

Regional Economic Outlook

Caucasus and Central Asia

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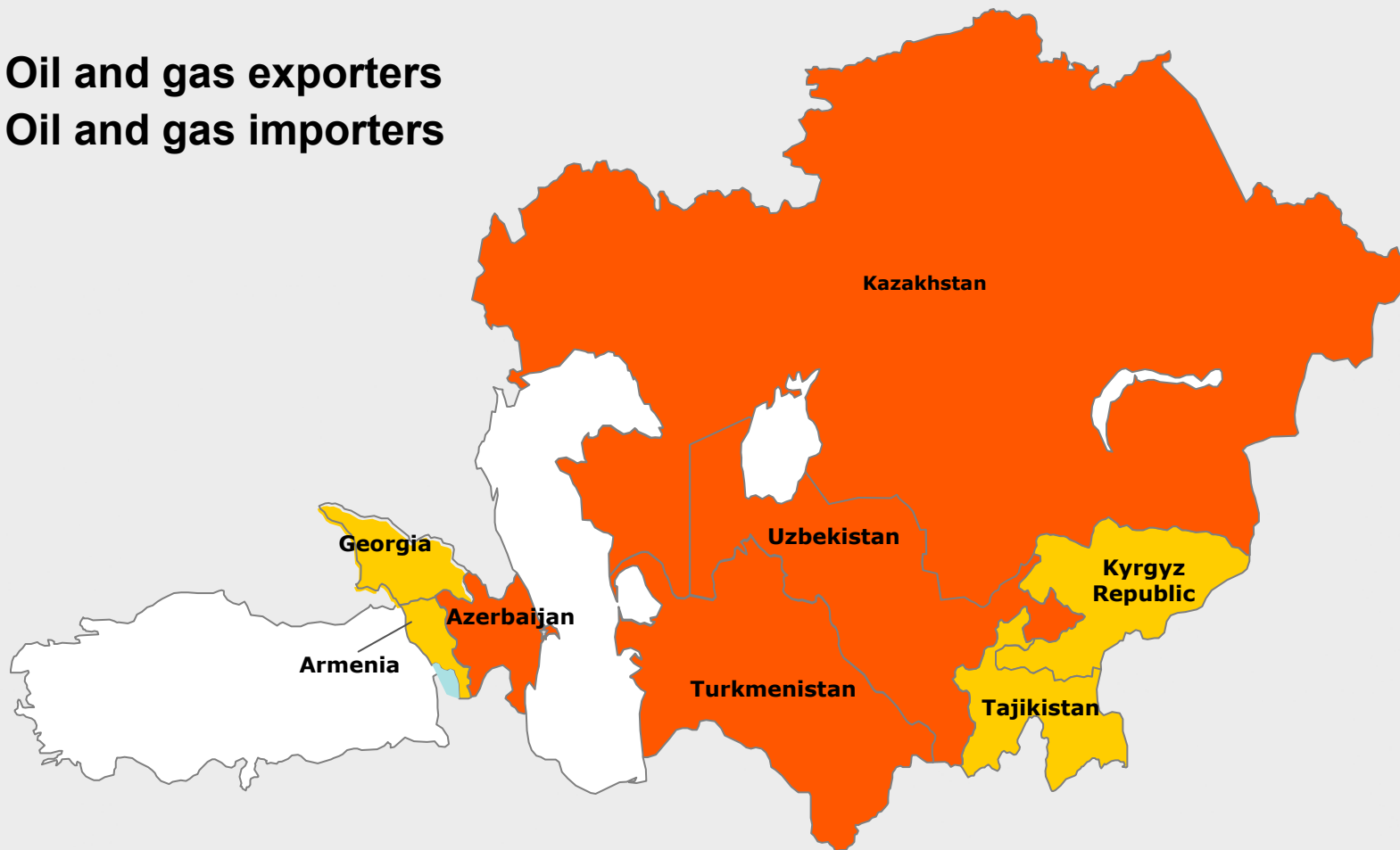
International Monetary Fund

May 2009



Caucasus and Central Asia

-  Oil and gas exporters
-  Oil and gas importers



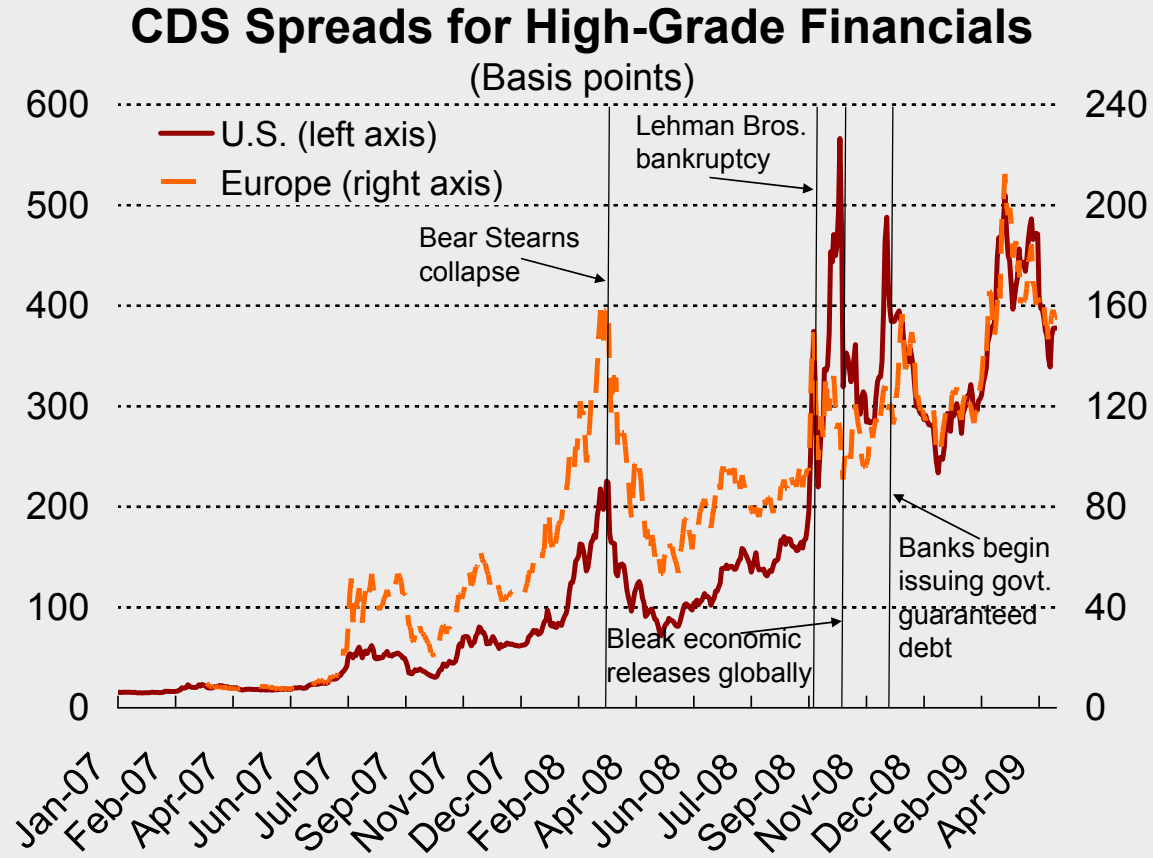
Outline

- **World Economic Outlook**
- **CCA Economic Outlook**
- **Armenia Outlook**

World Economic Outlook: Key Messages

- Financial markets remain highly stressed. Total write-downs on global assets are estimated at \$4 trillion.
- The world economy will contract in 2009 by around 1¼ percent before recovering gradually in 2010. Deepest post WWII recession.
- Emerging economies face dramatic drops in capital inflows, demand for their exports, and commodity prices.
- A third wave of the global crisis is hitting the world's poorest.
- Turning around global growth calls for concerted policy actions to stabilize financial conditions and bolster demand.

Systemic risks remain elevated despite forceful policy efforts.

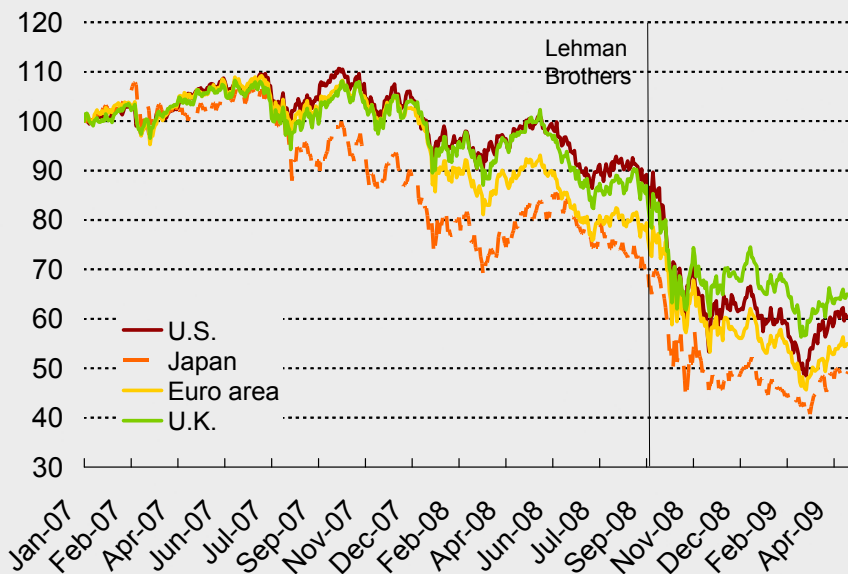


Source: Bloomberg.

