



Caucasus and Central Asia Regional Economic Outlook

November 2018

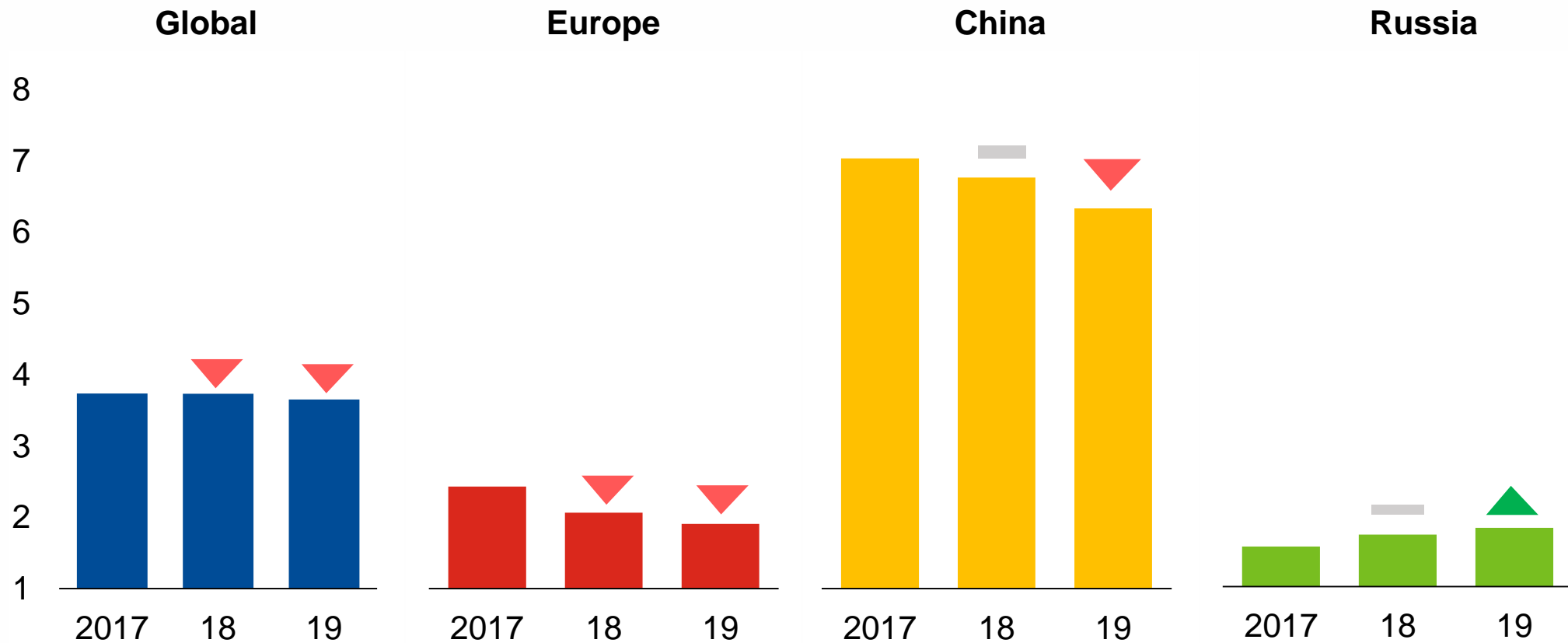
Yulia Ustyugova

IMF Resident Representative for Armenia

A Changing Environment

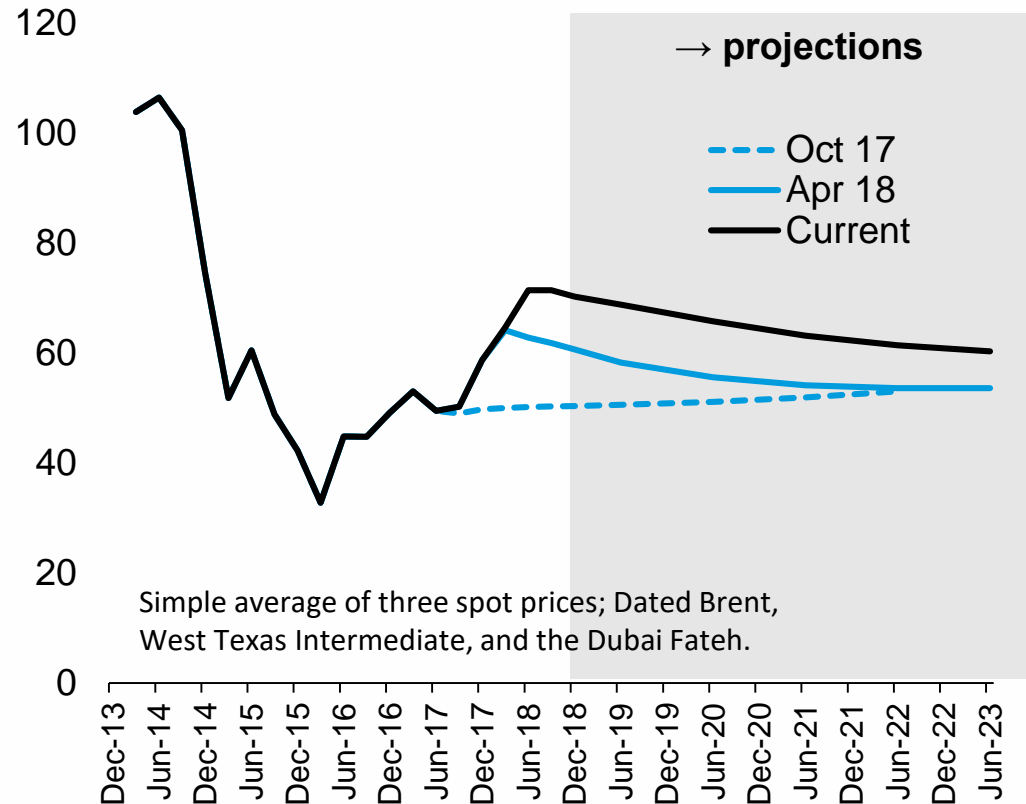
Global growth prospects are weakening

Real GDP Growth of Trading Partners
(Arrows represent direction of revision since April 2018 WEO)

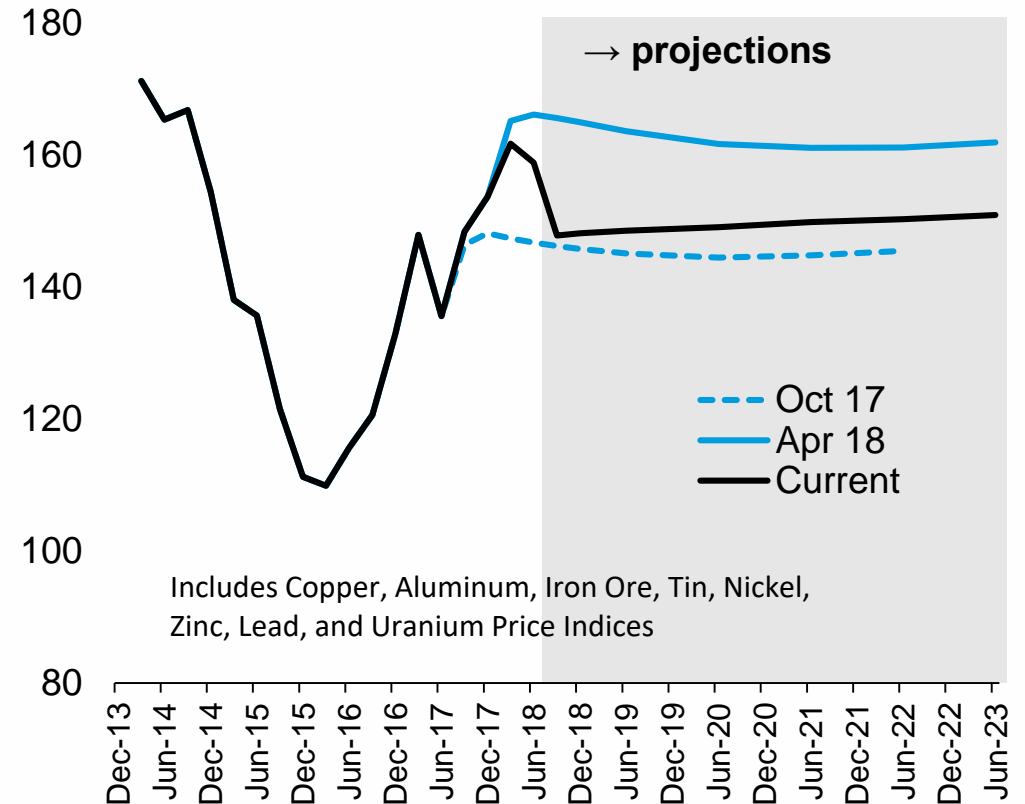


The recent surge in commodity prices is expected to fade

Crude Oil APSP
(US dollars per barrel)

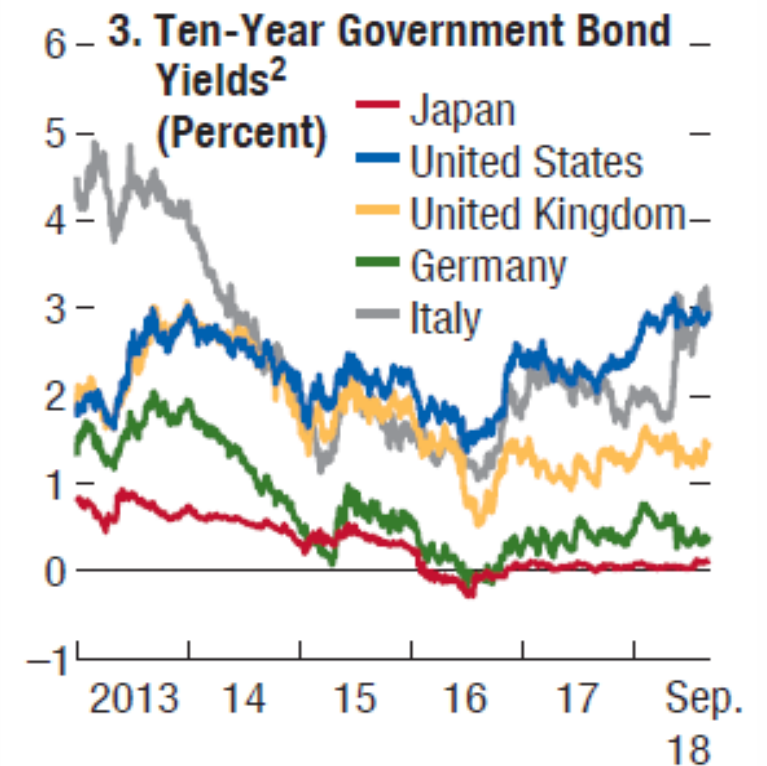
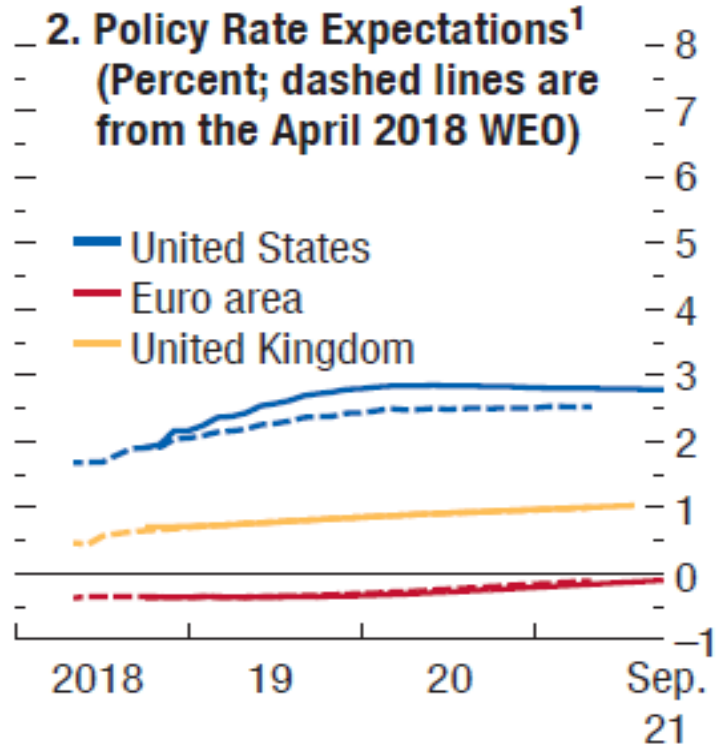
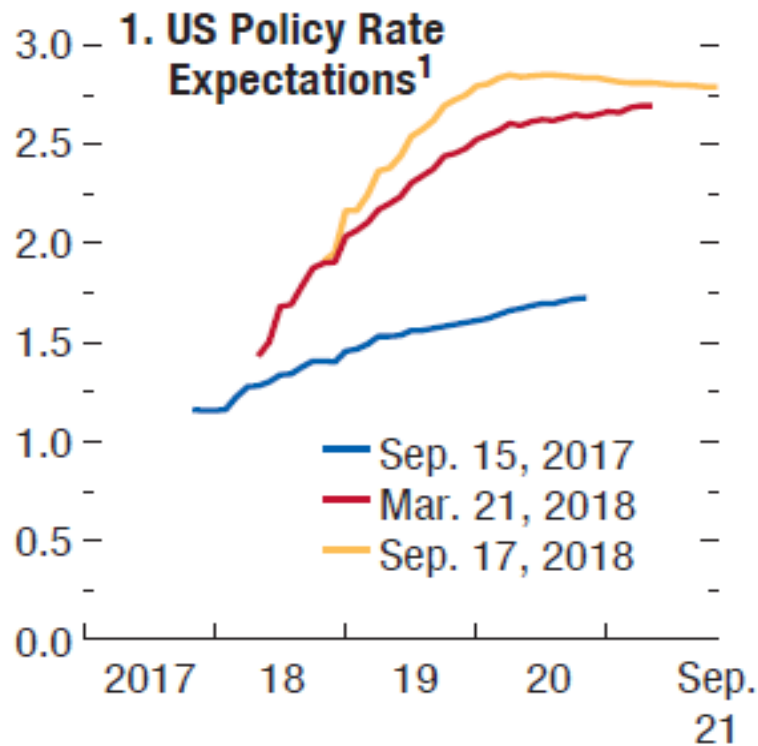


Metals
(Index, 2005 = 100)



Sources: IMF Global Assumptions.

