

Foreign Inflows to the Caucasus and Central Asia

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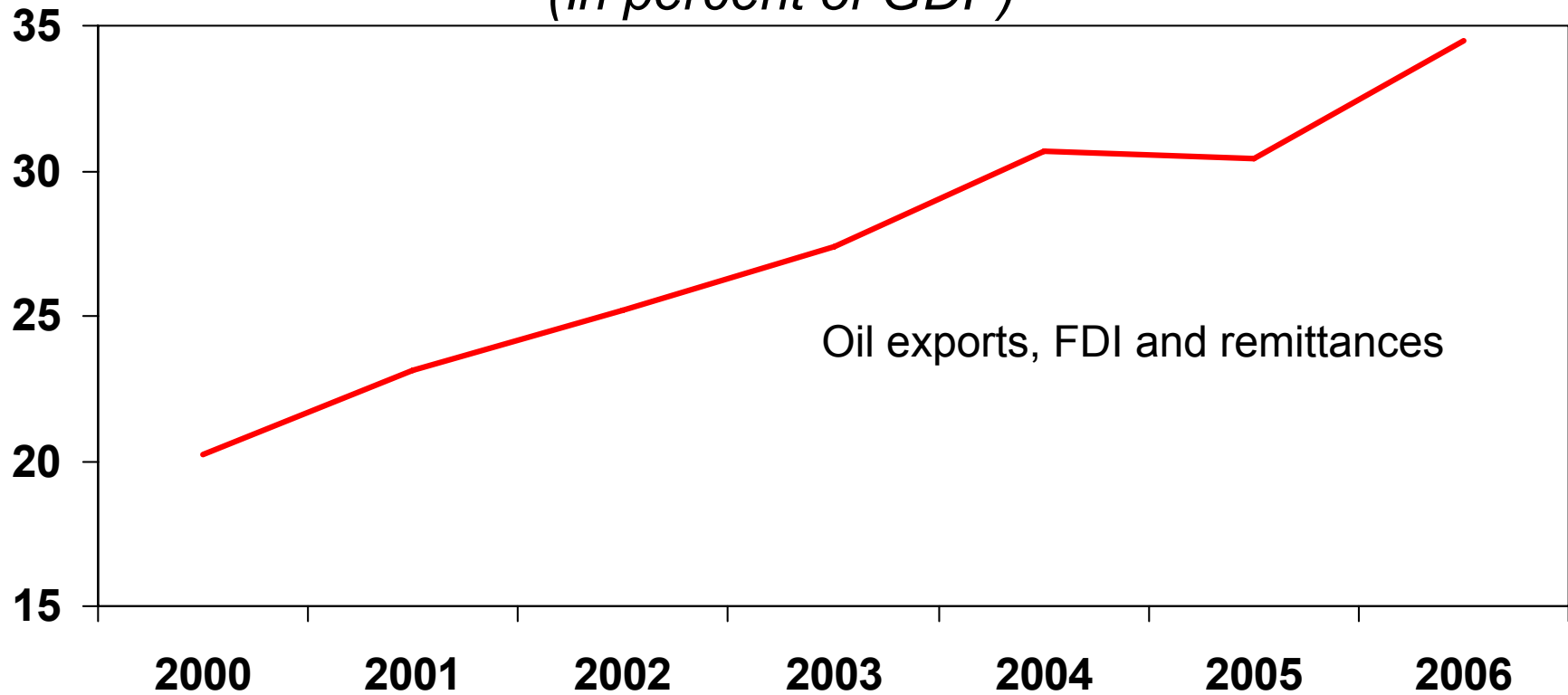
Overview of Presentation

- **Size and types of inflow**
- **Policy responses:**
 - Intervention and the exchange rate
 - Monetary policy (sterilization; interest rates)
 - Fiscal policy
- **Macroeconomic results:**
 - Inflation
 - Real exchange rates
 - Growth and income per head

Size and Types of Inflow

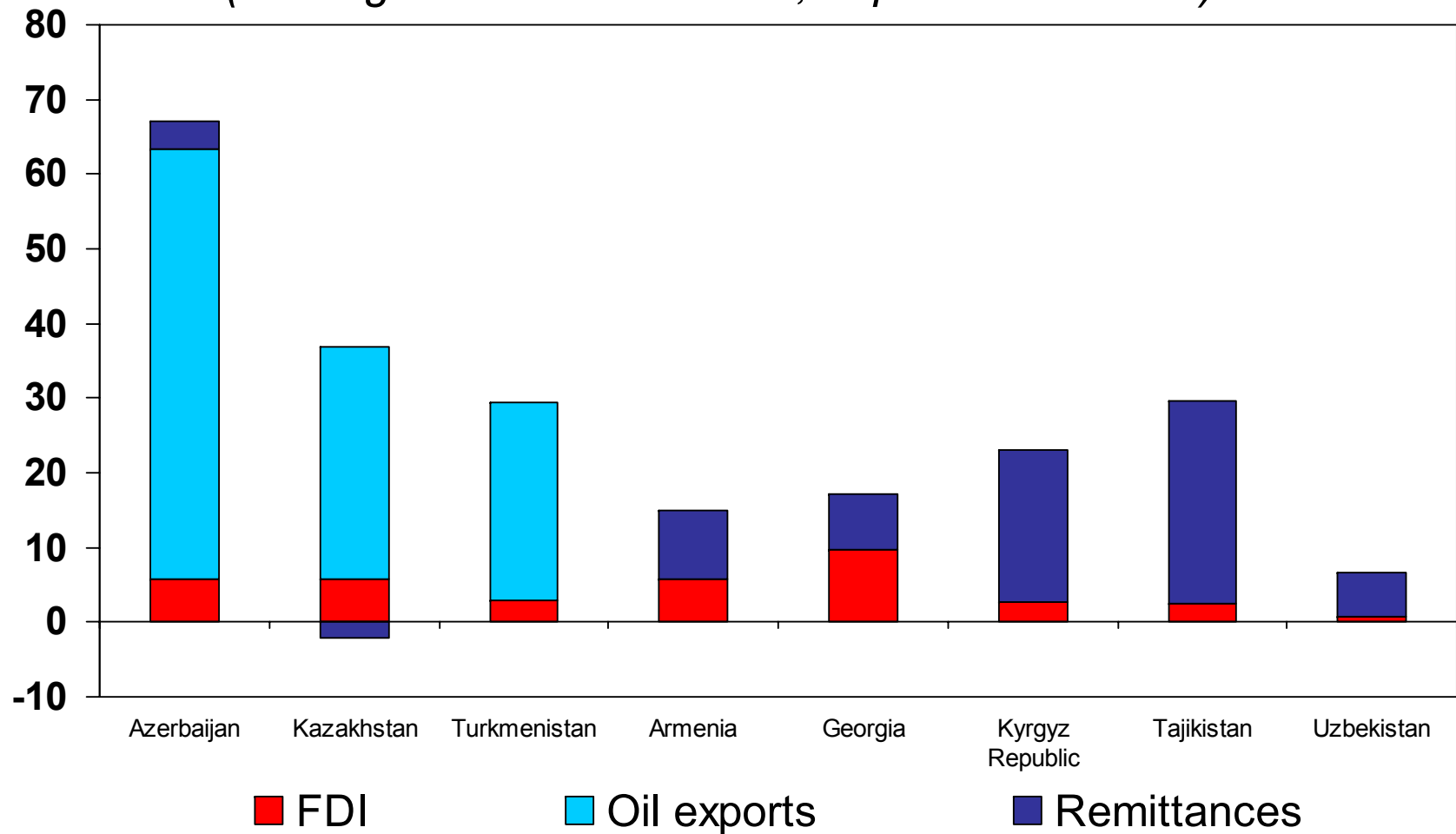
Foreign inflows to the CCA have nearly doubled since 2000

(In percent of GDP)



All countries are receiving substantial inflows

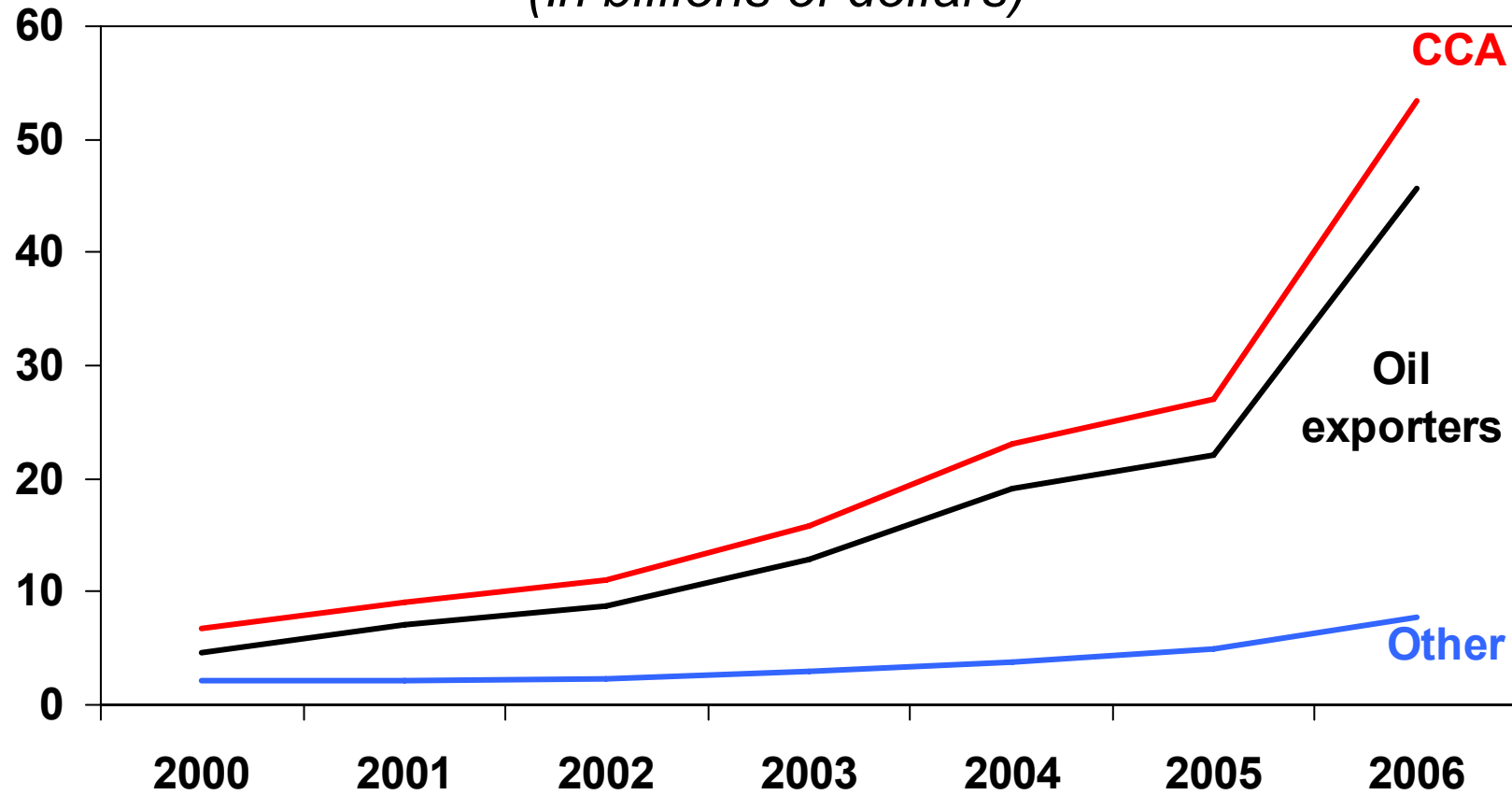
(Average of 2005 and 2006; in percent of GDP)



