



Caucasus and Central Asia Update to the Regional Economic Outlook

APRIL 2019

Regional Studies Division

Outline

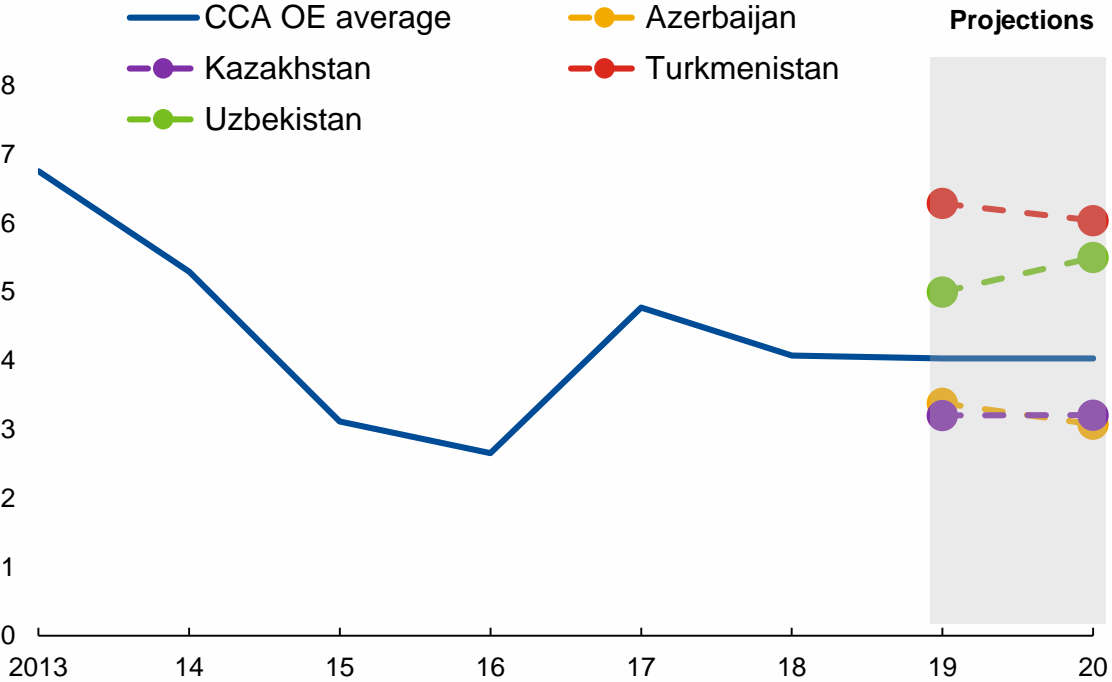
“Addressing Legacy Challenges Amid Global Headwinds”

- Growth Prospects for Caucasus and Central Asia (CCA) Steady But too Low
- Legacies and Unfinished Reforms
- Global Headwinds Make Reforms more Urgent and Difficult
- Actions are Needed In Monetary, Fiscal, and Structural Areas

Outlook for the CCA

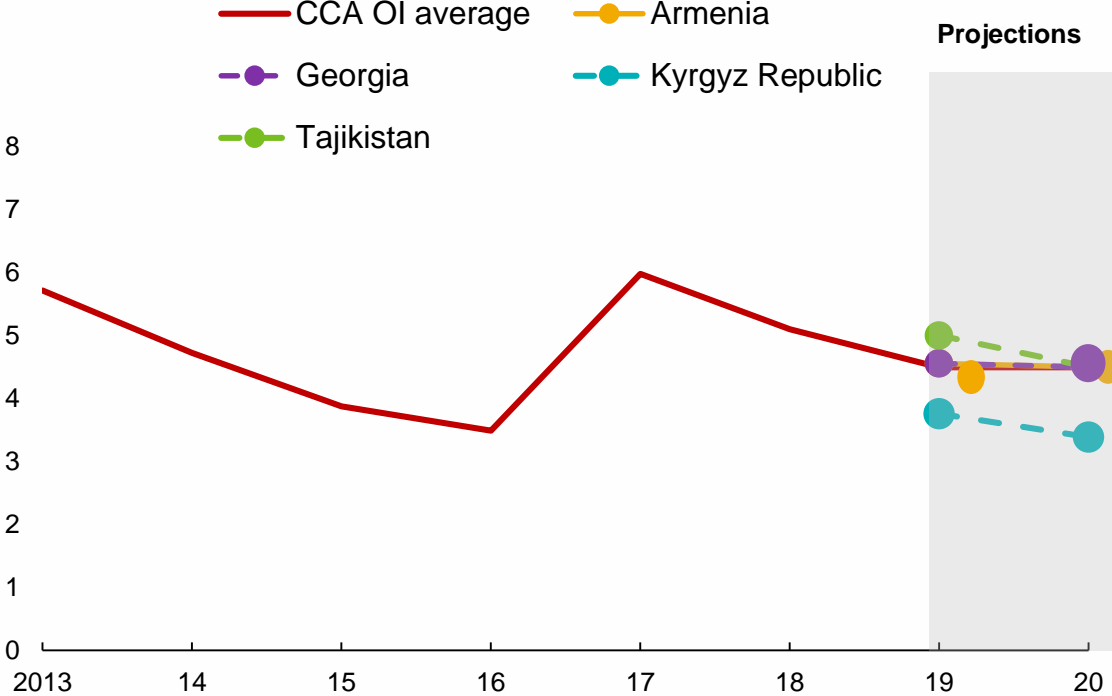
Growth has stabilized

CCA Oil Exporters Real GDP Growth, 2013–20
(Percent change)



Sources: National authorities; and IMF staff calculations.
Note: CCA OE = Caucasus and Central Asia oil exporters

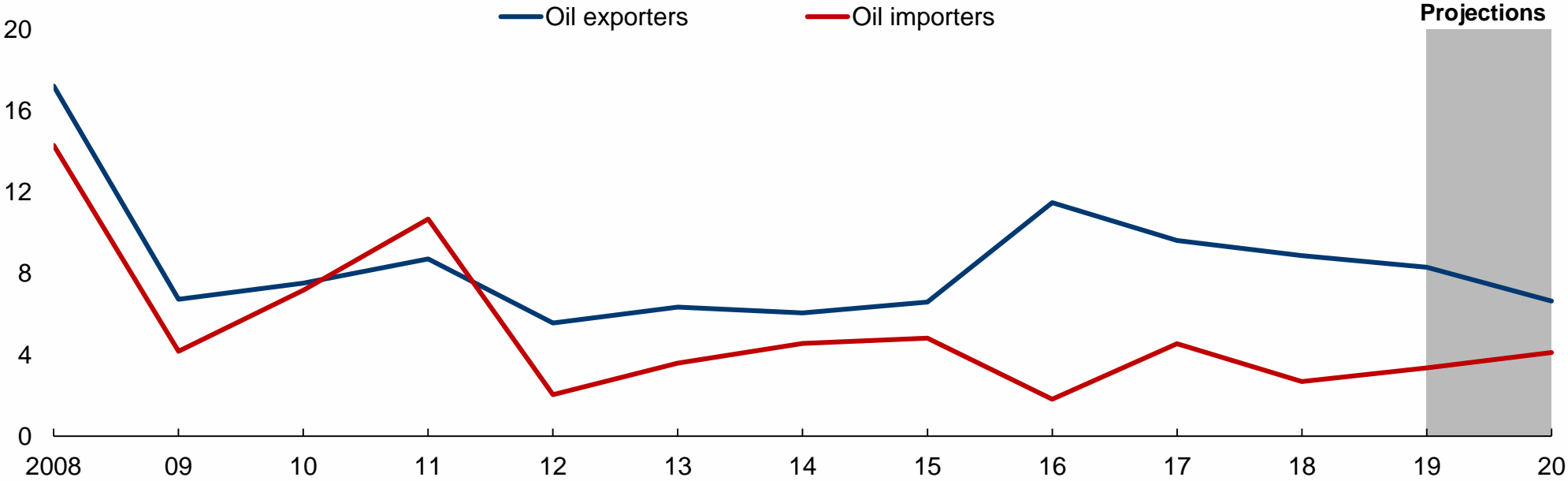
CCA Oil Importers Real GDP Growth, 2013–20
(Percent change)



Sources: National authorities; and IMF staff calculations.
Note: CCA OI = Caucasus and Central Asia oil importers

Inflation pressures are modest

Consumer Price Inflation (Percent change, year average)

