



**MIDDLE EAST
AND CENTRAL ASIA
DEPARTMENT**



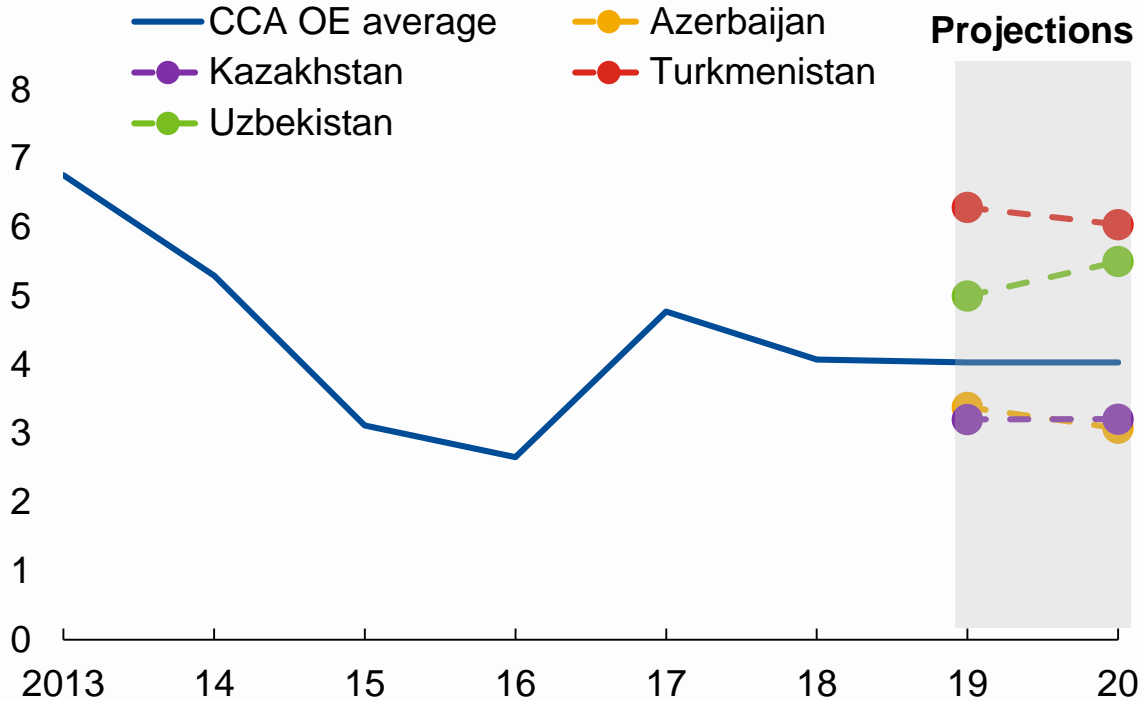
Economic Outlook for the Caucasus and Central Asia

JUNE 2019

Outlook for the CCA

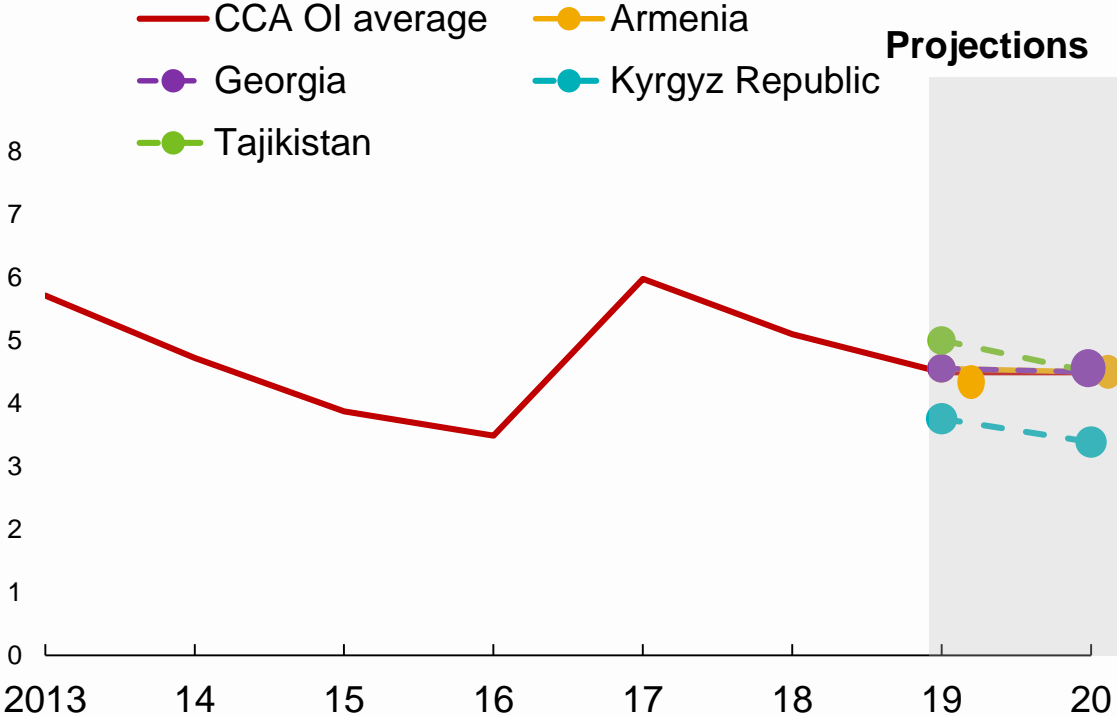
Growth has stabilized

CCA Oil Exporters Real GDP Growth, 2013–20
(Percent change)



Sources: National authorities; and IMF staff calculations.
Note: CCA OE = Caucasus and Central Asia oil exporters

