



European Bank
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REGIONAL ECONOMIC PROSPECTS

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2021

**BITTERSWEET
RECOVERY**



Regional Economic Prospects in the EBRD Regions



Bittersweet recovery

November 2021

Output in the EBRD regions contracted by 2.4 per cent in 2020 owing to the Covid-19 crisis. In 2021, a recovery has been gathering pace. Output in the EBRD regions expanded by 6.4 per cent year-on-year in the first half of 2021, as people's mobility returned to the levels of January-February 2020 and external conditions have turned more favourable.

Mobility in the EBRD regions recovered earlier than globally and the pick-up in the rate of Covid-19 infections in Autumn 2021 has had a more limited negative impact on mobility than during the earlier spikes in Covid-19 cases. Industrial production and retail sales have rebounded. Exports of goods and services have increased, despite supply chain disruptions. Remittances have also increased in the second quarter of 2021 in some cases exceeding their 2019 levels. Tourist arrivals exceeded expectations in 2021 but remain significantly below their 2019 levels in most economies in the EBRD regions.

While these are encouraging developments, the recovery is bittersweet. High prices of natural gas, oil and other commodities weigh on the trade balances of energy importers, in particular in the southern and eastern Mediterranean. They may also test the public's resolve for greening and put pressure on governments to step in to mitigate the burden of higher energy expenses on low-income households.

High energy prices, supply chain disruptions and in some cases currency depreciations have also pushed inflation up. In some economies, tight labour markets have added to inflationary pressures, with a strong rebound in vacancies in lower-medium skilled occupations such as drivers or craftsmen and strong wage growth. On average, inflation exceeded its end-2019 levels by 3 percentage points. In response, a number of central banks in the EBRD regions have hiked policy interest rates.

In other economies considerable slack in labour markets remains. Unemployment in the EBRD regions increased by 1.4 percentage points on average between February and August 2020, while labour force participation fell, by 0.5 of a percentage point on average.

Fiscal vulnerabilities increased as governments implemented large stimulus packages in response to the Covid-19 crisis. Public debt in the EBRD regions increased by an average of 13 percentage points of GDP since end-2019. While borrowing costs remain below their pre-crisis levels in most economies, they have risen sharply in some countries.

Output in the EBRD regions is expected to grow by 5.5 per cent in 2021 (an upward revision from 4.2 per cent expected in June 2021), reflecting better-than-expected outturns in the first half of the year. Mobility indicators also point to continued growth momentum in the third

quarter. In 2022, as economies recover, growth is expected to moderate somewhat, to 3.8 per cent in the EBRD regions. This is 0.1 percentage point lower than expected in June 2021 reflecting the earlier-than-expected recovery in many economies including Turkey.

Forecasts are subject to high uncertainty reflecting risks associated with the future path of Covid-19 infections, possible worsening of external conditions and weaker growth in trading partners. More widespread inflationary concerns may bring forward policy tightening in advanced economies, making debt burdens more expensive to service. Travel restrictions and lingering fears of contagion continue to weigh on the outlook for the tourism sector. While bankruptcies have so far remained contained, further vulnerabilities may surface once policy support is reduced.

Output in **central Europe and the Baltic states** is expected to increase by 5.2 per cent in 2021 and 4.7 per cent in 2022, reflecting better-than-expected outturns in the first half of 2021, though supply chain disruptions weighed on growth in some economies.

GDP in the **south-eastern European Union** is expected to grow by 6.7 per cent in 2021 and 4.3 per cent in 2022. These figures reflect a significant upward revision to growth in Greece on the back of a strong tourism season, though tourist arrivals remain below their 2019 levels.

Output in the **Western Balkans** is expected to grow by 6.4 per cent in 2021 and 4 per cent in 2022. This region, too, saw significant upward revisions to the 2021 forecasts reflecting better-than-expected outturns in the first half of the year, including in the tourism sector, as well as strong export demand from the EU market.

Output in **Russia** is expected to grow by 4.3 per cent in 2021 and 3 per cent in 2022, boosted by social spending programmes facilitated by higher commodity revenues.

The outlook has also been revised up for economies in **eastern Europe and the Caucasus**. Output is expected to grow by 3.6 per cent in 2021 and 2.9 per cent in 2022, reflecting strong outturns in the first half of the year, though with signs of momentum slowing in the third quarter.

Economies in **Central Asia** are expected to grow by 4.9 per cent in 2021 and 4.8 per cent in 2022 on the back of higher commodity prices and recovering remittances.

Turkey's economy is expected to grow by 9 per cent in 2021 and 3.5 per cent in 2022, supported by the post-lockdown rebound in domestic demand and strong exports benefitting from the weak lira. Risks to macroeconomic stability have, however, increased.

Output in the **southern and eastern Mediterranean** is expected to grow by 4.2 per cent in 2021 and 4.4 per cent in 2022, reflecting strong pick-up in economic activity in Egypt, in particular in the second quarter of 2021.

Table 1. Real GDP growth, in per cent per annum							
	Actual		Forecasts (REP Nov '21)		Revision since Jun '21		Q4 '19 income pc reached
	2020	2021 H1	2021	2022	2021	2022	
EBRD Regions	-2.4	6.4	5.5	3.8	1.3	-0.1	'21 Q1
Central Asia	-1.6	4.1	4.9	4.8	0.4	0.3	'21 Q4
Kazakhstan	-2.6	2.4	3.6	3.8	0.0	0.0	'21 Q4
Kyrgyz Republic	-8.6	-1.7	2.5	5.0	-4.1	0.4	'23+
Mongolia	-5.3	6.3	6.1	6.5	-0.2	0.5	'21 Q4
Tajikistan	4.5	8.7	6.5	6.2	0.0	0.2	'20 Q3
Turkmenistan	-3.4	6.1	6.3	5.5	1.7	2.0	'21 Q4
Uzbekistan	1.7	6.2	6.8	6.0	1.2	0.0	'20 Q4
Central Europe and the Baltic states	-3.7	5.1	5.2	4.7	0.4	0.1	2021
Croatia	-8.0	7.5	8.0	4.2	2.0	-0.3	'22
Czech Republic	-5.8	3.0	3.4	4.6	-0.6	0.8	'22
Estonia	-3.0	8.5	9.0	4.0	6.0	-0.5	'21 Q1
Hungary	-5.0	7.6	7.7	4.8	2.2	0.0	'21 Q2
Latvia	-3.6	5.2	4.5	5.5	1.0	0.0	'21 Q2
Lithuania	-0.1	5.0	4.5	4.0	1.5	0.0	'21 Q2
Poland	-2.5	4.6	4.9	4.8	-0.1	0.0	'21 Q2
Slovak Republic	-4.8	4.9	4.0	5.0	-0.5	0.0	'22
Slovenia	-4.2	8.8	6.0	4.5	1.0	0.5	'21 Q4
Eastern Europe and the Caucasus	-3.7	3.2	3.6	2.9	0.8	-0.1	'22
Armenia	-7.4	4.9	5.0	5.3	1.0	0.3	'22
Azerbaijan	-4.3	2.1	4.0	3.2	2.0	0.7	'22
Belarus	-0.9	3.5	2.0	0.2	1.5	-0.3	'21 Q1
Georgia	-6.2	12.7	7.5	5.5	3.0	0.0	'21 Q2
Moldova	-7.0	11.7	7.0	4.0	2.5	0.0	'21 Q1
Ukraine	-4.0	1.8	3.5	3.5	0.0	0.0	'22
Russia	-3.0	4.0	4.3	3.0	1.0	0.0	'21 Q2
South Eastern EU	-5.5	6.4	6.7	4.3	1.5	-0.7	'21 Q2
Bulgaria	-4.2	3.1	4.2	4.4	-0.3	0.4	'21 Q2
Greece	-9.0	7.0	7.0	3.9	3.0	-1.6	'22
Romania	-3.9	7.0	7.2	4.4	1.2	-0.6	'21 Q1
Southern and Eastern Mediterranean	-1.9	5.6	4.2	4.4	0.7	-0.2	'21 Q1
Egypt	1.5	5.3	5.3	5.0	1.1	-0.2	'20 Q4
Jordan	-1.6	1.8	1.5	2.2	0.0	0.0	'22
Lebanon	-25.0		-10.0	3.0	-5.0	-2.0	'23+
Morocco	-6.3	7.6	5.0	3.2	0.5	-0.3	'23+
Tunisia	-9.3	5.9	2.5	3.3	-0.2	0.4	'23+
Turkey	1.8	14.5	9.0	3.5	3.5	-0.5	'20 Q3
Western Balkans	-3.1	8.0	6.4	4.0	1.3	0.2	'21 Q1
Albania	-3.3	11.7	8.0	3.7	3.5	-0.3	'21 Q4
Bosnia and Herzegovina	-3.2	7.1	4.5	3.0	1.0	0.0	'21 Q1
Kosovo	-5.3	10.3	7.7	4.5	3.7	-0.5	'21 Q4
Montenegro	-15.3	6.3	12.3	5.7	3.8	-0.3	'22
North Macedonia	-4.5	5.6	4.0	4.0	0.0	0.0	'22
Serbia	-0.9	7.7	6.5	4.3	0.5	0.8	'21 Q1
Memo: Egypt (fiscal year ending June)	3.6	1.3	3.3	4.9	0.8	0.4	'20 Q4
Memo: EBRD excl. Turkey	-3.2	4.7	4.7	3.9	0.8	-0.1	'21 Q4

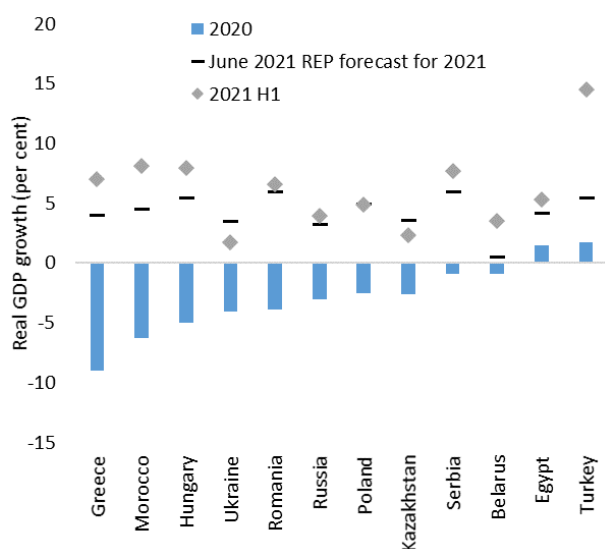
Note: Weights are based on the values of gross domestic product at purchasing power parity.

Output in the EBRD regions increased by 6.4 per cent in the first half of 2021

Output in the EBRD regions contracted by 2.4 per cent in 2020 owing to the Covid-19 crisis.

In 2021, a recovery has been gathering pace. Output in the EBRD regions expanded by 6.4 per cent year-on-year in the first half of 2021 (4.7 per cent excluding Turkey; see Table 1 and Chart 1). Higher-frequency indicators point to similar patterns: industrial production and retail sales have rebounded.

Chart 1. Output in the EBRD regions increased by 6.4 per cent in the first half of 2021



Sources: CEIC, national authorities, June 2021 REP forecasts and authors' calculations.

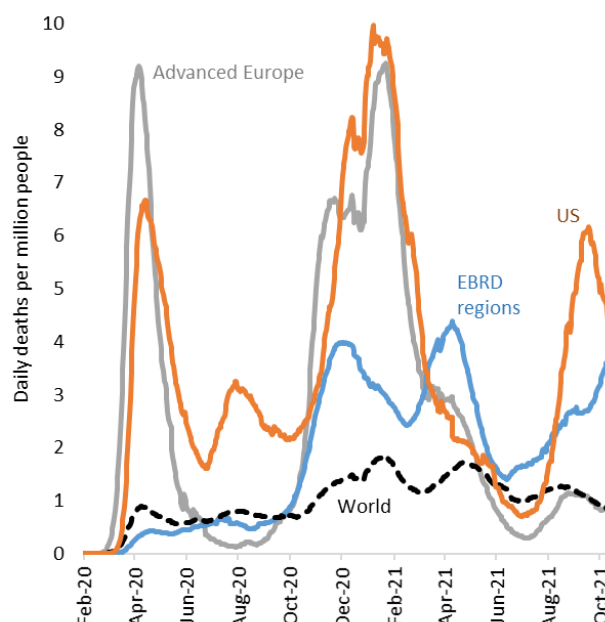
Notes: Selected economies in the EBRD regions.

External factors have also mostly improved. Despite supply chain disruptions, global trade increased sharply in 2021—exports of goods and services in the EBRD regions have also rebounded. Remittances have picked up in the second quarter of 2021 and in some economies already exceed their 2019 levels in US dollar terms. Tourism has so far exceeded expectations in 2021 in many economies. Notwithstanding the rebound, tourist arrivals stood at 60 to 85 per cent of their 2019 levels in many economies (and were substantially lower in the southern and eastern Mediterranean).

Covid-19 deaths spiked recently in the EBRD regions

Officially reported deaths from Covid-19 in the EBRD regions spiked in November 2020 and April 2021, with central, eastern and south-eastern Europe especially hard hit (see Chart 2). In Autumn 2021, daily deaths started to rise again in a number of economies, with deaths per million in the EBRD regions exceeding the global average by a factor of four. Death rates per million have been particularly high in Bulgaria, Montenegro and Romania.

Chart 2. Daily Covid-19 deaths per million people in the EBRD regions now exceed the world average by a factor of four

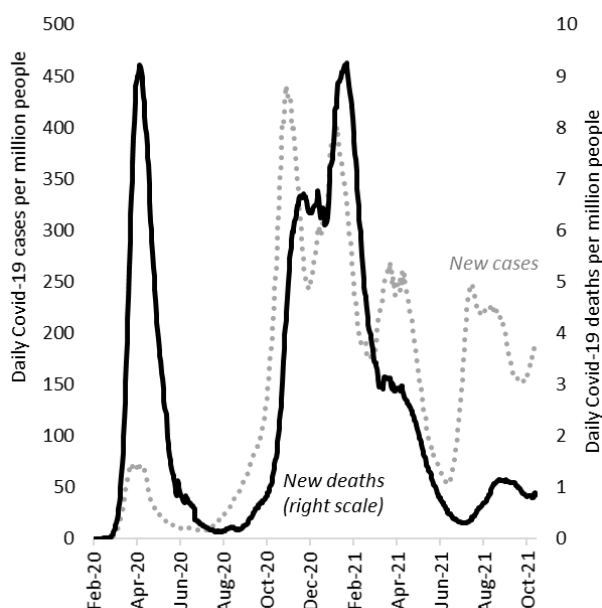


Sources: Our World in Data based on John Hopkins University and authors' calculations.

Note: 2-week moving average; population-weighted. Last observation refers to 19 October 2021. Advanced Europe includes 18 economies. EBRD regions is based on 36 economies.

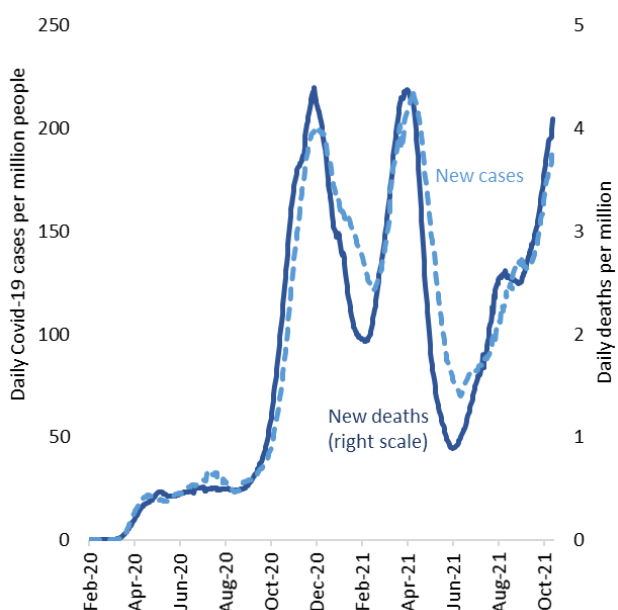
While in advanced economies in Europe the mortality rate has remained relatively low despite the pick-up in Covid-19 cases, in the EBRD regions the mortality and infection rates have been moving in tandem (see Charts 3 and 4).

Chart 3. In advanced economies in Europe mortality remained low despite the recent pick-up in cases



Sources: Our World in Data based on John Hopkins University and authors' calculations.
Notes: 2-week moving averages, population-weighted. Last observation refers to 19 October 2021. Advanced economies in Europe includes 18 economies. The initial spike in deaths relative to cases could reflect limited testing in the early months of the pandemic.

Chart 4. In the EBRD regions, mortality has picked up in line with increasing case numbers



Sources: Our World in Data based on John Hopkins University and authors' calculations.

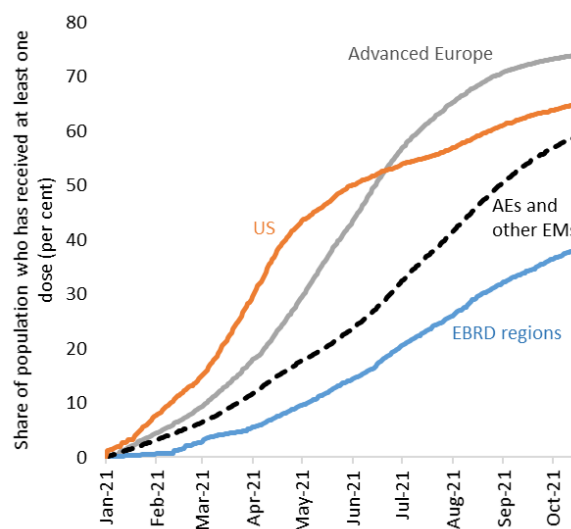
Notes: 2-week moving averages, population-weighted. Last observation refers to 19 October 2021. EBRD regions includes 36 economies.

