

# **Regional Economic Outlook**

**Middle East and Central Asia Department**  
**International Monetary Fund**



**October 2009**

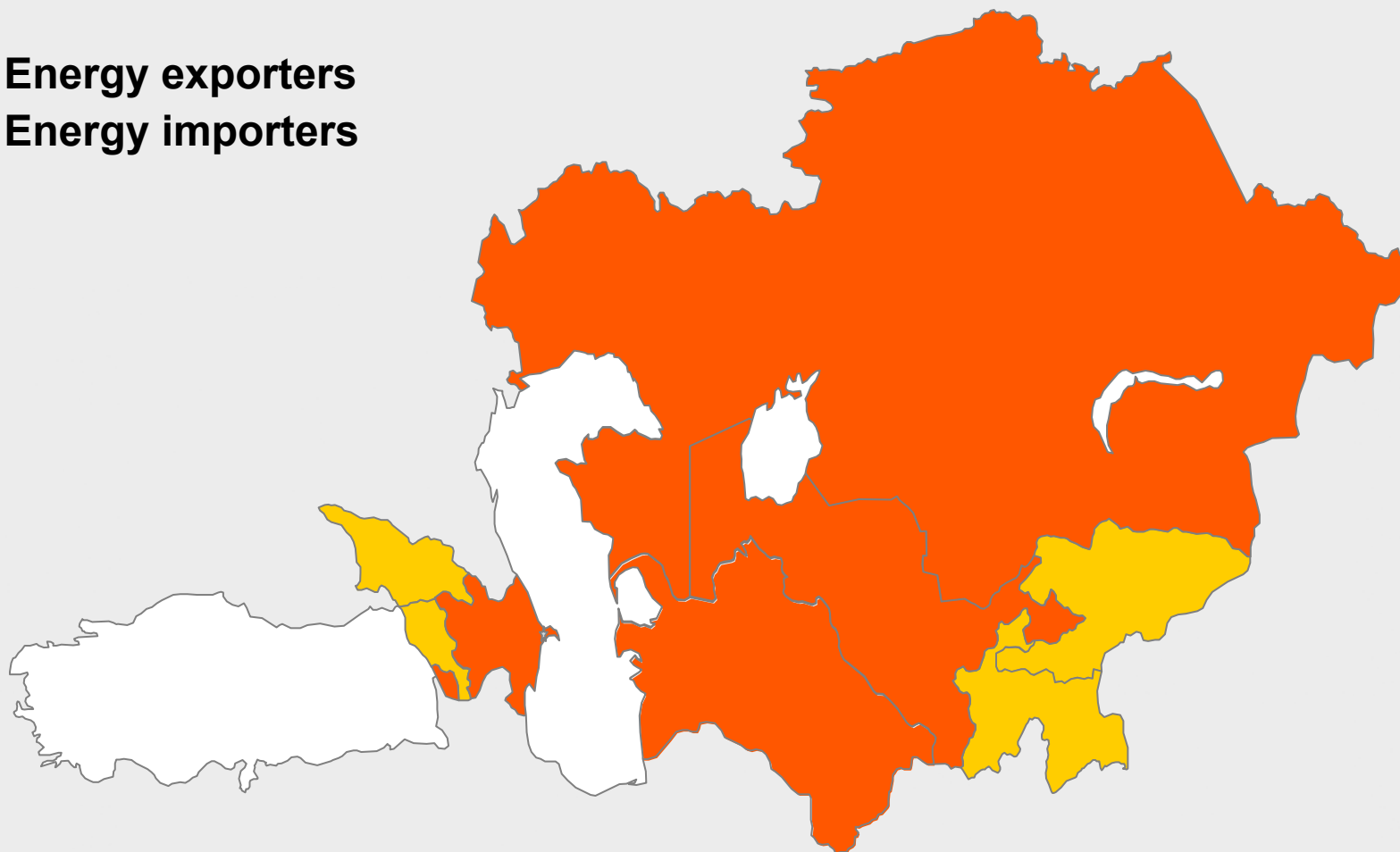
**Presentation by Luc Moers**  
**IMF Resident Representative in Tajikistan**