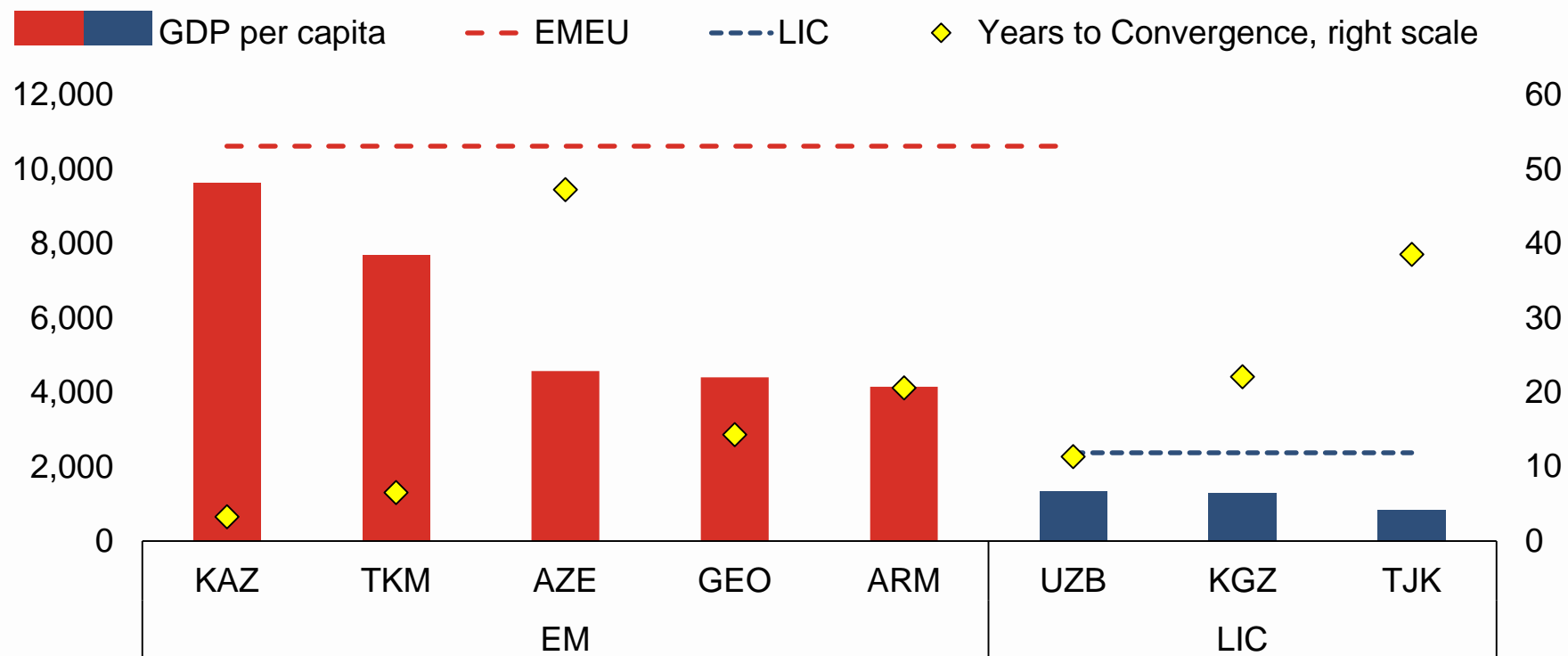
CCA Oil Importers Real GDP Growth, 2013–20
(Percent change)



Sources: National authorities; and IMF staff calculations.
Note: CCA OI = Caucasus and Central Asia oil importers

However, growth is too low to raise living standards...

GDP per capita and Years to Convergence
(US Dollars and years, 2018)



Sources: National authorities; and IMF staff calculations.

Note: EM = emerging market economies; EMEU = emerging and developing Europe; LIC = low-income countries. Chart shows time to converge to current LIC graduation threshold (Uzbekistan, Kyrgyz Republic, and Tajikistan) or emerging Europe (others) threshold assuming medium-term aggregate output and population growth rates hold indefinitely.

Legacies and Unfinished Reforms

Positive policy legacies from shocks

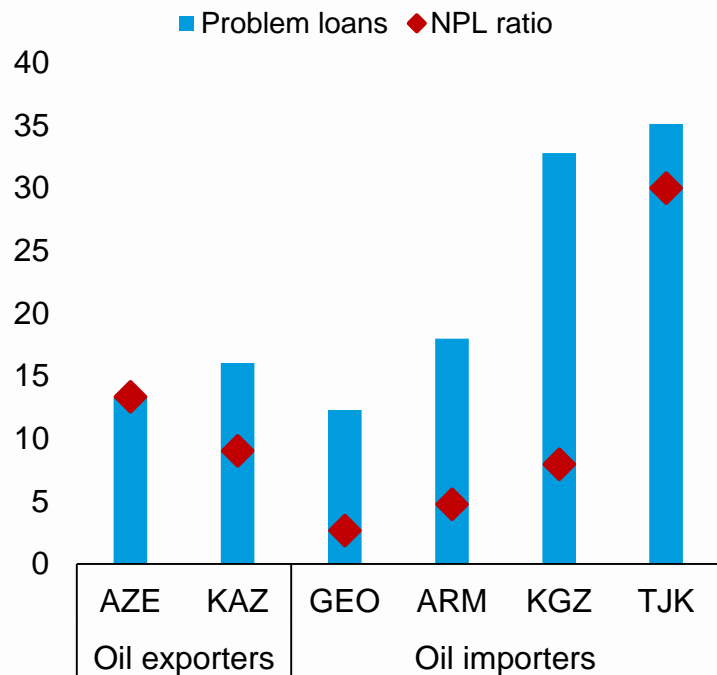
Strengthened macroeconomic policy frameworks and greater exchange rate flexibility

- **Fiscal frameworks were strengthened by** introducing fiscal rules, reforming tax codes, and improving fiscal transparency.
- **Pragmatic implementation of monetary and exchange rate policies** has helped countries manage external pressures while containing inflation and reducing dollarization.
- As a result, **buffers erosion was limited and growth stabilized.**

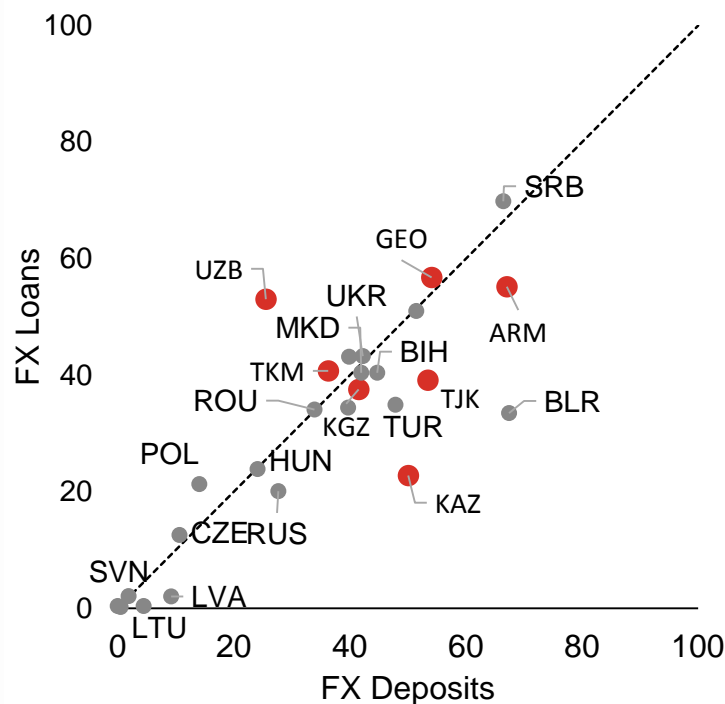
..... but challenging legacies restrain growth

