

Caucasus and Central Asia Regional Economic Outlook



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International Monetary Fund

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Caucasus and Central Asia
Regional Economic Outlook

Overview

Global outlook

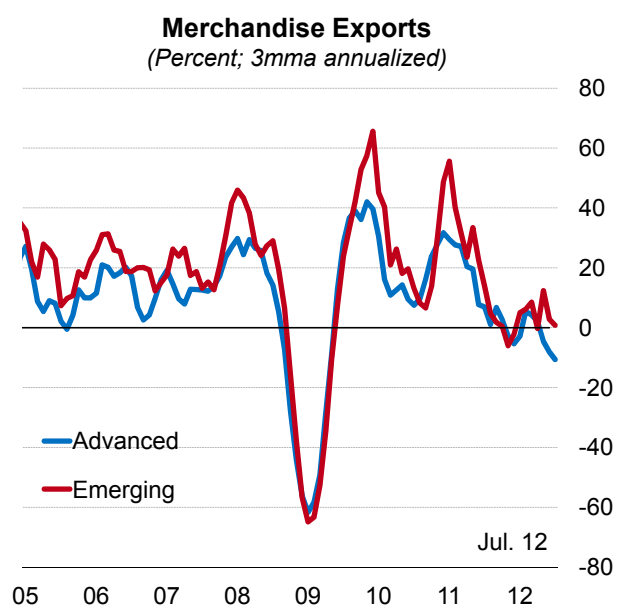
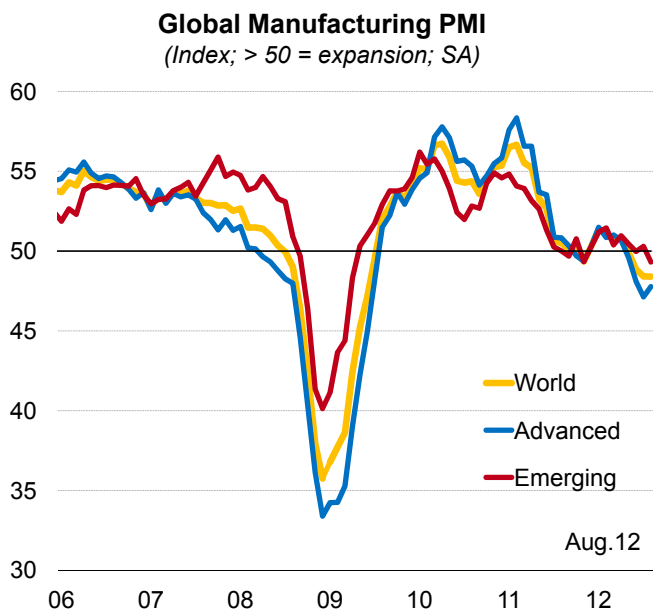
Caucasus and Central Asia (CCA)
outlook and risks

CCA macroeconomic policies

CCA structural challenges



The global recovery has weakened



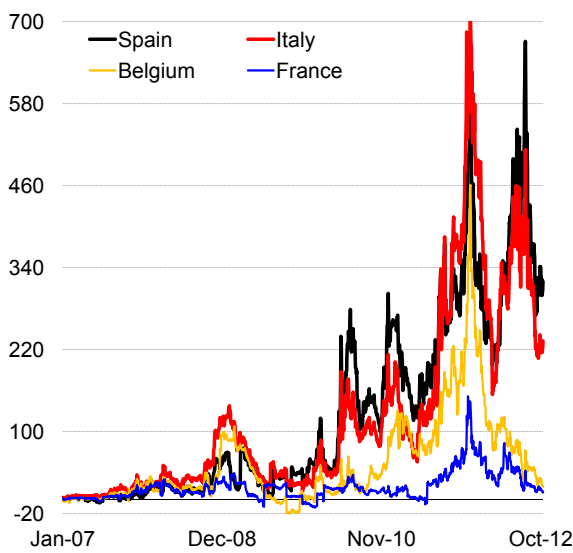
Source: IMF, *Global Data Source*.



European financial conditions remain fragile

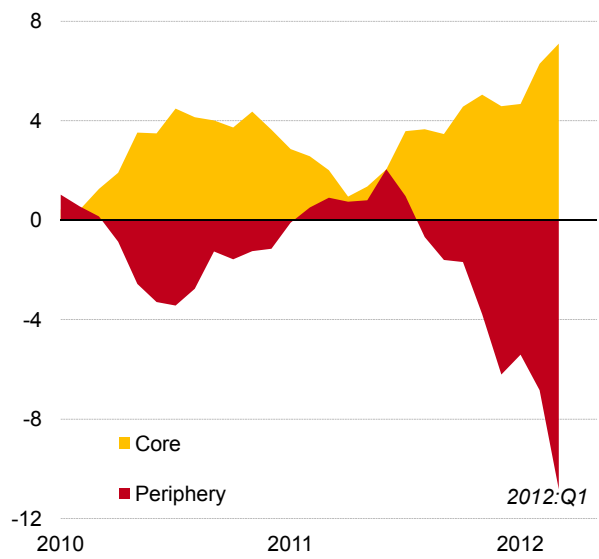
Government Bond Spreads

(Two-year yield spreads over German bunds; basis points)



Portfolio and Other Investment Capital Flows, Excluding Central Banks

(Cumulative from December 2009, in percent of GDP)

