

Caucasus and Central Asia Regional Economic Outlook

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Outline

Global Outlook

**CCA Recent Developments, Outlook
and Risks**



Global activity strengthening, as recovery in advanced economies takes hold

WEO Real GDP Growth Projections

(Percent change from a year earlier)



World

U.S.

Euro Area

Emerging
markets

China

Russia

| | | | | | | |
|----------------------|-----|-----|------|-----|-----|-----|
| 2013 (April 2014) | 3.0 | 1.9 | -0.5 | 4.7 | 7.7 | 1.3 |
| 2014 (April 2014) | 3.6 | 2.7 | 1.2 | 4.9 | 7.5 | 1.3 |

2014
(Fall 2013)

3.6

2.6

1.0

5.1

7.3

3.0

Source: IMF, *World Economic Outlook*.



The global recovery remains fragile

Risks to activity from low inflation in the euro area and Japan

Geopolitical risks

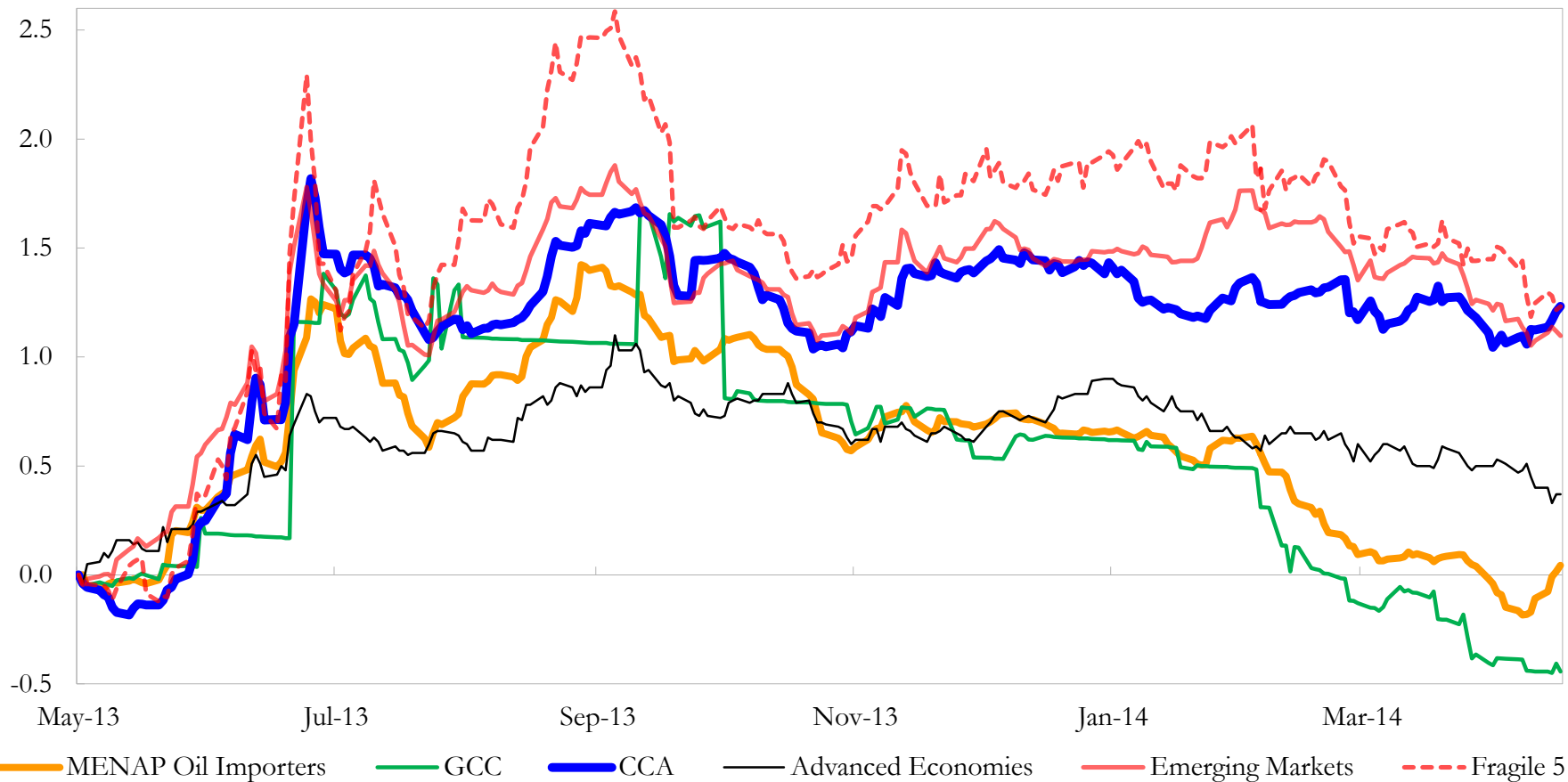
Further growth disappointments in emerging market economies

