

Caucasus and Central Asia Regional Economic Outlook Update

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Outline



The Outlook for the Region



Drivers of the Outlook



Implications for Policy



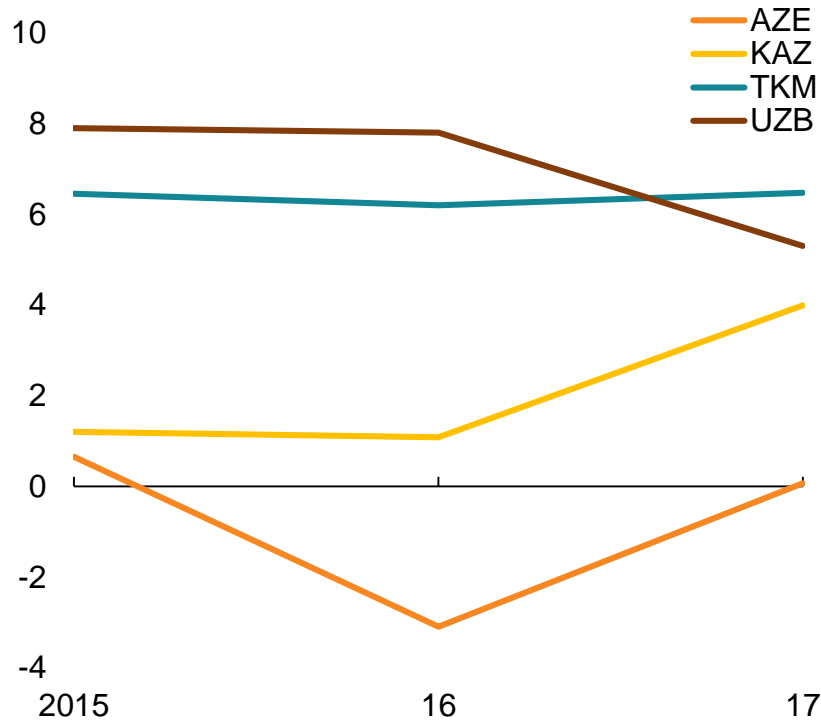
The IMF's Contribution



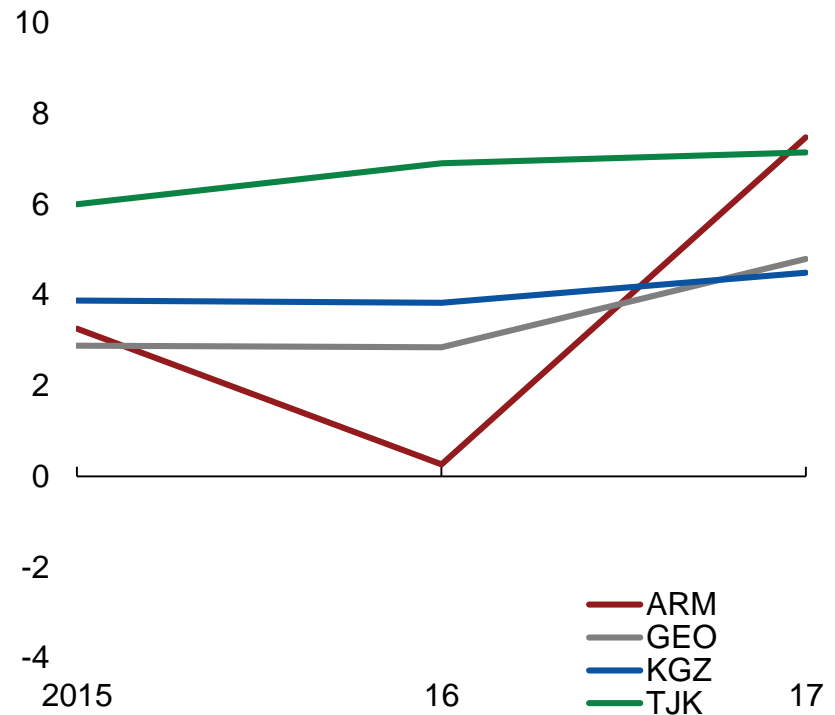
Growth picked up in 2017...

Real GDP Growth (Percent)

Oil Exporters



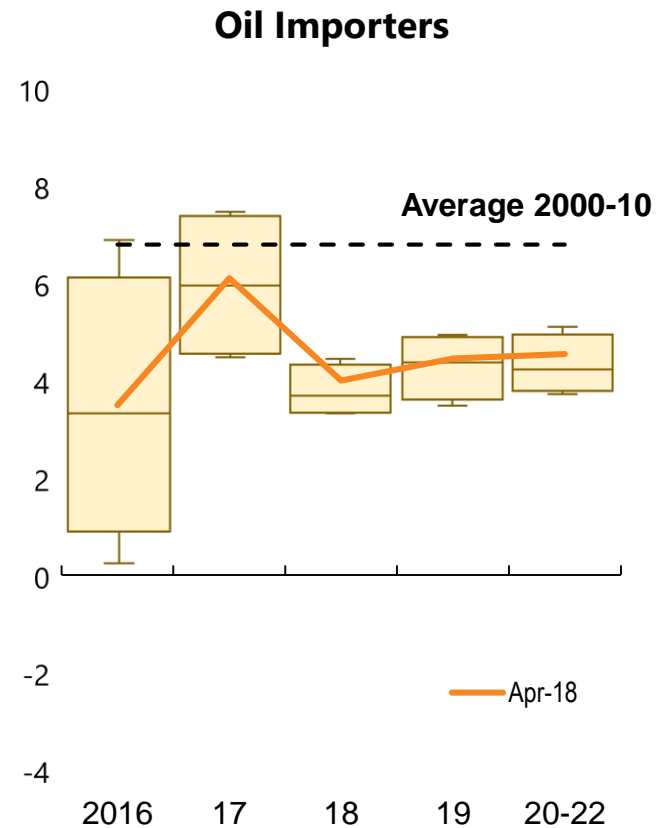
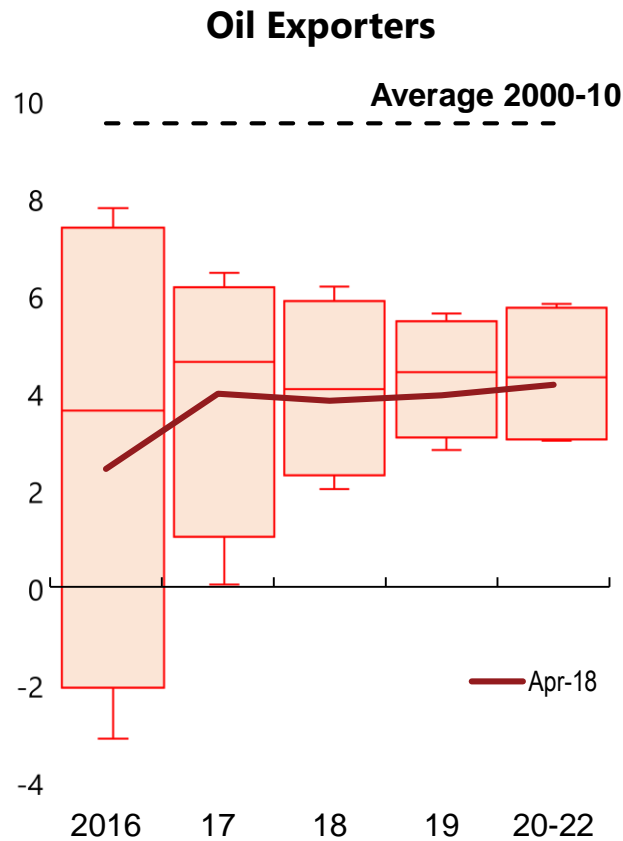
Oil Importers



Note: EMDEs = Emerging Market and Developing Economies. Country abbreviations are International Organization for Standardization (ISO) country codes.

...but is expected to moderate over the medium term.

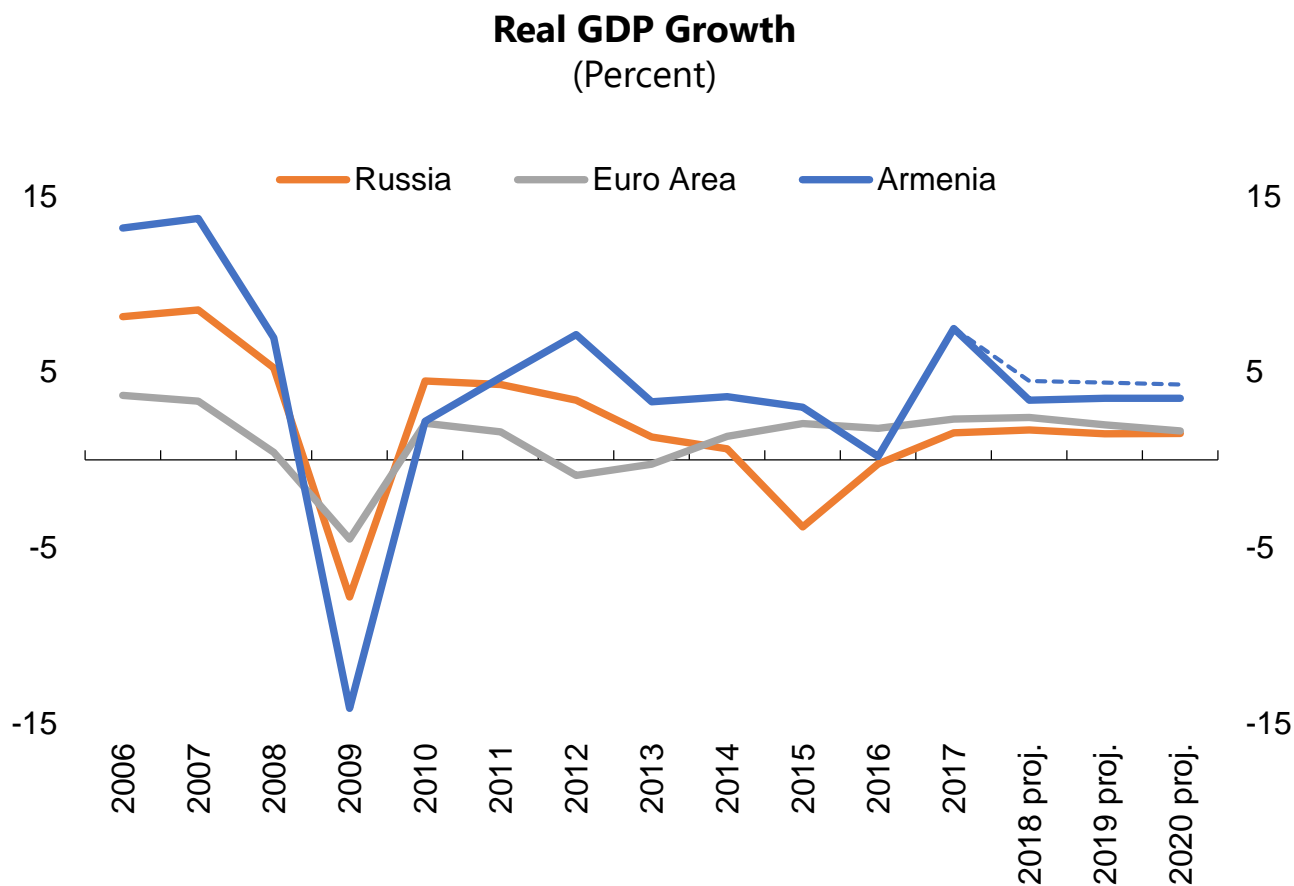
Real GDP Growth (Percent)