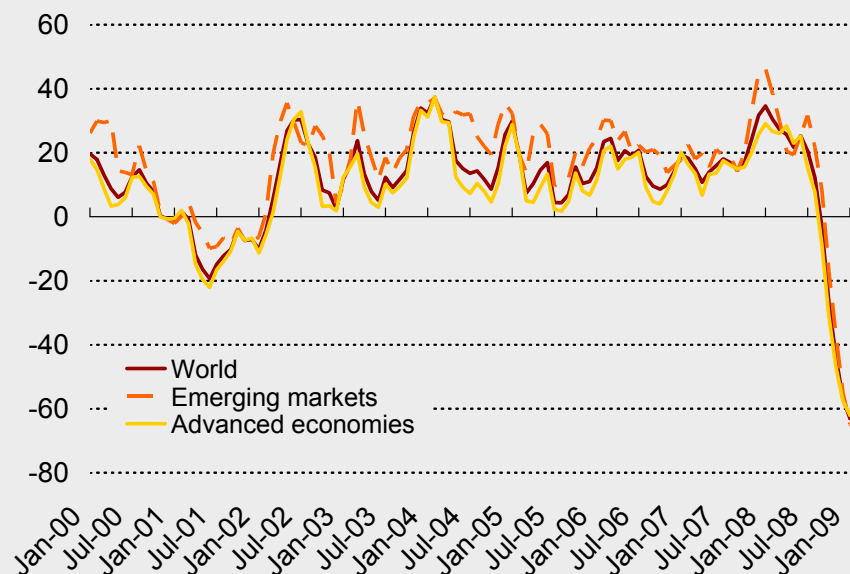


Recent data show contraction may be moderating.

Equities
(1/1/2007=100; FTSE)



Merchandise Exports
(Annualized percent change) 1/

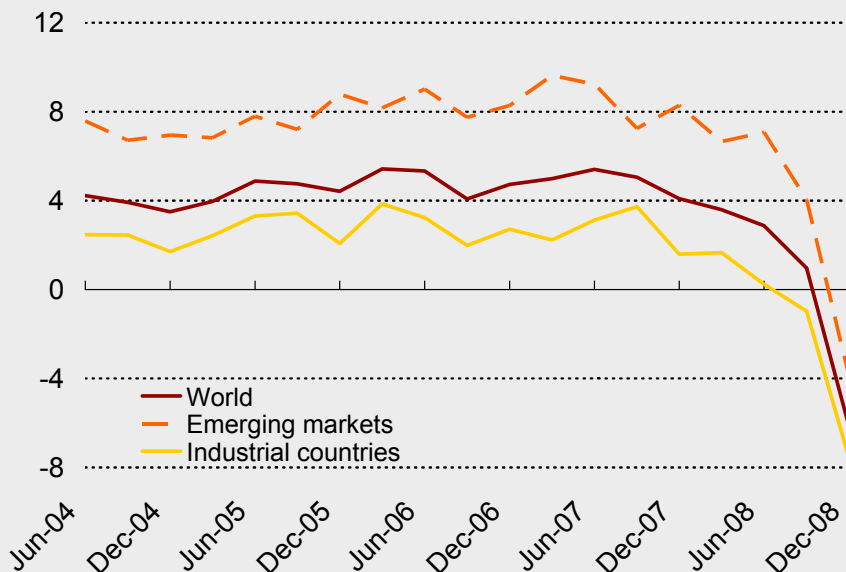


1/ Three-month moving average.

Across the globe, GDP is falling and unemployment is rising.

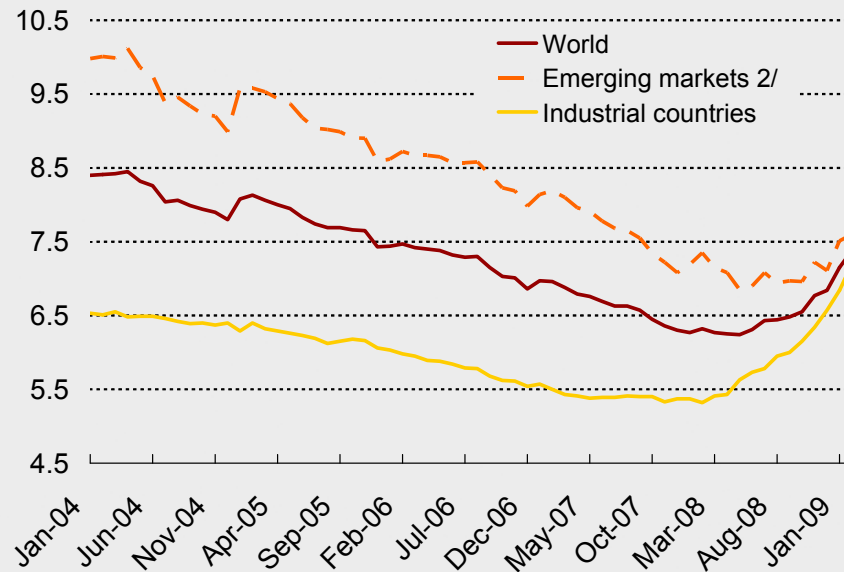
Real GDP Growth

(In percent; quarter on quarter annualized)



Unemployment Rate 1/

(In percent)



1/ Aggregated using total labor force as weights.

2/ Excludes China, India, Indonesia, Hungary, and Pakistan.

There are downside risks to the world economic outlook.

- Further delays in implementing policies to stabilize financial conditions.
- Deflation risks could reinforce a deeper and longer downturn.
- Rising threat of corporate defaults in emerging economies.
- Risks of trade and financial protectionism.
- Sovereign fiscal sustainability concerns.
- **But, there is upside potential, hinging on bold implementation of policies.**

CCA Economic Outlook: Key Messages

- The region is being hit by external shocks.
 - Contraction in world economy, esp. Russia
 - Declining commodity prices
 - Drying-up of capital inflows
- Current account positions have weakened.
- Fiscal balances are worsening, and public debt is rising.
- Growth will drop sharply in 2009 and recover gradually in 2010.
- Inflation is falling.

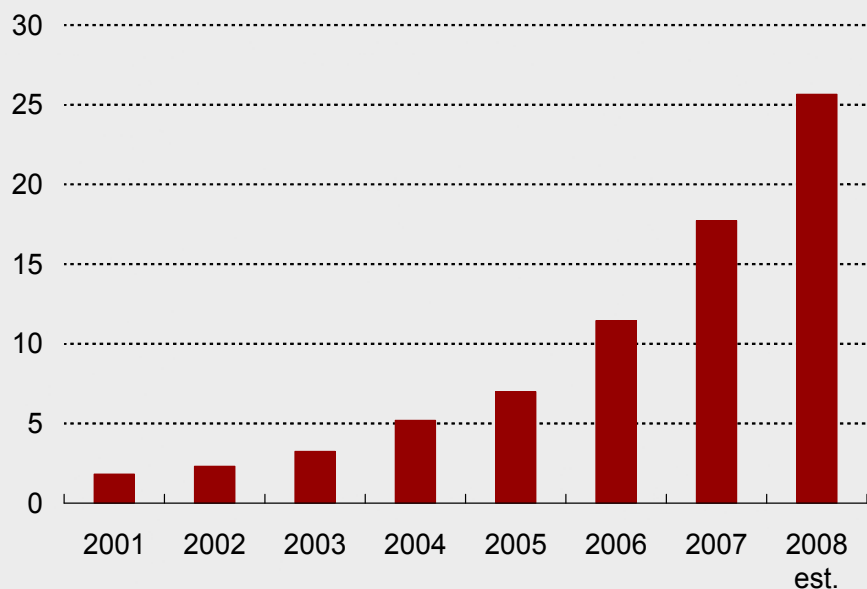
The global economy is set to decline in 2009 and recover only gradually in 2010.

Real GDP Growth
(In percent)

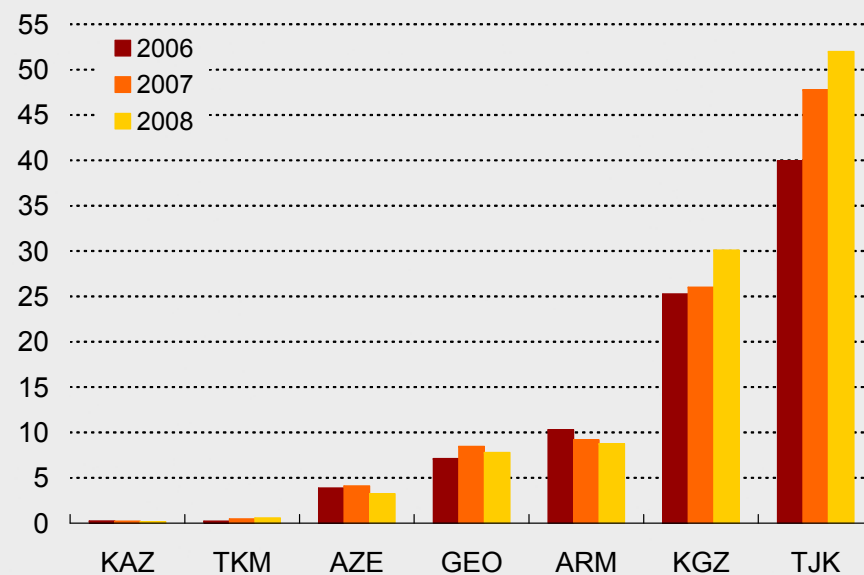
	2009	2010
World	-1.3	1.9
Advanced Economies	-3.8	0.0
United States	-2.8	0.0
Euro Area	-4.2	-0.4
Japan	-6.2	0.8
Emerging and Developing Economies	1.6	4.0
China	6.5	7.5
India	4.5	5.6
Russia	-6.0	0.5

Remittances from Russia are large, but are falling in 2009.

