



# Caucasus and Central Asia Regional Economic Outlook

May 18, 2017



# Roadmap

**The Global Context**

**The Outlook for the Region**

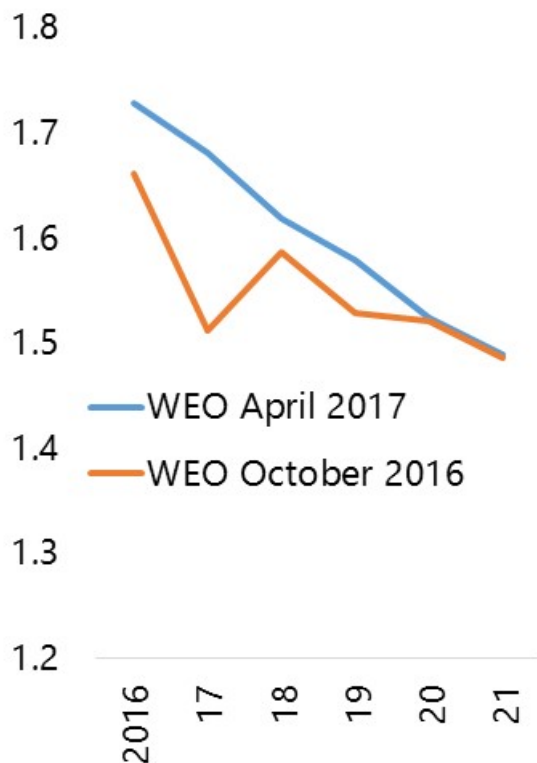
**Key Themes**

**IMF Program for Georgia**

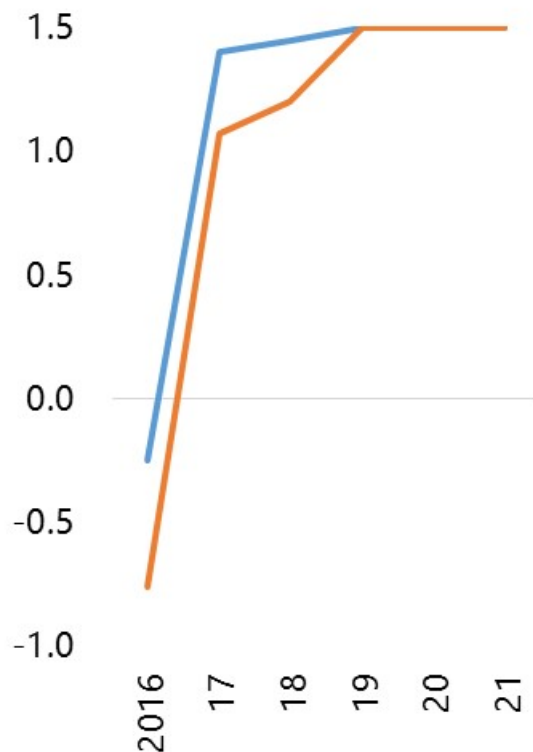
# Stronger growth in key trading partners ...

