Macroeconomics of the region

Macroeconomics of countries:
- Azerbaijan: 7–8
- Armenia: 9–11
- Belarus: 12–14
- Kazakhstan: 15–17
- Kyrgyzstan: 18–20
- Moldova: 21–22
- Russia: 23–25
- Tajikistan: 26–28
- Turkmenistan: 29–30
- Uzbekistan: 31–32
- Ukraine: 33–35

Trends in 2013:
- **The world economy**: a recovery in industrial output and international trade
- **The United States**: the strengthening of positive trends
- **Europe**: recovery from the debt crisis
- **Asia**: signs of a slowdown in GDP growth in China; acceleration of growth in Japan under the influence of stimulus policy
- **The CIS**:
  1) High growth rates in Central Asia; low growth rates in the European part of the CIS
  2) Unsustainable external imbalances in Belarus and Ukraine
  3) Fiscal consolidation amid decreased export and tax revenues

Outlook and risks:
- **The world economy**: a gradual acceleration in economic growth
- **Commodity markets**: a moderate fall in prices of energy resources and metals, a rise in physical demand
- **The CIS**: an improvement in the balance of payments; an uncertain outlook for growth amid regional instability

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Macroeconomics of the region

The growth of the aggregate GDP of the CIS countries slows in 2013

The growth of the combined GDP of the CIS member countries slowed to 2% in 2013 in real terms compared with a growth of 3.4% in 2012. The deterioration in the region’s economic growth was chiefly due to a slowdown in Russia, which experienced a fall in investments in fixed capital and inventory stocks. It was also due to a slowdown in economic growth in Belarus and Ukraine, which demonstrated signs of a crisis caused by the instability of their balance of payments. The economies of the Central Asian countries, conversely, retained or accelerated their GDP growth. They were supported by a rise in household income and consumption, and a rise in investment that was primarily government-led.

Economic trends in the region change throughout 2013 and change for the better

Economic trends in the region changed throughout 2013, mostly in a positive direction. Annual GDP growth slowed to the lowest rates in Q1-Q2 2013 amid a decline in investment activity and weak exports. This was primarily determined by trends in the Russian economy. Later in 2013, the economy of the region accelerated its growth due to: a rise in the real volume of exports, which was significant but non-uniform by countries; and the stabilization of fixed capital investment. In certain CIS countries, a considerable contribution to the acceleration of GDP growth in Q4 2013 was made by a sharp improvement in the growth rate of the agricultural sector. This was partially due to the low base effect.

The dynamics of the CIS economies are generally in line with global trends

The dynamics of the economies of the CIS countries were generally in line with global trends. They were determined by a gradual recovery in economic growth in developed countries, primarily in Europe, which showed steady signs of recovery from the debt crisis. The slowdown in the economic growth of leading developing countries was limited. It did not prevent a general recovery in the growth of industrial output and trade in the world (see Figure 1.1). For these reasons, the slowdown did not have a determining effect on economic growth in the CIS region.

The external economic situation improves for exporters of hydrocarbons but remains difficult or gets worse for exporters of metals and industrial goods

The above-stated trends determined the dynamics of external factors for the CIS countries in 2013. Commodity prices fell in the spring and at the beginning of the summer amid a deteriorating situation in the Eurozone, which was caused by a crisis in Cyprus. They recovered in Q3-Q4 2013, when there was a rise in oil prices from their lowest levels in the middle of 2013. The price of Brent crude dropped by 2.8% on average relative to 2012, and the price of natural gas rose by 2.6%. A recovery in physical demand for hydrocarbons led to an increase in their export by producers with spare capacity (namely, Russia). A rise of 1% occurred in cotton prices; and the price of ferrous metals rose, with iron ore increasing by 5.5%. At the same time the fall in the price of non-ferrous metals continued with an 8% decrease in 2013. Gold prices fell by 15.5%; and the price of many food commodities fell, with wheat decreasing by 6.3%. Therefore the external economic situation changed in different directions for different groups of countries. The situation generally improved for the exporters of hydrocarbons; and it remained difficult or deteriorated for the exporters of metals and industrial goods, which experienced a negative impact from the decline in investment activity in Russia.

Most of the CIS economies with a considerable role for the oil and gas industry (Azerbaijan, Kazakhstan, Russia and Turkmenistan) retained or accelerated their GDP growth amid a rise in household consumption and investment.
The only, but very important exception is Russia. As we noted above, it experienced a fall in fixed capital investment and a slowdown in the growth of private consumption. At the same time Russia was the only CIS country among the oil and gas exporters that showed a marked rise in exports in real terms in 2013. Kazakhstan, Azerbaijan and Turkmenistan, conversely, reduced the volume of exports as a result of technical processes in oil and gas production.

Apart from changes in the conditions of trade, a key factor for the labor exporting economies (Armenia, Kyrgyzstan, Moldova and Tajikistan) was a change in the dynamics of cash remittances from abroad. The growth of remittances slowed down in 2013. According to data from the Bank of Russia, the dollar equivalent of remittances from Russia to other CIS countries grew by 13.1% in 2013 compared to 27% a year in 2010-2012. Nonetheless, the continued relatively high growth rate of cash remittances was one of the main factors that supported relatively high growth rates in retail trade, the services sector and construction. These remained key drivers for the economic dynamics in those countries. Other factors influencing the economic growth of this group of countries in 2013 included output recovery at the Kumtor gold mine in Kyrgyzstan, and a rise in agricultural output due to a good crop in Moldova.

The economic situation in two of the three countries with diversified structures of exports – Belarus and Ukraine – remained difficult due to the loss of external sustainability. The current account deficit exceeded 10% of GDP in both countries in 2013. The Belarusian economy escaped a crisis in 2013 despite a dangerous fall in the National Bank’s international reserves, which were used to finance the current account deficit. In Ukraine, a recession was caused by, among other factors, the National Bank’s tight monetary policy aimed at protecting the fixed exchange rate of the national currency, the hryvnia, against the US dollar. It resulted in the authorities losing control over the economic situation amid an acute political crisis. The hryvnia has depreciated by more than 50% against the dollar since February 2014. Uzbekistan, which is also a country with a diversified structure of exports, had a stable external balance and a high GDP growth rate during 2013.

The state of the public finances in the CIS countries deteriorated slightly in 2013. The countries had a combined budget deficit amounting to 0.8% of GDP following a surplus of 0.8% in 2012.
Budget deficits in the region remain limited

There is little change in the inflation situation in the CIS region in 2013

Inflation slows down significantly in most of the Central Asian countries

The global economic situation tends to be relatively favorable for the CIS countries

This deterioration largely reflected Russia’s movement from a surplus to a deficit (see the country section on Page 23). Nonetheless, measures taken by the governments of a number of CIS countries to consolidate their budgets, and also acceleration in GDP growth in some countries resulted in budget deficits in the region remaining generally limited. An analysis of the three groups of CIS countries concludes that the budget balance improved for the labor exporting countries and deteriorated for the oil and gas exporting countries – while Kazakhstan improved its budget balance, Russia and Azerbaijan experienced deterioration. It also deteriorated for the countries with diversified structures of exports, with a determining factor being deterioration in the budget situation in Ukraine.

There was little change in inflation in the CIS region in 2013. The average inflation rate stood at 6.2% at the end of 2013, slightly down from 6.3% a year earlier. This was largely due to there being almost no change in the Russian inflation rate: 6.6% in 2012 against 6.5% in 2013. At the same time inflation slowed down significantly in most of the Central Asian countries, including Kazakhstan. This was attributable to their central banks’ restrained monetary policy, and also to a decline in food prices following a good crop. Inflation slowed in Belarus, where the consumer price index fell from 21.8% in the post-crisis year of 2012; but it remained high compared with other countries in the European part of the region, standing at 16.5% at the end of 2013. In Moldova and Ukraine, the inflation rate recovered to a limited degree from low levels amid the loosening of monetary policy, which occurred in both countries throughout 2013. Inflation also accelerated in Armenia, primarily due to external factors with a rise in the price of imported natural gas being the main one.

