

Thirty years of economic transition in the former Soviet Union: Macroeconomic dimension

Marek Dabrowski ^{a,b,c,*}

^a *Bruegel, Brussels, Belgium*

^b *CASE—Center for Social and Economic Research, Warsaw, Poland*

^c *HSE University, Moscow, Russia*

Abstract

The paper contains a retrospective analysis of macroeconomic policy and reforms in the countries of the former Soviet Union (FSU) from 1992 to 2021, after obtaining political and economic independence in 1991. Special attention is given to problems of macroeconomic stabilization and economic growth. As a result of structural distortions inherited from the Soviet economy and the slow pace of economic and institutional reforms, the FSU countries suffered from a long and deep output decline in the 1990s. Their post-transition growth recovery in the 2000s did not last long. Furthermore, they remain vulnerable to both domestic and external economic shocks. Given the limited predictability of post-COVID global economic trends and the damaging consequences of the war in Ukraine, this vulnerability will likely continue in the next couple of years.

Keywords: economic transition, macroeconomic stabilization, economic growth, inflation, exchange rate, balance of payments, public debt, financial crisis.

JEL classification: E31, E52, E58, E62, F62, H62, H63, P22, P24, P27.

1. Introduction

December 2021 marked 30 years passed since the dissolution of the Union of Soviet Socialist Republics (USSR). This period turned out to be historically difficult for the 15 former Soviet republics and now independent states, both politically and economically. They were forced to rebuild their statehood (except for Russia, which largely inherited the state apparatus of the former USSR) and overcome the political and administrative legacy of the totalitarian communist regime. The tasks turned out to be no less complicated in the economic field: replacing the command system of central planning with a market system and eliminating

* E-mail address: marek.dabrowski@case-research.eu

deep macroeconomic imbalances produced by the former. From a 30-year perspective, the results of the post-communist transformation have been mixed, different in political and economic spheres, and varying between individual countries.

In the political sphere, only the Baltic countries managed to build a full-fledged system of liberal democracy. In the rest of the former Soviet Union (FSU), after initial progress in expanding civil and political freedoms and democratic institutions, there was a gradual rollback towards autocracy. An essential difference was that nationalism replaced the former Marxism-Leninism ideology. According to Freedom House's Global Freedom Scores 2022,¹ only Armenia, Georgia, Moldova, and Ukraine are considered Partly Free, while the remaining eight countries are Not Free. Moreover, state-building in several FSU countries (Tajikistan, the countries of the South Caucasus, Moldova, and, more recently also, Russia and Ukraine) was not free from internal and interstate armed conflicts, most of which remain unresolved to this day. All these conflicts have hurt the course of both political and economic transformation.

In the economic sphere, the transformation was, on average, more successful than in the political one and achieved more sustainable results. Despite the slow pace and inconsistent implementation of economic reforms in the FSU (except for the Baltic countries, which carried out comprehensive and rapid reforms already in the early 1990s), by the mid-2000s, most countries (except for Turkmenistan, Uzbekistan, and Belarus) managed to build the foundations of a market economy based on private property. Then economic reforms slowed down, and in some countries even were reversed. In the 2010s, partial reforms were carried out only in Ukraine (starting from 2014) and Uzbekistan (after 2016). Most FSU countries managed to move from a planned to a market economy model, albeit highly imperfect. It can be characterized as distorted capitalism with many structural and institutional distortions determined by the dominance of autocratic regimes (Dabrowski, 2020, 2021a).

In the remainder of this paper, we will focus on the macroeconomic dimension of the transformation process—the struggle for macroeconomic stabilization and economic growth. Political, microeconomic and institutional changes and geopolitics will be considered to the extent that they matter for macroeconomic processes.

In this paper, we understand macroeconomic stabilization as a policy aimed at achieving price stability, fiscal and balance-of-payments equilibria, and stability of the banking (financial) system. To ensure a cross-country comparability, we use the International Monetary Fund (IMF) and World Bank (WB) statistics. When they are not available, we rely on statistics of national statistical agencies, central banks (CBs), ministries of finance, and data and estimates presented in the economic literature. However, one should remember that the statistical data for the first years of transition continue to be far from methodological perfection. They are often absent or incomplete. In addition, the quality of statistics varies across countries. It is the lowest in the countries that have been late in economic transition.

This paper is built chronologically. Section 2 contains a brief description of the Soviet economic legacy, without which it is difficult to understand the scale and complexity of the economic challenges facing the FSU countries in the 1990s and the agenda of necessary reforms. Section 3 is devoted to the first stage of economic

¹ <https://freedomhouse.org/countries/freedom-world/scores>

transition and macroeconomic stabilization—from the dissolution of the USSR (the end of 1991) to the 1998–1999 macroeconomic and financial crises. In Section 4, we analyze the period of recovery and economic boom in the early and mid-2000s, which ended with the global financial crisis (GFC) of 2008–2009. Section 5 describes the difficult period of the 2010s: first, dealing with the consequences of the GFC, and then the next crisis caused by the sharp decline in world prices for oil and other commodities in 2014–2015, and the intensification of political and military conflicts in the FSU. Section 6 analyzes the consequences of another global crisis caused by the COVID-19 pandemic, which has not yet ended completely. It also discusses the expected impact of the war in Ukraine. Section 7 summarizes our analysis and attempts to identify future macroeconomic challenges.

2. The Soviet legacy

The Soviet economic legacy, especially the forced over-industrialization and command system of central planning, launched in the late 1920s and, with partial modifications in 1950s and 1960s, continuing until the early 1990s, led to profound structural distortions and limited international competitiveness of the economy developed in isolation from world markets. The production of natural resources was the only sector capable of competing in these markets. Since the 1970s, this has been mainly the oil and natural gas industry (Gaidar, 2007). The average annual growth rate of the Soviet economy declined in the subsequent periods of five-year plans and reached zero or even a negative rate in the late 1980s (Table 1).

In addition to declining growth rates, structural distortions, and the absence of market institutions, macroeconomic disequilibrium was an acute legacy of the Soviet era. The chronic imbalance between demand and supply and a rigid administrative pricing system produced a physical shortage of goods, i.e., the repressed inflation. Using Kornai's (1980) terminology, the “shortage economy” also had other sources, namely the lack of interest of state-owned and collective enterprises in maximizing profits and their involvement in constant bargaining with higher authorities for reducing planned targets and increasing available resources. External disequilibria took the form of persistent tensions in the balance of payments; they led to strict rationing of imports.

Macroeconomic imbalances, especially in the domestic market, were a chronic problem of all centrally planned economies. However, the USSR differed for the worse from such communist countries as Czechoslovakia, the GDR, or Hungary. In the second half of the 1980s and early 1990s, the situation deteriorated sharply due to the coincidence of several negative factors.

Table 1

Average annual growth rates of the Soviet economy, 1970–1989.

Indicator	1970– 1975	1975– 1980	1980– 1985	1986	1987	1988	1989 ^{a)}
GNP	3.1	2.1	1.9	4.0	1.3	1.5	–1.0
Industry	5.6	2.4	2.0	2.7	2.9	2.4	
Agriculture	–2.3	0.2	1.2	10.3	–4.0	–3.2	
Services	3.4	2.7	2.2	2.3	3.2	3.5	

^{a)} Preliminary assessment.

Source: Ofer (1990).

1. The period after 1985 saw a sharp drop in world oil prices.
2. The attempt to combat drunkenness—the anti-alcohol campaign of 1985—damaged a reliable and easily collected source of fiscal revenue and deepened the imbalance of the USSR budget.
3. The series of catastrophes, such as the accident at the Chernobyl nuclear power plant (26 April 1986) and the earthquake in Armenia (Spitak, 7 December 1988), caused additional unplanned budget spending.
4. The substantial increase in social spending resulted from the search for social support and legitimacy by the country's political leadership, in the context of partial political liberalization (*glasnost*) and unwillingness to continue using coercive tools of administrative and political control.
5. The same political trends, in the absence of a well-elaborated and coherent concept of economic reforms, led to the erosion of the central planning system and associated discipline of command management. The political unwillingness/inability to quickly replace the collapsing command system with a market one led to a dangerous systemic vacuum—unmanageability of the country's economy. The partial reforms of the *perestroika* era (e.g., the laws on state enterprise of 1987, on cooperation, and leasing, both of 1988) could not fill this vacuum (Ofer, 1990; Mau, 1996). They only accelerated the decomposition of the old system.
6. The public discussion of economic reforms, including price liberalization, increased inflationary expectations. At the same time, the country's leadership was unwilling to accept this politically unpopular decision.
7. The political emancipation of the Soviet republics that began in 1990 quickly led to the loss of control of the Union's government and the USSR State Bank (*Gosbank*) over fiscal and monetary policies. As a result, in 1991, the consolidated budget deficit of the USSR and the Russian Federation reached 31% of GDP (IMF, 1992). It was fully funded by money emissions (Gaidar, 2007).

The rapidly growing fiscal and current account deficits were first compensated by external borrowing, which was possible thanks to political rapprochement in relations with the United States and its allies. However, in 1990–1991, this source became exhausted. On the eve of the systemic transformation, the USSR and its legal successor, the Russian Federation, became a virtual bankrupt, accumulating a sizeable external debt with extremely scarce international reserves (Gaidar, 2007; Christensen, 1992).

The political confrontation between the USSR leadership and the democratically elected leadership of the Russian Federation turned out to be incredibly destructive for macroeconomic policy. As a result, the USSR's economic and monetary disintegration began long before its formal dissolution (Dabrowski, 1995).

3. The painful transformation of the 1990s

Even though the process of disintegration of the single rouble zone began long before the formal collapse of the USSR (in 1990—see Section 2), it lasted until the second half of 1993, when eventually, all FSU countries (except Tajikistan, which did so in May 1995) introduced their national currencies (Table 2). The interim period, when the FSU CBs, controlled by the respective executive and legislative bodies of newly independent states, were conducting their national

Table 2

Timetable of the introduction of the new currencies by FSU countries, 1992–1995.

Country	Date of the complete separation from the rouble zone	Name of a currency unit	Remarks
Estonia	22/06/1992	Kroon	Currency board, with a peg to the German mark
Russia	01/07/1992		Introduction of daily balancing of correspondent accounts of the FSU countries in the Bank of Russia. It meant the end of the single currency (Soviet rouble) in non-cash transactions, although Bank of Russia technical loans to other CBs softened this decision until 1993
Latvia	20/07/1992	Lats	Latvian rouble (rublis) at the beginning, gradually replaced by lats (from March 1993) peg to SDR
Lithuania	01/10/1992	Litas	Talonas at the beginning, replaced in June 1993 by litas; currency board from April 1994, with a peg to USD
Ukraine	11/11/1992	Karbovanets	Replaced with hryvnia in September 1996
Belarus	November 1992	Belarusian rouble	The Soviet rouble was accepted until July 1993
Kyrgyzstan	15/05/1993	Som	
Russia	26/07/1993	Rouble	Termination of the circulation of Soviet banknotes in Russia and replacing them with new Russian banknotes
Georgia	02/08/1993	Coupon	Replaced with lari in October 1995
Turkmenistan	01/11/1993	Manat	
Kazakhstan	15/11/1993	Tenge	
Uzbekistan	16/11/1993	Sum	
Armenia	22/11/1993	Dram	
Moldova	29/11/1993	Leu	Earlier, in July 1993, Moldovan coupons became the <i>de facto</i> national currency
Azerbaijan	11/12/1993	Manat	
Tajikistan	May 1995	Tajik rouble	Replaced with somoni in October 2000

Sources: Odling-Smee and Pastor (2001, p. 10, Table 1); author's data.

monetary policies within the single Soviet rouble zone, deepened monetary anarchy and accelerated inflation² (Dabrowski, 1995).

