

# Policy Challenges for Armenia in the context of Recent Global and Regional Shocks

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# Outline

**Global Environment**

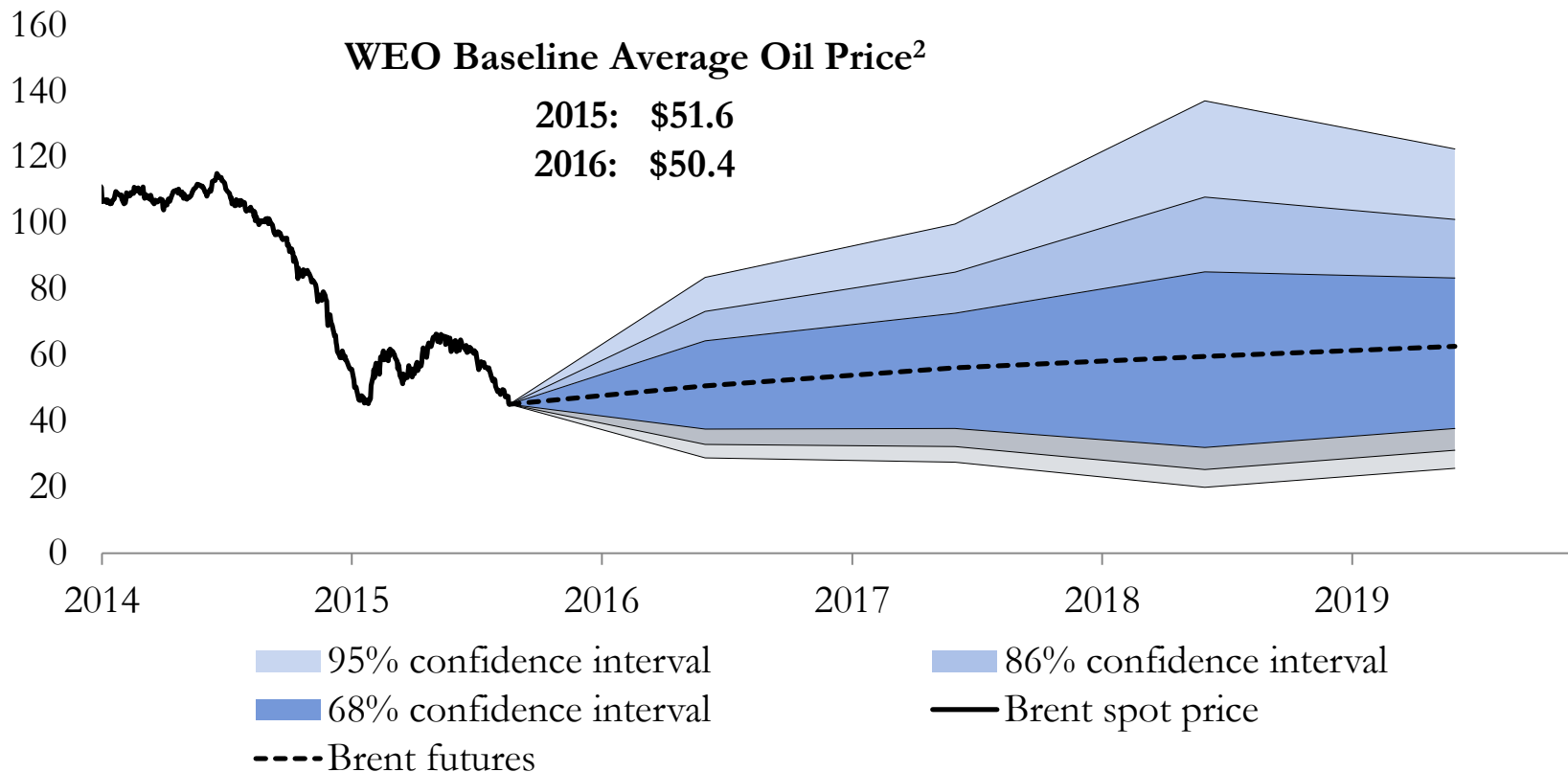
**Outlook of the CCA Region and  
Armenia**

**Policy Priorities**

# Global Shock : Lower oil prices ...

## Brent Crude Oil Price <sup>1</sup>

(U.S. dollars per barrel)



Sources: Bloomberg; and IMF staff calculations.

<sup>1</sup> As of August 20, 2015.

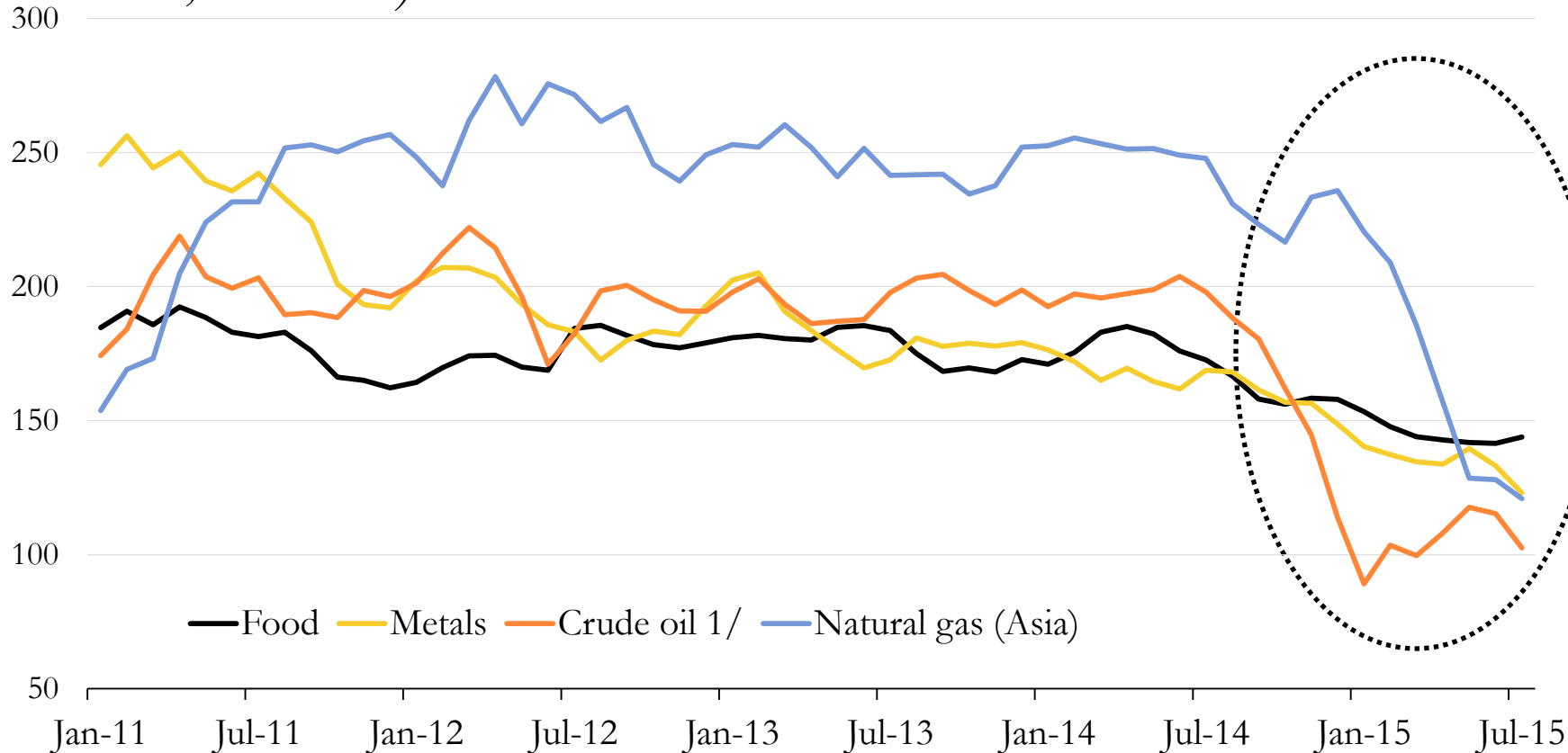
<sup>2</sup> Average of WTI, Brent, and the Dubai Fateh prices.



# ...and other key commodities

## Global Commodity Prices

(Index Values, 2005=100)



— Food — Metals — Crude oil 1/ — Natural gas (Asia)

Source: IMF Primary Commodity Prices database.