**Hyatt Regency Dushanbe, November 10, 2009**



# Caucasus and Central Asia

-  Energy exporters
-  Energy importers



# Outline

- **World Economic Outlook**
- **CCA Economic Outlook**
  - **Main Macroeconomic Aspects of Crisis**
  - **Macroeconomic Policies**
    - **Fiscal**
    - **Monetary (and Exchange Rate)**
    - **Financial**
  - **Social Impact**
  - **Policy Priorities**

## **World Economic Outlook: Key Messages**

- The global economy is beginning to grow again, but recovery is likely to be sluggish. The slow recovery calls for sustained policy support until the expansion is firmly entrenched.
- Financial market conditions continue to improve but remain tight, with the global financial system remaining far from normal.
- The world economy will contract in 2009 by around 1 percent before recovering (growing by about 3 percent) in 2010.
- Expansionary monetary and fiscal policy will continue to underpin the global recovery, but to safeguard price and financial stability and the soundness of public finances, credible exit strategies will be needed.
- The key factors shaping the medium-term perspectives will involve a rebalancing across two dimensions: private demand replacing public demand; and demand in external surplus economies rising to make up for shrinking demand in external deficit economies.



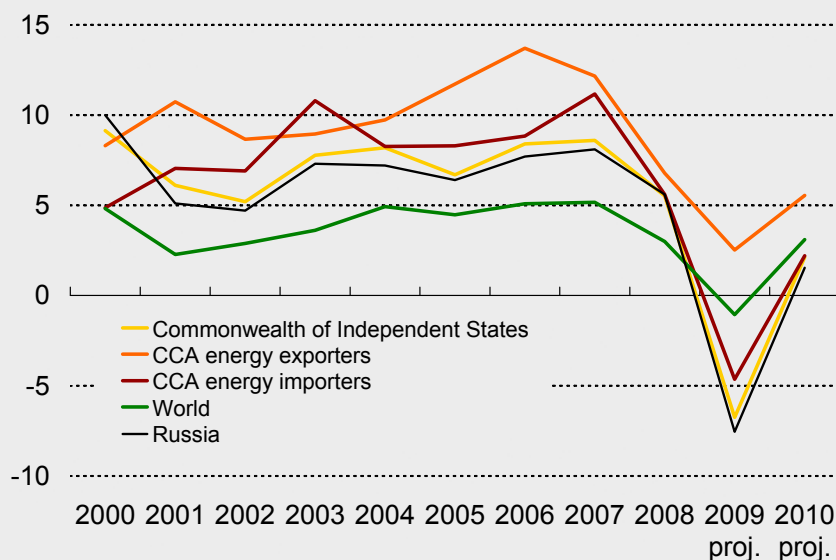
## **CCA Economic Outlook**

- Global crisis has severely affected CCA energy importers and Kazakhstan:
  - Energy importers hit by sharp drop in remittances
  - Kazakhstan held back by lingering banking crisis
  - Other energy exporters still growing
- Modest recovery in prospect for 2010; stronger for energy exporters than for importers.
- Effective countercyclical policies have limited the downturn; concessional donor support has been important for energy importers.
- Financial sectors remain under stress, with NPLs expected to rise further.

## CCA in the grip of the global crisis

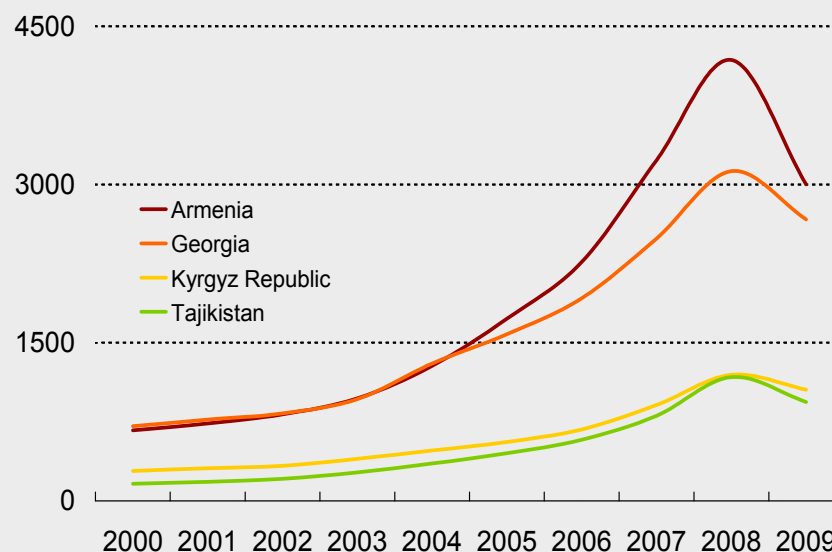
Global crisis hit the region in 2009; only a modest recovery is projected for 2010

