Caucasus and Central Asia Regional Economic Outlook

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Outlook: Global headwinds weigh on growth
Global growth outlook remains largely subdued.

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

Sources: National authorities; and IMF staff calculations.
Growth in the CCA has stalled...

Sources: National authorities; and IMF staff calculations.
...cushioned by loose fiscal and monetary policy stances

**Overall Fiscal Balance**
(Percent of GDP)

- CCA oil exporters
- CCA oil importers

**Change in Policy Rate in CCA Countries**

Source: National authorities; and IMF staff calculations.

Source: Haver Analytics.
...amid weaker external demand...

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

- Export Growth
- Import Growth

Current Account Balance
(Percent of GDP)

Projections

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)

Challenges to Doing Business in CCA
(Number of countries identifying the constraint among the top five)

Sources: National authorities; and IMF staff calculations.

Note: Turkmenistan and Uzbekistan are excluded due to data availability.
Therefore, higher and more inclusive growth is needed amid increasing labor force.

**Inclusiveness**
*(10 is best and 1 is worst)*

**Projected Cumulative Labor Force Increase Relative to 2018**
*(Millions)*

- **Labor force in 2018:**
  - Oil exporters: 32.3
  - Oil importers: 8.6

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

Overview of Fiscal Management Frameworks

<table>
<thead>
<tr>
<th>Country</th>
<th>Fiscal Rules</th>
<th>Medium-term fiscal framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Yes</td>
<td>In progress</td>
</tr>
<tr>
<td>Georgia</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>In progress</td>
<td>Yes</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>In progress</td>
<td>No</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>Yes</td>
<td>No¹</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

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.

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

Source: National authorities; and IMF staff calculations
ER flexibility and modernization of MP frameworks are needed as shock absorbers

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

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

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)

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**Asset Quality in the CCA**

(Percent of total loans, latest available)

- Problem loans
- Non-Performing Loans

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.
Improve access to finance to boost growth

CCA: Composition of Capital Inflows
(Percent of GDP)

- Oil exporters
- Oil importers

SME Financial Inclusion Index

Source: National authorities; and IMF staff calculations.

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)

- Broadly in line with fundamentals: 5
- Overvalued: 2

Source: Authorities data and IMF staff calculations.

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

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)

Export Quality¹
(Index 0–1, higher is more diverse)

Sources: National authorities; 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.

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)


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)

<table>
<thead>
<tr>
<th>Country</th>
<th>SOE share of total value added</th>
<th>SOE share of total employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>KAZ</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>UZB</td>
<td>40</td>
<td>25</td>
</tr>
<tr>
<td>KGZ</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>TJK</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>ARM</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>GEO</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Business Entry Density Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCA OE</td>
<td>8</td>
</tr>
<tr>
<td>CCA OI (Excl. GEO)</td>
<td>7</td>
</tr>
<tr>
<td>EMASIA</td>
<td>6</td>
</tr>
<tr>
<td>LAC</td>
<td>5</td>
</tr>
<tr>
<td>SSA</td>
<td>4</td>
</tr>
<tr>
<td>EMEU</td>
<td>3</td>
</tr>
<tr>
<td>AE</td>
<td>2</td>
</tr>
<tr>
<td>GEO</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: National authorities; and IMF staff calculations

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

- 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

- 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!