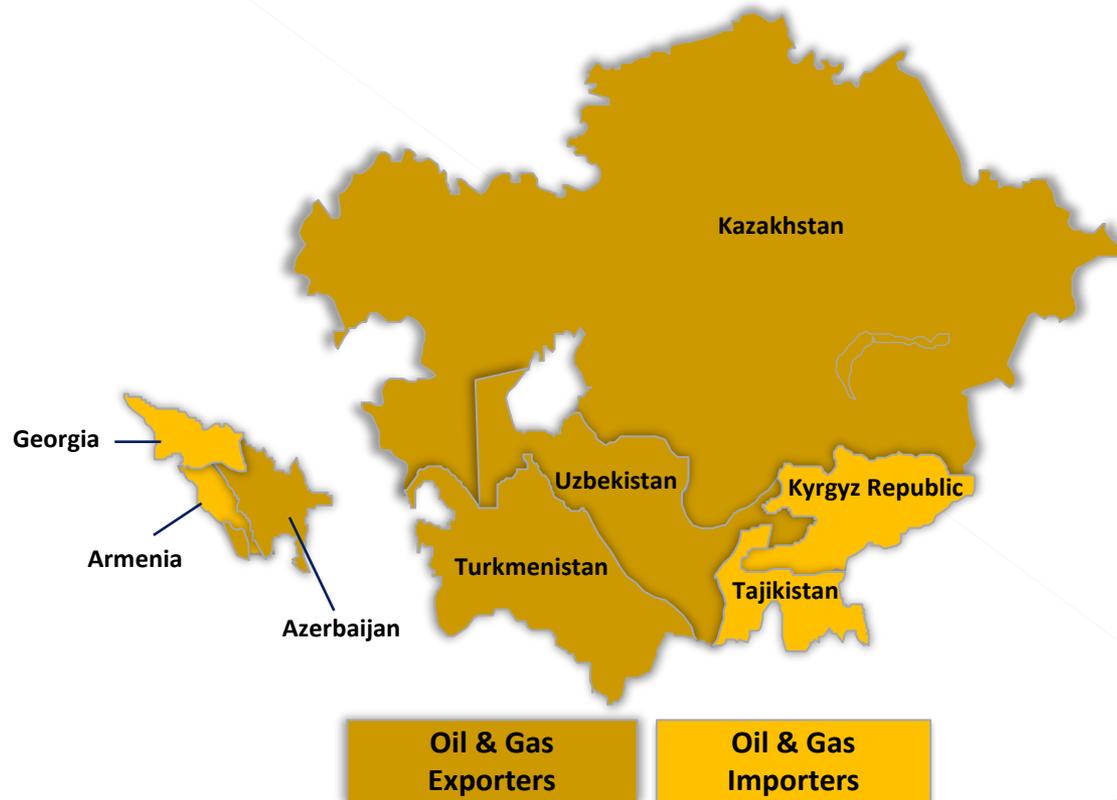


# Regional Economic Outlook: Caucasus and Central Asia Fall 2010



# Overview

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## 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

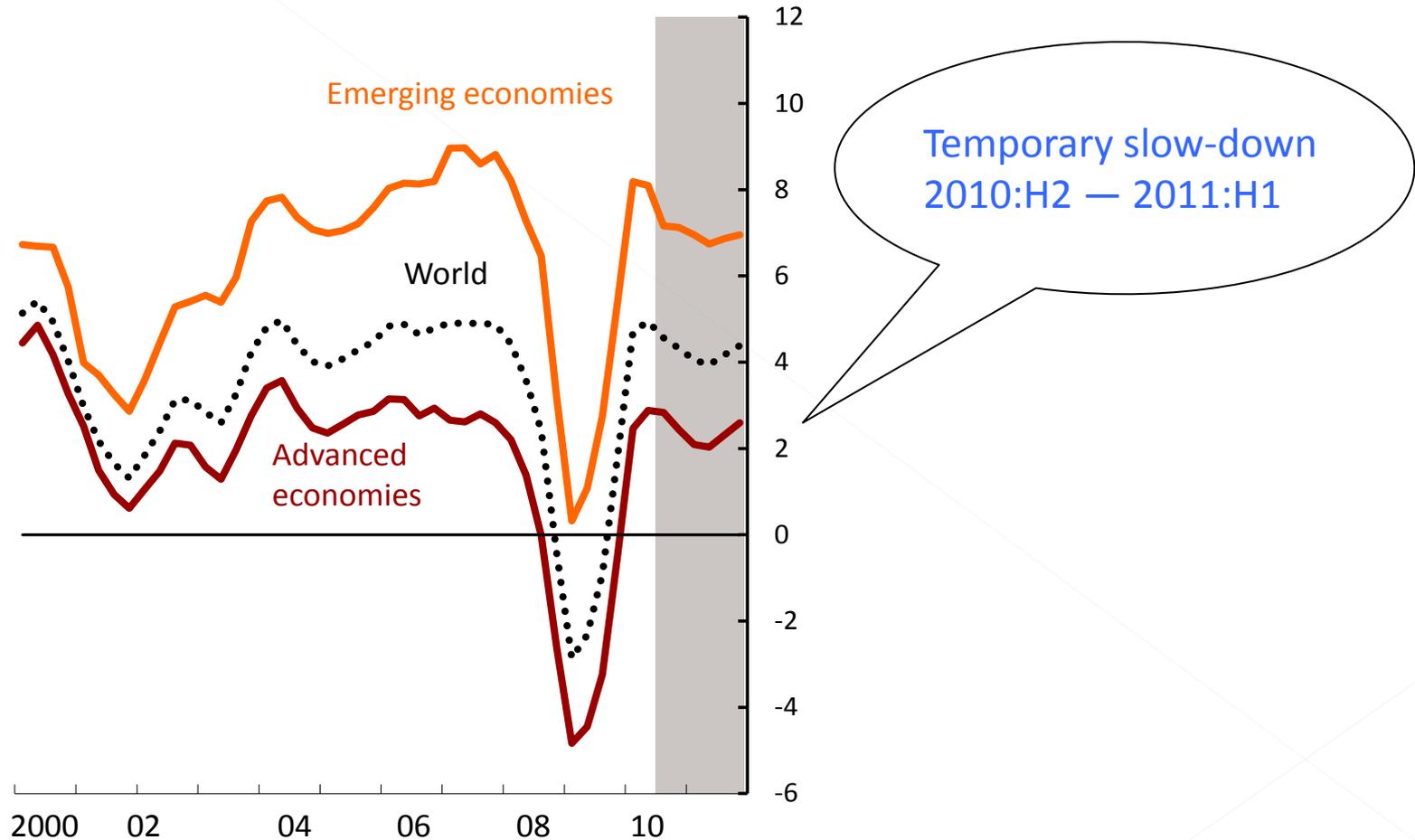
- Recovery has gained traction
- Fiscal consolidation needed by 2011
- Reduce external vulnerabilities in some countries

## CCA financial sector

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

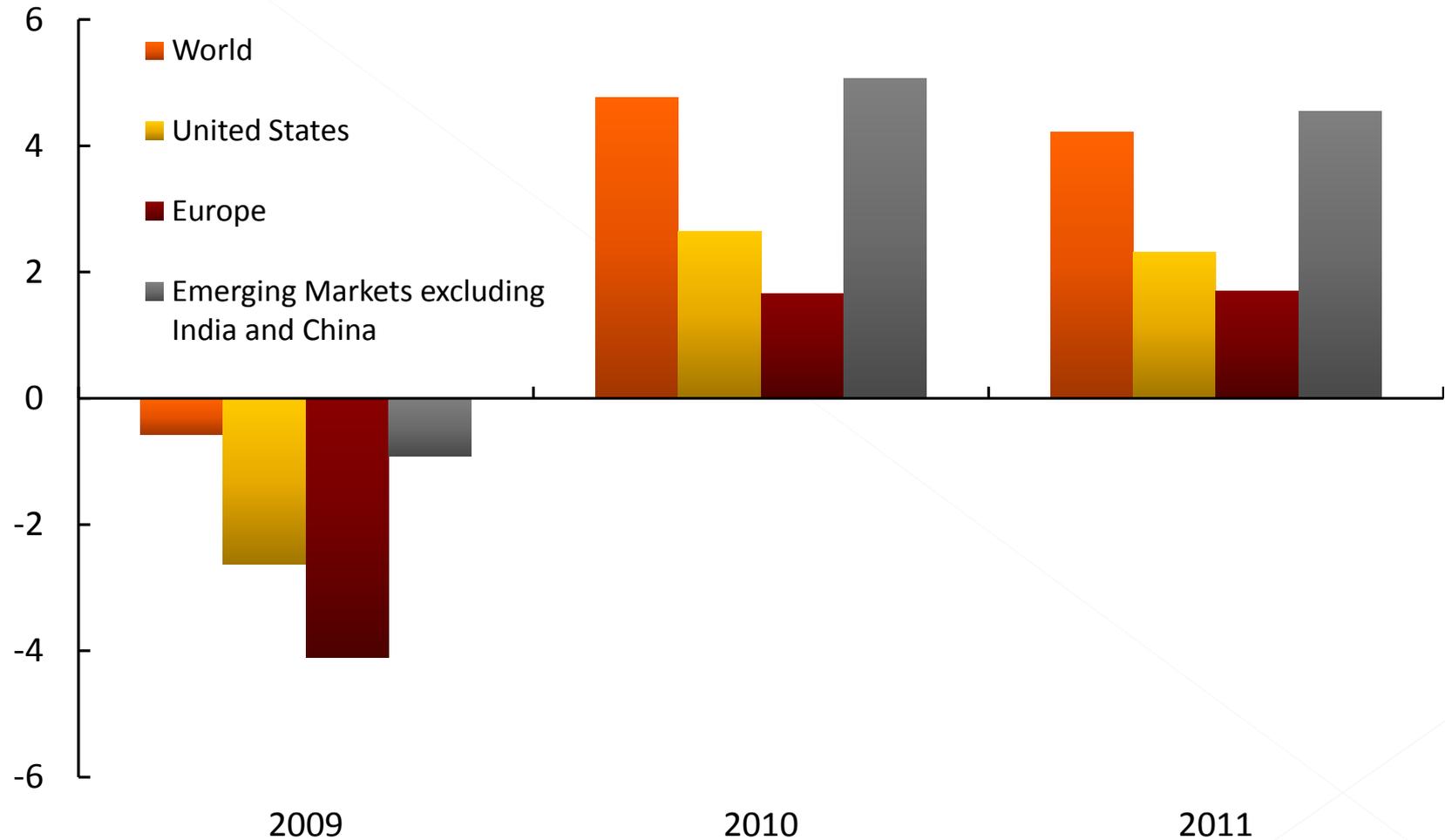
# Global outlook: Two-speed recovery in motion

