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a short presentation, and then we'll have a discussion and question and answer period immediately following. So with that, let me turn it over to you, Laura.

MS. TUCK: Thank you, Andy, and welcome to all of you. Thanks for coming to our update presentation for the Europe and Central Asia region. We have a presentation today that's called Rebalancing Act, and we're calling it that because we're seeing trends that are sweeping across the region and they're generating a rebalancing both within a number of countries and across countries in the region. They're having quite different effects across the different countries.

Overall, we see ECA to have the slowest growth of all regions worldwide with almost no growth forecast for 2015. But this reflects two different trends that we're seeing in the region. A stable to moderately improving outlook in the Western part of the region, which is being offset by the direct and indirect effects of the oil shock and uncertainty in the eastern part of the region.

export sectors to get growth and poverty reduction. This is very much true for the oil exporting countries, but it's also true for countries in the western part of the region that have experienced depreciations and very low capital inflows.

So we see that ongoing reforms to improve the business climate will be key to expanding their export sectors. They'll need steady financial and macro management. This is going to be critical, especially in dollarized economies. Postponing these adjustments, the adjustments that they really need to take for the rebalancing, can be costly, and that they can actually backfire.

So if you look at this slide, as I mentioned earlier, it clearly demonstrates economic growth in the ECA region is expected to be the weakest among all regions with almost no growth projected for the region this year overall. And this contrasts with around 2 percent growth that we saw in the last two years, and it contrasts with the expanding growth that is expected for other developing regions this year.

Now, I should note that the low level of growth we see for the ECA region overall masks the two different trends that I mentioned. When we look in more detail you can see that there's a big difference in the growth expectations for countries across the region. Those differences are mainly divided on lines between the countries in the western side of the region and those in the eastern side. The ones on the western side are those more closely associated with the Eurozone, and the ones on the eastern side of the region are where we have a number of the energy exporters which have been hit, as I said, by the oil shock. Countries that -- well, they may not be exporting energy on a net basis, they still have strong trade and remittance connections with Russia, which, itself, has been hit by the oil shock.

In the western side of the region we're seeing a pickup in consumer and business confidence; there are reduced fears of deflation with the quantitative monetary easing in the European Union; the fall in oil prices, which helps importers; initial signs of a pickup in industrial production; and at least to date, limited spillover from the financial turbulence, if you will, in Greece, and the uncertainty from what's going on in Ukraine.

So overall, average growth in the EU central and southeastern sub-region, the Western Balkans, and Turkey is expected to be positive but modest at just 1.1 percent. In the eastern part of the region, countries that are directly and indirectly affected by the oil shock are having much lower growth and this is due to the lower oil revenues or the decline in remittances in trade. So Russia and Ukraine, of course, are being buffeted by the geopolitical tensions and the associated effects of that.

The conflict has generated a deep crisis in Ukraine that started last year and is expected to continue this year. That's dragging down growth there, and, of course, affects the overall averages for that part of the region. So, overall, when you take the average, the growth combined for the South Caucasus, Eastern Europe, Central Asia, and Russia is

strong euro.

These two relative price changes trigger all kinds of other relative price changes that effect every single country in the region. So, that is the bottom line, big changes going on. Those changes are, on balance, rather positive for the oil importing countries in the western part of the region that have currencies that follow closely to the euro. Cheaper oil and depreciating currencies can be a driver of growth going forward, but there are also challenges in that adjustment process, difficult policy issues also, especially in the financial sector. But, on average, a positive story there.

A very negative story for the oil exporting countries in the east and the surrounding countries that benefited from the wealth in the oil exporting countries through remittances, for example. It is a big hit for those economies, and the policy dilemmas are really serious and the policymakers they need a steady hand to address those challenges.

So let’s start with the easy part of the story, that is, the oil importing countries close to the Euro Area in the western part of the region. There is positive news there. The monetary policy easing is quite successful. It leads to lower interest rates. As a result of that, you also have depreciating currencies, boosting demand for their exports. Lower cost of energy, I said it already. The bad news is in Greece and Ukraine. The silver lining is that there is still limited spillover in financial markets to other countries.

A couple of illustrations of those points of positive news. What you’re seeing here is the yield curve in the Euro Zone. The dotted line is the yield curve in September 2014 and a sharp change after the quantitative easing. A much flatter yield curve and even negative interest rates now in the Eurozone, so a big impact on the financial market through the quantitative easing.

Much more important for the growth prospects is that it has resulted in a depreciation of the euro in that period – around 22 percent – followed by depreciations of currencies of countries surrounding the Euro Area. More or less, all in the same order of magnitude, so that is not a change in competitiveness between those countries. But overall, for Europe as a whole, Europe has gained competitiveness vis-à-vis emerging Asia, vis-à-vis the United States, vis-à-vis many important parts of the world.

Now that results in the fact that the EU economic sentiment indicator is still in positive territory. That is a good sign. It’s a sign of recovery that can strengthen. When we look at industrial production for the Euro Area we also see positive signs. There’s no longer talk about a triple dip in the Euro Area. This is all boding very well.

