

Regional Economic Outlook

Caucasus and Central Asia

November 2, 2016



Outline

Global and Regional Environment

Outlook and Policy Actions

Policy Priorities

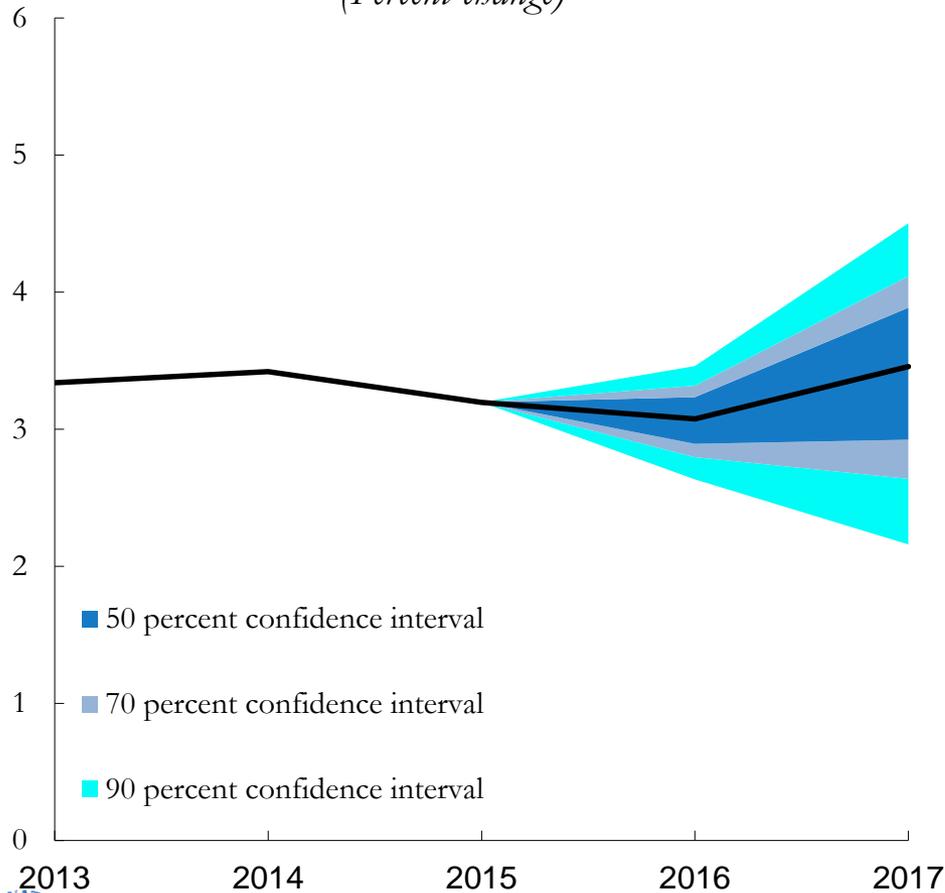
Global growth remains lackluster



	World	U.S.	Euro Area	Emerging markets	China	Russia
2015	3.2	2.6	2.0	4.0	6.9	-3.7
2016	3.1	1.6	1.7	4.2	6.6	-0.8
2017	3.4	2.2	1.5	4.6	6.2	1.1

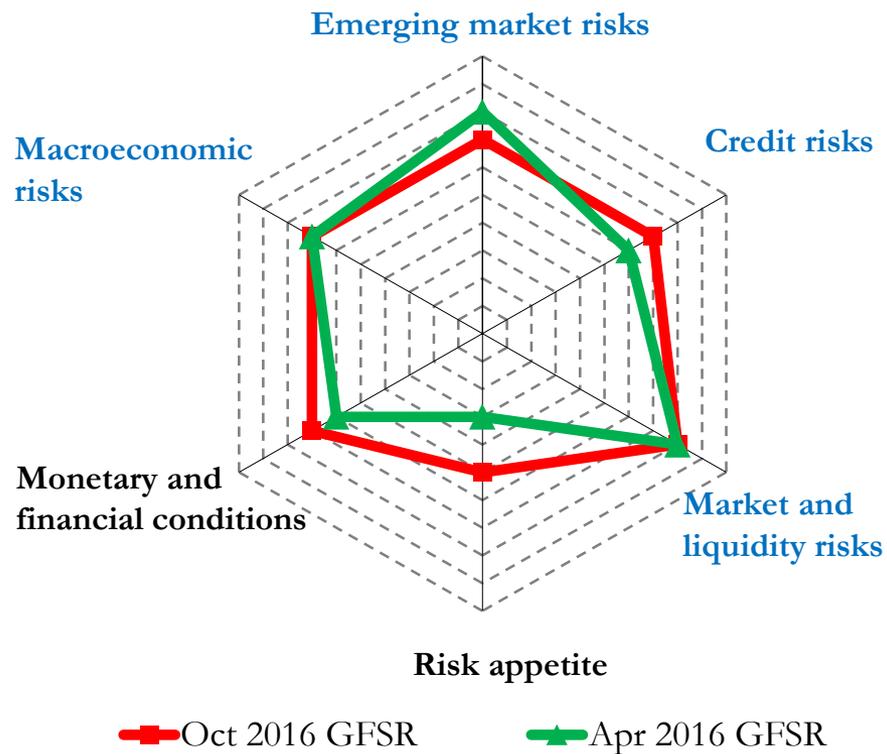
Risks are to the downside

World GDP Growth (Percent change)



Source: World Economic Outlook.

Global Financial Stability: Conditions and Risks



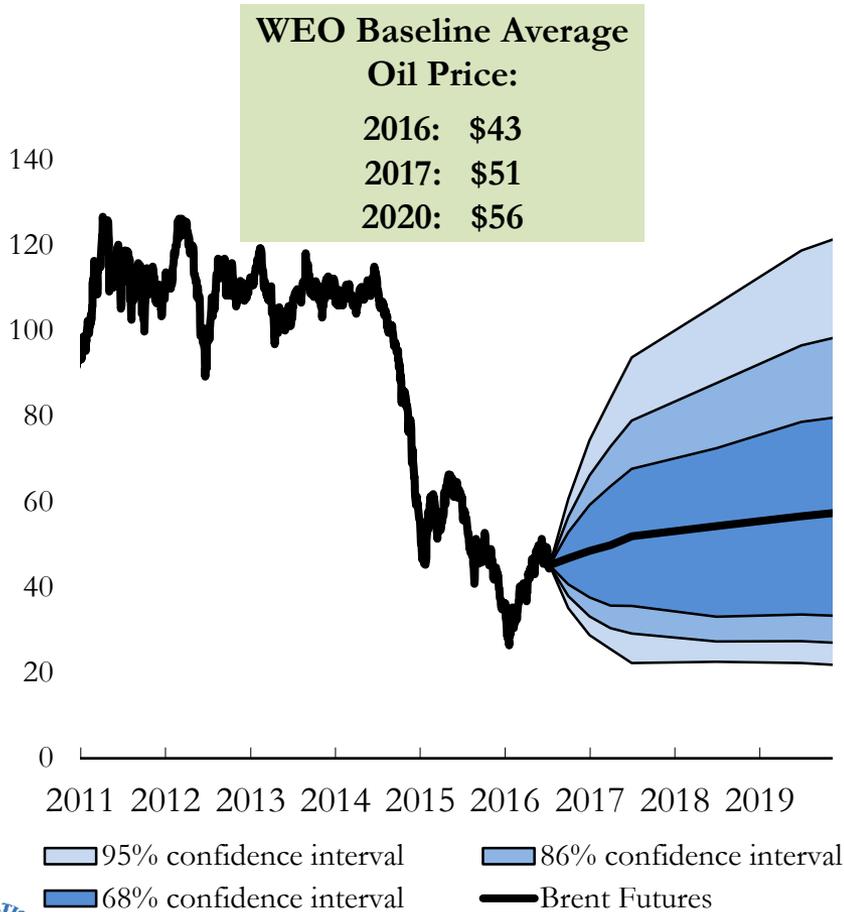
Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.
Source: IMF GFSR report.

Commodity prices are expected to remain weak

Brent Crude Oil Price

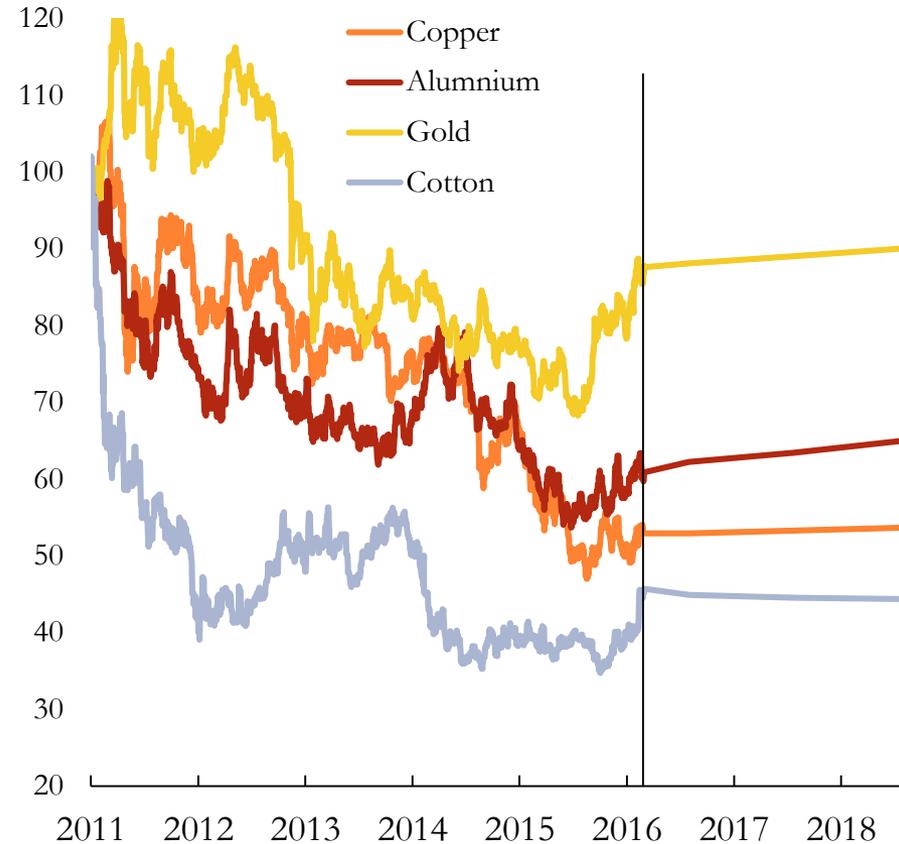
(U.S. dollars per barrel)

