

Caucasus and Central Asia Regional Economic Outlook



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International Monetary Fund

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Overview

Global outlook

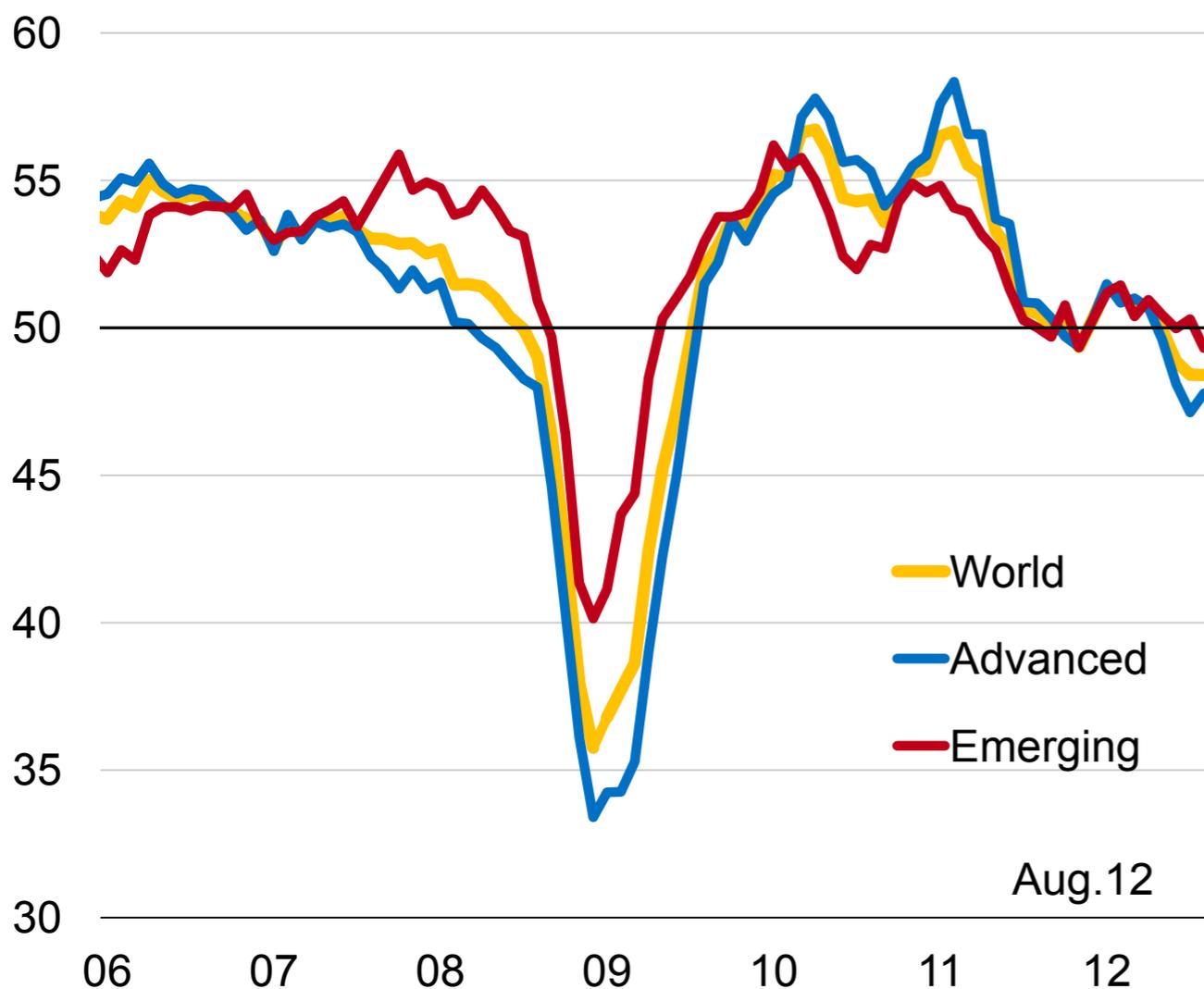
Caucasus and Central Asia (CCA)
outlook and risks

CCA macroeconomic policies

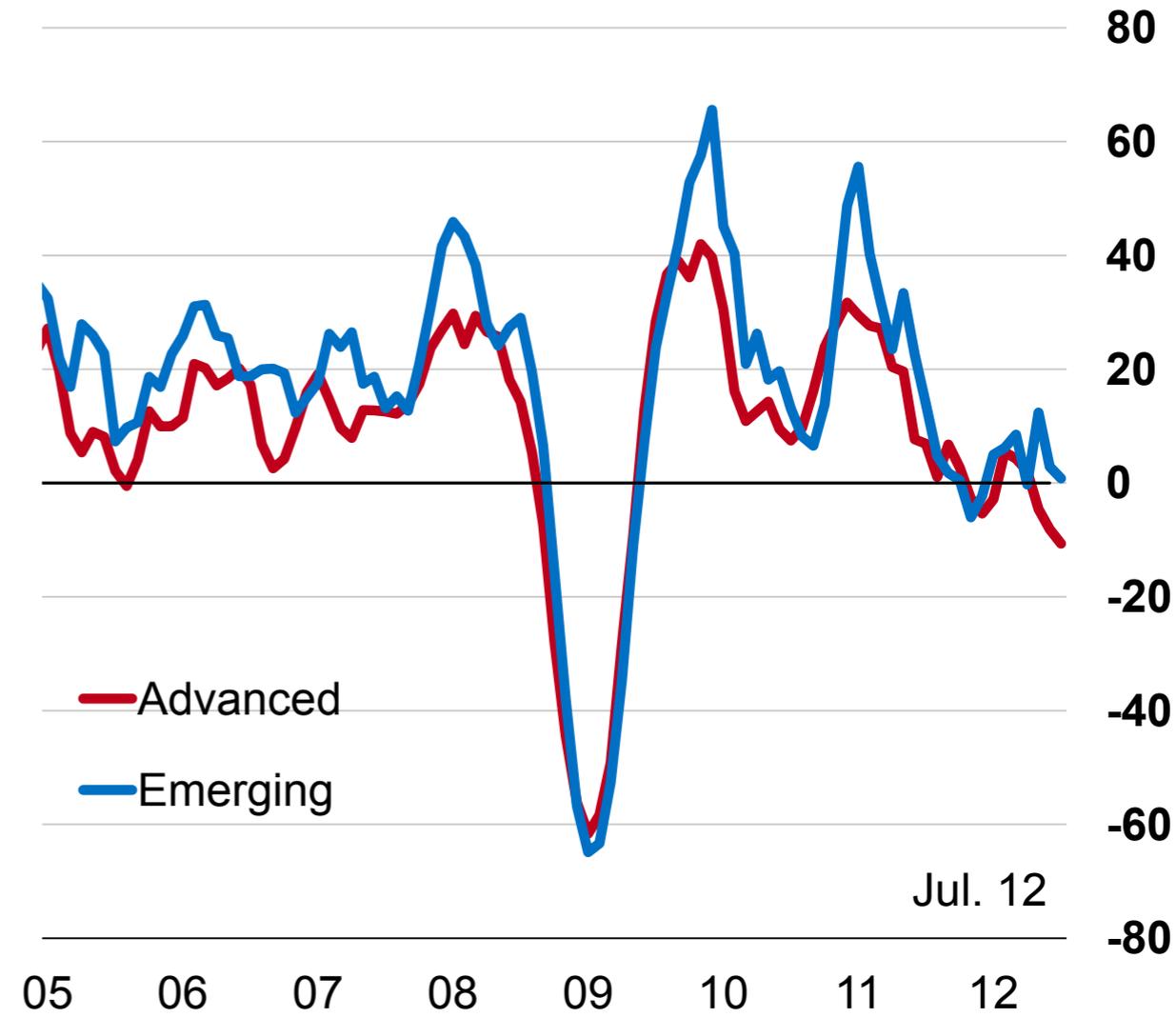
CCA structural challenges

The global recovery has weakened

Global Manufacturing PMI
(Index; > 50 = expansion; SA)



Merchandise Exports
(Percent; 3mma annualized)

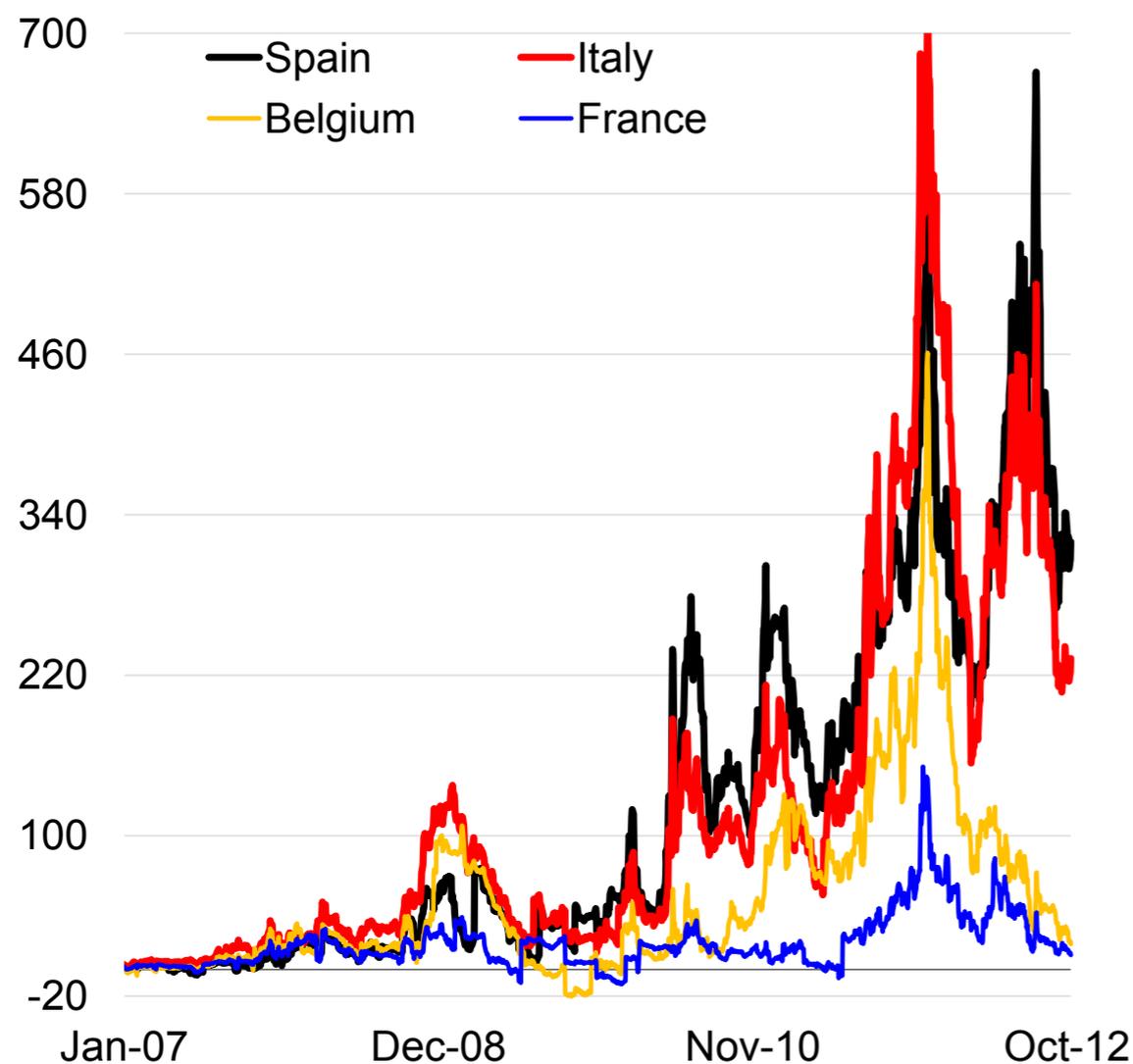


Source: IMF, *Global Data Source*.