Weak banking systems in some countries

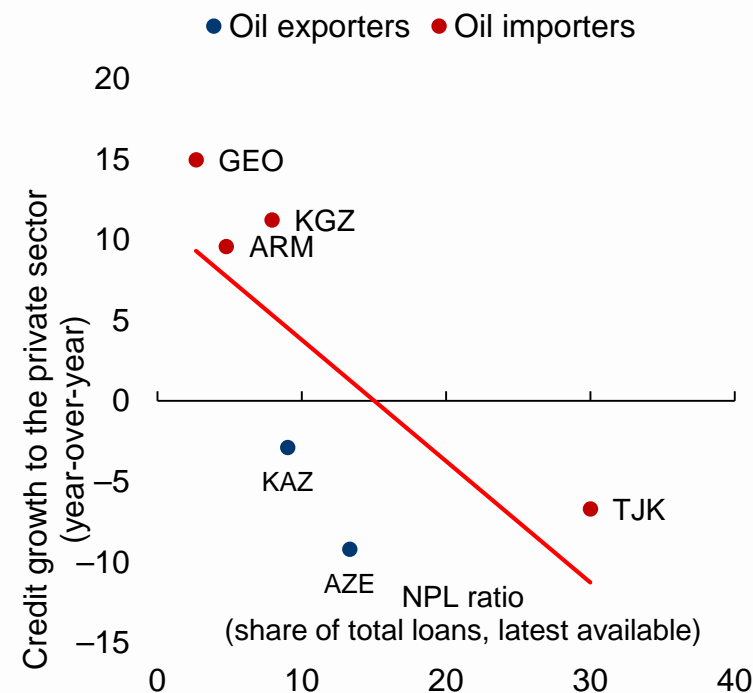
Problem Loans Ratios (Percent of total loans)



Loan and Deposit Dollarization (percent of total)



Banking Credit to Private Sector



Sources: National authorities; and IMF staff calculations.
 Note: NPL= nonperforming loans. Problem loans include watch, nonperforming, and restructured loans. NPLs are classified into substandard, doubtful, and loss loans. Armenia excludes loss loans from NPLs and total loans.

Sources: National authorities and IMF staff estimates
 Note: Data from Dec. 2018 or latest available

Sources: IMF, International Financial Statistics (IFS); National authorities; and IMF staff calculations.
 Note: All countries are adjusted for exchange rate effects, except Azerbaijan due to data availability

Incomplete transitions in monetary policy frameworks

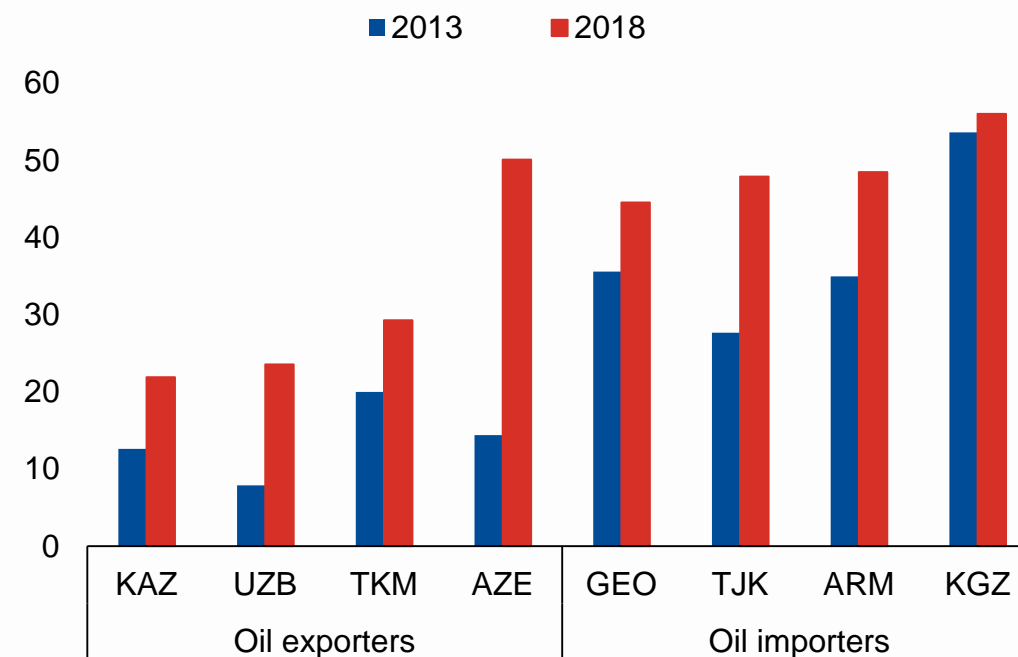
	Monetary Policy Framework		Exchange Rate Arrangement	
	2005	2017	2005	2017
Armenia	Other	Inflation Target	Independently Floating	Floating
Azerbaijan	Other	Other	Conventional Peg	Stabilized
Georgia	Other	Inflation Target	Managed Floating	Floating
Kazakhstan	Other	Inflation Target	Managed Floating	Floating
Kyrgyz Republic	Other	Other	Managed Floating	Other Managed
Tajikistan	Monetary Target	Monetary Target	Managed Floating	Stabilized
Turkmenistan	ER Anchor	ER Anchor	Conventional Peg	Conventional Peg
Uzbekistan	Other	Other	Managed Floating	Stabilized

Sources: IMF, Annual Report on Exchange Arrangements and Exchange Restrictions database; and IMF, MCM Monetary Operations and Instruments database.

Note: Based on IMF staff broadly defined classification categories. Hard Peg includes; exchange arrangement with no separate legal tender and currency board arrangement. Soft peg includes; conventional pegged arrangement, pegged exchange rate within horizontal bands, stabilized arrangement, crawling peg and crawl-like arrangement. Float includes; floating and free floating. Other includes other managed arrangements