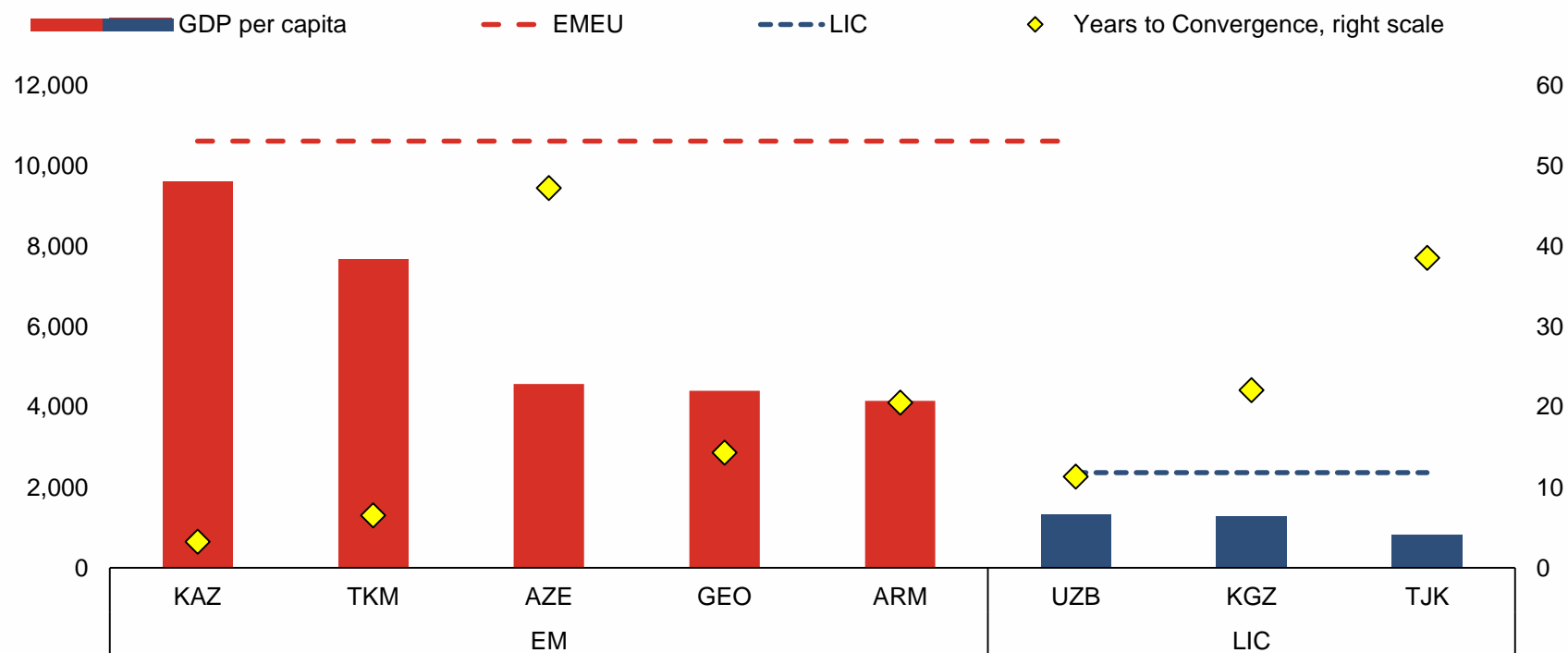


Sources: National authorities; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; EMDE = emerging markets and developing economies.

Sources: National authorities; and IMF staff calculations.

However, growth is too low to raise living standards...

GDP per capita and Years to Convergence
(US Dollars and years, 2018)



Sources: National authorities; and IMF staff calculations.

Note: EM = emerging market economies; EMEU = emerging and developing Europe; LIC = low-income countries. Chart shows time to converge to current LIC graduation threshold (Uzbekistan, Kyrgyz Republic, and Tajikistan) or emerging Europe (others) threshold assuming medium-term aggregate output and population growth rates hold indefinitely.

Legacies and Unfinished Reforms

Positive policy legacies of shocks

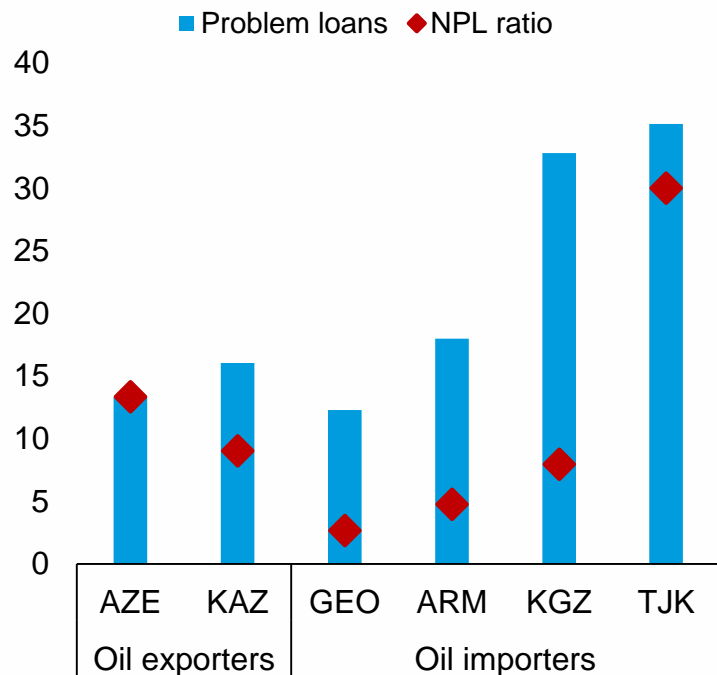
- Strengthened macroeconomic policy frameworks and greater exchange rate flexibility
 - **Fiscal frameworks were strengthened by** introducing fiscal rules, reform of tax codes, and improving fiscal transparency.
 - **Pragmatic implementation of monetary and exchange rate policies** has helped countries manage external pressures while containing inflation and reducing dollarization.
- As a result, **buffers erosion was limited and growth has stabilized.**

But, there are challenging legacies that restrain growth

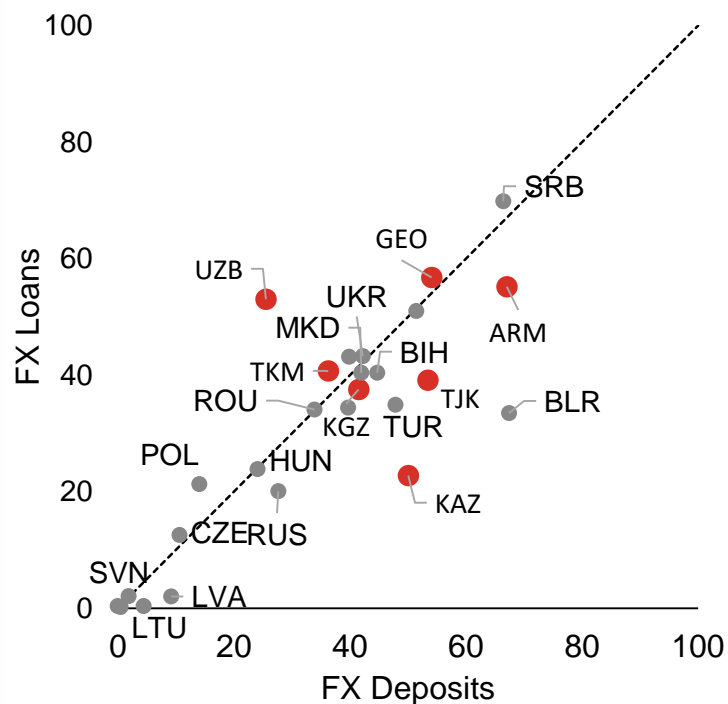
- Weak banking systems
- Incomplete monetary policy framework transitions
- Limited fiscal space

Weak banking systems in some countries

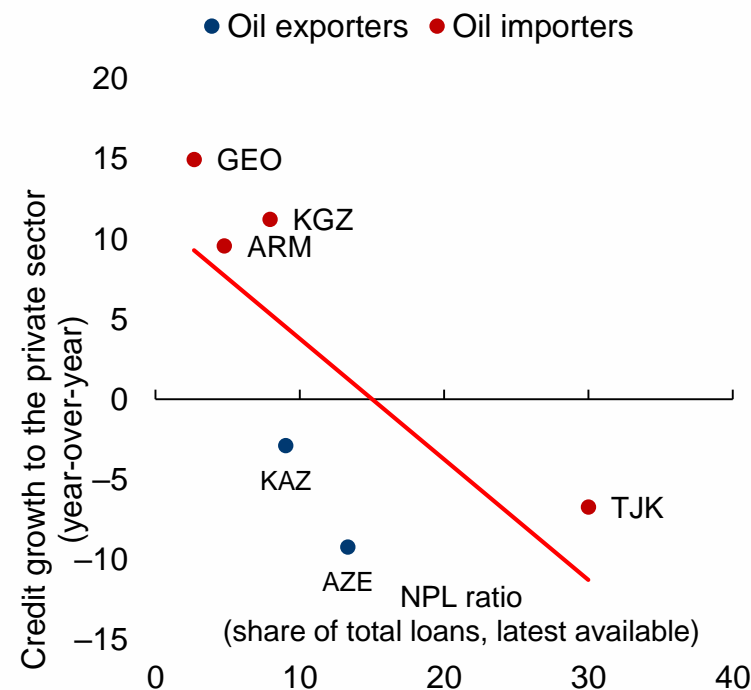
Problem Loans Ratios (Percent of total loans)



Loan and Deposit Dollarization (percent of total)



Banking Credit to Private Sector (Index, 2014 = 100)



Sources: National authorities; and IMF staff calculations.

