

Regional Economic Outlook

Caucasus and Central Asia



May, 2013

Caucasus and Central Asia



Outline

Global Outlook

CCA Outlook and Risks

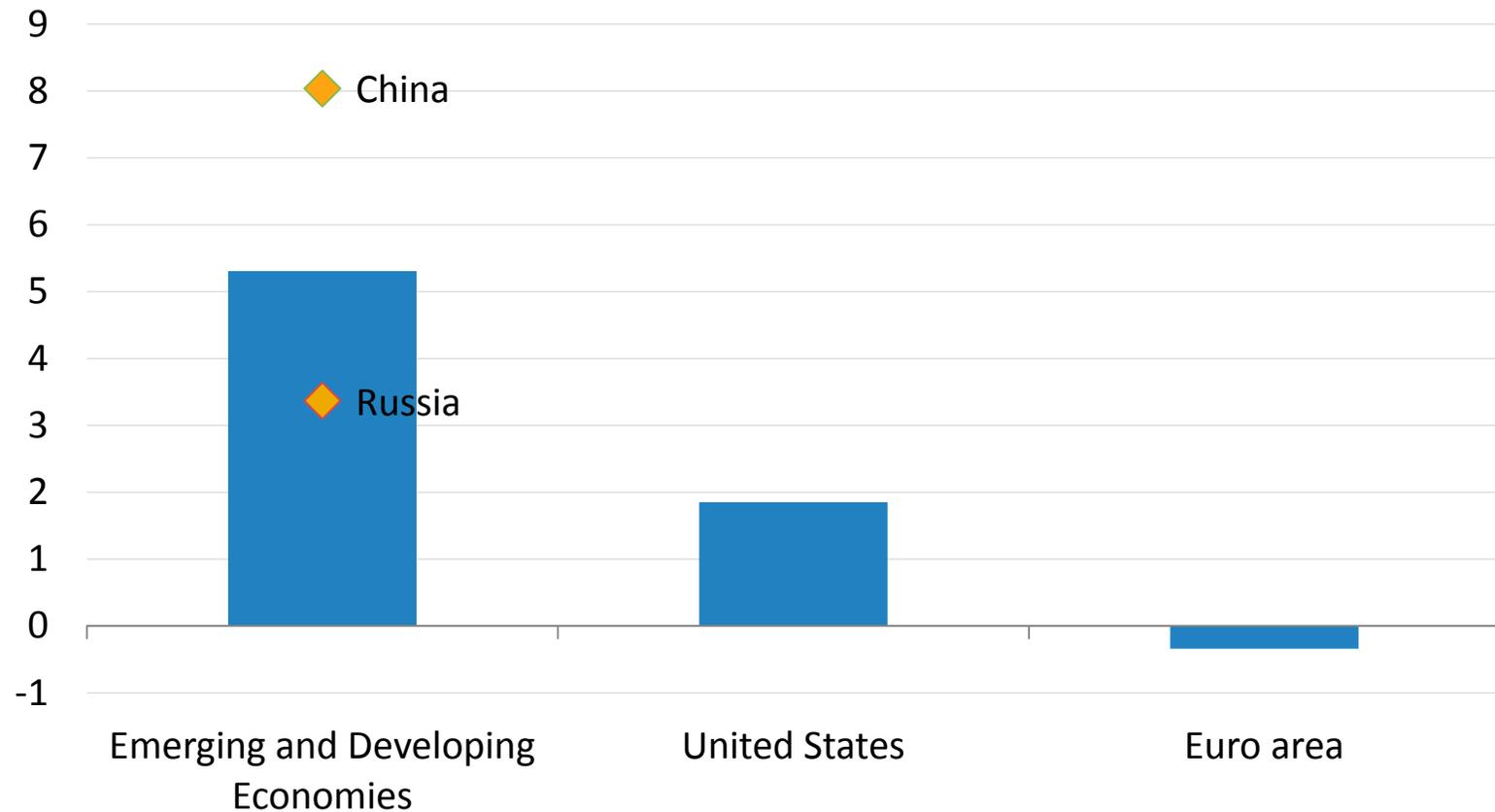
CCA Macroeconomic Policies

CCA Structural Challenges

A three-speed global economy?

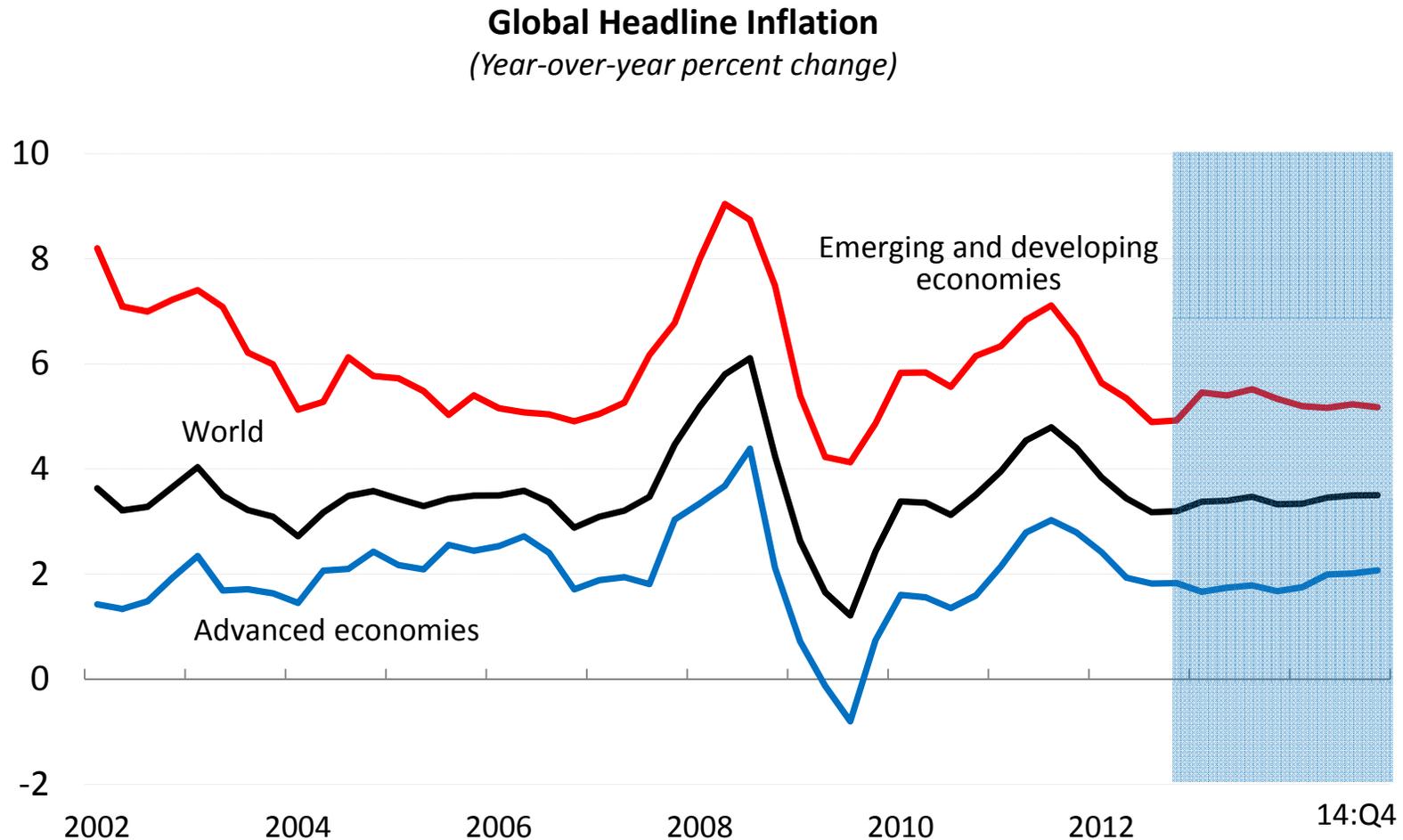
Real GDP Growth, 2013

(percent change year over year)



Source: IMF, *World Economic Outlook*.