Risks related to normalization of monetary policy in advanced economies

Financial conditions have tightened for most EMs

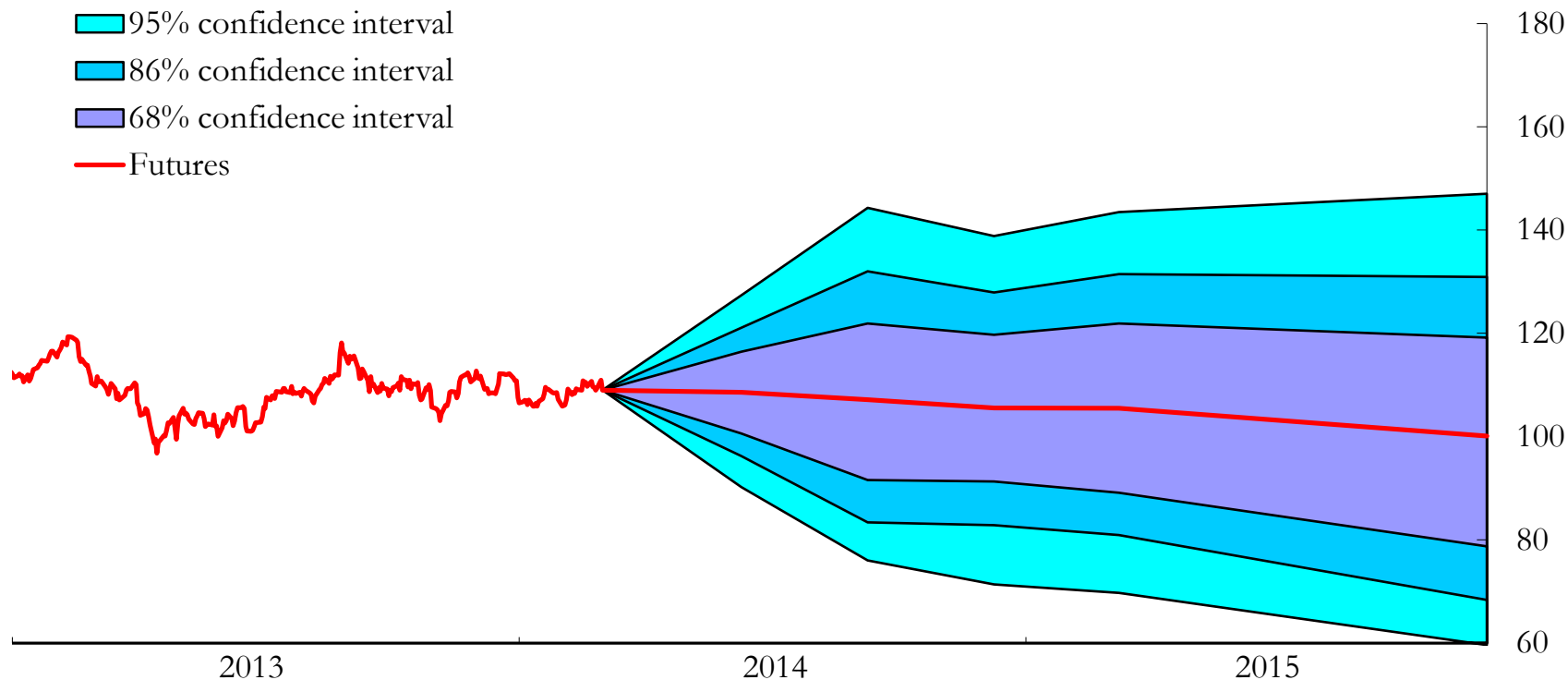
International Long-Term Yields

(Percentage point change from May 1, 2013)



Oil prices are forecast to decline gradually, yet uncertainty is high

Brent Crude Oil Price, U.S. Dollars per Barrel¹



Sources: Bloomberg; and IMF staff calculations.

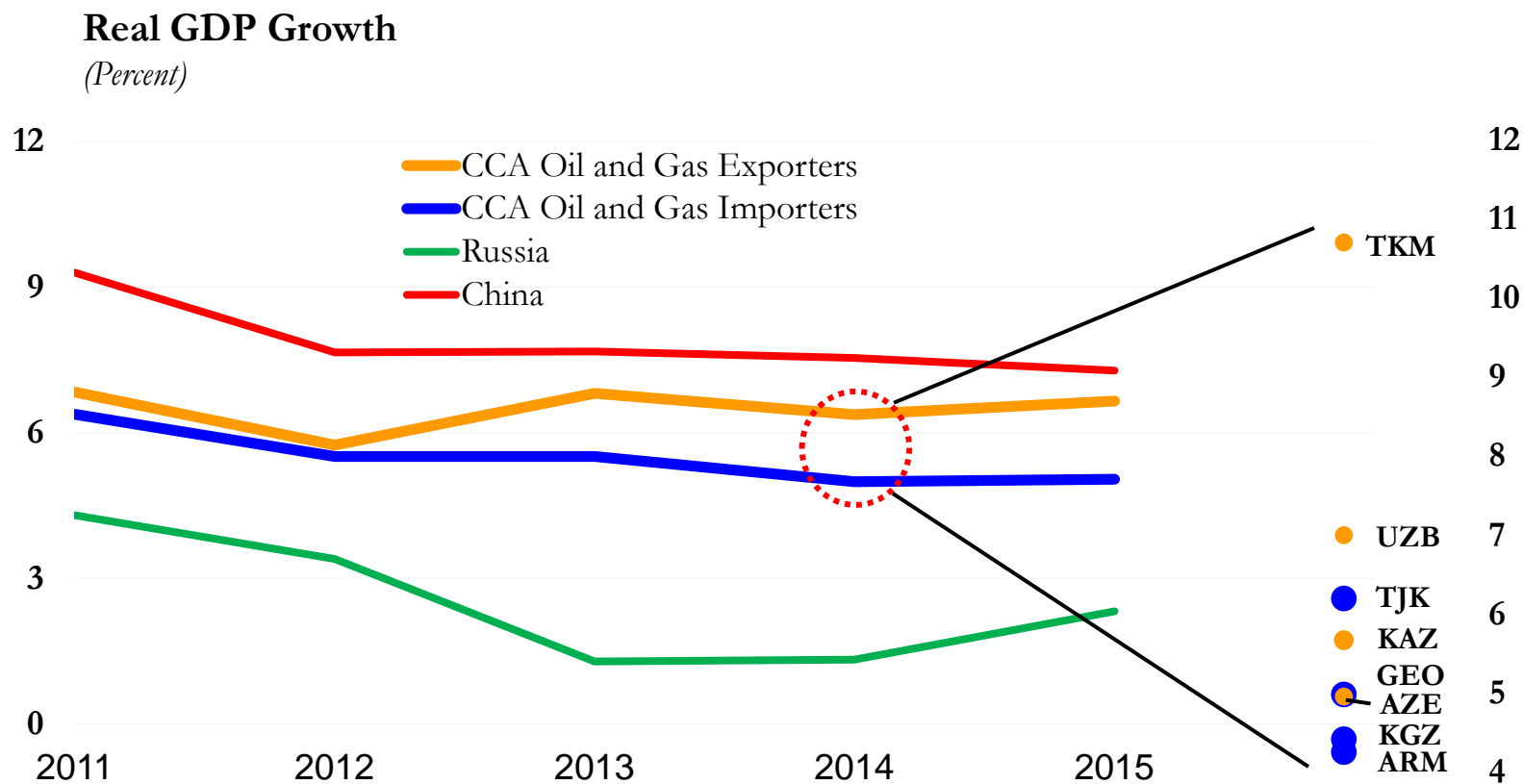
¹ Derived from prices of futures and options on March 4, 2014.



