

Regional Economic Outlook

Caucasus and Central Asia

October, 2015



Outline

Global Environment

CCA Outlook

Policy Priorities

Global Growth: Moderate and Uneven



World

U.S.

Euro
Area

Emerging
markets

China

Russia

2014

3.4

2.4

0.9

4.6

7.3

0.6

2015

3.1

2.6

1.5

4.0

6.8

-3.8

2016

3.6

2.8

1.6

4.5

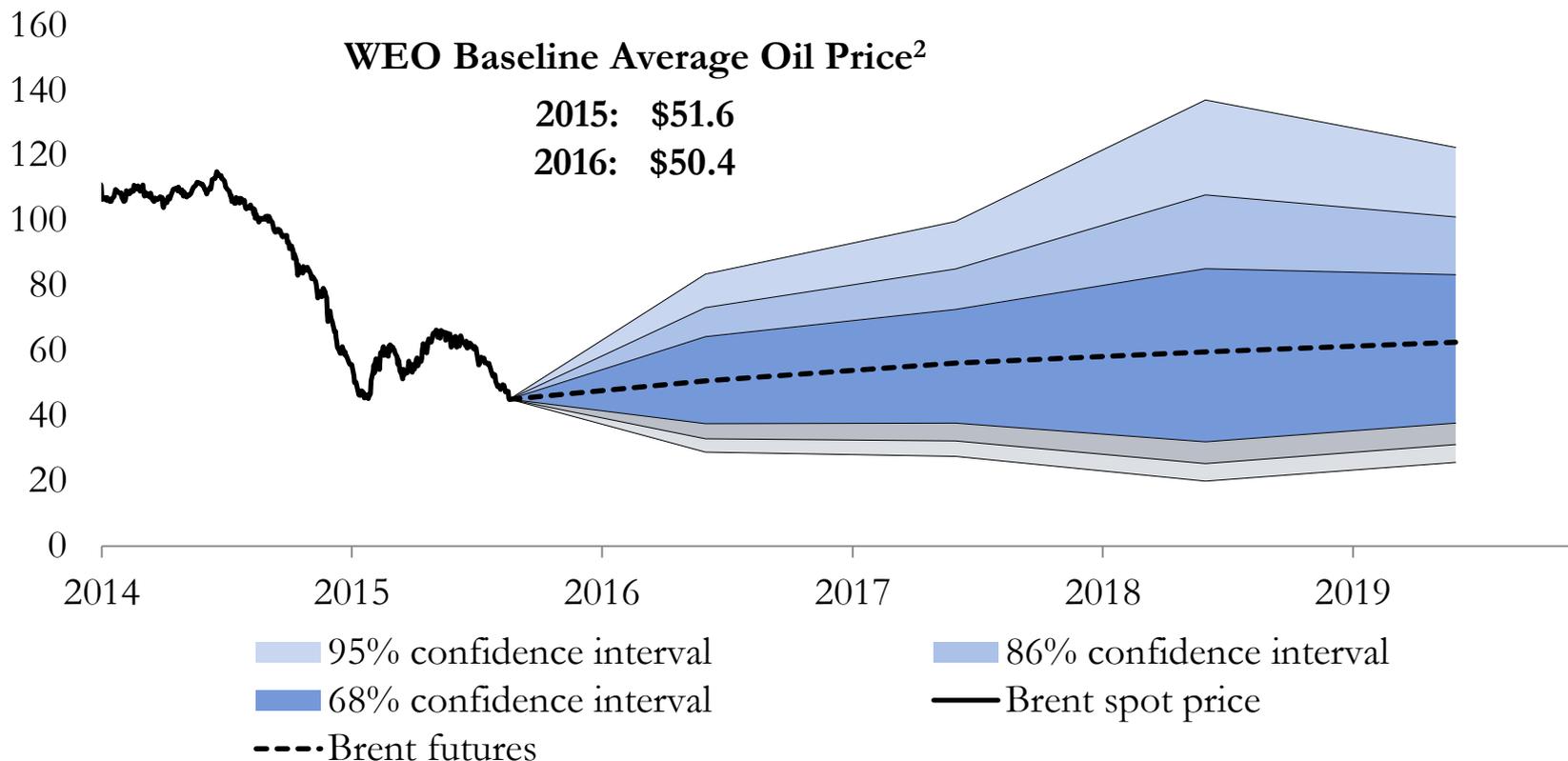
6.3

-0.6

Global Shock 1: Lower Prices of Oil...

Brent Crude Oil Price ¹

(U.S. dollars per barrel)



Sources: Bloomberg; and IMF staff calculations.

¹ As of August 20, 2015.

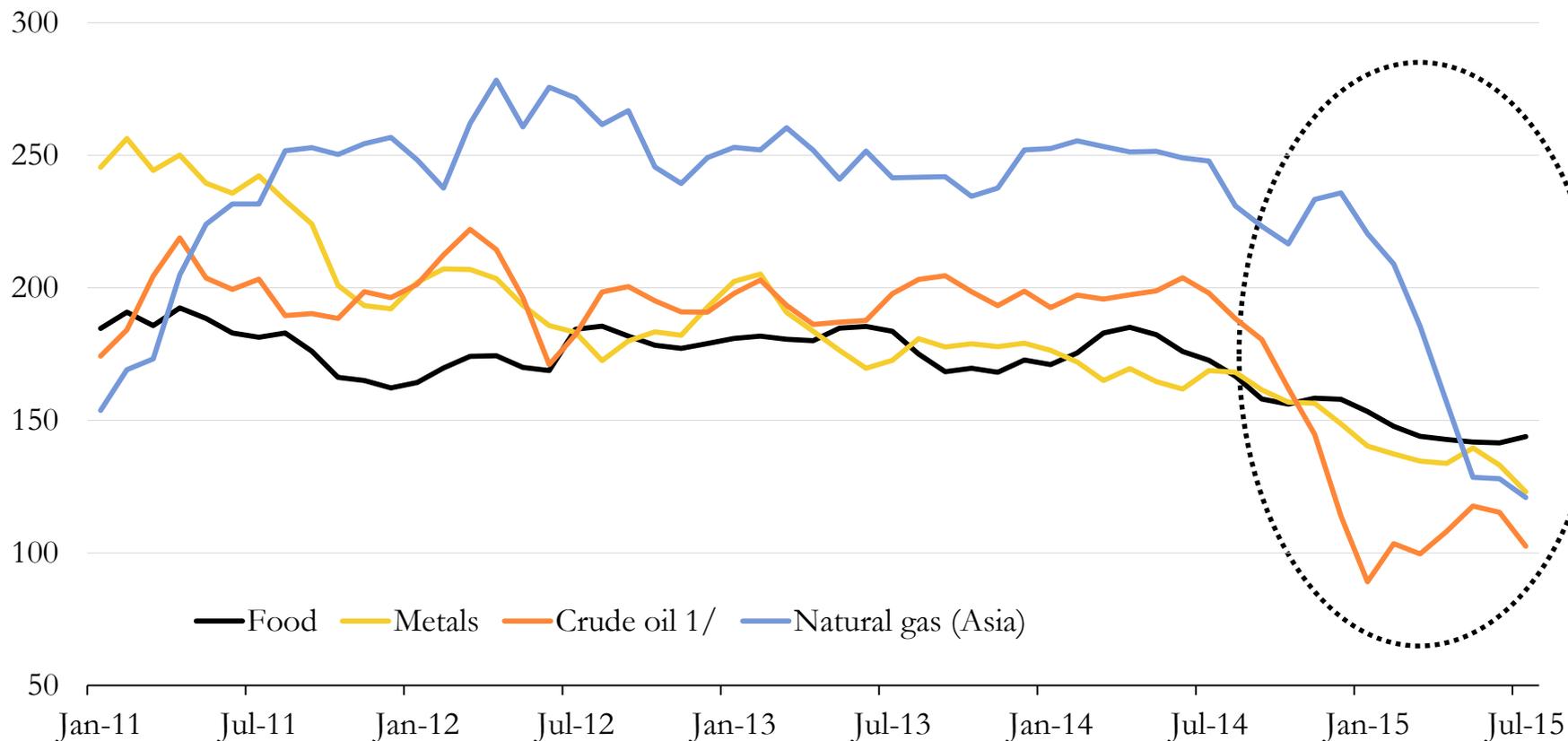
² Average of WTI, Brent, and the Dubai Fateh prices.



