

# Economic Outlook in CAREC Countries

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# Outline

**Global economic outlook**

**CAREC economic outlook and policy priorities**



# Global growth remains moderate and uneven



**World**

**U.S.**

**Euro  
Area**

**Emerging  
markets**

**China**

**Russia**

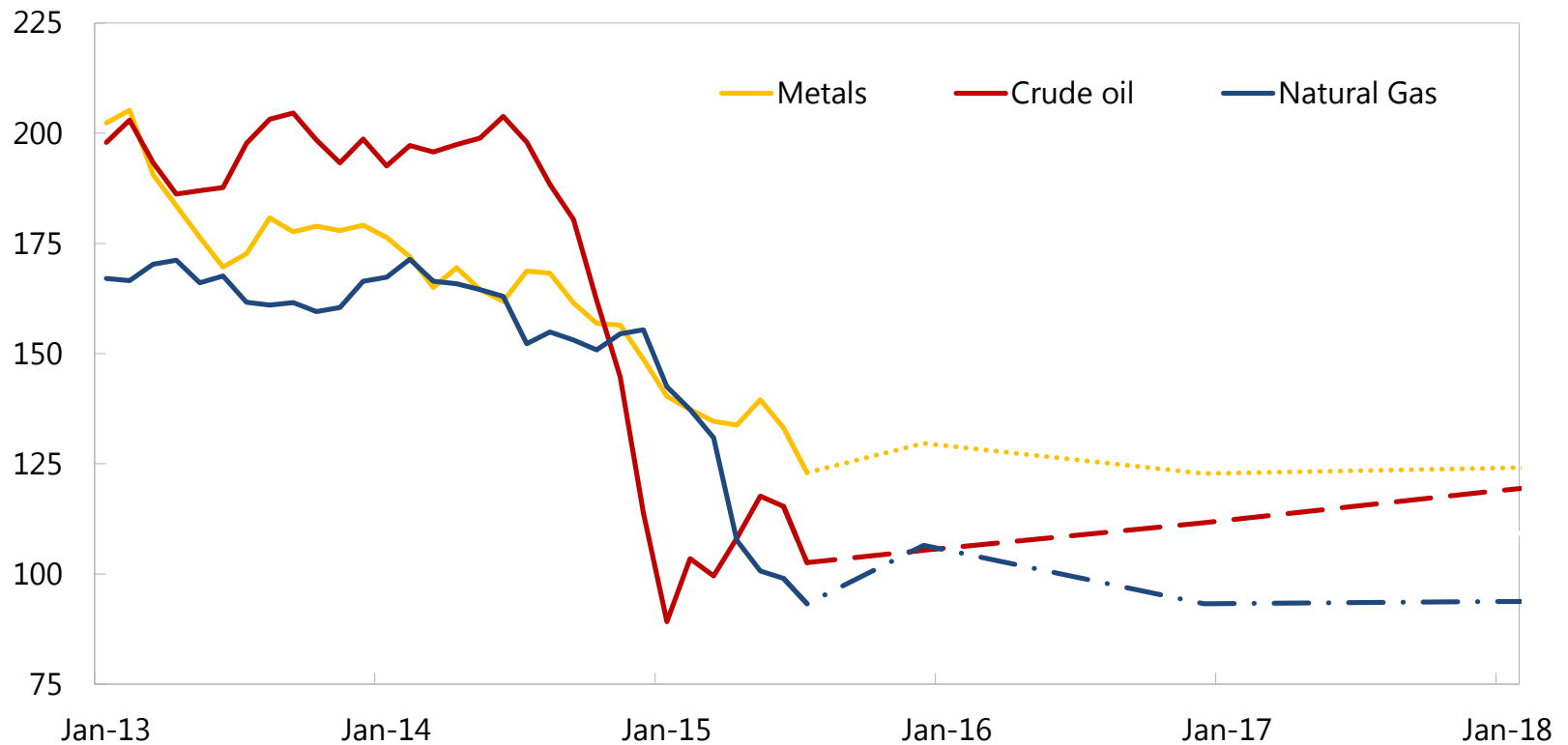
2014	3.4	2.4	0.8	4.6	7.4	0.6
2015	3.3	2.5	1.5	4.2	6.8	-3.4
2016	3.8	3.0	1.7	4.7	6.3	0.2

Source: July WEO update.



# The CAREC region has been hit by 3 major shocks: Shock #1: Decline in oil and commodity prices

Oil and Commodity Prices Indices  
(2005=100)

