

Regional Economic Outlook: Caucasus and Central Asia Fall 2010

Overview

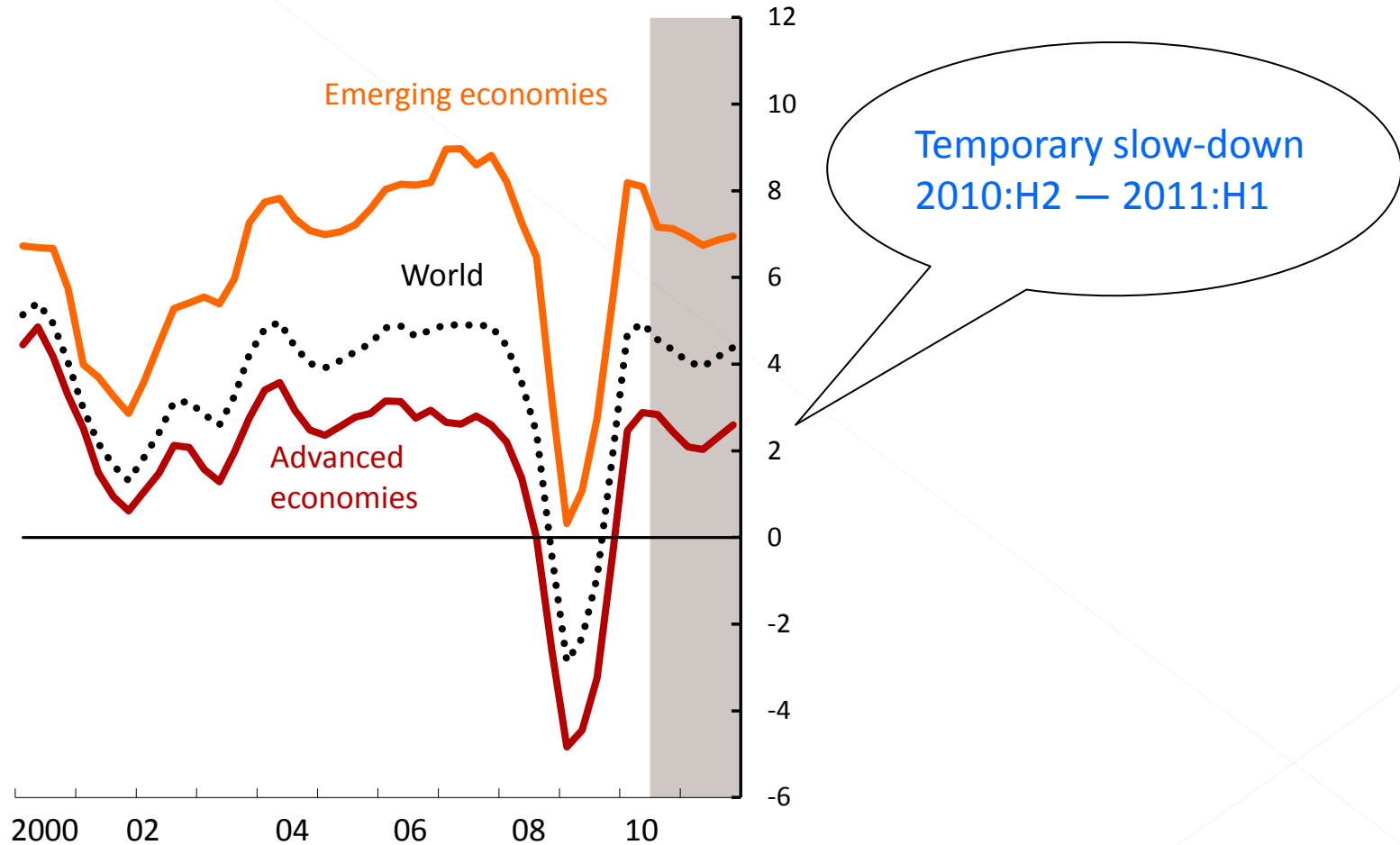
Global outlook

CCA outlook and policies

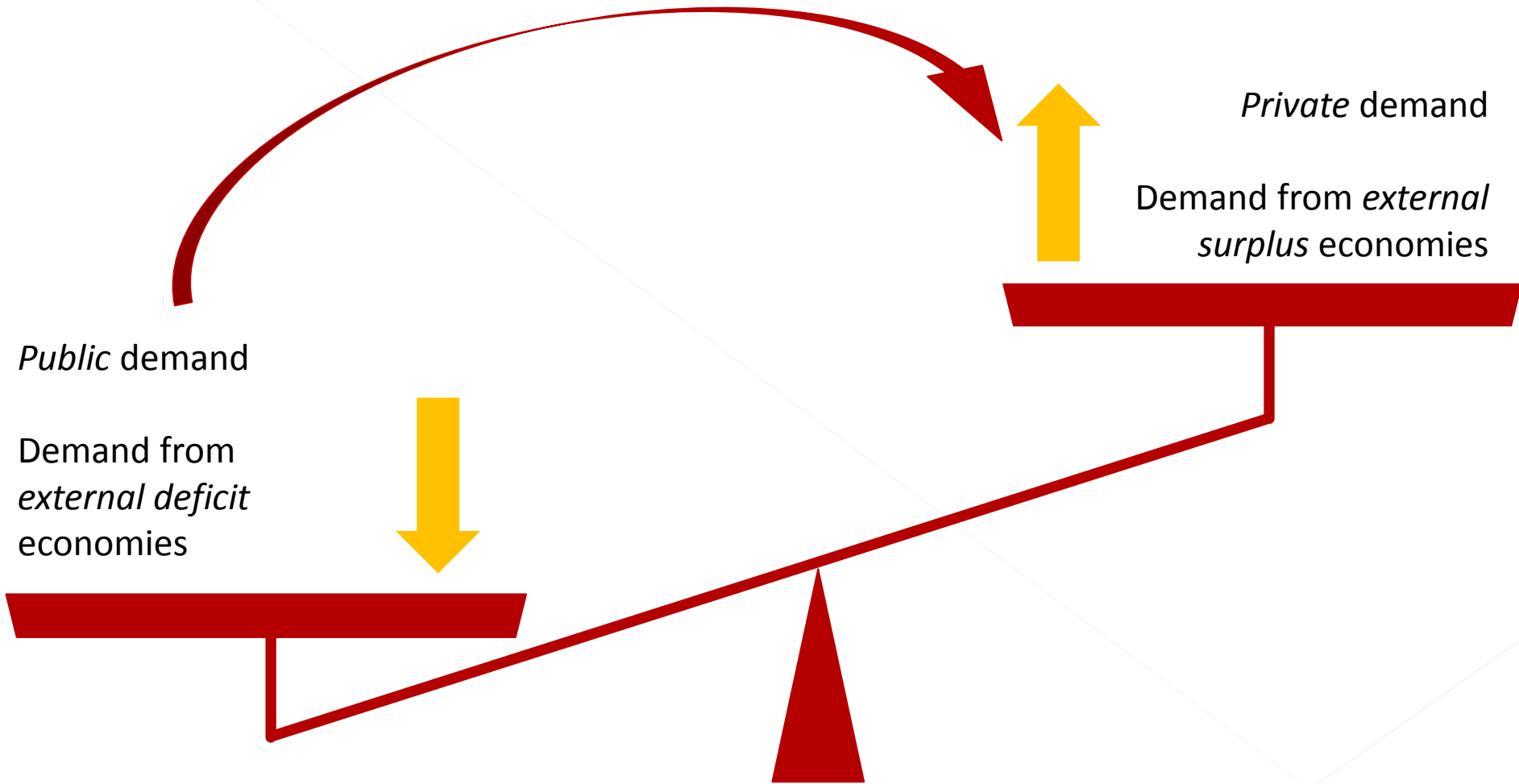
CCA financial sector

Global outlook: Two-speed recovery in motion

Real GDP Growth
(percent change from a year earlier)

