

# **Regional Economic Outlook**

## **Caucasus and Central Asia**

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**Middle East and Central Asia Department**

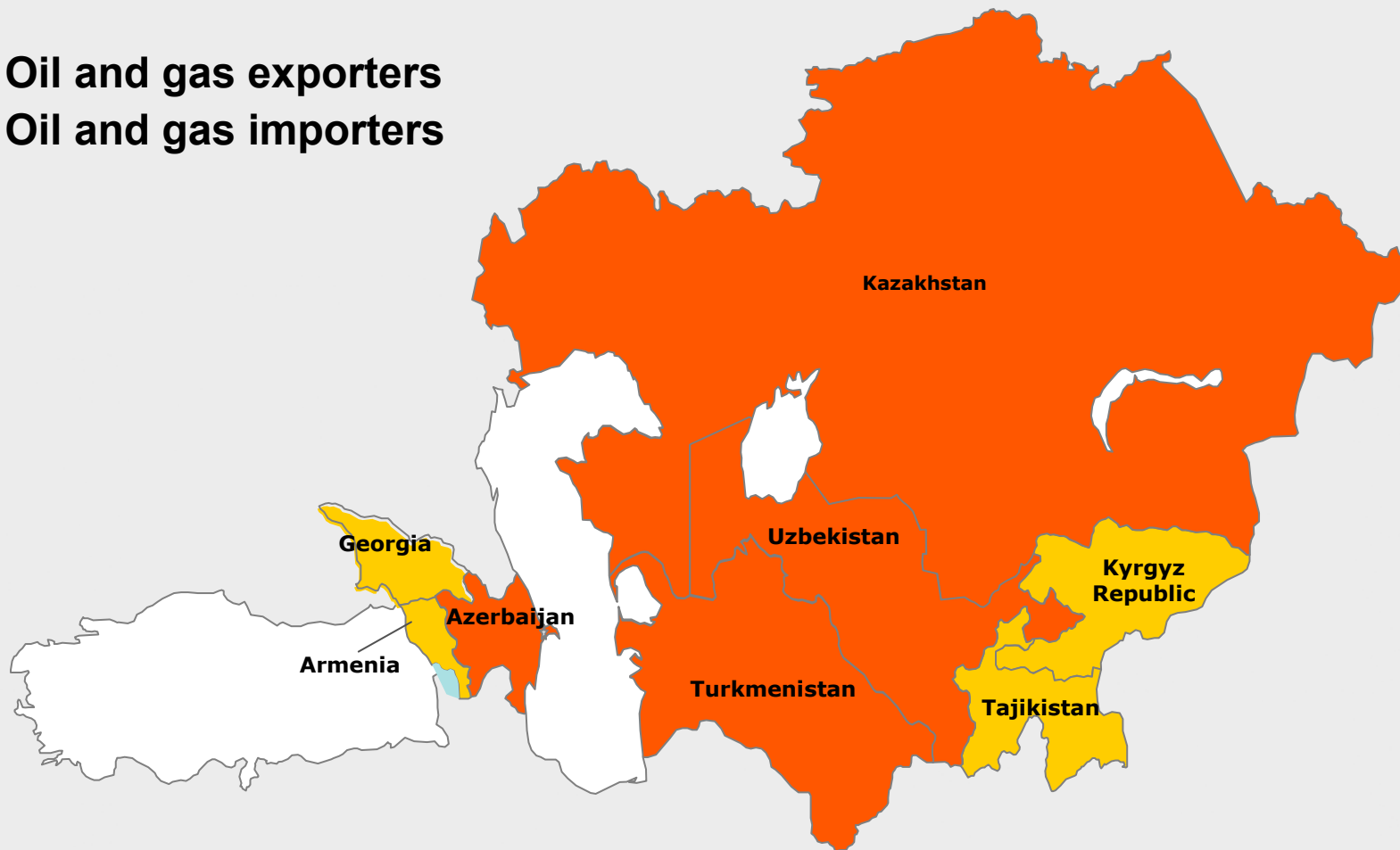
**International Monetary Fund**

**May 2009**



# Caucasus and Central Asia

-  Oil and gas exporters
-  Oil and gas importers



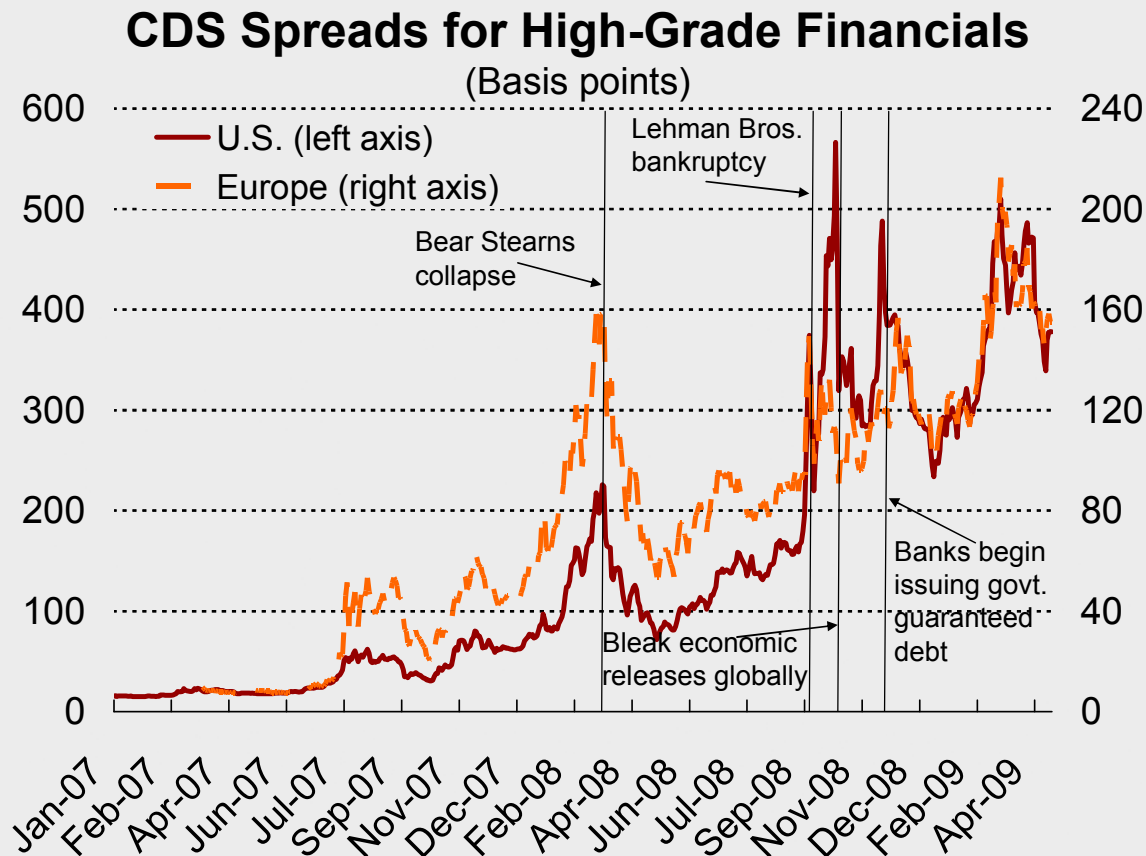
## **Outline**

- **World Economic Outlook**
- **CCA Economic Outlook**
- **Georgia Outlook**

# World Economic Outlook: Key Messages

- Financial markets remain highly stressed. Total write-downs on global assets are estimated at \$4 trillion.
- The world economy will contract in 2009 by around 1¼ percent before recovering gradually in 2010. Deepest post WWII recession.
- Emerging economies face dramatic drops in capital inflows, demand for their exports, and commodity prices.
- A third wave of the global crisis is hitting the world's poorest.
- Turning around global growth calls for concerted policy actions to stabilize financial conditions and bolster demand.

# Systemic risks remain elevated despite forceful policy efforts.

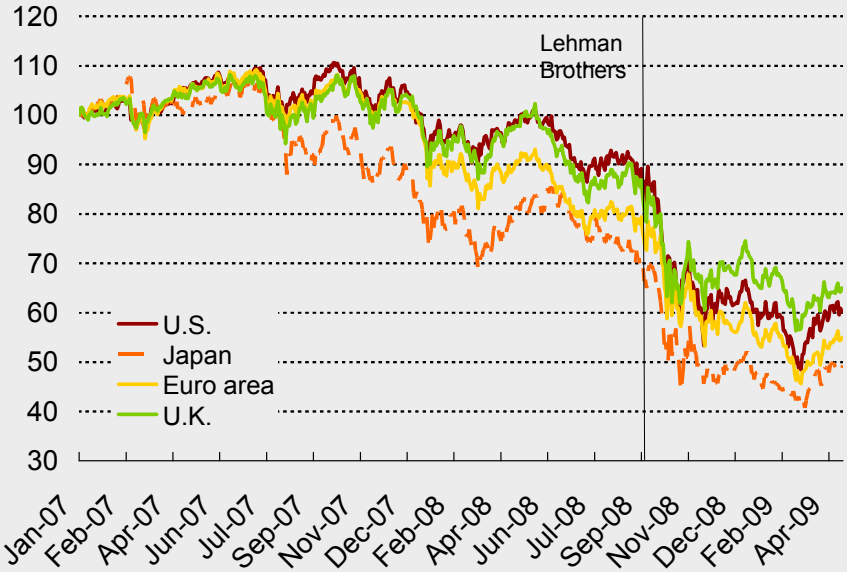


Source: Bloomberg.

# Recent data show contraction may be moderating.

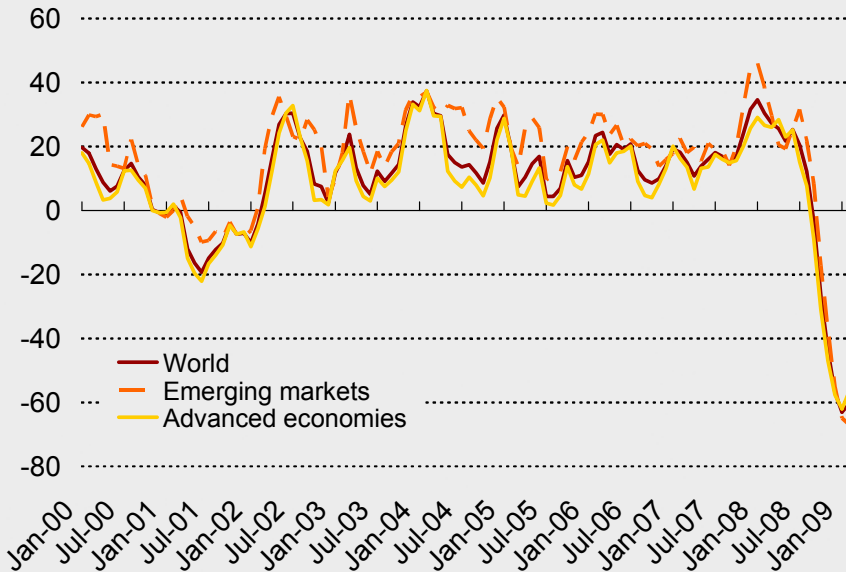
## Equities

(1/1/2007=100; FTSE)



## Merchandise Exports

(Annualized percent change) 1/

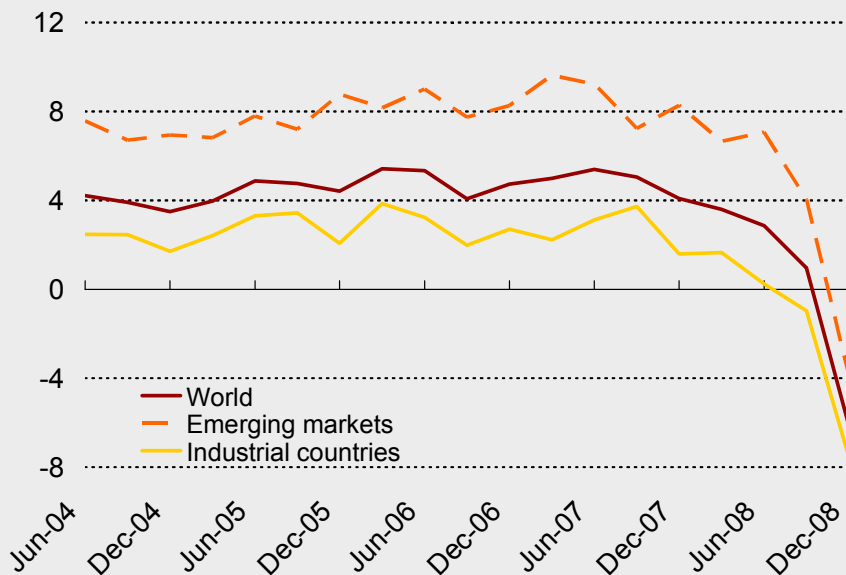


1/ Three-month moving average.