Policy Responses

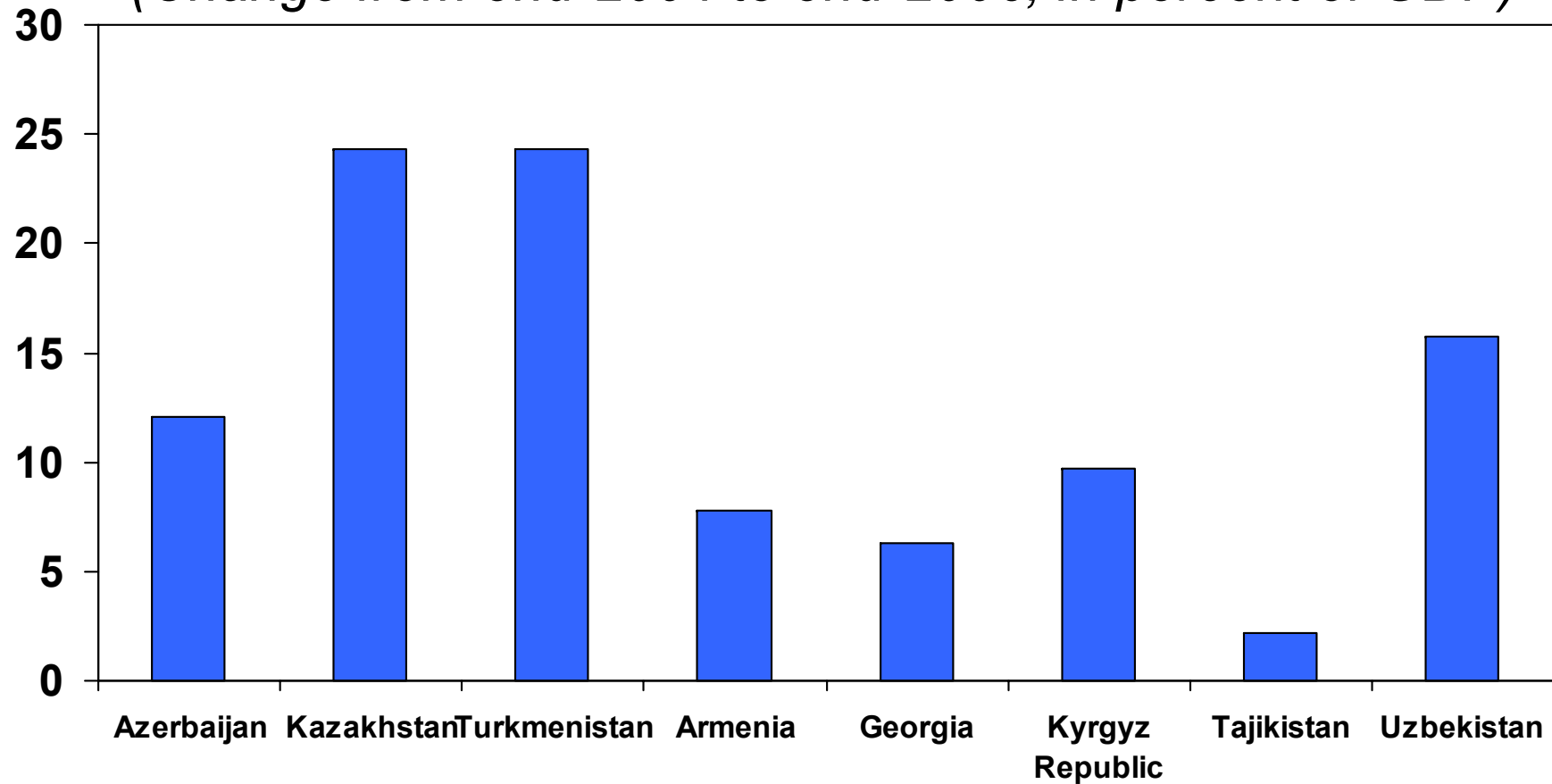
Official reserves have risen sharply

(In billions of dollars)



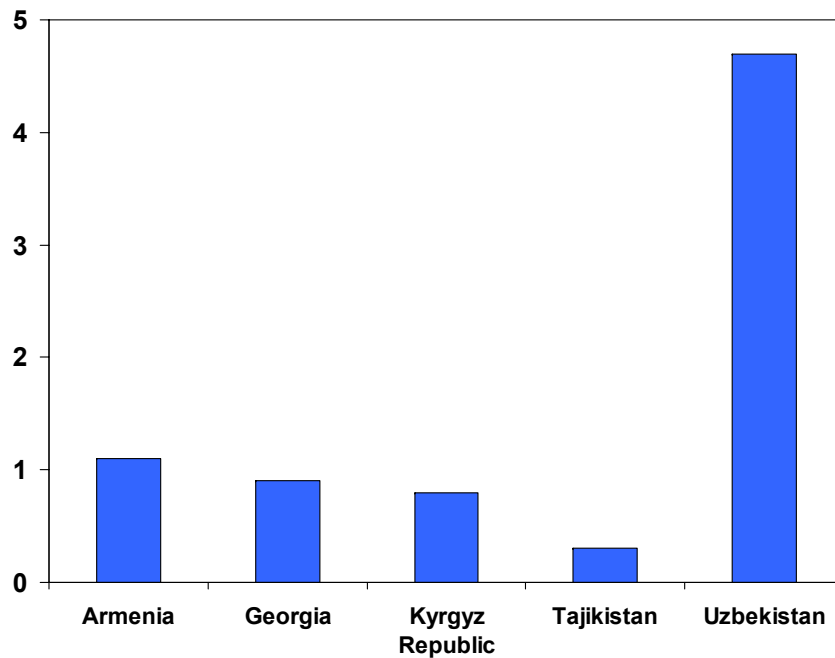
Reserves have risen in all countries

(Change from end-2004 to end-2006; in percent of GDP)

