

Regional Economic Outlook

Caucasus and Central Asia

October 21, 2016



Outline

Global and Regional Environment

Outlook and Policy Actions

Policy Priorities

Global growth remains lackluster

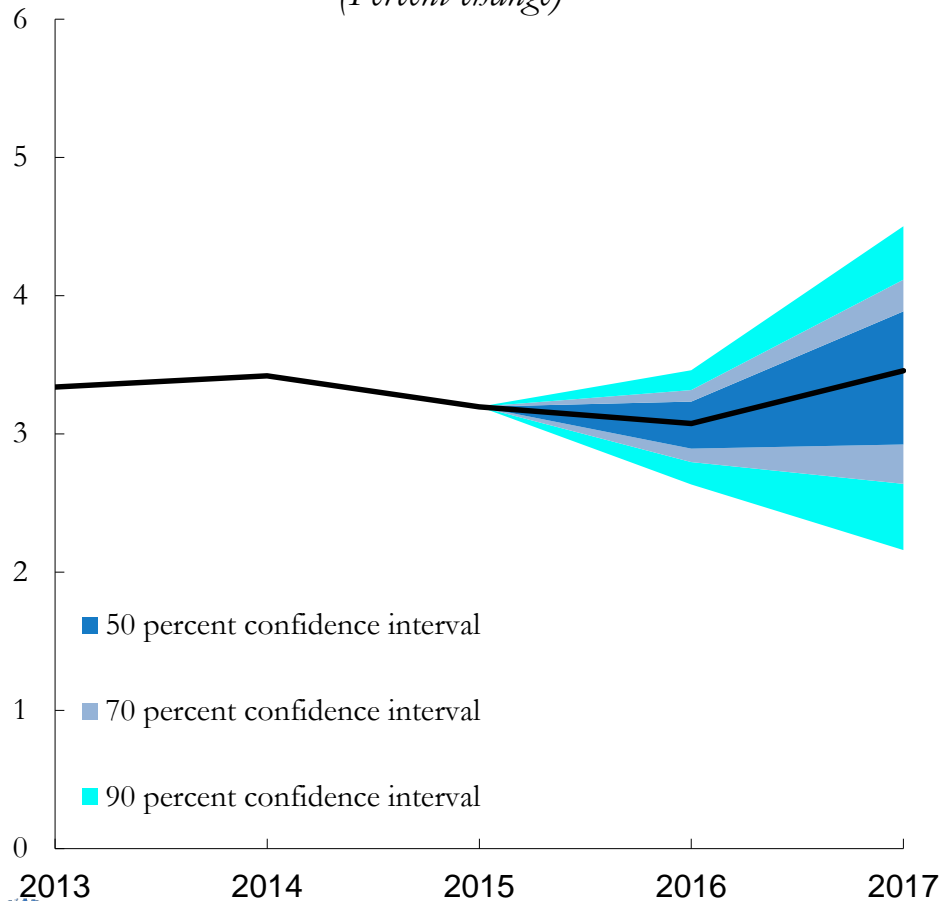


	World	U.S.	Euro Area	Emerging markets	China	Russia
2015	3.2	2.6	2.0	4.0	6.9	-3.7
2016	3.1	1.6	1.7	4.2	6.6	-0.8
2017	3.4	2.2	1.5	4.6	6.2	1.1

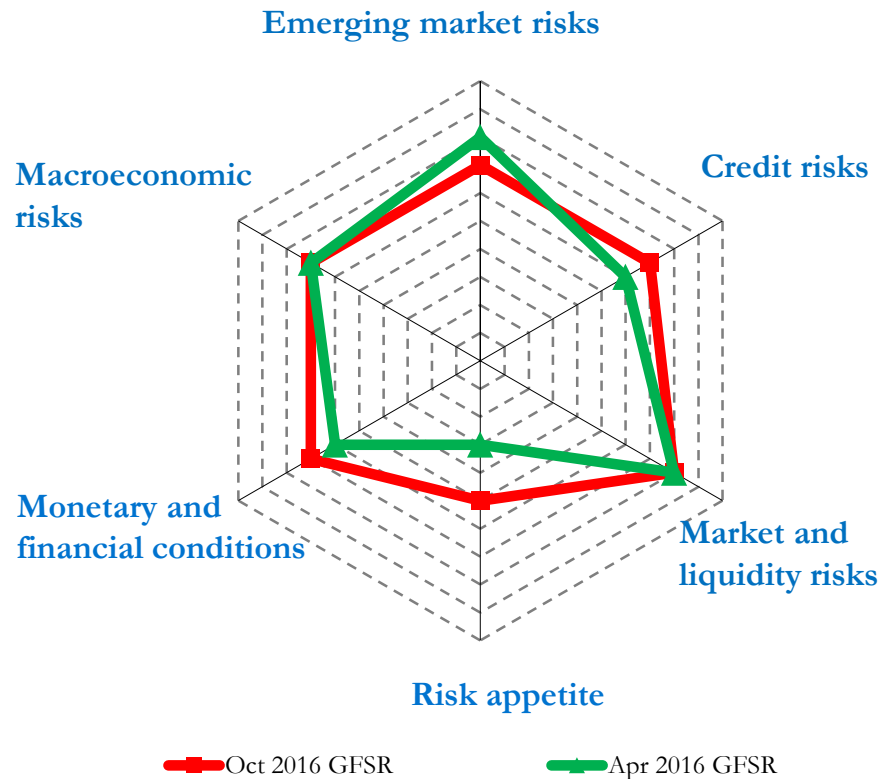
Risks are to the downside—more pronounced from inward-looking policies and secular stagnation, less so from emerging markets

World GDP Growth

(Percent change)



Global Risks



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

Source: World Economic Outlook.

Commodity prices are expected to remain weak

Brent Crude Oil Price

(U.S. dollars per barrel)

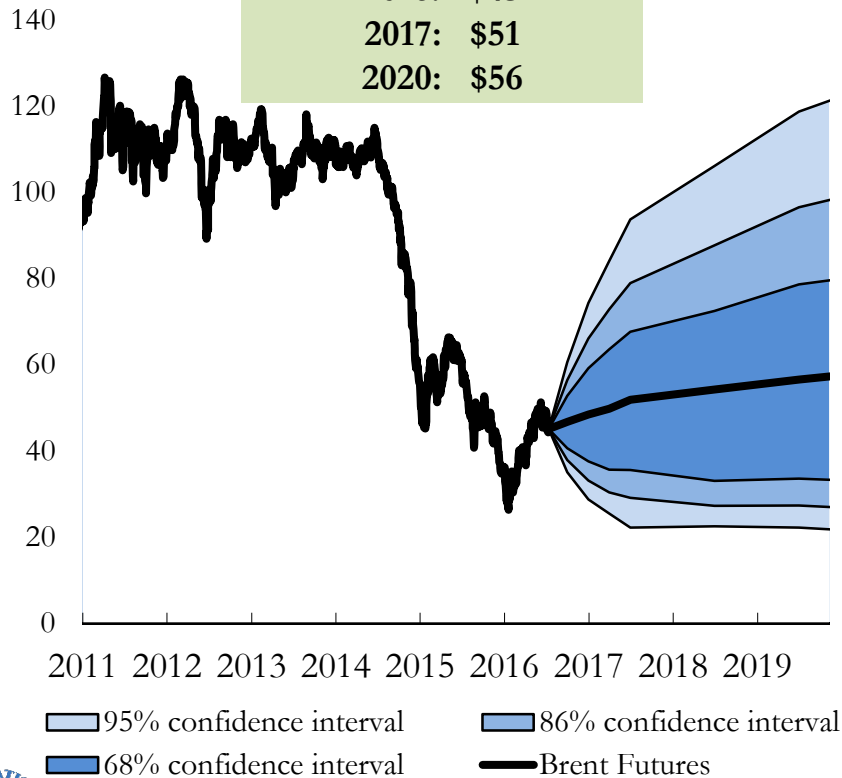
WEO Baseline Average

Oil Price:

2016: \$43

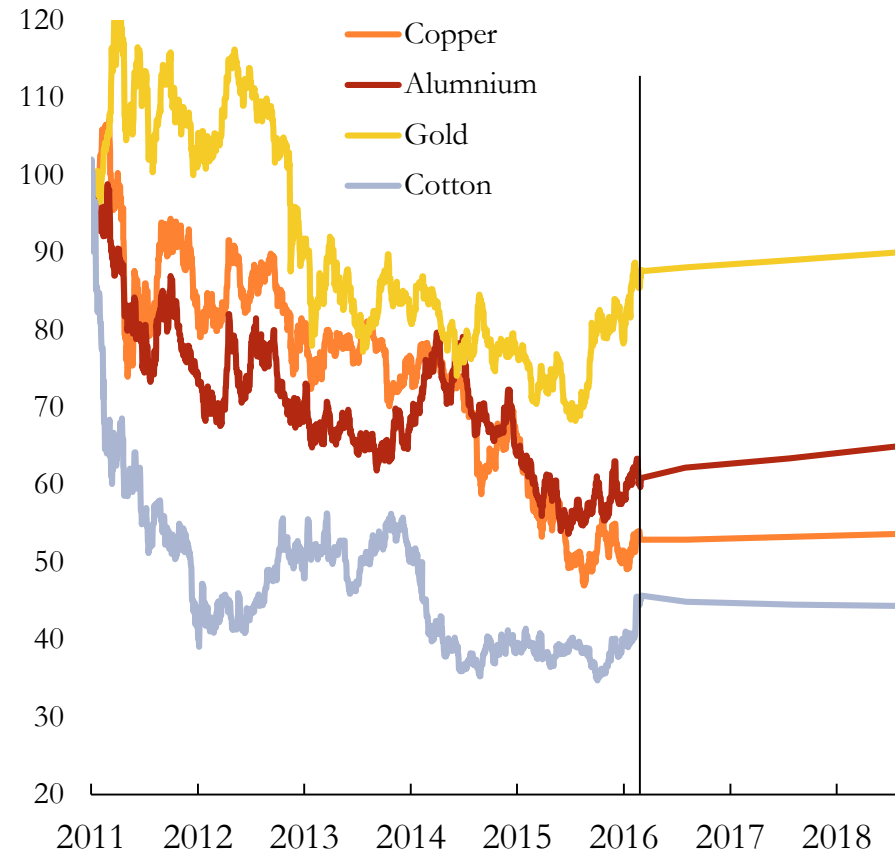
2017: \$51

2020: \$56



Commodity Prices

(Index, June 2011=100)

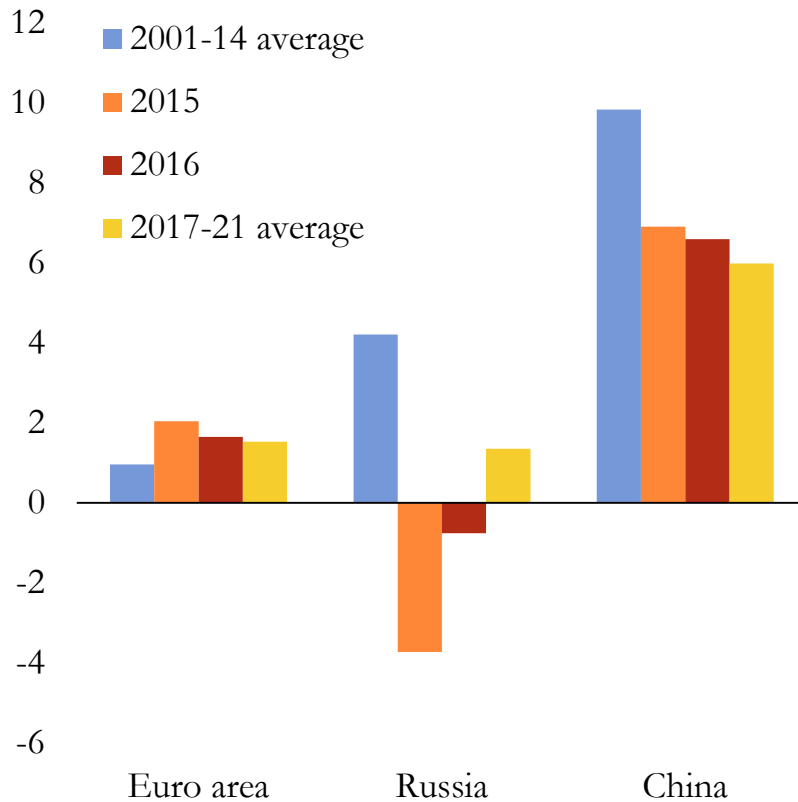


Sources: Bloomberg; and IMF staff calculations.

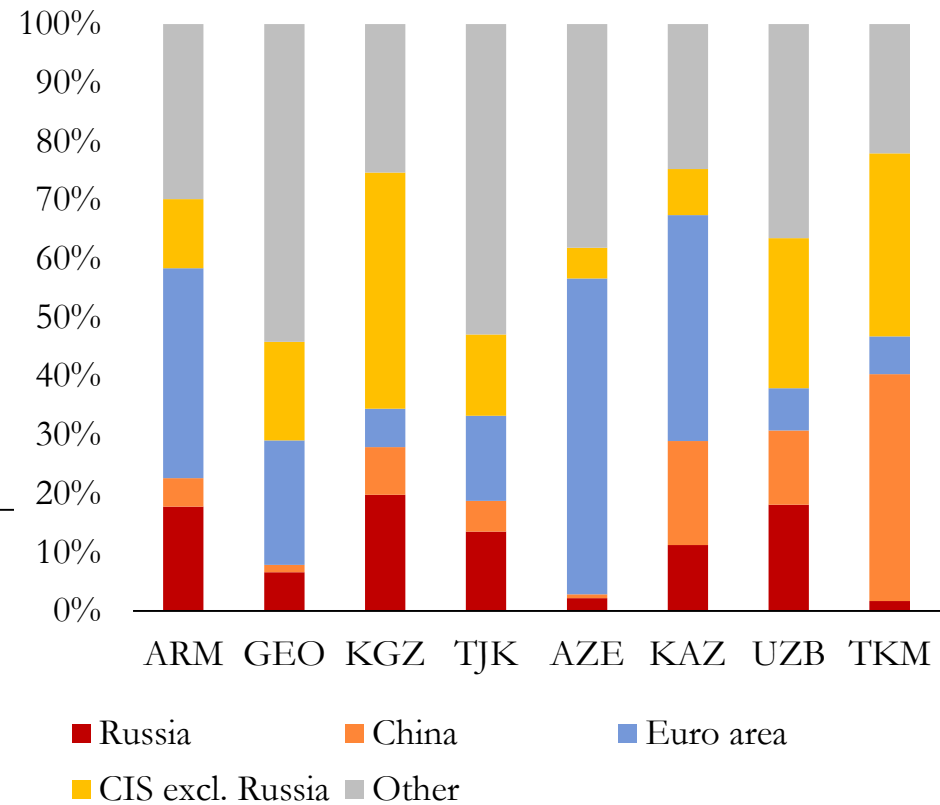


Despite some improvement, the outlook for CCA's key export markets remains weak

Real GDP Growth
(Percent)