Real GDP Growth  
(percent change from a year earlier)

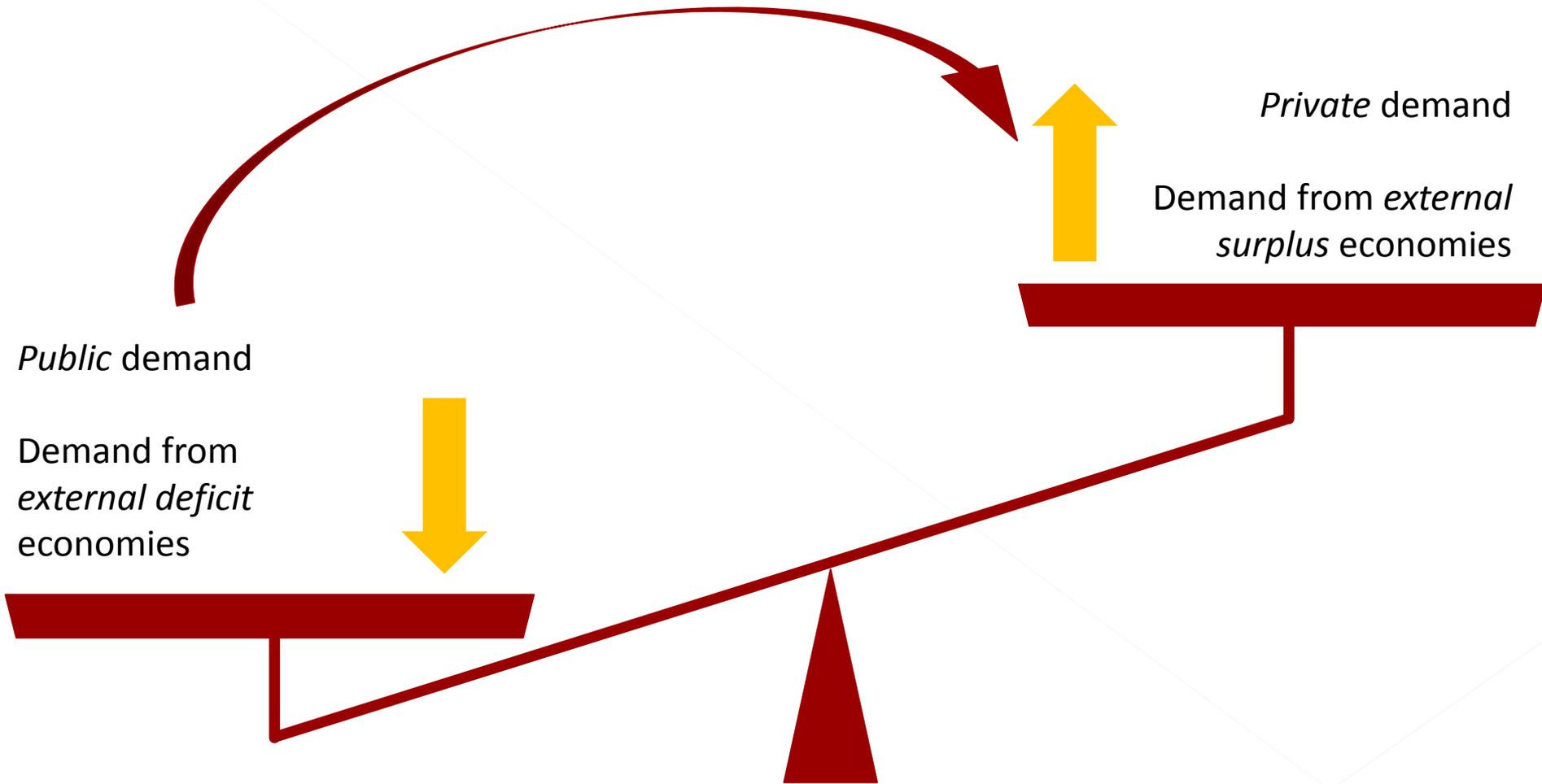


# A closer look at the two-speed recovery

Real GDP Growth  
(percent change from a year earlier)

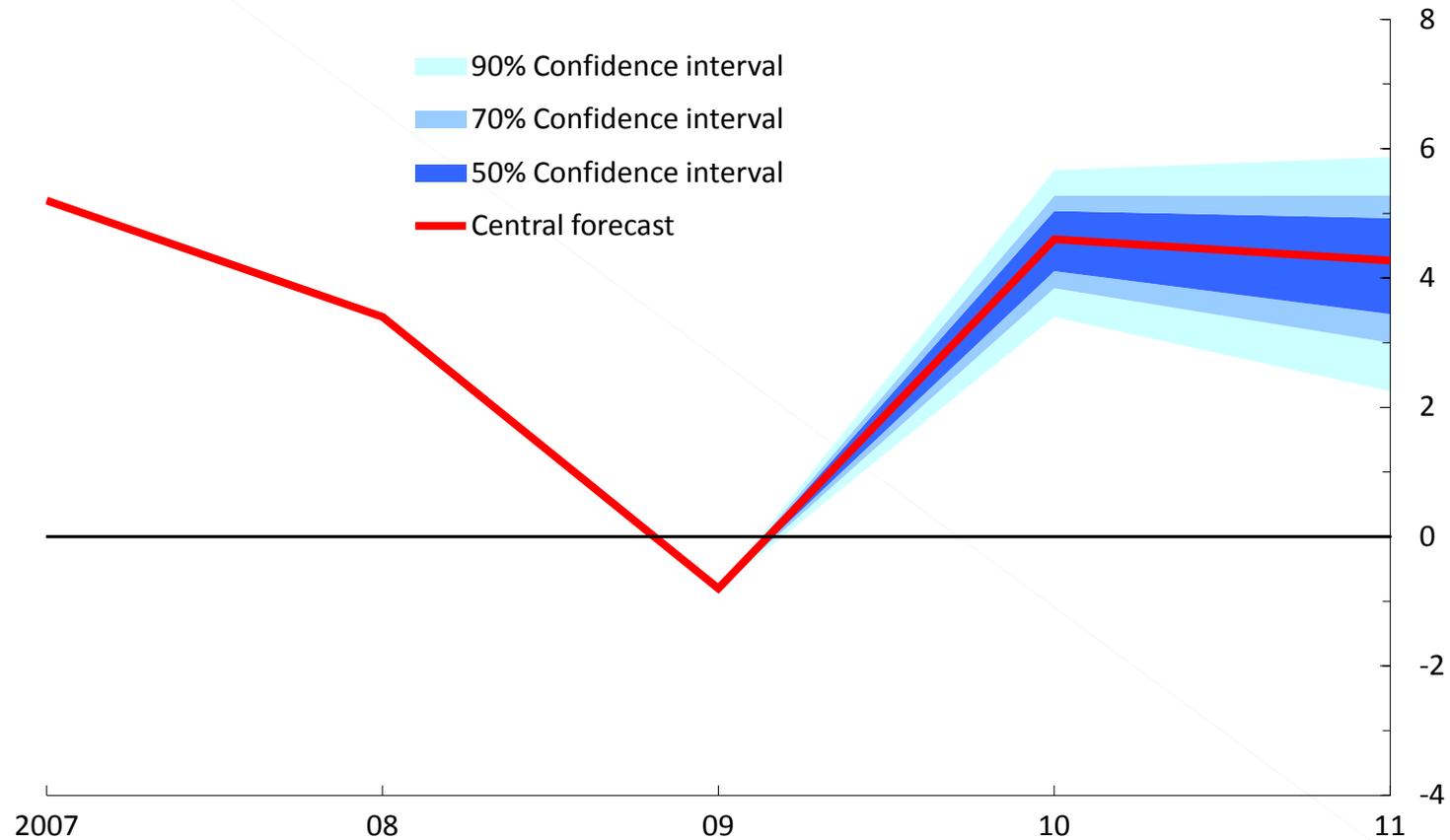


# Rebalancing is needed along two dimensions



# Downside risks remain, but global double-dip unlikely

Prospects for World GDP Growth  
(percent change)

