

Caucasus and Central Asia Regional Economic Outlook

May 4, 2017



Roadmap

The Global Context

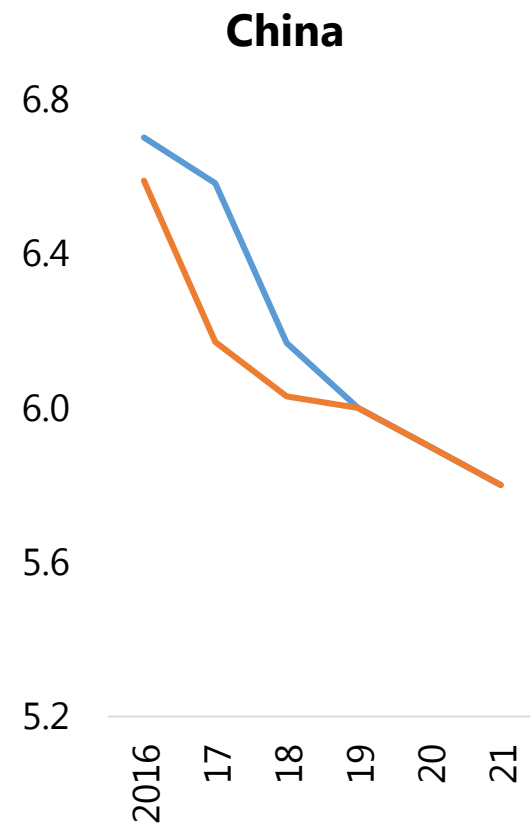
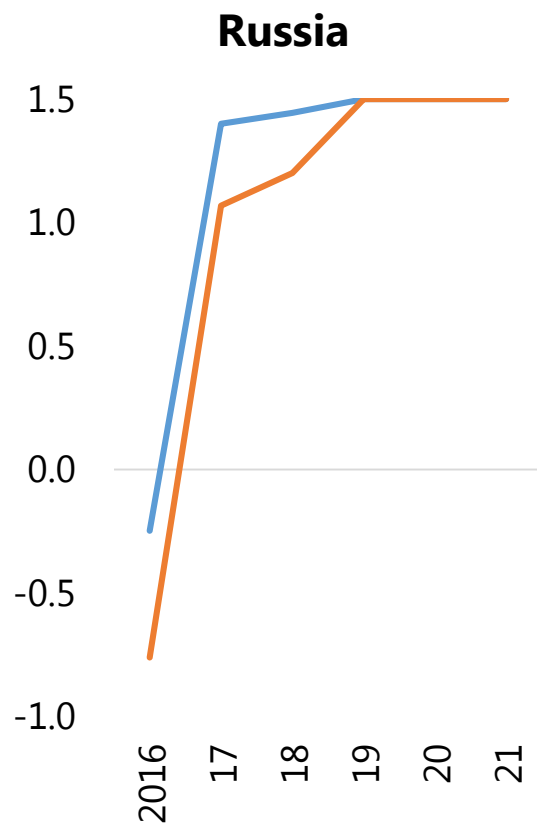
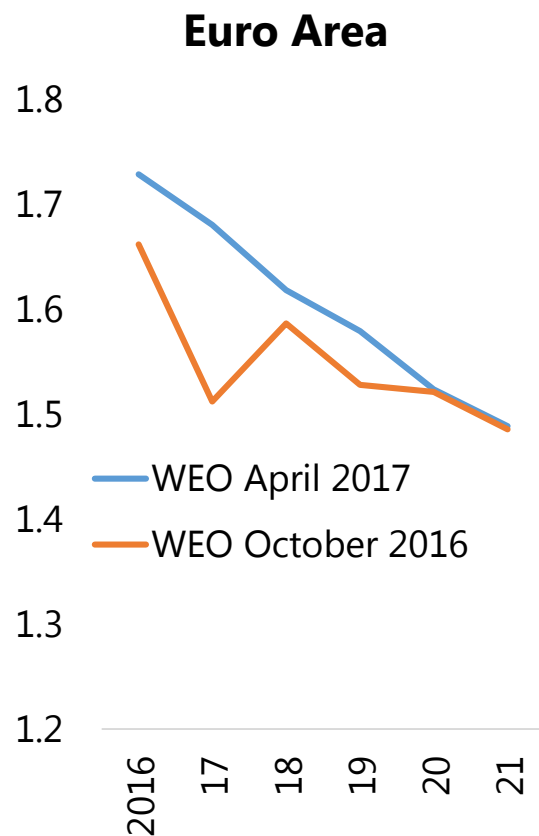
The Outlook for the Region

Key Themes

What the IMF is doing to help

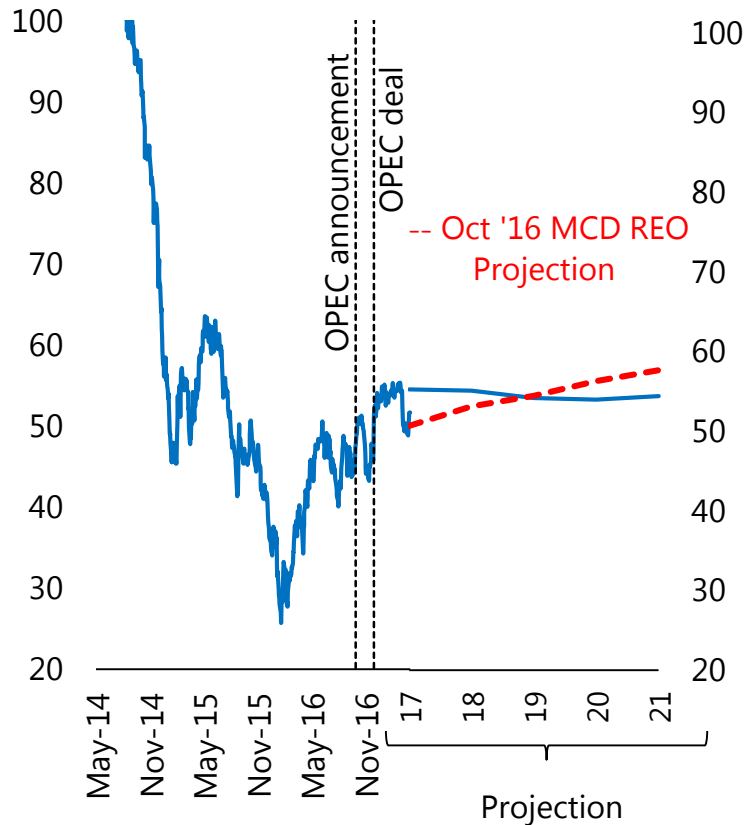
Stronger growth in key trading partners ...

