Macroeconomics of the region 2–5

Macroeconomics of countries:
Azerbaijan
Armenia
Belarus
Kazakhstan
Kyrgyzstan
Moldova
Russia
Tajikistan
Turkmenistan
Uzbekistan
Ukraine

Trends in 2014:
- **The world economy**: uneven growth, an increased divergence of policies among major central banks
- **The United States**: recovery in GDP growth following a slowdown in Q1 2014, a likelihood of tighter monetary policy
- **Europe**: slow and unsteady economic growth in the Eurozone, transition to looser monetary policy
- **Asia**: a further slowdown in GDP growth in China, strong fluctuations in economic growth in Japan in connection with an increase in the sales tax rate
- **The CIS**:
  1) Low GDP growth rates amid the Ukraine crisis
  2) The strengthening of the balance of payments and public finances in Russia, deterioration in the balances of payments of a number of labour exporting countries
  3) A moderate reduction in the external imbalance of Belarus, the deepening of the crisis in the Ukrainian economy

Outlook and risks:
- **The world economy**: transition to more even and steady growth
- **Commodity markets**: pressure on prices amid the strengthening of the US dollar against other major currencies
- **The CIS**: the stability of major economies, a negative impact of external political instability on GDP growth rates

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Macroeconomics of the region

The region’s GDP growth rate continues to decline in Q2 2014

In Q2 2014, the CIS countries’ aggregate GDP grew by 0.9% year-on-year. The region’s GDP growth rate thus continued to decline, falling from 1.2% in Q1 2014 and 2.8% in Q4 2013. The region had a GDP growth rate of 1.1% in 1H 2014 year compared with a growth of 2% in 2013. A key factor behind the slowdown in economic growth in the CIS was the political crisis provoked by developments in Ukraine. The negative impact on the dynamics of consumption and investment resulted from: a sharp rise in uncertainty in connection with the crisis; a capital outflow from the region; and fluctuations in the exchange rates of currencies. This resulted in deterioration in the economic indicators of the three groups of CIS countries: the oil and gas exporters, the labour exporting countries, and the countries with a diversified structure of exports. Apart from the Ukraine crisis, the region’s economies were affected by various factors characteristic of certain countries. As a result, the behavior of some economies differed from the trends common to the region.

The external economic conditions in the narrow sense of prices and demand for export products improved for most of the CIS countries in Q2 2014. This improvement stemmed from the revival of international trade during the period (see Figure 1) and, at least with regard to primary energy commodities, heightened political tension in the world. This included developments in Ukraine, which have negative consequences for the region in all other aspects. Energy prices substantially rose in Q2 2014, and the physical volume of Russian energy exports grew. Prices of industrial metals partially recovered after a fall in 2013 and early 2014 (see Figure 1.2). At the same time gold prices and prices of agricultural produce, including wheat and cotton, fell again after a rise in Q1 2014 (also see Figure 1.2).

The CIS country group of oil and gas exporters (Azerbaijan, Kazakhstan, Russia and Turkmenistan) experienced a limited slowdown in GDP growth compared with Q2 2013. Their GDP growth rate fell from 1.2% in Q1 2014 to 1.1% in Q2 2014. Russia had a slowdown in the growth of private consumption, which was partially offset by a lower fall in fixed capital investment and a positive contribution to GDP from net exports. In Azerbaijan, the growth rate of private investment and especially that of fixed capital investment fell from the high levels in Q1 2014. Kazakhstan’s GDP growth slightly accelerated in Q2 2014 amid a recovery in investment.

The economies of the labour exporting countries (Armenia, Kyrgyzstan, Moldova and Tajikistan) were negatively affected by a fall in the volume of cash remittances from Russia. The rate of fall slowed in Q2 2014. According to data from the central bank of Russia, the year-on-year decrease in the nominal dollar volume of remittances from individuals to CIS countries was 1% in Q2 2014 compared 5.1% in Q1 2014. The GDP growth of this group of countries remained relatively strong in Q2 2014, although it slowed to 4.3% year-on-year from 5.5% in Q1 2014. Moldova was the only labour exporting country whose GDP growth in Q2 2014 was higher than Q1 2014. This exception was attributable to the fact that the slowdown in GDP growth in early 2014 was higher in Moldova than in the other countries of the group.
The GDP growth rate of the countries with a diversified structure of exports became negative, falling from 0.8% in Q1 2014 to -0.9% in Q2 2014. The deterioration was due to the deepening of the downturn in the Ukrainian economy. Belarus and Uzbekistan, on the contrary, saw acceleration in GDP growth. In the case of Belarus, there was a rather moderate recovery in growth from low levels in late 2013 and early 2014 amid a difficult situation with regard to the external sustainability of the economy. Unlike Belarus, Uzbekistan had acceleration in GDP growth from already very high levels. There was therefore no common trend in the economic dynamics of this group of countries.

The state of the public finances in the CIS countries in 1H 2014 was better than in 1H 2013. The CIS countries had an average consolidated budget surplus equal to 2.6% of GDP compared with 2.2% in 2013. The improvement seen in Q1 2014 therefore continued into Q2 2014. This was largely due to a rise in the budget surpluses of Russia and Azerbaijan. Kazakhstan’s budget surplus significantly decreased compared with 2013, with this downward trend strengthening in Q2 2014. The state of public finances in the labour exporting countries deteriorated amid lower economic growth. The average consolidated budget surplus of labour exporting countries fell to 0.9% of GDP in 1H 2014 from 1.3% of GDP in 1H 2013. All countries of the group experienced a decrease in their budget surplus, which was moderate and rather even. None of the labour exporting countries saw a dramatic deterioration in their budget situation. As for the countries with a diversified structure of exports, Belarus and Ukraine experienced a decrease in their budget surpluses. In the case of Ukraine, the degree of its budget imbalance was obviously incompatible with macroeconomic stability. The state of public finances of Uzbekistan remained stable and its state budget had a surplus again due to high GDP growth rates.

The aggregate current account surplus of the CIS countries grew to an estimated 4% of GDP in 1H 2014 from 2.7% in 1H 2013. The growth of the current account surplus resulted in a rise in investment demand and, to a lesser extent, consumer demand in the oil and gas exporters and the countries with a diversified structure of exports. In Russia, factors behind the rise included: the tightening of budget and monetary policies; the weakening of the national currency; and a general rise in uncertainty amid the external political crisis. In Azerbaijan, the balance of payments improved because the government’s budget policy was tighter than in 2013. In Kazakhstan, a key factor was a significant one-time devaluation of the national currency, which took place at the beginning of 2014. In Belarus and Ukraine, a decrease in the current account deficit was part of the general recovery in the external sustainability of the economy, which was disturbed in 2012 and 2013. In Ukraine, the external sustainability of the economy was recovered in an uncontrolled way amid the political crisis in the country, which became increasingly acute throughout 1H 2014. LabourAvailable data for Q2 2014 does

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**Figure 1.1. World industrial production and trade**

<table>
<thead>
<tr>
<th>Country</th>
<th>2013q1</th>
<th>2013q2</th>
<th>2013q3</th>
<th>2013q4</th>
<th>2014q1</th>
<th>2014q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global economy</td>
<td>5%</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Advanced countries</td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Emerging countries</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
<td>-1%</td>
</tr>
</tbody>
</table>

Source: CPB World Trade Monitor, World Bank

**Figure 1.2. Terms of trade: international commodities’ and food prices**

<table>
<thead>
<tr>
<th>Commodities</th>
<th>2013q1</th>
<th>2013q2</th>
<th>2013q3</th>
<th>2013q4</th>
<th>2014q1</th>
<th>2014q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Gas</td>
<td>12%</td>
<td>11%</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Cotton</td>
<td>15%</td>
<td>14%</td>
<td>13%</td>
<td>12%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Aluminium</td>
<td>18%</td>
<td>17%</td>
<td>16%</td>
<td>15%</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Copper</td>
<td>20%</td>
<td>19%</td>
<td>18%</td>
<td>17%</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Iron ore</td>
<td>22%</td>
<td>21%</td>
<td>20%</td>
<td>19%</td>
<td>18%</td>
<td>17%</td>
</tr>
<tr>
<td>Gold</td>
<td>25%</td>
<td>24%</td>
<td>23%</td>
<td>22%</td>
<td>21%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Word Bank
not make it possible to assess the current account balance for the labour exporting countries as a whole. There was probably deterioration in the balance. Armenia and Tajikistan experienced an increase in their current account deficit compared with 2013 amid the relatively small flexibility of the exchange rate of their national currencies. The central banks of most of the countries pursued an exchange rate policy of a controlled peg to the US dollar.