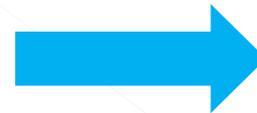
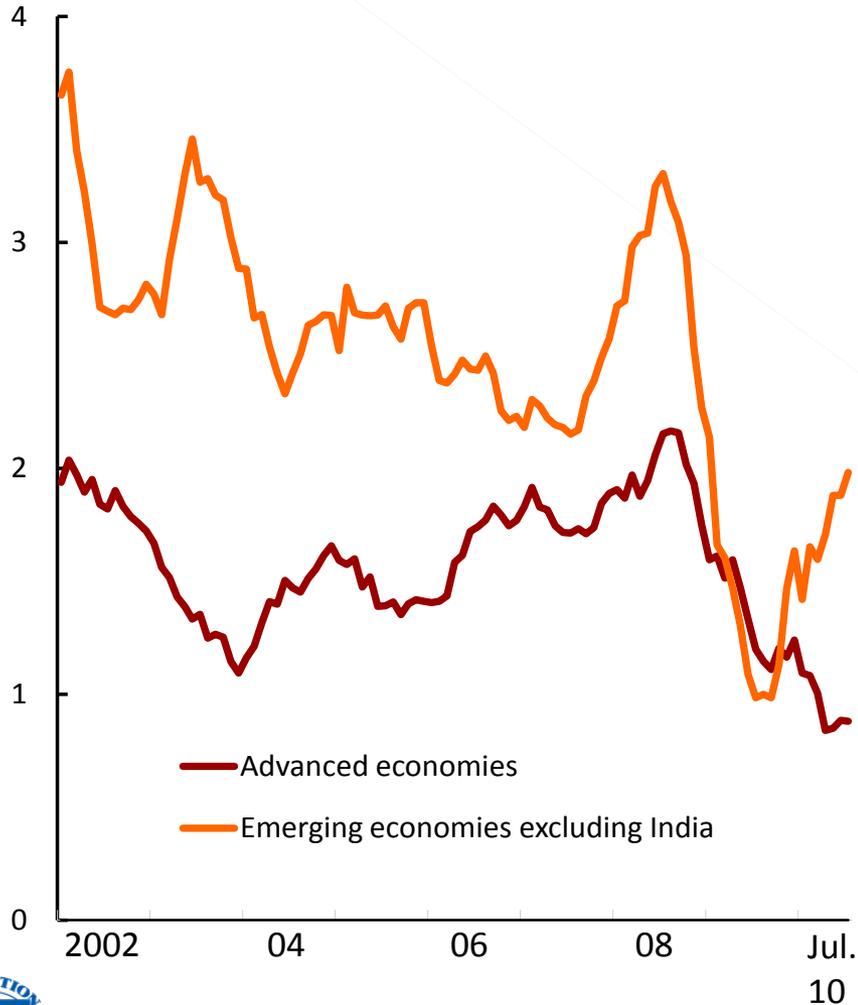




# Inflationary pressures are forecast to remain subdued

## Core Inflation

(Twelve-month change in the core CPI)

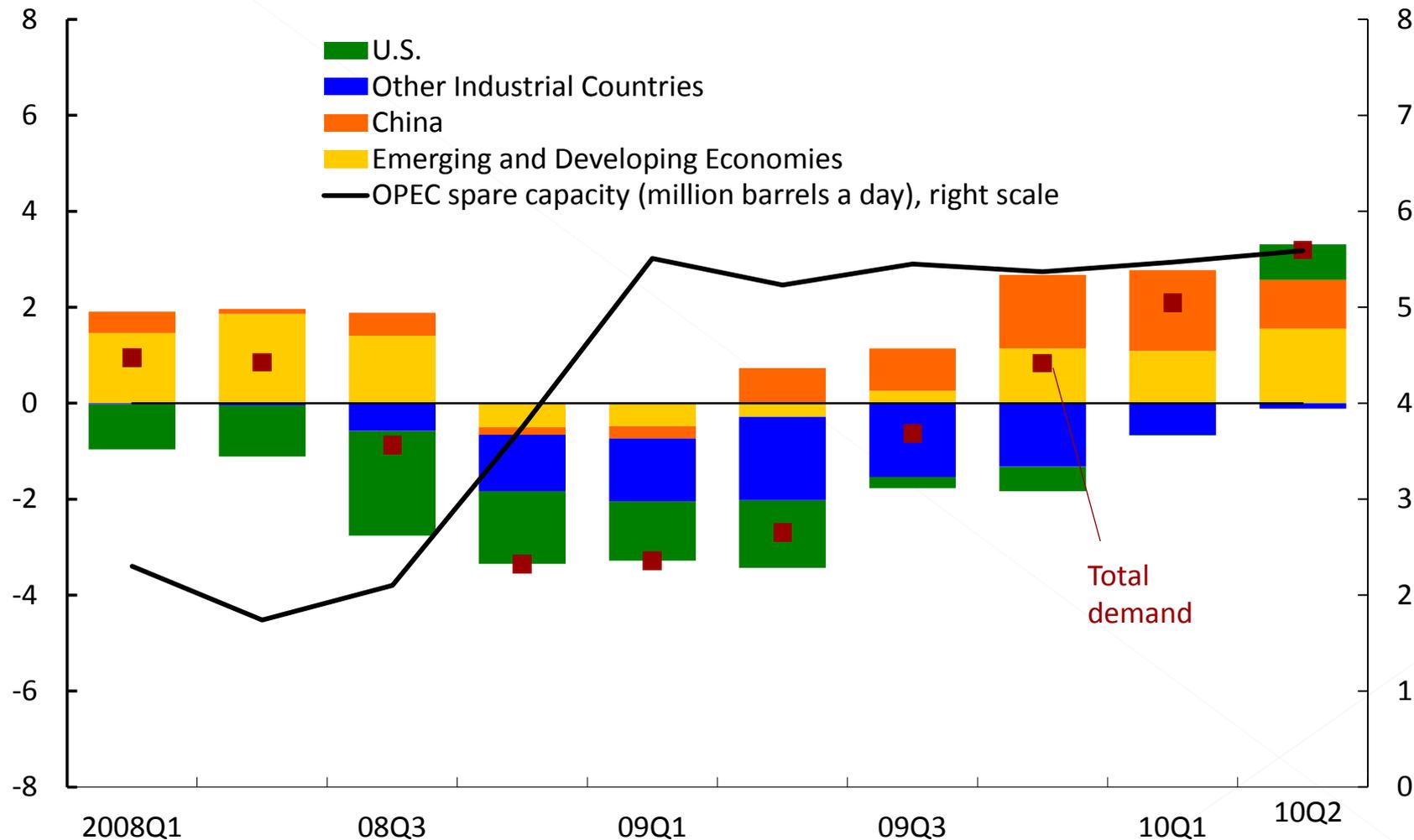


For countries with a peg to the USD or euro, this means that higher inflation rates may lead to real appreciation.

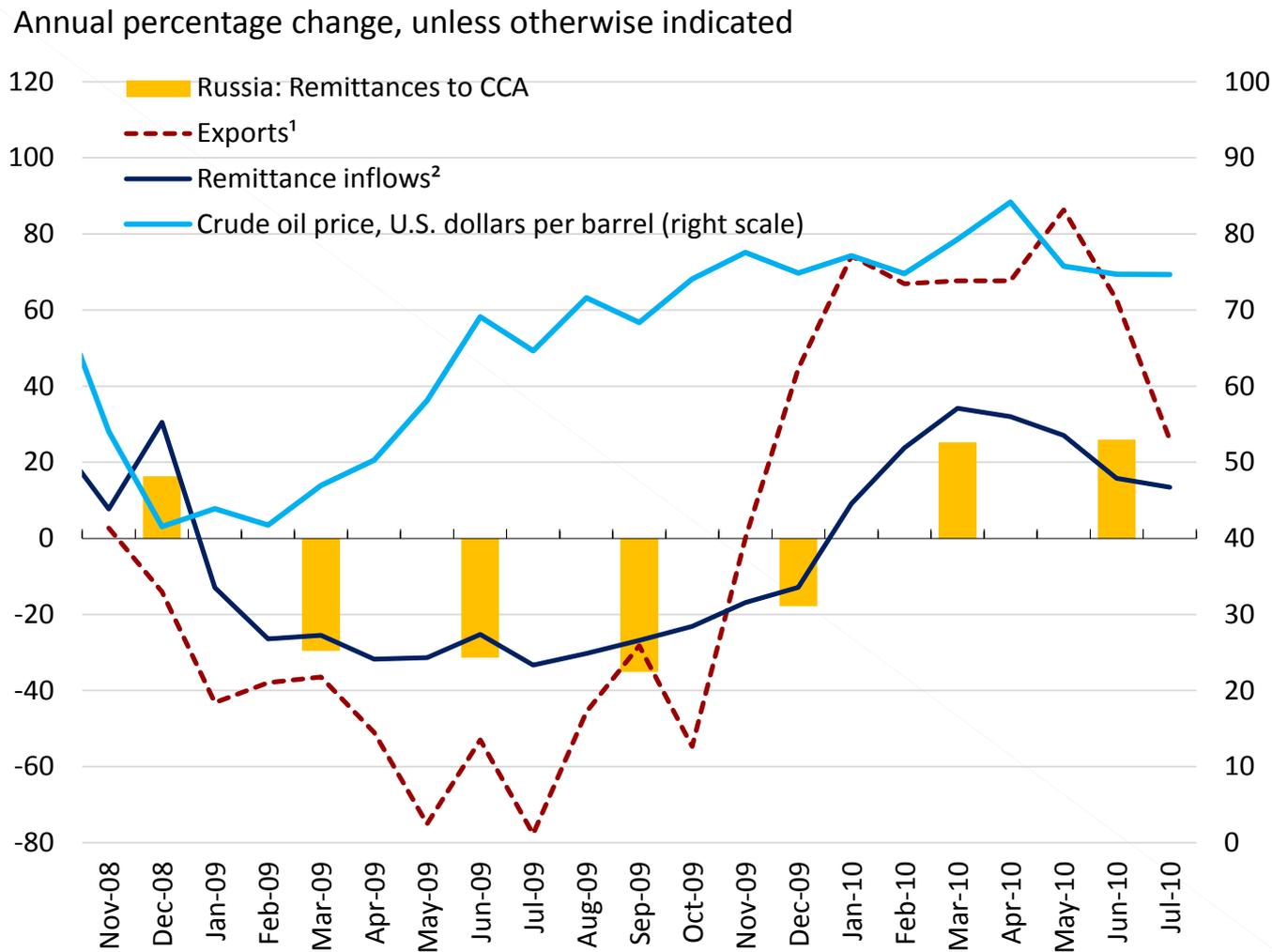
# Oil demand is accelerating with the broadening of the global recovery but supply buffers are still substantial