Caucasus and Central Asia



Growth softening in tandem with trading partners



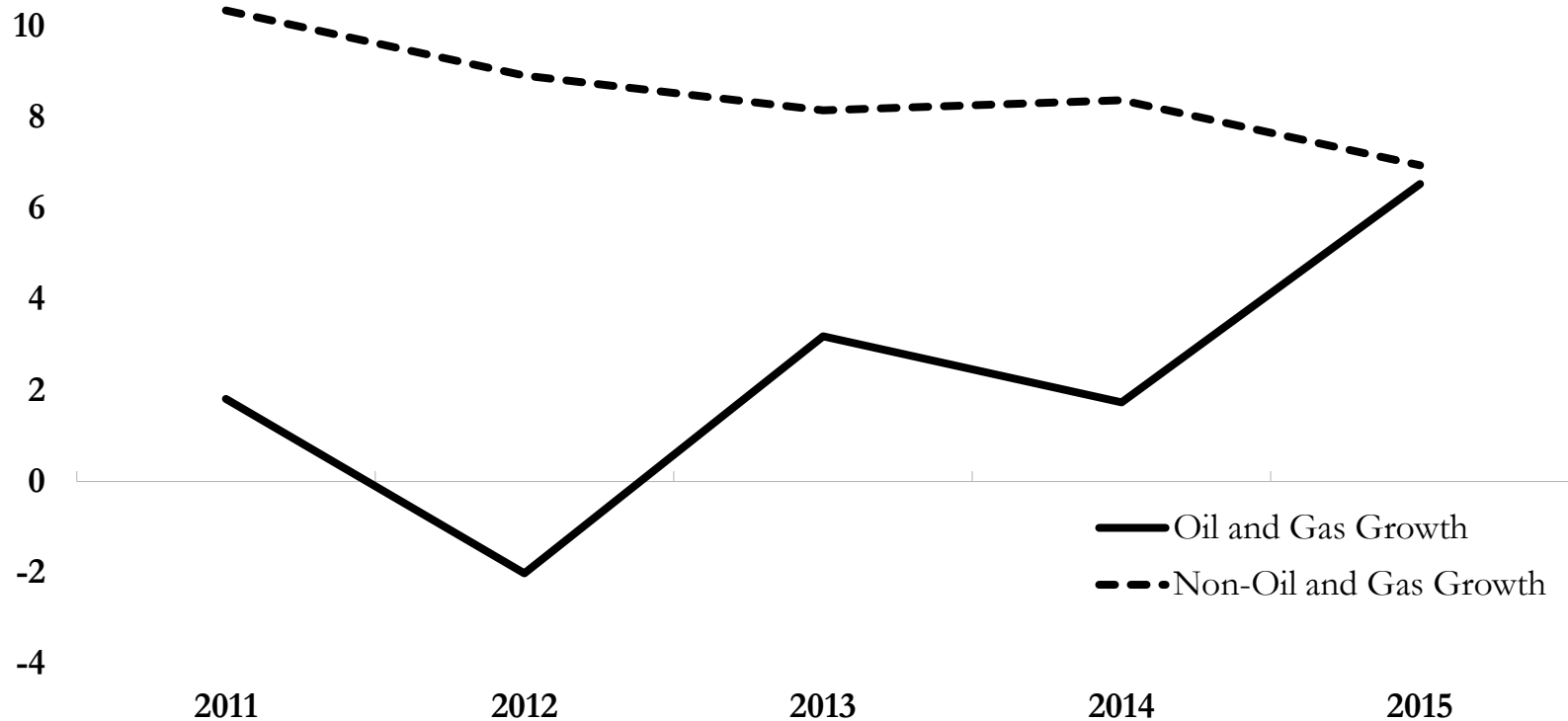
Sources: IMF, *World Economic Outlook*; and IMF staff calculations and projections.



Expanding oil and gas production has been supporting growth in other sectors

CCA Oil and Gas Exporters

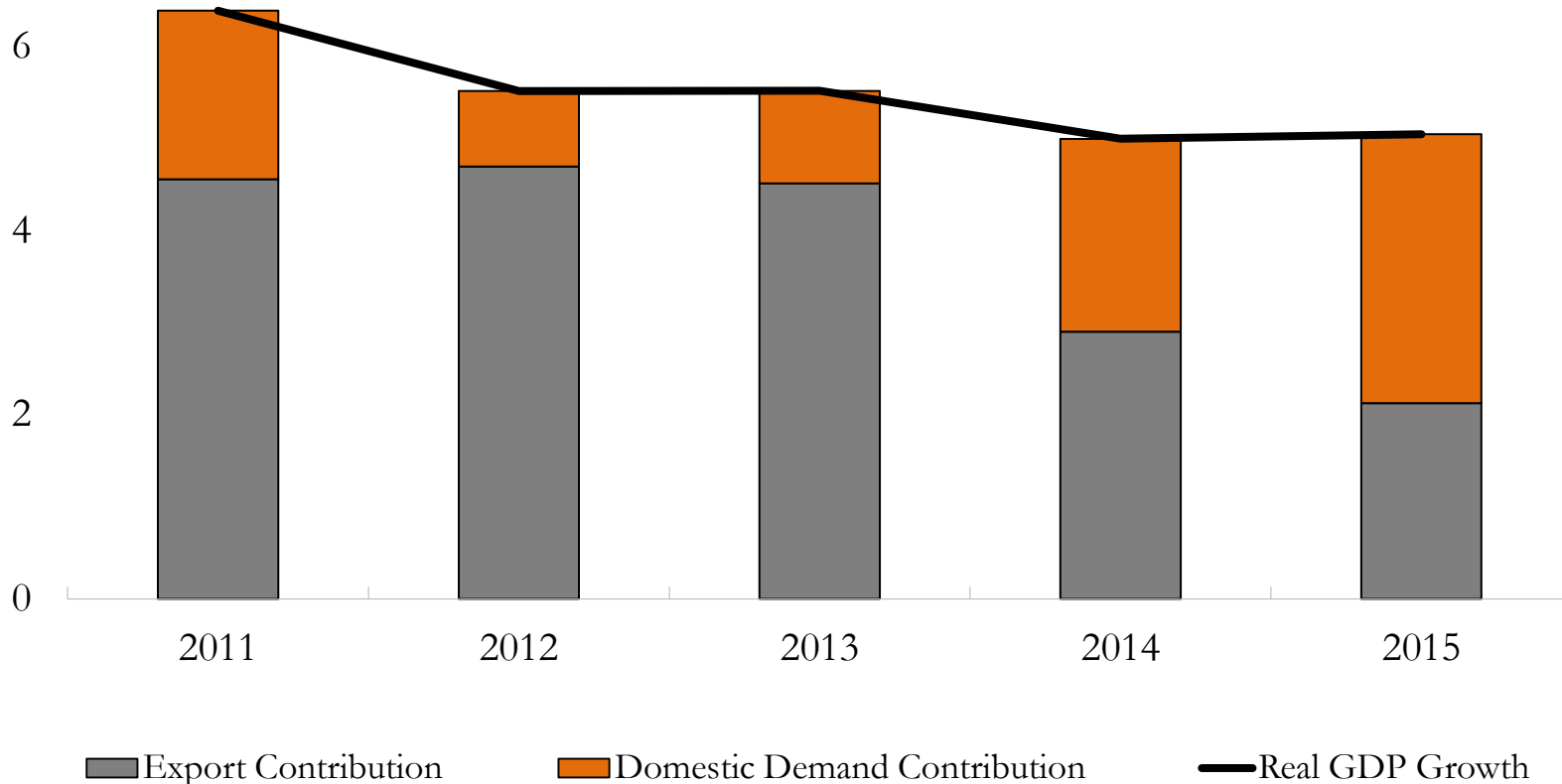
(Annual growth, percent)