...And Other Key Commodities

Global Commodity Prices

(Index Values, 2005=100)



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

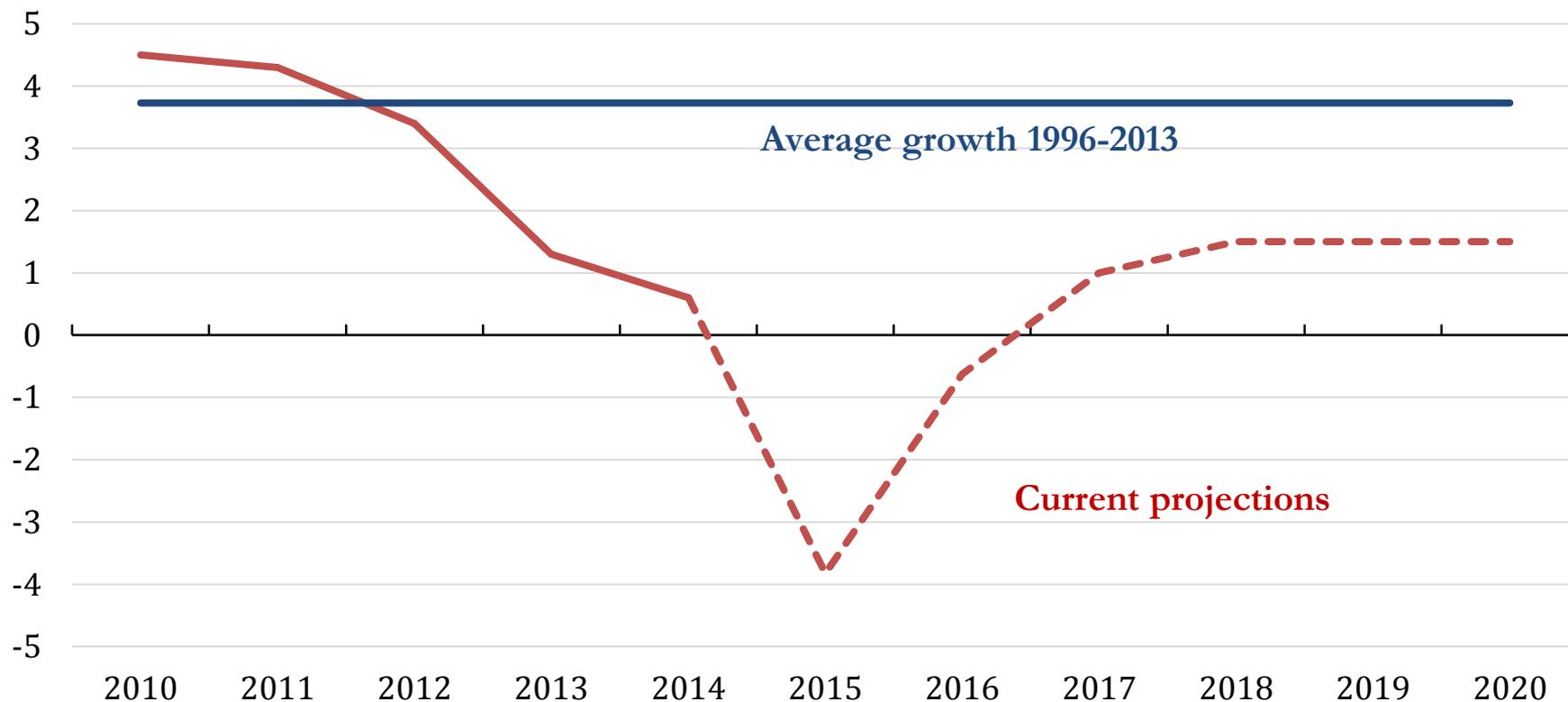
Source: IMF Primary Commodity Prices database.

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



Global Shock 2: Slowdown in Russia

Real growth in Russia (Percent)



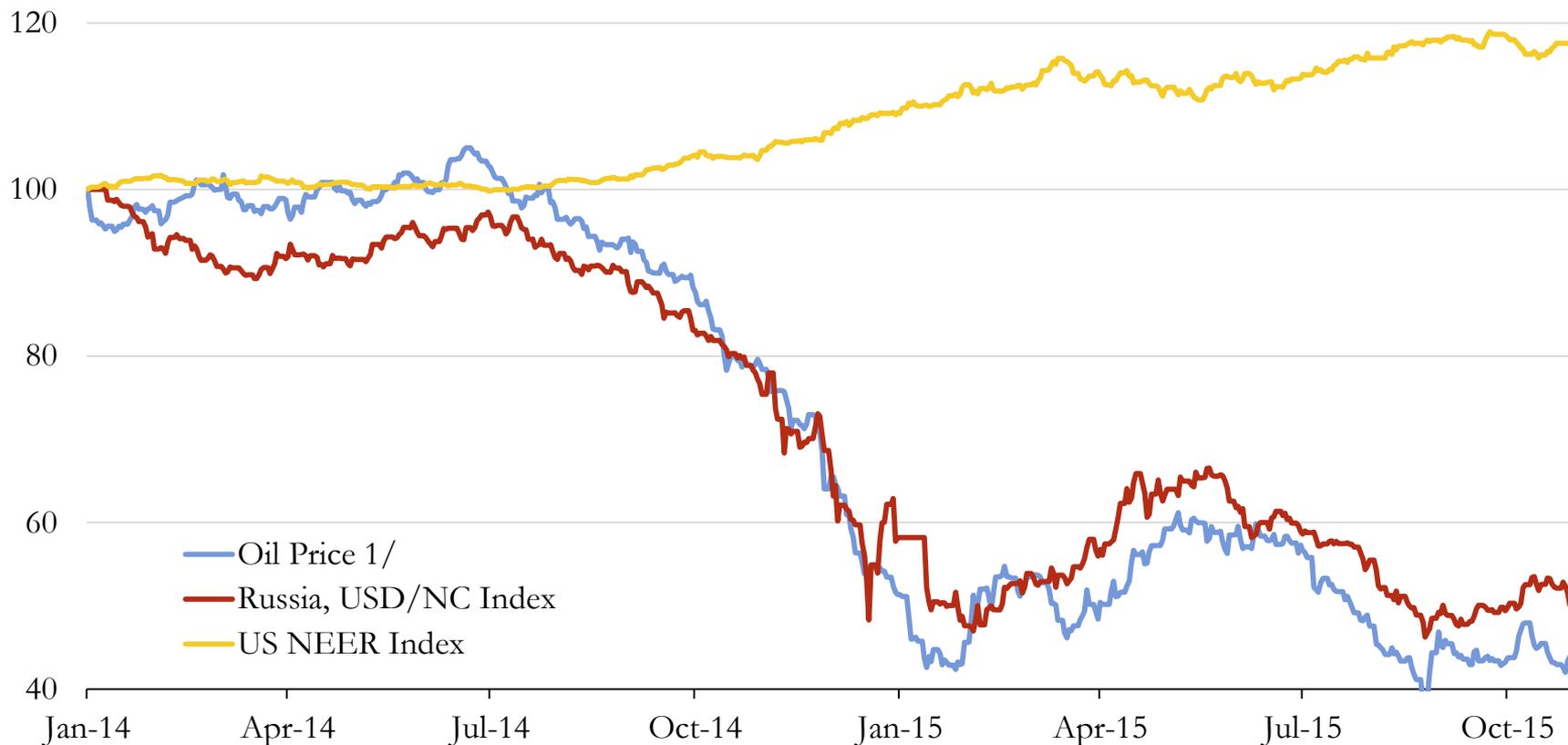
Sources: National authorities; and IMF staff estimates.



