"...the cliché that crisis breeds opportunity seems to hold some truth particularly when it comes to the new integration efforts. This is true in the south... where they are also seeking to expand and deepen their ties to the EU. In the east, where both institutional integration and actual economic integration have also lagged, the new regional trade arrangement is reducing non-tariff trade barriers and may help its members become more competitive. In the west, the lag between financial integration and institutional integration has been threatening the sustainability of the former. A carefully executed banking union would address this tension... Together, these new efforts could give Europe, its neighbourhood and the transition region at large a better foundation from which to resume its quest for prosperity and convergence."

Erik Berglof
Chief Economist
EBRD

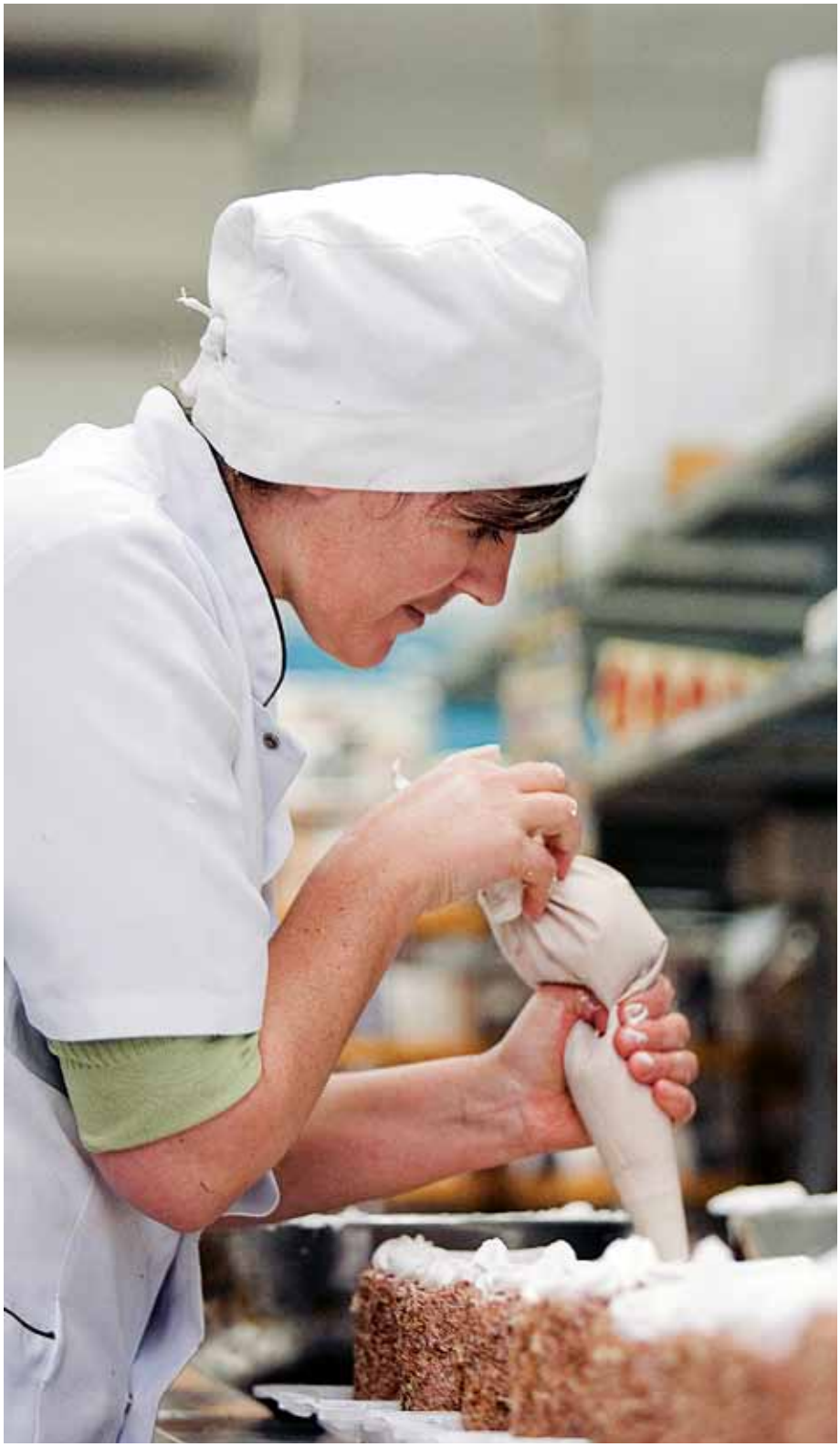
IN FOCUS
SELECTED IMAGES FROM AROUND THE REGION

Below: The transition region's banks have lost significant external funding (see Chapter 2).

