

# Regional Economic Outlook

## Caucasus and Central Asia

October 25, 2013



# Outline

**Global Outlook**

**CCA: Recent Developments, Outlook,  
and Risks**

**Vision: Becoming Vibrant Emerging  
Markets**



# The WEO forecast has been revised down, mainly on account of emerging economies

## WEO Real GDP Growth Projections

(percent change from a year earlier)

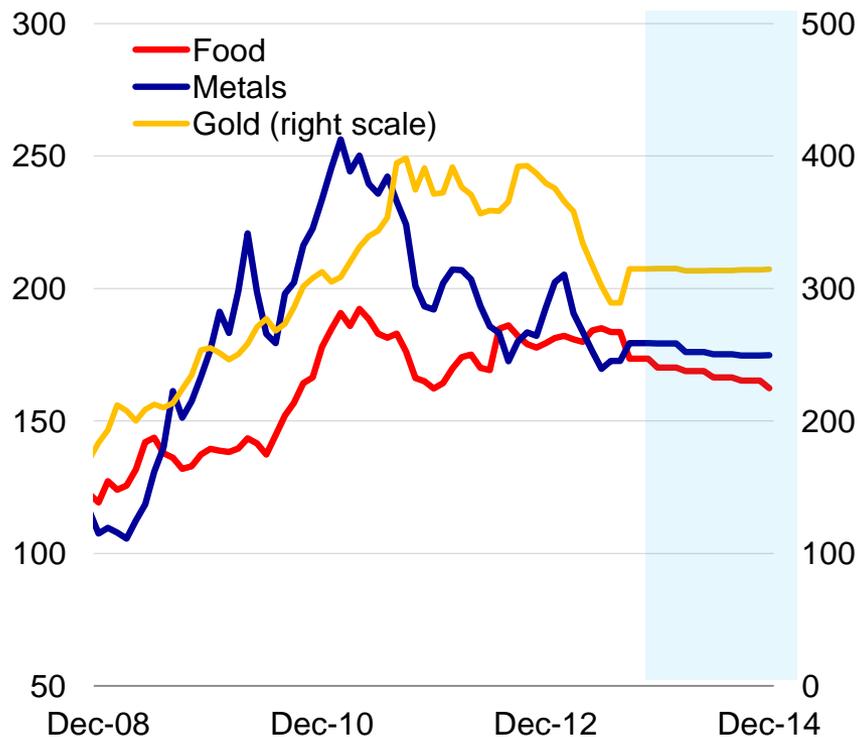
							
	World	U.S.	Euro Area	Japan	Russia	China	CCA
<b>2013</b> (Oct. 2013)	2.9	1.6	-0.4	2.0	1.5	7.6	5.8
<b>2013</b> (Apr. 2013)	3.3	1.9	-0.3	1.6	3.4	8.0	5.8
<b>2014</b> (Oct. 2013)	3.6	2.6	1.0	1.2	3.0	7.3	6.1
<b>2014</b> (Apr. 2013)	4.0	3.0	1.1	1.4	3.8	8.2	6.1

Source: IMF, *World Economic Outlook*.

# Metals and food prices are falling but oil prices have recently risen

**Global commodity price developments<sup>1</sup>**

(Index; 2005 = 100)



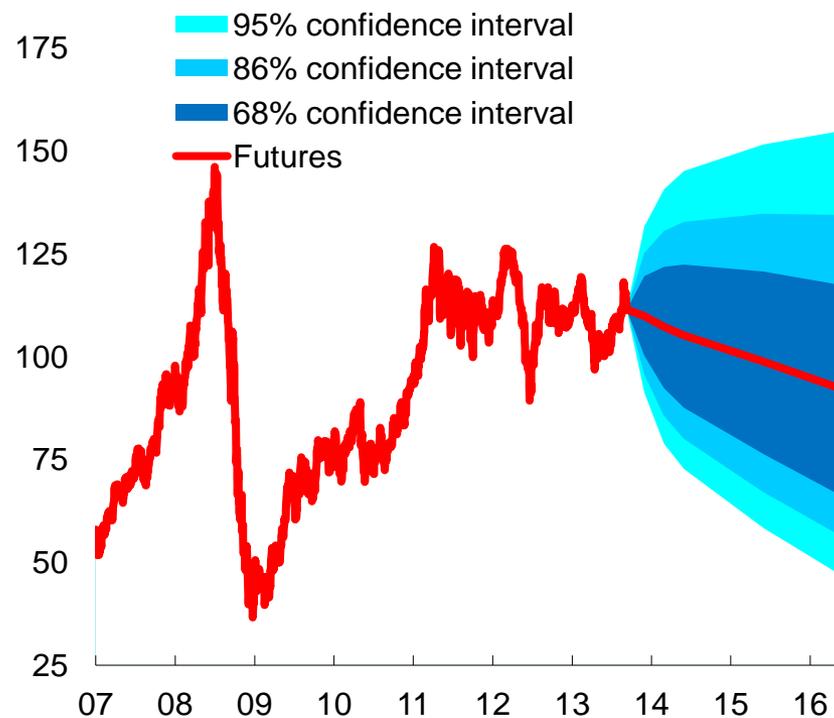
Sources: IMF, Primary Commodity Price System; and IMF staff calculations.

<sup>1</sup>Food index derived from average price of corn, wheat, rice, and soybeans.

<sup>2</sup>Derived from prices of futures options on Sep. 12, 2013.