Note: NPL= nonperforming loans. Problem loans include watch, nonperforming, and restructured loans. NPLs are classified into substandard, doubtful, and loss loans. Armenia excludes loss loans from NPLs and total loans.

Sources: National authorities and IMF staff estimates

Note: Data from Dec. 2018 or latest available

Sources: IMF, International Financial Statistics (IFS); National authorities; and IMF staff calculations.

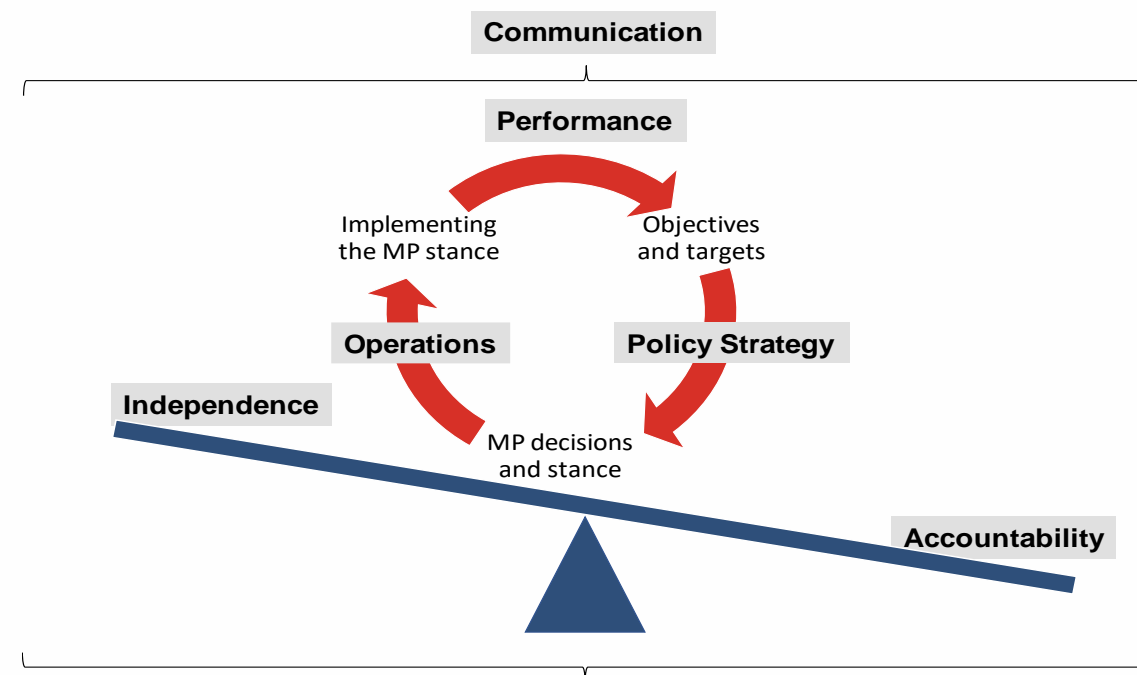
Note: All countries are adjusted for exchange rate effects, except Azerbaijan due to data availability

Incomplete monetary policy framework transitions

Monetary and Exchange Rate Policies in CCA Countries

	Monetary Policy Framework		Exchange Rate Arrangement	
	2005	2017	2005	2017
Armenia	Other	Inflation Target	Independently Floating	Floating
Azerbaijan	Other	Other	Conventional Peg	Stabilized
Georgia	Other	Inflation Target	Managed Floating	Floating
Kazakhstan	Other	Inflation Target	Managed Floating	Floating
Kyrgyz Republic	Other	Other	Managed Floating	Other Managed
Tajikistan	Monetary Target	Monetary Target	Managed Floating	Stabilized
Turkmenistan	ER Anchor	ER Anchor	Conventional Peg	Conventional Peg
Uzbekistan	Other	Other	Managed Floating	Stabilized

Monetary Policy Framework

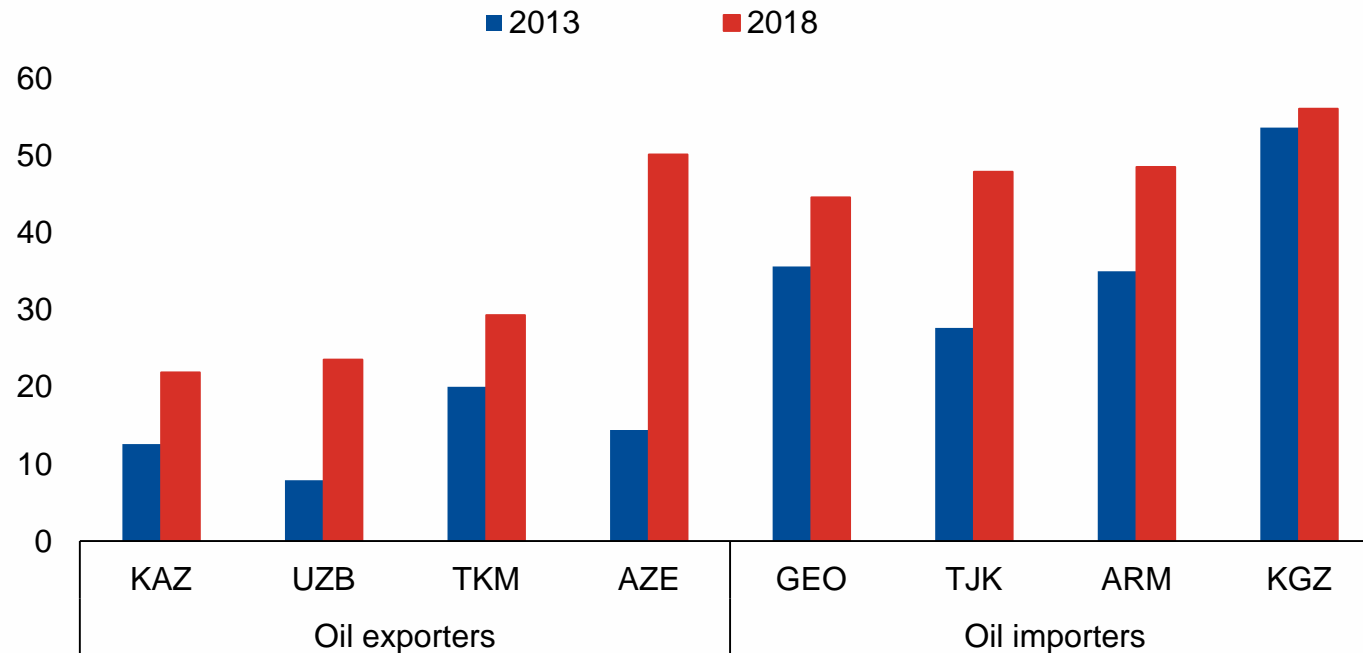


Sources: IMF, Annual Report on Exchange Arrangements and Exchange Restrictions database; and IMF, MCM Monetary Operations and Instruments database.

Note: Based on IMF staff broadly defined classification categories. Hard Peg includes; exchange arrangement with no separate legal tender and currency board arrangement. Soft peg includes; conventional pegged arrangement, pegged exchange rate within horizontal bands, stabilized arrangement, crawling peg and crawl-like arrangement. Float includes; floating and free floating. Other includes other managed arrangements

