

World Economic and Financial Surveys

# Regional Economic Outlook

**Update**

**Caucasus and Central Asia**

**APR 19**



## Acknowledgments

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## Global Developments: Implications for the Middle East and Central Asia Regions

**Global growth** is projected to slow this year to 3.3 percent, followed by a precarious recovery in 2020 (see the April 2019 *World Economic Outlook*). Prospects for growth have deteriorated over the past year, and the forecast for 2019 is over half a percentage point lower than projected one year ago.

Although the magnitude of the expected slowdown is broadly similar worldwide, its drivers are varied and country-specific (see table). In

Europe, disruption to automobile production in Germany, fiscal concerns, protests, and uncertainty about Brexit dampen the outlook. In China, growth is hindered by trade tensions and needed regulatory tightening to rein in shadow banking. And in Russia, lower oil prices and uncertainties from sanctions will likely reduce future growth.

	Real GDP Growth, 2018–24				
	2017	2018	2019	2020	2021–24
<b>World</b>	3.8	3.6	3.3	3.6	3.6
Euro Area	2.4	1.8	1.3	1.5	1.4
United States	2.2	2.9	2.3	1.9	1.6
China	6.8	6.6	6.3	6.1	5.7
Russia	1.6	2.3	1.6	1.7	1.6
<b>MENAP</b>	2.2	1.8	1.5	3.2	2.8
MENAP oil exporters	1.3	0.6	0.4	2.8	2.0
of which: non-oil GDP growth	2.5	1.2	2.1	2.9	2.6
MENAP oil importers	4.1	4.2	3.6	4.0	4.3
<b>CCA</b>	4.9	4.2	4.1	4.1	4.3
CCA oil and gas exporters	4.8	4.1	4.0	4.1	4.3
of which: non-oil GDP growth	2.9	3.9	3.9	3.9	4.1
CCA oil and gas importers	6.0	5.1	4.5	4.5	4.5

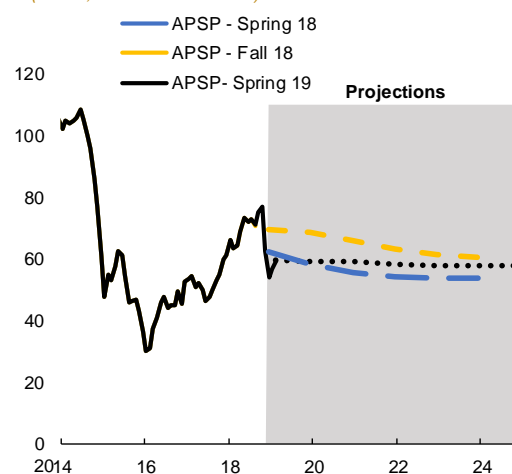
Sources: National authorities; and IMF staff calculations.

Weaker external demand, particularly from key trading partners (China, Europe, and Russia), represents a key challenge to countries across the Middle East and Central Asia. The recent **decline in oil prices** will also adversely impact oil-exporting countries. In October, prices peaked at over \$80 a barrel. And with supply disruptions in Iran, Libya, and Venezuela further increases seemed possible. Since then, oil prices have declined sharply because of weaker global growth, strong production in the United States, and temporary sanctions waivers for some Iranian oil exports. As a result, prices fell as low as \$50 a barrel in January, although they have recovered recently to nearer \$65 (see figure). At the same time, oil prices became increasingly volatile.

While over the very long term the outlook for oil is largely unchanged, prices are projected to remain lower than in the fall forecast for several years. The impact on output and fiscal positions is another common challenge for countries across the region, particularly for some oil exporters (Algeria, Bahrain, Oman).

The outlook for countries in the region is clouded by elevated levels of uncertainty. One source of uncertainty, and a third theme explored in the following chapters, is **exposure to external risks**.

**Evolution of Oil Prices**  
(APSP, US dollars 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.

- *Trade tensions* between the United States and China may continue at length but could as easily come to a swift resolution (see the April 2019 *World Economic Outlook*). Irrespective of any near-term trade deal, ongoing disputes over trade and security will likely continue to impact the outlook for the region via supply chain disruptions and reduced investment.
- *Elevated oil price volatility* may continue in an uncertain global environment (see Chapter 1). This will weigh on fiscal and external balances of oil exporters. Oil importers may also be hurt, particularly through increased regional uncertainty and reduced and more variable remittances (Armenia, Tajikistan).
- *Global financial conditions* have eased recently but are likely to remain volatile, and market sentiment could change abruptly (see the April 2019 *Global Financial Stability Report*). If this happens, spreads could increase sharply, exposing countries to the risk of higher interest burdens (Bahrain, Egypt, Lebanon), revaluation of foreign debt (Kyrgyz Republic, Tajikistan), and financial sector stresses (Azerbaijan, Kazakhstan, Kyrgyz Republic)
- *Geopolitical risks* are high. Several countries in the region are either in or have recently emerged from conflict. And the impact and timing of major geopolitical developments—including tensions between India and Pakistan, large demonstrations and political uncertainty in Algeria, possible peace in Afghanistan, and sanctions on Iran—are not yet clear. Such uncertainty may increase investors' perception of risk for the whole region, leading to capital outflows and exchange rate pressure. And in turn, this may feed back into further oil price volatility and regional uncertainty.

These global and regional headwinds amplify the challenges faced by policymakers in their efforts to support growth. In several countries in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region, social tensions are rising in the context of lower growth and reform fatigue, threatening macroeconomic stability. Such tensions may also derail much-needed reforms, potentially spilling over into conflict and further regional uncertainty.

