



**MIDDLE EAST
AND CENTRAL ASIA
DEPARTMENT**

Caucasus and Central Asia: Outlook and Policy Challenges






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Middle East and Central Asia Department



Outlook: Global headwinds and trade tensions weigh on growth

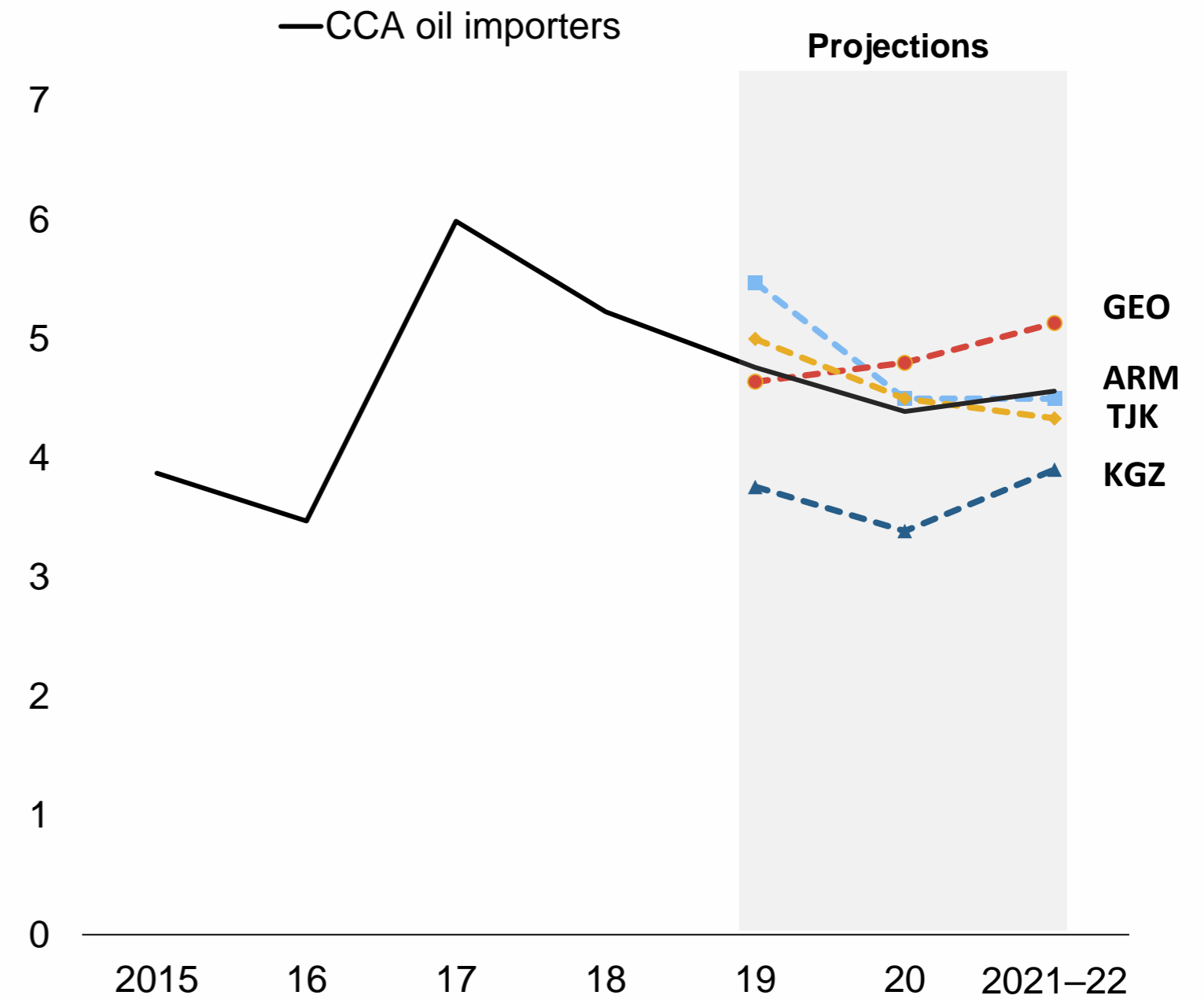
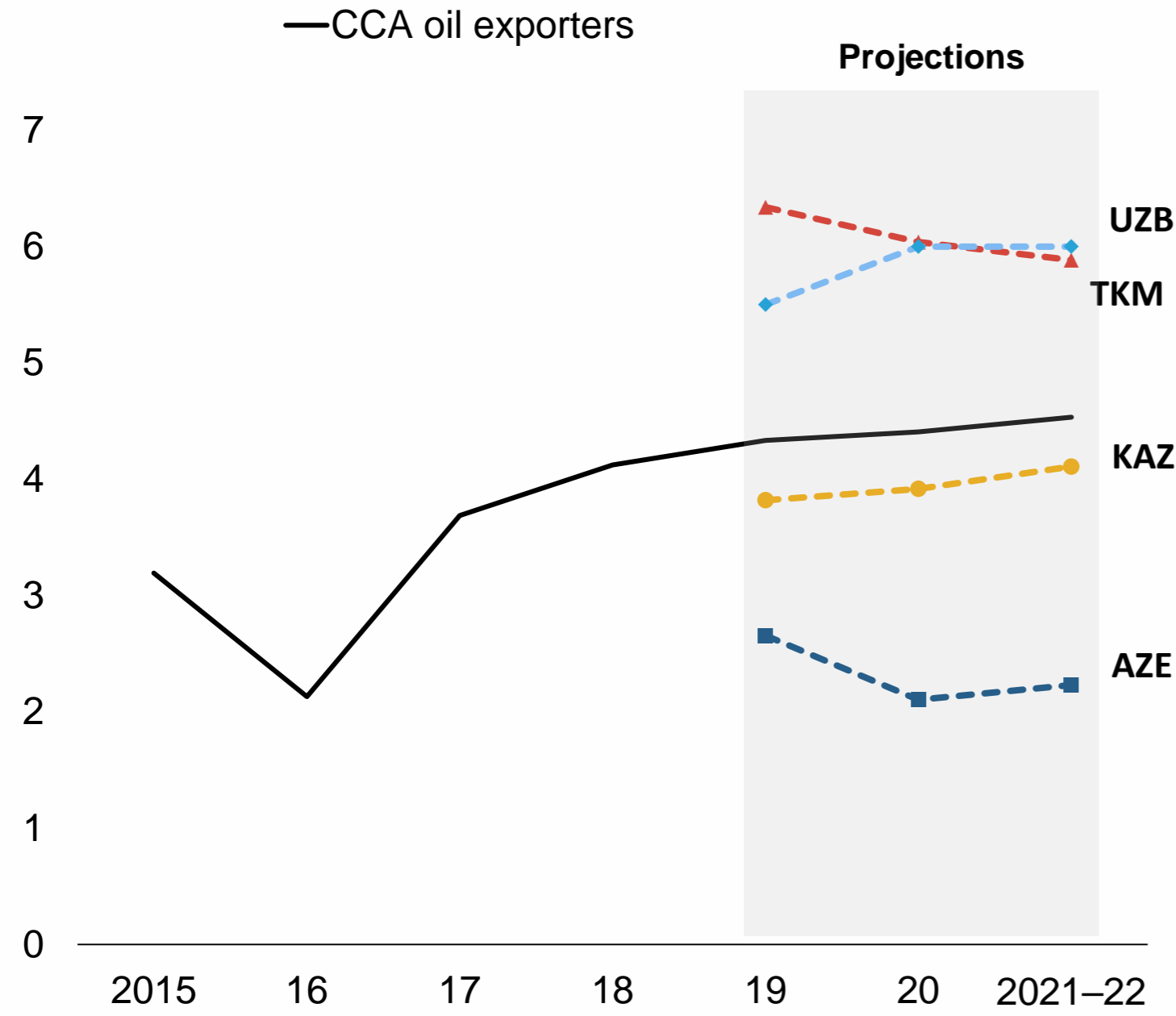
Global growth outlook remains largely subdued.

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

Sources: National authorities; and IMF staff calculations.

Growth in the CCA has stalled...

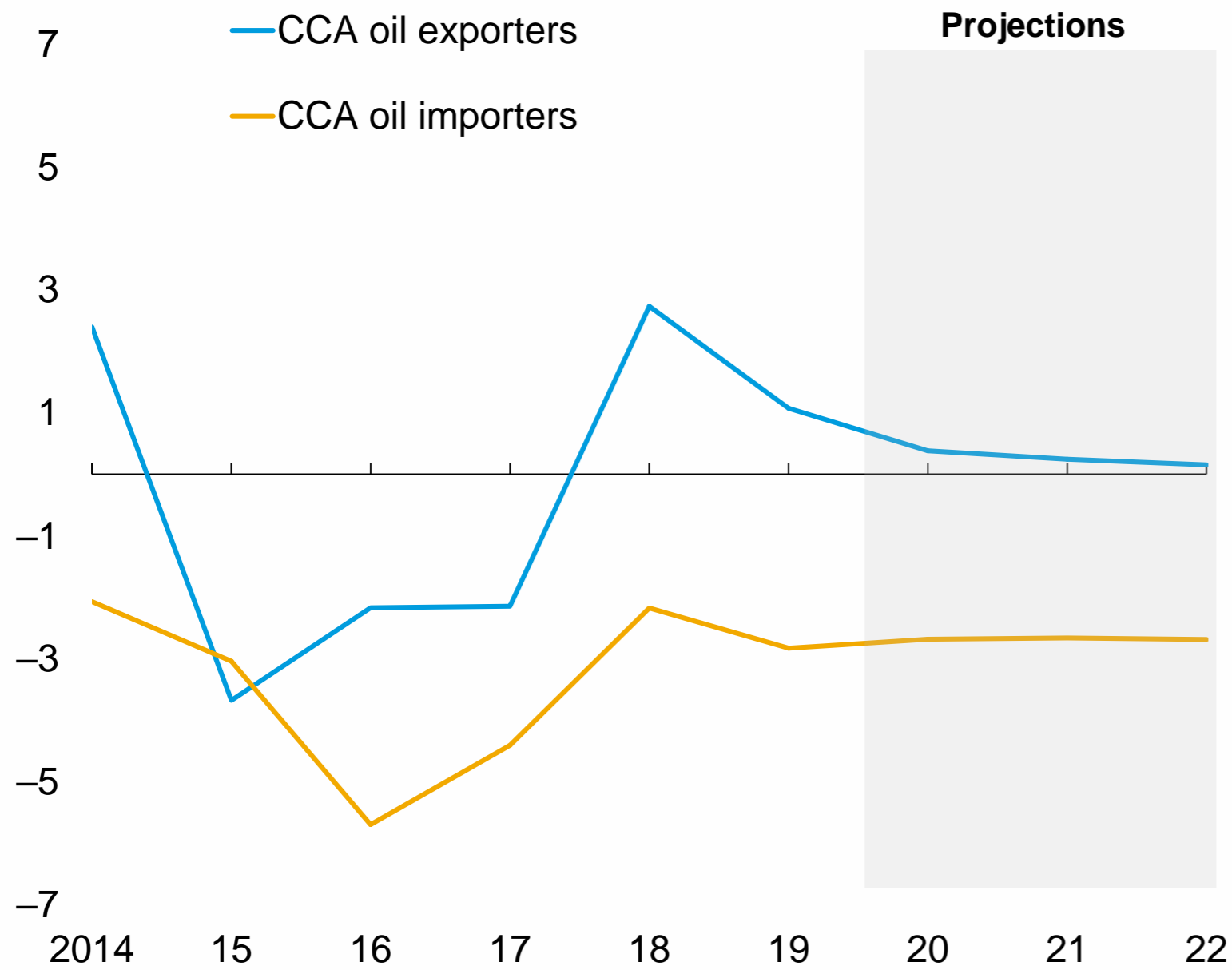
Real GDP Growth
(Percent)



Sources: National authorities; and IMF staff calculations.

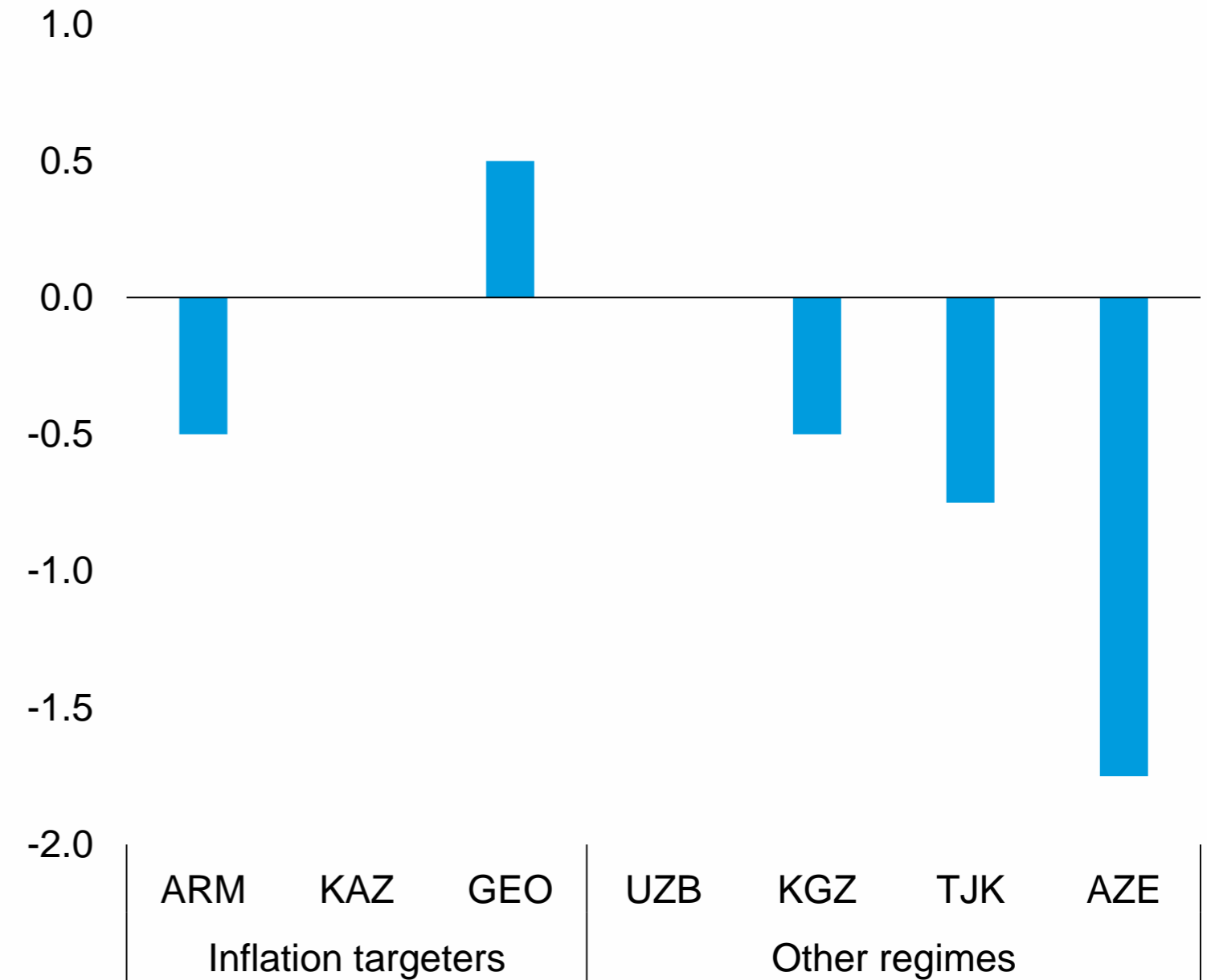
...cushioned by loose fiscal and monetary policy stances

Overall Fiscal Balance (Percent of GDP)



Source: National authorities; and IMF staff calculations.

