

# Caucasus and Central Asia Regional Economic Outlook

## Time for Decisive Action

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# Roadmap

**Outlook, Opportunities, and Challenges**

**Maintaining Macroeconomic Stability**

**Securing Higher and More Inclusive Growth**

**Key Takeaways and IMF's Role**

# The global outlook is gathering strength

## Real GDP Growth, 2016–22

	2016	2017	2018	2019–22
<b>World</b>	3.2	3.6	3.7	3.7
Euro Area	1.8	2.1	1.9	1.6
United States	1.5	2.2	2.3	1.8
China	6.7	6.8	6.5	6.1
Russia	-0.2	1.8	1.6	1.5
<b>MENAP</b>	5.0	2.6	3.5	3.7
MENAP oil exporters	5.6	1.7	3.0	2.8
<i>of which: non-oil GDP growth</i>	1.1	2.6	2.5	3.4
MENAP oil importers	3.6	4.3	4.4	5.3
<b>CCA</b>	2.5	3.6	3.7	4.3
CCA oil and gas exporters	2.4	3.5	3.7	4.3
<i>of which: non-oil GDP growth</i>	1.7	2.4	3.0	4.0
CCA oil and gas importers	3.3	3.9	3.8	4.4

Sources: National authorities; and IMF staff calculations.

# How will this affect Caucasus and Central Asia?

## Caucasus and Central Asia

Population, millions (2016)

GDP per capita, US dollars (2016)

Oil exporters

Oil importers

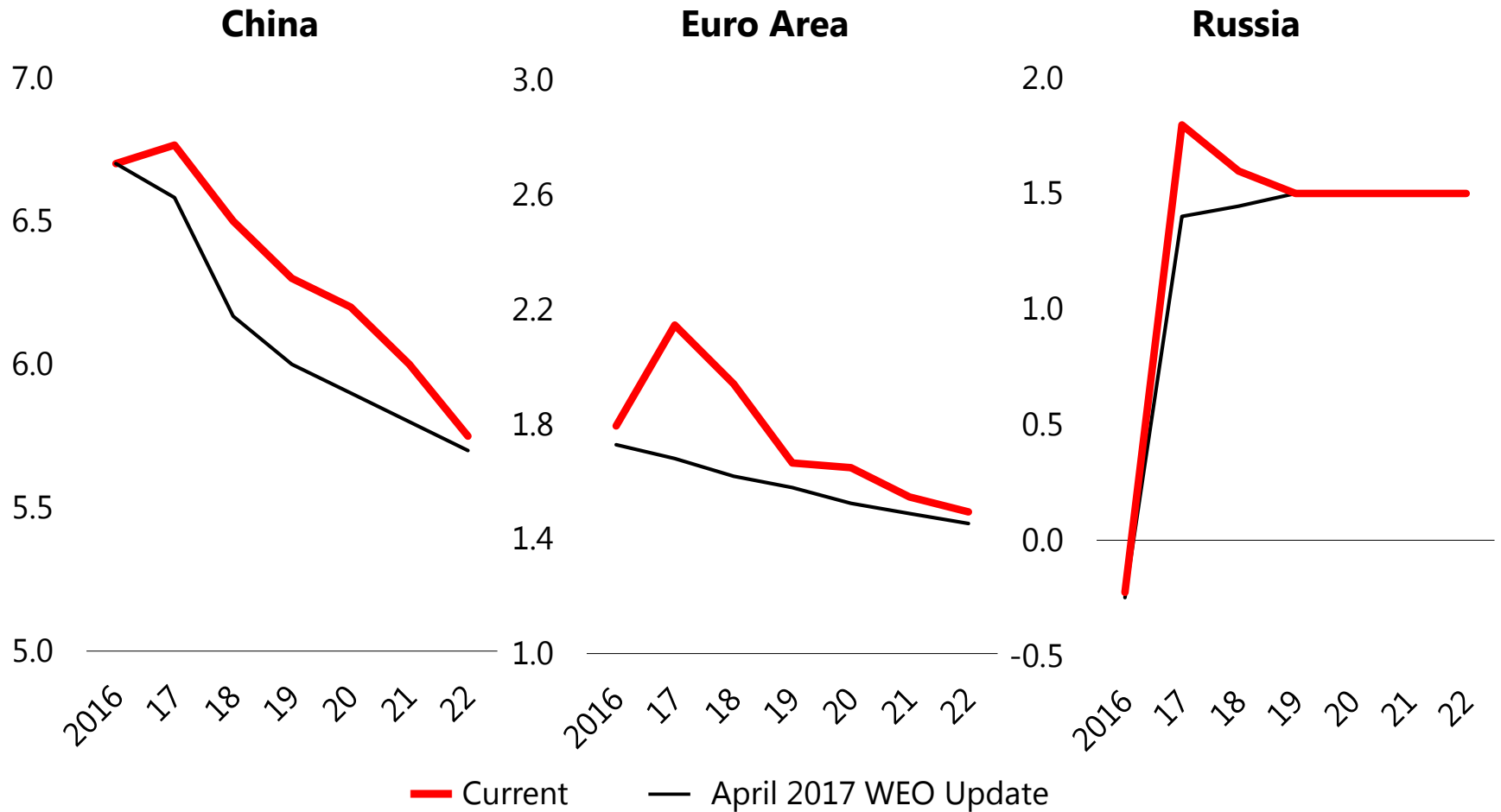


Sources: IMF Regional Economic Outlook database; and Microsoft Map Land.



# Growth strengthening in CCA's main economic partners

## GDP Growth (Percent change)

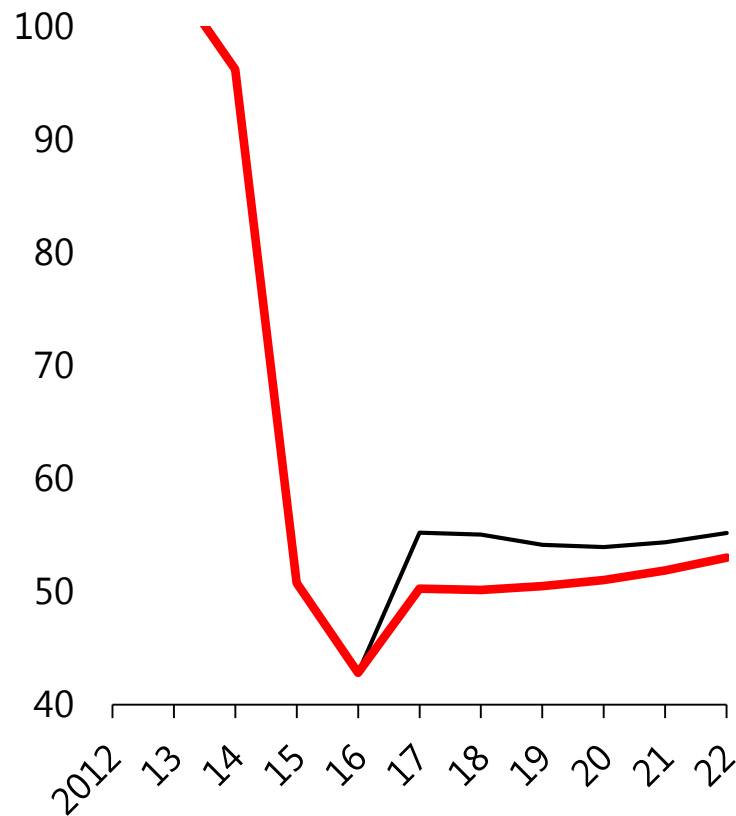


Sources: National authorities and IMF staff calculations.