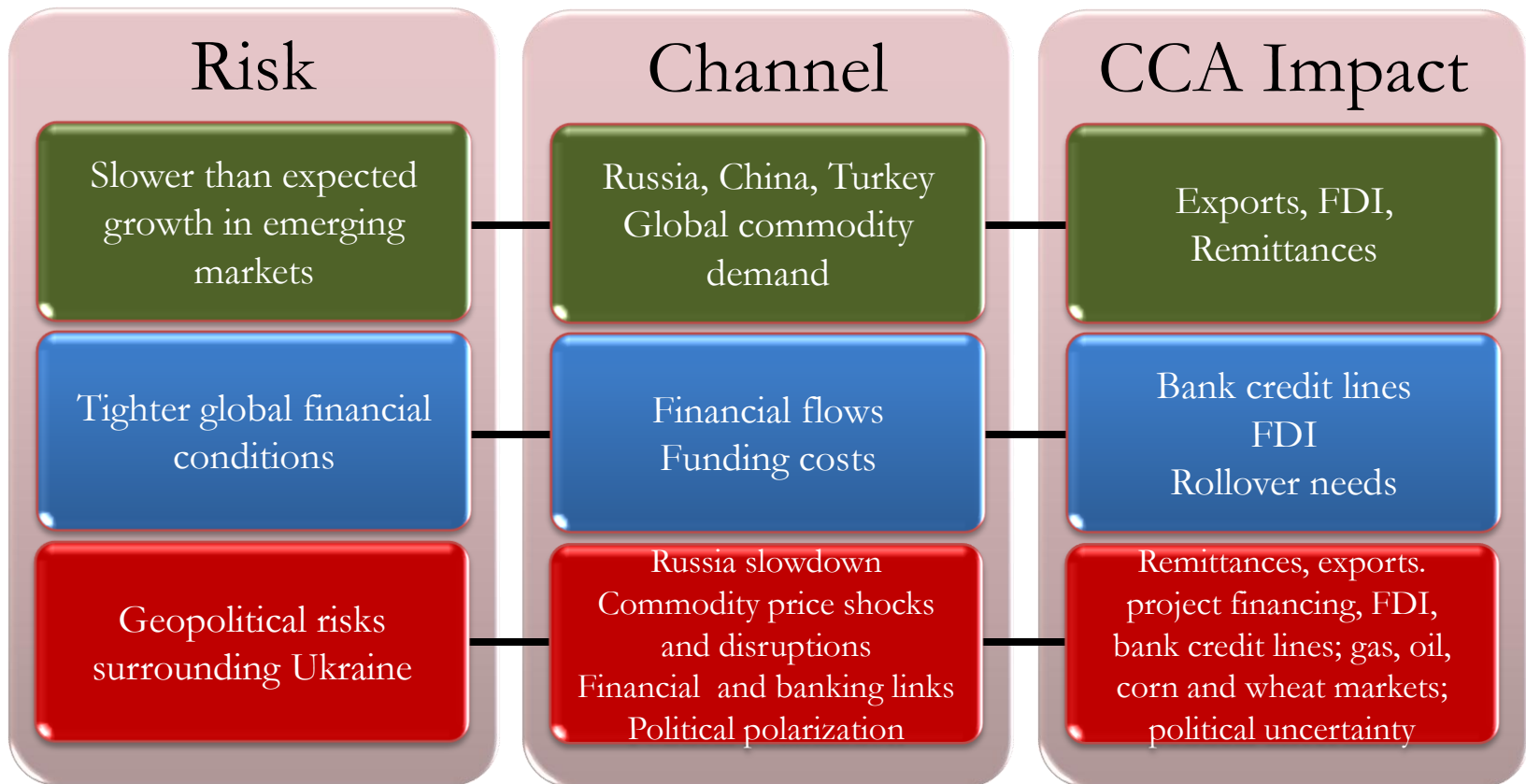
Sources: National authorities; and IMF staff calculations.

With slowing export growth ahead, domestic demand will pick up some of the slack

CCA Oil and Gas Importers



Risks to the near-term outlook are tilted to the downside and have increased recently

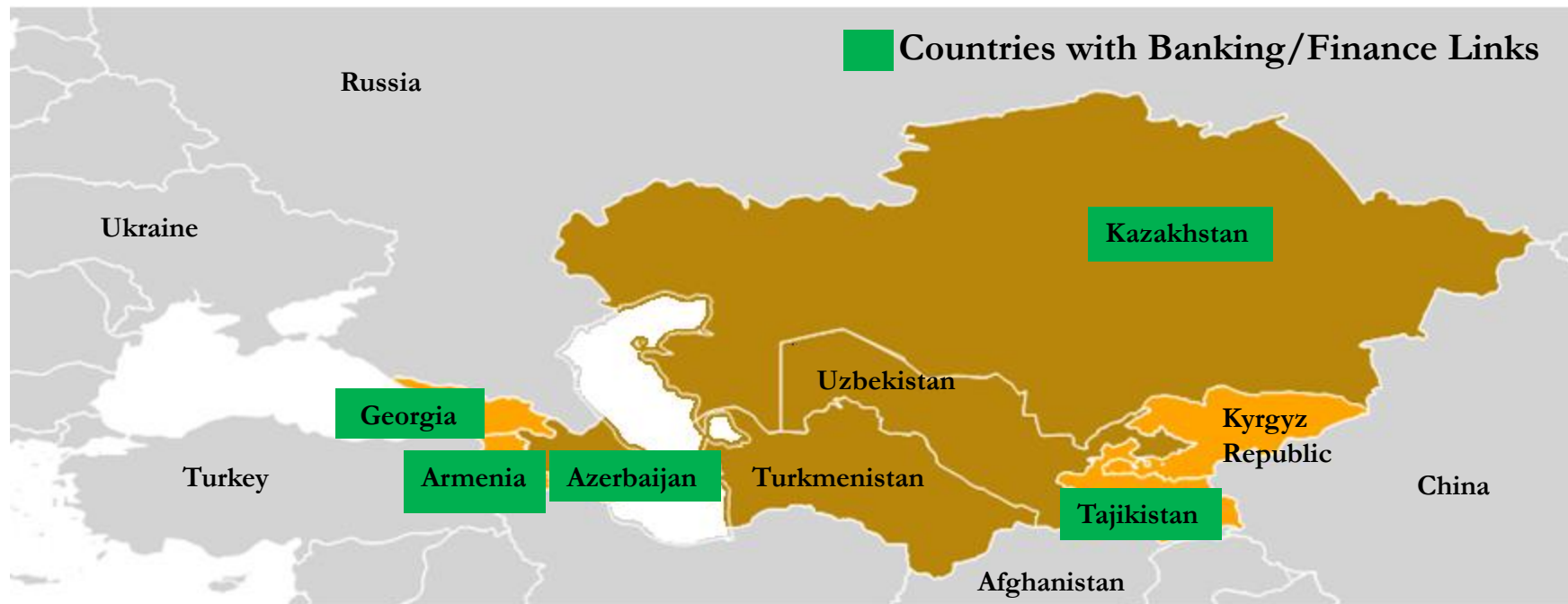


All CCA countries are exposed to Russia, albeit through different channels



Sources: National authorities; and IMF staff estimates.