The CIS countries had an extra acceleration of inflation throughout Q2 2014 amid the weakening of the national currency in a number of countries. The average rise in the annual consumer price index in the CIS countries was 7.8% in June compared with 6.4% in March 2014 and 6.2% in December 2013. The monetary factor in general counteracted inflation. In most of the CIS countries, the growth of money supply decelerated. This was amid a rise in the central banks' interest rates under the influence of a capital outflow or a decline in the capital inflow; and the central banks' interventions undertaken to limit fluctuations in the exchange rates of the national currencies. The highest acceleration of inflation occurred in Ukraine: the annual growth rate of consumer prices in Ukraine reached 12% in June 2014, increasing from 3.4% in March and 0.5% in December 2013. In this case, the monetary factor played a significant role in the acceleration of inflation. The National Bank of Ukraine sharply loosened its monetary policy, abandoning the de facto fixed peg of the hryvnia to the US dollar.
An important factor for the economic outlook for the CIS countries in the remaining part of 2014 and in 2015 is a considerable strengthening of the US dollar against other currencies in Q3 2014. This caused a fall in the price of primary commodities. The main factor that determined this market trend was a growing discrepancy in policies among the major central banks: the US Federal Reserve System is moving in the direction of tightening its policy; and the European Central Bank (ECB) and the Bank of Japan have loosened their monetary policies. The impact of these developments on the CIS countries will depend on how quickly they are able to adapt to the changing external conditions.

The situation in Ukraine, and the consequent crisis in the relationship between Russia and Western countries, remains a dangerous source of economic risk for the region. The consequences of the crisis include: deteriorated access to international capital markets for Russian companies; the heightened volatility of the Russian ruble against major currencies; and the general rise in uncertainty in the economy. These circumstances at least partially explain the slow recovery in investment activity in the Russian economy in 2014. They negatively affect the economies of other countries in the region through the trade and financial channels and the channel of remittances. The current situation is characterized by the fact that there exists an equal probability of either a significant and relatively fast decrease in the political tension and consequent risks, or a further increase in the tension.
Developments in the political situation will have an impact on economic growth in the region.

Our outlook regarding GDP growth in the CIS countries is based on the assumption that the Western sanctions against Russia will be eased in 2015. This scenario assumes that the economies of the region will gradually accelerate their growth amid the recovery in investment demand and lending activity, and the expansion of the capacity of state budgets. More negative scenarios assume that Russia will most likely continue to have very low economic growth rates during an indefinite period of time with consequent negative effects on other CIS countries. Meanwhile, the certain improvement that can be seen in 2014 in the budget and external balances in the region makes its economies more stable against additional negative shocks and diminishes the probability of acute economic distress.

Figure 1.7. **Economic growth** (GDP growth): consensus forecasts by national and international institutions (in %)

Figure 1.8. **Savings and investment** (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account (X-M)

Source: estimates and forecasts by national agencies, the EDB, the ADB, the World Bank, the EBRD, the IMF

Source: national agencies, estimates and forecasts by the IMF
Azerbaijan: Slowdown in GDP growth amid stabilization of construction activity

Azerbaijan’s economic growth slowed down in Q2 2014. GDP grew by 2.1% year-on-year in 1H 2014 compared with 2.5% growth in Q1 2014. The decline in the oil and gas sector continued, but the rate of the decline fell to 3.9% from 4.1% in Q1 2014. An appreciable decrease in the growth rate occurred in the non-oil and gas sector, which fell to 7% from 8.8% in Q1 2014. Output in the non-oil and gas branches of the industrial sector increased by 4.2%, with output rising by 16.8% in the building materials industry, 7% in the metallurgical industry, and 2.4% in the food industry. Agricultural output rose by 5.8%. Retail sales increased by 8.9% amid a 6.5% rise in average pay, according to data for the first five months of 2014. The construction sector showed a rise of 3.4%. The stabilization of construction activity after rapid growth in 2013 was apparently one of the main factors behind the slowdown in economic growth in general.

The positive trend in the state of the public finances in Q1 2014 continued into Q2 2014. The aggregate surplus of the state budget and the State Oil Fund amounted to 7.3% of GDP compared with 6.4% of GDP in 1H 2013. The improvement in the budget balance was achieved through a reduction in expenditure, which decreased by 1.7% of GDP compared with 2013. This is approximately the amount provided for by the Budget Law. The State Oil Fund’s assets grew to $37.6 billion from $36.3 billion at the end of Q1 2014. The Fund’s assets remained almost unchanged at 50% of GDP.

The decline in the growth of the current account surplus slowed down amid budget consolidation and the deceleration of economic growth. It amounted to $6.37 billion (17.4% of GDP) compared with $6.44 billion (18.5% of GDP) in Q1 2013. The decrease in the current account surplus was due to deterioration in the income account balance. The balance of trade improved significantly compared with 2013, partially due to high oil prices in Q2 2014 and partially due to a decrease in imports. An increased capital inflow into the country caused the financial account surplus to decrease to $1.5 billion (4.1% of GDP) from $3.3 billion (9.4% of GDP) in 2013. It led to a considerable increase in reserve assets. The reserve assets grew by $4.4 billion (11.9% of GDP) in 1H 2014 against an increase of $2.3 billion (6.7% of GDP) in 1H 2013.

The rise in consumer prices in the country slowed down again, as the impact faded of price growth following a rise in regulated motor fuel prices at the end of 2013. The annual growth rate of consumer prices fell to 1.1% in June from 1.8% in March 2014. Meanwhile, the growth of the money supply accelerated in Q2 2014 amid the national currency’s fixed exchange rate and the increased capital inflow into the country. In particular, M0 and M2 grew by 12.1% and 18.9% year-on-year, respectively, in Q2 2014 after increasing by 10.6% and 16.9% year-on-year in Q1 2014.

So far, the rise in money growth has had no effect on lending activity. The annual growth rate of bank lending resumed falling, amounting to 21.6% at the end of June 2014 compared with 27.6% at the end of March 2014.
Azerbaijan

Figure 2.1. GDP and output: GDP growth and output change by sectors, (in %, year-on-year)

Figure 2.2. Foreign trade: exports, imports, current account (left scale, in billions of US dollars), real effective exchange rate – REER (right scale, index – Q2 2009 = 100)

Figure 2.3. Government sector: sum of state budget and oil fund balances (in % of GDP)

Figure 2.4. Monetary sector: the central bank’s rate (in %), the CPI growth (in %, year-on-year), M2 growth (in %, year-on-year)

Figure 2.5. Economic growth: GDP growth and forecasts by national and international institutions (in %)

Figure 2.6. Savings and investments: (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account balance (X-M)

Source: the State Statistics Committee of Azerbaijan

Source: national agencies

Source: national agencies

Source: national agencies, estimates by the ADB, the World Bank, the EBRD, the IMF

Source: estimates and forecasts by national agencies and the IMF
**Trends**

**Armenia: Sensitive slowdown in economic activity amid deterioration in balance of payments**

Armenia’s GDP growth slowed down substantially in Q2 2014, amounting to only 2.3% year-on-year. The slowdown was primarily caused by a decline in the industrial sector, which was mainly due to simultaneous output falls in the mining industry (-15.4%) and the power generation industry (-11.7%). There was also a lack of growth in the agricultural sector and a slowdown in growth in retail sales to 1.1%. Given the high significance of these sectors for the national economy, the decline was only partially offset by an improvement in the services sector (+8.2%) and the construction sector (+2.4%). As a result, Armenia’s GDP growth slowed down to 2.7% year-on-year in 1H 2014 compared with 3.1% growth in Q1 2014 and 3.8% growth in 1H 2013. The growth rate in 1H 2014 proved to be significantly lower than expected. The decline in economic activity was due to: the economy’s negative reaction to the situation in Russia; heightened geopolitical uncertainty; the government’s fiscal policy, which was less expansive than expected; a slowdown in the growth of bank lending and cash remittances from abroad; and seasonal factors.

The balance of payments deteriorated throughout Q2 2014. This is evidenced by a reduction in the gross international reserves, which decreased in Q2 2014 by $89.1 million to $1,774 million at the end of June 2014. The state of the current account balance worsened further as a result of: an increase in the trade deficit, which grew by 2.9% in Q2; and a slowdown in the rise in the volume of migrant workers’ remittances, which increased by only 1.1% year-on-year. This resulted in a general deterioration in the balance of payments, the emergence of pressure on the dram, and a decrease in the gross international reserves. Nonetheless, the reserves continued to be at a sufficient level – equivalent to 4.7 months’ worth of imports – for preventing sharp fluctuations in the value of the national currency.

The state of public finances improved in Q2 2014. The state budget had a surplus equal to 3% of GDP against 0.8% of GDP in Q1 2014, and 1% of GDP in Q2 2013. The increased state budget surplus was attributable to the less expansive fiscal policy. This manifested itself in a slowdown in the growth of public spending, which increased by only 5% year-on-year in Q2 2014 after a 13.4% increase in Q1 2014. The growth of fiscal revenue accelerated to 6.8% from 3.7% in Q1 2014.