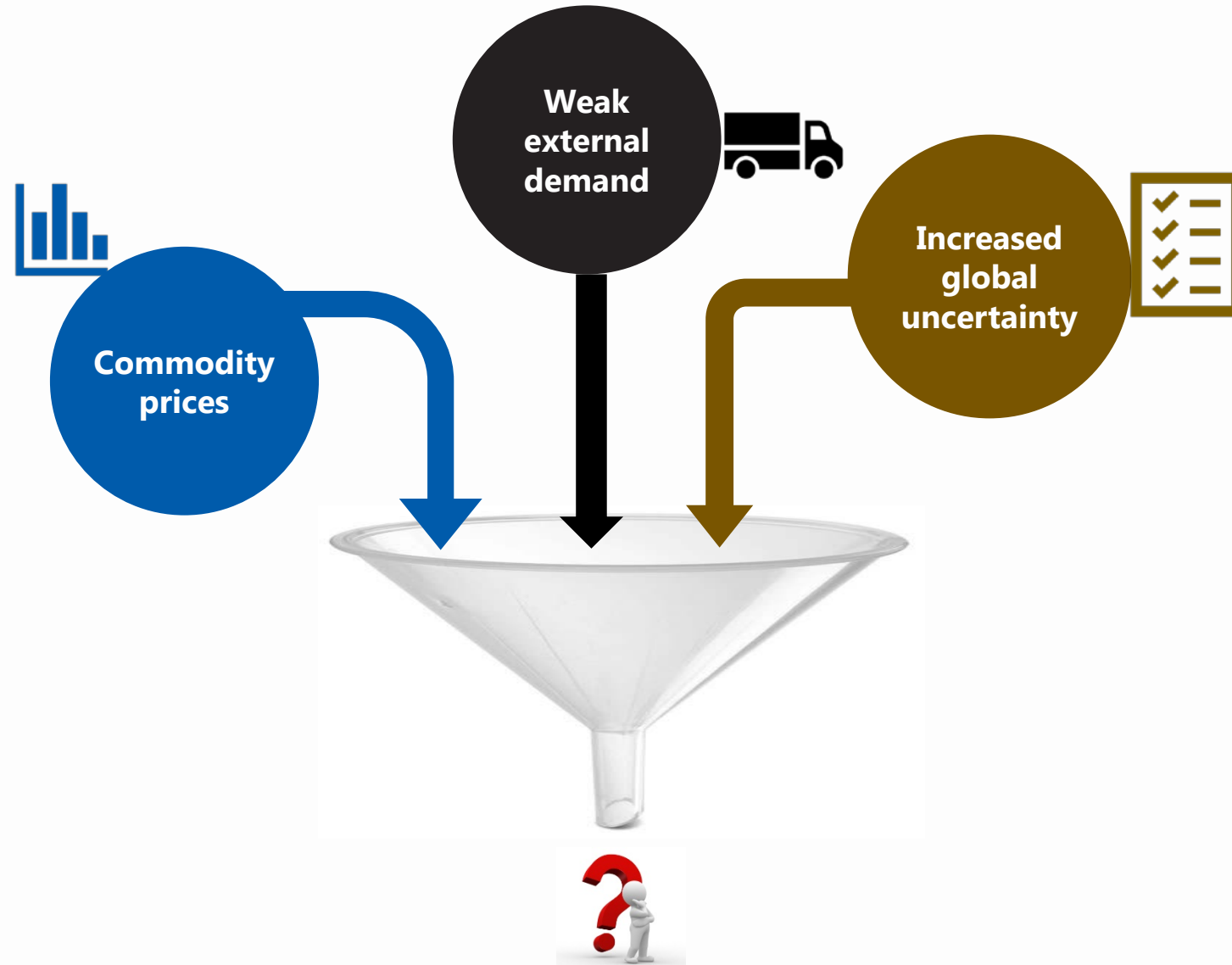
Fiscal space has become limited

Public and Publicly Guaranteed Debt (Percent of GDP)



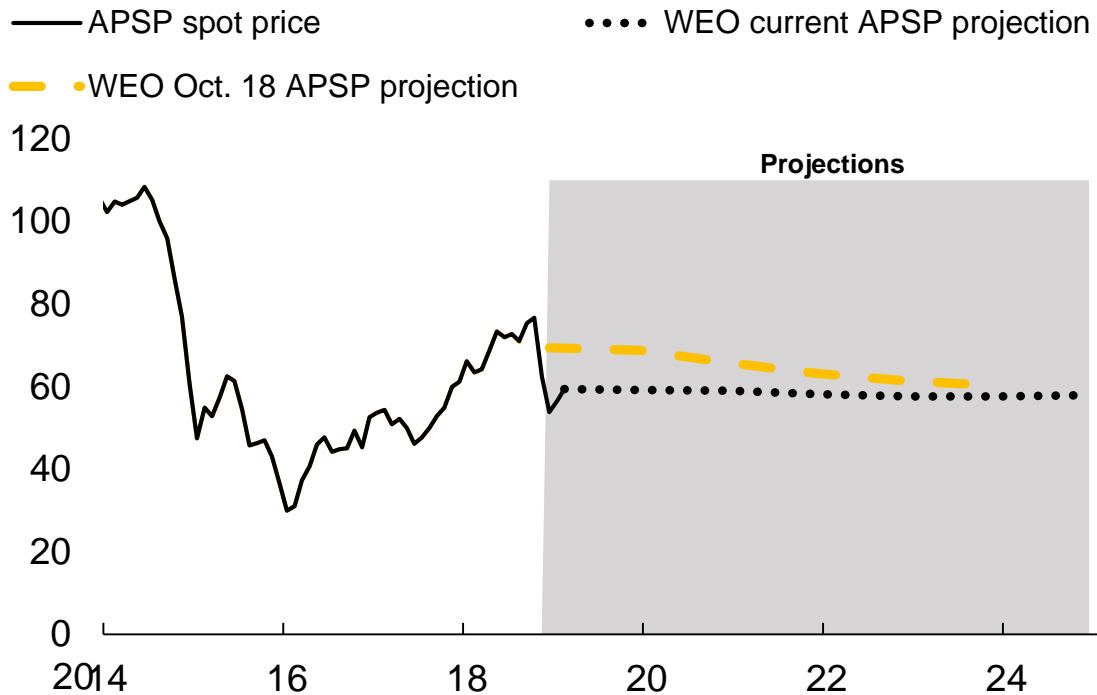
Sources: National authorities; and IMF staff calculations.
Note: Azerbaijan includes approximately 30 percent of GDP in guarantees.

Global Headwinds Make Policy Efforts More Urgent and More Difficult



Oil and commodities prices and are lower and more volatile

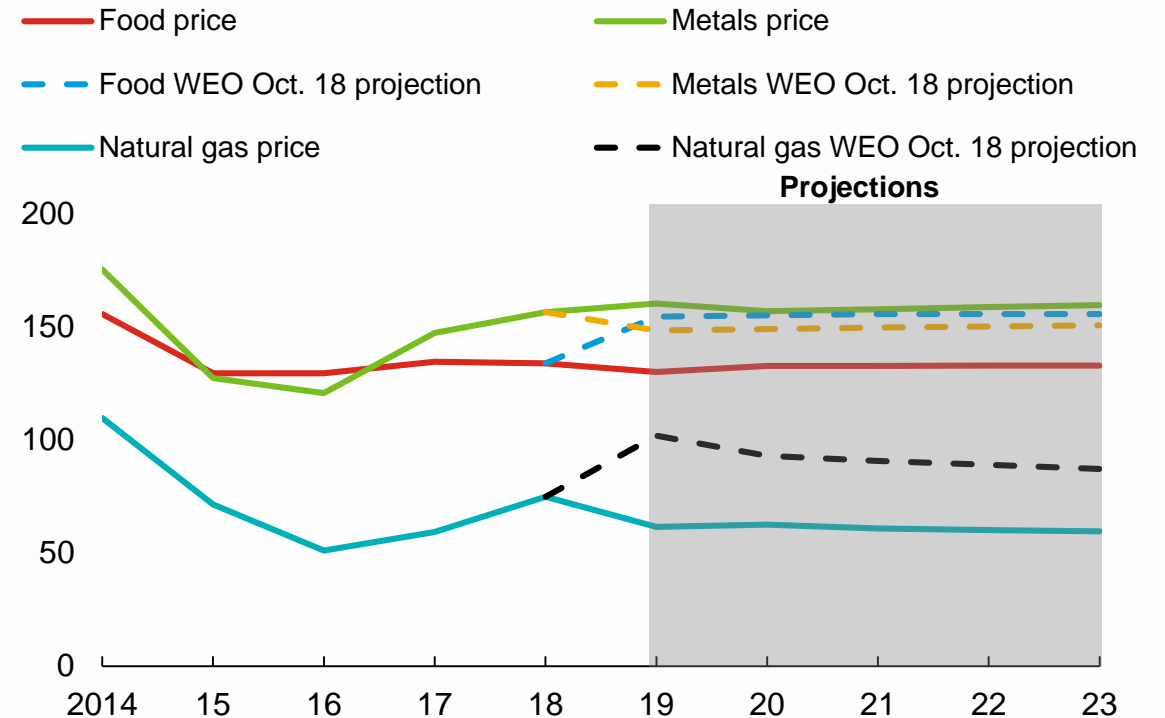
APSP Crude Oil
(US dollar a barrel)



Sources: National authorities; and IMF staff calculations.