The situation in the global economy currently tends to be relatively favorable for the CIS countries. The International Monetary Fund’s forecast released in April 2014 predicts the world’s GDP growth to accelerate from 3% in 2013 to 3.5% in 2014 amid a recovery in economic growth in developed countries. Most forecasts assume that China’s GDP growth rate will remain high but will gradually decline.
A sharp rise in political risk levels in connection with the developments in Ukraine becomes a key negative factor.

The consensus forecast for the aggregate GDP growth in the CIS stands at 3% for 2014 and 3.4% for 2015.

Such circumstances ensure a rise in physical demand, which limits the potential effects of a fall in the price of primary commodities exported by CIS countries. This is despite the downward pressure on them from the normalization of monetary policy in the United States. The impact of the latter factor on the region is additionally offset by the transition of the Bank of Russia to a relatively flexible exchange rate policy. This is despite the significant volumes of intervention operations in the exchange market during periods of high volatility.

Amid a relatively favorable external economic situation in late 2013 and early 2014, a key negative factor was a sharp rise in political risk levels in the region in connection with the developments in Ukraine. Although the impact of the Ukraine crisis on the region’s economies, except Ukraine itself, is rather moderate, it is still visible. In particular, growing uncertainty over the Ukraine crisis and deteriorating access to international financial markets have negative effects on investment activity. These effects will continue for a period, the duration of which is difficult to predict.

Given these circumstances, international organizations’ consensus forecast for the aggregate GDP growth in the CIS region stands at 3% for 2014 and 3.4% for 2015. This compares with a growth rate of 2% in 2013. Forecasts have been subject to downward revision, although the most probable scenarios regarding most of the economies in the region do not assume transitions from positive to negative GDP growth rates. This is due to, among other things, the fact that in late 2013 and early 2014, the CIS economies were in a state far from being overheated. The negative external shock, if its impact remains moderate, may increase the consolidation of external balances. Signs of this can be seen in many economies in the region, including the labor exporting countries, simultaneously impeding the consolidation of the public finances.

There is an uncertain outlook for the economic situation in Belarus and Ukraine. They need measures to restore balance of payments sustainability. The Ukrainian authorities have begun efforts to achieve this goal, but this process is being significantly affected by factors of a purely political nature.
Figure 1.7. **Economic growth** (GDP growth): consensus 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 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: national agencies, estimates and forecasts by the IMF
Trends and outlook
Azerbaijan: End of decline in oil production, construction boom, deterioration in budget and external balances

Azerbaijan’s GDP grew by 5.8% in 2013 compared with a growth of 2.2% in 2012. The main factor determining the acceleration of the country’s economic growth was stabilization in the oil and gas industry. The industry’s output rose by 1% following a fall of 5% in 2012. The non-oil and gas sector increased output by 10%, slightly up from 9.7% in 2012. The most significant contribution to the general dynamics was made by the construction sector, whose output rose by 25%. Retail sales increased by 9.9%, while agricultural output rose by 4.9%. In the manufacturing sector, positive contributions to the general dynamics were made by the building materials industry, the chemical industry and the machine-building industry, whose output rose by 21%, 19.5% and 25.1%, respectively.

The dynamics of household consumption and investment were stimulated by a rise in public spending, which increased from 31.7% of GDP in 2012 to 33.2% in 2013. The combined surplus of the state budget and the State Oil Fund amounted to 3.7% of GDP, considerably less than 2012 when it was 6.3% of GDP. The resources of the State Oil Fund continued to grow in 2013, increasing from $34.1 billion to $35.9 billion, but their amount decreased from 49.6% to 48.8% of GDP.

The current account surplus fell amid a rise in domestic demand and stagnation in exports. The country had a current account surplus of $9.2 billion (17% of GDP) in Q1-Q3 2013 against a surplus of $11.5 billion (22.7% of GDP) in Q1-Q3 2012. A decrease occurred simultaneously in the capital account deficit and the financial account deficit, which are primarily formed by payments to external investors and lenders. The total capital and financial account deficit in Q1-Q3 2013 amounted to $5.1 billion (9.3% of GDP) against $7 billion (13.8% of GDP) in Q1-Q3 2012. The overall surplus in the balance of payments thus remained significant, although it decreased to $3.3 billion (6% of GDP) from $4.5 billion (8.8% of GDP).

Amid the almost fixed exchange rate of the national currency – the manat depreciated against the US dollar very slowly and smoothly throughout 2012-2013 – and declining capital inflows, the growth of the money supply continued to slow down. The annual growth rate of M2 fell from 25.9% in December 2012 to 19% in December 2013.

Inflation kept low, although the consumer price index rose to 2.9% in 2013 from minus 0.3% in 2012. The acceleration of inflation was largely due to an increase in government-regulated motor fuel prices in December 2013.

The annual growth of bank lending slowed down in Q4 2013 following some acceleration in the middle of 2013. The total volume of loans increased by 26% in 2013, slightly up from an increase of 24.3% in 2012. According to data for Q1-Q3 2013, the capital adequacy ratio rose to 17.3% from 15.2% at the end of September 2012. Simultaneously, the ratio of liquid assets to total assets fell from 13% in Q3 2012 to 11% in Q3 2013 – the lowest level in at least four years.

GDP growth accelerates amid stabilization in the oil and gas industry, continued high growth rates in construction and retail trade

Household consumption and investment are stimulated by a rise in public spending

The current account surplus decreases amid a rise in domestic demand and stagnation in exports

The overall surplus in the balance of payments remains significant but becomes lower

Money growth continues to slow down

Inflation remains low

Lending growth decelerates in Q4 2013 following some acceleration in the middle of 2013
Azerbaijan

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

![GDP and output chart]

Source: the State Statistics Committee of Azerbaijan

Figure 2.2. **Foreign trade**: exports, imports, current account (left scale, in billions of US dollars), real effective exchange rate – REER (right scale, index – Q1 2008 = 100)

![Foreign trade chart]

Source: national agencies

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

![Government sector chart]

Source: national agencies

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

![Monetary sector chart]

Source: national agencies

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

![Economic growth chart]

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

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)

![Savings and investments chart]

Source: estimates and forecasts by national agencies and the IMF
Armenia: Improvement in indicators of economic activity, balance of payments and inflation in Q4 2013

Armenia’s GDP growth accelerated to 5.2% in Q4 2013. This was due to: a high, 11.4% annual growth rate in the agricultural sector; continued demand from Russia for the manufacturing sector’s exports, which rose by 7.3%; a 5.9% increase in the mining industry’s output; and higher activity in the construction sector (+1.2%) and the power sector (+16.4%). The relatively high growth rates in those sectors partially offset weaker domestic demand. This resulted from: high inflation; a slowdown in bank lending growth; a negative rise in real wages; and a decline in fixed capital investment. Retail trade (minus 2.5%) and services were affected. As a result, GDP grew by 3.5% in 2013 against a growth of 7.2% in 2012.

The gross international reserves expansion to $2,253 million by the end of December 2013, and the upward pressure on the dram observed in Q4 2013 suggest an improvement in the balance of payments. They had a surplus amounting to 5.5% of GDP in 2013. The current account deficit decreased to 10.5% of GDP in 2013 compared with 11.2% in 2012. This was largely due to cash remittances from abroad rising by 10.8% - they totalized to $1,545 million at the end of 2013. The external trade deficit increased from 21.3% of GDP in 2012 to 22.5% of GDP in 2013. In 2013 the growth rate of exports was high at 7%. This was reached due to significant rises in exports of agricultural produce, foodstuffs and jewelry; and was offset by an acceleration of the growth of imports to 9.1%. The financial account surplus (14.5%) increased significantly due to proficient management of the external debt, which decreased from 39.1% of GDP in 2012 to 38.8% in 2013.