Exports by Destination
(Share of Total Exports)



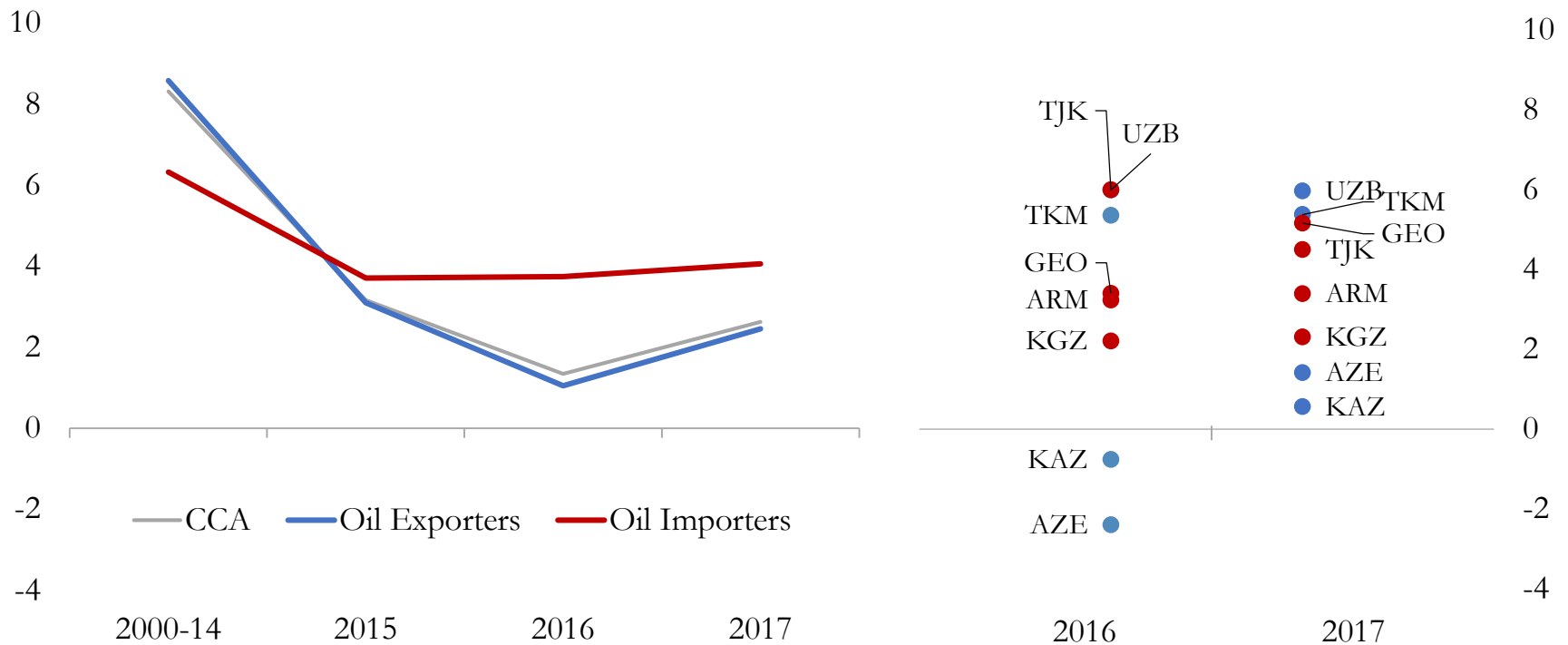
Global and Regional Environment

Outlook and Policy Actions

Policy Priorities

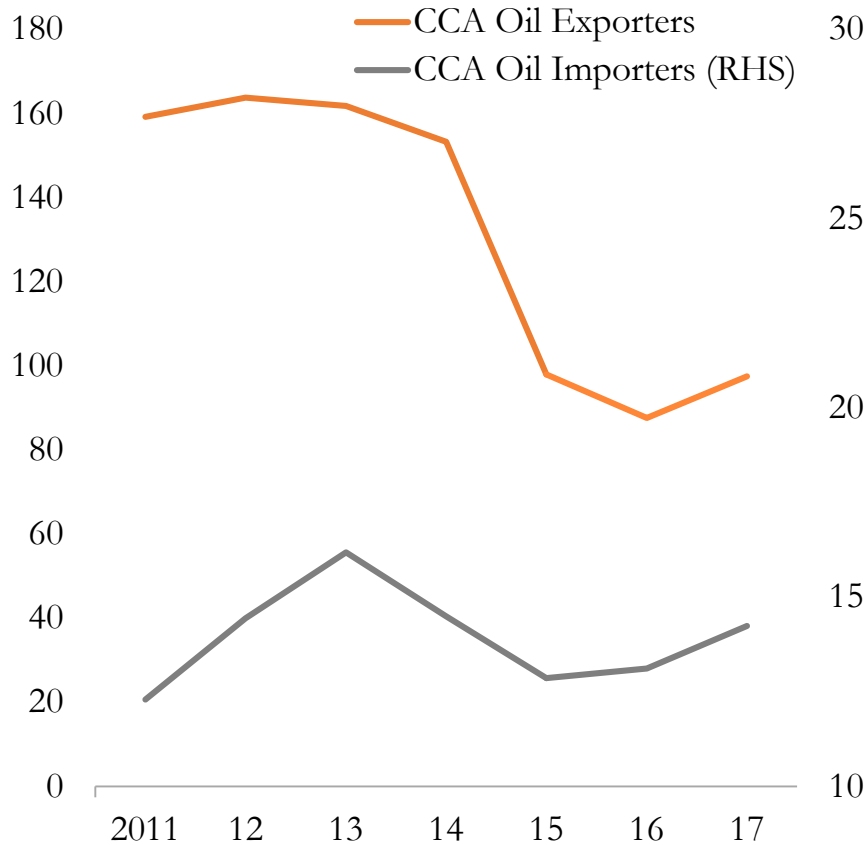
Regional growth sharply weakening, with a modest recovery projected for 2017

Real GDP Growth (Percent)

