

# Caucasus and Central Asia

## Regional Economic Outlook

### October 2011

 Oil and gas exporters

 Oil and gas importers



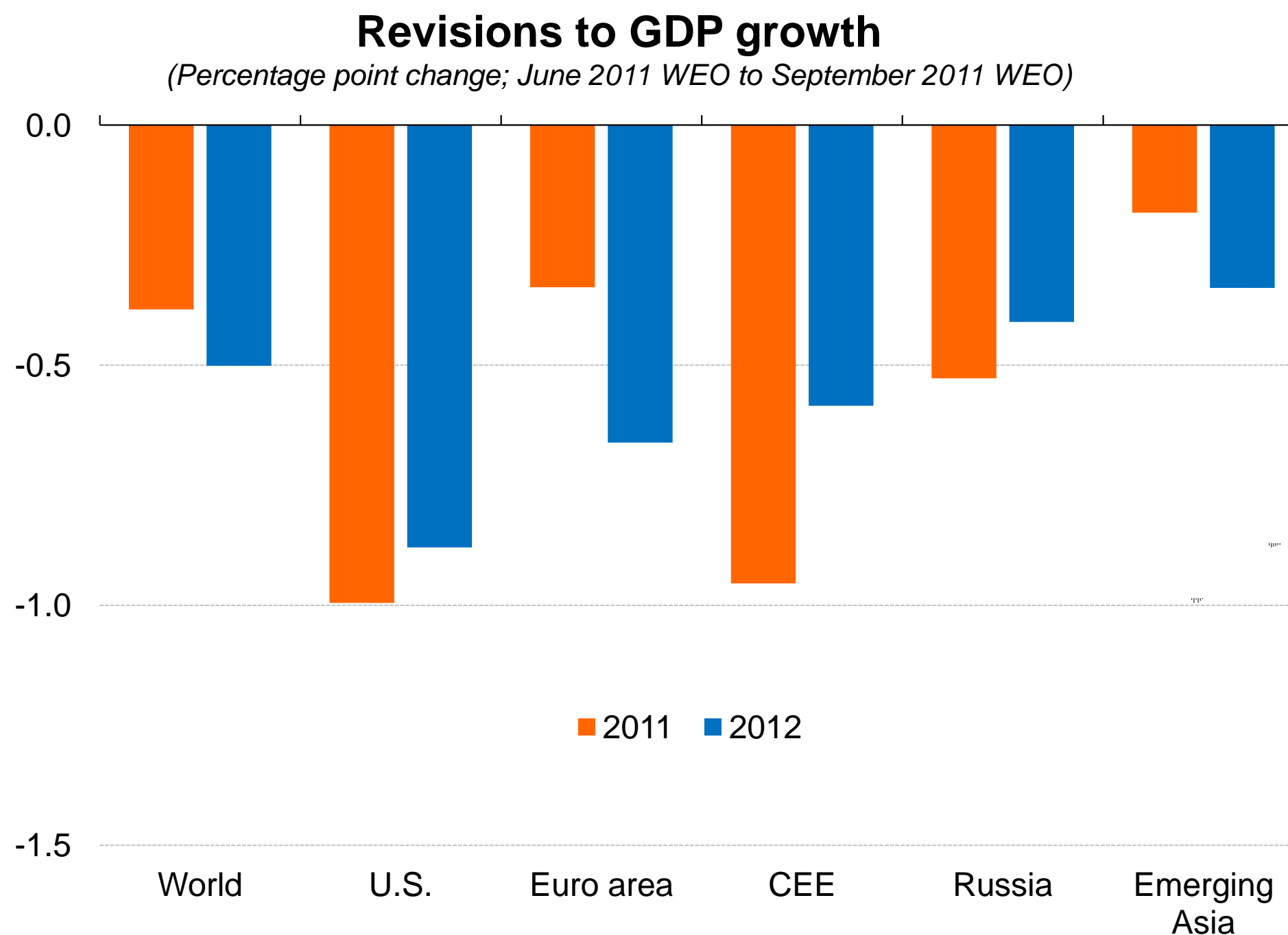
# Overview

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Global outlook

Caucasus and Central Asia  
(CCA) outlook and policies

# Global outlook has weakened...



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

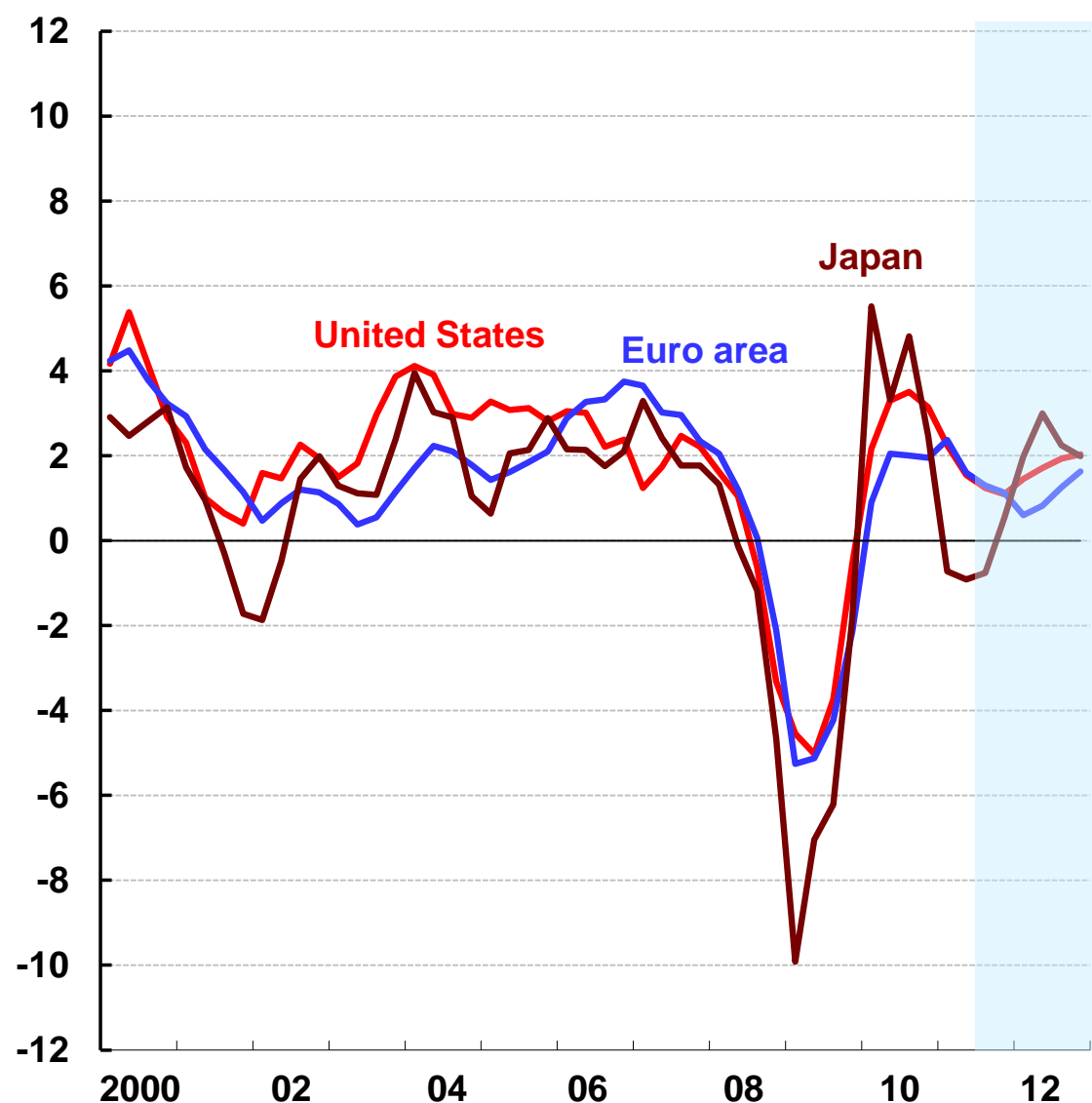




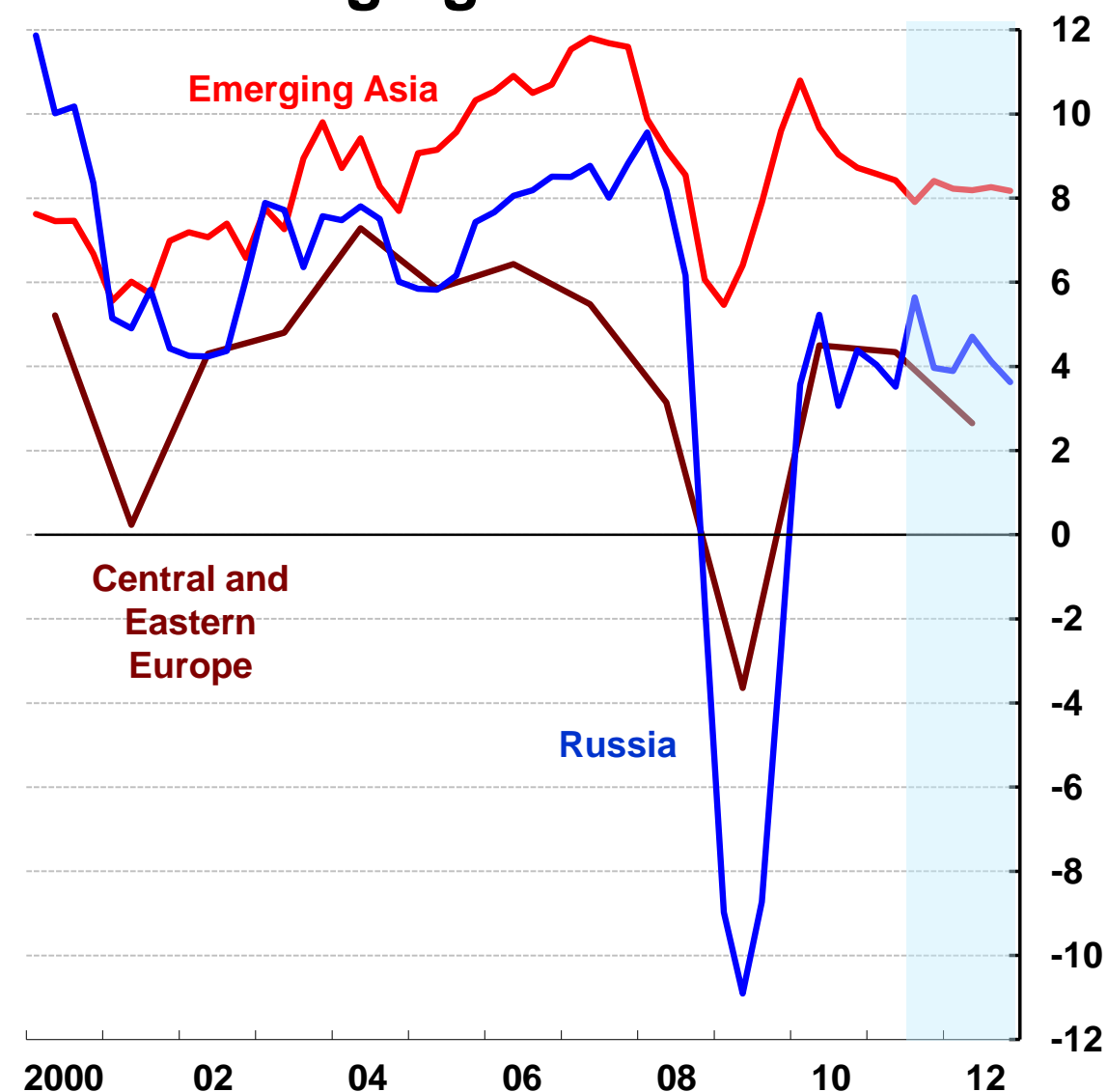
# ...and recovery is uneven

## Real GDP Growth<sup>1</sup> (percent change from a year earlier)

### Advanced Economies



### Emerging Economies

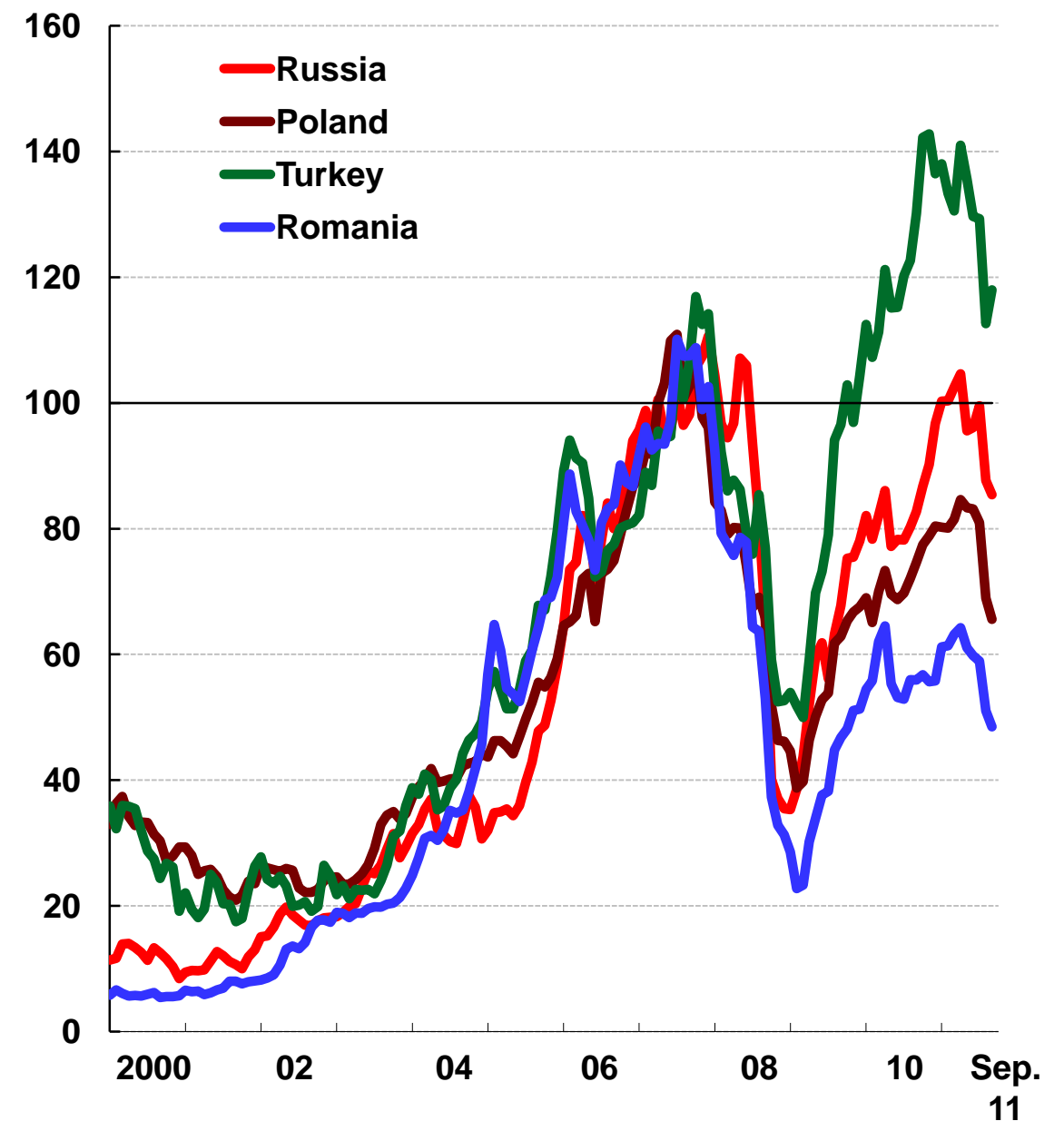