Failure to dissolve the Soviet rouble zone in a timely and orderly manner was not the only obstacle to macroeconomic stabilization in the FSU. Years of administrative pricing and non-market allocation of resources, and macroeconomic imbalances of the *perestroika* era led to the accumulation of a sizeable monetary overhang (Cottarelli and Blejer, 1991). This overhang was unfrozen as a result of price liberalization in January 1992. The latter could not be further postponed because of the physical shortage of goods and the disastrous budgetary consequences. It resulted in a rapid increase in wholesale and retail prices by several hundred percent in 1992 (Table 3). The price adjustment could have a one-off

² The experience of monetary disintegration of the former USSR is not unique. One can refer to the experience of the disintegration of the Austro-Hungarian empire after World War I (Spencer and Garber, 1992) or the former Yugoslavia in the early 1990s (Rostowski, 1998, pp. 87–121). Both ended in a very high inflation or hyperinflation in the successor countries. Disintegration of the former Czechoslovakia in 1992–1993 turned out to be a positive exception: the split of a joint currency area took place in an agreed and well-organized way.

character under a tight monetary policy and the control of wage growth in enterprises (the reformist governments of Central Europe used such an instrument). However, they were absent in the FSU countries, and, in most cases, this initial price adjustment quickly transformed into a high inflationary spiral.

Apart from the competition between the FSU CBs in issuing non-cash money (in the hope that its adverse consequences will affect the neighbor, and not oneself; a typical free-rider mechanism), there were also other reasons for the expansionary monetary policy. They included budget deficits, subsidized loans (with negative real interest rates) granted in response to the pressure of agricultural and industrial lobbies, and multilateral clearing of inter-enterprise debt arrears (Rostowski, 1998, pp. 183–225), armed conflicts (see Section 1) and many others.

As a result, the disinflation process in the 1990s was slow, with numerous setbacks (see Table 3). Three countries experienced hyperinflation: Georgia, where 12-month inflation reached 50,654% in September 1994; Armenia, which hit 29,600% in May 1994; and Ukraine, with 10,155% in December 1993. In the first two cases, hyperinflation was caused by armed conflicts; in Ukraine, it was the result of macroeconomic populism (cheap loans to the agricultural sector and multilateral clearing of inter-enterprise debt arrears) and the slow pace of economic reforms (Dabrowski, 1994).

Estonia, Lithuania, and Lithuania were the first to achieve relative macroeconomic stability (see Table 3). They left the rouble zone as far back as 1992 (see Table 2), introduced national currencies, and adopted the hard peg to selected convertible currencies: Estonia to the German mark, Latvia to the IMF Special Drawing Rights (SDRs), and Lithuania to the US dollar (USD). They also balanced their budgets and launched radical microeconomic, structural, and institutional reforms. In 2004, they joined the European Union (EU), and from 2010 to 2015, they adopted the euro (EUR). They went their way, different from other FSU countries and closer to that of Central Europe. For this reason, we will not analyze them in the remaining part of this paper.

Table 3

12-month inflation in the countries of the former USSR, 1991–2001 (%).

Country	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Armenia	1241.2	10896.1	1884.5	32.1	5.8	22.0	-1.1	2.1	0.3	3.0
Azerbaijan	...	1293.8	1788.0	84.5	6.7	0.4	-7.6	-0.5	2.2	1.5
Belarus	1557.8	1994.0	1957.0	244.2	39.1	63.4	181.7	251.3	108.0	46.2
Estonia	942.2	35.7	41.6	28.8	15.0	12.5	4.5	3.8	5.0	4.2
Georgia	1178.5	7484.1	6473.0	57.4	13.7	7.2	10.6	10.8	4.6	3.4
Kazakhstan	2962.8	2169.1	1160.3	60.4	28.6	11.3	1.9	17.8	9.8	6.4
Kyrgyzstan	1257.0	766.9	95.7	32.0	34.9	14.7	18.3	39.8	9.5	3.7
Latvia	958.2	34.8	26.2	23.3	13.2	7.0	2.8	3.2	1.8	3.1
Lithuania	1162.5	188.8	45.0	35.5	13.1	8.5	2.4	0.3	1.4	2.0
Moldova	2198.4	836.0	116.0	23.8	15.1	11.1	18.4	82.7	18.5	6.4
Russia	2321.6	841.6	202.7	131.4	21.8	11.0	84.5	36.6	20.1	18.6
Tajikistan	...	7343.7	1.1	2133.3	40.5	163.6	2.7	30.1	60.6	12.7
Turkmenistan	1328.5	1261.5	445.9	21.8	19.8	16.4	7.4	12.2
Ukraine	2001.0	10155.0	401.1	181.4	39.7	10.1	20.0	20.2	23.9	6.1
Uzbekistan	910.0	884.8	1281.4	116.9	64.4	50.0	26.0	26.0	28.2	26.4

Note: Light grey background indicates cases where inflation fell below 5% per year, dark grey—below 10% per year.

Source: Dabrowski (2003, pp. 13–14).

A similar strategy for fighting inflation, based on a fixed exchange rate and tightening of monetary and fiscal policies, was chosen in 1995–1996 in the countries of the South Caucasus, giving good results (see Table 3). Exchange rate management in the form of a temporary horizontal peg, horizontal band, crawling peg, or crawling band was also used in Russia, Ukraine, Kazakhstan, and other FSU countries. However, the results were less sustainable due to fiscal imbalances (Table 4) and the slow pace of microeconomic and institutional reforms.

Unsustainable fiscal policies led to the wave of the FSU financial crises of 1998–1999. Despite the external trigger (the contagion from the Asian crises of 1997–1998, the decline in world oil prices), the financial turmoil which broke out in Russia on 17 August 1998 and then, within a few weeks and months, spread to the other FSU countries, could be characterized as a typical “first-generation” crisis (Dabrowski, 2016). Its essence was the inconsistency between a pegged exchange rate and expansionary fiscal policy.

The financial crisis of 1998–1999 resulted in a profound devaluation of the FSU currencies, except for Azerbaijan and Armenia (Fig. 1). Russia stopped servicing

Table 4

General government (GG) net lending/borrowing, 1992–1999 (% of GDP).

Country	1992	1993	1994	1995	1996	1997	1998	1999
Azerbaijan	n/a	n/a	-6.4	-1.1	-2.2	-1.0	1.6	-1.0
Georgia	n/a	n/a	n/a	-4.9	-5.9	-6.6	-4.0	-4.7
Kyrgyzstan	n/a	n/a	n/a	-13.5	-9.1	-9.3	-12.0	-13.5
Moldova	n/a	n/a	n/a	-2.6	-7.4	-7.5	-1.5	-2.6
Russia	n/a	n/a	n/a	n/a	n/a	n/a	-7.4	-3.6
Tajikistan	n/a	n/a	n/a	n/a	n/a	n/a	-4.7	-4.0
Turkmenistan	n/a	n/a	n/a	n/a	n/a	-0.1	0.6	1.4
Ukraine	n/a	n/a	n/a	-4.7	-3.1	-5.4	-2.7	5.0
Uzbekistan	7.2	-12.0	-4.5	-1.8	-1.6	-2.0	-3.0	-2.9

Note: No data available for Armenia, Belarus, and Kazakhstan.

Source: World Economic Outlook database, October 2021.

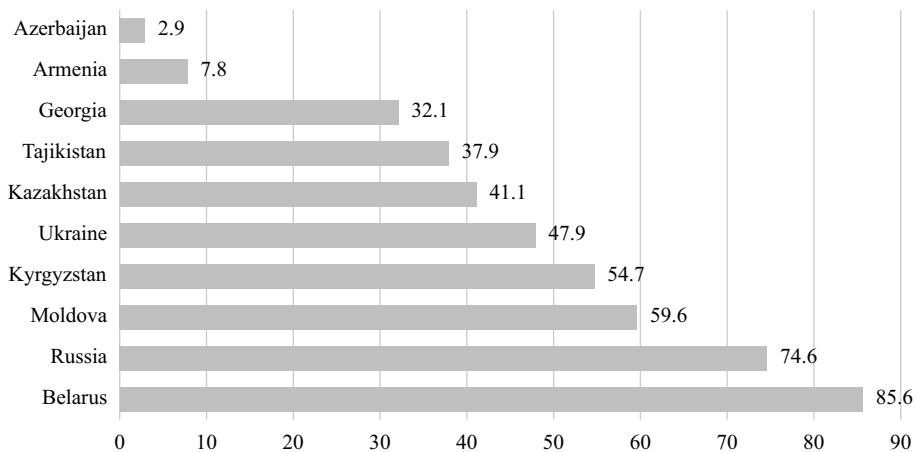


Fig. 1. Depreciation of the nominal exchange rate of FSU currencies to the USD, June 1998–June 1999 (%).

Note: No data available for Turkmenistan and Uzbekistan.

Sources: IMF International Financial Statistics; author's calculations.

its debt to private creditors, and Ukraine was forced to negotiate with creditors to restructure its public debt. Russia, Ukraine, Kazakhstan, and Kyrgyzstan suffered from the banking crisis.

The decade of the 1990s was painful for the real sector of the economy. The GDP decline that started already in 1989 (see Table 1) ended only in the late 1990s in the cases of Russia, Ukraine, and Moldova. Central Asian and South Caucasus countries were able to stop the economic downturn earlier, in the mid-1990s (Table 5). On average, the economic decline in the FSU turned out to be longer and more profound than in Central Europe (Table 6). It was the result of more difficult starting conditions, i.e., the higher level of inherited structural and institutional distortions and macroeconomic imbalances (see Section 2), as well as slow and inconsistent reforms (De Melo et al., 2001; World Bank, 2002; Havrylyshyn, 2020). The armed conflicts (see Section 1) also played a negative role in some FSU countries.

Table 5
Annual growth/decline in real GDP, 1993–1999 (%).