## Oil Demand Growth

(contributions to y-o-y growth in percent)



# CCA: Exports and remittance inflows have recovered



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

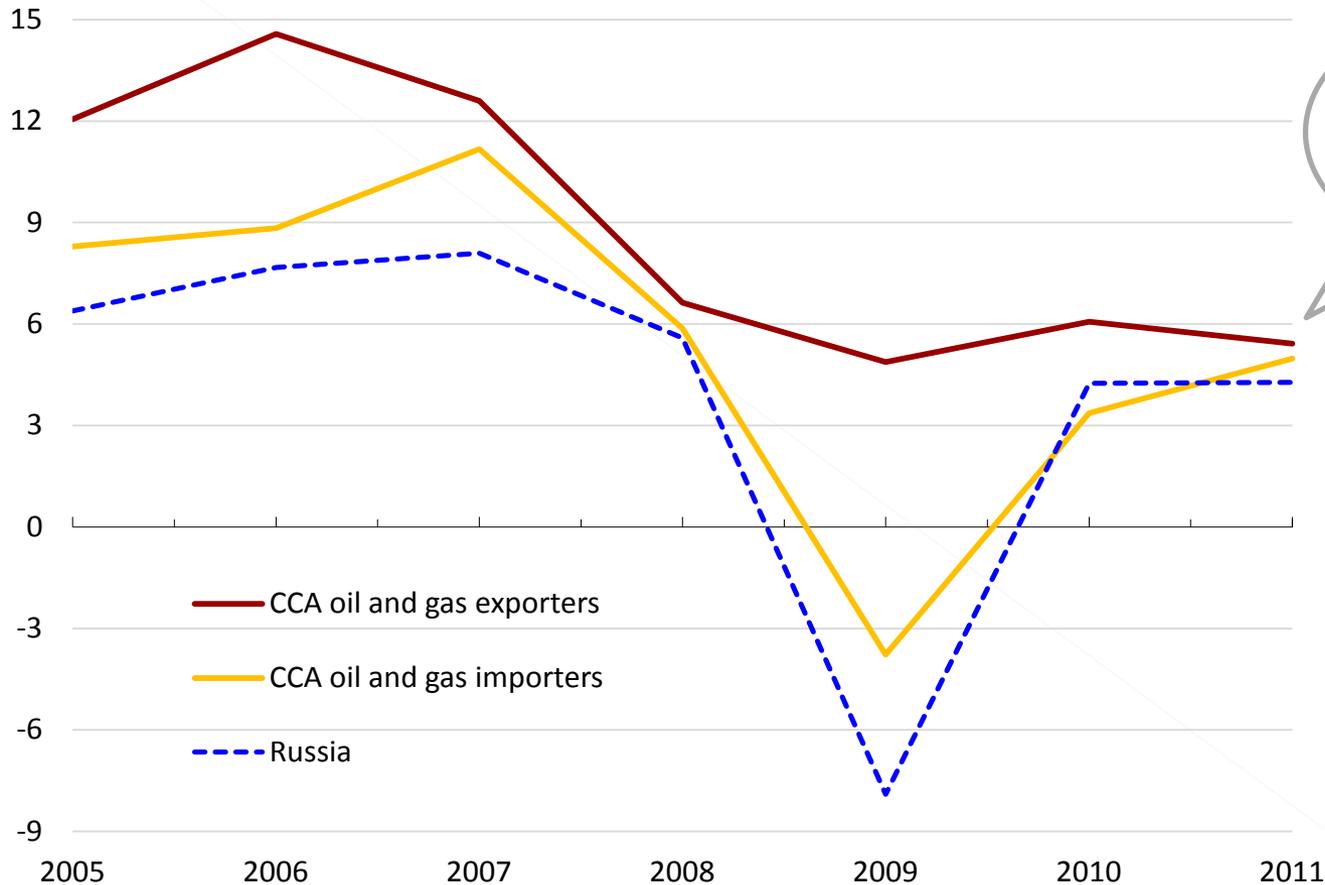
<sup>1</sup>Excludes Turkmenistan and Uzbekistan.

<sup>2</sup>Includes Georgia, Kyrgyz Republic, and Tajikistan.



# Growth is picking up in 2010...

Real GDP; annual percentage change



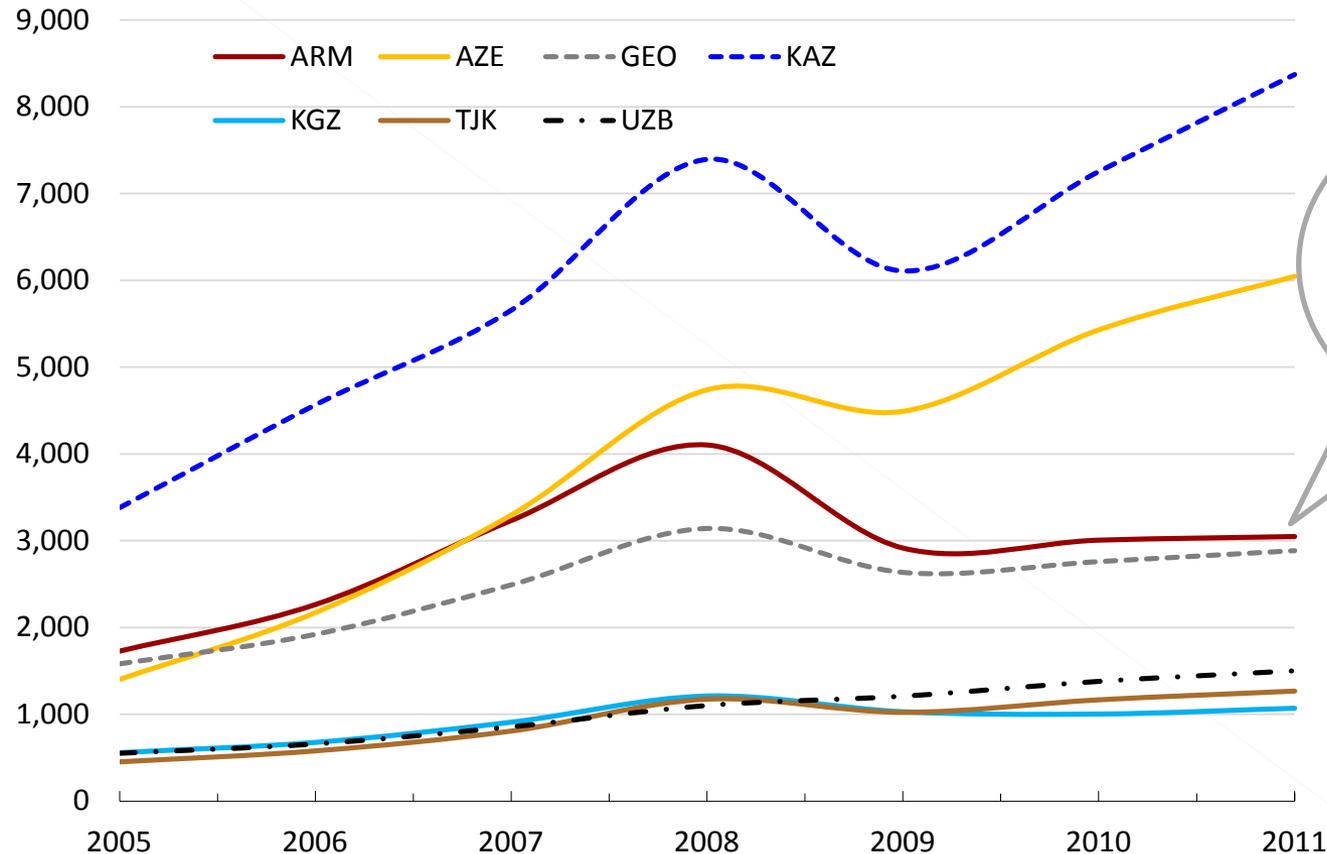
...but remains below pre-crisis levels

Sources: National authorities; and IMF staff calculations.



