Outline

The Global Environment

Regional Outlook

Responding to Shocks

Policy Priorities
Outline

The Global Environment
A modest recovery in global economic growth, albeit weaker than projected last October

<table>
<thead>
<tr>
<th>Year</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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<tr>
<td>2015</td>
<td>3.1</td>
<td>2.4</td>
<td>1.6</td>
<td>4.0</td>
<td>6.9</td>
<td>-3.7</td>
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<tr>
<td>2016</td>
<td>Current Proj.</td>
<td>3.2 ▼</td>
<td>2.4 ▼</td>
<td>1.5 ▼</td>
<td>4.1 ▼</td>
<td>6.5 ▲</td>
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<td>Oct. 2015 Proj.</td>
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<td>(2.8)</td>
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</table>
Weaker growth in CCA’s key trading partners

Growth in China and Russia

(Percent)

CCA Linkages with China and Russia

Exports to Russia (Percent of Total Exports)
Exports to China (Percent of Total Exports)
Remittances from Russia (Percent of GDP)
Tighter financial conditions

**EMBIG Sovereign Bond Spreads (Basis Points)**

- Latin America
- Africa
- Middle East
- Asia
- Europe

**Sovereign Bond Spreads (Basis Points)**

- Armenia
- Georgia
- Kazakhstan
- Azerbaijan
- Europe
Oil price: declined further since October and expected to remain low for long

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

95% Confidence Interval
Large exchange rate movements

Nominal Exchange Rates and Oil Price
(Index, Jan 2014 = 100)
Outline

Regional Outlook
Oil exporters: large external and fiscal losses

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

**Fiscal Balance**
(Percent of GDP)
Oil importers: drop in remittances more than offsets gains from cheaper oil

Decline in Remittances Compared to Gains from Lower Oil Prices
(Percent of GDP, 2015)

Remittances
(Seasonally Adjusted Levels, Jan 2010 = 100)
With many countries relying heavily on oil and remittances, growth will recover only modestly.

Real GDP Growth (Percent Change)

1/ Excludes Uzbekistan.
How an already weak outlook could worsen

External

- Weaker growth in key trading partners (Russia, China, Europe)
- Further weakening of prices for oil and other commodities
- Tighter global financial conditions

Domestic

- Financial sector vulnerabilities
Outline

Responding to Shocks
Exchange rate adjustments have helped mitigate the impact of the shocks on the economy...

**Depreciation vis-à-vis US Dollar**  
(Percent Change, January 2014–March 2016)

**Change in International Reserves**  
(Months of Imports, 2016 vs. 2015)
... but have raised inflation ...

Depreciation and Inflation
(Percent)

Depreciation vs. U.S. Dollar in 2015

Inflation Forecast for 2016

Countries: ARM, GEO, KGZ, TJK, UZB, TKM, KAZ, AZE
… and increased financial vulnerabilities
Bank asset quality is worsening and capital is eroding

**Non-Performing Loans**
(In Percent of Total Loans)

- 2013
- Latest

**Capital Adequacy Ratios**
(In Percent of Total Loans)

- 2013
- Latest
With public debt edging up, some countries have started tightening fiscal policy.

Change in Fiscal Balance, 2014-16
(Percent of GDP)

Public Debt
(Percent of GDP)

Overall fiscal balance
Non-oil fiscal balance

Oil Importers: ARM, GEO, KGZ, TJK

Oil Exporters: AZE, KAZ, TKM

2014-16 Change
2014

KGZ, TJK, ARM, GEO, AZE, TKM, KAZ, UZB
Outline

Policy Priorities
Policy Priority 1: Ensure Fiscal Sustainability

- Given the permanence of the shocks, medium-term consolidation plans are needed to ensure fiscal sustainability.
- The pace of consolidation depends upon availability of buffers and should avoid unnecessary drag on economic activity.
- Improving the quality of public expenditure, and preserving capital and social expenditure, will help to safeguard long-term growth potential and promote inclusion.
Policy Priority 2: Strengthen Monetary and Exchange Rate Policy Frameworks

- Exchange rate flexibility remains essential to mitigate the effects of external shocks, preserve competitiveness, and avoid foreign exchange reserve losses.
- An effective interest rate instrument is needed to replace the exchange rate as the nominal anchor.
- Policymakers should act to safeguard financial stability, including through stronger macro-prudential regulations, supervision, and crisis management frameworks.
Policy priority 3: accelerating structural reforms to prevent a reversal in relative living standards

GDP Per Capita

(Relative to emerging market average, percent)

Oil Exporters

Oil Importers
Reforms should promote diversification and private sector development

Main Obstacles to Firm Operations

Source: EBRD
Key Takeaways

• External shocks, which are likely to persist, have reduced CCA growth to a two-decade low and have weakened the medium-term outlook.

• Exchange rate flexibility has helped, but strengthened monetary policy frameworks and improved financial sector oversight are needed.

• Fiscal policy should be growth-friendly in the short term and ensure sustainability over the medium term.

• Reforms to promote private sector development and reduce reliance on commodities are key to create jobs and improve living standards.
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