**Brent crude oil price prospects<sup>2</sup>**

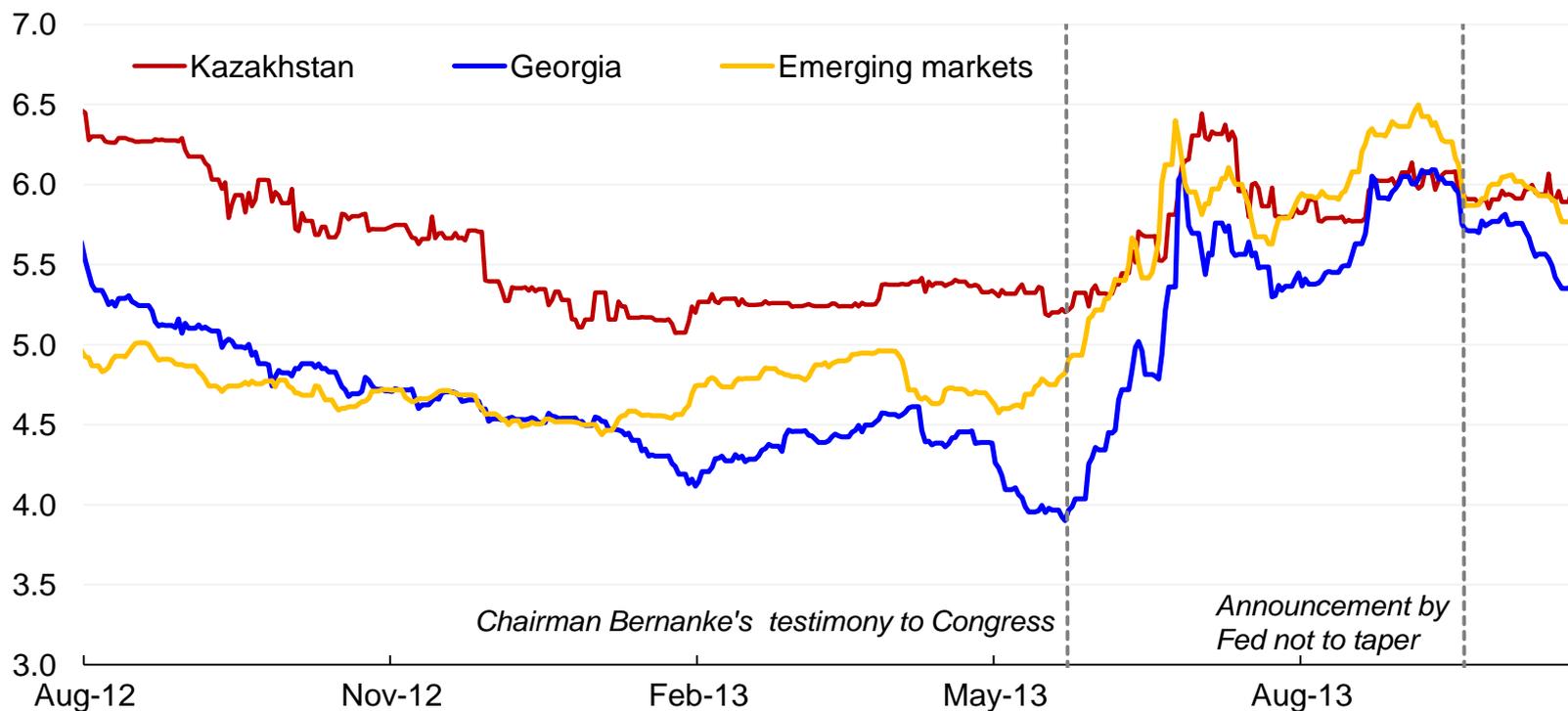
(U.S. dollars per barrel)



# Financial conditions have tightened

## Bond Yields

(Percent, Aug 2, 2012 – Oct 22, 2013)



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



# Risks to global growth remain on the downside

**Global financial conditions tighten by more than expected  
Continued stop-gap measures and uncertainty over fiscal policy in the US**

**Financial fragmentation in the euro area weighs on investment  
Insufficient fiscal consolidation and structural reforms in Japan**

**Lower potential growth in emerging markets  
Lower commodity prices**

# Policy priorities

## Euro area

- Repair financial system
- Adopt a banking union

## United States

- Reduce budget deficit over the medium term
- Calibrate the timing of exit from unconventional monetary policy

## Emerging markets

- Improve resilience to shocks
- Accelerate structural reforms
- Let exchange rate adjust to capital flows