The state of the national budget in 2013 deteriorated in Q4 due to a slowdown in the growth of fiscal revenues to 13.5% in annual terms from 17.9% at the end of Q1-Q3. Nonetheless, a high growth rate of fiscal revenue was reached by the end of 2013 in spite of weak economic activity. This suggests an improvement in tax management - taxes and duties increased by 14%. Growth in public spending slowed down to 8.2% amid lower-than-projected state capital expenditure. As a result, the state budget turned from a surplus to a slight deficit estimated at 0.4% of GDP (according to the Special Data Dissemination Standard).

Inflation pressure significantly weakened in Q4 2013 due to the fading shock effect from the rise in energy prices. At the end of December, annual inflation stood at 5.6%, which contributed to the easing of the central bank’s monetary policy. This was amid a slowdown in bank lending growth – 11.1% in 2013 compared with 26.6% in 2012. This decrease resulted from key sectors with trade accounting for 20.9% of all lending, and the industrial sector 21.7%. The dynamics of bank lending were determined by a high growth rate of consumer lending (23.7%), which accounted for 21.7% of all lending. Low financial activity led to deterioration in the banking sector’s profitability indicators. The average ROA (return on assets) rate of banks was 1.9% and the ROE (return on equity) rate stood at 12%, while non-performing loans made up 4.5%. However, the banking system remains stable, which is evidenced by the liquidity and adequacy indicators.

GDP growth accelerates to 5.2% in Q4 and totals 3.5% in 2013

The balance of payments improves in Q4 2013, which is evidenced by an increase in the gross international reserves to $2,253 billion by the end of December, as well as by the strengthening of the dram

The state budget turns from a surplus to a slight deficit, which is estimated at 0.4% of GDP

At the end of December 2013, annual inflation stands at 5.6%, which, amid a slowdown in bank lending growth, contributes to the loosening of the central bank’s monetary policy
Outlook
Armenia: Acceleration in GDP growth amid limited inflation

The Indicator of Economic Activity (IEA) improved to 3.2% in annual terms in February 2014. This improvement was due to good indicators in agriculture (+7.2%) and services (+5.8%), and a 2.3% increase in the construction sector’s output, which resumed rising after a long decline. The improved dynamics in these sectors offset a decline in industrial output, which decreased by 5%, and a slowdown in the growth of retail trade to 4.2%. As a result, the IEA growth rate was 2.4% in January-February 2014. Nonetheless, this improvement is not sufficient and GDP growth will remain at a low level in Q1 2014. GDP growth is expected to accelerate later in 2014 due to:

- a continued rather favorable outlook for the external environment;
- a recovery in investment activity;
- expansive fiscal policy;
- and sustained high volumes of remittances from abroad.

The consensus forecast for 2014 puts GDP growth at 4.8%, with the government expecting a growth of 5.2% and EDB predicting a growth rate of 4.8%.

The balance of payments deteriorated in January 2014. This trend was attributable to:

- a decrease in the financial account surplus in the context of the decreasing foreign trade deficit; and
- the high volume of net cash remittances, which rose by $78.6 million (25.7%) in annual terms. To all appearances, incoming foreign investment continues to decrease and the outflow of capital continues to grow; while the rise in the volume of external borrowings has slowed down. The borrowings supported the balance of payments and the dram in 2013. These factors determine the downward pressure on the dram in the context of the currency depreciation of developing countries. Given the existing structural and institutional problems, the stability of the dram remains dependent on external factors and the possibility of an increase in external public debt.

The state of public finances remained stable in January 2014. The growth rate of fiscal revenue was still high at 6.7% due to an increase in other non-tax revenue. This was despite: weaker economic activity in Q1 2014 compared with Q1 2013, which determined a low, 2.6% increase in taxes and duties; the simplification of tax regulations; and a decrease in the rates of some taxes on January 1, 2014. Meanwhile, the growth rate of public spending remains low at 3.6%. This actually reflects the usual practice of restraining public spending in Q1-Q2 of the year. As a result, the state budget has a surplus again. The government is expected to increase expenditure without a rise in the tax burden and, subsequently, increase the budget deficit to 2.3% of GDP. This will certainly stimulate economic activity but will also contribute to a fall in external sustainability.

In February 2014, the annual inflation rate returned to the target band, standing at 4.6%, with the target band for 2014 being between 2.5% and 5.5%. A gas supply agreement with Russia and the abolition by Russia of duty on petroleum products will have a favorable effect. This will lead inflation to return to the projected levels. The government’s move to raise customs duties may become a new inflation booster, which would have a time-limited effect in 2014.

Inflation is projected to be between 2.5% and 5.5% in 2014.
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 – Q1 2008 = 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: Continued external imbalance, high inflation

Belarus’ GDP grew by 0.9% in 2013. Throughout 2013, the growth was primarily supported by retail trade and construction. The total value added produced by these sectors rose by 12.3% and 9.8%, respectively, compared with 2012. The industrial sector experienced a decline. The extractive industries decreased their output by 0.3%, while the output of the manufacturing industries fell by 5.3%. The most considerable decreases occurred in the oil-refining industry (22.5%) and the chemical industry (17.8%). The decline was, at least partially, due to the high base effect. In 2012, this part of the industrial sector had an upturn in activity, using favorable tax conditions for crude oil imported from Russia. Significant decreases also occurred in the outputs of the iron and steel industry and the transport machine-building industry. They fell by 6.1% and 5.2% due to a slump in external demand. Fixed capital investment rose by 7.5% in real terms, while household consumption increased by 12.2%.

The annual inflation rate stood at 16.5% at the end of 2013, down from 22.1% in 2012. The slowdown in inflation largely reflected the fact that the seasonal deceleration, which occurred in the rise in prices during the summer and the early fall of 2013, had not taken place in 2012. The monthly rise in the consumer price index in Belarus in Q4 2013 returned to levels close to those seen in Q4 2012. This followed a series of reductions in the National Bank’s reference rate, and a gradual devaluation of the national currency within the framework of the controlled peg of the ruble to the US dollar.

There was not a major change to public finances in 2013. The federal and the consolidated budgets had a surplus of 0.4% and 0.2% of GDP, respectively. In 2012, the federal budget had a deficit of 0.1% of GDP, while the consolidated budget had a surplus of 0.7% of GDP. The state of Belarus’ balance of payments, conversely, deteriorated. The current account deficit grew from $1.7 billion (2.9% of GDP) in 2012 to $7.3 billion (10.1% of GDP) in 2013. This deterioration was partially due to the fact that the current account balance had a surplus throughout Q1-Q2 2012 amid a sharp but temporary expansion of exports of petroleum and chemical products (see above). Nonetheless, Q3-Q4 2013 saw a significant rise in the current account deficit. It amounted to $3.9 billion compared with $2.4 billion in Q3-Q4 2012. There was also a rise in the financial account deficit amid a considerable deterioration in the balances of direct and other investment. Meanwhile, the depreciation of the national currency was relatively slow: the ruble weakened by 4% in terms of the real effective exchange rate in 2013. This was accompanied by a sharp fall in the National Bank’s international reserves. They shrank from $8.1 billion to $6.3 billion - from 2.5 months to 1.5 months worth of imports of goods and services.