Global inflation has slowed

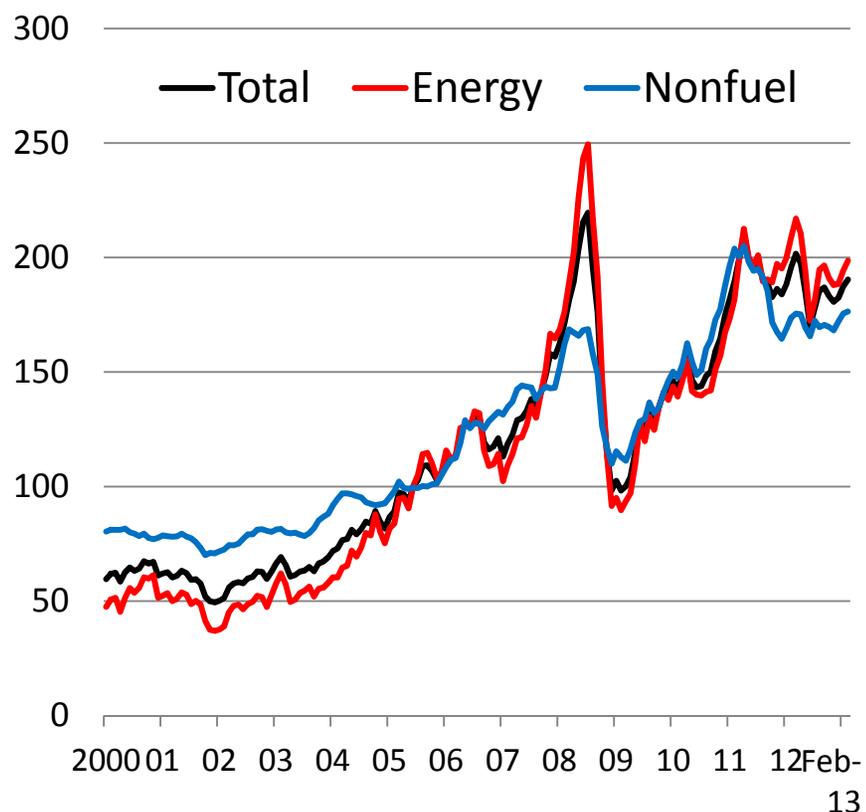


Source: IMF, *World Economic Outlook*.

Commodity prices have eased but remain elevated

IMF Commodity Price Indices

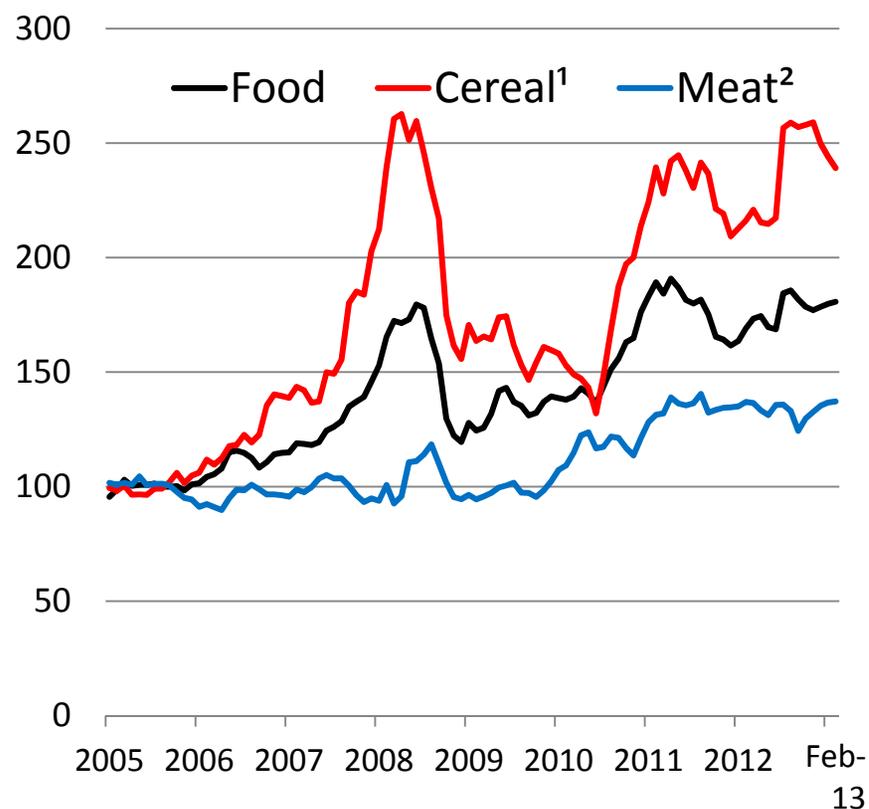
(Index; 2005 = 100)



Source: IMF, *Primary Commodity Price System*.

IMF Food Price Indices

(Index; 2005 = 100)