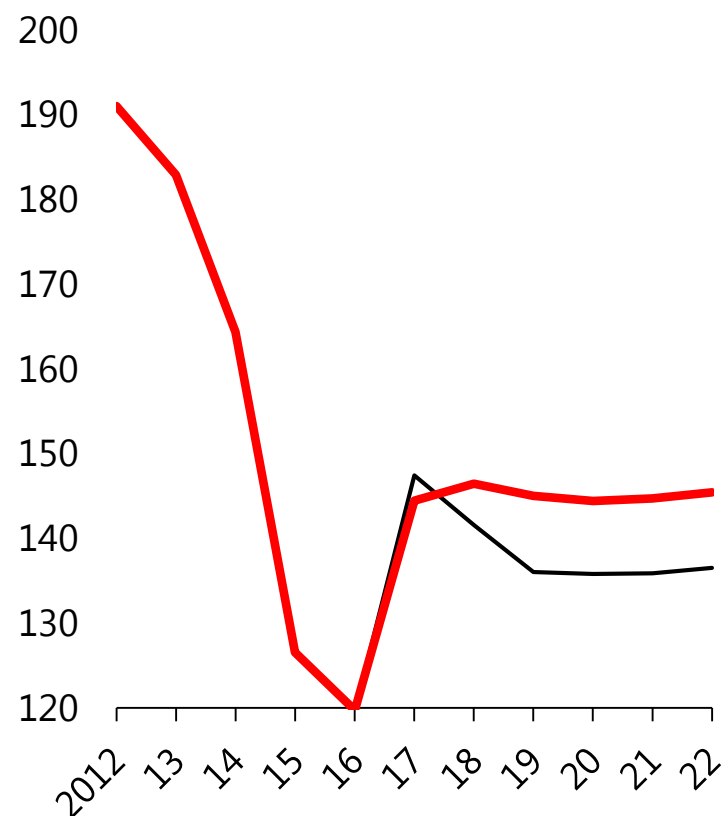


# Commodity prices stabilizing, but outlook subdued

**Oil Price Assumptions**  
(APSP<sup>1</sup>, U.S. dollars a barrel)



**Metal Price Assumptions**  
(Index, 2005=100)



— Current — April 2017 WEO Update

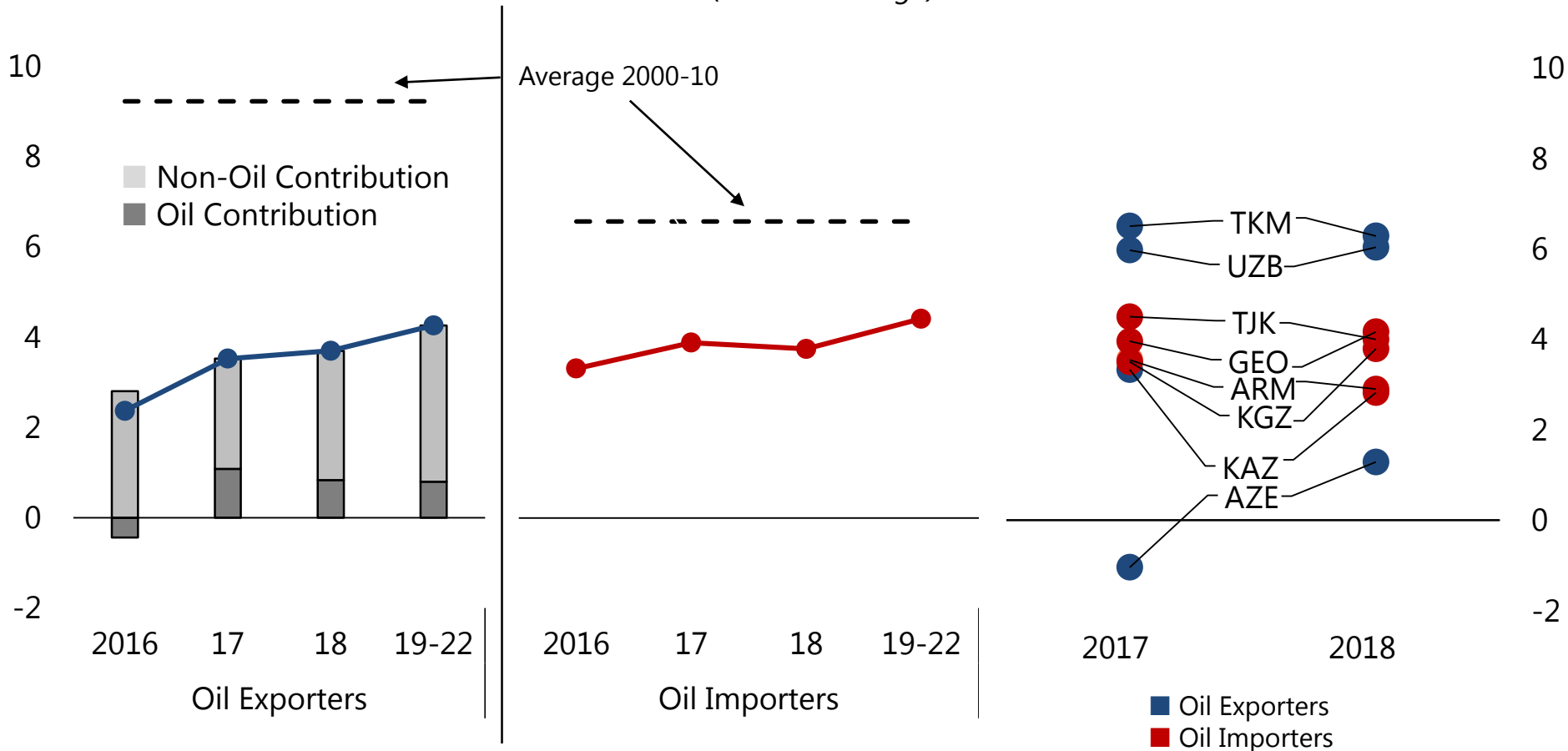
Source: IMF staff calculations.

Note: REO = Regional Economic Outlook: Middle East and Central Asia; WEO = World Economic Outlook. <sup>1</sup>APSP = Average Petroleum Spot Prices; Average of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.



# CCA growth expected to accelerate, but remain below historical norms

## Real GDP Growth (Percent change)



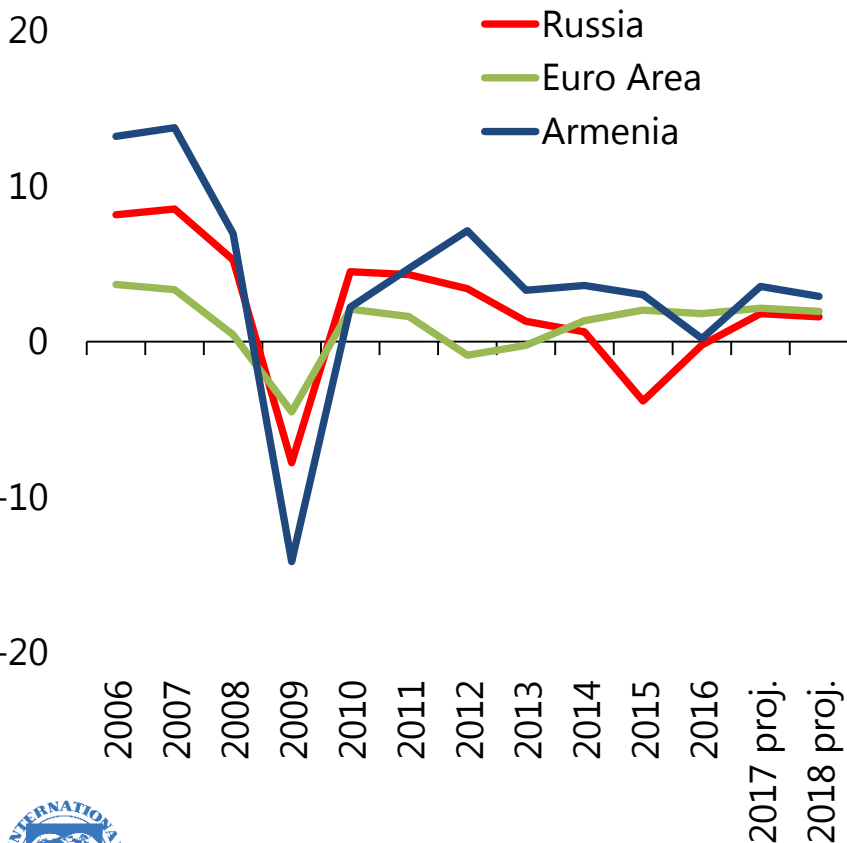
Sources: National authorities and IMF staff calculations.



# Trade, services and industry supporting economic activity in Armenia

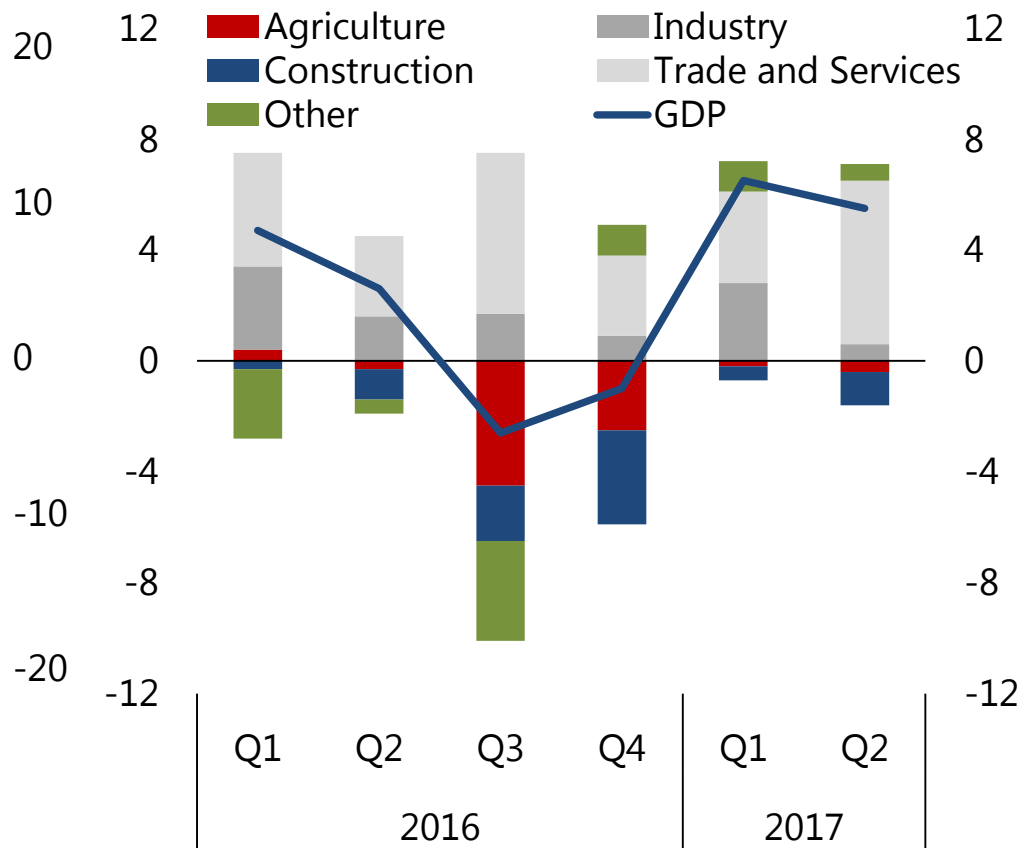
## Real GDP growth

(Percent change)



## Armenia: Contributions to Growth

(Percent change y-o-y)



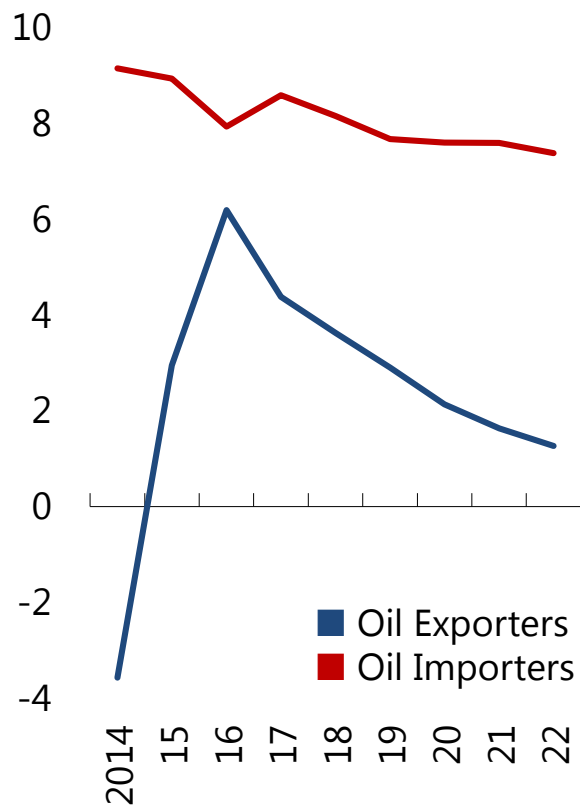
Sources: National authorities and IMF staff calculations.



