



Caucasus and Central Asia Regional Economic Outlook

NOVEMBER 2018

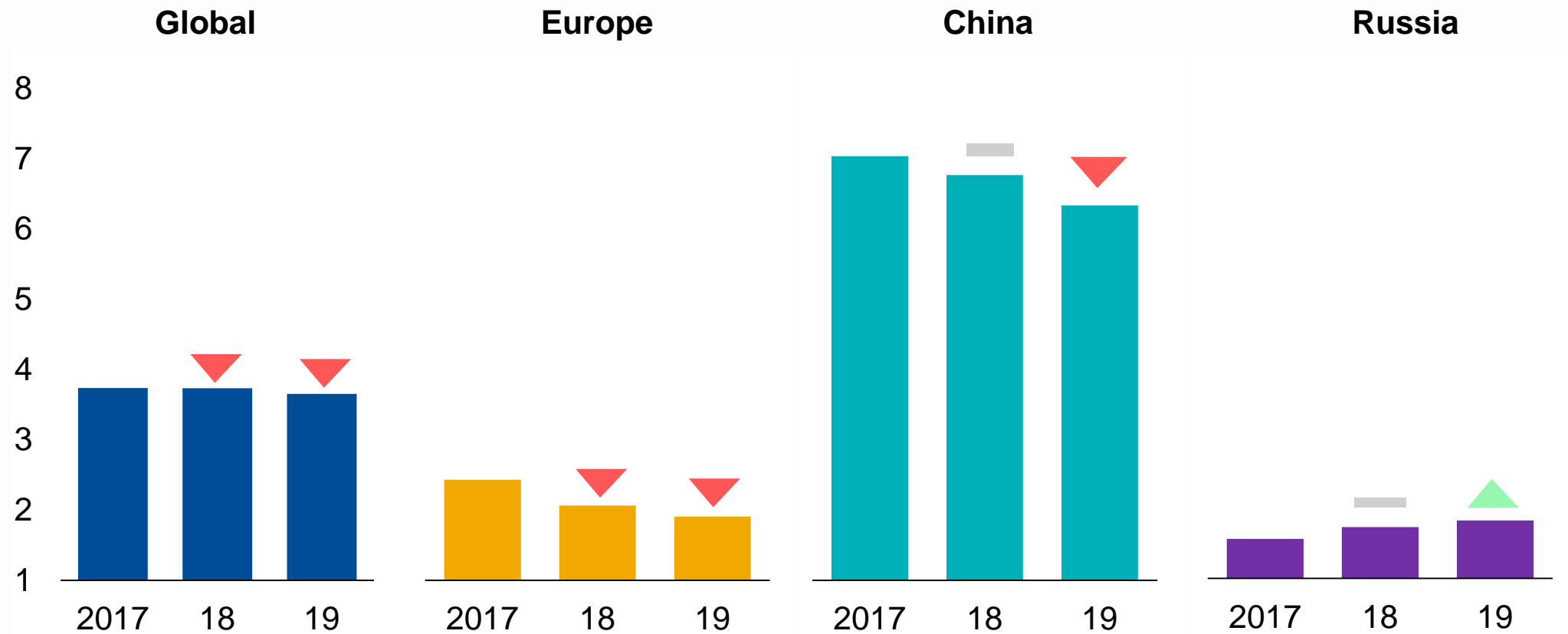
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Department

A Changing Environment

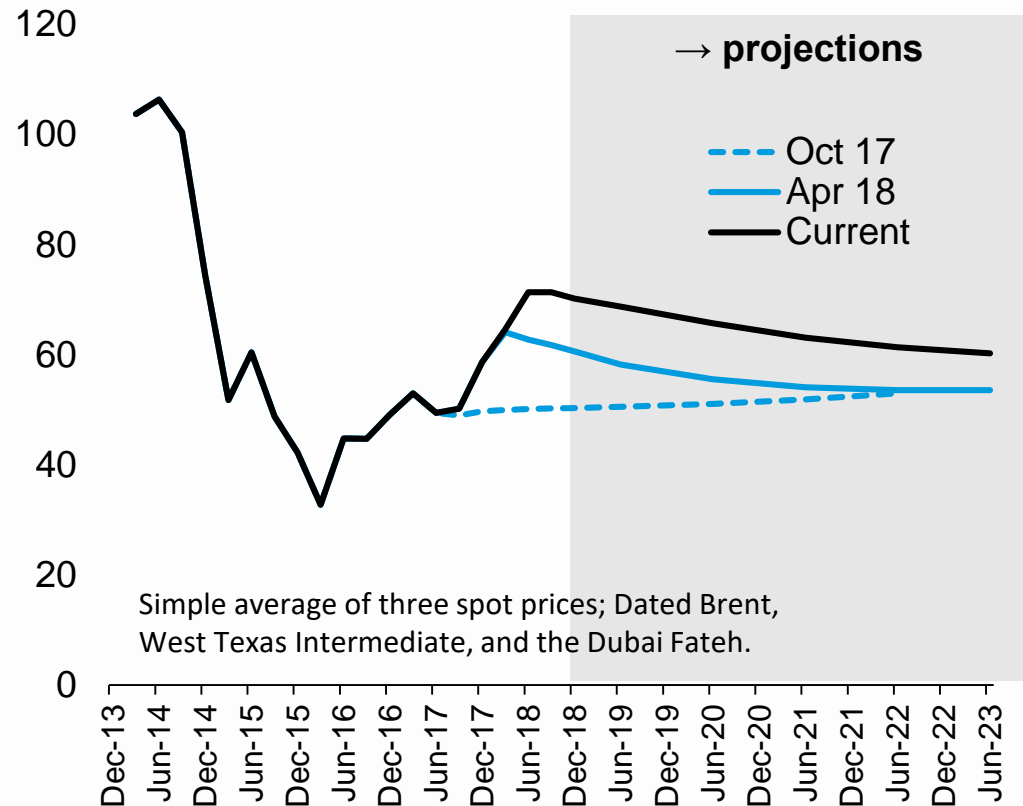
Global growth prospects are weakening

Real GDP Growth of Trading Partners
(Arrows represent direction of revision since April 2018 WEO)



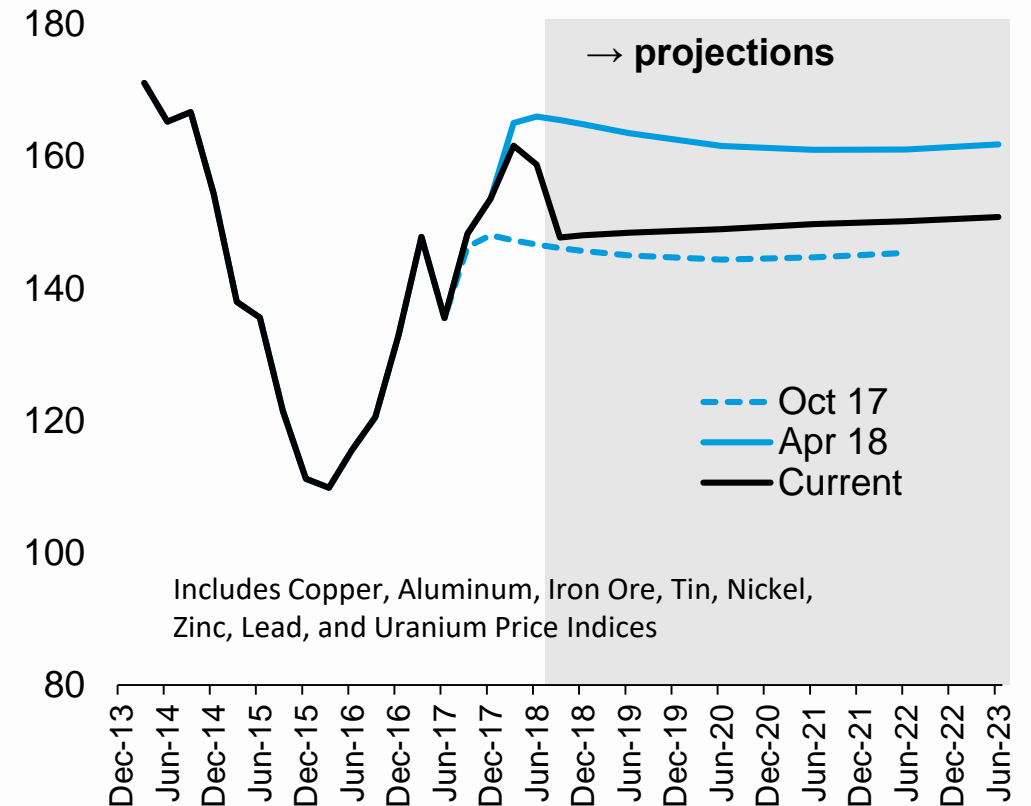
The recent surge in commodity prices is expected to fade

Crude Oil APSP (US dollars per barrel)



Sources: IMF Global Assumptions.

