
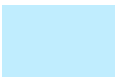


Caucasus and Central Asia Regional Economic Outlook October 2011

-  Oil and gas exporters
-  Oil and gas importers

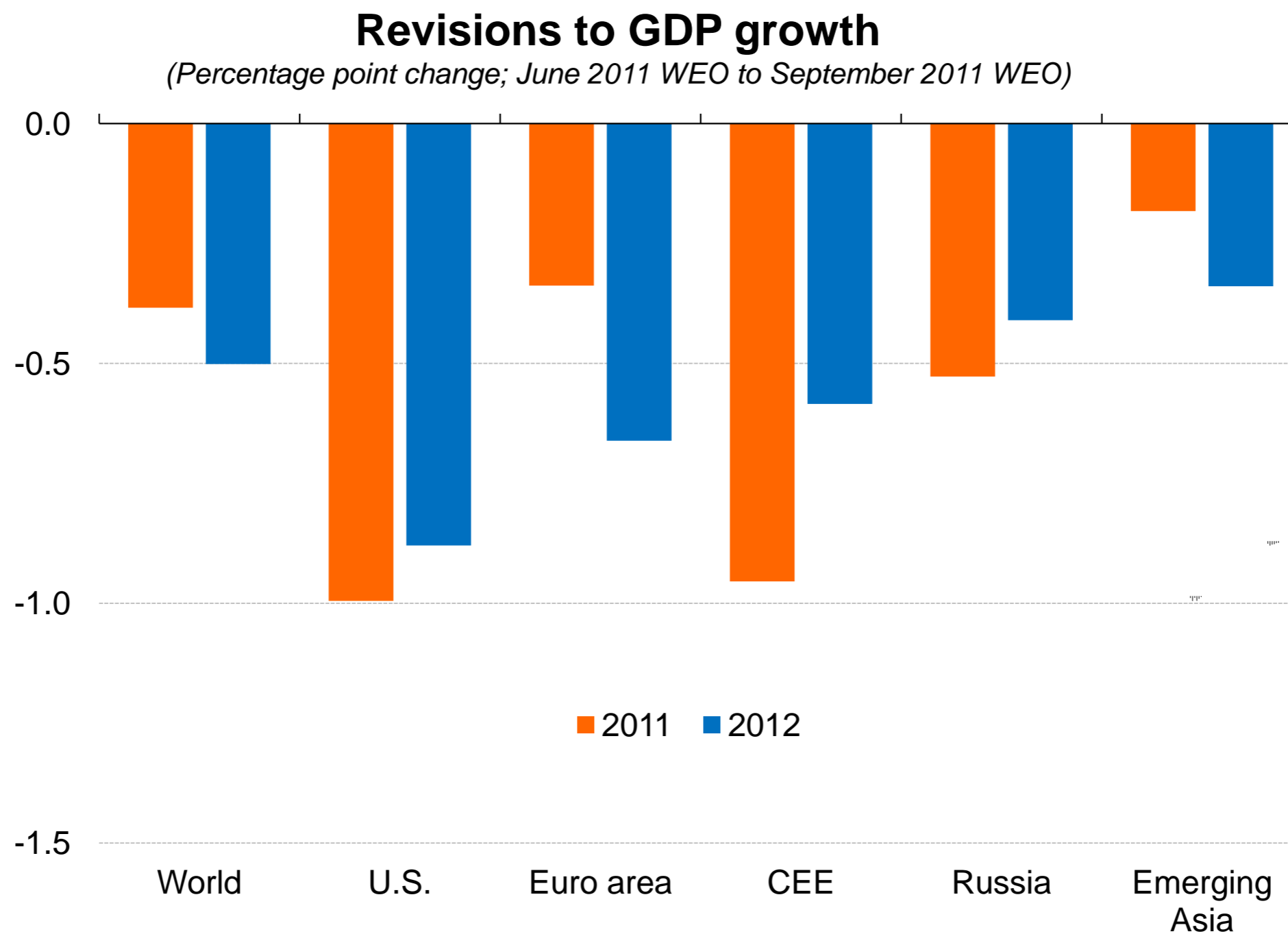


Overview

Global outlook

Caucasus and Central Asia
(CCA) outlook and policies

Global outlook has weakened...

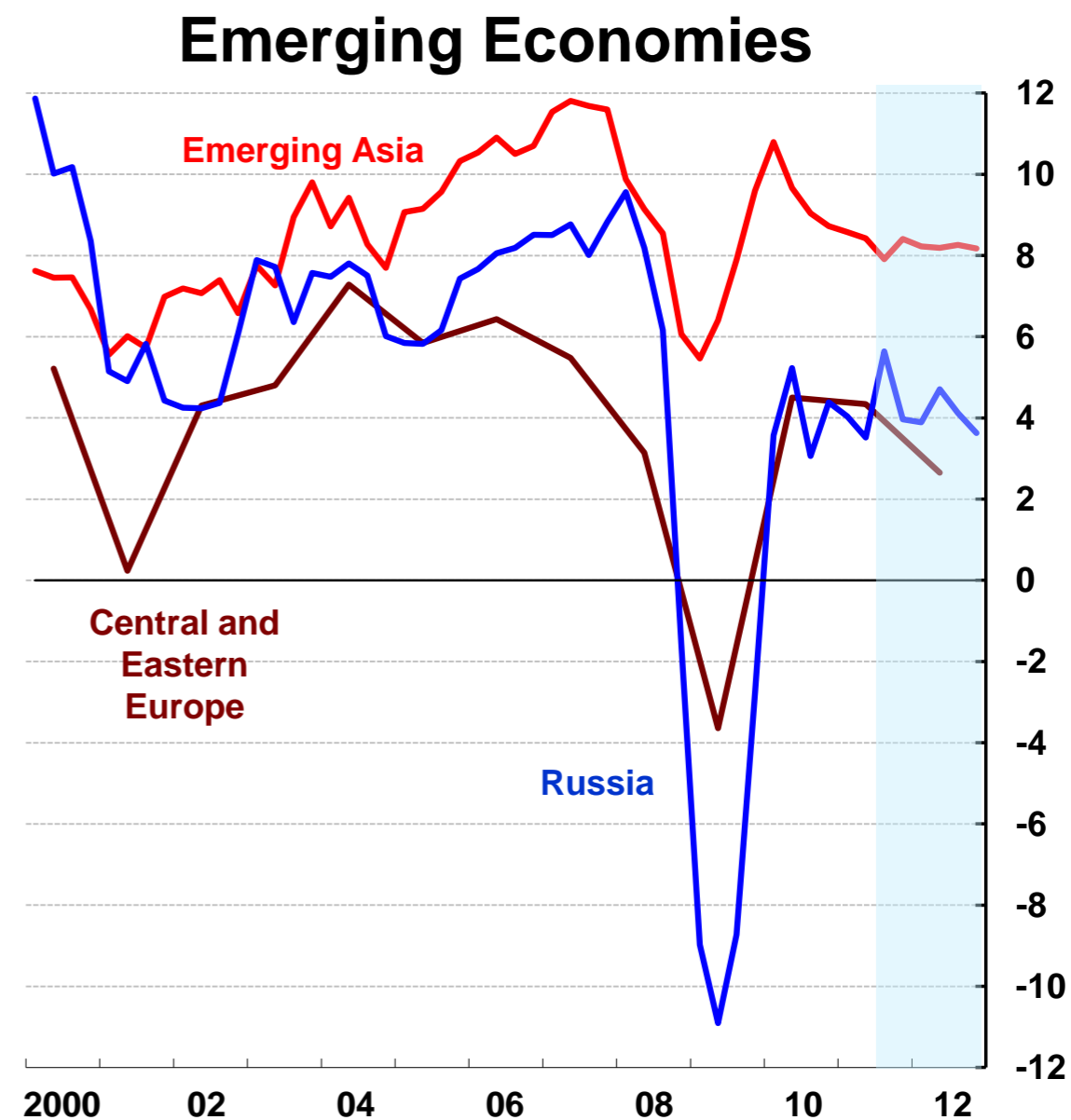
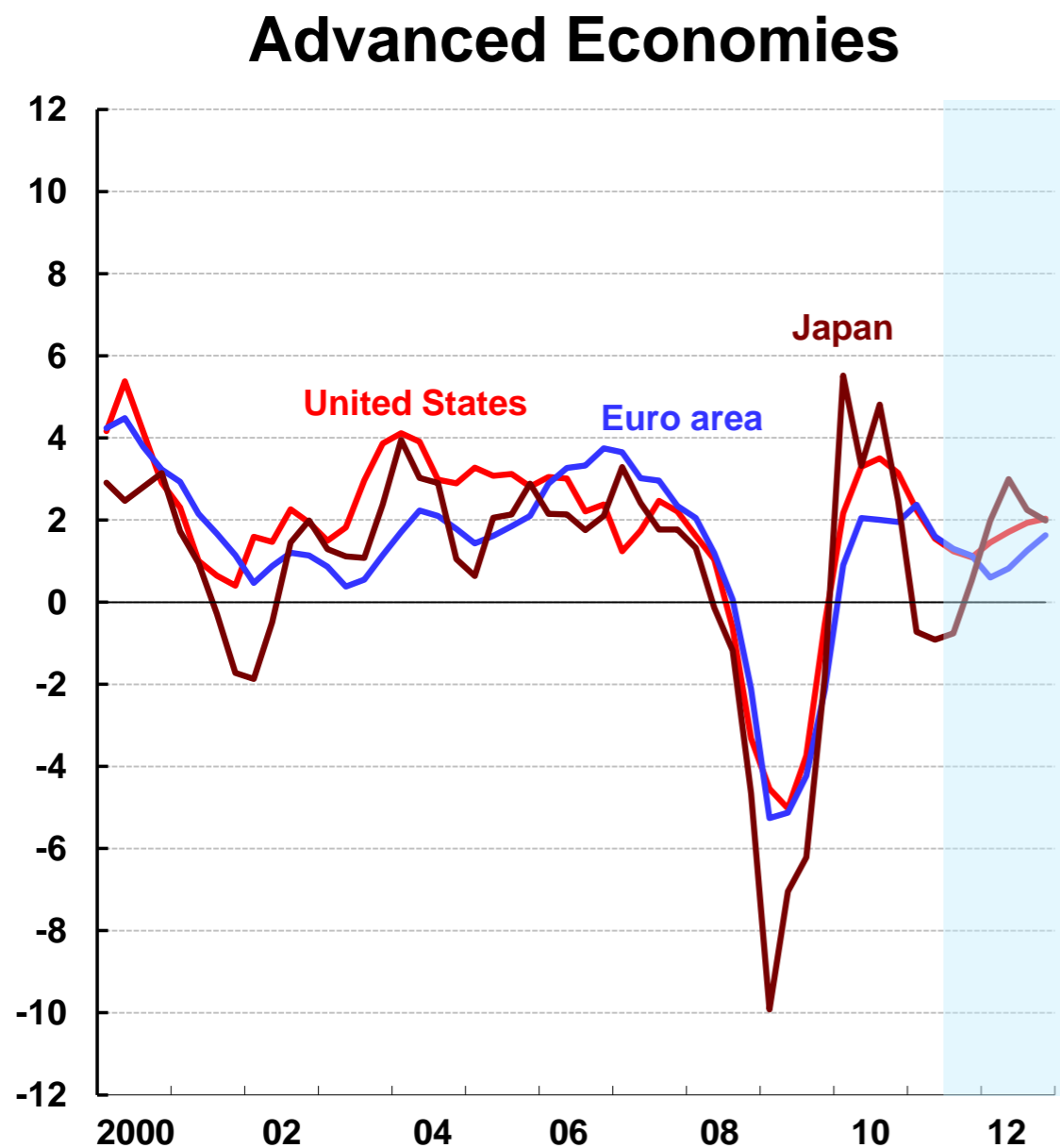


Source: International Monetary Fund, *World Economic Outlook*.



...and recovery is uneven

Real GDP Growth¹
(percent change from a year earlier)