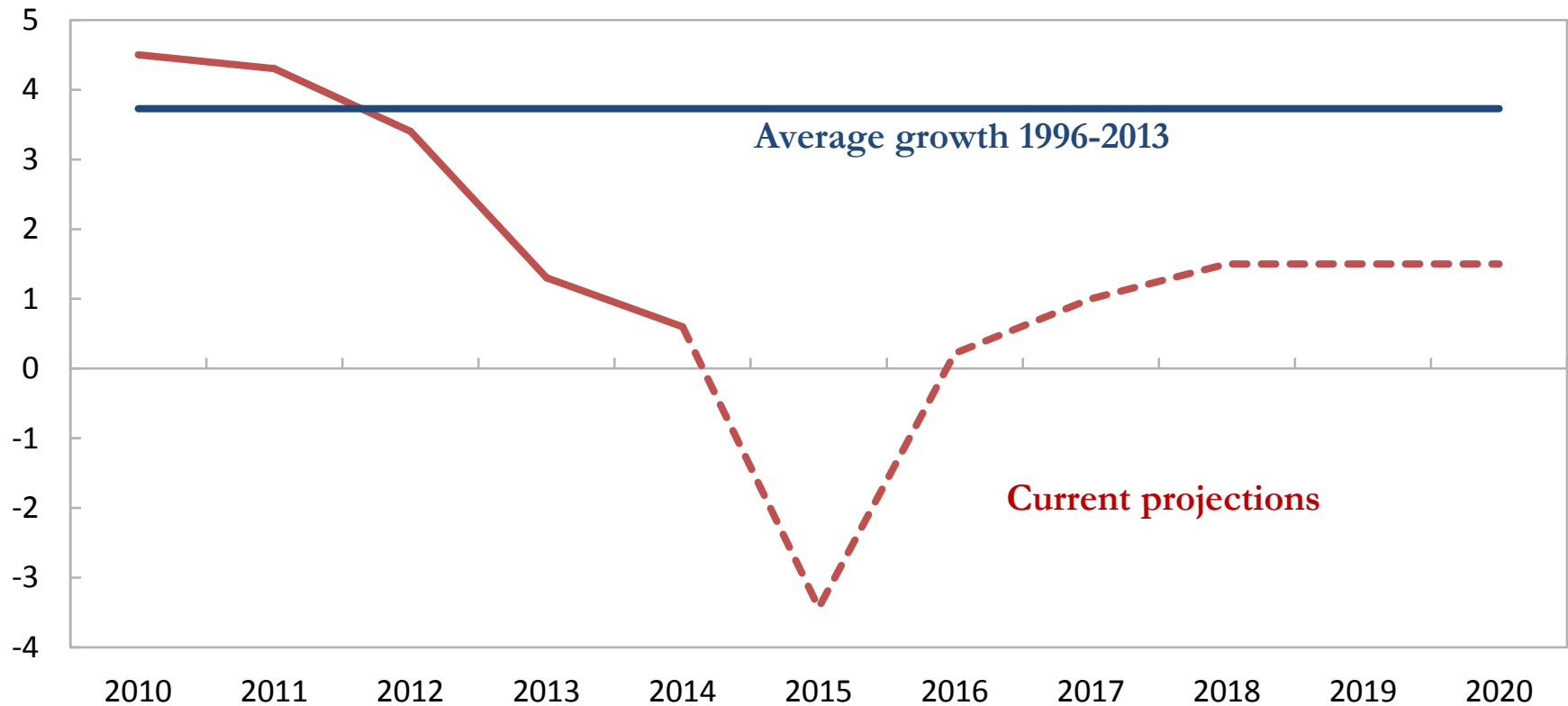


Source: IMF Primary Commodity Prices database, and IMF Research Department.  
1/ Simple average of Brent, Dubai Fateh, and West Texas Intermediate prices.



