Regional Economic Outlook

Caucasus and Central Asia

November 2014

Outline

Global Outlook

CCA Outlook, Risks, and Policies

An uneven global recovery continues

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

	World	U.S.	Euro Area	Emerging markets	China	Russia
2013	3.3	2.2	-0.4	4.7	7.7	1.3
2014	3.3	2.2	0.8	4.5	7.4	0.2
2015	3.8	3.1	1.4	5.0	7.1	0.5

Global recovery remains fragile

Geopolitical risks (Russia-Ukraine, Middle East)

Further risks to growth in emerging market economies

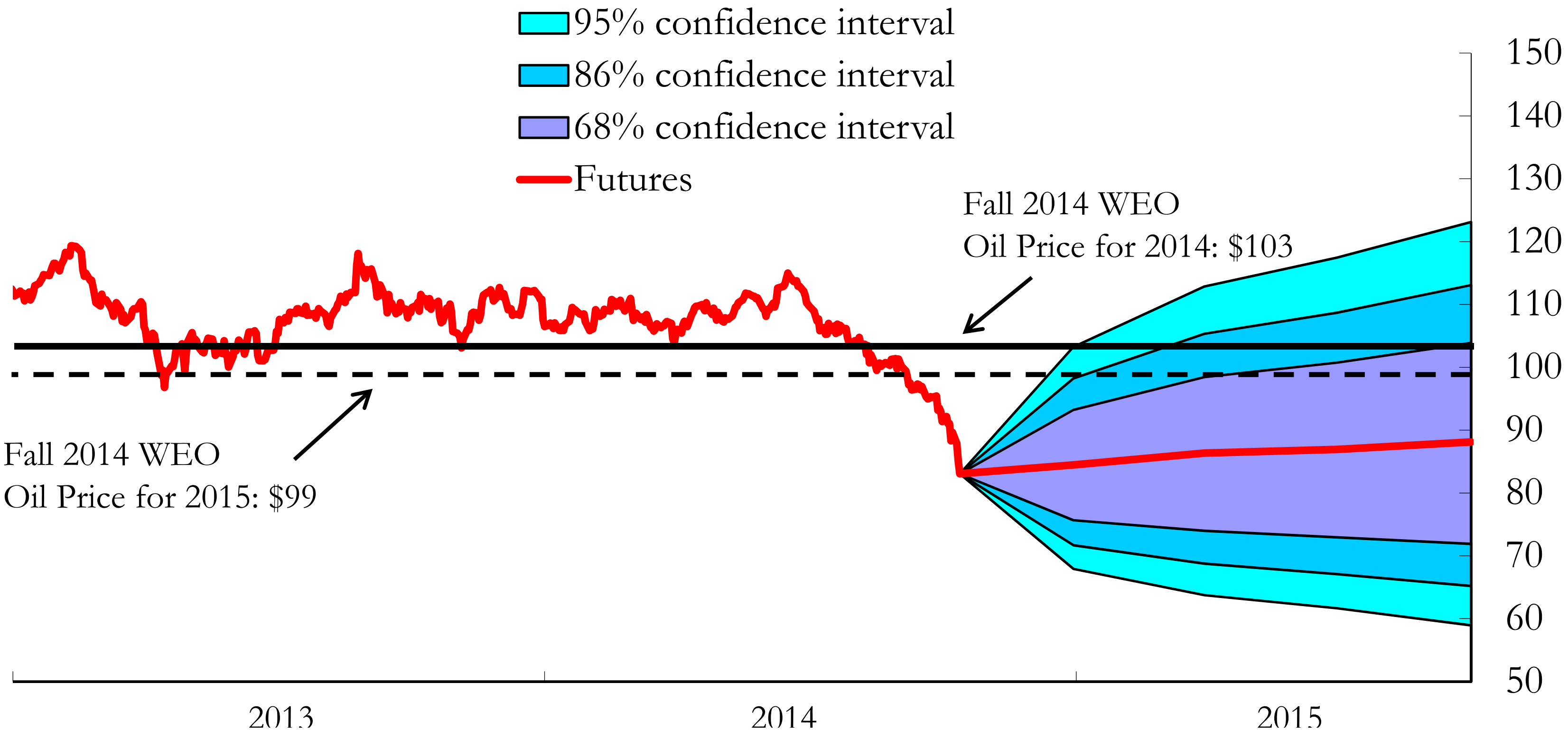
Risks related to normalization of monetary policy in advanced economies

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[1]

(U.S. dollars per barrel)

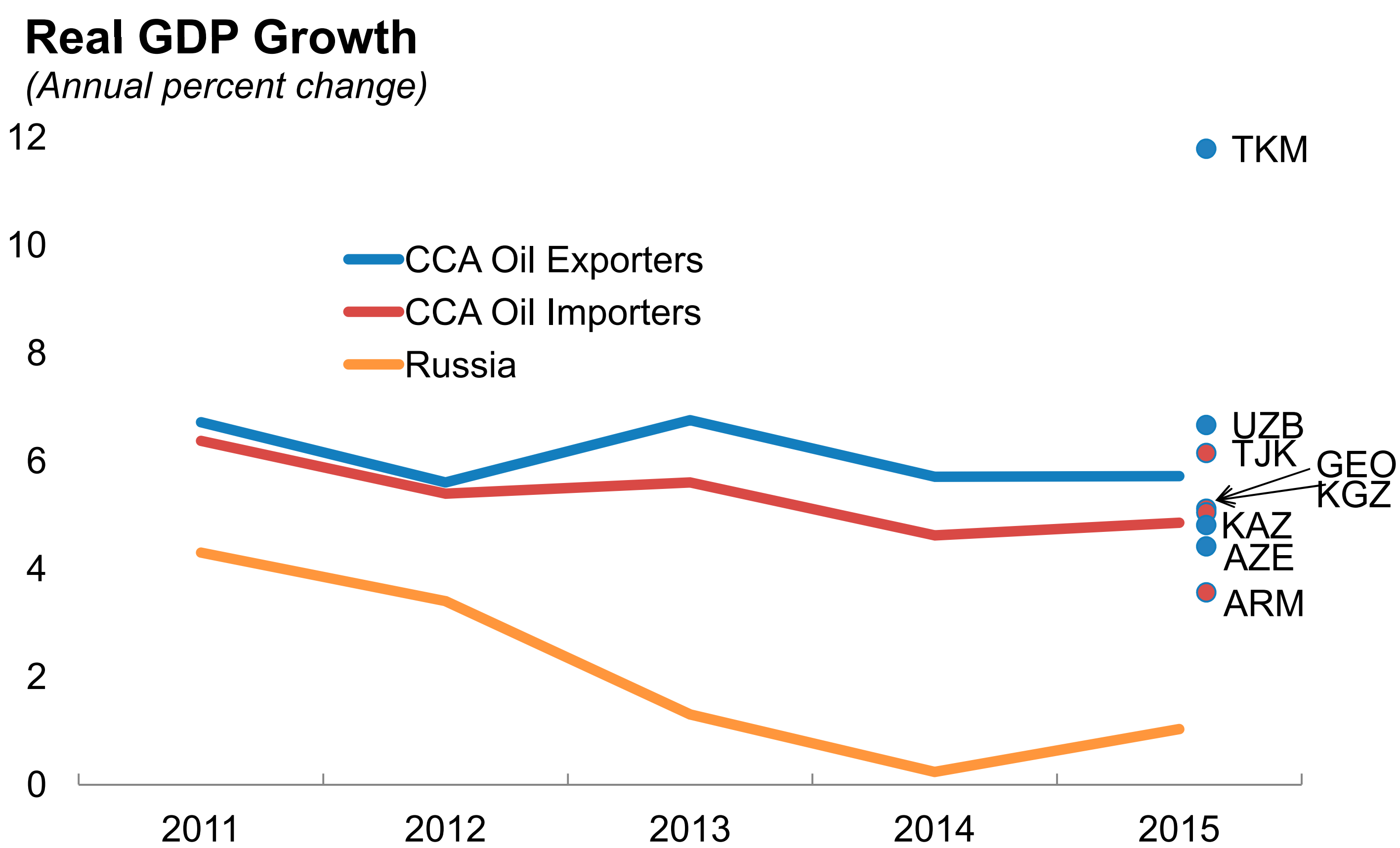


Sources: Bloomberg; and IMF staff calculations.