**Real GDP Growth**  
(Annual change; in percent)



Per capita incomes are declining in the energy importing countries

**Gross National Disposable Income Per Capita<sup>1/</sup>**  
(Annual change; in percent)



<sup>1/</sup> GNDI is defined as GDP + non-factor income + transfers.

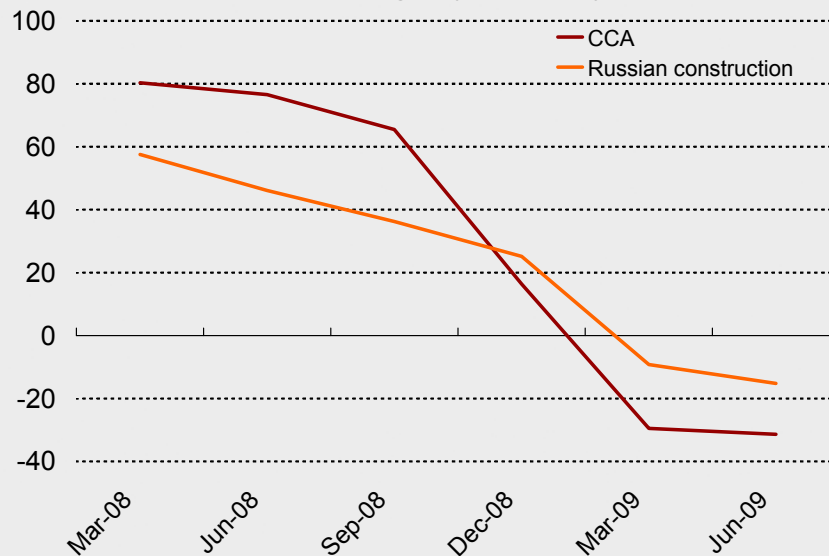
# Remittances down sharply

Many migrants worked in the Russian construction sector

A collapse in remittances affects household incomes

## Remittances Outflow from Russia to the CCA 1/

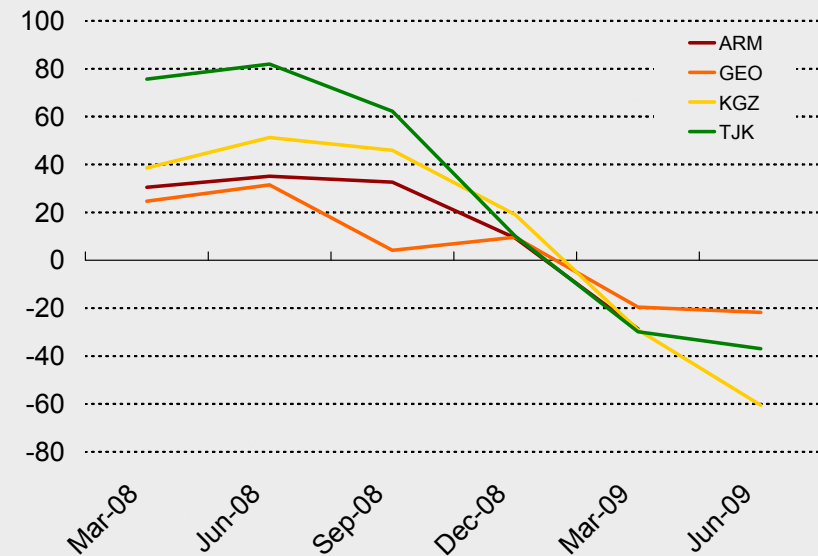
(Percent change; year-on-year)



1/ Includes compensation of employees and migrants capital transfer.

