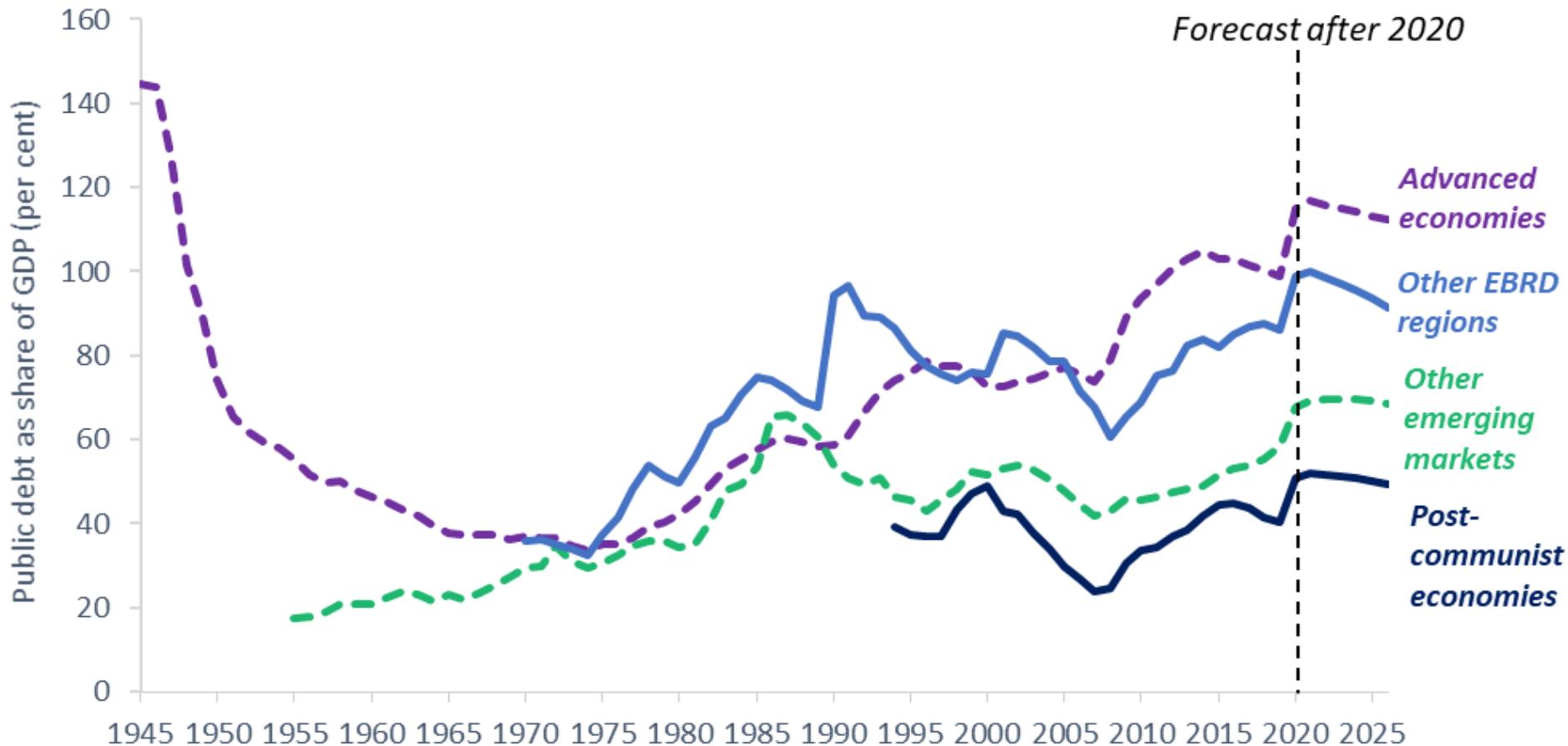
In some economies public debt is at historic highs

General government debt up by 11% of GDP in the EBRD regions on increased spending and output collapses