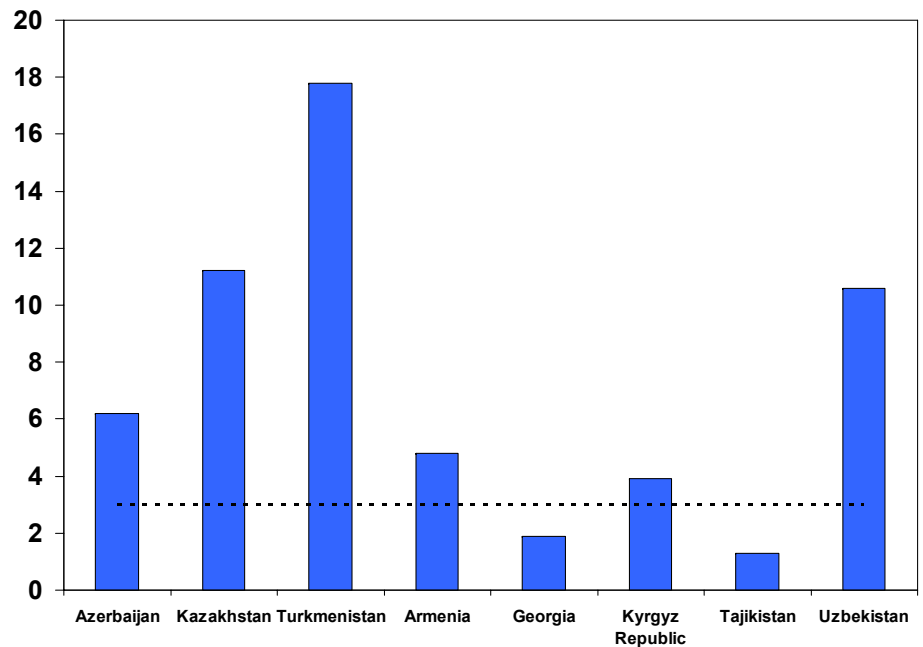


Most countries now have adequate reserves coverage

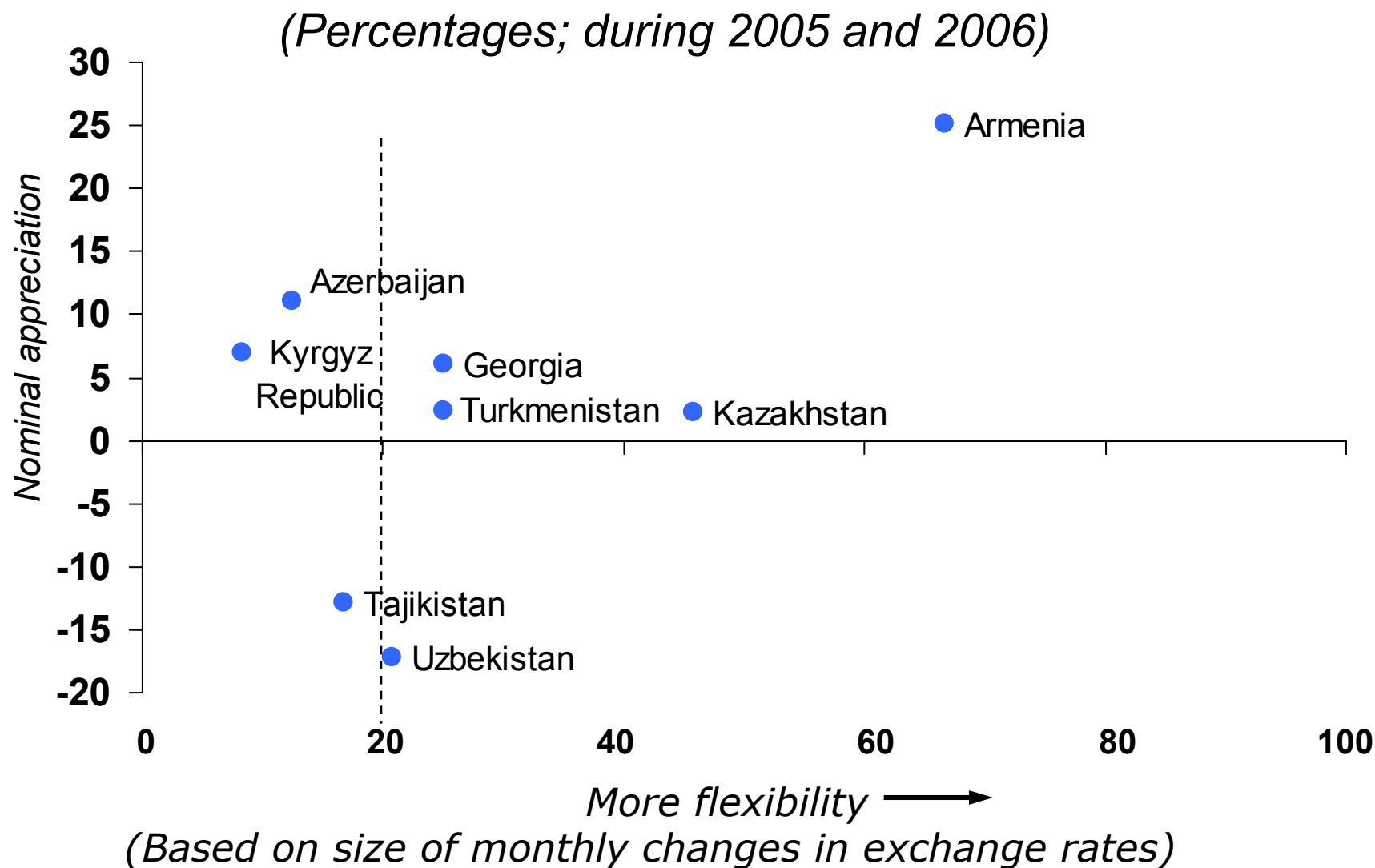
*(Non-oil exporters, end-2006;
in billions of dollars)*



(End-2006; in months of imports)

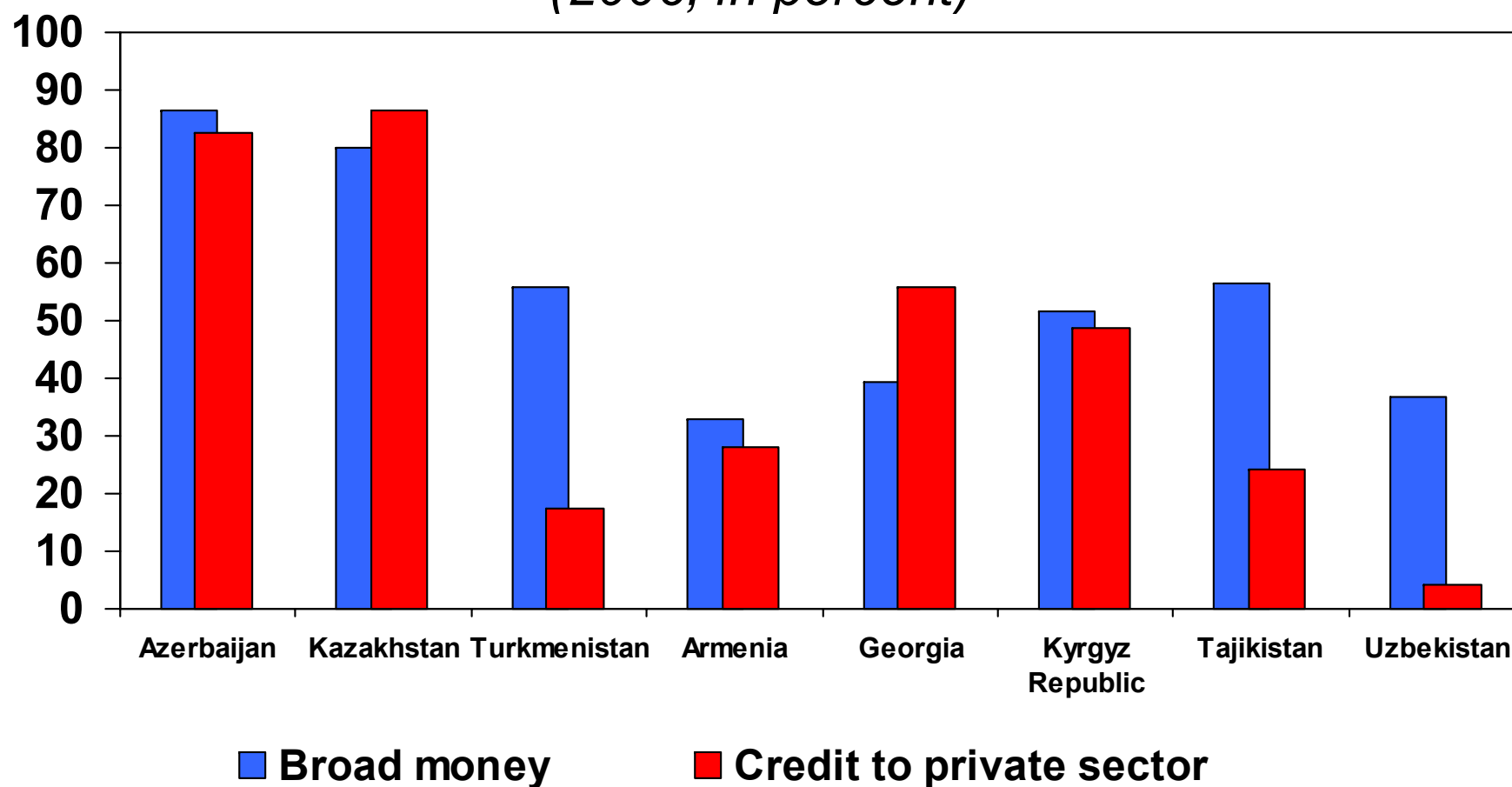


Exchange rate regimes are mostly inflexible, with limited nominal appreciation



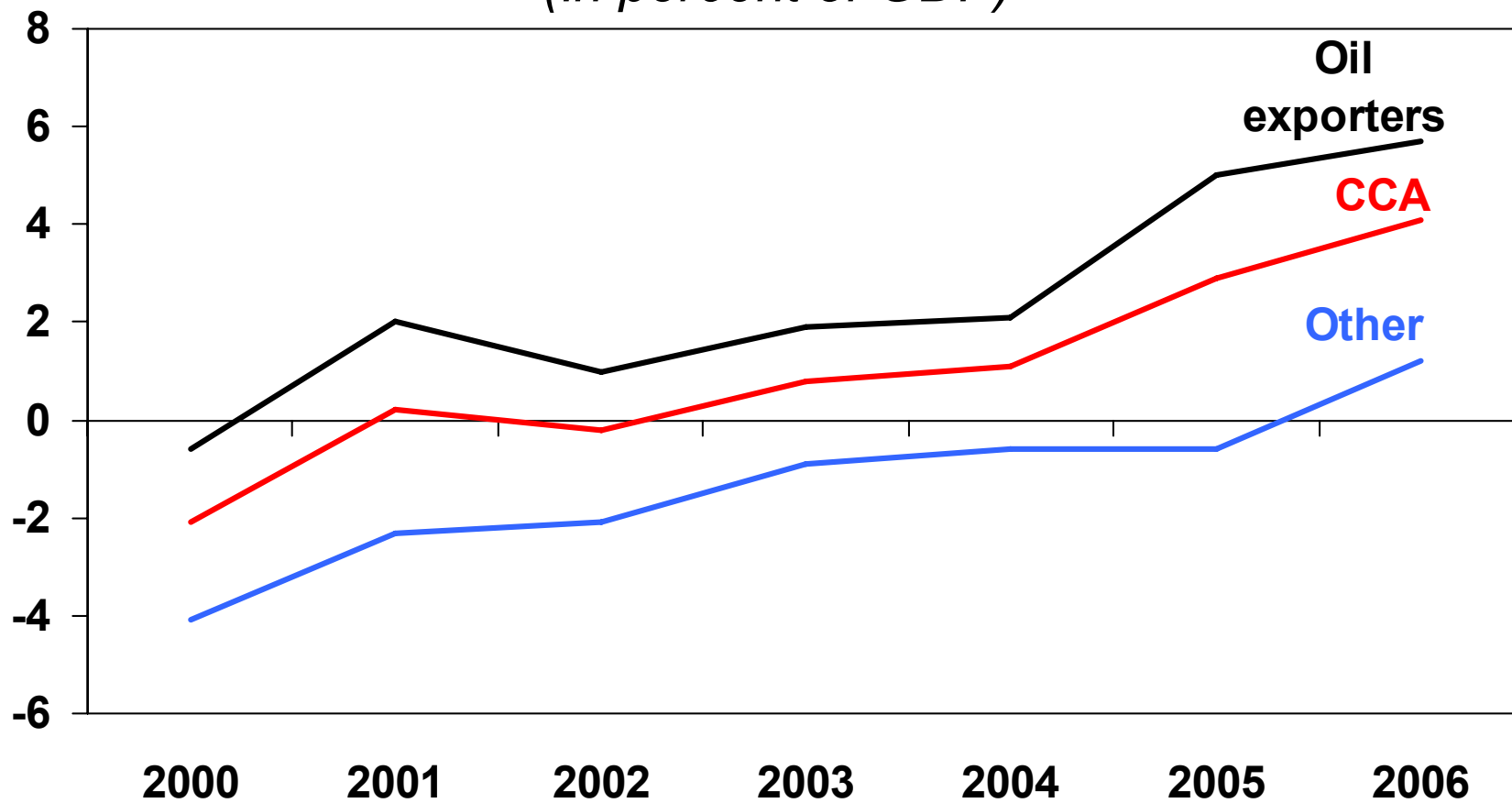
Broad money and credit growth have been fast in most countries