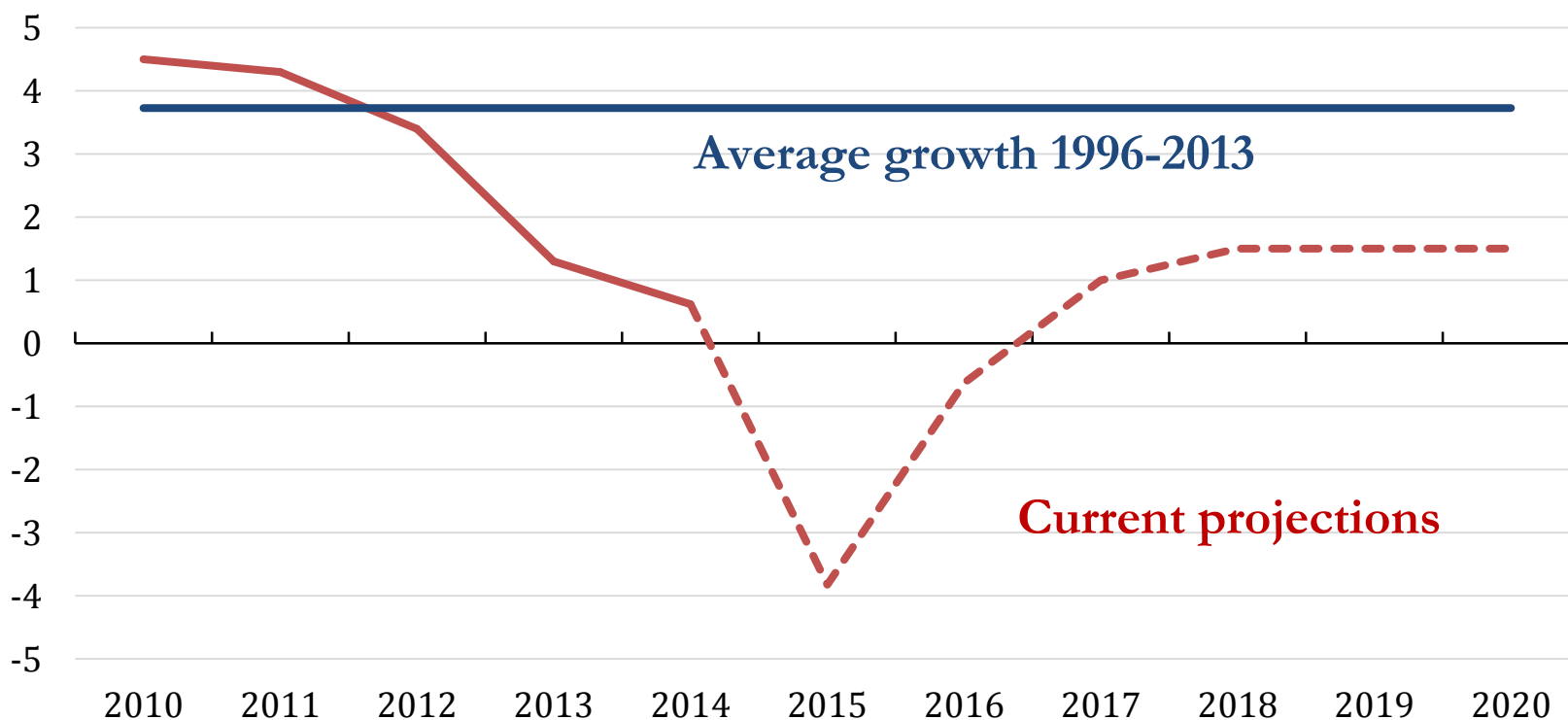
1/ Simple average of Brent, Dubai Fateh, and West Texas Intermediate prices.



# Regional Shock: Slowdown in Russia

## Real growth in Russia

(Percent)



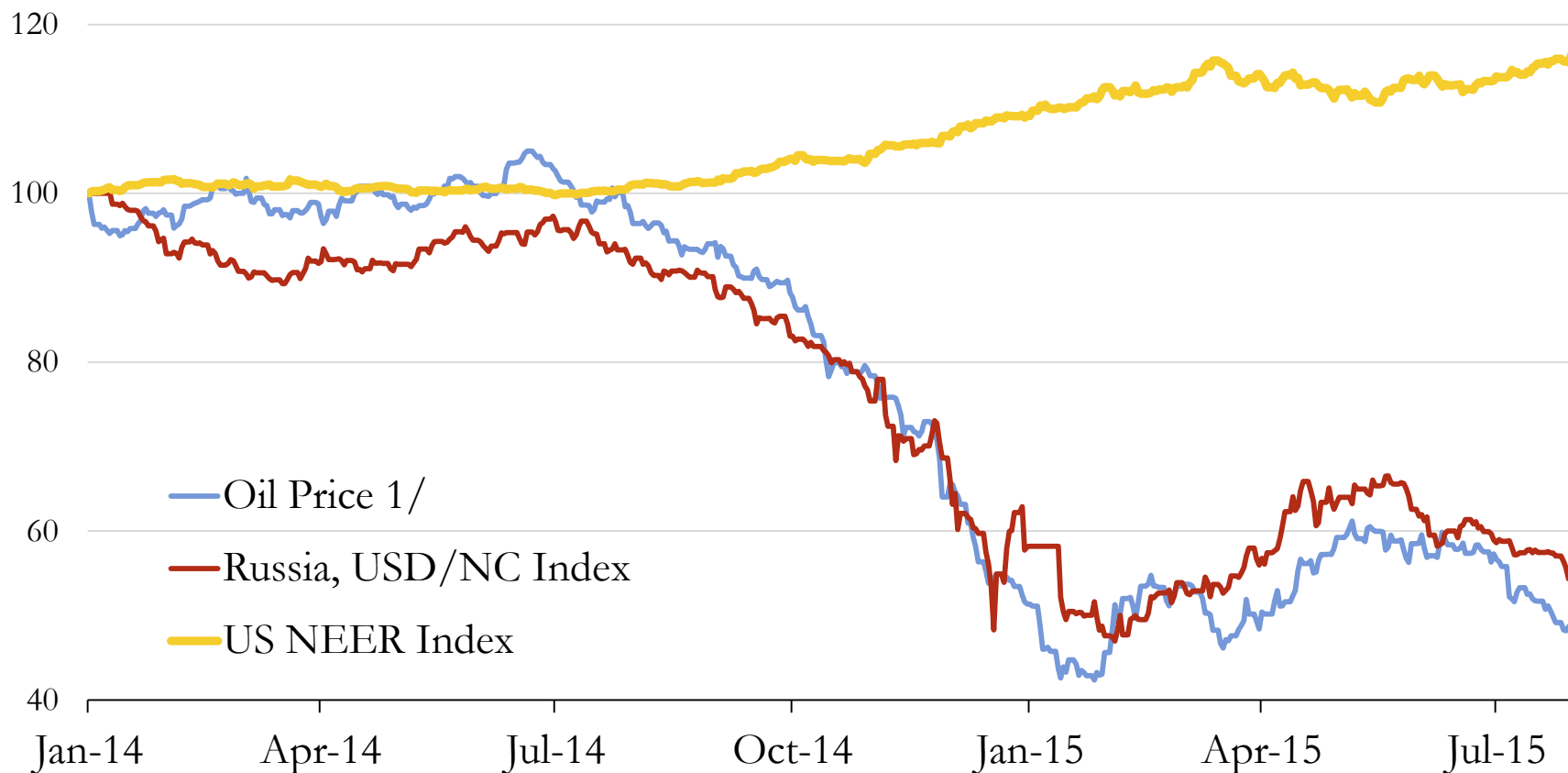
Source: July WEO update



# Regional Shock: Exchange rate movements

## Russian Ruble, U.S. Dollar, and Oil Prices

(Indices, Jan. 1, 2014 = 100)



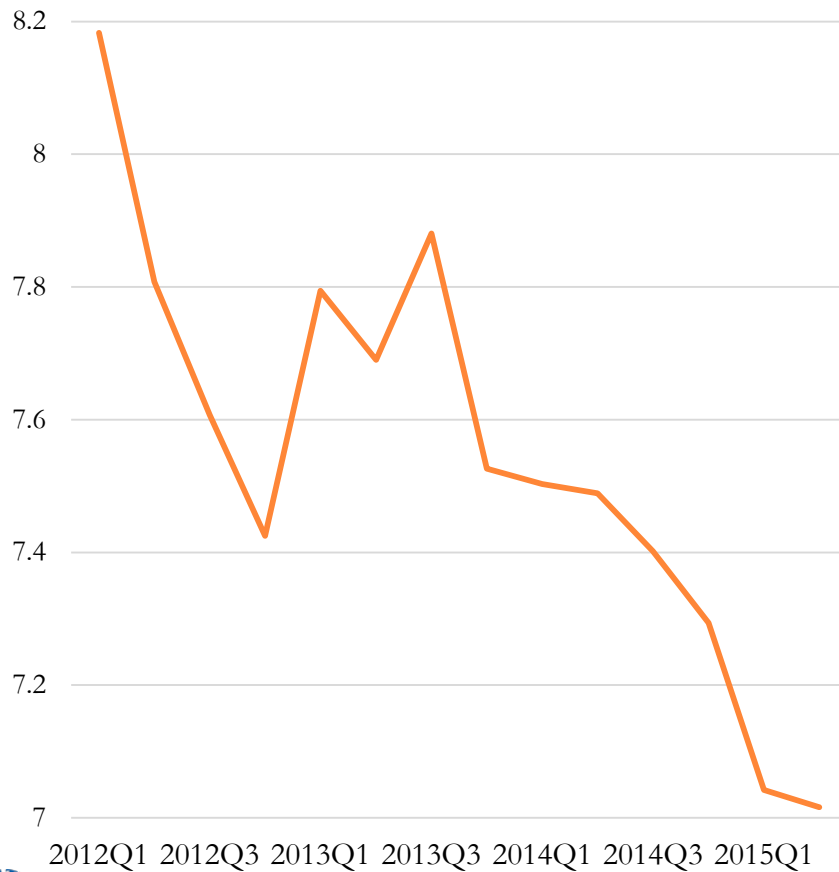
Sources: National authorities; Bloomberg; and IMF staff calculations.

