



## The Caucasus and Central Asia: From Transition to Emerging Markets

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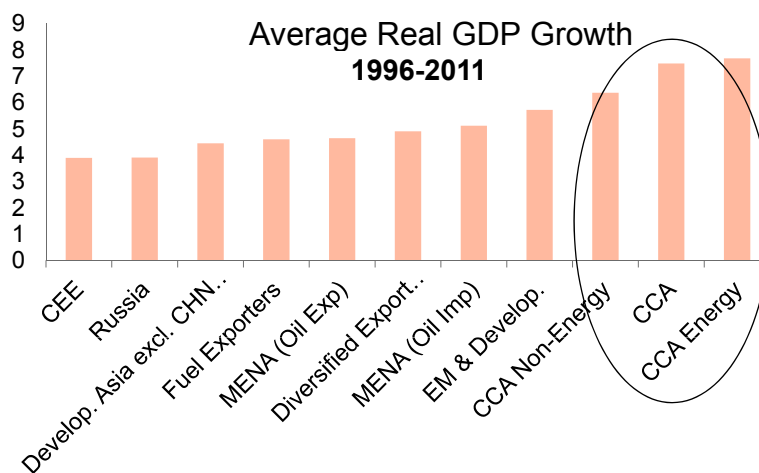
## The Caucasus and Central Asia



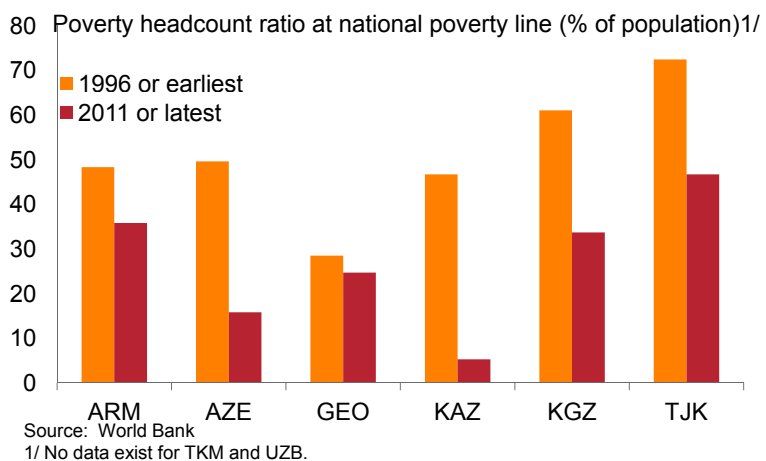
# Outline

- Growth performance over the past 20 years
- A vision for the next decade
- Macroeconomic policies to achieve this vision
  - ❖ Monetary policy
  - ❖ Financial sector
  - ❖ Fiscal policy
  - ❖ Management of energy resources

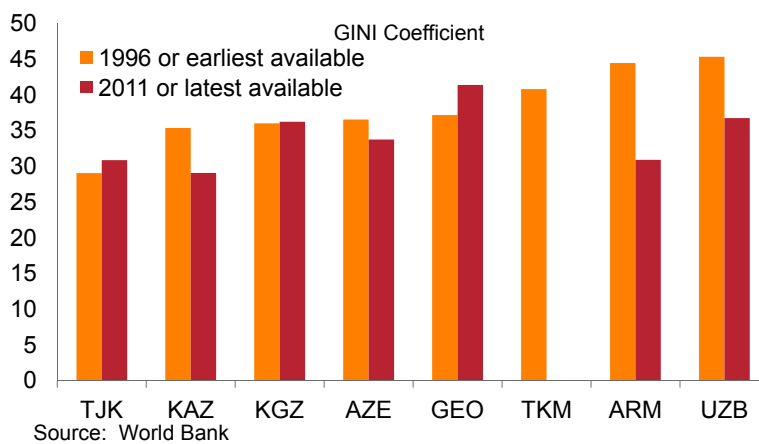
## Growth in the CCA region has been strong...