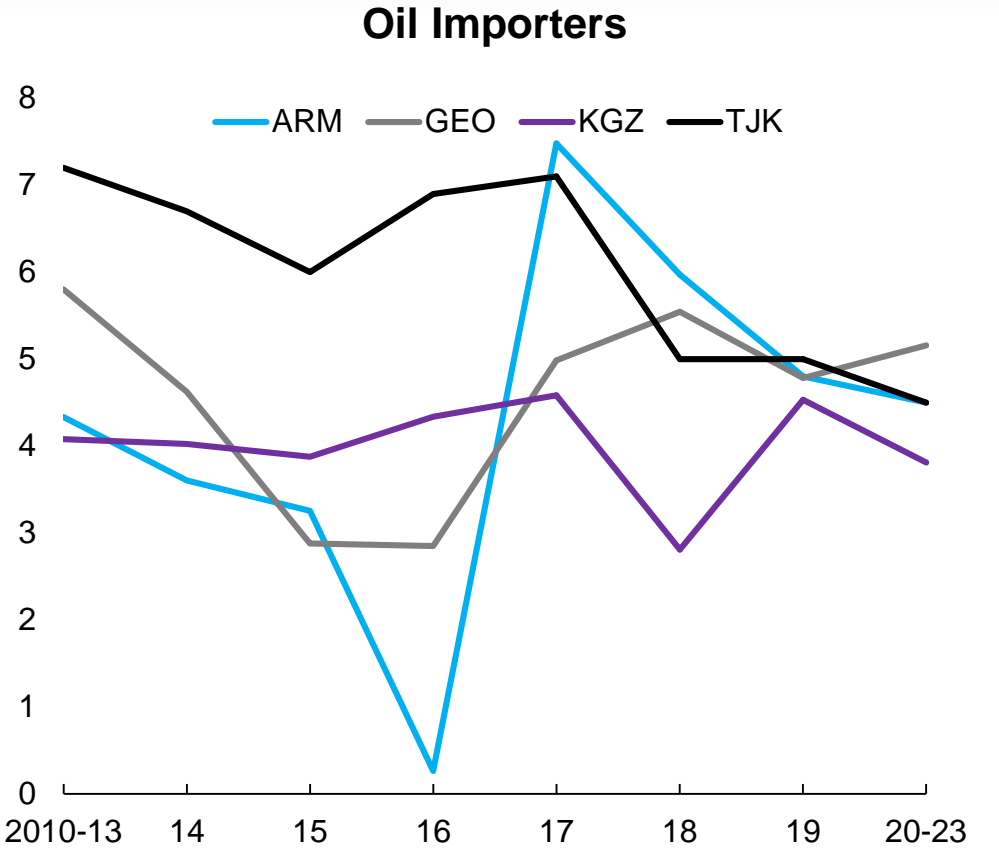
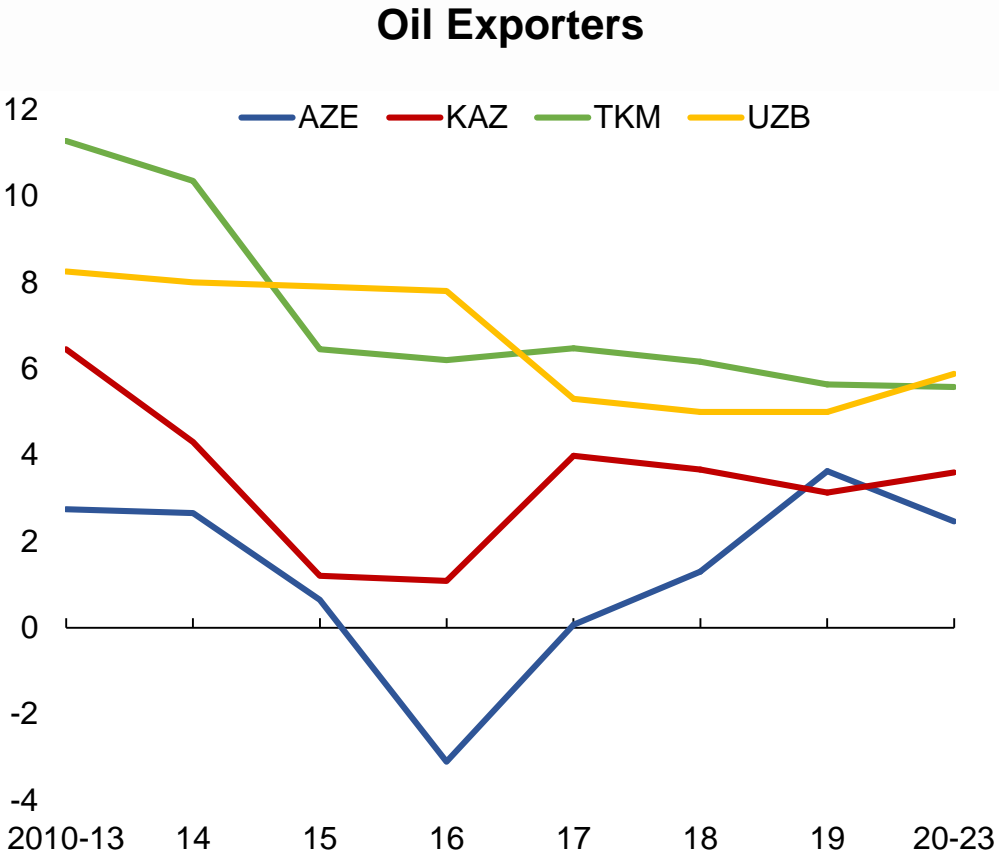
Metals (Index, 2005 = 100)



Regional Outlook

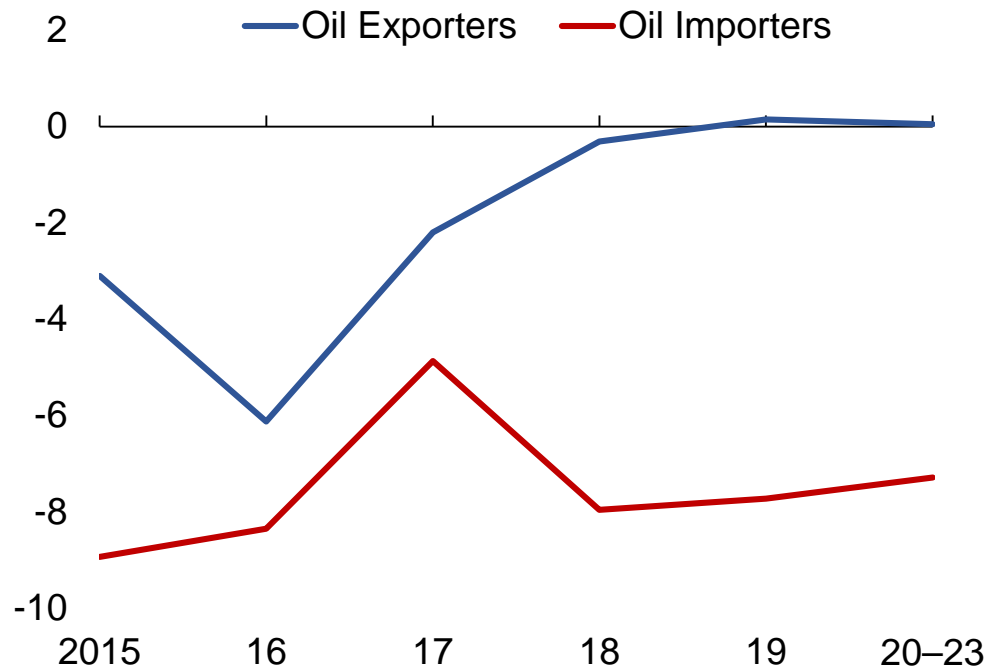
Modest growth underway, with some variation across countries

Real GDP Growth (Weighted average, percent)

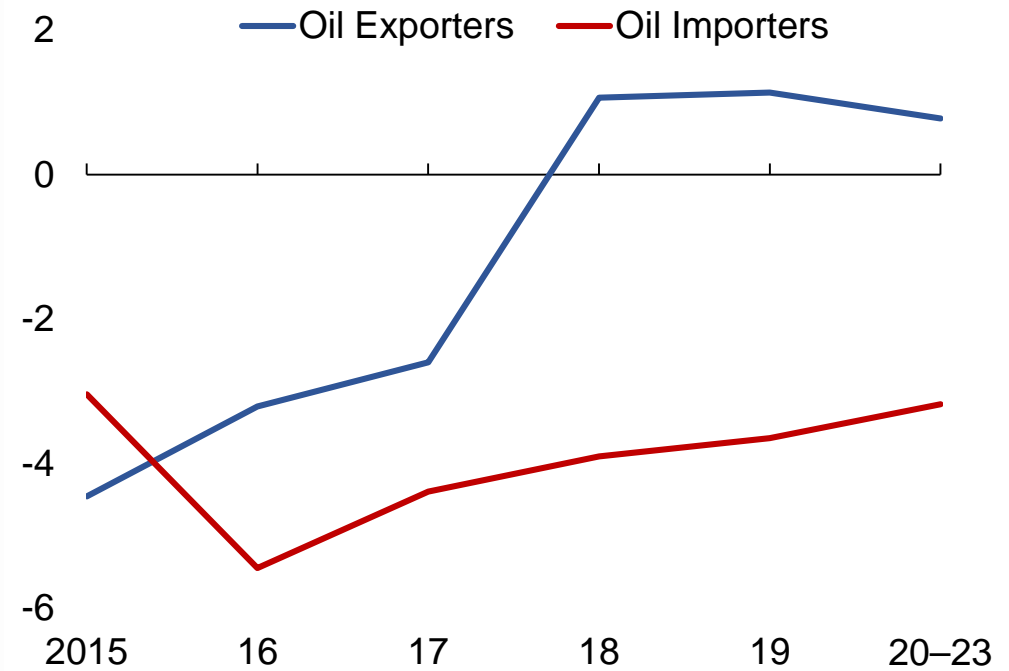


Improved external and fiscal balances, thanks to higher oil prices and fiscal consolidation

