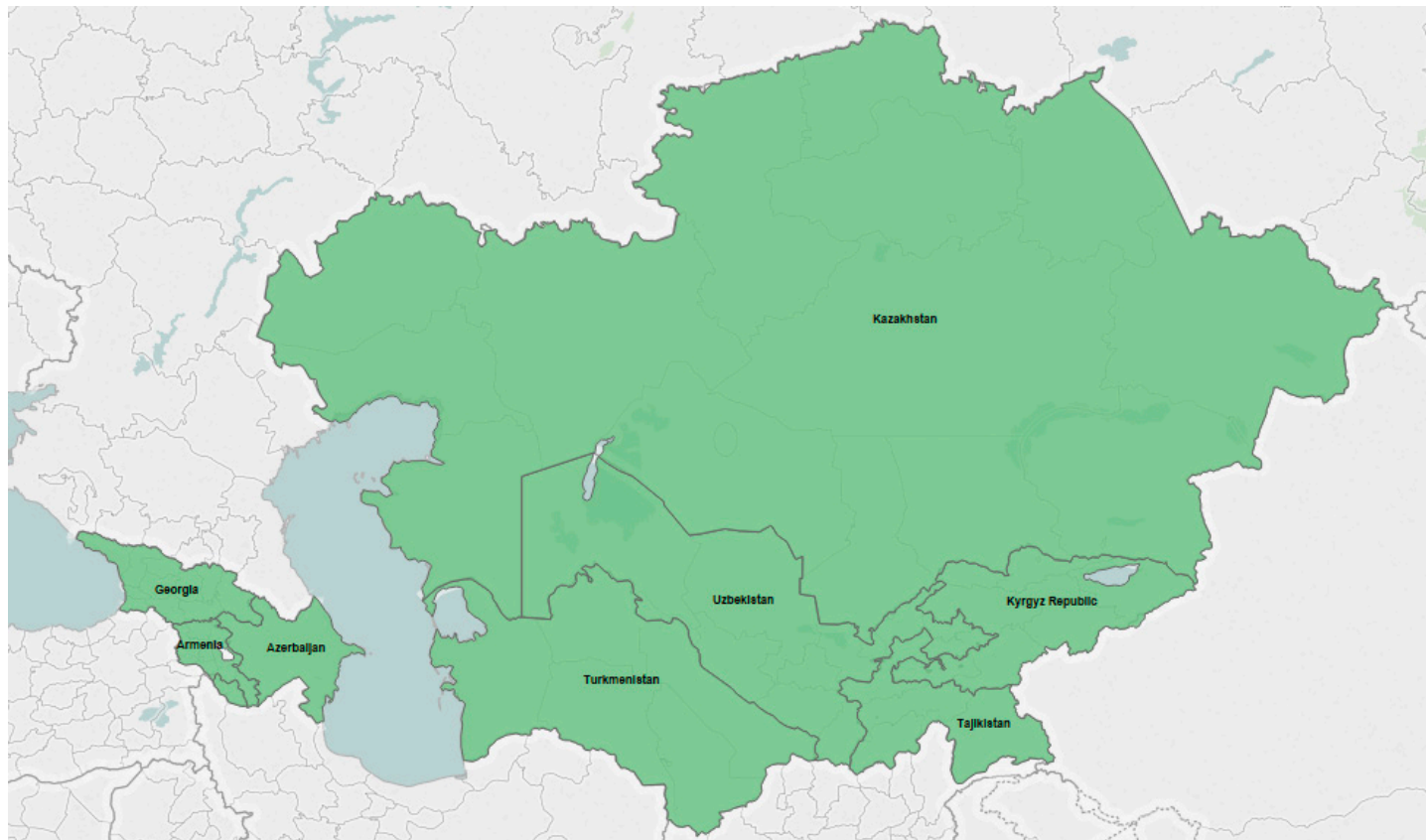


Caucasus and Central Asia Regional Economic Outlook



May 14, 2018



Outline



The Outlook for the Region



Drivers of the Outlook



Implications for Policy

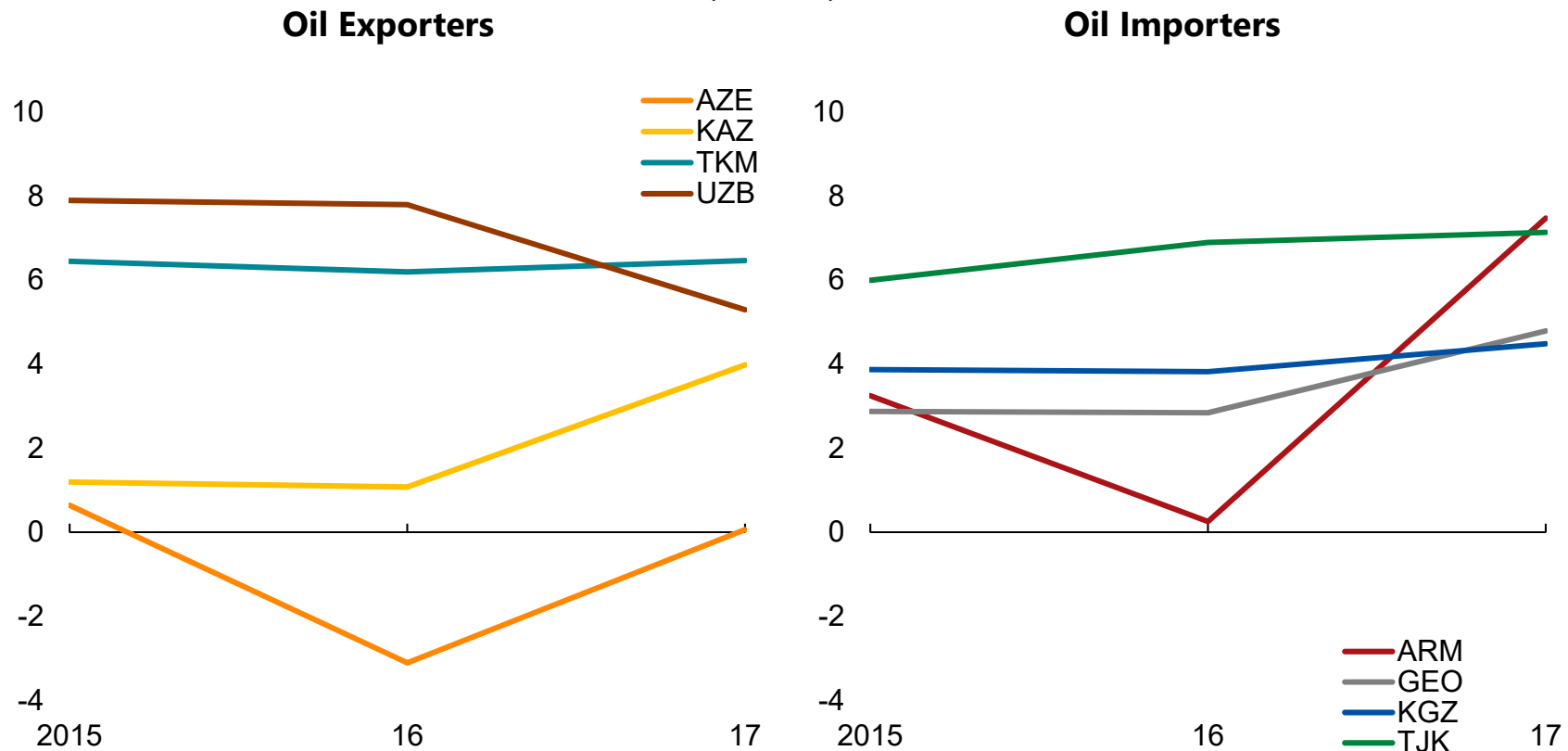


The IMF's Contribution



Growth picked up in 2017...

