MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

Caucasus and Central Asia Regional Economic Outlook
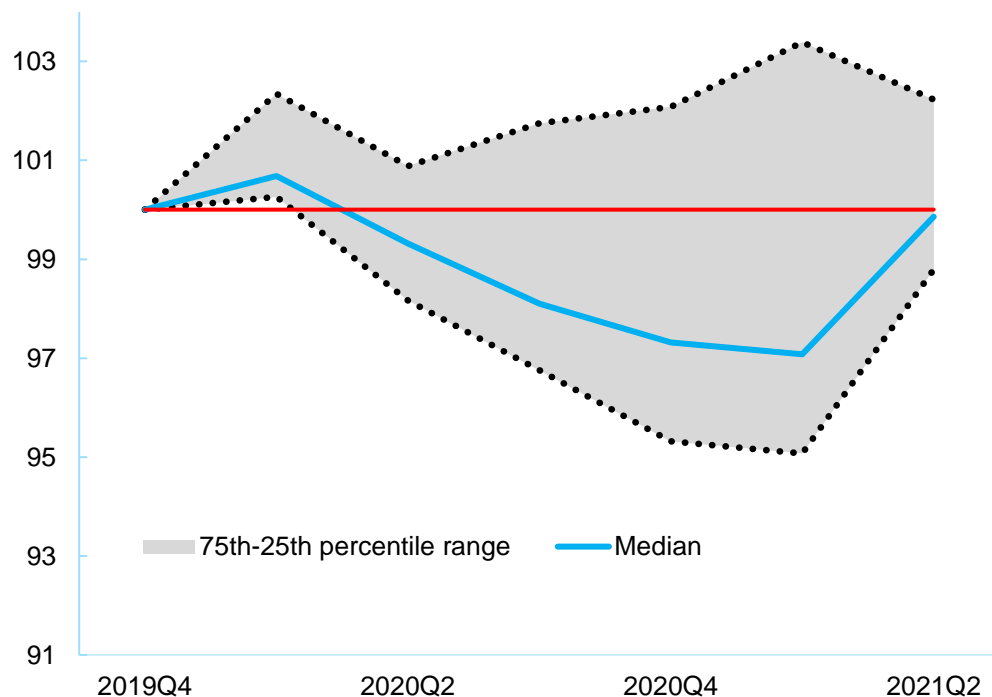
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Uneven and Fragile Recovery Amid Pandemic

An economic recovery is underway, although price pressures are elevated

Real GDP Growth
(Index, 2019Q4=100, 4-quarters sum, sa)

75th-25th percentile range   Median

Headline and Food Inflation
(Year-over-year percent change; simple average)

World: headline CPI   World: food CPI
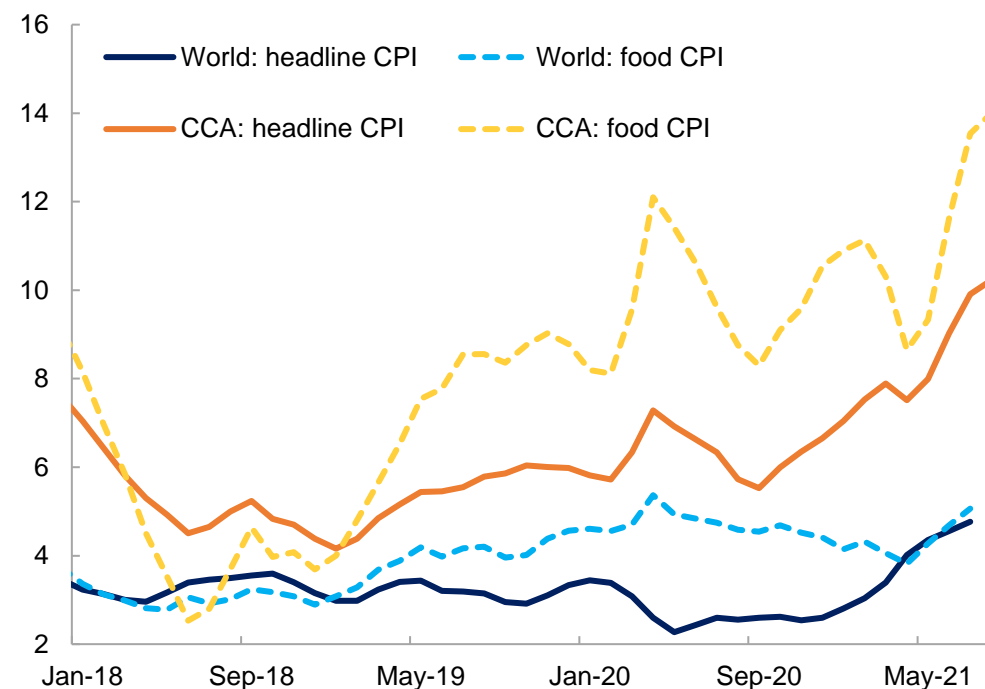CCA: headline CPI   CCA: food CPI

Sources: Haver Analytics; and IMF staff calculations.
Note: The sample includes 7 CCA countries: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Kazakhstan, Tajikistan, Uzbekistan. Only Tajikistan has released up to 2021Q2 data.
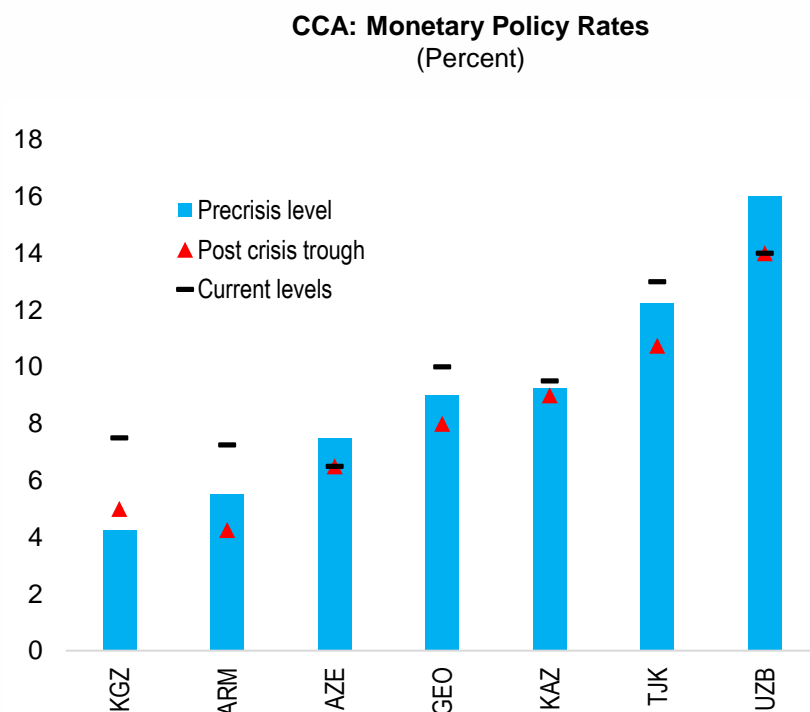.