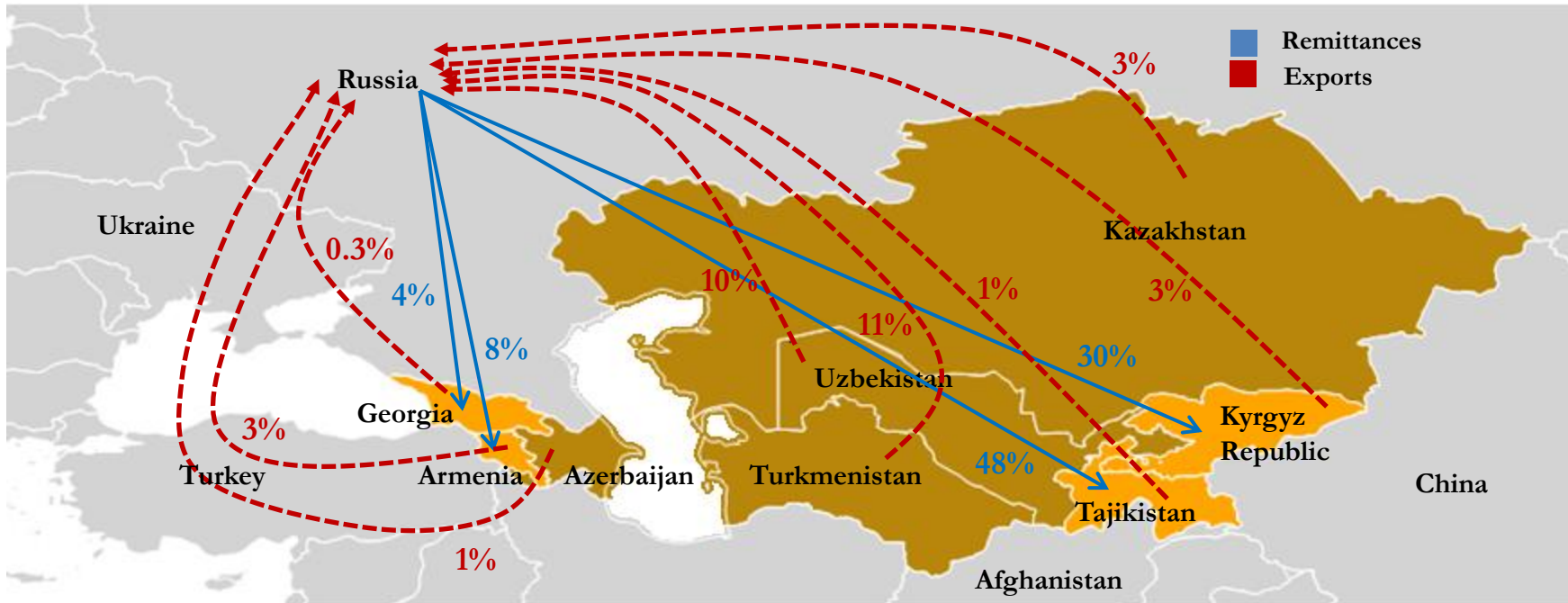
All CCA countries are exposed to Russia, albeit through different channels



Sources: National authorities; and IMF staff estimates.

All CCA countries are exposed to Russia, albeit through different channels

Exports to and Remittances from Russia
(Share of GDP)



Sources: National authorities; and IMF staff estimates.

All CCA countries are exposed to Russia, albeit through different channels

Exports to and Remittances from Russia (Share of GDP)



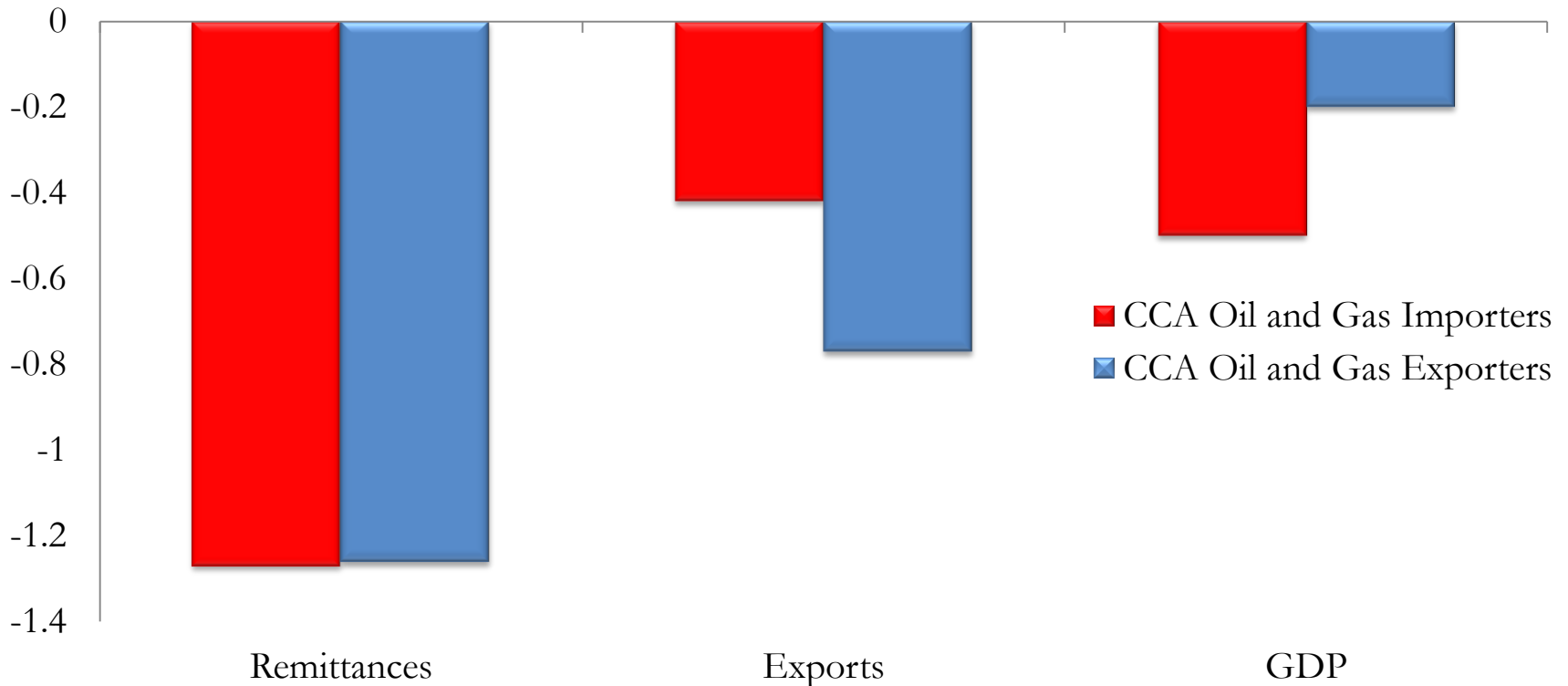
Sources: National authorities; and IMF staff estimates.