Real GDP Growth (Percent)

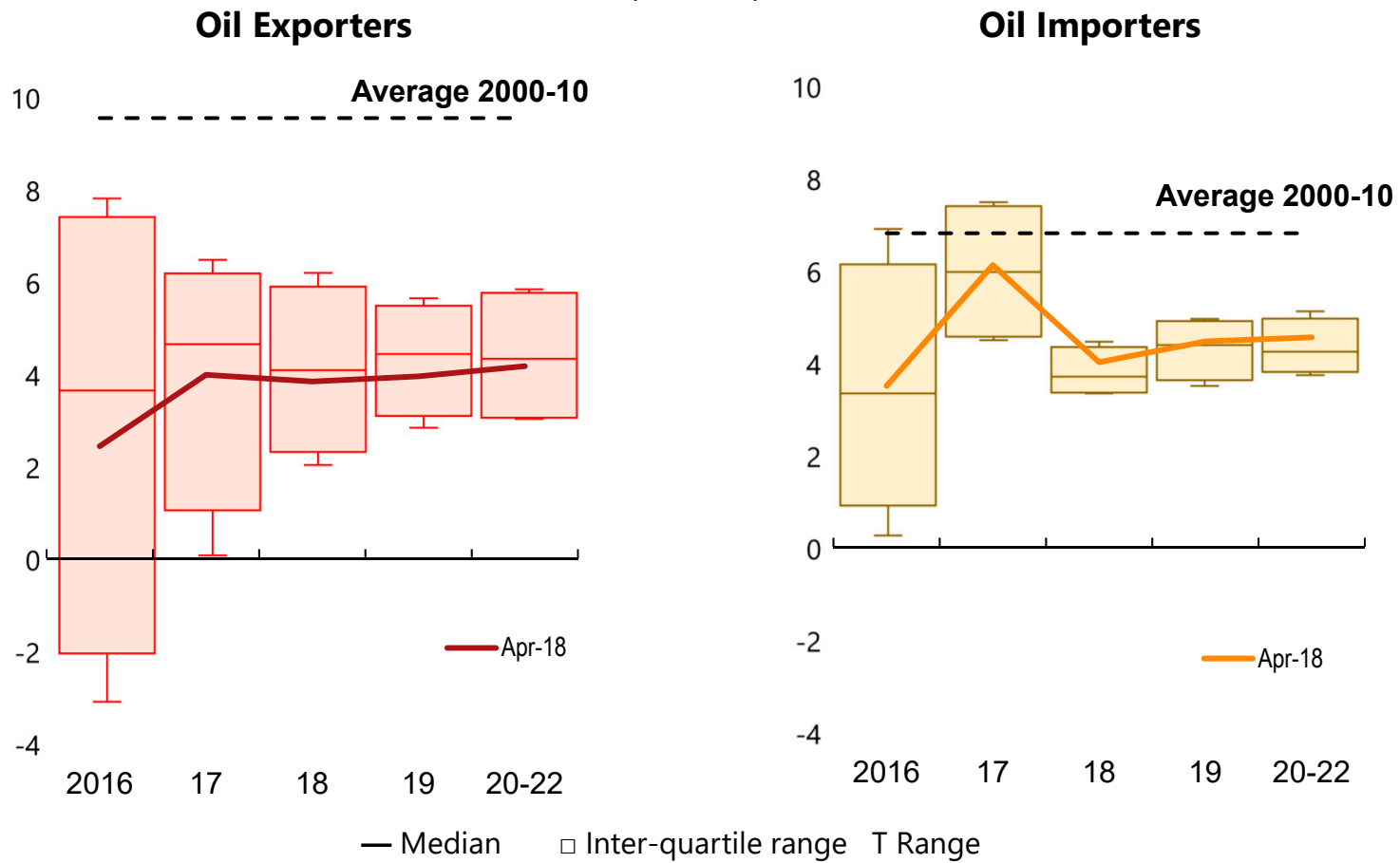


Note: EMDEs = Emerging Market and Developing Economies. Country abbreviations are International Organization for Standardization (ISO) country codes.



...but is expected to moderate over the medium term.

Real GDP Growth
(Percent)



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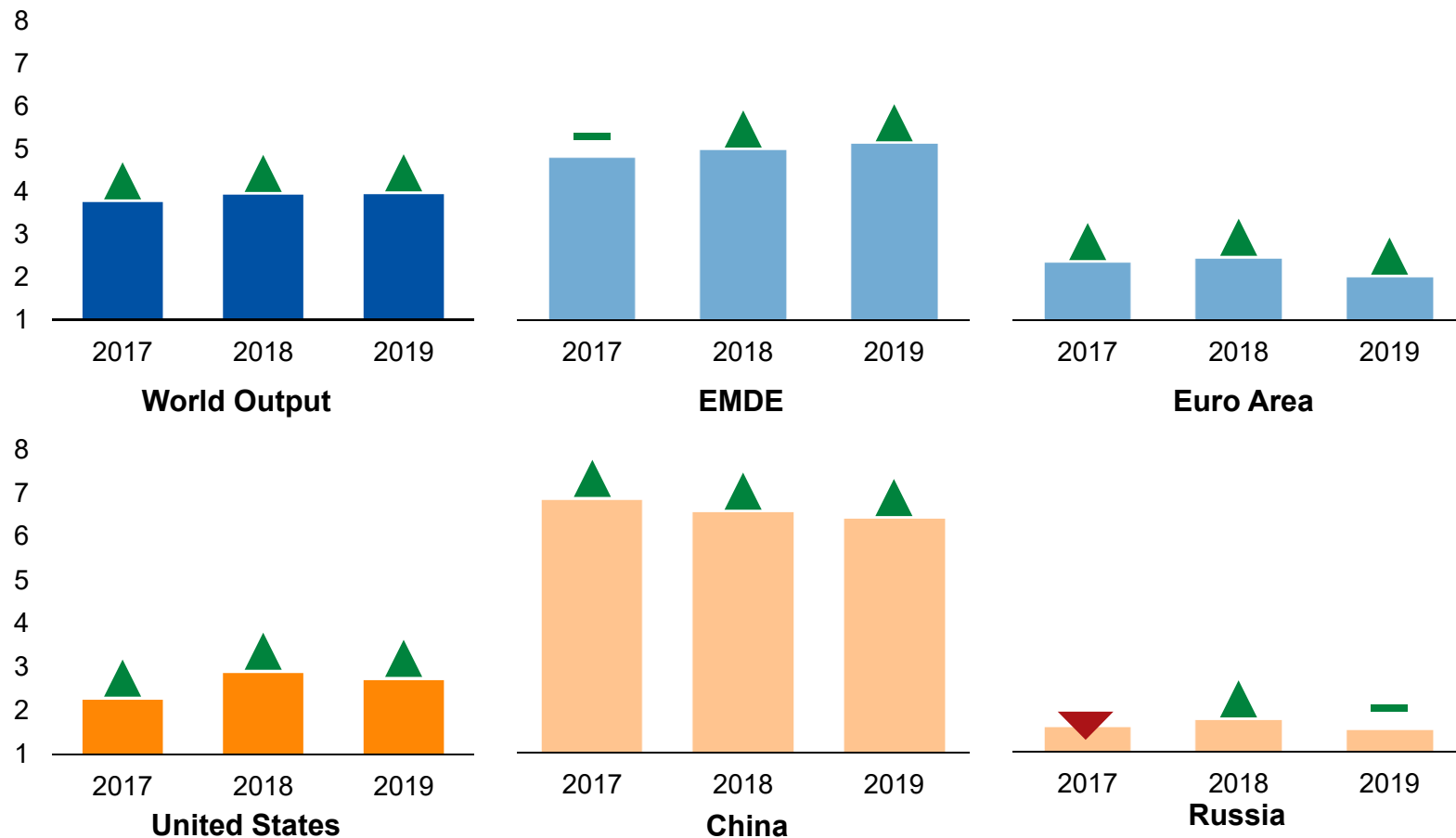


The IMF's Contribution



The outlook is supported by a strengthening global economy, ...