Global Shock 3: Exchange Rate Movements

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

(Indices, Jan. 1, 2014 = 100)



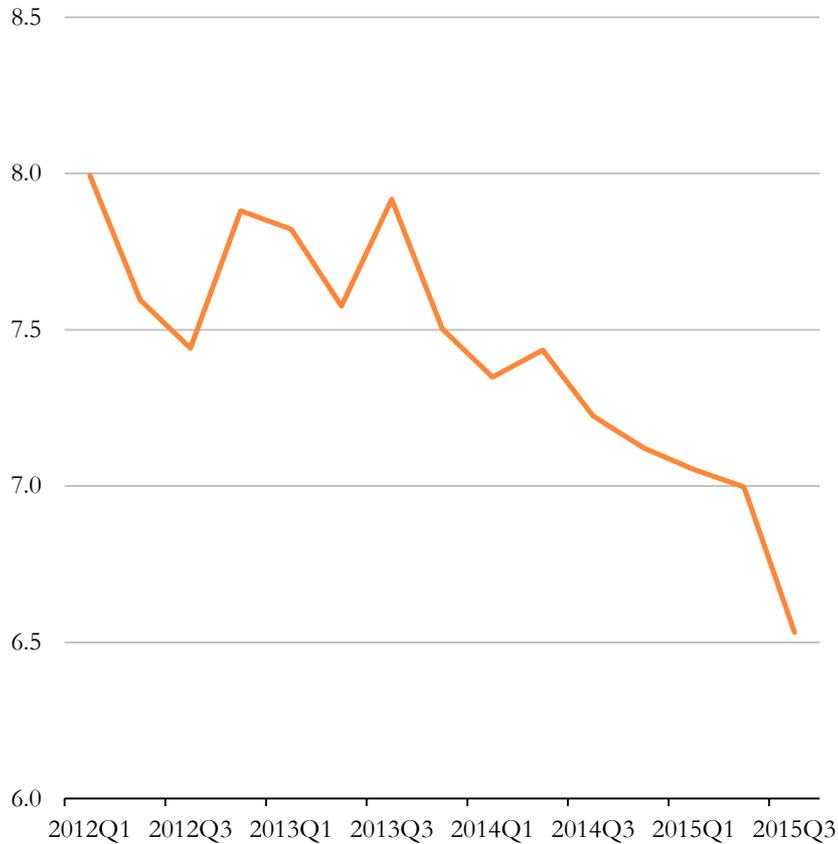
Sources: National authorities; Bloomberg; and IMF staff calculations.

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

Also: Conditions In China Have Been Changing...

China: Quarterly Real GDP Growth

(Seasonally Adjusted YoY Percent Change)



Shanghai Stock Exchange Index

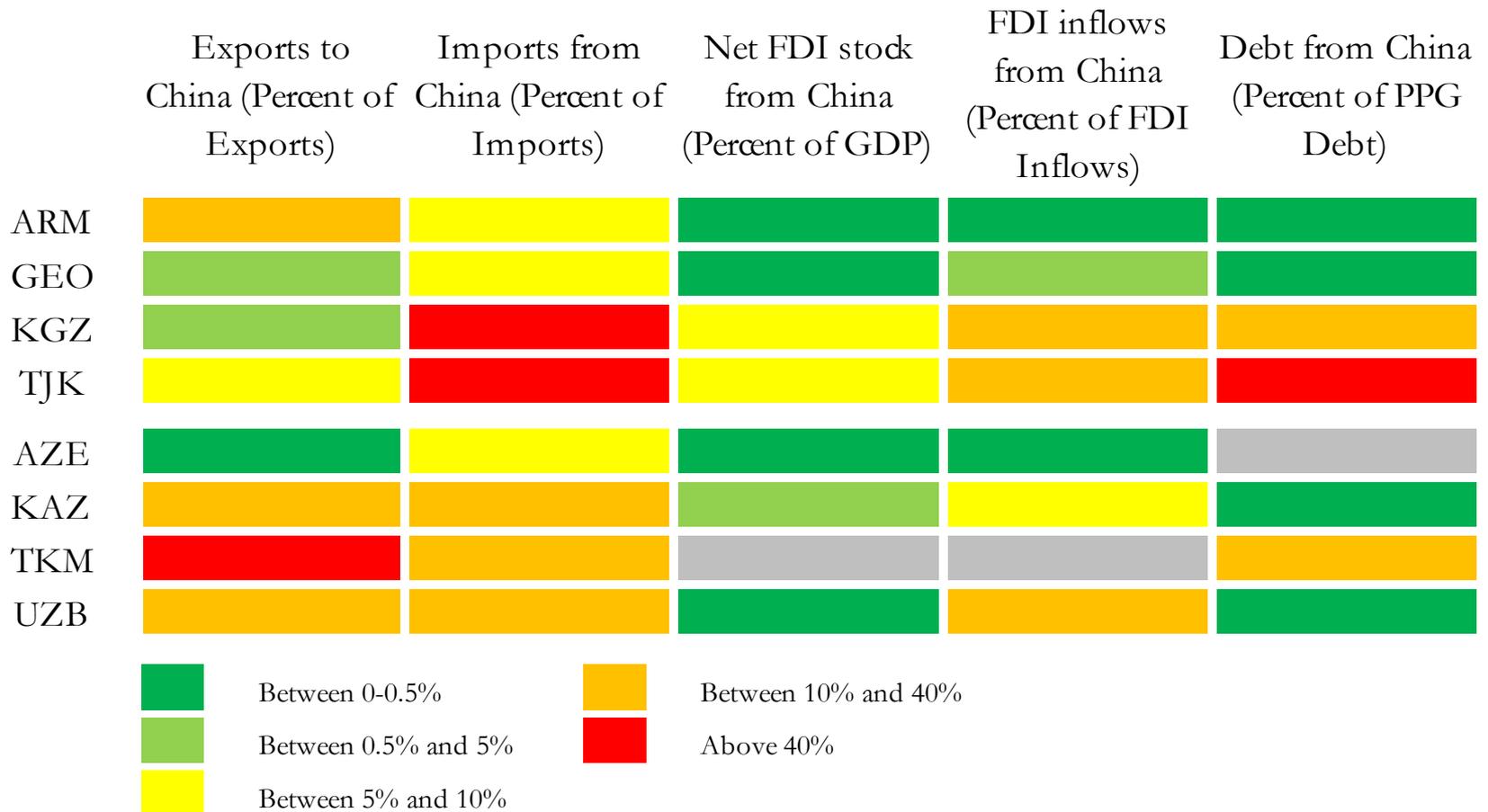
(Index Values)



Sources: National authorities; IMF staff estimates.

...Which Is Particularly Important for CCA Given Its Growing Linkages With That Country