Below: Foreign bank entry has not led to a sharp reduction in small business lending (see Chapter 3).

Below: Russia achieved an upgrade in the water and wastewater sectors (see Chapter 1).

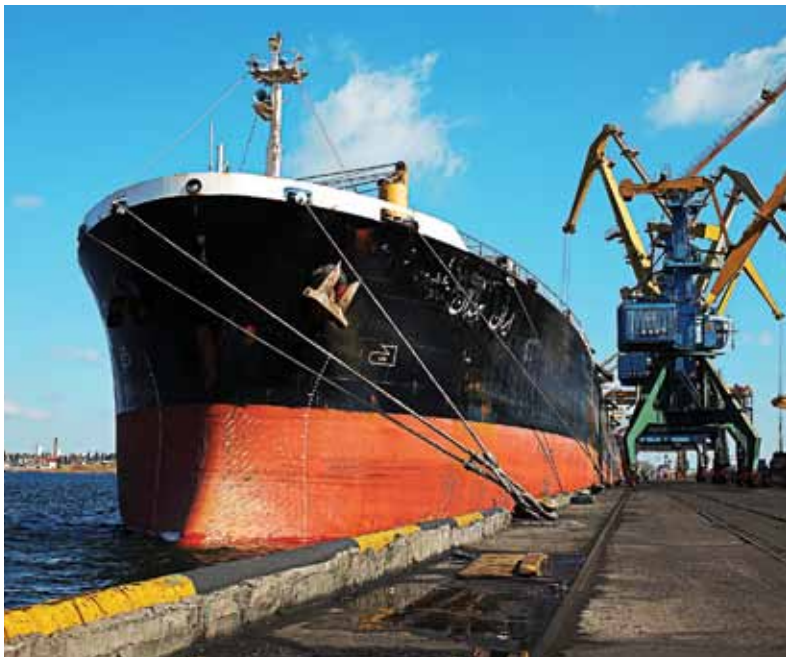
Bottom: The SEMED region is described as being in "mid-transition" (see Chapter 1).

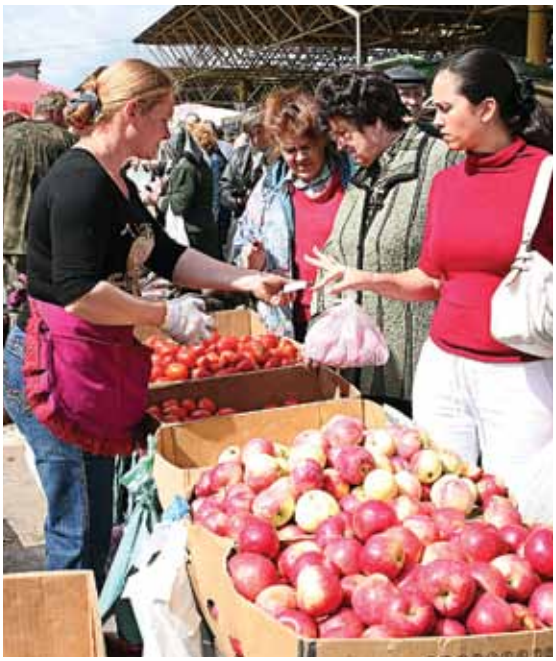


Below: In the *infrastructure* category, Poland's urban transport sector attracts a 4- rating (Chapter 1).

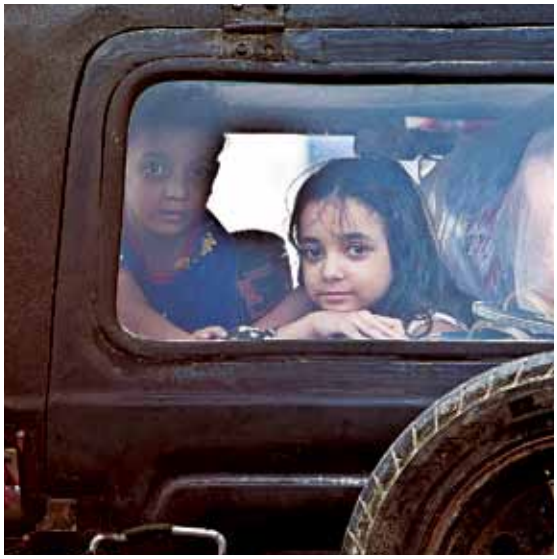
Below left: Regional integration can act as a springboard for exports (Chapter 4).

