

Fighting COVID-19

Europe and Central Asia Economic Update

Office of the Chief Economist

Spring 2020



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Abbreviations

bbf	barrels
BHAS	Agency for Statistics of Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
CA	Central Asia
CAB	current account balance
CAD	current account deficit
CBA	Central Bank of Azerbaijan
CBR	Central Bank of Russia
CE	Central Europe
CIT	corporate income tax
CNB	Croatian National Bank
CPI	Consumer Price Index
CROSTAT	Croatian Bureau of Statistics
EAP	East Asia and Pacific
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
ECAPOV	ECAPOV (ECA Poverty) database of standardized household surveys
ECB	European Central Bank
EE	Eastern Europe
EIA	Energy Information Administration
EMDEs	emerging markets and developing economies
ERM II	European Exchange Rate Mechanism
EU	European Union
EU-SILC	European Union Statistics on Income and Living Conditions
FBiH	Federation of Bosnia and Herzegovina
FDI	foreign direct investment
FTSE	Financial Times Stock Exchange
FX	foreign exchange
GDP	gross domestic product
GMI	Guaranteed Minimum Income
GVCs	global value chains
HBS	Household Budget Survey
HCI	Human Capital Index
HHS	household survey
HICES	Household Income, Consumption, and Expenditure Survey
HIS	Household Income Survey
HLCS	Household Living Conditions Survey
HPP	Rogun Hydropower Plant (Tajikistan)

ICT	information and communications technology
IEA	International Energy Agency
IFI	international financial institution
ILCS	Integrated Living Conditions Survey
IMF	International Monetary Fund
IT	information technology
KIHS	Kyrgyz Integrated Household Survey
LAC	Latin America and the Caribbean
LCU	local currency unit
LFS	Labor Force Survey
LMIC	lower-middle-income country
MFMMod	Macro-Fiscal Model (World Bank)
mmbtu	one million British thermal units
MNA	Middle East and North Africa
MONSTAT	Statistical Office of Montenegro
MPO	Macro Poverty Outlook
NATO	North Atlantic Treaty Organization
NBK	National Bank of Kazakhstan
NBR	National Bank of Romania
NBS	National Bank of Serbia
NBT	National Bank of Tajikistan
NBU	National Bank of Ukraine
NEET	Not in Education, Employment, or Training
NPL	nonperforming loan
NWF	National Welfare Fund (Russian Federation)
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
pc	per capita
PIT	personal income tax
pp	percentage point
PPP	purchasing power parity
Rosstat	Russian Federal State Statistics Service
SAR	South Asia
SC	South Caucasus
SOE	state-owned enterprise
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SSA	Sub-Saharan Africa
Taj Stat	Agency on Statistics of Tajikistan
TSA	Targeted Social Assistance (Tajikistan)
TSA	United Nation's Tourism Satellite Account
UKRSTAT	State Statistics Service of Ukraine
UMIC	upper-middle-income country
UNDP	United Nations Development Programme
VAT	value-added tax
WDI	World Development Indicators
yoy	year-over-year

Regional Classification Used in this Report

This report covers 47 countries referred to as Europe and Central Asia (ECA) countries. These are divided into 10 groups: Western Europe, Southern Europe, Central Europe and the Baltic Countries, Northern Europe, Western Balkans, South Caucasus, Central Asia, Russia, Turkey, and Eastern Europe.

TABLE E.1 Regional classification used in this report

Europe and Central Asia	European Union and Western Balkans	European Union				Western Balkans
		Western Europe	Southern Europe	Central Europe and the Baltic Countries	Northern Europe	
		Austria	Cyprus	Bulgaria	Denmark	Albania
Belgium	Greece	Croatia	Finland	Bosnia and Herzegovina		
France	Italy	Czech Republic	Sweden	Kosovo		
Germany	Malta	Estonia		Montenegro		
Ireland	Portugal	Hungary		Republic of North Macedonia		
Luxemburg	Spain	Latvia		Serbia		
The Netherlands		Lithuania				
United Kingdom*		Poland				
		Romania				
		Slovak Republic				
		Slovenia				
Eastern Europe and Central Asia	South Caucasus	Central Asia	Russian Federation	Turkey	Eastern Europe	
	Armenia	Kazakhstan			Belarus	
	Azerbaijan	Kyrgyz Republic			Moldova	
Georgia	Tajikistan			Ukraine		
	Turkmenistan					
	Uzbekistan					

* The United Kingdom is no longer a part of the European Union as of January 31, 2020.

Executive Summary

Growth in the emerging market and developing economies of Europe and Central Asia decelerated to 2.2 percent in 2019, reflecting weakness in the region's two largest economies, Turkey and the Russian Federation. Earlier financial market stress resulted in a sharp growth slowdown in Turkey; activity in Russia was tepid amid weak demand and cuts in oil production.

In February, the coronavirus outbreak interrupted the incipient recovery that was underway earlier in the year. Given the rapidly evolving situation, this update summarizes the recent developments and growth outlook for the region under different scenarios regarding the outbreak. It discusses the potential channels of transmission, provides estimates of spillovers, and emphasizes necessary policy responses.

The impact of the coronavirus pandemic on growth in the region will depend on how the outbreak evolves. If the outbreak is largely contained by the second half of the year and measures to stop the spread of the virus—including quarantines, travel restrictions, and international border closures—are lifted, economic activity could resume, supply chains could recover, and financial markets and commodity prices could stabilize. However, if the virus spreads to most countries and efforts to contain the outbreak spill into the third quarter of 2020, financial market pressures continue, commodity prices remain weak, and domestic health-care systems are strained, the growth impacts will be more severe. Either way, the region is bracing for a recession.

Although the magnitudes are uncertain, the pandemic is likely to derail the near-term outlook by interrupting daily activity, putting further downward pressure on commodity prices, disrupting tightly linked global and regional supply chains, reducing travel and tourist arrivals, and decreasing demand for exports from economies in the region. There are trade-offs between the health benefits of policies to slow down the spread of the disease and the economic costs of these actions. During these difficult times, it is important for policy makers to act decisively to save lives and invest in their public health systems; but also minimize the economic cost by strengthening the safety net for the most vulnerable; supporting the private sector through short-term credit, tax breaks, or subsidies; and being prepared to lower interest rates and inject liquidity to restore financial stability and boost confidence.