— Median □ Inter-quartile range T Range



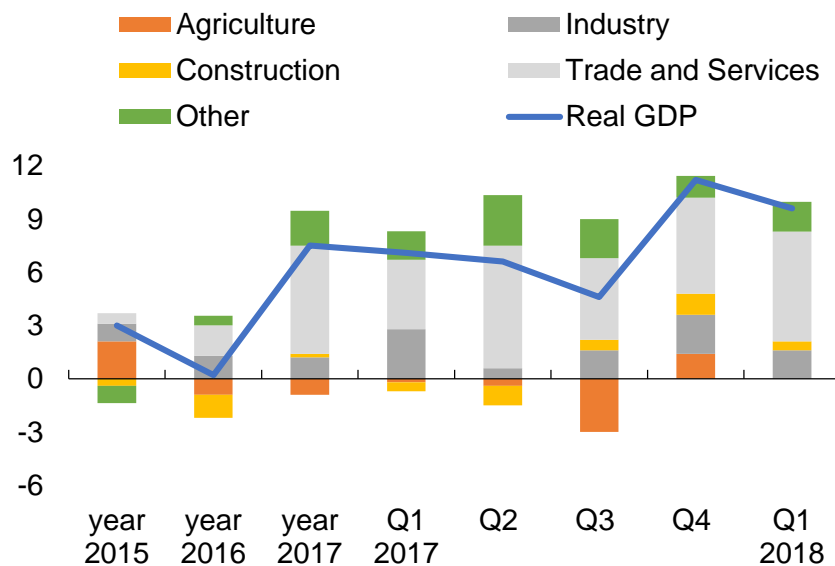
Armenia: Growth highly depends on trading partners...



Source: WEO database, April 2018 projections

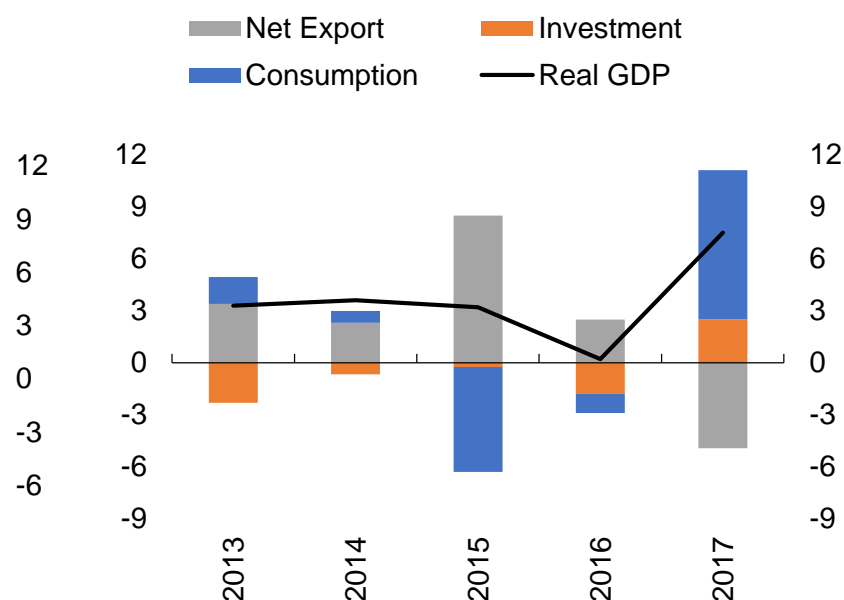
... and remains volatile.

Armenia: Contributions to Real GDP Growth by Sector
(Percent and Percentage Points)



Source: RA NSS and IMF staff calculations

Armenia: Contributions to Real GDP Growth by Expenditure Components
(Percent and Percentage Points)



Source: RA NSS and IMF staff calculations

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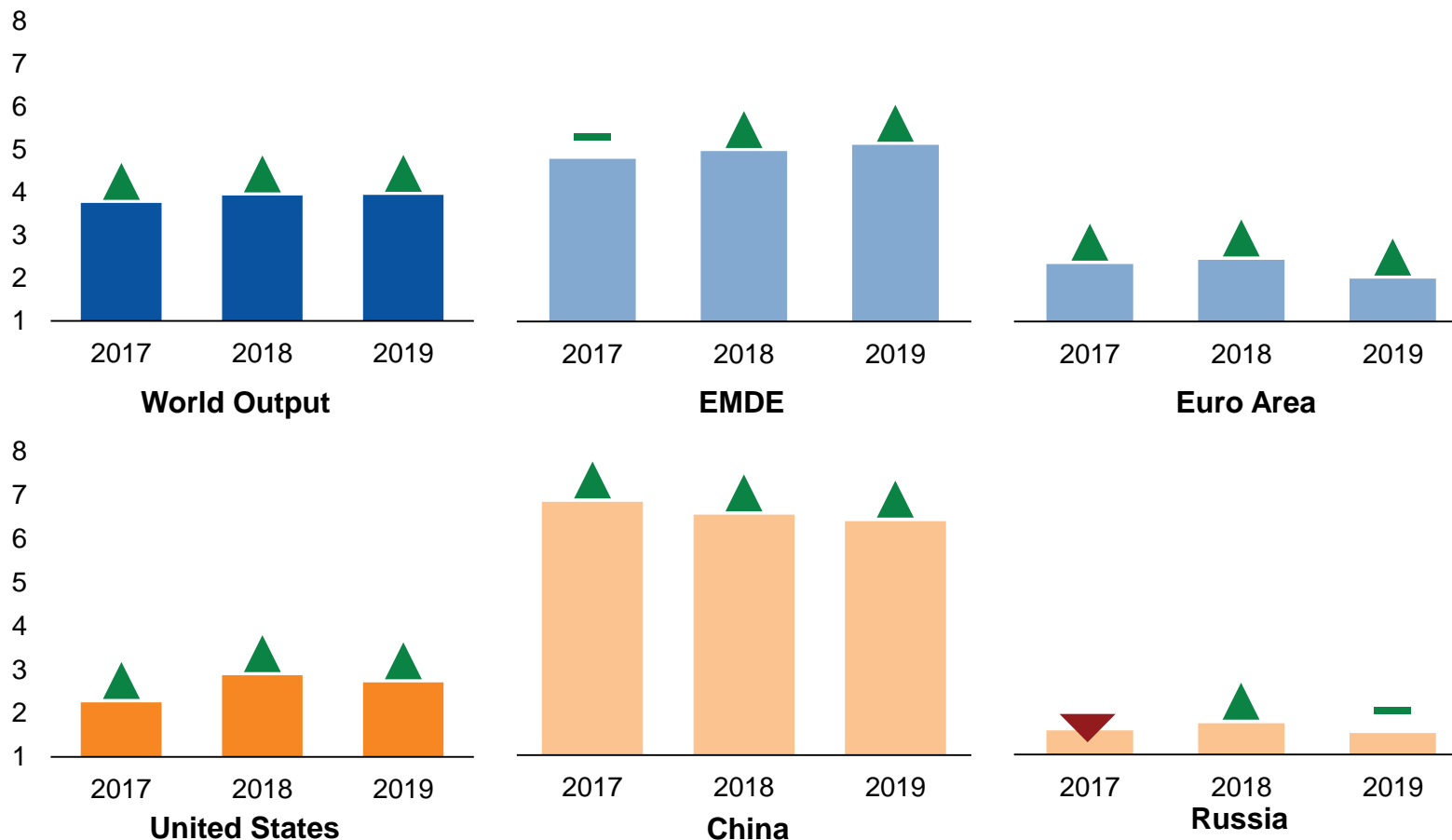
The IMF's Contribution



The outlook is supported by a strengthening global economy, ...

Real GDP Growth of Trading Partners

(Arrows represent direction of revision since Oct. 2017 WEO)

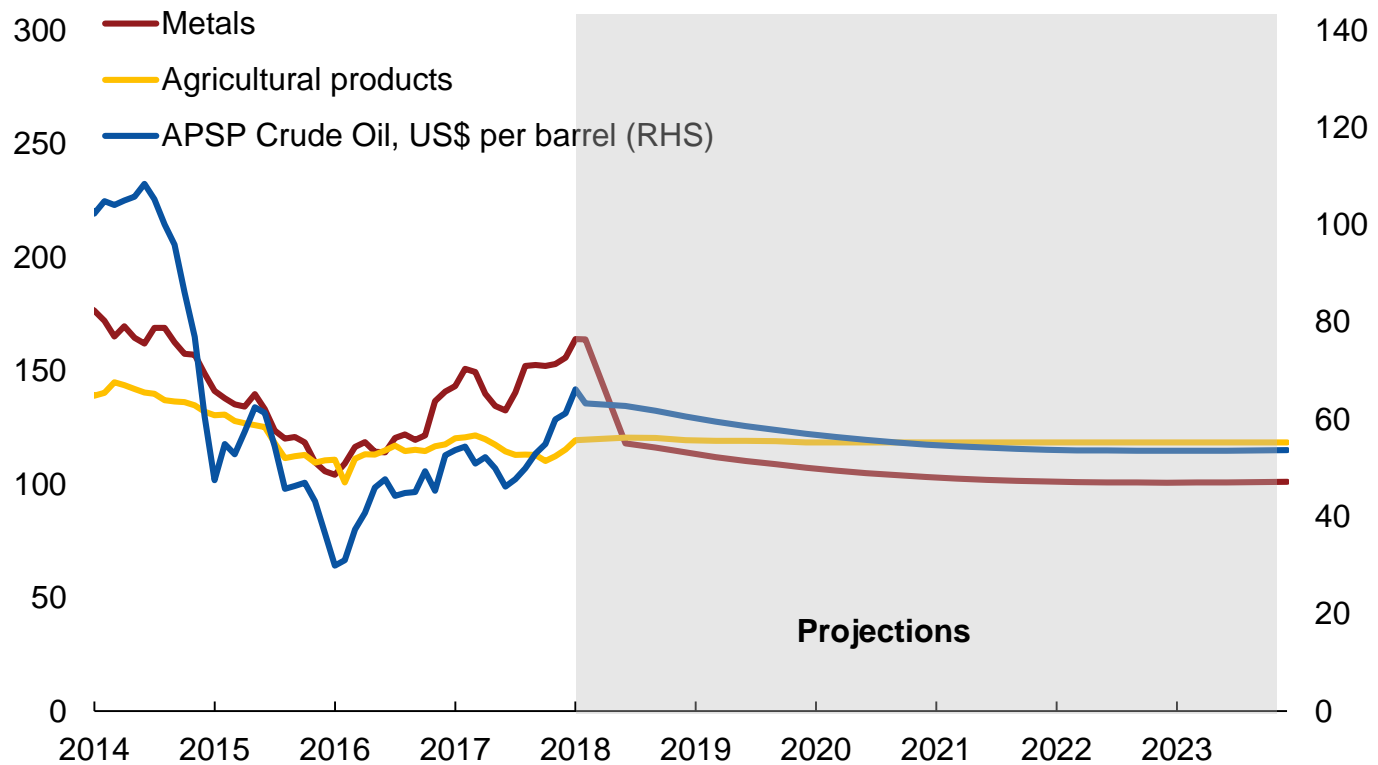


Note: EMDE = Emerging Market and Developing Economies.