The high costs of policy inaction compound the urgency of addressing coming challenges. Policymakers throughout the Middle East and Central Asia should act now to deliver higher and more inclusive growth before conditions become more difficult.

- *In MENAP oil exporters*, procyclical fiscal policies have proved less supportive of growth in recent years, underscoring structural economic weaknesses. The combination of high fiscal break-even oil prices and a slower projected pace of fiscal consolidation leaves countries vulnerable to renewed oil price volatility and a weaker global economy. Anchoring fiscal policy in a medium-term framework would help insulate economies from oil price volatility and gradually rebuild fiscal space. Tackling corruption, improving small and medium enterprises' access to financing, and strengthening social safety nets will help diversify economies and promote higher and more inclusive growth.

- *In MENAP oil importers*, public debt burdens have increased significantly over the past decade, raising near-term vulnerabilities and limiting policy options to address persistent structural weaknesses. Intensified growth-friendly fiscal consolidation is urgently needed to rebuild resilience and create space for structural reforms to lift medium-term growth, including by improving the business environment and governance, enhancing labor market flexibility, boosting regional integration, and strengthening market competition.
- *In the Caucasus and Central Asia*, the growth outlook remains stable, following recoveries from large external shocks in 2014–16. But unaddressed legacy challenges, including from weaknesses in some banking systems, and incomplete structural reforms are keeping growth well below its long-term potential. Overcoming these challenges has become more challenging and more urgent in the face of reduced global trade and possible future trade tensions. This requires action to complete financial sector repair, fully modernize monetary policy frameworks, and enhance the business environment, including by improving governance.

These challenges present policymakers throughout the Middle East and Central Asia with an opportunity to build richer, fairer societies. For example, low oil prices make the case for diversification more urgent, increased female labor force participation can revitalize moribund labor markets, and improved governance and reduced corruption could revive sluggish investment and make room for more social-protection-related spending. The opportunity to implement these changes will soon pass, though, underscoring the urgency for policymakers to act now.

### 3. Caucasus and Central Asia: Addressing Legacy Challenges amid Global Uncertainties

*Growth in the Caucasus and Central Asia (CCA) region stabilized after recovering from large external shocks during 2014–16, benefiting from efforts to strengthen macroeconomic policy frameworks. Nevertheless, growth remains too low to raise the region’s living standards. Legacy challenges from banking system risks and incomplete institutional and structural reforms hinder investment and productivity gains, restraining activity and threatening the region’s medium-term growth potential. Addressing vulnerabilities is more urgent amid global growth and policy uncertainty. Decisive policies to repair financial systems, complete transitions to modern monetary policy frameworks, remove structural rigidities, and improve governance are key to boosting economic resilience, enhancing competitiveness, and ensuring higher medium-term inclusive growth.*

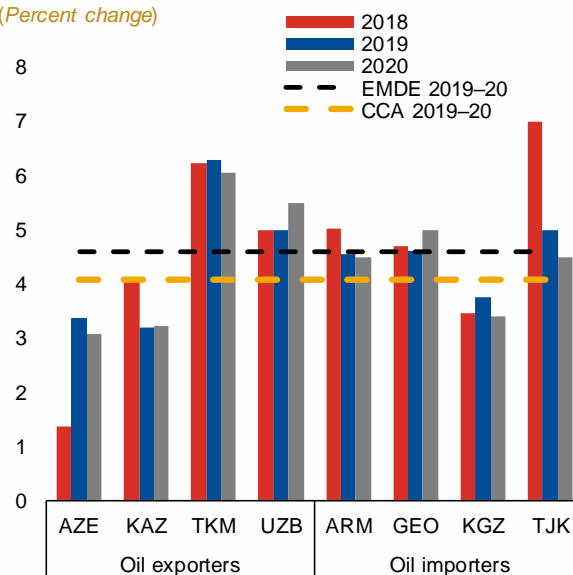
#### Stable Growth despite Global Uncertainties

Growth in the CCA region is projected to remain stable at 4.1 percent this year and next, after recovering from large external shocks during 2014–16. Economies are benefiting from efforts to strengthen macroeconomic policy frameworks, including the adoption of new fiscal frameworks. Pragmatic implementation of monetary policies and a move toward greater exchange rate flexibility have also helped authorities manage external pressures and contain inflation.

Oil and gas exporters are expected to continue to support the region’s outlook, growing by 4 percent in 2019 and over the near term (Figure 3.1). This growth is expected despite a notable projected deceleration in oil GDP growth to 2.8 percent this year from 3.2 percent in 2018. Recovering non-oil growth in Kazakhstan and gas production in Azerbaijan are expected to largely offset the negative impacts of lower

global oil prices, moderating oil production, and weaker growth in key trading partners.

Figure 3.1.  
**CCA Real Growth Rates**  
(Percent change)



Sources: National authorities; and IMF staff calculations.  
Note: Country abbreviations are International Organization for Standardization (ISO) country codes. CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies.