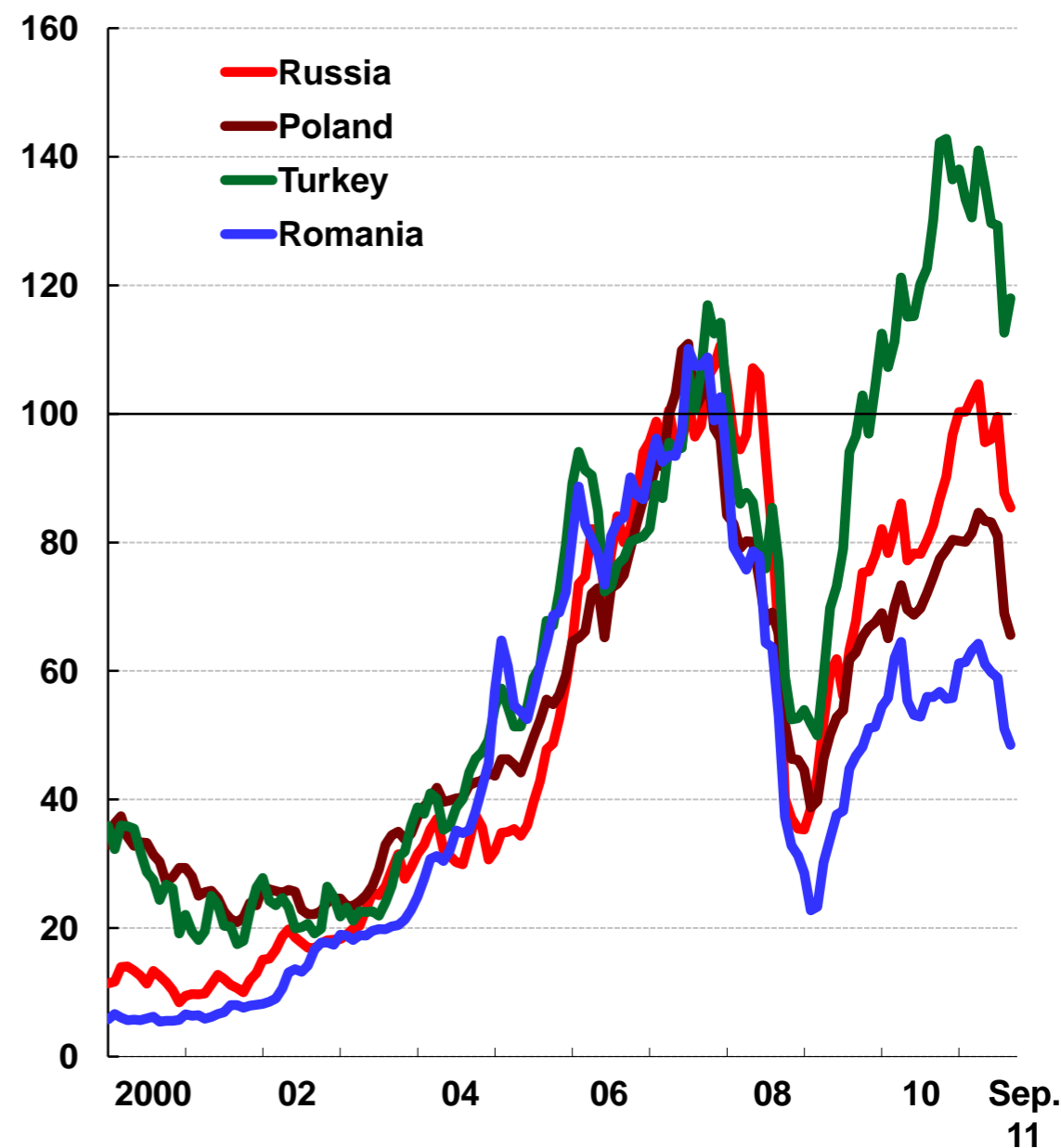
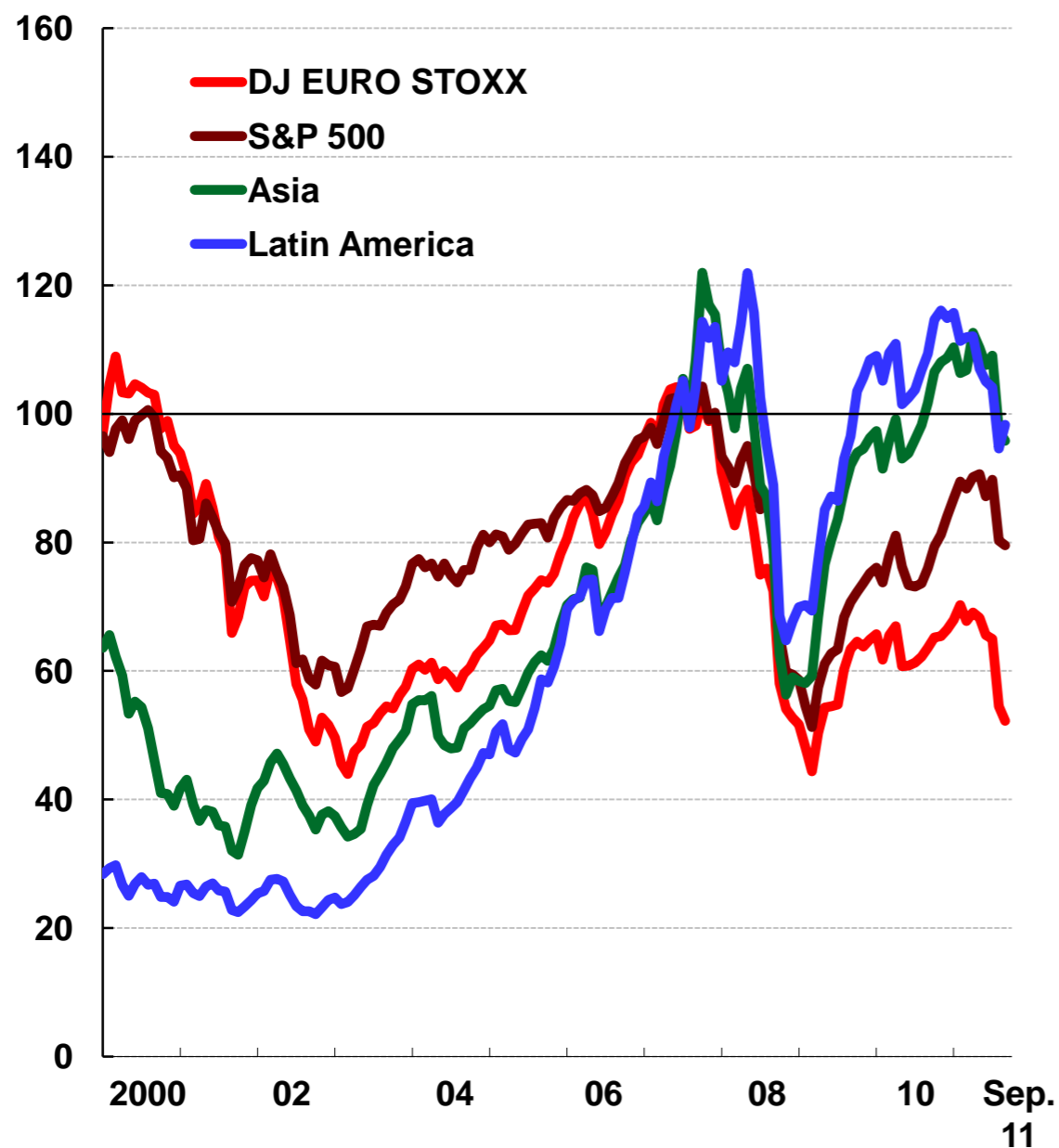
¹Quarterly data, except for Central and Eastern Europe (CEE), where annual data are used.
Source: International Monetary Fund, *World Economic Outlook*.



Equity markets have fallen

Equity Markets

(index; 2007=100; national currency)



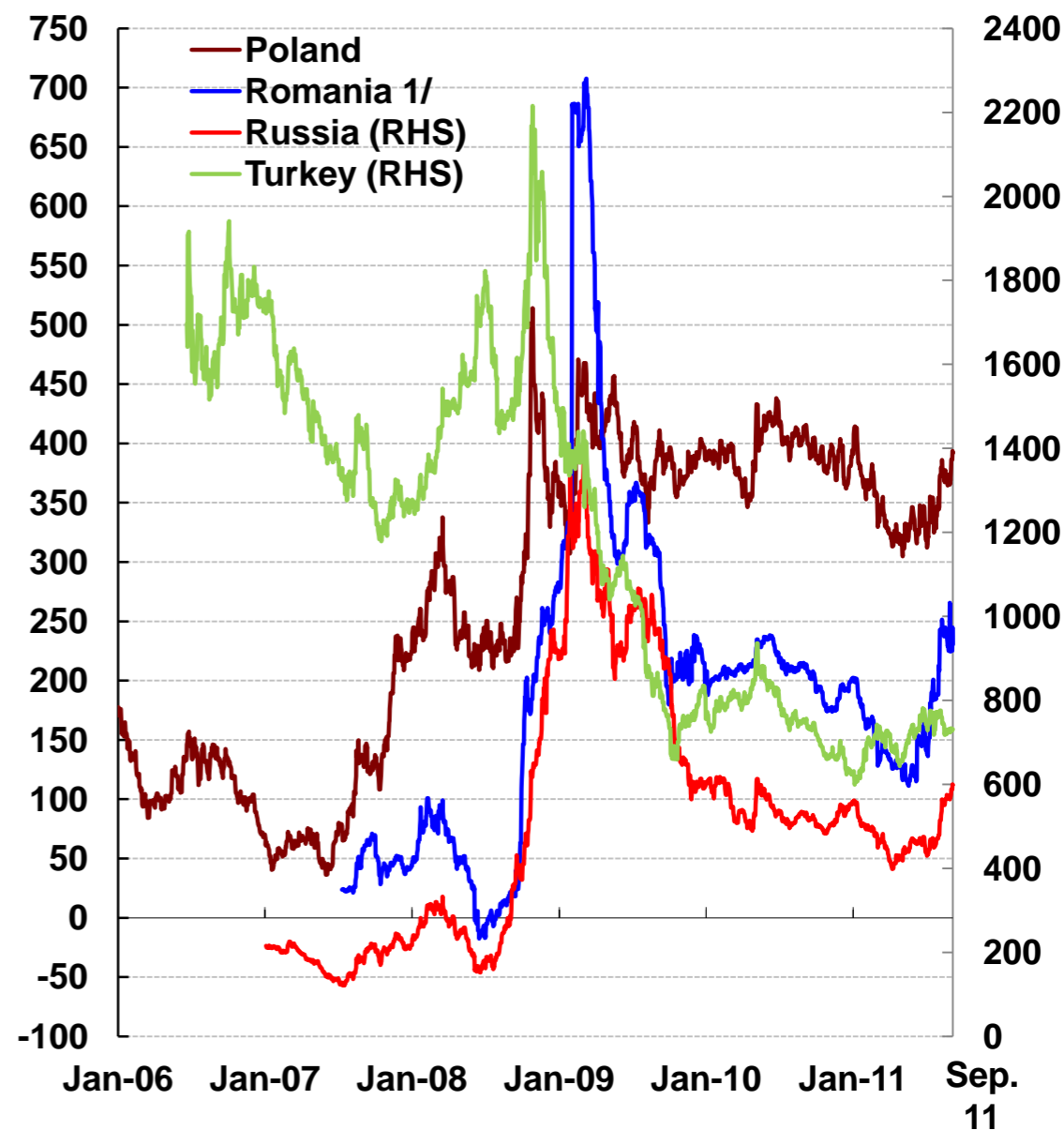
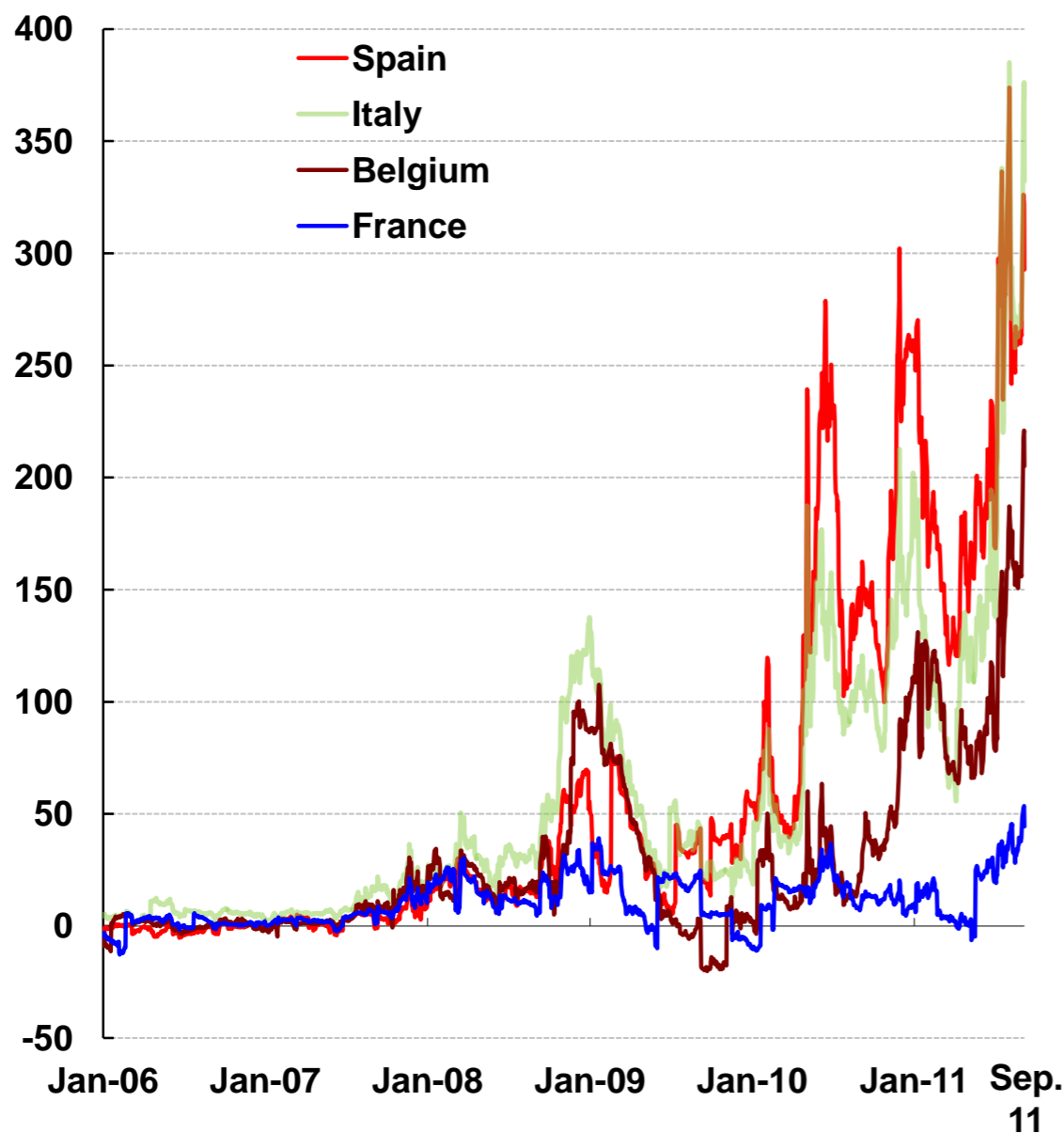
Sources: IMF, *World Economic Outlook*; and Bloomberg.