... a temporary boost to commodity prices, ...

Commodities Prices
(Price index, 2005 = 100)

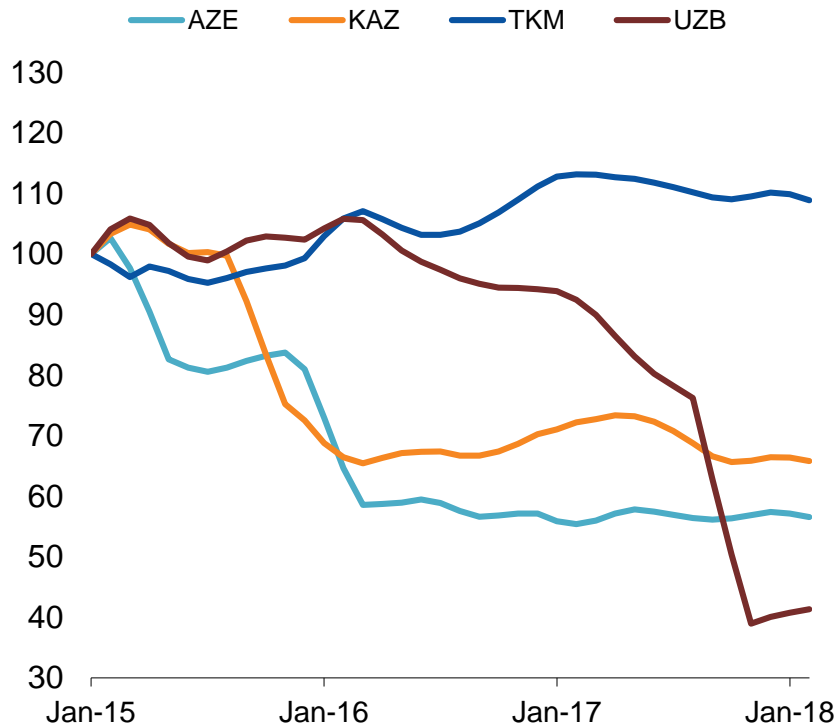


... increased competitiveness, ...

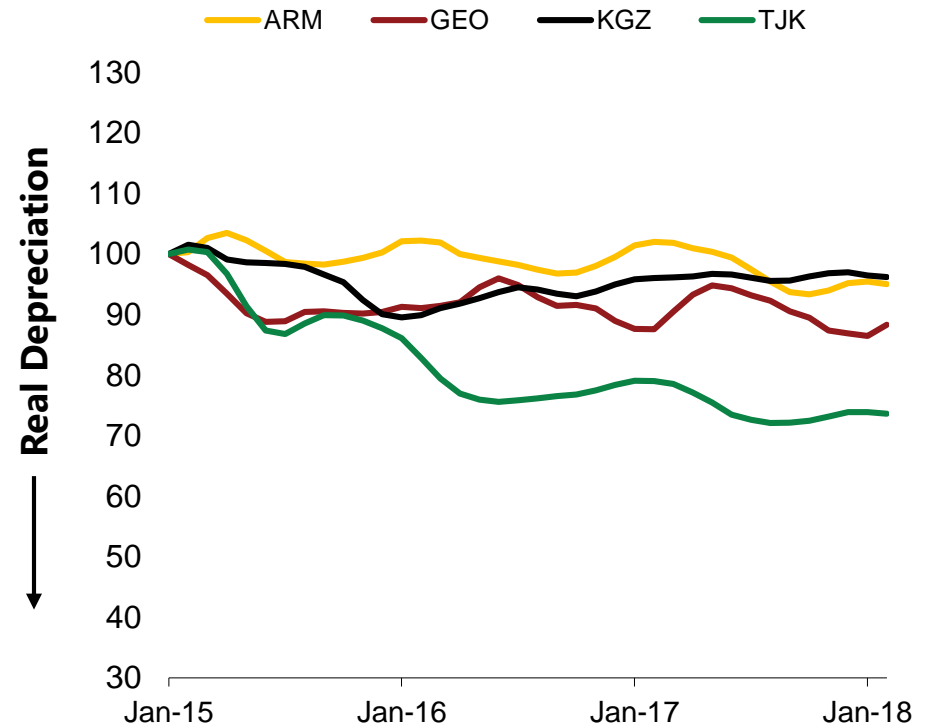
Real Effective Exchange Rates

(Three-month moving average, index 2015=100)

Oil Exporters



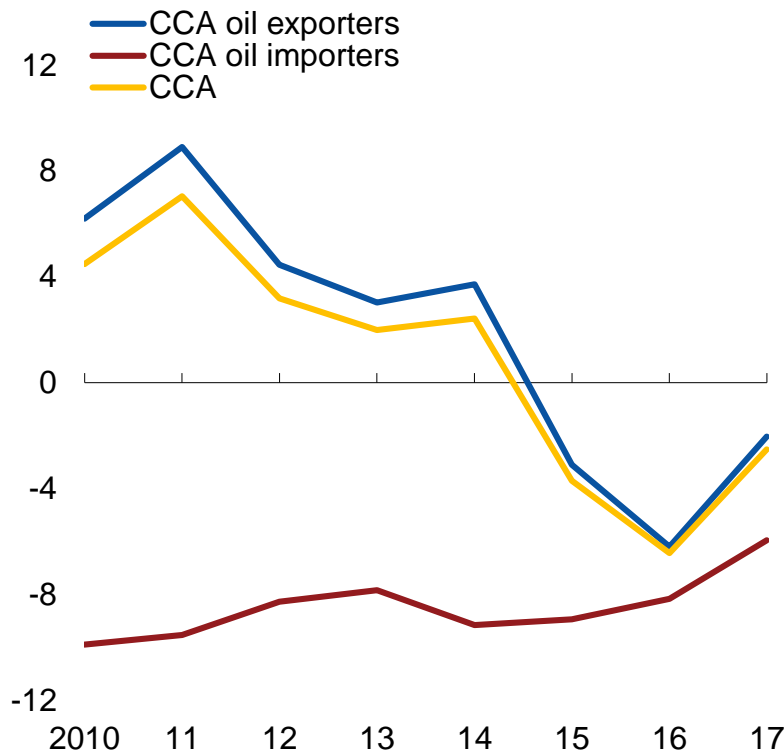
Oil Importers



... and strengthening external and fiscal positions.

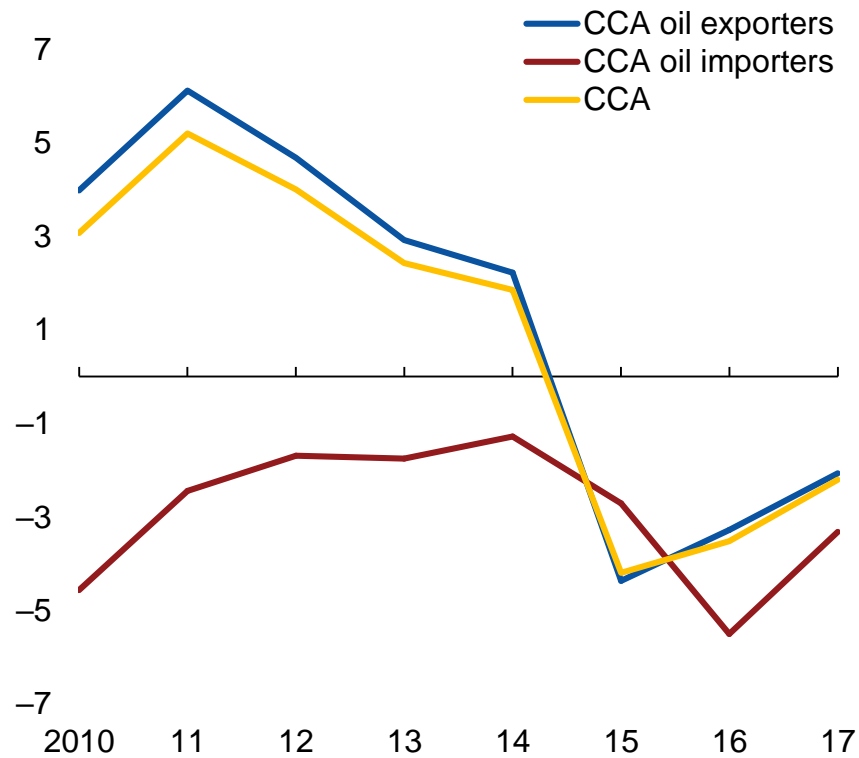
Current Account Balance

(In percent of GDP)



Overall Fiscal Balance

(In percent of GDP)

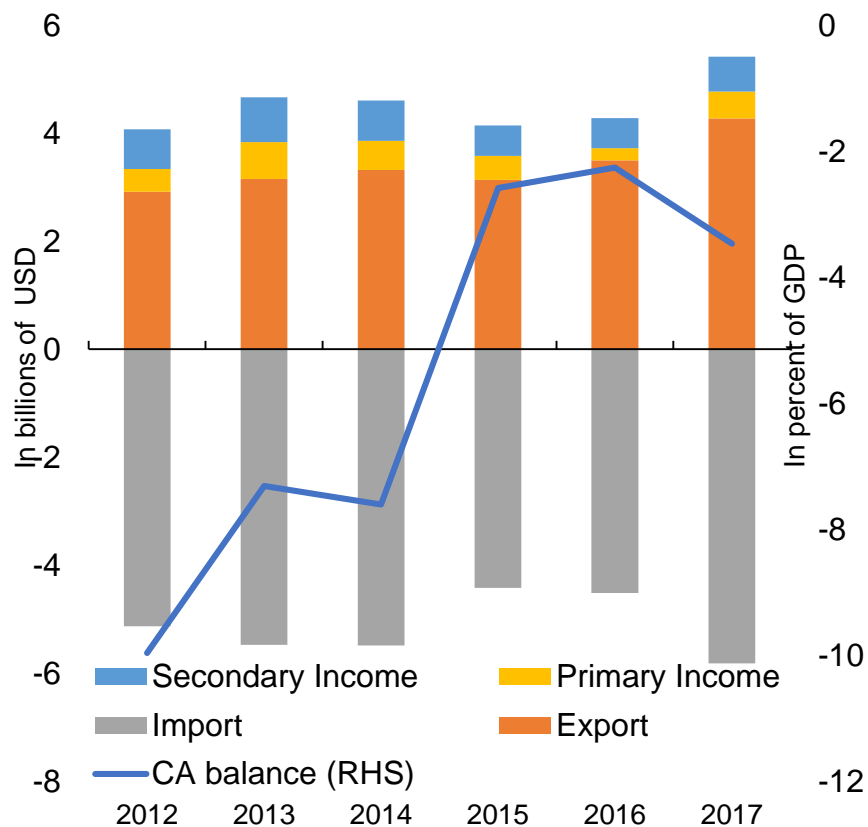


Note: The overall fiscal balance excludes the one-time fiscal transfer to the financial sector in Kazakhstan in 2017.



