



**MIDDLE EAST
AND CENTRAL ASIA
DEPARTMENT**

Caucasus and Central Asia Regional Economic Outlook






NOVEMBER, 2019

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Outlook: Global headwinds weigh on growth

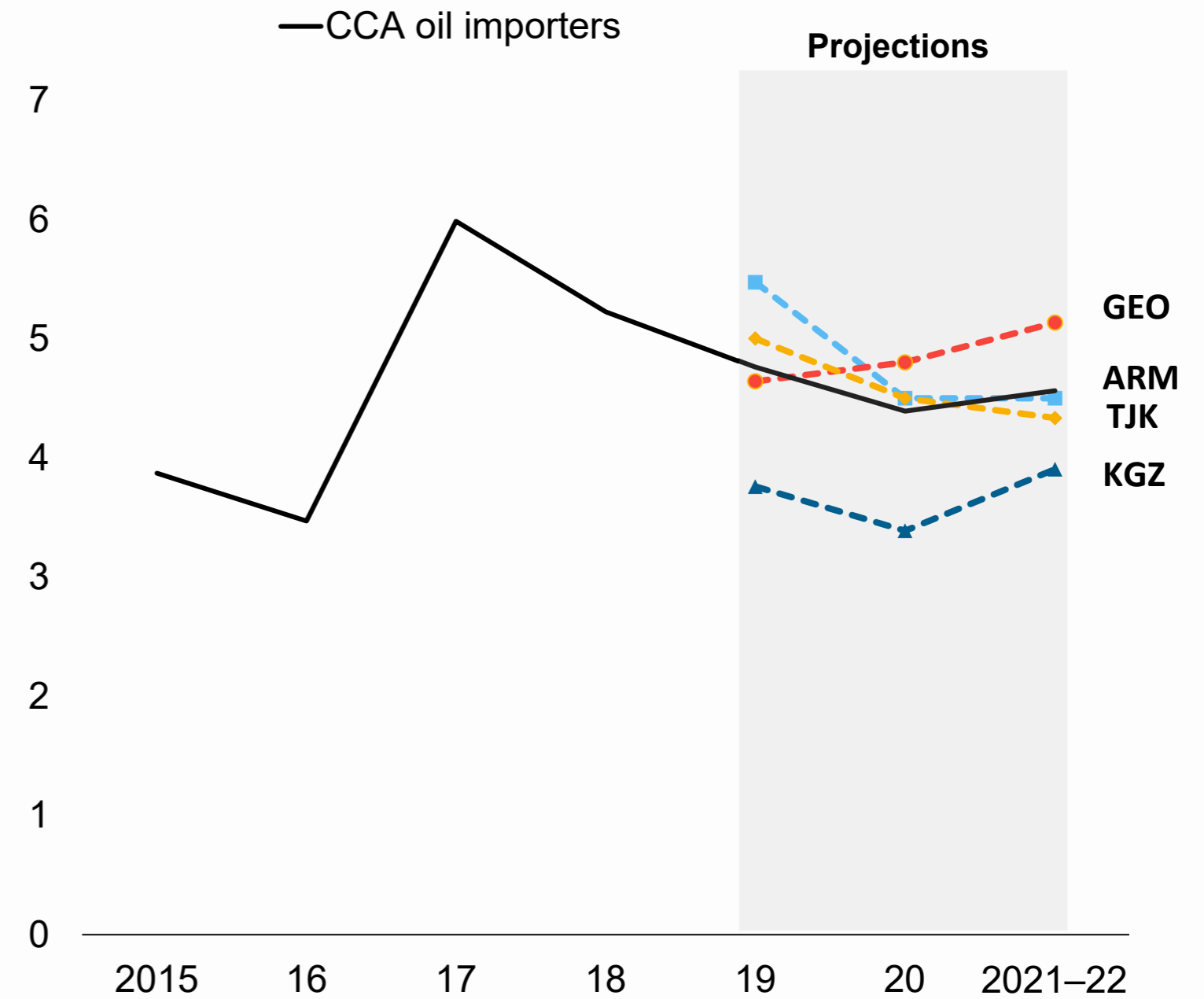
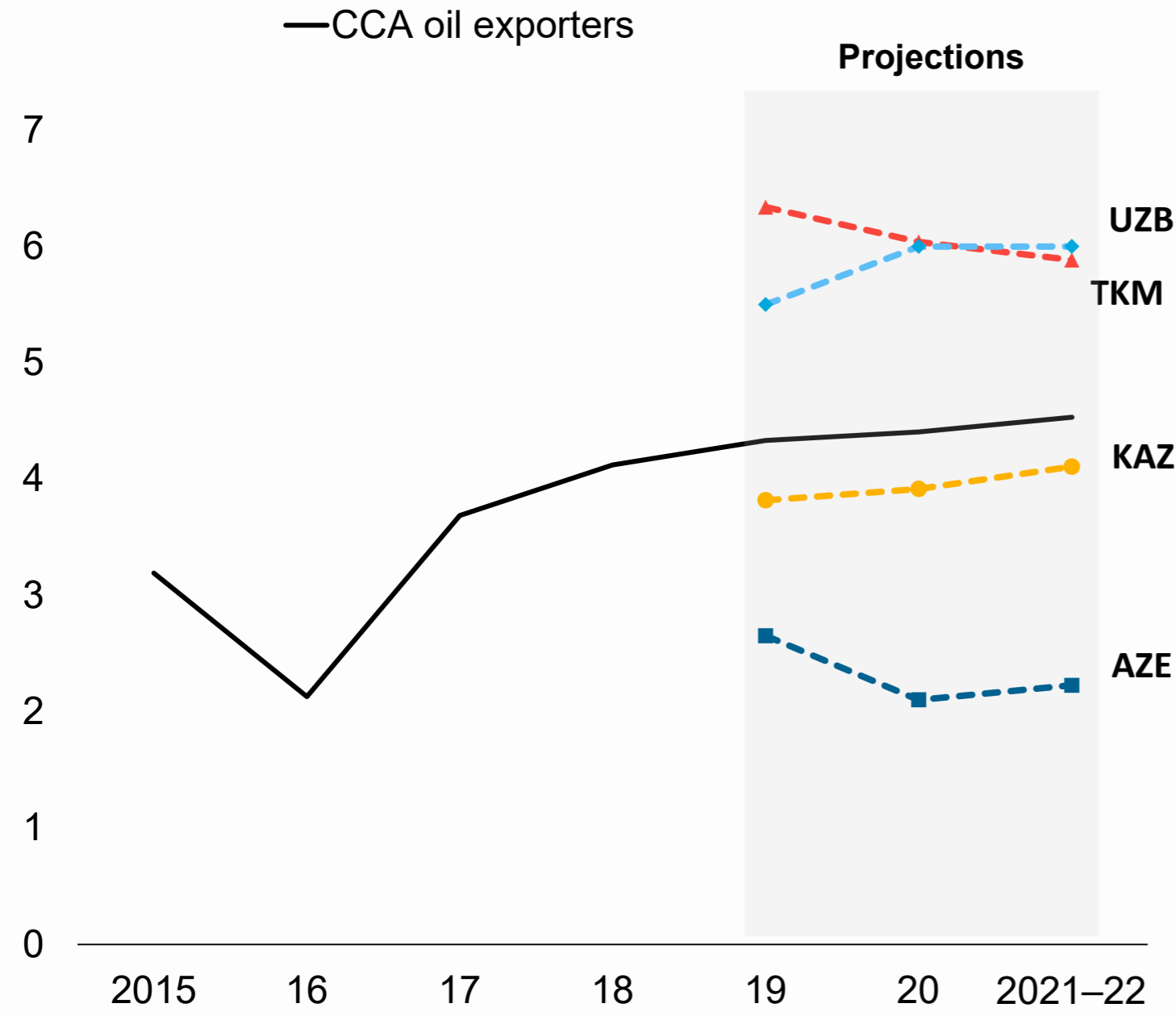
Global growth outlook remains largely subdued.

	World 	US 	Euro Area 	China 	Russia 	Emerging and Developing Countries
2018	3.6	2.9	1.9	6.6	2.3	4.5
2019	3.0	2.4	1.2	6.1	1.1	3.9
Revisions from April 2019	-0.3	0.0	-0.1	-0.1	-0.5	-0.4
2020	3.4	2.1	1.4	5.8	1.9	4.6
Revisions from April 2019	-0.2	0.2	-0.2	-0.3	0.2	-0.3

Sources: National authorities; and IMF staff calculations.

Growth in the CCA has stalled...

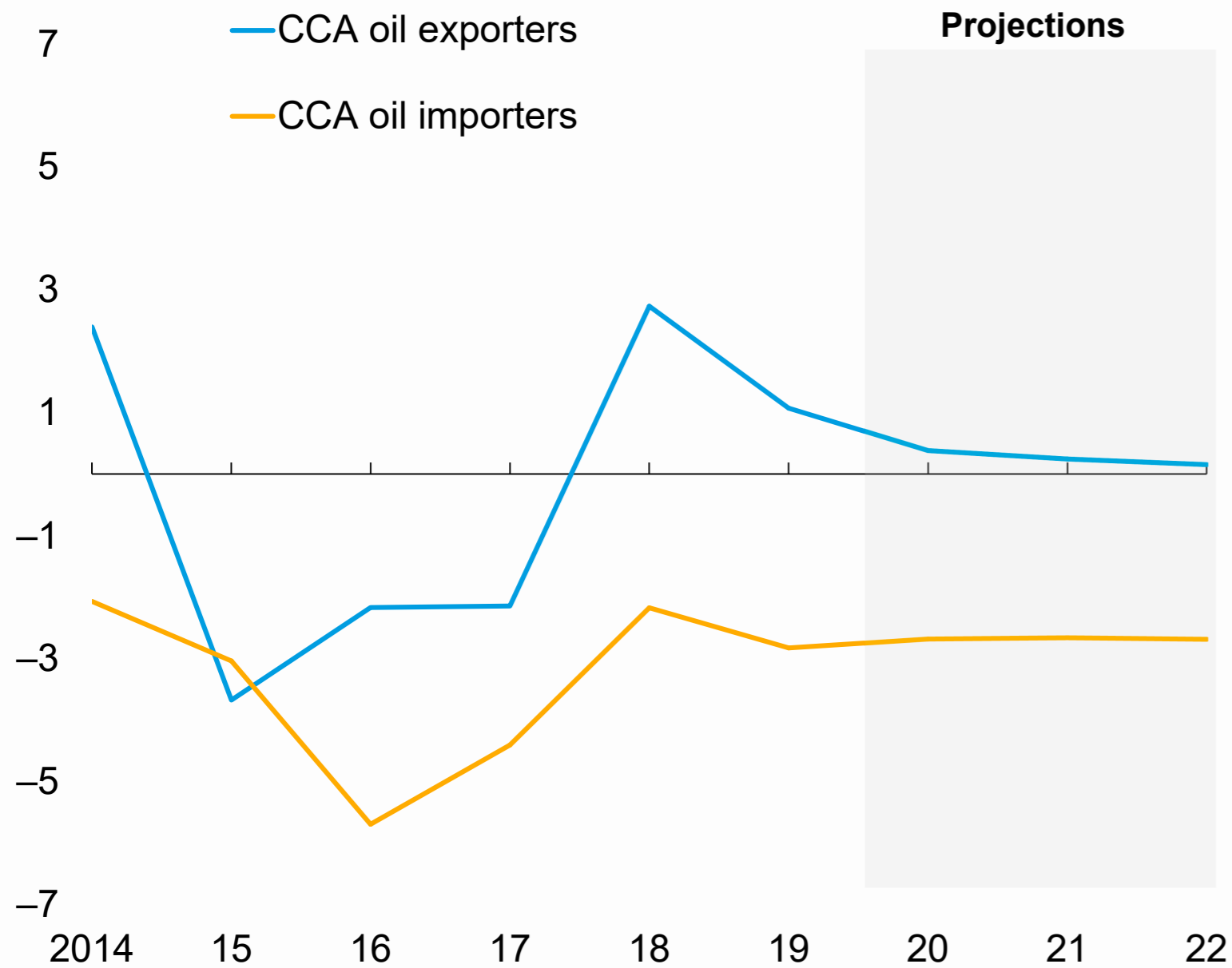
Real GDP Growth (Percent)



Sources: National authorities; and IMF staff calculations.

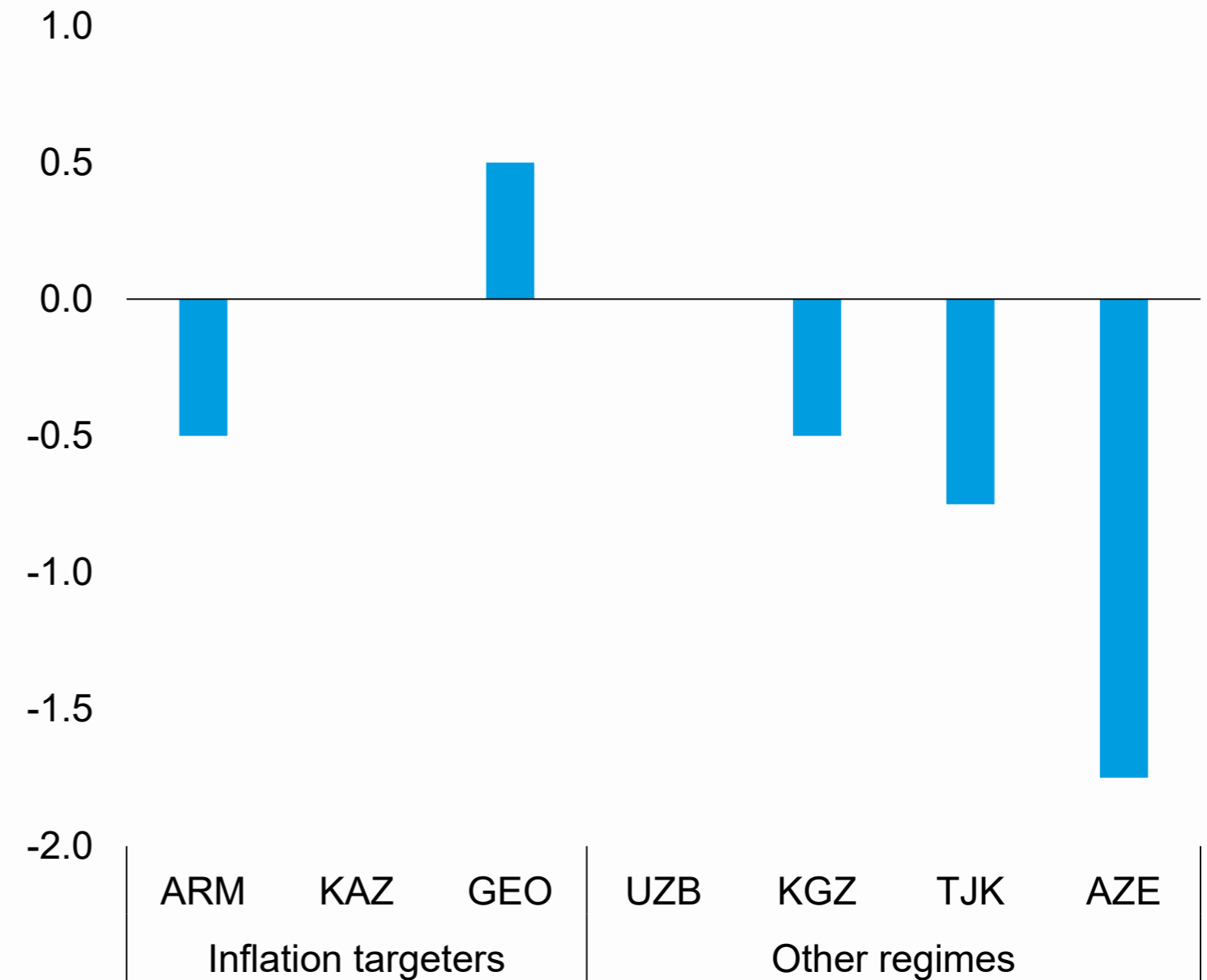
...cushioned by loose fiscal and monetary policy stances

Overall Fiscal Balance (Percent of GDP)



Source: National authorities; and IMF staff calculations.