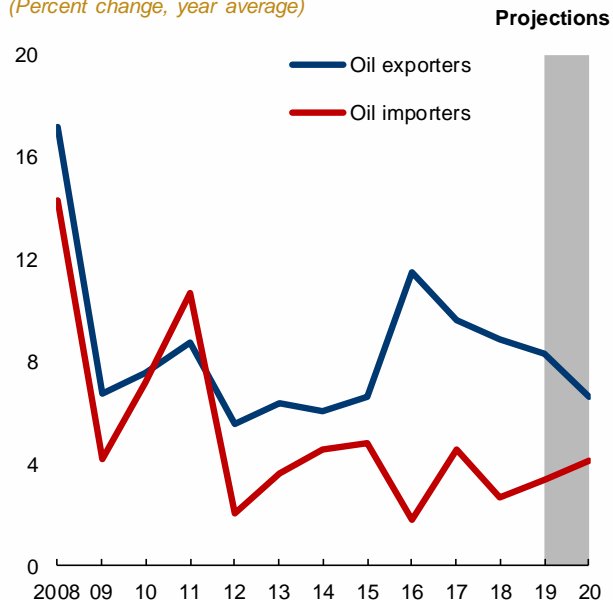
Prepared by Dalmacio F. Benicio (lead author), with contributions from Inutu Lukonga, Oluremi Akin-Olugbade, Rayah Al Farah, Hatim Bukhari, Jimmy Hatem, and Jorge de León Miranda provided excellent research assistance.

In Kazakhstan, non-oil growth will be led by manufacturing and a recovery in credit growth, despite ongoing fiscal consolidation. Growth in Azerbaijan will be led by the opening of a new gas pipeline, reorientation of budgetary expenditure toward the domestic economy, and continued improvement in the services sector. Growth in Uzbekistan is benefiting from ongoing reform commitments and further regional integration, underscoring an upside risk to the region's growth outlook.

Growth is expected to decline from 5.1 percent in 2018 to 4.5 percent during 2019–20 for oil and gas importers. This represents a downward revision of 0.3 percentage point from the October 2018 *Regional Economic Outlook*, owing to weaker external demand and lower remittance inflows<sup>1</sup>—a casualty of the slowdown in trading partners' growth, particularly in Russia. Tajikistan is expected to see the most significant drop in growth as continued fiscal consolidation adds to strains from moderating remittances. Growth in Armenia is projected to fall to more sustainable levels, reflecting weaker copper prices and external demand, while in Georgia a catch-up in infrastructure investment (which was delayed in 2018) is expected to compensate for weaker external demand.

Inflation pressure in the CCA region is largely receding, in line with continued modest growth and falling world prices, decelerating from 8.2 percent in 2018 to 7.8 percent in 2019 and 6.4 percent in 2020 (Figure 3.2). Lower inflation has opened space for more accommodative monetary policy among oil and gas importers (Armenia, Georgia, Tajikistan) and Azerbaijan. In oil and gas exporters, there is less space for easier monetary policies, as country authorities seek to

Figure 3.2.  
**Consumer Price Inflation**  
(Percent change, year average)



Sources: National authorities; and IMF staff calculations.

balance pressures on exchange rates, including from lower oil prices, and ensure price stability.

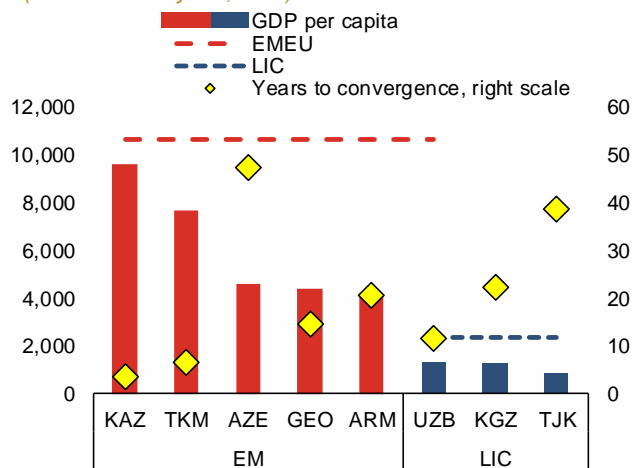
## Legacy Challenges and Unfinished Reform Efforts

Despite the recent recovery, the CCA region continues to grapple with growth that is much lower than historical levels and too low to raise the standards of living to those of comparable economies over the medium term (Figure 3.3) (see the October 2018 *Regional Economic Outlook*). Growth in the CCA region is projected to average just 4.2 percent during 2020–23, less than half the average rate recorded during the 2000s. Although constraints on growth from legacy challenges and unfinished reforms vary across countries, addressing weaknesses in banking systems, fully upgrading monetary policy frameworks, and rebuilding fiscal buffers

<sup>1</sup> Remittance inflows in some oil and gas importers vary between 6 and 36 percent of GDP.

Figure 3.3.  
**GDP per Capita and Years to Convergence**

(US dollars and years, 2018)



Sources: National authorities; and IMF staff calculations.  
Note: Country abbreviations are International Organization for Standardization (ISO) country codes. 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.

have become more pressing amid mounting global headwinds.