Change in Policy Rate in CCA Countries (Percent, Sep. 2019 – Dec, 2018)

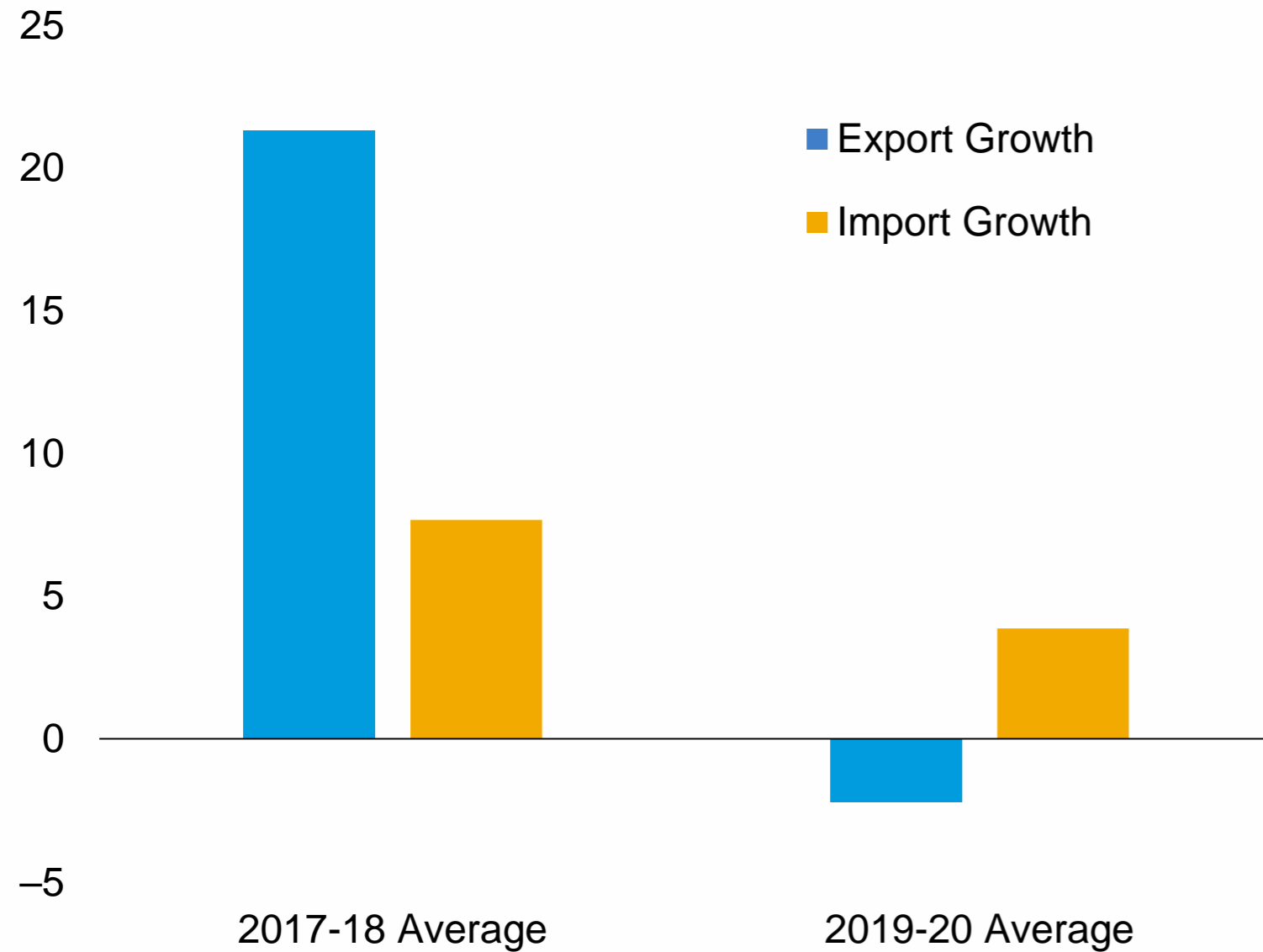


Source: Haver Analytics.

...amid weaker external demand...

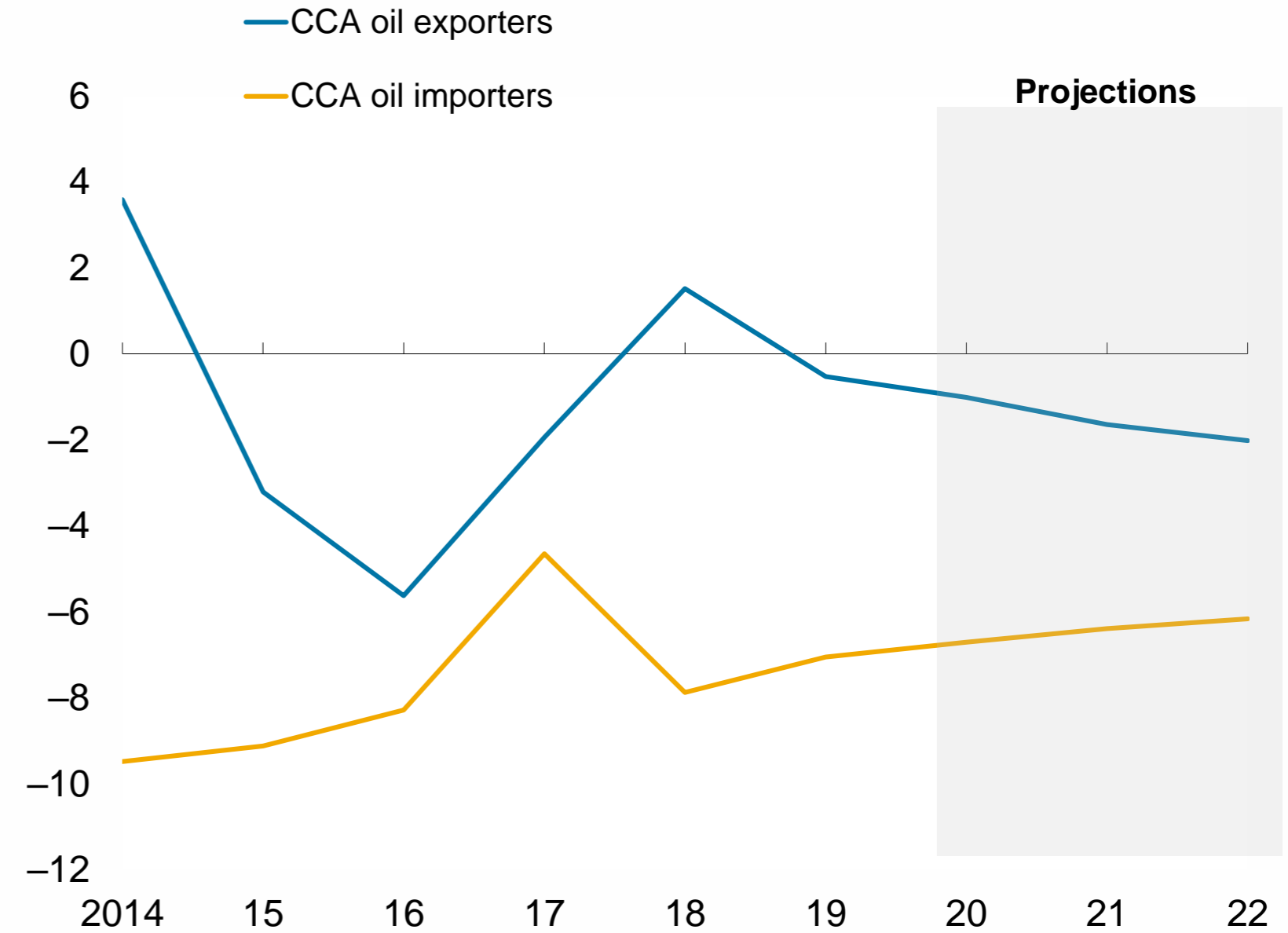
CCA Export and Import Growth

(Year-on-year percent change)



Current Account Balance

(Percent of GDP)

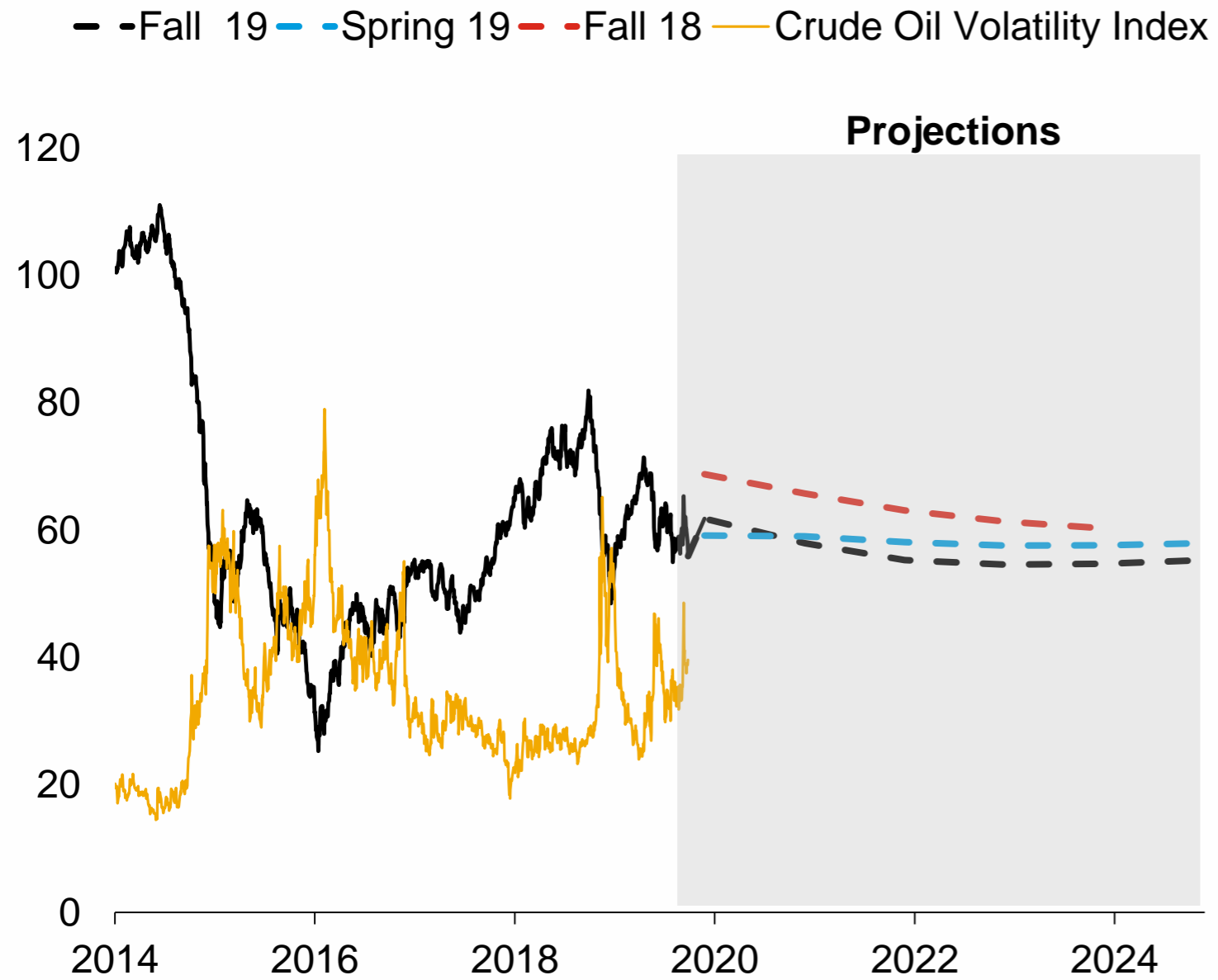


Challenges

Downside risks rise from oil price uncertainty and global trade tensions

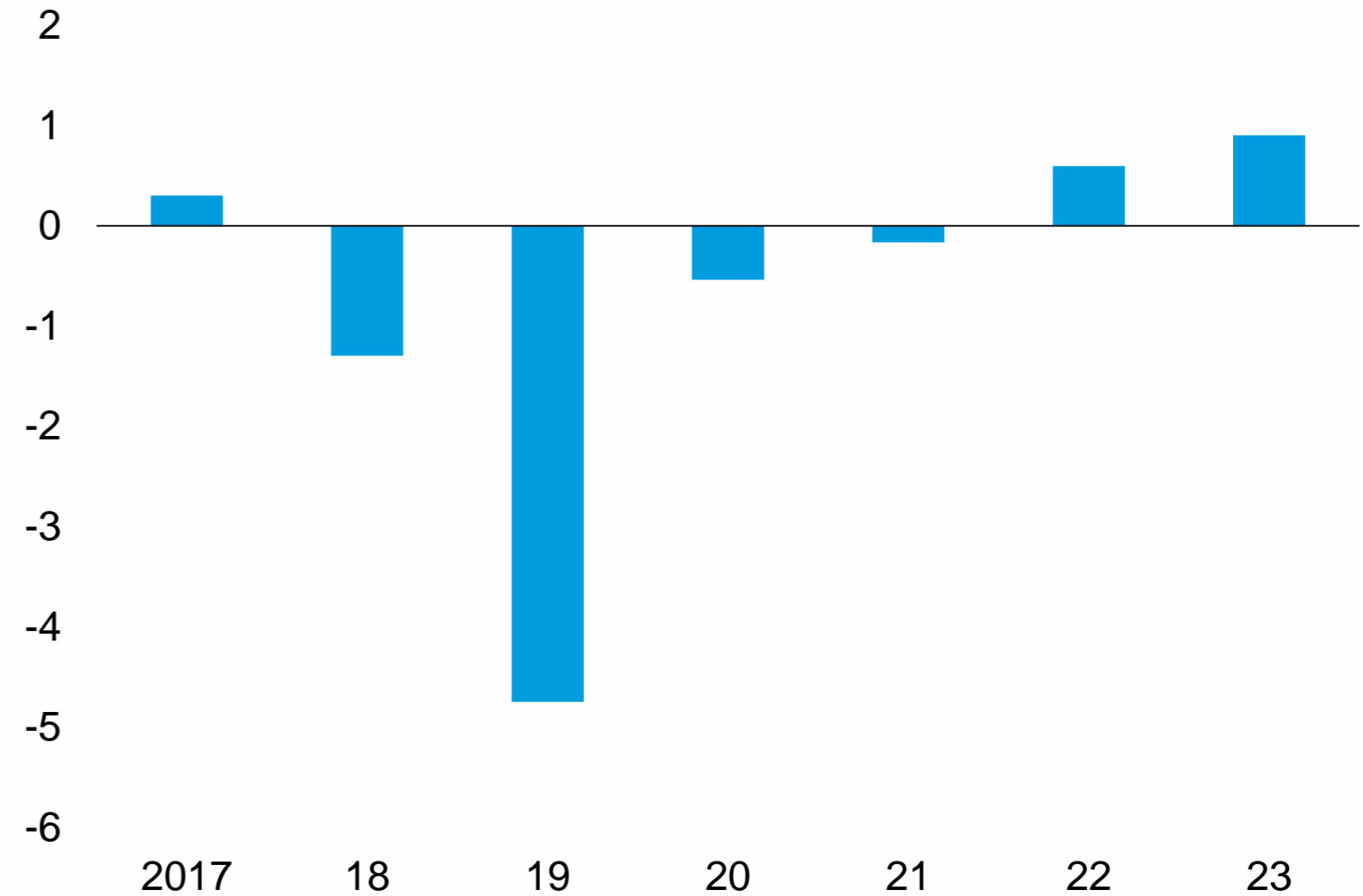
Lower and volatile oil prices

(Average petroleum spot price, US dollars a barrel)