**WEO Baseline Average
Oil Price:**
2016: \$43
2017: \$51
2020: \$56



Commodity Prices

(Index, June 2011=100)



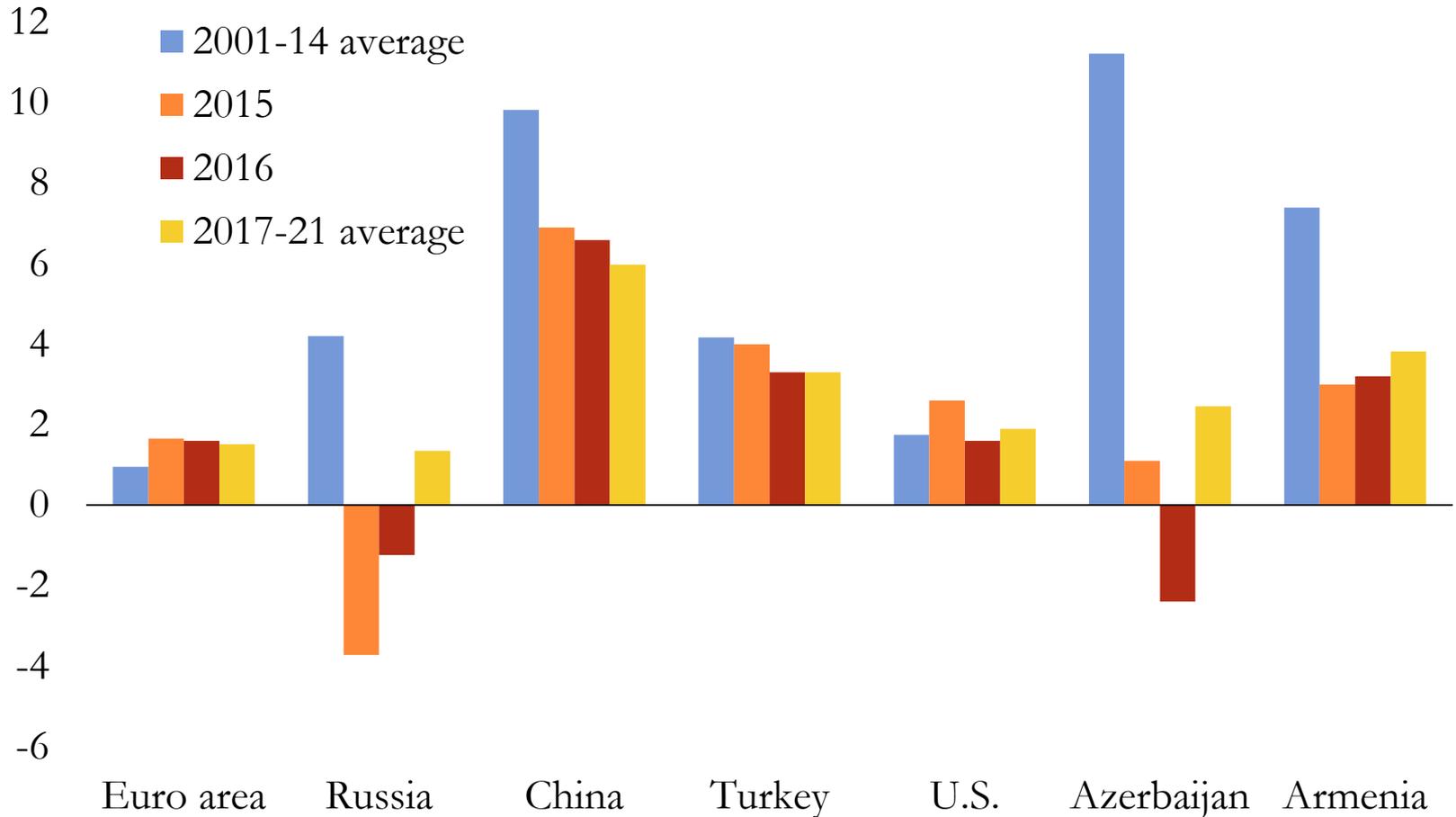
Sources: Bloomberg; and IMF staff calculations.



Outlook for Georgia's and CCA's key export markets remains weak

Real GDP Growth

(Percent)



Global and Regional Environment

Outlook and Policy Actions

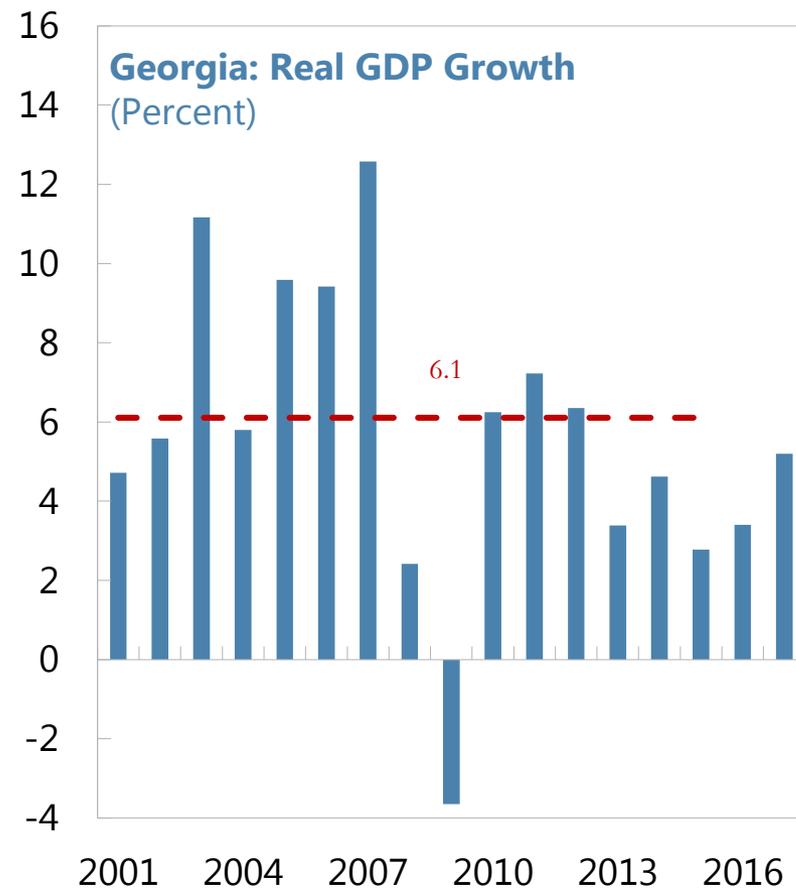
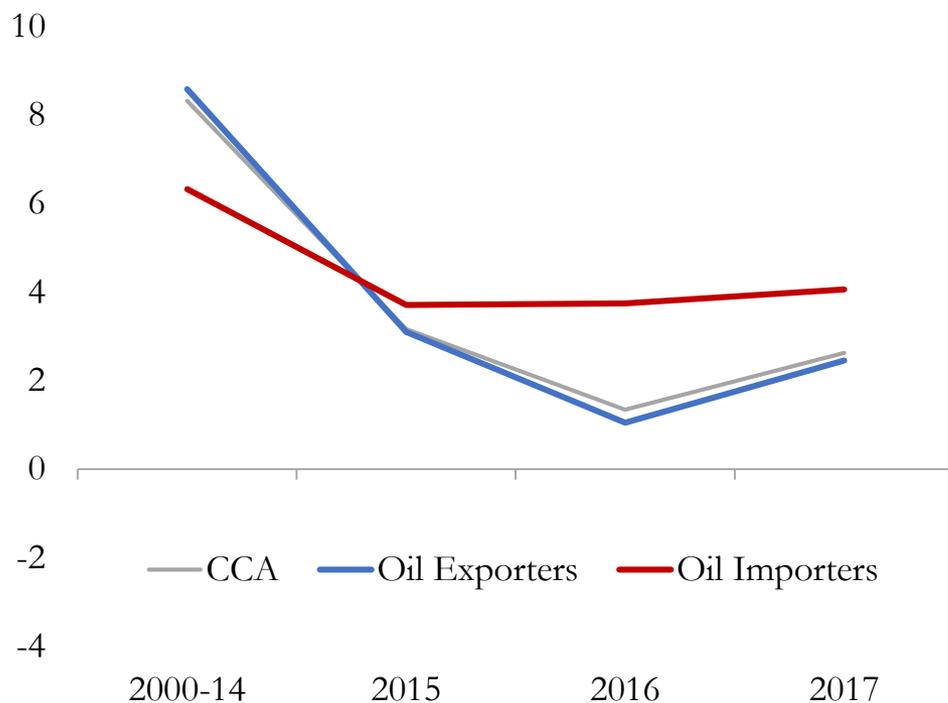
Policy Priorities

