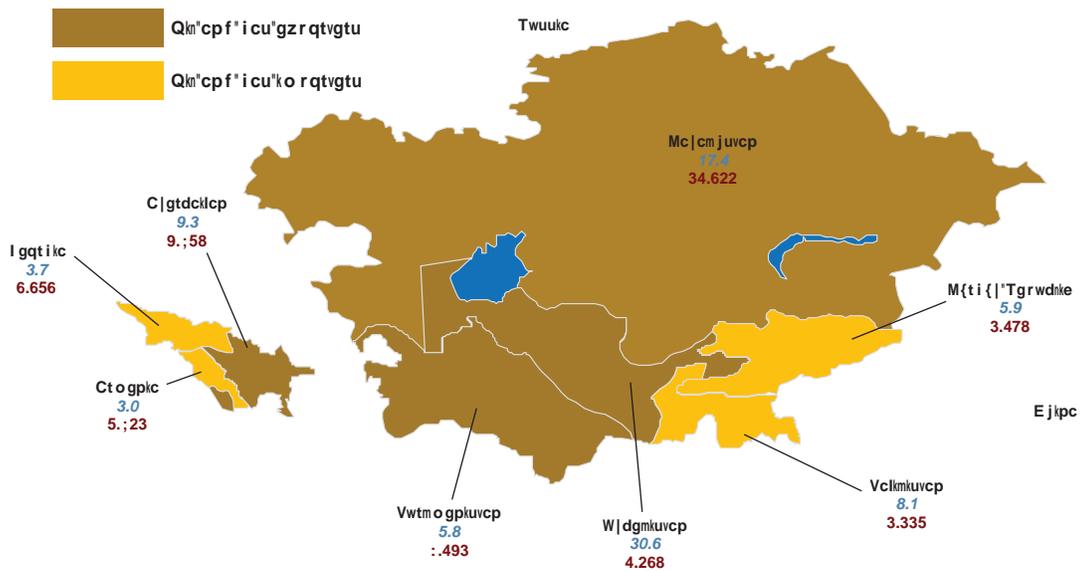


Caucasus and Central Asia

Population, millions (2014)

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Sources: IMF, Regional Economic Outlook database; and Microsoft Map Land.

Note: The country names and borders on this map do not necessarily reflect the IMF's official position.

CCA Region Highlights

A wave of external shocks—a sharp drop in commodity prices, the slowdown in Russia, a plunge in the value of the Russian ruble, and a strengthening of the U.S. dollar—have weakened economic growth in the CCA region despite countercyclical fiscal policies aimed at supporting output. Exchange rates either depreciated or were devalued, creating inflation pressures and limiting scope for monetary easing. Growth is expected to pick up only modestly in 2016 as the external environment is likely to remain challenging. Fiscal policy needs to ensure that the near-term accommodation is sustainable in the medium term. Greater exchange rate flexibility will protect external buffers and help mitigate external imbalances, but needs to be accompanied by stronger supervision to ensure financial sector stability. Accelerating structural reforms will be key to boosting growth in the medium term.

External Shocks Weighing on Growth

Lower oil, gas, and metal prices, together with spillovers from a contraction in Russia, have slowed economic activity in the CCA, given the region's heavy reliance on commodity exports, and given its close trade, investment, and remittance linkages with Russia. This year, for the CCA as a whole, growth is expected to reach only 3¾ percent, one of the lowest rates since independence, and 1½ percentage points lower than in 2014. Within this overall trend, there is considerable variation across countries, with growth exceeding 6 percent in Uzbekistan and Turkmenistan, in contrast to growth rates of 2–3 percent in most other countries. Growth in the CCA region is expected to pick up to 4 percent in 2016, driven by the improved growth performance of Russia and Europe.

Risks are mostly tilted to the downside. A further drop in oil prices will not only adversely affect oil exporters, it will also lower growth in oil importers, through spillovers from Russia, an oil exporter. Lower-than-expected growth in China and other emerging markets could further reduce global commodity prices and adversely affect the commodity exporters in the region. Lower-than-expected growth in the other major trading partners such as Russia and Europe could also delay the recovery.

Reforms Needed to Support Stability and Growth

Fiscal balances have deteriorated across the region because of countercyclical fiscal measures and a drop in revenues from lower oil prices in oil exporters and weaker economic activity in oil importers. In oil exporters, fiscal breakeven oil prices exceed current oil prices. Medium-term fiscal consolidation is needed to ensure that buffers are replenished and countries save adequately for future generations. For the oil importers, medium-term fiscal consolidation is also a priority, as is preserving capital and social expenditure to support the inclusiveness of growth.

A slowdown in growth, combined with weakening exchange rates, has increased vulnerabilities of the CCA countries' highly dollarized financial sectors. Directed lending, loans to unhedged borrowers, and short open foreign exchange positions have amplified the impact of the external shocks on the sector and call for strengthening supervision, macroprudential policies, and crisis management frameworks.

Developing the private sector beyond the extractive industries and making growth more inclusive will help the CCA region reduce its reliance on commodities and remittances and increase its resilience to shocks. The region has been lagging behind other emerging markets and developing countries in the quality of education, financial development, and export diversity, while the business environment and control of corruption are also weak in many countries. Addressing these shortcomings will unlock future economic prosperity.

CCA Region: Selected Economic Indicators, 2000–16

(Percent of GDP, unless otherwise indicated)

	Average 2000–11	2012	2013	2014	Projections	
					2015	2016
CCA						
Real GDP (annual growth)	8.9	5.6	6.6	5.3	3.7	4.0
Current Account Balance	1.3	3.2	1.9	2.0	-3.4	-3.8
Overall Fiscal Balance	2.6	4.7	2.8	0.9	-3.5	-1.5
Inflation, p.a. (annual growth)	9.7	5.3	6.0	5.8	6.8	7.4
CCA oil and gas exporters						
Real GDP (annual growth)	9.3	5.6	6.8	5.4	3.8	4.1
Current Account Balance	2.7	4.7	2.9	3.3	-2.7	-3.2
Overall Fiscal Balance	3.4	5.5	3.4	1.3	-3.5	-1.2
Inflation, p.a. (annual growth)	9.9	5.7	6.3	5.9	6.8	7.6
CCA oil and gas importers						
Real GDP (annual growth)	6.6	5.5	5.7	4.7	2.3	3.0
Current Account Balance	-8.4	-10.2	-7.2	-10.2	-10.0	-9.2
Overall Fiscal Balance	-3.2	-2.2	-2.4	-2.2	-3.6	-3.6
Inflation, p.a. (annual growth)	8.2	2.1	3.6	4.6	6.3	6.1

Sources: National authorities; and IMF staff calculations and projections.

CCA oil and gas exporters: Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

CCA oil and gas importers: Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.