

Eurasia: Opportunities, Spillovers, and Challenges



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“New mediocre”

(WEO Real GDP growth projections)



World



U.S.



Euro Area



Japan



Brazil



India



China



Russia

2014
(October
2014)

3.3

2.2

0.8

0.9

0.3

5.6

7.4

0.2

2014
(April 2014)

3.6

2.8

1.2

1.4

1.8

5.4

7.5

1.3

2015
(October
2014)

3.8

3.1

1.3

0.8

1.4

6.4

7.1

0.5

2015
(April 2014)

3.9

3.0

1.5

1.0

2.7

6.4

7.3

2.3

What about Emerging Markets?



World



Advanced
economies



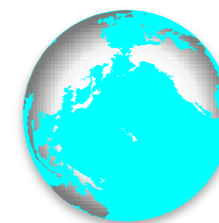
EMDC



EM Asia



EM Lat Am



EM Europe



CIS

2014

3.3

1.8

4.4

6.5

1.3

2.7

0.8

*Revision from
April 2014*

-0.3

-0.4

-0.5

-0.2

-1.2

0.3

-1.5

2015

3.8

2.3

5.0

6.6

2.2

2.9

1.6

*Revision from
April 2014*

-0.1

0.0

-0.3

-0.2

-0.8

0.0

-1.6

Potential spillover channels

Channel:

Impacts:

Lower Growth in Russia
and elsewhere => Lower
Exports

- ▶ Weaker external current account
Impact on bank borrowers
FX market / ER

Energy supply disruptions

- ▶ Higher prices
Lower growth
Impact on bank borrowers

Lower *remittances*

- ▶ Weaker external current account
FX market / ER
Bank balance sheets (funding, retail
lending)

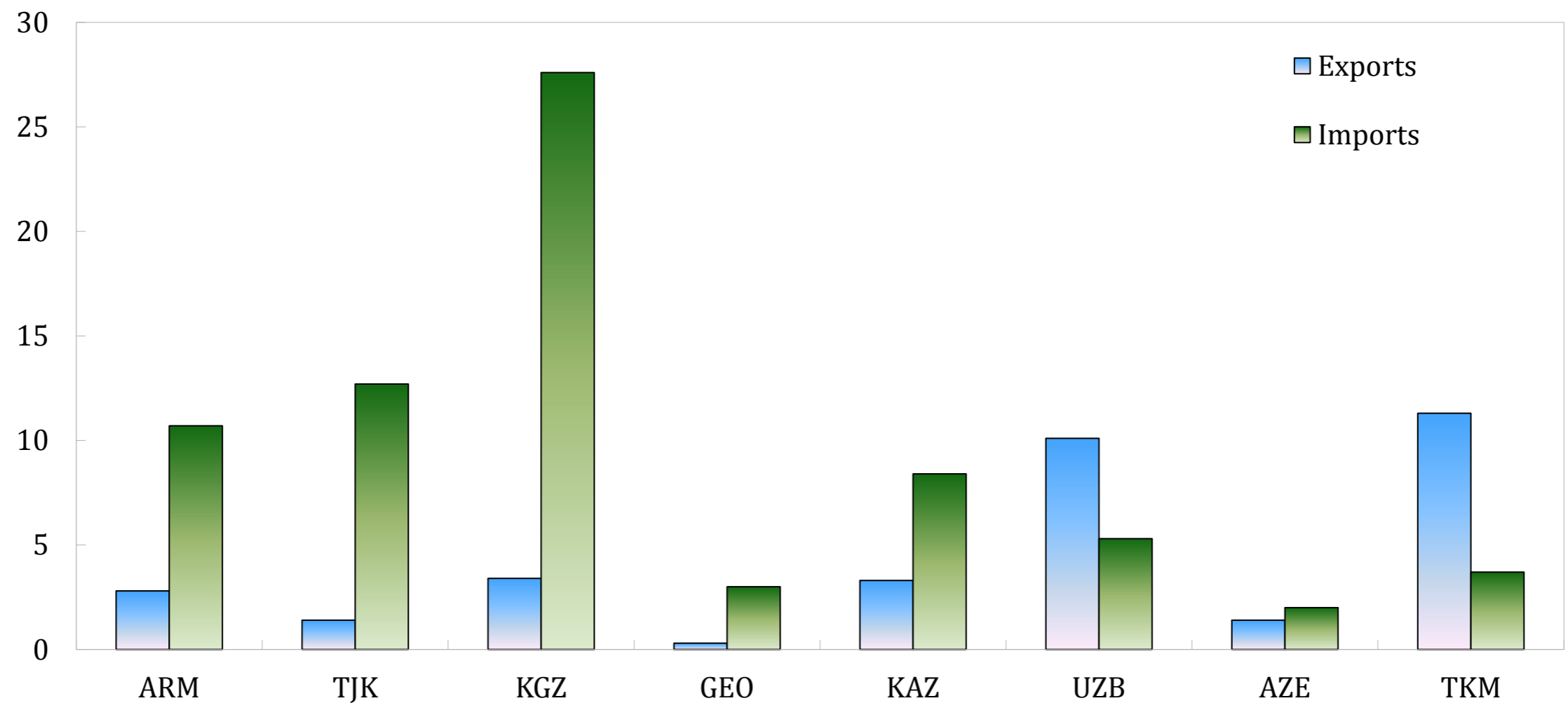
Confidence impacts =>
Lower *FDI/bank flows*

