

Regional Economic Outlook

Caucasus and Central Asia

May 2015



Outline

Global Environment

CCA Outlook, Risks, and Policies



Global growth remains moderate and uneven



	World	U.S.	Euro Area	Emerging markets	China	Russia
2014	3.4	2.4	0.9	4.6	7.4	0.6
2015	3.5	3.1	1.5	4.3	6.8	-3.8
2016	3.8	3.1	1.7	4.7	6.3	-1.1

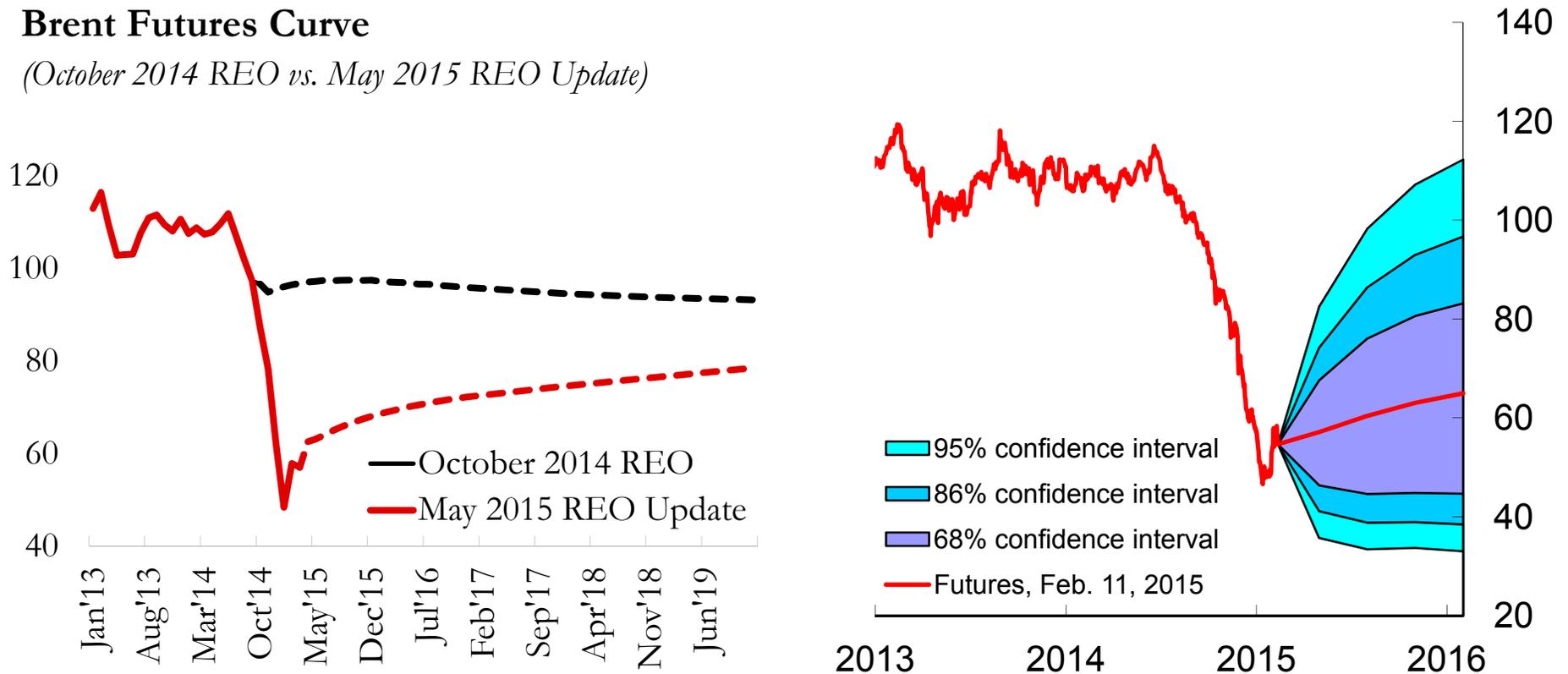
Oil prices are expected to remain lower than in the recent past, but uncertainty is large

Oil Price Prospects

(Brent crude oil; U.S. dollars a barrel)