Sources: Haver Analytics; National Authorities; IMF, *CPI database;* and IMF staff calculations.
Note: CCA includes 7 countries. TKM is not included due to lack of recent data. Latest data are as of Aug. 2021 except for TJK (Jul. 2021). Data were extrapolated based on latest available inflation growth rates as indicated. Data for the world are as of Jul. 2021.
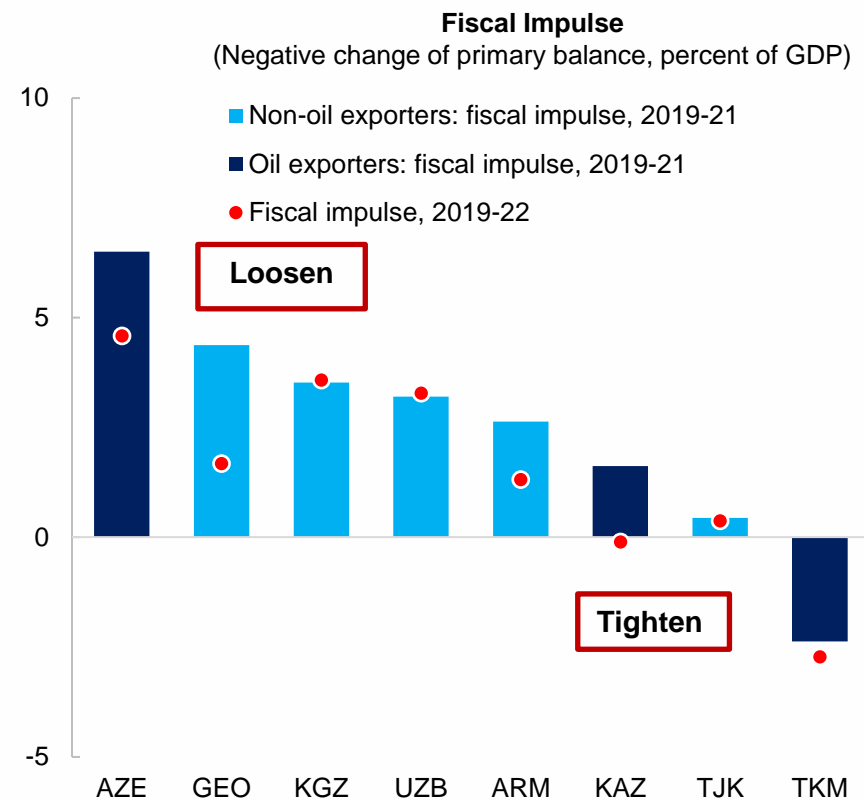
Macro policy settings are beginning to tighten

Some central banks have commenced raising rates from their throughs in 2020.

CCA: Monetary Policy Rates
(Percent)

Legend:
- ■ Precrisis level
- ▲ Post crisis trough
- ▬ Current levels

Categories: KGZ, ARM, AZE, GEO, KAZ, TJK, UZB

Source: Haver analytics.
Note: Country abbreviations are International Organization for Standardization country codes. CCA = Central Asia.

Fiscal accommodation is also declining in several countries.

Fiscal Impulse
(Negative change of primary balance, percent of GDP)

Legend:
- ■ Non-oil exporters: fiscal impulse, 2019-21
- ■ Oil exporters: fiscal impulse, 2019-21
- ● Fiscal impulse, 2019-22

Loosen

Tighten
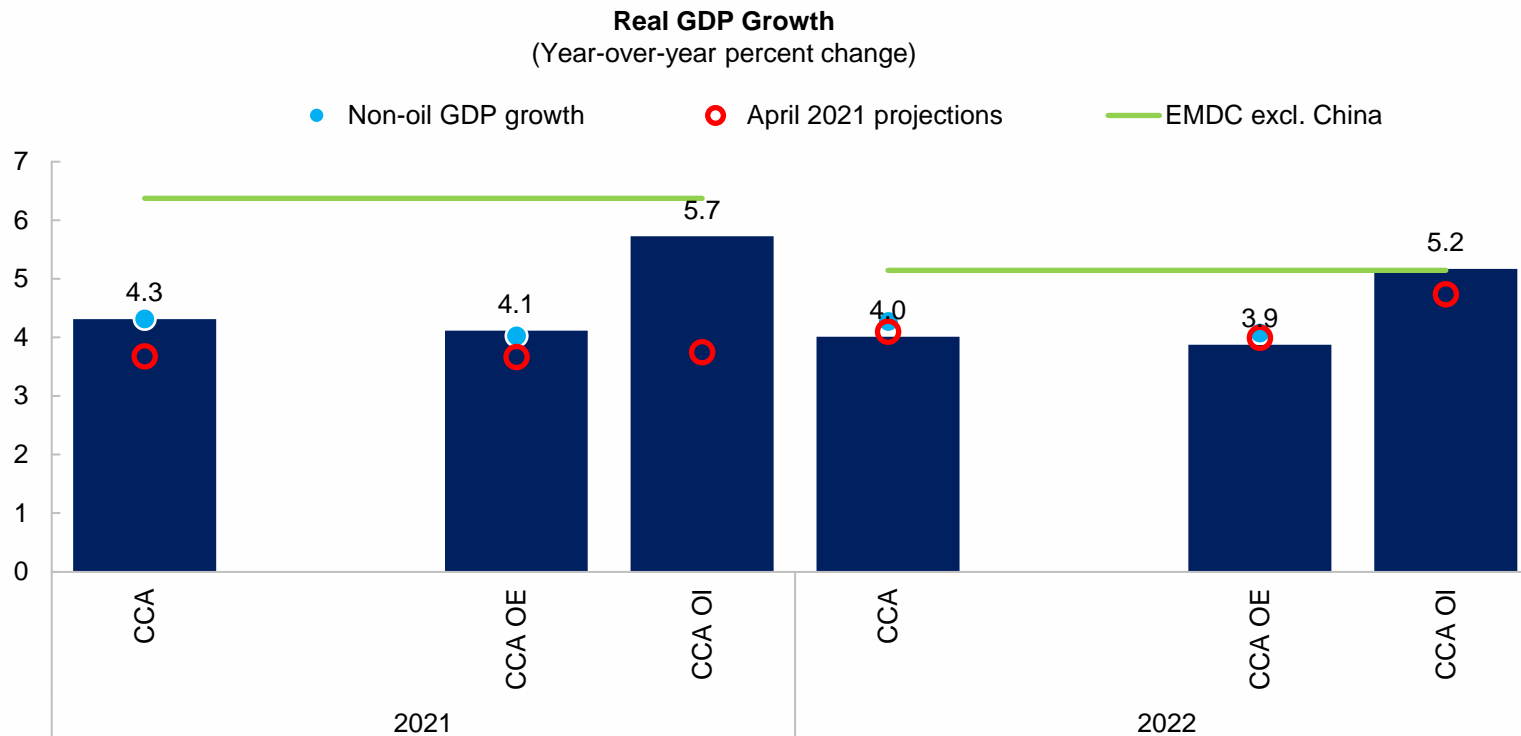
Categories: AZE, GEO, KGZ, UZB, ARM, KAZ, TJK, TKM

Note: The general government primary balance excludes the effect of oil revenues for oil exporting countries.

