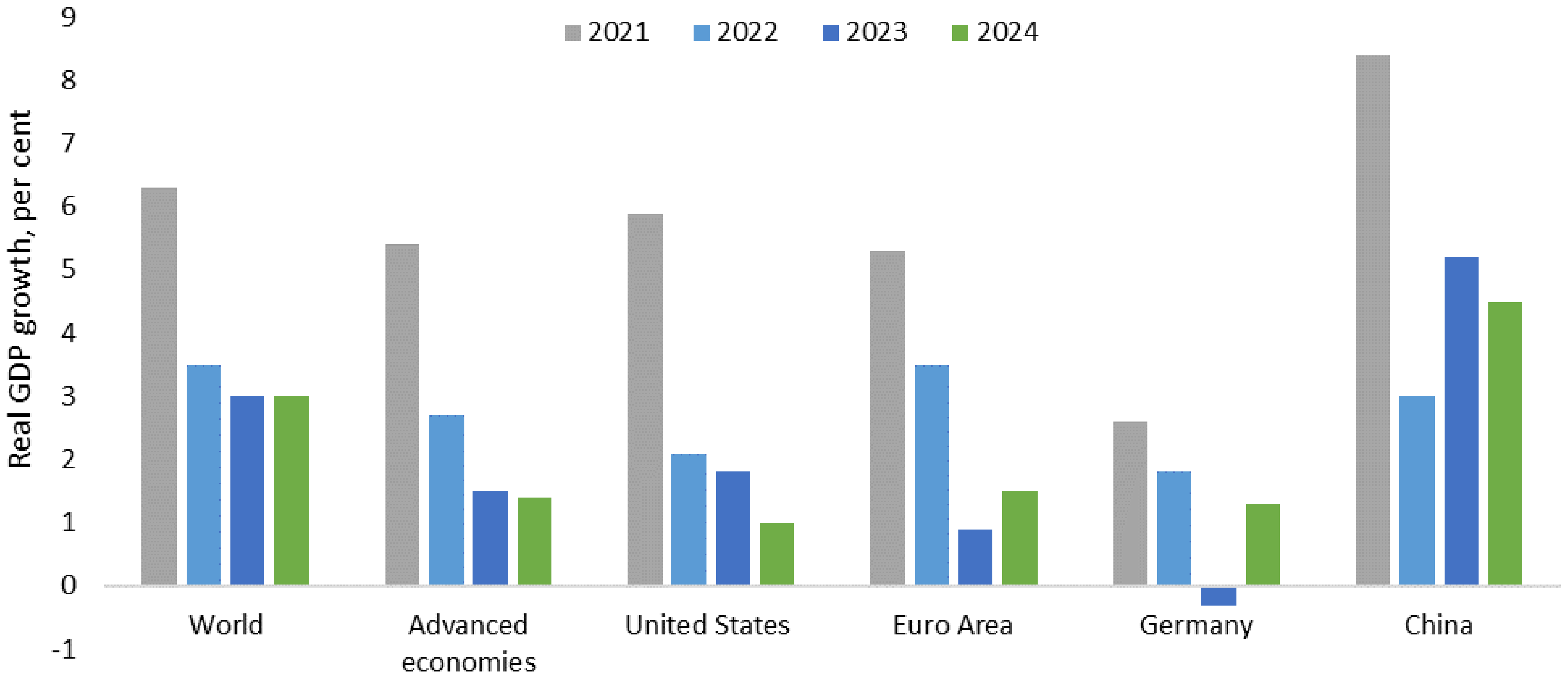
Shifting gears

Regional Economic Prospects, September 2023

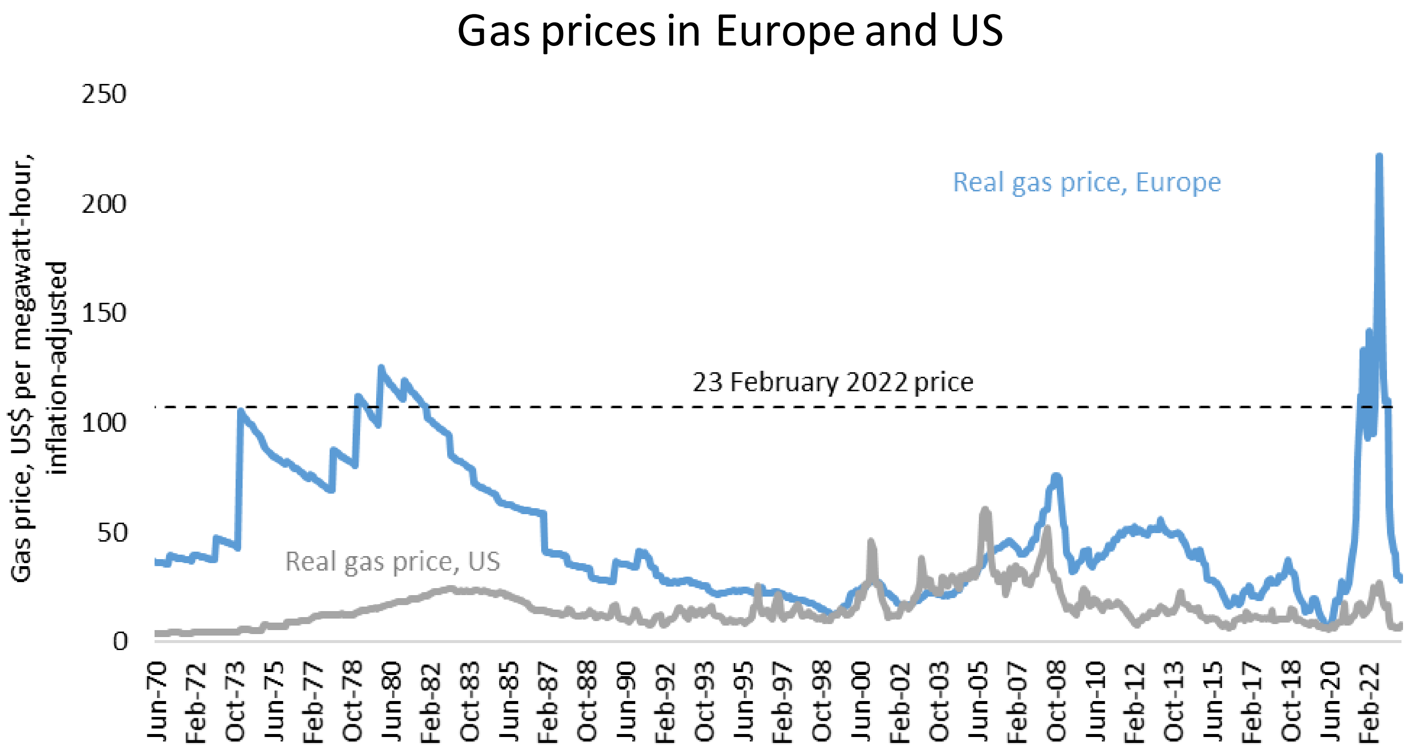
European Bank
for Reconstruction and Development