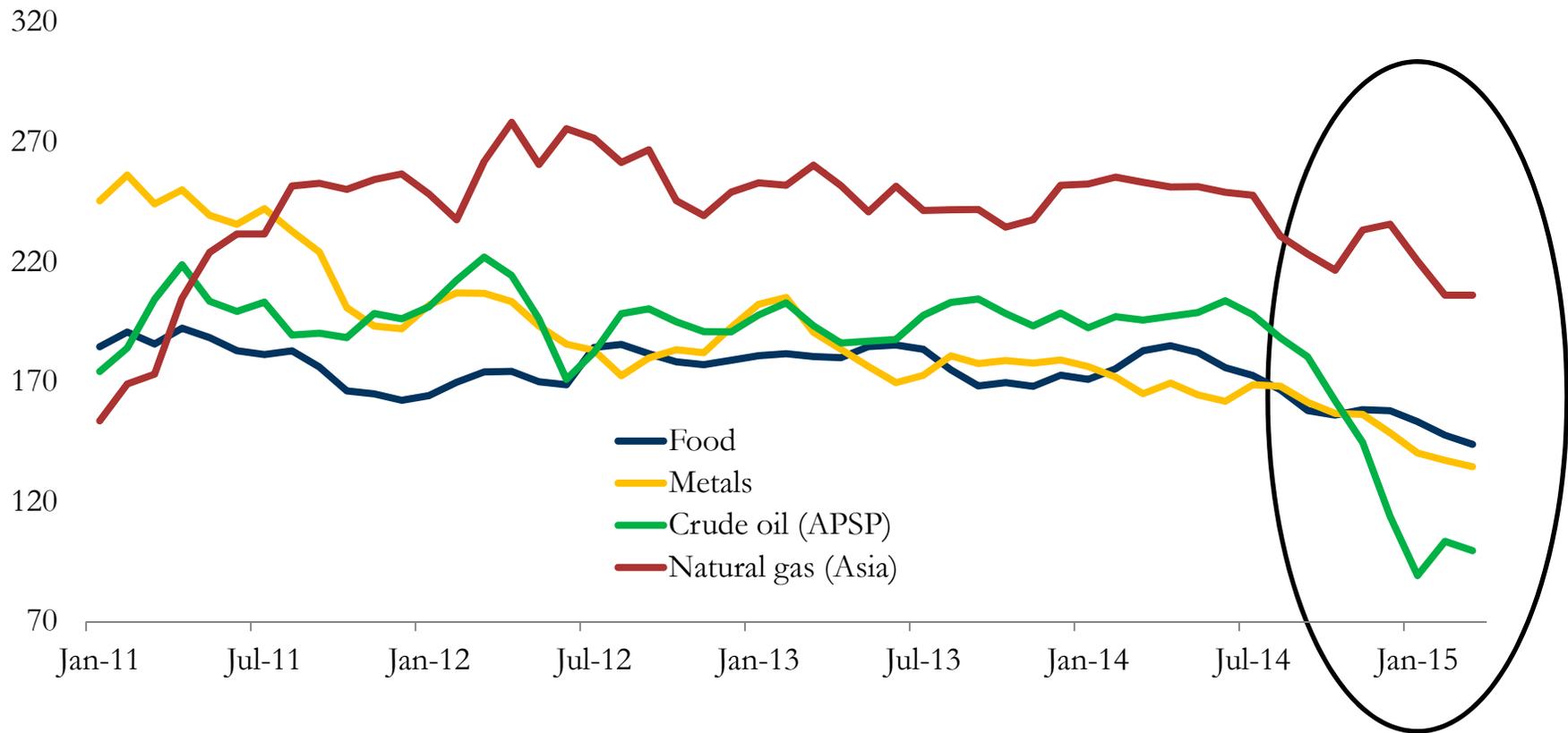
Brent Futures Curve

(October 2014 REO vs. May 2015 REO Update)



Other commodity prices have also declined, although not by as much as oil prices

Commodity Prices
(2005=100)



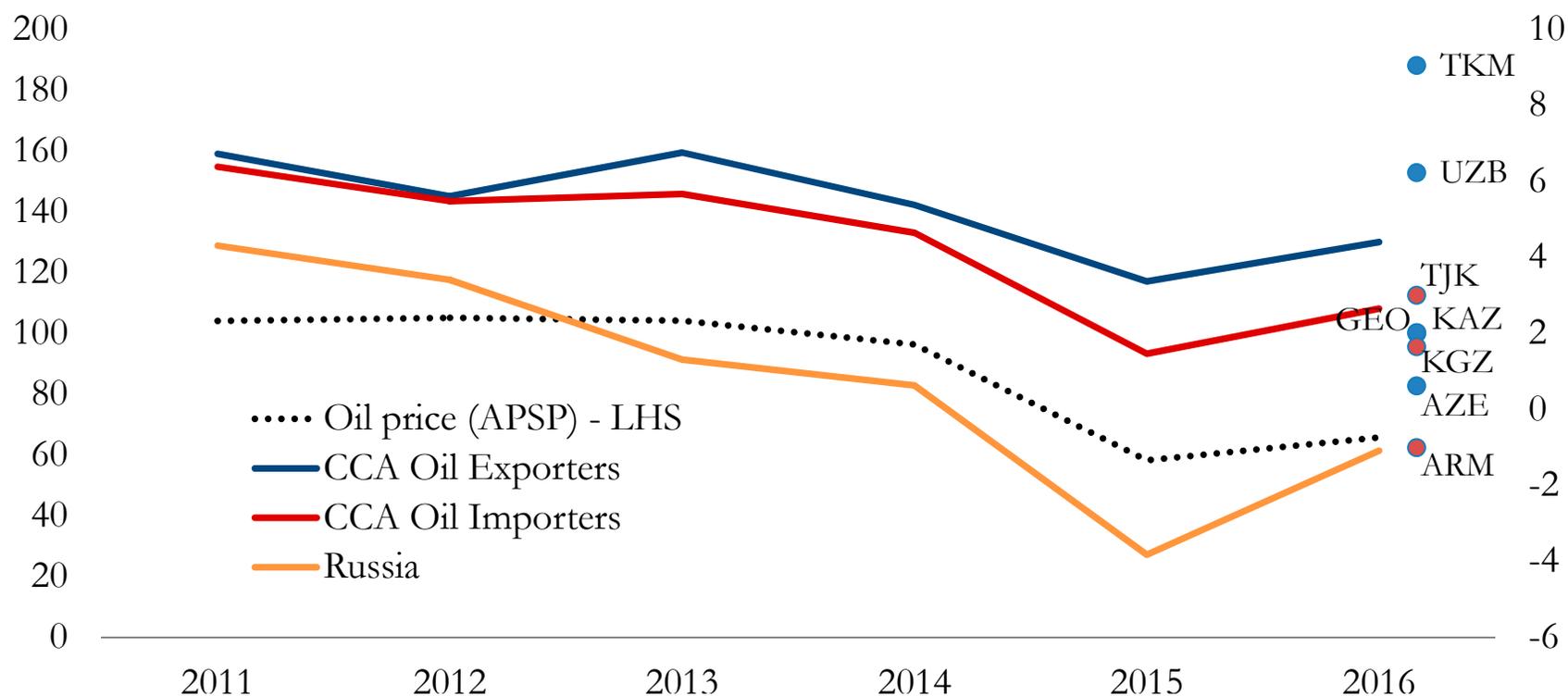
Caucasus and Central Asia



Growth is expected to weaken further in 2015 with lower oil prices and Russia's economic contraction

Real GDP Growth

(Annual percent change; dots reflect 2015 growth projections)