Armenia: Current account deficit widened despite higher exports...

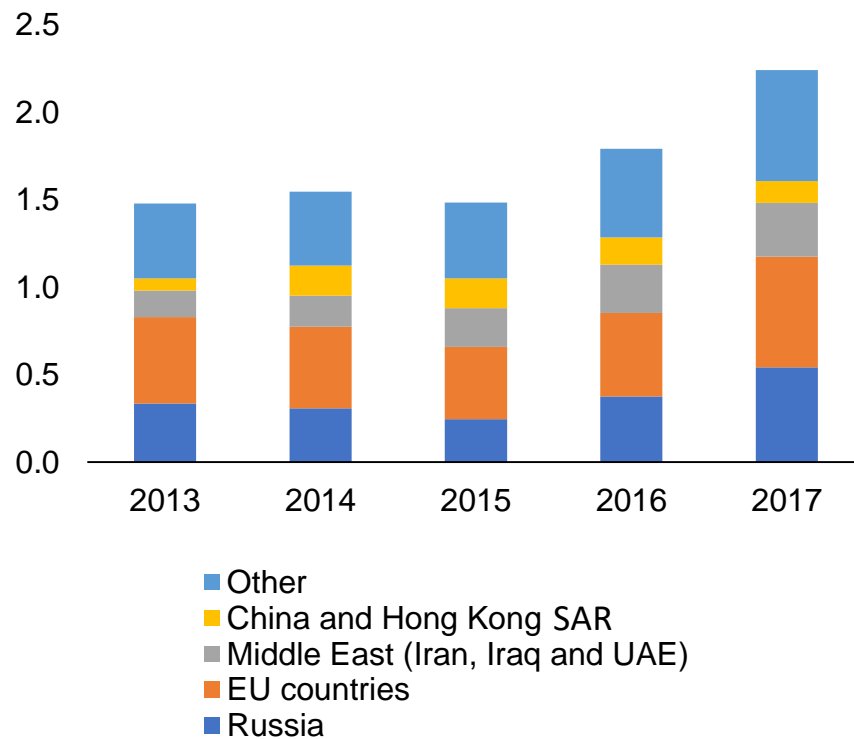
Armenia: Current Account Balance



Source: NSS of RA and IMF staff calculations

Armenia: Exports of goods by destination

(In billions of US dollars)

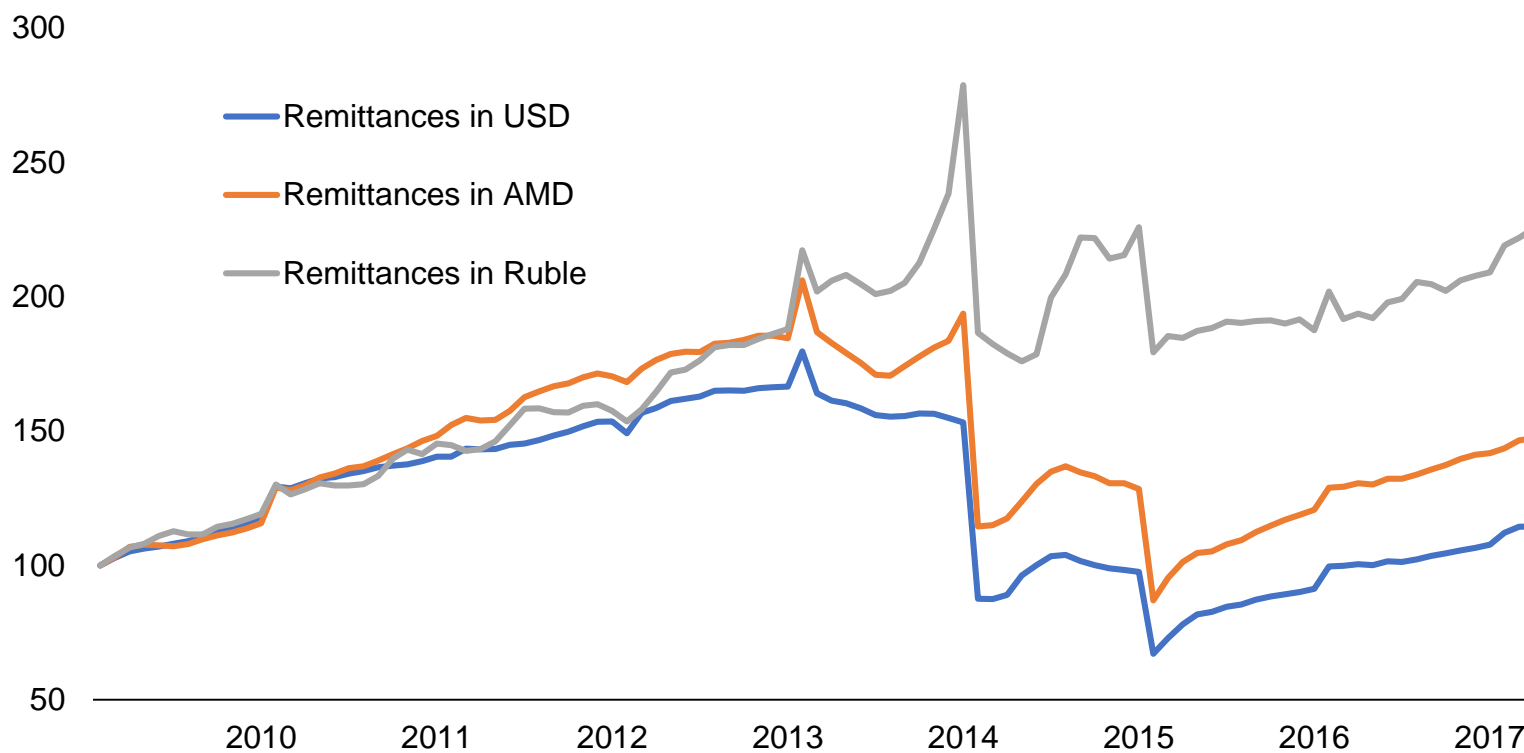


Source: NSS of RA and IMF staff calculations



... and recovery in remittances.

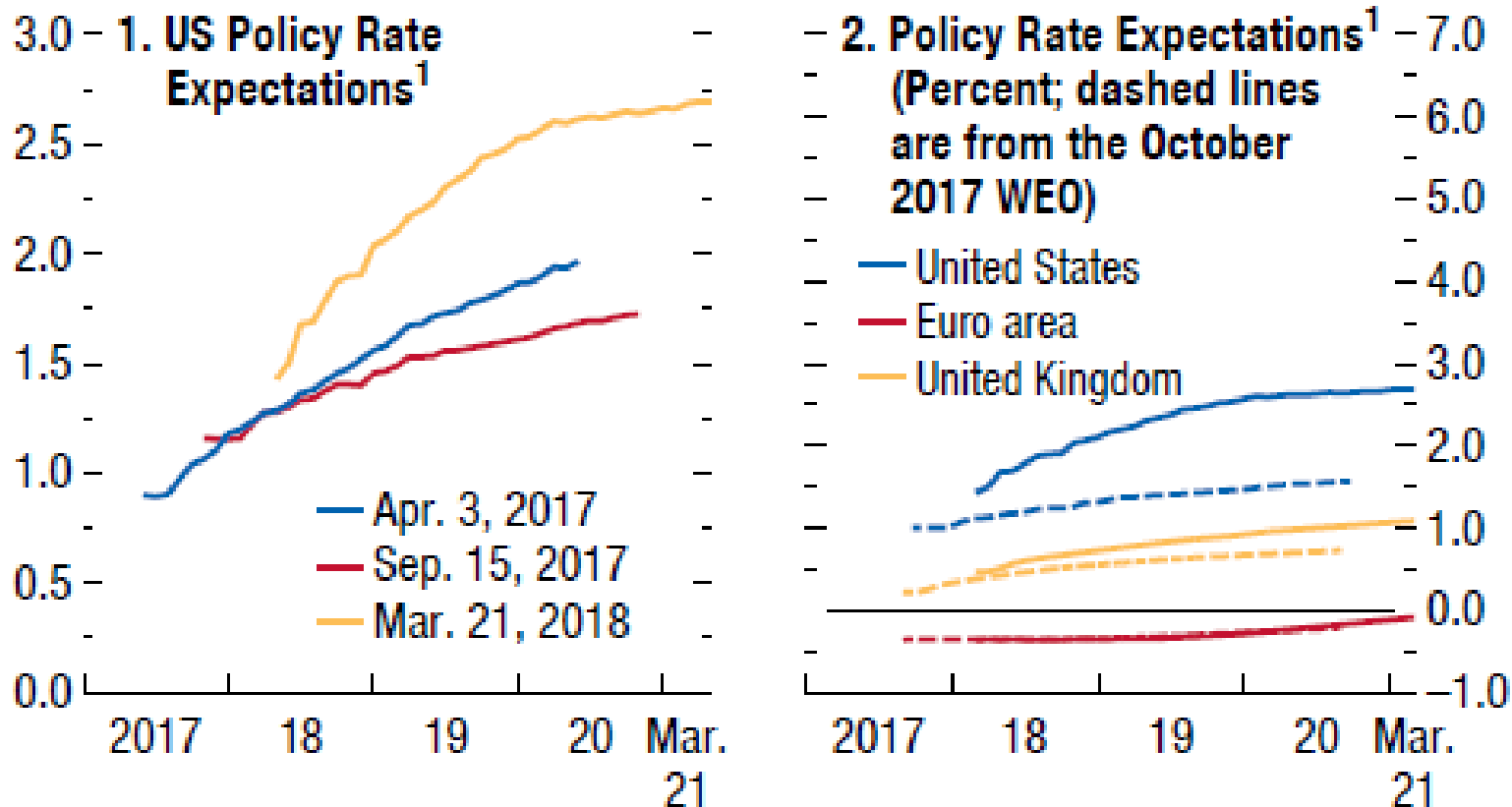
Armenia: Remittances
(Index, Jan 2010=100, SA)



Source: CBA and IMF staff calculations



Financial conditions: higher policy rates but sustained risk appetite



Source: IMF World Economic Outlook, April 2018.