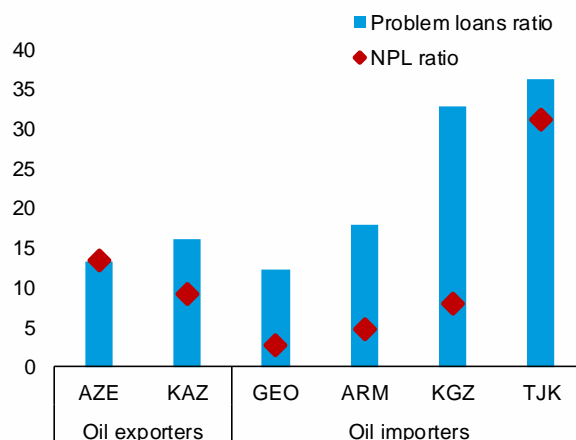
**Financial Systems Are Stable but Vulnerable**

Banking systems across the CCA region remain saddled with high levels of problem assets. Officially reported nonperforming loans (NPLs) are relatively low, but problem assets (defined as restructured loans, watch loans, and NPLs) are very high in some countries (Figure 3.4). This reflects a combination of weak underwriting standards, directed lending (Kazakhstan, Uzbekistan), foreign currency lending to unhedged borrowers (Armenia, Azerbaijan, Tajikistan), and a poor payment culture and weak rule of law (Kazakhstan, Uzbekistan). The vulnerabilities in the financial sector are compounded by a challenging macroeconomic environment and regulatory forbearance.<sup>2</sup> As a result, pockets of bank stress persist, and NPLs

<sup>2</sup> Regulatory forbearance in the classification of loans has a cascading effect as it results in under provisioning and

Figure 3.4.  
**Bank Asset Quality in CCA Countries**

(Percent of total loans, latest available)

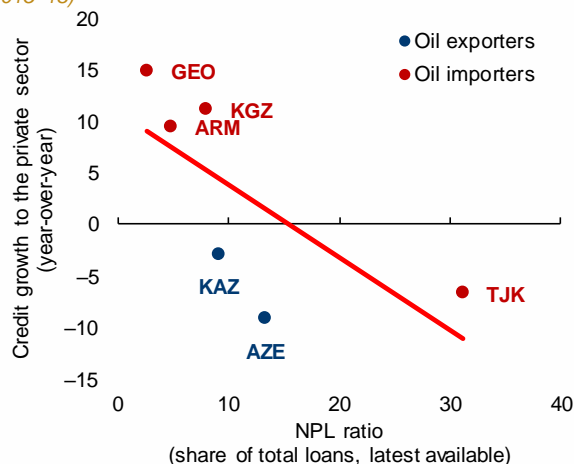


Sources: National authorities; and IMF staff calculations.  
Note: Country abbreviations are International Organizations for Standardization (ISO) country codes. CCA= Caucasus and Central Asia; NPL= nonperforming loans. Problem loans include watch, nonperforming, and restructured loans. NPLs are classified into substandard, doubtful, and loss loans. Armenia excludes loss loans from NPLs and total loans.

are eroding lending capacity and inhibiting credit growth (Figure 3.5).

Figure 3.5.  
**Nonperforming Loans and Credit Growth to the Private Sector**

(Share of total loans and year-over-year growth 2015–18)



Sources: IMF, International Financial Statistics (IFS); national authorities; and IMF staff calculations.  
Note: Country abbreviations are International Organization for Standardization (ISO) country codes. All countries are adjusted for exchange rate effects, to reflect change in the volume of credit to the private sector, except Azerbaijan due to data availability.

related overstatement of banking system profitability and capital adequacy.



In addition, banks in some countries face underlying liquidity challenges, resulting in sizable official support (Kazakhstan) and conversion of central bank liquidity support into equity (Kyrgyz Republic). Reliance on external funding also exposes banking systems to liquidity shocks, while ongoing bank closures and delicensing (Azerbaijan, Kazakhstan) point to lingering insolvency risks.

Financial sector reforms to address these challenges have been slow and uneven across countries. For example, there is limited progress in addressing legacy NPLs (Kazakhstan), resolving problem banks (Azerbaijan, Kyrgyz Republic, Tajikistan), and dealing with unhedged borrowers (Armenia). Moreover, continuing gaps in regulatory, supervision, and governance frameworks further undermine the health of financial sectors.

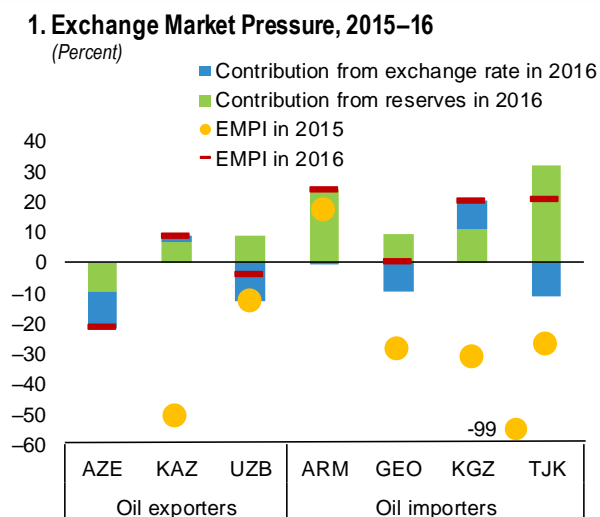
**Transitions in Monetary and Exchange Rate Regimes Remain Incomplete**

During 2014–16, the combination of declining oil and commodity prices, weaker growth in Russia and China, and the depreciation of the Russian ruble put pressure on currencies and international reserves (Figure 3.6, panel 1). Kazakhstan abandoned its exchange rate peg in favor of an inflation-targeting framework and more flexible exchange rate. Azerbaijan, the Kyrgyz Republic, and Tajikistan announced their intentions to move to inflation targeting and adopted less rigid exchange rate regimes; Armenia and Georgia were already under an inflation-targeting and floating exchange rate regime (Figure 3.7; Table 3.1).