GDP Growth (Percent change)

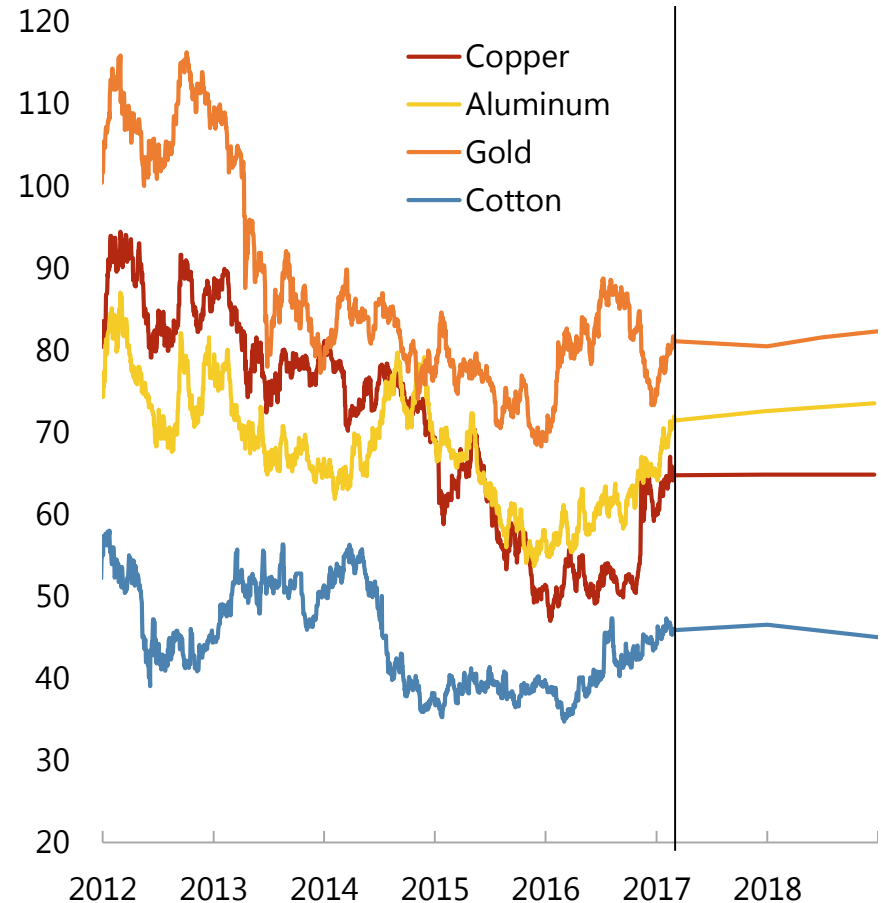


... along with firming prices of oil and other key commodities ...

APSP¹ Crude Oil
(U.S. dollars a barrel)



Commodity Prices
(Index, June 2011=100)

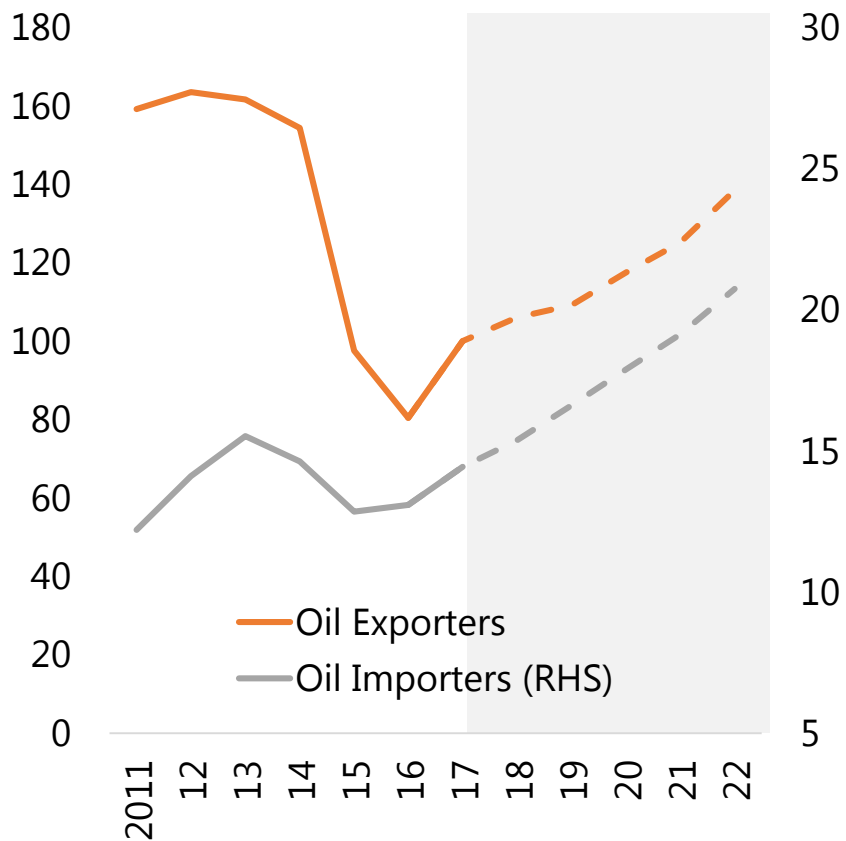


Sources: Bloomberg; and IMF staff calculations.
1 Note: Average of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