1/ Simple average of Brent, Dubai Fateh, and West Texas Intermediate prices.



# Conditions in China are changing...

**China: Quarterly Real GDP Growth**  
*(Seasonally Adjusted YoY Percent Change)*

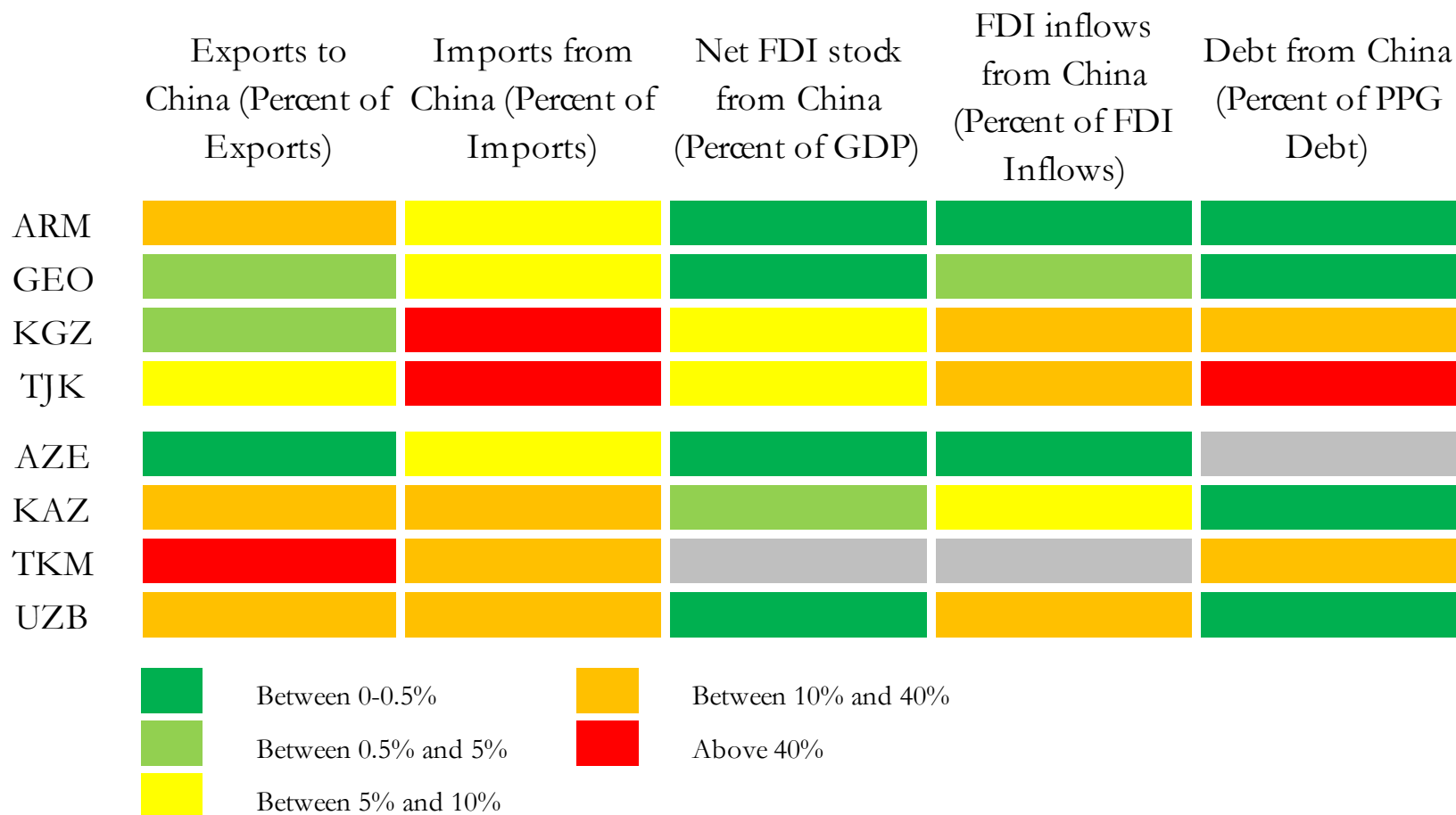


**Shanghai Stock Exchange Index**  
*(Index Values)*



# ...while linkages between CCA region and China are growing

## Linkages with China





# Global growth: moderate and uneven



	World	U.S.	Euro Area	Emerging markets	China	Russia	Armenia
2014	3.4	2.4	0.9	4.6	7.3	0.6	3.4
2015	3.1	2.6	1.5	4.0	6.8	-3.8	2.5
2016	3.6	2.8	1.6	4.5	6.3	-0.6	2.2

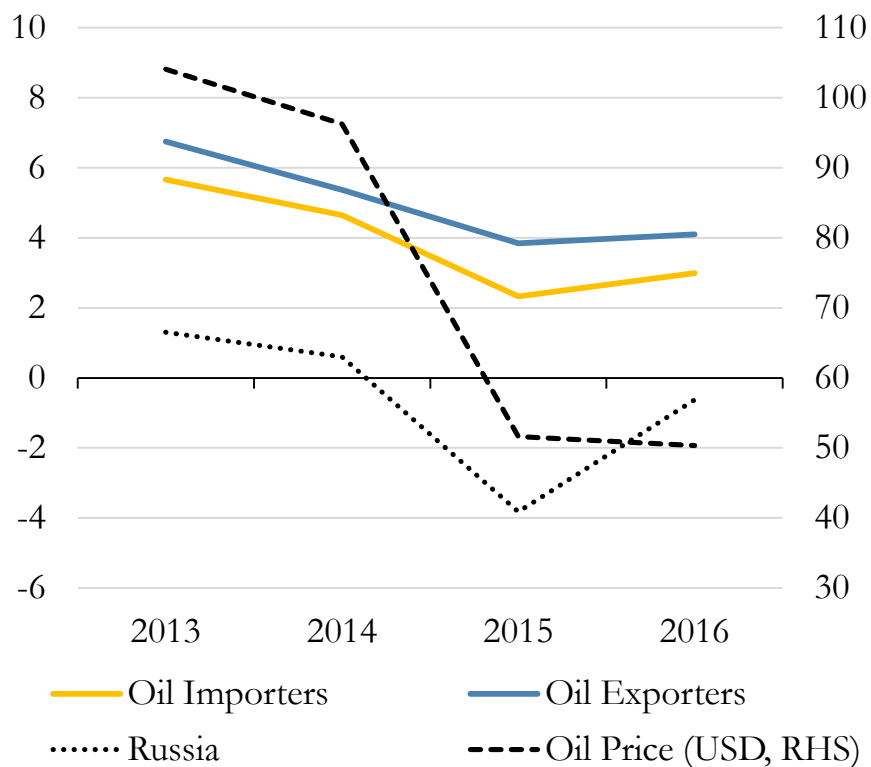
# How these shocks are affecting Armenia and the Caucasus and Central Asian Region?



# Amid a tough external environment, economic growth slowed in 2015 in the CCA region

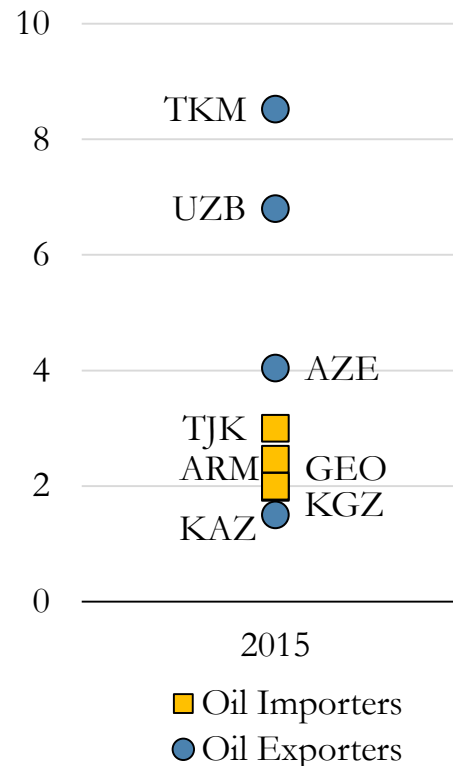
## CCA Growth Rates

(In Percent Change)