## GDP Growth (Percent change)

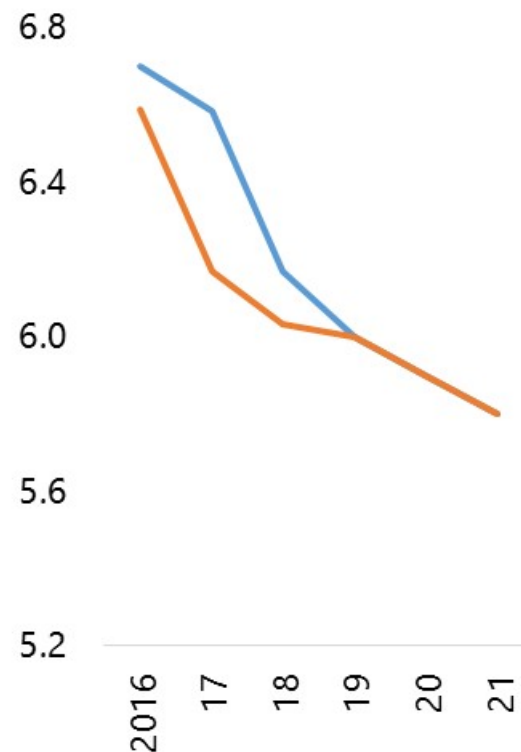
### Euro Area



### Russia

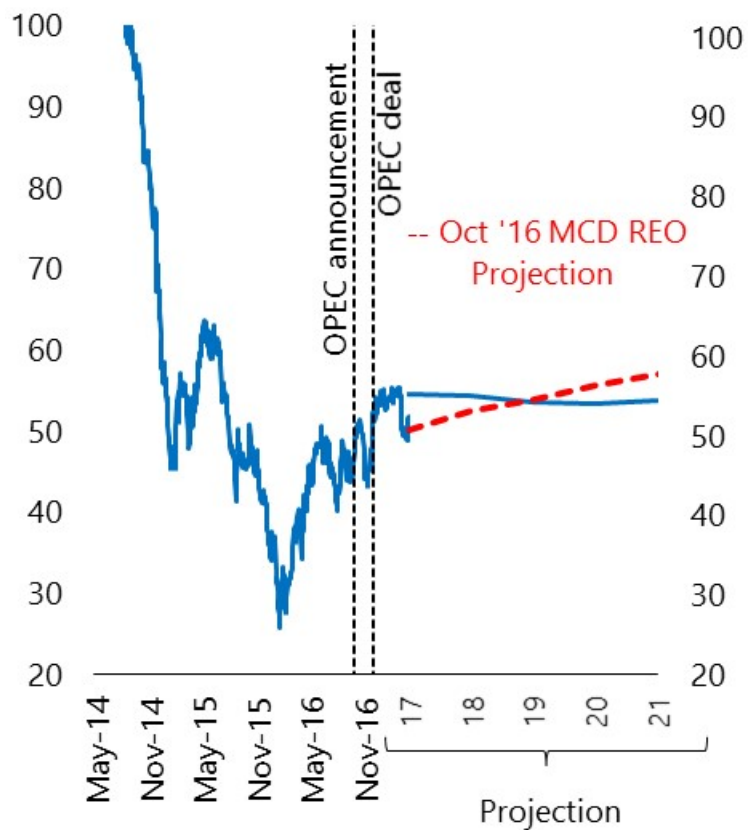


### China

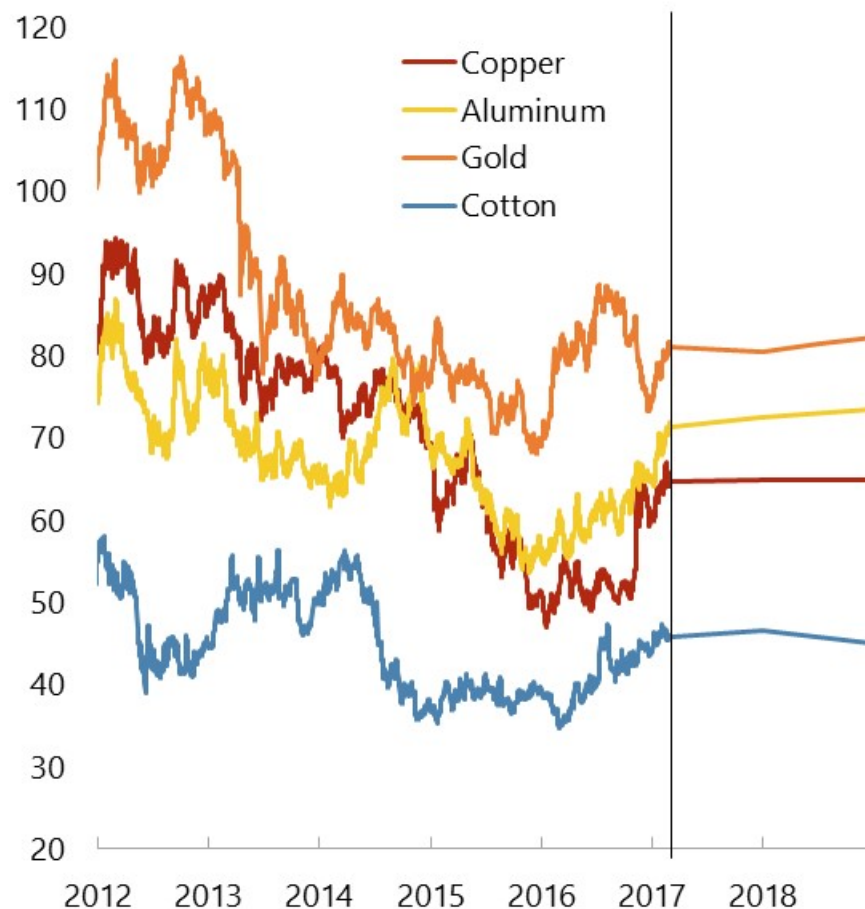


# ... along with firming prices of oil and other key commodities ...

