Commonwealth of Independent States and South-Eastern Europe: Major disruptions in trade and commerce threatened quick recovery

Lower commodity process amplified the shock in CIS, while tourism-dependent countries in South-Eastern Europe were hit hardest, says UN reports

New York, 25 January 2021 - The outbreak of the COVID-19 pandemic has unleashed multiple shocks in the Commonwealth of Independent States (CIS) and Georgia, and in South-Eastern Europe, heavily depressing economic activity since the early 2020, according to the World Economic Situation and Prospects 2021 report.

In 2020, the world economy shrank by 4.3 per cent, over two and half times more than during the global crisis of 2009. The modest recovery of 4.7 per cent expected in 2021 would barely offset the losses of 2020.

Lockdowns and other quarantine measures have had far-reaching disruptions in the CIS region, which is expected to see a modest economic growth of 3.4 per cent in 2021.

While the subregion of South-Eastern Europe, affected by high rates of COVID-19 infection, business closures and reduced commerce, is expected to see a modest economic growth of 4 per cent.

“We are facing the worst health and economic crisis in 90 years. As we mourn the growing death toll, we must remember that the choices we make now will determine our collective future,” said UN Secretary-General António Guterres, who will address the Davos Agenda event later today.

“Let’s invest in an inclusive and sustainable future driven by smart policies, impactful investments, and a strong and effective multilateral system that places people at the heart of all socio-economic efforts.” The report underscores that sustained recovery from the pandemic will depend not only on the size of the stimulus measures, and the quick rollout of vaccines, but also on the quality and efficacy of these measures to build resilience against future shocks.

Lower commodity prices, including prices for non-oil commodities, exacerbated the impact of the pandemic in the CIS

Lower commodity prices, including prices of non-oil commodities exported by the CIS countries, such as aluminium and copper, exacerbated the contractionary effects of the pandemic. These shocks resulted in declines in output in almost all countries.

The region’s services sector has been particularly affected, especially international tourism, a critical economic sector for some countries in the Caucasus and Central Asia. Trade and transport disruptions in the region and weaker economic activities in the Russian Federation have also led to a sharp decrease in remittances and disrupted temporary migration flows, aggravating social problems in Central Asia.
Countries implemented stimulus packages, but the outlook is uncertain and subject to downside risks

Countries have responded to these multiple shocks by implementing large stimulus packages, including an increase in health spending and social benefits, direct income transfers, utility subsidies and tax exemptions for individuals and sectors directly affected by lockdowns, especially small and mid-size enterprises. The size of these programmes varied. In Kazakhstan, for example, the stimulus programme was equivalent to about 9 per cent of GDP. Monetary policy has also been loosened throughout the year in most CIS countries. Many countries have also provided support to the banking sector, which has been asked to grant payments holidays and assist in debt restructuring.

“The economic outlook for the CIS region is uncertain, with downside risks predominating,” said Hamid Rashid, Chief of the Global Economic Monitoring Branch at the UN Department of Economic and Social Affairs, and the lead author of the report. “The region should return to growth in 2021, but rapid recovery remains unlikely.”

The reintroduction of strict containment measures would both inflict new damage to economic activities and undermine confidence. While the banking sector has remained stable, the deterioration of asset quality and high levels of dollarization in many countries will constrain lending and increase risks. In addition, geopolitical tensions have mounted.

After expanding by 2.2 per cent in 2019, the aggregate GDP of CIS and Georgia is estimated to have shrunk by 3.4 per cent in 2020. In addition to a modest recovery in 2021, a 3 per cent growth is expected in 2022.

In South-Eastern Europe, standstill in tourism-related activities causes serious recessions in Albania and Montenegro

The aggregate GDP of South-Eastern Europe, after expanding by 3.5 per cent in 2019, is estimated to have declined by 3.8 per cent in 2020, with a modest growth of 4 per cent in 2021 and 3.1 per cent in 2022. Unemployment has increased from already high levels, reversing some of the improvements seen in previous years.

The worsening economic situation in the European Union (EU) – the main destination for the region’s exports and a source of investments and remittances – has depressed external demand and reduced income; and supply chain disruptions have dampened manufacturing production. However, as the external and health situations improve, growth is expected to return to the region.

“South-Eastern Europe is confronting many adverse structural factors,” added Rashid, referring to a challenging business environment, low productivity and the shrinking labour force due to population ageing and persistent outward migration. EU accession goal remains a critical anchor for policies and a source of financing. However, disappointing progress on that front may undermine fragile political stability and weaken economic prospects.

About the World Economic Situation and Prospects 2021
The World Economic Situation and Prospects 2021 is a report produced by the UN Department of Economic and Social Affairs (DESA), in partnership with the UN Conference on Trade and Development (UNCTAD), and the five UN regional commissions. The UN World Tourism Organization also contributed to the report. For more information, please visit: www.bit.ly/wespreport

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