## CCA Growth Rates by Country

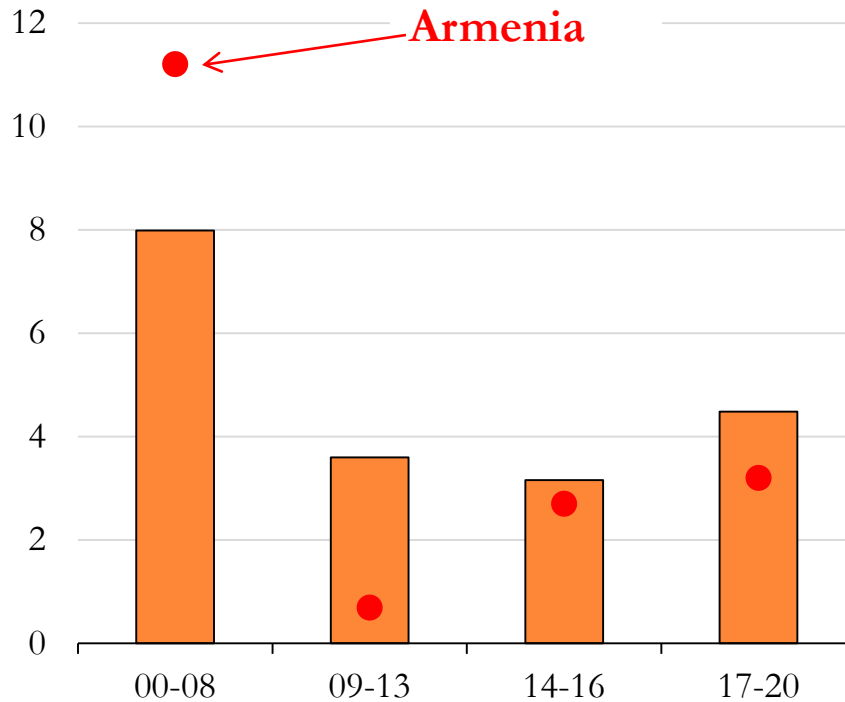
(In Percent Change)



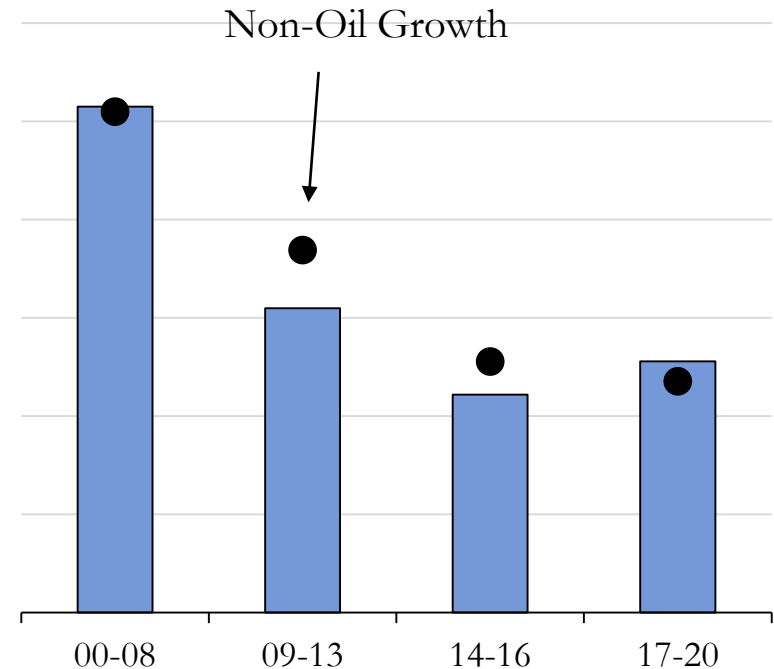
Sources: National authorities; Bloomberg; and IMF staff estimates.

# Gradual recovery over the medium term; Growth prospects well below past averages

## CCA Growth Rates (In Percent Change)



Oil Importers



Oil Exporters

Sources: National authorities; IMF staff estimates.



# Risks tilted to the downside

Further weakening of prices for oil and other commodities

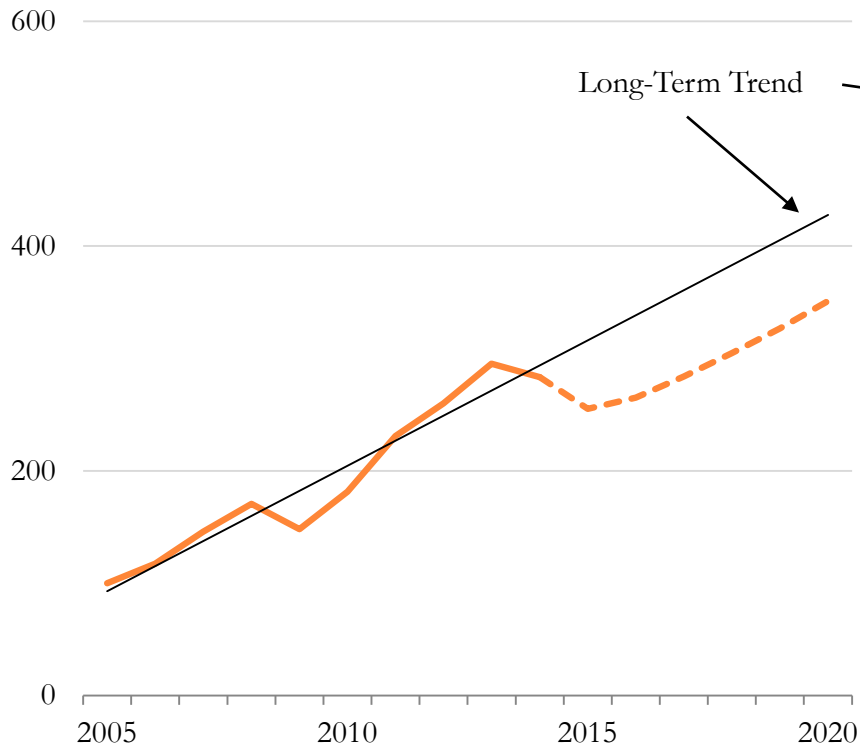
Weaker growth in trading partners  
(Russia, China, Europe)

Risks related to the normalization of U.S. monetary policy

# Exports have dropped across the region and are expected to recover only gradually

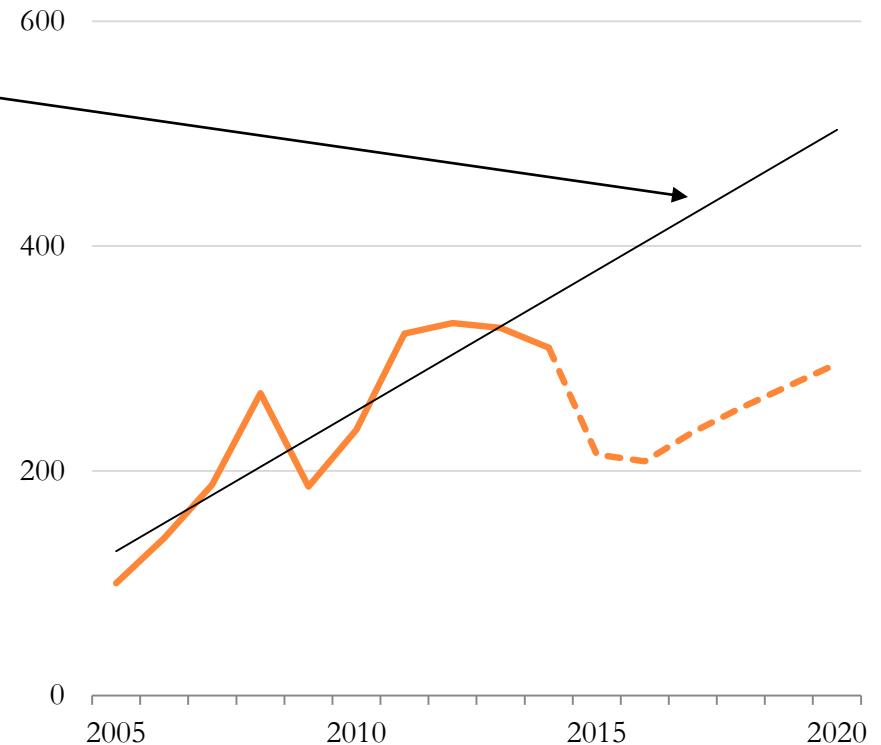
## CCA Oil Importers: Exports

(Index Values, 2005=100)



## CCA Oil Exporters: Exports

(Index Values, 2005=100)

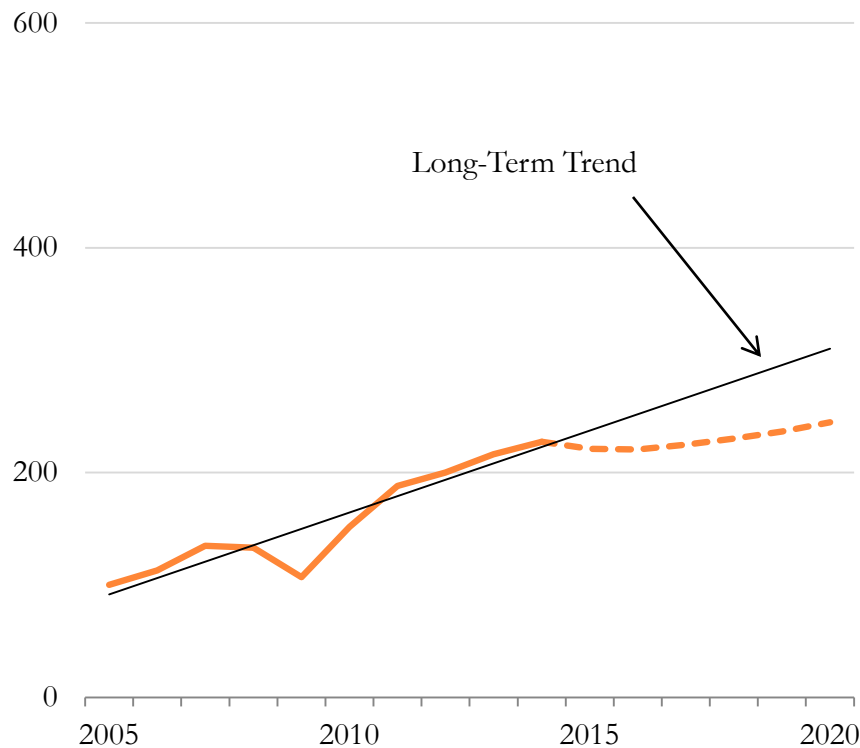


Sources: National authorities; and IMF staff estimates.