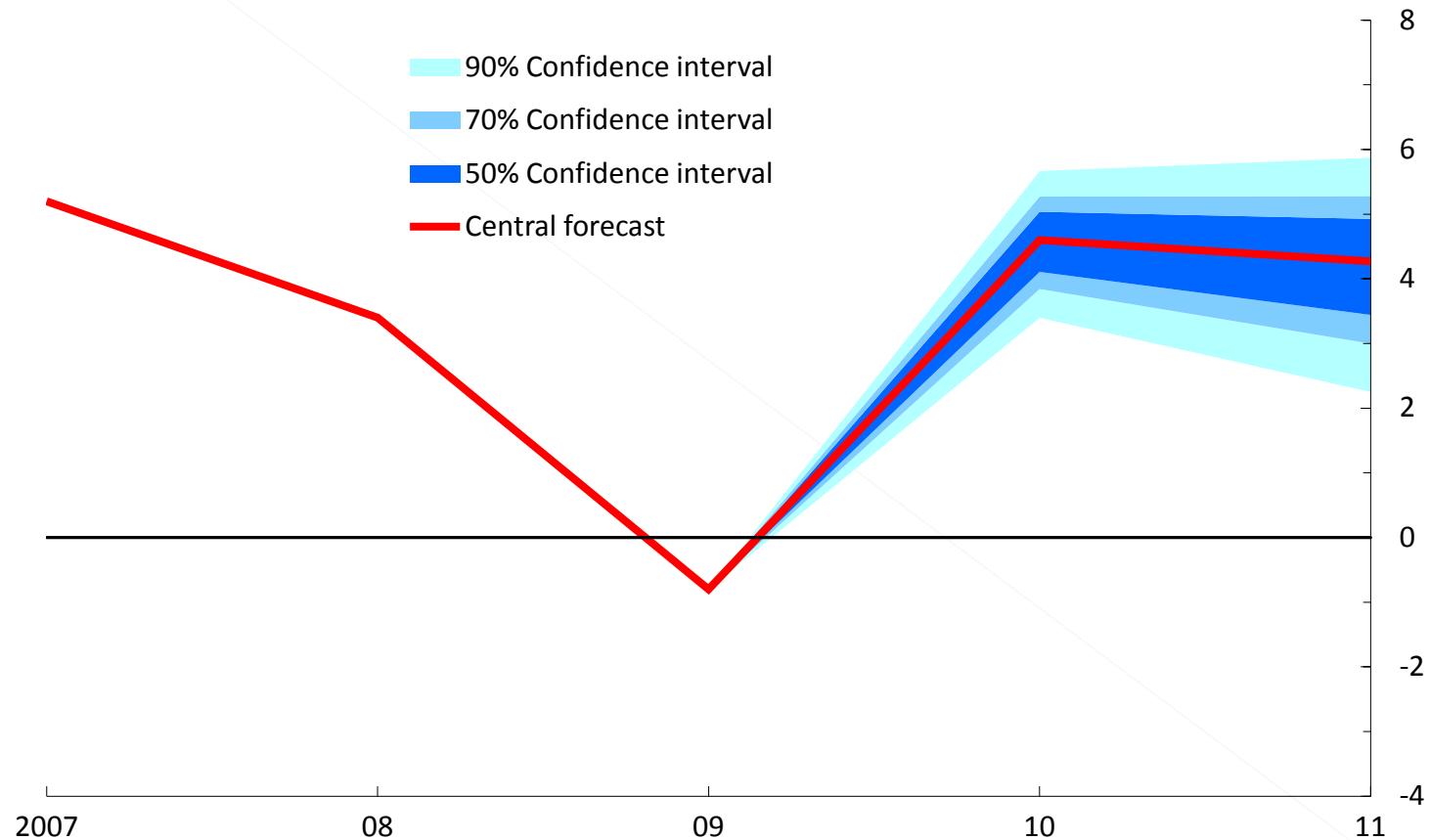


Rebalancing is needed along two dimensions



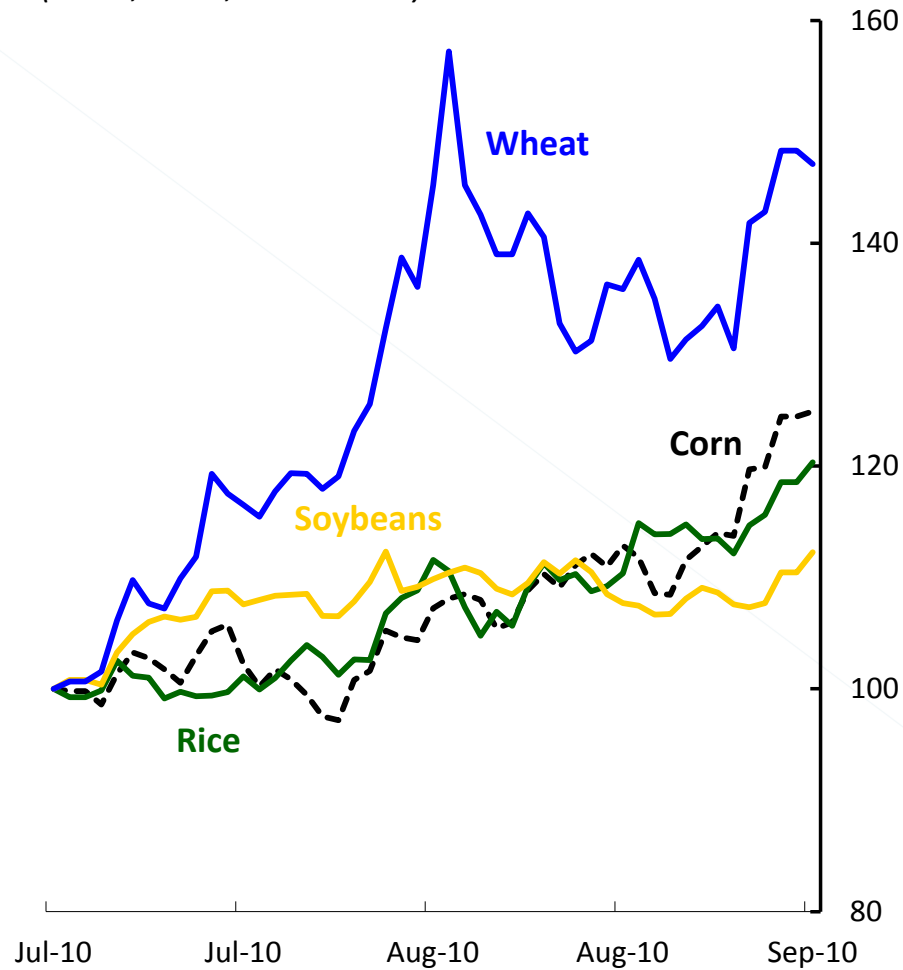
Downside risks remain, but global double-dip unlikely

Prospects for World GDP Growth
(percent change)