Current Account Balance
(Weighted average, percent of GDP)



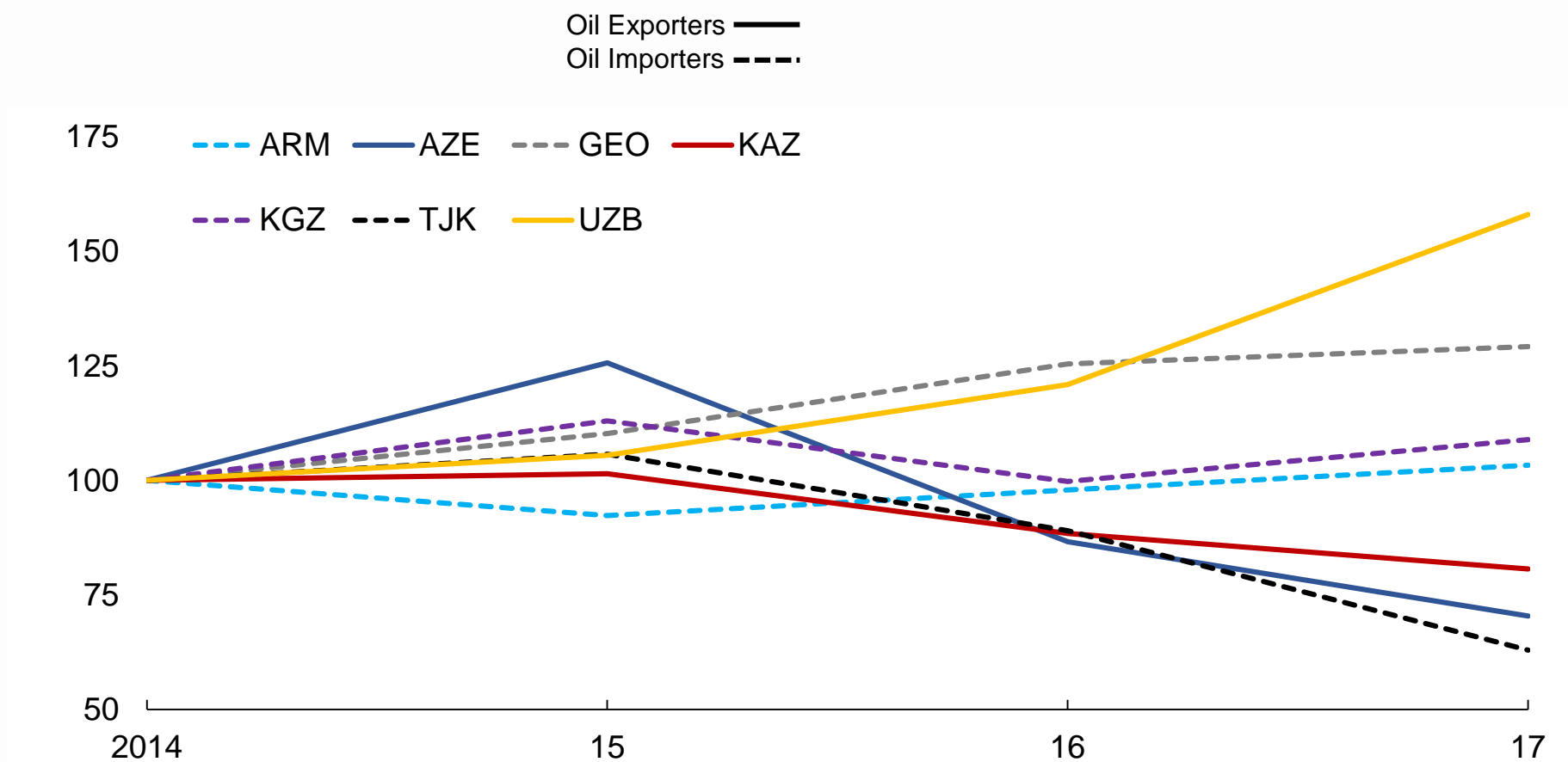
Overall Fiscal Balance¹
(Weighted average, percent of GDP)



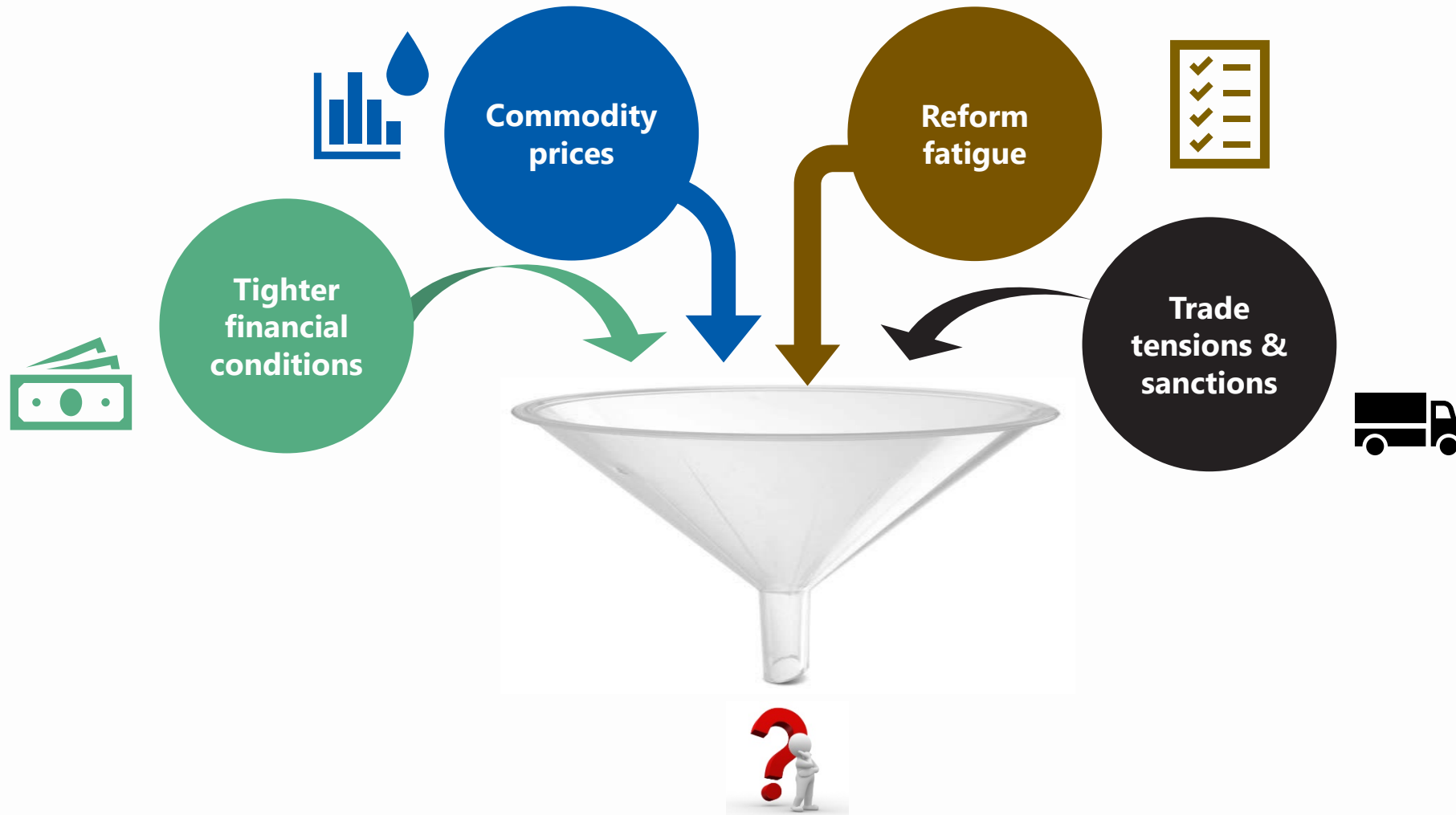
Note: ¹For Kazakhstan, the overall fiscal balance excludes the one-time fiscal transfer to the financial sector in 2017.