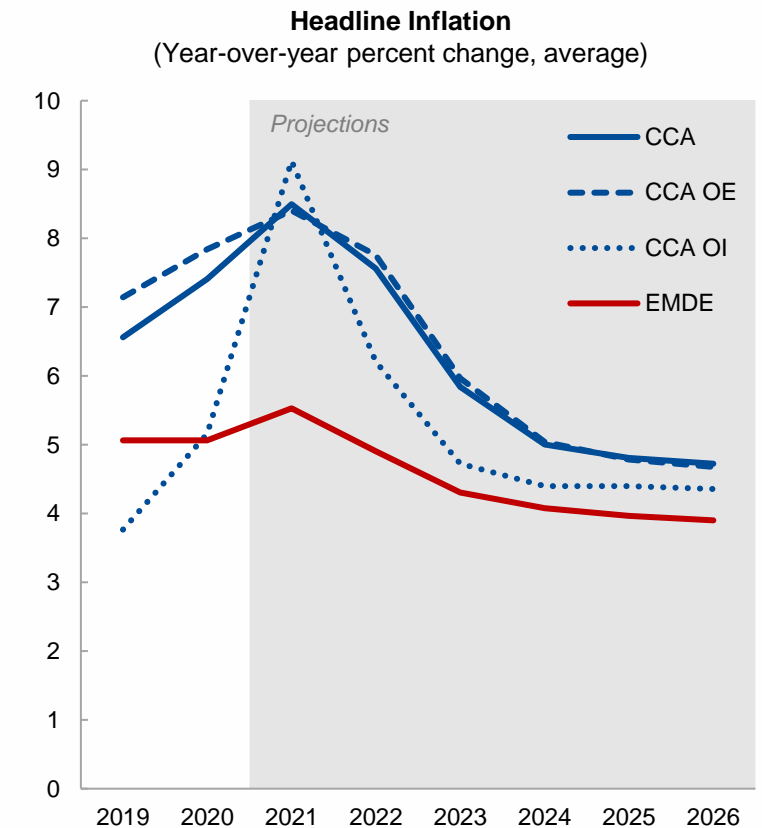# Outlook: A Multispeed Recovery with Persistent Output Losses

The multi-speed growth recovery is expected to firm up in 2022, with inflation moderating

Growth is expected to strengthen in 2021 and continue in 2022

Inflation is projected to moderate after peaking in 2021

Real GDP Growth
(Year-over-year percent change)

Headline Inflation
(Year-over-year percent change, average)

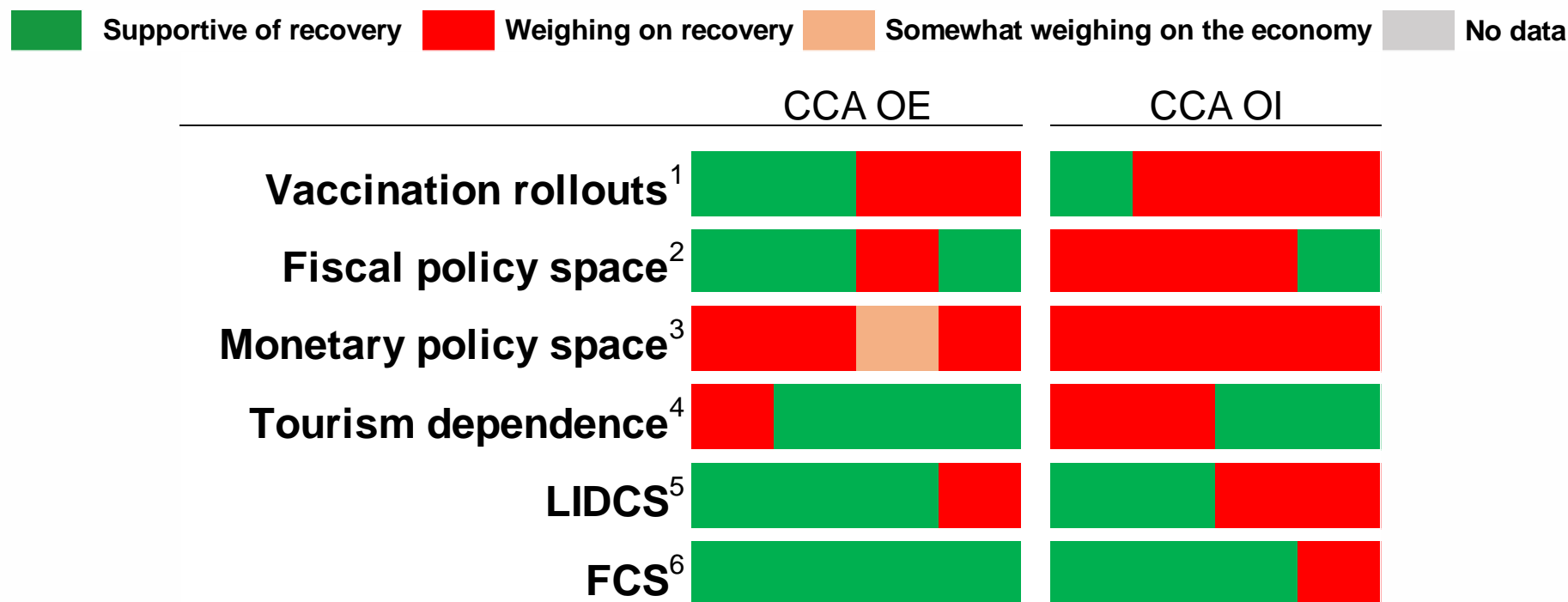Sources: National authorities; IMF, *WEO*; and IMF staff calculations.

Sources: National authorities; and IMF staff calculations.