Growth of Imports of Top Trading Partners

(Revisions from April 2019)



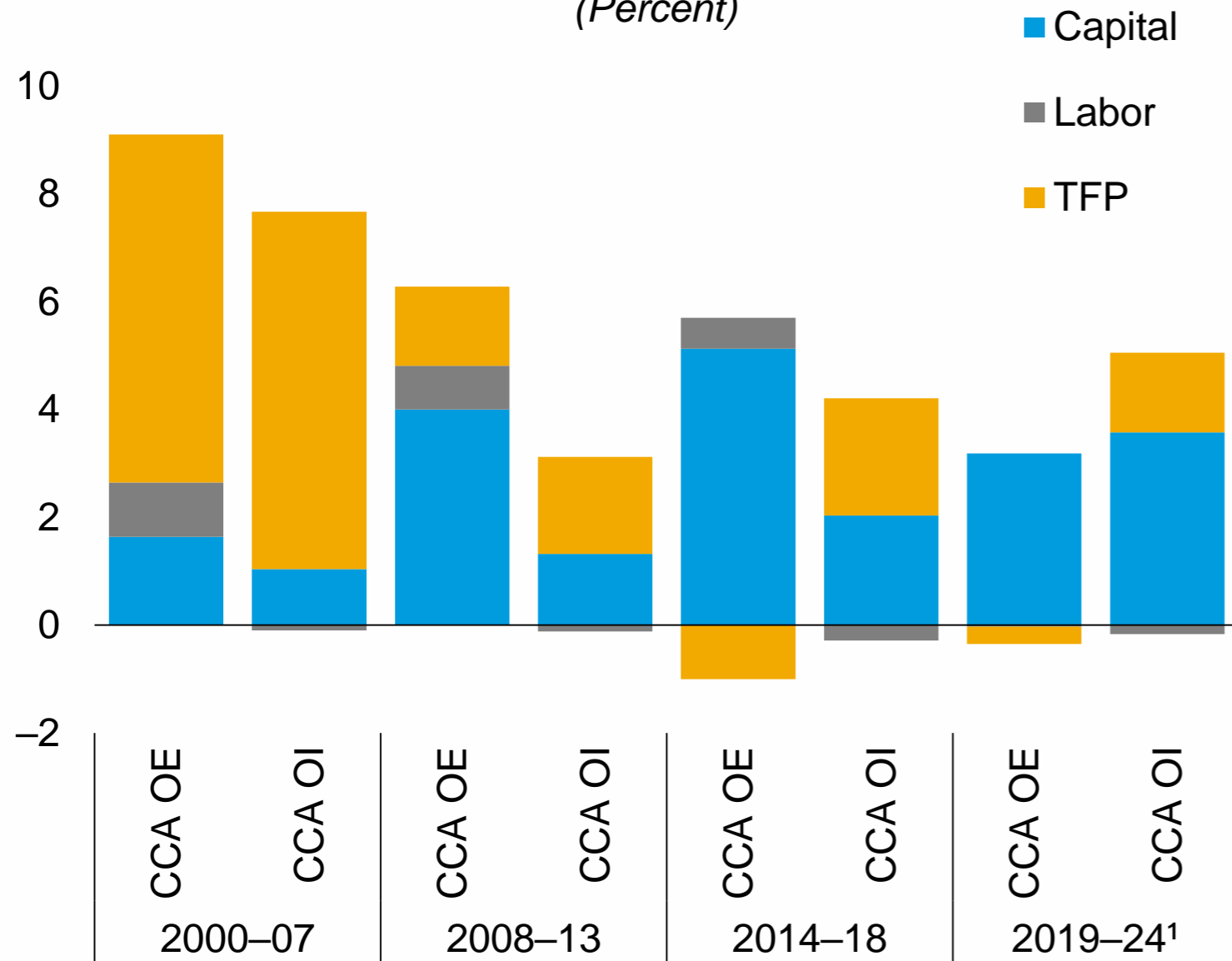
CCA Top 10 Export destinations include China, Italy, Russia, Netherlands, Turkey, Switzerland, France, Spain, Ukraine and Uzbekistan.

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

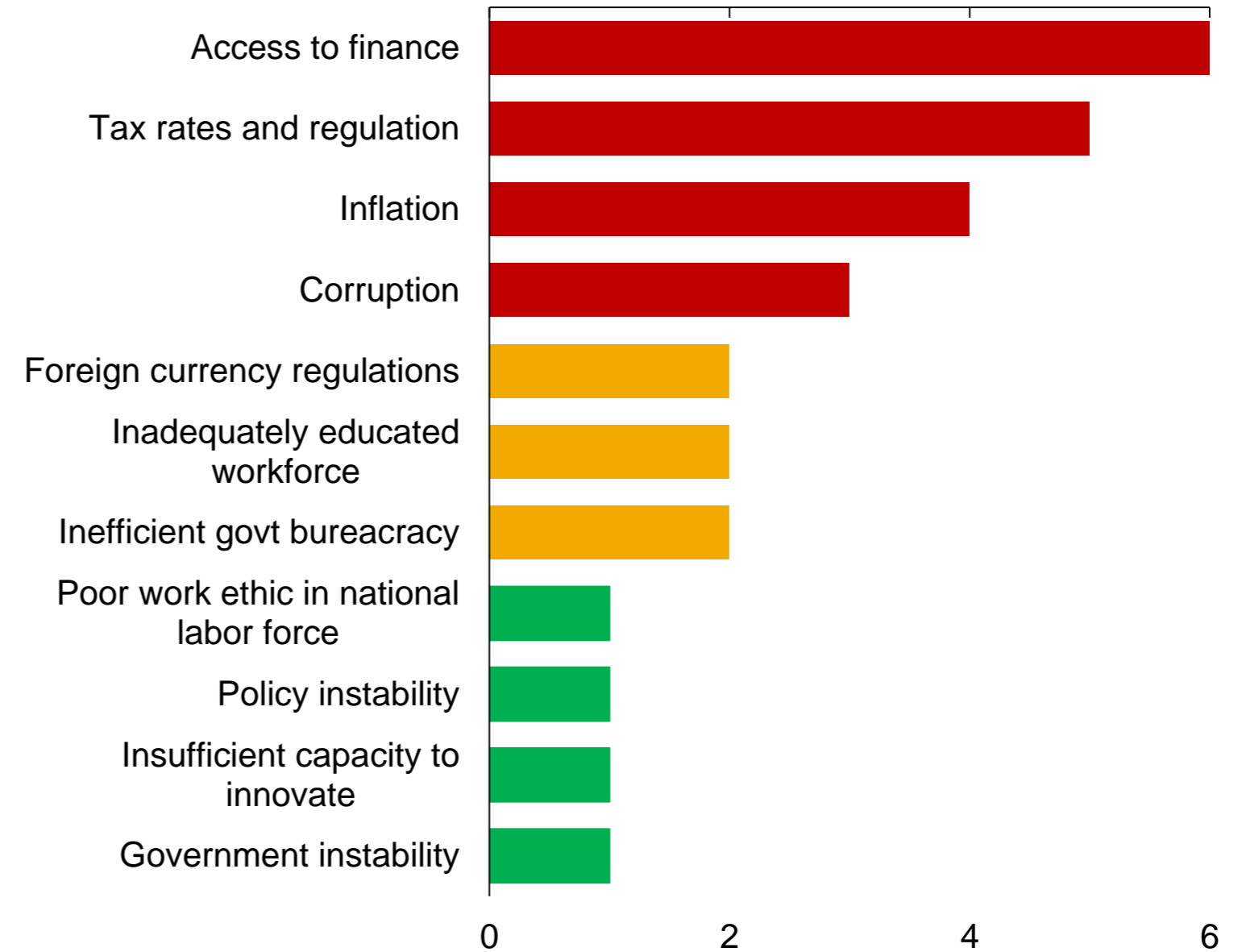
(Percent)



Sources: National authorities; and IMF staff calculations.

Challenges to Doing Business in CCA

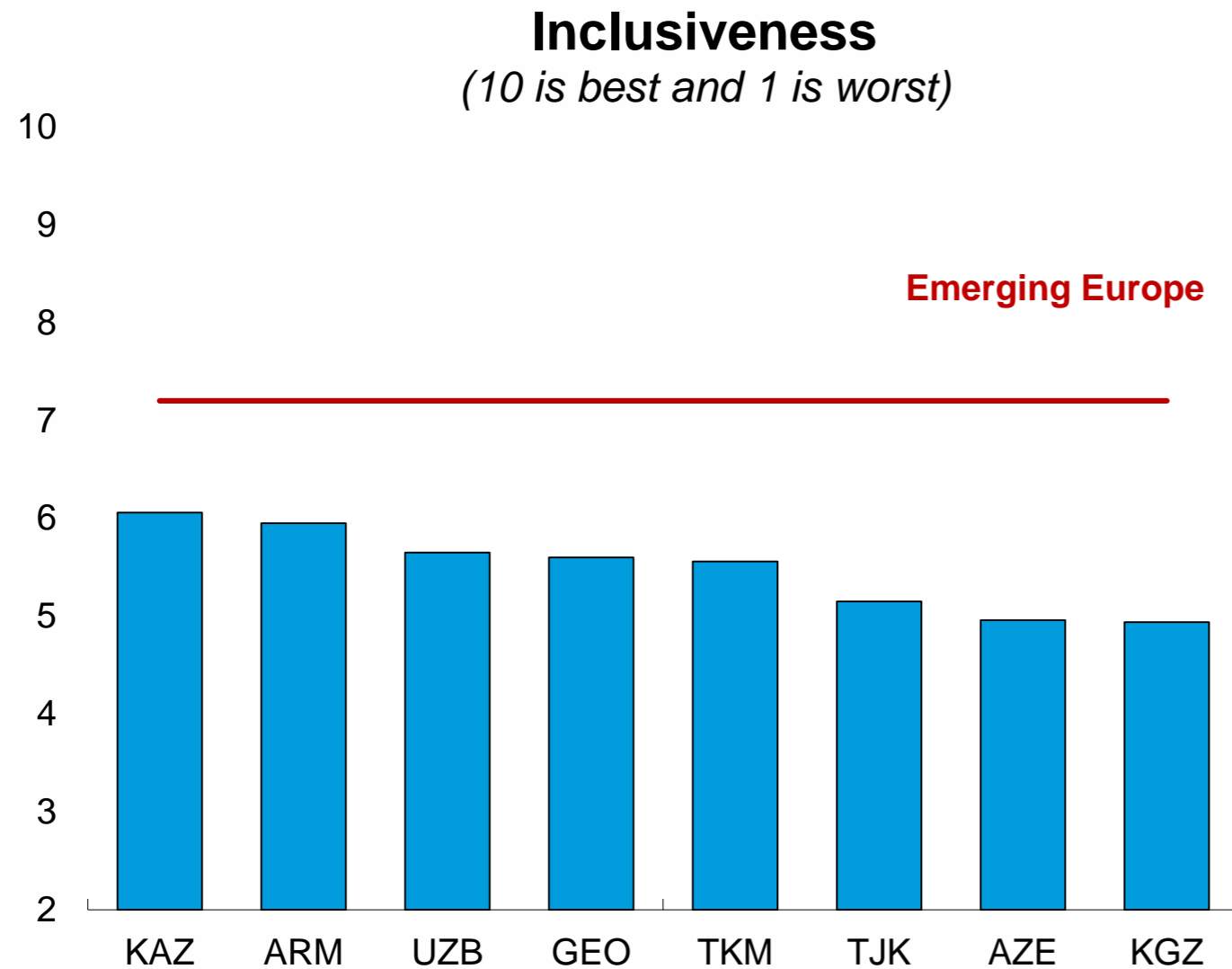
(Number of countries identifying the constraint among the top five)



