

Regional Economic Outlook

Middle East and Central Asia Department

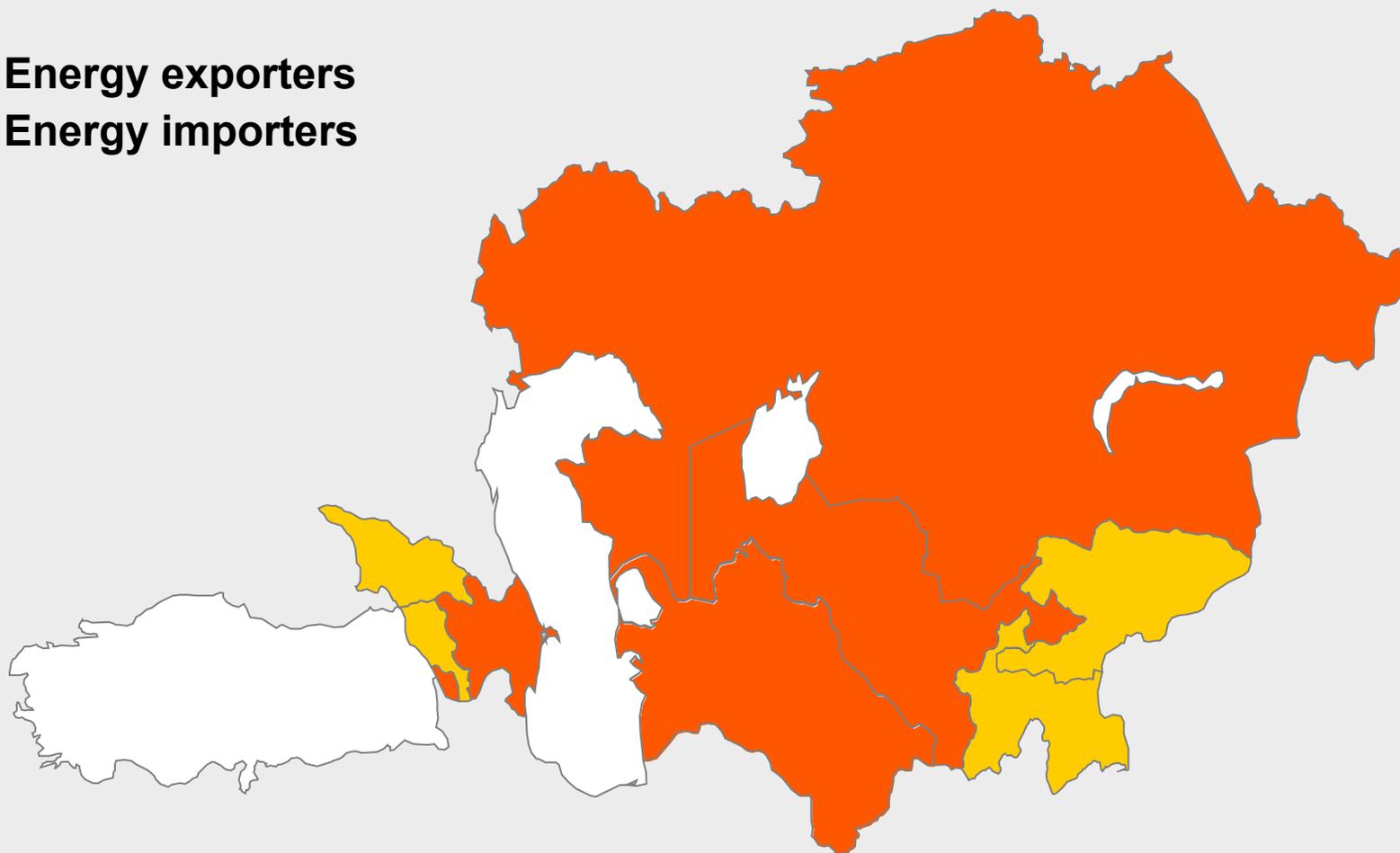
International Monetary Fund

October 2009



Caucasus and Central Asia

-  Energy exporters
-  Energy importers



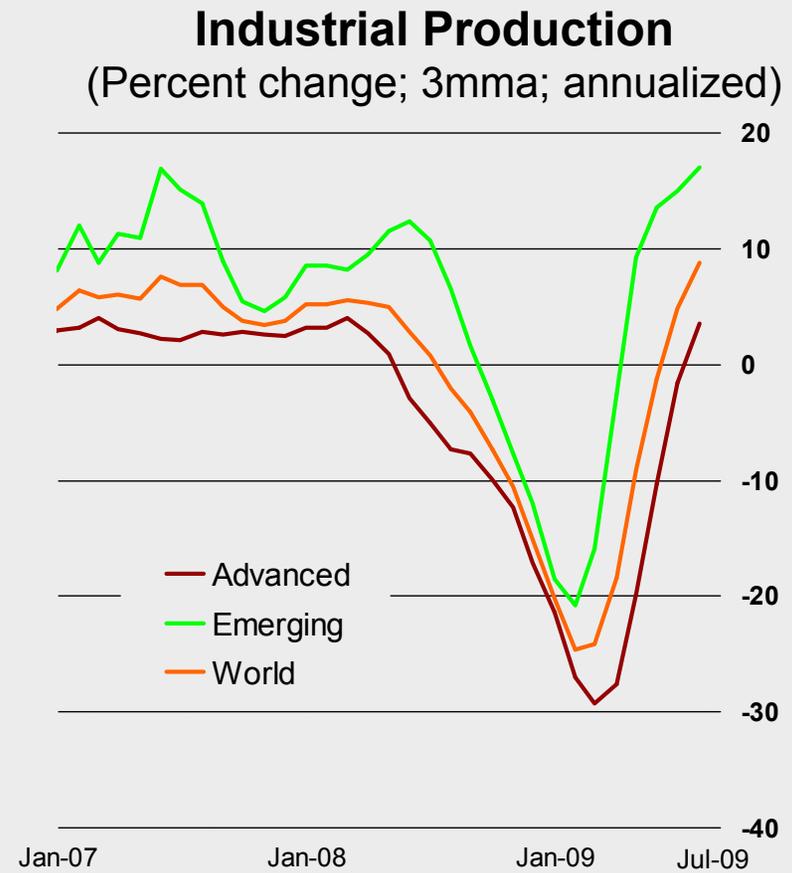
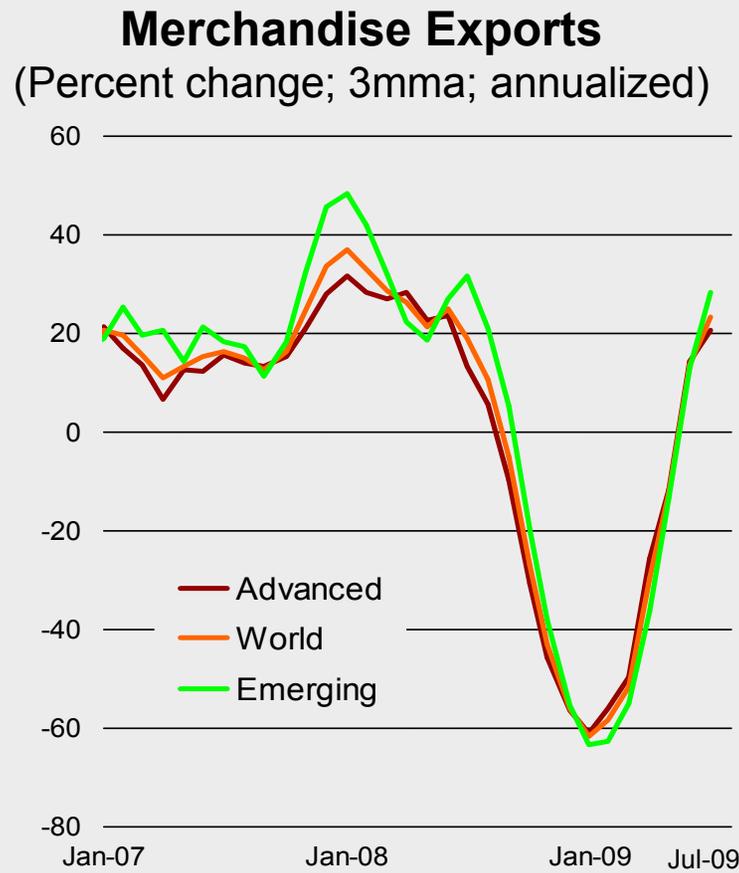
Outline