Despite these transitions, exchange rates in the region remain largely managed and overvalued in some countries (Kyrgyz Republic, Tajikistan, Turkmenistan). This is particularly evident in the

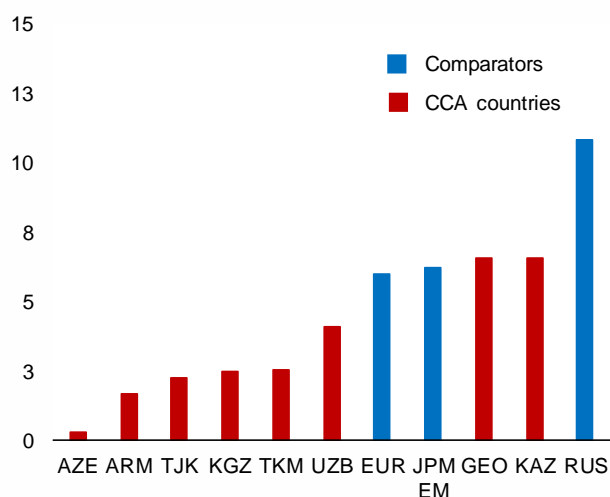
context of widespread exchange rate pressures experienced by emerging markets in 2018 (Figure 3.6 panel 2).

Figure 3.6. Exchange Rate Pressures



Sources: IMF, International Financial Statistics (IFS); and IMF staff calculations. Note: Country abbreviations are International Organization for Standardization (ISO) country codes. EMPI = exchange market pressure index. EMPI is the sum of the change in local currency dollar rate and change in reserves.

**2. Daily Spot Rates, Average Volatility, Annualized**  
(Percent, Jan 1, 2018–present)



Sources: Bloomberg Finance L.P.; and IMF staff calculations. Note: Country abbreviations are International Organization for Standardization (ISO) country codes. CCA = Caucasus and Central Asia; JPM EM = JP Morgan Emerging Markets Index.

Limited exchange rate flexibility may reflect a “fear of floating” underpinned by concerns about

**Table 3.1 Monetary and Exchange Rate Policies in CCA Countries**

	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.

limited price discovery and exchange rate volatility in shallow foreign exchange markets, financial stability risks from dollarized bank balance sheets, and inflation pass-through. More flexible exchange rates would more readily act as external shock absorbers, better supporting

competitiveness and confidence in domestic currencies.

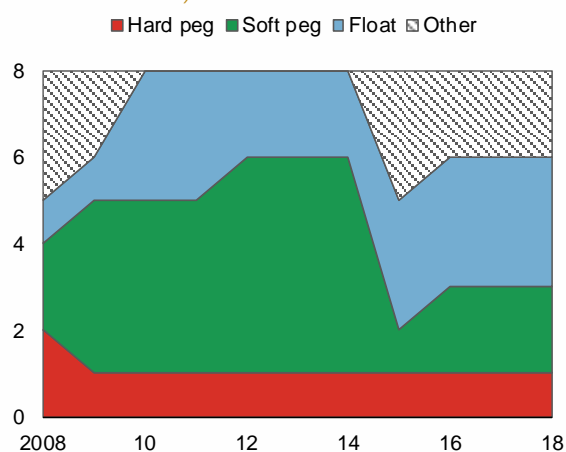
### ***Fiscal Buffers Have Been Eroded***

Strengthened fiscal institutions and frameworks, including the adoption of fiscal rules (Armenia, Azerbaijan, Kyrgyz Republic), greater fiscal transparency (Uzbekistan), and reforms of tax codes (Armenia, Georgia, Uzbekistan), have contributed to improved macroeconomic management. However, expansionary fiscal policies to offset the large, persistent external shocks during 2014–16 have contributed to notable rises in public debt in several countries (Figure 3.8).

Although debt in the region remains broadly contained compared with other countries—for example, oil importers in the Middle East, North Africa, Afghanistan, and Pakistan region (see Chapter 2)—the sudden rise in indebtedness implies an erosion of fiscal buffers and adds to vulnerabilities from substantial contingent fiscal liabilities. These reflect exposures to the debt of large state-owned enterprises and state-controlled

Figure 3.7.

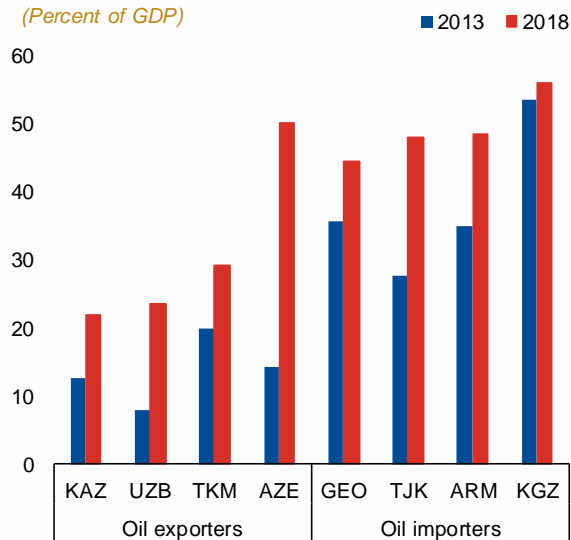
### **Caucasus and Central Asia: Exchange Rate Arrangements** (Number of countries)



Sources: IMF, Annual Report on Exchange Arrangements and Exchange Restrictions 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.

