

# “Prospects for the Global and Regional Economy”

Presentation of the IMF Regional Economic Outlook for  
Caucasus and Central Asia hosted by the CRRC

December 20, 2013



# Outline

**Global Outlook**

**Caucasus and Central Asian region:  
Recent Developments, Outlook, Risks**

**Armenia: Challenges and Opportunities**








**Medium-term vision**



# Global GDP growth forecast has been revised down, reflecting weak emerging economies

## Real GDP Growth Projections for the Global Economy

(percent change from a year earlier)

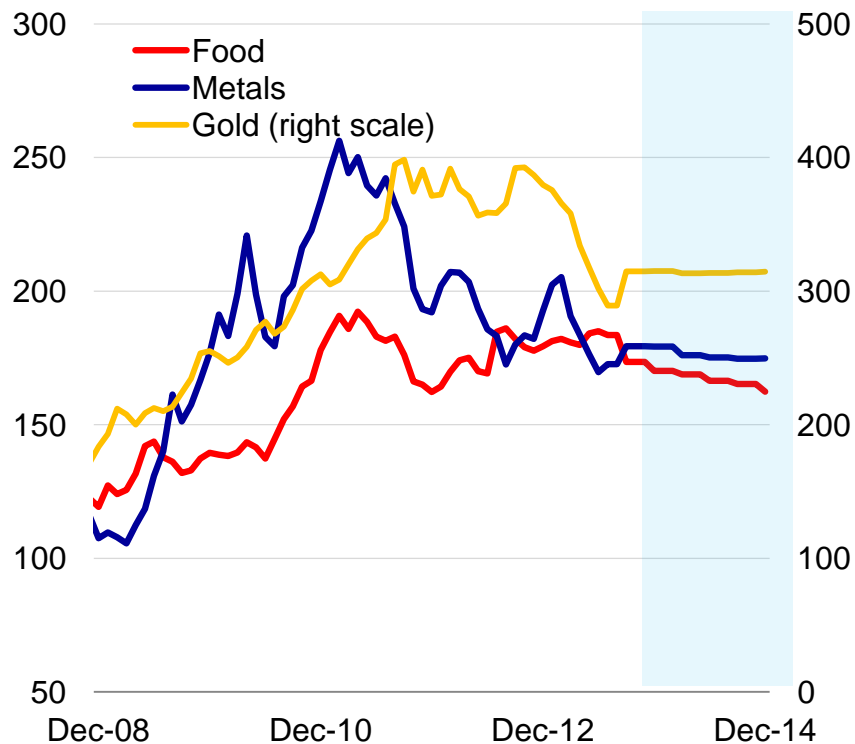
							
	World	U.S.	Euro Area	Japan	Russia	China	CCA
<b>2013</b> (Oct. 2013)	2.9	1.6	-0.4	2.0	1.5	7.6	5.8
<b>2013</b> (Apr. 2013)	3.3	1.9	-0.3	1.6	3.4	8.0	5.8
<b>2014</b> (Oct. 2013)	3.6	2.6	1.0	1.2	3.0	7.3	6.1
<b>2014</b> (Apr. 2013)	4.0	3.0	1.1	1.4	3.8	8.2	6.1

Source: IMF, *World Economic Outlook*.

# Metals and food prices are falling but oil prices have recently risen

**Global commodity price developments<sup>1</sup>**

(Index; 2005 = 100)



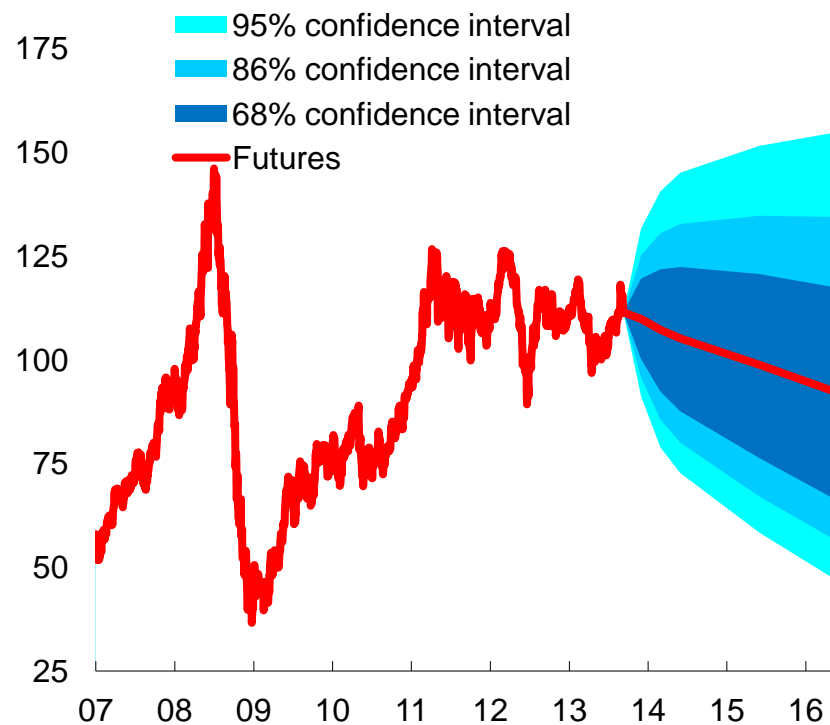
Sources: IMF, Primary Commodity Price System; and IMF staff calculations.

<sup>1</sup>Food index derived from average price of corn, wheat, rice, and soybeans.

<sup>2</sup>Derived from prices of futures options on Sep. 12, 2013.