Caucasus and Central Asia



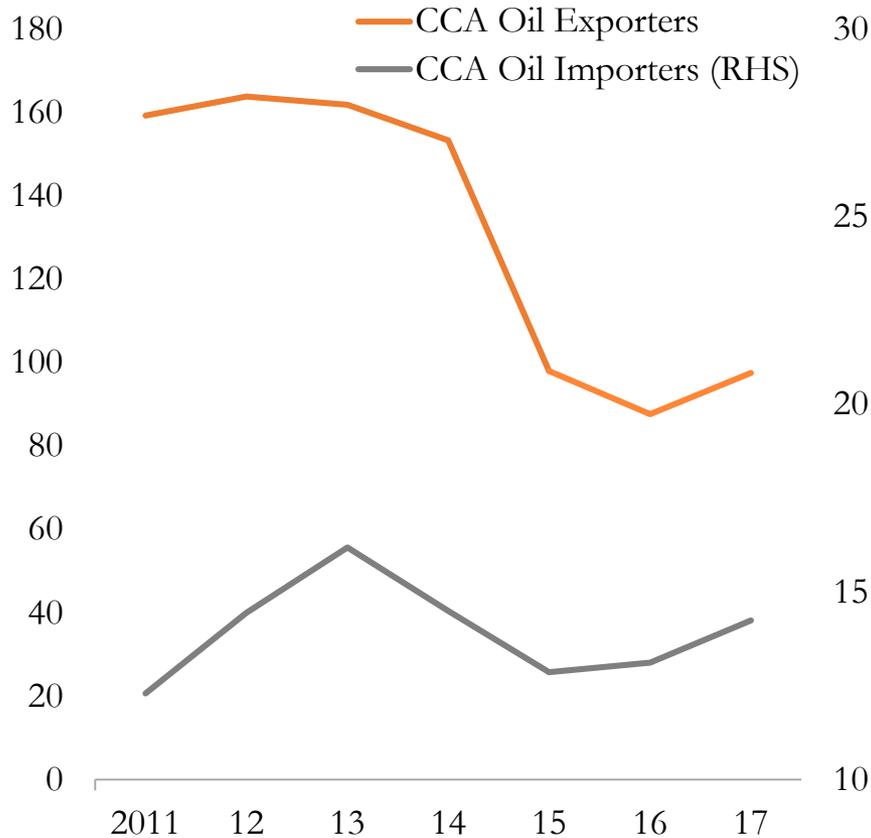
Regional growth sharply weakening, with a modest recovery projected for 2017

Real GDP Growth
(Percent)

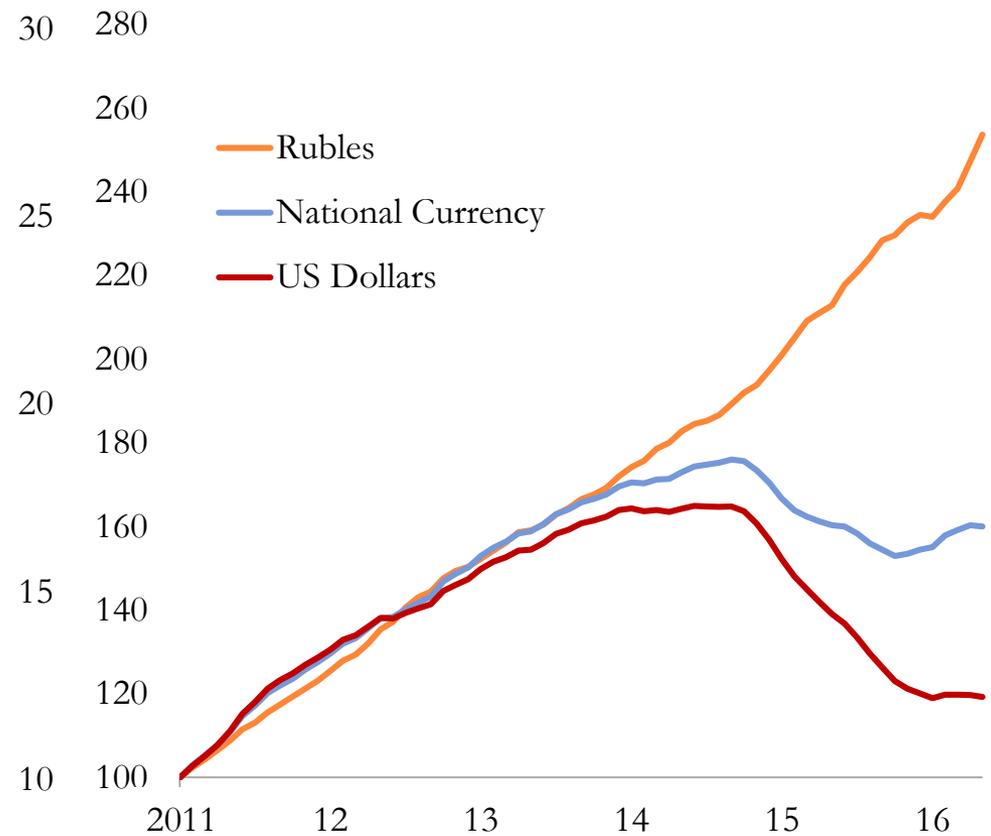


Exports and remittances are key channels through which external conditions affect regional growth

Total Exports
(Billions of USD)

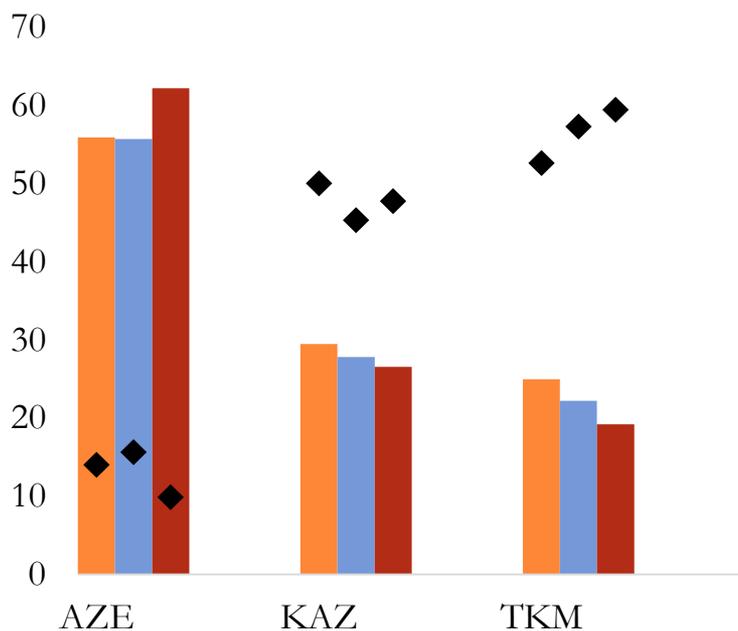


Remittances
(Jan 2011 = 100)

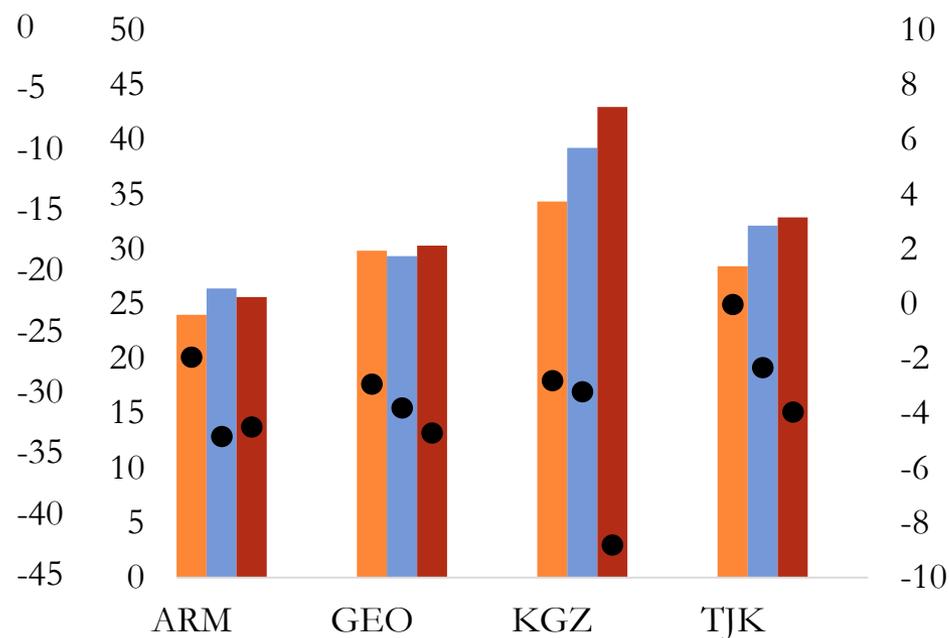


Growth has been supported by fiscal policy

Oil Exporters: Government Expenditure
(Percent of Non-oil GDP)