Annual inflation decelerated in June 2014 to 1.8%, a level below the central bank’s target band. The inflation rate fell more than expected due to generally low economic activity and, to a greater extent, because the impact had faded of the 2013 price rise of imported natural gas. Food prices fell by 1.3%, while prices of non-food consumer goods rose by 1.3%. Inflation was mainly driven by services and alcoholic beverages and tobacco products, which increased in price by 6.8% and 7.5%, respectively. The slow inflation and the decline in economic activity were the reason for the expansive monetary policy of the central bank, which further reduced its refinance rate in Q2 2014.
Outlook

Armenia: Uncertainty about economic activity amid deteriorating external sustainability

The Indicator of Economic Activity (IEA) improved in the July-August period, averaging out at 4.1% in January-August 2014 compared with 3.4% in 1H 2014. The improvement was attributable to an acceleration in growth in the agricultural sector (+4.9% year-on-year increase in January-August 2014), the services sector (+6.2%) and retail trade (+5.7%). Nonetheless, the output growth rates of the industrial sector (+0.9%) and the construction sector (+0.4%) remained modest. Armenia’s GDP growth may slightly accelerate in the remaining part of 2014. This is despite the negative effect on the economy from the slowdown in growth in Russia and the low economic growth in Europe. According to the median consensus forecast of international organizations, the country may have a growth rate of 4.2% in 2014, with EDB predicting a growth of 4.5%. There should be a favorable impact on the national economy from: the possible acceleration of public spending, including investment expenditure; the rise in wages in the public sector; the expansive monetary policy; and Armenia’s increased cooperation with the Customs Union of Belarus, Kazakhstan and Russia.

The balance of payments deteriorated in August 2014. The gross international reserves were down 8.4% compared with July, and 2.4% from August 2013. The trend towards deterioration in the state of the current account balance continued. Moreover, heightened geopolitical uncertainty in the region (the international sanctions against Russia and the long-running Nagorno-Karabakh conflict) had a negative impact on the financial account balance. In particular, heightened demand for foreign currency in the highly dollarized economy amid the strengthening of the dollar in international markets led to downward pressure on the dram. This was apparently offset by the central bank’s forex interventions. One should assume that given the difficulties in increasing exports and attracting investment, and also the large amount of short-term payments on external liabilities, there is the probability of recurrent periods of heightened volatility and depreciation for the dram in the remaining part of 2014.

The 2014 state budget estimates provide for an increase in the budget deficit to 2.3% of GDP. This indicates that a rise in public spending can be expected, and that the state budget will move to a deficit before the end of 2014, but this deficit will be below the expected level. The year 2015 is expected to see a moderate rise in expenditure without an increase in the tax burden, and a state budget deficit equivalent to 2.3% of GDP.

Given the more pessimistic outlook for GDP growth and the expected low level of inflation, the government’s expansive fiscal policy will apparently be accompanied by the expansion of monetary policy. In particular, according to the central bank, the decline in annual inflation accelerated to as low as 0.8% in August 2014, which gave grounds to lower the refinancing rate to 6.75% at the end of Q3 2014. However, the stability of the dram and a possible increase in gas prices in 2015 will be factors deterring a further loosening of monetary policy. Inflation should return to the target band of 2.5 to 5.5% before the end of 2014 and stay within it throughout 2015. The existence of an IMF country program for the period between 2014 and 2017 can be viewed as a favorable factor capable of stabilizing macroeconomic indicators.
Armenia

Figure 3.1. **GDP and output**: GDP growth and output change by sectors, (in %, year-on-year)

Source: the National Statistical Service of the Republic of Armenia

Figure 3.2. **Foreign trade**: exports, imports, current account (left scale, in billions of US dollars), real effective exchange rate – REER (right scale, index – Q2 2009 = 100)

Source: national agencies, IMF

Figure 3.3. **Government sector**: state budget (in % of GDP)

Source: national agencies

Figure 3.4. **Monetary sector**: the central bank’s rate (in %), the CPI growth (in %, year-on-year), M2 growth (in %, year-on-year)

Source: national agencies

Figure 3.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in %)

Source: national agencies, estimates by the ADB, the World Bank, the EBRD, the IMF

Figure 3.6. **Savings and investments**: (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account balance (X-M)

Source: estimates and forecasts by national agencies and the IMF
Belarus: GDP growth, acceleration of inflation amid expansion of budget deficit, moderate decrease in current account deficit

The moderate recovery in economic activity that started in the early spring continued throughout Q2 2014. As a result, the country’s GDP grew by 1.2% year-on-year in 1H 2014 compared with a growth of 0.5% in Q1 2014. Wholesale and retail trade continued to show high annual growth rates, increasing by 11.9% and 10.9% respectively in 1H 2014. The rate of decline in industrial output fell from 3.4% in Q1 2014 to 1% in 1H 2014 amid increased growth in the chemical industry, whose output rose by 14.5% year-on-year in 1H 2014 against a 5.3% increase in Q1 2014, and a continued deep recession in machine-building.

There was a continued recession in the agricultural sector, whose output fell by 4.5% year-on-year in 1H 2014 after a 4.7% decrease in Q1 2014. Output in the construction sector was down 0.7% in 1H 2014 following an increase of 0.4% in Q1 2014. The dynamics of retail sales indicated growth in household consumption. This was accompanied by a decrease in fixed capital investment of 6.7% in 1H 2014 compared with 1H 2013, after a 1.3% year-on-year decrease in Q1 2014.

The monthly inflation rates in Belarus throughout Q2 2014 were significantly higher than those in Q2 2013 due to an appreciable rise in food prices. As a result, the consumer price index accelerated to 20% in June from 16% in March 2014. The monetary policy still supported inflation: the annual growth rate of M3 rose from 21.3% in March to 23.8% in June amid a steady depreciation of the national currency against the US dollar. This was despite a slowdown in the growth of the ruble monetary aggregates M0, M1 and M2.

The negative shift in the state of public finances that started in Q1 2014 continued into Q2 2014. The consolidated budget had a surplus amounting to 0.1% of GDP in 1H 2014 against a surplus of 1.9% in 1H 2013.

The state of the balance of payments continued to deteriorate. The current account deficit decreased to 7.2% of GDP in 1H 2014 from 11.1% of GDP in 1H 2013. The capital inflow into the country also decreased amid the unstable situation in the region, remaining insufficient for financing the current account deficit. The international reserves of the National Bank continued to shrink, decreasing to $5.4 billion (1.4 months’ worth of imports) as of the end of May. In June 2014, the government received a $2 billion bridge loan from Russia’s VTB Bank (arranged by the Russian government), which helped increase the international reserves to $6.4 billion (1.7 months’ worth of imports).

The growth of bank lending continued to slow down gradually. Its annual growth rate was 26.1% in June, down from 27.3% in March. There was a greater slowdown in the growth of lending to individuals (from 31% in March to 25.4% in June); whereas lending accelerated to non-financial companies, both state and privately owned.

The share of problem assets grew in Q2 2014 from 4.4% in March to 4.7% at the end of June. The capital adequacy rate fell from 15% in March to 14.8% at the end of Q2 2014.
Outlook

Belarus: Moderate GDP growth amid consolidation of private consumption and positive contribution of net exports

The most recent data from official sources suggest that the Belarusian economy’s recovery has stabilized at positive levels after a recession in Q1 2014. One of the factors behind the trend is a positive contribution to the macroeconomic dynamics from net exports. Despite the fact that both exports and imports experienced year-on-year falls, there was a larger decrease in imports. The above-mentioned significant increase in the chemical industry’s output was connected with export activity. Nonetheless, Belarus’ GDP growth rate remains within 1 to 2%. It is prevented from reaching higher levels by the continuing decrease in domestic demand, which is currently especially apparent in the investment component of demand. The slowdown in the growth of household consumption may become more appreciable in the remaining part of 2014 and in 2015. This is signified by a slowdown in the rise in wages and salaries. Average disposable pay in the country showed a negative annual growth rate in real terms for the first time since March 2012, decreasing by 0.2%.

In June 2014, the monthly growth rate of prices was close to the level of 2013, but it was considerably higher in August. Despite this, the National Bank continued to loosen its monetary policy, reducing the refinance rate twice in the period. In particular, the central bank lowered the refinance rate to 20.5% in July and to 20% in August, whereas the annual inflation rate was 20.6% in August. This policy led to acceleration in growth of money supply. In July, the annual growth rate of M2 reached 18.9%, much above 2014’s minimum of 9.1% in May. Given these circumstances, the annual inflation rate will probably continue to rise in the remaining part of 2014 and reach a level close to 25% by its end.

The decrease in the consolidated budget surplus in 1H 2014 compared with 1H 2013 was caused by the fact that revenue fell from 45.4% to 41.2% of GDP. Expenditure also decreased as a percentage of GDP but less significantly: from 43.5% to 41%. Since the volume of revenue as a percentage of GDP in 2014 is closer to the average level for the 2010s than to its level in 2013, we should think that the consolidation of public finances may eventually require a tighter policy regarding spending.