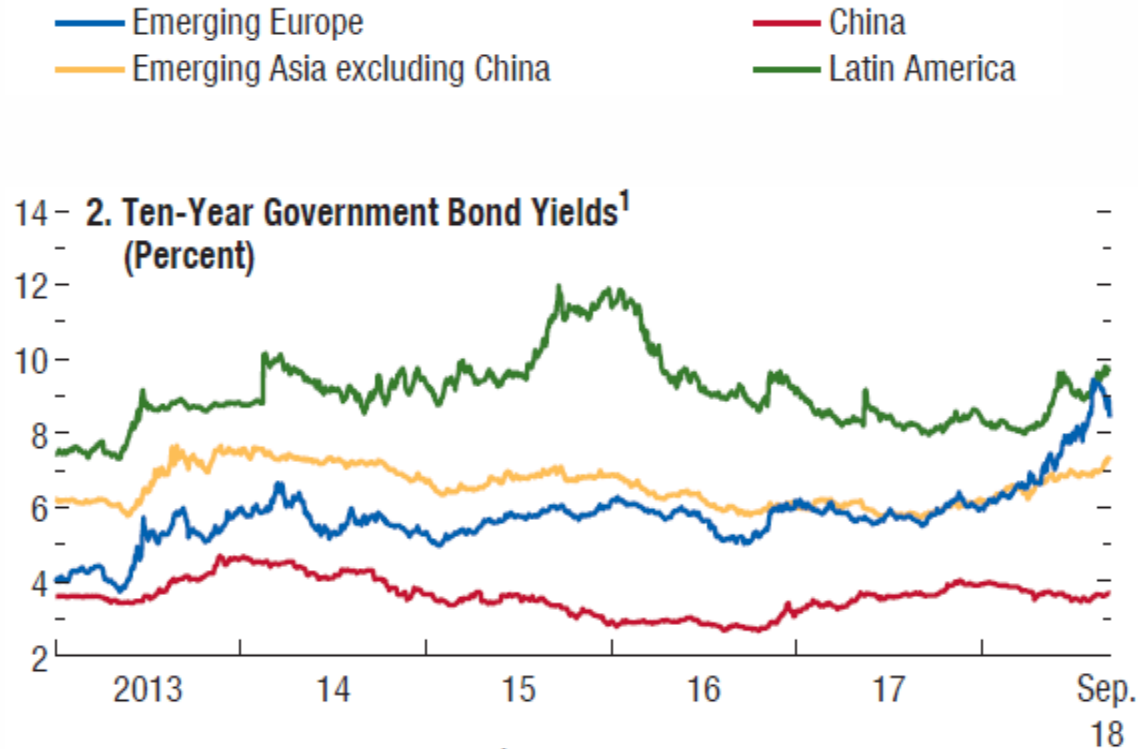
Advanced economies: monetary and financial conditions generally supportive of growth



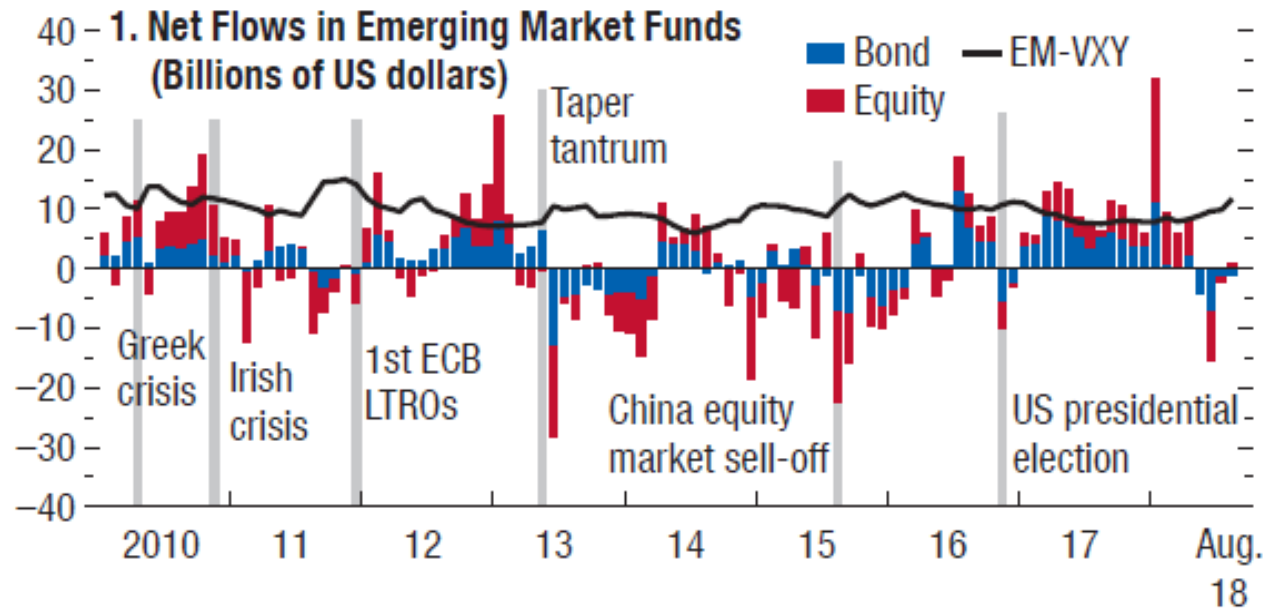
Source: IMF World Economic Outlook.

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

Emerging market economies: tighter financial conditions with localized pressures



Source: IMF World Economic Outlook.



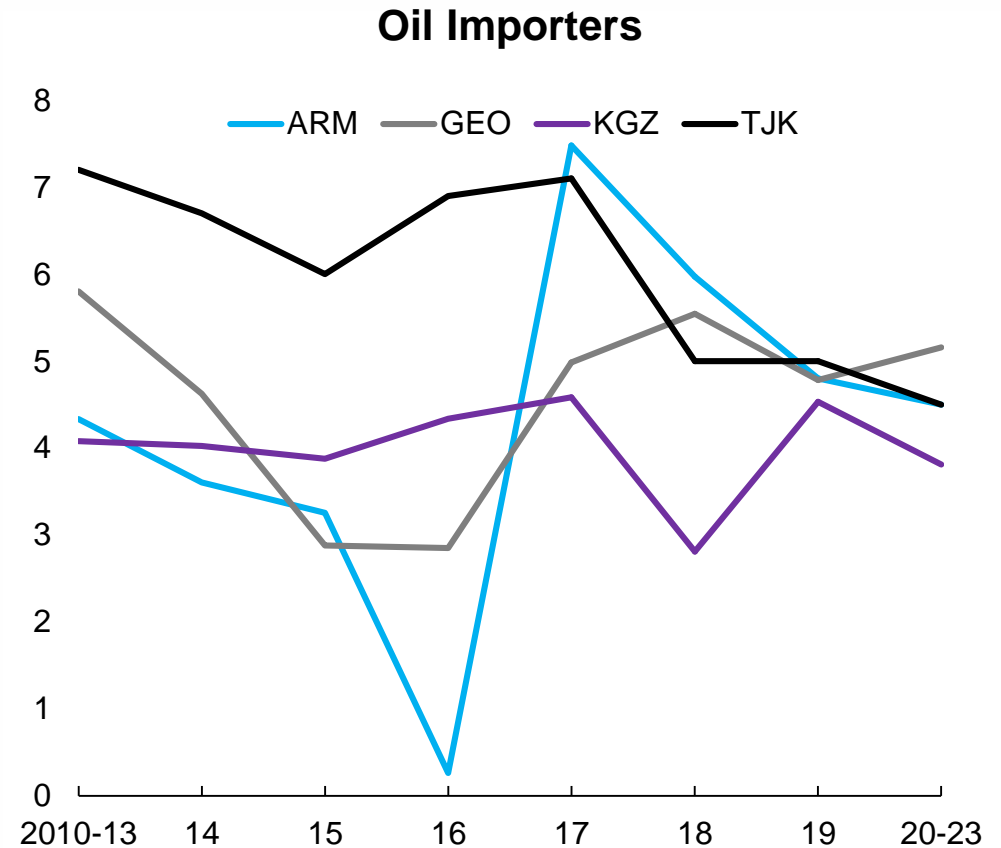
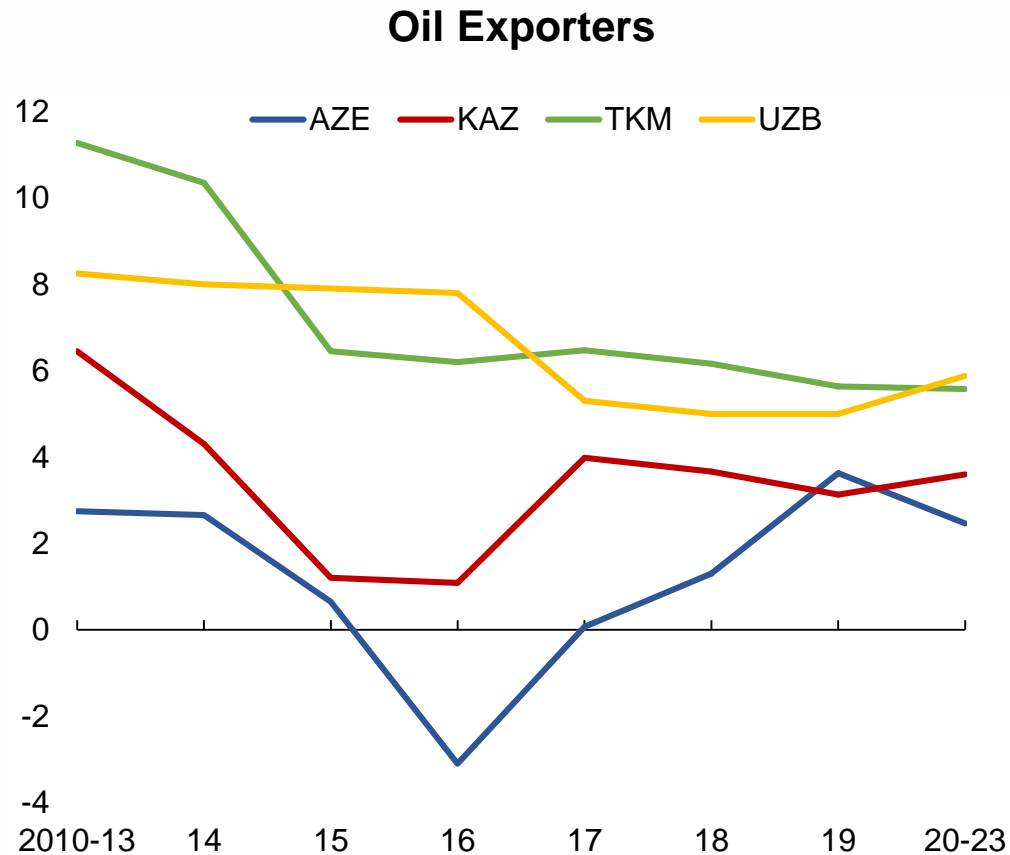
Risks are tilted to the downside

- Trade tensions (USA, NAFTA, China, UK, EU)
- Financial tensions
- Other factors

Regional Outlook

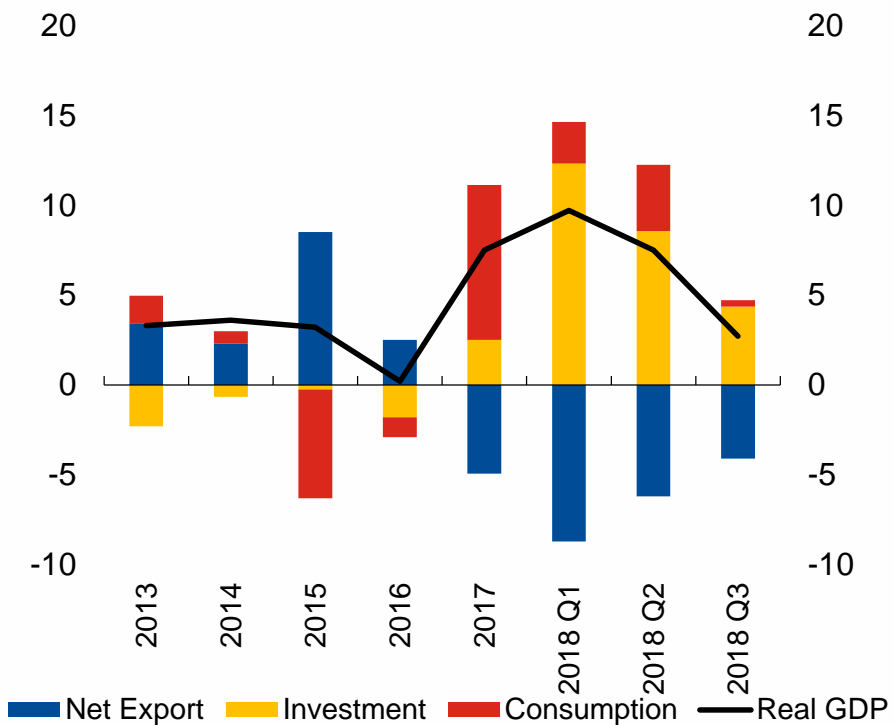
Modest growth underway, with some variation across countries

Real GDP Growth
(Weighted average, percent)



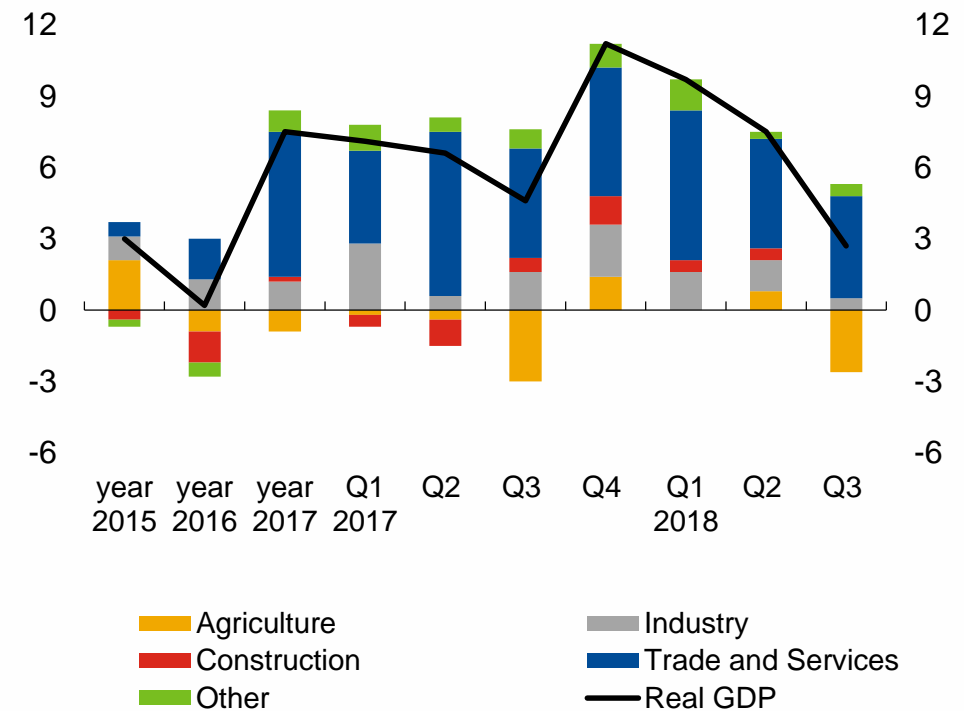
Armenia: GDP growth has decelerated

Armenia: Contributions to Real GDP Growth by Expenditure Components
(Percent and percentage points)