- ▶ FX market / ER
Bank balance sheets

...A weakening of the RUR would be a further challenge, given US\$ pegs in the region

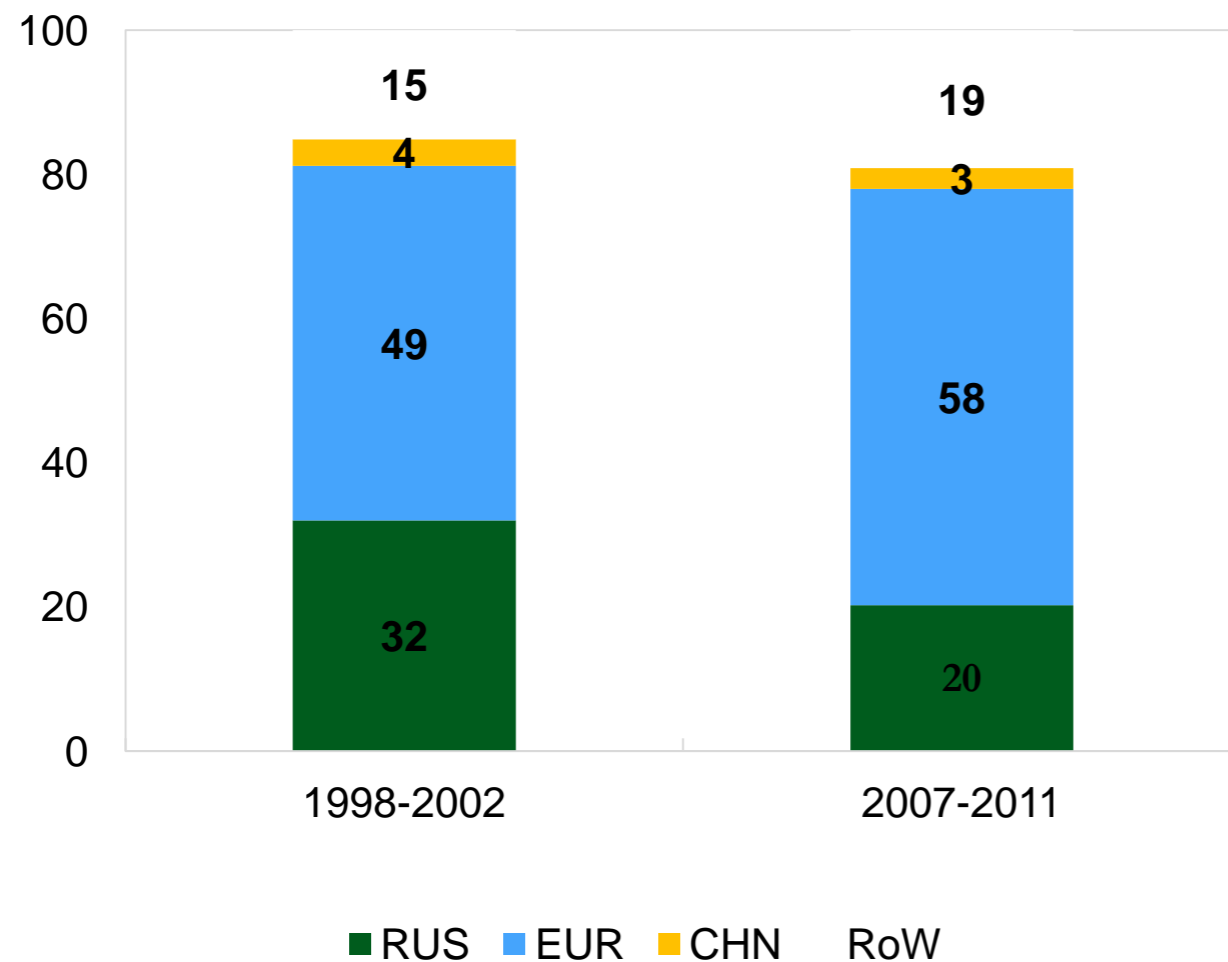
Spillovers via trade

Total Trade with Russia
(Percent of GDP, 2012)