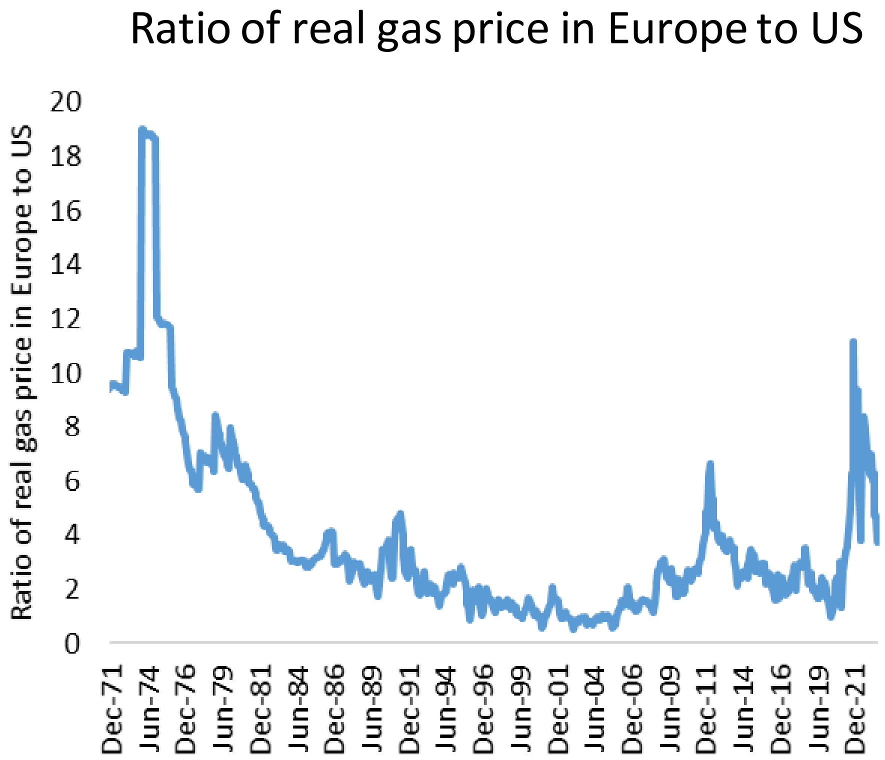
High energy prices, broader inflationary pressures translate into slower growth in advanced Europe, which weighs on the outlook for Emerging Europe