Ties to Russia go beyond exports and include remittances, FDI and confidence

Linkages with Russia

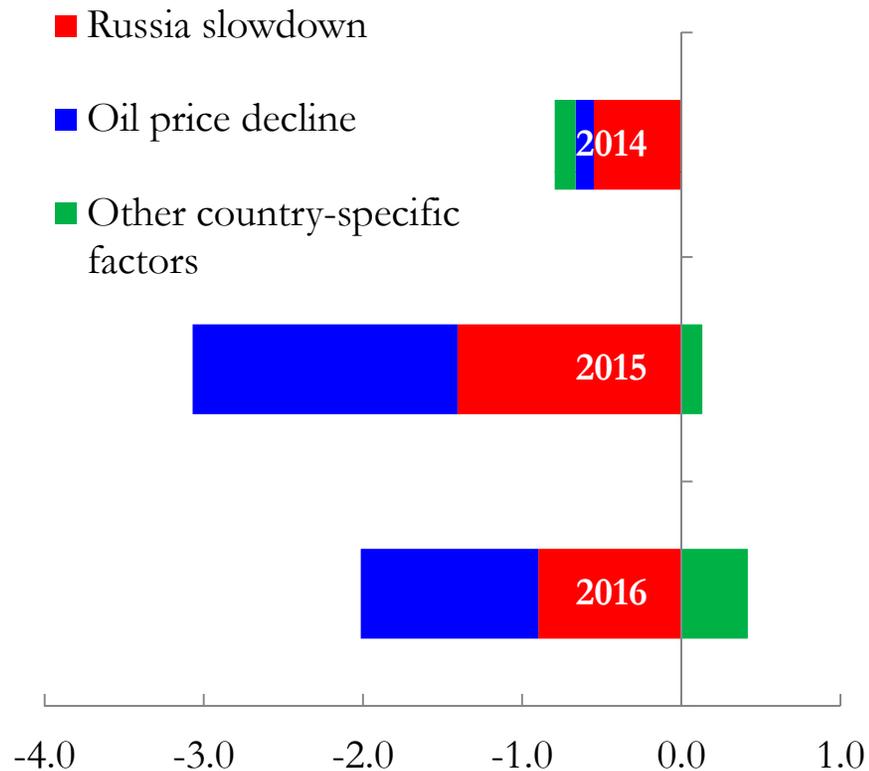
	Exports	Imports	Remittances	FDI
ARM	Green	Red	Red	Red
GEO	Green	Yellow	Yellow	Green
KGZ	Yellow	Red	Red	Yellow
TJK	Green	Red	Red	Yellow
AZE	Green	Green	Green	Green
KAZ	Yellow	Yellow	Green	Green
TKM	Red	Yellow	Green	Green
UZB	Red	Yellow	Green	Green

■ <3% of GDP
 ■ 3-10% of GDP
 ■ >10% of GDP

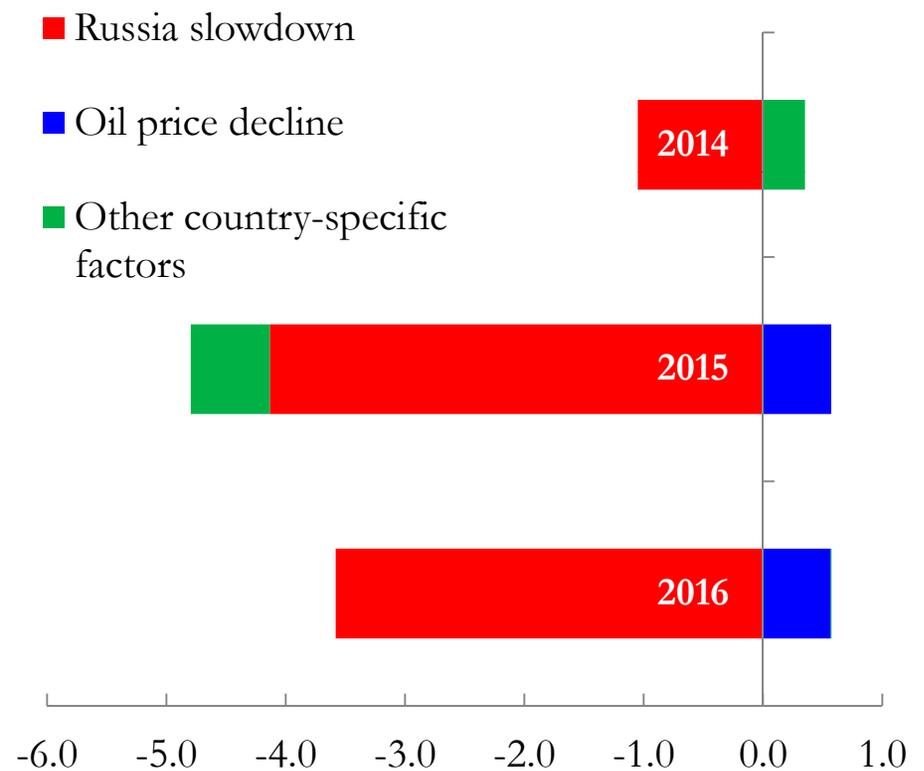


Lower oil prices and Russia's contraction are key reasons for downgrading of CCA forecasts