Remittances Outflow from Russia
(In billions of U.S. dollars)

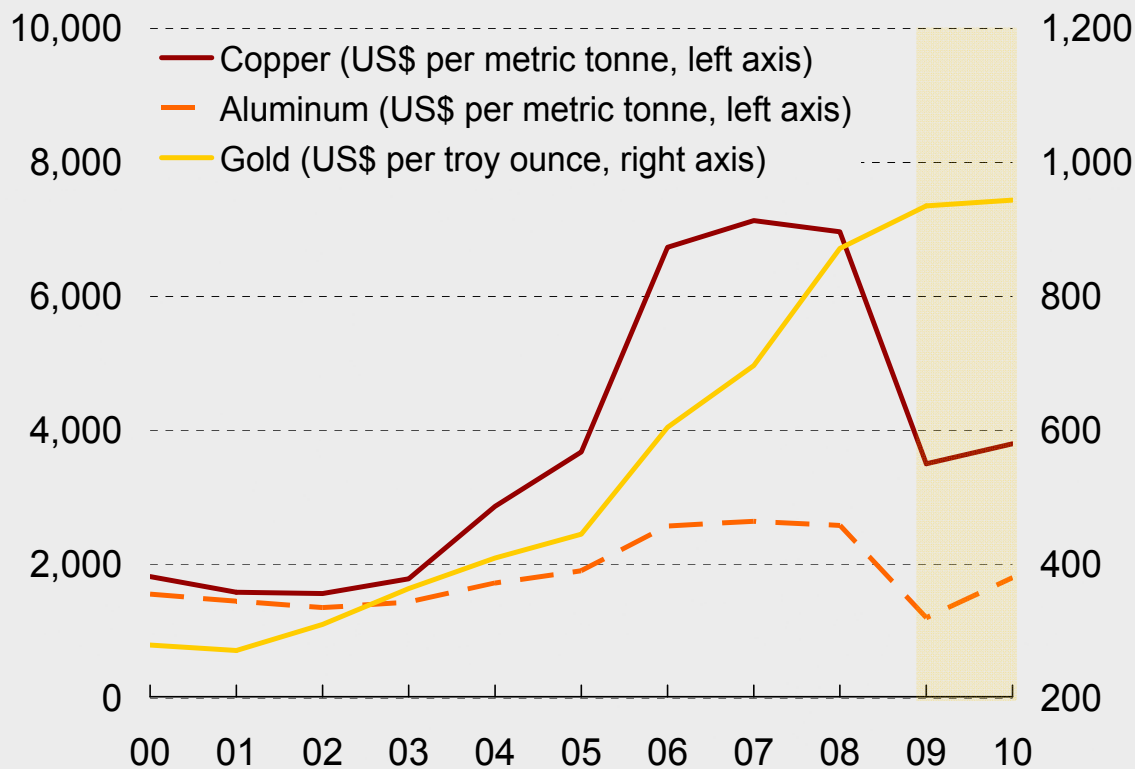


Remittances Inflow
(In percent of GDP)



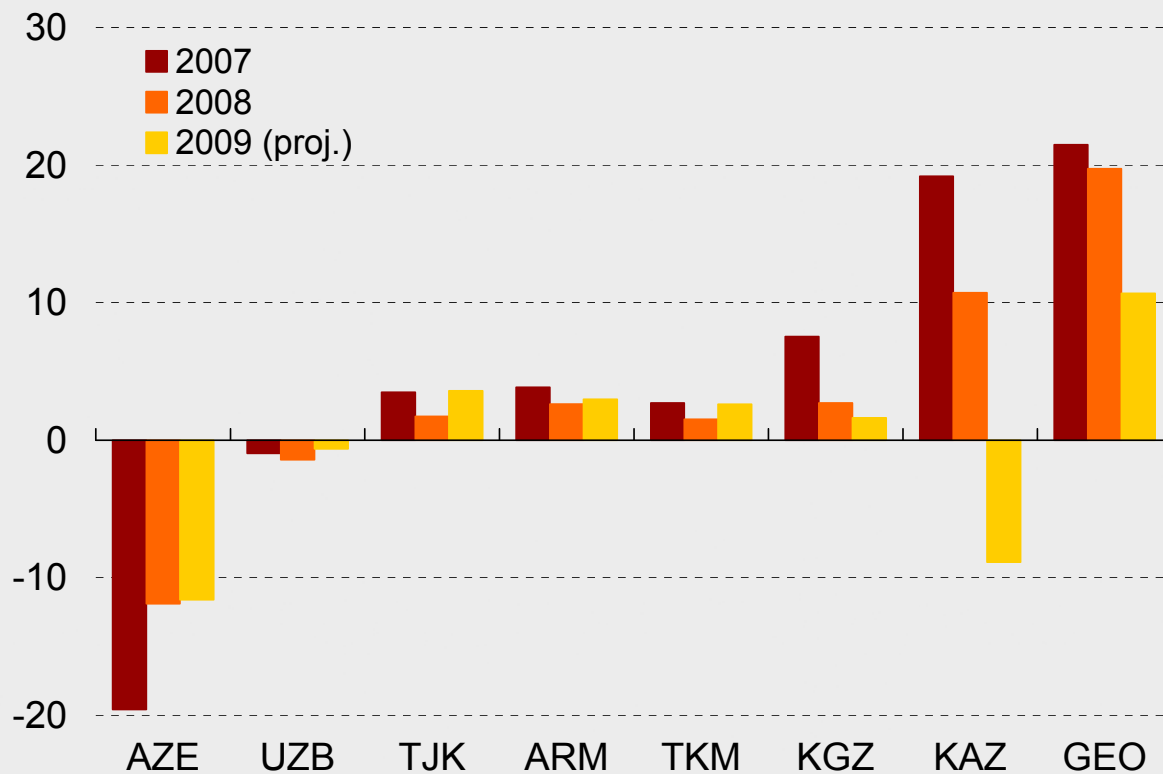
Commodity prices have dropped.

Commodity Prices



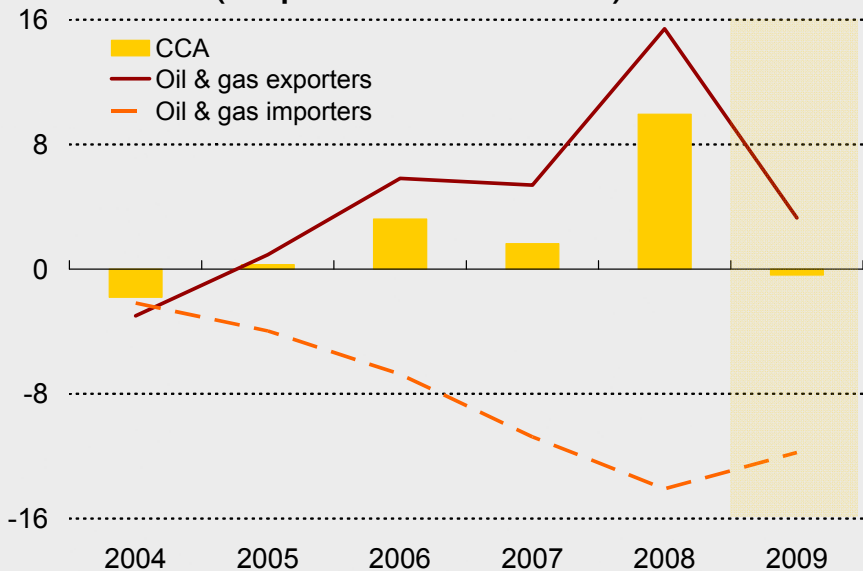
Capital inflows are drying up.

Private Capital Flows, Net
(In billions of U.S. dollars)

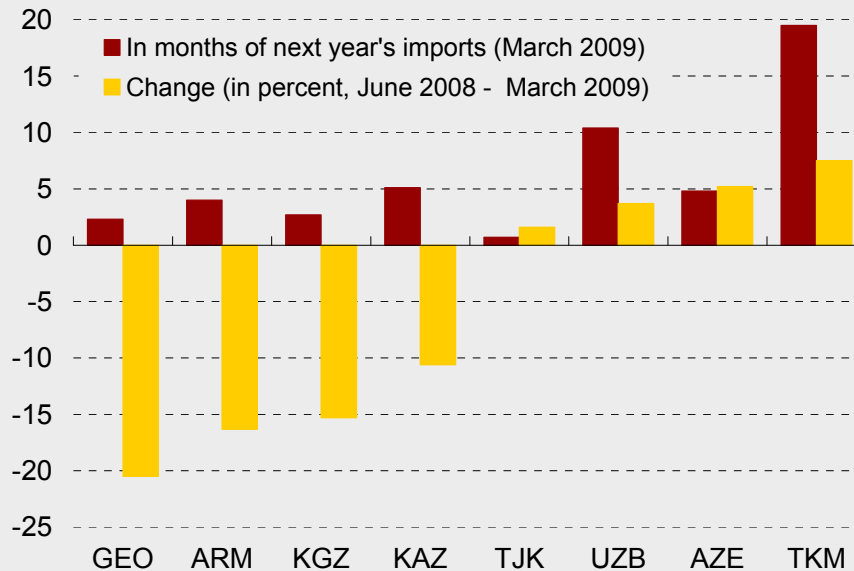


Current account positions have weakened.

Current Account Balance
(In percent of GDP)



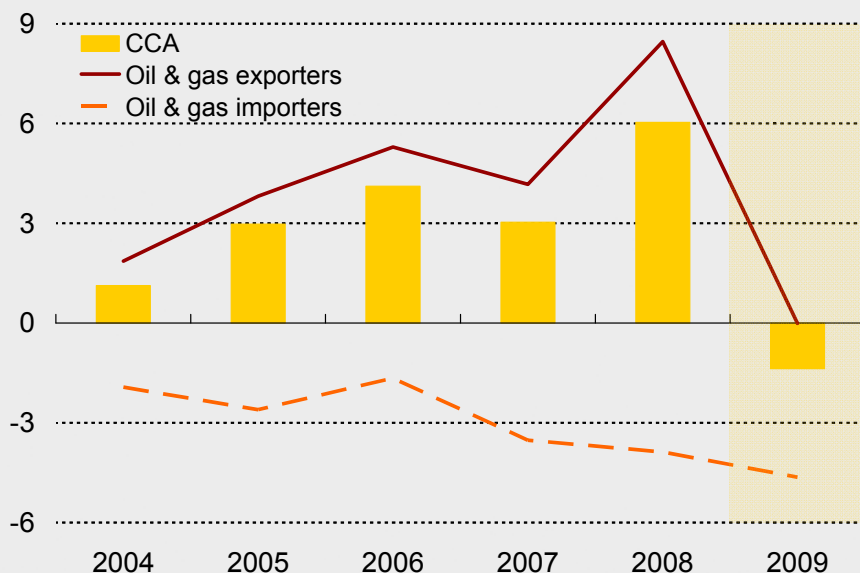
Gross International Reserves 1/



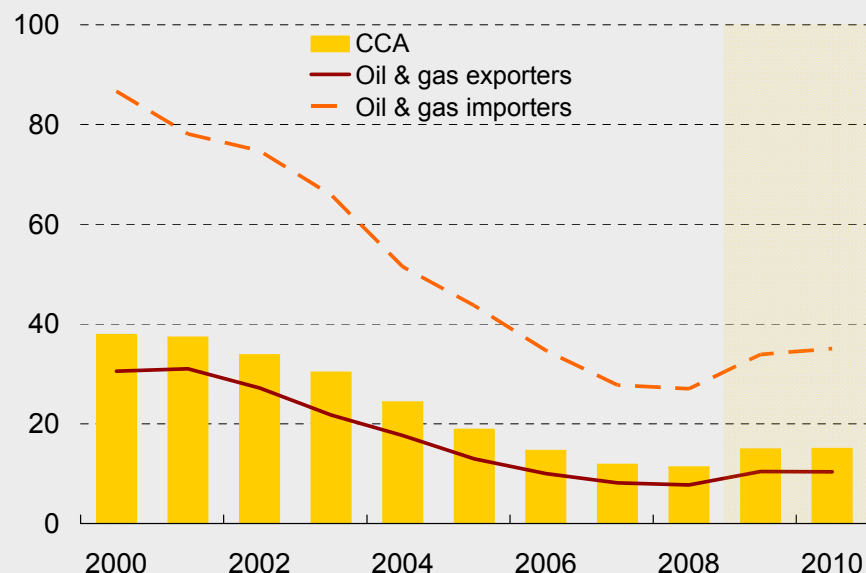
1/ March 2009 data includes SBA purchases of \$249 million (Armenia) and \$250 million (Georgia).