European financial conditions remain fragile

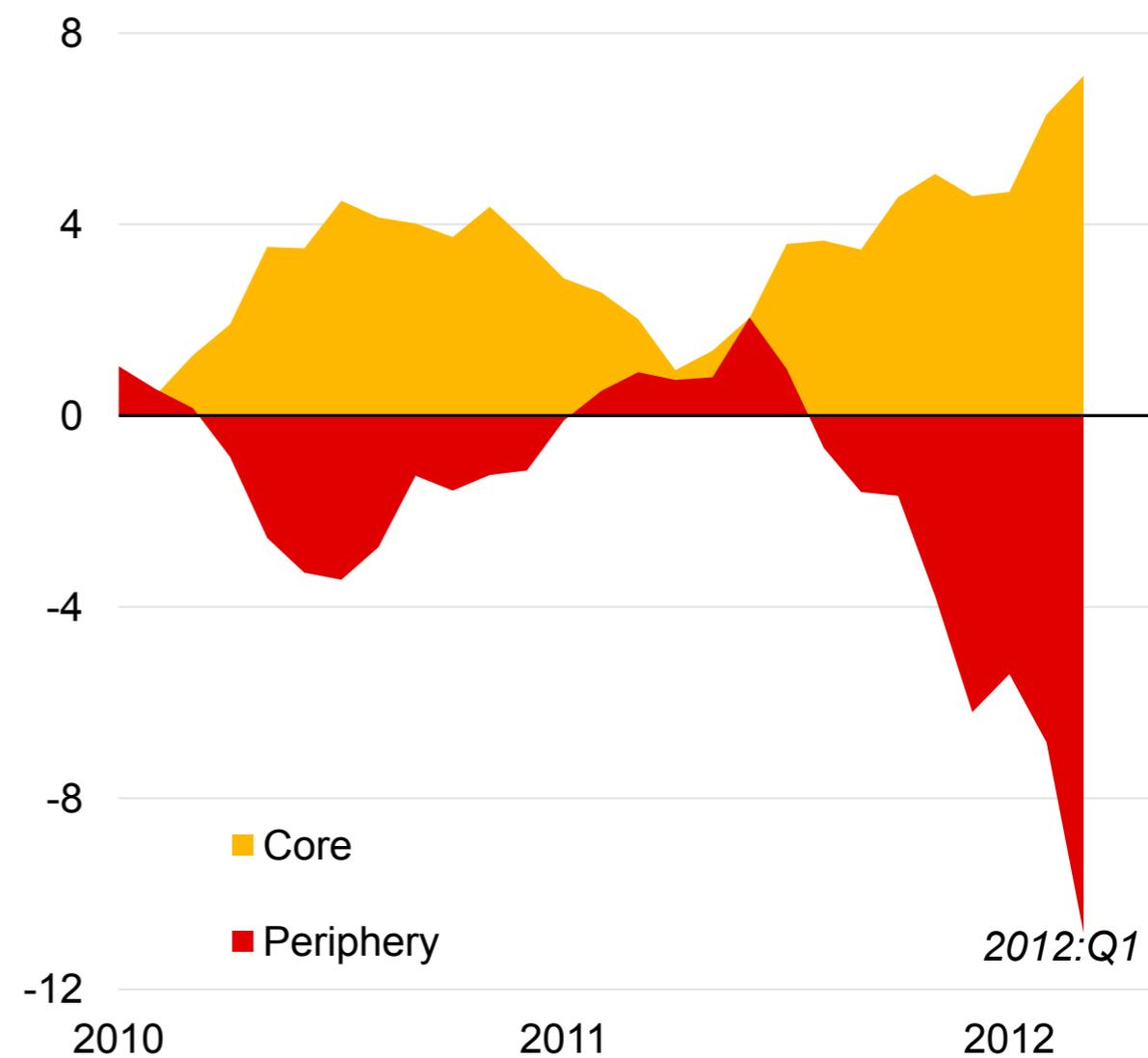
Government Bond Spreads

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



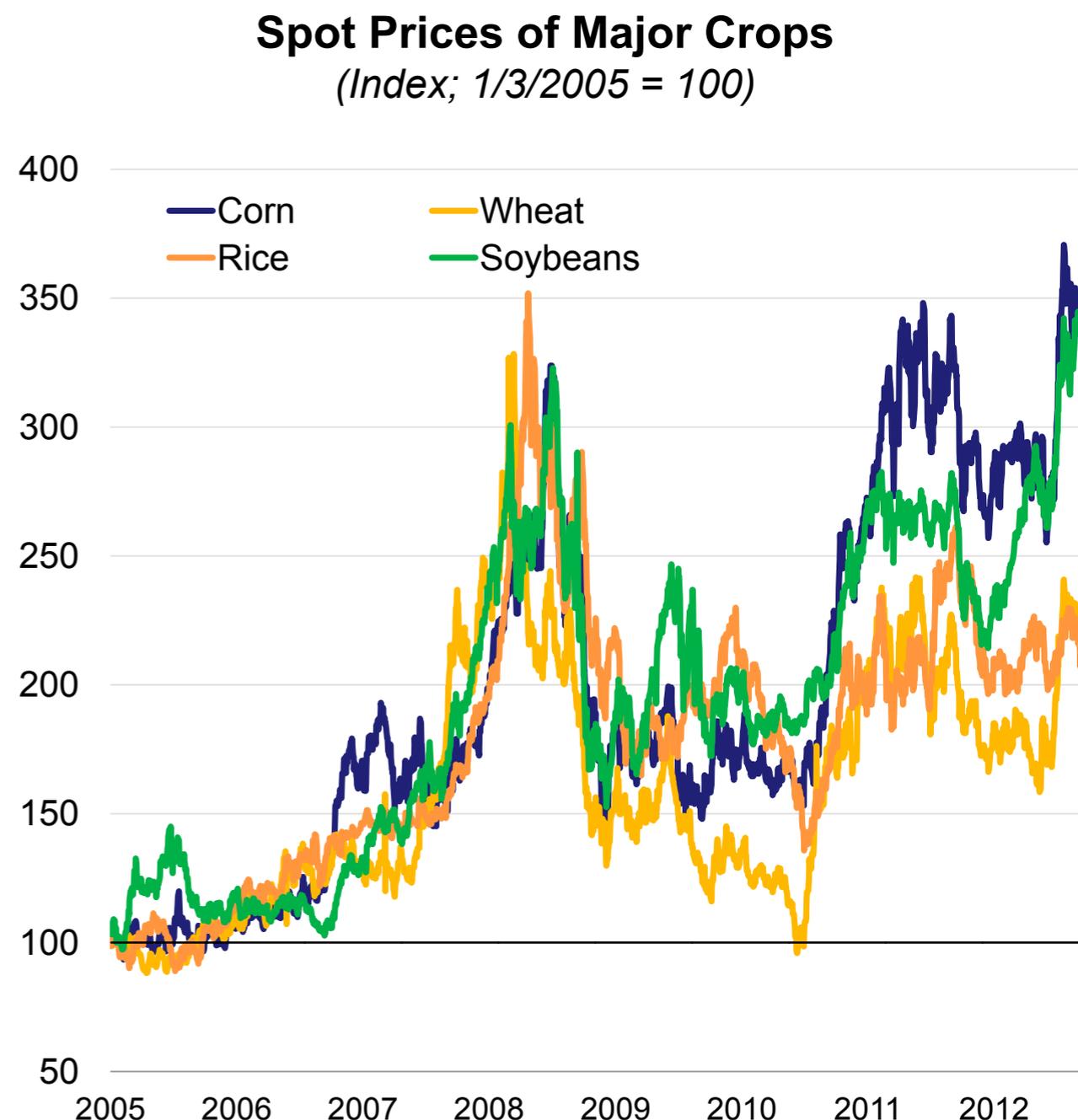
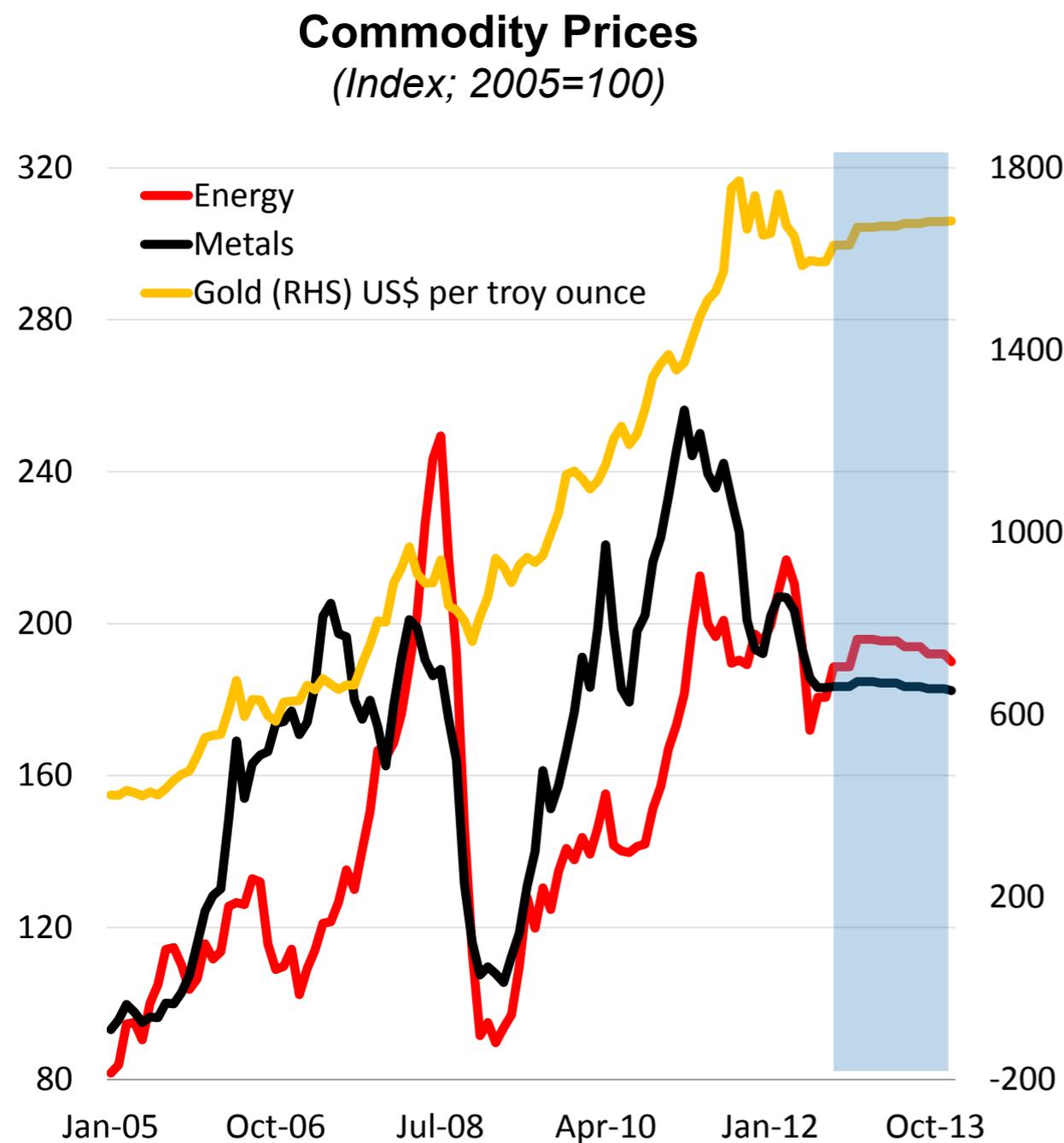
Portfolio and Other Investment Capital Flows, Excluding Central Banks