Note: APSP = average petroleum spot price. APSP is the average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

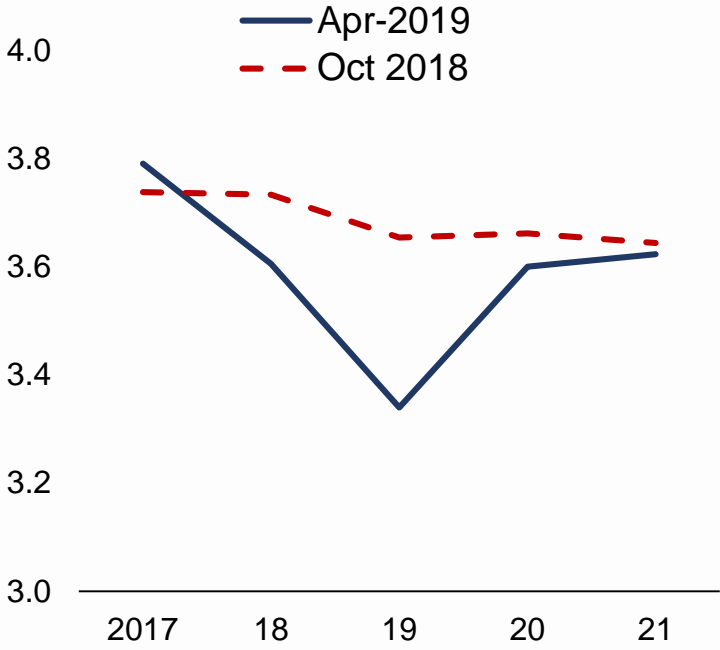
Commodity Price Indices
(2005 = 100)



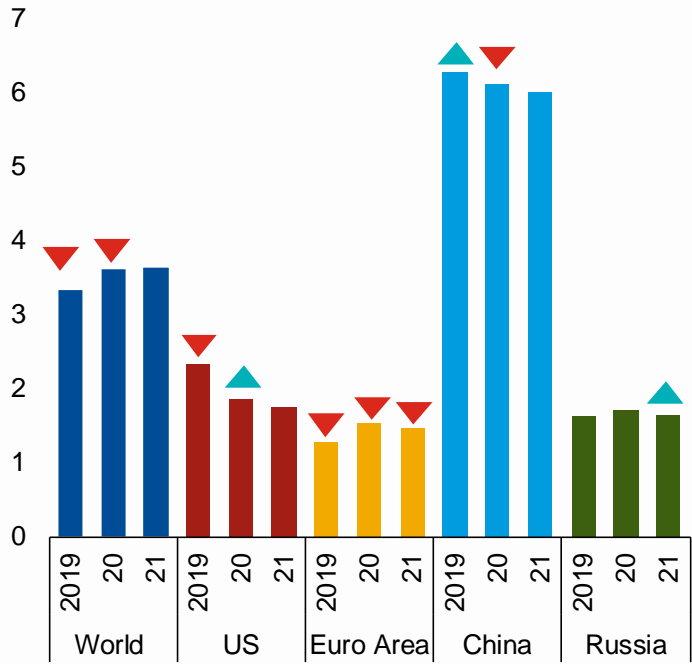
Sources: National authorities; and IMF staff calculations..

Weaker external demand

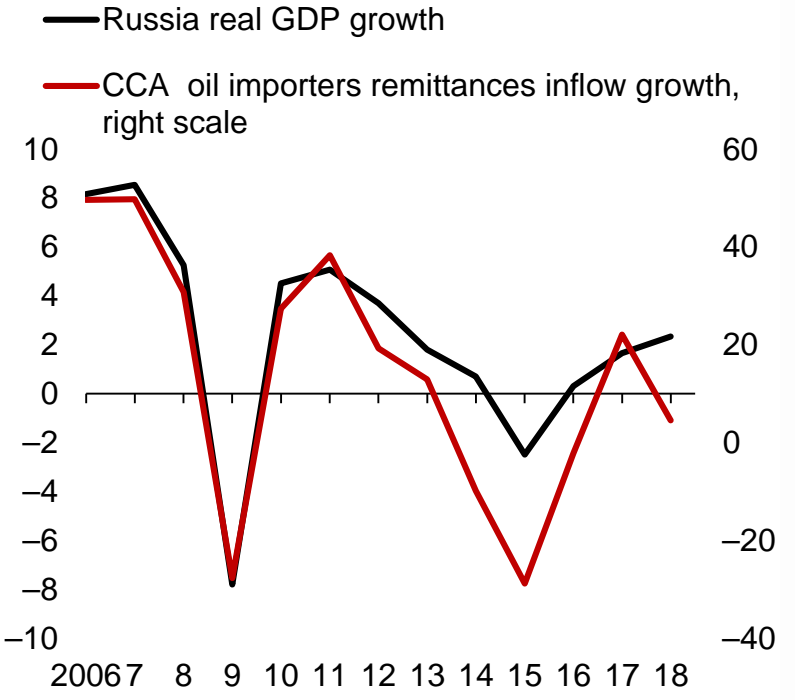
Global Growth
(Percent)



Top Trading Partners, Revisions
(Arrows indicate direction of revisions from October 2018)



Cyclicality of Remittances, Inflows to CCA and GDP Growth in Russia
(Annual growth rates, percent)



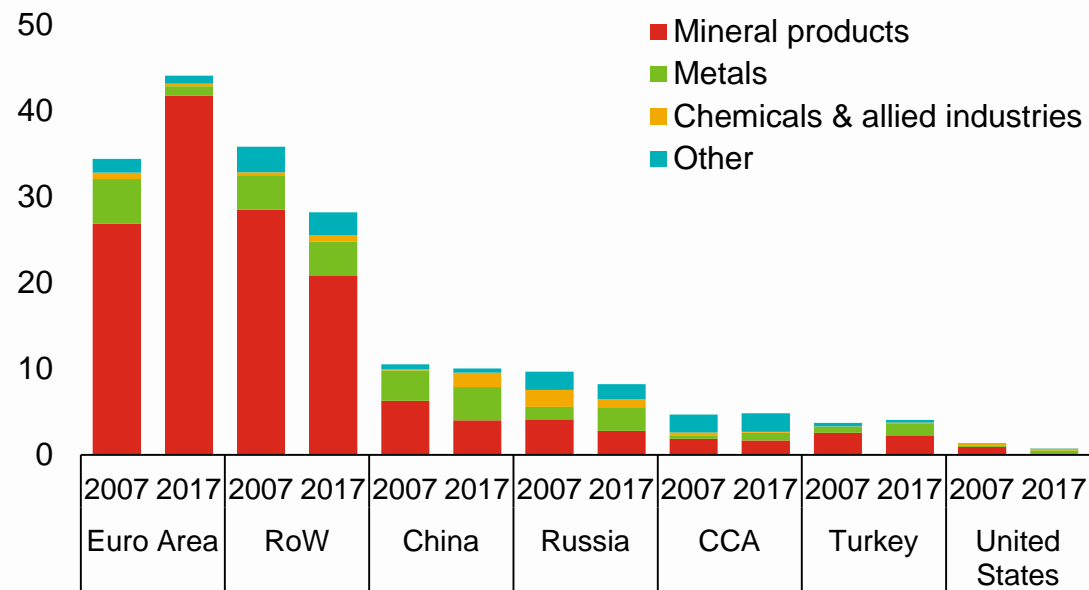
Sources: National authorities; and IMF staff calculations.