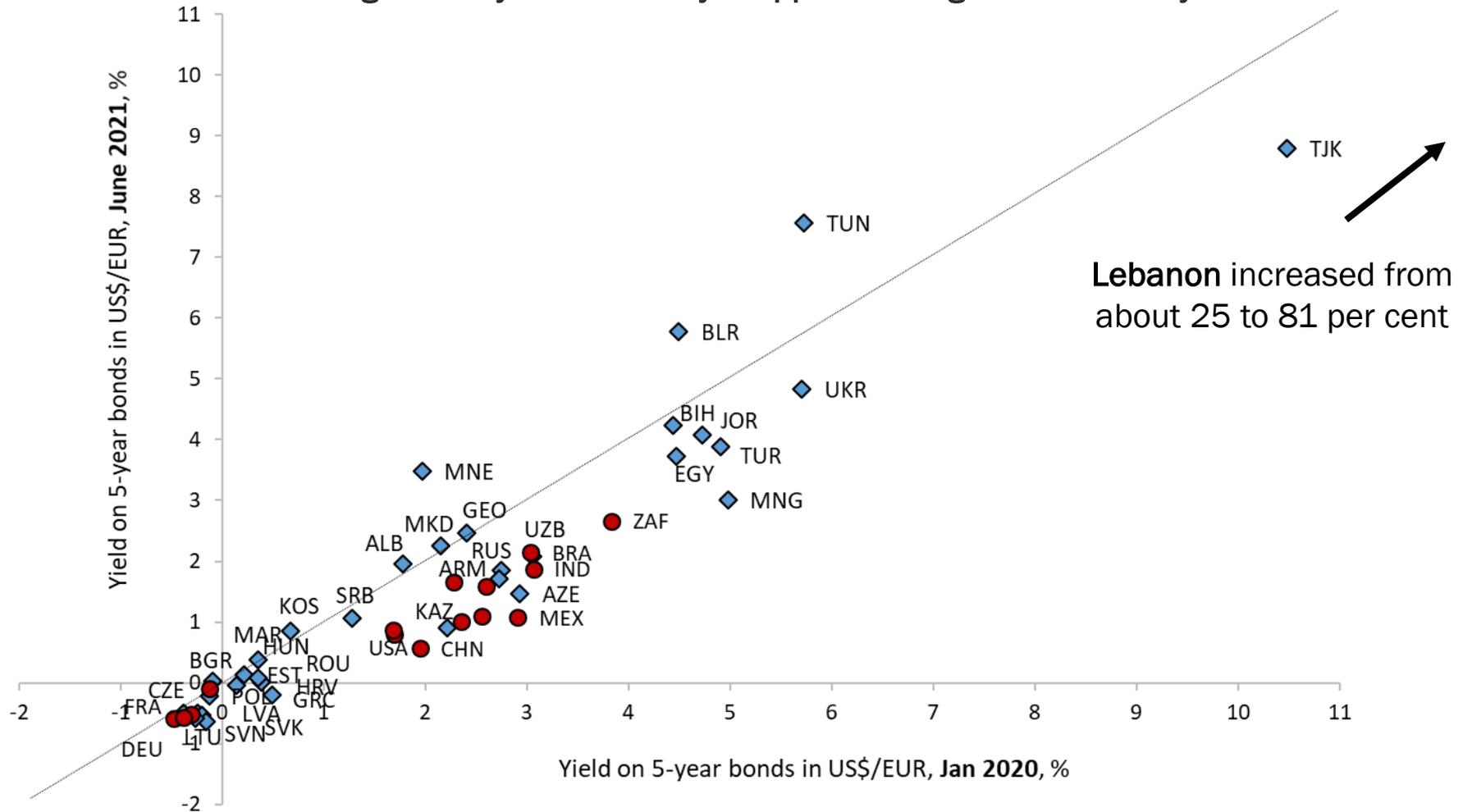
Public debt is at levels last seen during the transition recession of the early 1990s