(Cumulative from December 2009, in percent of GDP)



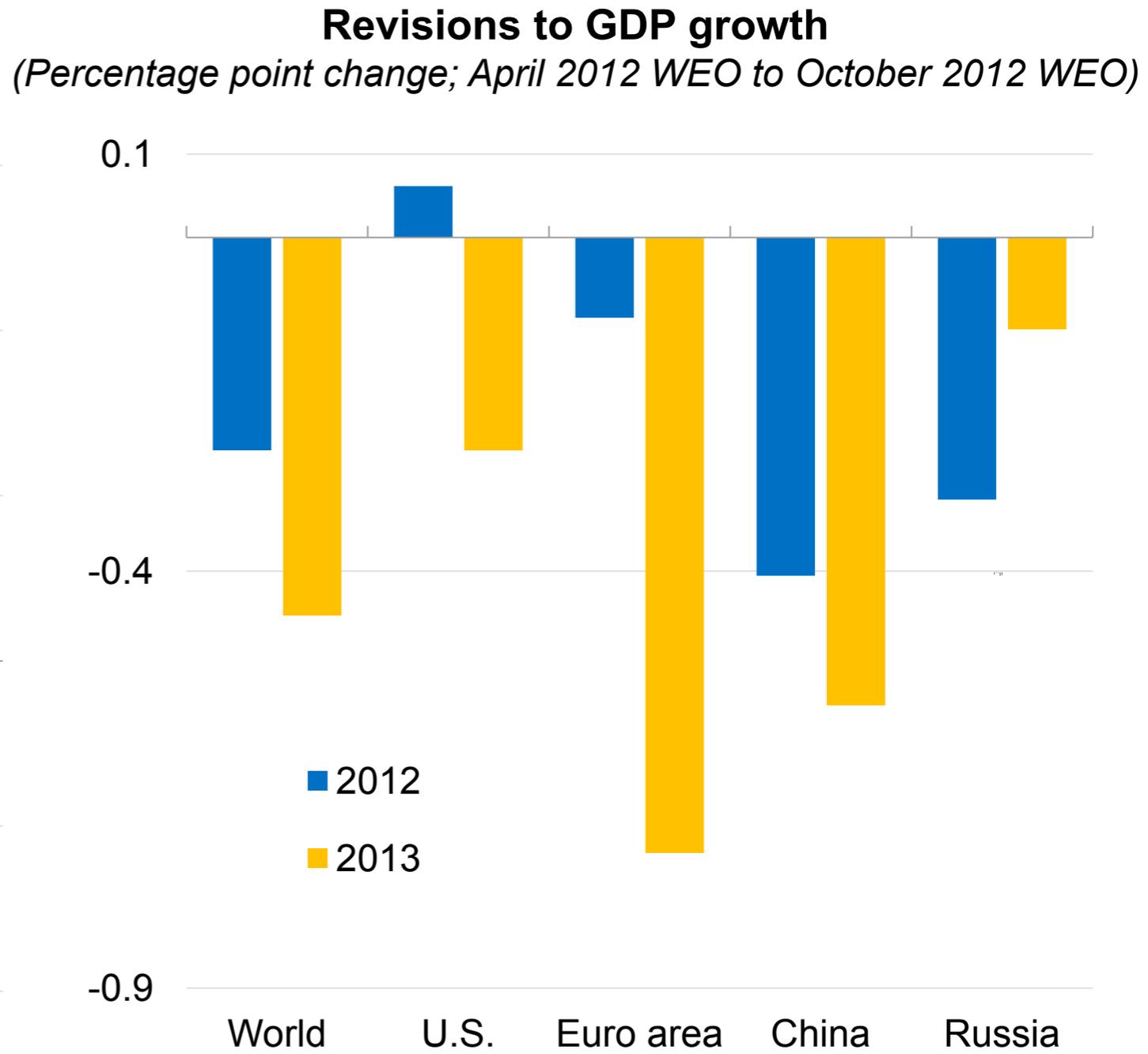
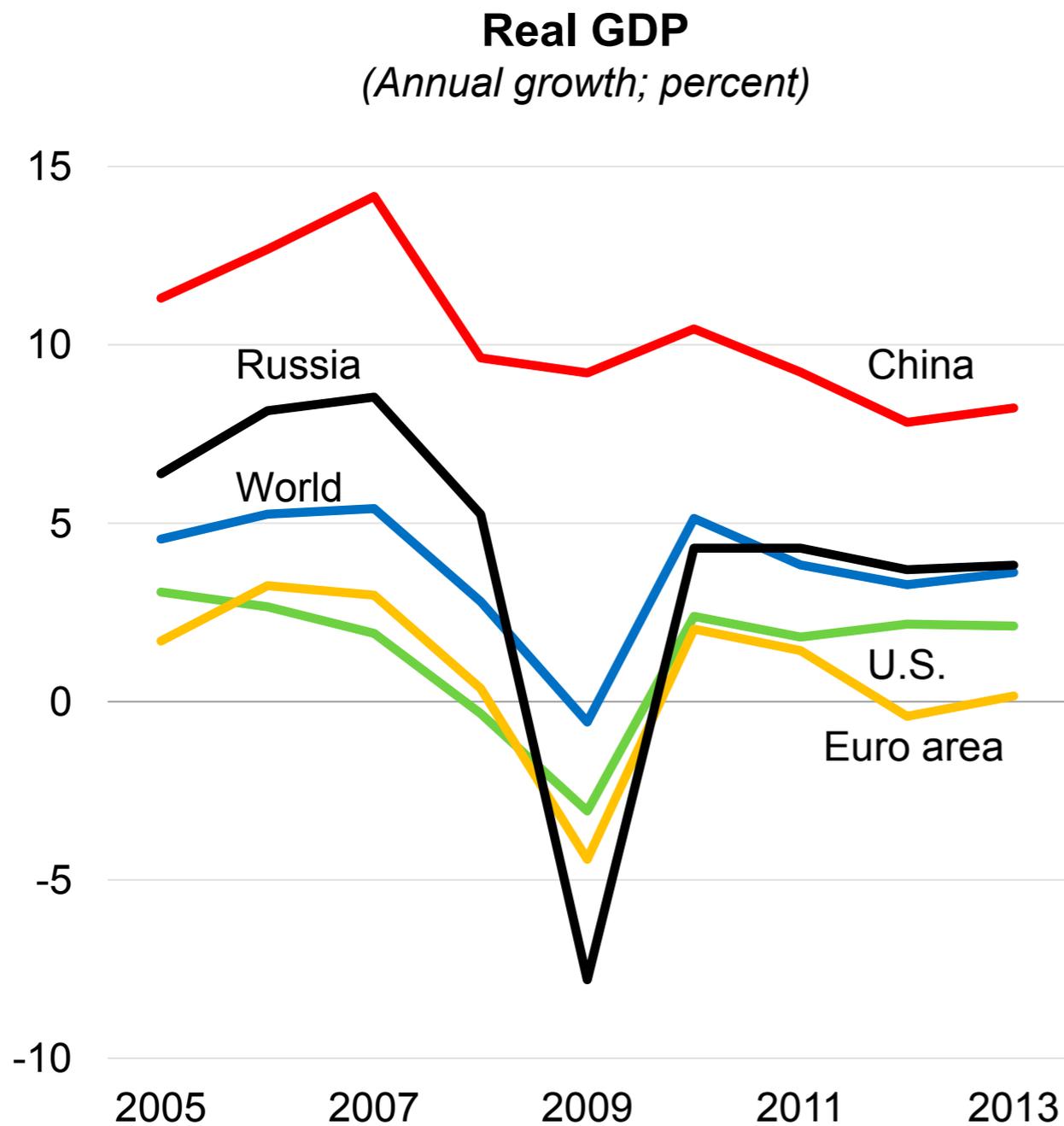
Sources: IMF, *World Economic Outlook*; and Bloomberg.

Commodity prices are still elevated



Source: IMF, Global Data Source.

Against this backdrop, the global outlook has deteriorated



Source: International Monetary Fund, *World Economic 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

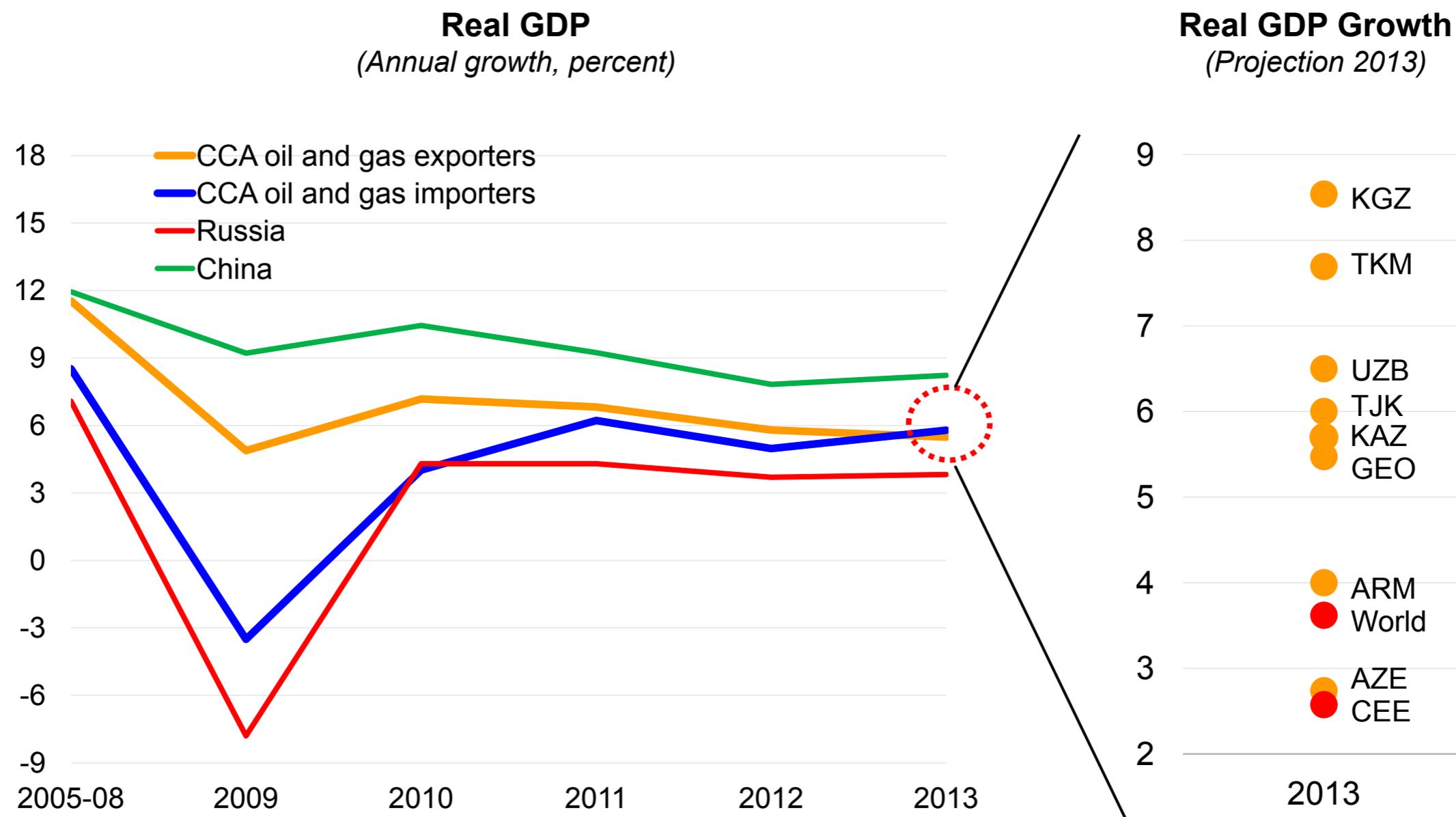
Oil and gas exporters:

- 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

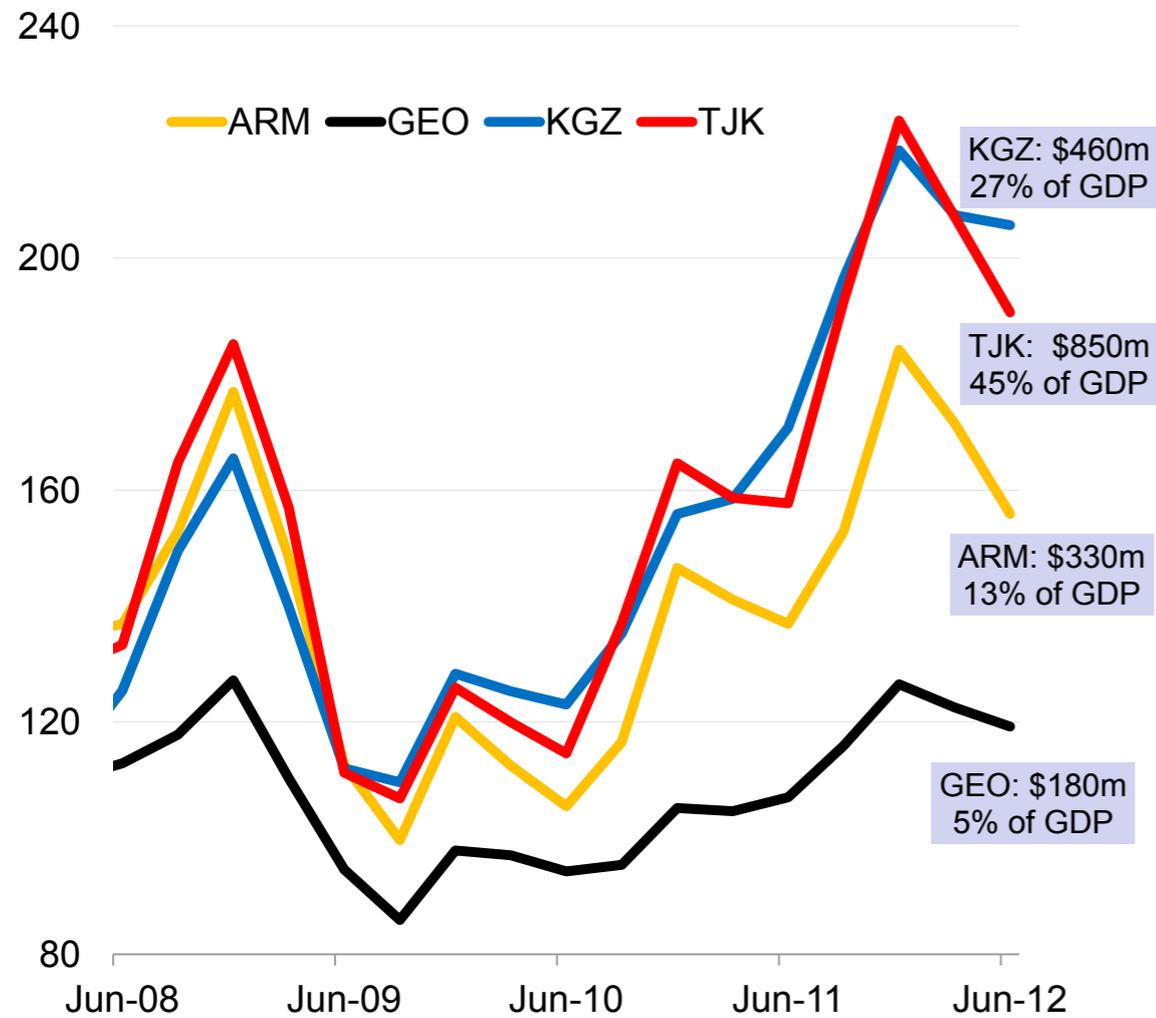
Growth outlook remains broadly positive



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

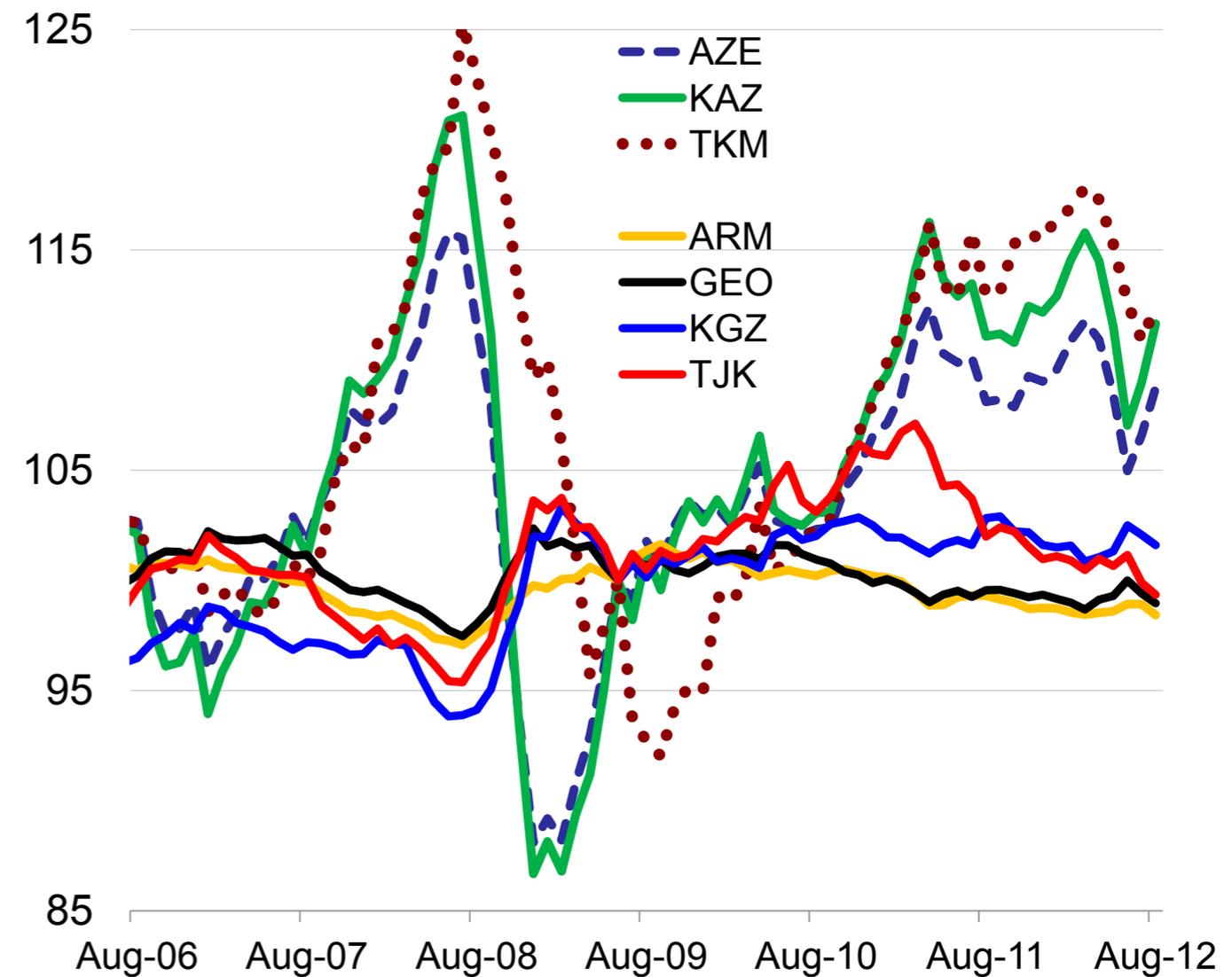
Remittances and commodity prices benefited CCA oil importers