(2006; in percent)



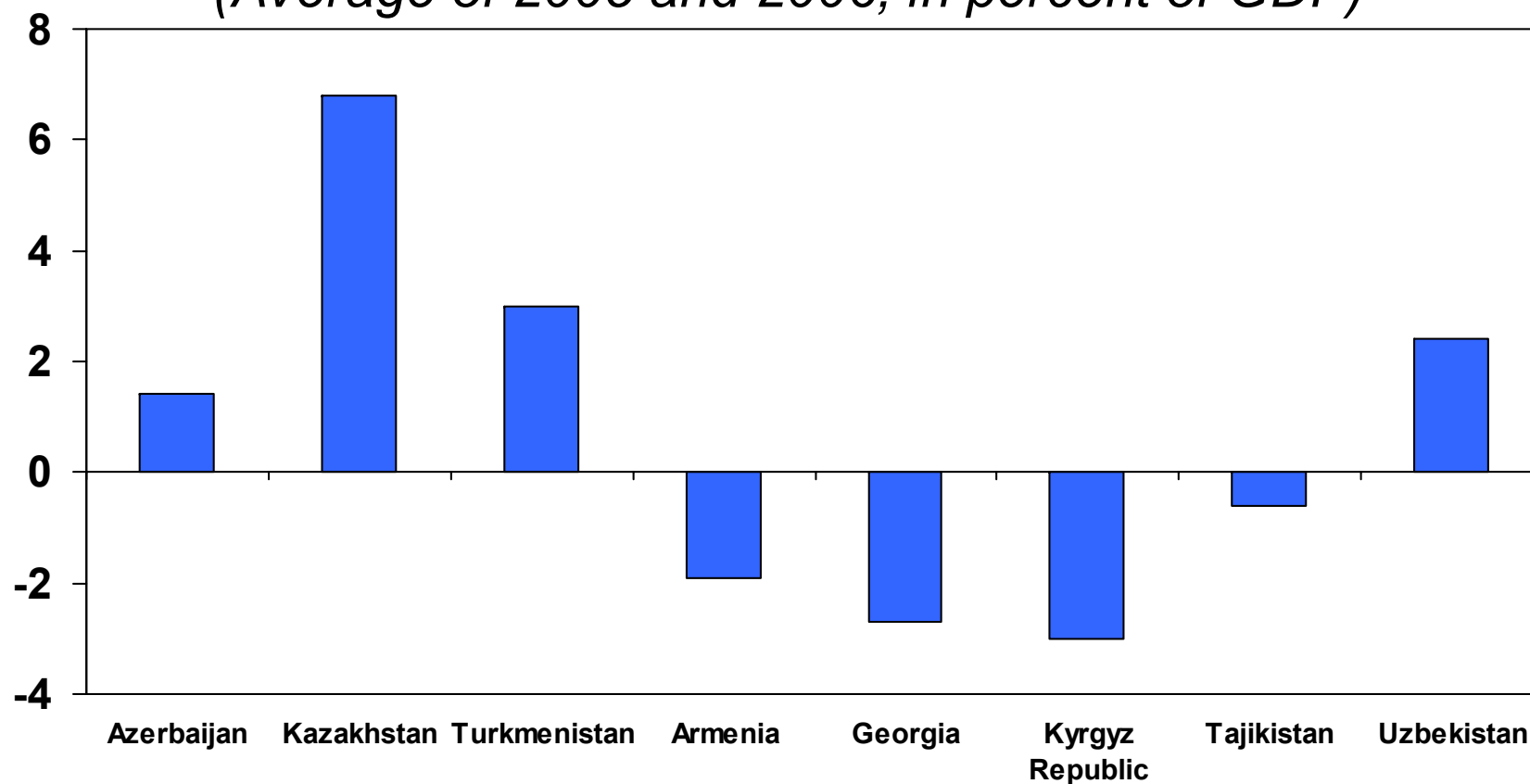
The region has moved into fiscal surplus

(In percent of GDP)



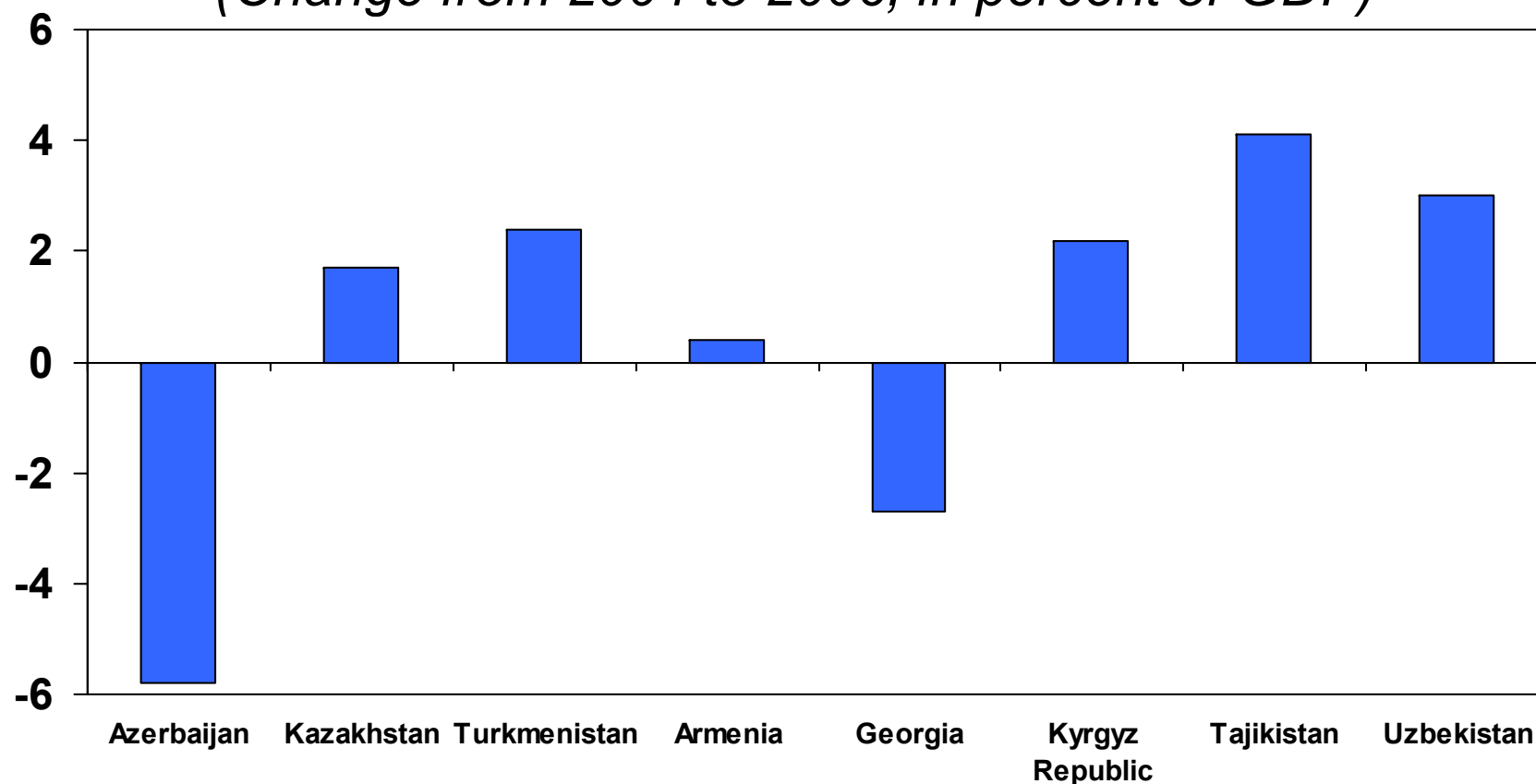
Commodity exporters have sizeable surpluses, others have moderate deficits

(Average of 2005 and 2006; in percent of GDP)



Most countries have tightened fiscal policy in response to higher inflows

(Change from 2004 to 2006; in percent of GDP)

