Regional Economic Prospects in the EBRD Regions

European Bank for Reconstruction and Development

Covid-19: Early estimates of the damage, uncertain prospects

September 2020

Output in the EBRD regions contracted by 8.2 per cent year-on-year in the second quarter of 2020 as social distancing measures aimed at containing the spread of Covid-19 weighed on domestic demand and supply. Their effects were compounded by weaker demand for exports, a collapse in tourism, a drop in remittances and low commodity prices. This contraction was steeper than anticipated in May although less deep than in advanced economies where lockdowns tended to be longer. The averages mask significant variation in economic outcomes across the EBRD regions, with tourism-dependent Croatia, Greece and Tunisia recording contractions in excess of 15 per cent year-on-year.

A striking 73 per cent of respondents in the EBRD regions say they were personally affected by the Covid-19 crisis, compared with 41 per cent of respondents in advanced Europe, according to the results of a representative household survey conducted by the EBRD and the Ifo Institute, in 8 economies in the EBRD regions and 6 advanced economies in Europe in August 2020. Job losses, and, in particular, business closures, appear to be already more widespread than in the aftermath of the global financial crisis. The burden of the crisis has been disproportionately borne by those with lower levels of education and income. The results of these surveys are informative about the breadth of the crisis impact and they also shed light on groups of individuals most affected. However, there is no one-to-one correspondence between survey results and the depth of recession. For instance, the survey tells us whether an individual lost a job but not how difficult it may have been to find another one.

Large fiscal stimulus packages, averaging 4.2 per cent of GDP, helped to cushion the impact of the Covid-19 crisis on individuals and firms. The survey results suggest that fewer individuals lost their jobs, had to close a family business or were otherwise impacted by the crisis in economies where fiscal stimulus packages were larger.

Public debt as a share of GDP is expected to increase sharply. Fiscal stimulus accounts for about one third of the projected increase in debt-to-GDP ratios while the rest is largely due to sharp contractions in GDP. Currency depreciations may also contribute to higher debt-to-GDP ratios in economies where significant shares of government debt are denominated in foreign currency.

GDP in the EBRD regions as a whole is expected to contract by 3.9 per cent in 2020, with growth of 3.6 per cent expected in 2021. These forecasts are lower than expected in May 2020, as social distancing measures remain in place for longer than previously anticipated.

Output in ***central Europe and the Baltic states*** *is expected to drop by 4.4 per cent in 2020. Generous government spending programmes have helped cushion the impact of the crisis and private consumption in the region has held up somewhat better than expected. Assuming a gradual normalization of activity, some recovery in external demand, growth could recover to around 3.5 per cent in 2021, boosted by disbursement of EU funds.*

Strict lockdowns, travel restrictions and weak tourist seasons weighed on growth in the ***southern European Union*** *in 2020. While here, too, fiscal packages have helped alleviate some of the impacts of the crisis, GDP in the region* *is forecast to fall by 6.5 per cent in 2020, with a partial rebound of 3.3 per cent in 2021, conditional on a gradual normalization of activity in the economies as well as their trading partners.*

Output in the **Western Balkans** *is expected to fall by 5.1 per cent in 2020 due to a collapse in tourism (affecting, in particular, Albania and Montenegro), disruptions in global supply chains and declines in foreign direct investment inflows and remittances. Growth is expected to recover to 3.4 per cent in 2021.*

GDP in **Russia** *is expected to shrink by 4.5 per cent in 2020 as a result of the Covid-19 crisis and a drop in oil prices, though the introduction of the National Plan for Economic Recovery helped mitigate some of the negative effects. A rebound of 3.0 per cent is expected in 2021, conditional on some recovery in oil prices.*

The Covid-19 crisis weighed on growth in **eastern Europe and the Caucasus** *where a sharp fall in remittances during the early months of the pandemic was compounded by lower commodity prices (affecting Armenia, Azerbaijan and Ukraine) and a collapse in tourism (weighing on growth in Georgia). GDP in the region as a whole is expected to fall by 4.5 per cent in 2020, recovering somewhat to 2.5 per cent in 2021.*

Economies in **Central Asia** *are expected to contract by 3.3 per cent on average in 2020, with the Kyrgyz Republic and Mongolia most severely affected reflecting their high external vulnerabilities. Assuming a partial recovery in tourism and some improvements in the external environment, growth in the region could rebound to 3.2 per cent in 2021.*

Turkey's *economy is expected to contract by 3.5 per cent in 2020 reflecting weak demand for exports, disruption to supply chains and social distancing measures weighing on the outlook in the services and manufacturing sectors. GDP growth could pick up to 5.0 per cent in 2021.*

Output in the **southern and eastern Mediterranean** *is expected to contract by 1.3 per cent in 2020 as a result of virus containment measures, a drop in tourism, falling external demand and a slowdown in foreign direct investment inflows. GDP could rebound to 4.4 per cent in 2021, supported by the implementation of structural reforms packages.*

These projections are subject to tremendous uncertainty. If previous episodes of major crises are a guide, flash estimates of growth are likely to be subject to large revisions, in particular in emerging markets and developing economies, which will, in turn, be reflected in significant revisions to forecasts.

Table 1. Real GDP growth, in per cent per annum

	Actual		Forecasts (REP Sept 2020)		Change in forecasts since REP May 2020		Cumulative change rel. to 2019	2019 GDP per capita level reached again in
	2019	2020 H1	2020	2021	2020	2021	end of 2021	
EBRD Regions	**2.6**	**-3.2**	**-3.9**	**3.6**	**-0.4**	**-1.2**	**0.3**	**Q3 2022**
Central Asia	**5.1**	**-0.6**	**-3.3**	**3.2**	**-2.1**	**-2.6**	**0.1**	**Q1 2023**
Kazakhstan	4.5	-1.8	-4.0	3.0	-1.0	-2.5	-1.3	Q2 2023
Kyrgyz Republic	4.5	-5.3	-9.5	3.0	-5.5	-2.5	-7.1	2025 or later
Mongolia	5.1	-9.7	-6.5	5.0	-5.5	-1.0	0.9	Q3 2024
Tajikistan	7.5	3.5	-1.0	3.0	0.0	-2.0	2.0	Q4 2022
Turkmenistan	6.3	5.9	-1.0	1.0	-2.0	-5.0	0.6	Q2 2022
Uzbekistan	5.6	0.2	-2.0	4.5	-3.5	-2.0	3.1	Q1 2022
Central Europe and the Baltic states	**3.9**	**-4.3**	**-4.4**	**3.5**	**-0.1**	**-1.1**	**-0.9**	**Q1 2022**
Croatia	2.9	-7.4	-8.5	3.5	-1.5	-2.5	-4.6	Q4 2022
Estonia	4.3	-3.3	-4.0	4.0	2.0	-3.0	0.7	Q4 2021
Hungary	4.9	-5.8	-5.0	4.0	-1.5	0.0	-1.9	Q2 2022
Latvia	2.2	-5.1	-5.0	3.5	2.0	-1.5	-1.3	Q4 2021
Lithuania	3.9	-0.6	-2.0	4.0	5.0	-1.0	2.5	Q2 2021
Poland	4.1	-3.1	-3.5	3.0	0.0	-1.0	-0.2	Q1 2022
Slovak Republic	2.4	-8.0	-7.0	5.0	-1.0	-2.0	-1.7	Q3 2022
Slovenia	2.4	-8.3	-7.5	3.5	-2.0	-1.5	-4.6	Q3 2023
Eastern Europe and the Caucasus	**2.8**	**-4.4**	**-4.5**	**2.5**	**-0.2**	**-1.8**	**-1.2**	**Q3 2022**
Armenia	7.6	-4.9	-5.0	4.0	-1.5	-1.5	-3.4	Q3 2022
Azerbaijan	2.2	-2.7	-3.0	2.5	0.0	-0.5	0.7	2025 or later
Belarus	1.2	-1.7	-3.5	1.0	1.5	-2.5	-1.9	Q4 2022
Georgia	5.1	-5.0	-5.0	3.5	0.5	-2.0	-1.4	Q2 2022
Moldova	3.6	-6.6	-5.5	3.5	-1.5	-1.5	-0.6	Q1 2022
Ukraine	3.2	-6.4	-5.5	3.0	-1.0	-2.0	-1.6	Q4 2022
Russia	**1.3**	**-3.5**	**-4.5**	**3.0**	**0.0**	**-1.0**	**-0.6**	**Q4 2022**
South Eastern EU	**3.3**	**-5.0**	**-6.5**	**3.3**	**-1.7**	**-1.3**	**-2.9**	**Q3 2022**
Bulgaria	3.4	-3.0	-5.5	3.0	-0.5	-1.0	-1.0	Q4 2021
Cyprus	3.2	-5.6	-7.5	4.0	-1.5	-1.0	-4.0	2025 or later
Greece	1.9	-7.9	-9.5	4.0	-3.5	-2.0	-4.6	Q4 2023
Romania	4.1	-3.9	-5.0	3.0	-1.0	-1.0	-2.5	Q2 2022
Southern and Eastern Mediterranean	**4.1**	**-2.1**	**-1.3**	**4.4**	**-0.5**	**-0.4**	**4.9**	**Q4 2022**
Egypt	5.7	1.5	2.0	5.0	1.5	-0.2	8.2	Q2 2021
Jordan[1]	2.0	-7.1	-6.0	4.0	-3.5	1.0	-2.2	2025 or later
Lebanon[1]	-6.7	-18.3	-22.0	-1.0	-11.0	-7.0	-15.2	2025 or later
Morocco	2.5	-6.9	-5.0	3.5	-3.0	-0.5	-2.6	Q3 2023
Tunisia	1.0	-11.4	-8.0	4.0	-5.5	1.5	-4.8	2025 or later
Turkey	**0.9**	**-2.7**	**-3.5**	**5.0**	**0.0**	**-1.0**	**0.8**	**Q4 2022**
Western Balkans	**3.5**	**-2.8**	**-5.1**	**3.4**	**-0.3**	**-3.7**	**1.9**	**Q4 2021**
Albania[2]	2.2	-6.2	-9.0	4.5	0.0	-7.5	0.1	Q4 2021
Bosnia and Herzegovina[2]	2.6	-2.7	-5.0	3.0	-0.5	-3.0	1.0	Q4 2021
Kosovo[2]	4.2	-3.3	-5.0	4.0	0.0	-3.5	2.2	Q4 2021
Montenegro[2]	3.5	-3.7	-9.0	5.0	-1.0	-5.5	1.0	Q4 2021
North Macedonia	3.6	-6.3	-5.0	3.0	-1.5	-2.5	1.8	Q4 2021
Serbia	4.2	-0.6	-3.5	3.0	0.0	-3.0	2.9	Q4 2021
Memo: Egypt (fiscal year ending June)	5.6	5.6	3.5	3.3	1.0	0.3		

[1] 2020 H1 reported figure is an estimate.

[2] Estimates for Q2 based on similar countries.

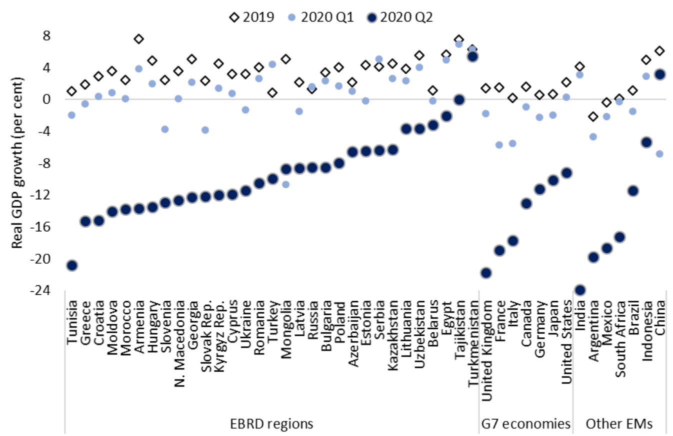
Growth in the EBRD regions slowed in the first quarter of 2020 and contracted sharply in the second quarter

Growth in the EBRD regions slowed to 2.2 per cent year-on-year in the first quarter of 2020 and contracted by 8.2 per cent year-on-year in the second quarter owing to the impact of domestic containment measures compounded by a weak external environment (see Chart 1).

The pandemic hit on top of an ongoing deceleration of growth in the EBRD regions, from 3.4 per cent in 2018 and 2.6 per cent in 2019.

This contraction in the second quarter of 2020 was steeper than anticipated in May although less deep than in advanced economies where lockdowns tended to be longer. The averages mask significant variation in economic outcomes across the EBRD regions, with tourism-dependent Croatia, Greece and Tunisia recording contractions in excess of 15 per cent year-on-year.

Chart 1. Real GDP growth turned sharply negative in the second quarter of 2020



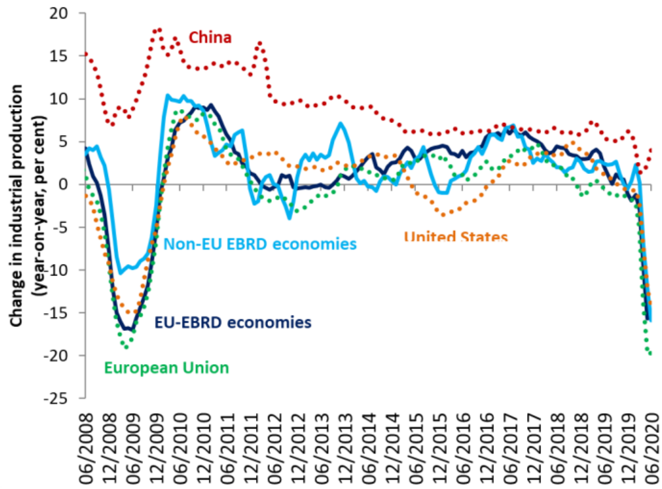
Sources: CEIC and national authorities. Notes: 2020 H1 figure used for both quarters for Tajikistan.

In many economies, GDP declines are larger than those seen during the global financial crisis

In many economies in the EBRD regions the contraction in the second quarter of 2020 was larger than single-quarter or two-quarter cumulative declines seen during the global financial crisis. The Baltic states, which experienced very sharp declines in economic activity in 2008-2009, are notable exceptions.

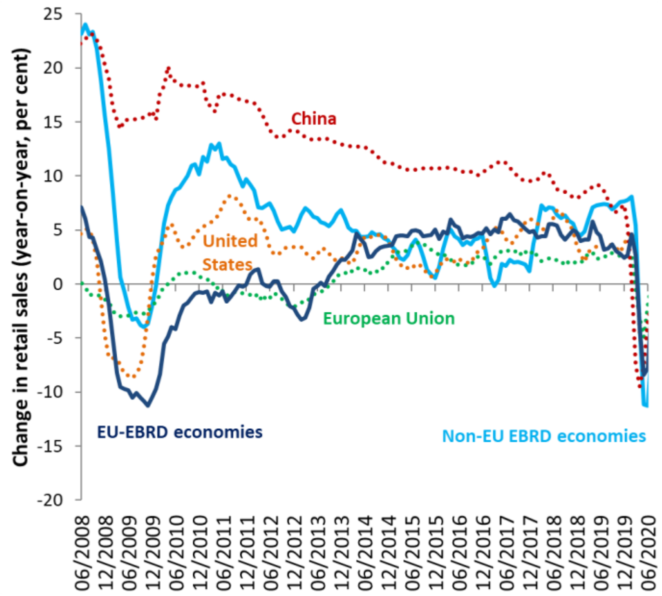
In the EBRD regions' economies outside the EU drops in industrial production and retail sales have been considerably larger than during the global financial crisis (see Charts 2 and 3). In the EU economies within the EBRD regions output sales and industrial production fell by roughly as much as in 2009.

Chart 2. Drops in industrial production deeper than in 2009 in non-EU economies in the EBRD regions



Sources: CEIC and authors' calculations. Notes: 3 month moving average.

Chart 3. Drops in retail sales comparable to those seen in 2009 in EU economies within the EBRD regions



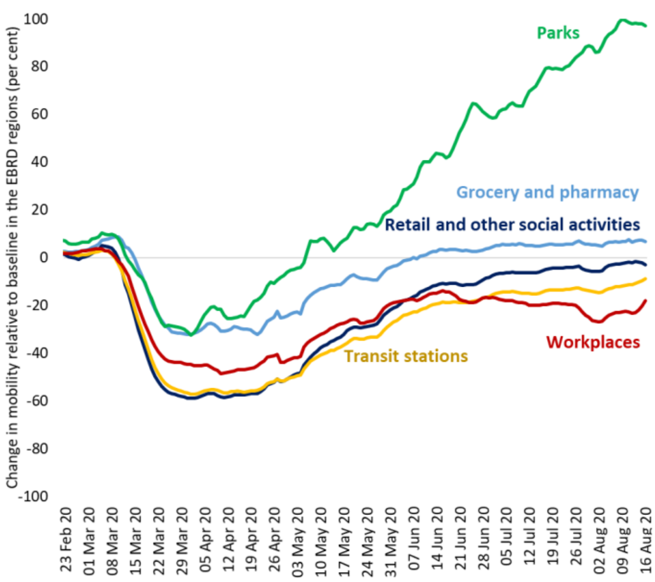
Sources: CEIC and authors' calculations. Notes: 3 month moving average.

Mobility, in particular to workplaces, remains down reflecting widespread social distancing

Domestic containment measures, ranging from restrictions on large gatherings to full lockdowns have weighed on domestic demand (as a major part of consumption involves public gatherings) and domestic supply (as workers stay at home).