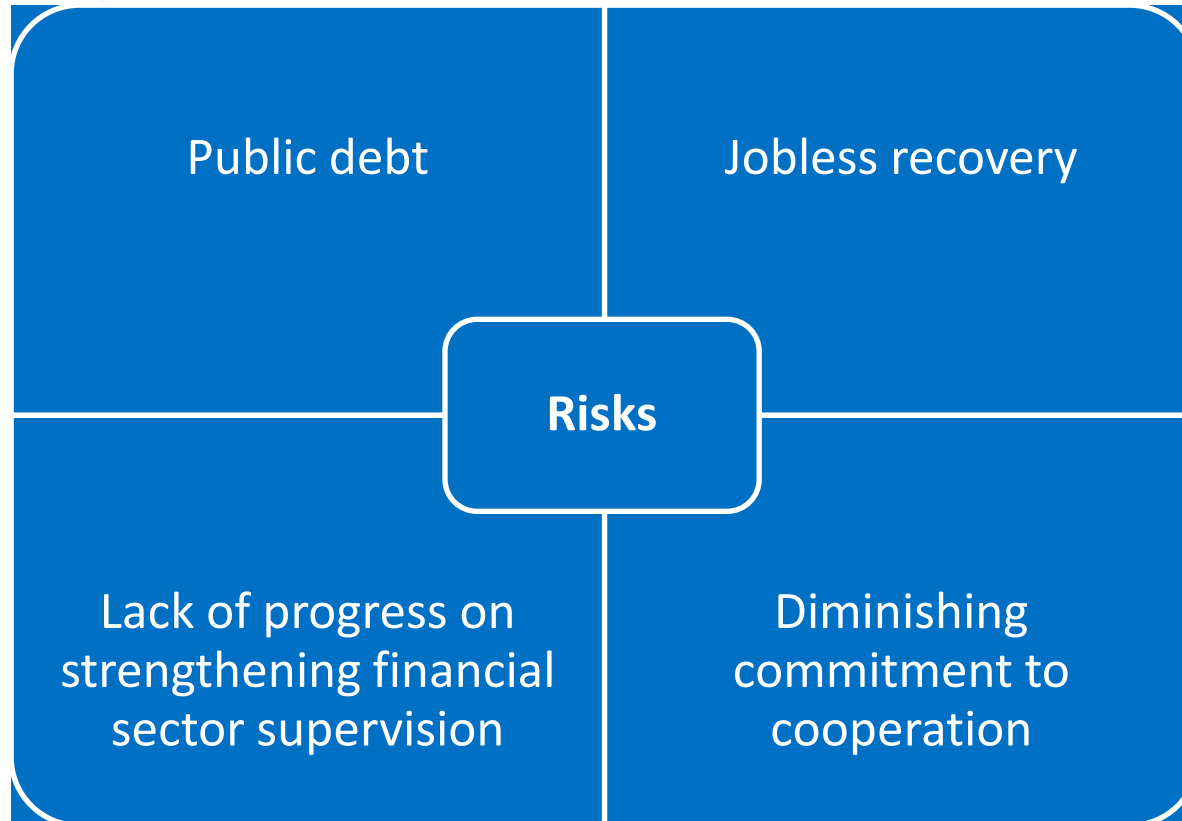


Temporary Wheat Supply Shock, Limited Spillovers

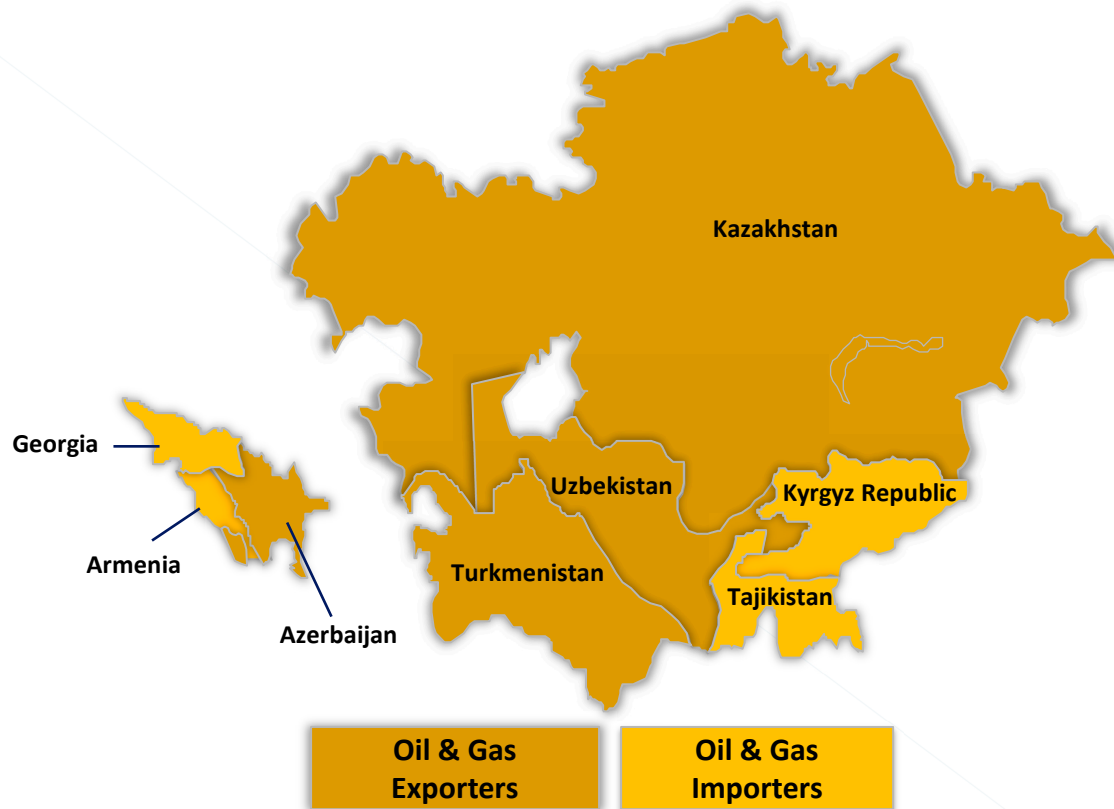
Major Food Crops, Nearest Futures Prices
(index, Jul. 1, 2010 = 100)



Downside risks to global recovery



Caucasus and Central Asia



Caucasus and Central Asia

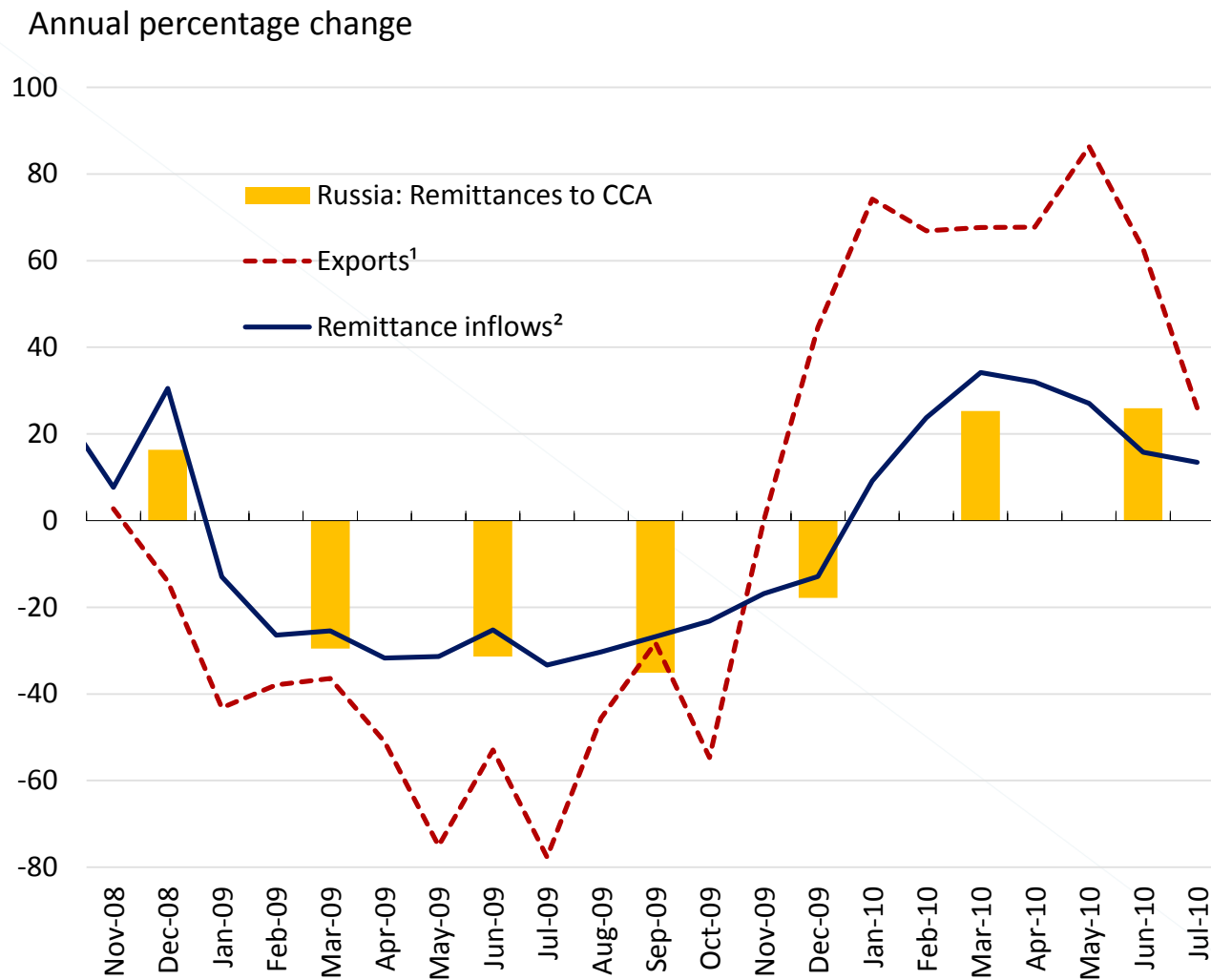
Firm recovery underway

Temporary inflation spike possible

Policy messages same as for global economy:
fiscal consolidation and financial sector repair

Focus on strengthening banks and monetary
transmission mechanism

Exports and remittance inflows have recovered



Sources: Central Bank of Russia; EMED Emerging CIS; and National Authorities.