This is an illustration of that last point. There is bad news, of course, in Ukraine, continued problems on the economic side, on the financial side, on the political side, to very high risk premiums in the financial markets. But it doesn’t translate to changes in the risk premium for the other countries in that part of the region. So that lack of contagion is also good news.

But concerns remain, because that restructuring process that we are seeing now in Europe moves toward the export factor rebound in growth that requires flexibility in the labor market, and there’s still a reform agenda there. It required flexibility in the business environment, there are still problems there to be solved. But also, the fact that the euro is now weaker and you have countries still with debt overhang, and still with dollarized financial sectors in that part of the region, that is a danger itself that requires attention. So it’s not completely smooth, but as I said, overall it is positive.

There is still a issue here for this part of the region on the capital flows. What we are seeing is that capital flows are declining not only to Russia and the Ukraine, those are the big bars in this graph, the yellow and the blue are one, but also for Central

incredibly important because we always focus on GDP numbers, and under normal circumstances GDP is a good measure for what is happening with real income. It's more or less the same measure, but when you are in an environment where relative prices are changing dramatically, GDP is no longer a good measure for what is happening with real income. So when you look at oil exporting countries and you look at the total loss in real income, that is a multitude of what you're seeing in the change of GDP.

For example, this year for Russia we calculate an additional loss of 7 percent of GDP, an additional loss in real income. Even larger losses, around 12 percent of GDP, for Azerbaijan and Kazakhstan, and that's coming after you already had some losses last year as a result of terms of trade changes. So we are talking about countries that are suddenly hit by a decline in real income of more than 10 percent.

But then if you look at the surrounding countries, and that is the graph on the right-hand side, that benefit from remittances that are coming from the oil exporting countries, especially from Russia, then you see that also their decline in real income is much larger than what is reflected in GDP numbers. That is because the value of the remittances is sharply declining with the depreciation of the ruble.

So in this part of the region we are talking about countries that are hit by really a very large hit on their real income. That is, as Laura said, spreading very quickly to the income of individual households including the poor households, and in historical perspective is a very big shock.

So let me talk a little bit about historical perspective. Let’s focus on an important part of the adjusted mechanism when real income is changing in countries, and that is a change in what we call the real exchange rate. What this chart shows is real appreciate vis-à-vis the dollar, so that this an exchange rate appreciation corrected for inflation differentials in the period 2003 - 2007. That is the

means that they are back to where they were in 2003. That's a little bit of mathematics, but a 60 percent increase is completely counteracted by 40 percent decline. So very consistent with the oil price story, because oil prices, in real terms, are also back to where they were in 2003. So we see a reversal of this process. Everything is becoming cheaper in those countries, but the incomes are declining also, and for the people that means that the import goods are becoming very expensive.

Now there are three problems with this process. The first problem is, of course, the problem of the political economy of declining incomes. It is much easier to accommodate a period where incomes are rising every year, much more than your own GDP is rising, than when you have a situation where the incomes are declining much more than GDP.

The second problem is that in a period where prices are rising you can do that through inflation or through appreciation of the currency. In a period where the prices have to come down you can't do that

up. They lose jobs in the construction sector and other non-tradable sectors that are hit at the moment. As far as they are dependent on transfers from the government, those transfers can come down also because of fiscal pressures.

We did calculations for Russia. Even if you assume that those people find new jobs, even if you assume that the transfers are not cut, then still we found that for the poorer part of the population in Russia this year you should expect already a 7 percent decline in income. That has consequences for poverty, also, but the poor people they're also very vulnerable because the shifts in jobs that are needed now from the construction sector, from the non-tradable sector, to competitive export sectors, that involves, often, the poorer and unskilled people. That's shown in this graph. That it's mainly those people that are shifting from sector to sector.

This shows who in the Kyrgyz Republic over the income distribution receive remittances and what would happen if those remittances come down. It is not the poorest families that receive the remittances. It’s somewhere in the middle of the income distribution where the remittances are the highest share of income. But once their remittances are coming down, then those families fall back in the poorer parts of the population.

So this all means not only a big hit, but also important policy challenges. We expect that the oil prices will stay low for quite some time. That means you will have to adjust your relative prices to the new situation. That has to be done through an exchange rate depreciation, otherwise it’s very difficult. Russia has done that already. Other oil exporting countries have not done that yet, so they have still something to gain if they do that.

That is very important that you adjust to that new situation, because what ultimately the end game is, is that you realize a big shift over your sectors away from the non-tradable sectors, away from your construction, you’re building towards new manufacturing export sectors. These are modeling simulations of Russia. What is needed in the shift of the sectors, lots of people will have to move in the employment.

If you postpone the adjustment, then you are frustrating, also, the solution of this current situation. But at the same time, when you quickly try to adjust and you depreciate your currency, then you create problems in the financial sector because a lot of the countries they have dollarized financial sectors. So people who have debt in dollars, they are suddenly in trouble paying back their debt because the currency is depreciating. That is the really big balancing act that the policymakers will have to address with a very steady head. Where we come out in saying it’s probably better to address quickly than address full blown the problems that are created by that.

