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IMF's Middle East and Central Asia Department Sees Positive Near-Term Outlook for Central Asian Countries

The latest Regional Economic Outlook by the International Monetary Fund's Middle East and Central Asia Department highlights strong macroeconomic performance and prospects in the Central Asia region, helped by high commodity prices and buoyant demand in neighboring Russia and China. Mr. David Owen, Senior Adviser in the IMF's Middle East and Central Asia Department, presented today in Bishkek, Kyrgyz Republic the report's main findings for the region:

“Macroeconomic performance in the Central Asia region was strong in 2005:

- Growth in Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan averaged over 8 percent in 2005, despite a weak patch in Kyrgyz Republic in the wake of the March 2005 Tulip revolution.
- Fueled by generally accommodative monetary policies and high oil prices, inflation increased throughout the region but remained in single digits, except in Uzbekistan.
- Fiscal policies have improved markedly in recent years, helping to further reduce the public debt burden in all four countries. Debt relief has also been important in Tajikistan (including recently under the Multilateral Debt Relief Initiative), and in Kyrgyz Republic, which has recently become eligible for further relief under the Highly Indebted Poor Countries (HIPC) Initiative.
- Large external inflows—reflecting strong growth in commodity exports, remittances, and capital inflows—have led to rising foreign reserves in all countries.”

“Near-term growth prospects are good. Growth in 2006 is set to remain strong in Kazakhstan, Tajikistan, and Uzbekistan—in the 7 to 8 percent range. Recovery is underway in Kyrgyz Republic, with growth projected at 5 percent.”

“Policies should focus on containing inflationary pressure while taking full advantage of the favorable external environment—especially in Russia and China—to secure a lasting improvement in growth performance.

- The authorities in all four countries could limit inflationary pressure by tightening monetary policies and allowing more nominal exchange rate appreciation in response to continued foreign inflows.
- With improved fiscal and debt positions, governments are now better placed to address their urgent development needs:
 - ✓ In Kazakhstan, provided adequate monetary tightening is undertaken, there is room to use more of the country's strong oil revenues to improve infrastructure and address social priorities.
 - ✓ Kyrgyz Republic and Tajikistan must carefully balance opportunities for increased donor financing of investment projects with the need to maintain debt sustainability. It is essential that they avoid a new cycle of excessive borrowing.
- The strong performance of neighbors Russia and China highlights the potential benefits of closer regional cooperation, particularly through greater trade liberalization. The Central Asia Regional Economic Cooperation program (CAREC) provides a valuable forum for promoting closer integration in the areas of trade policy and trade facilitation, energy, and transport.
- Although reform priorities vary across countries, all four countries need to pursue a broad range of structural and institutional reforms to boost productivity, improve the business environment, and raise investment spending. These measures will increase their long-term growth potential and reduce poverty.”