# Shock #2: Slowdown in Russia

**Real growth in Russia**  
*(in percent)*



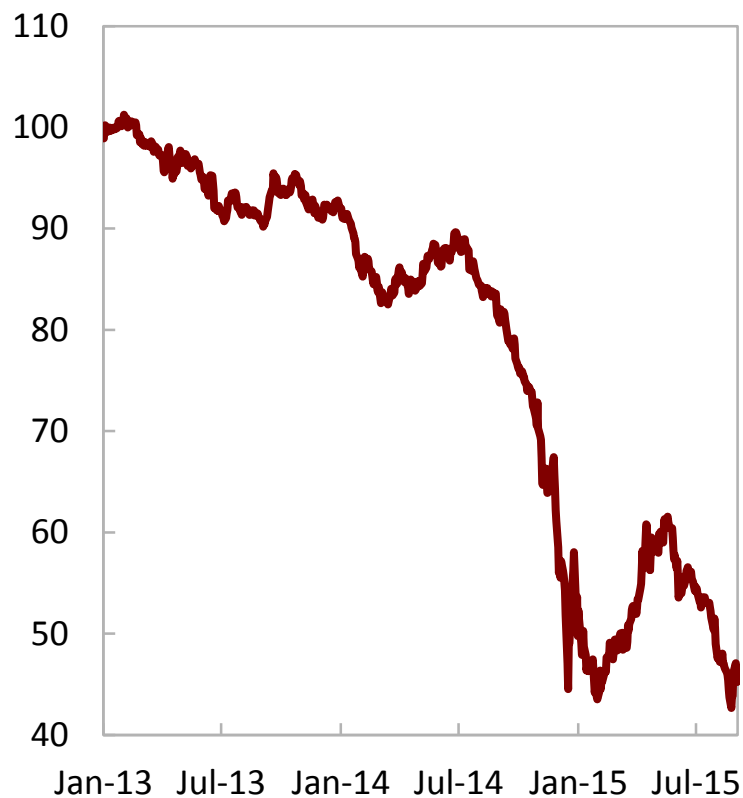
Source: July WEO update



# Shock #3: Key exchange rate movements

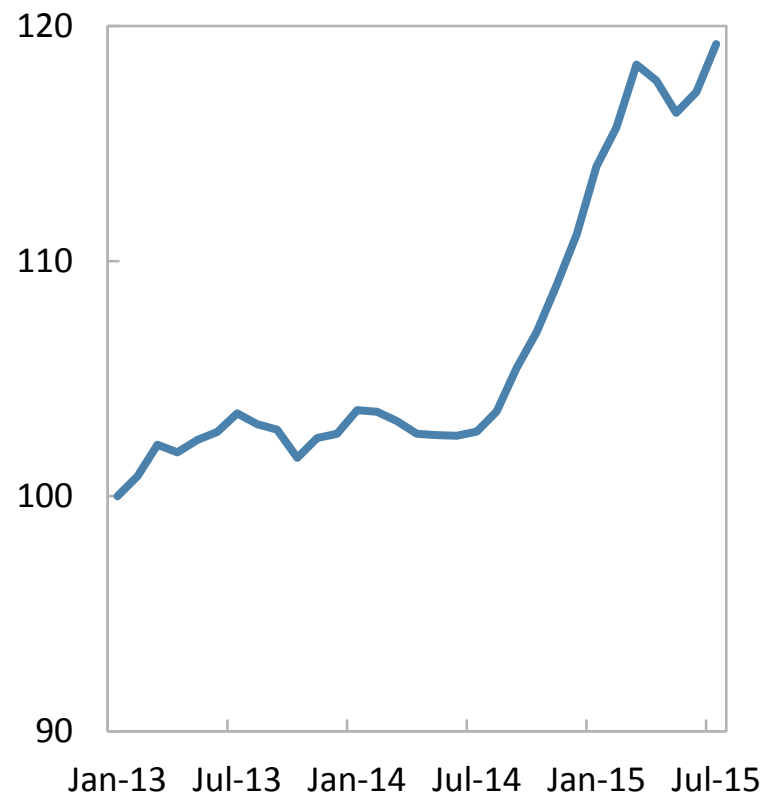
## US Dollar Ruble Exchange Rate

(Jan 2013=100)



## USD NEER

(Jan 2013=100)

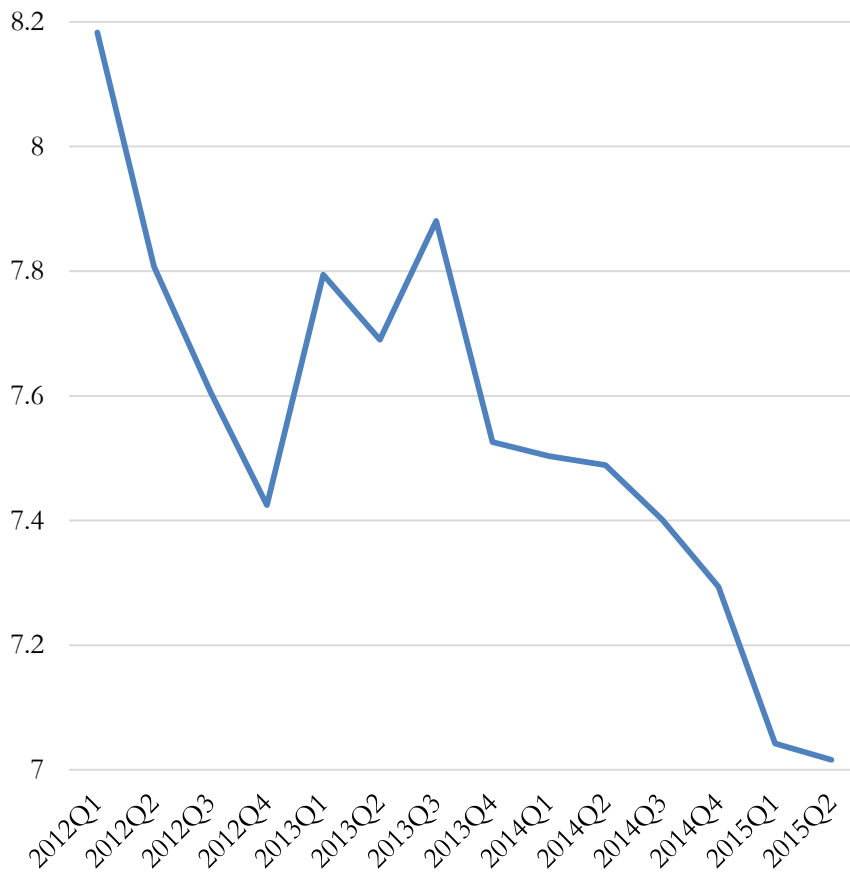


Source: Bloomberg; and IMF staff calculations.