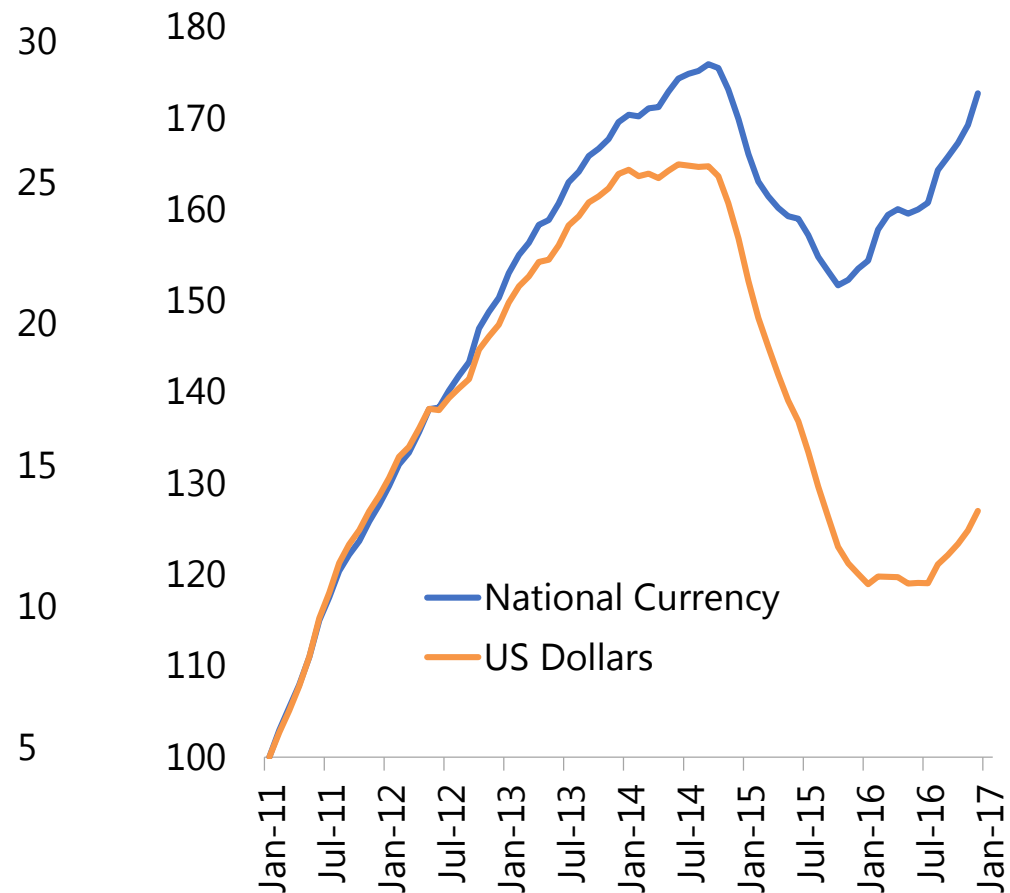


... imply a more favorable external environment for the region

Total Exports
(Billions of USD)



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 represents an opportunity**
 - ✓ Prospects for key trading partners have firmed
 - ✓ Reforms needed to diversify the economy, boost productivity, enhance competitiveness, generate employment
- **But elevated levels of risks need further mitigation**
 - ✓ Continued focus on rebuilding buffers
 - ✓ Address fiscal and financial vulnerabilities

Roadmap

The Context

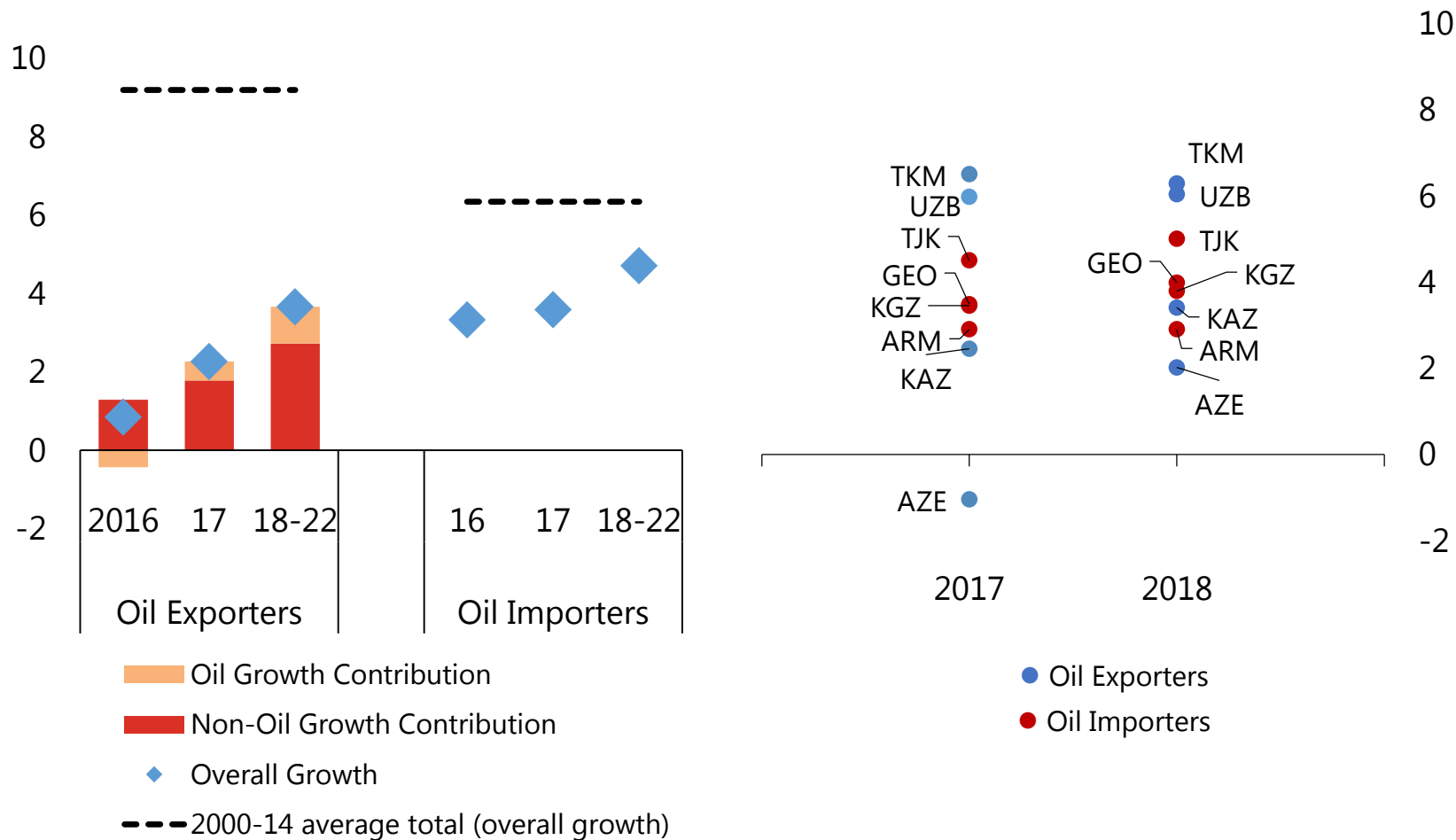
The Outlook for the Region

Key Themes

What the IMF can do to help

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

Real GDP Growth (Percent change)