Weak banking sectors hold back credit growth

Credit to the Private Sector
(Percent of GDP, Index: 2014 = 100)

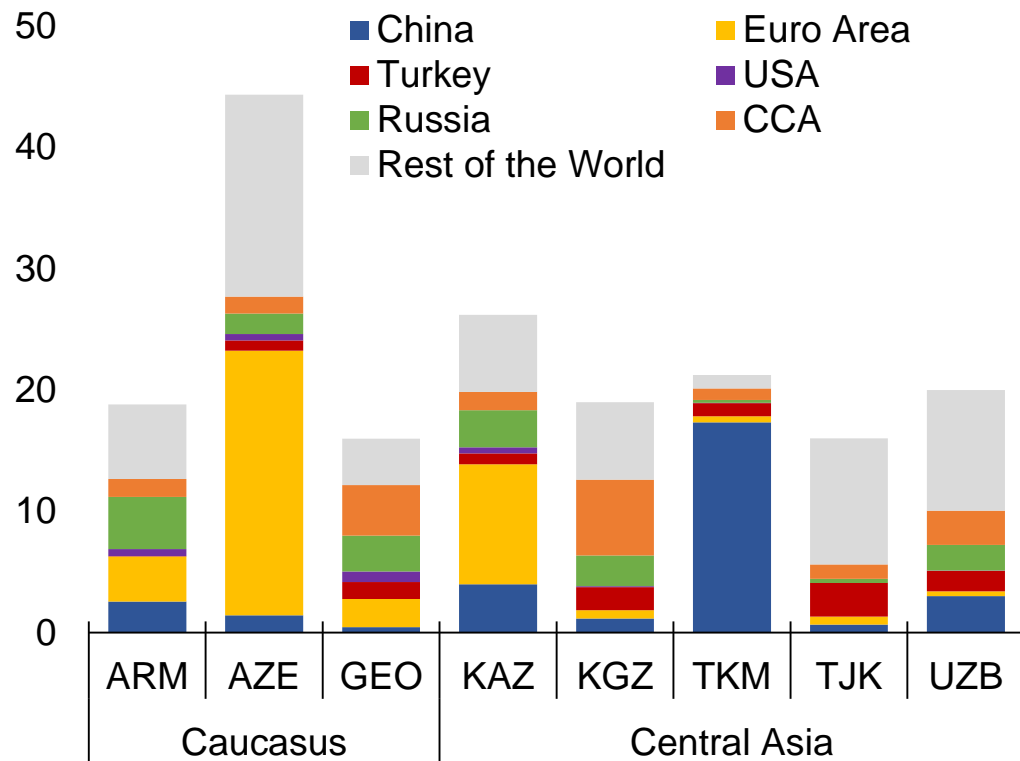


The region faces multiple and intertwined risks

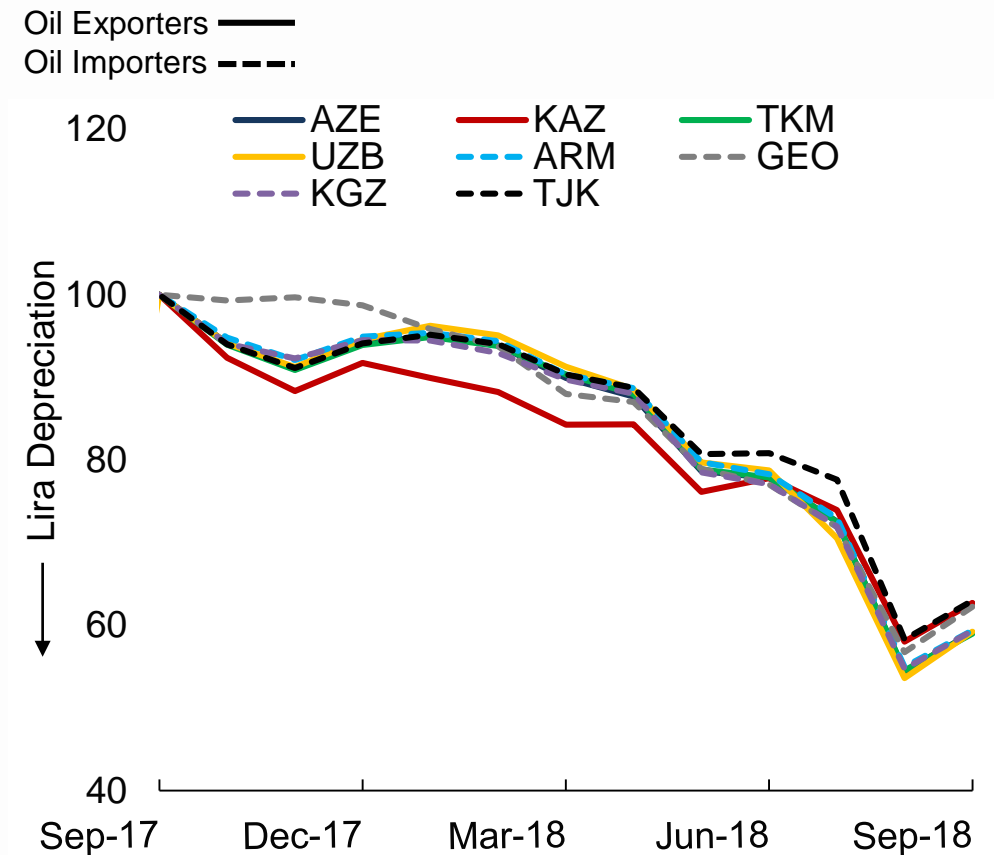


Direct impact from trade tensions potentially small, but indirect effects could be large

Exports of Goods 2017
(Percent of GDP)



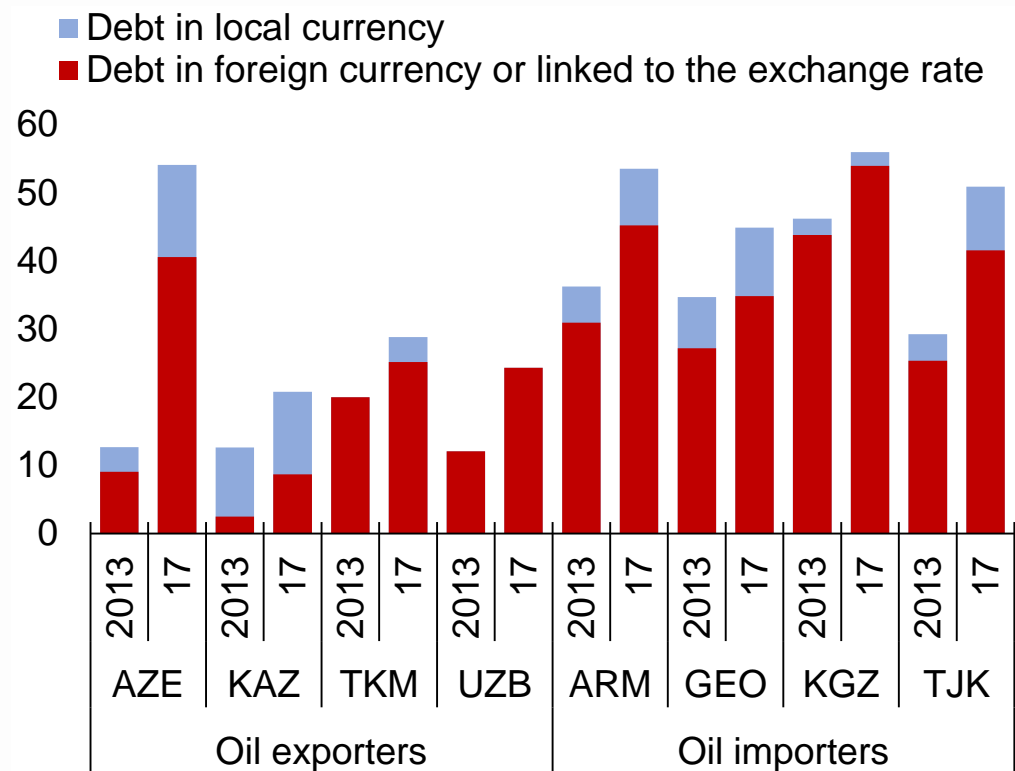
Exchange rate versus Turkish Lira
(National currency per Turkish Lira, September 2017 = 100)



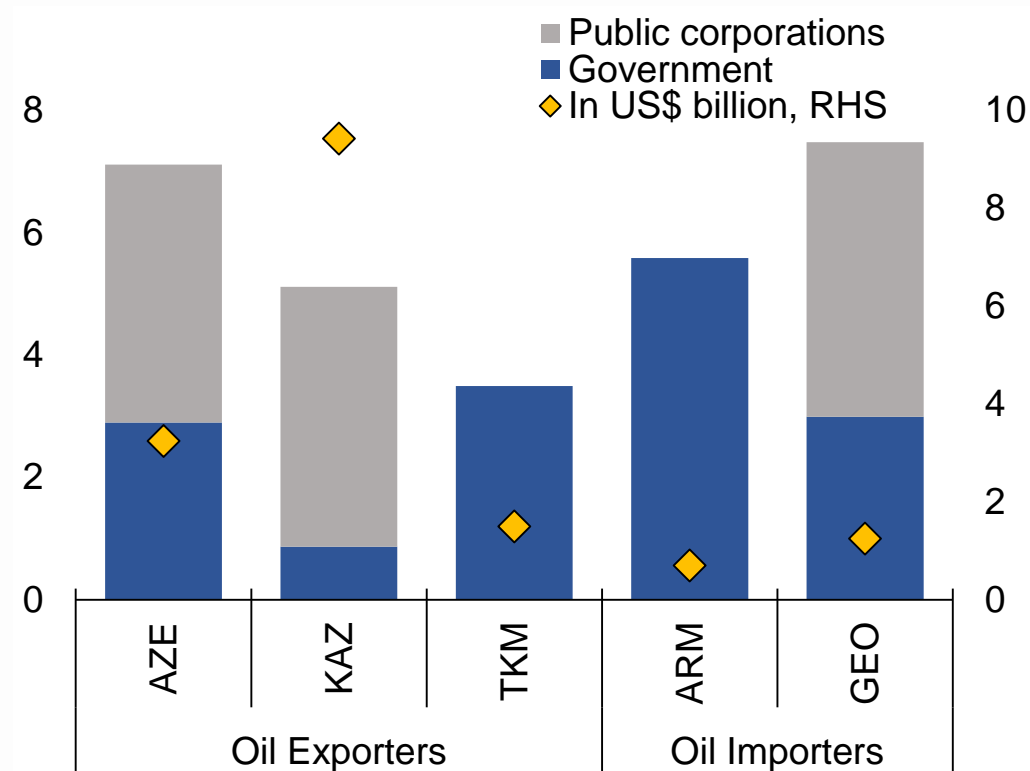
Source: IMF DOTS, Haver Analytics and IMF staff calculations.