- **World Economic Outlook**
- **CCA Economic Outlook**

World Economic Outlook: Key Messages

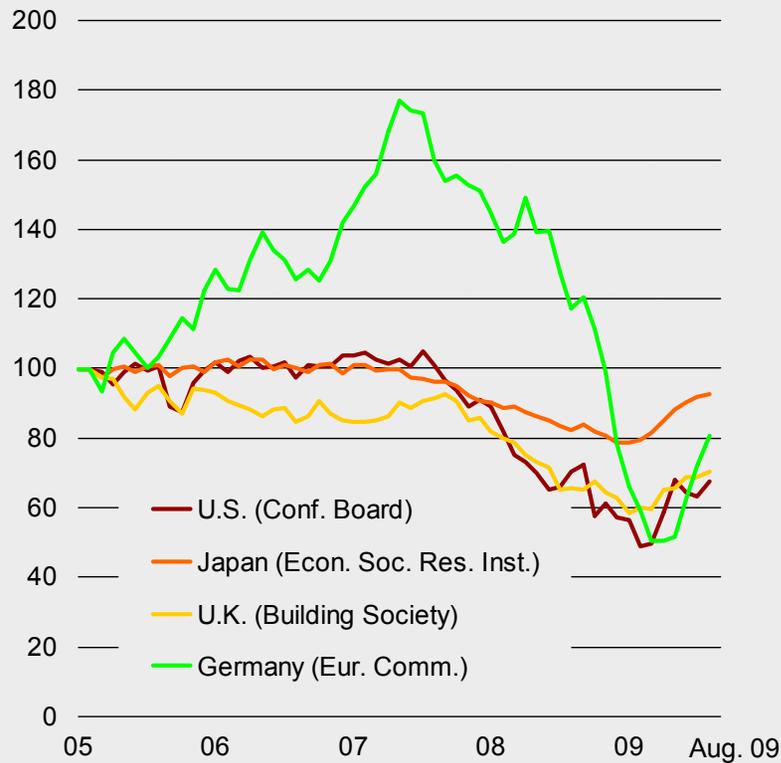
- The global economy is beginning to grow again, but recovery is likely to be sluggish. The slow recovery calls for sustained policy support until the expansion is firmly entrenched.
- Financial market conditions continue to improve but remain tight, with the global financial system remaining far from normal.
- Expansionary monetary and fiscal policy will continue to underpin the global recovery, but to safeguard price and financial stability and the soundness of public finances, credible exit strategies will be needed.
- Two key factors for the medium-term: private demand replacing public demand; and demand in external surplus economies rising to make up for shrinking demand in external deficit economies.

Exports and manufacturing helped by a turn in the inventory cycle

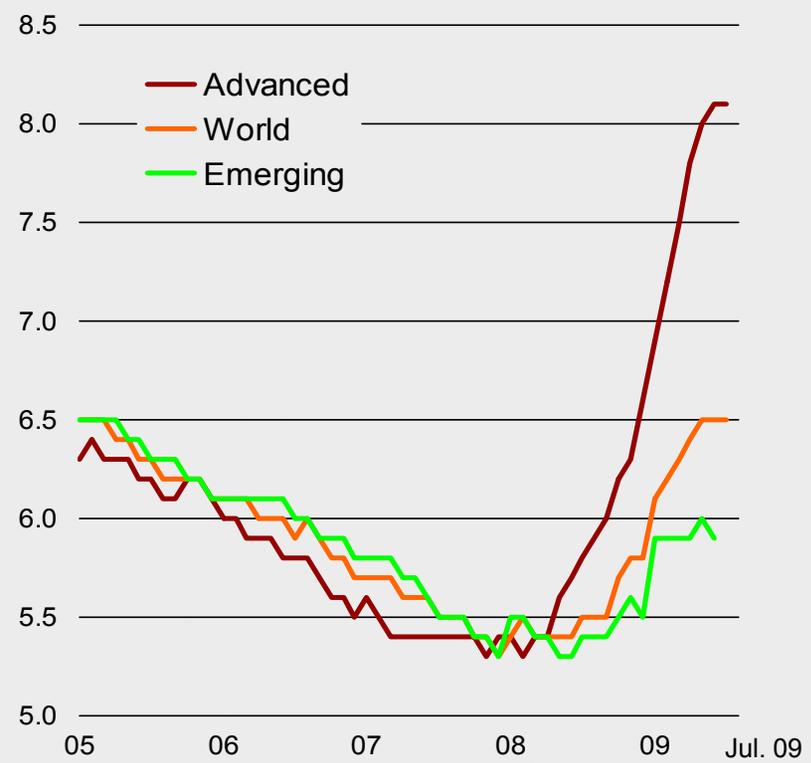


Consumer confidence slowly recovering, but unemployment still rising

Consumer Confidence
(January 2005=100)

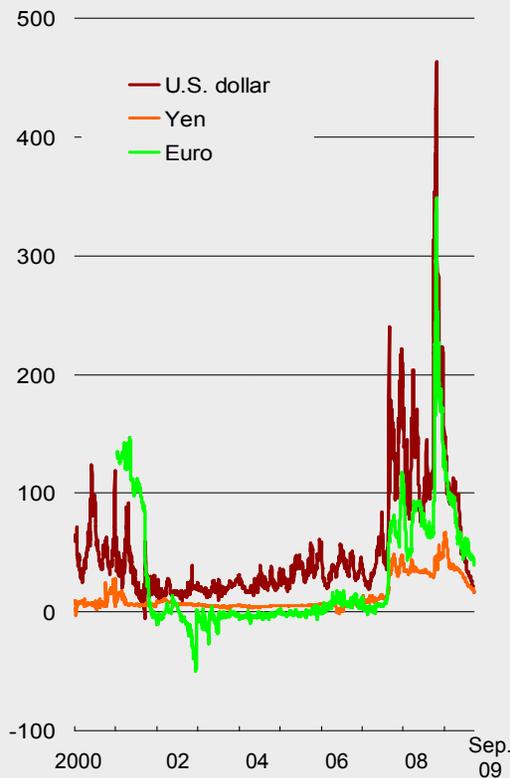


Unemployment
(Percent; weighted by labor force)

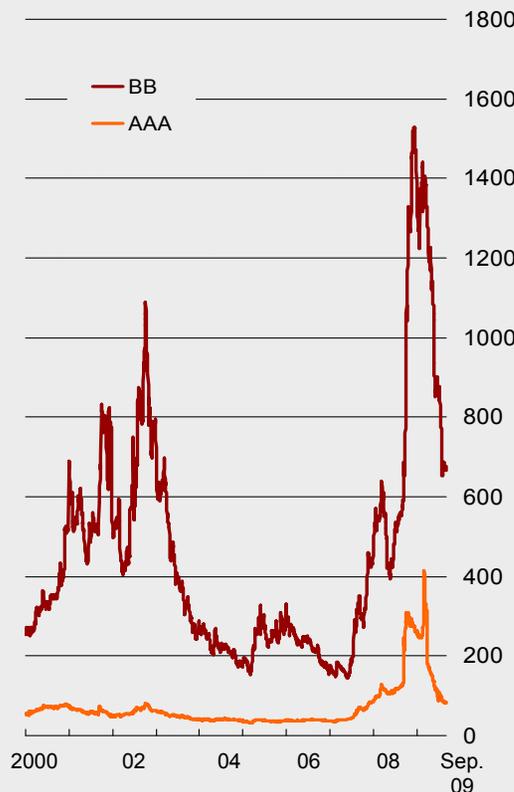


Policy has taken risk of another Great Depression off the table, but financial conditions remain tight

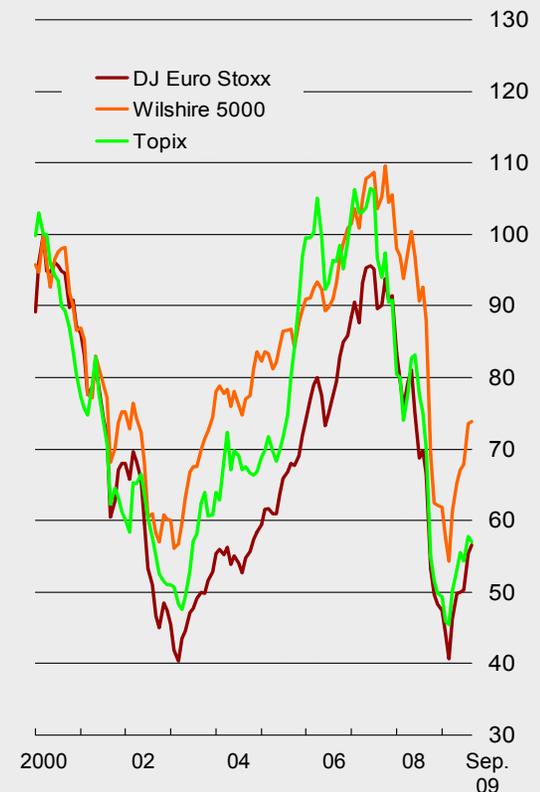
Interbank Spreads
(Basis points)