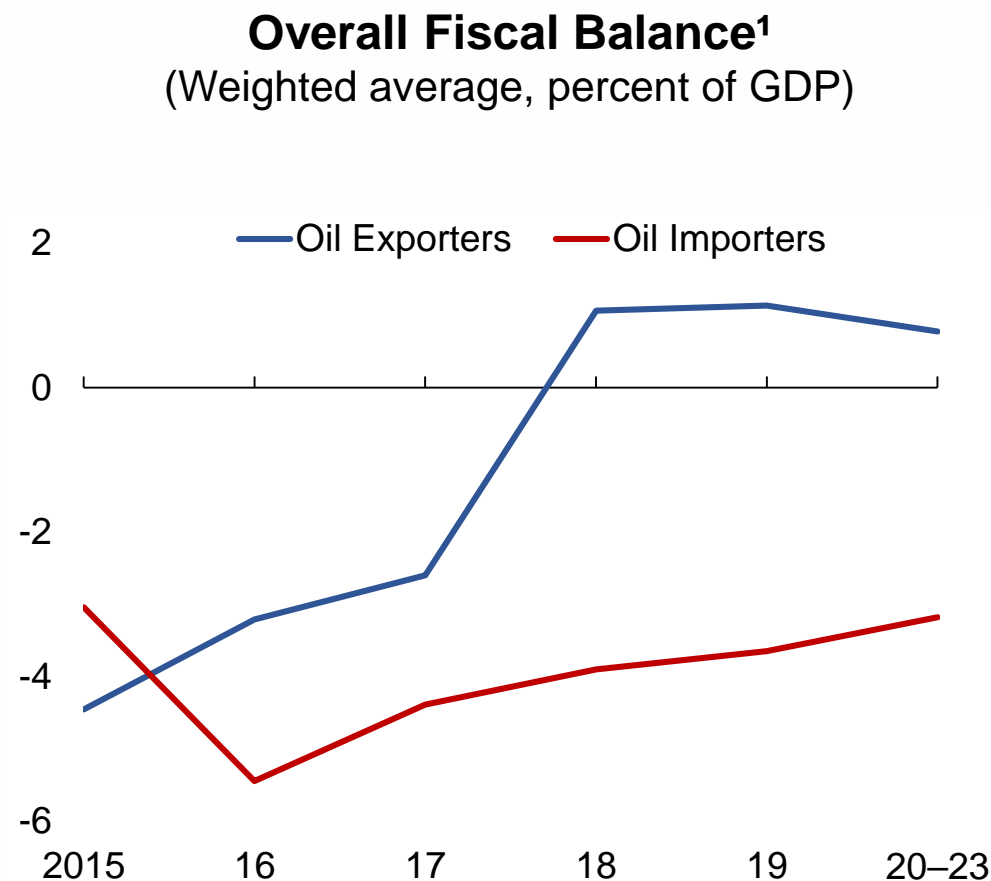
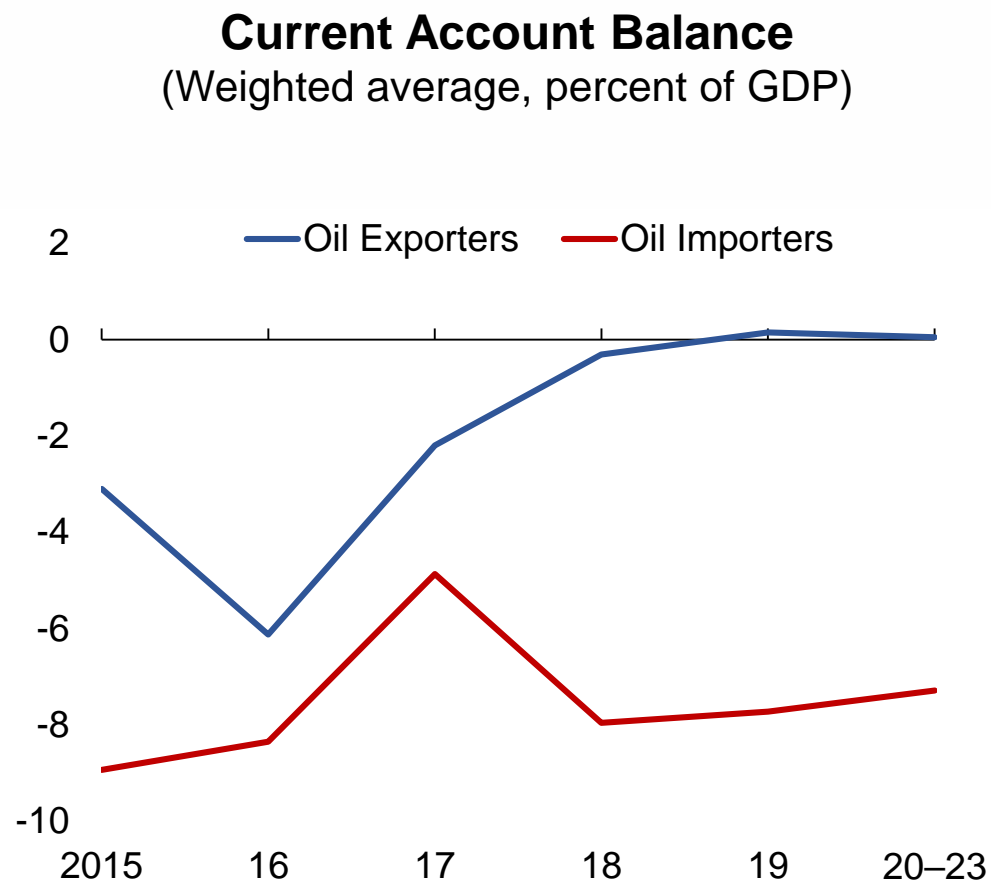


Source: RA NSC and IMF,

Armenia: Contributions to Real GDP Growth by Sector
(Percent and percentage points)



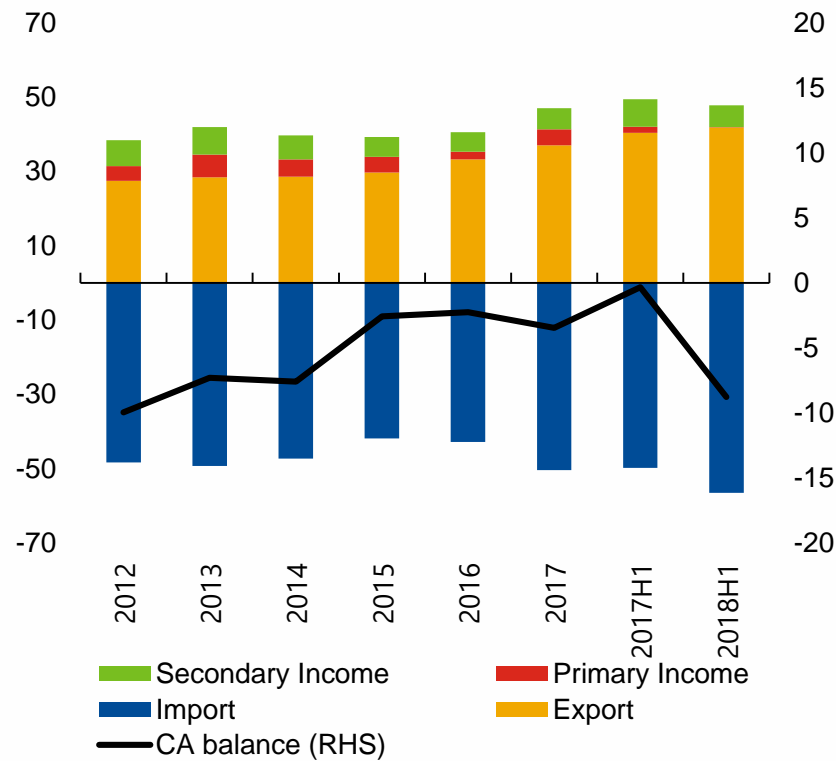
Improved external and fiscal balances due to higher oil prices and fiscal consolidation



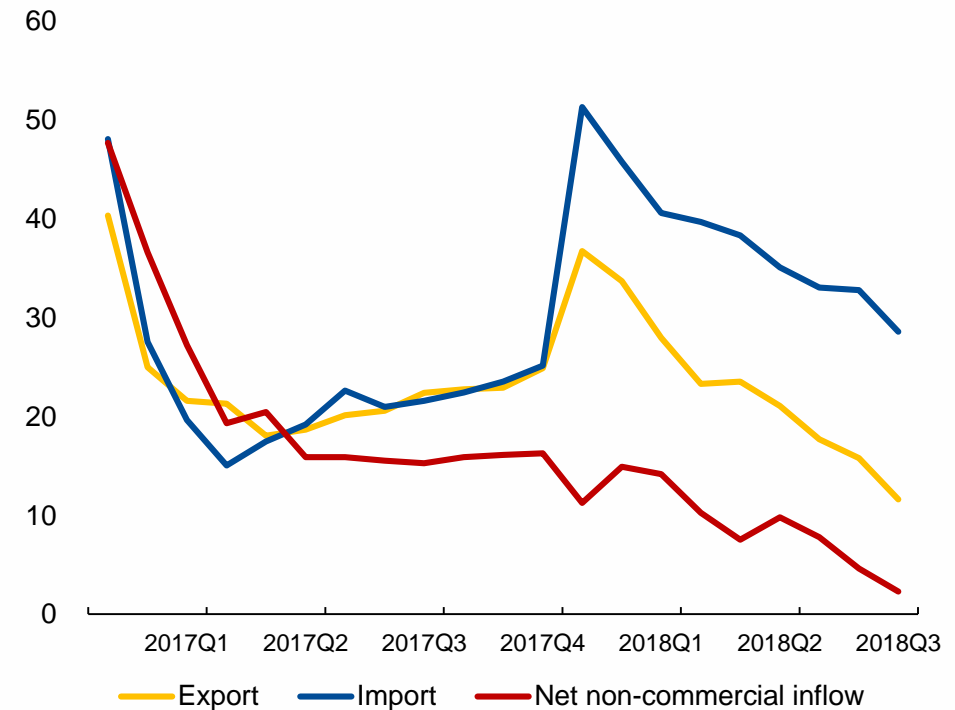
Note: ¹For Kazakhstan, the overall fiscal balance excludes the one-time fiscal transfer to the financial sector in 2017.

Armenia: current account deficit has widened

Armenia: Current Account Balance
(In percent of GDP)

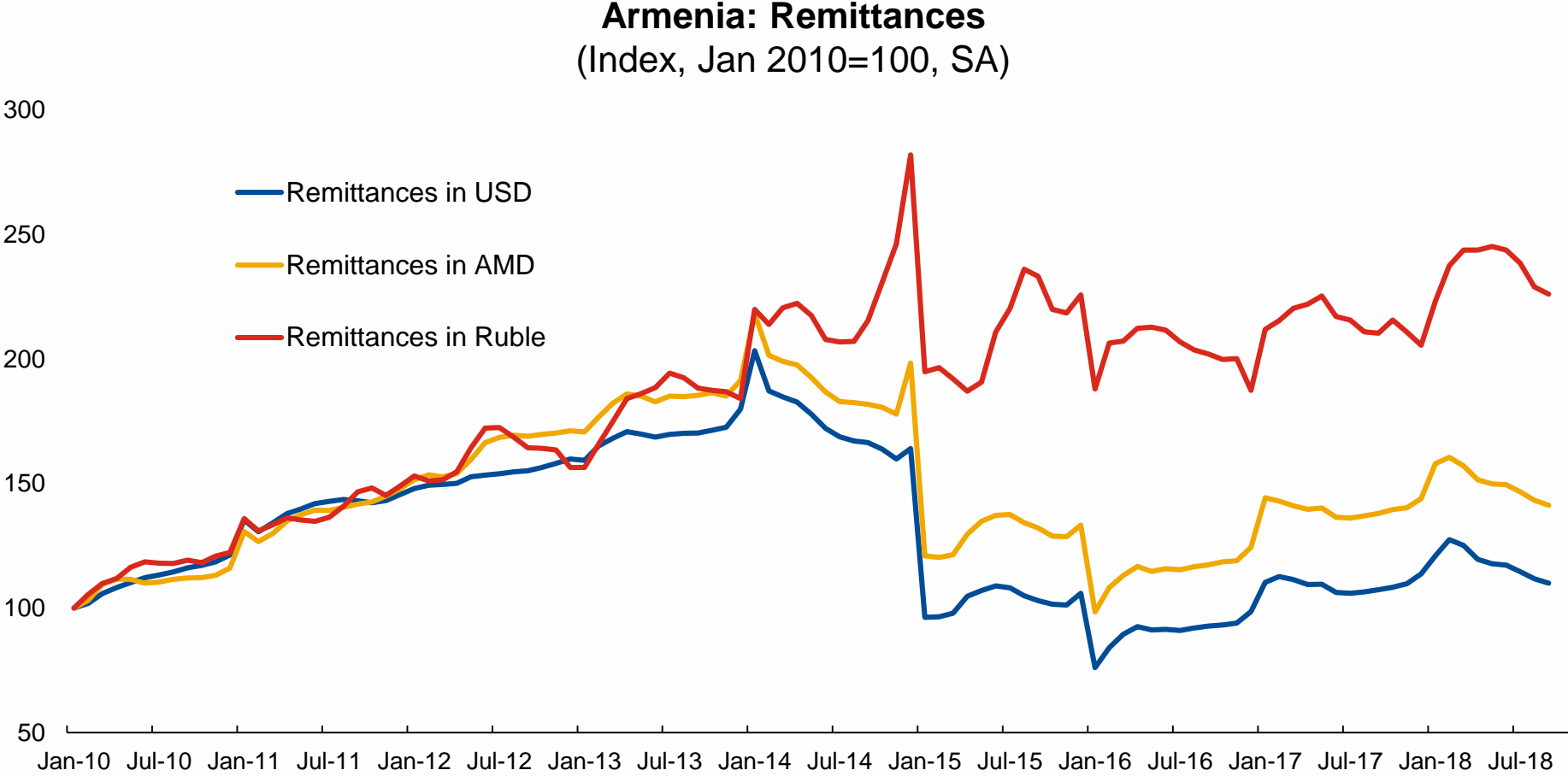


Armenia: Exports and Imports
(Cumulative yoy growth, percent)



Source: RA NSC and IMF staff calculations

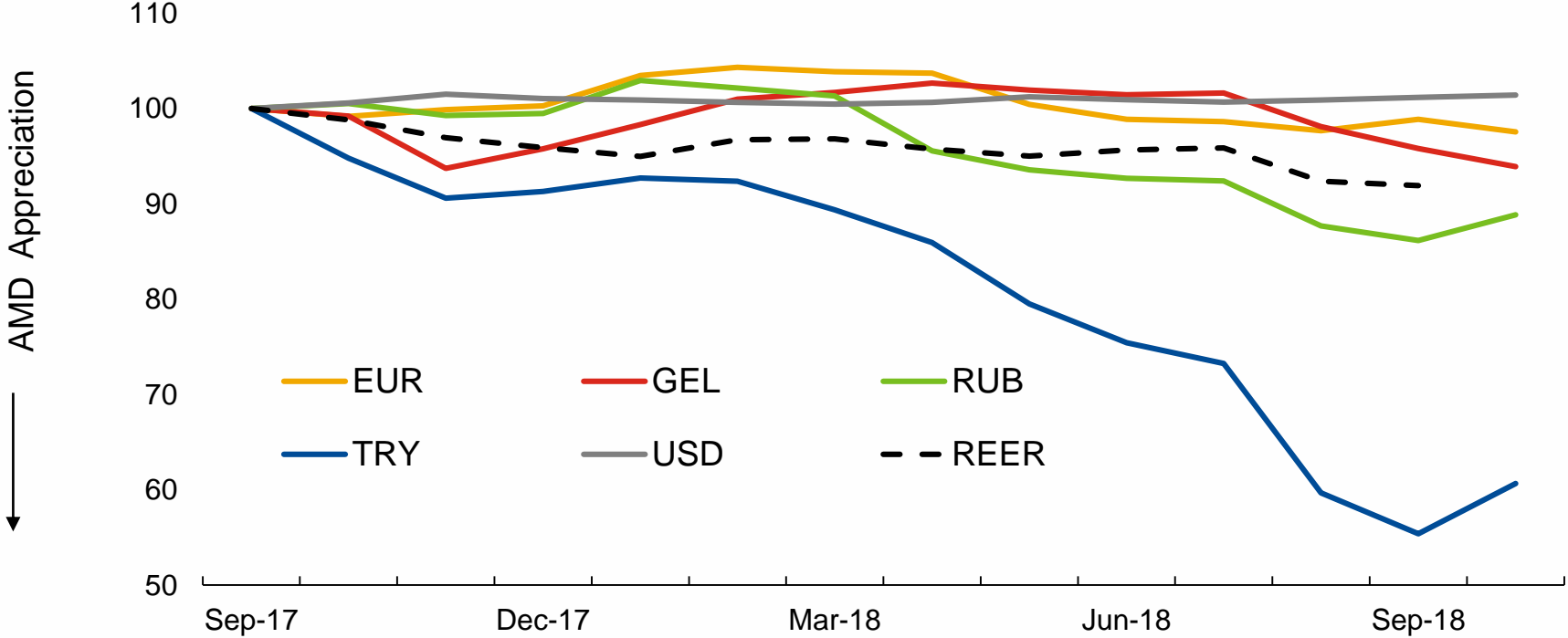
Armenia: remittances have been declining



