Uncertainties of conflict weigh on economic prospects of most countries in the Commonwealth of Independent States, says UN

Foreign exchange reserves help the Russian Federation withstand current economic turbulence, but may not last if continuing instability affects long-term investments

Moscow, 19 January— Economic growth in the Commonwealth of Independent States (CIS) slowed sharply in 2014, as geopolitical tensions resulted in a difficult external environment with high levels of uncertainty, but should rebound slightly in the next two years, according to the United Nations World Economic Situation and Prospects 2015 (WESP) report, launched today. The aggregate gross domestic product (GDP) growth of the CIS and Georgia decelerated from 2.0 per cent in 2013 to 0.8 per cent in 2014, and is projected to strengthen modestly to 1.1 per cent in 2015 and 2.1 per cent in 2016.

Economic activity in the Russian Federation came to a standstill in 2014 and reduced growth prospects throughout the region. Smaller CIS economies were affected by a contraction in economic growth through a reduction in remittances. Inflation accelerated in many countries, while depreciation pressures constrained monetary policy in the region. Economic prospects depend largely on the evolution of geopolitical situation.

Persistent risks and uncertainties for CIS

According to WESP, further escalation of the situation around Ukraine would have detrimental consequences for the region, through trade, investment and remittances channels. The Russian Federation has substantial foreign exchange reserves to withstand current turbulences, but continued instability would affect investment for an extended period of time. This would make it more difficult to address emerging supply constraints and raise potential growth. Fragilities in the banking sector persist in some countries and may get worse in the current environment with many loans denominated in foreign currencies. The region also remains vulnerable to declines in commodity prices, including oil, which would compound the effect of other negative influences on growth and reduce policy choices.

Russian Federation poised for zero growth

The report notes that net external demand and the devaluation of the rouble prevented the Russian economy from falling into a recession. However, a near-zero growth is expected in 2015, with serious downside risks and the continued problem of capital outflows seen as major concerns.

Despite economic slowdown in the Russian Federation, its labour market remained tight, with the unemployment rate continuing to edge downwards and reaching historical lows during the year as the employment level increased.
In the Russian Federation, currency depreciations created upward price pressures, where food import bans also contributed to inflation. The devaluation of the rouble, import restrictions and continuing energy export revenues led to a widening of the current account surplus, thus reducing pressures on reserves from growing capital outflows.

**Ukraine**

In Ukraine, a severe output contraction followed years of sluggish expansion. In Ukraine, GDP contracted sharply, as the conflict in the South East affected economic activity in the industrial regions of Donetsk and Luhansk and weighed negatively on investment. A mild recovery in aggregate output growth is expected in 2015, provided geopolitical tensions ease and output stabilises in Ukraine.

Inflation surged as the national currency, hryvnia, plummeted, bringing the rate of annual change to double digits, in sharp contrast with the mild deflation observed in 2013. Economic contraction and conflict-related costs resulted in a larger deficit. Falling domestic demand and the depreciation of the national currency led to a large reduction of the current account deficit, despite the worsening in the terms of trade. Unemployment also rose rapidly in the country.

**Mixed results across Central Asia, Caucasus and Belarus**

Despite the recovery of potash exports and a good harvest, growth was sluggish in Belarus. In Kazakhstan, spillovers from the Ukrainian crisis depressed economic activity. A decline in oil extraction contributed to the slowdown in Azerbaijan. By contrast, rapid growth followed the development of the Galkynysh gas field in Turkmenistan. The unemployment rate remained unchanged in Kazakhstan, but increased sharply in other Central Asian countries, which also faced lower remittances.

Despite slowing economic activity, Tajikistan raised rates in response to mounting inflation. By contrast, rates were lowered repeatedly to stimulate the economy in Belarus, contributing to the weakening of its currency. Armenia also cut rates, as the inflationary pressures linked to gas price increases in 2013 abated.

The large devaluation of the Belarusian ruble helped to keep the trade deficit down. Past gains in closing the external gap in Georgia were reversed, amid strengthening domestic demand. In the Kyrgyz Republic, the poor performance of exports to non-CIS countries and lower remittances widened its current account deficit.

**Eurasian Economic Union provides potential bright spot**

The report notes the establishment of the Eurasian Economic Union on the basis of the existing Customs Union of the Russian Federation, Belarus and Kazakhstan, in January 2015, which will require further harmonization of economic regulations in the CIS area, should bolster intra-regional economic ties in the forecast period.