REGIONAL BRIEF

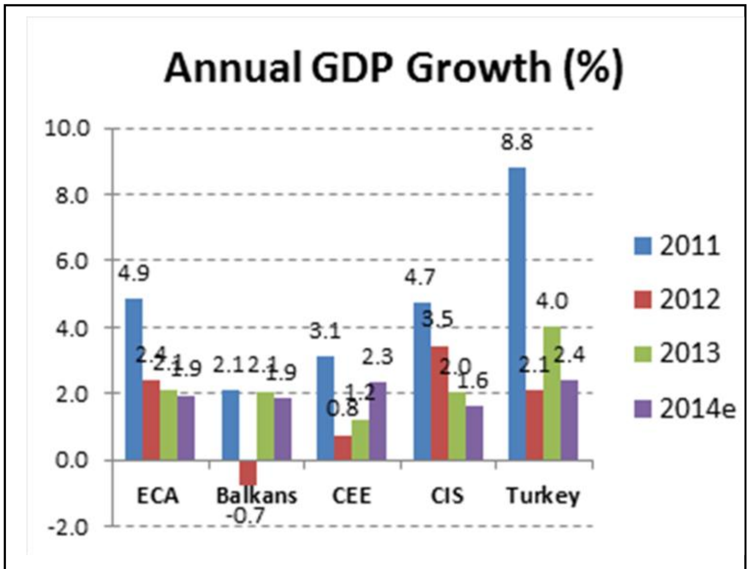
The World Bank

EUROPE AND CENTRAL ASIA

CONTEXT:

The Europe and Central Asia (ECA) region, which includes 31 countries, has undergone a modest economic recovery since 2010 following the global economic crisis. A slowdown in the pace of structural reforms accompanied by economic volatility and political tensions affecting several ECA countries may challenge the economic recovery of the region in the near future.

Economic growth in ECA remains slower than in other developing regions. For 2014, GDP growth in all ECA sub-regions is expected to be around 2 percent.



For Central and South East European (CSEE) countries, this is a slight acceleration from 2012 and 2013 when growth was feeble (0.7 percent in 2012 and 1.3 percent in 2013). Several CSEE countries will continue to experience unemployment rates of above 10 percent in 2014.

In the Commonwealth of Independent State (CIS) economies, economic growth has slowed by more than 2 percentage points from its 2011 level and prospects for a rebound are not promising. In Turkey, we also note a marked slowdown in economic growth to 2 percent compared to 4.3 percent in 2013.

CSEE countries are expected to grow by 2.3 percent on average during 2014, while average growth for the CIS economies is projected at 1.9 percent.

Uncertainty in the external environment may also affect economic growth during 2014. Speculation about the end of the quantitative easing policy in the United States significantly reduced capital flows to the region during 2013 and may continue to do so in 2014. Furthermore, political tensions in the region may affect not only the Russian and Ukrainian economies, but also other economies in the region. Lower growth expectations in Russia can be expected to slow down economic growth in its closest economic partners.

Domestic factors will also be important in shaping the effect of international forces on economic growth. High levels of external debt in some countries make them particularly vulnerable to changing conditions in international financial markets. Fiscal consolidation in some of the economies of the Western Balkans might partially offset the contribution of stronger exports to GDP growth. The high levels of Non-Performing Loans (NPLs) in the region, together with an ongoing restructuring of the banking sector, could negatively affect investment and consumer demand in 2014.

On the other hand, the projected stability of oil prices could mitigate uncertainty among energy exporters in the region. Economic recovery in the Euro Area – an important destination for exports and migrants from ECA countries – could also contribute to sustained economic growth in the region.

STRATEGY:

In order to reach the World Bank Group's twin goals of ending extreme poverty within a generation and boosting shared prosperity, the strategy of the Europe and Central Asia region is focusing on two main areas of intervention: (i) competitiveness and shared prosperity; and (ii) environmental, social, and fiscal sustainability.

- **Competitiveness and shared prosperity through jobs**

  In the past decade, most ECA countries have done well in terms of shared prosperity. This means that the incomes of the lower-earning 40 percent of the population have grown. Jobs and access to quality public services are key to ensuring that economic growth benefits the less well-off. Creating quality jobs is a challenge in many ECA economies, especially in CSEE, where unemployment remains stubbornly high since the crisis. Creating new, quality jobs will require structural reforms to strengthen the competitiveness of ECA economies. Such reforms include improving governance and the investment climate, ensuring the stability of the financial sector, upgrading the skills of the labor force, building and maintaining energy and transport infrastructure, and maintaining a sound macroeconomic framework.