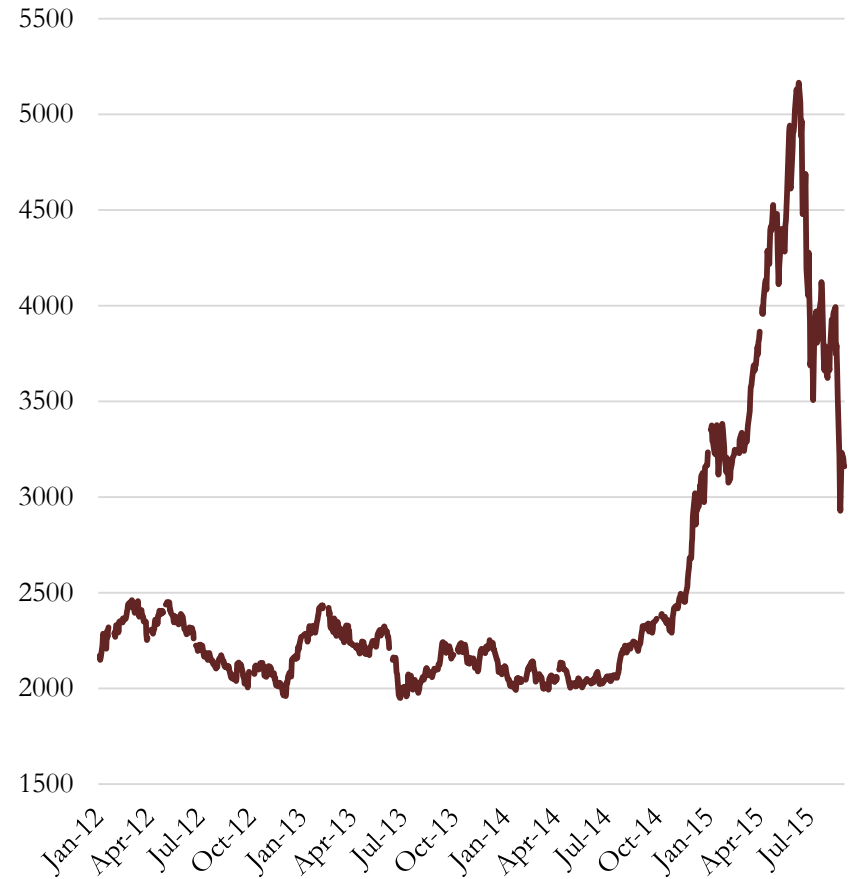


# China's economic slowdown and financial market volatility are important factors as well...

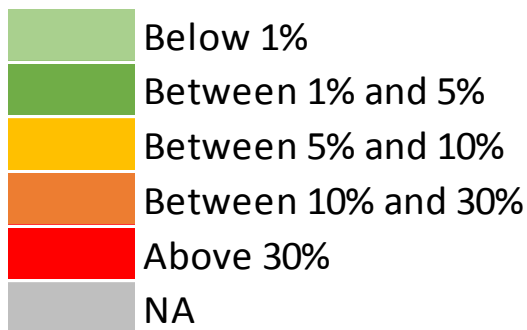
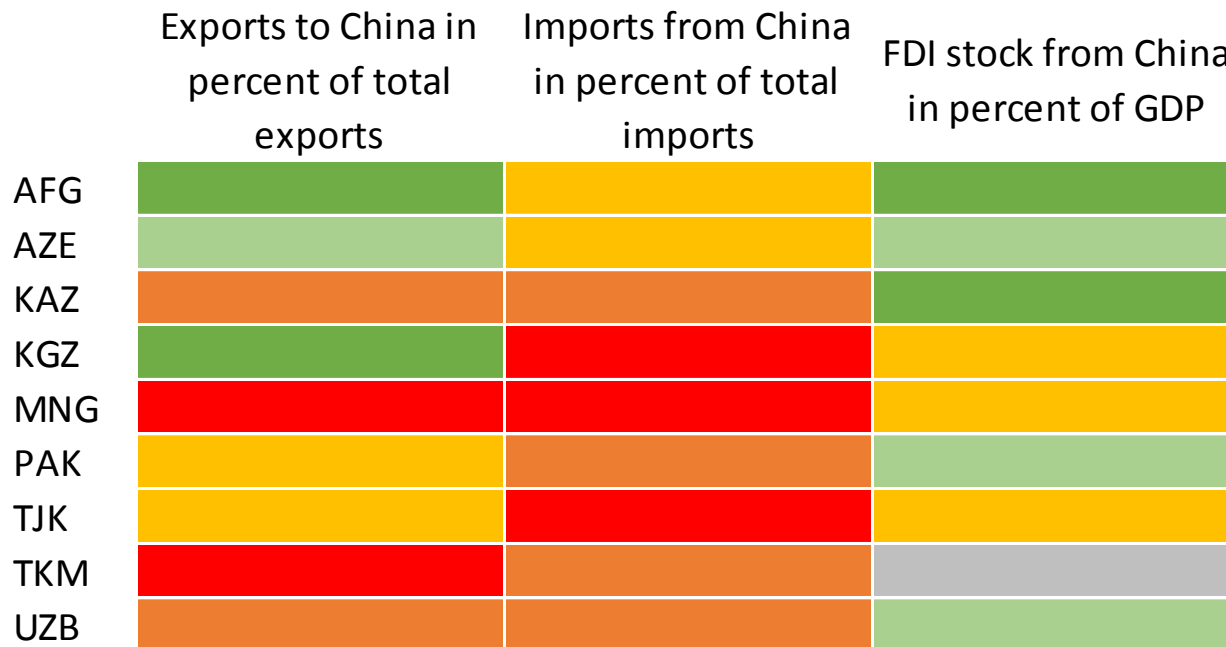
China: Quarterly Real GDP Growth (s.a., yoy percent change, 2012-2015)