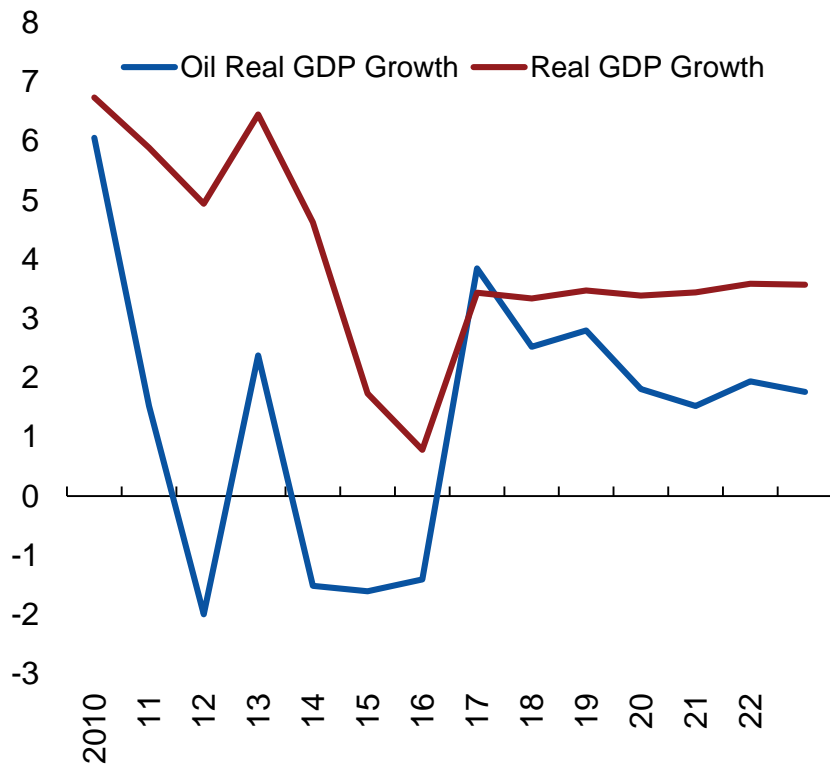
1/ Expectations are based on the federal funds rate futures for the United States, the sterling overnight interbank average rate for the United Kingdom, and the euro interbank offered forward rate for the euro area; updated March 21, 2018



Growth is held back by dependence on commodities and remittances, ...

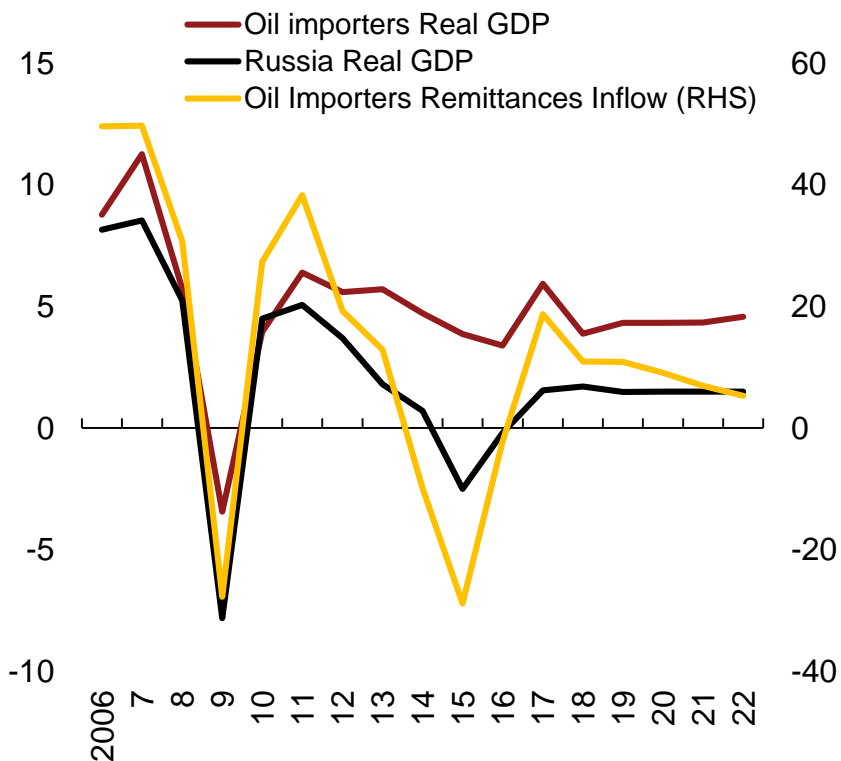
Real GDP and Real Oil GDP Growth in CCA Oil Exporters

(Weighted averages, percent)



Cyclicality of Remittances¹, Russia and CCA Oil Importers Growth

(Percent)



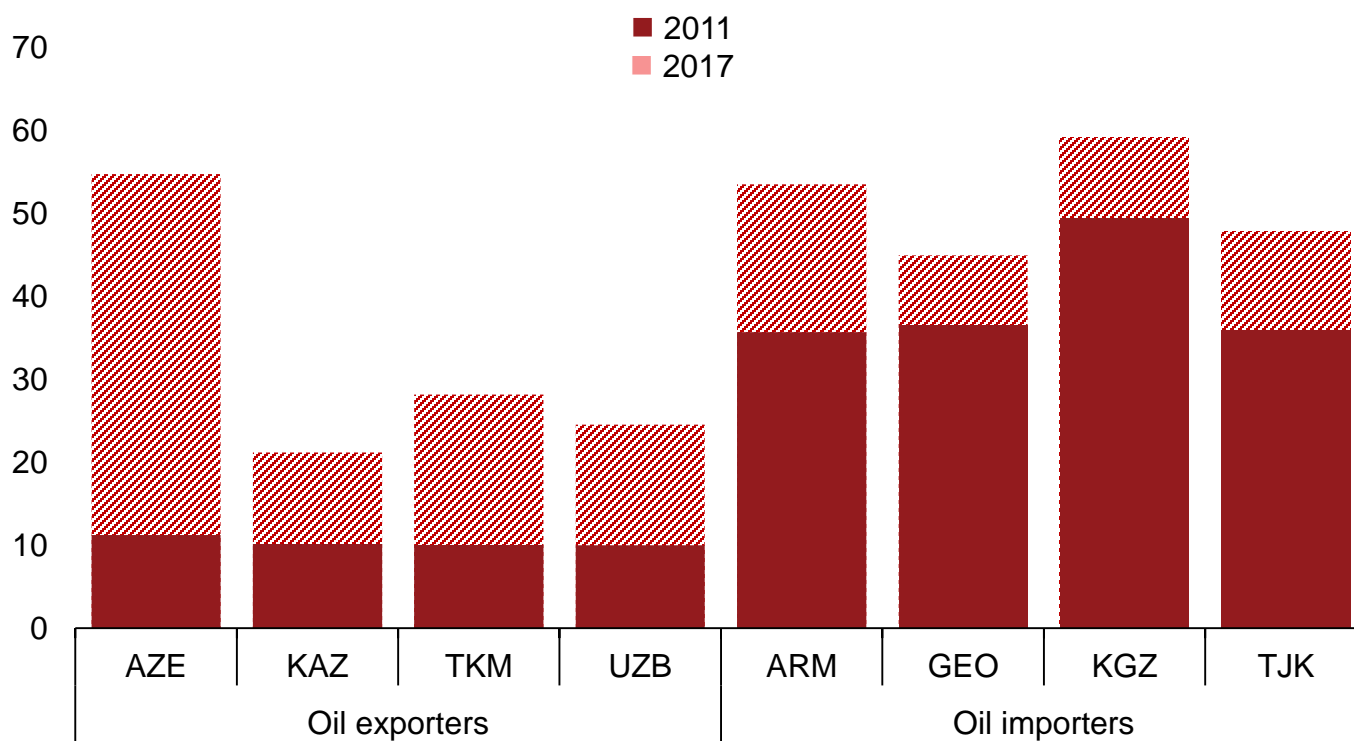
Note: ¹Remittances are in USD billions.

Real GDP growth and real oil GDP growth exclude Uzbekistan due to data availability.



... limited room for fiscal stimulus, ...

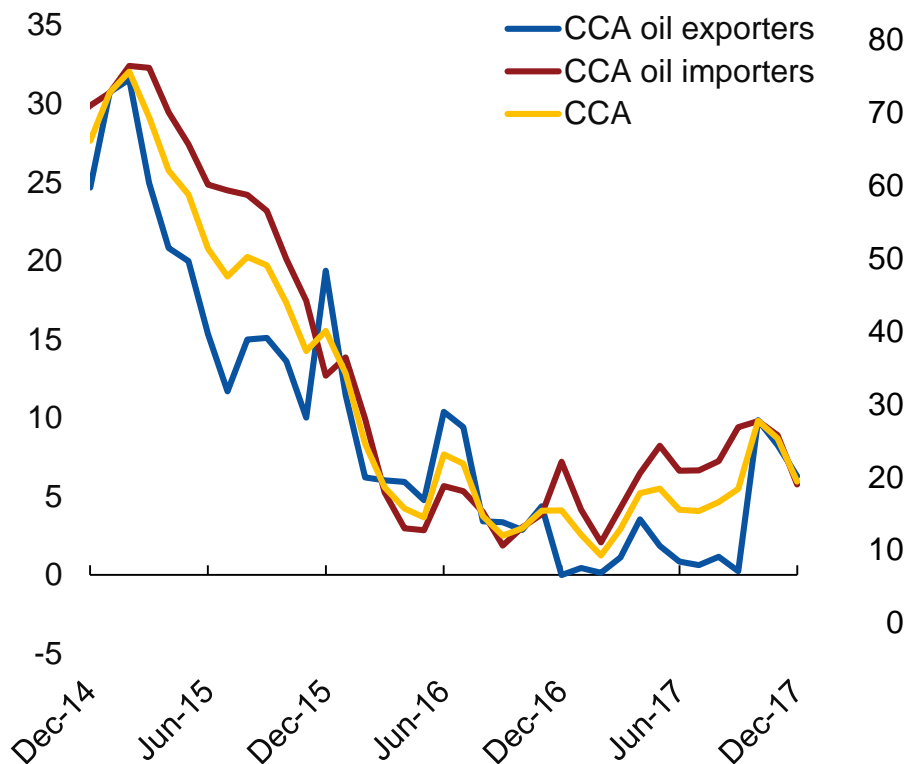
Gross General Government Debt
(Percent of GDP)



... and financial sectors in need of repair.

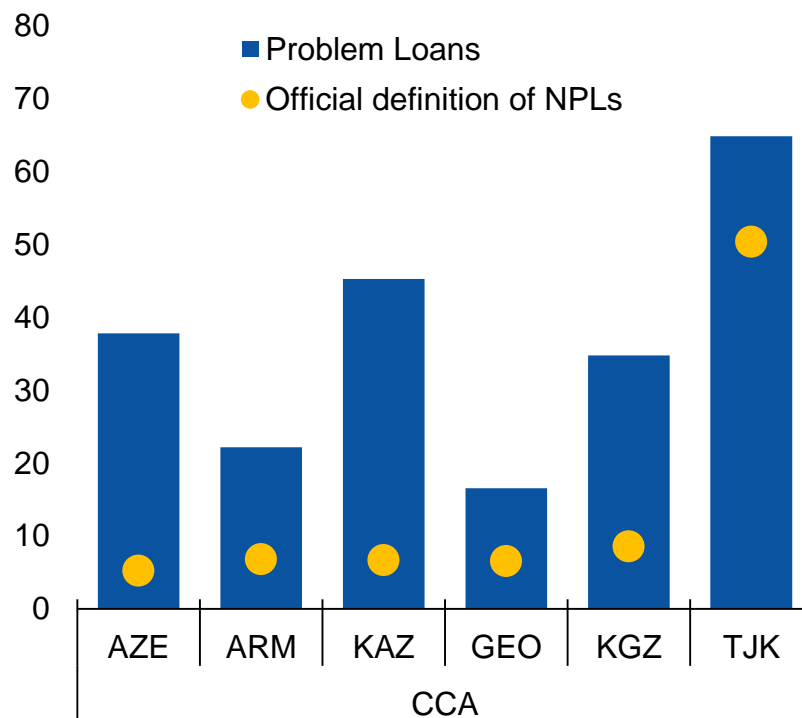
Private Credit Growth

(average, percent, year-over-year)



Problems Loans¹

(Percent of total loans)



Note: ¹latest available data for each country. NPL = nonperforming loans.