Source: National authorities via CEIC and EBRD forecasts.
Note: EBRD average based on the values of gross domestic product in 2022 in current US dollars from the IMF.

Gas prices in Europe eased to levels seen in early 2021, but remain almost 4x the US price

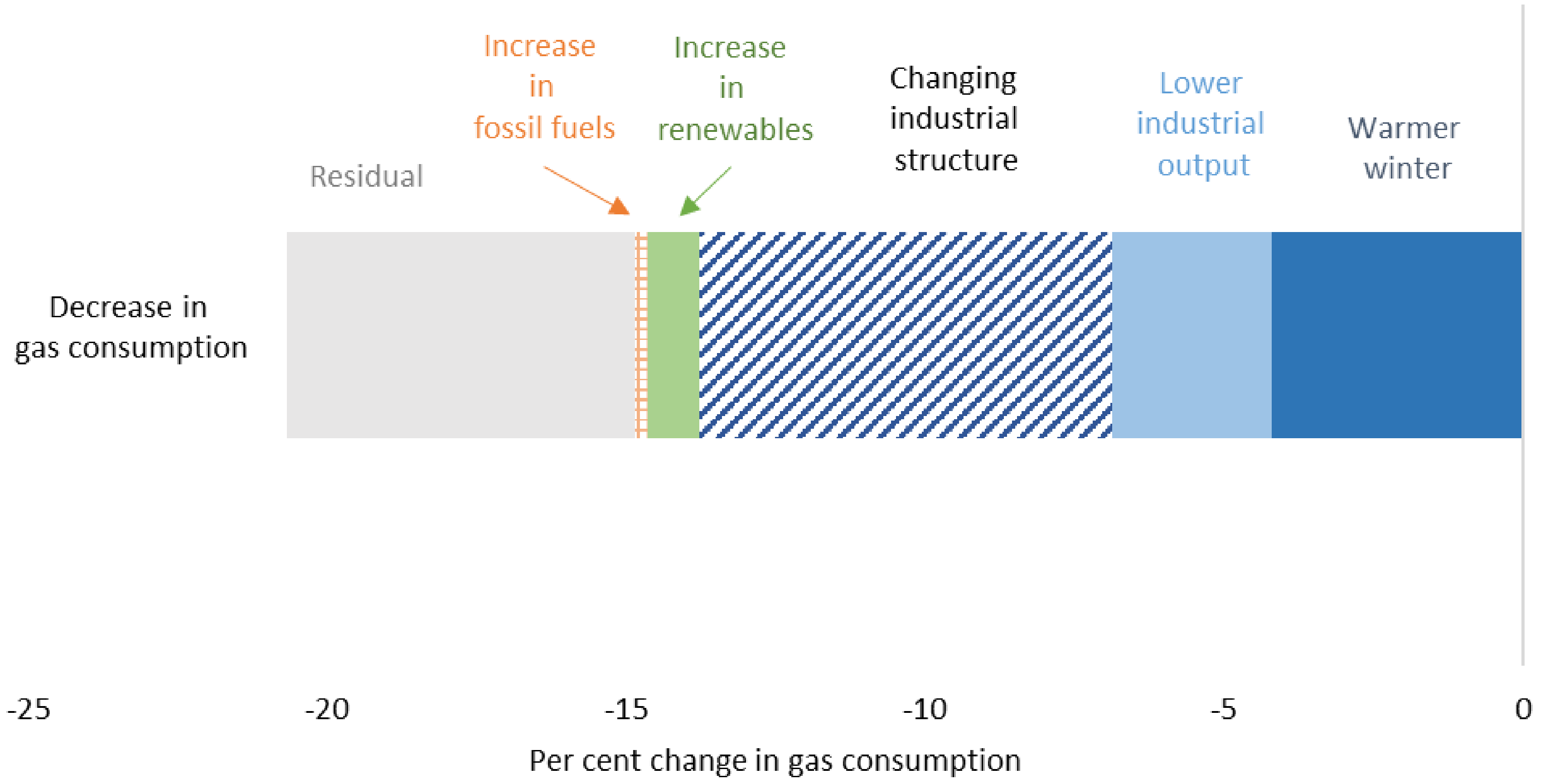




Source: CEIC, Bloomberg and authors' calculations.

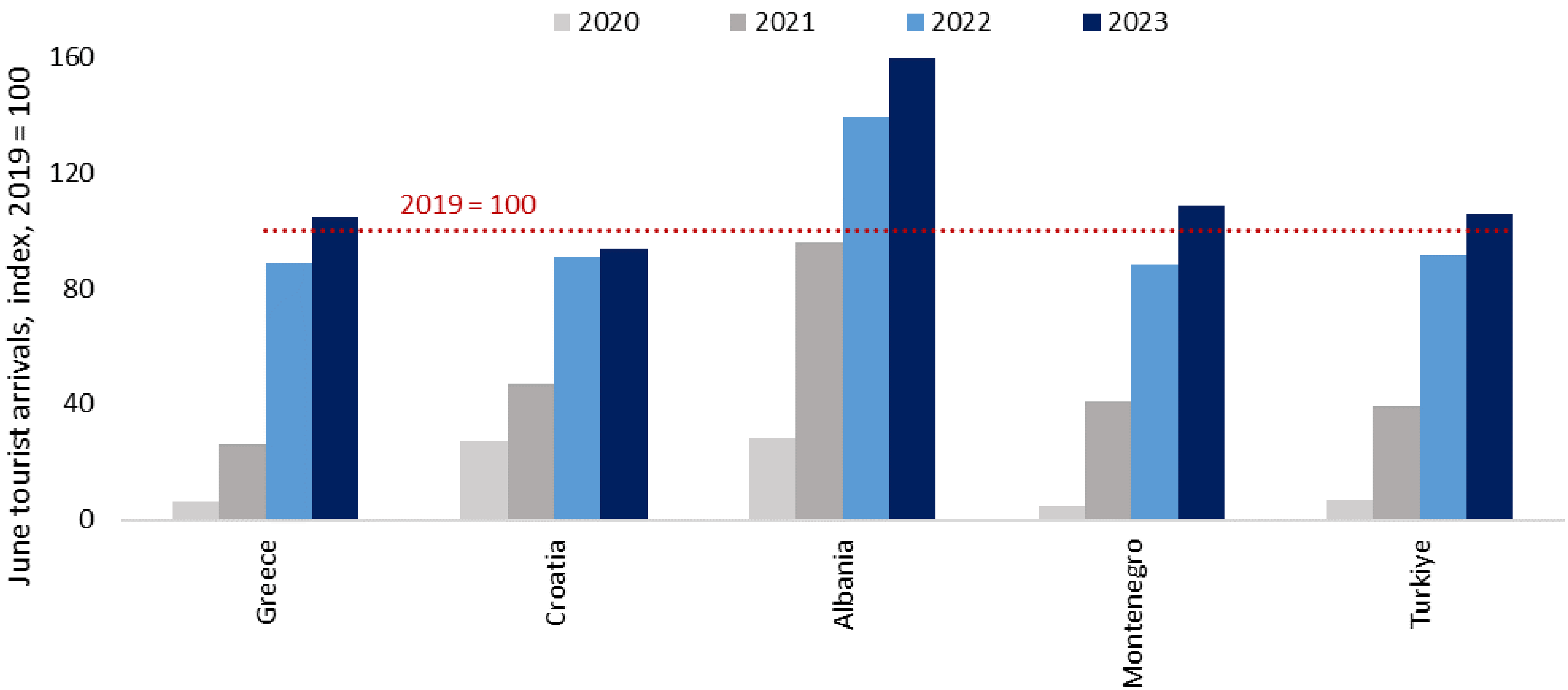
Gas consumption in Europe down over 20% in winter 2022-23, largely on shift from gas-intensive industries (e.g. bricks) to less gas-intensive ones (cars, pharma)