# External deficits declining gradually, helped by exchange rate adjustment

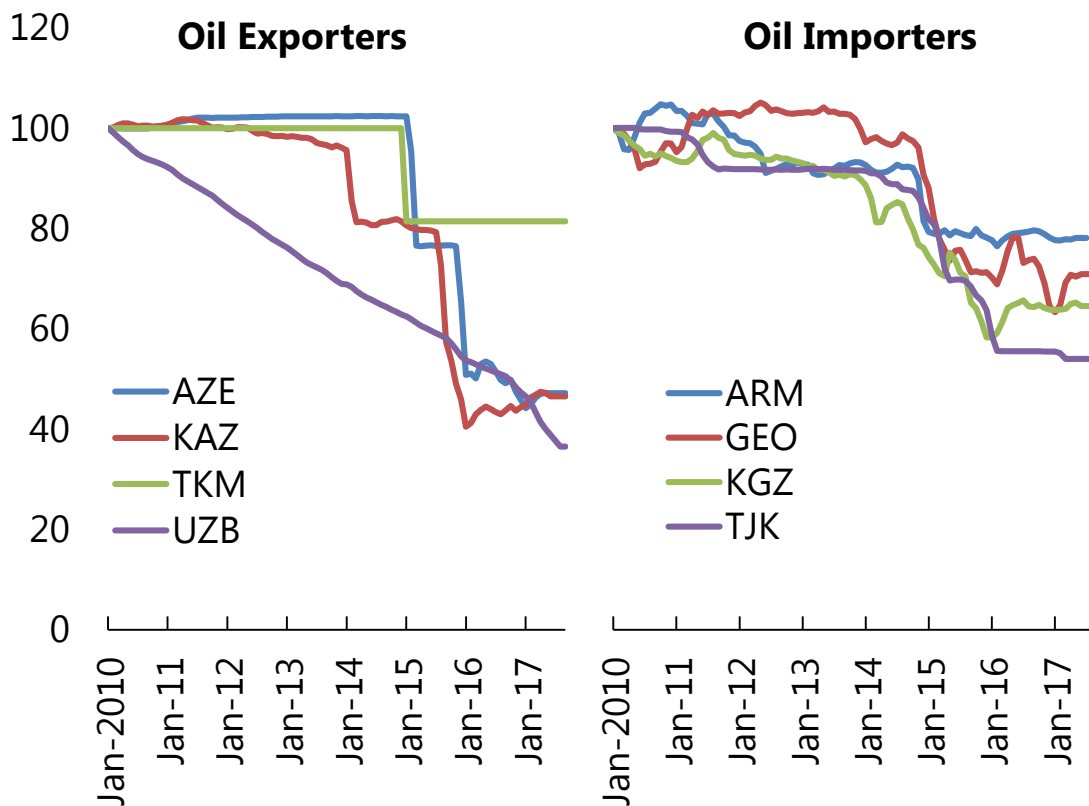
## Current Account Deficits

(Percent of GDP)



## Nominal Exchange Rates

(US Dollars per national currency index, Jan-2010 = 100)



Sources: National authorities and IMF staff calculations.

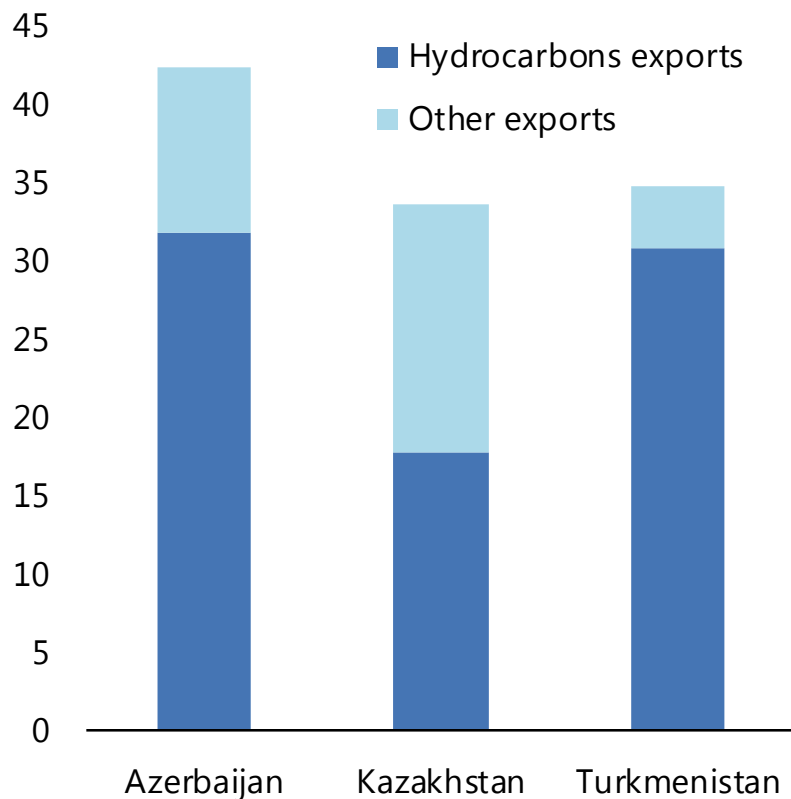
Sources: Information Notice System database; and IMF staff calculations.  
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

# The reliance on commodity exports and remittances remains high

## Commodity exports

(Percent of GDP, 2014-16 average)

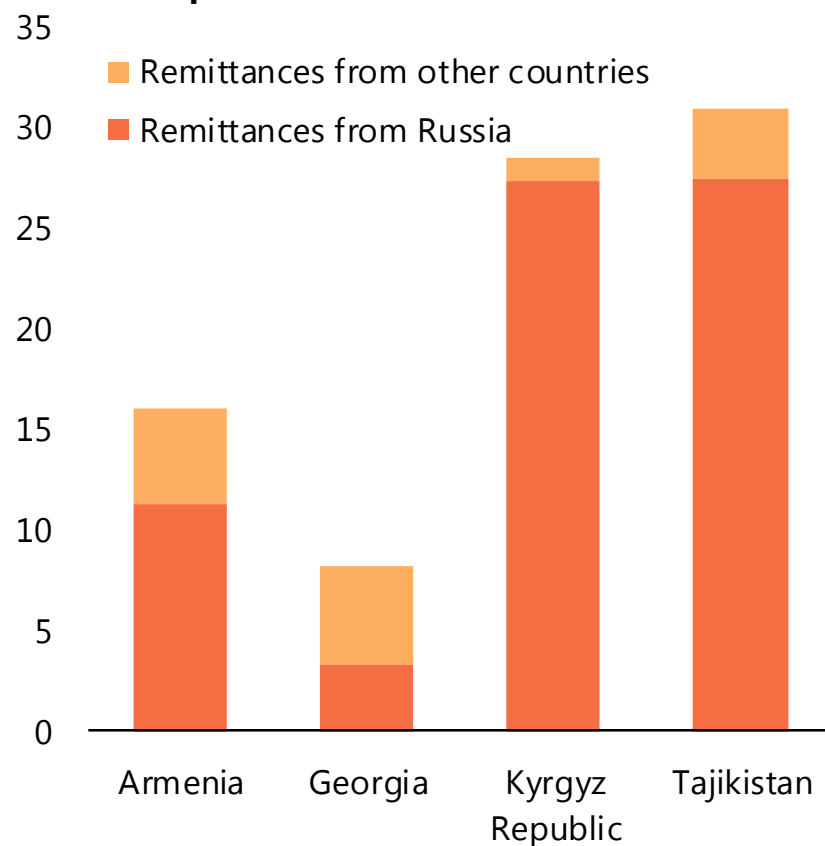
### 1. Oil exporters



## Remittances

(Percent of GDP, 2014-16 average)

### 2. Oil importers



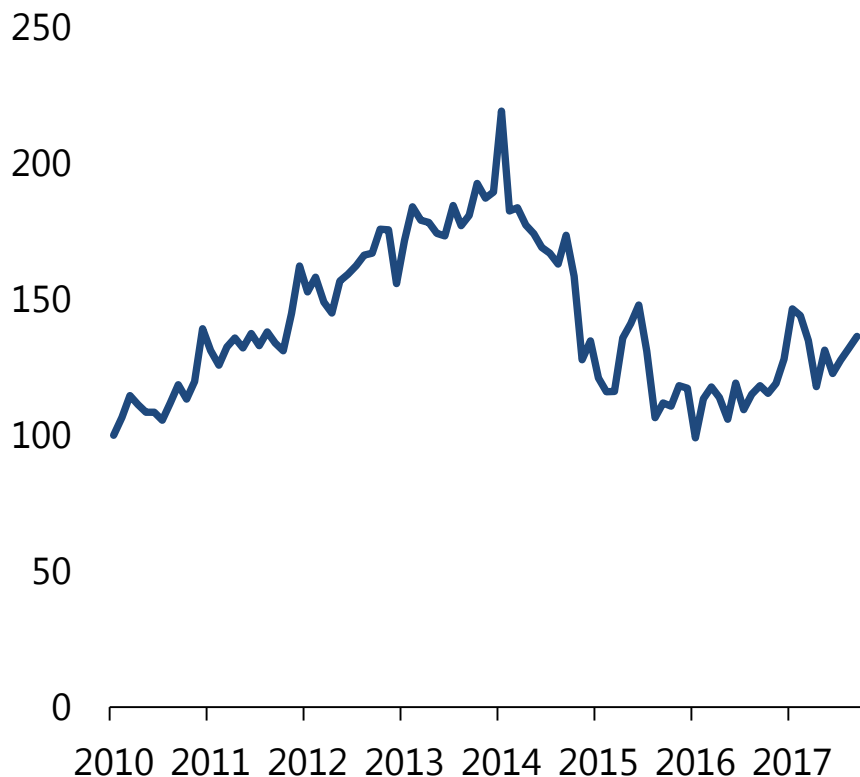
Sources: National authorities; and IMF staff calculations.