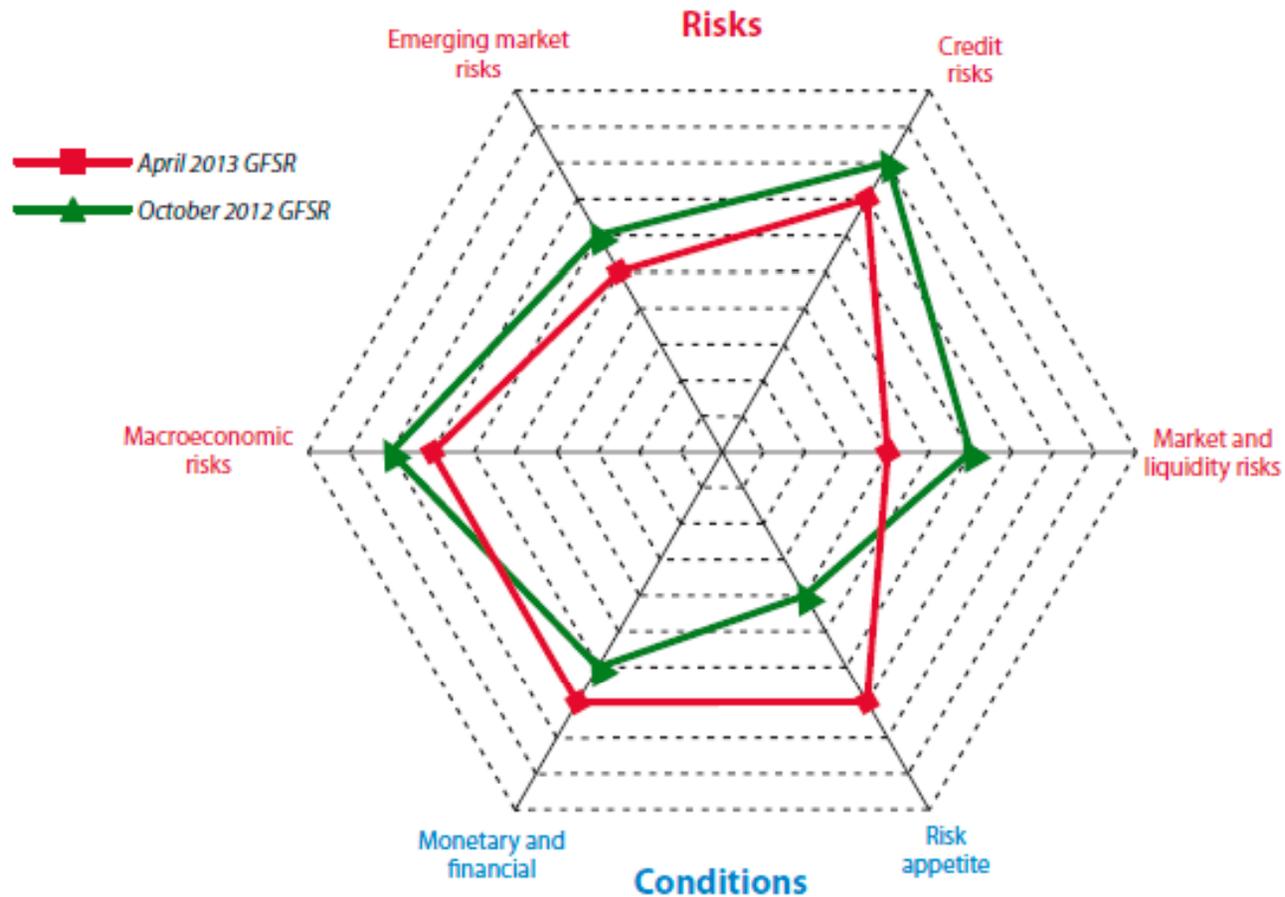
Source: IMF, *Primary Commodity Price System*.

¹A weighted average of wheat, corn, rice, and barley.

²A weighted average of beef, lamb, pork, and poultry.

Global financial conditions have improved

Global Financial Stability Map



Source: IMF staff estimates.

Note: Distance from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

The global economic outlook remains tepid

WEO Real GDP Growth Projections (percent change from a year earlier)



World U.S. Euro Area Japan Brazil Russia India China CCA

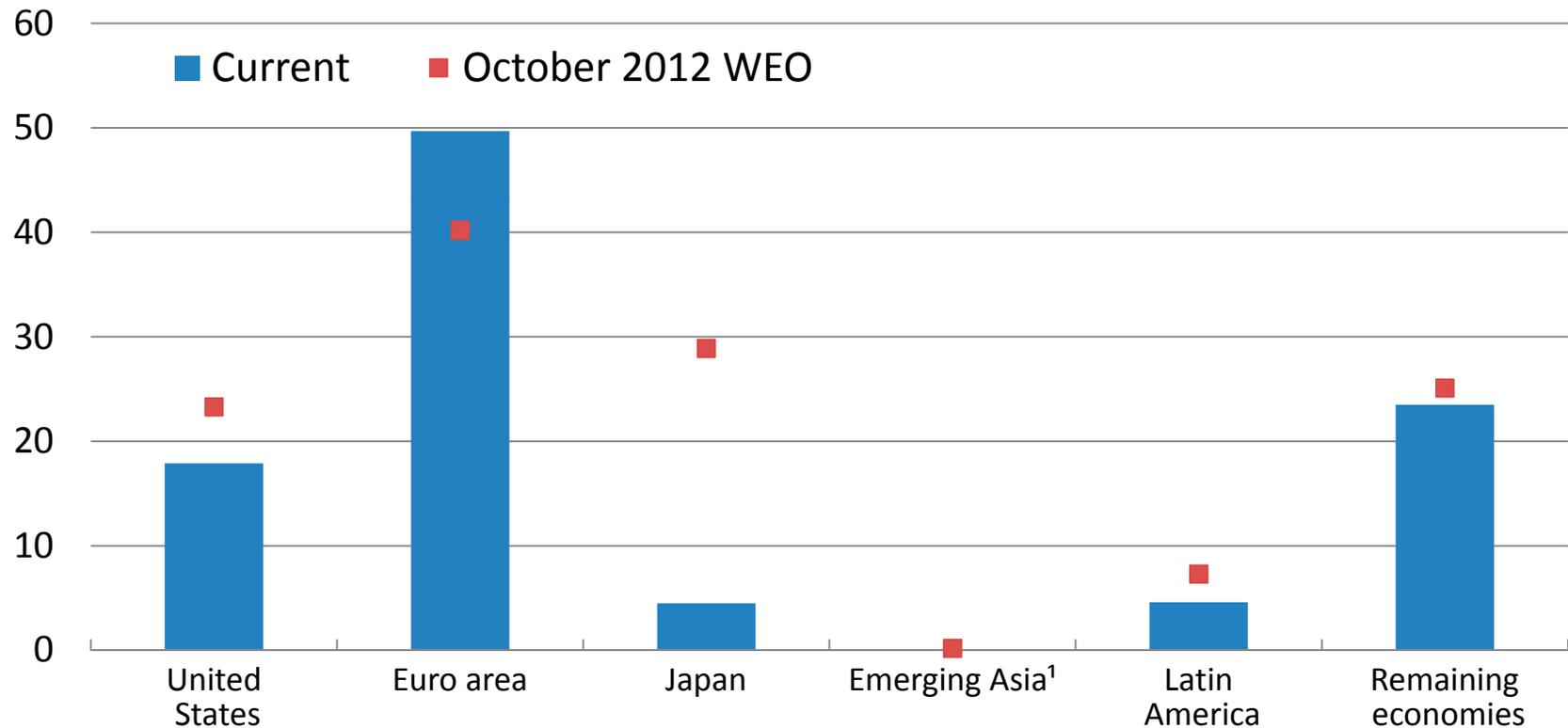
	World	U.S.	Euro Area	Japan	Brazil	Russia	India	China	CCA
2013 (April 2013)	3.3	1.9	-0.3	1.6	3.0	3.4	5.7	8.0	5.8
2013 (Jan. 2013)	3.5	2.0	-0.2	1.2	3.5	3.7	5.9	8.2	5.5
2014 (April 2013)	4.0	3.0	1.1	1.4	4.0	3.8	6.2	8.2	6.1
2014 (Jan. 2013)	4.1	3.0	1.0	0.7	4.0	3.8	6.4	8.5	5.7

Source: IMF, *World Economic Outlook*.

Outside Europe, economic risks have declined

Probability of Recession, 2013

(Percent)



Source: IMF staff estimates.