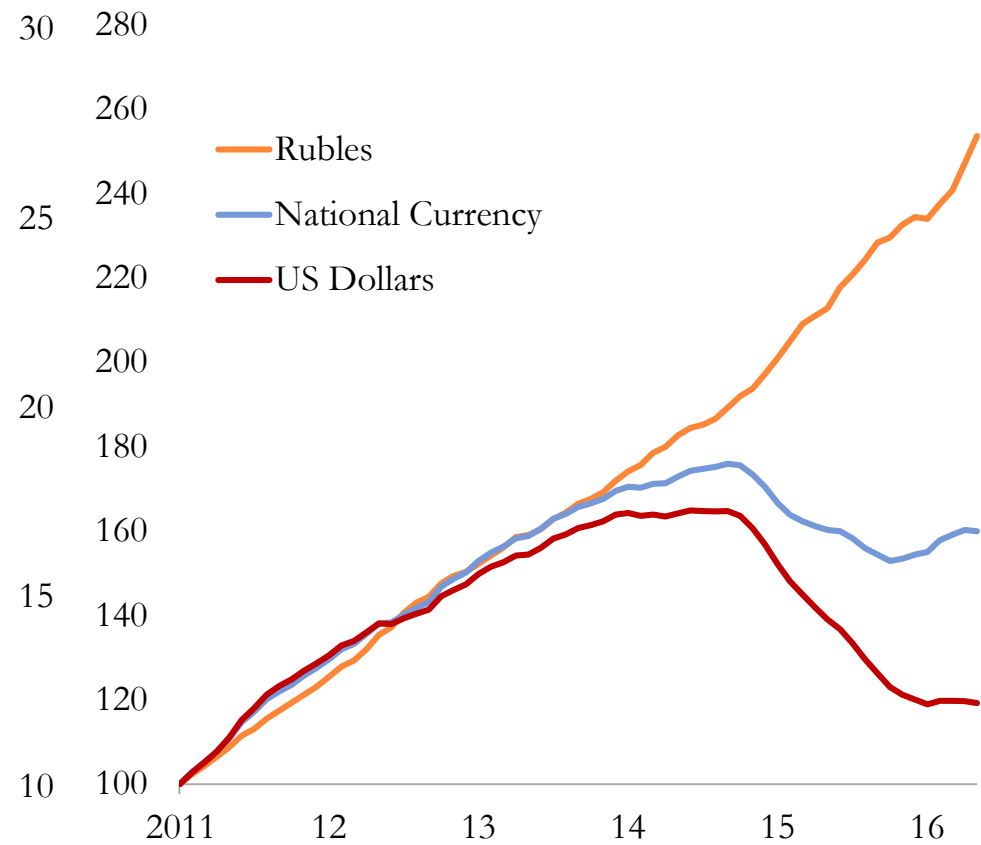


Exports and remittances are key channels through which external conditions affect regional growth

Total Exports
(Billions of USD)

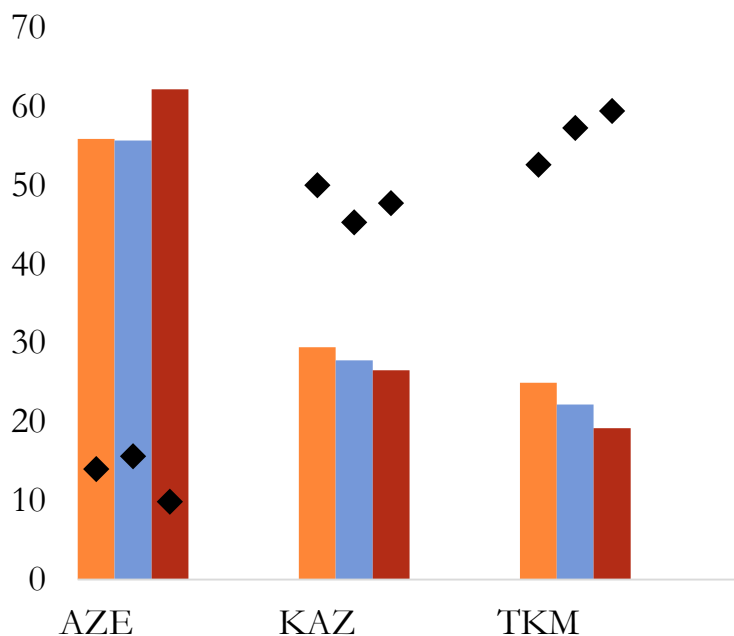


Remittances
(Jan 2011 = 100)

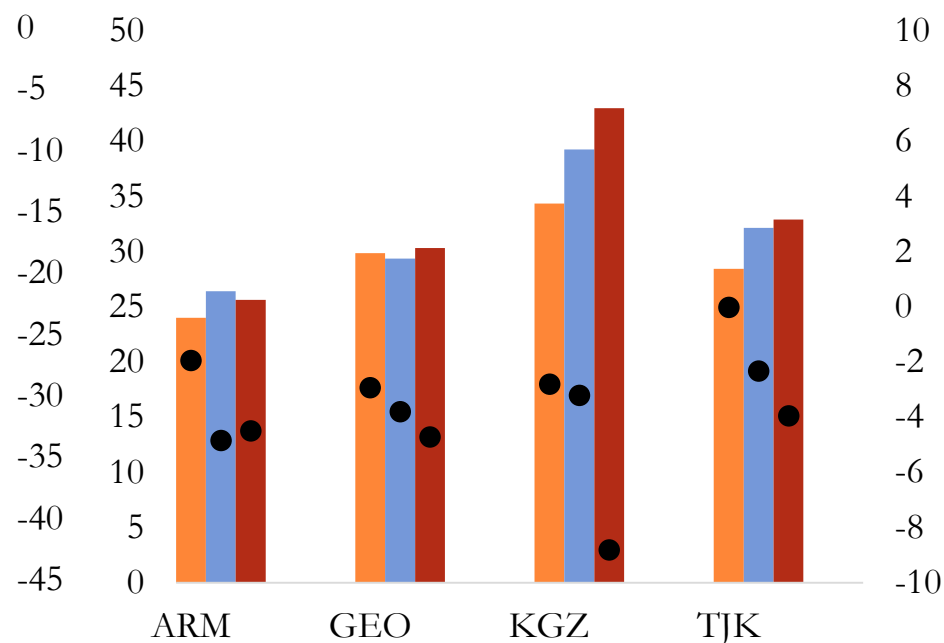


Budgetary support has helped economic activity

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



Oil Importers: Government Expenditure
(Percent of GDP)