# Caucasus and Central Asia



# Overview

## Outlook

Robust growth over the near term

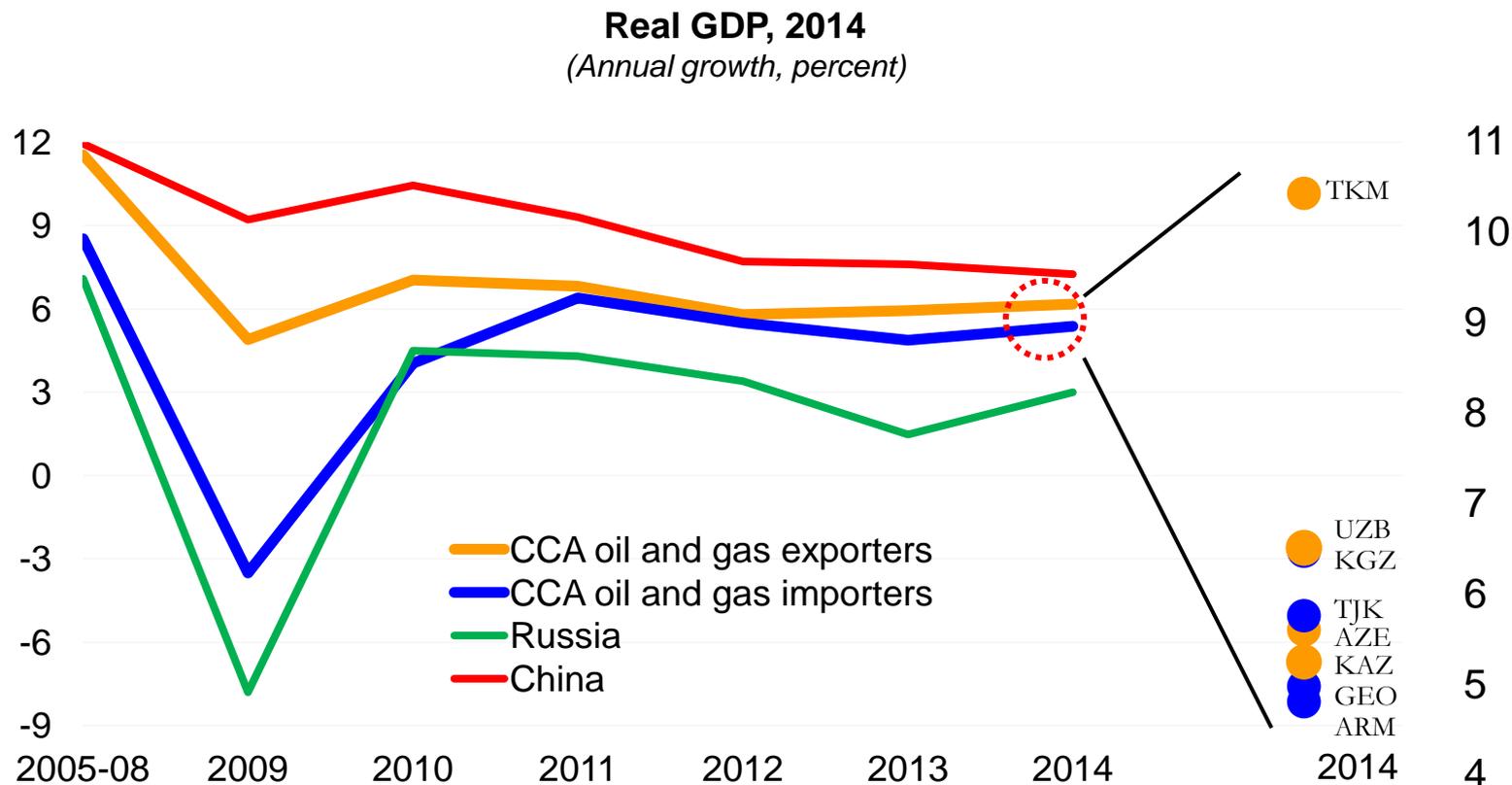
## Risks

- A lower-than-anticipated growth in emerging economies
- Tightening of external financing conditions

## Policies

- To enhancing resilience to shocks
- Toward becoming dynamic emerging markets

# The economic outlook remains favorable despite sluggish growth in trading partners

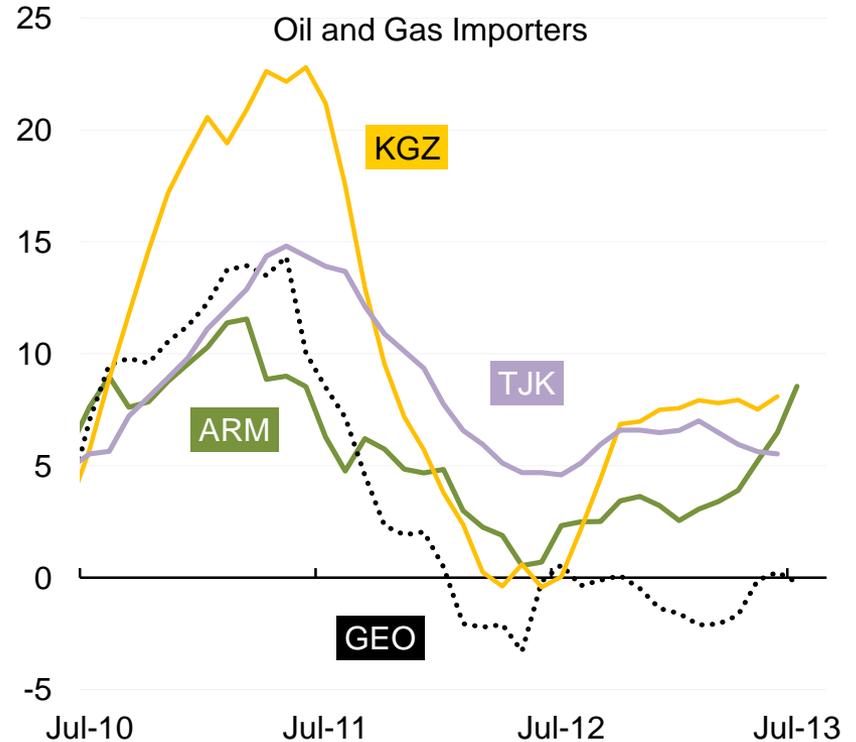
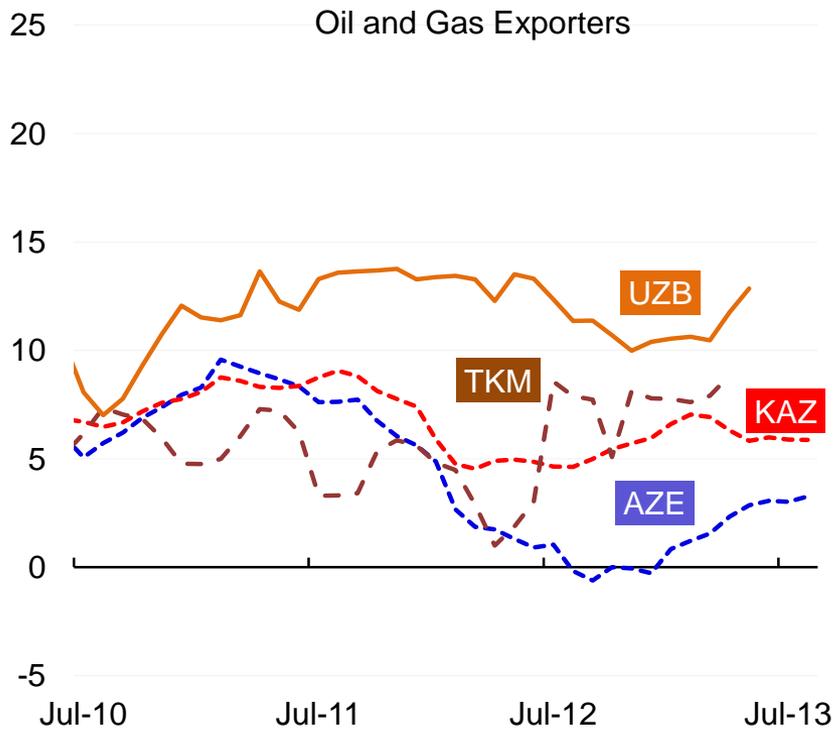