Caucasus and Central Asia: outlook and risks

CCA region:

- Solid but moderating growth

Oil and gas importers:

- Fiscal buffers are being rebuilt, but further efforts are needed
- High external current account deficits are a vulnerability (except in Tajikistan)

Oil and gas exporters:

- Some countries need to resolve problem banks
- Policymakers should improve spending quality and develop non-oil taxes

Medium-term challenge: Creating jobs and fostering inclusive growth

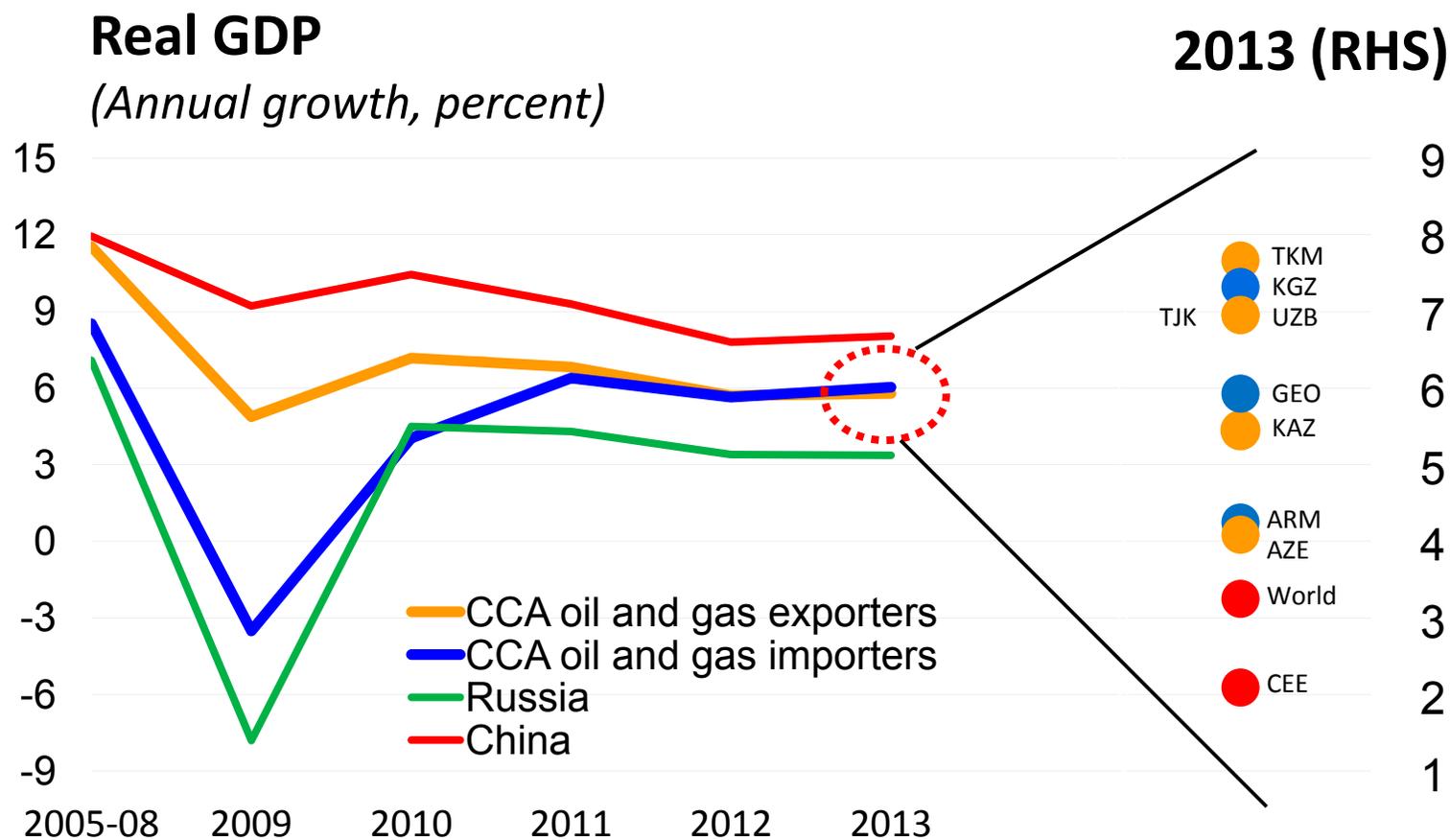
Strengthening fiscal frameworks

Reinforcing financial sector regulation

Promoting trade integration

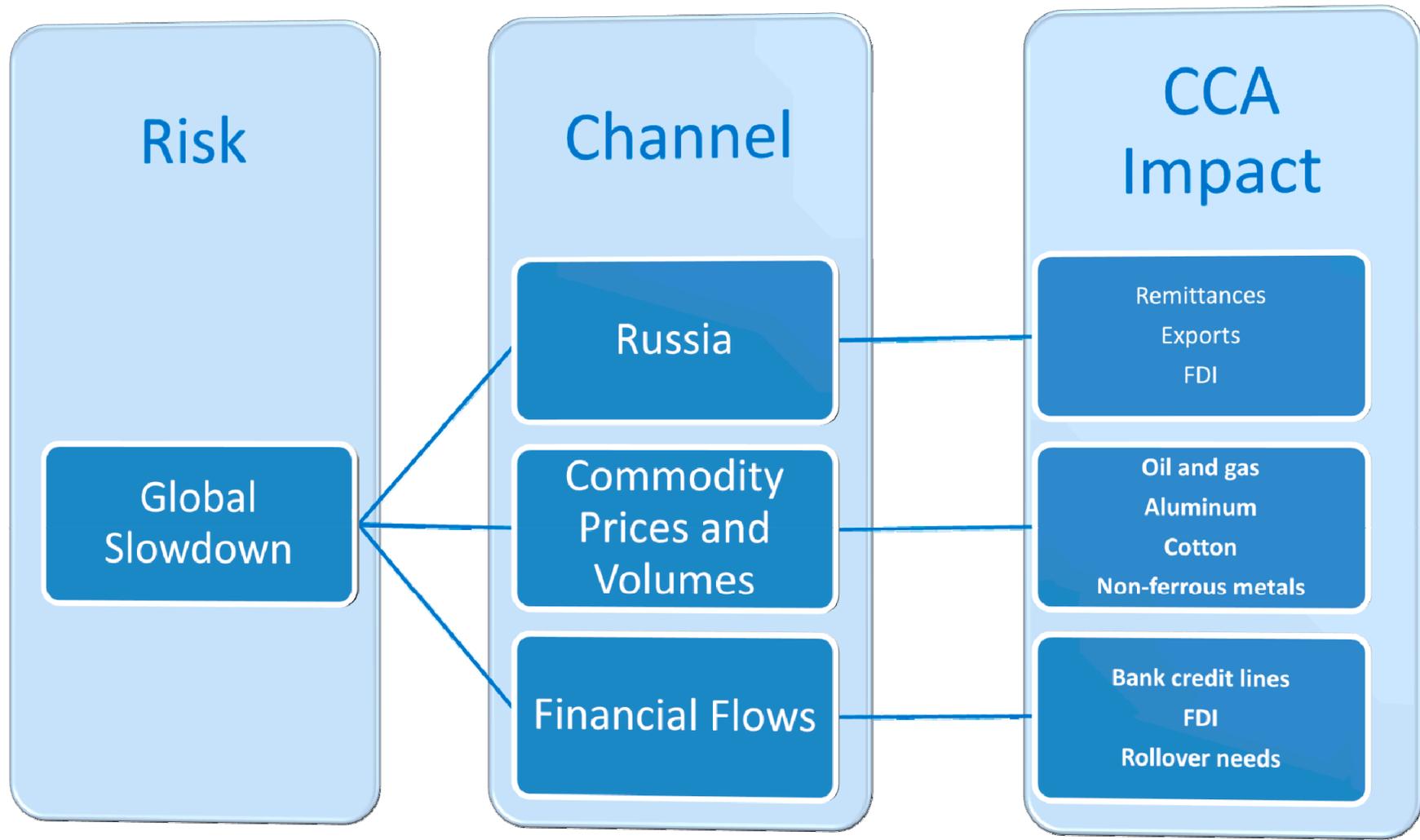
Improving business climate/governance

The economic outlook remains favorable across the CCA



Sources: IMF, *World Economic Outlook*; and IMF staff calculations and projections.