Real GDP Growth of Trading Partners
 (Arrows represent direction of revision since Oct. 2017 WEO)

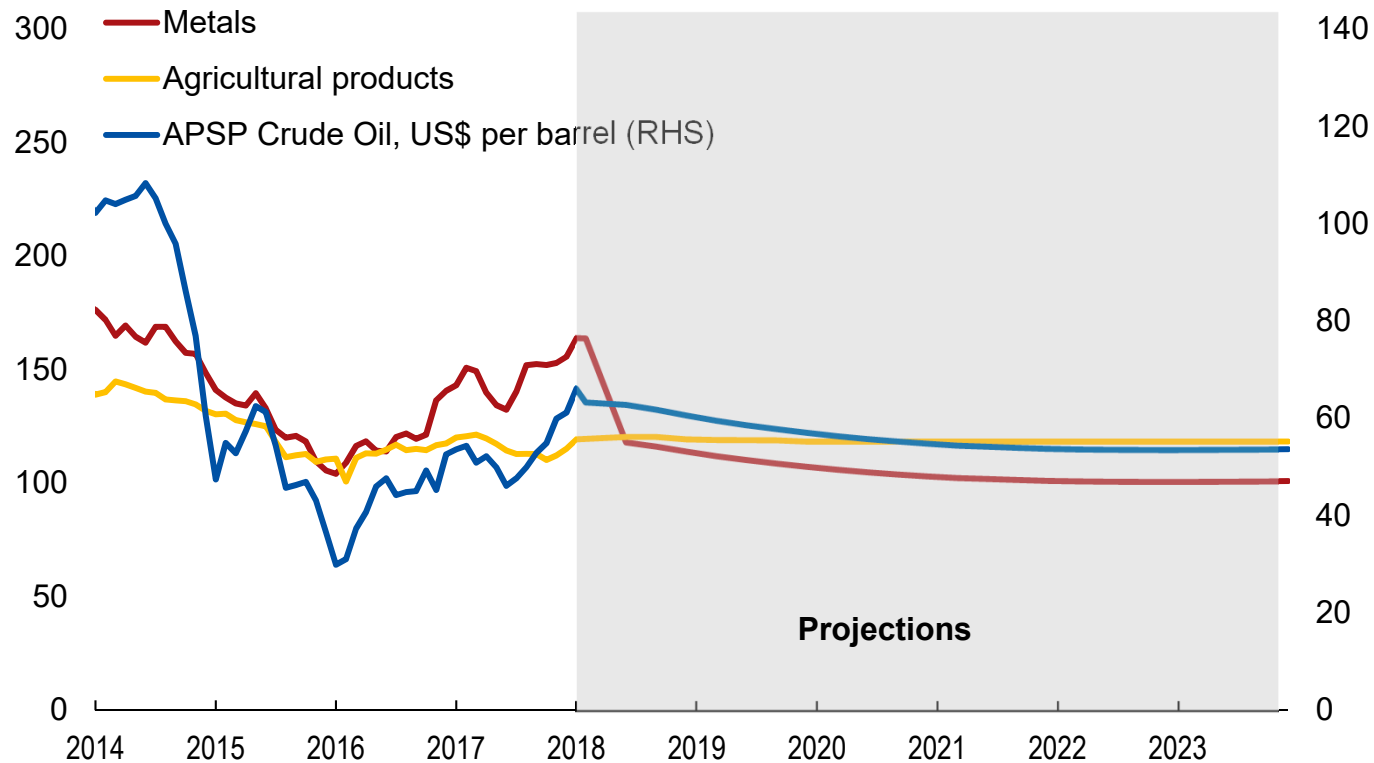


Note: EMDE = Emerging Market and Developing Economies.



... a temporary boost to commodity prices, ...

Commodities Prices
(Price index, 2005 = 100)

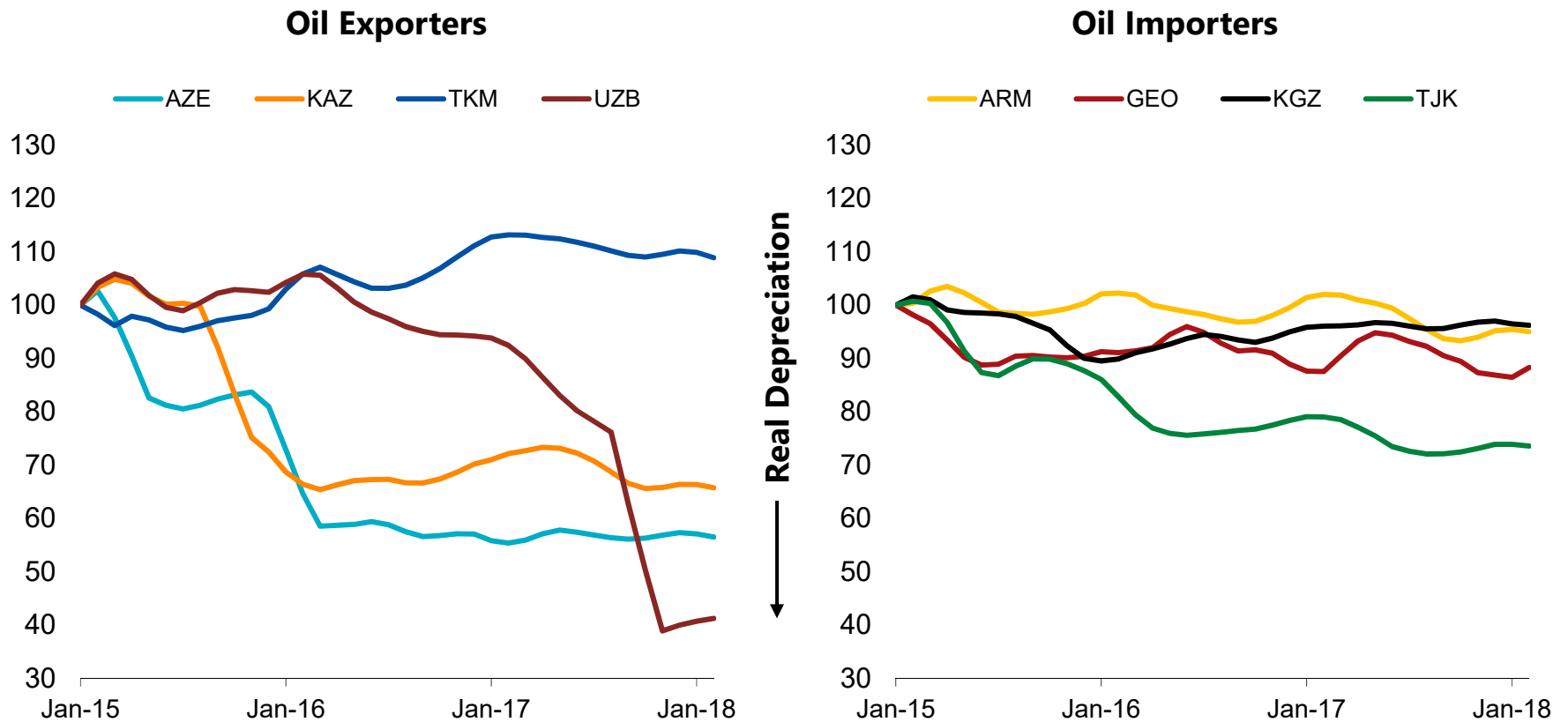


Note: RHS = right scale.



... increased competitiveness, ...

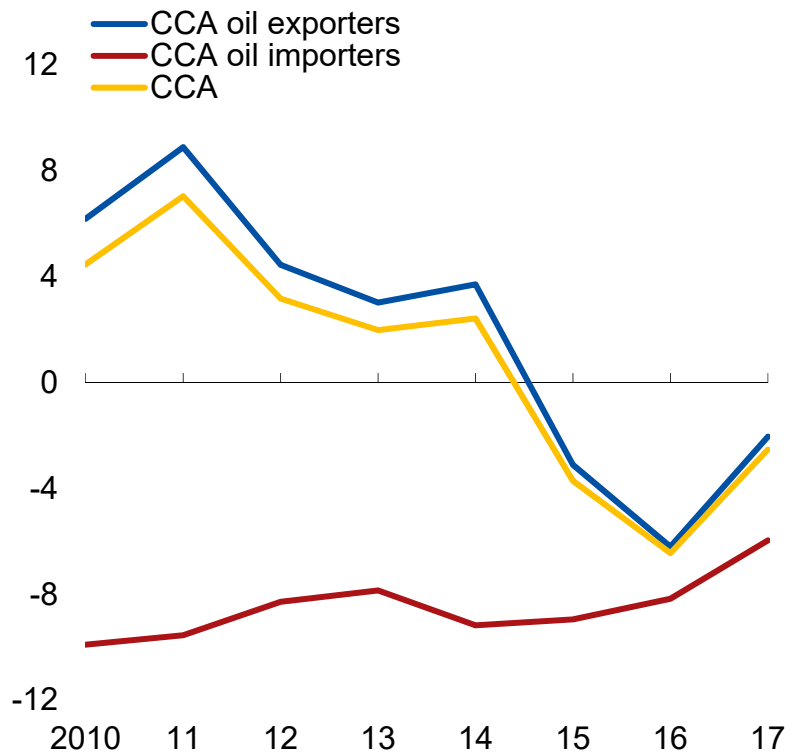
Real Effective Exchange Rates
(Three-month moving average, index 2015=100)



... and strengthening external and fiscal positions.