Roadmap

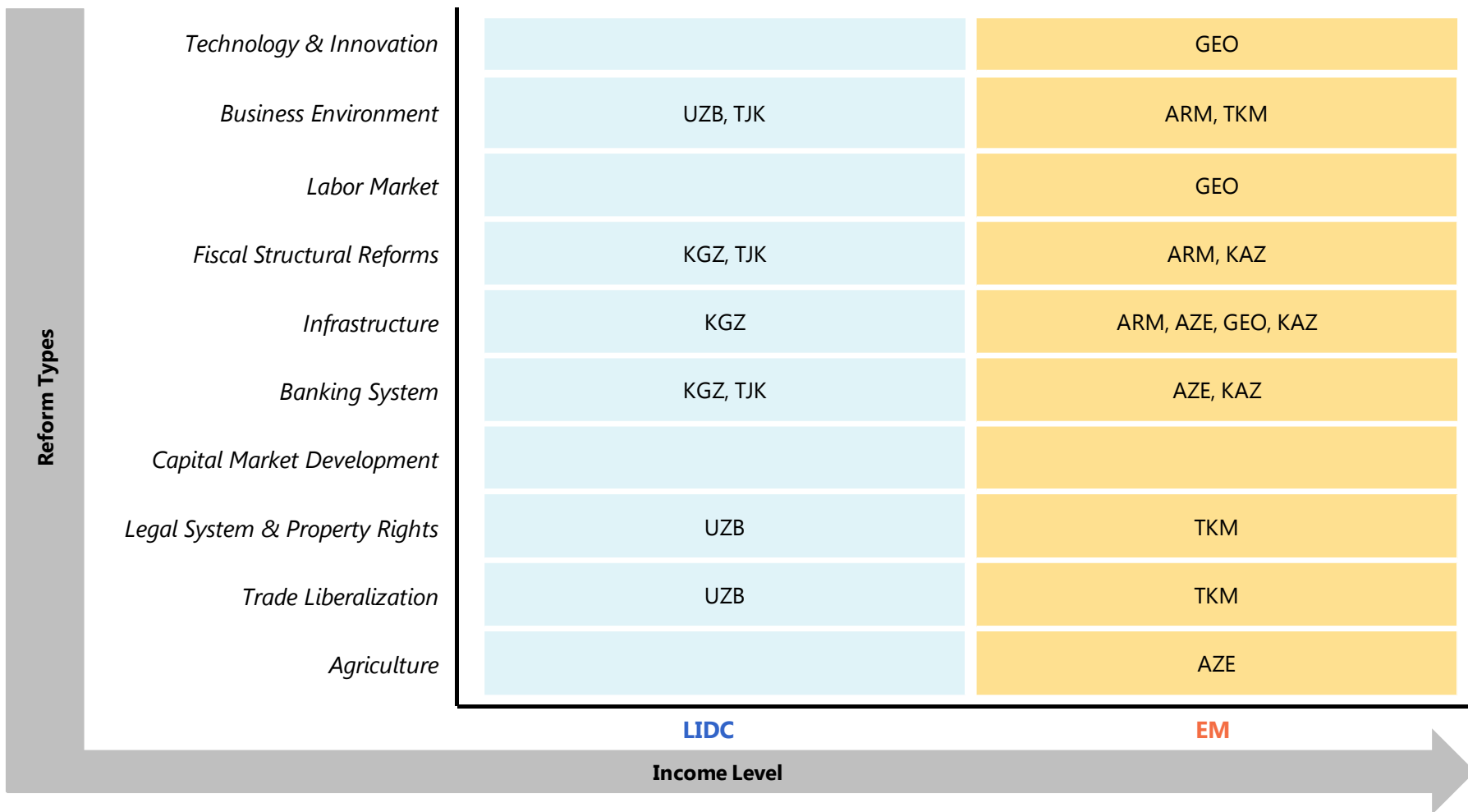
The Context

The Outlook for the Region

Key Themes

What the IMF is doing to help

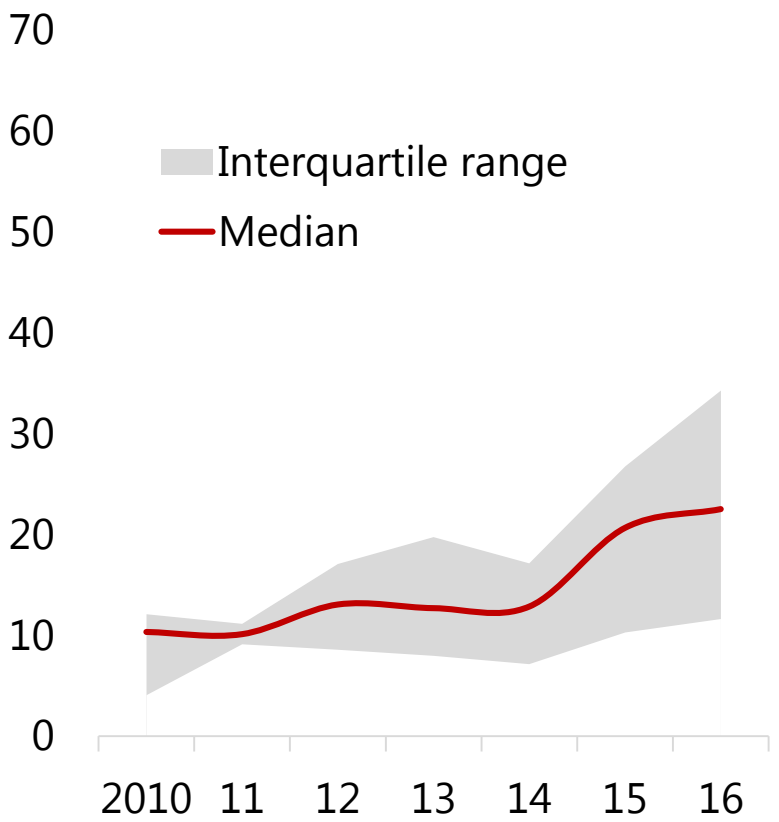
Critical mass of structural reforms needed, with many common priority areas



