

Regional Economic Outlook

Prospects and Economic Policy Issues for Central Asia

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CIS Countries Covered by the Middle East and Central Asia Department (MCD)



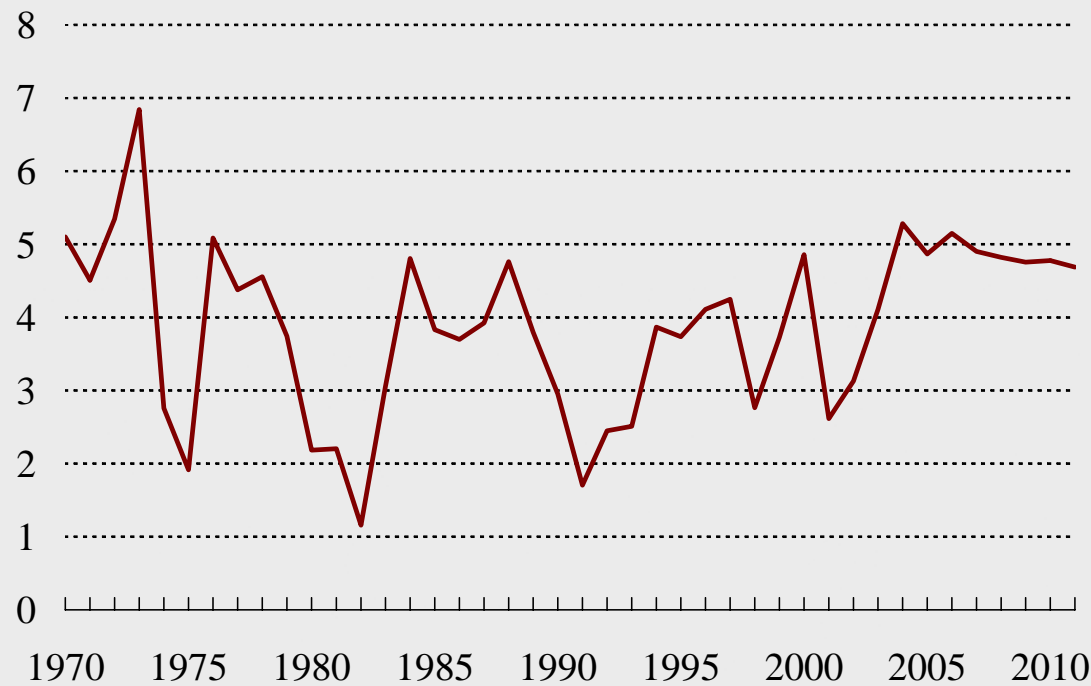
Outline of Presentation

- Global economic background
- Outlook for Central Asian countries:
 - ✓ Recent developments and prospects
 - ✓ Policy challenges

Global Economic Background

World Real GDP Growth

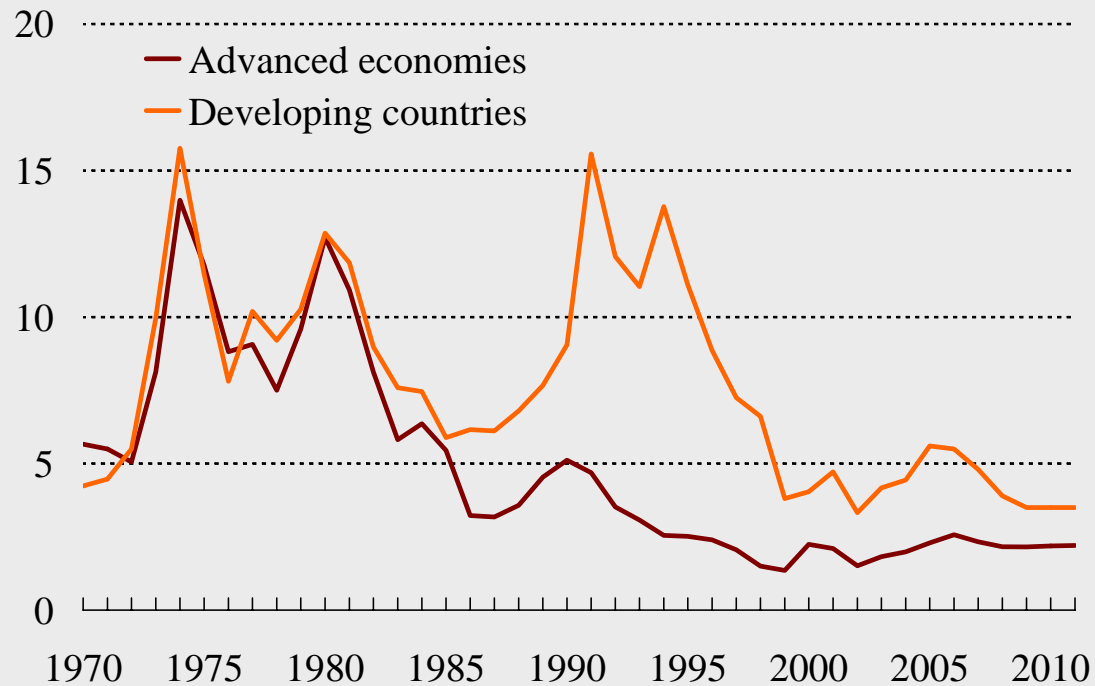
(Annual percent change)