# Across the globe, GDP is falling and unemployment is rising.

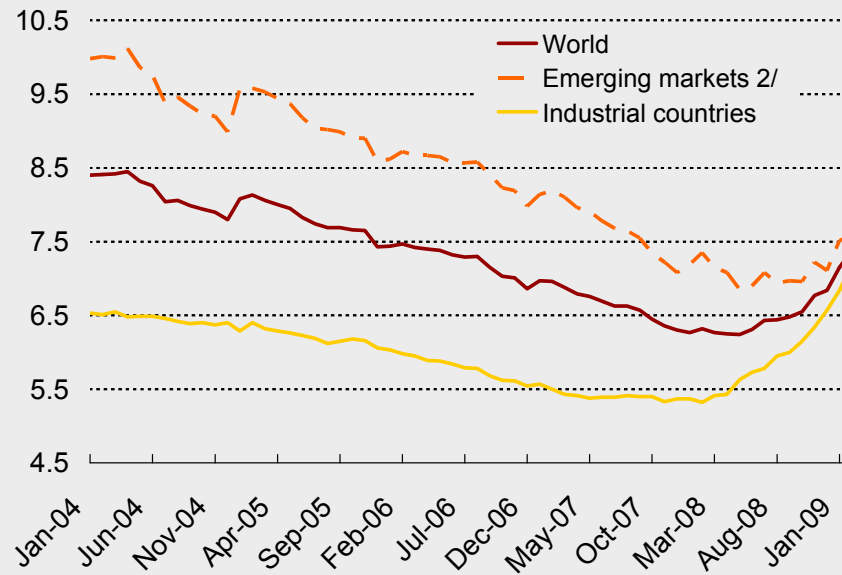
## Real GDP Growth

(In percent; quarter on quarter annualized)



## Unemployment Rate 1/

(In percent)



1/ Aggregated using total labor force as weights.

2/ Excludes China, India, Indonesia, Hungary, and Pakistan.



## **There are downside risks to the world economic outlook.**

- Further delays in implementing policies to stabilize financial conditions.
- Deflation risks could reinforce a deeper and longer downturn.
- Rising threat of corporate defaults in emerging economies.
- Risks of trade and financial protectionism.
- Sovereign fiscal sustainability concerns.
- **But, there is upside potential, hinging on bold implementation of policies.**



**The global economy is set to decline in 2009  
and recover only gradually in 2010.**

**Real GDP Growth**  
(In percent)

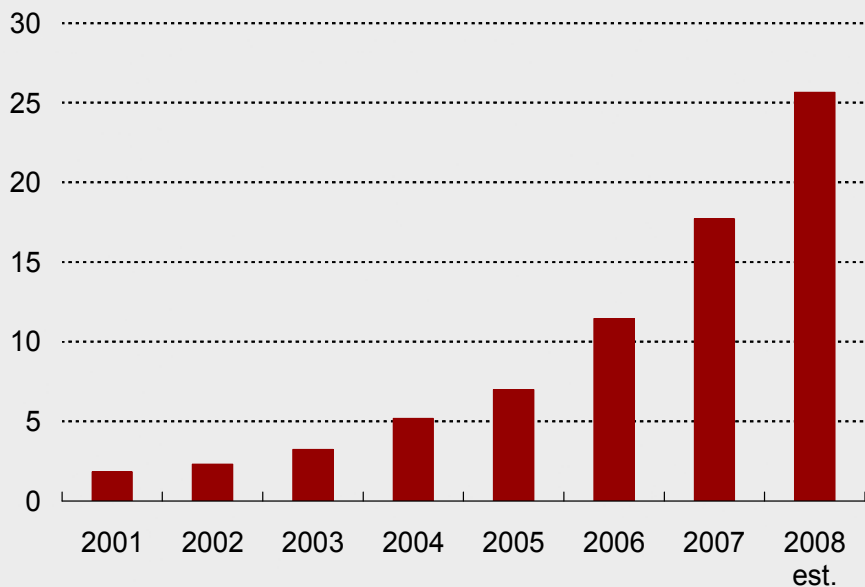
	2009	2010
<b>World</b>	<b>-1.3</b>	<b>1.9</b>
<b>Advanced Economies</b>	<b>-3.8</b>	<b>0.0</b>
United States	-2.8	0.0
Euro Area	-4.2	-0.4
Japan	-6.2	0.8
<b>Emerging and Developing Economies</b>	<b>1.6</b>	<b>4.0</b>
China	6.5	7.5
India	4.5	5.6
Russia	-6.0	0.5

## **CCA Economic Outlook: Key Messages**

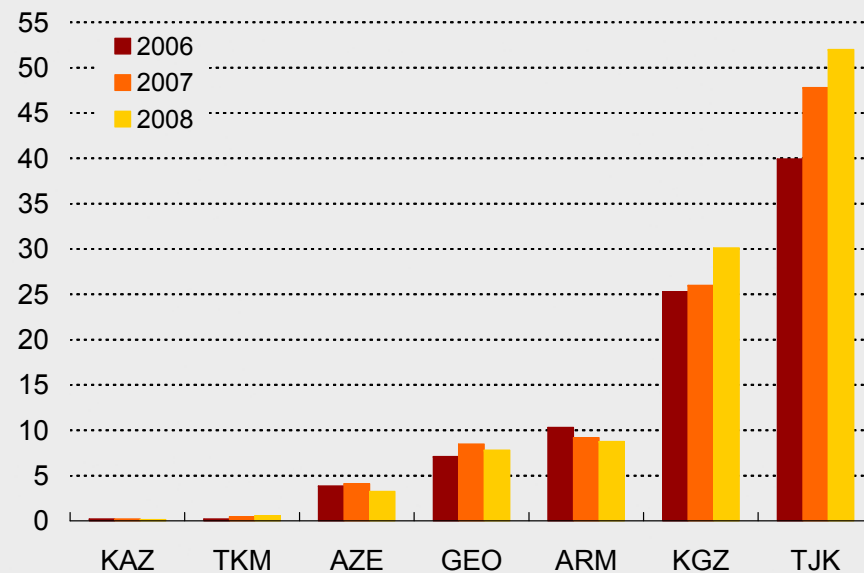
- The region is being hit by external shocks.
  - Contraction in world economy, esp. Russia
  - Declining commodity prices
  - Drying-up of capital inflows
- Current account positions have weakened.
- Fiscal balances are worsening, and public debt is rising.
- Growth will drop sharply in 2009 and recover gradually in 2010.
- Inflation is falling.