Financial stability risks have increased

Government Bond Spreads

(two-year yield spreads over German bunds; basis points)



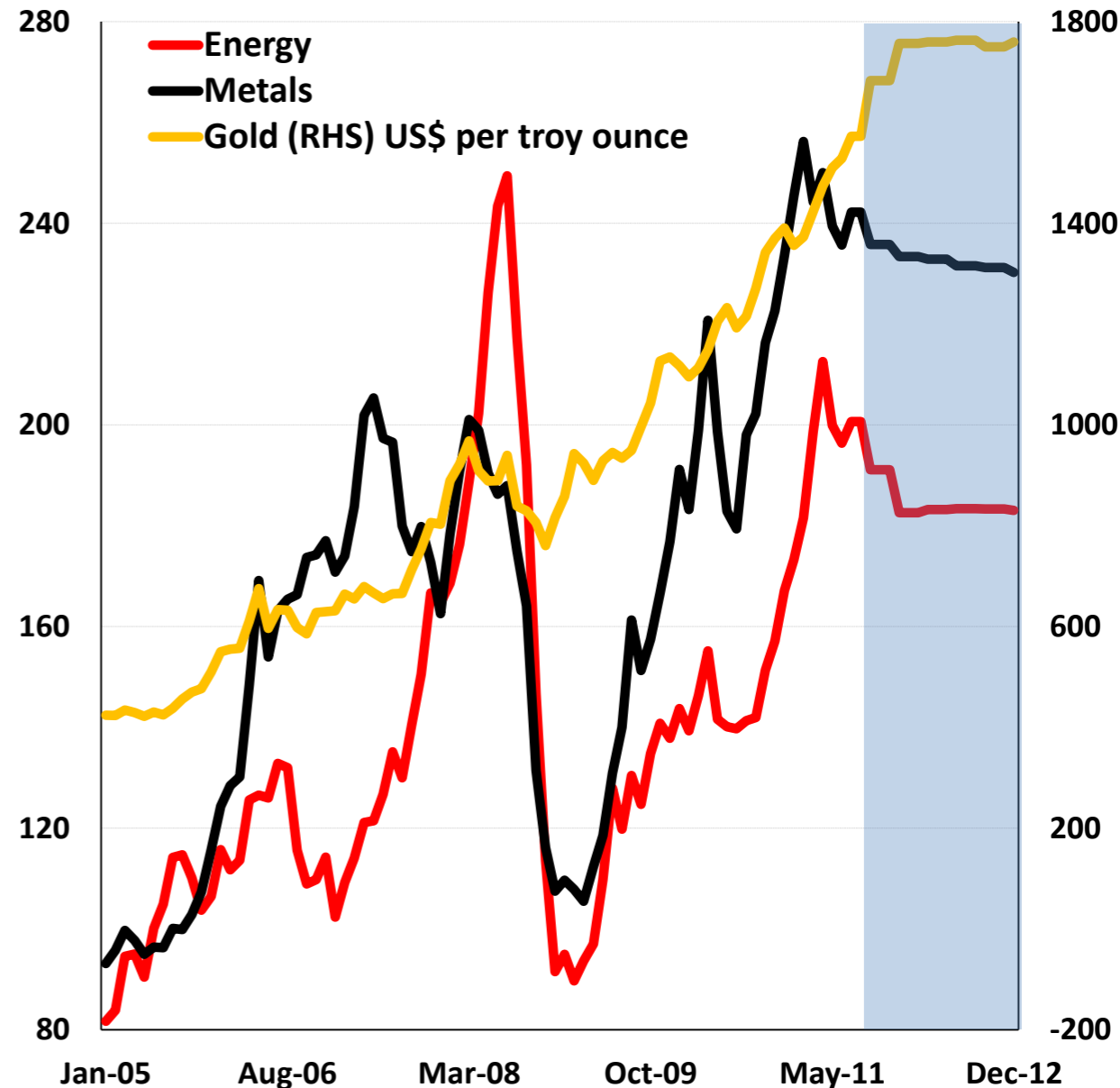
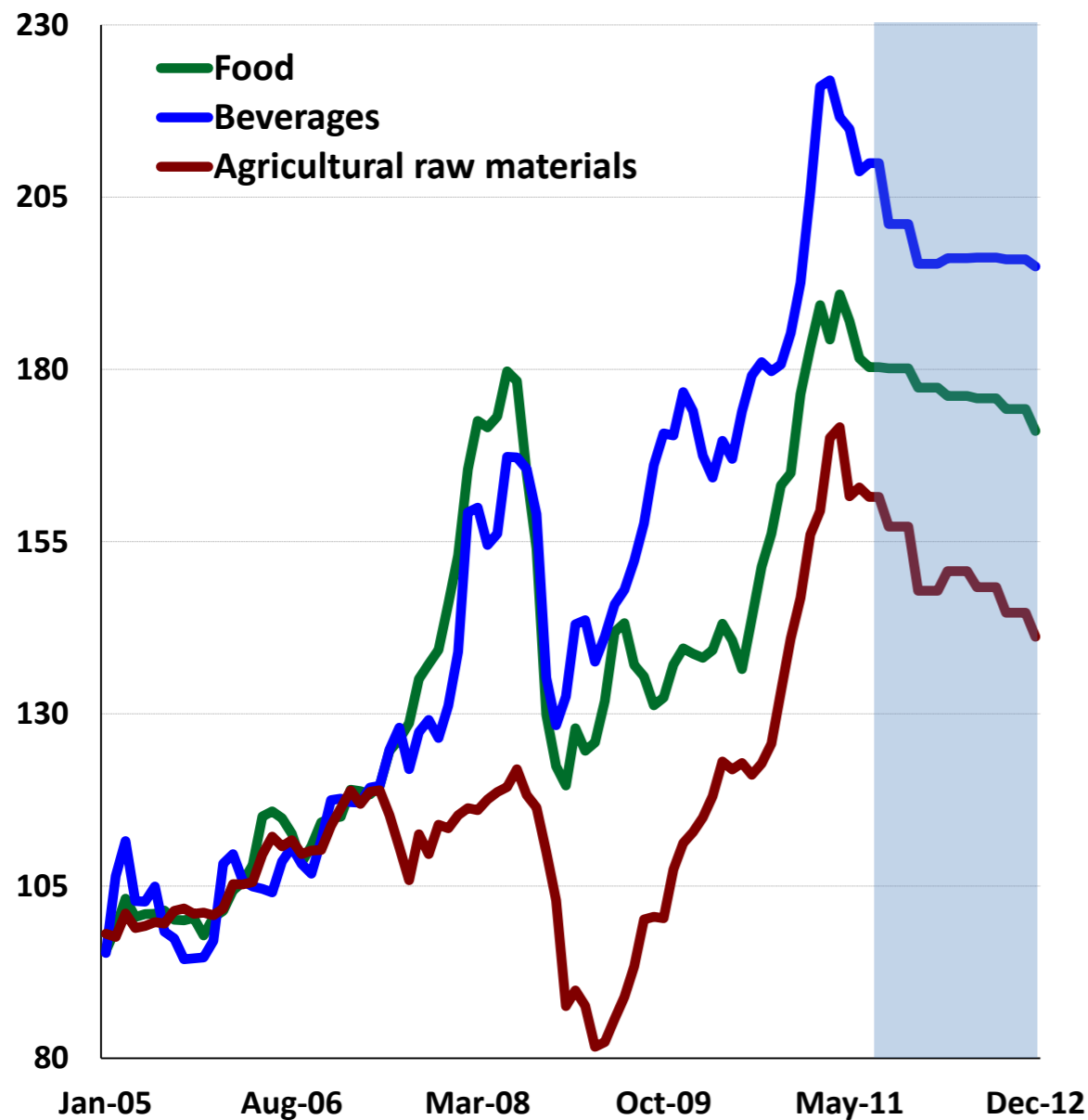
Sources: IMF, *World Economic Outlook*; and Bloomberg.
1/ One-year yield spreads over German bunds.



Commodity prices still high—but may have peaked

Commodity Prices

(index; 2005=100)



Source: IMF, *Global Data Source*.

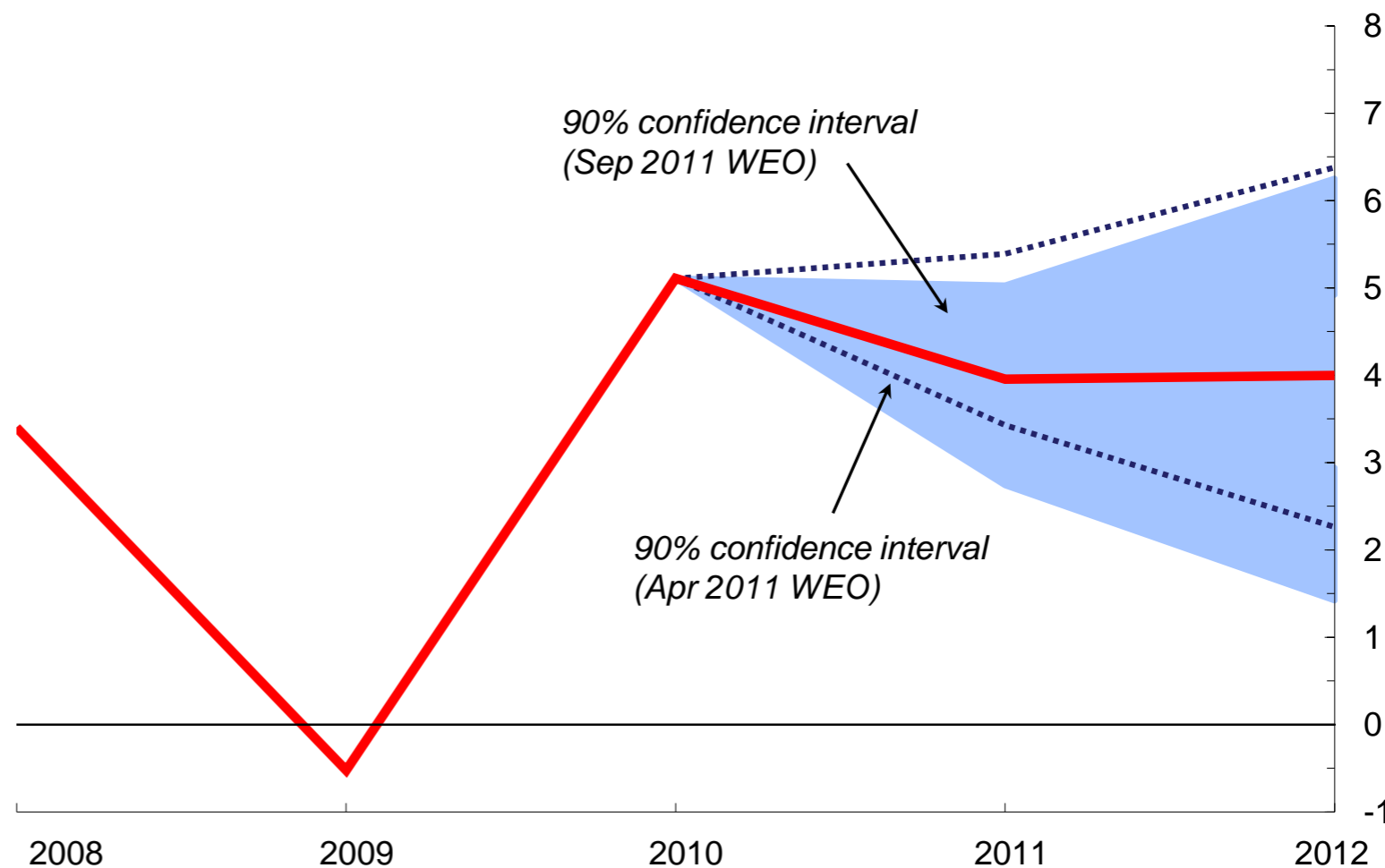


Downside risks have increased sharply

Downside risks:

- Euro area crisis
- Advanced economy sovereign risks
- Escalating global financial volatility
- Oil supply concerns (risk of higher oil prices)

Prospects for world GDP growth
(annual percent change)



Source: IMF, *World Economic Outlook*.

Caucasus and Central Asia: Outlook and Challenges

CCA region:

- Broadly positive growth outlook, but growing external risks
- Inflation remains a concern in many countries
- Banking sectors still impaired in some countries

Oil and gas importers face:

- Limited fiscal space
- External vulnerabilities—
large current account deficits
and debt burden

Oil and gas exporters face:

- Large non-oil fiscal deficits
- The challenge of improving
the quality of public spending

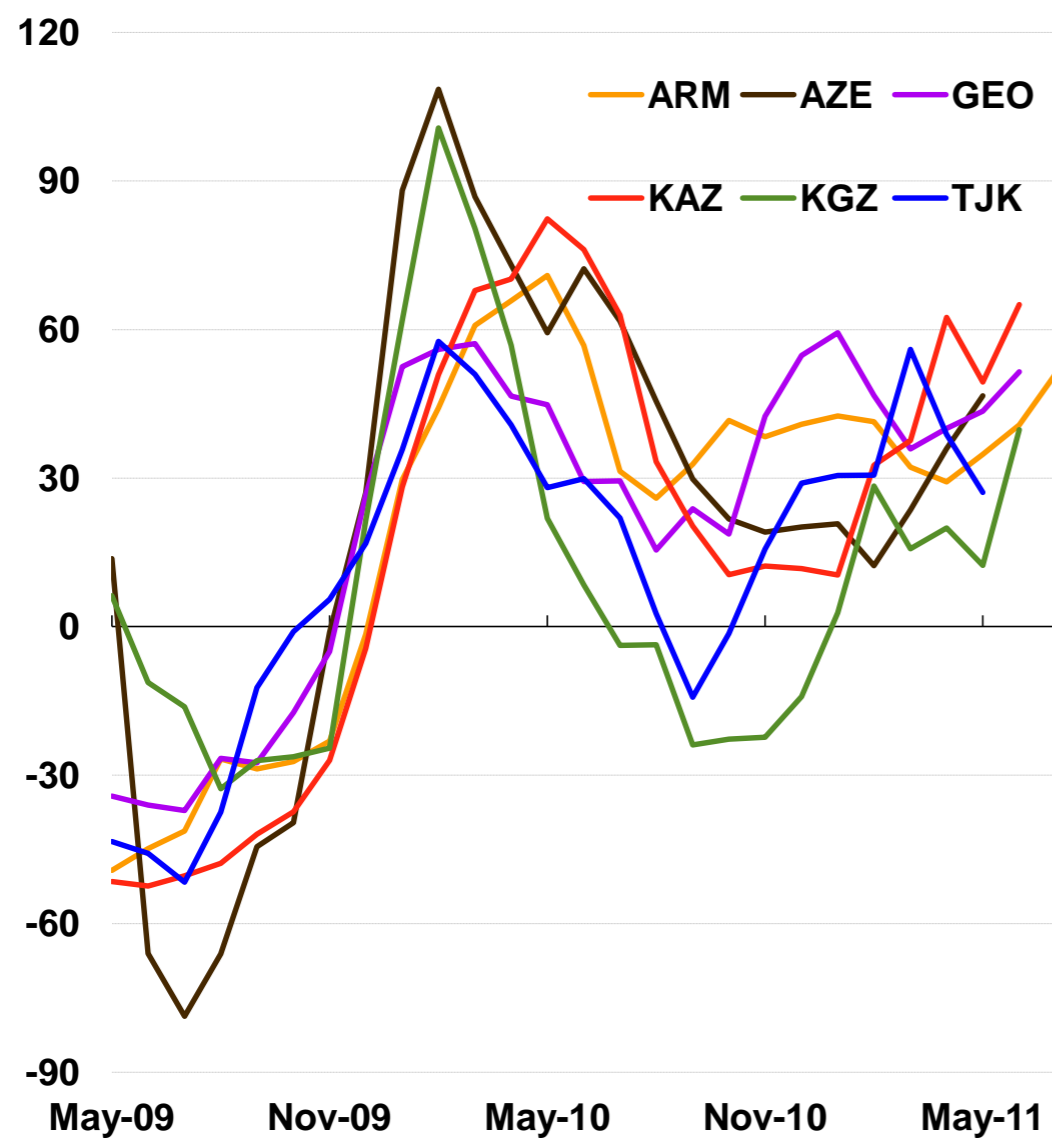
Medium-term challenges:

- Creating jobs and fostering high and inclusive growth

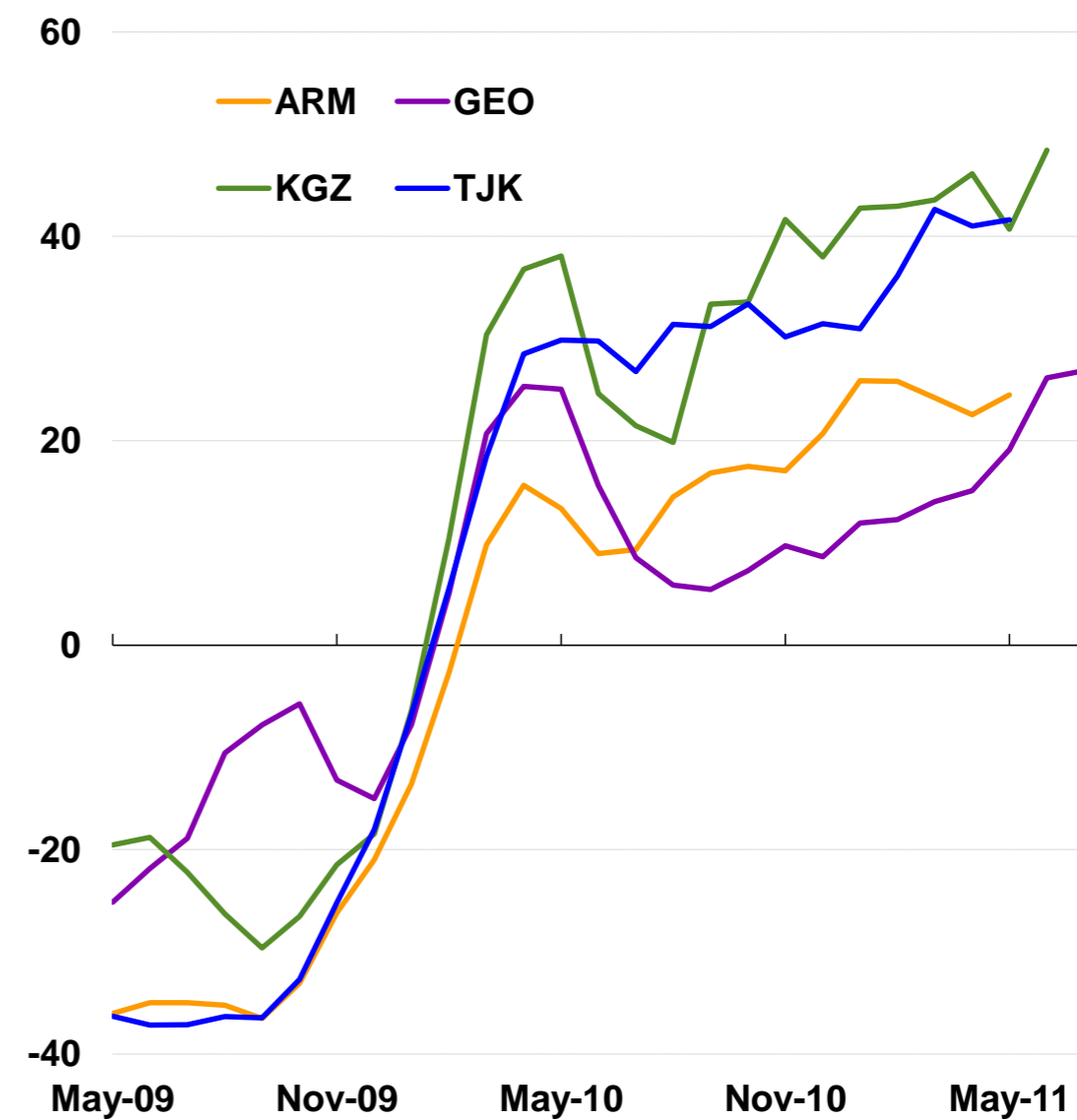
Exports and remittances continue to grow solidly

Exports of Goods

(3-month moving average of year-on-year growth, percent)



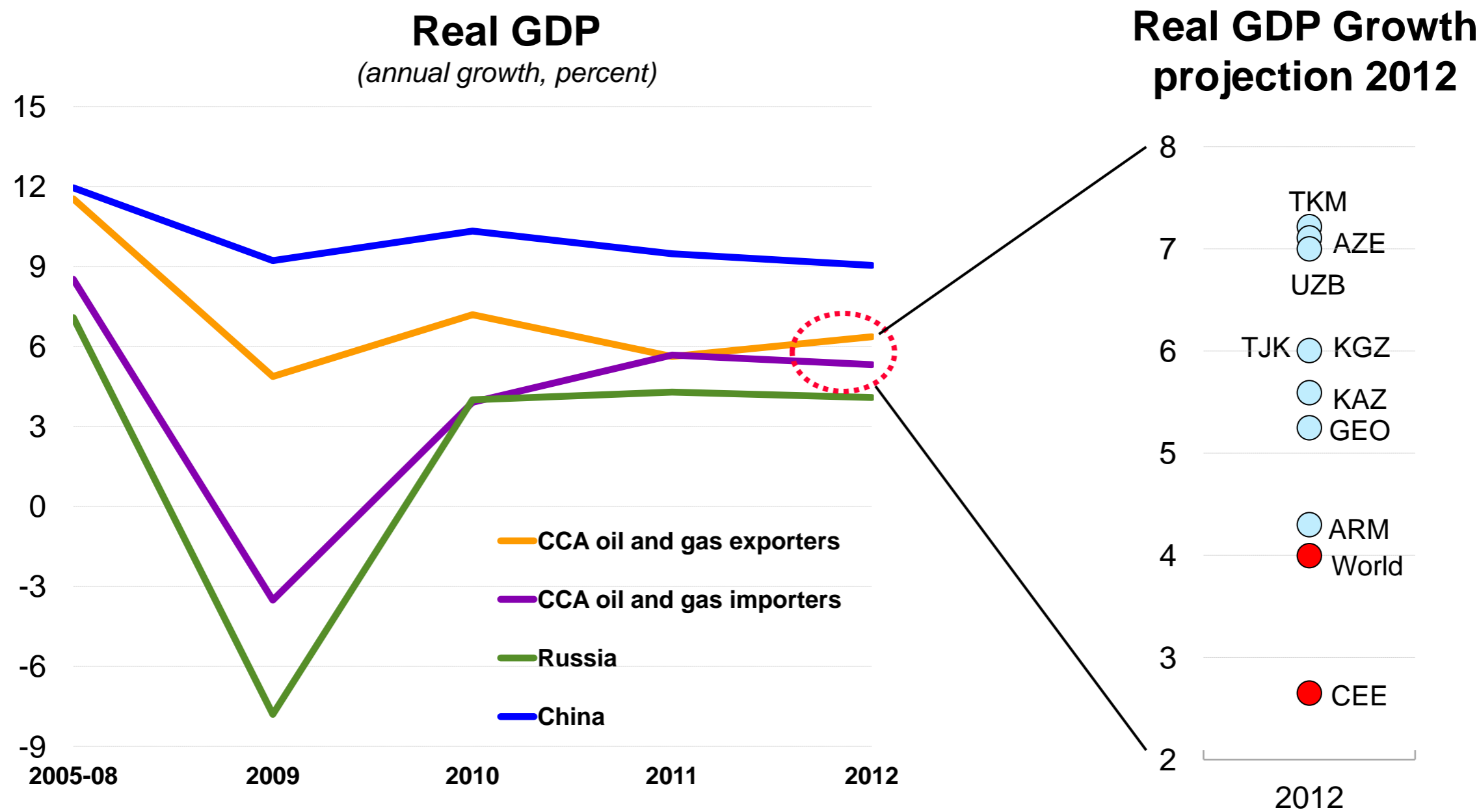
Remittance Inflows



Sources: National authorities; and IMF staff calculations.



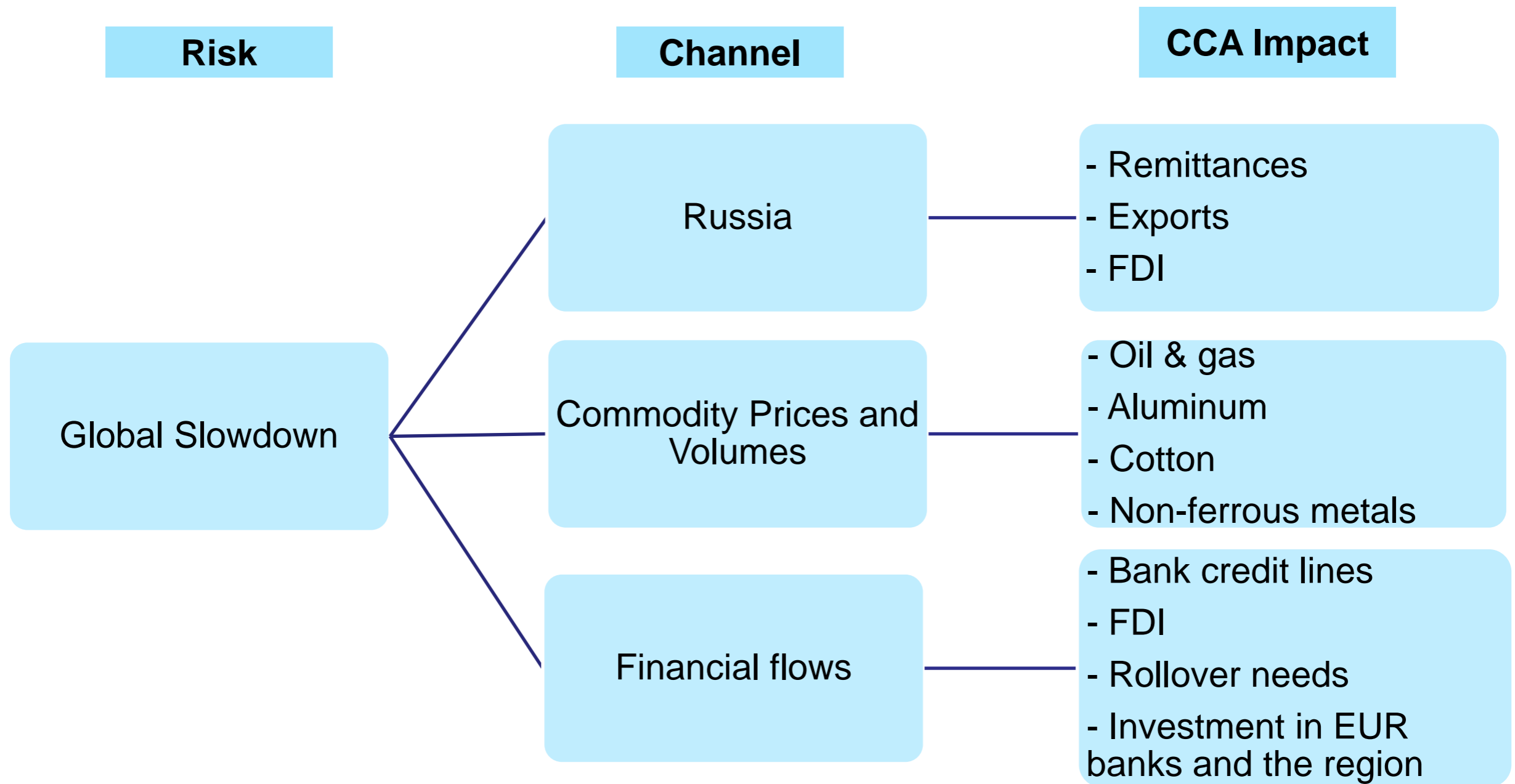
Growth outlook broadly positive...