Sources: National authorities; and IMF staff calculations and estimates.
Note: CCA = Caucasus and Central Asia. CCA oil exporter real non-oil GDP growth does not include Uzbekistan due to data availability.

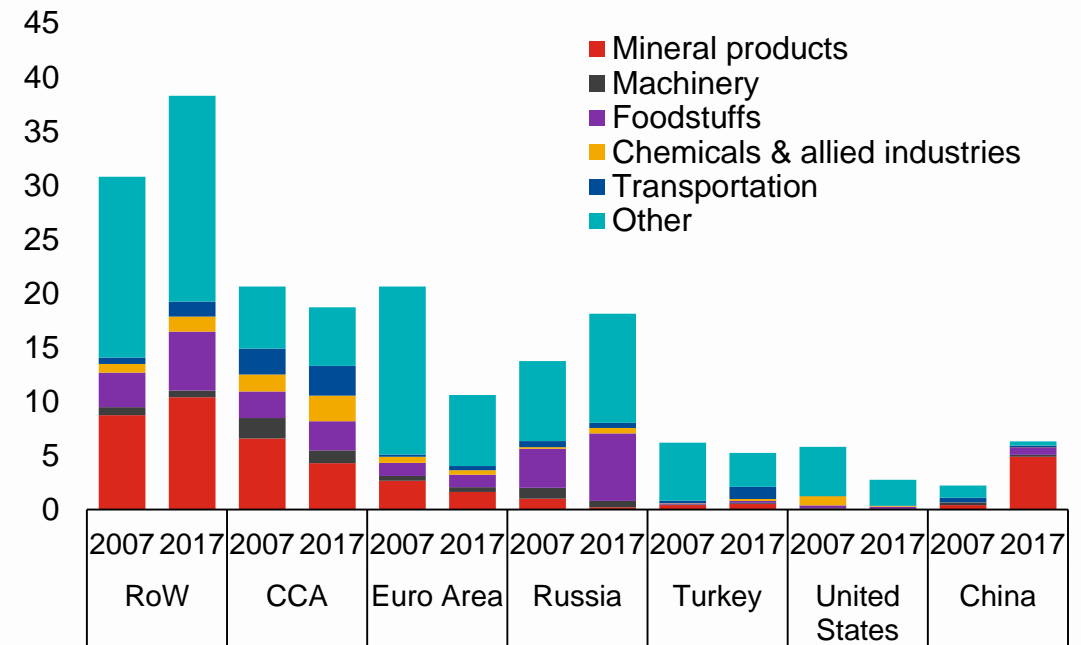
Limited export diversification heightens external risks

Total Exports and Destinations of CCA Countries (Percent of total)

Oil Exporters



Oil Importers



Sources: UN COMTRADE database; and IMF staff calculations.

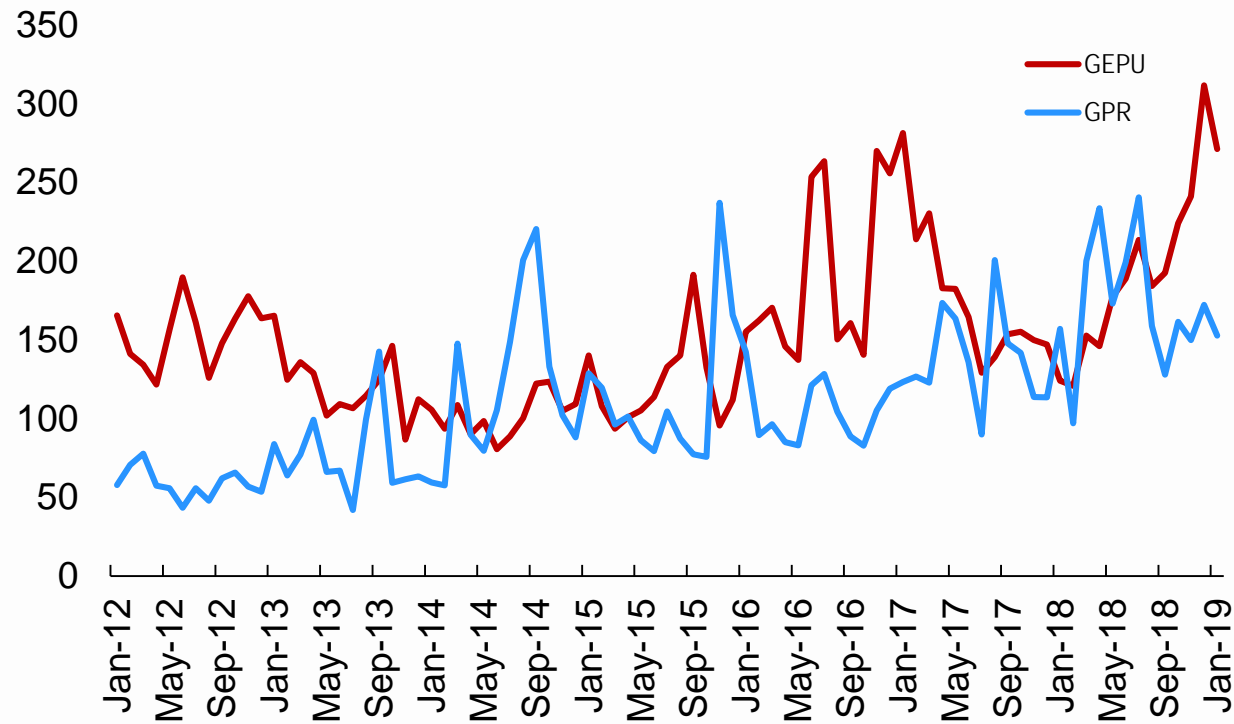
Note: RoW = rest of the world; CCA = Caucasus and Central Asia.

Turkmenistan and Uzbekistan are excluded from oil exporters due to data availability. Tajikistan is excluded from oil importers due to data availability.