The impact of Russia slowdown on CCA oil and gas importers is likely to be larger than that on CCA oil and gas exporters

Effect of a 1 Percentage Point Fall in Russian GDP

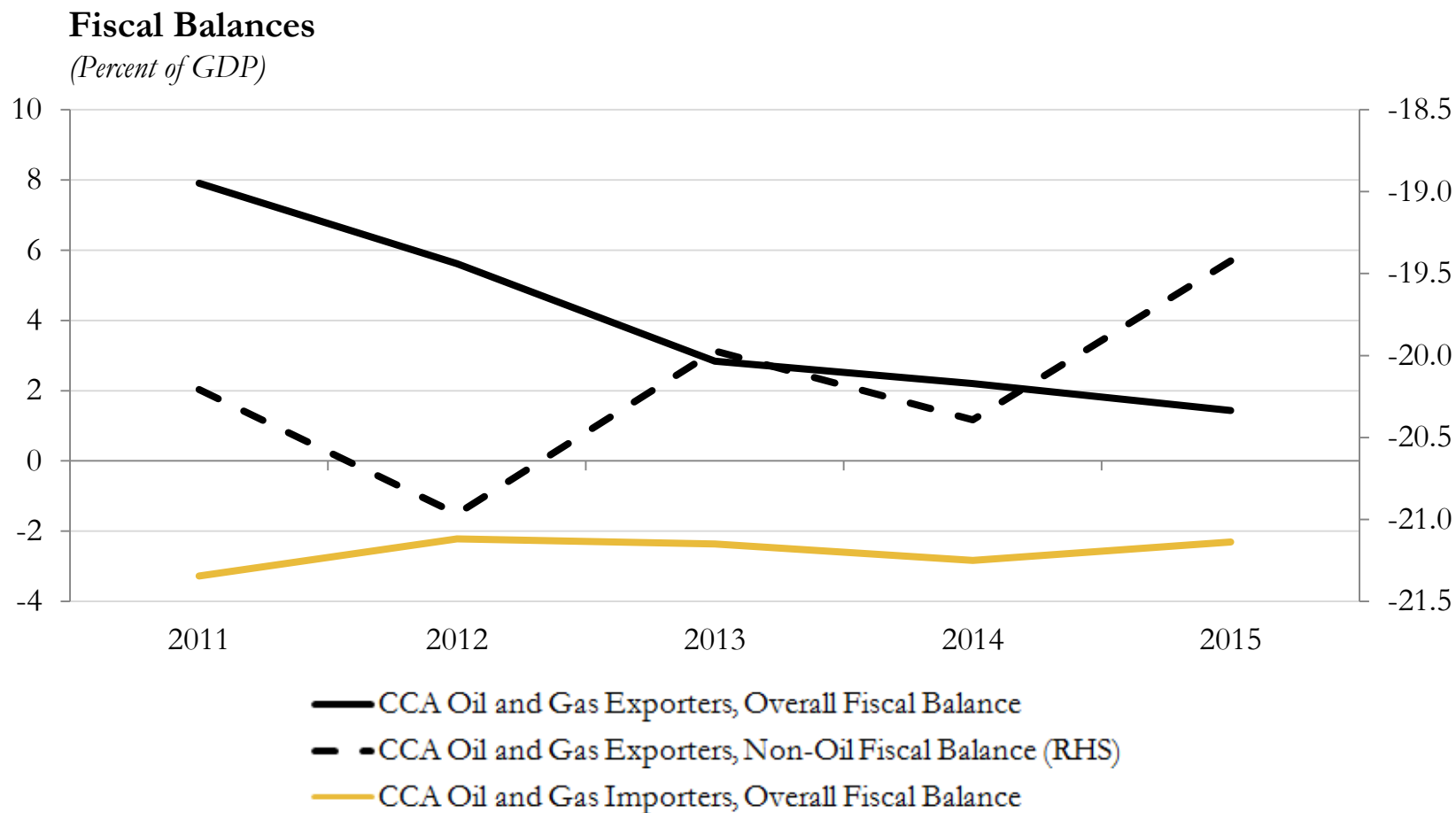
(Percent)



Sources: National authorities; and IMF staff estimates.



More rapid fiscal restoration required



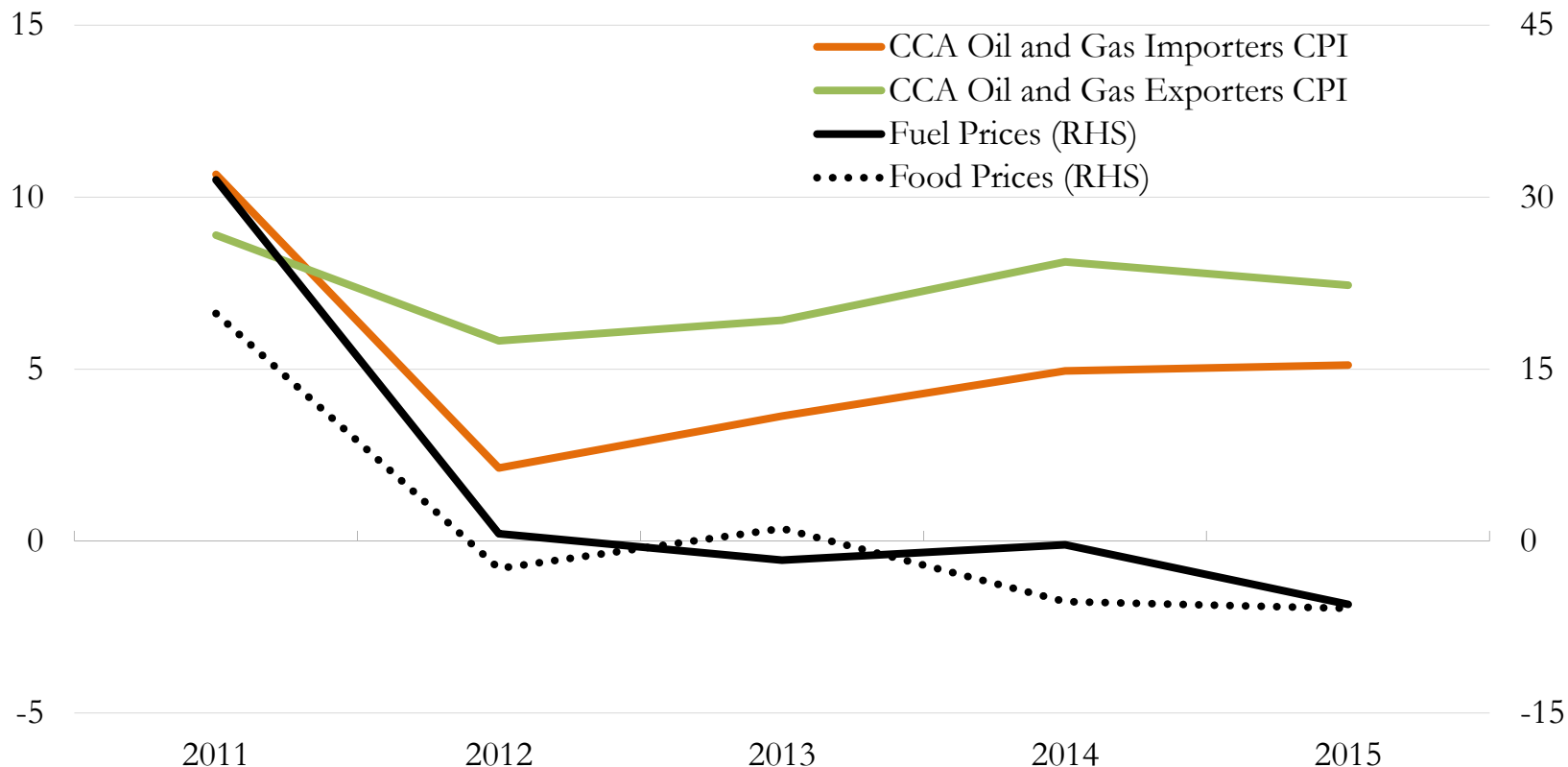
Sources: National authorities; and IMF staff calculations.