Fiscal space has become limited

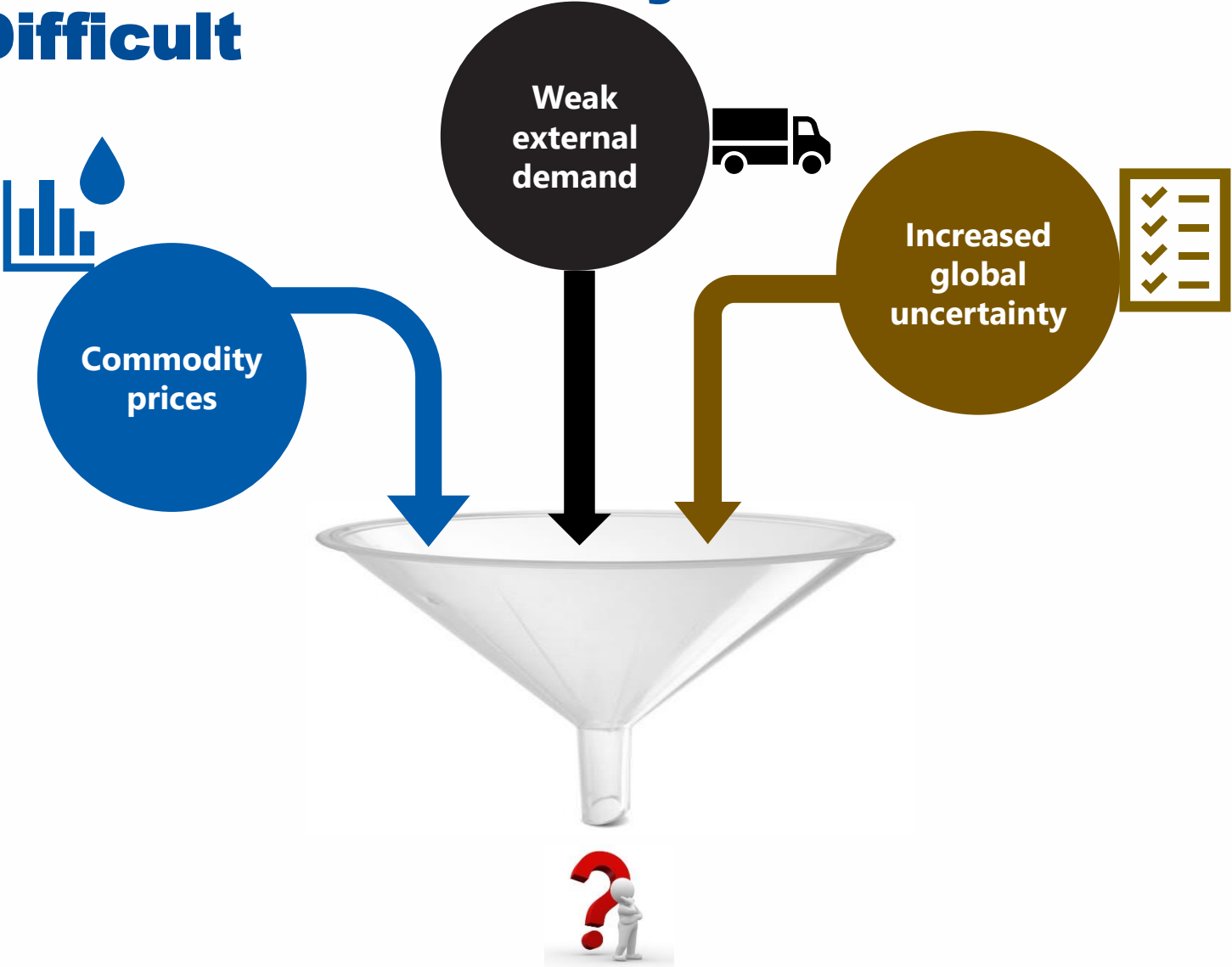
Public and Publicly Guaranteed Debt
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

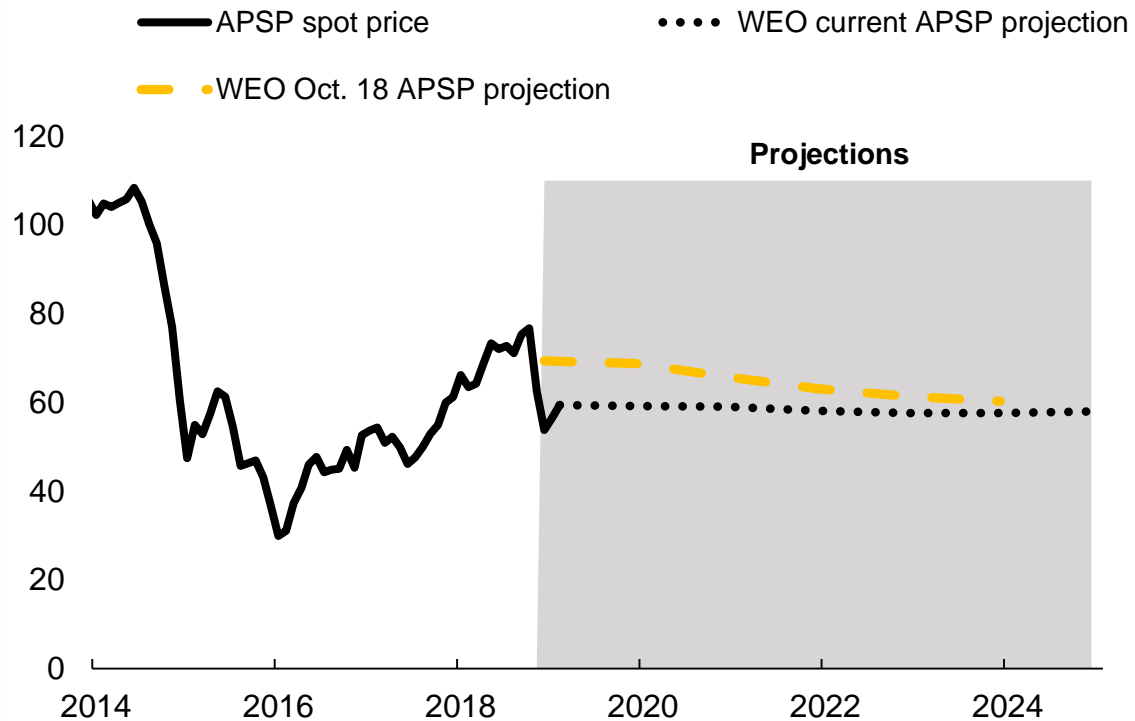
Note: Azerbaijan includes approximately 30 percent of GDP in guarantees.

Global Headwinds Make Policy Efforts More Urgent and More Difficult

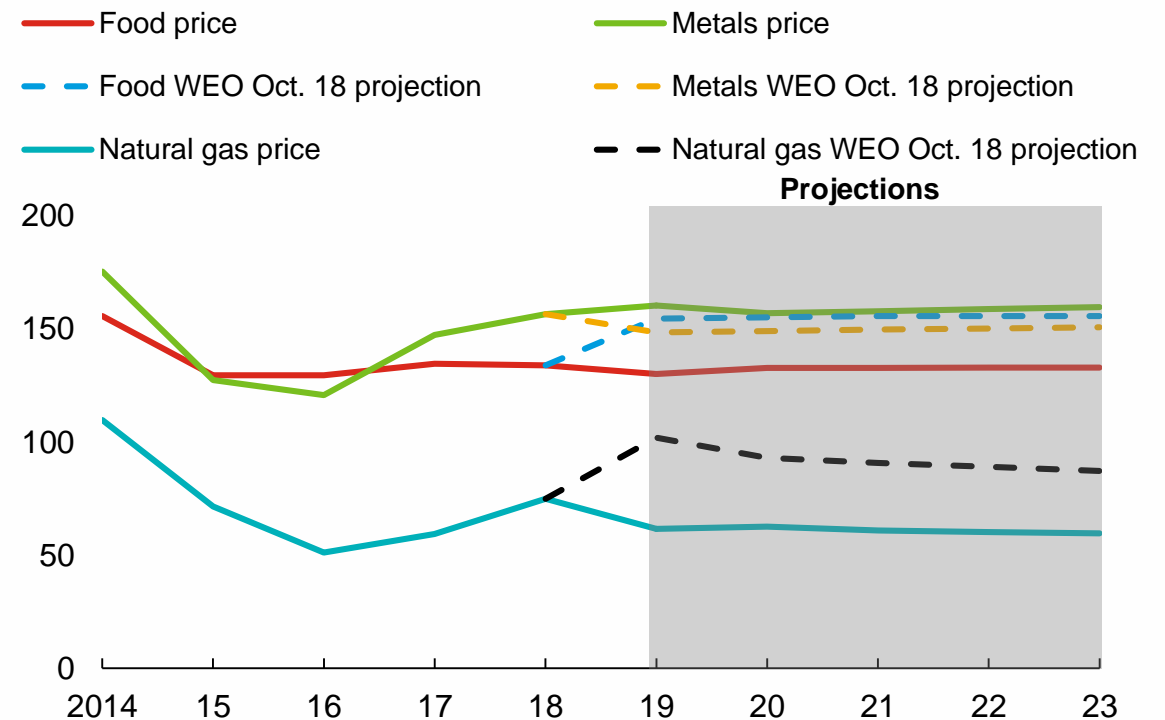


Oil and commodities prices and are lower and more volatile

APSP Crude Oil
(US dollar per barrel)



Commodity Price Indices
(2005 = 100)



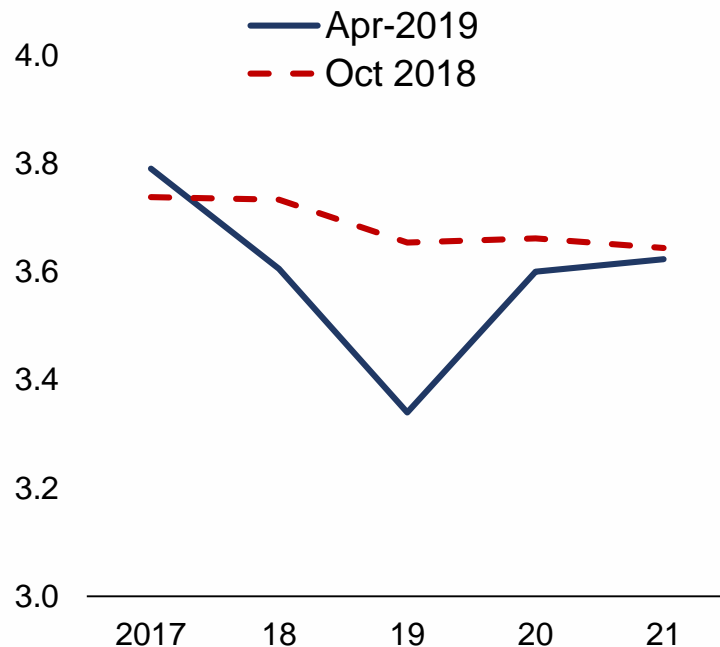
Sources: National authorities; and IMF staff calculations.