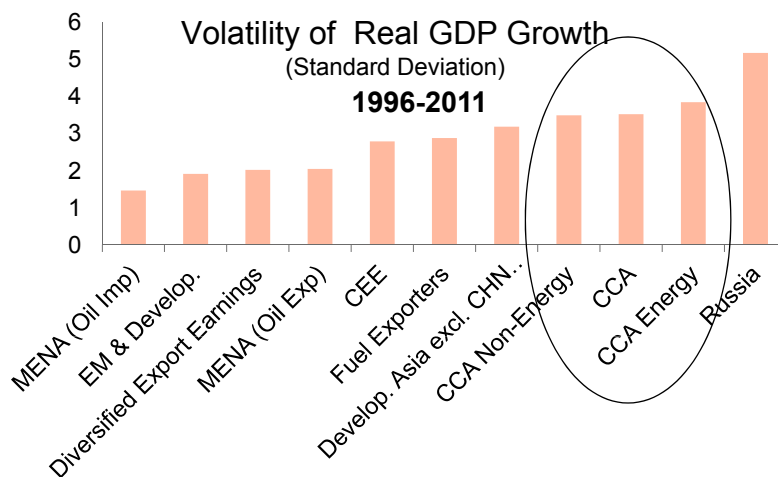
## ...helping reduce poverty.



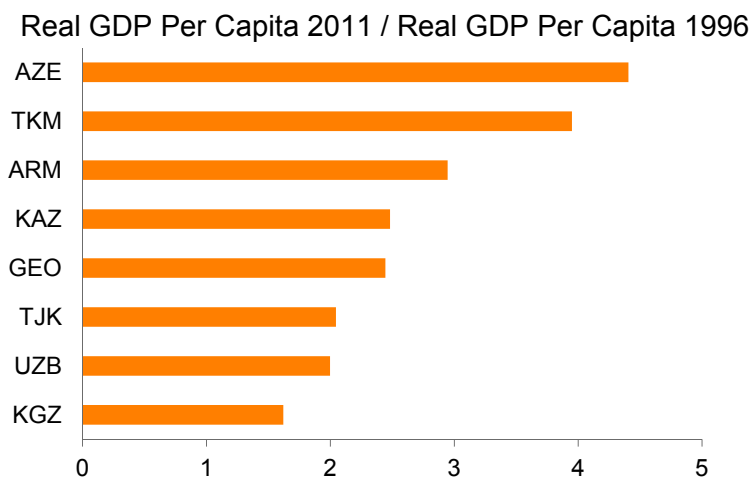
## But high growth has not reduced inequality...



...and CCA growth has been volatile...



...and uneven across CCA countries.

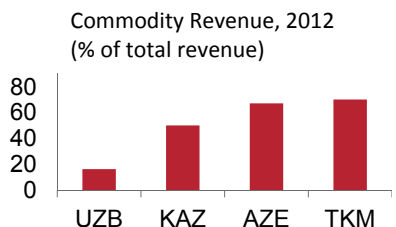


## Growth in the region has not been diversified...

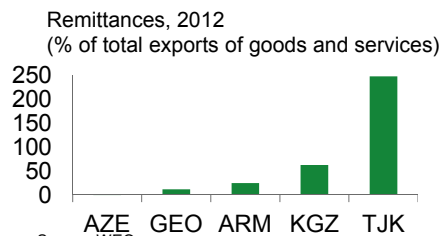


Source: Country authorities, staff estimates and WEO

1/ Includes oil, gas, precious metals, aluminum, copper, other metals, metal byproducts and cotton.