Fiscal risks rising in some countries

Gross General Government Debt (Percent of GDP)



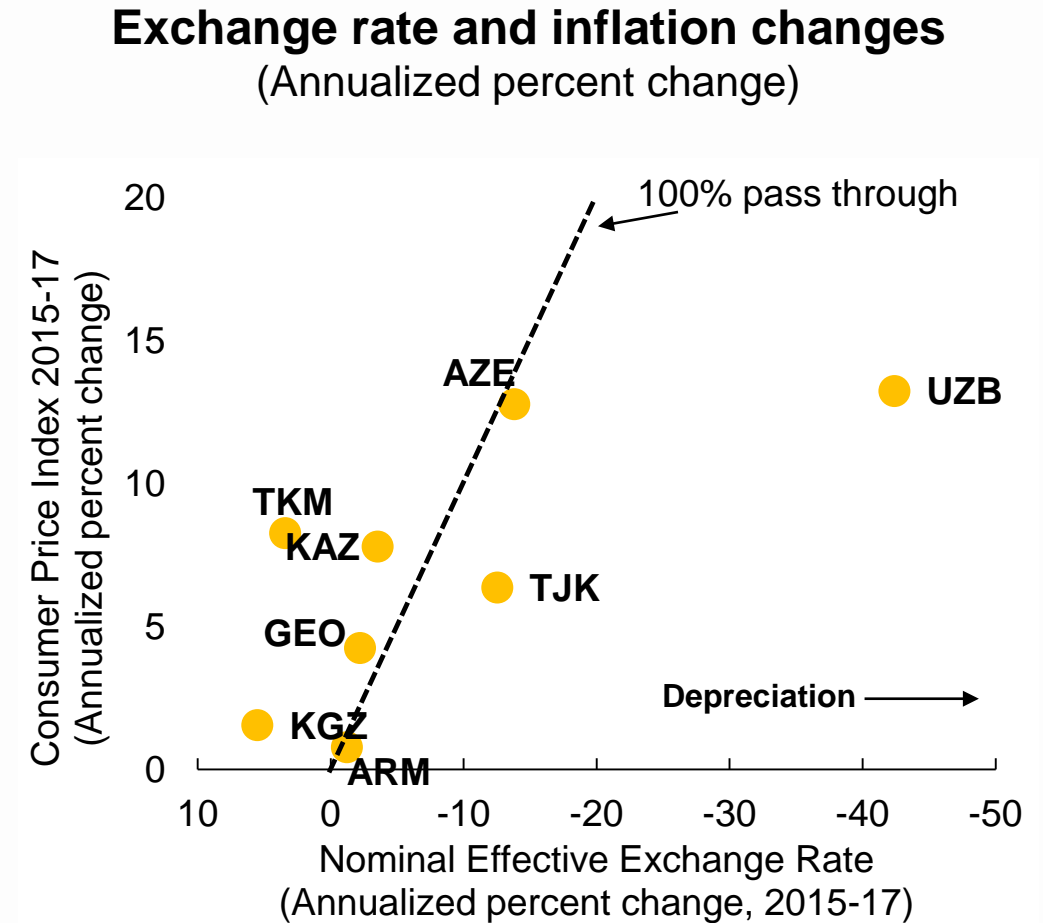
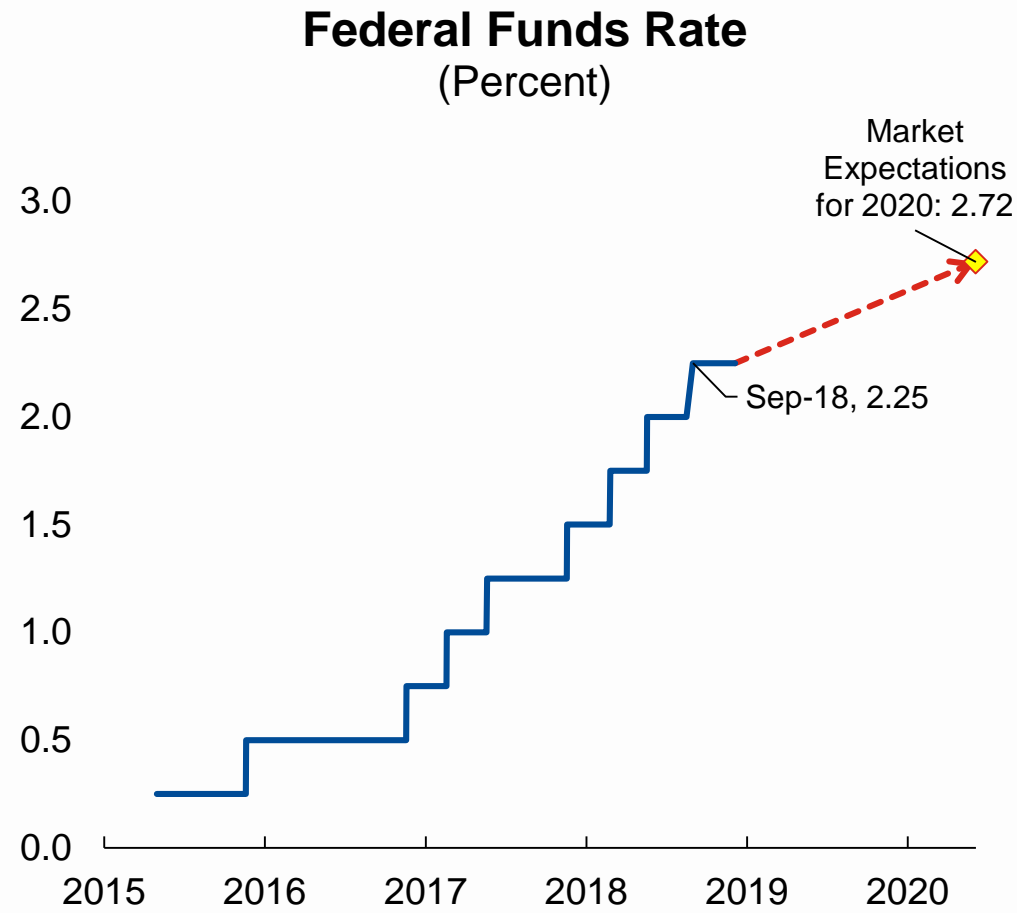
Syndicated Loans and Bonds Maturing in 2019-23 (Percent of GDP, US\$ billion)



Source: National authorities, Dealogic and IMF staff calculations

Addressing near-term challenges

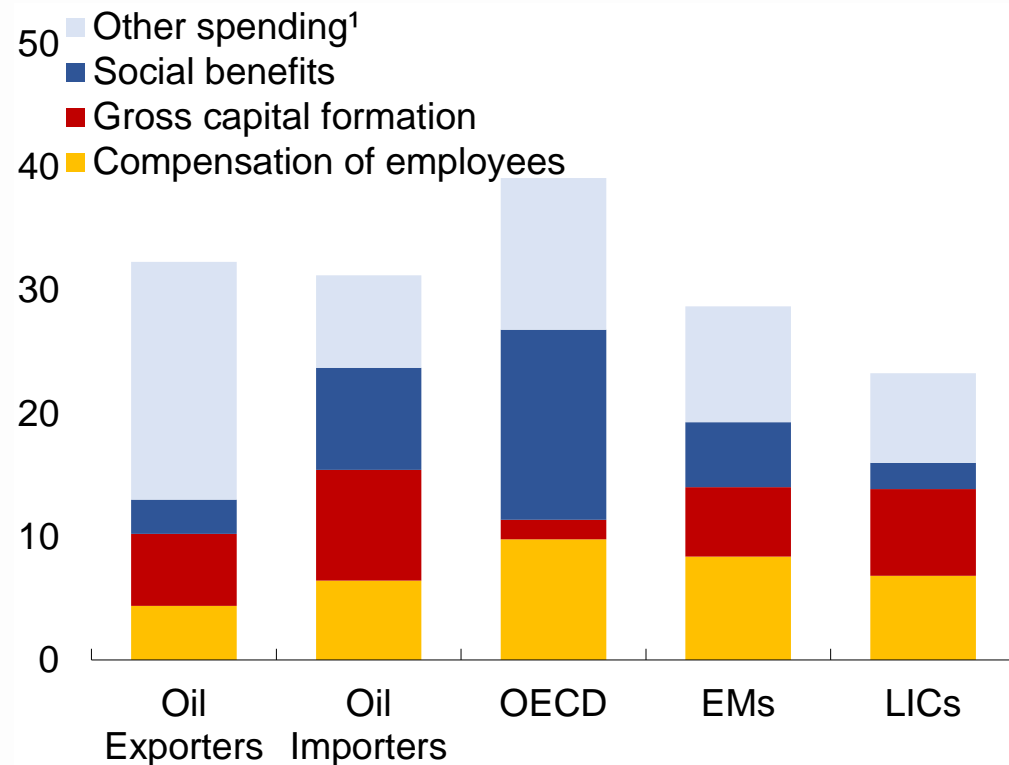
External developments will limit monetary policy choices