Note: APSP = average petroleum spot price. APSP is the average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

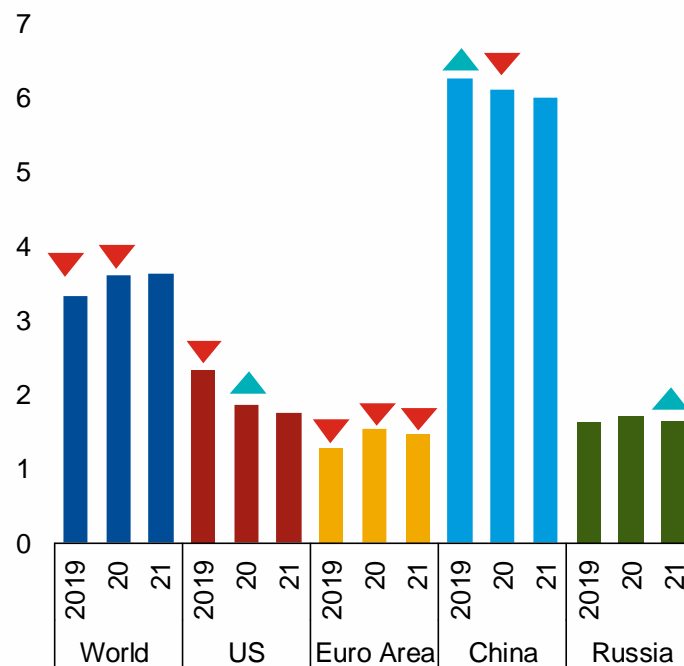
Sources: National authorities; and IMF staff calculations..

Weaker external demand

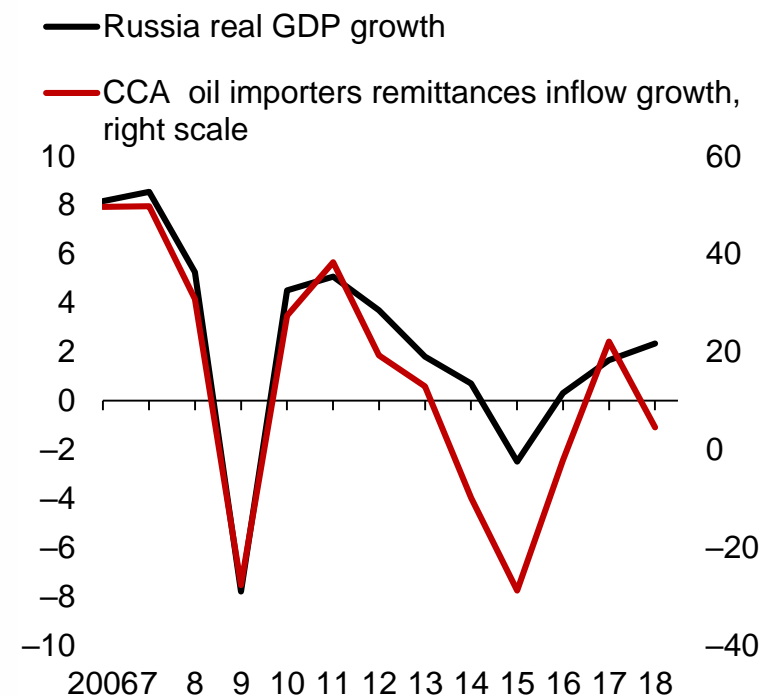
Global Growth
(Percent)



Top Trading Partners, Revisions
(Arrows indicate direction of revisions from October 2018)



Cyclicality of Remittances, Inflows to CCA and GDP Growth in Russia
(Annual growth rates, percent)



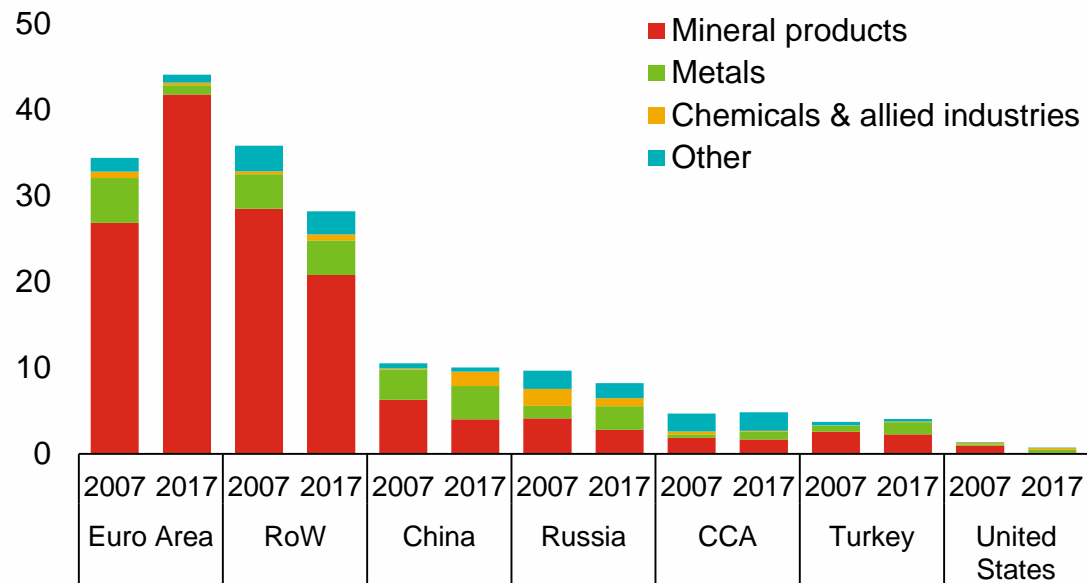
Sources: National authorities; and IMF staff calculations and estimates.

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Note: CCA = Caucasus and Central Asia. CCA oil exporter real non-oil GDP growth does not include Uzbekistan due to data availability.

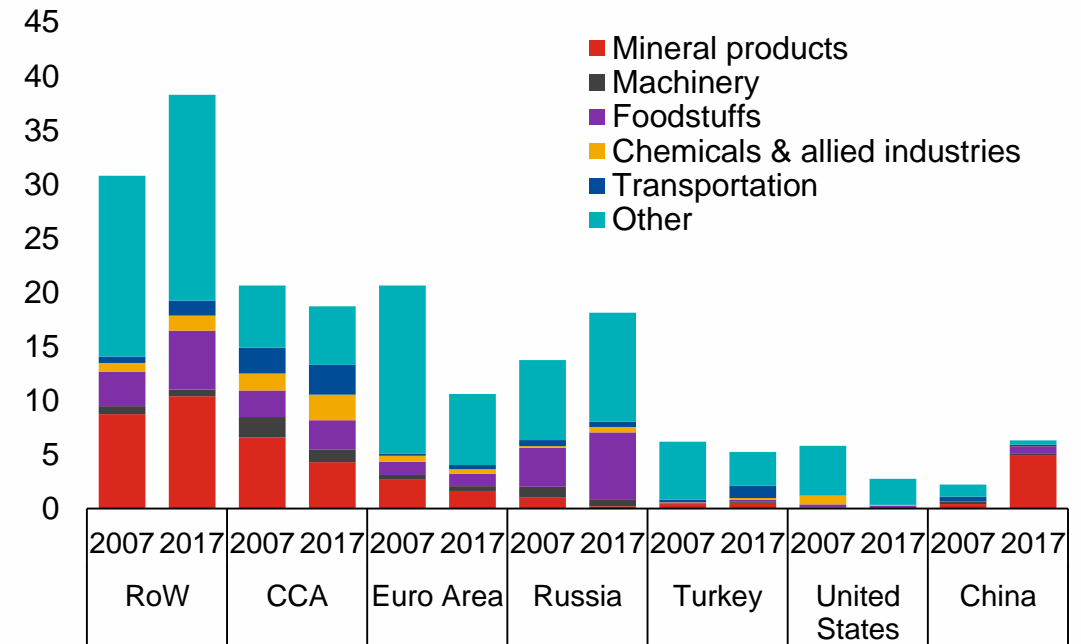
Limited export diversification heightens external risks

Total Exports and Destinations of CCA Countries (Percent of total)

Oil Exporters



Oil Importers



Sources: UN COMTRADE database; and IMF staff calculations.

