



**MIDDLE EAST
AND CENTRAL ASIA
DEPARTMENT**



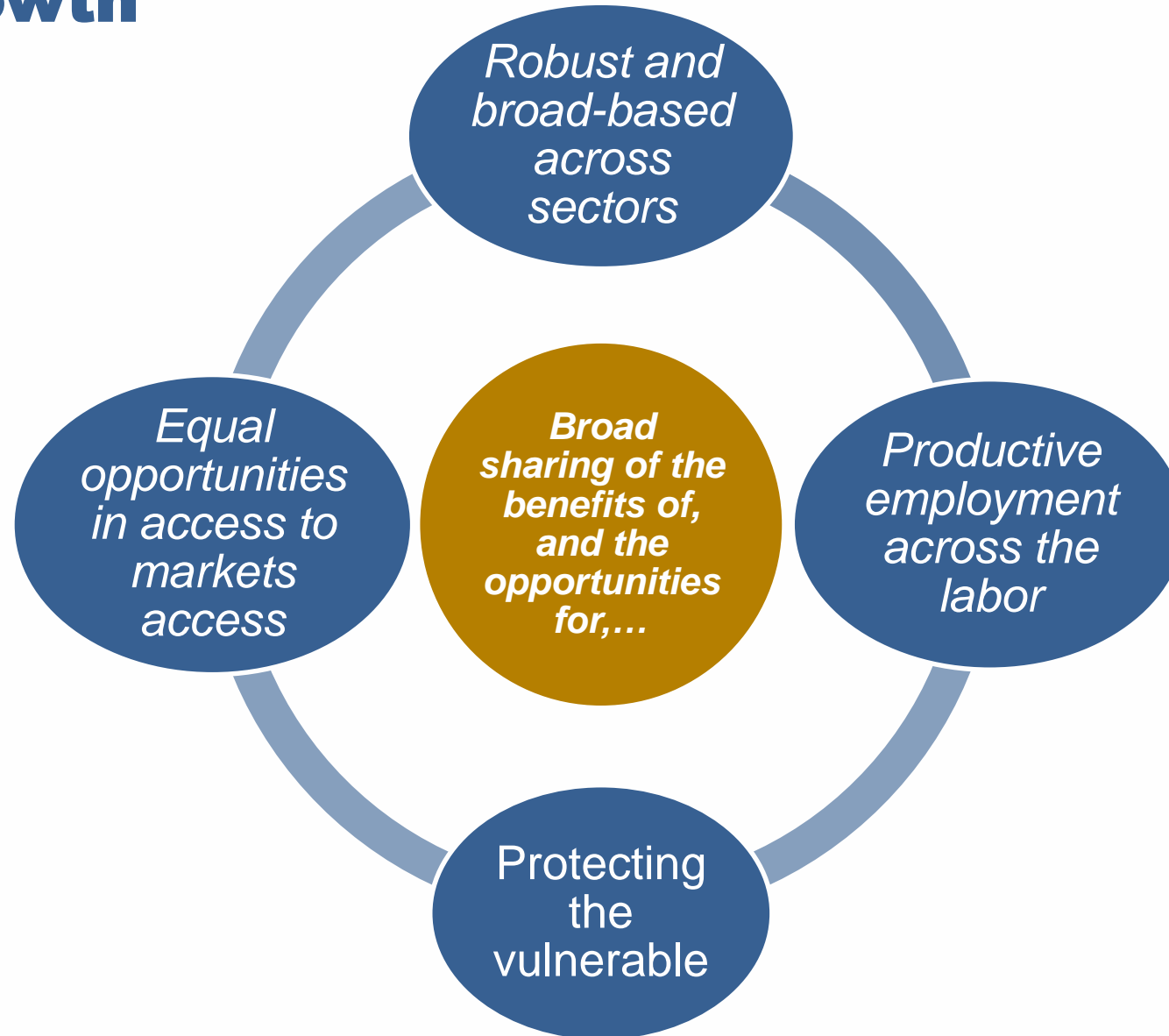
Promoting Inclusive Growth in the Caucasus and Central Asia

JUNE 2019

Inclusive Growth

Concerted efforts

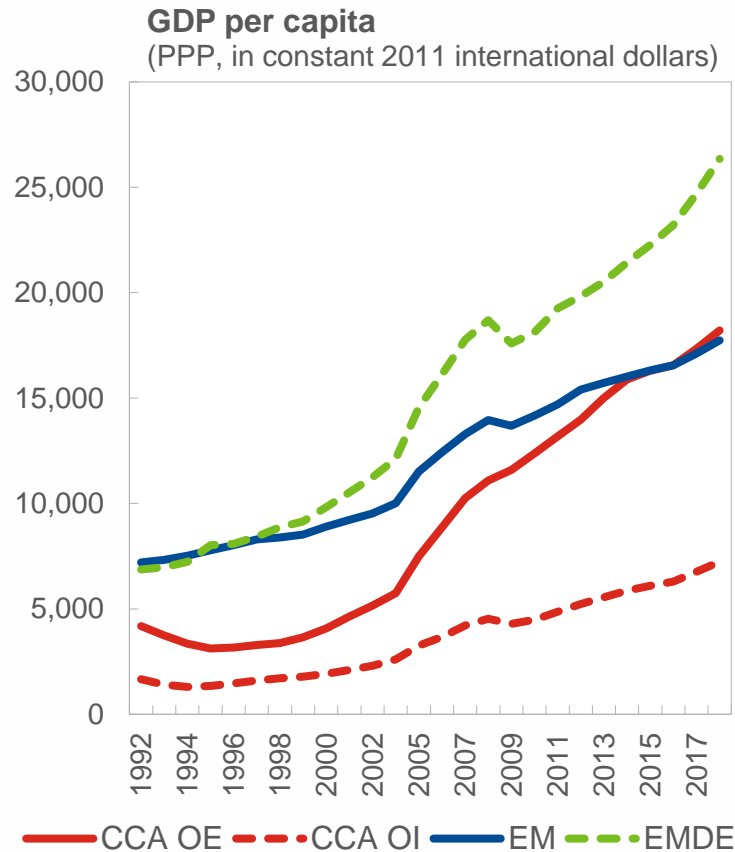
Shared responsibility



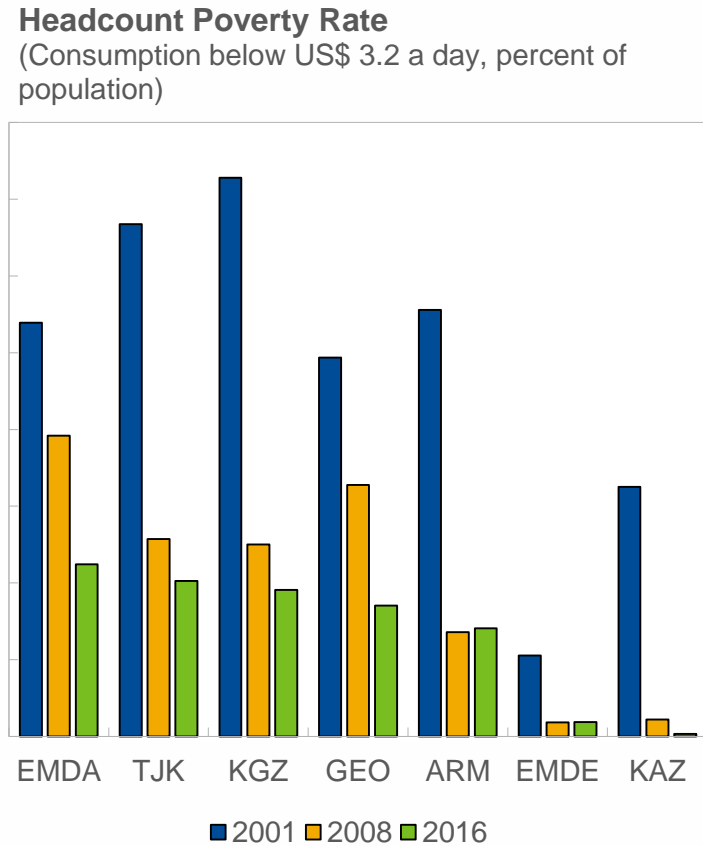
Progress on Promoting Inclusive Growth in the CCA

Some progress with inclusive growth....