Linkages with China



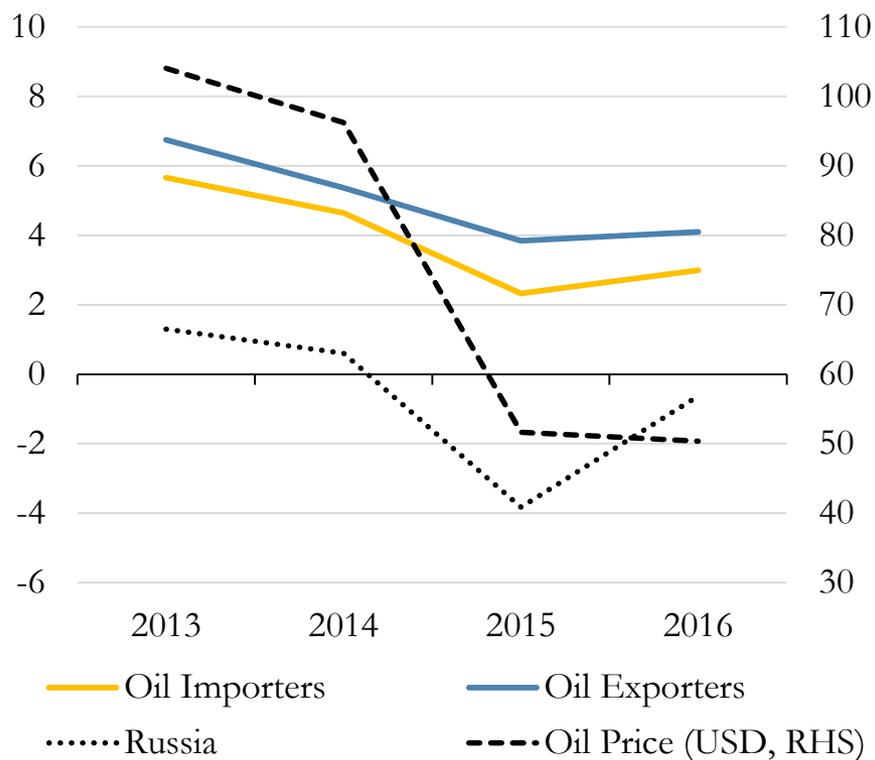
Caucasus And Central Asia



Amid A Tough External Environment, Economic Growth Slowed in 2015

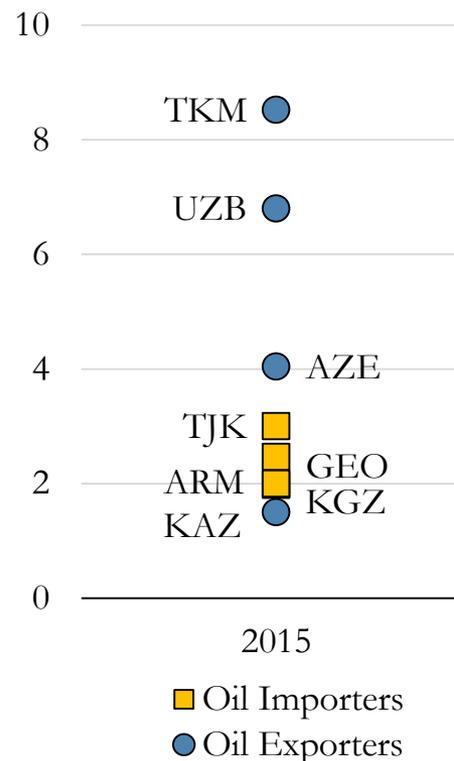
CCA Growth Rates

(In Percent Change)



CCA Growth Rates by Country

(In Percent Change)



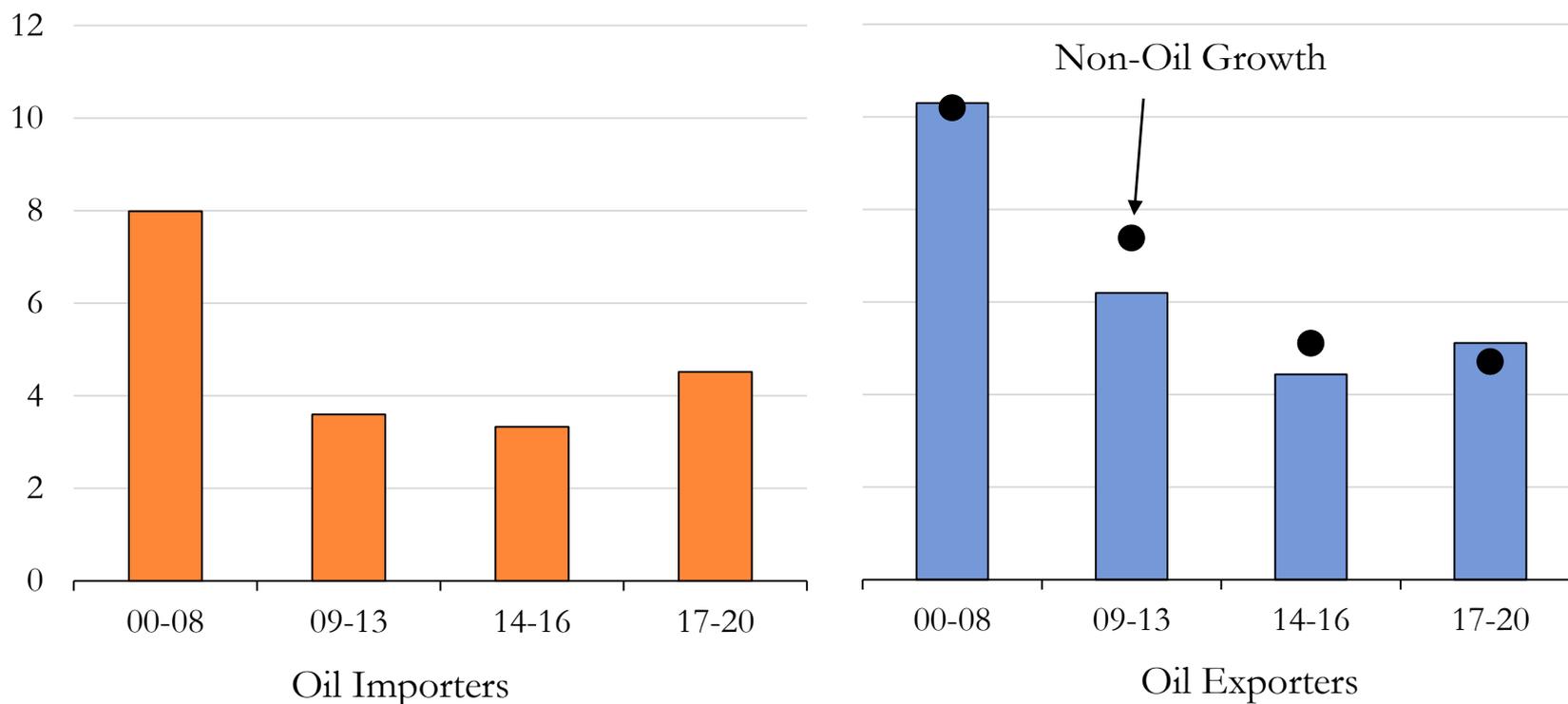
Sources: National authorities; Bloomberg; and IMF staff estimates.



Gradual Recovery Over the Medium Term; Growth Prospects Well Below Past Averages

CCA Growth Rates

(In Percent Change)



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)

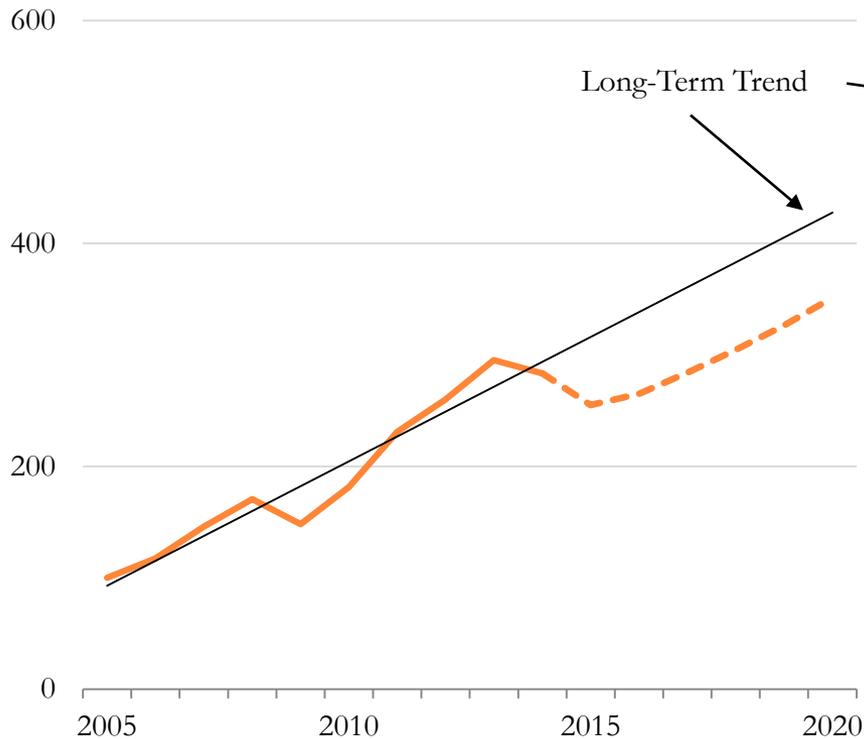
Risks related to the normalization of U.S. monetary policy