**APSP<sup>1</sup> Crude Oil**  
(U.S. dollars a barrel)



**Commodity Prices**  
(Index, June 2011=100)

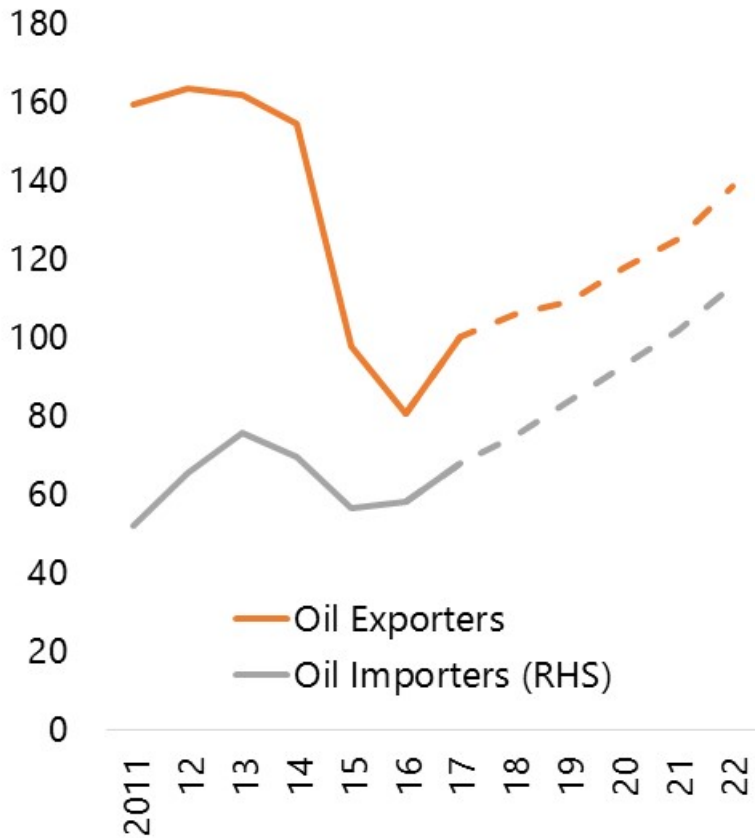


Sources: Bloomberg; and IMF staff calculations.  
1 Note: Average of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

