

CCA Highlights

The Caucasus and Central Asia (CCA) countries continue to post a solid recovery from the global financial crisis, and the region's economic outlook remains favorable. Resilient growth, projected at an average of about 5½ percent for 2012 and 2013, reflects high oil prices that are benefiting the region's oil and gas exporters, supportive commodity prices and remittance inflows for the oil and gas importers, and, for both groups, moderate direct exposure to Europe. The positive outlook provides an opportunity to strengthen policy buffers to prepare for any downside risks, such as a slowdown of world commodity demand or rising food prices.

Favorable Outlook

Growth for the region's oil- and gas-exporting countries—Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan—is projected to moderate slightly to about 5½ percent in 2012 and 2013 from about 7 percent in 2011, with lower growth in hydrocarbon production. However, public spending and directed credit will continue to ensure robust activity in the non-oil sector. For the oil- and gas-importing countries—Armenia, Georgia, the Kyrgyz Republic, and Tajikistan—growth will remain firm at 5 percent in 2012, before increasing to 5.8 percent in 2013. Robust remittance inflows from Russia and still-favorable commodity terms of trade underpin this outlook, with the Kyrgyz Republic benefiting from higher gold production.

Inflation across the CCA is projected to remain fairly muted on average in 2012, thanks to rapidly falling food inflation in the oil- and gas-importing countries. However, higher global food prices, if sustained, may rekindle inflation given the high sensitivity of local food prices to global prices, particularly in the oil and gas importers. Oil- and gas-exporting countries could cushion the impact through temporary subsidies or similar measures, which their substantial fiscal space can accommodate. The oil and gas importers are slowly rebuilding their fiscal buffers, but these fall well short of what is needed to enable a policy response in the event of adverse shocks in commodity markets. Potential fiscal costs associated with supporting weak state banks also cloud the fiscal picture in the Kyrgyz Republic and Tajikistan.

Be Prepared for Headwinds; Enhance Social Safety Nets and Governance

Policymakers across the CCA can take advantage of the still-favorable outlook to continue with efforts to build policy buffers, while renewing their focus on crisis preparedness. For oil- and gas-importing countries, this implies a steady, gradual reduction in fiscal deficits, but also greater exchange rate flexibility to protect reserves. Oil- and gas-exporting countries need to improve the quality of public spending, reduce the share of current spending, and develop a tax base to ensure the robustness of fiscal policy against the possibility of potentially sustained low oil prices. To make growth more inclusive, all countries need to develop more responsive social safety nets and improved tax and transfer systems, while investing in health, education, and infrastructure. The design of social safety nets should consider active labor market policies that promote the hiring of younger workers.

Should severe shocks materialize, all countries have the space for relaxing monetary policy. In addition, oil and gas exporters have the important option of drawing down financial assets or increasing borrowing to protect key public capital spending. However, the management of resource wealth and, more generally, spending on strategic projects or sectors should be subject to greater accountability and transparency, the foundation for more inclusive growth in the medium term. This extends to the various state-sponsored development banks/funds being set up across the region. Meanwhile, ensuring that all businesses benefit from a level playing field remains vital for spurring job creation and private investment.

CCA Region: Selected Economic Indicators, 2000–13

(Percent of GDP, unless otherwise indicated)

	Average	2007	2008	2009	2010	2011	Projections	
	2000–06						2012	2013
CCA								
Real GDP (annual growth)	10.0	12.3	6.8	3.7	6.7	6.7	5.7	5.5
Current Account Balance	-0.9	1.5	8.8	0.4	5.0	8.7	6.3	4.6
Overall Fiscal Balance	1.1	3.1	6.1	0.8	3.7	6.3	3.5	2.9
Inflation, p.a. (annual growth)	9.5	11.4	16.5	6.2	7.0	9.1	5.8	7.2
CCA oil and gas exporters								
Real GDP (annual growth)	10.4	12.6	7.0	4.9	7.2	6.8	5.8	5.5
Current Account Balance	-0.1	3.5	12.4	1.8	6.7	10.6	8.1	6.0
Overall Fiscal Balance	1.9	4.3	7.8	2.1	5.1	7.8	4.7	3.9
Inflation, p.a. (annual growth)	9.9	11.9	16.8	6.5	7.0	8.9	6.3	7.3
CCA oil and gas importers								
Real GDP (annual growth)	7.9	11.2	5.7	-3.5	4.0	6.2	5.0	5.8
Current Account Balance	-5.7	-11.7	-15.5	-10.1	-9.2	-8.5	-9.7	-8.2
Overall Fiscal Balance	-2.6	-3.4	-3.6	-6.8	-5.3	-3.3	-3.8	-3.1
Inflation, p.a. (annual growth)	7.7	8.8	14.4	4.2	7.1	10.7	2.6	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.