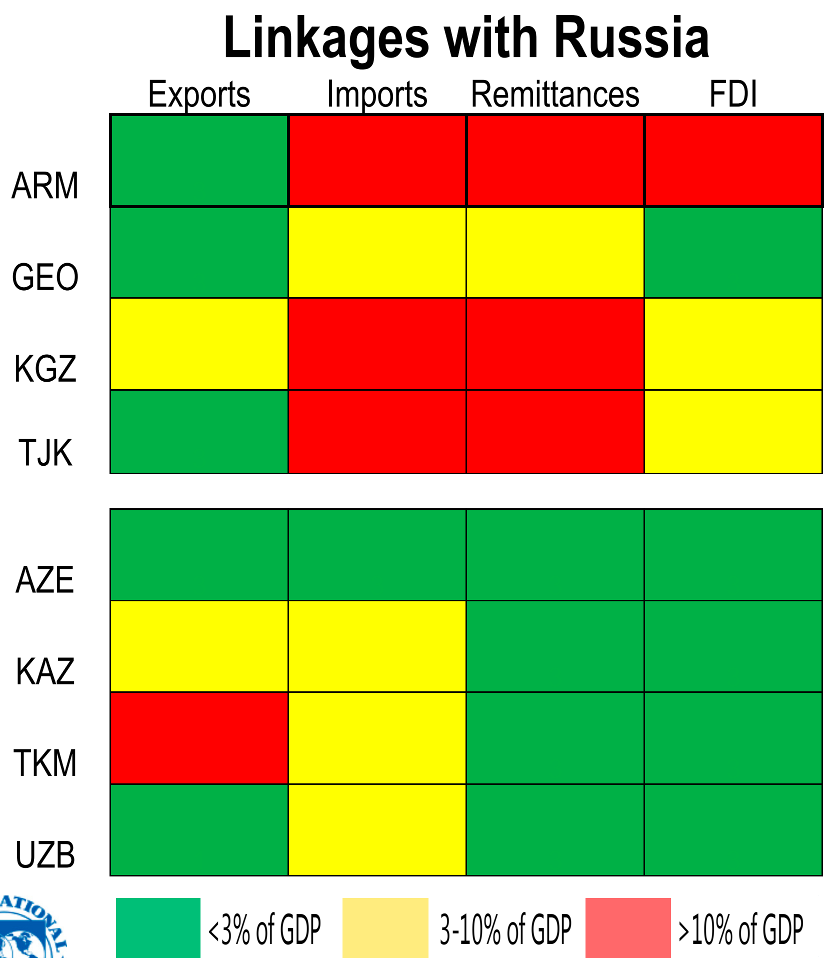
[1]Derived from prices of futures and options on October 15, 2014.

Caucasus and Central Asia

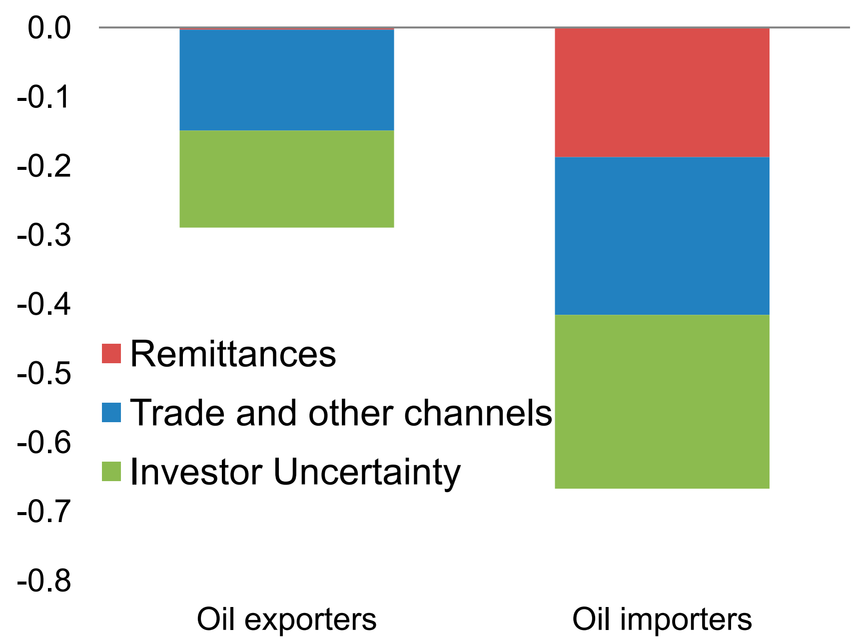
Growth is slowing due to spillovers from Russia and weaker domestic demand, yet remains robust



Close linkages with Russia create downside risks to the outlook

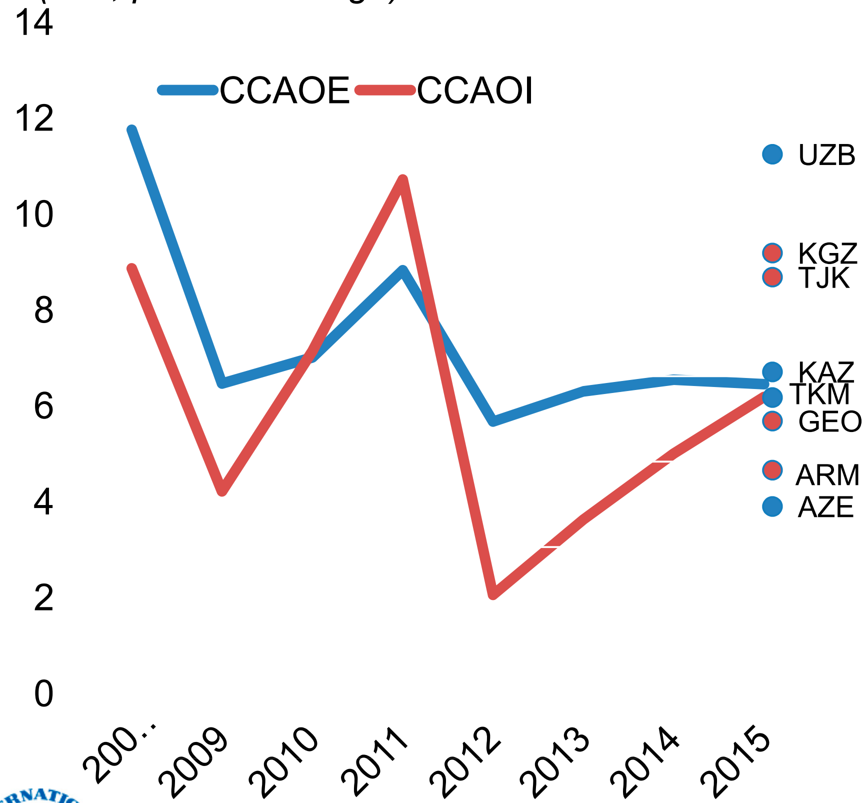


Impact of 1 percentage point fall in Russia's GDP growth and investor uncertainty on CCA GDP growth *(percent)*

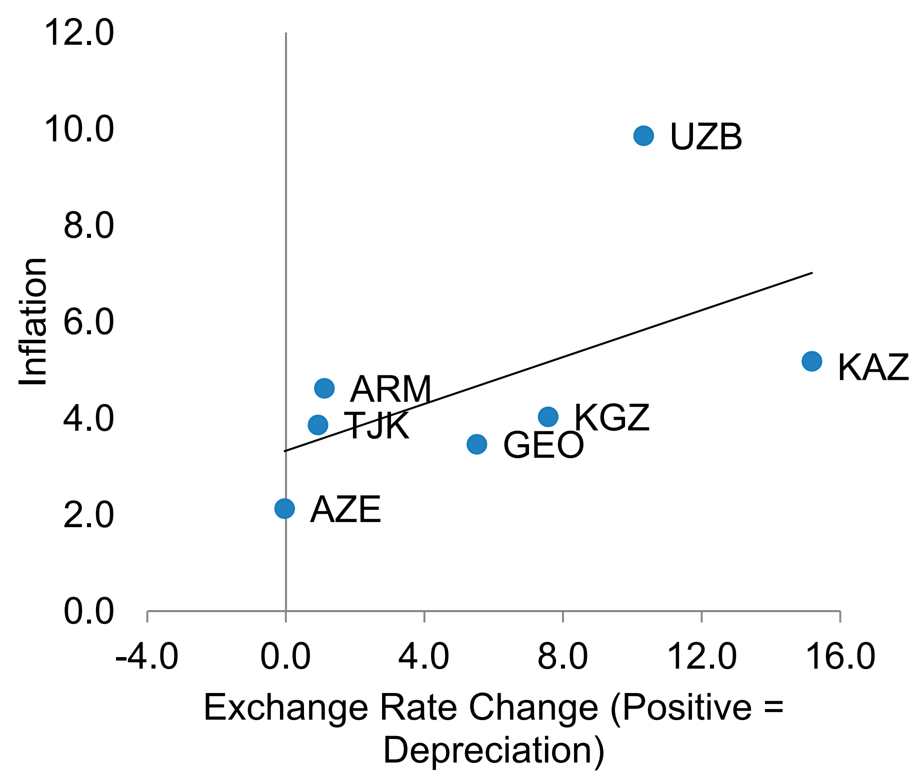


Despite slowing growth, inflationary pressures are rising because of recent depreciations