Corporate Spreads
(Basis points; averages of Europe and United States)

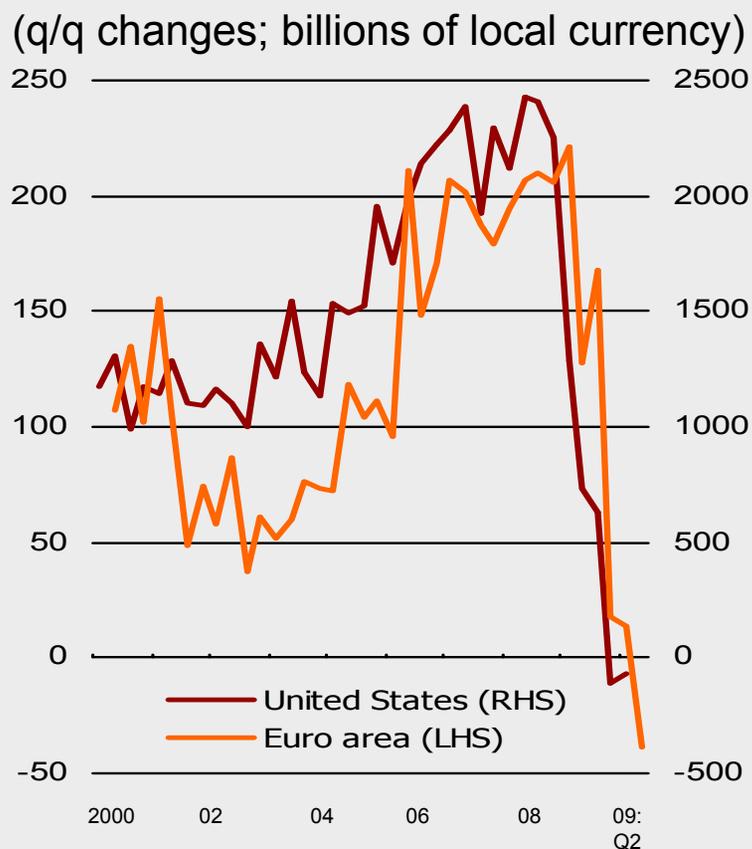


Equity Markets
(March 2000 = 100; national currency)

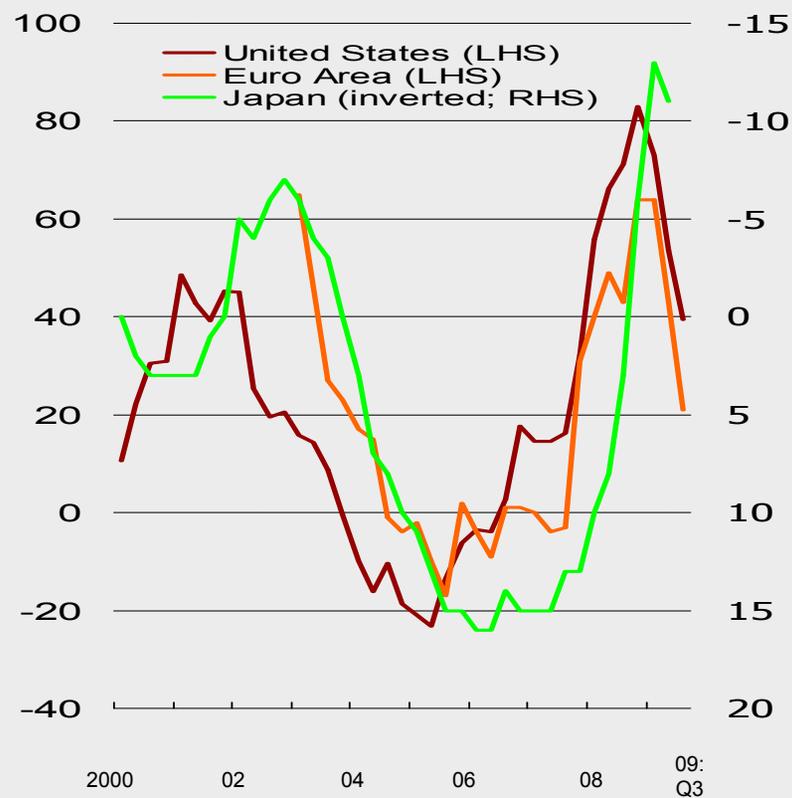


Expansionary monetary policy has been key, but will not forestall a credit crunch

Credit Growth in Private Nonfinancial Sectors

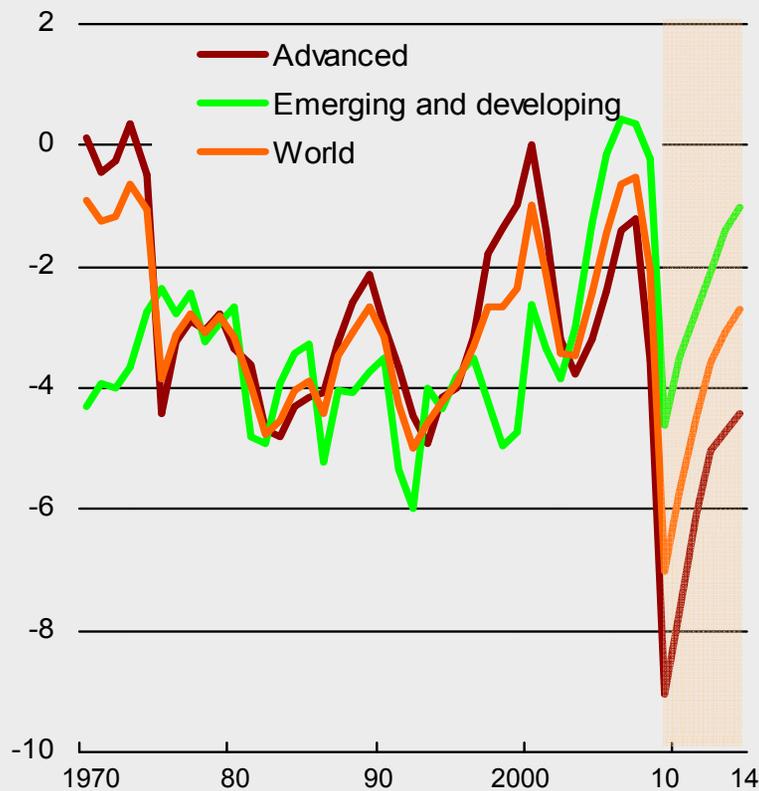


Bank Lending Conditions

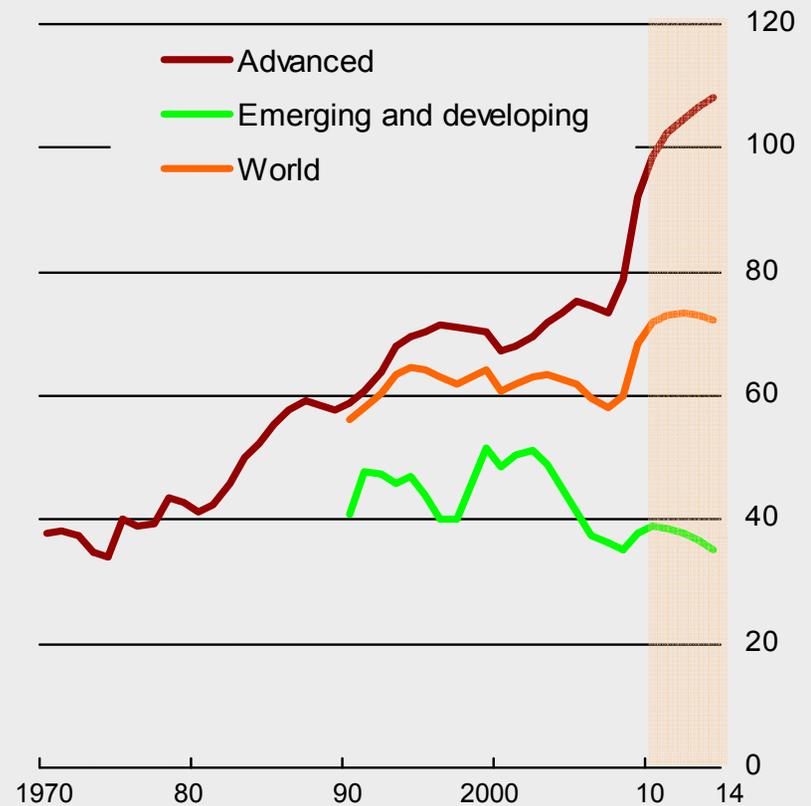


Fiscal policy too has played a major role, but fiscal support will diminish

Fiscal Balance
(Percent of GDP)

