Promoting Inclusive Growth in the Caucasus and Central Asia

JUNE 2019
Inclusive Growth

- Robust and broad-based growth across sectors
- Equal opportunities in access to markets access
- Protecting the vulnerable
- Productive employment across the labor

Concerted efforts

Shared responsibility
Progress on Promoting Inclusive Growth in the CCA
Some progress with inclusive growth….

Some income convergence

- Reduced poverty
  - Headcount Poverty Rate
    - Consumption below US$ 3.2 a day, percent of population
  - Gini Coefficient
    - Gini coefficient of zero expresses perfect equality

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**

CCA Real GDP Growth 1/ (Percent Change)

- **2000-08** Average 10.1%
- **2009-14** Average 5.7%
- **2015-24** Average 4.1%

**Low productivity growth**

Growth Decomposition (Average percent)

- **CCA OI**
- **CCA OE**

- **Capital**
- **Labor**
- **TFP**

**High economic concentration**

Share of Top 3 Industries in Value Added (Percent of total)

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

- Reorienting fiscal policy
- Improving governance and business environment
- Supporting financial inclusion
I. Reorienting Fiscal Policy: Mobilizing Revenues

Increasing revenues

Improving tax efficiency

<table>
<thead>
<tr>
<th>CIT and VAT Rates, Productivity, Efficiency and Thresholds</th>
<th>CIT Productivity</th>
<th>VAT C-Efficiency</th>
<th>VAT Productivity</th>
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</tbody>
</table>

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

- **CCA**
  - Expected: total
  - Expected: male
  - Expected: female
  - Adjusted
- **EMDE**
- **EMDA**

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.

**Health**

Health Efficiency Frontier (Latest Value Available)

Total health expenditure per capita, PPP$

**Investment needs**

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

Note: EMs = Emerging Markets excluding Emerging Europe. EMDE = Emerging and Developing Europe. CCA OE = CCA Oil Exporter. CCA OI = CCA Oil Importer.
II. Supporting Financial Inclusion: Small and medium firms contribute to growth but face financing constraints

SME contribution to growth

SME Contribution to GDP, 2014/15 (Percent)

...is constrained by financing...

Bank Lending by Sector, 2016/7 (Percent)

...relatively more than other regions

SME Financial Inclusion Gaps (Relative to 90th percentile)

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)

[Bar chart showing growth benefits for TJK, KAZ, AZE, KGZ, UZB]

Firm-Level Analysis

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

[Bar chart showing employment growth gains for all firms, small firms, medium firms, large firms]

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

[Bar chart showing labor productivity growth gains for all firms, SMEs, large firms]

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.

Governance Indicators, 2017
(In units of a standard normal distribution)


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Thank you!