**Brent crude oil price prospects<sup>2</sup>**

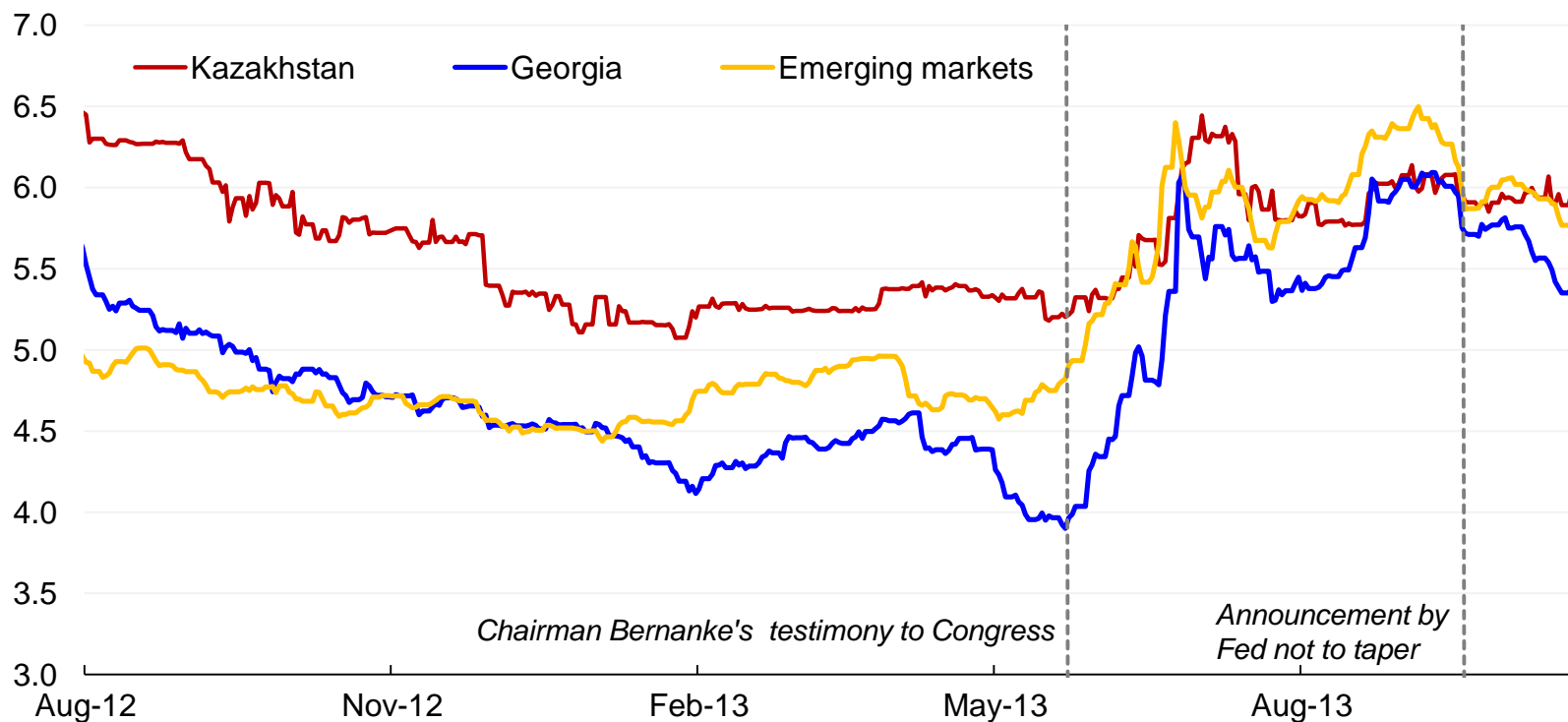
(U.S. dollars per barrel)



# Financial conditions have tightened

## Bond Yields

(Percent, Aug 2, 2012 – Oct 22, 2013)



Sources: IMF, World Economic Outlook; and Bloomberg LP.



# Risks to global growth remain on the downside

**Global financial conditions tighten by more than expected  
Continued stop-gap measures and uncertainty over fiscal policy in the US**

**Financial fragmentation in the euro area weighs on investment  
Insufficient fiscal consolidation and structural reforms in Japan**

**Lower potential growth in emerging markets  
Lower commodity prices**

# Policy priorities

## Euro area

- Repair financial system
- Adopt a banking union

## United States

- Reduce budget deficit over the medium term
- Calibrate the timing of exit from “quantitative easing”

## Emerging markets

- Improve resilience to shocks
- Accelerate structural reforms
- Let exchange rate adjust to capital flows



