

Regional Economic Outlook Update

Caucasus and Central Asia

April 2016



Outline

The Global Environment

Regional Outlook

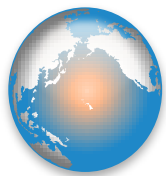
Responding to Shocks

Policy Priorities

Outline

The Global Environment

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

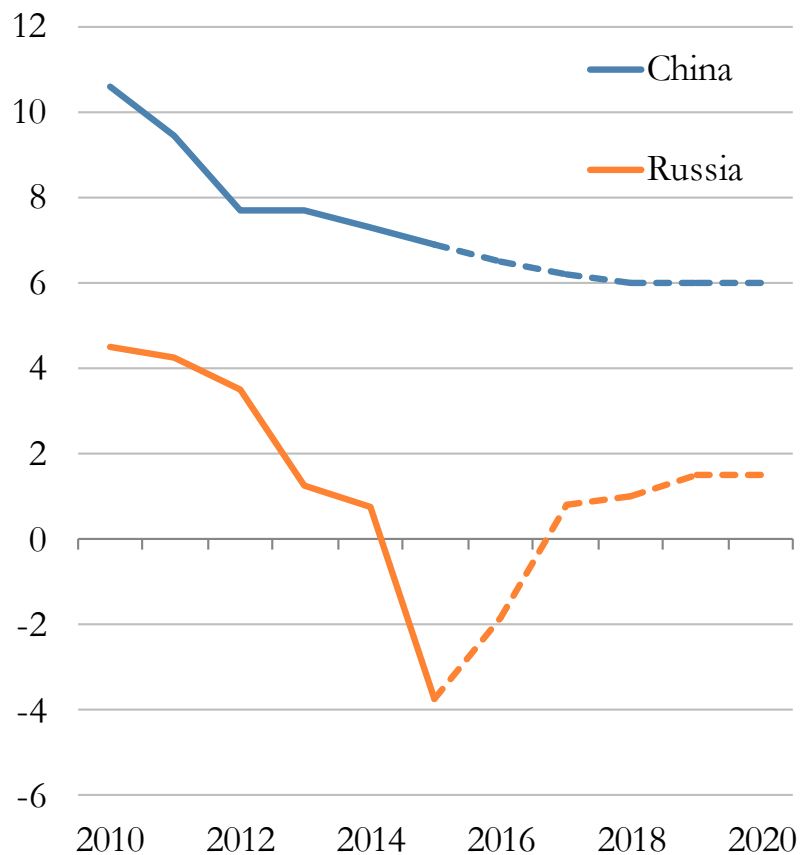


		World	U.S.	Euro Area	Emerging markets	China	Russia
2015		3.1	2.4	1.6	4.0	6.9	-3.7
2016	Current Proj.	3.2 ▼	2.4 ▼	1.5 ▼	4.1 ▼	6.5 ▲	-1.8 ▼
	Oct. 2015 Proj.	(3.6)	(2.8)	(1.7)	(4.5)	(6.3)	(-0.6)
2017	Current Proj.	3.5 ▼	2.5 ▼	1.7	4.6 ▼	6.2 ▲	0.8 ▼
	Oct. 2015 Proj.	(3.8)	(2.8)	(1.7)	(4.9)	(6.0)	(1.0)

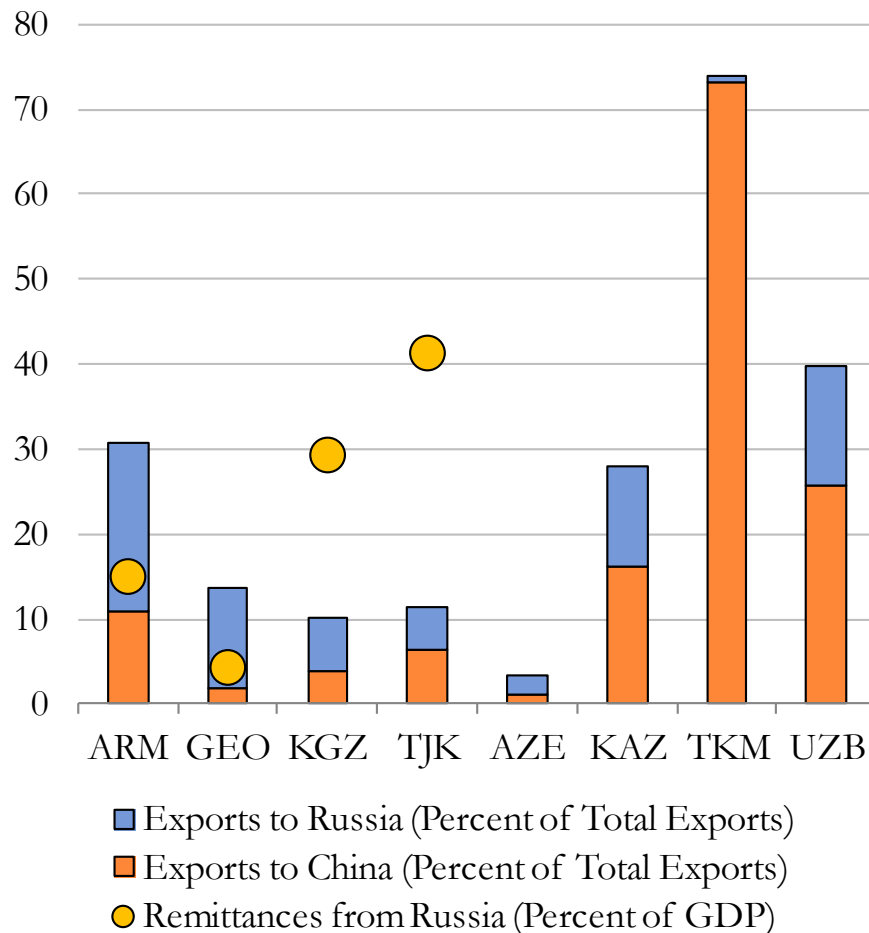
Weaker growth in CCA's key trading partners

Growth in China and Russia

(Percent)