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



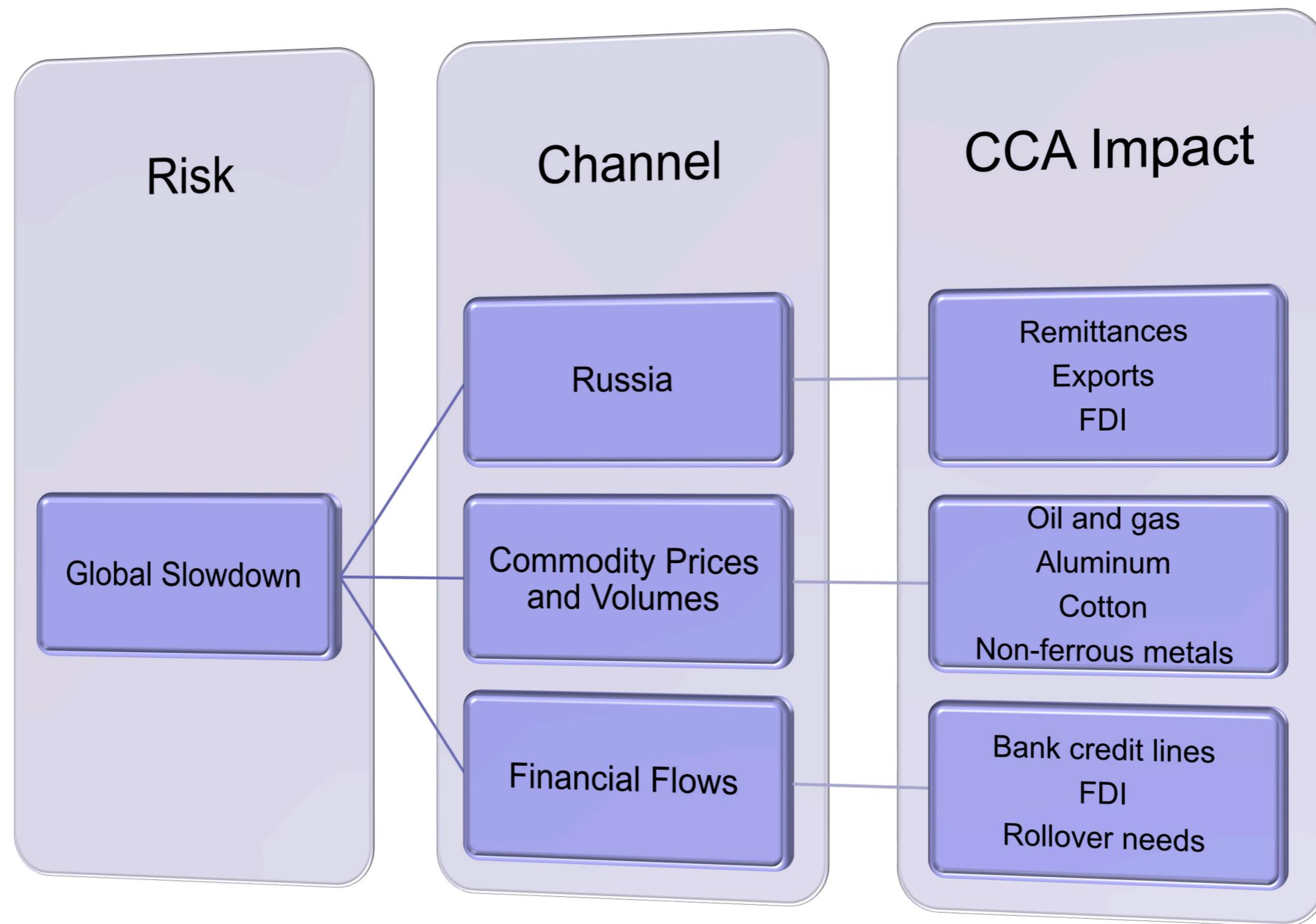
Source: Central Bank of Russia.
¹Boxes show the latest data available (2012:Q2).

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



Sources: National authorities; and IMF staff estimates.

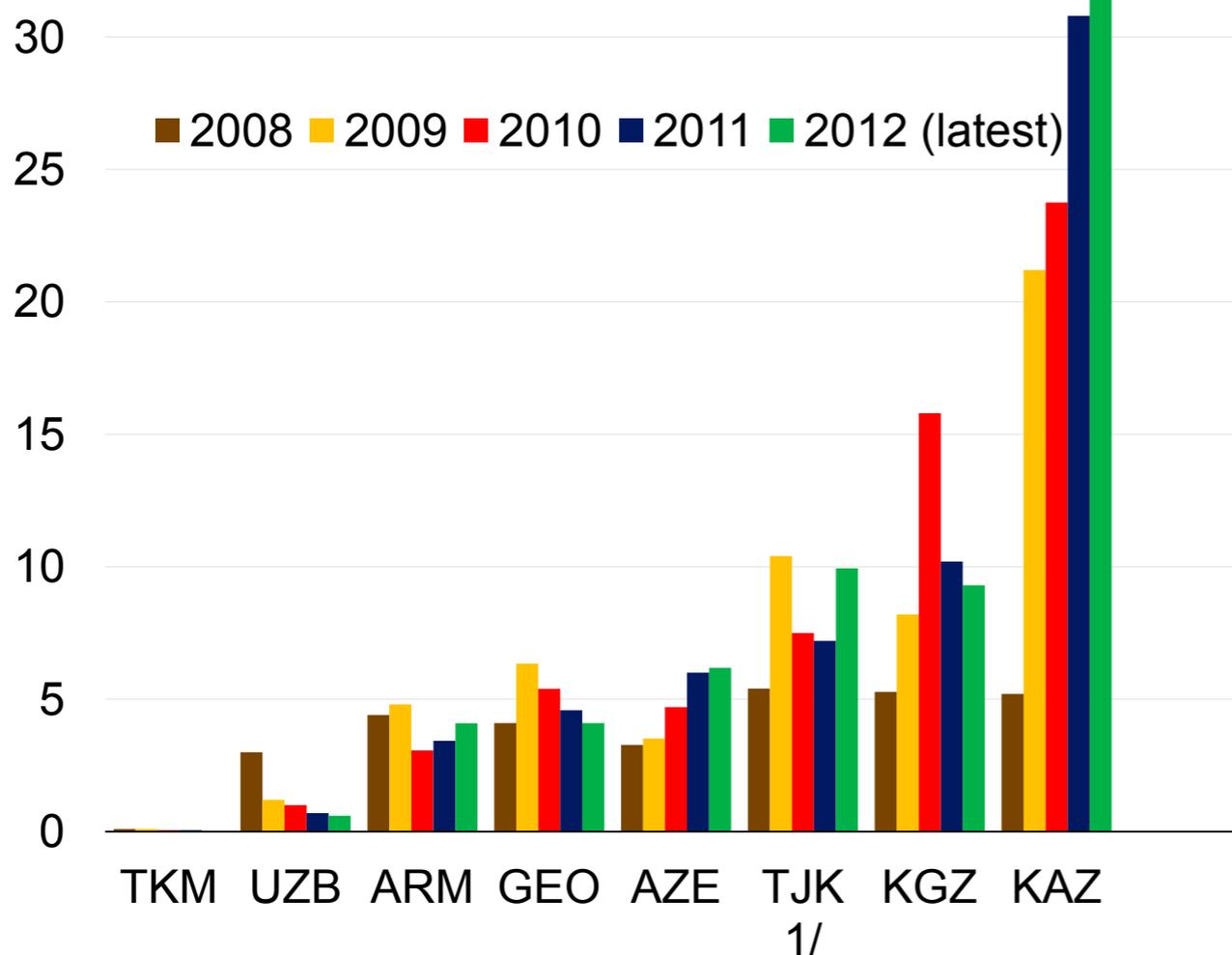
But downside risks are elevated



Financial sector: legacy NPLs but little exposure to Europe

Nonperforming Loans

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

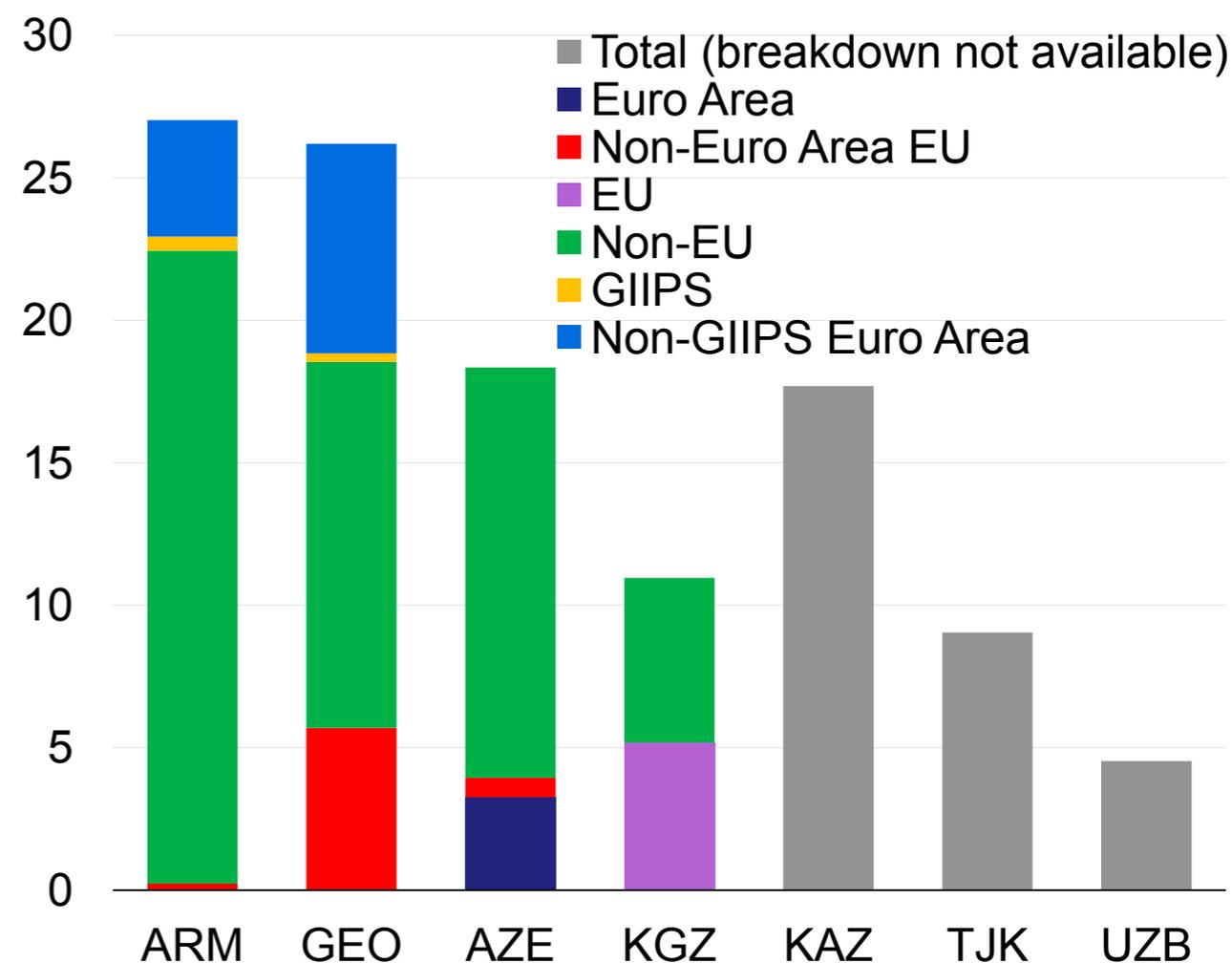


1/ on a 30-day basis

Sources: National authorities; GFSR.