In many economies it is at historic highs



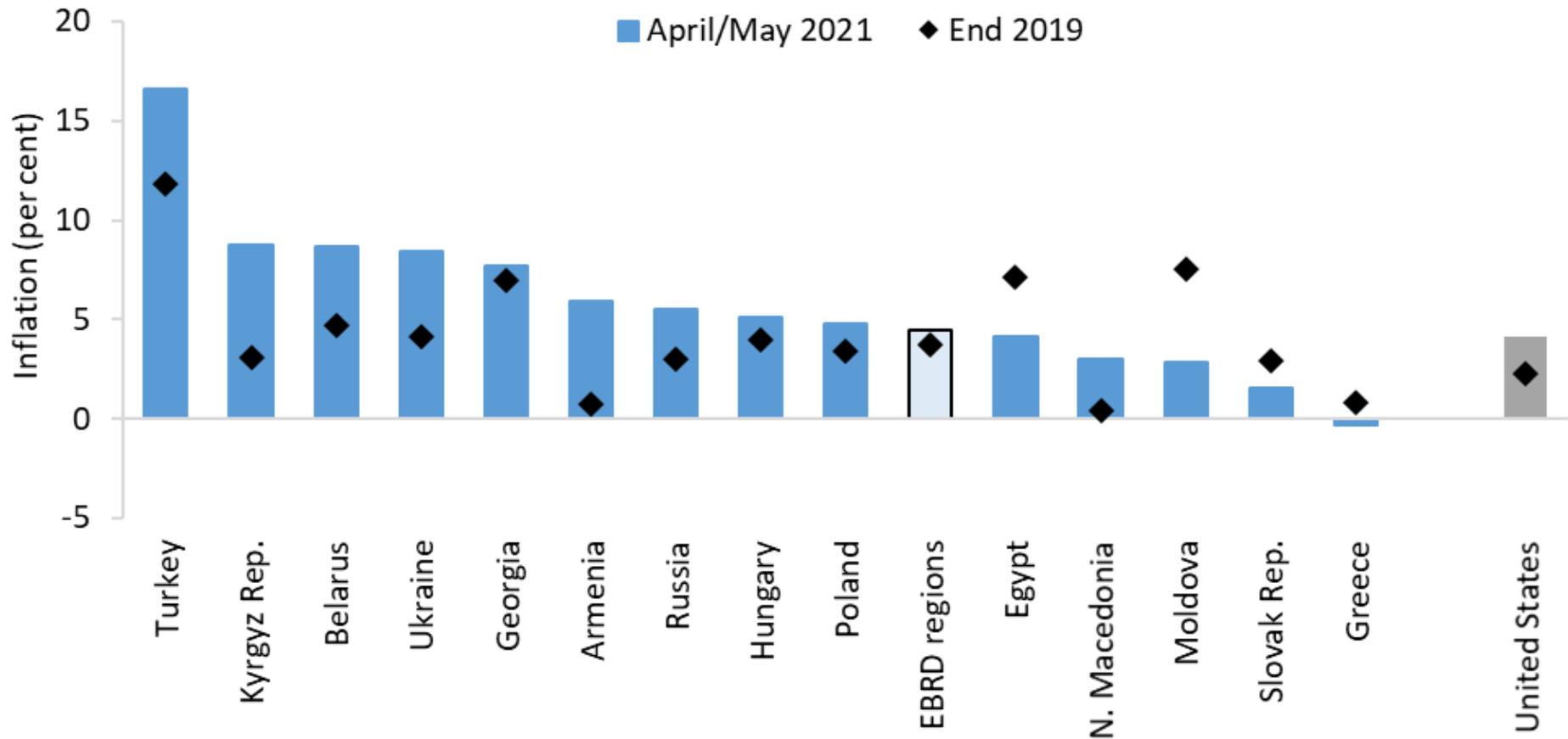
Borrowing costs remain below pre-crisis levels in most economies in the EBRD regions

However, they are high/have increased in Belarus, Lebanon, Montenegro, Tajikistan and Tunisia
In the EBRD regions they have risen by 0.5pp on average since January 2021



Inflation has been picking up: now about 0.8 ppt above end-2019 levels in the EBRD regions

Higher commodity prices, inflation in advanced economies and in some cases currency depreciations pushed prices up, though most economies have substantial slack