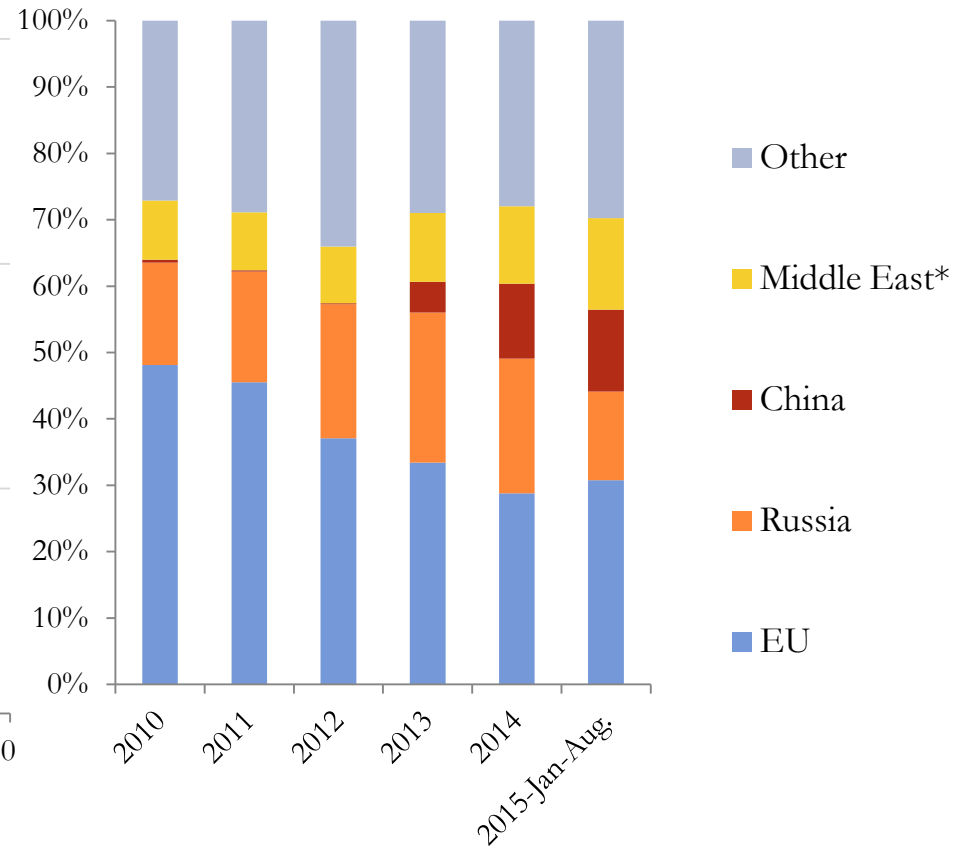


# ...in Armenia too, with an interesting change in composition...

## Armenia : Exports (Index Values, 2005=100)



## Armenia : Export of goods by destination

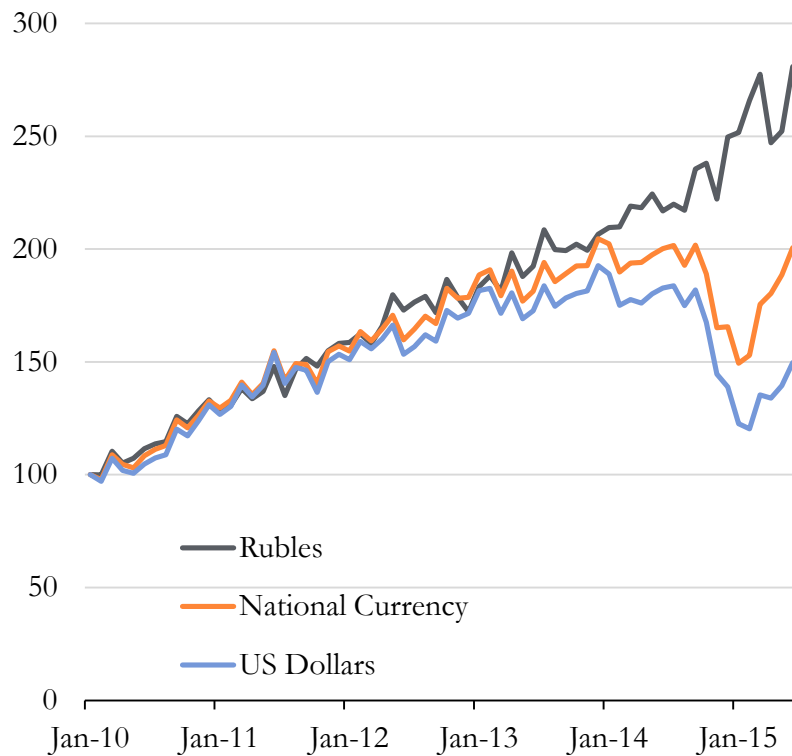


\*-Includes Iran, Iraq and UAE

# The shocks have also had a negative impact on remittances

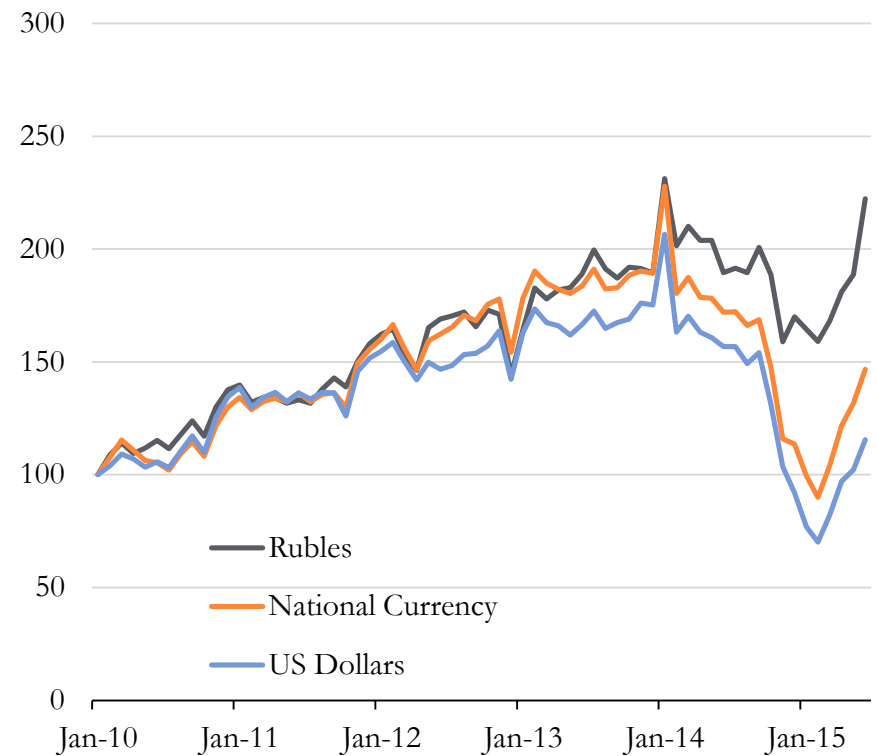
## CCA: Total Remittances

(Seasonally Adjusted Levels, Jan 2010 = 100)



## Armenia: Remittances from Russia

(Seasonally Adjusted Levels, Jan 2010 = 100)