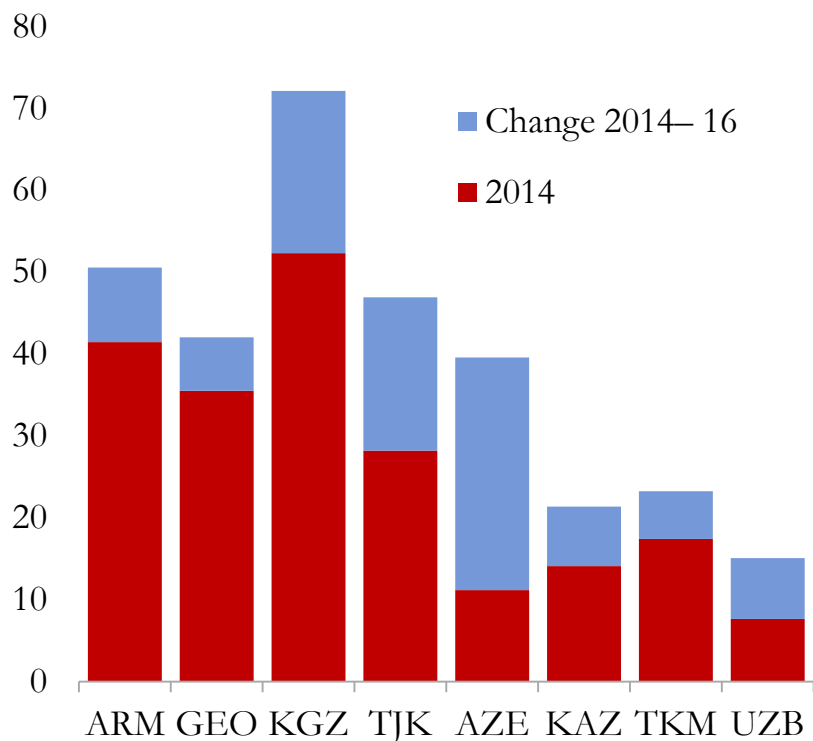


■ 2014
 ■ 2015
 ■ 2016
 ◆ Non-oil fiscal balance (RHS)
 ● Overall fiscal balance (RHS)

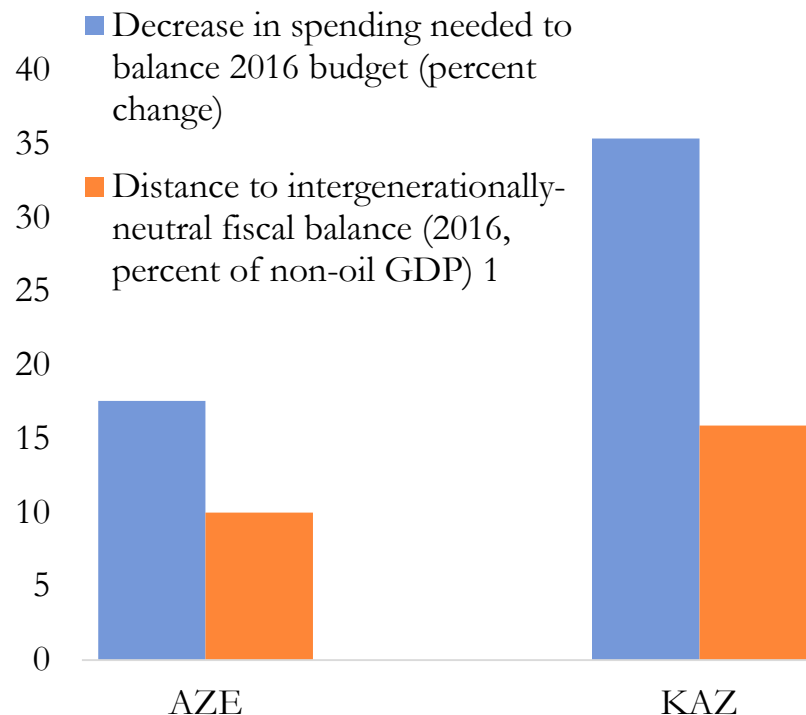


Public debt and adjustment needs have risen

Public Debt
(Percent of GDP)



Illustrative Fiscal Adjustment Needs in Oil Exporters
(Percent)



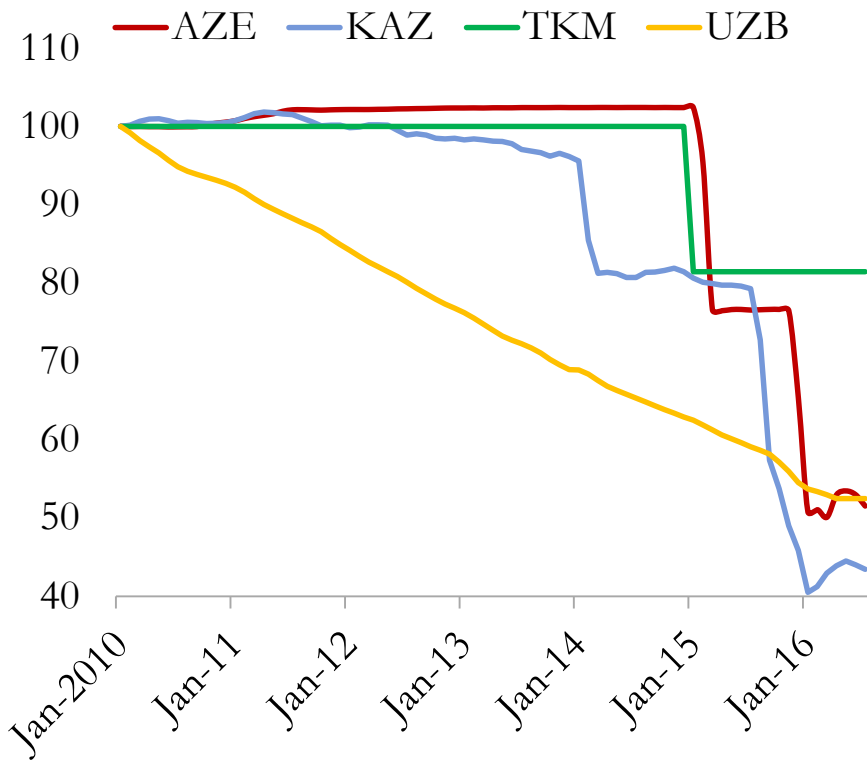
1/ This is the gap between the projected nonhydrocarbon primary balance and the desirable fiscal balance based on a permanent income hypothesis.