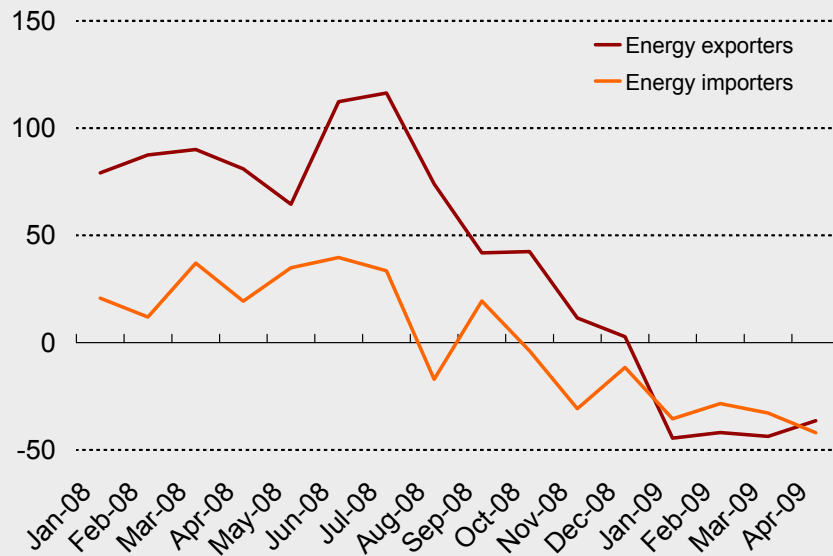
## Remittances Inflows

(Percent change; year-on-year)