Country	1993	1994	1995	1996	1997	1998	1999
Armenia	-14.1	5.4	8.0	5.2	3.4	6.3	3.2
Azerbaijan	-23.1	-19.7	-13.0	2.5	8.9	6.0	11.4
Belarus	-7.6	-11.7	-11.1	2.8	11.4	8.4	3.4
Georgia	n/a	n/a	2.6	10.5	10.5	3.1	2.9
Kazakhstan	-9.2	-12.6	-8.2	0.5	1.7	-1.9	2.7
Kyrgyzstan	-13.0	-19.8	-5.4	7.1	9.9	2.1	3.7
Moldova	-1.2	-30.9	-1.4	-5.9	1.6	-6.5	-3.4
Russia	-8.7	-12.7	-4.1	-3.6	1.4	-5.3	6.4
Tajikistan	-11.1	-21.4	-12.5	-4.4	1.7	5.3	3.7
Turkmenistan	-10.0	-17.3	-7.2	-6.7	-11.3	6.7	16.5
Ukraine	-14.2	-22.9	-12.2	-10.0	-3.0	-1.9	-0.2
Uzbekistan	-2.3	-5.2	-0.9	1.7	5.2	4.3	4.3

Source: World Economic Outlook database, October 2021.

Table 6
Cumulative decline in real GDP during the transition period, 1990–2000 (%).

Region /country	Number of consecutive years of GDP decline	The cumulative decline in GDP, in %
Armenia	4.0	63.0
Azerbaijan	6.0	60.0
Belarus	6.0	35.0
Estonia	5.0	35.0
Georgia	5.0	78.0
Kazakhstan	6.0	41.0
Kyrgyzstan	6.0	50.0
Latvia	6.0	51.0
Lithuania	5.0	44.0
Moldova	7.0	63.0
Russia	7.0	40.0
Tajikistan	7.0	50.0
Turkmenistan	8.0	48.0
Ukraine	10.0	59.0
Uzbekistan	6.0	18.0
FSU (without Baltics)	6.5	50.5
Central Europe and Baltics	3.8	22.6

Note: Regional data represent simple arithmetic averages.

Source: World Bank (2002, p. 5, Table 1.1).

Table 7

Annual growth/decline in real GDP, 2000–2009 (%).

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Armenia	5.9	9.5	14.8	14.1	10.5	14.1	13.2	13.7	6.9	-14.2
Azerbaijan	6.2	6.5	9.4	10.2	9.3	28.0	34.5	25.5	10.6	9.4
Belarus	5.8	4.7	5.0	7.0	11.4	9.5	10.0	8.6	10.2	0.2
Georgia	1.8	4.8	5.5	11.1	5.8	9.6	9.4	12.6	2.4	-3.7
Kazakhstan	9.8	13.5	9.8	9.3	9.6	9.7	10.7	8.9	3.3	1.2
Kyrgyzstan	5.4	5.3	0.0	7.0	7.0	-0.2	3.1	8.5	7.6	2.9
Moldova	2.1	6.1	7.8	6.6	7.4	7.5	4.8	3.0	7.8	-6.0
Russia	10.0	5.1	4.7	7.3	7.2	6.4	8.2	8.5	5.2	-7.8
Tajikistan	8.3	10.2	9.1	10.2	10.6	6.7	7.0	7.8	7.9	3.9
Turkmenistan	18.6	20.4	15.8	17.1	14.7	13.0	11.0	11.1	14.7	6.1
Ukraine	5.9	8.8	5.3	9.5	11.8	3.1	7.6	8.2	2.2	-15.1
Uzbekistan	3.8	4.2	4.0	4.2	7.4	7.0	7.5	9.5	9.0	8.1

Source: World Economic Outlook database, October 2021.

4. The post-transition growth recovery and the global financial crisis of 2008–2009

The negative consequences of the financial crises of 1998–1999 were overcome unexpectedly quickly. Economic growth began in most FSU countries in the second half of 1999, picking up in subsequent years (Table 7). There were several reasons for such a change.

First, the 1998–1999 crises overlapped with completing the first stage of structural and institutional transformation. Despite slow and inconsistent reforms, most FSU countries managed to build the foundations of a private market economy by the early 2000s. The long output decline in the 1990s (see Section 3) left idle production capacities, including labor, machinery and equipment, and real estate, etc. Some of them could be employed quite easily and inexpensively for new purposes after adaptation, modernization, and retraining (in the case of the labour force). These simple reserves (“low-hanging fruits”) were sufficient to support economic growth for a couple of years.

Second, despite its short-term inflationary consequences, the crisis-related devaluation of the FSU currencies (see Fig. 1) also contributed to employing idle production capacity. For a certain period, manufacturing industry and agriculture got an additional protection from a foreign competition. It facilitated their entry into domestic and sometimes also international markets.

Finally, post-transformation growth recovery coincided with the global economic boom after 2001. This boom led to a rapid increase in oil prices and other commodities such as natural gas, metals, and food and non-food agricultural products (Fig. 2). Given the structural characteristics of the FSU economies, all of them, directly or indirectly, benefited from this stimulating international environment.

Macroeconomic policy became more manageable in the period of post-transformation growth recovery and the global commodity boom than in the previous decade. First, rapidly growing prices for exported commodities improved the terms of trade and eased balance-of-payments constraints. As a result, the current account balances improved (Table 8), CBs international reserves increased (Table 9), and exchange rates either stabilized or even appreciated, except for Belarus³ and Tajikistan (Fig. 3).

³ Between the beginning of 2000 and the end of 2003, the Belarusian rouble devalued by more than 80,000 times.

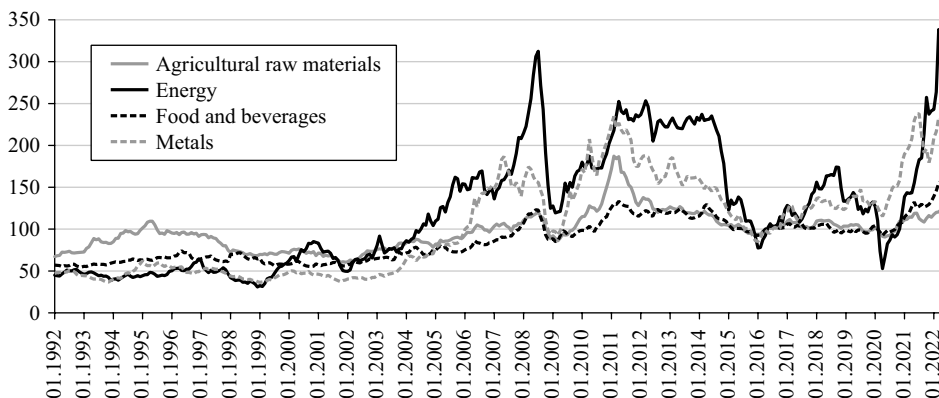


Fig. 2. Global commodity prices, 1992–2020 (2016 = 100).

Source: IMF Primary Commodity Price System, <https://data.imf.org:443>.

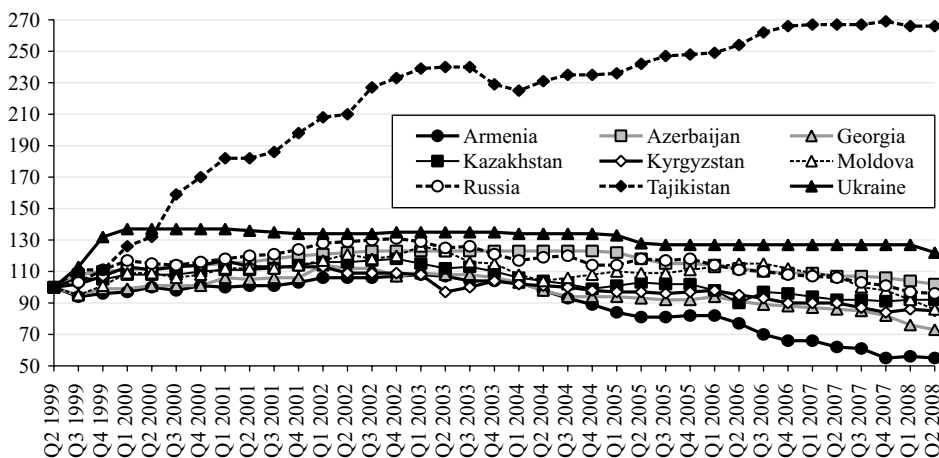


Fig. 3. Changes in exchange rates against the USD, June 30, 1999–June 30, 2008 (June 1999 = 100).

Note: No data is available for Turkmenistan and Uzbekistan; indicators for Belarus are outside the graph scale (see footnote 3).

Sources: IMF International Financial Statistics; author's calculations.

Table 8

Current account balance, 2000–2009 (% of GDP).

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Armenia	-15.8	-10.4	-6.2	-6.2	-2.2	-2.5	-2.4	-7.4	-14.2	-16.5
Azerbaijan	-3.5	-0.9	-12.3	-27.8	-29.8	1.3	17.6	27.3	33.6	23.0
Belarus	-4.3	-4.1	-2.2	-2.5	-5.0	1.5	-3.6	-6.4	-7.9	-12.1
Georgia	-5.6	-6.0	-6.3	-9.4	-6.8	-10.8	-14.8	-19.2	-21.4	-10.3
Kazakhstan	2.0	-6.3	-4.2	-0.9	0.8	-1.8	-2.5	-8.0	4.7	-3.6
Kyrgyzstan	-4.3	-1.5	2.8	10.1	6.1	3.8	-2.5	-5.1	-13.8	-4.3
Moldova	-7.5	-1.8	-1.2	-6.6	-1.8	-7.6	-11.3	-15.2	-16.1	-8.9
Russia	16.3	9.8	7.4	7.2	9.2	10.3	8.7	5.2	5.8	3.9
Tajikistan	-1.6	-4.9	-1.2	-0.3	-2.8	-12.8	-13.2	-32.2	-20.6	-14.4
Turkmenistan	4.8	1.0	3.9	1.6	0.3	3.0	9.1	9.1	9.7	-7.1
Ukraine	4.6	3.7	7.5	5.8	10.7	2.9	-1.5	-3.7	-7.0	-1.5
Uzbekistan	3.2	1.3	2.3	5.1	5.7	6.1	7.3	7.3	6.9	2.1

Source: World Economic Outlook database, October 2021.

Table 9
CBs international reserves, 2000–2021 (USD million).

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Armenia	314	330	431	502	548	669	1,072	1,659	1,407	2,004	1,866
Azerbaijan	680	725	720	803	1,075	1,178	2,500	4,273	6,467	5,364	6,409
Belarus	350	391	619	595	749	1,137	1,069	4,182	3,061	5,652	5,031
Georgia	116	162	202	196	387	479	931	1,361	1,480	2,110	2,264
Kazakhstan	2,096	2,508	3,141	4,962	9,277	7,070	19,127	17,629	19,872	23,220	28,275
Kyrgyzstan	262	287	317	399	565	612	817	1,177	1,225	1,585	1,720
Moldova	222	229	269	302	470	597	775	1,334	1,672	1,480	1,718
Russia	27,972	36,622	47,793	76,938	124,541	182,240	303,732	478,762	426,283	439,447	479,374
Tajikistan	94	94	90	118	172	189	204	85	163	256	403
Ukraine	1,476	3,089	4,469	6,943	9,715	19,391	22,358	32,479	31,543	26,505	34,576
Uzbekistan											
Country	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Armenia	1,932	1,799	2,252	1,489	1,775	2,204	2,314	2,259	2,850	2,616	3,230
Azerbaijan	10,274	11,277	15,014	15,549	7,910	7,142	6,681	6,666	7,043	7,634	8,307
Belarus	7,916	8,095	6,651	5,059	4,176	4,927	7,315	7,158	9,394	7,468	8,425
Georgia	2,818	2,873	2,823	2,699	2,521	2,756	3,039	3,289	3,506	3,913	4,271
Kazakhstan	29,330	28,280	24,678	29,209	27,871	29,713	30,747	30,927	28,958	35,638	34,378
Kyrgyzstan	1,835	2,066	2,238	1,957	1,778	1,970	2,177	2,156	2,425	2,810	2,978
Moldova	1,965	2,515	2,821	2,157	1,757	2,206	2,803	2,995	3,060	3,784	3,902
Russia	498,645	537,616	509,593	385,459	368,398	377,738	432,731	468,478	554,346	595,772	630,624
Tajikistan	532	629	661	511	494	653	1,292	1,284	1,466	2,238	2,499
Ukraine	31,795	24,546	20,416	7,533	13,300	15,539	18,808	20,820	25,302	29,133	30,941
Uzbekistan			22,481	24,140	24,307	26,429	28,077	27,081	29,172	34,904	35,139

Note: No data available for Turkmenistan.