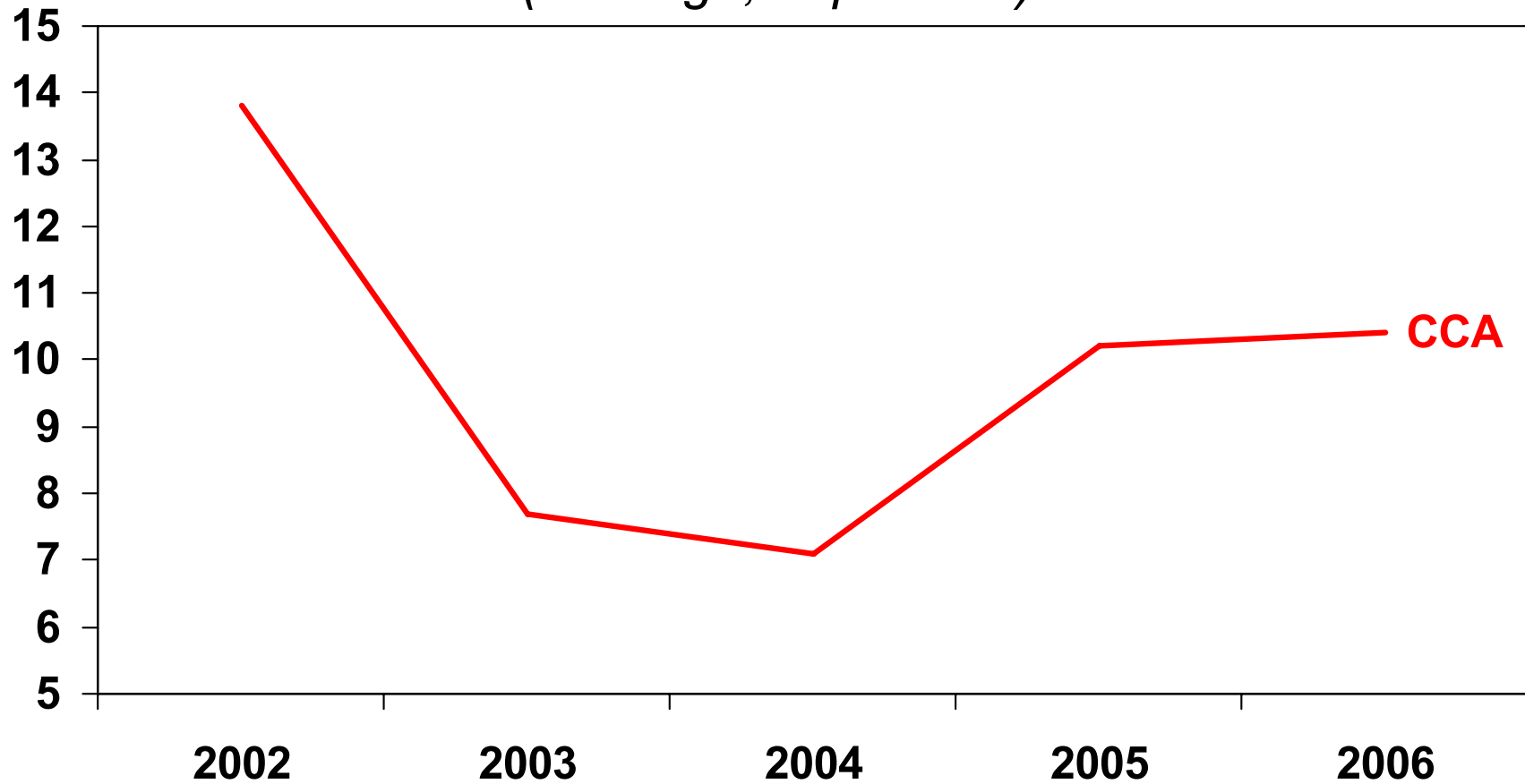


Non-oil fiscal balance for Azerbaijan, Kazakhstan, and Turkmenistan.

Macroeconomic Results

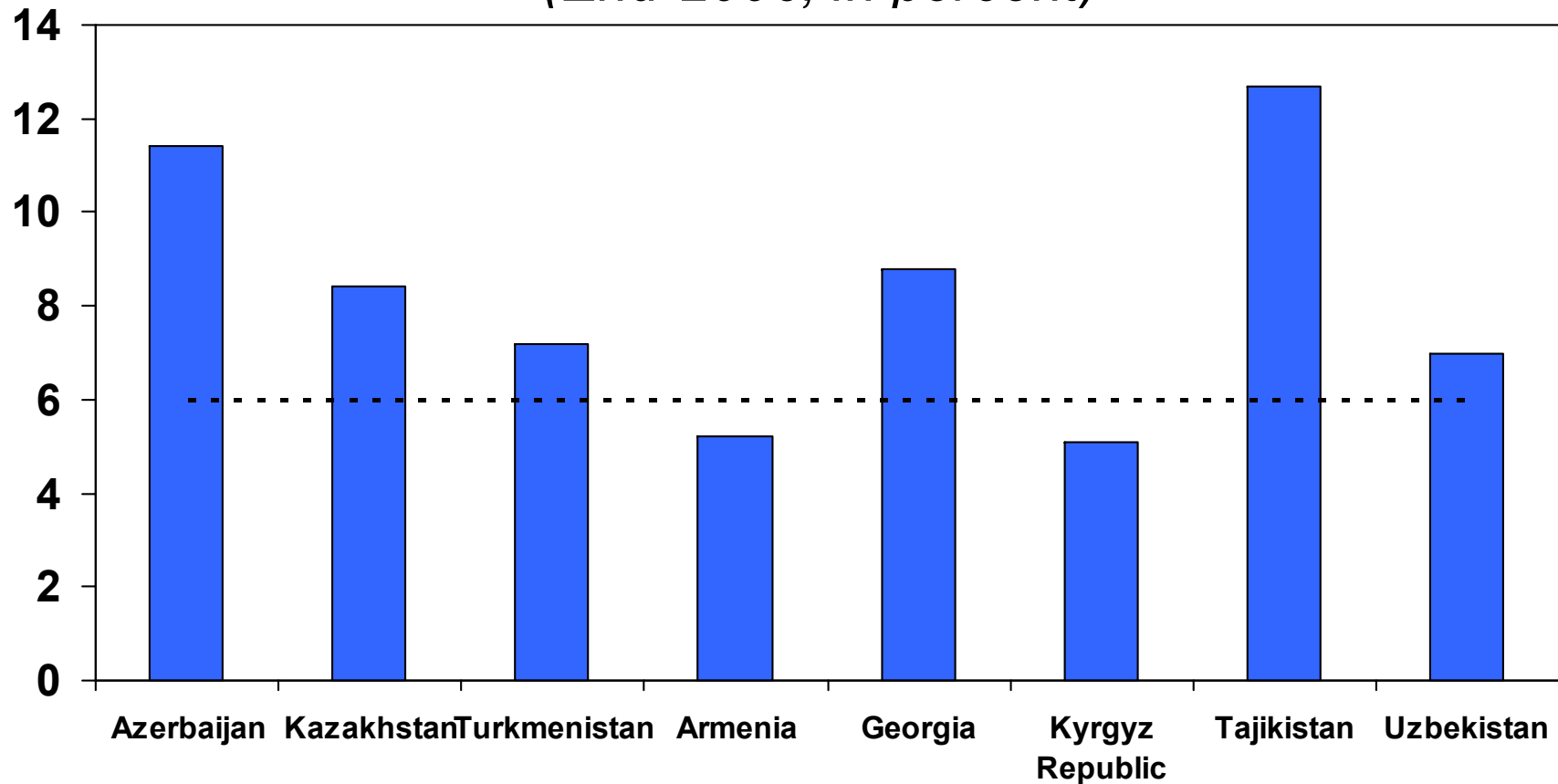
Inflation has been rising and now averages over 10 percent

(Average; in percent)