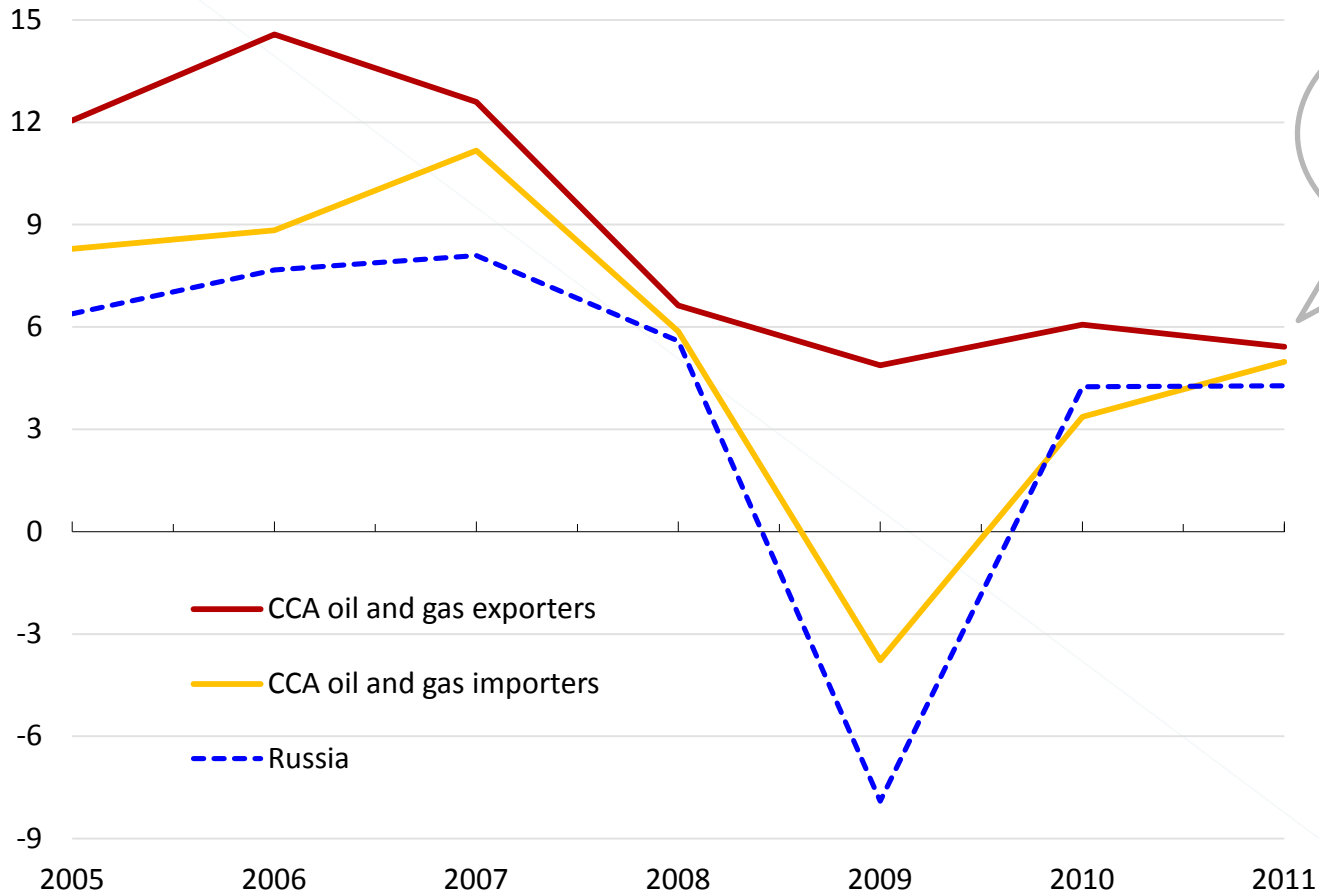
¹Excludes Turkmenistan and Uzbekistan.

²Includes Georgia, Kyrgyz Republic, and Tajikistan.



Growth is picking up in 2010...

Real GDP; annual percentage change



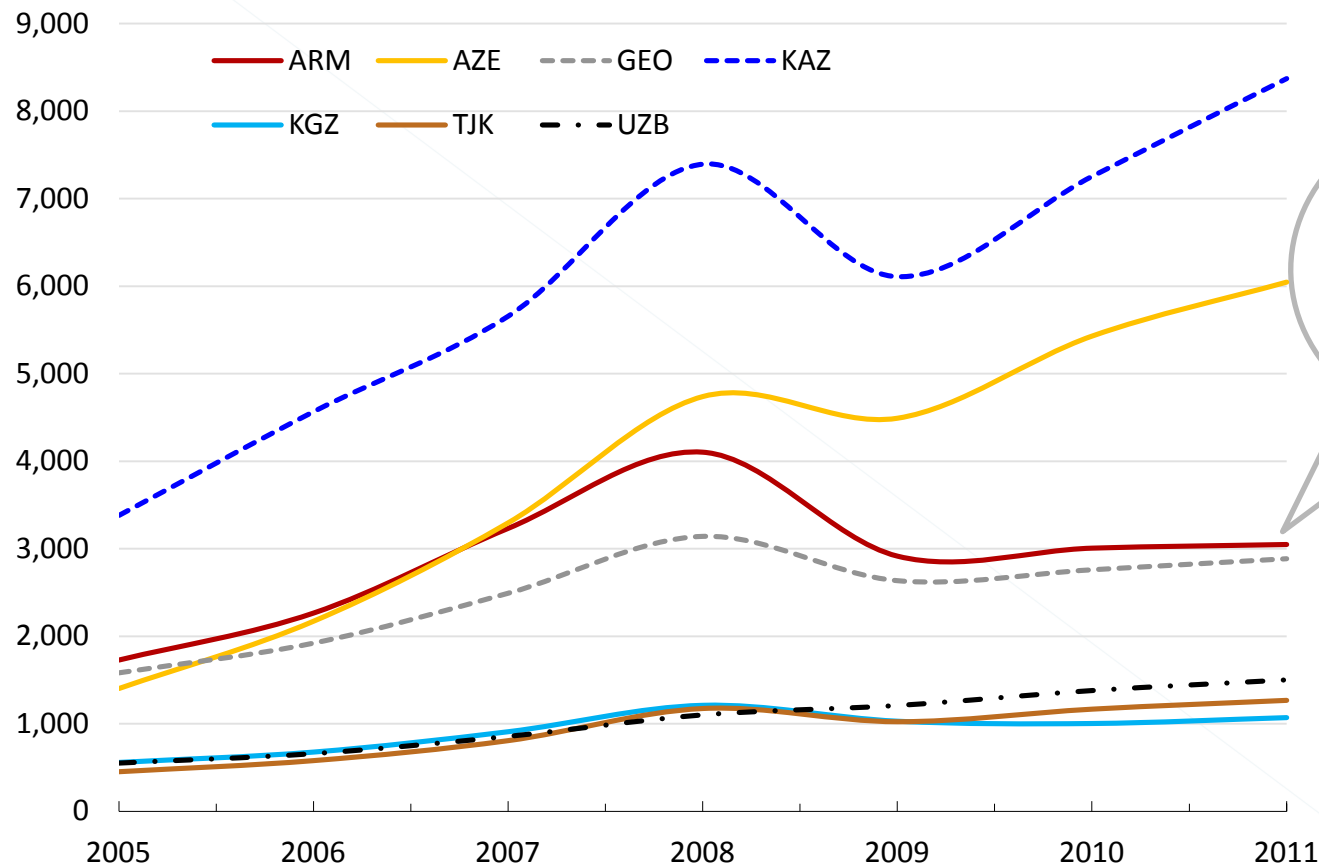
...but remains below pre-crisis levels

Sources: National authorities; and IMF staff calculations.



Per-capita disposable income to recover by 2011...