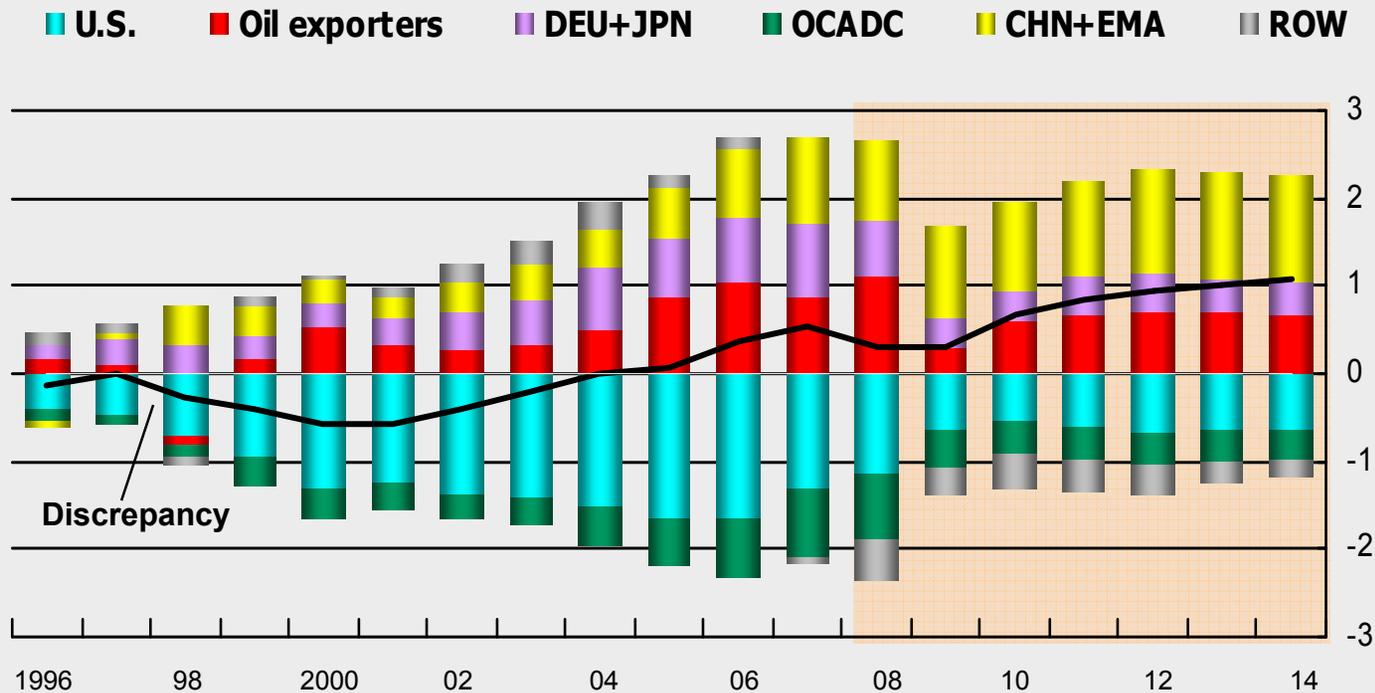


Public Debt
(Percent of GDP)



Rebalancing will be a drawn-out process, implying slow global growth

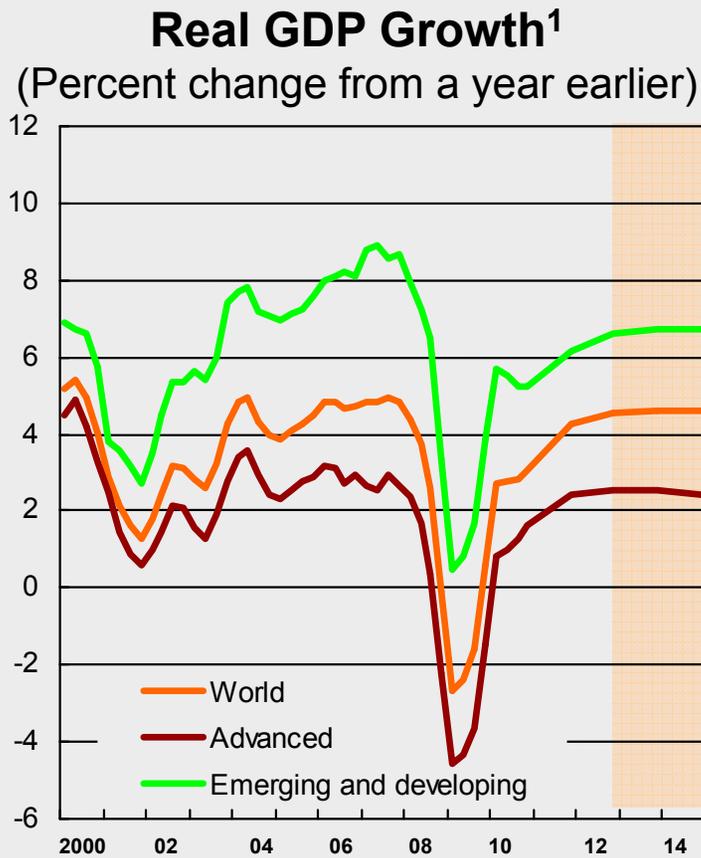
Global Imbalances¹
(Percent of world GDP)



¹ OCADC: Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Turkey, and United Kingdom.

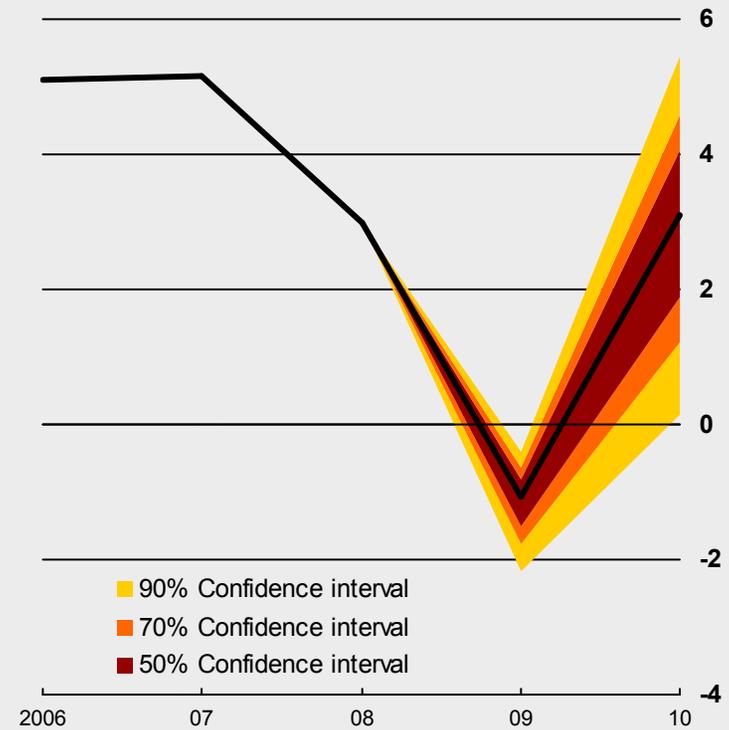


Global growth is expected to pick up in 2010, but the recovery will be sluggish



¹ Quarterly data through 2010 and annual data afterwards.

Prospects for World GDP Growth (Percent change)



Key risks, mainly on the downside

- Premature withdrawal of public support, because recovery seemingly self-sustaining—public's appetite for fiscal support seems low.
- New financial disaster, geopolitical issues/oil price surge, swine flue: economy's capacity to absorb new shocks is very low.
- Fiscal credibility loss or questions about continued independence of central banks.
- **Upside:** we may underestimate effects of reduced uncertainty/greater confidence.