Vaccination rates have started to slow in the EBRD regions

These patterns may in part reflect differences in vaccination rates. Vaccinations have progressed across the EBRD regions although the rates remain below the levels seen in many advanced economies and emerging markets (see Chart 5). In the EBRD regions, 38 per cent of the population (of all ages) received at least one dose of a vaccine as of mid-October 2021, compared with 74 per cent in advanced economies in Europe. In some economies vaccination rates are significantly higher: in Greece, Hungary, Lithuania, Mongolia, Morocco and Turkey over 60 per cent of residents have received at least one dose of a vaccine.

In general, vaccination rates are higher in richer economies. While they also tend to be higher in economies with higher levels of trust, this effect is no longer statistically significant when controlling for GDP per capita.

Chart 5. Vaccinations have progressed



Sources: Our World in Data based on John Hopkins University and authors' calculations.
Notes: Last observation refers to 19 October 2021. Population-weighted averages. AEs and other EMs includes 37 advanced economies and 64 other emerging markets.

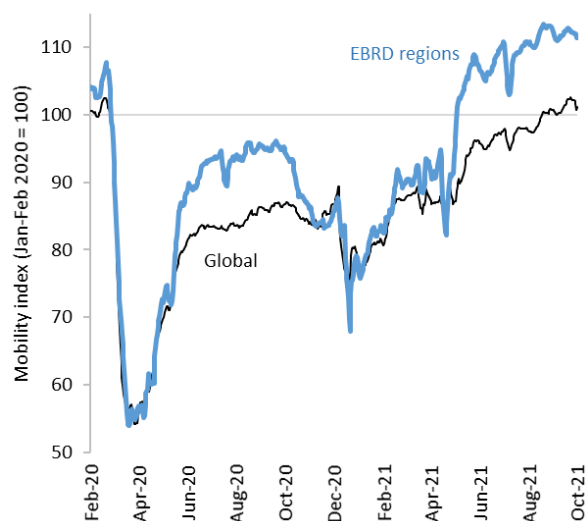
The pace of vaccination rollouts started to slow in most economies, with the exception of the southern and eastern Mediterranean and Turkey. This reflects a combination of vaccine hesitancy and logistical issues, in particular when it comes to reaching out to rural areas and poorer segments of the populations.

Mobility in the EBRD regions recovered to its pre-pandemic level in May 2021

Google Analytics data suggest that people’s mobility in the EBRD regions (including trips to grocery stores, places of recreation, transit stations and work places) was higher than the global average throughout most of the pandemic (see Chart 6). It recovered to its pre-pandemic level in May 2021, while global average mobility only reached its January-February 2020 benchmark in September 2021. In several economies in the EBRD regions, mobility has been consistently higher than levels seen in advanced economies (see Chart 7).

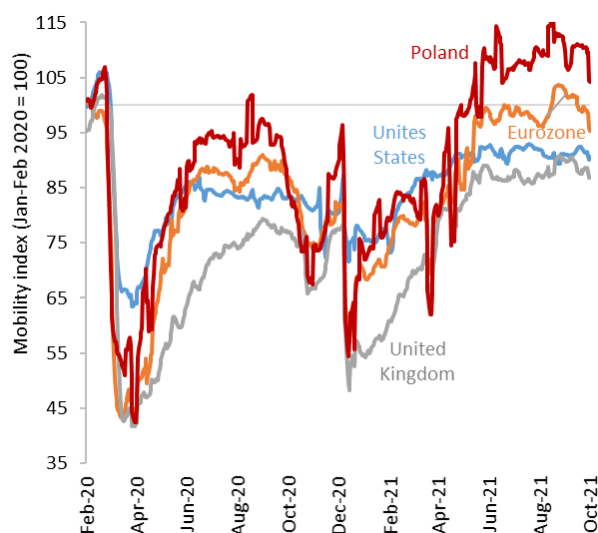
Mobility has been a useful benchmark for economic activity given the reliance of many services on personal contact. As a rule of thumb, a ten per cent drop in mobility has been associated with a two percentage point reduction in economic growth, although mobility comparisons are complicated by lack of historical data on seasonal patterns.¹ For instance, mobility could naturally be expected to be higher over the summer, in particular in tourism-dependent economies.

Chart 6. Mobility in the EBRD regions has recovered to pre-pandemic levels



Sources: Google Analytics and authors’ calculations. Note: The mobility index is a weighted average of Google Mobility indices of trips to work places, recreation, grocery stores and transit station with country-specific weights (inversely proportional to the variability of each measure). Based on 7-day moving averages where January-February 2020 = 100. EBRD regions is based on 28 economies.

Chart 7. In some economies in the EBRD regions mobility fell less and recovered more than in advanced economies



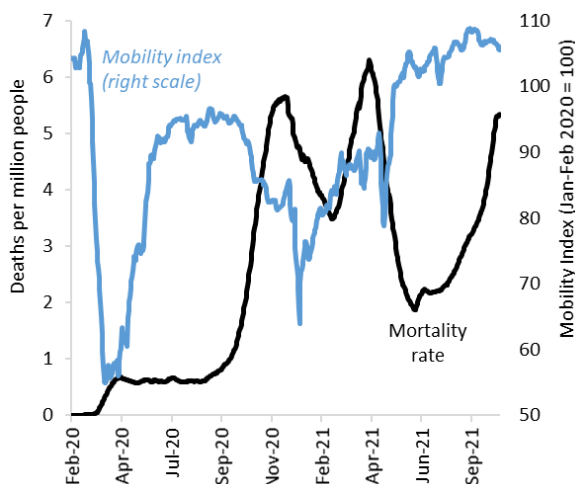
Sources: Google Analytics and authors’ calculations. The mobility index is a weighted average of Google Mobility indices of trips to work places, recreation,

¹ See also Gamtkitsulashvili and Plekhanov (2021).

grocery stores and transit station with country-specific weights (inversely proportional to the variability of each measure). Based on 7-day moving averages where January-February 2020 = 100.

During 2020 and the first half of 2021, increases in Covid-19 deaths were associated with a significant fall in mobility in most of the EBRD regions, in particular in central, eastern and south-eastern Europe (see Chart 8), reflecting both government regulations and voluntary social distancing. In contrast, the recent increase in mortality has so far been accompanied by a more limited moderation in mobility. Some social distancing measures started being reintroduced. In Russia, for instance, a paid nonworking period has been announced, with effect from 30 October 2021.

Chart 8. Mobility has become less sensitive to rising Covid-19 deaths in the EBRD regions



Source: Google Analytics, Our World in Data and authors' calculations.

Note: Mobility index is a weighted average of Google Mobility indices of trips to work places, recreation, grocery stores and transit station with country-specific weights (inversely proportional to the variability of each measure). Based on 7-day moving averages where January-February 2020 = 100. The mortality rate is based on a population-weighted 2-week moving average. Based on 28 economies in the EBRD regions.

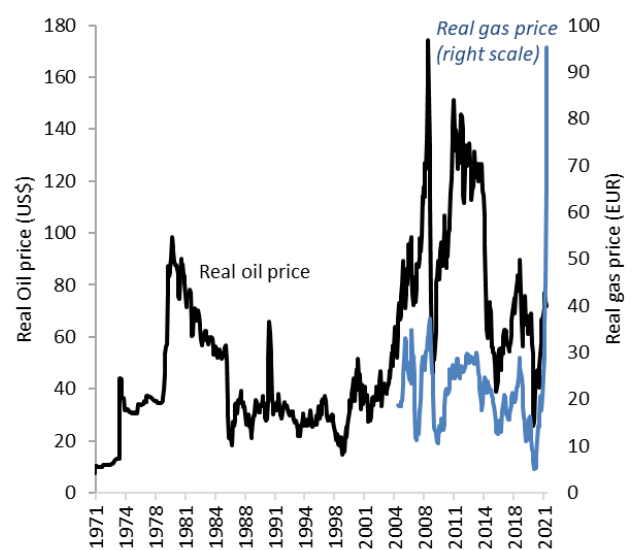
Rising energy prices

The first few months of the Covid-19 crisis saw sharp drops in commodity prices as economic activity collapsed.

Commodity prices have subsequently rebounded on the back of strong demand for manufactured goods and construction and, in part, a period of lower investment in fossil fuels in anticipation of a switch to greener technologies. Some commodity prices significantly exceed their pre-pandemic levels.

The price of Brent oil reached around US\$ 80 per barrel in mid-October 2021, though remains below its historic highs (see Chart 9).

Chart 9. Oil prices rebounded but unlike gas prices they remain below their historic highs



Sources: Refinitiv Eikon and authors' calculations.

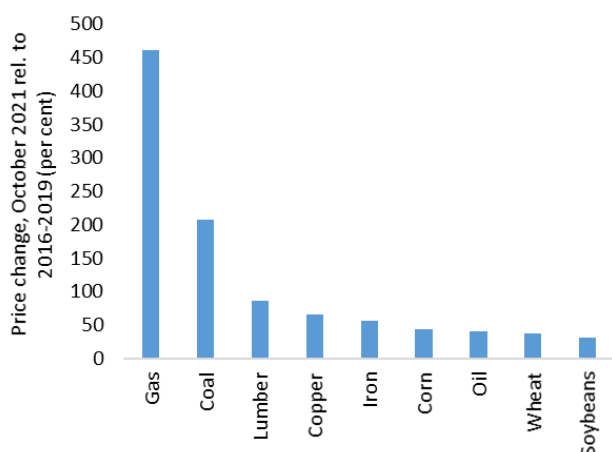
Notes: Europe Brent spot price, US\$ per barrel. Natural gas, Euro per MWh, Dutch Title Transfer Facility.

The increase in lumber prices was the highest on record supported by the shift in consumption from services to goods during lockdowns and the increase in construction. Lumber prices increased by a factor of four relative to their pre-pandemic (2016-2019) levels. However, the sharp increase in prices has since weighed on demand and prices have come back down (see Chart 10).

In Europe gas prices rose by more than a factor of five relative to their pre-pandemic levels (see Chart 9), reflecting the global rebound and increased demand from China. The increase in gas prices seen this year is at par with the 2008 spike in oil prices, in terms of magnitude of price increases relative to historical average prices. Unlike lumber, demand for gas is relatively inelastic as gas is used for household heating, as

well as serving as a key input in industries such as fertiliser and steel. Prices could stay higher for longer as a result.

Chart 10. Energy prices exceed their pre-pandemic levels



Sources: Refinitiv Eikon and authors' calculations. Notes: Natural gas in Euro per MWh, Dutch Title Transfer Facility. Rotterdam coal in US\$ per 1000 metric tonne, ICE. Framing lumber, US\$ per thousand board feet. Copper Grade A, US\$ per metric tonne, LME. Iron ore, US\$ per metric tonne. Central Illinois corn, US\$ per bushel. Europe Brent spot, US\$ per barrel. Soft red wheat, US\$ per bushel. Yellow soybeans, US\$ per bushel. October 2021 refers to data up until 19 October 2021.

High energy prices weigh on the trade balances of commodity importers

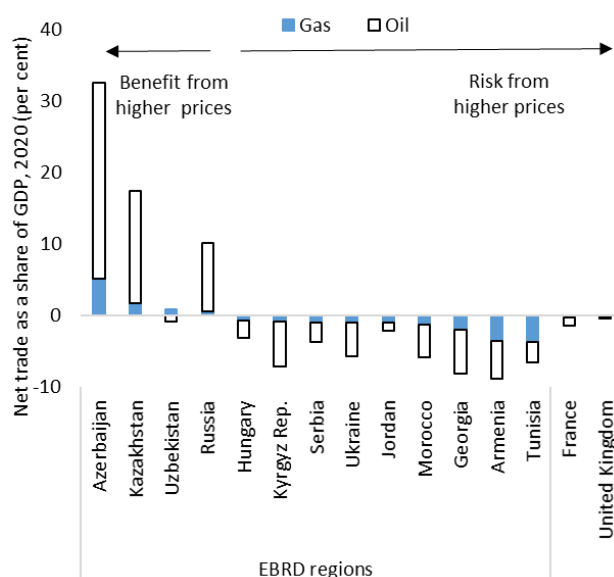
High oil and gas prices benefit commodity exporters (such as Azerbaijan, Kazakhstan and Russia), where net oil and gas trade balances often account for substantial shares of GDP.

In turn, higher prices weigh on the trade balances of importers although import costs are more evenly distributed across countries (and thus smaller) than export revenues (see Chart 11). Some commodity importers such as Armenia, Belarus and the Kyrgyz Republic also gain from stronger export demand, investment and remittances from large commodity exporters (in this case, Russia). Some economies (such as Armenia, Belarus, Bulgaria, Hungary and the Kyrgyz Republic) are also shielded from the full effects of gas price increases owing to special

agreements with Gazprom, Russia's leading exporter of gas. Trade in gas also accounts for a fraction of combined oil-and-gas trade by value (of 15 to 20 per cent).

Nonetheless, for some economies, including Morocco and Tunisia, gas imports are substantial and will become significantly costlier (though spillovers from Gulf Cooperation Council (GCC) countries benefiting from higher prices may provide some offset here, too). In Turkey, where almost all oil and gas consumed is imported, higher energy prices will restrain growth and worsen external imbalances.²

Chart 11. Higher oil and gas prices weigh on the trade balances of commodity importers



Sources: ITC Trade Center and authors' calculations. Notes: Net balance of exports and imports of crude oil and natural gas. Sorted by largest to smallest gas balance.

High commodity prices as a reflection of greening

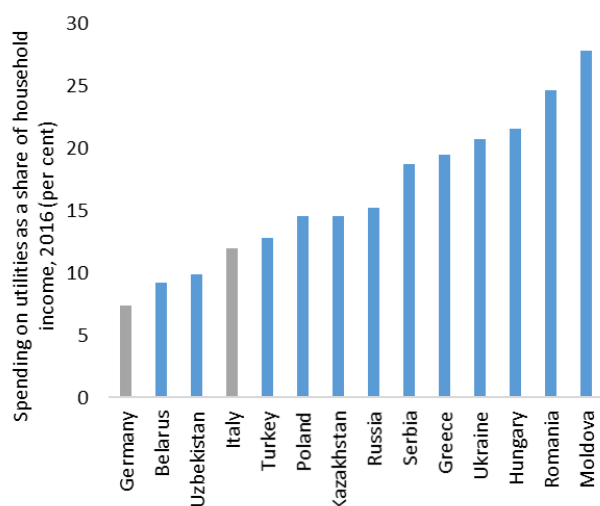
Higher energy prices in part reflect efforts to redirect investment to greener technologies. They may also provide an early test of the strength of public support for a greener future. Such support has been strong and rising in recent years globally, based on analysis drawing on the World Values Surveys, representative surveys of individuals in more than 100 economies. At the same time, in many economies in the EBRD

² See also EBRD (2021).

regions (including Egypt, Lithuania, Kazakhstan, Poland and Romania) it is lower than it was in the late 1990s.³

Utility spending accounts for substantial shares of income in the EBRD regions. Results from the 2016 round of the Life in Transition Survey, a representative household survey conducted by the EBRD in collaboration with the World Bank, suggest that utility spending in the EBRD regions averaged 17 per cent of household income, much higher than in Germany or Italy (see Chart 12). While incomes in 2016 were lower than they are today, gas and oil prices were also lower and utility subsidies were still widespread.

Chart 12. Utility spending in the EBRD regions is higher than in advanced economies



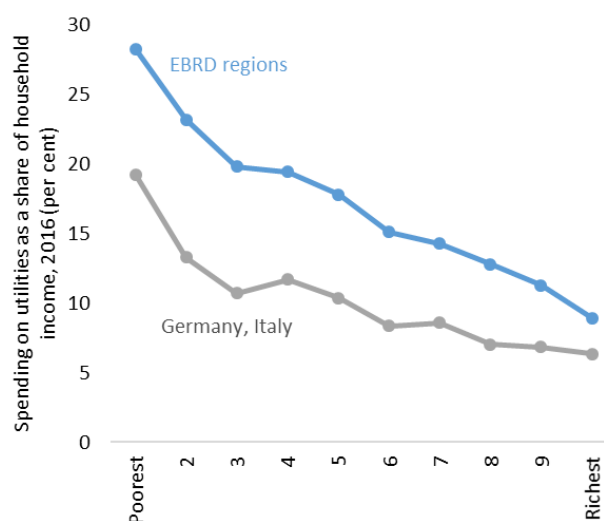
Sources: Life in Transition Survey 2016 and authors' calculations.

Notes: Expenditure on utilities (electricity, water, gas, heating, fixed telephone) as a share of household net monthly income. Selected economies in the EBRD regions.

Poorer households also spend a higher share of their income on utilities than richer households, both in the EBRD regions and in advanced economies (see Chart 13). High energy prices could thus place a disproportionate burden on lower-income families and put pressure on governments to step in to mitigate some of these effects. For instance, several countries are considering measures to support households at

risk of energy poverty,⁴ while the Czech Republic and Poland, among other countries, urged the European Council to discuss additional carbon emission allowances and a cap on energy prices.

Chart 13. Poorer households spend a larger share of their incomes on utilities



Sources: Life in Transition Survey 2016 and authors' calculations.

Notes: Expenditure on utilities (electricity, water, gas, heating, fixed telephone) as a share of household net monthly income, by income decile.

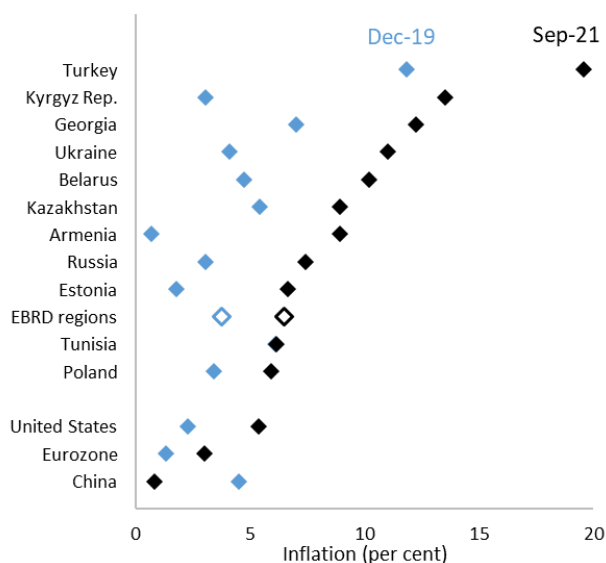
Inflation has picked up

Higher commodity prices have also pushed inflation up. In September 2021, inflation rates were, on average, 3 percentage points higher than before the pandemic (similar to the impact observed in the United States and the Eurozone; see Chart 14). On average, inflation rates in the EBRD regions reached levels last seen at the end of 2008. In some economies, such as Georgia, the Kyrgyz Republic and Turkey, inflation is in double digits.