## Remittances from Russia are large, but are falling in 2009.

**Remittances Outflow from Russia**  
(In billions of U.S. dollars)

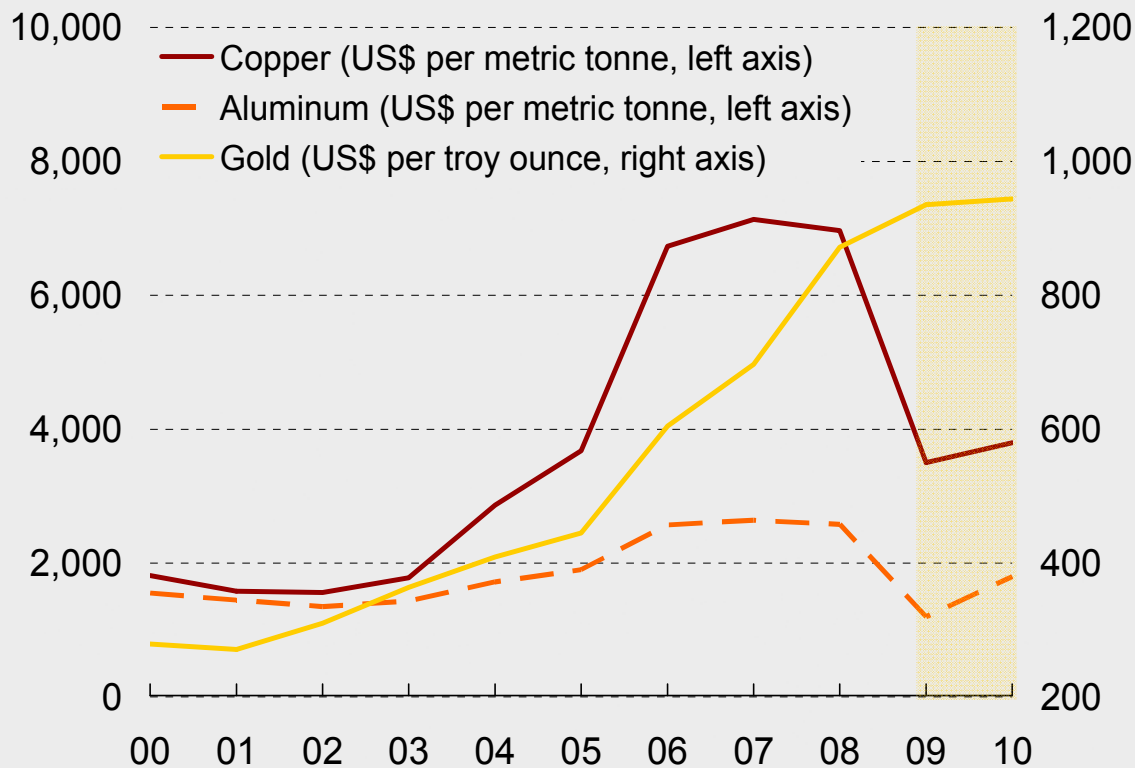


**Remittances Inflow**  
(In percent of GDP)



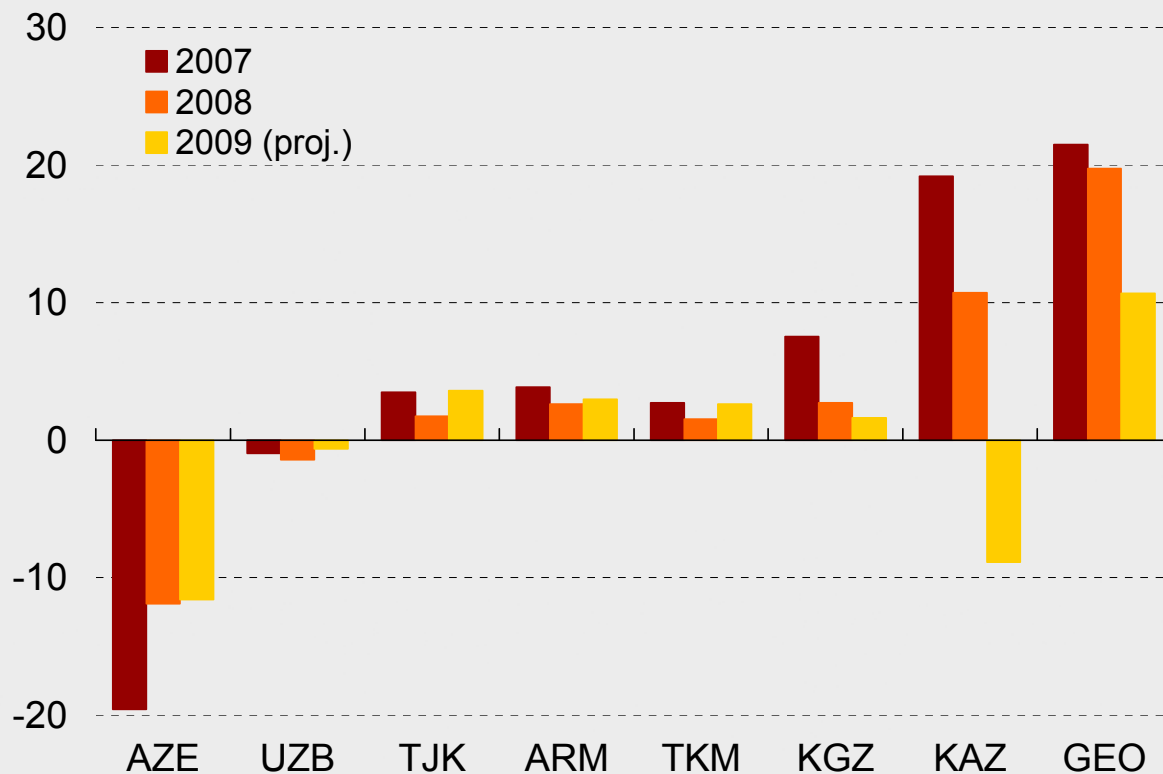
# Commodity prices have dropped.

**Commodity Prices**



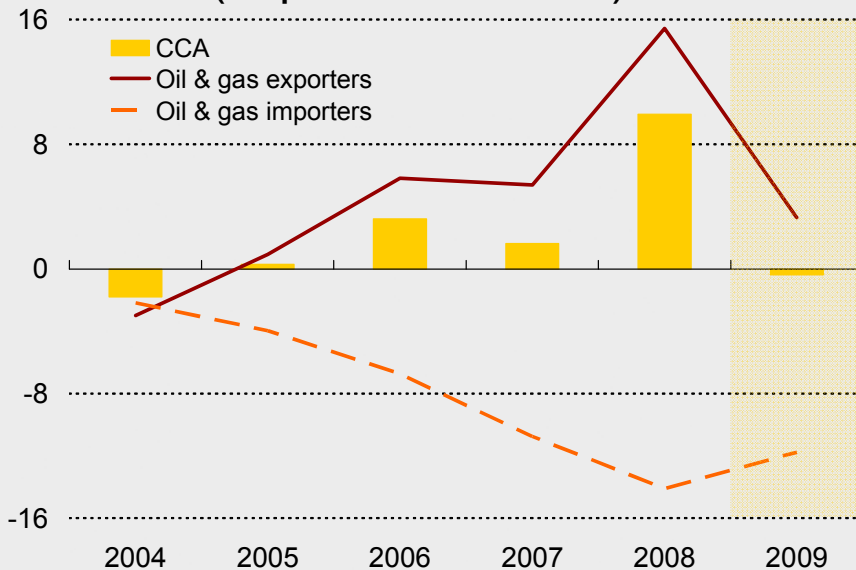
## Capital inflows are drying up.

**Private Capital Flows, Net**  
(In percent of GDP)

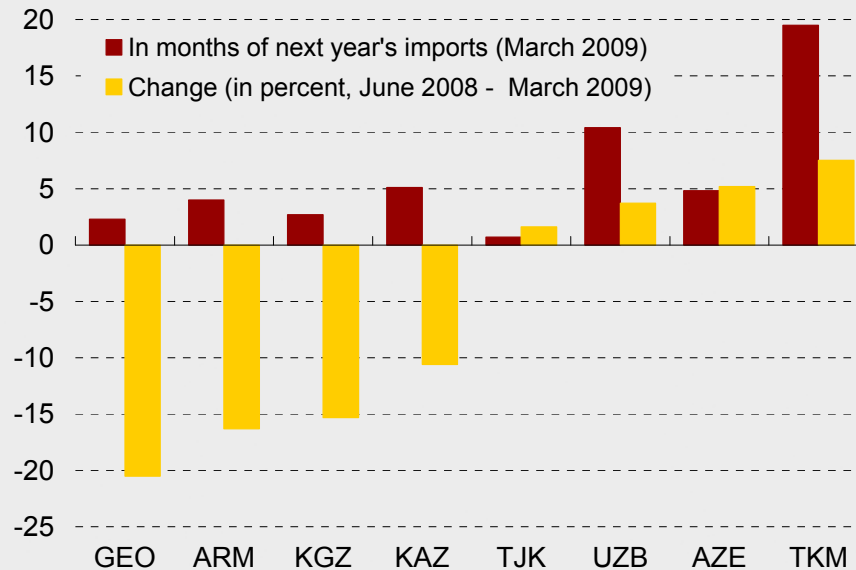


# Current account positions have weakened.

**Current Account Balance**  
(In percent of GDP)



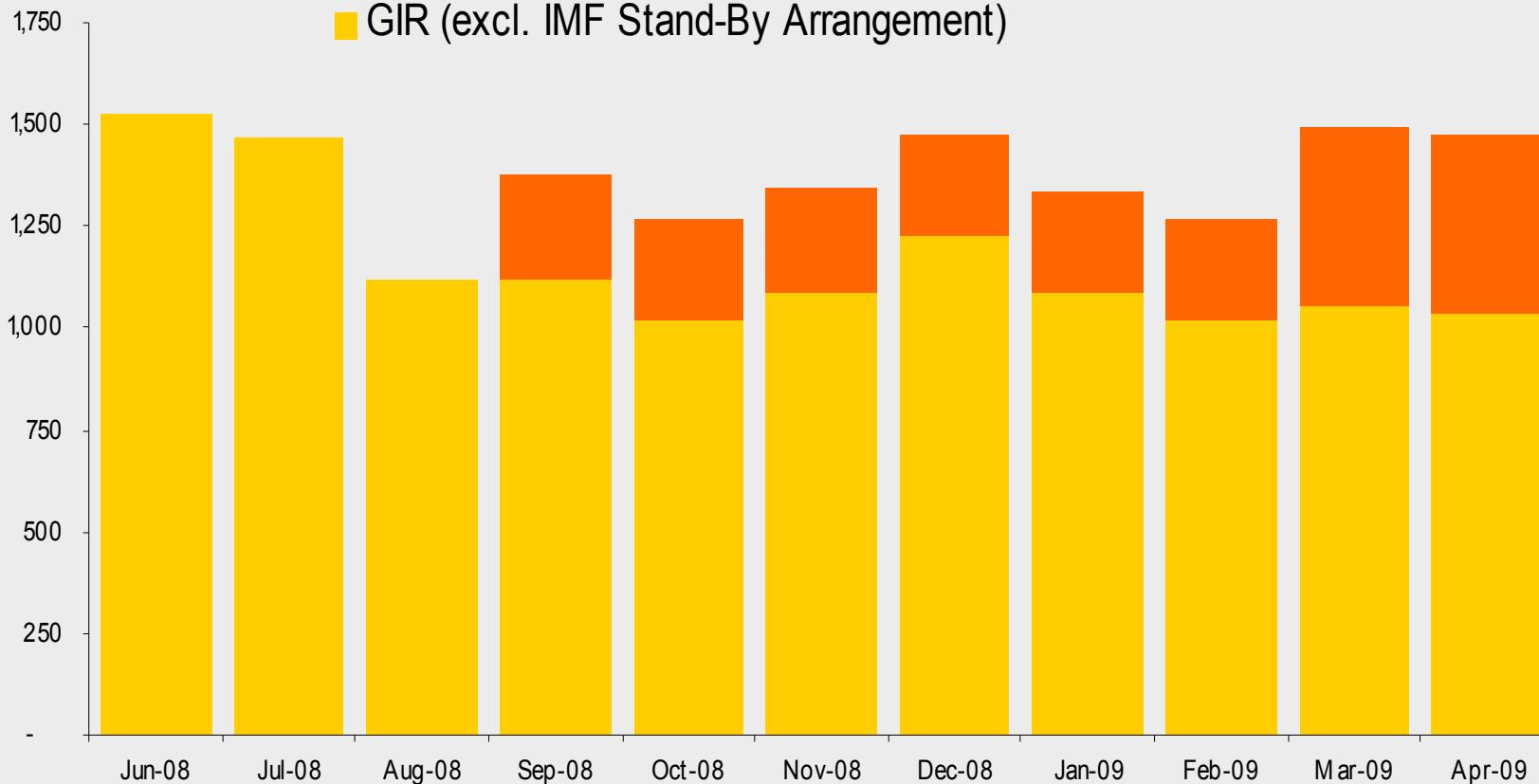
**Gross International Reserves 1/**



1/ March 2009 data includes SBA purchases of \$249 million (Armenia) and \$250 million (Georgia).