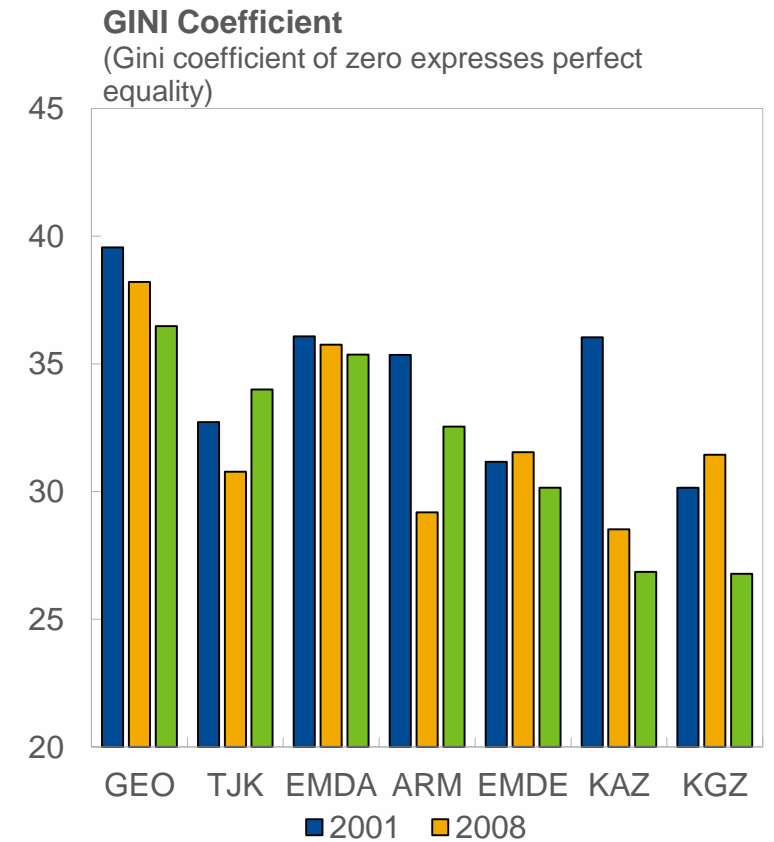
Some income convergence



Reduced poverty



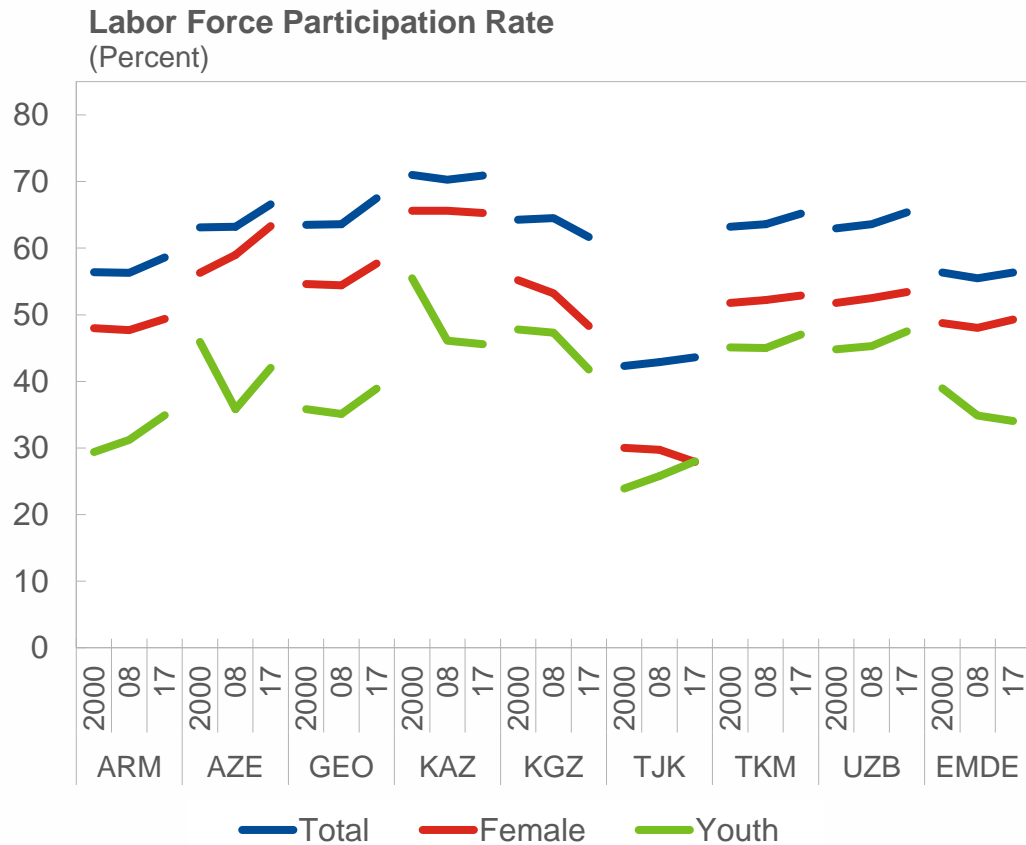
...and decreased inequality.



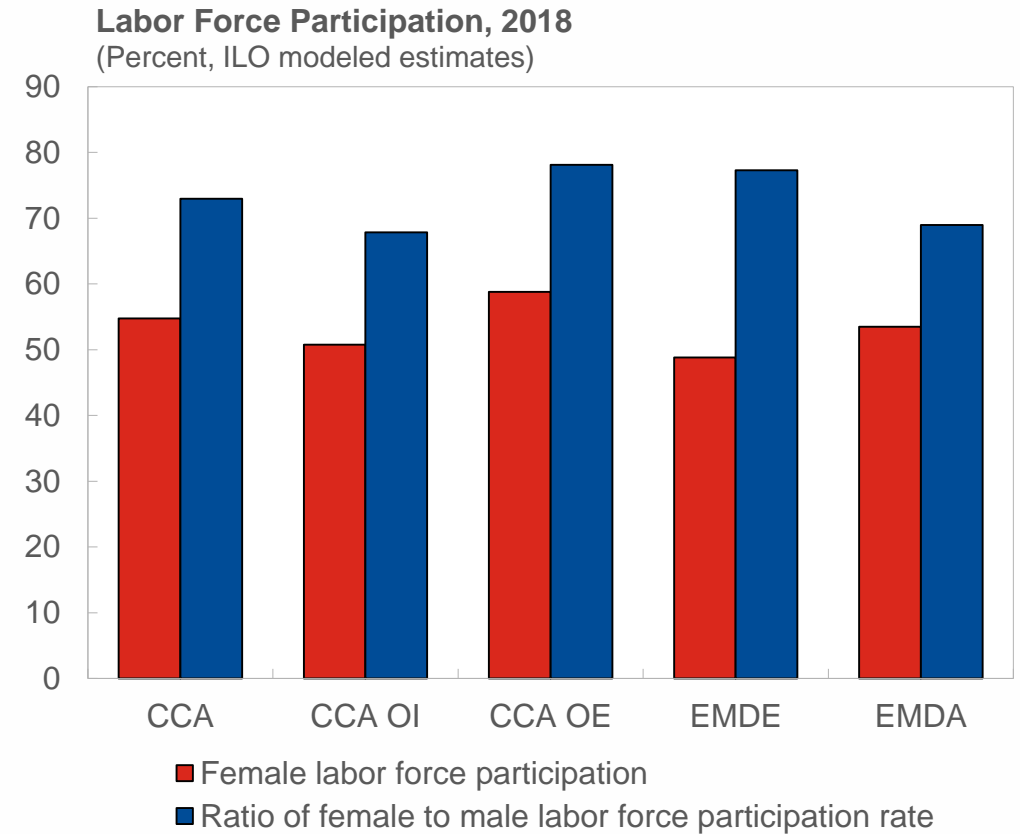
Sources: World Economic Outlook, Regional Economic Outlook, and IMF staff calculations.
Note: EM = Emerging Markets (excluding Emerging Europe), EMDE = Emerging and Developing Europe.

With high labor market participation...

Labor participation is already elevated...