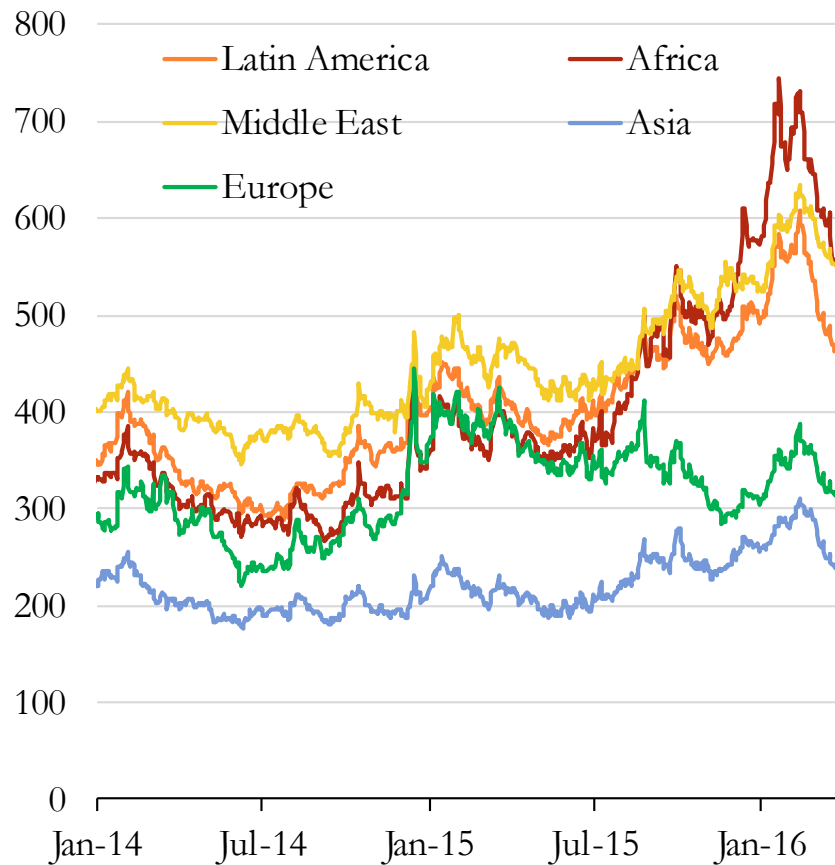


CCA Linkages with China and Russia

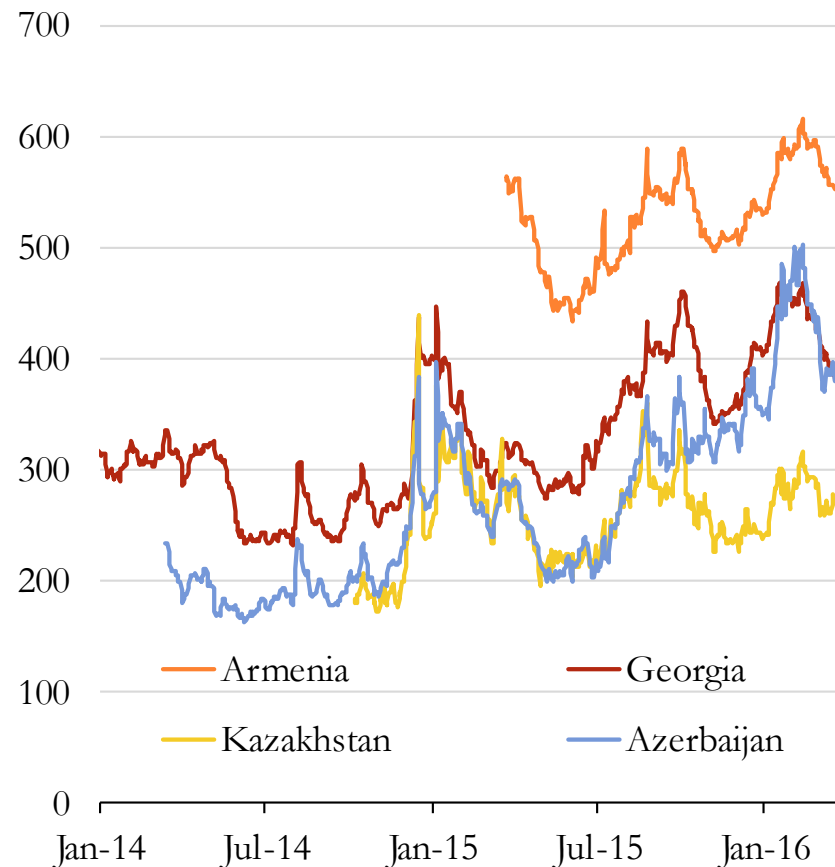


Tighter financial conditions

EMBIG Sovereign Bond Spreads
(Basis Points)

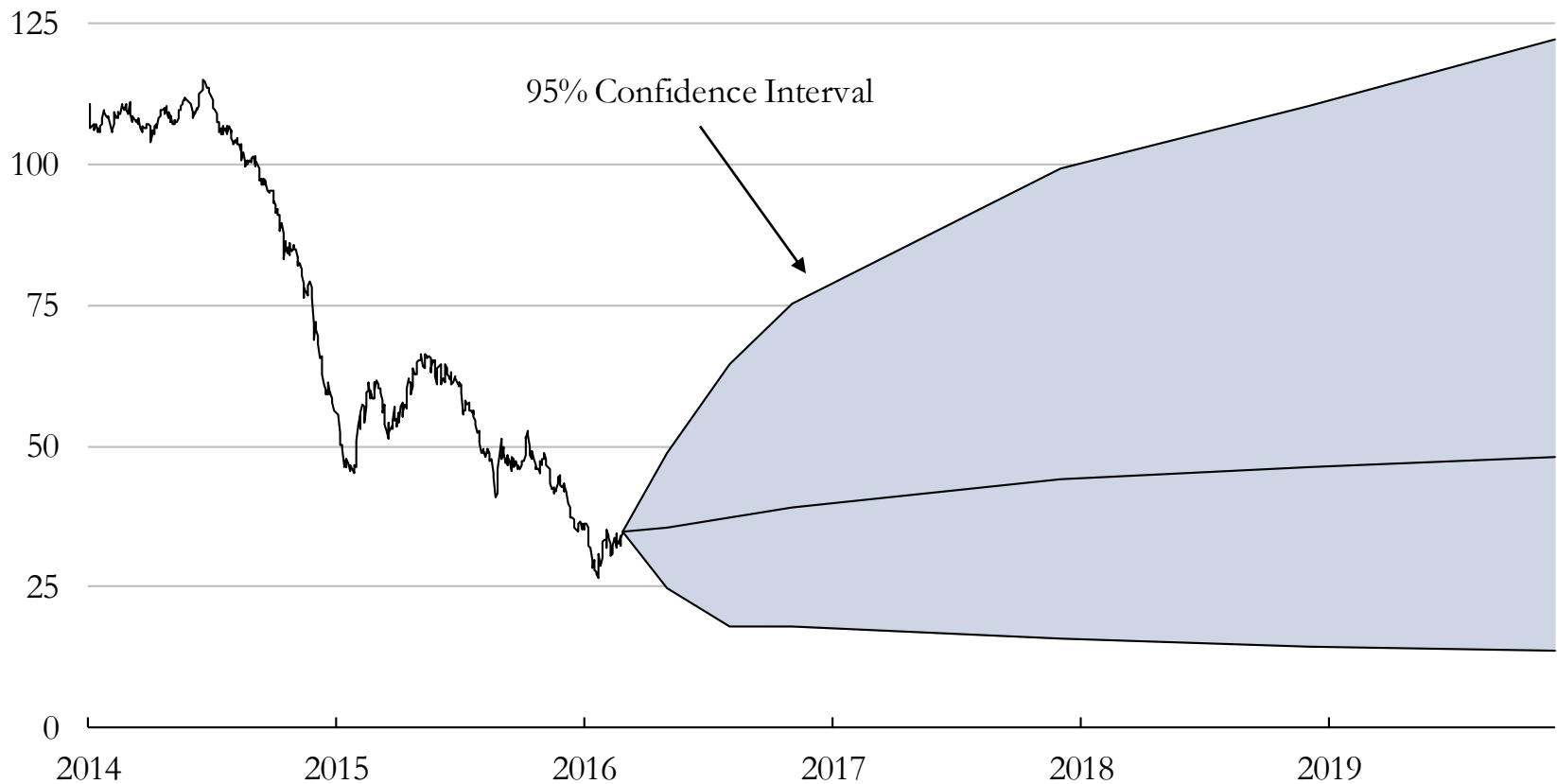


Sovereign Bond Spreads
(Basis Points)