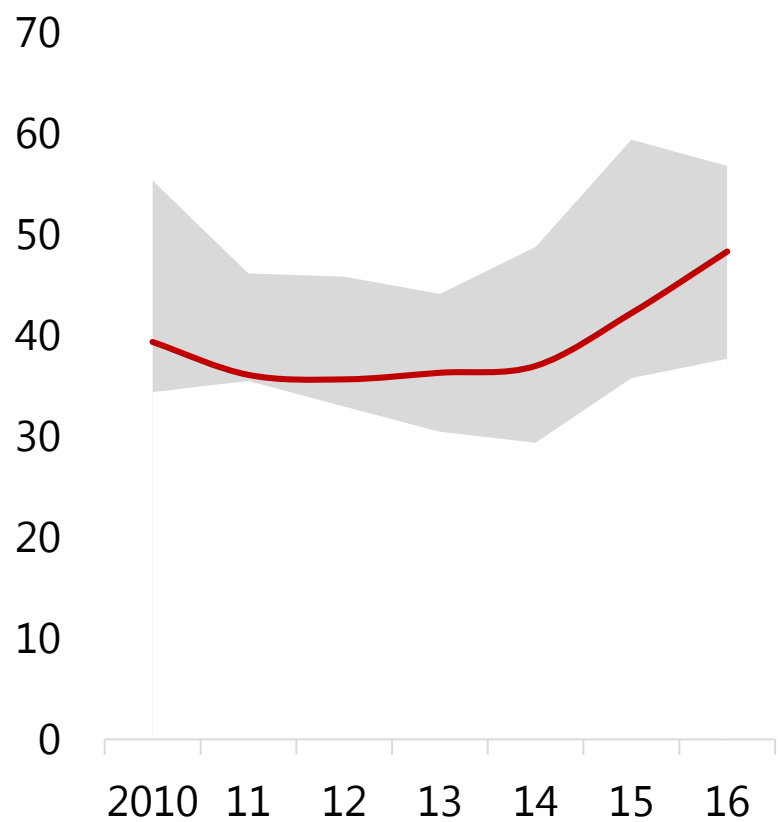
While still low relative to international standards, public debt has increased rapidly ...

Public Debt (Percent of GDP)