The annual growth rate of bank lending fell to 28.5% at the end of 2013 from 40.1% a year earlier, and the average monthly growth rate was 2.1% against 2.9% in 2012. No significant change occurred in the banking sector’s sustainability indicators. The fixed capital adequacy rate fell from 20.7% at the end of 2012 to 19% at the end of Q3 2013, and the share of problem assets decreased from 4.7% to 4.6% during the period.
Outlook

Belarus: Limited improvement in balance of payments, consolidation of domestic demand

Belarus’ GDP growth rate will be determined throughout 2014 by factors acting in different directions. There is a need to consolidate domestic demand with a view to restoring a sustainable balance of payments. The result of this may be that retail trade and construction will make a negative contribution to general growth in 2014. The developments in oil-refining and the chemical industry will cease to have a negative impact on the growth rate, as these industries will become free from 2013’s high base effect. There is an uncertain outlook for exports because their dynamics strongly depend on the situation in the Russian economy. Data for the first months of 2014 indicate negative GDP growth. This is because in 2013 the most intensive efforts to stimulate economic activity took place during Q1. The GDP growth rate should recover later in 2014. However it seems very difficult to achieve the goal of ensuring a GDP growth rate of 3.3%, which is set out in the Social and Economic Development Forecast for 2014.

February’s annual inflation rate of 15.7% was significantly higher than the government’s 11% target level for 2014. Given the monthly growth rate of the consumer price index, there is a danger of the inflation rate being almost twice higher than expected if the National Bank’s monetary policy is unchanged.

Q1 2014 saw an improvement in the state of public finances compared with 2013. According to the finance ministry, the federal budget had a surplus of 1.6% of GDP in January-February against a surplus of 0.8% of GDP in the same period in 2013. The government expects to have a deficit-free budget in 2014. The fiscal results of the first months of the year suggest that it is realistic to achieve this objective, although the use by the government of quasi-fiscal financing diminishes its significance.

Meanwhile, the external sustainability situation has not changed compared with the middle of 2012. The fall in international reserves to levels comparable to those at the end of 2010 indicates that the government has limited resources for keeping the economy within the current trajectory. Nonetheless, the national economy has begun to show signs indicating a limited strengthening of the balance of payments. In particular, with seasonal factors taken into consideration, the dynamics of the current account balance in Q4 2013 suggest some progress in this respect. According to data for foreign trade in January and February, the improvement extended into Q1 2014. It remains limited, but it will contribute to a slowdown in the fall in the National Bank’s international reserves throughout at least the first half of 2014. This is until seasonal factors cease to have an effect on the balance of payments. Later on, the external sustainability of the Belarusian economy will depend on the implementation of measures aimed at holding back the rise in bank lending, public spending and pay.
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 – Q1 2008 = 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
Kazakhstan: Domestic demand remains the main driver of GDP growth

Kazakhstan’s economic growth accelerated to 6.7% in annual terms in Q4 2013. The country’s GDP eventually grew by 6.0% in 2013 compared with a growth of 5.0% in 2012. This met the government’s target due to: robust domestic demand stimulated by consumer lending (a 46.4% increase in 2013); higher investment activity (a 6.5% increase); and high growth figures in the agricultural sector (a 10.8% increase amid a low base effect). The main drivers of the growth were the service sector with: a 14.0% increase in communications services; a 12.7% increase in retail trade; and a 7.5% increase in transport services. The rise in the construction sector’s output was 3%. Despite growth recovery in the oil production sector (a 3.2% increase), the rise in industrial output remained at a low level (a 2.3% increase). This was as a result of a decline in the output of the iron steel industry (a 4.9% decrease), and a decline of other industries under the influence of both external and domestic factors. The external factors were a fall in prices of primary commodities, a slowdown in economic growth in Russia and China, and a weak growth recovery in developed countries; and the domestic factors were fiscal consolidation, the poor diversification of the economy, and the underdeveloped institutional environment.

The balance of payments improved in Q4 2013 in comparison with Q3. The reason was a better current account balance as the result of improvements in exports and the financial account balance. According to preliminary estimates by the National Bank, Kazakhstan had a current account deficit of $117.6 million (about 0.1% of GDP) in 2013 compared with a deficit of $640.4 million (0.3% of GDP) in 2012. The country had a trade surplus of $33.7 billion (about 15% of GDP), compared with a surplus equal to 18.9% of GDP in 2012.

With a sharp rise in unrecorded capital to $5.8 billion taken into account, the balance of payments has a deficit of $2.4 billion, or 1.1% of GDP.

The state of public finances improved in 2013 due to measures taken by the government to improve tax administration and amendments to tax laws. Public expenditure rose by only 5.7%; while revenue increased by 9.8%, which helped stabilize the state of public finances in the context of declining exports. As a result, the state budget had a deficit of 2.1% of GDP against a deficit of 3.0% of GDP in 2012.

In December 2013, annual inflation slowed to 4.8%, with the target band being between 6% and 8%. This was attributable to a combination of weak inflation pressure from external factors and an extremely low money supply growth rate. Measures taken to hold back the growth of consumer lending (a 46.4% increase in 2013) and a slowdown in the rise in bank lending (a 13.4% increase in Q4 2013) were among the reasons for the low growth rate of the money supply. The banking sector’s efficiency indicators deteriorated. The average ROA (return on assets) rate of banks was 1.77% and the ROE (return on equity) rate was 13.5%. The share of loans overdue for more than 90 days grew to 31.2%.
Outlook

Kazakhstan: Favorable outlook for growth despite devaluation

Kazakhstan’s economic activity slowed further in February 2014. The growth of the short-term Indicator of Economic Activity decelerated to the lowest levels in two years at 2.3% compared with February 2013. The seasonal slowdown exceeded 2012’s level due to both the external factor of the slowdown in economic growth in Russia and China, and domestic factors including a weakening of domestic demand and a slowdown in lending growth. A slowdown occurred in all sectors apart from the construction sector (annual growth rate 6.5%) and the agricultural sector (annual growth rate 2.7%). The decline in domestic demand that could be seen in Q4 2013 became stronger in Q1 2014. However it should strengthen from Q2 2014 because the government is expected to expand the use of fiscal stimulus measures aimed at offsetting the negative effects of the February 2014 devaluation, including its impact on consumption and investment. Also external competitiveness is expected to increase. The consensus forecast for 2014 predicts the country’s GDP to grow by 5.7%, whereas EDB forecasts a growth of 5.6%.

As a result of the devaluation carried out in February 2014, the balance of payments significantly improved. This helped increase the gross international reserves by $1,487 billion in one month. The positive dynamics were attributable to: an improvement in the external trade balance, including an increase in exports of crude oil; a low level of devaluation expectations; and a significant shortage of tenge liquidity in the market. As a result, the National Bank’s forex interventions were aimed at purchasing foreign currency and protecting the lower boundary of the exchange rate band. The tenge’s rate against the US dollar will remain within the established band of 182 to 188 for one dollar, providing oil prices are stable and there are no sharp external shocks.

In 2014, one should expect an additional expansion of public spending and an increase in the budget deficit. The rise in expenditure will be caused by measures taken to offset the negative impact of the devaluation. The measures are aimed: at supporting the purchasing capacity of the population and the investment activity of the private sector (small and medium-sized companies); and at stimulating the strategic sectors of the economy. Nonetheless, the state of the public finances should remain satisfactory due to: the existing surplus in the consolidated budget (4% of GDP in 2013); and the increasing international reserves of the National Bank. The reserves are to grow through, among other things, an increase in export duty on crude oil.

Despite the devaluation, consumer prices rose by only 1.7% in March and 1.0% in April, while the annual inflation rate in March was only 6.2%, with the target inflation band being 6 to 8%. The rise in prices remains limited. This is attributable to: measures taken to curb inflation, which include a freeze of government-regulated prices and rates until May 2014; and the low effects of monetary factors (the annual growth rate of M2 was 3.4% at the end of January 2014). Inflation may accelerate due to a time lag for the pass-through effect to domestic prices and slightly exceed the upper boundary of the National Bank’s target band of 6 to 8% for 2014.
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 – Q1 2008 = 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’s economy showed a very high annual growth rate of 15.4% in Q4 2013. As a result, the country’s GDP grew by 10.5% in 2013 against a 0.9% GDP decrease in 2012. The main driver of GDP growth was a recovery in gold production, which rose from 9.8 metric tons in 2012 to 18.7 tons in 2013. As a result, industrial output rose by an aggregate 34.3% in 2013. Excluding the contribution of the companies developing the Kumtor gold deposit, Kyrgyzstan’s annual GDP growth slowed down to 5.8% in 2013 from 6.3% in 2012. This was due to: weaker consumption and investment demand (a 2.3% increase in 2013); a slowdown in economic growth in major trading partners (Russia, Kazakhstan and China); and existing restrictions on exports to Customs Union countries.