³ See Gamtkitsulashvili and Plekhanov (Forthcoming).

⁴ See also EBRD (2021).

Chart 14. Inflation has picked up

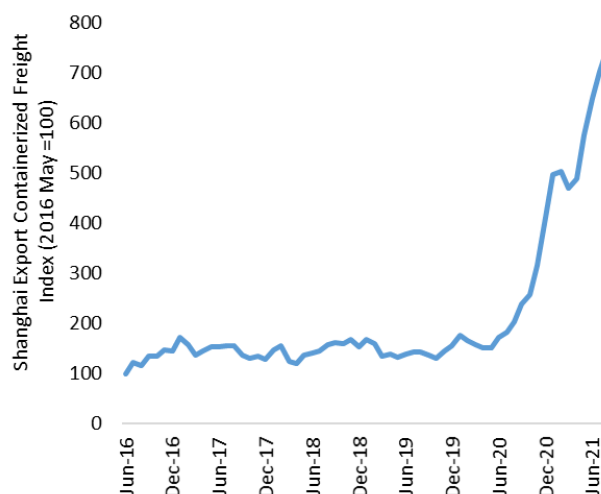


Sources: CEIC and national authorities.

Notes: Year-on-year changes. EBRD regions refers to a simple average across 31 economies with September 2021 data, excludes Lebanon. Selected economies in the EBRD regions shown.

The pick-up in inflation also reflects increased demand for manufactured goods and supply chain bottlenecks. The Shanghai Export Containerized Freight Index (capturing the costs of ocean freight transport through major container routes from Shanghai) has increased more than four-fold since early 2020 (see Chart 15). While most exchange rates have stabilised in 2021, some currencies, such as the Turkish lira, faced continued pressures, with depreciation passing through to higher domestic prices. House price growth increased rapidly, supported by higher household savings during the Covid-19 pandemic, in particular at the top of the income distribution (see Box 1).

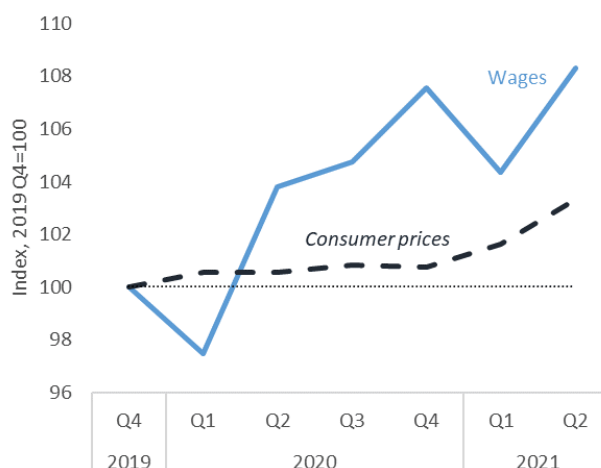
Chart 15. The costs of freight transport increased sharply



Sources: Shanghai Shipping Exchange.

In some economies, tight labour markets have added to inflationary pressures, with a strong rebound in vacancies in lower-medium skilled occupations such as drivers or craftsmen and strong wage growth (see Box 2). In a number of economies wages also contributed to rising inflation, in a pattern similar to the one observed in the United States (see Chart 16).

Chart 16. Rapid wage growth also contributed to rising inflation in the EBRD regions



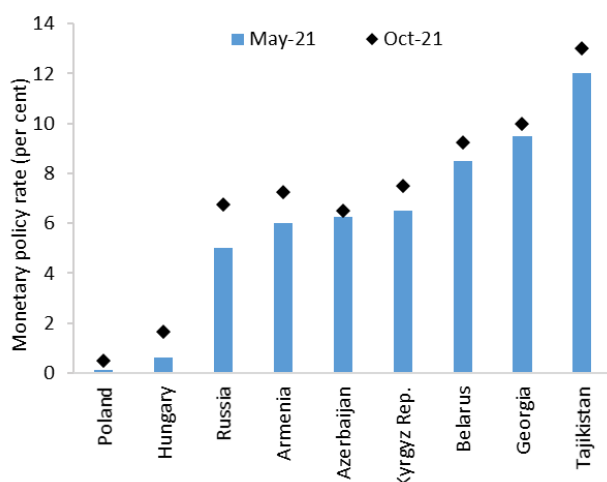
Sources: Eurostat and authors' calculations.

Notes: Consumer price index, nominal labour cost index, 2019 Q4 = 100. EBRD regions, based on 13 economies.

Some economies started tightening monetary policy

Over a quarter of central banks in the EBRD regions hiked policy interest rates between May and October 2021 in response to inflationary pressures (see Chart 17). The moves may in part reflect concerns that memories of high inflation and weaker anchoring of inflation expectations than in advanced economies could result in inflation remaining higher for longer.

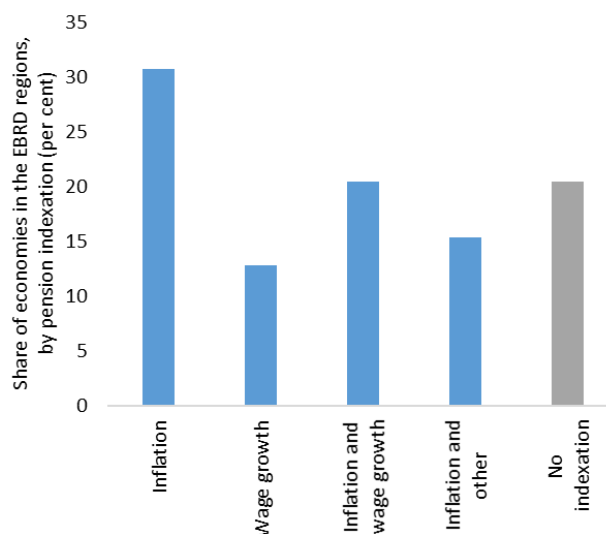
Chart 17. Some central banks started hiking rates in response to inflationary pressures



Sources: CEIC and national authorities.

Indexation of pensions and wages could further propagate the effects of rising inflation through the economy creating feedback loops between wages and prices. While the share of workers covered by trade unions and collective bargaining agreements fell sharply in the EBRD regions in the past two decades (typically even more strongly than in advanced economies), pension indexation is widespread. 80 per cent of economies in the EBRD regions index pensions to inflation, wage growth or, in some cases, GDP growth (see Chart 18).

Chart 18. Most economies in the EBRD regions index pensions to inflation and/or wage growth



Sources: National sources and authors' calculations. Notes: Inflation and other includes GDP, insurable earnings, pension contributions and living standards.

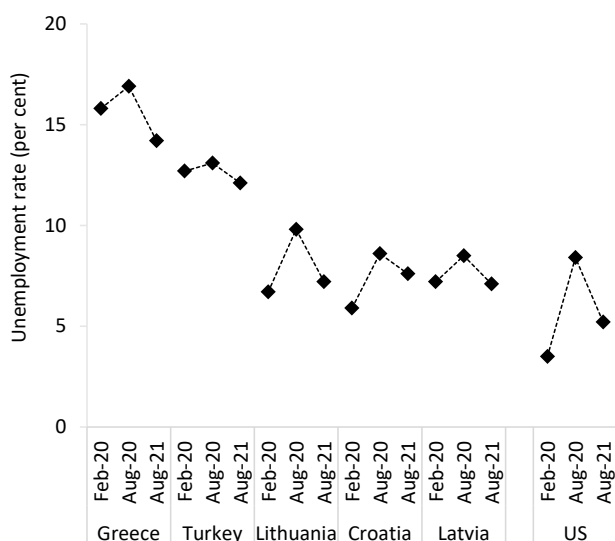
Lower labour force participation

On the other hand, in many economies substantial labour market slack remains. In Turkey, for instance, unemployment surpassed 12 per cent while inflation exceeded 19 per cent year-on-year in August 2021.

Unemployment increased by 1.4 percentage points on average in the EBRD regions between February and August 2020 (based on a sample of 13 economies with monthly data). It has come down from its peak in most economies but remained around 0.4 percentage point above its pre-pandemic level in August 2021 (see Chart 19).

The labour market effects of the crisis were highly unequal, with job losses, at least initially, concentrated among those with lower levels of education and income, while remote working arrangements benefitted primarily those with higher levels of education and income (see Boxes 2 and 3).

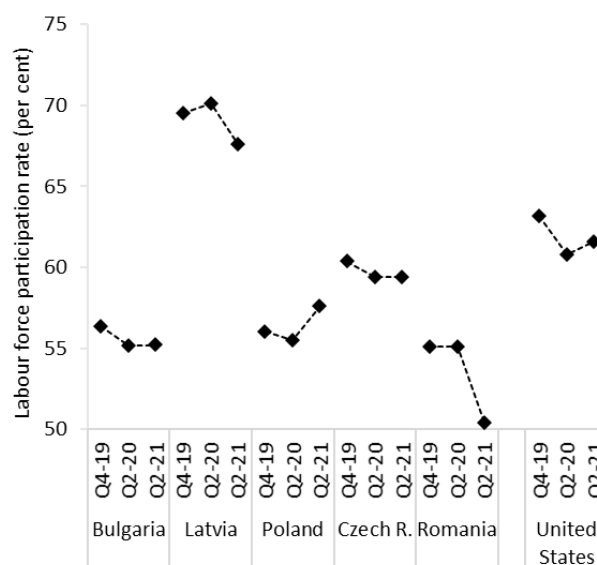
Chart 19. Unemployment increased in most economies in the EBRD regions



Sources: CEIC and national authorities.
Notes: July 2021 for Greece.

Labour force participation also fell, on average by half a percentage point in the EBRD regions between the last quarter of 2019 and the second quarter of 2020 and remained at this level in the second quarter of 2021 (simple average across 11 economies with quarterly data; see Chart 20). In some economies, such as Romania, it remains almost 5 percentage points below its pre-pandemic level. Analysis based on a subset of 10 economies in the EBRD regions with monthly unemployment and quarterly labour force participation statistics suggests that increasing unemployment and declining labour force participation went hand in hand. More recently, labour force participation has picked up in some economies in central Europe, now exceeding its pre-pandemic level.

Chart 20. Labour force participation fell by 0.5 of a percentage point in the EBRD regions

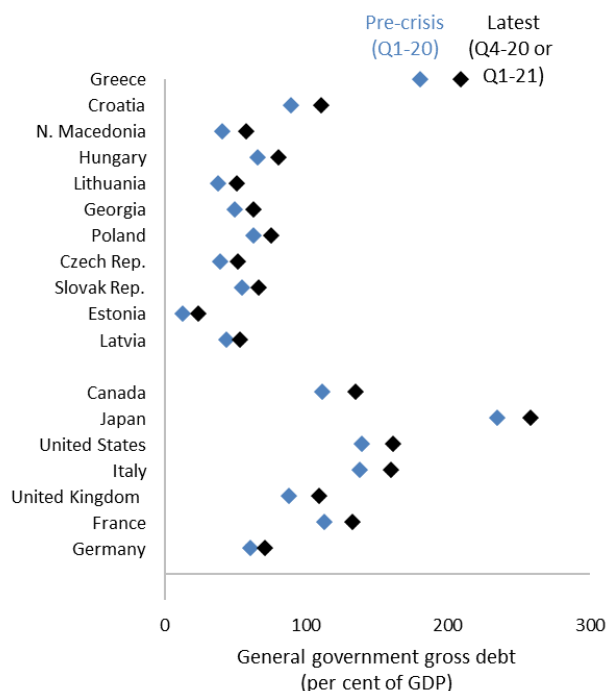


Sources: CEIC and national authorities.
Notes: 2021 Q1 for Croatia and Romania.

Fiscal vulnerabilities

Fiscal vulnerabilities have increased as large stimulus packages aimed at mitigating the effects of the Covid-19 crisis on individuals and firms, coupled with output declines, raised public debt. In the EBRD regions, public debt increased by an average of 13 percentage points of GDP relative to its pre-crisis level—compared with an increase of 20 percentage points in advanced economies where stimulus packages were typically larger (see Chart 21). In many economies in the region, public debt reached levels last seen during the transition recessions of the early 1990s. Debt remains very high in some economies, such as Greece and Lebanon.

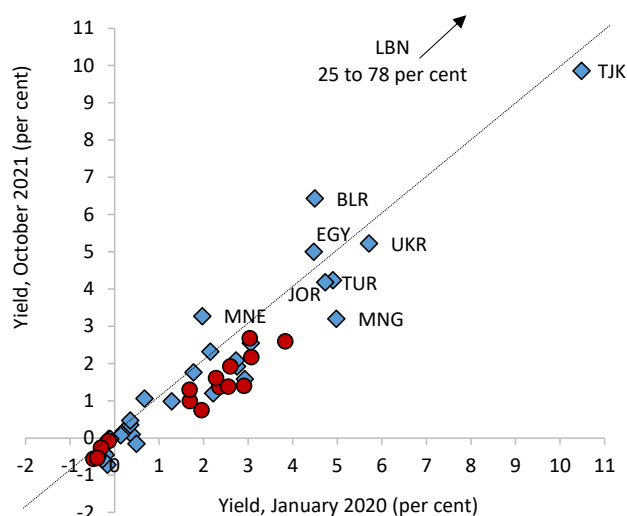
Chart 21. Public debt increased by almost 13 percentage points in the EBRD regions



Sources: World Bank and authors' calculations.
Notes: Selected economies with quarterly data, ranked from largest to smallest percentage point increase.

Borrowing costs remain below their pre-crisis levels in most economies (see Chart 22). Average interest payments have thus been stable as a share of GDP in most of the EBRD regions. However, in some economies, including Belarus, Egypt, Lebanon, Montenegro and Tajikistan, borrowing costs are high or have increased, in some cases sharply.

Chart 22. Borrowing costs remain below their pre-crisis levels in most economies



Sources: Bloomberg.
Notes: 5-year bonds in Euro or US\$. Missing historical bond data for Estonia, Georgia, Moldova, Turkmenistan and the West Bank and Gaza.

Global growth revised down

The International Monetary Fund revised global growth for 2021 down from 6 per cent in its July 2021 *World Economic Outlook* update to 5.9 per cent in its October 2021 publication. The downward revision was driven by downgrades for the United States (reflecting supply disruptions and softening consumption in the third quarter), China (owing to a stronger-than-anticipated scaling back of public investment), Germany (as shortages of key inputs weighed on manufacturing output) and Japan (where a new state of emergency was introduced as infections spiked). Nonetheless, growth is forecast to be faster than previously expected in most emerging markets, and in particular in commodity exporters. Global growth is forecast to moderate to 4.9 per cent in 2022 (unchanged relative to the July 2021 projection).

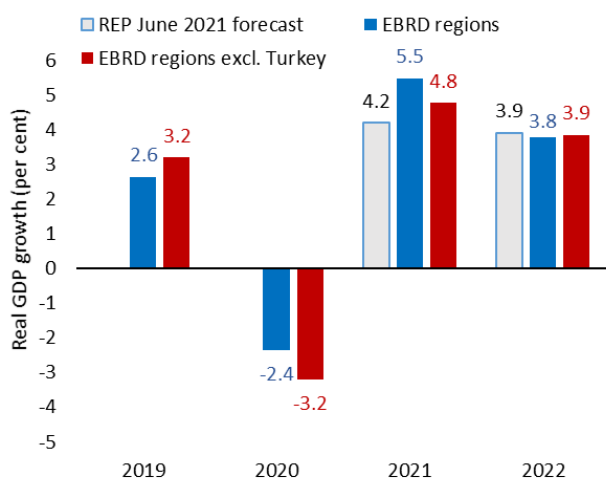
Output in the EBRD regions is expected to grow by 5.5 per cent in 2021

Output in the EBRD regions is expected to grow by 5.5 per cent in 2021 (see Charts 23 and 24 and Table 1). This represents an upward revision compared with the forecast made in June 2021, including due to a sharp rebound in Turkey.

Excluding Turkey, output in the EBRD regions is expected to grow by 4.8 per cent in 2021.

The revisions reflect strong outturns in the first half of the year and continued momentum in the third quarter, in which people’s mobility in the EBRD regions was 17.5 per cent higher than in the same period of 2020. Globally, mobility also increased by 17 per cent year-on-year in the third quarter (see Chart 25).

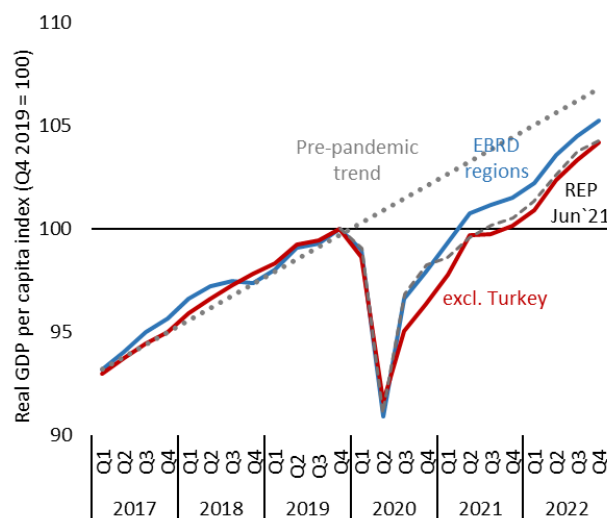
Chart 23. EBRD regions forecast to grow by 5.5 per cent in 2021



Sources: CEIC, national authorities and EBRD forecasts.

Notes: EBRD regions average constructed using GDP at purchasing power parity weights.