Oil Exporters



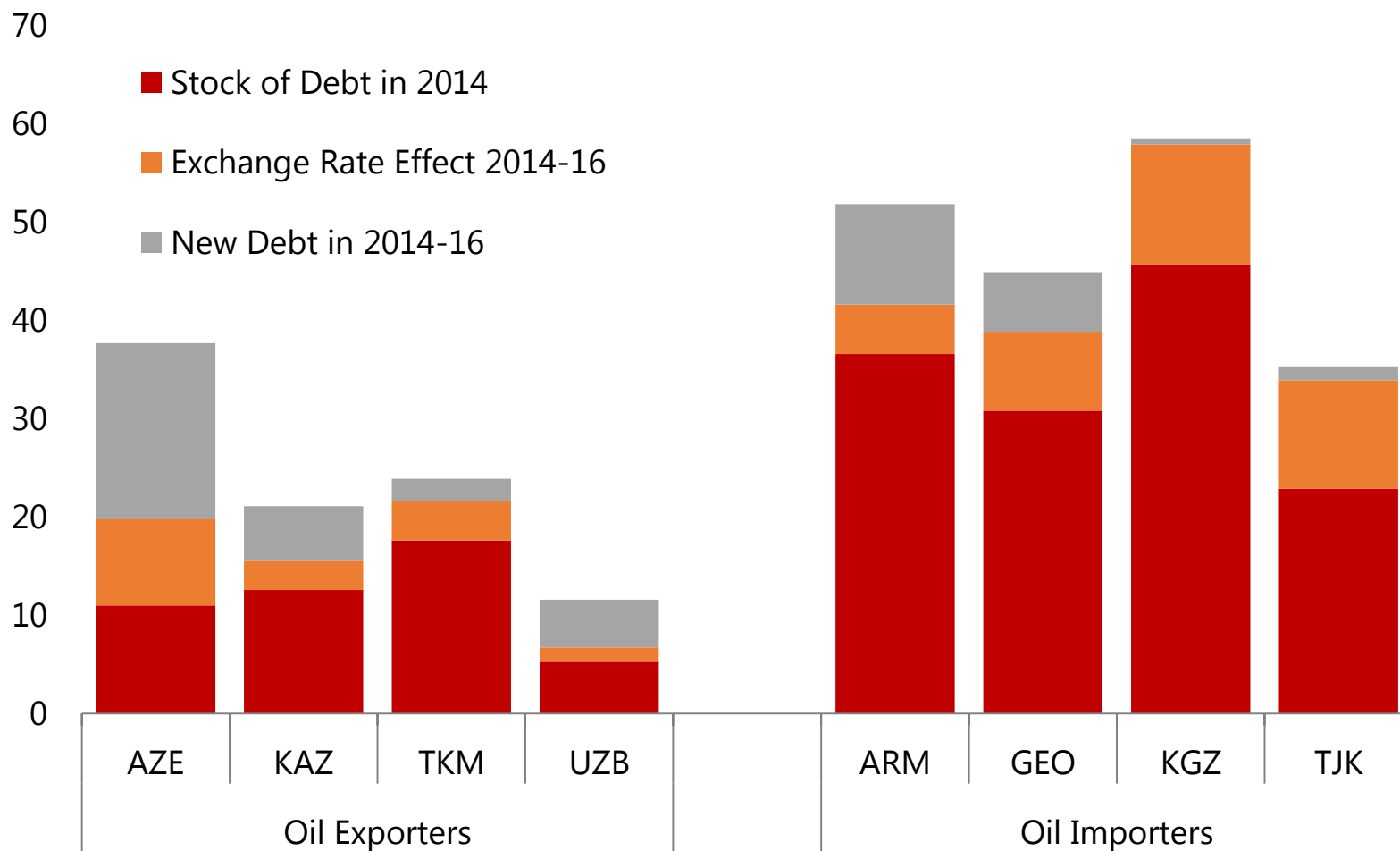
Oil Importers



... in part reflecting the effect of exchange rate adjustment

Public Debt

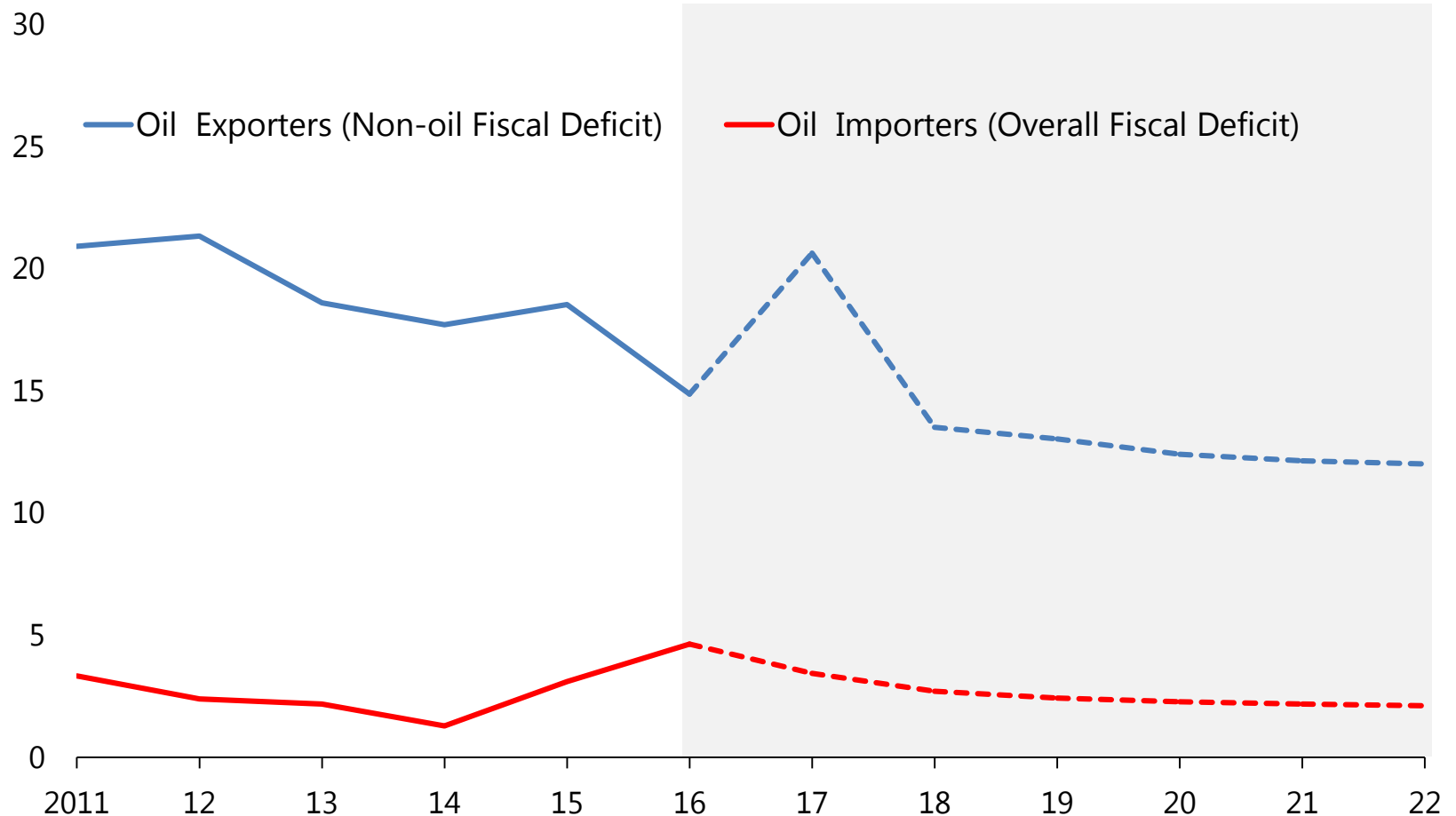
(Percent of 2016 GDP)



Growth-friendly fiscal consolidation needs to proceed promptly

Fiscal Deficit

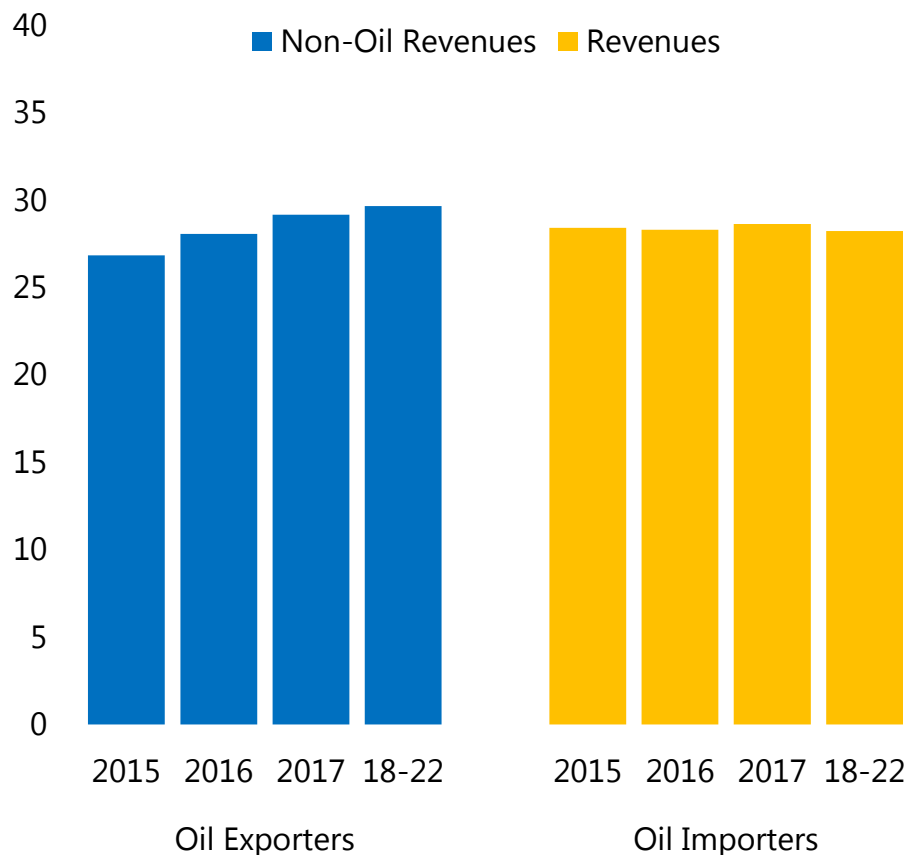
(Percent of GDP for overall deficit, percent of non-oil GDP for non-oil deficit)