The textile industry’s output fell by 16.5% in 2013, while the mining industry’s output fell by 4.6%. Electricity output fell by 1.7%. A continued increase in the output of the food industry (+4.5%) and other minor industries led to a 3.5% rise in industrial output excluding gold production. Agricultural output rose by 2.9% in 2013, partially due to the implementation of a government program of support for farmers. The construction sector’s output continued to increase at a rate of 12.4% in 2013. Growth in retail trade (+7.9%) and services (+5.1%) slowed down as the result of a slight decline in domestic demand. Nonetheless, the non-tradable sectors, stimulated by remittances (a 7.9% increase in 2013 to $1.9 billion) and bank lending (+35%) ensured the dynamics of GDP excluding gold production.

The balance of payments had a surplus of 2.0% of GDP in 2013; while the gross international reserves grew by 8.3% to total $2,238 billion (the equivalent of five months of imports) at the end of December 2013. Amid a high external trade deficit (49.3% of GDP), the improvement in the balance of payments was attributable to: a high volume of remittances from labor migrants (30.8% of GDP); unrecorded capital flows with “errors and omissions” amounting to 11.4% of GDP; external borrowings; and a rise in foreign investment and capital transfers.

The state budget had a deficit of 2% of GDP. Excluding the Public Investment Program, the state budget would have a surplus equal to 1.6% of GDP. If calculated by previously used methods, which took into account public expenditure for development, the state budget deficit was about 3.7% of GDP. The marked improvement in the state budget indicators took place amid GDP growth and better tax administration. A positive effect on the state budget was also produced by a reduction in operating expenditure (excluding social obligations) to 18.9% of GDP in 2013 from 20.2% in 2012.

Annual inflation slowed down to 4% by the end of December 2013. Food prices fell in 2013 due to a good harvest and declining prices in international markets. They accounted for more than 50% of the consumer basket. The low inflation rate allowed the government to ease its monetary policy. Nonetheless, the annual growth rate of the broad money supply (M2) slightly fell to 22.4% as of the end of January 2014, apparently due to a slowdown in economic activity and bank lending.
Outlook

Kyrgyzstan: Slowdown in GDP growth amid heightened uncertainty

The downward trend that emerged in Kyrgyzstan’s GDP growth in January 2014 strengthened further in February. GDP growth in January-February 2014 slowed to 5.9% compared with 9.1% in January and 10.5% in 2013. This was under the influence of: the high base effect of 2013, which was especially strong for the industrial sector; weaker domestic demand; and limited external demand. Excluding the contribution of the companies developing the Kumtor gold deposit, the country’s GDP growth slowed to 5.2% against 5.8% in 2013. In 2014 a decline in GDP growth is expected in connection with the high base effect and domestic demand weakening. Demand will weaken due to: a slowdown in the rise of remittances from Russia and bank lending; the emergence of inflation pressure as a result of the depreciation of the som; and other factors. The consensus forecast predicts Kyrgyzstan’s GDP to grow by 5.8% in 2014, with the government expecting a growth of 6.9%.

Kyrgyzstan will continue to have an external trade and a current account deficit in 2014. The 11.1% year-on-year rise in exports in January-February 2014 outpaced the 8.7% rise in imports. However exports remain dependent on international gold prices, which are forecast to fall during 2014. Given the high share of energy imports and continued relatively robust domestic consumption, the rise in imports will remain stable. As a result, the trade deficit may expand, as there are currently no factors capable of stimulating exports of manufactured goods. Since the rise in the volume of remittances from abroad may slow down, one should not expect an improvement of the current account balance. The balance of payments will continue to depend on unrecorded capital flows, external borrowings, the population’s reaction to the depreciation of the national currency, and the National Bank’s policy.

Despite the expected slowdown in economic growth, the state of the public finances remains under control. Plans for 2014-2015 suggest that the government intends to limit operating expenditure growth, while capital expenditure will depend on the dynamics of revenues. The budget deficit will remain within reasonable limits (2.4% of GDP) due to the reduction of minor expenditure, GDP growth, and external assistance (the IMF’s fifth loan tranche of $106 million). A risk for the public finances is posed by the closure of the Manas military base, which yielded $60 million a year in rent payments. The external public debt should be at a controllable level as part of the country’s debt owed to Russia has been written off, and the government has established a limit for the external debt at 60% of GDP for the medium term (factually 43.7% at the end of 2013).

The National Bank forecasts an inflation rate of 6.5% for 2014. This seems to be an achievable target considering the introduction of new mechanisms of monetary policy and the current monetary tightening cycle, although inflation pressure has increased due to the depreciation of the som. In general, the objectives and tasks facing the National Bank have become more difficult when it comes to the stabilization of domestic prices, the exchange rate of the som, and economic growth.
**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 – Q1 2008 = 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
Moldova: Resumption of growth amid recovery in agricultural output

Moldova’s economy accelerated its growth dramatically in 2013, overcoming 2012’s recession. GDP increased by 8.9% in 2013 compared with a decrease of 0.7% in 2012. The acceleration in growth was mainly due to the agricultural sector whose produced value added rose by 41%, which led the sector to account for some 4.5% of the 8.9% GDP growth. The high growth rate in the agricultural sector was partially, but not entirely, attributable to the low base effect of 2012, when the sector experienced a 20.1% fall in output. The produced value added increased by 7.4% in the industrial sector, 5.1% in construction, 7.3% in wholesale and retail trade, and 3.8% in the transport and communications services sectors. Meanwhile, household consumption increased by 6.5%, fixed capital investment increased by 3.3%, and exports and imports increased by 10.7% and 5.5%, respectively. Although the increase in exports outpaced the increase in imports, the contribution of net exports to the general growth proved negative. The consensus forecast of international organizations predicts the country’s GDP growth to slow down to 4 to 5% in 2014 and 2015, after it gets over the low base effect.

The consumer price index rose by 5.2% in 2013 (December 2013 on December 2012). Inflation thus slightly accelerated from 4.1% in 2012 and came close to the National Bank’s target level of 5%. The Moldova monetary authorities thus fulfilled the task of overcoming the deflation pressure that was seen during the 2012 recession and the post-recession period. This was the key objective of the National Bank’s policy for that period. The central bank currently expects inflation to remain within plus or minus 1.5 points around the target of 5% throughout the forecast period until the end of Q3 2015.

The deficit in the national public (consolidated) budget decreased to 1.6% of GDP in 2013 from 2.1% in 2012. Both public expenditure and revenue rose more slowly than GDP. The central government’s debt decreased to 23.6% of GDP at the end of 2013 from 24% a year earlier.

There were no fundamental changes to the balance of payments in 2013. The current account deficit decreased in Q1-Q3 2013 from 6.3% to 5.5% of GDP, with its nominal volume in US dollars changing insignificantly. The overall balance of payments still had a surplus. Throughout 2013 the National Bank continued to build up its international reserves, which increased to $2.8 billion at the end of 2013 from $2.5 billion a year earlier.