Inflation in CCA
(CPI, percent change)

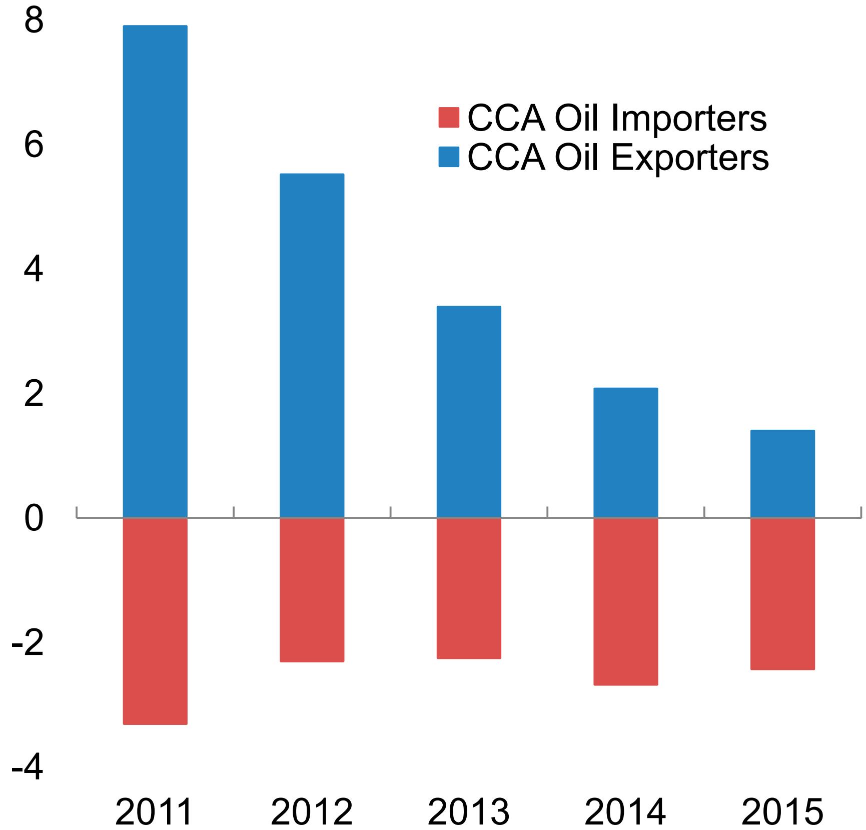


Inflation vs. Nominal Exchange Rate Depreciation
(y-o-y percent change through end-Feb 2014)

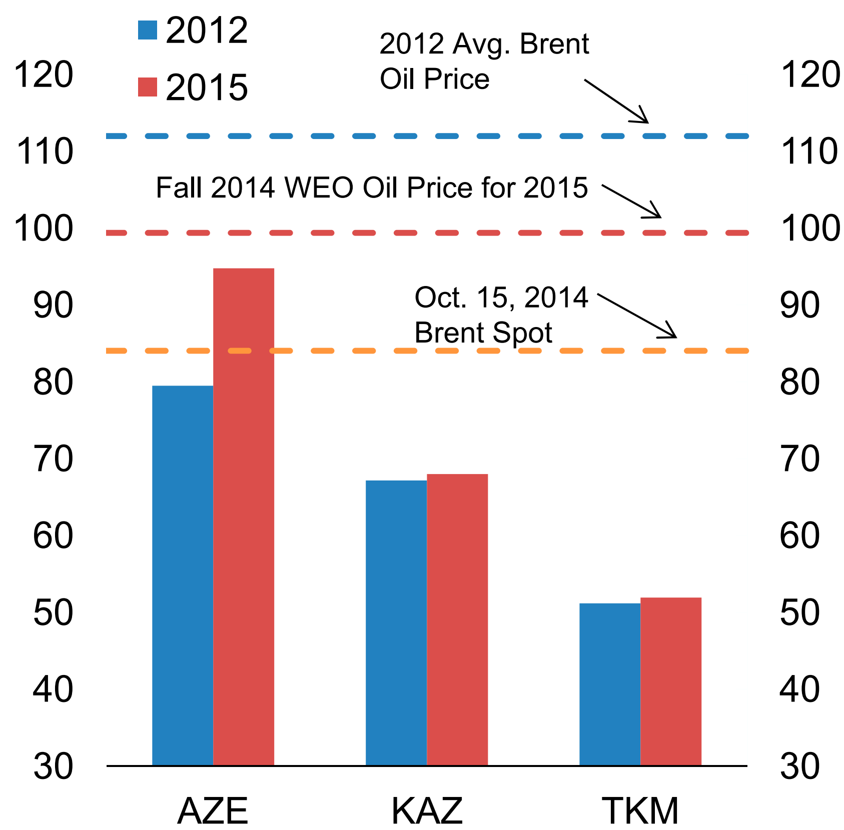


Fiscal positions are vulnerable

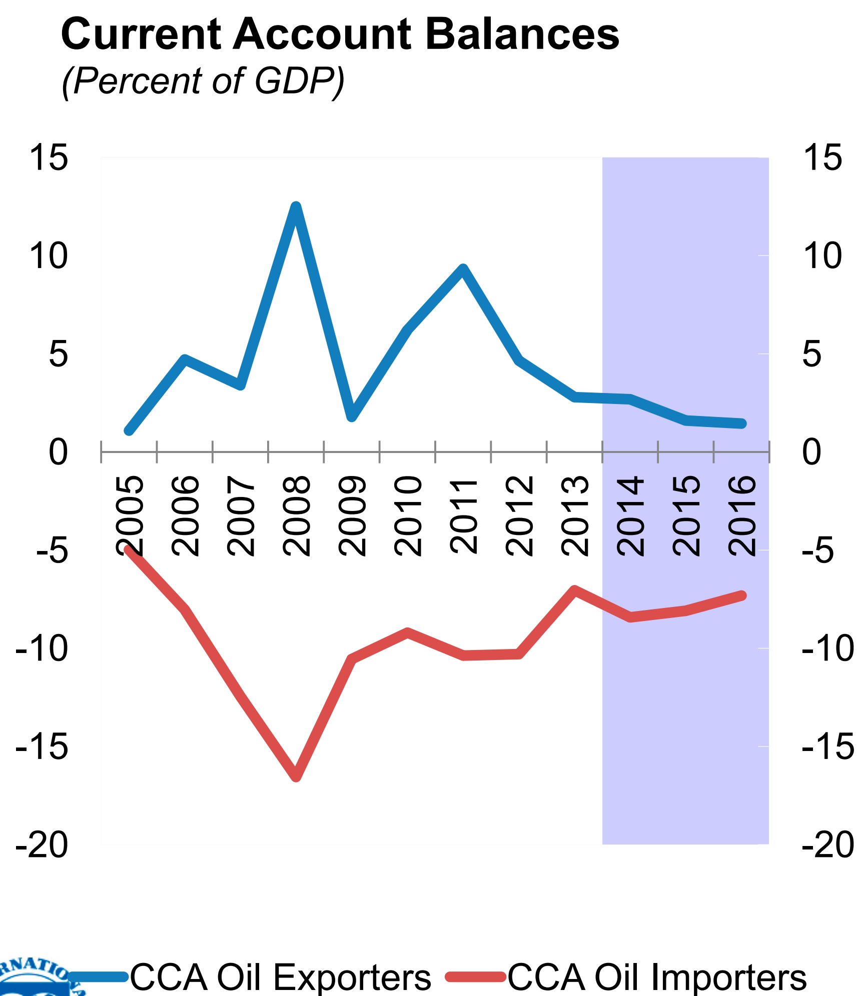
Fiscal Balances
(In percent of GDP)