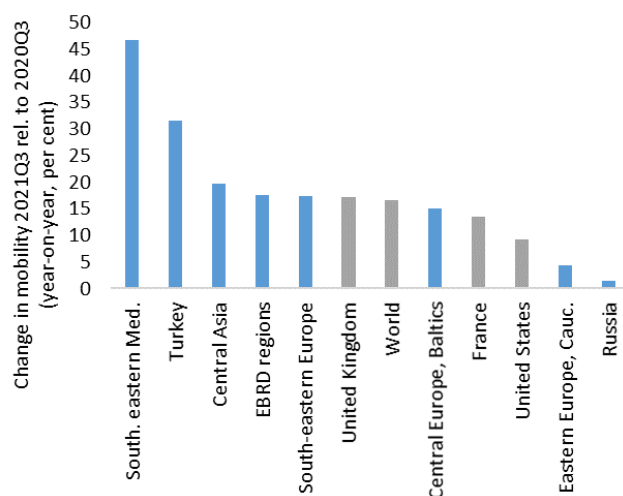
Chart 24. Forecasts have been revised up since June 2021



Sources: CEIC, national authorities and EBRD.

Notes: EBRD regions average constructed using GDP at PPP weights.

Chart 25. Mobility indicators point to continued growth momentum in the third quarter of 2021



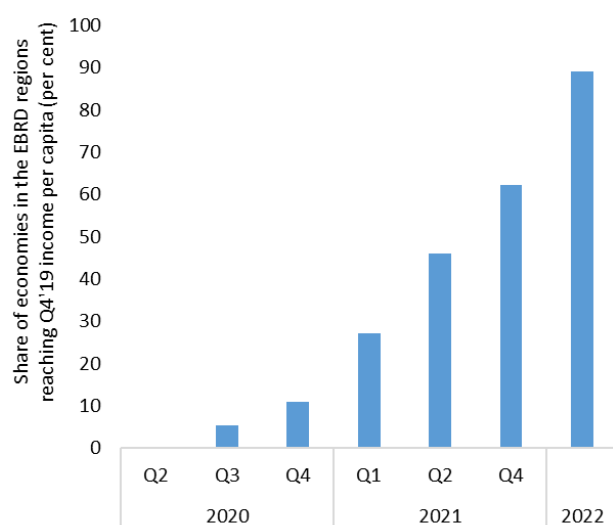
Source: Google Analytics, Our World in Data based on John Hopkins University and authors’ calculations.

Notes: Mobility index is a weighted average of Google Mobility indices of trips to work places, recreation, grocery stores and transit stations with country-specific weights (inversely proportional to the variability of each measure).

In 2022, as economies recover, growth is expected to moderate somewhat, to 3.8 per cent in the EBRD regions. Overall, 46 per cent of economies had regained their end-2019 levels of

income per capita by the middle of 2021 (every economy in the region experienced a drop in per capita income at some point in 2020 relative to the last quarter of 2019). The share of economies surpassing their pre-crisis income per capita is expected to rise to 59 per cent by the end of 2021 and further to 89 per cent by the end of 2022 (see Chart 26).

Chart 26. 59 per cent of economies in the EBRD regions are expected to surpass their end-2019 levels of GDP per capita by the end of 2021



Sources: CEIC, national authorities and EBRD forecasts.

Notes: End-2019 refers to the last quarter of the year.

Revisions to the early estimates of crisis impact

As discussed in previous *Regional Economic Prospects*, first estimates of crisis impact tend to be subject to substantial revisions later on. The initial estimates of 2020 growth were revised up in five economies in the EBRD regions while 13 economies posted downward revisions since June 2021 (by as much as 1.2 of a percentage point). This adds to the uncertainty surrounding growth projections relative to this baseline.

Regional outlooks

Output in **central Europe and the Baltic states** is expected to increase by 5.2 per cent in 2021 and 4.7 per cent in 2022, reflecting better-than-expected outturns in the first half of 2021, though supply chain disruptions weighed on growth in some economies.

GDP in the **south-eastern European Union** is expected to grow by 6.7 per cent in 2021 and 4.3 per cent in 2022. This reflects a significant upward revision to Greece relative to the June forecast as the tourism season was better than previously expected, though year-to-date tourist arrivals remained below their 2019 levels.

Output in the **Western Balkans** is expected to grow by 6.4 per cent in 2021 and 4 per cent in 2022. This region, too, saw significant upward revisions to 2021 forecasts reflecting better-than-expected outturns in the first half of the year, including in the tourism sector, as well as strong export demand from the EU market.

Output in **Russia** is expected to grow by 4.3 per cent in 2021 and 3 per cent in 2022, boosted by social spending programmes facilitated by higher commodity revenues.

The outlook has also been revised up for economies in **eastern Europe and the Caucasus**. Output is expected to grow by 3.6 per cent in 2021 and 2.9 per cent in 2022, reflecting strong outturns in the first half of the year, though with signs of momentum slowing in the third quarter.

Economies in **Central Asia** are expected to grow by 4.9 per cent in 2021 and 4.8 per cent in 2022 on the back of higher commodity prices and recovering remittances.

Turkey's economy is expected to grow by 9 per cent in 2021 and 3.5 per cent in 2022, supported by the post-lockdown rebound in domestic demand while exports benefitted from a weak lira. Risks to macroeconomic stability have, however, increased.

Output in the **southern and eastern Mediterranean** is expected to grow by 4.2 per cent in 2021 and 4.4 per cent in 2022, reflecting strong growth in Egypt, in particular in the second quarter of 2021.

Risks to the outlook

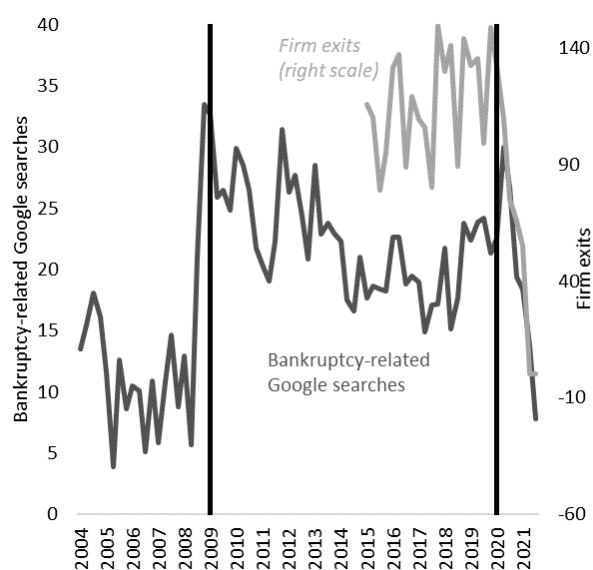
Growth forecasts continue to be subject to high uncertainty. Substantial uncertainty remains when it comes to the path of infections. Worsening external conditions and weaker growth in trading partners also create risks to the outlook.

More widespread inflationary concerns may bring forward tightening of monetary conditions in advanced economies. While financial market sentiment has remained supportive so far, high uncertainty has also led to heightened sensitivity to any news, in particular about inflation prospects in advanced economies.⁵ A faster-than-anticipated monetary normalization in advanced economies could lead to a sudden tightening of global financial conditions, creating risks for economies with large (foreign currency) debts and financing needs.

Travel restrictions and lingering fears of contagion are likely to weigh on cross-border tourist activity. While many economies in the EBRD regions have enjoyed better-than-expected tourism seasons in 2021 so far, the outlook for this sector remains highly uncertain.

Further vulnerabilities may also surface once policy support is reduced. Bankruptcies have so far been, if anything, below pre-pandemic levels owing to extensive policy support (see Charts 27 and 28). Non-performing loans across a sample of 28 economies in the EBRD regions also remained about one percentage point below their 2019 level in March-June 2021. While in advanced European economies bankruptcy-related Google searches also remain below baseline levels, these searches have been picking up in central and south-eastern Europe (even as actual bankruptcies remain down), possibly reflecting forward-looking concerns.

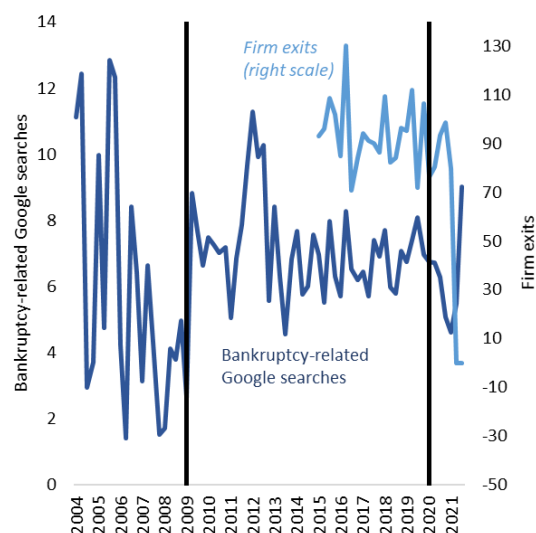
Chart 27. The Covid-19 crisis saw, if anything, a drop in bankruptcies in advanced Europe



Sources: Google trends, Eurostat and authors' calculations.

Notes: Simple average of Belgium, Denmark, France, Iceland, Luxembourg and the Netherlands.

Chart 28. In central and south-eastern Europe bankruptcy-related Google searches have, however, picked up



Sources: Google trends, Eurostat and authors' calculations.

Notes: Simple average of Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

⁵ See IMF (2021).

Box 1. The Covid-19 crisis and house prices in the EBRD regions

The Covid-19 crisis affected housing markets in complex ways. This box draws on recent data from the OECD and European Commission Consumer Surveys and shows that real house prices typically increased faster during the pandemic than in earlier years, both in the EBRD regions and in advanced economies. The increase in house prices was supported by the pandemic-related growth in household savings and was mainly driven by rising demand at the top. Intentions to save and to spend on housing increased most among the rich.

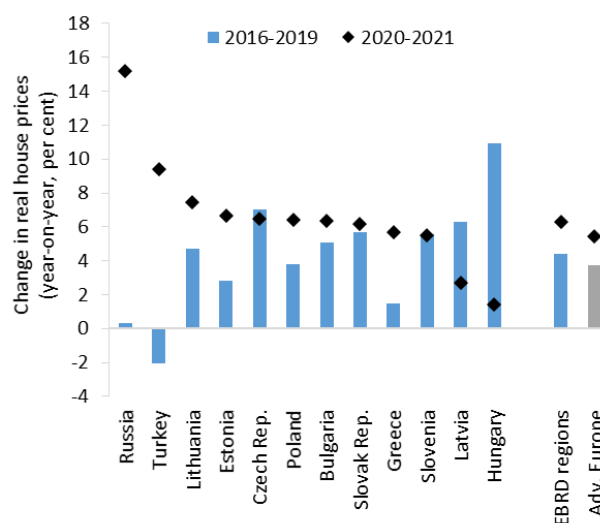
The Covid-19 crisis affected housing markets in complex ways. On the one hand, the sharp economic downturn of 2020 and associated fall in incomes weighed on demand.⁶ On the other hand, however, lockdown-related drops in spending and increases in savings for at least some parts of the population may have increased housing demand. Working from home during the pandemic, and the possible continuation of hybrid working arrangements could also have increased demand for more spacious properties. Furthermore, a number of economies implemented Covid-19 support measures affecting the availability and cost of financing, including subsidized mortgages and payment holidays. Pandemic-related disruptions could, however, have weighed on the supply of new housing.

Real house prices typically increased faster during the pandemic than in earlier years. The average growth of real house prices in the EBRD regions increased from 4.4 per cent during 2016-19 to 6.3 per cent in 2020-21. Similar patterns are observed in advanced European economies, where real house price growth increased from 3.8 per cent to 5.4 per cent on average. Globally, real house prices rose by 5.3 per cent even in 2020 as the pandemic-induced economic downturn took hold.⁷ The increase was particularly sharp in

⁶ See also Igan and others (2011) and Duca, Muellbauer and Murphy (forthcoming).

Russia and Turkey, driven in part by Covid-19 related government-backed loans in Turkey and subsidized mortgages in Russia (see Chart 1.1). While house price growth slowed sharply in Hungary, this followed years of high growth supported by various housing subsidy programmes even before the pandemic (Hungary saw the largest increase in price-to-income ratios since 2015).

Chart 1.1. House price growth increased in 2020-21 relative to the years before the crisis



Sources: OECD and authors' calculations.

Note: Based on quarterly year-on-year growth rates in the 2015 real house price index.

Rising house prices also contributed to increasing inflation. IMF estimates suggest that a 1 percentage point year-on-year increase in nominal house prices in the quarter ahead is associated with a cumulative increase of 1.4 percentage points in annual rent inflation and a 0.3 percentage point increase in inflation over a period of two years.⁸

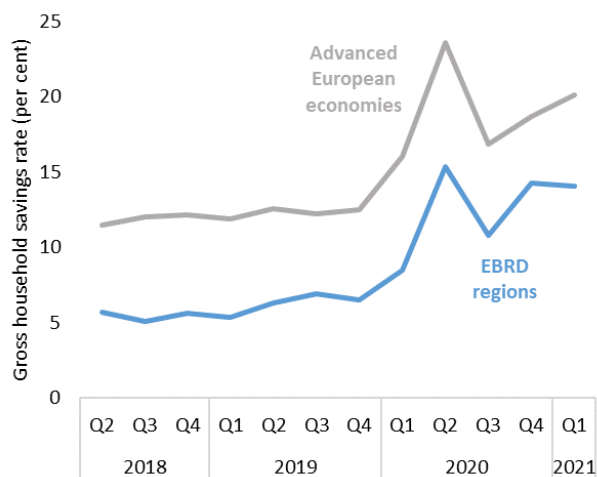
The increase in house prices was, in part, supported by the pandemic-related growth in savings. The gross household savings rate increased from 6.5 per cent in the last quarter of 2019 to 15.3 per cent on average in the EBRD

⁷ See IMF (2021).

⁸ See IMF (2021).

regions in the second quarter of 2020 (from 12.5 per cent to 23.6 per cent in advanced European economies; see Chart 1.2). While savings rates spiked in the second quarter of 2020 and fell in the third quarter, the trend increase appears to have continued.

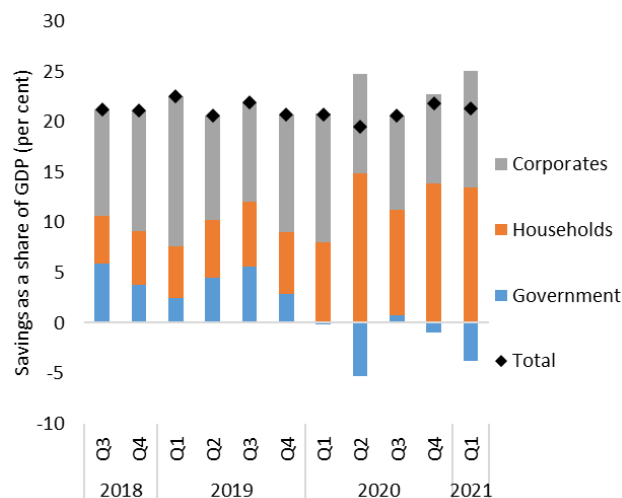
Chart 1.2. The gross savings rate increased sharply in the first months of the pandemic



Sources: Eurostat and authors' calculations.
 Note: EBRD regions refers to a simple average across the Czech Republic, Greece, Hungary and Poland.

The growth of household savings coincided with government dissaving, in particular in the second quarter of 2020, as governments implemented large stimulus packages, with consumption constrained by restrictions on contact-intensive services (see Chart 1.3).

Chart 1.3. While households increased their savings, governments dis-saved

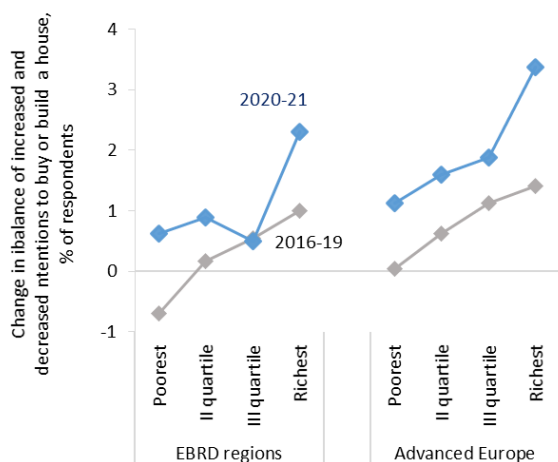


Sources: Eurostat and authors' calculations.
 Note: EBRD regions refers to a simple average across the Czech Republic, Greece, Hungary and Poland.

The increase in house prices appears to be primarily driven by rising demand at the top, and widening inequalities. Analysis based on the Quarterly European Commission Consumer Survey suggests that intentions to buy or build a house in the next 12 months continued to increase most among the richest quartile of the population. This pattern holds both in the EBRD regions and in advanced European economies, before the pandemic as well as in 2020-21 (see Chart 1.4).

Intentions to save over the next 12 months and current household savings point to similar patterns. They continued to rise among the netter-off households and, more recently, have also picked-up among the lower-income individuals. In fact, in the pre-pandemic years intentions to save were declining among the poorest households in the EBRD regions (see Charts 1.5 and 1.6).

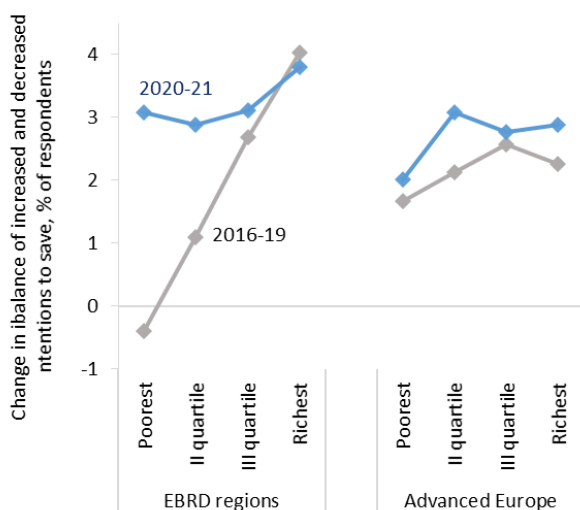
Chart 1.4. Intentions to buy or build a house continued to increase most among the richest



Sources: European Commission Consumer Survey (August 2021) and authors' calculations.