Shanghai Stock Exchange Index 2012-2015



# Spillovers from China are driven by its growing trade and investment linkages with the CAREC region

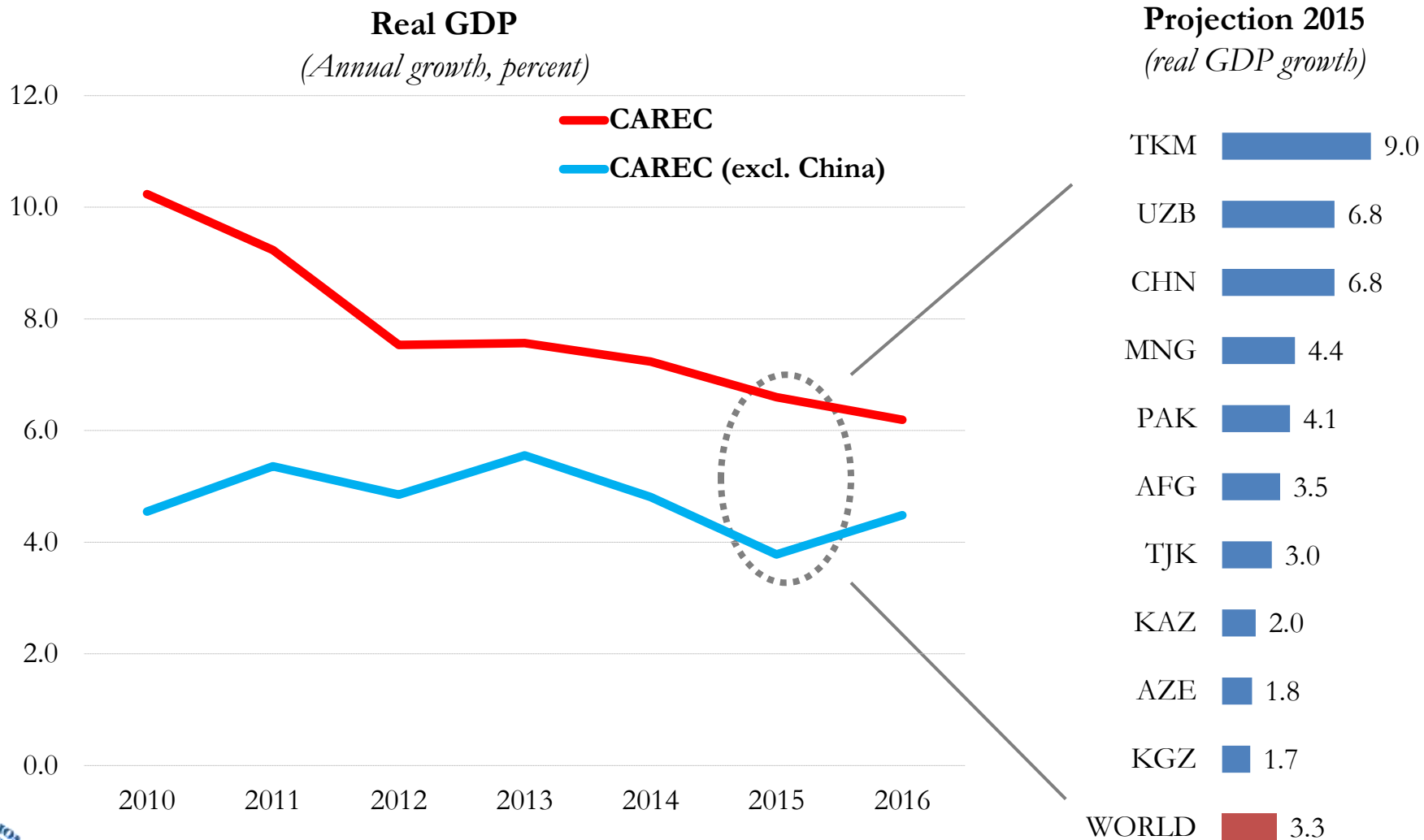


Sources: World Economic Outlook (WEO), Direction of Trade Statistics (DOTS), Coordinated Direct Investment Survey (CDIS), United Nations Conference on Trade and Development (UNCTAD), national authorities, and IMF staff estimates.