Oil Importers: Government Expenditure
(Percent of GDP)



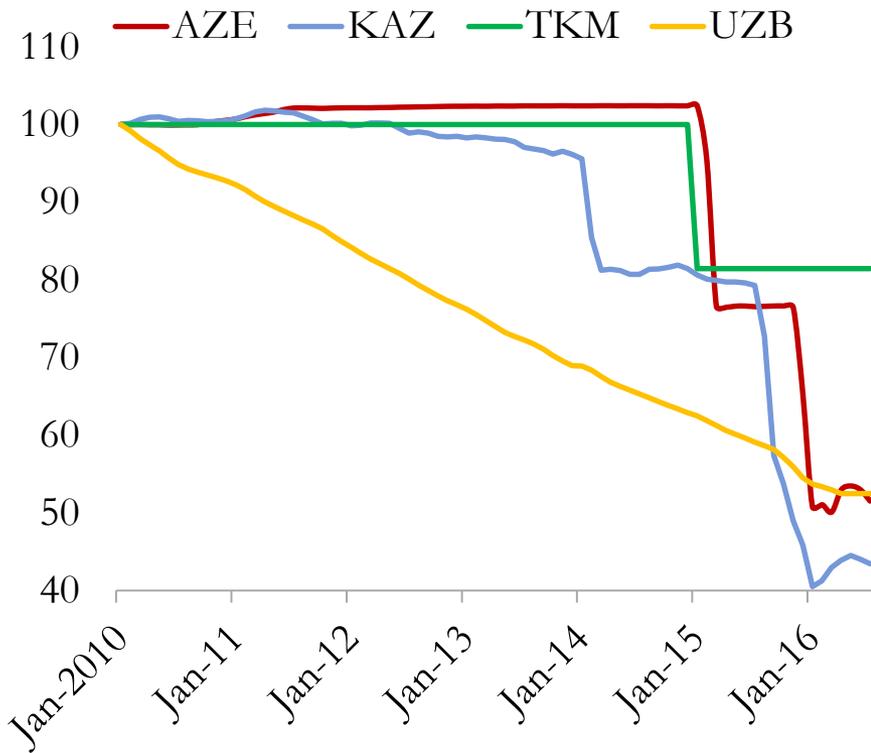
■ 2014
 ■ 2015
 ■ 2016
 ◆ Non-oil fiscal balance (RHS)
 ● Overall fiscal balance (RHS)



External shocks have led to significant exchange rate movements within the CCA

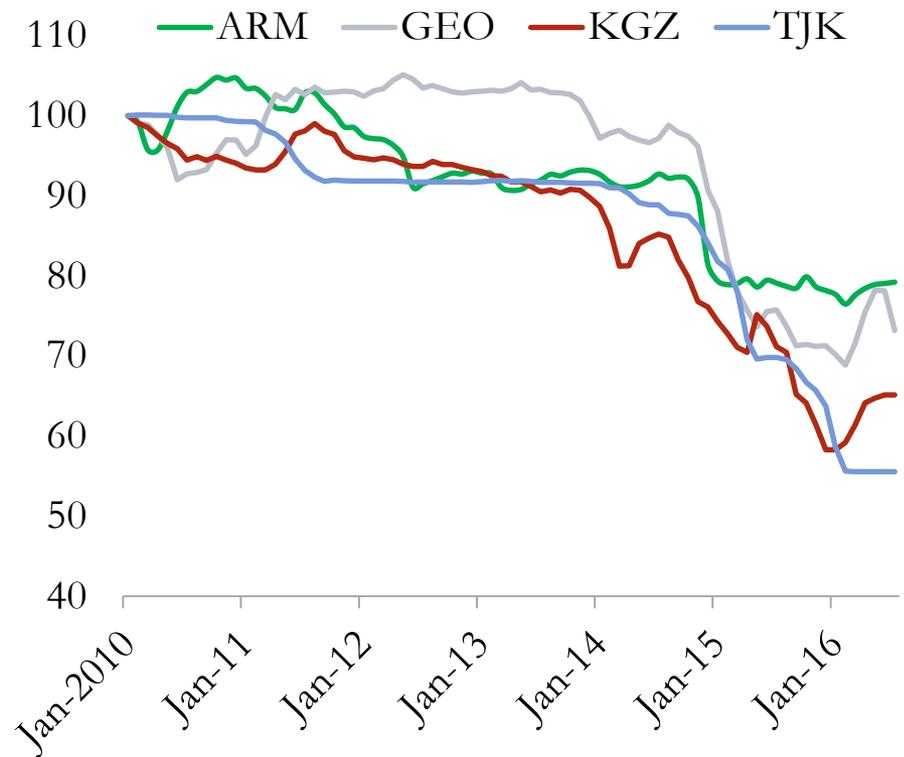
Oil Exporters

(U.S. dollars per national currency, January 2010 = 100)



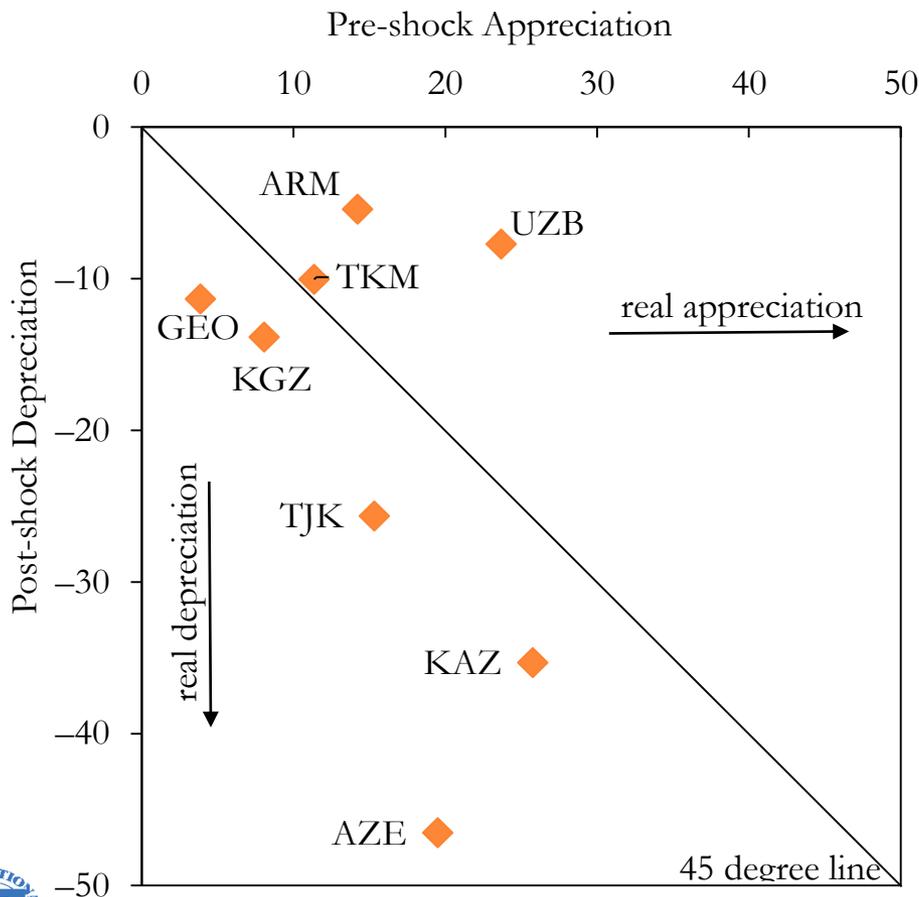
Oil Importers

(U.S. dollars per national currency, January 2010 = 100)

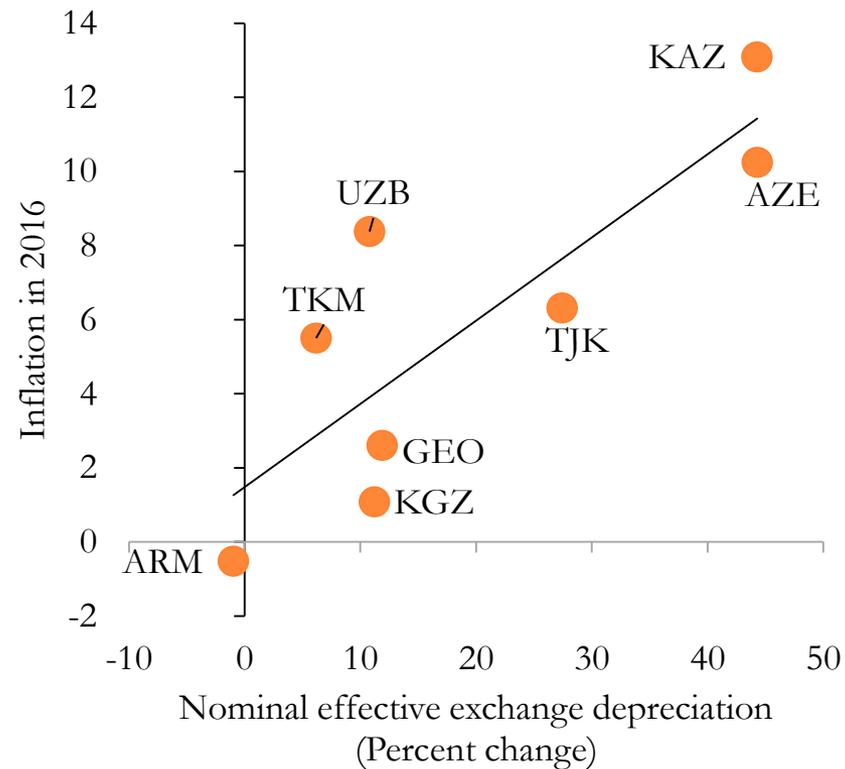


Currency adjustment has helped unwind previous real appreciations, but temporarily increased inflation

