Outline

Global Outlook

CCA Outlook, Risks, and Policies
An uneven global recovery continues

Real GDP Growth Projections
(Percent change from a year earlier)

<table>
<thead>
<tr>
<th></th>
<th>World</th>
<th>U.S.</th>
<th>Euro Area</th>
<th>Emerging markets</th>
<th>China</th>
<th>Russia</th>
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</thead>
<tbody>
<tr>
<td>2013</td>
<td>3.3</td>
<td>2.2</td>
<td>-0.4</td>
<td>4.7</td>
<td>7.7</td>
<td>1.3</td>
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<tr>
<td>2014</td>
<td>3.3</td>
<td>2.2</td>
<td>0.8</td>
<td>4.5</td>
<td>7.4</td>
<td>0.2</td>
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<tr>
<td>2015</td>
<td>3.8</td>
<td>3.1</td>
<td>1.4</td>
<td>5.0</td>
<td>7.1</td>
<td>0.5</td>
</tr>
</tbody>
</table>
Global recovery remains fragile

- Geopolitical risks (Russia-Ukraine, Middle East)
- Further risks to growth in emerging market economies
- Risks related to normalization of monetary policy in advanced economies
- Protracted period of slow growth in advanced economies
Oil prices have declined considerably since projections were made; risks are high in both directions.

Brent Crude Oil Price
(U.S. dollars per barrel)

Sources: Bloomberg; and IMF staff calculations.

1Derived from prices of futures and options on October 15, 2014.
Caucasus and Central Asia

- Kazakhstan
- Georgia
- Azerbaijan
- Uzbekistan
- Kyrgyz Republic
- Turkmenistan
- Tajikistan

Legend:
- Golden: Oil and gas exporters
- Orange: Oil and gas importers
Growth is slowing due to spillovers from Russia and weaker domestic demand, yet remains robust.
Close linkages with Russia create downside risks to the outlook

**Linkages with Russia**

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
<th>Remittances</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARM</td>
<td>&lt;3% of GDP</td>
<td>&gt;10% of GDP</td>
<td>&lt;3% of GDP</td>
<td></td>
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<tr>
<td>GEO</td>
<td>&lt;3% of GDP</td>
<td>&gt;10% of GDP</td>
<td>&lt;3% of GDP</td>
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<tr>
<td>KGZ</td>
<td>&lt;3% of GDP</td>
<td>&gt;10% of GDP</td>
<td>&lt;3% of GDP</td>
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<tr>
<td>TJK</td>
<td>&lt;3% of GDP</td>
<td>&gt;10% of GDP</td>
<td>&lt;3% of GDP</td>
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<tr>
<td>AZE</td>
<td>&lt;3% of GDP</td>
<td>&gt;10% of GDP</td>
<td>&lt;3% of GDP</td>
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<tr>
<td>KAZ</td>
<td>&lt;3% of GDP</td>
<td>&gt;10% of GDP</td>
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<tr>
<td>TKM</td>
<td>&lt;3% of GDP</td>
<td>&gt;10% of GDP</td>
<td>&lt;3% of GDP</td>
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<tr>
<td>UZB</td>
<td>&lt;3% of GDP</td>
<td>&gt;10% of GDP</td>
<td>&lt;3% of GDP</td>
<td></td>
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</tbody>
</table>

**Impact of 1 percentage point fall in Russia’s GDP growth and investor uncertainty on CCA GDP growth (percent)**

- Oil exporters
  - Remittances
  - Trade and other channels
  - Investor Uncertainty

- Oil importers
  - Remittances
  - Trade and other channels
  - Investor Uncertainty
Despite slowing growth, inflationary pressures are rising because of recent depreciations.
Fiscal positions are vulnerable

Fiscal Balances
(In percent of GDP)

Fiscal breakeven oil prices
(U.S. dollars per barrel)
External positions are weakening

**Current Account Balances**  
*(Percent of GDP)*

**Reserve Coverage**  
*(Months of Imports)*

CCA Oil Exporters
CCA Oil Importers
Continued low oil prices would have mixed effects on the CCA oil exporters and importers.
Financial risks (old and new) are significant

**Private Sector Credit to GDP vs. Trend**

- Credit as a percent of GDP
- Linear trend

**High Dollarization**

*(latest year available)*

- FX deposits as % of total deposits
- FX loans as % of total loans

- Countries: ARM, AFG, GEO, TJK, TKM, AZE, CCA, KGZ, KAZ, LAC, JOR, SSA, RUS, BRICS, BRA, IND, ZAF, UZB, ZAF
# Near-term Policy Priorities

## Fiscal
- Weakening growth prospects justify a temporary pause in fiscal consolidation, where financing allows, in the context of credible medium-term plans.
- Countries with low buffers and financing shortages need to continue growth-friendly fiscal consolidation.