...and there is a persistent gender gap

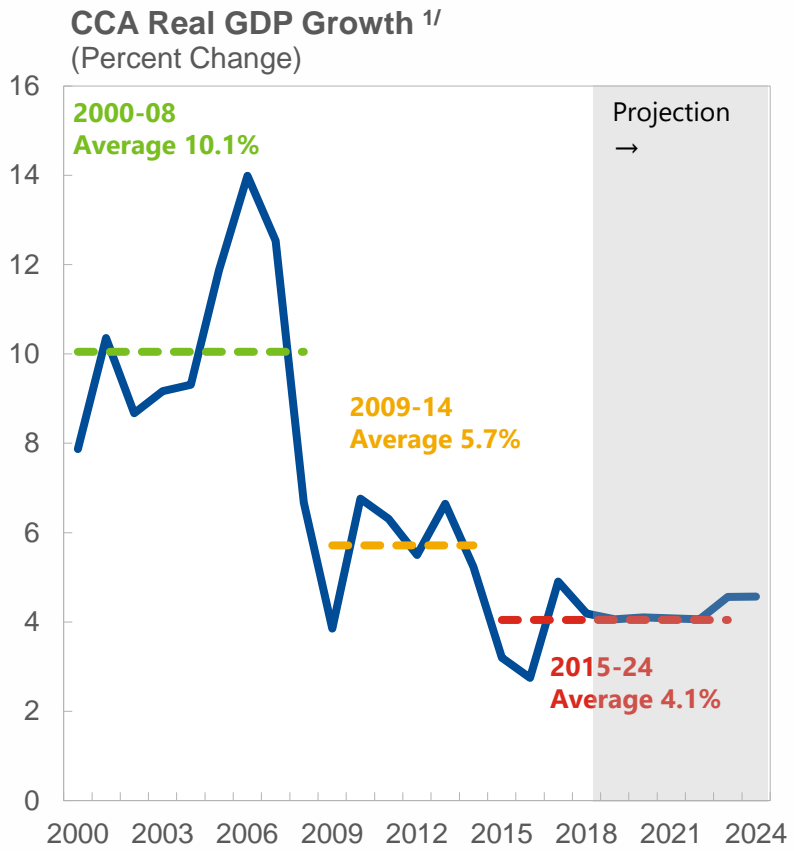


Sources: International Labor Organization, and IMF staff calculations.

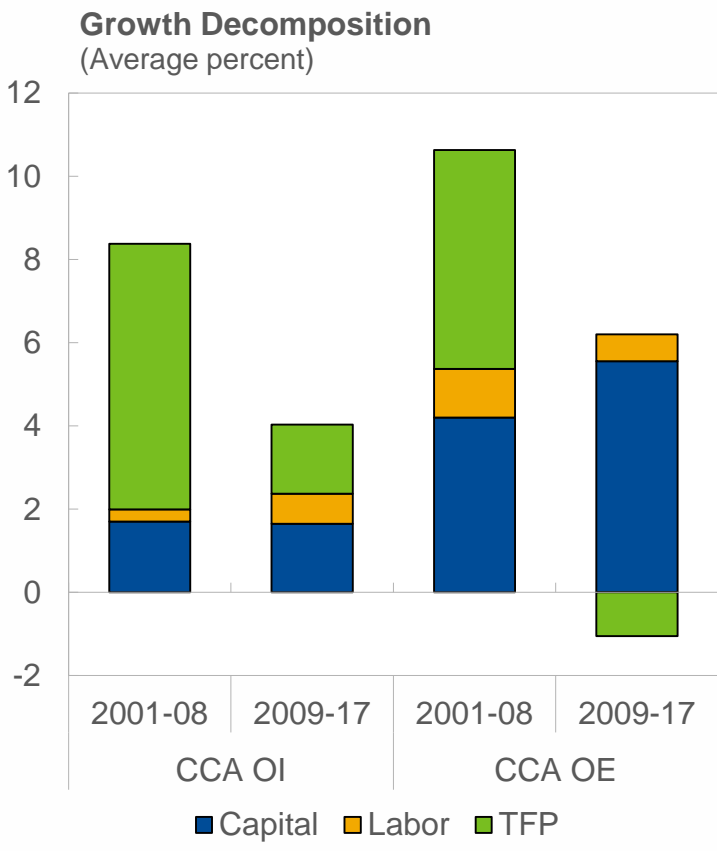
Note: EMDE = Emerging and Developing Europe, EMDA = Emerging and Developing Asia.

..but challenges ahead.