Shifts do not appear to be accompanied by labour reallocation, contributing to wage pressures in a tight labour market



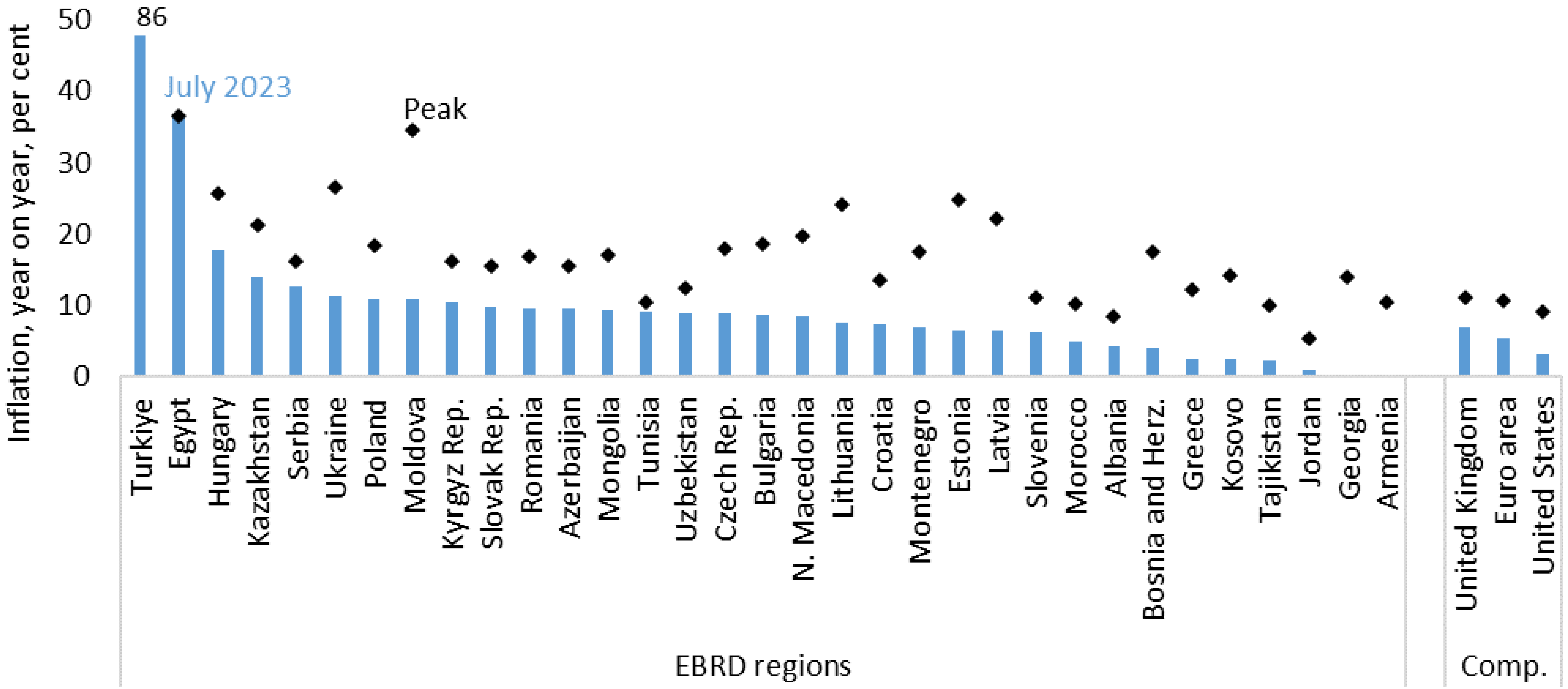
Source: Plekhanov and Sassoon (2023), Eurostat, IEA, national sources and authors' calculations. Note: Year-on-year change. March 2023 missing for some economies. Simple averages across 12 economies in the EBRD regions and 11 economies in advanced Europe. Assumes annual energy efficiency improvements in industry of 1.8 per cent.