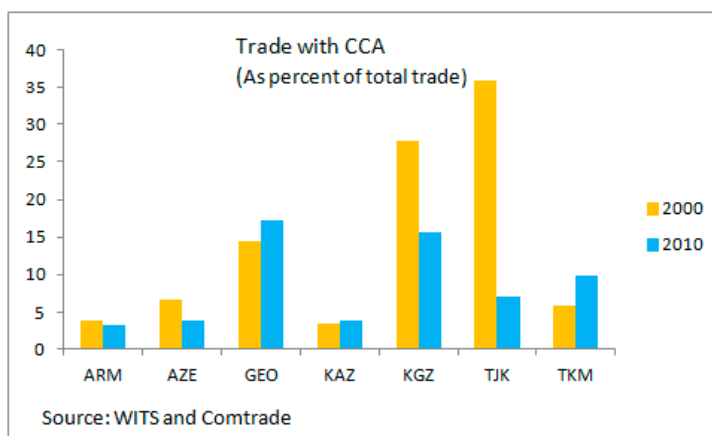


Source: Country authorities, staff estimates and WEO



Source: WEO

## ...and has not benefitted from regional integration.



Source: WITS and Comtrade

Vision for CCA: Become vibrant emerging market economies over the next decade

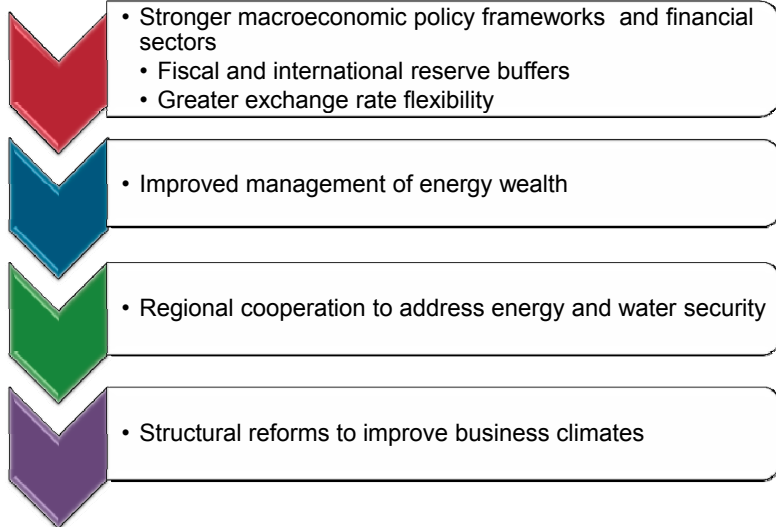
➤ To achieve this, growth should be



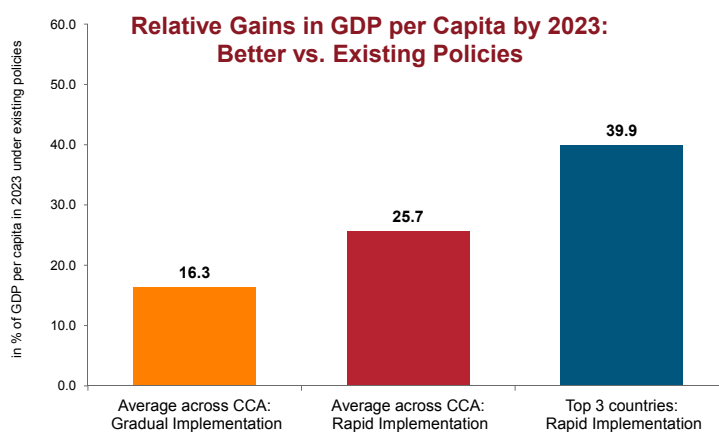
### CCA Vision: Obstacles and risks

External	Domestic	Global
<ul style="list-style-type: none"> <li>• Vulnerability to shocks (e.g., food and fuel prices)</li> <li>• Lack of integration with regional and global markets</li> </ul>	<ul style="list-style-type: none"> <li>• Strong vested interests</li> <li>• Weak institutions, including accountability</li> <li>• Potential political uncertainty</li> </ul>	<ul style="list-style-type: none"> <li>• Uncertain global growth</li> <li>• Fragility and geopolitical shifts</li> </ul>