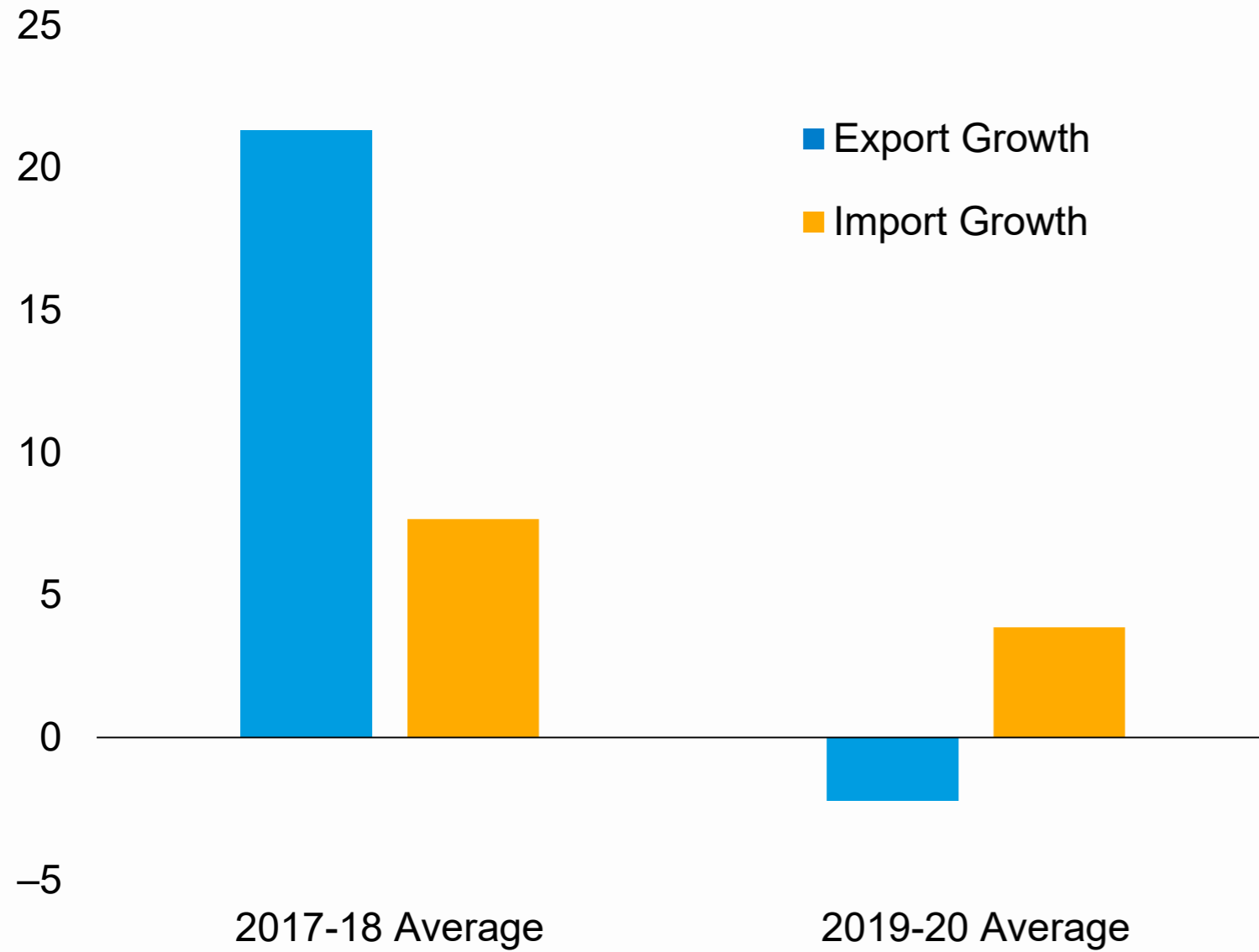
Change in Policy Rate in CCA Countries (Percent, Sep. 2019 – Dec, 2018)



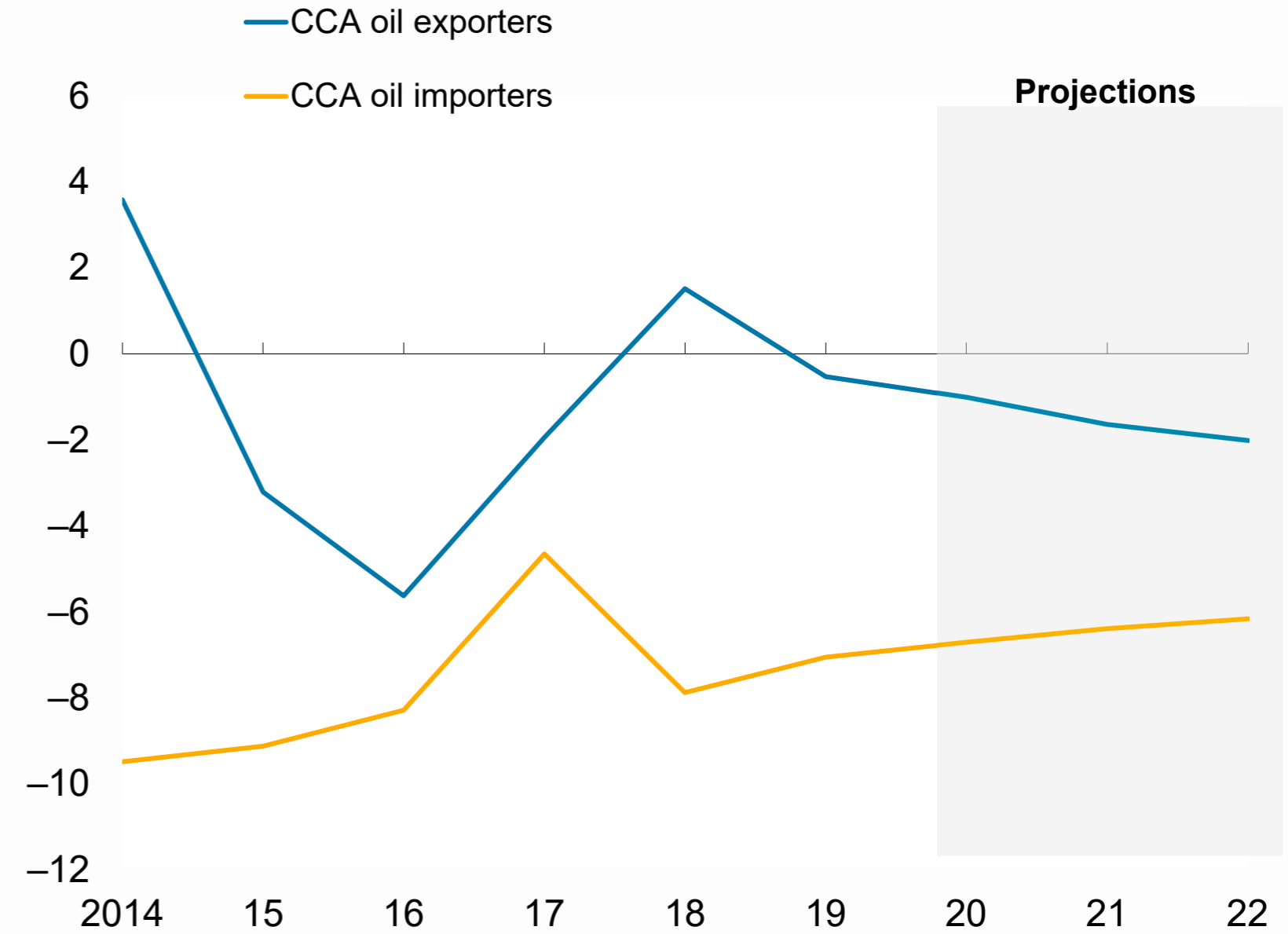
Source: Haver Analytics.

...amid weaker external demand...

CCA Export and Import Growth
(Year-on-year percent change)



Current Account Balance
(Percent of GDP)



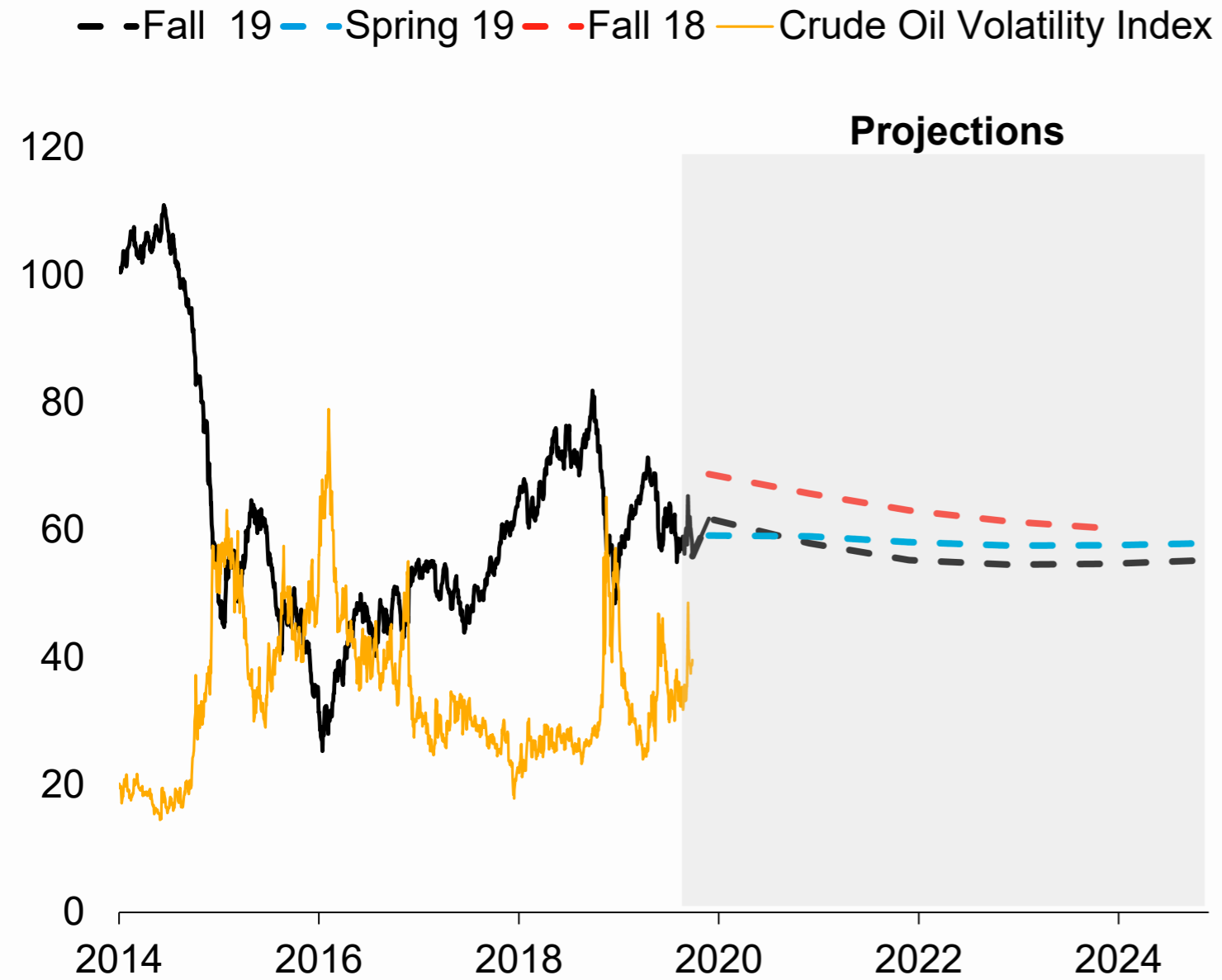
Sources: National authorities; and IMF staff calculations.