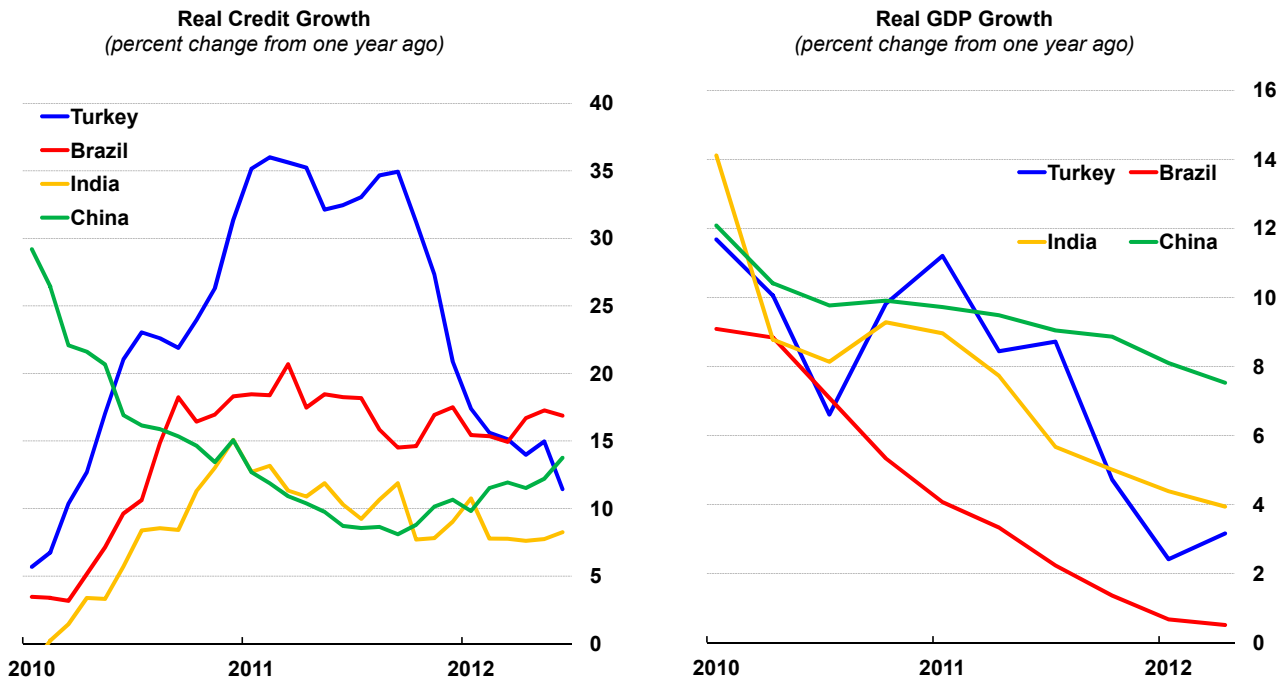


Sources: IMF, *World Economic Outlook*; and Bloomberg.



Global Outlook

Emerging markets: a boom is ending

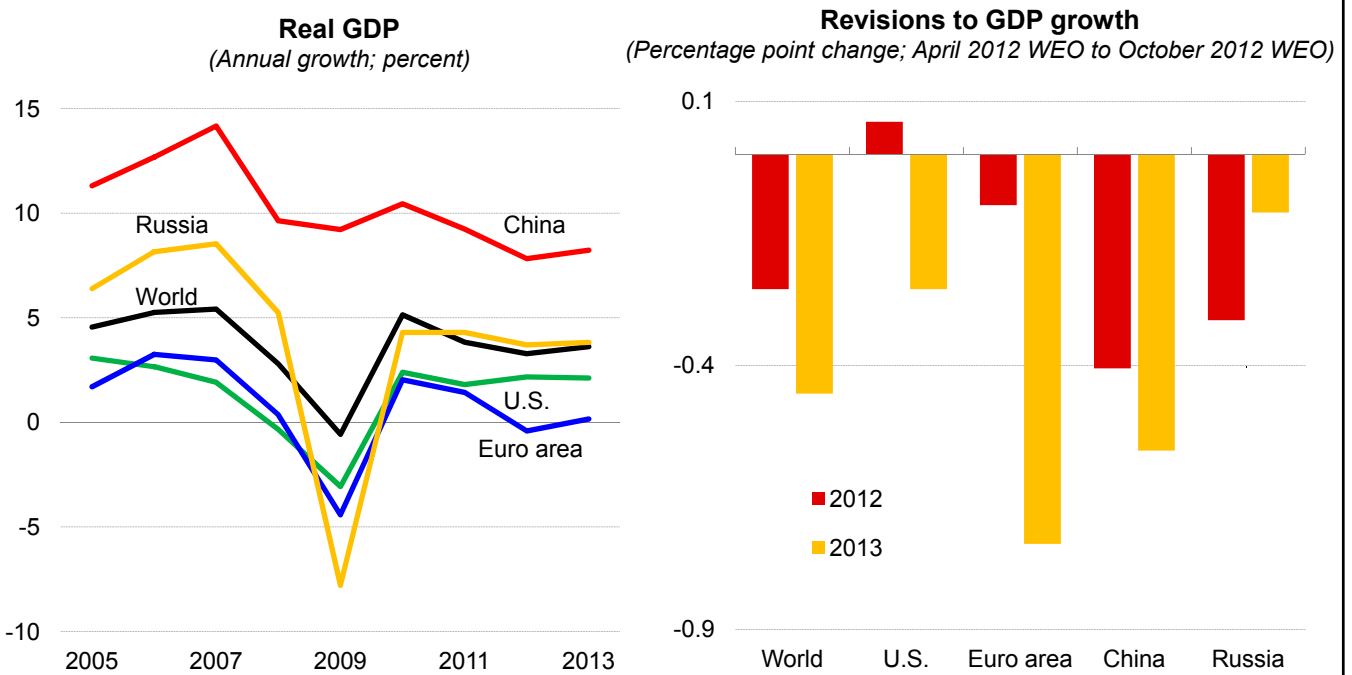


Sources: IMF, *World Economic Outlook*; and Bloomberg.



Global Outlook

Against this backdrop, the global outlook has deteriorated



Source: International Monetary Fund, *World Economic Outlook*.



Global Outlook

Caucasus and Central Asia: outlook and risks

CCA region:

- Broadly positive growth outlook, but growing external risks

Oil and gas importers:

- Gradual fiscal consolidation, but not enough to rebuild buffers
- External vulnerabilities—large current account deficits

Oil and gas exporters:

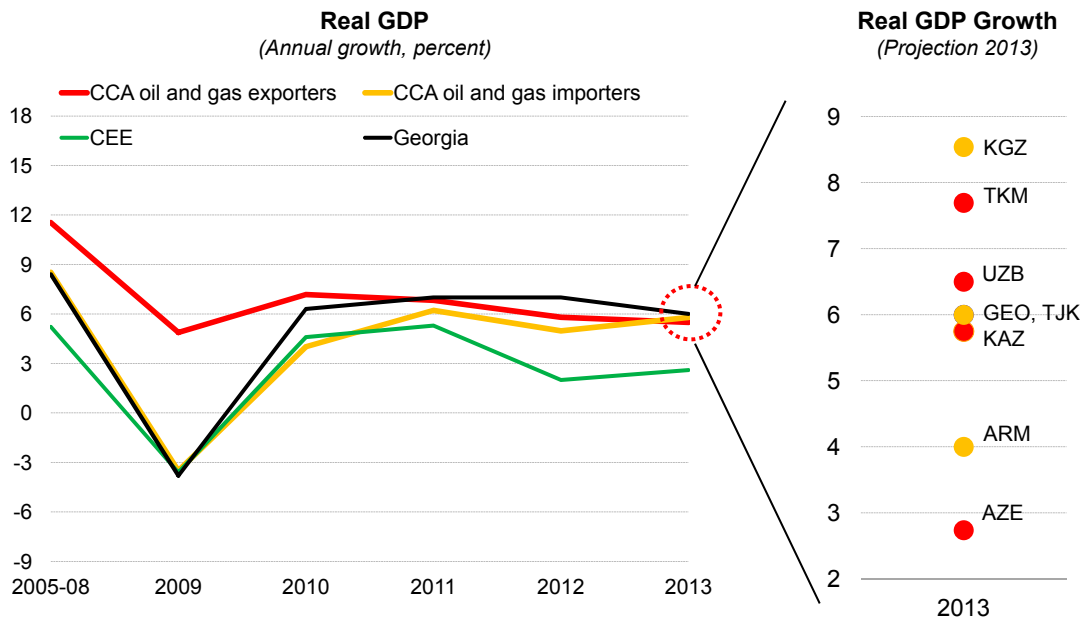
- Declining fiscal surpluses amidst some overheating risks
- The challenge of improving the quality of public spending

Medium-term challenges:

- Creating jobs, reducing informal sector, and fostering high and inclusive growth



Growth outlook remains broadly positive

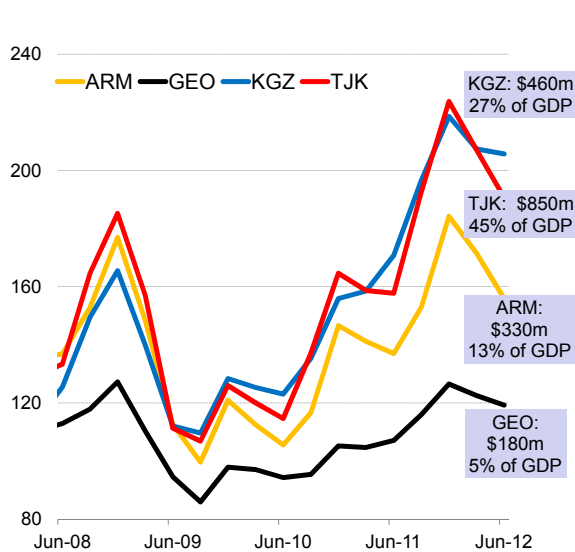


Sources: IMF, *World Economic Outlook*; and IMF staff calculations and projections.



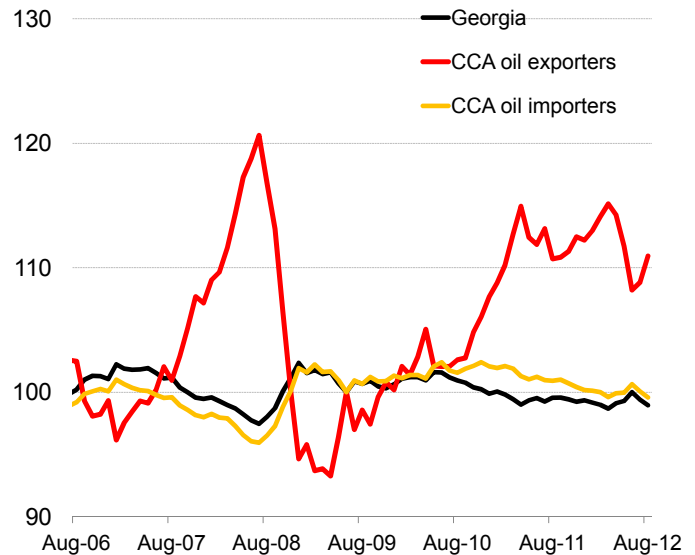
Remittances and commodity prices benefited CCA oil importers

Remittances from Russia to CCA Countries¹
(Three month moving average, 2008:Q2=100)



Source: Central Bank of Russia.
¹Boxes show the latest data available (2012:Q2).

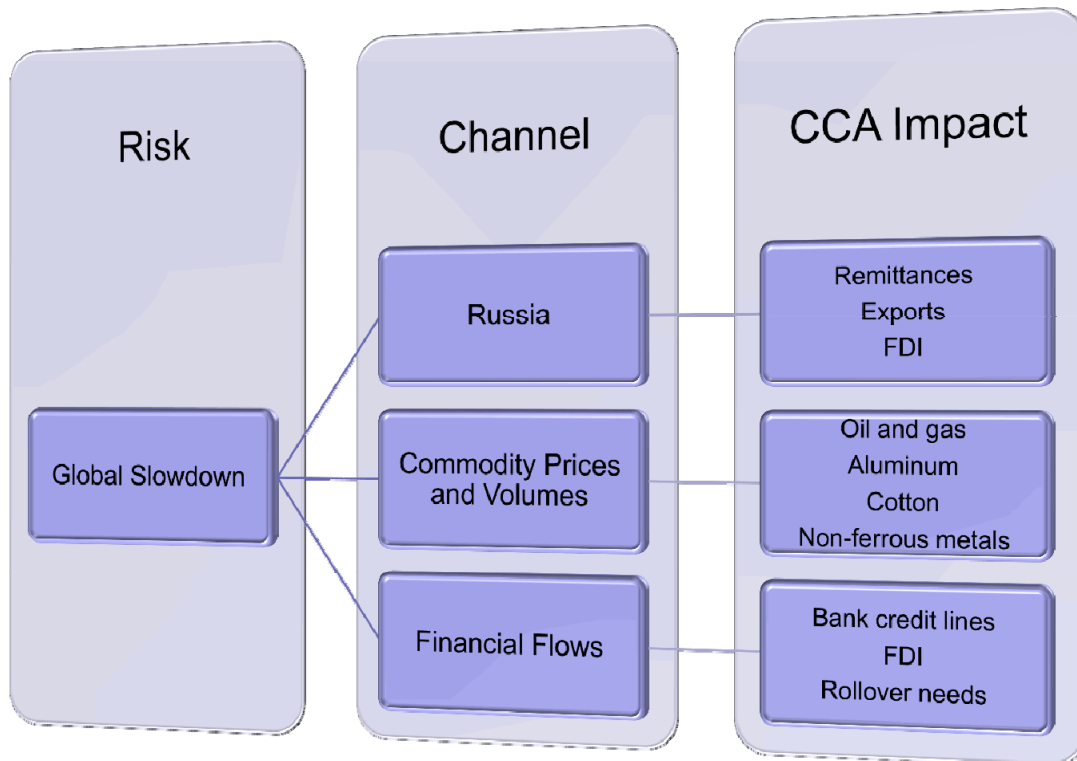
Commodity Terms of Trade
(Index; June 2009=100)



Sources: National authorities; and IMF staff estimates.