A bright spot: tourism seasons have started strong



Source. CEIC and authors' calculations.

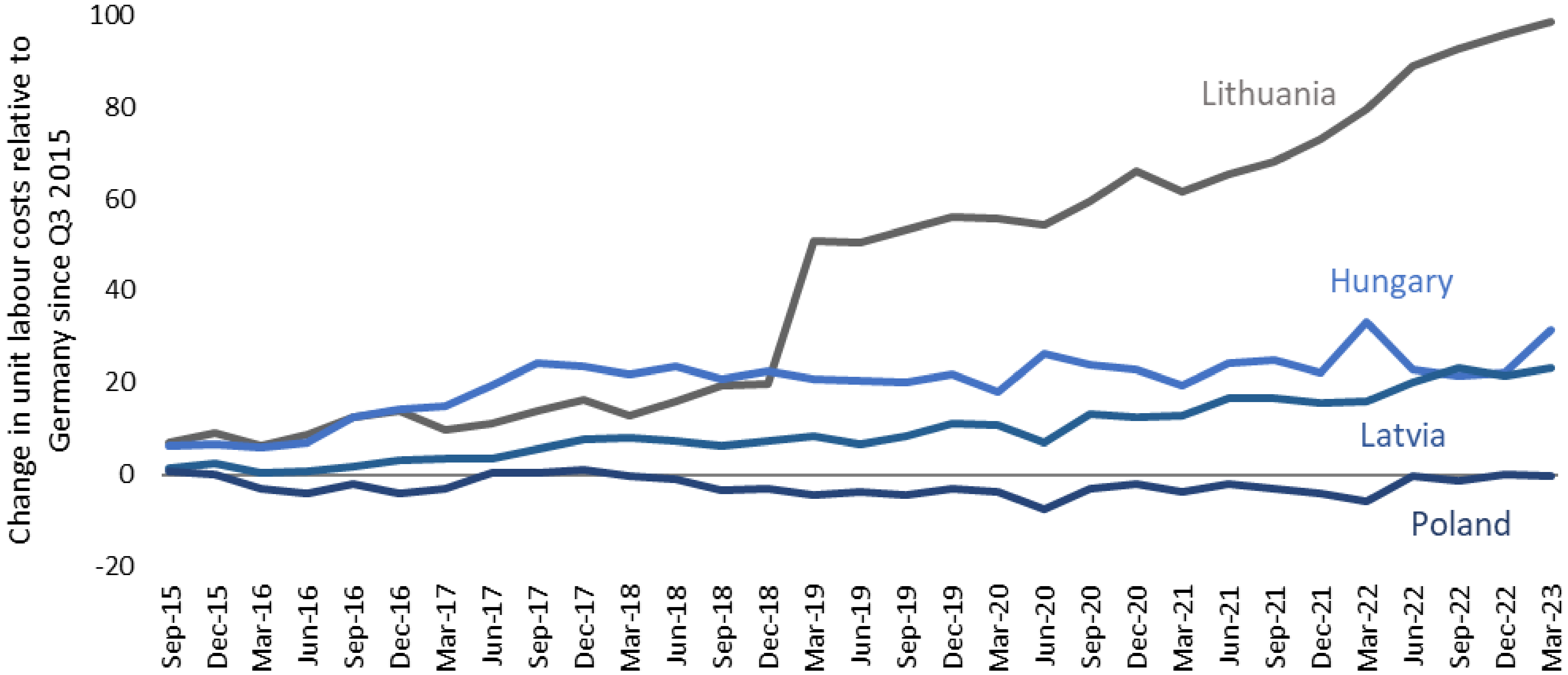
Inflation declined from its recent peak across the EBRD regions



Source: National authorities via CEIC and authors' calculations.