Source: CBA and IMF staff calculations

Armenia: REER has appreciated

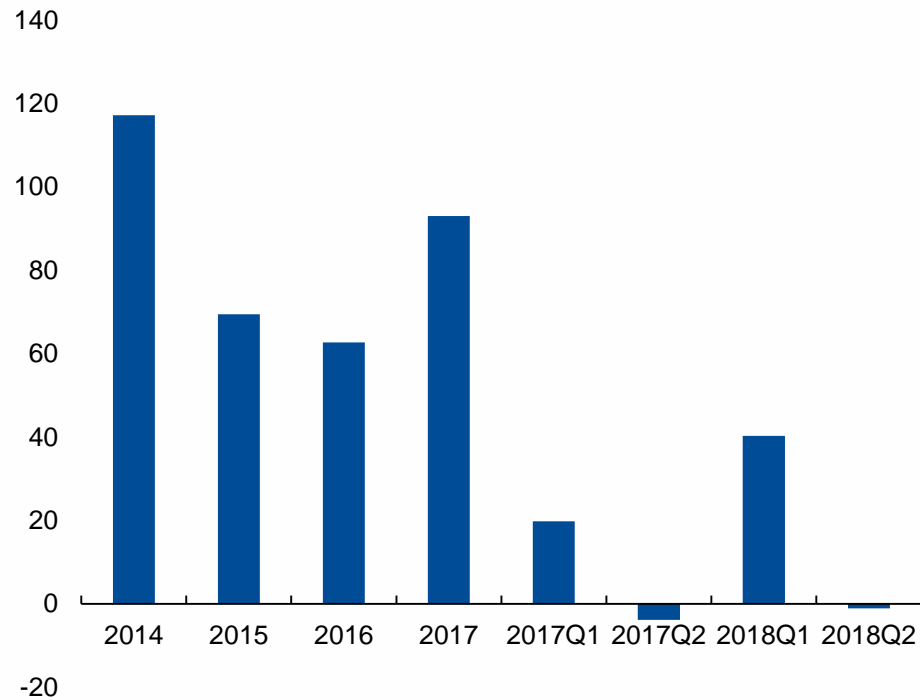
Armenia: AMD Exchange Rate Against Selected Currencies
(Index, September 2017=100)



Source: CBA

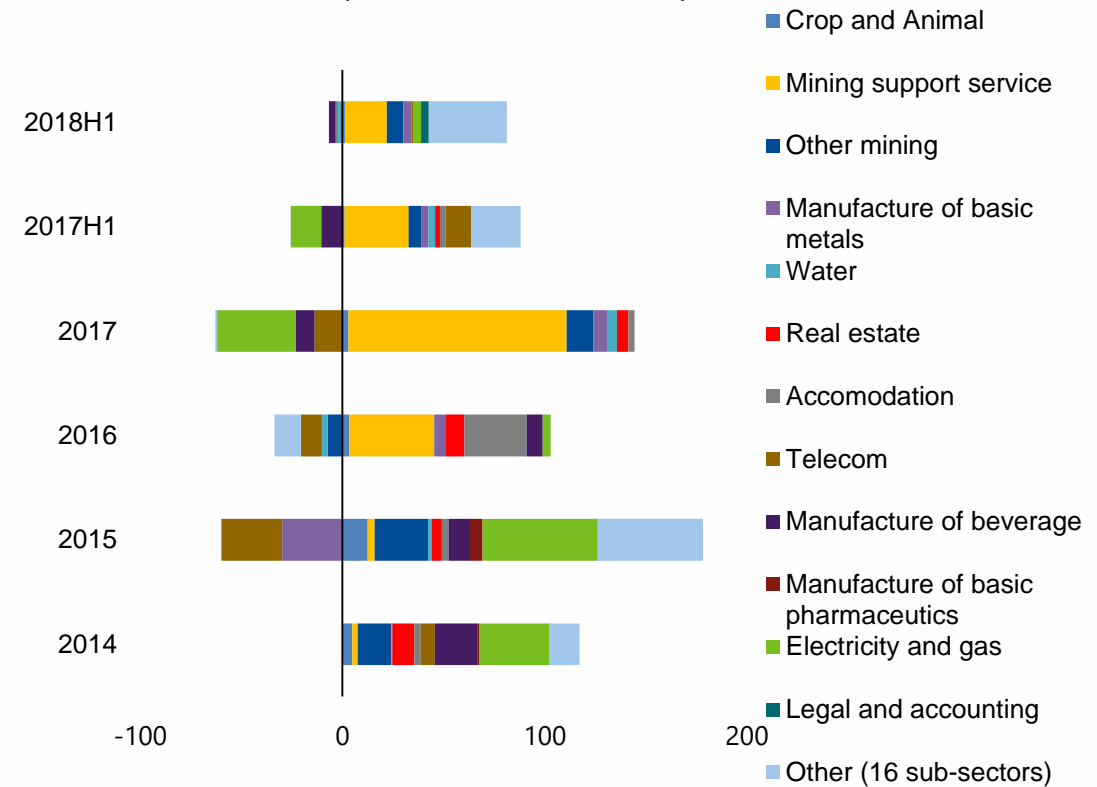
Armenia: FDI remains subdued

Armenia: Net FDI to Real Sector
(In billions of AMD)



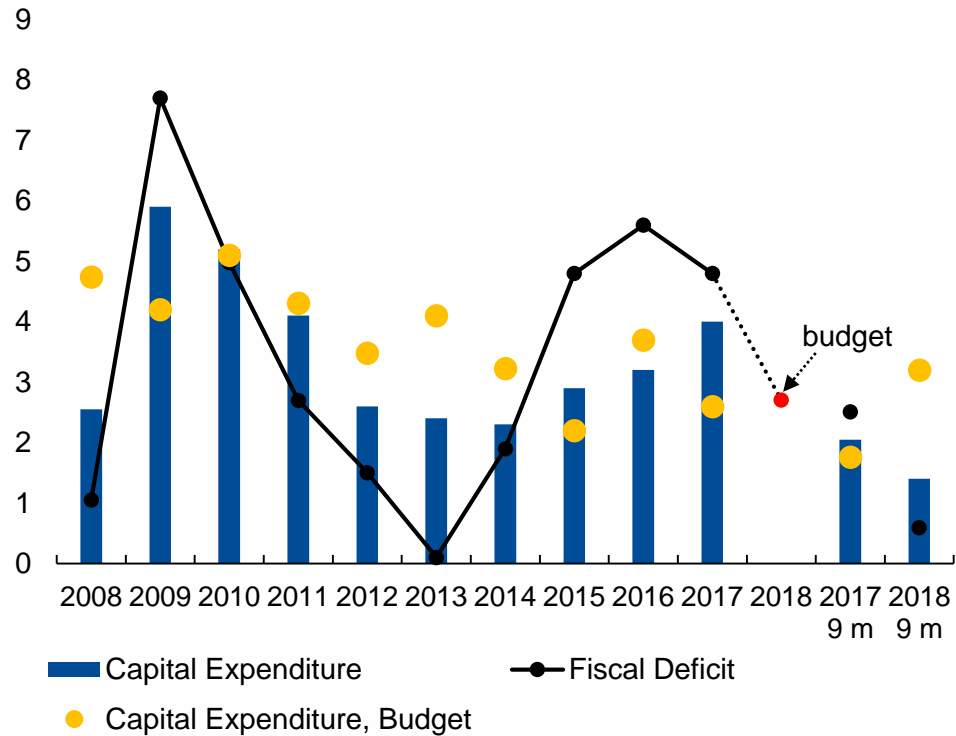
Source: RA NSC and IMF staff calculations

Armenia: Net FDI by Main Sub-Sectors
(In billions of AMD)

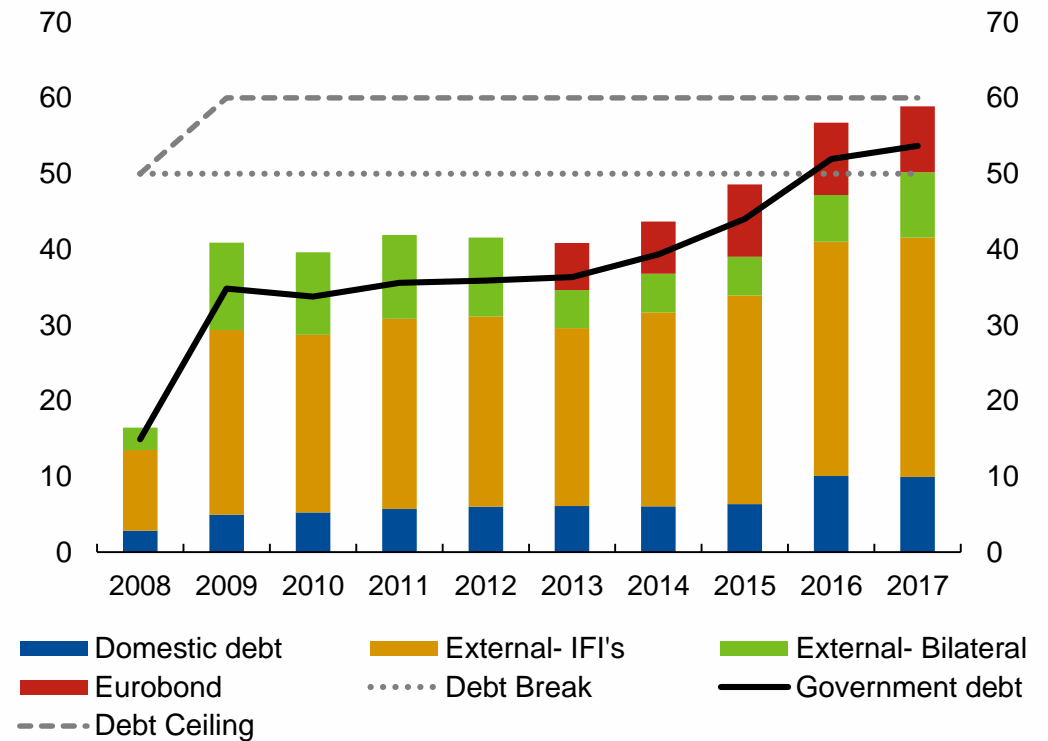


Armenia: fiscal consolidation continues

Armenia: Fiscal Outcome (In percent of GDP)



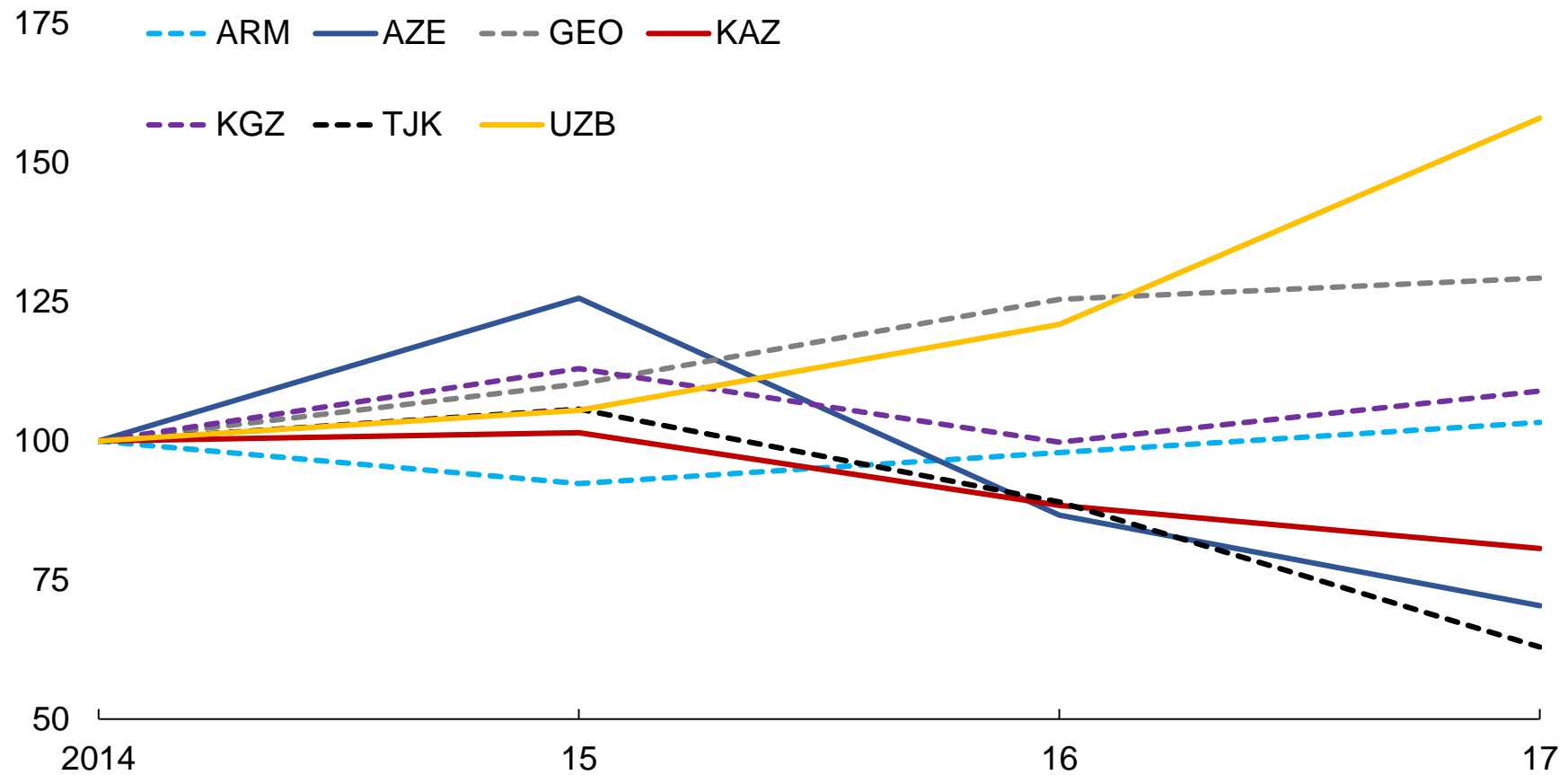
Armenia: Public Debt (In percent of GDP)