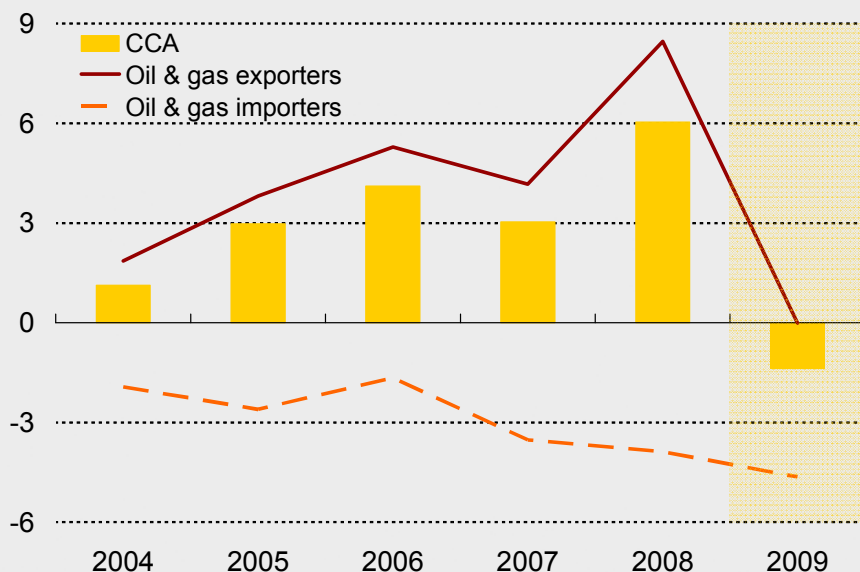
# Georgia: Gross International Reserves (GIR)

- IMF Stand-By Arrangement
- GIR (excl. IMF Stand-By Arrangement)

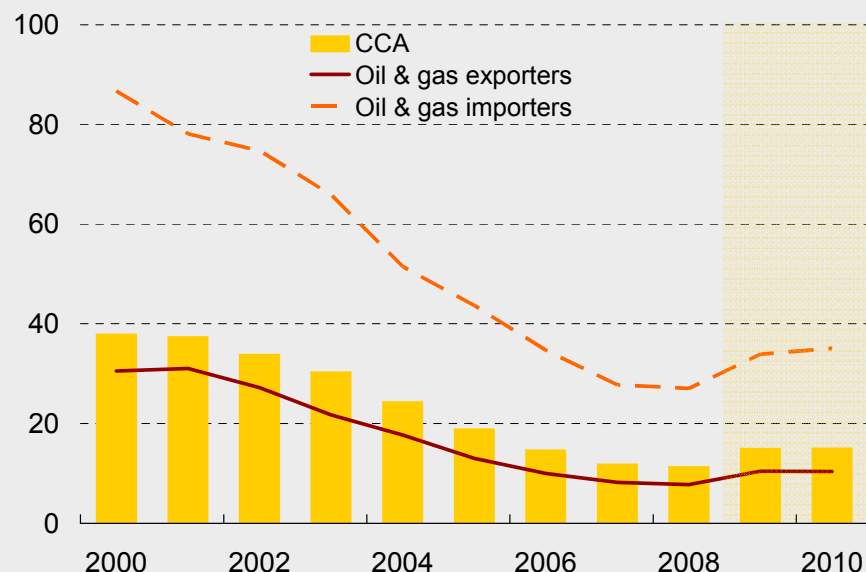


# Fiscal balances are worsening, and public debt is low, but rising again.

**Fiscal Balance**  
(In percent of GDP)

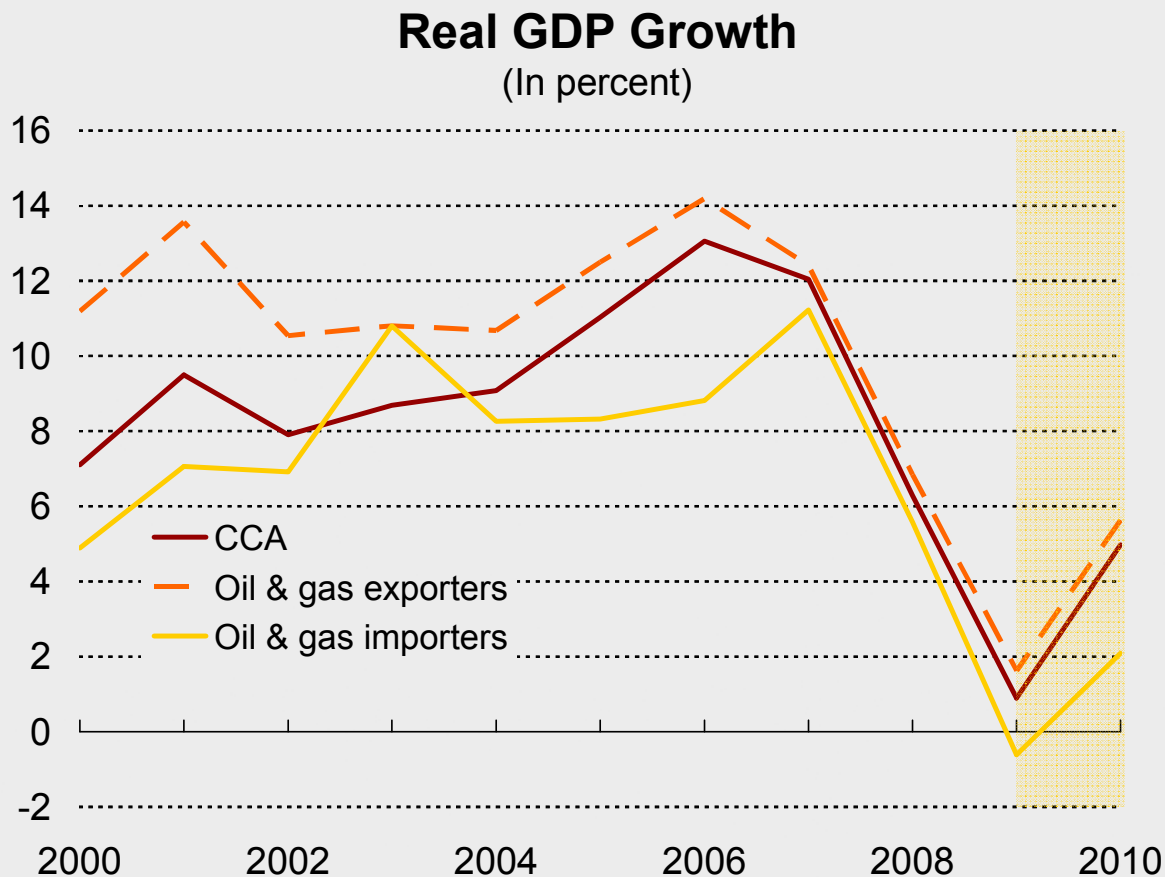


**Government Debt**  
(In percent of GDP)





# Growth in the region is slowing sharply . . .



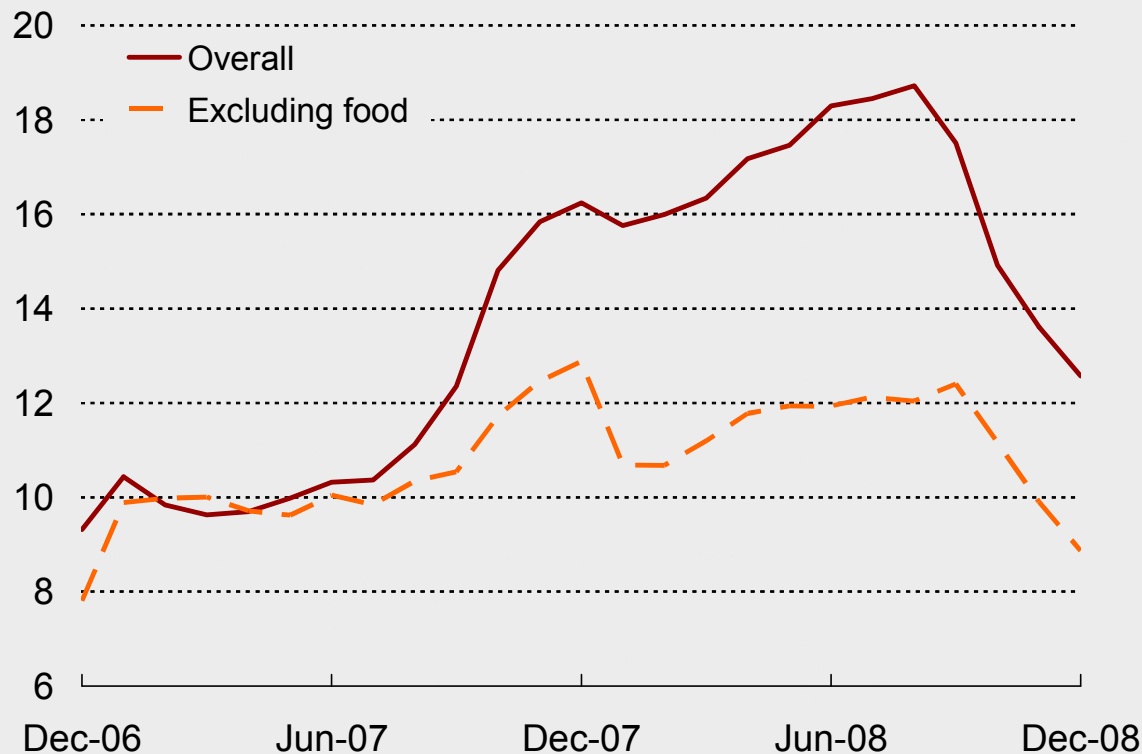
**... but could recover slowly in 2010.**

**Real GDP Growth**  
(Annual percentage change)

	2006	2007	2008	Proj. 2009	Proj. 2010
<b>CCA</b>	<b>13.1</b>	<b>12.0</b>	<b>6.3</b>	<b>0.9</b>	<b>5.0</b>
Armenia	13.2	13.8	6.8	-5.0	0.0
Azerbaijan	30.5	23.4	11.6	2.5	12.3
Georgia	9.4	12.4	2.0	1.0	3.0
Kazakhstan	10.7	8.9	3.2	-2.0	1.5
Kyrgyz Republic	3.1	8.5	7.6	0.9	2.9
Tajikistan	7.0	7.8	7.9	2.0	3.0
Turkmenistan	11.4	11.6	9.8	6.9	7.0
Uzbekistan	7.3	9.5	9.0	7.0	7.0

## Inflationary pressures are subsiding, but food prices remain high.

**Average Inflation, GDP Weighted**  
(Annual percentage change)



# Measures Taken Thus Far

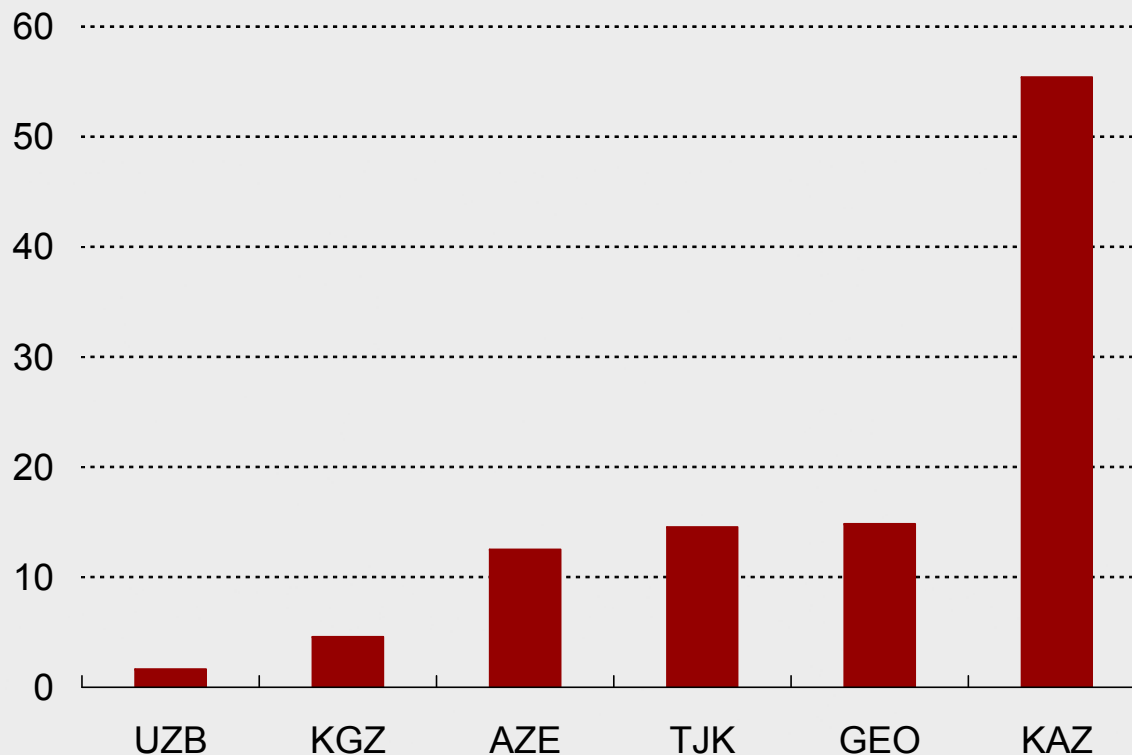
Country	Fiscal stimulus	Exchange rate depreciation	Monetary easing	Liquidity support	Increased provisioning	Capital injections	Deposit guarantees
Armenia	✓	✓	✓	✓			
Azerbaijan	✓		✓	✓	✓	✓	✓
Georgia	✓	✓	✓	✓	✓	✓	
Kazakhstan	✓	✓	✓	✓	✓	✓	Enhanced
Kyrgyz Republic	✓	✓					✓
Tajikistan	✓	✓	✓	✓			
Turkmenistan							
Uzbekistan	✓	✓				✓	✓