Sources: IMF, *World Economic Outlook*; and IMF staff calculations and projections.



# Inflation stays largely within a comfort range

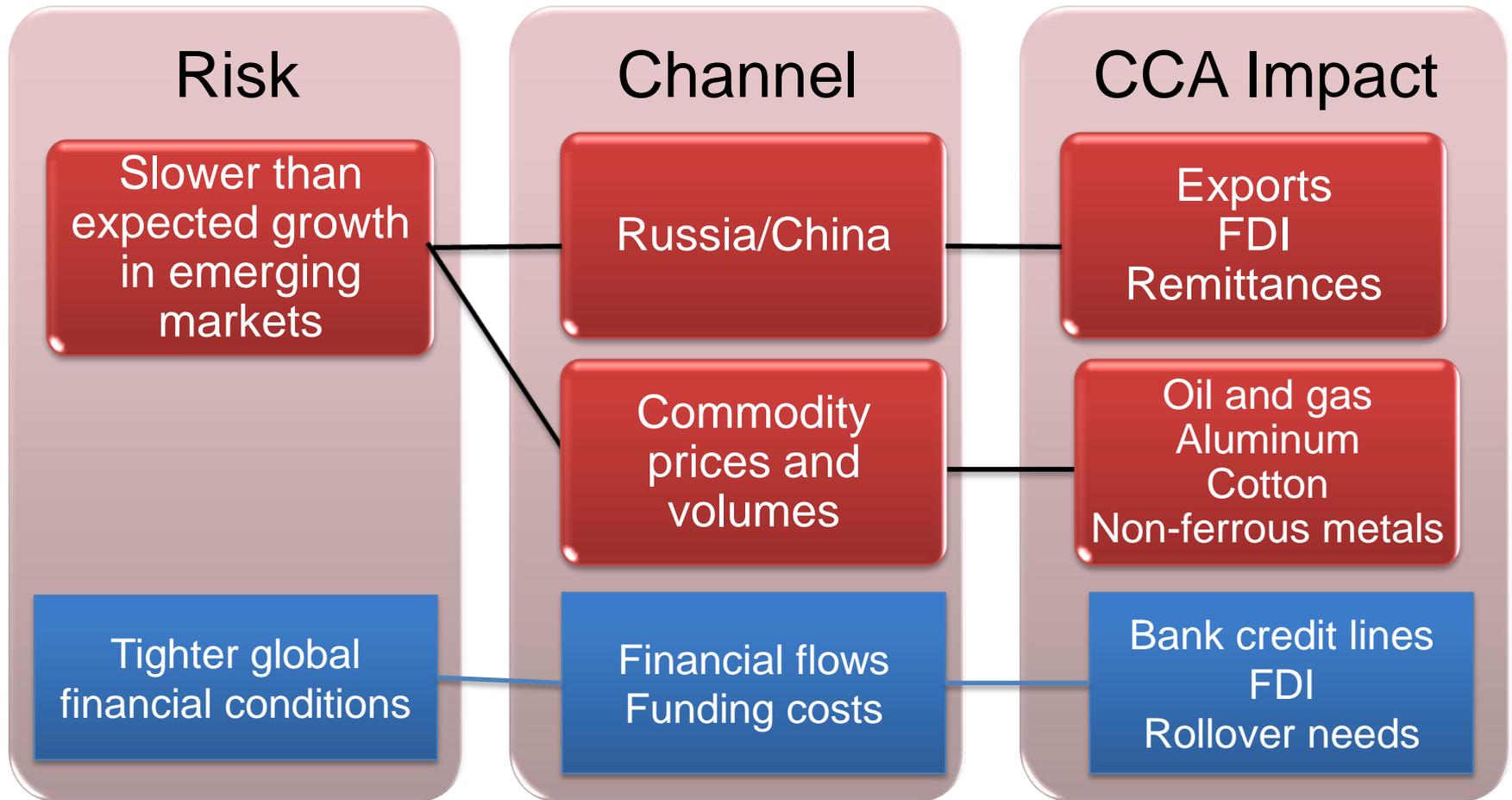
## Headline CPI Inflation (Annual percent change)