Source: RA Ministry of Finance and IMF staff calculations

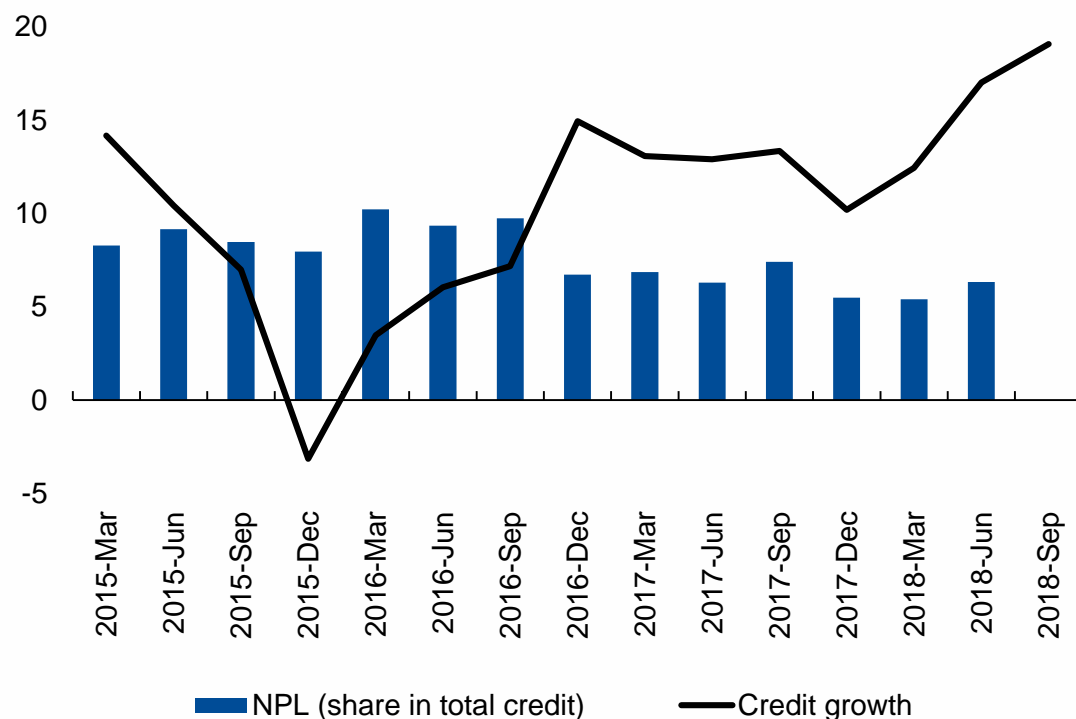
Weak banking sectors hold back credit growth

Credit to the Private Sector
(In percent of GDP, Index: 2014 = 100)

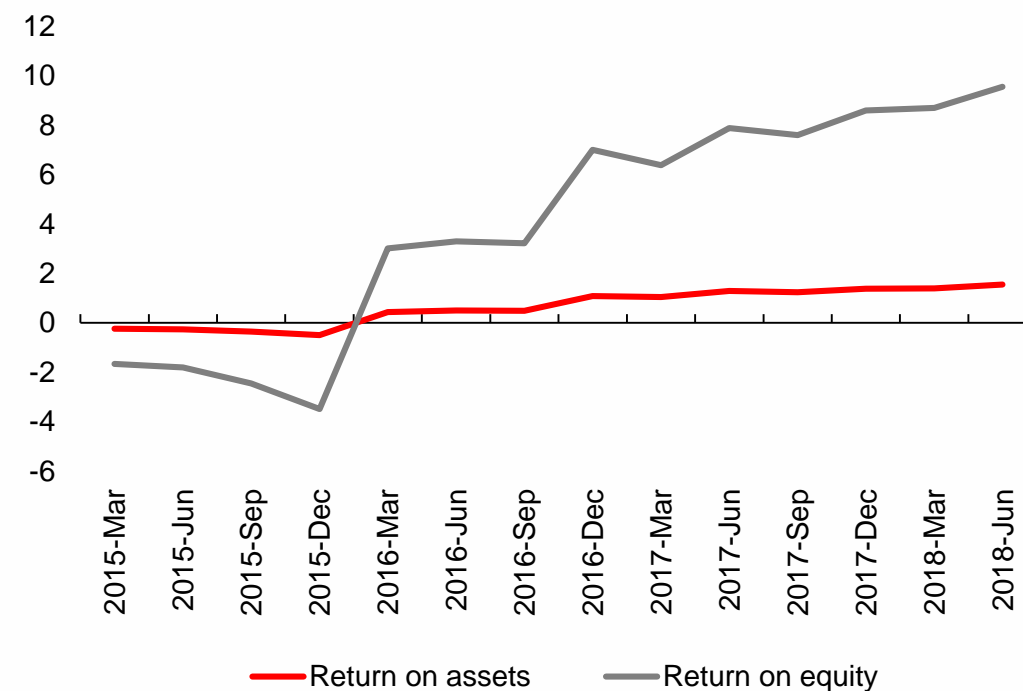


Armenia: financial sector has been supporting economic growth

Credit growth and NPL
(In percent)

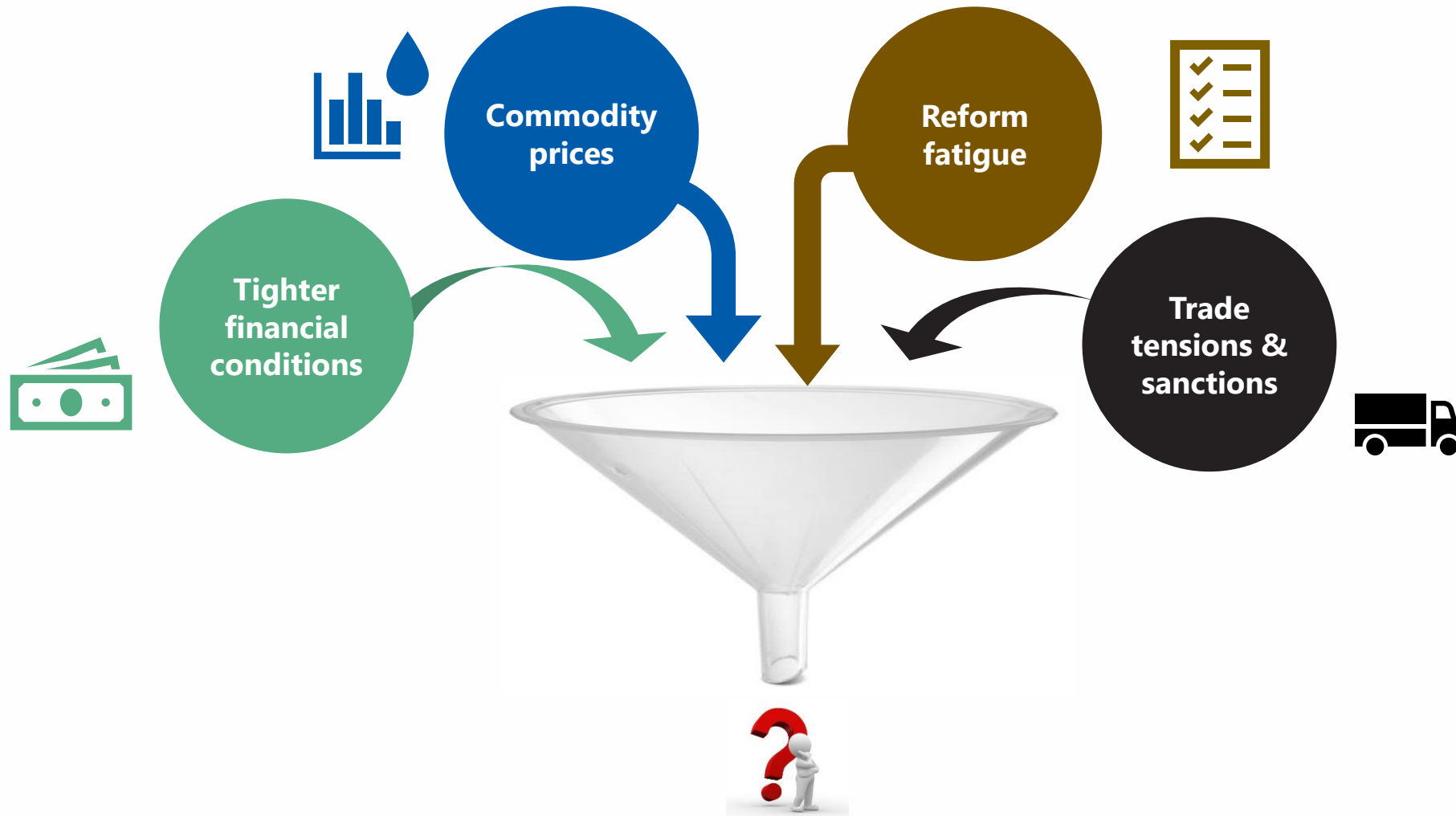


Banking Sector Profitability
(In percent)



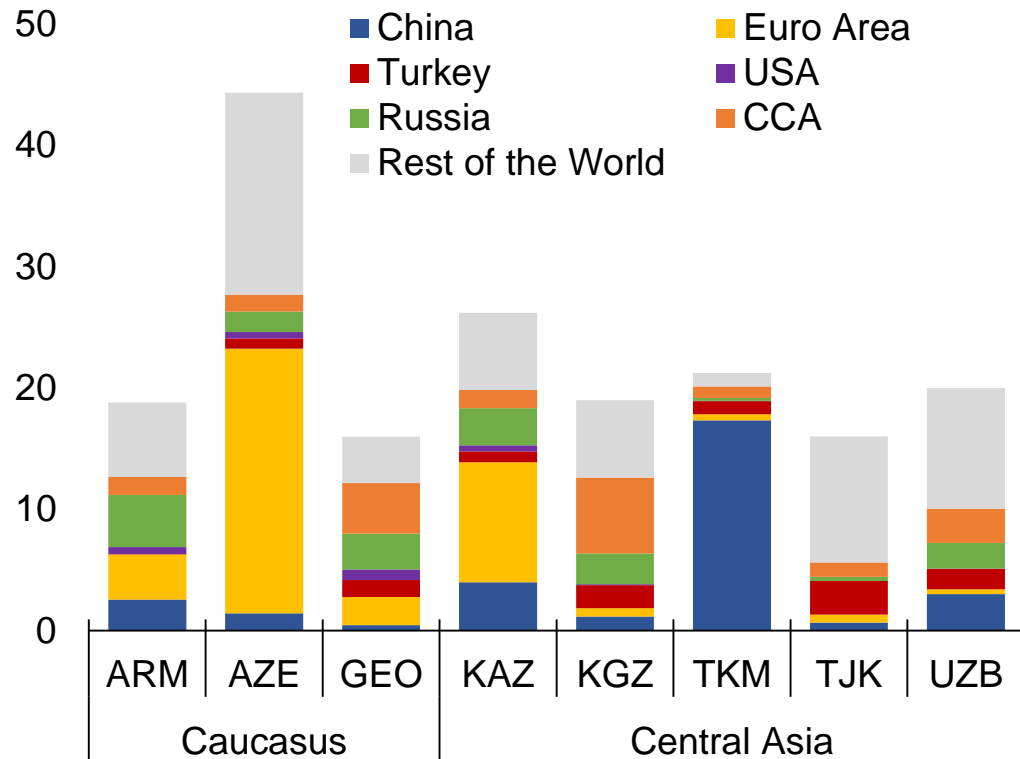
Source: CBA and IMF staff calculations

The region faces multiple and intertwined risks

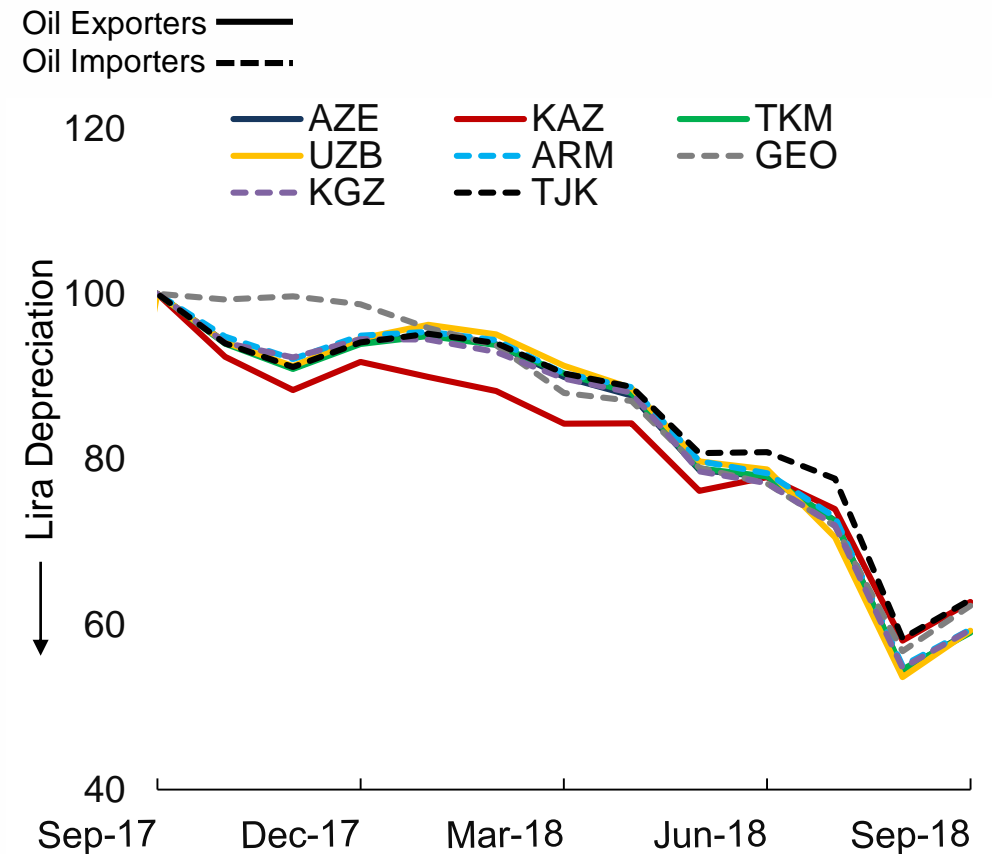


Direct impact from trade tensions potentially small, but indirect effects could be large

Exports of Goods 2017
(Percent of GDP)