Exchange rate policy has also been a useful tool for coping with the shocks

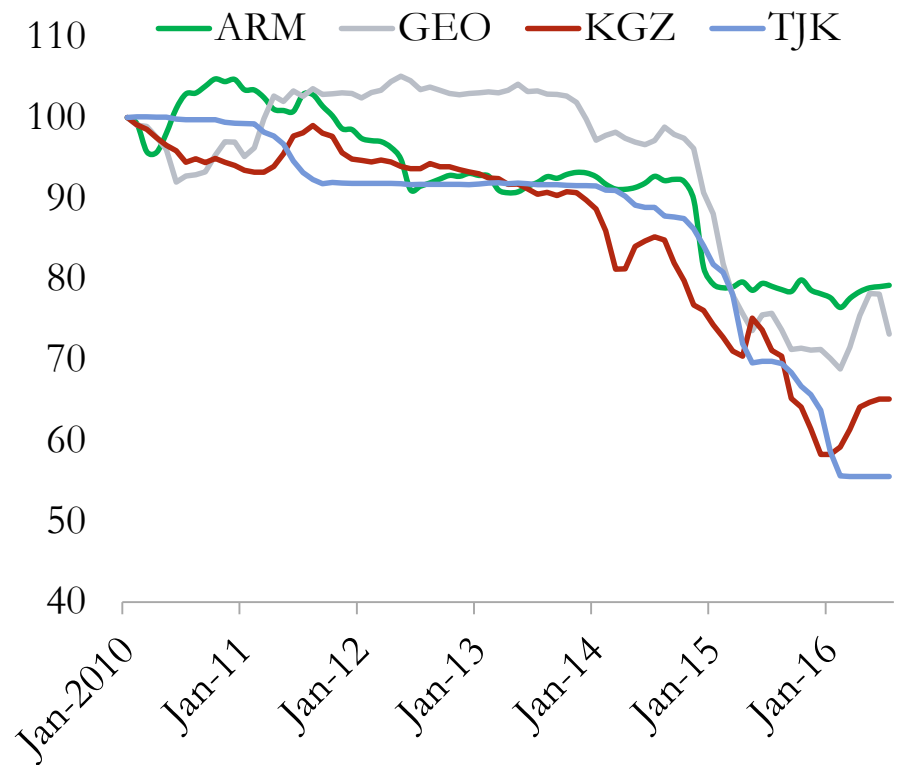
Oil Exporters

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



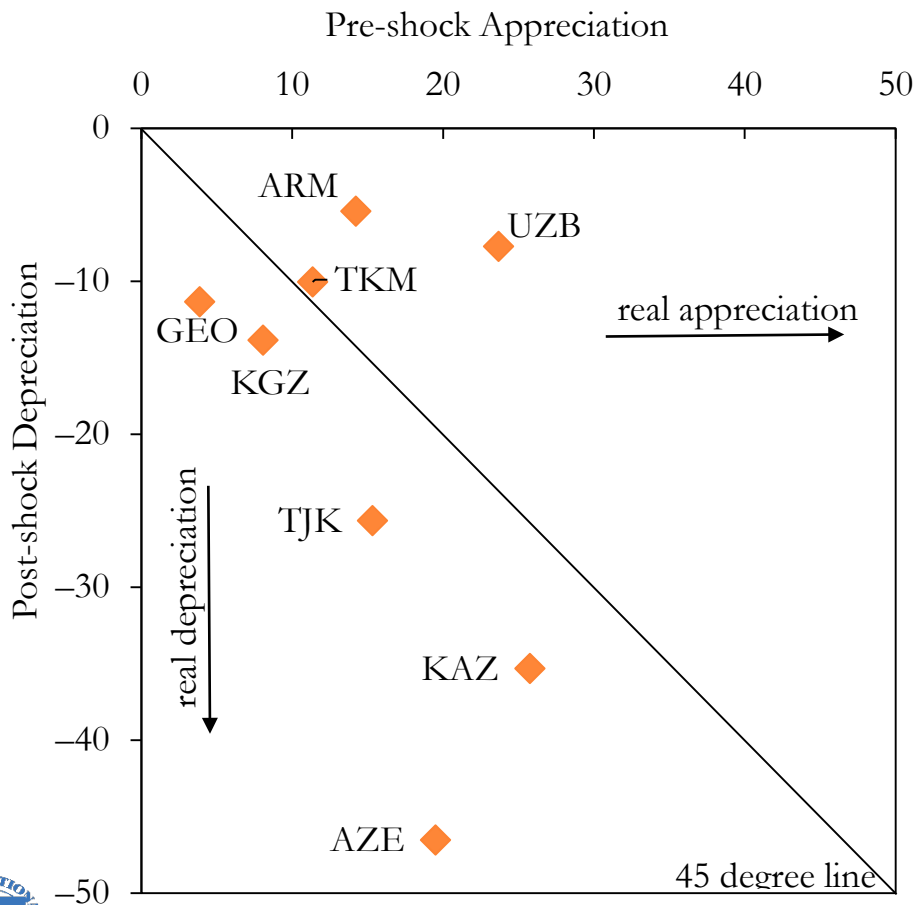
Oil Importers

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

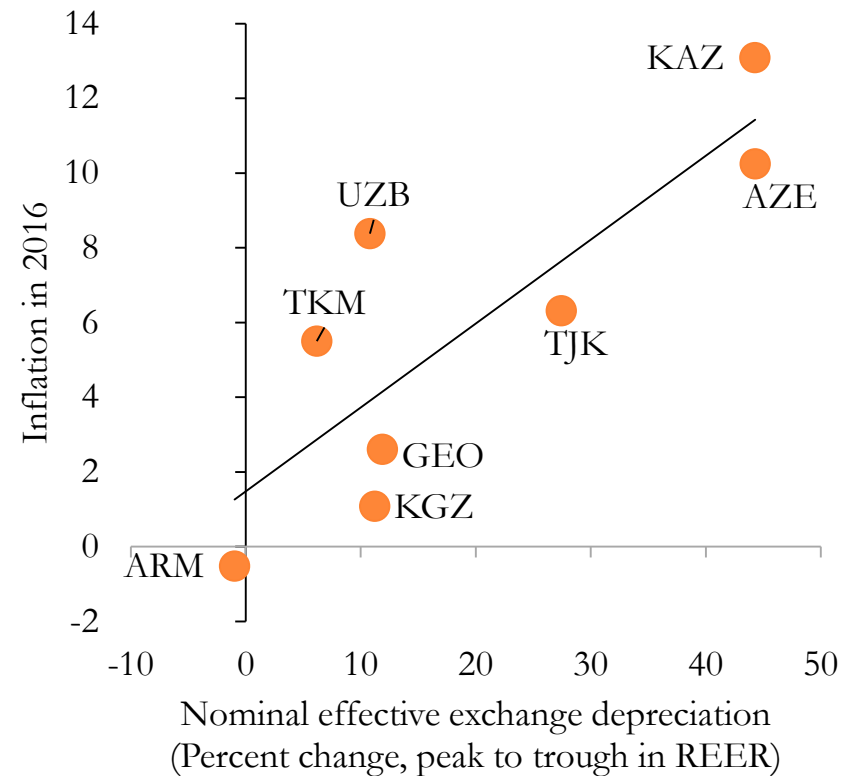


Currency adjustment has helped unwind previous real appreciations, but temporarily increased inflation

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

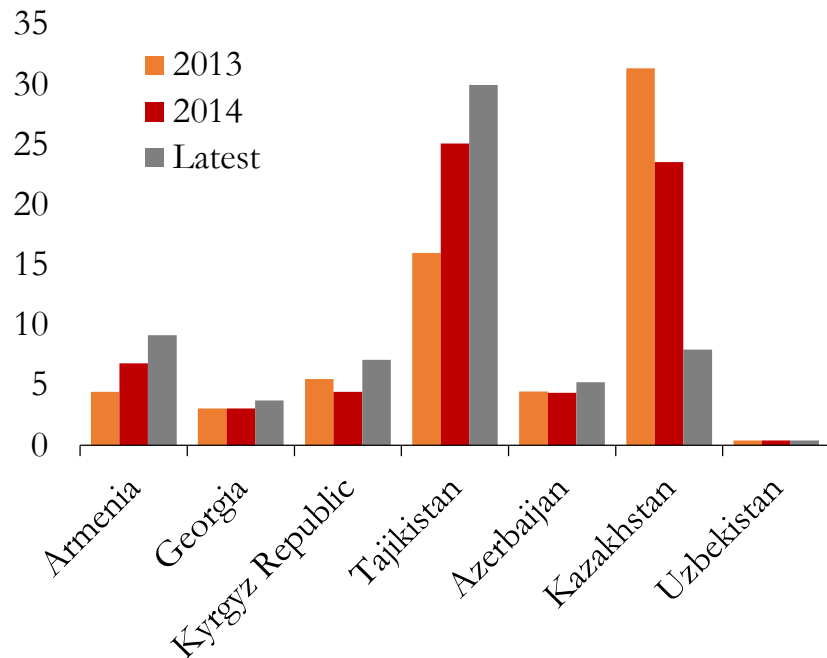


Nominal Effective Exchange Rates and Inflation
(Percent)