Taking into consideration data available for 1H 2014 and seasonal factors, one can expect the current account deficit to decrease in the remaining part of 2014 to 5 to 7% of GDP. This would be an improvement compared with 2013, when the country had a current account deficit equal to 10.1%. Nonetheless, the state of the balance of payments will remain poor, especially considering the fact that the international reserves of the National Bank were replenished through increasing the country’s external debt. The progress achieved in the recovery of the Belarusian economy’s external sustainability is attributable to the slowdown in the growth of pay. This reflects some shift in the authorities’ policy and, apparently, some success in efforts to increase exports. The authorities’ current budget and monetary policies weaken the balance of payments rather than strengthening it.
Belarus

Figure 4.1. **GDP and output**: GDP growth and output change by sectors, (in %, year-on-year)

Source: the National Statistics Committee of Belarus

Figure 4.2. **Foreign trade**: exports, imports, current account (left scale, in billions of US dollars), real effective exchange rate – REER (right scale, index – Q2 2009 = 100)

Source: national agencies, IMF

Figure 4.3. **Government sector**: consolidated budget (in % of GDP)

Source: national agencies

Figure 4.4. **Monetary sector**: the central bank’s rate (in %), the CPI growth (in %, year-on-year), M2 growth (in %, year-on-year)

Source: national agencies, IMF (IFS)

Figure 4.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in %)

Source: national agencies, estimates by the EBD, the World Bank, the EBRD, the IMF

Figure 4.6. **Savings and investments**: (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account balance (X-M)

Source: estimates and forecasts by national agencies, the IMF and the EBD
Trends

Kazakhstan: Limited acceleration in GDP growth amid deterioration in balance of payments and public finances

Annual GDP growth accelerated to 4% in Q2 2014 from 3.8% in Q1, amounting to 3.9% in 1H 2014. The unfavorable external environment for Kazakhstan had a negative impact on external demand. The small acceleration was attributable to a recovery in investment (+5.2%) and continued rather robust consumption – there was a rise in real income, consumer loans and public spending. It happened despite a currency devaluation at the beginning of 2014.

In 1H 2014 there were increases in retail trade (+9.5%), the transport sector (+7%), the communications sector (+9.3%) and the construction sector (+4.2%), and they continued to be major drivers of growth. Whereas a slowdown in the agricultural sector (+3.3%) and a fall in industrial output (-0.4%) caused the growth rate to be lower than in 2013.

The balance of payments deteriorated in Q2 2014 amid: heightened geopolitical tensions in the region; a slowdown in economic growth in Russia; a fragile recovery in the Eurozone; ambiguous dynamics in China; and a decrease in oil and copper production. This is evidenced by a decrease in the gross international reserves, which shrank by $1.9 billion in May and June to $26.5 billion. The deterioration was apparently due to the negative dynamics of the financial account balance, as the fall in exports, which decreased by 12.7% year-on-year in Q2 2014, was less considerable than the fall in imports (-15.5%). The deterioration in the balance of payments negatively affected the currency exchange market, led to a downward trend in the value of the tenge, and increased pressure on the national currency. This forced the National Bank to make active forex interventions.

The condition of the state budget worsened in Q2 2014. A surplus in Q1 was followed by a deficit equal to 3.2% in Q2, which resulted in a deficit amounting to 0.9% of GDP in 1H 2014. The rise in tax revenue slowed to only 4.6% in 1H 2014 amid a slowdown in economic growth and decreased imports and export revenues. The government had not apparently expected such a modest increase in tax revenue and had to resort to various instruments to boost state budget revenue. The deterioration in the state of public finances was especially visible in the consolidated budget, which, as a rule, ensures a safety margin against fiscal instability. There was a consolidated budget deficit equal to 0.1% of GDP in Q2 2014, but still a surplus of 2.5% of GDP in 1H 2014.

Due to administrative measures, the annual inflation rate remained at an acceptable level, standing at 7% in June, with the target being 6 to 8%. A matter of concern is the difference between the rises in the consumer price index and the industrial producer price index (20.3% in June). This indicates the existence of a high inflation potential. The role of monetary factor in inflation remains limited. The annual growth rate of M2 was 6.2% in June. Amid the slowdown in economic growth and measures taken to curb consumer loans, the annual growth rate of bank lending continued to fall – 15.4% in June – which negatively affected the efficiency indicators of the banking sector, although the share of non-performing loans diminished in Q2 to 32.2% as of the end of June 2014.

According to a preliminary estimate, annual GDP growth accelerates to 4% in Q2 to amount to 3.9% in 1H 2014

The state of the balance of payments deteriorates in Q2 2014. This is evidenced by a decrease in the gross international reserves, which shrank by $1.9 billion in May and June to $26.5 billion

The condition of the state budget worsens in 1H 2014. A surplus in Q1 is followed by a deficit amounting to 0.9% of GDP

A matter of concern is the difference between consumer price inflation and the rise in industrial producer prices (20.3% in June 2014)
Outlook

Kazakhstan: Heightened uncertainty in economy amid acceleration of inflation and fiscal difficulties

According to preliminary estimates, the intensification of investment activity – oil sector growth was 5.7% – amid relatively good indicators for consumption led to acceleration in annual GDP growth to 4.1% in January-August 2014. Kazakhstan may avoid an additional slowdown in economic activity in the remaining part of 2014, but the country’s GDP growth rate will be lower than in 2013. GDP growth will remain limited amid: heightened geopolitical uncertainty; the slowdown in Russia; the slow recovery in growth in Europe; the limited efficiency of fiscal stimulus; the low flexibility of the national economy with regard to the improvement of its external competitiveness; the fall in oil prices; and the negative outlook for oil production. The consensus forecast of international organizations predicts the country’s GDP to grow by 4.9% in 2014 and 5.4% in 2015, with EDB forecasting 4.2% growth for 2014 and 4.9% growth for 2015.

The balance of payments improved in July and August 2014 despite the current unfavorable external environment and the recession in the domestic industrial sector. The gross international reserves of the National Bank grew to $27.7 billion as of the end of August. If the assets of the National Fund of Kazakhstan are taken into account, the international reserves reached almost $105 billion. The improvement in the balance of payments was accompanied by the stabilization of the exchange rate of the tenge at a lower boundary of 182 tenge for one US dollar and even an unexpected 15-tenge reduction in the lower boundary. This improvement should be linked to both the expansion of the trade surplus – due to a decrease in imports – and an improvement in the financial account balance. This might be connected with the privatization process and the legalization of domestic capital, and also the tax period. The improvement of the balance of payments and the strengthening of the tenge appear to be temporary phenomena considering the unfavorable external environment, the heavy debt burden, the decreasing oil production and the acceleration of inflation.

Fiscal stability, in the context of a possible deterioration in public finances, is guaranteed by: the large reserves of the National Fund; the continued consolidated budget surplus; and relatively moderate fiscal policy. Fiscal revenue has been lower-than-expected due to: the fall in oil prices; decreasing oil production; and the slowdown in economic activity. The government will continue to experience difficulties with regard to fiscal revenue, and will consequently continue to look for additional sources of revenue. These can include privatization, and the reduction of the shadow sector. The expansion of fiscal stimulus measures will also be limited in the remaining part of 2014. Given the current fiscal difficulties, the authorities project for 2015 a 2.6% expansion of expenditure and a republican budget deficit of 2.2% of GDP.

Inflation should accelerate due to the rise in import prices increasing domestic prices, and the increase in motor fuel prices. The government and the National Bank have announced that the forecast for the inflation rate for 2014 may be revised as a result of the correction of the tenge’s exchange rate, and the change in the retail prices of petroleum products. The National Bank plans to keep inflation within a range of 6 to 8% in the medium term and a subsequent reduction to a level of between 5 and 7%.

The consensus forecast of international organizations predicts GDP to grow by 4.9% in 2014 and 5.4% in 2015, with EDB forecasting 4.2% growth for 2014 and 4.9% growth for 2015.

The strengthening of the tenge appears to be a temporary phenomenon considering the unfavorable external environment, the heavy debt burden, decreasing oil production and acceleration of inflation.

The National Bank plans to keep inflation within a range of 6 to 8% in the medium term and a subsequent reduction to a level of between 5 and 7%.
Kazakhstan

**Figure 5.1. GDP and output**: GDP growth and output change by sectors, (in %, year-on-year)

Source: the Agency of Statistics of Kazakhstan

**Figure 5.2. Foreign trade**: exports, imports, current account (left scale, in billions of US dollars), real effective exchange rate – REER (right scale, index – Q2 2009 = 100)

Source: national agencies, IMF

**Figure 5.3. Government sector**: consolidated and state budgets (in % of GDP)

Source: national agencies

**Figure 5.4. Monetary sector**: the central bank’s rate (in %), the CPI growth (in %, year-on-year), M2 growth (in %, year-on-year)

Source: national agencies, IMF (IFS)

**Figure 5.5. Economic growth**: GDP growth and forecasts by national and international institutions (in %)

Source: estimates and forecasts by national agencies the EDB, ADB, the World Bank, the EBRD, the IMF

**Figure 5.6. Savings and investments**: (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account balance (X-M)

Source: estimates and forecasts by national agencies, the IMF and the EBD
Kyrgyzstan had an economic growth of 4.1% in the first half (1H) of 2014, down from 8.1% in 1H 2013. Excluding the gold mining industry, the country’s GDP growth slowed down to 3.7% against 5.8% in 1H 2013. This occurred amid a decrease in imports, which fell by 9.2% compared with a rise of 13.2% in 1H 2013, and a continued high growth rate in the construction sector, whose output increased by 18.5%, up from 18.2% in 1H 2013. The fall in imports was due to the reaction of the consumer sector to: a slowdown in the growth of remittances from abroad, which increased by 0.9% year-on-year compared with a 9.7% rise in 1H 2013; and the weakening of the som, with the US dollar’s rate rising from 49.2 at the end of 2013 to 52.1 som at the end of June 2014. The rise in retail and wholesale trade slowed to 4.3% compared with 8.5% in 1H 2013. The construction sector showed double-digit growth, which was supported by foreign loans for the mining industry. The inflow of foreign loans totaled $296.4 million in 1H 2014. The high base of 2013 in the gold mining industry led to a lower growth rate in the industrial sector, whose output increased by 7.2% against a rise of 13.8% in 1H 2013.