Fiscal balances are worsening, and public debt is low, but rising again.

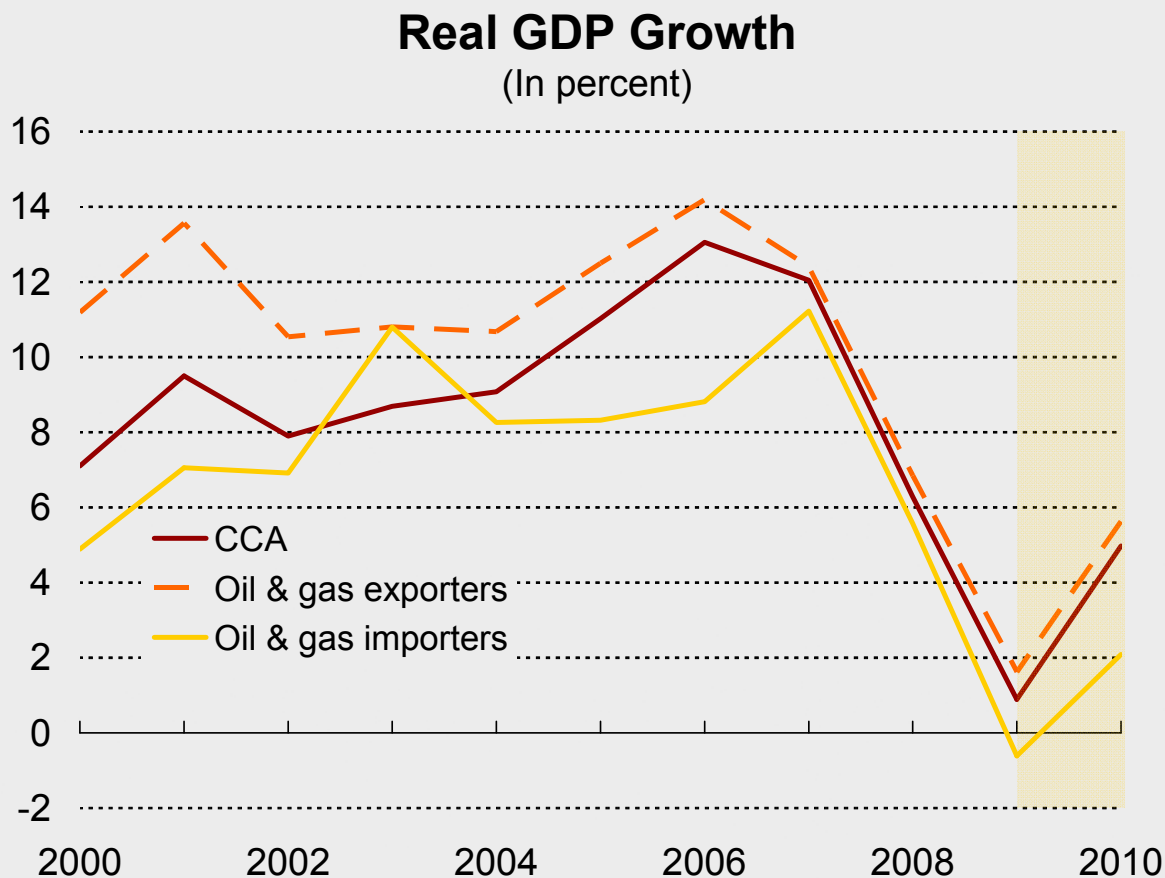
Fiscal Balance
(In percent of GDP)



Government Debt
(In percent of GDP)



Growth in the region is slowing sharply . . .



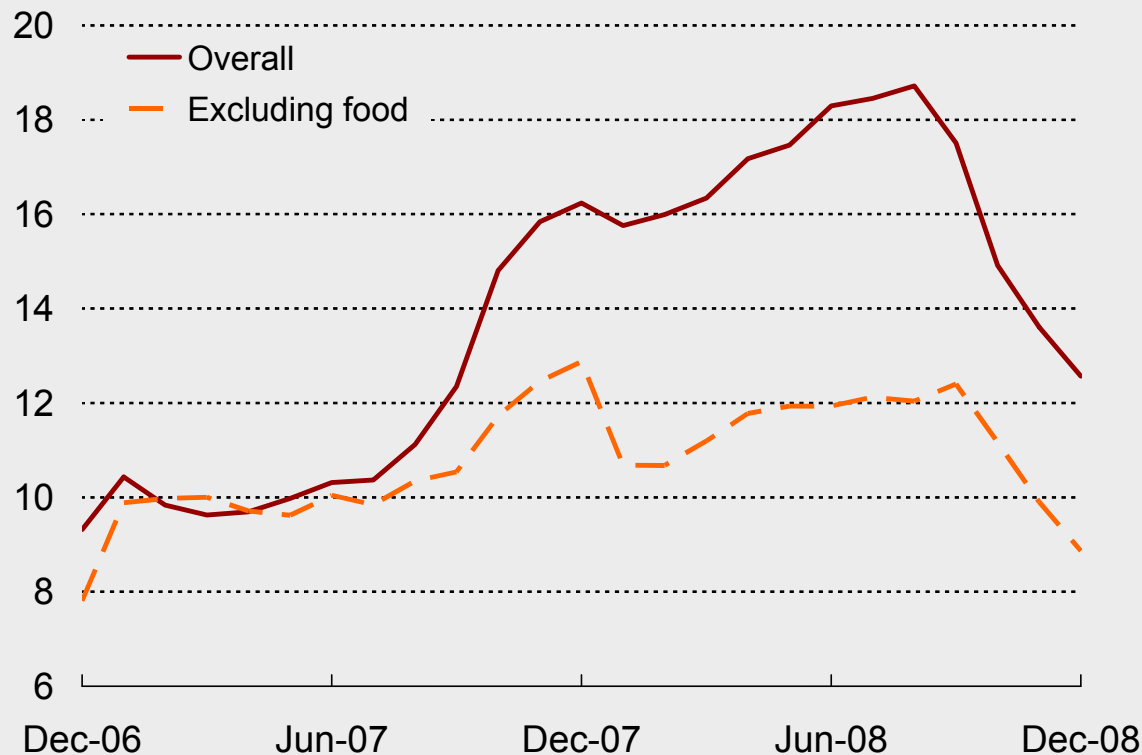
... but could recover slowly in 2010.

Real GDP Growth
(Annual percentage change)

	2006	2007	2008	Proj. 2009	Proj. 2010
CCA	13.1	12.0	6.3	0.9	5.0
Armenia	13.2	13.8	6.8	-5.0	0.0
Azerbaijan	30.5	23.4	11.6	2.5	12.3
Georgia	9.4	12.4	2.0	1.0	3.0
Kazakhstan	10.7	8.9	3.2	-2.0	1.5
Kyrgyz Republic	3.1	8.5	7.6	0.9	2.9
Tajikistan	7.0	7.8	7.9	2.0	3.0
Turkmenistan	11.4	11.6	9.8	6.9	7.0
Uzbekistan	7.3	9.5	9.0	7.0	7.0

Inflationary pressures are subsiding, but food prices remain high.

Average Inflation, GDP Weighted
(Annual percentage change)



Measures Taken Thus Far

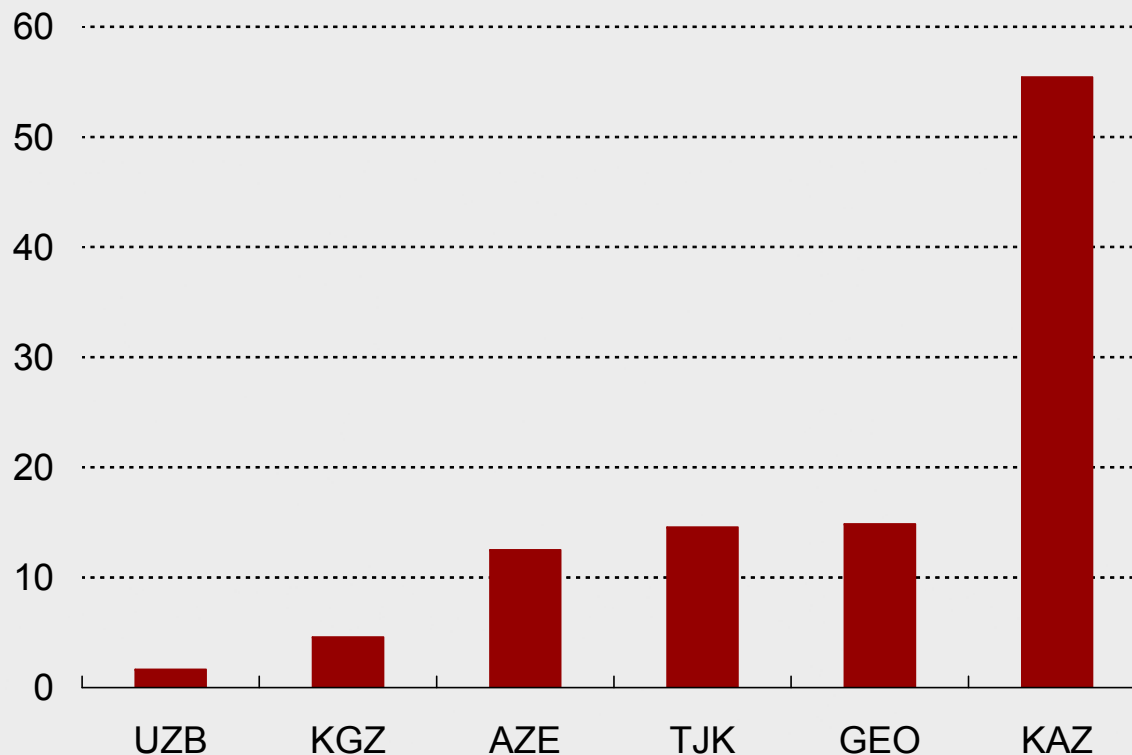
Country	Fiscal stimulus	Exchange rate depreciation	Monetary easing	Liquidity support	Increased provisioning	Capital injections	Deposit guarantees
Armenia	✓	✓	✓	✓			
Azerbaijan	✓		✓	✓	✓	✓	✓
Georgia	✓	✓	✓	✓	✓	✓	
Kazakhstan	✓	✓	✓	✓	✓	✓	Enhanced
Kyrgyz Republic	✓	✓					✓
Tajikistan	✓	✓	✓	✓			
Turkmenistan							
Uzbekistan	✓	✓				✓	✓