Google mobility trends suggest that trips to workplaces and transit stations remain down relative to the levels seen in January-February 2020 (see Chart 4). While by August 2020 trips to retail and recreation facilities, groceries and pharmacies appear to have almost recovered to their January-February levels, activity in the hospitality sector, in particular, would normally be expected to be higher during the summer months (trips to parks indeed picked up in the summer). Mobility trends also vary significantly across economies reflecting different intensities and lengths of lockdowns.

Chart 4. Mobility in the EBRD regions has not recovered to January-February levels



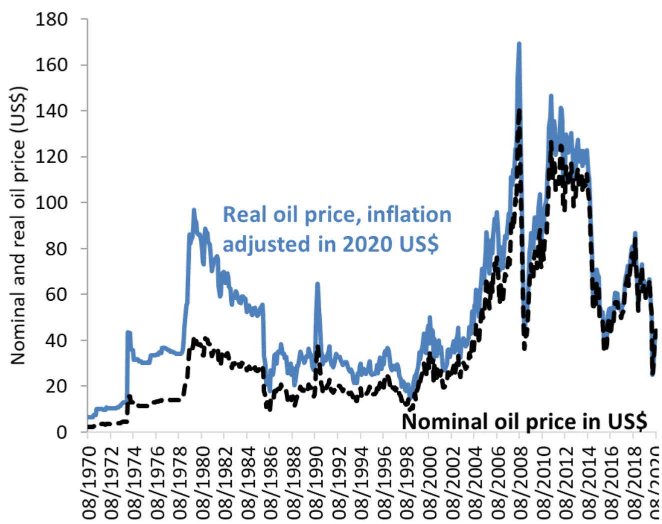
Sources: Google mobility trends and authors' calculations. Notes: 7 day moving average. The baseline is the median value, for the corresponding day of the week, during the 5- week period January 3–February 6 2020.

The effects of domestic containment measures are compounded by external shocks whereby economies in the EBRD regions face a collapse in tourism, drops in remittances, weak demand for exports and low commodity prices,

Commodity prices recovered somewhat but remain low

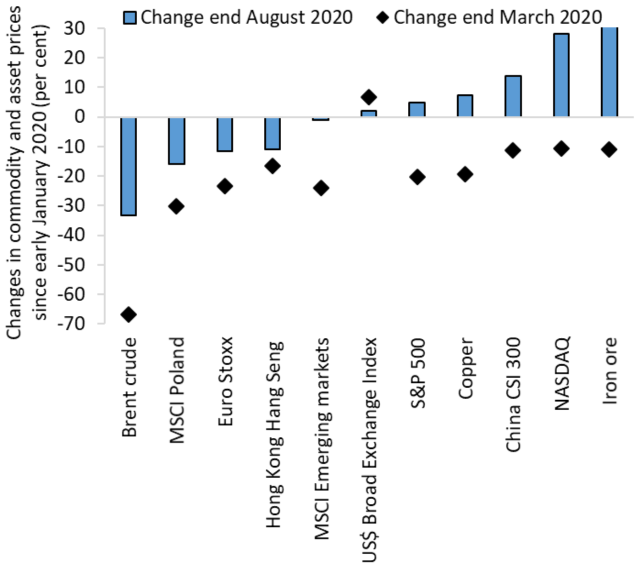
Oil prices picked up from a low of US$ 25 per barrel of Brent in April 2020 to US$ 44 per barrel in August 2020, but remain around their 2004 levels (see Chart 5). Prices of some metal commodities including iron ore and copper have surpassed their January 2020 levels, driven by strong demand from China (see Chart 6).

Chart 5. Notwithstanding recent increases, oil prices are at around their 2004 levels



Sources: Thomson Reuters and authors' calculations.

Chart 6. Prices of copper and iron ore have surpassed their January 2020 levels



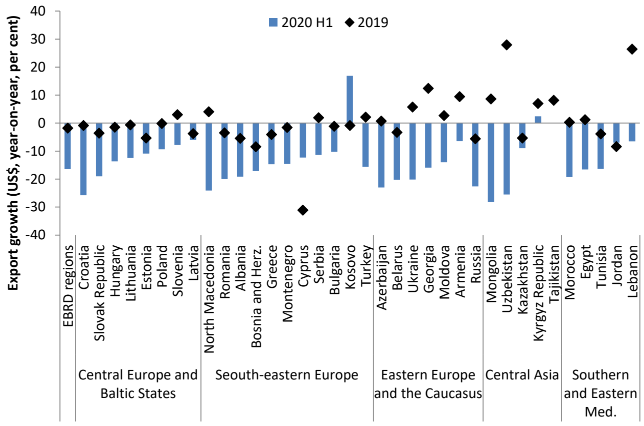
Sources: Thomson Reuters and authors' calculations. Notes: Brent crude refers to the Europe Brent Spot Price (US dollars per barrel). The MSCI Poland Investable Market Index measures the performance of the large, mid and small cap segments of the Polish market. The EURO STOXX 50 Index covers 50 stocks from 9 Eurozone countries. The Hang Seng Index monitors changes of the largest companies of the Hong Kong stock market. The MSCI Emerging Markets Index captures large and mid-cap representation across 26 emerging markets. The US$ Broad Exchange Index is a trade-weighted measure of the value of the US dollar relative to other currencies. The S&P 500 measures the performance of 500 large companies listed on stock exchanges in the United States. The CSI 300 index replicates the performance of the top 300 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange in China. The NASDAQ Composite is heavily weighted towards companies in the information technology sector.

Stock market valuations across the EBRD regions have risen in recent months, in line with trends in the United States and the global economy, but remain below their January 2020 levels (see Chart 6). Volatility in the stock markets also remains elevated, though it has come down from its March peak (as measured using the VIX, an indicator based on the S&P 500).

Exports continue to shrink in most economies in the EBRD regions

Exports of goods from the EBRD regions contracted by 11 per cent (in US dollar terms) in the first half of 2020 (compared to the same period of 2019) as the pandemic and associated disruptions to global value chains exacerbated the ongoing trade slowdown (see Chart 7).

Chart 7. Exports from the EBRD regions dropped by 11 per cent year-on-year in the first half of 2020



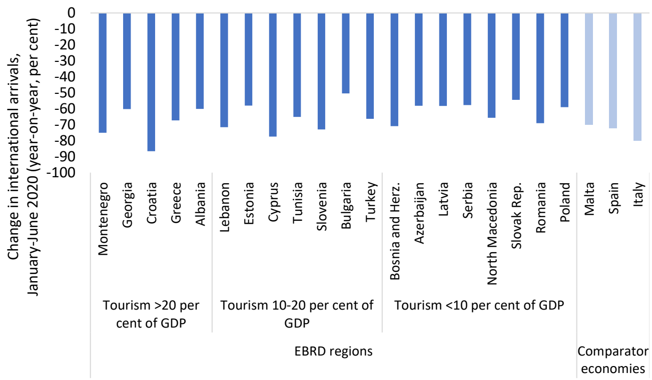
Sources: CEIC and authors' calculations. Notes: Only includes exports of goods.

International as well as domestic tourism fell sharply

International tourist arrivals to the EBRD regions fell by around 65 per cent in the first half of 2020 (compared to the same period in 2019). The drops were most pronounced in the economies most dependent on tourism, such as Croatia and Montenegro (see Chart 8).

The collapse in tourism reflects border closures, quarantine requirements and other widespread travel restrictions. These restrictions were strictest in the second quarter of 2020. Some economies saw a recovery in tourism in the third quarter, albeit very partial. For instance, in Croatia tourist arrivals fell by 47 per cent in the first 8 months of 2020, compared with 87 per cent in the first half of the year.

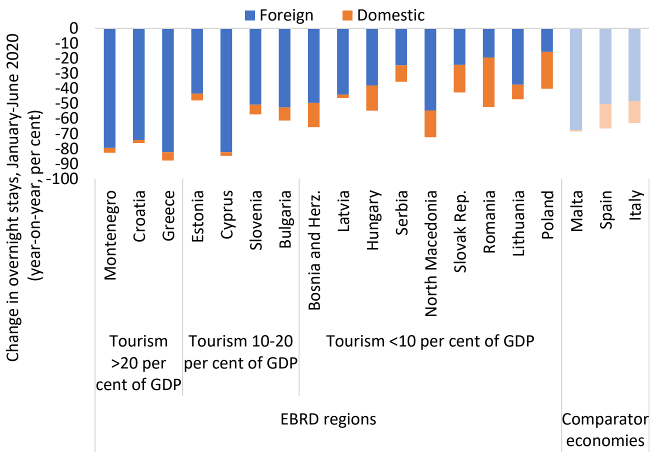
Chart 8. International tourism collapsed in the first half of 2020



Sources: Eurostat, national statistical offices, UNWTO, World Travel and Tourism Council and authors' calculations. Notes: January-May for Cyprus and Lebanon. Economies grouped and ranked by tourism as a share of GDP in 2019.

Domestic tourism also fell in the first half of 2020 despite campaigns to promote staycations, as evidenced by data from a subset of economies with information on overnight stays by both foreign and domestic tourists (see Chart 9). This reflects a drop in business travel as well as individual preferences for social distancing.

Chart 9. Domestic tourism was also weaker in the first half of 2020



Sources: Eurostat, national statistical offices, UNWTO, World Travel and Tourism Council and authors' calculations. Notes: Economies grouped and ranked by tourism as a share of GDP in 2019. January-May for Cyprus.

Remittances dropped, many migrants returned to their home countries

Remittances from Russia to Central Asia, eastern Europe and the Caucasus fell by 29 per cent in US dollar terms in the second quarter of 2020 (relative to the same period of 2019). This drop is similar in magnitude to the one seen during the global financial crisis of 2008-09 (around 35 per cent). Remittances to Serbia fell by 30 per cent in January-May 2020 (year-on-year), with the sharpest declines in April and May.

As many migrants returned to their home countries, remittances may fall further going forward.

Many economies in the EBRD regions responded with large fiscal stimulus packages

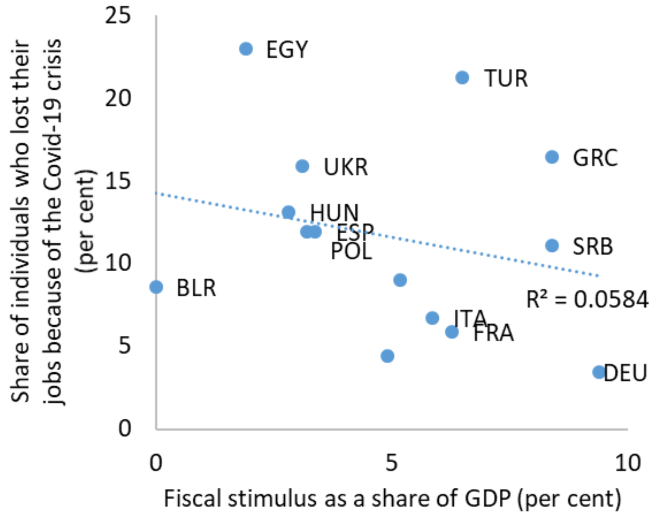
Many economies in the EBRD regions implemented large fiscal stimulus packages, providing support to firms (for instance through wage subsidies or subsidised loans) and individuals (including through universal transfers, targeted support to the self-employed, low income households or pensioners). These packages averaged 4.2 per cent of GDP (excluding below-the-line items) and were more comprehensive than in many other emerging markets.

Job losses and business closures were less common where stimulus packages were larger

Evidence from the EBRD-Ifo Institute survey, conducted in August 2020 and described in detail in Box 1, suggests that around 15 per cent of respondents in the EBRD regions experienced job losses as a result of the Covid-19 crisis (compared with 7 per cent in advanced economies in Europe). A similar share of households had to close their family businesses.

Job losses and, in particular, family business closures were less common where fiscal stimulus packages were larger (see Charts 10 and 11).

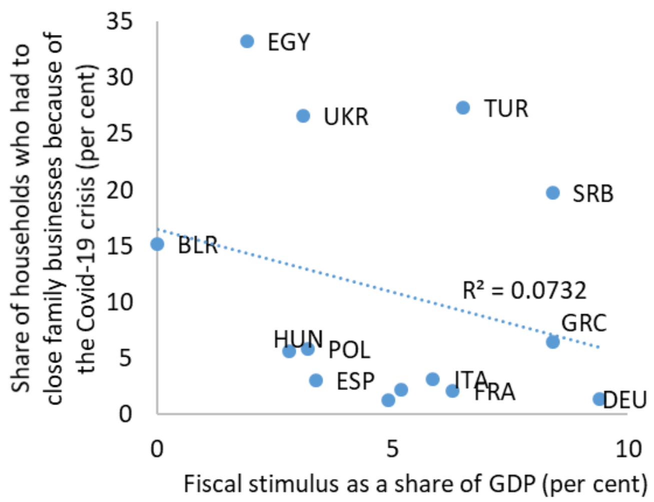
Chart 10. Job losses were less common in economies with larger fiscal stimulus packages



Sources: EBRD-Ifo Institute Survey, EBRD, European Commission and IMF estimates and authors' calculations. Note: Fiscal stimulus estimates include only above-the-line items.

Overall, a striking 73 per cent of respondents in the EBRD regions say they were personally affected by the Covid-19 crisis, compared with 41 per cent of respondents in advanced Europe.

Chart 11. Family business closures were less common in economies with larger fiscal stimulus packages



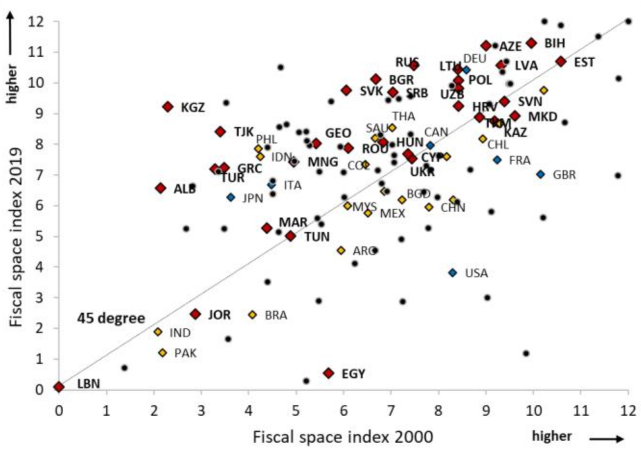
Sources: EBRD-Ifo Institute Survey, EBRD, European Commission and IMF estimates and authors' calculations. Note: Fiscal stimulus estimates include only above-the-line items.

Evidence from a survey of small and medium sized enterprises (SMEs), conducted by the EBRD in June–July 2020 (see Box 2) suggests that SMEs are more optimistic about the prospects for economic recovery and their business in economies where stimulus packages were larger.

Most economies in the EBRD regions had sufficient fiscal space before the pandemic

Most economies in the EBRD regions had more ample fiscal space in 2019 than in 2000, based on an index of fiscal space that takes into account the level of government debt; fiscal deficit, the cost of borrowing and the size of government revenue relative to GDP. Most governments have seen increases in their fiscal space on account of higher revenues and lower interest rates (see Chart 12). Notable exceptions of economies with very limited fiscal space include Egypt, Jordan or Lebanon,

Chart 12. More ample fiscal space on account of lower borrowing costs



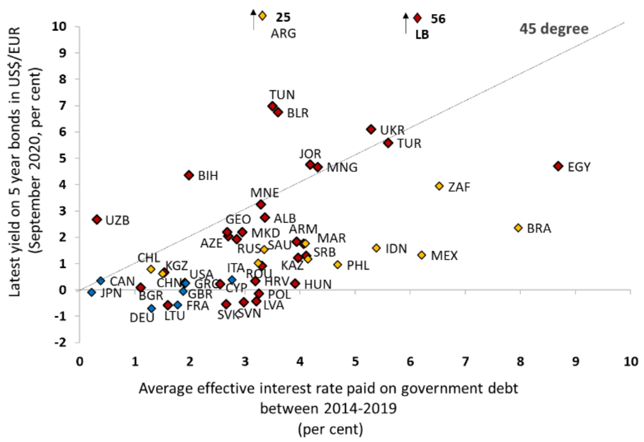
Sources: IMF, national authorities and authors' calculations. Notes: The indicator of fiscal space ranges between 0 and 12 and is constructed by adding together four underlying indicators (each of which is rescaled to range between 0 and 3, with higher values corresponding to greater fiscal space): gross general government debt, net general government borrowing, net interest payments and general government revenue, all as a share of GDP in 2019.

In many economies, borrowing costs remain low

In many economies in the EBRD regions borrowing costs remain below their 2014-2019 levels (see

Chart 13). For instance, borrowing costs have fallen significantly in central Europe and the Baltic states. At the same time, in a small number of economies (including Belarus, Lebanon and Tunisia) the cost of market access has risen sharply.

Chart 13. Most economies face lower borrowing costs, compared with the 2014-2019 average



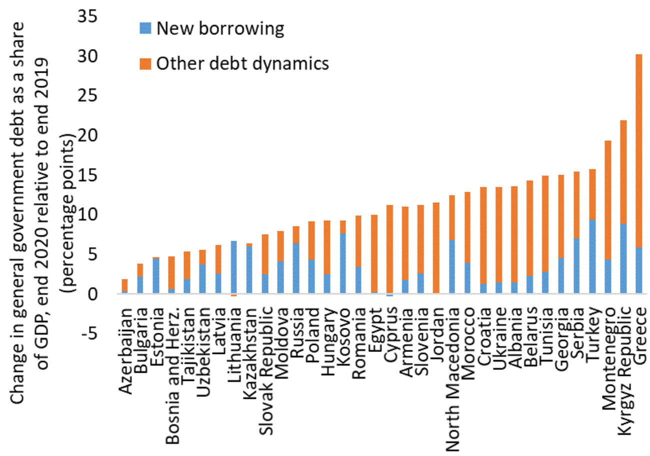
Sources: Bloomberg, IMF, national authorities and authors' calculations.