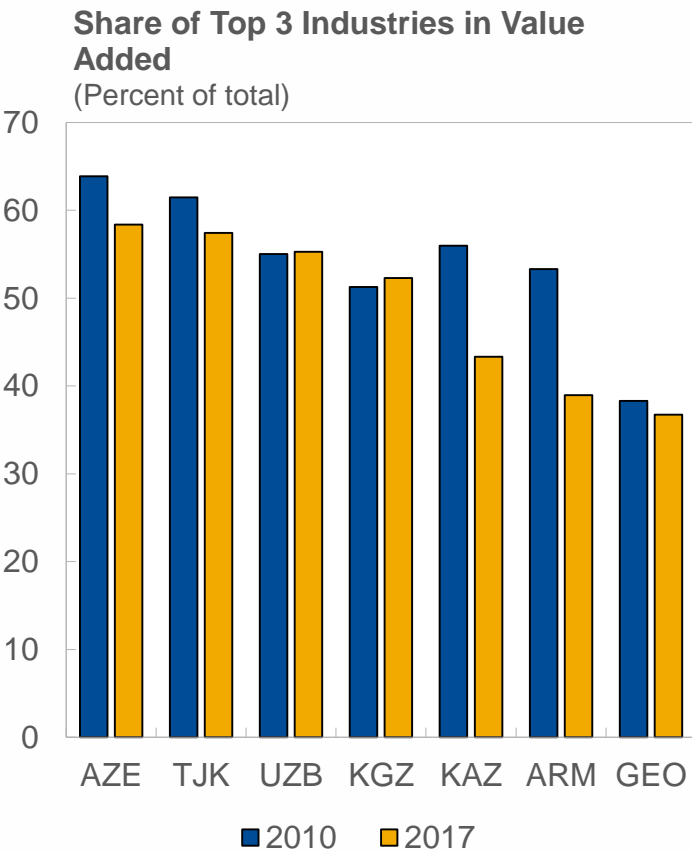
Slower growth



Low productivity growth

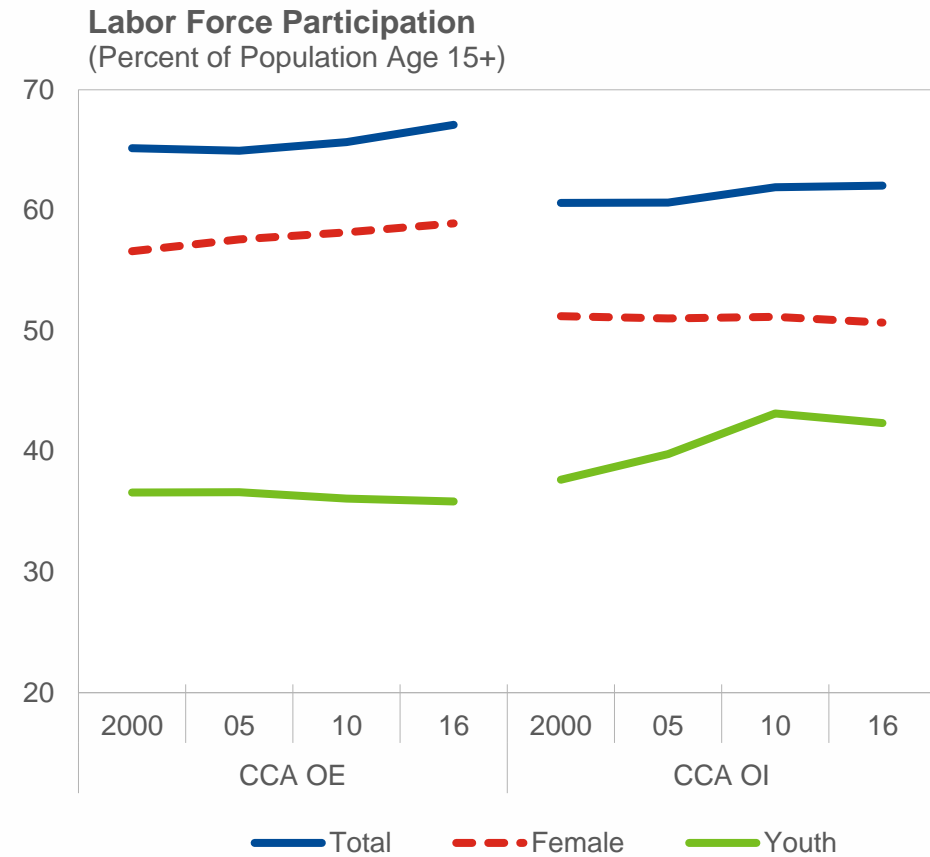
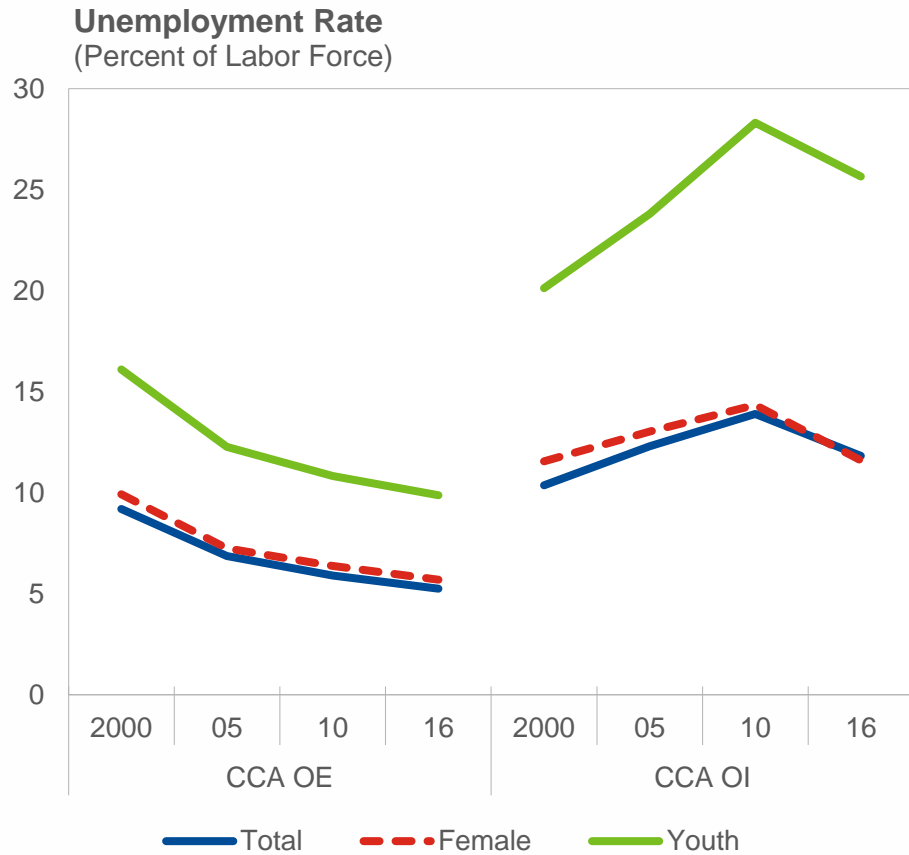


High economic concentration



Sources: World Economic Outlook, Regional Economic Outlook, and IMF staff calculations.
 Note: EM = Emerging Markets (excluding Emerging Europe), EMDE = Emerging and Developing Europe.

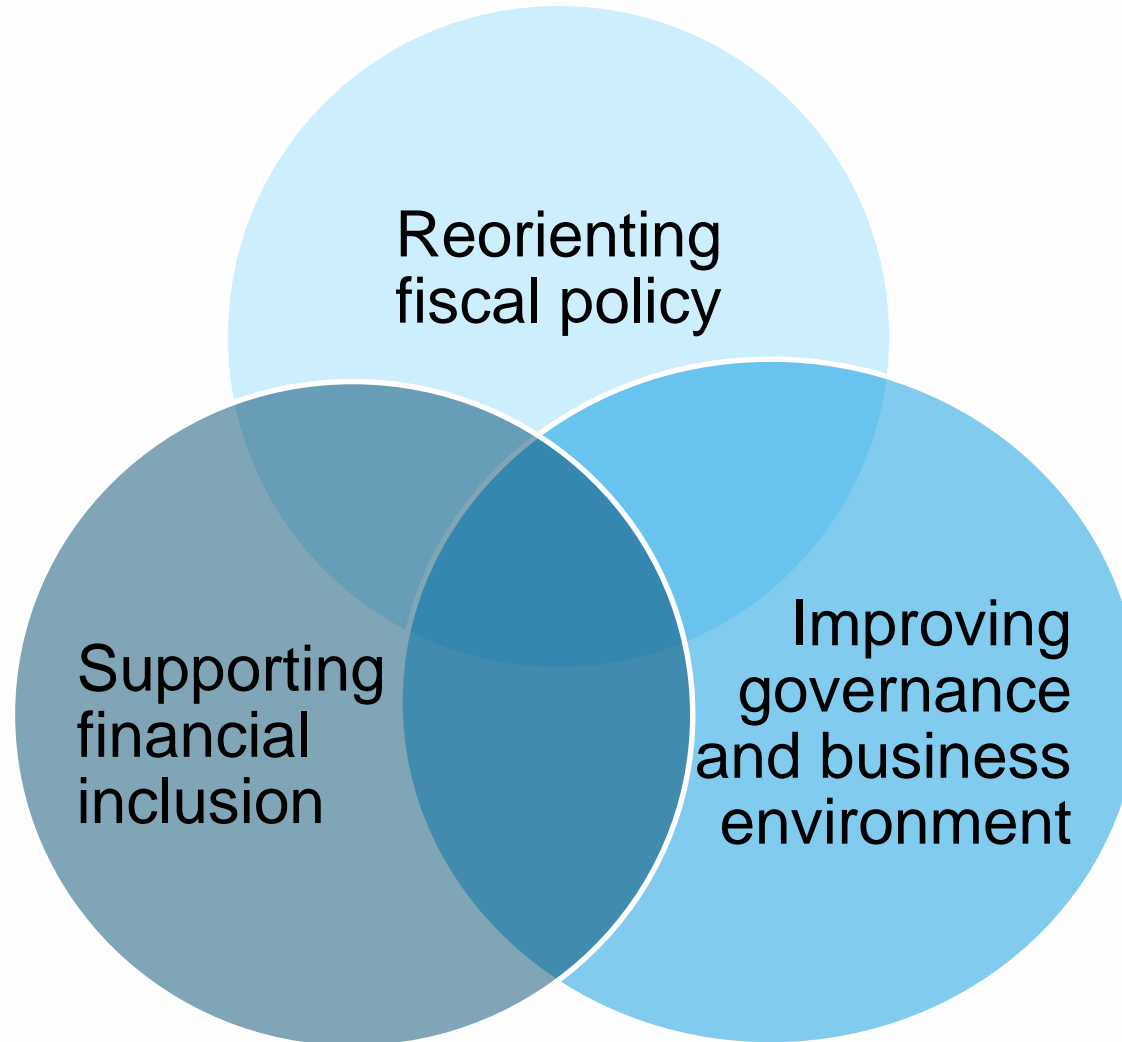
Growth has not been job rich, nor provided equal opportunity.



Sources: International Labor Organization, and IMF staff calculations.
 Note: CCA OE = CCA Oil Exporter, CCA OI = CCA Oil Importer .