Financial vulnerabilities have risen amid weaker currencies and slowing economic activity

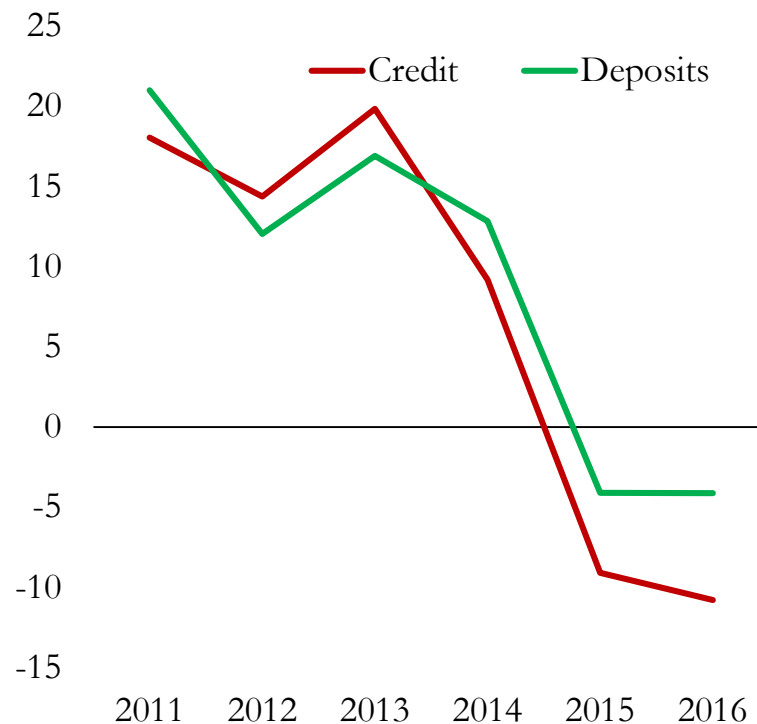
Non-performing Loans
(Percent of Total Loans)



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.



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

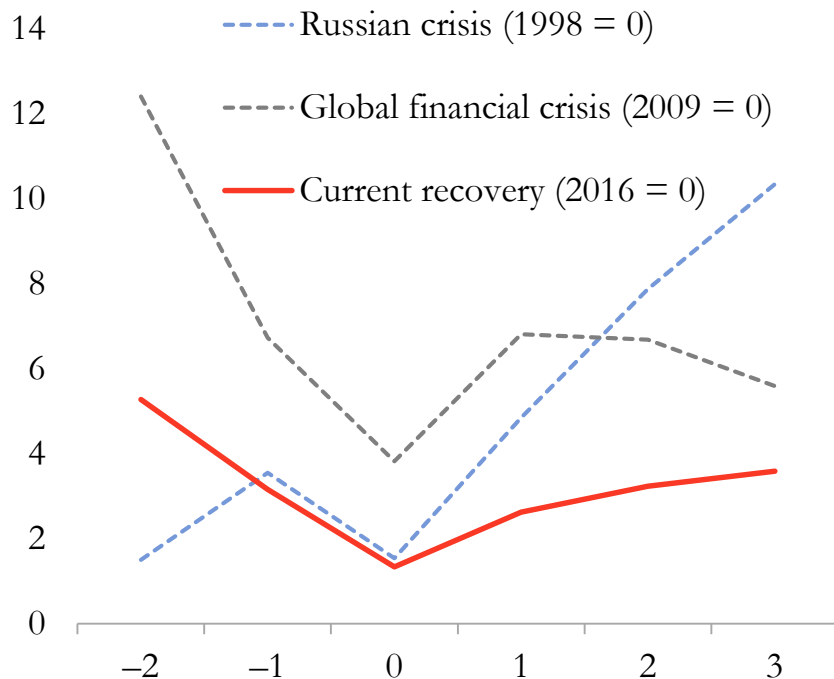
- Improve supervision, macro-prudential policies, and crisis management frameworks



Without reforms, medium-term growth prospects and gains in living standards will be slow

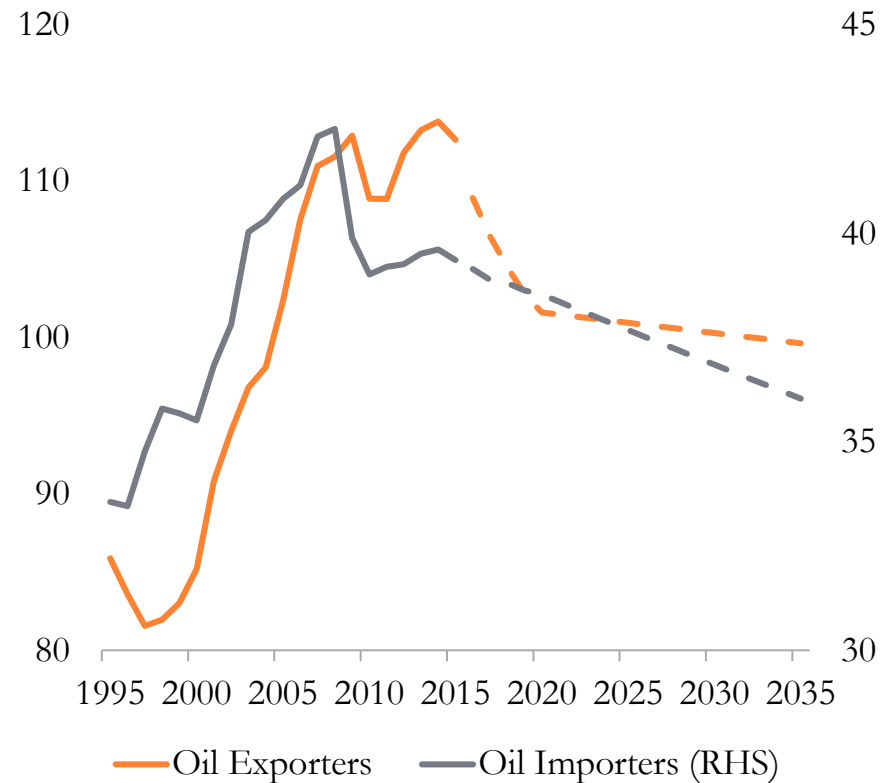
Real GDP Growth

(Percent)



GDP per Capita

(In Percent of Emerging Market Average)