Exports Are Expected To Recover Only Gradually

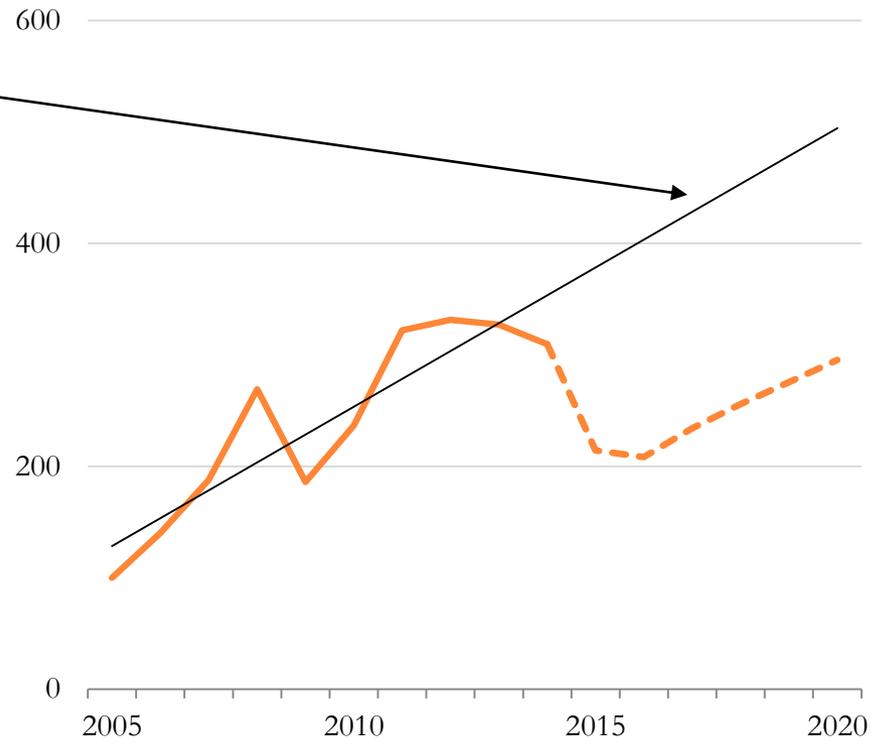
CCA Oil Importers: Exports

(Index Values, 2005=100)



CCA Oil Exporters: Exports

(Index Values, 2005=100)



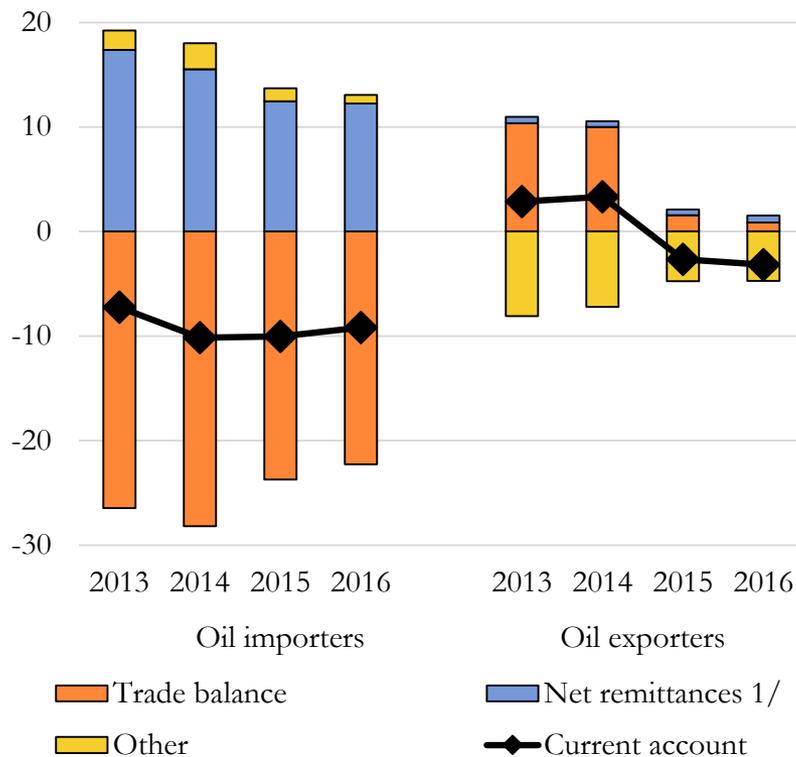
Sources: National authorities; and IMF staff estimates.



External Positions Are Set To Remain Weak

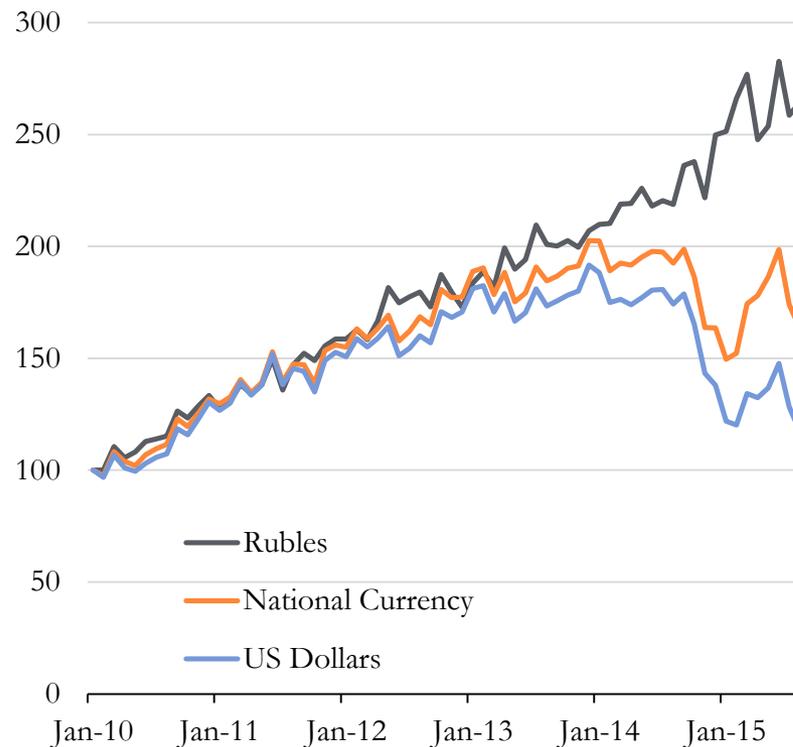
Current Account Decomposition

(Percent of GDP)



Remittances

(Seasonally Adjusted Levels, Jan 2010 = 100)



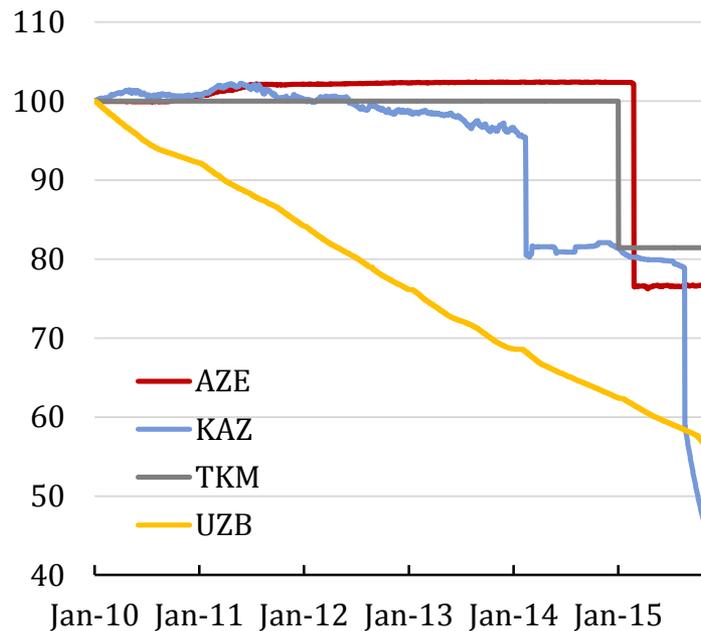
Sources: National authorities; and IMF staff estimates.
1/ Excludes employee compensation.



Currencies Are Adjusting To New Realities...