Oil price: declined further since October and expected to remain low for long

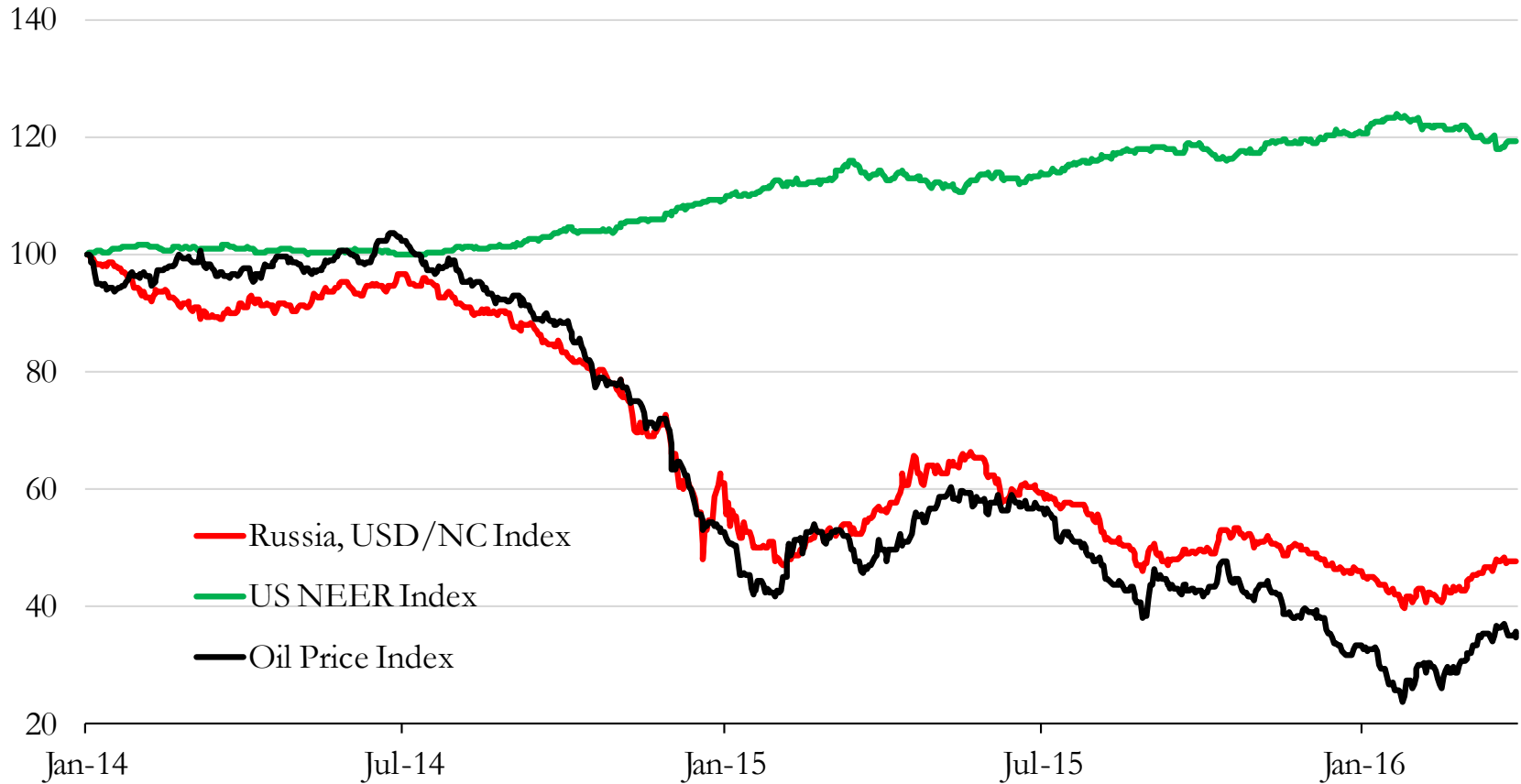
Brent Crude Oil
(U.S. dollars per barrel)



Large exchange rate movements

Nominal Exchange Rates and Oil Price

(Index, Jan 2014 = 100)



Outline

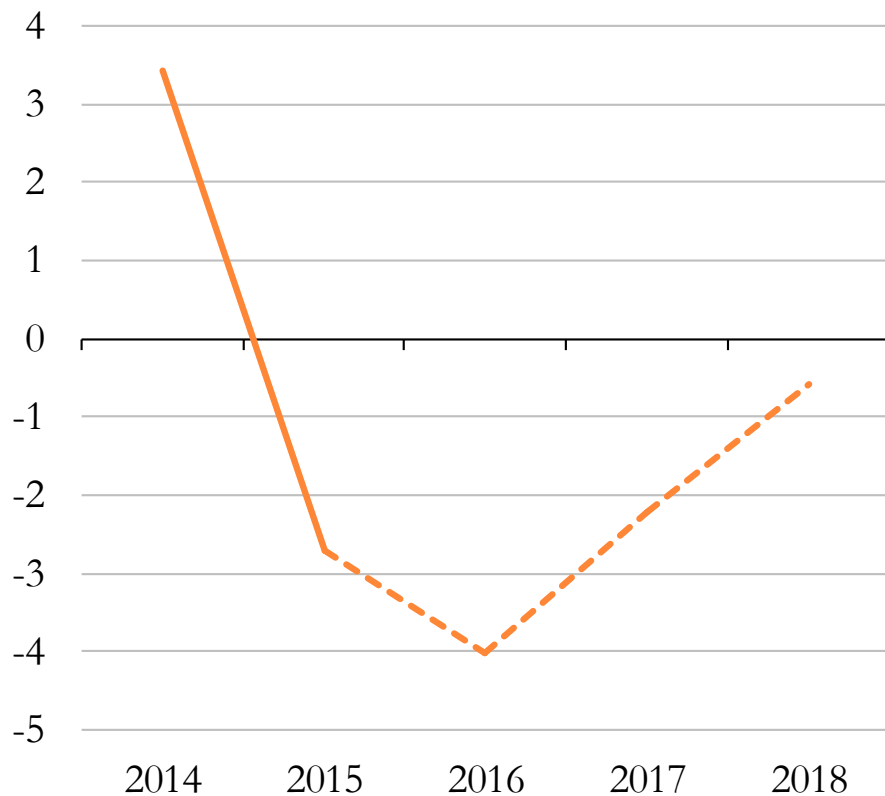


Regional Outlook

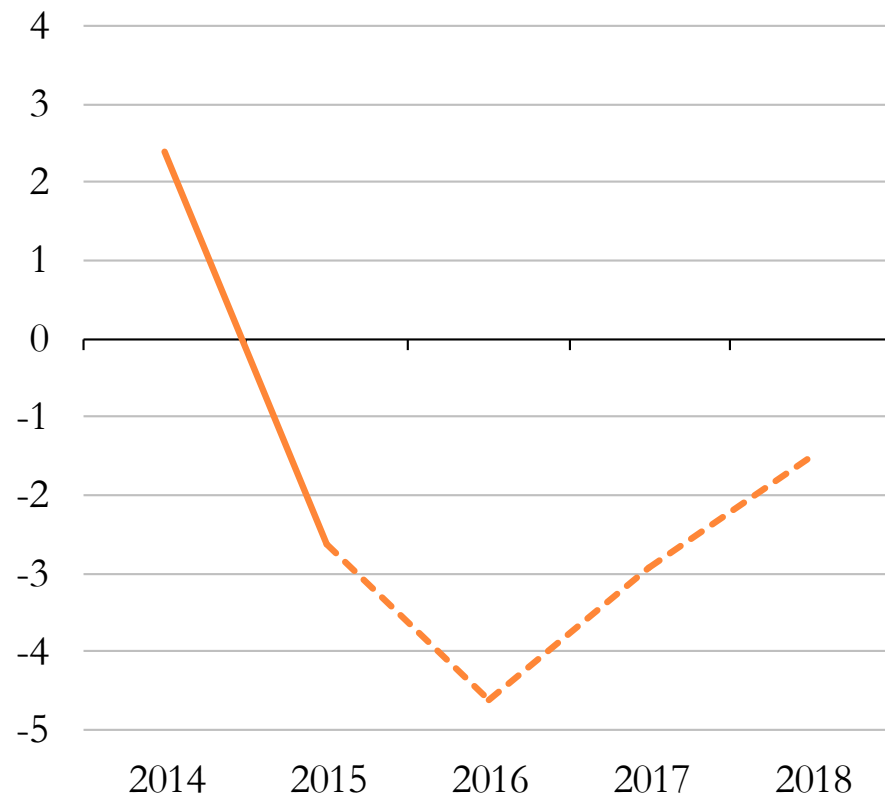


Oil exporters: large external and fiscal losses

Current Account Balance
(Percent of GDP)