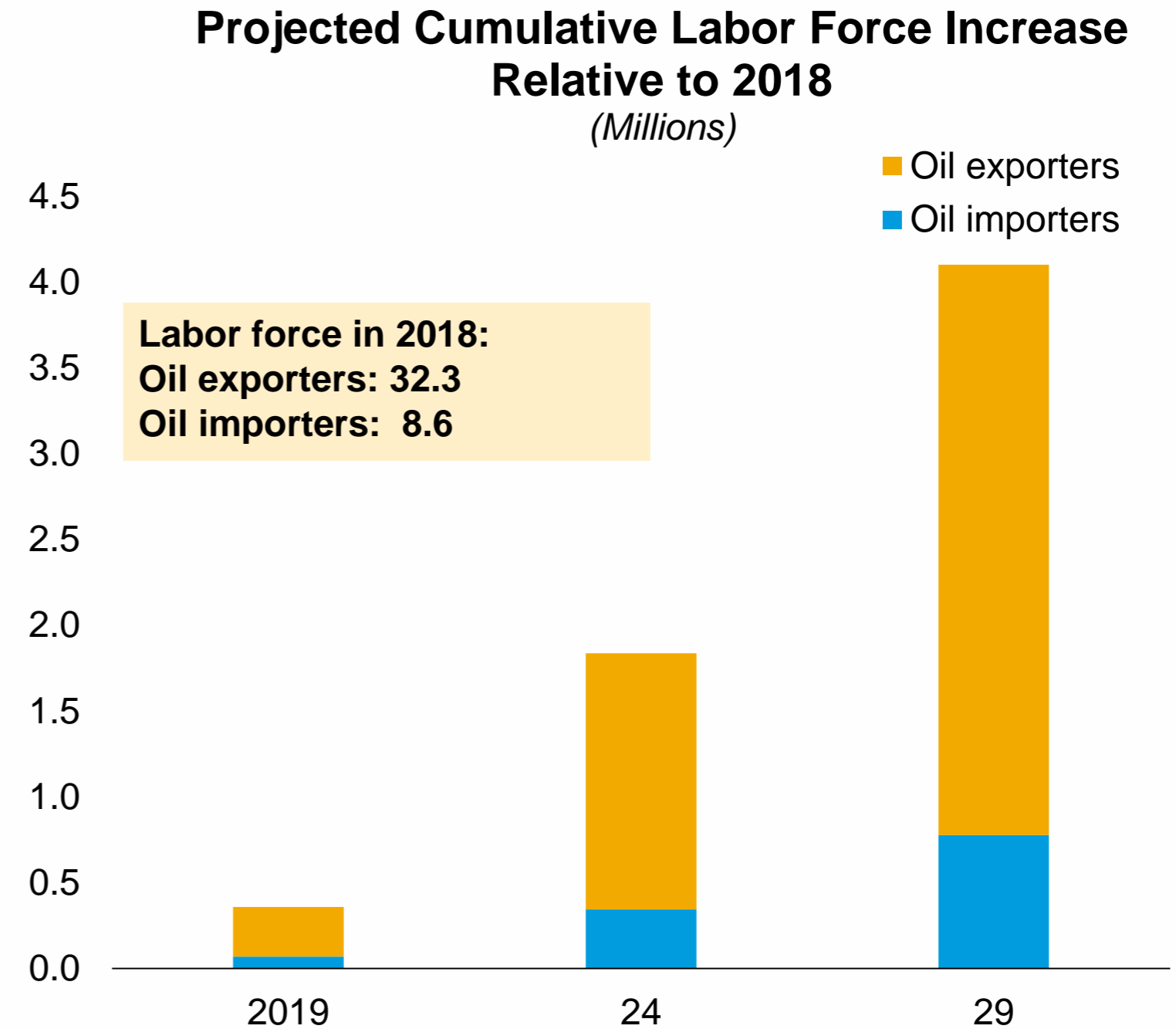
Source: World Economic Forum, Global Competitiveness Report 2017–18.

Note: Turkmenistan and Uzbekistan are excluded due to data availability.

Therefore, higher and more inclusive growth is needed amid increasing labor force

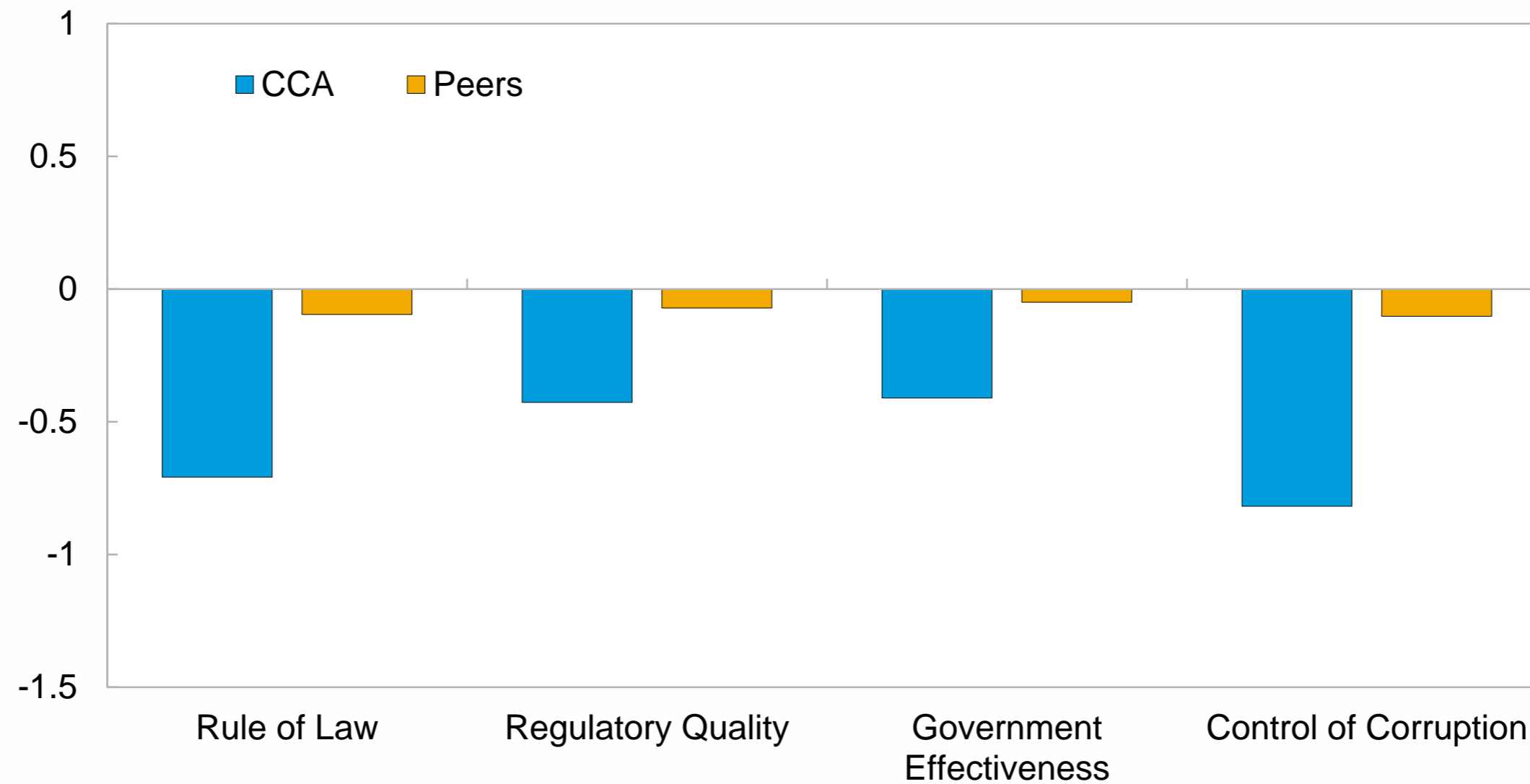


Source: European Bank for Reconstruction and Development.
 Note: Inclusiveness index aggregates several indicators which measure gender equality, opportunities for youth and regional disparities



Two thirds of countries in the world rank better than the CCA countries on average in Worldwide Governance Indicators

Worldwide Governance Indicators
(On a -2.5 (weak) to 2.5 (strong) scale)

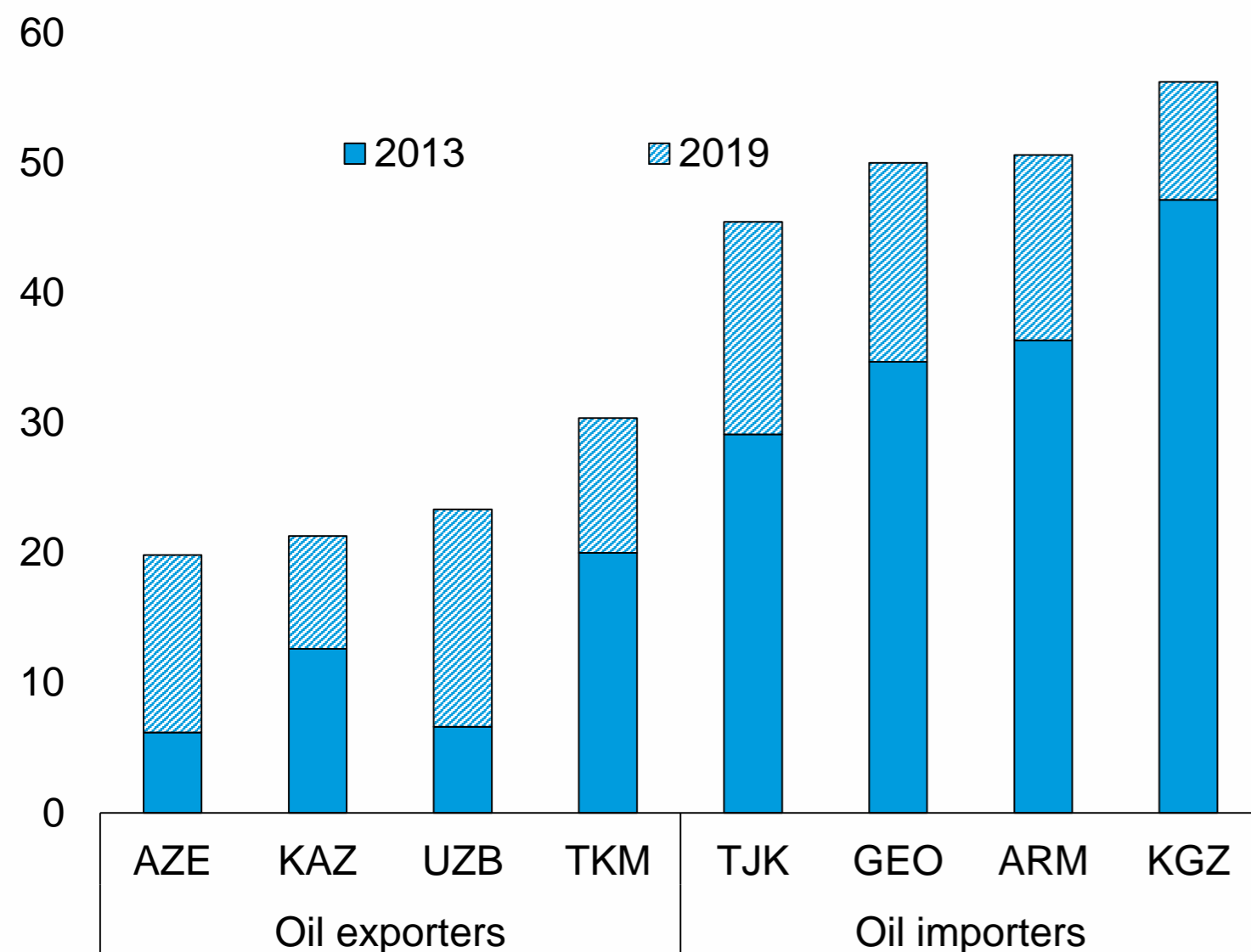


Source: Worldwide Governance Indicators (2017).

Building Resilience

Growth-friendly fiscal consolidation is needed to reduce debt vulnerability

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



Source: National authorities; and IMF staff calculations

Overview of Fiscal Management Frameworks

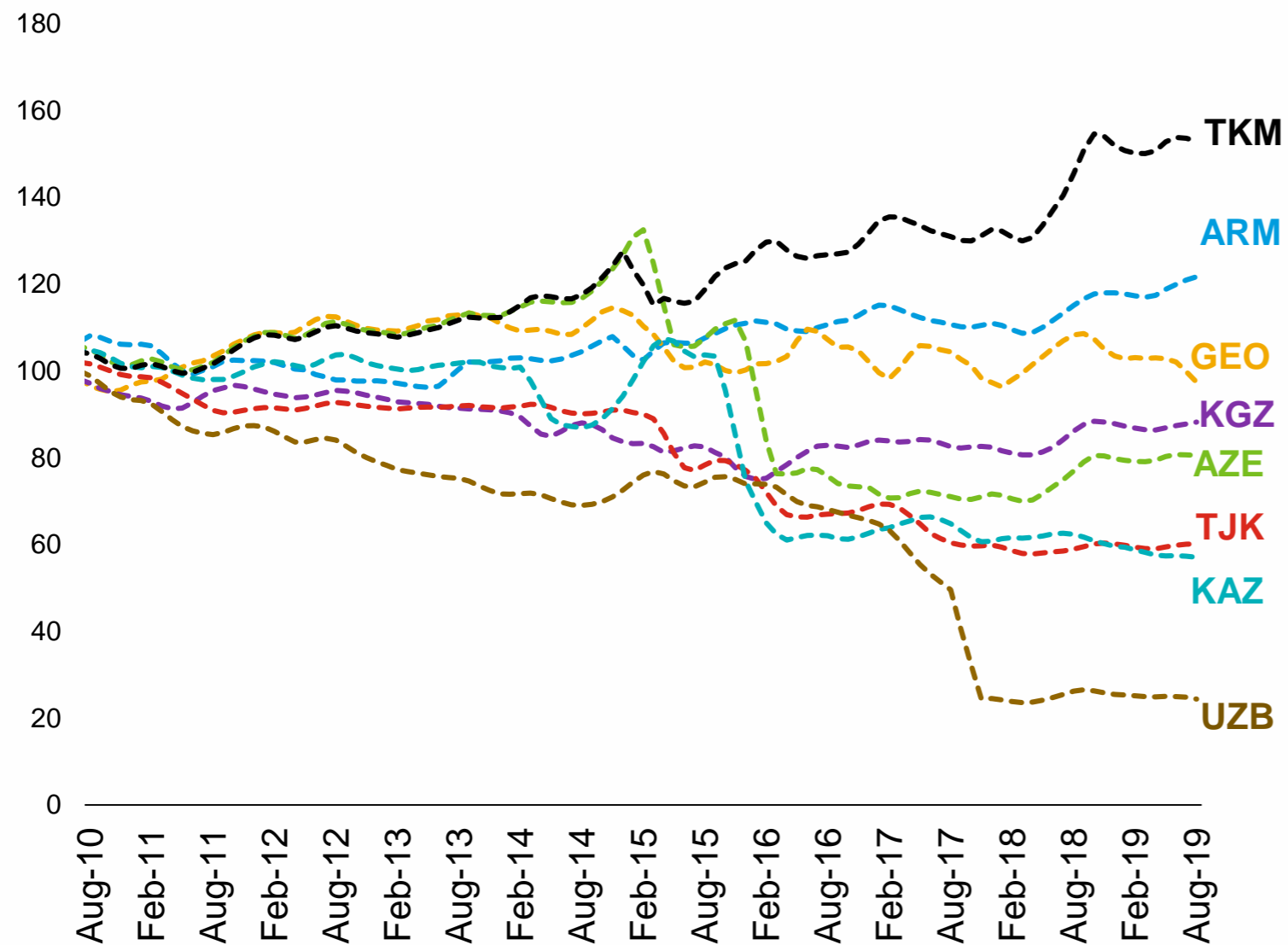
	Fiscal Rules	Medium-term fiscal framework
Armenia	Yes	Yes
Azerbaijan	Yes	In progress
Georgia	Yes	Yes
Kazakhstan	In progress	Yes
Kyrgyz Republic	In progress	No
Tajikistan	No	No
Turkmenistan	Yes	No ¹
Uzbekistan	No	No

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.