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

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

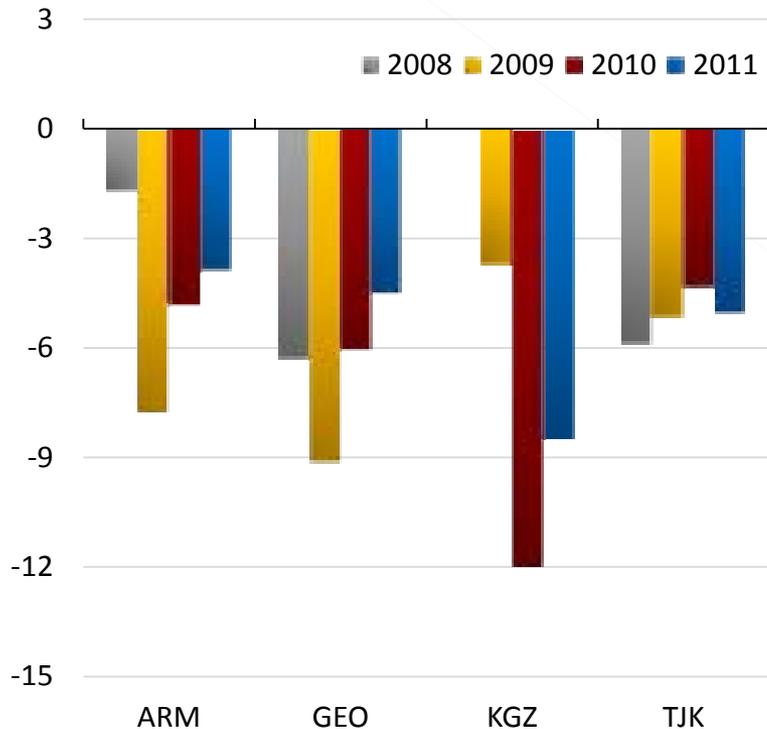


...except in  
Armenia,  
Georgia, and  
the Kyrgyz  
Republic

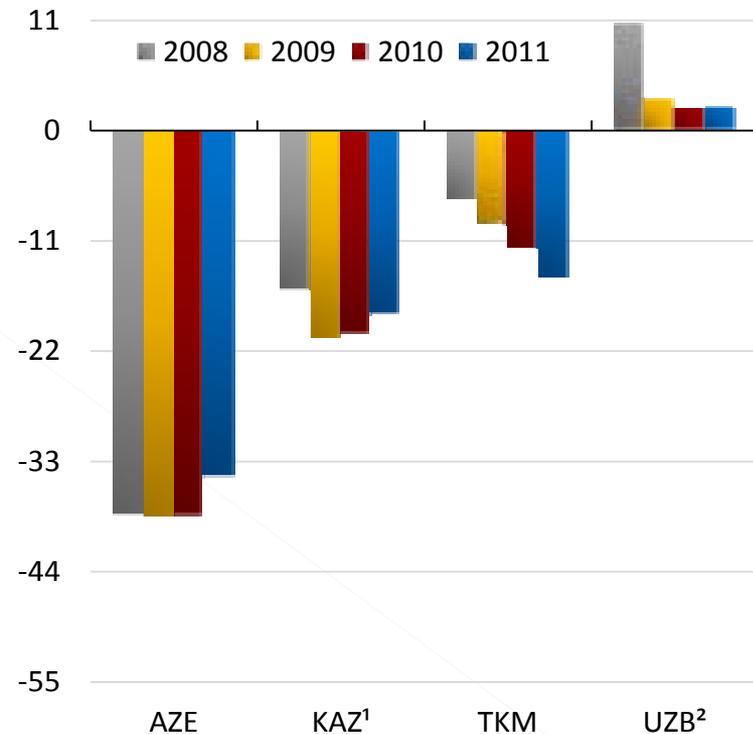
Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

# 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)



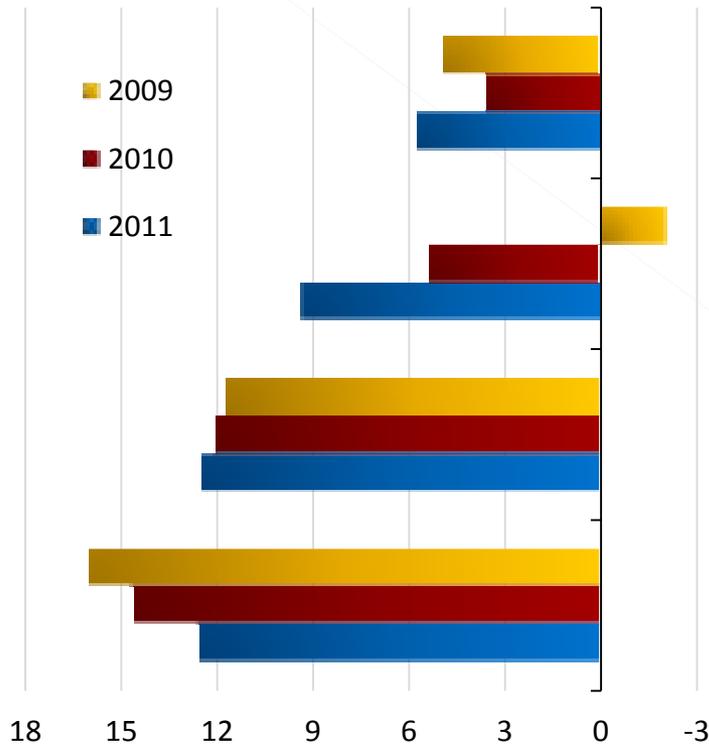
Sources: National authorities; and IMF staff calculations and projections.

<sup>1</sup>Includes off-budget expenditures financed by Samruk-Kazyna under the anticrisis plan.

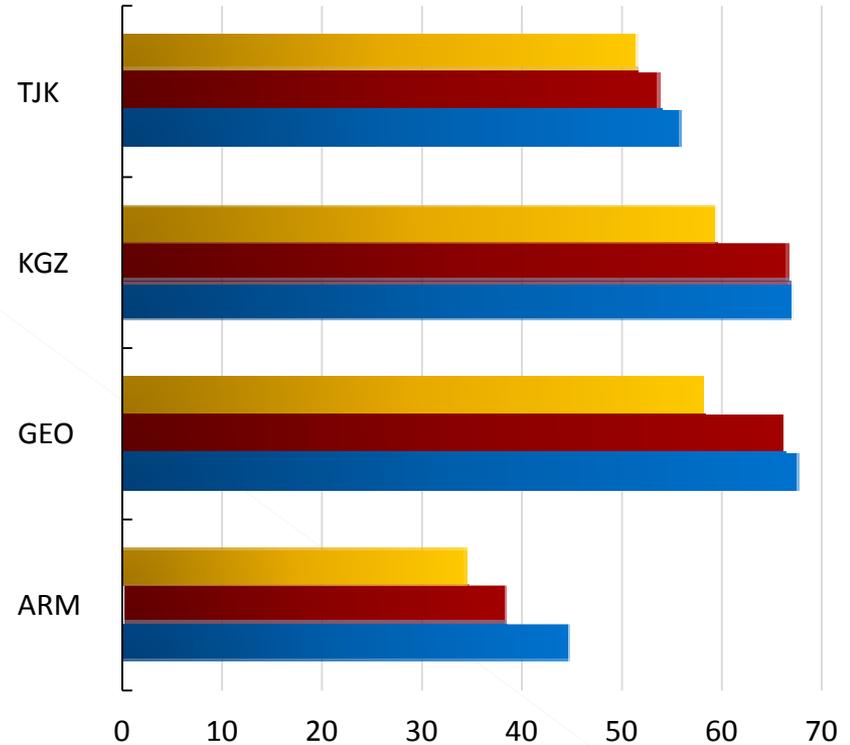
<sup>2</sup>Overall fiscal balance in percent of GDP.