Gross national disposable income per capita; U.S. dollars



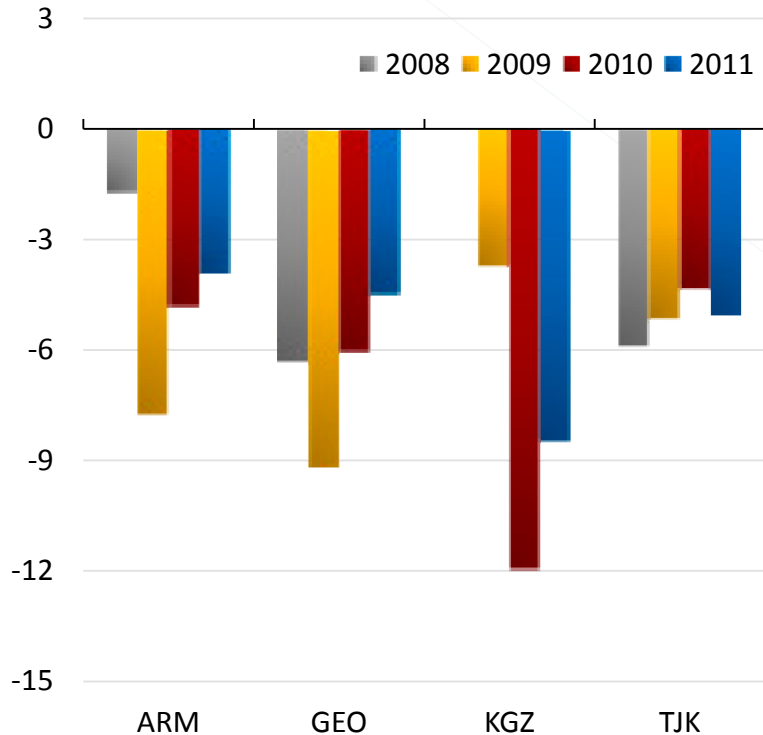
...except in
Armenia,
Georgia, and
the Kyrgyz
Republic

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

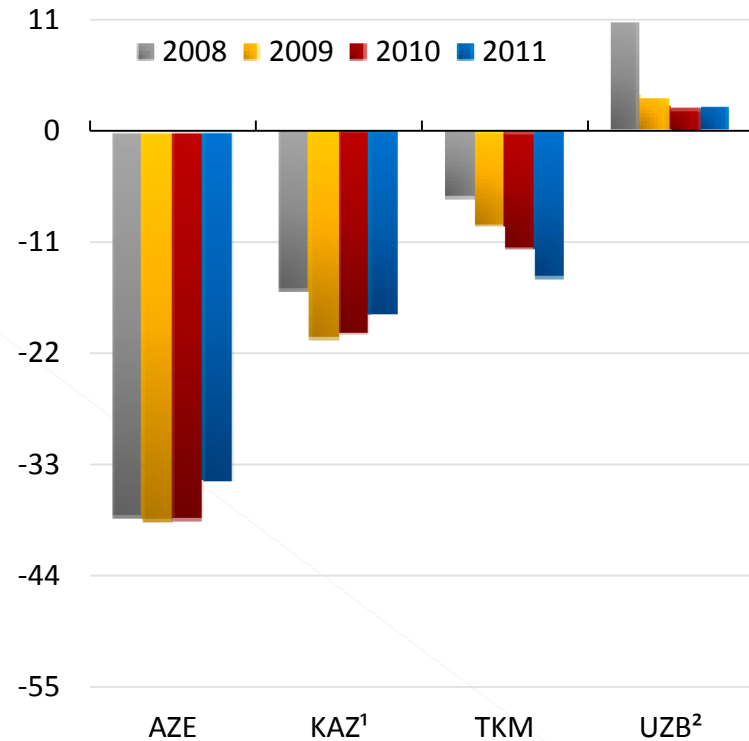


Fiscal consolidation on the agenda

Oil and Gas Importers: Overall fiscal balance
(Percent of GDP)



Oil and Gas Exporters: Non-oil fiscal balance
(Percent of non-oil GDP, except Uzbekistan)



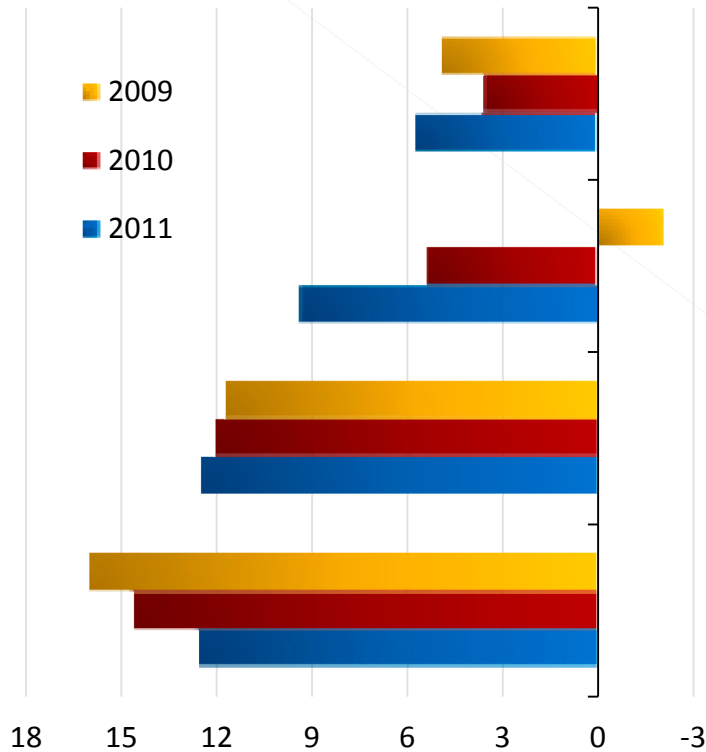
Sources: National authorities; and IMF staff calculations and projections.

¹Includes off-budget expenditures financed by Samruk-Kazyna under the anticrisis plan.

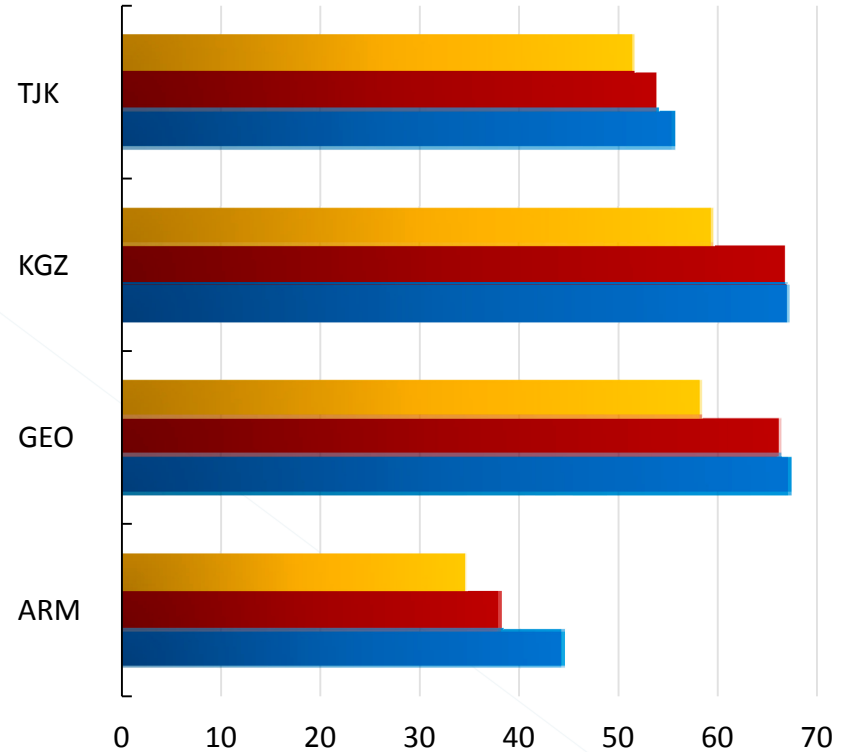
²Overall fiscal balance in percent of GDP.