# Stronger exports and remittances supporting Armenia's growth

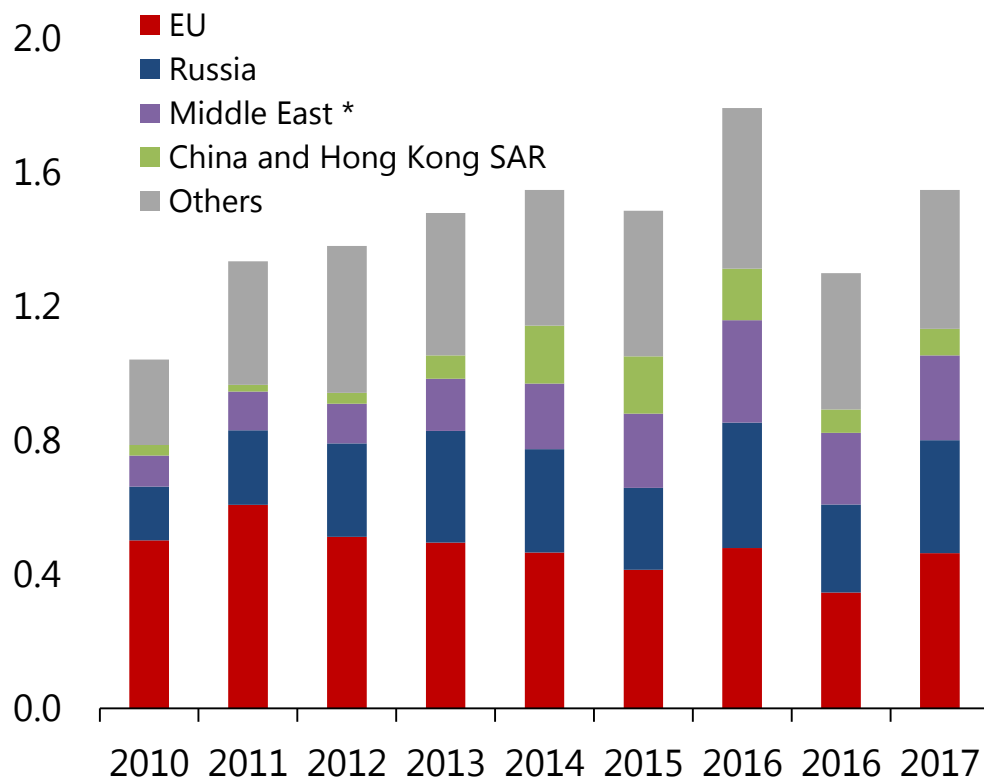
## Armenia: Remittances

(Jan 2010=100, SA, in AMD)



## Armenia: Exports of goods

(In billions of USD)



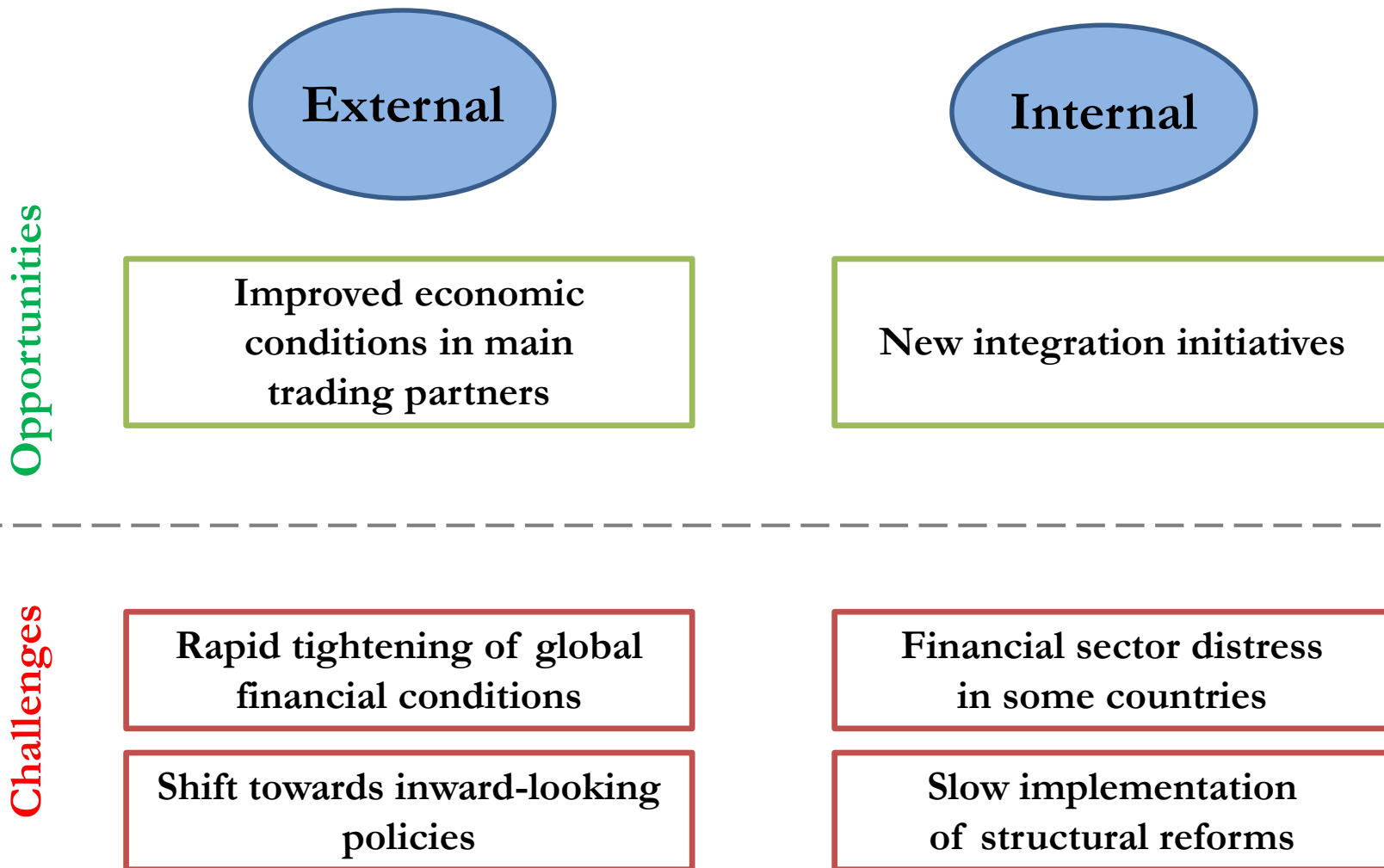
Jan-  
Sep.    Jan-  
Sep.

Sources: National authorities and IMF staff calculations.

\* Iran, Iraq, UAE and Syria



# Window of opportunity—with challenges



# Roadmap

**Outlook, Opportunities, and Challenges**

**Maintaining Macroeconomic Stability**

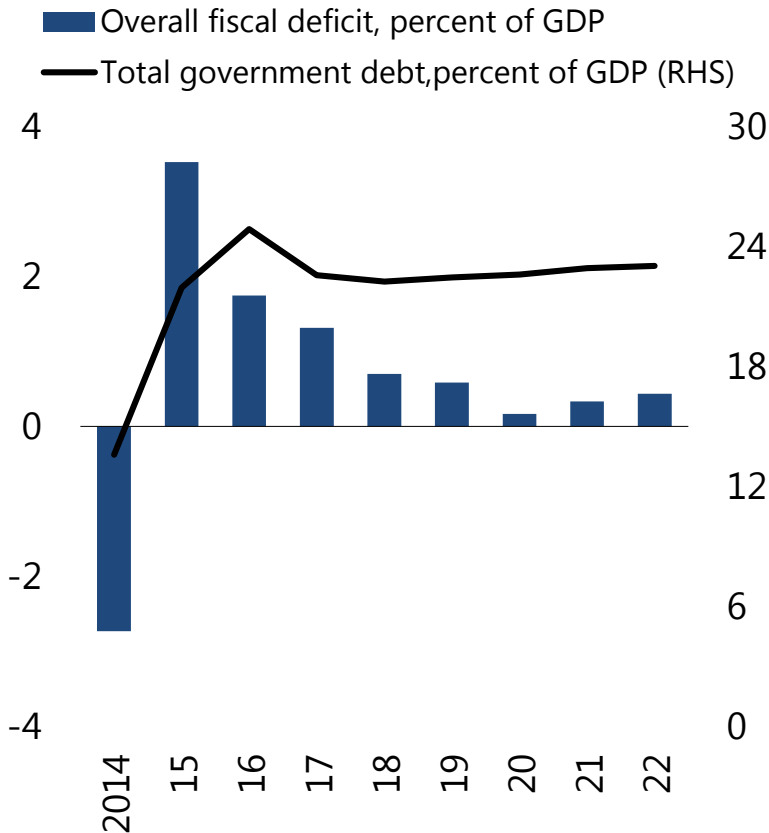
**Securing Higher and More Inclusive Growth**

**Key Takeaways and IMF's Role**

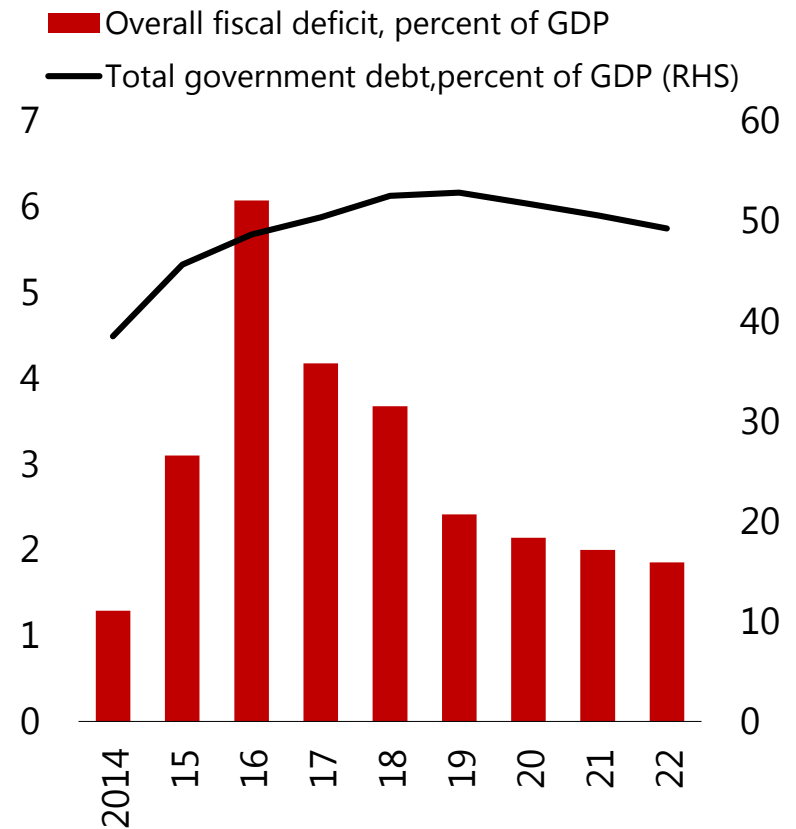
# Fiscal consolidation should continue to ensure debt sustainability, but become more growth friendly