Challenges

Downside risks rise from oil price uncertainty and global trade tensions

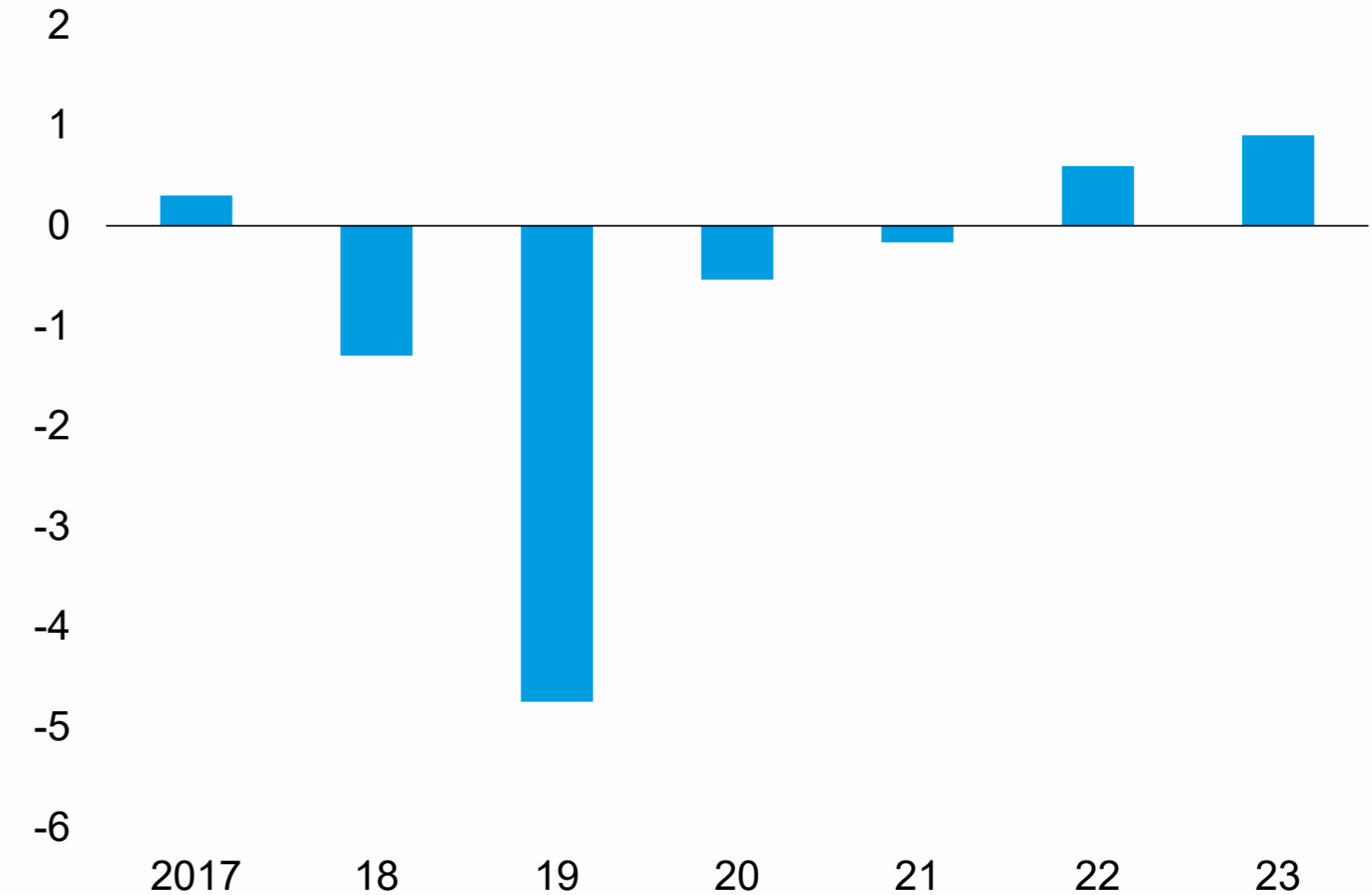
Lower and volatile oil prices

(Average petroleum spot price, US dollars a barrel)



Growth of Imports of Top Trading Partners

(Revisions from April 2019)



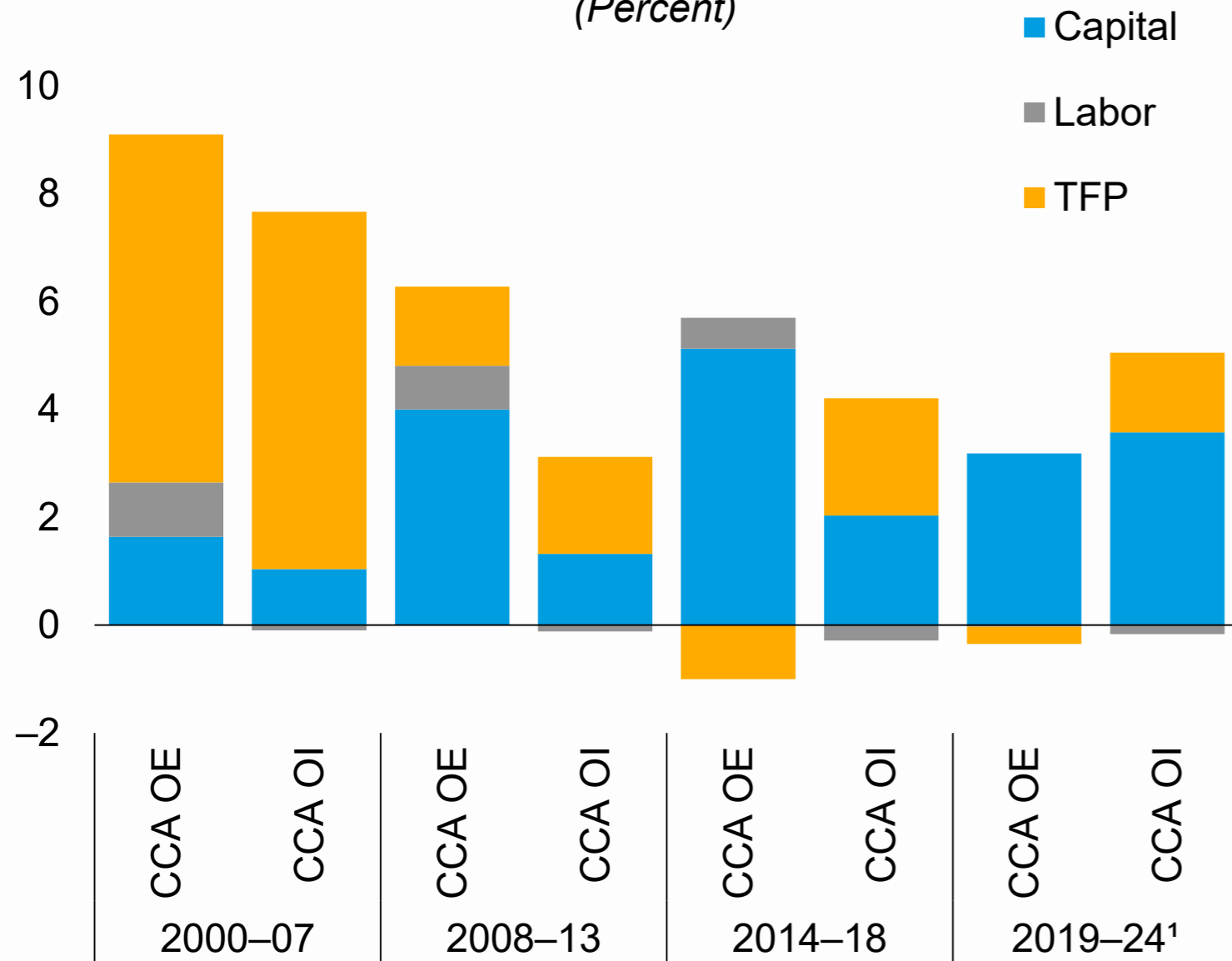
CCA Top 10 Export destinations include China, Italy, Russia, Netherlands, Turkey, Switzerland, France, Spain, Ukraine and Uzbekistan.

Sources: National authorities; and IMF staff calculations.

Falling productivity and low competitiveness restrain jobs and convergence

Growth Accounting, CCA Oil Exporters vs. Oil Importers, 2000–24

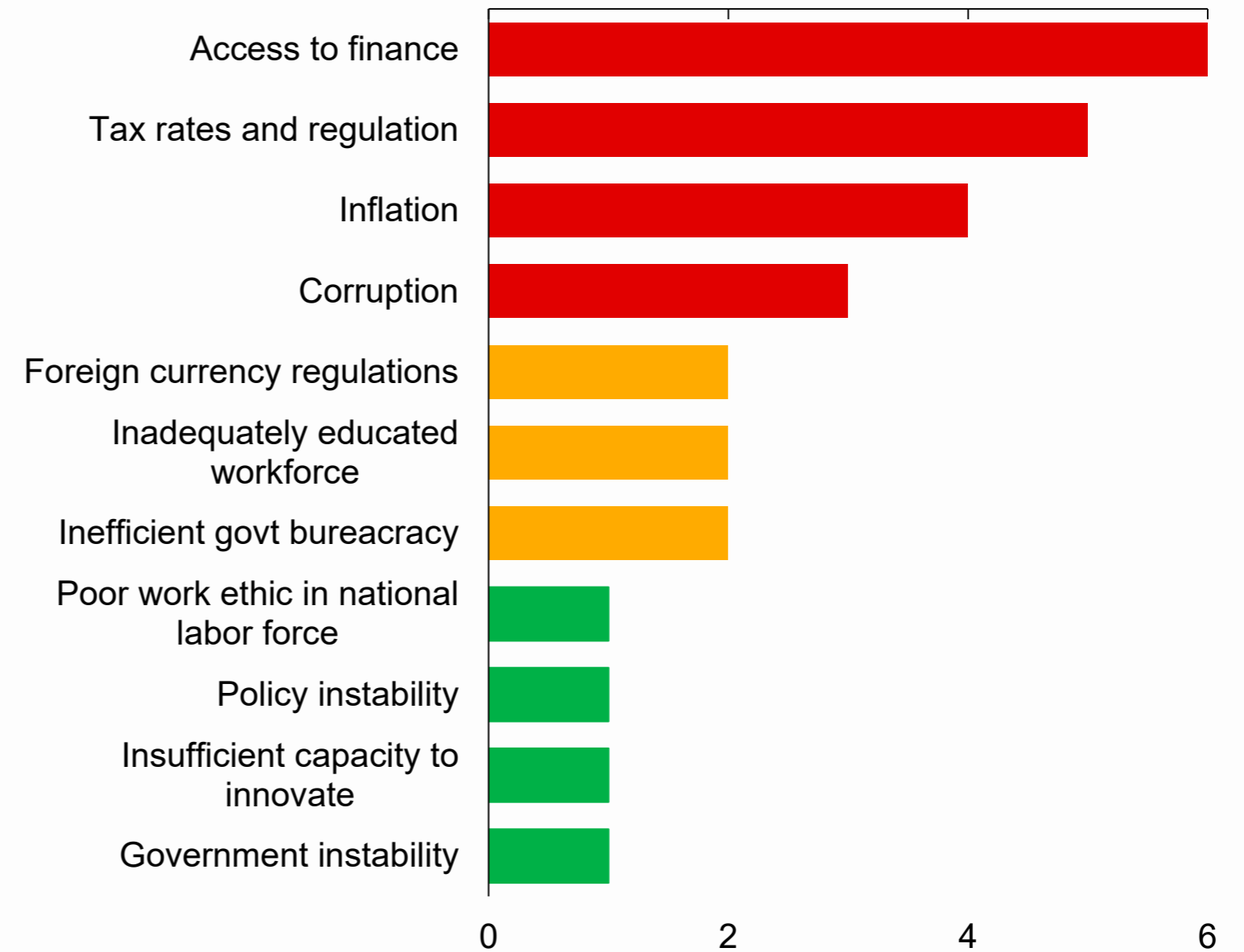
(Percent)



Sources: National authorities; and IMF staff calculations.