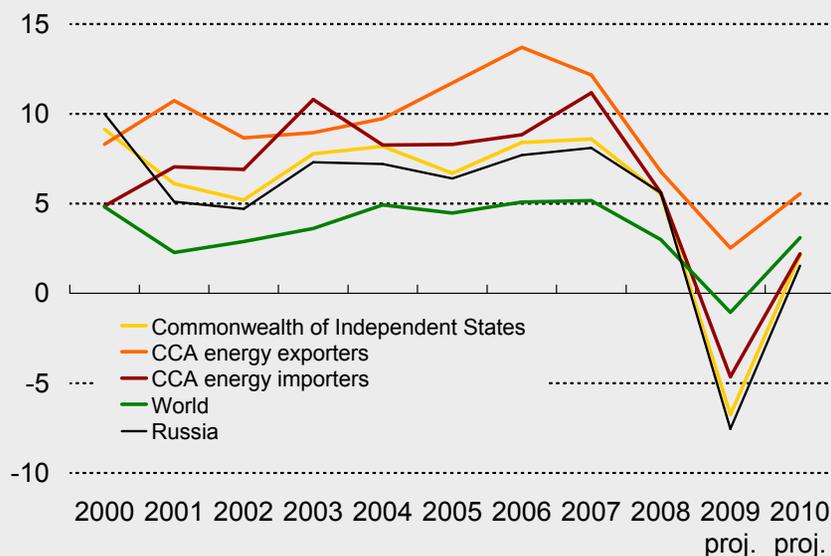
CCA Economic Outlook

- Global crisis has severely affected CCA energy importers and Kazakhstan:
 - Energy importers hit by sharp drop in remittances
 - Kazakhstan held back by lingering banking crisis
 - Other energy exporters still growing
- Modest recovery in prospect for 2010; stronger for energy exporters than for importers.
- Effective countercyclical policies have limited the downturn; concessional donor support has been important for energy importers.
- Financial sectors remain under stress, with NPLs expected to rise further.

CCA in the grip of the global crisis

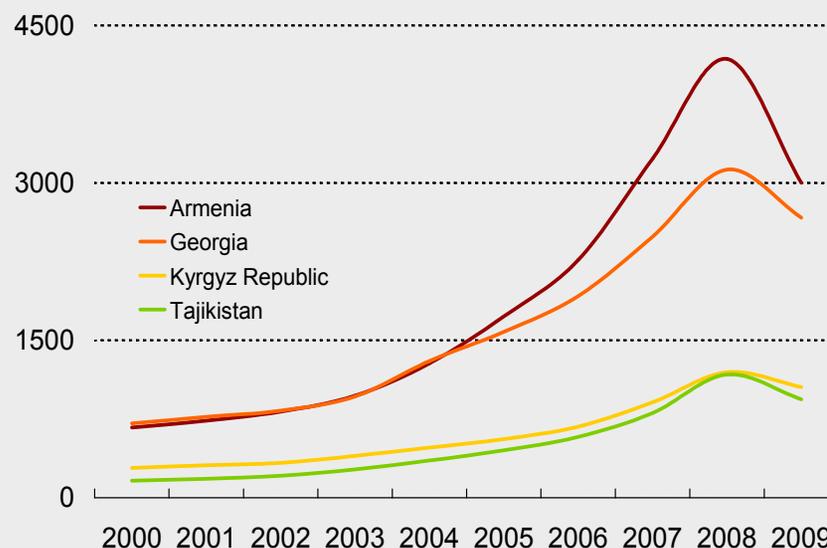
Global crisis hit the region in 2009; only a modest recovery is projected for 2010

Real GDP Growth
(Annual change; in percent)



Per capita incomes are declining in the energy importing countries

Gross National Disposable Income Per Capita^{1/}
(In U.S. dollars)



^{1/} GNDI is defined as GDP + non-factor income + transfers.

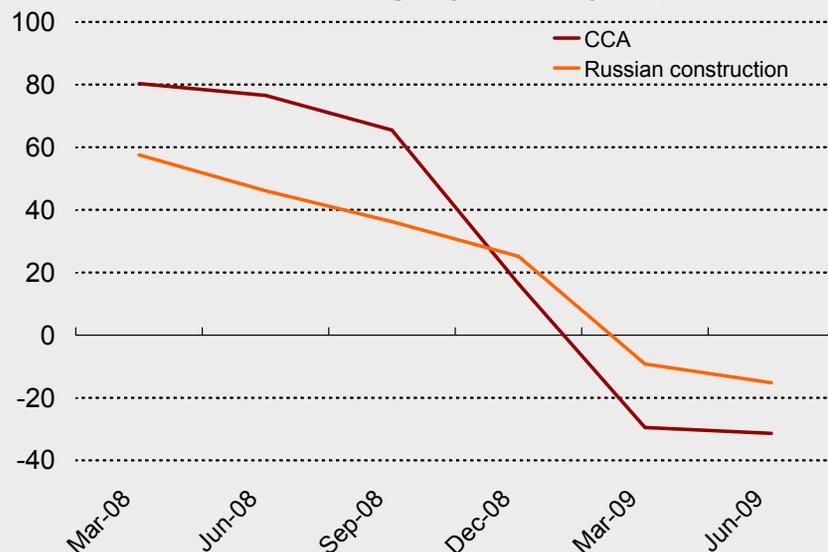
Remittances down sharply

Many migrants worked in the Russian construction sector

A collapse in remittances affects household incomes

Remittances Outflow from Russia to the CCA 1/

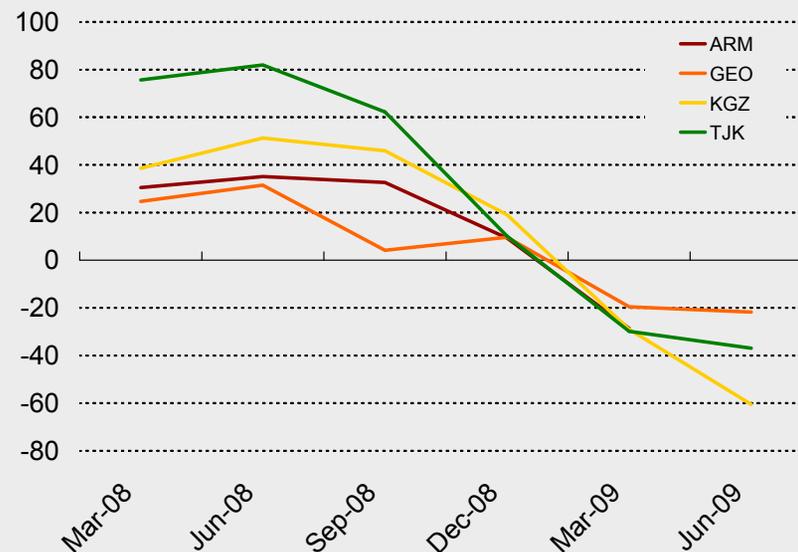
(Percent change; year-on-year)



1/ Includes compensation of employees and migrants capital transfer.

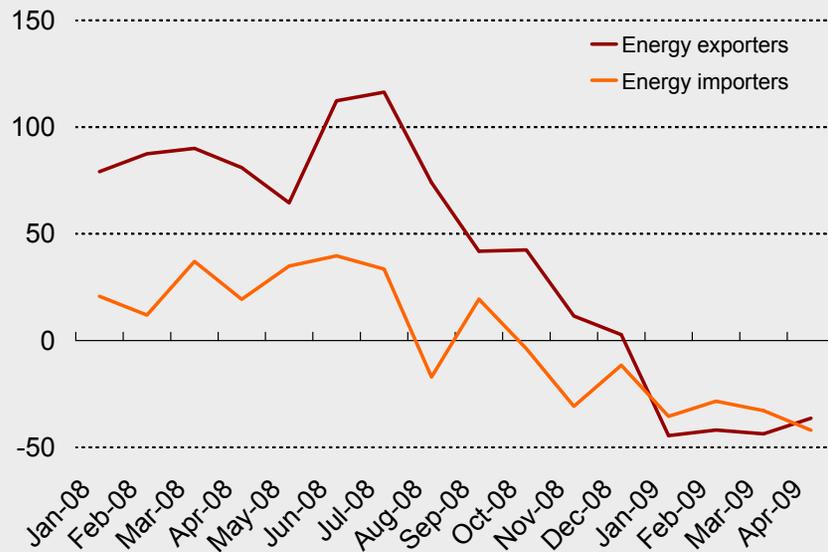
Remittances Inflows

(Percent change; year-on-year)