# Reflecting shocks and developments in China, growth in the CAREC region is slowing

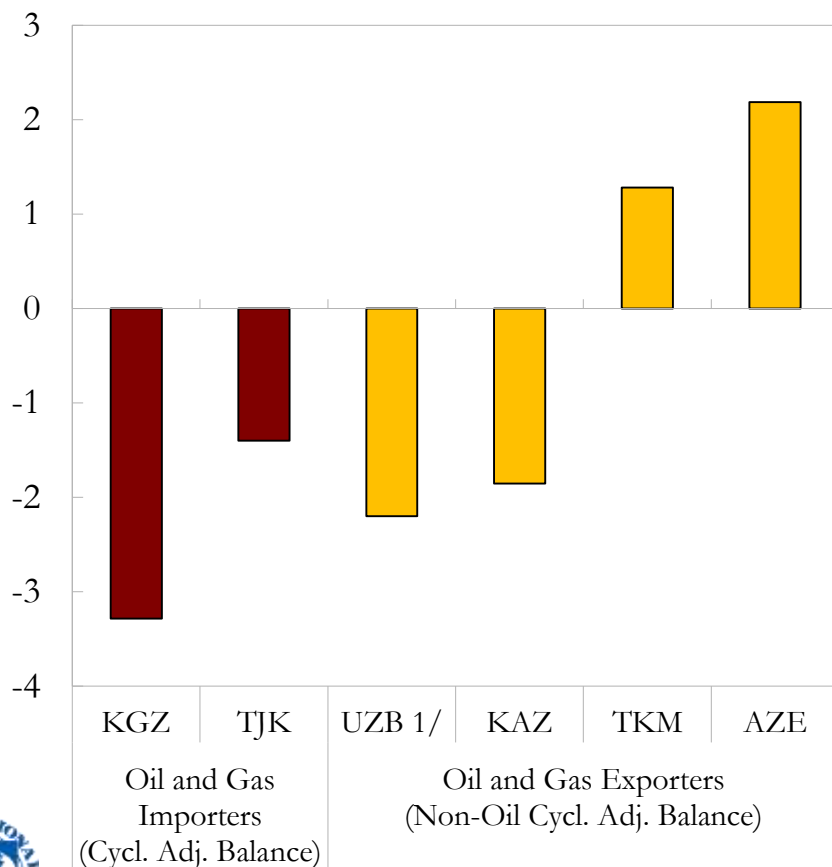


Source: July WEO update.