# Overview of Caucasus and Central Asia Region (“the CCA region”)

## Outlook

Robust growth over the near term, but inflation remains volatile and high

## Risks

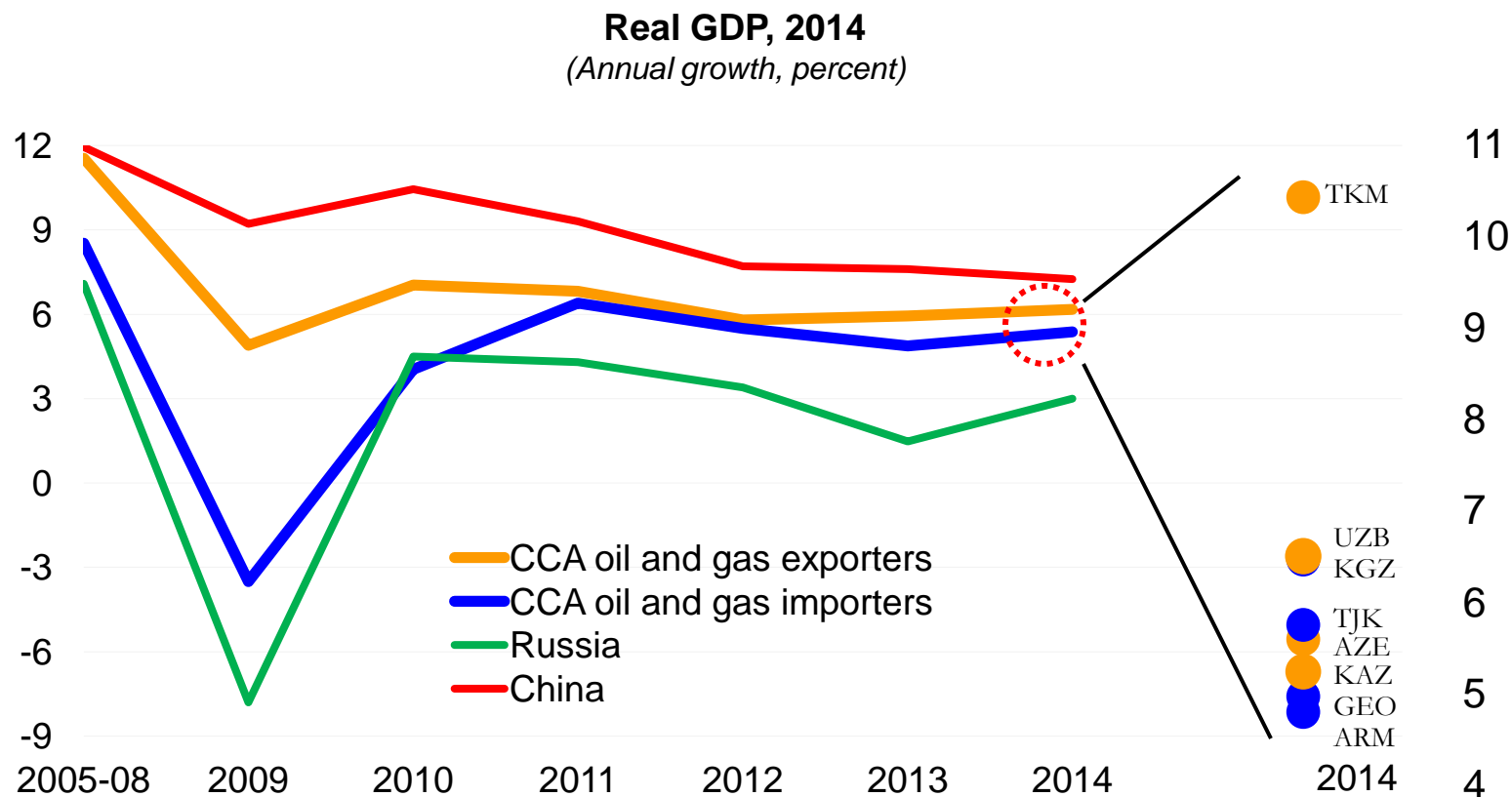
- A lower-than-anticipated growth in emerging economies
- Tightening of external financing conditions
- Weak institutions and accountability, vested interests and political uncertainty

## Policies

- Enhancing resilience to shocks by building buffers, improving spending quality, and greater exchange rate flexibility.
- Strengthening policy frameworks and speeding structural reforms



# The economic outlook remains favorable despite sluggish growth in trading partners

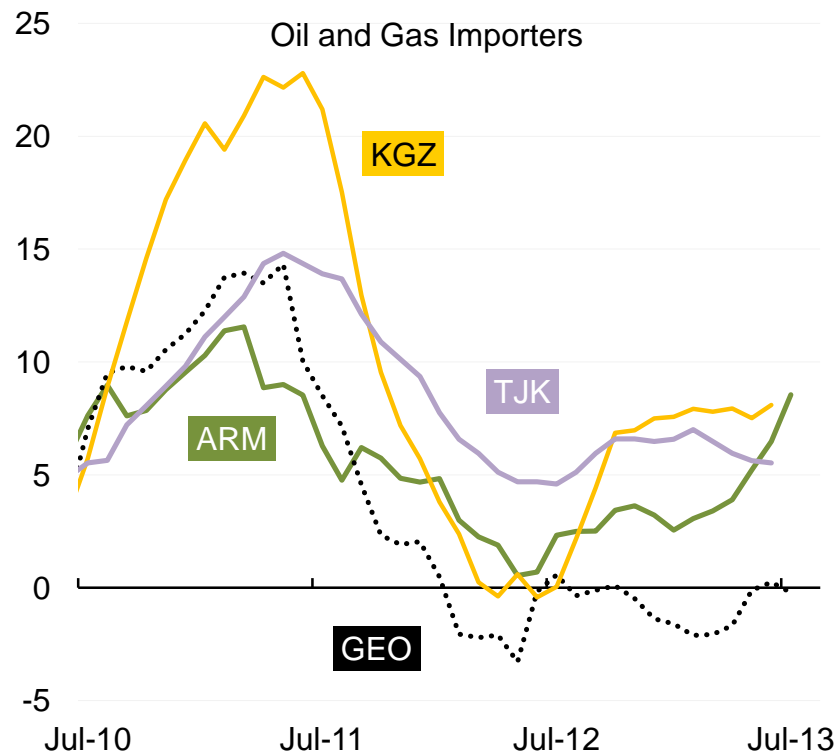
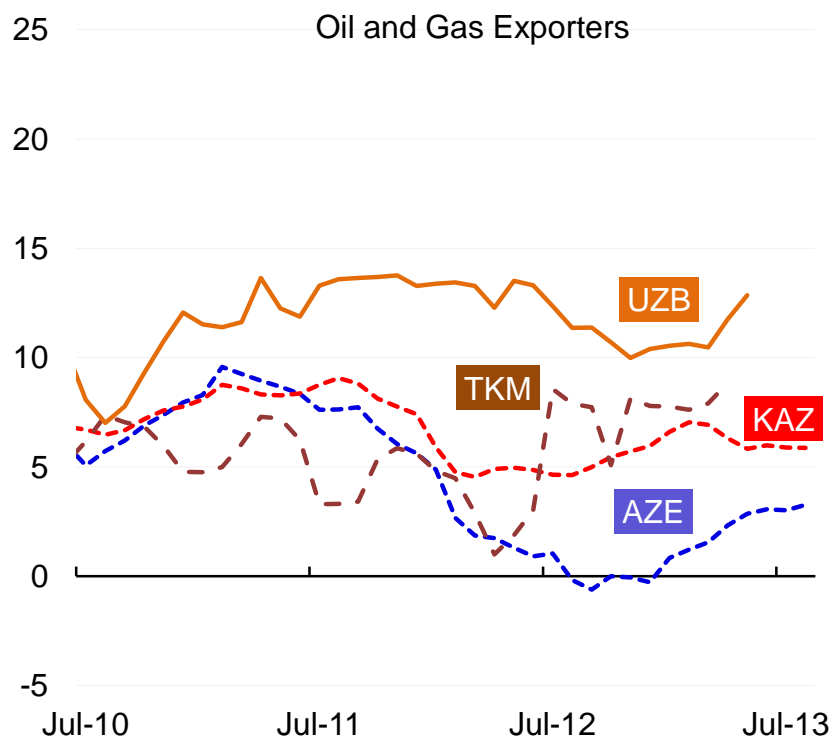