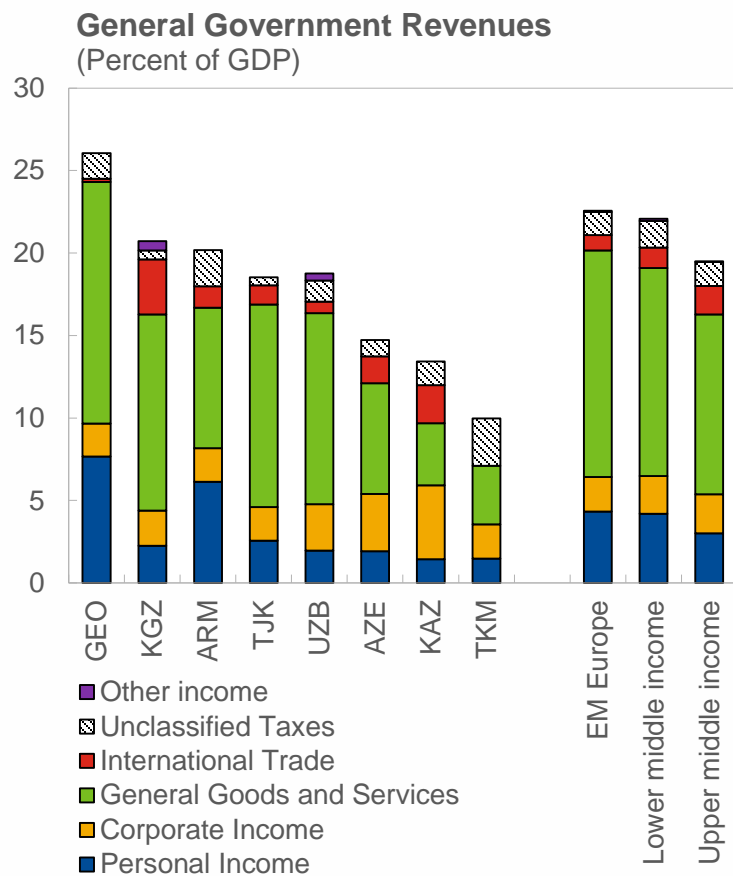
Policies to Promote Inclusive Growth in the CCA

Multifaceted Approach



I. Reorienting Fiscal Policy: Mobilizing Revenues

Increasing revenues



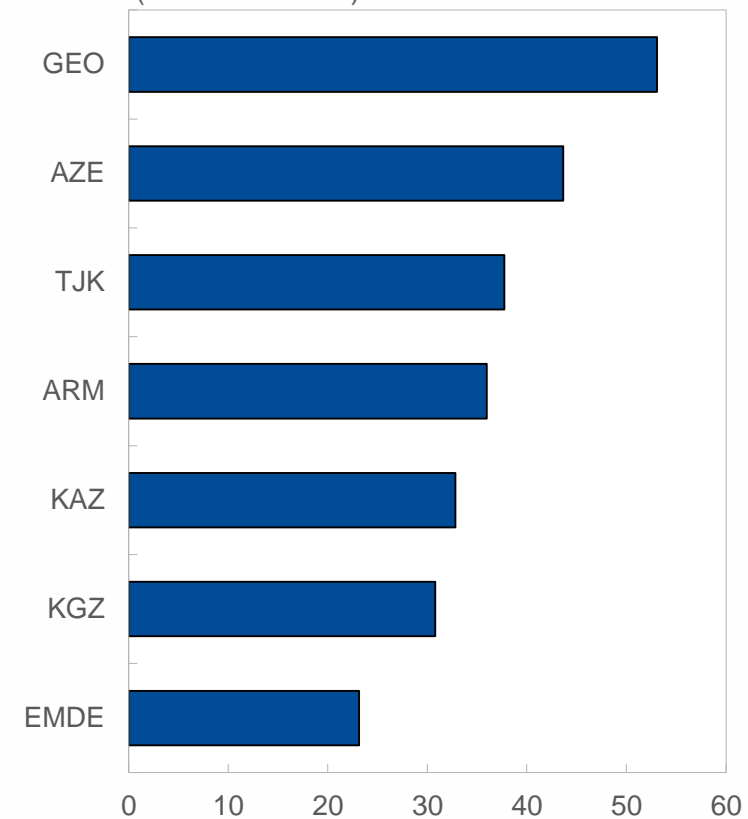
Improving tax efficiency

CIT and VAT Rates, Productivity, Efficiency and Thresholds

	CIT Productivity	VAT C-Efficiency	VAT Productivity
Latest Available (Scale of 0-1, where 1 is best)			
ARM	0.13	0.47	0.38
AZE	0.20	0.58	0.36
GEO	0.21	0.73	0.54
KAZ	0.21	0.42	0.27
KGZ	0.20	0.74	0.71
TJK	0.10	-	-
TKM	-	-	-
UZB	0.73	0.72	0.30
EMDE	0.15	0.61	0.44

Broadening tax base

Size of the Shadow Economy, 2015 ^{1/} (Percent of GDP)



Sources: IMF FAD Revenue Analysis Tool, IMF FADTP Rates Database, IMF 2018f WP/18/17, and IMF staff calculations.

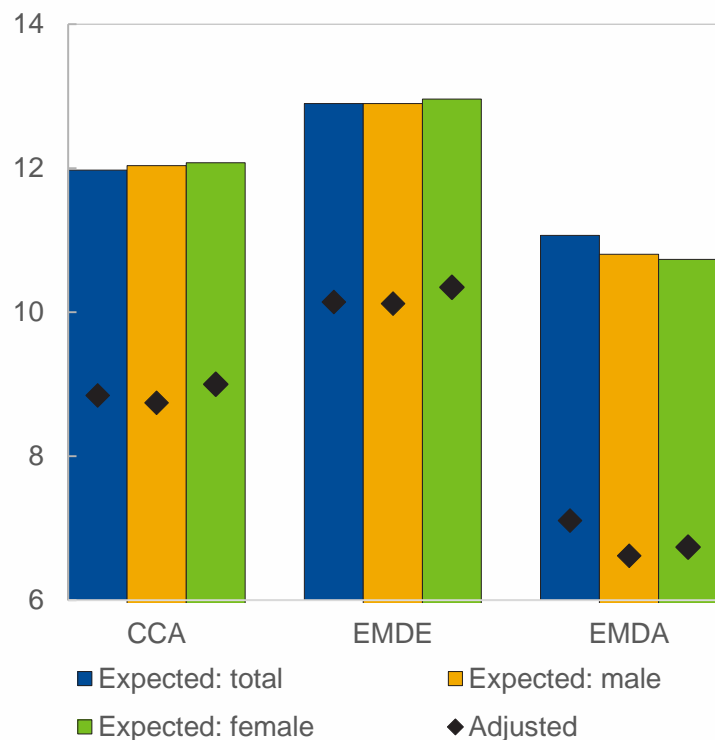
Note: EMDE = Emerging and Developing Europe.

^{1/} Size of the economy estimated using the MIMIC approach, for more information on the methodology please see IMF 2018f WP/18/17.