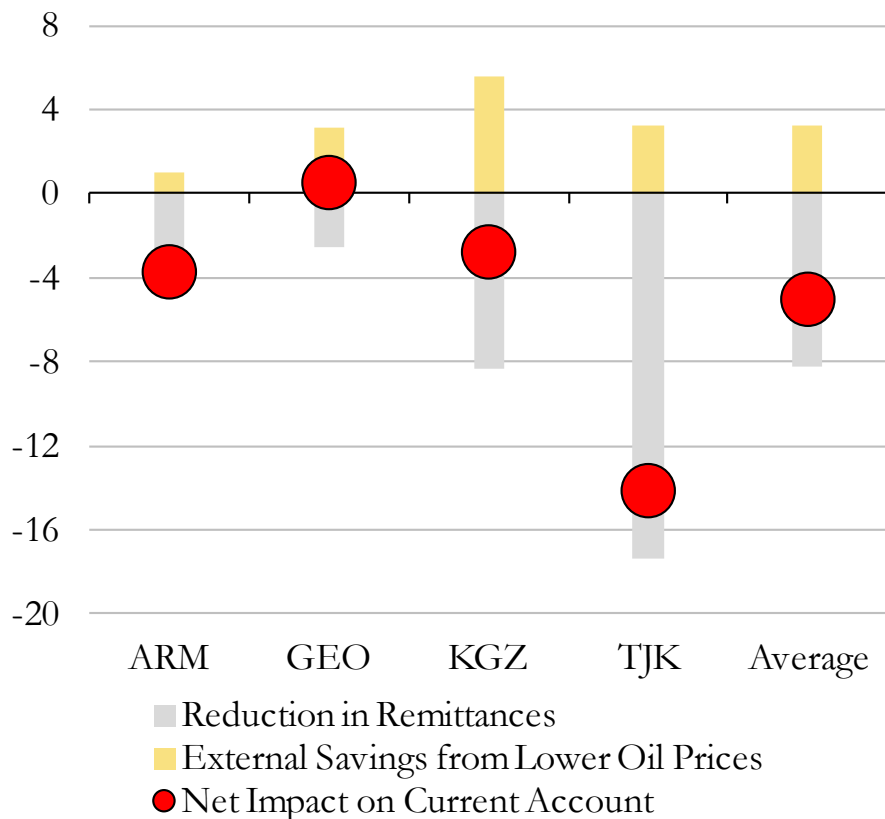
Fiscal Balance
(Percent of GDP)



Oil importers: drop in remittances more than offsets gains from cheaper oil

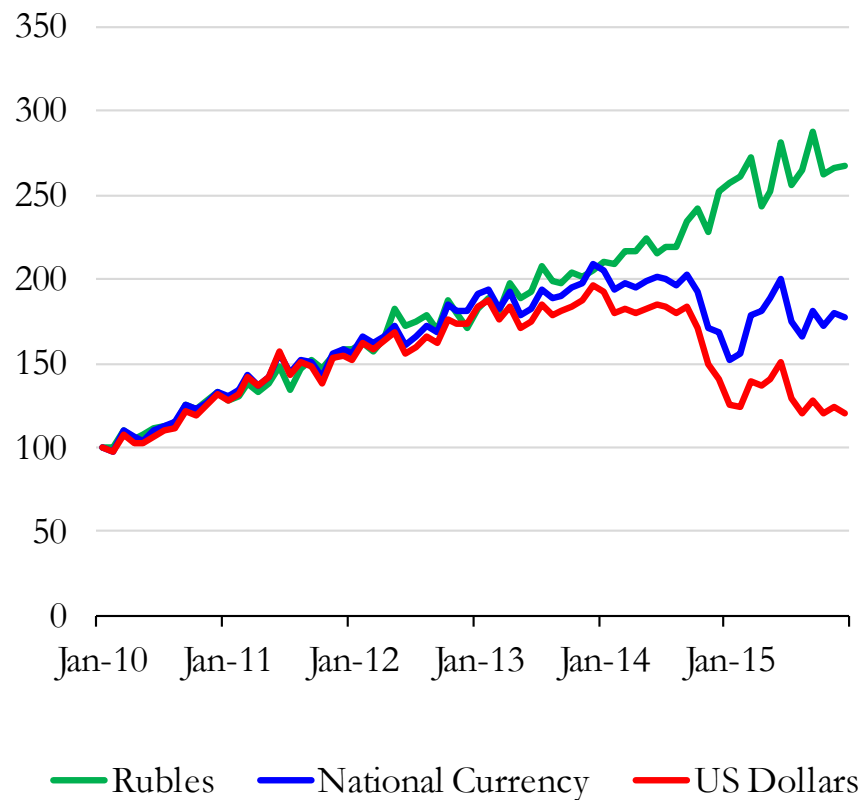
Decline in Remittances Compared to Gains from Lower Oil Prices

(Percent of GDP, 2015)