ER flexibility and modernization of MP frameworks are needed as shock absorbers

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



Modern Monetary Policy Framework

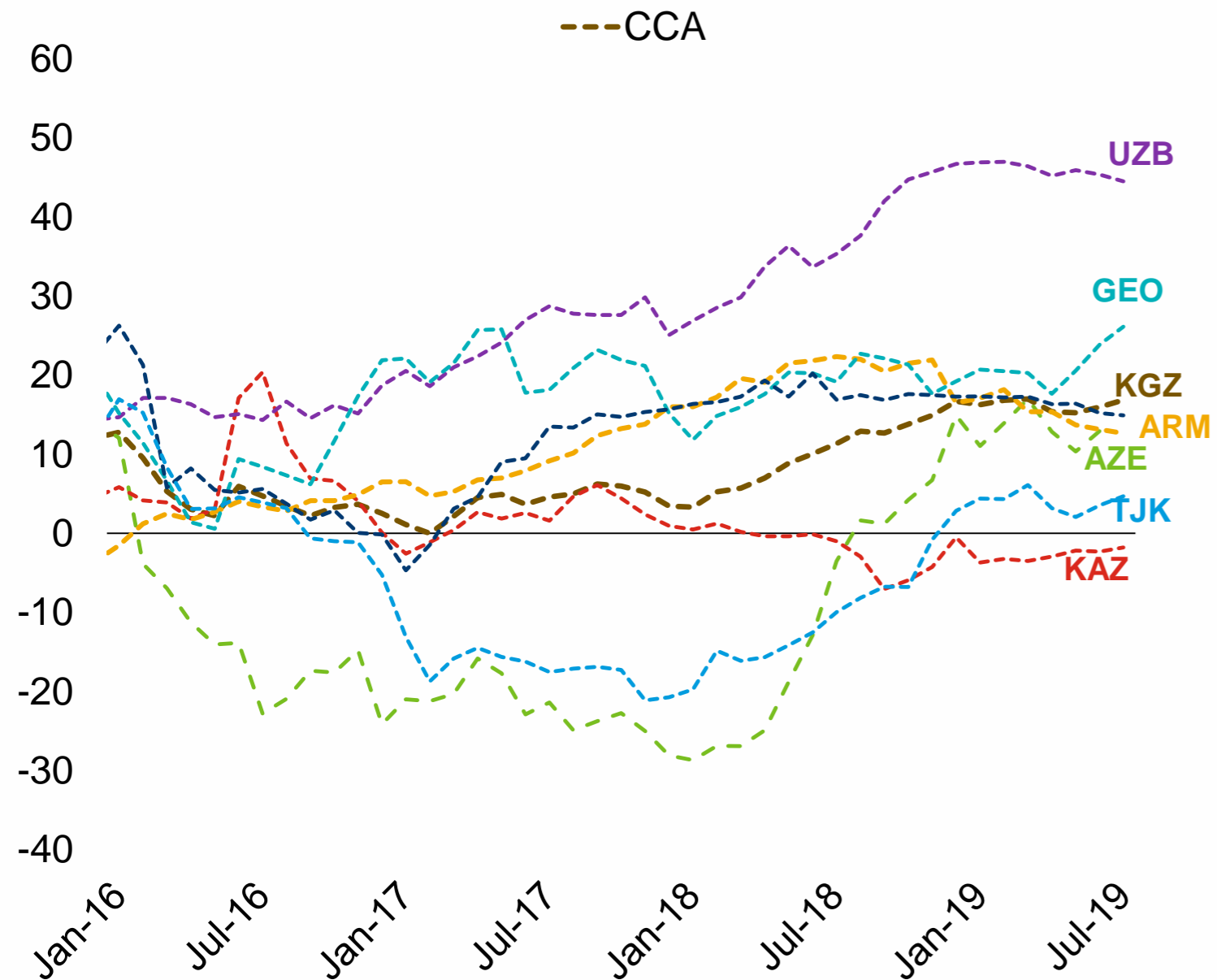
- Independent, accountable, and forward-looking interest rate-based monetary policy
- Objectives: price stability while preserving financial stability.
- Clear and timely communication
- Better transmission mechanism

Source: Information Notice System; and IMF staff calculations

Financial sector repair is needed to allow banks to contribute to growth

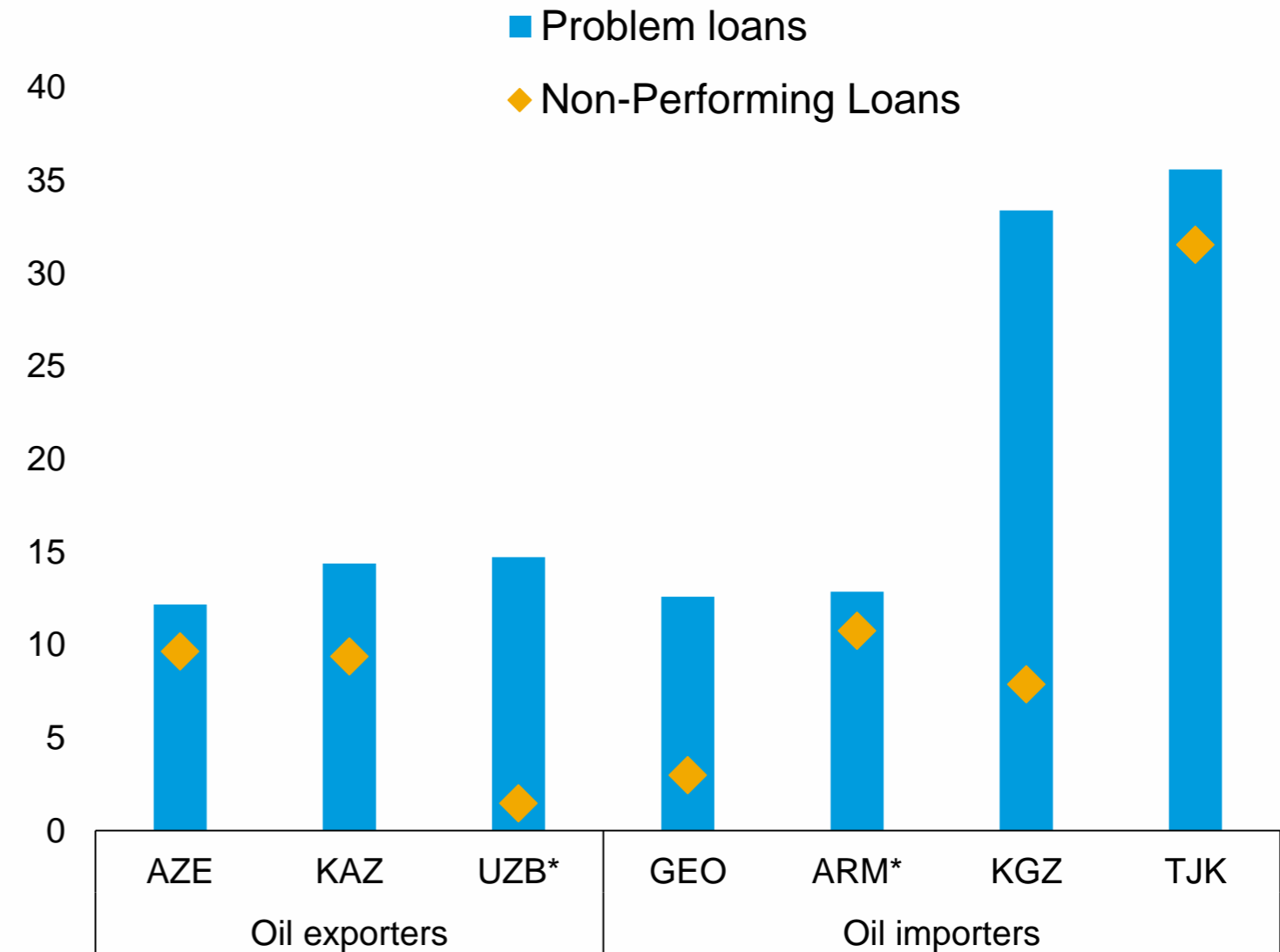
Private Credit Growth

(Percent, year-over-year average)



Asset Quality in the CCA

(Percent of total loans, latest available)



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.

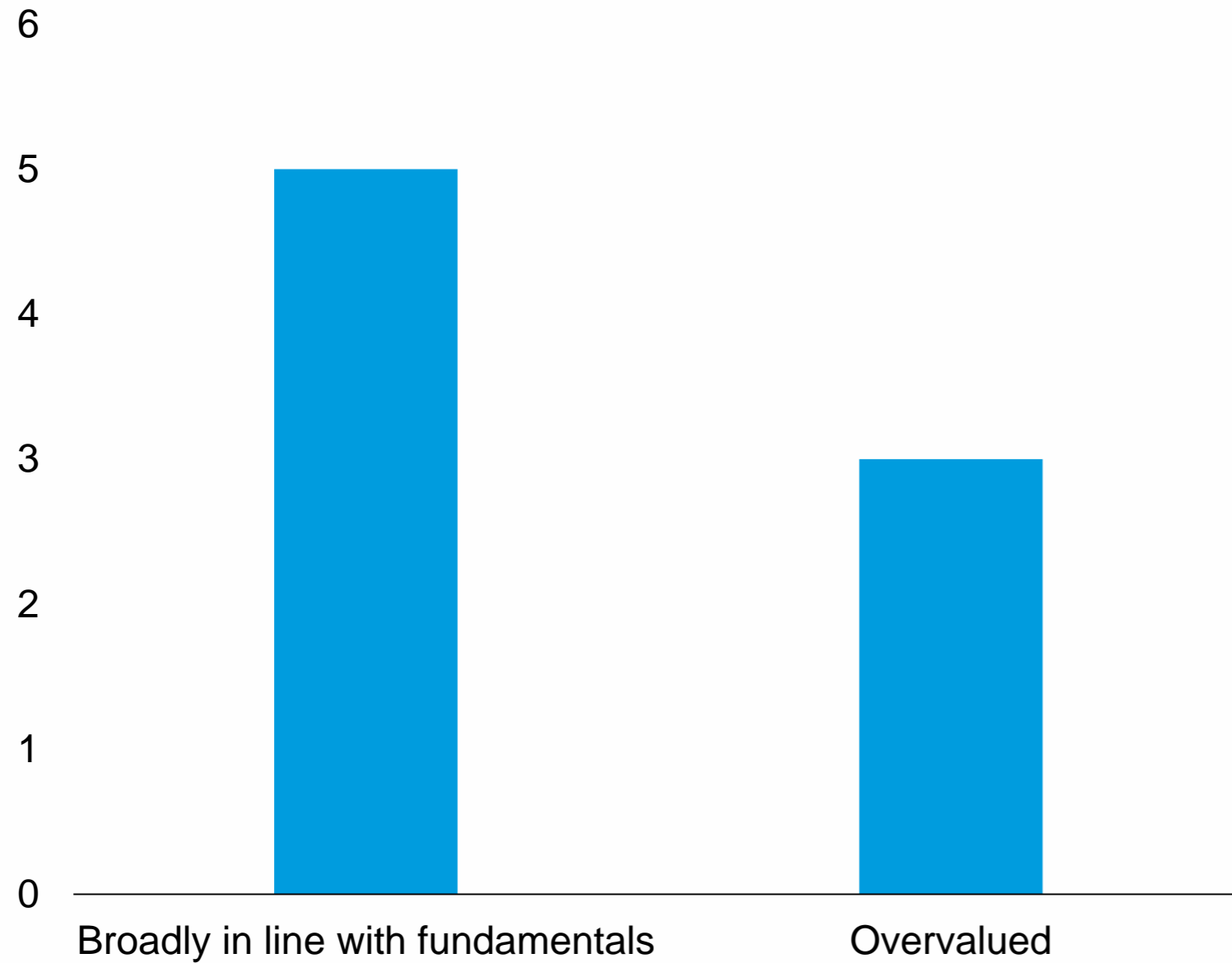
1. For Uzbekistan restructured loans are related to SOE borrowing (from state owned banks) with government guarantees. The risks for banks are low as the government has high liquid buffers to repay if needed. The amount of restructured loans includes only the restructured parts of the loans. 2. For Armenia total loans include losses and loss loans are loans overdue by 270 days.

