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IMF Regional Outlook Notes Growth Set to Slow Sharply as Global Crisis Bites in the Caucasus and Central Asia

Countries in the Caucasus and Central Asia are facing significant reversals of their hard-earned macroeconomic gains of recent years as the global crisis spreads to the region, with growth coming to a virtual halt and financial vulnerabilities on the rise, according to the International Monetary Fund's Spring 2009 Regional Economic Outlook (REO).

IMF Middle East and Central Asia Director Masood Ahmed said today that the IMF now expects growth in the region to come to a virtual halt in 2009, after having expanded by 6.3 percent in 2008. "Most countries in this region do not have strong links with global financial markets. But falling commodity prices, declining remittances and demand for exports, and a drying up of investment inflows are leading to fiscal and balance of payments pressures and a sharp slowdown in economic activity in the region," he said, speaking on occasion of the launch of the IMF's REO.

The large decline this year is explained, in part, by the spillovers from the contraction of Russia's economy, expected to reach 6 percent this year. The region is already observing capital flow reversals—bank lending and portfolio and direct investment—as well as a sharp deceleration in remittances and imports from Russia to the region. The nonperforming loans in the banking sector are also beginning to rise. Only Turkmenistan, Uzbekistan, and Azerbaijan are expected to be able to delink somewhat from this downturn because of continued increases in oil and gas production and large fiscal stimuli, according to the REO.

While the IMF expects the economies to start recovering from next year onwards, there are also downside risks, especially from further knock-on effects from external factors and a more prolonged global recession. Further declines in economic activity could put additional pressure on real estate prices. Similarly, disorderly exchange rate depreciation could undermine confidence while currency mismatches in dollarized economies could further weaken commercial banks' balance sheets, the report warns.

In these turbulent and uncertain times, sound macroeconomic management, contingency planning, and effective communication of policies are essential to instill confidence and respond effectively to the crisis. In this regard, it is important to note that most countries in the region are taking the necessary policy measures—allowing their currencies to depreciate in response to lower foreign exchange inflows, increasing public spending and easing monetary policy to the extent they can, and injecting short-term liquidity to limit the credit crunch.

Nevertheless, more actions may be required in the period ahead, and the REO's conclusions in this regard are threefold. First, exchange rate flexibility will continue to be important in most countries to allow the region regain competitiveness and build confidence. Second, targeted government spending can help to protect the poor and vulnerable groups during this difficult period, and in some countries this will need to be complemented by higher donor financing. Third, continued efforts will be needed to identify financial sector risks and ensure appropriate banking supervision to reduce vulnerabilities.

Selected Economic Indicators in Caucasus and Central Asia (CCA)

	Average 2000–04	2005	2006	2007	Est. 2008	Proj. 2009	Proj. 2010
Real GDP Growth (Annual change; in percent)							
CCA	8.2	11.0	13.1	12.0	6.3	0.9	5.0
Armenia	10.7	14.0	13.2	13.8	6.8	-5.0	0.0
Azerbaijan	8.3	24.3	30.5	23.4	11.6	2.5	12.3
Georgia	5.8	9.6	9.4	12.4	2.0	1.0	3.0
Kazakhstan	10.4	9.7	10.7	8.9	3.2	-2.0	1.5
Kyrgyz Republic	4.9	-0.2	3.1	8.5	7.6	0.9	2.9
Tajikistan	9.7	6.7	7.0	7.8	7.9	2.0	3.0
Turkmenistan	17.3	13.0	11.4	11.6	9.8	6.9	7.0
Uzbekistan	4.8	7.0	7.3	9.5	9.0	7.0	7.0
Central Government Fiscal Balance (In percent of GDP)							
CCA	0.1	3.0	4.1	3.0	6.0	-1.4	1.9
Armenia	-2.7	-2.0	-2.1	-2.2	-1.7	-3.6	-3.1
Azerbaijan	-0.2	2.6	-0.2	2.8	22.4	-1.5	9.5
Georgia	-1.5	-2.4	-3.0	-4.7	-6.4	-5.6	-5.1
Kazakhstan	1.7	5.8	7.2	4.7	1.1	-2.0	-1.0
Kyrgyz Republic	-6.0	-3.6	-2.1	-0.3	-0.3	-1.9	-4.5
Tajikistan	-3.1	-2.9	1.7	-6.2	-6.1	-7.0	-5.3
Turkmenistan	1.1	0.8	5.3	3.9	11.0	5.2	3.2
Uzbekistan	-1.0	1.2	5.2	5.1	10.2	2.9	5.2
Current Account Balance (In percent of GDP)							
CCA	-1.9	0.3	3.2	1.6	9.9	-0.4	4.1
Armenia	-7.5	-1.0	-1.8	-6.4	-12.6	-11.4	-10.5
Azerbaijan	-14.9	1.3	17.6	28.8	35.5	10.8	18.4
Georgia	-7.3	-10.9	-15.1	-19.6	-22.6	-16.4	-16.7
Kazakhstan	-1.3	-1.8	-2.5	-7.8	5.3	-6.4	1.1
Kyrgyz Republic	-0.6	2.8	-3.1	-0.2	-6.5	-6.3	-8.4
Tajikistan	-3.1	-2.7	-2.8	-11.2	-8.8	-9.7	-8.3
Turkmenistan	4.0	5.1	15.7	15.4	19.6	15.7	9.2
Uzbekistan	3.0	7.7	9.1	7.3	13.6	7.7	6.8

Sources: Data provided by country authorities; and IMF staff estimates and projections.