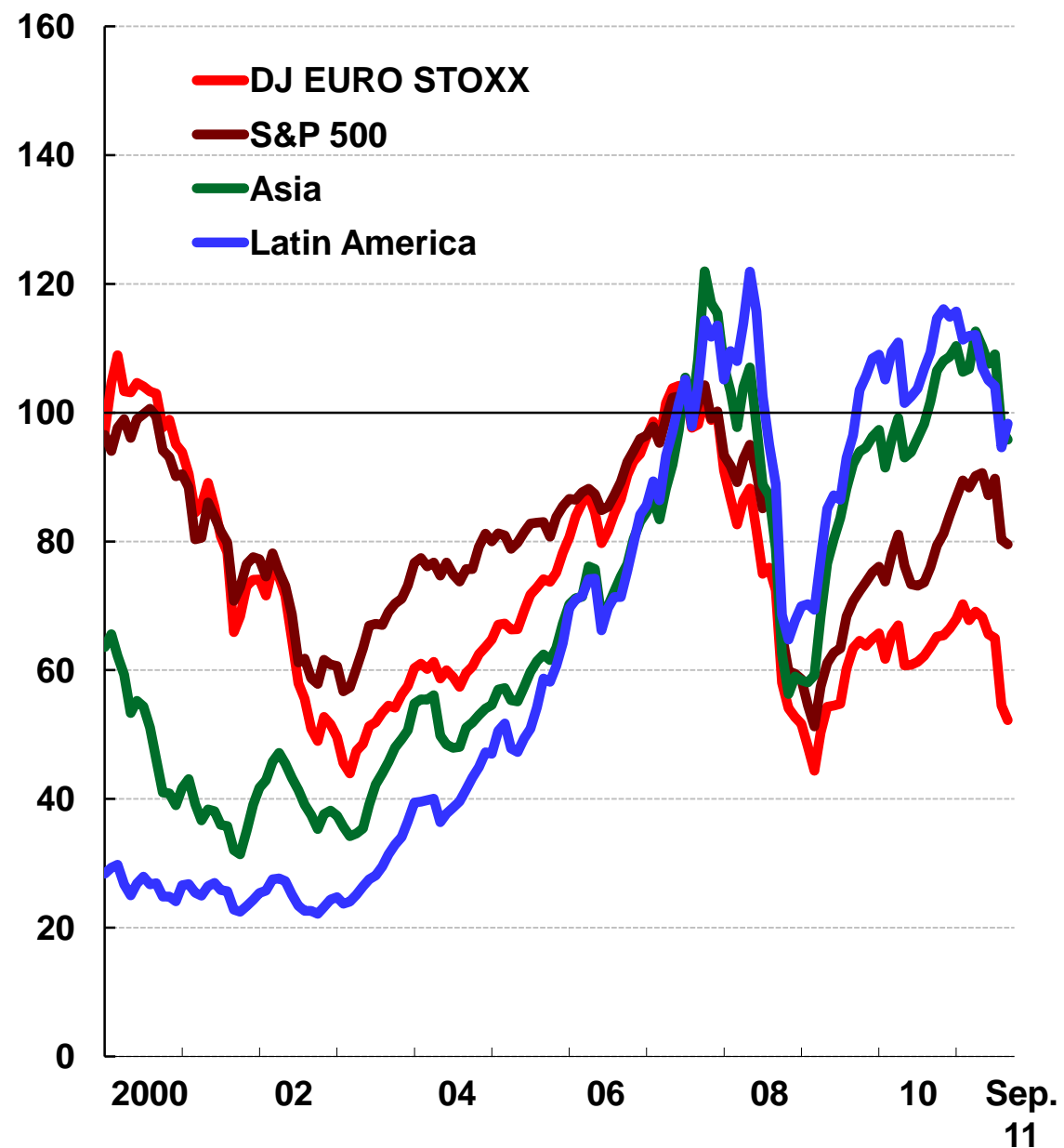


<sup>1</sup>Quarterly data, except for Central and Eastern Europe (CEE), where annual data are used.  
Source: International Monetary Fund, *World Economic Outlook*.

# Equity markets have fallen

## Equity Markets

(index; 2007=100; national currency)



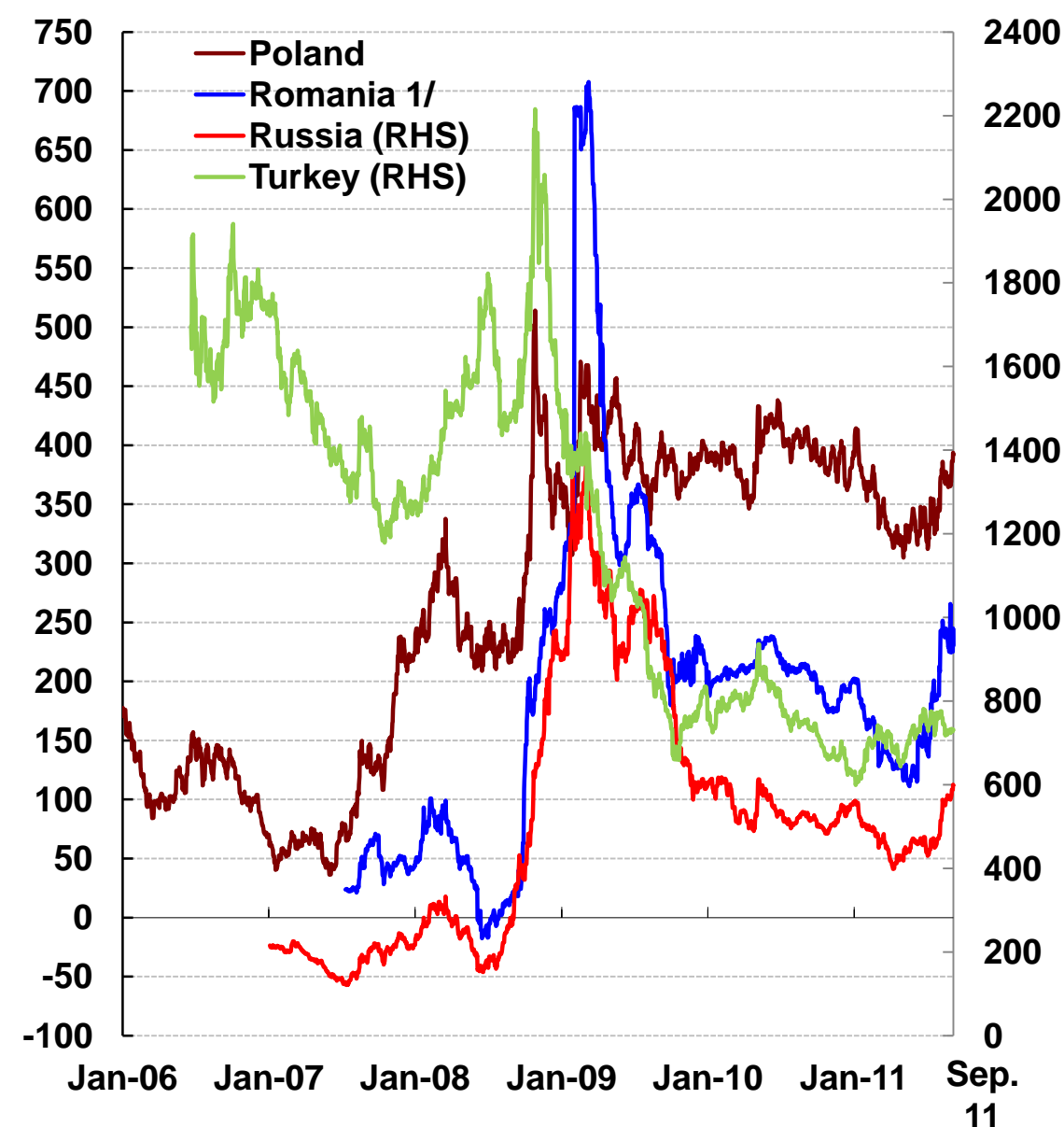
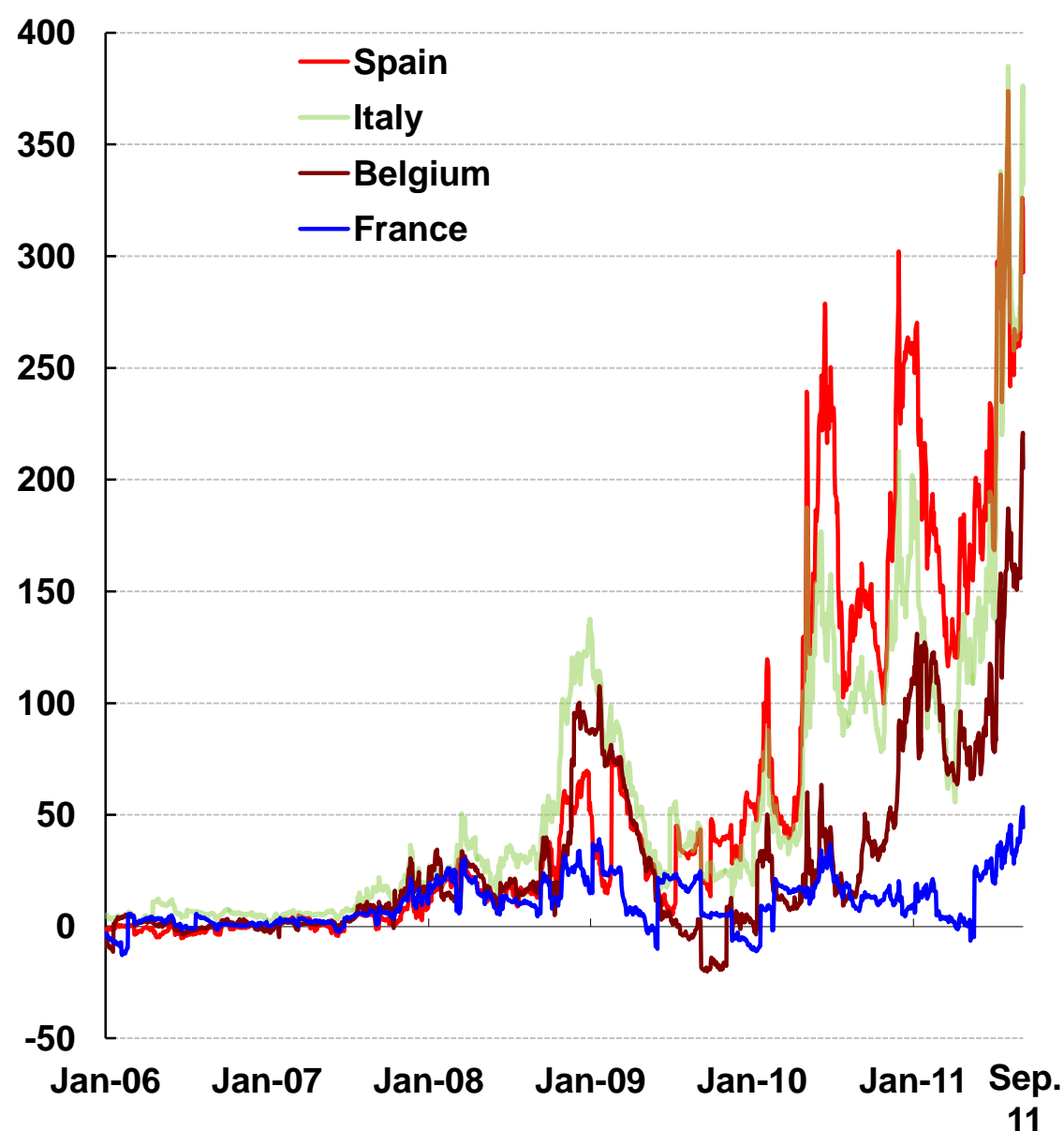
Sources: IMF, *World Economic Outlook*; and Bloomberg.



# Financial stability risks have increased

## Government Bond Spreads

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



Sources: IMF, *World Economic Outlook*; and Bloomberg.  
1/ One-year yield spreads over German bunds.