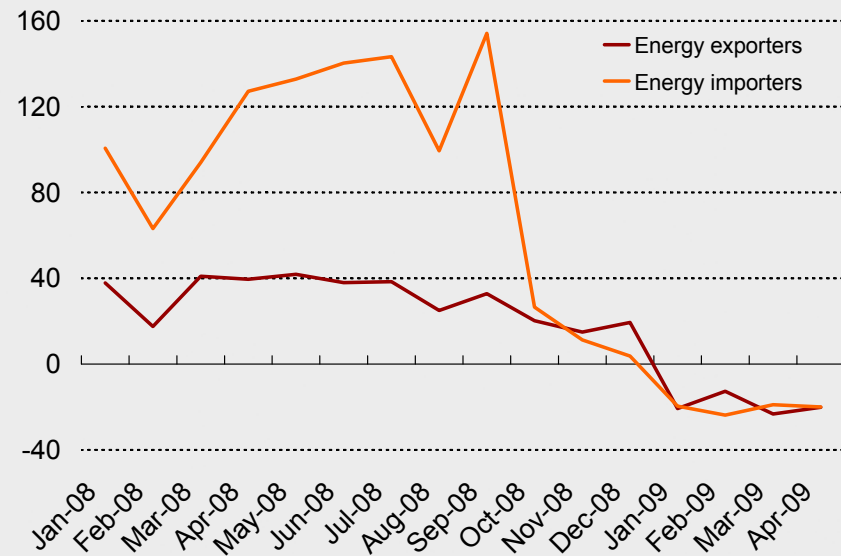


## Exports contracted sharply in 2009, but imports also falling

**Exports of Goods in U.S. Dollars**  
(In percent; year-on-year)

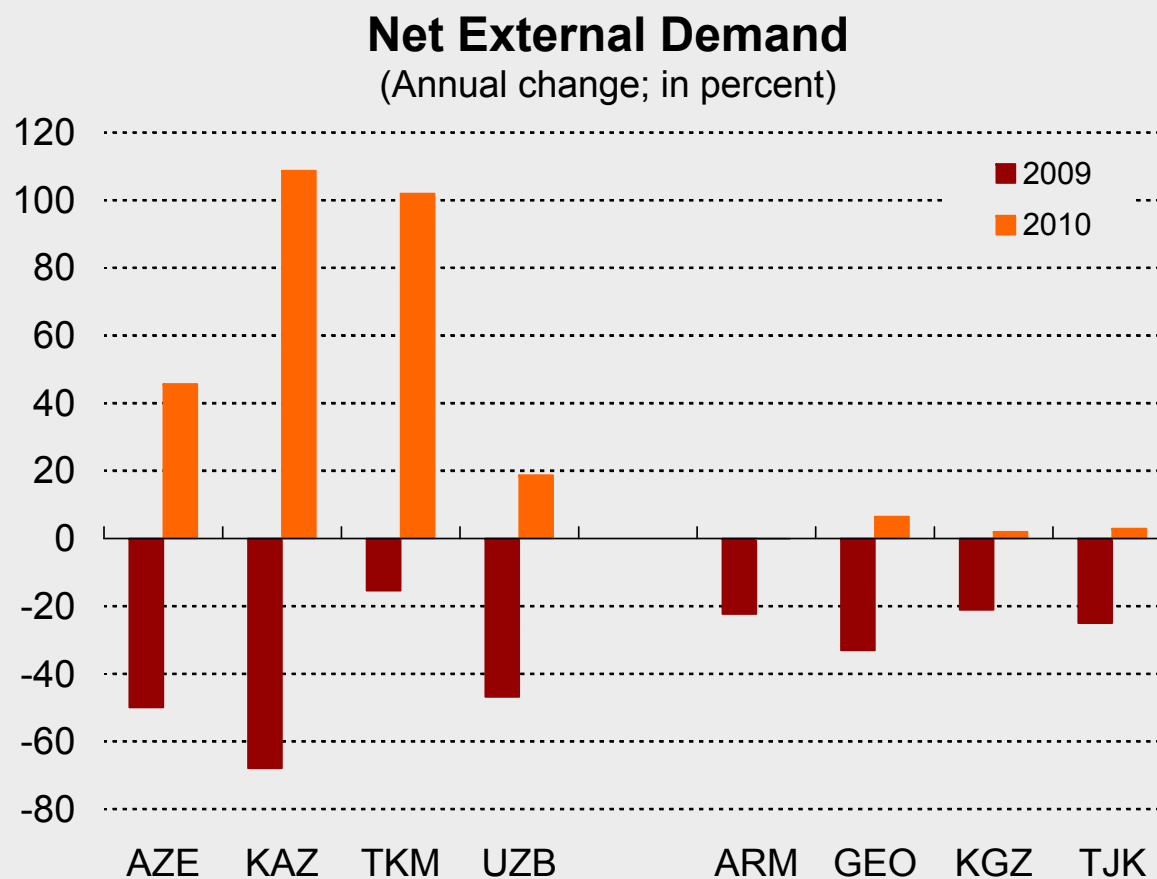


**Imports of Goods in U.S. Dollars**  
(In percent; year-on-year)





## Net external demand holding back growth in 2009, but contributes to 2010 recovery



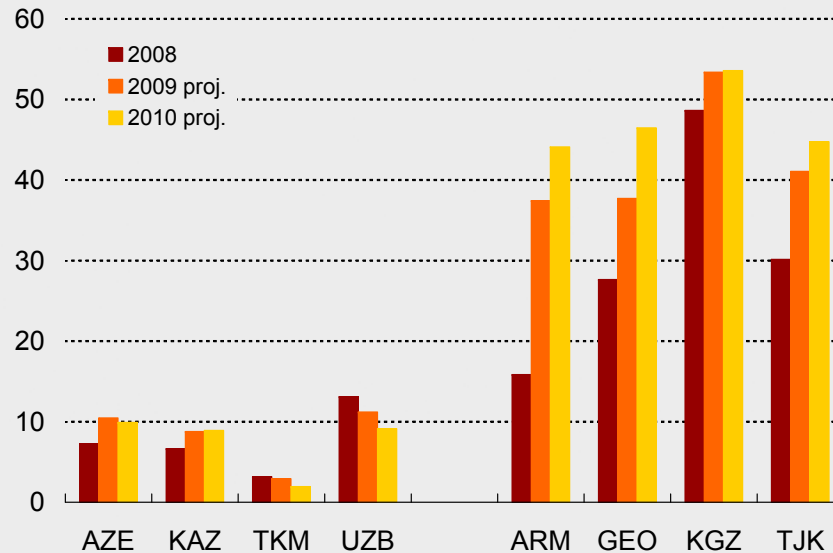
## Macroeconomic policies have been accommodative in 2009