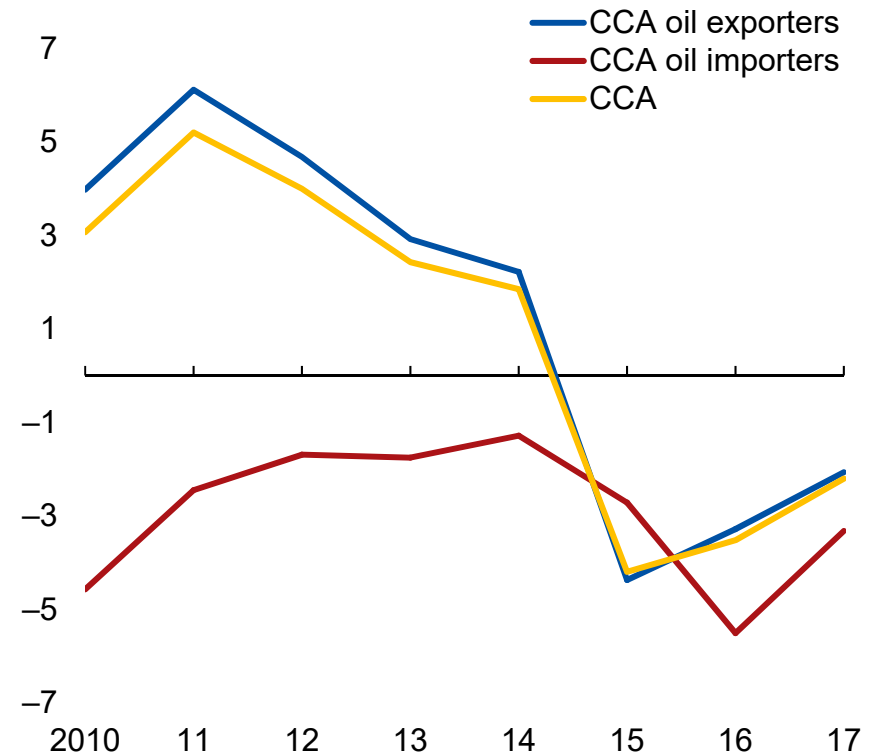
Current Account Balance

(In percent of GDP)



Overall Fiscal Balance

(In percent of GDP)

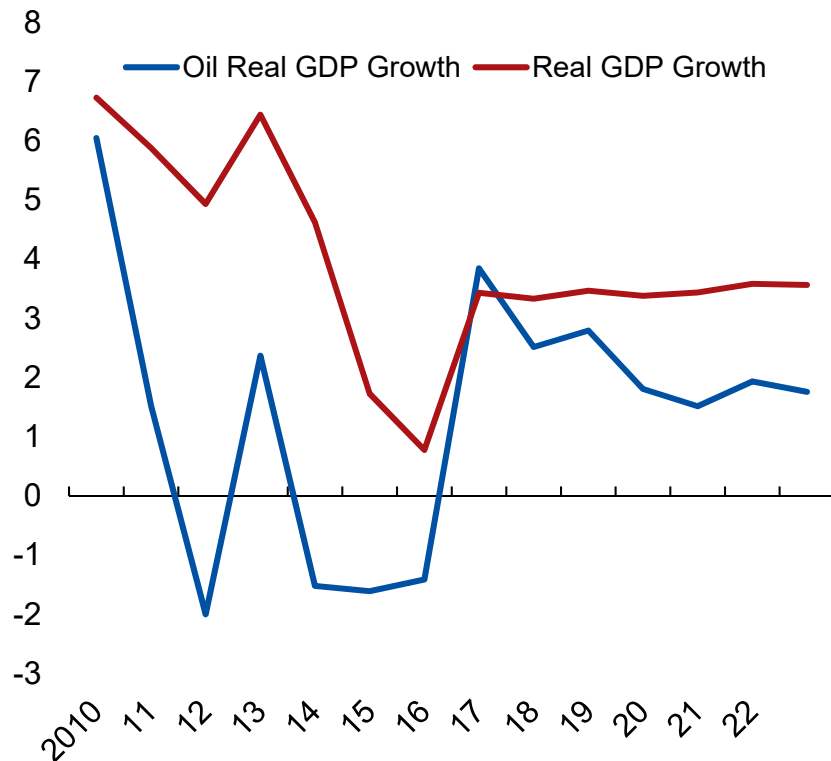


Note: The overall fiscal balance excludes the one-time fiscal transfer to the financial sector in Kazakhstan in 2017.

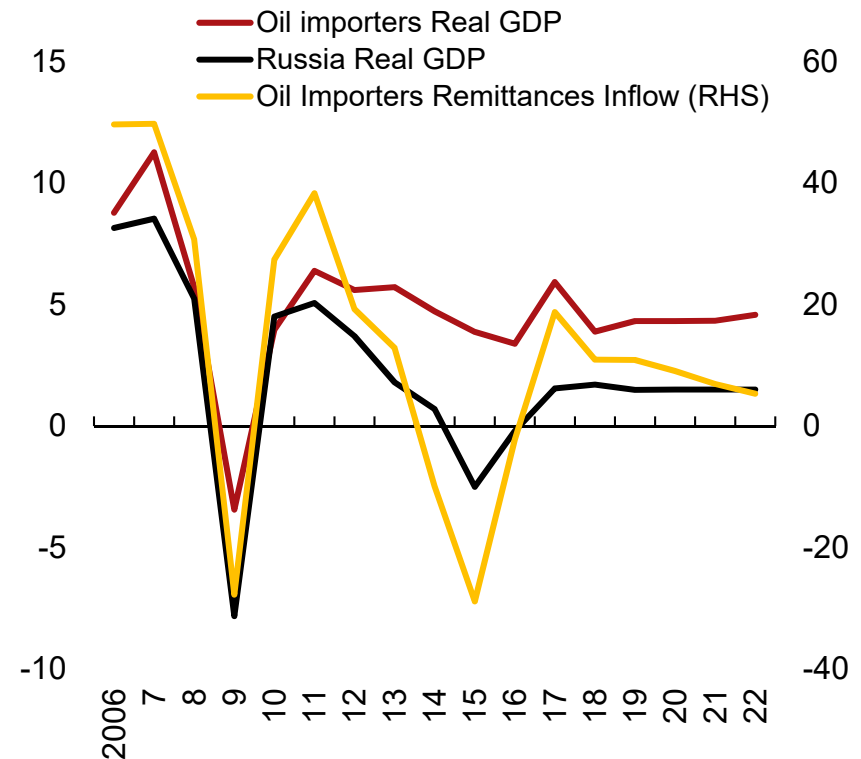


Growth is held back by dependence on commodities and remittances, ...

Real GDP and Real Oil GDP Growth in CCA Oil Exporters
(Weighted averages, percent)



Cyclicality of Remittances¹, Russia and CCA Oil Importers Growth
(Percent)