Note: Change in balance of respondents whose intentions increased and decreased (respondents who report no change are omitted). Simple averages across 16 economies in the EBRD regions and 15 advanced economies.

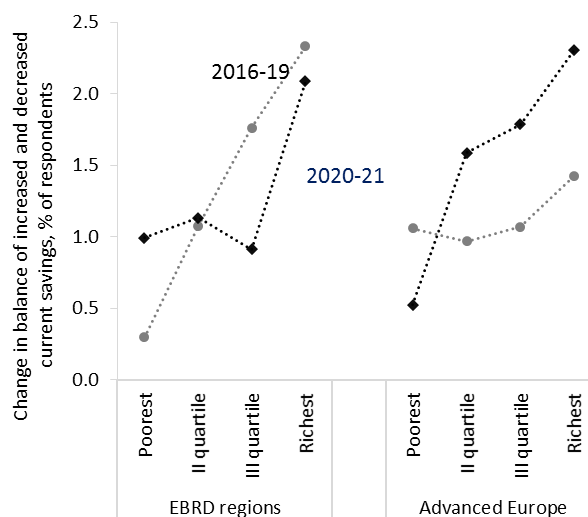
Chart 1.5. Intentions to save have been on the rise among the richest, but more recently among the lower-income households as well



Sources: European Commission Consumer Survey (August 2021) and authors' calculations.

Note: Change in balance of respondents whose intentions increased and decreased (respondents who report no change are omitted). Simple averages across 16 economies in the EBRD regions and 15 advanced economies.

Chart 1.6. Current savings increased most among the richest



Sources: European Commission Consumer Survey (August 2021) and authors' calculations.

Note: Change in balance of respondents who report increased and decreased savings (respondents who report no change are omitted). Simple averages across 16 economies in the EBRD regions and 15 advanced economies.

Box 2. Labour demand by occupation in central Europe and Romania during the Covid-19 crisis

This box provides early insights into the evolution of labour demand during the Covid-19 crisis relying on high frequency, granular real-time labour market information from online job postings collated by Burning Glass Technologies. The analysis suggests that labour demand in central Europe and Romania—as reflected in the total number of vacancies posted online—rebounded strongly in the second quarter of 2021, in particular in many lower-medium-skilled occupations.

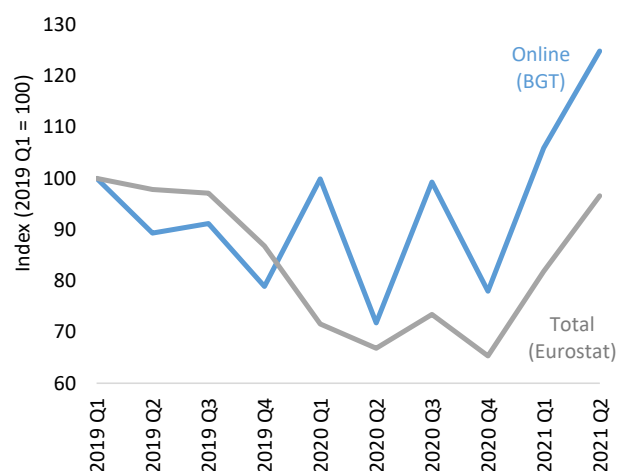
Labour market indicators often arrive with a delay, however, information on job postings can provide a timely, first estimate of the state of the labour market. By its nature, job descriptions are specific and employers have every incentive to get job descriptions right, as bad or delayed hires cost time and money. An analysis of job listings can thus provide early insights into occupations where vacancies are high. Traditional labour market data in economies in central Europe and Romania, in contrast, tend to focus on sectors (such as finance or construction) rather than occupations (such as drivers, managers or lawyers, all of whom could, for instance, work for a construction or a finance firm). While jobs in small enterprises, and lower-paying, lower-skill jobs are less likely to be posted online than higher-skill jobs, the online job market has consistently expanded over the last few years.⁹

The following analysis relies on detailed information on job postings from Burning Glass Technologies. Real-time jobs data are compiled by bots that seek out online job postings on job boards, corporate websites, and other places where job ads are posted, tracking about 3.4 million active openings. Job information (such as job title, occupation, employer and location) is extracted and used to identify specific occupations and qualifications that employers are seeking using natural-language technology. Duplicates (jobs advertised in multiple places) are removed.

The analysis looks at the number of vacancies advertised by occupation in the second quarter of 2019 (before the Covid-19 crisis), in the second quarter of 2020 (at the height of the crisis when people’s mobility was lowest) and in the second quarter of 2021 (when mobility in the EBRD regions recovered to the levels of January-February 2020). Focus is on economies where trends in terms of total vacancy numbers in Burning Glass data closely match trends in data

on total vacancies provided by Eurostat allowing for the fact that a higher share of vacancies is being advertised online (the sample comprises Estonia, Latvia, Lithuania, Poland, Romania and Slovenia, see Chart 2.1).

Chart 2.1. Online job postings have been growing faster than total vacancies



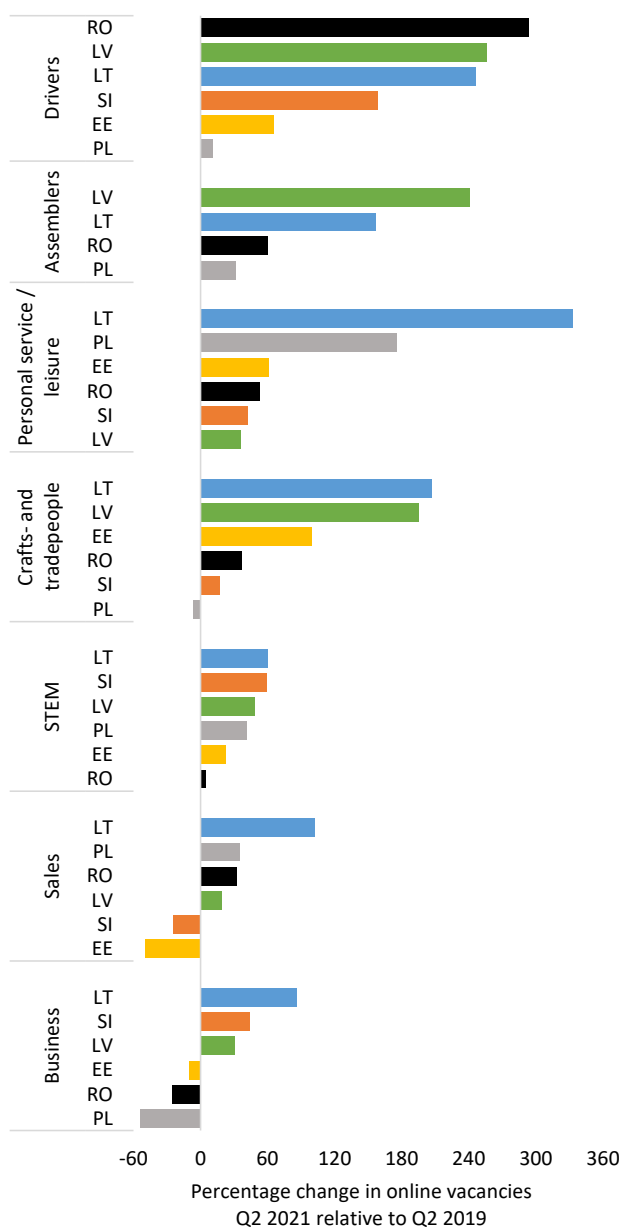
Sources: Burning Glass Technologies, Eurostat and authors’ calculations.

Notes: Simple average across Estonia, Latvia, Lithuania, Poland, Romania and Slovenia. Based on economies where overall trends in vacancies match Eurostat data closely.

In the second quarter of 2021, vacancies in a number of occupations far exceeded the numbers observed in the same quarter of 2019. For instance, demand for drivers was, on average, 172 per cent higher, with increases registered across all six economies (see Chart 2.2). The picture is similar for assemblers, personal services and leisure workers and trades and crafts—low-to-medium skilled occupations.

⁹ See Burning Glass Technologies (2019), Carnevale, Jayasundera and Repnikov (2014) and Manyika and others (2015).

Chart 2.2. Online job postings recovered strongly in 2021, in particular for lower-medium-skilled occupations



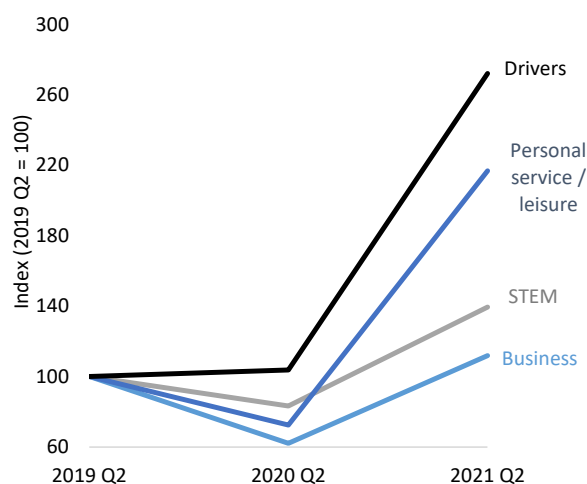
Sources: Burning Glass Technologies and authors' calculations.

Notes: Based on economies where overall trends in vacancies match Eurostat data closely.

While during the height of the Covid-19 crisis lower-skilled workers tended to be severely affected by the crisis in terms of their ability to maintain income,¹⁰ many corresponding

occupations were in the greatest demand in the recovery phase. Indeed, the down-and-up curve for vacancies in personal services and leisure is particularly pronounced (see Chart 2.3).

Chart 2.3. The recovery followed a drop in vacancies at the height of the Covid-19 crisis in 2020



Sources: Burning Glass Technologies and authors' calculations.

Notes: Simple average across Estonia, Latvia, Lithuania, Poland, Romania and Slovenia.

This mirrors trends in the United States and a number of other advanced economies where lowest-paid jobs enjoyed the fastest wage growth during the recovery from the Covid-19 economic crisis.

For business occupations and other occupations with high potential to do work from home (such as legal services) vacancies in the second quarter of 2021 have not recovered to their 2019 levels. In sales, the picture was mixed, with strong growth in vacancies in some economies (including Poland and Romania) and only partial recovery in other economies (Estonia and Slovenia).

Overall, the numbers attest to tight labour markets in central Europe and Romania. They may also reflect a stronger shift towards advertising vacancies online for lower and

¹⁰ See Transition Report 2020-21 and Koczan (2021).

medium-skilled workers (with higher-skilled vacancies moving to online advertising earlier).

Box 3. Remote working during and after the Covid-19 pandemic

This box examines patterns of remote working in the EBRD regions during and after the Covid-19 pandemic drawing on a recent online survey of almost 7,000 working adults in seven economies in the EBRD regions. The findings from this survey point to widespread support for some form of flexible working after the pandemic, though support among employers is somewhat lower than among employees. The young, those with higher levels of education and those with children express the strongest preference for some remote working after the pandemic; they are also most likely to say that their productivity increased while working from home. Over half of respondents in the EBRD regions would see working from home two or three days a week as a benefit equivalent to a pay rise of 5 per cent or more.

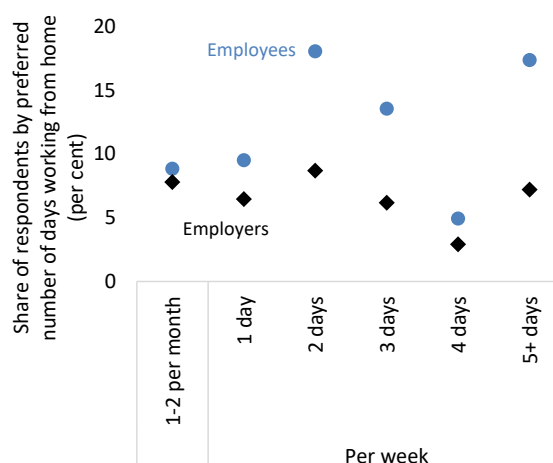
EBRD and the ifo Institute implemented an online survey on working from home patterns and preferences in August 2021, covering seven economies in the EBRD regions (Egypt, Greece, Hungary, Poland, Serbia, Turkey and Ukraine) as well as a number of advanced economies and China (not examined here). The survey asked adults aged 20 to 59 who were in full-time employment about their experiences with working from home during the pandemic as well as their preferences after the pandemic. While this online survey provided early insights into remote working patterns and preferences, respondents to online surveys are in general more likely to be young, highly educated and with good digital skills compared to the population at large. This limitation should be kept in mind when interpreting results in the following.

The pandemic resulted in a widespread shift towards remote working, in advanced economies as well as in economies in the EBRD regions. The results from the survey suggest that a significant share of both employees and employers would

like to retain some form of flexible working in the longer term. In the EBRD regions, about 70 per cent of workers would be in favour of working remotely at least one day a month and 63 per cent are in favour of working remotely at least one day per week (see Chart 3.1).

Employers, however, appear to be less likely to favour remote working: only 31 per cent of survey respondents expect their employers to allow them to work remotely for at least one day a week (see Chart 3.1). Nonetheless, among those who would support at least some working from home, two days a week appears to be the most preferred option among both employers and employees.

Chart 3.1. Most workers would support some remote working after the pandemic



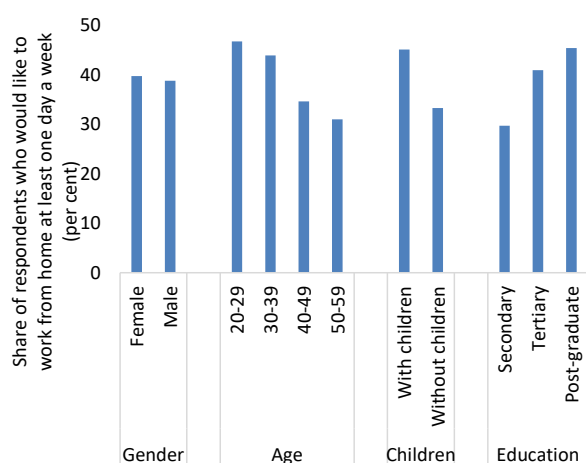
Sources: EBRD-ifo Institute Work from Home survey and authors' calculations.

Notes: Shares for employer preferences exclude those where future working arrangements are unknown or yet to be determined and self-employed respondents. 'Never' not shown.

Younger workers, those with higher levels of education and with children are more likely to be in favour of working from home (see Chart 3.2). While 81 per cent of those aged 20-29 would be in favour of working remotely at least once or twice a month, this share is around 63 per cent for respondents aged 50-59. Similarly, while around 76-79 per cent of those with university degrees would like to work from home at least

once or twice a month, this share is only around 60 per cent for those with secondary education. Preference for some remote working is also significantly higher among those with children in the household than those without. There does not appear to be a significant difference in preferences by gender.

Chart 3.2. Younger workers, those with higher levels of education and with children are more likely to favour some remote working



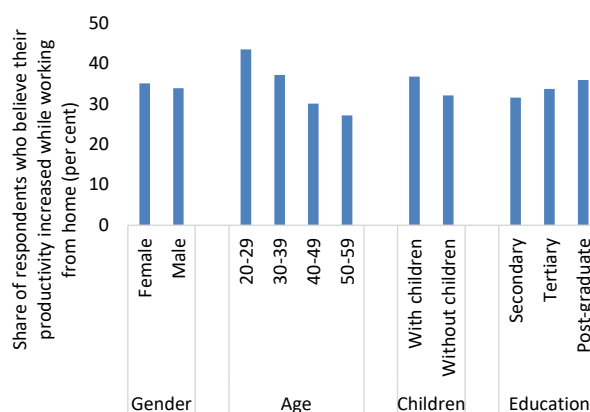
Sources: EBRD-ifo Institute Work from Home survey and authors' calculations.

Notes: Secondary refers to 9 to 15 years of education, tertiary to four years of education beyond high school and/or a four-year college degree, post-graduate to a degree program beyond a four-year college degree. Share of respondents who worked primarily from home at some point during the pandemic.

On balance, respondents believe that their productivity improved relative to that before the pandemic (34 per cent believe their productivity has improved while 18 per cent believe it has declined). These improvements were reported despite that fact that many respondents had no prior experience with working from home and 18 per cent experienced internet outages at least occasionally.¹¹ Those who report improved productivity (the young, those with higher levels of

education, and those with children) are also more likely to support continued remote working (see Chart 3.3). Again, there does not appear to be a significant difference by gender.

Chart 3.3. Many respondents believe that their productivity improved while working from home relative to that before the pandemic



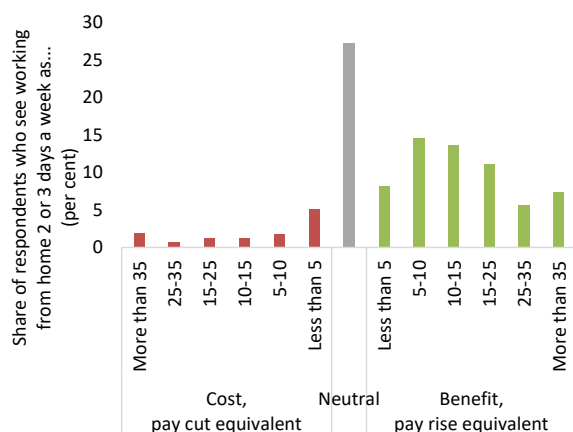
Sources: EBRD-ifo Institute Work from Home survey and authors' calculations.

Note: Share of respondents who worked primarily from home at some point during the pandemic.

Strikingly, even though workers faced increased costs (while firms saved on office-related expenses) and on average reported higher productivity, more than 60 per cent of workers would view working from home two or three days a week after the pandemic as a benefit equivalent to a pay raise. 52 per cent of respondents would value this benefit as a pay rise of 5 per cent or more (see Chart 3.4). Those who view this option as a benefit on average see it as the equivalent of an 8 to 10 per cent pay rise. Strikingly, 7 per cent would see it as equivalent to a salary gain of 35 per cent or more. About a quarter of respondents view the option to work from home as neither a cost nor a benefit while 12 per cent of employees regard working from home two or three days a week as a monetary cost.