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



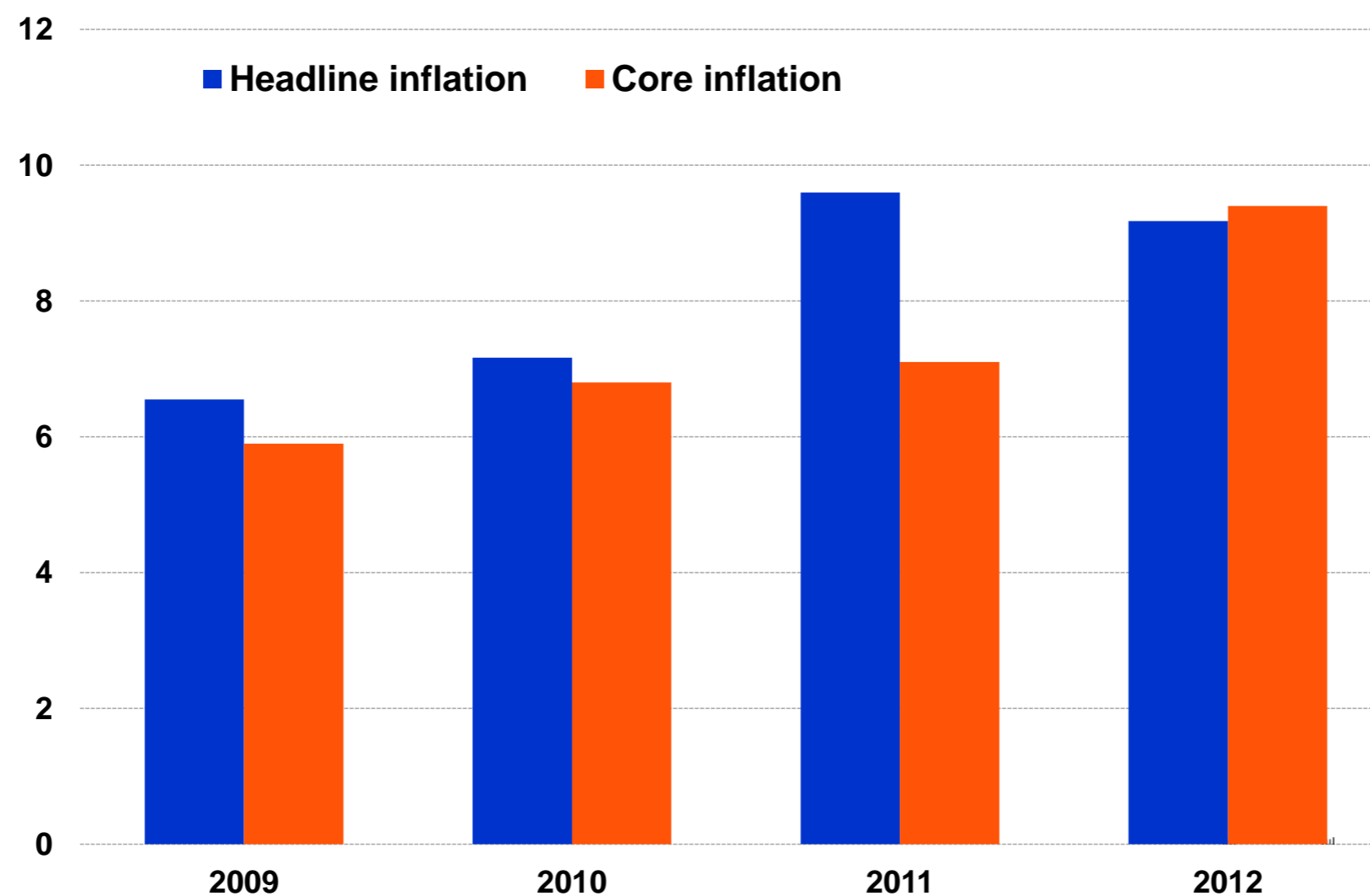
...but with downside risks



Inflation remains a concern in the oil and gas exporters...

Headline and Core Inflation

(average annual rate, in percent)

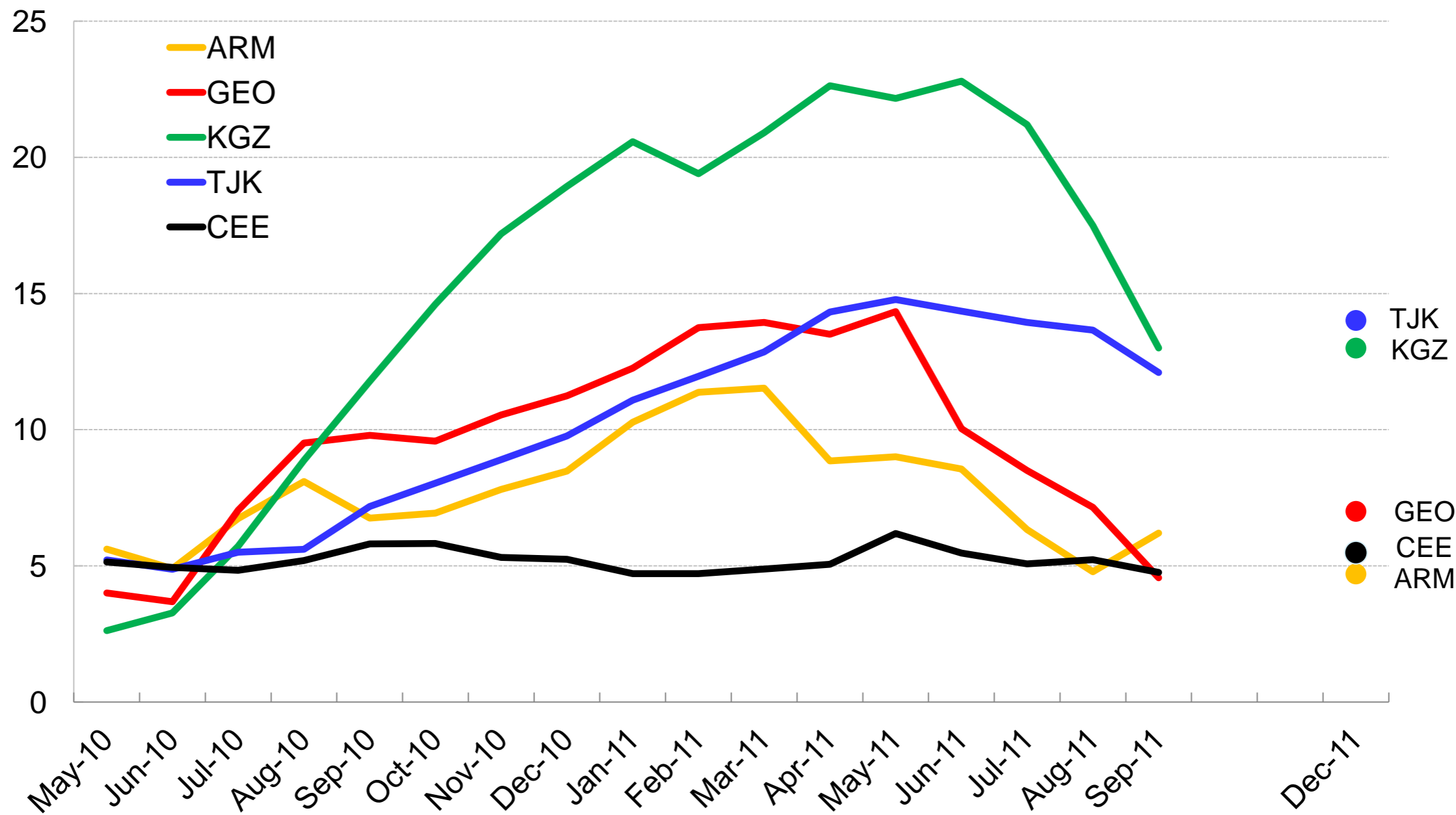


Sources: National authorities; IMF, *World Economic Outlook*; and IMF staff calculations and projections.

...and in some oil and gas importers

Headline CPI Inflation

(12-month change; percent)



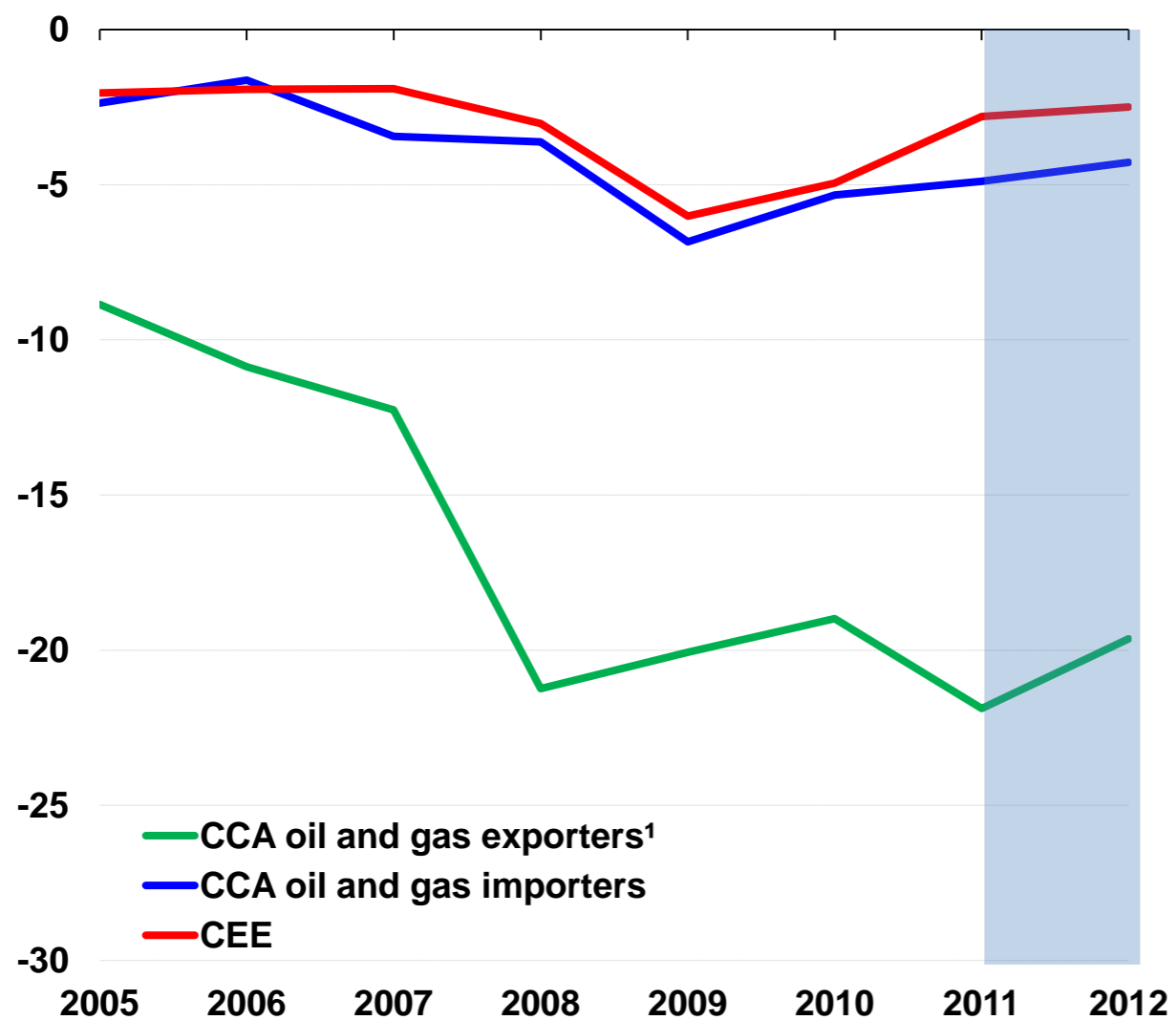
Sources: National authorities; and IMF staff calculations.



Fiscal consolidation is needed

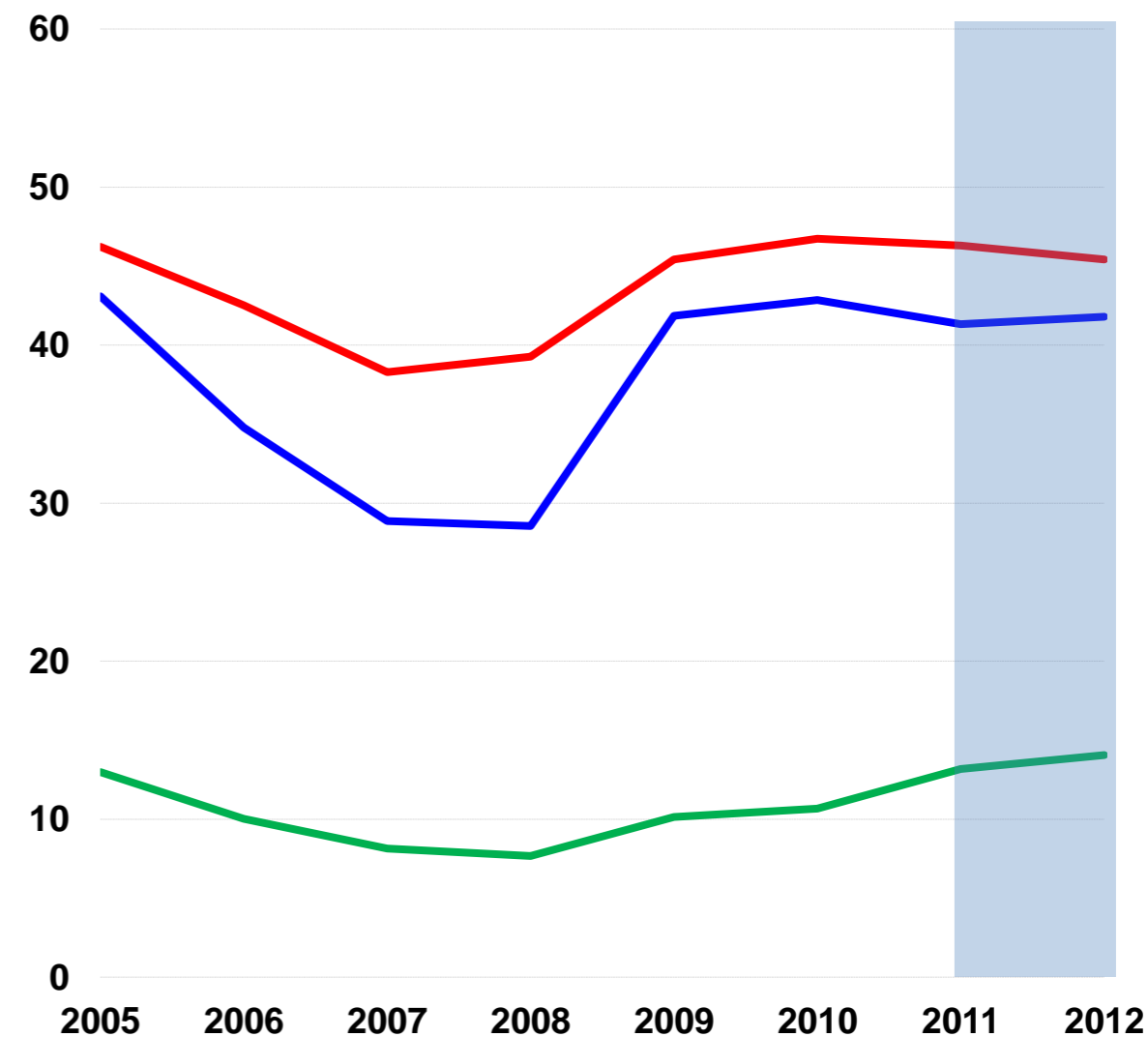
Fiscal Deficits

(fiscal balance; percent of GDP)