Oil and gas importers need to address external vulnerabilities

Current account deficit; percent of GDP



External debt; percent of GDP

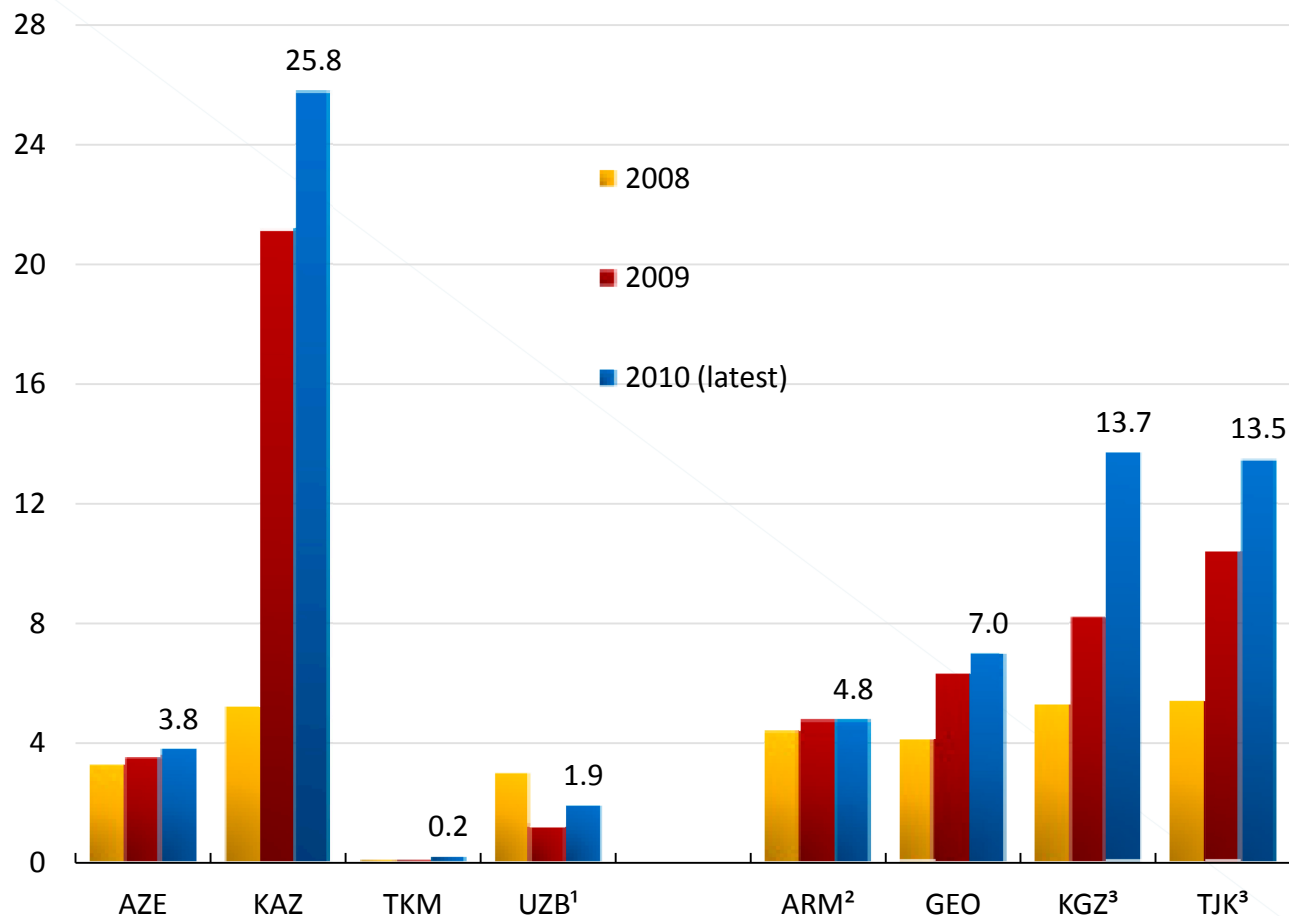


Sources: National authorities; and IMF staff calculations and projections.

Need to tackle high and rising NPLs in some countries

Nonperforming loans

(Overdue by 90 days or more, unless otherwise noted; percent of total loans)



Source: National authorities.

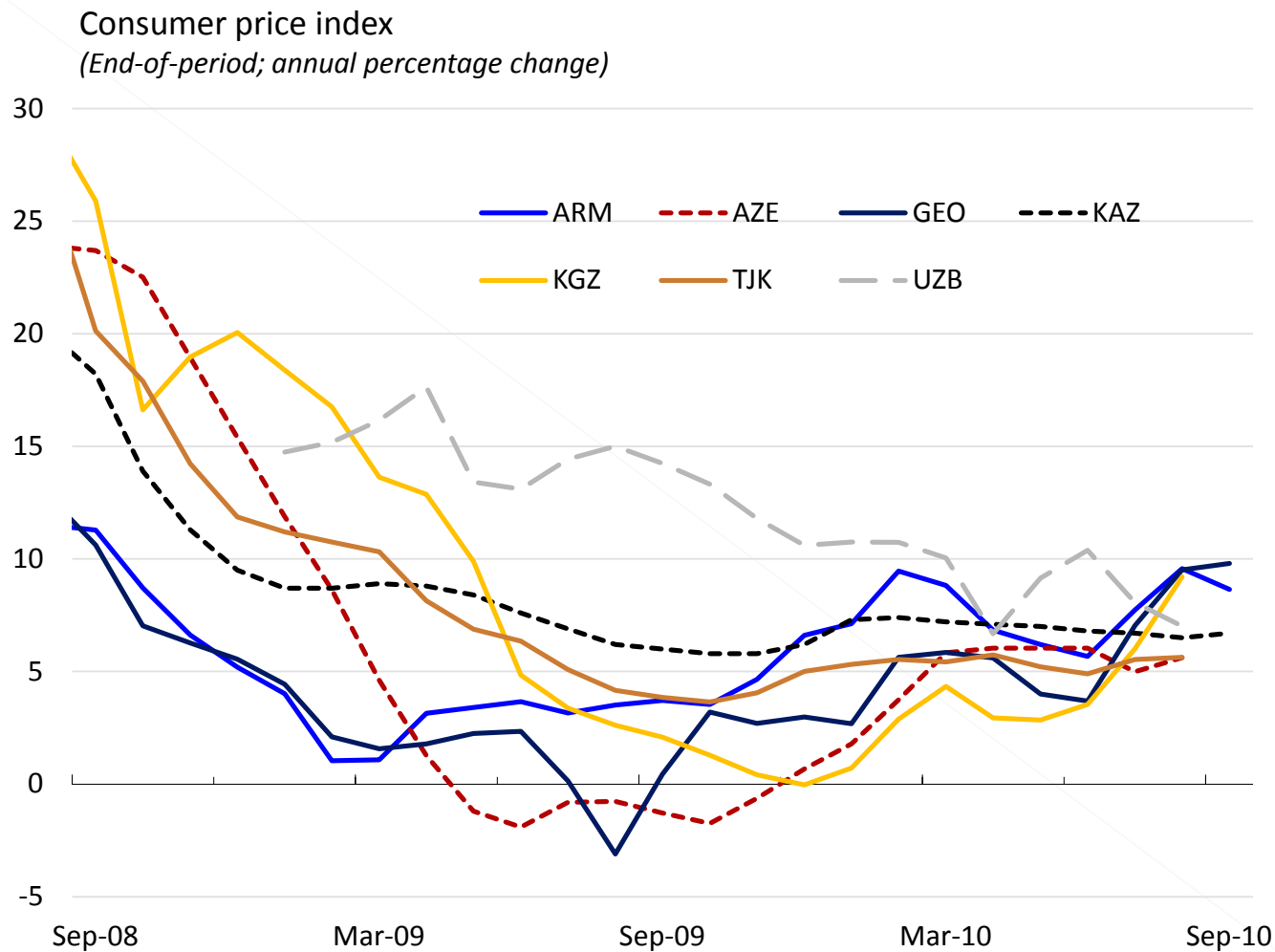
¹Overdue by 60 days or more.

²Overdue from 1 day to 270 days.

³Overdue by 30 days or more.