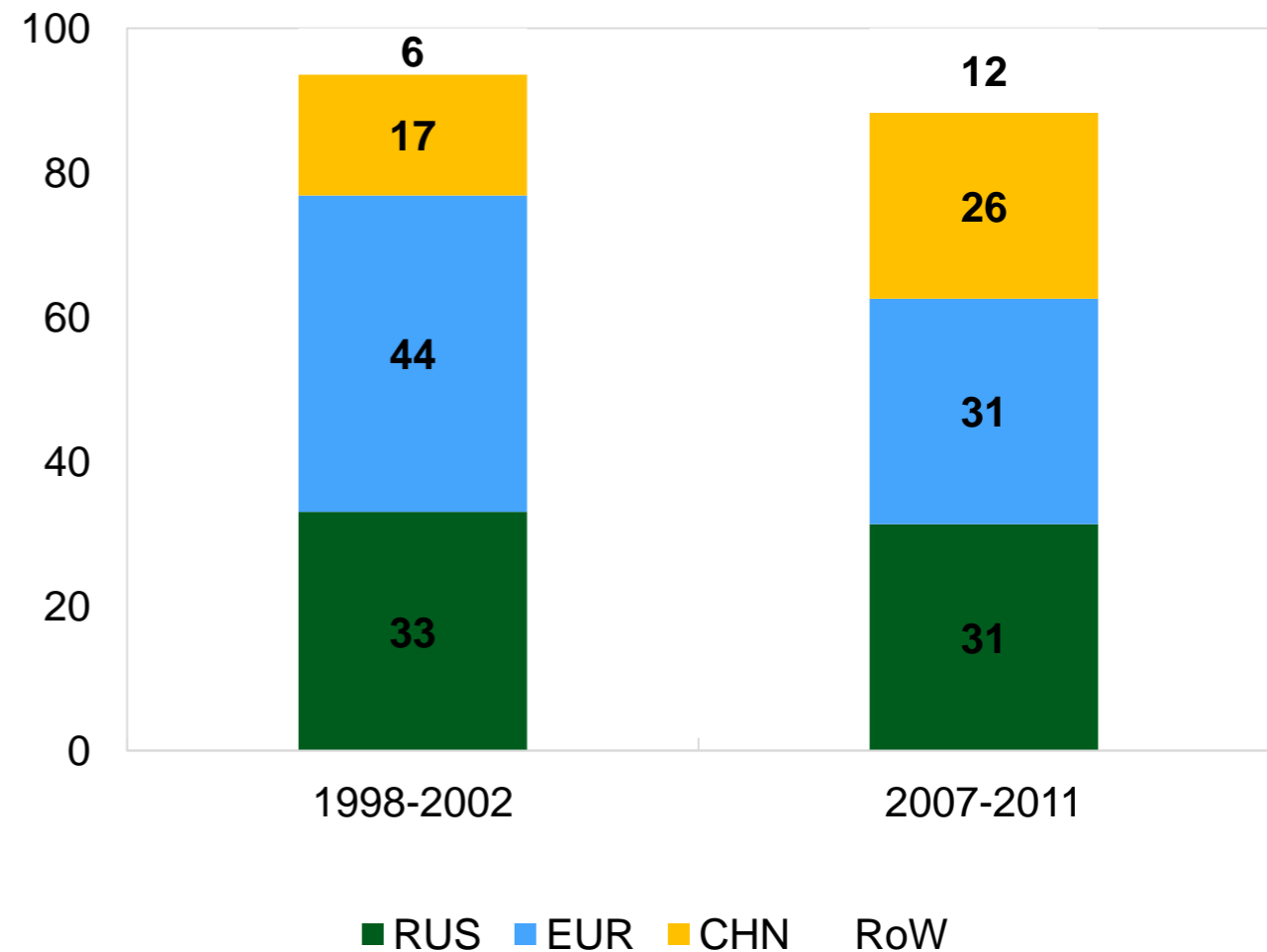


... including non-energy (job-creating) exports

Non-Hydrocarbon Exports: CCA Oil and Gas Importers
(Share of Total Non-Hydrocarbon Exports)