Global growth is the highest for 30 years,
despite high oil prices

Consumer Price Inflation

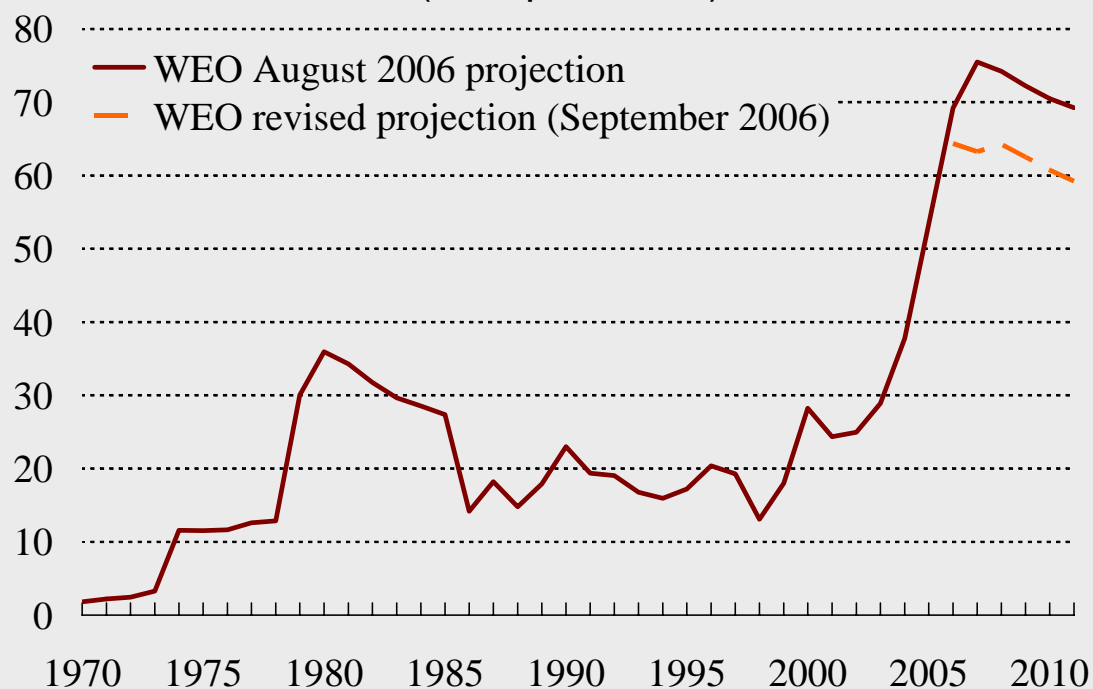
(Annual percent change)



World inflation remains low

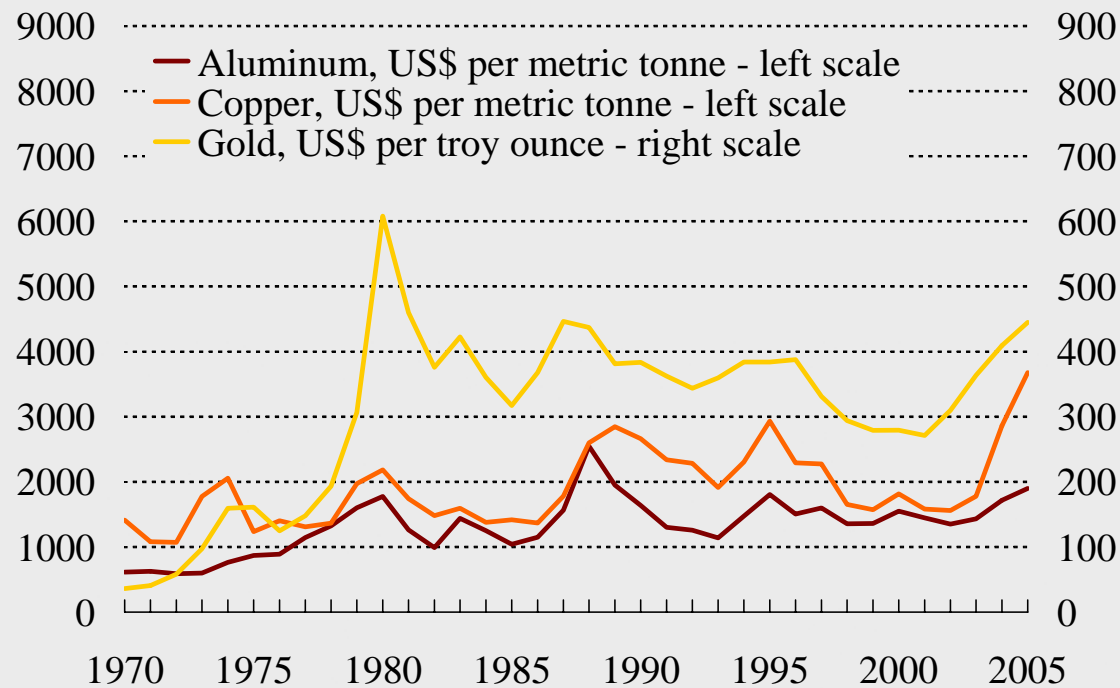
Developments in Oil Prices

(US\$ per barrel)