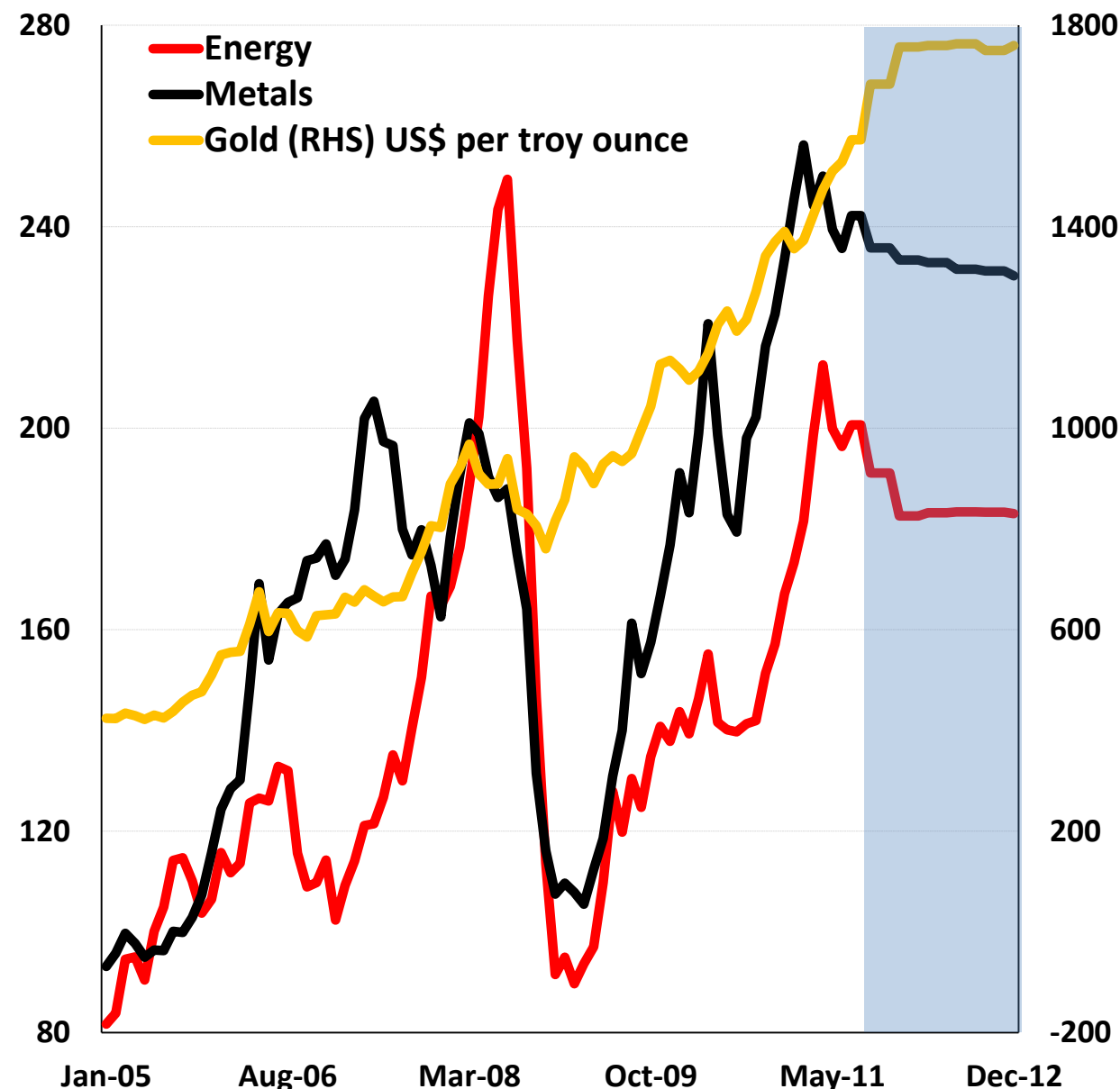
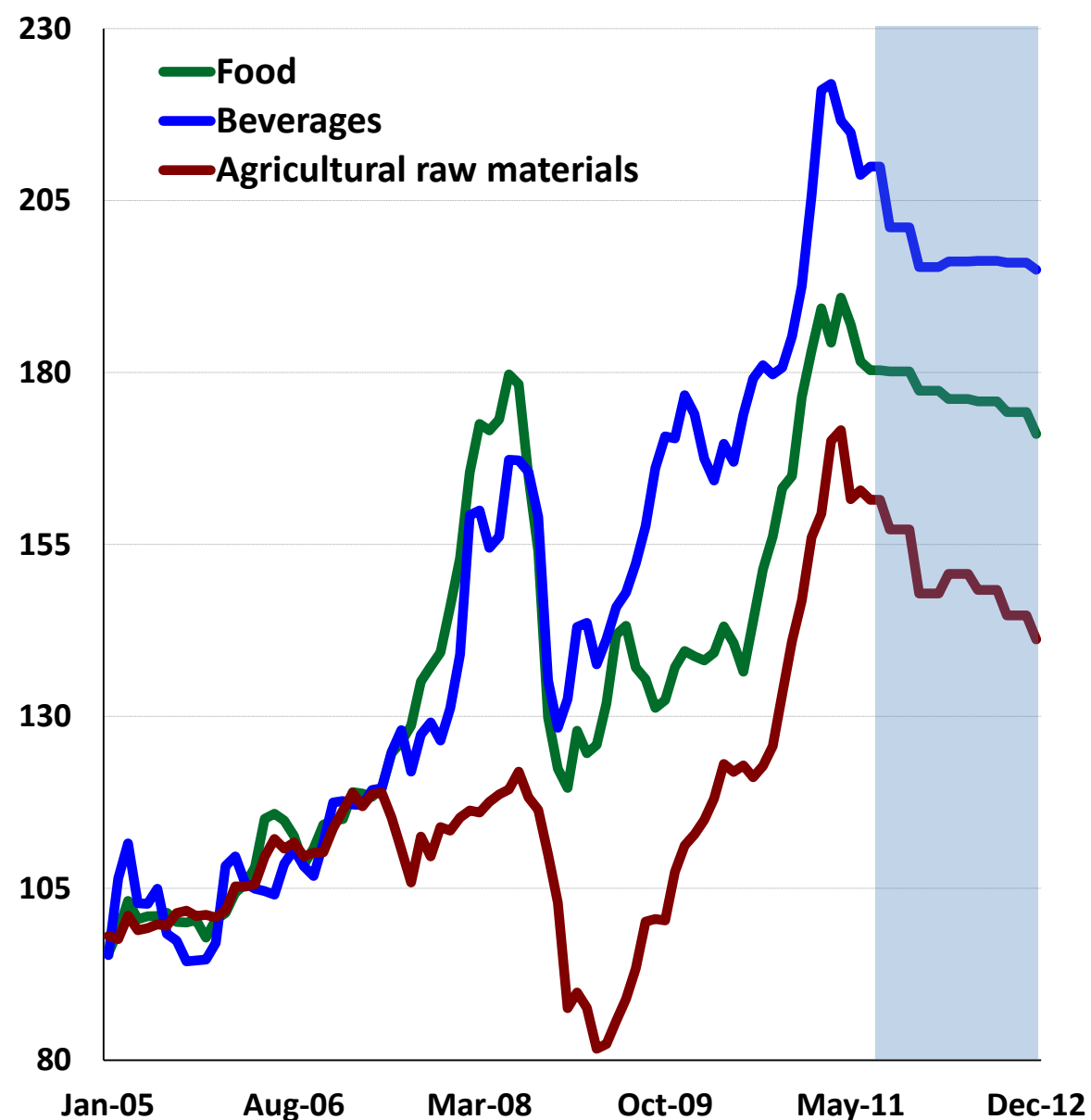




# Commodity prices still high—but may have peaked

## Commodity Prices

(index; 2005=100)



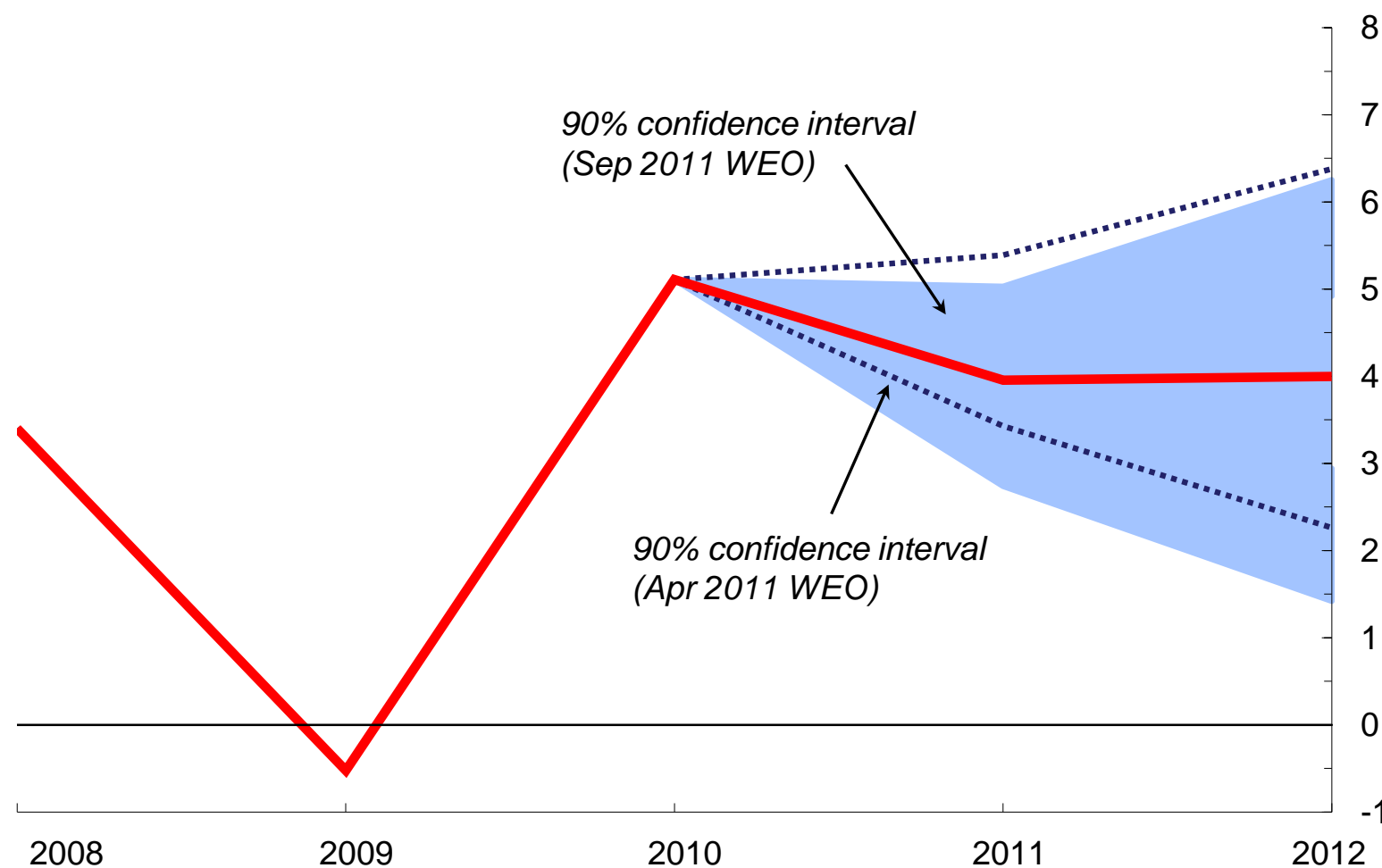
Source: IMF, *Global Data Source*.

# Downside risks have increased sharply

## Downside risks:

- Euro area crisis
- Advanced economy sovereign risks
- Escalating global financial volatility
- Oil supply concerns (risk of higher oil prices)

## Prospects for world GDP growth (annual percent change)



Source: IMF, *World Economic Outlook*.



# Caucasus and Central Asia: Outlook and Challenges

## **CCA region:**

- Broadly positive growth outlook, but growing external risks
- Inflation remains a concern in many countries
- Banking sectors still impaired in some countries

## **Oil and gas importers face:**

- Limited fiscal space
- External vulnerabilities—large current account deficits and debt burden

## **Oil and gas exporters face:**

- Large non-oil fiscal deficits
- The challenge of improving the quality of public spending