## Actions to Support the CCA Vision

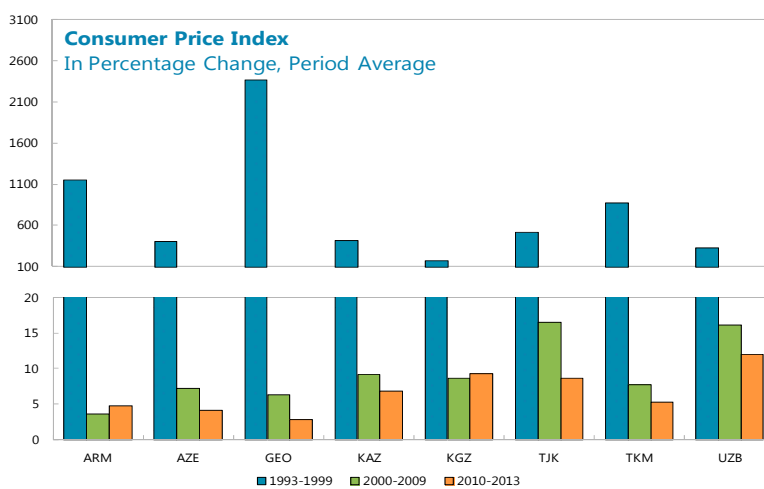


## Potential Payoff from Achieving the Vision



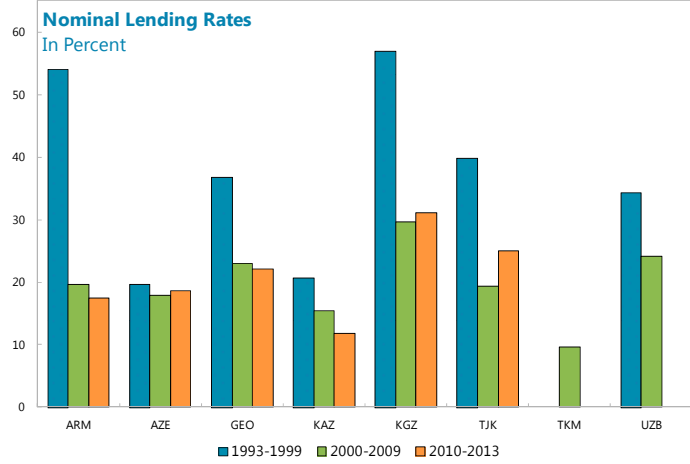
## CCA: Monetary and Financial Policies

Inflation in the region has come down significantly...

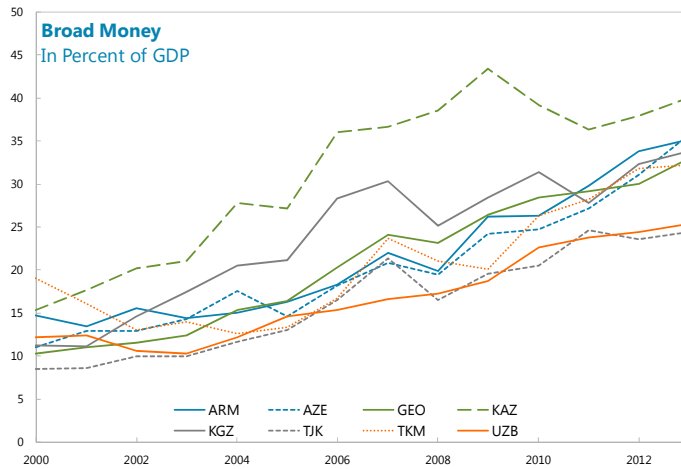




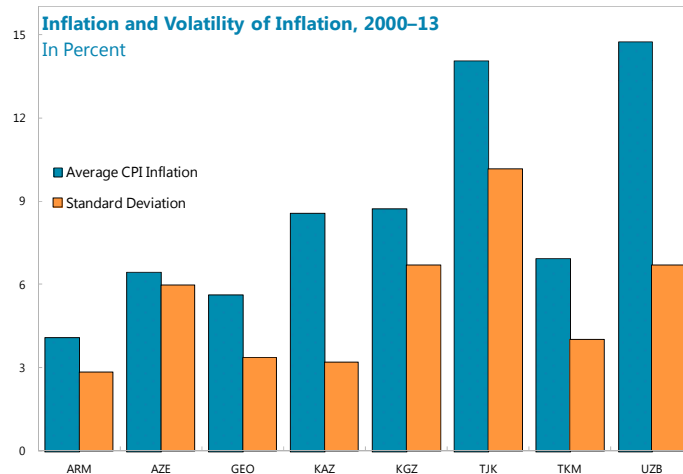
....and so have interest rates.