# Oil and gas importers need to address external vulnerabilities

Current account deficit; percent of GDP



External debt; percent of GDP

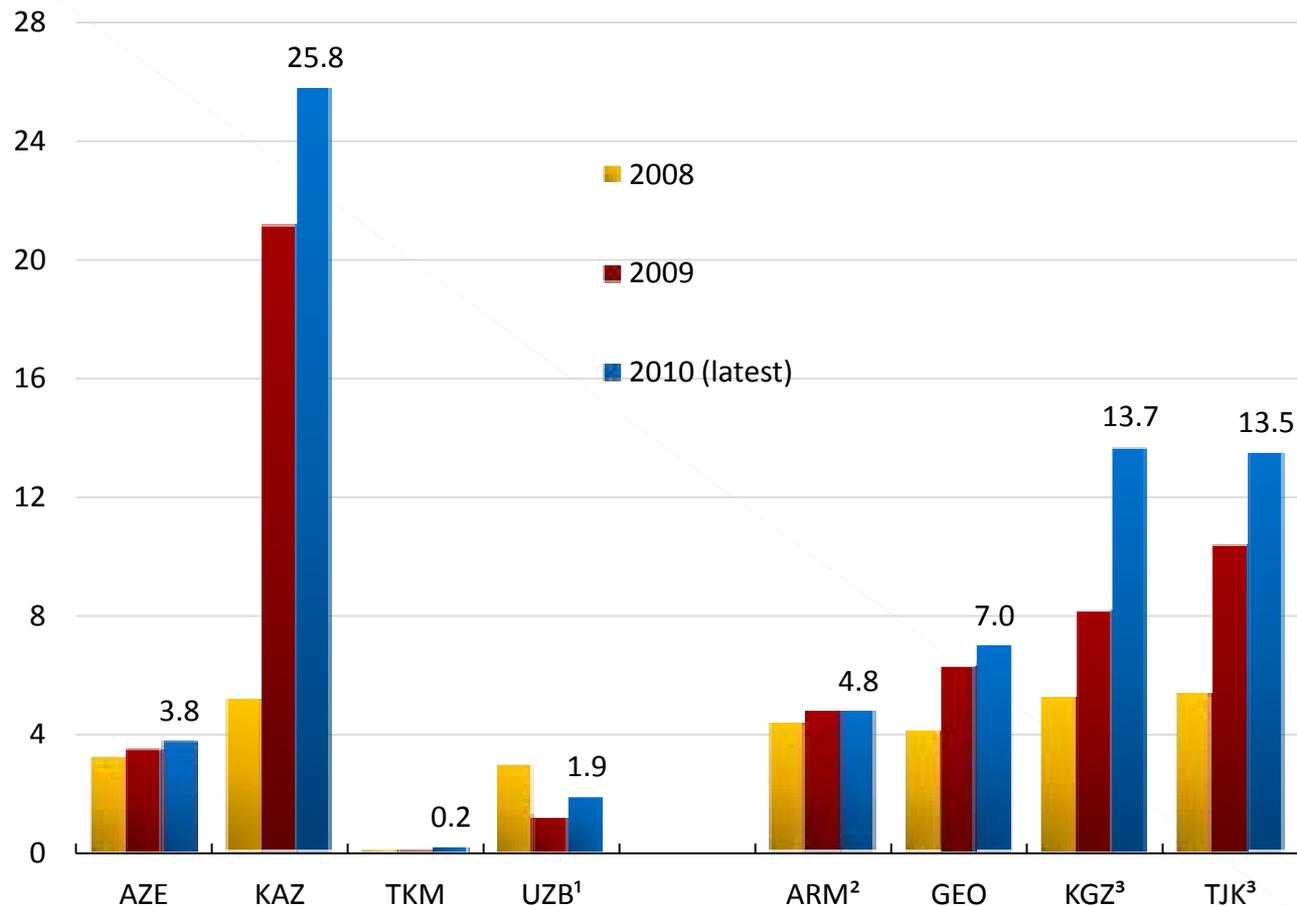


Sources: National authorities; and IMF staff calculations and projections.

# 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.

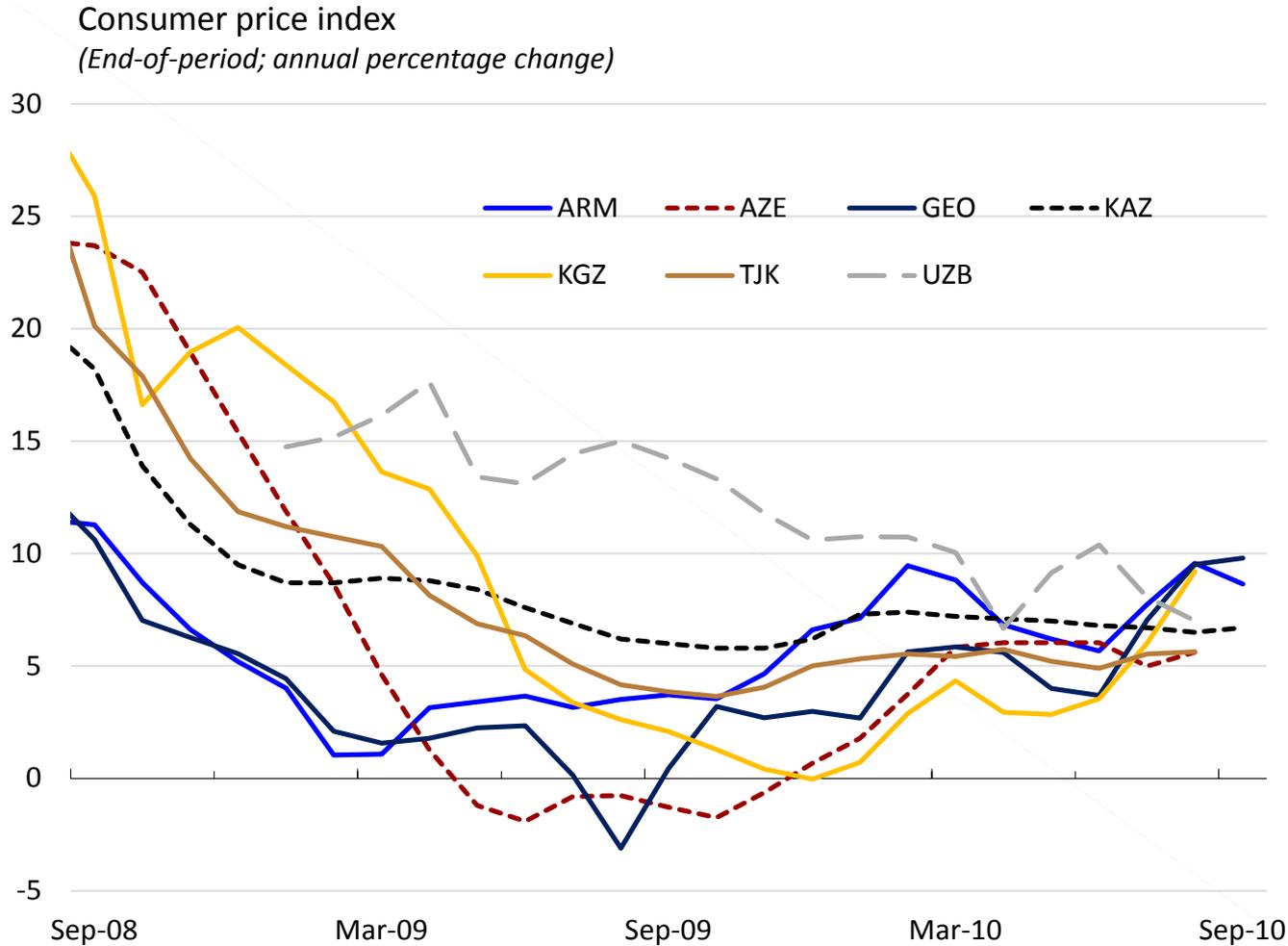
<sup>1</sup>Overdue by 60 days or more.

<sup>2</sup>Overdue from 1 day to 270 days.

<sup>3</sup>Overdue by 30 days or more.



# Monetary policy needs to pay attention to inflation



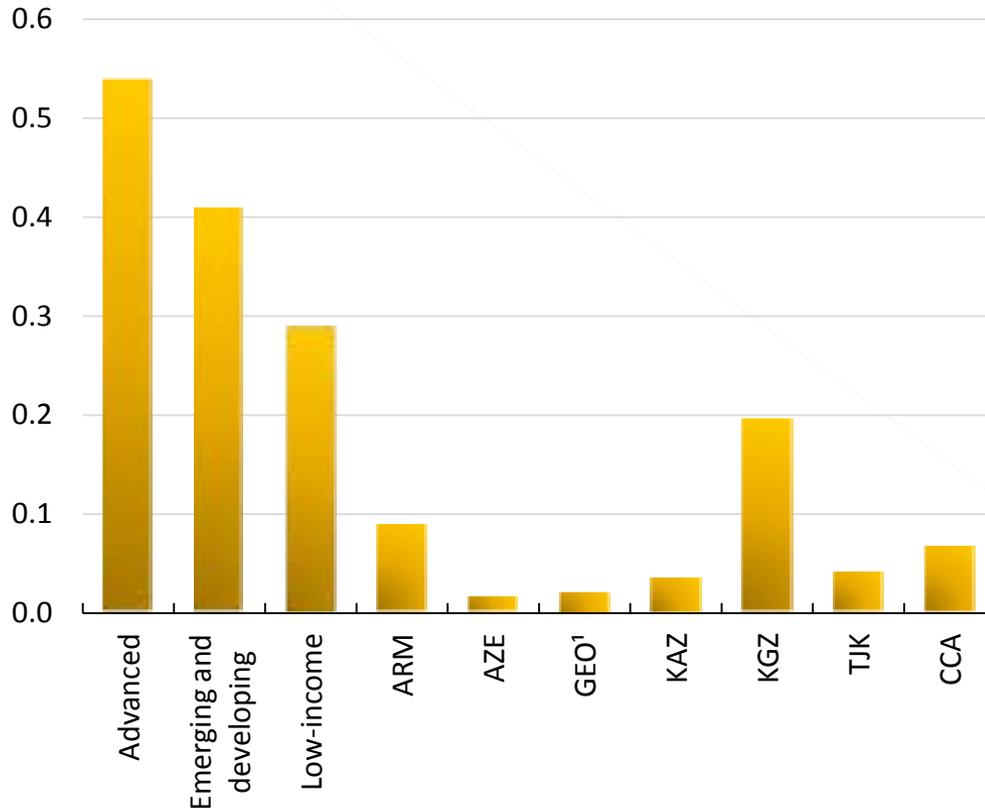
Sources: IMF, *International Financial Statistics*; Haver Analytics; and national authorities.