Real Effective Exchange Rates
(Percent Change, Trough to Peak or vice versa)

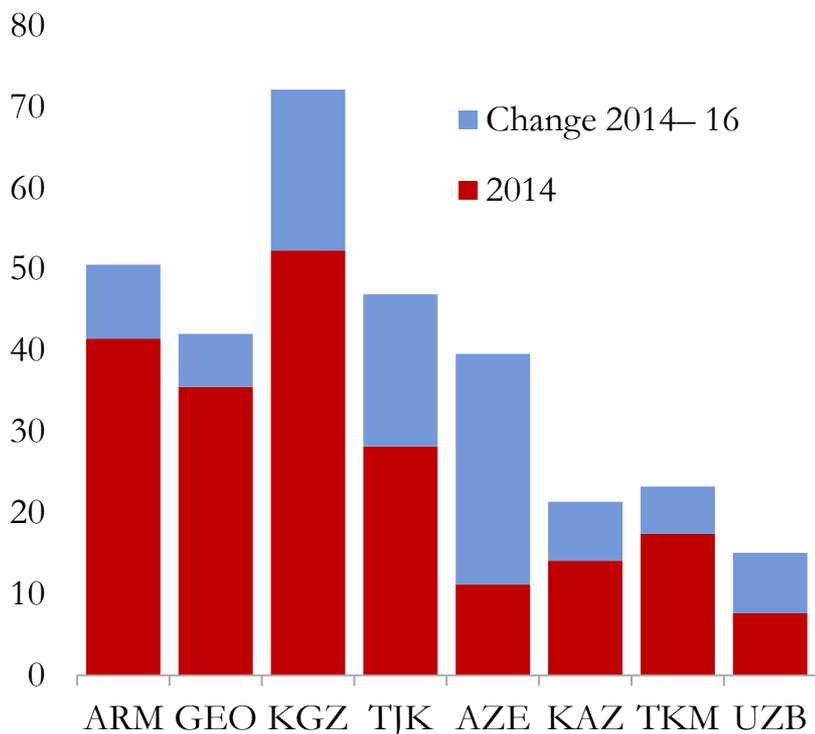


Nominal Effective Exchange Rates and Inflation
(Percent)

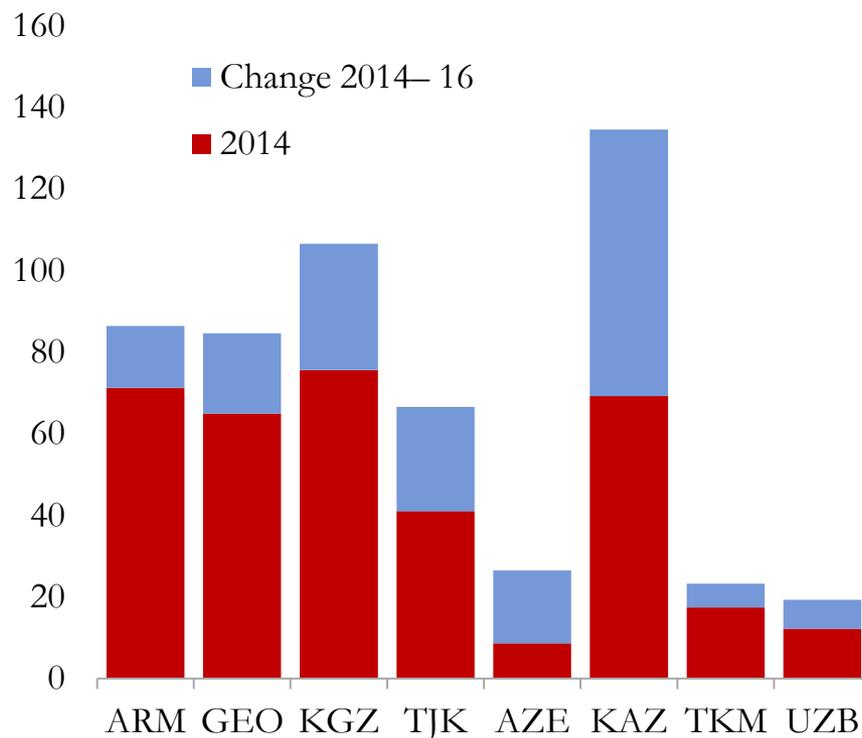


Fiscal and external vulnerabilities have increased...

Public Debt
(Percent of GDP)

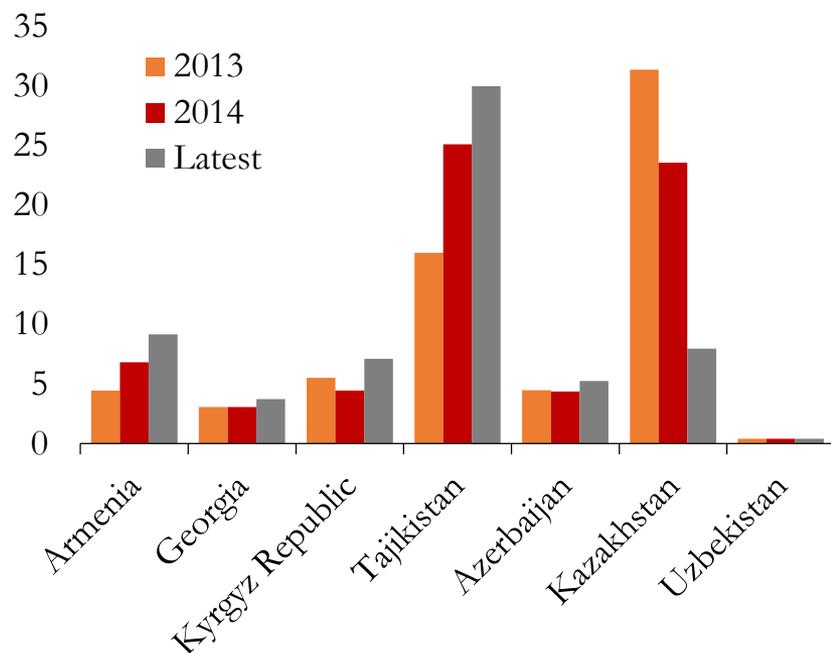


External Debt
(Percent of GDP)



Financial vulnerabilities have also risen

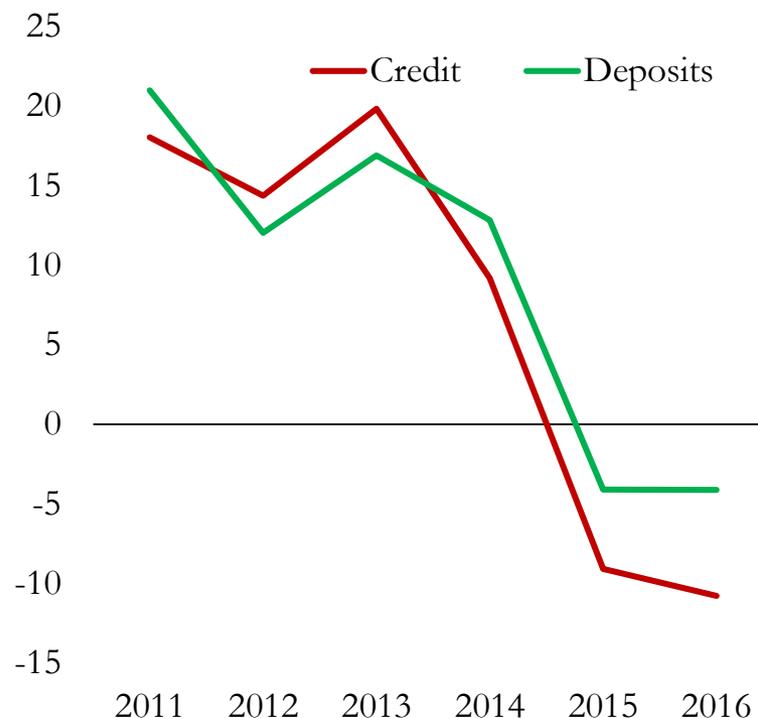
Non-performing Loans
(Percent of Total Loans)



Note: NPLs in Azerbaijan include only the overdue portion of the loans. In Kazakhstan, the reduction reflects the de-licensing of a bank with significant NPLs and legislation changes allowing banks to move NPLs to a Special Purpose Vehicle.