¹¹ 47 per cent say they have a good connection, where the internet works 90 per cent of the time and they rarely experience outages.

Chart 3.4. Many respondents view working from home two or three days per week as a benefit

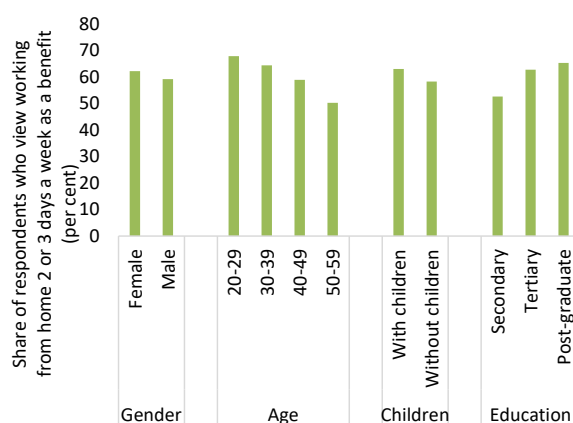


Sources: EBRD-ifo Institute Work from Home survey and authors' calculations.

Note: Share of respondents who worked primarily from home at some point during the pandemic.

Women are more likely to perceive the option to work from home as a benefit than men and this difference is statistically significant (see Chart 3.5).

Chart 3.5. Women are more likely to view working from home two or three days a week as a benefit



Sources: EBRD-ifo Institute Work from Home survey and authors' calculations.

Note: Share of respondents who worked primarily from home at some point during the pandemic.

Strong preference for some remote working but a relatively smaller monetary equivalent attached to

this option by young workers may reflect both lower salaries in this age bracket and greater benefits associated with in-person interactions (for instance, through mentoring).

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Regional updates

Central Asia

Central Asian economies expanded by 4.1 per cent on average in the first half of 2021. Growth was driven by normalisation of domestic activities following the easing of Covid-19 restrictions and government-induced lending to businesses and households. Elevated commodity prices are a major boon for exporters of oil, gas and metals, such as Kazakhstan, Mongolia and Turkmenistan. Energy importers – Kyrgyz Republic, Tajikistan and Uzbekistan – are indirectly benefitting from the energy crunch via increased demand for migrant workers in, and hence higher remittance flows from, Russia. Exports have increased substantially in most countries, except the Kyrgyz Republic and Uzbekistan, which experienced major cuts in gold production (after a significant spike in 2020). Ample liquidity, pent-up demand and rising food and commodity prices are fuelling asset and consumer price inflation. Inflation is up in all countries in Central Asia except Uzbekistan, where it had previously been at a much higher level due to the impact of liberalisation and structural reforms. Policy rates have been increased by the monetary authorities in Kazakhstan, Kyrgyz Republic and Tajikistan to rein in inflation. Regional GDP growth is forecast to accelerate to 4.9 per cent in 2021 and 4.8 per cent in 2022 thanks to continuation of expansionary policies, favourable commodity prices and buoyant external demand for the region's key exports and surplus labour.

Kazakhstan

Real GDP grew by 3.0 per cent year-on-year in the first eight months of 2021. Recovery was enabled by fiscal support measures and expansion in private consumption. Growth in real wages and consumer lending together with stimulus measures benefited household demand. Fixed investment remains sluggish due to the contraction in the mining sector but has been growing outside of mining. Inflation rose from 7.5 per cent year-on-year in December 2020 to 8.9 per cent year-on-year in September 2021, fed by rising international food and commodity prices, as well as consumer demand supported by social

transfers and other stimulus measures. Real estate prices surged, driven by increased mortgage lending and people spending down their retirement savings (allowed from January 2020). Credit growth accelerated to 16 per cent year-on-year in August 2021 from 8.0 per cent a year ago. The central bank responded to inflationary pressures by hiking the policy rate stepwise from 9.0 to 9.25 per cent in July 2021 and to 9.5 per cent in September 2021. Preliminary estimates show that, in January to June 2021, the current account was in deficit of US\$ 1.7 billion compared with US\$ 0.8 billion a year ago. This is due to a surge in net investment income payments made to foreign direct investors (up by 43 per cent year-on-year) and growing consumer goods imports (27 per cent year-on-year). Exports of goods rose by only 12 per cent year-on-year in the first seven months of 2021, driven by non-oil exports. The economy is forecast to expand by 3.6 per cent in 2021 and 3.8 in 2022. Growth will be led by stronger external demand and continued fiscal stimulus measures supporting domestic consumption. Downside risks relate to the Covid-19 pandemic continuing to disrupt trade and economic activities.

Kyrgyz Republic

The economy posted a small growth of 0.1 per cent year-on-year in the first three quarters of 2021. The recovery is being held back by a drop in gold production and exports despite Jerooy, the country's second-largest gold mining project, moving to production in March 2021. Excluding the Kumtor gold mine, real GDP grew by 17.7 per cent year-on-year in the first three quarters of 2021, driven by growth in retail trade, transport and communication. Expansion in services was enabled by strong growth in remittances (up 21 per cent year-on-year in US dollar terms in the first eight months of 2021) and the easing of lockdown measures. The surge in consumer demand along with rising global food prices caused inflation to accelerate to 14 per cent in August 2021 from 9.7 per cent in December 2020. To quell inflationary pressures, the central bank raised the policy rate stepwise from 5.5 to 6.5 per cent in April and to 7.5 per cent in July 2021. On the external side, imports strongly

rebounded (up by 41 per cent year-on-year in the first eight months of 2022), driven by major increases in clothing and accessories, knitted fabrics, threads and fibres, reflecting positive dynamics in the country's textile production and re-exporting activity. Including gold, total exports in January-August 2021 were down 19 per cent year-on-year. The economy is projected to grow by 2.5 per cent in 2021 and 5.0 per cent in 2022 on the back of a strong recovery in remittances from Russia, resumption of tourism activities and gold exports. Significant downside risks are associated with the Covid-19 pandemic continuing to affect the economy in 2022 and negative investor sentiment arising from the temporary takeover of Kumtor gold mine by the authorities.

Mongolia

The economy is strongly rebounding following a major recession in 2020. Mongolia recorded real GDP growth of 6.3 per cent year-on-year in the first half of 2021, fuelled by the mining sector amid higher demand from China. Exports increased by 25 per cent year-on-year in the first eight months of 2021, as copper (up 97 per cent year-on-year) and coal (up 12 per cent year-on-year) exports surged. Temporary forbearance and stimulus measures implemented by the authorities have resulted in excess liquidity driving up the stock and real estate prices. Bank deposits swelled despite major cuts in interest rates. Inflation increased above the central bank corridor in August 2021 reaching 9 per cent year-on-year compared with 2.3 per cent in January 2020. Nevertheless, the central bank kept the policy rate unchanged at 6 per cent since November 2020. Since January 2020 the local currency (MNT) has lost 5 per cent against the US dollar but has been flat since September 2020. Gross international reserves are now at US\$ 4.7 billion, having dipped as low as US\$ 2.3 billion in spring 2020, providing a nine-month import cover, thanks to strong import compression, robust growth in gold exports, the recovery of coal and copper exports to China, as well as borrowing from international financial institutions and Eurobond issues. However, international reserves include a large borrowed component (swaps with domestic banks and China). Real GDP is forecast to grow by 6.1 per cent in 2021 and 6.5 per cent

in 2022 thanks to buoyant external demand for Mongolia's exports, the potential resumption of tourism activities in summer 2022, and a recovery in domestic demand.

Tajikistan

The economy expanded by 8.7 per cent year-on-year in the first half of 2021. Growth was led by recovery in domestic demand and a strong increase in exports. Retail trade turnover increased by 12.8 per cent year-on-year in the first three quarters of 2021 supported by an inflow of remittances from Russia (up 11 per cent year-on-year in US dollar terms in January-June 2021). Fixed investment increased by 29.6 per cent year-on-year. Exports rose by 30 per cent year-on-year in the same period, driven by mineral and gold exports. At the same time, imports rose by 34 per cent year-on-year, reflecting the recovery of domestic demand. Annual inflation stood at 9.4 per cent in August 2021, outside the central bank target corridor of between 4 and 8 per cent. The policy rate was raised from 10.75 per cent in January 2021 to 11.0 per cent in February, and was further increased by 1 percentage point in April and another 1 point in August. Loan growth accelerated to 13 per cent year-on-year in August 2021 from 10 per cent a year ago. The non-performing loan (NPL) ratio declined to 15.3 per cent in June 2021 from 30.4 per cent in June 2020, reflecting the liquidation in May 2021 of two troubled banks with a high concentration of NPLs. The economy is expected to grow by 6.5 per cent in 2021 and 6.2 in 2022. Growth will be supported by remittances, which will positively affect private consumption, and continued investment into key infrastructure projects, including Roghun HPP. In the longer term, re-establishing trade and transport connections with Afghanistan will be important for the Tajik economy, particularly given Tajikistan's plans to increase electricity exports following the completion of the Roghun hydropower plant and the CASA-1000 electricity transmission lines.

Turkmenistan

Real GDP growth was reported at 6.2 per cent year-on-year in the first three quarters of 2021. The country is benefiting from the energy crunch

given its ability to ratchet up production. Exports (primarily gas exports to China) rose by 36 per cent year-on-year in the first half of 2021 but are still below 2020 levels. The official exchange rate peg is maintained at TMM 3.5 per US dollar. The parallel market exchange rate depreciated from TMM 18 per US dollar in December 2019 to TMM 40 in April 2021 but has recovered since then to TMM 30 per US dollar as of August 2021. The government reported that in June 2021 it paid off the debt it owed China for the construction of a gas pipeline and associated projects, and that henceforth all gas revenues would accrue to the state budget. In August 2021, Fitch assigned Turkmenistan a B+ rating with a stable outlook. The rating balances healthy fiscal and external positions with concerns over the difficult business environment, weak institutional capacity and state-centric economic policies. Real GDP growth is projected at 6.3 per cent in 2021 due to substantial export growth. The economy is forecast to slow down to 5.5 per cent in 2022 reflecting structural challenges in many dimensions, including the poor quality of the business environment, limited financial sector depth and restrictions on private sector operations in the country.

Uzbekistan

The economy is recovering rapidly. Real GDP grew by 6.9 per cent year-on-year in the first three quarters of 2021. Services expanded by 19.5 per cent year-on-year, industrial output by 9 per cent, and agriculture by 4.2 per cent. On the demand side, private consumption was supported by strong growth in consumer lending and a surge in remittances from Russia, which grew by 35 per cent year-on-year in US dollar terms in the first eight months of 2021. Credit growth picked up to 22 per cent in June 2021 in real terms (both in corporate and retail segments) from 12 per cent a year ago, reflecting stronger economic activity. At the same time, non-performing loans increased to 5.5 per cent in June 2021, versus 2.1 per cent at the end of 2020. Investment activity started recovering, with fixed investment up by 5 per cent year-on-year in the first three quarters of 2021. However, exports declined by 20 per cent year-on-year in January-August 2021, as gold exports were

drastically reduced (down 24 per cent year-on-year). Additionally, due to increased domestic energy demand, in 2021 Uzbekistan turned into a net importer of gas. Inflation declined from 11.1 per cent year-on-year in December 2020 to 10.8 per cent year-on-year in October 2021 and the central bank's monetary policy stance has not changed since September 2020. The economy is projected to expand at 6.8 per cent in 2021 and 6.0 per cent in 2022. Remittance-led surge in private consumption along with increased investment in infrastructure will be key drivers of GDP growth. However, the forecast is subject to a high degree of uncertainty related to the path of the Covid-19 pandemic, potential resumption of international tourism, regional tensions and the situation in Afghanistan.

Central Europe and the Baltic states

The economies of the CEB region increased, on average, by 5.1 per cent in the first half of 2021, as the majority of Covid-19 restrictions were lifted. Most countries managed to recover to pre-pandemic levels, with Estonia and Lithuania already achieving this in the first quarter of 2021. At the same time, due to their persevering price competitiveness, CEB exporters in several countries, including Lithuania and Poland, achieved substantial hikes in export market shares of both goods and services. Nevertheless, elevated energy prices and shortages of components, chips and raw materials have already affected countries with significant shares of manufacturing in GDP, especially the Czech Republic, Slovenia, the Slovak Republic and Hungary. These disruptions in supply chains will likely weigh on the region's export performance in the short term. Increased utility prices will likely affect the most vulnerable households in the region. Households in the CEB region spend, on average, more than 15 per cent their incomes on utilities, above levels seen in advanced Europe, for instance, in Germany (about 7 per cent). The resistance of some CEB economies to Covid-19 vaccination, as experienced in the Slovak Republic, Poland or Latvia, could lead to new sporadic lockdowns this winter, aggravated by possible new variants of the virus. However, funds from the EU's Recovery and Resilience Facility are expected to boost the economic recovery further,

and allow for more sustainable investments, such as those linked to green transition, digitalisation and inclusion.

Croatia

The Covid-19 pandemic inflicted significant damage on the Croatian economy in 2020, as GDP declined by 8 per cent, with private consumption, net exports and investment recording negative contributions to growth. In spite of a 0.2 per cent decline quarter-on-quarter in the second quarter of 2021, the GDP recovery in the first half of 2021 has been broad-based, reaching 7.5 per cent growth year-on-year. A highlight was the performance of goods exports, which were 21 per cent higher in the second quarter of 2021 than in the second quarter of 2019 after a marginal decline in 2020, signalling improved trade integration with EU markets. Domestic demand was resilient as well, as both consumption and investment rebounded by 18 per cent year-on-year in the second quarter, although the latter declined in quarterly terms. Tourism, which normally accounts for around 20 per cent of GDP, has also recovered above expectations during the summer of 2021. On the fiscal side, the government balance stood at -2.4 per cent of GDP by August 2021, on the back of a strong revenues rebound. Energy prices are affecting the economy only to a certain degree, as the government will look to limit any price increases to the population, including by capping fuel prices. Nevertheless, inflation rose to 3.3 per cent in September, an 8-year high, driven by food prices and transport costs. Taking into account the strong momentum of the economy, especially in the third quarter, the GDP growth forecasts have been revised up to 8.0 per cent in 2021 and 4.2 per cent in 2022. Downside risks are related to the weakening external outlook and possible containment measures as the vaccination rate lags behind the EU average.

Czech Republic

The Czech Republic was one of the most affected economies in the CEB region in 2020, as GDP fell by 5.8 per cent in a broad-based recession. Economic activity was also modest in the first half of 2021, as GDP expanded by just 3 per cent

year-on-year. Containment measures led to another quarterly decline in private consumption in the first quarter of 2021, but it rebounded strongly once restrictions were eased in the second quarter. Investment had similar dynamics as it recovered by only 0.9 per cent in the first half of 2021. After a strong performance in the second half of 2020, exports again declined in the first quarter of 2021 as the EU economy went through another wave of infections. Moreover, imports grew by a stronger 4.9 per cent quarter-on-quarter in the second quarter of 2021. Car producers had to limit production due to chip shortages, which fell significantly by 57 per cent and 53 per cent year-on-year in August and September 2021, respectively. Consumer prices rose by 4.9 per cent in September 2021, with house prices contributing notably to the increase, while core inflation was even higher at 5.8 per cent. The central bank raised the policy rate from 0.25 per cent in May to 1.5 per cent in September 2021. The monetary tightening also aims to compensate for the loose fiscal policy, as the fiscal deficit will reach almost 8 per cent of GDP in 2021, on current trends. GDP is forecast to grow by 3.4 per cent in 2021, with a stronger recovery of 4.6 per cent in 2022, on the back of robust domestic demand, supported by EU funds, and an improved global outlook. Upside risks include stronger rebound of consumption as households look to spend accumulated savings, while downside risks are tied to supply chain issues and the evolution of the pandemic as the Czech economy has been more sensitive to restrictions.

Estonia

The pace of economic recovery accelerated sharply in Estonia in the first half of 2021, with a GDP growth rate of 8.5 per cent, year-on-year. Domestic demand improved sharply, with investment registering an impressive growth rate of almost 57 per cent, year-on-year, mostly driven by Volkswagen's software investment, which is scheduled for 2021-2023. At the same time, the positive impact on GDP growth is largely negated by increased imports (negative net effect on GDP), but this investment creates upside potential for growth in the long term. Amid higher government expenditures, household consumption improved substantially and this trend is expected to gain in

magnitude in the coming quarters, as households' disposable incomes jumped collectively by nearly €1 billion, due to a withdrawal of the second pension pillar in September 2021. Rising inflation, at 6.4 per cent in September and persisting labour shortages are putting strong pressure on wages and therefore inflation. EU funds, including from the Recovery and Resilience Facility, are expected to further boost investment, especially in infrastructure. Overall, GDP growth is expected to reach 9.0 per cent this year, before it slows down to 4.0 per cent in 2022.

Hungary

In the first half of 2021, the Hungarian GDP increased by an impressive 7.6 per cent, year-on-year, backed by strong investment and high government spending. In the second quarter alone, private investment jumped by 13 per cent, year-on-year, following the previous four consecutive quarters of decline. The lifting of most anti-epidemic restrictions in the second quarter of 2021 brought some recovery in the tourism sector, which added to the increased households' consumption. The latter is expected to strengthen further, when households' disposable incomes will be boosted by a strong, 20 per cent, minimum wage hike and personal income tax rebate, both scheduled for 2022. Headline inflation registered 5.5 per cent in September 2021, which is above the central bank's medium-term target of 3 per cent (with a ± 1 percentage point tolerance band). Since mid-2021, the central bank raised its main policy rate four times, from 0.9 per cent initially to 1.65 per cent in September 2021. Increased energy prices, together with global shortages of components and chips, negatively affect the manufacturing sector, especially automotives, which is expected to weigh on Hungary's exports in the short term. The post-crisis recovery will likely be boosted by investment co-financed by EU funds. While Hungary is still awaiting approval by the European Commission of its Recovery and Resilience Facility (RRF), the government sold an equivalent of €4.5 billion in Eurobonds to be able to pre-finance projects from the RRF. GDP growth is expected to remain strong throughout 2021, at 7.7 per cent, before slowing down to 4.8 per cent in 2022.