Oil exporters need to enhance non-oil revenues, while expenditure efficiency a priority for all

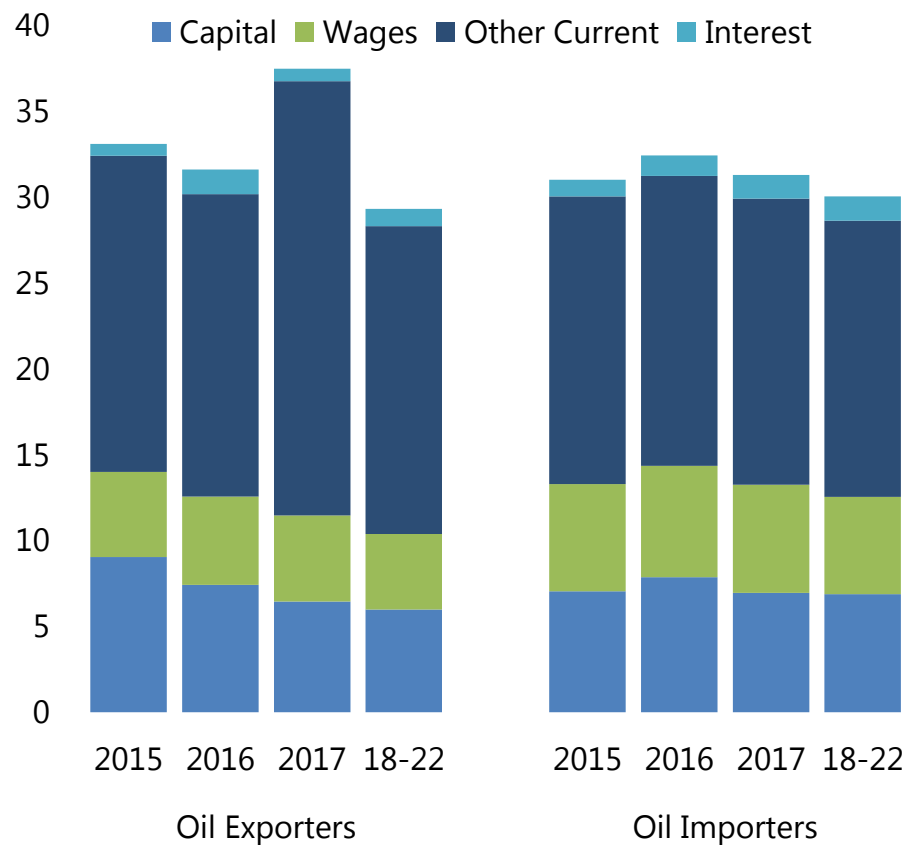
Public Revenue

(Percent of GDP for oil importers, percent of non-oil GDP for oil exporters)



Public Expenditure Components

(Percent of GDP for oil importers, percent of non-oil GDP for oil exporters)

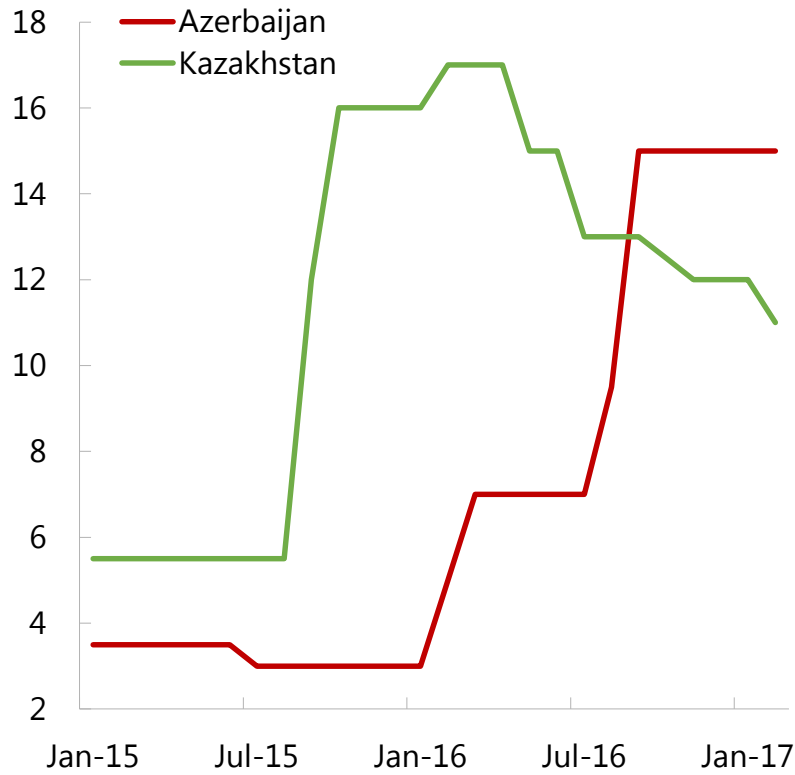


Note: 2017 figures include one-off operations in Kazakhstan (financial sector support package) and Azerbaijan (oil fund transfer for debt repayment).

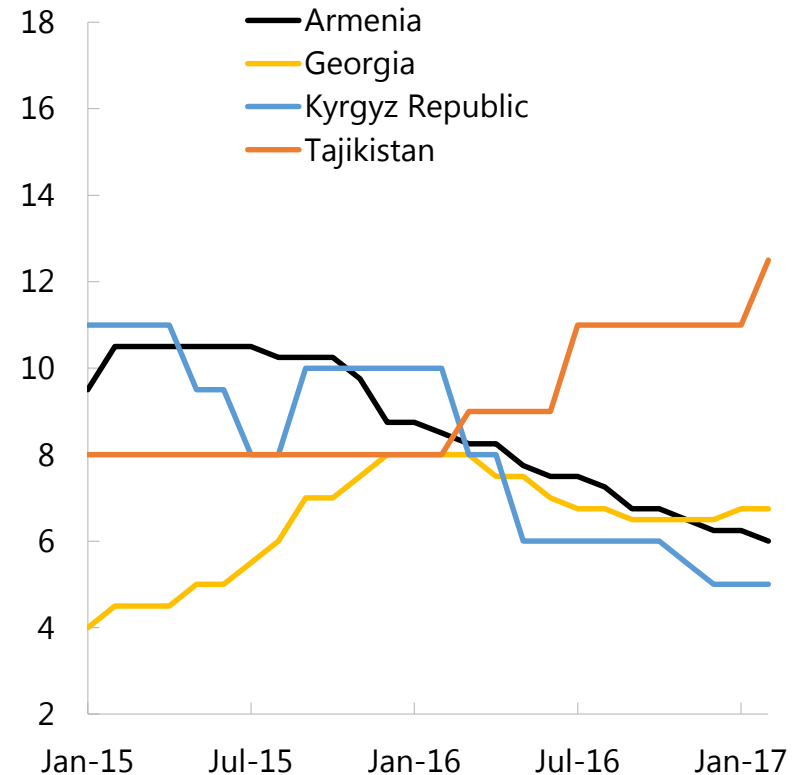
Currency stabilization and diminishing inflationary pressures allowed for easing monetary policy in some countries