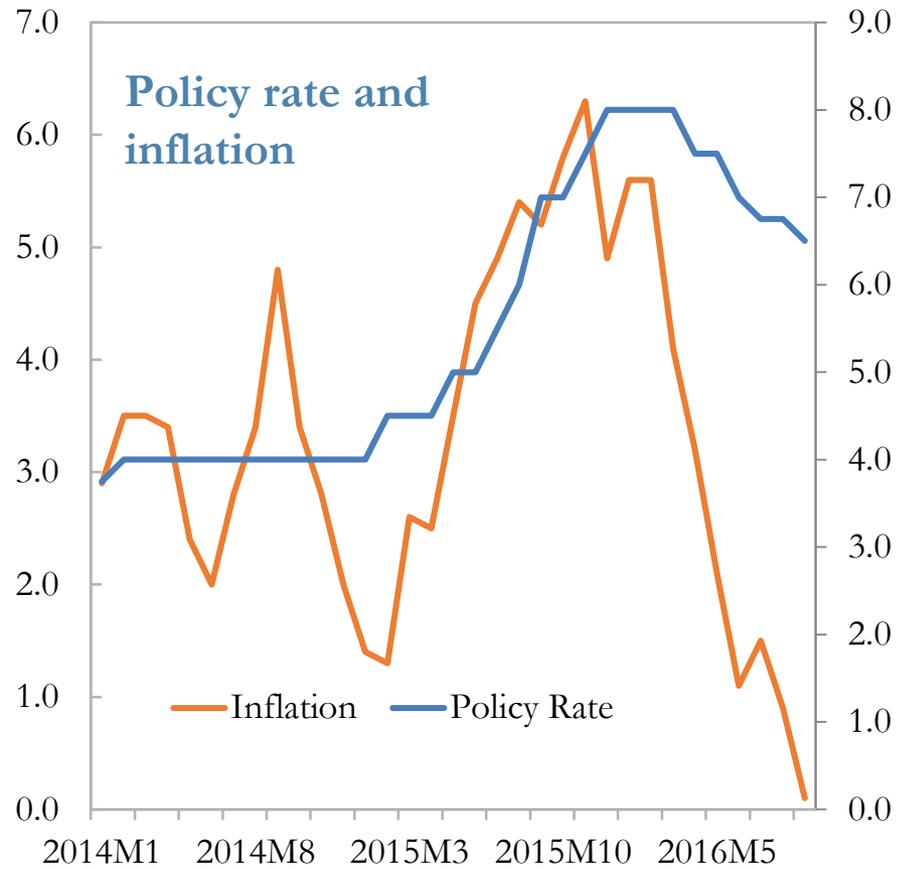
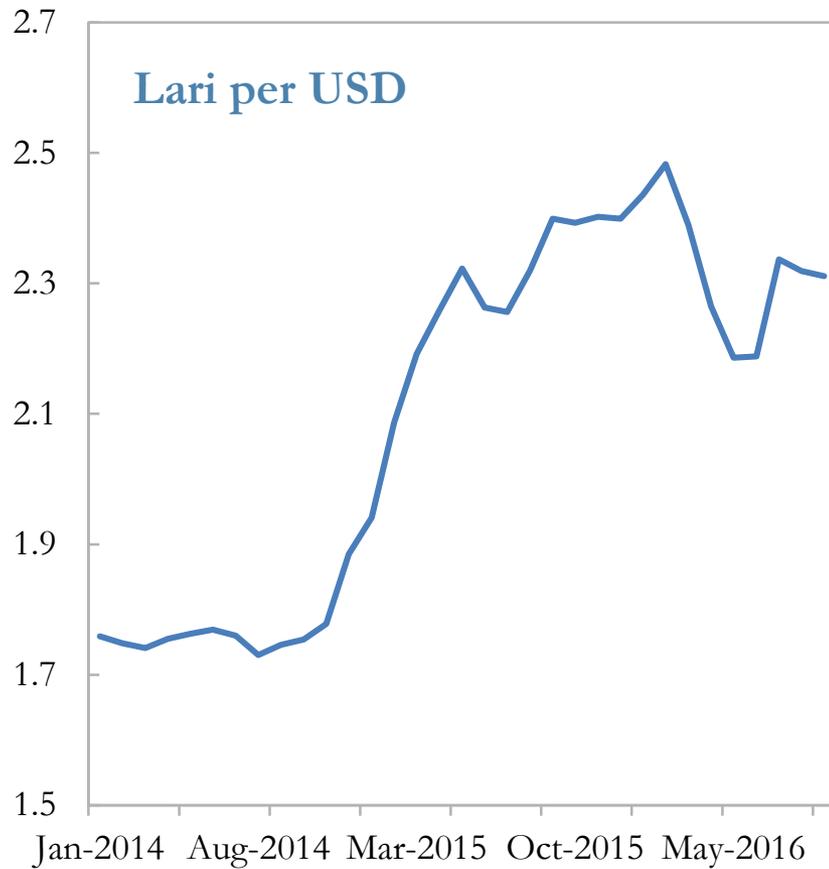
Turkmenistan's data are not available.

Private Credit and Deposits
(Percent Change)

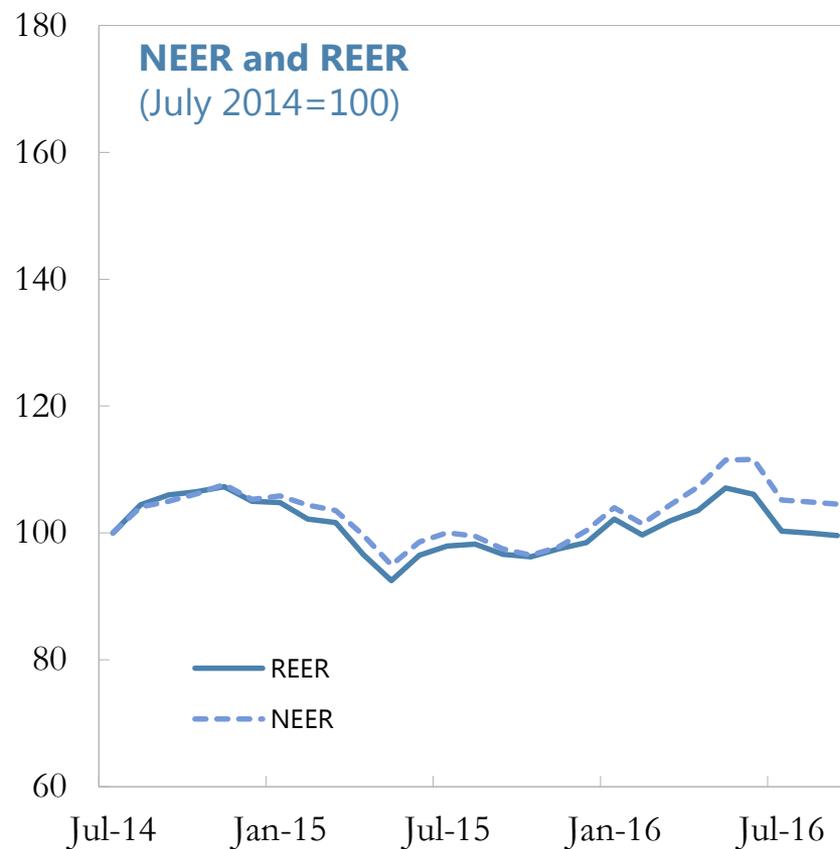
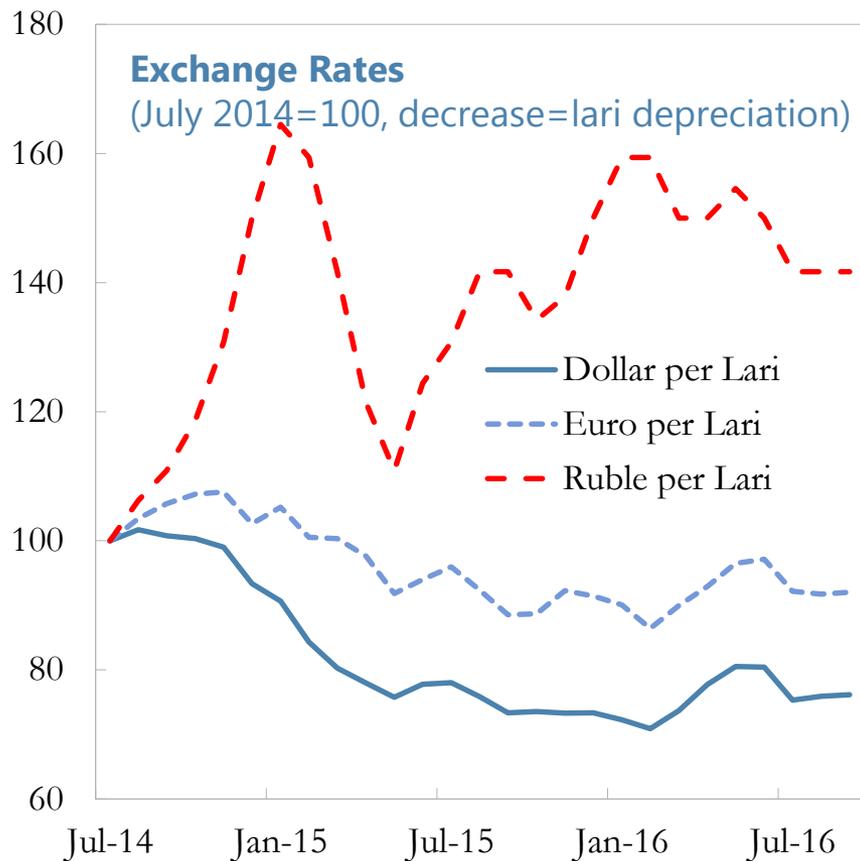


Note: Adjusted for exchange rate effects. Data not available for Turkmenistan and Uzbekistan.