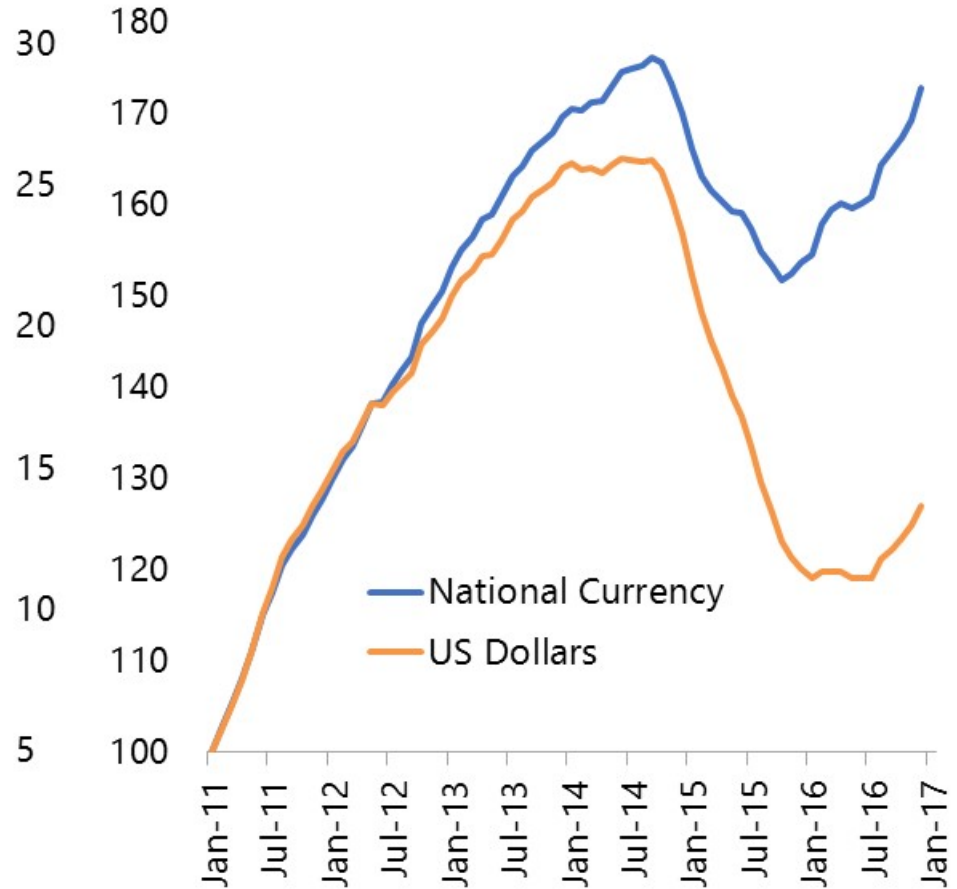


# ... imply a more favorable external environment for the region

## Total Exports



## Remittances (Jan 2011 = 100)



# But the global outlook is subject to downside risks

Inward shift of policies, including protectionism

Tighter and volatile global financial conditions

Possible further appreciation of the US dollar

# Implications for the region?

- **Global growth momentum is an opportunity**
  - ✓ Prospects for key trading partners have firmed
  - ✓ Reforms needed to diversify the economy, boost productivity, enhance competitiveness, generate employment
- **Downside risks call for rebuilding resilience**
  - ✓ Continued focus on rebuilding buffers
  - ✓ Address fiscal and financial vulnerabilities

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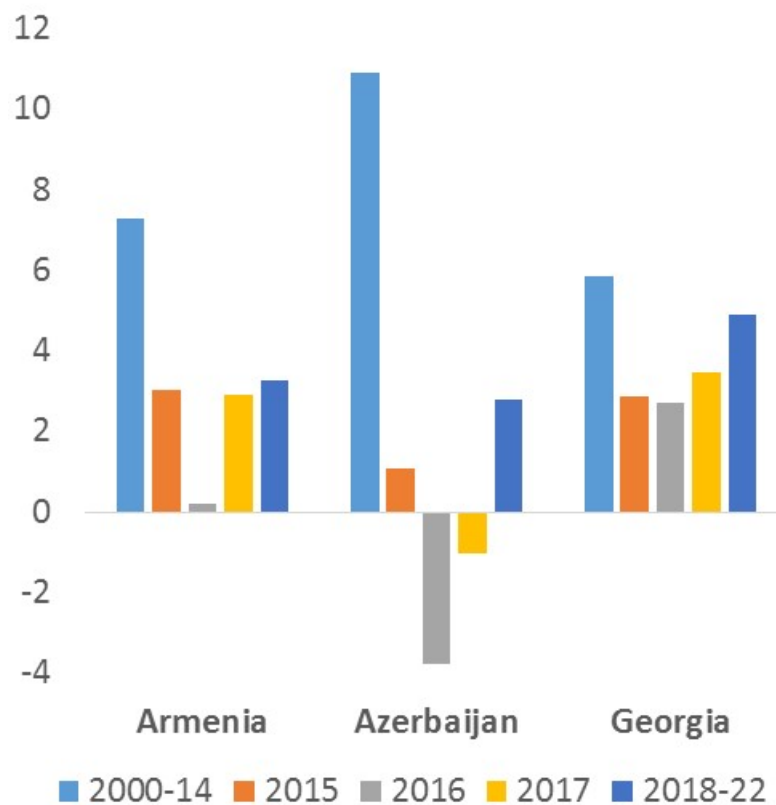
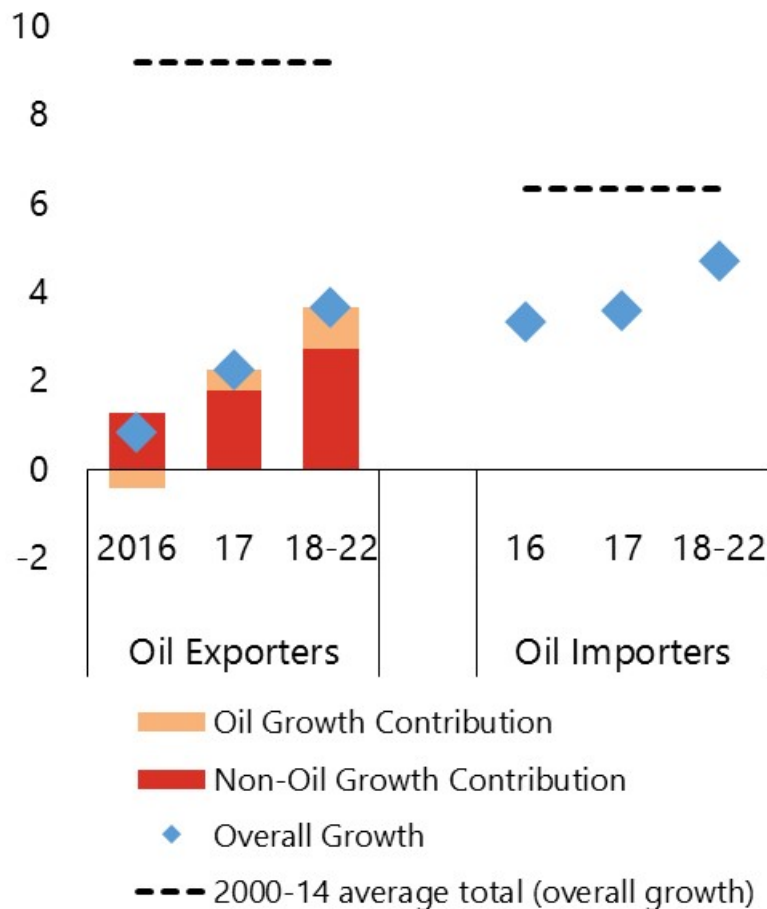
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# Growth expected to pick-up this year and next, but medium-term prospects remain subdued ...