Oil prices have risen sharply but are easing

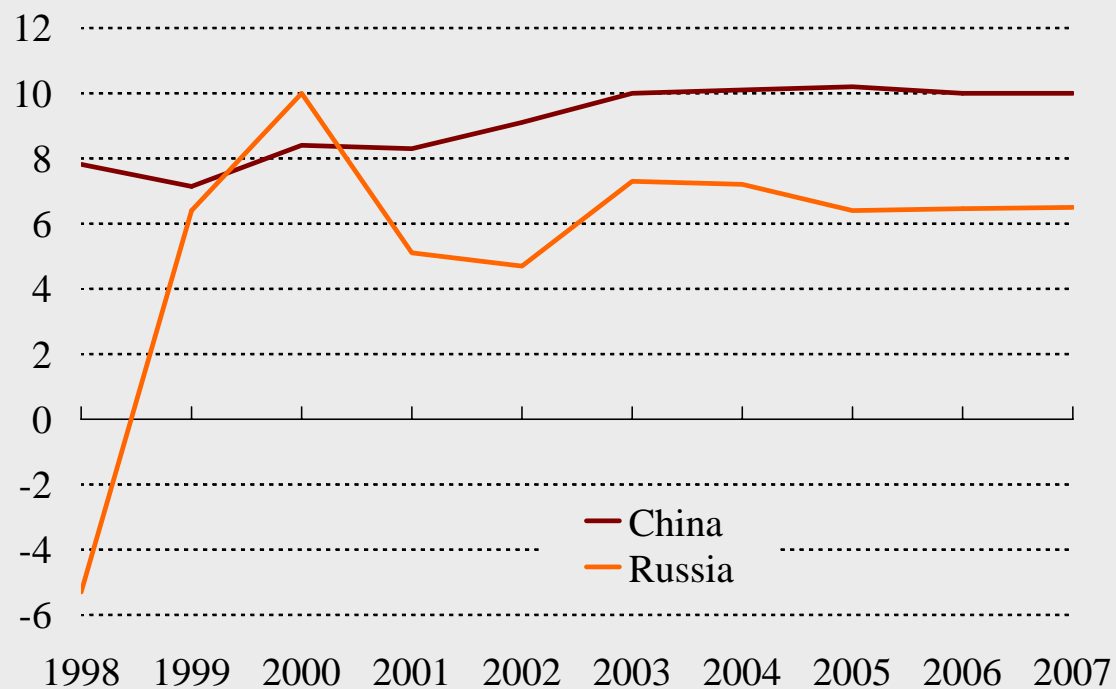
Non-Oil Commodity Prices



Metals prices have also risen sharply

Real GDP Growth

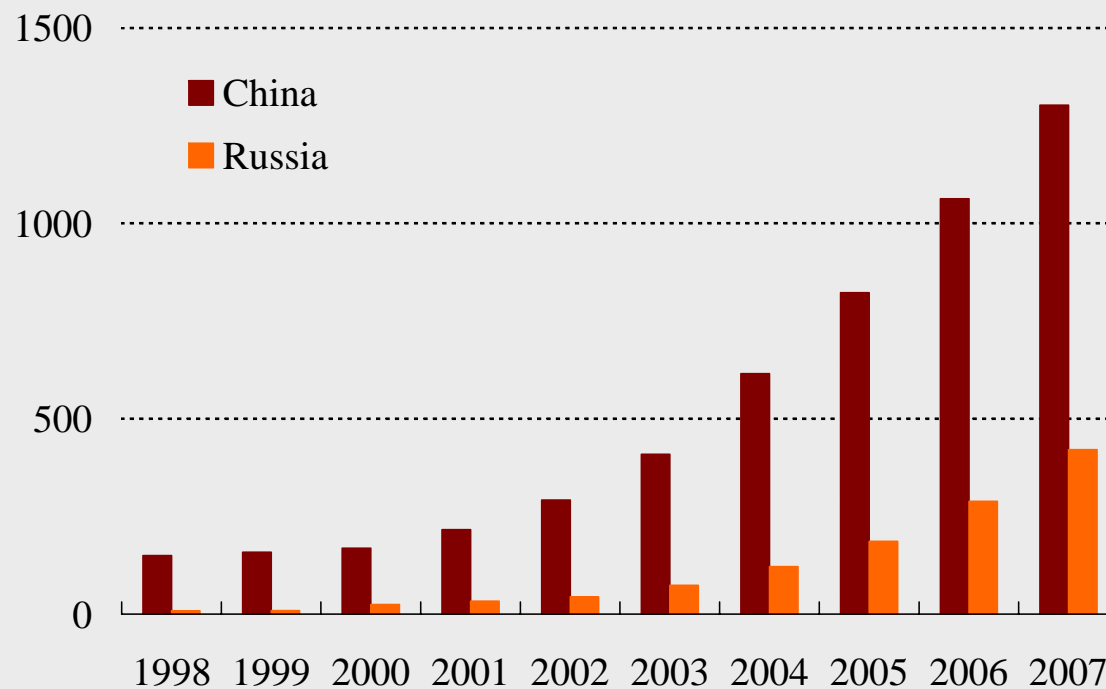
(Annual percent change)



Russia and China are growing rapidly

International Reserves

(In billions of U.S. dollars)