Latvia

Despite contracting in the first quarter of 2021, GDP growth reached 5.2 per cent, year-on-year, in the first half of this year, which allowed the Latvian economy to reach the pre-crisis level. Increases in inventories contributed the most to the recovery, followed by recovering private consumption and investment, in line with the removal of the majority of restrictions in the second quarter of 2021. The labour market continues to tighten, despite some increase in unemployment rates, reflecting labour shortages and sharply rising wages. In the first half of 2021, nominal wages jumped, on average, by nearly 10 per cent, substantially boosted by increases of public sector and minimum wages. Compared to its Baltic peers, Latvia remains relatively resistant to vaccination against Covid-19, with only 54 per cent of people receiving at least one dose of the jab. A lack of herd immunity creates a risk for new lockdowns, temporarily re-introduced in October 2021, aggravated by potential new variants of the virus. EU funds, especially through public sector investments, will likely add to the GDP growth rate this year, which is expected at 4.5 per cent. In 2022, GDP growth will likely accelerate to 5.5 per cent.

Lithuania

Following the mildest recession in the EU in 2020, at only -0.1 per cent, the Lithuanian economy expanded by 5 per cent, year-on-year in the first six months of 2021. The recovering domestic demand was mostly fuelled by strong investment and household consumption, which increased by 14.3 per cent and 7.1 per cent, respectively. Due to investment and consumption driven high imports, net exports contributed negatively to GDP growth. Exports, especially of services, are expected to be further negatively affected by the sanctions on Belarus that were issued by the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury in August 2021. About one-third of all freight at Lithuanian ports are products from Belarus, especially potassium chloride which is used in fertilizer production, and a loss in freight linked to it is estimated at approximately 0.4 per cent of GDP. Labour shortages are at record highs, particularly

noticeable in the construction and manufacturing sectors, and are translating into rapid nominal wage growth, which exceeded 10 per cent last year and is expected to increase even more this year. GDP growth is likely to reach 4.5 per cent this year, boosted by the accelerated public sector investment, and is expected to slow down somewhat to 4.0 per cent in 2022.

Poland

In the first half of 2021, Poland's GDP increased by 4.6 per cent, year-on-year, underpinned by strong household consumption, still elevated government expenditures and some improvements in investments. Exports rebounded quickly, seeing a 30 per cent annual growth rate in the second quarter of 2021, but the domestic demand-induced imports outweighed the positive contribution of exports to GDP growth. Rising utility prices and shortages of industry components, such as chips and raw materials, together with rising domestic demand, are triggering inflation, which reached 5.9 per cent in September. According to the October 2021 National Bank of Poland (NBP) survey of professional forecasters, average inflation is expected to reach 4.7 per cent this year and remain elevated, at 4 per cent, in 2022, which is still above the NBP's top end of the +/- 1 percentage point band around the 2.5 per cent target. As a result, in October 2021 the NBP raised the main policy rate by 40 basis points, to 0.5 per cent, in a first tightening since 2012. Thanks to persistently low financing costs, real interest rates remain negative, and amid improving business sentiment, investment is expected to recover further. However, the delayed disbursement of the EU's RRF funds constitutes a negative risk to that scenario, especially for public sector investment. According to the Finance Ministry, the RRF funds could add 0.4 percentage points to annual GDP growth. Further, the population's relative reluctance to vaccinate against Covid-19, with only 53 per cent of people vaccinated in mid-October 2021, could lead to new sporadic lockdowns this winter, aggravated by potential new variants of the virus. Overall, GDP growth is expected at 4.9 per cent and 4.8 per cent in 2021 and 2022, respectively.

Slovak Republic

The Slovak economy expanded by 4.9 per cent, year-on-year in the first half of 2021, fuelled by recovering domestic demand, which had been contracting since the outset of the pandemic. The lifting of restrictions allowed household consumption to rebound, at 5 per cent, year-on-year, in the second quarter of 2021, further supported by elevated government expenditures, at an 8.7 per cent growth rate. Net exports contributed positively to GDP growth, despite the import growth largely triggered by strong domestic demand. The homogenous nature of the Slovak economy again exposed its weakness, as the automotive sector largely relies on imports of components and chips, of which shortages are being experienced globally. As a result, disruptions in supply of subcomponents have already hurt production, which can likely lead to renewed job shedding and could harm the recovery in household consumption. Besides, the lowest vaccination rate in the CEB region, with only 45 per cent share of people at least partially vaccinated, creates a risk of new sporadic lockdowns. At the same time, elevated energy prices are contributing to high inflation (at 5.1 per cent in September), and are generating pressure on nominal wage growth, which has already exceeded 10 per cent in the spring of this year. On the upside, EU funds, including the RRF, of which the first tranche was already distributed in mid-October 2021, are expected to fuel investment, especially in the public sector. GDP growth will likely reach 4.0 per cent this year and accelerate further to 5.0 per cent in 2022.

Slovenia

Slovenia's GDP declined by 4.2 per cent in 2020, driven by a fall in private consumption and investment by 6.6 per cent and 8.2 per cent year-on-year, respectively. In the first half of 2021, the economy strongly rebounded by 8.8 per cent and GDP was only marginally below the pre-pandemic level. Private consumption also inched closer to pre-pandemic volumes in the second quarter of 2021, supported by a recovery in demand for services and rising income. Investment activity has been volatile but it should continue expanding amid higher construction activity and delayed

investments from last year. In line with the full recovery of manufacturing, goods exports proved quite resilient and recovered strongly, albeit at a slower pace in the latest months reflecting possible supply chain issues. Import growth accelerated, leading to a slight deterioration in the trade balance. Expansionary fiscal policy will continue supporting the economy, as the fiscal deficit is projected to deepen in 2021 to 7.9 per cent of GDP from 7.7 per cent in 2020. Unlike in its regional peers, the increase in consumer prices has been more muted with the latest reading at 2.4 per cent in September, but risks are on the upside towards the end of the year. GDP is forecast to expand by 6.0 per cent in 2021, as domestic demand has continued recovering in the third quarter, with risks to the upside if the strong momentum is maintained. Growth will moderate in 2022 towards 4.5 per cent, as investment, including from EU funds and the healthcare spending bill, will accelerate, while private consumption will be supported by rising incomes and a tight labour market. The below EU-average vaccination rate could limit the recovery of consumption and affect business confidence, while supply constraints in global trade will slow down manufacturing and goods exports.

Eastern Europe and the Caucasus

While economic recovery is a common phenomenon in 2021 across Eastern Europe and the Caucasus, the speed of recovery is diverging considerably. Energy-exporting economies—Azerbaijan with hydrocarbons and Belarus with oil derivatives—are enjoying stronger growth than expected because of exceptional nominal export growth, supported by high energy prices. Growth in energy-importing countries is holding up for now and is often even higher than expected (Armenia, Georgia, Moldova), but could come under pressure in the last quarter of 2021 and into 2022 due to rising Covid-19 cases and the ongoing energy crunch. These negative effects could be offset by rising remittances from Russia and their impact on domestic consumption, services and real estate sectors. GDP in the region as a whole is expected to rebound to 3.6 per cent in 2021, followed by a slight moderation to 2.9 per cent in 2022. Uncertainties stem from the future development of the Covid-19

pandemic, vaccine uptake, the recovery of global demand and future energy prices.

Armenia

After the prolonged decline by 3.3 per cent year-on-year in the first quarter of 2021, the economy posted strong growth of 13.2 per cent year-on-year in the second quarter, driven by rebounding consumption and increased investments from the expenditure side and services from the production side. Though still solid, growth has started to moderate in the third quarter. Remittances have been growing strongly, with the inflow of money transfers increasing by 32.5 per cent year-on-year in the first half of 2021, largely driven by strong growth of transfers from the United States (84.5 per cent increase in the first half of 2021, compared with a decrease of 17.4 per cent in the corresponding period of the previous year). Inflation accelerated from around 1 per cent in the last months of 2020 to 8.9 per cent in September 2021 as a consequence of higher international food and energy prices and the pass-through effect of last year's dram depreciation. This prompted the Central Bank of Armenia to raise the refinancing rate six consecutive times by a cumulative 3 percentage points to 7.25 per cent in September 2021. The Armenian economy is expected to grow by 5.0 per cent in 2021, followed by 5.3 per cent growth in 2022. Key risks remain related to the low vaccine uptake and the future path of the Covid-19 pandemic in general, as well as ongoing regional and geopolitical tensions.

Azerbaijan

The recovery has been stronger than expected on the back of rising oil and gas prices. GDP growth accelerated to 4.8 per cent year-on-year in the period January to September 2021, mainly driven by non-oil sector growth of 6.2 per cent. However, oil production is rising only gradually in line with Azerbaijan's commitments to the agreement of OPEC+. Therefore, oil and gas GDP growth remained moderate at 1.4 per cent in the same period. Favourable hydrocarbon prices helped turn the current account into a surplus in the first quarter of 2021. In spite of currency stability, rising global prices of commodities and logistics services caused inflation to accelerate to 8.5 per

cent year-on-year in September 2021. As the inflation rate exceeds the target of 4 per cent +/- 2 per cent, the Central Bank of Azerbaijan decided to raise the policy rate by 25 basis points to 6.5 per cent in September. Rising demand and higher prices of oil, supported by an expected continuation of gradual increase of oil production quotas, will support overall economic performance in the second half of 2021. On this basis, the economy is expected to grow by 4.0 per cent in 2021 and 3.2 per cent in 2022. This forecast is subject to risks related to structural weaknesses of the economy, geopolitical developments and possible volatility in commodity prices.

Belarus

GDP growth in Belarus reached a peak of 3.5 per cent year-on-year in the first half of 2021, but slowed to 3.0 per cent in January-August 2021. Growth was largely driven by double-digit (in percentage terms) real growth of exports and revived household consumption. On the production side, the growth of industrial production has been decelerating after the strong increase up to May 2021, due to the ending of base effects and possibly some early impact from international sanctions. The current account was slightly positive in the first half of 2021, and the currency has stabilised. However, inflation accelerated to 10.2 per cent year-on-year in September 2021, well above the central bank's target rate of 5 per cent, prompting it to raise the refinancing rate twice to 9.25 per cent. Economic sanctions and targeting of the export-focused potash and petroleum industries as well as sanctions-related supply shortages are expected to hit the economy later in 2021 and throughout 2022. At the same time, a strong commodities-based recovery in Russia, its main trading partner, could have a positive impact on Belarusian exports. Growth is expected to decelerate in the second half of 2021, bringing overall growth for 2021 to 2.0 per cent, and is expected to subsequently stagnate with growth of only 0.2 per cent in 2022.

Georgia

Economic activity in Georgia sharply increased in the second quarter of 2021, posting 29.9 per

cent growth year-on-year and bringing GDP above the 2019 level. Cumulative GDP growth in the period January to August was 12 per cent year-on-year, even though tourism, the main driver of growth in recent years, is still far below pre-pandemic levels. Georgia's current account deficit widened during 2021, as the increased exports of goods and remittances only partially balanced out the increased imports of goods and low level of exports of services (especially tourism revenues). After appreciating in June 2021, the exchange rate has subsequently stabilised. Inflationary pressures have been increasing since the beginning of the year and the rate of inflation reached 12.3 per cent year-on-year in September 2021 on the back of higher international food and oil prices and pass-through of last year's depreciation. The National Bank of Georgia reacted by increasing the refinancing rate three times in 2021 by a cumulative two percentage points, to 10 per cent in August 2021. On the basis of strong growth in the first eight months of 2021, the economy is expected to grow by 7.5 per cent in 2021. The gradual return of tourism could support growth prospects in 2022, projected at 5.5 per cent growth. The main risks stem from the slow vaccine uptake, the future path of the pandemic and possible travel restrictions, as well as increased political volatility.

Moldova

The Moldovan economy posted strong economic growth of 11.7 per cent year-on-year in the first half of 2021. Growth was mainly driven by double-digit growth of investment and household consumption on the demand side, and equally strong performances of the manufacturing, construction and ICT sectors on the production side. The strong recovery was supported by revived export demand from European automotive value chains, as well as a high increase of money transfers, growing by 23.2 per cent year-on-year in the first half of the year, and feeding into households' disposable incomes. Higher food and energy prices since the beginning of 2021 pushed inflation up from almost zero in January to 6.7 per cent in September 2021, exceeding the central bank's target rate of 5 per cent. The National Bank of Moldova reacted by raising the base rate three times, to 5.5 per cent in October 2021.

Since Moldova is integrated into European supply chains, especially of automotive and textile industries, continuation of economic growth depends on global demand and will likely follow the pattern of global recovery. Based on strong economic performance in the first half of 2021, GDP growth of 7.0 per cent is expected in 2021, followed by 4.0 per cent in 2022. Downside risks are related to the rollout of vaccines and a potential gas-related energy crunch.

Ukraine

Amid the prolonged lockdown in early 2021, the economy declined by 2.2 per cent year-on-year in the first quarter, before embarking on a moderate recovery of 5.7 per cent year-on-year in the second quarter. Driven by double-digit growth of household consumption and investment, the recovery was also supported by a strong rise of prices of major export products like cereals and iron. Improved terms of trade contributed to maintaining a positive current account in the balance of payments, which in turn increased the supply of foreign currency on the market and caused appreciation of the Ukrainian hryvnia. Nevertheless, inflation has accelerated during the year to 11.0 per cent in September 2021, fuelled by rising prices of food and energy. This prompted the National Bank of Ukraine to tighten monetary policy and raise the refinancing rate four times, from 6 per cent in the beginning of the year to 8.5 per cent in September 2021. The growth recovery is expected to gain further traction in the remainder of 2021 supported by a rich harvest of cereals and further normalisation of business activities. Economic growth of 3.5 per cent is expected in 2021 and again in 2022. The slow speed of vaccination amid surging Covid-19 cases as well as the erratic progress of reforms remain the main downside risks.

Russia

A broad-based recovery saw the Russian economy return to its pre-pandemic level by the second quarter of 2021. Mining activity was strong, and retail sales recovered rapidly following the easing of virus-related restrictions, driven by tighter labour market conditions and rapid retail credit growth. Although there were some signs of

slowing in the mining sector at the start of the third quarter, retail sales have remained robust and higher OPEC+ oil production quotas should support mining output in the coming months.

Reflecting the shift in priorities of the authorities towards growth and social welfare, well-targeted social expenditure measures were reintroduced prior to September's DUMA elections. These measures had initially been introduced alongside President Putin's constitutional changes last year, and were aimed at those groups more likely to spend than save, notably families, children, pensioners and the military.

The authorities have also undertaken steps to shield the public from inflation, which hit a 5-year high of 7.4 per cent in September 2021. These measures include food price caps and export restrictions and duties. In addition, the central bank has been acting aggressively to control inflation, having increased rates by 350 basis points since March 2021 to their current level of 7.5 per cent. While to a large extent inflation has been driven by higher food prices and supply bottlenecks, to a degree the central bank sees the inflation shock as being driven by a rapid recovery in domestic demand – in no small part linked to the social payments – and rising inflation expectations.

Provided the social expenditure measures do not interrupt the underlying strong macroeconomic situation in the context of the ongoing sanction threat, they are likely to endure. The strong fiscal situation should provide support here. Oil revenues are robust due to high oil prices, and non-oil revenues should be boosted by tax hikes on businesses, among other things to force exporters to share high profits arising from commodity price increases.

Overall GDP is expected to grow by 4.3 per cent in 2021 and 3.0 per cent in 2022, provided there is no significant deviation from the recovery path from the pandemic. Nevertheless, the forecast is subject to a number of risks both to the upside and the downside, not least geopolitical tensions, notably the risk of further sanctions, and volatility in oil and gas prices and demand.

South-eastern European Union

A significant recovery is under way in the three countries of this region after a difficult 2020. The economies are growing particularly strongly in both Greece and Romania, and more moderately in Bulgaria. Greece's all-important tourism sector has made a better than expected recovery, albeit still below the record levels seen in 2019. Domestic demand is the key driver of growth in Romania, while private consumption is holding up well in Bulgaria. Key government support measures have been continued in 2021, helping all three economies to recover from the worst effects of the pandemic. On average, the region is forecast to grow by 6.7 per cent in 2021, moderating to 4.3 per cent in 2022. However, significant uncertainties and risks remain, mostly relating to the future path of the pandemic and vaccinations and the potential adverse impact on vital sectors such as tourism.

Bulgaria

The Bulgarian economy contracted by 4.2 per cent in 2020 due to a weak performance of exports and investment, but mitigated by resilient private demand. In the first half of 2021, GDP expanded by 3.1 per cent year-on-year, as the recovery momentum slowed down in the second quarter. Private consumption accelerated in the second quarter, on the back of eased containment measures and strong wage growth. Public sector wages increased by 18 per cent in the first half of the year, while private sector salaries rose by almost 11 per cent. This led to an increase in government spending of 5 per cent in the same period, as the authorities continued key support measures. However, investment recovery remained weak, at about 7 per cent below pre-pandemic levels. Goods exports have finally rebounded by a stronger extent in the second quarter of 2021 after modest quarter-on-quarter readings since the second quarter of 2020. Service exports also expanded strongly in the second quarter of 2021 by 45 per cent, but it was insufficient to close the still large gap with pre-pandemic levels. Inflation has been accelerating strongly since January 2021 to reach 4.8 per cent in September reflecting heightened energy prices and increasing food prices. GDP is forecast to

grow by 4.2 per cent in 2021 and 4.4 per cent in 2022. However, risks are tilted to the downside, including due to the low vaccination rate and ongoing political crisis.