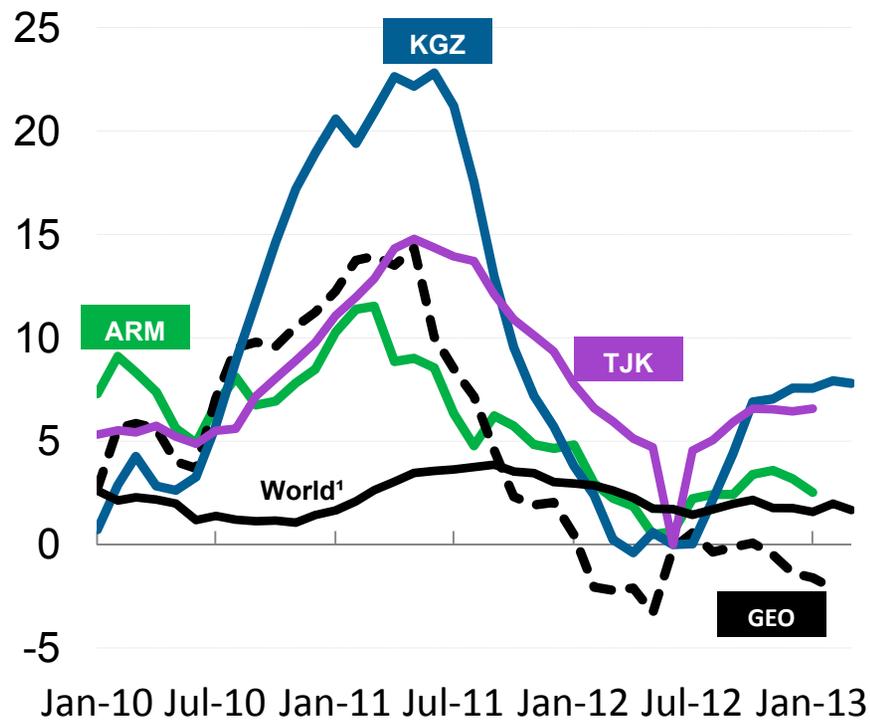
But downside risks are still elevated



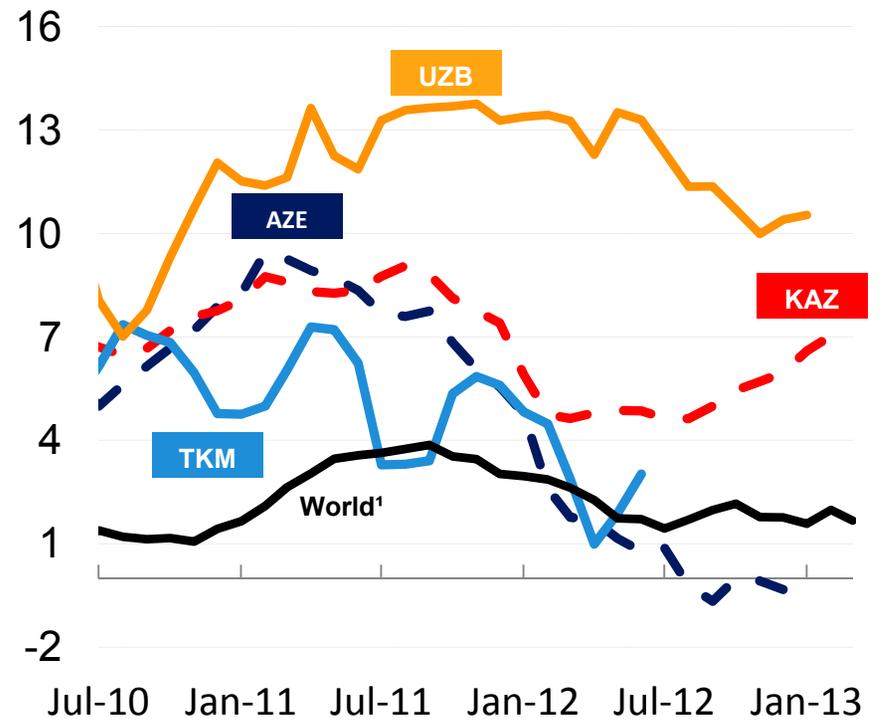
Inflationary pressures are generally low

Headline CPI Inflation (12-month change; percent)

