After a sharp decline in 2009, the world economy demonstrated signs of recovery in 2010. To support post-crisis economies, central banks of developed countries have kept their interest rates at low levels. The largest economy in the world – the US economy – continued to pursue a quantitative easing policy throughout the year. After some deceleration in July and August of last year, the US economy started to grow again after the second round of quantitative easing, which was approved by the Federal Reserve System in August 2010. Despite some growth, Eurozone countries have been struggling with their sovereign debt problems. The instability of the EU economy was further exacerbated by high interdependence of the Eurozone economies. Developing economies have been growing as well, with China being the growth engine in Asia, and Brazil being the growth rate leader in Latin America.

The CIS economies, which were growing steadily in the pre-crisis period, decelerated during the crisis, and, on average, grew by 4.2% in 2010. Economies of Uzbekistan, Turkmenistan, Tajikistan, Kazakhstan, Belarus, and Moldova experienced growth rates of more than 5%, while the largest economy in the region, Russia, grew by 4%. A key driver of economic growth in the CIS region was industrial production. On average, industrial production in the CIS countries increased by 7-11% in 2010 (except Azerbaijan, where industrial production grew by only 2.6%). After a significant drop in Moldova and Ukraine in 2009 (21.1% and 21.9%, respectively), the industrial sector grew by 7% in Moldova and 11% in Ukraine in 2010. On the other hand, the agricultural sector was the weakest link in the CIS economies. A dry, hot summer observed in the middle of last year led to bad harvest in a number of countries in the region. The largest decline in agricultural output was observed in Armenia (-13.5%), Russia (-11.9%) and Kazakhstan (-11.7%). Nevertheless, some countries in the region saw their agricultural sectors grow. Moldova experienced the largest increase in agricultural output among the CIS countries - it grew by 7.9% in 2010. In Tajikistan and Uzbekistan agricultural output increased by 6.8%, while in Belarus it increased by 2%.
Since most of the CIS countries are commodity-exporters, positive dynamics of global commodity prices had a favourable impact on trade balance of these countries. As usual, fuel and energy products made up the bulk of exports in Azerbaijan, Kazakhstan, Russia, Turkmenistan and Uzbekistan. Azerbaijan, an oil and gas exporter, observed a positive trade balance of $14.7 billion in 2010. Kazakhstan being a major exporter of energy products has also experienced trade surplus ($29.5 billion) due to increasing export revenues. Commissioning of a gas pipeline to China at the end of 2009 and a rise in raw material prices (energy products, cotton, grain) led to a slight increase in Turkmenistan’s exports, which by year end increased to
$9.7 billion from $9.6 billion in 2009. Uzbekistan, which joined the Turkmenistan–China gas pipeline, also benefited from this development, and thus experienced an 11% increase in exports. The temporary close-down of Kyrgyzstan’s borders with neighbouring countries in the middle of last year reduced export revenues, but an increase of global metal prices in the second half of the year helped the country make up for some of these earlier losses. The spike in raw material prices, on the other hand, worsened trade balance of commodity-importing countries. A negative trade balance of $7.4 billion in Belarus was attributed to price increase of intermediate goods, such as energy products, materials and components. Due to a rise in wheat prices, which is Tajikistan’s main import product, the country ended up with a negative trade balance of $1.5 billion in 2010. On January 1, 2010 the Customs Union (CU) between Russia, Belarus and Kazakhstan was launched. By the end of 2010, trade turnover between Belarus and its CU partners increased by 20.6%, trade turnover between Kazakhstan and its CU partners increased by 28.1%, and trade turnover between Russia and its CU partners increased by 18.9%. Nevertheless, these results have not yet leveled off with the pre-crisis figures. In 2009 the drop in trade turnover between Belarus and its CU partners was 31.1%, between Kazakhstan and its CU partners – 37.4%, between Russia and its CU partners – 32.5%.

In 2010 all developing countries faced a major problem of high inflation. By the end of the year, the rise in global consumer prices averaged 3.8%. Since foodstuffs constitute a major part of the consumer price index, food inflation
was a key driver of overall price increase. As had been the case in 2007, increase in food prices was mainly driven by long-term fundamental factors, such as improvement in overall economic conditions and population growth, which in turn led to increase in demand for food in developing countries; energy-saving policies in developed countries; and poor weather conditions that had a negative impact on agriculture (Trostle, 2008). Other factors include depreciation of the US dollar, a decline in global grain stocks, and introduction of export quotas in a number of food exporting countries. In many commodity-importing countries high prices on energy products increased the cost of agricultural output, which in turn increased domestic prices. Monetary and fiscal stimulus policies that were pursued in many countries in 2009 and 2010 also contributed to additional inflationary pressure.