Risks to the Outlook

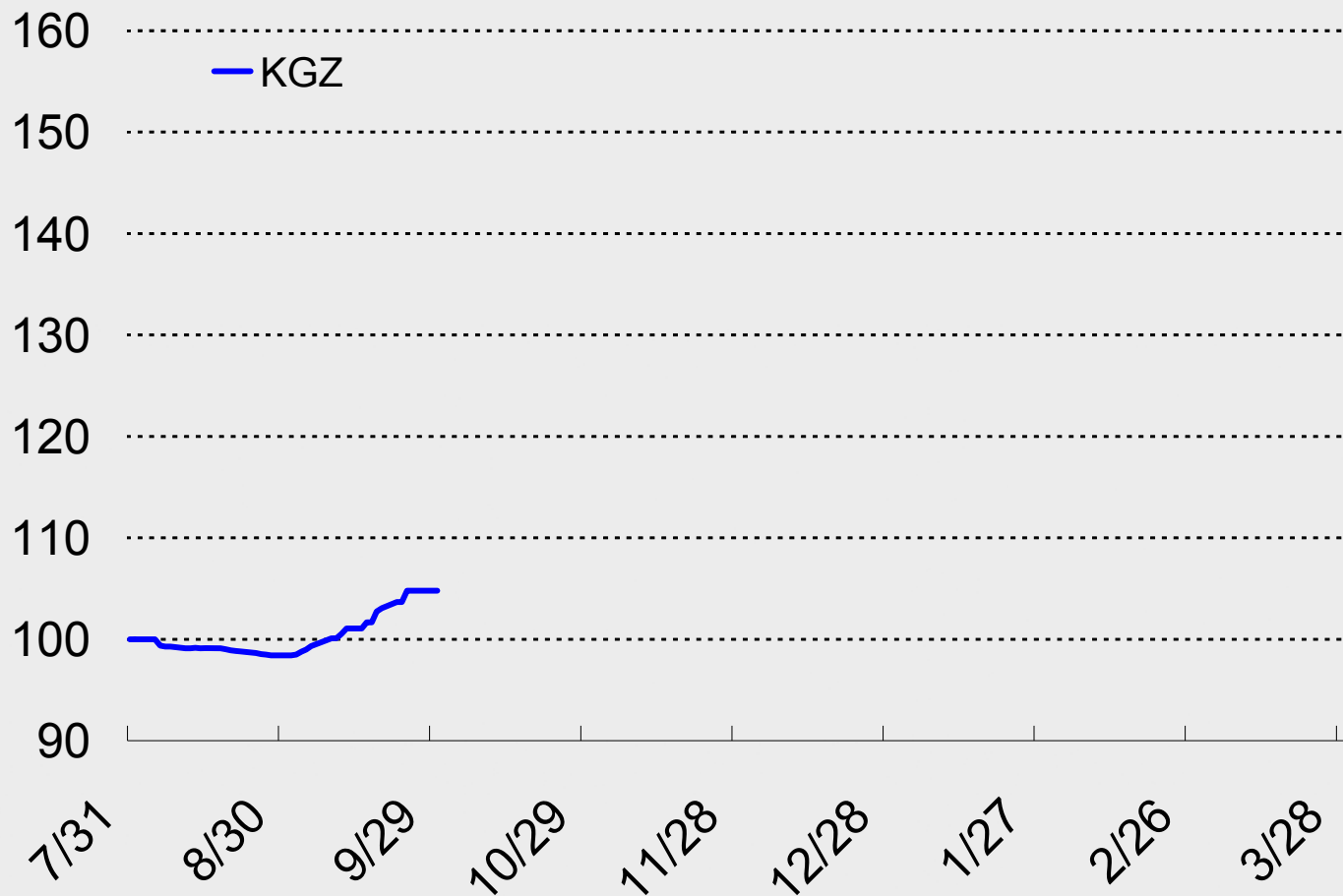
- **Prolonged global recession and stress in global financial markets**
- **Rising external debt and rollover risks**
- **Further exchange rate pressures**
- **Credit constraints and rising nonperforming loans**

In some countries, the ability to meet external debt obligations is a cause for concern.

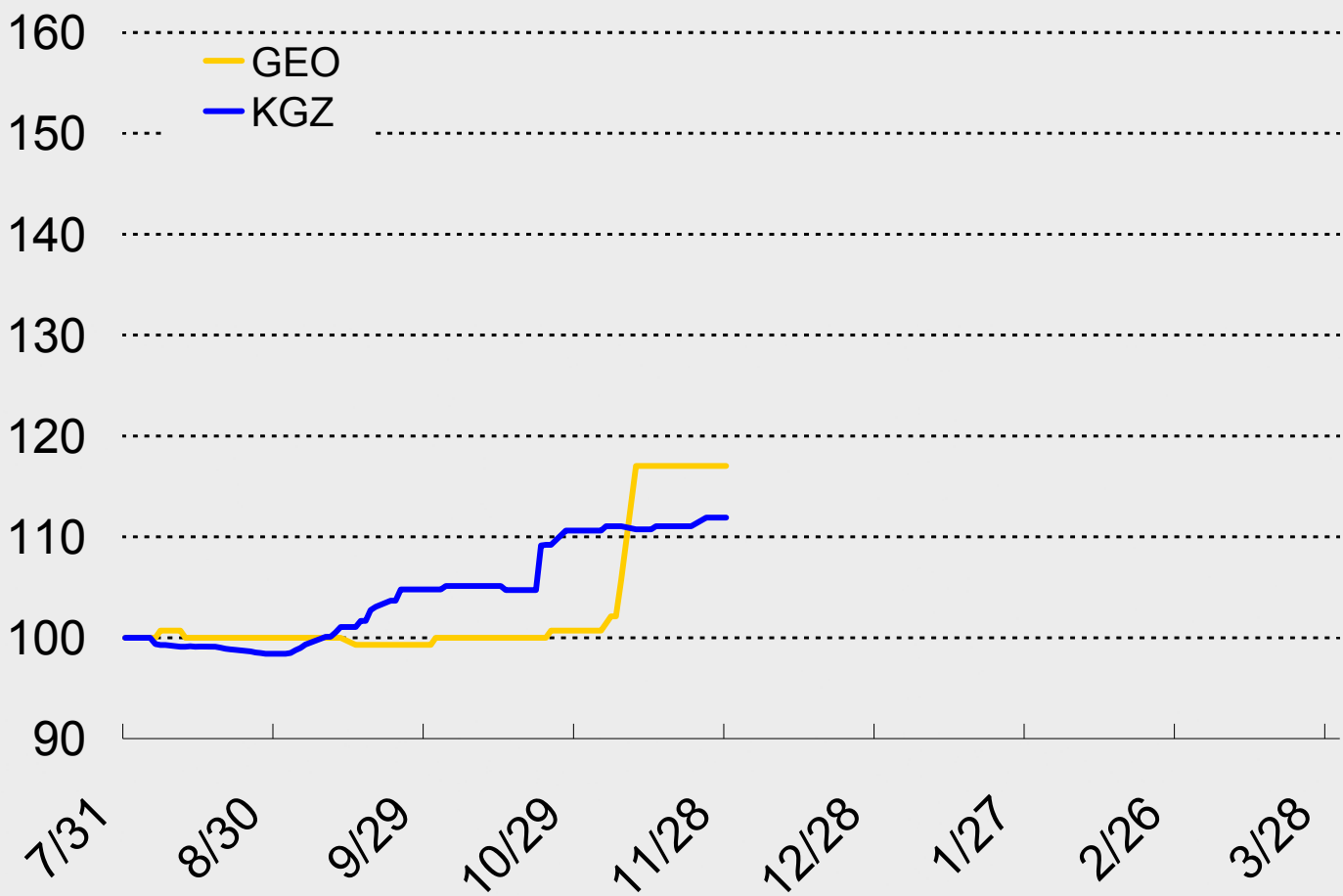
Private External Debt
(In percent of GDP)