Source: IMF International Financial Statistics.

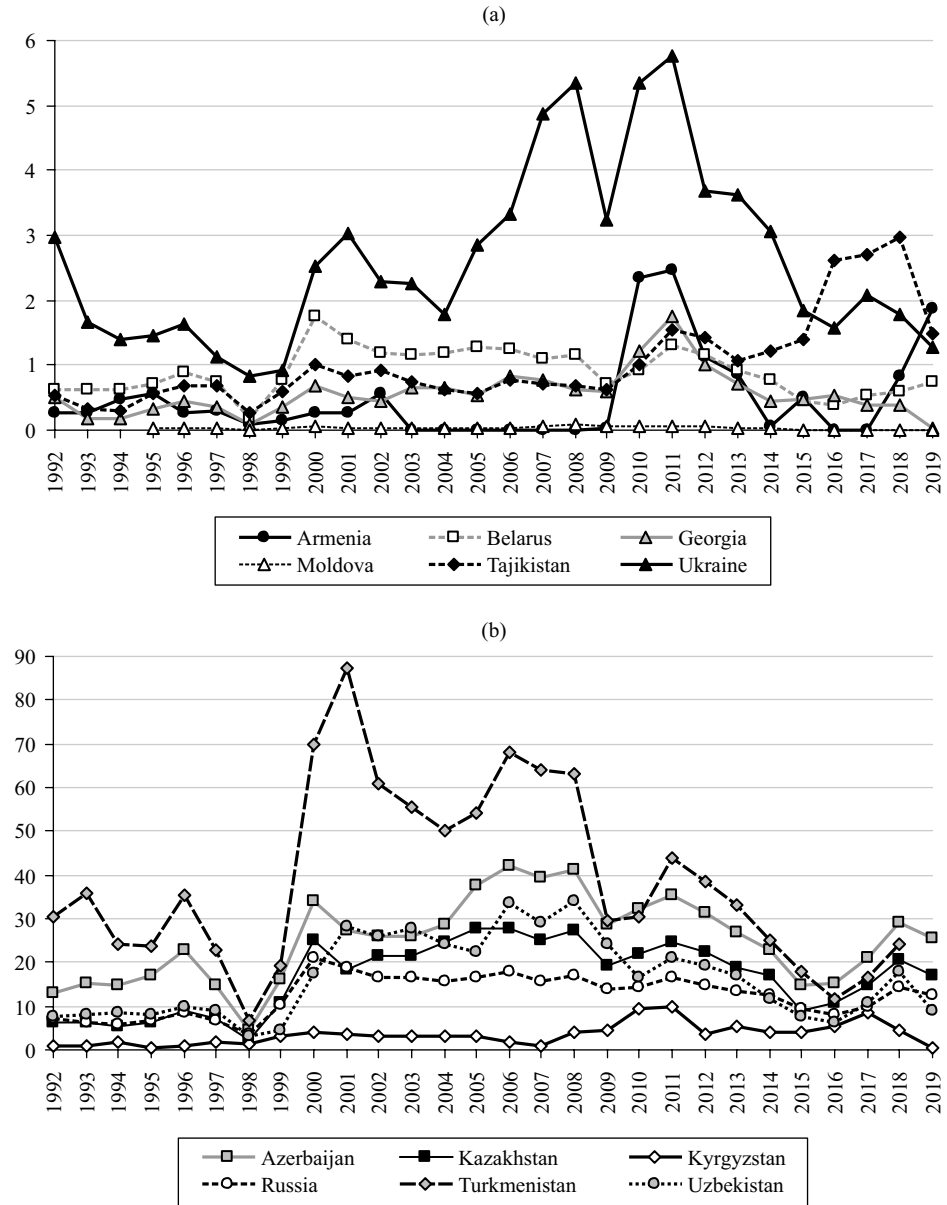


Fig. 4. Natural resource rent, 1992–2019 (% of GDP).

Sources: World Bank’s World Development Indicators (last updated October 28, 2021); author’s calculations.

Second, due to rapid economic growth and increased resource rent (Fig. 4), managing the state budget has also become easier. Most countries (except Belarus and Tajikistan) reduced their GG deficits (Table 10). In contrast, oil and natural gas exporting countries (Russia, Kazakhstan, Azerbaijan, Uzbekistan, and Turkmenistan) were even able to create sovereign wealth funds (SWFs) out of budget surpluses.

Third, due to economic growth and stabilization of the exchange rate, it was possible to restore the demand for domestic money. Inflation declined in most FSU countries (Table 11), although it remained higher as compared with other emerging-market and developing economies (EMDEs) (Fig. 5).

Table 10

GG net lending/borrowing as % of GDP, 2000–2009.

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Armenia	n/a	n/a	n/a	n/a	n/a	-2.0	-2.0	-2.3	-1.8	-7.7
Azerbaijan	0.1	21.8	19.4	1.6	1.8	2.7	0.7	2.3	17.2	5.9
Belarus	n/a	-4.7	-7.8	-6.7	-7.1	-6.7	-7.7	-7.8	-10.9	-7.2
Georgia	-1.9	-0.7	-0.2	-0.5	3.6	2.1	3.3	0.8	-1.9	-6.4
Kazakhstan	n/a	n/a	1.9	4.0	3.3	6.1	7.7	5.1	1.2	-1.3
Kyrgyzstan	-10.7	-6.7	-5.9	-5.2	-4.9	-3.8	-2.1	1.3	1.9	0.4
Moldova	-3.5	-0.3	-1.2	0.5	0.6	1.4	-0.4	0.1	-0.9	-6.4
Russia	3.1	3.0	0.7	1.4	4.6	7.6	7.8	5.6	4.5	-5.9
Tajikistan	-5.6	-3.2	-2.4	-1.8	-2.4	-2.9	1.7	-5.5	-5.1	-5.2
Turkmenistan	-0.3	0.4	0.1	2.2	0.8	0.5	3.1	2.3	5.8	4.1
Ukraine	-3.2	-3.0	-1.8	-0.9	-4.4	-2.3	-1.4	-2.0	-3.1	-6.3
Uzbekistan	-3.7	-3.3	-6.3	-4.9	-3.7	-3.5	2.7	3.6	6.0	1.8

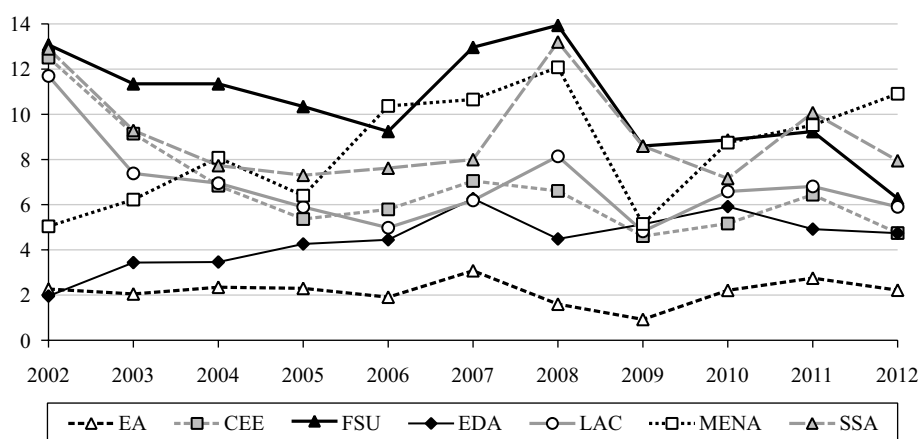
Source: World Economic Outlook database, October 2021.

Table 11

12-month inflation, end-of-year, 2000–2009 (%).

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Armenia	0.4	2.9	2.8	7.4	1.7	0.4	5.4	6.7	5.3	6.7
Azerbaijan	2.2	1.8	3.2	3.5	10.5	5.4	11.3	19.6	15.5	0.7
Belarus	107.5	46.1	34.8	25.4	14.4	7.9	6.6	12.1	13.3	10.1
Georgia	4.4	3.5	5.5	6.9	7.5	6.2	8.8	11.0	5.5	3.0
Kazakhstan	9.8	6.4	6.6	6.8	6.7	7.6	8.4	18.8	9.5	6.2
Kyrgyzstan	10.5	3.7	2.3	5.6	2.8	4.9	5.1	20.1	20.0	0.0
Moldova	18.5	6.4	4.4	15.7	12.5	10.0	14.1	13.1	7.3	0.4
Russia	20.2	18.6	15.1	12.0	11.7	10.9	9.0	11.9	13.3	8.8
Tajikistan	60.6	12.5	14.5	13.7	5.7	7.1	12.5	19.8	11.9	4.9
Turkmenistan	7.4	11.7	7.8	3.1	9.0	10.4	7.1	8.6	8.9	0.1
Ukraine	25.8	6.1	-0.6	8.2	12.3	10.3	11.6	16.6	22.3	12.3
Uzbekistan	28.2	26.5	21.6	8.7	9.3	11.4	10.9	11.9	13.8	12.4

Source: World Economic Outlook database, October 2021.

**Fig. 5.** 12-month inflation in the FSU in comparison with other regions, end of the year, 2002–2012 (%).

Note: EA—Euro area, CEE—Central and Eastern Europe, FSU—the former Soviet Union, EDA—emerging and developing Asia, LAC—Latin America and Caribbean, MENA—the Middle East and North Africa, SSA—Sub-Saharan Africa.

Source: World Economic Outlook database, April 2013.

One of the reasons for slow disinflation was CBs' attempts to prevent appreciation of the FSU currencies when terms of trade improved (see above) and net capital flows became positive, or even to continue crawling devaluations to satisfy the demands of the export lobby. Weak domestic currency also helped increase nominal budget revenue from export taxes and natural resource rent payments in USD or EUR.

In the reform-laggard countries (Turkmenistan, Uzbekistan, and Belarus) inflation was fuelled by the continued budget deficit and its monetary financing and by CBs quasi-fiscal operations (QFOs). The latter had various forms, for example, direct loans to specific sectors of the economy or state-owned enterprises (SOEs) granted on preferential terms, multiple exchange rates, etc.