The weakening of the som was reflected in the acceleration of annual inflation, which reached 8.5% in June 2014. The National Bank did not change its policy rate throughout Q2 2014, and decreased its interventions in the currency exchange market as fluctuations in the exchange rate of the som normalized. A contribution to the som’s relatively stable exchange rate in Q2 2014 was made by an improvement in the balance of payments amid the decrease in imports and the increased inflow of borrowed foreign capital. With errors and omissions taken into account, the country had a current account deficit equal to 11.7% of GDP compared with 24% of GDP in Q1 2014 and 13.2% in Q2 2013. As a result, the international reserves of the National Bank remained at a level sufficient to cover 4.8 months’ of imports.

The slowdown in economic growth and the decrease in imports led to a fall in tax revenue, which amounted to 22.8% of GDP compared with 24% of GDP in 1H 2013. The most affected was revenue from profit tax, customs duties, VAT on imports and excise taxes. The low rise in revenue was accompanied by a moderate rise in expenditure, which amounted to 33.5% of GDP compared with 34.1% in 1H 2013. A decrease as a percentage of GDP occurred in all expenditure items except subsidies and social payments. In 1H 2014, the state budget had a deficit equivalent to 1.1% of GDP against a deficit of 0.5% of GDP in 1H 2013.

The annual growth of bank lending accelerated to 42.7% from 40.6% in Q1 2014. The main reasons were som loans for the agricultural sector, and loans in foreign currency for the trade and commercial sectors. The share of nonperforming(classified) loans was 4.6% of the total volume as of June 2014, down from 5.5% at the end of 2013. The sustainability indicators of the banking sector remained at a relatively stable level. The instability that was seen in the exchange market in Q1 2014 had an impact on the liquidity situation in the banking sector. The capital adequacy and liquidity ratios fell somewhat compared with the end of the 2013.
Outlook

Kyrgyzstan: Return to moderate economic growth amid external shocks and structural changes

Kyrgyzstan’s GDP growth in January-August 2014 was 3.5% year-on-year. The growth rate in the construction sector fell slightly, and the retail and wholesale sector showed a slight acceleration to 4.5%. Excluding the gold mining industry GDP grew by 2.8%. According to Kumtor Gold Company’s forecast more than half of 2014’s gold production will be produced in Q4 2014. This should support 2014 GDP growth and contribute to its acceleration from the current levels. However, the continuing slowdown in the economies of Kyrgyzstan’s main trading partners and donors leads to a decline in the volume of exports and remittances from migrant workers. This puts downward pressure on the outlook for the country’s economic growth. The current consensus GDP growth forecast for 2014 is 4.2% – EDB predicts a growth of 4% – and a gradual acceleration to a growth of between 4.7 and 5% is forecast for 2015 and 2016. The economy will grow at a generally moderate rate in the next three years. Stimulation of the economy by monetary and fiscal policies is made difficult by: the underdevelopment of the financial market; the inefficiency of institutions; the poor coordination between fiscal and monetary measures; and the large volume of the public debt.

The annual rise in prices decelerated to 7.5% in August 2014. However, given the high inflation rate and the expected impact of an increase in power and heat prices, the National Bank tightened its monetary policy and raised its policy rate by 50 basis points from 6.5 to 7%. The regulator forecast that annual inflation would continue to accelerate in the next months and might reach 10.2%, a level slightly above the target. The average annual inflation rate is forecast at 8.2% for 2014.

Given the rise in inflation pressure, deterioration of the terms of trade affected the external trade situation. The first eight months of 2014 saw deterioration in the balance of trade amid decreasing imports and rising exports. There was a consequent fall in the inflow of foreign currency into the country. The National Bank resumed moderate forex interventions in August with a view to smoothing sharp fluctuations of the som’s exchange rate. As the regulator will continue to use a floating exchange rate system, there may be a moderate depreciation trend in the som in real and nominal terms in the short term as a result of: the continuing external imbalance; the increased volatility of the currencies of Kyrgyzstan’s trading partners; and the heightened geopolitical uncertainty in the region.

An additional factor of risk is fiscal stability, considering the current slowdown in the economy and the pace and conditions of Kyrgyzstan’s accession to the Customs Union. The inefficiency of tax and customs administration, and the susceptibility of the real sector of the economy to swings in external factors, may result in the anticipated removal of several items of state budget revenue increasing the country’s dependence on external assistance. This will create difficulties in keeping fiscal policy stable.

The consensus forecast of international organizations predicts the country’s GDP to grow by 4.2% in 2014

Inflation is predicted to continue accelerating in 2014 and reach 10.2% by the end of 2014

There may continue be a moderate depreciation trend in the som in real and nominal terms

Fiscal stability is an additional factor of risk in the short term
Kyrgyzstan

Figure 6.1. **GDP and output**: GDP growth and output change by sectors, (in %, year-on-year)

Source: the National Statistics Committee of Kyrgyzstan

Figure 6.2. **Foreign trade**: exports, imports, current account (left scale, in billions of US dollars), real effective exchange rate – REER (right scale, index – Q2 2009 = 100)

Source: national agencies

Figure 6.3. **Government sector**: state budget (in % of GDP)

Source: national agencies

Figure 6.4. **Monetary sector**: the central bank’s rate (in %), the CPI growth (in %, year-on-year), M2 growth (in %, year-on-year)

Source: national agencies

Figure 6.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in %)

Source: estimates and forecasts by national agencies the EDB, the ADB, the World Bank, the EBRD, the IMF

Figure 6.6. **Savings and investments**: (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account balance (X-M)

Source: estimates and forecasts by national agencies, the IMF and the EBD
**Trends and outlook**

**Moldova: Slowdown in GDP growth and deterioration in banking sector’s indicators**

Moldova’s GDP grew by 4.2% year-on-year in Q2 2014. Economic activity was supported by a continuing strong rise in agricultural output, which increased by 8% compared with Q2 2013, and the output of the construction sector, which rose by 11.1% year-on-year. Meanwhile, the growth rate fell in the industrial sector (+2.5%) and retail trade (+4.4%). Major contributions to economic growth were made by exports with an increase of 10%, and private consumption with a year-on-year growth of 2.2%. However, GDP growth decreased to 3.9% in the first half (1H) 2014 from 4.8% in 1H 2013. The outlook for 2014 remains pessimistic. Economic growth may slow down to 2.6% due to weak economic activity in neighboring countries. Some recovery in economic growth to 3.9 or 4% can be expected for 2015 and 2016, provided there is stabilization in the region.

The National Bank of Moldova kept the base interest rate unchanged throughout 1H 2014, but a slowdown in economic activity in the real and banking sectors led to a fall in the annual growth rate of the money supply. Annual inflation, which accelerated to 5.8% in March, slowed to 5.1% in August 2014 as the foreign exchange market stabilized.

The balance of payments was supported by: the deceleration of inflation; the weakening of the leu; the continuing strong growth in the agricultural sector; and the stability of cash remittances from migrant workers, which increased by 22% year-on-year to amount equivalent 23% of GDP. The current account deficit decreased to 4% of GDP in 1H 2014. At the same time the structure of trade was affected by: a slowdown in important export-oriented branches of the industrial sector, such as the food and textile industries; administrative barriers; and the impact of the Russian-Ukrainian conflict. The share of CIS countries in the total volume of Moldovan exports decreased to 33% from 40% in 1H 2013. A decline in pressure on the exchange market allowed the National Bank to maintain the international reserves at a level sufficient to cover 5.8 months of imports as of the end of June 2014.

The deficit in the national public (consolidated) budget in 1H 2014 was 0.9% of GDP, compared with 1% of GDP in 1H 2013. Both revenue and expenditure grew by about 1% of GDP compared with 1H 2013. The low growth of expenditure was due to lower-than-projected funding for capital expenditure, whereas social expenditure programs were financed in full.