Public Debt

(percent of GDP)



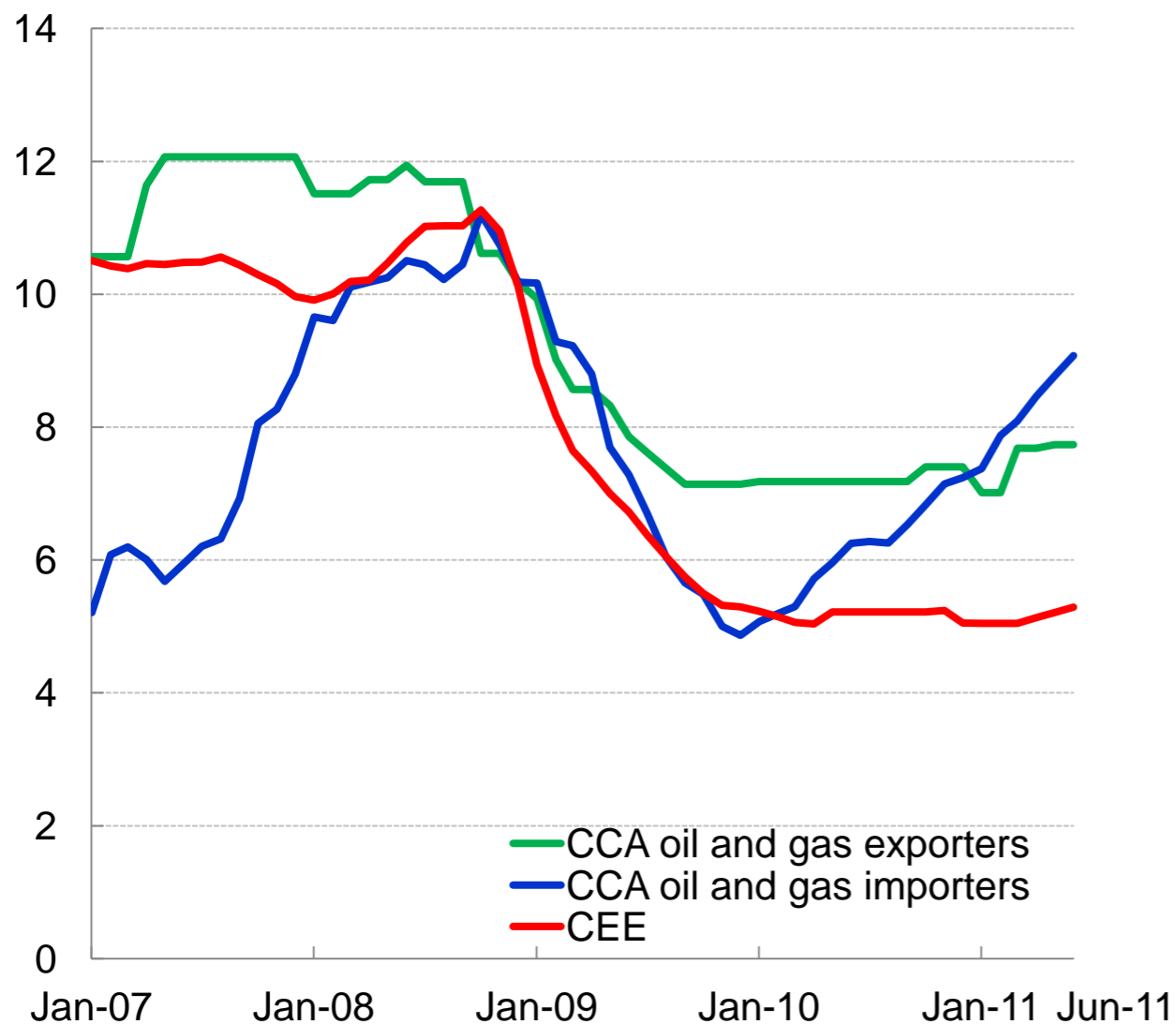
Sources: National Authorities; and IMF staff calculations.

¹ Non-oil and gas fiscal balance over non-oil and gas GDP is used.

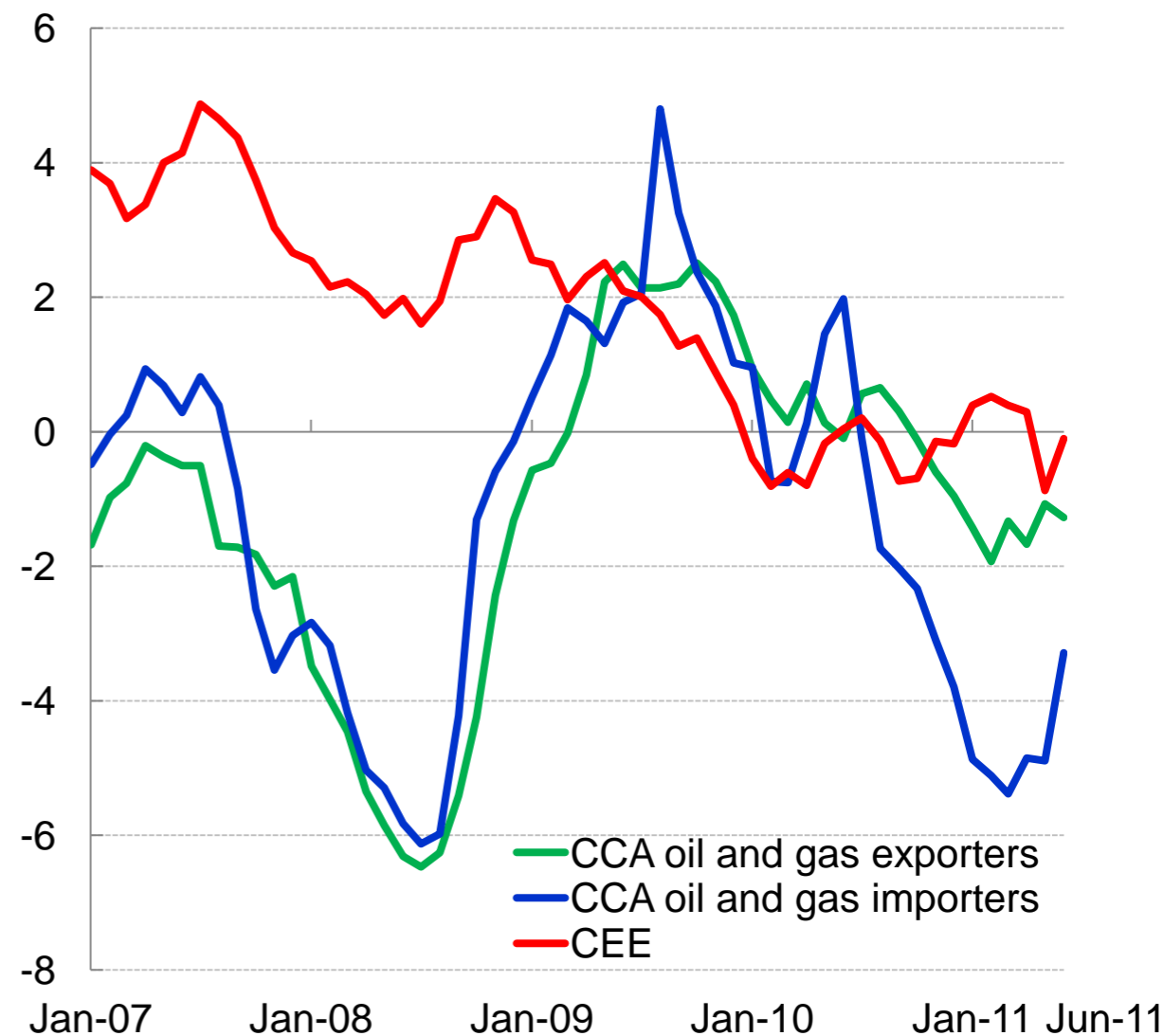


Monetary policy – more tightening needed

Nominal Policy Rates^{1,2} (percent)



Real Policy Rates^{1,2} (percent)



¹Weighted by PPPGDP.

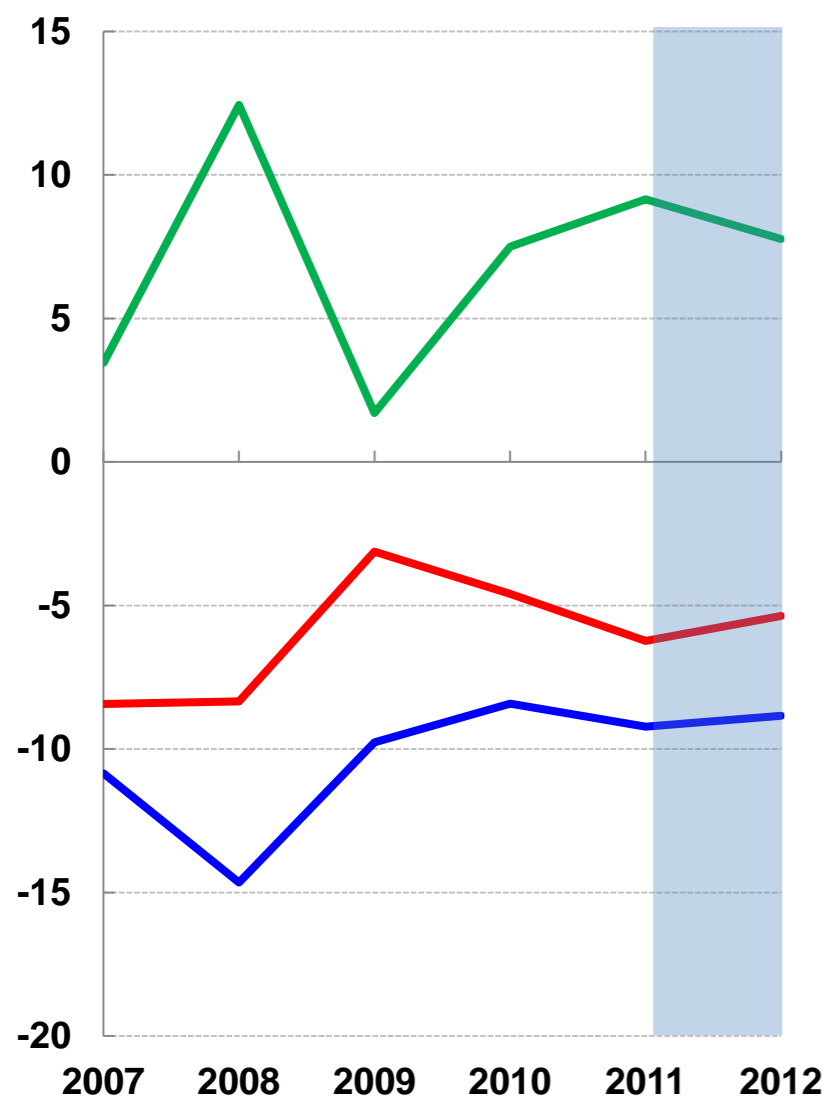
²CEE policy rate is the weighted average of Bulgaria, Hungary, Latvia, Lithuania, Poland, Romania, and Turkey.

Sources: IMF, Global Data Source (GDS) database; and IMF staff calculations and projections.