# Monetary policy has limited traction...

Short-term correlation between policy and lending rates

(Jan 2001—Dec 2008)



... due to

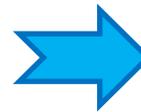
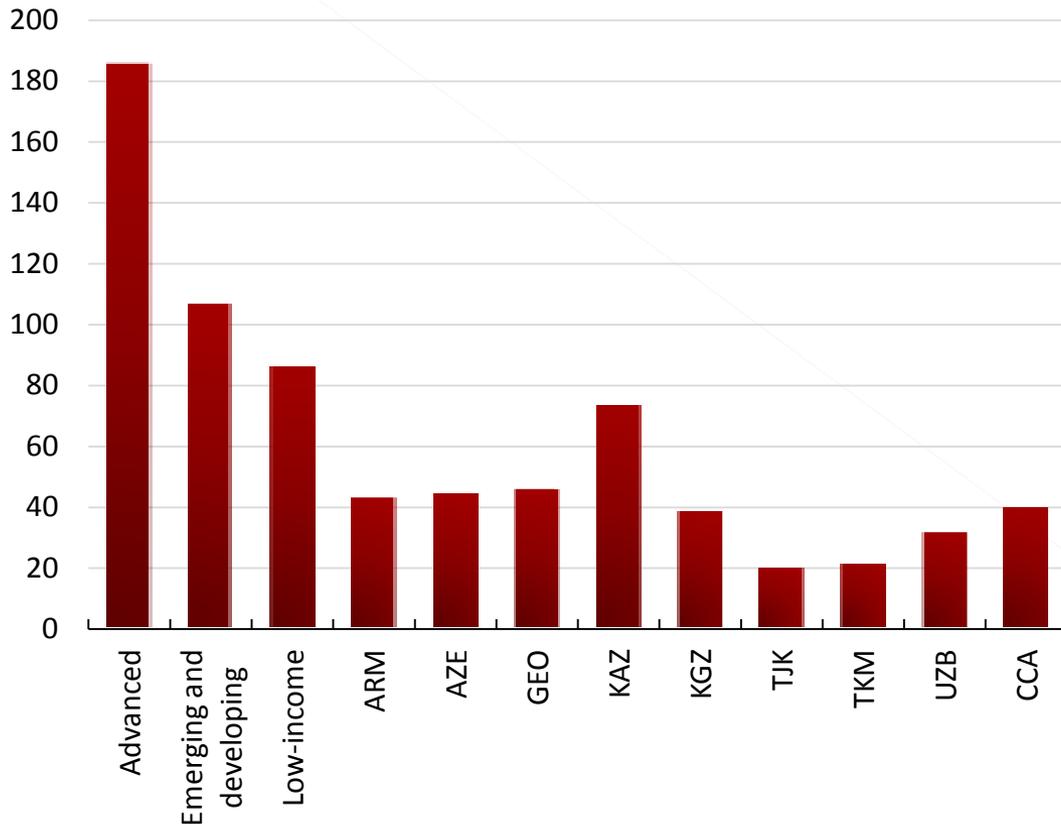
- Low Financial market development
- Lack of competition
- Government intervention
- Dollarization

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).

<sup>1</sup>Correlation for Georgia covers Mar 2007—Dec 2008.

# Low levels of financial development

Banks' assets, 2009  
(Percent of GDP)

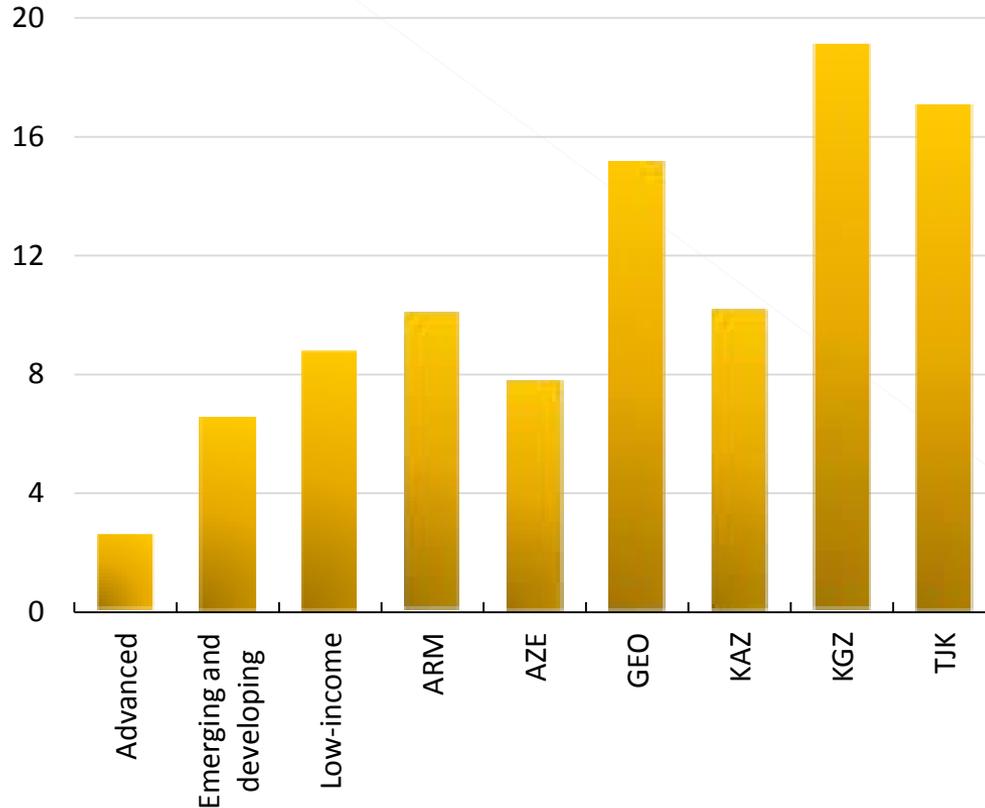


Foster financial deepening including by developing government securities markets

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)

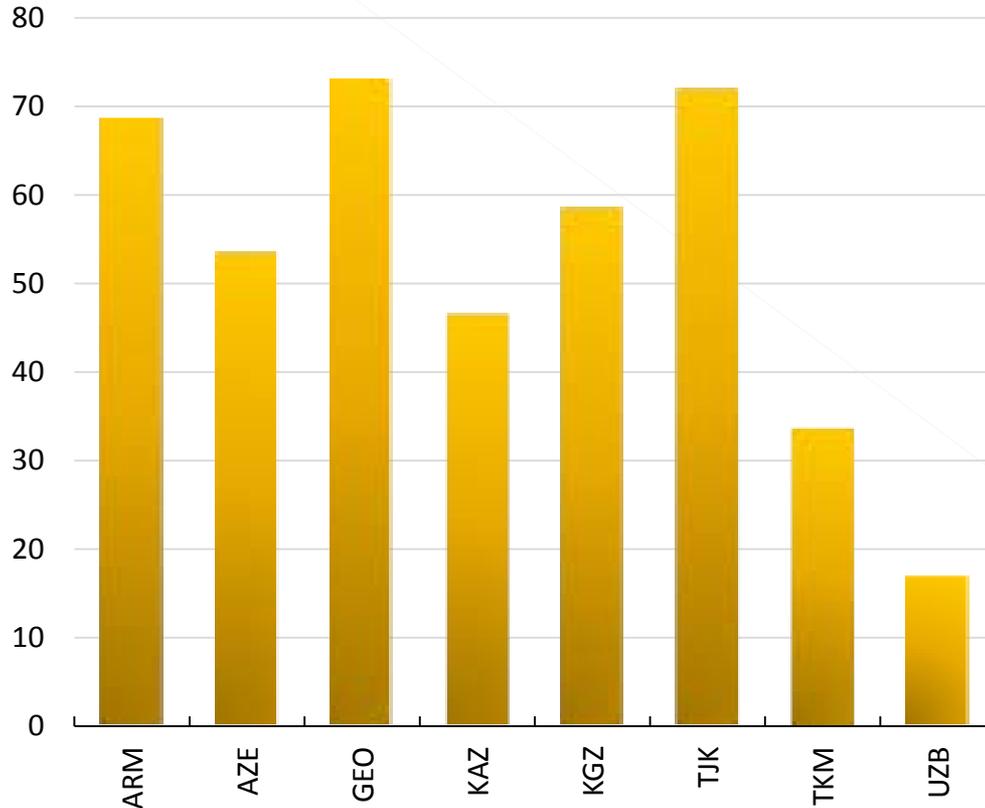


- Increase competition, including by encouraging the entry of foreign banks
- Interest rate controls and policy-directed lending should be phased out in some countries

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:

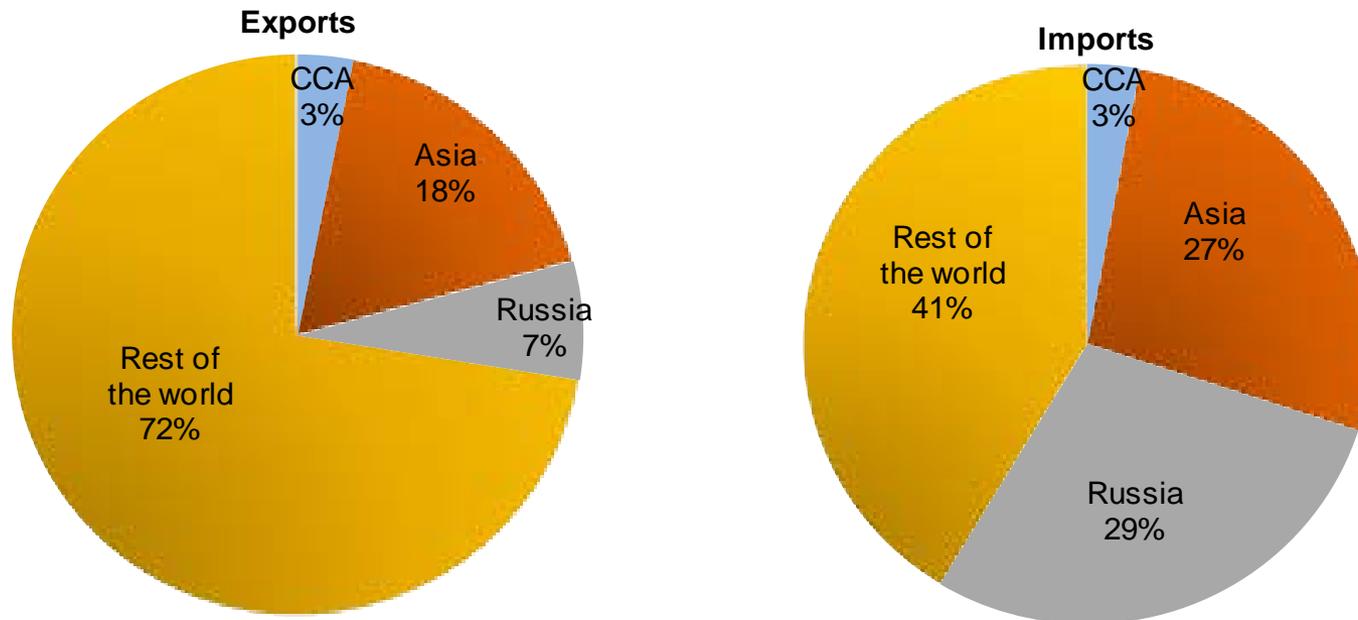
- Allowing for greater exchange rate flexibility
- Continuing to strengthen prudential regulation

# The Belarus-Kazakhstan-Russia customs union



# Kazakhstan to benefit from customs union

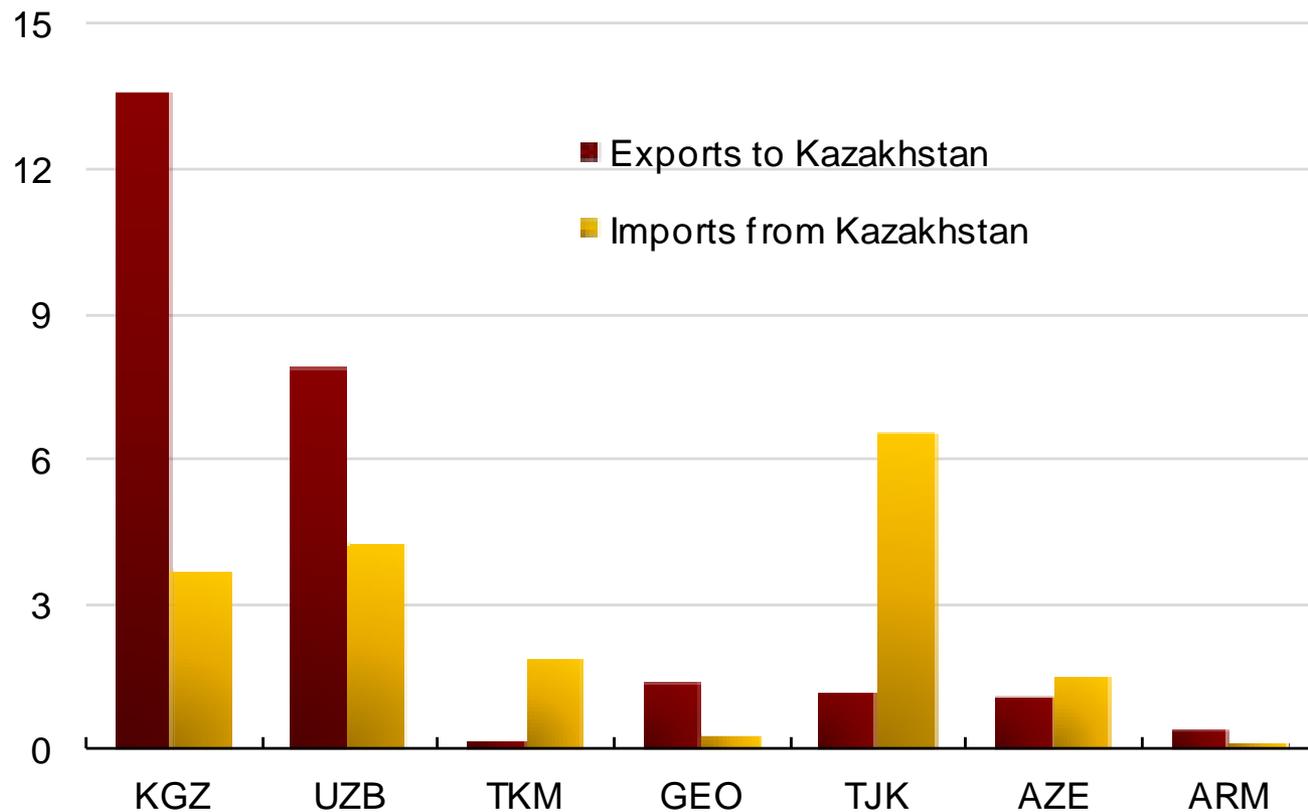
*Kazakhstan: Structure of Exports and Imports by Region, 2009*



Sources: IMF, *Direction of Trade Statistics*; and IMF staff calculations.

# Limited impact on other CCA countries

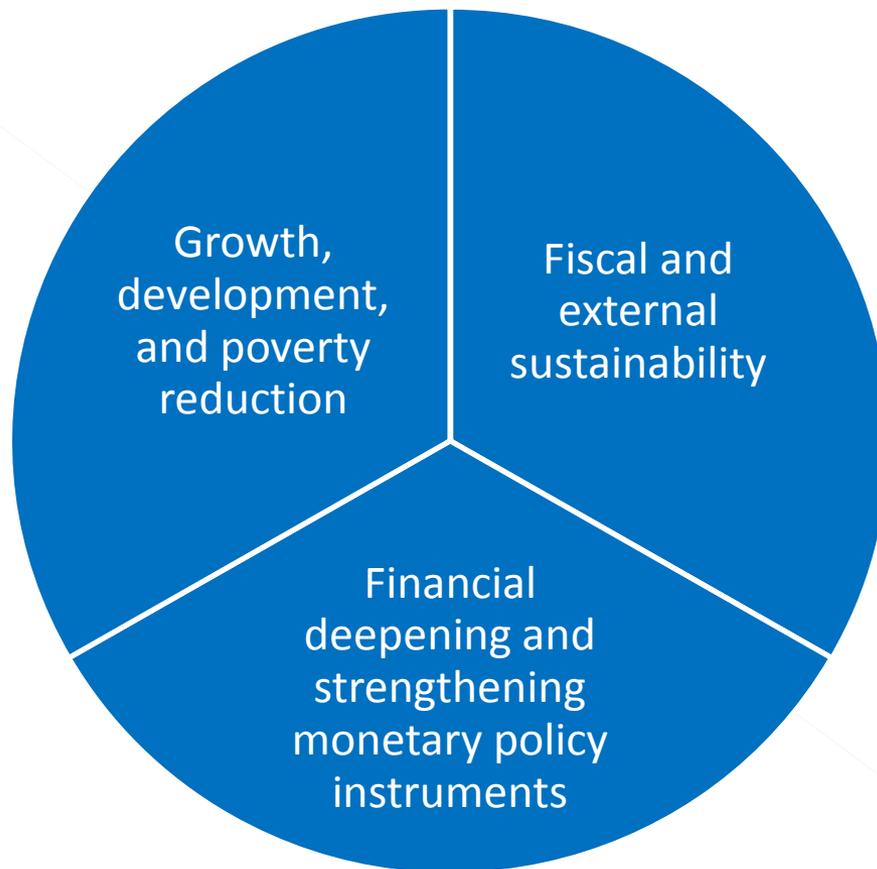
*CCA Countries' Trade with Kazakhstan*  
(Percent of the country's total exports and imports, 2009)



Sources: IMF, *Direction of Trade Statistics*; and IMF staff calculations.

# Challenges beyond the crisis

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Please visit the IMF's website

Full report:

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

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