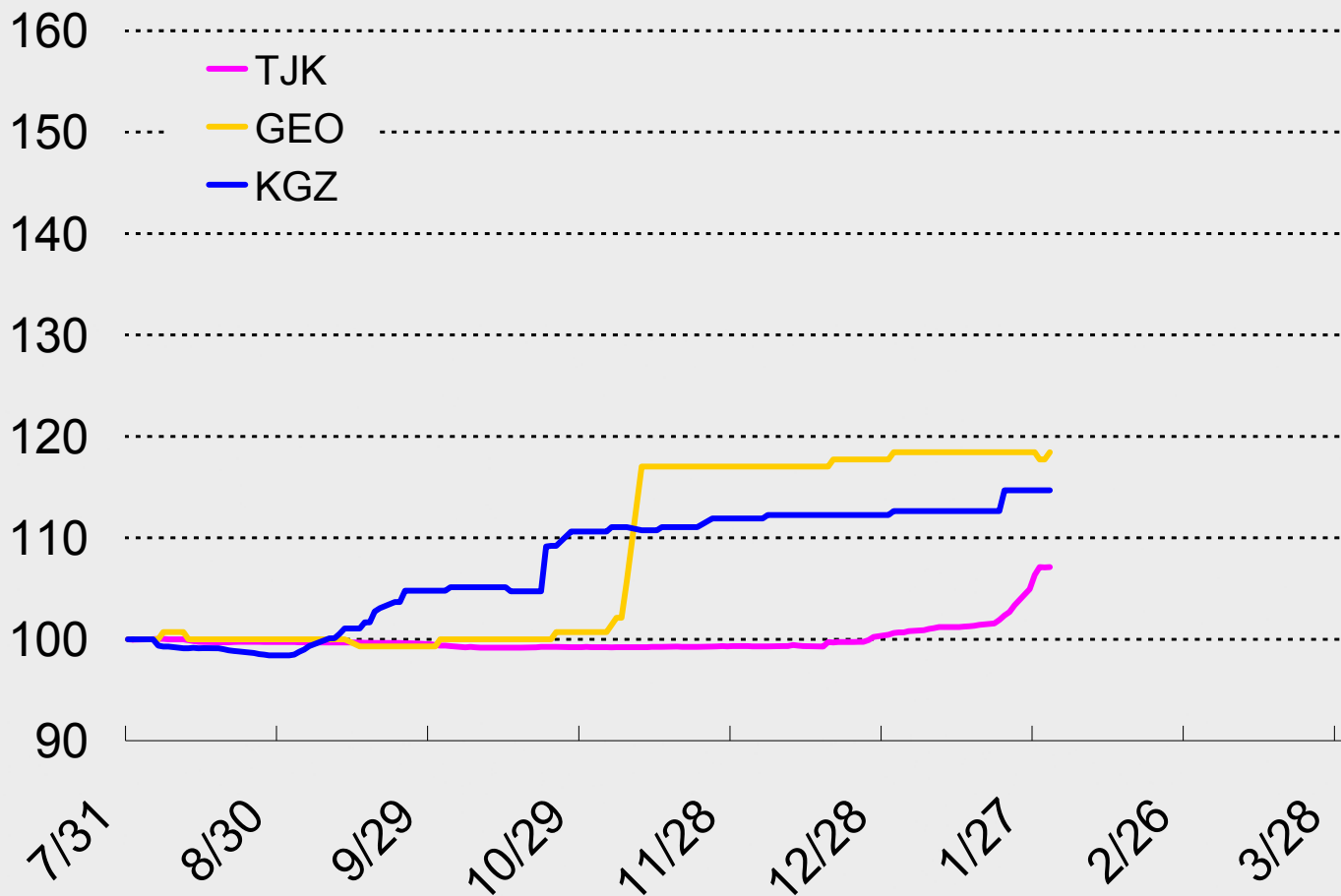
Regional currencies are under pressure.



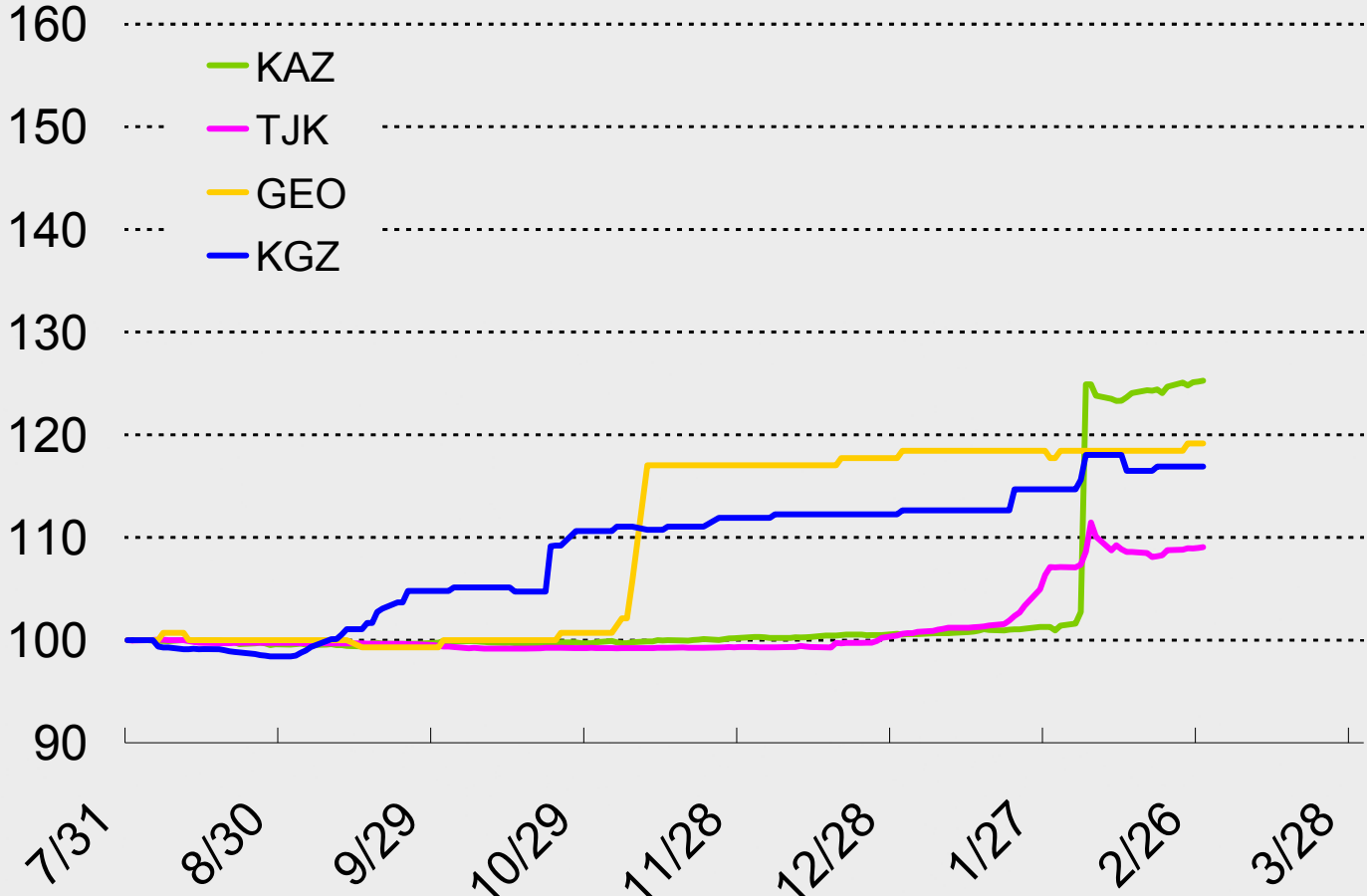
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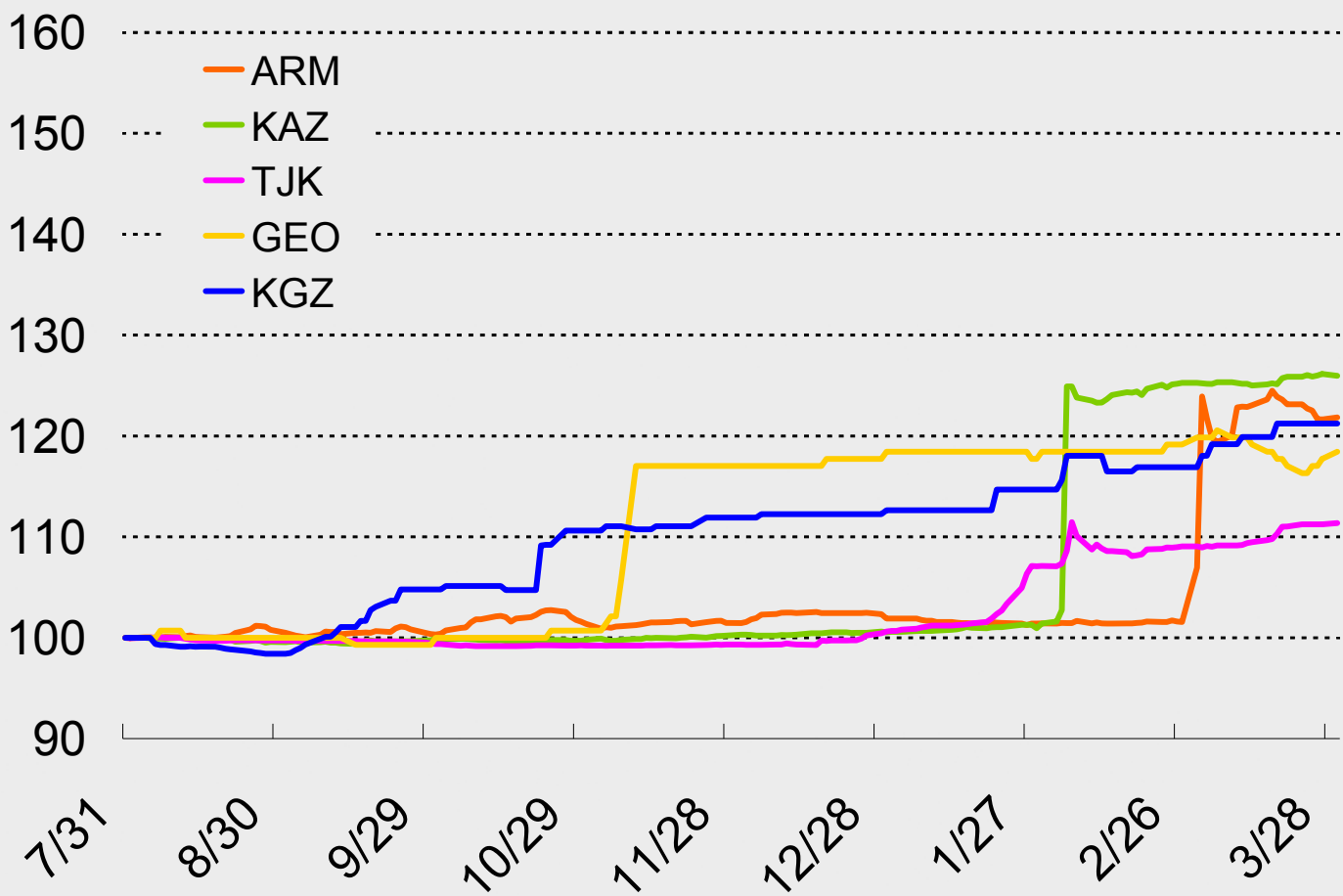
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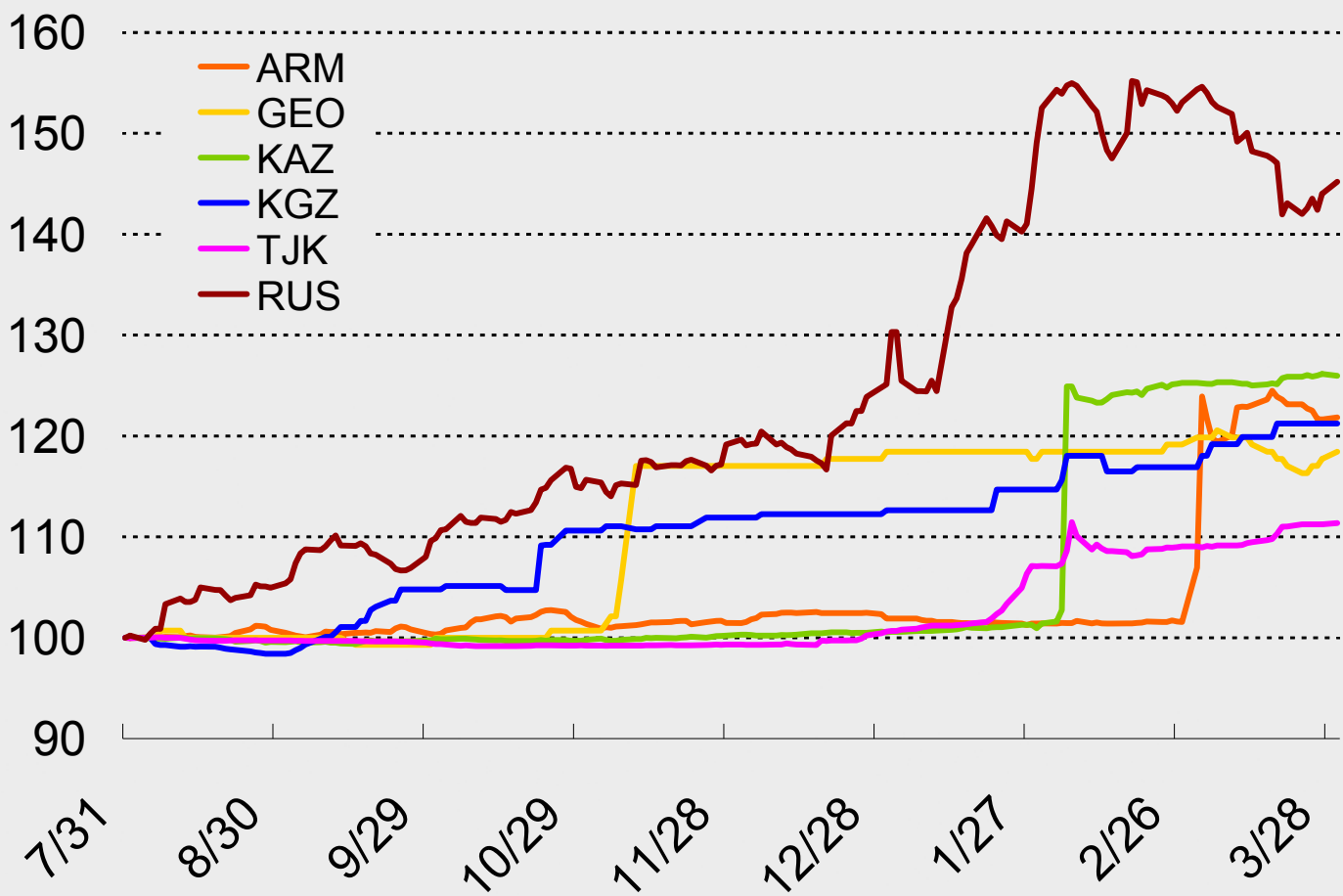
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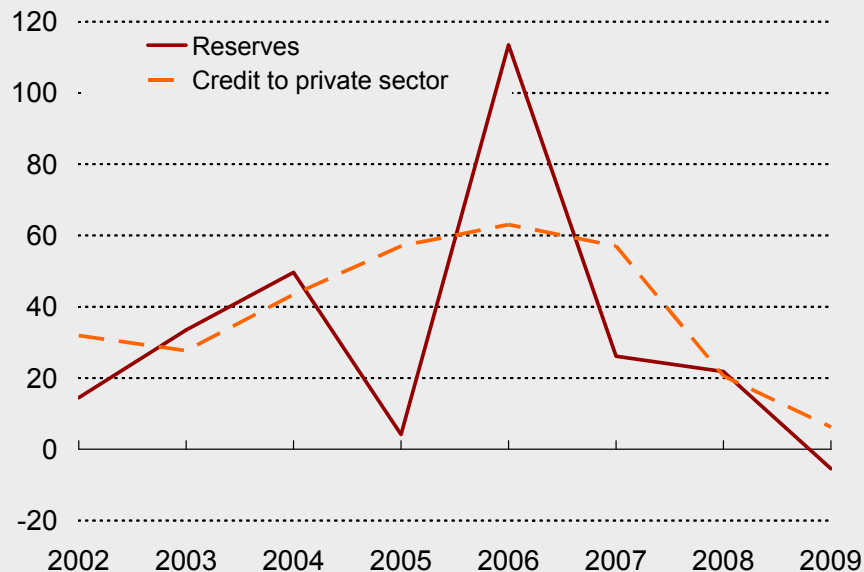