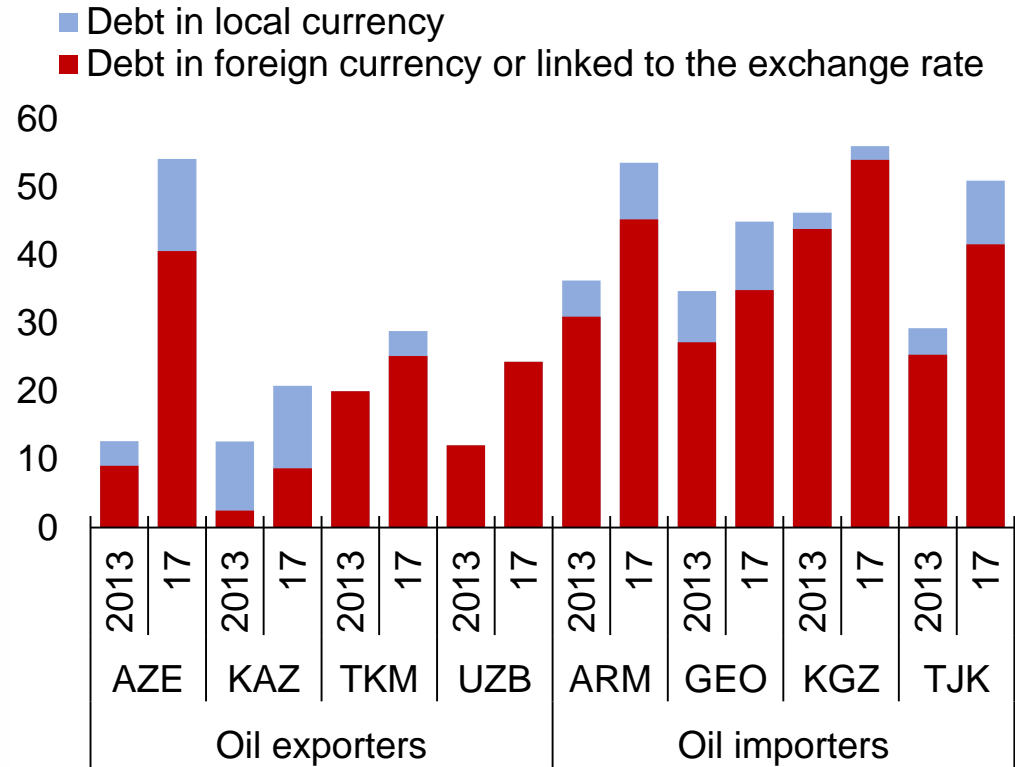
Exchange rate versus Turkish Lira
(National currency per Turkish Lira, September 2017 = 100)



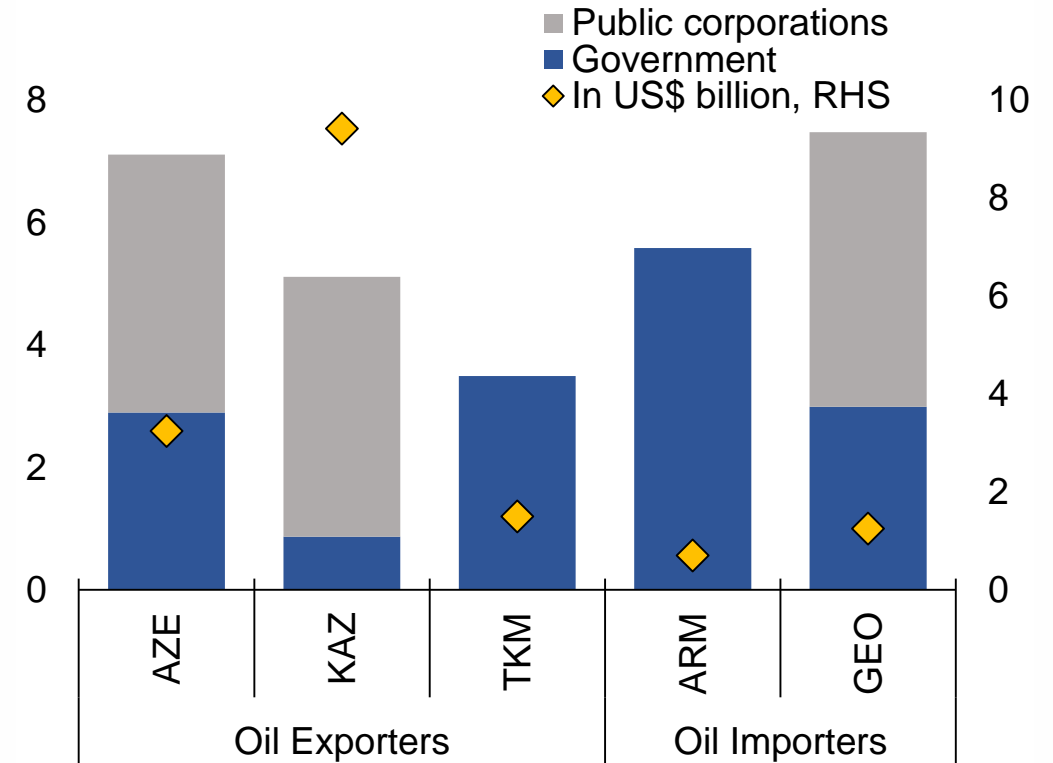
Source: IMF DOTS, Haver Analytics and IMF staff calculations.

Fiscal risks have been rising in some countries

Gross General Government Debt (Percent of GDP)



Syndicated Loans and Bonds Maturing in 2019-23 (Percent of GDP, US\$ billion)

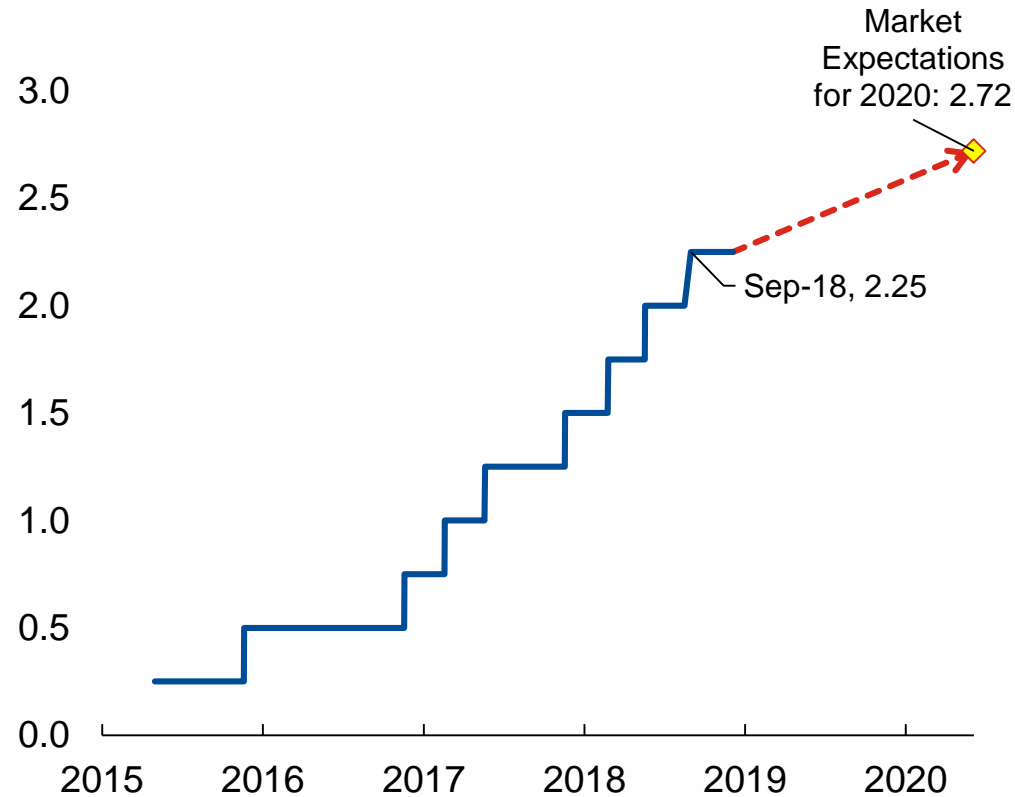


Source: National authorities, Dealogic and IMF staff calculations

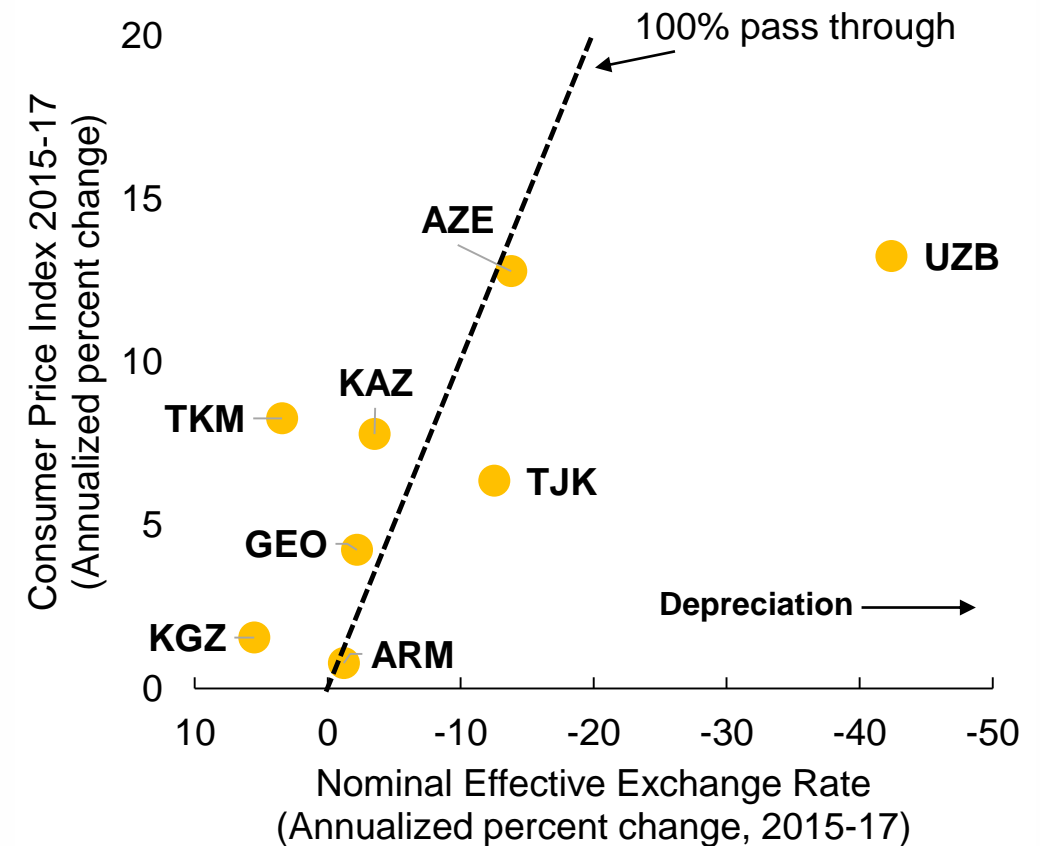
Addressing near-term challenges

External developments will limit monetary policy choices

Federal Funds Rate
(Percent)

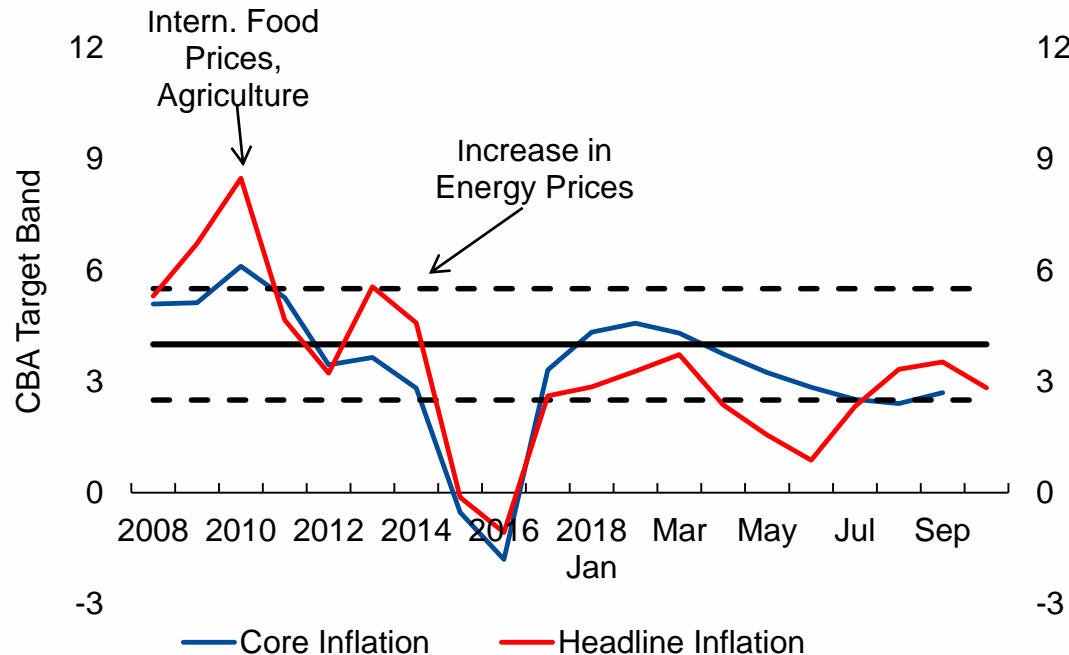


Exchange rate and inflation changes
(Annualized percent change)



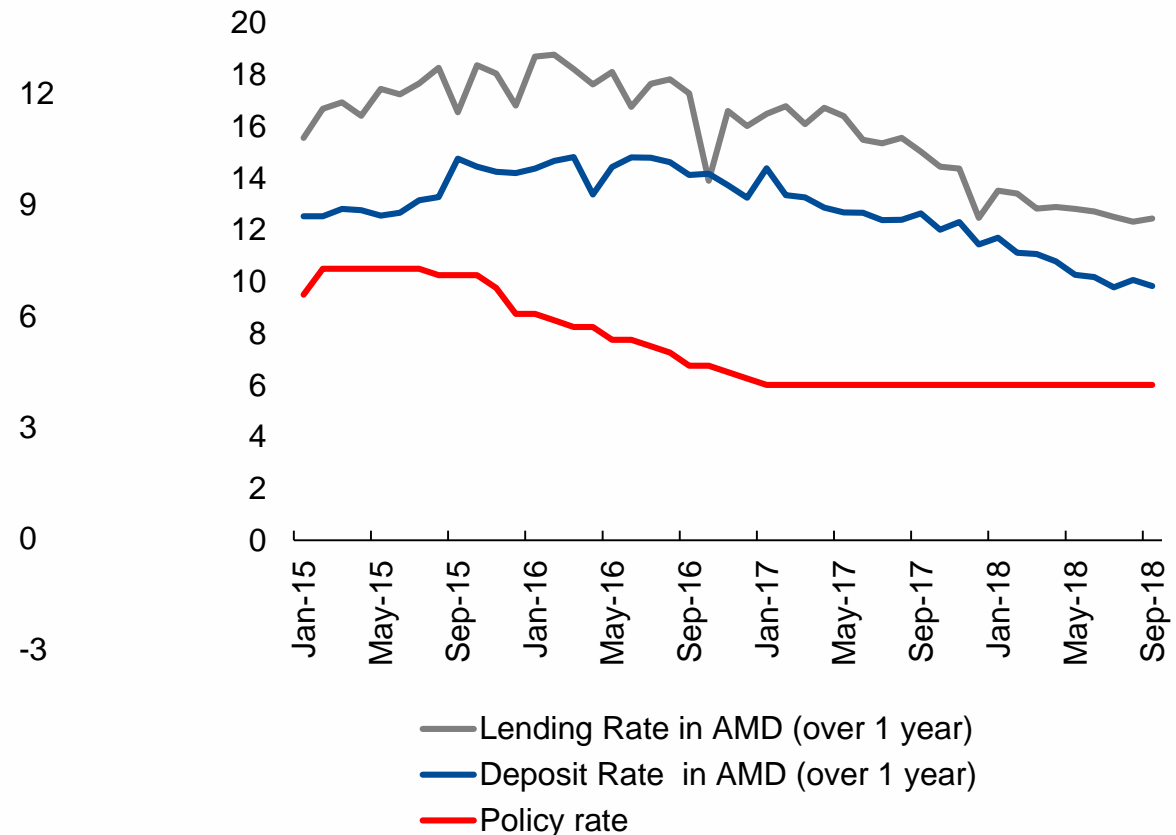
Armenia: inflation is close to the CBA tolerance range