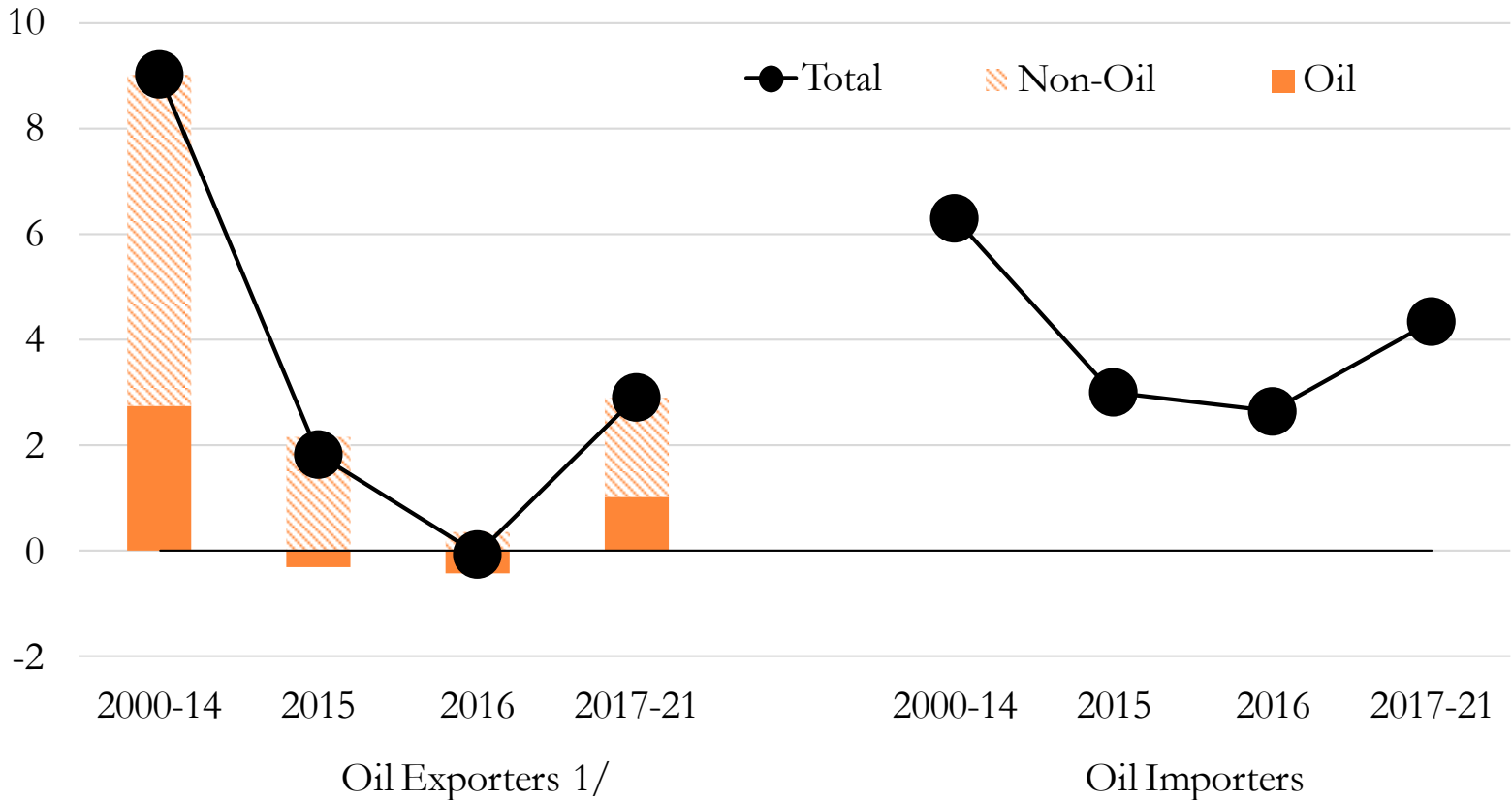
Remittances

(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

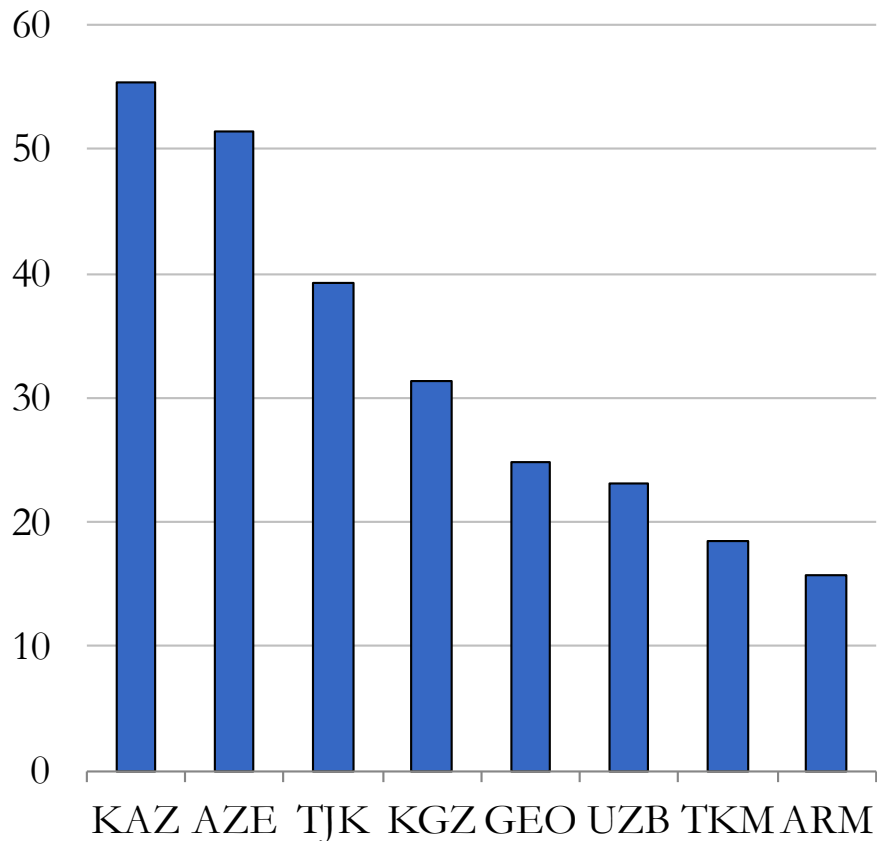
Financial sector vulnerabilities

Outline

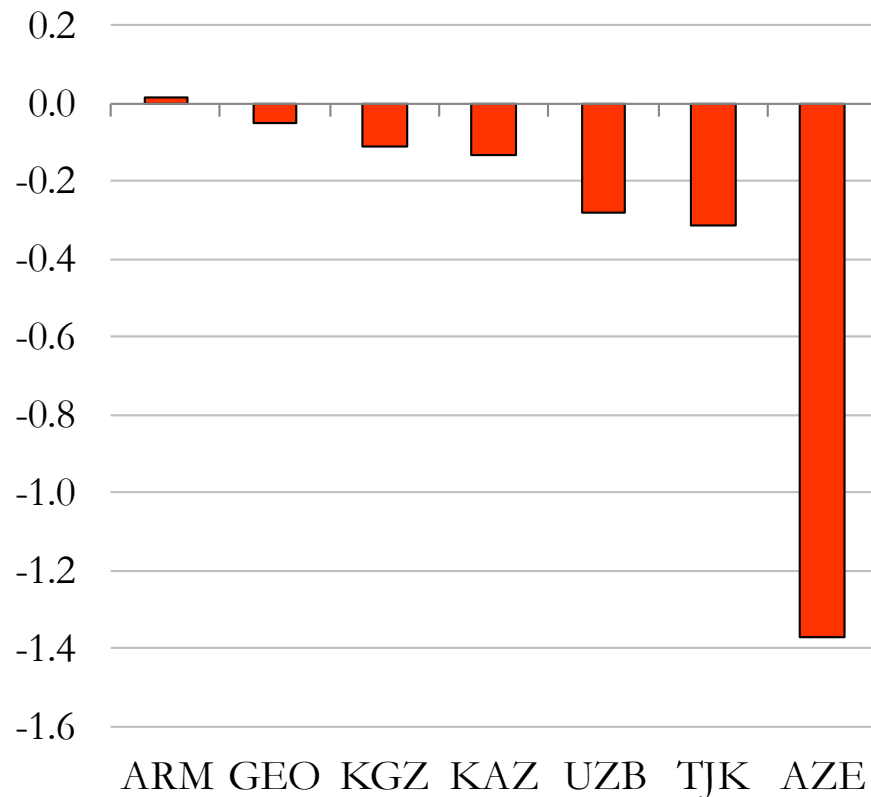
Responding to Shocks

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)

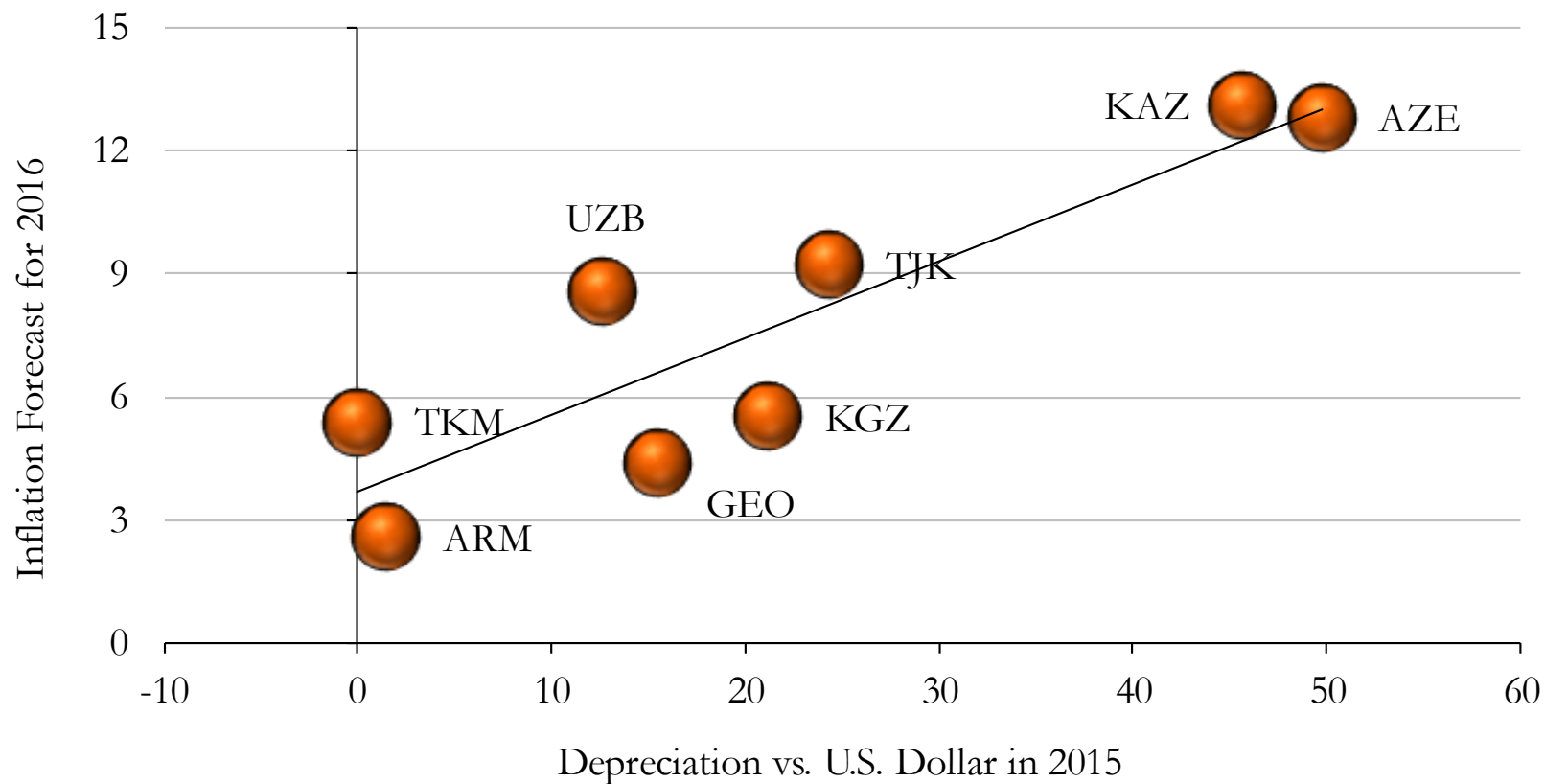


Change in International Reserves
(Months of Imports, 2016 vs. 2015)