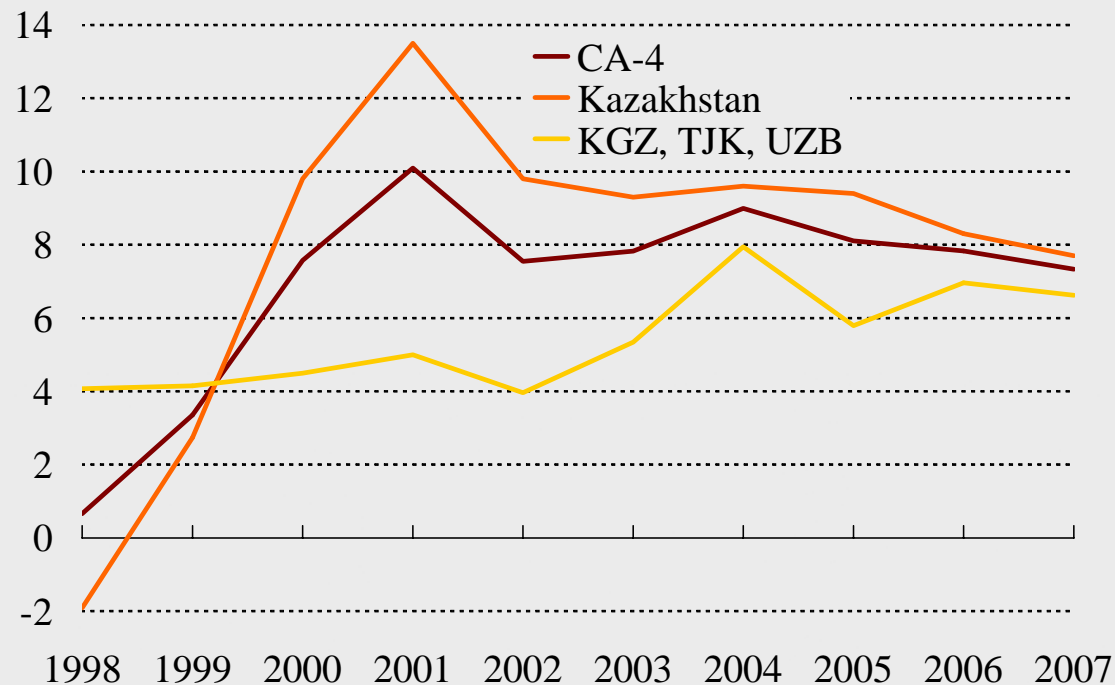


Reserves of Russia and China are increasing rapidly

Recent Developments and Prospects for Central Asia

Real GDP Growth

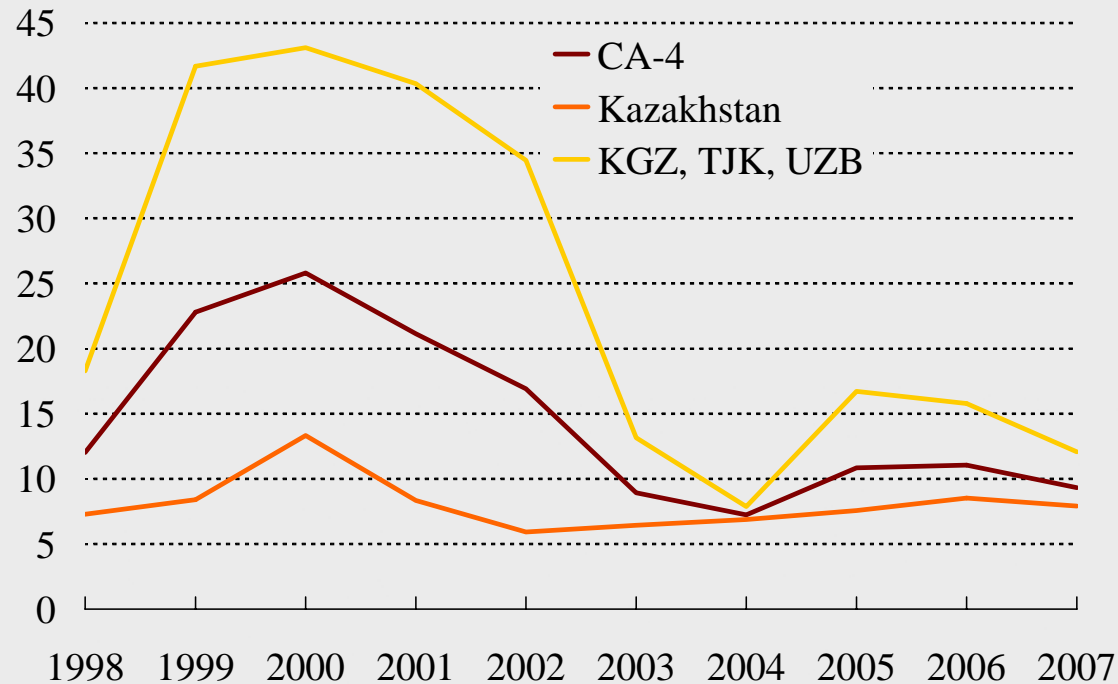
(Annual average change; in percent)



- Central Asian countries are growing strongly—well above global average
- Near-term growth prospects are good

Consumer Price Inflation

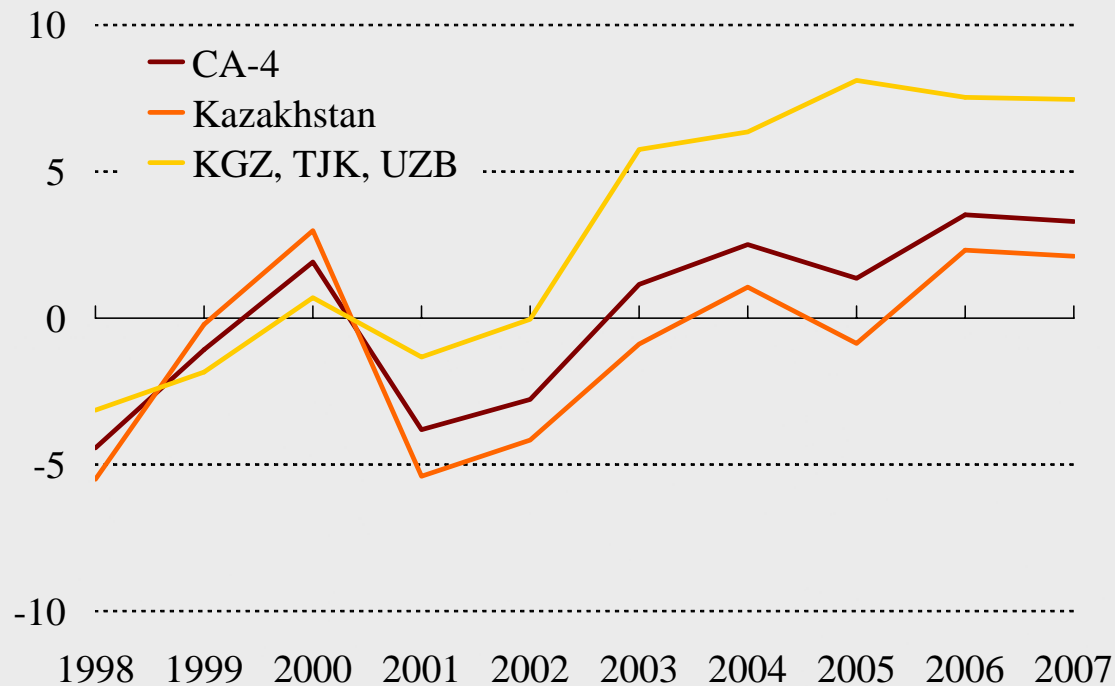
(Annual average change; in percent)



- Inflation has risen—on average now above 10 percent
- Fueled by higher oil prices and strong credit growth