Public debt is expected to increase significantly

By the end of 2020, the ratio of general government debt to GDP is expected to increase by around 11 percentage points on average in the EBRD regions (see Chart 14). New borrowing to finance large stimulus packages accounts for about one third of this increase. The rest is primarily due to sharp contractions in GDP (the denominator of the ratio). Currency depreciations can also contribute to the increases in debt ratios in economies where significant shares of government debt are denominated in foreign currency.

Borrowing costs tend to increase when debt levels rise. While this relationship remains present, borrowing costs have recently been less sensitive to increases in debt levels than in the past, both in emerging markets and in advanced economies, reflecting, in part, search for yield in an environment of low global interest rates.

Chart 14. Debt-to-GDP ratios are projected to increase by 11 percentage points, on average, by end-2020

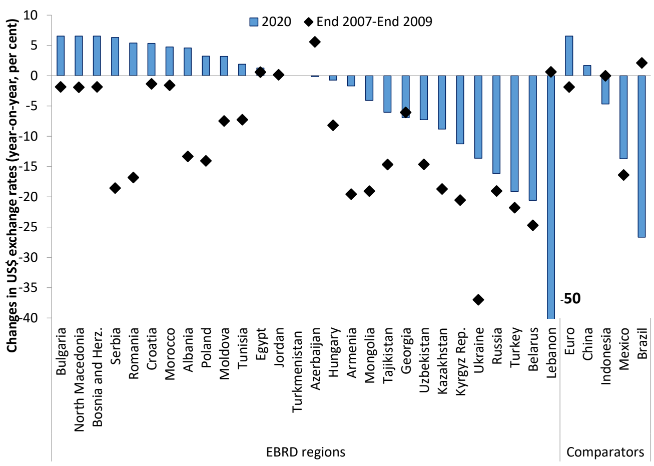


Sources: EBRD, European Commission, IMF, national authorities and authors' calculations. Notes: Fiscal stimulus estimates include above-the-line items only. Other debt dynamics includes the effects of growth, inflation and exchange rate changes.

Relatively limited exchange rate movements

Currencies in the EBRD regions depreciated, on average, by 2.2 per cent against the US dollar in January-August 2020 compared with an average depreciation of 13 per cent between end-2007 and end-2009 (see Chart 15). In part, limited exchange rate movements reflect the fact that economies across the board have been affected by social distancing.

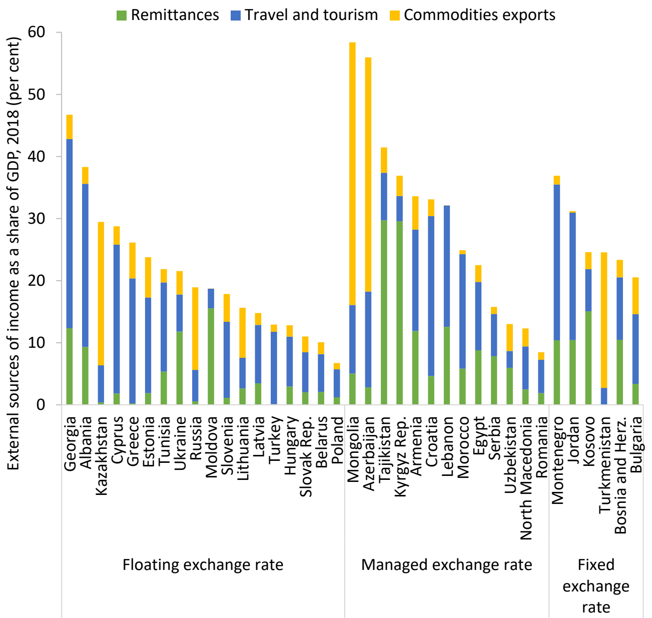
Chart 15. Limited movements in exchange rates against the US dollar in January-August 2020



Sources: Bloomberg, Thomson Reuters and authors' calculations. Note: As of end-August 2020. Black market exchange rate for Lebanon.

Flexible exchange rates could help to offset the impact of drops in external sources of income. Such external sources of income, including commodity and tourism receipts and remittances, averaged 25 per cent of GDP in the EBRD regions before the Covid-19 crisis, reaching 40-50 per cent in commodity exporters such as Azerbaijan and Mongolia, or in economies dependent on remittances and/or tourism, such as Georgia or Tajikistan (see Chart 16).

Chart 16. Pre-crisis, external sources of income averaged 25 per cent of GDP in the EBRD regions



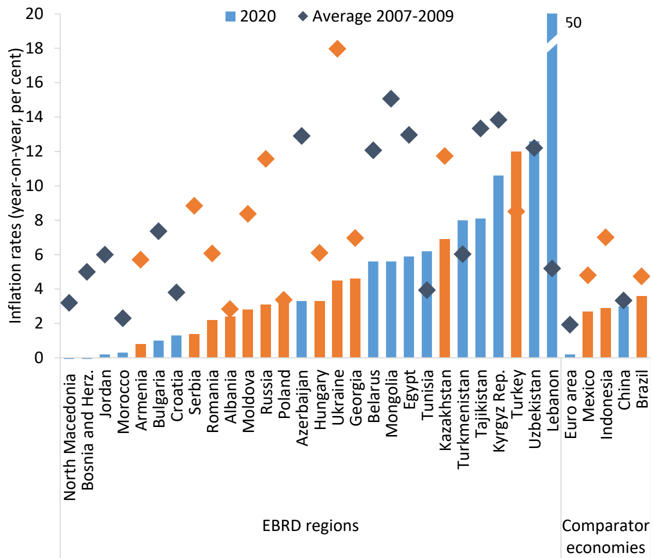
Sources: International Trade Center, World Bank, World Travel and Tourism Council and authors' calculations. Notes: Based on 2018 data. Direct and indirect contributions of tourism and travel; commodity exports are the sum of HS-26 (ores) and HS-27 (mineral products) product group exports. Economies' exchange rate arrangements based on the IMF's 2019 AREAER database (floating includes floating and free floating, managed includes stabilized arrangements, crawling pegs, crawl-like arrangements, pegged exchange rates within horizontal bands and other managed arrangements, fixed includes economies with no separate legal tender, currency boards and conventional pegs).

More exchange rate flexibility over time

Indeed, exchange rates have become more flexible in the EBRD regions. In 2019, 46 per cent of economies had floating regimes, up from 38 per cent in 2009. Conversely, the share of economies with fixed exchange rates fell from 27 per cent to 16 per cent. In line with these shifts, inflation targeting has become more common: a third of economies in the EBRD regions had inflation targets in 2019, up from 19 per cent in 2009.

Flexible exchange rates could be a more effective adjustment tool in an environment where inflation rates have fallen and inflation expectations are better anchored (see Chart 17).

Chart 17. Inflation rates are lower than during the 2008-09 crisis



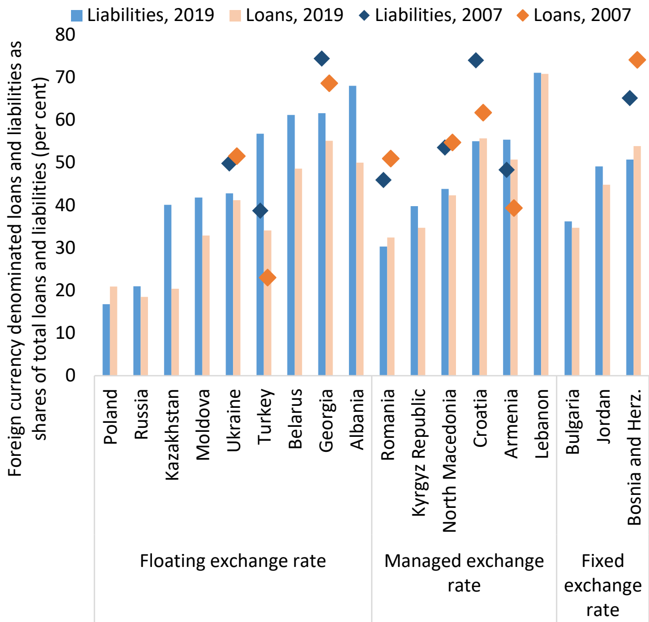
Sources: IMF, Trading Economics and authors' calculations. Notes: Average changes in consumer prices. As of end-August 2020. Trading Economics data for Lebanon. Inflation targeting economies in orange, based on the IMF's 2019 AREAER database.

However, in some economies dollarization rates remain high

Greater exchange rate flexibility has also been facilitated by lower dollarization rates: lower shares of loans and deposits in the banking system are denominated in foreign currency in the EBRD regions today than in 2009. This reduces currency mismatches on the balance sheets of banks, enterprises and households and limits the rise in debt burdens as a result of a weaker currency. However, dollarization rates remain high in some economies such as Albania, Belarus, Georgia and Lebanon (see Chart 18).

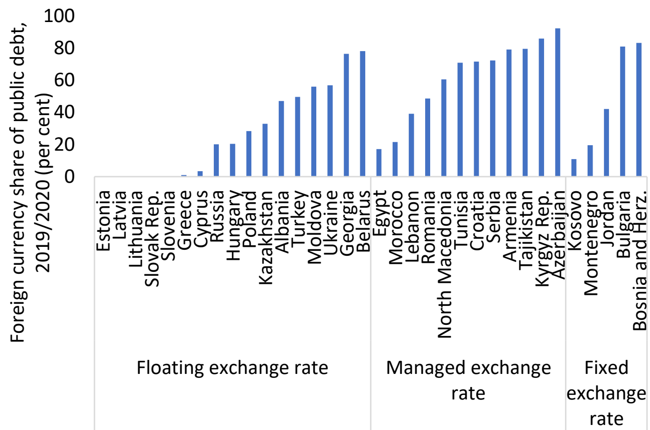
In some economies in the EBRD regions, a large share of government debt is denominated in foreign currency (see Chart 19). In those cases, currency depreciations can raise debt-to-GDP ratios and interest payment bills even where nominal interest rates are relatively low.

Chart 18. Lower rates of dollarization of loans and deposits compared with the 2009 crisis



Sources: IMF Financial Soundness Indicators. Notes: Deposit takers' loans and liabilities. Economies' exchange rate arrangements based on the IMF's 2019 AREAER database (floating includes floating and free floating; managed includes stabilized arrangements, crawling pegs, crawl-like arrangements, pegged exchange rates within horizontal bands and other managed arrangements; fixed includes economies with no separate legal tender, currency boards and conventional pegs).

Chart 19. Foreign-currency share of public debt remains high in a number of economies



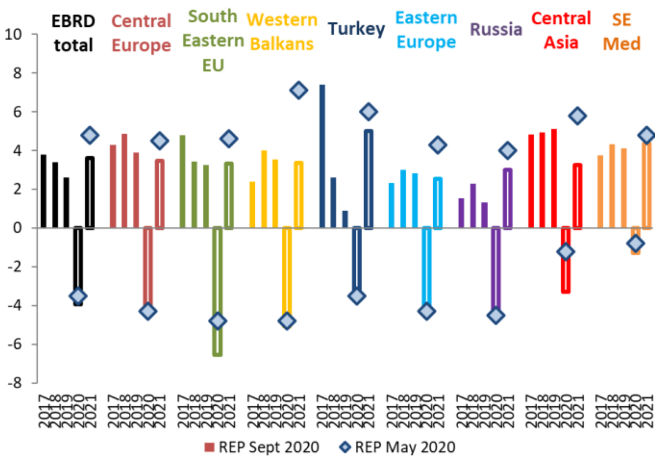
Sources: Eurostat, ministries of finance, national statistical offices. Notes: If data unavailable (Albania, Belarus, Egypt, Georgia, Jordan, Kyrgyz Republic, North Macedonia, Ukraine) all external (domestic) public debt is assumed to be in foreign (local) currency. 2017 for Egypt, 2018 for Tajikistan. Economies' exchange rate arrangements based on the IMF's 2019 AREAER database (floating includes floating and free floating; managed includes stabilized arrangements, crawling pegs, crawl-like arrangements, pegged exchange rates within horizontal bands and other managed arrangements; fixed includes economies with no separate legal tender, currency boards and conventional pegs).

Output in the EBRD regions is expected to contract by 3.9 per cent in 2020

Growth forecasts have been revised down since the May 2020 Update of the *Regional Economic Prospects*. Output in the EBRD regions is expected to contract by 3.9 per cent in 2020 (compared with a 3.5 per cent contraction expected in May). The downward revisions reflect worse-than-projected outcomes in the first half of 2020 in many economies and an increased likelihood of social distancing remaining in place for longer than previously expected (see Chart 20 and Table 1, forecasts in Table 1 are rounded given the high uncertainty surrounding them).

Contractions are forecast to be largest in economies highly dependent on external sources of income. These include economies that lost a major part of their tourist season (Albania, Croatia, Cyprus, Greece, and Montenegro) or saw large drops in remittances (the Kyrgyz Republic). Lebanon's output is also expected to contract sharply following the default on government debt in March 2020 and the explosion in the port

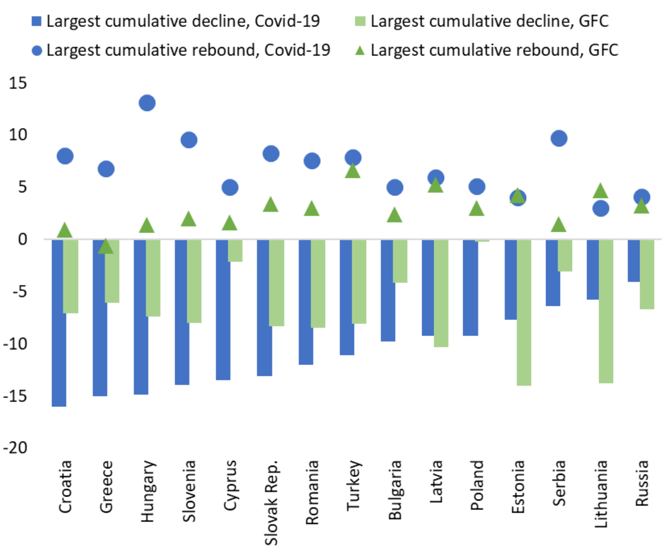
Chart 20. Growth forecasts have been revised down since May 2020



Sources: CEIC, national authorities and EBRD forecasts.

The forecasts assume gradual phasing out of social distancing in 2021 providing for a rebound in economic growth. As most economies in the EBRD regions experienced large output declines in the second quarter of 2020, growth rates in 2021 reflect this base effect – the low levels of GDP in 2020 (see Chart 21).

Chart 21. High expected rates of growth in the rebound phase reflect the depth of output declines in 2020

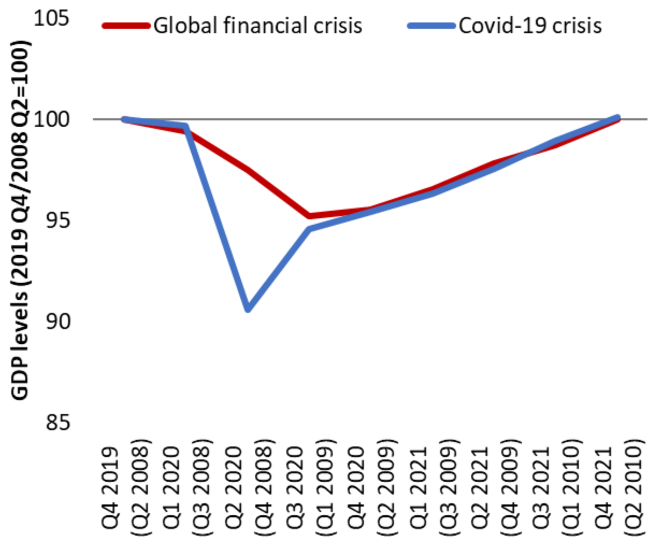


Sources: CEIC, national authorities and EBRD forecasts. Notes: Based on largest cumulative quarter-on-quarter declines over two quarters (Q2 2008-Q4 2009) and largest cumulative quarter-on-quarter rebounds over two quarters (Q3 2009-Q1 2011) relative to largest (forecasted) cumulative quarter-on-quarter declines over Q2-Q3 2020 and forecasted recoveries. Subset of economies with no changes in seasonally adjusted quarterly GDP series.

The pre-crisis level of GDP is only expected to be attained towards the end of 2021. The corresponding speed of recovery is thus expected to be similar to the one observed in the EBRD regions in the aftermath of the global financial crisis of 2008-09 (see Chart 22). Tourism as well as some other services sectors are expected to continue to operate below their 2019 capacity in late 2021 (see Box 3) while retail trade and other sectors may see gains from digitalization (see Box 4).

Under these assumptions, many economies are not expected to reach their pre-pandemic level of income per capita until 2022-2024 (see Table 1). Pre-pandemic levels are reached later in economies with larger contractions in 2020, slower recoveries and those with slower estimated potential rates of growth of per capita output.

Chart 22. Pre-crisis GDP level in the EBRD regions is expected to be attained towards the end of 2021



Sources: CEIC, national authorities and EBRD forecasts.

Regional outlooks

Economies in **Central Asia** contracted by an average of 0.6 per cent year-on-year in the first half of 2020. The Kyrgyz Republic and Mongolia were most severely affected reflecting their high dependence on external sources of income such as remittances and export of commodities. The region as a whole is forecast to contract by 3.3 per cent in 2020. Assuming a partial recovery in tourism and stronger external environment, growth in the region could pick up to 3.2 per cent growth in 2021.

