INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 07/247
FOR IMMEDIATE RELEASE
November 7, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF's Middle East and Central Asia Department Sees the Growth Boom Continuing in the Caucasus and Central Asia, but Highlights the Need for Policy Tightening to Dampen Inflationary Pressures

The International Monetary Fund's October 2007 *Regional Economic Outlook: Middle East and Central Asia (REO)* sees continued strong growth in the Caucasus and Central Asia, but highlights the need to tackle rising inflation. Mr. David Owen, Senior Advisor in the IMF's Middle East and Central Asia Department, presented the report's main findings for the region:

"The Caucasus and Central Asia is one of the fastest growing regions in the world, with real GDP set to rise by an average of 13 percent this year. Both oil and gas exporters (Azerbaijan, Kazakhstan, and Turkmenistan) and non-oil exporters (Armenia, Georgia, Kyrgyz Republic, Tajikistan, and Uzbekistan) are doing well.

The region's strong performance reflects improved macroeconomic policies, reforms to improve the business environment, booming commodity exports, and large inflows of foreign direct investment and remittances.

However, strong foreign exchange inflows combined with the recent surge in international food prices have resulted in a sharp uptick in inflation in recent months, except in Armenia. Average annual inflation in the region increased to over 12 percent in September and is set to go higher before the end of the year. Even before the shock from higher food prices, inflation was rising steadily, as most central banks boosted domestic liquidity by purchasing foreign currency inflows, so as to limit the appreciation of their currencies.

Policy makers in the region could not have prevented the inflationary shock from higher food prices. But they should respond quickly to prevent this shock from passing through into other prices more generally.

- In most countries there is room to tighten monetary policies, by raising interest rates and reducing foreign exchange market intervention to allow more exchange rate appreciation.

- Plans in several countries to loosen fiscal policies by raising government spending should be put on hold. Fiscal restraint needs to be maintained, to reduce demand pressures and keep public debt on a downward path.

Moderate policy tightening to dampen inflationary pressures should allow the boom in the region to continue. While average growth in the region is likely to slow from this year's rapid pace, it is projected to remain in double digits in 2008—high enough to keep the region on a path of rising income per head and declining poverty."