Bank lending growth accelerated in 2013 from 16.1% to 18.6% amid the National Bank’s stimulative policy and a rise in economic activity, especially in Q4 2013. The growth of bank lending led to a fall in the capital adequacy ratio, which decreased to 23.4% at the end of 2013 from 24.3% a year earlier. A slight deterioration also occurred in liquidity indicators. In particular, the share of liquid assets in total banking assets decreased to 33.8% from 34.9%.
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 – Q1 2008 = 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 economic growth rate amid weak investment activity

The dynamics of the economic situation in Russia was characterised by inertia throughout Q4 2013. This determined the country’s modest economic growth in 2013. Russia’s GDP grew by 1.3% in 2013 compared with a growth of 3.4% in 2012. This was amid: a declining but still high rise in household consumption, which increased by 4.7% in 2013 following a 7.9% rise in 2012; and a 4.4% fall in gross investment, which resulted from both a decrease in inventory stocks and a 0.3% decline in fixed capital investment in 2013. At the same time exports rose by 3.8% in real terms, the highest growth rate in three years, amid recovering external demand for the country’s commodities, primarily natural gas. The quarterly GDP growth rate was the lowest in Q1 2013 (0.8%) and then rose, reaching 2% in Q4 2013 amid the expansion of exports and the stabilization of investment.

The rise in exports was ensured by the extractive sector, where the produced value added increased by 0.9% against an increase of 0.8% in the manufacturing sector, which experienced a decline in demand for its products due to the fall in investment.

This fall also affected the construction sector that saw a decrease by 2.4% in 2013.

According to preliminary estimates, the current account surplus decreased from $77 billion in 2012 to $33 billion in 2013 (1.6% of GDP). The decrease in the surplus took place amid: deterioration in the investment income balance and the services balance; and a relatively small change in the surplus in trade in goods, which fell to $177.3 billion (8.5% of GDP) from $192.3 billion (9.7% of GDP) in 2012.

The federal budget had a deficit of 0.5% of GDP in 2013 compared with a deficit of 0.1% of GDP in 2012. A larger deterioration occurred in the state of the consolidated budget, which had a deficit of 1.3% of GDP following a surplus of 0.4% of GDP in 2012. This deterioration was caused by: an increase in the burden on regional budgets and off-budgetary funds caused by a rise in social spending and pay, in particular in the educational and public health sectors; and a decrease in regional budget revenues, which are more exposed to the economic cycle than federal ones.

Annual inflation accelerated throughout Q4 2013, partially due to the influence of exogenous factors, including a rise in food prices. This led to the annual inflation rate reaching 6.5%; a considerably higher level than the upper boundary of the target inflation band of 5 to 6% that had been set by the Bank of Russia for 2013.

The annual growth of bank lending remained relatively stable throughout 2013 following a slowdown in late 2012. Bank lending rose by 17.5% in 2013 compared with a rise of 19.7% in 2012. A more significant slowdown took place in lending to individuals – 28.3% in 2013 from 39.2% in 2012. The banking sector’s sustainability indicators changed insignificantly throughout 2013. In particular, the ratio of capital to assets was 13.5% at the end of 2013, slightly down from 13.7% at the end of 2012. The share of problem loans did not change, standing at 6%.
Outlook

Russia: Slow recovery in investment amid tensions in the region, improvement in budget balance

The dynamics of the Russian economy will be determined by several factors in 2014. The most important factor being the time and intensity of recovery in fixed capital investment, which experienced a decline in 2012. A decrease in fixed investment is a rather rare occurrence. In the period between 1999 and 2012, it happened only in 2009 and never lasted for more than a year. Despite unfavorable data for investment activity in the first months of 2014, one may expect a recovery and transition to growth later in 2014. However, the recovery may decelerate due to tensions in the region, instability in financial markets, and measures taken by the government in 2014 to tighten budgetary policy. The same is true for investment in inventory stocks, which was also a factor behind the slowdown in GDP growth in 2013. They might return to growth in Q4 2013. Simultaneously, economic growth will be under the negative influence of a slowdown in the rise in household consumption. This is probable considering the tightening of budgetary policy and the slowdown in consumer lending growth.

The central bank of Russia has established the target level for inflation at 5% and a target band of 3.5 to 6.5% for 2014. The decision to curb the rise in government-regulated prices in 2014, which the government made with a view to supporting the economy, makes the central bank’s plans for inflation relatively easy to fulfill. Nonetheless, the weakening of the ruble throughout Q1 2014 put the plans at risk. It forced the central bank to resort to a significant rise in the key interest rate, and to increase the scale of interventions in the foreign exchange market. These steps ran counter to the declared plans, which remain in force, to switch over to inflation targeting and a floating exchange rate for the ruble by 2015. Control over the exchange rate will apparently be loosened again as calm is restored in financial markets, and the key interest rate will be lowered within the framework of this process. Nonetheless, the need to achieve objectives regarding inflation and the tightening of control over the exchange rate may not give the central bank the opportunity to provide support to economic growth during a considerable part of 2014.

If the existing budget rule is not loosened, the state of the public finances may significantly improve in 2014. This will be through: the influence of the planned reduction in public spending; the depreciation of the national currency, which increases the volume of export revenues in ruble terms; and the continued relatively high prices of energy resources. The federal budget may have a surplus or a slight deficit in 2014. The same factors may contribute to an improvement in the country’s balance of payments.

The general economic situation provides grounds to expect Russia’s GDP to grow by 0.5 to 2.0% in 2014. The outcome will depend on serious deterring factors related to fiscal and monetary policies, as well as to instability in financial markets caused by tensions in the region.

The central bank establishes the target level for inflation at 5%

The weakening of the ruble throughout Q1 2014 forces the central bank to resort to a significant rise in the key interest rate, and to increase its interventions in trading in the exchange market

The state of the public finances and the balance of payments is likely to improve significantly in 2014

The economic situation provides grounds to expect GDP to grow by 0.5 to 2.0% in 2014
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 – Q1 2008 = 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’s GDP continued to grow at a high pace in Q4 2013, increasing by 7.4% in annual terms and 7.4% in 2013 (7.4 to 7.5% in the past three years). The high GDP growth rate was attributable to: robust domestic demand stimulated by remittances from abroad, which increased to $4,154 million (14.3%) in 2013; bank lending, which rose by 38.9%; an increase in the average wage of 19.5% in real terms; and heightened investment activity (capital investment rose by 17.2% in 2013 in connection with an expansion in public investment).

High growth rates were shown in 2013 by: agricultural output (7.6%), despite a decrease in raw cotton production; the non-tradable sectors, with retail trade increasing by 19.3%, and services by 9.7%; and the construction sector’s output by 60%. The industrial sector’s output increased by 3.9%, but growth rates were different by industry. The extractive industry’s high, 43.6% growth rate and high growth rates in some other industries were negatively offset by a 9.9% decrease in the textile industry’s output and a 4.9% decline in the metallurgical industry’s output. A weaker external demand and a fall in cotton and aluminum prices, coupled with a shortage of natural gas, were major reasons for the decline in those industries.

The country’s external trade deficit increased from 31.9% to 34.8% in 2013. This was mainly due to a 14.4% fall in exports and a rise in demand for imports, which increased by 9.1%. The fall in aluminum prices, which had lasted for more than a year, led to the decline in the metallurgical industry and a reduction in the volume of export and import operations in the industry. This included both imports of intermediate commodities (alumina) and exports of finished products. Despite the stabilization of world cotton prices, cotton production and exports decreased in 2013, with cotton exports falling by 15.5%.

2013 saw an increase in state budget revenue amid a rise in the population’s real income – real average wage rose by 20.5% – and a rise in demand for domestic products and imported goods. The largest contributions to tax revenue were made by income tax, profit tax and value-added tax. The main contribution to the rise in public spending was made by operating expenditure for salaries and wages, goods and services, and transfers to the population. There was also a rise in capital expenditure. The state budget had a small surplus equal to 0.2% of GDP. The lower-than-projected expenditure was, perhaps, due to shortfalls in the implementation of some less important expenditure plans.