Source: National authorities; and IMF staff calculations

Boosting Competitiveness for Higher Inclusive Growth

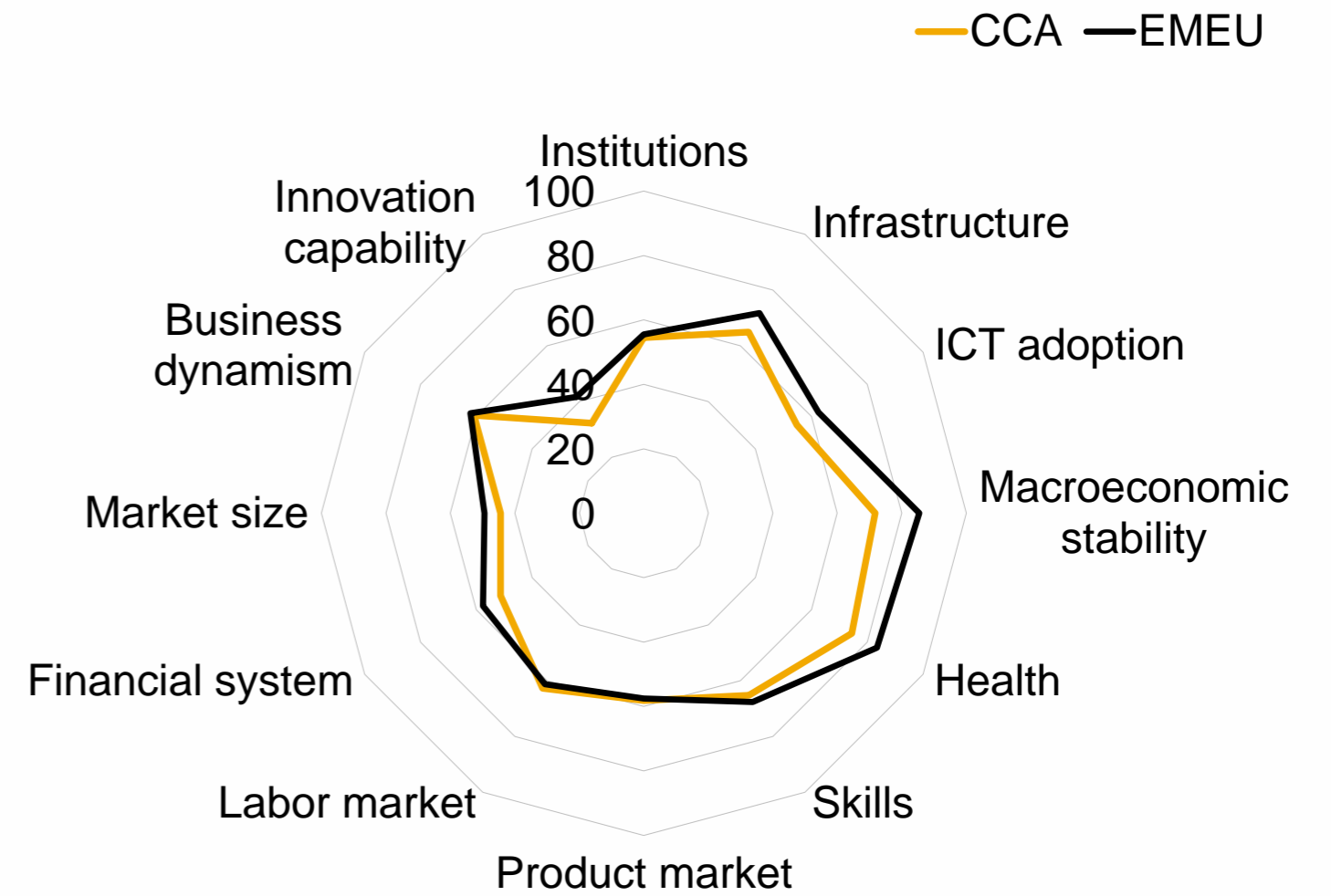
How competitive are CCA countries ?

Latest IMF Exchange Rate Assessment
(Number of countries)



Source: Authorities data and IMF staff calculations.

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

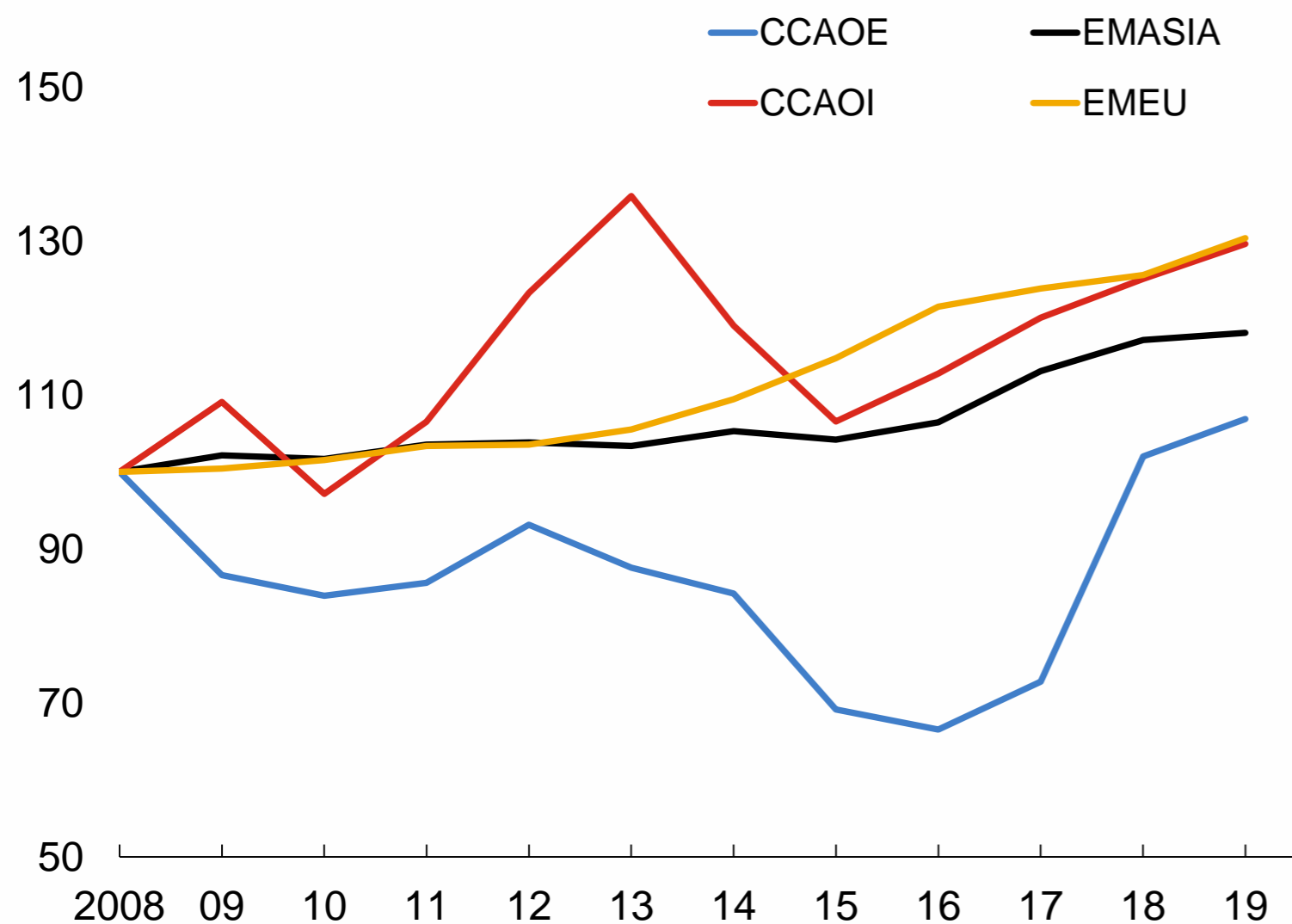


Source: World Economic Forum Global Competitiveness Report, 2018.

Non-commodity export performance in oil exporters has room for improvement

Share of Noncommodity Exports in Global Exports

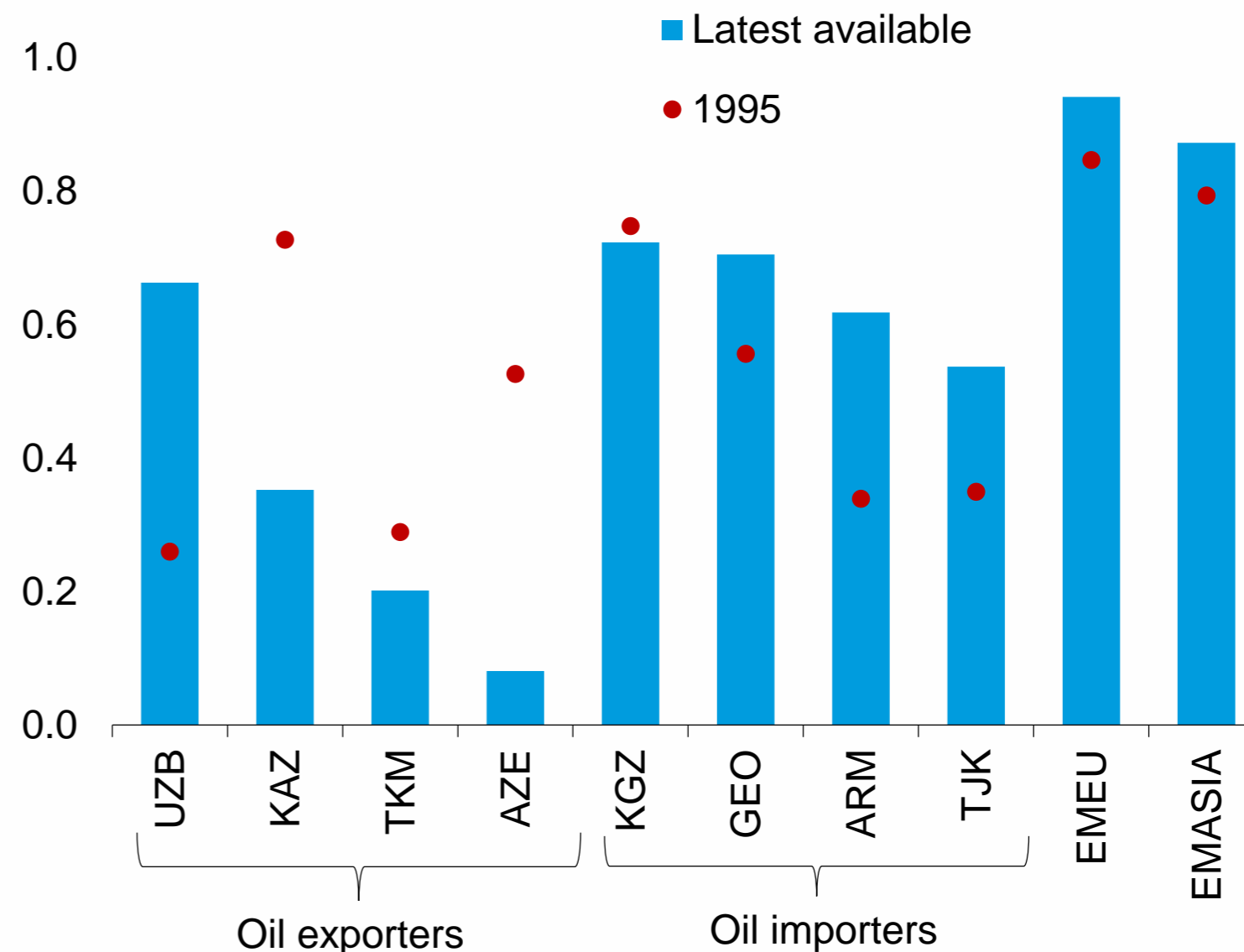
(Index 2008 = 100, share of volume of world exports)



Sources: National authorities; and IMF staff calculations.

Export Quality¹

(Index 0–1, higher is more diverse)



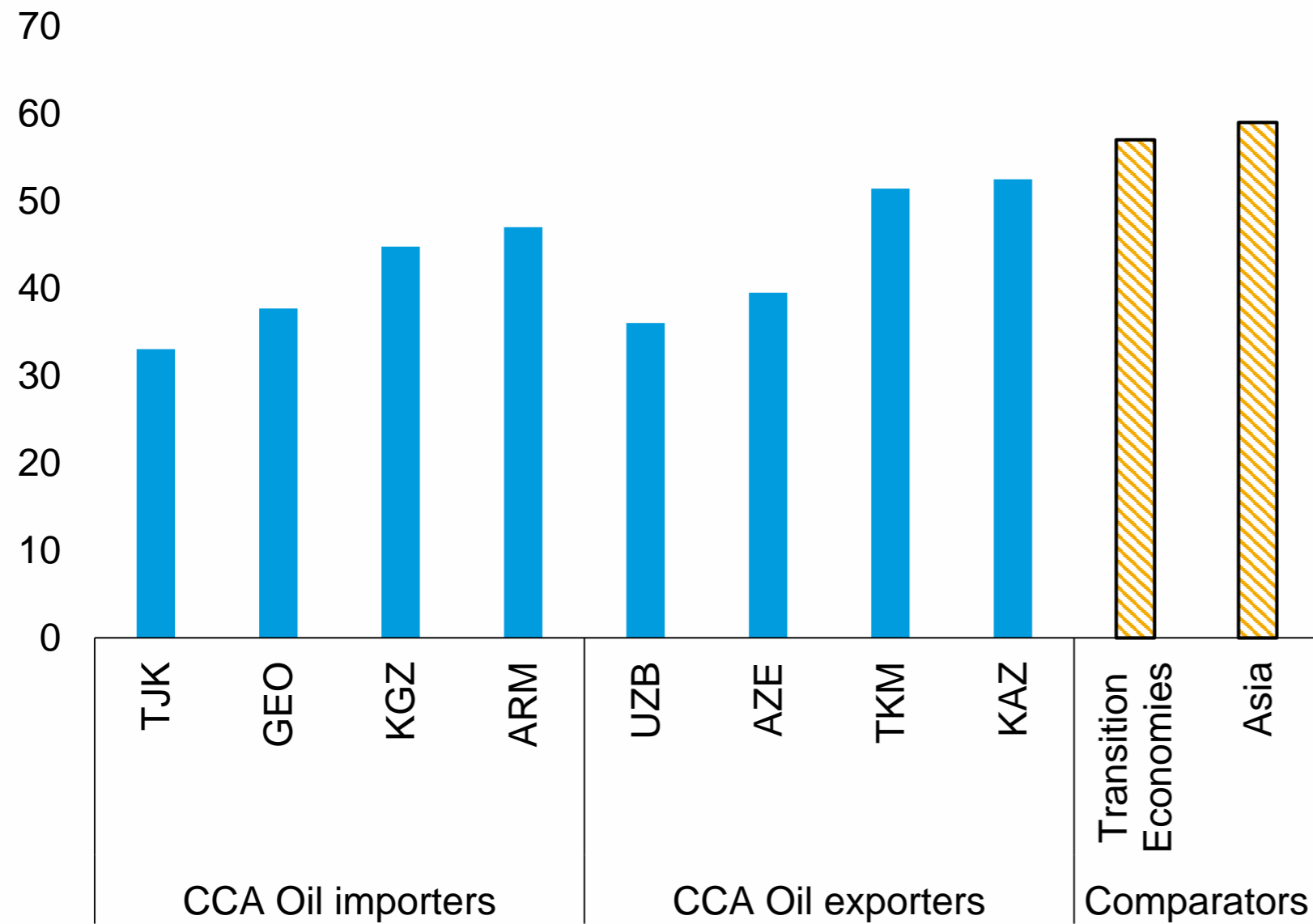
Sources: IMF Diversification database; and IMF staff calculations.

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.

