

## **Economic trends in the CIS and South-Eastern Europe are broadly positive: UN report**

### ***CIS economies remain commodity-dependent, while South-Eastern Europe must overcome structural problems***

Moscow, 21 January – The global economy will continue to grow at a steady pace of around 3 per cent in 2019 and 2020 amid signs that global growth has peaked. However, a worrisome combination of development challenges could further undermine growth, according to the United Nations World Economic Situation and Prospects (WESP) 2019, which was launched today.

UN Secretary-General António Guterres cautioned, “While global economic indicators remain largely favourable, they do not tell the whole story.” The World Economic Situation and Prospects 2019, he said, “raises concerns over the sustainability of global economic growth in the face of rising financial, social and environmental challenges.”

#### **Higher commodity prices and remittances drove growth in CIS in 2018**

Most economies of the Commonwealth of Independent States (CIS) saw favourable economic outcomes in 2018, with accelerating growth and slowing inflation, as external conditions were generally supportive. Commodity prices increased, including oil and other commodities, such as aluminium or cotton, which are important for non-energy-exporting CIS countries. The recovery in the Russian Federation has supported activity across the region via trade and remittance channels. However, the dynamics in the terms of trade are likely to be less favourable in 2019. The aggregate CIS growth is expected to decelerate modestly in 2019, as the strong expansion recorded by some of the smaller economies in 2018 may not be sustainable, fiscal policies are growth-neutral at best and monetary tightening is expected in several countries. Aggregate GDP of the CIS and Georgia is expected to increase by 2.0 per cent in 2019 and 2.5 per cent in 2020.

The Russian economy is expected to remain on a low-growth trajectory. Constraints to growth prospects include insufficient business lending; weak investment; banking sector vulnerabilities and moderately conservative fiscal policy; and prioritizing the build-up of protective buffers. Lifting the value-added tax (VAT) rate in January 2019 may add to inflationary pressures, curb consumer spending, and prevent monetary easing. International sanctions remain a source of uncertainty, deterring investment and raising financing costs.

Other energy-exporting economies of the CIS should maintain a positive growth trajectory in 2019-20, thanks to prudent macroeconomic policies. Among the CIS energy importers, the economy of Ukraine has expanded by about 3.2 per cent in 2018 and this trend is likely to continue. However, further progress is hampered by mass emigration. In Central Asia, growth was robust in Tajikistan, thanks to larger aluminium and gold exports and Chinese investment in metals processing. A series of economic reforms in Uzbekistan attracted foreign investment and spurred interregional trade. Growth in these countries may slightly decelerate in 2019 if higher

inflation erodes purchasing power. Looking forward, the Central Asian region should benefit from the implementation of the Belt and Road Initiative, through upgrades of the railway, road and energy infrastructure, improved connections with China and Europe, and better market access.

### **In South-Eastern Europe, positive economic trends are set to continue**

South-Eastern Europe saw faster economic growth in 2018, reflecting robust domestic demand - both consumption and investment - in the context of a favourable external environment. Serbia, the largest economy, bounced back strongly bolstered by the agricultural and construction sectors, amid double-digit growth in investment. Solid economic performance was also recorded in Albania, as exports and domestic demand remained strong and investment was boosted by foreign interest in the energy sector. The region's aggregate GDP is expected to expand by 3.7 per cent in both 2019 and 2020, supported mostly by investment and exports. Stronger growth is needed to address the region's multiple problems, including the need for reindustrialization. Longer-term capacity expansion is, however, constrained by structural unemployment, still inadequate infrastructure, dependence on foreign financing, and a challenging business environment.

### **Risks and policy challenges**

The world economy is faced with a confluence of risks with the potential to severely disrupt economic activity and inflict significant damage on longer-term development prospects. These risks include waning support for multilateral approaches; the escalation of trade policy disputes; financial instabilities linked to elevated levels of debt; and rising climate risks, as the world experiences an increasing number of extreme weather events.

The CIS region—the Russian Federation in particular—continues to show a lack of economic dynamism, since structural impediments to growth remain despite improved macroeconomic frameworks. In the presence of adverse demographic trends in the European part of the CIS, increased efforts are needed to enhance productivity growth. A sudden downturn in commodity prices remains the main downside risk for the region, given the slow progress in output diversification. Other risks include banking sector weaknesses, which have not been eliminated despite numerous bailout efforts, geopolitical conflicts, and tightening of access to external funding and debt refinancing.

In South-Eastern Europe, the prospect of EU accession remains an important macroeconomic policy anchor. The pre-accession assistance provided by the EU has a tangible developmental impact. However, Brexit may lead to about a 10–15 per cent decline in funding available to EU accession countries. Given the importance of trade, investment and remittance links with the EU, any deterioration in the economic performance of the EU will have negative consequences for the region. High levels of outward migration and increasing dependency ratios are becoming policy challenges.

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