The Economies in Transition

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The Economies in Transition
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EiT & NMS in the global economy

![Graph showing the share of world GDP PPP for different regions over two years (1998 and 2012). The regions include Russia, EECCA-11, SEE-6, NMS, and Turkey.](image-url)
Over the long-term there has been no convergence in the per capita income of FSU (USSR) with the USA or Western Europe.
Per capita income of EECCA and SEE relative to the world and eurozone
Convergence of per capita incomes over the last decade
The EiT medium-run growth has slowed more than in either the advanced or emerging economies.
Real GDP growth in the ECE sub-regions
Growth in the EiT, 2011-13

Note: Kyrgyzstan 2012 GDP stagnation due to strike at Kumtor, the world’s largest gold mine.
## Real growth forecast for Russia

<table>
<thead>
<tr>
<th>Source</th>
<th>2012</th>
<th>2013</th>
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<tbody>
<tr>
<td>LINK, Oct</td>
<td>3.7</td>
<td>3.6</td>
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<tr>
<td>IMF, Oct</td>
<td>3.7</td>
<td>3.8</td>
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<tr>
<td>EIU, Oct</td>
<td>3.8</td>
<td>3.9</td>
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<tr>
<td>UNCTAD, Sept</td>
<td>4.7</td>
<td></td>
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<tr>
<td>Consensus Econ, August</td>
<td>3.7</td>
<td>3.7</td>
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<tr>
<td>UBS, July</td>
<td>3.8</td>
<td>3.7</td>
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<tr>
<td>WESP, July</td>
<td>4.4</td>
<td>4.4</td>
</tr>
<tr>
<td>EBRD, July</td>
<td>3.1</td>
<td>3.3</td>
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<tr>
<td>Global Insight, July</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Rosbank, July</td>
<td>4.0</td>
<td>3.6</td>
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<tr>
<td>OECD, June</td>
<td>4.5</td>
<td>4.1</td>
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</tbody>
</table>
Leading indicators have recently turned down for Eurozone and especially Russia.
NMS leading indicators down slightly
Unemployment in SEE; largely structural

ECE estimates, cross-country comparisons should not be made as no common methodology
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Russian unemployment: small increase during crisis and now full employment

Source: Data from Russian Central Bank
Medium-term inflation trends

CPI in 2012, 2005=100

- CIS
- SEE
- NMS
- ADV

Countries:
- Belarus
- Uzbekistan
- Ukraine
- Serbia
- Tajikistan
- Kyrgyz Republic
- Kazakhstan
- Turkmenistan
- Azerbaijan
- Turkey
- Moldova
- Georgia
- Latvia
- Armenia
- Romania
- Bulgaria
- Hungary
- Lithuania
- Estonia
- Slovak Republic
- Poland
- Macedonia, FYR of
- Croatia
- Croatia
- Albania
- Slovenia
- United States
- Euro Area-17
Poor wheat harvest in the CIS for 2012-13 (Rainy spring and summer drought)
Corn production was hit hard by the summer drought.
Currency situation in Europe
CIS mostly managed floaters

- Blue: Eurozone members
- Green: EU members that must ultimately join the euro
- Red: EU members that do not have to join the euro
- Light blue: Non EU members that use the euro
- Light grey: Fixed exchange rate to euro
Exchange rates versus the US$
Declines since 2008 but general stability since 2009
Russian ruble has been appreciating in real terms.
Exports from CIS still below peak in 2008Q3

Source: Data from WTO
Export indexes, in about half EiT exports still below 2008Q3

Source: Data from WTO
SEE & NMS are the most exposed regions in the world to a deteriorating eurozone through several transmission mechanisms:

- Reduced Exports & Remittances: All of SEE, NMS
  - Albania
  - Bosnia & Herzegovina
  - Croatia
  - Hungary
  - Macedonia
  - Poland
  - Romania
  - Serbia
  - Slovakia
  - NOTE: Russia less vulnerable than in 2008

- Impairment of Financial System: Most of SEE, NMS
  - Armenia
  - Azerbaijan
  - Belarus
  - Georgia
  - Moldova
  - Russia
  - Ukraine

- Reduced Global Oil Prices: Most of CIS
  - Russia
  - Kazakhstan
  - Azerbaijan
Reduced exports to the EU would be a major transmission mechanism.
A 3% decline in EU exports would create a 1% decline in SEE growth by this channel alone.
Remittances remain significant for many EiT; SEE about 5-10%, CIS varies considerably.
Bank-assets owned by eurozone banks (mainly Italy & Austria)
Note: Baltic banks largely owned by Sweden & Norway
Russia’s vulnerability to a eurozone banking crisis has been reduced from 2008 as it’s banking sector is now a net creditor.
Russian remittance outflows closely correlated with the price of oil

Source: World Bank, Migration and Development Brief 13, November 8, 2010
Economic downturn in Russia reduced remittance outflows to CIS-11 significantly.
Current accounts remain somewhat problematic in SEE

IMF projections for 2013
2012 Current accounts in global perspective
FDI inflows are still depressed in SEE and Russia, but not EECCA-11 (CIS-11), longer-term FDI is significant.

Eit receive about 6% of world FDI.

Will WTO accession boost FDI to Russia?

<table>
<thead>
<tr>
<th></th>
<th>FDI Inward Stock</th>
<th>FDI Inflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEE-6</td>
<td>5.7</td>
<td>75.7</td>
</tr>
<tr>
<td>Russia</td>
<td>32.2</td>
<td>457.5</td>
</tr>
<tr>
<td>EECCA-11</td>
<td>23.0</td>
<td>224.1</td>
</tr>
<tr>
<td>EiT</td>
<td>60.8</td>
<td>757.3</td>
</tr>
<tr>
<td>NMS</td>
<td>103.1</td>
<td>634.4</td>
</tr>
<tr>
<td>Turkey</td>
<td>19.2</td>
<td>140.3</td>
</tr>
<tr>
<td>ECA</td>
<td>183.2</td>
<td>1,532.0</td>
</tr>
</tbody>
</table>
Public debt in the EiT is generally low

Source: UNCTAD TDR, 2012
Government gross debt to GDP

Note: for most net debt=gross debt or net is not provided; a * gives the amount net is less than gross as % of GDP
Sovereign yields, some uptick over the last year

Source: IMF Global Financial Stability Reports
Saving gap in Central & Southeast Europe
Excessive savings in the CIS
Counter-cyclicality of monetary and fiscal policy in ECE, 2000-2011

Macro-policy in Russia like most emerging economies is weakly countercyclical

Source: Derived from data in Elod Takats, BIS Quarterly Review, June 2012
Russia’s counter-cyclical government finances

Source: Chart from Russian LINK Report, Abramova, Apokin, Belousov, Mikhaylenko
Russia’s pro-cyclical monetary policy
Dollarization of Russian Banking Deposits

Data from Russian Central Bank
There is no population growth in all three regions; within ECCAA, growth in central Asia is negated by losses in Europe.
Russia’s coming pension crisis

IMF staff projections
Cumulative percent of workforce retired by a given age

Source: UNECE 2012 MDG Report
Housing Price Trends in EiT & NMS

![Graph showing housing price trends in EiT & NMS countries, with countries including Bulgaria, Czech Rep., Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Russia, Slovakia, Slovenia, Ukraine. The graph compares pre-crisis to trough and last 12 months to mid 2012 price changes.]
Housing construction in Russia

- Low-rise houses
- Other housing construction

Million m²
Trade policy in SEE increasingly structured under the CEFTA
PTAs in the CIS

Note: 9 EiT are not WTO members