Oil and Gas Importers



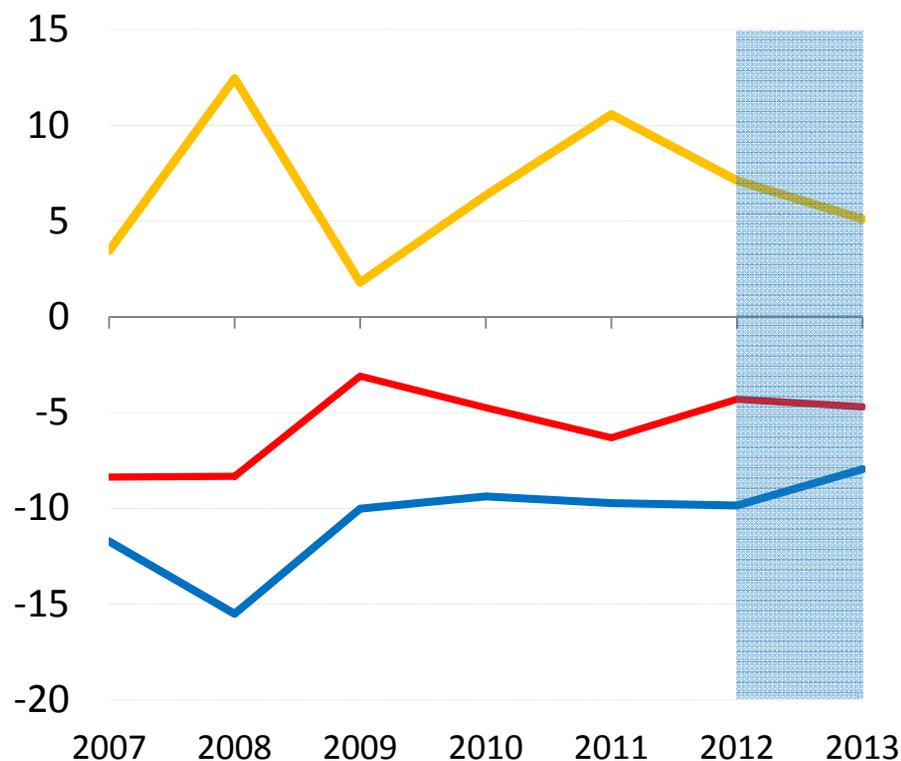
Oil and Gas Exporters



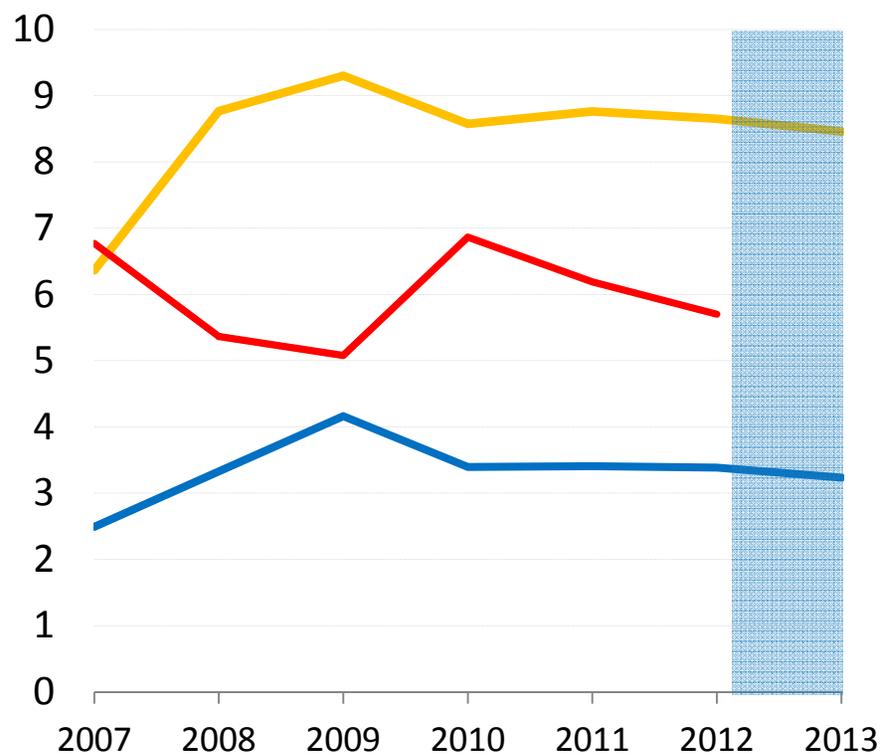
Sources: National authorities; and IMF staff calculations.
¹IMF world commodity price inflation.

External vulnerabilities in the oil and gas importers

Current Account Balance
(Percent of GDP)



International Reserves
(In months of next year's imports)



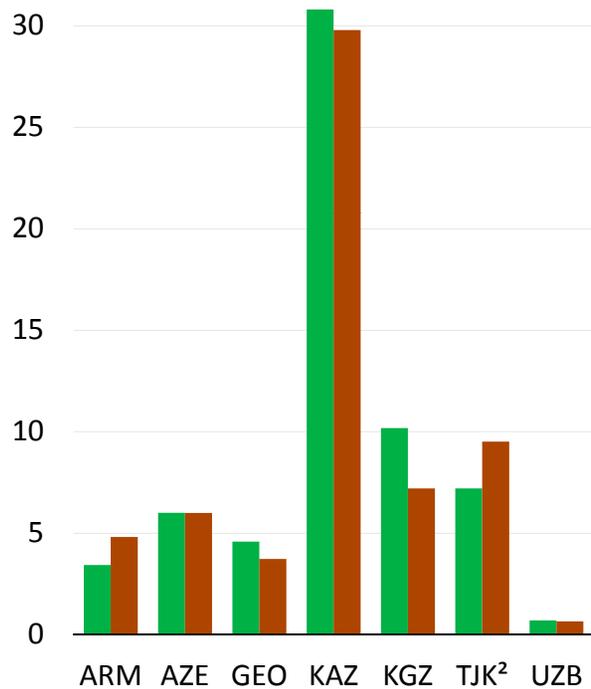
— CCA oil and gas exporters — CCA oil and gas importers — CEE

Sources: National authorities, IFS database; and IMF staff calculations and projections.

Banks are well capitalized but NPLs are high in some countries

Nonperforming Loans¹

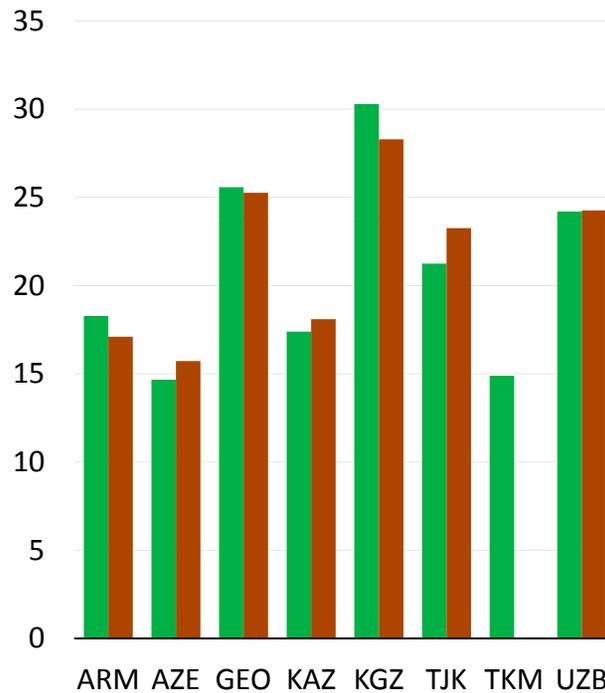
(On a 90-day basis; percent of total loans)



■ 2011

Capital Adequacy Ratio

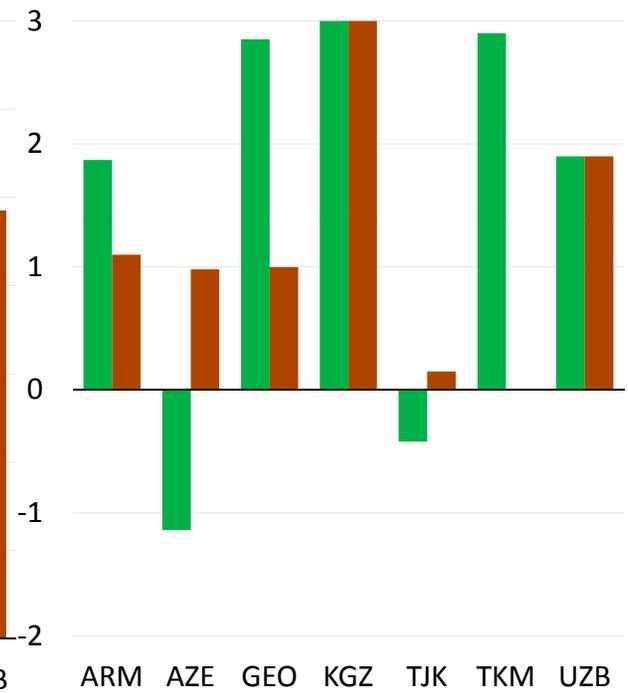
(Percent of risk-weighted assets)



■ 2012 (latest)

Return on Assets

(Percent)



Sources: National authorities; and IMF staff estimates.