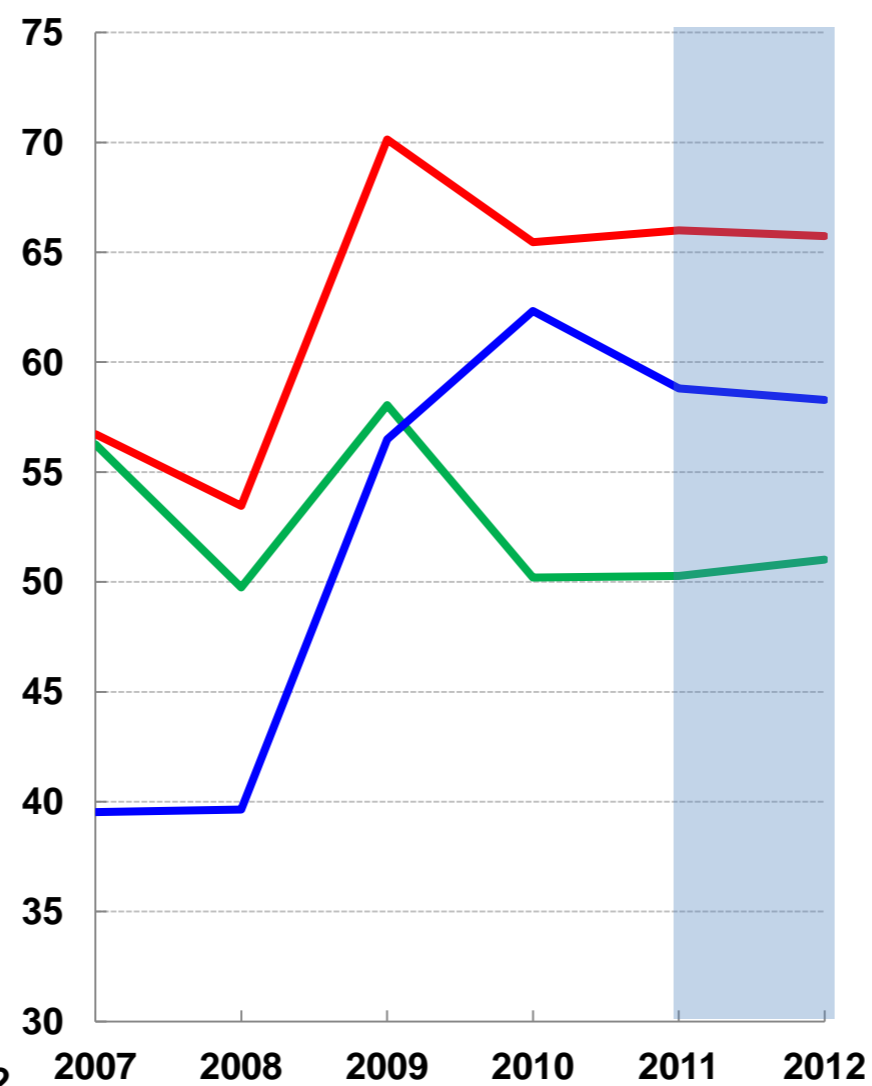


Need to address external vulnerabilities in the oil and gas importers

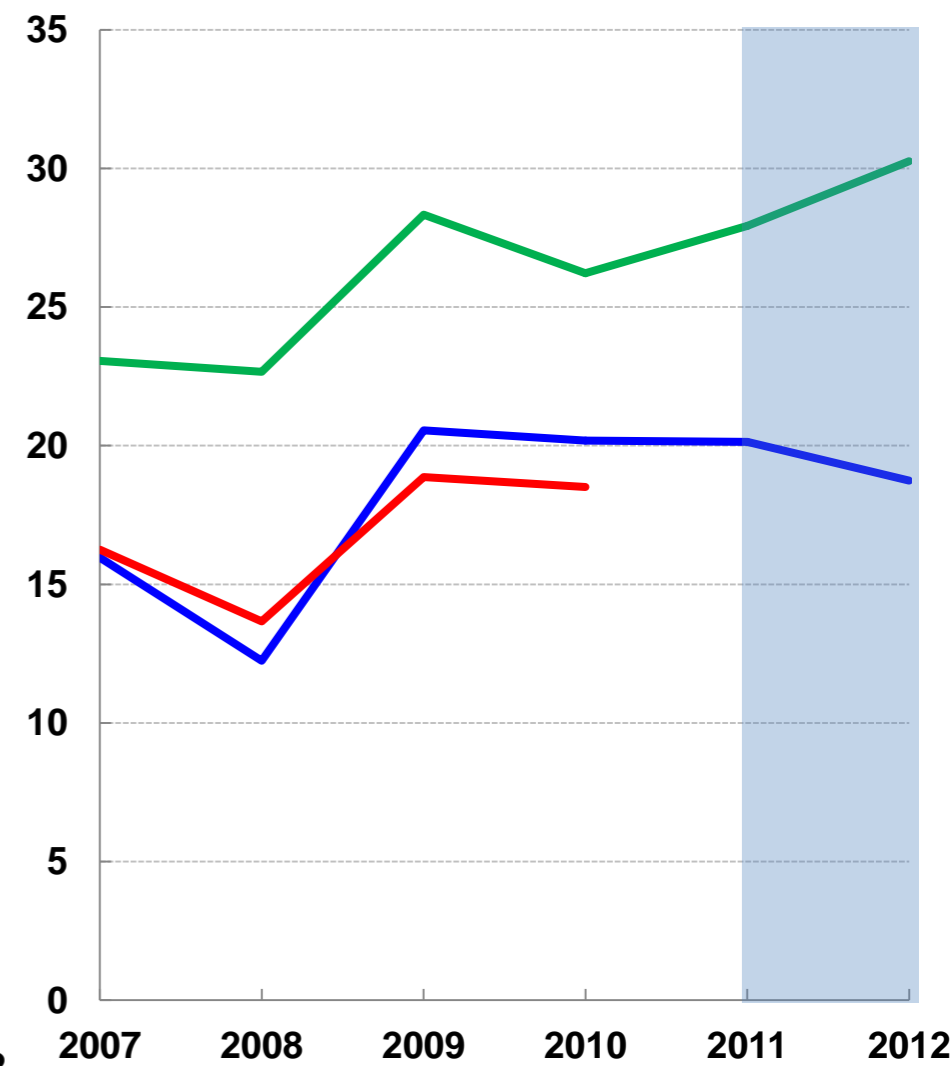
Current Account Balance (percent of GDP)



External Debt (percent of GDP)



International Reserves (percent of GDP)

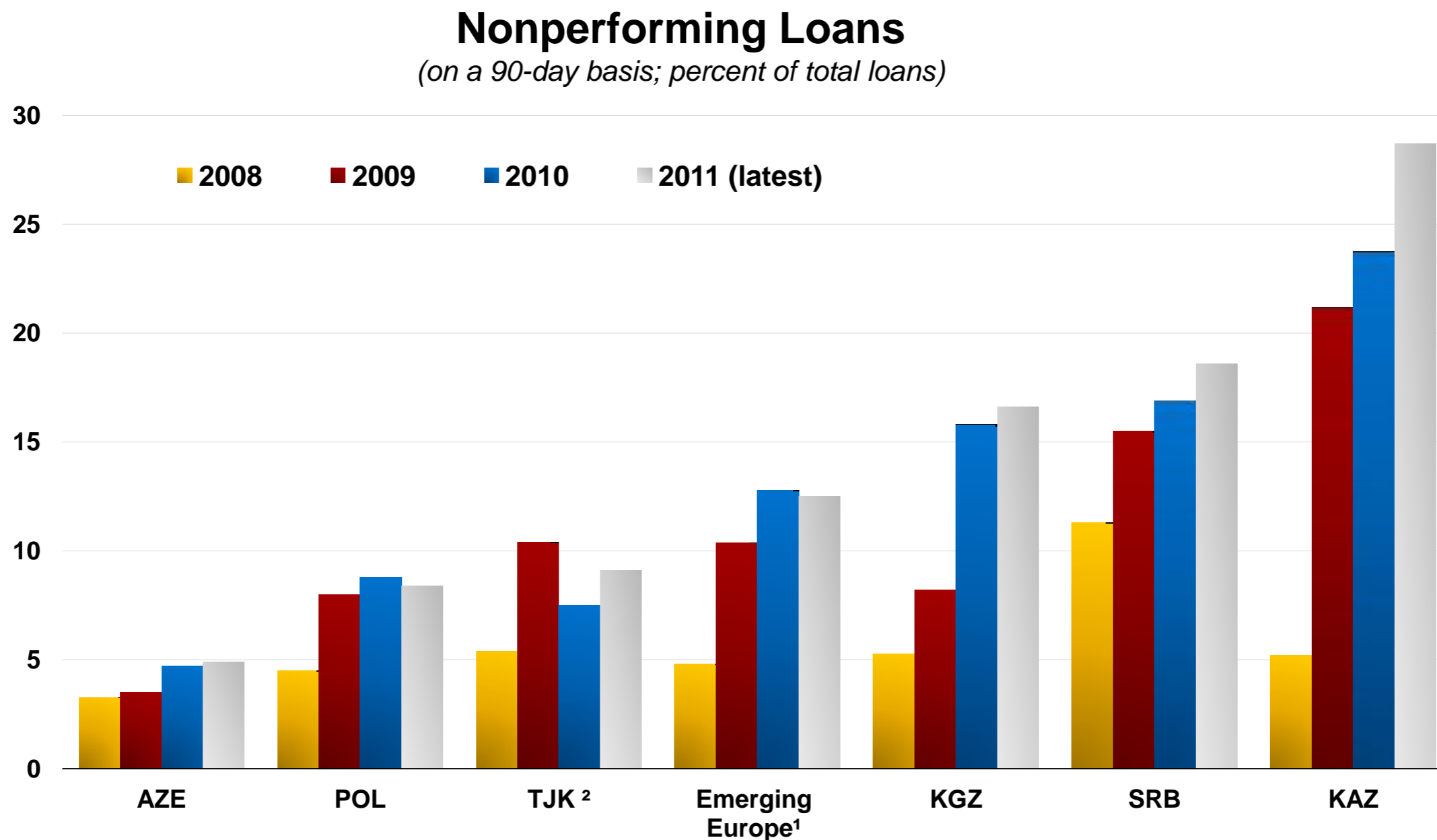


— CCA oil and gas exporters — CCA oil and gas importers — CEE

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



Need to repair bank balance sheets in some countries



Sources: National authorities; GFSR.

¹Simple average of NPLs for Albania, Bosnia, Bulgaria, Croatia, Hungary, Lithuania, Latvia, Macedonia, Montenegro, Poland, Romania, Russia, Serbia, Turkey, and Ukraine.

²30-day basis.



Policy Advice in the Event that Risks Materialize

Allow greater ER flexibility

- Step-up communications on risks now
- Allow flexibility if pressures emerge
- Avoid a “re-run” of the 2008-09 response: limit loss of reserves

Ease monetary policy, if conditions warrant

- Lower global commodity prices may allow for easing of monetary policy

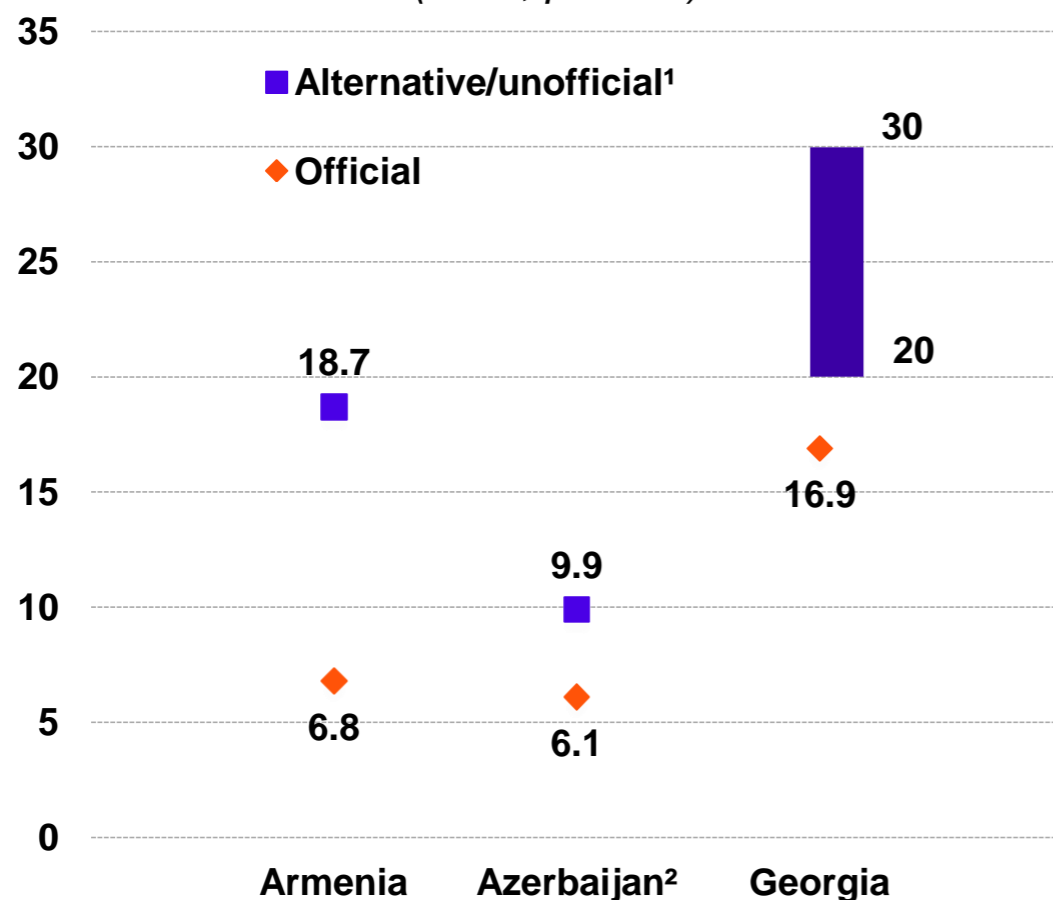
Improve quality of fiscal spending—assess scope for targeted response

- Reorient spending to protect the most vulnerable
- In CCA countries with fiscal space, consider counter-cyclical response

Medium-term challenges: Need to address unemployment,...

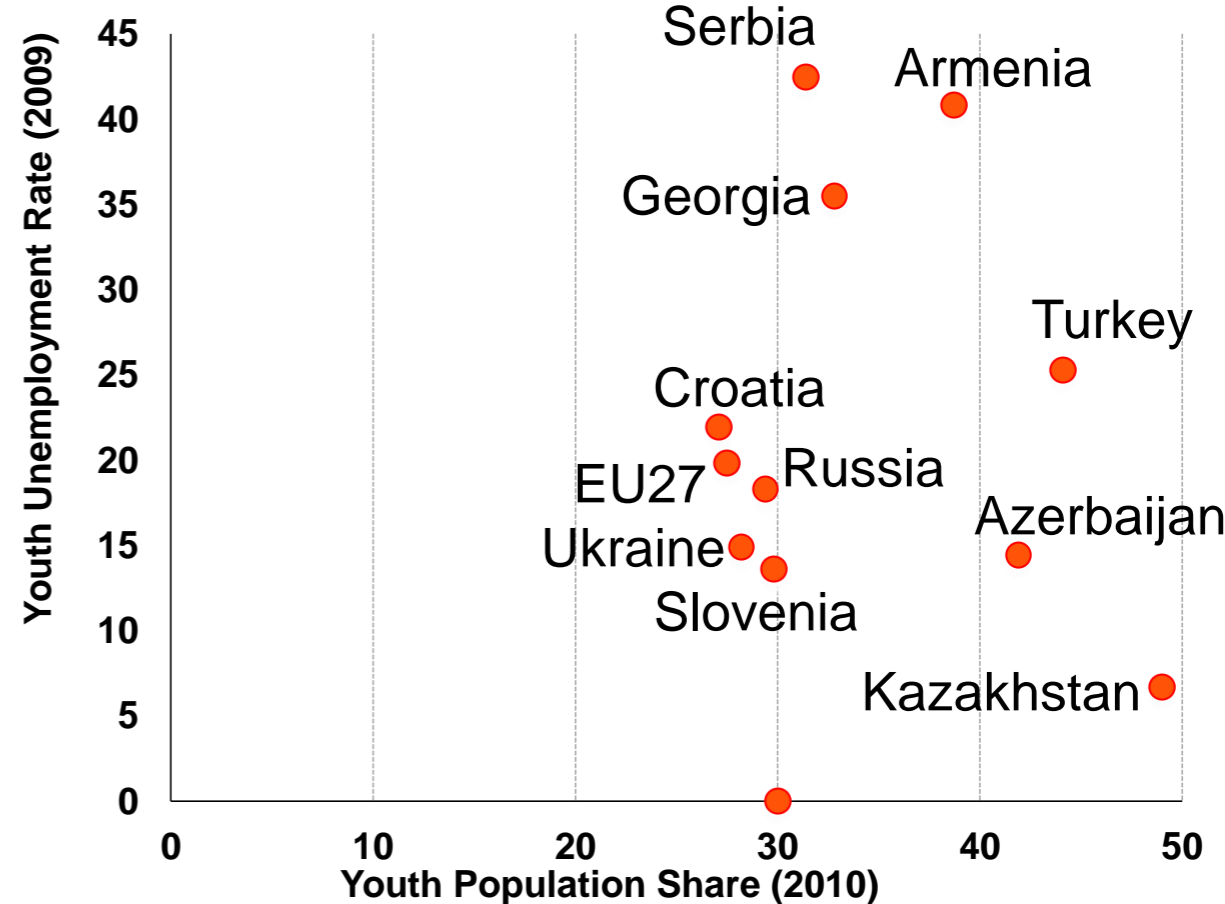
Measuring Unemployment in the South Caucasus

(2009, percent)



Youth Population and Unemployment¹

(percent)



¹Sources: Armenia: Asian Development Bank (2011); Azerbaijan: World Bank (2010); Georgia: National Demographic Institute, Transparency International, and Oxford Analytica.

