Briefing Note

Secretary General at 70th GA

Economic outlook for Transition Economies

The growth prospects for the economies in transition have been revised downward significantly from the previous forecast. As a whole, GDP is expected to shrink by 1.9 per cent in 2015, against the backdrop of economic contractions in the Russian Federation and Ukraine and weakening growth in virtually all other countries in the region. In 2016, the region is expected to return to modest growth of 0.9 per cent.

The economy of the Russian Federation has been severely hit by the fall in oil prices, starting in the second half of 2014. In addition, economic sanctions, introduced by most of the OECD countries, have restricted the access of several large Russian corporations and banks to the European and US financial markets. The Russian economy is expected to shrink by around 3 per cent in 2015, primarily because of a double-digit contraction in investment owing to weak business sentiment and high cost of capital.

In Ukraine, the economy has been severely damaged by the military conflict in the industrial part of the country. The country's GDP declined by around 6 per cent in 2014 and is expected to contract further by around 7 per cent in 2015. The country heavily depends on external financial assistance, in particular from the IMF, which remains contingent on the restructuring of its foreign debt. Against this backdrop, Ukraine faces a serious risk of a balance of payments crisis.

Lower oil and gas revenues will lead to a moderation of growth in energy-exporting countries, such as Azerbaijan and Kazakhstan. For the lower-income energy-importing economies, such as Armenia, Kyrgyzstan, Moldova and Tajikistan, the adverse impact of the slowdown of the Russian economy and the declining remittances flows are likely to offset the benefits of lower fuel costs.

A number of currencies in this region were either devalued or depreciated considerably in 2014-2015. Weaker currencies, in turn, spurred inflation, starting in late 2014, in some cases to double-digit figures.

Slowing (and in some cases negative) growth had an adverse impact on the labour markets. After reaching a historical low of 5.4 per cent in early 2014, the unemployment rate in the Russian Federation increased to 5.8 per cent by April 2015. The policy of reducing wages, rather than shedding labour, in the public sector and state-owned enterprises has mitigated the overall worsening of the labour market situation.