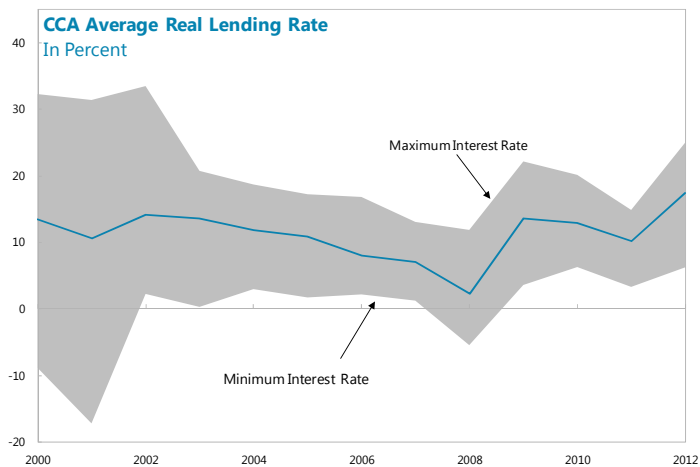
Financial sectors in the region are deeper...



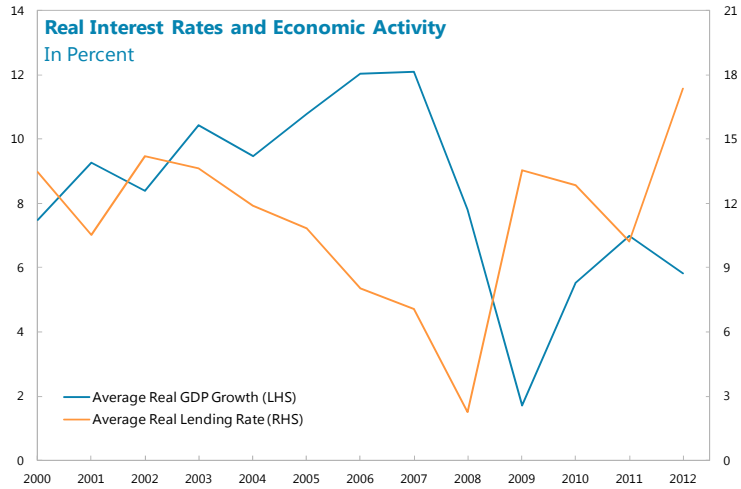
...but inflation remains volatile...



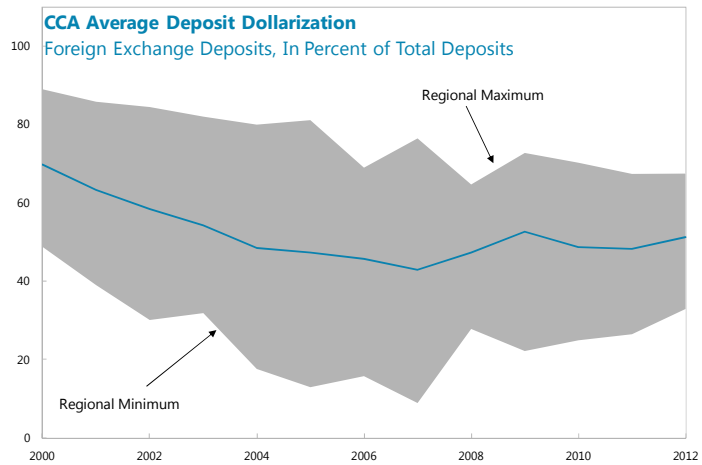
...and real lending rates are high.