Greece

The Greek economy is recovering strongly after a deep contraction of 9 per cent in 2020. GDP in the first quarter of 2021 rose by 4.5 per cent on a quarter-on-quarter basis, and further by 3.4 per cent quarter-on-quarter in the second quarter. Investment has bounced back strongly in the first part of the year, especially inventory accumulation, and consumption is also rising, boosted by buoyant consumer sentiment – the economic sentiment indicator reached an 18-month high in August 2021. The purchasing managers index (PMI), an important indicator of business confidence, reached 59.3 in August 2021, versus 57.4 in July, the highest level for more than 20 years and a clear signal of expansion in the sector. Unemployment has continued to decline, reaching 14.2 per cent in July 2021, the lowest rate since November 2010. Preliminary figures from the all-important tourism sector indicate a better-than-expected performance so far this year, albeit still well below the record levels of 2019. Fiscal policy remains strongly oriented towards crisis-response measures, with the deficit likely to exceed 7 per cent of GDP for the second year in a row. On the back of these trends, robust growth is expected in the short term, at 7.0 per cent in 2021 and 3.9 per cent in 2022. The roll-out of the European Union's Recovery and Resilience Facility and European Structural and Investment Funds is expected to make a significant contribution to growth. However, the level of uncertainty around forecasts is particularly high at present, and significant downside risks remain for the Greek economy, mostly associated with the future path of the Covid-19 pandemic and the possible impact of a new strain of the virus on tourism and other services.

Romania

After falling in 2020 by 3.9 per cent, GDP expanded by 7.0 per cent in the first two quarters of 2021 and by mid-year already exceeded pre-pandemic levels in adjusted terms, but economic

risks have lately increased. Domestic demand remained the key driver of growth, with investment expanding at a strong pace of 12 per cent year-on-year in this period. Goods exports already recovered by the end of 2020 and continued expanding in 2021, but momentum is weakening amid supply chain issues. Imports of goods were almost 10 per cent higher in Q2 2021 than in Q4 2019, reflecting a strong inventory build-up, despite a slowdown in momentum in the last quarters. As such, net exports will return to a negative contribution to growth in 2021. The fiscal deficit will also remain high in 2021 at about 7.1 per cent of GDP (cash-based), as the above expectations revenues performance was matched with a significant increase in expenditures in the latest budget revision. Inflationary pressures significantly increased since May 2021, with inflation reaching 6.3 per cent in September as food prices accelerated on top of energy price hikes. Consequently, the National Bank of Romania increased the policy rate in October to 1.5 per cent. Overall, GDP is expected to grow by 7.2 per cent in 2021. In 2022, the Recovery and Resilience Facility should start boosting investments, while gradually improving net exports, in line with a slowdown of private consumption compared to recent years and expected fiscal consolidation could translate into GDP growth of 4.4 per cent. The main downside risk to the forecast is the evolution of the pandemic, as the vaccination rate is the second lowest in the EU.

Southern and eastern Mediterranean

The recovery in economic activity has started in most countries of the southern and eastern Mediterranean region, mainly driven by a rebound of agriculture and telecommunication, as well as some growth in tourism and exports. Economies in this region are expected to rebound, on average, by 4.2 per cent in 2021 and 4.4 per cent in 2022, but this will also depend on the strength of the global recovery, progress on vaccinations, increased political stability and the implementation of business environment reforms to increase competition, improve governance, combat corruption, advance digitalisation and promote inclusion.

Egypt

Growth slowed in Egypt to 3.3 per cent in the fiscal year ending June 2021, from 3.6 per cent in the previous fiscal year. Economic activity improved in the wholesale and retail trade, construction, agriculture and telecommunication sectors, but these were offset by sluggish manufacturing activity and weak tourism. Meanwhile, inflation slowed to 4.5 per cent in the same fiscal year, below the central bank's target of 5.0-9.0 per cent, but started heating up in July-September 2021, averaging 5.9 per cent year-on-year, driven by food and beverages price increases. Growth is expected to pick up to 4.9 per cent in fiscal year 2021-22, sustained by the boom in the telecommunications sector, as well as the pick-up in private consumption and investment, and the return of foreign direct investment flows. However, risks include a slow uptake of vaccination and the weak outlook in the tourism sector in view of a probable global delay in tourism recovery. On a calendar year basis, growth is forecast to recover to 5.3 per cent in 2021, from 1.5 per cent in 2020, before moderating to 5.0 per cent in 2022.

Jordan

In the first half of 2021, the Jordanian economy rebounded owing to a stronger recovery in the second quarter, after a slow start in the beginning of the year. Growth averaged 1.8 per cent year-on-year in the first half of 2021 as activity returned to pre-crisis levels in several key sectors. Finance and business-related services, as well as manufacturing, and mining, were the main drivers of growth, while tourism continued to weigh negatively on growth. In tandem, inflation volatility subsided as prices resumed their gradual acceleration in recent months, with the inflation rate reaching 1.9 per cent year-on-year in September. GDP growth is forecast to reach 1.5 per cent in 2021, as restrictions on movement are gradually lifted towards the end of the year. In 2022, growth is expected to pick up to 2.2 per cent, sustained by stronger cross-border trade and a continued recovery in the tourism sector. The economy is expected to benefit from IMF-supported reforms in the long term, but growth will likely remain subdued as the necessary return to fiscal discipline constrains government

spending. The main risks to the outlook include the erosion of real competitiveness stemming from an overvalued exchange rate, regional instability, and slower-than-expected recovery in partner economies.

Lebanon

Lebanon continues to experience the most serious crisis in decades, following a painful economic contraction of 25 per cent in 2020. Delays in government formation have derailed much-needed reforms, pushing back prospects for an IMF-supported programme. In this challenging context, the authorities struggled to halt exchange rate deterioration and to access external sources of financing needed to support the economy, maintain key subsidies and shore up reserves. As a result, the government was unable to sustain access to basic commodities for a large segment of the population, and prolonged electricity and fuel shortages weighed heavily on activity while further feeding into the spiralling inflation. Prices continued to more than double each month in 2021, growing by as much as 137.8 per cent year-on-year in August 2021, while food and transport prices almost tripled in the twelve-month period to August 2021. A further contraction of 10.0 per cent is expected in 2021 as a result of the ongoing economic crisis and delayed government formation, which did not take place until the last quarter of the year. However, the newly resumed negotiations with the IMF raise hopes for an incoming reform programme in 2022, but agreement and disbursement are expected to face delays, particularly with the general elections and the prospects of another government in sight. In light of this uncertainty, any recovery is expected to remain modest in the short term, not exceeding 3 per cent GDP growth in 2022.

Morocco

The economy in Morocco returned to growth in the first half of 2021, at 7.4 per cent year-on-year, driven by the agricultural sector, which benefited from above average rainfall. Non-agricultural economic activity also expanded, mainly in manufacturing and trade, whereas tourism and transport were slower to recover. Inflation accelerated but remained low, averaging 1.0 per

cent year-on-year in the first eight months of 2021, largely on the back of volatile food prices and rising energy prices. GDP is expected to recover by 5.0 per cent in 2021, before moderating in 2022 to 3.2 per cent growth. These projections reflect the relative success of Morocco's vaccination campaign and therefore a relatively faster reopening of the economy, despite a cautious resumption of tourism globally. The economy will benefit from a good rainy season and the expected recovery in Europe, Morocco's main trading partner, as well as the strengthening in exports from the phosphate and automotive sectors. Downside risks include uncertainty over the future of the pandemic, as well as the need for structural reforms to achieve fast growth in the medium term, including leveraging the potential of SMEs in the economy.

Tunisia

GDP in Tunisia continued to contract in the first quarter of 2021, by 1.7 per cent year-on-year, but started to recover in the second quarter, where growth was 16.2 per cent year-on-year. This reflects base effects, as well as the recovery in the export-driven manufacturing sector. However, the tourism and transport sectors continued to be affected by Covid-19 restrictions, and agriculture contracted after a record year in 2020. Inflation has fallen but remains relatively high, at 5.5 per cent year-on-year in the first three quarters of 2021, driven by food price growth and the reduction in subsidies. GDP is projected to recover modestly by just 2.5 per cent in 2021, before picking up to 3.3 per cent in 2022. The recovery will depend on the pace of implementing reforms, which was held back by the lack of political consensus and limited ambition to overhaul public administration and state-owned enterprises. Limited fiscal space will be a constraint on the public sector's contribution to the recovery, as will lingering effects of the Covid-19 pandemic and the slow recovery in tourism worldwide.

Turkey

The strong momentum that resulted in Turkey being one of the few countries worldwide to record a positive growth rate in 2020 carried over into 2021. Turkey reported an impressive 14.5 per cent year-on-year GDP growth rate in the first

half 2021. The strong performance was driven by both domestic and external demand. Initially there were concerns that the change in central bank governor in March 2021 might lead to a return to the unorthodox policies that had resulted in the development of significant internal and external macroeconomic imbalances; until recently these concerns appeared to be unfounded, with policy rates being maintained at 19 per cent until September.

A pickup in tourism and strong export performance resulted in the current account balance narrowing from a peak of US\$ 36 billion in February to US\$ 23 billion by August, and it is likely to reduce further to around 2.4 per cent of GDP by the end of the year. While gross reserves have increased to around US\$ 120 billion in recent months, buffers remain heavily depleted, with net reserves standing at only US\$ 26 billion. These figures need to be viewed in the context of external liabilities due within the next 12 months of around US\$ 170 billion.

Inflation has remained stubbornly high and the decision to cut policy rates by 300 basis points since September caught investors off-guard, as did the decision to sack three members of the monetary policy committee in October, including two deputy governors. This action, coming on top of four changes in governor in the past two years, has resurrected questions about the central bank's credibility, in particular the commitment to maintain tight policy to fight inflation. This lack of policy transparency, alongside the fragile external position, makes Turkey vulnerable to changes in global investor sentiment.

These risks notwithstanding, high frequency indicators suggest that activity remained robust in the third quarter of 2021, and GDP is expected to grow by 9.0 per cent in 2021, moderating to around 3.5 per cent in 2022. Growth will continue to be driven by exports, as the support from domestic demand in the post-lockdown period wanes due to the weaker financial situation of households. There are a number of risks to the forecast, including: further Covid-19-related setbacks; the impact of higher energy prices, given Turkey's heavy dependence on energy imports; risks associated with a premature

loosening of monetary policy; the return of inflation in advanced economies; and adverse geopolitical developments.

Western Balkans

The economies of the Western Balkans are recovering at a faster pace than previously expected. The rebound is driven by the pent-up demand enabled by growing remittances and wages as well as continued recovery in external demand. Industrial production and rising exports to the EU are supporting growth in Bosnia and Herzegovina, North Macedonia and Serbia, while Albania, Kosovo and Montenegro are benefitting from a strong rebound in the hospitality sector over the summer months. Consumer prices have been gradually rising since the beginning of 2021 on the back of higher food and energy prices. Fiscal policy remains accommodative and monetary policy rates are at historical lows, though the likelihood of tightening is increasing given the still growing price levels and trends in the Eurozone. Low vaccination rates, with significant variation across the countries, and dependence on external demand give rise to significant uncertainties over the short-term outlook.

Albania

The Albanian economy posted positive growth for three quarters in a row, from the last quarter of 2020 to the second quarter of 2021. In the second quarter of 2021, GDP expanded by nearly 18 per cent on the back of a strong rebound in domestic trade as well as continued growth in industry and the construction sector. Household consumption is benefiting from rising remittances. Export revenues in the first eight months of 2021 surpassed the comparable period in 2019 by nearly 15 per cent in nominal value as external demand for all sectors grew, including for products outside of the mineral sector which dominates the export basket at nearly 65 per cent. Revenues from service exports, which were nearly four times the size of revenues from goods exports before the pandemic, recovered strongly, but have not yet reached 2019 levels in the first half of the year. After being subdued in the first five months of 2021, tourism strongly rebounded

in the summer season. In June-August, the number of foreign tourists nearly equaled the pre-pandemic figure. Monetary and fiscal policies remain accommodative to support the recovery as inflationary pressures remain moderate and the level of inflation is still below the central bank's target. Earthquake-related reconstruction will continue to boost economic activity in the short term, supported by the Eurobond issuance planned by the end of 2021. The economy is projected to grow by 8.0 per cent in 2021 and by 3.7 per cent in 2022.

Bosnia and Herzegovina

The economic performance of Bosnia and Herzegovina exceeded expectations in the second quarter of 2021. GDP grew by 11.6 per cent relative to the same period last year on the back of the base effect, a recovery in external markets and strong expansion of domestic private consumption. Exports of goods and services grew by over 50 per cent in real terms year-on-year on the back of the strong EU recovery, Bosnia's main export market, and exceeded 2019 levels in both real and nominal terms. Household consumption expanded by double-digit percentage figures, supported by credit growth, increases in nominal wages and remittances (though the level remains lower than in the first half of 2019). The loan portfolios of the banking sector started expanding following relative stagnation during 2020, mostly on the back of loans to households, though credit to the non-financial private sector somewhat increased as well. Short-term indicators of retail trade and industry point to continued expansion of industrial production and services in the third quarter. The economy is expected to expand by 4.5 per cent in 2021 and 3.0 per cent in 2022. The low level of vaccinations, a potentially slower recovery in export markets and continued political stalemate represent the main risks to the economic outlook.

Kosovo

The Kosovo economy is recovering mainly on the back of a supportive external sector. GDP increased by 16.3 per cent year-on-year in April-June 2021, posting growth for the third consecutive quarter. Household consumption is upheld by a continuously growing inflow of

remittances, which expanded by 23 per cent year-on-year in the first eight months of 2021, and credit growth. Exports of services, which were more than four times exports of goods pre-pandemic, doubled in the first seven months compared with the same period in 2020, surpassing the respective 2019 level by 11 per cent. The strongest jump so far was observed in May-June when travel-related services increased more than fourfold compared with the 2020 level and by 34 per cent compared with the pre-pandemic year. Goods exports grew strongly as well, nearly doubling in nominal terms versus the same period in 2019. This comes largely on the back of a successful recent expansion of the furniture sector, which is expected to continue supporting expansion of exports and their geographical diversification. The economy is forecast to grow by 7.7 per cent in 2021 and by 4.5 in 2022. The main risks to the outlook relate to the pandemic and potential weaknesses in the external sector.

Montenegro

Following one of the worst contractions in the EBRD regions in 2020, the economy of Montenegro has started to recover strongly. GDP expanded by 19 per cent in the second quarter of 2021, driven by the strong base effect of last year and a recovery in both domestic and external demand. Given the importance of the tourism sector in GDP, the performance of the third quarter (for which GDP data are not yet available) will largely determine overall GDP growth this year. After a sluggish start, tourism picked up strongly in the summer, with the number of incoming foreign tourists and overnight stays in collective accommodations reaching around 85 per cent of 2019 levels in July/August. While these results are largely due to visitors from the near region, some tourists are coming from further afield. In particular, the number of tourists from Ukraine nearly tripled in the first eight months compared with the whole of 2019, bringing the share to more than 12 per cent of total tourists and making Ukraine the second largest source of tourists this year. On the back of this result, the government's budget recorded a surplus of €105 million in June-August, propping up the fiscal accounts. Retail trade has been

growing since April, reaching over 50 per cent growth in peak summer months. The economic sentiment indicator has been positive since May 2021. GDP is forecast to grow by 12.3 per cent in 2021 and by 5.7 per cent in 2022. Upside potential comes from the possibility of an even stronger than expected end to the tourism season, but negative risks largely relate to uncertainties connected to the future path of the pandemic and recurring political volatility.

North Macedonia

A recovery is underway in North Macedonia following four consecutive quarters of negative growth between the second quarter of 2020 and the first quarter of 2021. GDP expanded by 13.1 per cent year-on-year in the second quarter of 2021, driven by both domestic and external demand. Household consumption grew strongly, supported by increasing wages, credit growth and remittances (albeit still at relatively low levels compared with other regional economies). Exports of goods increased in both value and volume terms driven by the recovery in the EU, North Macedonia's main export market, and growing in tandem with imports. Foreign direct investment increased in the second half of 2021, surpassing the respective 2019 level. However, this growth largely reflects reinvested earnings and debt instruments, and the share of new equity is very low. Consumer inflation increased on the back of temporary global factors, but remains under control at 3.6 per cent year-on-year in September. Monetary policy rates are at all-time lows, supporting the economic recovery. The economy is forecast to grow by 4.0 per cent in both 2021 and 2022. The main risks to the outlook relate to the speed of recovery in European markets and Covid-19 developments.

Serbia

After a mild contraction in 2020, the economy in Serbia is growing strongly in 2021. GDP grew by 13.7 per cent year-on-year in the second quarter, largely reflecting the low base of the same quarter last year. All main sectors of the economy are growing with the exception of agriculture, which remains weak since the beginning of the year. The strong expansion of exports and industry reflects the rebound of the Euro Area, Serbia's main

trading partner. Robust household consumption growth has followed a period of pent-up demand. Short-term indicators on domestic and external demand in the third quarter point to continued recovery despite the, likely temporary, slowdown in industrial production during the summer period. On the back of the base effect of the last year, rising prices of agricultural products and energy and supply chain bottlenecks, inflation increased to 5.7 per cent year-on-year in September 2021, outside the central bank's target band of 3 per cent +/- 1.5 per cent. Monetary policy has remained accommodative with the central bank's main policy rate at an all-time low of 1 per cent. Following issuance of two government bonds on external markets in 2020, Serbia has placed another three Eurobonds so far in 2021 for a total amount of €2.75 billion. These include the first ever seven-year green bond at a record low coupon rate of 1.0 per cent, and a 15-year Eurobond, the longest maturity Serbia has issued so far. On the back of continuous access to external markets and an increase in the SDR allocation by the IMF, the international reserves of the National Bank of Serbia increased by 16 per cent versus end-2020 to a record level of €15.6 billion. Foreign direct investment recovered in the first half of 2021 nearly to the 2019 level and, with almost 50 per cent of it equity, will facilitate future growth. Near-term economic prospects are positive, though uncertain given the nature of the pandemic, slow speed of vaccinations and dependence on external markets. The Serbian economy is forecast to grow by 6.5 per cent in 2021 and by 4.3 per cent in 2022.

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 2021-22, which are all available on the Bank's website at www.ebrd.com.

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