Regional currencies are under pressure.

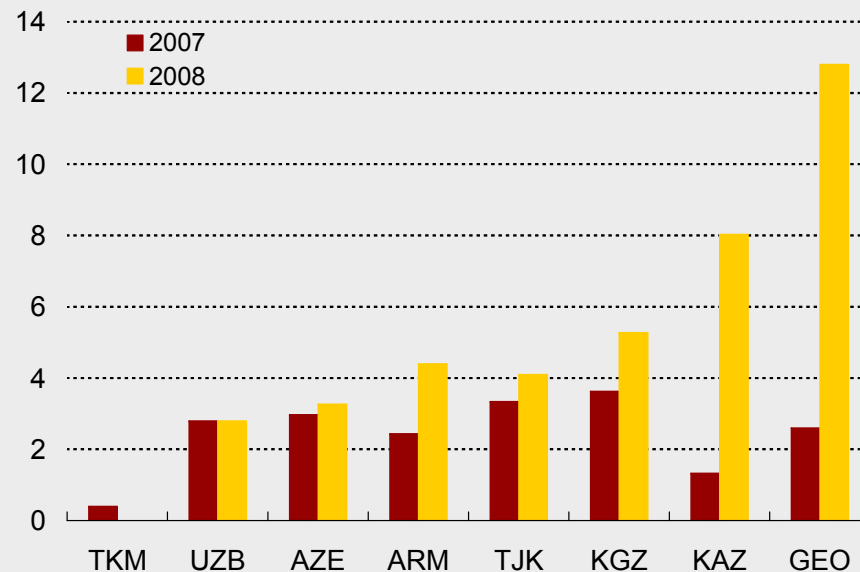


Credit growth is slowing down, and nonperforming loans are rising.

Credit Growth
(In percent, annual growth)



Nonperforming Loans
(In percent of total loans)



Policy Priorities

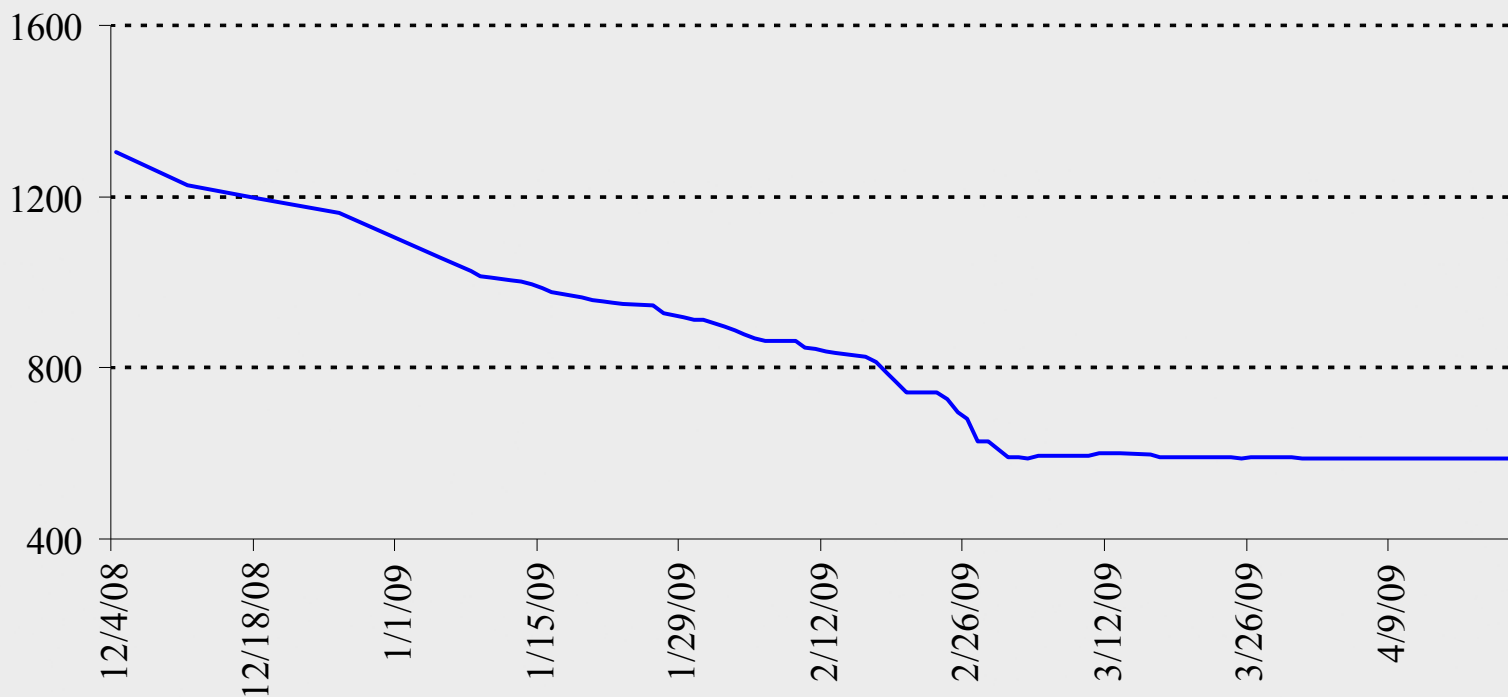
- Ensure external stability.
- Identify and deal with financial sector risks early on.
- Exploit opportunities for fiscal stimulus.
- Prepare contingency plans to deal with potential crisis.

