

CCA Region Highlights

The CCA region has been hit by large and persistent external shocks since 2014, particularly the slump in commodity prices and slowdown in its key economic partners (mainly Russia and China). Regional growth is projected to average 1.3 percent this year. This represents a sharp weakening of economic activity compared with the rates observed in the 15 years before the shocks, especially for oil exporters. Next year, the region's economies should turn a corner, with average growth picking up to 2.6 percent. However, available policy space has declined, and vulnerabilities have risen. Medium-term prospects are weak, with growth projected to average 4 percent in 2018–21, half that in 2000–14. Under this scenario, the gains that have been made in living standards since independence, vis-à-vis emerging markets, would be partly reversed.

Shocks Mitigated, Vulnerabilities Heightened

Fiscal accommodation, along with currency adjustment, has helped the CCA mitigate the impact of the external shocks. However, amid weakening revenues, increased public spending has widened budget deficits by some 6.3 percentage points of GDP on average since 2014. With financial assets being drawn down and public debt rising, policy space has declined. Going forward, fiscal policy needs to strike a balance between supporting growth in the short term and ensuring debt sustainability, intergenerational equity, and precautionary savings over the longer term. This requires prioritizing pro-growth capital spending and safeguarding social expenditures, while consolidating fiscal positions in the context of credible medium-term plans.

Currency adjustment has supported competitiveness but temporarily raised inflation and, amid weakening growth, contributed to the buildup of vulnerabilities in the highly dollarized financial sectors. With many countries opting for more exchange rate flexibility, the need to strengthen monetary policy frameworks has become a priority. This must be complemented with further steps to contain risks to financial stability and intermediation, including capital injections, restructuring and closing of troubled banks, and revamping of lending practices, as well as strengthening of financial surveillance and macroprudential and crisis management frameworks.

Structural Transformation Needed

Most CCA countries made rapid gains in living standards in the two decades following their independence. However, these gains have lost momentum in recent years amid weak productivity growth and deceleration of investment. Structural transformation to diversify away from reliance on commodities and remittances is imperative to improve medium-term prospects, create jobs, and raise living standards. Many countries have already drawn up diversification and privatization plans. But decisive actions are now needed to implement them. Efforts could focus on improving governance, accountability, property rights and financial intermediation, areas where the CCA lags behind its emerging market peers. Growth will also need to be made more inclusive, to allow the broader population to enjoy the benefits of higher living standards.

CCA Region: Selected Economic Indicators, 2000–17*(Percent of GDP, unless otherwise indicated)*

	Average 2012	2013	2014	2015	Projections	
					2016	2017
CCA						
Real GDP (annual growth)	8.7	6.6	5.3	3.2	1.3	2.6
Current Account Balance	1.5	2.1	2.0	-3.0	-4.1	-2.8
Overall Fiscal Balance	2.7	2.7	1.5	-4.6	-4.9	-3.0
Inflation, p.a. (annual growth)	9.4	6.1	5.9	6.2	9.9	8.3
CCA Oil and Gas Exporters						
Real GDP (annual growth)	9.0	6.7	5.3	3.1	1.0	2.4
Current Account Balance	2.7	2.8	3.3	-2.4	-3.5	-2.0
Overall Fiscal Balance	3.4	3.3	1.9	-4.7	-4.8	-2.8
Inflation, p.a. (annual growth)	9.6	6.4	6.1	6.4	10.8	8.7
CCA Oil and Gas Importers						
Real GDP (annual growth)	6.5	5.7	4.7	3.7	3.7	4.1
Current Account Balance	-7.6	-4.8	-9.4	-7.9	-8.5	-8.8
Overall Fiscal Balance	-3.2	-2.5	-2.0	-3.6	-5.3	-4.4
Inflation, p.a. (annual growth)	7.7	3.6	4.6	4.8	2.4	4.9

Sources: National authorities; and IMF staff calculations and projections.

Note: CCA oil and gas exporters: Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan. CCA oil and gas importers: Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.