

Caucasus, Central Asia Countries Fare Well Despite Some Downside Risks

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Countries in the Caucasus and Central Asia continue to post a solid recovery from the global financial crisis, and the region's economic outlook remains favorable, the IMF says in its latest assessment.

The IMF's [Regional Economic Outlook for the Middle East and Central Asia](#), released November 11, projects growth in the region at an average of about 5½ percent for 2012 and 2013.

This resilient growth reflects high oil prices that are benefiting the region's oil and gas exporters, supportive commodity prices and remittance inflows for the oil and gas importers, and, for both groups, moderate direct exposure to Europe, the IMF report says.

"The positive outlook provides an opportunity to strengthen policy buffers to prepare for any potential adverse economic conditions, such as a slowdown of world commodity demand or rising food prices," **Juha Kähkönen, Deputy Director of the IMF's Middle East and Central Asia Department** told a press conference in Almaty, Kazakhstan.

Favorable outlook

Growth for the region's oil- and gas-exporting countries—Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan—is **projected to moderate slightly to about 5½ percent in 2012 and 2013** from about 7 percent in 2011, with lower growth in hydrocarbon production. However, public spending and directed credit will continue to ensure robust activity in the non-oil sector.

For the oil- and gas-importing countries—Armenia, Georgia, the Kyrgyz Republic, and Tajikistan—growth will remain firm at 5 percent in 2012, before increasing to 5.8 percent in 2013. Robust remittance inflows from Russia and high commodity prices underpin this outlook, with the Kyrgyz Republic benefiting from higher gold production.





Risks and contingency planning

Inflation across the Caucasus and Central Asia is projected to remain fairly muted on average in 2012, on account of rapidly falling food inflation in the oil- and gas-importing countries. However, higher global food prices, if sustained, may rekindle inflation given the high sensitivity of local food prices to global prices, particularly in the oil and gas importers.

Oil- and gas-exporting countries could cushion the impact through temporary subsidies or similar measures, which their substantial fiscal space can accommodate, the IMF assessment says. It adds that the oil and gas importers are slowly rebuilding their fiscal buffers. However, these cushions still fall well short of what is needed to enable a policy response in the event of unfavorable developments in commodity markets.

Should severe shocks materialize, all countries have the space for relaxing monetary policy, the report notes. In addition, oil and gas exporters have the important option of drawing down financial assets or increasing borrowing to protect key public capital spending.

Medium-term policy priorities

Looking ahead, Kähkönen noted that “policymakers across the Caucasus and Central Asia should take advantage of the still-favorable outlook to continue with crisis preparedness efforts, promote inclusive growth, and enhance governance.”

- **Crisis preparedness:** For oil- and gas-importing countries, this implies a steady, gradual reduction in fiscal deficits, but also greater exchange rate flexibility to protect reserves. Oil- and gas-exporting countries need to improve the quality of public spending, reduce the share of current spending, and develop a tax base to ensure the robustness of fiscal policy against the possibility of potentially sustained low oil prices.
- **Promoting inclusive growth:** All countries in the region need to develop more responsive social safety nets and improved tax and transfer systems, while investing in health, education, and infrastructure. The design of social safety nets should consider active labor market policies that promote the hiring of younger workers.

- **Enhancing governance:** The management of resource wealth and, more generally, spending on strategic projects or sectors should be subject to greater accountability and transparency. This should help lay the foundation for more inclusive growth in the medium term. Meanwhile, ensuring that all businesses benefit from a level playing field remains vital for spurring job creation and private investment.

Caucasus and Central Asia (CCA): Selected Economic Indicators

(Percent of GDP, unless otherwise indicated)

	Average	<u>Projections</u>							
	2000–06	2007	2008	2009	2010	2011	2012	2013	
CCA									
Real GDP (annual growth)	10.0	12.3	6.8	3.7	6.7	6.7	5.7	5.5	
Current Account Balance	-0.9	1.5	8.8	0.4	5.0	8.7	6.3	4.6	
Overall Fiscal Balance	1.1	3.1	6.1	0.8	3.7	6.3	3.5	2.9	
Inflation, p.a. (annual growth)	9.5	11.4	16.5	6.2	7.0	9.1	5.8	7.2	
CCA oil and gas exporters									
Real GDP (annual growth)	10.4	12.6	7.0	4.9	7.2	6.8	5.8	5.5	
Current Account Balance	-0.1	3.5	12.4	1.8	6.7	10.6	8.1	6.0	
Overall Fiscal Balance	1.9	4.3	7.8	2.1	5.1	7.8	4.7	3.9	
Inflation, p.a. (annual growth)	9.9	11.9	16.8	6.5	7.0	8.9	6.3	7.3	
CCA oil and gas importers									
Real GDP (annual growth)	7.9	11.2	5.7	-3.5	4.0	6.2	5.0	5.8	
Current Account Balance	-5.7	-	-	-	-9.2	-8.5	-9.7	-8.2	
		11.7	15.5	10.1					
Overall Fiscal Balance	-2.6	-3.4	-3.6	-6.8	-5.3	-3.3	-3.8	-3.1	
Inflation, p.a. (annual growth)	7.7	8.8	14.4	4.2	7.1	10.7	2.6	6.5	

Source: IMF, *Middle East and Central Asia Regional Economic Outlook*.

CCA oil and gas exporters: Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

CCA oil and gas importers: Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.

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