## **Risks to the Outlook**

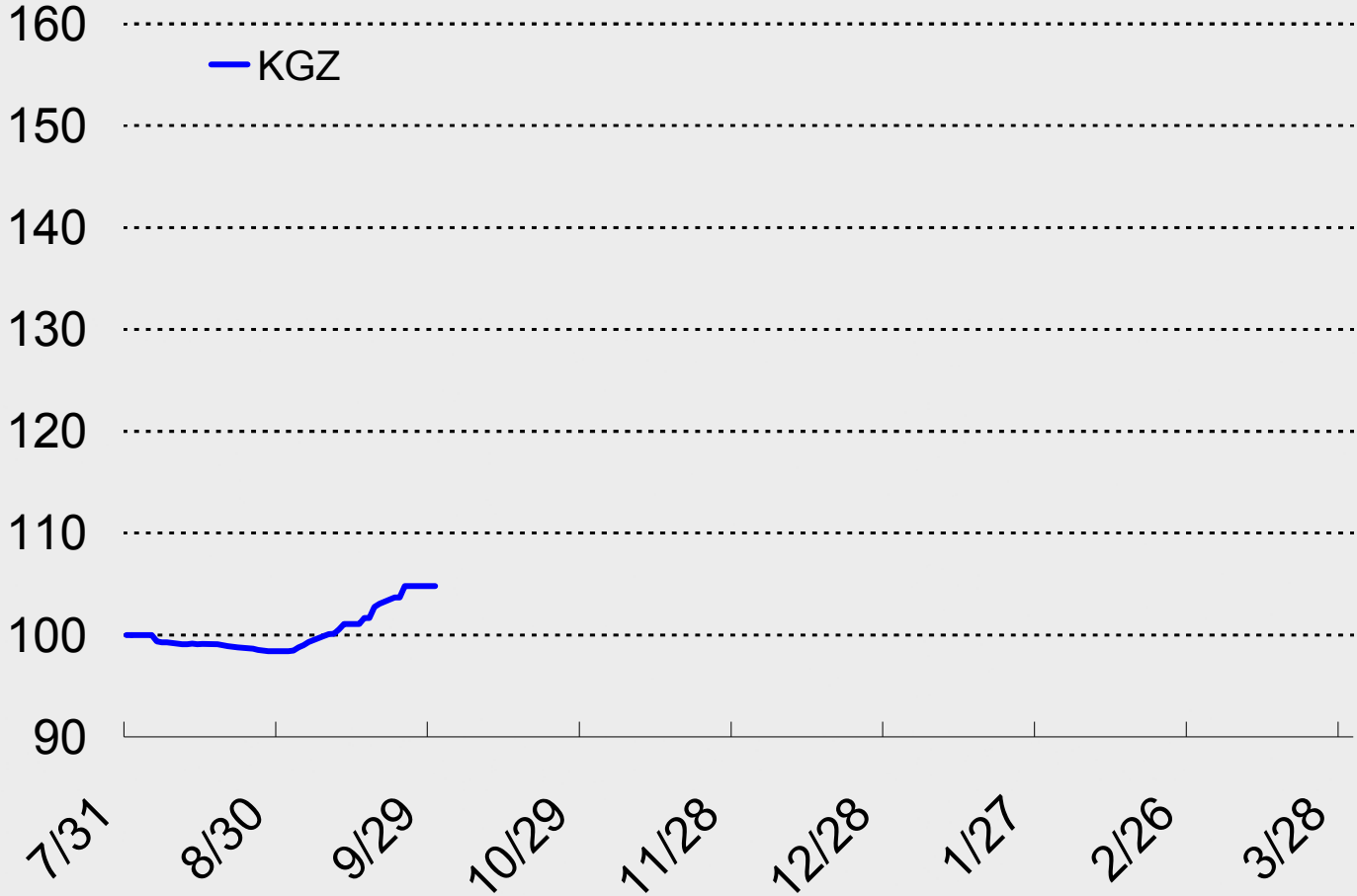
- **Prolonged global recession and stress in global financial markets**
- **Rising external debt and rollover risks**
- **Further exchange rate pressures**
- **Credit constraints and rising nonperforming loans**

**In some countries, the ability to meet external debt obligations is a cause for concern.**

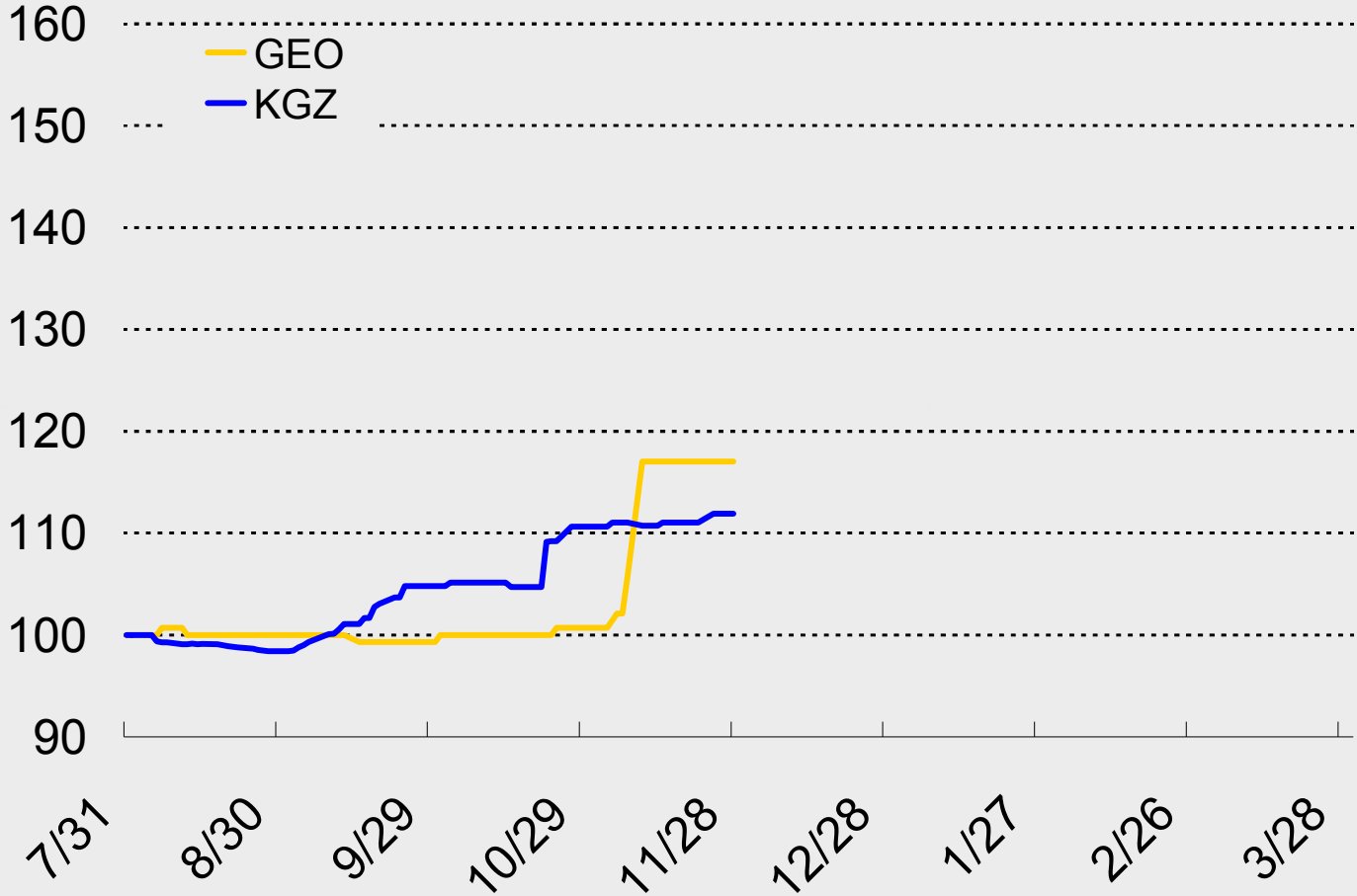
**Private External Debt**  
(In percent of GDP)