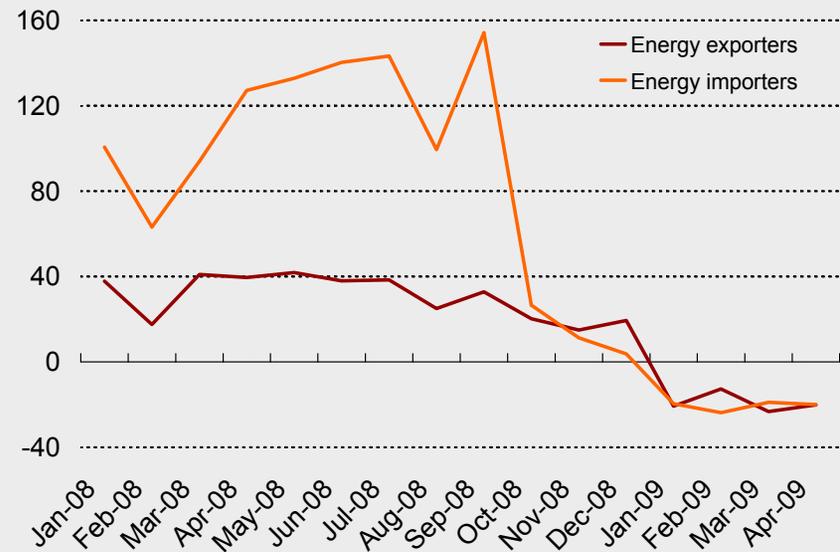


Exports contracted sharply in 2009, but imports also falling

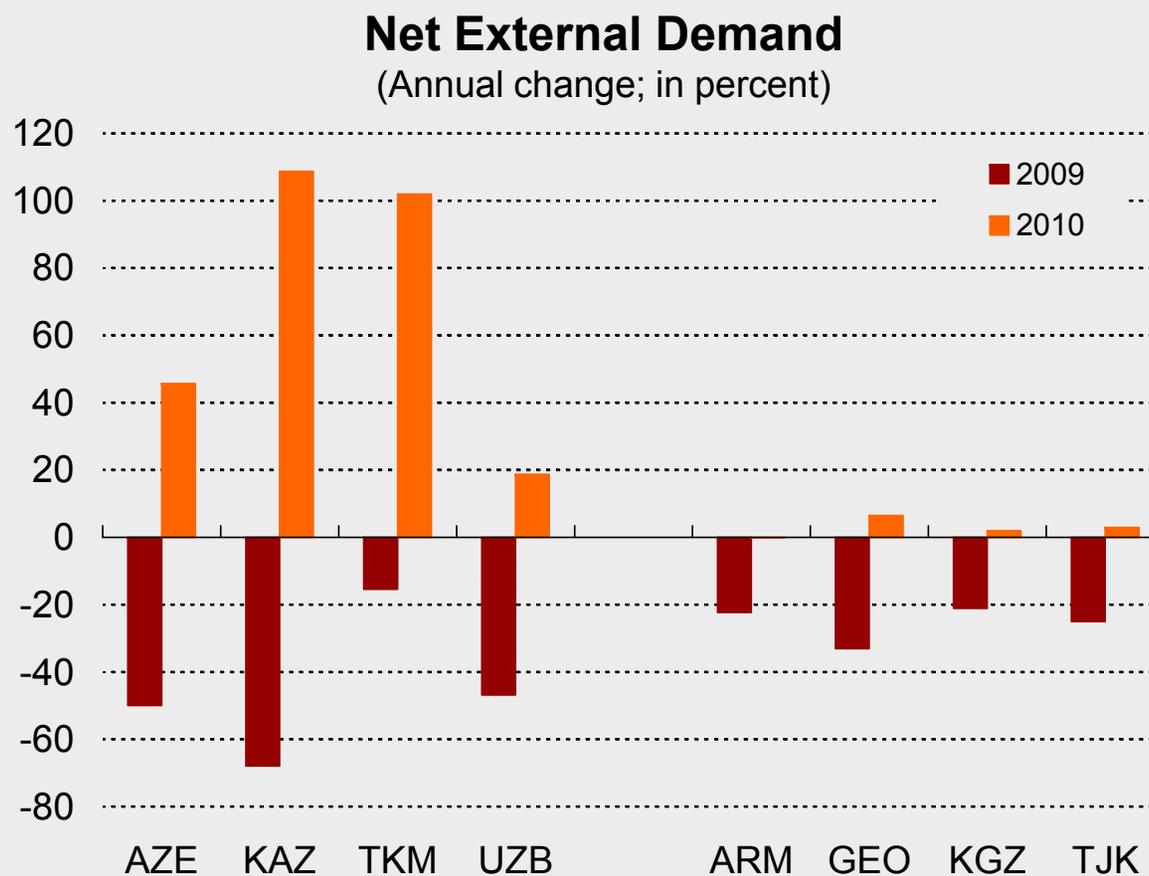
Exports of Goods in U.S. Dollars
(In percent; year-on-year)



Imports of Goods in U.S. Dollars
(In percent; year-on-year)



Net external demand holding back growth in 2009, but contributes to 2010 recovery

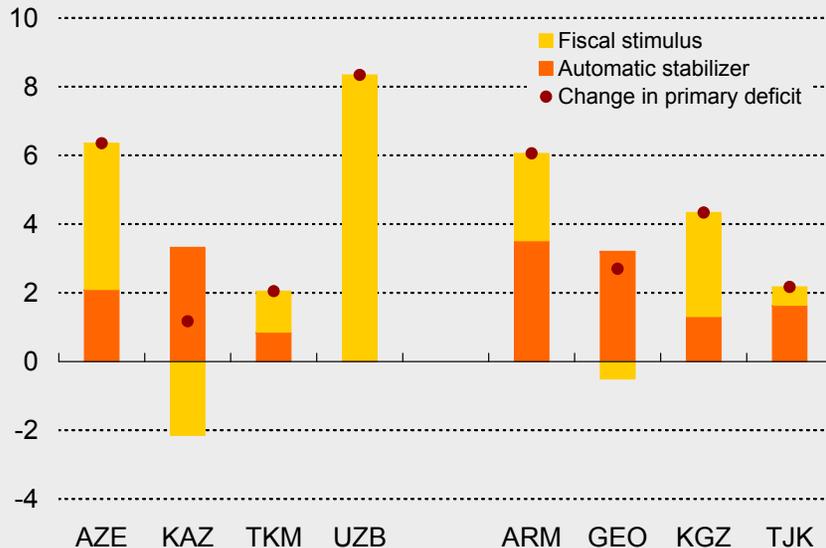


Macroeconomic policies have been accommodative in 2009

Country	Fiscal stimulus	Exchange rate depreciation	Monetary easing	Liquidity support	Increased provisioning	Capital injections	Deposit guarantees
Armenia	✓	✓	✓	✓			Enhanced
Azerbaijan	✓		✓	✓	✓	✓	✓
Georgia	✓	✓	✓	✓	✓	✓	
Kazakhstan	✓	✓	✓	✓	✓	✓	Enhanced
Kyrgyz Republic	✓	✓	✓	✓			Enhanced
Tajikistan	✓	✓	✓	✓			
Turkmenistan							
Uzbekistan	✓	✓				✓	✓

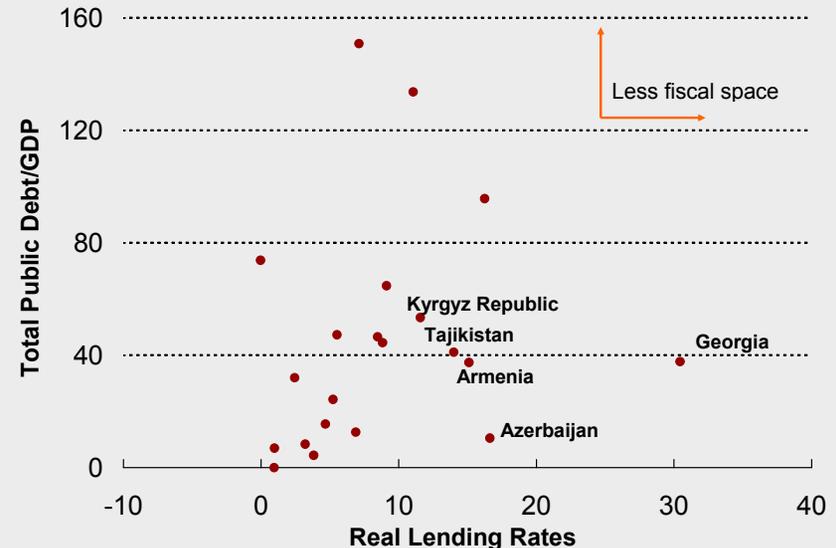
Fiscal policy expansionary in 2009, but some countries face limited fiscal space in 2010

Change in the Non-oil Primary Fiscal Deficit, 2009
(In percent of non-oil GDP)



Note: methodology based on IMF (2009), and is briefly described in the Amex.