Challenges to Doing Business in CCA

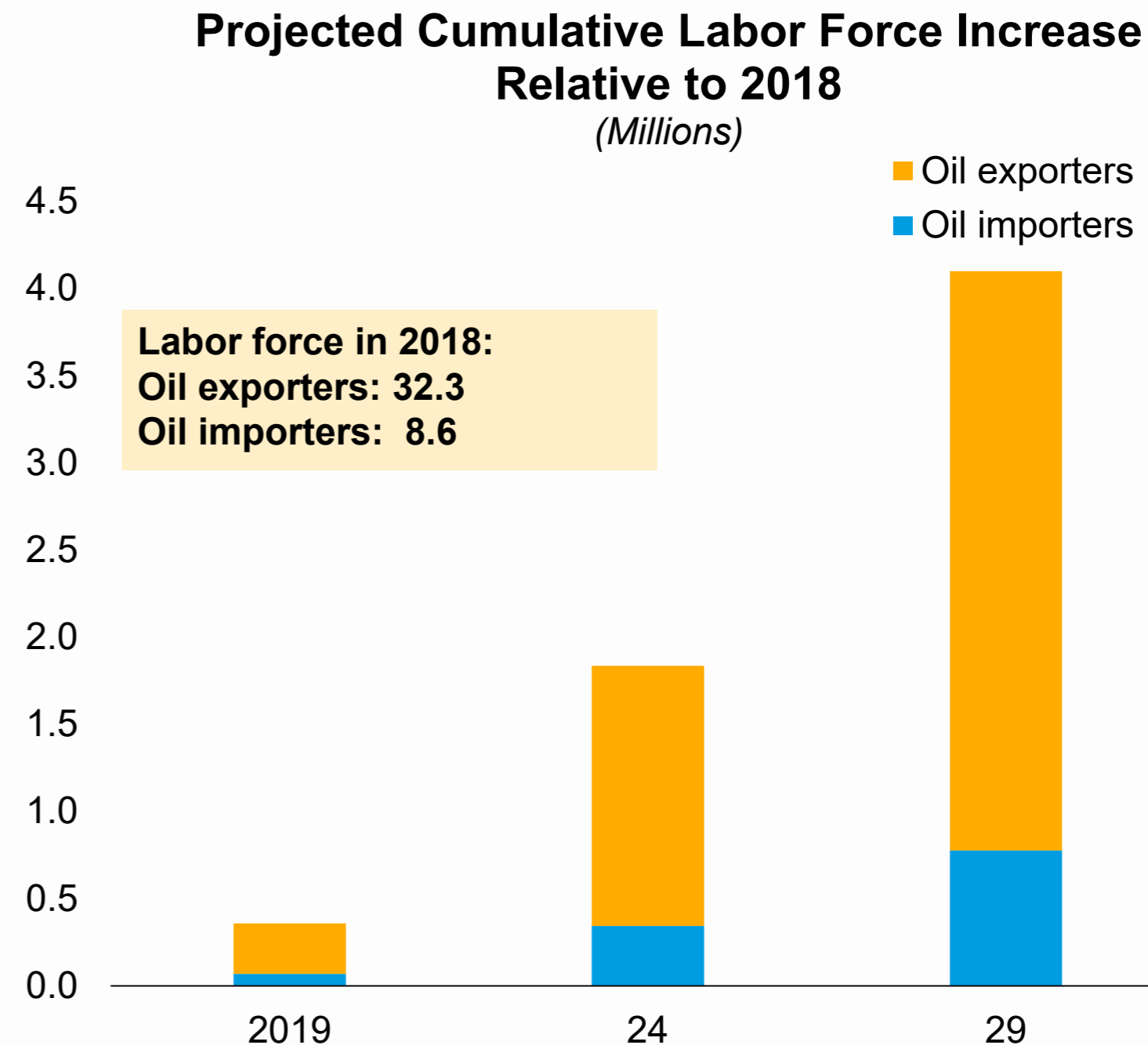
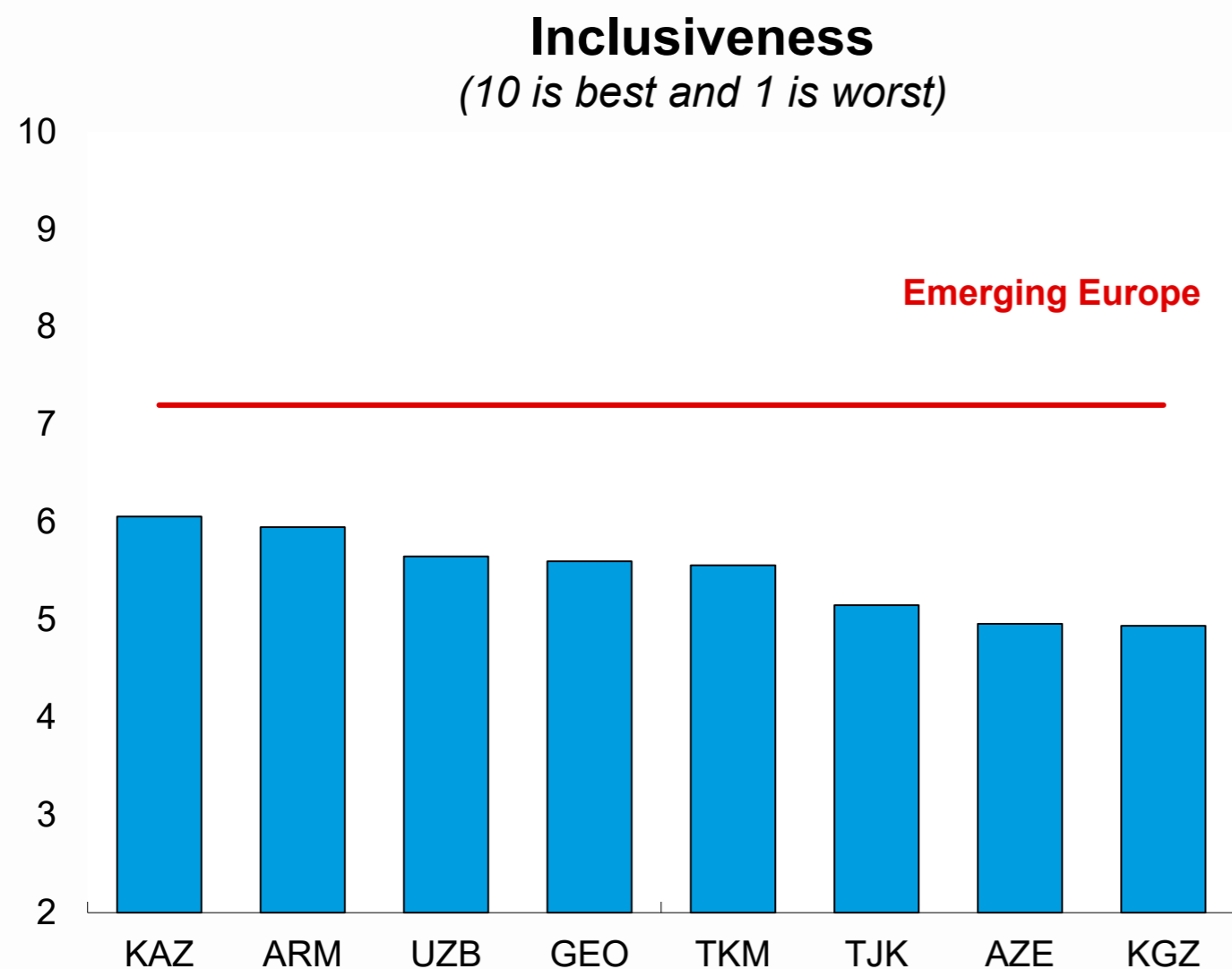
(Number of countries identifying the constraint among the top five)



Source: World Economic Forum, Global Competitiveness Report 2017–18.

Note: Turkmenistan and Uzbekistan are excluded due to data availability.

Therefore, higher and more inclusive growth is needed amid increasing labor force

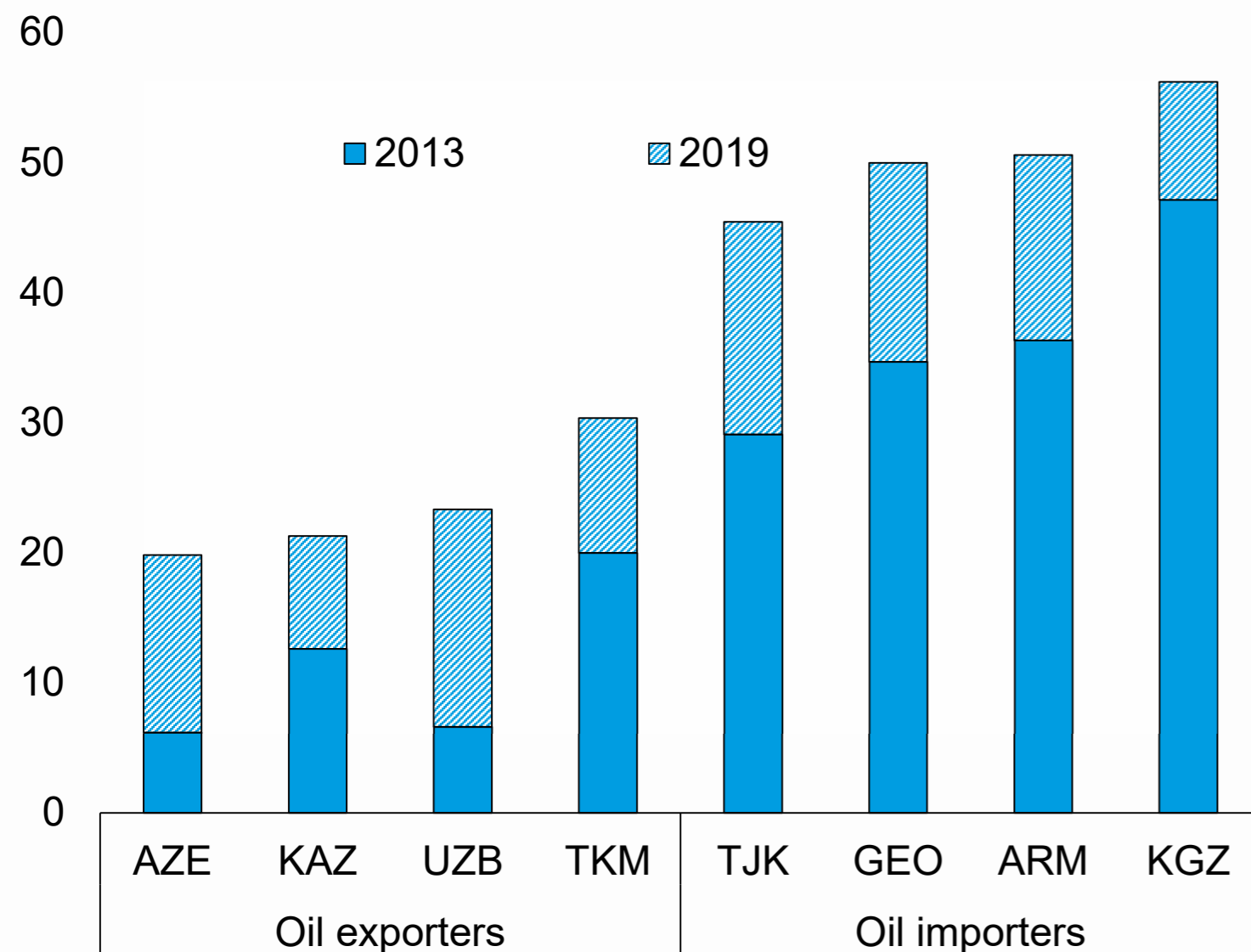


Source: European Bank for Reconstruction and Development.
 Note: Inclusiveness index aggregates several indicators which measure gender equality, opportunities for youth and regional disparities

Building Resilience

Growth-friendly fiscal consolidation is needed to reduce debt vulnerability

Total Public Debt in 2013 vs. 2019
(Percent of GDP)



Source: National authorities; and IMF staff calculations

Overview of Fiscal Management Frameworks

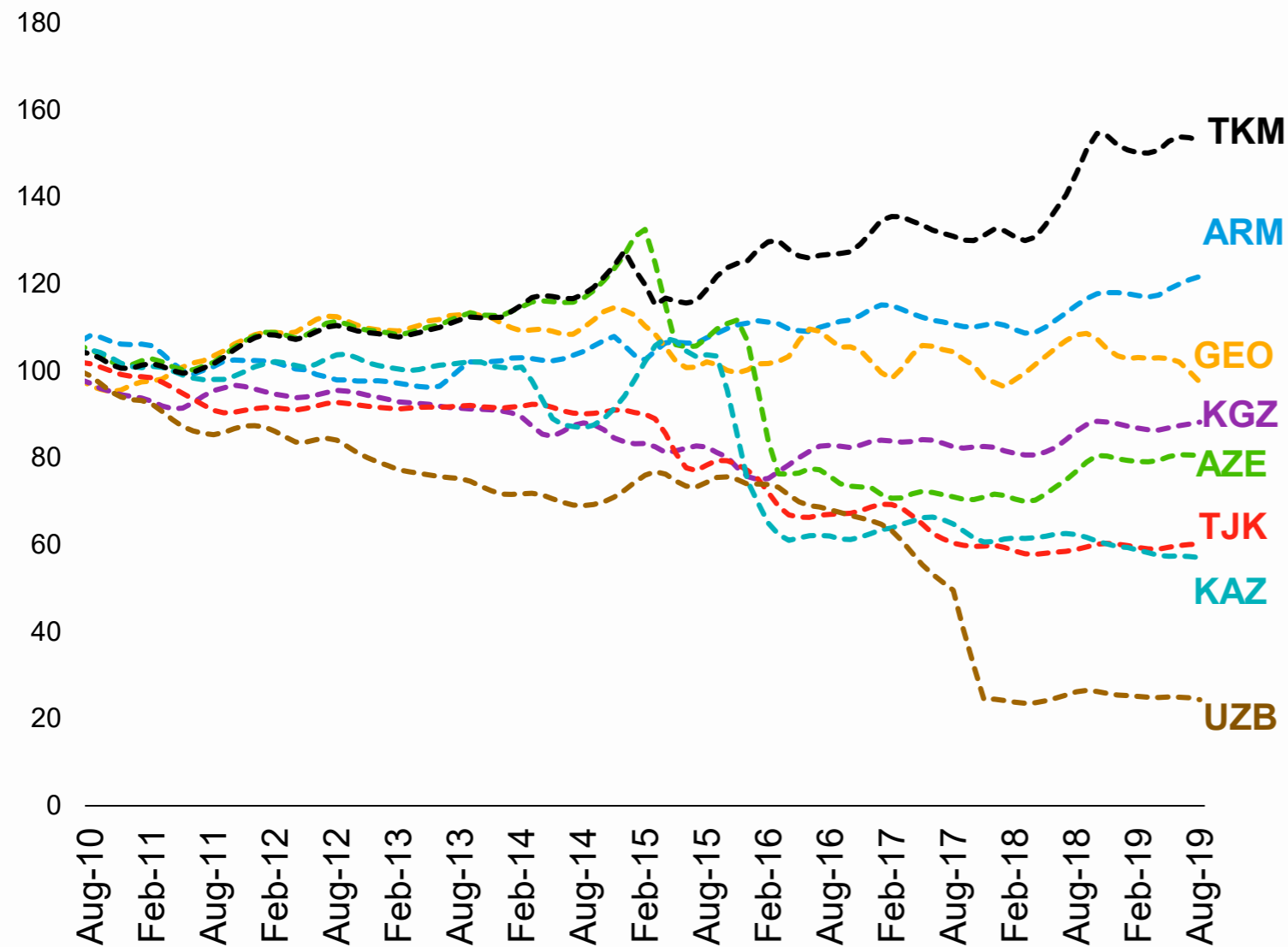
	Fiscal Rules	Medium-term fiscal framework
Armenia	Yes	Yes
Azerbaijan	Yes	In progress
Georgia	Yes	Yes
Kazakhstan	In progress	Yes
Kyrgyz Republic	In progress	No
Tajikistan	No	No
Turkmenistan	Yes	No ¹
Uzbekistan	No	No

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.