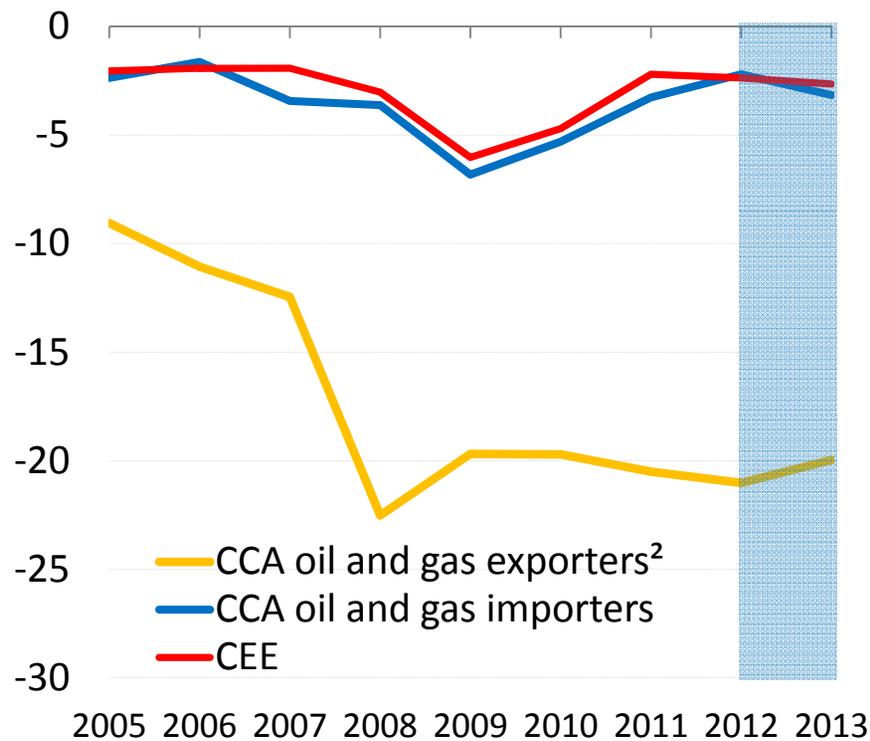
¹90-day basis.

²Overdue by 30 days or more.

Fiscal consolidation is needed to rebuild buffers, particularly in countries with higher debt

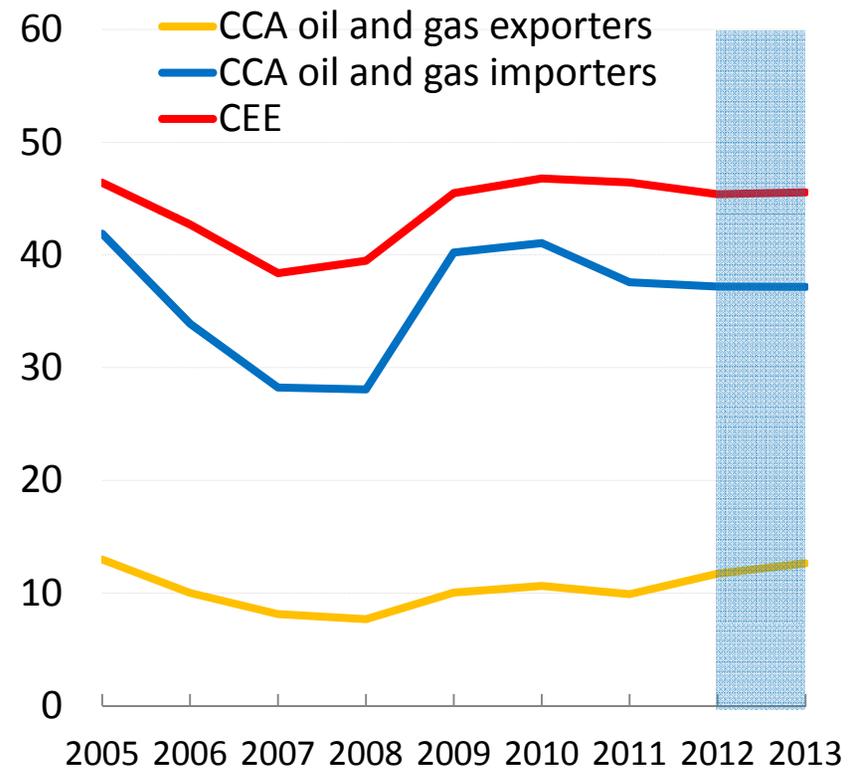
Fiscal Deficits¹

(Fiscal balance; percent of GDP)



Public Debt

(Percent of GDP)



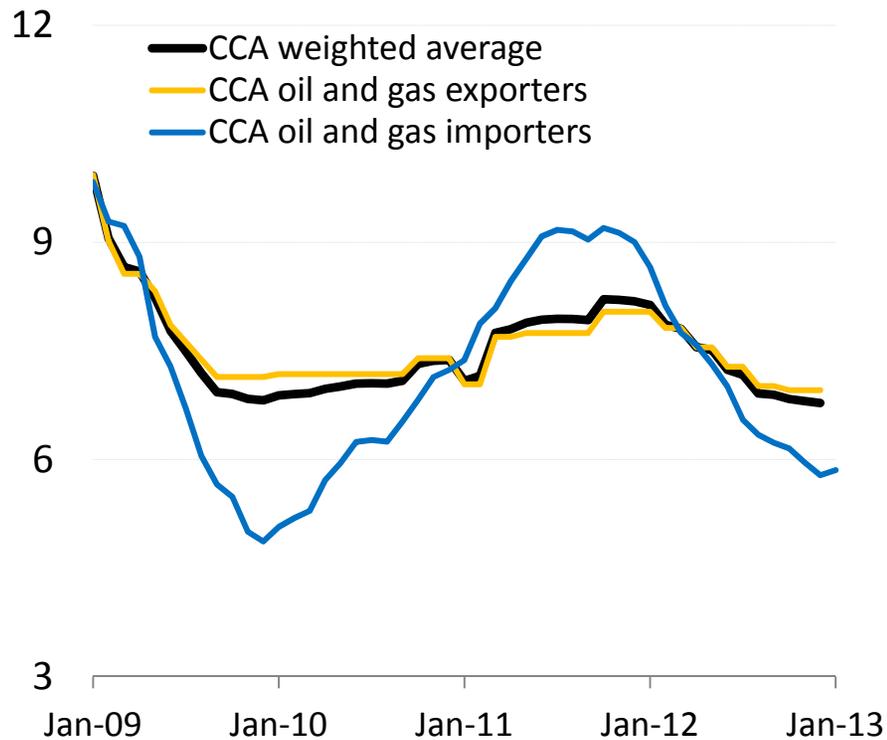
Sources: National authorities; and IMF staff calculations.

¹ Aggregates do not include Uzbekistan.