Fiscal Space Indicators
(In percent, 2009)



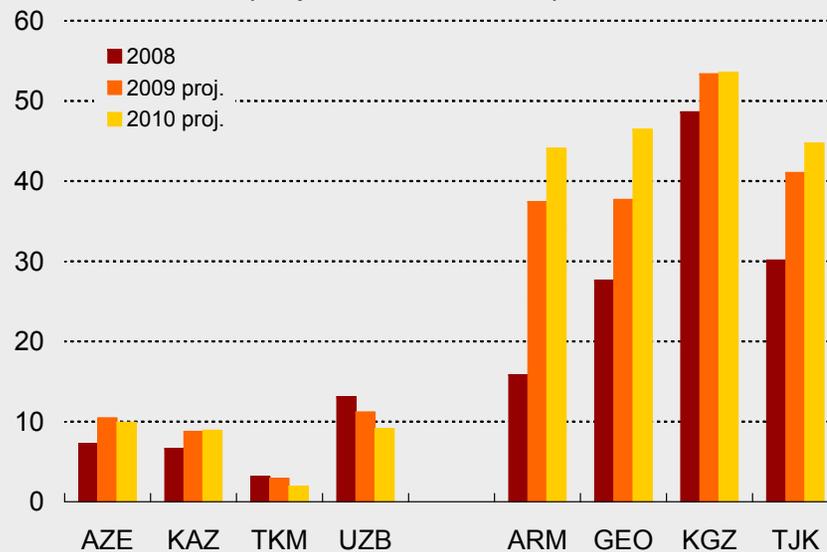
Source: IMF staff estimates; lending rates are from the *International Financial Statistics*.



Where debt levels were already high, donor support has helped finance the fiscal stance

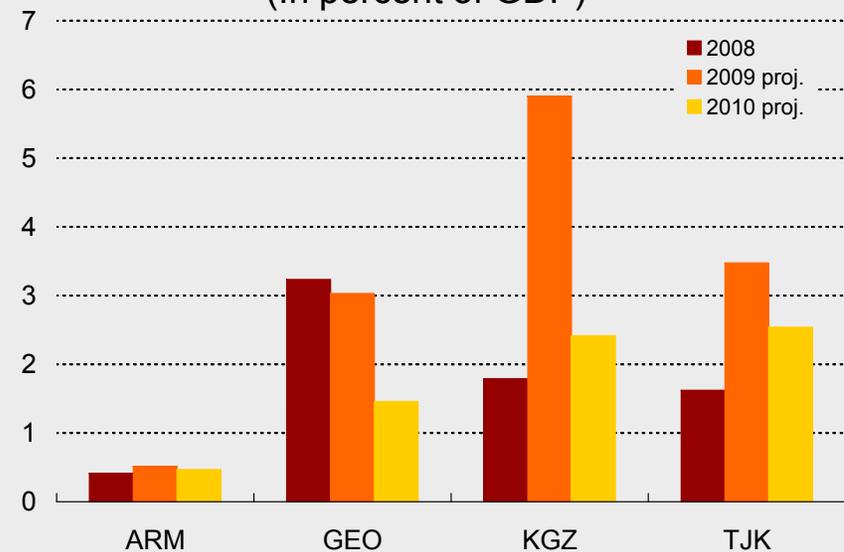
Some governments are constrained by already high debt levels

Public Debt
(In percent of GDP)



2009 increase in donor support expected to reverse in 2010

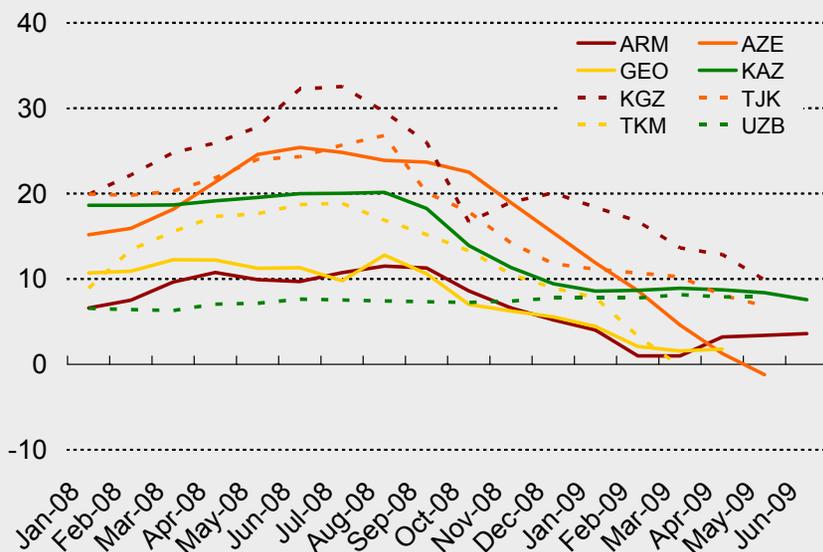
Grants to Energy Importers
(In percent of GDP)



Inflation down sharply, but pressures may return in 2010

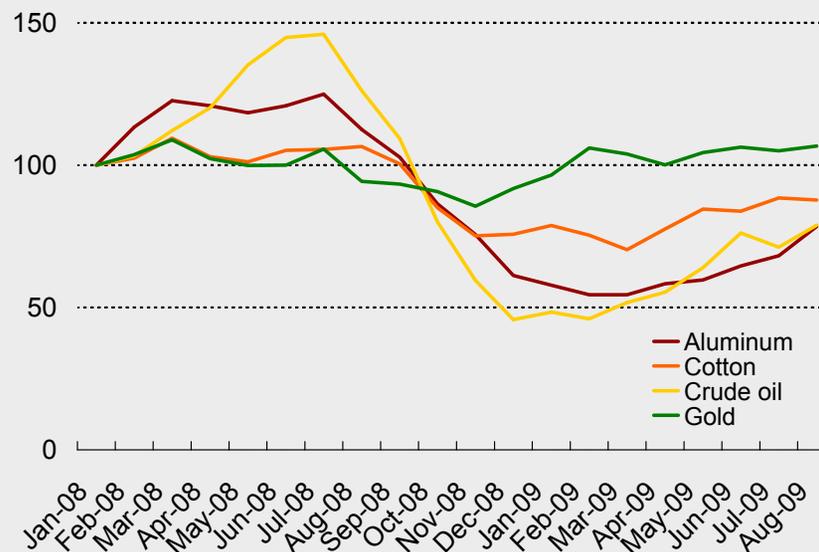
Inflation down sharply from historical highs...

Consumer Price Index
(Annual change; in percent)



... but commodity prices on the rise again

Commodity Prices
(Index 2008 = 100)



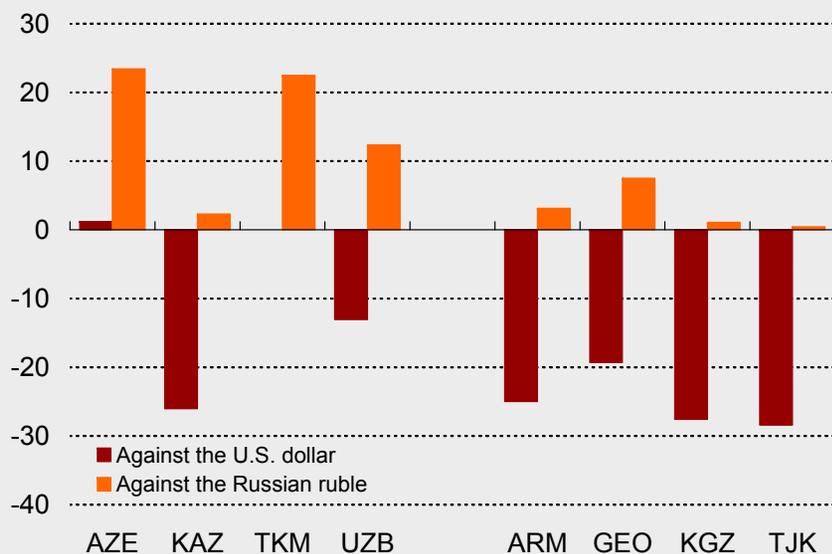
Currencies have depreciated ...

.... against dollar, and energy
Importers' currencies have caught up
with weakening ruble ...