ER flexibility and modernization of MP frameworks are needed as shock absorbers

Nominal Effective Exchange Rate
(Index, Jan 2010 =100, 3-month moving average)



Modern Monetary Policy Framework

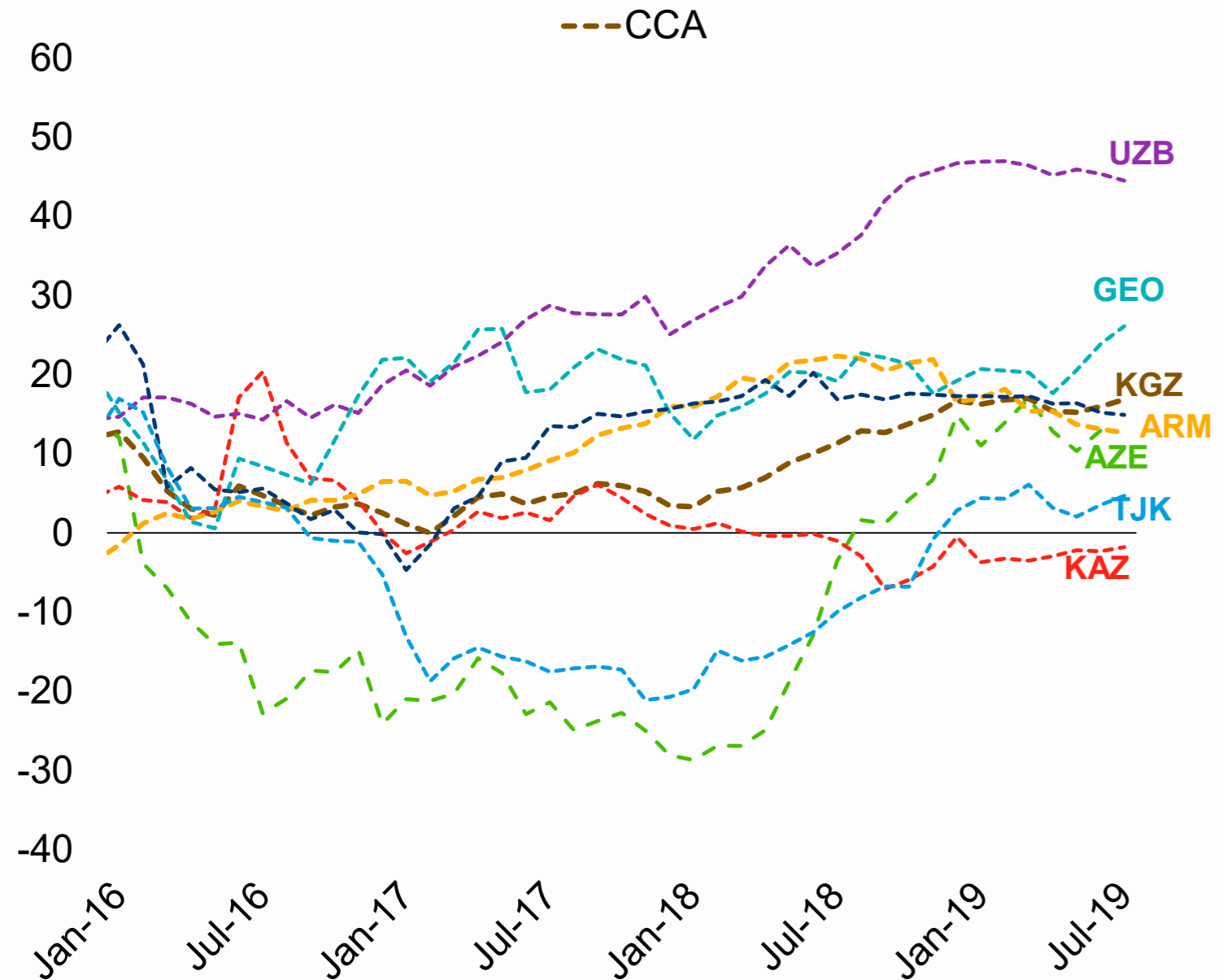
- Independent, accountable, and forward-looking interest rate-based monetary policy
- Objectives: price stability while preserving financial stability.
- Clear and timely communication
- Better transmission mechanism

Source: Information Notice System; and IMF staff calculations

Financial sector repair is needed to allow banks to contribute to growth

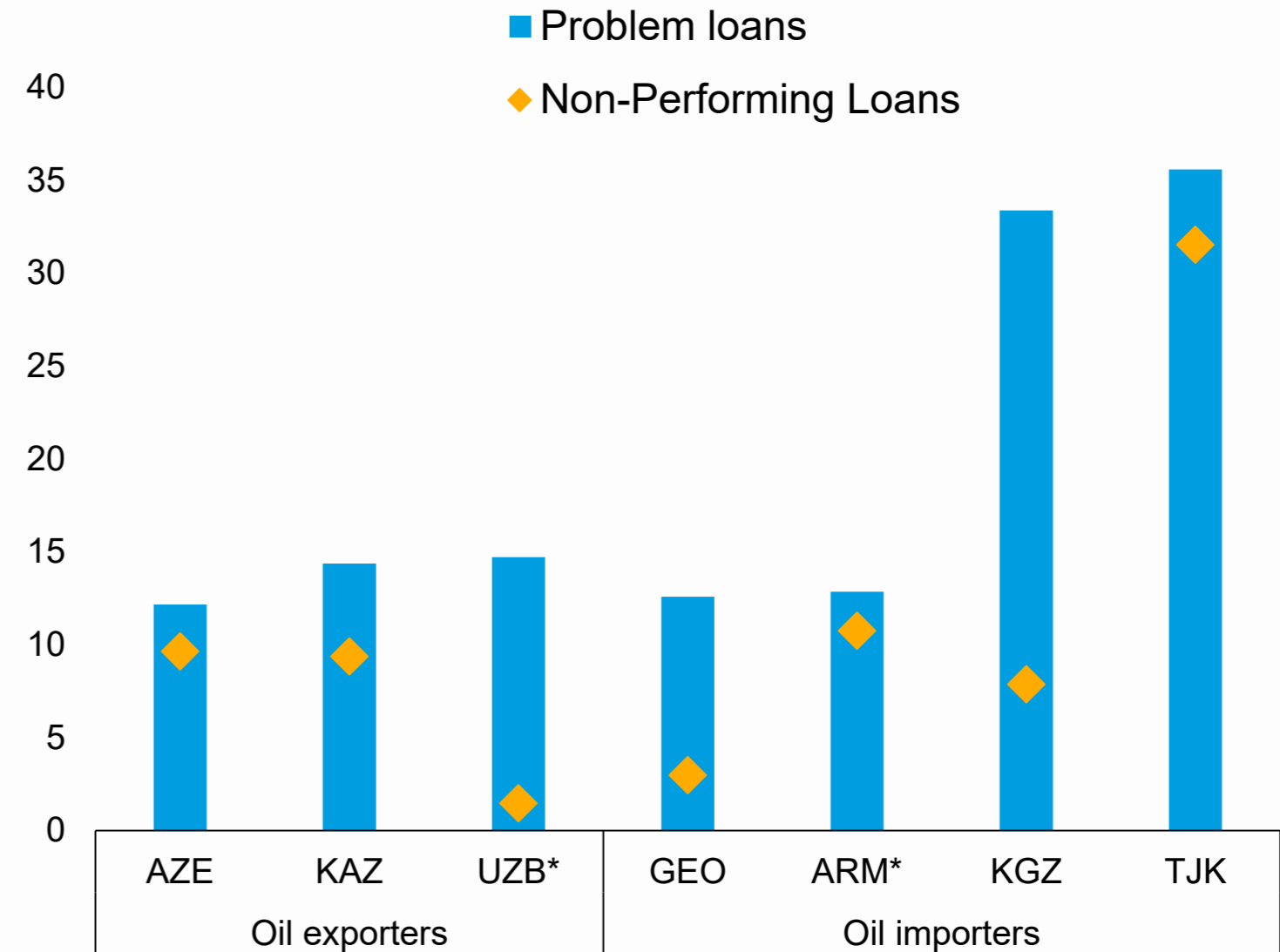
Private Credit Growth

(Percent, year-over-year average)



Asset Quality in the CCA

(Percent of total loans, latest available)



Sources: National authorities; and IMF staff calculations.

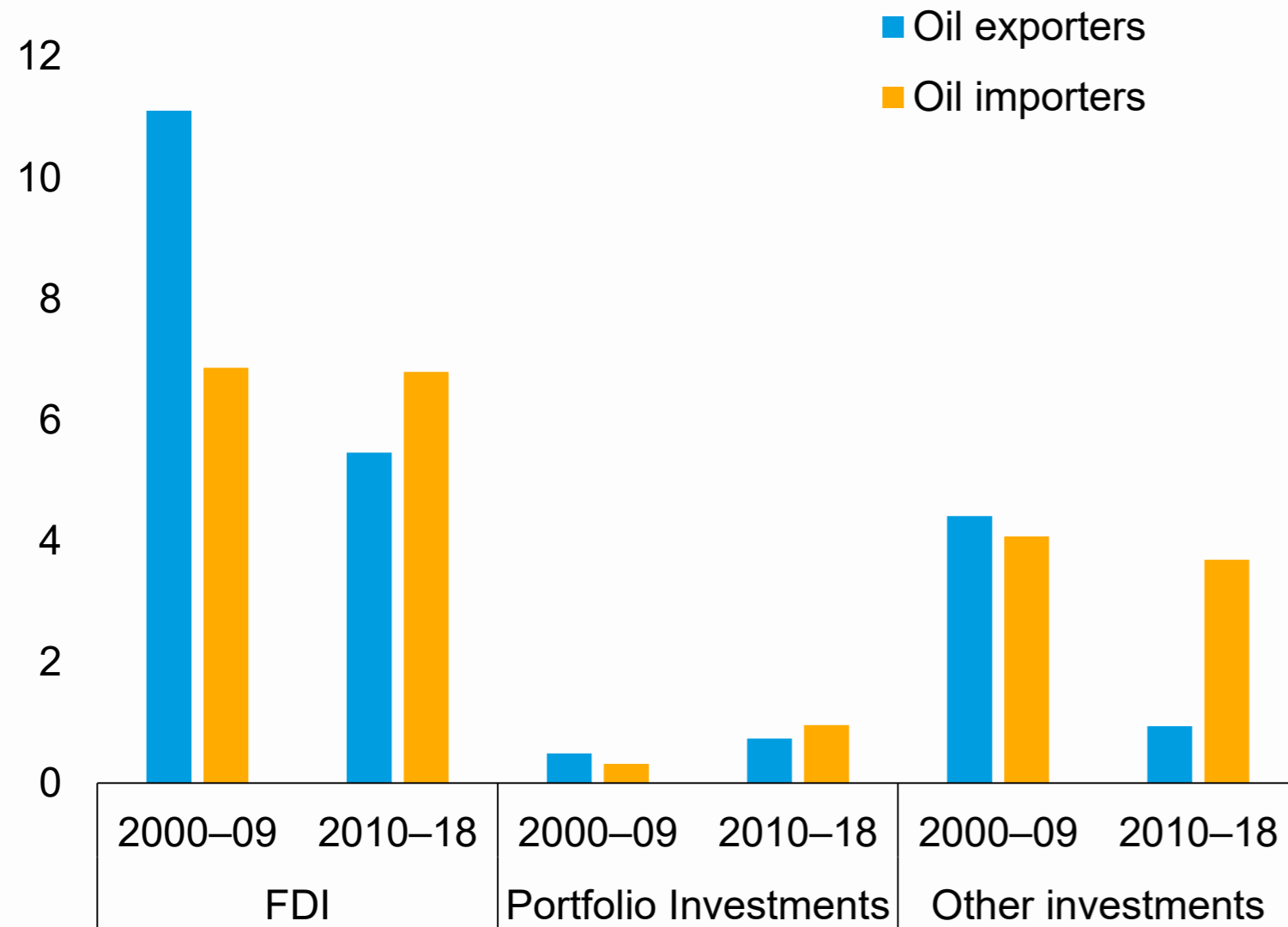
Note: Problem Loans include (1) overdue loans > 90 days; (2) watch loans < 90 days; (3) restructured/prolonged loans; (4) write-offs; and, (5) transfer to special-purpose vehicles or other vehicles.

1. For Uzbekistan restructured loans are related to SOE borrowing (from state owned banks) with government guarantees. The risks for banks are low as the government has high liquid buffers to repay if needed. The amount of restructured loans includes only the restructured parts of the loans. 2. For Armenia total loans include losses and loss loans are loans overdue by 270 days.

Source: National authorities; and IMF staff calculations

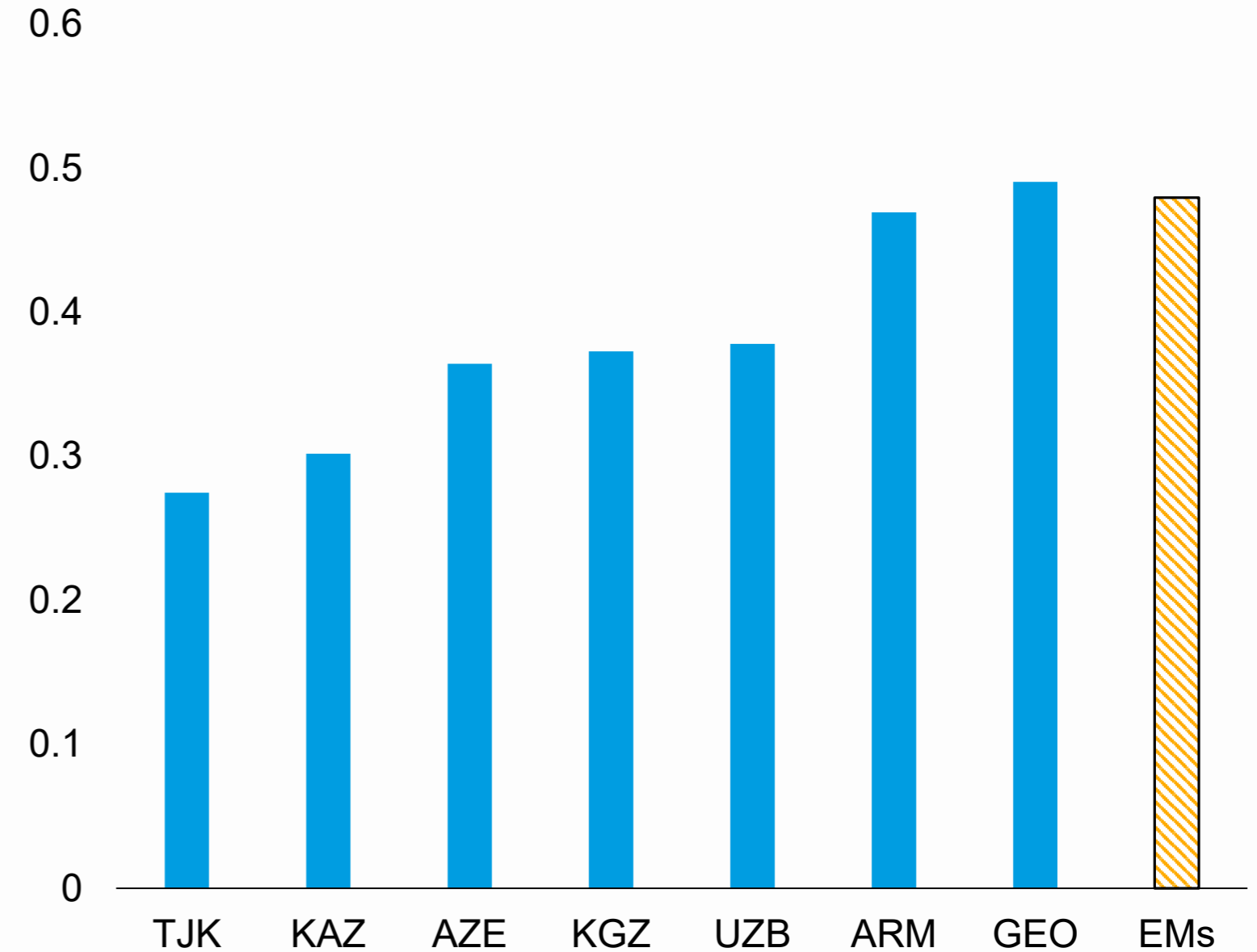
Improve access to finance to boost growth