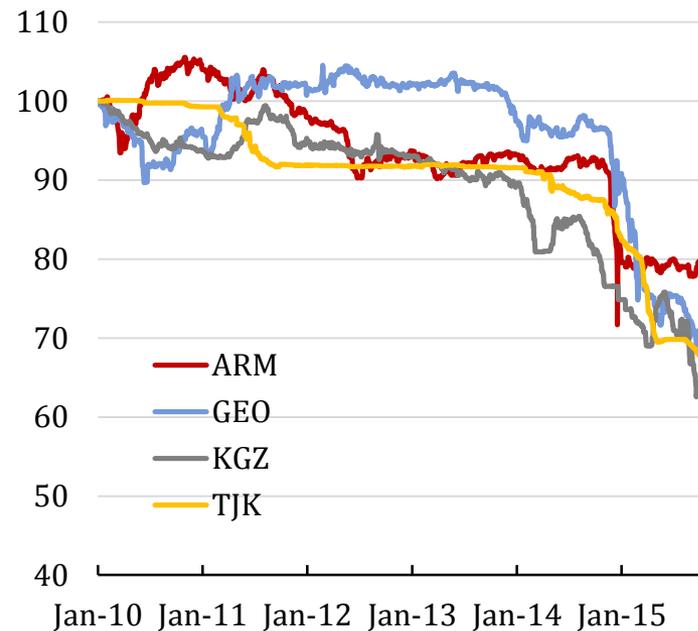
Oil Exporters

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



Oil Importers

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



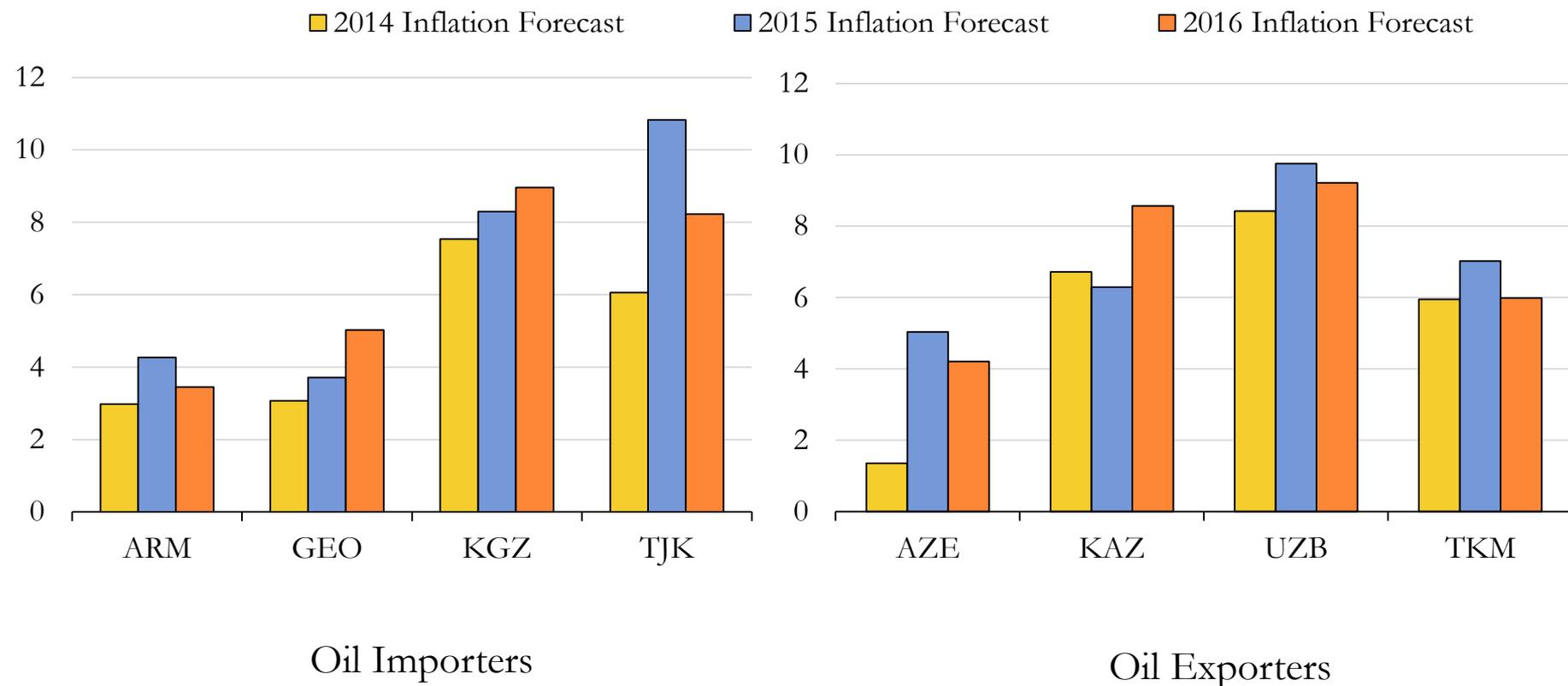
Sources: National authorities; and IMF staff calculations.



...And Inflation Is Edging Up

Inflation

(In Percent Change)



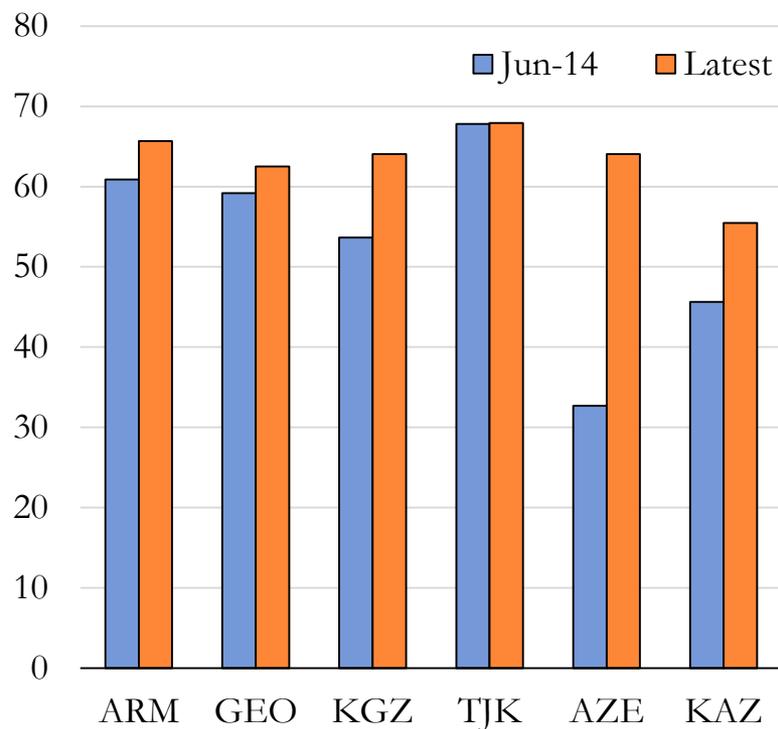
Sources: National authorities; and IMF staff calculations.



Dollarization Has Risen...

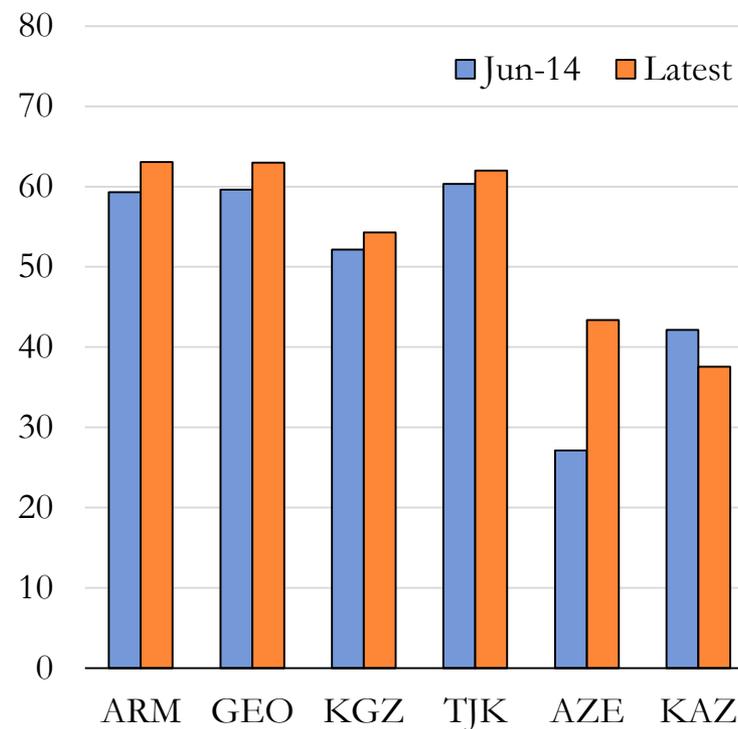
Deposit Dollarization

(In Percent of Total Deposits)



Loan Dollarization

(In Percent of Total Loans)

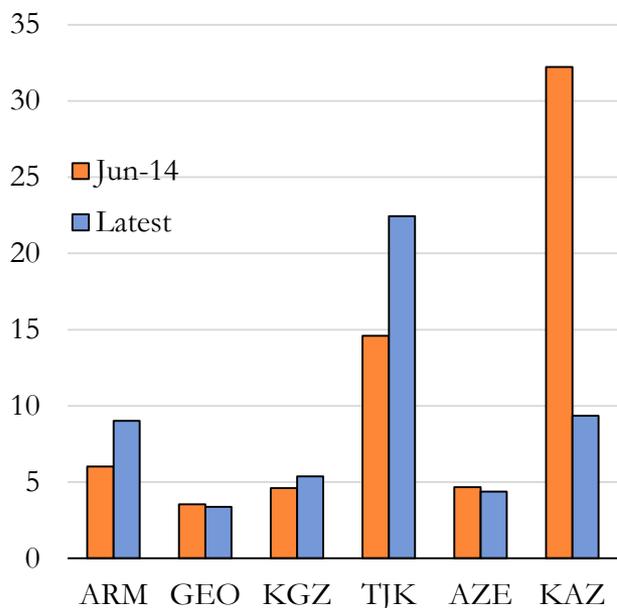


Source: National authorities; IFS; and IMF staff calculations.