Figure 3.8. Public and Publicly Guaranteed Debt (Percent of GDP)



Sources: National authorities; and IMF staff calculations. Country Abbreviations are International Organization for Standardization (ISO) country codes. Azerbaijan debt includes approximately 30 percent of GDP in guarantees.

banks, which have built up outside official government budgets.

### Facing Global Headwinds

While legacy challenges and unfinished reform efforts limit the region’s growth potential, downside risks to global growth and rising global policy uncertainties threaten the near-term outlook.

- The CCA region has already been feeling the effects of lower growth in one of its main trading partners, particularly through remittance channels, and this could intensify in a weaker global context (Figure 3.9). At the same time, weaker outlooks in other key trading partners underscore further headwinds, while sanctions against Russia and geopolitical developments (such as security concerns from a possible US pullout from Afghanistan) raise regional uncertainty. These developments harm expectations, confidence, and investment, while posing

Figure 3.9. Cyclicality of Remittances Inflows to CCA and Real GDP Growth in Russia (Annual growth rates, percent)

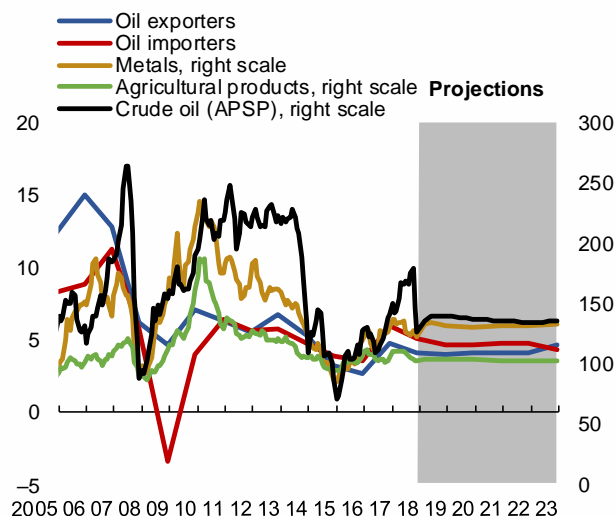


Sources: National authorities; and IMF staff calculations and estimates. Note: CCA = Caucasus and Central Asia. CCA oil exporter real non-oil GDP growth does not include Uzbekistan due to data availability.

new economic risks through trade and remittance channels.

- Large swings in global oil prices expose risks to the CCA region from continued commodity dependence. Indeed, growth

Figure 3.10. Economic Growth and Commodity Price Indices in CCA (Real GDP growth, percent, index 2005 = 100)



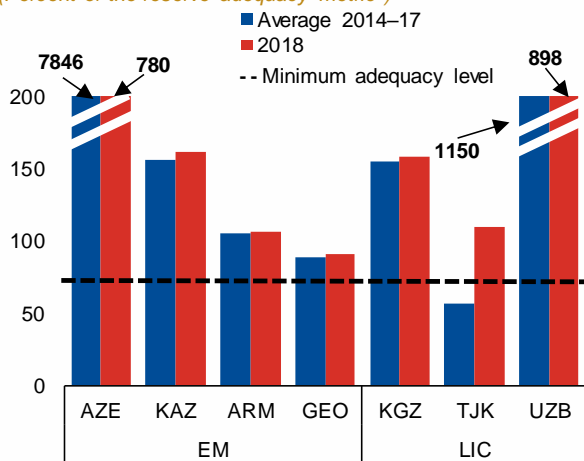
Sources: National authorities; and IMF staff calculations. Note: APSP = average petroleum spot price; CCA = Caucasus and Central Asia. APSP is the average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

across the region has become more tightly linked with developments in global commodity prices since the shocks of 2014–16 (Figure 3.10).

- Lack of export diversification, low export growth, and concentrated export markets (particularly in China, Russia, and the euro area) reinforce risks from slowing global growth and exposure to lower and more volatile global oil prices (Figure 3.12, panels 1 and 2). This combination of factors will weigh on current account balances, directly for oil and gas exporters and indirectly for oil and gas importers through trade and financial links with Russia and the euro area. Without greater exchange rate flexibility, this could test the adequacy of international reserves coverage in some countries (Figure 3.11).<sup>3</sup>

Figure 3.11. Total Reserve Assets

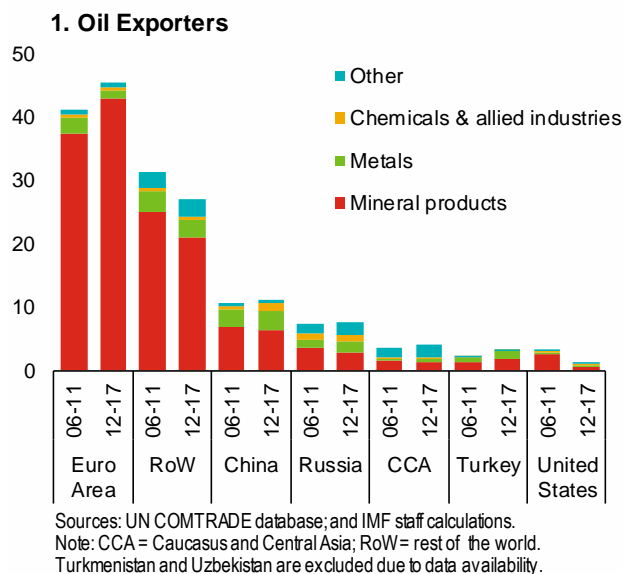
(Percent of the reserve adequacy metric<sup>1</sup>)



Sources: National authorities; and IMF staff calculations.  
 Note: Country abbreviations are International Organization for Standardization (ISO) country codes. EM = emerging market; LIC = low-income countries.  
<sup>1</sup>For low-income countries, the reserves adequacy metric was calculated using the methodology for credit-constrained economies. For emerging market economies, the assessing reserves adequacy in deepening financial markets methodology was used. For emerging market economies, the recommended range of reserves lies between 100 and 150 percent of the reserve adequacy metric.