Problem Loans include (1) overdue loans > 90 days; (2) watch loans < 90 days; (3) restructured/prolonged loans; (4) write-offs; and, (5) transfer to special-purpose vehicles or other vehicles. Credit growth chart excludes Uzbekistan.



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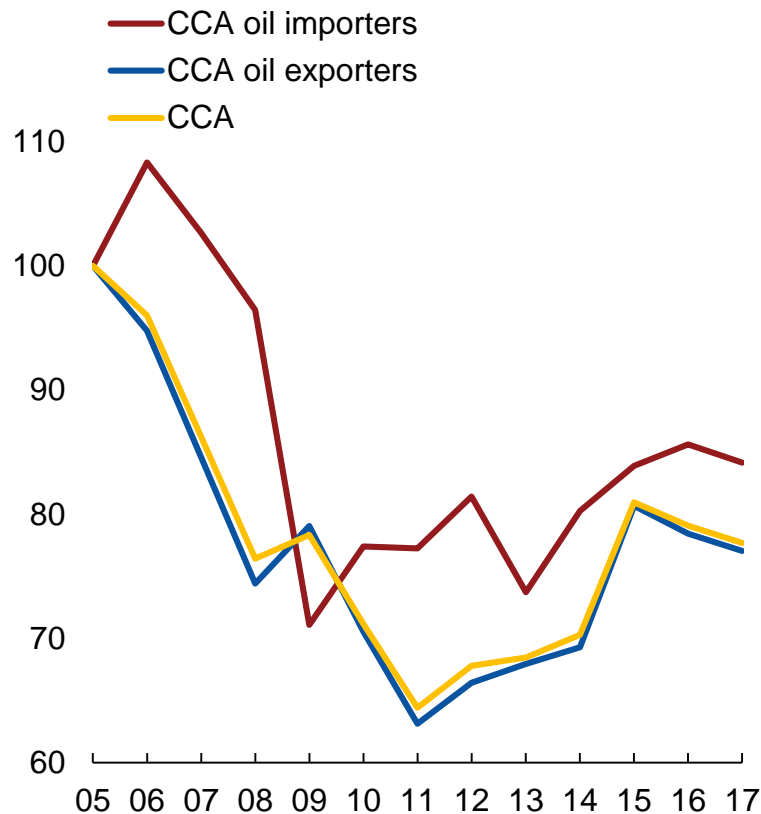
The IMF's Contribution



A new model of private-sector driven growth is needed ...

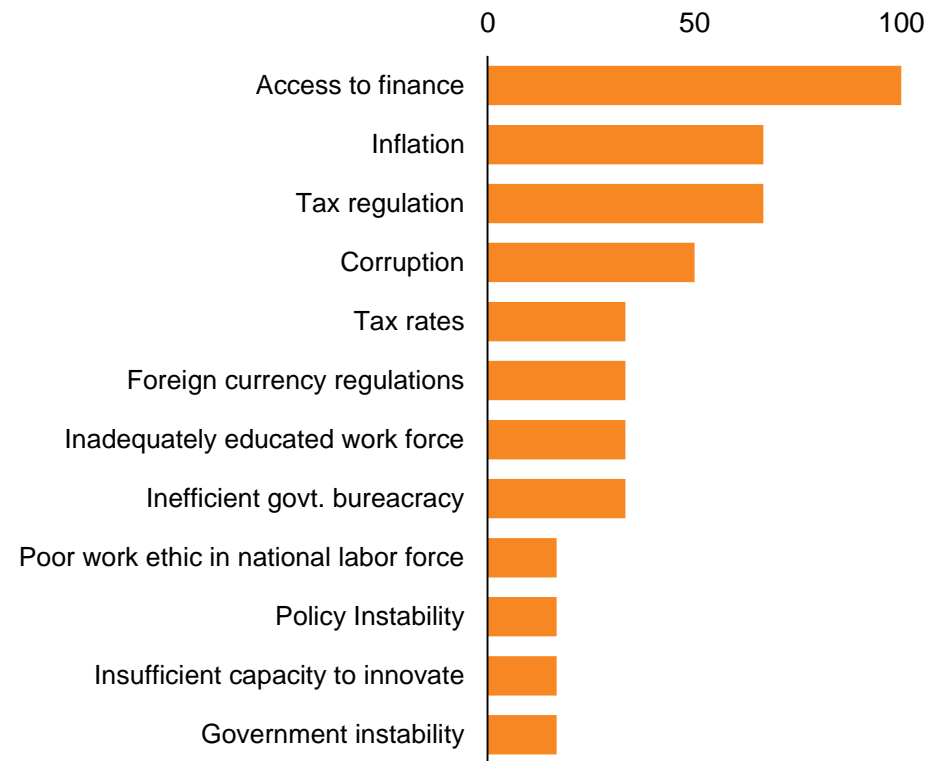
Private Investment

(Percent of GDP, index 2005=100)



Challenges to Doing Business

(Percent of countries identifying the constraint among the top five)

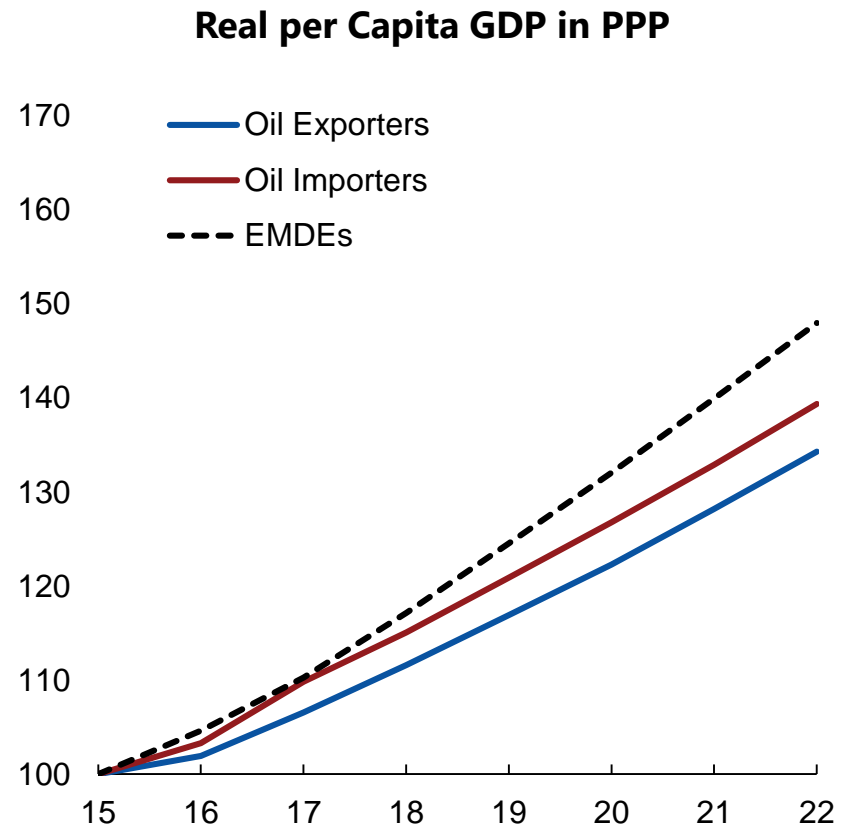
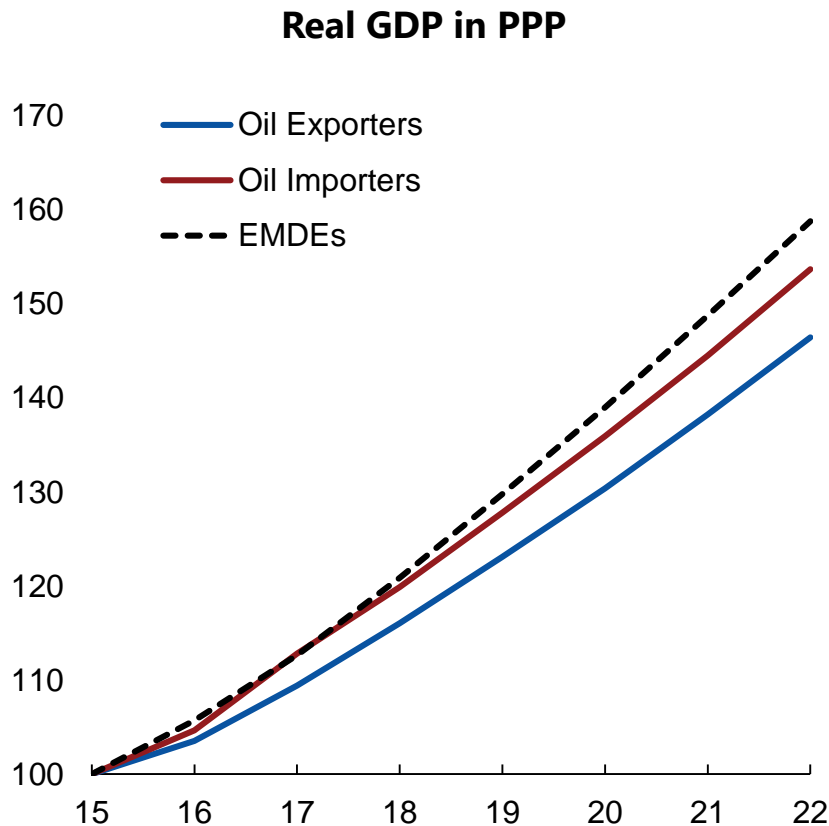


Source: World Economic Forum Competitiveness Report 2017-18.

... to prevent output falling behind peers...