Prices in the CIS region were rising even faster than in other countries. In the first half of last year, when prices were declining and annual inflation in the CIS region was at 5.8% in July 2010, it seemed that inflation will remain at low levels throughout the year. But as it was the case in 2007, economic recovery and growth of trade turnover observed were accompanied by the major problem of inflation. The most sharp price increase was observed in September, when average monthly inflation reached 2.9% in Ukraine and Kyrgyzstan, 1.9% in Tajikistan and 1.6% in Belarus. By the end of the year the highest rate of annual inflation was observed in Kyrgyzstan, where the annual price rise stood at 19.2%. Annual inflation rates in Armenia, Belarus, Tajikistan and Ukraine exceeded 9%, in Moldova and Russia – 8%, in Azerbaijan, Kazakhstan and Uzbekistan – 7%. Due to the fact that a number of countries, such as Russia and Kazakhstan, are major producers of agricultural output, unfavourable climate conditions contributed to a price
rise. Dry summer led to bad harvests, which in turn led to a hike in the price of agricultural products. For countries that mainly import agricultural products, such as Kyrgyzstan and Tajikistan, increase in agricultural food prices served as an additional component in creating an inflationary pressure. For the region as a whole, inflation rate exceeded 8% in 2010, which far exceeds the rate of global inflation.

In addition to a number of non-monetary factors that contributed to inflation, sharp expansion of money supply led to price increases in the region. This in turn forced central banks to adopt policies targeted at tightening money supply. Money supply of net-exporting countries was boosted through export earnings, while importing countries increased their
money supply through rising external borrowing. In order to fight inflation, the National Bank of Azerbaijan increased its benchmark interest rate by 1%, while Armenia raised its REPO rate 5 times, which reached 7.25% by the end of the year. After the first signs of inflation were observed in Moldova, the National Bank of Moldova increased its benchmark interest rate by 1% and at the end of the year it reached 7%. High inflationary pressure persuaded the National Bank of Tajikistan to increase its refinancing rate at the end of 2010 by 0.25% to 8.25%.

In 2010 most countries in the region aimed their fiscal policies at mitigating the worst consequences of the global financial crisis, with the major part of budgets going into social expenditures. As a result, fiscal deficits were observed in almost all of the CIS countries. The government of Russia pursued an active fiscal policy by expanding social expenditures, which led to a sharp decline in the balance of the state budget. After a long period of state budget surplus, Russia observed a fiscal deficit for a second consecutive year, reaching a deficit of 3.6% of GDP in 2010. Financing of social expenditures was also a major part of budgetary spending in Belarus. By the end of 2010 the country’s consolidated budget deficit averaged 2.6% of GDP. In Kyrgyzstan political events of the first half of last year had an additional burden on government spending. About half of government spending was directed towards measures to stabilise the economy, ensure safety and social security. As a result, Kyrgyzstan’s budget deficit increased from 1.5% of GDP in 2009 to 5.1% of GDP in 2010. The budgetary spending in Kazakhstan was also aimed at supporting social needs, as well as at supporting the banking sector, which was significantly affected by the global financial crisis. As a result, the state budget deficit averaged 2.5% of GDP in 2010 compared to 1.4% in

![Figure 14.7. State budget balance (% of GDP)](source: CIS Statistics Committee)
2009. Ukraine’s state budget also resulted in a deficit, which was at 5.9% of GDP at year end. Despite implementation of economic reforms and hikes in utility prices, Ukraine’s significant deficit was attributed to the country’s soaring liabilities that were the result of servicing increasing government debt. As a consequence of a rise in budget deficits in 2009-2010, private investments in the region decreased. The CIS countries’ need to finance their budget deficits from external sources led to a significant increase in their external debts.

In 2010 some positive changes were observed in the region’s banking system. In most of the region’s countries, banking indicators improved, including in the credit sector. The highest growth of the credit sector was observed in Uzbekistan, where the volume of credits to economy increased by 35%. In Armenia the credit portfolios of commercial banks rose by 29% by the end of the year. The volume of credits to economy increased in the range

Figure 14.8.
Savings and investments in the CIS: weighted average (% of GDP)
Source: National Statistics, expert estimations of IMF and EDB

Figure 14.9.
Non-performing loans (% of total)
Source: National Statistics, EBRD
of 9% and 14% in Azerbaijan, Moldova, Russia and Tajikistan. In Kyrgyzstan, where most of the credit activity is related to trade and agriculture sectors, the volume of credits provided increased by 4.6%. Despite this positive trend, it should be noted that a large proportion of the loan portfolios of countries in the region is made up of non-performing loans. In Tajikistan 40.9% of loans were non-performing. Overdue loans accounted for 11.2% of credit in Moldova, 11.9% in Ukraine and 4.7% in Russia. In Kazakhstan, the share of overdue credits is high despite a restructuring of the banking sector’s external debt, where bad debt accounts for 26.4% of outstanding credit and written off loans account for 20%.

Overall, 2010 results demonstrate a recovery of economic activity in both developed and developing countries. The CIS countries are no exception to this. In spite of the downturn in agricultural production in some of the region’s countries, the growth of industrial production, private consumption and state investment became engines of economic growth. However, resolving such problems as high inflation, large budgetary deficits and increasing external debt, will require encouraging of continuous growth in the region.

References