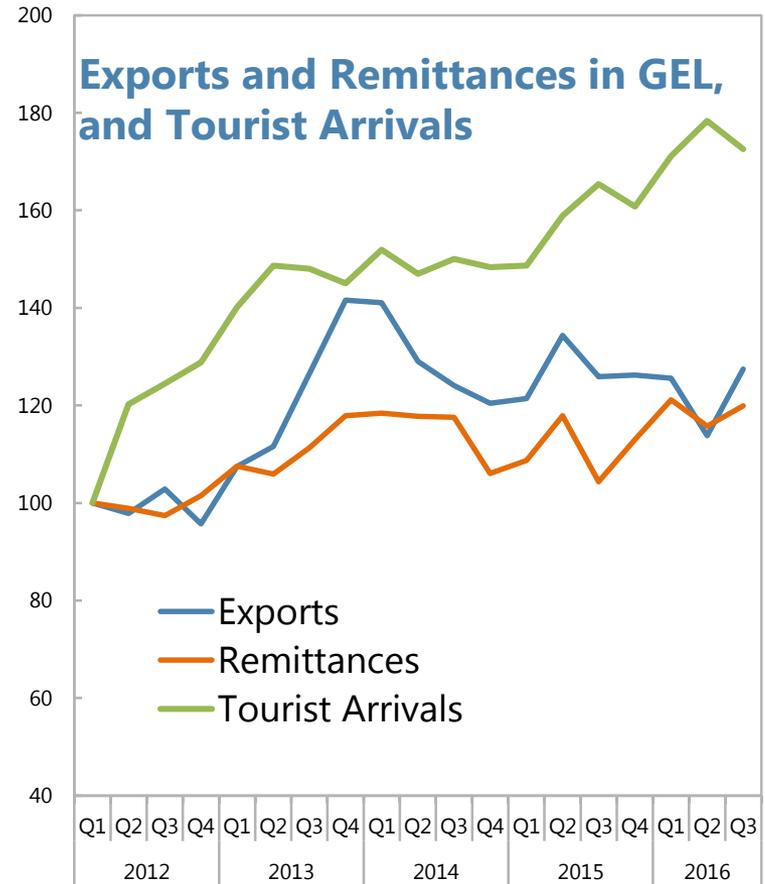
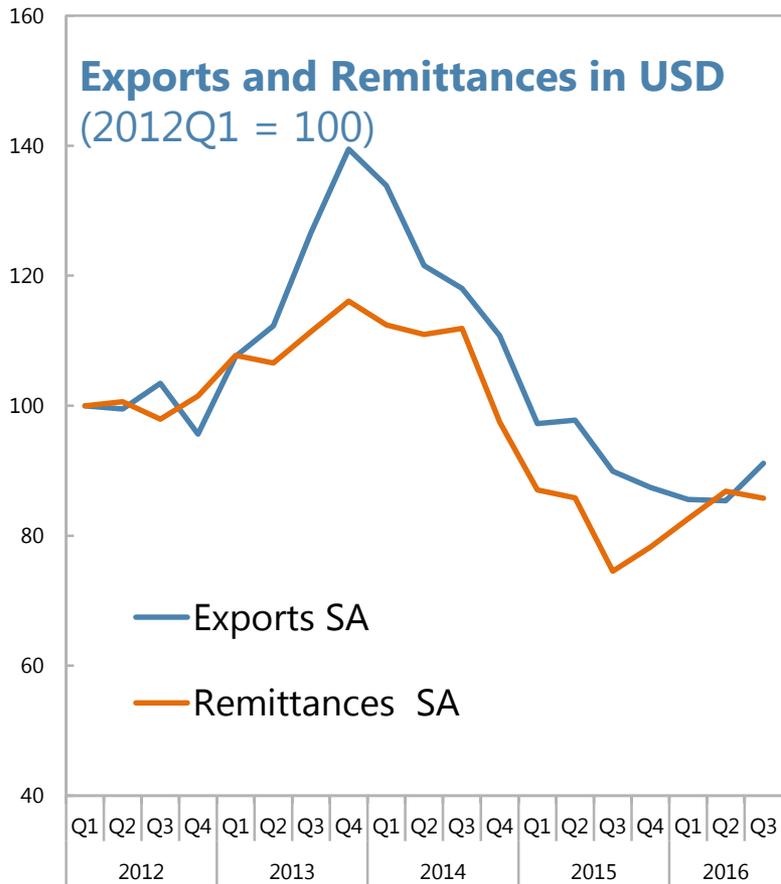
NBG responded well to the external shocks



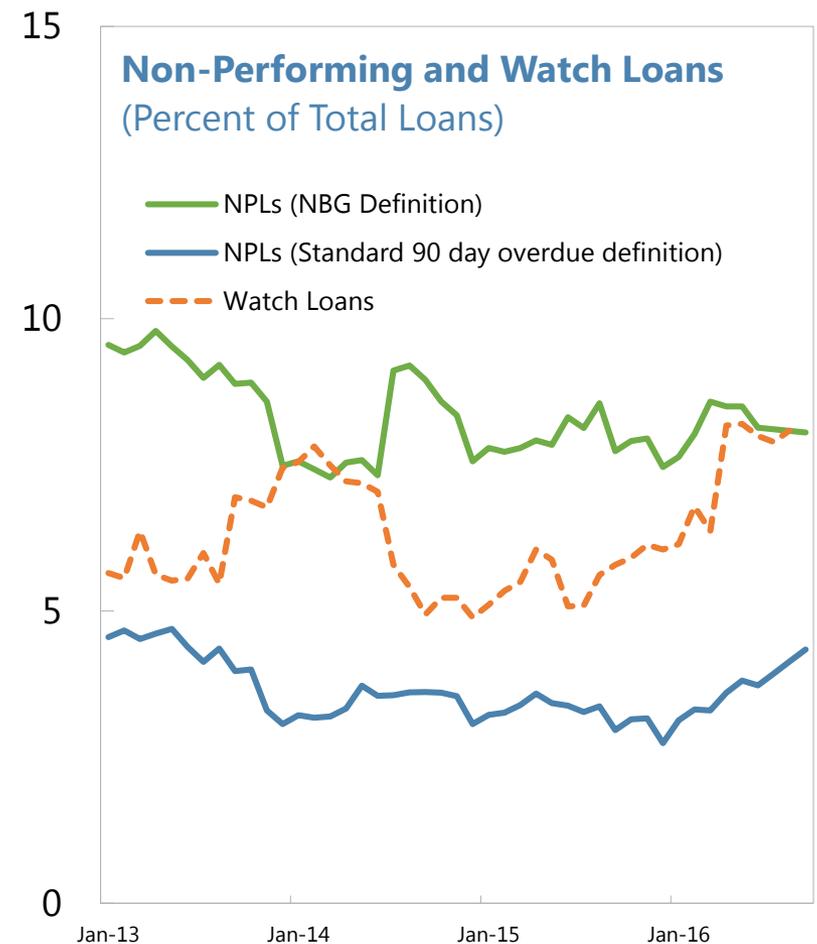
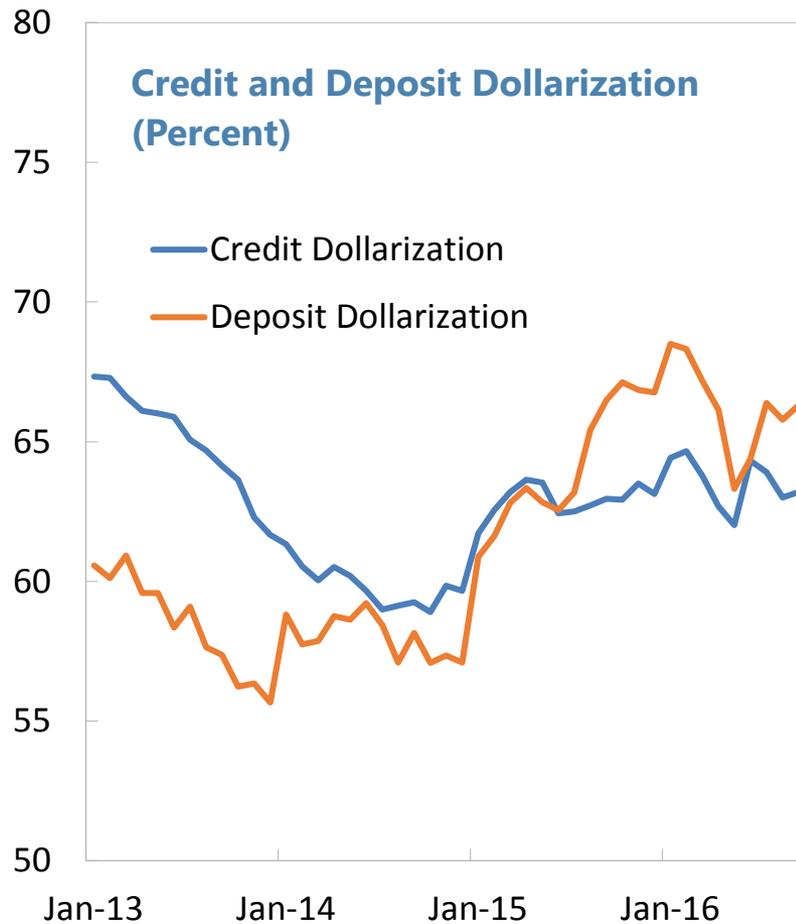
For Georgia, large individual exchange rate variations masks limited effective exchange rate movements



Lari depreciation against USD has supported exports and remittances (in Lari)