Sources: IMF, *World Economic Outlook*; and IMF staff calculations and projections.



# Inflation stays largely within a comfort range

## Headline CPI Inflation (Annual percent change)

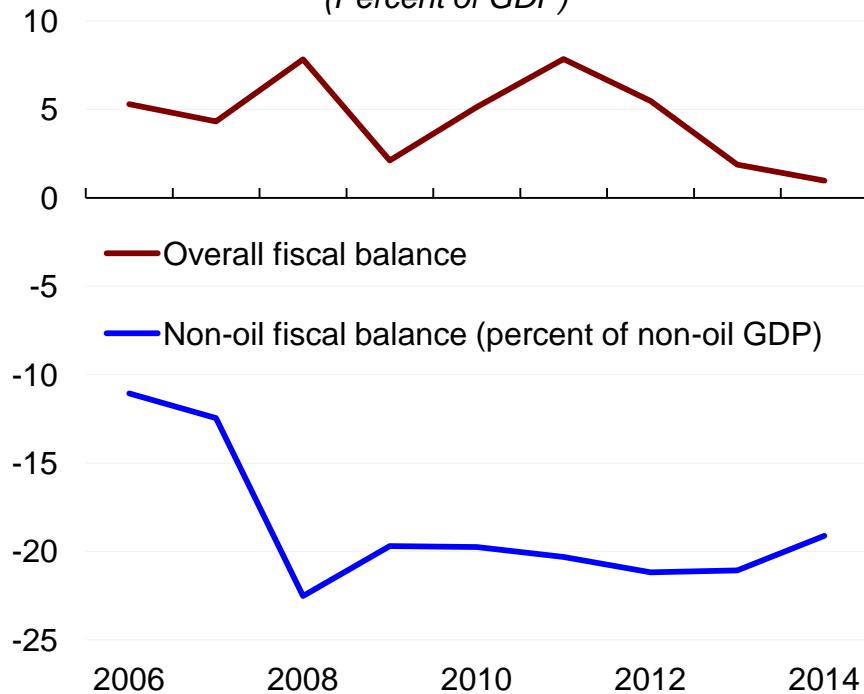


Sources: National authorities; and IMF staff calculations.



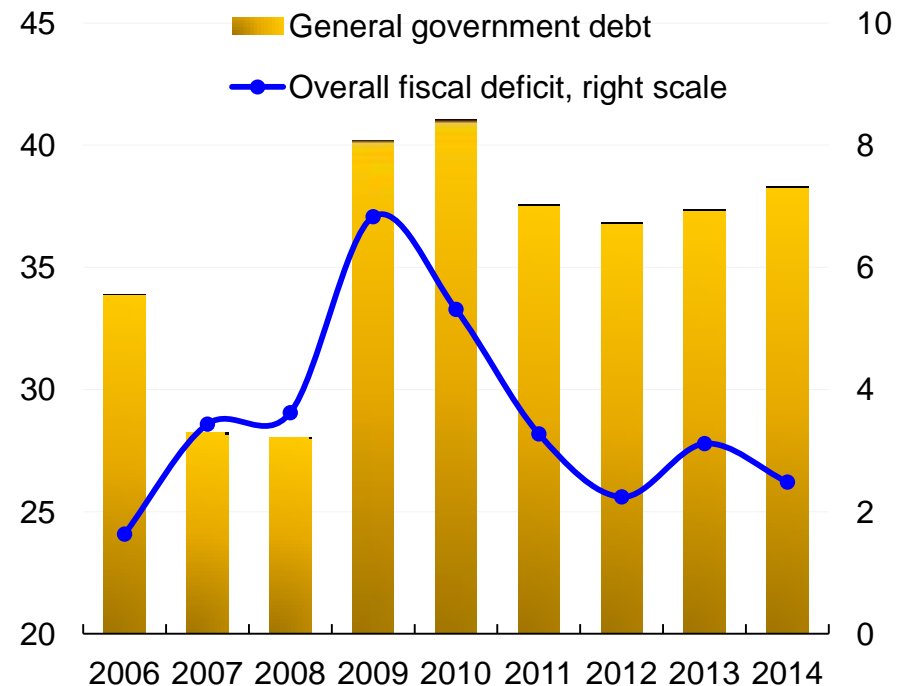
# Need to build fiscal buffers for the rainy days

## Oil and Gas Exporters (Percent of GDP)



Sources: National authorities; and IMF staff estimates.