Oil Exporters



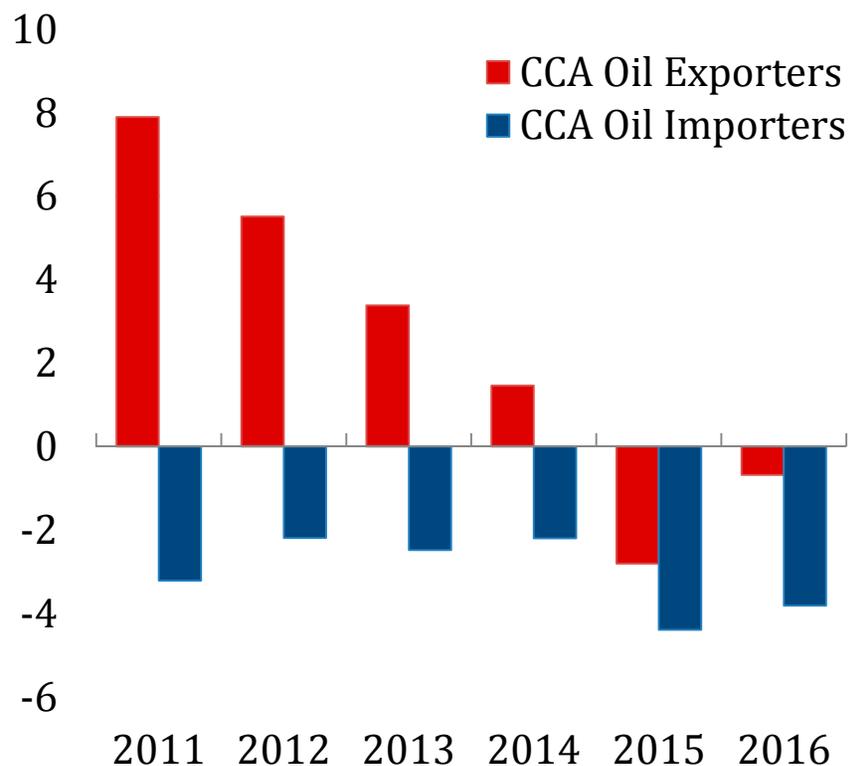
Oil Importers



Weakening revenues and countercyclical spending are widening fiscal deficits

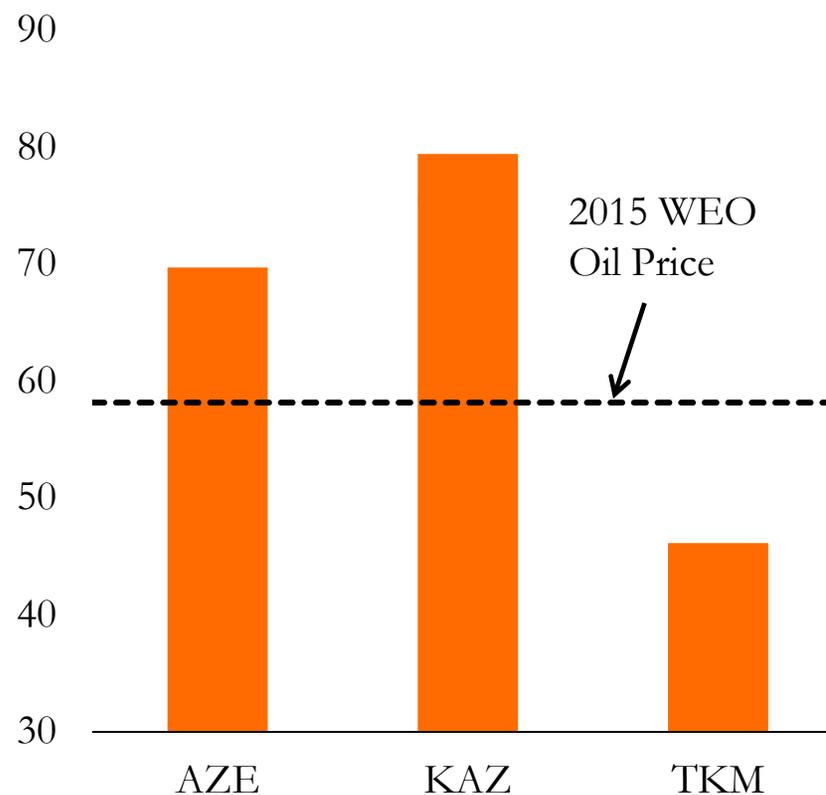
Fiscal Balances

(Percent of GDP)



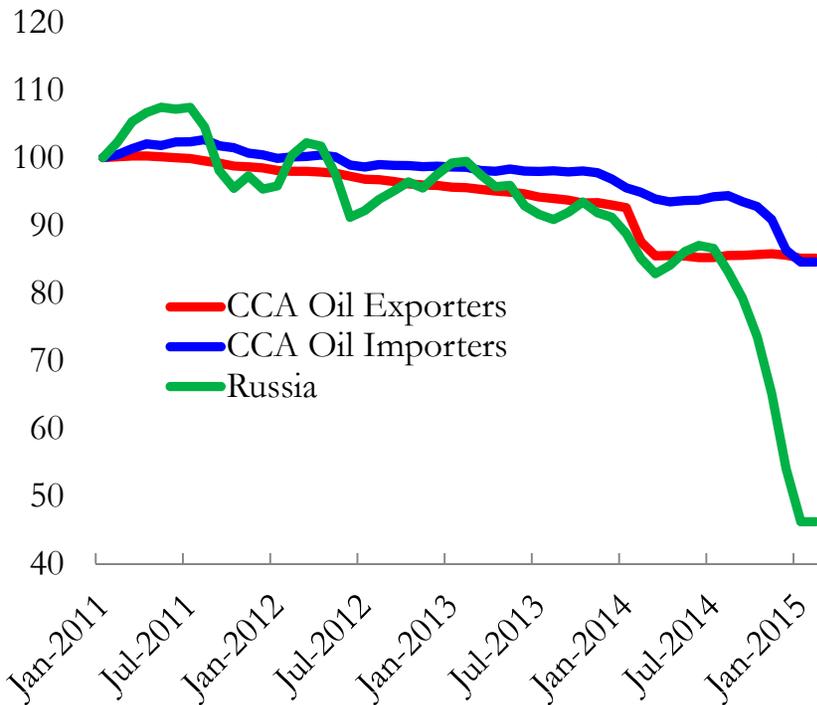
Fiscal Breakeven Oil Prices, 2015

(U.S. dollars per barrel)

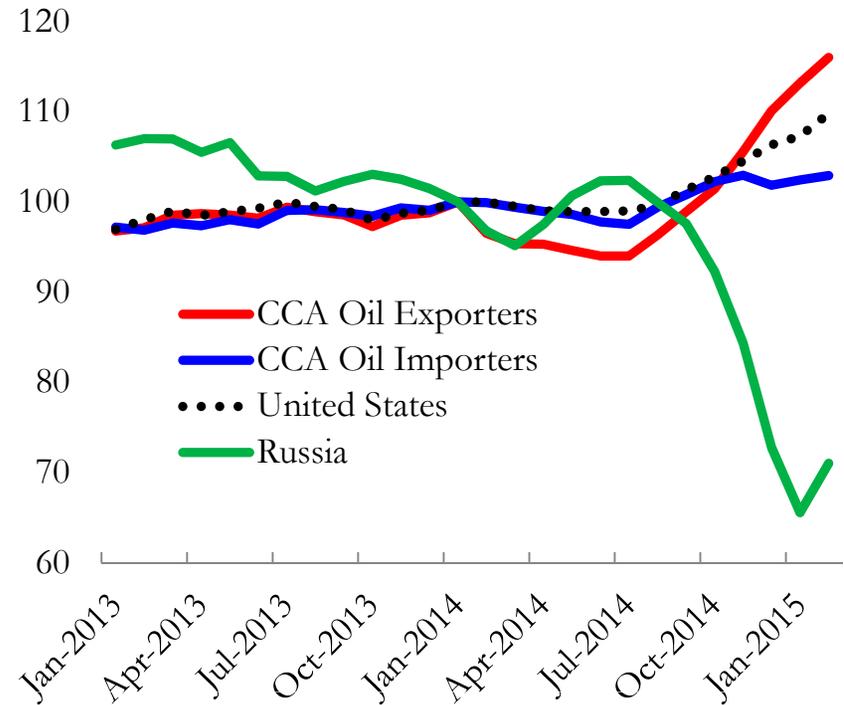


Currencies are weakening against the dollar yet losing competitiveness in real terms