CCA: Composition of Capital Inflows
(Percent of GDP)



Source: National authorities; and IMF staff calculations

SME Financial Inclusion Index

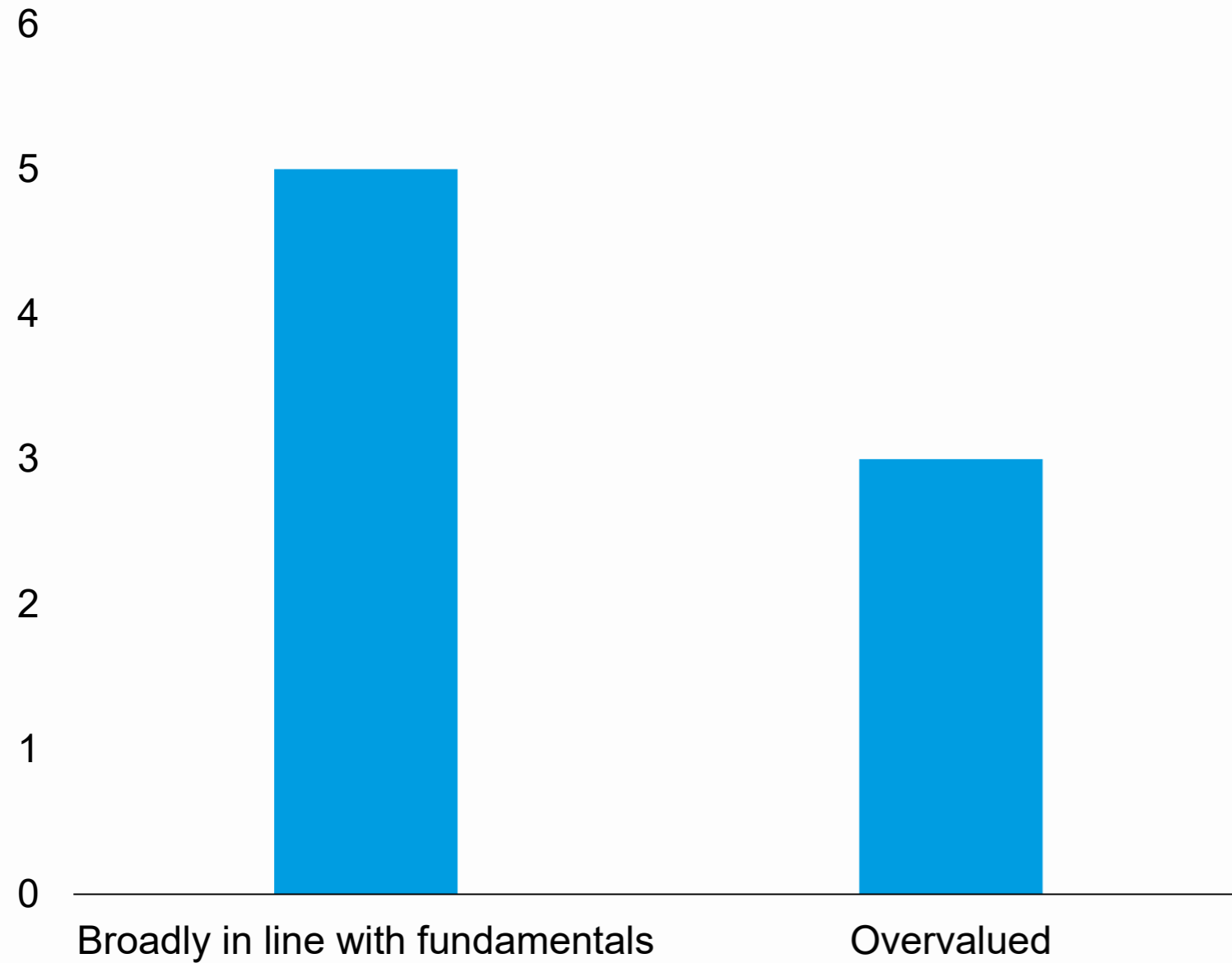


Sources: World Bank Enterprise Survey; and IMF staff calculations.

Boosting Competitiveness for Higher Inclusive Growth

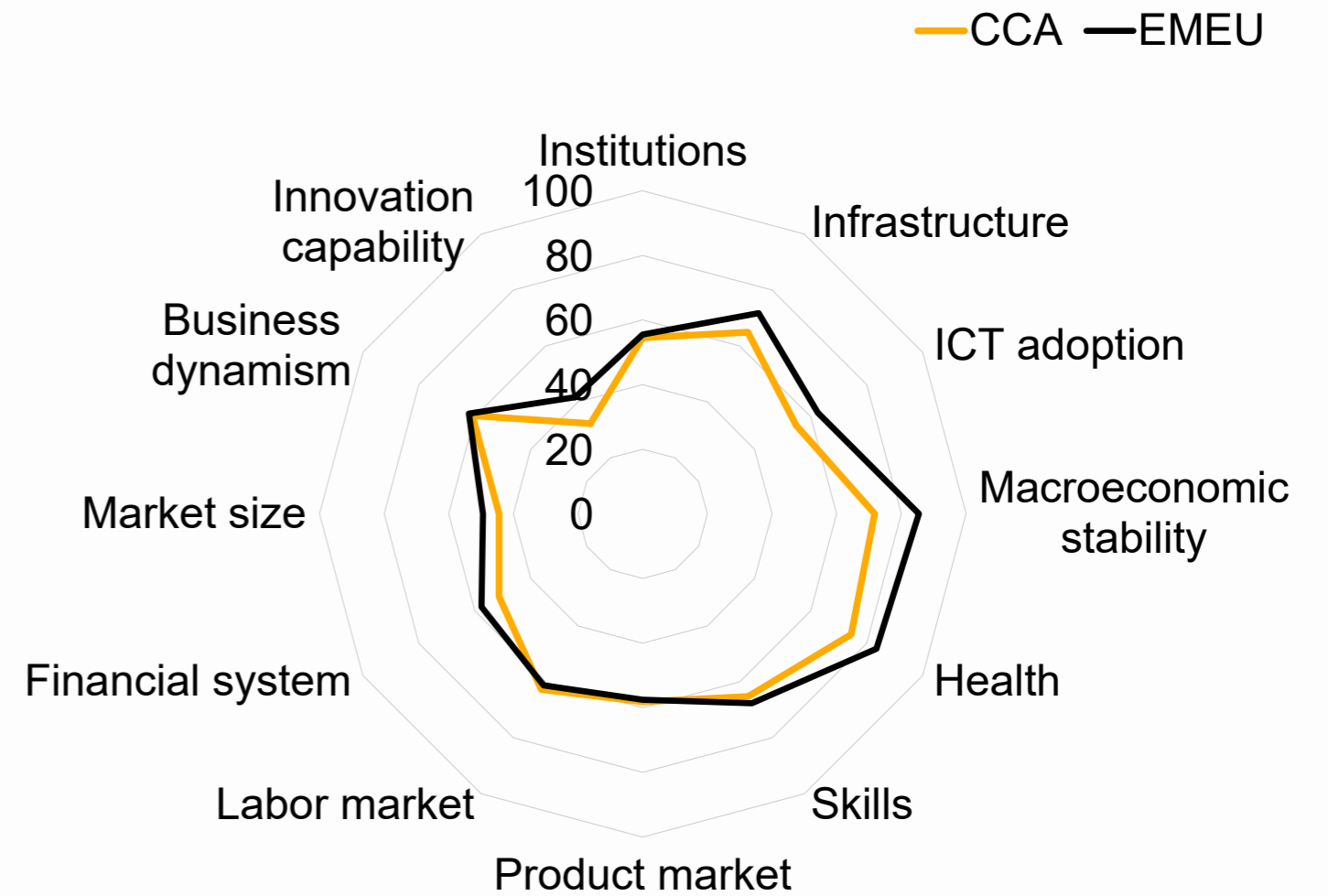
How competitive are CCA countries ?

Latest IMF Exchange Rate Assessment
(Number of countries)



Source: Authorities data and IMF staff calculations.

Global Competitiveness Index
(0–100, where 100 is best)

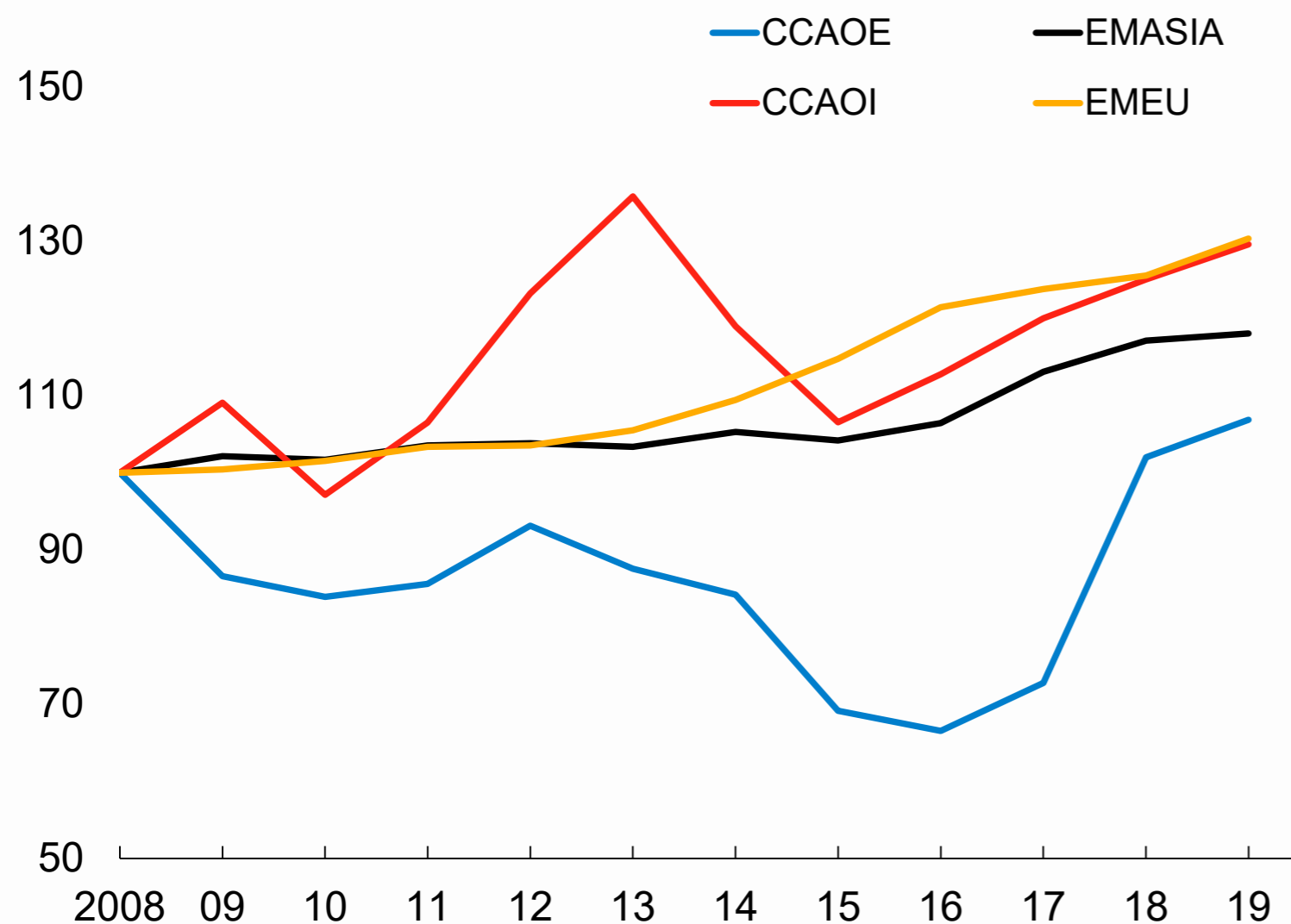


Source: World Economic Forum Global Competitiveness Report, 2018.