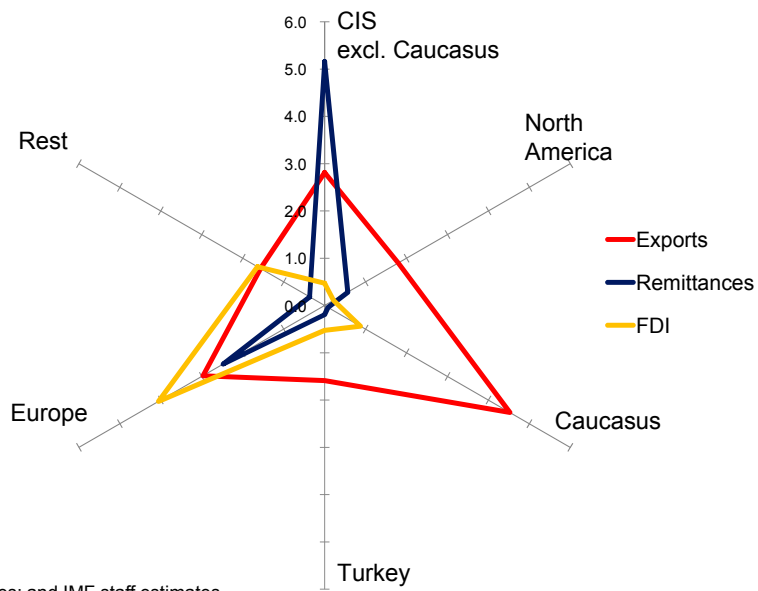


But downside risks are elevated



Georgia: shocks would transmit through trade and investment

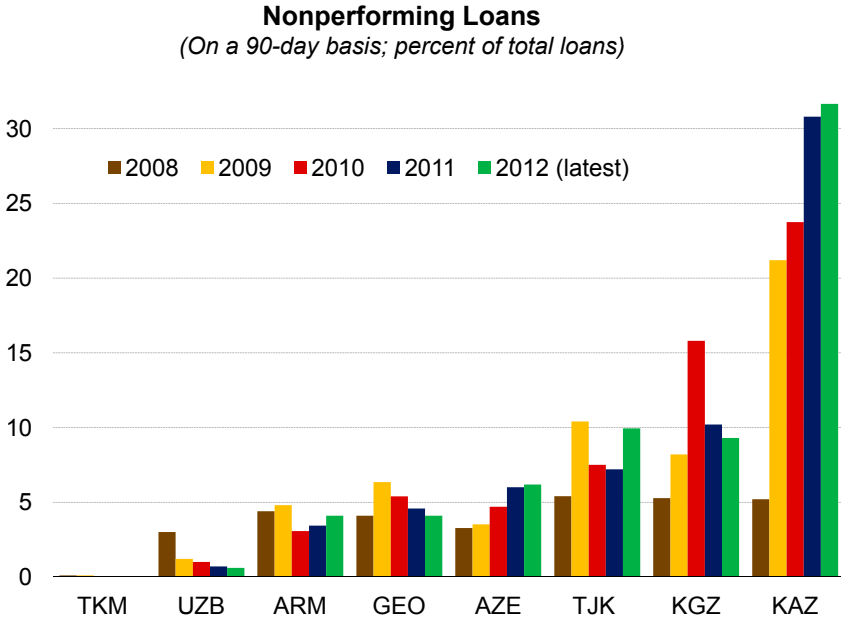
Georgia: Trade and Investment Linkages
(2011, in percent of GDP)



Sources: National authorities; and IMF staff estimates.



Financial sector: legacy NPLs in some countries...

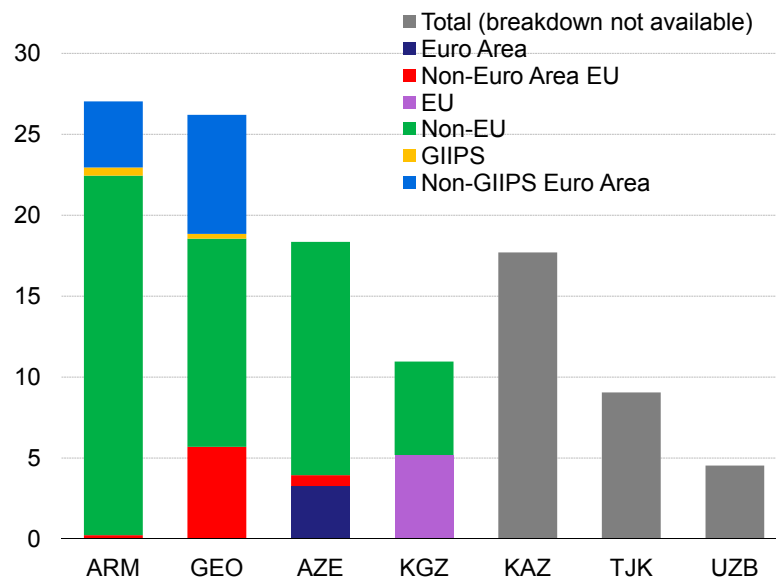


Sources: National authorities; GFSR.



Financial sector: ...but limited exposure to Europe

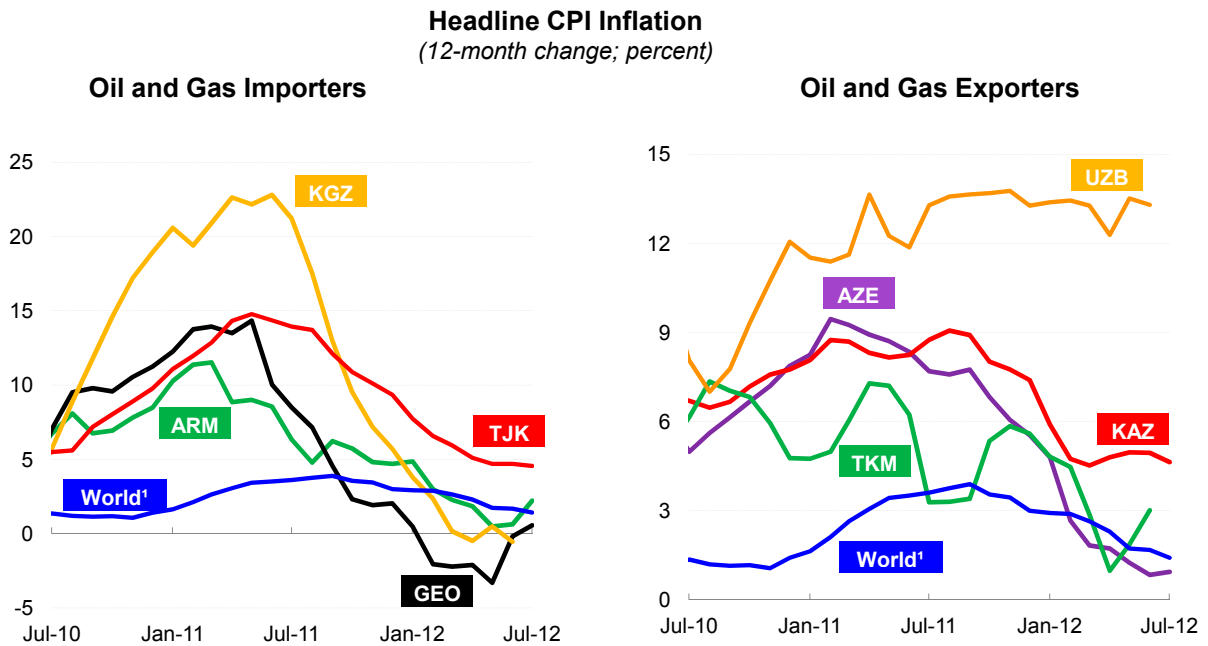
Foreign Liabilities of CCA Banking Sectors
(Percent of total assets, end-2011)



Sources: National authorities; and IMF staff estimates.