Nominal Exchange Rates, Jan. 2011-Feb. 2015
(U.S. dollars per unit of national currency; Index, Jan. 2011=100)



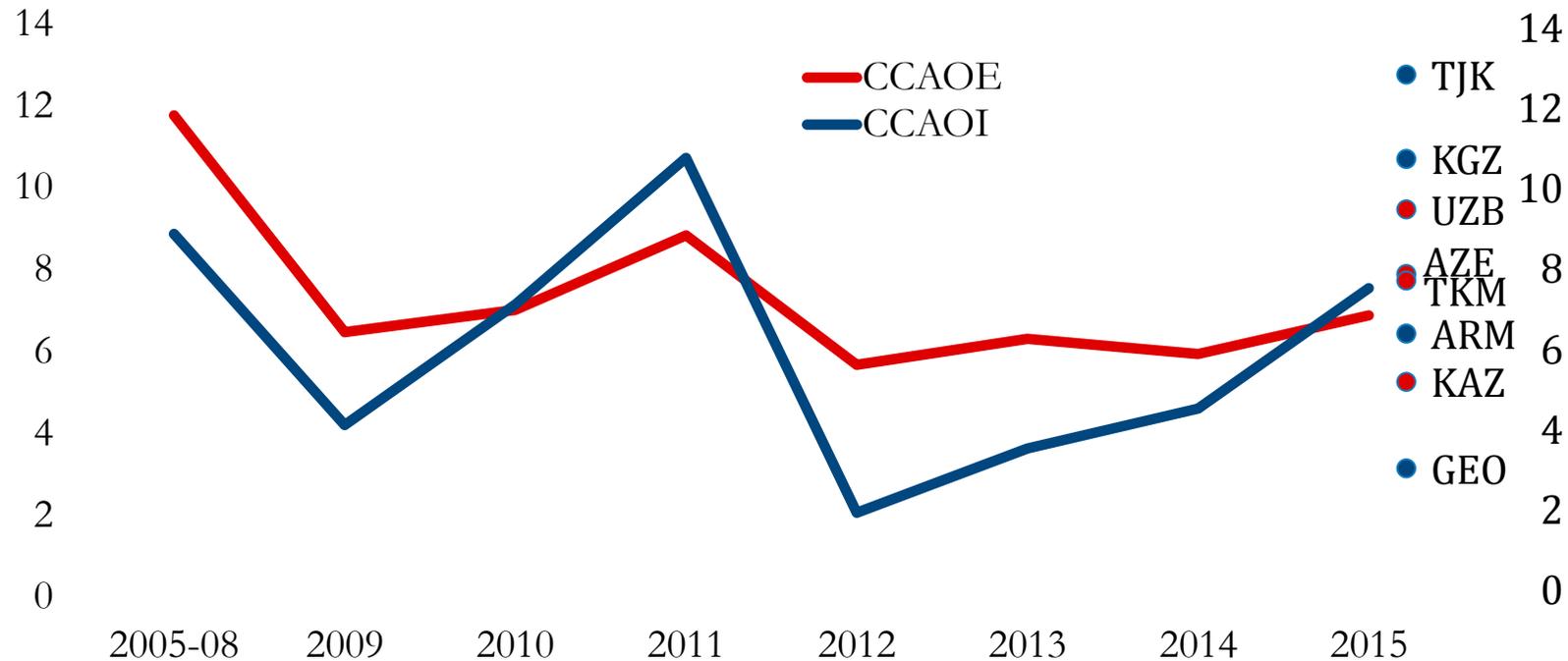
Real Effective Exchange Rates, Jan. 2013-Feb. 2015
(Index, Jan 2014=100)



Depreciations are raising inflationary pressures, despite lower growth and commodity prices

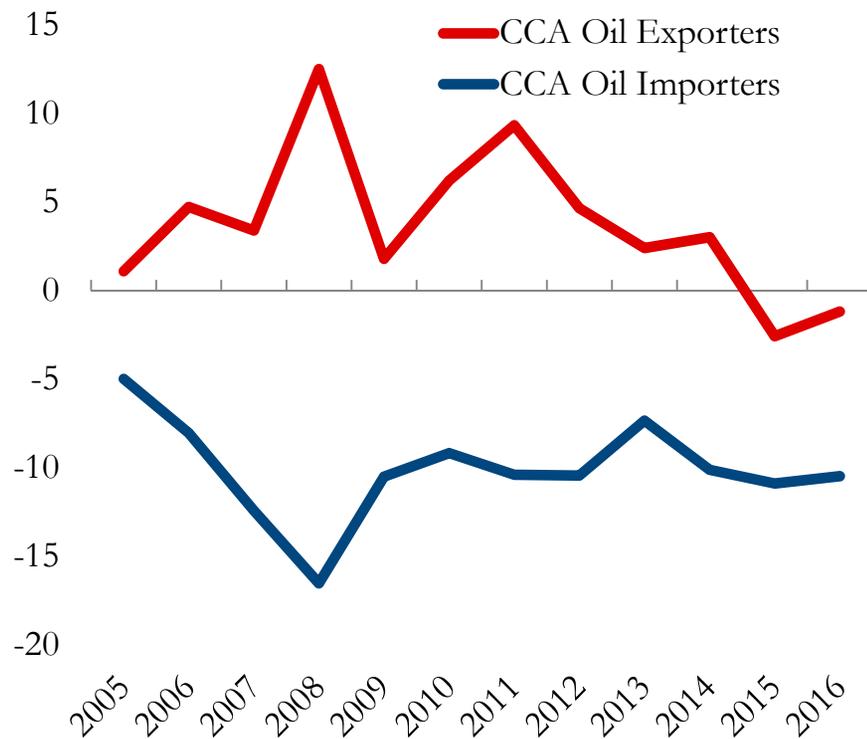
Inflation

(CPI, percent change; dots represent 2015 inflation)