Headwinds dominate the outlook for oil importing countries with slow vaccine rollouts

Low vaccine availability, declining policy space, and exposure to tourism will weigh on outlook for some groups

Diverse Set of Factors Affecting the Near-Term Outlook

■ Supportive of recovery   ■ Weighing on recovery   ■ Somewhat weighing on the economy   ■ No data

	CCA OE	CCA OI
Vaccination rollouts[1]		
Fiscal policy space[2]		
Monetary policy space[3]		
Tourism dependence[4]		
LIDCS[5]		
FCS[6]		

Sources: Country authorities; IMF World Economic Outlook database; and IMF staff calculations.
1/ Vaccination rollouts: green represents 40 percent population coverage by end-2021; otherwise, red.
2/ Fiscal policy space: red represents no market access and/or debt-to GDP at or above the median; otherwise, green.
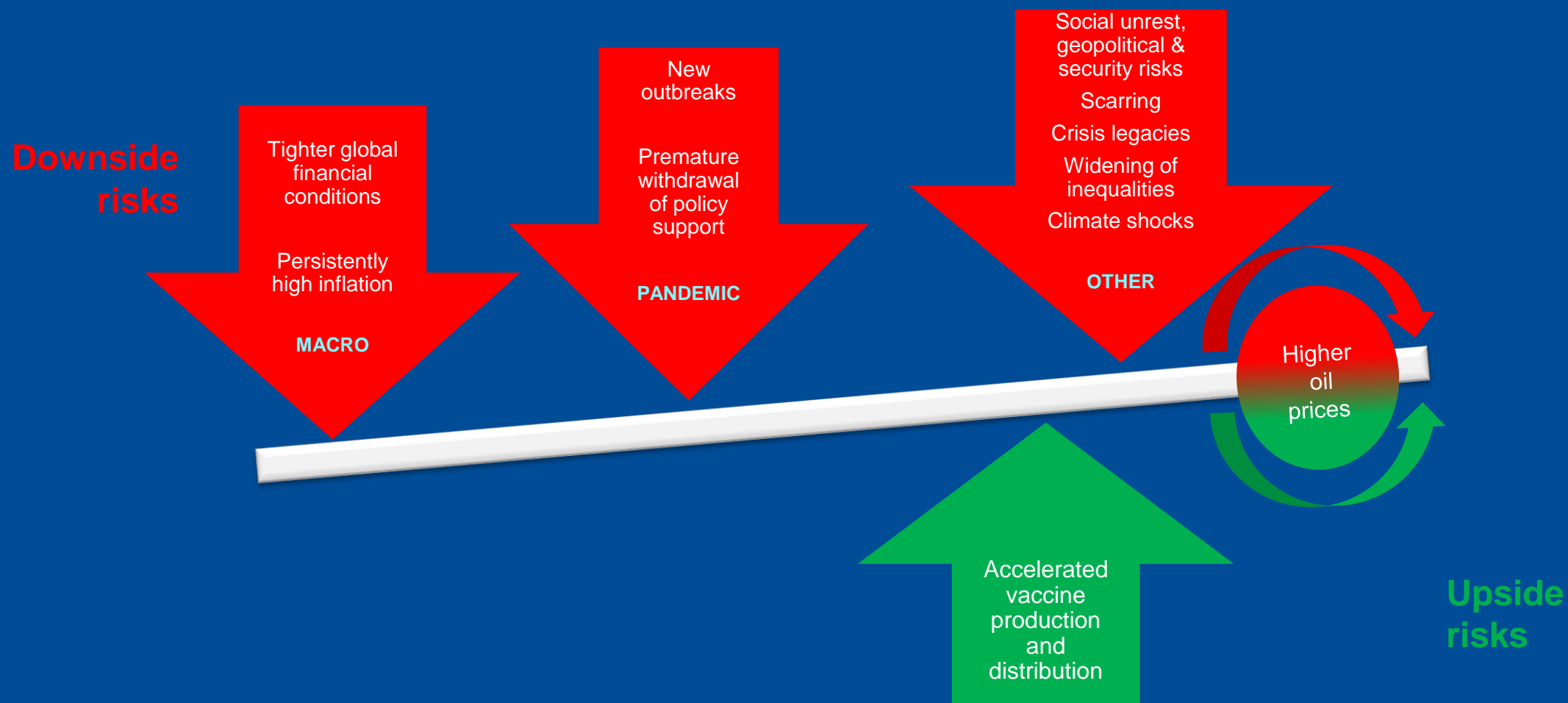3/ Monetary policy space: red is whether IMF World Economic Outlook inflation projections for 2021 are at or above median or inflation target; green represents below median and target; orange represents peggers and currency boards.
4/ Tourism dependence: red is if both, the tourism share of GDP and the tourism share of total employment, are greater than 10 percent; orange if either one of these criteria is met; otherwise, green.
5/ LIDCS=Low Income Developing Countries: red represents LIDCs; otherwise, green.
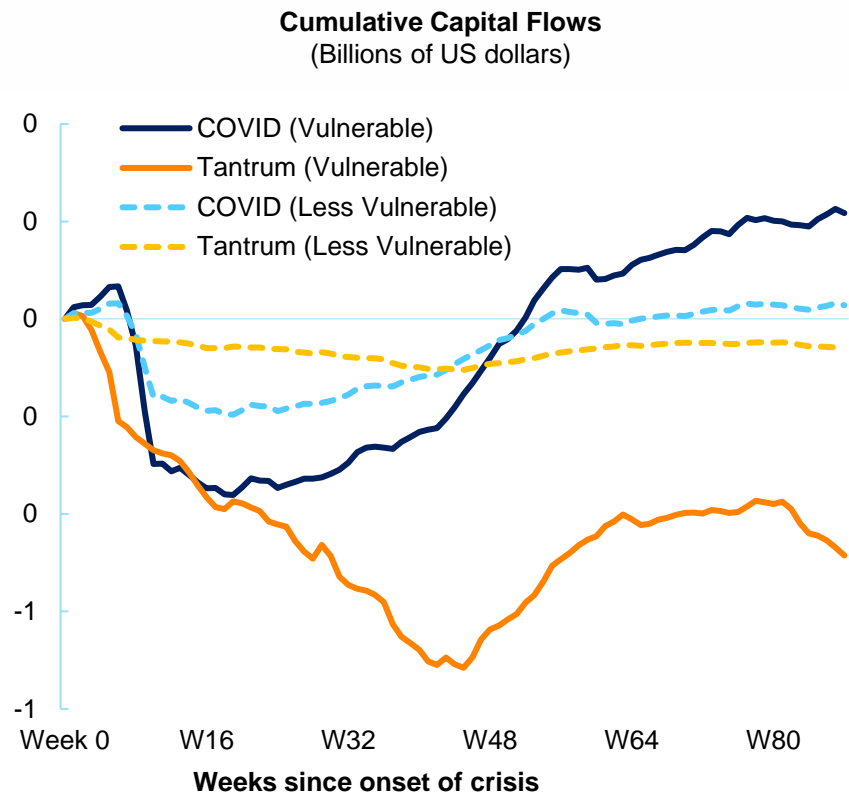6/ FCS = Fragile states and conflict-affected countries: red represents FCS; otherwise, green.