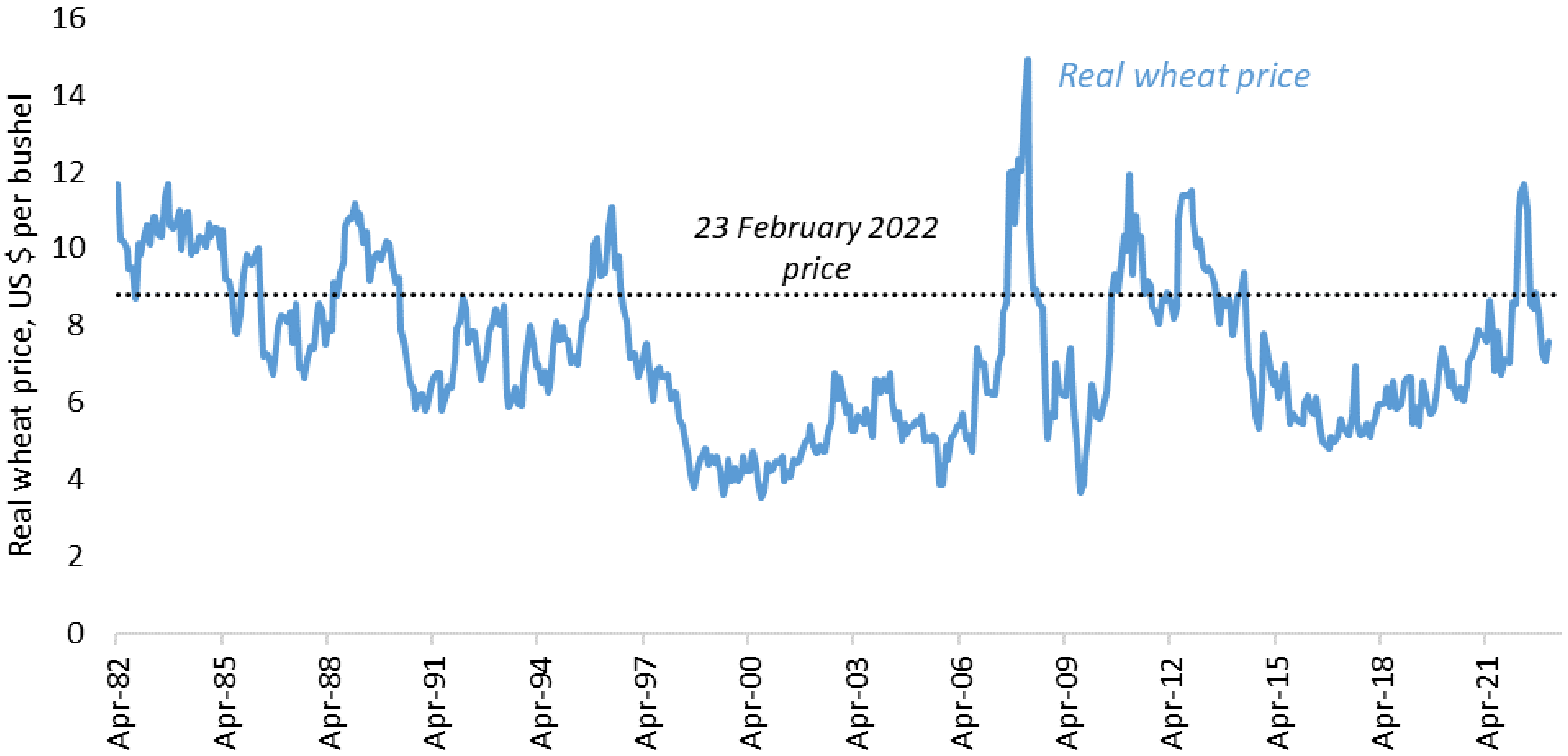
Note: Peak refers to highest monthly inflation rate observed in the period January 2021 to July 2023.

In most economies in Emerging Europe, unit labour costs have been rising faster than in Germany



Source: CEIC and authors' calculations.