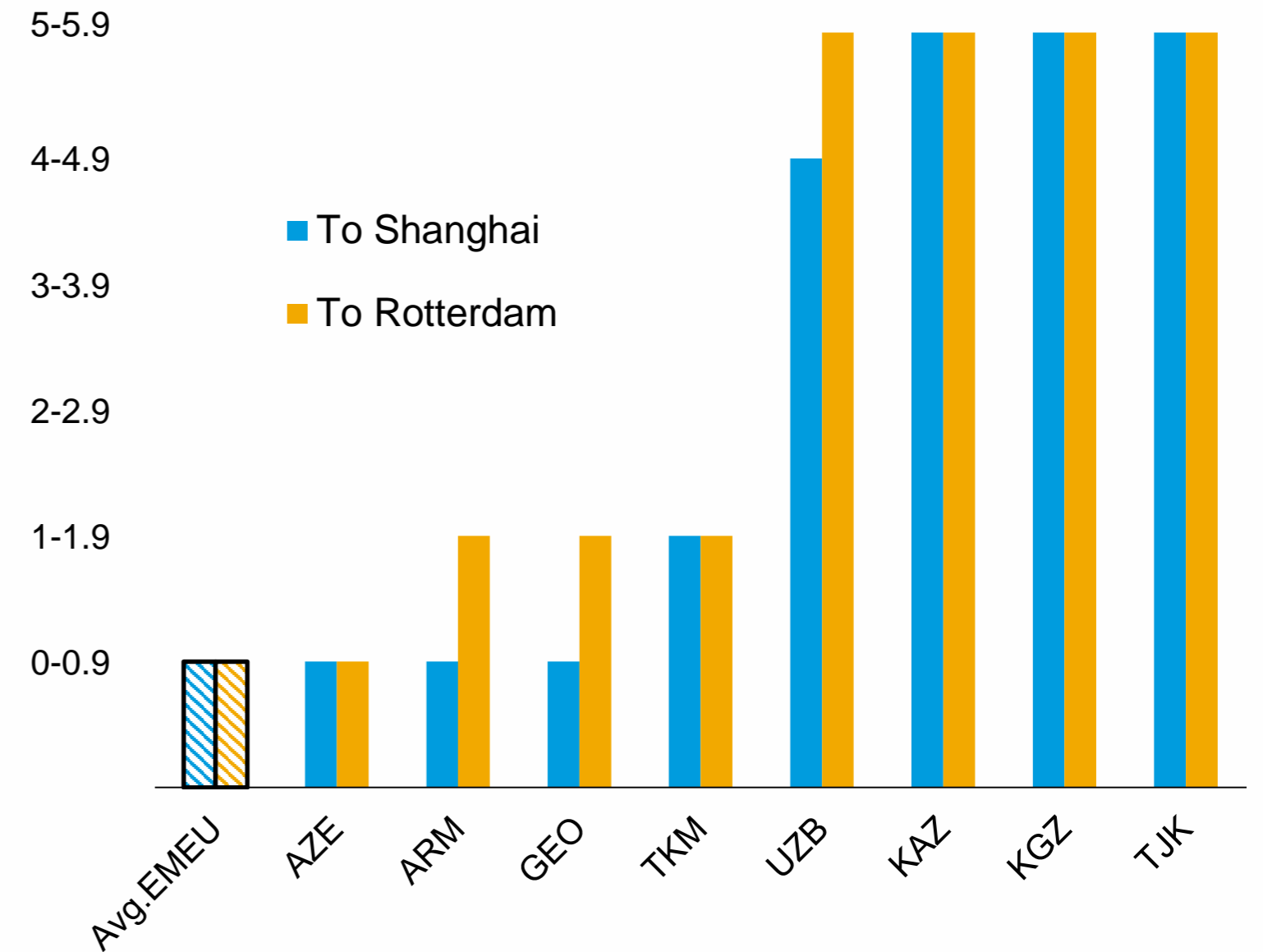
Promote global value chain participation

Global Value Chain Participation Rate (Share of exports)



Source: United Nations Conference on Trade and Development (UNCTAD) – Eora Global Value Chain (GVC) database.

Transportation Cost (Costs are in 000s of Euros per container)

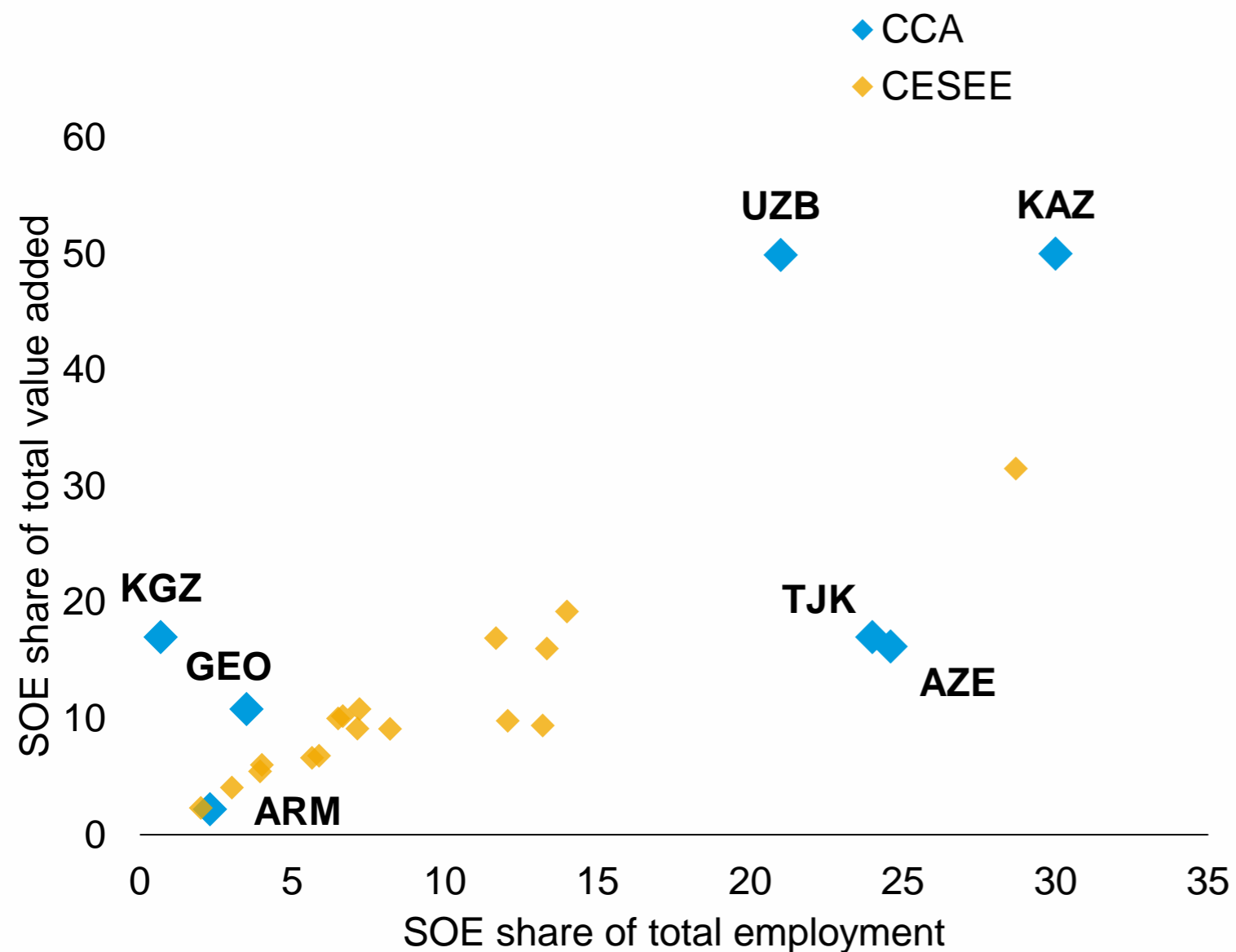


Source: Briceno- Garmendia, Lebrand and Abate, 2018 *Critical Connections: Promoting Economic Growth and Resilience In Europe and Central Asia* .

Note: Data shown does not show actual costs, rather it reflects estimated costs of transportation from the source.

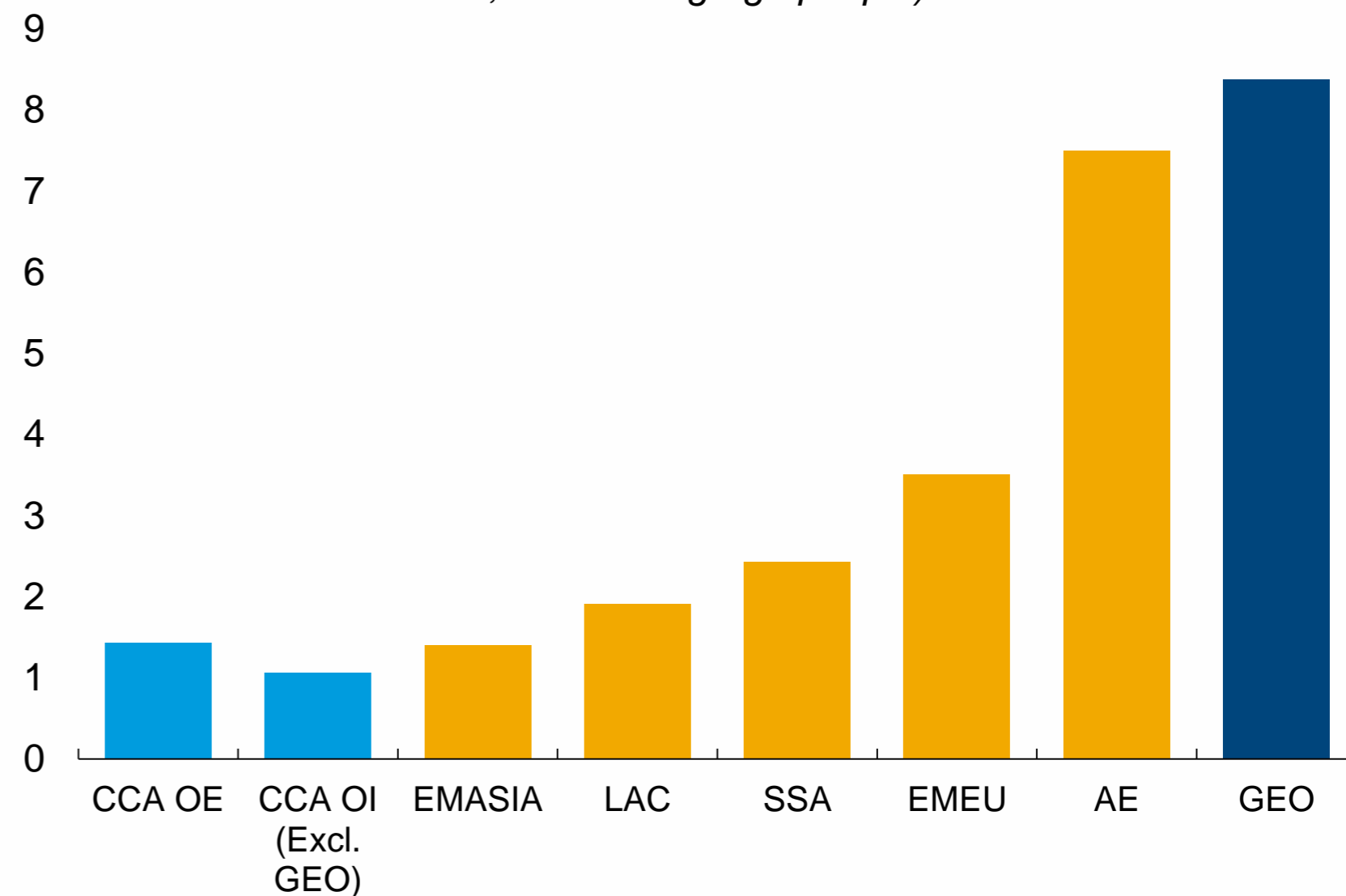
Reform SOEs to reduce state size and foster private sector

SOEs' Value Added and Employment (Percent)



Source: National authorities; and IMF staff calculations

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



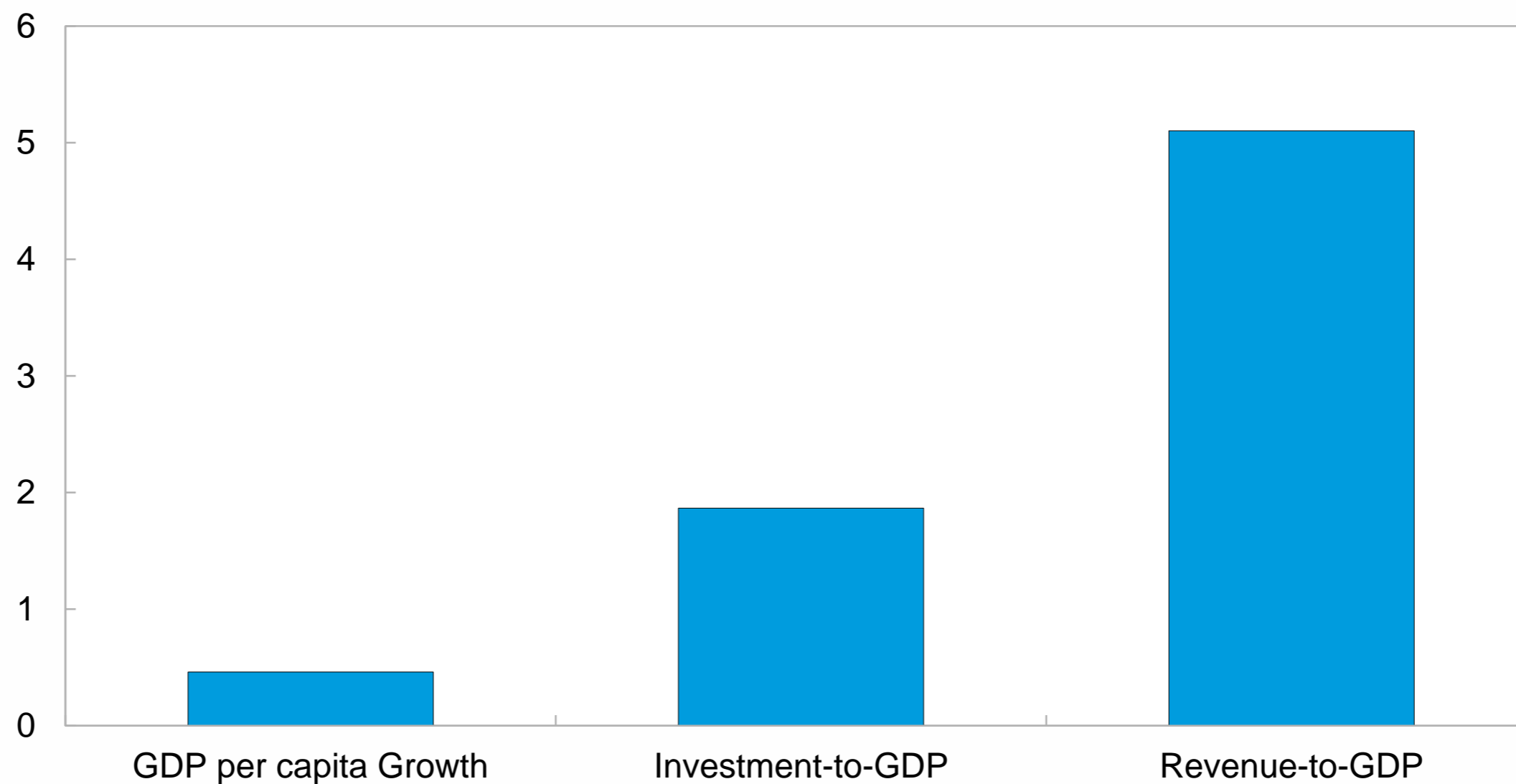
Source: World Bank *Doing Business Report*.

