

World Economic Situation and Prospects 2014

Economic growth in Commonwealth of Independent States weakened, but should pick up in 2014, says UN report

Unemployment declined, while inflation rates varied and capital flows remained volatile

Moscow, 20 January—Economic growth in the Commonwealth of Independent States (CIS) and Georgia weakened in 2013, but is expected to improve over the next two years, according to the United Nations *World Economic Situation and Prospects 2014 (WESP)* released today.

Economic growth, as measured by aggregate Gross Domestic Product (GDP), for CIS and Georgia expanded at about 2.0 per cent in 2013, which was a slowdown compared to 3.4 per cent in 2012. Economic growth is projected to strengthen to 3.4 per cent in 2014, and to recover more solidly to 4.1 per cent in 2015.

Growth of CIS economies noticeably slowed in 2013, largely reflecting a sharp deterioration in growth in the Russian Federation—the largest economy in the CIS. Sluggish growth in the Russian Federation dampened economic activity throughout the CIS through trade, investment and remittance channels. However, all CIS economies, especially energy-exporting countries, had sustained growth—except for Ukraine which flat-lined in 2013. Improvement in the global economy should support a better economic performance for the region in 2014.

Russian Federation

According to the report, the slowdown in economic performance in the Russian Federation was driven by weak investment growth despite public support for infrastructure development. However, consumption remained resilient due to a strong labour market, rapid wage growth and fairly moderate inflation. Slower than anticipated growth impacted revenues and resulted in tighter spending control as the country continued to adhere to a path of fiscal tightening, which has been a drag on economic expansion. In the outlook, structural problems—such as sluggish energy sector expansion, capacity constraints and weak investment—will prevent an acceleration of growth to pre-crisis levels.

European CIS

The economic slowdown in China and the Russian Federation has led to weaker demand for steel, one of the main Ukrainian exports, and low growth rates are expected for the forecast period, the report said. The country is facing significant external financing needs. In Belarus, economic growth markedly slowed, dragged down by plummeting exports as prices of potash, one of its main exports, fell on international markets. Ukraine registered a near-zero inflation rate, while Belarus registered the highest annual inflation rate in the CIS at over 20 per cent.

Caucasus

In the Caucasus, robust expansion in Azerbaijan was driven by the non-oil economy, which received a boost from continued public investment and pre-electoral fiscal stimulus. In Armenia and Georgia, lower-than-planned spending contributed to the deceleration of economic growth.

Azerbaijan provided a fiscal stimulus that added to inflationary pressures. Sharp price increases in electricity and imported gas accelerated inflation in Armenia. Lower food and oil prices and improved competitive practices fuelled deflationary pressures in Georgia, which registered a near-zero inflation rate.

Central Asia

Among the countries of Central Asia, rapid growth in the oil sector boosted economic expansion in Kazakhstan despite unresolved problems with its banking sector. The Kyrgyz economy bounced back strongly from a decline in 2012, due to a recovery in gold production and a strong expansion in other sectors of its economy. Infrastructure development and rising hydrocarbons output supported growth in Turkmenistan. Inflation rates recorded at close to double-digit figures in Central Asia. Despite the economic slowdown in the Russian Federation, employment dynamics have prompted large remittances benefiting the poorest countries in the region.

Unemployment mostly remains stable or declines with new lows in Russian Federation

Despite the slowdown in growth, unemployment in most of the CIS economies remained relatively stable or declined slightly, with the notable exception of Ukraine. In the Russian Federation, the unemployment rate reached historic lows amid strong wage growth and labour shortages in some areas. By contrast, unemployment remains elevated in the low-income countries particularly in the Caucasus. Kazakhstan continued to generate new jobs for a growing, economically active population and has a relatively stable unemployment rate. Migration, predominantly to the Russian Federation, remains an important way to alleviate labour market tensions in the low-income countries of the CIS.

Vulnerabilities and risks

The report notes the global economy continues to provide a challenging environment for CIS economies that are characterized by having weak external demand and difficulties in accessing external finance. CIS continues to face serious economic risks and must overcome structural challenges, such as diversification of output in the CIS economies away from the energy and primary commodities sectors. Volatility of foreign direct investment and capital flows in and out of the region are added risks.

With linkages to a still fragile global economy, the region would suffer if external conditions deteriorate. While weak linkages shelter the region's low-income countries from global financial turbulences, the large deficits in Belarus and Ukraine make them vulnerable to any external decline. Lack of economic diversification exposes the region to reductions in commodity prices resulting from a worsening global economy. While the Russian Federation and other energy-producing countries have some policy space to offset these negative trends, the report says, other economies have fewer resources with which to face these challenges.

Table: CIS: rates of growth of real GDP, 2010-2015

	2010	2011	2012	2013 ^a	2014 ^b	2015 ^b
Commonwealth of Independent States and Georgia	4.9	4.8	3.4	2.0	3.4	4.1
Armenia	2.2	4.7	7.2	4.0	5.5	5.0
Azerbaijan	4.6	-1.6	2.1	5.1	5.0	5.0
Belarus	7.7	5.5	1.5	1.5	2.5	3.0
Georgia	6.3	7.2	6.1	2.1	5.0	5.0
Kazakhstan	7.0	7.5	5.0	5.2	6.0	6.0
Kyrgyzstan	-0.5	6.0	-0.9	9.0	7.0	6.5
Republic of Moldova	7.1	6.8	-0.8	4.2	4.5	4.5
Russian Federation	4.5	4.3	3.4	1.5	2.9	3.6
Tajikistan	6.5	2.4	7.5	7.1	6.5	6.5
Turkmenistan	9.2	14.1	8.0	9.0	9.5	9.5
Ukraine	4.2	5.2	0.2	-0.2	2.1	3.8
Uzbekistan	8.5	8.3	7.4	8.0	7.1	7.4

Source: UN/DESA, based on data of the United States 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.

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

For more information, visit: <http://www.un.org/en/development/desa/policy/wesp/index.shtml>

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