## Oil and Gas Importers (Percent of GDP)

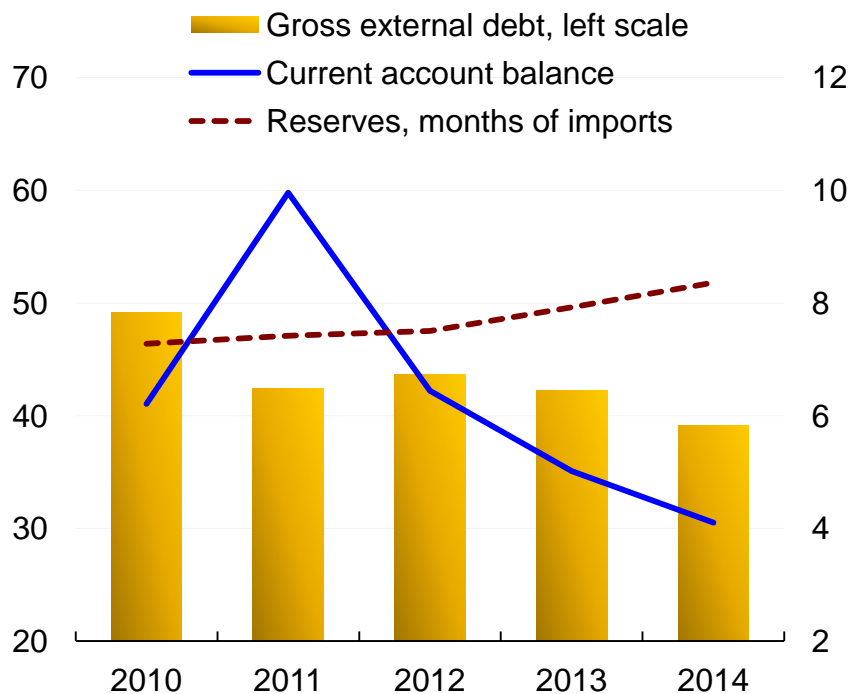


Sources: National authorities; and IMF staff estimates.

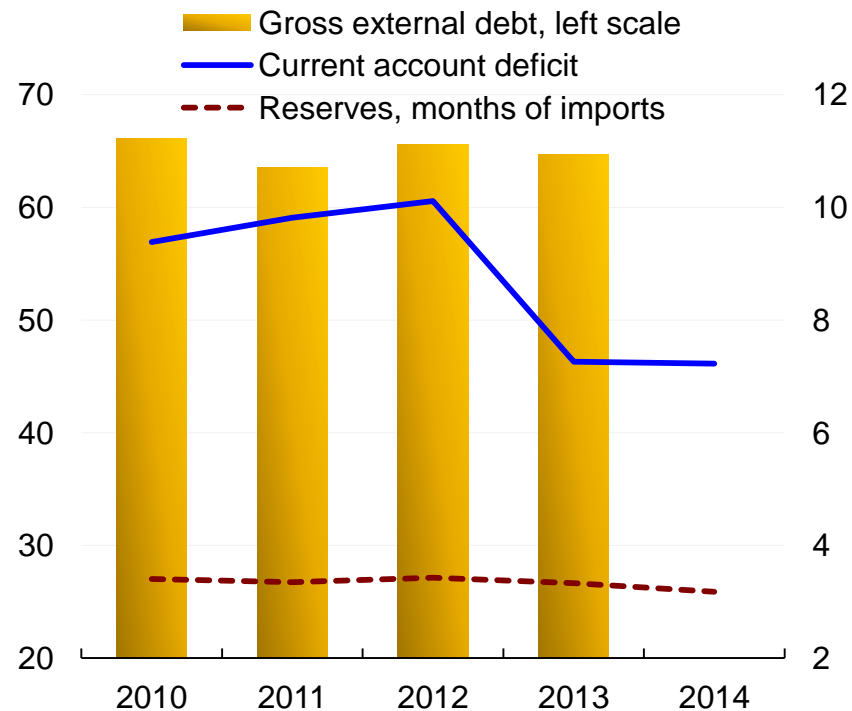


# Need to adjust external imbalances

**Oil and Gas Exporters**  
(Percent of GDP)



**Oil and Gas Importers**  
(Percent of GDP)



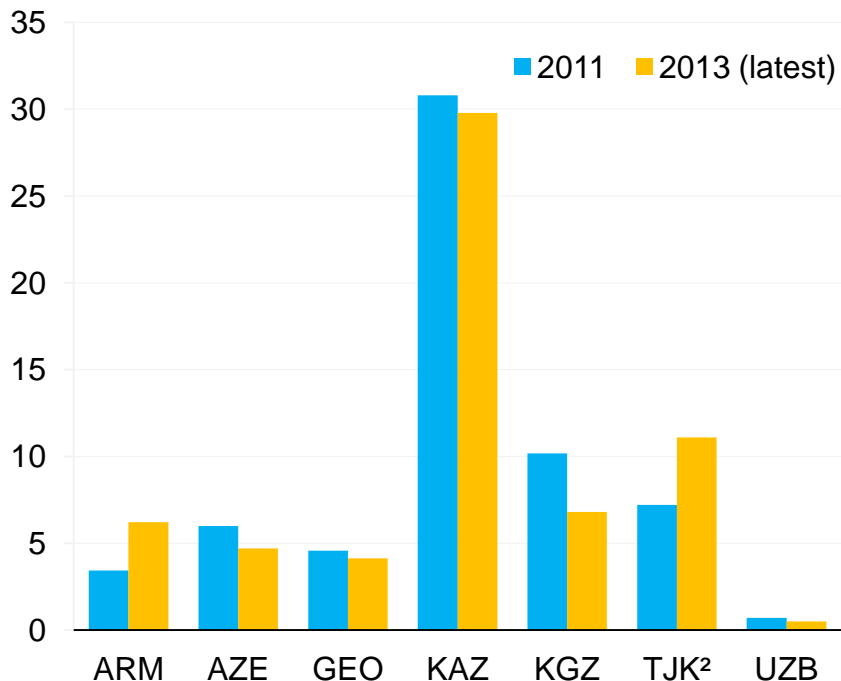
Sources: National authorities; and IMF staff estimates.