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

## Where debt levels were already high, donor support has helped finance the fiscal stance

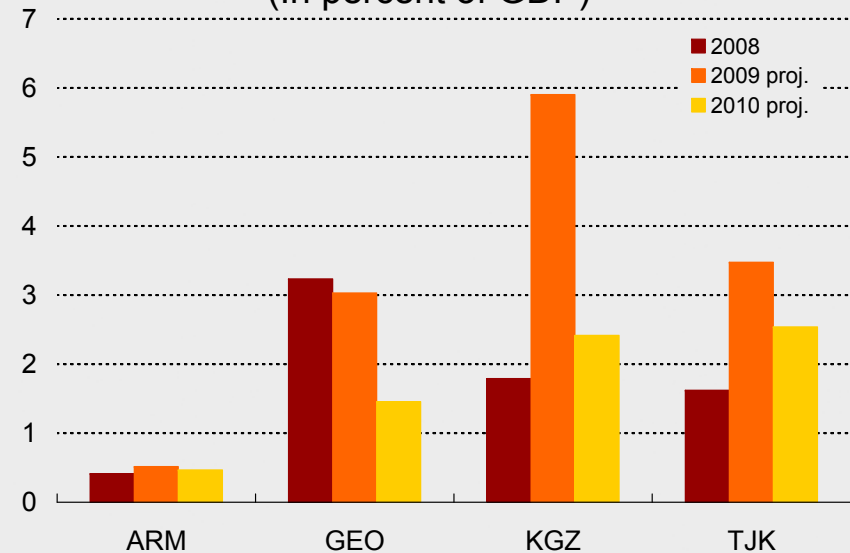
Some governments are constrained by already high debt levels

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



2009 increase in donor support expected to reverse in 2010

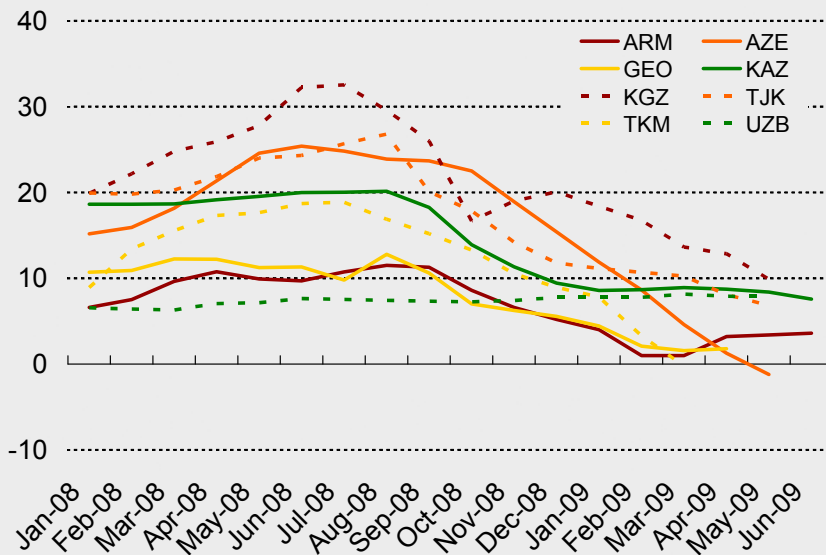
**Grants to Energy Importers**  
(In percent of GDP)



# Inflation down sharply, but pressures may return in 2010

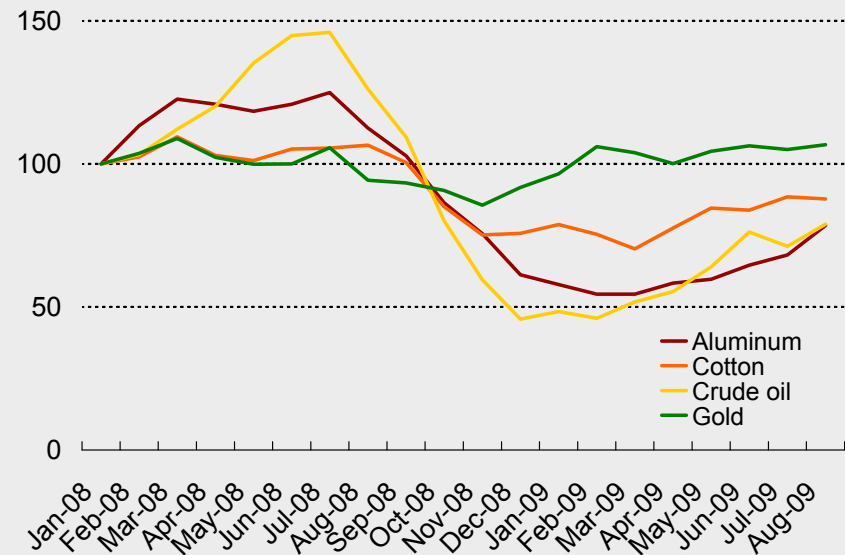
Inflation down sharply from historical highs...