Armenia: Inflation Developments
(In percent, 12-month)



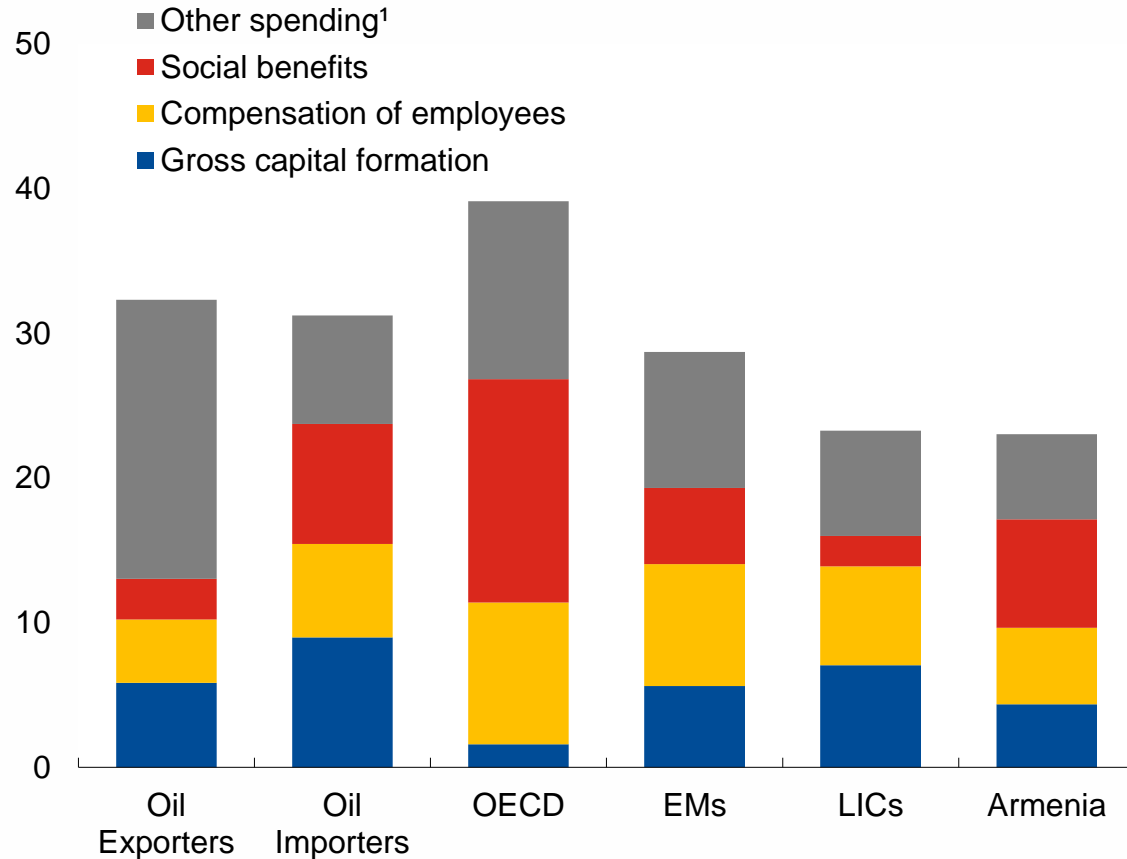
Source: RA NSC and CBA

Policy, Deposit and Lending Rates
(In percent)

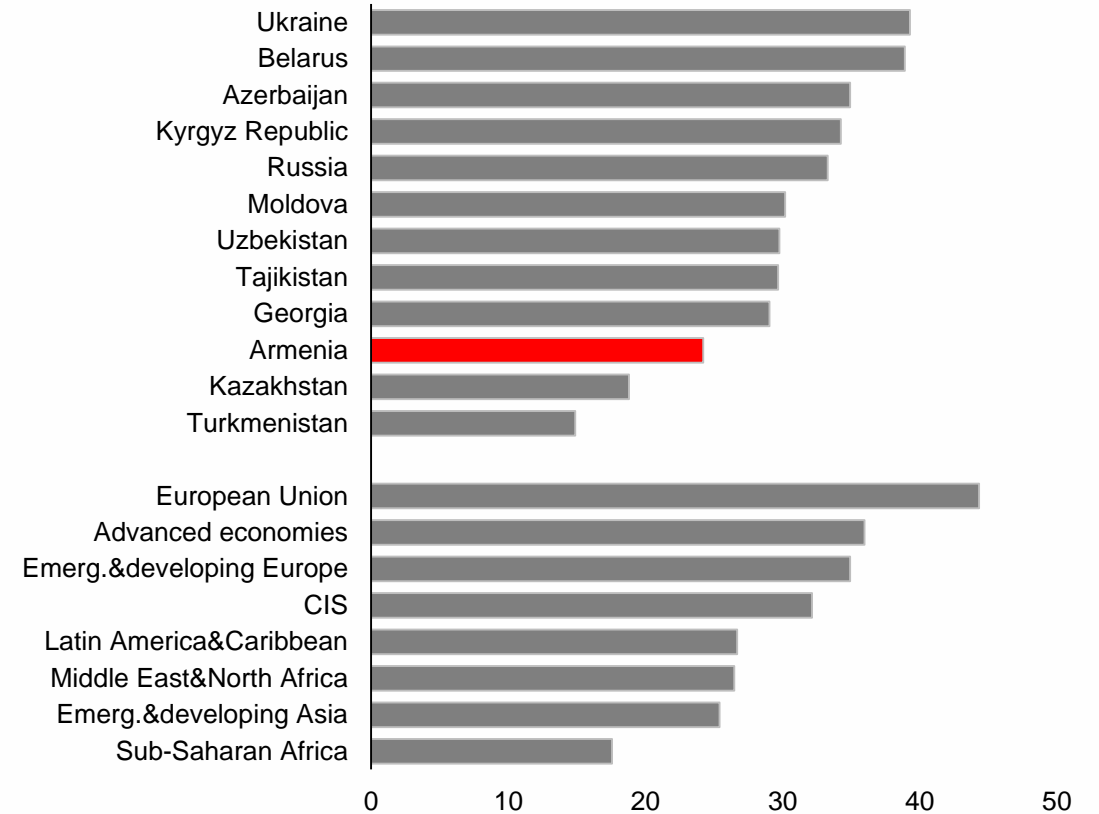


Fiscal adjustment should be more equitable and growth-friendly

Composition of expenditure items
(Averages 2017, percent of non-oil GDP)



General government revenue
(2017, percent of GDP)



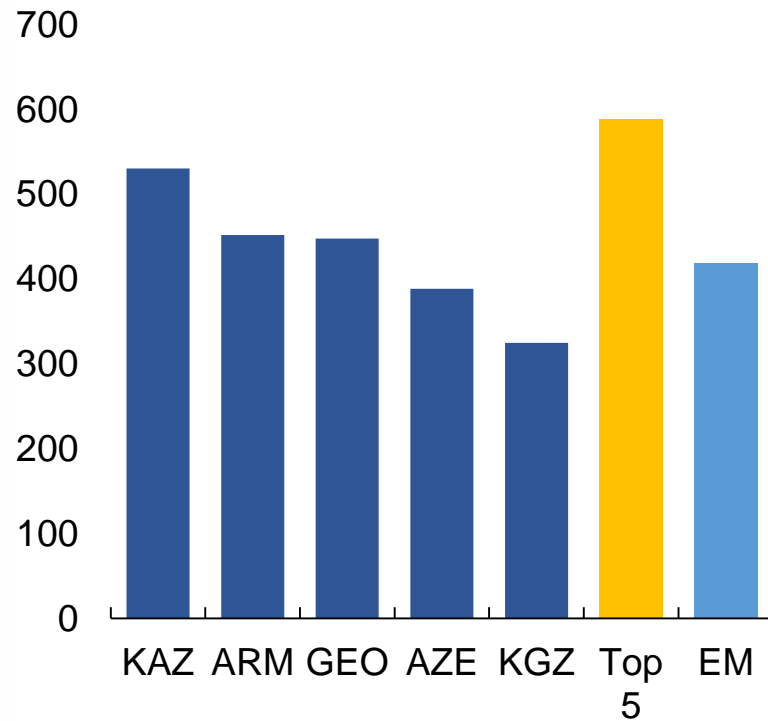
Sources: IMF World Economic Outlook, national authorities, and IMF staff calculations.

Note: ¹Other expenses include defense, consumption of fixed capital, subsidies, grants and other expenses.

Need to focus on high-quality investment in human and physical capital

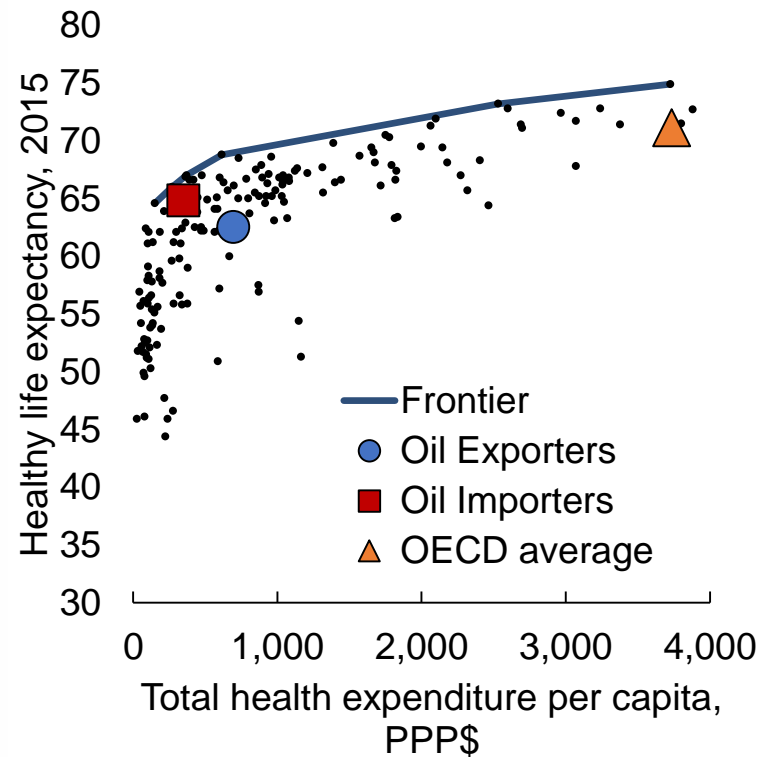
Student Performance

(Latest Available TIMSS or PISA scores, simple averages)



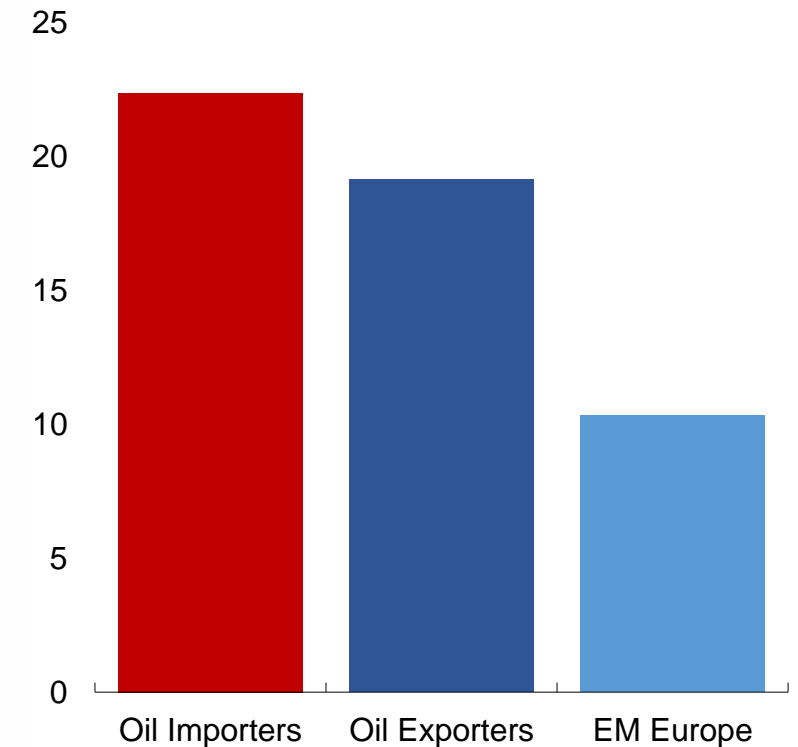
Health Efficiency Frontier

(Last available value)



Total Investment Needs, 2018 – 22

(Percent of GDP per year)



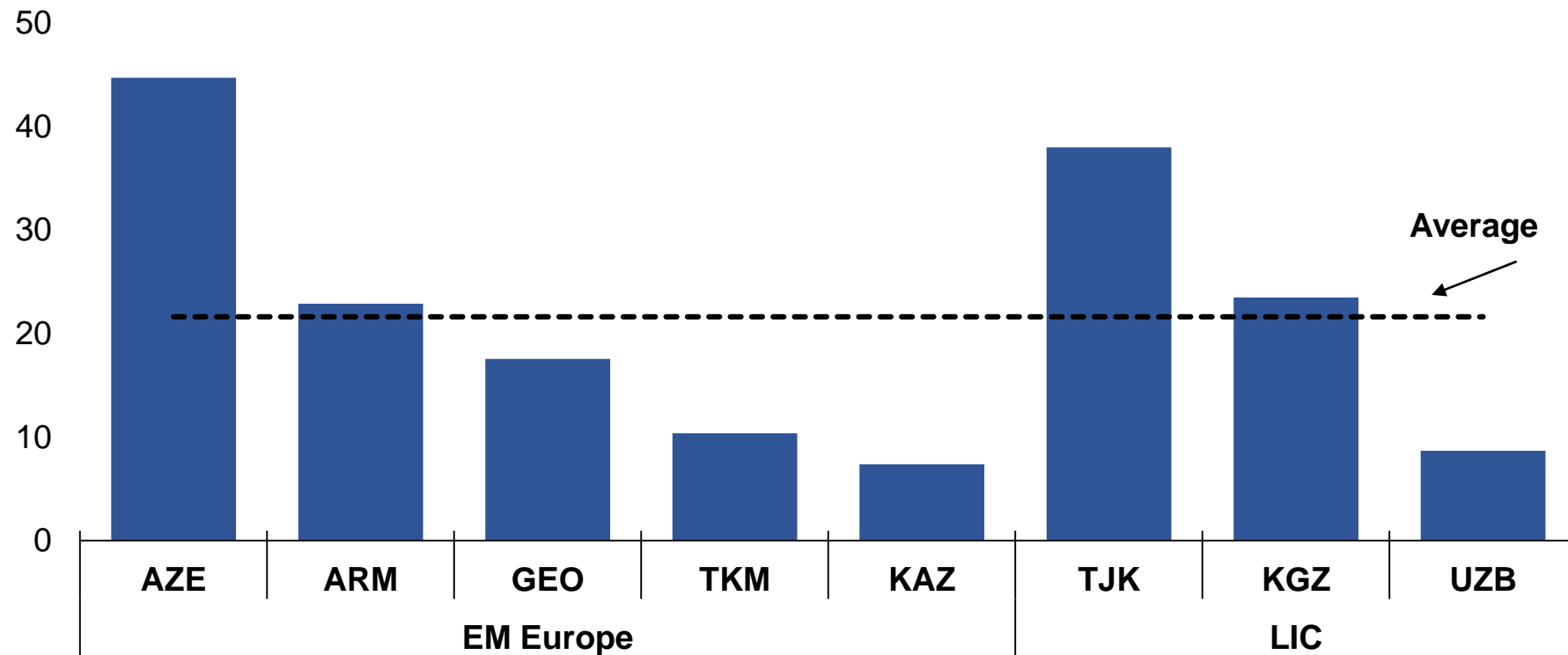
Sources: Sources: EBRD Transition Report 2017-18, IMF FAD Expenditure Assessment Tool (EAT), TIMSS and PISA evaluations, and IMF staff calculations.