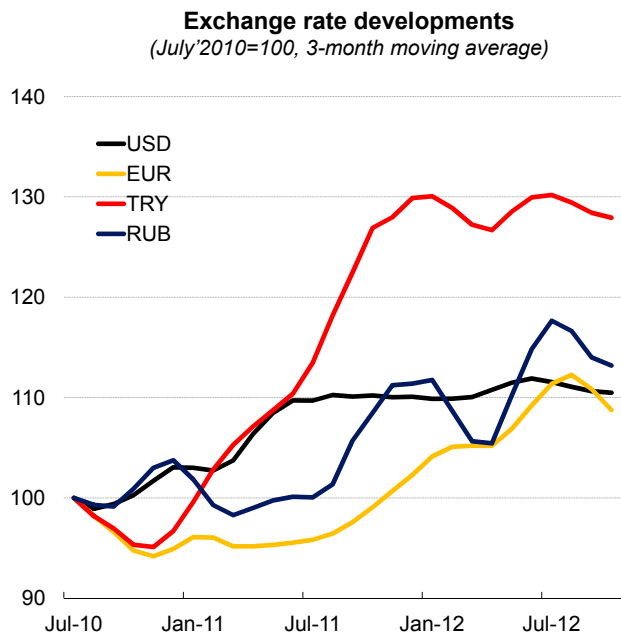
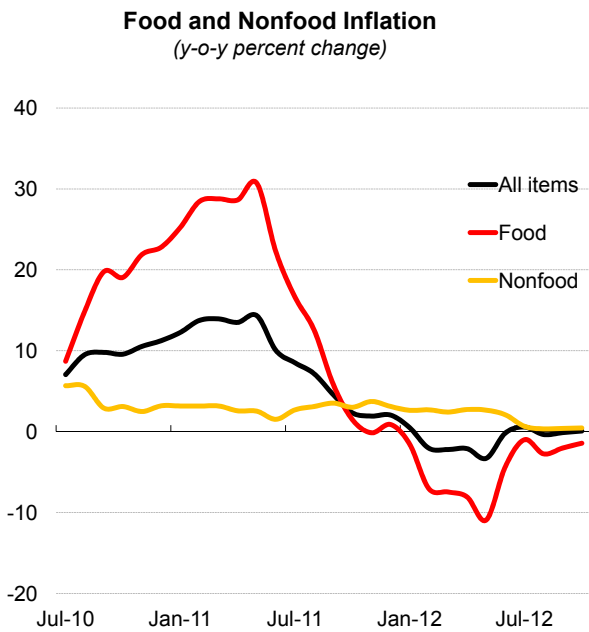
Inflation is low but sensitive to food price developments



Sources: National authorities; and IMF staff calculations.
¹IMF world commodity price inflation.



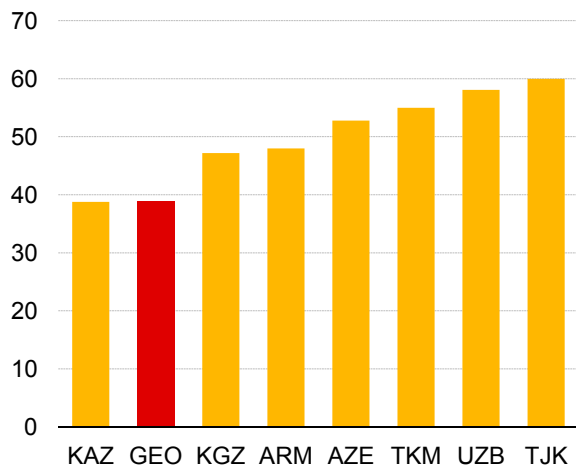
Lari appreciation has contributed to low inflation in Georgia



Sources: National authorities; and IMF staff calculations.

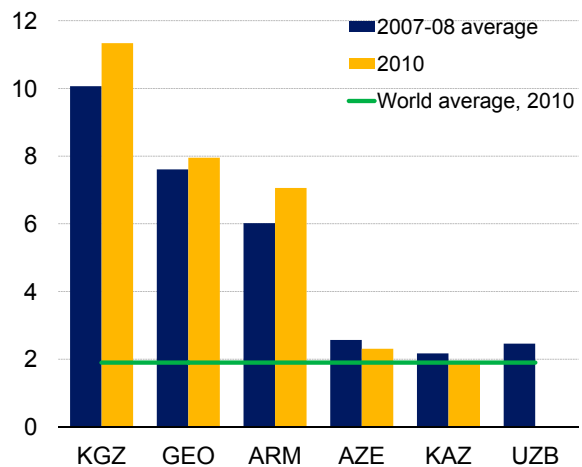
High exposure to international food prices

Weight of Food in the Consumer Price Index, 2010
(Percent)



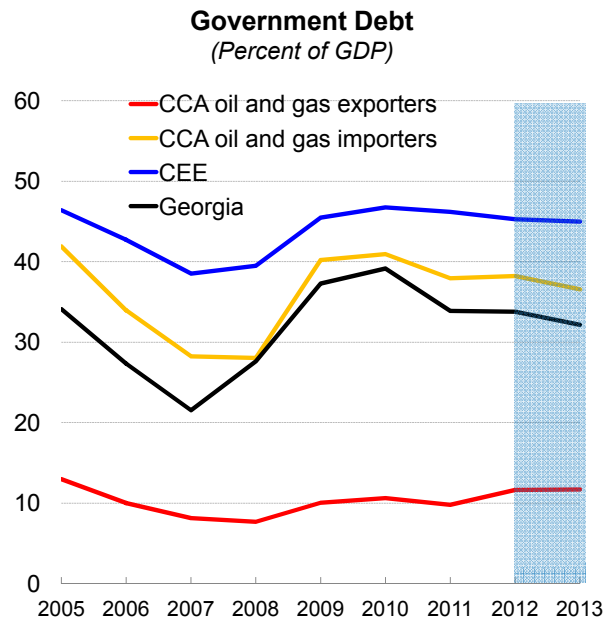
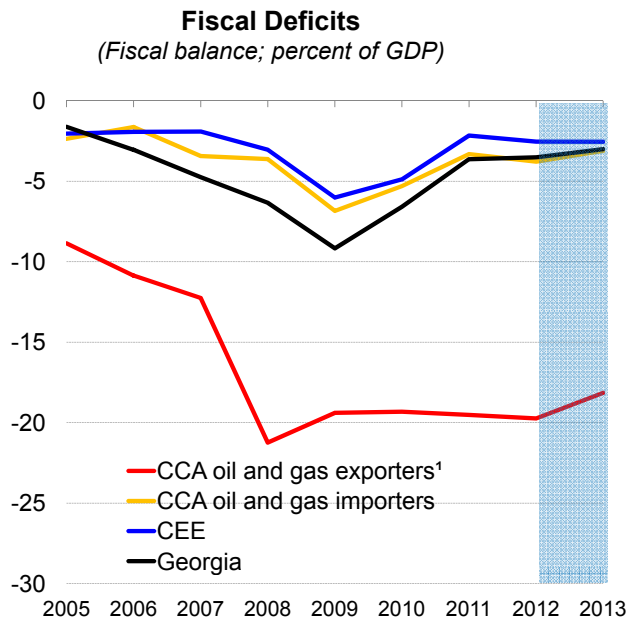
Sources: IMF staff; OECD StatExtracts; and Eurostat.

Food Imports as a Share of GDP
(Percent)



Sources: National authorities; and IMF staff calculations.