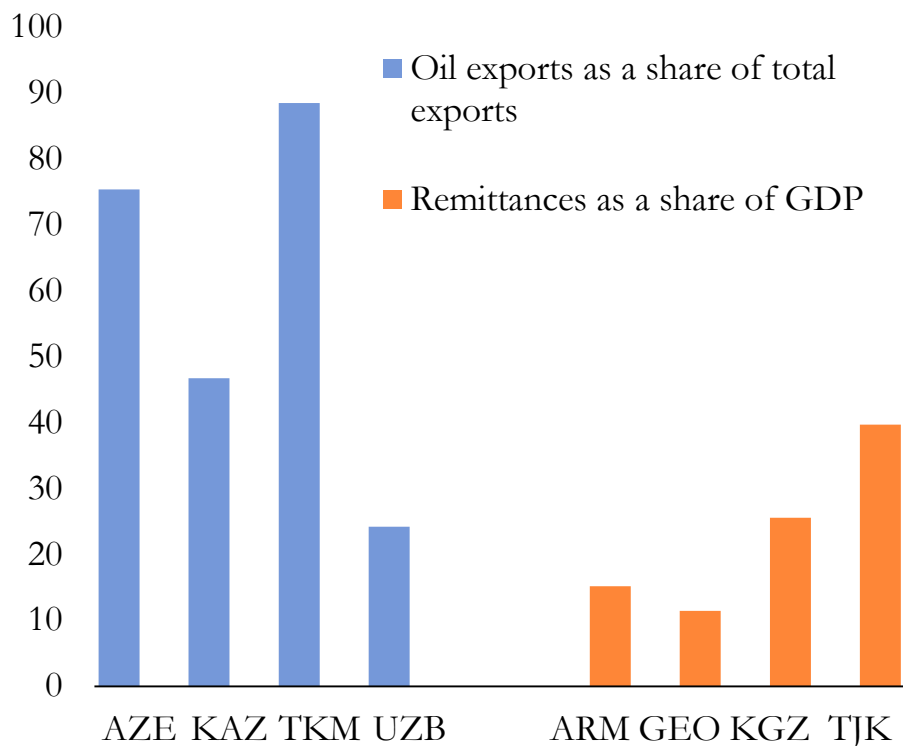
Note: GDP per capita in 2022-2035 is expected to grow at the same rate as 2021.



Need to change growth models: diversify away from commodities & remittances, make growth inclusive

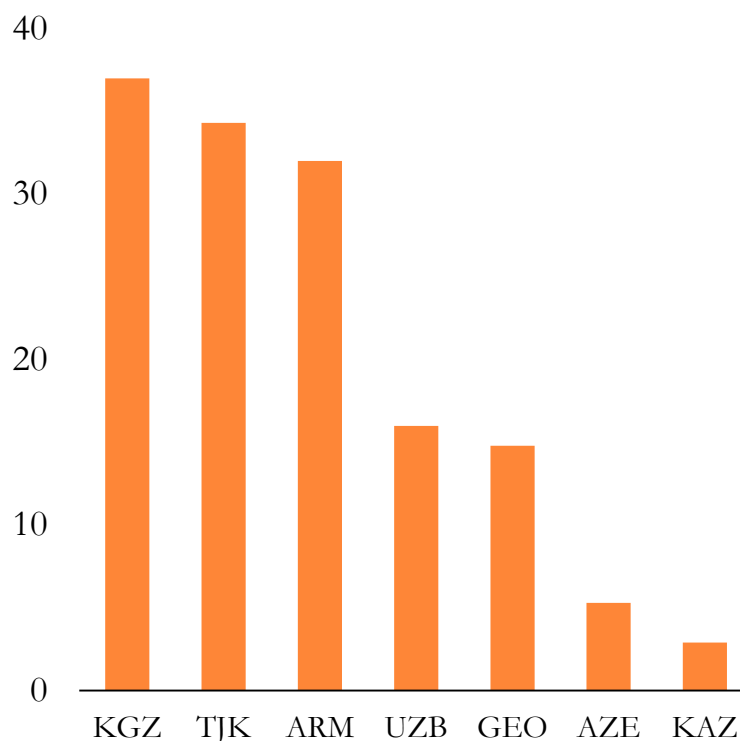
Oil Exports and Remittances

(2015, Percent)



Poverty Rates

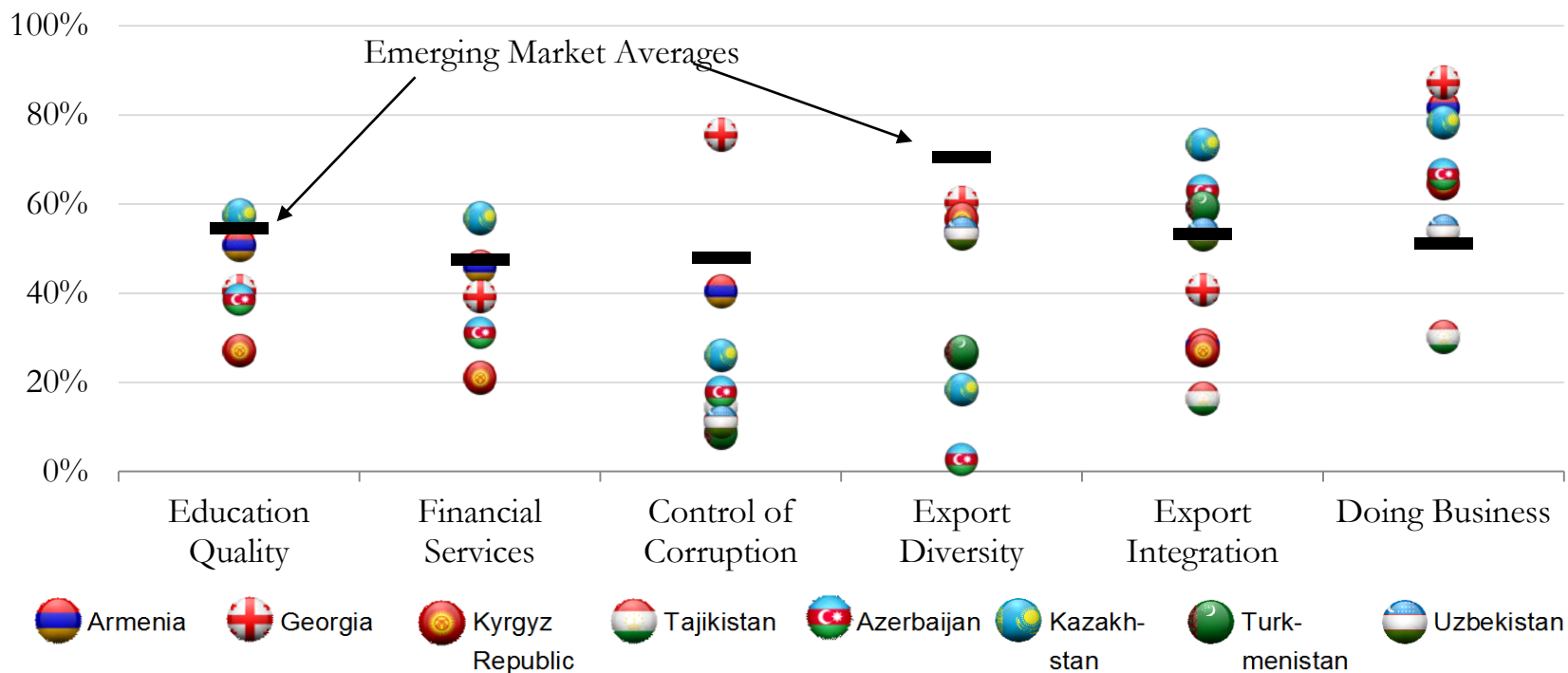
(Percent)



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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