  To achieve these ends, the Bank has helped improve workers' skills and create new job opportunities, modernize tax administrations, improve roads, strengthen the business environment and policies conducive to innovation, increase access to finance for small- and medium-enterprises, stabilize public finances, and strengthen financial sector regulations in ECA countries.

- **Environmental, social, and fiscal sustainability**

  To be sustainable in the longer term, economic growth and shared prosperity need to be fiscally affordable, environmentally responsible, and conducive to social inclusion. The Bank supports ECA countries in designing and implementing reforms to improve the efficiency and fiscal sustainability of their pension, social protection, and health care systems, so that these systems can adapt successfully and continue to benefit the people of ECA countries for generations to come.

  We are also working with ECA clients to strengthen social cohesion through supporting community-driven development and social accountability so that citizens' voices are heard in designing social policies and improving public services. Improving economic opportunities and public services for disadvantaged communities is also an important element of the Bank's social sustainability work. This includes support for Roma inclusion in CSEE countries through advocacy and evidence-based analysis, as well as through lending and technical assistance from the Bank's budget.

  Climate adaptation and energy efficiency remain strategic priorities for the ECA region. Despite significant progress in the past decade, ECA remains the most energy-intensive region in the world. Better energy efficiency will bring both environmental and economic gains. The Bank is working with ECA clients to achieve these gains through policy reforms (e.g. energy pricing) and investments in both public infrastructure and private industry. Adaptation efforts focus on improved water resource management (flood protection, water loss reduction, irrigation efficiency), disaster risk mitigation, climate-smart agriculture (e.g. switch to more resilient crops), and improving institutional capacity for improving weather forecasting and climate change monitoring.

RESULTS:

World Bank Group Assistance

It is planned that the World Bank Group will provide $10.7 billion in ECA during fiscal year 2014, aimed at fostering growth for shared prosperity and poverty reduction. This includes project and policy loans to governments totaling $5.1 billion for ECA countries, comprising $4.4 billion and $0.7 billion in IBRD and IDA commitments respectively. The IFC will provide $4.4 billion in financing to the private sector and MIGA will issue $1.2 billion in investment guarantees to support private sector investments in the region this fiscal year.

Middle-income countries interested in highly specific knowledge services that exceed what the Bank can finance from its own resources are increasingly accessing Bank technical expertise using Reimbursable Advisory Services (RAS). Under RAS programs, the Bank works with countries at their request and provides reimbursable technical advice. ECA has been engaged in 141 RAS programs since 2006, including 21 RAS agreements signed to date in fiscal year 2014. Countries that have signed RAS agreements include: Albania, Bosnia and Herzegovina, Bulgaria, the Czech Republic, Georgia, Greece, Italy, Kazakhstan, Latvia, Poland, the Republic of Cyprus, Romania, the Russian Federation, the Slovak Republic, Slovenia, and Turkmenistan.

Some notable outcomes of our lending and RAS work include:

- In Poland, following 200 years of flooding of the Odra River Basin, thousands of homes – and millions of residents – are now protected, and 60,000 ancient artifacts were found and conserved during archaeological excavations as part of the flood protection project work along Poland's Odra River.

- In Greece, technical support from the WBG has helped the country climb 28 ranks in the last two *Doing Business* rankings through our Reimbursable Advisory Services (RAS) work focusing on improving the business environment.

- In FYR Macedonia, the Conditional Cash Transfer (CCT) program has increased secondary education enrollment by 10 percentage points. Approximately 7,500 children from poor families, who would not otherwise attend school, regularly attended secondary school in the school year 2013–14 thanks to the new CCT benefit. The coverage of the CCT secondary education program increased from about 67 percent of eligible children in the first year of implementation to about 86 percent in 2012-13.

- In Tajikistan, regulatory reforms aimed at improving the business environment have cut the length of time that it takes to start a business from 62 days to 24 days. In addition, the number of required business permits was reduced from 609 down to 85—a measure that is expected to help the private sector save around US$18 million annually.

- In Albania, 607 classrooms and laboratories were constructed or rehabilitated, and over 24,000 computers and internet connectivity to schools were provided, reducing the students per computer ratio from 46 to 14 students per computer in urban centers and from 133 to 13 students per computer in rural areas.

Please go to "Results in ECA" for more examples of the Bank's work in ECA.

Analytical Work Highlights

In addition to its financial products and RASs, the Bank produced important research about critical issues in the region during the past fiscal year. Through its analytical work, the World Bank aims to bring global knowledge and adapt it to the needs of ECA countries.