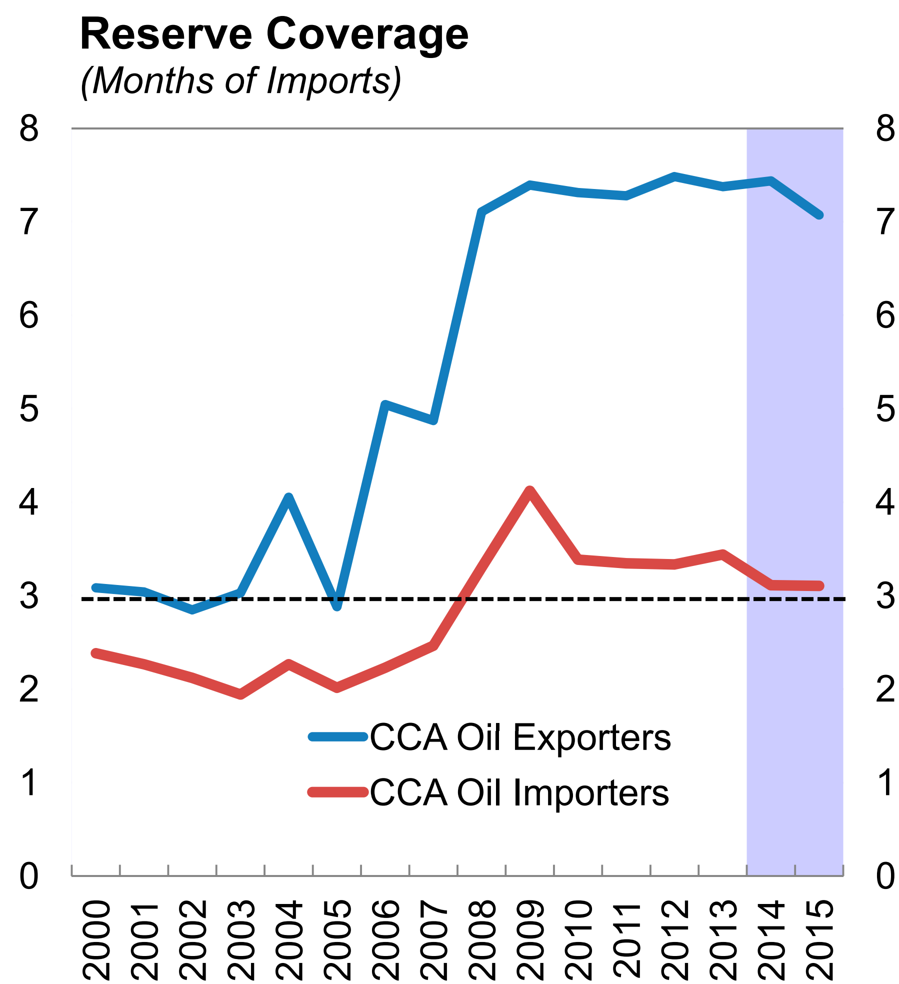


Fiscal breakeven oil prices
(U.S. dollars per barrel)



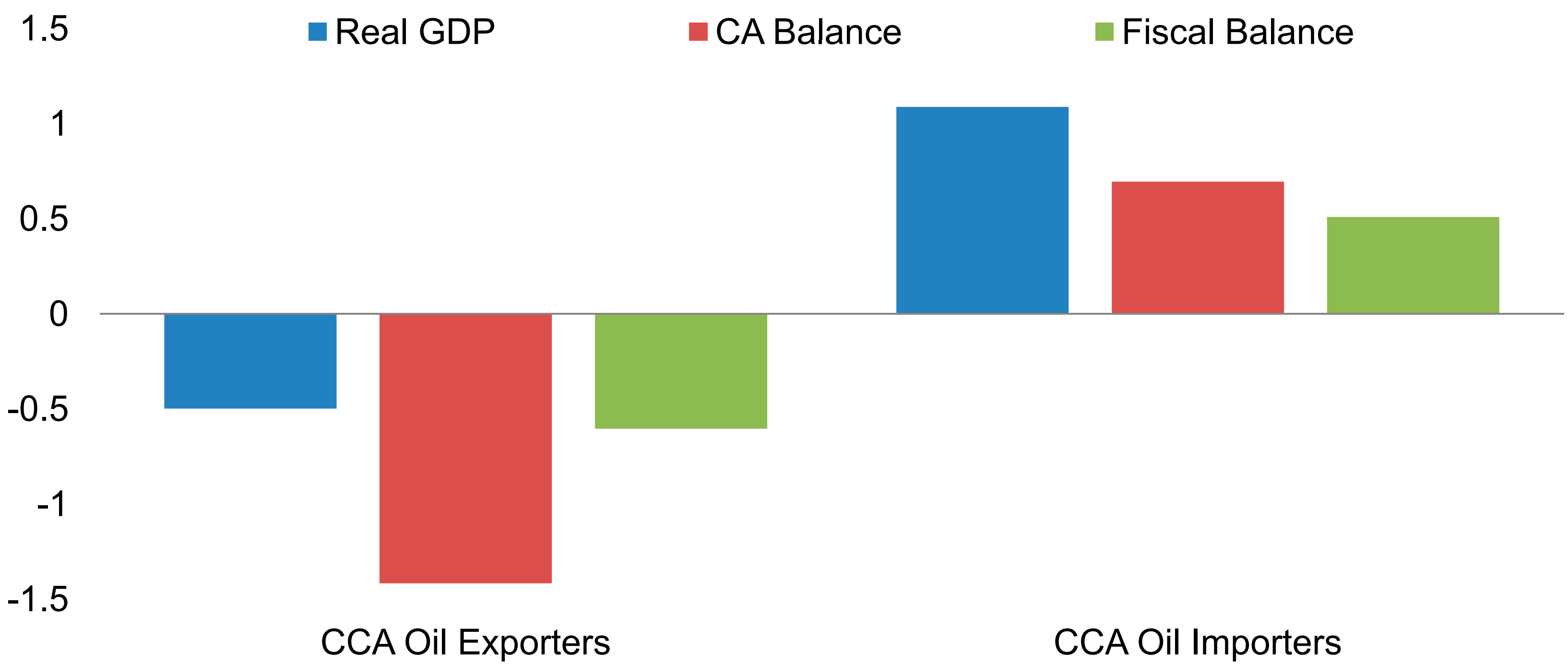
External positions are weakening





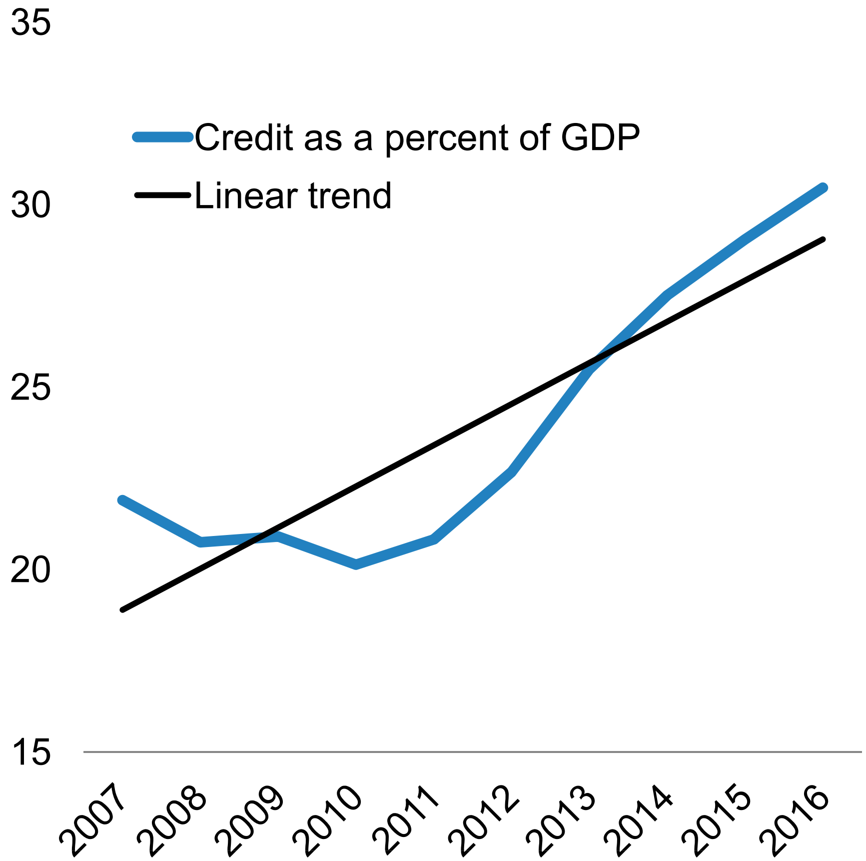
Continued low oil prices would have mixed effects on the CCA oil exporters and importers