So my last slide, to summarize the story of really a very difficult and exciting situation in the region at the current moment. On the western part of the region there’s stable to moderately improving growth, but there are still concerns because of the depreciation and the dollarization and the state of the financial sector.

On the eastern part of the region, the shock that the countries are enduring is much larger than people realize. That is not just for the country as the whole. It is not just for the government or for an oil sector. It really hits all the households, including the poor households, so there's serious concern that the poverty that has been coming down for years is reversing, the poverty trend, and I mentioned that already, are facing now this very difficult rebalancing act. It is a tough environment in the region.

MR. KIRCHER: Okay. Thank you very much Hans and Laura. So let's open it up to -- perhaps we can start with the press first with some questions. Please identify yourself and your news outlet when you ask the question, and we know you, Andrei, so why don't we start with you?

QUESTIONER: Andrei Sitov, thank you, as

contraction in 2015 of 3.8 percent, and then that contraction to be smaller in 2016. We're seeing 0.3 percent, which is an improvement in that sense. This is our baseline. It assumes that overall no change in, sort of, the security situation.

Currently we are seeing a decline in economic activity and a slowdown of credit activity. But let me let Michal either enhance or say something about the pension system.

MR. RUTKOWSKI: Two things. So first, I think as Laura put it, unless there are further changes to the sanction regime or further failing oil prices, we probably could say that the worst of the shock is over. However, the consequences will last.

Laura talked about growth projections. Hans mentioned the consequences for poverty. As you know, we predicted that there will be a growth in the poverty rate from 10.8 percent in 2014 to more than 14 percent in 2017, which amounts to almost 4 million people. It's a very serious one and it's a direct consequence of the crisis which is yet to come, so the

process, how the data is being collected. It's one of the areas that we work with those countries.

But apart from the quality of the data, I would like to make the point also that it is important not only to focus on that one headline number of GDP. There's a lot more to the story of countries than what is reflected in the GDP number. So in the case of Uzbekistan, it is very important to realize that they are coming from a very low level of income, so high growth rates is not necessarily a very important story in terms of where the country is at the moment. Consistently constant growth rates can be a sign that countries are not as integrated in the global economy as other economies.

Also, the pattern of growth is very important. In Turkmenistan a lot of the growth is coming from the construction sector, from the non-tradable sector. While other sectors like education, like the competitive export sectors could export a lot more. So I think we should be careful in reading too much in one single number.

MS. TUCK: On Rogun, so I know you're probably aware that we did two studies, the Technical Economic Assessment and the Environment/Social Assessment. These were finalized and disclosed in September 2014. The idea was to provide independent assessment of the hydropower project as an input to the decision making by the Tajik government. These studies were reviewed by an independent panel, and that was the end of what we had committed to. Doing the studies did not imply we would finance them. We remain very committed to working with all the countries in Central Asia on water energy issues to find solutions that are mutually beneficial.

QUESTIONER: And mostly to Ukraine.

MR. KIRCHER: Maybe if you could grab the --

MS. TUCK: Pardon? Does it mean financing?

QUESTIONER: No. In the Rogun project?

MS. TUCK: What it means is exactly what it is. We did an assessment of the feasibility and under the conditions that were assessed, those were the conclusions that we put, which said under certain circumstances certain things would work and certain things needed to be further evaluated, and certain things -- that is what it said. There's no more and there's no less to that assessment.

MR. KIRCHER: I think Andrei you had a follow-up. Maybe just wait for the microphone, and then the gentleman back there.

QUESTIONER: Thanks. That's a different subject. I've mostly talked to Ukrainians and about Ukraine in the past two, three days. I was struck by their insis

Balkans region, actually, southeast of Europe. That would be my question. How is the situation in southeast of Europe, generally speaking, and specifically about Croatia? Croatia has made deep progress over the last five, six years and even deflation and everything. The crisis is still very deep.

Can you explain how to solve the problem in a bank and loan industry in not only Croatia, but particularly in Croatia because it’s the biggest problem in this region. Because loans are connected with Swiss francs and euros. People really cannot do anything to actually be a good plan for this part of Europe. Thank you.

MR. KIRCHER: Thank you. On the Ukraine question, Hans, did you want to start off or Laura?

MS. TUCK: Or Qimiao could speak.

MR. KIRCHER: We could also have Qimiao, the Country Director.

MR. FAN: Thank you. Obviously, there’s lots of uncertainty, and at this moment we’re actually

what’s happened over the past five years.

Now, specifically on your question on Swiss franc denominated mortgages, the first thing to say is that we don’t see this as a systemic risk. I think it’s quite important to recognize that. Although it is being presented as a systemic risk in the country, it is true there is an issue of non-performing loans in Croatia, it’s in the corporate sector and there is much that can be done, but the Swiss franc denominated mortgages are a different problem.

The second thing that I would say about that is I think the authorities are thinking carefully, and, indeed, as they should think carefully, about fixing the rate on these mortgages and asking the banks to swallow the losses that might occur. This would contribute further to declining profitability. We also need to think about the fact that many of these mortgages are for second homes, and are held by the richest segments of society. So a write off either by the government or by the banks is something that is going to benefit the richer sections of