... helping reverse competitiveness
losses suffered in 2008

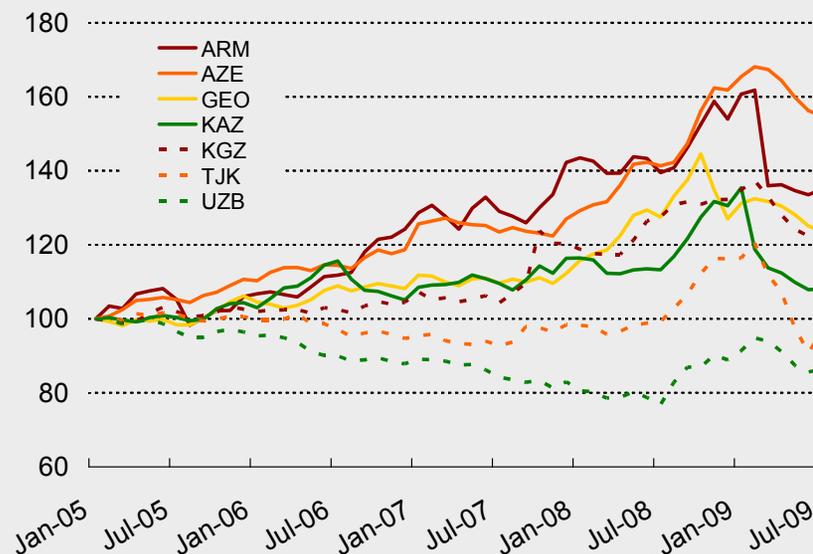
Local Currencies Against the U.S. Dollar and Russian Ruble

(Aug 31, 2008 – Aug 31, 2009, increase indicates appreciation)



Real Effective Exchange Rate

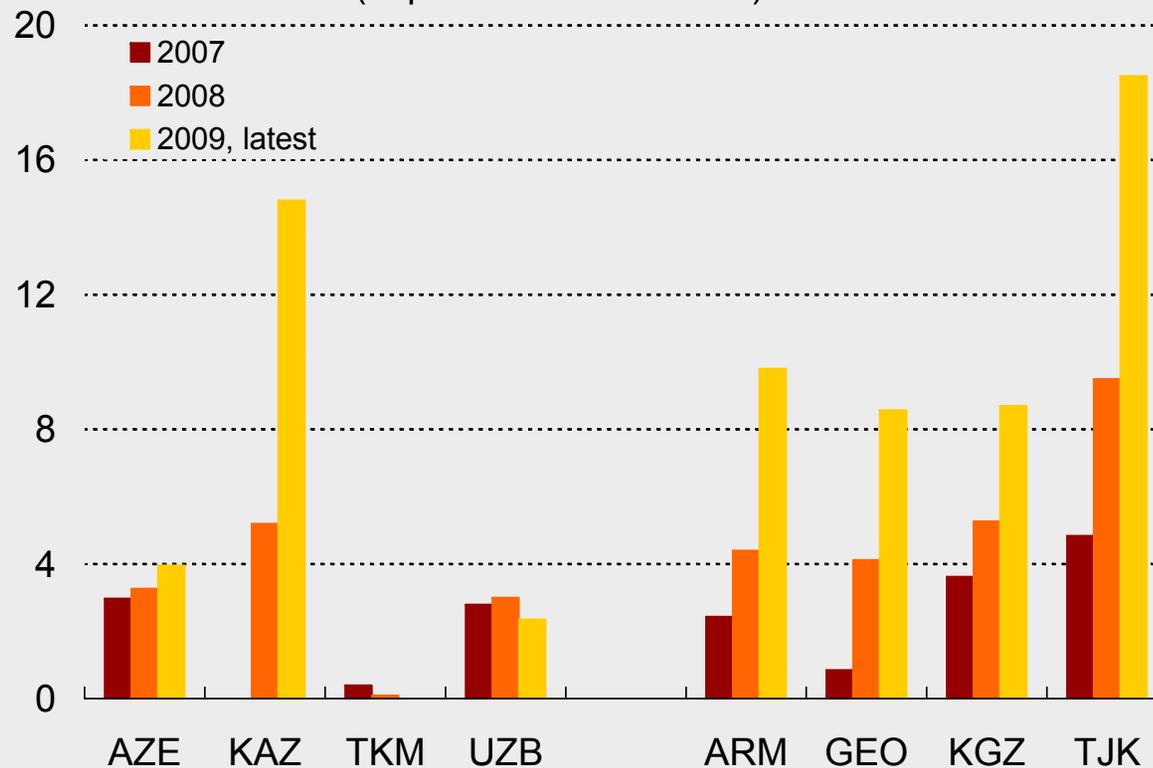
(Index Jan 2005 = 100; increase indicates appreciation)



Financial sectors are under stress, with NPLs set to rise further

Nonperforming Loans

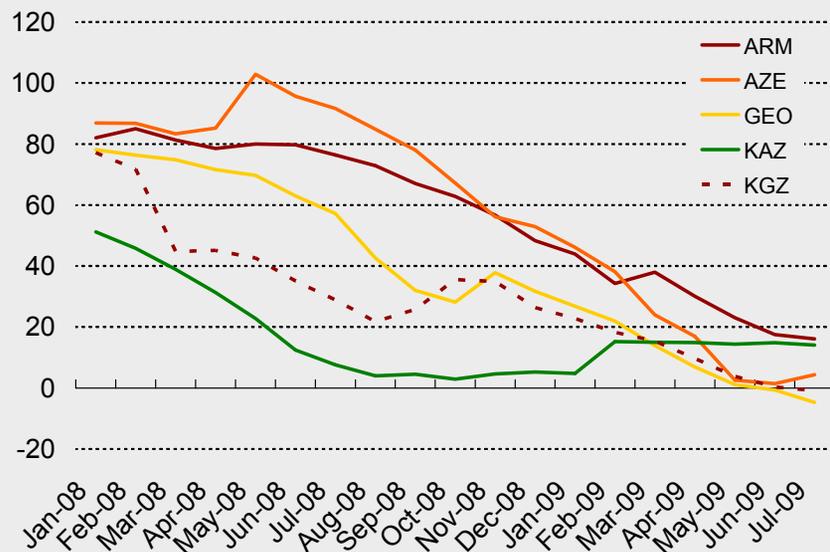
(In percent of total loans)



In response, credit growth has slowed

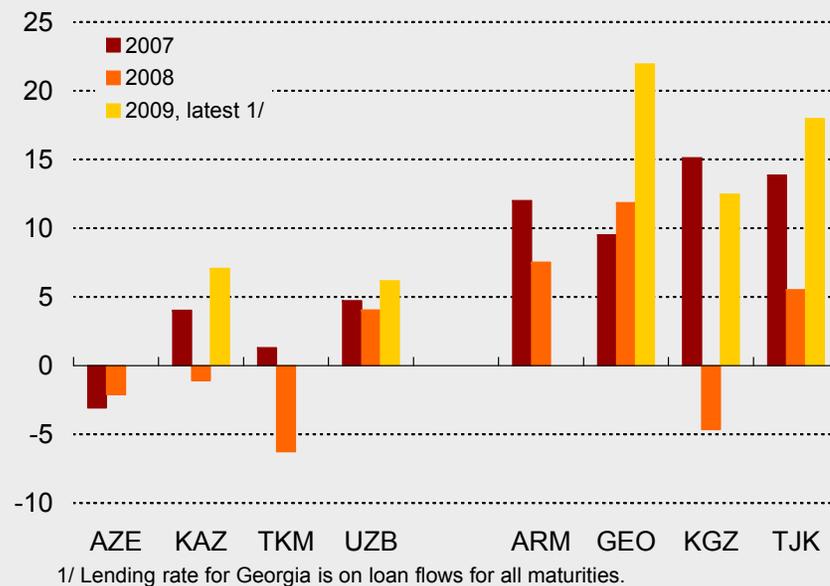
Credit boom has come to an abrupt halt

Credit to the Private Sector
(Percent change; year-on-year)



Real lending rates on the rise as inflation declines

Real Lending Rate
(In percent)



Social Impact of the Crisis

- With per capita income and social spending rising in the oil exporters, poverty is expected to fall
- In the oil importers, despite some increase in social spending, poverty is expected to pick up via the following channels:
 - Disposable income is projected to drop by 5 percent on account of lower remittances alone
 - Softening of labor markets will likely see unemployment edging up
 - Depreciated exchange rates have led to some increases in import prices for consumers
 - Simulations for several countries suggest the poverty rate could increase as much as 5 percentage points

Policy Priorities

- Fiscal stimulus needs to be sustained in most countries in 2010
 - more concessional donor financing would support growth and social protection and limit debt increase in energy importers
- Flexible exchange rate regimes will help preserve competitiveness
- Further steps to stabilize financial sectors important in some countries
- Not too early to start thinking about exit strategy, to reverse debt increase and take best advantage of global recovery:
 - Medium term fiscal consolidation
 - Further reforms to improve business environment
 - Enhanced regional cooperation
 - Financial sector development

Please visit the IMF's website

Full report and copy of the presentation:

[http://www.imf.org/external/pubs/
ft/reo/2009/MCD/eng/mreo1009.htm](http://www.imf.org/external/pubs/ft/reo/2009/MCD/eng/mreo1009.htm)

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