Fiscal adjustment should be more equitable and growth-friendly

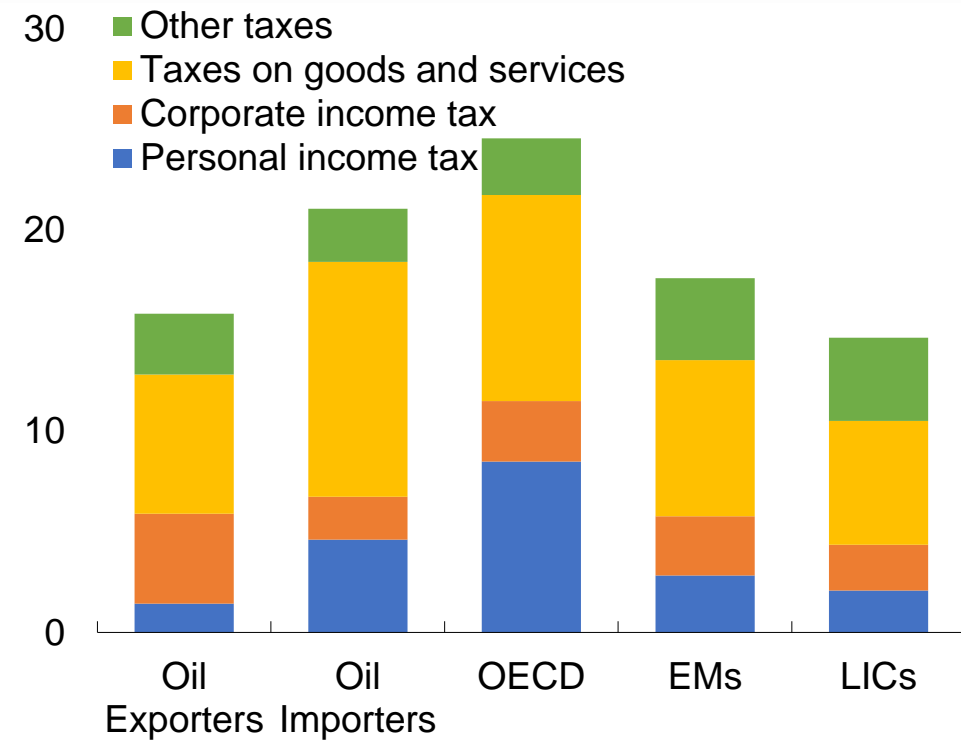
Composition of expenditure items

(Averages 2017, percent of non-oil GDP)



Composition of taxation items

(Averages 2017, percent of non-oil GDP)



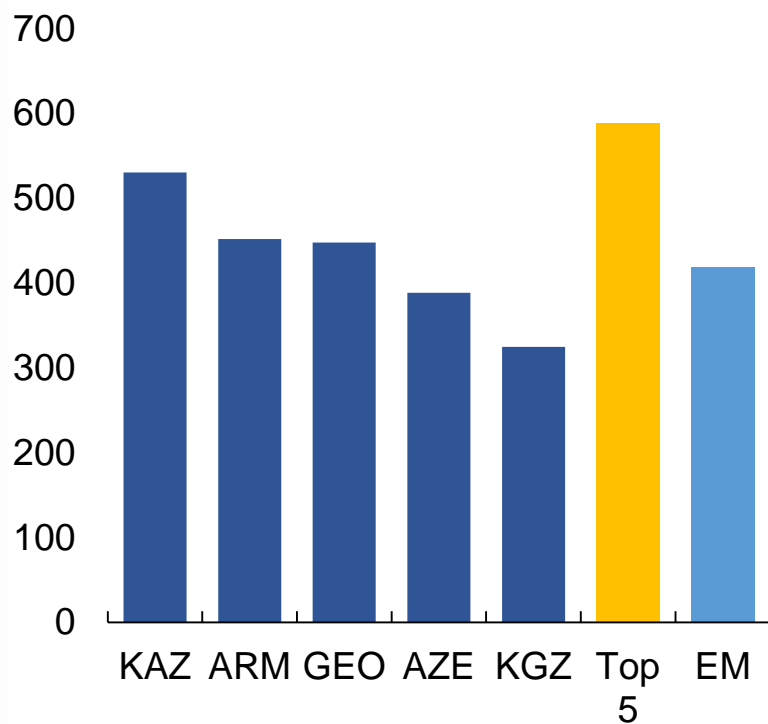
Sources: National authorities, and IMF staff calculations.

Note: ¹Other expenses include defense, consumption of fixed capital, subsidies, grants and other expenses.

Need to focus on high-quality investment in human and physical capital

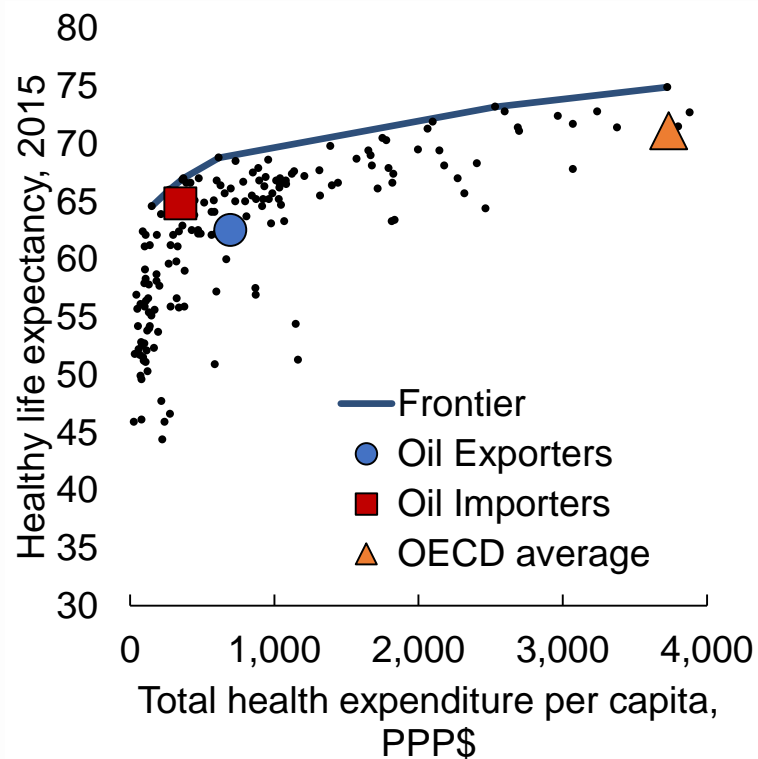
Student Performance

(Latest Available TIMSS or PISA scores, simple averages)



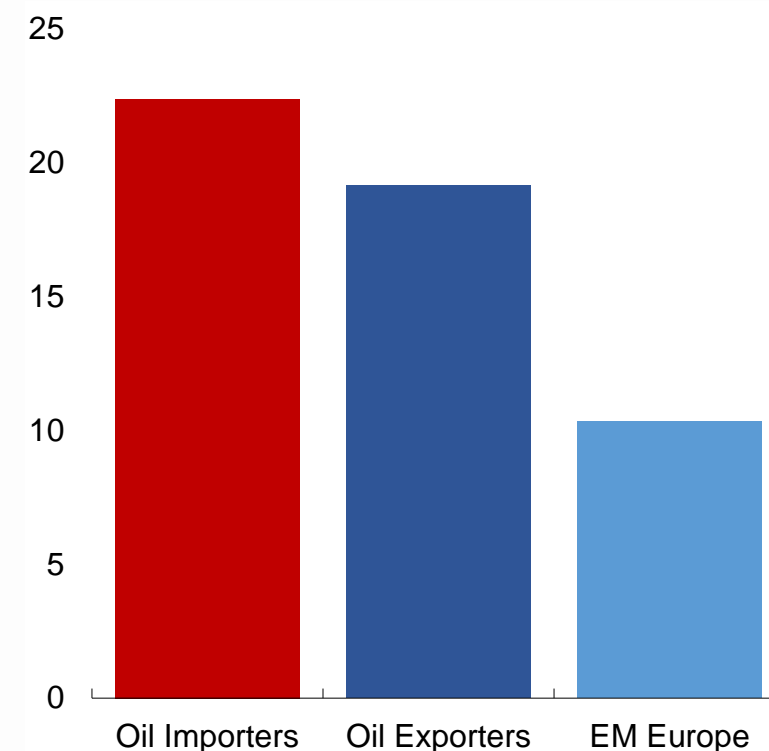
Health Efficiency Frontier

(Last available value)