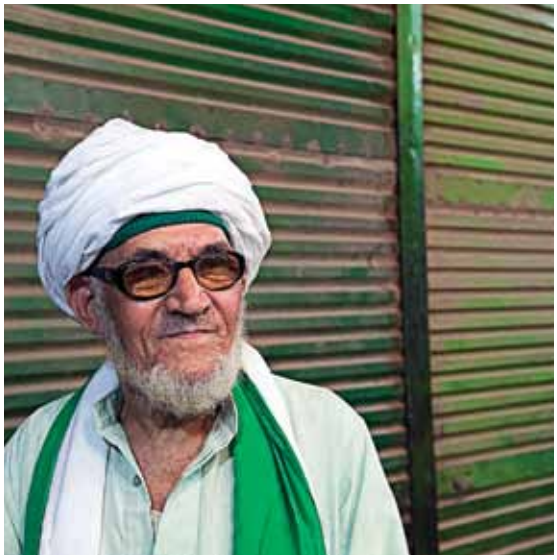
Bottom: Many transition countries may go into a second dip of the crisis, with uncertain prospects of recovery (Chapter 2).

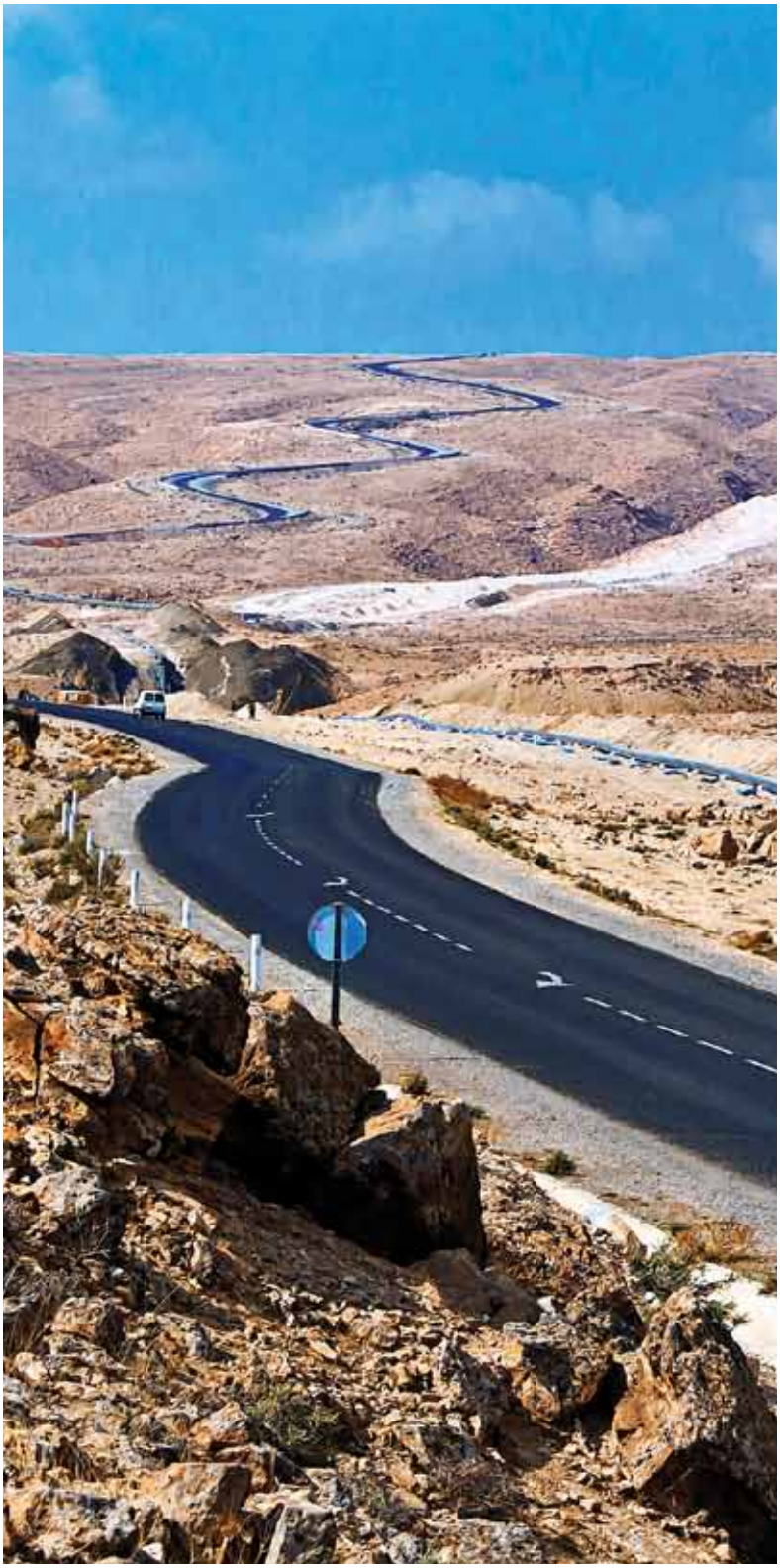




This *Transition Report* includes, for the first time, a detailed assessment of transition progress and challenges in the four countries of the southern and eastern Mediterranean (SEMED) region: Egypt, Jordan, Morocco and Tunisia (Chapter 1).







Left: Following drought and poor corn harvest in the United States, food prices have again begun to accelerate in mid-2012, posing renewed risks to price stability in the transition region (Chapter 2).

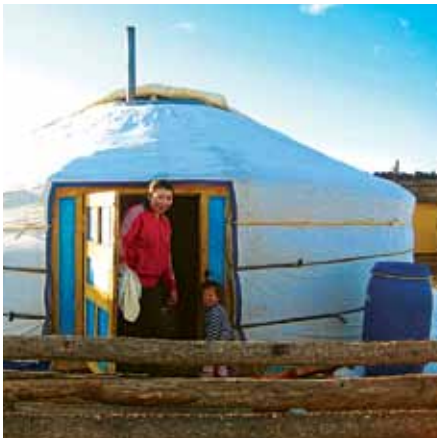
Below: In many transition countries labour markets never fully recovered from the 2008-09 crisis. Now they are likely to face further strains in the face of eurozone developments (Chapter 2).

Right: How the region will evolve in 2013 will depend largely on the policy response, both inside the region and particularly outside (Chapter 3).

Below: Higher-value-added goods that are initially exported within the customs union can subsequently be exported elsewhere (Chapter 4).

Below: In Mongolia, which held elections in June 2012, annual unconditional cash transfers to the population, to the tune of 7 per cent of GDP, added substantially to government spending (Chapter 2).

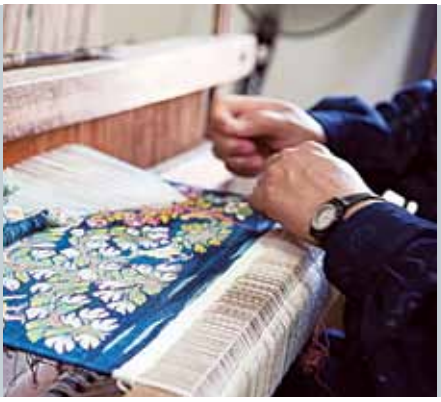
Bottom: The majority of transition economies are exposed to financial market volatility (Chapter 2).



Bottom left: Countries further east enjoyed strong nominal export growth until mid 2012, before a dip in oil prices and the widening global slow-down led to a reversal (Chapter 2).