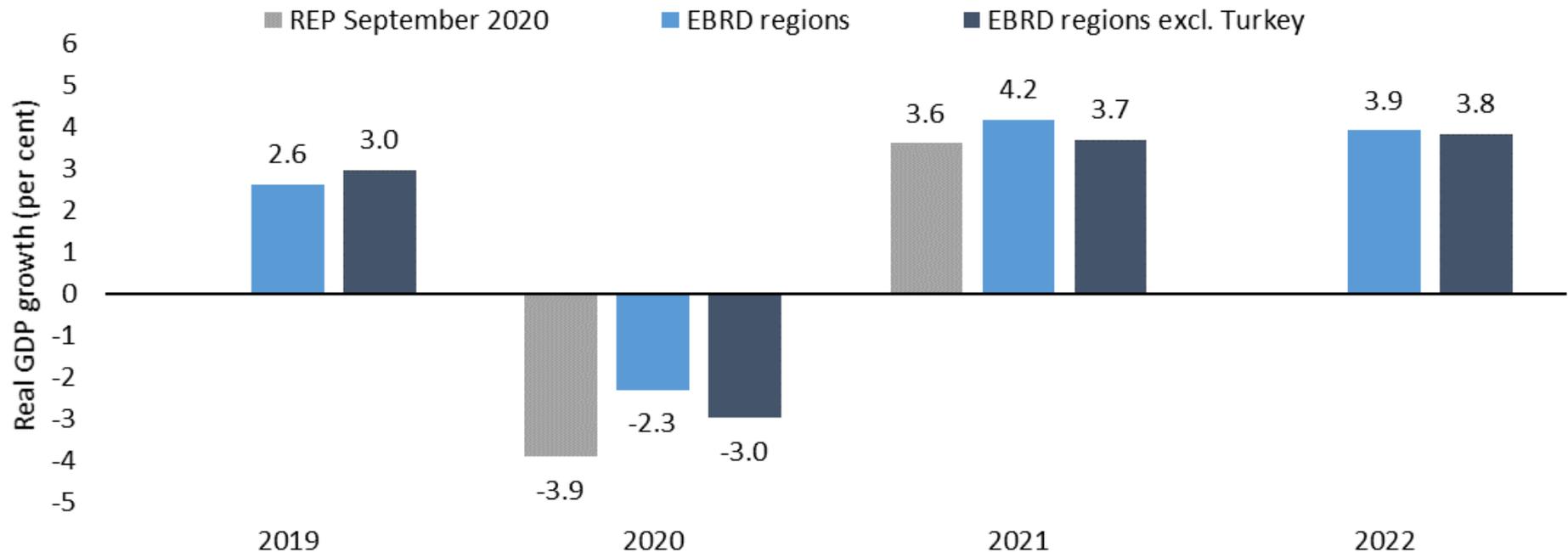


Output in the EBRD regions is expected to grow by 4.2% in 2021 and 3.9% in 2022

Yet fallout from the crisis unequal across countries, workers and firms

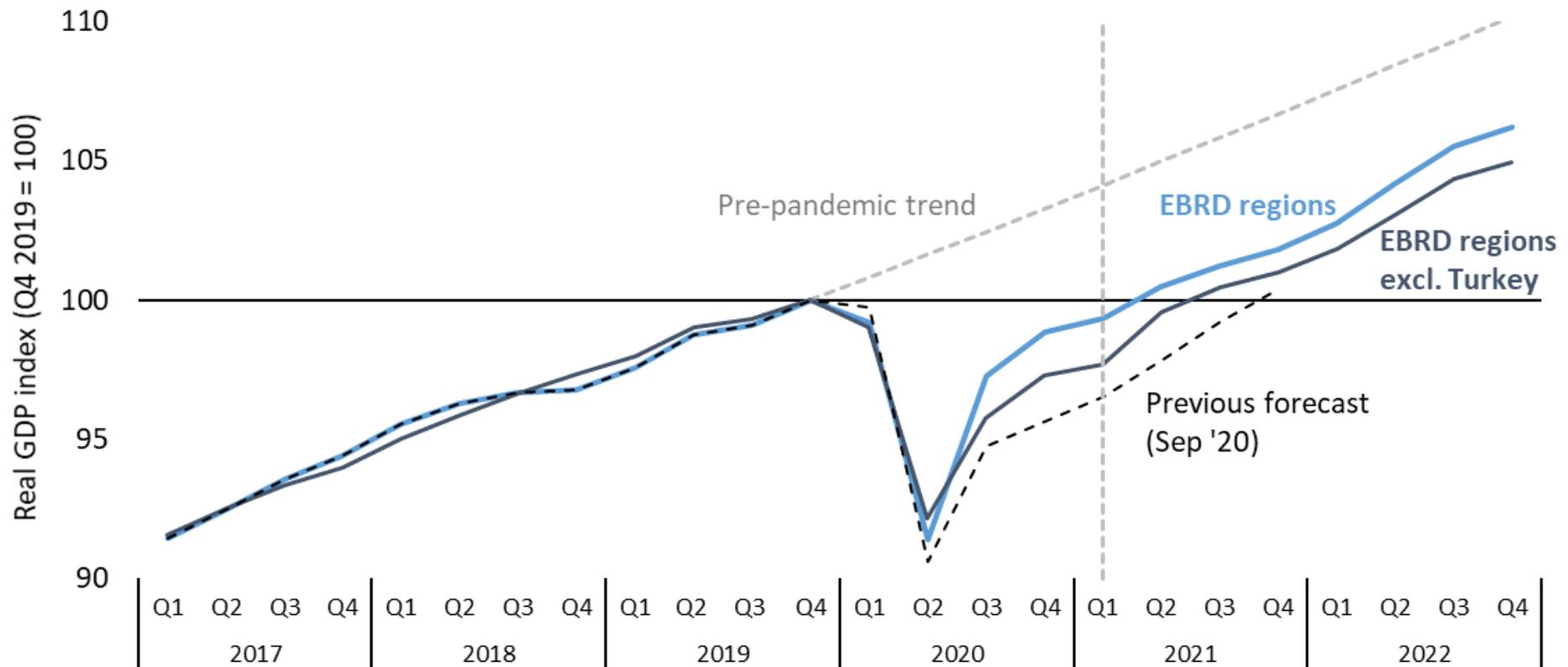
While bankruptcies have so far remained contained, vulnerabilities may surface when support measures are withdrawn

Upward revision compared to Sep' 2020 forecasts



Recovery gathering pace

Yet more than half of economies in the EBRD regions will only recover pre-pandemic output levels in 2022 or later



Recovery gathering pace following 2.3% output contraction in 2020



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Recovery gathering pace:

- Vaccination progressing, mobility has returned to its pre-pandemic level.
- Commodity prices have increased, and exports of goods have recovered.

- But exports of services lag behind, FDI remains far below the pre-crisis level and tourism-dependent economies remain hard hit.

Risks and vulnerabilities:

- Fiscal vulnerabilities have increased: public debt increased by about 11 ppt on average; debt vulnerabilities tend to be underestimated after crises.
- Some countries have seen sharp increases in bond yields, have high interest payments or external vulnerabilities.
- Currency depreciations, higher commodity prices and higher inflation in trading partners have pushed inflation up, despite widespread slack in many economies.

Output in the EBRD regions is expected to grow by **4.2% in 2021** (compared with 3.6% expected in September 2020), reflecting better-than-projected outcomes in the second half of 2020 and early 2021.

Commodity exporters benefit from higher prices and **manufacturing exporters gain**, while economies **dependent on tourism continue to lose out**.

Forecasts are, however, **highly sensitive to the path of the health crisis**, assumptions relating to government policies and the effectiveness of policy actions to limit persistent economic damage.

Headline numbers also hide variation across individual experiences.

- Inequality increasing as the employment and earnings impact of the pandemic has been highly unequal across groups of workers.
- While bankruptcies have so far remained contained, experiences across firms have also varied widely and vulnerabilities may surface when support measures are withdrawn.