Elevated Risks and Vulnerabilities

Downside risks

MACRO
Tighter global financial conditions

Persistently high inflation

PANDEMIC
New outbreaks

Premature withdrawal of policy support

OTHER
Social unrest, geopolitical & security risks

Scarring

Crisis legacies

Widening of inequalities

Climate shocks

Higher oil prices

Accelerated vaccine production and distribution

Upside risks

A sudden tightening of global financial conditions could pose risks of capital flight and to debt stabilization

A sudden tightening of global financial conditions could lead to capital flight, hitting vulnerable countries more…

…and raising debt non-stabilization concerns, particularly if downside risks materialize

Cumulative Capital Flows
(Billions of US dollars)

Legend:
- COVID (Vulnerable)
- Tantrum (Vulnerable)
- COVID (Less Vulnerable)
- Tantrum (Less Vulnerable)

X-axis: Week 0, W16, W32, W48, W64, W80
Weeks since onset of crisis

Baseline versus Adverse Scenario Probabilities of Debt Non-Stabilization
(Percent)

Probability of Debt (2024)>Probability of Debt (2023)

Baseline | Adverse

Sources: Haver Analytics, EPFR flows; and IMF staff calculations.
Note: CCA sample includes: AZE, KAZ and GEO.
At time t measured in weeks since the crisis onset, if the country is below the median value (of FX reserves), then it is characterized as "Vulnerable".
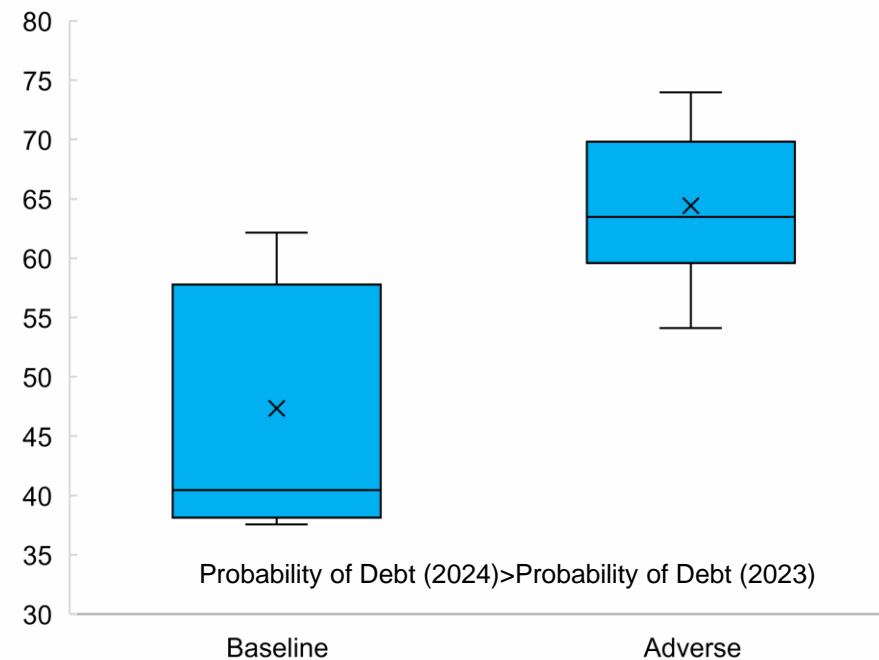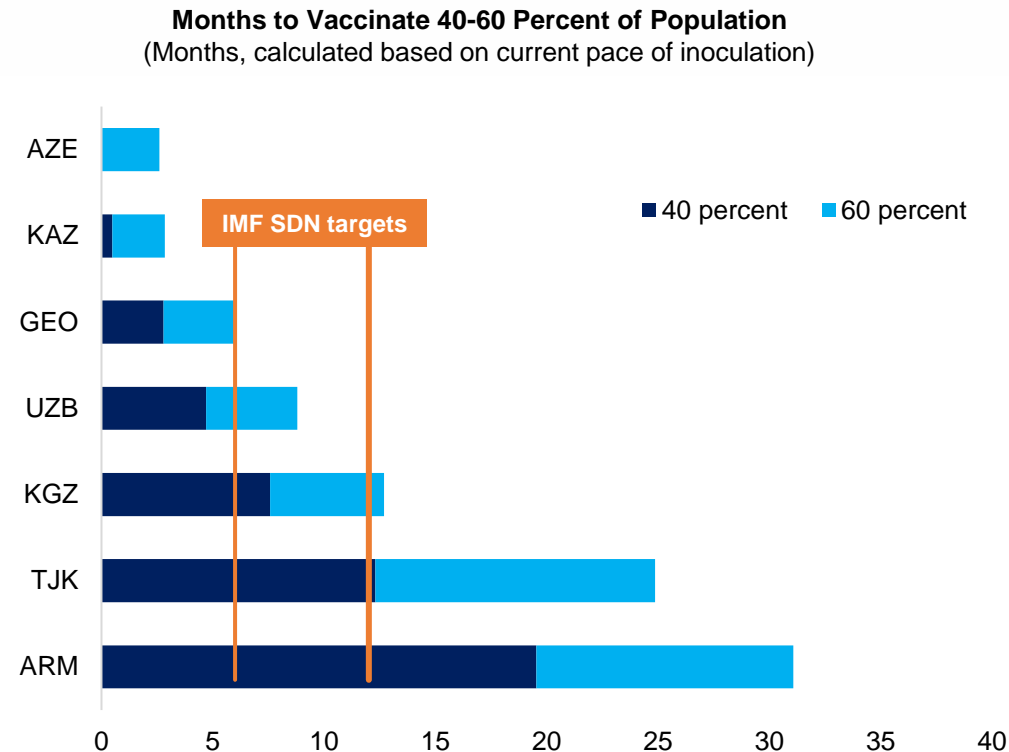
Sources: Sources: IMF, *IFS*; IMF, *WEO*; and IMF staff calculations.
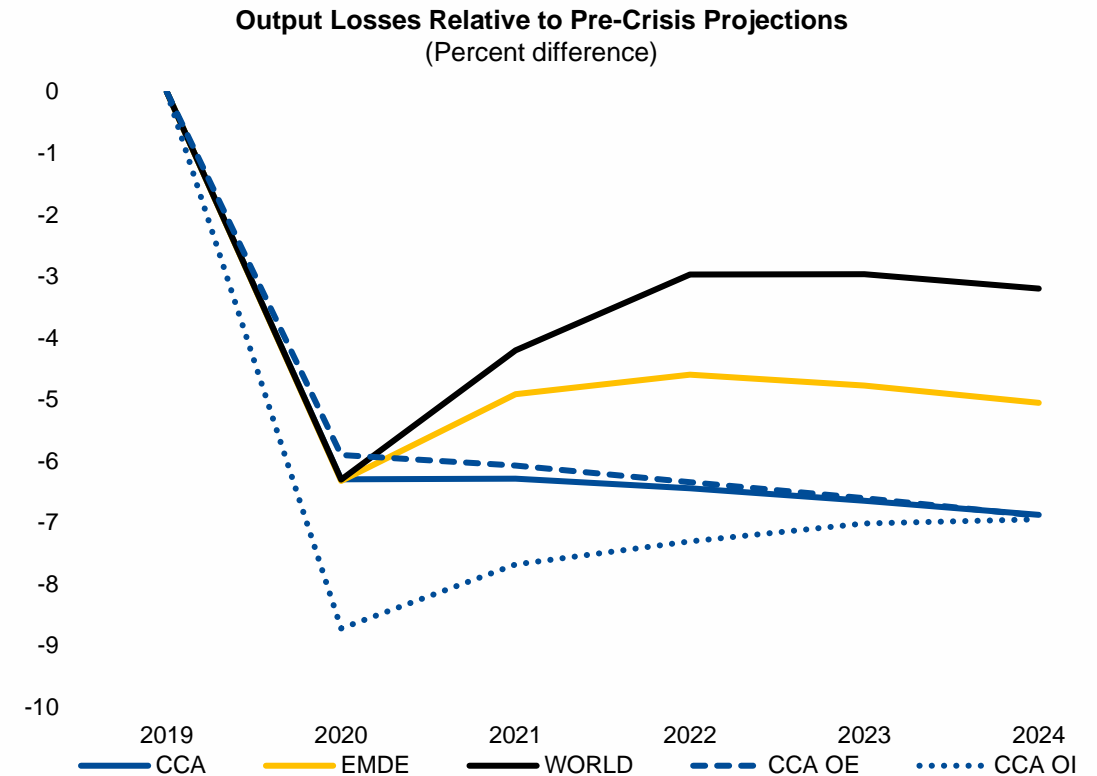Note: Includes all CCA countries except for UZB.