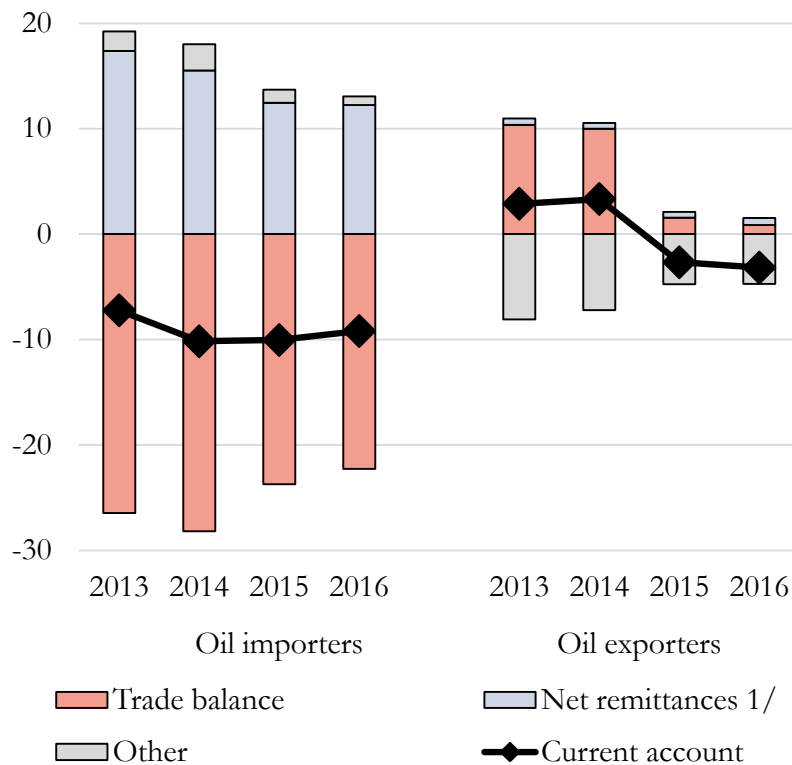




# ...as a result external positions are weakening

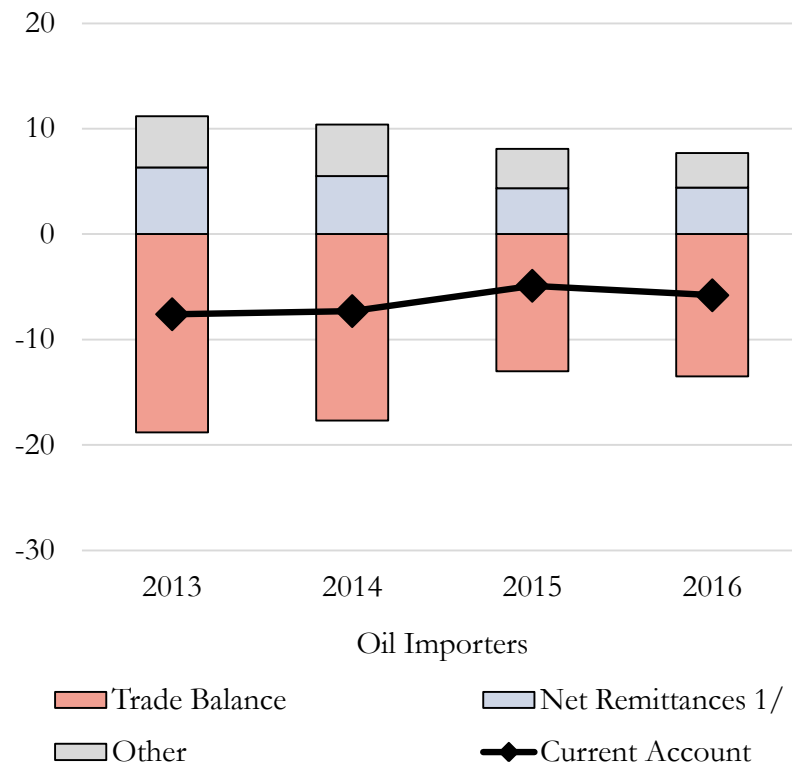
## CCA: Current Account Decomposition

(Percent of GDP)



## Armenia: Current Account Decomposition

(Percent of GDP)



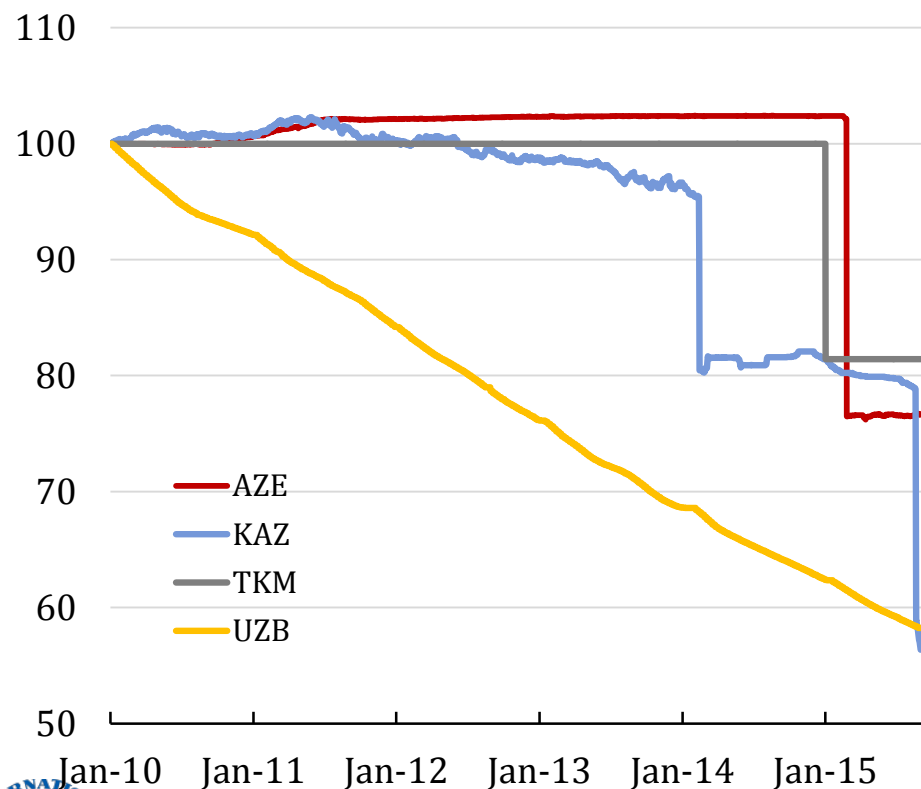
Sources: National authorities; and IMF staff estimates.  
1/ Excludes employee compensation.



# Currencies are adjusting to new realities...

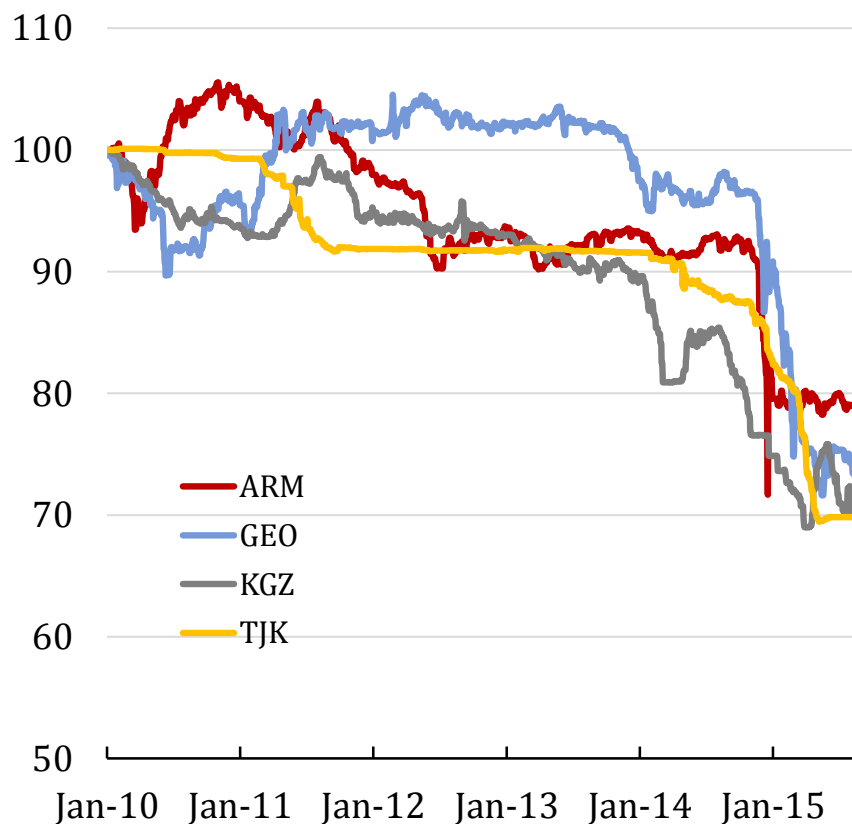
## Oil Exporters

(U.S. dollars per National Currency, Jan. 1, 2010=100)



## Oil Importers

(U.S. dollars per National Currency, Jan. 1, 2010=100)