I. Reorienting Fiscal Policy: Prioritizing Spending

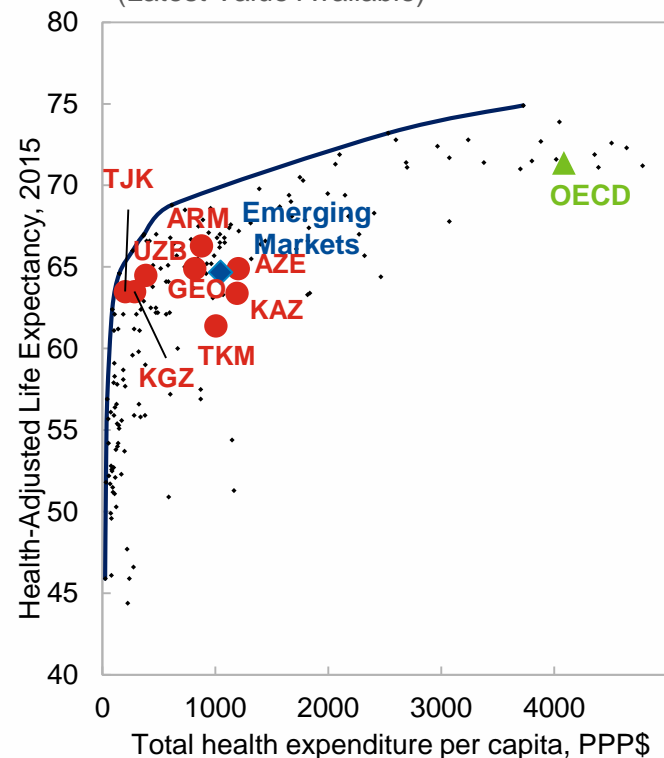
Education

Expected and Learning-Adjusted Years of Schooling, 2018 ^{1/}



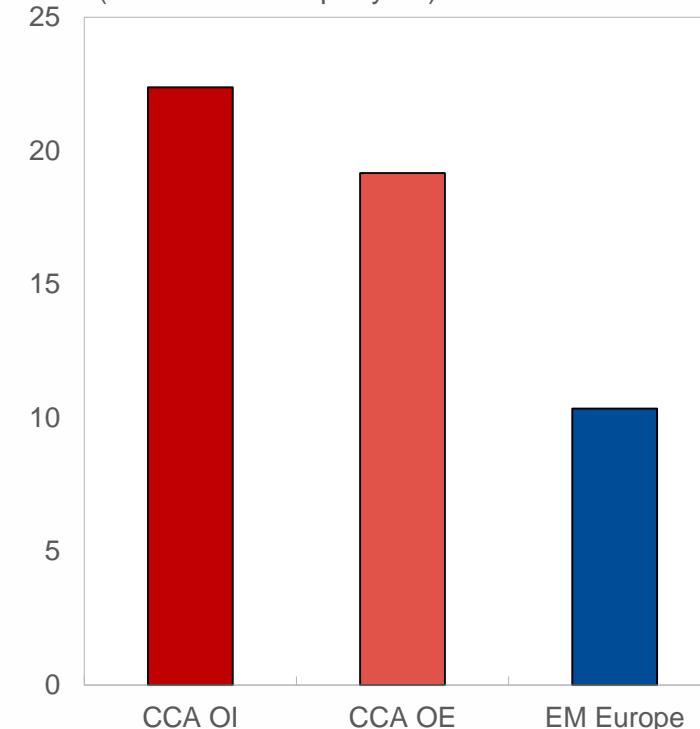
Health

Health Efficiency Frontier (Latest Value Available)



Investment needs

Total Investment Needs, 2018-22 (Percent of GDP per year)

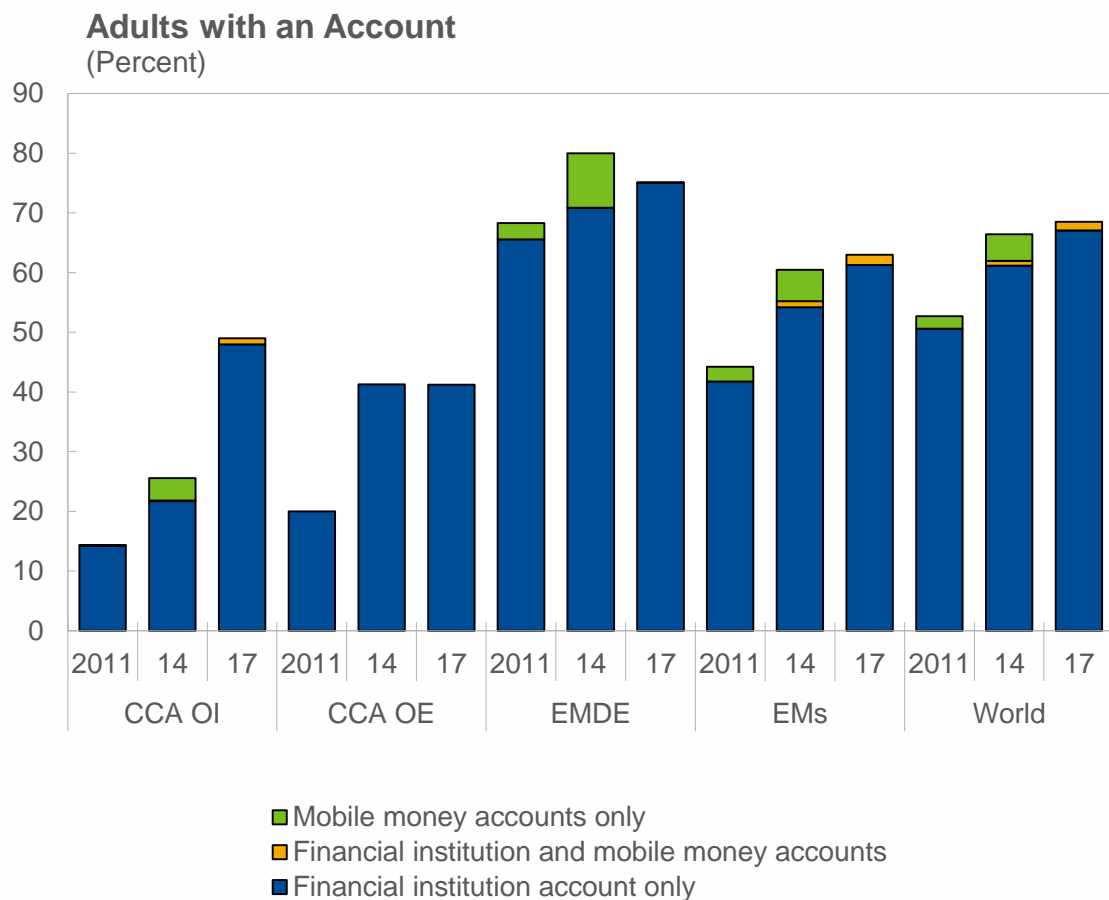


Sources: World Bank Human Capital Index, IMF FAD EAT Database, EBRD and IMF staff calculations.

Note: EMDE = Emerging and Developing Europe, EMDA = Emerging and Developing Asia.

^{1/} The learning-adjusted years of schooling attempts to capture quality of education, reflecting that children in some countries learn less than others, despite being in school for the same time. It multiplies estimated years of schooling by the ratio of most recent harmonized test scores on the TIMSS. TKM and UZB not included in CCA averages due to data availability. AZE not included in CCA average breakdown by gender.

II. Supporting Financial Inclusion: Households



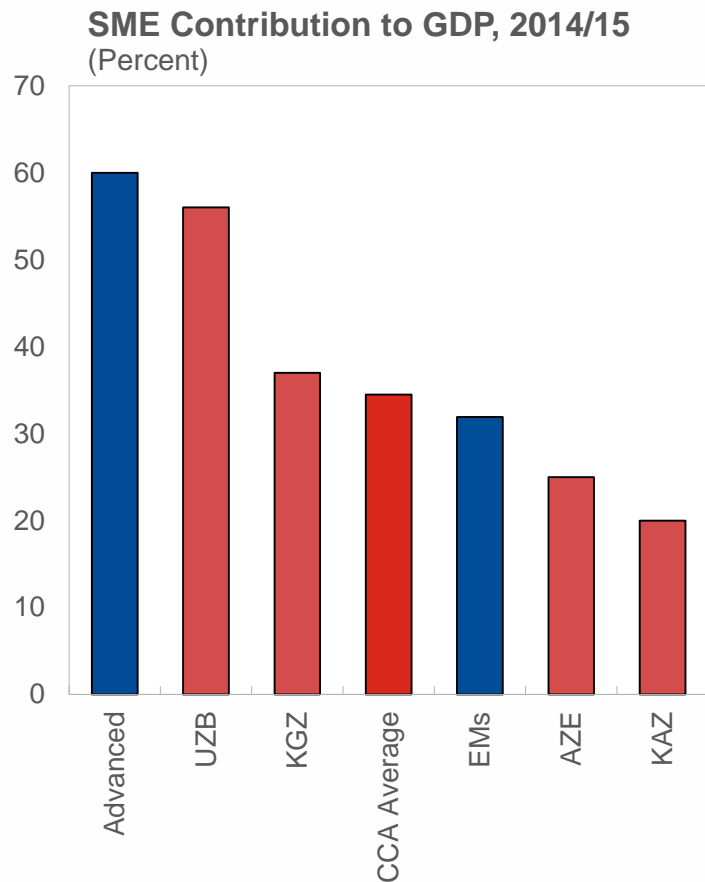
- Only 45 percent of adults in CCA have access to finance.
- 3% in mobile accounts despite elevated mobile phone ownership (71-92% range).
- The gender gap (1/2 EMs) has doubled since 2014.
- 1/3 among poor have an account; about 1/2 in the richest 60 percent households.
- Vague credit history, large interest rate spreads, high collateral requirements

Source: Global Findex Database 2017, and IMF staff calculations.