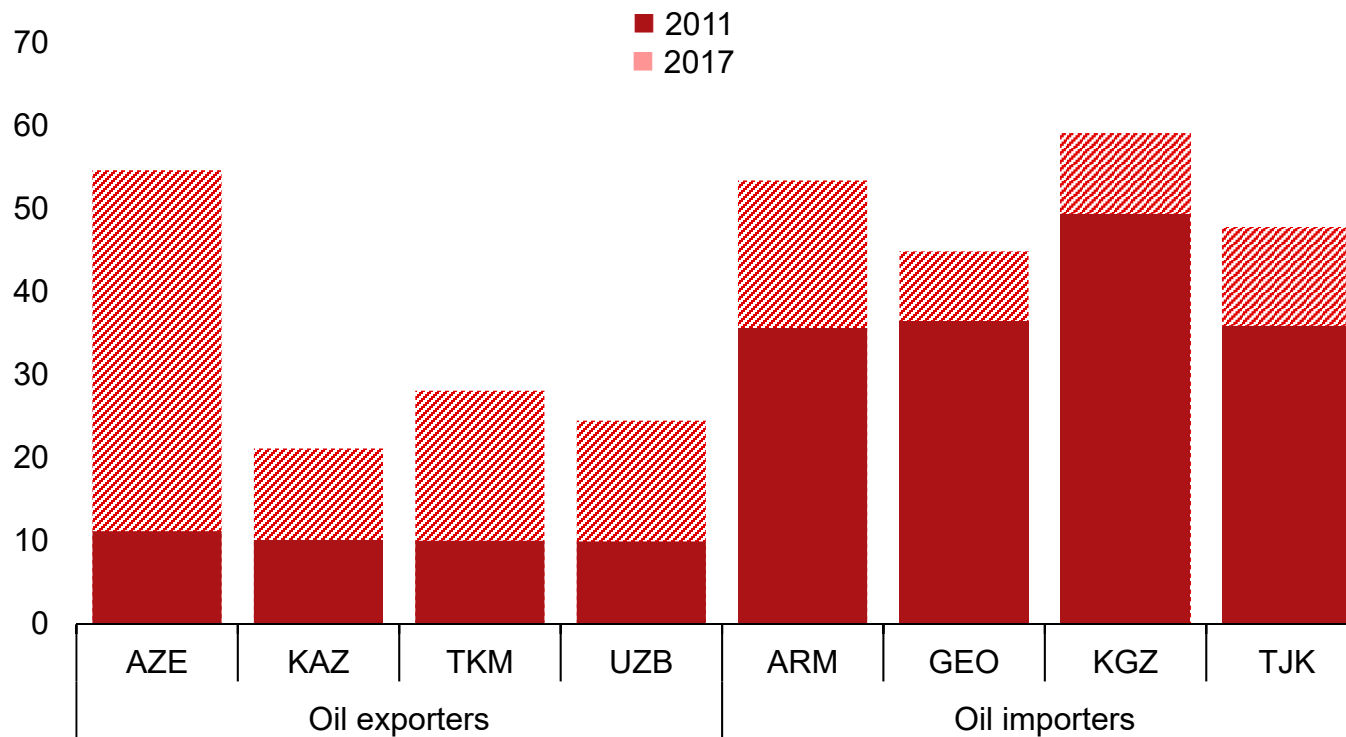


Note: ¹Remittances are in USD billions.
Real GDP growth and real oil GDP growth exclude Uzbekistan due to data availability.

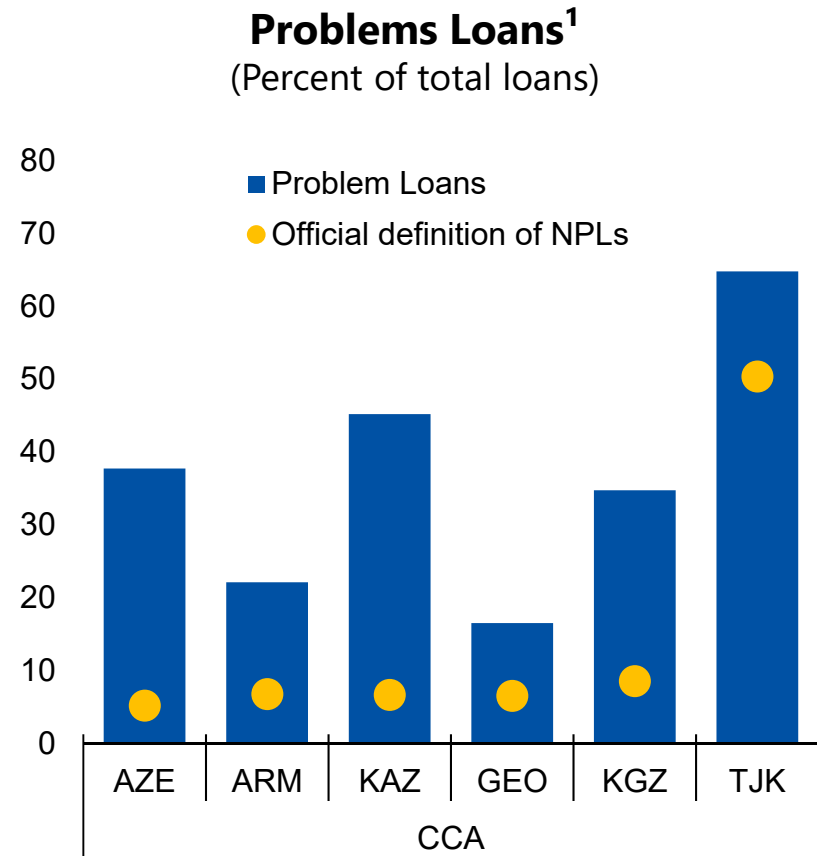
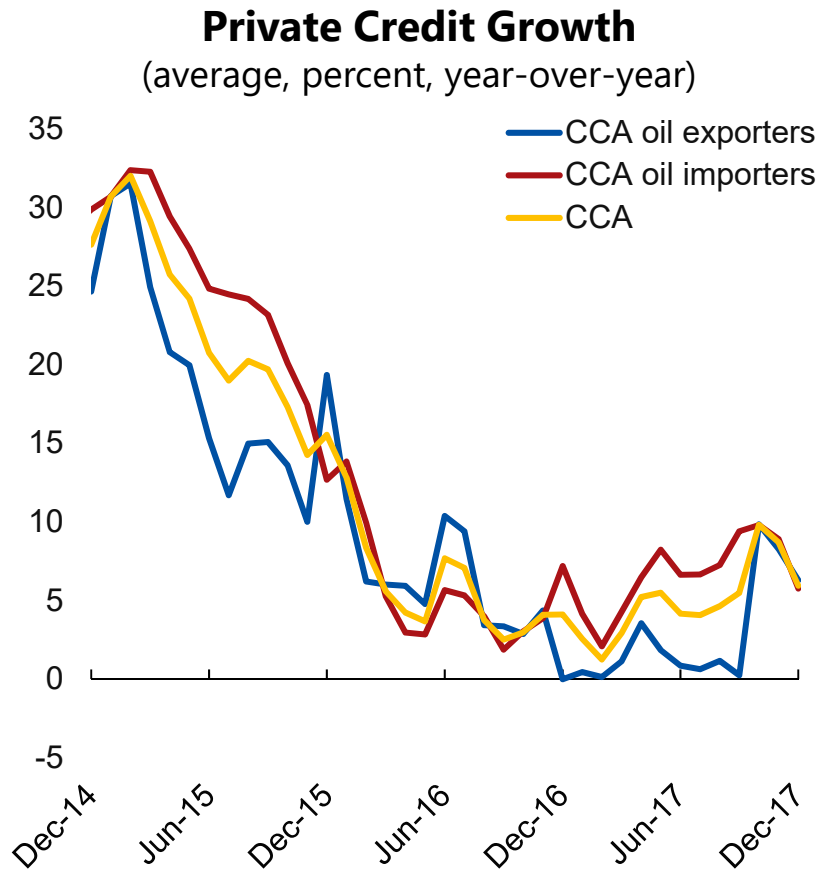


... limited room for fiscal stimulus, ...

Gross General Government Debt
(Percent of GDP)



... and financial sectors in need of repair.



Note: ¹latest available data for each country. NPL = nonperforming loans. Problem Loans include (1) overdue loans > 90 days; (2) watch loans < 90 days; (3) restructured/prolonged loans; (4) write-offs; and, (5) transfer to special-purpose vehicles or other vehicles. Credit growth chart excludes Uzbekistan.



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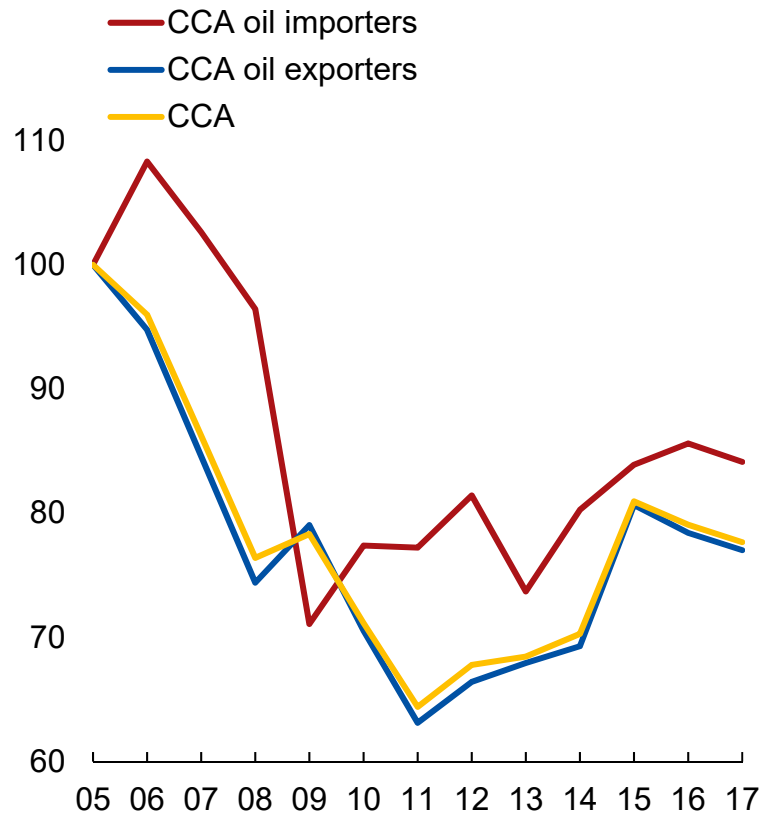