Total Investment Needs, 2018 – 22

(Percent of GDP per year)

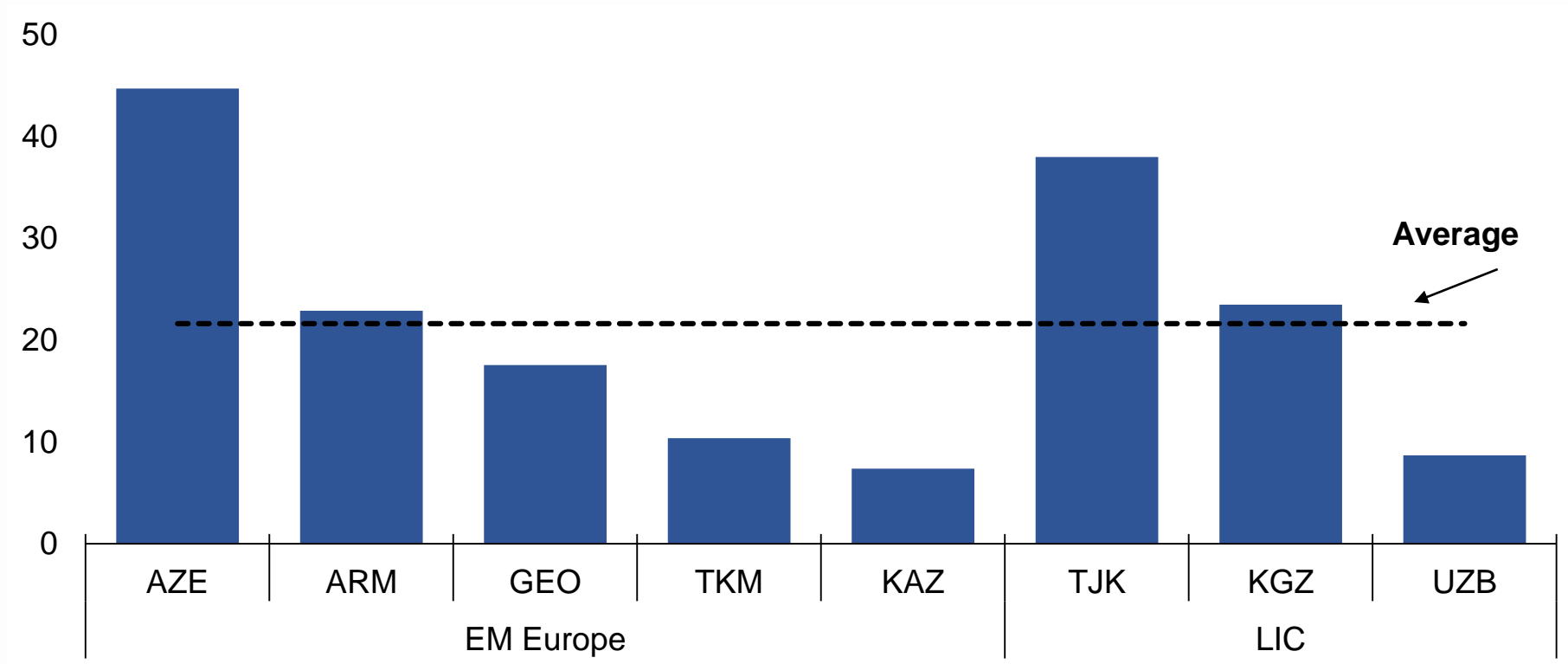


Sources: Sources: EBRD Transition Report 2017-18, IMF FAD Expenditure Assessment Tool (EAT), TIMSS and PISA evaluations, and IMF staff calculations.
 Note: TIMSS and PISA scales are different but both are centered around 500 with a standard deviation of 100.

Higher and More Inclusive Growth

Catching up will take nearly twenty years at forecast growth rates

Time to Achieve Emerging Europe or Low-Income Threshold per capita GDP (Years)

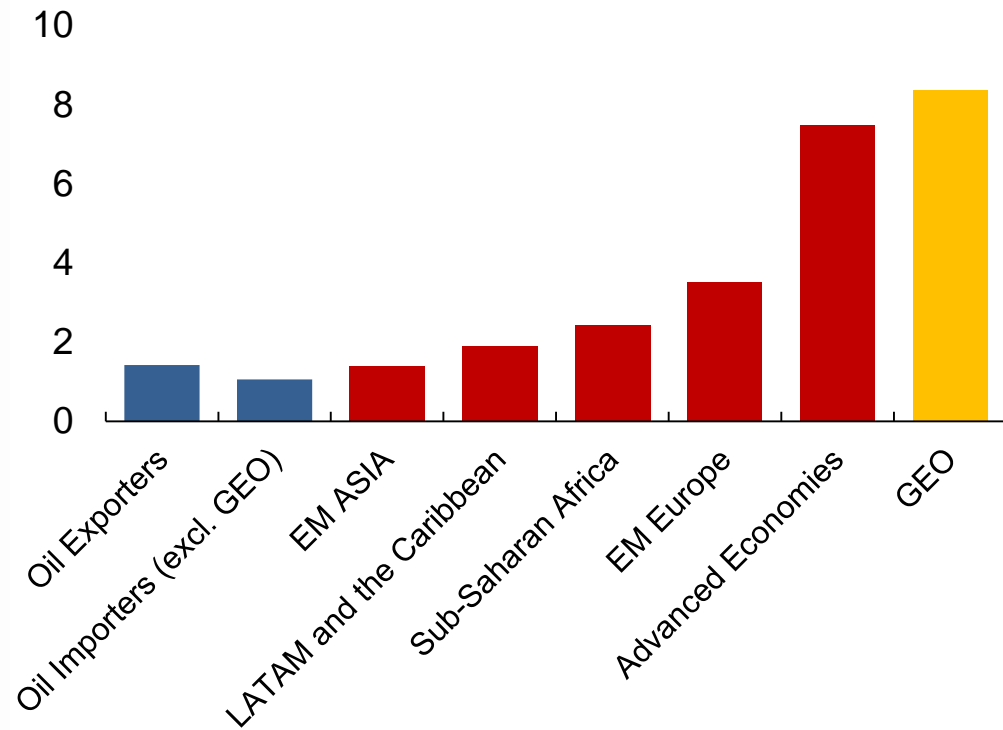


Sources: National authorities, United Nations and IMF staff calculations.

Need to create a more dynamic private sector

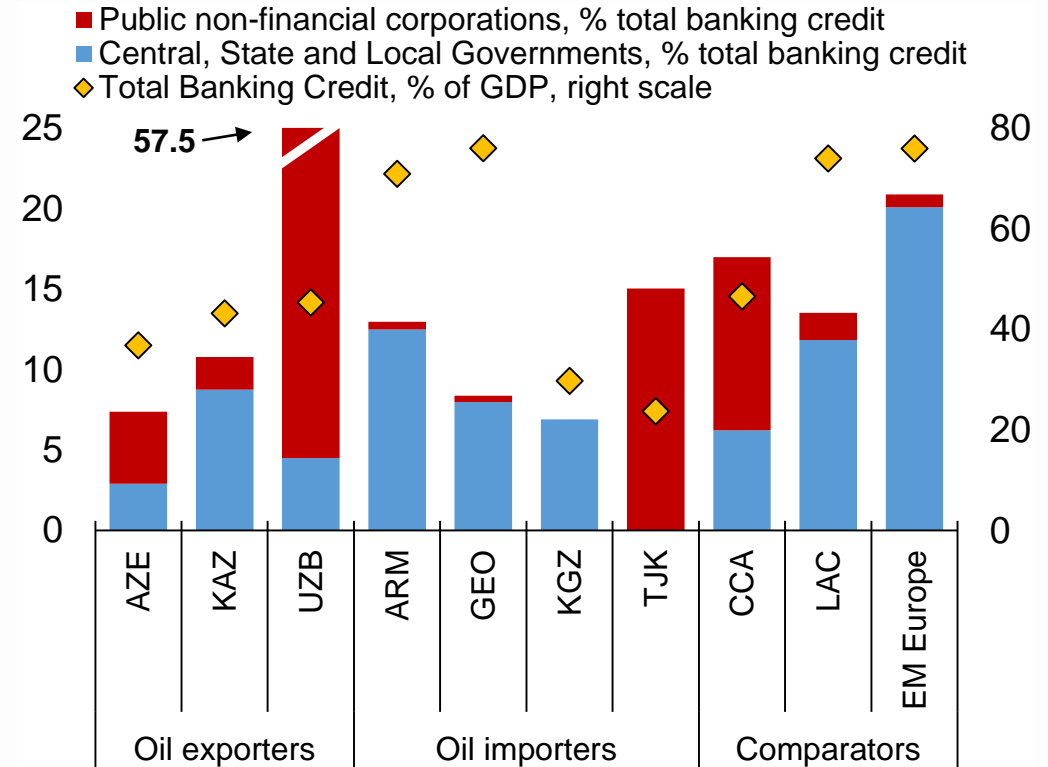
Business Entry Density Rate

(Number of newly registered firms with limited liability per 1,000 working-age people, average)