## Real GDP Growth (Percent change)



# Roadmap

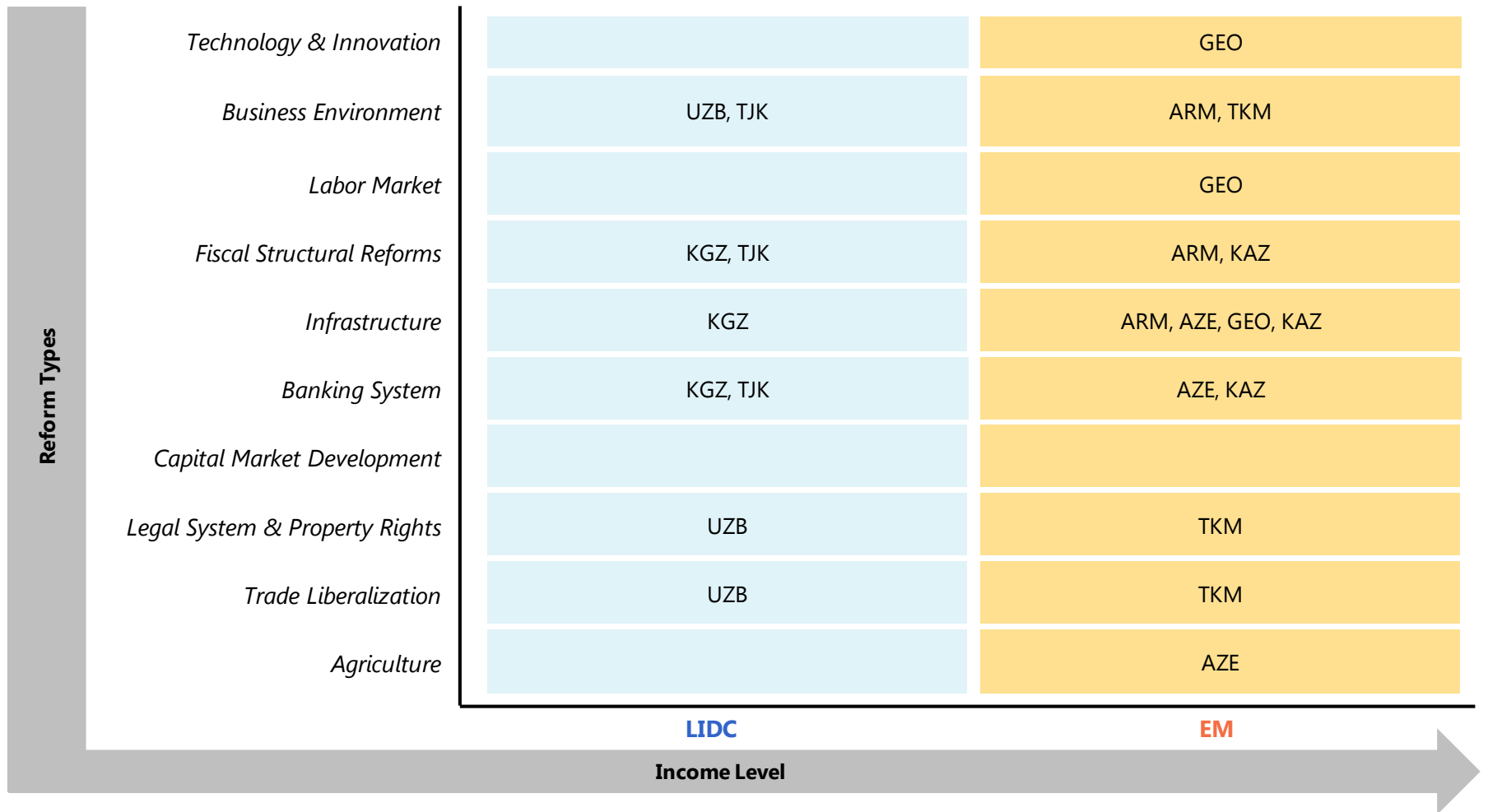