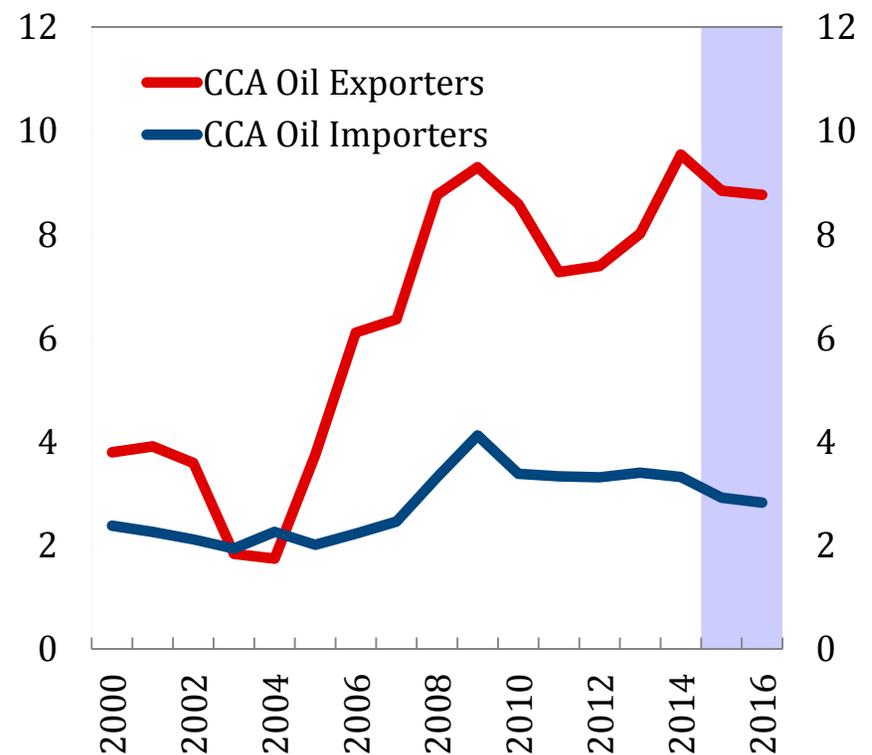


External positions are worsening, especially for oil exporters

Current Account Balances
(Percent of GDP)



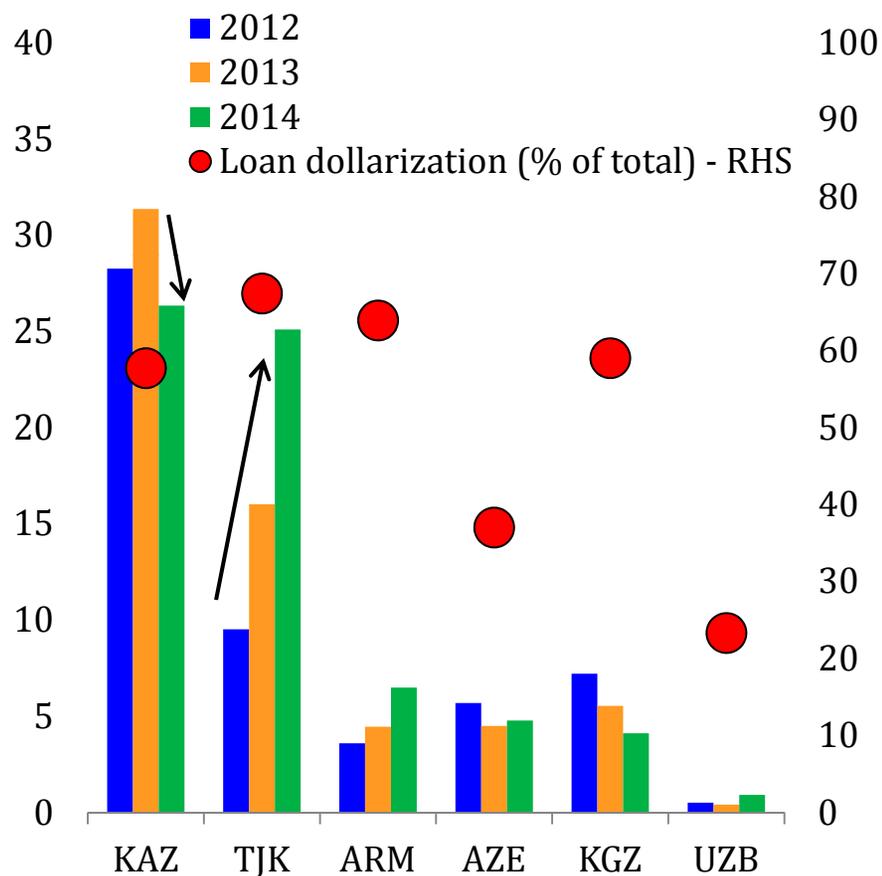
Reserve Coverage
(Months of Imports)