**Consumer Price Index**  
(Annual change; in percent)



... but commodity prices on the rise again

**Commodity Prices**  
(Index 2008 = 100)



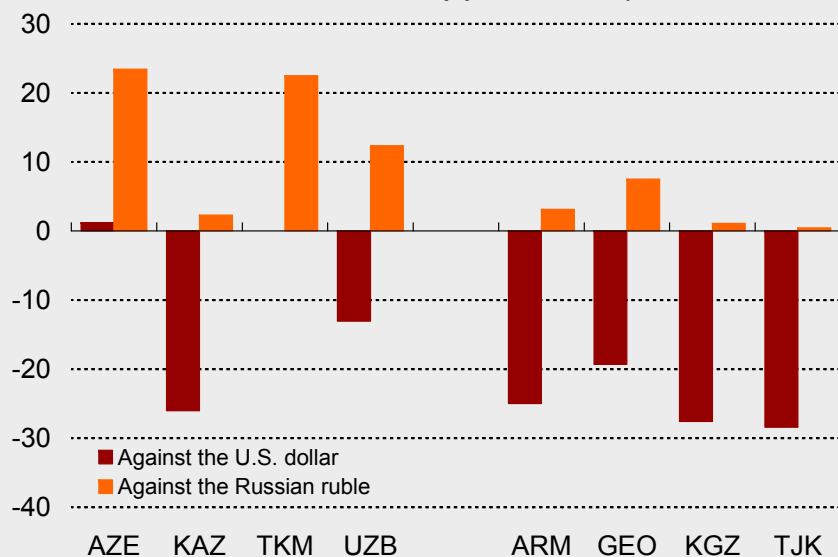
## Currencies have depreciated ...

.... against dollar, and energy  
Importers' currencies have caught up  
with weakening ruble ...

... helping reverse competitiveness  
losses suffered in 2008

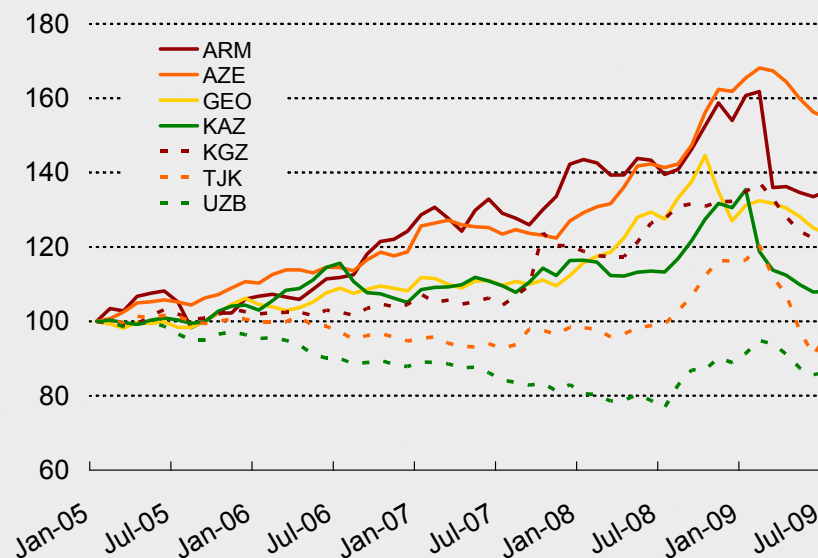
### Local Currencies Against the U.S. Dollar and Russian Ruble

(Aug 31, 2008 – Aug 31, 2009, increase indicates appreciation)