Inflation is rising despite cheaper food

CPI and Commodity Prices

(Percent change from previous year)



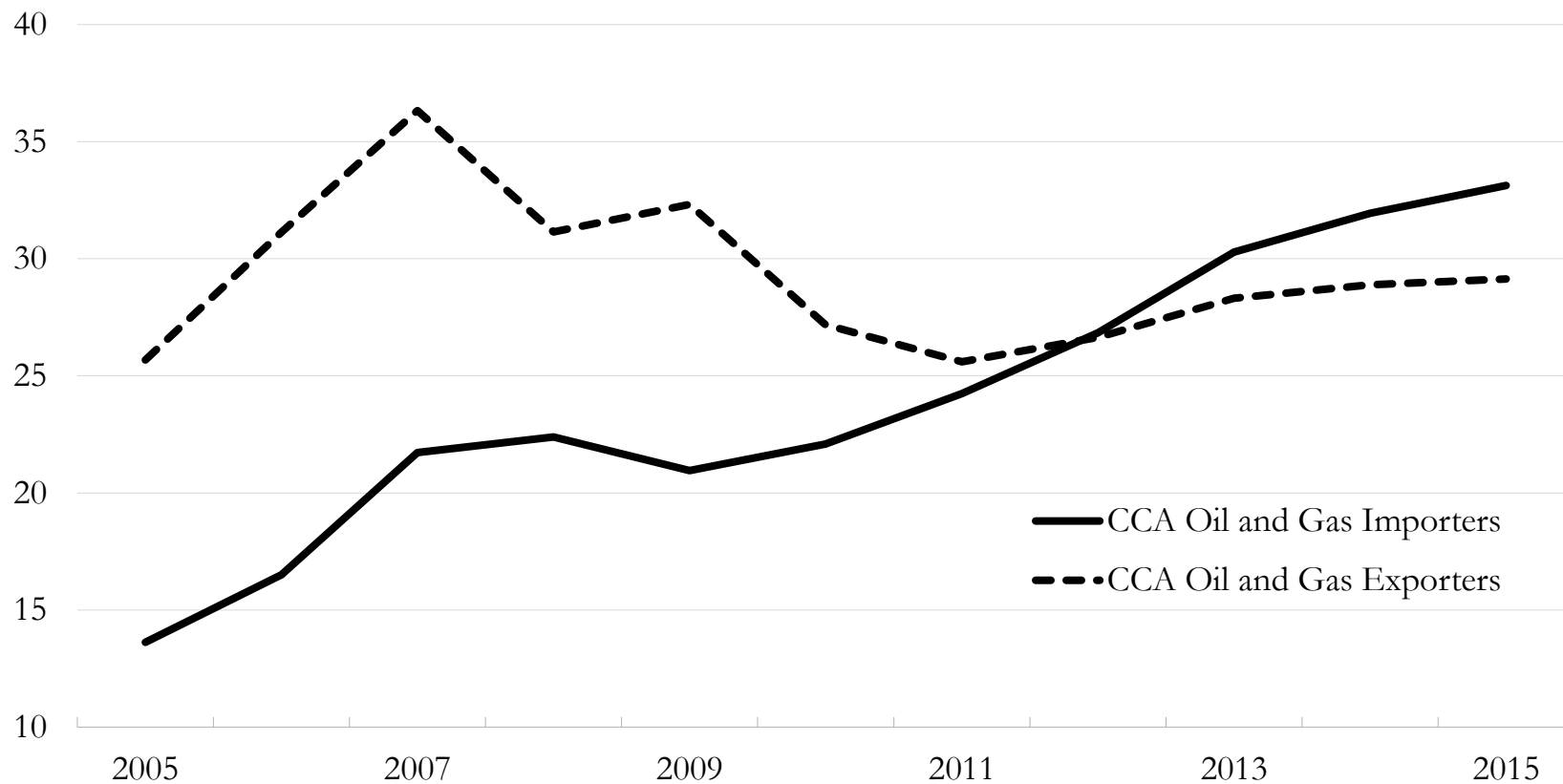
Sources: National authorities; and IMF staff calculations.



Credit has expanded rapidly

Private Sector Credit

(Percent of GDP)



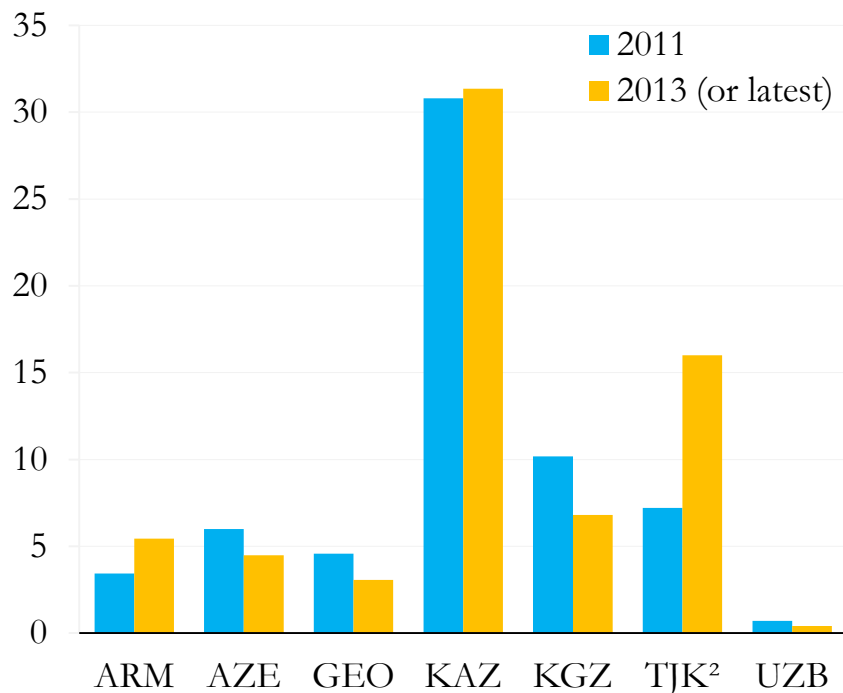
Sources: National authorities; and IMF staff calculations.