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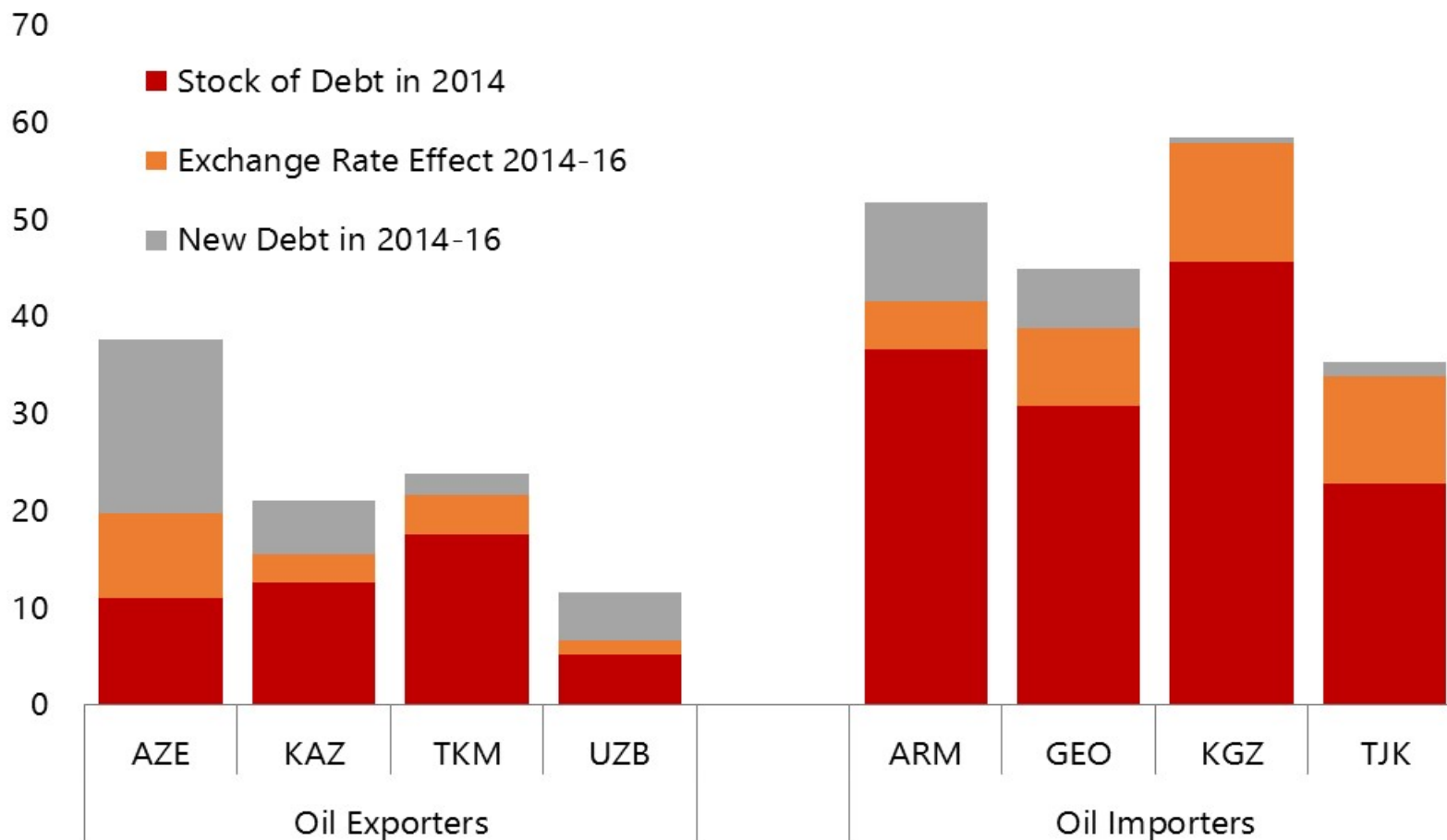
**IMF Program for Georgia**

