



Commonwealth of Independent States and South-Eastern Europe: return to growth in 2021 accompanied by surging inflation

Lifting of restrictions, higher commodity prices and better external environment underpin the economic rebound in the CIS and South-Eastern Europe

Moscow, 19 January – Economic growth in the CIS area and South-Eastern Europe resumed in 2021, following the contraction in 2020, as mobility and activity restrictions were eased or removed, and a more favourable external environment boosted exports and remittances.

The report notes that the global economic recovery is facing significant headwinds amid new waves of COVID-19 infections, persistent labour market challenges, lingering supply-chain challenges and rising inflationary pressures. After expanding by 5.5 per cent in 2021, the global output is projected to grow by only 4.0 per cent in 2022 and 3.5 per cent in 2023.

“Without a coordinated and sustained global approach to contain COVID-19 that includes universal access to vaccines, the pandemic will continue to pose the greatest risk to an inclusive and sustainable recovery of the world economy,” noted Liu Zhenmin, Under-Secretary-General of the United Nations Department of Economic and Social Affairs.

The Commonwealth of Independent States and Georgia: lifting of restrictions and higher commodity prices underpin the economic rebound

The CIS area returned to growth in 2021 amid reopening of the economies, and also thanks to a more favourable external environment, including sharp rises in commodity prices that boosted exports from the region. The aggregate GDP of the CIS and Georgia is expected to increase by 4.3 per cent in 2021 and 3.2 per cent in 2022 after a 2.6 per cent contraction in 2020.

Services, including tourism, also bounced back, while construction activities benefited from support programs in the Russian Federation and higher remittances to the Central Asian countries. Improved terms of trade for energy-exporters have also improved their current account positions. In energy-importers, remittance flows and tourism revenues mitigated current account pressures.



An upsurge in inflation is eroding living standards

Most of the CIS area experienced a strong upsurge in inflation in 2021, resulting from a combination of supply-chain disruptions, higher food and energy prices, strengthened demand and, in some cases, past exchange rate depreciation, along with elevated inflationary expectations. The governments in the region responded with various measures, introducing price controls, exports quotas and implementing agreements with producers to limit price increases. Monetary authorities have also reacted to the spike in inflationary pressure by tightening policies. Interest rate increases in 2021 have been substantial in virtually all countries of the region. Despite tighter monetary policy, retail lending, in particular mortgage lending, has grown rapidly, supporting further the recovery of demand. In some countries, the crisis also left the legacy of public debt.

Outlook remains subject to significant downside risks

The economic outlook for the region faces multiple downside risks. Volatile commodity prices will remain a major determinant of economic performance. Slow progress in vaccination campaigns may lead to new waves of infections. Geopolitical tensions, including internal political tensions, could mount, undermining business and consumer confidence. The banking sector may come under stress in some countries as temporary forbearance measures are withdrawn, and the share of non-performing loans rise.

South-Eastern Europe: growth returns to the region

Aggregate GDP of South-Eastern Europe is projected to increase by 6.2 per cent in 2021 and further 4.0 per cent in 2022 after contracting by 3.1 per cent in 2020. The improvement of the external environment was a major driver of the recovery in these small economies with strong links with the EU. In Serbia, the largest economy in the region, the GDP is expected to expand by over 6 per cent in 2021, as private investment and exports soared. Consumer confidence in South-Eastern Europe has markedly improved, and macroeconomic policies have been generally supportive. In late 2021, however, some countries in the region experienced an energy supply crisis. The pace of economic expansion may slow somewhat in 2022, as fiscal support is expected to recede to stabilize public debt ratios.

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