GDP Divergence

(In dollars at purchasing power parity, index, 2015 = 100)



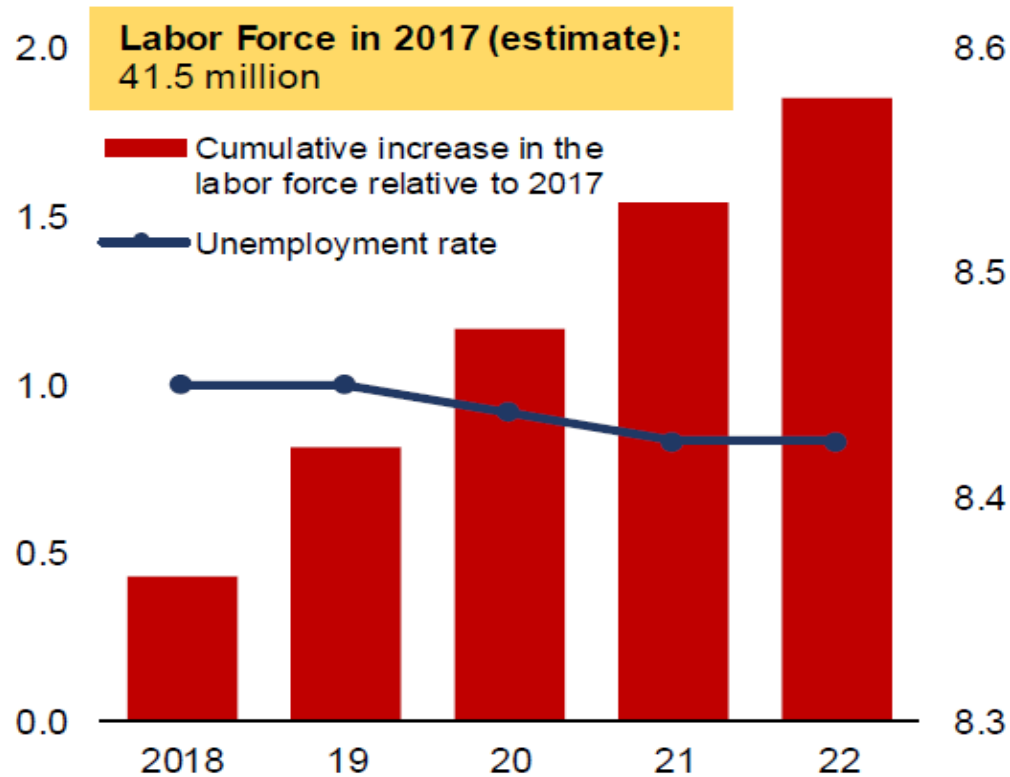
Note: EMDEs = Emerging Market and Developing Economies.



...and meaningfully reducing unemployment.

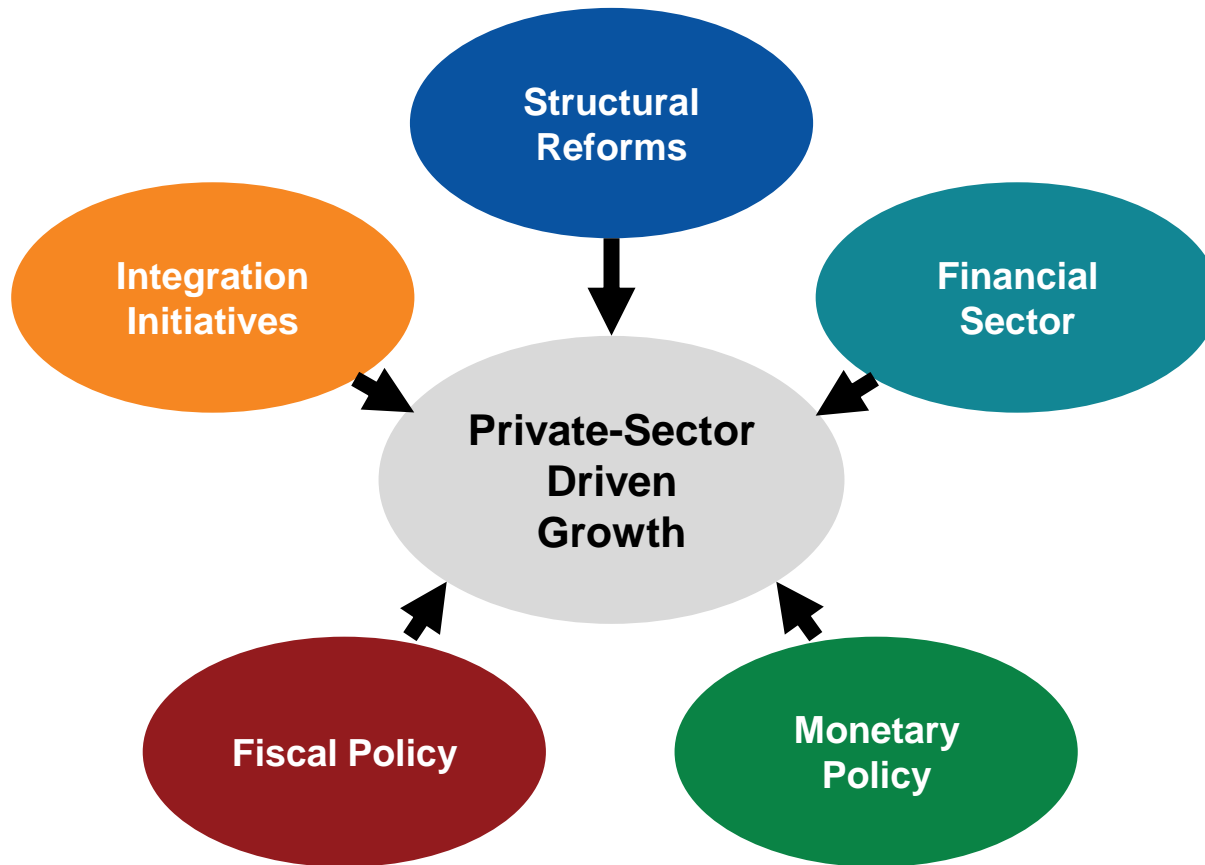
Projected Labor Force Increase and Unemployment Rate

(Percent of total working age population — left scale; percent of total labor force — right scale)



Source: International Labour Organization, estimates from 2017.

A comprehensive set of policies are needed to support this transition.



This includes: rebuilding buffers within a comprehensive fiscal plan, ...

Overview of Fiscal Management Frameworks

| | Fiscal Rules | Medium-term fiscal framework |
|------------------------|--------------|------------------------------|
| Armenia | Yes | Yes |
| Azerbaijan | In progress | No |
| Georgia | Yes | Yes |
| Kazakhstan | Yes | Yes |
| Kyrgyz Republic | In progress | No |
| Tajikistan | No | Yes |
| Turkmenistan | Yes | No ¹ |
| Uzbekistan | Yes | No |

¹ Medium-term budgeting is planned to be introduced in 2019.

Note: Fiscal rules are a mechanism for placing durable constraints on fiscal discretion through procedural and numerical limits on budgetary aggregates. Medium-term fiscal frameworks consist of institutional arrangements and procedural or numerical rules that provide incentives for overcoming the deficit bias.

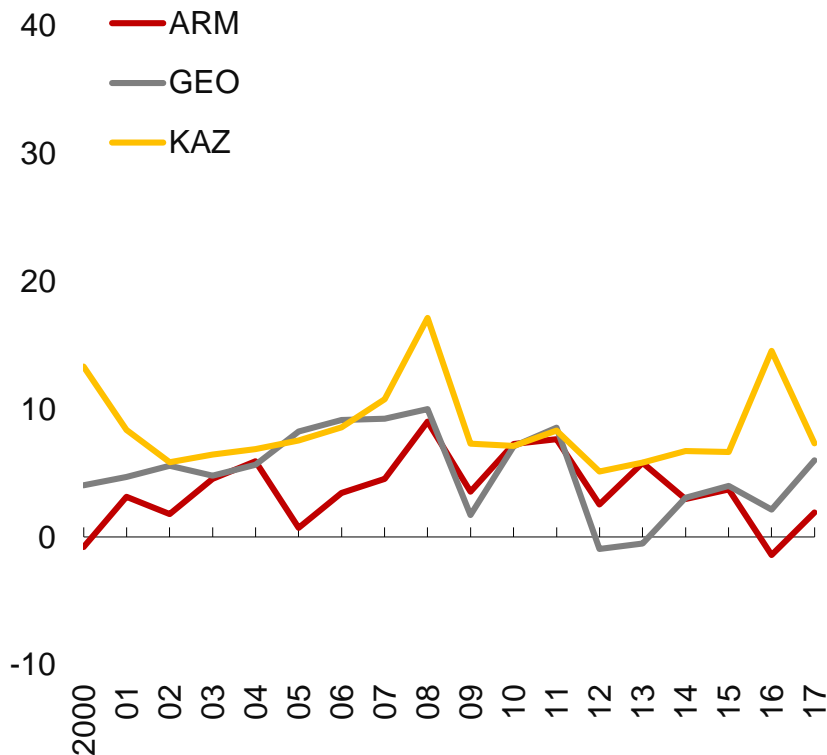


... strengthening monetary institutions, ...

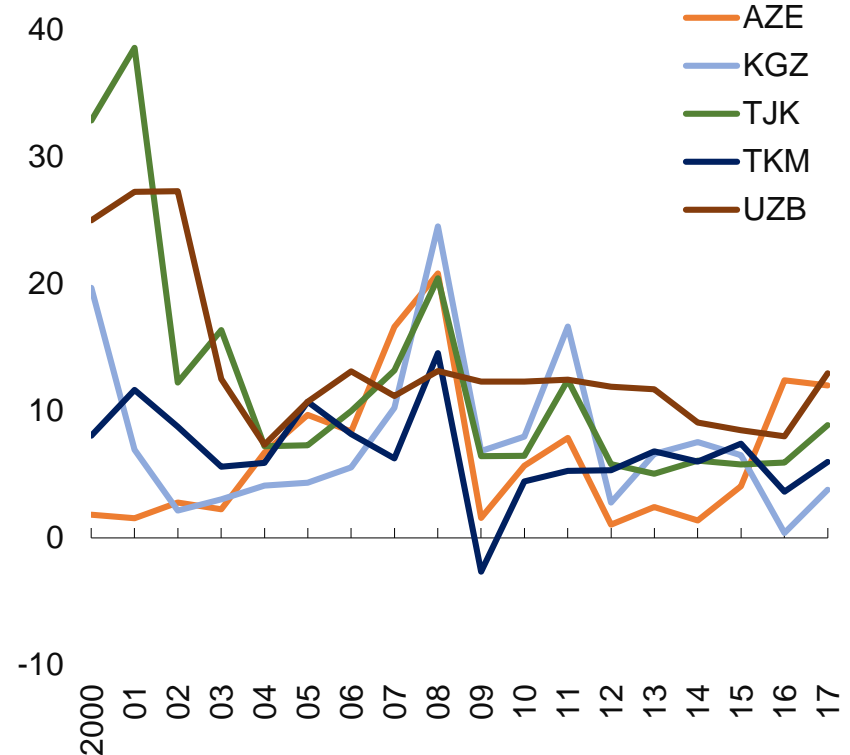
Inflation 2000-17

(CPI, percent change, year average)

Inflation Targeting



Other Regimes



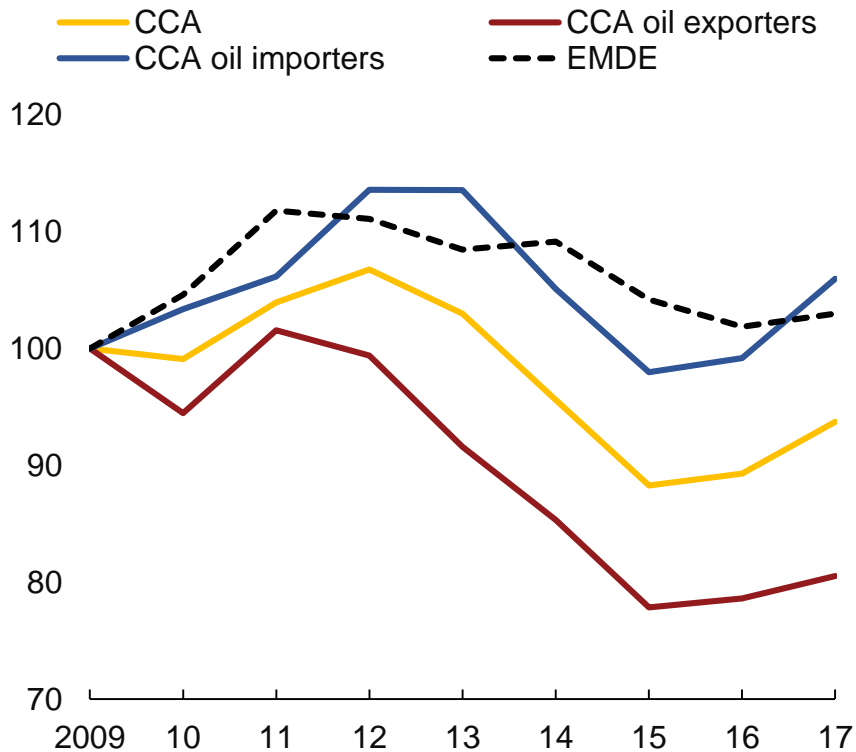
Note: CPI = Consumer Price Index.