Credit to Government and Public Non-Financial Sector and Total Credit in 2017

(Percent of total banking credit, in percent of GDP)

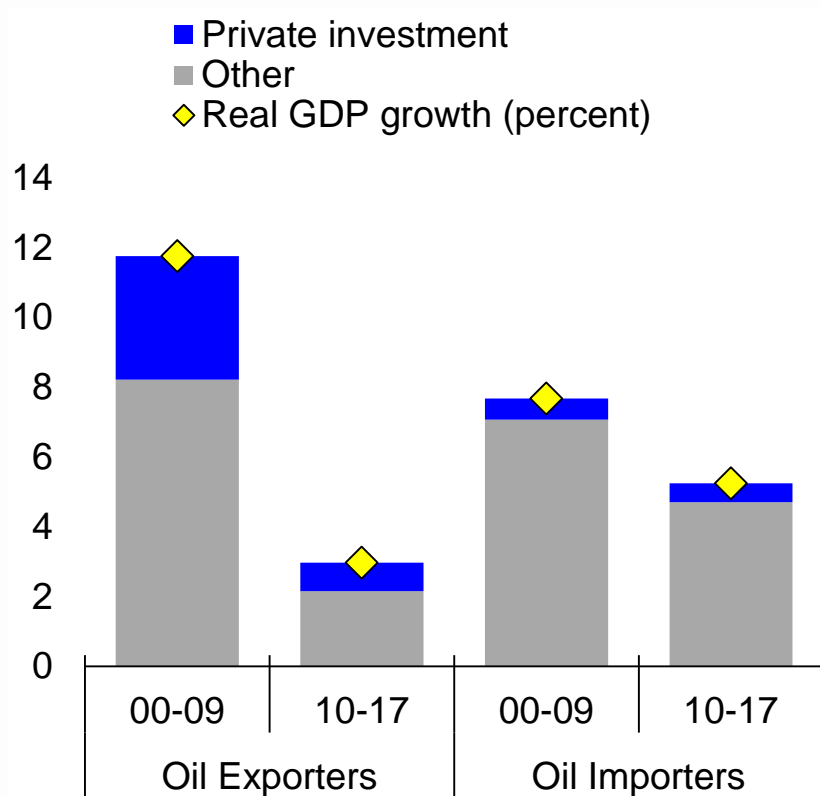


Source: IMF, International Financial Statistics; and, World Bank *Doing Business Report*.

Structural reforms key to boosting private investment

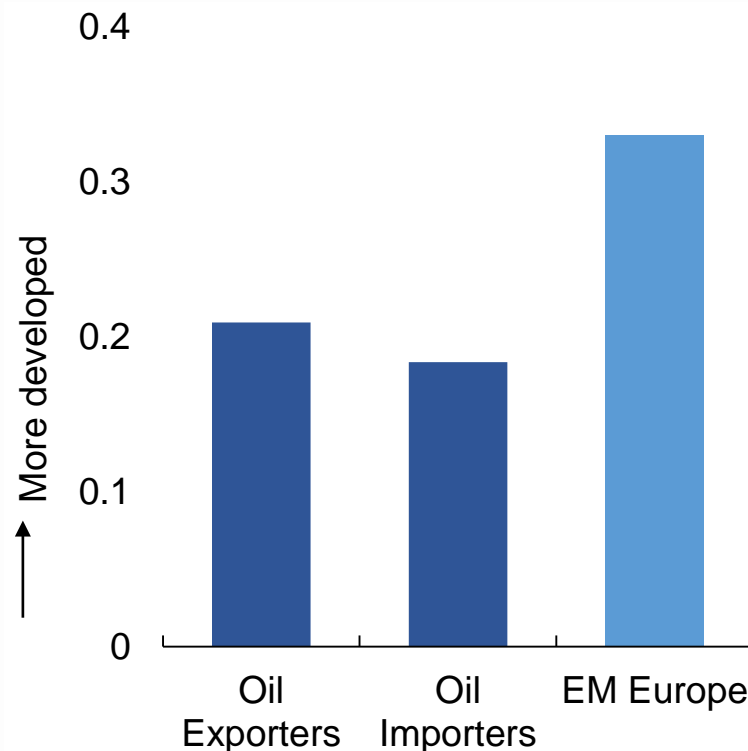
Contribution to Real GDP Growth

(Simple averages, percentage points)



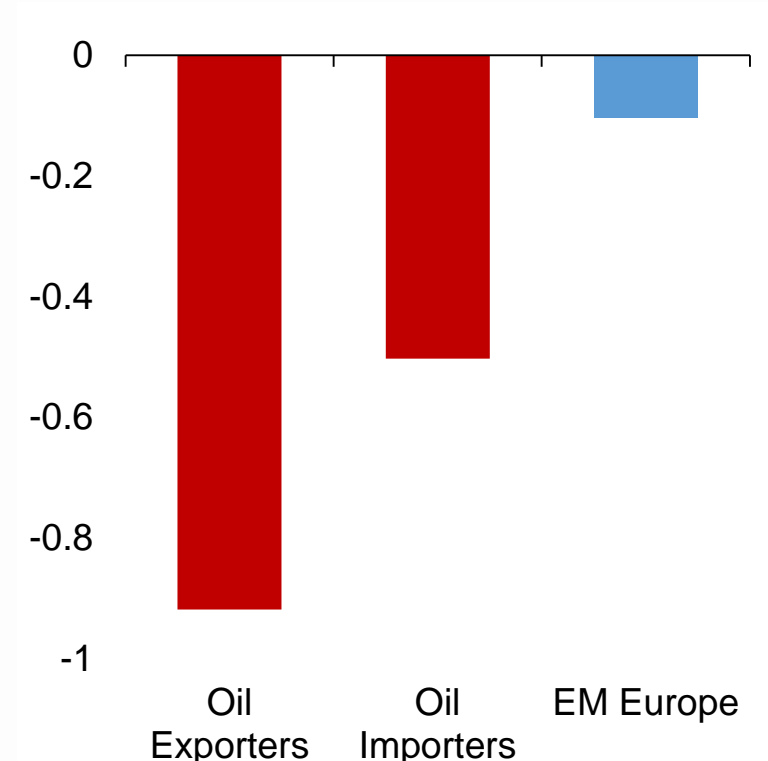
Financial Development

(Financial Development Index, 2015)



Rule of Law

(From -2.5 (weak) to 2.5 (strong) governance performance, 2016)



Source: Sviryzdenka (2016). National authorities; World Bank Worldwide Governance Indicators, and, IMF Financial Development Index Database.
 Note: Index ranges from 0 to 1.

The IMF's role in supporting reform

Policy Advice



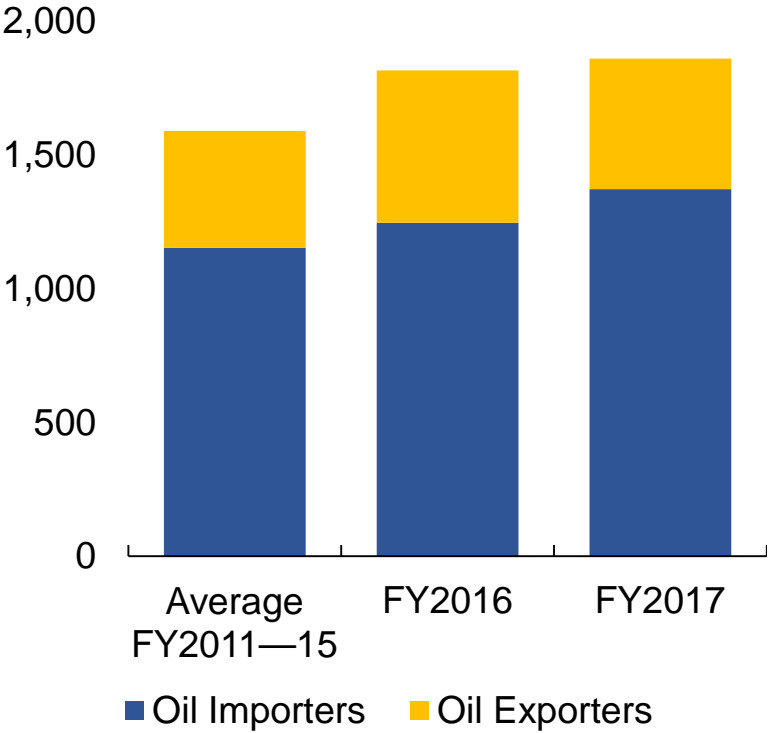
Fund Financing

Since 2012:

- Six programs
- Nearly \$1 billion dollars lent



Technical Assistance (Person-Days of Field Delivery)



Takeaways

- Growth has recovered, but needs to be higher
- Policy should focus on managing risks in the near term...
- ... and reforms to raise growth in the long term