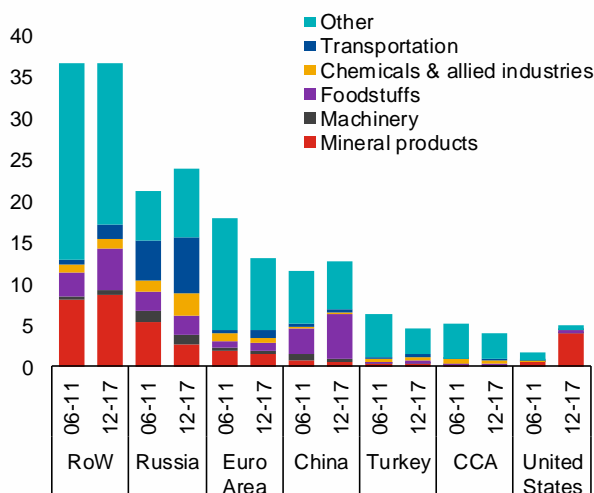
<sup>3</sup> Figure 3.11 refers to the IMF Assessment of Reserve Adequacy metrics, defined as the level of reserves that provide adequate space to a country to respond to shocks

Figure 3.12. Total Exports and Destinations of CCA Countries (Percent of total exports, average 2006–17)



Sources: UN COMTRADE database; and IMF staff calculations.  
 Note: CCA = Caucasus and Central Asia; RoW = rest of the world. Turkmenistan and Uzbekistan are excluded due to data availability.

2. Oil Importers



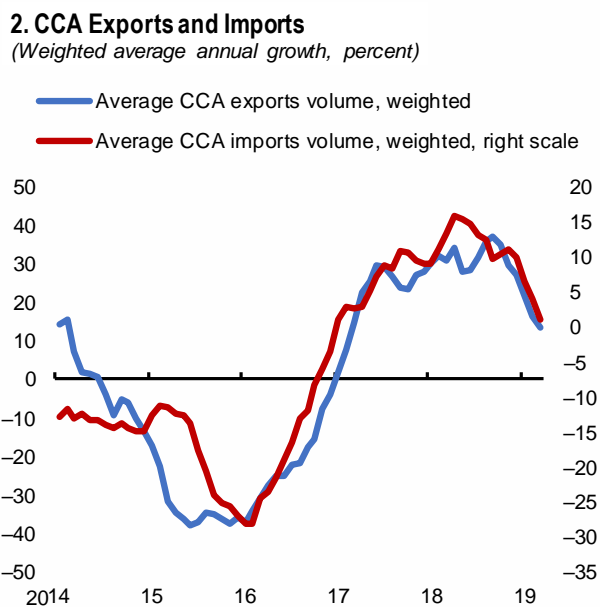
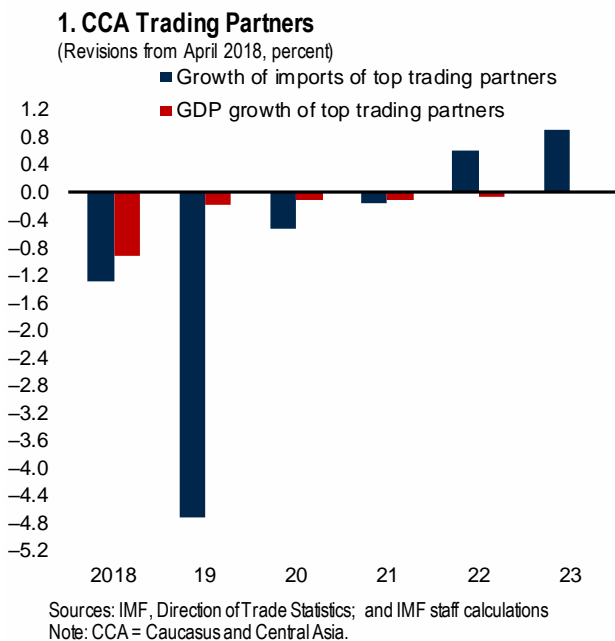
Sources: UN COMTRADE database; and IMF staff calculations.  
 Note: CCA = Caucasus and Central Asia; RoW = rest of the world. Tajikistan is excluded due to data availability.

- Rising uncertainties from global trade tensions pose major additional risks to the CCA region. High-frequency trade data

and prevent disorderly market conditions and undue economics dislocation.

indicate that the region is feeling the effects of slowing global trade that began in the final quarter of 2018, further illustrating the importance of ensuring external competitiveness through greater exchange rate flexibility (Figure 3.13, panels 1 and 2).