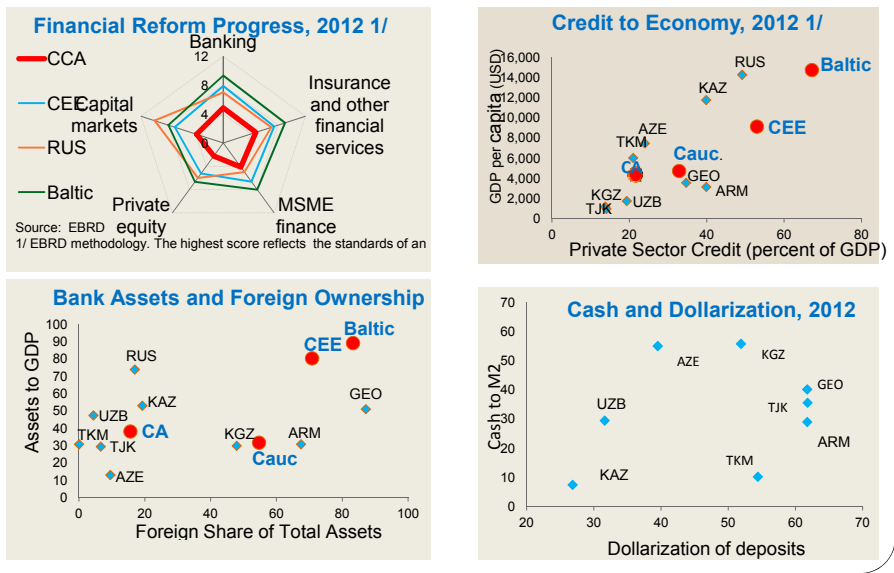
## Monetary conditions have been pro-cyclical...



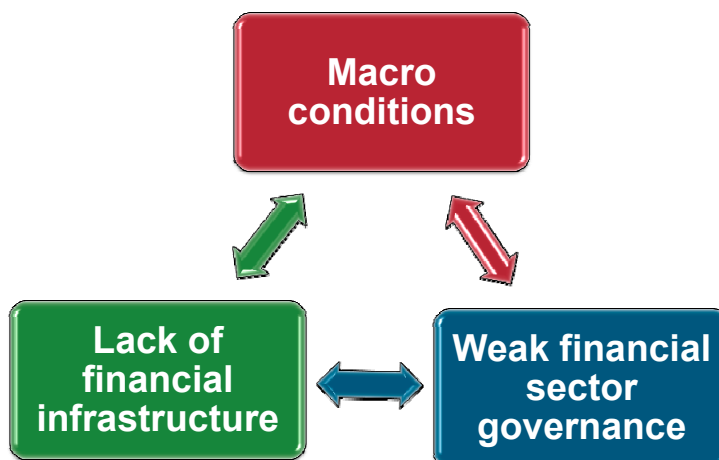
## ...and CCA economies remain heavily dollarized.



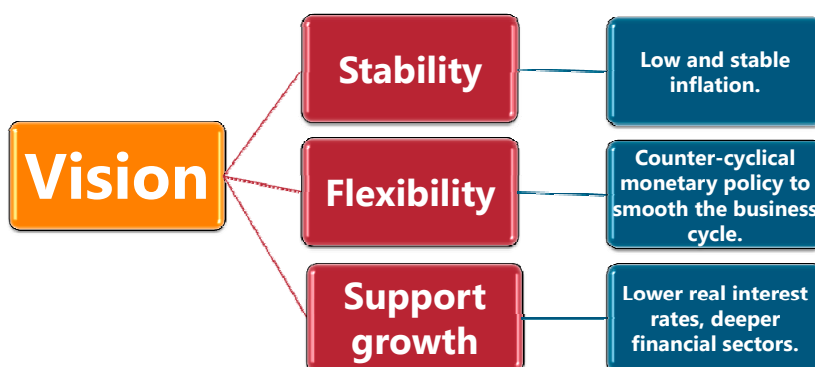
## CCA financial sectors made impressive gains...but then *stagnated*?



