Growth is forecast to rebound this year after bottoming out in 2012. However, the region is exposed to downside risks from a slowdown in Europe and to potentially greater financial market volatility. Policies should focus on rebuilding fiscal balances to maintain market confidence and implementing structural reforms to raise growth potential and lower still-high unemployment.

Sources: Bloomberg, L.P.; Consensus Forecasts; EPFR Global/Haver Analytics; Haver Analytics; and IMF staff estimates.

Note: ALB = Albania; BGR = Bulgaria; BIH = Bosnia and Herzegovina; CEE = central and eastern Europe; HRV = Croatia; HUN = Hungary; LTU = Lithuania; LVA = Latvia; MKD = FYR Macedonia; MNE = Montenegro; POL = Poland; ROM = Romania; SRB = Serbia; TUR = Turkey. CDS = credit default swap (rates on five-year bonds); EMBIG = JPMorgan EMBI Global Index.

1Data for 2013:Q2 exclude Albania.
2EPFR flows provide a limited proxy for overall balance of payments (BoP) flows, although recent studies have found a close match in the pattern of EPFR flows and BoP gross portfolio flows (see Fratzscher, 2012).