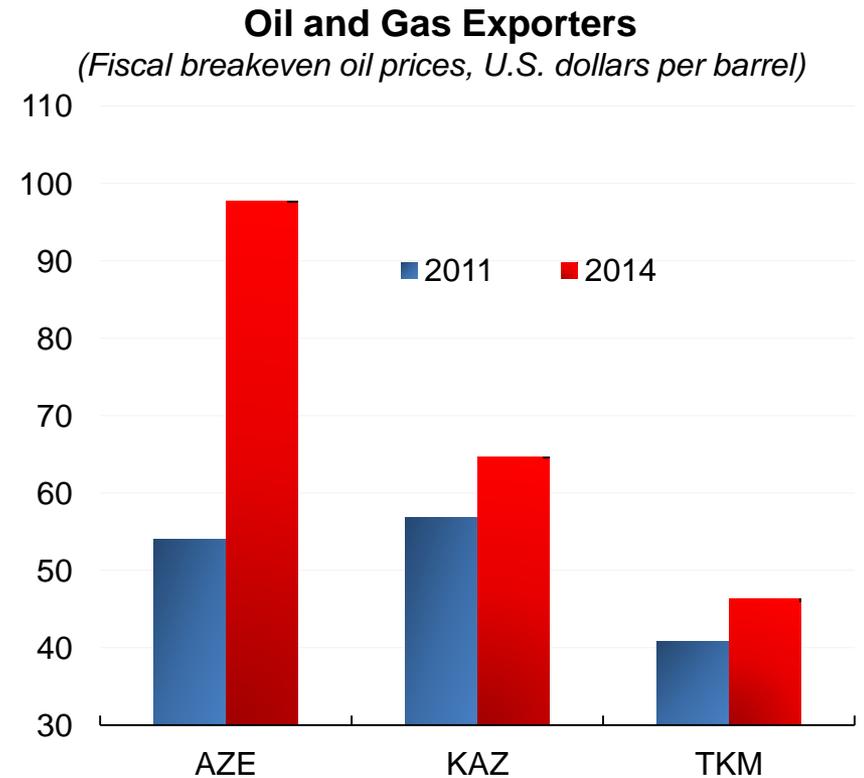
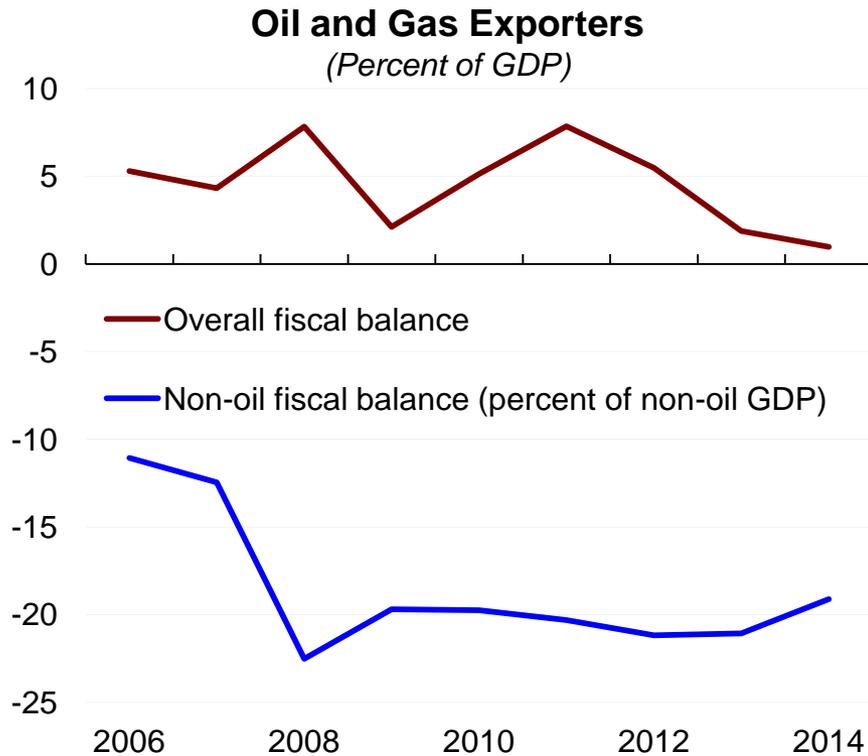
Sources: National authorities; and IMF staff calculations.