Effects of a 20 Percent Decline in Oil prices from the Fall 2014 WEO Baseline, 2015
(Percent of GDP)



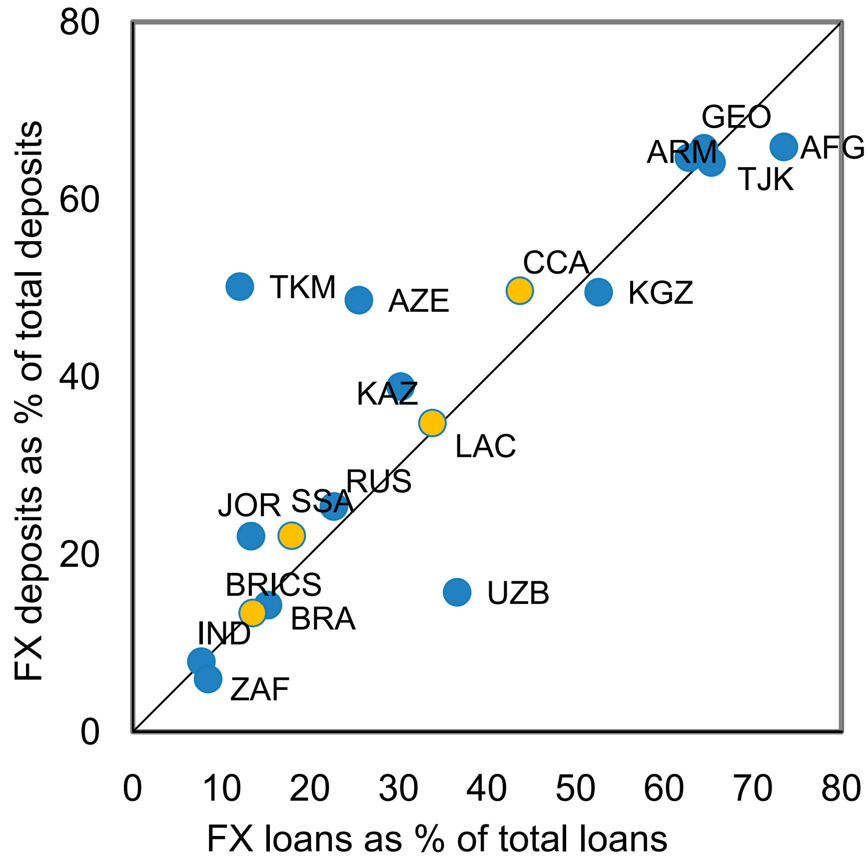
Financial risks (old and new) are significant

Private Sector Credit to GDP vs. Trend



High Dollarization

(latest year available)



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

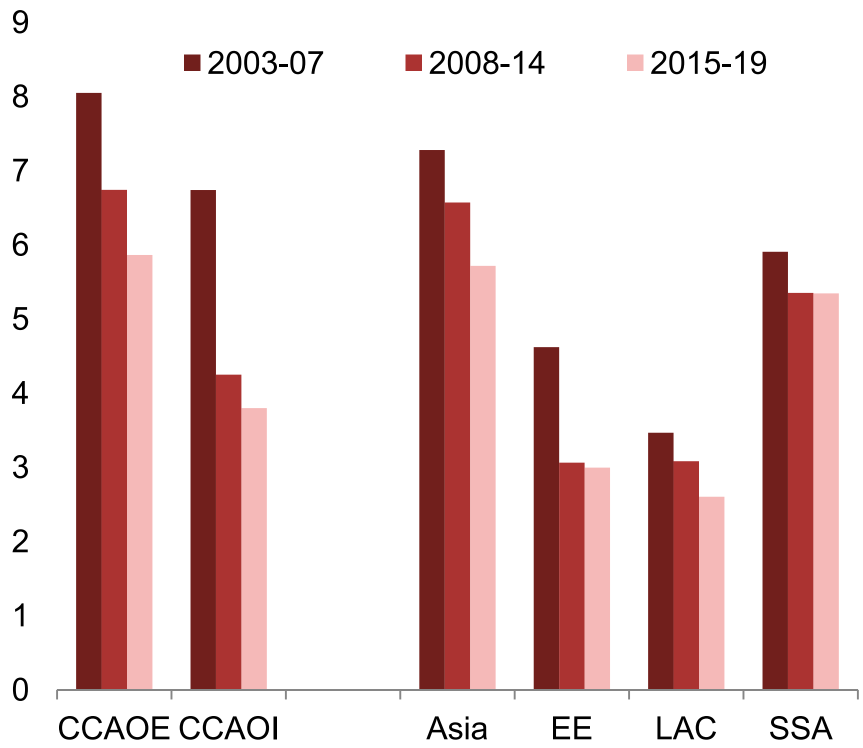
- Tighten monetary policy, if inflationary pressures persist.
- Otherwise, monetary policy can remain neutral, and greater exchange rate flexibility can help buffer against shocks and protect export competitiveness.

Financial

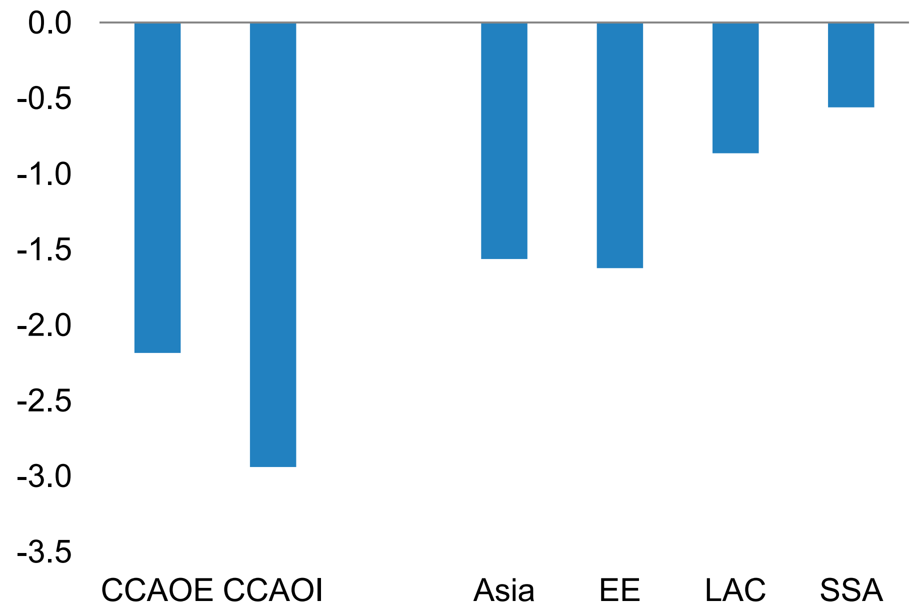
- Stronger macro-prudential regulations to reduce NPLs and discourage unsustainable increases in consumer loans.
- Reduce dollarization through financial deepening.
- Discourage directed lending.

CCA medium-term growth prospects are weakening

Potential GDP Growth
(Percent)



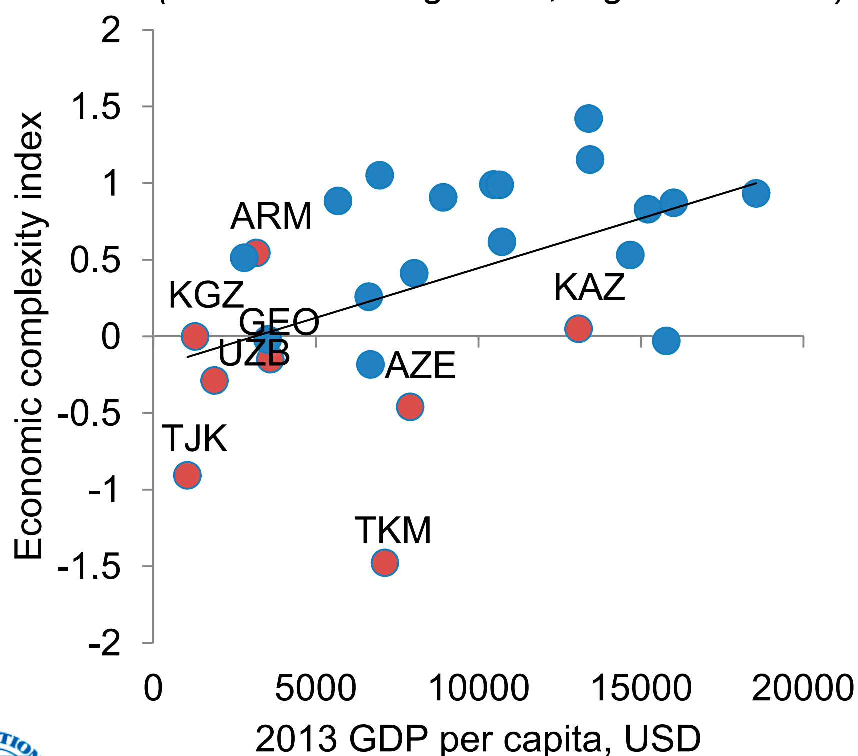
Potential GDP Growth Changes, 2015-19 vs. 2003-07
(Percent)