Output in **central Europe and the Baltic states** contracted by 4.3 per cent year-on-year in the first half of 2020. This outcome was slightly better than previously expected owing to fast recovery in private consumption following the easing of lockdowns. Large increases in government spending have helped cushion the impact of the crisis on individuals and small businesses. GDP in the region is expected to drop by 4.4 per cent in 2020. Assuming a gradual normalization of activity and partial recovery in external demand, growth could recover to 3.5 per cent in 2021, boosted by disbursement of EU funds.

The Covid-19 crisis weighed on growth in **eastern Europe and the Caucasus** as remittances fell sharply during the early months of the pandemic, tourism collapsed (weighing on growth in Georgia) and commodity prices remained relatively low (affecting Azerbaijan, Ukraine and Armenia). GDP in the region as a whole is expected to fall by 4.5 per cent in 2020, recovering somewhat to 2.5 per cent in 2021.

While the economy of **Russia** was in a relatively strong position before the onset of the Covid-19 crisis, the pandemic accompanied by a plunge in the oil price saw economic activity collapse. The introduction of the National Plan for Economic Recovery, however, helped mitigate some of the adverse effects of the crisis and economic activity started to pick up again, supported by rising oil prices. The economy is expected to shrink by 4.5 per cent in 2020 as a whole, followed by a rebound of 3.0 per cent in 2021.

Strict lockdowns, travel restrictions and the associated declines in tourist arrivals weigh on the 2020 growth outlook in the **southern European Union**. Private consumption and exports have been badly hit across the region. While fiscal packages help alleviate some of the impacts of the crisis, GDP in the region is forecast to fall by 6.5 per cent in 2020, with a partial rebound of 3.3 per cent in 2021, conditional on a gradual normalization of activity in the economies as well as their trading partners.

The Covid-19 crisis weighed on growth in the **southern and eastern Mediterranean** as tourist arrivals have dropped, domestic consumption and investment have been negatively impacted by virus containment measures, and inflows of foreign direct investment slowed. GDP is expected to contract by 1.3 per cent in 2020. Growth is expected to rebound to 4.4 per cent in 2021, supported by the implementation of structural reforms.

Significant policy loosening and credit growth supported a consumption-led recovery in **Turkey** in 2019, but the economy fell back into recession in the first half of 2020 as external demand contracted causing a collapse in exports, and domestic lockdowns and supply chain restrictions hurt the services and manufacturing sectors. GDP is expected to contract by 3.5 per cent in 2020 but growth could increase to 5.0 per cent in 2021.

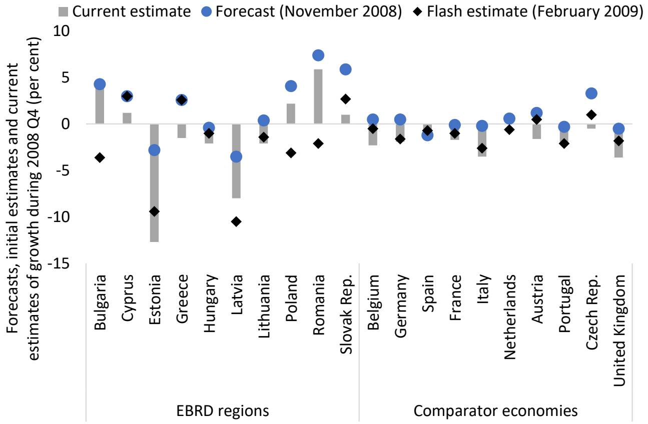
The Covid-19 crisis is weighing on economies in the **Western Balkans** owing to a collapse in tourism (affecting Albania and Montenegro), disruptions to global supply chains and lower foreign direct investment inflows and remittances. GDP is expected to fall by 5.1 per cent in 2020 before recovering somewhat, with a growth rate of 3.4 per cent in 2021.

These forecasts are subject to tremendous uncertainty

Forecasts are highly sensitive not only to the assumptions relating to government policies and the extent of social distancing in the coming months but also to the precision of early estimates of growth in the second quarter of 2020.

An examination of the first ‘flash’ estimates of quarterly growth rates during the global financial crisis of 2008-09 in 20 EU countries suggests that revisions to GDP estimates can be very large, as can be revisions to forecasts made at the height of an economic crisis (see Chart 23). For instance, the eventual estimates of the contraction in the last quarter of 2008 range between -4 and 4 times the flash estimates published in February 2009. Those revisions were generally larger in the EU economies in the EBRD regions than in advanced Europe.

Chart 23. Initial estimates of GDP contractions during the global financial crisis were subject to major subsequent revisions



Sources: European Economic Forecasts, Eurostat Flash estimates, Eurostat current estimates.

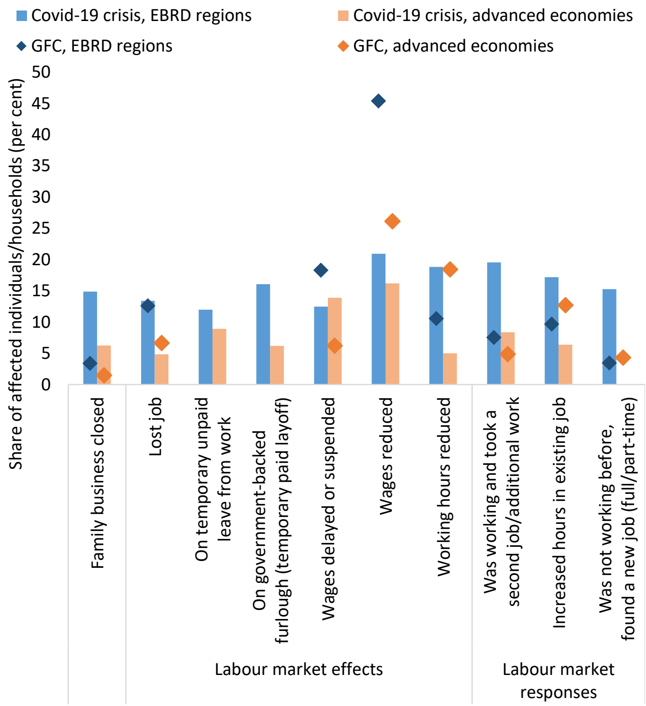
Box 1. Early estimates of the effects of the Covid-19 crisis from the EBRD-Ifo Institute survey

Results from a representative household survey conducted by the EBRD and the Ifo Institute in 14 economies in August 2020 suggest that the economic effects of the Covid-19 crisis were more pronounced in the EBRD regions than in advanced Europe. Job losses, and, in particular, business closures, appear to be already more widespread than in the aftermath of the global financial crisis. The burden of the crisis has been disproportionately borne by those with lower levels of education and income.

In order to obtain early estimates of the impact of the Covid-19 crisis on individuals and firms, EBRD and the Ifo Institute conducted a survey of almost 40,000 adults in 14 countries in August 2020. The survey covered 8 economies in the EBRD regions (Belarus, Egypt, Greece, Hungary, Poland, Serbia, Turkey and Ukraine) and 6 advanced European economies (France, Germany, Italy, the Netherlands, Spain and Sweden). It is representative by age, gender, income and subnational regions.

The results from this survey suggest that the economic effects of the Covid-19 crisis were more pronounced in the EBRD regions than in advanced Europe. For instance, 15 per cent of respondents in the EBRD regions lost their job because of the Covid-19 crisis, more than double the share in advanced economies (see Chart 1.1). Family business closures were also much more common in the EBRD regions (affecting 15 per cent of households compared with 2 per cent in advanced Europe).

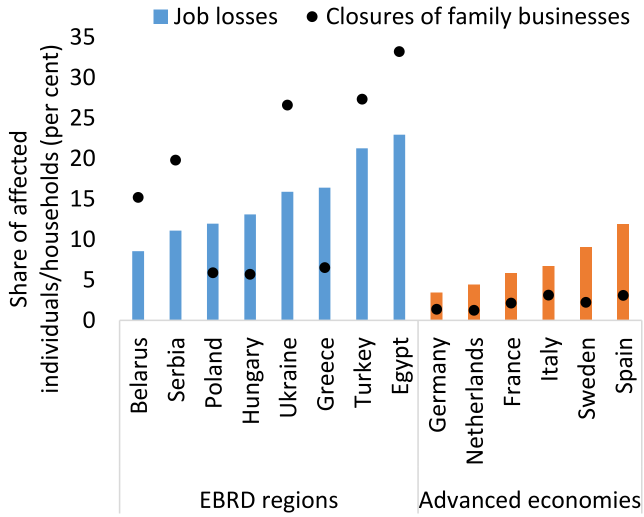
Chart 1.1. 15 per cent of survey respondents in the EBRD regions lost a job and 15 per cent has to close family business due to Covid-19



Sources: EBRD-Ifo Institute Survey, LITS 2010 and authors' calculations. Notes: EBRD regions includes Belarus, Hungary, Poland, Serbia, Turkey and Ukraine, advanced economies includes France, Germany, Italy and Sweden.

These averages conceal significant differences within the EBRD regions: job losses ranged between 9 per cent in Belarus and 23 per cent in Egypt. Family business closures were less common in Hungary, Poland and Greece (affecting around 6 per cent of households), but more widespread in Egypt (affecting a third of households), as well as in Turkey (see Chart 1.2).

Chart 1.2. Job losses and family business closures varied even within the EBRD regions



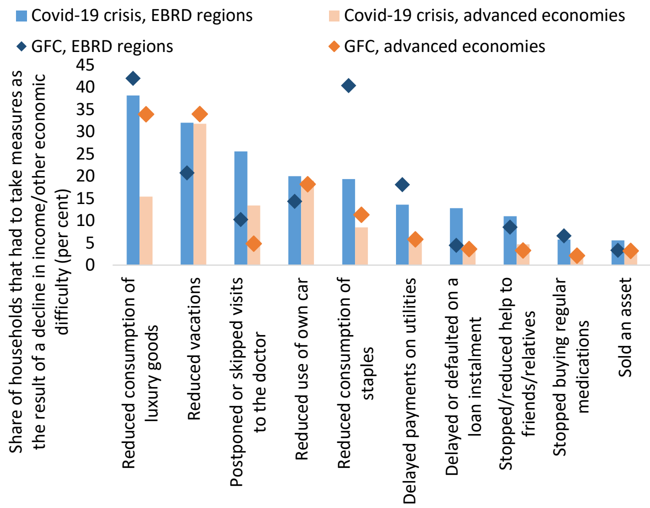
Sources: EBRD-Ifo Institute Survey and authors' calculations.

Job losses, and in particular business closures, appear to be more widespread than in the aftermath of the global financial crisis of 2008-09, based on the comparison of the results from the EBRD-Ifo Institute survey with those from the special crisis module of the 2010 Life in Transition survey, a representative household survey conducted by the EBRD and the World Bank. Job losses during the Covid-19 crisis so far are broadly comparable to job losses in the aftermath of the global financial crisis, while family business closures are much more common (see Chart 1.1). It is important to note that the August 2020 survey only picks up the early impact of the crisis while the Life in Transition survey was conducted in late 2010, capturing the overall impact of the Global Financial crisis over the subsequent two years.

Policies, such as government backed furlough schemes, however, appear to have helped somewhat. Wage reductions and suspensions are less common now than during the global financial crisis.

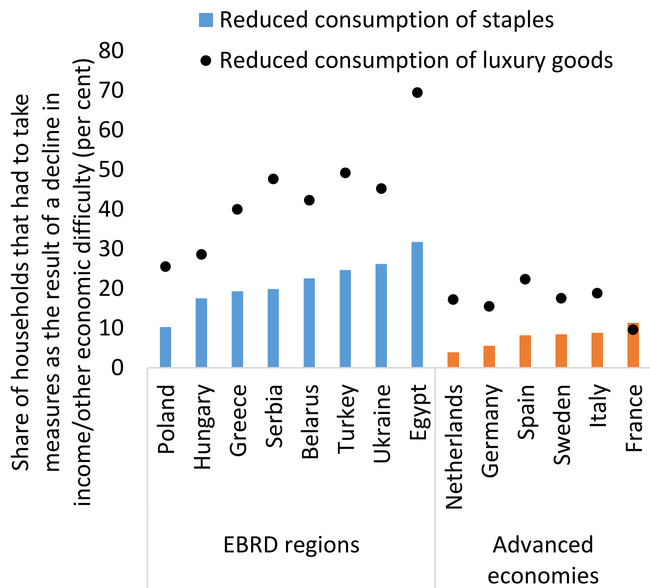
Individuals also relied more on supplementary work during the Covid-19 crisis so far than during the global financial crisis, possibly reflecting more localized shocks in some sectors this time around. About a fifth of respondents in the EBRD regions say that they increased their hours in their existing job, a similar share say they started a second job (see Chart 1.1).

Chart 1.3. Many households had to reduce their spending due to the Covid-19 crisis



Sources: EBRD-Ifo Institute Survey, LITS 2010 and authors' calculations. Notes: EBRD regions includes Belarus, Hungary, Poland, Serbia, Turkey and Ukraine, advanced economies includes France, Germany, Italy and Sweden.

Chart 1.4. . The impact of the crisis on households varied across economies



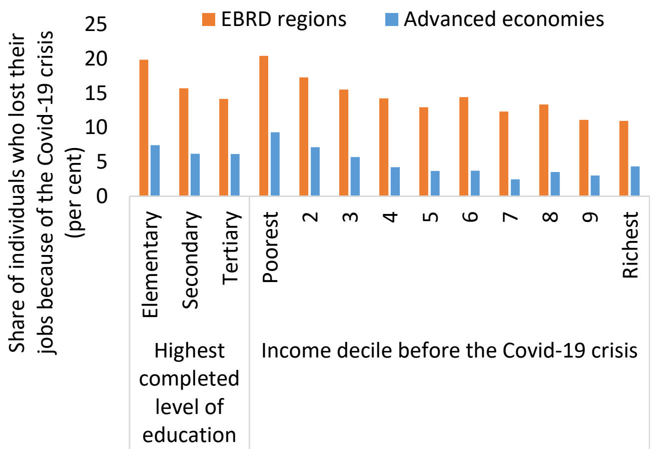
Sources: EBRD-Ifo Institute Survey and authors' calculations.

Reflecting a combination of government support and increased supplementary work, household consumption so far fell less than during the global financial crisis (see Chart 1.3). Around a fifth of households reduced their consumption of staples, over 40 per cent reduced their consumption of luxury goods in the EBRD regions – more than double the shares in advanced economies, but below the levels seen during the global financial crisis. The shares of affected households were higher in Egypt and lower in Hungary and Poland (see Chart 1.4).

The burden of the Covid-19 crisis has been borne disproportionately by those with lower levels of education and lower levels of income (measured before the pandemic). The young and those working for smaller firms were also more likely to lose their jobs as a result of the pandemic (see Chart 1.5). These findings hold in a regression framework that takes into account other individual characteristics such as gender and country of residence.

In the EBRD regions, those working in the public sector or state-owned enterprises before the crisis were also less likely to lose their jobs than those working in the private sector.

Chart 1.5. The burden of the Covid-19 crisis has been borne disproportionately by those with lower levels of income and education



Sources: EBRD-Ifo Institute Survey and authors' calculations. Notes: EBRD regions includes Belarus, Hungary, Poland, Serbia, Turkey and Ukraine, advanced economies includes France, Germany, Italy and Sweden.

The results of the survey are informative about the breadth of the crisis impact, they also shed light on groups of individuals most affected. At the same time, there is no one-to-one correspondence between survey results and the depth of recession. Indeed, most survey questions are binary. For instance, they tell us whether an individual took a wage cut but not the size of reduction in consumption. They also tell us whether an individual lost a job but not how difficult it may have been to find another one.

Box 2. Early estimates of the effects of the Covid-19 crisis on small and medium sized enterprises

Results from a new EBRD survey of small and medium sized enterprises (SMEs) suggest that the crisis has disproportionately affected SMEs in hospitality and recreation services, non-food retail, light industry and construction, with exporters being impacted in a major way. Expectations of receiving government support vary widely across economies, with more support being associated with somewhat more optimistic expectations about recoveries. In order to mitigate some of the damage from the Covid-19 crisis, many SMEs moved at least some of their sales online, but the rates of attempts to digitalize sales vary substantially across regions.

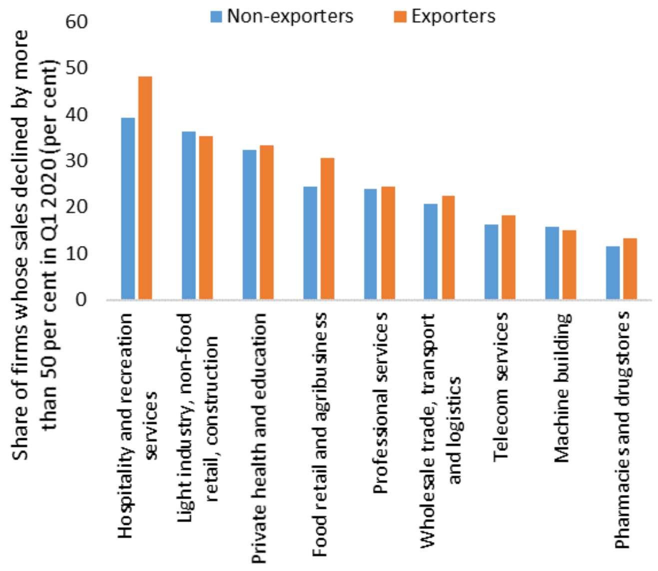
In June and July 2020, the EBRD conducted a survey of 1,652 small and medium sized enterprises (SMEs) in 15 economies in the EBRD regions (Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, Uzbekistan; Bulgaria, Croatia, Romania; Egypt, Morocco, Jordan, Lebanon, Tunisia, West Bank and Gaza), aiming to assess the early effects of the Covid-19 crisis on SMEs.