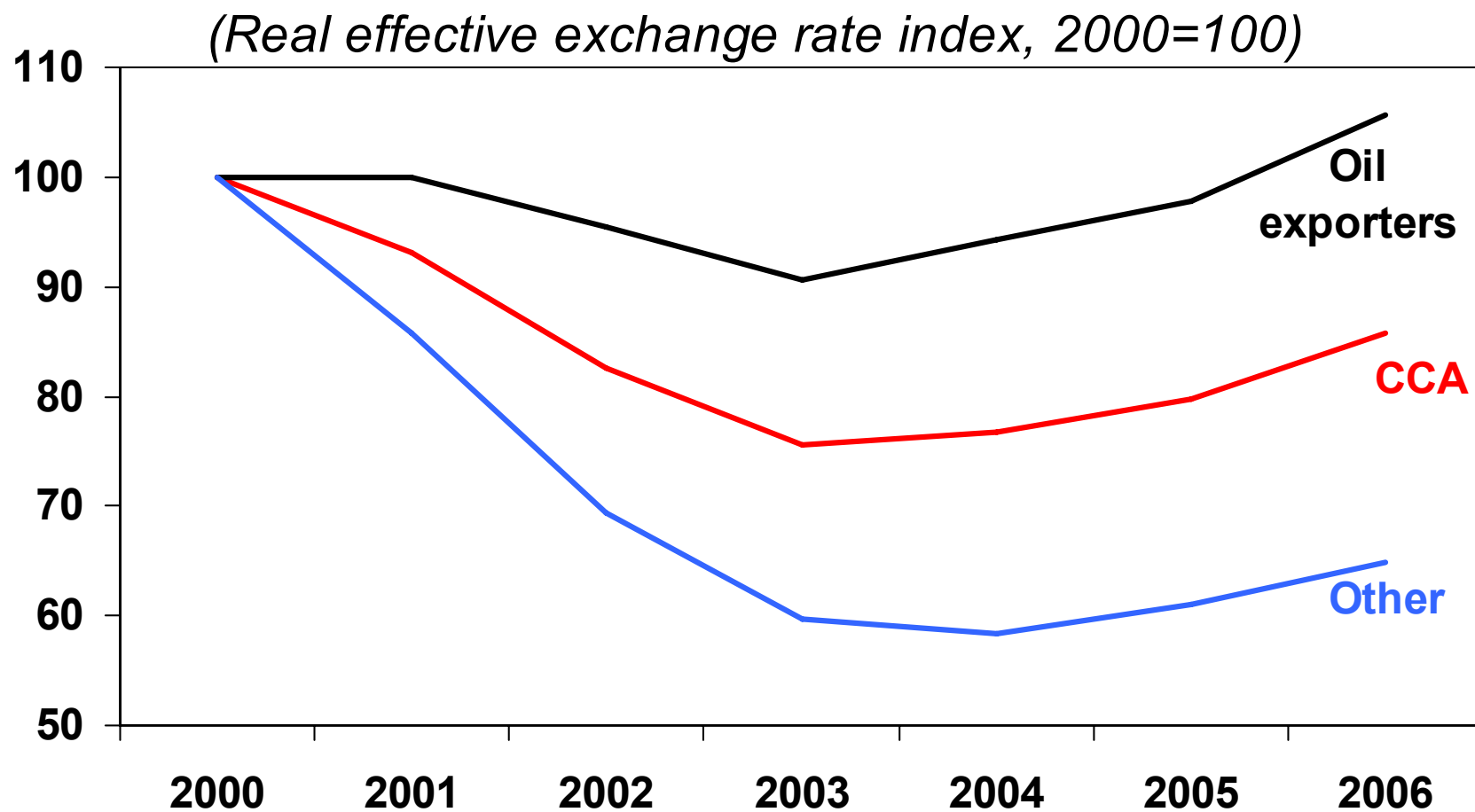


Inflation is now above the comfort zone in most countries

(End-2006; in percent)

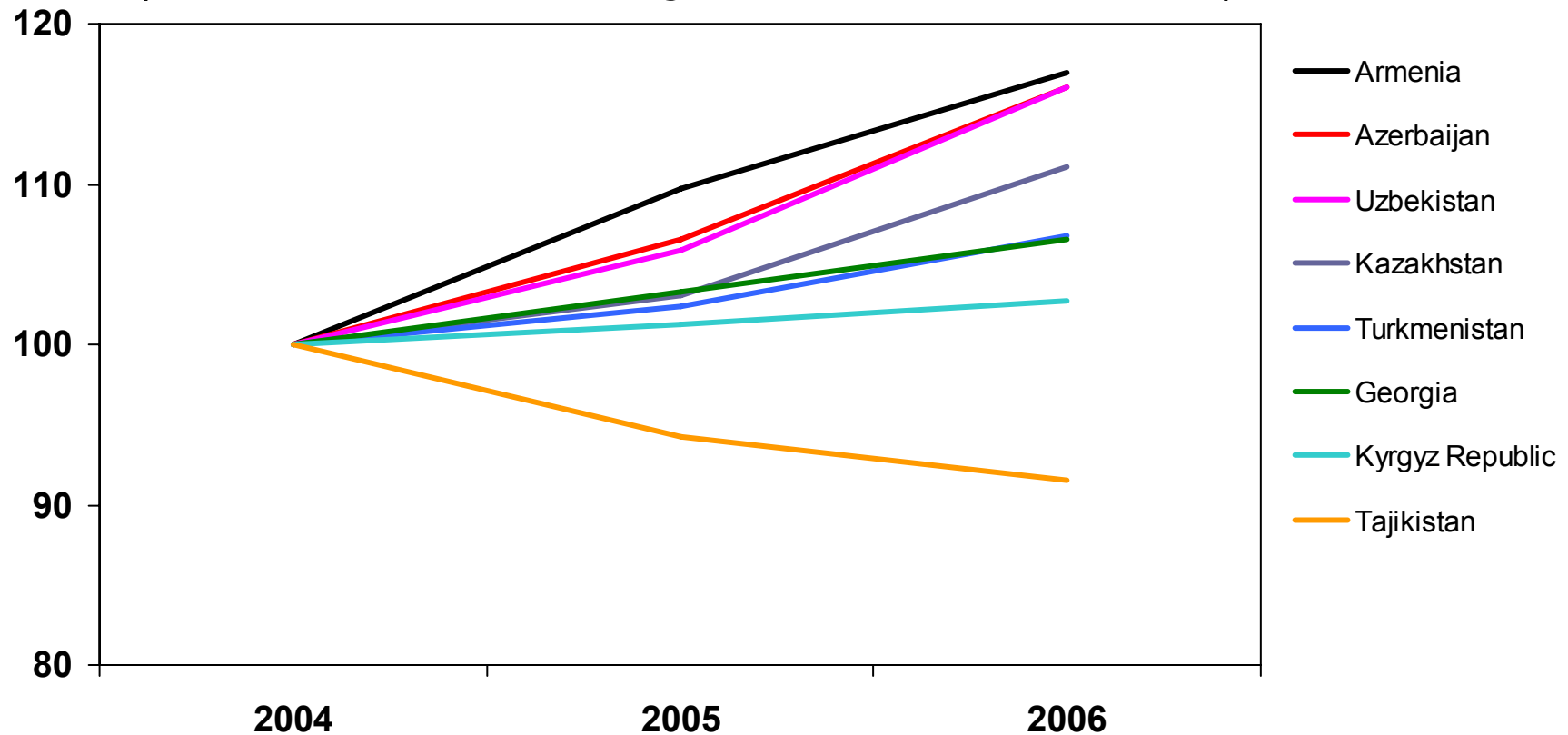


Policies have not prevented real appreciation

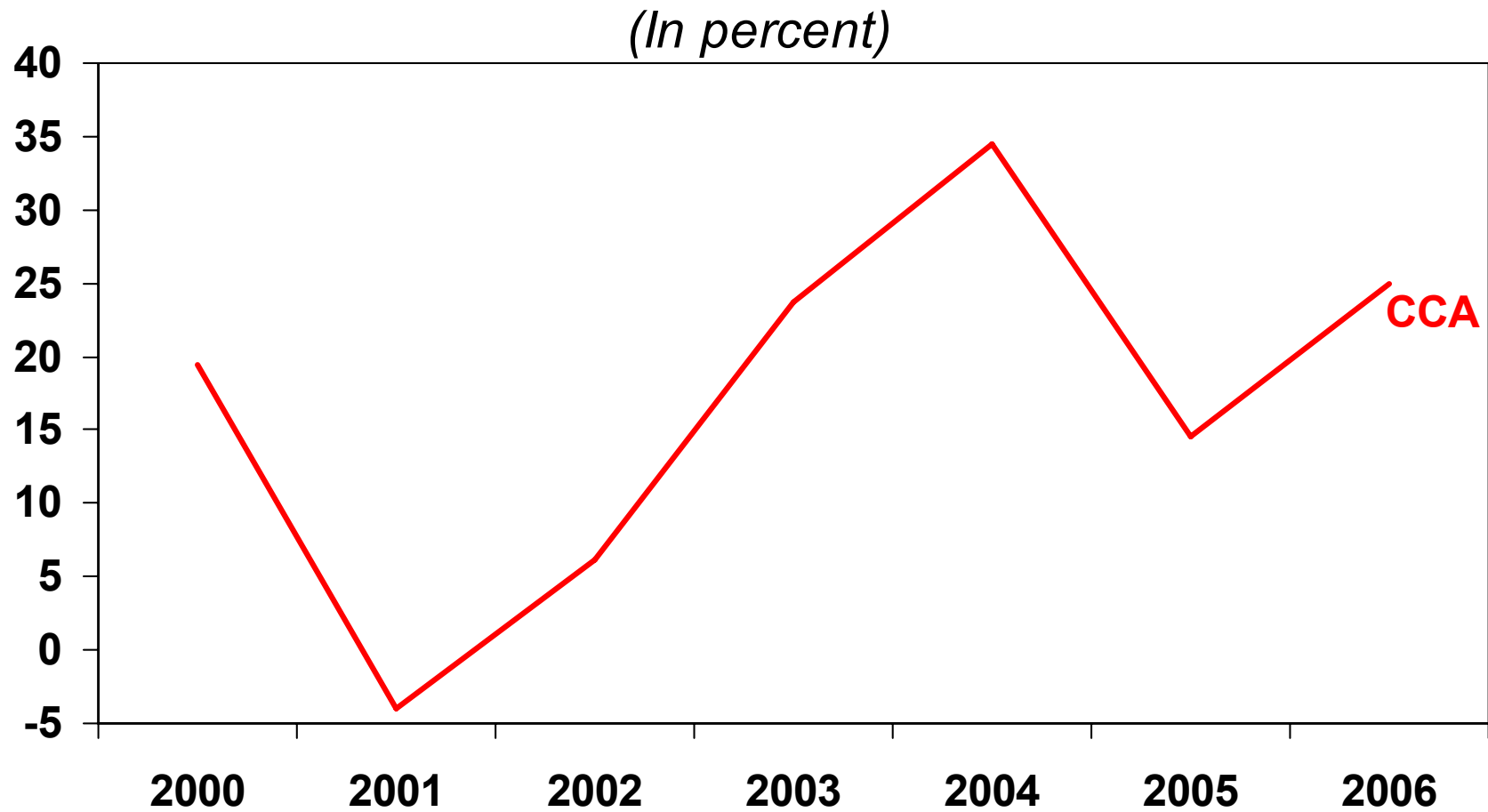


Nearly all countries have experienced real appreciation since 2004

(Real effective exchange rate index, 2004=100)