## Strong barriers to greater intermediation remain



## What is the Vision?



## What are the Policy Priorities?

- Strengthen central bank independence
- Strengthen monetary policy transmission
- Improve data and forecasting model
- Strengthen communications
- Clarify the role of the exchange rate
- Allow greater exchange rate flexibility

## CCA financial sectors: Way forward?

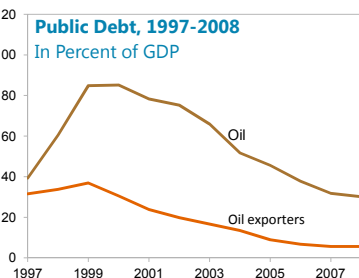
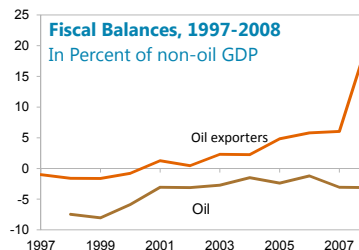


## CCA: Fiscal Policy

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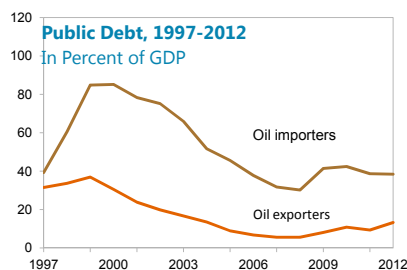
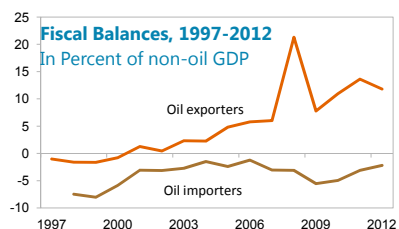
## Fiscal Policy—Notable Achievements...

- ❖ Substantial fiscal consolidation prior to the crisis
- ❖ Improvement in public debt ratios
- ❖ Strengthening of fiscal institutions

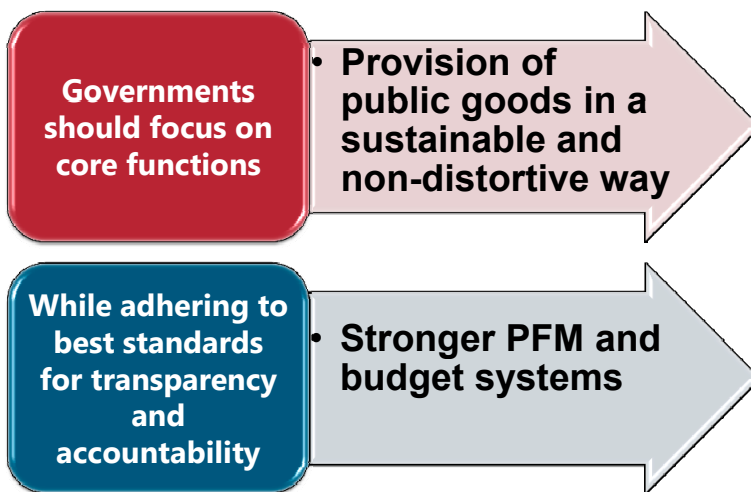


## ...but also room for improvement.

- ❖ Lower buffers after the crisis
- ❖ Low non-oil revenue
- ❖ Excessive quasi-fiscal activities