Growth has been driven by commodities, with little intra-regional trade

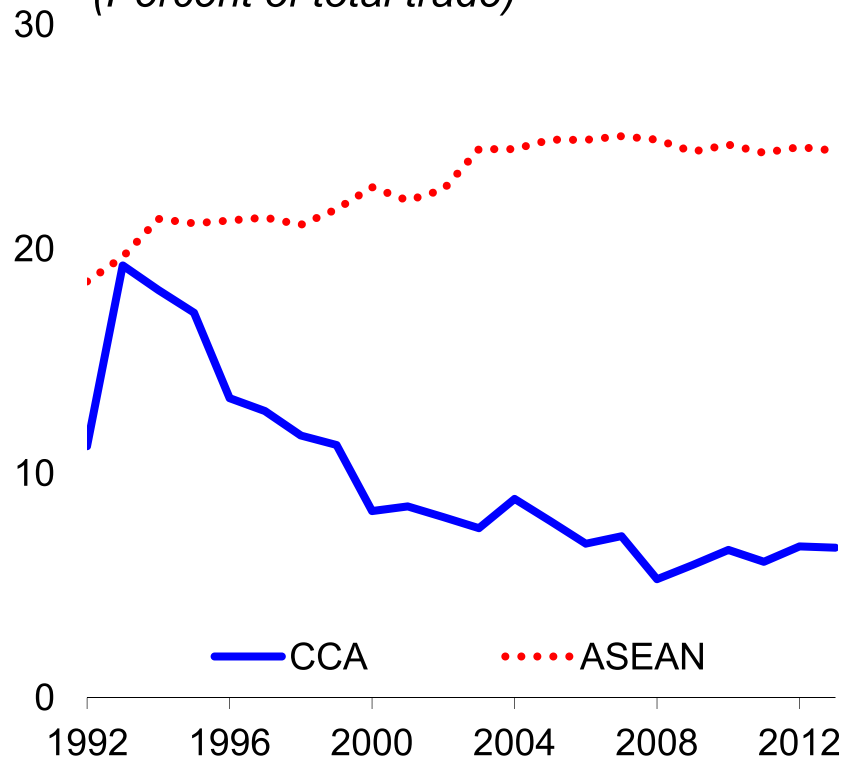
CCA vs. EMs: Economic Complexity

(-3 to +3 scoring scale; higher is better)



Intra-regional Trade

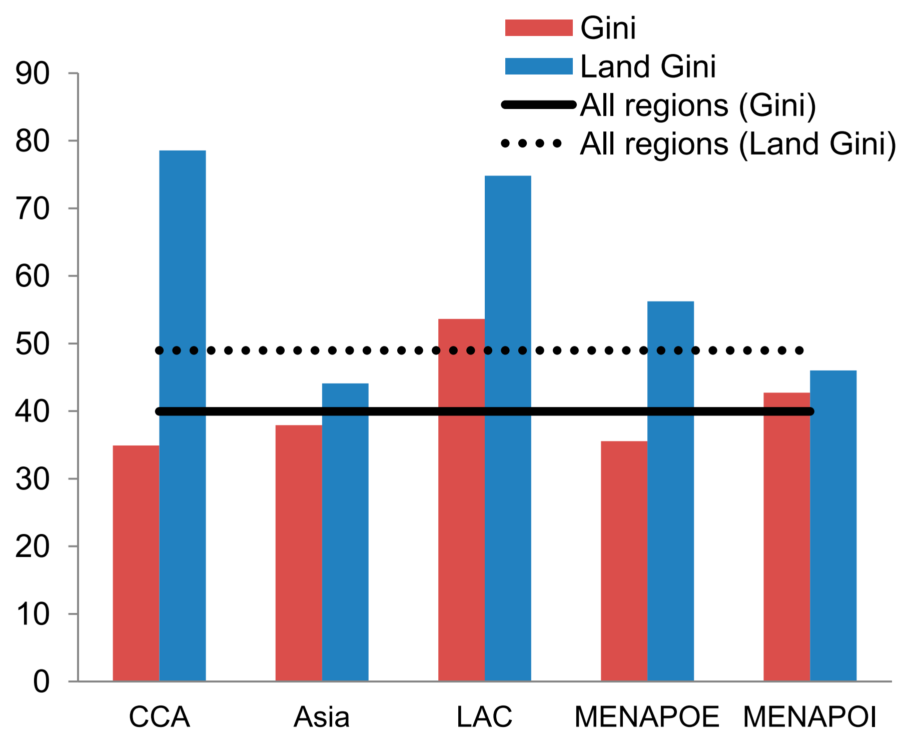
(Percent of total trade)



High unemployment and inequality suggest that growth has not been sufficiently inclusive

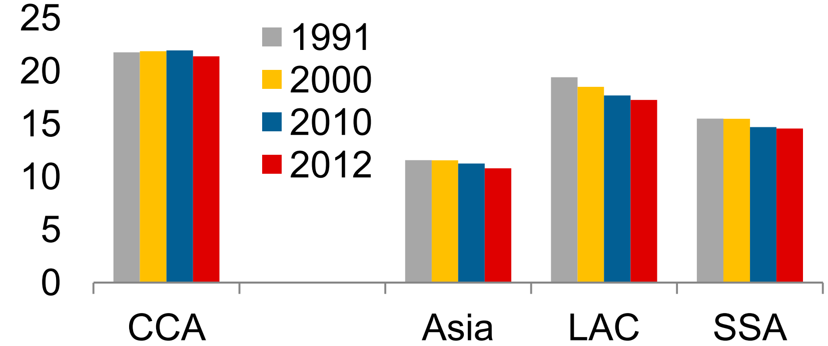
Gini and Land Gini Indexes

(Index, higher values are more unequal)



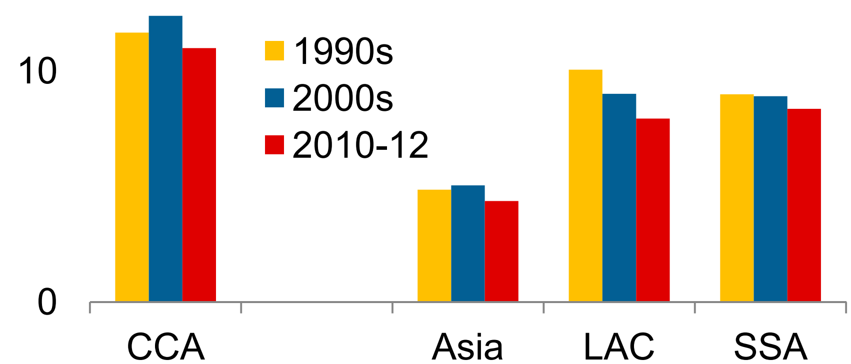
Youth unemployment rate

(percent)