Non-commodity export performance in oil exporters has room for improvement

Share of Noncommodity Exports in Global Exports

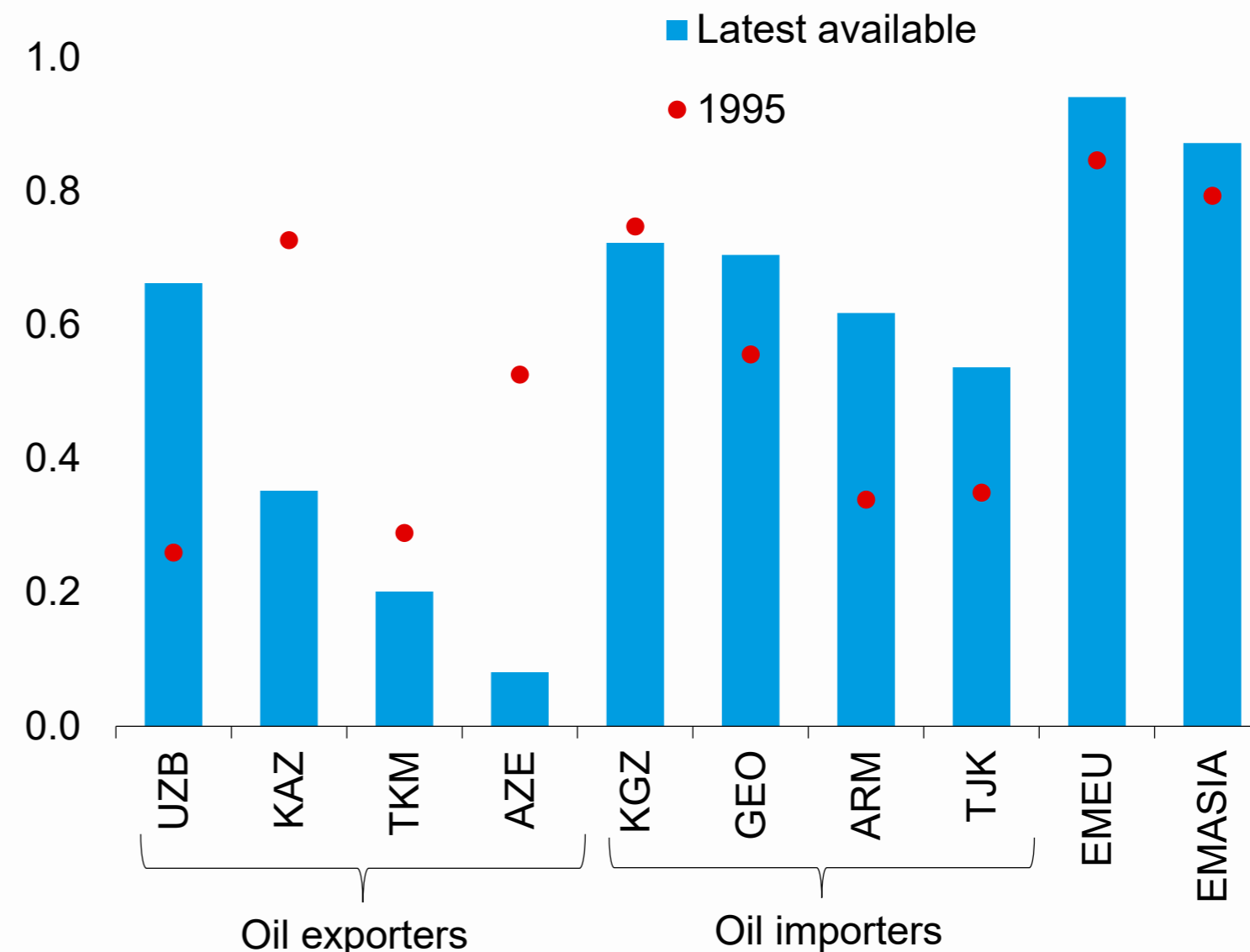
(Index 2008 = 100, share of volume of world exports)



Sources: National authorities; and IMF staff calculations.

Export Quality¹

(Index 0–1, higher is more diverse)



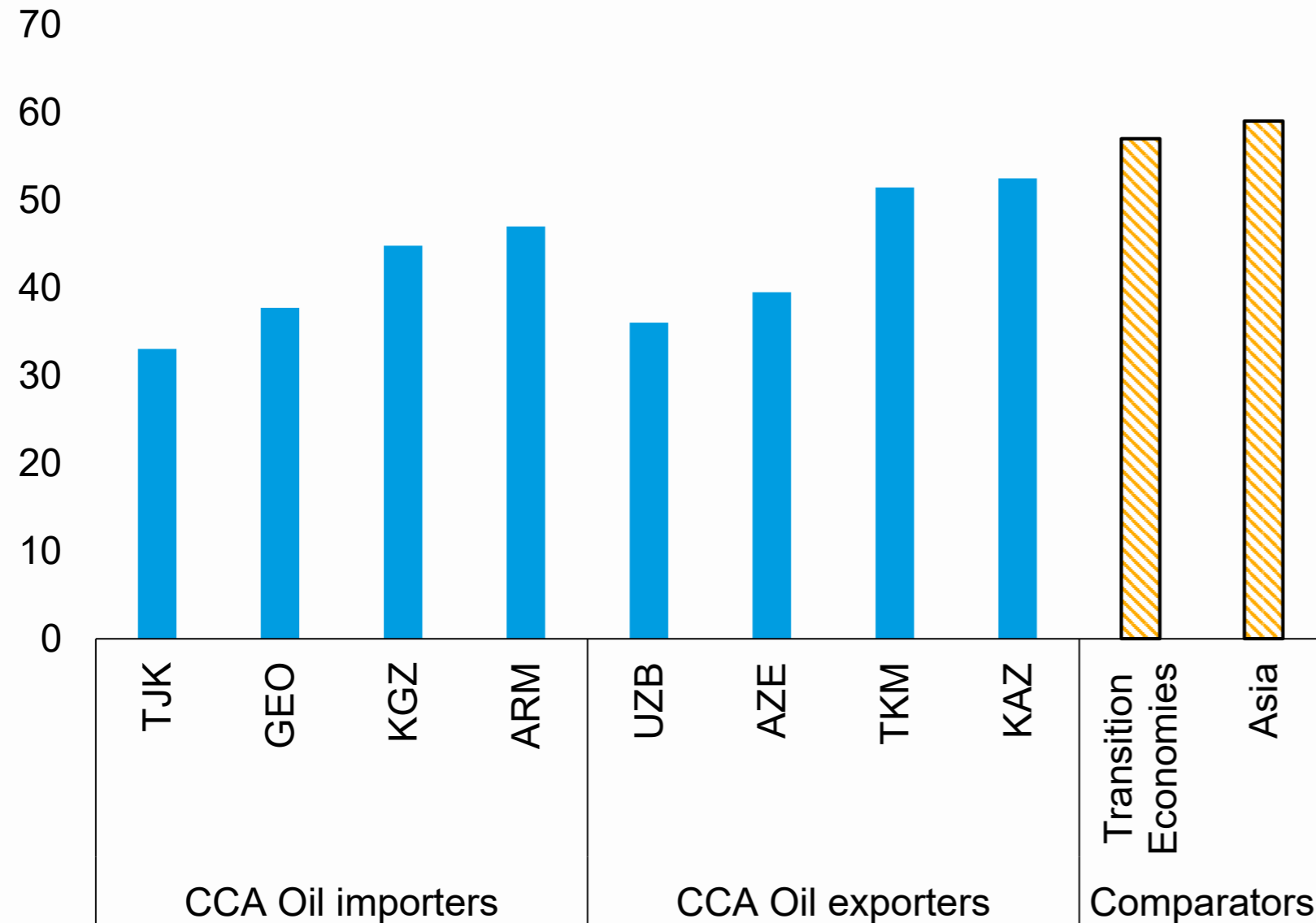
Sources: IMF Diversification database; and IMF staff calculations.

Note: Export quality index rebased to be from 0 to 1, and is equal to a Theil index of export concentration.

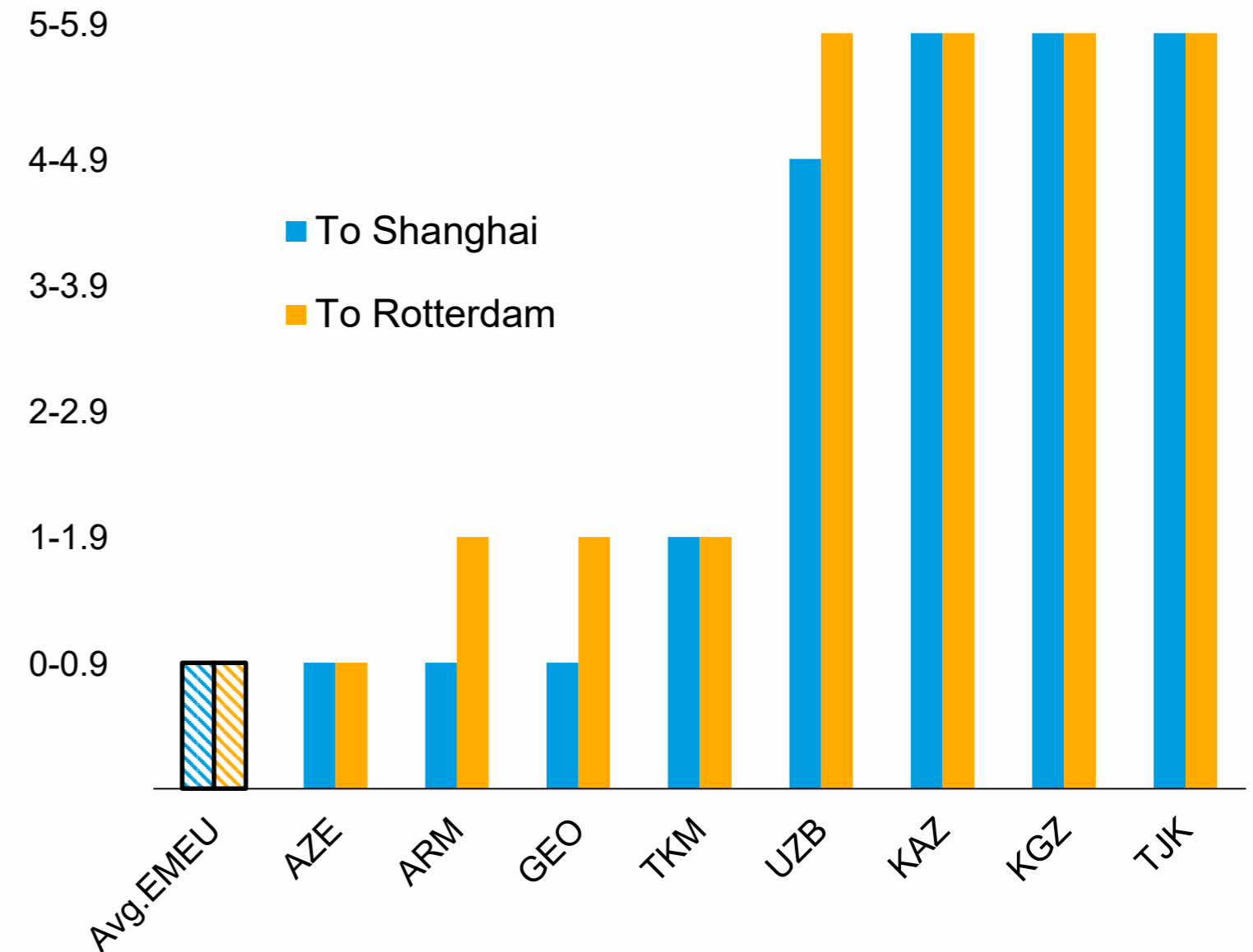
1. 2014 is latest available year for the quality index.

Promote global value chain participation

Global Value Chain Participation Rate (Share of exports)



Transportation Cost (Costs are in 000s of Euros per container)



Source: United Nations Conference on Trade and Development (UNCTAD) – Eora Global Value Chain (GVC) database.

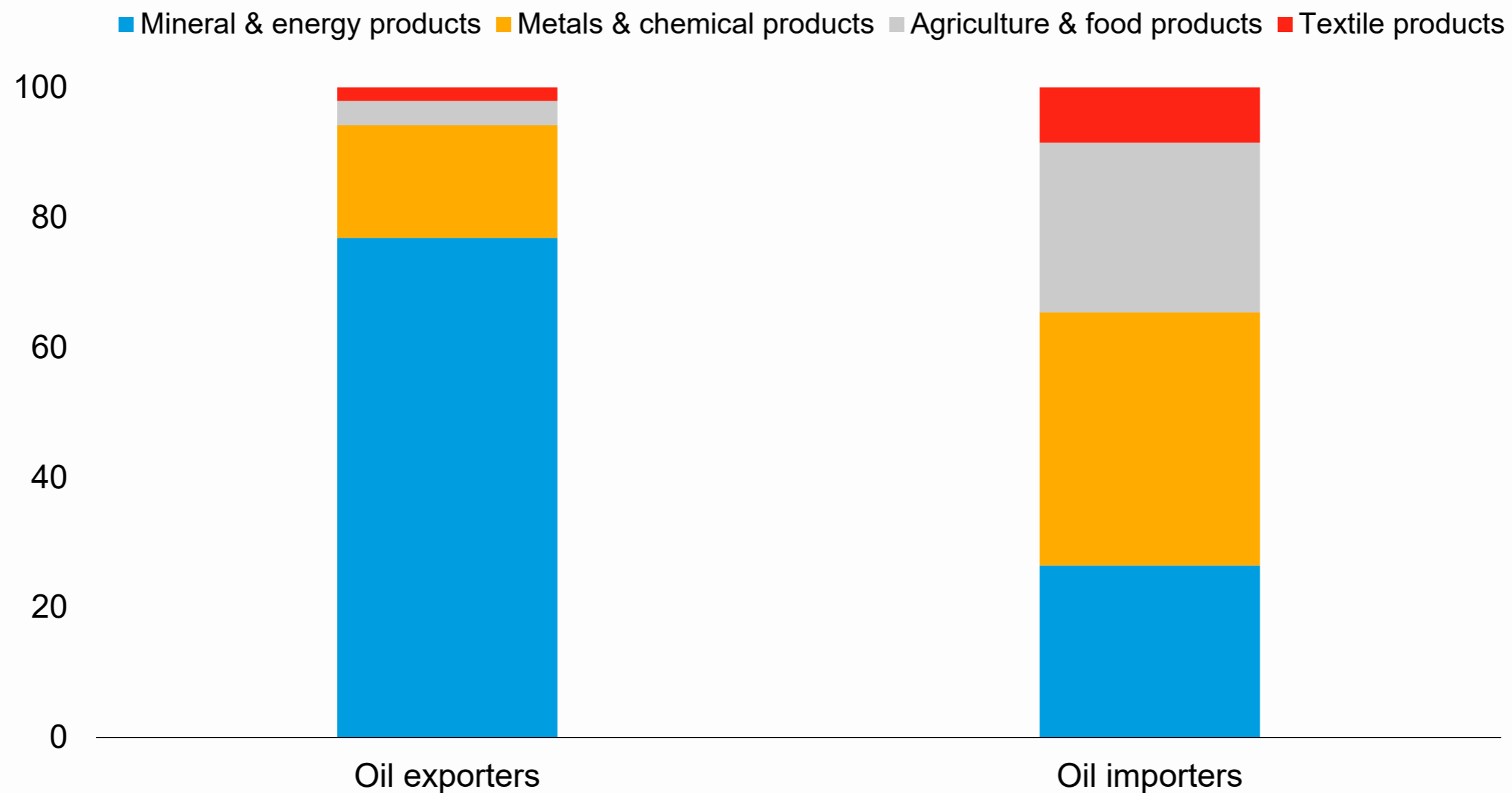
Source: Briceno- Garmendia, Lebrand and Abate, 2018 *Critical Connections: Promoting Economic Growth and Resilience In Europe and Central Asia*.