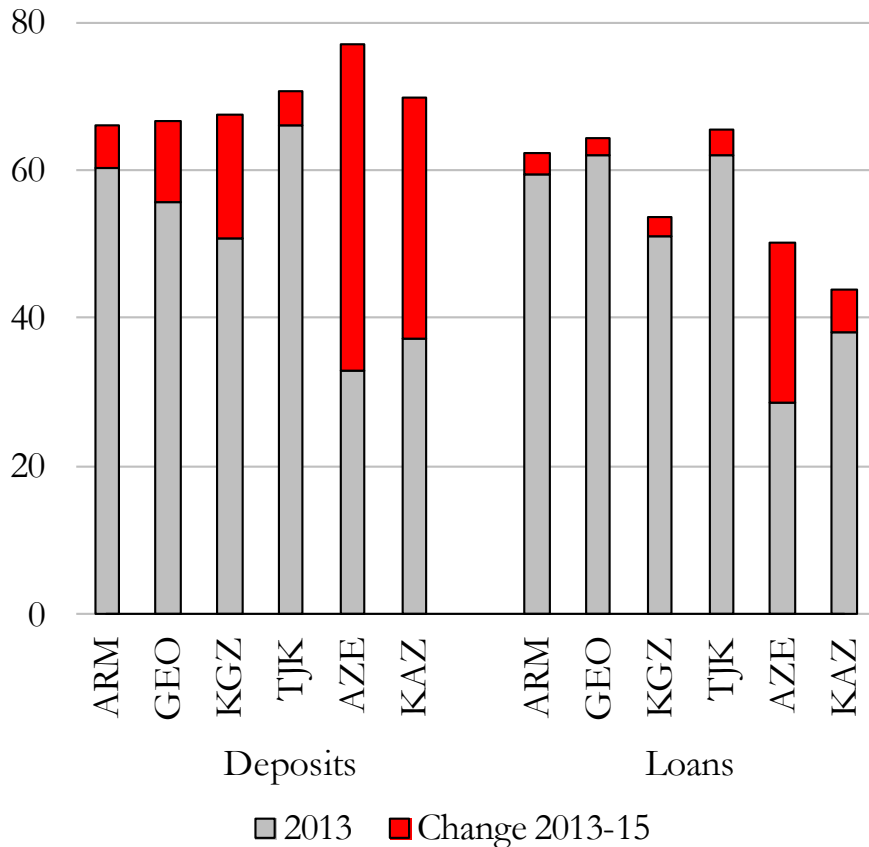
... but have raised inflation ...

Depreciation and Inflation (Percent)

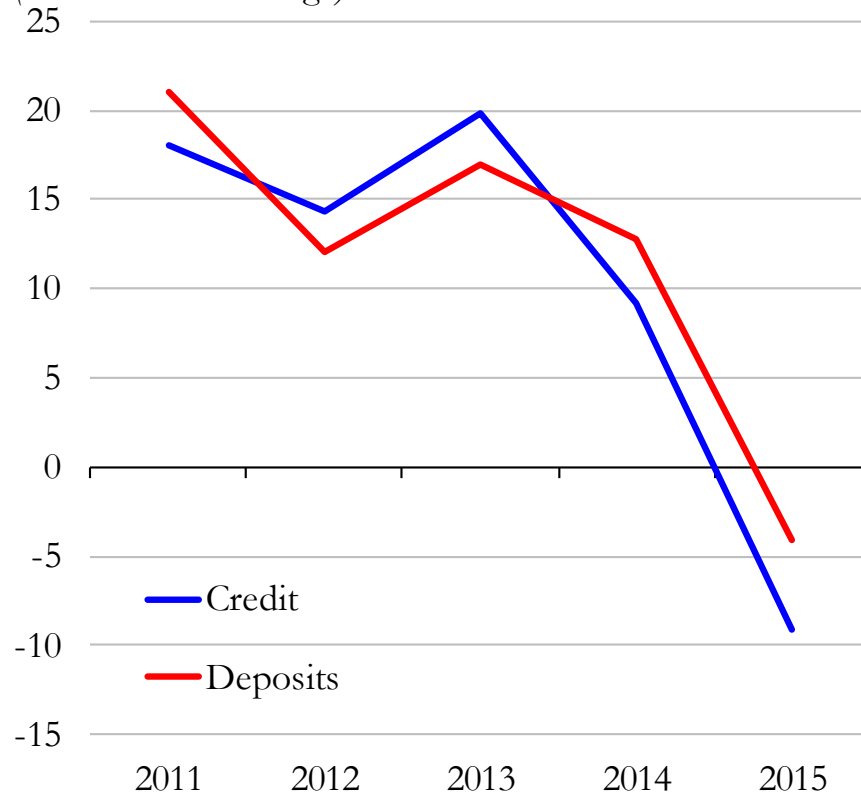


... and increased financial vulnerabilities

Dollarization
(Percent)

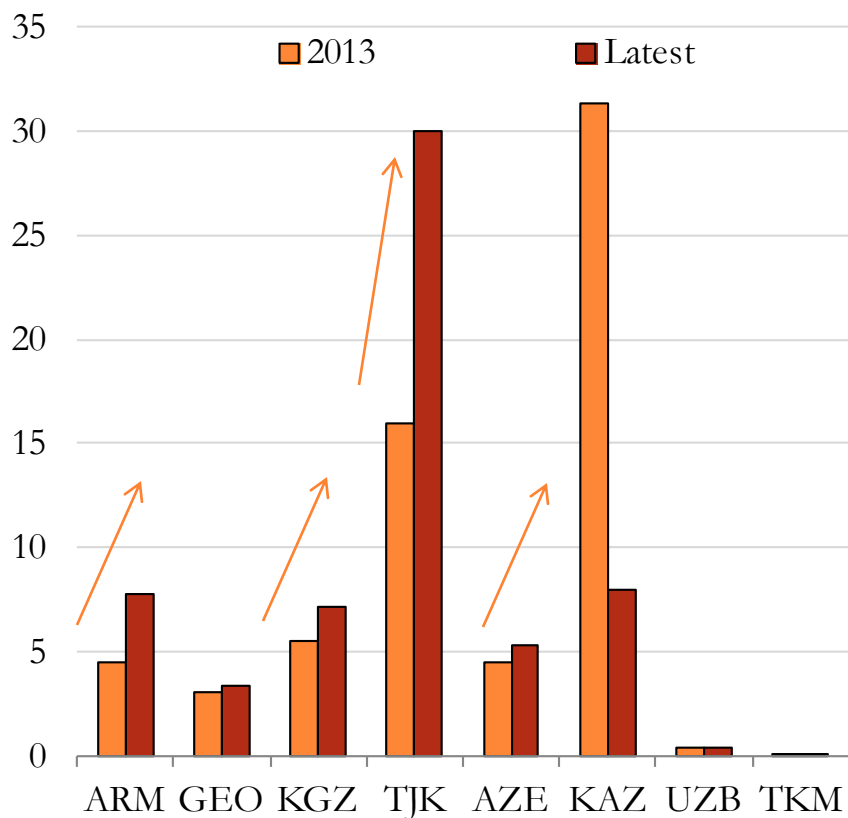


Private Sector Credit and Bank Deposits
(Annual Percent Change)