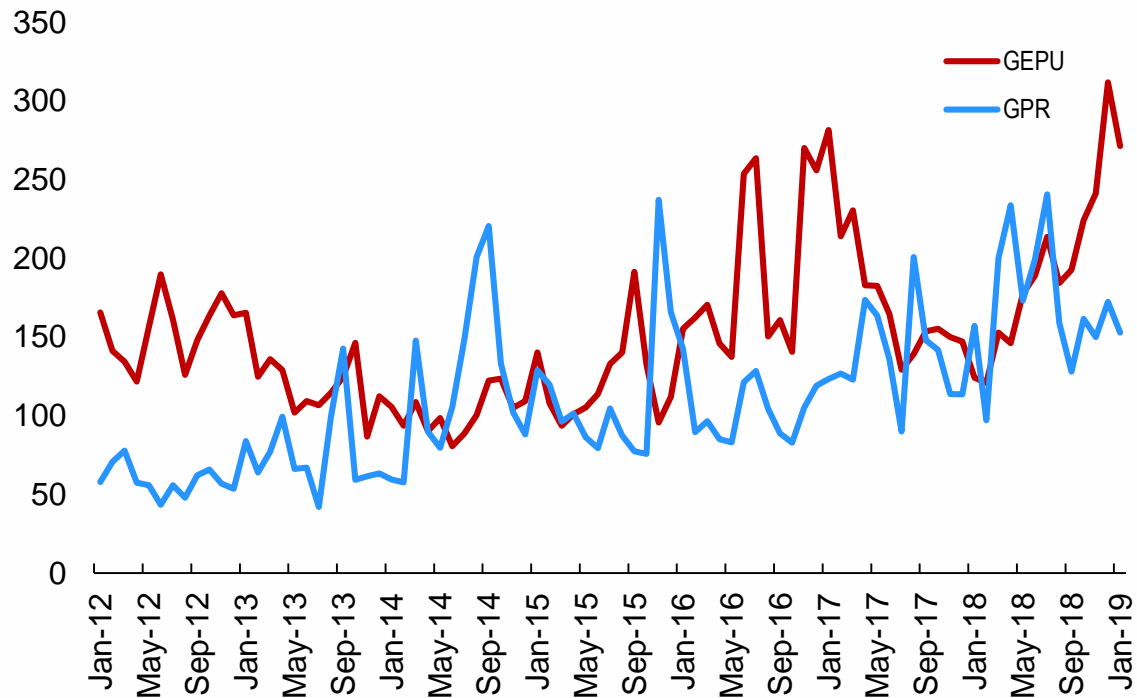
Note: RoW = rest of the world; CCA = Caucasus and Central Asia.

Turkmenistan and Uzbekistan are excluded from oil exporters due to data availability. Tajikistan is excluded from oil importers due to data availability.

Increased global uncertainty

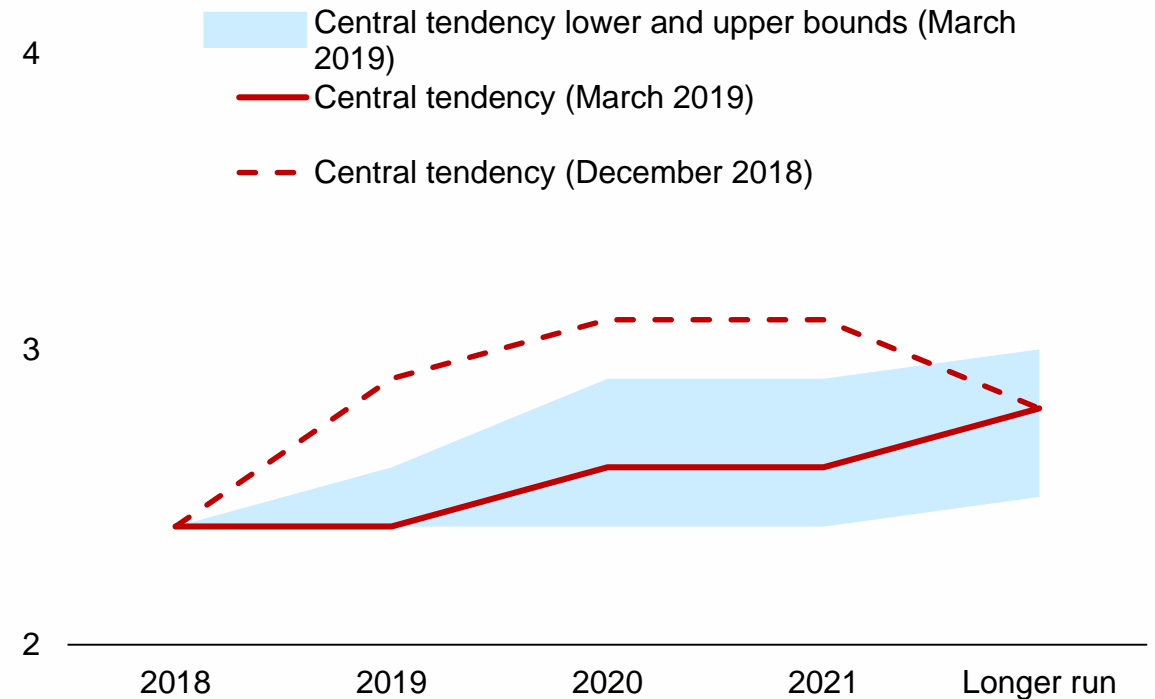
Global Economic Policy Uncertainty (GEPU) Index and Geopolitical Risk (GPR) Index

Using data for 18 countries that account for 2/3 of global GDP



Sources: www.PolicyUncertainty.com and Baker, Bloom and Davis (2016).

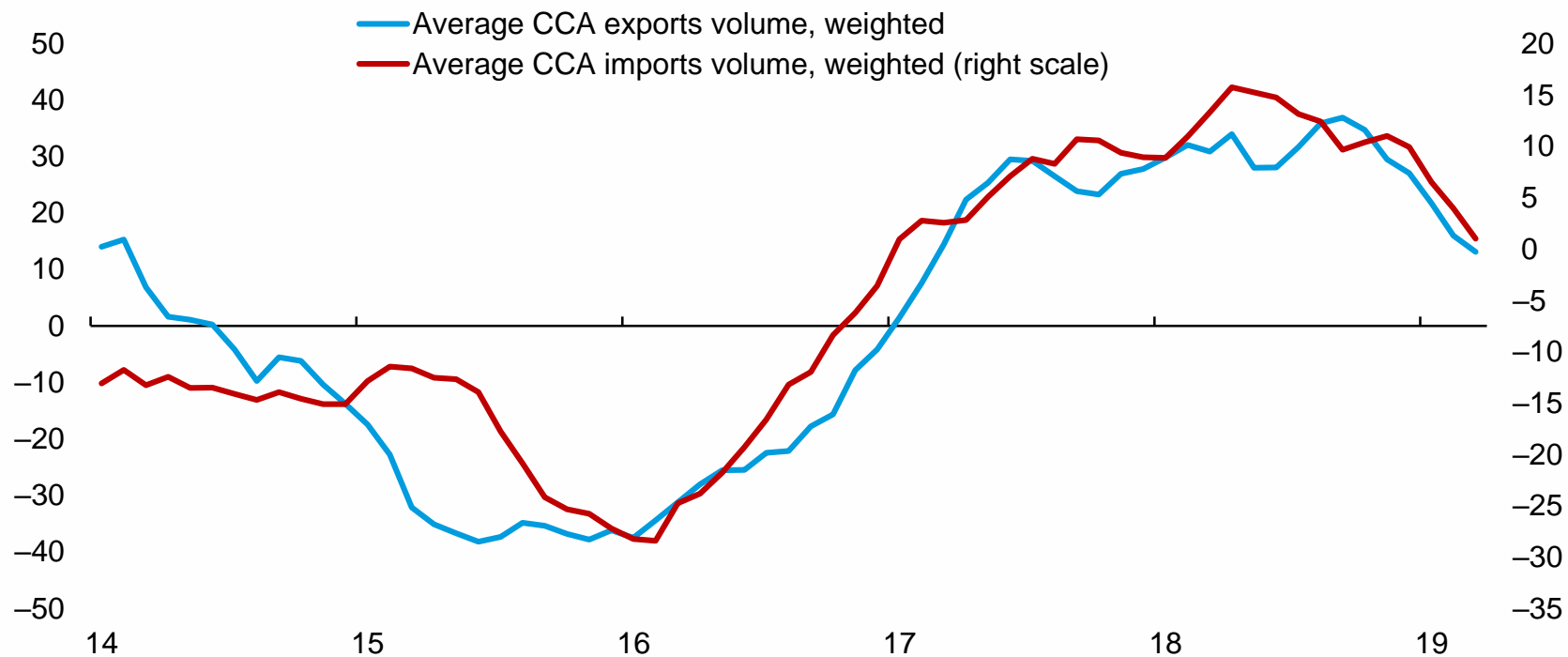
Federal Reserve Funds Rate



Note: The central tendency excludes the three highest and three lowest projections for each variable in each year. Sources: FOMC, Summary of Economic Projections; and Fund staff estimates.