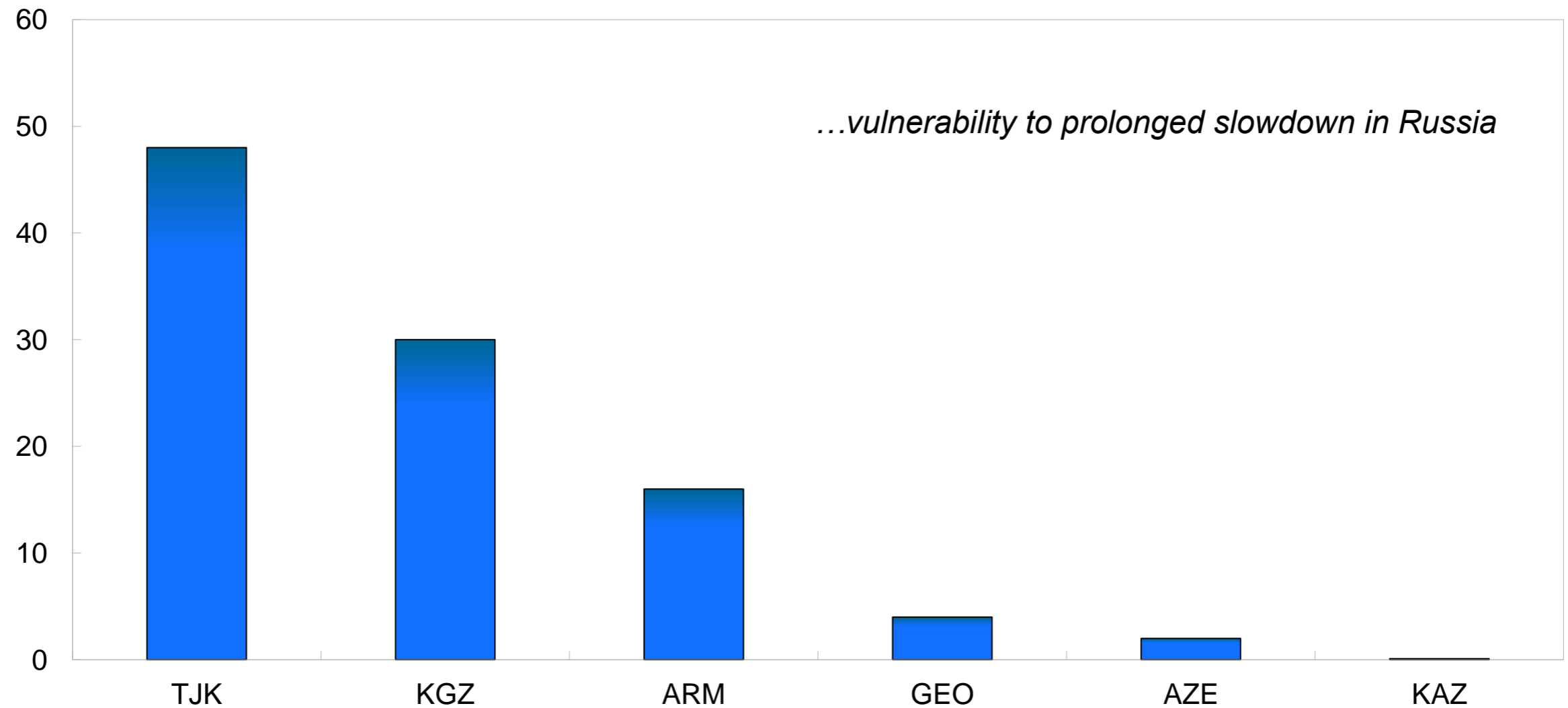


Non-Hydrocarbon Exports: CCA Oil and Gas Exporters
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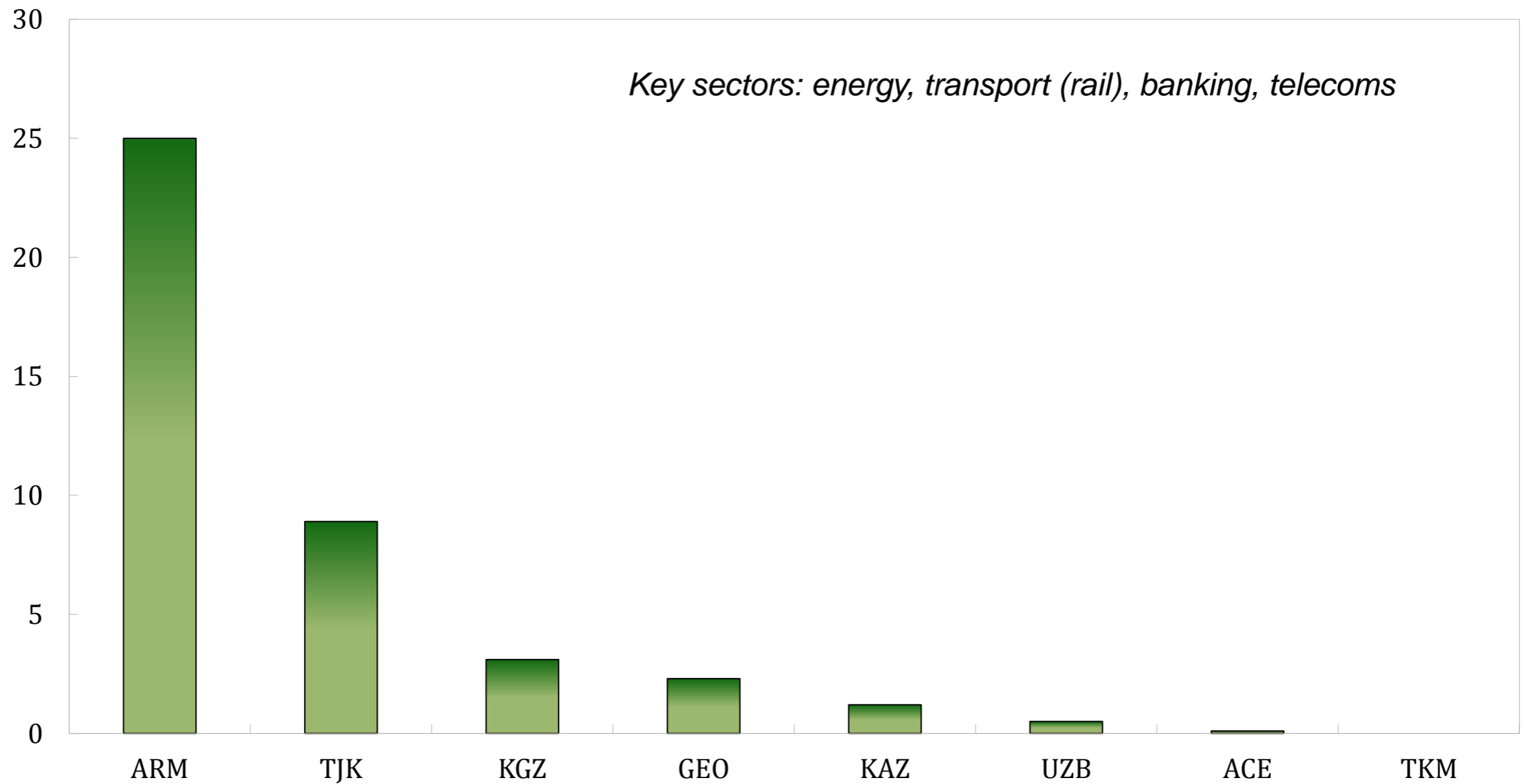
Spillovers via remittances

Remittances from Russia to CCA
(Percent of GDP, 2012)



Spillovers via FDI

FDI (Stock) from Russia
(Percent of GDP, 2012)



Limited policy buffers for some...

2013	CCA Hydrocarbon Importers	CCA Hydrocarbon Exporters
Fiscal balance	-2.3	3.2
General government debt	36.6	13.1
Gross external debt	65.0	43.8
Reserves (months of imports)	3.4	9.2
Current account balance	-6.8	3.2

... and/or specific vulnerabilities

- Overvalued real ERs
- High dollarization
- Heavy reliance on external funding and rapid FX credit growth
- Significant bank exposure to the sovereign
- Low bank profitability and rising NPLs
- Banking sector and loan concentration
- Complex financial group structures
- Foreign banks: exposure to possible defunding/deleveraging
- Limited bank diversification and reliance on short-term funding

Bottom Line

- Impact of slowdown in Russia and contraction in Ukraine
- Downside risks from continued tensions & escalation of sanctions
- Prospects for spillovers and impacts on:
 - Growth
 - FX markets/ERs
 - Bank borrowers, profitability, and balance sheets

➔ *Important to assess vulnerabilities and preparedness*

But opportunities remain.