# Risks to the near-term outlook are tilted to the downside



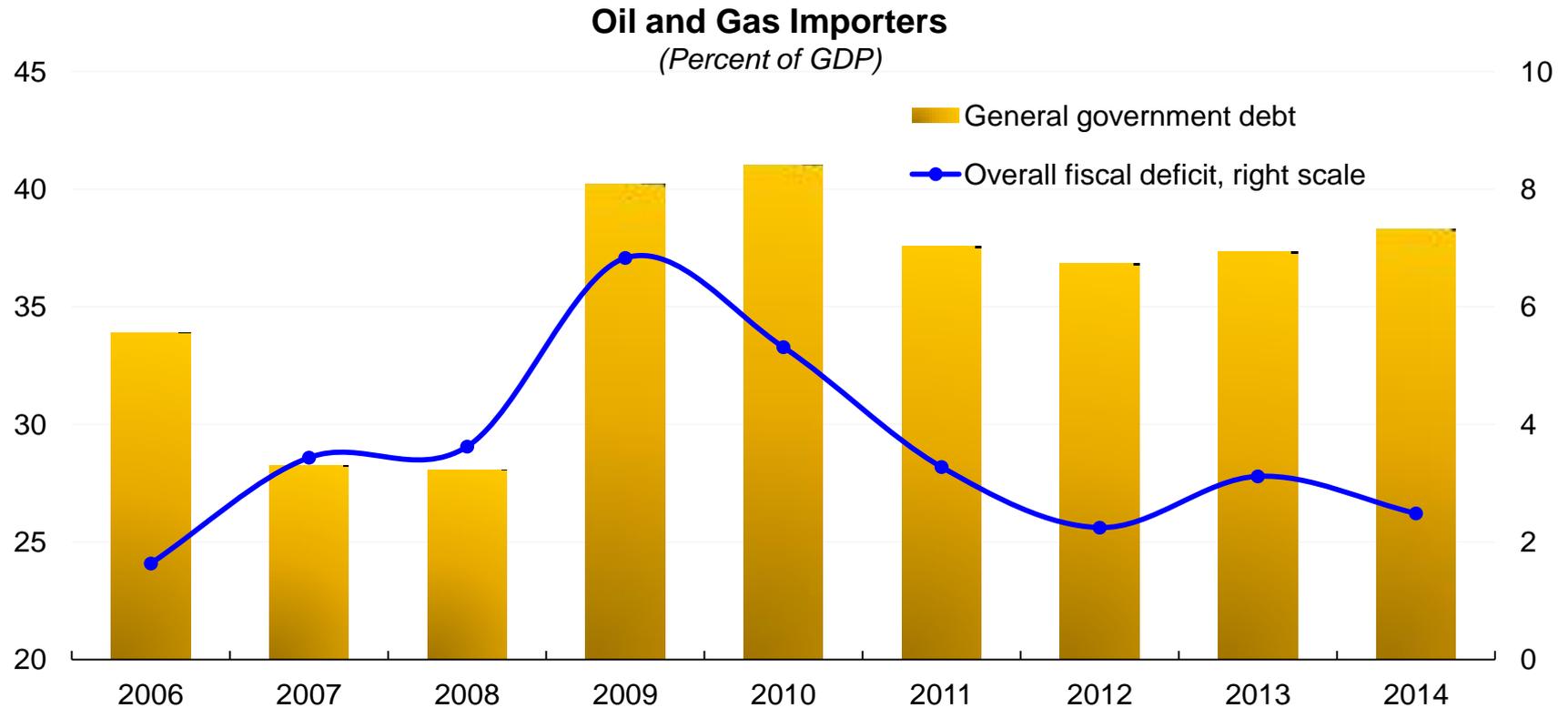
# Oil and gas exporters: Weakening fiscal balances



Sources: National authorities; and IMF staff estimates.



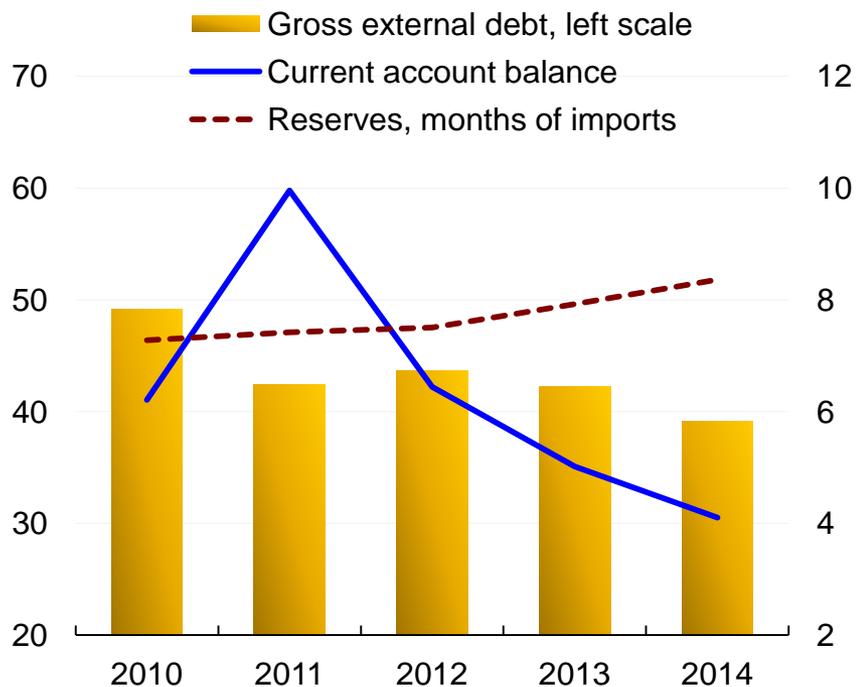
# Oil and gas importers: Need to save for the rainy day