Fiscal consolidation is needed, particularly in the oil and gas importers

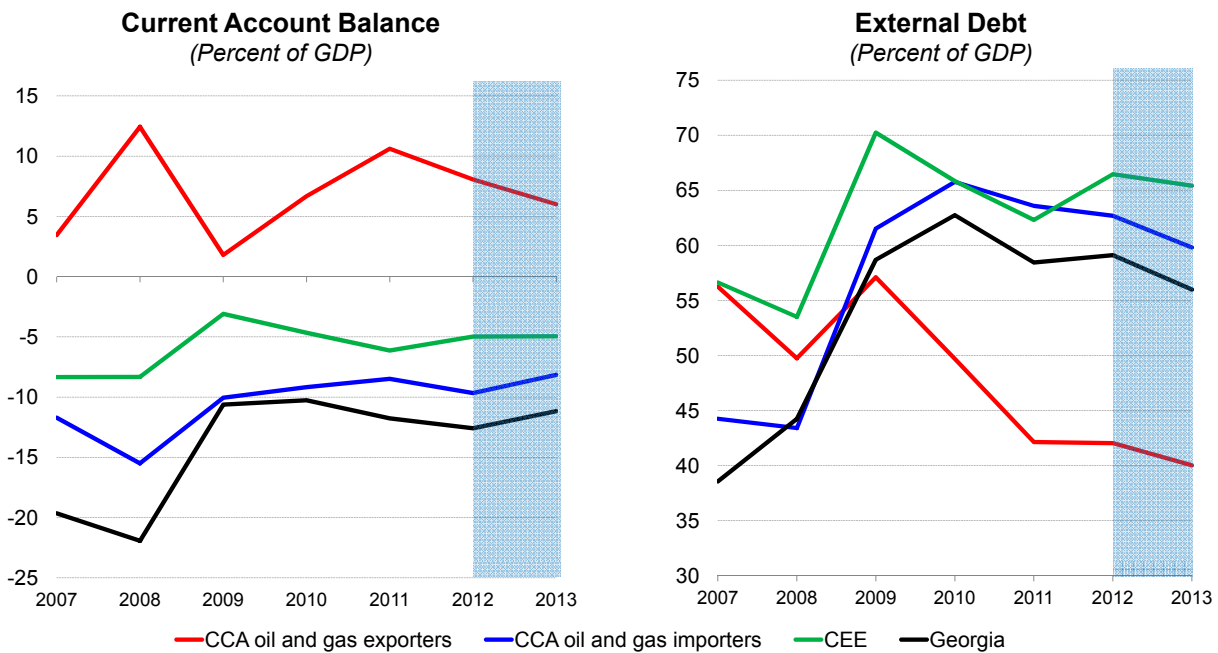


Sources: National authorities; and IMF staff calculations.

¹ Non-oil and gas fiscal balance as share of non-oil and gas GDP.

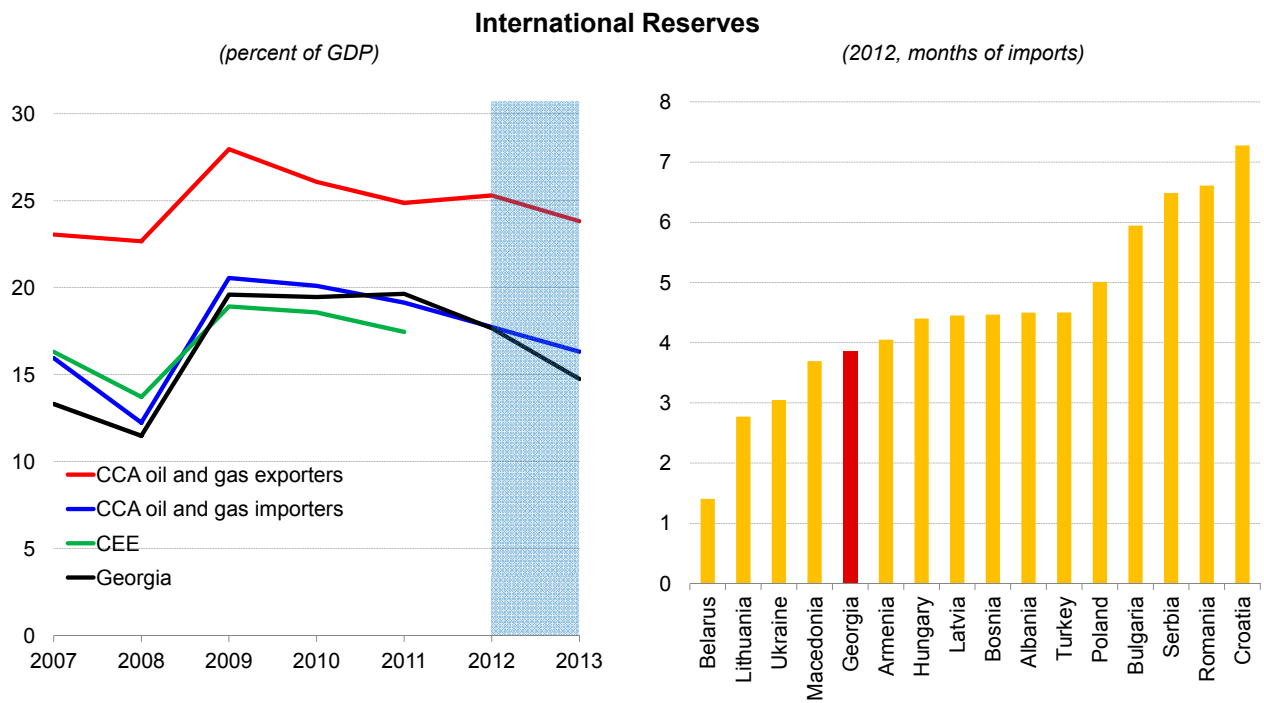


Oil and gas importers: address external vulnerabilities...



Sources: National authorities, IFS database; and IMF staff calculations and projections.

Oil and gas importers: build reserve buffers



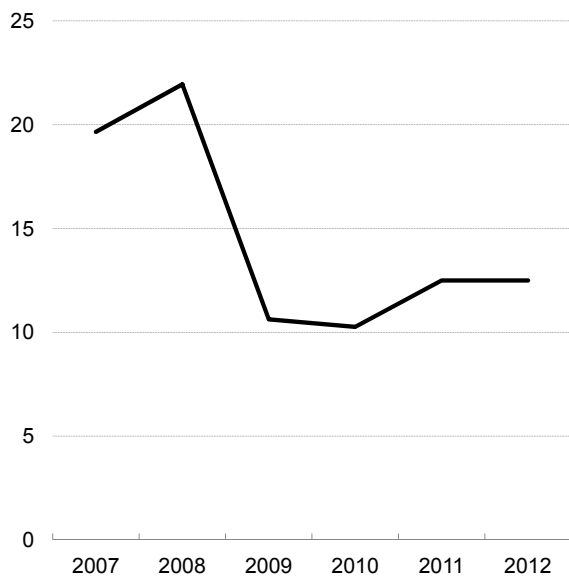
Sources: National authorities, IFS database; and IMF staff calculations and projections.