Monetary Policy Rate (Percent)

Oil Exporters

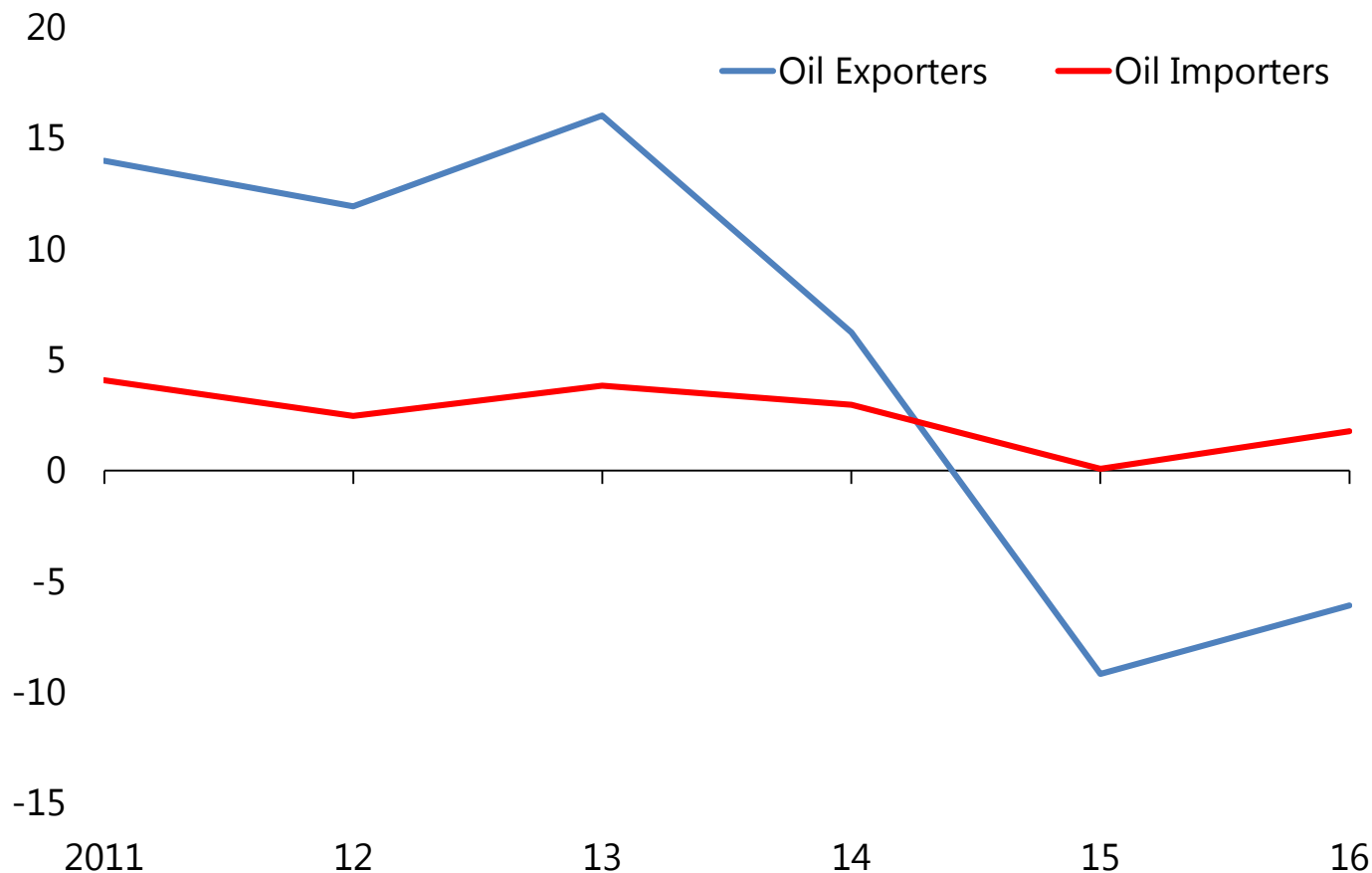


Oil Importers



But credit to the private sector remains depressed ...

Credit to Private Sector (YoY percent change)



... amid increasingly acute financial vulnerabilities

➤ **Asset quality of banks has deteriorated**

- ✓ NPLs are very high in some countries
- ✓ Restructured loans continue to rise

➤ **Bank capital very low**

- ✓ Banks have merged or required closing
- ✓ Some new capital injections

➤ **Public costs of support can be significant**

- ✓ One-time support package to the banking system of about 4 percent of GDP in Kazakhstan

Roadmap

The Context

The Outlook for the Region

Key Themes

What the IMF is doing to help

Partnering on the reform journey

- **Reform is a long and complex process**
 - ✓ Needs sustained commitment
 - ✓ Building public support is key
 - ✓ The vulnerable need to be protected

- **IMF is providing support**
 - ✓ Tailored program design and policy advice
 - ✓ Technical assistance
 - ✓ Facilitating dialogue with peers
 - ✓ Analytical work
 - ✓ Catalyzing support from partners



Summary of Key Messages

- After bottoming out in 2016, **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 fully harness the benefits of exchange rate flexibility.
- **Vulnerabilities in the financial sector need to be addressed urgently.**

To download REO publications, please visit:

<http://www.imf.org/en/Publications/REO/MECA/Issues/2017/04/18/mreo0517>