## Monetary & External
- Tighten monetary policy, if inflationary pressures persist.
- Otherwise, monetary policy can remain neutral, and greater exchange rate flexibility can help buffer against shocks and protect export competitiveness.

## Financial
- Stronger macro-prudential regulations to reduce NPLs and discourage unsustainable increases in consumer loans.
- Reduce dollarization through financial deepening.
- Discourage directed lending.
CCA medium-term growth prospects are weakening

Potential GDP Growth
(Percent)

Potential GDP Growth Changes, 2015-19 vs. 2003-07
(Percent)
Growth has been driven by commodities, with little intra-regional trade.
High unemployment and inequality suggest that growth has not been sufficiently inclusive

Gini and Land Gini Indexes
(Index, higher values are more unequal)

Youth unemployment rate
(percent)

Unemployment rate
(Decade averages, percent)
Slowdown in structural reforms does not bode well for raising growth and inclusiveness.

Reversals or delays in structural reforms
(1 to 4+ scale; higher is better)
A new economic model is needed
Medium-term Policy Priorities

Bolder Structural Reforms

- Structural reforms, especially in areas of governance and regulation, to address weak growth potential and low inclusiveness.

Wider Economic Integration

- Balanced regional and multilateral trade integration initiatives, to diversify economies and improve medium-term growth prospects.

Stronger Policy Frameworks

- Fiscal: More fiscal transparency, and stronger medium-term budget frameworks.

- Monetary: Modern monetary policy regimes with clear interest rate guidance, and widening exchange rate bands, to provide an anchor to the economy.
Bold reforms, particularly in governance and regulation, can improve growth and inclusiveness.

### Structural Reform Priorities

<table>
<thead>
<tr>
<th></th>
<th>Labor</th>
<th>Corruption</th>
<th>Bureaucracy</th>
<th>Infrastructure</th>
<th>Trade</th>
<th>Education</th>
<th>Legal</th>
<th>Finance</th>
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<tr>
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<td>80%</td>
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<td>40%</td>
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<td>CCA Oil Importers</td>
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<td>Developing Asia</td>
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<tr>
<td>Advanced Economies</td>
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</tbody>
</table>

Legend:
- Lowest 20th Percentile
- 20th-40th Percentile
- 40th-60th Percentile
- 60th-80th Percentile
- Top 20th Percentile
- Data Unavailable
Successful economic integration in the CCA needs to be multilateral and market-driven

By liberalizing their restrictive trade regimes within the WTO framework

By involving all key trading partners

Through market-driven structural reforms
Greater exchange rate flexibility would help economies adjust to unanticipated shocks

<table>
<thead>
<tr>
<th>Exchange Rate Arrangement</th>
<th>Monetary Policy Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional peg, Stabilized arrangement, Crawl-like arrangement, Other managed arrangement</td>
<td>U.S. dollar or Euro anchor, Monetary Target, Other</td>
</tr>
<tr>
<td></td>
<td>Inflation targeting</td>
</tr>
<tr>
<td></td>
<td>Angola, AZE, Bangladesh, Belarus, China, Congo, Croatia, KAZ, KGZ, TKM, Macedonia, Nigeria, Rwanda, Russia, TJK, UZB, Venezuela, Vietnam</td>
</tr>
<tr>
<td>Floating, Free floating</td>
<td>Brazil, Chile, GEO, Mexico, Poland, Romania, South Africa, Turkey</td>
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</tbody>
</table>
Increasing fiscal transparency would strengthen fiscal frameworks and enhance economic resilience.

Fiscal Transparency Index
(Index, latest available data; higher values are better)
Takeaways

• **Near-term**
  - Growth is slowing because of negative spillovers from Russia and weaker domestic demand, and risks are tilted to the downside.
  - If buffers and financing allow, countries can slow the pace of fiscal consolidation, while maintaining credible medium-term plans. If inflation persists, monetary policy needs to be tightened. Macro-prudential policies need to be strengthened.

• **Medium-term**
  - Potential growth is slowing. Inclusiveness remains an issue. Policy frameworks are not sufficiently robust to react to shocks.
  - Countries need to reinvigorate structural reforms to create an economic model that is sustainable, more inclusive and diverse and supported by modern policy frameworks.
Thank you!

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