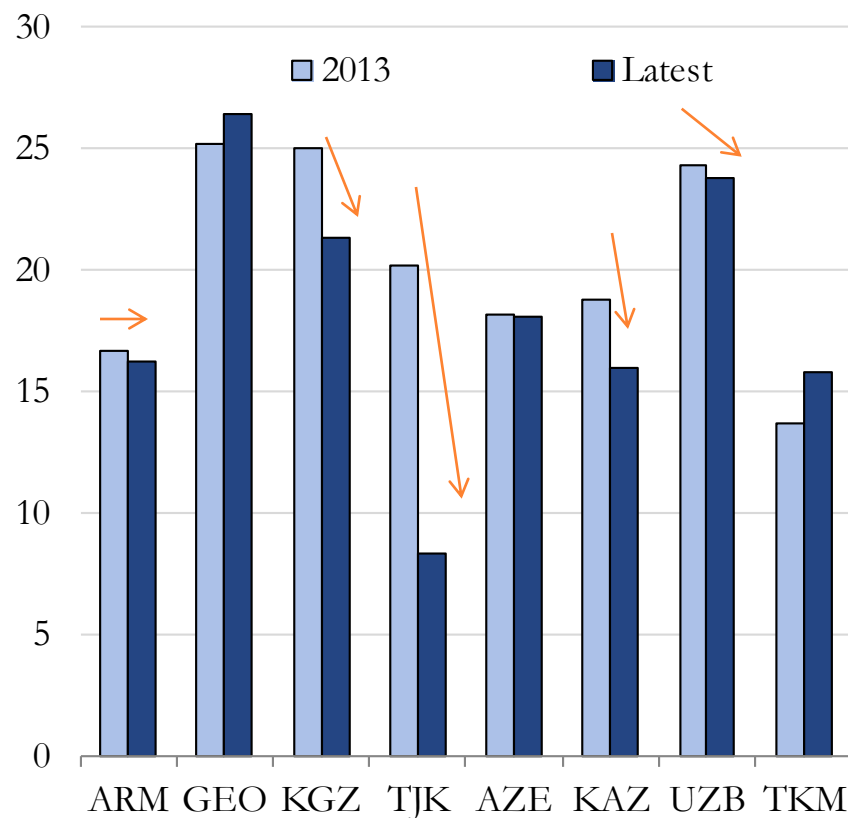


Bank asset quality is worsening and capital is eroding

Non-Performing Loans
(In Percent of Total Loans)

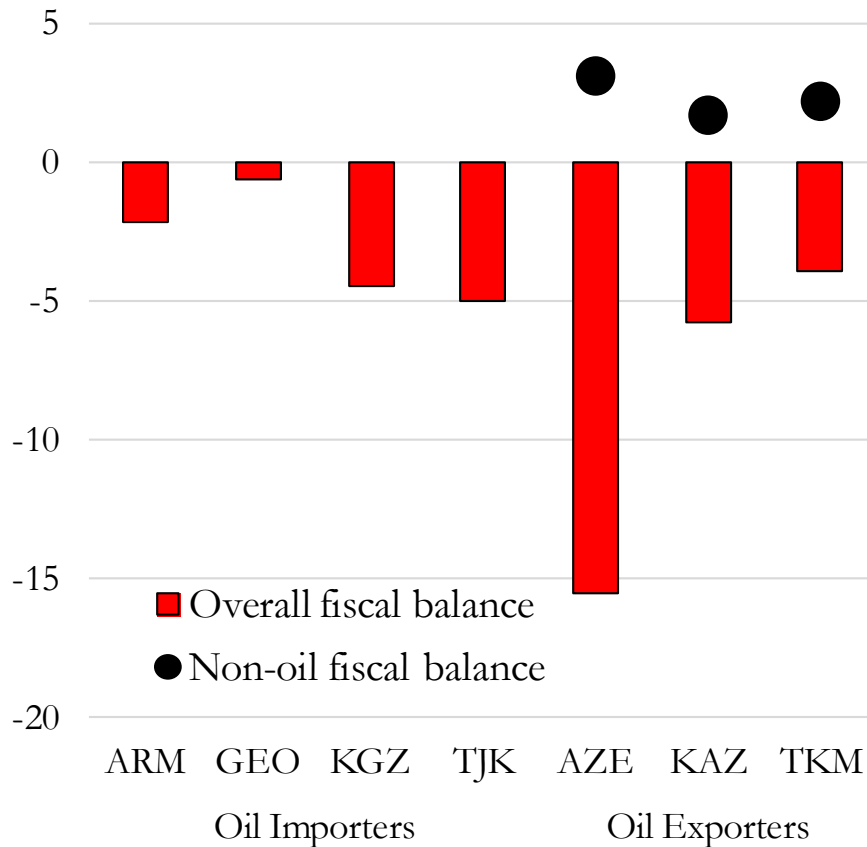


Capital Adequacy Ratios
(In Percent of Total Loans)

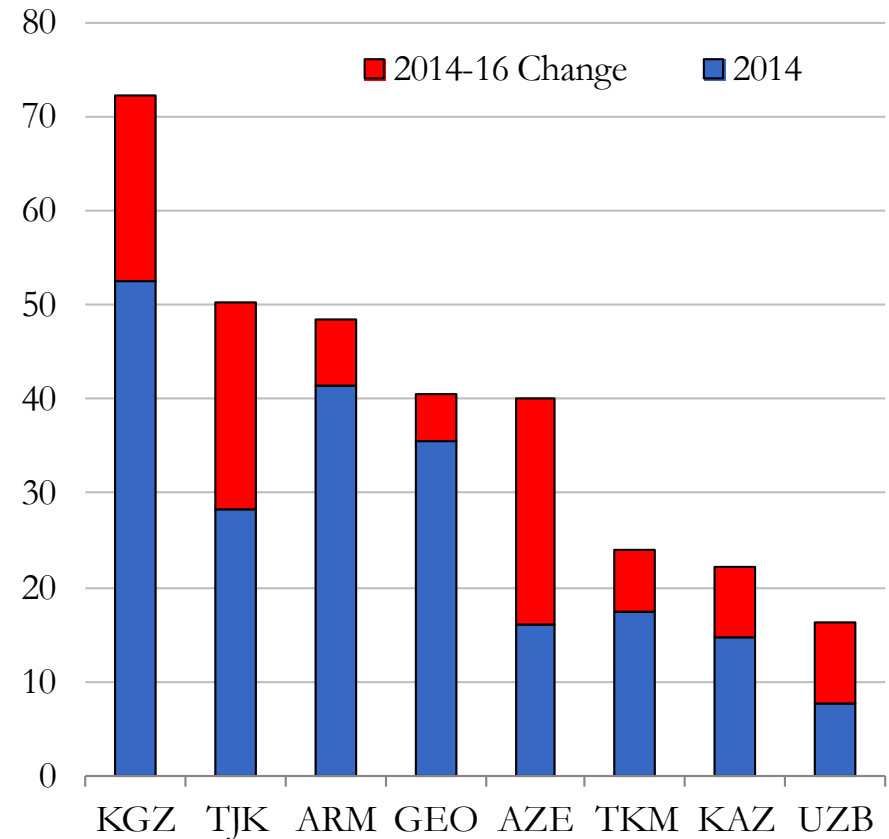


With public debt edging up, some countries have started tightening fiscal policy

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



Public Debt
(Percent of GDP)



Outline



Policy Priorities

Policy Priority 1: Ensure Fiscal Sustainability

Near-Term
Growth

Debt Sustainability,
Saving for the Future



Fiscal Policy

- 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

Inflation

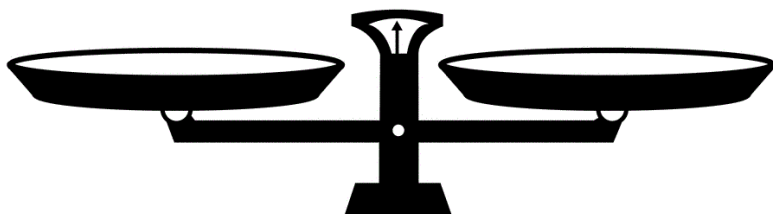
Financial Intermediation
and Near-Term Growth



Monetary Policy

Competitiveness, External
Buffers and Balance

Financial Stability
and Inflation



Exchange Rate Policy

- 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.