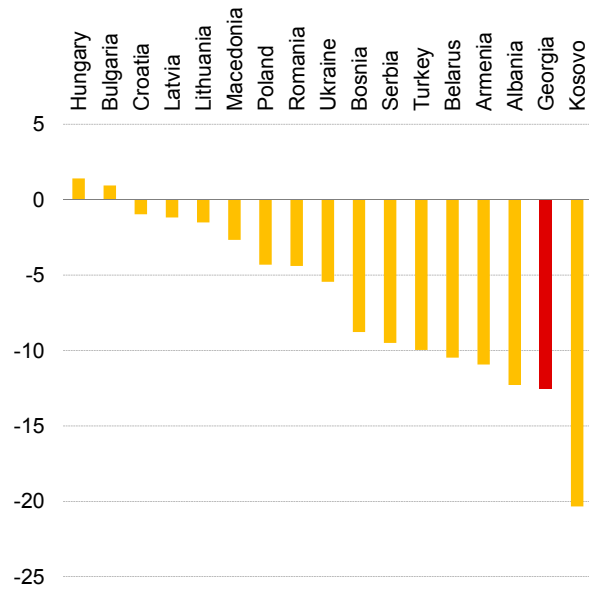
CCA Policies

In Georgia, persistent current account deficits...

Georgia: Current Account Deficit
(Percent of GDP)



Current Account Balance, 2011
(Percent of GDP)

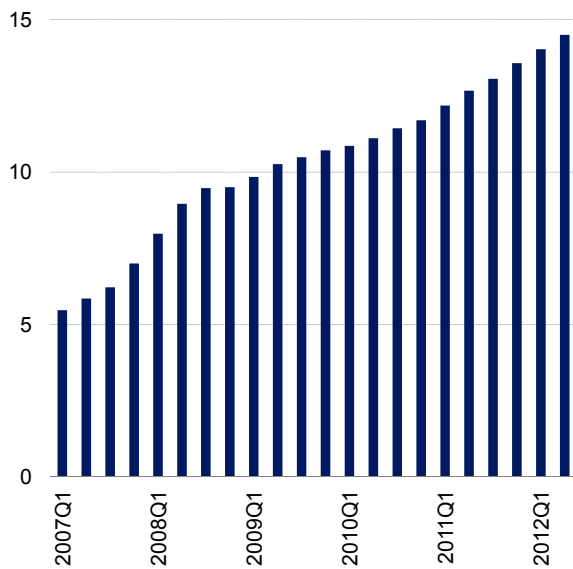


Sources: National authorities, IFS database; and IMF staff calculations and projections.

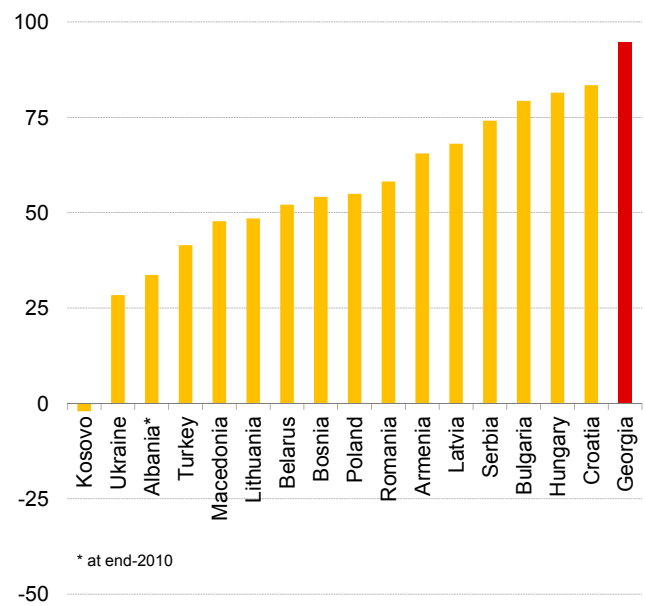


...led to a build-up in foreign liabilities

Georgia: Net foreign liabilities
(US\$ billion)



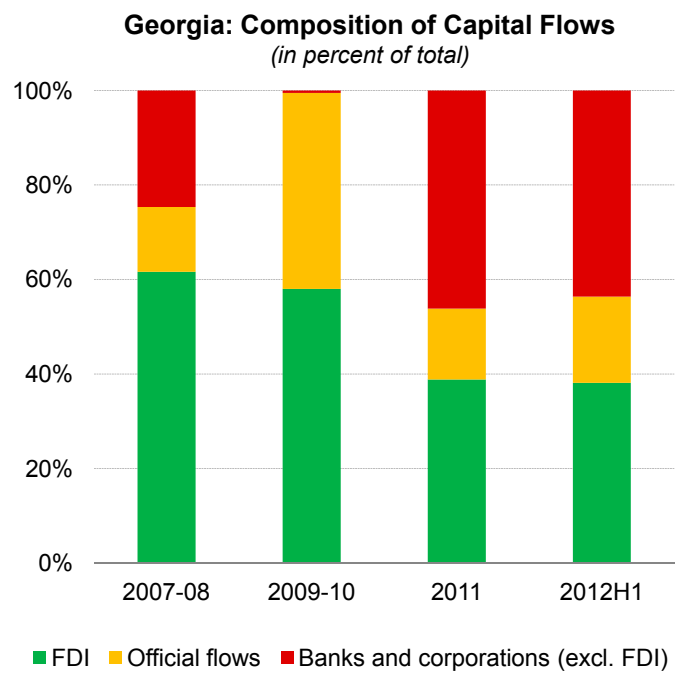
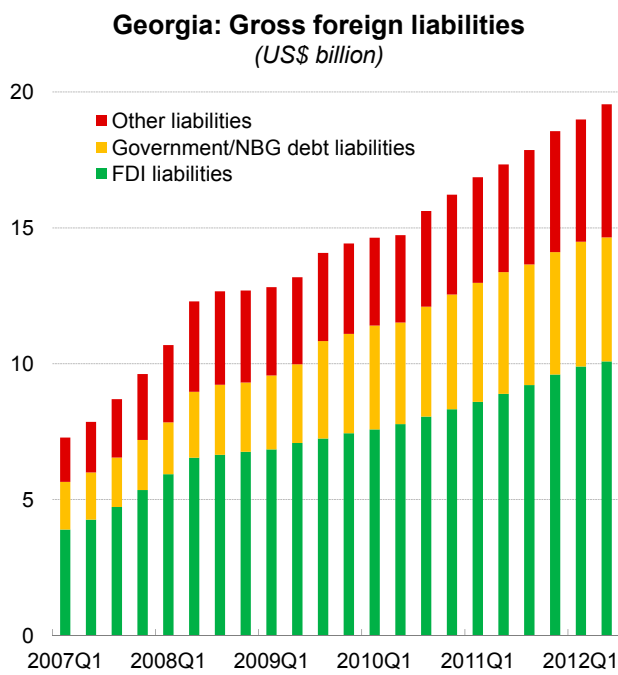
Net Foreign Liabilities
(Percent of GDP)



Sources: National authorities, IFS database; and IMF staff calculations and projections.