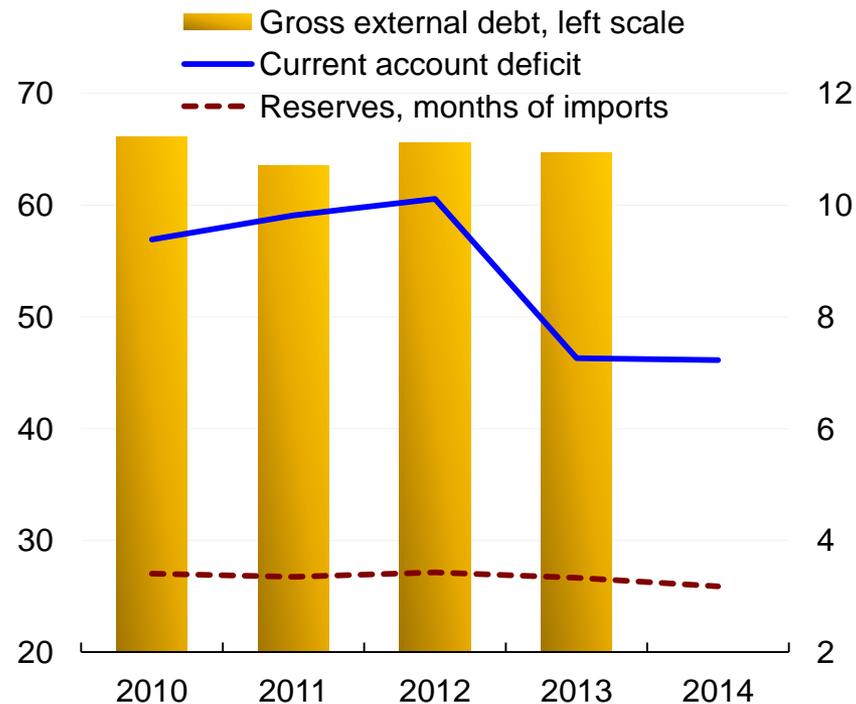
Sources: National authorities; and IMF staff estimates.

# Weakening external positions underscore the need for adjustment

**Oil and Gas Exporters**  
(Percent of GDP)



**Oil and Gas Importers**  
(Percent of GDP)



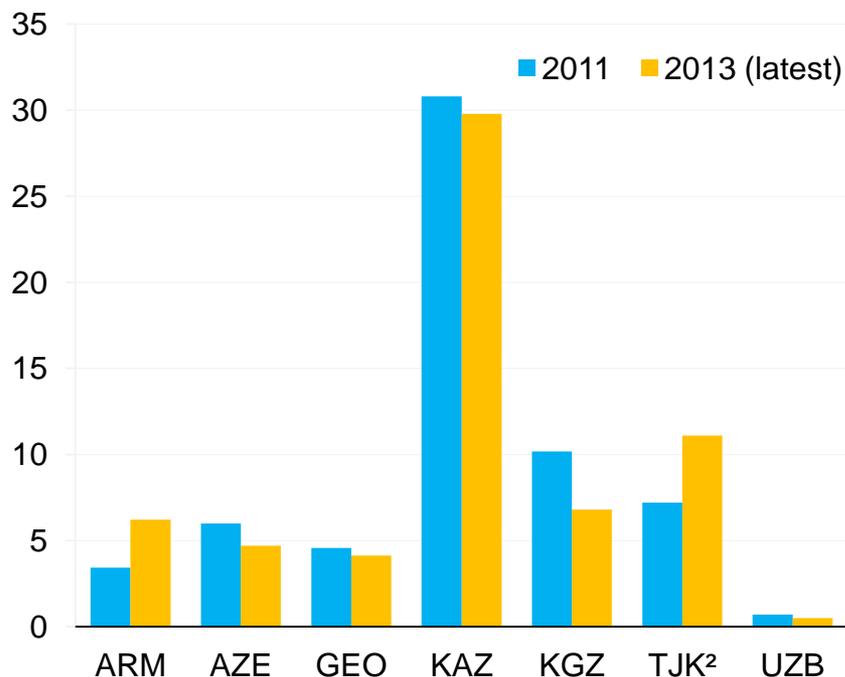
Sources: National authorities; and IMF staff estimates.



# Continue to bolster financial sector soundness

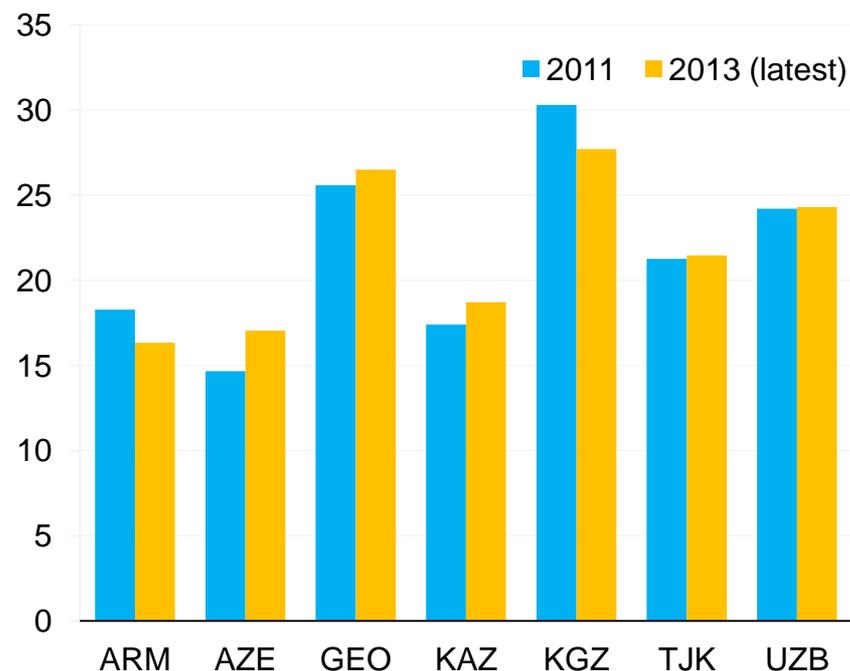
## Nonperforming Loans<sup>1</sup>

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



## Capital Adequacy Ratio

(Percent of risk-weighted assets)



Sources: National authorities; and IMF staff estimates.