# Continue to bolster financial sector soundness

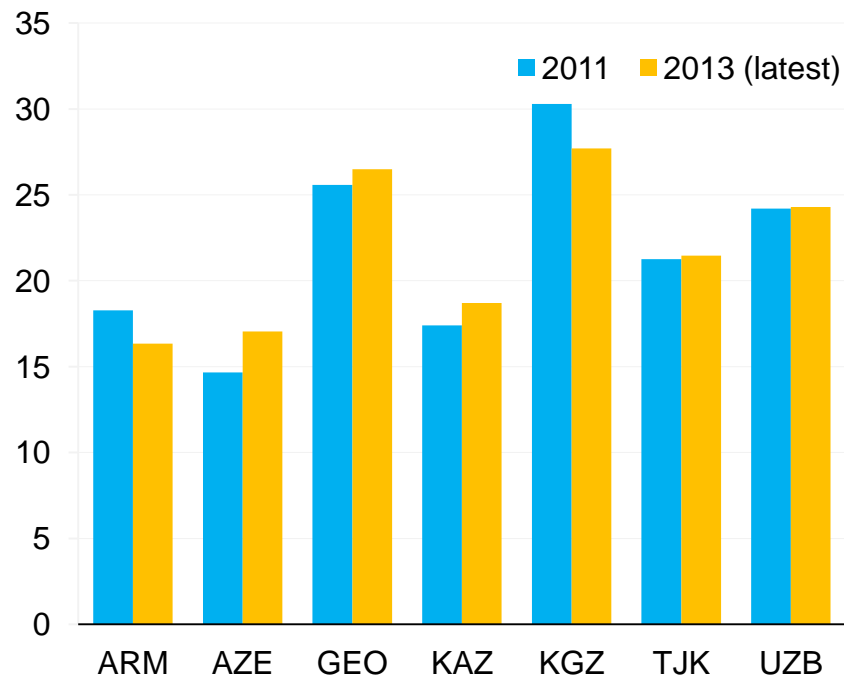
## Nonperforming Loans<sup>1</sup>

(On a 90-day basis; percent of total loans)



## Capital Adequacy Ratio

(Percent of risk-weighted assets)



Sources: National authorities; and IMF staff estimates.

<sup>1</sup>90-day basis.

<sup>2</sup>Overdue by 30 days or more.



# Summary of near term priorities for the Caucasus and Central Asian Region

## Oil and Gas Exporters

- ✓ Save part of the oil and gas revenues in good times
- ✓ Preserve part of the oil and gas wealth for future generation and ensure that budgets are sustainable
- ✓ Improve spending quality to ensure that all public investment are productive
- ✓ Some countries need to restore the health of the banking system

## Oil and Gas Importers

- ✓ Create fiscal space by reining in hard-to-reverse expenditures and by broadening tax bases
- ✓ Use part of the space to better target safety nets, and to invest in health, education, and infrastructure
- ✓ Increase exchange rate flexibility to lower the risk of output and price fluctuations



# Overview of Armenia Economy

## Outlook

After a strong recovery from financial crisis, growth is slowing

## Risks

- A lower-than-anticipated growth in Russia and in the world, high dollarization, energy security, natural disasters, among others
- Geopolitical risks remain high

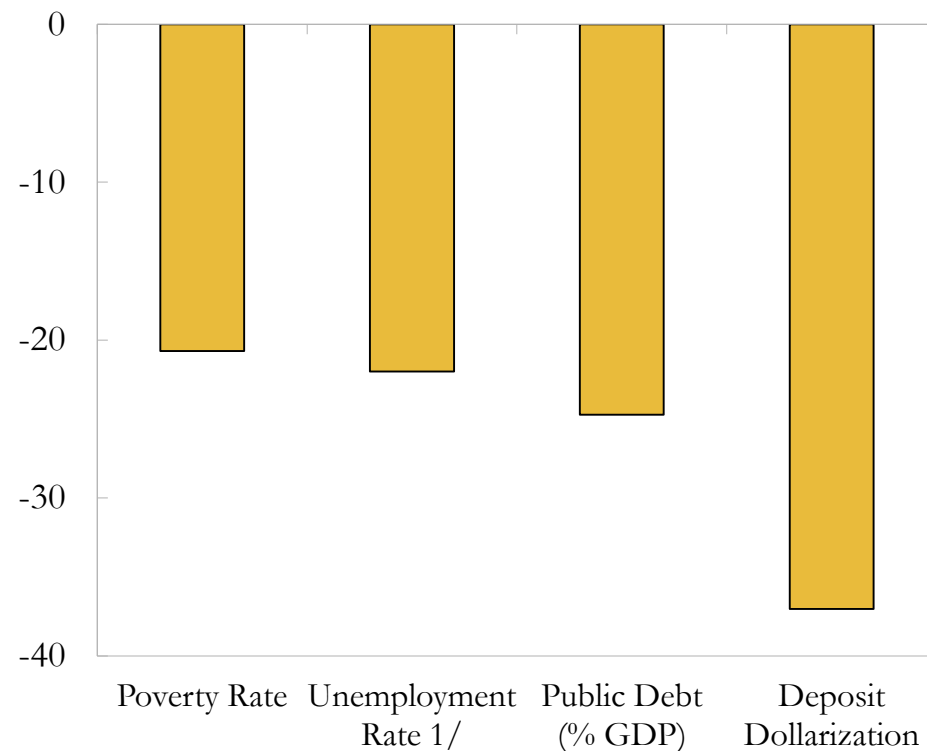
## Policies

- Consolidation of fiscal gains plus further external adjustment, through greater exchange rate flexibility
- Stepping up structural reforms, on taxation, energy, business environment, and financial supervision.

