

CCA Region Highlights

Economic activity in the Caucasus and Central Asia (CCA) is expected to continue expanding at a fast clip, with the CCA remaining among the fastest-growing regions in the world. Growth is driven by a recovery in the hydrocarbon sector and firm growth in domestic demand, supported in part by stable remittance inflows. Considerable downside risks weigh on this outlook, however, stemming in particular from a further slowdown in Russia, an important trading partner and source of remittance inflows. CCA economies should take advantage of the favorable near-term economic conditions to rebuild fiscal policy buffers that were eroded after the global crisis. In some cases, more exchange rate flexibility would help shore up external buffers while supporting competitiveness. The positive near-term outlook is also an opportunity to strengthen policy frameworks and set in motion a process of structural transformation into dynamic emerging economies.

Favorable Outlook but Potential Headwinds

Strong economic growth in the CCA is expected to continue in 2013-14, at about 6 percent, reflecting in part a continued catching up from low per capita income levels in many countries. Growth is supported by the expansion of production in extractive sectors, accommodative fiscal policy, and remittance inflows, which have so far held up well despite a slowdown in Russia. Growth in the CCA oil and gas exporters is projected to pick up slightly, underpinned by higher hydrocarbon production. Growth in the CCA oil and gas importers is projected to soften temporarily in 2013, reflecting weaker external demand and bottlenecks in budgetary spending in the Caucasus.

Downside risks to this outlook persist. A lower-than-anticipated growth rate in emerging markets including China, Russia, and Turkey, could lower GDP growth in the region's oil, gas, and metals exporters through lower commodity prices, and could affect oil importers through lower remittances, trade, and bilateral official project lending.

Rebuilding Buffers and Supporting Sustained and Inclusive Growth

Most countries in the CCA region need to consolidate their budgets to ensure fiscal sustainability and build sufficient policy buffers. We project a significant deterioration in fiscal positions in 2013-14, reflecting lower oil prices and, in some countries, higher expenditures and challenges in implementing tax reforms. Hydrocarbon exporters should move to a more neutral fiscal stance in 2013-14 to ensure medium-term fiscal sustainability. Most hydrocarbon importers have limited fiscal space and should continue to rebuild fiscal buffers, though some countries in the Caucasus should use fiscal policy in the near term to support weakening growth, particularly through resuscitating capital expenditure. All CCA economies need to find room for more social spending in support of inclusive growth, such as greater investment in education and enhanced social safety nets.

In many countries, these policies should be supported by more exchange rate flexibility, to help strengthen external buffers as well as competitiveness and address vulnerabilities arising from high dollarization.

The current broadly positive outlook is also an opportunity to strengthen policy frameworks and set in motion the process of structural transformation into dynamic emerging economies. Further substantial improvements are needed in protecting property rights and investors, fighting corruption, encouraging competition, reforming labor market regulation while maintaining adequate social protection, strengthening education systems, fostering financial development, promoting regional and international trade integration, and strengthening fiscal and monetary policy frameworks.

CCA Region: Selected Economic Indicators, 2000–14

(Percent of GDP, unless otherwise indicated)

	Average	2008	2009	2010	2011	2012	Projections	
	2000–07						2013	2014
CCA								
Real GDP (annual growth)	10.3	6.8	3.7	6.6	6.8	5.8	5.8	6.1
Current Account Balance	-0.6	8.8	0.4	4.5	7.9	4.8	3.9	3.1
Overall Fiscal Balance	1.4	6.1	0.8	3.7	6.3	4.4	1.2	0.5
Inflation, p.a. (annual growth)	9.8	16.5	6.2	7.0	9.1	5.3	6.9	7.0
CCA oil and gas exporters								
Real GDP (annual growth)	10.7	7.0	4.9	7.0	6.8	5.8	5.9	6.2
Current Account Balance	0.3	12.4	1.8	6.2	10.0	6.4	5.0	4.1
Overall Fiscal Balance	2.2	7.8	2.1	5.1	7.9	5.5	1.9	1.0
Inflation, p.a. (annual growth)	10.2	16.8	6.5	7.0	8.9	5.8	7.2	7.3
CCA oil and gas importers								
Real GDP (annual growth)	8.3	5.7	-3.5	4.0	6.4	5.5	4.9	5.4
Current Account Balance	-6.4	-15.5	-10.0	-9.4	-9.8	-10.1	-6.9	-6.9
Overall Fiscal Balance	-2.7	-3.6	-6.8	-5.3	-3.3	-2.2	-3.1	-2.5
Inflation, p.a. (annual growth)	7.8	14.4	4.2	7.1	10.7	2.1	5.0	5.2

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.