External Current Account Balance

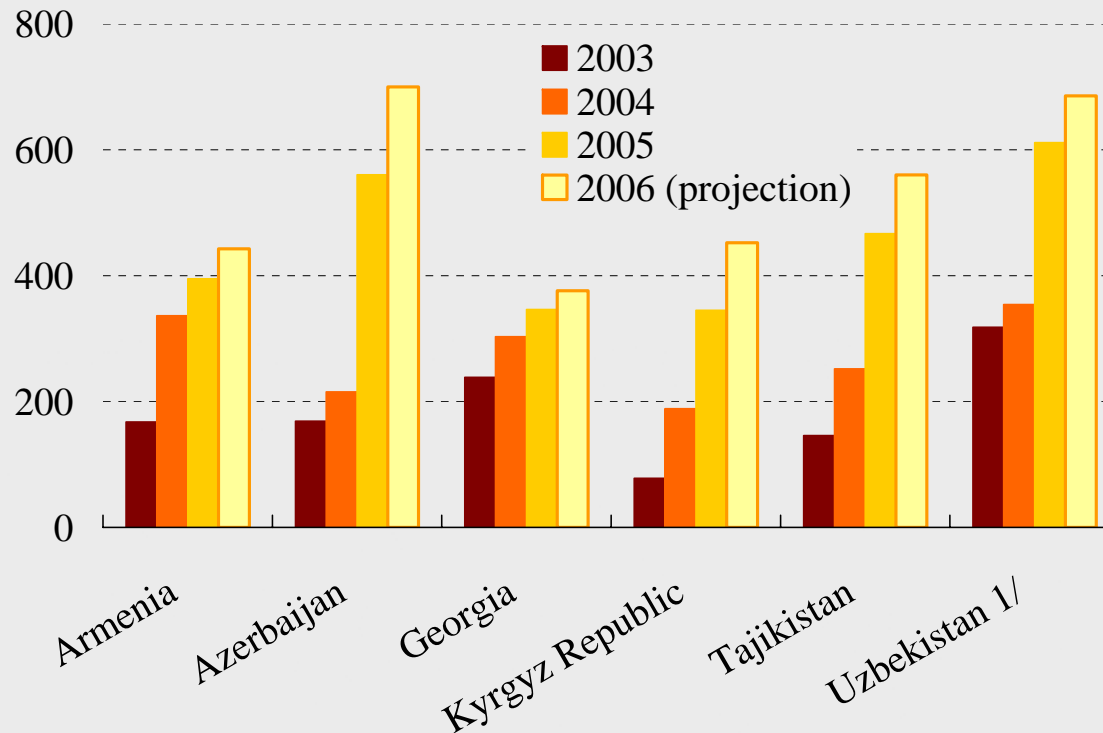
(In percent of GDP)



- External surplus is growing as the region continues to benefit from strong inflows

Total Remittance Inflows

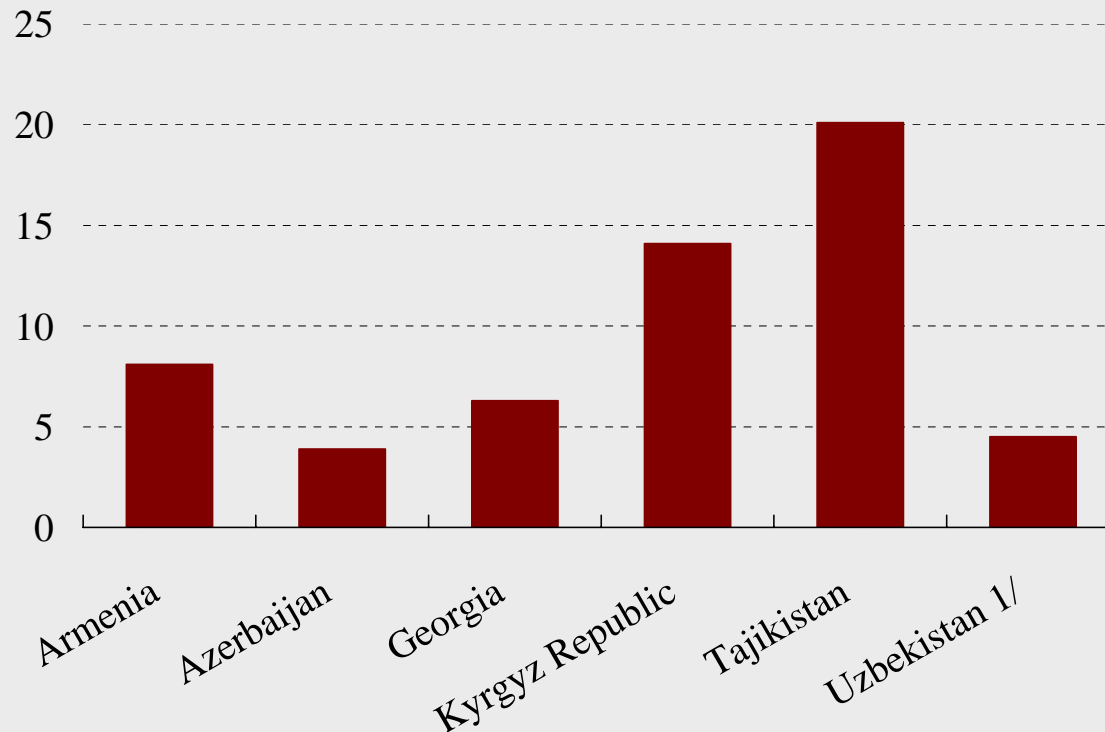
(In millions of U.S. dollars)



- Remittance inflows have grown rapidly in recent years

Total Remittance Inflows

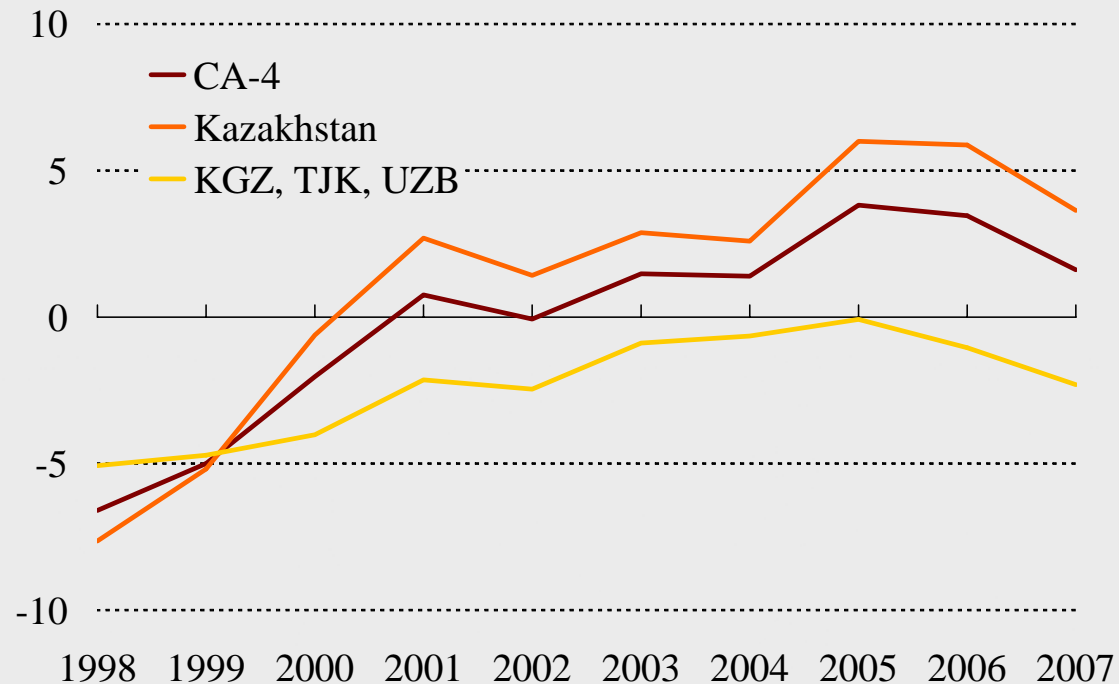
(In percent of GDP)