Annual inflation slowed to 3.7% in December 2013, which allowed the National Bank to ease its monetary policy, despite a high, 38.9% annual rise in bank lending to the economy. Amid non-food consumer goods’ limited contribution to inflation, the low inflation rate was largely attributable to a slowdown in the rise in food prices.
Outlook

Tajikistan: High GDP growth amid acceleration in inflation

The non-industrial part of the economy continued to be the main driver of economic growth in January-February 2014: retail trade increased by 15.1% year-on-year; the services sector increased by 6.2%; and agricultural output increased by 9.9%. This reflected robust domestic consumer and investment demand, and an improvement in the state of livestock farming. Unfortunately, the growth rate of the industrial sector remained low at 0.9%. This was due to a number of external and domestic factors including: low aluminum and cotton prices; shortages of natural gas; complicated relations with Uzbekistan; and structural problems faced by large industrial companies. The metallurgical industry’s output decreased by 25.1%, and the textile industry output decreased by 37%. This determined an aggregate decrease of 1.6% in the manufacturing sector’s output. The extractive industry’s growth rate rose significantly to 22.4%, which offset the negative trend in the industrial sector.

The country’s GDP should keep growing at a high rate in 2014. The consensus forecast of international organizations predicts a growth rate of 6.1% for 2014, while the government expects growth of 7.5%. Nonetheless, the level of uncertainty about the direction of the dynamics of the economic situation has risen considerably. On the one hand, this is due to the slowdown in economic growth in Russia, which is the main source of remittances from labor migrants and an important trading partner. On the other hand, the country’s transport and energy dependence on Uzbekistan is an aggravating circumstance considering the complicated relations with that country.

Tajikistan’s external trade deficit deteriorated in January 2014 due to a decrease in aluminum and cotton exports in both real and nominal terms; while imports continued to grow, increasing by 8.2%. Nonetheless, this deterioration, like the devaluation of the national currencies in neighboring countries, had an extremely limited impact on the volatility of the somoni. This indicates the existence of other factors determining its stability, such as international donors’ financial assistance, high volumes of remittances from abroad, and the large role of the state in the economy.

In January 2014 the state budget had a surplus. This was despite the high rise in public expenditure in annual terms, which rose by 50.9% compared with an increase of 29.2% in revenue. The state of the public finances should stabilize by the end of 2014 due to the government’s plans to balance the growth rates of expenditure and revenue at 15.3%. The government has projected that the state budget deficit will amount to no more than 0.5% of GDP in 2014.

Despite signs of acceleration, annual inflation remained low in February 2014 at 3.9% against 3.7% at the end of 2013. The dynamics of prices continue to be susceptible to the impact of the global prices of petroleum products and food, which will remain relatively stable according to the World Bank’s forecast. The government expects inflation to accelerate to 7.5% by the end of 2014. Bank lending growth was accompanied by a rise in the share of outstanding loans to 8.6% in 2013 from 6.4% in 2012, and there was also moderate growth in the deposit base. Supervisory authorities must therefore monitor more closely developments in order to prevent the emergence of problems at the level of individual banks.
Tajikistan

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

![GDP and output chart]

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 – Q1 2008 = 100)

![Foreign trade chart]

Source: national agencies

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

![Government sector chart]

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)

![Monetary sector chart]

Source: national agencies, IMF (IFS)

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

![Economic growth chart]

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)

![Savings and investments chart]

Source: estimates and forecasts by national agencies, the IMF and the EBD
Turkmenistan’s annual GDP growth accelerated to 10.8% in Q4 2013. As a result, the country had a 10.2% GDP growth rate in 2013 compared with 11.1% in 2012. The main factor of growth was the government’s economic policy. This was amid: deterioration in the external environment; a slowdown in economic growth in Russia and China; a weak recovery in Europe; and a fall in prices of natural gas. As a result, domestic investment and consumer demand kept robust. Capital investment grew by 7.1% in 2013 to 46.4% of GDP, with the industrial sector accounting for 63.2% of the total volume. Average wages rose by 11%.

A high growth rate in the non-hydrocarbon sector compensated for a more moderate rate in the fuel and energy industry. The construction sector, whose output increased by 20.1%, and allied industries, which together accounted for 15% of GDP, were given a significant boost: cement output increased by 93.3%; bitumen output by 27.7%; and that of non-metallic building materials by 23%. Many of the industrial sector’s branches prioritized by the government’s 2012-2016 social and economic development program, which accounted for about 50% of the country’s GDP, showed high growth rates. The transport sector increased by 7.8%, while retail trade increased by 19.1%. Amid a growth of 4.2% in the power generation industry, there were more modest rates in gas production (0.1%), oil production (2.1%), oil refining (1.6%), gasoline output (0.1%) and the output of liquefied hydrocarbon gas (2.0%).

The negative impact of the unfavorable external environment affected not only the real sector of the economy but also export revenue. This was despite: the government’s efforts aimed at establishing new transport routes for exports of natural gas to Iran and China, which accounts for 63% of exports; and increasing gas production and oil refining. 90.1% of the revenue comes from exports of gas, oil and petroleum products, which decreased by 5.7% in 2013; while imports increased by 13.8%, and fiscal revenue fell by 2.5%. Nonetheless, the surplus in the external trade balance remained significant (about $5.3 billion), and the volume of fiscal revenue in 2013 exceeded the target by 30.9%. Public expenditure totaled 98.7% of the projected amount, and the state budget should also have had a surplus. Moreover, the accumulated buffer reserves continue to ensure both fiscal and external sustainability. The inflation rate is estimated at 6% for 2013.

Given the available gas reserves, the medium-term outlook for the Turkmen economy - from the standpoint of GDP growth, fiscal revenue, and external sustainability - remains favorable in the context of the existing model of economic development. From the standpoint of long-term development, the leadership of the country faces many complicated challenges. The government tries to respond to them in its policies. It should be noted that officials have started to talk about the private sector’s role in the economy. In particular, the government has set itself the task of increasing the private sector’s share in the country’s non-hydrocarbon GDP to 70% in 2020. In addition, the government: has a privatization program for the period between 2013 and 2016; makes an effort to develop the non-banking component of the financial system; intends to reform the monetary and lending systems; and has reduced subsides, including gas subsidies. Moreover, the leadership of the country has expressed an interest in joining the World Trade Organization.
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: Continued high GDP growth rate**

Uzbekistan’s annual GDP growth slowed to 7.7% in Q4 2013. This was attributable to lower growth rates in the industrial sector (7% year-on-year) and the construction sector (15.0%), which were partially compensated for by acceleration in growth in the agricultural sector (6.8%) and trade (15.5%). The country still had a high GDP growth rate of 8.0% in 2013, compared with 8.2% in 2012. This was due to: robust domestic demand stimulated by the government’s expansive policy; bank lending; and remittances from abroad ($6.6 billion in 2013).

Investment increased by 9.8% in 2013; wages at government-funded organizations, pensions, student allowances and social benefits rose by 20.8%; and the population’s real income grew by 16%.

The rise in export revenues slowed to 10.9% in 2013. This was due to a less favorable external environment for Uzbekistan in Q4 2013 with a sharp fall in gold prices and a moderate decrease in cotton prices. The slowdown was accompanied by an acceleration in the rise in imports (7.7% in 2013), which took place despite existing restrictions. However, the country had a significant external trade surplus in 2013 of $1,288.4 million, due to the government’s active support of the export potential and import substitution policy. The probability of Uzbekistan continuing to have a surplus in the balance of payments seems high considering: the continued high volumes of remittances from abroad; the current exchange rate policy; and the rise in foreign investment, which totaled more than $3 billion, with foreign direct investment making up more than 72%.

The increased export revenues and the high GDP growth rate led to a state budget surplus of 0.3% of GDP. The official inflation rate of 6.8% was within the target band of between 7 and 9%, but the real inflation rate in 2013 was apparently higher: international organizations estimate it at 11%. This was due to: an increase in government-regulated prices and rates; expansive fiscal and monetary policies; and the depreciation of the national currency against the US dollar.