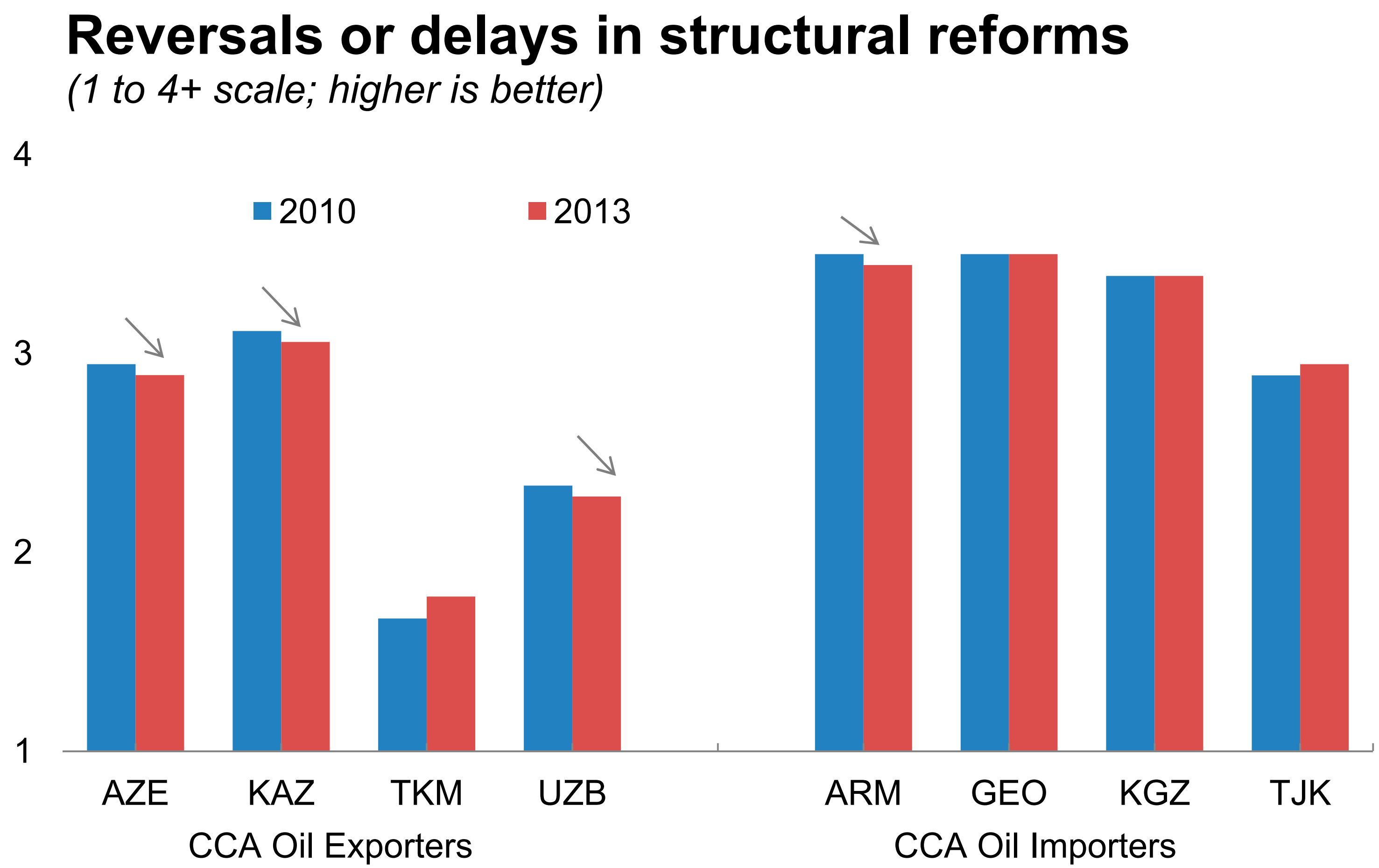


Unemployment rate

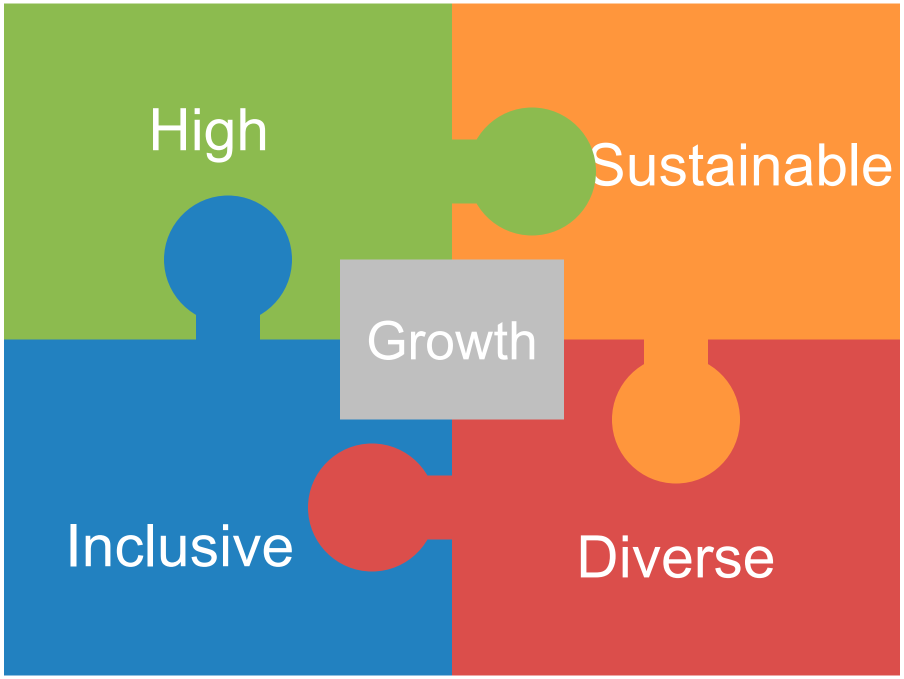
(Decade averages, percent)



Slowdown in structural reforms does not bode well for raising growth and inclusiveness