A period of rapid growth and favorable global macroeconomic conditions came to an end in the mid of 2008 as a result of the GFC. This time, the crisis-related shock had almost entirely the external character. It was caused by the collapse of the financial system in the United States and other advanced economies (AEs). Unfortunately, the FSU economies turned out to be more vulnerable than other EMDEs, except CEE, which suffered an adverse macroeconomic shock of an approximately similar magnitude.

The negative consequences of the GFC manifested themselves in the depth of the recession (see Table 7), the deterioration of the current account balance (see Table 8) and GG balance (see Table 10), and the weakening of FSU currencies (Fig. 6). Azerbaijan was the least affected by the GFC, due to the peak in oil production and exports.

The adverse shock generated by the GFC was transmitted to the FSU economies through several channels. Bursting the bubble in the global markets for oil and other commodities played the leading role (see Fig. 2). Commodity prices reached record highs on the eve of the GFC but fell sharply in the mid of 2008 (see Fig. 2). International demand also declined for other goods and services produced by the FSU countries. Remittances from labor migrants, a significant source of balance-of-payments receipts in Tajikistan, Kyrgyzstan, Uzbekistan, Moldova, Armenia, and Georgia, also declined sharply.

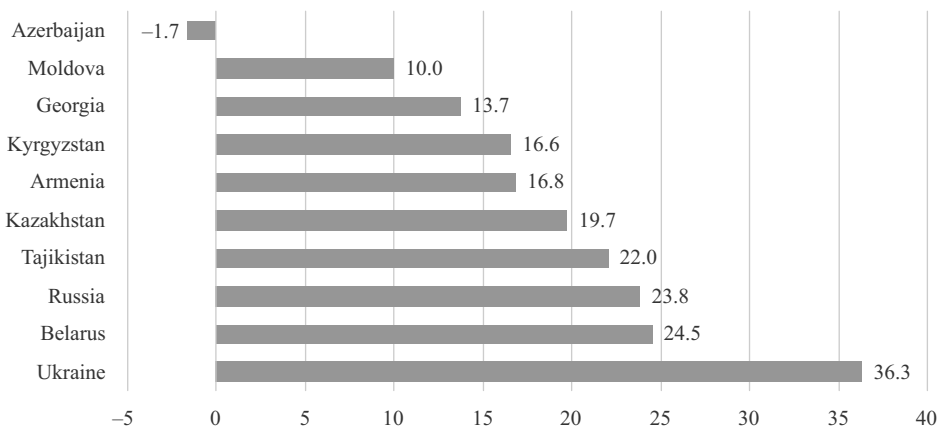


Fig. 6. Depreciation of the nominal exchange rate of FSU currencies against the USD, June 2008–June 2009 (%).

Sources: IMF International Financial Statistics; author's calculations.

Equally important were the events in the financial and stock markets. Due to the implosion of the financial system in AEs, the volume of liquid assets in global financial markets decreased sharply. Therefore, market players' perception of potential risks in EMDEs, including the FSU, increased and triggered capital outflows. Stock market indices have plummeted, and many financial and non-financial corporations have found it challenging to settle their liabilities in time. As a result, banking and corporate crises erupted in several FSU economies: Russia, Kazakhstan, Ukraine, Belarus, Moldova, Kyrgyzstan, and Armenia. Banks and large enterprises (many of which had invested abroad on the eve of the crisis) needed government support, which was financed either by the SWFs (Russia, Kazakhstan) or by the IMF rescue programs (other countries).

The GFC made visible the fragility of the FSU banks. They suffered from insufficient capitalization, poor-quality loan portfolios (a result of either politically motivated, or connected lending, and corruption), imbalances between foreign exchange assets and liabilities, and excessive dependence on short-term refinancing in the international financial market, etc.

Due to the rule-of-law deficit and the weak protection of property rights, several FSU large corporations transferred part of their capital abroad. They replaced it with short-term financing in the domestic or foreign market (Rogov, 2014), which increased their vulnerability at the time of crisis.

Distrust of macroeconomic, financial, and legal stability also concerned the population behavior, and small and medium-sized businesses. In quiet periods, for example, in the early and mid-2000s, they were ready to keep part of their money balances in domestic currency bank accounts. However, as soon as the first signs of instability appeared, they began to buy foreign currency and withdraw money from bank accounts. As a result of such a microeconomic behavior, the amplitude of each subsequent adverse shock (see Sections 5 and 6) was further deepened by capital flight (Fig. 7) and, very often, panic reactions of the population in a foreign exchange market and banking system.

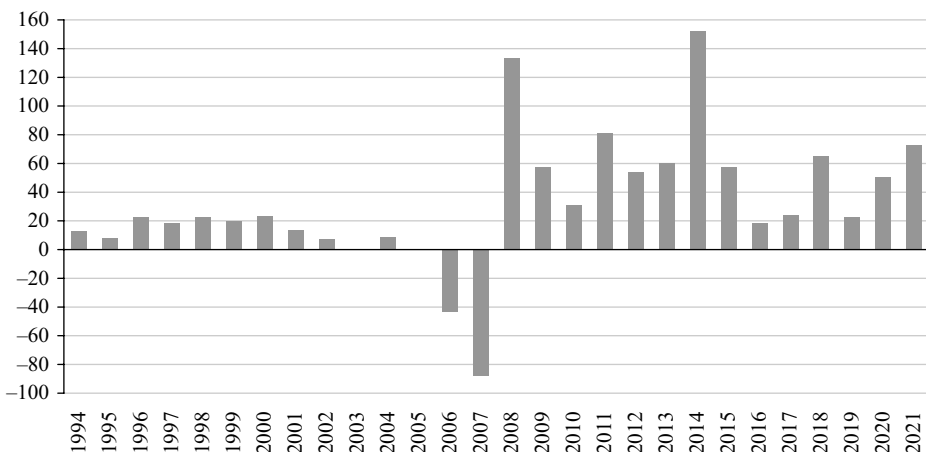


Fig. 7. Russia's balance of payments: private financial transactions (capital outflow (+), capital inflow (-)), 1994–2021 (USD billion).

Source: Bank of Russia, http://www.cbr.ru/vfs/statistics/credit_statistics/bop/outflow.xlsx

5. The challenging 2010s: Decelerating growth and the 2014–2015 crisis

The ultra-soft monetary policy of the US Federal Reserve Board (Fed) and other leading CBs, and large-scale fiscal stimulus in AEs and China in 2008–2009 helped restore global economic growth and stabilize financial markets in the second half of 2009. Oil and commodity prices rose again rapidly (see Fig. 2), which helped the FSU countries return to economic growth (Table 12). However, growth rates were lower than in the early and mid-2000s and soon began declining, especially in Russia, Ukraine, Belarus, and Azerbaijan. The fading growth in Azerbaijan was related to the end of the oil boom: oil production in this country reached its peak in 2010 and then began to decline gradually.

In Belarus, the possibility to continue a growth mobilization strategy (by using some tools typical for the command system of central planning) came to its limits, and indirect Russian subsidies to the Belarusian economy were gradually reduced. Furthermore, populist policies and resulting macroeconomic imbalances continued, leading to the 2011 currency crisis (Chubrik, 2011). Between 2010 and 2013, the economy of Ukraine suffered from a significant deterioration in the business and investment climate associated with the growing oligarchic tendencies in political leadership. In Russia, the increasing government interventionism and nationalization of large parts of oil industry, banking, military production, and other strategic sectors led to declining productivity and slower growth (Di Bella et al., 2019; GIEP, 2018).

In all the FSU economies, the “low-hanging fruits” (see Section 4) have already been consumed before the GFC. Meanwhile, further economic reforms have been stopped or delayed. In some cases, there has been a reversal of the earlier reforms associated with the continuous autocratic trend in the political sphere (Dabrowski, 2021a).

In most FSU countries (except for Central Asia and Azerbaijan), demographic barriers (the shrinking working-age population) began to limit medium- and long-term growth prospects. Macroeconomic management became more complex than in the early and mid-2000s, as evidenced by the fiscal indicators (Table 13). On average, they deteriorated in comparison with the previous decade. Nevertheless, in the early 2010s, hydrocarbon exporting countries were able to restore partially their SWFs depleted during the GFC.

Table 12
Annual growth/decline in real GDP, 2010–2019 (%).

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Armenia	2.2	4.7	7.1	3.4	3.6	3.3	0.2	7.5	5.2	7.6
Azerbaijan	4.8	−1.6	2.2	5.8	2.8	1.1	−3.1	0.2	1.5	2.5
Belarus	7.8	5.3	1.6	1.0	1.7	−3.8	−2.5	2.5	3.1	1.4
Georgia	6.2	7.4	6.4	3.6	4.4	3.0	2.9	4.8	4.8	5.0
Kazakhstan	7.3	7.4	4.8	6.0	4.2	1.2	1.1	4.1	4.1	4.5
Kyrgyzstan	−0.5	6.0	−0.1	10.9	4.0	3.9	4.3	4.7	3.5	4.6
Moldova	7.1	5.8	−0.6	9.0	5.0	−0.3	4.4	4.7	4.3	3.7
Russia	4.5	5.1	4.0	1.8	0.7	−2.0	0.2	1.8	2.8	2.0
Tajikistan	6.5	7.4	7.5	7.4	6.7	6.0	6.9	7.1	7.3	7.5
Turkmenistan	14.6	13.7	6.6	0.5	4.6	1.6	−4.7	0.5	1.3	−7.7
Ukraine	4.1	5.5	0.2	0.0	−6.6	−9.8	2.4	2.4	3.5	3.2
Uzbekistan	7.1	7.5	7.1	7.3	6.9	7.2	5.9	4.4	5.4	5.7

Source: World Economic Outlook database, October 2021.

Table 13

GG net lending/ borrowing, 2010–2019 (% of GDP).

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Armenia	-5.0	-2.9	-1.5	-1.6	-1.9	-4.8	-5.6	-4.8	-1.8	-1.0
Azerbaijan	13.8	10.9	3.7	1.6	2.7	-4.8	-1.2	-1.3	5.5	9.1
Belarus	-4.2	-2.8	0.4	-1.0	0.1	-3.0	-1.7	-0.3	1.8	0.9
Georgia	-4.5	-0.8	-0.7	-1.3	-1.8	-1.2	-1.5	-0.5	-0.8	-1.8
Kazakhstan	1.5	5.8	4.4	4.9	2.5	-6.3	-4.5	-4.3	2.6	-0.6
Kyrgyzstan	-5.9	-4.7	-5.9	-3.7	-3.1	-2.5	-5.8	-3.7	-0.6	-0.1
Moldova	-2.2	-2.1	-1.9	-1.6	-1.6	-1.9	-1.5	-0.6	-0.8	-1.4
Russia	-3.2	1.4	0.4	-1.2	-1.1	-3.4	-3.7	-1.5	2.9	1.9
Tajikistan	-3.0	-2.1	0.6	-0.9	-0.1	-2.0	-9.0	-6.0	-2.8	-2.1
Turkmenistan	1.3	2.4	5.1	1.1	0.7	-0.6	-2.2	-2.6	-0.2	-0.4
Ukraine	-5.8	-2.8	-4.3	-4.8	-4.5	-1.2	-2.2	-2.3	-2.2	-2.0
Uzbekistan	2.6	5.1	5.9	2.2	1.9	-0.2	0.8	1.2	1.7	-0.2

Source: World Economic Outlook database, October 2021.