Foreign Liabilities of CCA Banking Sectors

(Percent of total assets, end-2011)

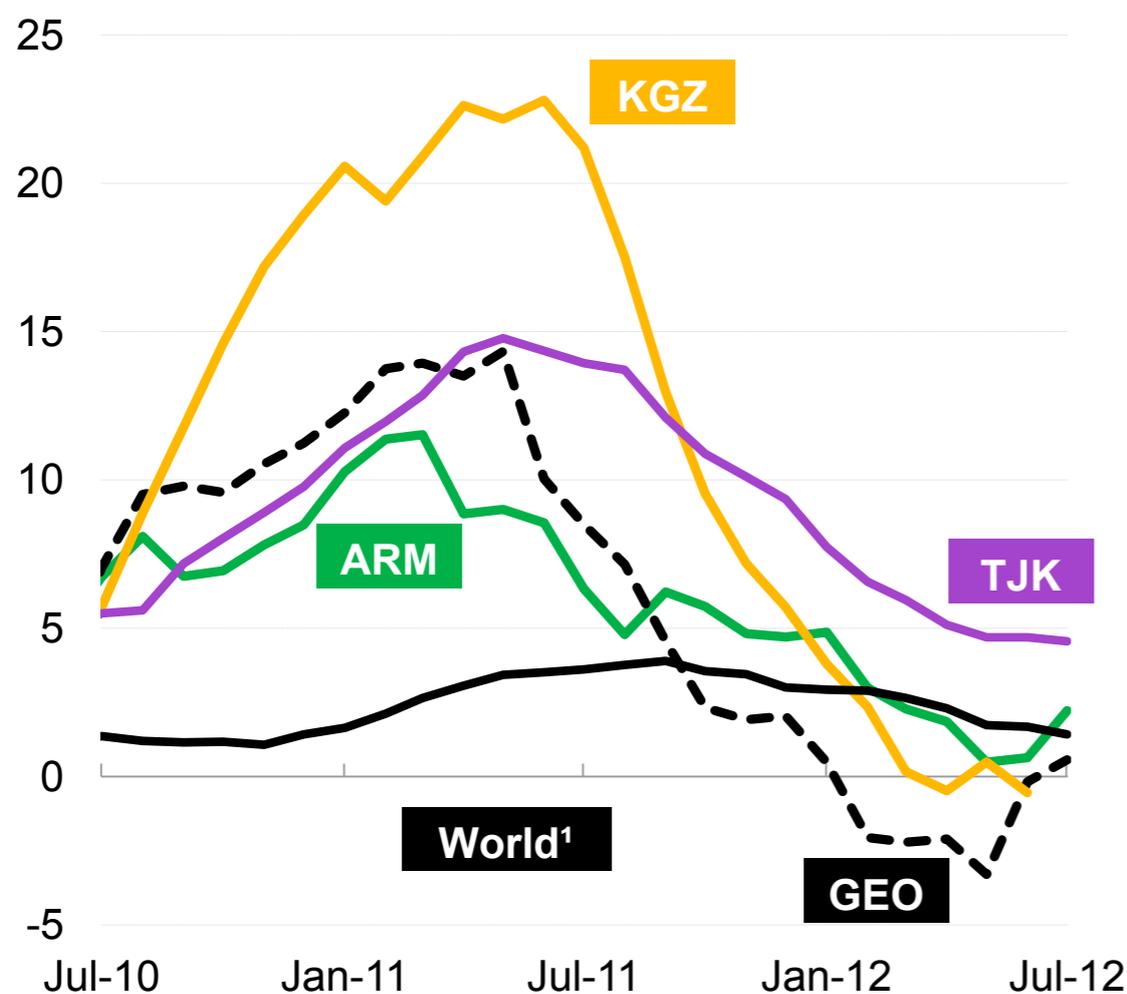


Sources: National authorities; and IMF staff estimates.

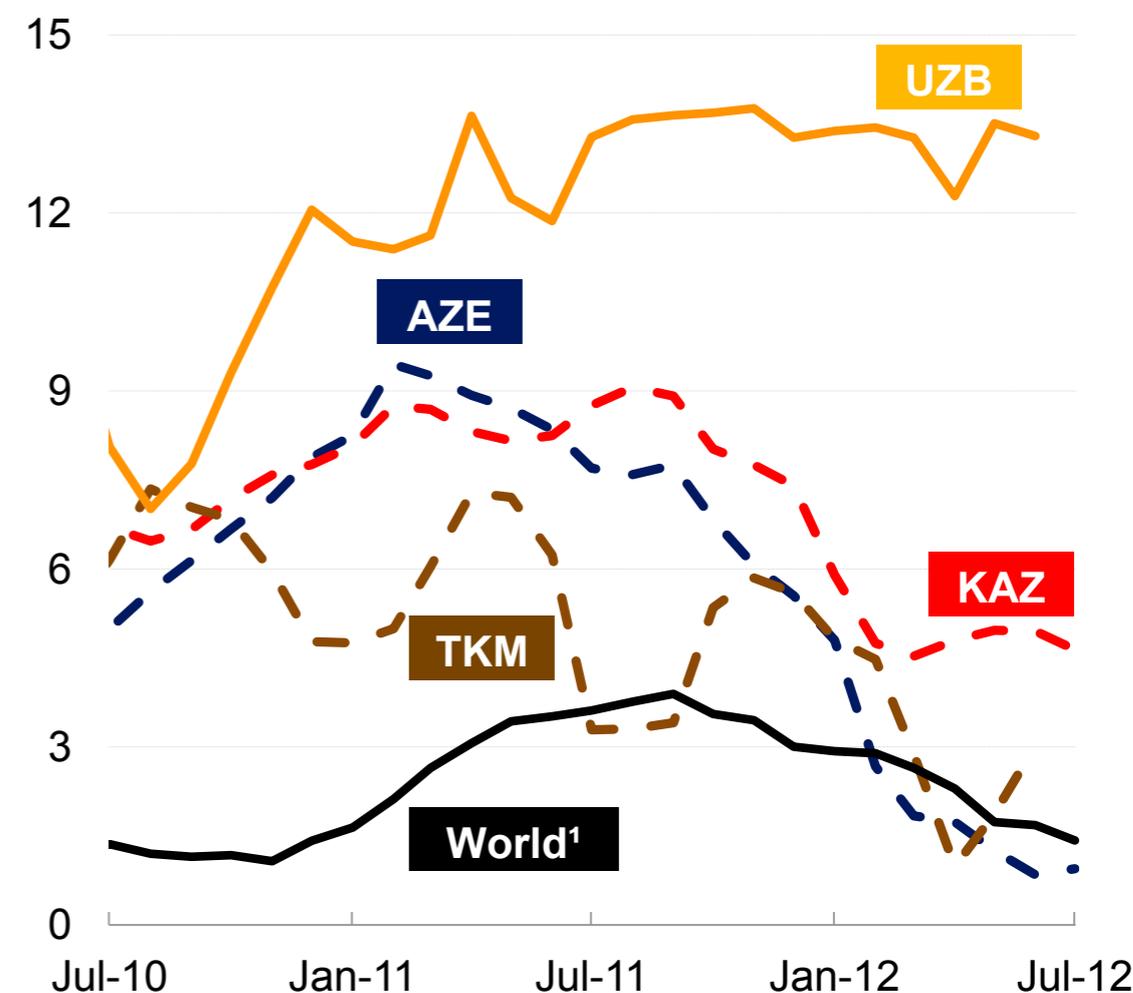
Inflation is low but sensitive to food price developments

Headline CPI Inflation
(12-month change; percent)