The IMF's Contribution

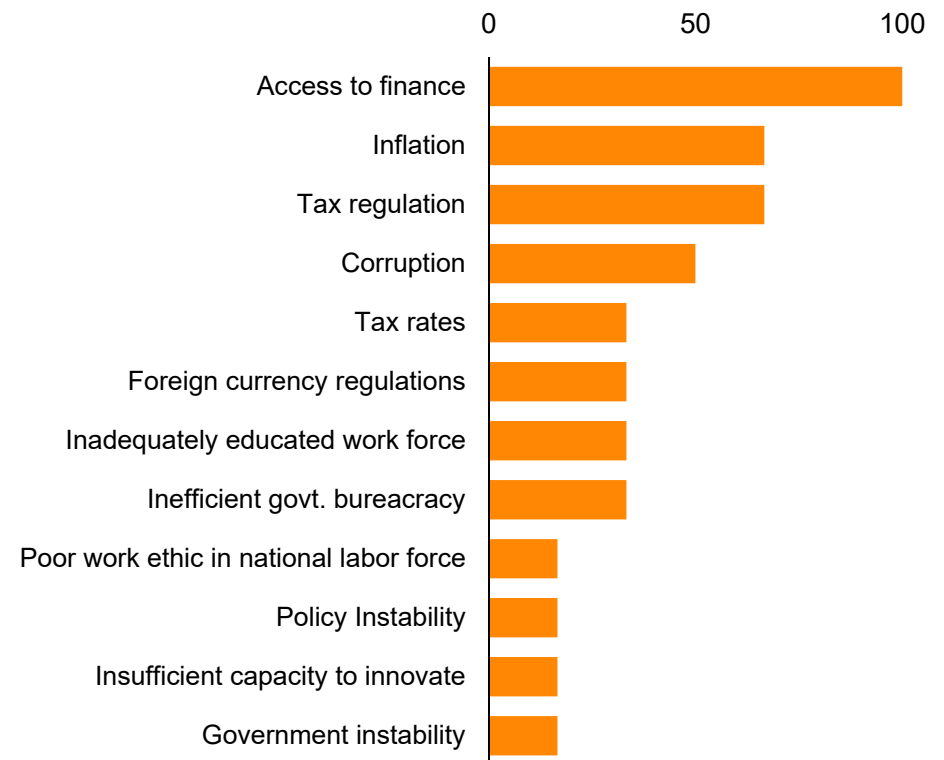


A new model of private-sector driven growth is needed ...

Private Investment
(Percent of GDP, index 2005=100)



Challenges to Doing Business
(Percent of countries identifying the constraint among the top five)



Source: World Economic Forum Competitiveness Report 2017-18.

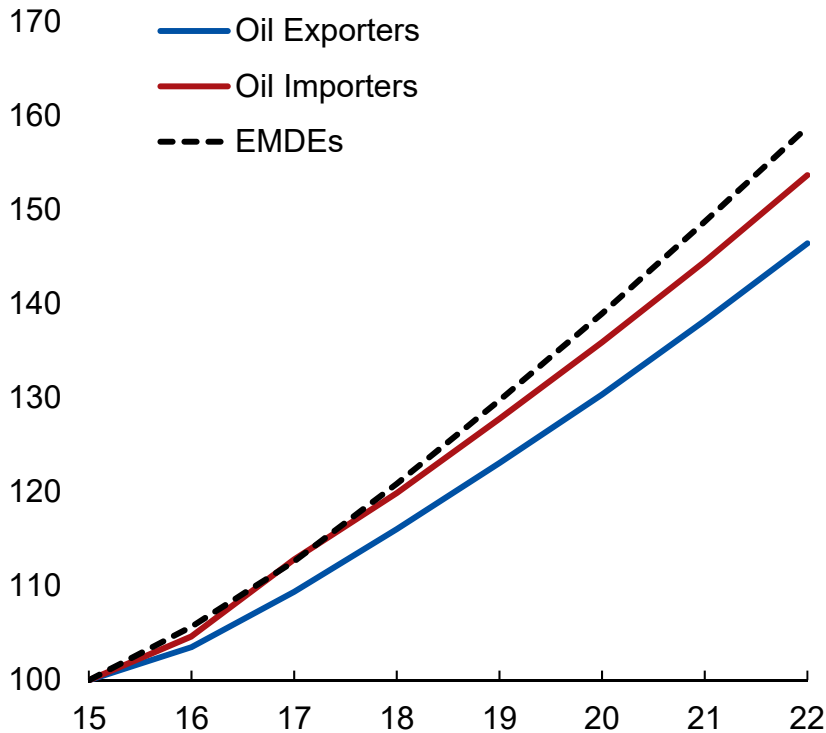


... to prevent output falling behind peers.

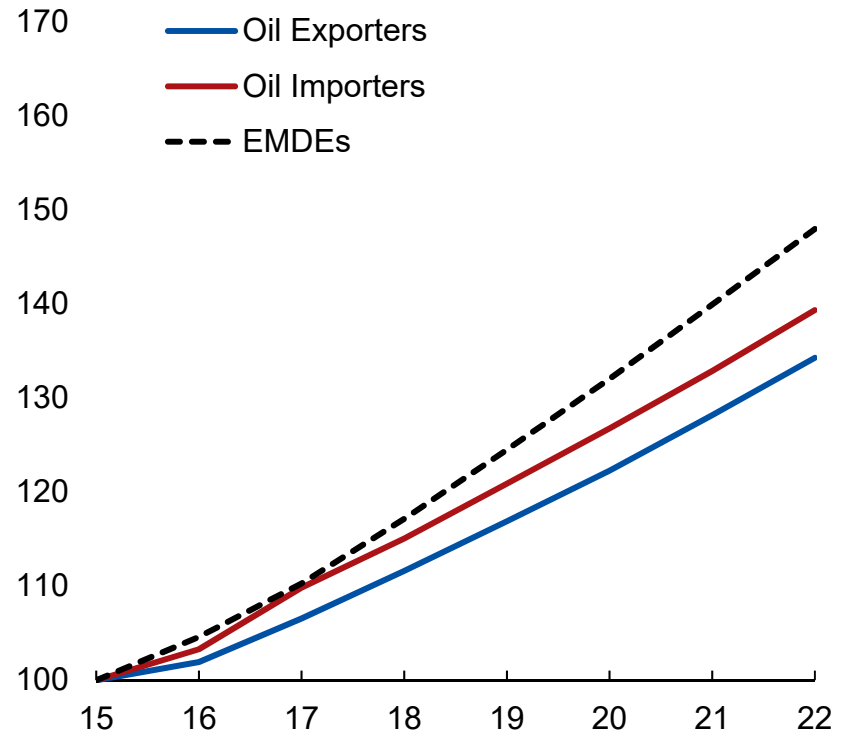
GDP Divergence

(In dollars at purchasing power parity, index, 2015 = 100)