Combined effect of weaker demand and global uncertainty is intensifying

CCA Exports and imports volume
(Weighted average annual growth, percent)



Sources: IMF, Research department; and National authorities

Note: CCA = Caucasus and Central Asia. Uzbekistan is excluded due to data availability.

Actions are Needed In Monetary, Fiscal, and Structural Areas

Enhance resilience and address legacy challenges

Monetary

- Complete transition to credible, rules-based frameworks
- Scope for further exchange rate flexibility

Fiscal

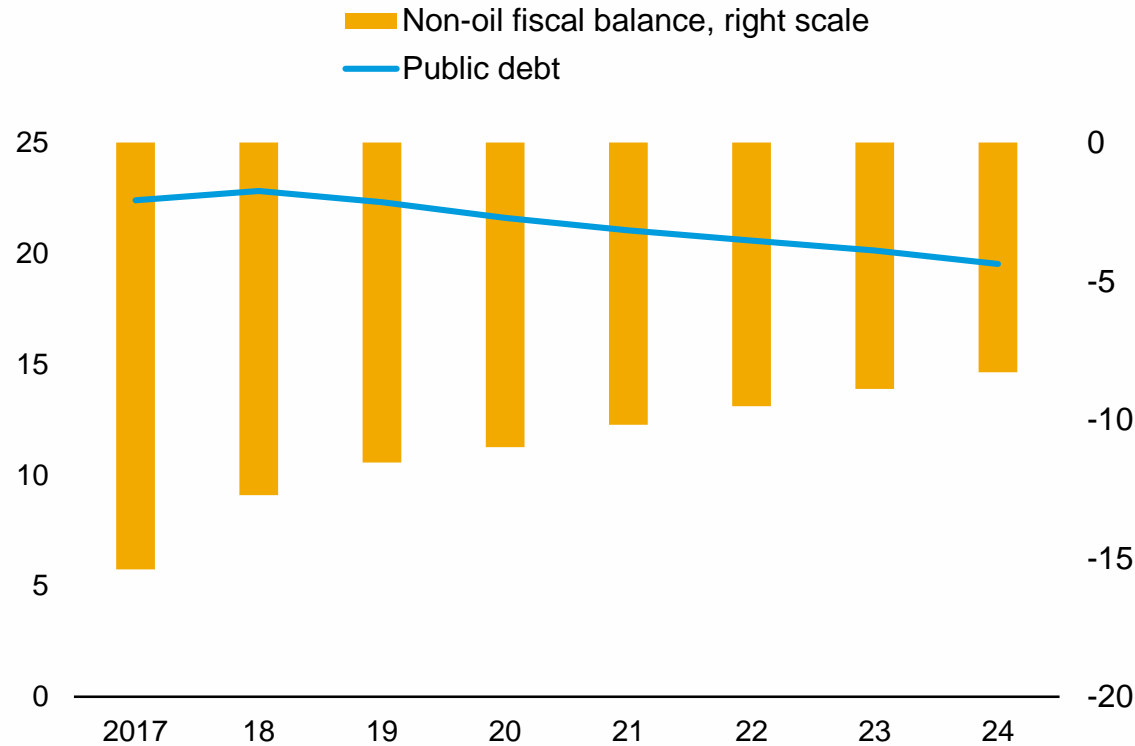
- Consolidation needed where debt is high
- Contain contingent liabilities

Structural

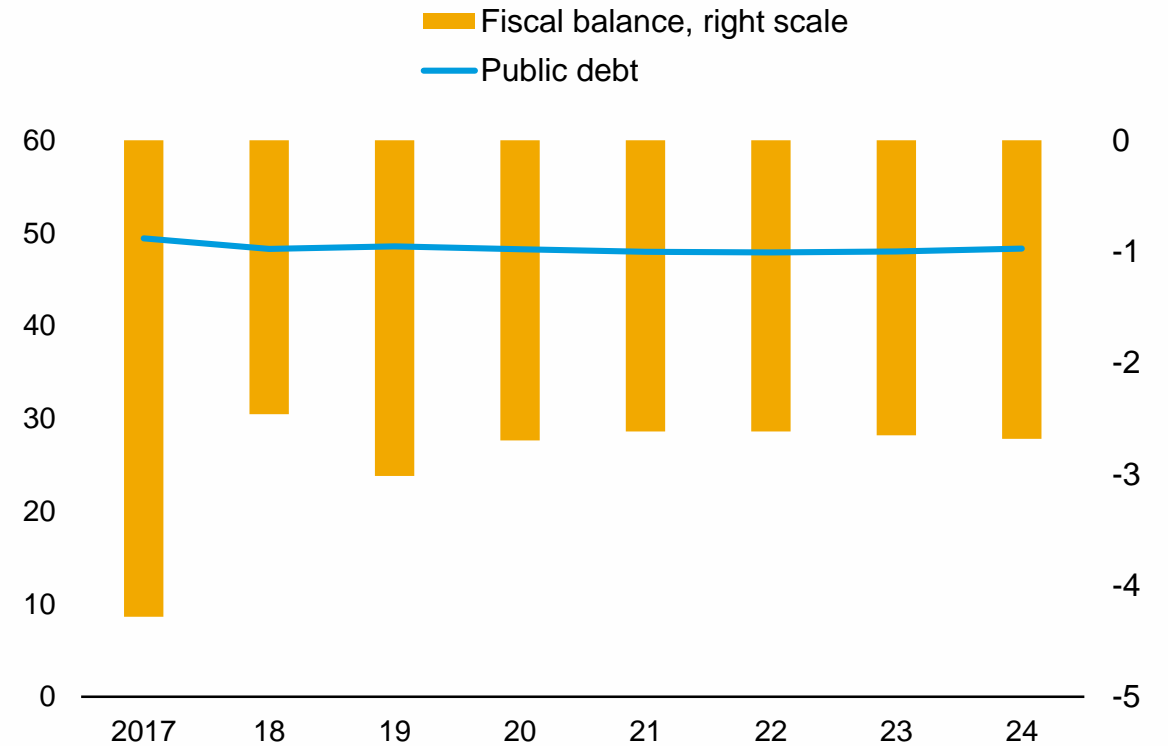
- Tackle financial sector weaknesses
- Improve governance
- Make room for private sector growth

Growth-friendly fiscal consolidation is needed

Oil exporters
(Percent of GDP and Non-oil GDP)



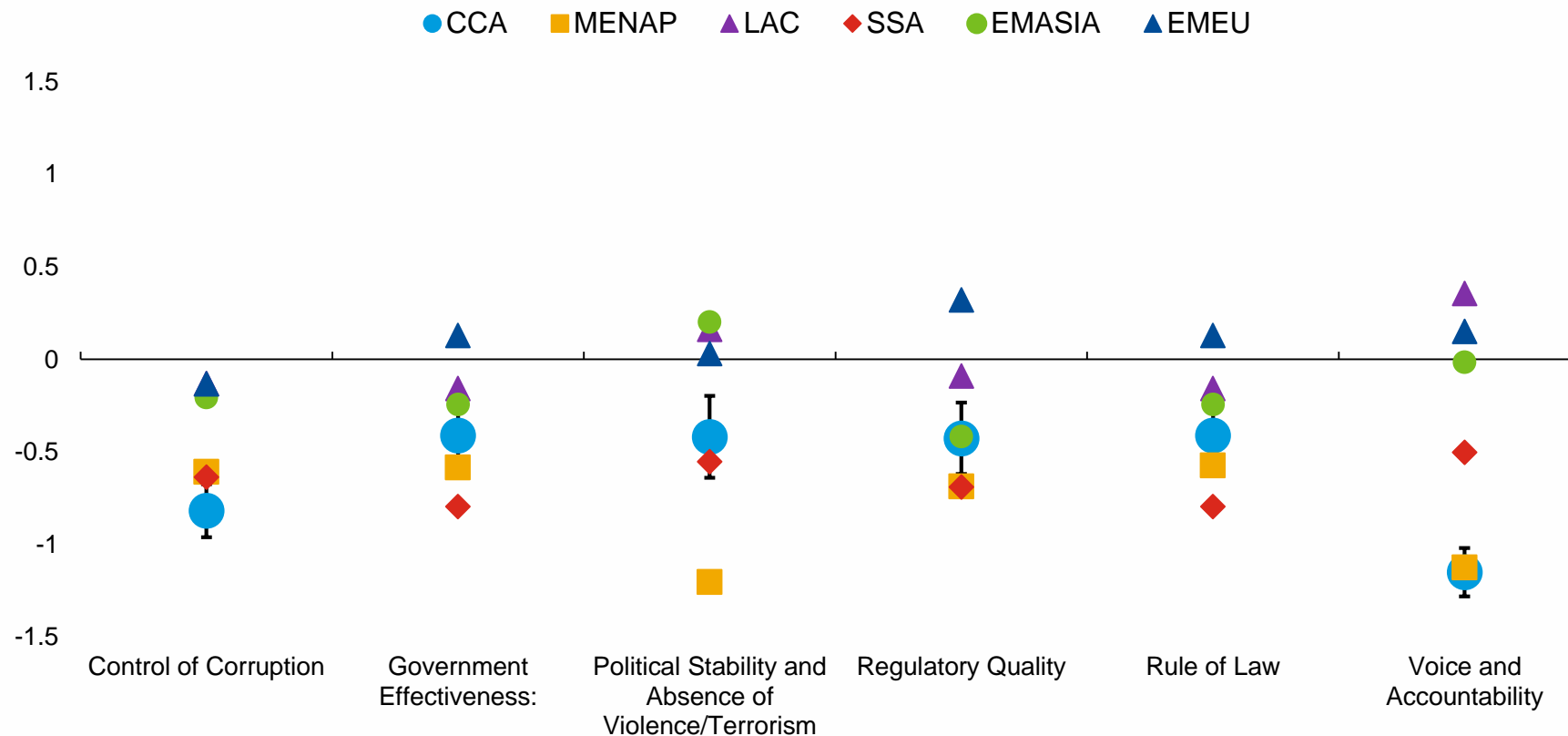
Oil importers
(Percent of GDP)