Oil and Gas Importers



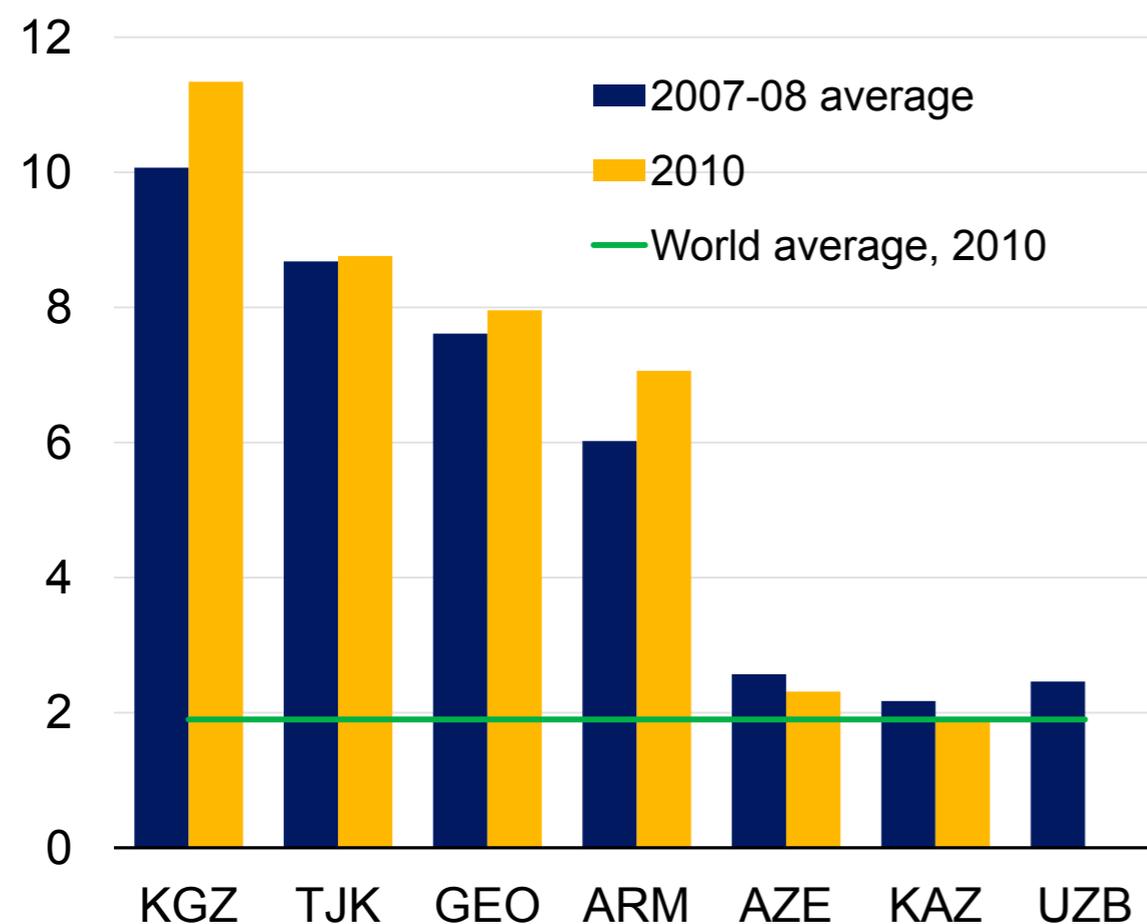
Oil and Gas Exporters



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

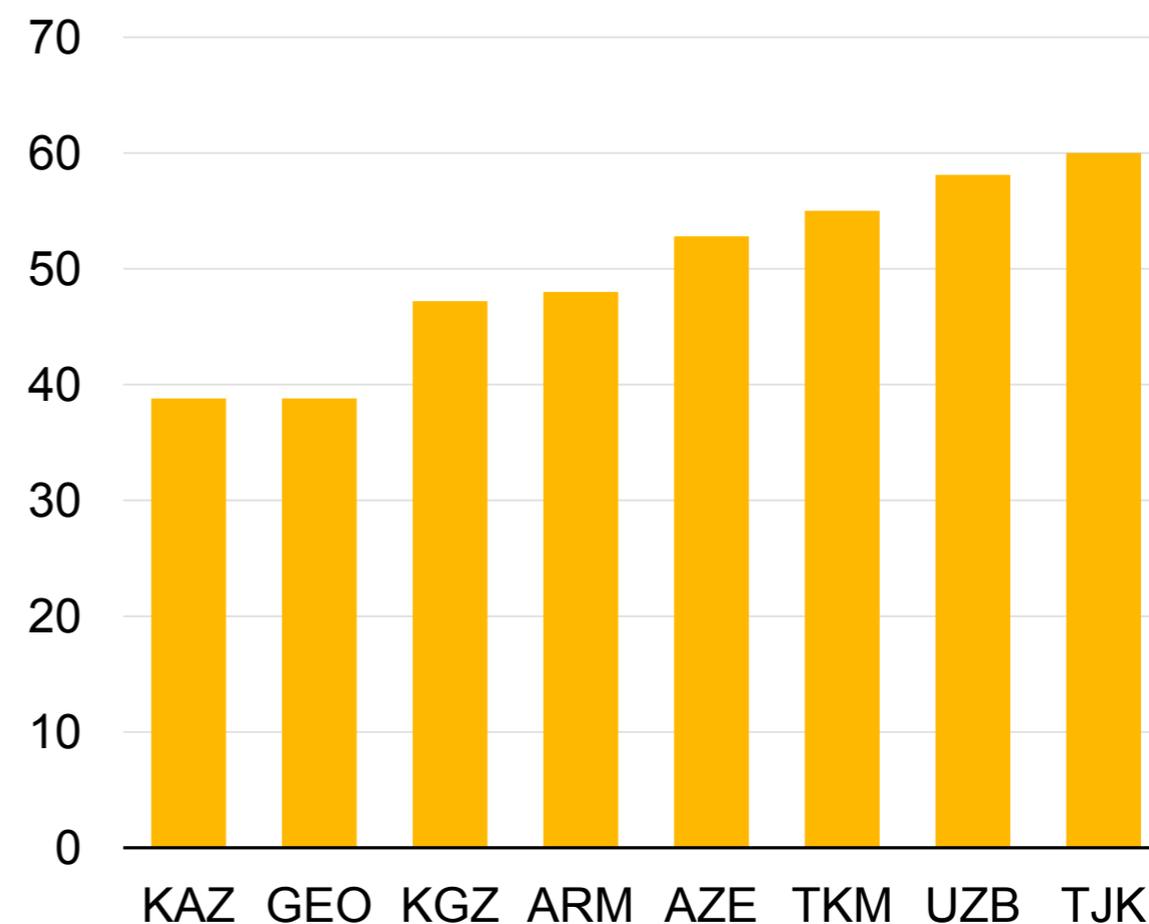
High exposure to international food prices

Food Imports as a Share of GDP
(Percent)



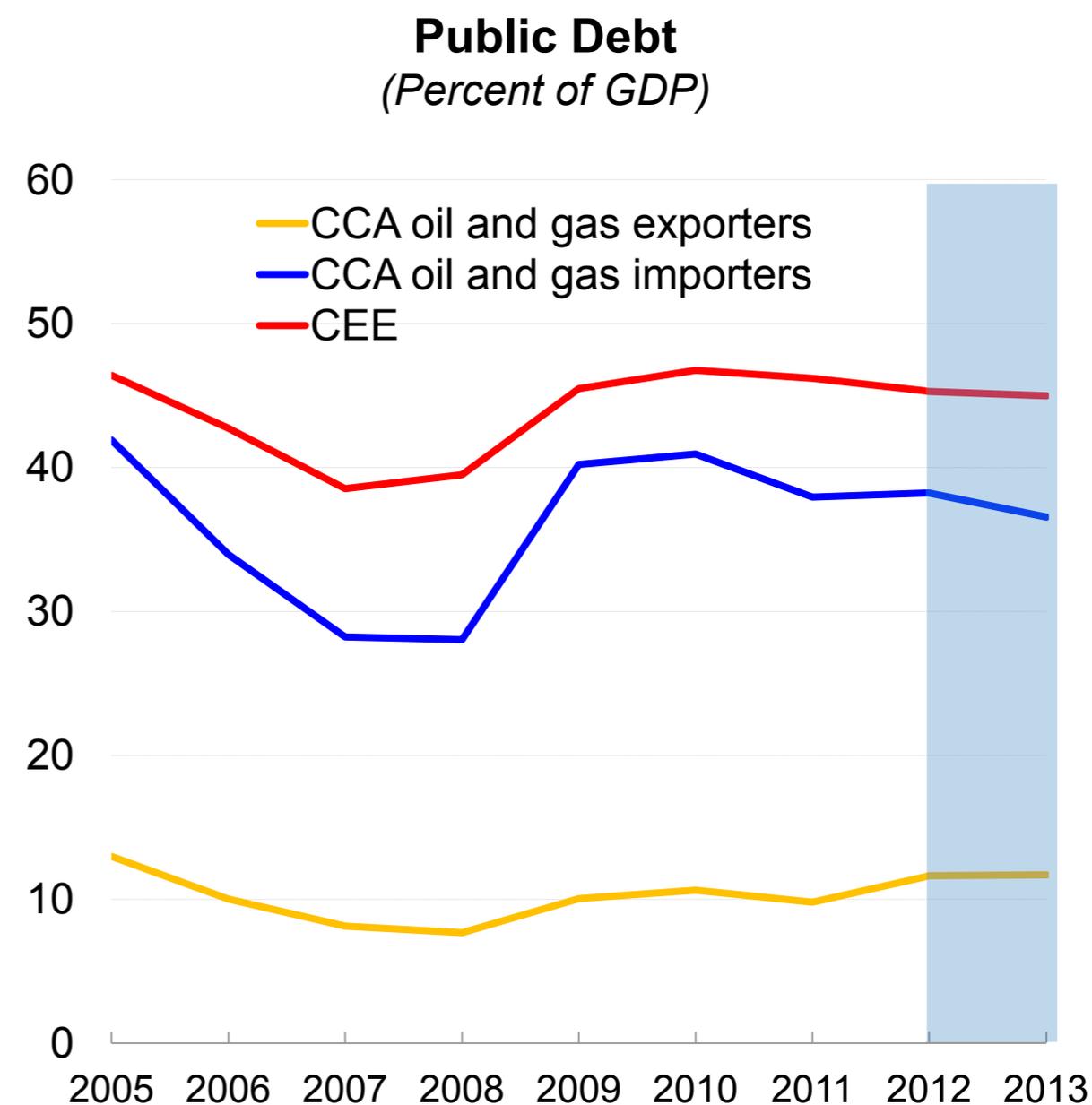
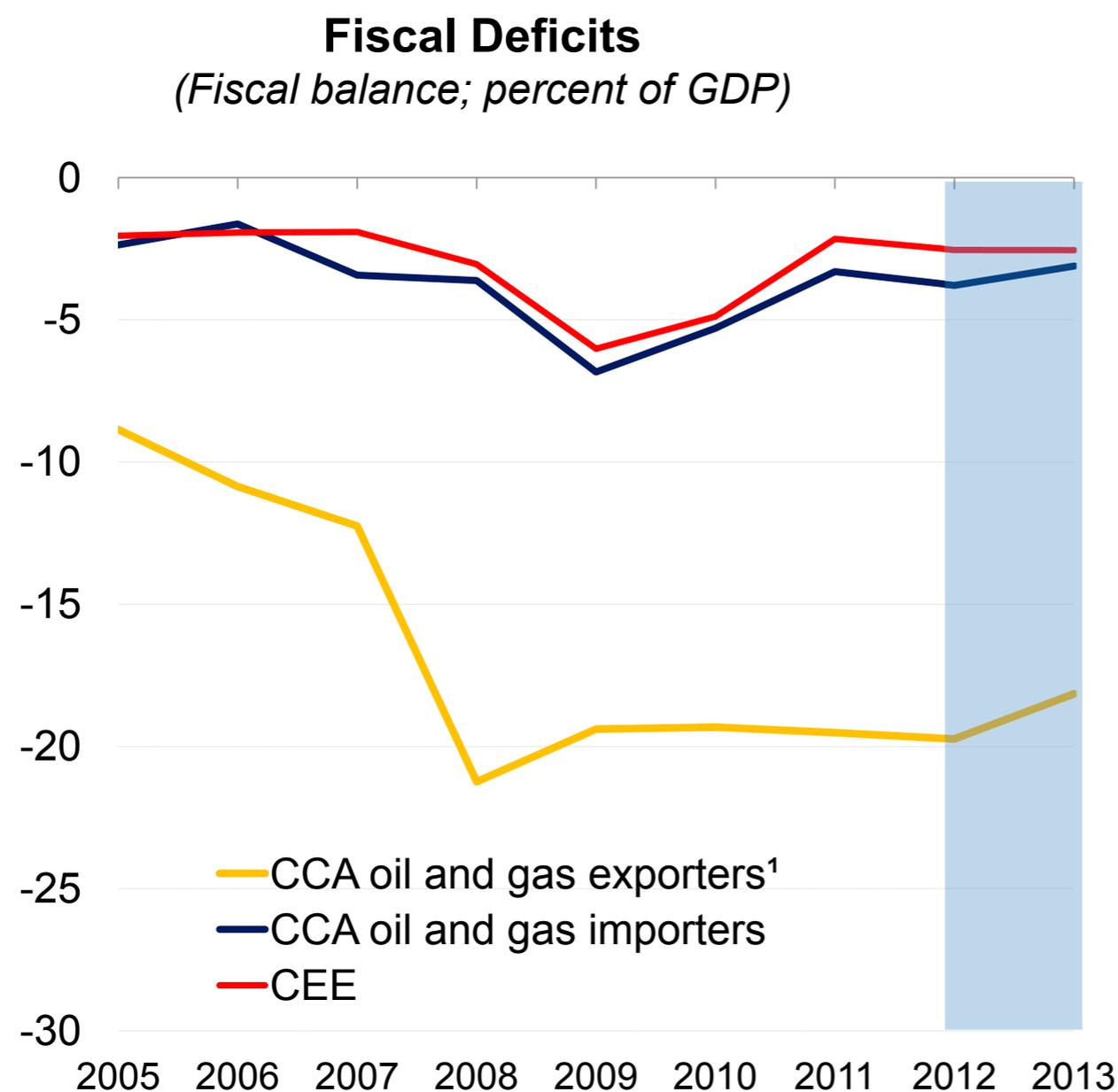
Sources: National authorities; and IMF staff calculations.

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



Sources: IMF staff; OECD StatExtracts; and Eurostat.