## Regional currencies are under pressure.

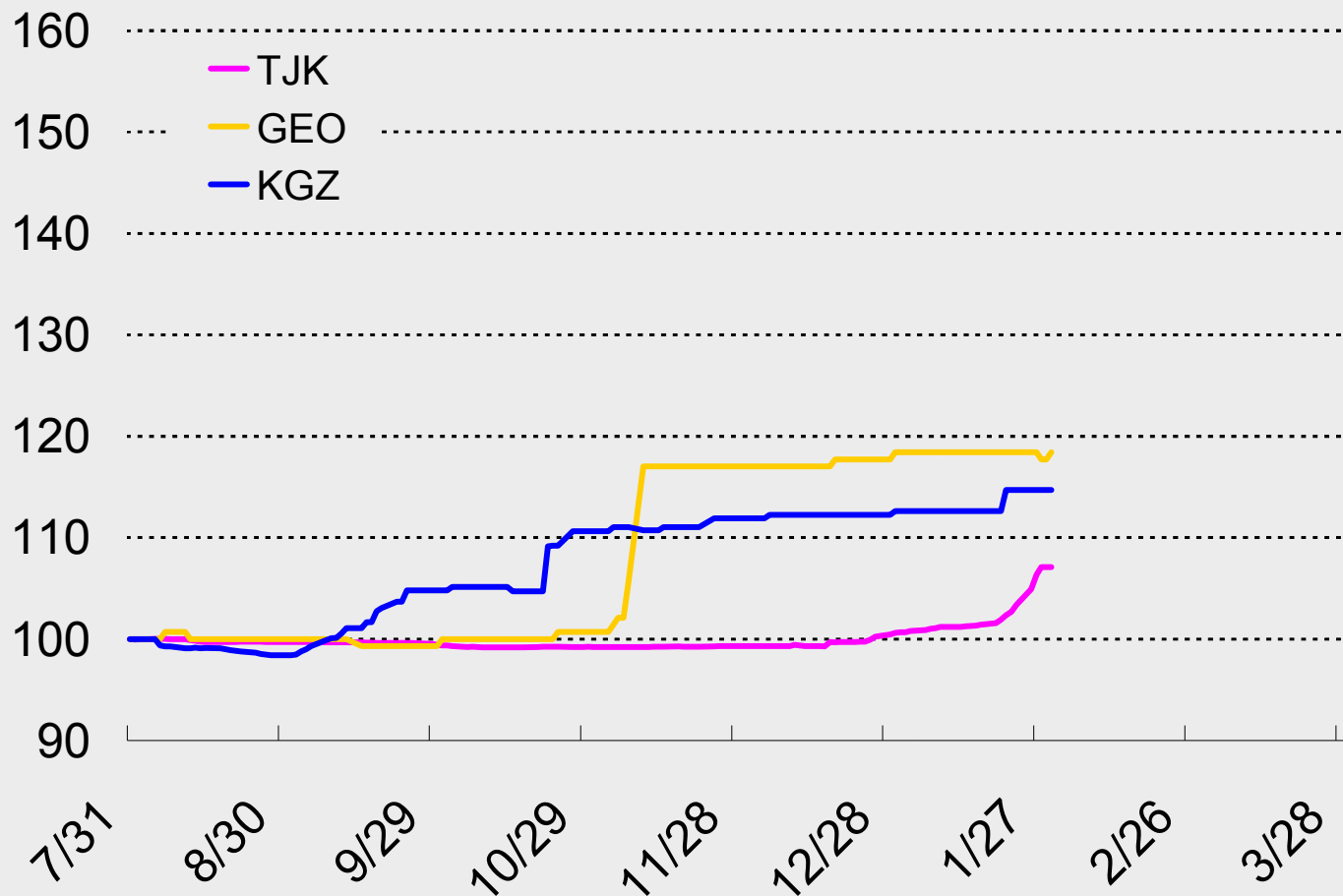


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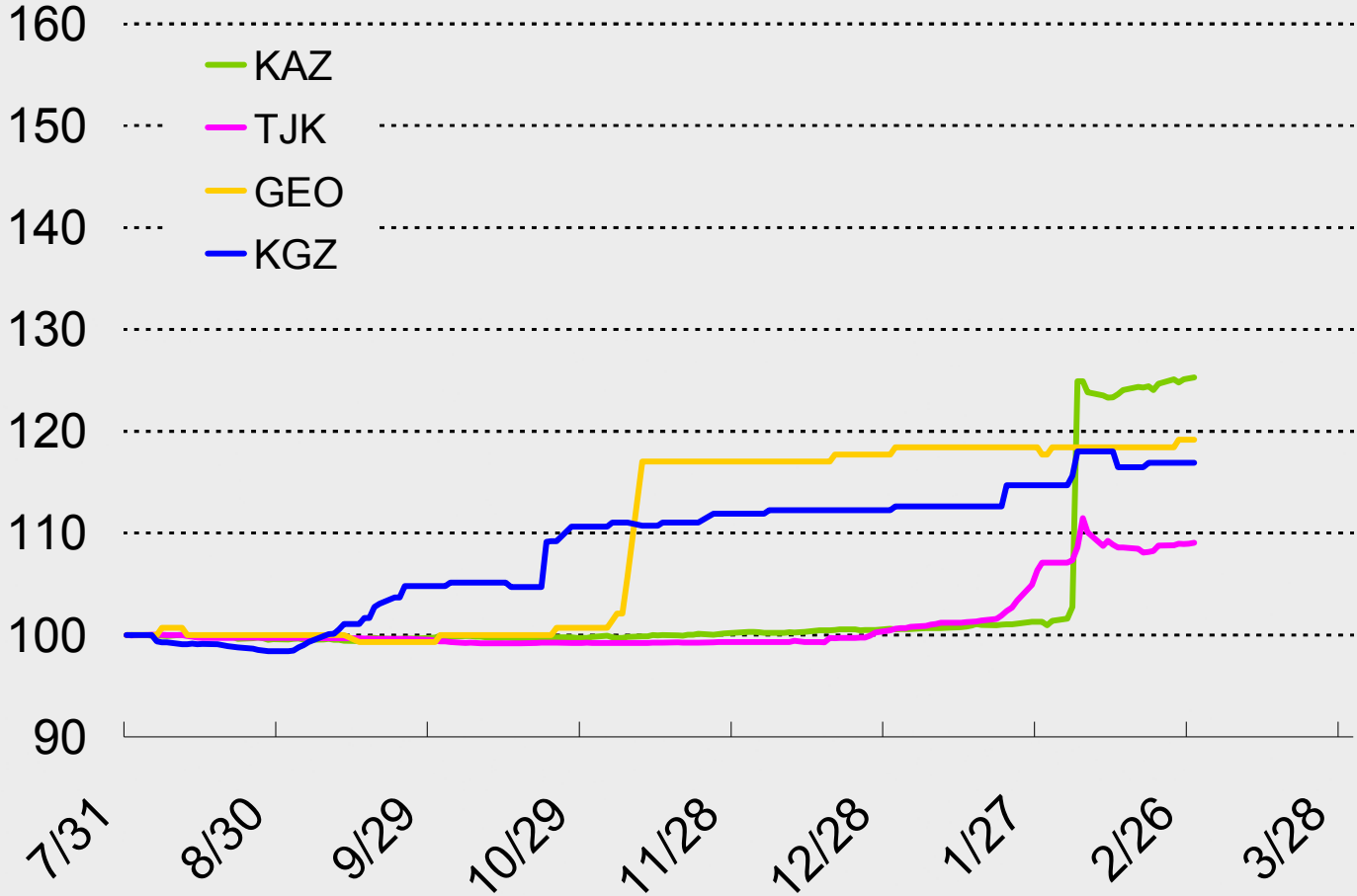




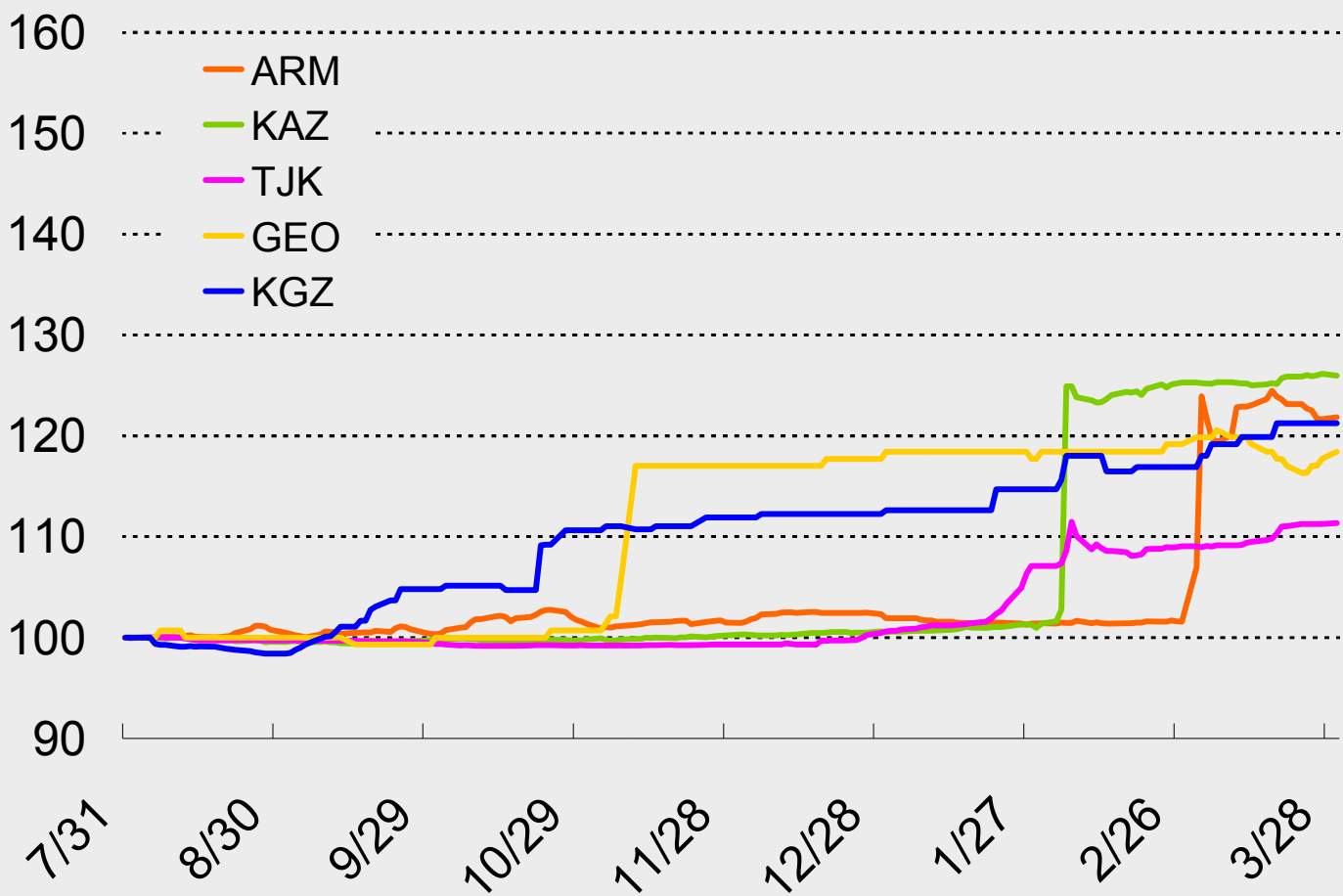
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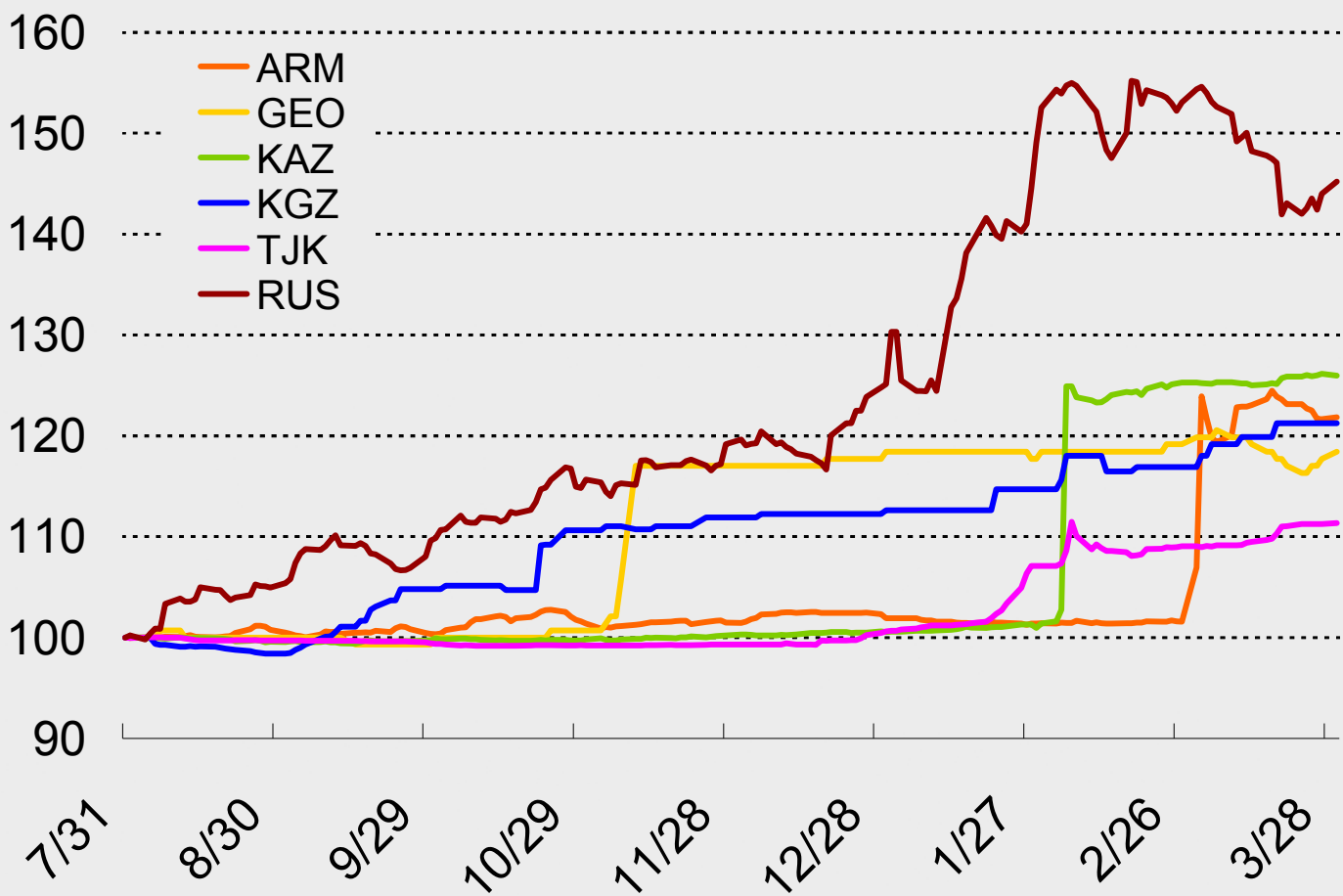
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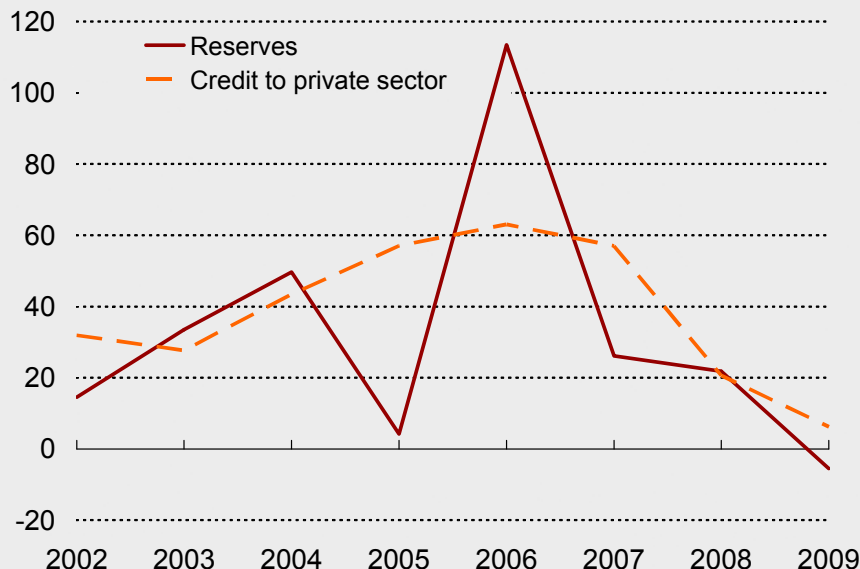