The tightening of monetary conditions in Q1 2014 led to a slowdown in lending growth in Q2 2014. The annual growth rate of bank lending fell from 21.7% in March to 19.4% in June 2014. The banking sector’s sustainability indicators slightly deteriorated in 1H 2014. In particular, the capital adequacy ratio fell to 19.9% from 23% at the end of 2013. The share of unfavorable loans grew to 11.94% from 11.56%. The deterioration in the banking sector indicates potential risks connected with the large share of foreign capital in the sector, and a deterioration in the state of Banca de Economii, a systemically important bank that has 41% of nonperforming part of loan portfolio.
Moldova

Figure 7.1. **GDP and output**: GDP growth and output change by sectors, (in %, year-on-year)

Source: the National Bureau of Statistics of Moldova

Figure 7.2. **Foreign trade**: exports, imports, current account (left scale, in billions of US dollars), real effective exchange rate – REER (right scale, index – Q2 2009 = 100)

Source: national agencies

Figure 7.3. **Government sector**: state budget (in % of GDP)

Source: national agencies

Figure 7.4. **Monetary sector**: the central bank’s rate (in %), the CPI growth (in %, year-on-year), M2 growth (in %, year-on-year)

Source: national agencies

Figure 7.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in %)

Source: estimates and forecasts by national agencies, the World Bank, the EBRD, the IMF

Figure 7.6. **Savings and investments**: (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account balance (X-M)

Source: estimates and forecasts by national agencies and the IMF
Russia: Low GDP growth rate amid Ukraine crisis

Russia’s GDP grew by 0.8% in Q2 2014, slightly down from 0.9% in Q1 2014. A partial recovery in investment activity, which fell by 0.4% year-on-year in Q2 2014 after a fall of 5.3% in Q1 2014, was offset by a slowdown in the growth of private consumption. The slowdown was evidenced by the dynamics of retail sales, whose growth slowed from 3.6% in Q1 2014 to 1.8% in Q2 2014. A key contribution to production growth was made by manufacturing industries, which showed an output increase of 2.8% in Q2 2014 after a year-on-year increase of 2.4% in Q1 2014. The growth rate in the extractive industry changed a little, rising to 0.9% in Q2 2014 after a rise of 0.8% in Q1 2014.

The improvement in the balance of payments that began in Q1 2014 continued in Q2 2014. The current account surplus in Q2 2014 was $17.1 billion (3.4% of GDP) compared with $27.1 billion (5.9% of GDP) in Q1 2014. The figures for Q1 and Q2 2013 were $25 billion (5% of GDP) and $1.8 billion (0.2% of GDP) respectively. The central bank’s interventions in the foreign exchange market continued until May. There was a deficit in the overall balance of payments of $10.3 billion in Q2 2014 and $27.4 billion in Q1 2014.

The trends that were seen in the state of public finances in Q1 continued into Q2 2014. The federal and the consolidated budgets had surpluses of 650 billion rubles (1.9% of GDP) and 1,100 billion rubles (3.2% of GDP) respectively in 1H 2014. This occurred even though: the government had taken measures within the framework of the 2014 budget to consolidate expenditure; there were high energy prices; and the ruble depreciated. In 1H 2013 the federal and the consolidated budgets had surpluses of 1.2% and 1.8% of GDP, respectively.

Annual inflation significantly accelerated amid the depreciation of the ruble. The annual growth rate of the consumer price index reached 7.8% in June, rising from 6.9% in March 2014 and in June 2013. The Bank of Russia raised its key interest rate by 2.5% in April; and tried to limit the pace of depreciation of the ruble by interventions in the exchange market in order to curb inflation. However, the regulator’s efforts could only reduce the degree of the inflation surge but failed to prevent it, despite a very appreciable fall in the growth of money supply in the economy. The annual growth rate of M2 fell to 6.7% in June 2014 from 14.6% at the end of 2013, and 8.5% at the end of Q1 2014.

The monthly growth rate of bank lending fluctuated throughout 1H 2014 in a range wider than could be explained by seasonal effects. The annual growth rate of banks’ net claims on the other sectors of the economy fell to 15.2% in June 2014 from 18.9% in December 2013. The capital adequacy ratio decreased to 12.8% at the end of Q2 2013 from 13.2% at the end of Q1 2014 and 13.5% at the end of 2013. The growth of the share of problem loans, amounting to 6.5% at the end of Q2 2014, compared with 6.4% at the end of Q1 2014, and 6% at the end of 2013. Banks’ liquidity indicators improved slightly. The share of highly liquid assets in the total volume of assets increased to 11.1% at the end of June from 11% at the end of March 2014.
Outlook

Russia: Recovery in investment growth, lower inflation, impact of regional tension

Investment activity, a slowdown in which was the main factor behind the fall in Russia’s GDP growth rate in 2013 and 2014, returned in summer 2014 to annual growth rates closer to zero. In Q3/Q4 2014 investment growth may be positively influenced by a number of large transport infrastructure projects that are entering a practical stage. This includes the project envisaged by the recently struck deal for the supply of natural gas to China. The stabilization of investment activity in the middle of 2014 was, to a considerable extent, a result of the recovery in investment by large companies, especially oil and gas companies. This fact gives grounds to expect that the tightening of the central bank’s policy will not become an insurmountable obstacle for investment activity to move to growth. This is because large companies are less dependent than small ones on bank lending as a source of financing investment. However, it is large companies that are the target of the Western sanctions that were imposed in connection with the Ukraine crisis. Thus developments in the external political situation may have a determining effect on the dynamics of investment in the Russian economy in Q3/Q4 2014 and, to a greater extent, in 2015.

The dynamics of two other important components of GDP – household consumption and exports – are a little more predictable. The continuing rise in pay in the public sector and lending growth will ensure that private consumption continues to grow at positive rates, although they are likely to be lower than those in Q1 2014. The rise in the physical volume of exports also remains relatively stable. This is despite the volatility that is brought about by short-term factors, including, for instance, fluctuations in the supply of natural gas to Ukraine.

A positive factor in the field of external trade in Q3/Q4 2014 will apparently be the return to growth of metal exports. In general, it is likely that Russia’s economic growth will be between 0.5% and 1% in 2014 and between 0.5% and 2% in 2015.

A slowdown in inflation in Q3/Q4 2014 should be ensured by: the slowdown in the growth of money supply in the economy under the influence of the central bank’s tight policy; and the ruble’s stabilization – or its strengthening in the event of a relatively rapid decline in regional tension. There may prove to be a highly significant decline in inflation in 2015. This is despite the fact that the weakening of the ruble in spring and summer 2014 brought the growth rate of the consumer price index to a level from which it is hardly possible for the rate to fall to levels acceptable for the central bank (5+/-1.5%) before the end of 2014. If these expectations come to fruition, the central bank will get the opportunity to loosen its policy and thereby support Russia’s economic growth.

The improvement in the state of the budget in 1H 2014 will apparently ensure a zero deficit in 2014. In 2015 and the following years, the budget will probably fluctuate between a small deficit and a small surplus. This will be helped by the central bank’s transition to a floating exchange rate system, which should be completed in 2015. In this regard, we also expect the current account balance of the balance of payments to continue to be in positive territory in the foreseeable future.
Russia

Figure 8.1. **GDP and output**: GDP growth and output change by sectors, (in %, year-on-year)

Source: the Federal State Statistics Service

Figure 8.2. **Foreign trade**: exports, imports, current account (left scale, in billions of US dollars), real effective exchange rate – REER (right scale, index – Q2 2009 = 100)

Source: national agencies

Figure 8.3. **Government sector**: consolidated and federal budget (in % of GDP)

Source: national agencies

Figure 8.4. **Monetary sector**: the central bank’s rate (in %), the CPI growth (in %, year-on-year), M2 growth (in %, year-on-year)

Source: national agencies, IMF (IFS)

Figure 8.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in %)

Source: estimates and forecasts by national agencies, the EBD, the World Bank, the EBRD, the IMF

Figure 8.6. **Savings and investments**: (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account balance (X-M)

Source: estimates and forecasts by national agencies, the IMF and the EBD
Tajikistan: Slowdown in economic activity amid deterioration in indicators for foreign trade

Tajikistan’s GDP growth slowed down to 6.7% in 1H 2014. This was a result of: lower investment activity, whose growth rate fell to 28.4% from 38.1% in Q1 2014; a slowdown in consumption; and a decrease in exports, which dropped by 14.8% year-on-year. The negative impact on domestic demand created by a decline in the growth rate of cash remittances from Russia, which rose by only 0.4% year-on-year in Q2 2014, negatively offset a 6.4% increase in real disposable income in 1H 2014. External demand was affected negatively by an unfavorable international market situation for aluminum and cotton, coupled with a slowdown in economic growth in the region. The growth rates of retail trade (+8.9%), the services sector (+3.8%), the agricultural sector (+6%) and the industrial sector (+2.9%) fell simultaneously in Q2 2014 but remained at rather high levels.

The foreign trade deficit rose by 42% in 1H 2014 compared with 1H 2013 to amount to $1.85 billion. Exports fell by 14.8% under the influence of: the unfavorable external market situation; and a continuing decline in aluminium output and cotton production, which decreased by 49.1% in real terms. The rise in imports accelerated to 23.5%, mainly due to: imports of petroleum products; motor vehicles; and machines and equipment for hydropower plants currently under construction in the country, textile factories and an aluminum plant. The somoni continued to depreciate. It was negatively affected by: the slowdown in the growth of remittances from Russia; and the expansion of the foreign trade deficit in the context of the small volume of the gross international reserves – according to the National Bank of Tajikistan, its net gold and foreign exchange reserves totaled slightly more than $571.1 million at the end of June 2014. This circumstance forced the National Bank to use forex interventions.

The condition of the state budget remained stable in 1H 2014. The budget had a surplus equal to 3% of GDP; although expenditure increased by 18.1% year-on-year against a 15.5% rise in revenue in the period. This was because expenditure turned out to be lower than projected, and expenditure normally accelerates in the final months of the financial year. Also the improvement of tax administration and the high growth rates of GDP and imports led to good dynamics of all tax revenues.