- Remittances are especially important for Kyrgyz Republic and Tajikistan

Central Government Fiscal Balance

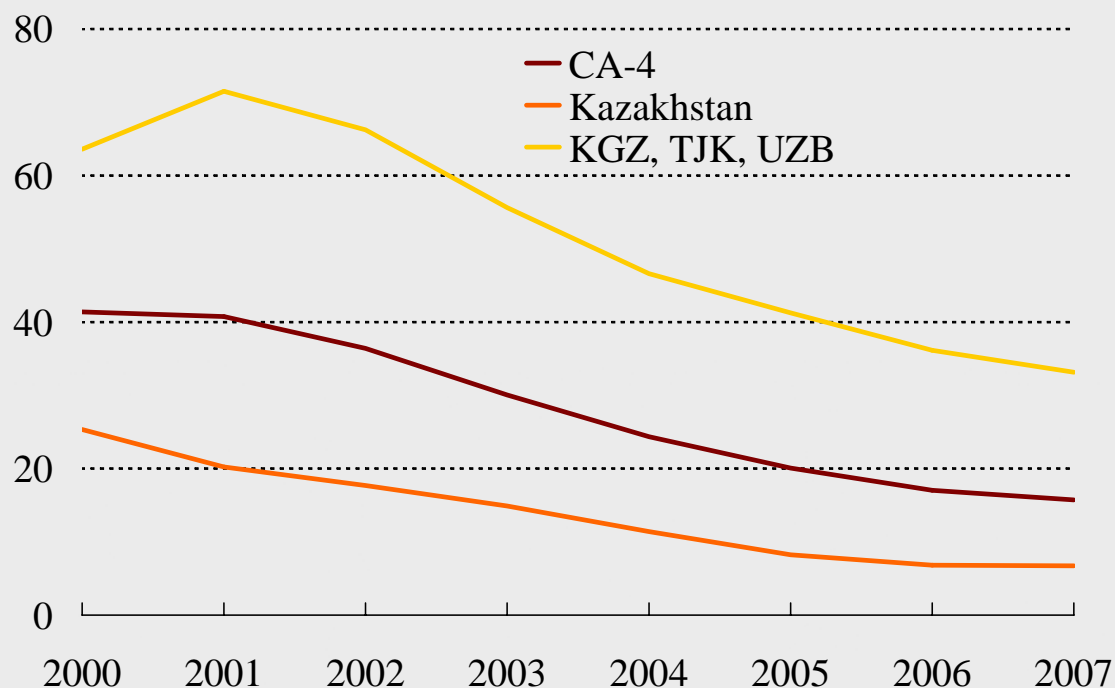
(In percent of GDP)



- Fiscal policy is generally strong; moderate easing projected for 2007

Total Government Debt

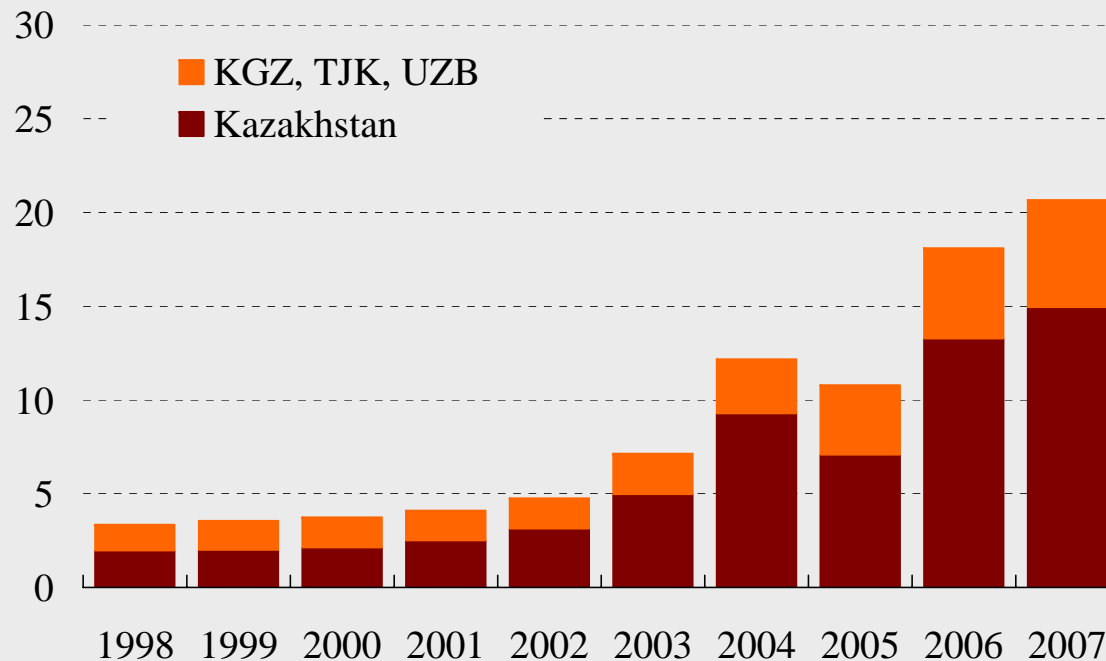
(In percent of GDP)