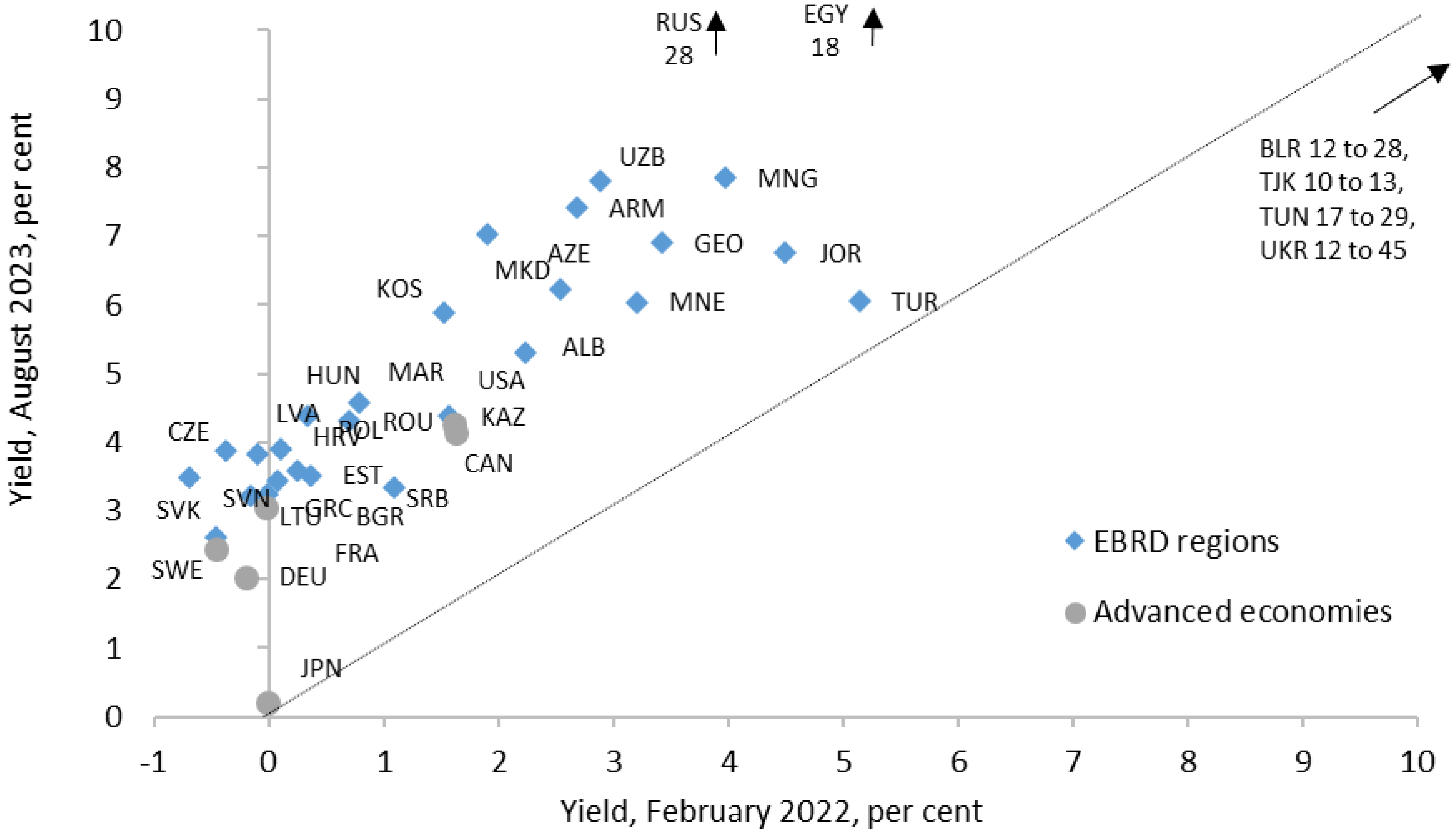
Wheat prices have returned to their 2017-21 average levels



Source: Refinitiv and authors' calculations.

Note: US dollar per bushel, adjusted for US consumer price inflation.

Lagging reforms and increasing fiscal vulnerabilities in SEMED: yields rose sharply in Egypt, Lebanon & Tunisia



Source: Bloomberg and authors' calculations.

Note: Yields on 5-year government bonds in US dollars or closest benchmark available. As of 1 February 2022 (horizontal axis) and 17 August 2023 (vertical axis).

Growth in 2023 revised up 0.2 pp reflecting faster growth in Turkiye and Central Asia, partly offset by weaker growth in Emerging Europe

Source: National authorities via CEIC and EBRD forecasts.
Note: EBRD average based on the values of gross domestic product in 2022 in current US dollars from the IMF.