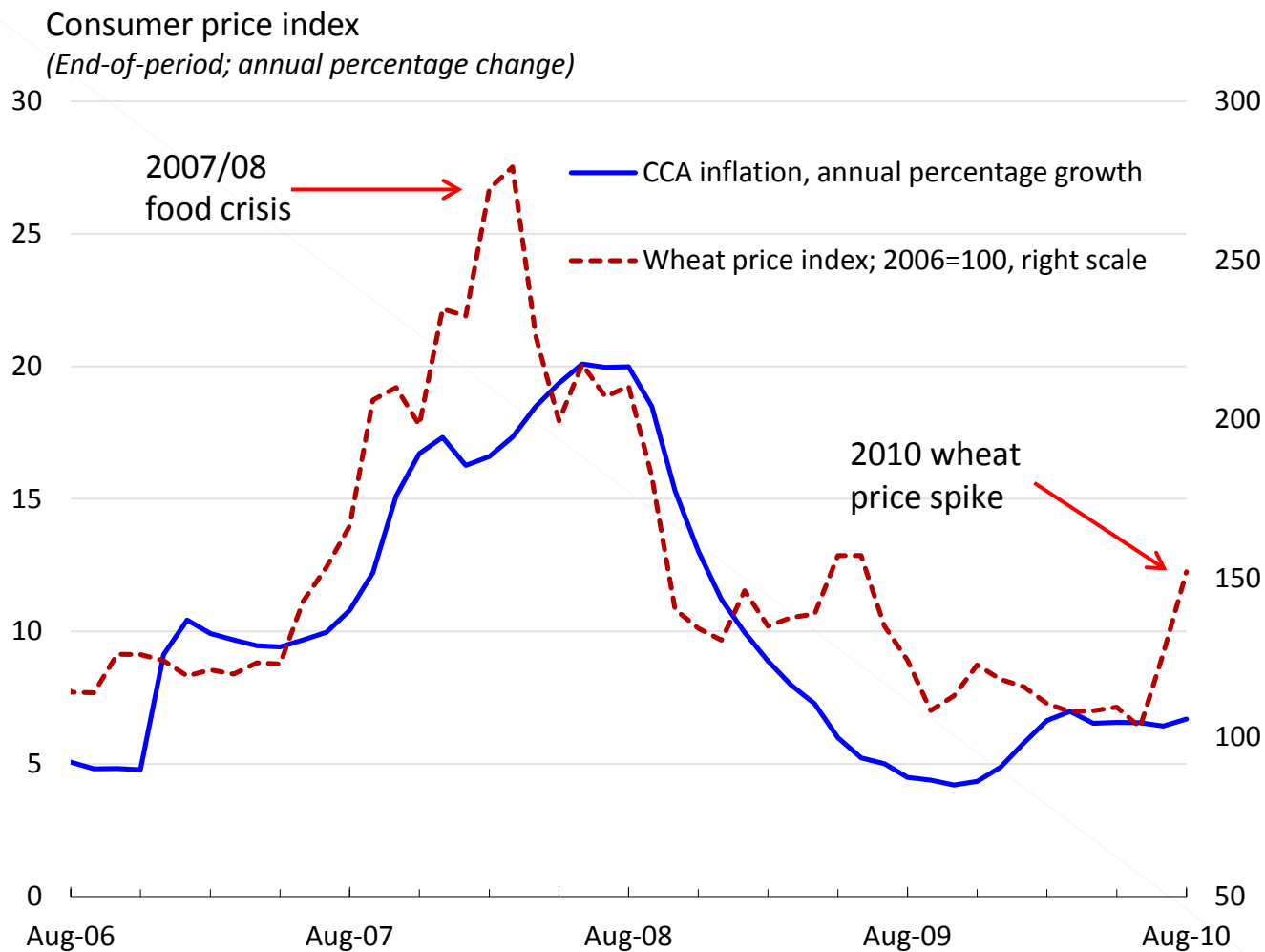


Monetary policy needs to pay attention to inflation



Sources: IMF, *International Financial Statistics*; Haver Analytics; and national authorities.

Wheat price spike contained, but may impact headline inflation

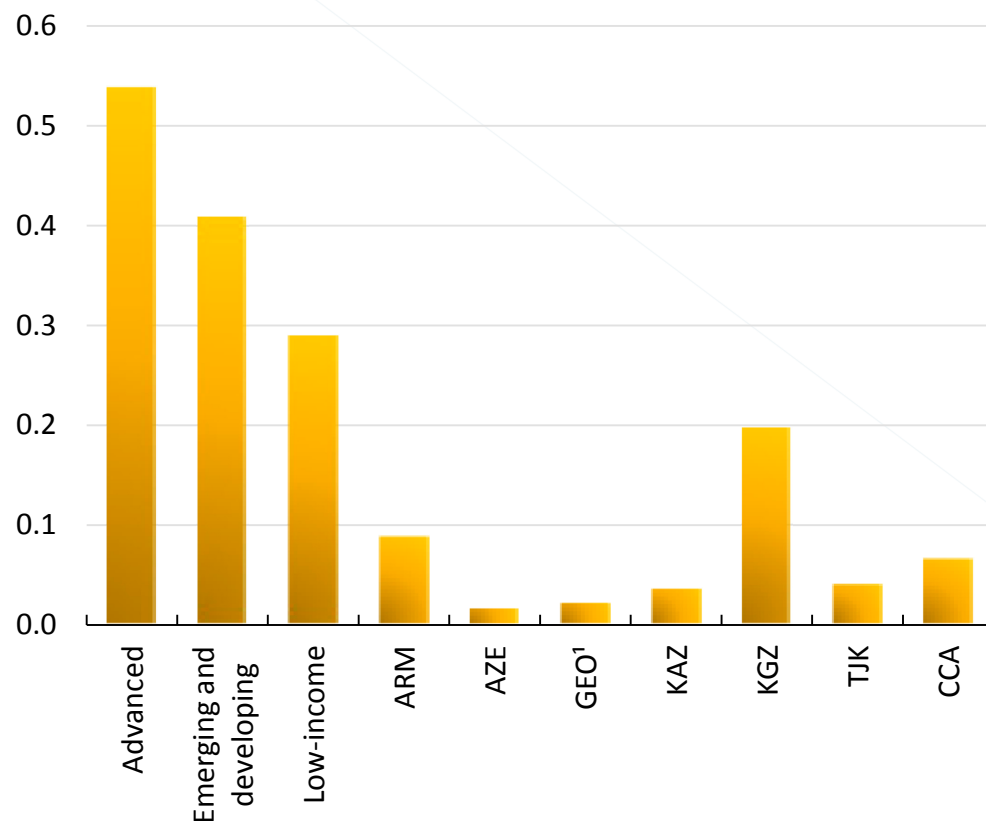


Sources: IMF, *International Financial Statistics*; Haver Analytics; and national authorities.

Monetary policy has limited traction...

Short-term correlation between policy and lending rates

(Jan 2001—Dec 2008)



... due to

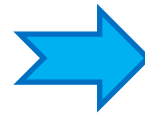
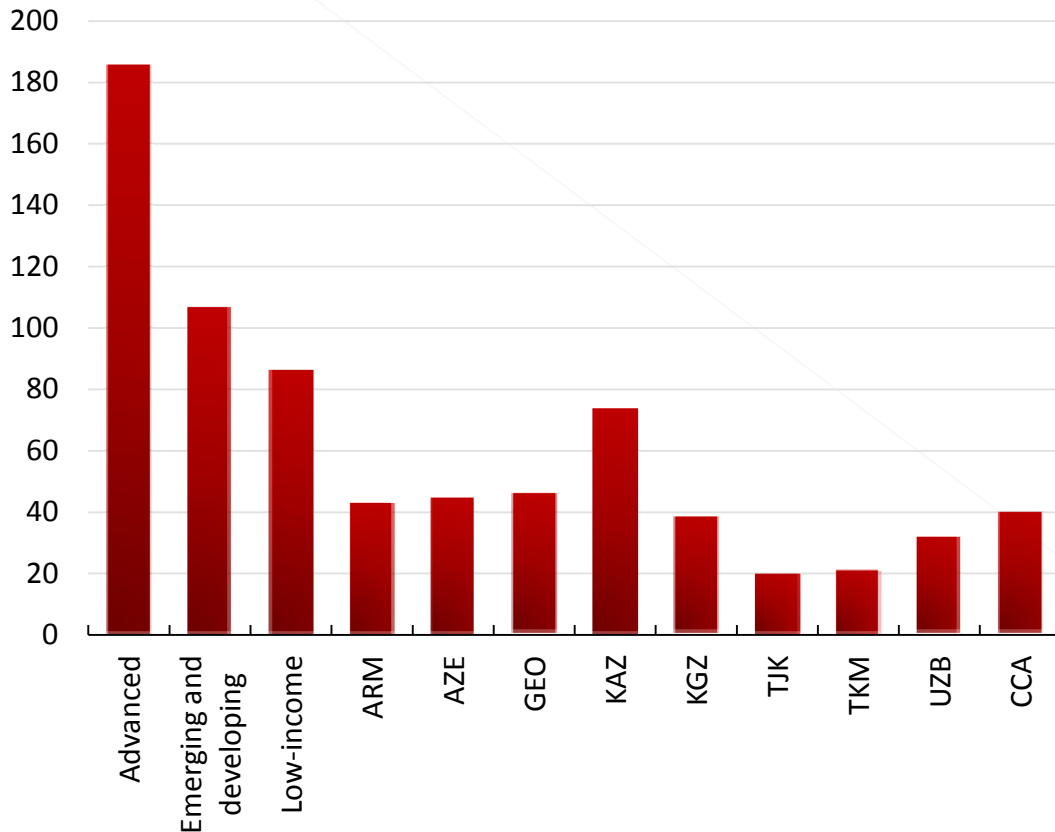
- Low Financial market development
- Lack of competition
- Government intervention
- Dollarization

Sources: National authorities; IMF staff calculations; and Mishra, Montiel, and Spilimbergo (2010), "Monetary Transmission in Low-Income Countries," CEPR Discussion Paper No. 7951 (London: Centre for Economic Policy Research).