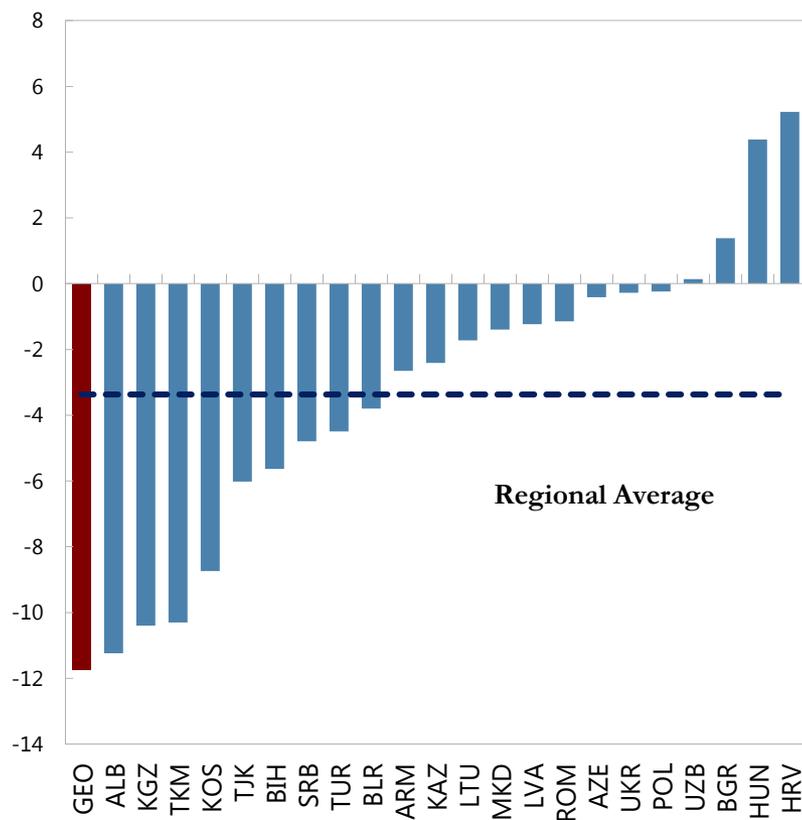


Despite dollarization, banking system remains healthy after the depreciation against USD

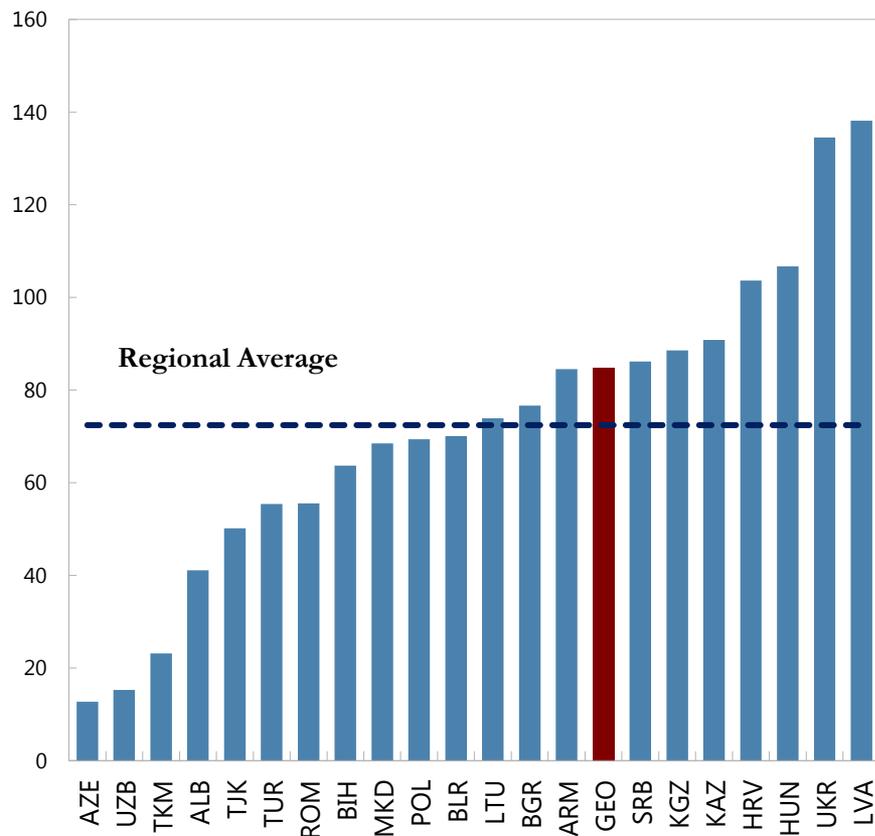


Georgia's external position remains relatively weak

Current Account Balance
(Percent of GDP)



External Debt
(Percent of GDP)



Risks to the outlook are tilted to the downside

Weaker growth in trading partners
(Russia, China, Europe)

Further weakening of prices for oil and other
commodities

Increase in global risk aversion and financing costs

Increase in global protectionism and/or
Slower domestic reforms

Global and Regional Environment

Outlook and Policy Actions

Policy Priorities

Macroeconomic and Financial Policy Priorities

Fiscal

- Continue to support growth in the near term if budget space and buffers allow
- Develop credible medium-term consolidation plans to ensure sustainability

Monetary

- Focus on inflationary pressures taking into account growth and financial stability
- Strengthen monetary and exchange rate frameworks

Financial Sector

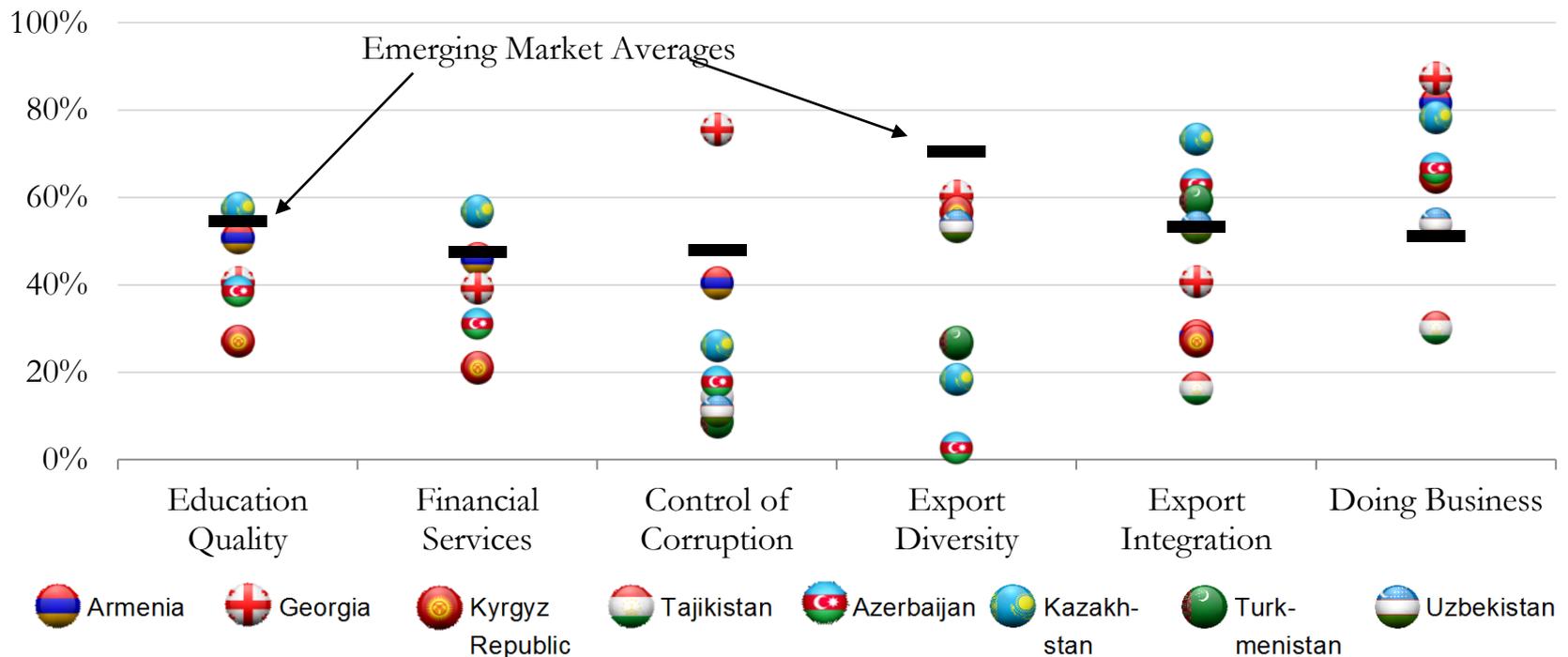
- Improve supervision, macro-prudential policies, and crisis management frameworks



Accelerating structural reforms remains key to unlocking growth potential

Structural Reform Indicators

(In Global Percent Rank)



Sources: Education Quality: Global Competitiveness Report; Financial Services: Global Competitiveness Report and Doing Business; Control of Corruption: Worldwide Governance Indicators; Export Diversity: IMF/DFID Export Diversity Index; Export Integration: World Economic Outlook; and Doing Business: Doing Business Report.



Key Takeaways

- Commodity prices and growth in key trading partners are set to remain low in the coming years.
- A weak and fragile recovery is projected, amid subdued external environment, rising vulnerabilities, and lower policy space.
- Countries with buffers can support growth in the short run, but multi-year fiscal consolidation plans are needed to ensure debt sustainability.
- Stronger monetary policy frameworks and improved financial supervision can support more flexible exchange rates and reduce risks to inflation and financial sector stability.
- Structural reforms are needed to boost medium-term growth prospects, improve living standards, and create jobs.



Thank you!

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