# Critical mass of structural reforms needed, with many common priority areas



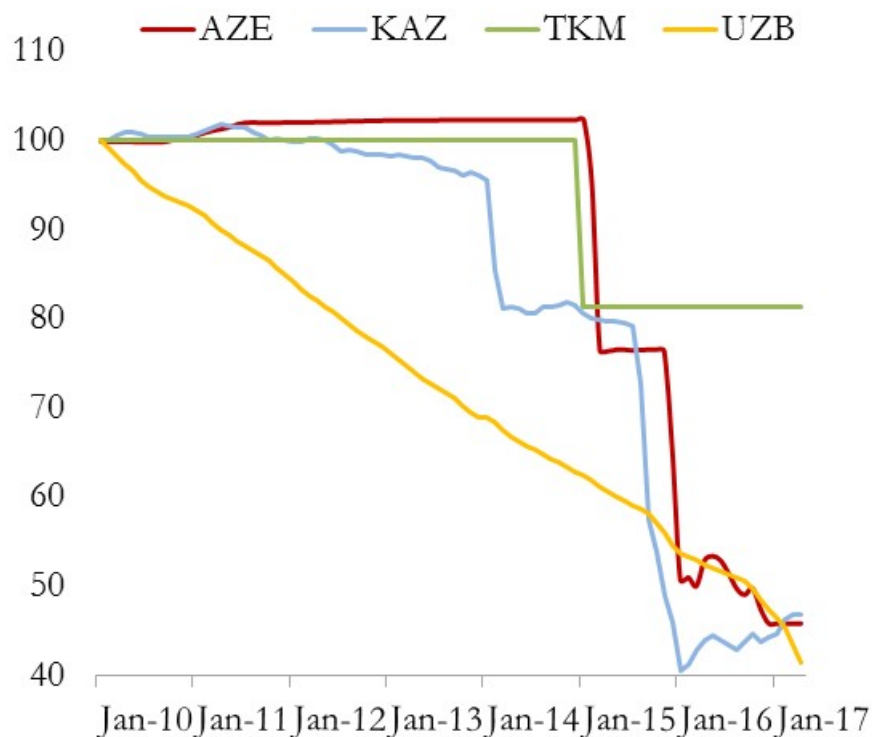
# Public debt has increased rapidly ...