CCA Policies

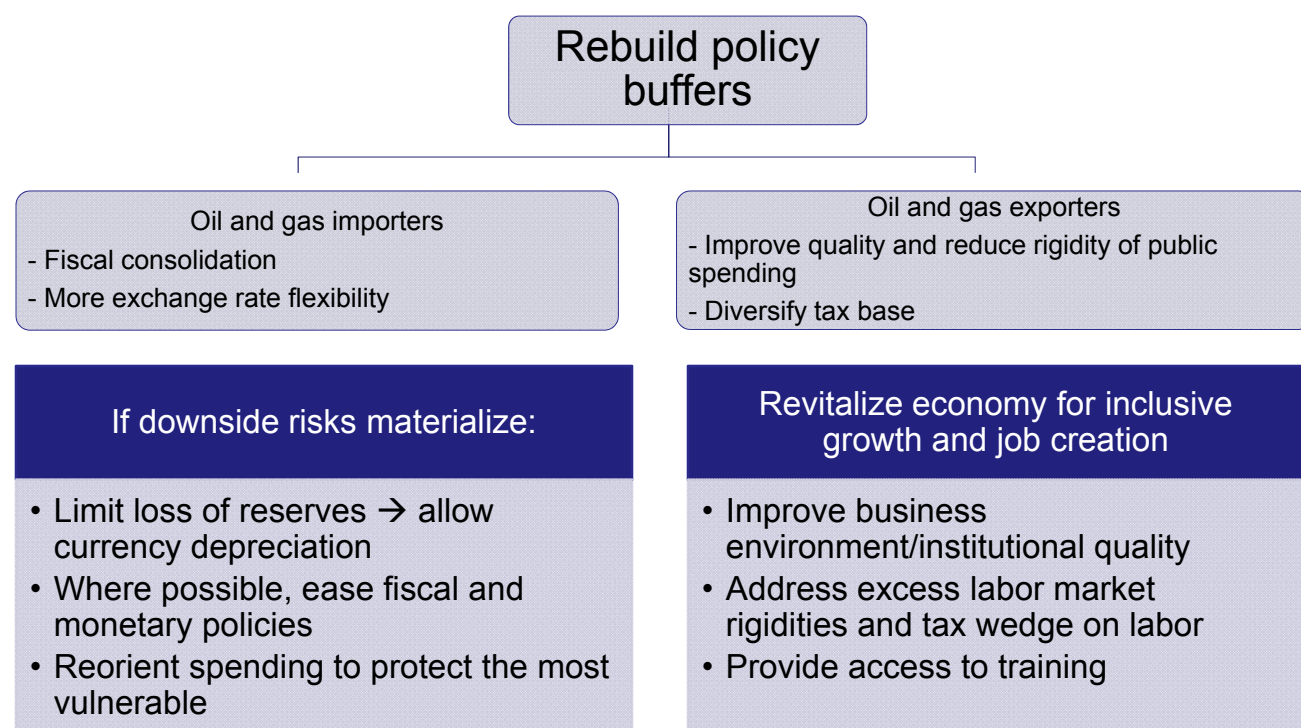
Composition of foreign liabilities mitigates immediate concerns, but recent inflows could be more volatile



Sources: National authorities, IFS database; and IMF staff calculations and projections.



Key messages for the region



Key messages: Georgia

Facilitate the external adjustment—reduce the current account deficit

- Allow greater exchange rate flexibility
- Use fiscal policy to contain domestic demand
- Manage carefully short-term capital inflows

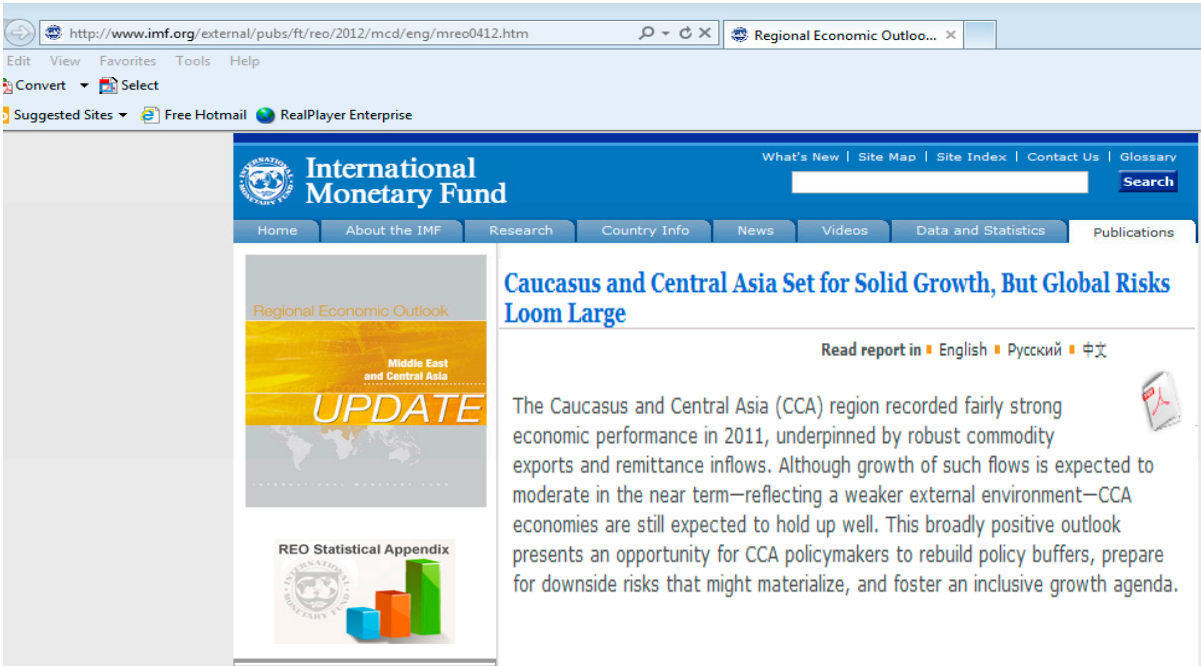
Continue with fiscal consolidation

- Adopt prudent 2013 budget
- Contain fiscal risks and improve fiscal transparency

Revitalize the economy for inclusive growth

- Continue to improve the business environment
- Pursue structural reforms to improve competitiveness
- Reduce skill mismatches through training





The screenshot shows a web browser window displaying the IMF website. The address bar shows the URL: <http://www.imf.org/external/pubs/ft/reo/2012/mcd/eng/mreo0412.htm>. The page features the IMF logo and navigation menu. The main content area displays the title "Caucasus and Central Asia Set for Solid Growth, But Global Risks Loom Large" and a summary paragraph. A sidebar on the left includes a "Regional Economic Outlook" update for the Middle East and Central Asia, and a "REO Statistical Appendix" with a bar chart.

Caucasus and Central Asia Set for Solid Growth, But Global Risks Loom Large

Read report in English | Русский | 中文

The Caucasus and Central Asia (CCA) region recorded fairly strong economic performance in 2011, underpinned by robust commodity exports and remittance inflows. Although growth of such flows is expected to moderate in the near term—reflecting a weaker external environment—CCA economies are still expected to hold up well. This broadly positive outlook presents an opportunity for CCA policymakers to rebuild policy buffers, prepare for downside risks that might materialize, and foster an inclusive growth agenda.

To access the full report online or to provide comments, please visit:

<http://www.imf.org/external/country/geo/rr/index.htm>
and click the link for Regional Economic Outlook

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Caucasus and Central Asia
Regional Economic Outlook