

# Caucasus Business Forecast Report Q4 2013

<https://marketpublishers.com/r/C0D06FC5E38EN.html>

Date: September 2013

Pages: 53

Price: US\$ 1,195.00 (Single User License)

ID: C0D06FC5E38EN

## Abstracts

### Core Views

The Armenian government remains caught in two minds over its decision on how foreign and economic policy will be oriented in the future. The government is set to sign a Deep and Comprehensive Free Trade Area agreement with the EU in November, taking the country another step towards EU accession. However, Armenia relies on Russian demand for its exports, as well as remittances from the Armenian diaspora in Russia to sustain domestic demand, and Russian gas via Gazprom's subsidiary ArmRusGazprom. Therefore, in the short to medium term it will not be able to alter its economic focus enough to remove itself from Moscow's sphere of influence.

The selection of the Trans-Adriatic pipeline (TAP) for the export of gas from the Shah Deniz II field in the Caspian Sea is set to provide a significant boost to Azerbaijan's GDP growth prospects in the long term. The pipeline will provide a link from Turkey's Western border, via Greece and Albania, to Italy and the markets of Western Europe beyond. Construction is due to begin in 2015 and scheduled for completion in 2018. We do not anticipate any rebalancing of the Azerbaijani economy away from hydrocarbon exports during our forecast period.

In the run up to, and likely in the aftermath of, Georgia's presidential election, we believe that political bickering between the governing Georgian Dream coalition and President Mikheil Saakashvili's United National Movement will prove a deterrent to fixed investment and will lead to a slowdown in economic activity. The poll is scheduled for October 27, and we believe that Georgian Dream candidate Giorgi Margvelashvili will emerge as the victor. Following the vote Prime Minister Bidzina Ivanishvili is set to step down from his post, although no successor has been named at the time of writing.

### Major Forecast Changes

We have revised down our forecast for Georgian real GDP growth in 2013 and 2014, from 4.8% and 5.4% to 2.7% and 4.4% respectively. The downward revision has come of the back of real GDP growth slowing to 2.8% y-o-y in Q113, and flash estimates of growth slowing further in Q213, to 1.3% y-o-y. Political strife has weighed heavily on fixed investment, and deflation continues to hamper growth prospects.

As a result of the improving industrial picture in Azerbaijan we have revised up our end-2013 real GDP growth forecast, from 3.6% to 4.4%. We refrain from raising the forecast further, with our Oil & Gas team forecasting global oil prices to moderate in H213. This will mean that despite net exports remaining positive, the lower price garnered for oil will impede a faster rate of real GDP growth.

### **Key Risks To Outlook**

Azerbaijan is reliant on the construction of the Trans-Anatolian pipeline (TANAP) to enable its gas to reach the future TAP pipeline, and Western Europe beyond. The tender for TANAP's construction was announced on August 6, however, should interest not prove sufficient or if the plans for the pipeline break down, it would lead to a substantial downgrade to our macroeconomic forecasts for the country.

The government of Prime Minister Bidzina Ivanishvili has made a habit of arresting former state officials from the opposition United National Movement party. The most senior among these was former Prime Minister Ivane Merabishvili in May on charges of corruption. There is the risk that following the presidential election in October current President Mikheil Saakashvili, who is constitutionally barred from standing again, could faces charges. This would lead so a severe escalation in political tensions within the country and could lead to an uptick in violence between the supporters of the respective parties.

## Contents

BMI Ratings

Core Views

Major Forecast Changes

Key Risks To Outlook

### **CHAPTER 1.1: POLITICAL OUTLOOK – ARMENIA**

Domestic Politics

Government Under Pressure On All Fronts

Armenia's government will have to confront a number of obstacles in the coming months, with an 18% hike in consumer gas prices likely to increase political tensions as well as rile the impoverished Armenian public. In addition, deeper integration with the EU may progress at a slower pace, with Russo-Armenian military ties remaining strong in light of increasingly belligerent Azeri rhetoric.

Long-Term Political Outlook

Mitigation Of Regional Tensions Key To Stability

Armenia will continue to have difficult relations with neighbours Turkey and Azerbaijan through the medium term, as a result of sensitive historical grievances and strong domestic pressure groups on both sides. Nagorno-Karabakh will remain a particular potential flashpoint given the high profile of the region and ongoing talks, which are set to test commitment to peace in both Yerevan and Baku. The heavy troop presence on both sides of the border will remain a key risk. That said, the willingness of regional heavyweights Russia and Turkey to support the ongoing peace process means that a 'hot war' is not inevitable.