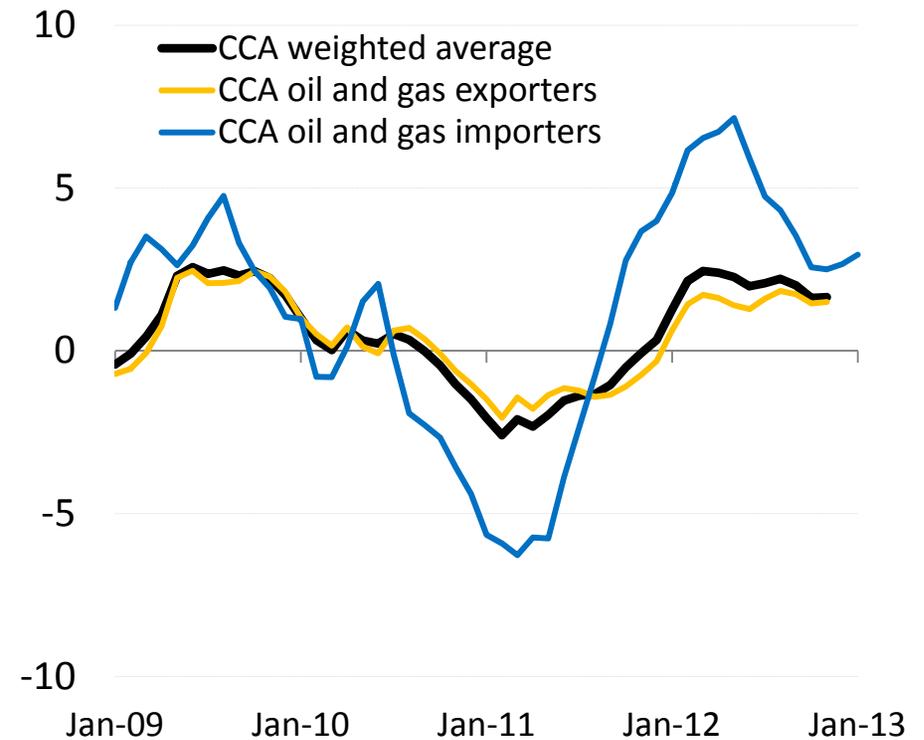
² Non-oil and gas fiscal balance as share of non-oil and gas GDP.

Monetary policy may need to be tightened if inflation resurges

Nominal Policy Rates
(Percent)



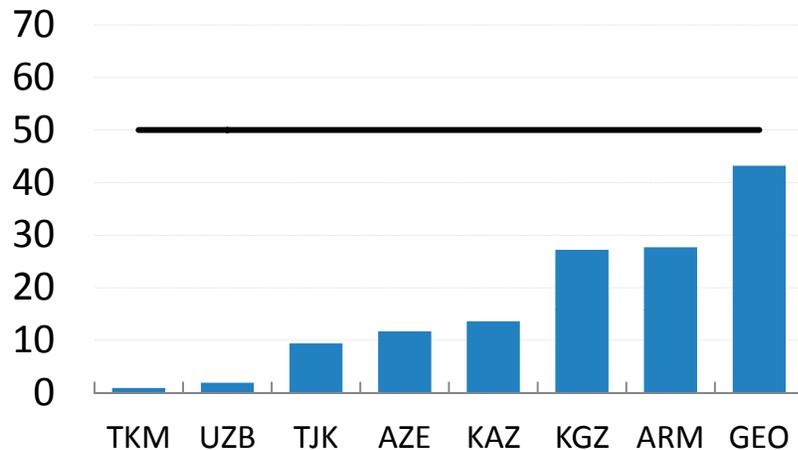
Real Policy Rates
(Percent)



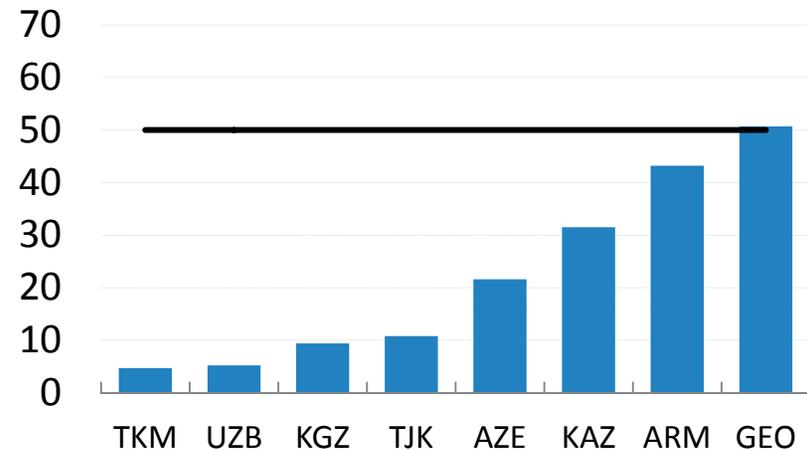
Sources: National authorities; and IMF staff calculations.

Institutions and governance need to be strengthened in the CCA

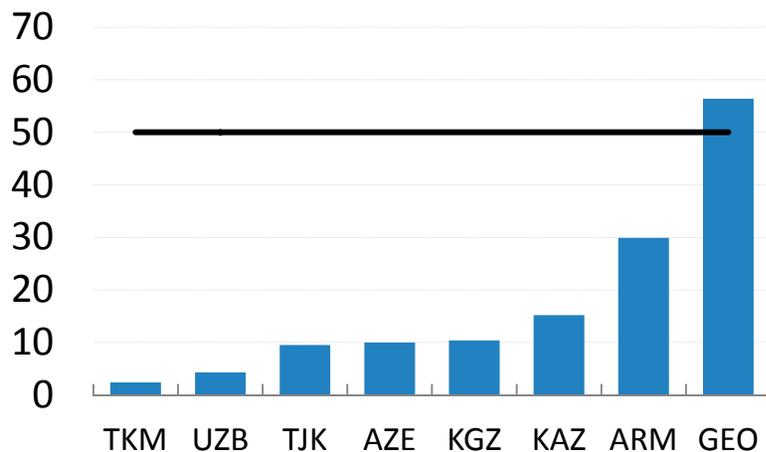
Voice and Accountability
(Percentile Rank)



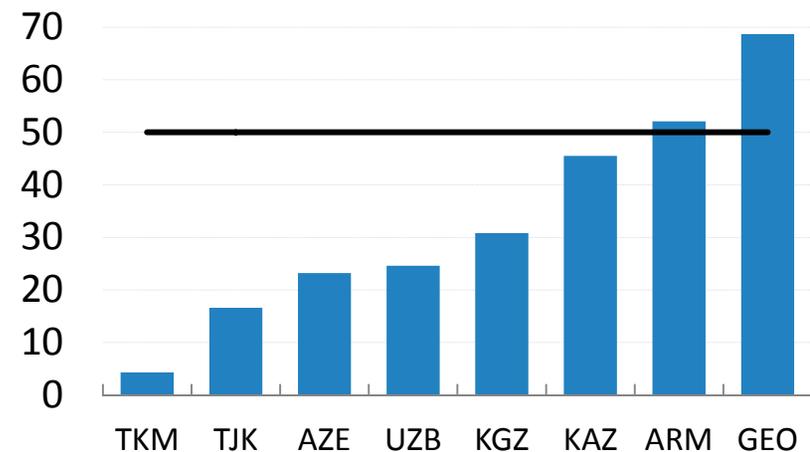
Rule of Law
(Percentile Rank)



Control of Corruption
(Percentile Rank)



Government Effectiveness
(Percentile Rank)



Source: World Bank; Enterprise Survey.

Key messages

Strengthen resilience

Oil and gas importers

- More fiscal consolidation
- More exchange rate flexibility

Oil and gas exporters

- Improve spending quality
- Some countries need to resolve problem banks

If downside risks materialize:

- Limit loss of reserves → allow currency depreciation
- Where possible, ease fiscal and monetary policies
- Re-orient spending to protect the most vulnerable

Revitalize economy for inclusive growth and job creation

- Strengthen fiscal frameworks
- Reinforce financial sector regulation
- Promote trade integration
- Improve business climate/governance