Inflation remained at a controlled level in 1H 2014, standing at 6.6% in June 2014 in annual terms. The tight monetary policy of the National Bank, which raised its base interest rate in May 2014, and its forex interventions led to a slowdown in the growth of bank lending to 33.9% in June, and in the growth of the money supply to 15.4% for M2. This kept down inflation and devaluation expectations. The slowdown in lending growth was accompanied by deterioration in the quality of loans. The share of outstanding loans increased to 10.4% at the end of June from 9.2% at the end of March. At the same time banks’ profitability indicators improved: the average ROA (return on assets) rate was 1.4% at the end of Q2 2014 compared with 0.7% at the end of 2013, while the ROE (return on equity) rate increased to 8.8% from 3.7%.
Economic activity in Tajikistan slowed further in July and August 2014. A slowdown was experienced across all economic sectors – data for the industrial sector are contradictory – under the influence of weaker domestic consumer demand, decreasing exports and seasonal factors. A matter of concern is the simultaneous slowdown in the services, agricultural and industrial sectors. According to the median consensus forecast, GDP growth will slow to 6.1% in 2014 – the government expects a growth of 7.5% – but will remain at a rather high level due to the still robust investment activity. This is despite the slowdown in the growth of cash remittances from abroad, and the expected poor indicators for exports in 2014.

The balance of payments will not in general improve in the remaining part of 2014. The international market situation for the country’s main export commodities, aluminum and cotton, implies a further fall in prices and a further decline in external demand. The downward trend in economic activity will possibly cause imports to decrease, but this decrease will not be significant and will not help improve the foreign trade balance. The situation is aggravated by the slowing growth of migrant workers’ remittances. Such remittances mainly come from Russia, which currently experiences difficulties with regard to economic activity. As a result, there is a high degree of probability that the current account deficit will increase further.

The relative stability of the somoni’s exchange rate amid the considerable depreciation of the Russian ruble and the deteriorating balance of payments will most likely continue to be ensured by other sources of foreign currency. These sources include: financial support from international financial organizations; assistance from donors and partner countries; and unaccounted flows of foreign exchange in the country’s dollarized economy. The somoni is still expected to undergo a more significant correction. This is despite the existence of other factors that can support external sustainability, given the small volume of the gross international reserves, and the large amount that is due to be paid on external loans. The probability of this is increased by the existing significant gap between the official and the market exchange rate of the somoni.

Given the current slowdown in the economy, the growth rate of fiscal revenue should fall in 2H 2014, whereas the growth of expenditure should accelerate. As a result, the state budget will have a deficit, but its amount should remain at a controlled level. The government expects a deficit equivalent to 0.5% of GDP. It should be expected that the improvement of tax administration and external financial support will help the government retain control of the situation, even if there is a more substantial slowdown in economic growth. As for inflation, the National Bank has announced that food prices are expected to fall in 2H 2014. This should help keep the annual rise in consumer prices at the projected level of 7.5% in December 2014.
Figure 9.1. **GDP and output**: GDP growth and output change by sectors, (in %, year-on-year)

Source: the Agency on Statistics under President of Tajikistan

Figure 9.2. **Foreign trade**: exports, imports, current account (left scale, in billions of US dollars), real effective exchange rate – REER (right scale, index – Q2 2009 = 100)

Source: national agencies

Figure 9.3. **Government sector**: state budget (in % of GDP)

Source: national agencies

Figure 9.4. **Monetary sector**: the central bank’s rate (in %), the CPI growth (in %, year-on-year), M2 growth (in %, year-on-year)

Source: national agencies, IMF (IFS)

Figure 9.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in %)

Source: estimates and forecasts by national agencies, the EBD, the ABD, World Bank, the EBRD

Figure 9.6. **Savings and investments**: (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account balance (X-M)

Source: estimates and forecasts by national agencies, the IMF and the EBD
Trends and outlook
Turkmenistan: Favorable impact on economy from expansion of natural gas production capacity

Turkmenistan’s economy kept growing at a high pace in Q2 2014, which resulted in the annual GDP growth rate remaining at 10.3% at the end of 1H 2014. Robust domestic investment and consumer demand, coupled with increasing exports that rose by 9.3% year-on-year, were the main factors behind the country’s strong economic growth. Investment demand grew by 8.2% in 1H 2014 to amount to 42.8% of GDP. This was due to: various government programs aimed at social and economic development and infrastructure modernization; and large volumes of incoming foreign investment, including Chinese investment in the country’s fuel and power sector. Consumer demand was fueled by a significant rise in average pay of 10.7% year-on-year in 1H 2014.

There was strong economic activity across all branches of the fuel and power sector. Electricity output increased by 11.7% in 1H 2014, natural gas production increased by 12%, and the volume of oil refining increased by 1.1%. Gasoline output increased by 2.1% and the output of liquefied hydrocarbon gas increased by 3.9%. The construction sector continued to have an annual growth rate above 18% in Q2 2014, which had a favorable effect on the building materials industry. In particular, cement output increased by 17.2% year-on-year in 1H 2014, while bitumen output increased by 25.3%, and non-metallic building materials increased by 31.1%. Due to robust consumer demand, retail sales increased by 18.3%. The transport sector showed a growth of 7.6%. Available data suggest continued high growth rates in the key branches of the industrial sector, such as the chemical and textile industries. The agricultural sector’s output growth remained modest.

Amid the high growth rate of the fuel and power sector, the rise in exports significantly accelerated in Q2 2014 to amount to 8.3% in 1H 2014, with natural gas, crude oil and petroleum products accounting for 90% of the total volume of exports. Amid the extremely moderate dynamics of exports throughout 2013 and in Q1 2014, the substantial improvement in exports was due to the completion of new production facilities and an increase in exports to China. It can be viewed as quite predictable considering the comprehensive measures taken by the government to expand transport routes for gas exports and increase gas production under the 2007-2030 Oil and Gas Industry Development Program. Turkmenistan gradually becomes one of the main suppliers of natural gas to China. Amid a slowdown in the rise in imports, which increased by 9.3% year-on-year in 1H 2014 after a 16.2% increase in Q1 2014, the improvement in exports should cause the foreign trade surplus to expand.

The rise in exports, coupled with the high growth rates in all economic sectors, had a favorable effect on the government’s fiscal revenue, which increased by 6.7% year-on-year and exceeded the target by 17.4%. Given the fact that total expenditure fell 3% short of the projected level, it can be expected that the state budget will have a surplus in 2014. The buffer reserves in the stabilization fund should also have grown in Q2 2014, thereby increasing fiscal and external sustainability. As for inflation, according to government statistical data, the all-item consumer price index rose by 3.23% compared with December 2013.

The economy keeps growing at a high pace in Q2 2014, which results in the annual GDP growth rate remaining at 10.3% at the end of 1H 2014

Fixed capital investment grows by 8.2% in 1H 2014 to 42.8% of GDP

Amid the high growth rate of the fuel and power sector, the rise in exports accelerates in Q2 2014 to 8.3% in 1H 2014, with natural gas, crude oil and petroleum products accounting for 90% of all exports.

The consumer price index rises by 3.23% compared with December 2013.
Turkmenistan

Figure 10.1. **GDP**: GDP growth (in %, year-on-year)

Source: national agencies

Figure 10.2. **Foreign trade**: exports, imports (in billions of US dollars)

Source: ADB

Figure 10.3. **Government sector**: state budget (in % of GDP)

Source: national agencies

Figure 10.4. **Monetary sector**: the left scale - CPI growth (in %, year-on-year); the right scale - M2 growth (in %, year-on-year)

Source: national agencies and the ADB

Figure 10.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in %)

Source: estimates and forecasts by the ABD, the EBRD, the IMF

Figure 10.6. **Savings and investments**: (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account balance (X-M)

Source: estimates and forecasts by the IMF
Trends and outlook
Uzbekistan: High GDP growth rate amid surpluses in state budget and foreign trade

Despite the unfavorable international economic situation, Uzbekistan’s annual GDP growth accelerated to 8.7% in Q2 from 7.5% in Q1 2014. GDP grew by 8.1% year-on-year in 1H 2014. The significant acceleration of economic growth was attributable to: higher investment activity, which rose by 10.8% in 1H 2014 to 24.6% of GDP; an 18.8% increase in household aggregate income; and a continued high growth rate of exports, which rose by 8%. Given the existing economic growth model, both investment and consumption directly depend on the implementation of a broad range of government programs of social and economic development and infrastructure modernization. Economic growth was also fueled by bank lending, a relatively large volume of cash remittances from abroad, and foreign investment, primarily in the energy, transport and communications sectors.

Due to measures taken by the government to diversify the industrial sector and supply the domestic market with competitive domestically manufactured goods, the output of consumer goods increased by 10.8% year-on-year in 1H 2014. The share of consumer goods in industrial output grew to 36.4% compared with 31.9% in 1H 2013.

Labour productivity in the industrial sector rose by 6.3%. Product costs were reduced by 8.9% on average, while the energy intensity of GDP decreased by 13%. As a result, in 1H 2014 high growth rates were reached in the industrial sector (+8.1%), the construction sector (+17.4%), the agricultural sector (+6.9%), retail trade (+13.7%) and the services sector (+14.2%).