Without accelerated vaccination efforts the impact of the crisis on output will be long lived

Unless vaccine delivery picks up, many countries will not achieve wide vaccine coverage by mid-2022

Months to Vaccinate 40-60 Percent of Population
(Months, calculated based on current pace of inoculation)

IMF SDN targets

■ 40 percent　■ 60 percent

Sources: Our World in Data (OWID); and IMF staff calculations.
Note: TKM is not included due to lack of data

Real GDP is projected to remain persistency below its pre-crisis trend

Output Losses Relative to Pre-Crisis Projections
(Percent difference)

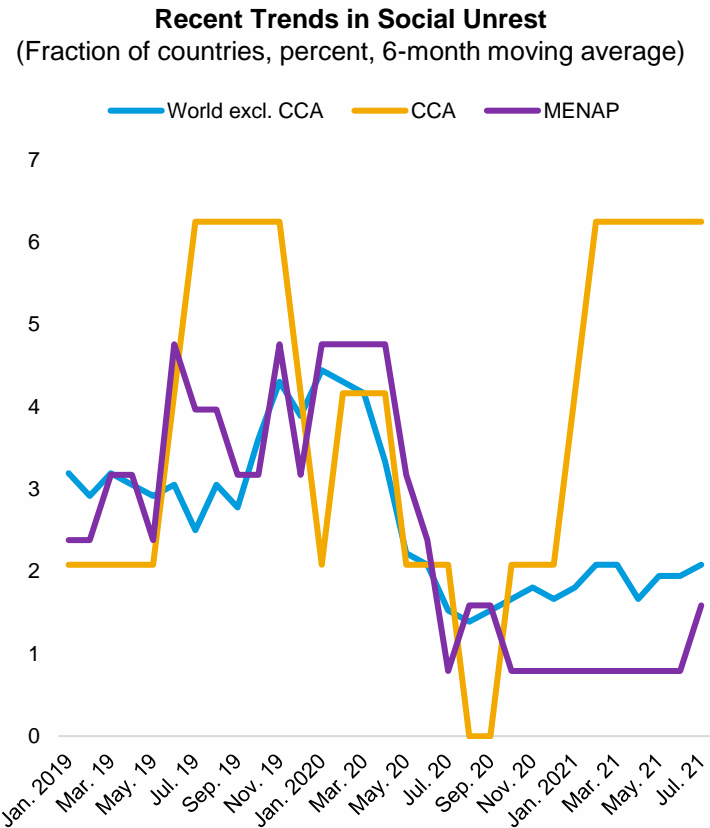——— CCA　——— EMDE　——— WORLD　‑ ‑ ‑ CCA OE　····· CCA OI

Sources: National authorities; and IMF staff calculations.
Note: Pre-crisis projections are for October 2019.

Social unrest risks, and employment may not recover easily, due to hysteresis effects and low responsiveness to growth
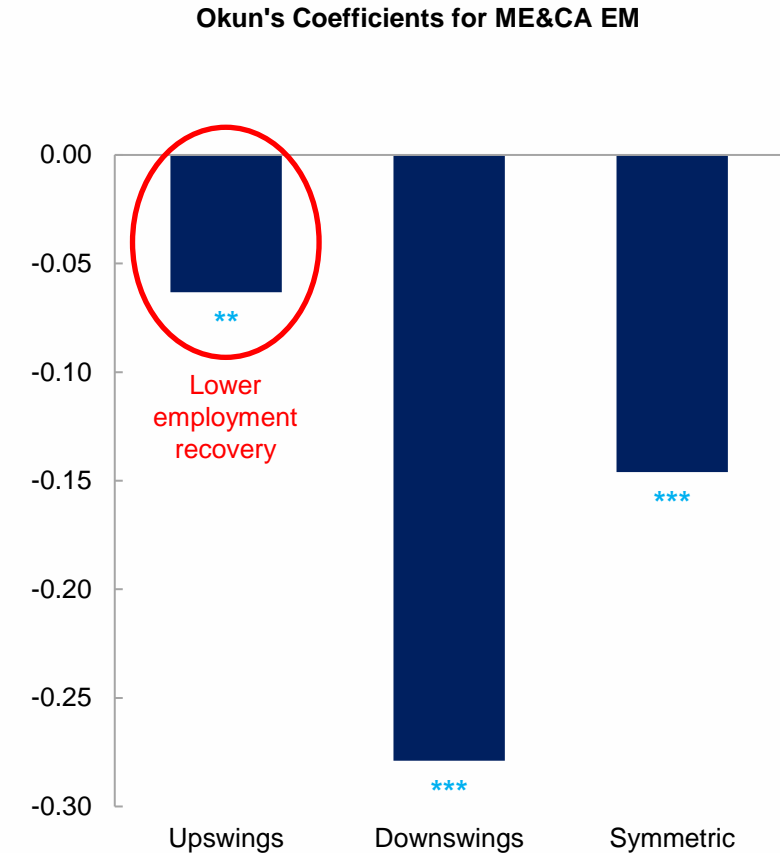
Social unrest could increase due to repeated infection waves, dire economic conditions, high unemployment and food prices

Unemployment decreases more slowly during expansions than it increases during recessions

Recent Trends in Social Unrest
(Fraction of countries, percent, 6-month moving average)

Legend: World excl. CCA — CCA — MENAP

Source: Barrett and others, 2020.
Note: Social unrest events are inferred from exceptionally large increases in country media coverage of key terms related to protests, riots, and other forms of civil disorder.