# Regional currencies are under pressure.

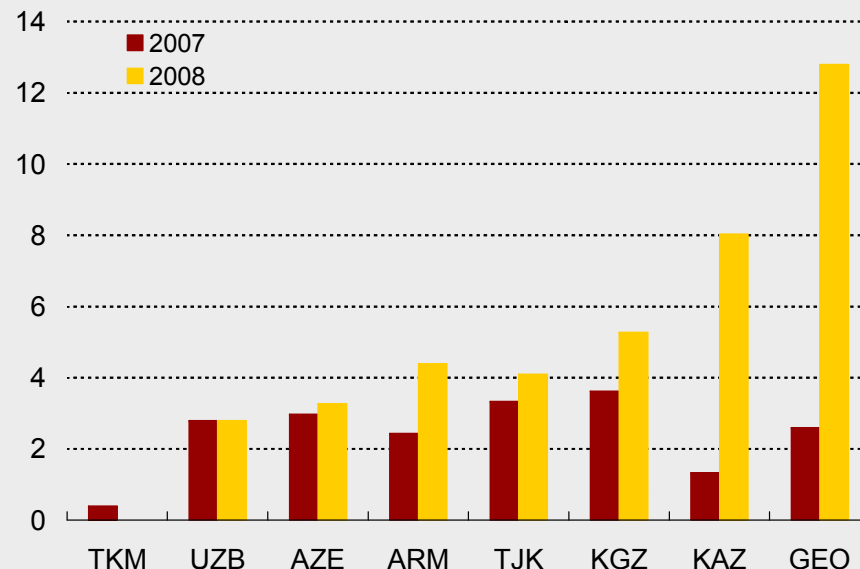


# Credit growth is slowing down, and nonperforming loans are rising.

**Credit Growth**  
(In percent, annual growth)



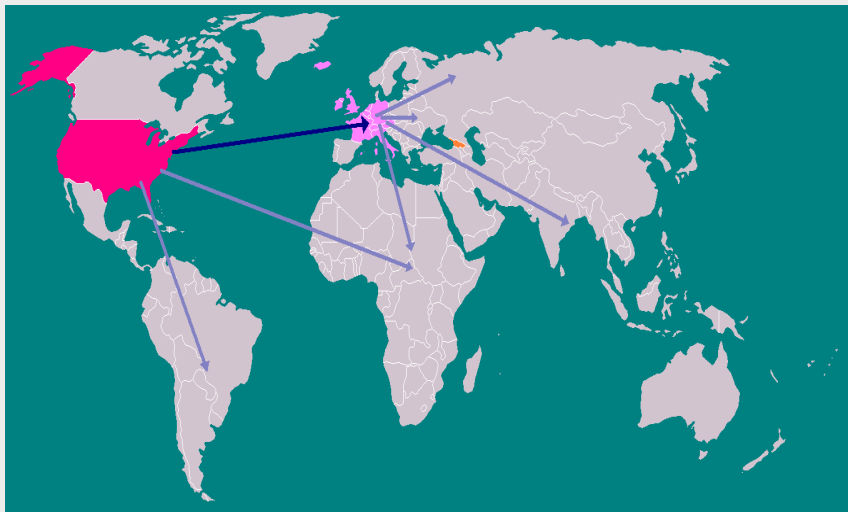
**Nonperforming Loans**  
(In percent of total loans)



# Policy Priorities

- Ensure external stability.
- Identify and deal with financial sector risks early on.
- Exploit opportunities for fiscal stimulus.
- Prepare contingency plans to deal with potential crisis.

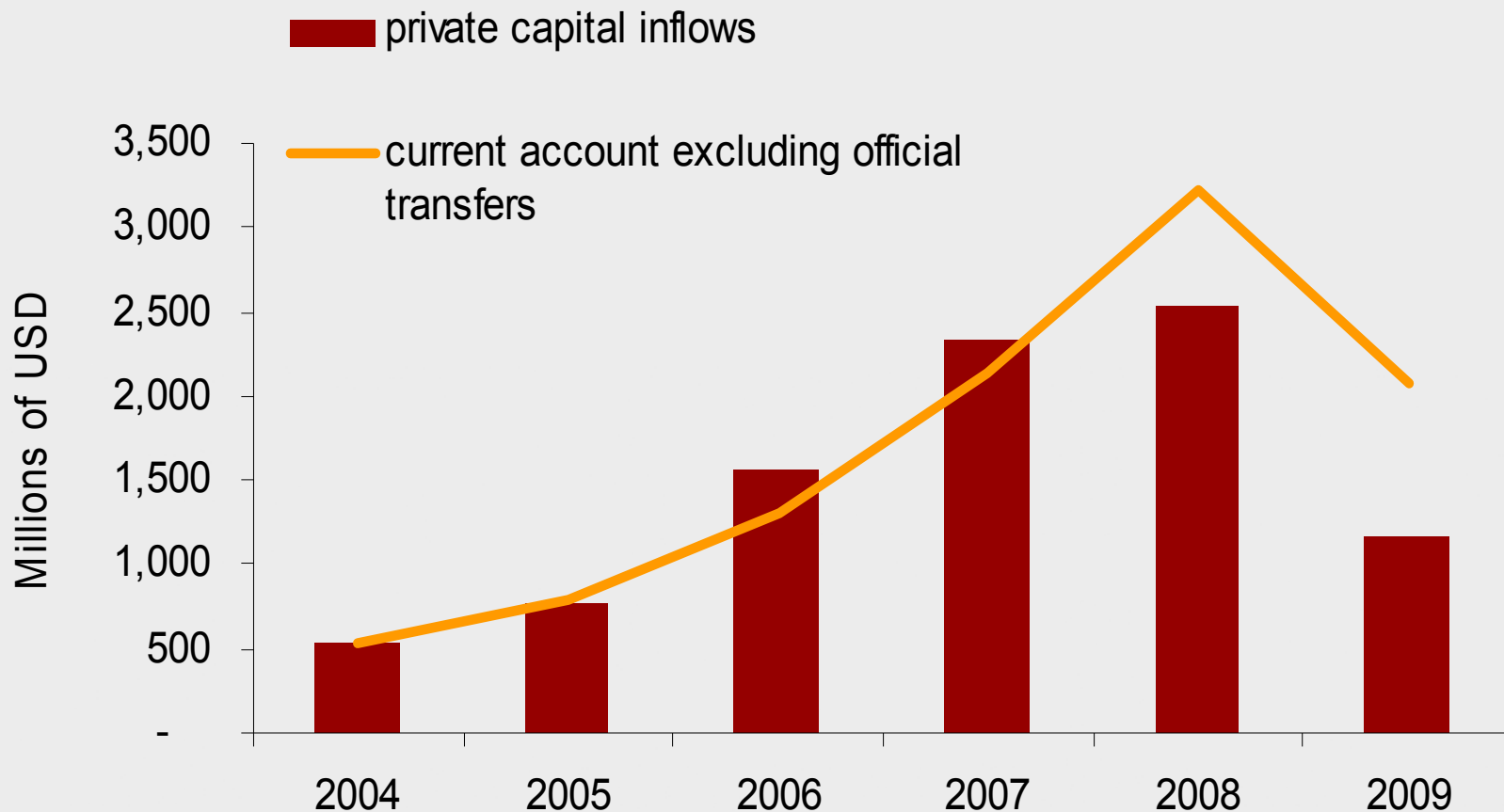
## Georgia: Exposure to Transmission Channels