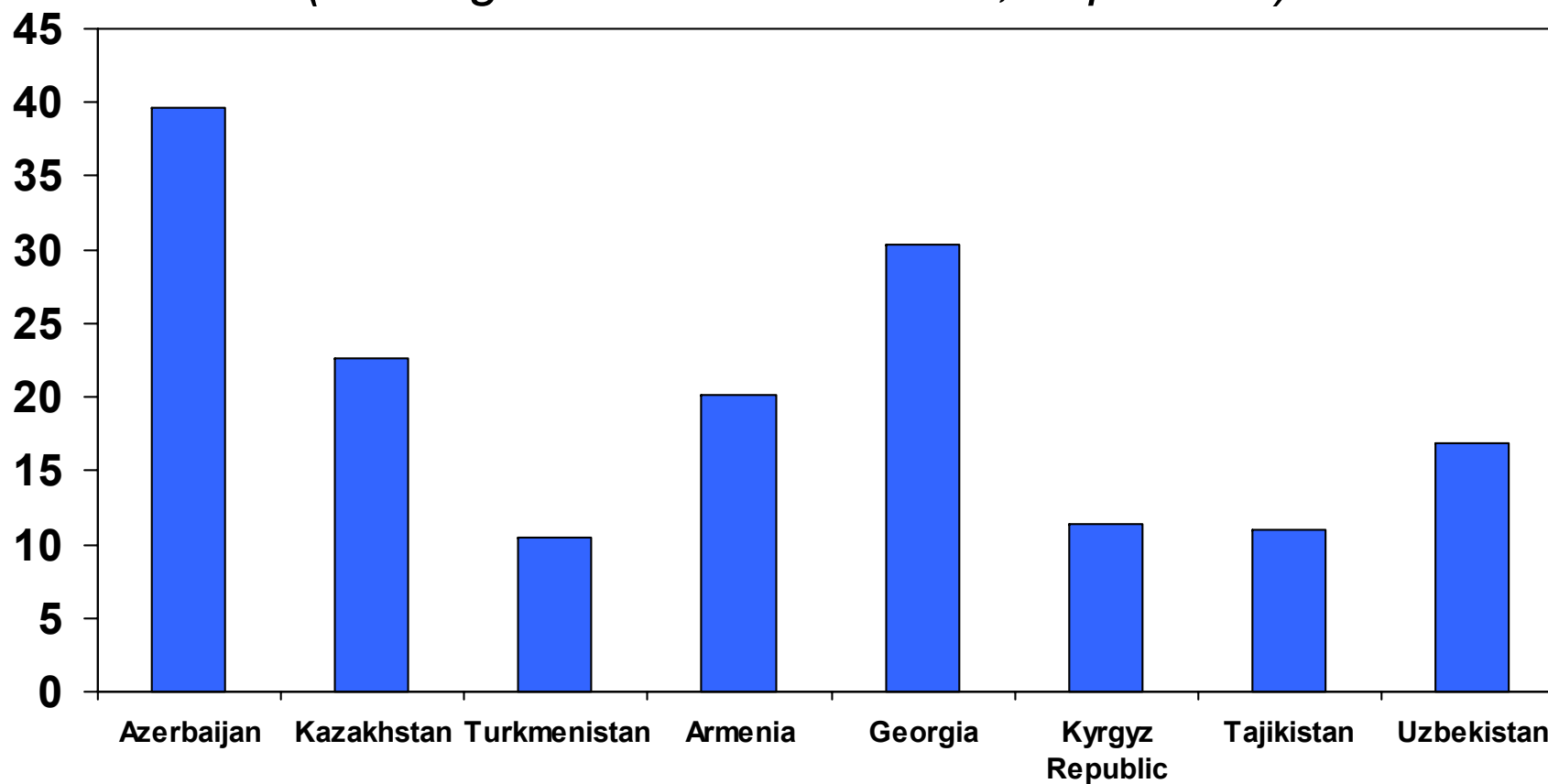


But non-oil export growth has been strong



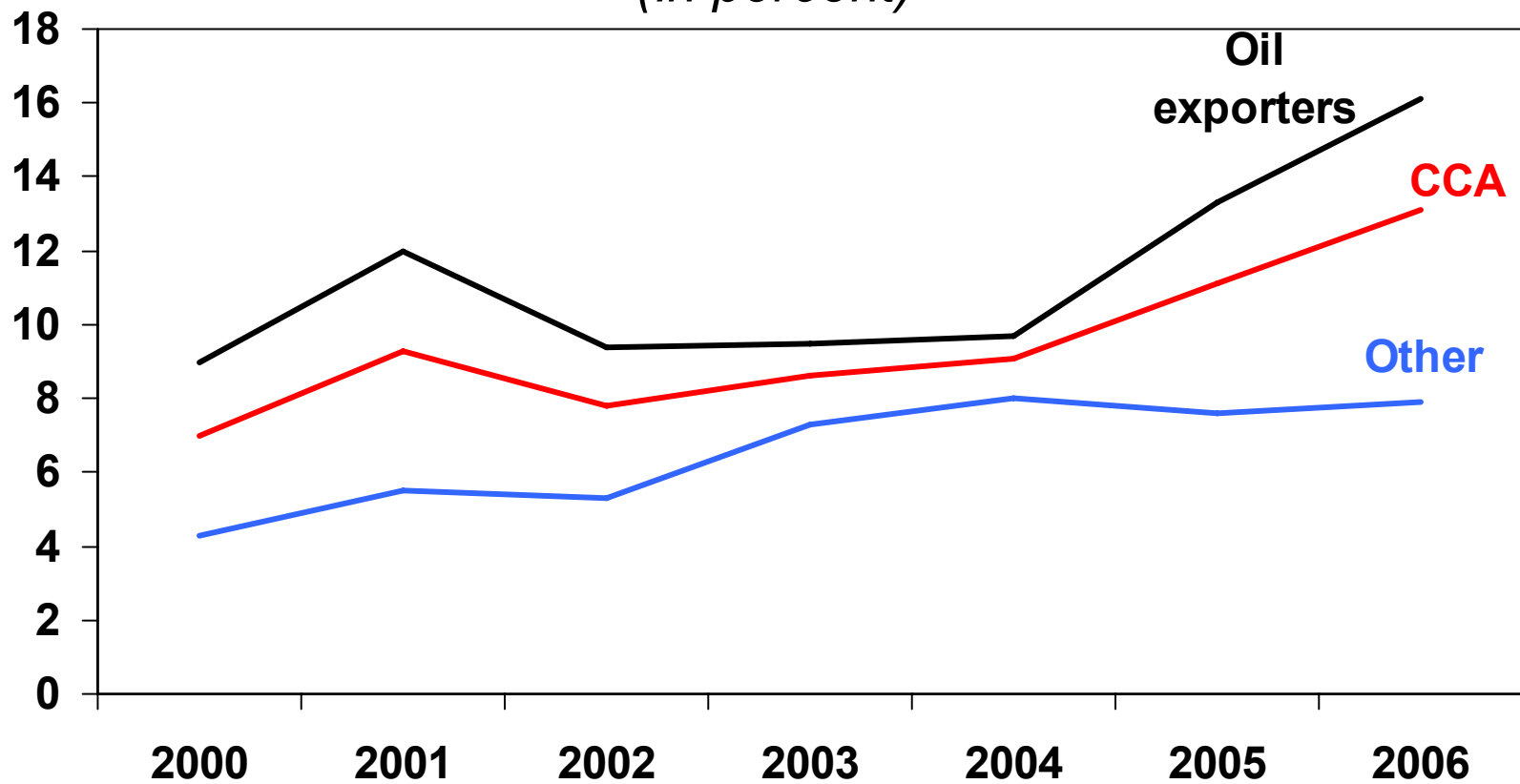
...with double digit non-oil export growth in all countries

(Average for 2005 and 2006; in percent)



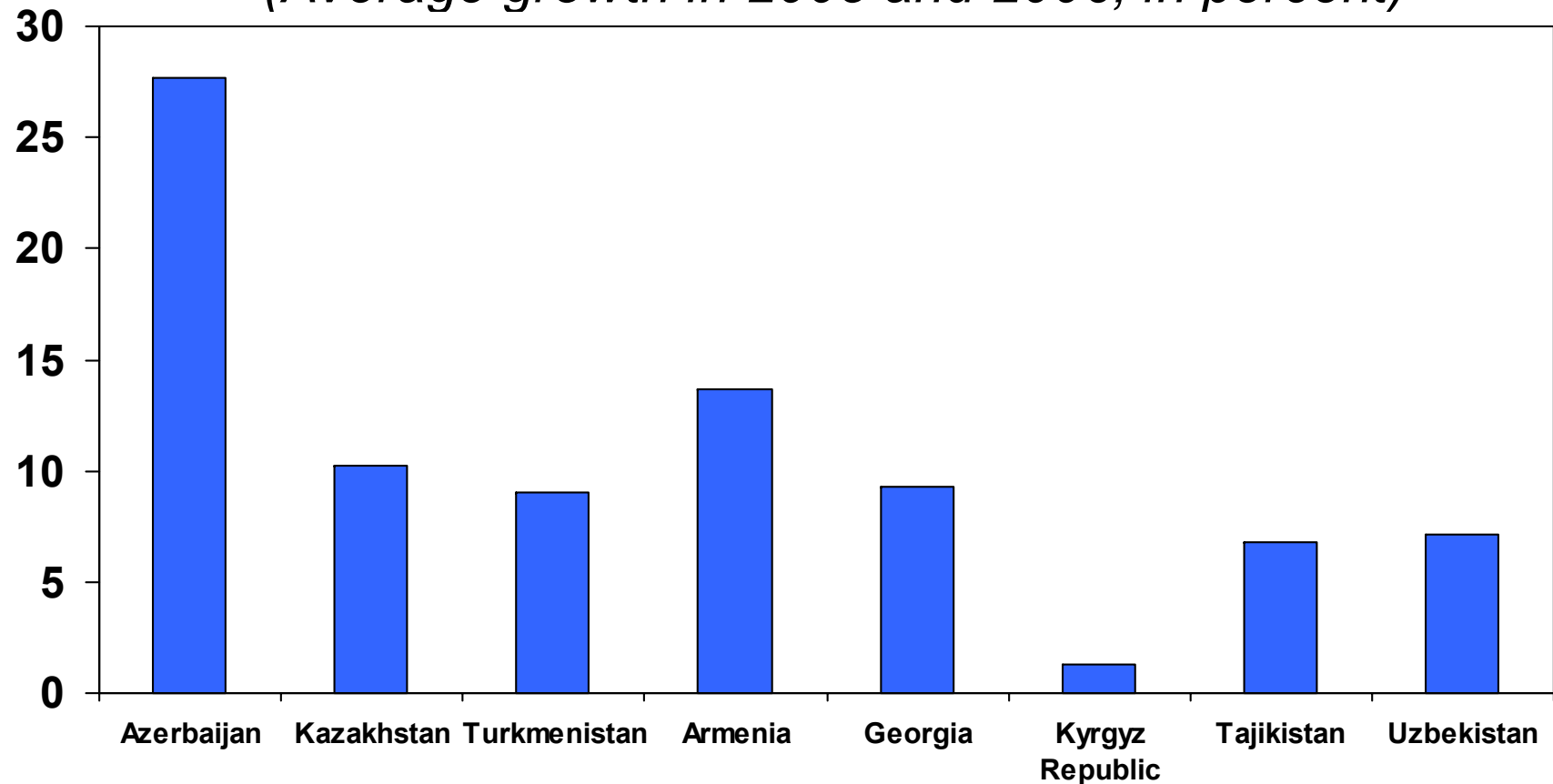
And GDP growth has also been strong....