# Pre-crisis period: Armenian economy performed well

- Strong growth and low inflation
  - 11% average growth, led by construction
  - 4% average inflation
- Reduction in poverty and unemployment
- Build-up of buffers
- Dram appreciation
- ...and some less favorable developments (low FDI, concentration of wealth and market power)

**Improvements, 2000-08**  
(In Percentage Point Change)

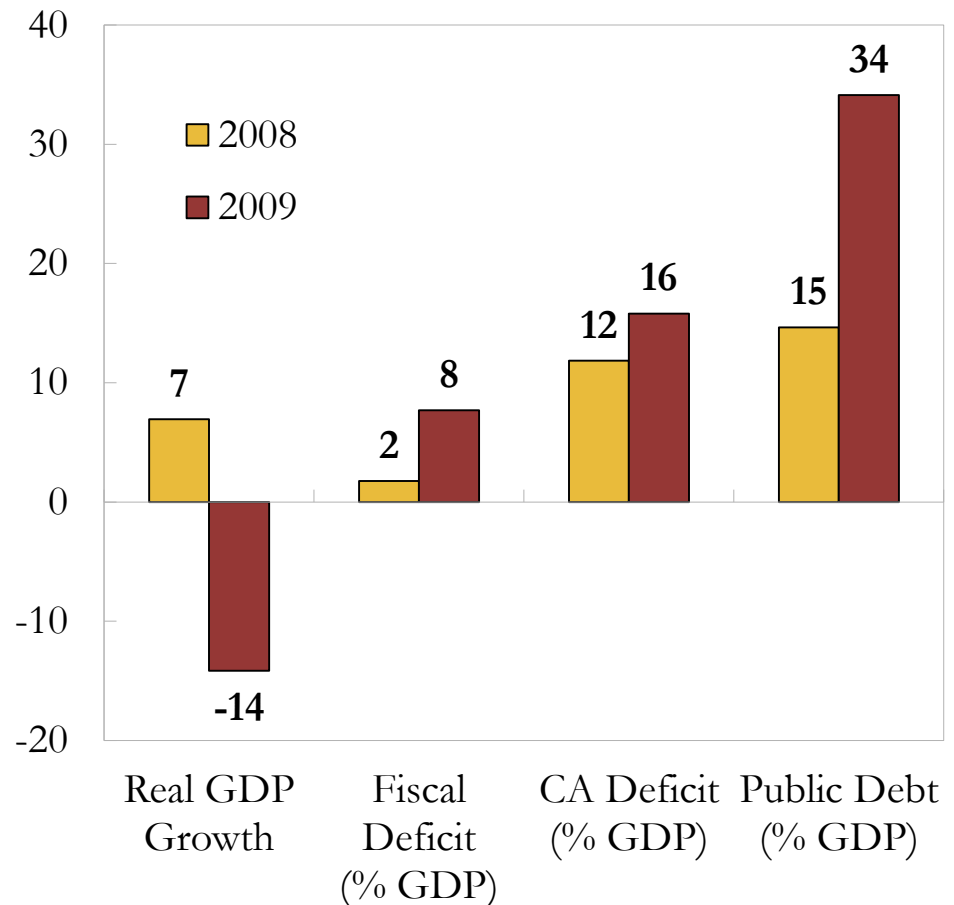


1/ Unemployment is change from 2001.



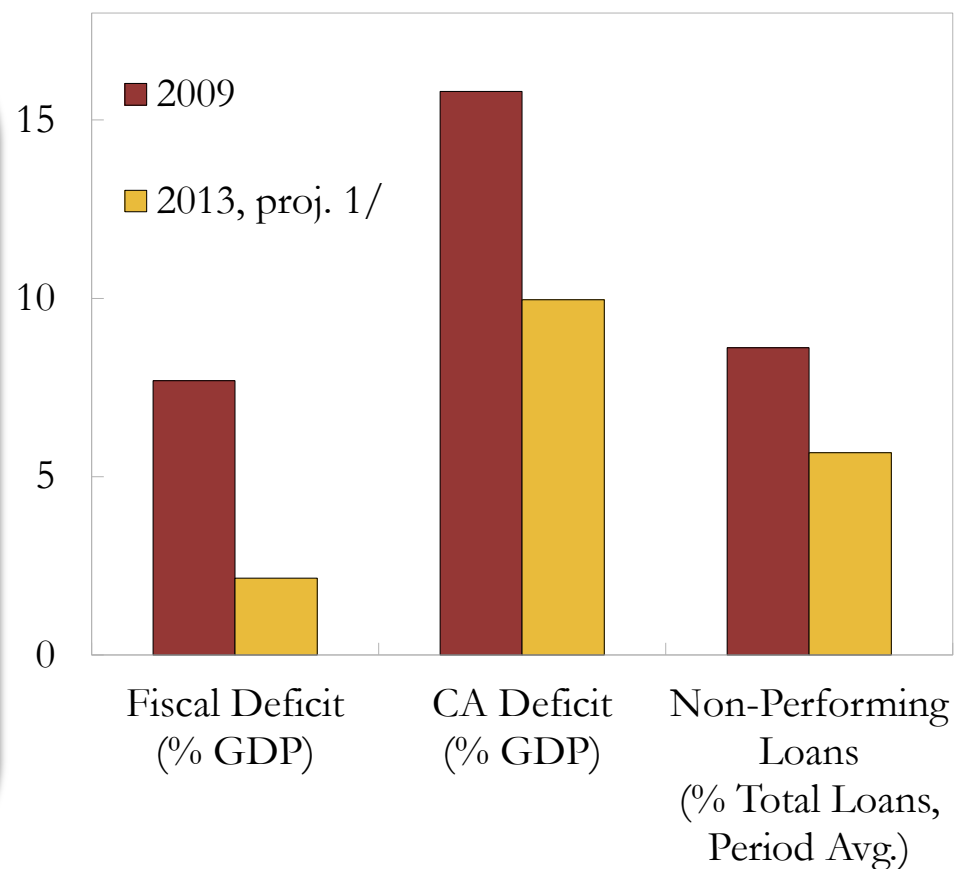
# ... but was hit hard by the financial crisis

