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# World Economic Situation and Prospects 2013

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EMBARGO  
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## Economic performance in Commonwealth of Independent States is weakening — UN

*The fragility of the world economy continues to weigh on the economic prospects of the region, which remains exposed to a worsening of the global situation, particularly in Europe*

**Moscow, 17 January:** Economic growth in the Commonwealth of Independent States (CIS) and Georgia, measured by aggregate Gross Domestic Product—GDP—rose by around 3.8 per cent in 2012 and growth is expected to remain at a similar level 2013, well below potential, as the world economy continues to provide a difficult background for the economies of the region, said a UN annual economic report, *World Economic Situation and Prospects 2013 (WESP)*, that was launched today.

The report found that economic performance weakened in most countries across the region in 2012, including in the largest economy, the Russian Federation, which remains a major influence on the others.

WESP warns that the fragility of the world economy continues to weigh on the economic prospects of the region, which remains exposed to a worsening of the global situation, particularly in Europe, the main economic partner. Any further deterioration in the external environment will result in falling export demand, lower commodity prices and difficulties in accessing finance.

Continued income growth, favorable labour market dynamics and declining inflation have provided an impetus to domestic demand through the region. In Azerbaijan, the oil sector stabilized after last year's large fall in output, although the non-hydrocarbons economy remained the main source of economic dynamism. In Ukraine, the poor performance of export-oriented industrial branches was compounded by the problems of the agricultural sector. For the smaller, low-income countries, the Russian economy provides an important source of revenue through the remittances sent back home by workers from these countries. Problems in the gold sector, including a drastic fall in output caused by social protests and strikes, resulted in a sharp economy-wide slowdown in the Kyrgyz Republic.

### Unemployment

According to the WESP report, the unemployment rate reached historic lows in the Russian Federation as jobs growth was accompanied by a shrinking active population. By contrast, the economy of Kazakhstan continued to generate employment at a rapid pace, but this was in line with the growth of the labour force. For low-income countries, migration and remittances remained a channel to alleviate labour market tensions and support domestic demand.

### Inflation

WESP says inflation fell throughout the region in 2012. Following sharp increases in food and fuel prices last year, inflation slowed down markedly in the non-energy exporters. Inflation accelerated again in the second half

of the year, however. In other economies in the region, inflation rates varied in 2012 from about 0.5 per cent in Georgia to over 60.0 per cent in Belarus, where the currency drastically depreciated in the aftermath of a balance-of-payments crisis.

Sustained economic expansion has brought a reduction in unemployment in the region, although there are some marked differences in the performance of labour markets across countries. In the Russian Federation, the implementation of postponed administrative price increases combined with a poor grain harvest resulted in growing inflationary pressure in the last months of the year and annual inflation is estimated to exceed 5 per cent.

Except for Belarus, inflation is expected to stay up during 2013 due in part to further increases in regulated prices across the region. Other factors pushing prices up include expected nominal wage increases in energy-exporters and higher foreign-exchange earnings pushing up money supply and domestic demand. Despite the continued strength of domestic demand and, in some countries, accelerating credit growth, benign inflationary trends created room for some monetary loosening early in the year.

In the Russian Federation, capital outflows tightened monetary conditions, obviating the need for further increasing the policy interest rate. In Belarus, the improvement of financial indicators after last year's devaluation led to large cuts in the refinancing rate.

Despite low inflation, there was no strong move towards monetary easing in Ukraine, because of concerns regarding the stability of the national currency. Despite a more complicated inflationary outlook, further weakening of the CIS economies may require further monetary easing.

Oil funds of several CIS countries, which were partially depleted during the financial crisis, have been quickly rebuilt, such as in Kazakhstan and the Russian Federation, in particular. By contrast, the non-energy exporting countries continue to face fiscal tensions. In the Kyrgyz Republic, for instance, slowing GDP growth owing to the problems in the gold sector and growing pressures to increase agricultural subsidies sharply widened the fiscal deficit.

Export growth moderated throughout the region as a result of lower global demand. The deficit also fell in most small non-energy exporters, but the gap is still very large and a major source of economic fragility in Armenia, Georgia and the Republic of Moldova, in particular.

## Impact of Russia's joining WTO

WESP says the recent accession of the Russian Federation to the World Trade Organization (WTO) may generate some additional positive growth impulses in the long term.

In August 2012, after 18 years of protracted negotiations, the Russian Federation eventually joined the WTO. After the accession of China to the WTO in 2001, the Russian Federation was the largest economy outside of the WTO framework.

The Russian economy remains in dire need of diversification. Most of its exports (about 69 per cent in 2010) consist of oil, fuels and natural gas, and the economy is dependent on imports of manufactured goods. The high volatility of global energy prices and the country's dependence on this sector has resulted in considerable macroeconomic volatility.

Prior to the WTO accession, Russian policies aimed at industrial diversification were not always friendly to the concept of free trade. Direct state intervention was quite common and the country routinely resorted to protectionist policies. The assessments of the potential impact of WTO membership on the Russian economy however vary, and in order to fully benefit from the membership, further improvements in the business environment and an efficient use of the agreed transition period will be needed.

Table:

**Commonwealth of Independent States and Georgia: rates of growth of real GDP, 2009-2014**

	2009	2010	2011	2012 <sup>a</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>
CIS and Georgia <sup>c</sup>	-6.8	4.8	4.8	3.8	3.8	4.4
Armenia	-14.2	2.2	4.7	3.8	4.0	4.0
Azerbaijan	9.3	5.0	0.1	1.2	2.5	3.8
Belarus	0.2	7.7	5.3	3.9	3.1	5.0
Kazakhstan	1.2	7.3	7.5	5.5	5.0	5.5
Kyrgyzstan	2.9	-0.5	5.7	0.2	3.5	4.0
Republic of Moldova	-6.0	7.1	6.4	0.6	2.0	3.0
Russian Federation	-7.8	4.3	4.3	3.7	3.6	4.2
Tajikistan	4.0	6.5	7.4	7.0	5.7	5.0
Turkmenistan	6.1	9.2	14.7	9.0	8.0	7.0
Ukraine	-14.8	4.2	5.2	2.0	3.2	4.0
Uzbekistan	8.1	8.5	8.3	7.0	6.9	6.1
Georgia	-3.8	6.3	7.2	4.8	5.0	4.0

**Source:** UN/DESA, based on data of the United Nations Statistics Division and individual national sources.

**Note:**

**a** Partly estimated.

**b** Baseline scenario forecasts, based in part on Project LINK and the UN/DESA World Economic Forecasting Model.

**c** Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.

*World Economic Situation and Prospects* is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN/DESA), the United Nations Conference for Trade and Development (UNCTAD) and the five United Nations regional commissions.

On the web: <http://www.un.org/en/development/desa/policy/wesp/index.shtml>

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