¹Correlation for Georgia covers Mar 2007—Dec 2008.

Low levels of financial development

Banks' assets, 2009
(Percent of GDP)

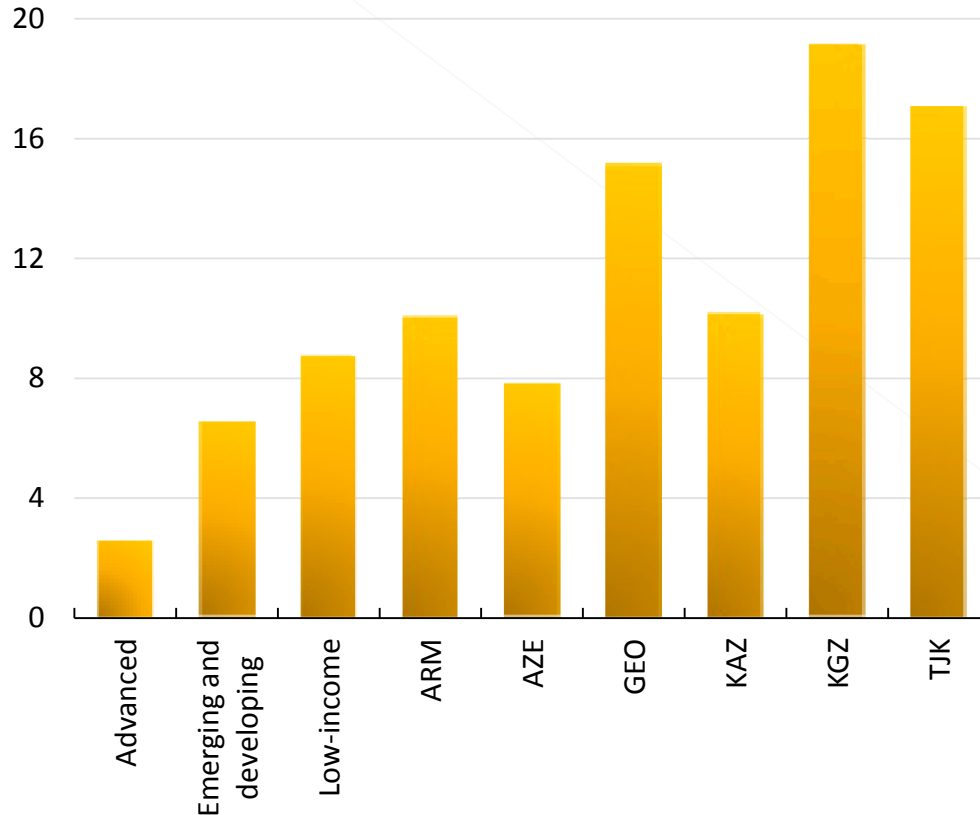


Foster financial deepening including by developing government securities markets

Sources: National authorities; IMF staff calculations; and Mishra, Montiel, and Spilimbergo (2010), "Monetary Transmission in Low-Income Countries," CEPR Discussion Paper No. 7951 (London: Centre for Economic Policy Research).

Lack of competition in the banking sector and excessive government intervention

Spreads between lending and deposit rates
(Percentage points)

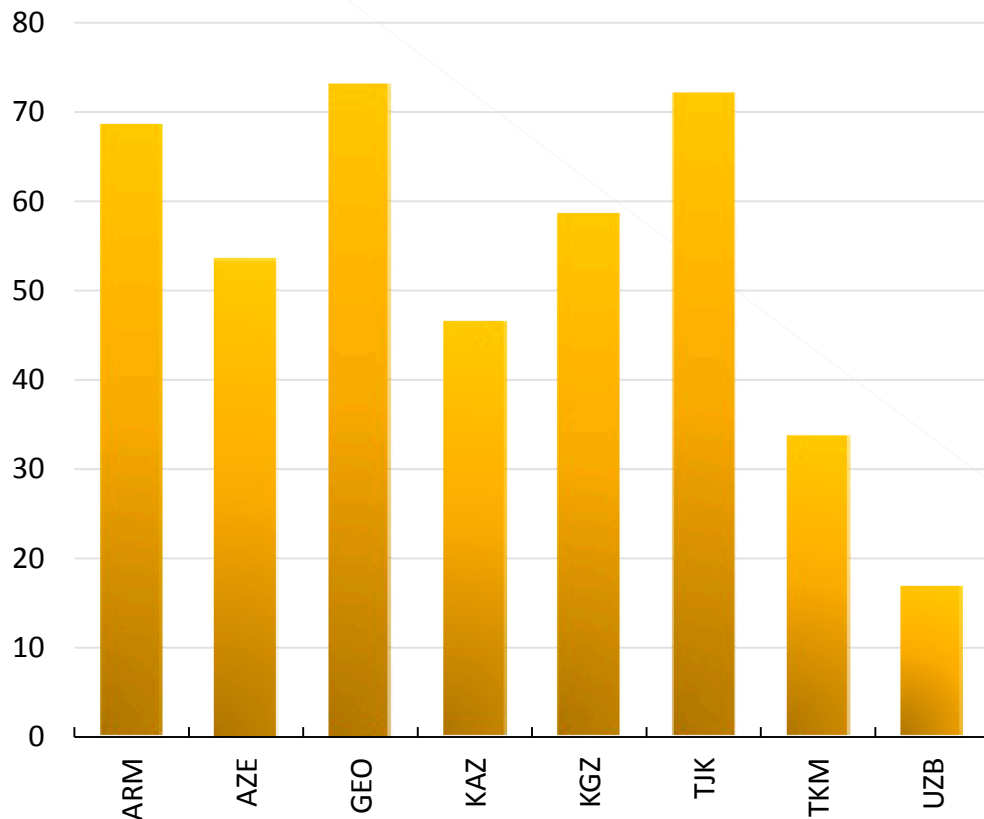


- Increase competition, including by encouraging the entry of foreign banks
- Interest rate controls and policy-directed lending should be phased out in some countries

Sources: National authorities; IMF staff calculations; and Mishra, Montiel, and Spilimbergo (2010), "Monetary Transmission in Low-Income Countries," CEPR Discussion Paper No. 7951 (London: Centre for Economic Policy Research).

High dollarization

Foreign currency deposits
(Percent of total deposits, 2009)



Sources: National authorities; and IMF staff calculations.

Dedollarize, including by:

- Allowing for greater exchange rate flexibility
- Continuing to strengthen prudential regulation

Key Messages

Global Outlook

- Fragile two-speed recovery
- Rebalancing 1: Hand-over from public to private
- Rebalancing 2: From deficit to surplus countries

CCA outlook and policies

- Recovery has gained traction
- Fiscal consolidation needed by 2011
- Reduce external vulnerabilities in some countries

CCA financial sector

- Repair bank balance sheets in some countries
- Enhance effectiveness of monetary policy

Tajikistan: Key challenges

- Address ongoing weaknesses in the financial sector through a comprehensive and transparent strategy, including reducing government interference in lending and enforcing prudential regulations
- Develop domestic financial markets to strengthen monetary policy, promote saving, and reduce dollarization
- Consolidate the fiscal position within a medium-term framework striking a balance between infra-structure and social spending needs

Please visit the IMF's website

Presentation:

<http://www.imf.org/external/country/tjk/rr/index.htm>

Full report:

<http://www.imf.org/external/pubs/ft/reo/2010/mcd/eng/mreo1024.htm>

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<http://blog-imfdirect.imf.org>