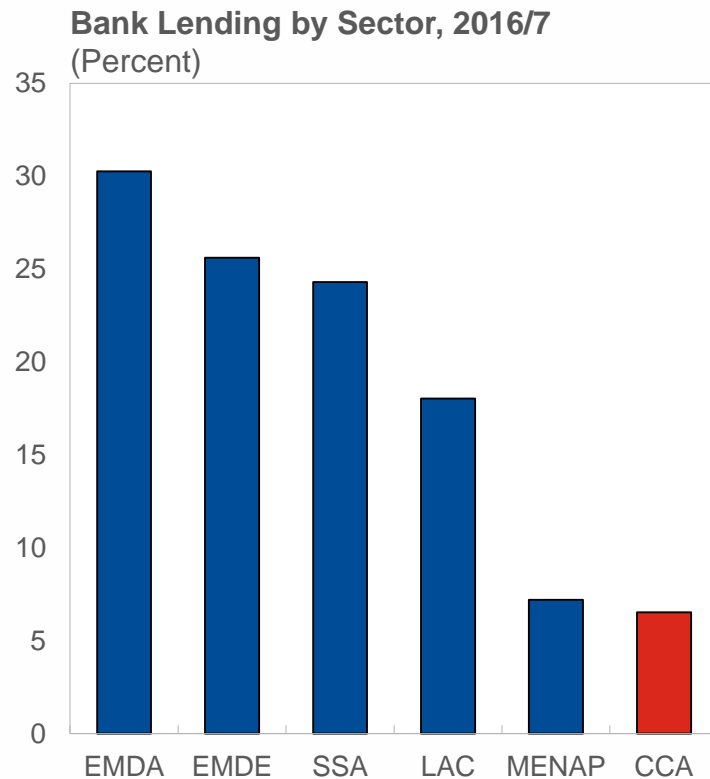
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II. Supporting Financial Inclusion: Small and medium firms contribute to growth but face financing constraints

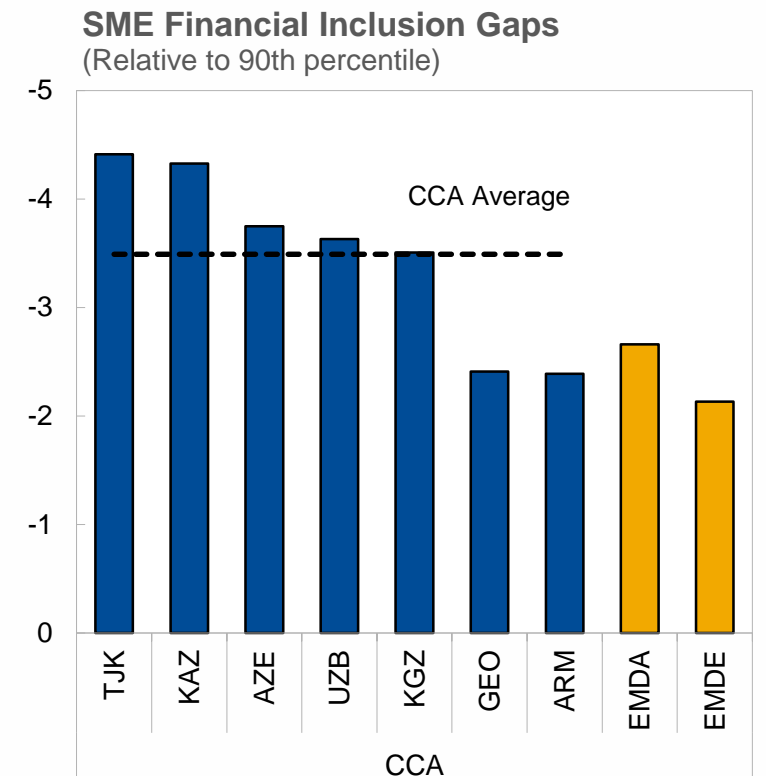
SME contribution to growth



...is constrained by financing...



...relatively more than other regions



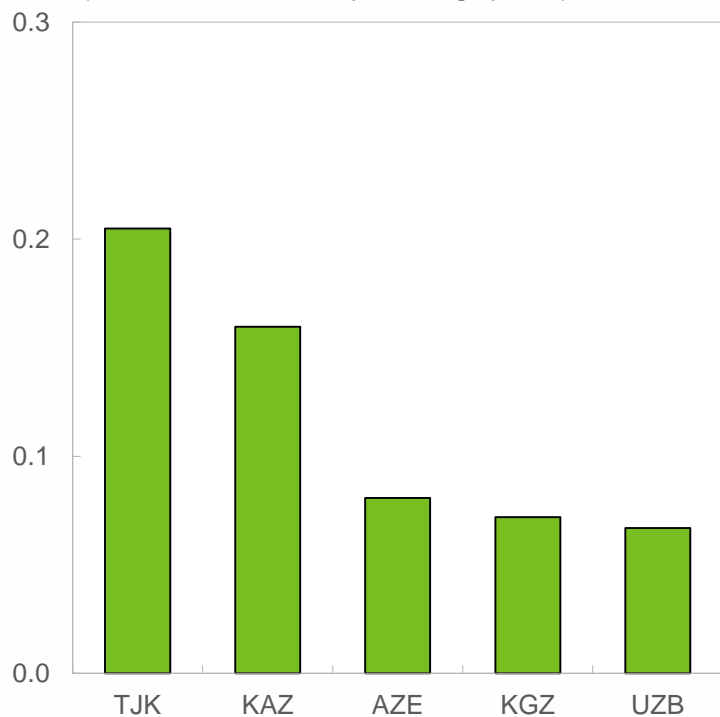
Source: Global Findex Database 2017, and IMF staff calculations.

Note: EMs = Emerging Markets. EMDE = Emerging and Developing Europe. EMDA = Emerging and Developing Asia. LAC = Latin America and the Caribbean. SSA = Sub Saharan Africa. MENAP = Middle East, North Africa, Pakistan and Afghanistan.

II. Supporting Financial Inclusion: Benefits from SME financial inclusion

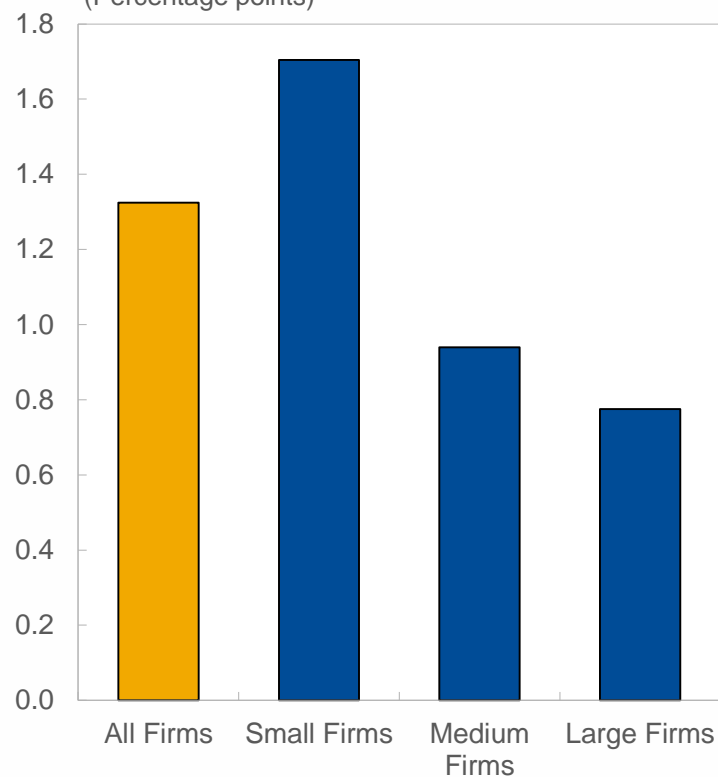
Macro-Level Analysis

Growth Benefits of Closing the SME Financial Inclusion Gaps to Global Median
(Increase in real GDP, percentage points)