- Government debt remains on a downward path relative to GDP

Gross Official Reserves

(In billions of U.S. dollars)

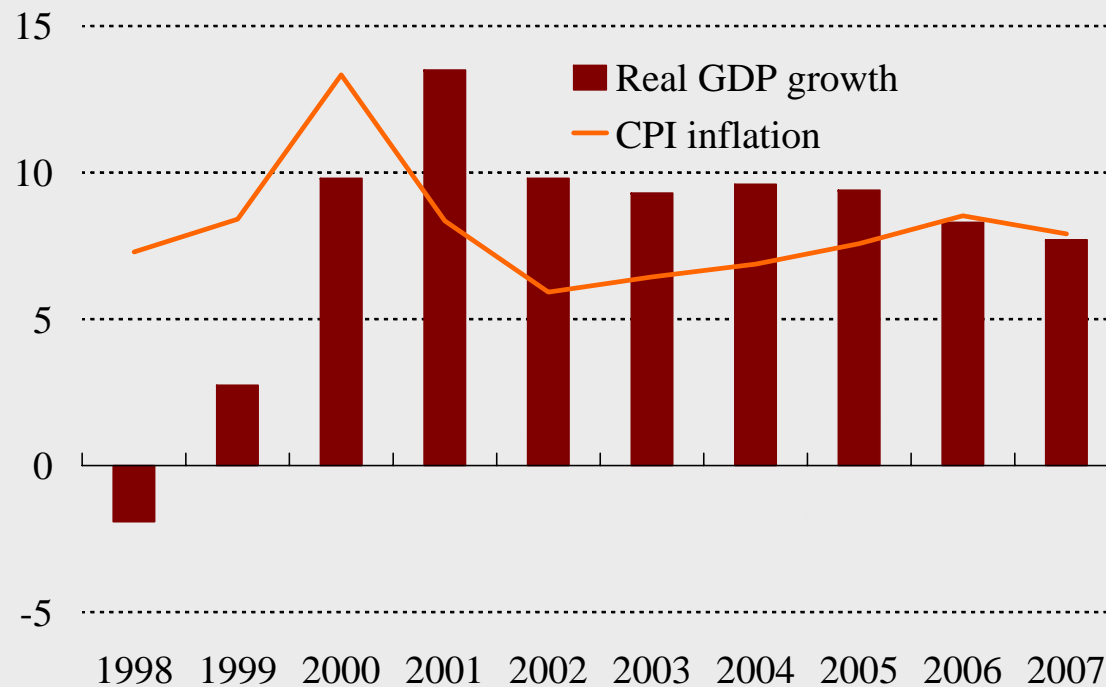


- Gross official reserves are increasing steadily
- Progress in building reserves and reducing debt has put the region in a better position to absorb shocks and address development needs

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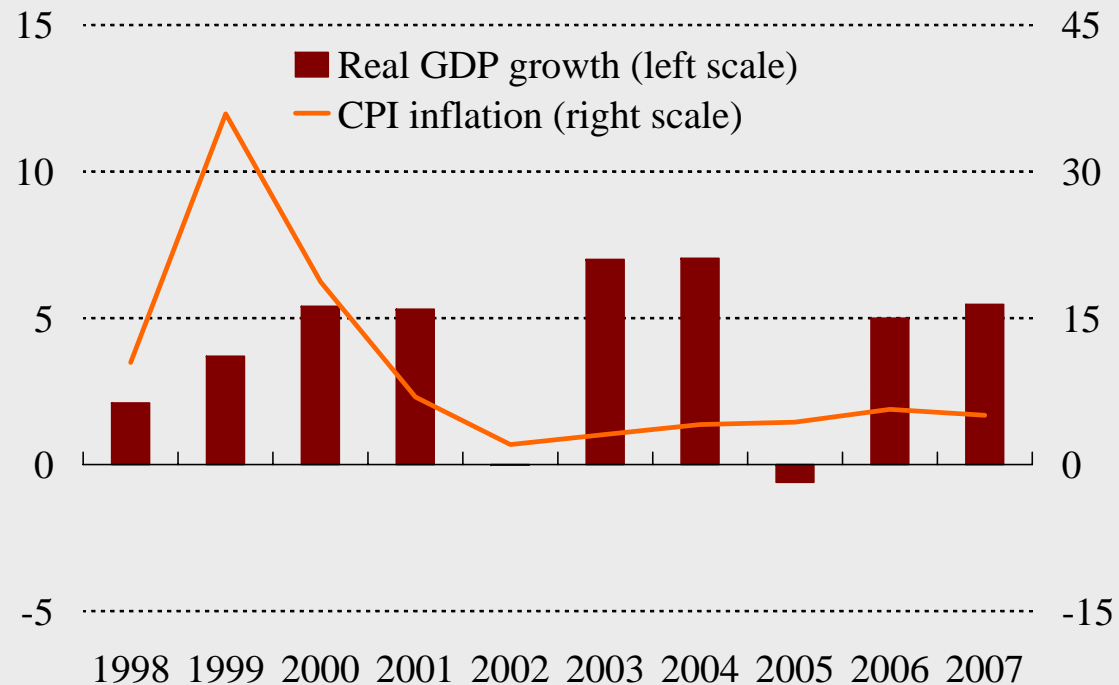
Prospects and Policies