The crisis affected SMEs in hospitality and recreation services, non-food retail, light industry and construction most. Over 40 per cent of SMEs in hospitality and recreation services saw their sales fall by more than half in the first quarter of 2020.

Exporting SMEs in particular were more affected – reflecting widespread travel restrictions and outright border closures. Among firms that export at least 75 per cent of their output, almost half saw their sales drop by 50 per cent or more. They were also less likely to expect a full recovery in the next 6 to 12 months than other firms (see Charts 2.1 and 2.2).

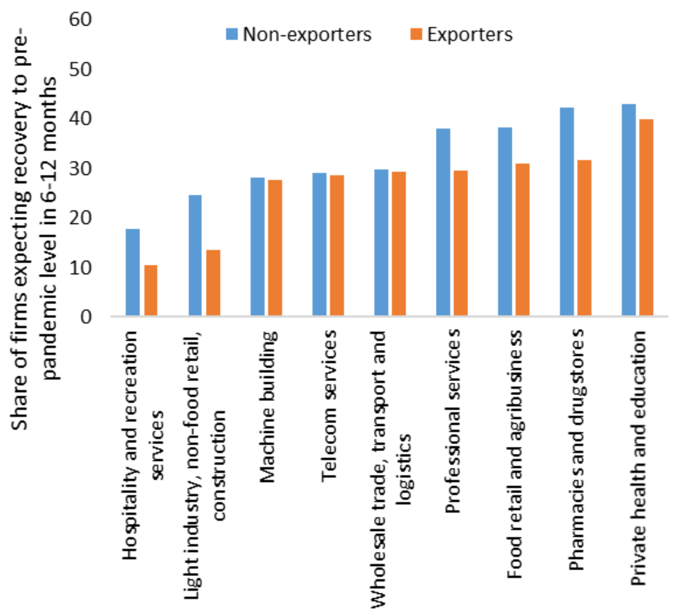
In contrast, SMEs in the pharmaceuticals, food retail, agribusiness and private health and education sectors were less affected by the crisis and were also more optimistic about future prospects (see Charts 2.1 and 2.2).

Chart 2.1 Many SMEs in hospitality, recreation, light industry and construction saw their sales plummet by 50 per cent or more in the first quarter of 2020



Sources: EBRD SME survey.

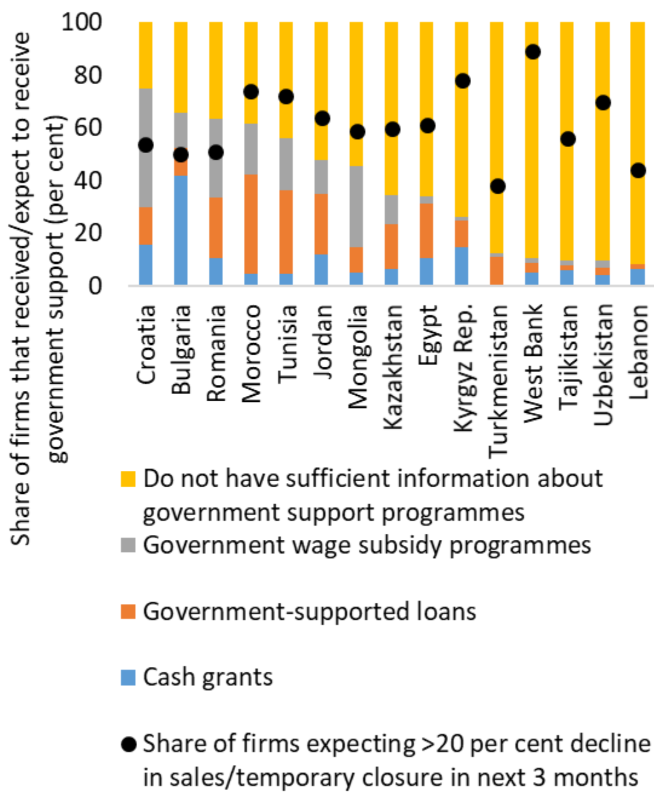
Chart 2.2. Few exporting SMEs expect their sales to recover to pre-pandemic levels in 6-12 months



Sources: EBRD SME survey.

Expectations of receiving government support—in the form of cash grants, subsidized loans or wage subsidies—vary widely across economies. While more than half of SMEs in Bulgaria, Croatia, Romania, Morocco and Mongolia either received or expect to receive some form of government assistance,, less than 20 per cent of firms think they can count on government support in West Bank and Gaza, Lebanon, the Kyrgyz Republic, Tajikistan, and Uzbekistan. Higher government support (expected or received) is associated with somewhat more optimistic views about the prospect of recovery (see Chart 2.3).

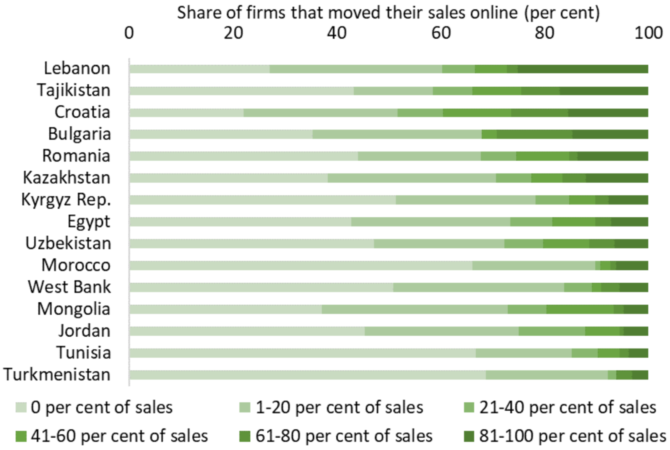
Chart 2.3 Share of firms that received or expect to receive government support varies



Sources: EBRD SME survey.

In response to the Covid-19 pandemic, around half of SMEs moved some of their sales online, though the rates of switching to online sales were much lower in Central Asia and the southern and eastern Mediterranean where economies are characterized by large informal sectors and relatively low levels of online retail (see Chart 2.4).

Chart 2.4 Around half of SMEs moved some of their sales online in response to the pandemic



Sources: EBRD SME survey.

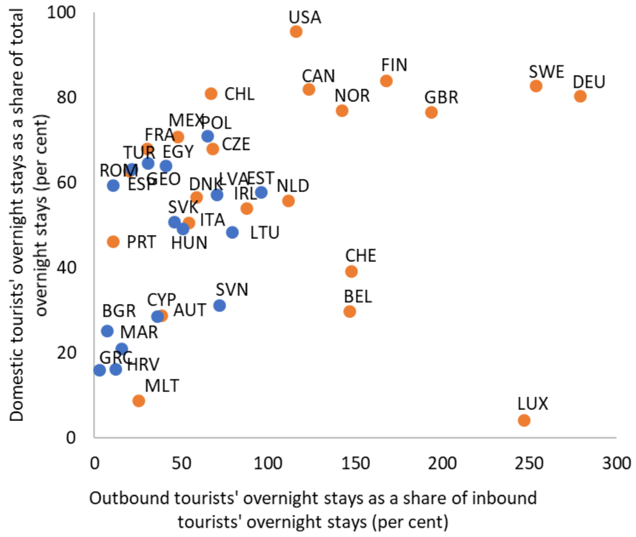
Box 3. Domestic tourism in the EBRD regions

As widespread travel restrictions limited international tourism, many economies in the EBRD regions sought to promote domestic tourism. The boost from domestic tourism is expected to be modest as domestic overnight stays have historically accounted for a small share of tourism in the EBRD regions and the economies in the EBRD regions used to send relatively few tourists abroad, limiting the scope for increasing domestic travel. Furthermore, domestic tourists spend less than foreign tourists.

The tourism sector is an important contributor to GDP and large employer in many economies in the EBRD regions. As widespread travel restrictions limited international tourism, many economies in the EBRD regions sought to promote domestic tourism.

However, domestic tourism in the EBRD regions has traditionally been limited. Domestic travellers make up less than 20 per cent of overnight stays in Croatia or Greece (where international tourism is focused on beach vacations). In contrast, domestic tourists account for more than three quarters of overnight stays in Germany, the United Kingdom or the United States (see Chart 3.1).

Chart 3.1. Domestic tourism in the EBRD regions has been limited to date

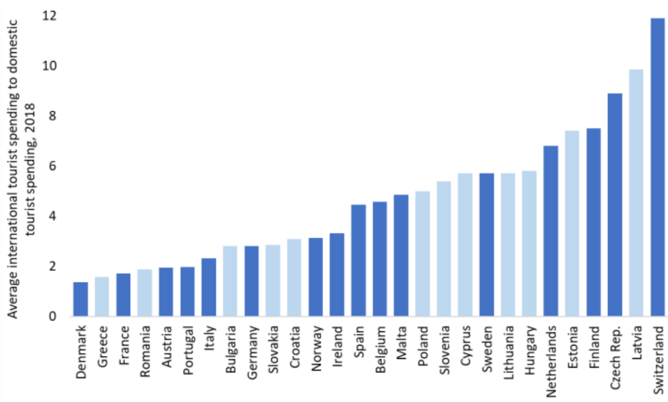


Sources: Eurostat, national sources, OECD and authors' calculations.

In addition, countries in the EBRD regions host many more international tourists than they contribute to international tourism by way of outbound travel (see Chart 3.1). Even if EBRD regions' residents typically holidaying abroad took a vacation at home, this substitution would be insufficient to compensate for the foregone international arrivals.

Besides, in most economies in the EBRD regions, as elsewhere, foreign tourists spend multiples of what domestic tourists spend (see Chart 3.2).

Chart 3.2. Average international tourist spending far exceeds domestic tourist spending



Sources: CEIC, Eurostat, national sources and authors' calculations. Note: Based on 2018 data (2017 for France). Calculated per tourist. EBRD economies in lighter blue.

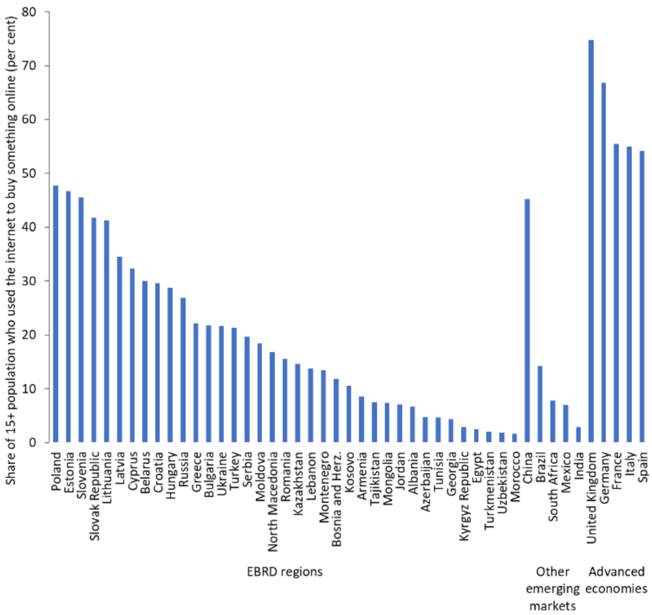
Box 4. Potential benefits from increased digitalization

Sectors such as online retail may benefit from increased digitalization as a result of the Covid-19 crisis. Gains are likely to be largest where online retail already accounts for a non-negligible share of sales suggesting sufficient levels of trust for payments to be processed online and parcels delivered. While a higher share of the population in the EBRD regions orders online than in many other emerging markets, online payments remain less widespread.

While social distancing clouds the outlook for recovery in travel and hospitality, other sectors may receive a boost from increased digitalization, with greater demand for investments in broadband internet, IT services and training in the area of digital skills.

Sectors such as online retail may benefit from a push towards digitalisation. A higher share of the population in the EBRD regions already orders goods online than in many other emerging markets (with the notable exception of China), though these rates are much lower in Central Asia and the southern and eastern Mediterranean (see Chart 5.1).

Chart 4.1. Significant shares of adult populations of the EBRD regions used the internet to make a purchase online

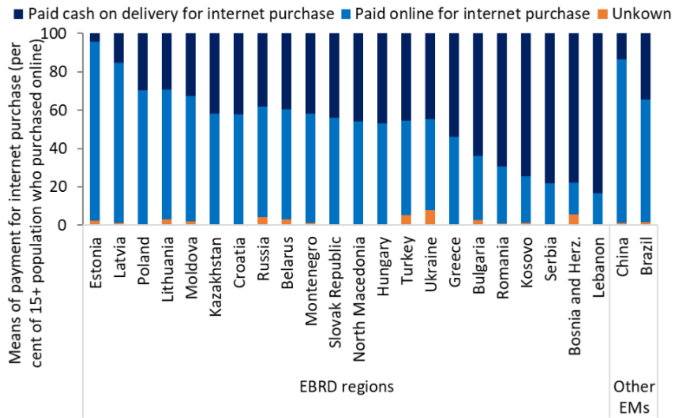


Sources: The Global Findex Database, 2017.

Gains in e-commerce are likely to be largest where it already accounts for a non-negligible share of sales suggesting that the required levels of trust for payments to be processed online and parcels delivered is there.

Online payments are, however, less widespread in the EBRD regions than in other emerging markets (see Chart 4.2). For instance, most internet purchases in South-eastern Europe are still paid for in cash on delivery.

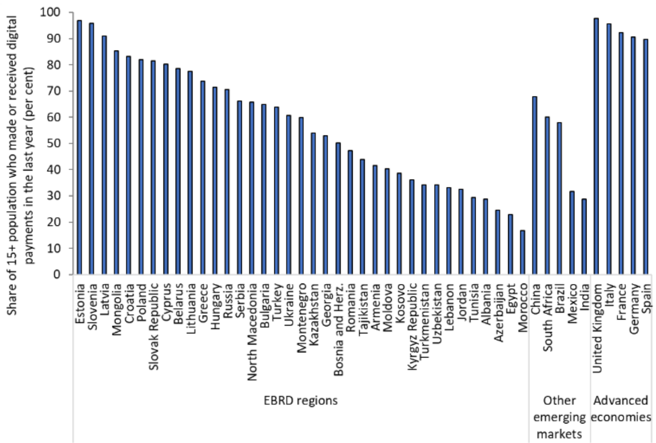
Chart 4.2. Online payments remain less common in the EBRD regions than in many other emerging markets



Sources: The Global Findex Database, 2017.

In fact, the use of bank accounts for any purpose has to date been low in parts of the EBRD regions (see Chart 4.3). For instance, less than half of population made or received digital payments (such as wages) in the last year in most economies in the southern and eastern Mediterranean, Central Asia and the Western Balkans.

Chart 4.3. Modest share of adult population who made or received digital payments in the last year



Sources: The Global Findex Database, 2017.

Governments aiming to provide support during crises can help expand financial services to those previously unbanked. For example, when Mongolia introduced universal cash handouts on account of future copper export receipts (shortly after the global financial crisis), the use of bank accounts jumped to over 90 per cent; with more than 80 per cent receiving wages into bank accounts. Increased digitalization could also help reduce informality, which remains high in the EBRD regions.

Regional updates

Central Asia

Central Asian economies contracted by an average of 0.6 per cent year-on-year in the first half of 2020, with demand and supply subdued by containment measures at home and abroad, and border restrictions disrupting international trade and travel linkages. The Kyrgyz Republic and Mongolia were most severely affected by the pandemic even though increased gold exports helped cushion the downfall. Kazakhstan also went into recession, albeit of a smaller magnitude partly thanks to large fiscal stimulus. Turkmenistan reported positive real GDP growth in the first half of 2020, despite a major loss of revenue from gas exports to China. While the economies of Tajikistan and Uzbekistan slowed down significantly, they maintained positive growth, partly aided by expansion in agriculture and exports of precious metals. The Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan received emergency financing from the IMF as part of programmes seeking to address the economies' fiscal and external financing needs. The region as a whole is forecast to contract by 3.3 per cent in 2020 before an expansion of 3.3 per cent in 2021.

Kazakhstan

Kazakhstan entered a recession in 2020 caused by lower commodity prices, a cut in oil production, and Covid-19-related disruption of domestic economic activity. Real GDP contracted by 2.9 per cent year-on-year in the first seven months of 2020, driven by weak domestic and external demand. In the same period the services sector contracted by 6.2 per cent year-on-year, strongly affected by the state of emergency maintained from March 16 until May 11, and milder quarantine measures re-introduced between July 1 and mid-August. Trade and transportation declined by 11 and 15 per cent year-on-year, respectively. Industry and construction, however, continued growing in the first half of 2020. Fixed investment declined by 5.2 per cent year-on-year in January-July 2020, mostly due to investment into Tengiz oilfield being put on hold due to Covid-19. This led to a contraction in imports, primarily of capital goods, generating a current account surplus of around US$ 2.1 billion (3 per cent of GDP) in the first half of 2020 versus a deficit of US$ 1.9 billion a year earlier. In May 2020, drawing on reserves accumulated in the National Fund, Kazakhstan put in place a comprehensive crisis mitigation package, worth around 9 per cent of GDP. The extensive list of measures covers liquidity support to individuals, firms and the banking sector, as well as spending on healthcare and public works. To finance this, the government increased the guaranteed transfer from the National Fund to the budget by KZT 2 trillion (US$ 4.7 billion) and announced plans to issue bonds, including in Roubles, on the Moscow Exchange and Astana International Exchange. Real GDP is expected to contract by 4.0 per cent in 2020 before growing by 3.0 per cent in 2021, supported by recovery of private consumption and higher oil prices, but significant downside risks remain, notably related to sustained social distancing keeping oil prices depressed in the short term.