**Crisis transmitted to emerging and developing countries through:**

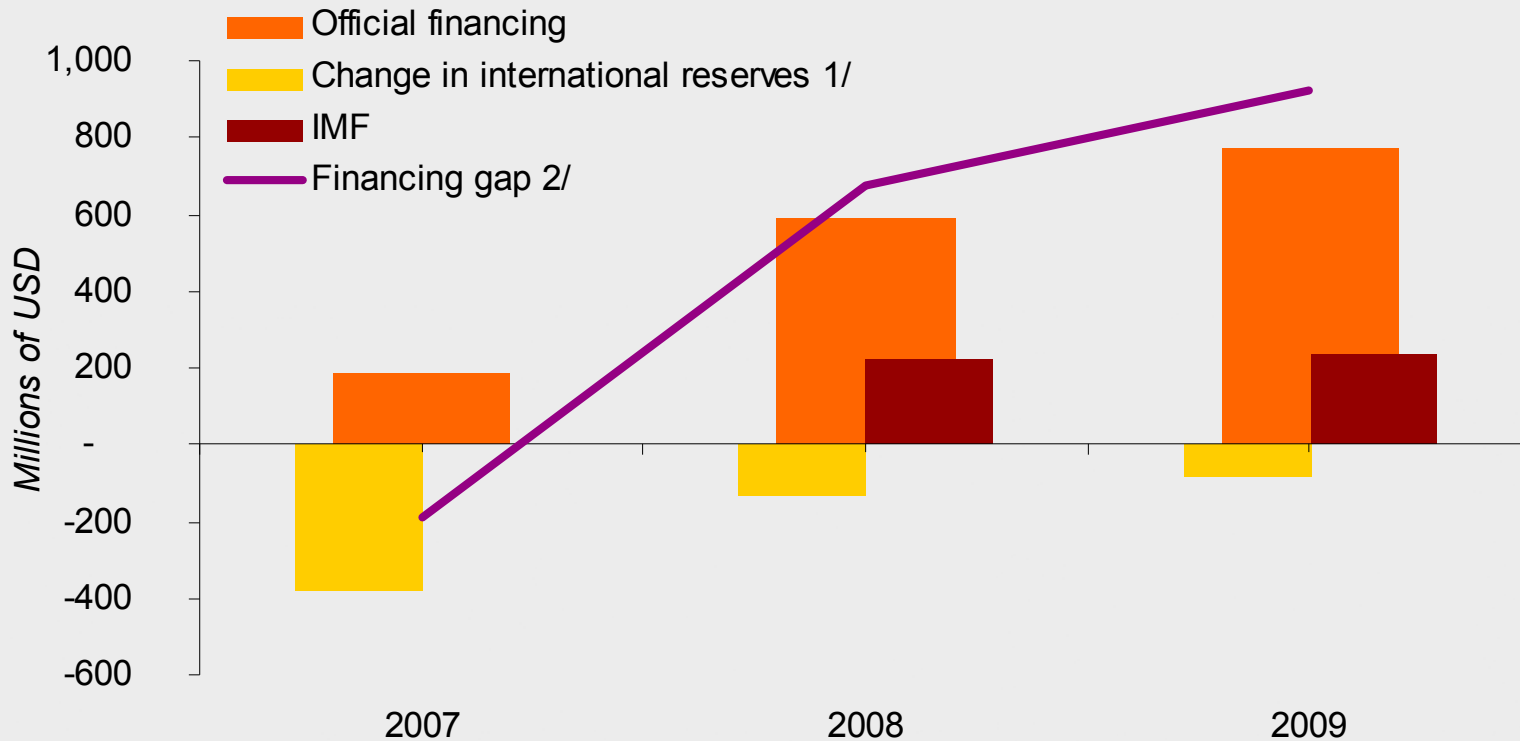
- Fall in commodity prices
- Collapse of export markets
- **Drying up of private capital inflows**

# Georgia: External Financing Shock





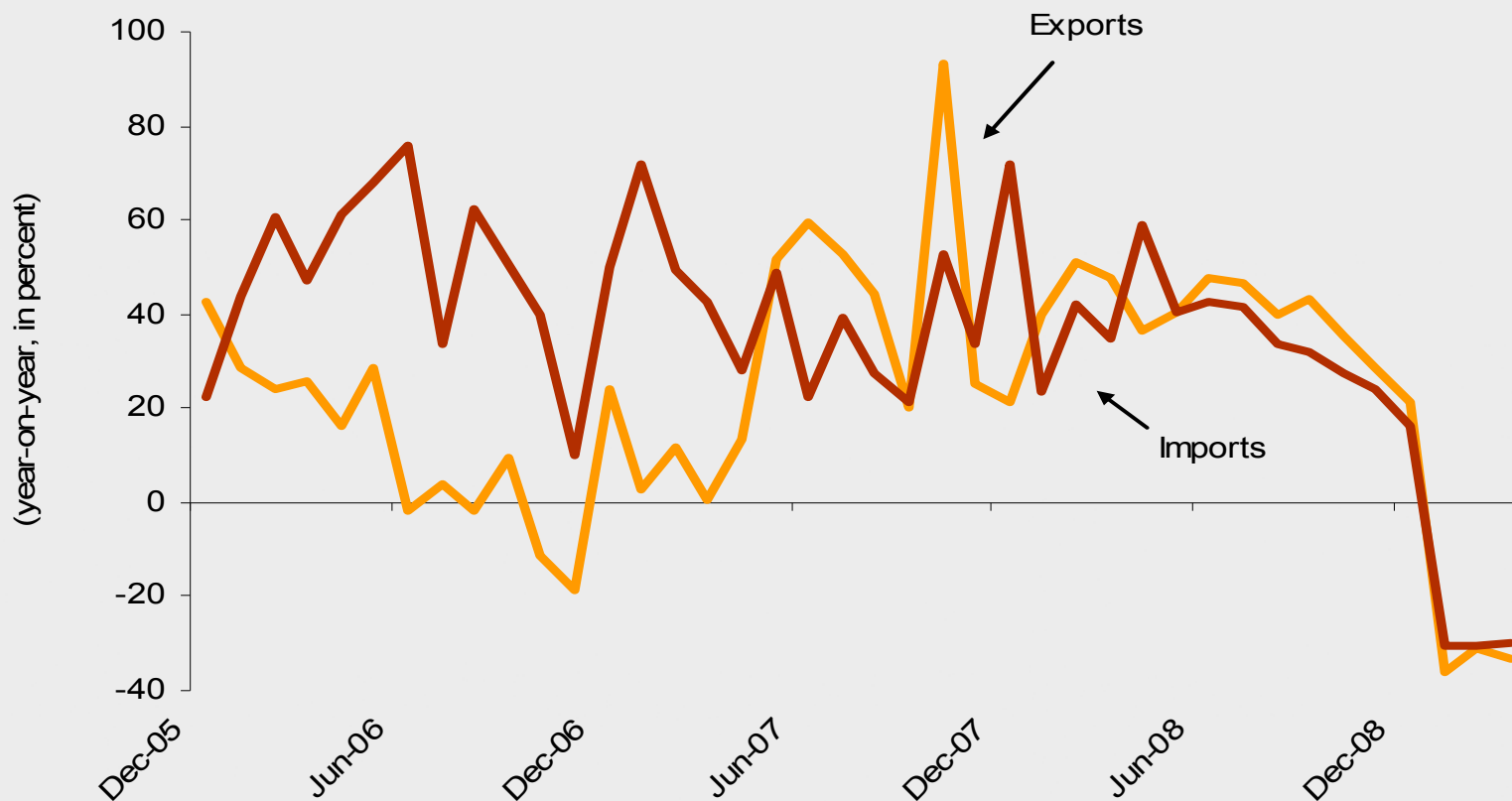
# Georgia: Filling the Financing Gap



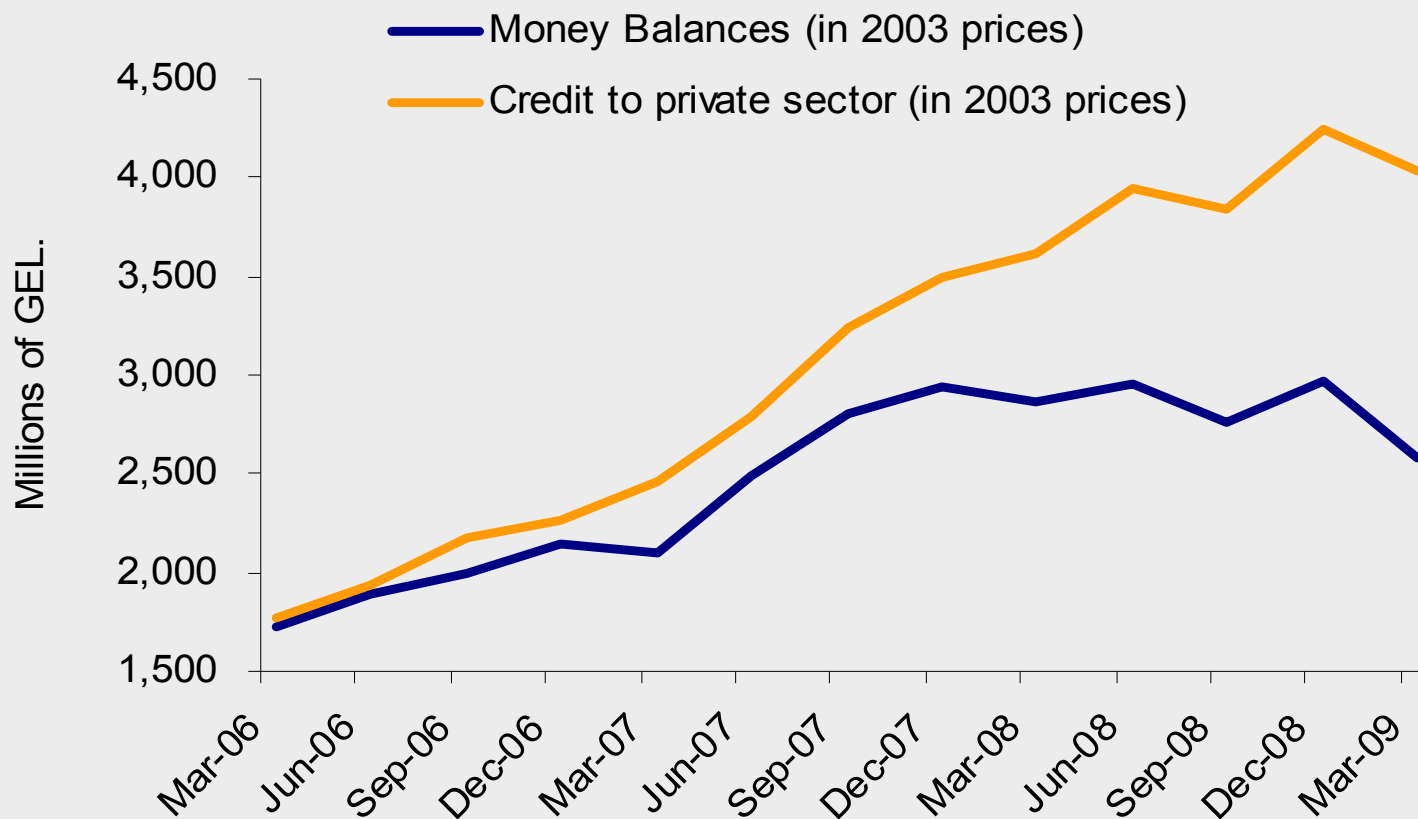
1/ Negative entry equals increase in reserves

2/ Defined as current account deficit (less official transfers) minus private capital inflows

# Georgia: the contraction of output is reflected in a sharp decline of export and import growth, ...



....and in financial indicators.



## **Status of IMF Program**

- **\$439 million of the \$727 million loan already disbursed**
- **All March 2009 targets (e.g., budget deficit and international reserves of NBG) were met**
- **Discussions under way to complete the next review which would release another \$72 million**