Okun's Coefficients for ME&CA EM

Lower employment recovery

Upswings ** | Downswings *** | Symmetric ***

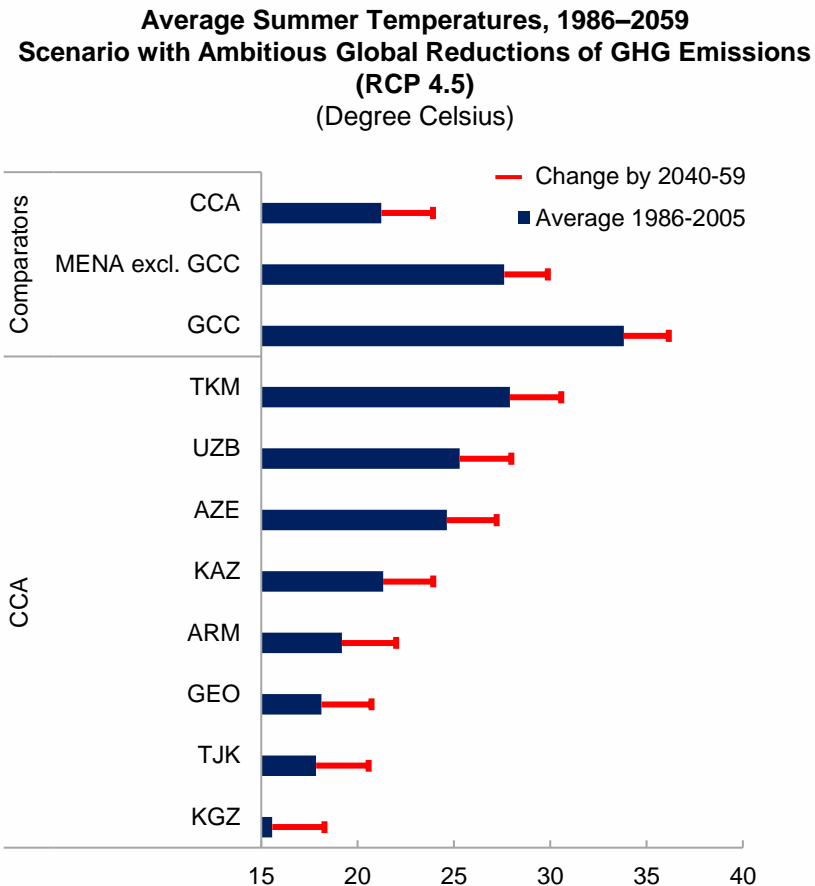Source: IMF Staff calculations.
Note: ** denotes significance at the 95 percent level and *** at the 99 percent level.

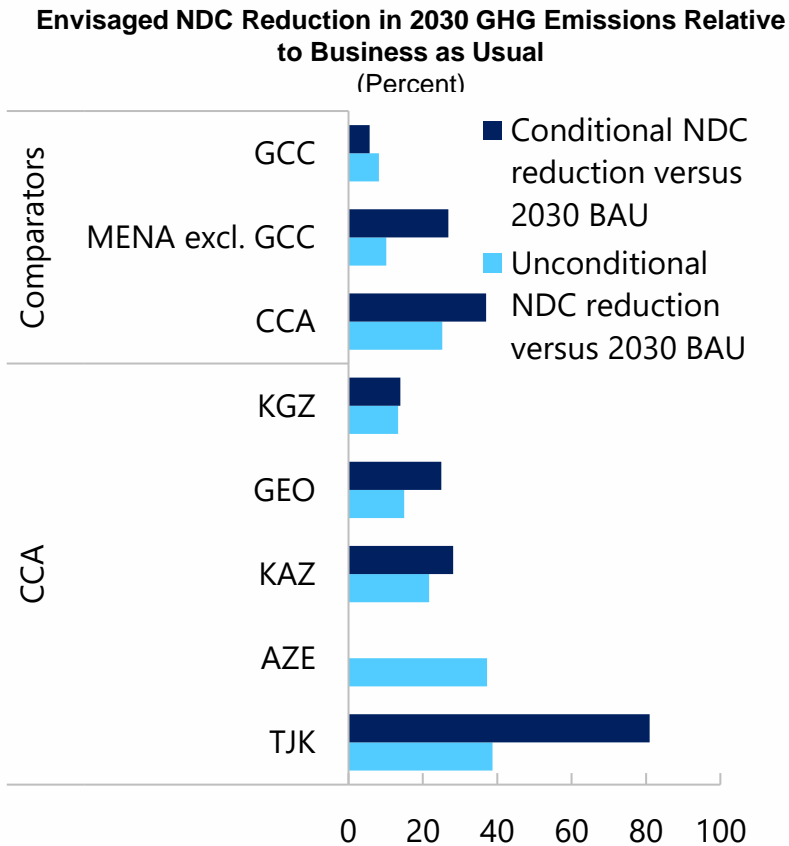# Significant challenges arise from climate change

Adaptation: Climate change will continue to be felt throughout ME&CA

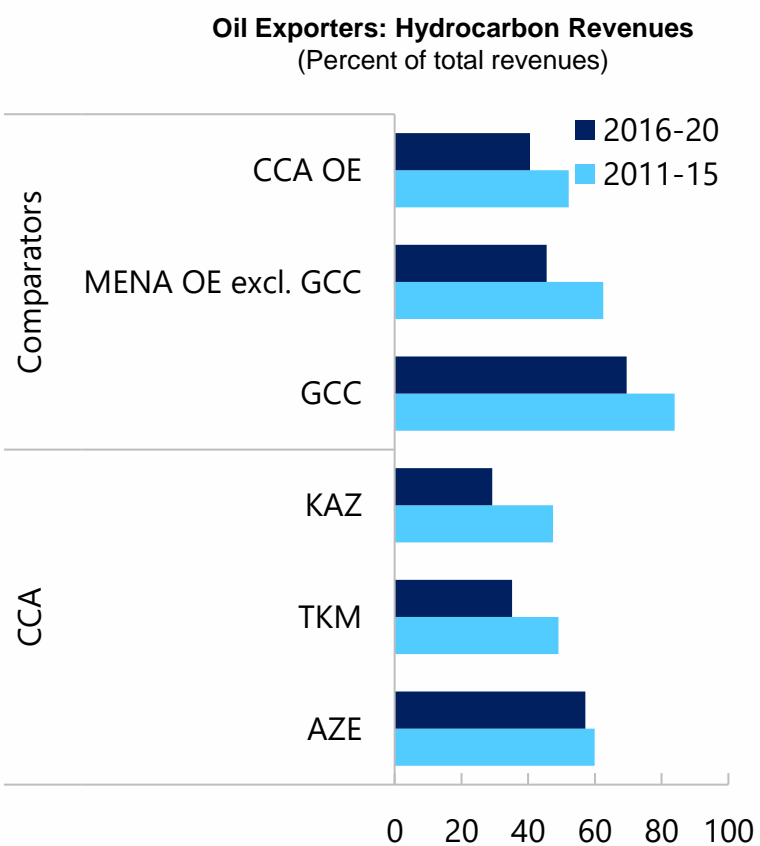**Mitigation: Achieving targets requires action and cooperation today**

Transition: Need to accelerate economic diversification and reduce hydrocarbon dependence

Average Summer Temperatures, 1986–2059 Scenario with Ambitious Global Reductions of GHG Emissions (RCP 4.5)
(Degree Celsius)

Legend:
— Change by 2040-59
■ Average 1986-2005

Comparators: CCA, MENA excl. GCC, GCC
CCA: TKM, UZB, AZE, KAZ, ARM, GEO, TJK, KGZ

Sources: Climate Lab; and IMF staff calculations.