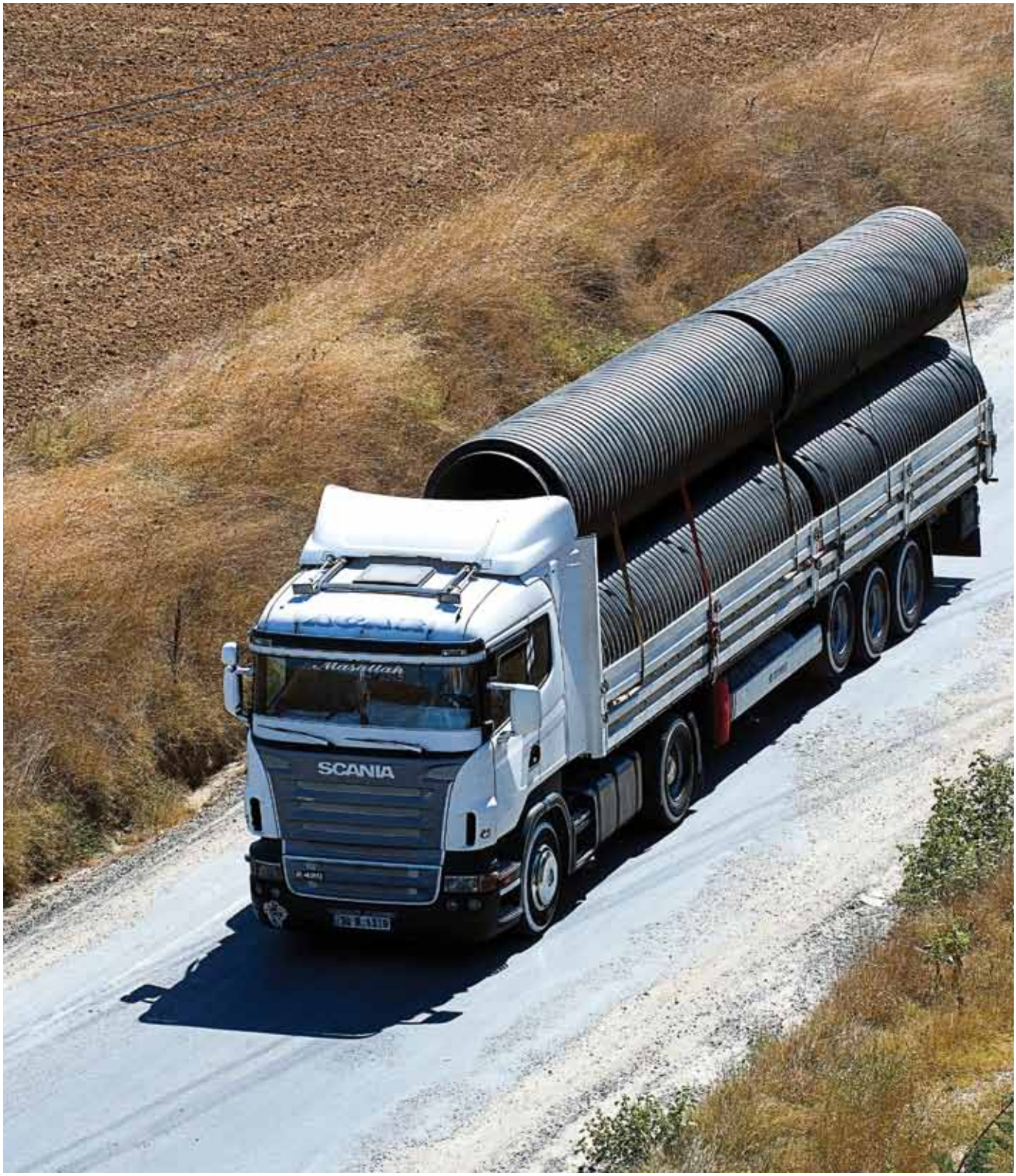
Bottom right: As net importers of food, all SEMED countries are vulnerable to the volatility of global prices for commodities such as grain, on which they are highly dependent (Chapter 1).

Below: The SEMED countries have significant challenges in the *energy* sector, that are most comparable to those in Central Asia and eastern Europe (Chapter 1).



Left: According to the transition scores, the SEMED region's level of *infrastructure* development is most comparable to that of the countries of eastern Europe and the Caucasus (Chapter 1).

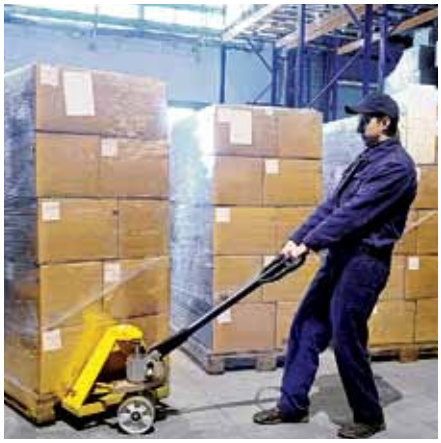
Below: Trade balances have largely improved, except in the SEMED region where rising imports and weak export performance have led to widening deficits (Chapter 2).



Below: As Russian growth decelerated and its imports declined in the second quarter of 2012, countries in Central Asia and the EEC region experienced a drop in exports (Chapter 2).

Bottom: Despite the crisis, both remittance outflows from the eurozone and inflows to the transition region increased in the second half of 2011 and first quarter of 2012 (Chapter 2).

Below: Host-country supervisors may not have much information about the parent banks of subsidiaries that operate in their country (Chapter 3).



Below: The variation in credit growth in central and south-eastern European countries has been increasing steadily since the beginning of 2011 (Chapter 3).

Left: Continuing political uncertainty has weakened growth performance in the SEMED region (Chapter 2).