... and taking advantage of regional integration opportunities

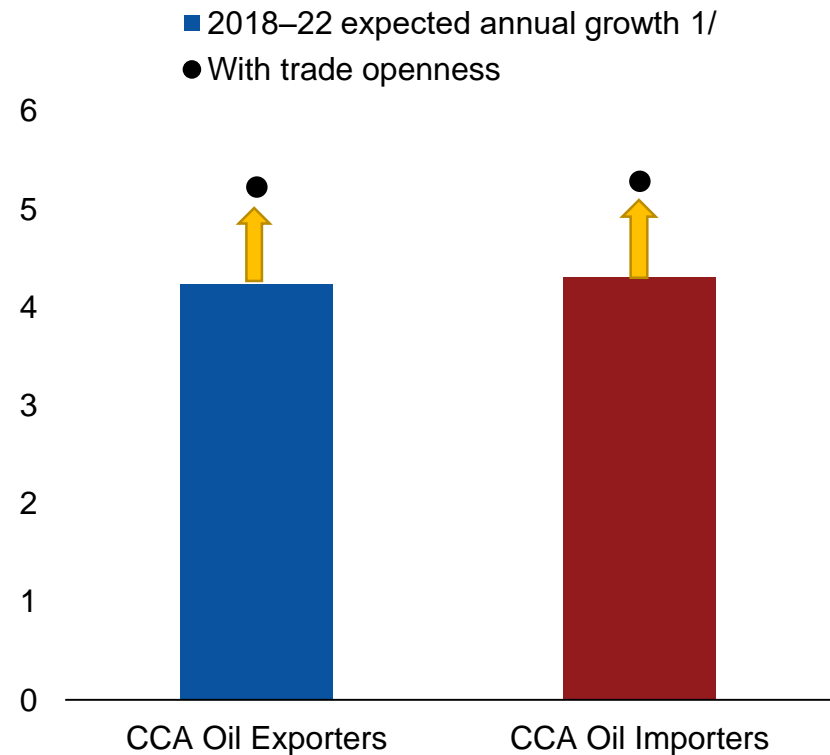
Trade Openness

(Index 2009=100 of the sum of exports and imports as a percent of GDP in nominal terms)



Estimated Contributions of Trade Openness to Growth

(Percent)

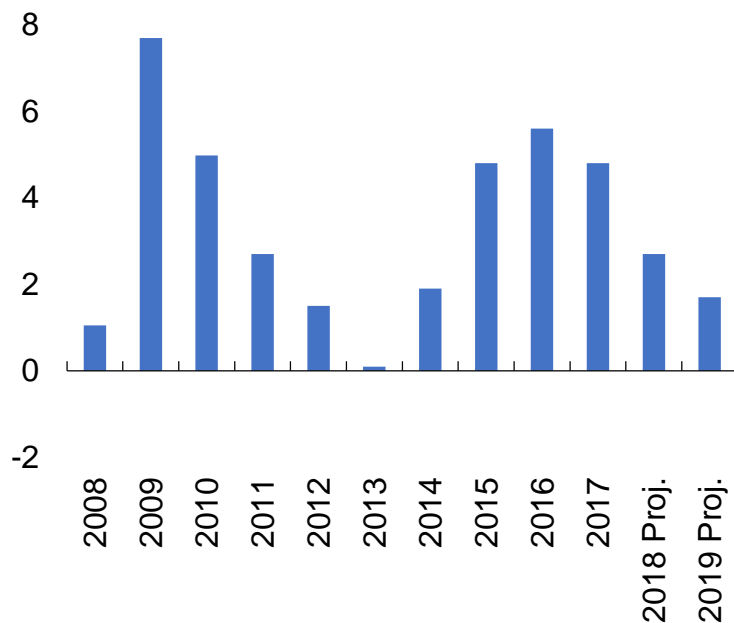


Note: ¹2018–22 expected annual growth is used as a proxy for long-term growth.

For more information see Oct. 2017 MCD REO Chapter 4.

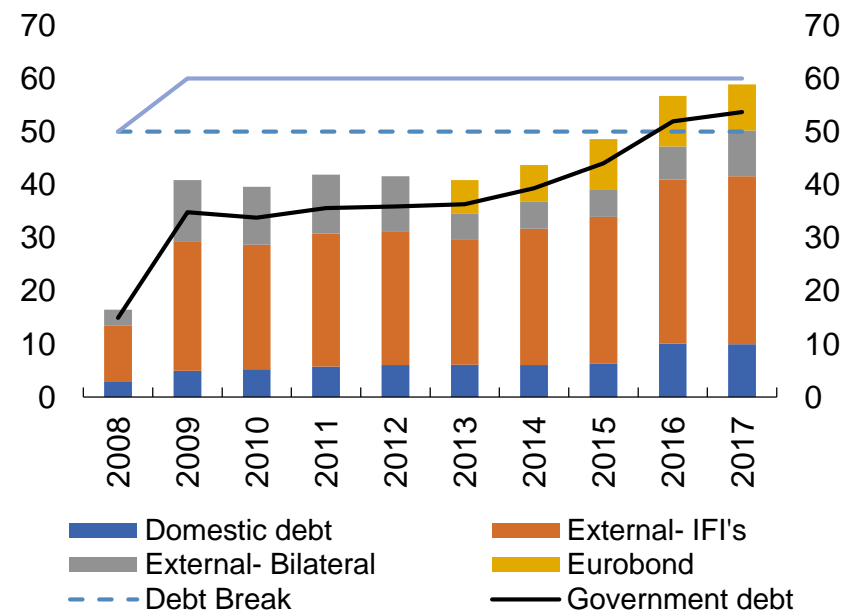
Armenia: Growth-friendly fiscal consolidation is needed

Armenia: Budget Deficit
(In Percent of GDP)



Source: RA Ministry of Finance and IMF staff calculations

Armenia: Public Debt
(In Percent of GDP)

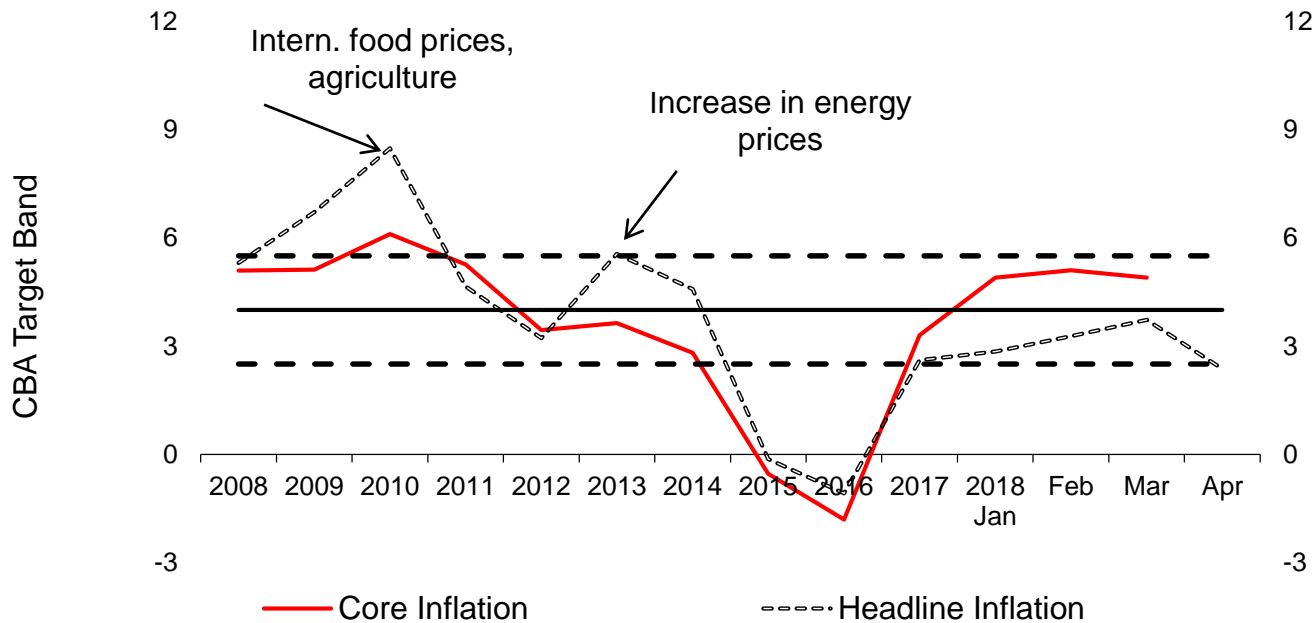


Source: RA Ministry of Finance and IMF staff calculations



Armenia: Inflation is within the CBA tolerance range

Armenia: Inflation Developments
(Percent, 12-month)



Source: RA NSS, CBA and IMF staff calculations

Case study: Reform in Uzbekistan

Past constraints on growth

- State intervention via regulation and state monopolies
- Fixed exchange rate, foreign exchange restrictions
- Inefficient import substitution

2017 reform plan

- Remove exchange controls
- Price & trade liberalization
- Public investment in transport & utility networks
- Fewer visa restrictions for foreigners

Outcomes

- Stimulate private sector growth
- Increased trade through better integration
- Positive spillovers for the region.

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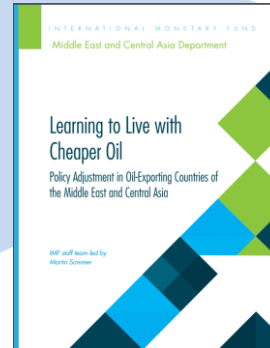


The IMF's Contribution



IMF's role

Policy Analysis



Capacity Development



Bilateral Engagement



- ✓ Monetary Policy Workshop, Joint Vienna Institute
- ✓ Peer-to-Peer Event, IMF Annual Meetings

Regional Cooperation



Takeaways:

- Growth picked up in 2017, but is expected to moderate over the medium term.
- A new model of private sector-led growth is needed to prevent the region from falling behind peers.
- Policy priorities are structural reform, comprehensive fiscal plans, strong monetary institutions, more resilient financial sectors, and increased regional integration.

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