Following up on ECA's 2012 regional flagship report, *Golden Growth: Restoring the Lustre of the European Economic Model*, the region launched its *Diversified Development: Making the Most of Natural Resources in Eurasia* report this fiscal year, produced in partnership with the Eurasian Development Bank. This latest report finds that having natural resources does not have to be a curse – it can be a blessing if the countries ensure proper management of revenues from natural resources, invest earnings in building up physical and human capital, and improve institutions.

A package of analysis entitled the *Face of Poverty in Europe and Central Asia* focuses on the specific challenges of poverty in the ECA region, where some 80 million people live on less than $5 per day and struggle to meet basic needs. High heating bills during long, harsh winters, and the higher caloric intake required to survive the cold make for a higher cost of subsistence than in other regions. Unemployment and low wages are the major factors that keep people in poverty in ECA.

The Inverting Pyramid: Pension Systems Facing Demographic Challenges in Europe and Central Asia report examines how pension systems in emerging Europe and Central Asia (ECA) are facing increasing pressures from the region's aging populations and shrinking labor force. These demographic pressures make it imperative for countries to work on comprehensive, long-term, and socially sustainable reforms to put in place pension systems that protect the elderly poor and future generations.

The *Back to Work: Growing with Jobs in Europe and Central Asia* report recommends actions to create more and better jobs in ECA in two main policy areas: 1) laying the fundamentals for job creation through an enabling macroeconomic and business environment that allows existing firms to grow and new firms to emerge and succeed or fail quickly and at low cost; and 2) supporting workers to tap into new job opportunities so that they have the right skills and work incentives, unhindered access to the labor market, and are able to move to places that offer more job opportunities.

The recent *Looking Beyond the Horizon: How Climate Change Impacts and Adaptation Responses Will Reshape Agriculture in Eastern Europe and Central Asia* publication and the subsequent country-specific reports examine the challenges and opportunities being created in the agriculture sector in Albania, the Former Yugoslav Republic (FYR) of Macedonia, Moldova, and Uzbekistan. Through economy-wide modeling of water supply and demand, the analysis finds that, in many cases, water availability for irrigation will be severely curtailed by climate change. This will greatly exacerbate the effects of climate change on crops – especially irrigated crops – with potential yield reductions of 20–50 percent by 2050. The report also offer countries practical advice on how to help their agricultural sectors adapt to shifts in climate, in a combined effort to both decrease the vulnerability of farmers to climate variability and bolster their ability to capitalize on potential gains presented by a changing climate.

The ECA region also provides timely monitoring of economic trends and prospects in the region through its Regular Economic Reports for the EU11[1], Belarus, Moldova, Russian Federation, South East Europe[2], Turkey, and Ukraine.

Individual Country Program Snapshots are updated twice a year, and include analyses of the economy, sectors, and the World Bank's activities in country. They also include Project Briefs, which detail the projects' objectives, results, and financing.

PARTNERS:

European Union, European Commission, and other institutions

The World Bank's ECA region has a strategic partnership with the European Union (EU), and is working with the European Commission (EC) and European international financial institutions (IFIs) to improve the capacity of ECA's EU-member clients to absorb EU funds.

The Bank works closely together with EU institutions, European IFIs (European Investment Bank [EIB] and the European Bank for Reconstruction and Development [EBRD]), and the International Monetary Fund (IMF) as part of the second Vienna Initiative, which aims to improve banking systems and coordination among banking regulators in EU and non-EU countries.

Against the background of weak growth and even economic contraction in Central and South Eastern European (CSEE) countries, the World Bank Group, the EBRD, and the EIB Group came together in November 2012 for a new Joint International Financial Institution (IFI) Action Plan, pledging to ensure continued capital flows to the region of up to €30 billion over the two years 2013/14 in an effort to protect economic growth in CSEE. According to its Second Report on the Joint IFI Action Plan, each of the IFIs is well on the way to making its committed contribution toward this end may substantially exceed it. Total capital flows under the initiative had reached €24.8 billion by the end of 2013. To date, under the 2013/14 Action Plan, the EIB has provided €17.2 billion out of a total commitment of €20 billion, the World Bank Group has provided €3.4 billion from its total of €6 billion and the EBRD has delivered €4.2 billion, against a commitment of €4 billion.

ECA works on Roma inclusion across the region in collaboration with various partners, including the European Commission, the Roma Education Fund, and a variety of national Roma agencies.

[1] The EU11 refers to the 11 European Union (EU) member states that joined the EU after 2004 – Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, and Slovenia.
[2] Six countries are included in South East Europe (SEE6) — Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia.

The Bank is also working with the EurAsian Economic Community's (EURASEC) Anti-Crisis Fund and with the Eurasian Development Bank to provide parallel financing for low-income ECA countries.

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