The relatively loose monetary policy in advanced economies in the post-GFC period (see above) made it easier to manage the balance of payments in most EMDEs. Net capital inflows to EMDEs resumed, although they did not reach pre-crisis levels and were concentrated in Asia and Latin America. Private investors perceived the FSU economies as riskier. Private capital inflows were moderate, primarily going into the resource sector (in cases where the national legislation did not restrict foreign investment). Countries with lower GDP per capita (Tajikistan, Kyrgyzstan, Armenia, Georgia, and Moldova) continued to receive soft loans from global and regional financial institutions such as the IMF, WB, and Asian Development Bank, European Bank for Reconstruction and Development, etc. and bilateral support from donor countries. The oil and natural gas exporting countries (except for Turkmenistan) had positive current account balances (Table 14). Exchange rates temporarily stabilized (Fig. 8), and inflation continued declining slowly (Table 15), except for Belarus, which experienced a deep macroeconomic crisis in 2011 when the Belarusian rouble was depreciated by more than three times.

However, relative macroeconomic stabilization after the GFC turned out to be short-lived. In the second half of 2014, commodity prices, especially oil, sharply

Table 14

Current account balance, 2009–2019 (% of GDP).

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Armenia	-13.6	-10.4	-10.0	-7.3	-7.8	-2.7	-1.0	-1.5	-7.0	-7.4
Azerbaijan	28.4	26.0	21.4	16.6	13.9	-0.4	-3.6	4.1	12.8	9.1
Belarus	-14.5	-8.2	-2.8	-10.0	-6.6	-3.3	-3.4	-1.7	0.0	-1.9
Georgia	-9.8	-12.2	-11.4	-5.6	-10.2	-11.8	-12.5	-8.1	-6.8	-5.5
Kazakhstan	0.9	5.3	1.1	0.8	2.8	-3.3	-5.9	-3.1	-0.1	-4.0
Kyrgyzstan	-6.6	-7.7	-15.5	-13.9	-17.0	-15.9	-11.6	-6.2	-12.1	-12.1
Moldova	-6.9	-10.1	-7.4	-5.2	-6.0	-6.0	-3.5	-5.7	-10.4	-9.3
Russia	4.1	4.8	3.3	1.5	2.8	5.0	1.9	2.0	7.0	3.9
Tajikistan	-10.3	-6.3	-9.0	-10.4	-3.4	-6.1	-4.2	2.2	-5.0	-2.3
Turkmenistan	-6.1	0.1	-0.9	-6.8	-6.6	-15.7	-24.2	-14.5	4.3	1.1
Ukraine	-2.2	-6.3	-8.1	-9.2	-3.9	1.7	-1.5	-2.2	-3.3	-2.7
Uzbekistan	5.1	4.6	1.8	1.8	2.6	1.0	0.2	2.4	-6.8	-5.6

Source: World Economic Outlook database, October 2021.

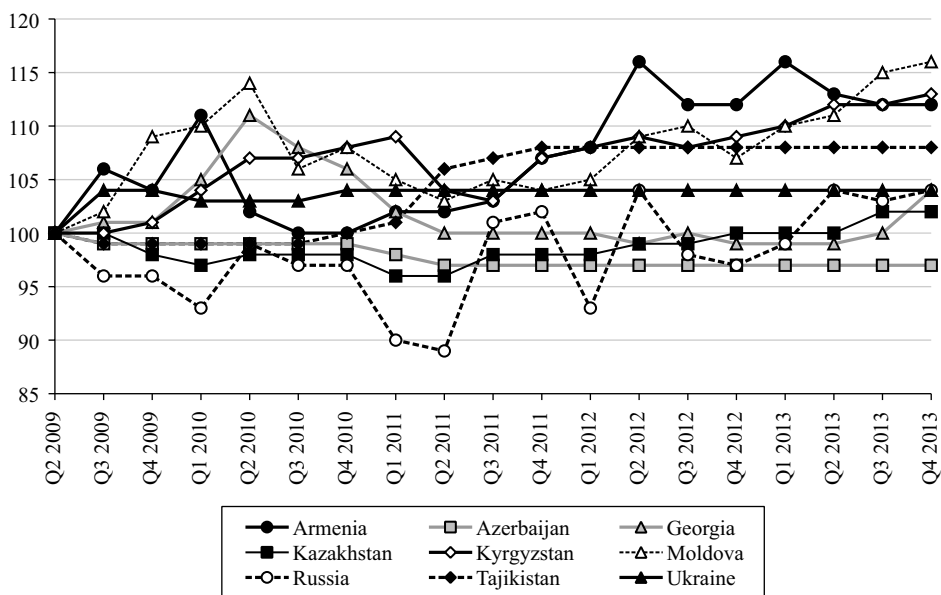


Fig. 8. Changes in nominal exchange rates of the FSU currencies against the USD, June 30, 2009–December 31, 2013 (June 30, 2009 = 100).

Note: No data available for Turkmenistan and Uzbekistan; indicators for Belarus go beyond the scale of the graph (see footnote 3).

Sources: IMF International Financial Statistics; author's calculations.

Table 15

12-month inflation, end of the year, 2010–2019 (%).

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Armenia	8.5	4.7	3.2	5.6	4.6	−0.1	−1.1	2.6	1.8	0.7
Azerbaijan	8.0	5.6	−0.3	3.7	−0.1	6.9	15.5	7.9	1.6	2.4
Belarus	9.9	108.7	21.8	16.5	16.2	12.0	10.6	4.6	5.6	4.7
Georgia	11.2	2.0	−1.4	2.4	2.0	4.9	1.8	6.7	1.5	7.0
Kazakhstan	7.8	7.4	6.0	4.8	7.4	13.6	8.5	7.1	5.3	5.4
Kyrgyzstan	19.2	5.7	7.5	4.0	10.5	3.4	−0.5	3.7	0.5	3.1
Moldova	8.1	7.8	4.0	5.2	4.7	13.5	2.3	7.3	0.9	7.1
Russia	8.8	6.1	6.6	6.5	11.4	12.9	5.4	2.5	4.3	3.0
Tajikistan	9.8	9.3	6.4	3.7	7.4	5.1	6.1	6.7	5.4	8.0
Turkmenistan	4.8	5.6	7.8	4.0	4.4	6.0	6.2	10.4	7.2	6.3
Ukraine	9.1	4.6	−0.2	0.5	24.9	43.3	12.4	13.7	9.8	4.1
Uzbekistan	11.9	13.6	10.8	10.8	9.2	8.4	9.8	18.8	14.3	15.2

Source: World Economic Outlook database, October 2021.

declined (see Fig. 2). Similar to 2008–2009, macroeconomic consequences of this decline heavily hit most FSU countries.

The conflict in Ukraine (the annexation of Crimea by Russia and the rebellion in Donbas supported by RF) became an additional destabilizing factor. The US, EU, and several other countries and international organizations reacted with political and economic sanctions against Russia. In turn, it responded with retaliatory counter-sanctions against countries that sanctioned Russia (Dabrowski, 2019). Russia also terminated a free trade agreement with Ukraine on January 1, 2016 due to the entry into force of the EU–Ukraine Deep and Comprehensive Free Trade Area.

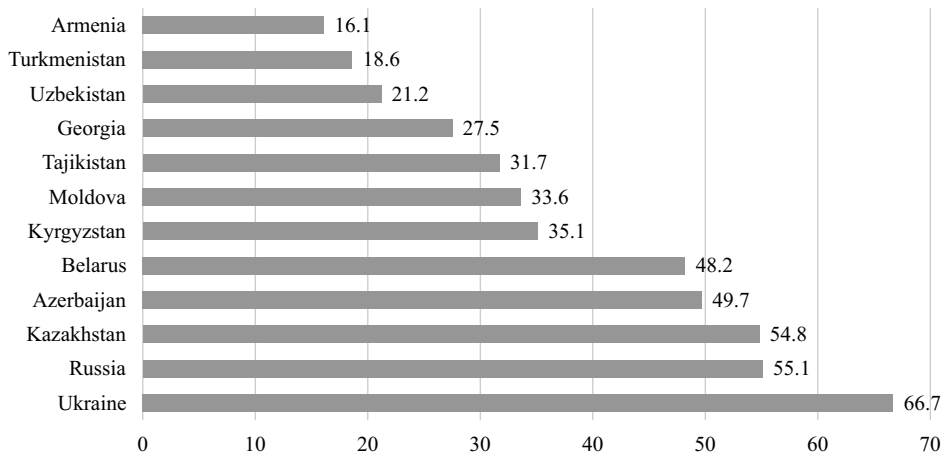


Fig. 9. Depreciation of the nominal exchange rate of the FSU currencies against the USD, December 31, 2013–December 31, 2015 (%).

Sources: IMF International Financial Statistics; author's calculations.

As in the case of previous crises (1998–1999 and 2008–2009), there were capital outflows (especially from Russia—see Fig. 7), the CBs' international reserves decreased (see Table 9), and most currencies in the region depreciated (Fig. 9), inflation picked up again (see Table 15), and budgetary performance worsened (see Table 13). In 2015, growth slowed down (except for Uzbekistan) or turned negative in Russia, Ukraine, Belarus, and Moldova (see Table 12). In Azerbaijan and Turkmenistan, the recession occurred a little later, in 2016.

The FSU countries were not the only ones negatively affected by the decline in commodity prices in 2014–2015. Other commodity producers, especially oil exporters, also suffered. However, the crisis in the FSU turned out to be particularly deep in comparison with other regions (Dabrowski, 2016). Like in 2008–2009, its depth reflected the institutional and structural imperfections of FSU economies.

In 2016–2017, thanks to a partial recovery of commodity prices (see Fig. 2), the FSU economies managed to return to moderate and, in many cases, volatile economic growth (see Table 12). Only seven countries (Tajikistan, Armenia, Uzbekistan, Kyrgyzstan, Georgia, Moldova, and Kazakhstan) grew above 4%. All of them, except for Kazakhstan, were small economies with low GDP per capita. In 2016–2019, most of the analyzed countries were also able to gradually return to relative macroeconomic stability of the pre-crisis period of 2012–2013. Fiscal performance improved (see Table 13), balances of payments (see Table 14), exchange rates stabilized (Fig. 10),⁴ and inflation (see Table 15) fell to low single digits, except in Uzbekistan. The more or less consequent adoption of an inflation-targeting strategy and a flexible exchange rate in Armenia (since 2006), Georgia (since 2009), Moldova (since 2010), Russia (since 2014), Ukraine, and Kazakhstan (since 2015) helped in the disinflation process (IMF, 2021).