The financial sector faces multiple challenges

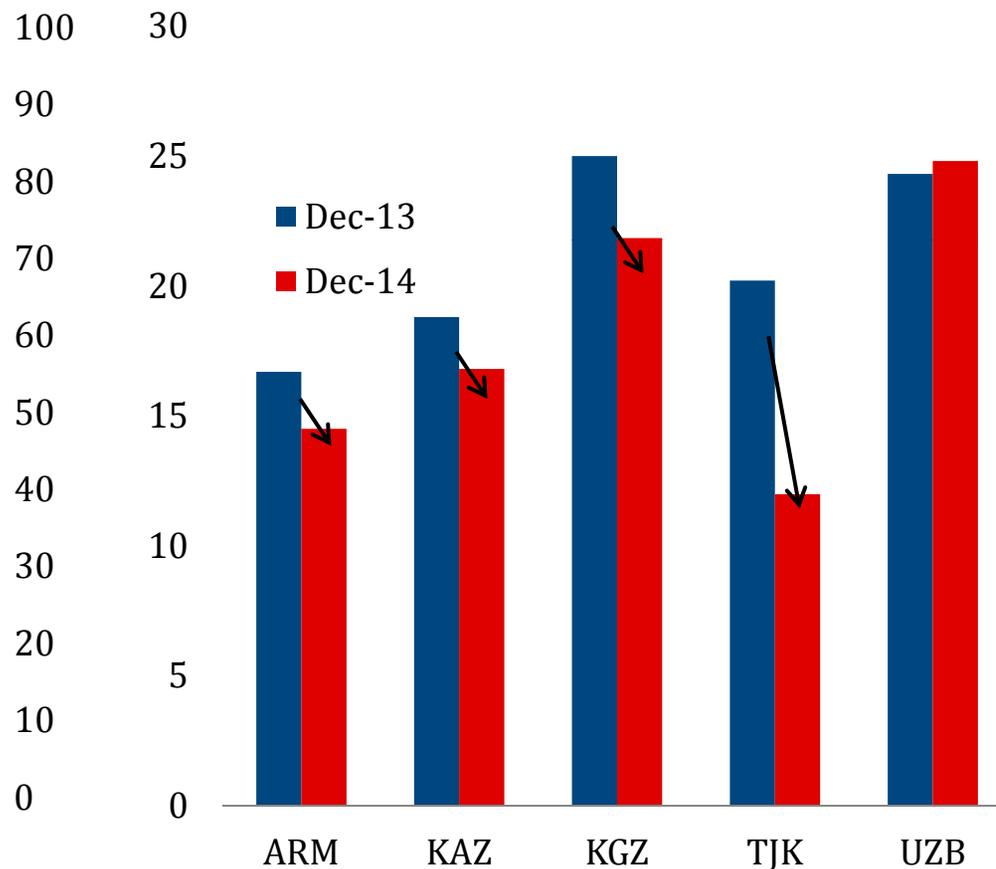
Non-performing Loans, Dollarization

(Percent of total loans; latest available data)



Capital Adequacy Ratios

(Percent of risk-weighted assets; latest available data)



Risks have increased and remain tilted to the downside

Weaker growth in trading partners
(especially Russia, also China and Europe)

Further weakening of prices for oil and other
commodities

Risks related to the normalization of U.S. monetary
policy



Near-term policy priorities center on preserving macro-financial stability while shoring up growth

Fiscal

- Temporary counter-cyclical policies if buffers and fiscal space allow.
- Fiscal consolidation over the medium term, as soon as cyclical conditions allow, to reflect new oil market realities for oil exporters and the need to rebuild buffers among oil importers.

Monetary & External

- Greater exchange rate flexibility can help buffer shocks, prevent reserve drawdowns, and protect competitiveness.
- Tighten monetary policy, if inflationary pressures remain elevated and if it does not undermine financial sector stability.

Financial

- Monitor and manage the financial stability risks.
- Banks should be required to appropriately classify the loans and have adequate provisions.
- Crisis management frameworks should be strengthened.



Stronger macro-financial policy frameworks can increase resilience to unexpected shocks

Fiscal Policy: More fiscal transparency, and stronger medium-term budget frameworks

Monetary Policy: Modern monetary policy regimes with clear interest rate guidance

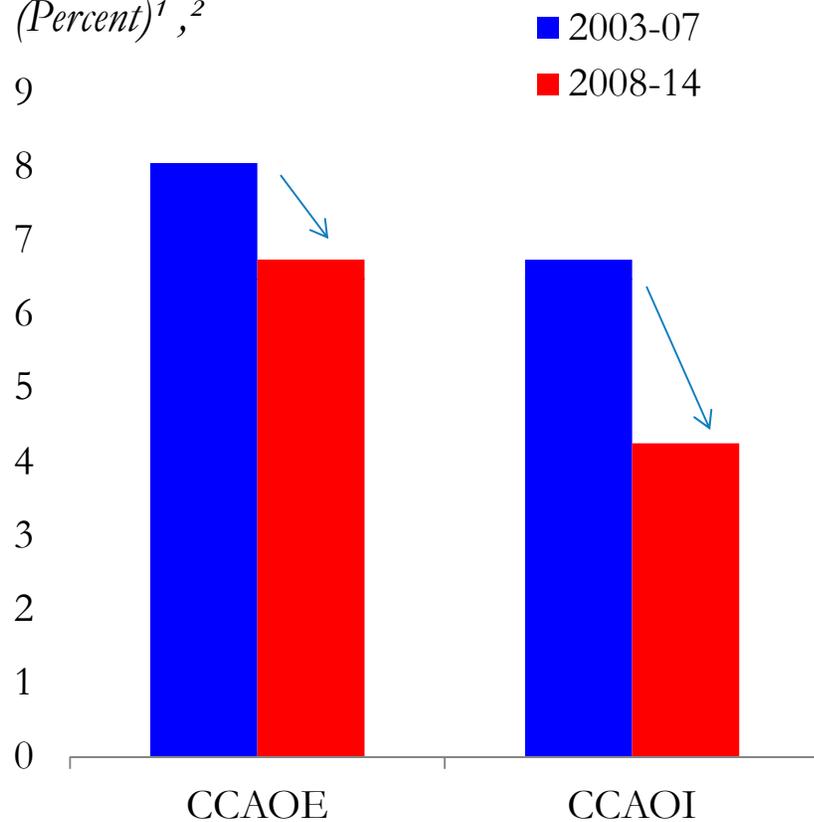
Financial Sector Policy: Clear definition of responsibilities, modern supervision practice



Medium-term growth prospects are weakening in the CCA: a “new mediocre”?