Armenia:

Challenges in a Difficult Year

The floating of the exchange rate has thus far been a success, with international reserves stabilizing.

Net International Reserves (in mln of USD)



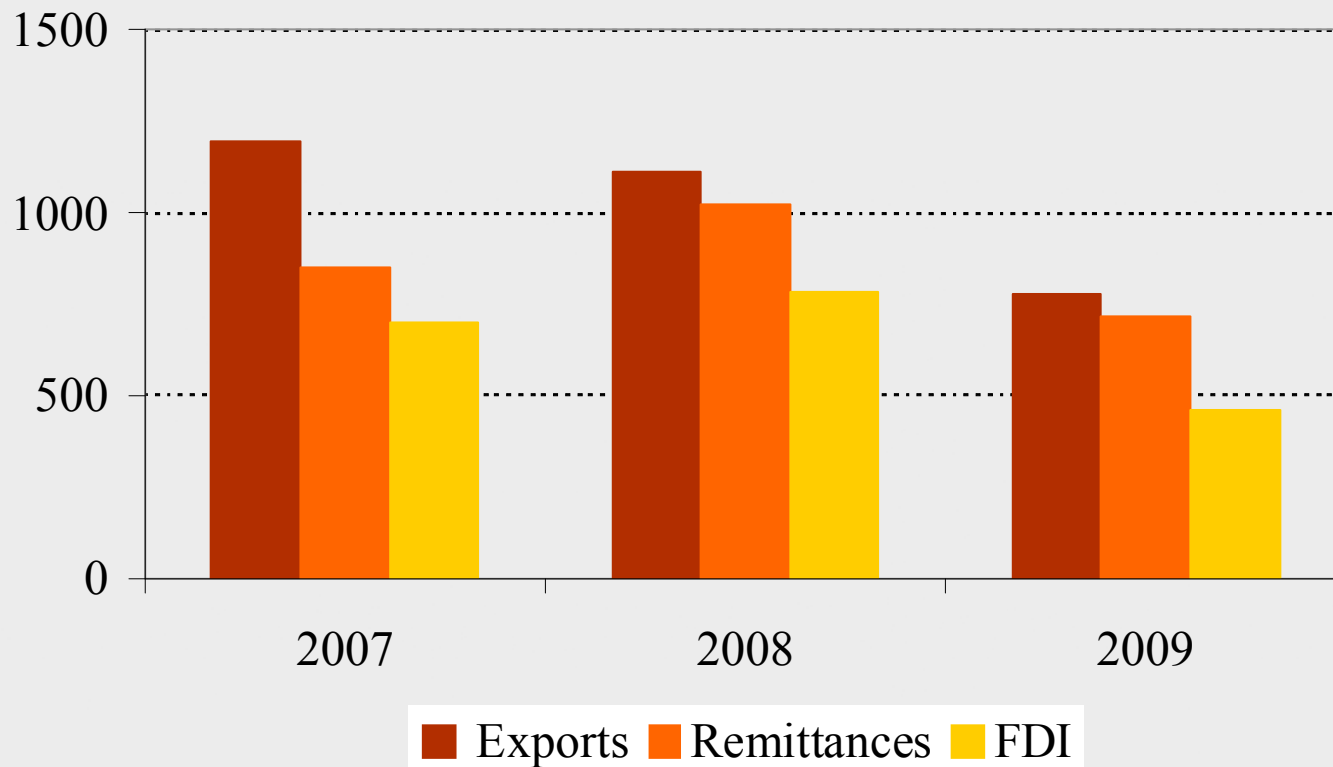
But with output falling sharply, and a slow rebound projected, conditions will be difficult.

Real GDP growth
(percent change)



Balance of payments inflows are falling...

In millions of U.S. Dollars

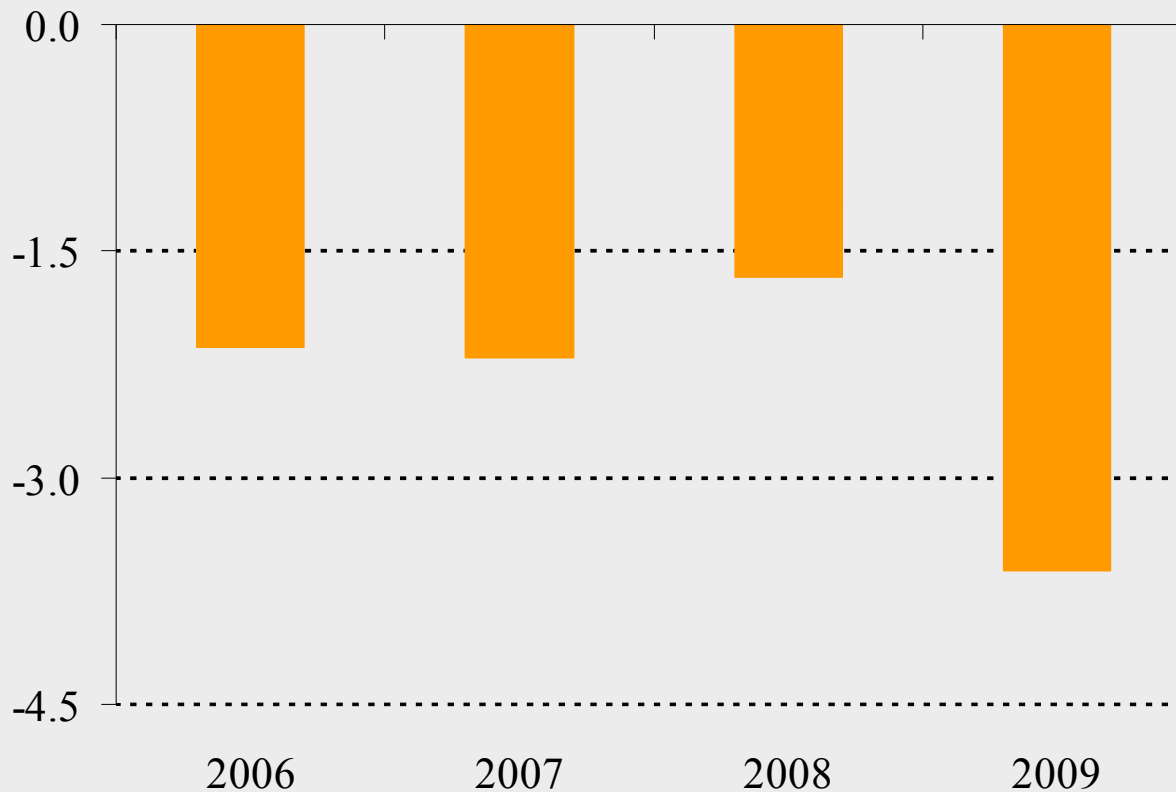


Imports are also falling, but not as much.



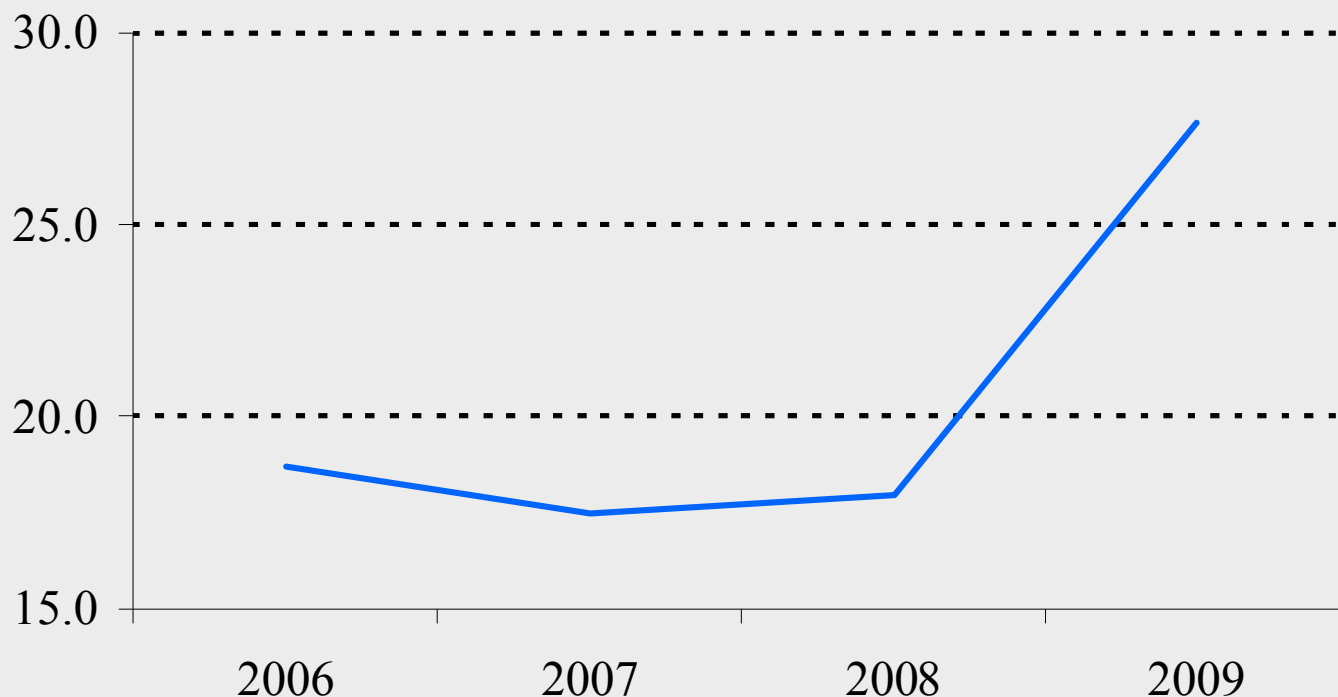
The fiscal balance will deteriorate ...

Overall balance on a cash basis (in percent of GDP)



... with public debt levels rising from a low base.

Government and government-guaranteed debt
(In percent of GDP)



The Task Ahead

- Economic policies that will soften the downturn.
- Targeted measures to protect the poor.
- Remaining vigilant to economic and financial risks that may emerge.