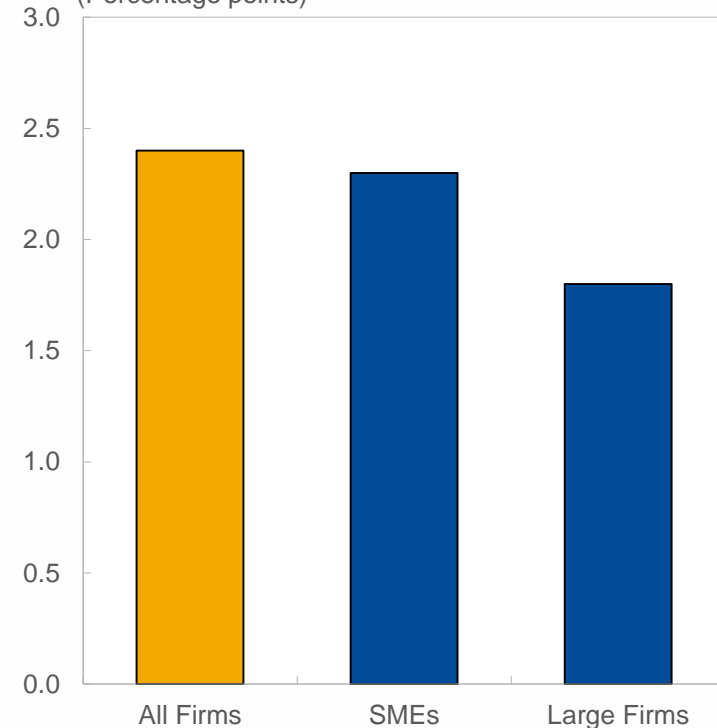


Firm-Level Analysis

Employment Growth Gains from Access to Formal Finance 1/
(Percentage points)



Labor Productivity Growth Gains from Access to Formal Finance 1/
(Percentage points)

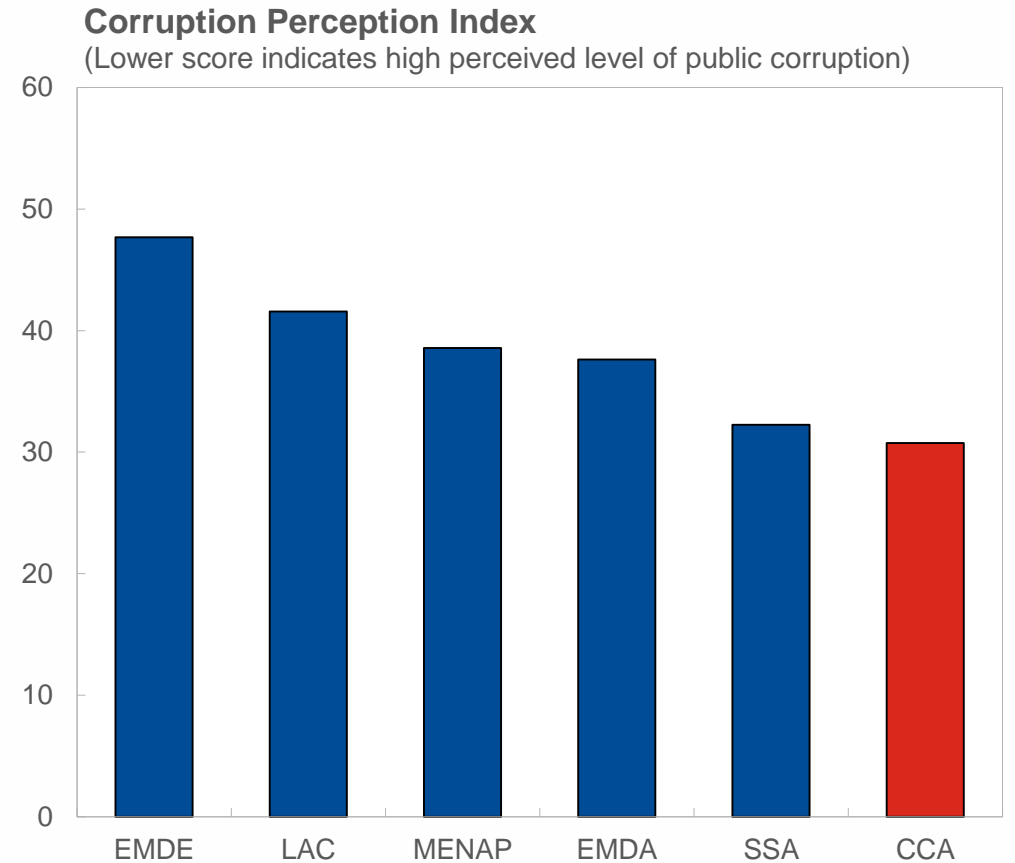
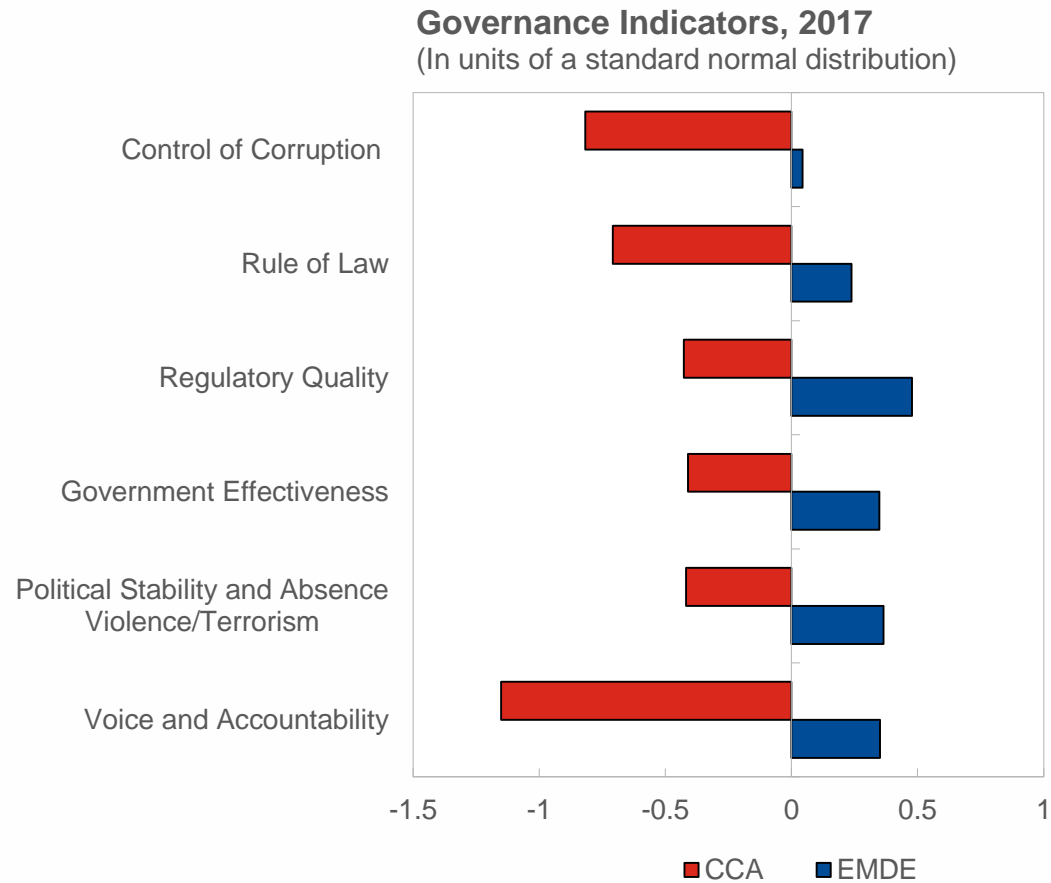


Source: Haver, World Bank Enterprise Surveys, and IMF staff calculations.
1/ Details on the estimates can be found in Annex 5 of IMF Departmental Paper 19/02.

III. Improving Governance

CCA is lagging compared to peers...

...and needs to tackle corruption.



Source: Transparency International, Worldwide Governance Indicators, and IMF staff calculations.

Note: EMDE = Emerging and Developing Europe. EMDA = Emerging and Developing Asia. LAC = Latin America and the Caribbean. SSA = Sub Saharan Africa. MENAP = Middle East, North Africa, Pakistan and Afghanistan.

Thank you!