- Very large output decline
- Worsening fiscal and external positions
- Exchange rate pressure, reserve loss, depreciation, and redollarization
- Sharp increase in public debt
- Rise in poverty and unemployment



# The economy has begun to recover, and vulnerabilities have been reduced...

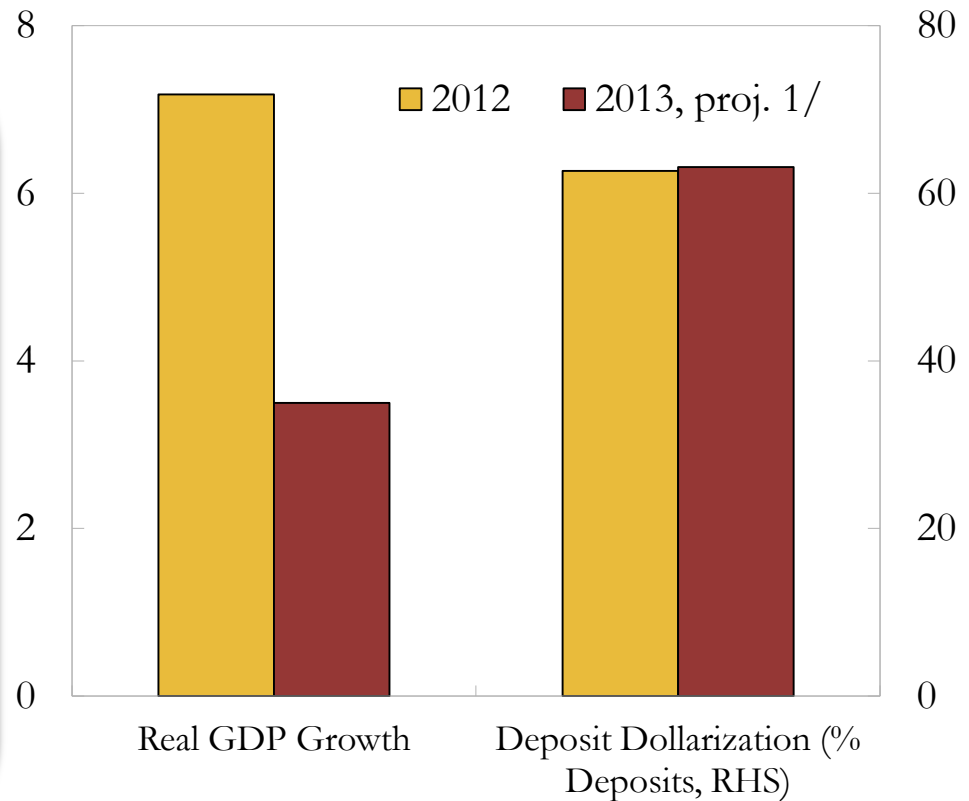
- Crisis funding from WB, IMF, Russia
- Growth was restored, with a recovery of credit, remittances and mining exports, agribusiness, services and tourism
- Lower fiscal deficit and stable public debt
- Lower current account deficit and sound level of international reserves
- Sound capital adequacy and profitability in the banking sector
- Eurobond debut



1/ Data for non-performing loans in 2013 is an average of monthly data through August.

# ... but significant challenges remain...

- Growth is slowing
- Inflation remains volatile
- Real interest rates are high
- Dollarization is high
- Financial markets are not well-developed
- Business climate remains challenging
- Capital spending squeezed, “unfriendly” revenue increases



1/ 2013 data for deposit dollarization is an average of monthly data through August.

# ...challenges occur in the face of risks.

## Slowdown

- Russia and globally
- Impact on remittances and mining exports

## Geopolitics and Isolation

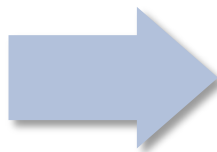
- Nagorno-Karabakh conflict
- Closed borders with Turkey
- Russian-Georgian relations
- Iran sanctions

Energy security and  
reinvestment (Metsamor)

Natural disasters and  
climate change

# Structural reforms should be stepped up...

## Reforms



## Goals

- International connectivity and competitiveness
- Public infrastructure and skills development
- Business environment, domestic competition, diversification
- Stronger social protection

- Higher private investment and FDI
- Reduce costs of doing business
- Overcome isolation
- Achieve strong, sustainable, inclusive growth

*...or face a slow-growth outcome with high risks*

# Cooperation with the IMF

Long track record:  
lending, policy advice, TA

Ongoing discussions on a  
new three-year program

## Policy Anchor:

- Consolidation of fiscal gains
- Further external adjustment/  
greater dram flexibility
- Rebuilding buffers

## Macro-critical reforms:

- Tax policy & administration
- Financial supervision
- Business environment
- Energy and transport

# Vision for the CCA: Become vibrant emerging markets



# Obstacles and risks to the CCA vision

## External

- Vulnerability to shocks (e.g., food and fuel prices)
- Lack of integration with regional and global markets

## Global

- Uncertain global growth
- Fragility and geopolitical shifts

## Domestic

- Strong vested interests
- Weak institutions, including accountability
- Potential political uncertainty



# Accelerate reforms to become dynamic emerging markets