Figure 3.13. CCA and Trade Partners Trade Growth



## Increasing Policy Urgency to Enhance Resilience and Address Legacy Challenges

Mounting external uncertainties increase the urgency of boosting economic resilience in the CCA region by decisively addressing legacy challenges, completing key structural reforms, and rebuilding fiscal buffers. Further progress is needed to ensure higher medium-term inclusive growth and living standards, including by reducing the role of the state in economic activity and creating an environment more conducive to private sector activity. In particular, countries should:

- *Repair the financial sector to support growth.* Regulatory and supervisory frameworks and macroprudential policies should be strengthened across countries, while regulatory forbearance should be avoided. For a number of countries (Armenia, Kazakhstan, Uzbekistan), this includes improving underwriting standards and credit risk management, better corporate governance in banks, and strengthening the judiciary and legal systems to enhance the rule of law (see IMF 2018a). Stronger resolution and crisis management frameworks are also needed to facilitate orderly and faster resolution of nonviable banks with limited state support (Azerbaijan, Georgia, Kyrgyz Republic, Tajikistan). Strengthening securities regulations and building local currency yield curves through regular sovereign issuance can also foster capital market development.
- *Fully modernize monetary policy frameworks to anchor inflation expectations and foster exchange rate flexibility.* Recent moves toward greater exchange rate flexibility have helped enhance competitiveness but left

unfinished monetary policy frameworks less effective in steering inflation expectations.

Completing the transition to more credible interest rate or rules-based frameworks (Azerbaijan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan), once the key conditions are in place, is essential to supporting full exchange rate flexibility. These include ensuring central bank operational and financial independence and establishing the primacy of the inflation objective in a forward-looking strategy (see IMF 2016). In addition, developing adequate monetary instruments and forecasting capabilities (Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan), while addressing gaps in data and coordination with fiscal authorities, would enhance central bank communication with domestic stakeholders and financial markets and help anchor inflation expectations. Deeper and more liquid domestic debt and foreign exchange markets would also improve intermediation and monetary transmission.

- *Rebuild fiscal buffers through growth-friendly consolidation* (see IMF 2018b). Efforts to widen the tax base, reduce exemptions, and make tax systems fairer should continue, along with further rationalization of expenditures—while protecting capital and social spending in countries where public debt has increased sharply, including because of exchange rate depreciation (Azerbaijan), or where the risk of debt distress is high (Tajikistan). Fiscal consolidation may also be needed where limits imposed by fiscal rules call for the upgrading of fiscal policy measures (Armenia) and where there is a need to support external adjustment and control inflation (Turkmenistan, Uzbekistan). Fiscal risks and contingent liabilities should be

managed through improved governance of state-owned enterprises.

- *Promote private sector development and diversification.* Structural reforms should be accelerated to foster diversification and private-sector-led inclusive growth. Gradually reducing the role of the state in the economy would level the playing field and lay the foundation for a more market-based economic system, while additional measures are needed to streamline regulations, strengthen legal frameworks, and improve tax systems. Together with healthier banks and fully market determined exchange rates, a more vibrant private sector would better link the CCA region to global value chains, foster economic diversification, and lift medium-term growth potential (see IMF 2018c).
- *Promote good governance and fight corruption.* Weak governance and corruption are a unifying theme underpinning the CCA region's legacy challenges and incomplete reform efforts. Broad governance reforms to reduce vulnerability to corruption could have a positive effect on the region's ability to achieve better public administration and higher, sustainable, and more inclusive economic growth. But this requires strengthening institutional frameworks and transparency practices in key economic functions, such as financial sector oversight, tax administration, public financial management, central bank governance and operations, and anti-corruption and anti-money-laundering frameworks, to help reduce regulatory capture and deliver improved results (see the April 2019 *Fiscal Monitor*). Efforts in these directions would enhance public sector efficiency, including through higher revenue collection with positive impacts on deficits, debt sustainability, and the ability to provide

public services. They would also help create an improved overall business environment, fostering domestic and foreign investment and a more stable financial sector. In this regard, the IMF has a new, enhanced framework for engagement on governance

issues that aims to promote more systematic, effective, and candid engagement with member countries relating to macro critical governance vulnerabilities (see IMF 2018d). The IMF will be rolling out this framework in CCA countries in the coming year.

**CCA Region: Selected Economic Indicators, 2000–20***(Percent of GDP, unless otherwise indicated)*

	Average 2000–15	2016	2017	2018	Projections	
					2019	2020
<b>CCA</b>						
Real GDP (annual growth)	7.8	2.7	4.9	4.2	4.1	4.1
Current Account Balance	0.7	–6.5	–2.7	0.5	–0.5	–0.1
Overall Fiscal Balance	1.9	–3.5	–3.8	0.4	0.5	0.8
Inflation (year average; percent)	8.8	10.4	9.1	8.2	7.8	6.4
<b>CCA oil and gas exporters</b>						
Real GDP (annual growth)	8.1	2.7	4.8	4.1	4.0	4.1
<i>of which non-oil growth</i>	8.3	1.1	2.9	3.9	3.9	3.9
Current Account Balance	1.9	–6.2	–2.4	1.6	0.5	0.8
Overall Fiscal Balance	2.7	–3.2	–3.7	0.8	1.0	1.3
Inflation (year average; percent)	9.0	11.5	9.6	8.9	8.3	6.6
<b>CCA oil and gas importers</b>						
Real GDP (annual growth)	6.2	3.5	6.0	5.1	4.5	4.5
Current Account Balance	–7.9	–8.5	–4.8	–7.3	–7.4	–6.8
Overall Fiscal Balance	–2.9	–5.4	–4.3	–2.5	–3.0	–2.7
Inflation (year average; percent)	7.0	1.8	4.5	2.7	3.4	4.1

Sources: National authorities; and IMF staff calculations and projections.

CCA oil and gas exporters: Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

CCA oil and gas importers: Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.



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