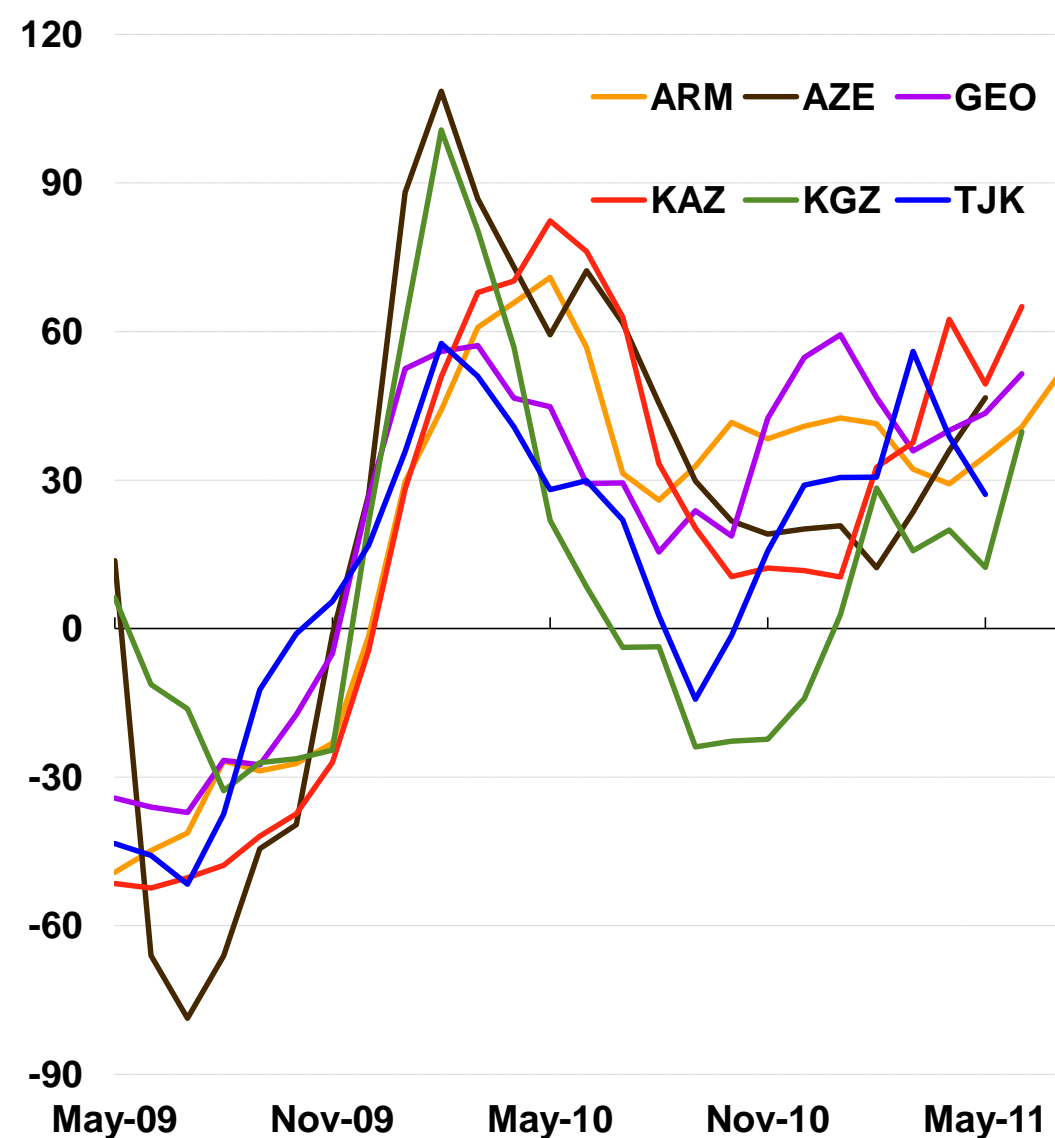
## **Medium-term challenges:**

- Creating jobs and fostering high and inclusive growth

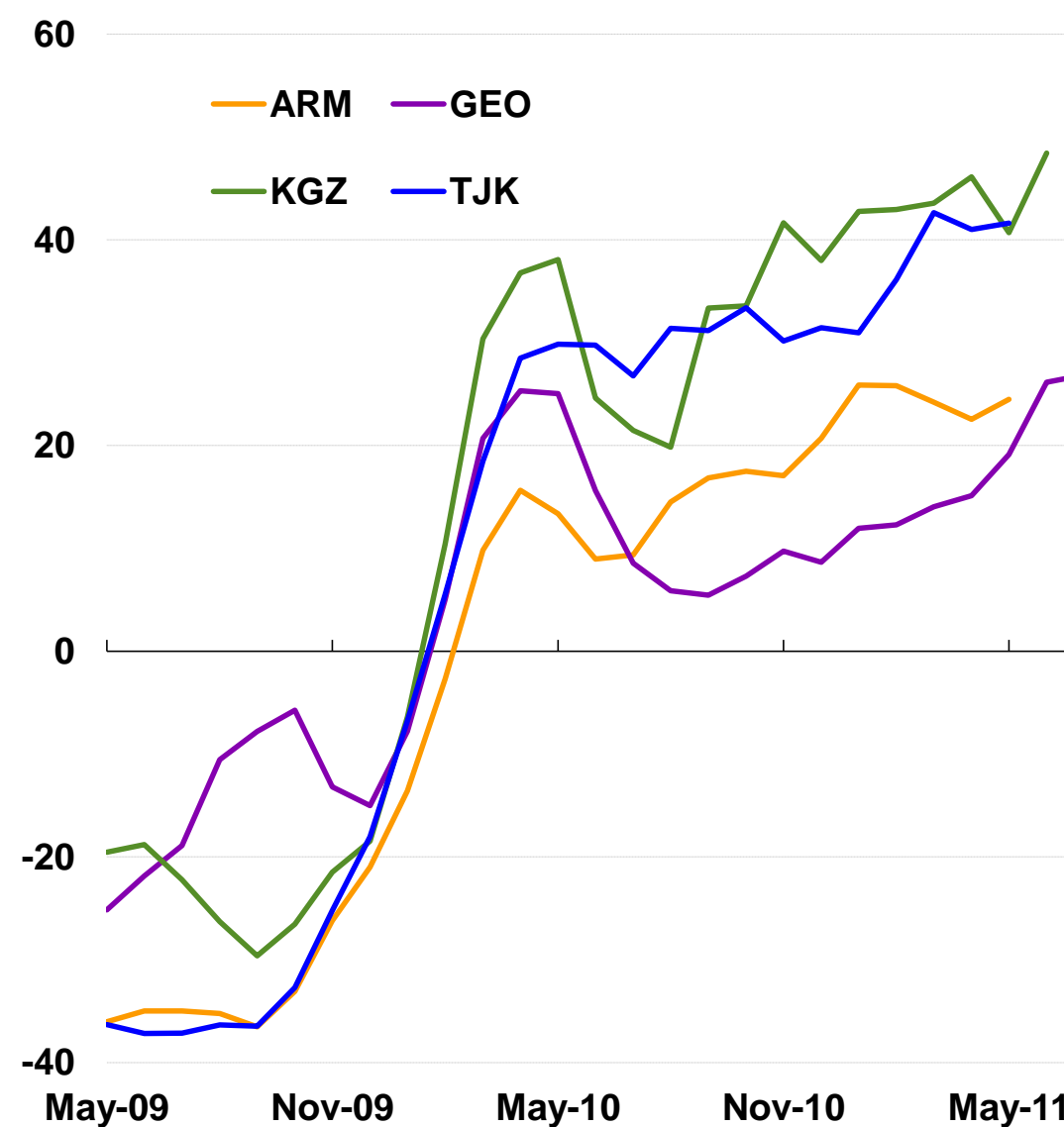
# Exports and remittances continue to grow solidly

## Exports of Goods

(3-month moving average of year-on-year growth, percent)

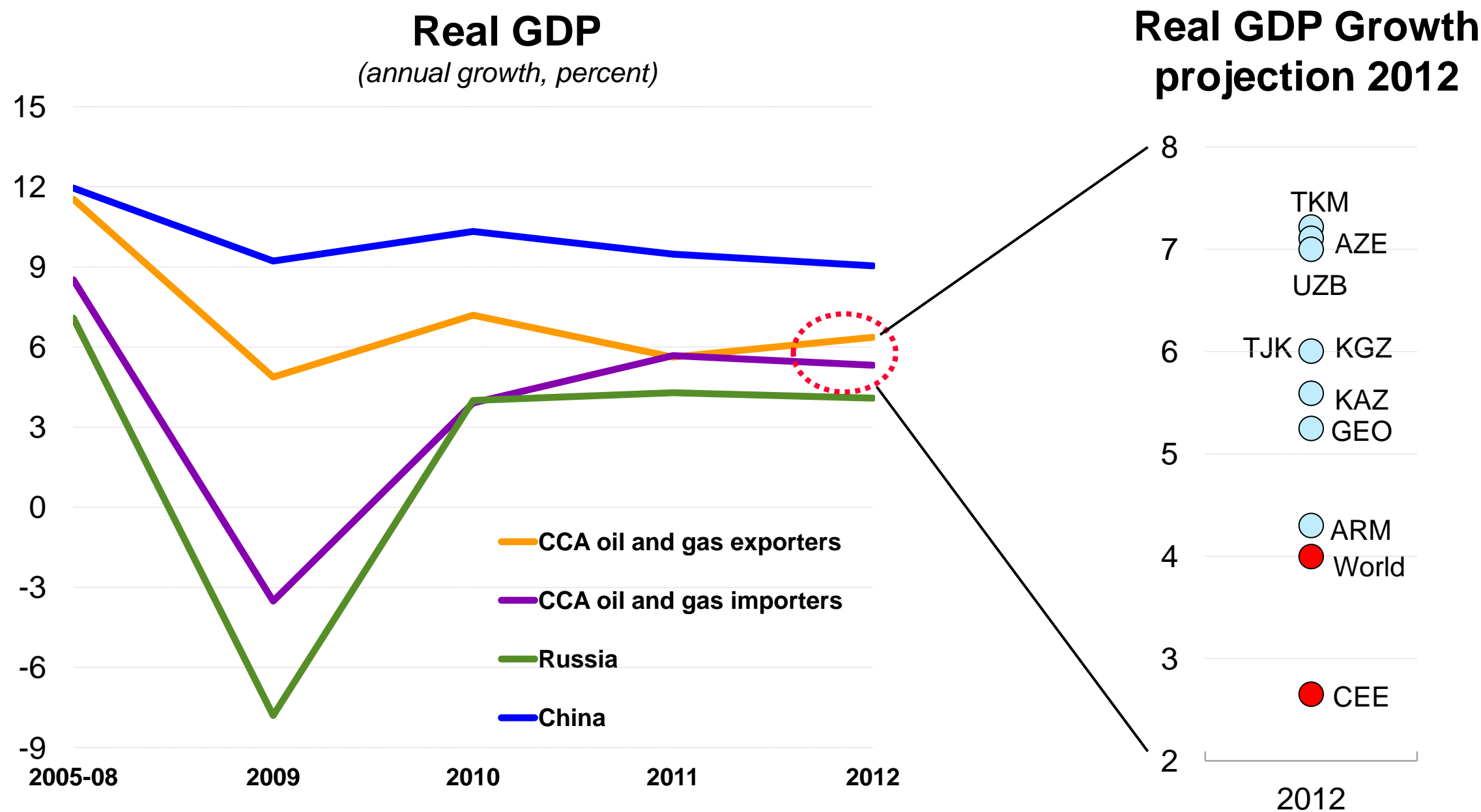


## Remittance Inflows



Sources: National authorities; and IMF staff calculations.

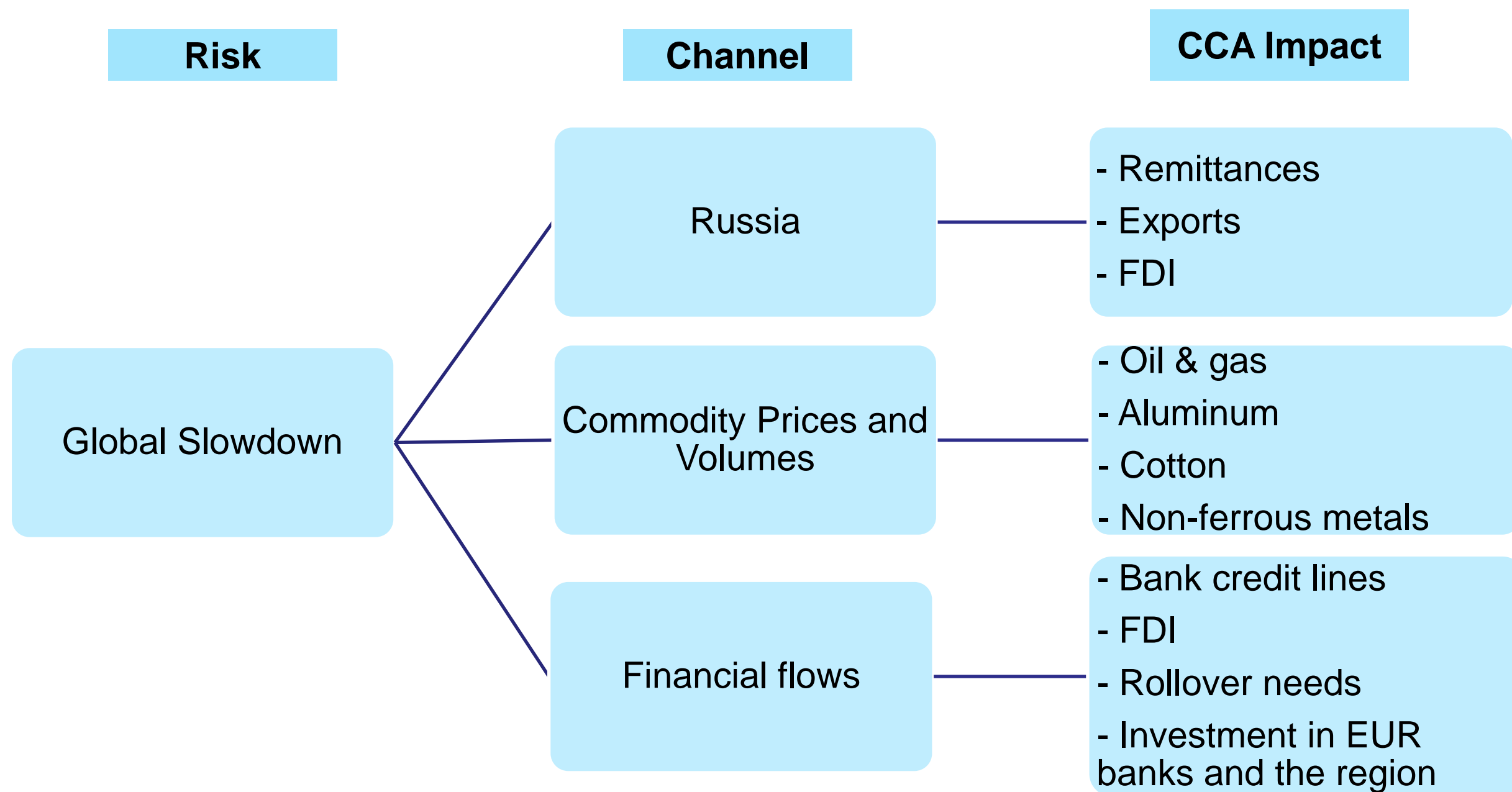
# Growth outlook broadly positive...