## Fiscal Deficit and Public Debt for CCA (Percent of GDP)

### Oil Exporters



### Oil Importers



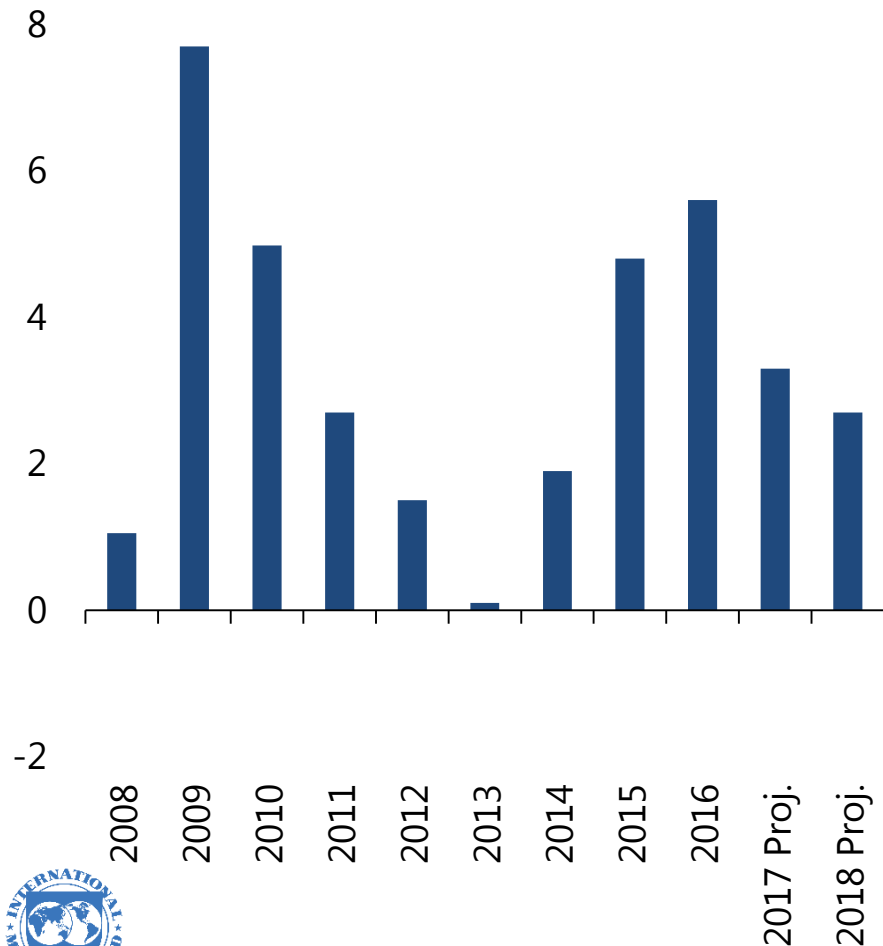
Sources: National authorities and IMF staff calculations.

Note: For Oil Exporters, the deficit for 2017 excludes a one-time fiscal transfer to the financial sector in Kazakhstan.

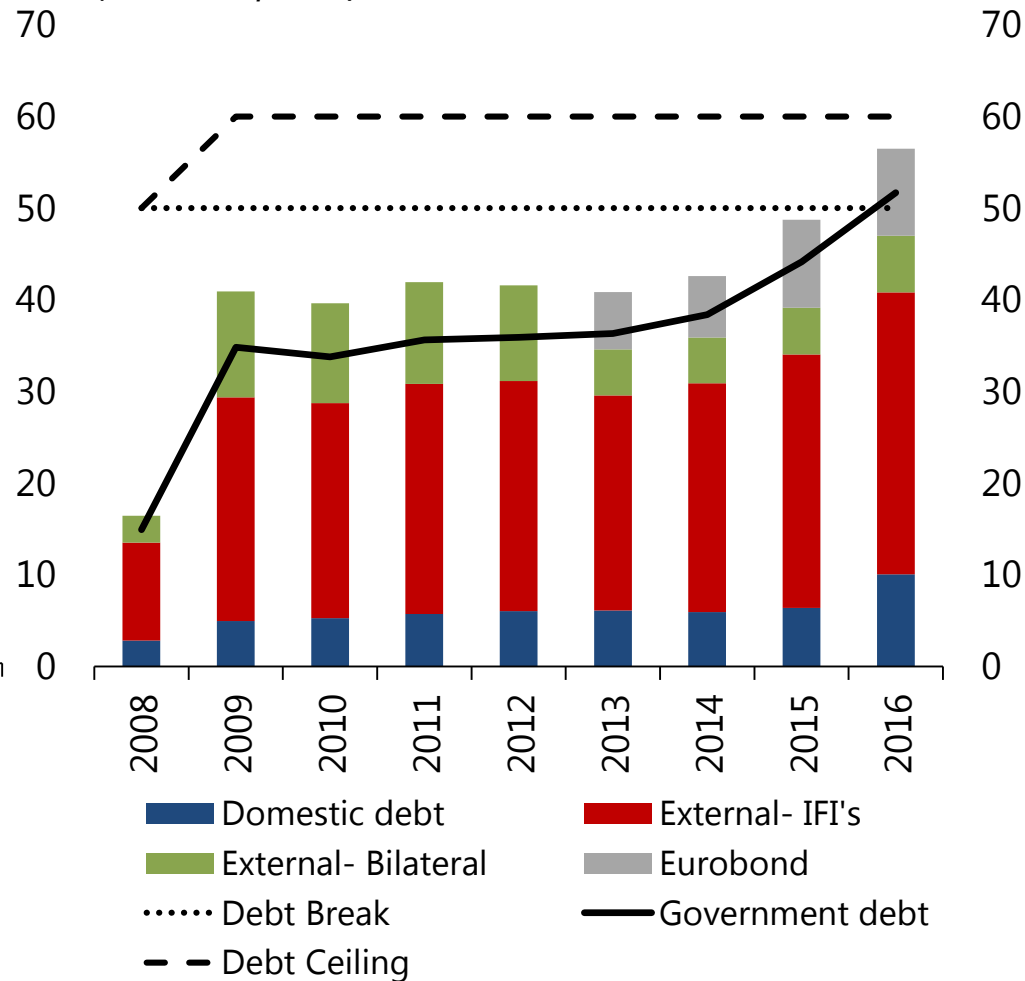


# Armenia: focus on preserving fiscal sustainability while safeguarding essential spending for growth

**Armenia: Fiscal Deficit**  
(Percent of GDP)



**Armenia: Public Debt**  
(Percent of GDP)

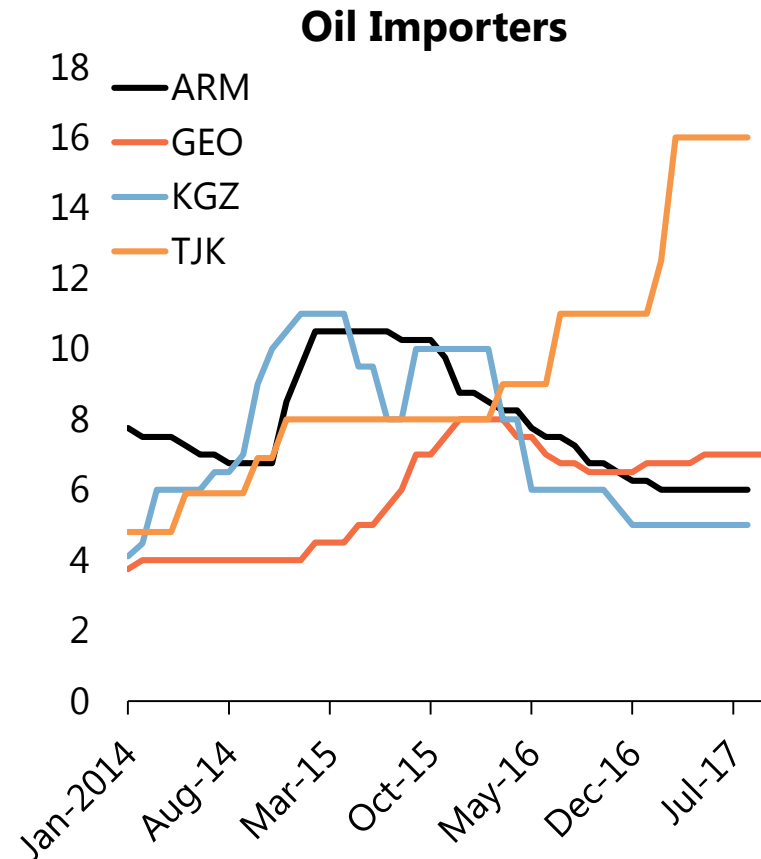
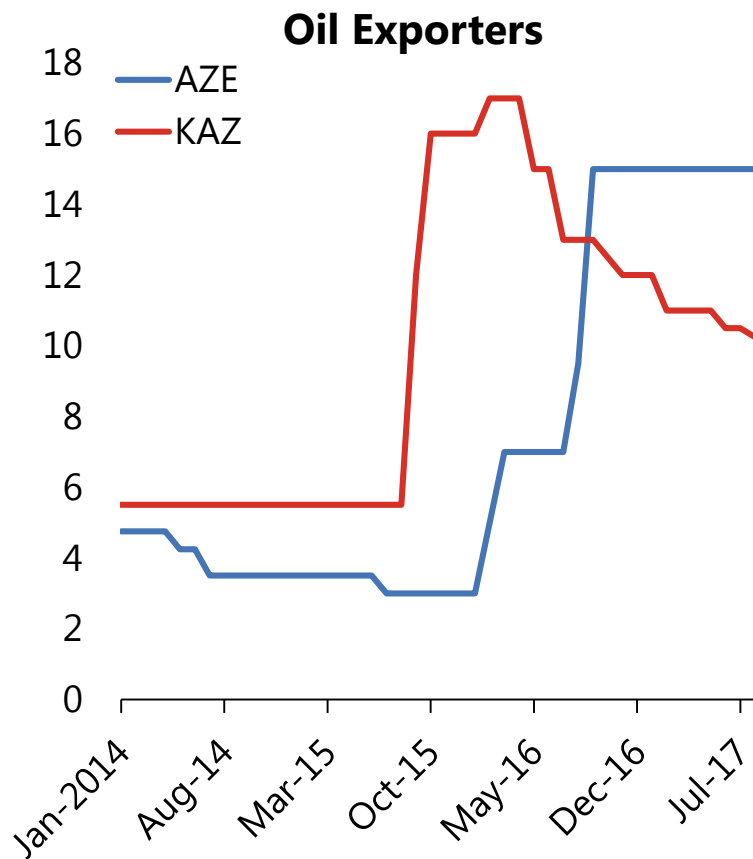