Envisaged NDC Reduction in 2030 GHG Emissions Relative to Business as Usual
(Percent)

Legend:
■ Conditional NDC reduction versus 2030 BAU
■ Unconditional NDC reduction versus 2030 BAU

Comparators: GCC, MENA excl. GCC, CCA
CCA: KGZ, GEO, KAZ, AZE, TJK

Sources: Country NDC reports; Intended Nationally Determined Contributions; and IMF calculations.

Oil Exporters: Hydrocarbon Revenues
(Percent of total revenues)

Legend:
■ 2016-20
■ 2011-15

Comparators: CCA OE, MENA OE excl. GCC, GCC
CCA: KAZ, TKM, AZE

Sources: Country authorities; and IMF staff calculations.

From Crisis Management To Inclusive and Transformational Recovery

The IMF remains intensely engaged in supporting the region

IMF Financing to CCA Countries Since the Start of the Pandemic
(January 2020 – July 2021, millions of USD)
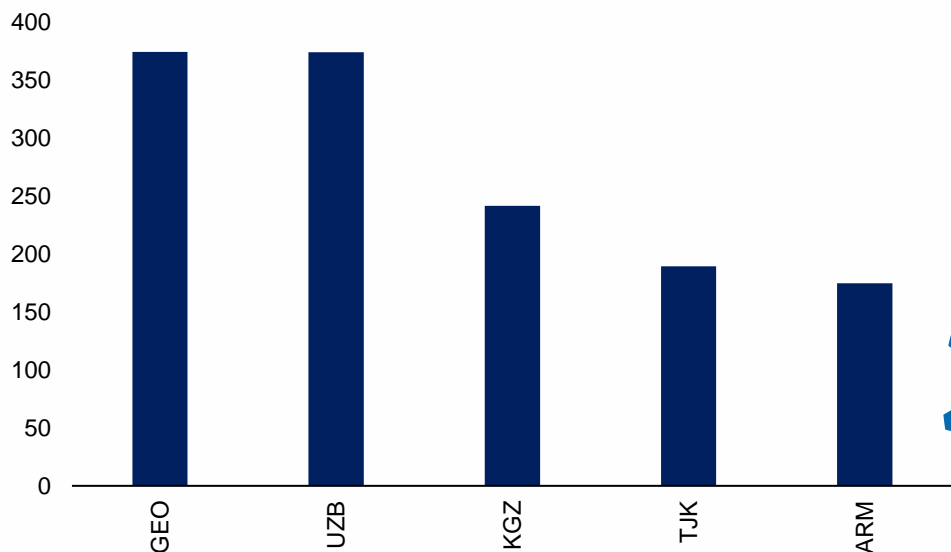
- **US$1.35 billion of new financing to the CCA region**
- **SDR allocation to boost the CCA region's reserve assets by US$3.9 billion**

Financial Support
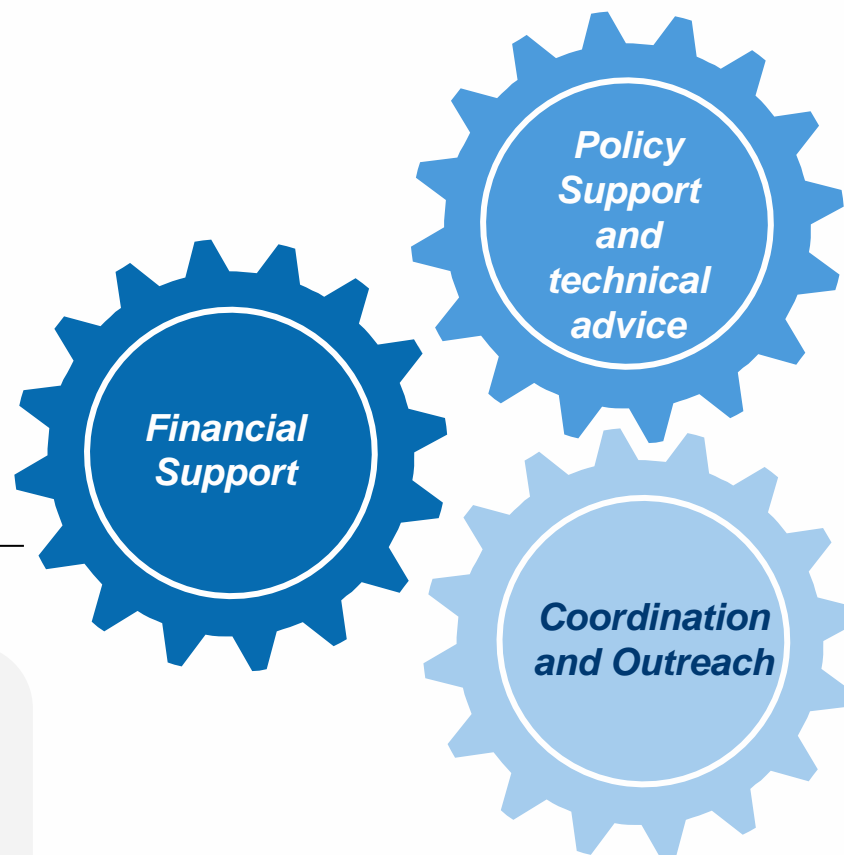
Policy Support and technical advice
- Bilateral assessments and policy advice to authorities
- Regular engagement with country authorities for more tailored policy discussions
- Dissemination of global policy initiatives and COVID-related policy guidance
- Integration of CD and surveillance: CCAMTAC, METAC

Coordination and Outreach
- Close coordination with the World Bank, EBRD, ADB and other IFIs
- Increased collaboration with various UN agencies – UNDP/ILO/UNHCR/UNICEF
- Strong coordination with regional organizations: AMF, AFSED, IsDB, GCC
- Mobilization for financial resources, donor support, and debt relief
- Catalyzed additional funding from other official creditors

Thank you