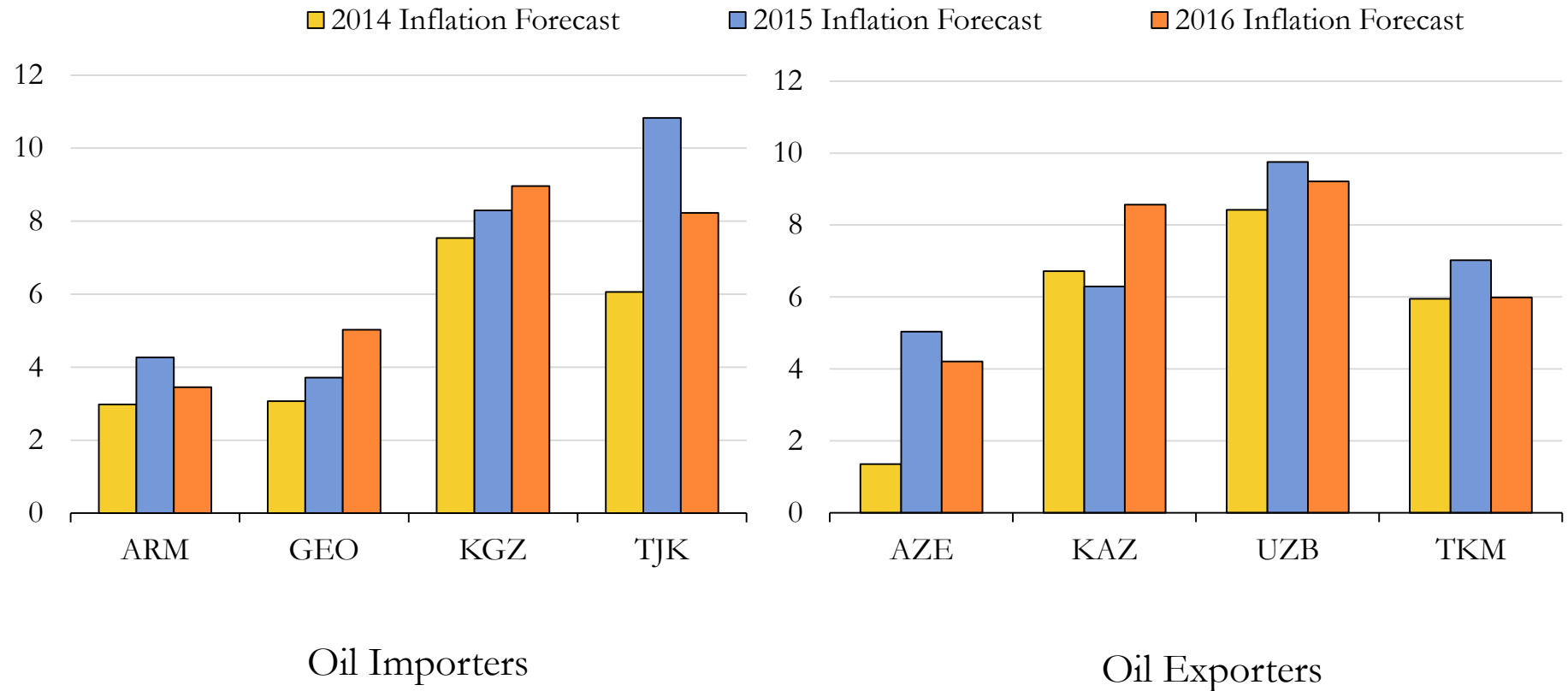
Sources: National authorities; and IMF staff calculations.



# ...and inflation is edging up, except in Armenia

## Inflation

(In Percent Change)



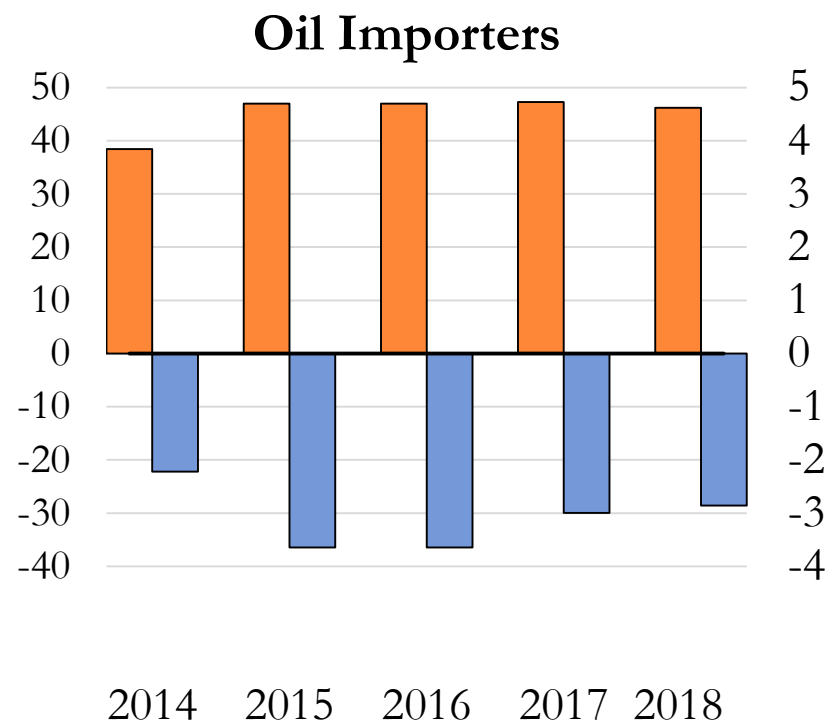
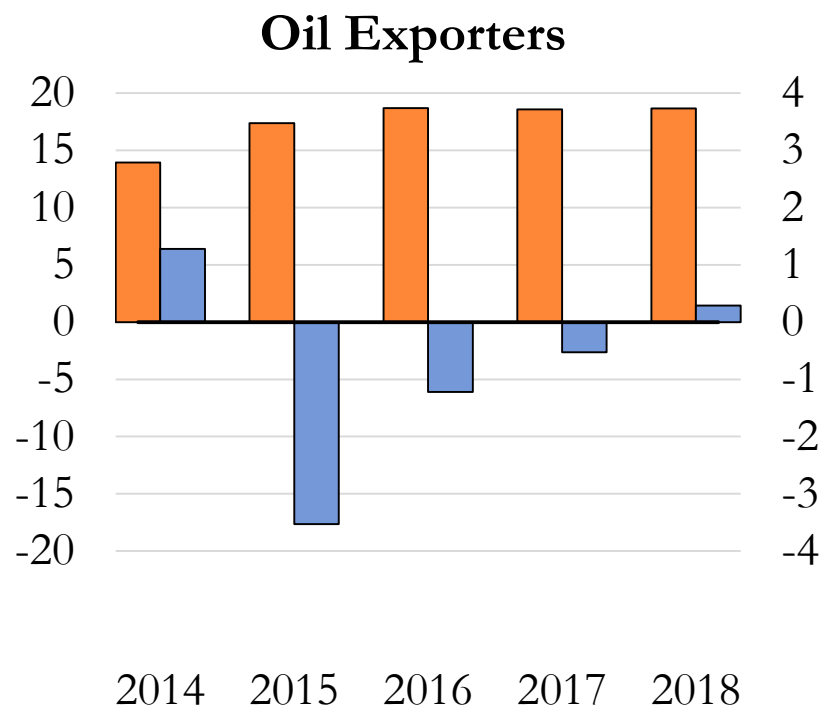
Sources: National authorities; and IMF staff calculations.



# Fiscal positions have weakened: lower revenues and countercyclical measures

## Selected Fiscal Indicators

(In Percent of GDP)



Public Debt

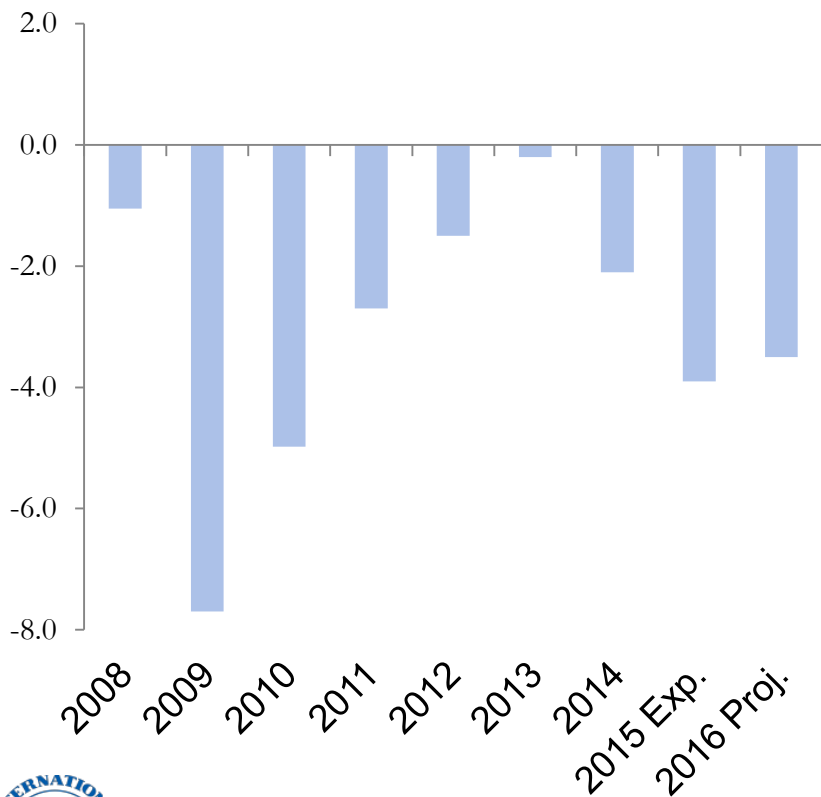
Fiscal Balance (RHS)

Sources: National authorities; and IMF staff calculations.