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



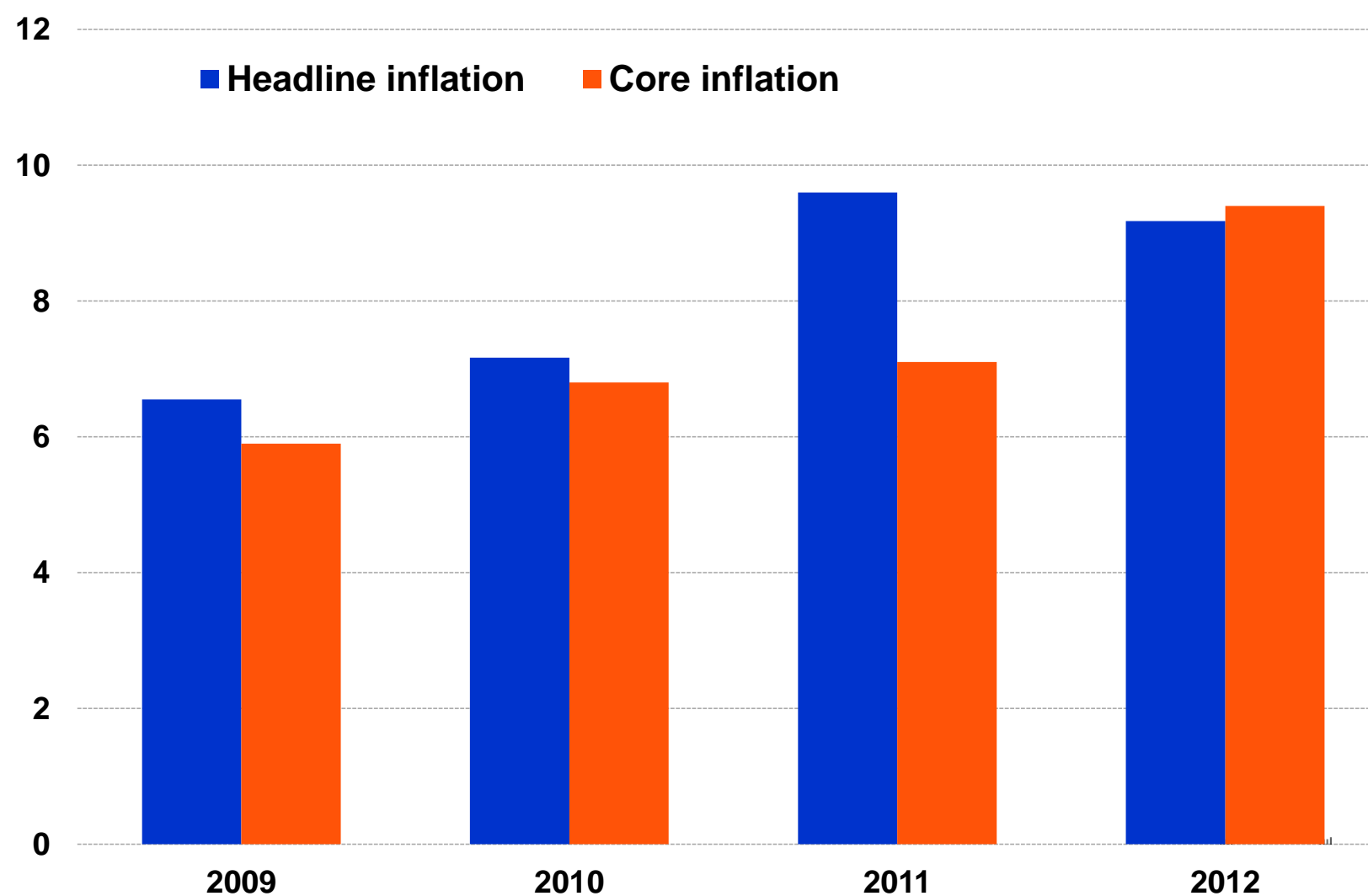
## ...but with downside risks



# Inflation remains a concern in the oil and gas exporters...

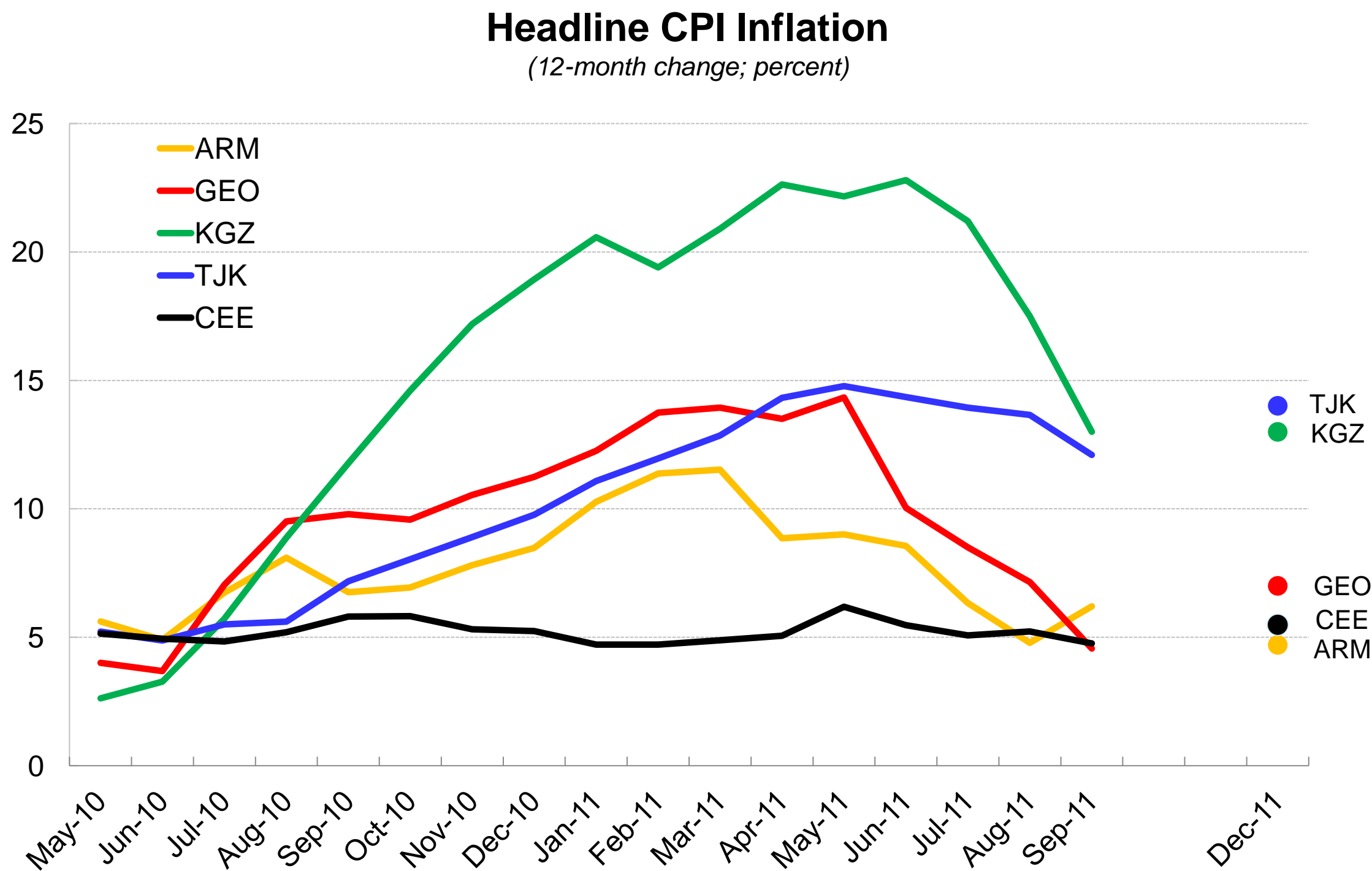
## Headline and Core Inflation

(average annual rate, in percent)



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

## ...and in some oil and gas importers



Sources: National authorities; and IMF staff calculations.

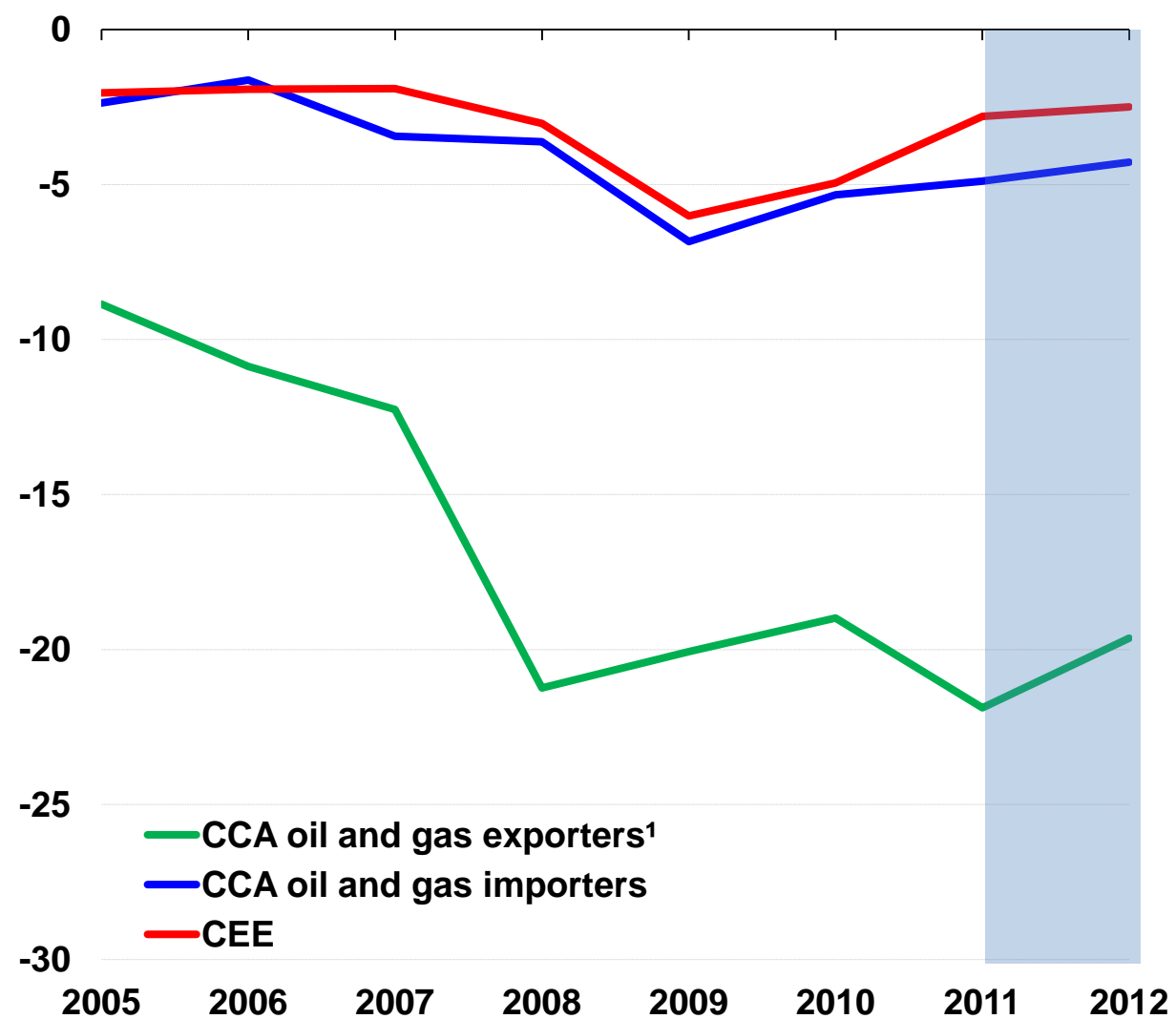




# Fiscal consolidation is needed

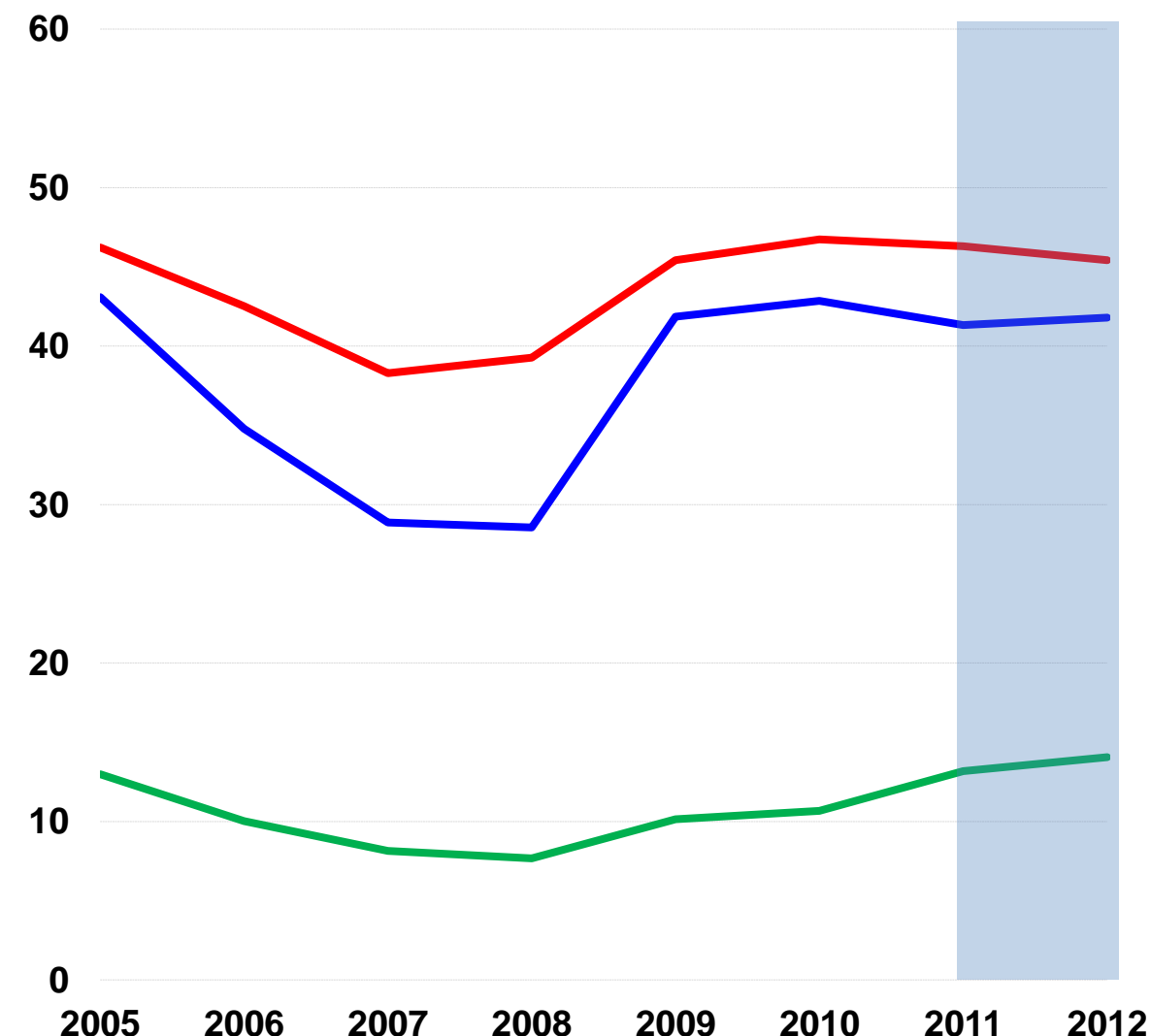
## Fiscal Deficits

(fiscal balance; percent of GDP)



