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EBRD Pessimistic About Regional Growth

By Alexander Panin

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Despite improvements in the world's developed economies such as the U.S. and Europe, regional growth is expected to be slow this year, especially for emerging markets, according to a report released Tuesday by the European Bank for Reconstruction and Development, or EBRD.

EBRD analysts said emerging economies were still suffering from capital outflows that are likely to continue in light of the expected gradual tightening of monetary policy in the U.S.

"There are increasingly positive signs in the world economy, especially in the most advanced countries. But the EBRD's own region is not yet out of the woods and still faces many challenges," said EBRD chief economist Erik Berglof.

The bank's operations stretch from central Europe to central Asia and cover southern and eastern Mediterranean states.

Growth in Russia will only partially recover in 2014, going up to 2.5 percent from 1.3 percent last year, the report said. Historically, growth has been fueled by commodity prices but now they are no longer providing support and are also limiting possibilities for adjusting fiscal policy, the research concluded.

For Russia, structural reforms and improvements in the overall business environment are needed to boost investment and lift the country's growth above 2.5 per cent a year, the report said.

Sberbank analysts were even less optimistic at the Gaidar economic forum which was held in Moscow earlier this month. Yuliya Tsepelyaeva, the head of the center for macroeconomic research at the lender, said that growth is likely to be limited to 2.3 percent but without government action growth of even 2 percent would be optimistic.

At the same forum, Angel Gurria, the head of the Organization for Economic Cooperation and Development, said that the challenges Russia faces are the same as they were in previous years — corruption and dependency on commodity prices.

In particular, the high level of corruption limits the growth of small and medium-sized business, which is the locomotive for economic development in other countries.

Only one out of 50 Russians claim to see an opportunity to open their own business, while in Europe every fourth citizen has high hopes for that, Gurria said.

Top state officials agree. First Deputy Prime Minister Igor Shuvalov said earlier this year that the government will fight overspending, use resources wisely and concentrate on developing institutions.

By institutions he meant education, healthcare and infrastructure, the quality of which Russians are dissatisfied with despite high levels of government investment in these areas.

The European Bank for Reconstruction and Development is providing a long-term loan of 500 million roubles ($15 million) to the leasing arm of Rosbank, the Russian banking group majority owned by France's Societe Generale, according to a statement from the EBRD on Tuesday.

A five-year EBRD loan will allow Rosbank Leasing to offer local currency funding to the small and medium-sized enterprises which traditionally rely on this type of financing to acquire equipment and means of transport. In 2012, SME's accounted for 21 percent of the Russian leasing sector's business, the statement said. The share of leasing in Russia's GDP has now reached 4.3 percent.

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