Note: TIMSS and PISA scales are different but both are centered around 500 with a standard deviation of 100.

Higher and More Inclusive Growth

Catching up will take nearly twenty years at forecast growth rates

Time to Achieve Emerging Europe or Low-Income Threshold per capita GDP
(Years)

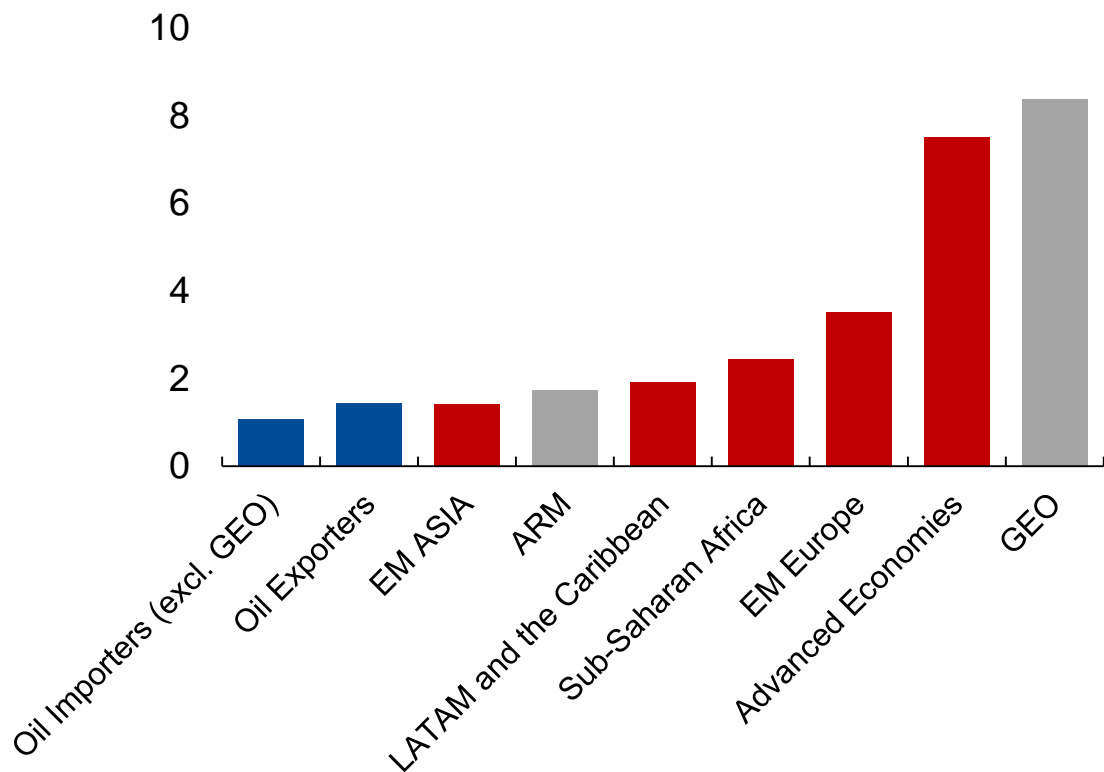


Sources: National authorities, United Nations and IMF staff calculations.

Need to create a more dynamic private sector

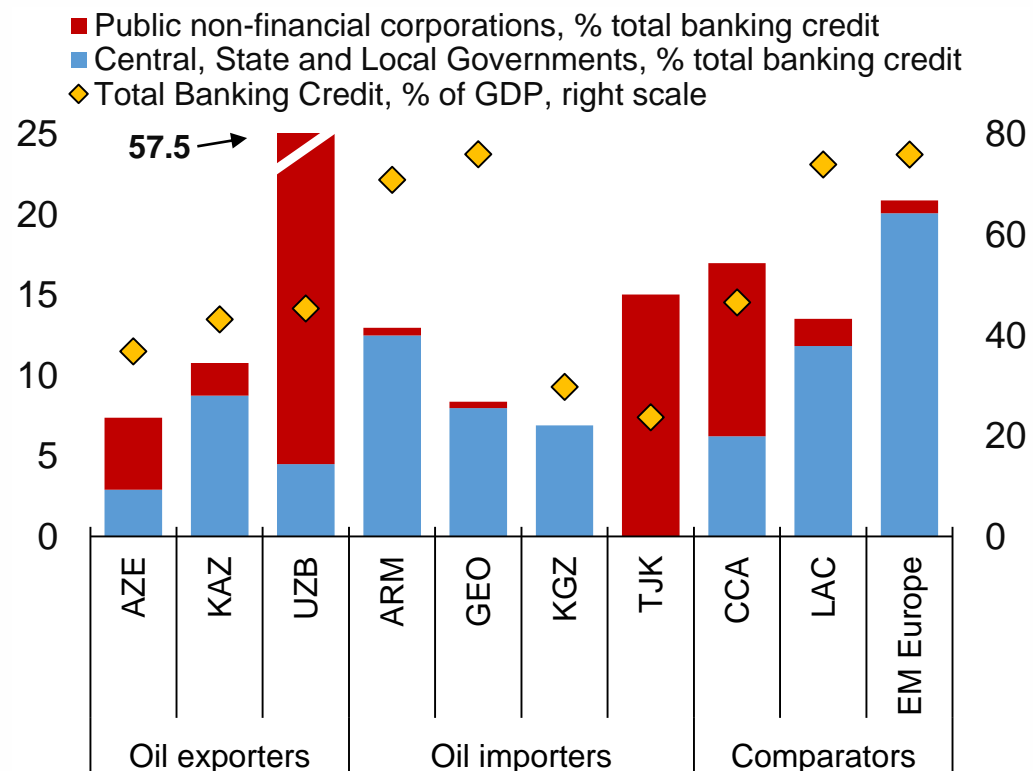
Business Entry Density Rate

(Number of newly registered firms with limited liability per 1,000 working-age people, average)



Credit to Government and Public Non-Financial Sector and Total Credit in 2017

(Percent of total banking credit, in percent of GDP)

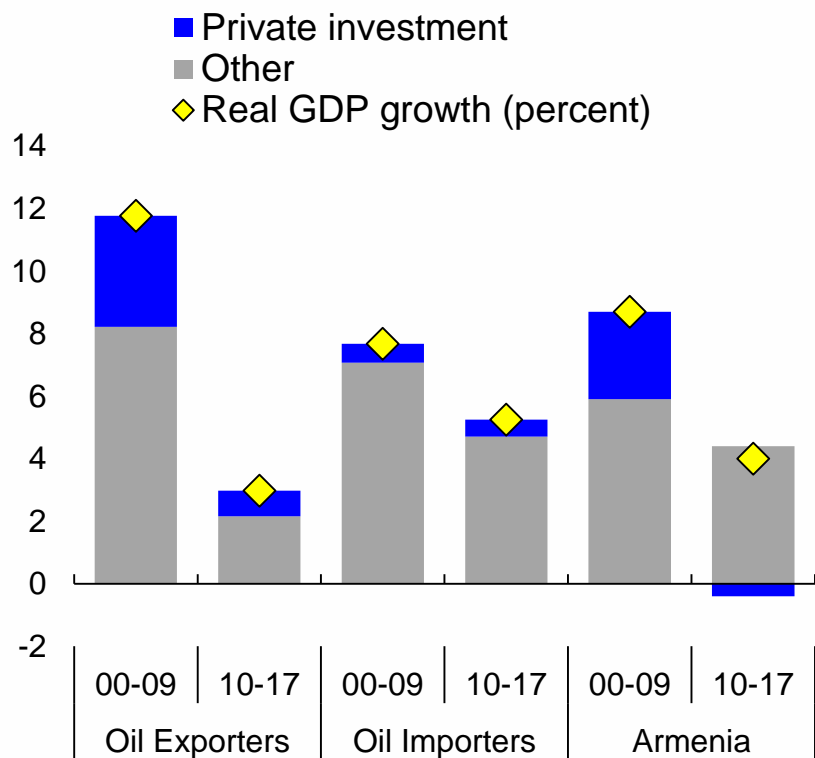


Source: IMF, International Financial Statistics; and, World Bank *Doing Business Report*.

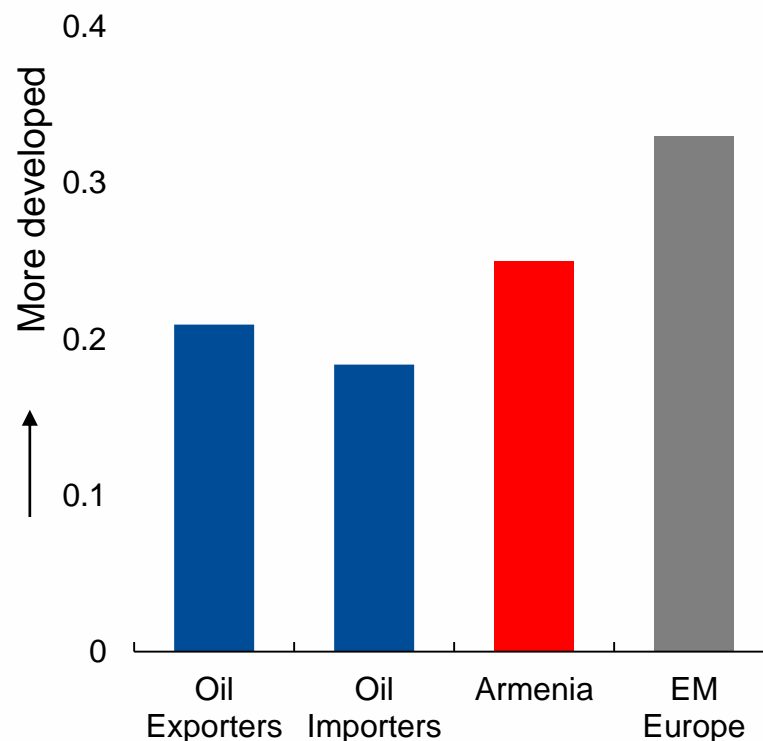
Structural reforms key to boosting private investment

Contribution to Real GDP Growth

(Simple averages, percentage points)

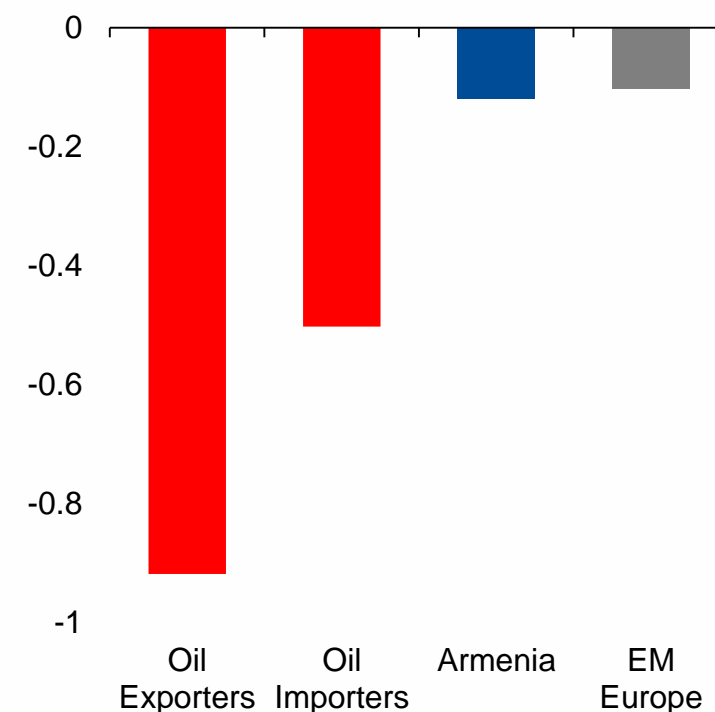


Financial Development (Financial Development Index, 2015)



Rule of Law

(From -2.5 (weak) to 2.5 (strong) governance performance, 2016)



Source: Svirydzenka (2016). National authorities; World Bank Worldwide Governance Indicators, and, IMF Financial Development Index Database.

Note: Index ranges from 0 to 1.

The IMF's role in supporting reform

Policy Advice

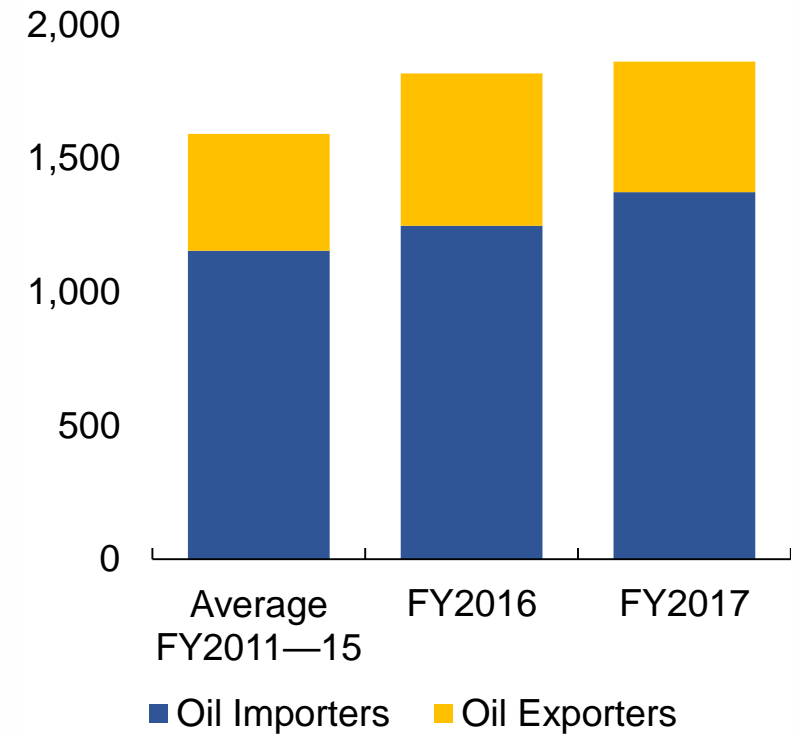


Fund Financing to the region

Since 2012:

- Six programs
- Nearly \$1 billion dollars lent

Technical Assistance (Person-Days of Field Delivery)



Takeaways

- Growth picked up in 2017-18, but is expected to moderate over the medium term.
- Policy should focus on managing risks in the near term...
- ... and reforms to raise growth in the long term

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