Sources: National authorities and IMF staff calculations.



# Despite differences in the monetary stance, frameworks should be further strengthened

## Monetary Policy Rate (Percent)



Source: IMF IFS and IMF staff calculations.

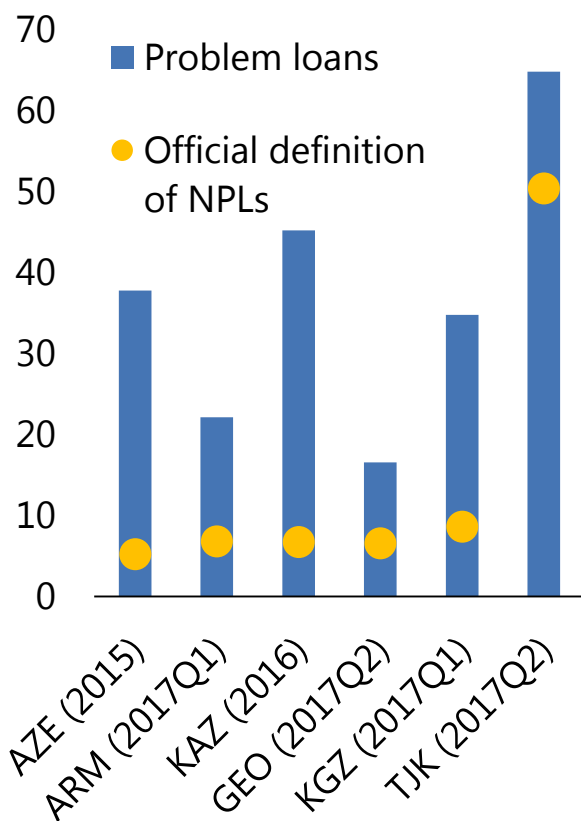
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.



# Financial sector vulnerabilities exposed

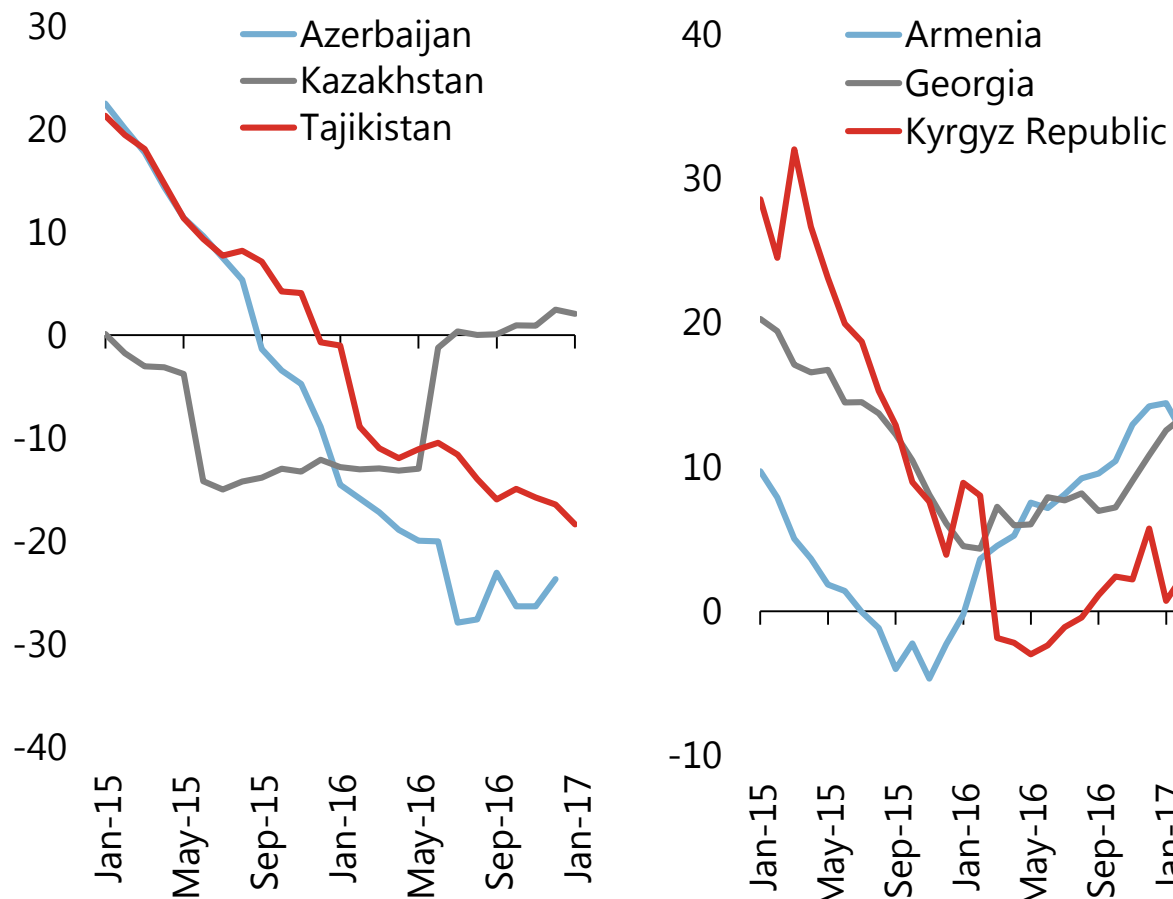
## Problem Loans

(In percent of total loans)



## Private Credit Growth

(Percent, year over year)



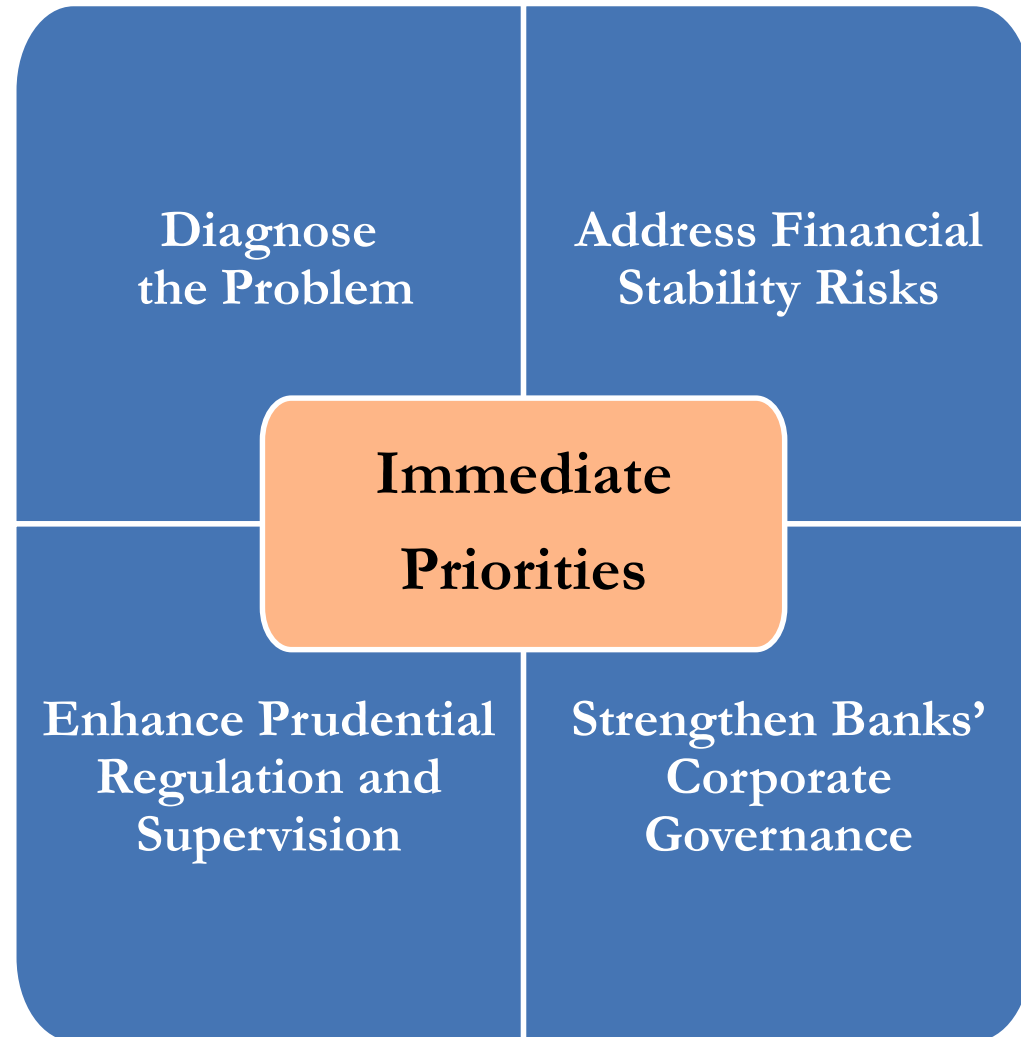
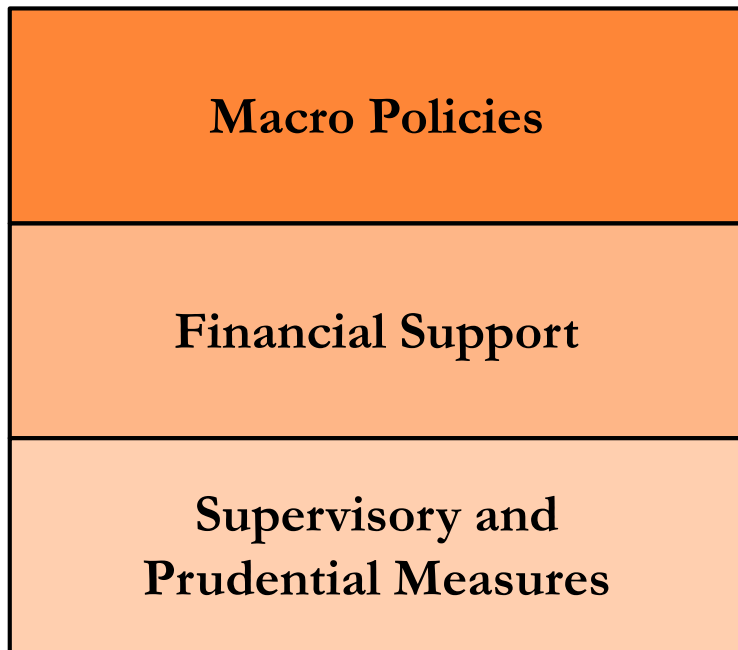
Source: IMF staff calculations.

