Challenges for Sustainable Growth in EAEU Member States

Oleg Karachun,
Head of Methodology and Analysis Section, Macroeconomic Policy Department, Eurasian Economic Commission
Growth experienced by EAEU Member States was driven by commodity prices cycle because of heavy dependence on commodities.

Economies remain highly vulnerable to commodity price variability: economic growth and convergence process fluctuate significantly over the commodity price cycle.

**GDP compared to peer, constant prices, %**

- Developing countries
- Commodity exporting countries

Quartiles (25%/75%)
- Armenia
- Kyrgyz Republic
- Belarus
- Kazakhstan
- Russia

**Economic growth and convergence over the cycle 1993-2023**
Growth spillover through a number of channels: trade, financial, remittance, fiscal linkages...

Intra-EAEU commodity export structure by destination (2018), %

Key macroeconomic indicators demonstrate strong correlation over the business cycle...

Patterns of economic growth changed...

For example, 10.8% of Kazakhstan exports went to Kyrgyz Republic.
Convergence Process Slowdown

Economic convergence: speed and direction

- Speed of convergence process significantly decreased.
- Growth at a slower pace – great economic moderation – “new normal”.
- Multispeed catch-up process among EAEU Member States.
- Policy priorities to strengthen the pace of income convergence vary across countries.
- Need for economic policy coordination to take into account spillover effects.
While economic growth contributed to income growth and poverty reduction, income inequality continue to increase.

Widening economic and social disparities can pose a threat to durable growth, emphasizing the importance of economic and social inclusion.

**Policy lesson.** High levels of economic inequality can hinder growth by limiting the accumulation of skills and human capital.
Unequal distribution of income between regions is a common feature for the EAEU Member States. As a result, a significant part of the regions in the Member States are biased towards low incomes, that is, the median is below average. Especially distinguished are Kazakhstan and Russia, where a small number of regions provide production volumes significantly more than others. The main factor in such high productivity (per capita) is specialization in the commodity sector.
Redistribution through the fiscal system, as long as it is not excessive, can on net be conducive to sustainable growth.

Resource mobilization, private investment and tax incentives play a crucial role for growth and foster inclusive growth.

**Private capital inflow and budget expenditures, 2000-2016**

**Potential growth and budget expenditures, 2000-2016**
Gains from Further Integration

Reducing barriers, trade facilitation and trade networks enlargement contributes sustainable. Regional trade is: stable over the business cycle; more diversified (compared to external trade). Regional trade promotes: intra industry trade, industrial production and employment.

Trade and economic growth, %

<table>
<thead>
<tr>
<th></th>
<th>2001-2008</th>
<th>2010-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External trade</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intratrade</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade (export)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Grubel–Lloyd (intra-industry trade) index

Intratrade and trade in region, % of total trade

- EC
- NAFTA
- ASEAN
- Mercosur
- EAEU