### Real Effective Exchange Rate

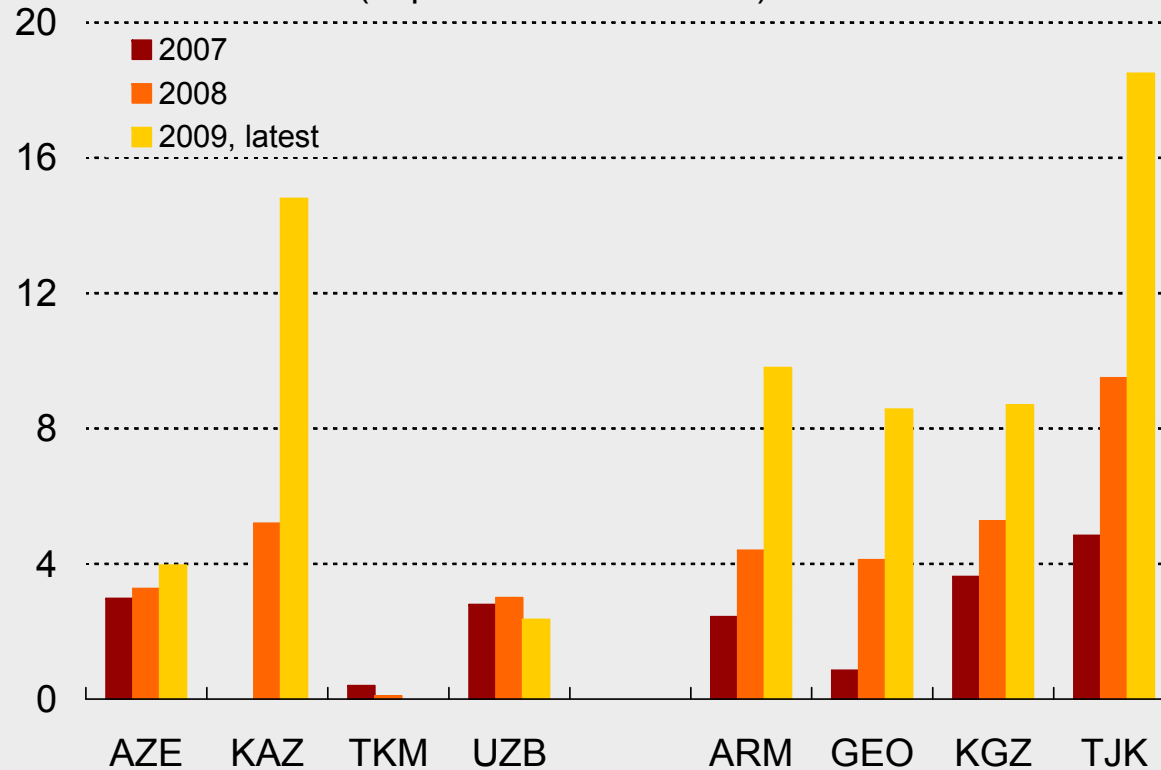
(Index Jan 2005 = 100; increase indicates appreciation)



## Financial sectors are under stress, with NPLs set to rise further

### Nonperforming Loans

(In percent of total loans)



## **Social Impact of the Crisis**

- With per capita income and social spending rising in the oil exporters, poverty is expected to fall
- In the oil importers, despite some increase in social spending, poverty is expected to pick up via the following channels:
  - Disposable income is projected to drop by 5 percent on account of lower remittances alone
  - Softening of labor markets will likely see unemployment edging up
  - Depreciated exchange rates have led to some increases in import prices for consumers
  - Simulations for several countries suggest the poverty rate could increase as much as 5 percentage points

## Policy Priorities

- Fiscal stimulus needs to be sustained in most countries in 2010
  - more concessional donor financing would support growth and social protection and limit debt increase in energy importers
- Flexible exchange rate regimes will help preserve competitiveness
- Further steps to stabilize financial sectors important in some countries
- Not too early to start thinking about exit strategy, to reverse debt increase and take best advantage of global recovery:
  - Medium term fiscal consolidation
  - Further reforms to improve business environment
  - Enhanced regional cooperation
  - Financial sector development



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