## Public Debt (Percent of 2016 GDP)

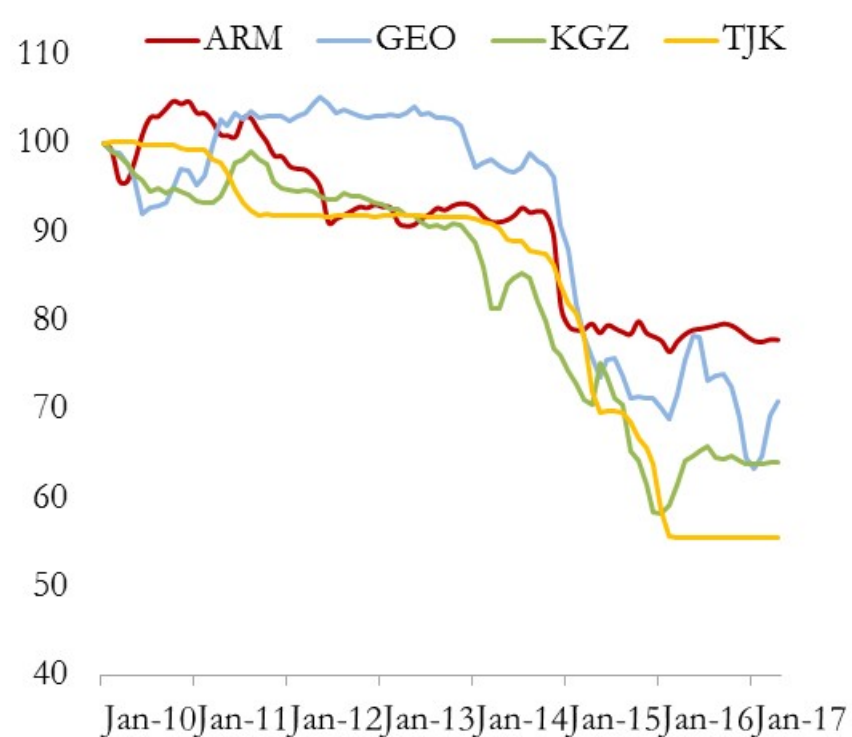


# Exchange rates have broadly stabilized

## 1. Oil Exporters (U.S. dollars per national currency)

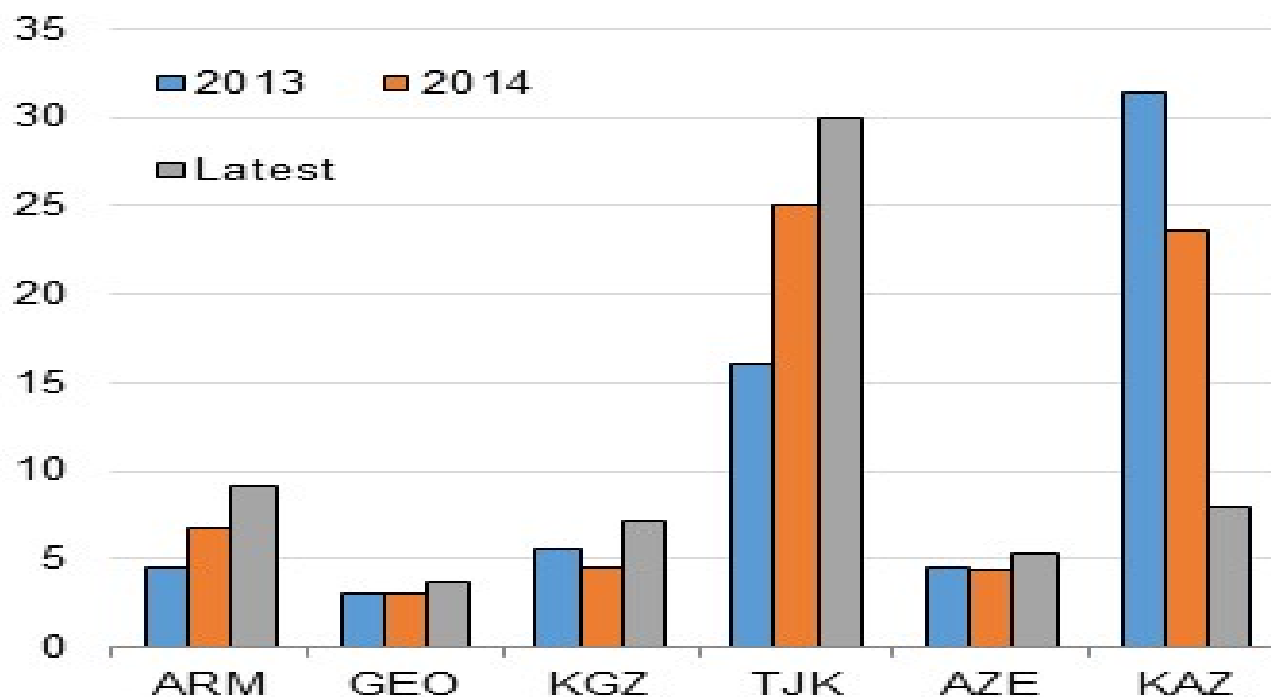


## 2. Oil Importers (U.S. dollars per national currency)



# Financial vulnerabilities have also risen

## Non-Performing Loans (In Percent of Total Loans)



Note: NPLs in Azerbaijan include only the overdue portion of the loans. In Kazakhstan, the reduction reflects the de-licensing of a bank with significant NPLs and legislation changes allowing banks to move NPLs to a Special Purpose Vehicle. Turkmenistan's data are not available.

# Summary of Key Messages

- **Growth is expected to accelerate over next two years**, while remaining subdued.
- **Reforms are critical** to secure resilience and generate higher and more inclusive growth.
- **Fiscal consolidation needs to proceed** carefully, with the pace calibrated to country-specific circumstances.
- **Monetary policy frameworks should be further strengthened** to reap the benefits of exchange rate flexibility.
- **Financial sector vulnerabilities need to be addressed urgently.**

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# IMF-Supported Program in Georgia

- **Government has formulated a coherent plan to:**
  - ✓ Ensure macro and financial stability
  - ✓ Strong focus on structural reforms
- **It has demonstrated its commitment to:**
  - ✓ Fiscal discipline
  - ✓ Financial supervision
  - ✓ Limit contingent liabilities



# IMF-Supported Program in Georgia

## ➤ **Fiscal policy...**

- ✓ Consolidation to keep debt-to-GDP at current levels
- ✓ Growth-friendly measures
  - ❖ Create fiscal space for needed public investment
  - ❖ Reduction in business taxes
  - ❖ Strengthening tax administration
- ✓ Promoting inclusiveness
  - ❖ Pension and education reform, vocational training
  - ❖ Targeted health care



# IMF-Supported Program in Georgia

## ➤ **Monetary policy**

- ✓ Keep inflation-target framework and lari flexibility

## ➤ **Financial policy:**

- ✓ Strengthening further supervision and regulation
- ✓ Improve financial safety nets (deposit insurance, bank resolution framework, and LOLR)
- ✓ Expanding oversight of non-banking sector



# IMF-Supported Program in Georgia

## ➤ **Structural Reform Agenda**

- ✓ Education reform
- ✓ Scaling-up public Investment
- ✓ Capital market development
- ✓ Making public administration more efficient
- ✓ Improve business environment
- ✓ Trade integration



**Thank you!**