Kyrgyz Republic

The Kyrgyz economy has been severely affected by Covid-19 disruptions due to its high dependence on external sources of financing, strict lockdown measures crippling domestic demand, and the government lacking the means for significant stimulus spending. In March and May 2020, the Kyrgyz Republic was an early recipient of emergency assistance from the IMF, totalling US$ 241.8 million. Real GDP dropped 5.3 per cent year-on-year in the first half of 2020, driven by contractions in construction, services and the hospitality industry (down 9.1, 9.3 and 38.2 per cent year-on-year, respectively). While gold mining was up 9.8 per cent, the rest of the industrial production shrank by 8 per cent year-on-year. Remittance inflows, mostly from Russia, were down by 9 per cent year-on-year in US dollar terms in the first seven months of 2020. The state of emergency lasting from late-March until mid-May 2020, and milder social distancing measures in place since June 2020 have depressed domestic demand. A dramatic drop in imports from China (65 per cent year-on-year in the first five months of 2020) hit associated domestic production, re-export activities, and budget revenues. Inflation spiked, reaching 8.6 per cent year-on-year in April 2020, but gradually decelerated to 5.0 per cent in August (within the central bank's target corridor of 5-7 per cent). An anti-crisis fund was created by the government to provide concessional financing to enterprises in the hardest-hit sectors and encourage digitalisation, with earmarked spending of 2 per cent of GDP in 2020 and 7 per cent of GDP in 2021, Other measures aimed at cushioning the impact of the crisis on households and firms include reducing social contributions by businesses, a moratorium on business inspections, a temporary ban on bankruptcy procedures until 2021, and a loosening of prudential requirements. With domestic demand remaining subdued and tourism revenues not materialising in the third quarter, a GDP contraction of 9.5 per cent is expected in 2020. In 2021, the economy is forecast to grow by 3.0 per cent, provided domestic demand picks up and international trade, transport and tourism linkages are partially revitalized.

Mongolia

Mongolia's economy has been severely affected by the Covid-19 crisis due to the economy's high external vulnerability. Real GDP fell by 9.7 per cent year-on-year in the first half of 2020, as partial lockdown measures from mid-February 2020 till end-April 2020 significantly constrained household demand. In addition to strict social distancing measures, this period also included a temporary suspension of coal exports to China in February and March and tight restrictions on international flights and railway journeys. The transportation, trade and services sectors posted losses. Mining was down by 30 per cent year-on-year in the first half of the year. In the first eight months of 2020, exports declined by around 17 per cent year-on-year, with coal exports contracting by 45 per cent, exports of copper down by 24 per cent but those of gold increasing by 233 per cent. The tax relief measures and the drop in export revenues have resulted in a 19 per cent contraction of fiscal revenues in January-August 2020 (year-on-year). The delay in the production schedule of Oyu Tolgoi's phase 2 may put further pressure on the budget. Inflation decelerated significantly, to 2.1 per cent year-on-year in August 2020, well below the target rate of 8 per cent, amid sluggish domestic demand. To meet urgent budgetary and balance of payment financing needs, in June 2020 Mongolia received US$ 99 million in emergency assistance from the IMF, with contributions from other development partners, supporting the implementation of public health and economic stimulus measures. Overall, with tourism revenues not materialising in the third quarter (and the hospitality sector and the sales of cashmere being severely affected) Mongolia's GDP is expected to contract by 6.5 per cent in 2020. The economy is forecast to grow by 5.0 per cent in 2021 as tourism and China's demand for Mongolia's key exports gradually recover, but significant downside risks remain.

Tajikistan

With the first Covid-19 cases reported only at the end of April 2020, Tajikistan was able to introduce relatively mild containment measures, and did so later than most regional peers. The economy was mainly affected by the disruption of transportation links with key trading partners and limited access to the Russian labour market: international arrivals halved in the first half of 2020 while remittances from Russia declined by around 15 per cent year-on-year, weighing on consumption, imports and the government's tax receipts. Despite strong external pressures, Tajikistan's economy grew by 3.5 per cent year-on-year in the first half of 2020 on the back of strong performance in industry (mostly reflecting a dramatic increase in gold exports) and agriculture. The country's gold exports (to Switzerland) increased by 140 per cent year-on-year in US dollar terms. Excluding precious metals, exports took a major hit, declining by 22 per cent year-on-year, and freight transportation, hospitality, retail trade and services to households made negative contributions to growth. Tax revenues were 7 per cent lower than targeted in the first half of 2020, forcing the government to cut budget outlays to public management, industry and construction. The central bank reduced the policy rate stepwise from 12.25 per cent in December 2019 to 10.75 per cent in August 2020 in order to support domestic demand. In May 2020 the IMF provided US$ 189.5 million in emergency budget support subject to the government's commitment to cut non-essential spending and implement fiscal consolidation measures in 2021. Other development partners helped finance health-care-related measures. The economy is expected to contract by 1.0 per cent in 2020. In 2021, real GDP is forecast to grow by 3.0 per cent following the expected economic recoveries in Russia and China, but risks are tilted to the downside, especially if a prolonged pandemic continues to affect key trading partners.

Turkmenistan

Turkmenistan reported strong GDP growth (5.9 per cent year-on-year in the first half of 2020 from 6.3 per cent a year ago) despite a large drop in the country's export revenues. The retail trade turnover is reported to have increased by 13.8 per cent year-on-year in 2020. While no Covid-19 cases have been diagnosed in the country, the authorities took preventive steps to restrict cross-border and internal movements, and impose social distancing. Large shopping centres, markets, theatres, parks, and sports facilities had to briefly suspend operations from July 21 to August 1 2020. Nevertheless, domestic containment measures in Turkmenistan have thus far been milder than in other Central Asian countries, with services and the SME sector affected to a much lesser extent. On the other hand, the pandemic has hit Turkmenistan's export revenues hard. According to IMF and Trade Map data, exports, mostly consisting of gas supplies to China, declined by 44 per cent year-on-year in the first seven months of 2020. Reduced foreign exchange inflows translated into tighter foreign exchange regulations imposing additional constraints on private-sector activities. In May 2020, the government established the Reserve Currency Fund expected to accumulate foreign currency earnings of all state enterprises. While the official exchange rate peg has been maintained at 3.5 manats per US dollar, the parallel market exchange rate depreciated from 18-19 manats per US dollar in January to 22-23 manats in August. The economy is forecast to contract by 1.0 per cent in 2020, and return to growth of 1.0 per cent in 2021, supported by a recovery in China's demand for gas, but major uncertainty remains around these forecasts given the paucity of reliable economic data.

Uzbekistan

Economic growth in Uzbekistan slowed down but remained positive at 0.2 per cent year-on year in the first half of 2020, led by growth in agriculture and construction (2.8 per cent and 7.3 per cent year-on-year, respectively). Other sectors posted contractions. Industry and gas production contracted by 1.9 and 17.1 per cent year-on-year, respectively. Services were also negatively affected, with hospitality and trade shrinking by 1.1 per cent year-on-year and communications and logistics sector contracting by 3.2 per cent. The government imposed the first round of lockdown measures from mid-March until May 2020 and the second round from 10 July until 17 August 2020, gradually easing restrictions since then. As a result, unemployment surged to 13.2 per cent in January-July 2020 from 9.1 per cent a year earlier, and real incomes declined by 1.7 per cent. Given sluggish demand conditions, inflation moderated from 16.5 per cent year-on-year in August 2019 to 11.7 per cent in August 2020, prompting the monetary authorities to lower the refinancing rate from 15 per cent to 14 per cent per annum. In April 2020, the government established an Anti-Crisis Fund (of around 1.5 per cent of GDP) in to strengthen the health care system and support vulnerable workers and affected businesses. The country faces strong external pressures. While imports decreased by around 18 per cent year-on-year in the first seven months of 2020, exports fell by 21 per cent year-on-year, with the trade balance remaining negative. The external balance was further worsened by the slump in economic activity in Russia and Kazakhstan, leading to remittances dropping by 7 per cent year-on-year in US dollar terms in the first seven months of 2020. Overall, real GDP is forecast to contract by 2.0 per cent in 2020. A recovery of 4.5 per cent is expected in 2021, driven by a rebound in exports and domestic demand. A key risk is a possible failure of this rebound to materialise because of a prolonged social distancing.

Central Europe and the Baltic States (CEB)

The Covid-19 outbreak and resulting restrictions have pushed the CEB region into recession, with output contracting by 4.3 per cent year-on-year in the first half of 2020. At the same time, the drop in economic activity turned out to be slightly less deep than previously anticipated. While investment expenditures by companies have been largely put on hold, private consumption turned out to be more resilient and started to recover sharply in May, as lockdowns started to be gradually lifted. Generous fiscal injections by governments to support employment and companies' liquidity needs have had some success in cushioning the impact of the crisis. Nevertheless, the CEB region has already entered the second wave of Covid-19 infections, and a degree of social distancing will likely be *unavoidable, especially during the winter flu period. The introduced flexibility in EU funds spending, together with additional EU recovery funds, are expected to boost public investment, while private investment will likely remain subdued. A projected drop in GDP of 4.4 per cent in 2020 will likely be followed by an upturn in 2021, projected at 3.5 per cent.*

Croatia

After five years of economic recovery in Croatia, with growth averaging 3 per cent in 2015-19, a sharp decline is under way in 2020 because of the Covid-19 pandemic. GDP inched up by 0.4 per cent year-on-year in the first quarter, but in the second quarter, the crisis took full hold as in mid-March the government introduced a strict lockdown with the view to limit the spread of the virus, with tough restrictions on travel and economic activity. The second quarter saw Croatia's deepest contraction on record, of 15.1 per cent year-on-year. The resulting GDP decline in the first half of 2020 was -7.4 per cent year-on-year, with private consumption falling by 7 per cent, investments by 6 per cent and exports by 24 per cent (driven by a 50 per cent drop in exports of services), while government spending increased by 3 per cent. A key channel for disruption is tourism, a mainstay of the Croatian economy, which normally accounts for more than 20 per cent of GDP. There was a drop of more than 75 per cent in tourist arrivals in March year-on-year, and a virtual halt to tourism in April and May, but a partial recovery followed in the third quarter. As a result, the unemployment rate rose to 8.6 per cent in July 2020 from 6.2 per cent in February. Despite the country's high public debt (73 per cent of GDP), the government responded to the crisis with a sizeable and comprehensive crisis package, of about 7-8 per cent of GDP, while the Croatian National Bank (CNB) focused on stabilizing the kuna and providing liquidity to the banking sector. These measures have cushioned the immediate negative impact of the crisis on firms and individuals but fiscal outlook is bound to worsen, compounded by weak revenues. In July 2020, Croatia joined the Exchange Rate Mechanism II (ERM 2) and Banking Union. GDP is expected to fall by 8.5 per cent in 2020. A recovery is expected in 2021, with a growth of 3.5 per cent. These projections assume of a gradual normalisation of economic activity in Croatia and in its main economic partners. Nevertheless, the risks are strongly to the downside, on account of a possible stronger resurgence of Covid-19 infections.

Estonia

Estonia went through a lockdown from the beginning of March 2020, with a serious downturn in economic activity. Relaxation of social distancing measures since end-April has prompted a partial recovery. GDP declined by 3.3 per cent year-on-year in the first half of the year. Retail turnover growth turned positive in May in year-on-year terms, but industrial production and goods exports have been slower to recover. In response to the crisis, the government devised a broad package worth around 9 per cent of GDP targeting the labour market, liquidity support, tax relief, and increased lending capacity of Kredex, a state-owned financial institution. The government also provided considerable support to local authorities and rural companies. Unemployment rose sharply to 8.0 per cent in June 2020, from 4.4 at the end of 2019, despite around a fifth of employees participating in the public wage support scheme. Given current uncertainty related to the evolution of Covid-19, and in light of the gradual withdrawal of fiscal stimulus, GDP is forecast to fall by 4.0 per cent in 2020. In 2021, a rebound of 4.0 per cent is expected, boosted by the disbursement of EU funds and supported by the still-considerable fiscal space, with GDP in 2021 reaching 2019 levels by the end of the year. However, significant downside risks remain, especially if social distancing is maintained for longer than anticipated.

Hungary

The lockdown introduced by the government in March 2020 to limit the transmission of Covid-19 brought much of Hungary's economic activity to a halt. In the first half of 2020, the economy shrank by 5.8 per cent year-on-year, weighed by a slide in net exports, investment and tourism revenues. The unemployment rate increased to 4.9 per cent in June 2020, after registering a historic low at 3.4 per cent in January 2020. Investment contracted by 9.2 per cent year-on-year in the first half of 2020 in contrast with the growth rate of almost 30 per cent in 2019, despite lending support by the government and the National Bank of Hungary. However, the pipeline of large investment projects remains promising. Scheduled (but delayed) projects include South Korean investments in the electric car industry, the construction of a BMW car plant in eastern Hungary, a Lidl logistic base near Budapest, and the Budapest-Belgrade railroad upgrade, scheduled for completion in 2025. GDP is forecast to fall by 5.0 per cent in 2020. Growth is expected to recover to 4.0 per cent in 2021. The forecasts are subject to major uncertainty, and depend to a large extent on the extent of social distancing going forward. Uncertainty about the recovery of external demand is a key risk factor for Hungary's manufacturers, such as those in the automotive sector.

Latvia
Latvia's GDP decreased by 5.1 per cent year-on-year in the first half of 2020. The imposed virus containment measures in March 2020 weighed on private consumption, which fell by 20.9 per cent year-on-year in the second quarter. Nevertheless, the retail turnover recovered to the 2019 levels by June 2020 on the back of pent-up demand as social distancing measures were relaxed. The government has introduced anti-crisis support measures worth about 6 per cent of GDP, including tax holidays, employment support schemes, as well as credit guarantee schemes. The authorities have also signed a €875 million package to support affected sectors, which includes a €250 million recapitalisation of the national air carrier, AirBaltic. The unemployment rate started to decline in August 2020, down to 8.2 per cent versus a peak of 8.6 per cent in July 2020. Contingent on no other significant containment measures this year or in 2021 (a key downside risk), GDP will likely fall by 5.0 per cent in 2020, dragged down by weak investments and lower business confidence in the services sector. In 2021, GDP is projected to rise by 3.5 per cent, implying a gradual recovery of the economy.

Lithuania
Lithuania has proved to be one of the most resilient countries in the region, despite the fact that services strongly impacted by social distancing such as retail trade, transport, accommodation and catering, account for a relatively large share of output (32 per cent of GDP). In the first half of 2020, the economy contracted by just 0.6 per cent year-on-year. Thanks to a short lockdown and robust wage growth in the first quarter of 2020, consumers were able to return to spending levels of 2019 already by June. Industrial production and exports were also close to their 2019 levels as of end-summer 2020 thanks to a favourable export structure (driven by food products). In the first half of 2020 exports excluding minerals decreased by 2.4 per cent year-on-year. Swift state support totalling around 11 per cent of GDP included the expansion of state guarantees on loans and an EU-funded job protection mechanism. Nevertheless, unemployment is seen as a risk to the recovery after rising to 9.3 per cent in July 2020, compared to the pre-crisis rate of 7 per cent. Given the economy's resilience in the first half of the year, the drop in GDP in 2020 is projected to be limited to 2.0 per cent. A rebound of 4.0 per cent is expected in 2021, with growth boosted by an announced investment plan focused on infrastructure, digitisation and green transition worth 13 per cent of GDP by 2022. The projections assume no significant social distancing measures.

Poland
The administrative lockdown imposed in Poland in March 2020 caused GDP to fall by 3.1 per cent year-on-year in the first half of 2020, pushing the economy into recession for the first time since the early 1990s. While Poland is highly integrated into global value chains and has a large exposure to trade, net exports continued to make a positive contribution to growth in the first half of 2020. The unemployment rate remained stable in the first half of the year and stood at 3.2 per cent in July 2020, as companies were able to retain employees thanks to the support measures implemented by the government. At 18.6 per cent in 2019, the investment-to-GDP ratio was the lowest in the central Europe and the Baltic states and fell further during the first half of 2020. Investment in this period was down 6.0 per cent year-on-year, and outlays on means of transport dropped by 24.6 per cent. The domestic market has proved to be relatively resilient to the effects of Covid-19, but the speed of the recovery will depend largely on external factors. GDP is expected to fall by 3.5 per cent in 2020, and rise by 3.0 per cent in 2021. Key risks to the forecast include the extent of social distancing in the future as projections assume no countrywide lockdowns.

Slovak Republic
The lockdown imposed countrywide in March 2020 and the collapse of external demand pushed the Slovak economy into a deep recession in the first half of 2020. GDP dropped by 8.0 per cent year-on-year

in this period, with a double-digit plunge in investment and substantial falls in both private and government expenditures. In contrast to most other EU economies, government expenditures dropped more abruptly than the expenditures of households, reflecting major delays in the provision of support measures by the new government in the second quarter of 2020. As the Covid-19 pandemic put the majority of investment projects on hold, gross fixed capital expenditures dropped by 10.1 per cent year-on-year in the first half of 2020. On the upside, several car manufacturers are considering new investments in the coming years, and the government has pledged to support the construction of residential housing near Volkswagen's plant in Bratislava. GDP is projected to fall by 7 per cent in 2020 as a whole. However, external demand is expected to improve somewhat next year, which together with improved absorption of EU funds, including the EU recovery package, and significant investments by the automotive industry, should bring about a recovery, with growth of 5.0 per cent in 2021. The high reliance of the economy on the automotive industry remains a key risk factor. Any adverse shock to the industry, such as a drop in demand for cars or a disruption to the supply chains, could significantly delay the recovery.