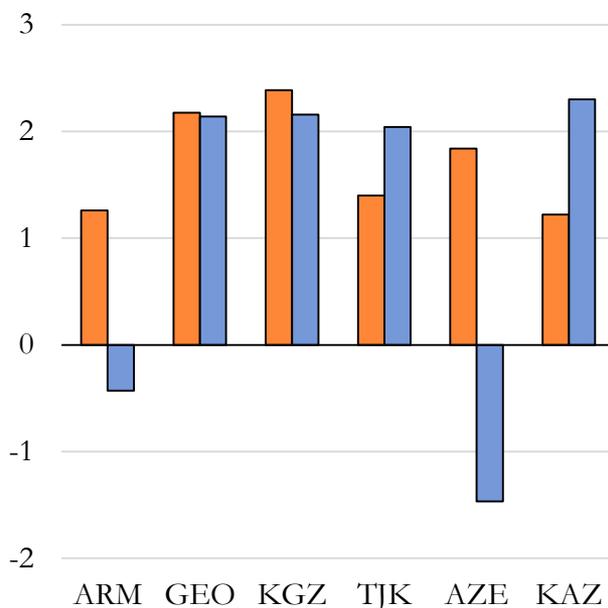


... And Financial Sector Vulnerabilities Are Up.

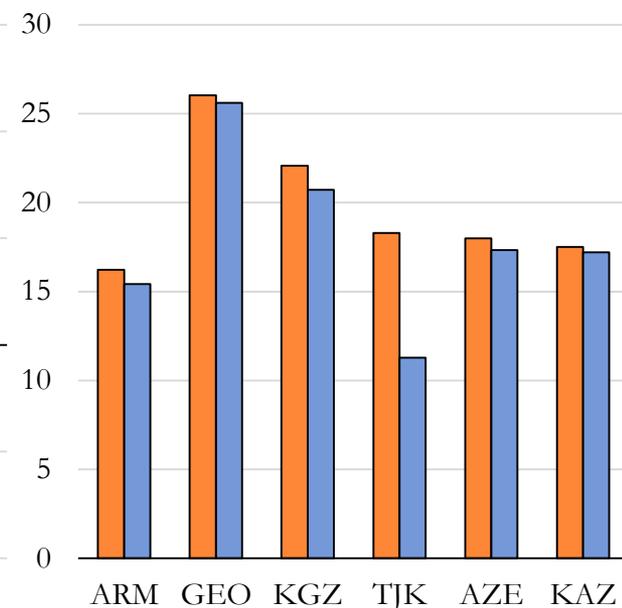
Non-Performing Loans
(In Percent of Total Loans)



Return on Assets
(In Percent)



Capital Adequacy Ratio
(In Percent of Risk-Weighted Assets)



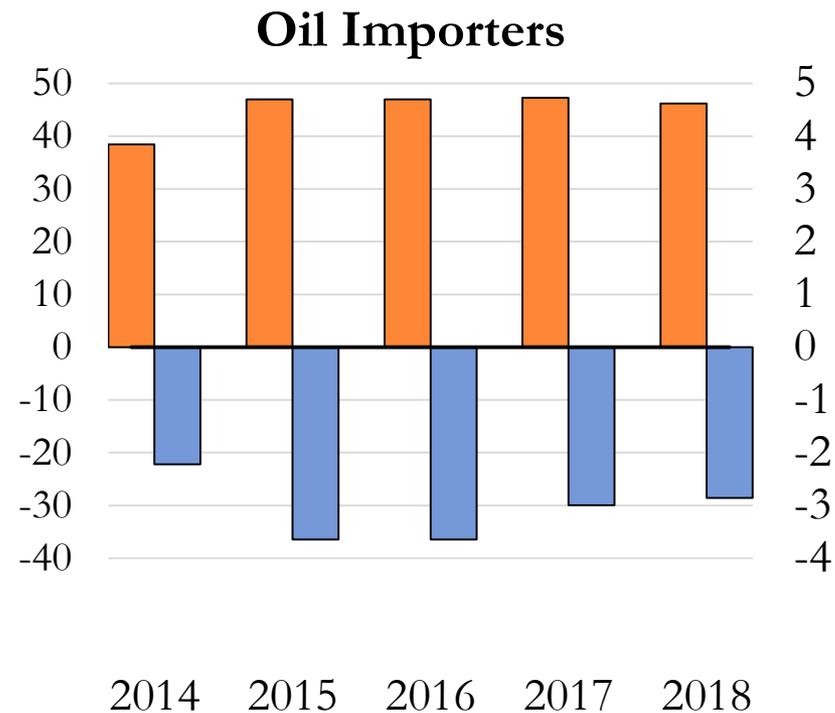
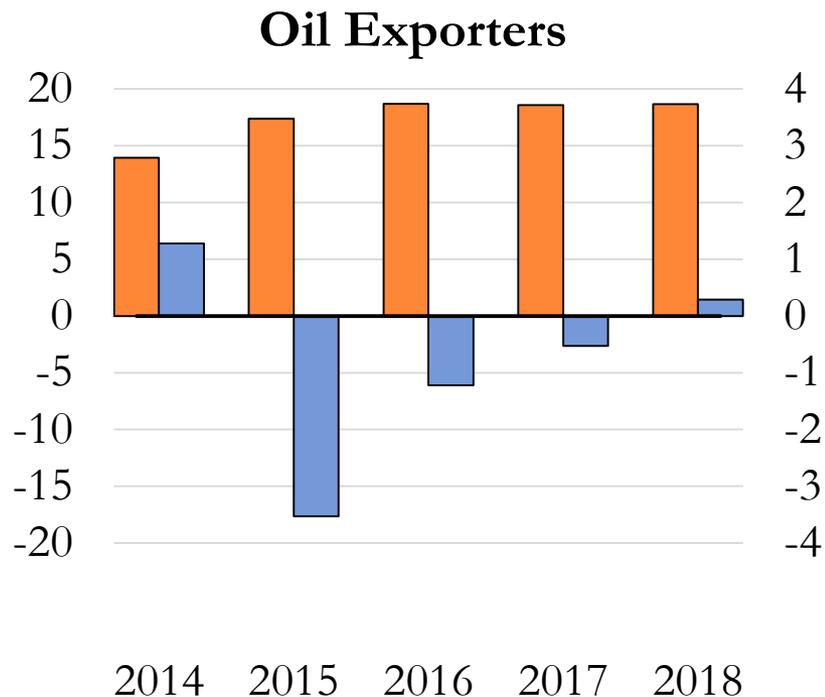
Source: National authorities; IMF staff calculations.



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.