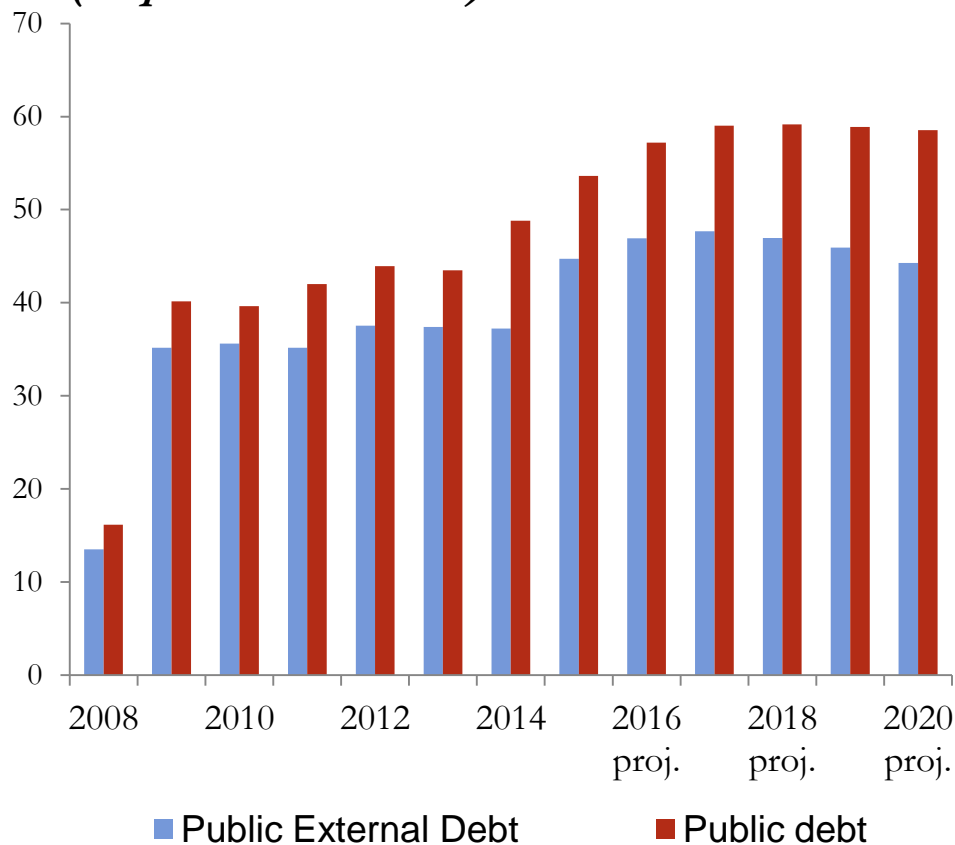


# In Armenia, slower growth is reducing tax collections, and pushing up the public deficit and public.

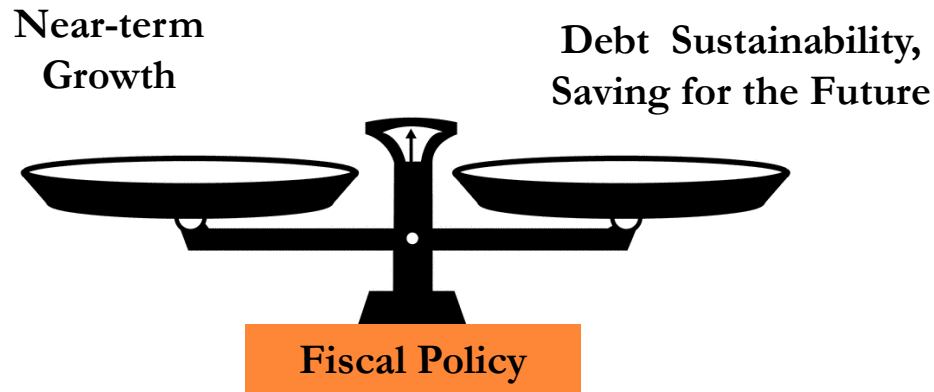
**Armenia: Budget Deficit**  
(In percent of GDP)



**Armenia: Debt Dynamic**  
(In percent of GDP)



# Policy priority 1: Fiscal policy needs to ensure medium-term sustainability



- Where conditions allow, temporary fiscal easing over the near term will provide support to growth.
- As cyclical conditions improve, countries need to tighten their fiscal stance to ensure medium-term fiscal sustainability.
- Improving the quality of public expenditure, and preserving capital and social expenditure, will help to safeguard growth and make it more inclusive.

# Policy priority 2: Monetary prudence and greater exchange rate flexibility

Inflation

Financial Intermediation  
and Near-term Growth



Monetary Policy

Competitiveness, External  
Buffers and Balance

Financial Stability



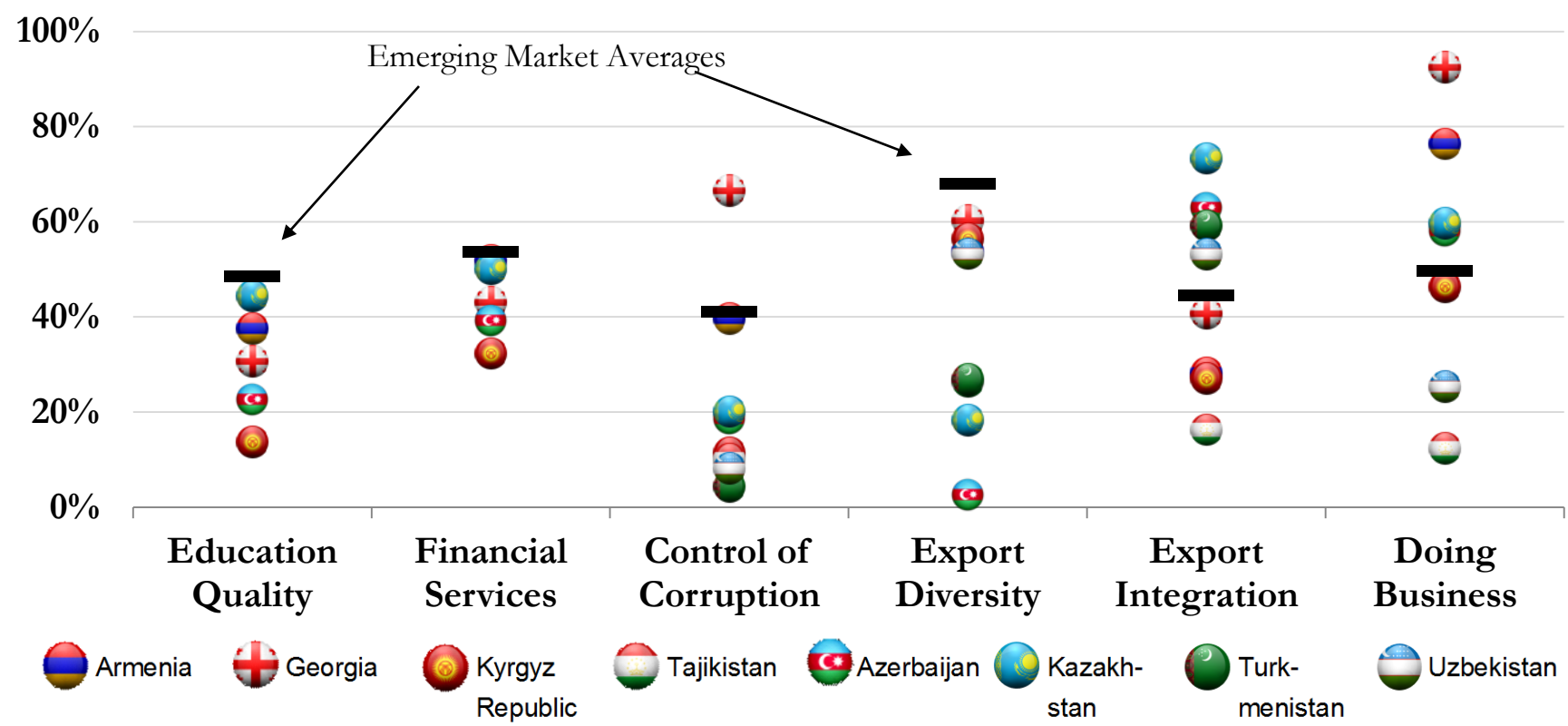
Exchange Rate Policy

- Monetary policy should be primarily calibrated to inflationary pressures, with due consideration to its impact on financial intermediation and output.
- Greater exchange rate flexibility will help absorb shocks, maintain competitiveness and prevent a rundown of external buffers.
- Stronger macro-prudential regulations, supervision and crisis management framework necessary to ensure financial sector remains healthy.

# Policy priority 3: Structural reforms to boost long-term growth

## 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

- A foray of external shocks is weighing on growth, budgets and currencies.
- These shocks are likely to be long lasting, requiring policy adjustment.
- While temporary fiscal easing can support growth, fiscal consolidation will be needed over the medium term to rebuild buffers and ensure debt sustainability.
- Exchange rate flexibility will preserve external buffers, but it needs to be accompanied by strengthened financial supervision to safeguard financial stability.
- Structural reforms are needed to boost weakening medium-term growth prospects.



# Thank you!

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