uncertainty is also a possibility. Tensions in oil-producing countries causing another spike in the price of oil would also lead to significant negative effects for the region. On the positive side, efforts directed at strengthening domestic demand may further solidify economic growth in the region based on increased domestic consumption.

Emerging Europe

Emerging Europe posted strong 5.3-percent real GDP growth in 2011. This performance, however, was driven by Turkey, which grew at 8.5 percent, and is not broadly representative of the whole region. Lithuania (up 5.9 percent), Latvia (up 5.5 percent) and Poland (up 4.4 percent) also grew strongly, while real GDP grew less than 2 percent in Hungary, Bulgaria and Serbia, and growth in Croatia was flat in 2011.

The eurozone crisis, which flared up again at the end of 2011, affected this region primarily through its strong financial links with Europe as well as its production links. The financial sector in emerging Europe is now closely integrated with the Western European banks; many financial institutions operating in Eastern Europe are subsidiaries of the banks headquartered in Austria, France and Italy. However, until the autumn of 2011 the credit supply shocks that followed each increase in sovereign debt risk in Western Europe were not felt in emerging Europe, and credit default swaps (CDS) spreads remained stable as the region was recovering from the Great Recession. Late in 2011, funding pressure on major Western European banks caused them to start another round of deleveraging, leading to a sizeable reduction in their Eastern European assets. Restricted funding from these sources makes growth more dependent on financing from domestic sources and the provision of adequate liquidity in the banking sector.

Trade integration has also increased considerably between Eastern and Western Europe. Western Europe is Eastern Europe's largest export market and Eastern Europe is the fastest-growing destination for exports from Western Europe. Production chains have sprung up between the regions, with Eastern Europe as an assembly point, particularly for German firms. Consequently, estimates show that a shock to growth in Western Europe has a one-to-one effect on growth in Eastern Europe.

Given such strong linkages, the prospects in emerging Europe are heavily dependent on the events in the eurozone, which was in recession at the end of the year. Accordingly, growth in emerging Europe is expected to slow to 1.9 percent in 2012, with deceleration particularly sharp for Turkey (from 8.5 percent in 2011 to 2.3 percent). Hungary is expected to stall and Croatia to post a negative 0.5-percent growth in 2012. Growth in the region is expected to improve overall to 3.9 percent in 2013, with Turkey and Poland growing at 3.2 percent, Romania and Serbia at 3.0 percent, Hungary at 1.8 percent and Croatia at 1.0 percent.

Latin America and the Caribbean (LAC)

Strong commodity prices in 2011 bolstered the economies in the LAC region and promoted robust growth. LAC countries grew 4.5 percent on average, with Argentina leading the way with 8.9-percent growth.[4] Ecuador also grew strongly at 7.8 percent, as did Peru, which posted 6.9-percent growth.

4 Based on Argentina's official GDP and consumer price index data. According to the IMF, this figure may overstate real GDP growth in the country.