## Public Debt

(percent of GDP)

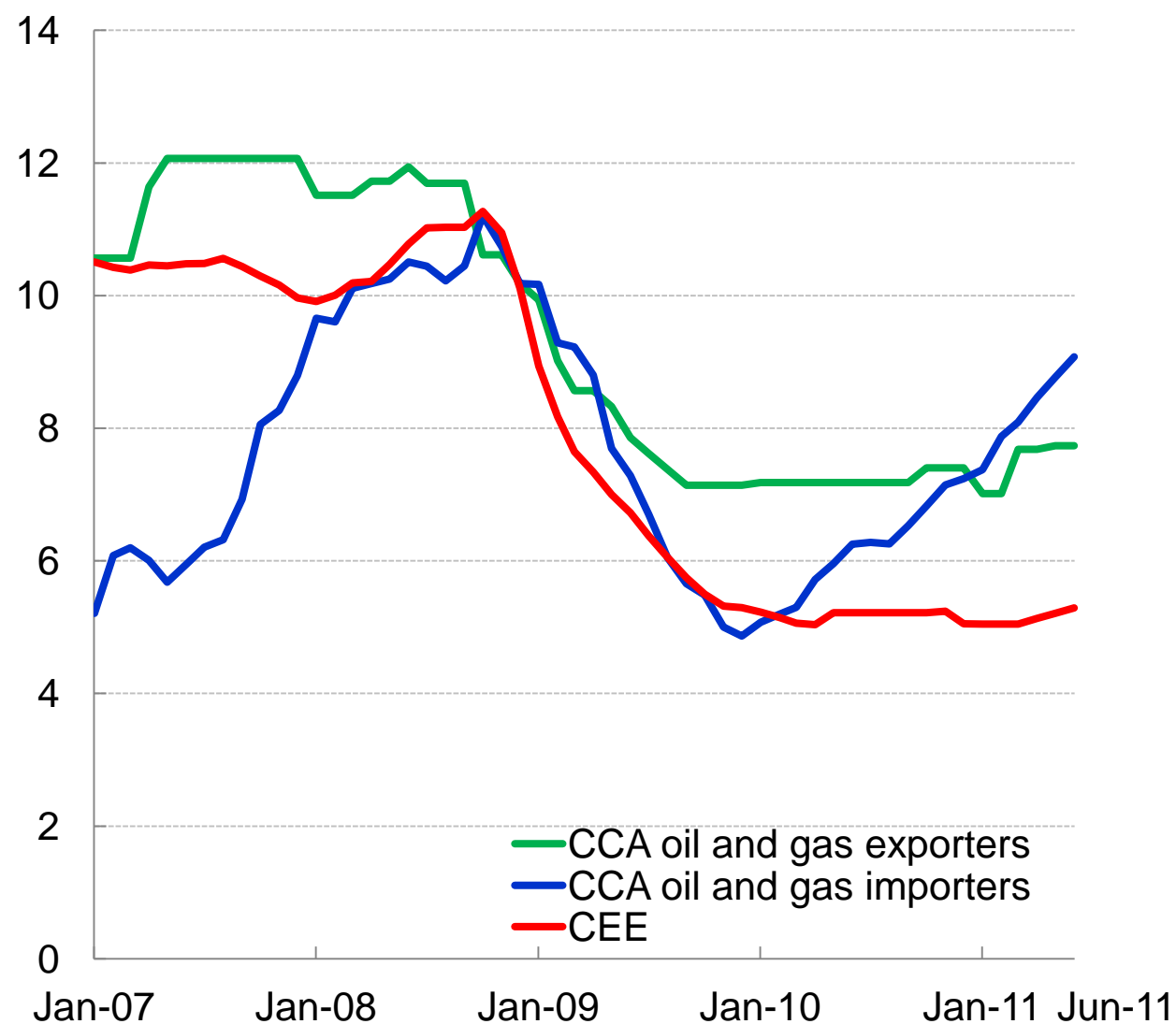


Sources: National Authorities; and IMF staff calculations.

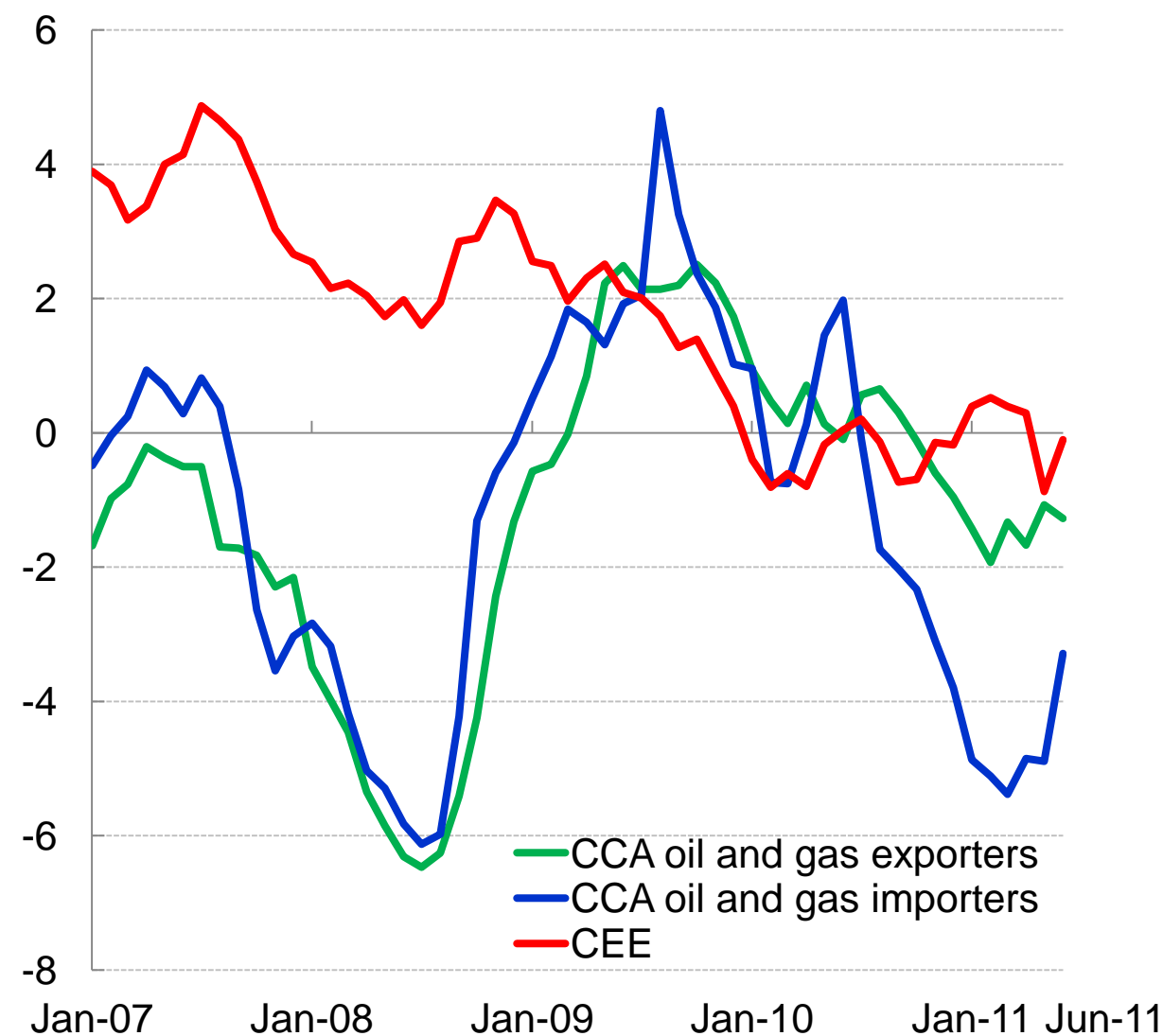
<sup>1</sup> Non-oil and gas fiscal balance over non-oil and gas GDP is used.

# Monetary policy – more tightening needed

**Nominal Policy Rates<sup>1,2</sup>**  
(percent)



**Real Policy Rates<sup>1,2</sup>**  
(percent)



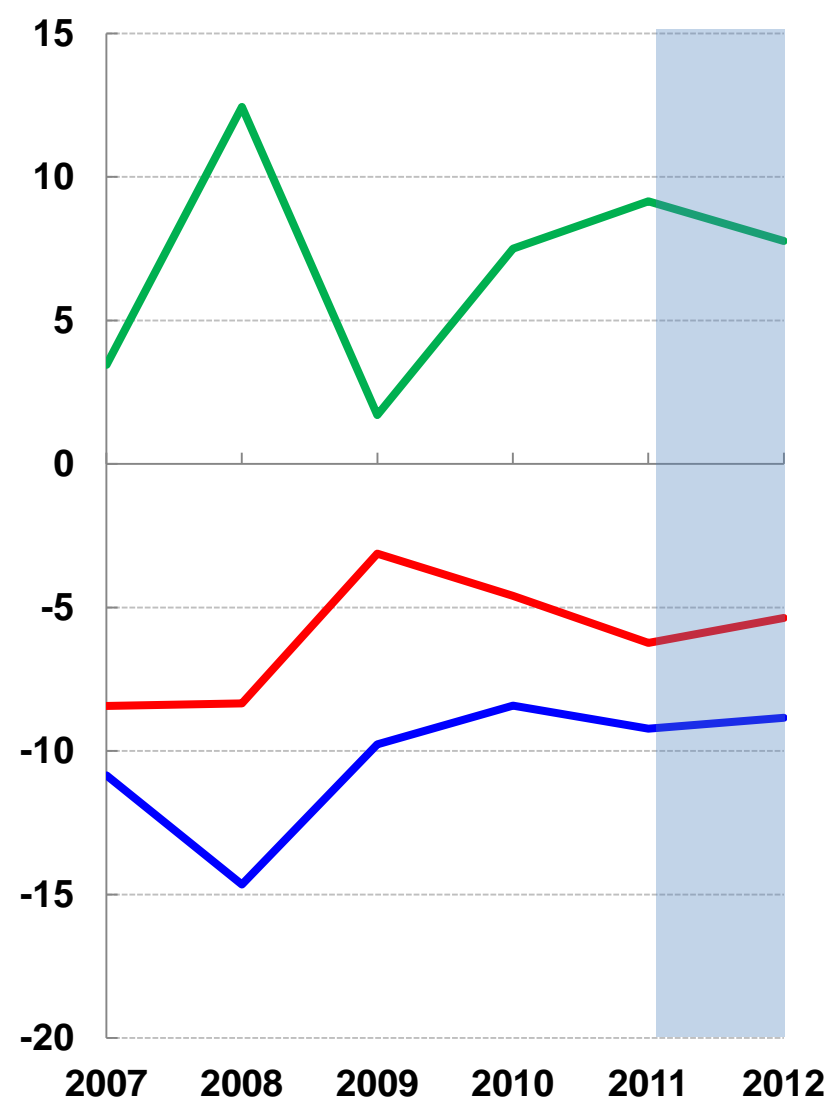
<sup>1</sup>Weighted by PPPGDP.

<sup>2</sup>CEE policy rate is the weighted average of Bulgaria, Hungary, Latvia, Lithuania, Poland, Romania, and Turkey.

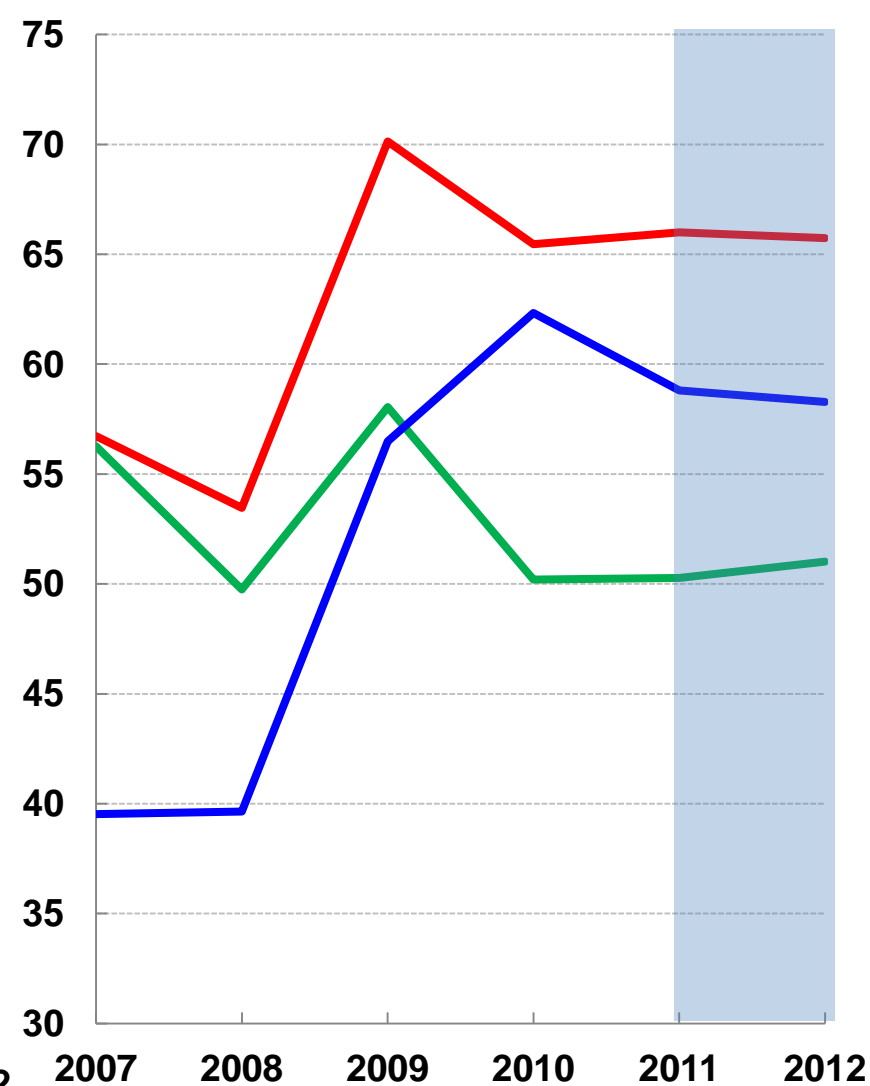
Sources: IMF, Global Data Source (GDS) database; and IMF staff calculations and projections.

