Press Release No. 09/61
FOR IMMEDIATE RELEASE
March 5, 2009

International Monetary Fund
Washington, D.C. 20431 USA

Growth To Slow Sharply In The Caucasus And Central Asia Region, IMF Says

At a conference held in Bishkek yesterday, organized by the National Bank of the Kyrgyz Republic and the IMF, senior officials from Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, and Turkmenistan, and from international financial institutions discussed the impact and policy implications of the global economic crisis. Prime Minister Igor Chudinov of the Kyrgyz Republic noted in his opening remarks that the subject of the conference is important and timely. After the external price shocks, the Kyrgyz Republic, like other countries in the region, was confronted with the impact of the global financial crisis. Last year, it managed to maintain sustainable macroeconomic performance, but the outlook is getting more difficult, he said.

IMF Middle East and Central Asia Director Masood Ahmed also stressed that the international financial crisis and global economic slowdown would impact economic prospects for the countries of the Caucasus and Central Asia. The IMF expects a sharp reduction in the region's growth rate from 6 percent in 2008 to less than 2 percent in 2009, he added.

Conference participants agreed that the countries in the Caucasus and Central Asia region are increasingly being swept up by the spreading global crisis, with countries that are very reliant on Russia or have large external financing needs being hit hardest. Russia remains a key trading partner and a major source of remittances for most of the region, and the slowdown there is hurting growth via trade and remittance channels, spilling over to domestic demand. Returning migrant workers may create an additional burden. Commodity exporters in the region are suffering from the decline in global demand and the sharp drop in commodity prices, while those countries more closely integrated with international financial markets are experiencing serious financing constraints.

The external dimension of the crisis is clearly reflected in the region's balance of payments. The average current account balance of the region will shift from a large surplus in 2008 to a small deficit in 2009. Government finances are similarly affected. With lower growth and commodity prices, the region's average fiscal position is moving from a surplus to a deficit.

Pressures on financial sectors in the region have intensified, National Bank of the Kyrgyz Republic Governor Marat Alapaev noted, especially in those countries where banks face large external rollover needs, but also in other countries not directly exposed to the global financial difficulties. With the deterioration in economic and financial conditions, credit growth has come to a halt in many countries, and loan losses have started to rise. The large depreciation of the Russian ruble has put pressure on regional currencies, and participants noted that countries are faced with the challenge of maintaining competitiveness while ensuring stability in financial sectors with large external liabilities and foreign currency loans to unhedged borrowers.

Country authorities in the region have been proactive in addressing the consequences of the crisis, but participants agreed that further policy actions would be needed to support growth and the poor, and safeguard financial systems. Actions already taken include liquidity provision, capital injections, disposal of problem assets, and the provision of deposit guarantees. Exchange rate adjustment is also helping a number of countries to absorb the large external shocks and stem the decline in reserves. The appropriate exchange rate response, however, participants noted, depends on country circumstances.

Some countries have room for a fiscal stimulus to bolster demand. Commodity exporters in the region plan to draw on the assets they have accumulated in recent years of high commodity prices to support activity through public spending and to assist the financial sector. The smaller economies in the region, however, do not have such resources to support growth and the poor. Participants agreed that cushioning the impact of the crisis in these countries would therefore depend critically on the availability of increased aid flows from donors.