Continue to bolster financial sector soundness

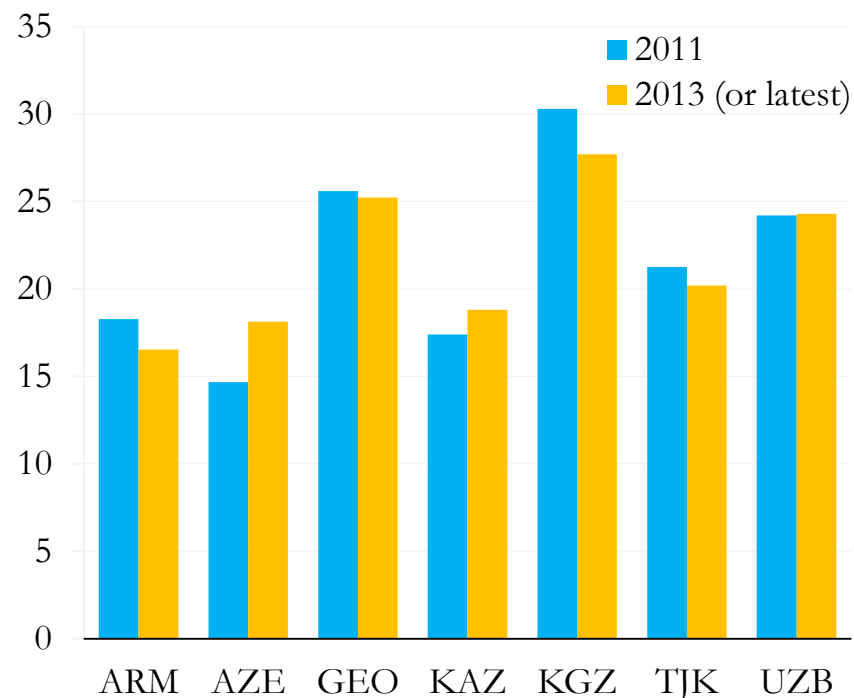
Nonperforming Loans¹

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



Capital Adequacy Ratio

(Percent of risk-weighted assets)



Sources: National authorities; and IMF staff estimates.

¹90-day basis.

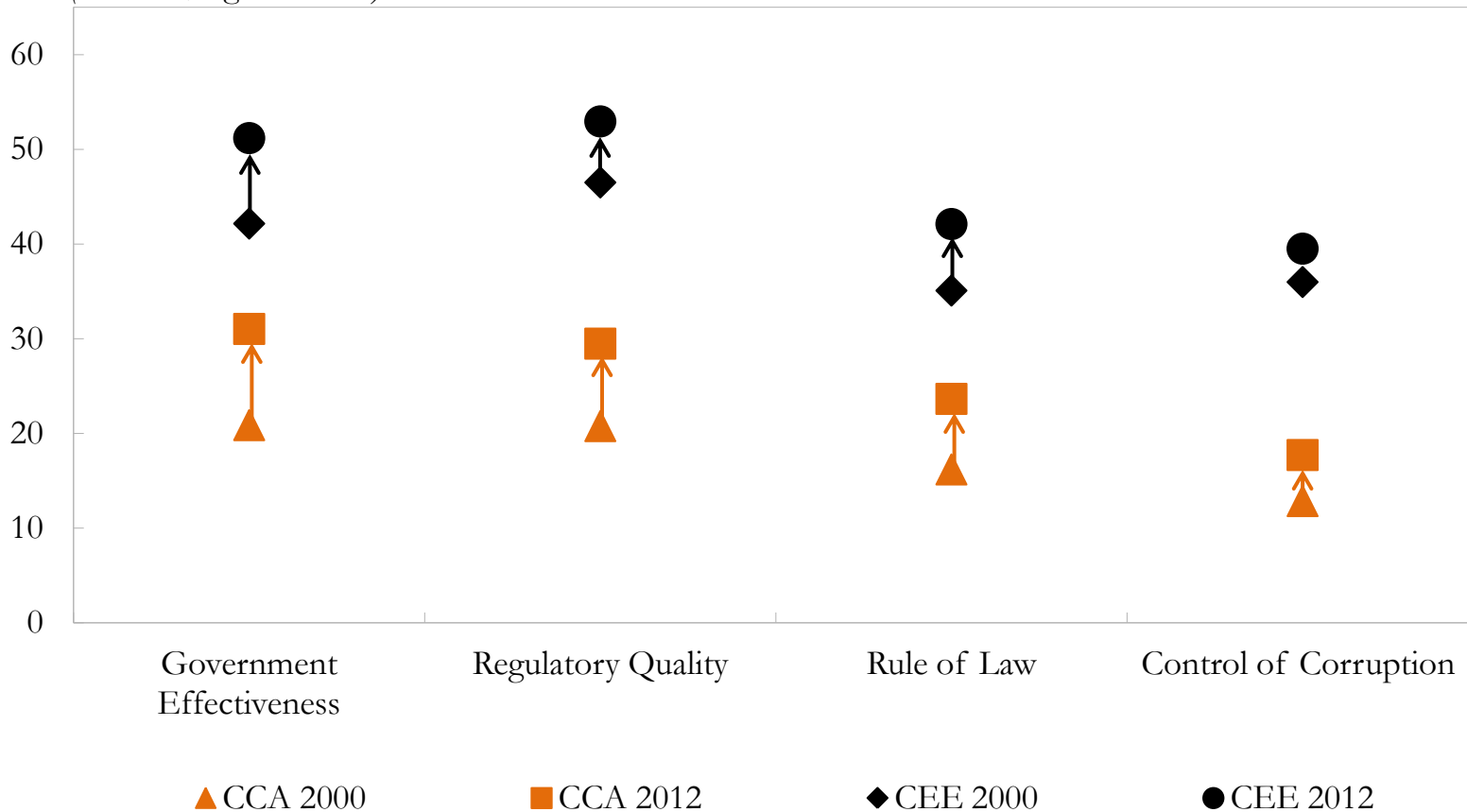
²Overdue by 30 days or more.



Breaking out of the bottom third on governance and competitiveness

Governance and Competitiveness

(Percentile; higher is better)



Sources: World Bank; and IMF staff calculations.



Key Takeaways

- Growth to soften yet risks have tilted further to the downside, particularly owing to heightened geopolitical risks
- Policy priorities center on strengthening buffers to adjust to unanticipated shocks, improve policy credibility and raise potential growth
 - Fiscal consolidation
 - Stronger fiscal and monetary policy frameworks
 - Improved financial supervision
 - Stronger governance and transparency



Thank you!

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