# Need to address external vulnerabilities in the oil and gas importers

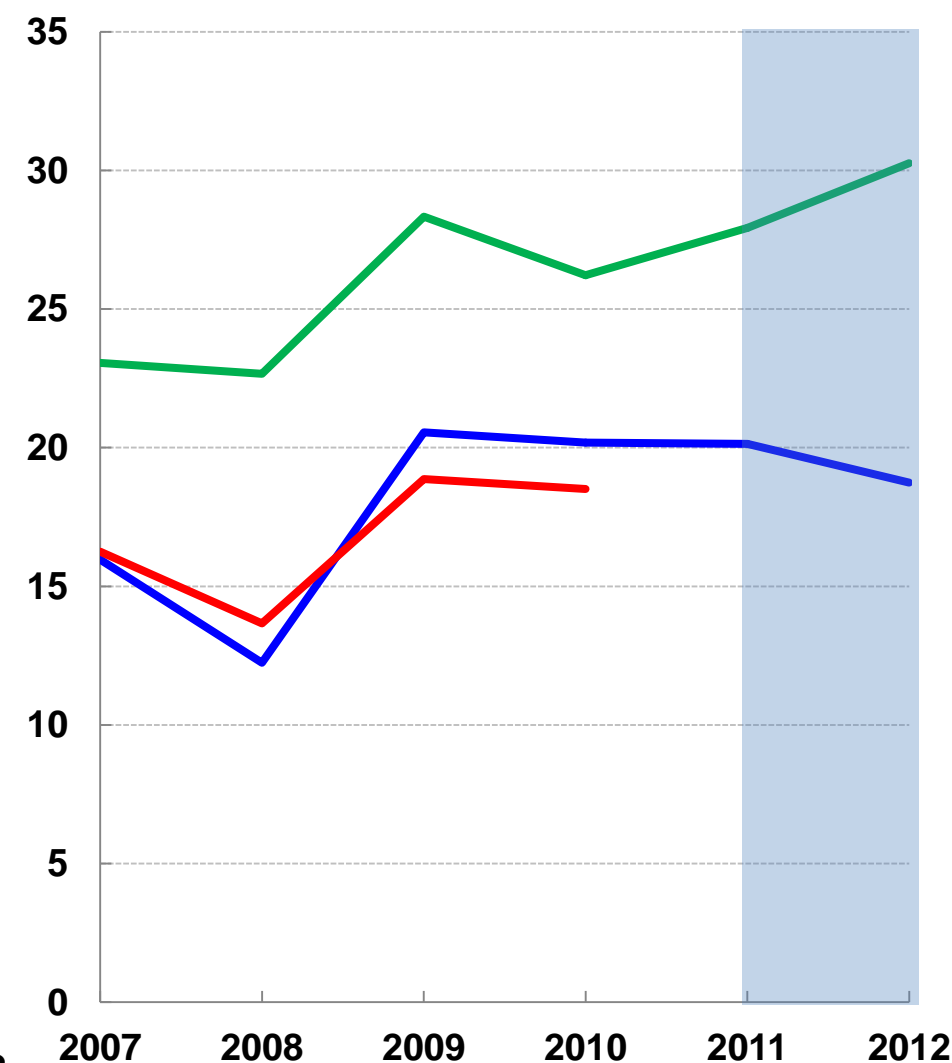
**Current Account Balance**  
(percent of GDP)



**External Debt**  
(percent of GDP)



**International Reserves**  
(percent of GDP)

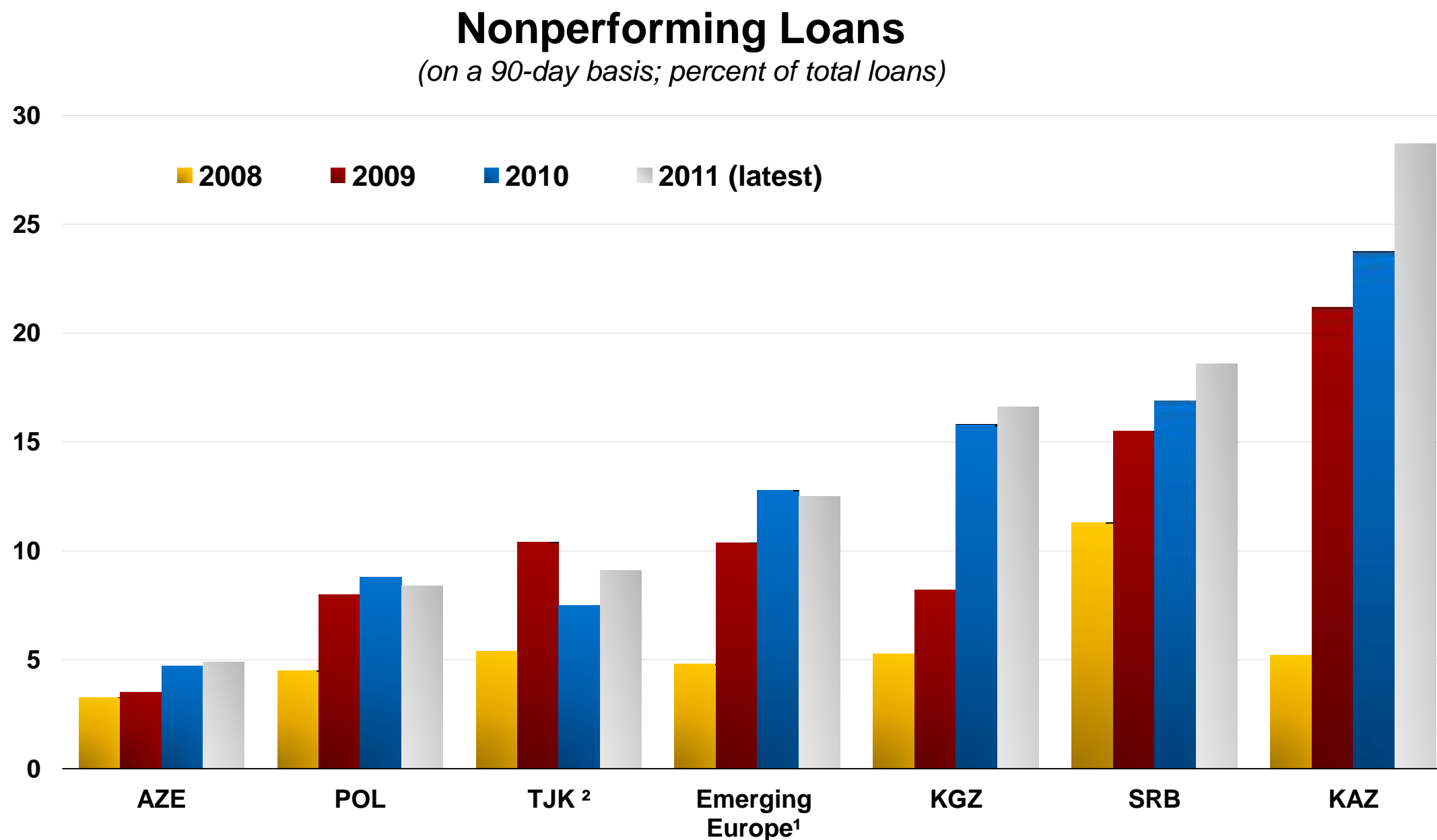


— CCA oil and gas exporters — CCA oil and gas importers — CEE

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



# Need to repair bank balance sheets in some countries



Sources: National authorities; GFSR.

<sup>1</sup>Simple average of NPLs for Albania, Bosnia, Bulgaria, Croatia, Hungary, Lithuania, Latvia, Macedonia, Montenegro, Poland, Romania, Russia, Serbia, Turkey, and Ukraine.

<sup>2</sup>30-day basis.

# Policy Advice in the Event that Risks Materialize

## Allow greater ER flexibility

- Step-up communications on risks now
- Allow flexibility if pressures emerge
- Avoid a “re-run” of the 2008-09 response: limit loss of reserves

## Ease monetary policy, if conditions warrant

- Lower global commodity prices may allow for easing of monetary policy

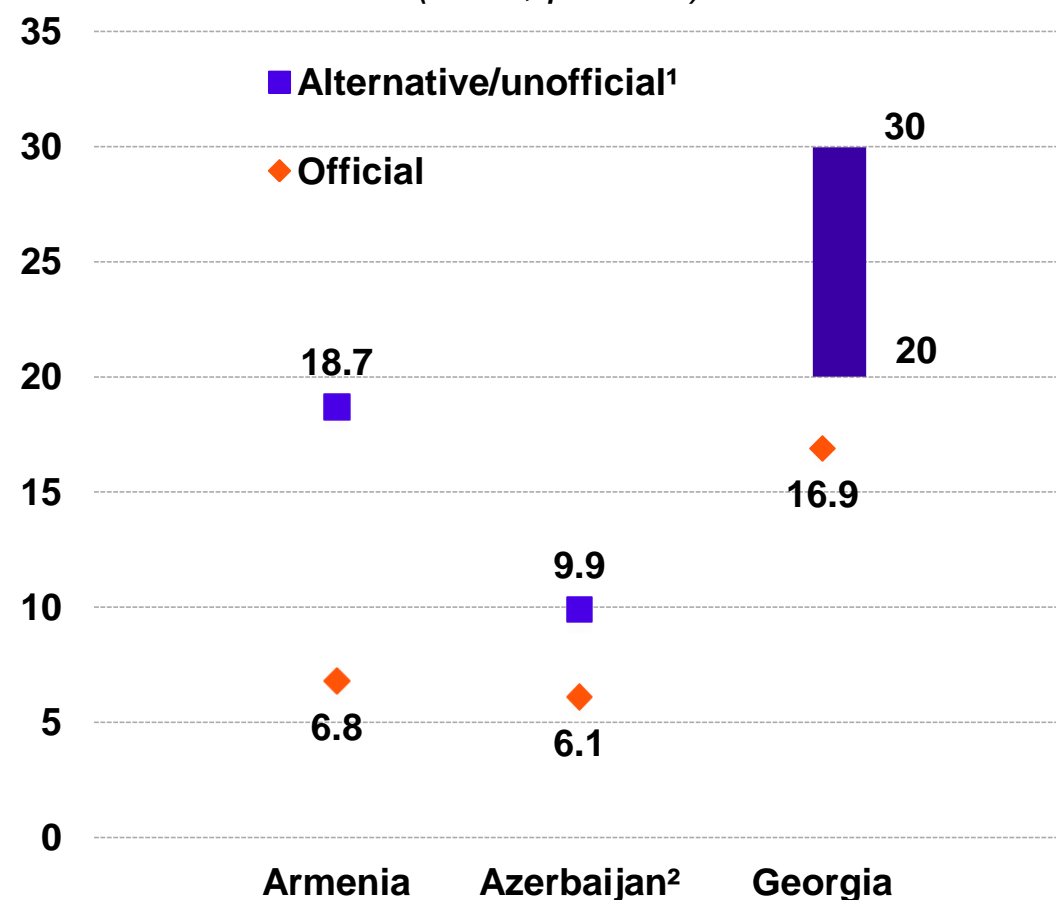
## Improve quality of fiscal spending—assess scope for targeted response

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

# Medium-term challenges: Need to address unemployment,...

## Measuring Unemployment in the South Caucasus

(2009, percent)

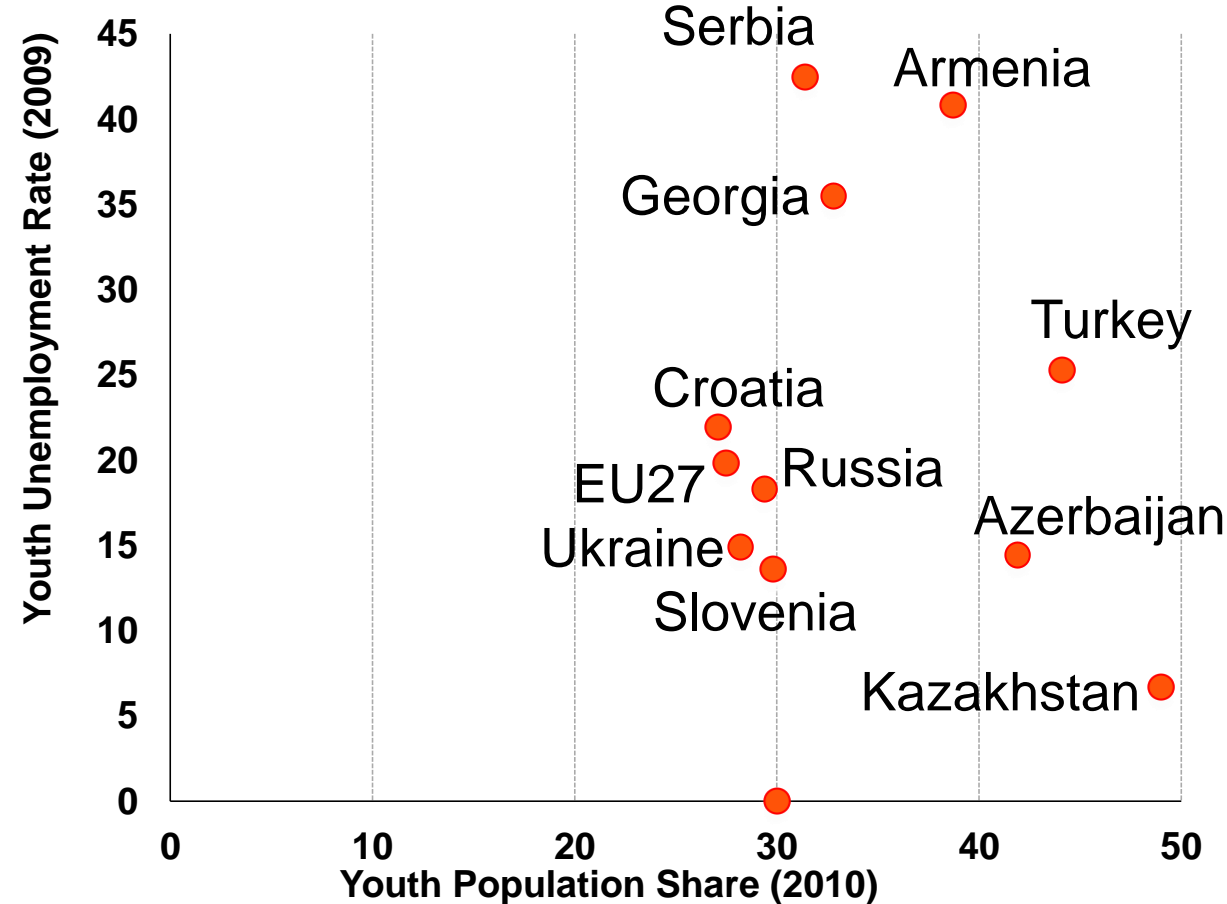


<sup>1</sup>Sources: Armenia: Asian Development Bank (2011); Azerbaijan: World Bank (2010); Georgia: National Demographic Institute, Transparency International, and Oxford Analytica.