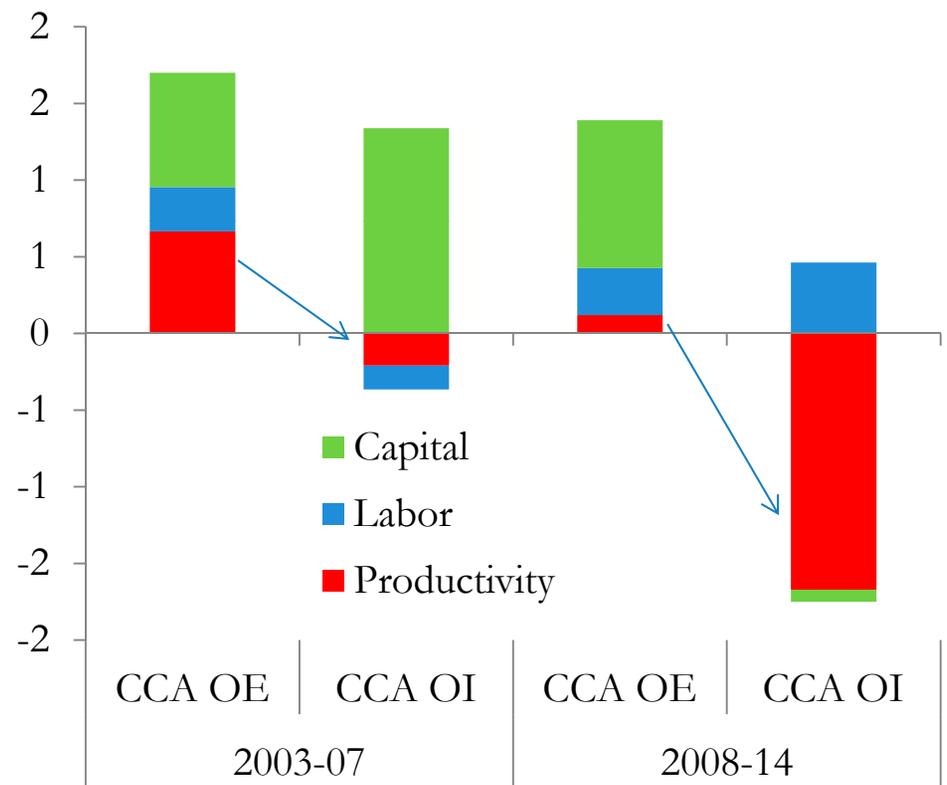
Potential GDP Growth

(Percent)^{1, 2}



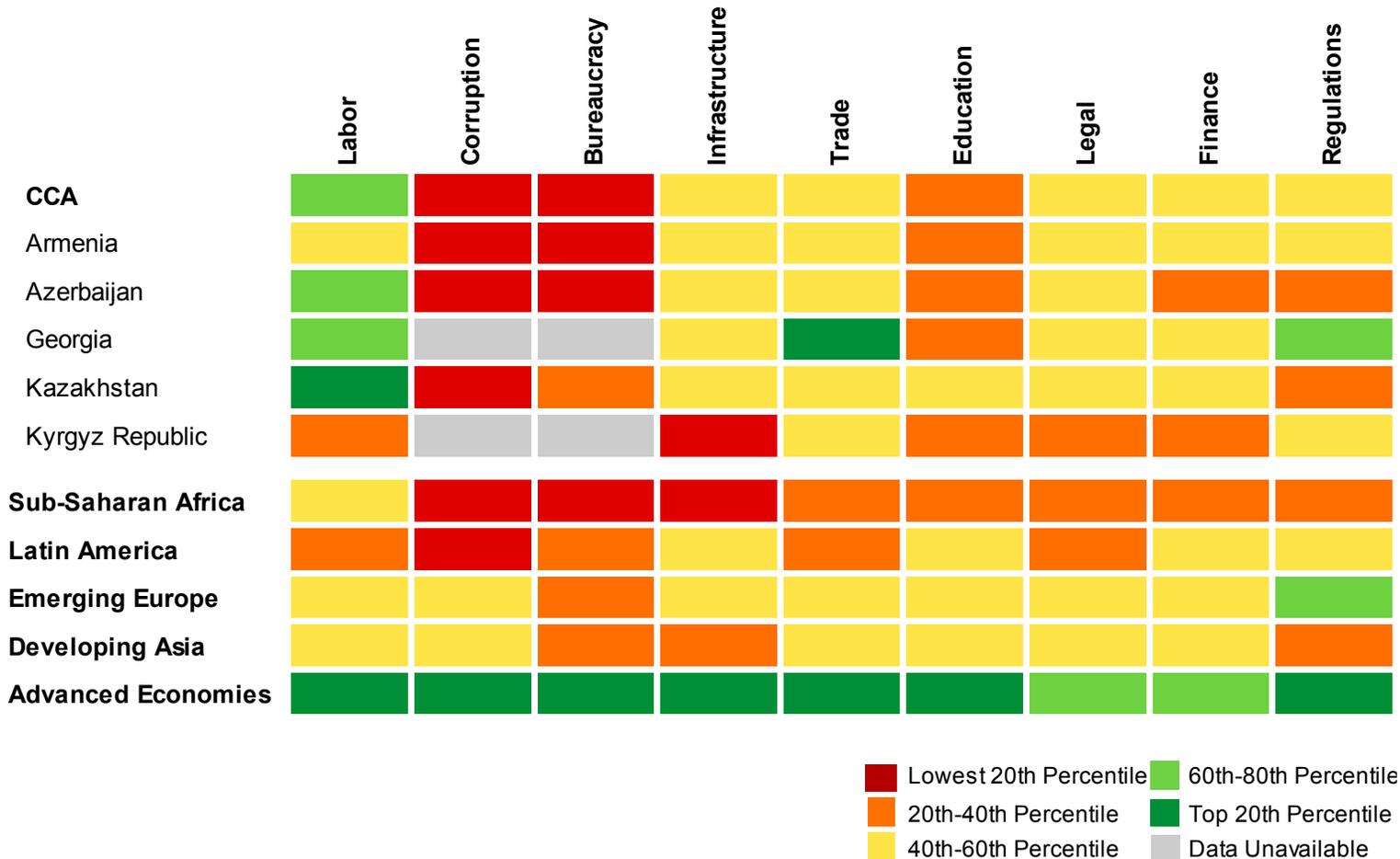
Differences with EMDC

(Percentage points)



Structural reforms can help improve competitiveness, raise economic growth and make it more inclusive

Structural Reform Priorities



Key Messages

- The region is facing new, possibly long-lasting, realities.
- Policy responses so far have been partial and focused on the short term.
- Medium-term fiscal consolidation and greater exchange rate flexibility are needed to maintain macroeconomic stability.
- Enhanced policy frameworks would improve shock resilience.
- Structural reforms would enhance long-term growth potential and make it more inclusive.



**To download the CCA REO Update,
please visit**

<http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/mreo0515.htm>