Slovenia

A slowdown in 2019 (when Slovenia's economy grew at the rate of 2.4 per cent) was followed by a severe recession in 2020, mainly due to the imposition of virus containment measures and disruptions in global supply chains. In the first quarter of 2020, the economy was already contracting by 2.5 per cent year-on-year, one of the steepest falls in the region. In the second quarter, as the country felt the full effect of the crisis, the contraction reached almost 13 per cent year-on-year, as the lockdown measures imposed in mid-March resulted in a significant drop in domestic demand. Private consumption and investment decreased by about 11 per cent year-on-year in the first half of 2020. The economy has also suffered disproportionately from the drop in international trade, due to its high integration in global value chains. Exports of goods, which normally total 70 per cent of GDP, dropped by 12 per cent year-on-year in the first half of the year. Another key channel for disruption was tourism, which normally accounts for about 7 per cent of GDP. Tourist arrivals in the first half of 2020 were down by about 80 per cent year-on-year, and the sector was relying more on local guests (whose spending power was supported by government vouchers). This all resulted in a decline in economic activity of 8.3 per cent in the first half of 2020. Unemployment, however, increased only marginally to 4.7 per cent in July 2020 (from about 4.0 as of end-2019), mainly as a result of the government support schemes to preserve jobs. As a result of falling revenues and a crisis-related rise in spending, the 2020 fiscal deficit is projected by the government at 9.3 per cent of GDP. A fiscal package of about 13 per cent of GDP was introduced to support the economy. The recovery under way in the second half of the year should limit GDP contraction to 7.5 per cent in 2020, with GDP growth of 3.5 per cent expected in 2021, partly reflecting a strong base effect. Nevertheless, the risks are on the downside. As a small, open economy, Slovenia is highly exposed to economic developments in its key trading partners, particularly the large economies in the Eurozone.

Eastern Europe and the Caucasus (EEC)

The Covid-19 crisis has caused a sharp economic downturn across the region in 2020. Common channels of transmission include the impact of public health measures and lockdowns put in place in most countries to contain the spread of the virus, and a drop in external demand. Remittances – an important component of the balance of payments for several countries – fell sharply during the early months of the pandemic, though some recovery has taken place since then. Lower commodity prices have been causing additional problems for exporters of hydrocarbons and metals – Azerbaijan, Ukraine and Armenia – and the collapse in tourism has badly affected Georgia. GDP in the region as a whole is expected to fall by 4.4 per cent in 2020. A recovery is expected in 2021, with growth averaging 2.5 per cent.

Armenia

Prolonged containment measures have been weighing on the Armenian economy during 2020. The state of emergency, introduced in March 2020 and extended for five consecutive months until the first half of September, was replaced by a nationwide quarantine expected to be in force until January 2021. Restrictions on international border crossings and social gatherings remain, albeit less strict compared with those introduced in March. GDP growth of 3.9 per cent year-on-year in the first quarter of the year turned to a 13.7 per cent decline year-on-year in the second quarter as household consumption contracted by nearly 20 per cent, investments by nearly 30 per cent and trade by approximately 35 per cent year-on-year in real terms. High-frequency indicators of economic activity point to a 10 per cent decline (year-on-year) in economic output in July. Remittances contracted by nearly 40 per cent year-on-year in April-May. The decrease in remittances nearly levelled off in June-July, as a strong increase in transfers from the US partially offset falling remittances from Russia. In the absence of significant inflationary pressure, the refinancing rate was lowered four consecutive times in 2020, to 4.25 per cent in September. A contraction of goods and services imports, including outbound tourism, balanced out the decline in export revenues, helping to contain currency pressures and supporting exchange rate stability following the initial depreciation at the onset of the pandemic. The Armenian economy is expected to shrink by 5.0 per cent in 2020. Growth of 4.0 per cent is expected in 2021, subject to considerable uncertainty related to the future path of the pandemic.

Azerbaijan

The oil price shock on top of the Covid-19 pandemic is taking a toll on Azerbaijan's economy. Following robust growth at the beginning of 2020, growth in the non-oil sector turned negative with the introduction of public health measures in March. Containment measures were extended multiple times and limitations on regular business activities remain, particularly in the service sector, though they have been loosened. Output in the non-oil and gas sector reached a trough in June before it started slowly recovering. In total, non-oil GDP contracted by 1.7 per cent year-on-year in the first eight months, while total GDP fell by 3.0 per cent year-on-year in the same period. External and fiscal surpluses have turned into deficits on the back of significantly lower oil revenues and rising expenditures aimed at supporting the economy. Annual inflation has remained low and stood at 2.9 per cent year-on-year in August 2020, on the back of the currency peg, which is supported by foreign exchange transfers from the State Oil Fund of Azerbaijan (SOFAZ). The combined assets of the central bank and of SOFAZ, the state oil fund, amounted to nearly US$ 50 billion, more than the projected 2020 GDP. Azerbaijan's economy is expected to decline by 3.0 per cent in 2020, with growth recovering to 2.5 per cent in 2021. Key risks remain, especially related to a possible resurgence of the pandemic and continued weaknesses in the oil market.

Belarus

The economy of Belarus entered the Covid-19 pandemic in a weakened state partly as a result of the delay in reaching a new oil agreement with Russia. GDP contracted by 0.2 per cent year-on-year in the first quarter of 2020 on the back of declining manufacturing output and exports, due to disrupted production at the oil refineries at the beginning of the year. The pandemic has deepened the recession, with output contracting by 1.3 per cent year-on-year in January-August 2020. The absence of a full lockdown meant that, while output in most services sectors declined, the downturn was less severe than in many other countries. Nevertheless, the large export sector was hit hard by reduced global demand. However, agriculture, construction and ICT recorded positive growth. The widespread protests triggered by presidential elections in August caused additional disruptions in economic activity and a general worsening of the business environment, which will additionally impair growth prospects and may threaten the export-oriented digital sector, one of the rare bright spots during the pandemic. The currency has come under renewed pressure, depreciating by 21 per cent during January-August 2020, and foreign reserves declined from a historical high of US$ 9.4 billion at end-2019 to US$ 7.5 billion in August 2020. GDP is expected to decline by 3.5 per cent in 2020 and to growth by 1.0 per cent in 2021, with major downside risks associated with the pandemic and with the political turmoil.

Georgia

Preliminary indicators show that Georgia's economy reached the trough of the cycle in April 2020 when GDP contracted by 16.6 per cent year-on-year. In the first seven months of 2020, output is estimated to have declined by 5.8 per cent year-on-year. The speed of economic recovery depends mainly on the return of tourism. While domestic lockdown measures introduced in March 2020 were largely lifted in June, international borders stayed by and large closed, with the exception of regular flights to three European destinations, which restarted in

August. The number of foreign visitors fell by 76 per cent year-on-year in January-August 2020. The impact on the hospitality sector has been somewhat softened by the increase in domestic tourism. Remittances fell by 20 per cent year-on-year in March-May before strongly recovering by 22 per cent in June-August. Inflation reached 6.9 per cent year-on-year in April 2020, driven by the pass-through of sharp currency depreciation in March to domestic prices. As the rate of price increases moderated to 4.8 per cent in August 2020, enabling the National Bank of Georgia to loosen of monetary policy. The policy rate was lowered three times in 2020, to 8.0 per cent in August. International reserves increased to an all-time high of US$ 3.9 billion by the end of August on the back of official financing, including disbursements under the augmented IMF programme. GDP is expected to contract by 5.0 per cent in 2020 followed by a recovery of 3.5 per cent in 2021, provided the tourism sector posts a strong recovery next year and other risks remain contained.

Moldova

The Covid-19 crisis has had a major negative impact on the already decelerating economy. The GDP growth rate slowed to 0.9 per cent year-on-year in the first quarter of 2020, driven by a drop in exports and private consumption, although investments in fixed assets remained buoyant on the back of significant construction activity. In the second quarter, output contracted by 14 per cent year-on-year as all sectors of the economy posted large declines. The disruption of global supply chains in the early days of the pandemic hurt exports of automotive components, which are well integrated into global value chains. Domestic Covid-19 containment measures have stopped the activities of many services enterprises, while plummeting remittances in March and April hit household disposable incomes and consumer demand. Economic activity bottomed out in the second quarter of 2020. Since May, remittances have been recovering strongly and other short-term indicators point to a gradual resumption of domestic economic activity and exports, although they remain in negative territory in year-on-year terms. GDP is forecast to decline by 5.5 per cent in 2020 followed by growth of 3.5 per cent in 2021, but risks are weighed to the downside, reflecting the uncertain path of the pandemic in the coming months.

Ukraine

A Covid-19-induced recession in Ukraine in 2020 has come on top of major structural weaknesses in the economy. GDP declined by 1.3 per cent year-on-year in the first quarter of 2020, with most sectors in negative territory and a sharp fall in investments. Trade and information and communication services were the rare bright spots, and private consumption remained strong. However, since March 2020, the pandemic has been taking a full toll on the economy through a combination of reduced foreign demand and drop in domestic demand due to the lockdown. These developments have further damaged the already contracting manufacturing sector and reversed the fortunes of most services sectors. The economy shrank by 11.4 per cent year-on-year in the second quarter of 2020. Despite the challenging environment, a credible monetary policy has preserved macroeconomic stability, and the new IMF programme agreed in the midst of the pandemic has further stabilised expectations and mobilised substantial financing from the official sector and private investors. High-frequency indicators suggest that economic activity reached the floor in April, and has been gradually recovering. GDP is forecast to contract by 5.5 per cent in 2020, followed by a recovery of 3.0 per cent in 2021. Risks to the downside remain considerable, reflecting uncertainty about future social distancing as well as policy and structural reform commitments during an extremely challenging time.

Russia

Immediately prior to the onset of the Covid-19 pandemic, the Russian economy was in a relatively strong position. At the end of the first quarter of 2020 the trade balance, current account and budget all recorded a surplus, and inflation was at post-Soviet lows. This was largely thanks to several years of conservative macroeconomic policies pursued to ensure resilience in the face of increasing international sanctions. In order to address sluggish growth rates the Central Bank of Russia had started a rate cutting cycle, and a government reshuffle in January 2020 had provided a clear signal of intention to adopt a more pro-growth stance. Key actions were the announcement of a 2.1 trillion roubles social spending package to support real incomes, and the pledge to access 1 trillion roubles from the National Wealth Fund to push the 12 National Projects, a US$ 400 billion investment aimed at modernising and revitalising Russian society, implementation of which had been behind schedule.

The twin shocks of the Covid-19 pandemic, which hit both the supply and demand side of the economy, and a plunge in the oil price saw economic activity collapse. The main impacts of these shocks were a drop in consumption, driven by a two-month lockdown of the entire economy, a significant drop in external demand for commodity exports, and supply chain bottlenecks which particularly affected the Russian engineering industry. The government introduced an effective National Plan for Economic Recovery, totalling 200 trillion roubles, in order to support the economy.

These early efforts to boost resilience of the economy appear to have paid off. At 8.0 per cent year-on-year, the contraction in the second quarter of 2020 was smaller than expected, and activity has started to pick up again, as have oil prices. Despite the oil price shock, a two-month lockdown of the economy and Covid-19-related support amounting to 10 per cent of GDP, Russia managed to continue accumulating international reserves, which reached an all-time high of US$ 600 billion in August 2020. This contrasts sharply with previous crises, and is in no small part thanks to the flexibility of the exchange rate (the rouble depreciated by 20 per cent against the US dollar in 2020). Whilst the cost of the recovery plan has turned the budget surplus into a deficit, this was funded by profit received by the Central Bank from the sale of Sberbank shares and placement of domestic rouble debt. The government has not so far needed to tap the National Welfare Fund, which stood at US$ 178 billion at September 1, 2020.

Overall, the economy is expected to shrink by 4.5 per cent in 2020, followed by a rebound of 3.0 per cent in 2021. This forecast is subject to significant upside and downside risks, depending on the path of oil prices, the extent of social distancing going forward and geopolitical developments.

Southern European Union

This region has been severely affected by the Covid-19 crisis. Sharp falls in GDP were observed in all countries in the second quarter of 2020, when strict lockdowns were in place. The tourism seasons in Bulgaria, Cyprus and Greece are all way down on previous years, contributing to deep recessions, and private consumption and exports have also been badly hit across the region. Fiscal packages have alleviated some of the impact of the crisis on individuals and firms. On average, GDP in this region is forecast to fall by 6.6 per cent in 2020, with a partial rebound of 3.4 per cent in 2021.

Bulgaria

Following growth of 3.4 per cent in 2019, which was driven mainly by private consumption, the country is experiencing a deep recession in 2020. The state of emergency, declared in mid-March, imposed tough restrictions on travel and resulted in a sharp decrease of economic activity in March and April. Economic activity started to gradually recover from May onwards amid the lifting of most restrictions. However, the recovery slowed and numbers of people testing positive for Covid-19 rose in mid-summer. The full impact of the crisis was seen in the second quarter, when real GDP dropped by 8.7 per cent year-on-year. Private consumption decreased by 2.4 per cent year-on-year in the first half of 2020, while investments fell by more than 8 per cent year-on-year. Exports of goods, totalling about 50 per cent of GDP and making Bulgaria only moderately dependent on trade, decreased by about 3 per cent year-on-year in the first half of 2020. Foreign arrivals stopped almost completely in April and May 2020 and have been slow to recover since then, declining by 75 per cent year-on-year in June and 65 per cent in July. The government crisis response package of about 5 per cent of GDP has focused on preserving jobs, helping vulnerable groups and providing liquidity support to firms. In July 2020, Bulgaria has joined the EU's Exchange Rate Mechanism (ERM II) and the Banking Union, paving the way for euro adoption. GDP is expected to fall by 5.5 per cent in 2020 and bounce back with a 3 per cent growth rate in 2021, assuming gradual normalisation of economic activity in Bulgaria and its main economic partners from late 2020. The main risks to the outlook are on the downside and are associated with a possible prolonged Covid-19 crisis, both in Bulgaria and elsewhere.

Cyprus

The Cypriot economy is being severely hit by the consequences of the Covid-19 pandemic. The strict lockdown (involving closures of schools and all non-essential businesses) implemented in March 2020 to limit the spread of the virus was lifted gradually from May onwards, but economic sentiment plummeted from 112 points in January 2020 to 74.5 points in April 2020 (the lowest reading since 2013) and has only increased by 9 points since then (as of August 2020), with negative effects on investment and private consumption. GDP fell by 11.9 per cent year-on-year in the second quarter of 2020, as the measures to reduce contagion brought virtually to a halt some of the main drivers of the economy, such as construction and tourism. Since then, these sectors have only partially re-started their activities. The government responded with a set of measures to mitigate the negative impact of the crisis on the economy and vulnerable groups, but these measures will take a heavy toll on public finances. Public debt had fallen below 100 per cent as a ratio of GDP at end-2019, but is likely to be above that ratio again by end-2020 because of falling output and government revenues and increased crisis-related spending. GDP is expected to fall by 7.5 per cent in 2020 as a whole, rebounding somewhat by 4.0 per cent in 2021 provided social distancing is phased out and the main sectors of the economy continue their steady recovery.

Greece

The Covid-19 pandemic has abruptly interrupted a steady economic recovery in Greece. Prior to the pandemic, all economic indicators were moving in the right direction: positive GDP growth (1.9 per cent in 2018 and 2019), steadily falling unemployment, strong fiscal surpluses and economic sentiment at a 12-year high. The lockdown (schools and all non-essential businesses closed) imposed from March 23rd to May 4th 2020 severely affected consumption and overall economic activity. The effects were most visible in the second quarter of 2020 when GDP contracted by 15.2 per cent year-on-year, one of the biggest drops across the EBRD regions. The halt of virtually all travel to Greece from March until July 1st heavily affected the tourism sector, which normally represents more than a fifth of GDP. Net receipts from transport services were also down significantly in the first half of the year. The strong fiscal performance and debt relief measures in recent years have provided ammunition for the implementation of a solid fiscal package in response to the Covid-19 pandemic, amounting to 8.4 per cent of GDP and including a range of measures to cushion the impact of the pandemic on businesses, households and vulnerable groups. Nevertheless, a deep recession for 2020 as a whole is unavoidable. GDP growth is forecast at -9.5 per cent in 2020, rebounding to 4.0 per cent in 2021. This partial recovery next year is subject to significant risk, especially linked with a possible continued disruption to tourism and other key sectors of the economy.

Romania

After robust growth of 4.1 per cent in 2019, Romania is experiencing a recession in 2020. Key transmission channels are lower consumption and a drop in exports. A domestic lockdown and state of emergency were introduced in mid-March 2020, lasting until mid-May and severely affecting travel, economic activity and consumer and business sentiment. The lockdown heavily affected private consumption: retail sales dropped by almost one fifth in April on a year-on-year basis, though some recovery has taken place in the following months. Industrial production collapsed in April by almost 40 per cent year-on-year, causing exports of goods to drop. GDP fell by 3.9 per cent year-on-year in the first half of 2020, with private consumption falling by 5 per cent and exports by 15 per cent. The unemployment rate rose to 5.4 per cent in July 2020 (up from 3.7 per cent in January 2020), with further job losses likely in the coming months as government support schemes are phased out. Inflation picked up to 2.2 per cent year-on-year in June, which is within the central bank's target of 2.5 per cent +/- 1 percentage point. Romania entered the Covid-19 crisis with a significant fiscal deficit (4.3 per cent of GDP in 2019). The combination of a shrinking output and government revenues, a fiscal stimulus programme amounting to around 4-5 per cent of GDP, and another increase in pensions in September 2020 (on top of one in 2019), is expected to raise the fiscal deficit in 2020 to an estimated 8.6 per cent of GDP, as per the August 2020 revised budget. The National Bank of Romania reduced the policy rate three times, by a total of 1 percentage point, to 1.5 per cent, and narrowed the related interest rates corridor to ±0.5 percentage points from ±1.0 percentage points, thus lowering further the lending facility rate. GDP is expected to drop by 5.0 per cent in 2020 and rebound by 3.0 per cent in 2021. The recovery is contingent on a gradual normalisation of economic activity in both Romania and its main economic partners, and a resumption of structural reforms.