⁴ With the exception of Uzbekistan, where the sum devalued by more than 3 times during the analyzed period (especially in 2017). It was caused, among other reasons, by elimination of a multiple exchange rate system.

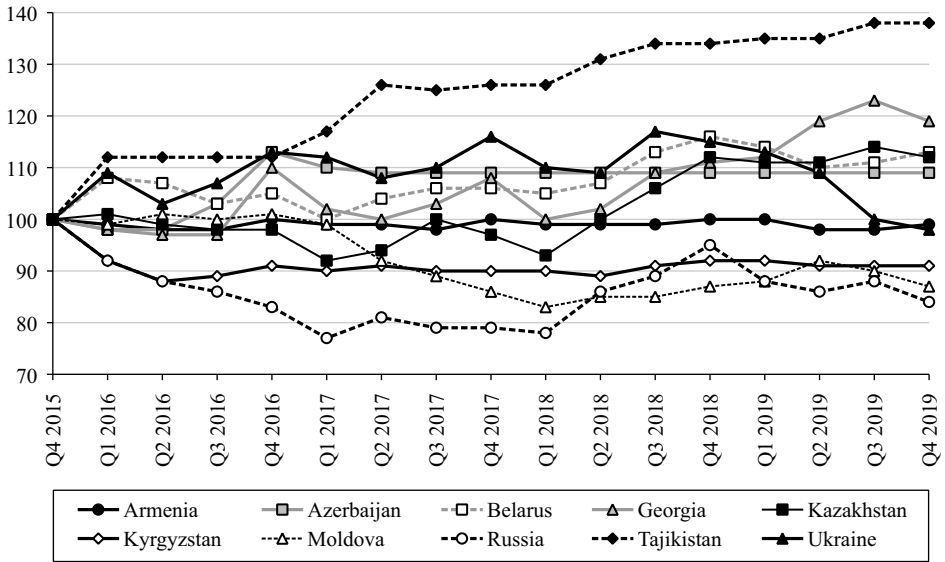


Fig. 10. Changes in nominal exchange rates of FSU currencies against the USD, December 31, 2015–December 31, 2019 (December 31, 2015 = 100).

Note: No data is available for Turkmenistan; indicators for Uzbekistan are outside the scale of the graph (see footnote 4).

Source: IMF International Financial Statistics; author's calculations.

6. The COVID-19 pandemic and the war in Ukraine (2020–2022)

Once again, relative macroeconomic stability did not last long. In February–March 2020, the entire global economy was hit by the COVID-19 pandemic, which began in China. At the time of writing this paper (May–June 2022), the pandemic remains an unfinished story with repeated come-backs in various parts of the world. Therefore, our analysis will be limited to the main macroeconomic trends and indicators for 2020–2021 (Table 16) without a conclusion.

There have been four pandemic-related factors that have negatively affected the FSU economies. First, these have been internal lockdown measures intended to limit coronavirus' spread. The severity of these measures varied across countries and over time (Fig. 11). On average, Azerbaijan, Ukraine, and Kazakhstan applied the most stringent decisions, while Tajikistan and Belarus were the most lenient.

Second, the beginning of the pandemic and associated heavy lockdown measures worldwide (in the first quarter of 2020) pushed down world prices for energy resources, especially oil, to a record-low level. Prices for agricultural resources remained stable, while prices for metals continued to grow (see Fig. 2). However, starting from the middle of 2020, oil prices gradually recovered, exceeding pre-crisis levels in the fourth quarter of 2021.

In 2021, as the global economic recovery began, prices for natural gas and other essential commodities started to increase rapidly. The war in Ukraine that began in February 2022 (see below) accelerated this growth.

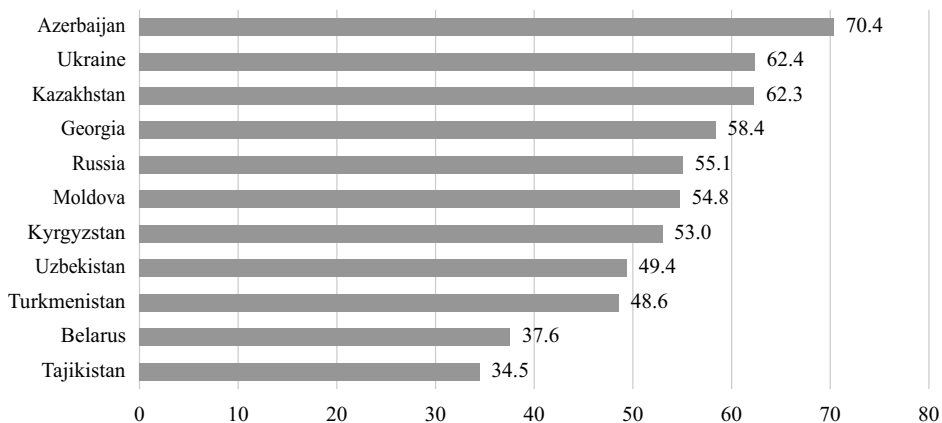
The third negative factor was the capital outflow from EMDEs in February–March 2020 (Lanau and Fortun, 2020). However, thanks to the ultra-soft monetary policy of the world's leading CBs, especially the US Fed, it was possible

Table 16

Key macroeconomic indicators, 2020–2022.

Country	GDP, constant prices, % change		Inflation, end of period, % change		GG net lending/borrowing, % of GDP		GG gross debt, % of GDP	
	2020	2021	2020	2021	2020	2021	2020	2021
Armenia	-7.4	5.7	3.7	7.7	-5.4	-4.6	63.5	60.3
Azerbaijan	-4.3	5.6	2.7	12.0	-6.5	4.3	21.3	26.4
Belarus	-0.7	2.3	7.3	10.0	-2.9	-1.7	47.5	41.2
Georgia	-6.8	10.4	2.4	13.9	-9.3	-6.0	60.2	49.5
Kazakhstan	-2.6	4.0	7.5	8.4	-7.0	-4.1	26.4	25.9
Kyrgyzstan	-8.6	3.7	9.7	11.2	-3.3	-1.3	67.6	61.0
Moldova	-8.3	13.9	0.4	13.9	-5.3	-2.6	36.7	33.0
Russia	-2.7	4.7	4.9	8.4	-4.0	0.7	19.2	17.0
Tajikistan	4.4	9.2	9.4	8.0	-4.3	-2.0	50.4	46.5
Turkmenistan	-3.0	4.9	8.9	21.0	-0.1	-0.1	13.1	10.6
Ukraine	-3.8	3.4	5.0	10.0	-6.0	-4.0	61.0	49.0
Uzbekistan	1.9	7.4	11.2	10.0	-2.5	-4.6	37.6	36.8

Source: World Economic Outlook database, April 2022.

**Fig. 11.** Containment and health average index (0–100), March 1, 2020–April 30, 2022.

Note: No data available for Armenia.

Sources: Our World In Data, <http://www.ourworldindata.org/covid-stringency-index#learn-more-about-the-data-source-the-oxford-coronavirus-government-response-tracker>; author's calculation

to overcome the liquidity crisis in the international financial market and restore capital inflow to EMDEs, including the FSU countries, already at the end of the second quarter of 2020.

The fourth channel of negative influence was decreased remittances from labor migrants, as always during a crisis.

Compared with other EMDE groups, the FSU economies suffered less from the COVID-19 crisis than in 2008–2009 or 2014–2015 (see Table 16). Except for Kyrgyzstan, Armenia, Moldova, and Georgia, where GDP contracted by more than 6% in 2020 (all of them are highly dependent on remittances from labor migrants), other countries recorded a moderate recession or even positive growth (Tajikistan and Uzbekistan). In 2021, all the FSU countries recorded a positive trend. In Moldova, growth amounted to 13.9%, in Georgia—10.4%, and in Tajikistan—9.2%.

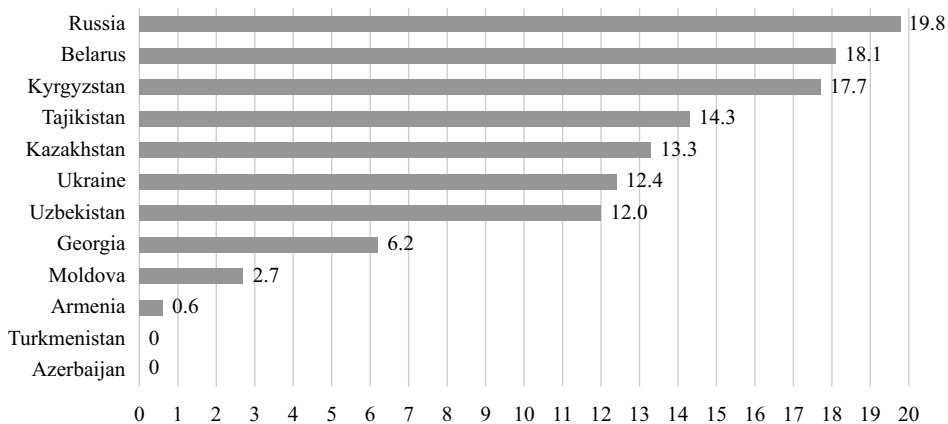


Fig. 12. Depreciation of the nominal exchange rate of the FSU currencies against the USD, January 2, 2020–January 24, 2022 (%).

Source: National central banks' statistics.

As for other macroeconomic indicators, the budget deficit and public debt increased everywhere in 2020. Some improvement in fiscal performance was recorded in 2021, especially in Azerbaijan and Russia (the effect of higher oil and natural gas prices). Given the negative consequences of the war in Ukraine (see below), the budget deficit and public debt may remain a severe challenge in the coming years, especially in countries that do not export hydrocarbons and are affected by the conflict directly or indirectly.

Inflation remained in single digits in 2020 (except for Uzbekistan), but the situation worsened in 2021 due to the growing global inflationary pressures (Dabrowski, 2021b). Most FSU currencies depreciated against the USD (Fig. 12), but the losses were smaller than in the previous crises.

On 24 February 2022, just as the negative economic consequences of the COVID-19 crisis seemed to be easing, Russia invaded Ukraine. Although, formally speaking, these dramatic developments fall beyond the time horizon of our paper (30 years of post-communist transition), we cannot omit them in our analysis due to their far-reaching economic consequences for the entire FSU region.

At the time of writing this paper, there has been very scarce and uncertain statistical evidence on the immediate war's impact on the economies of Ukraine, Russia, and other FSU countries. Therefore, we can only speculate on the directions of changes in the economic situation, policies, and institutions in the FSU countries, especially in the medium-to-long term.

Ukraine is the main loser. It suffers from war damages, human losses, and loss of control over sections of its territory, including the access to the Azov Sea and a blockade of the Odessa seaport. The latter is the main export gate for Ukrainian grain, ferrous ore, and other mass products. Several million people fled Ukraine, fearing for their lives. Economic management had to be subordinated to the martial law regime.

This country's political and economic prospects depend on how quickly and how (in territorial and political terms) the war ends. Anyway, it will require an expensive post-war reconstruction program financed by international aid.