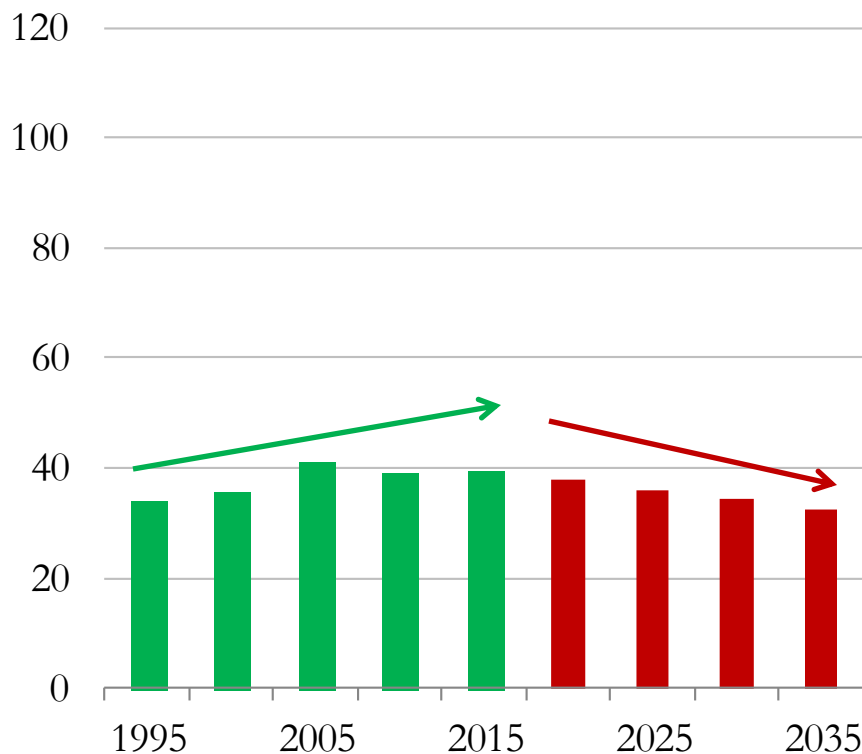
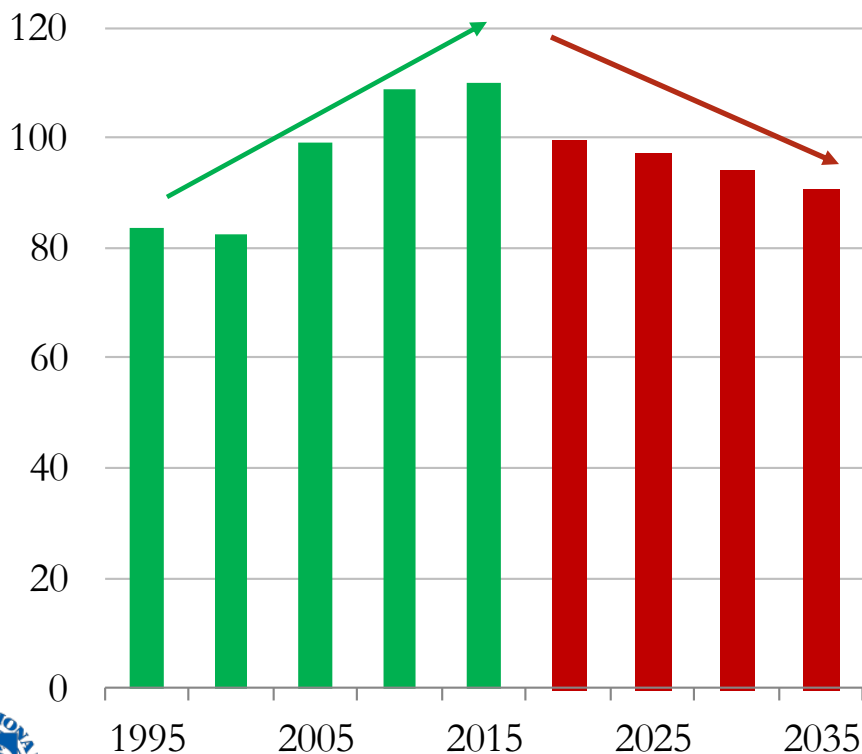
Policy priority 3: accelerating structural reforms to prevent a reversal in relative living standards

GDP Per Capita

(Relative to emerging market average, percent)

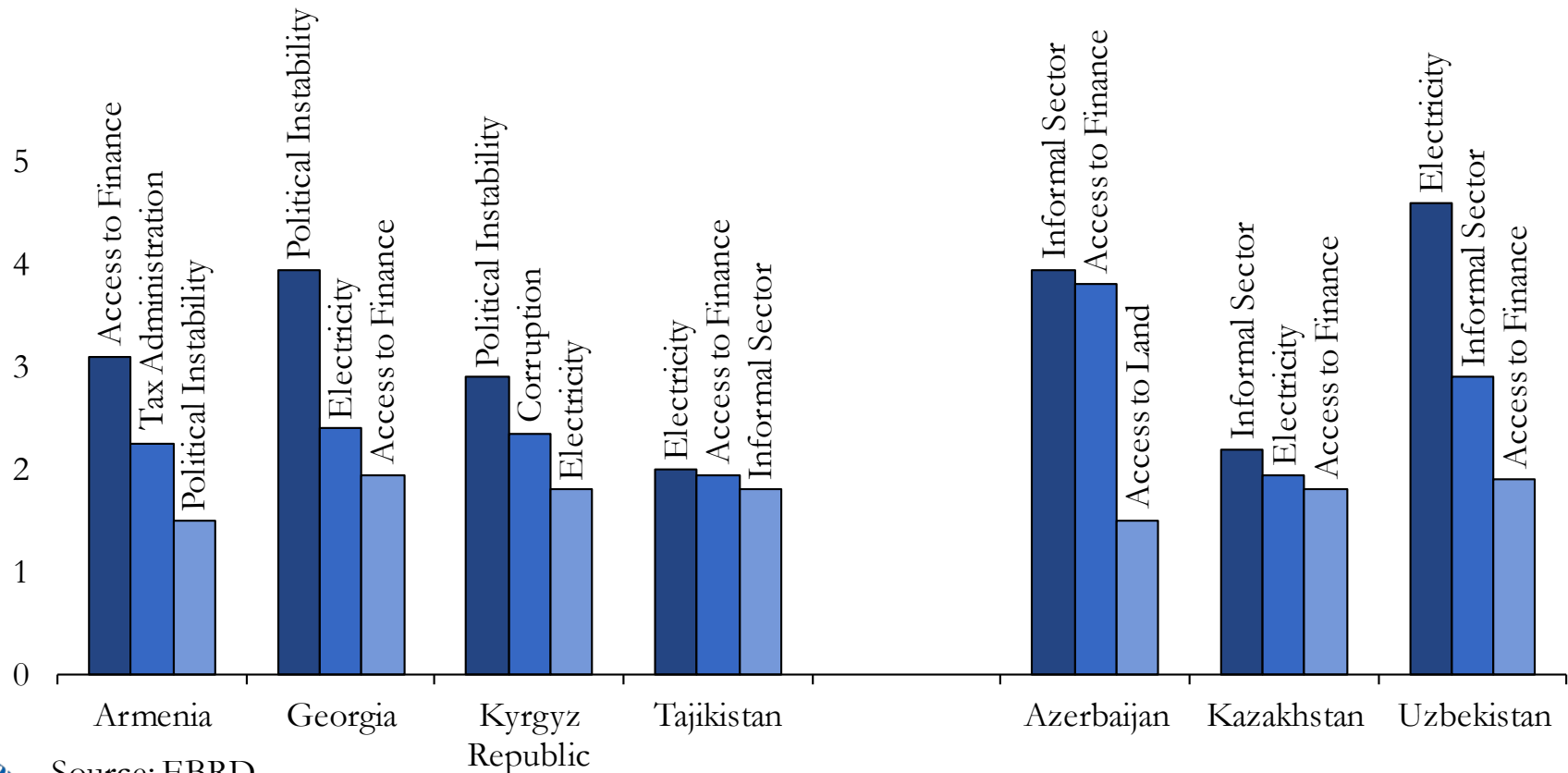
Oil Exporters

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.



**To download the latest CCA REO Update,
please visit**

<http://www.imf.org/external/pubs/ft/reo/2016/mcd/mreo0416.htm>

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