Improving Governance

Good governance leads to higher growth, investment, and tax revenue

Effects of Good Governance

(Increase in percentage points of moving up one quartile in the distribution of governance indicators)

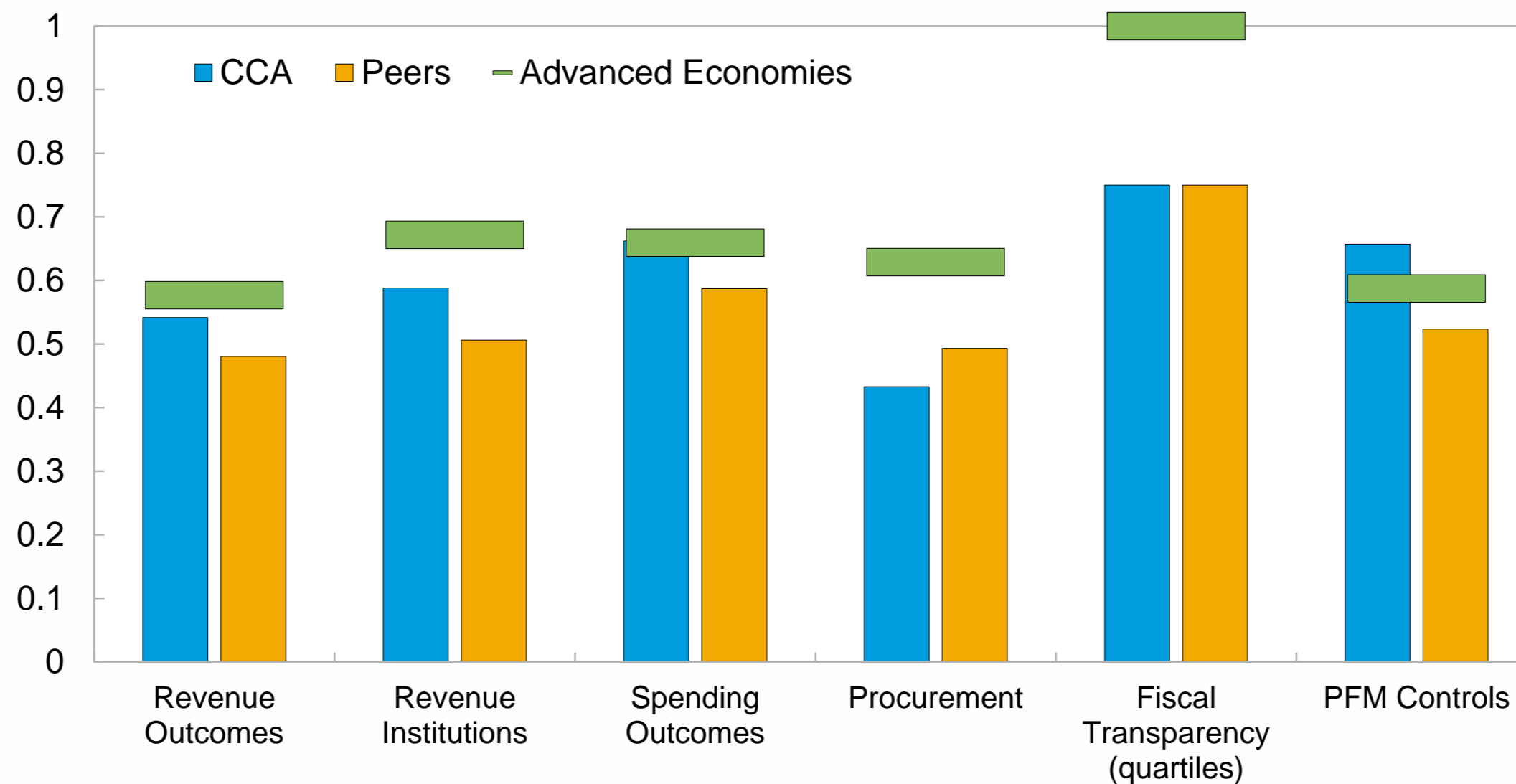


Source: IMF Policy Paper: Review of 1997 Guidance Note on Governance – A Proposed Framework for Enhanced Fund Engagement. April 6, 2018.

Note: Governance is defined as the average of the Worldwide Governance Indicators (WGI) on : (i) governance effectiveness, (ii) rule of law, (iii) regulatory quality, (iv) voice and accountability, and (v) control of corruption.

There is room to improve fiscal governance ...

Fiscal Governance
(On a 0 (worst) to 1 (best) scale)



Sources: WEO, World Bank, and IMF staff calculations (2019).

... financial sector oversight ...

Compliance to Basel Core Principles for Effective Banking Supervision, by Region, 2019 (on a **red/least** to **green/most** compliant scale)

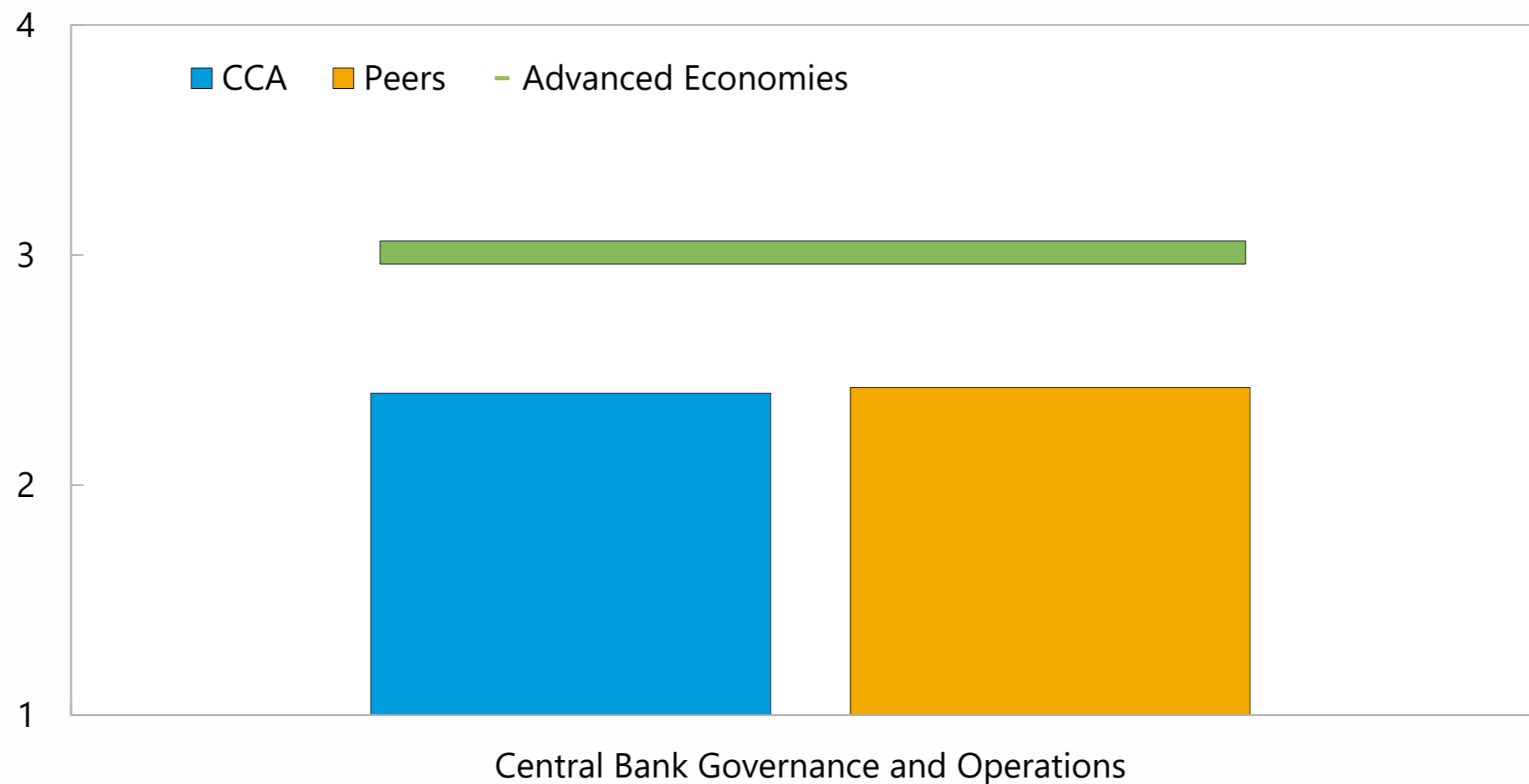
Principle	AFR	MENA	WHA	CCA	EUR	APAC
4. Permissible activities	Light Green	Green	Light Green	Green	Green	Light Green
26. Internal control and audit	Yellow	Light Green	Light Green	Green	Light Green	Light Green
2. Independence and resourcing	Orange	Red	Orange	Orange	Orange	Orange
21. Country and transfer risks	Red	Red	Orange	Orange	Yellow	Light Green
23. Interest rate risk in the banking book	Orange	Red	Yellow	Orange	Green	Light Green
29. Abuse of financial services	Red	Yellow	Yellow	Orange	Yellow	Light Green

Source: IMF Monetary and Capital Markets Department Compliance to Basel Core Principles for Effective Banking Supervision (2019).

AFR: Africa; APAC: Asia-Pacific; EUR: Europe; MENA: Middle East and North Africa; CCA: Caucasus and Central Asia; WHA: Western Hemisphere

... central bank governance and operations and ...

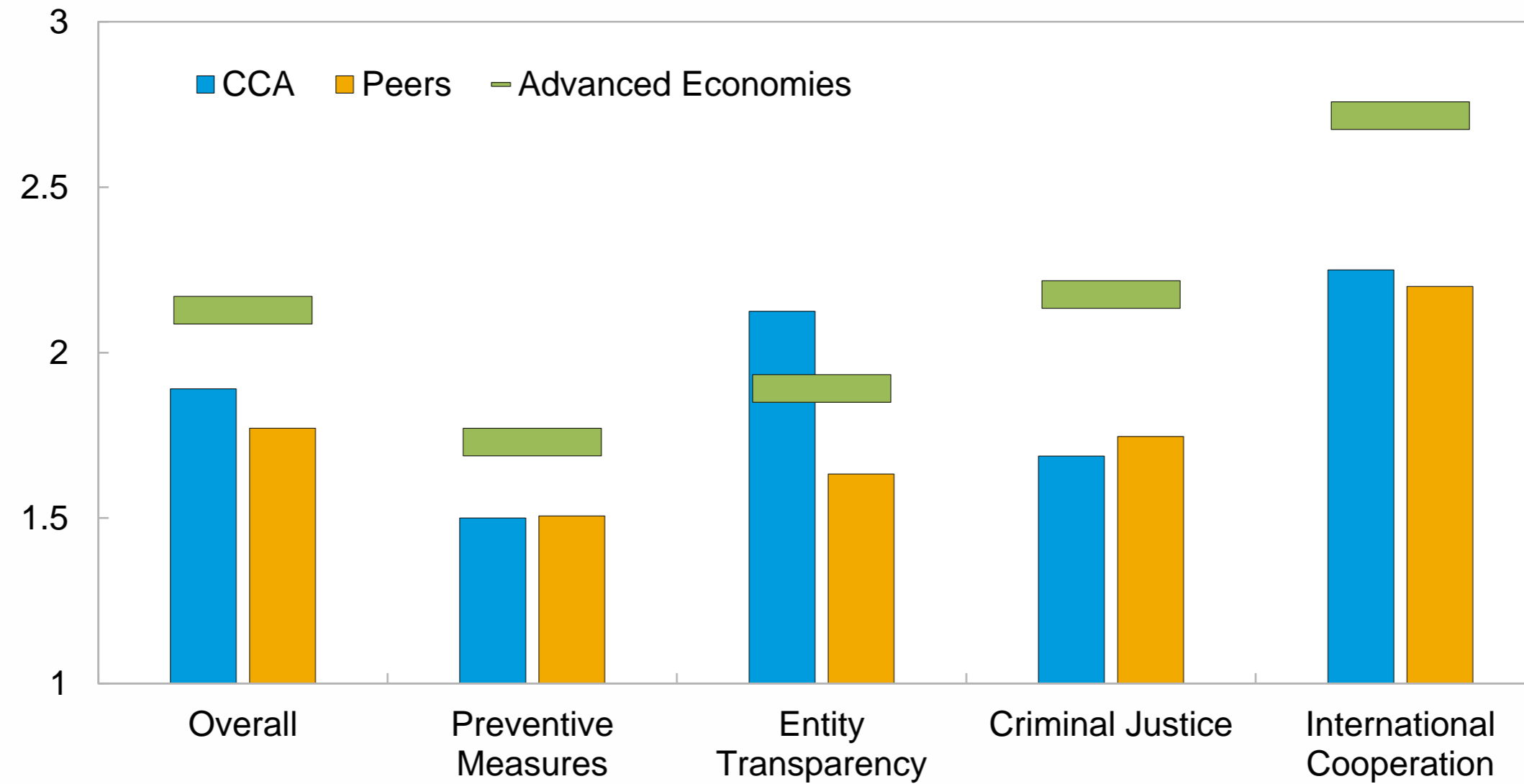
Central Bank Governance and Operations
(On a 1 (high) to 4 (low risk) scale)



Source: IMF Safeguards Assessment of Central Banks.

... Anti-Money Laundering / Combatting the Financing of Terrorism

(On a 1 (worst) to 5 (best) scale)



Source: Financial Action Task Force (2019).

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, pensions, 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 in Almaty will fill an important gap!**

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

- Papers on: “Building Resilient Banking Sectors in the Caucasus and Central Asia,”
- “A Growth – Friendly Path for Building Fiscal Buffers in the Caucasus and Central Asia,” and
- “Exchange rate developments and Policies in the Caucasus and Central Asia.”
- 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 and governance through reforms to achieve higher inclusive growth.
- Strong IMF's engagement, including through the new regional center.

THANK YOU!