Russia and Belarus have become subject to far-going financial, trade, energy, investment, transportation, diplomatic and personal sanctions imposed by the US, EU, UK, Canada, Japan, Australia, and several other countries. Russia responded with countersanctions, including export and transportation restrictions, partial expropriation of foreign investors, suspending protection of foreign intellectual property rights, and stopping or limiting natural gas supplies to selected importers, etc. Russia also adopted several domestic policy measures, such as restricting the convertibility of the rouble and intensifying import-substitution programs.

Overall, sanctions and countersanctions will lead to the partial decoupling of the Russian economy from the global trade, investment, and financial flows. They will most likely strengthen the government's political and administrative interference in business activity and further increase the share of state ownership. They will go hand-in-hand with further tightening of political control over society. Similar or even more severe consequences will apply to Belarus, which has been less macroeconomically stable and less advanced in a market transition than Russia, as shown in previous sections.

However, the war will also negatively affect other FSU economies. Some of them (Moldova and Georgia) may be under threat of Russian interference because of their unsolved territorial conflicts (secession territories supported by Russia) and their pro-European and pro-Atlantic geopolitical orientation. Others (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Armenia) will suffer because of their dependence on trade with Russia, Russian investment, and remittances from labour migrants working in Russia. In addition, the blockade of transit routes via Ukraine (because of the war), Russia, and Belarus (because of sanctions and countersanctions) will negatively impact their trade with Europe. Foreign investors will consider, most likely, all the FSU economies as a region with high geopolitical risks. Even some short-term macroeconomic benefits coming from high commodity prices (the effect of post-pandemic recovery and the war in Ukraine) will not compensate for losses caused by the conflict.

7. Results of transformation and macroeconomic stabilization

As follows from our analysis, the FSU countries, after gaining independence at the end of 1991, suffered from several episodes of macroeconomic instability and growth turbulence. After the fall in GDP in the 1990s, which lasted from four years in Armenia to ten years in Ukraine, and the depth from -18% in Uzbekistan to -78% in Georgia (see Table 6), the FSU economies entered the path of economic growth in the early 2000s. However, this growth proved volatile, and the analyzed economies suffered from multiple macroeconomic and financial crises.

There have been five rounds of such crises that affected most FSU economies: 1991–1994, 1998–1999, 2008–2009, 2014–2015, 2020–2022. Some countries, for example Belarus, experienced other crises originating from their domestic economic policies. The factors responsible for the turmoil episodes included both global/ regional shocks and imprudent domestic policies in various proportions. The first group consisted of the Asian financial crisis of 1997–1998, the GFC of 2007–2009, the fall in global commodity prices in 2014–2015, and the COVID-19 pandemic in 2020–2021. The second group included slow and inconsistent

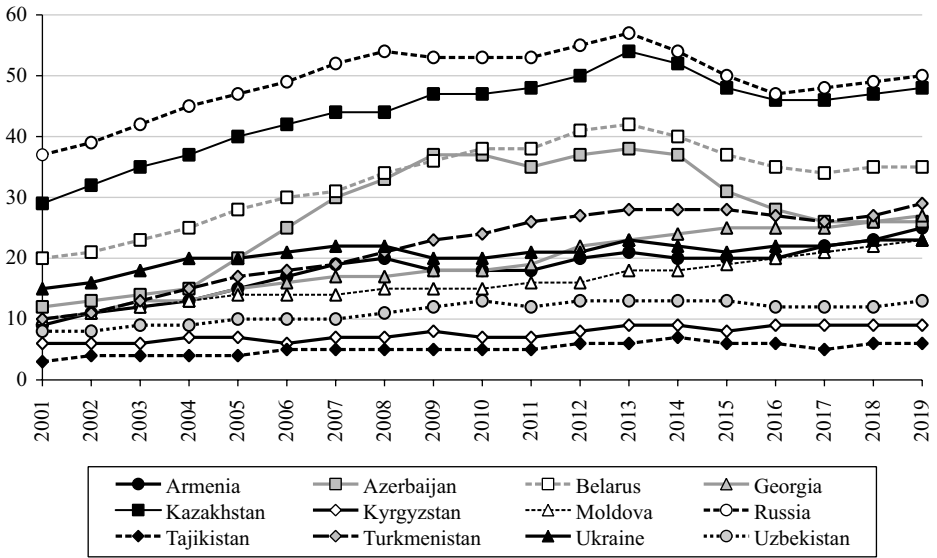


Fig. 13. GDP per capita in current international dollars at purchasing power parity, 2001–2019 (Germany = 100).

Sources: World Economic Outlook database, October 2020; author's calculations.

economic and institutional reforms, unstable fiscal and monetary policies, poor business and investment climate, domestic political crises, and armed conflicts.

As a result of numerous crises, macroeconomic indicators do not look satisfactory. From 2001 to 2013, the rapid growth of GDP per capita helped the region to converge partly with the developed countries represented in our analysis by Germany (Fig. 13). However, the crisis of 2014–2015 slowed or even reversed this process. The four countries with the highest levels of GDP per capita (Russia, Kazakhstan, Belarus, and Azerbaijan) have experienced a partial de-convergence.

Figure 13 also illustrates the growing stratification of the countries in the region. The poorest countries—Tajikistan, Kyrgyzstan, and Uzbekistan—have shown minimal progress in catching-up growth. On the other hand, three small countries with relatively low levels of GDP per capita that do not enjoy a natural resource rent (see Fig. 4)—Armenia, Georgia, and Moldova—were able to continue gradual convergence throughout the entire analyzed period.

The presence of a natural resource rent seems to explain the volatility of economic growth and other macroeconomic indicators. Countries dependent on this source of revenue, particularly the windfall gains from oil and natural gas industries, should remember about the plans of global decarbonization in the medium and long term and its consequences for hydrocarbon prices.

Other macroeconomic indicators point to moderate progress in macroeconomic stabilization in the post-Soviet era. The cumulative inflation in 1996–2020, i.e., after the introduction of national currencies and overcoming the initial period of very high inflation or even hyperinflation (see Section 3), and before the post-pandemic inflation acceleration (see Section 6), was high or very high, depending on the country (Table 17).

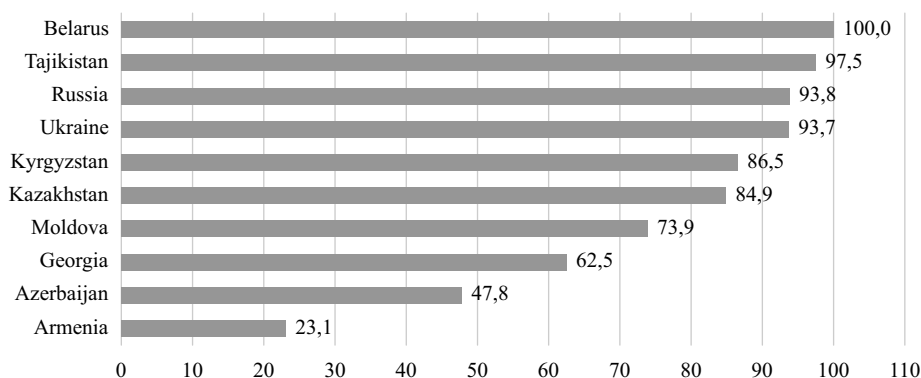
Only three countries—Armenia, Azerbaijan, and Georgia—recorded moderate cumulative price increases. Belarus turned out to be on the opposite side of

Table 17

Cumulative inflation, 1996–2020 (%).

Country	Cumulative inflation
Armenia	252
Azerbaijan	310
Georgia	355
Kazakhstan	664
Kyrgyzstan	702
Turkmenistan	710
Moldova	897
Ukraine	1,572
Russia	1,917
Tajikistan	3,128
Uzbekistan	3,481
Belarus	88,534

Sources: World Economic Outlook database, October 2021; author's calculations.

**Fig. 14.** Cumulative depreciation of the FSU currencies against the USD, December 31, 1995–December 31, 2020 (%).

Source: IMF International Financial Statistics; author's calculations.

the spectrum, with a cumulative price increase of almost 900 times during the analyzed period. Elsewhere, double-digit inflation was still the norm in the 2000s and early 2010s. Only the second half of the 2010s brought partial progress thanks to applying the inflation targeting strategy. Since 2021, this progress has been under threat due to the growing global inflationary pressures and the war in Ukraine.

Figure 14 shows the degree of depreciation of the FSU currencies against the USD over the same period. Except for the Armenian dram and Azerbaijani manat, other currencies lost more than half of their end-of-1995 value. The Belarusian rouble lost almost 100%, the Tajikistani somoni (including its predecessor, the Tajikistani rouble) depreciated by 97.5%, the Russian rouble—by 93.8%, and the Ukrainian hryvnia—93.7%.

A large-scale depreciation of exchange rates undermined confidence in the FSU currencies. It is reflected, among others, in the dollarization of the financial sector's liabilities (Table 18). Despite a slight decline since the mid-2000s, it remains high throughout the region. In addition to the dollarization of bank assets and liabilities, there is also widespread use of USD cash and other global currencies in business transactions. There is no statistical data on the foreign cash in circulation for obvious reasons, but these seem to be significant amounts in the FSU countries.

Table 18

Share of foreign currency-denominated liabilities in total liabilities of the financial sector, 2005–2020 (%).

Country	2005	2009	2013	2015	2017	2019	2020
Armenia	66.8	67.6	63.9	65.7	60.0	55.4	52.8
Belarus			63.5	74.1	67.6	61.2	63.7
Georgia	77.3	78.2	65.9	70.7	63.5	60.1	59.1
Kazakhstan		55.5	40.4	66.6	44.0	38.0	
Kyrgyzstan			55.0	64.9	46.6	39.8	42.6
Moldova		53.8	51.0	52.8	44.1	41.8	42.9
Russia		31.5	25.4	39.9	23.0	21.0	23.2
Tajikistan		61.8	55.4				
Ukraine	43.5	55.8	43.3	52.8	52.8	42.8	39.1
Uzbekistan							59.7

Note: No data available for Azerbaijan and Turkmenistan.

Source: IMF Financial Soundness Indicators.

Finally, we need to look at the level of public debt (see Table 16). Among the analyzed countries, two groups can be distinguished—exporters of oil and natural gas, and others. The gross debt level in the first group can be considered low (Russia, Azerbaijan, Kazakhstan, and Turkmenistan) or moderate (Uzbekistan), especially since these countries have SWFs. That is, their net debts are lower than gross debts.

For the remaining seven countries, the situation is less rosy: their gross debt in 2020 ranged from 40 to 70% of GDP. These are high figures, although not catastrophic compared to some other AEs and EMDEs. In the case of Tajikistan, Kyrgyzstan, Armenia, Georgia, and Moldova, part of their debts (sometimes significant) is financed by long-term loans on concessional terms received from international financial institutions and bilateral official donors.

Belarus and Ukraine look vulnerable, especially given the war damages (Ukraine) and sanctions (Belarus). In the past, they repeatedly faced difficulties in accessing international financial markets (with lower debt levels) and were forced to negotiate the restructuring of their debt obligations. The unfinished COVID-19 pandemic and consequences of the war will further worsen their fiscal balances and increase public debt in the coming years.

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