Real GDP in PPP



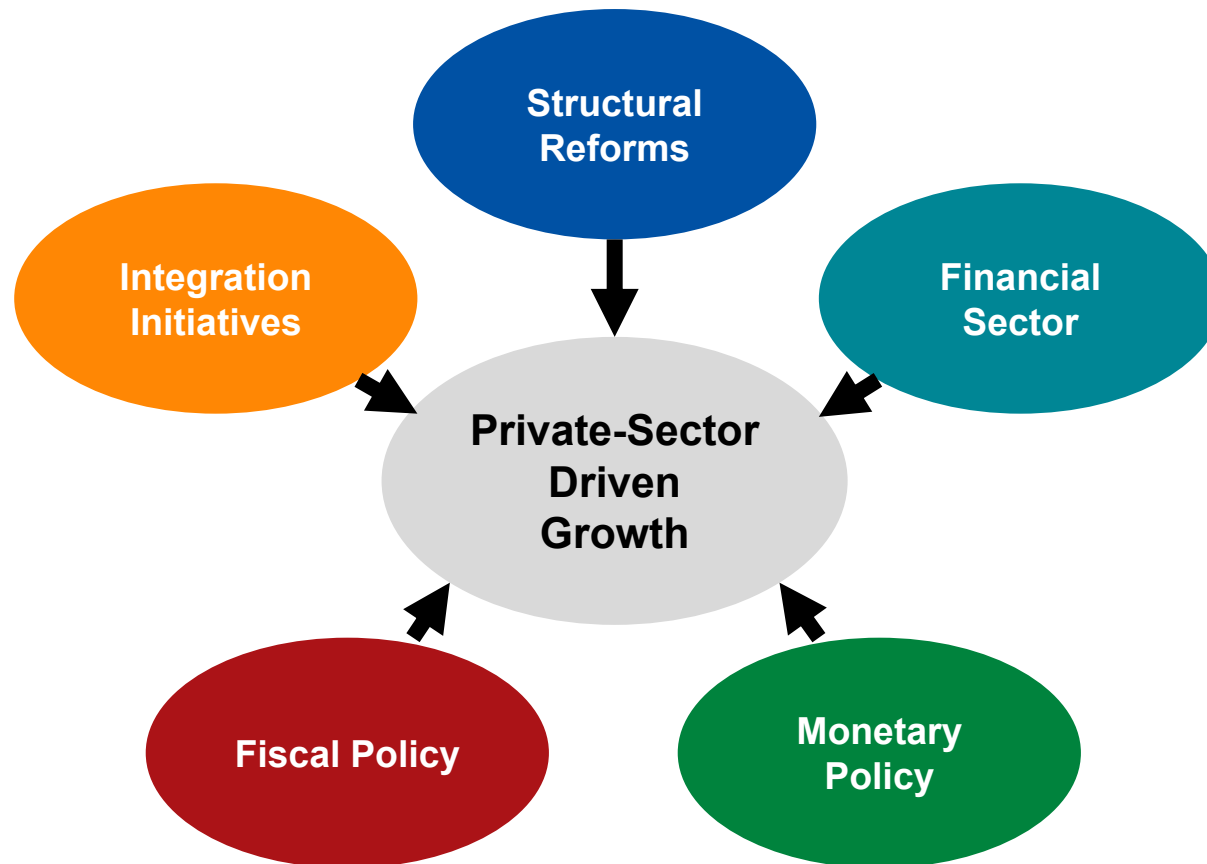
Real per Capita GDP in PPP



Note: EMDEs = Emerging Market and Developing Economies.



A comprehensive set of policies are needed to support this transition.



This includes: rebuilding buffers within a comprehensive fiscal plan, ...

Overview of Fiscal Management Frameworks

	Fiscal Rules	Medium-term fiscal framework
Armenia	Yes	Yes
Azerbaijan	In progress	No
Georgia	Yes	Yes
Kazakhstan	Yes	Yes
Kyrgyz Republic	In progress	No
Tajikistan	No	Yes
Turkmenistan	Yes	No ¹
Uzbekistan	Yes	No

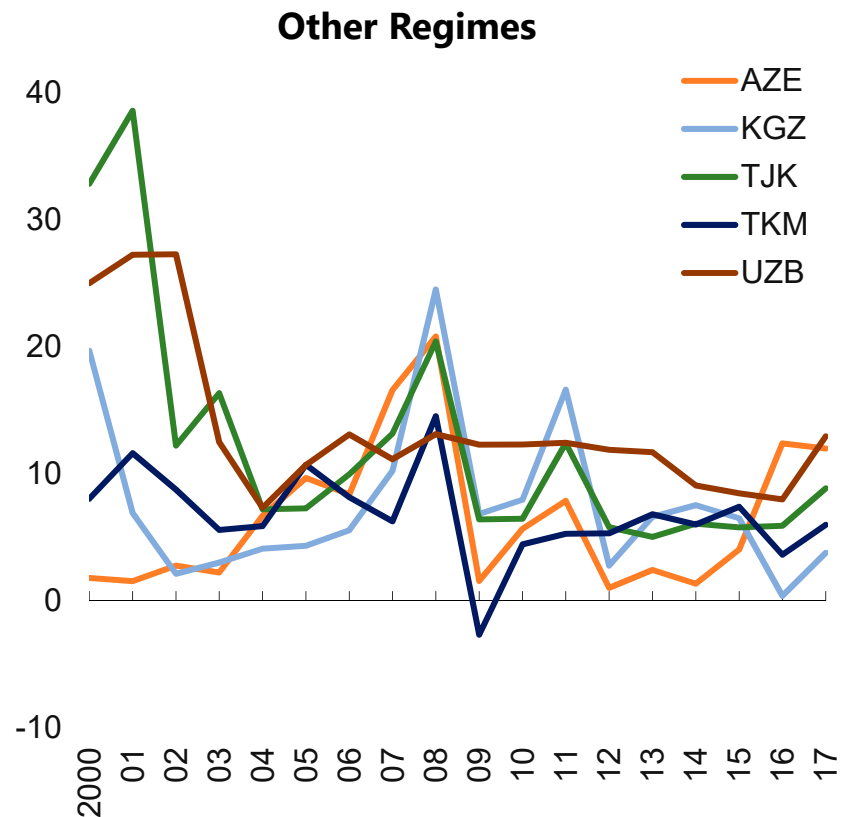
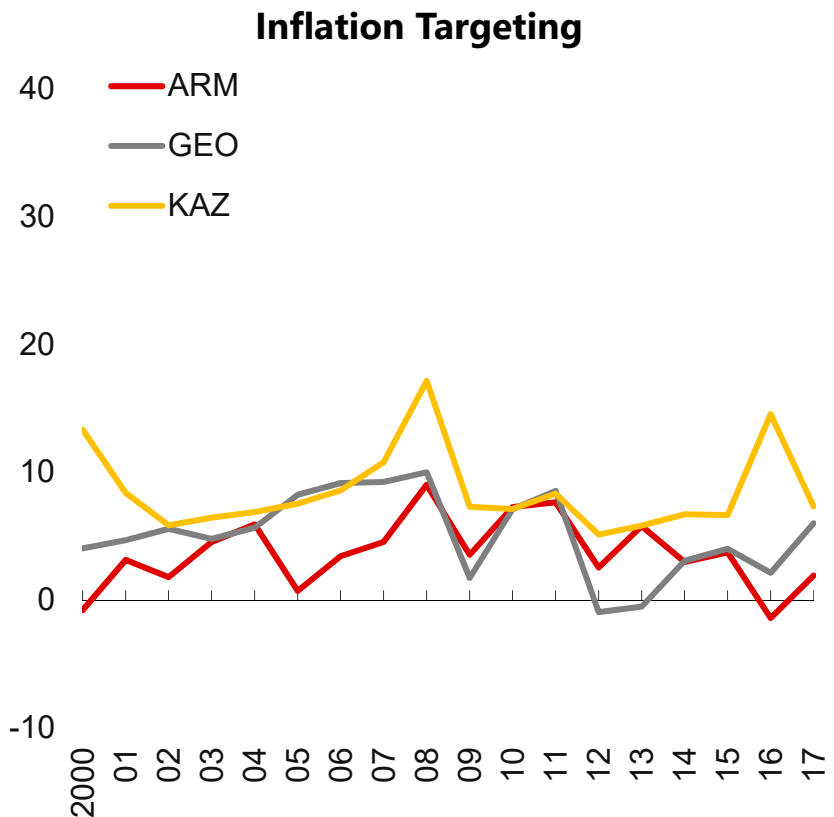
¹ Medium-term budgeting is planned to be introduced in 2019.

Note: Fiscal rules are a mechanism for placing durable constraints on fiscal discretion through procedural and numerical limits on budgetary aggregates. Medium-term fiscal frameworks consist of institutional arrangements and procedural or numerical rules that provide incentives for overcoming the deficit bias.



... strengthening monetary institutions, ...