Increased global uncertainty

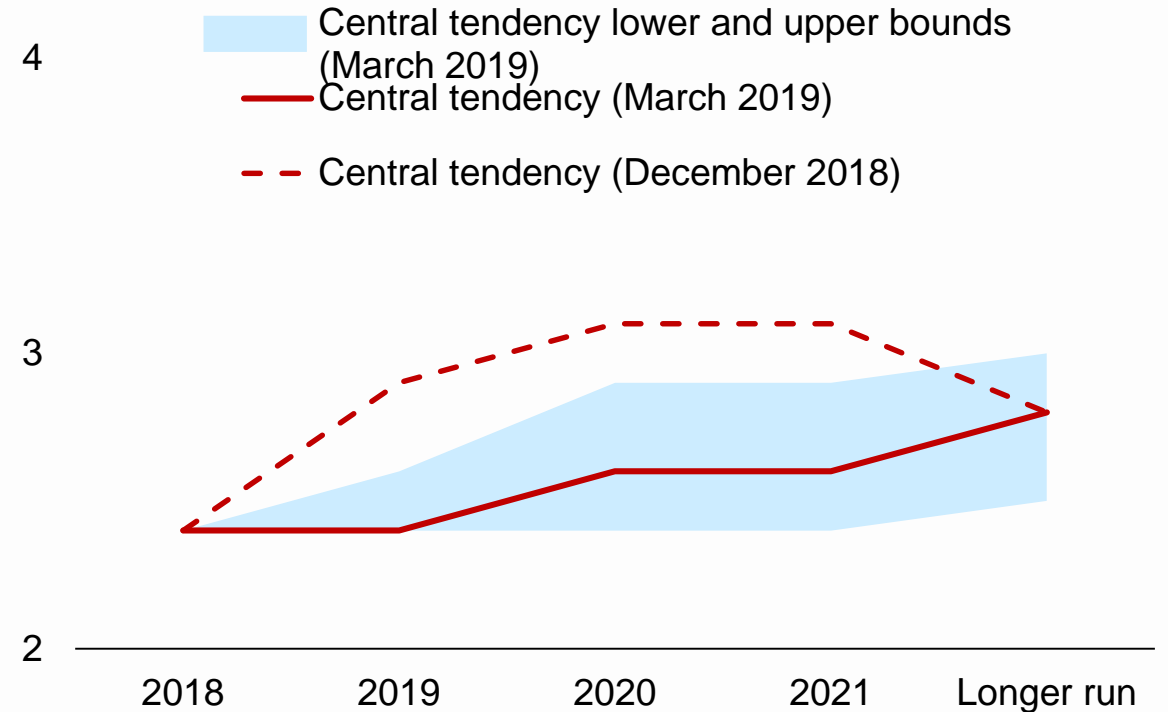
Global Economic Policy Uncertainty (GEPU) Index and Geopolitical Risk (GPR) Index

Using data for 18 countries that account for 2/3 of global GDP



Sources: www.PolicyUncertainty.com and Baker, Bloom and Davis (2016).

Federal Reserve Funds Rate



Note: The central tendency excludes the three highest and three lowest projections for each variable in each year.

Sources: FOMC, Summary of Economic Projections; and Fund staff estimates.

Actions are Needed in Monetary, Fiscal, and Structural Areas

Enhance resilience and address legacy challenges

Monetary

Credible, rules-based frameworks

Exchange rate flexibility

Fiscal

Consolidation needed where debt is high

Contain contingent liabilities

Structural

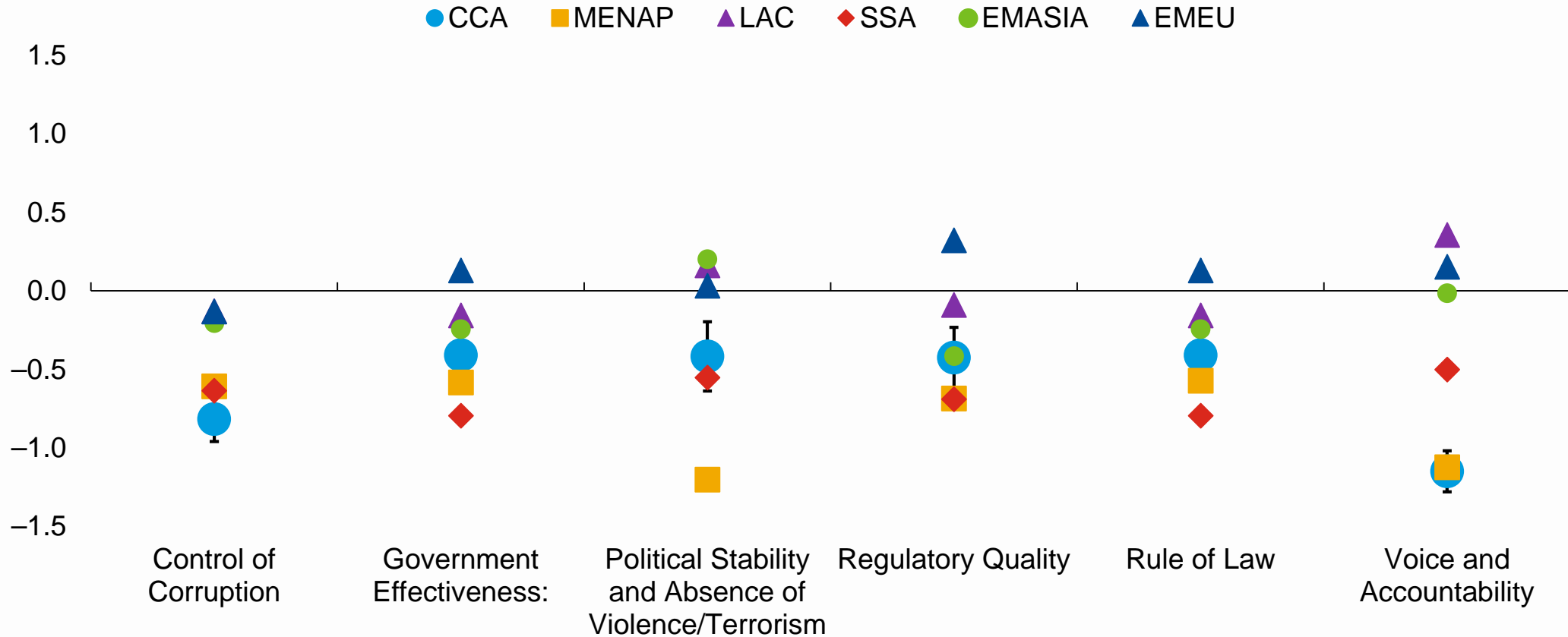
Tackle financial sector weaknesses

Improve governance

Make room for private sector growth

Addressing governance weaknesses

Governance Indicators, 2017 1/
 (Average of score estimate -2.5 – 2.5, weak to strong)



Source: Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank), 2017.

