Background Note on the Commonwealth of Independent States

Economic activity in the CIS region in the first half of 2014 was less dynamic than a year ago, and a broad slowdown trend is expected to continue for the rest of the year. The ongoing geopolitical tensions around Ukraine have created serious challenges for the region; many countries are also confronted with idiosyncratic challenges and risks. Several large CIS economies, including the Russian Federation, which has a strong regional impact through trade and remittance channels, either stagnated or shrunk in the first half of 2014.

In the Russian Federation, growth is held back by declining investment and weakening consumer and business confidence. The sharp outflow of capital amid the Crimea crisis in early 2014 has led to a weakening of the currency and an accelerated inflation, which forced the Central Bank of the Russian Federation to tighten its monetary policy several times, further undermining growth prospects. The economic sanctions introduced by the US, the EU and a number of other parties in mid-2014, which target certain sectors of the Russian economy, along with specific companies and banks, and complicate their access to external financing, will further depress economic activity. The economy of the Russian Federation may register zero growth or even contract in 2014, despite fiscal expenditure on a number of infrastructure projects.
In Ukraine, the economy declined in the first two quarters and is expected to shrink in 2014. The ongoing military conflict, weakness in private consumption caused by devaluation and deteriorated labor market conditions, disruptions in trade flows and fiscal retrenchment, which is a condition of the IMF's Stand-By loan, take their tolls on the economy. Low growth is also expected in Belarus, which is strongly exposed to trade with the Russian Federation and Ukraine.

Although economic expansion, driven by commodity exports, is expected to continue in Central Asian economies, the economy of Kazakhstan has slowed in the first two quarters, as oil and metal output dropped because of repair works. Later in the year, high fiscal spending to offset the impact of currency devaluation on household consumption and improved competitiveness may support the economic momentum. For the lower-income economies of the CIS, such as Armenia, Kyrgyzstan, Moldova, Tajikistan and Uzbekistan, the weakening of the Russian currency, as well as the devaluation in Kazakhstan, adversely impacted the value of remittances sent home by migrant workers, restraining private consumption and growth in those countries, and creating devaluation pressures.

The Russian Federation, Belarus and Kazakhstan in late May signed an agreement to establish the Eurasian Economic Union since 2015, on the basis of the existing Customs Union. In late June, Georgia (not a member of the CIS), Moldova and Ukraine signed an association agreement with the EU, which contains a provision on the establishment of a deep and comprehensive free trade area (DCFTA). This agreement, however, triggered imposition of protective trade restrictions by the Russian Federation, which is an important export market for those countries.