<sup>1</sup>90-day basis.

<sup>2</sup>Overdue by 30 days or more.



# Summary of near term priorities

## Oil and Gas Exporters

- ✓ Delink spending decisions from short-term fluctuations in oil prices, in particular save in good times
- ✓ Preserve oil wealth for future generation and ensure that budgets are sustainable
- ✓ Improve spending quality to ensure that all public investment are productive
- ✓ Some countries need to restore the health of the banking system

## Oil and Gas Importers

- ✓ Create fiscal space by reining in hard-to-reverse expenditures and by broadening tax bases
- ✓ Use part of the space to better target safety nets, and to invest in health, education, and infrastructure
- ✓ Increase exchange rate flexibility to lower the risk of output and price fluctuations



# Vision for the CCA: Become vibrant emerging markets



# Obstacles and risks to the CCA vision

## External

- Vulnerability to shocks (e.g., food and fuel prices)
- Lack of integration with regional and global markets

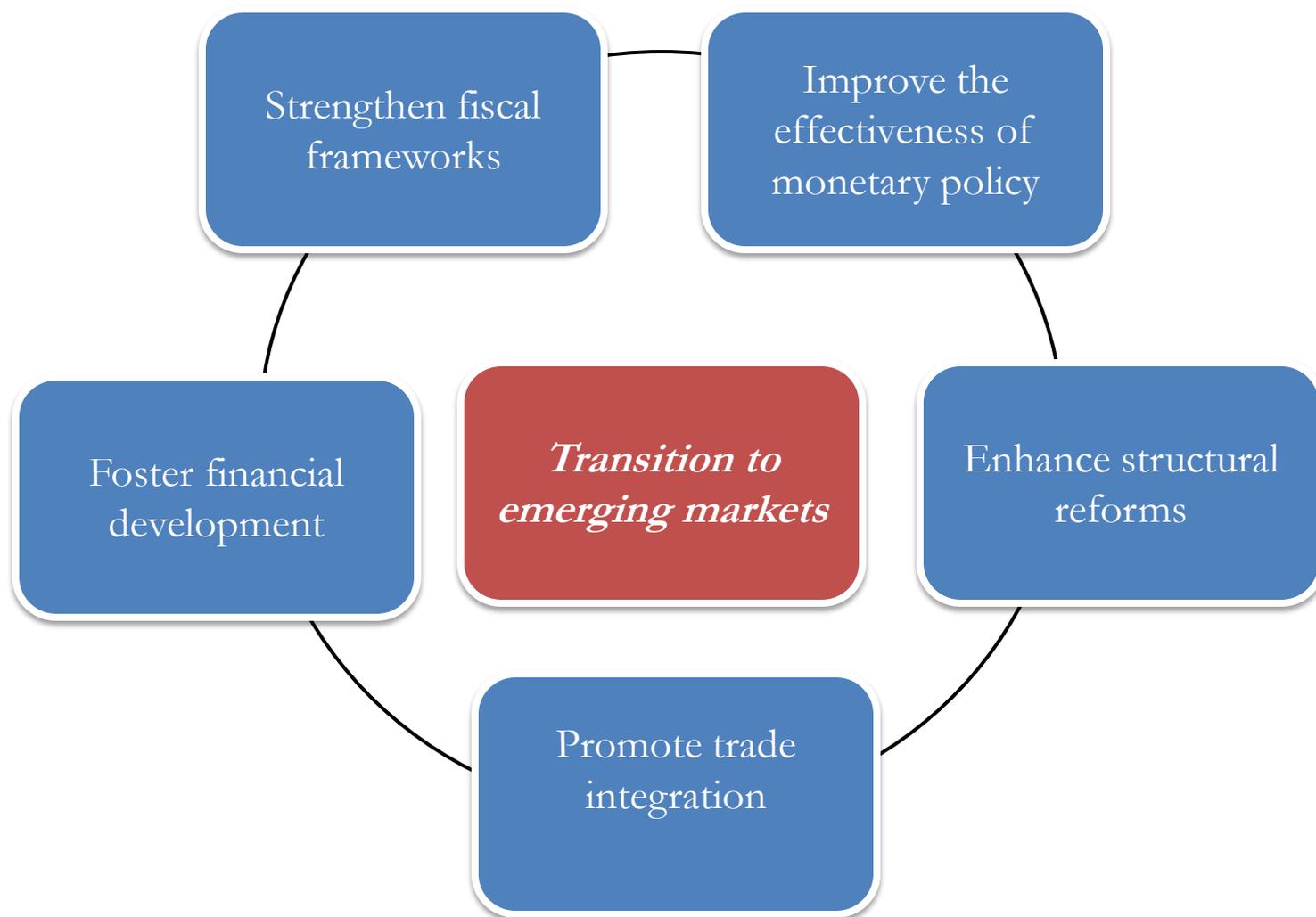
## Global

- Uncertain global growth
- Fragility and geopolitical shifts

## Domestic

- Strong vested interests
- Weak institutions, including accountability
- Potential political uncertainty

# Accelerate reforms to become dynamic emerging markets



# Key Takeaways

- Growth to remain reasonably rapid...
- ...but risks are tilted to the downside.
- Oil exporters need to preserve oil wealth for future generation.
- Oil importers should increase fiscal buffers and introduce more exchange rate flexibility.
- All need ambitious reforms to become dynamic emerging markets.