Note: Country abbreviations are International Organization for Standardization (ISO) country codes.



# Important steps have been taken to address these vulnerabilities, but further action is needed

## Policy Responses



# Roadmap

**Outlook, Opportunities, and Challenges**

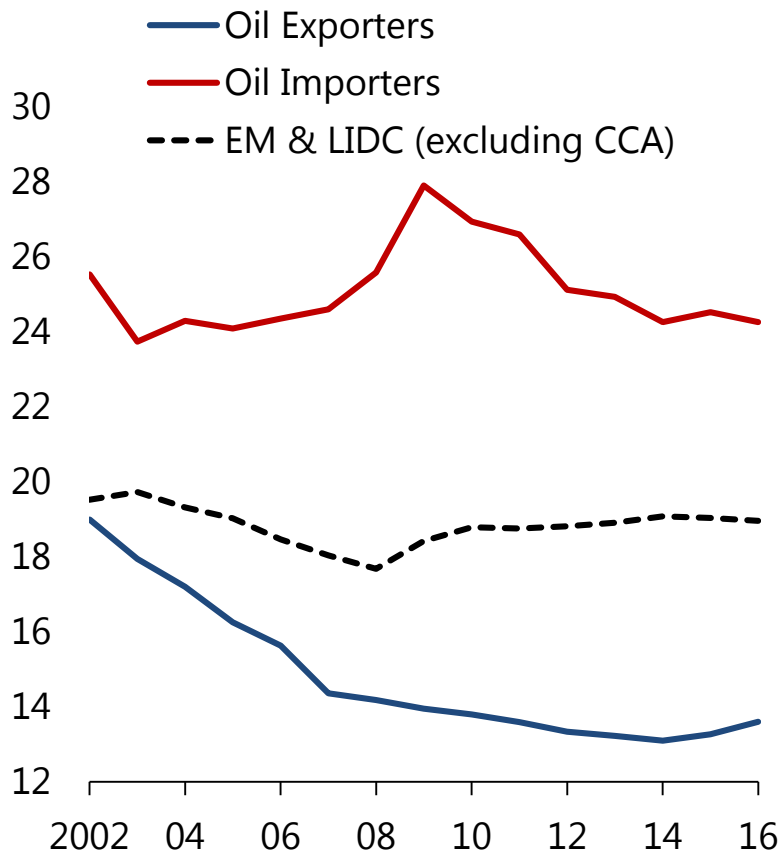
**Maintaining Macroeconomic Stability**

**Securing Higher and More Inclusive Growth**

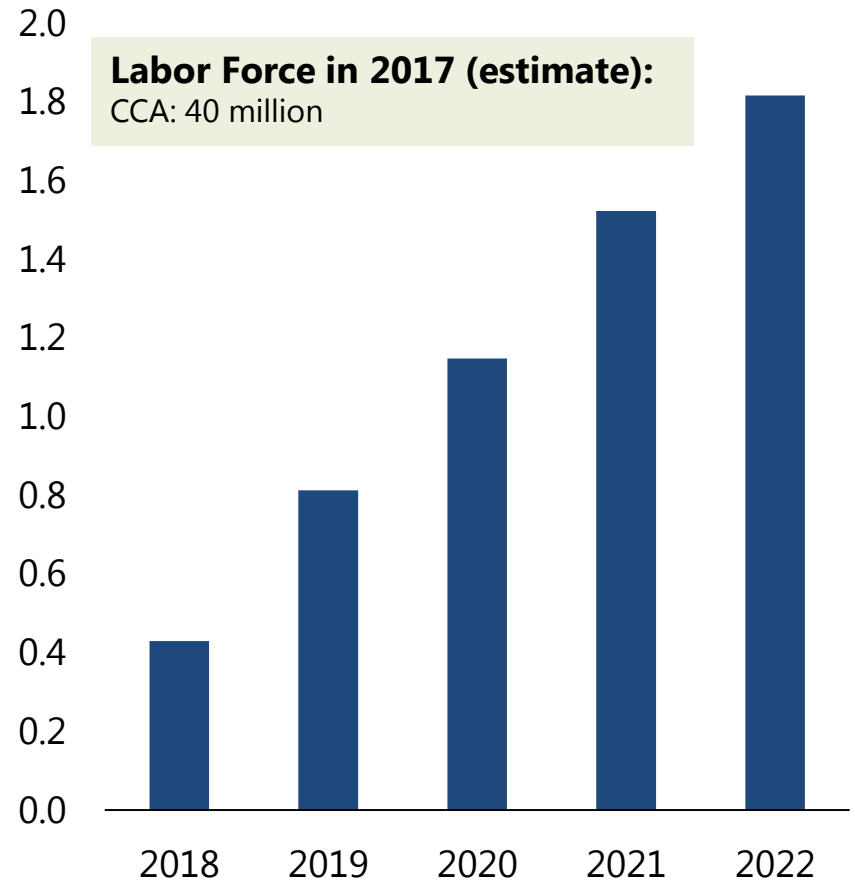
**Key Takeaways and IMF's Role**

# Securing higher and more inclusive growth is critical to the CCA region

**Youth Unemployment Rate**  
(average, percent)



**Projected Labor Force Increase**  
(Million of people, cumulative)



Sources: International Labor Organization estimates.

Note: CCA = Caucasus and Central Asia; EM = Emerging market economy; and, LIDC= Low-income developing countries.



# Multiple policy levers are needed to spur higher and more inclusive growth

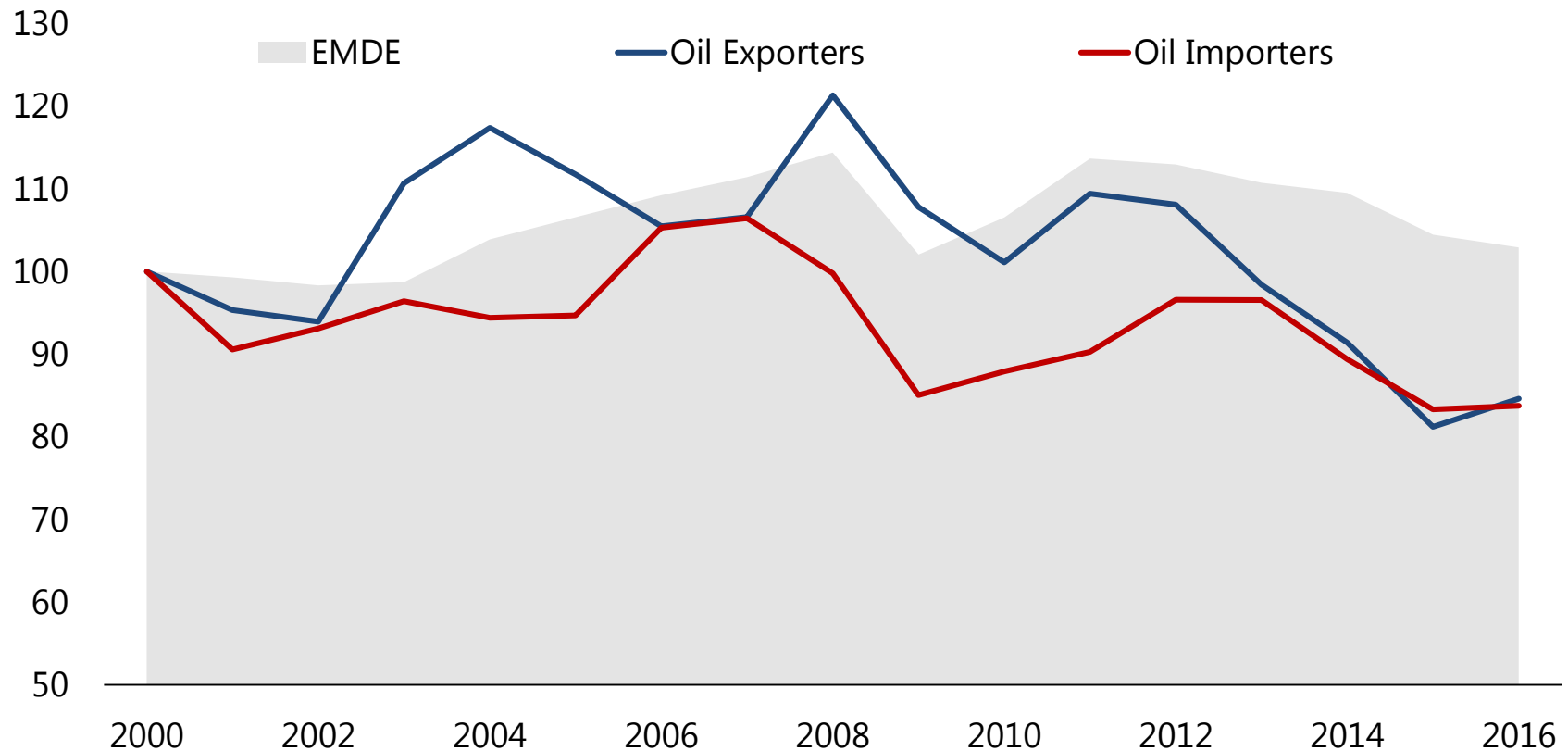
## Five Pillars of Inclusive Growth



# Structural reforms would support trade, leveraging better external conditions ...

## Trade Openness

(Index 2000=100 of the sum of exports and imports as a percent of GDP in nominal terms)