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

Addressing governance weaknesses

Governance Indicators, 2017 1/
(Average of score estimate -2.5 – 2.5, weak to strong)



Source: Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank), 2017.

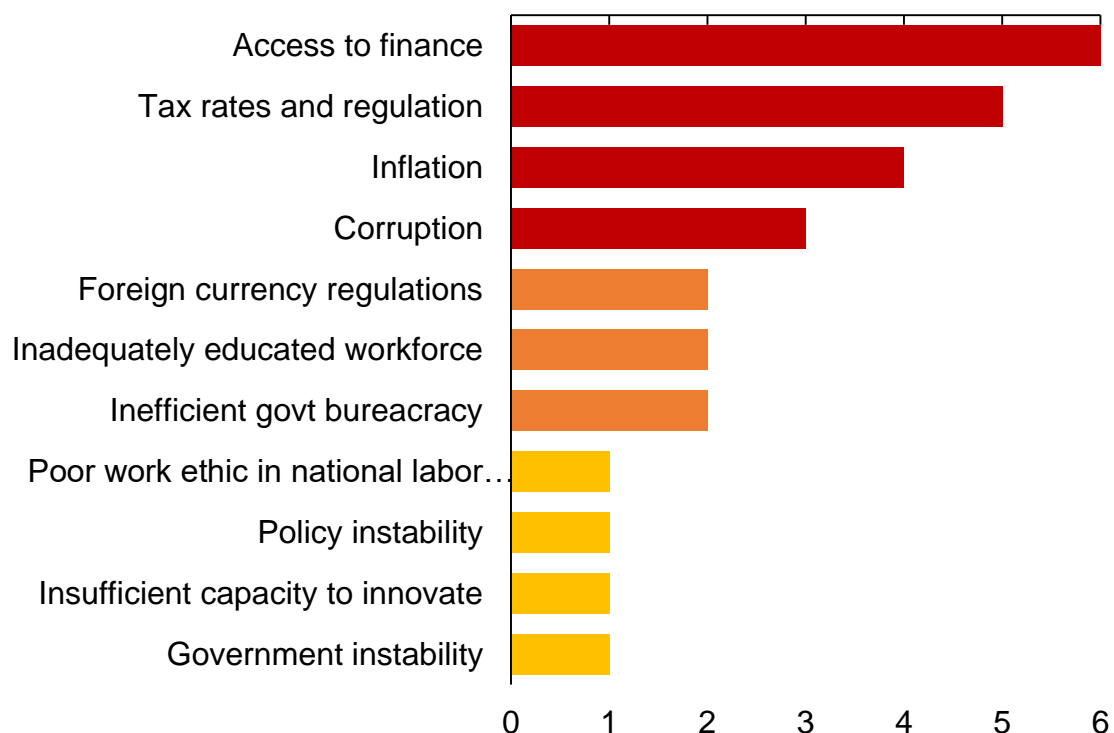
Note: AE = advanced economies; CCA = Caucasus and Central Asia; EMASIA = emerging Asia; EMEU = Emerging Europe; LAC = Latin America and the Caribbean; MENAP = Middle East, North Africa, Afghanistan and Pakistan; and SSA = sub-Saharan Africa.

1/ Use of indicators should be considered carefully as they are derived from perceptions-based data. Ranges are for the average confidence interval for CCA. Confidence intervals for peer groups are negligible.

Make room for private sector growth

Challenges to Doing Business in CCA

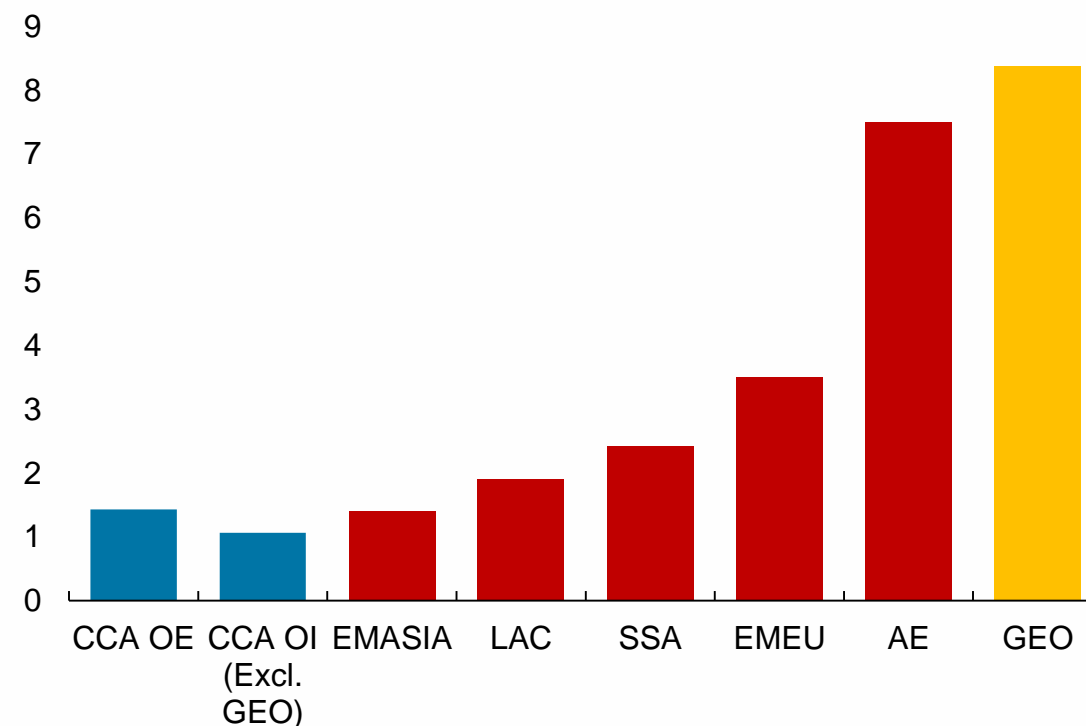
(Number of countries identifying the constraint among the top five)



Source: World Economic Forum, Global Competitiveness Report 2017–18.
 Note: Turkmenistan and Uzbekistan are excluded due to data availability.

Business Entry Density Rate

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



Source: World Bank *Doing Business Report*.

Note: Data correspond to most recent value within the period 2014–16. All CCA countries are 2016 values. AE = advanced economies; CCA OE = Caucasus and Central Asia oil exporters; CCA OI = Caucasus and Central Asia oil importer; EMASIA = emerging Asia; EMEU = Emerging Europe, GEO = Georgia; LAC = Latin America and the Caribbean; and SSA = sub-Saharan Africa.

IMF engagement in the CCA region

Analytical Projects

- “Opening Up in the CCA : Policy Frameworks to Support Regional and Global Integration” (February 2019).
- “Fintech, Inclusive Growth and Cyber Risks in MENAP and CCA” (September 2018).
- “Building Resilient Banking Sectors in the CCA” (August 2018).
- “A Growth-Friendly Path for Building Fiscal Buffers in the CCA” (June 2018).

Programs

A program is in place with **Georgia** (EFF), **Armenia** reached staff-level agreement on a 3-year precautionary SBA and in **Tajikistan** discussions are underway for a new ECF.

Capacity Development

Fund technical assistance has increased in the past 2-3 years. Areas covered include bank supervision & resolution, monetary framework, fiscal risks, tax policy, revenue administration, public financial management, financial stability and statistics.

Annual Joint Vienna Institute seminars and trainings. Preparations for a new regional TA center are underway, with the center expected to open in the second half of CY2020.

Takeaways

- Steady growth, but too low to raise living standards
- Ensure higher growth by addressing legacy challenges and completing reforms
- Global headwinds increase urgency for action