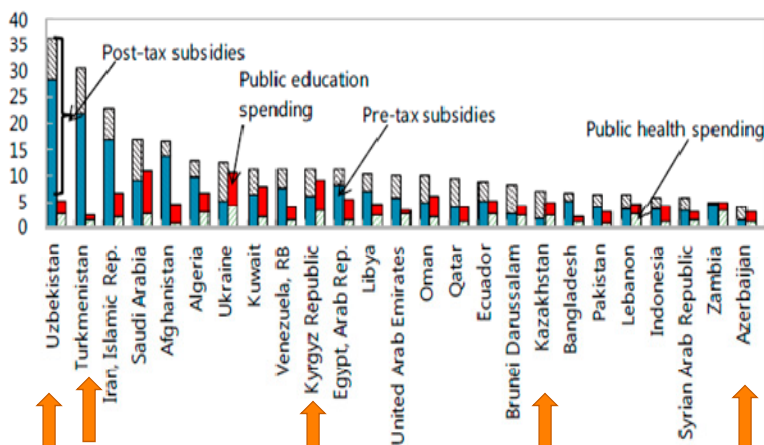


## Fiscal Policy—What is the Vision?



## Are subsidies a problem in the CCA?

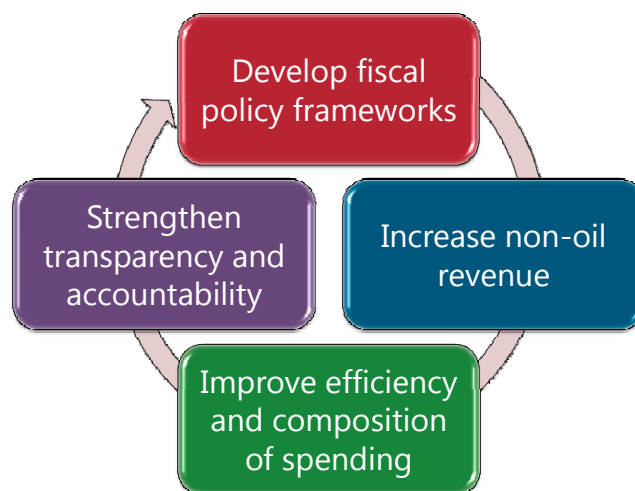
Post-tax Subsidies and Social Spending, 2010, (Percent of GDP)



Subsidies are substantially higher than critical social spending in many

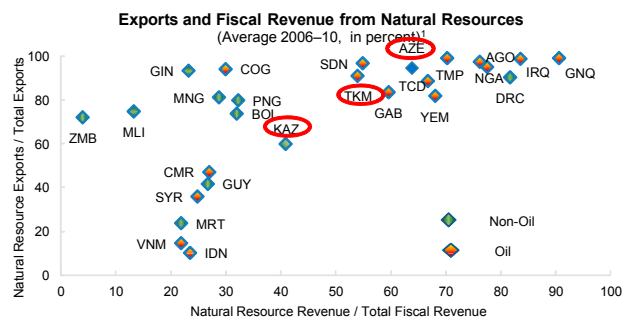


## Fiscal Policy—Priorities



## Energy Resources—Challenges

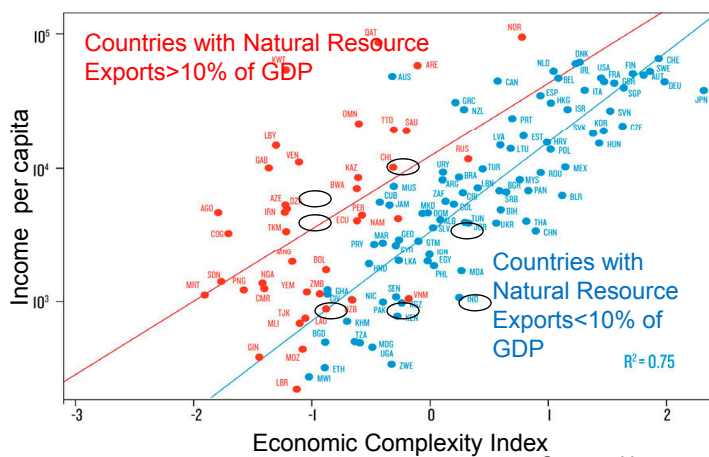
- Heavy reliance on energy resources
- Limited transparency



Sources: World Development Indicators, World Bank; World Economic Outlook, IMF; and IMF staff estimates.

## Energy Resources—Ten-Year Vision

Diversified economy: Natural resource wealth transformed into productive assets



## Energy Resources—Policy Priorities

### Revamp Fiscal Policy

- Fiscal rules
- Resource funds
- Non-resource taxes

### Balance Saving and Investment

- Absorption capacity
- Public investment efficiency

### Advance Structural Reform

- Competition
- Access to finance
- Trade