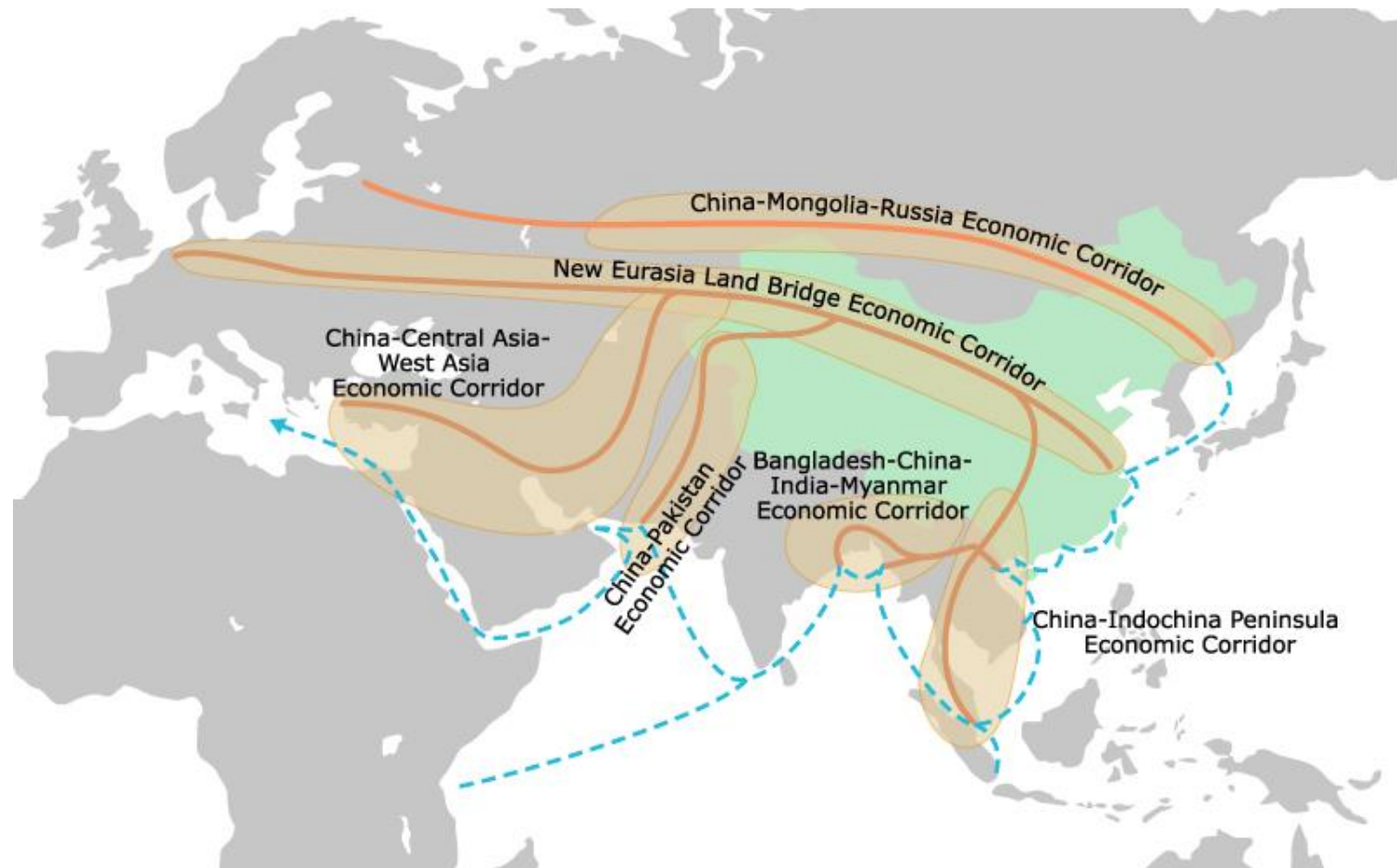
Sources: IMF October 2017 *World Economic Outlook*; and staff calculations.

Note: Afghanistan uses 2002 as its base year due to data issues. CCA = Caucasus and Central Asia; EMDE = Emerging and developing economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan.



# ... and fully capitalize on current integration opportunities

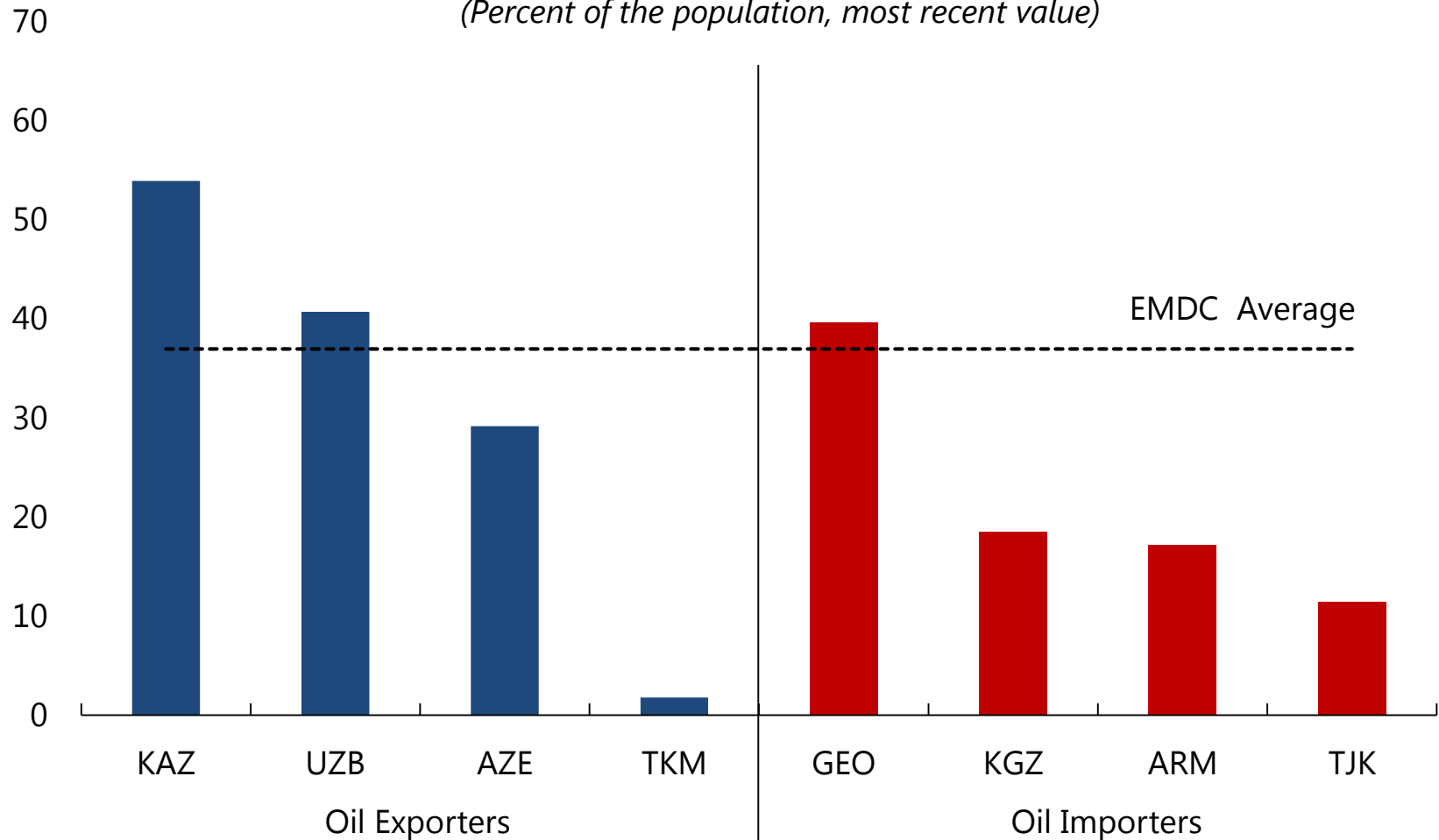
## The Belt And Road Initiative: Six Economic Corridors Spanning Asia, Europe, and Africa



Source: Hong Kong Trade Development Council.

# Adopting financial technology would boost growth and inclusiveness, but there are risks

**Adults (+15 years old) With Bank Account**  
*(Percent of the population, most recent value)*



Source: World Bank.





# Roadmap

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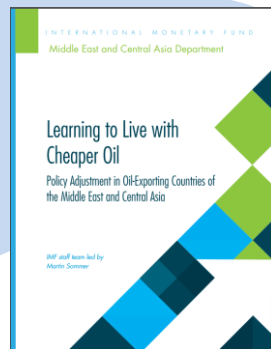
**Key Takeaways and IMF's Role**

# Takeaways

- Recovery continuing, but medium-term growth subdued
- Window of opportunity
- To capitalize on opportunity, countries need to take action:
  - ✓ More growth-friendly fiscal consolidation
  - ✓ Stronger monetary policy frameworks
  - ✓ Financial sector repair
  - ✓ Structural reforms
- Bold action would secure higher, more inclusive growth

# IMF's role

## Policy Analysis



## Capacity Development



## Bilateral Engagement



- ✓ Monetary Policy Workshop, Joint Vienna Institute
- ✓ Peer-to-Peer Event, IMF Annual Meetings

## Regional Cooperation



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