Measures taken by the government to increase the competitiveness of the industrial sector and expand the output and range of export products helped increase exports by 8% in 1H 2014 despite ambiguous developments in the external environment. The rise in imports slowed to 4.6% in 1H 2014, which was, in the context of the high GDP growth rate, attributable to the existing administrative restrictions and the expansion of a government program aimed at increasing the share of domestically made components in finished products. According to government data, the effect of import substitution in 1H 2014 was estimated at $504.7 million. As a result, foreign trade surplus reached $482.1 million (approximately 1.8% of GDP in 1H 2014).

The expansion of export revenue and the high GDP growth rate led a state budget surplus of 0.1% of GDP in 1H 2014. State budget revenue totaled 24.1% of GDP, whereas expenditure was equal to 24% of GDP. Major factors behind the increase in state budget revenue amid a reduction in the tax burden included the expansion of the tax base and improved tax collection.

The state budget was characterized by a clear social focus, as expenditure on social programs and social support for the population made up 60.8% of all public spending and amounted to 14.6% of GDP. The adopted state budget for 2014 envisages a deficit equal to 1% of GDP. According to official statements, in 1H 2014, the annual inflation rate did not exceed the target level for 2014, which was apparently revised upward to between 7% and 9%. The refinance rate has remained unchanged since it was reduced to 10% in January 2014.

Annual GDP growth accelerates to 8.7% in Q2 from 7.5% in Q1 2014 to amount to 8.1% in 1H 2014

High growth rates are reached in the industrial sector (+8.1%), the construction sector (+17.4%), the agricultural sector (+6.9%), retail trade (+13.7%) and the services sector (+14.2%)

According to government estimates, the effect of import substitution in the 1H 2014 is $504.7 million

The state budget has a surplus equal to 0.1% of GDP

The inflation target for 2014 appears to have been revised upward to between 7% and 9%
Uzbekistan

Figure 9.1. **GDP and output**: GDP growth and output change by sectors, (in %, year-on-year)

Source: national agencies

Figure 11.2. **Foreign trade**: exports, imports (in billions of US dollars)

Source: national agencies, ADB

Figure 11.3. **Government sector**: state budget (in % of GDP)

Source: national agencies

Figure 11.4. **Monetary sector**: the left scale - the central bank’s rate (in %) and CPI growth (in %, year-on-year); the right scale - M2 growth (in %, year-on-year)

Source: national agencies and the ADB

Figure 11.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in %)

Source: estimates and forecasts by national agencies, the ABD, World Bank, the EBRD, the IMF

Figure 11.6. **Savings and investments**: (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account balance (X-M)

Source: estimates and forecasts by national agencies and the IMF
Economic activity in Ukraine continued to slow down in Q2 2014 amid the internal political conflict, which was becoming increasingly acute. The year-on-year fall in GDP reached 4.6% in Q2 2014 and 2.9% in 1H 2014. A broad range of sectors suffered a decrease in production. In particular, there was a 2.6% fall in the extractive industry, an 8.4% fall in the manufacturing sector, a 9.1% fall in retail trade, and a 16.9% fall in the construction sector. Household consumption fell by 2.3%, investment fell by 18.5% and exports fell by 7.4%. However, net exports made a positive contribution to economic growth because imports fell by 11.3%.

The fall in domestic demand led to a decrease in the current account deficit to $604 million (1.9% of GDP) in Q2 2014 and to $1.9 billion (2.9% of GDP) in 1H 2014. This compares with $2.3 billion (5.1% of GDP) in Q2 2013 and $5.4 billion (6.6% of GDP) in 1H 2013. Although the government received the first loan tranche in May 2014 under a new IMF country program, the financial account balance was positive by $2.6 billion (3.9% of GDP) in 1H 2014 due to capital outflow. In 2013 the country had a financial account deficit of $7.6 billion (9.2% of GDP). The overall balance of payments was negative in 1H 2014.

The National Bank of Ukraine maintained a steady and rather rapid rise in the monetary base throughout Q2 2014. The annual growth rate of money supply was around 27% during Q2 2014. At the same time a slowdown in the rise in the volume of bank deposits amid the instability of the banking sector caused the annual growth rates of the broader monetary aggregates to fall slightly. In mid-April the National Bank sharply increased control over the exchange rate of the hryvnia. The end of the depreciation of the hryvnia led to a slowdown in the rise in prices, which increased by 3 to 4% a month in April and May. Nonetheless, the annual growth rate of the consumer price index reached 11.6% in June 2014 compared with 0.5% in December 2013. Simultaneously, the National Bank’s international reserves accelerated their decrease, shrinking to $14.2 billion as of the end of April. The reserves grew again in May after the IMF disbursed the $3 billion tranche. As of the end of June, they amounted to $17.1 billion, enough to cover 2.2 months’ worth of imports of goods and services.

The consolidated budget had a deficit equal to 3% of GDP in 1H 2014 compared with a deficit of 4.3% in 1H 2013, with revenue falling by 0.8% of GDP and expenditure decreasing by 1.1%. The formal improvement was attributable to a higher volume of the National Bank’s transfers to the government, which totaled 3.2% of GDP in 1H 2014, up from 1.5% of GDP in 1H 2013 but down from 5% in Q1 2014.

The growth of lending activity slowed down amid the fall in GDP. The annual growth rate of bank lending to the economy was 17.2% in June 2014 compared with 21.2% in March and 11.7% in December 2013. Many sustainability indicators of the banking sector improved slightly after a deterioration in 2013 and Q1 2014. The regulatory capital adequacy ratio rose to 15.9% as of the end of Q2 from 14.7% at the end of Q1 2014. At the same time the share of problem loans grew from 13.3% to 14.6% during the period.
Outlook

Ukraine: Recovery in macroeconomic sustainability, determining impact of political factors

Economic activity in Ukraine continued declining throughout Q3 2014. This process was initially determined by the impact of purely economic factors: the impossibility to further finance the external imbalance and the budget deficit. It accelerated and increased in scale as a result of the armed conflict in the country. In the remaining part of 2014, one can expect a more significant fall in household consumption. It had a relatively small decrease of 2.3% year-on-year in Q2 2014 due to the high base of Q2 2013. A considerable negative contribution to overall growth may be made by the agricultural sector. The growth rate of this sector may move into negative territory in Q4 2014 in connection with the high base effect that was created by a very strong surge in output in Q4 2013. On the whole, we continue to forecast that Ukraine’s GDP will fall by 5 to 10% in 2014. The subsequent dynamics of GDP will depend on when the internal conflict is resolved. If the political situation in the country is definitely stabilized, and the government receives sufficient external financial assistance, the economy may show a high growth rate during the post-crisis recovery period. The depth of the current slump makes this possible. If the status quo continues, this will be fraught with a new devastating wave of crisis. If the balance of payments does not regain sustainability through a recovery in exports and a capital inflow into the country, the return to sustainability would require an extra substantial consolidation of domestic demand.

The National Bank changed its policy again in Q3 2014. In late August the regulator loosened control over the exchange rate of hryvnia and allowed it to resume falling against the US dollar. After the IMF decided to disburse a second tranche under its country program, the exchange rate stabilized again at around 13 hryvnia for one US dollar. Despite the continuing acceleration of inflation – the annual growth of the consumer price index reached 12.9% by the end of the summer – the National Bank refrained from raising the refinance rate. The international reserves of the National Bank resumed diminishing immediately after an increase in May following the disbursement of the first IMF tranche. Thus the contradiction between the central bank’s intentions to ensure the stability of the exchange rate of the hryvnia – the regulator in fact pursues a fixed exchange rate policy – and the relatively loose monetary policy remains unresolved.

The improvement in the current account balance in 1H 2014 is a positive factor, although, as was mentioned above, the improvement is not in itself sufficient for regaining external sustainability. In addition, it is probable that the current account balance will be under pressure due to the expected rise in expenditure on energy imports. The consolidation of the state budget, which still has a large deficit, is one of the main conditions for regaining the sustainability of the external balance of the country. Another key condition is the tightening of the National Bank’s monetary policy. This is irrespective of what policy the regulator plans to pursue regarding the exchange rate of the hryvnia.
**Ukraine**

Figure 12.1. **GDP and output**: GDP growth and output change by sectors, (in %, year-on-year)

![GDP and output chart]

Source: the State Statistics Service of Ukraine

Figure 12.2. **Foreign trade**: exports, imports, current account (left scale, in billions of US dollars), real effective exchange rate – REER (right scale, index – Q2 2009 = 100)

![Foreign trade chart]

Source: national agencies

Figure 12.3. **Government sector**: state budget (in % of GDP)

![Government sector chart]

Source: national agencies

Figure 12.4. **Monetary sector**: the left scale - the central bank’s rate (in %) and CPI growth (in %, year-on-year); the right scale - M2 growth (in %, year-on-year)

![Monetary sector chart]

Source: national agencies

Figure 12.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in %)

![Economic growth chart]

Source: estimates and forecasts by national agencies, the World Bank, the EBRD, the IMF

Figure 12.6. **Savings and investments**: (in % of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account balance (X-M)

![Savings and investments chart]

Source: estimates and forecasts by national agencies and the IMF