Note: Data shown does not show actual costs, rather it reflects estimated costs of transportation from the source.

Leverage comparative advantage for diversification

Sector Concentration of Exports

(Percent, share of total exports of goods with a revealed comparative advantage)

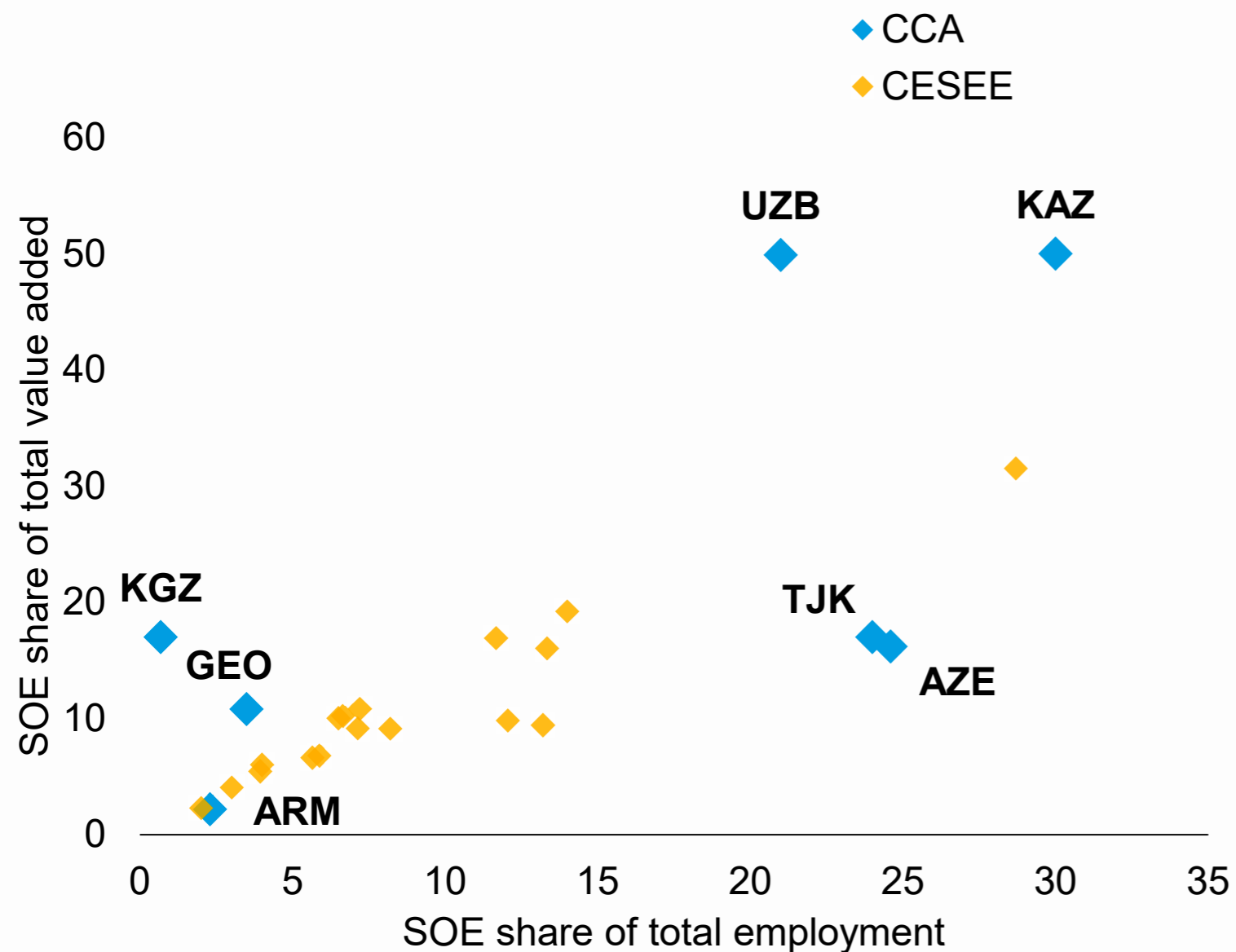


Sources: United Nations Comtrade; and IMF staff calculations.

Note: RCA measures the extent to which a given category of exports makes up a large share of a country's exports relative to world exports

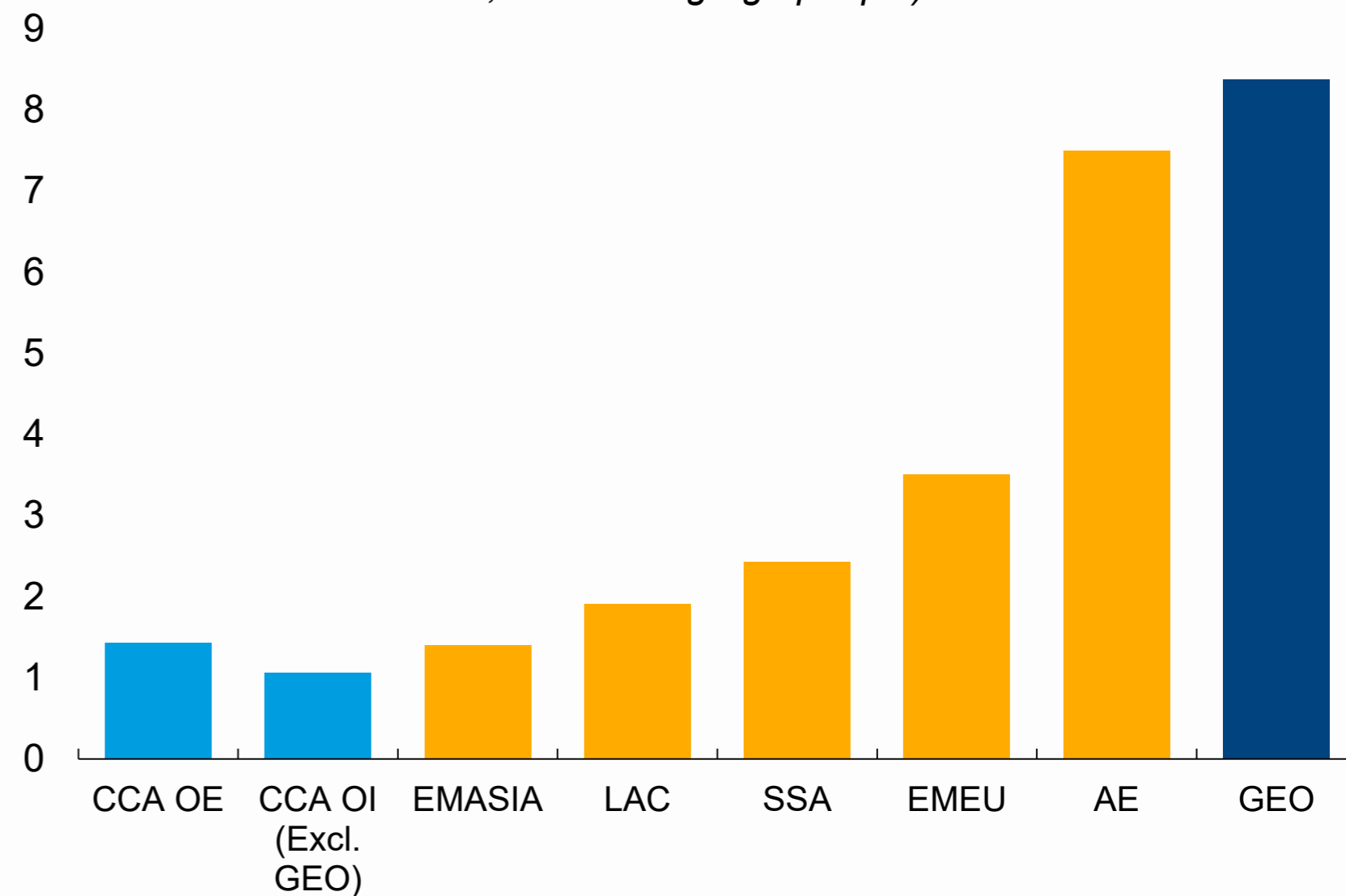
Reform SOEs to reduce state size and foster private sector

SOEs' Value Added and Employment (Percent)



Source: National authorities; and IMF staff calculations

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



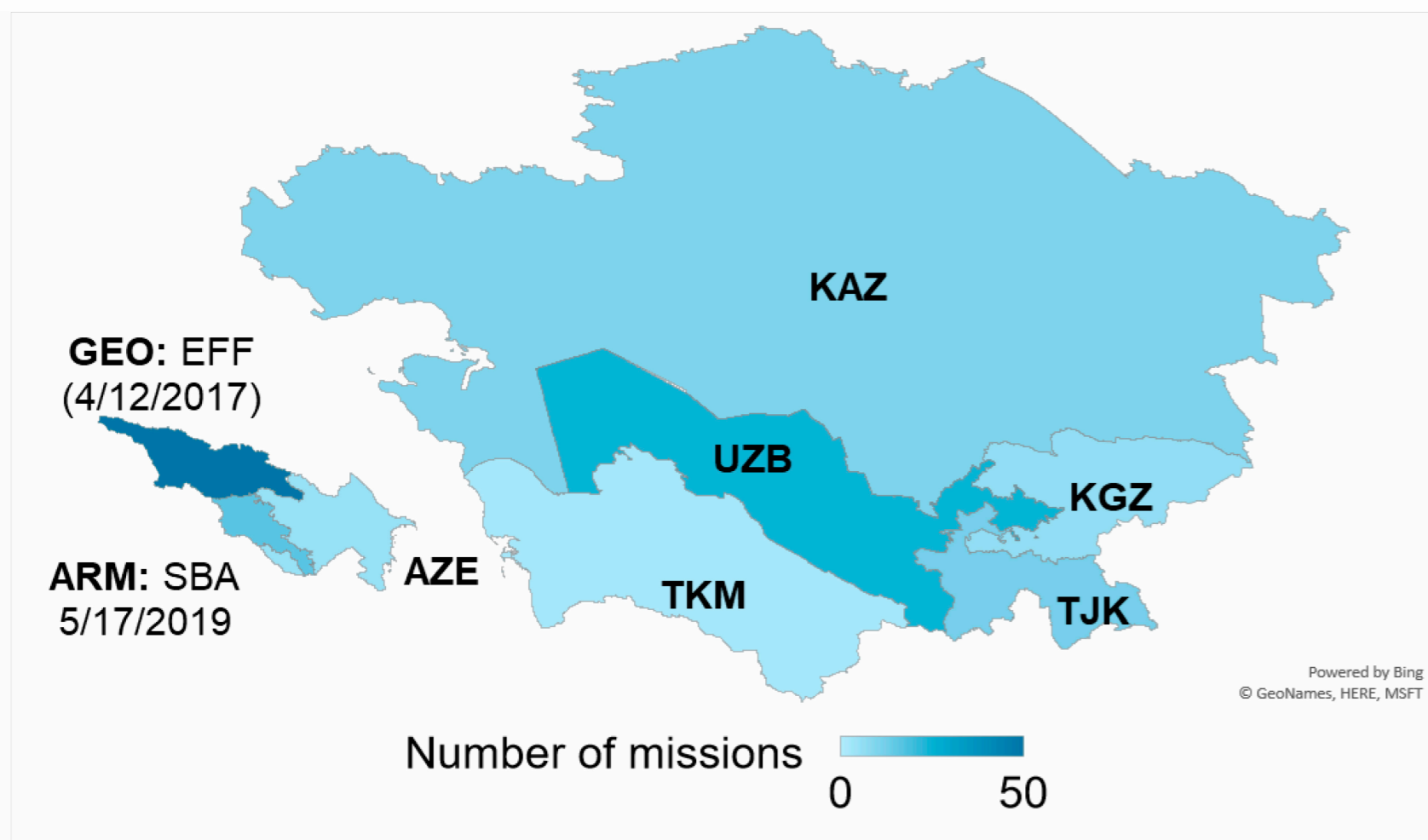
Source: World Bank *Doing Business Report*.

IMF's Role

Strong IMF engagement in the CCA region

Program and Technical Assistance (TA)

Team Visits Intensity in the CCA May 2018 – April 2019



Capacity Development (CD)

- **Fiscal:** public financial and investment management, tax administration, tax policy.
- **Monetary policy:** monetary policy framework, central bank operations, reserves management and foreign exchange arrangements.
- **Financial policies:** bank, pension, and insurance laws and regulations, AML/CFT.
- **Statistics:** national accounts and prices, government financial statistics, monetary and financial statistics, balance of payment and debt statistics.
- **JVI Training:** monetary policy workshop, financial programming and policies.

New regional TA center (RTAC) will fill an important gap

A Missing Regional Center



CCAM RTAC



- IMF TA in CCA averaged 13.5 full-time staff in 2018
- However, still significant ongoing needs and unmet demand in all IMF core areas
- New RTAC will be established for CCA and Mongolia in a year in Almaty.
 - A strong regional presence and platform
 - Bolster effectiveness and create synergies with advice and program implementation
 - Enhance trust and confidence via on-the ground interaction and deeper knowledge of the region
 - Complement and leverage experience from other IMF CD centers globally

Strong IMF engagement in the CCA region (cont.)

Analytical Work

Promote Inclusive Growth

- Papers on: “Promoting Inclusive Growth in the Caucasus and Central Asia” and
- “Opening Up in the CCA: Policy Frameworks to Support Integration.”
- Fall 2019 REO chapter on fiscal institutions
- Discussion of ministers and governors on inclusive growth at the 2019 annual meetings.
- Note on operationalizing inclusive growth in country work.

Bolster Resilience

- Papers on: “Building Resilient Banking Sectors in the Caucasus and Central Asia,”
- “A Growth – Friendly Path for Building Fiscal Buffers in the Caucasus and Central Asia,” and
- “Exchange rate developments and Policies in the Caucasus and Central Asia.”
- Fall 2019 REO chapter on capital flows
- Annual CCA central banks workshop

Takeaways

- Growth in the CCA has stalled amid downside risks.
- To address these risks, enhance resilience by strengthening fiscal, monetary, and financial policies.
- Boost competitiveness through reforms to achieve higher inclusive growth.
- Strong IMF's engagement, including through the new regional center.

THANK YOU!