The short-term outlook for the economy of Uzbekistan remains rather favorable. An updated consensus forecast predicts a GDP growth rate of 7% for 2014, whereas the government expects a growth of 8.1%. The government projects that the state budget will have a deficit equal to 1% of GDP, as public expenditure is expected to rise significantly amid a slight reduction in the tax burden: a new budgetary code was put in force on January 1, 2014 by way of experiment. The state of the balance of payments should remain stable as a result of: the existence of administrative control over import operations; and the prioritized stimulation of exports and import substitution efforts, including through the attraction of foreign investment.

The major risks faced by the economy of Uzbekistan are connected with the administrative nature of the existing model of economic development. It is characterized by the large role of the public sector, and by severe restrictions on both foreign-currency transactions and foreign and domestic trade. This model is not sustainable in the long run. The government has taken measures to develop the business environment, small and medium-sized enterprises and the private sector in general. They remain insufficient.

Annual GDP growth slows to 7.7% in Q4 2013 but still has a high rate at 8.0% in 2013 compared with 8.2% in 2012

The trade surplus remains significant, amounting to $1,288.4 million due to the government’s active support of the export potential and import substitution policy

The increased export revenues and the high GDP growth rate lead to a state budget surplus amounting to 0.3% of GDP

An updated consensus forecast predicts a GDP growth rate of 7% for 2014, whereas the government expects a growth of 8.1%.

Major risks are connected with the administrative nature of the existing model of development
Uzbekistan

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

![GDP output change by sectors](image)

Source: national agencies

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

![Foreign trade](image)

Source: national agencies, ADB

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

![Government sector](image)

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)

![Monetary sector](image)

Source: national agencies and the ADB

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

![Economic growth](image)

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)

![Savings and investments](image)

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

Ukraine: Upturn in economic activity in Q4 2013, further fall in international reserves

Ukraine’s GDP did not change in real terms in 2013. The national economy, which had negative annual growth rates from Q3 2012 to Q3 2013, grew by 3.3% year-on-year in Q4 2013. This upturn was largely attributable to an increase in agricultural output: the value added produced by that sector of the economy increased by 38.2% year-on-year in Q4 2013 and by 13.8% in 2013. In addition, the extractive sector showed a year-on-year growth of 3.5% in Q4 2013. This sector had returned to a positive annual growth rate in Q3 2014. In 2013 the extractive sector’s value added increased by only 0.7%. The manufacturing and the construction sector continued to have negative growth rates with decreases of 8.9% and 7.7% in 2013, respectively. The financial sector’s activity fell by 6.2% in 2013, although the sector had an annual growth of 12.2% in Q4 2013. Household consumption increased by 7.8% in 2013, while fixed capital investment fell by 6.6% and exports and imports decreased by 8.8% and 5.9% in real terms, respectively.

The country’s balance of payments deteriorated in 2013 amid growing imports of energy resources in Q3-Q4 2013. In particular, the current account deficit rose from 8.4% of GDP in 2012 to 9.3% of GDP in 2013. Under the conditions of the de facto fixed exchange rate of the Ukrainian currency until December 2013, the deterioration in the balance of payments was accompanied by a fall in the National Bank’s international reserves. They decreased to $20.4 billion (equivalent to 2.4 months of imports) by the end of 2013, from $24.5 billion (equivalent to 2.8 months of imports) at the beginning of 2013.

The state of the public finances deteriorated as well. In 2013 the state budget had a deficit equal to 4.4% of GDP, up from 3.8% in 2012. Public revenue fell to 23.3% of GDP from 24.5% of GDP in 2012. The largest decrease as a percentage of GDP occurred in Q4 2013. The fall in public expenditure was more moderate, decreasing to 27.7% of GDP from 28% of GDP in 2012. The loosening of the National Bank’s monetary policy in the summer included a reduction in the refinance rate from 7.5% to 6.5%. This led to acceleration in money growth - the growth rate of M2 rose to 17.5% from 13.1% in 2012; and to the return of positive inflation. The consumer price index rose by 0.5% in 2013, whereas it had fallen by 0.2% in 2012. Concurrently, the National Bank did not abandon the rigid peg of the hryvnia to the US dollar. The national currency’s rate fluctuated between 8.02 and 8.16 for one dollar throughout 2013.

Bank lending growth accelerated considerably, especially in Q4 2013, to 17.7% in 2013 compared with 1.7% in 2012. The share of problem loans in the total volume decreased amid a rise in lending activity. They shrank from 16.5% at the beginning of 2013 to 12.9% at the end. The capital adequacy ratio rose to 18.26% from 18.06% at the beginning of 2013.
Outlook
Ukraine: Severe macroeconomic correction amid political instability

The country’s macroeconomic policy underwent significant changes in Q1 2014. On 6 February 2014, the National Bank gave up its struggle for an almost fixed exchange rate of the hryvnia against the US dollar. As a result, the national currency depreciated by slightly less than 60% against the dollar and the euro and by 50% against the Russian ruble by the middle of April. The National Bank’s international reserves fell to $15.1 billion as of the end of March to become equal to less than two months worth imports of goods and services. Despite a marked year-on-year decrease in imports in early 2014, a simultaneous fall in exports led to a rise in the deficit in foreign trade in goods and services to $244 million from $200 million in January 2013. One may expect a further consolidation of domestic demand throughout the remaining part of 2014. It is expected to be accompanied by a decrease in the degree of external imbalance compared with 2013. This trend will be supported by the accomplished transition to a relatively flexible exchange rate of the national currency.

Meanwhile, the country’s balance of payments may be affected by the impact of negative shocks in 2014. Firstly, the considerable depreciation of the hryvnia and the unstable political situation in the country make it more difficult for both the authorities, and companies and banks to service the external debt. Secondly, the balance of payments may suffer from: the negative effects of deterioration in the conditions of trade in energy resources with Russia; worse access to the Russian market for Ukrainian manufacturers; and a possible fall in revenue from agricultural exports in connection with difficult conditions for 2014’s crop sowing. Given these circumstances, the maintenance of an at least relatively smooth recovery in the external sustainability of the Ukrainian economy may require the participation of donors, including international organizations. The measures taken by the government to resume cooperation with the IMF represent steps in this direction.

One of the main factors that will determine economic developments throughout 2014 will be the measures taken by the government to improve the public finances. The authorities plan to keep the state budget deficit from rising above 4% of GDP by primarily reducing public spending. The achievement of this objective depends critically on the government’s ability to ensure an adequate level of tax revenue. This may be prevented by the unstable political situation in the country; especially considering the fact that it was high by historical standards in 2013.

Amid the upcoming consolidation of the country’s external and fiscal balances, the Ukrainian economy may experience an appreciable decline in activity in 2014. Factors that will have positive effects on economic growth, limiting the extent of the probable recession will include: a softer monetary policy than the one pursued in 2012 and in most of 2013; and a more realistic exchange rate of the hryvnia following the collapse of its peg to the dollar, which eventually became a heavy burden on the economy.

The National Bank gives up its struggle for an almost fixed exchange rate of the hryvnia against the US dollar

One may expect a further consolidation of domestic demand throughout the remaining part of 2014, which is expected to be accompanied by a decrease in the degree of external imbalance compared with 2013

The balance of payments may be affected by the impact of negative shocks in 2014

The maintenance of a smooth recovery in external sustainability may require the participation of donors

The government plans to keep the state budget deficit from rising above 4% of GDP

The national economy may experience an appreciable decline in activity in 2014
Figure 12.1. **GDP and output**: GDP growth and output change by sectors, (in %, year-on-year)

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 – Q1 2008 = 100)

Source: national agencies

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

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)

Source: national agencies

Figure 12.5. **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 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)

Source: estimates and forecasts by national agencies and the IMF