A new economic model is needed

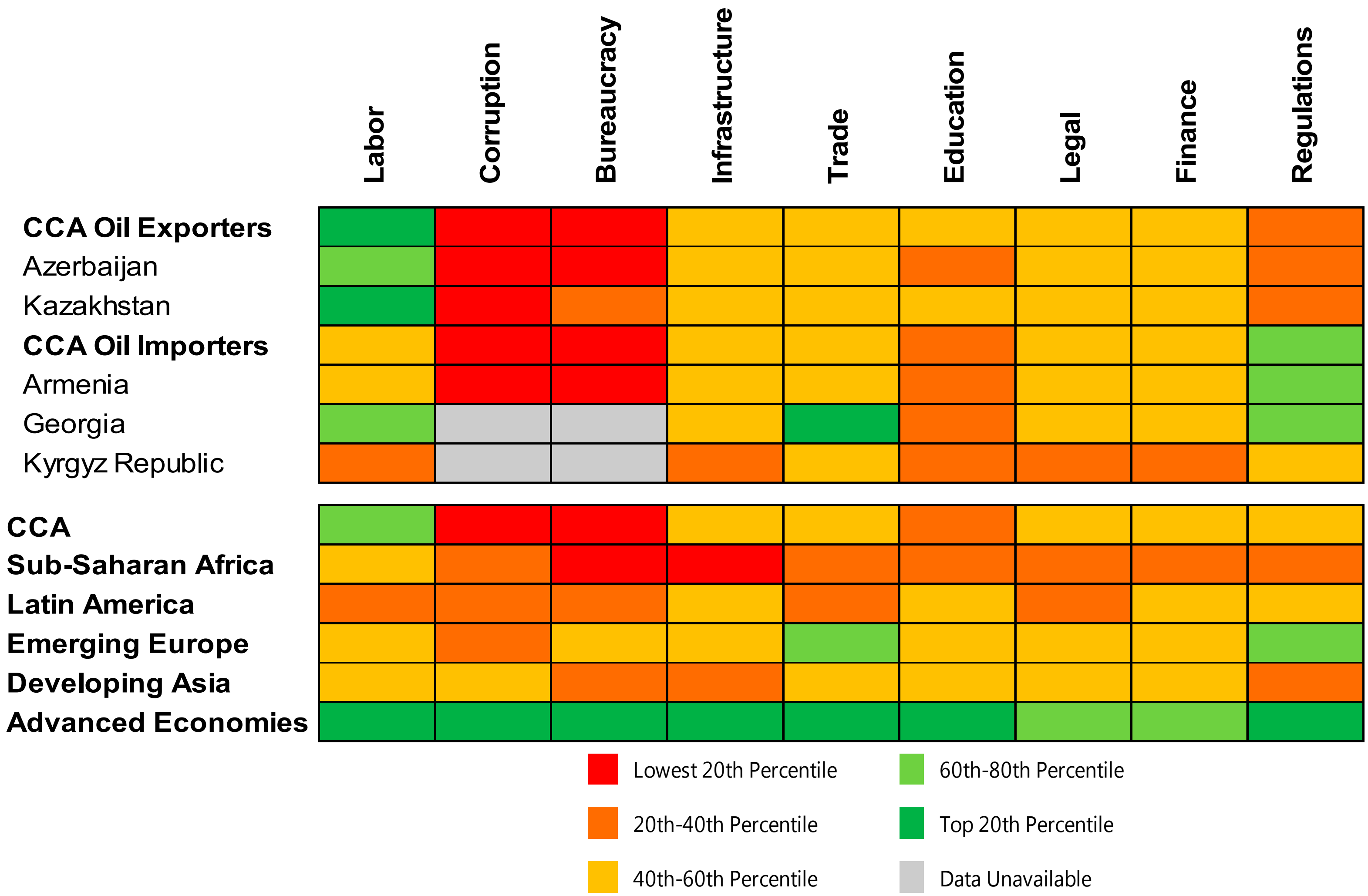


Medium-term Policy Priorities

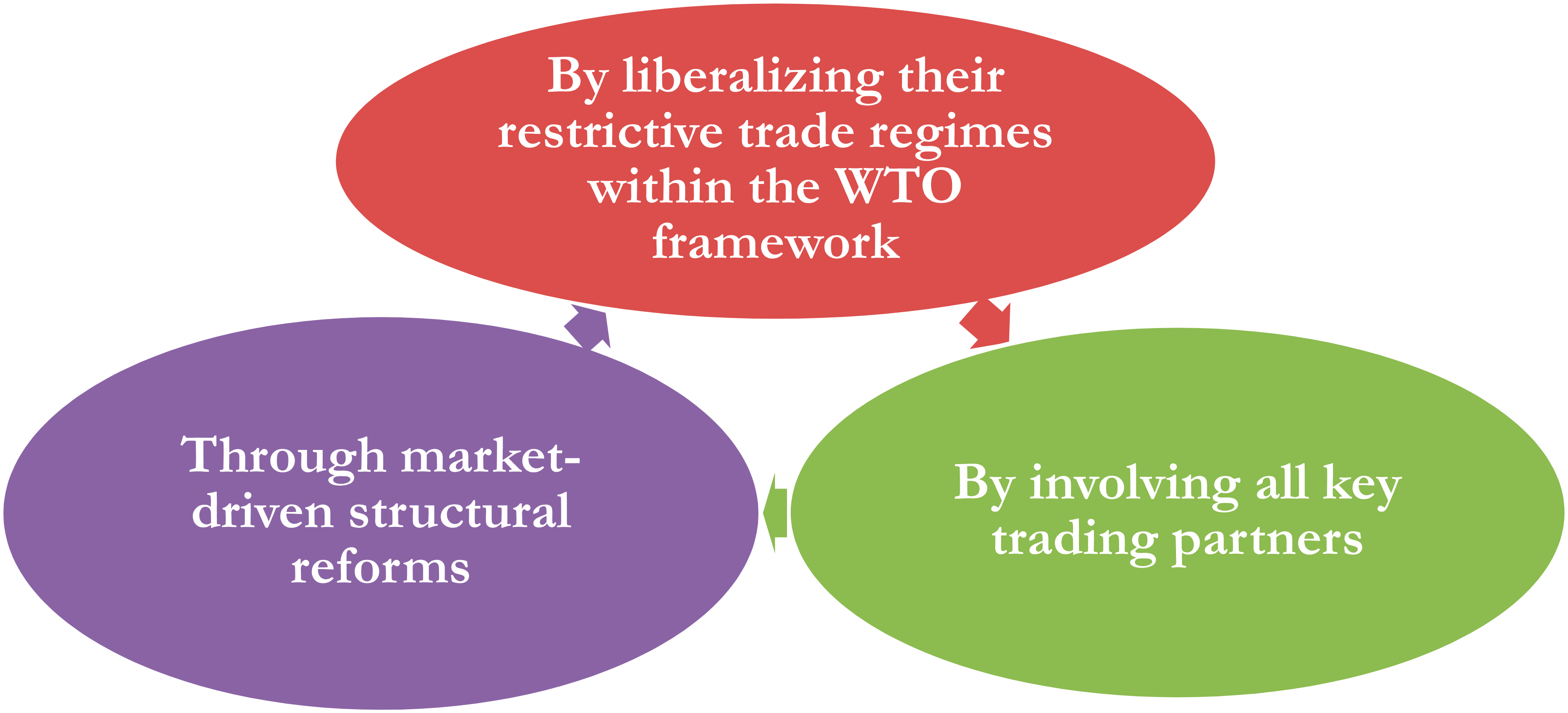
Bolder Structural Reforms	Wider Economic Integration	Stronger Policy Frameworks
• Structural reforms, especially in areas of governance and regulation, to address weak growth potential and low inclusiveness.	• Balanced regional and multilateral trade integration initiatives, to diversify economies and improve medium-term growth prospects.	• 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



Successful economic integration in the CCA needs to be multilateral and market-driven



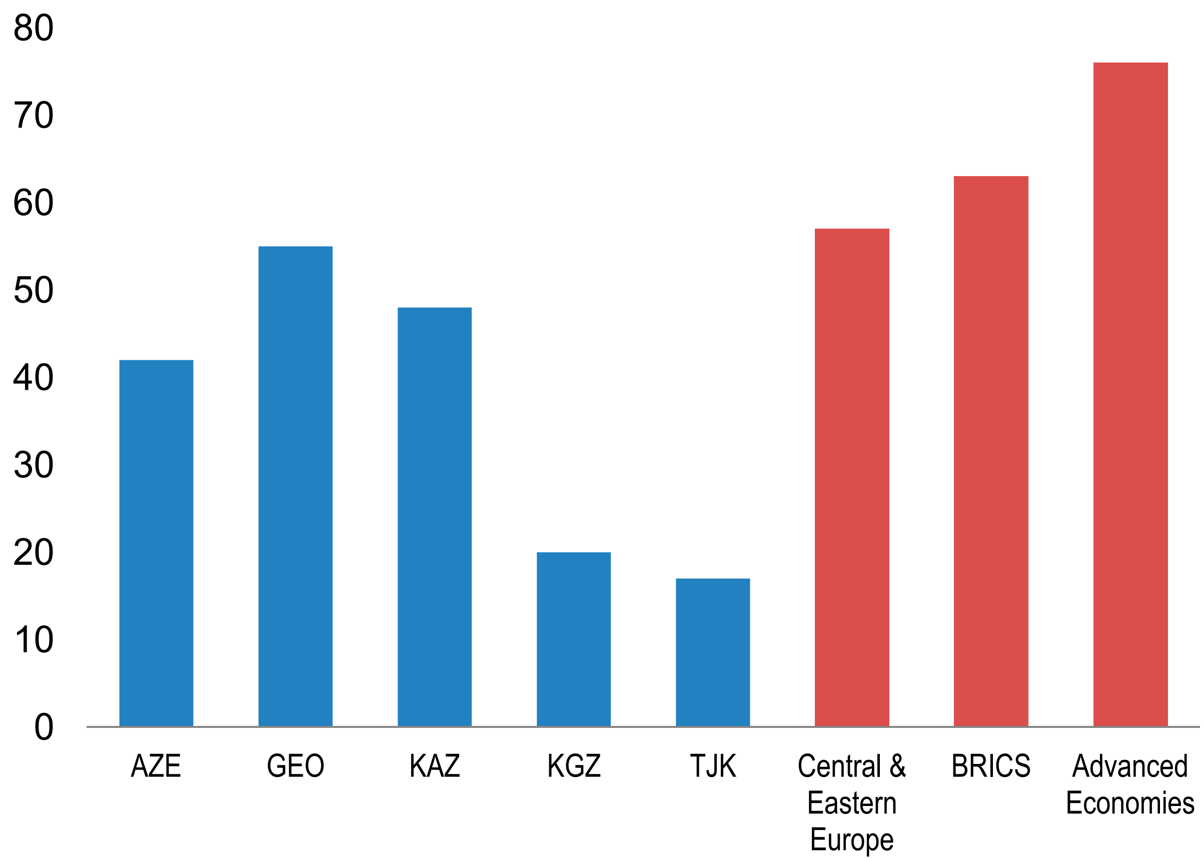
Greater exchange rate flexibility would help economies adjust to unanticipated shocks

	Monetary Policy Framework	
Exchange Rate Arrangement	**U.S. dollar or Euro anchor, Monetary Target, Other**	**Inflation targeting**
Conventional peg, Stabilized arrangement, Crawl-like arrangement, Other managed arrangement	Angola, AZE, Bangladesh, Belarus, China, Congo, Croatia, KAZ, KGZ, TKM, Macedonia, Nigeria, Rwanda, Russia, TJK, UZB, Venezuela, Vietnam	ARM, Czech Rep., Dominican Rep.
Floating, Free floating		Brazil, Chile, GEO, Mexico, Poland, Romania, South Africa, Turkey

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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