Inflation 2000-17
(CPI, percent change, year average)



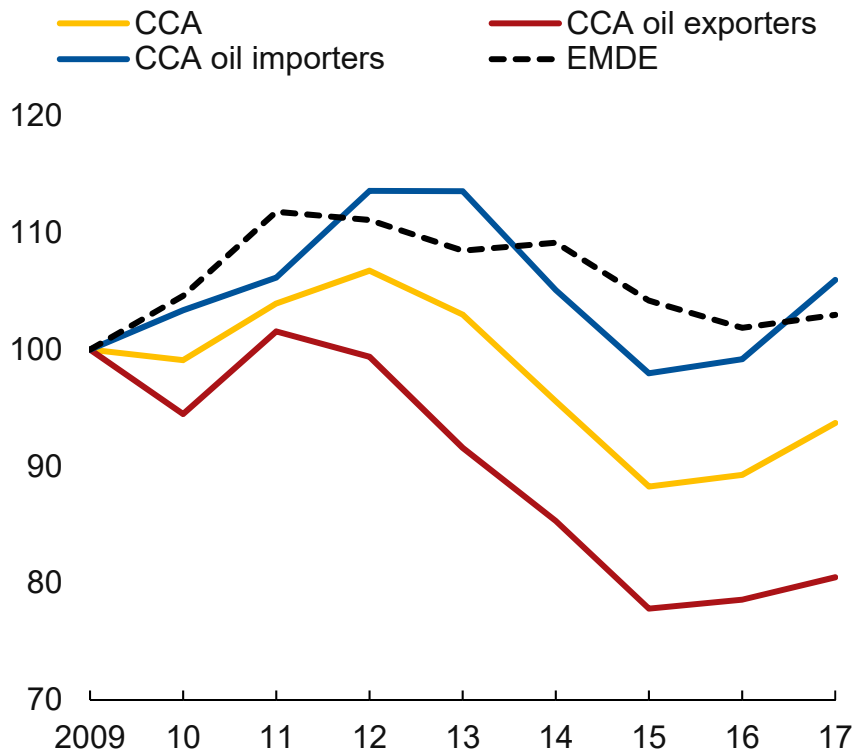
Note: CPI = Consumer Price Index.



... and taking advantage of regional integration opportunities.

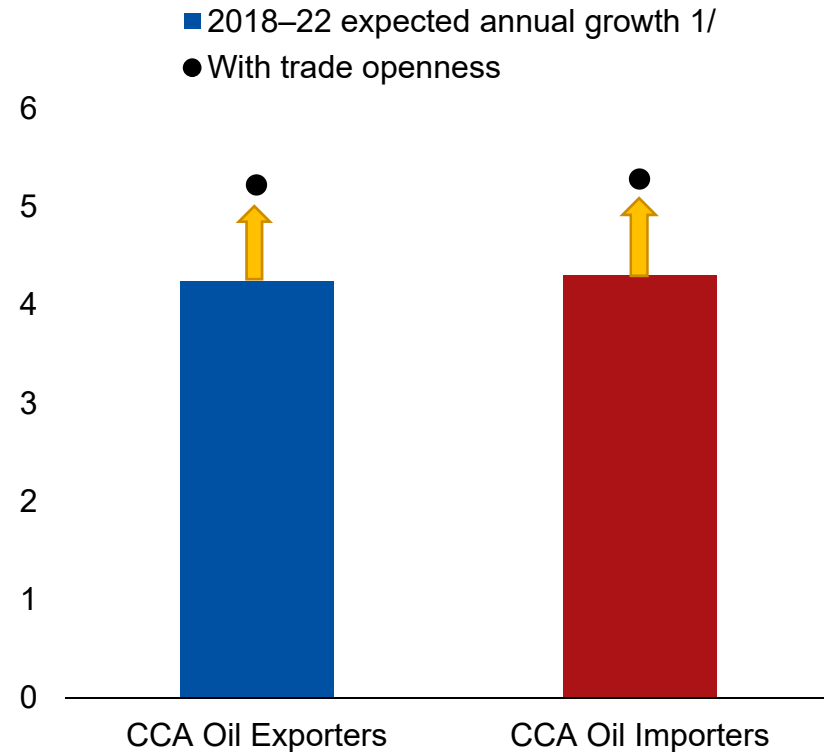
Trade Openness

(Index 2009=100 of the sum of exports and imports as a percent of GDP in nominal terms)



Estimated Contributions of Trade Openness to Growth

(Percent)



Note: ¹2018–22 expected annual growth is used as a proxy for long-term growth.

For more information see Oct. 2017 MCD REO Chapter 4.



Case study: Reform in Uzbekistan

Past constraints on growth

- State intervention via regulation and state monopolies
- Fixed exchange rate, foreign exchange restrictions
- Inefficient import substitution

2017 reform plan

- Remove exchange controls
- Price & trade liberalization
- Public investment in transport & utility networks
- Fewer visa restrictions for foreigners

Outcomes

- Stimulate private sector growth
- Increased trade through better integration
- Positive spillovers for the region.



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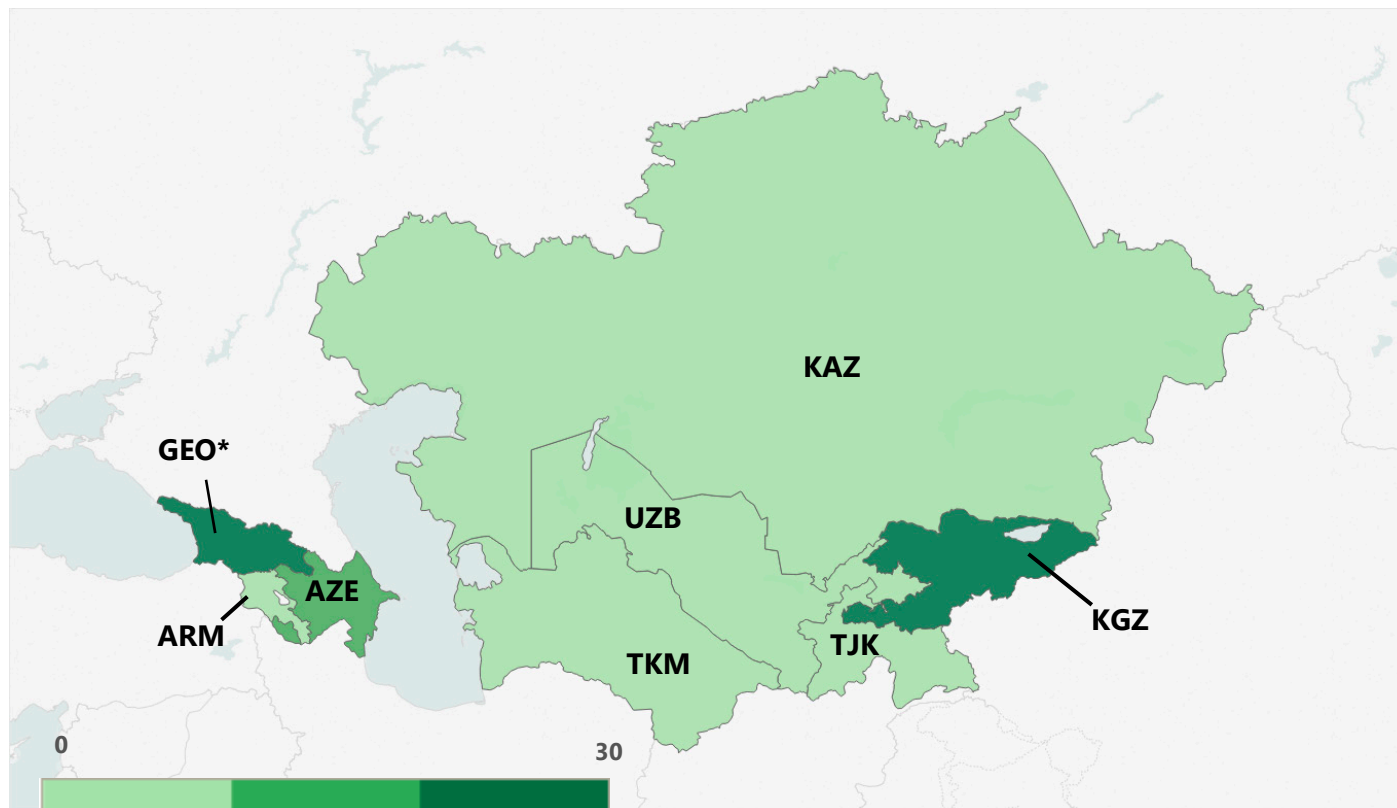


The IMF's Contribution



The IMF's role in supporting reform

IMF Programs and Technical Assistance



(TA in Person-Months of Field Delivery, 2017)

* Georgia has a three-year program which started on April 12, 2017.



Takeaways:

- Growth picked up in 2017, but is expected to moderate over the medium term.
- A new model of private sector-led growth is needed to prevent the region from falling behind peers.
- Policy priorities are structural reform, comprehensive fiscal plans, strong monetary institutions, more resilient financial sectors, and increased regional integration.