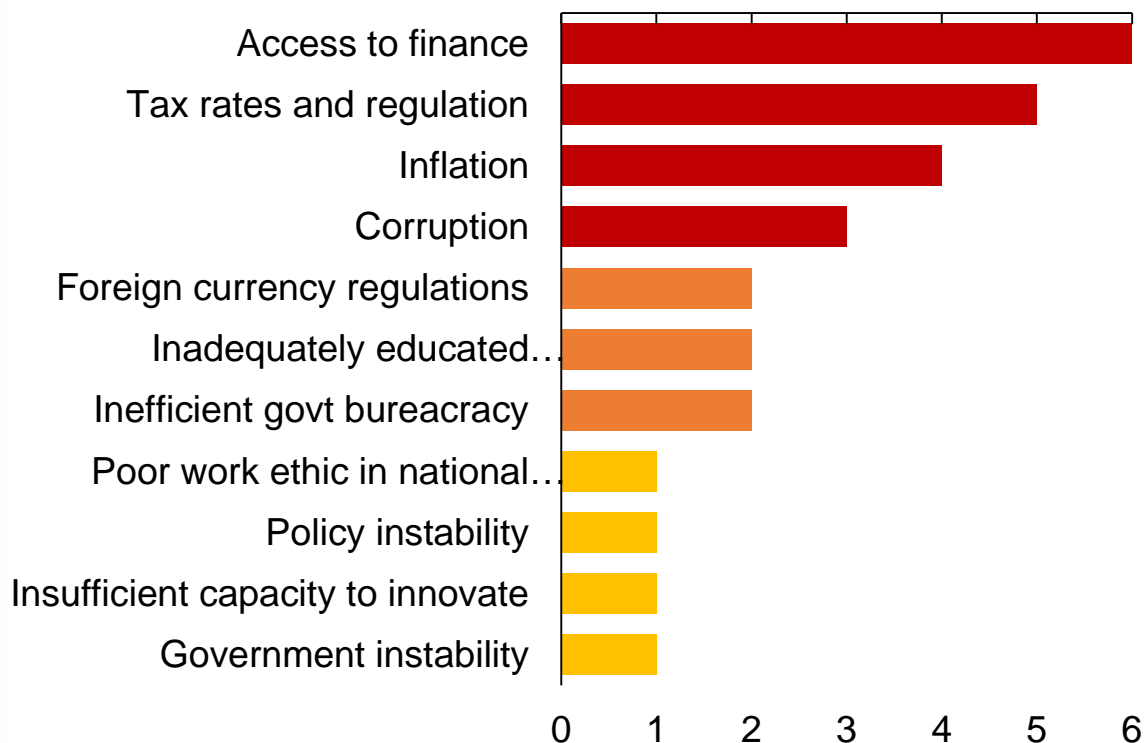
Note: AE = advanced economies; CCA = Caucasus and Central Asia; EMASIA = emerging Asia; EMEU = Emerging Europe; LAC = Latin America and the Caribbean; MENAP = Middle East, North Africa, Afghanistan and Pakistan; and SSA = sub-Saharan Africa.

1/ Use of indicators should be considered carefully as they are derived from perceptions-based data. Ranges are for the average confidence interval for CCA. Confidence intervals for peer groups are negligible.

Make room for private sector growth

Challenges to Doing Business in CCA

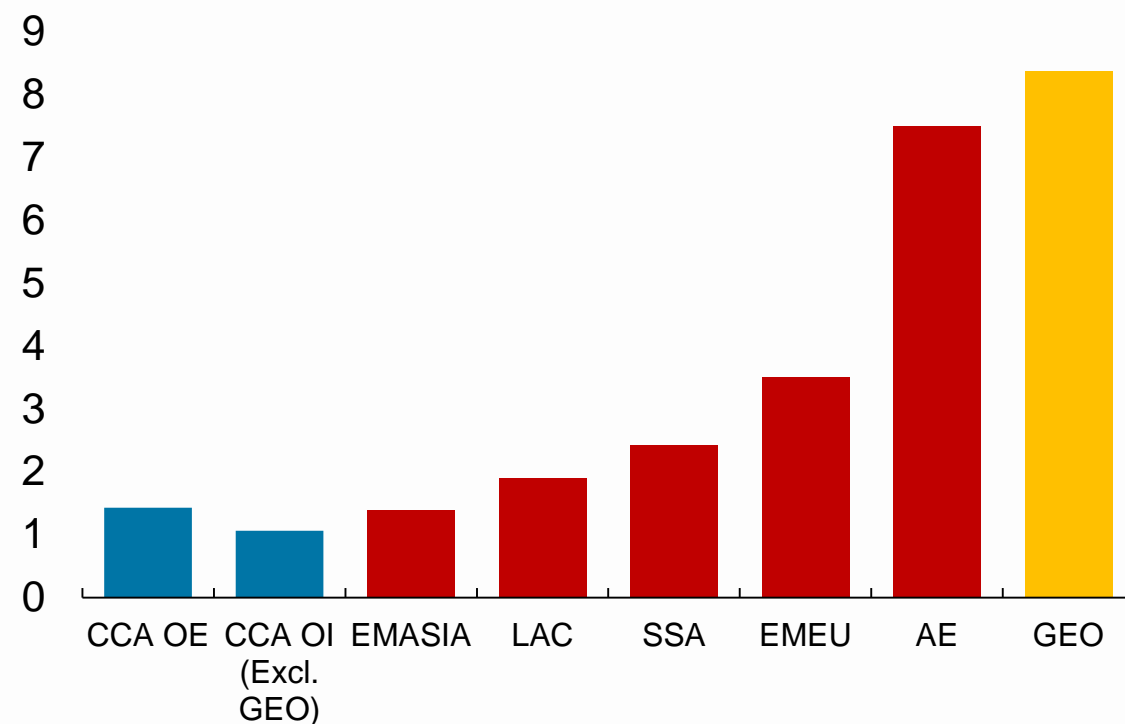
(Number of countries identifying the constraint among the top five)



Source: World Economic Forum, Global Competitiveness Report 2017–18.
 Note: Turkmenistan and Uzbekistan are excluded due to data availability.

Business Entry Density Rate

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



Source: World Bank *Doing Business Report*.

Note: Data correspond to most recent value within the period 2014–16. All CCA countries are 2016 values. AE = advanced economies; CCA OE= Caucasus and Central Asia oil exporters; CCA OI = Caucasus and Central Asia oil importer; EMASIA = emerging Asia; EMEU = Emerging Europe, GEO = Georgia; LAC = Latin America and the Caribbean; and SSA = sub-Saharan Africa.

IMF engagement in the CCA region

Analytical Projects

- “Promoting Inclusive growth in the Caucasus and Central Asia” (May 2019).
- “Opening Up in the CCA : Policy Frameworks to Support Regional and Global Integration” (February 2019).
- “Fintech, Inclusive Growth and Cyber Risks in MENAP and CCA” (September 2018).
- “Building Resilient Banking Sectors in the CCA” (August 2018).
- “A Growth-Friendly Path for Building Fiscal Buffers in the CCA” (June 2018).

Programs

A program is in place with **Georgia** (EFF), **Armenia** reached staff-level agreement on a 3-year precautionary SBA and in **Tajikistan** discussions are underway for a new ECF.

Capacity Development

Increasing Fund technical assistance in the past 2-3 years. Areas covered include bank supervision & resolution, monetary framework, fiscal risks, tax policy, revenue administration, public financial management, financial stability and statistics.

Annual Joint Vienna Institute seminars and trainings. Preparations for a new regional TA center are underway, with the center expected to open in the second half of CY2020.

Takeaways

- Steady growth, but too low to raise living standards
- Ensure higher growth by addressing legacy challenges and completing reforms
- Global headwinds increase urgency for action