Policy Priority 1: Fiscal Policy Needs To Ensure Medium-Term Sustainability

Near-term
Growth

Debt Sustainability,
Saving for the Future



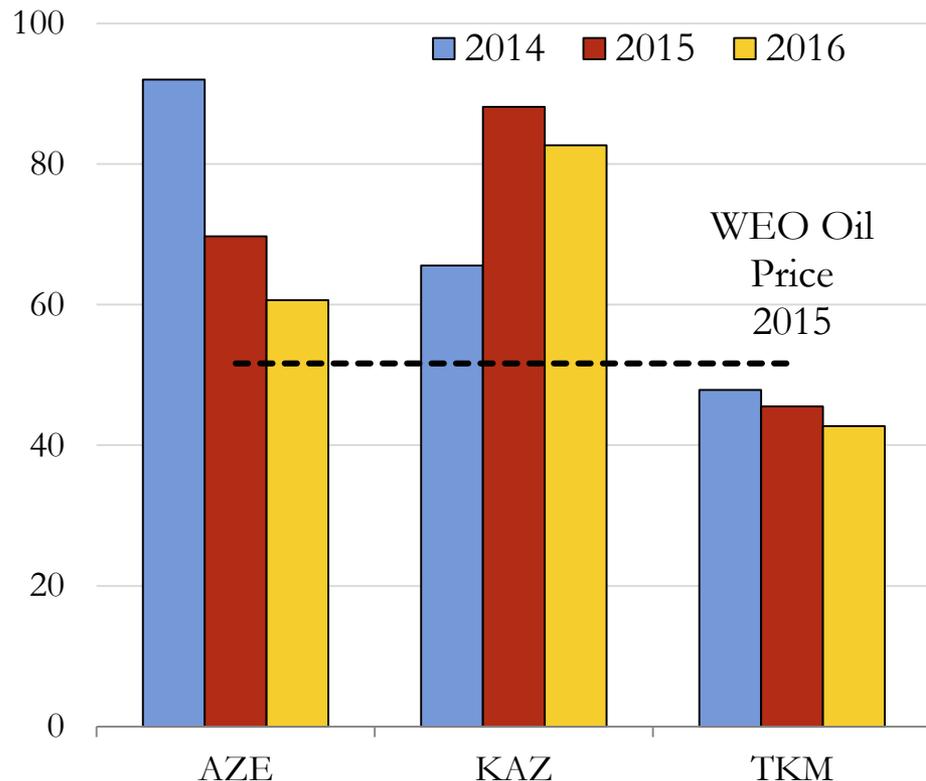
Fiscal Policy

- 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.

Oil Exporters: Fiscal Policy Needs To Adjust

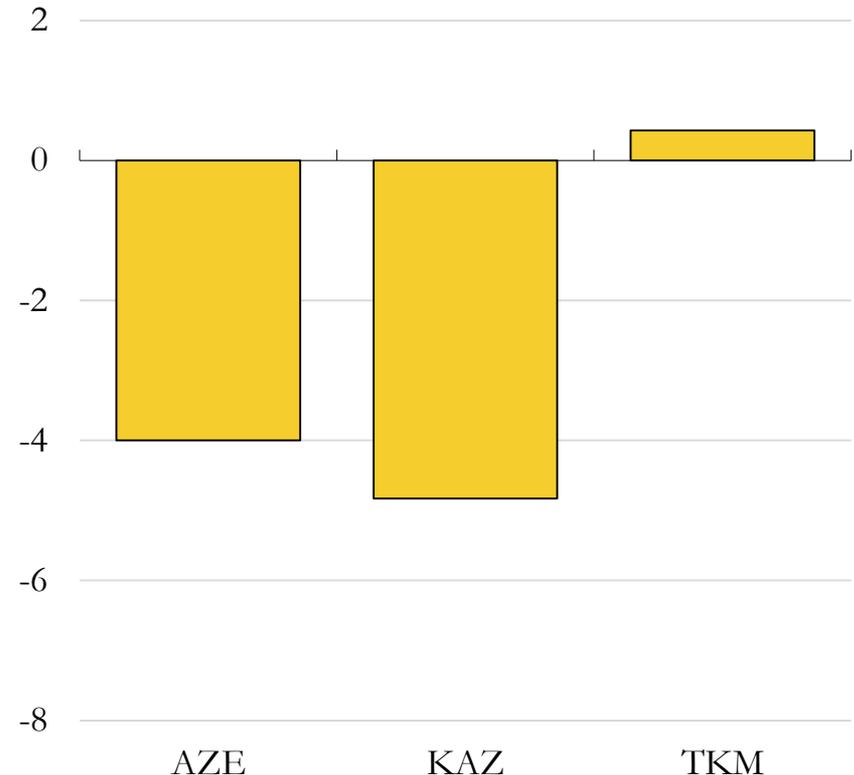
Fiscal Breakeven Oil Prices

(In U.S. Dollars per Barrel)



Medium-Term Gap Between Projected Fiscal Balance and Optimal Policies Consistent with PIH 1/

(In Percentage Points of Non-Oil GDP)



Sources: IMF staff calculations

1/ Difference between actual Non-Oil Primary Balance (NOPB) and NOPB recommended by the Permanent Income Hypothesis. The high growth scenario assumes an annual increase in non-oil growth by one percentage point.



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



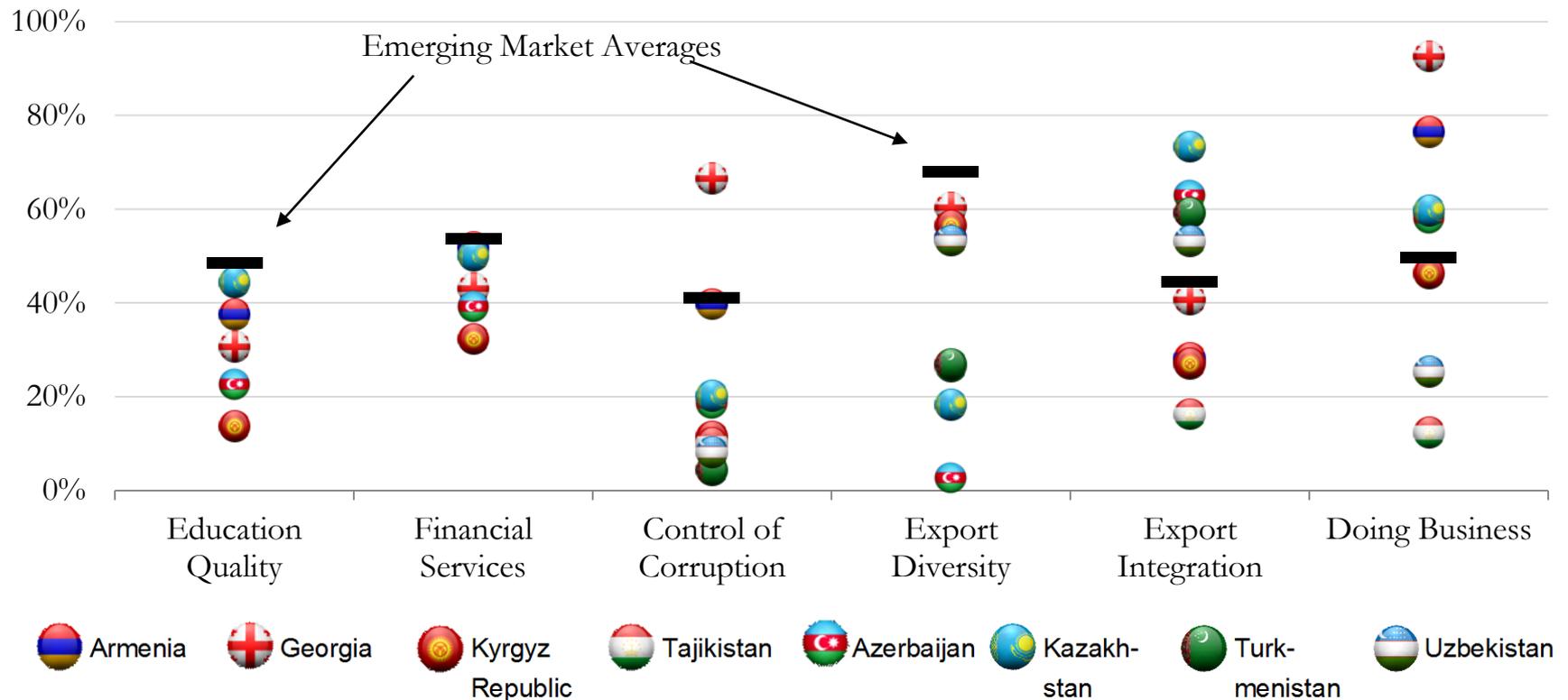
Exchange Rate Policy

- 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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