However, this would be hard to achieve should social distancing remain in place for longer than anticipated.

Southern and Eastern Mediterranean (SEMED)

The coronavirus crisis has affected economic activity in the southern and eastern Mediterranean through several channels, including a drop in tourism, a decline in domestic consumption and investment due to virus containment measures, weaker demand from the main trading partners and a slowdown in foreign direct investment inflows. Economies are expected to contract, on average, by 1.3 per cent in 2020. A rebound is expected in 2021, with growth averaging 4.4 per cent, supported by a recovery in global economic activity, lower imports, the implementation of business environment reforms and lower political uncertainty.

Egypt

Growth slowed in Egypt to 3.5 per cent in fiscal year ending June 2020, from 5.6 per cent in the previous fiscal year. Growth in the first three quarters of the fiscal year, before the Covid-19 crisis, was 5.4 per cent year-on-year. In April-June 2020 GDP contracted by 2.0 per cent year-on-year, as a partial lockdown negatively affected private consumption and investment. Inflation slowed to 3.4 per cent year-on-year in August 2020, driven by slower increases of price of food, utilities, housing and transport, which together account for nearly two-thirds of the basket. Growth is expected to decelerate to 3.3 per cent in fiscal year ending June 2021, held back by the weak outlook in the tourism sector, disruptions in global value chains, weaker demand from trading partners, and the slowdown in foreign direct investment. However, large public construction projects and the boom in the telecommunications sector will continue to sustain growth. On a calendar year basis, growth is forecast to drop to 2.0 per cent in 2020, before rebounding to 5.0 per cent in 2021. The main risks to the outlook arise from possible stricter social distancing measures as well as weak export demand.

Jordan

The rate of growth in Jordan remained subdued in 2019, at 2.0 per cent, and slowed further to 1.3 per cent year-on-year in the first quarter of 2020, as the economy was held back by the Covid-19 crisis and the related containment measures. Insurance, other financial services, real estate and the business services were the main sectors supporting growth, alongside government and social services. Tourism, usually a major driver of growth, declined by 62 per cent year-on-year in the first half of 2020, directly impacted by the Covid-19 crisis. Inflation remained low in the first eight months of 2020, averaging 0.5 per cent year-on-year. The economic fallout from the coronavirus containment measures is expected to result in a GDP contraction of 6.0 per cent in 2020, due mainly to the contraction in tourism and cross-border trade. Growth is expected to pick up to 4.0 per cent in 2021, sustained by the lower cost of imported energy, increased finance provided to SMEs under various schemes implemented by the Central Bank of Jordan, and reforms anchored in the IMF-supported programme. The main risks to the outlook include social distancing remaining in place for longer than expected and delays in reforms in the run-up to the parliamentary elections in November 2020. Other risks to the outlook include an erosion of real competitiveness stemming from the strengthening of the dinar (in light of the peg to the US dollar), stronger pressure on the overvalued exchange rate should capital inflows fall short of expectations, regional instability, and slower-than-expected recovery of partner economies.

Lebanon

In the past year, Lebanon slid into a full-blown economic crisis, with signs of stagflation. The economy is estimated to have suffered a recession of 6.7 per cent in 2019, reflecting regional and domestic political uncertainties, social unrest, slow implementation of structural reforms and lower capital inflows. Lower inflows of capital resulted in a slowdown in private investment and consumption and a contraction in trade and construction, traditionally the main drivers of growth. The lira continued to depreciate, with the official pegged exchange rate (of LBP 1507.5 per US dollars) only being used for vital imports, while the rest of the economy is subject to multiple exchange rates in the parallel market, at a 60 per cent discount to the official rate. Inflation has continued to spiral upwards, reaching 112 per cent year-on-year in July 2020, against the backdrop of the lira depreciation in the parallel market compounded by Lebanon's high import dependence. As a result, purchasing power has been quickly evaporating, and unemployment and poverty have been rising steeply.

The outlook remains uncertain. A further deep contraction of 22.0 per cent is expected in 2020 as the result of the ongoing economic crises, the default on debt repayments, the Covid-19 crisis and the associated containment measures, in addition to fallout from the August 2020 explosion in the port of Beirut, which caused enormous damage and extensive loss of life. A recovery in 2021 is contingent on the government embarking on a comprehensive IMF-supported economic reform programme envisaging debt restructuring, which might lead to increased international support and follow-up on the commitments made at an earlier donor conference, CEDRE. Any delay in the implementation of reforms may lead to a fourth successive year of deep GDP contraction.

Morocco

The economy in Morocco contracted in the first half of 2020, with stagnant growth in the first quarter and a 13.8 per cent contraction (year-on-year) in the second quarter, because of the Covid-19 crisis and related containment measures. A sharp decline in activity in the lockdown-affected sectors such as retail, tourism, restaurants and construction was compounded by the continued contraction in agriculture because of a drought during the early planting season. Inflation remained low, averaging 0.5 per cent year-on-year in the first seven months of 2020, due to a drop in prices of food and transport. GDP is expected to contract by 5.0 per cent in 2020, before rebounding in 2021, with a growth rate of 3.5 per cent. The projections reflect a sharp decline in tourism, measures to contain the spread of Covid-19, as well as a likely poor harvest, recession in Europe, and low commodity prices. Downside risks include slower-than-expected recovery in the main trading partners in Europe, social distancing remaining in place for longer than anticipated in the context of a rise in Covid-19 cases and the continued vulnerability of agricultural production to adverse weather and fluctuations in agricultural commodity prices.

Tunisia

GDP in Tunisia contracted by 11.4 per cent year-on-year during the first half of 2020, because of the Covid-19 crisis and related containment measures. The largest contractions were observed in the tourism, transport, public administration, manufacturing, construction, textiles and trade sectors. Meanwhile, the agriculture and the food processing sectors posted strong growth, thanks to a record-breaking olive oil harvest in 2019-20. Inflation has fallen, reflecting a slowdown in food and transport price increases, but remains relatively high, at 5.4 per cent year-on-year in August 2020. GDP is projected to contract by 8.0 per cent in 2020, with growth picking up to 4.0 per cent in 2021. The economy is being held back by the implications of the Covid-19 containment measures, both domestic and those applied in Tunisia's main trading partners in Europe and affecting supply chains. The weak outlook in the tourism and transportation sectors is compounded by an expected contraction in agriculture due to poor rainfall, and a decline in global foreign direct investment flows. On the other hand, relatively low oil prices could support the economy, subject to political and policy stability. Downside risks include slower-than-expected recovery in the main trading partners in Europe, social distancing remaining in place for longer than anticipated in the context of a rise in Covid-19 cases, and further delays in implementation of structural reforms.

Turkey

Significant policy loosening and credit growth enabled the Turkish authorities to engineer a consumption-led recovery in 2019 (after recession in 2018) but the impact of the Covid-19 pandemic saw the economy move back into recession in the first half of 2020. The economy contracted by 9.9 per cent year-on-year in the second quarter of 2020 as the combined impact of a huge contraction in external demand, domestic lockdowns and supply chain restrictions caused the services and manufacturing sectors to suffer heavily and exports to collapse. Leading indicators suggest that the real economy has bottomed out and is recovering, as of September 2020, but this nascent recovery could be threatened by a resurgence in the pandemic.

The authorities had succeeded in generating relative macroeconomic stability over the past year but this stability is looking increasingly fragile. Continued stimulus, particularly in the form of huge credit growth, amounting to 25 per cent in the first half of 2020, has drawn in imports, causing the current account to move back into deficit. The widening current account deficit and continued large external financing requirement in the context of a critically low level of foreign exchange reserves has given investors cause for concern. Moreover, weak external demand means the ongoing weakening of the lira has had only a limited impact on exports. The positive impact on the current account of recent discoveries of natural gas reserves in the Black Sea will only be seen in the medium term.

Although inflation has been steady in lower double digits for some time, there are concerns about inflationary pressures owing to the fact that rate cuts amounting to a cumulative 1375 basis points since July 2019 have pushed Turkey's real policy rates into negative territory. The Central Bank's attempts to avoid politically-difficult rate hikes had compounded investor anxiety and, given the economy's dependence on foreign capital, put further downward pressure on the lira, which has weakened by 25 per cent against the US dollar so far this year, reaching historic lows. September's 200 basis point policy rate increase was welcome, but its impact remains to be seen.

The contractions in the real economy, notably the tourism, retail and export sectors, are likely to put further stress on the already strained asset quality of banks, particularly in light of the large foreign-exchange-denominated debt overhang in the corporate sector. The government has recently curtailed its efforts to spur bank lending but the unprecedented credit growth in the first half of 2020 may lead to further asset quality deterioration down the road.

Growth has been heavily impacted by the coronavirus pandemic in 2020. GDP is expected to contract by 3.5 per cent in 2020, followed by a robust recovery to 5.0 per cent growth in 2021. There are significant risks surrounding this forecast, which is heavily dependent on success in containing the pandemic and thus boosting both domestic and external demand.

Western Balkans

The Western Balkans region is experiencing a sharp recession in 2020, with GDP projected to fall by 5.1 per cent. There will likely be some recovery in 2021, with growth of 3.4 per cent forecast, but GDP levels next year are set to stay below those of 2019. The Covid-19 crisis is affecting the economies in the region through different channels. While Albania and Montenegro, with their strong reliance on tourism, are being mainly affected by restrictions on domestic and international travel, other countries are being hit through the disruption to global supply chains. Some countries are also seeing a decline in remittances and FDI inflows, which will act as a drag on growth.

Albania

The Covid-19 pandemic is affecting the Albanian economy primarily through its negative effect on tourism, which normally contributes to more than a fifth of the country's GDP. According to the Albanian Tourism Union, around 5 million overnight stays during the summer season have been cancelled this year. Also, goods exports to Italy, Albania's main trading partner, fell by more than 40 per cent year-on-year during the most severe lockdown (March to May 2020), and by 15 per cent year-on-year in June-July. Overall, total exports of goods in the first seven month of 2020 were 17 per cent lower in year-on-year terms. The decline in remittances, which decreased by almost one fifth in the first half of 2020 versus the same period of 2019, has dampened private consumption. By end-August 2020, the government had adopted two economic support packages, worth 2.8 per cent of GDP. The packages consisted mainly of increased government expenditures to support businesses, sovereign guarantees and one-off social transfers. Monetary policy responded by policy rate cuts, to the record low of 0.5 per cent, while foreign exchange market interventions at the end of March 2020 sought to mitigate depreciation pressures. By mid-2020 public debt stood at 80 per cent of GDP, 14 percentage points higher than at the end of 2019. Taking everything into account, Albania's GDP is projected to contract by 9.0 per cent in 2020, rebounding by 4.5 per cent in 2021, supported by reconstruction after the earlier earthquake. These forecasts assume no major resurgence of the pandemic.

Bosnia and Herzegovina

GDP growth in Bosnia and Herzegovina, which slowed already in 2019, decelerated further in the first quarter of 2020, to 2.0 per cent year-on-year. While GDP figures for the second quarter are not yet available, other data point to a steep economic decline. The manufacturing sector has been hit seriously by the Covid-19 pandemic and saw its output falling by 12 per cent year-on-year in the first seven months of the year. Certain industries, such as base metals and manufacturing of furniture, decreased their output by more than 30 per cent year-on-year in the same seven-month period. The tourism sector has also been severely affected: in July 2020, foreign tourist arrivals were more than 80 per cent lower than in July 2019. Because of the pandemic, remittances are also expected to decline. Inflation has been negative in year-on-year terms since April 2020, as a consequence of a fall in transport, clothes and footwear prices, and the entity governments' decisions to restrict margins on certain products during the emergency situation. As a response to the crisis, the governments have adopted a set of measures aimed to mitigate the impact of the crisis on individuals and firms. GDP is forecast to fall by 5.0 per cent in 2020 and grow by 3.0 per cent in 2021. Risks to the projection are weighted on the downside, related to the potential resurgence of the epidemic, a possibly slower-than-expected recovery in the main export markets in the Eurozone, and uncertainty about progress in terms of implementation of the country's structural reform agenda.

Kosovo

With the onset of the pandemic, the GDP growth rate in Kosovo slowed to 1.3 per cent year-on-year in the first quarter of 2020, from 4.2 per cent in 2019. The slowdown came primarily on the back of falling investments (down 9 per cent year-on-year) and construction (down 12 per cent). In contrast, goods exports performed surprisingly well, growing by 20 per cent year-on-year in the first half of 2020, primarily on the back of expanding exports of base metals and chemical products. Similarly, remittances inflow stayed strong, up 10 per cent year-on-year in the first seven months of 2020. Annual inflation turned negative in July 2020, driven by the weak demand owing to the lockdown measures. The unemployment rate fell slightly in the first quarter of 2020, to 25 per cent, but may have increased since. In April 2020, the government adopted an emergency relief package that supported employment, municipalities and people in need. In June, the new government approved a medium term economic recovery package covering the period 2020-2023 and aiming to facilitate access to finance, reduce tax burden, support employment, agriculture as well as public enterprises. After a GDP contraction of 5.0 per cent in 2020 a rebound of 4.0 per cent is expected in 2021, with domestic demand continuing to be the main growth driver. The risks to the projection are on the downside as the epidemic may intensify again. Further risks relate to the persistent weaknesses in the area of public investment management and the slower-than-anticipated recovery in key trading partners in the EU.

Montenegro

GDP growth in Montenegro eased to 2.7 per cent year-on-year in the first quarter of 2020 (from 3.6 per cent in 2019), mainly on the back of falling exports of goods and services. On the other hand, investments and household consumption picked up somewhat. The pandemic has badly hit tourism: overnight stays by foreign tourist declined by 85 per cent year-on-year in the first seven months of the year. As the majority of tourists visit the country during the summer months. The collapse in tourism will weigh severely on GDP, to which tourism normally contributes around one-fifth. In the second quarter of 2020, the economy entered deflation, with annual inflation averaging -0.7 per cent in April-June 2020. Government measures to mitigate the consequences of Covid-19 for individuals and firms, focusing on maintaining the liquidity of companies, protecting jobs and supporting vulnerable groups, could drive public debt to 90 per cent of GDP by the end of 2020, from close to 80 per cent of GDP at the end of 2019. GDP is expected to fall by 9.0 per cent in 2020, but recover by 5.0 per cent in 2021. Downside risks are significant, related to the possibility of social distancing being maintained well into 2021.

North Macedonia

After growing at 3.6 per cent in 2019, North Macedonia's GDP declined by 6.3 per cent year-on-year in the first half of 2020, with sharp contractions in industry, trade, transport and tourism. On the expenditure side, government consumption recorded growth, while private consumption, investments, exports and imports all contracted strongly. At the same time, workers' remittances grew by 35 per cent year-on-year. The unemployment rate increased in the second quarter of 2020, to 16.2 per cent, but stayed below the 2019 level (17.3 per cent). Inflation remained subdued, averaging 0.7 per cent year-on-year in the first seven months of 2020. Lockdown measures and lower external demand have resulted in government revenue shortfalls, while spending on health, economic subsidies and social transfers is set to be higher than budgeted, only partially offset by lower capital expenditure. As a consequence, the general government deficit and debt are projected to increase significantly in 2020. In June 2020, general government debt stood at 51 per cent of GDP (10 percentage points higher than at the end of 2019), while government guarantees amounted to another 8 per cent of GDP. GDP is projected to contract by a 5.0 per cent in 2020, with growth recovering to 3.0 per cent in 2021. A faster recovery is possible but, on balance, risks to the projection are tilted to the downside. They are primarily related to social distancing being maintained for longer than expected.

Serbia

GDP growth was strong in the first quarter of 2020, at 5.0 per cent year-on-year, driven by consumption, government expenditure and investment. At the same time, exports growth softened to 3.1 per cent year-on-year, the slowest quarterly rate since 2014. The second quarter of 2020 saw a fall in economic activity of 6.5 per cent year-on-year on the back of stringent lockdown measures, bringing overall growth in the first half of 2020 to -0.6 per cent year-on-year. The impact of Covid-19 is less severe than in some peer countries, partly because of the high contribution of manufacturing of basic products to the overall output. FDI and workers' remittances both fell by about one-quarter year-on-year in the first half of the year. Inflationary pressures have remained subdued, with the inflation rate averaging 1.5 per cent year-on-year in the first seven months of 2020. Between March and June 2020, the central bank lowered the key policy rate by a cumulative 100 basis points, to a historical low of 1.25 per cent. The central bank also intervened in the foreign exchange market, with net sales of €1.4 billion in the first seven months of 2020. The exchange rate against euro has remained stable. Government measures to fight the effects of Covid-19 have focused mainly on preserving employment and increasing liquidity for companies, but the cost of these measures has driven public debt to 58 per cent of GDP by mid-2020, around five percentage points higher than at the end of 2019. Overall, GDP is expected to decline by 3.5 per cent in 2020, recovering by 3.0 per cent in 2021. However, risks are weighted to the downside, especially if stricter social distancing measures are implemented in Serbia and in key trading partners.

About this report

The 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, see the EBRD's country strategies and updates, as well as the Transition Report 2019-20, which are all available on the Bank's website at www.ebrd.com.

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