²Data for Azerbaijan refer to 2008.

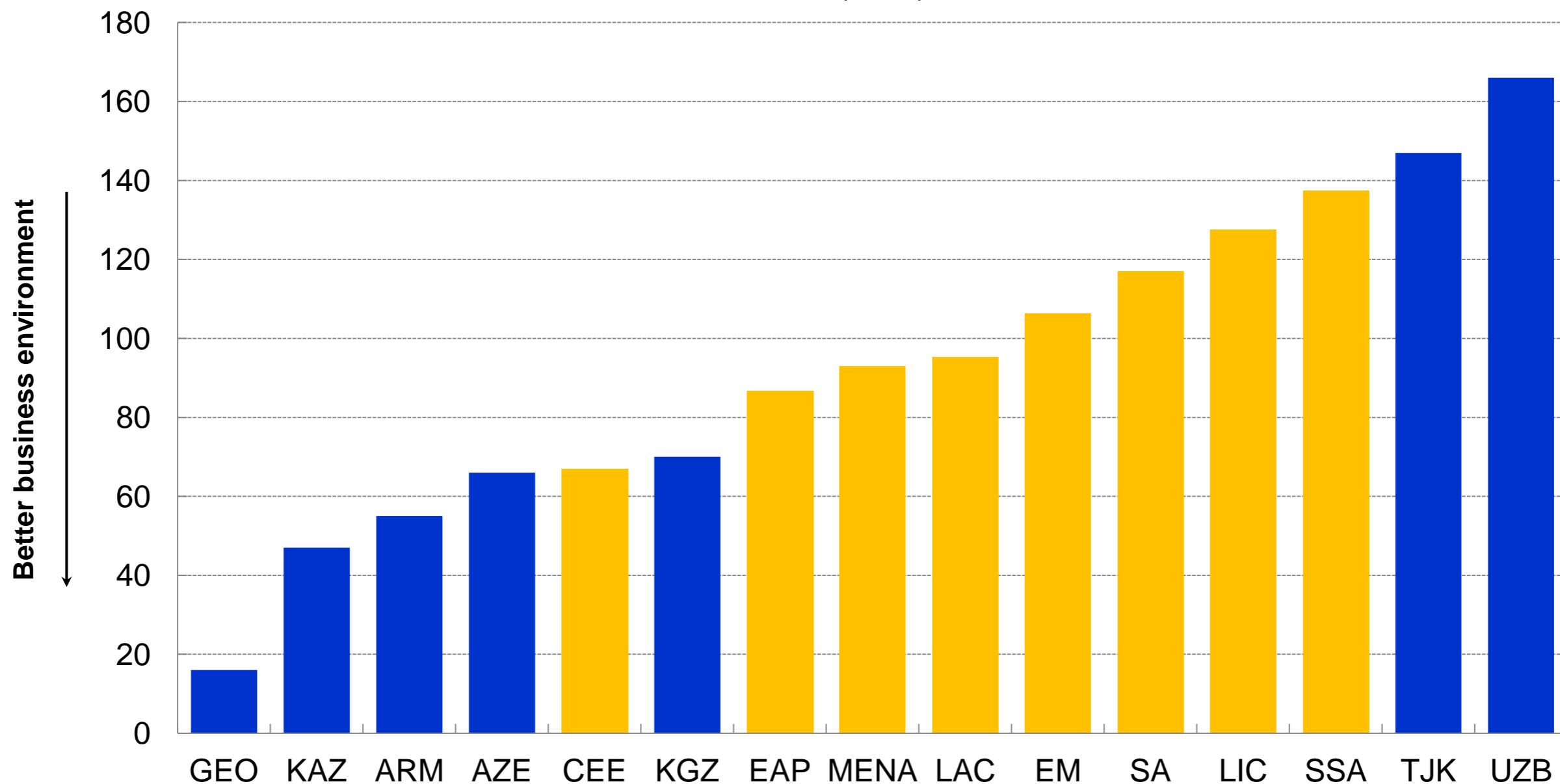
Sources: United Nations; International Labour Organization; Eurostat; and national authorities.

¹ 2008 youth unemployment for Azerbaijan, Croatia, and Georgia; 2005 for Ukraine. Youth are those in the 15–24 age group.



...improve the business environment,...

Doing Business Ranking (2012)



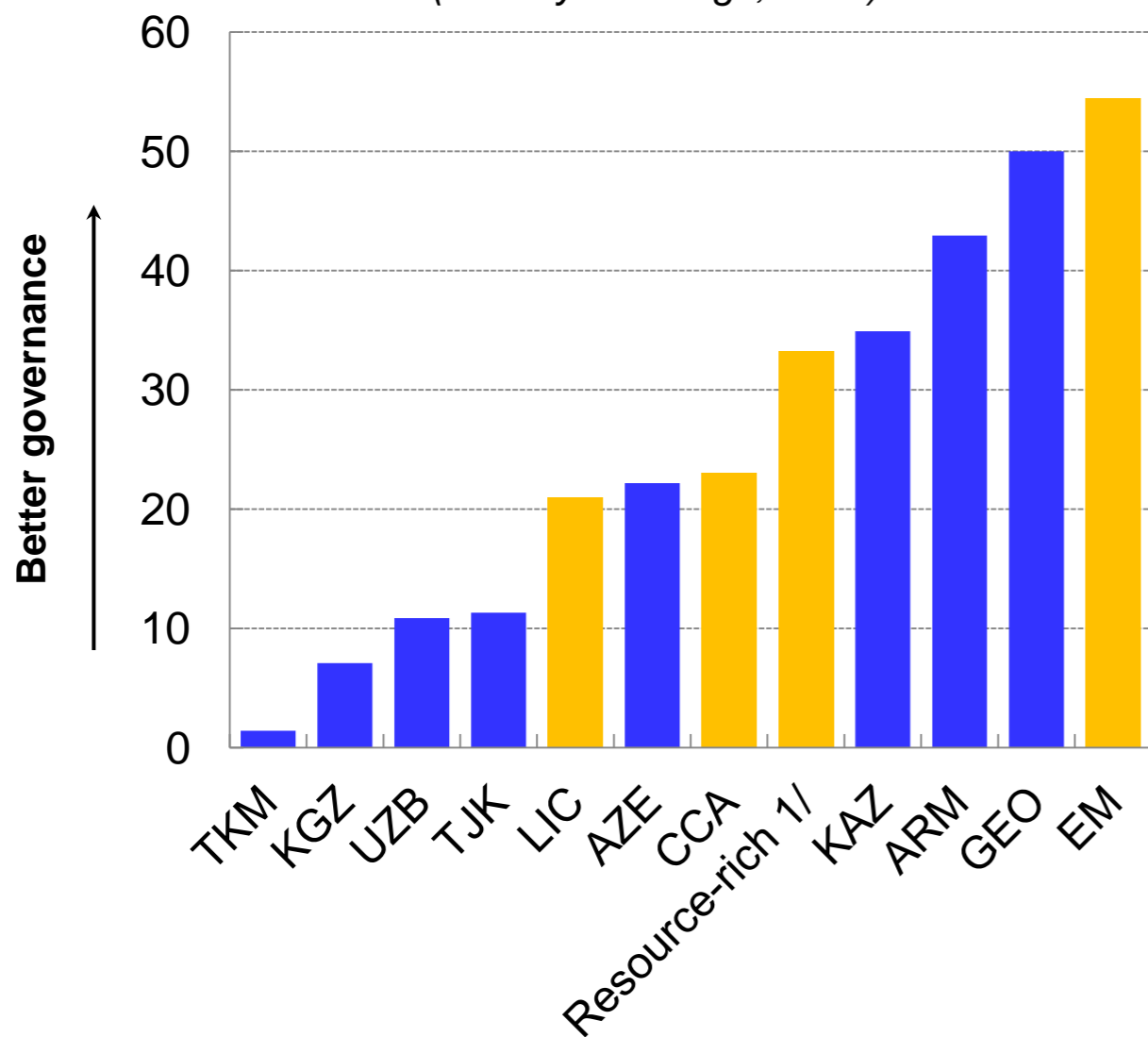
Source: World Bank, *Doing Business Survey*.



...and enhance governance

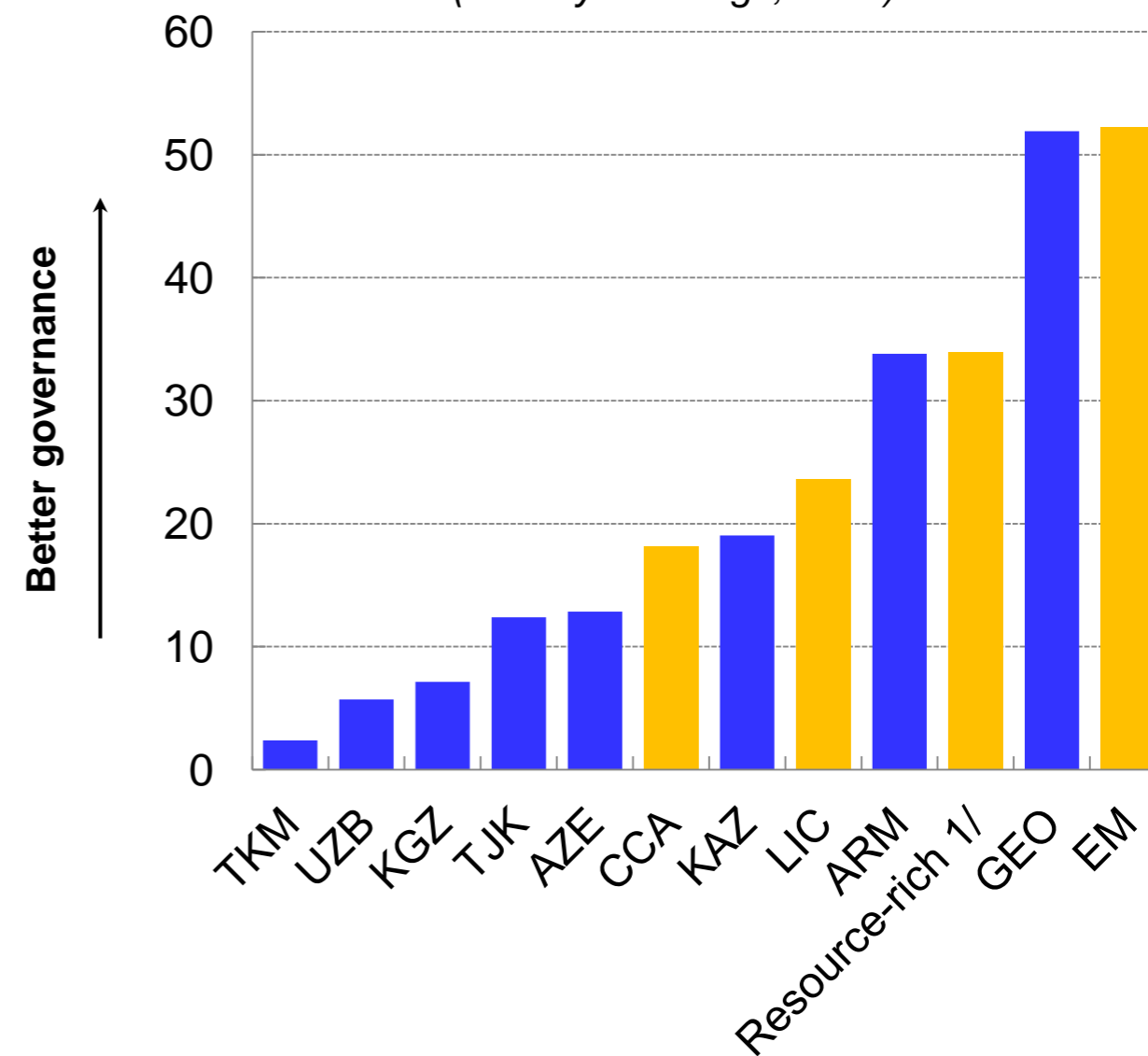
Rule of Law

(country Rankings, 2010)



Control of Corruption

(country Rankings, 2010)



Source: World Bank, Worldwide Governance Indicators 2009.

1/ The Resource-rich group comprises the 41 resource-rich countries that are included in the Revenue Watch Institute's 2010 index.



Policy Priorities

Oil and Gas Importers:

- Aim for sustained fiscal consolidation
- Rein in large current account deficits
- Tighten monetary policy further (KGZ, TJK)

Oil and Gas Exporters:

- Exit from accommodative fiscal and monetary policies to combat inflation
- Improve the transparency, quality, and efficiency of public spending

- If global growth deteriorates sharply, macroeconomic policy tightening may need to be put on hold in the short term
- Need to repair bank balance sheets and tackle high NPLs in some countries

Medium-term policy priorities:

- Address unemployment
- Improve the business environment
- Enhance governance

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[http://www.imf.org/external/pubs/ft/reo/2011/
mcd/eng/mreo1011.htm](http://www.imf.org/external/pubs/ft/reo/2011/mcd/eng/mreo1011.htm)

or go to

<http://www.imf.org>

and click on the link for Regional Economic Outlook