<sup>2</sup>Data for Azerbaijan refer to 2008.

## Youth Population and Unemployment<sup>1</sup>

(percent)



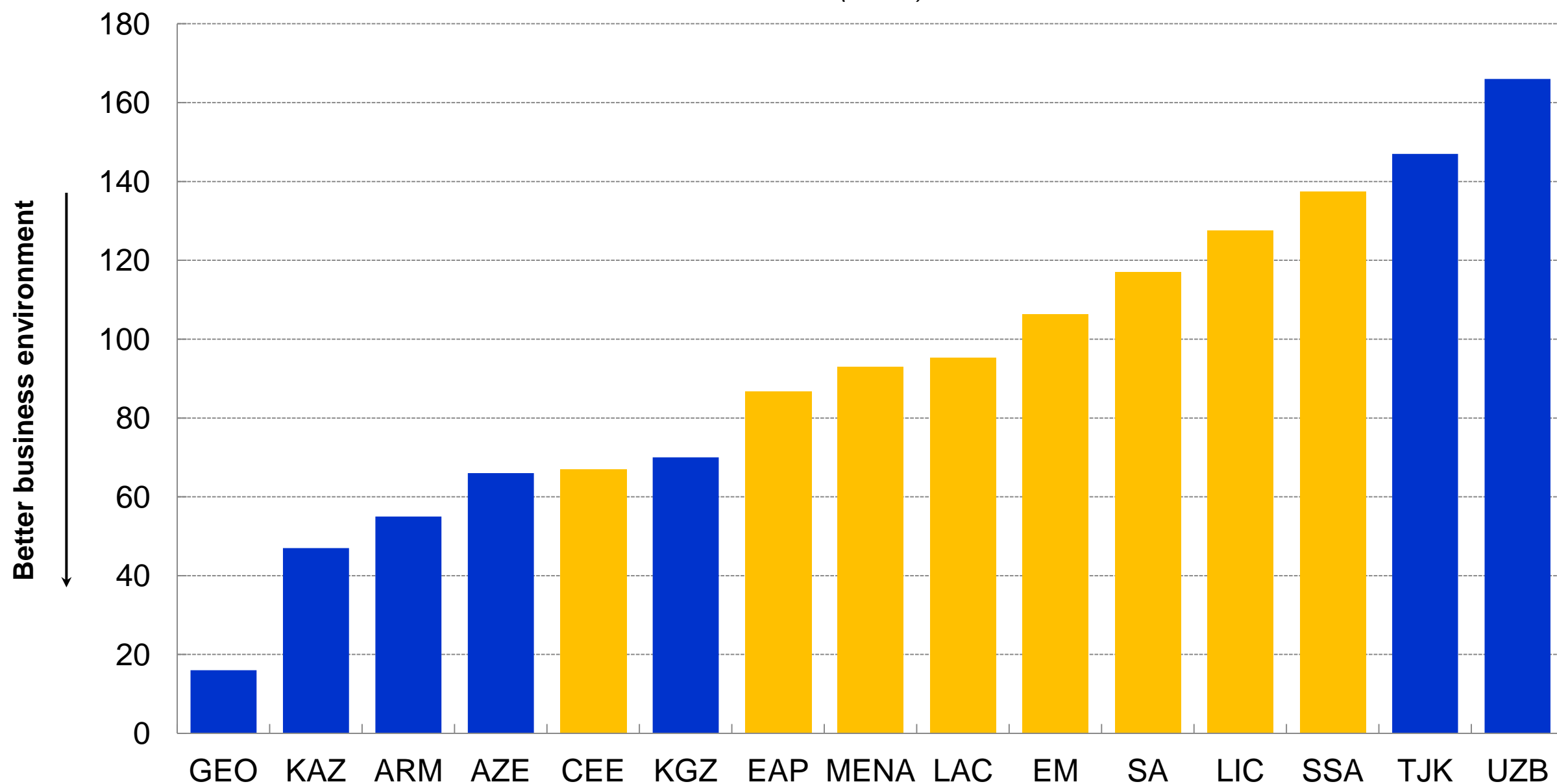
Sources: United Nations; International Labour Organization; Eurostat; and national authorities.

<sup>1</sup> 2008 youth unemployment for Azerbaijan, Croatia, and Georgia; 2005 for Ukraine. Youth are those in the 15–24 age group.



# ...improve the business environment,...

## Doing Business Ranking (2012 )

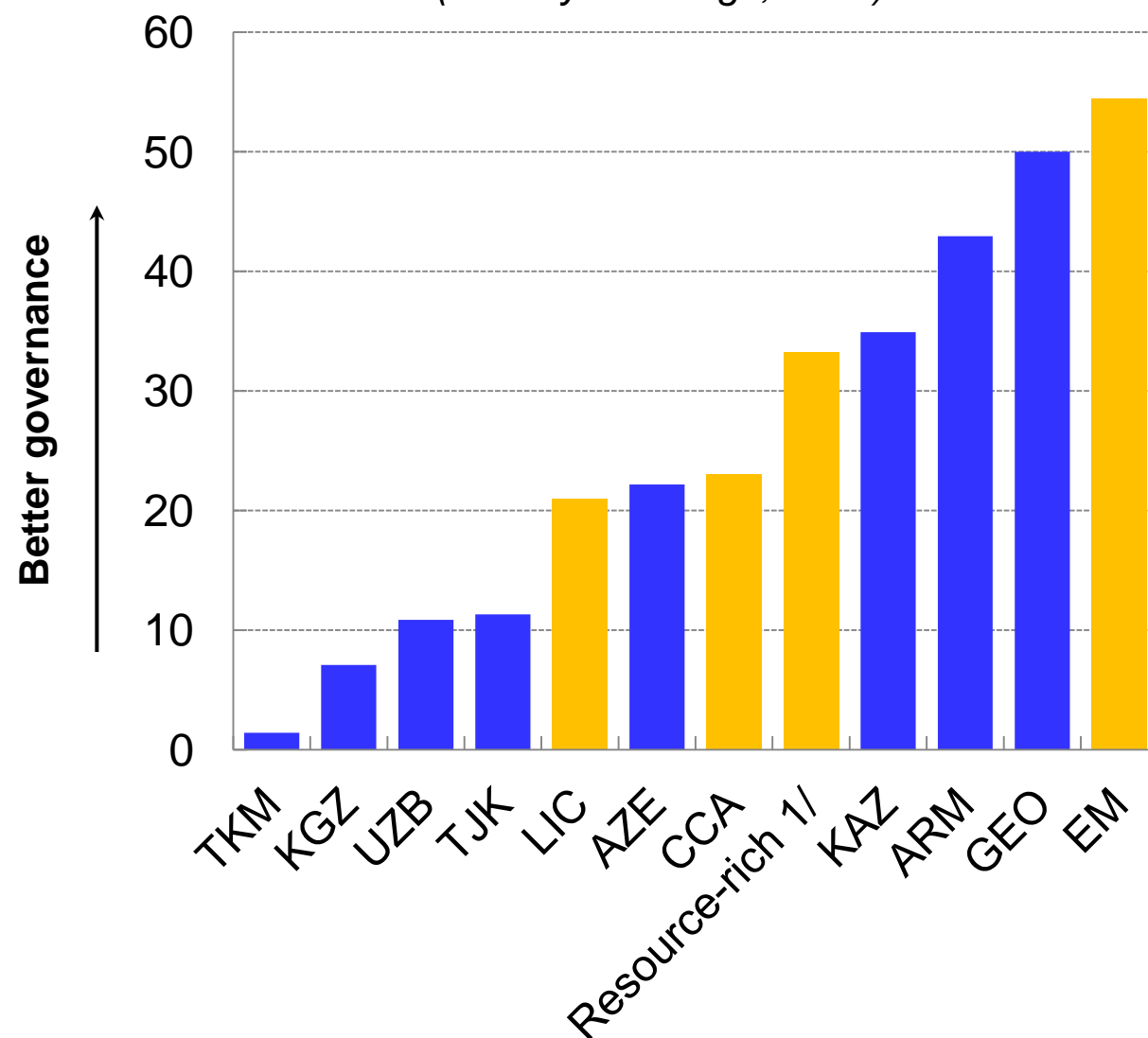


Source: World Bank, *Doing Business Survey*.

## ...and enhance governance

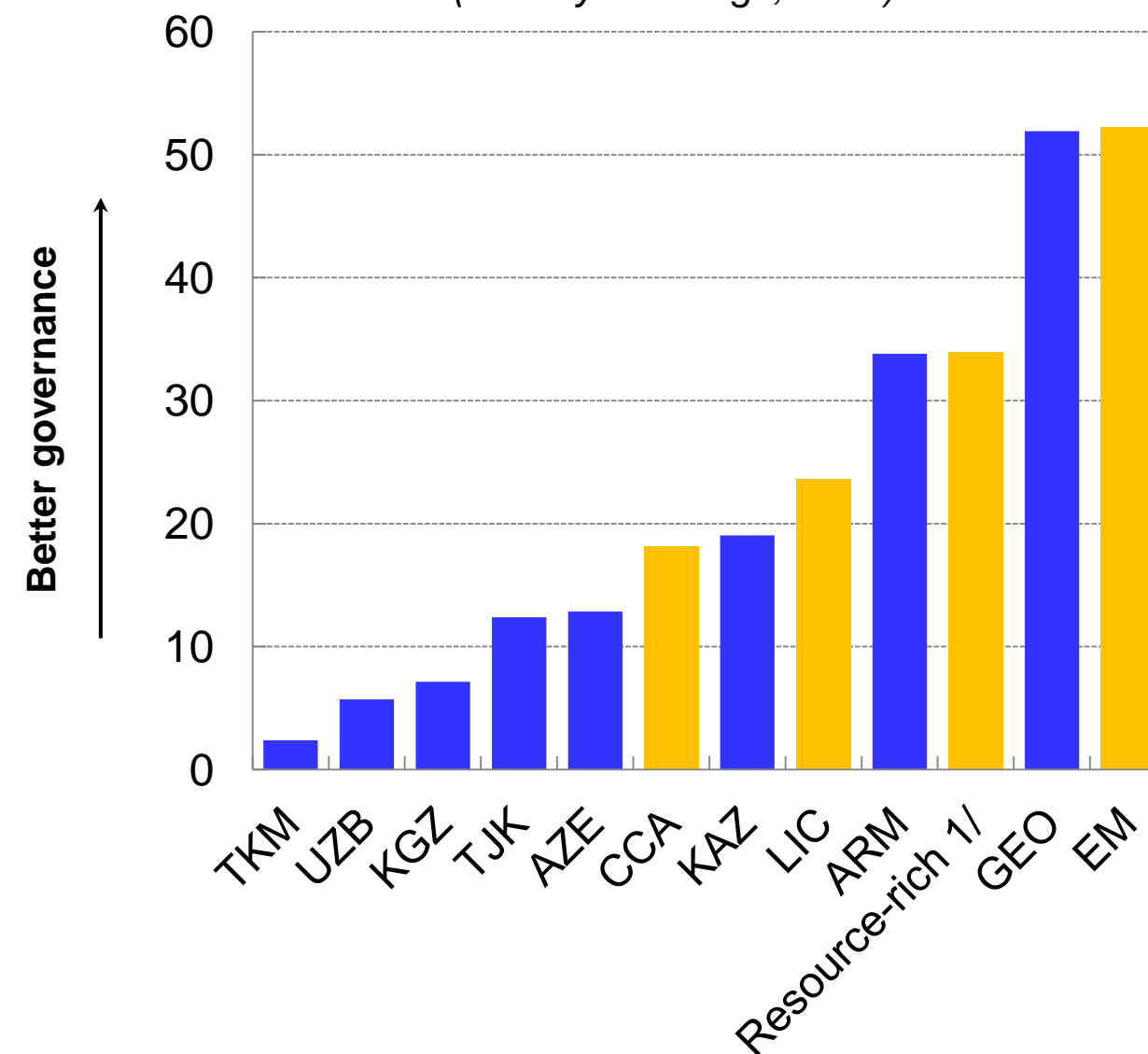
### Rule of Law

(country Rankings, 2010)



### Control of Corruption

(country Rankings, 2010)



Source: World Bank, Worldwide Governance Indicators 2009.

1/ The Resource-rich group comprises the 41 resource-rich countries that are included in the Revenue Watch Institute's 2010 index.

# Policy Priorities

## **Oil and Gas Importers:**

- Aim for sustained fiscal consolidation
- Rein in large current account deficits
- Tighten monetary policy further (KGZ, TJK)

## **Oil and Gas Exporters:**

- Exit from accommodative fiscal and monetary policies to combat inflation
- Improve the transparency, quality, and efficiency of public spending

- If global growth deteriorates sharply, macroeconomic policy tightening may need to be put on hold in the short term
- Need to repair bank balance sheets and tackle high NPLs in some countries

## **Medium-term policy priorities:**

- Address unemployment
- Improve the business environment
- Enhance governance



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mcd/eng/mreo1011.htm](http://www.imf.org/external/pubs/ft/reo/2011/mcd/eng/mreo1011.htm)

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