depreciated and several CDS spreads, particularly for Ukraine, have widened. The contagion was also transmitted through the trading links to Western Europe, with CIS exports weakening and industrial production slowing down.

Despite expectations for relatively high oil prices, the outlook is for weaker growth in the CIS for the next two years—4.2 percent in 2012 and 4.1 percent in 2013. Russia will slow down to 4.0-percent growth in 2012 and 3.9 percent in 2013. Other energy exporters in the region will perform relatively well: with strong oil prices and investments in infrastructure, Kazakhstan is on track for 5.9-percent growth in 2012 and 6.0 percent in 2013, while growth in Uzbekistan is expected to slow down to 7.0 percent in 2012 and 6.5 percent in 2013. Turkmenistan should grow 7.0 percent in 2012 and 6.7 percent in 2013.

Energy-importing CIS countries will experience slower growth as a group due to weaker export demand, financial crisis spillovers and tighter monetary and fiscal conditions. Real GDP in Ukraine is projected to increase by 3.0 percent in 2012 and speed up to 3.5 percent in 2013. Belarus is also projected to grow by 3.0 percent in 2012 and by 3.3 percent in 2013.

Inflation is expected to moderate across most of the region with the slowdown in economic activity and improvements in agricultural output, although Belarus will still experience problems with inflation caused by depreciation, despite the monetary and fiscal tightening. Potential spillovers from further eurozone developments through both financial and trading links remain an acute risk factor in the region. The health of the Russian economy remains crucially important for the rest of the region, as Russia is a large source of remittances and foreign investment for most CIS countries.

Middle East and North Africa

Growth in the Middle East and North Africa was just 3.5 percent in 2011, reflecting a number of internal challenges to growth. After a relatively good performance during the Great Recession, this region is now buffeted by unforeseen turbulence. Political and social unrest, which resulted in the fall of several governments and, in extreme cases (e.g. Libya), in civil war, stalled internal economic growth and interfered with important trade, remittance and travel links with Europe. Additionally, the long-standing structural problems within these economies will require structural reforms to spur growth in the long term.

The economies of oil exporters as a group grew 4.0 percent last year, supported by strong oil prices. Iran grew only 2.0 percent, reflecting problems with the harvest and subsidy reform. Saudi Arabia grew 6.8 percent, Algeria 2.5 percent and the United Arab Emirates 4.9 percent. Sudan's contraction continued at 3.9 percent. Oil importers fared less well, with only 2.0-percent growth, held back by the effects of unrest in Egypt (where growth was up 1.8 percent) and Tunisia (down 0.8 percent). Israel grew 4.7 percent on the year.

The outlook for oil exporters differs substantially from that of oil importers. The former have been able to repair their shaken fiscal balances, while debt levels for the latter have been steadily deepening. On the other hand, social transfers have gone up considerably for the oil exporters, further locking in