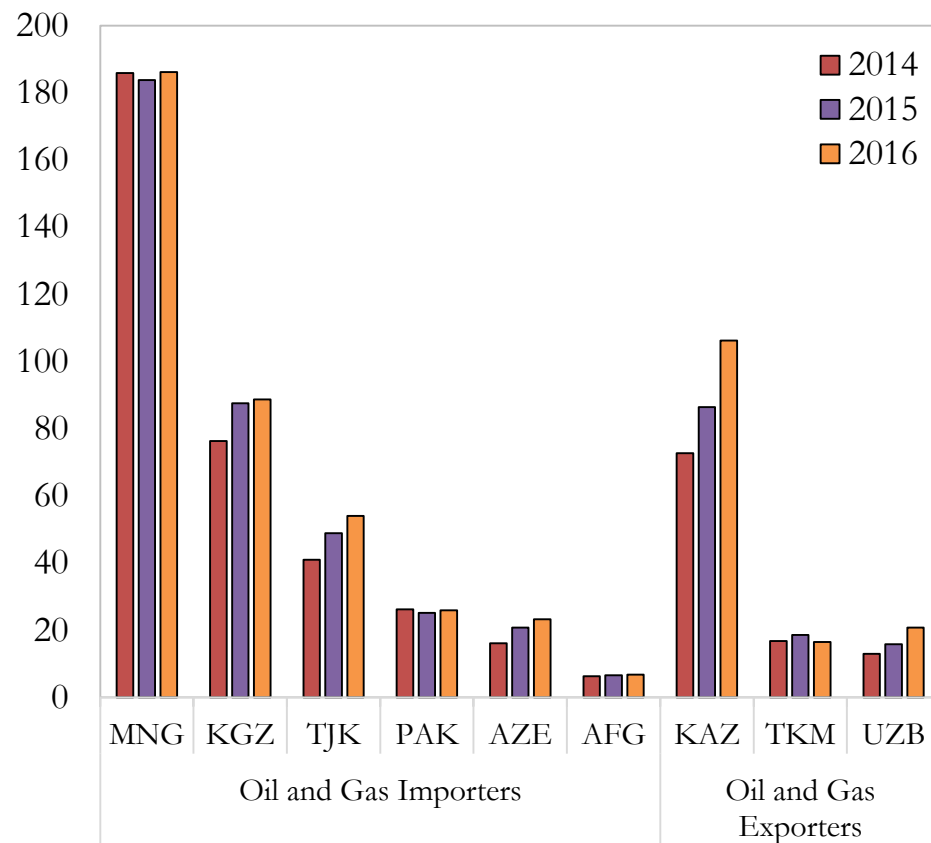


# Policy priority #1: temporary fiscal easing where feasible, but consolidation needed in the medium term

**Change in Cyclically Adjusted Fiscal Balances**  
(in percent of GDP, 2015/2014)



**Total External Debt**  
(in percent of GDP)



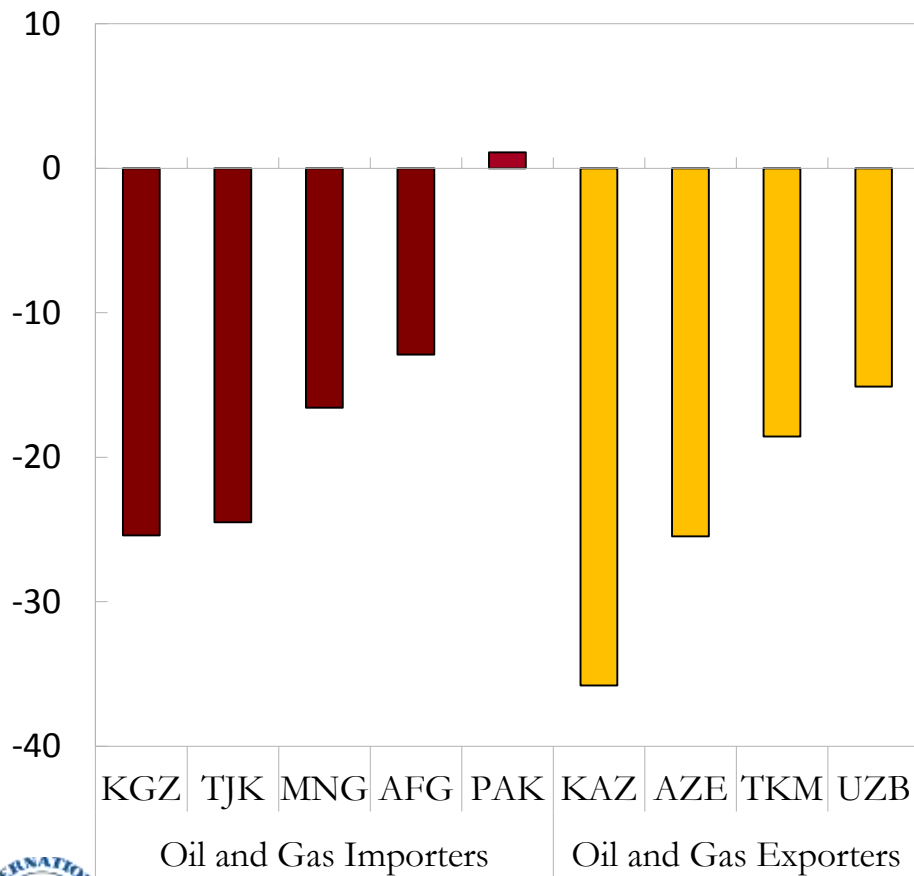
1/ Overall balance.



# Policy priority #2: greater exchange rate flexibility can help absorb future shocks

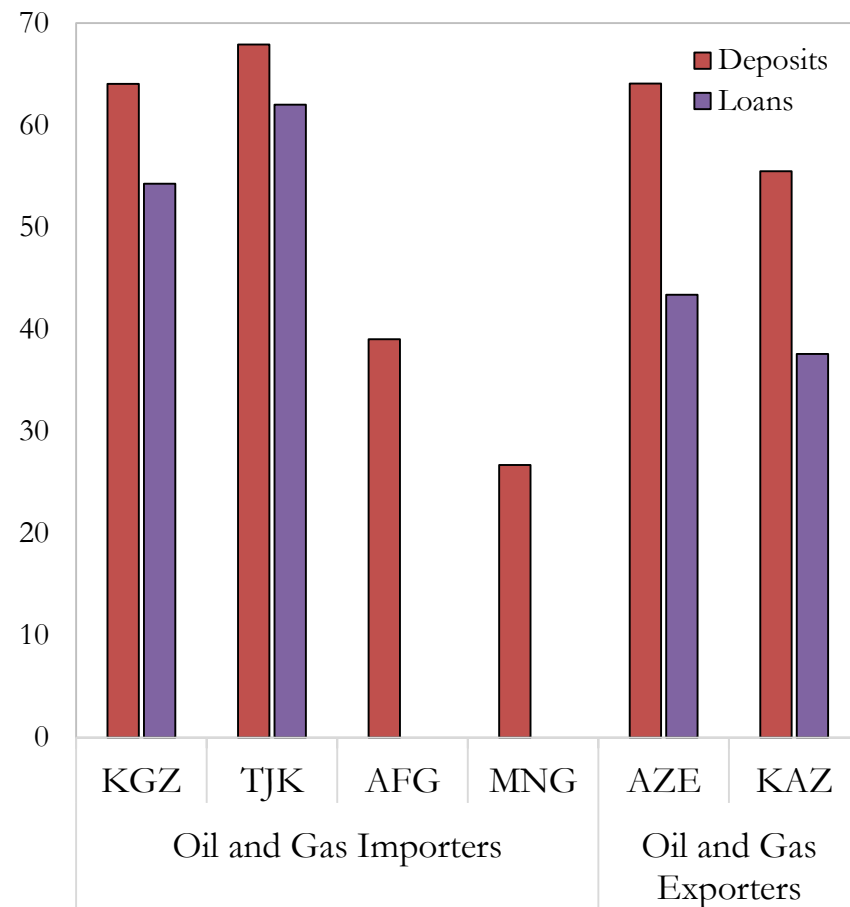
## Exchange Rate Change in Percent

(Jan 2014-August 2015; USD per national currency)