(In percent)



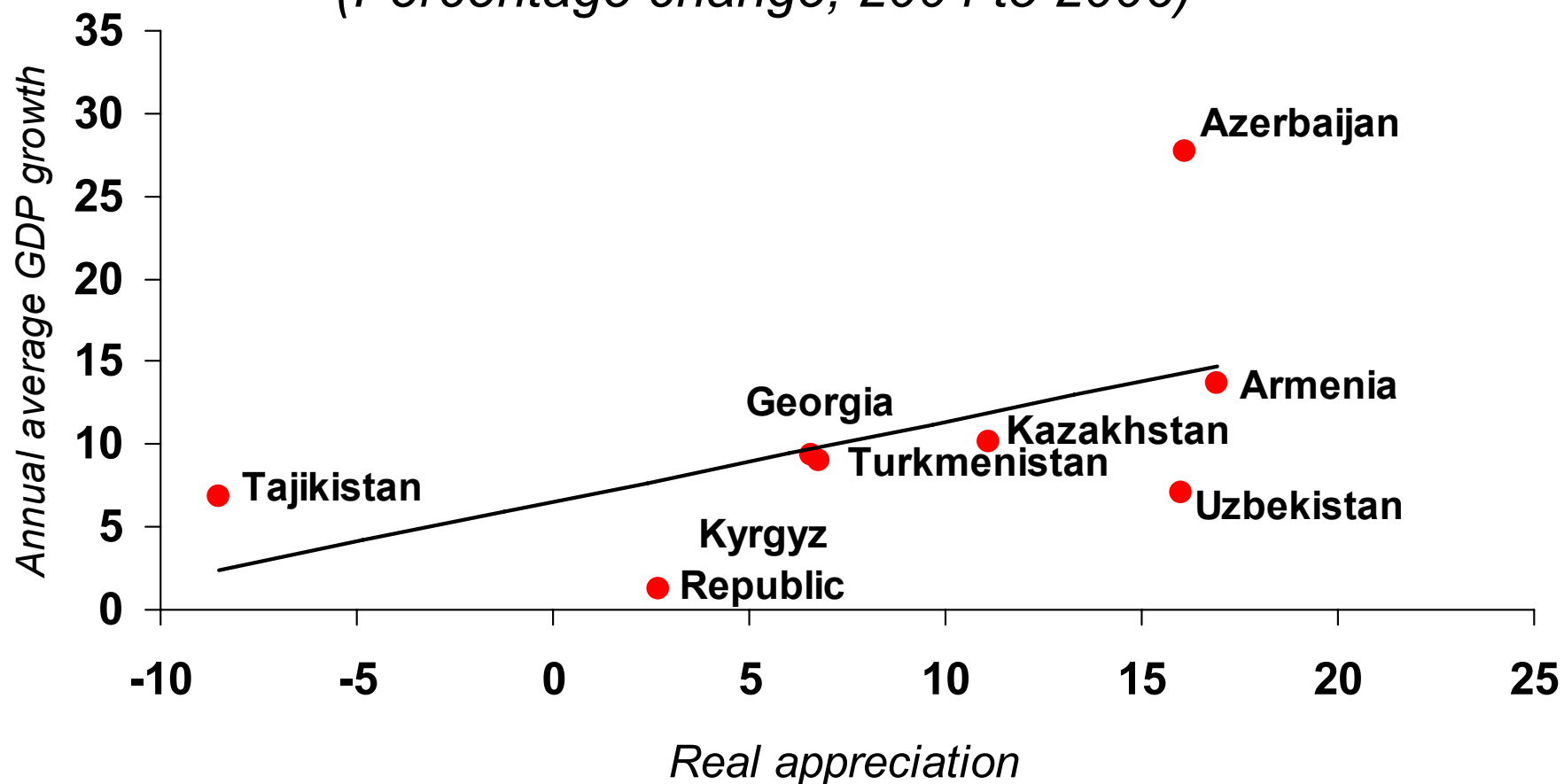
....including in countries that have had substantial real appreciation

(Average growth in 2005 and 2006; in percent)



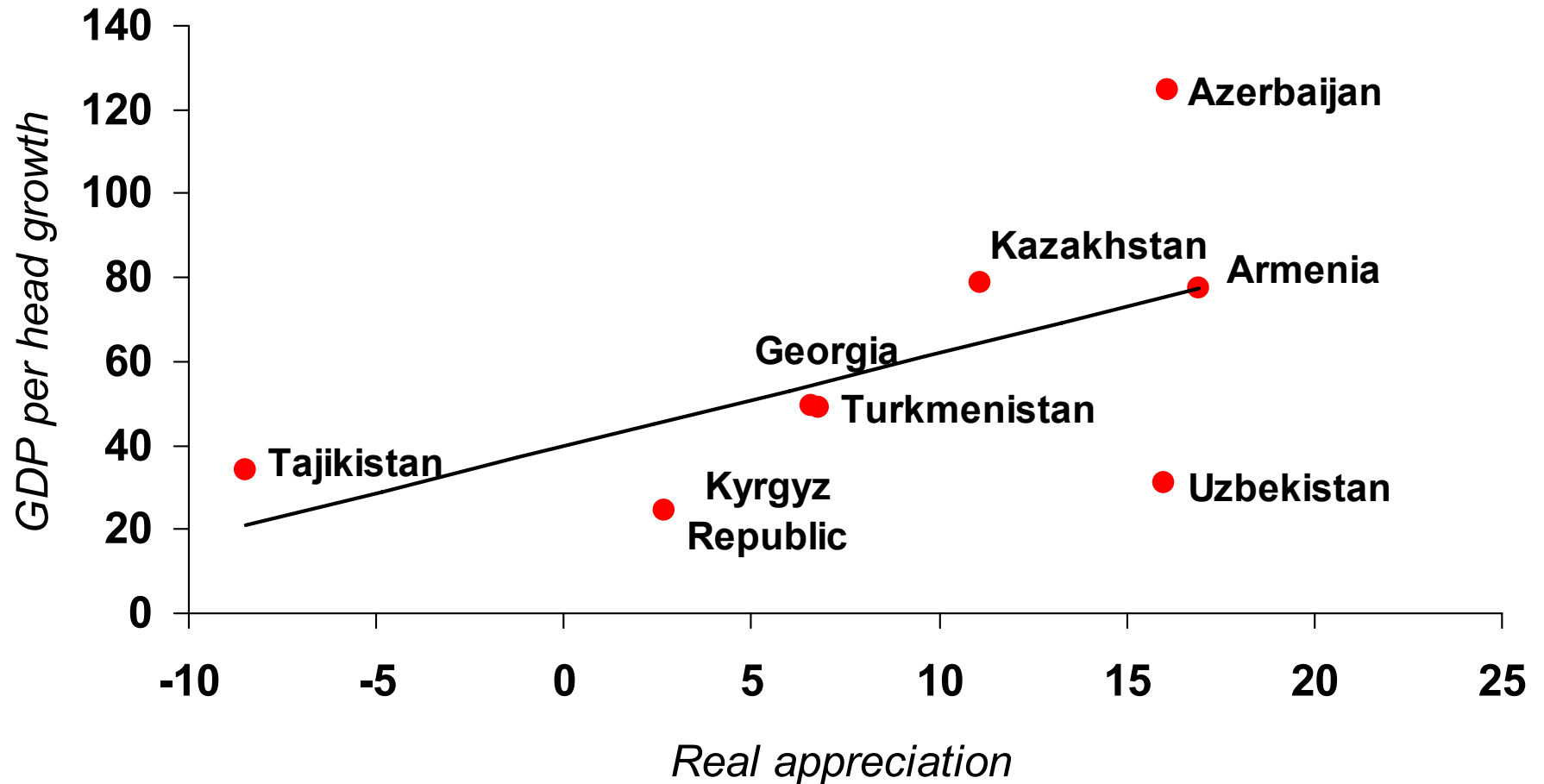
Real appreciation and strong growth can coexist

(Percentage change; 2004 to 2006)



And real appreciation helps to boost growth in dollar GDP per head

(Percentage change, 2004 to 2006)



Conclusions

- Inflows pose a dilemma: nominal appreciation, sterilized intervention, or fiscal tightening
- Most countries have resisted nominal appreciation, with largely unsterilized interventions
 - Reserves coverage is now generally adequate
- Fiscal policy has been moderately supportive in most cases...
- ...but not sufficiently to prevent rapid monetary growth
- ...which has led to rising inflation
 - now above comfort zone in most countries
- Policies have not prevented real appreciation, but...
- ...real appreciation has gone hand in hand with strong growth and rising income per head