Kazakhstan



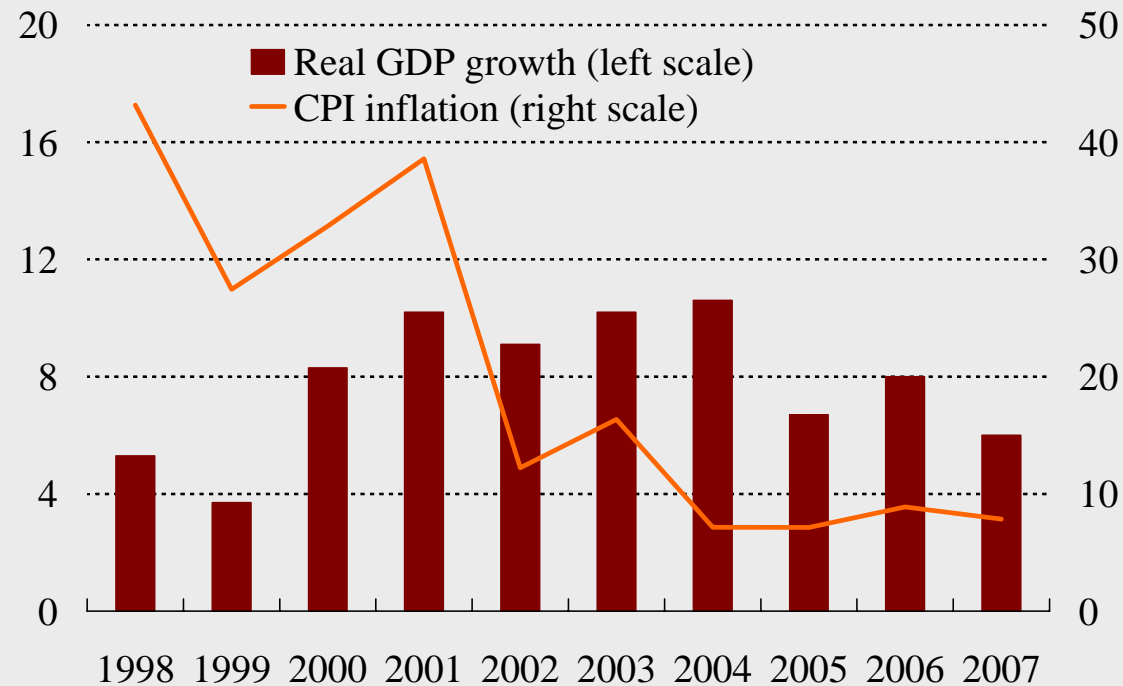
- Growth remains very strong and inflation risks becoming entrenched at to 8-9 percent
- Key policy challenges: further monetary tightening and prudential measures to limit banking sector risks and curb inflation

Kyrgyz Republic



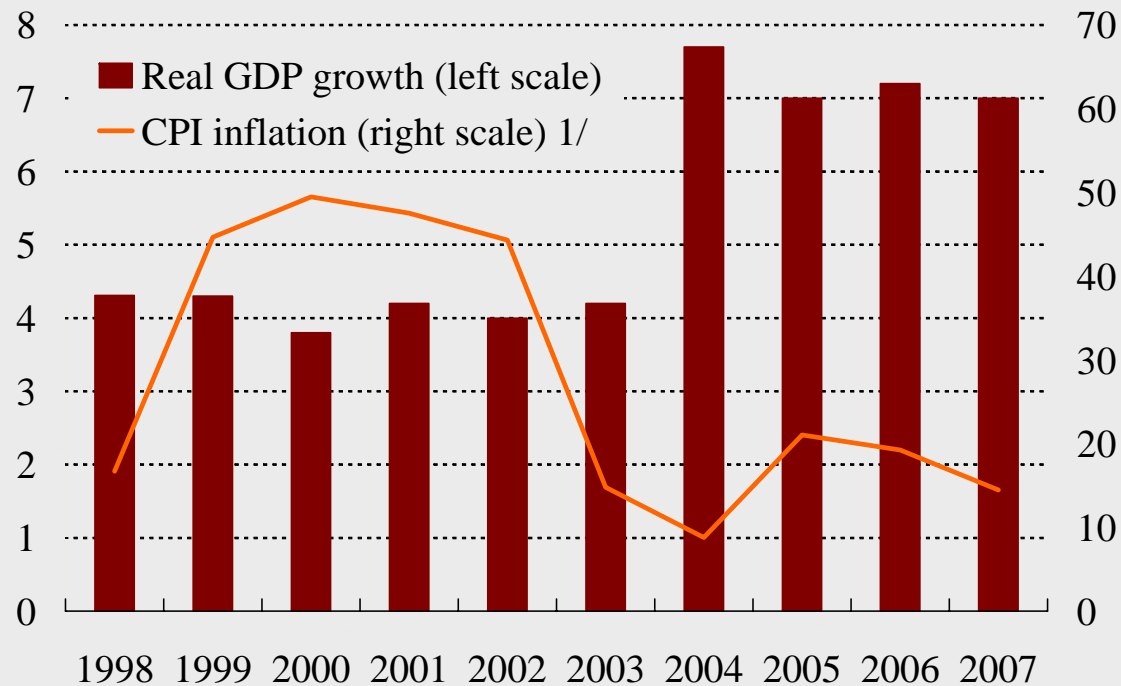
- GDP is recovering and inflation remains low, but rising
- Key policy challenges: take advantage of available debt relief; balance opportunities for external financing of large investment projects with the need to avoid a new cycle of excessive borrowing

Tajikistan



- Growth remains strong but inflation has picked up to close to 10 percent
- Key policy challenges: make good use of increased donor support to achieve development goals, while avoiding a new cycle of excessive borrowing

Uzbekistan



1/ IMF staff estimates.

- Growth to remain around 6-7 percent, but inflation is well into double digits
- Key policy challenges: get inflation down and stimulate private sector development

Common Policy Issues

- Macroeconomic performance has been strong and near-term prospects are favorable.
- Risks to the outlook:
 - The region is heavily dependent on volatile oil and non-oil commodity prices
 - Global growth could slow
 - Rising global interest rates could reduce capital inflows

Common Policy Issues (continued)

- Strong external inflows are fueling inflation. Monetary tightening and exchange rate appreciation are needed in response to permanently higher inflows.
- Excessive external borrowing—either public or private—is potentially risky. Prudential measures should limit external borrowing by banks. Governments need to avoid excessive debt accumulation while investing to improve infrastructure.

Common Policy Issues (continued)

- Adjustment to higher oil prices remains a challenge. Both oil producers and consumers should ensure that changes in world oil prices are passed through quickly to domestic product prices, while strengthening compensation mechanisms for the poor.
- Structural and institutional reforms should continue, to foster private sector development, increase productivity, and boost countries' resilience to shocks.
- Regional cooperation should be increased to promote trade and investment, and improve prospects for long-term growth.