## Deposit and Loan Dollarization

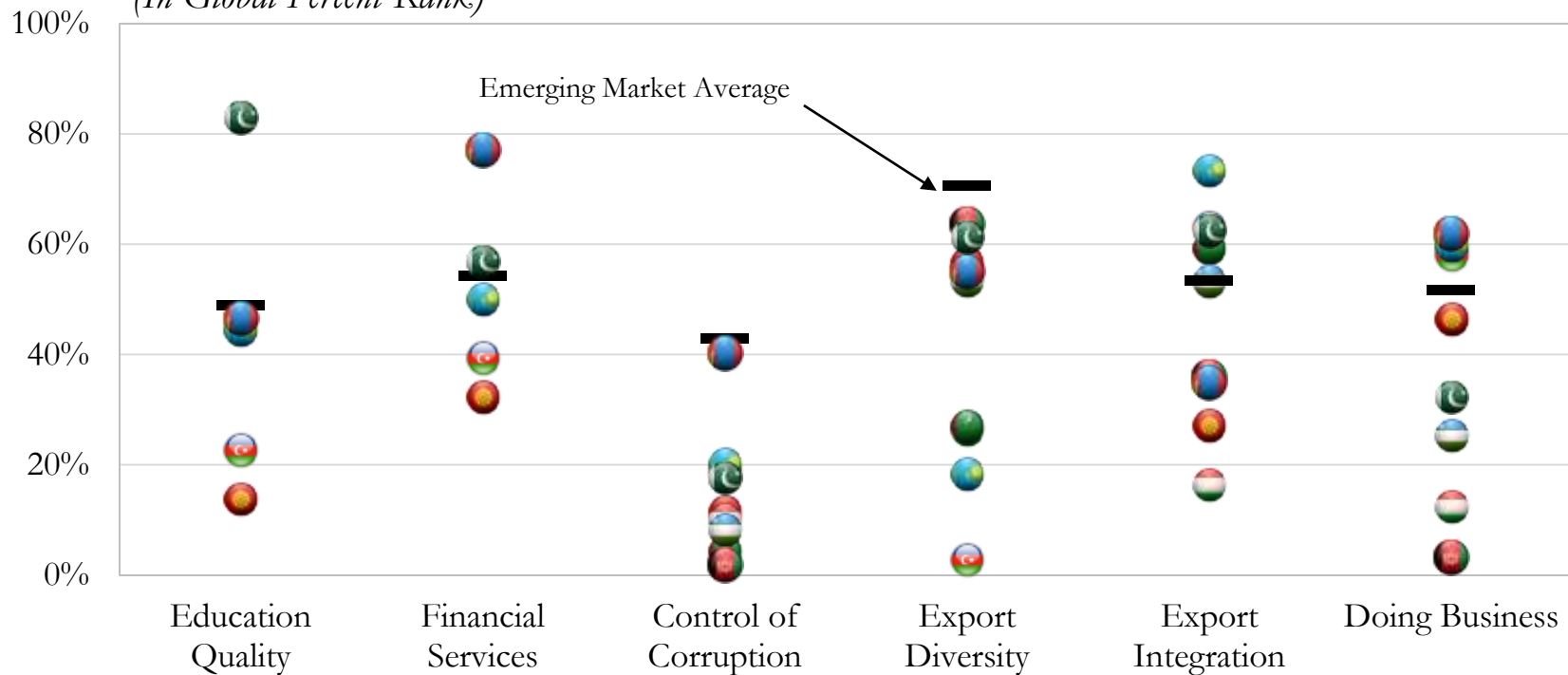
(in percent of total deposits and loans)



# Policy response #3: structural reforms are key to boosting long-term growth

## Structural Reforms Indicators

(In Global Percent Rank)



- Pakistan
- Mongolia
- Afghanistan
- Kyrgyz Republic
- Tajikistan
- Azerbaijan
- Kazakhstan
- Turkmenistan
- Uzbekistan

Sources: Education Quality: Global Competitiveness Report; Financial Services: Global Competitiveness Report and Doing Business; Control of Corruption: Worldwide Governance Indicators; Export Diversity: IMF/DFID Export Diversity Index; Export Integration: World Economic Outlook; and Doing Business: Doing Business Report.



# Takeaways

- A confluence of external shocks is weighing down on growth, external and fiscal balances.
- Risks to the outlook are tilted to the downside and the shocks are likely to be long lasting, requiring adjustment.
- While temporary fiscal easing can support growth, fiscal consolidation will be needed over the medium term to rebuild buffers and ensure debt sustainability.
- Exchange rate flexibility will preserve external buffers, but it needs to be accompanied by measures to strengthen the banking sector.
- Structural reforms are needed to boost weakening medium-term growth prospects.

