

**International Monetary Fund**  
**April 2011 Regional Economic Outlook**  
**Middle East and Central Asia**

**CCA Highlights**

At 6½ percent, growth in the CCA countries in 2010 was higher than expected, driven by commodity exports and public investment. Oil and gas exporting countries enjoyed growth of 7 percent and improved their current account position by 5½ percentage points of GDP. While the expansion in oil and gas importers was lower (4 percent), their external position also strengthened, aided by higher mineral and metal prices and a pickup of remittances. Growth is expected to moderate to 5¾ percent in 2011 as oil and gas production growth slows down.

Inflation is rising in all CCA countries. It averaged 7¼ percent in 2010 and is projected to pick up further to 10 percent in 2011, largely reflecting food and fuel price increases but also, in some cases, emerging demand pressures. High inflation adversely affects the poor and complicates policymaking. In response, the authorities are tightening monetary policies to avoid second-round effects from higher commodity prices, and in some cases using administrative measures to limit price increases.

Fiscal consolidation plans for 2011 are mixed across the region, and under pressure from demands for higher spending. In Armenia and Georgia, where fiscal space is constrained and self-sustaining recovery appears to be in place, further significant fiscal tightening is planned. Elsewhere, pressures for higher spending are delaying or slowing consolidation. For oil and gas exporters, which have ample fiscal space, a gradual path of fiscal adjustment is appropriate, with non-oil deficits in 2011 remaining significantly higher than before the crisis.

Policymakers will need to address three main immediate challenges: the pickup of inflation, an upsurge of social pressures to spend, and the poor quality of bank portfolios. Dealing with inflation will require close monitoring of developments, and probably further tightening of policies as second-round effects of the commodity price shocks begin to emerge. Efforts to prioritize and improve the quality of public expenditure will be crucial at a time when countries need to develop targeted and cost-effective safety nets to protect the most vulnerable. Restoring the health of banking systems, particularly in Kazakhstan, the Kyrgyz Republic, and Tajikistan, is needed to support a recovery in credit and private investment.

Over the medium term, job creation and poverty reduction are key objectives for all countries. Progress will depend on developing adequate safety nets, increasing the role of the private sector, diversifying economies away from natural resources, and achieving greater regional synergies. Improving the business environment through enhanced transparency, governance, and institutional quality is an important item of the reform agenda.

## CCA Region: Selected Economic Indicators, 2000–11

*(Percent of GDP, unless otherwise indicated)*

	Average 2000–07	2008	2009	2010	Proj. 2011
<b>CCA</b>					
Real GDP (annual growth)	10.3	6.8	3.7	6.6	5.7
Current Account Balance	-0.6	8.9	0.4	5.7	8.6
Overall Fiscal Balance	1.4	6.2	0.9	3.4	4.5
Inflation, p.a. (annual growth)	9.8	16.5	6.2	7.2	10.1
<b>CCA oil and gas exporters</b>					
Real GDP (annual growth)	10.7	7.0	4.9	7.1	5.8
Current Account Balance	0.3	12.4	1.8	7.4	10.7
Overall Fiscal Balance	2.2	8.0	2.2	4.9	6.1
Inflation, p.a. (annual growth)	10.2	16.8	6.6	7.2	9.6
<b>CCA oil and gas importers</b>					
Real GDP (annual growth)	8.3	5.8	-3.5	4.0	5.2
Current Account Balance	-6.3	-14.7	-9.6	-8.5	-10.4
Overall Fiscal Balance	-2.8	-3.6	-6.9	-5.3	-5.2
Inflation, p.a. (annual growth)	7.8	14.4	4.2	7.4	13.2

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.