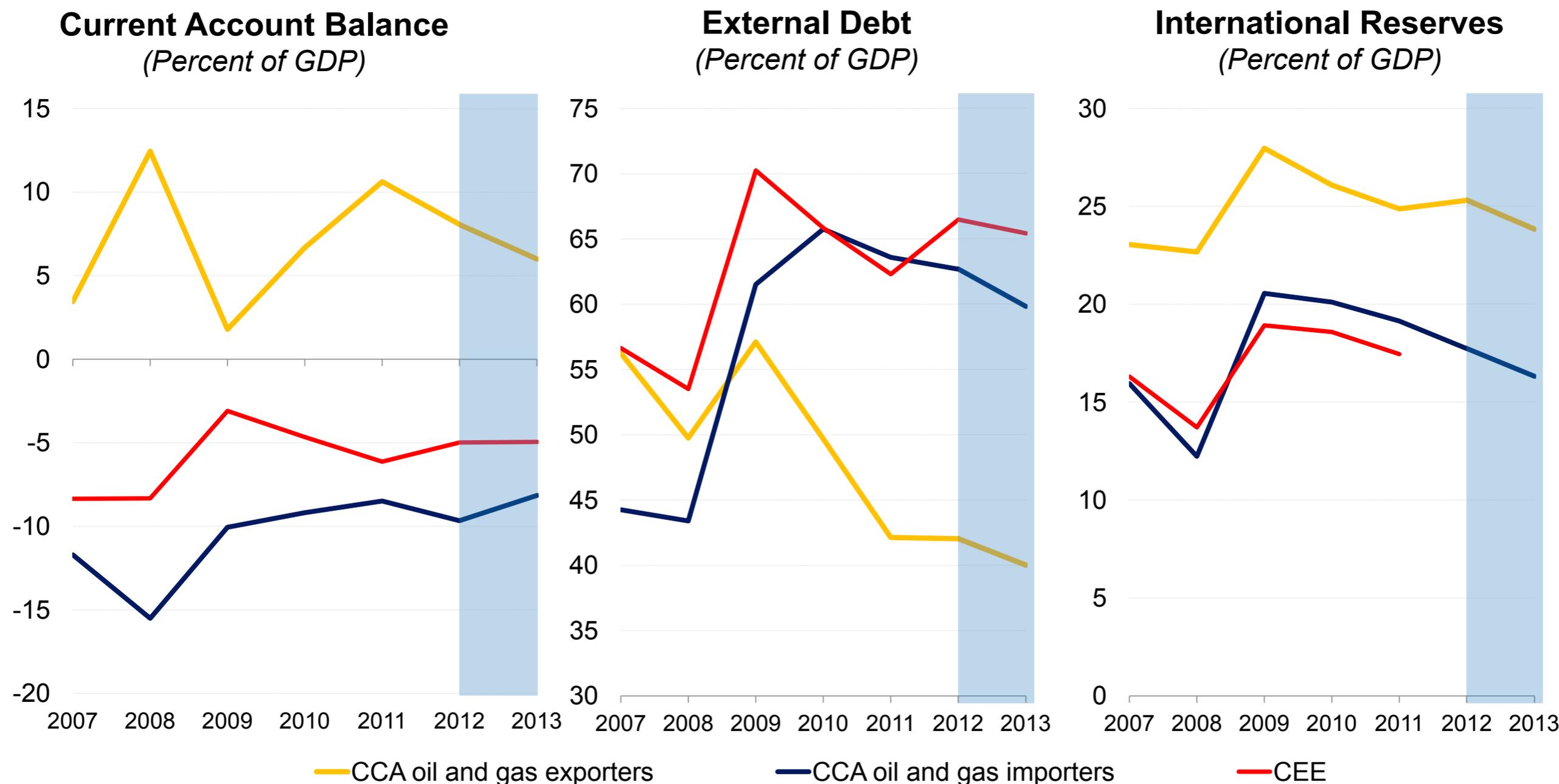
Fiscal consolidation is needed, particularly in the oil and gas importers



Sources: National authorities; and IMF staff calculations.

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

Need to address external vulnerabilities in the oil and gas importers



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

Policy advice in the event that risks materialize

Allow greater exchange rate flexibility

- Step-up communications on risks
- Avoid a “re-run” of the 2008-09 response: limit loss of reserves

Ease monetary policy, if conditions warrant

- Subdued inflation may allow for easing of monetary policy

Improve quality of fiscal spending

- Reorient and better target spending to protect the most vulnerable
- In CCA countries with fiscal space, consider counter-cyclical response

Structural challenges: need to tackle the informal sector

Large informal sectors

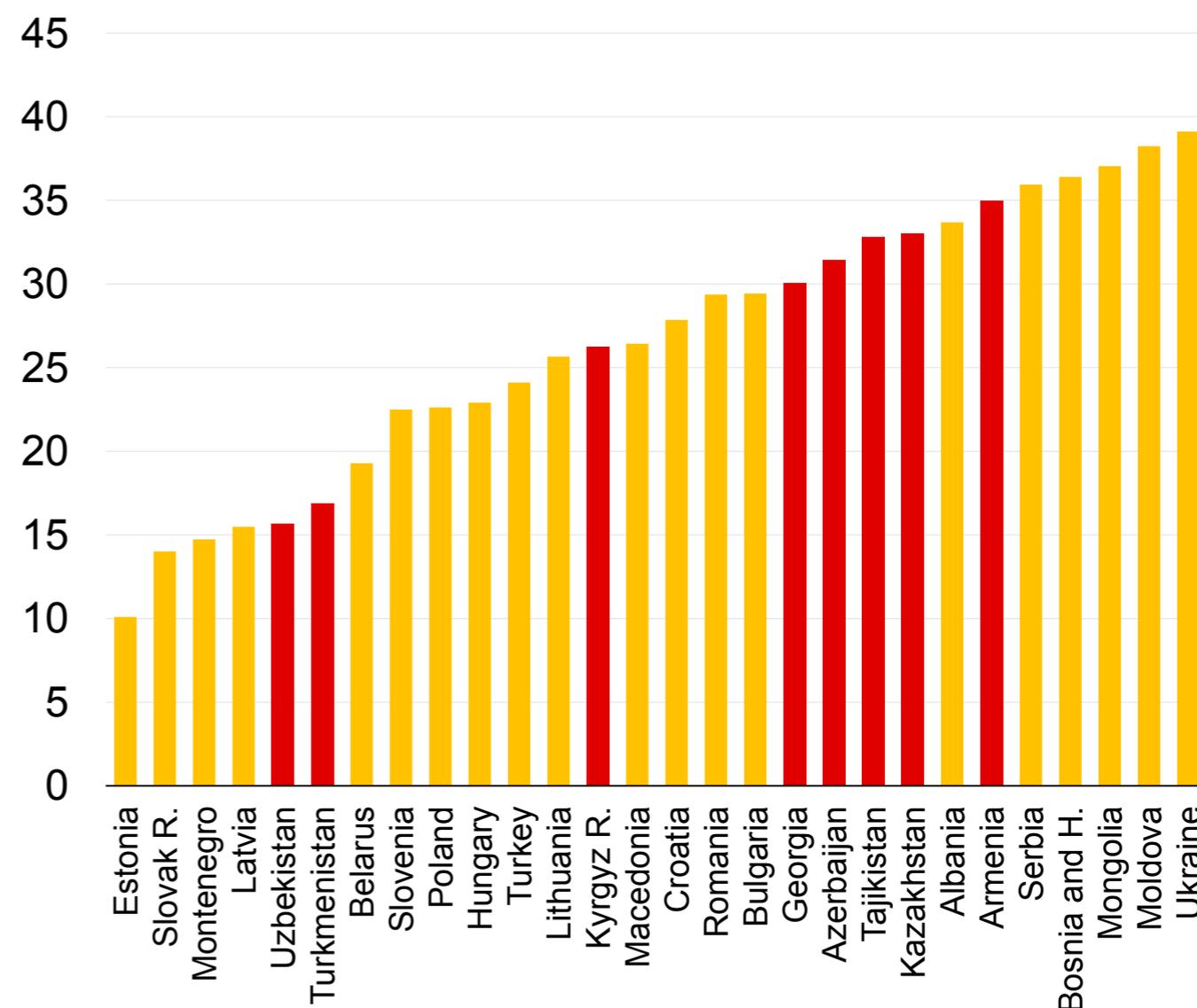
- undermine social protection and growth

Policies to tackle informal sector

- improve business environment and regulation
- improve institutional quality/governance
- relax labor market rigidities while safeguarding adequate social protection
- reduce tax burden (income and social security taxes)
- provide access to skills upgrading for informal workers.

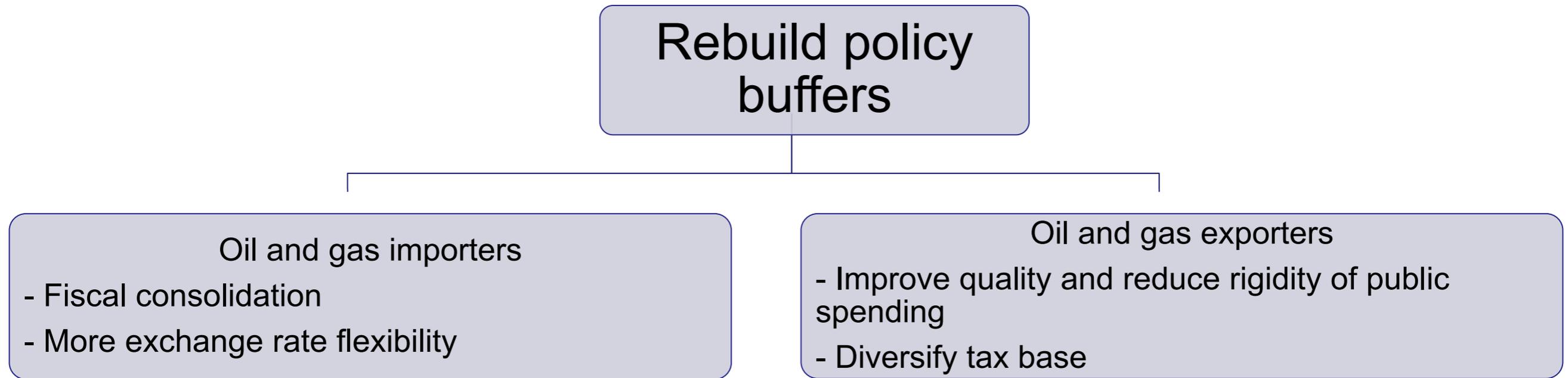
Size of the Informal Economy

(Percent of GDP, 2008)



Source: IMF staff estimates.

Key messages



If downside risks materialize:

- Limit loss of reserves → allow currency depreciation
- Where possible, ease fiscal and monetary policies
- Reorient spending to protect the most vulnerable

Revitalize economy for inclusive growth and job creation

- Improve business environment/institutional quality
- Address excess labor market rigidities and tax wedge on labor
- Provide access to training

The screenshot shows a web browser window displaying the International Monetary Fund (IMF) website. The address bar shows the URL: <http://www.imf.org/external/pubs/ft/reo/2012/mcd/eng/mreo0412.htm>. The browser's menu bar includes 'Edit', 'View', 'Favorites', 'Tools', and 'Help'. Below the menu bar, there are 'Suggested Sites' for 'Free Hotmail' and 'RealPlayer Enterprise'. The IMF website header features the IMF logo and the text 'International Monetary Fund'. Navigation links include 'What's New', 'Site Map', 'Site Index', 'Contact Us', and 'Glossary'. A search bar is present with a 'Search' button. The main navigation menu includes 'Home', 'About the IMF', 'Research', 'Country Info', 'News', 'Videos', 'Data and Statistics', and 'Publications'. The main content area displays the title 'Caucasus and Central Asia Set for Solid Growth, But Global Risks Loom Large' in blue text. Below the title, there is a language selection option: 'Read report in English | Русский | 中文'. A PDF icon is visible to the right of the text. The main text of the report begins with: '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.' On the left side of the page, there is a sidebar with a 'Regional Economic Outlook' section for 'Middle East and Central Asia' featuring a 'UPDATE' banner and a world map. Below this is a 'REO Statistical Appendix' section with a bar chart showing three bars of increasing height (blue, orange, green) and the IMF logo.

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

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

and click the link for Regional Economic Outlook