

# Caucasus and Central Asia

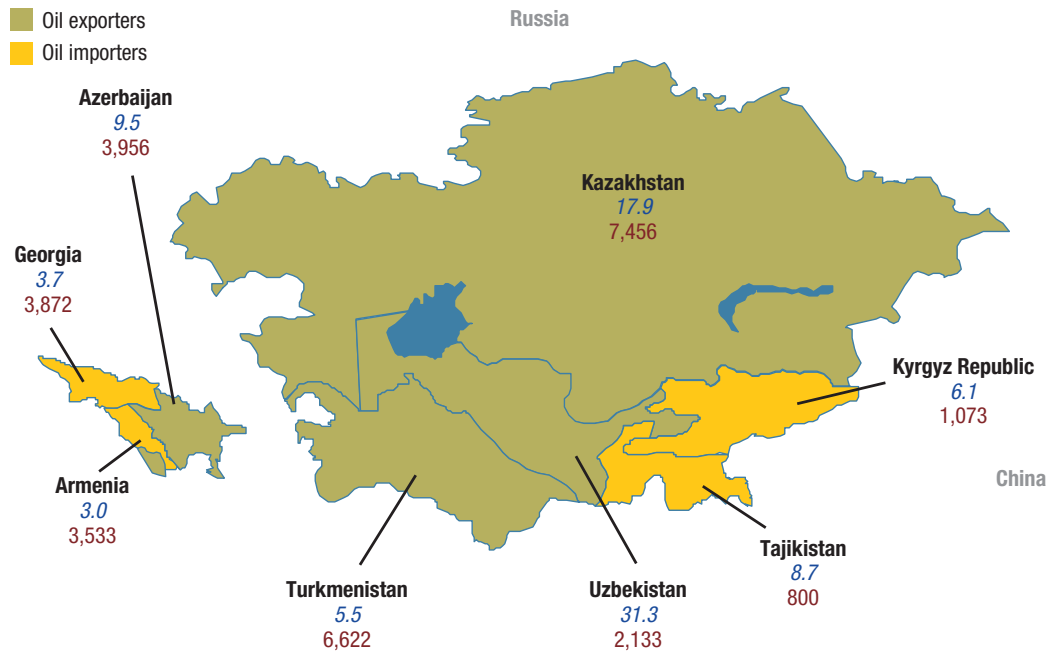
## Caucasus and Central Asia

Population, millions (2016)

GDP per capita, US dollars (2016)

Oil exporters

Oil importers



Sources: IMF Regional Economic Outlook database; and Microsoft Map Land.

Note: The country names and borders on this map do not necessarily reflect the IMF's official position.



## CCA Region Highlights

### Improved Yet Subdued Economic Outlook

Growth in the Caucasus and Central Asia (CCA) started to pick up during the second half of 2016, and is projected to accelerate from 2.5 percent last year to 3.6 percent in 2017 and 3.7 percent in 2018. A stronger outlook for oil production in Kazakhstan in 2017, the largest economy in the region, means these projections are 0.4 percentage point stronger in 2017, and similarly weaker in 2018, relative to the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*. Strengthening economic conditions in the region's main trading partners and some firming of commodity prices, combined with continued implementation of structural reforms, are anticipated to support the recovery.

However, medium-term growth is forecast to remain below historical norms—CCA growth is projected to average 4.3 percent in 2019–22, less than half the rate during 2000–10. Reforms promoting diversification away from remittances and commodities should therefore be accelerated to secure strong, sustainable, and inclusive growth. To capitalize on opportunities for integration into the strengthening global economy—including through China's Belt and Road Initiative—institutional frameworks should be enhanced to facilitate productive investment and foster private sector development.

While short-term risks to the outlook are balanced, medium-term risks remain tilted to the downside. These largely reflect global risks such as the possibility of inward-looking policies in advanced economies that could affect trade and commodity prices and a more rapid tightening of global financial conditions.

### Comprehensive Set of Policies Needed for Stability and Growth

The legacy of adverse external shocks since mid-2014 has left the region more vulnerable and with fewer buffers to manage future unexpected developments. While important steps have been taken, efforts that promote financial sector resilience should continue, as in some countries vulnerabilities have raised concerns about the capacity of banking systems to support economic activity. Actions should focus on enabling an accurate assessment of banks' health, developing effective bank resolution frameworks, enhancing prudential regulation and supervision, and resolving governance issues.

Fiscal balances in many CCA countries deteriorated in recent years as policymakers accommodated lower budget revenues in the context of falling commodity prices and remittances—the average fiscal deficit is forecast at 3.4 percent of GDP this year. Fiscal consolidation efforts should continue to ensure that buffers are rebuilt, public expenditures channeled efficiently, and tax collections improved. Social safety nets need to be protected.

Since the exchange rate no longer serves as an anchor for domestic prices in most CCA countries and exchange rate depreciation pushed inflation into double digits in some economies, policymakers should redouble efforts toward developing strong and credible monetary policy frameworks. Priorities include establishing clear monetary policy objectives, enhancing central bank independence and communication, and improving the transmission mechanism for monetary policy and the analytical toolkit of central banks.

As noted above, there remains a strong need to implement structural reforms to promote strong, sustainable, and inclusive growth

through economic diversification and private sector development. Some previously announced reforms have started to be implemented. However, accelerating the pace of reform implementation,

including measures to enhance the business environment, restructure and privatize state-owned enterprises, and improve governance, is critical.

### CCA Region: Selected Economic Indicators, 2000–18

(Percent of GDP, unless otherwise indicated)

	Average 2000–13	2014	2015	2016	Projections	
					2017	2018
<b>CCA</b>						
Real GDP (annual growth)	8.3	5.3	3.1	2.5	3.6	3.7
Current Account Balance	0.8	2.3	-3.6	-6.4	-4.9	-4.2
Overall Fiscal Balance	3.1	2.3	-3.5	-2.2	-3.4	-1.0
Inflation (year average, percent)	9.2	5.9	6.4	10.5	8.9	7.8
<b>CCA Oil and Gas Exporters</b>						
Real GDP (annual growth)	8.6	5.3	3.1	2.4	3.5	3.7
<i>of which non-oil growth</i>	8.7	6.7	3.1	1.7	2.4	3.0
Current Account Balance	2.1	3.6	-3.0	-6.2	-4.4	-3.6
Overall Fiscal Balance	4.0	2.7	-3.5	-1.7	-3.3	-0.7
Inflation (year average, percent)	9.5	6.1	6.6	11.6	9.3	8.2
<b>CCA Oil and Gas Importers</b>						
Real GDP (annual growth)	6.4	4.7	3.8	3.3	3.9	3.8
Current Account Balance	-7.7	-9.2	-8.9	-7.9	-8.6	-8.2
Overall Fiscal Balance	-3.3	-1.3	-3.1	-6.1	-4.2	-3.7
Inflation (year average, percent)	7.4	4.6	4.8	1.9	5.3	4.7

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

Note: CCA oil and gas exporters: Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan. CCA oil and gas importers: Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.