

CCA Highlights

The recovery is gaining momentum across the Caucasus and Central Asia (CCA) region, and the growth outlook is broadly positive. For the oil and gas exporters, current projections point to growth of about 6½ percent for 2012, supported by high oil prices. For the oil and gas importers, 2012 growth is estimated at 5⅓ percent, underpinned by continued growth in Russia. At the same time, uncertainties over the robustness of the global recovery constitute a downside risk to the growth outlook in the CCA region.

Safeguarding the Recovery

With the recovery gaining speed, CCA oil and gas importers should aim for fiscal consolidation to rebuild fiscal buffers that were depleted during the global financial crisis and to help safeguard fiscal sustainability against future shocks. Such fiscal adjustment—which has already commenced in Armenia and Georgia—would also help rein in large external current account deficits. In addition, maintaining exchange rate flexibility and invigorating structural reforms aimed at boosting competitiveness will help to reduce external vulnerabilities. In the Kyrgyz Republic and Tajikistan, inflation remains in double-digit territory, and further monetary tightening is needed to ensure macroeconomic stability. For the CCA oil and gas importers, if global growth deteriorates sharply—particularly in Russia—their growth prospects would be adversely affected through reduced trade and remittance flows.

The key policy challenge facing CCA oil and gas exporters is to safeguard price stability. Strong economic growth and accommodative macroeconomic policies heighten the risks of overheating. Monetary policy needs to switch to a postcrisis mode and exit from its accommodative stance. Moreover, fiscal policy needs to tackle the large non-oil fiscal deficits that are contributing to domestic demand pressures. Exercising caution over spending increases; cutting nonpriority spending; ensuring the transparency, efficiency, and quality of public expenditure; and strengthening nonhydrocarbon revenues are all key in this regard. Nonetheless, if downside risks materialize and global growth slows, then the exit of oil and gas exporters from their accommodative monetary and fiscal policies may need to be reconsidered.

Over the medium term, the key challenges facing the region are to create jobs and foster high and inclusive growth. To this end, key components of the reform agenda include implementing policies to improve the business environment; ensuring equal access to public services; enhancing transparency, governance, and institutional quality; boosting regional trade integration; and addressing skill mismatches. While the period ahead will be challenging, the CCA countries broadly stand on a good economic platform from which to continue to build their social and political transformation.

CCA: Selected Economic Indicators, 2000–12

(Percent of GDP, unless otherwise indicated)

| | Average | | | | Projections | |
|----------------------------------|---------|-------|------|------|-------------|------|
| | 2000–07 | 2008 | 2009 | 2010 | 2011 | 2012 |
| CCA | | | | | | |
| Real GDP (annual growth) | 10.3 | 6.8 | 3.7 | 6.7 | 5.6 | 6.2 |
| Current account balance | -0.6 | 8.9 | 0.3 | 5.8 | 7.3 | 6.1 |
| Overall fiscal balance | 1.4 | 6.2 | 1.0 | 3.8 | 2.5 | 2.9 |
| Inflation, p.a. (annual growth) | 9.8 | 16.5 | 6.2 | 7.2 | 9.9 | 8.8 |
| CCA oil and gas exporters | | | | | | |
| Real GDP (annual growth) | 10.7 | 7.0 | 4.9 | 7.2 | 5.6 | 6.4 |
| Current account balance | 0.3 | 12.4 | 1.7 | 7.5 | 9.2 | 7.8 |
| Overall fiscal balance | 2.2 | 7.9 | 2.3 | 5.3 | 3.6 | 4.1 |
| Inflation, p.a. (annual growth) | 10.2 | 16.8 | 6.5 | 7.2 | 9.6 | 9.2 |
| CCA oil and gas importers | | | | | | |
| Real GDP (annual growth) | 8.3 | 5.7 | -3.5 | 3.9 | 5.7 | 5.3 |
| Current account balance | -6.3 | -14.7 | -9.8 | -8.4 | -9.2 | -8.8 |
| Overall fiscal balance | -2.8 | -3.6 | -6.8 | -5.3 | -4.9 | -4.3 |
| Inflation, p.a. (annual growth) | 7.8 | 14.4 | 4.2 | 7.1 | 12.0 | 6.5 |

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

CCA oil and gas exporters: Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

CCA oil and gas importers: Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.