### **CHAPTER 1.2: ECONOMIC OUTLOOK – ARMENIA**

Fiscal Policy

Rising GDP Poses Inflationary Risk

Armenia's economy is set to post moderate real GDP growth of 4.5% in 2013, revised upward from 4.0% previously, on the back of resilient private consumption figures and an increase in government expenditure as a result of increasing revenues from VAT and import duties. However, given the 18% hike in gas prices implemented by Gazprom, we expect consumption to slow in 2014, impacting real GDP growth, and we are forecasting a 3.9% expansion.

TABLE: ARMENIA – ECONOMIC ACTIVITY

## **CHAPTER 1.3: 10-YEAR FORECAST – ARMENIA**

### The Armenian Economy To 2022

#### Convergence To Continue

Our relatively positive medium-term view on the Armenian economy continues through our long-term forecast to 2022. We believe the government's desire to push ahead with economic and business reforms will leave the ground well prepared for economic growth to average 5.0% between 2017 and 2022. Nevertheless, we caution that political tensions with neighbouring Azerbaijan and Turkey are expected to remain a key risk to the country's economic outlook over the next 10 years.

TABLE: ARMENIA LONG-TERM MACROECONOMIC FORECASTS

## **CHAPTER 2.1: POLITICAL OUTLOOK – AZERBAIJAN**

### Domestic Politics

#### Opposition Unites In Effort To Challenge President

Azerbaijan's various opposition parties have united in support of National Council of Democratic Forces chairman Rustam Ibragimbekov, nominating him as their candidate for the October presidential election. However, we still expect incumbent President Ilham Aliyev to claim an overwhelming victory, in an electoral system which is often criticised for its lack of competition and opaque nature.

TABLE: AZERBAIJAN: POLITICAL OVERVIEW

#### Long-Term Political Outlook

#### Everything Hinges On Nagorno-Karabakh

Attempts to win back the Nagorno-Karabakh enclave will remain the defining issue of Azerbaijani foreign and domestic policy through the medium term. No quick resolution is likely and, therefore, heightened tensions with Armenia have the potential to result in further small-scale armed clashes, with escalation not ruled out. This will continue to weigh heavily on Azerbaijan's long-term risk profile, which will deter investment despite progress on other fronts.

## **CHAPTER 2.2: ECONOMIC OUTLOOK – AZERBAIJAN**

### Monetary Policy

#### Election Spending To Boost Growth

TABLE: AZERBAIJAN ECONOMIC ACTIVITY

## **CHAPTER 2.3: 10-YEAR FORECAST – AZERBAIJAN**

The Azerbaijani Economy To 2022

Trend Growth Bolstered During 2017-2022

TABLE: AZERBAIJAN LONG-TERM MACROECONOMIC FORECASTS

## **CHAPTER 2.4: BUSINESS ENVIRONMENT – AZERBAIJAN**

Business Environment Outlook

Introduction

Institutions

azerbaijan Q4 2013

TABLE: BMI BUSINESS AND OPERATION RISK RATINGS

Infrastructure

TABLE: BMI LEGAL FRAMEWORK RATING

TABLE: LABOUR FORCE QUALITY

Market Orientation

TABLE: EMERGING EUROPE – ANNUAL FDI INFLOWS

TABLE: TRADE AND INVESTMENT RATINGS

Operational Risk

## **CHAPTER 3.1: POLITICAL OUTLOOK – GEORGIA**

Domestic Politics

Inter-Party Tensions Increase Ahead Of Election

TABLE: GEORGIA - POLITICAL OVERVIEW

Long-Term Political Outlook

Pro-Western Path To Continue

## **CHAPTER 3.2: ECONOMIC OUTLOOK – GEORGIA**

Balance Of Payments

Political Strife Hinders Growth Prospects

TABLE: GEORGIA – ECONOMIC ACTIVITY

## **CHAPTER 3.3: 10-YEAR FORECAST – GEORGIA**

The Georgian Economy To 2022

Foreign Investment Will Support Growth

TABLE: GEORGIA LONG-TERM MACROECONOMIC FORECASTS

## **CHAPTER 4: BMI GLOBAL ASSUMPTIONS**

Global Outlook

Risks Mounting For Emerging Markets

TABLE: GLOBAL ASSUMPTIONS

TABLE: DEVELOPED STATES, REAL GDP GROWTH, %

TABLE: BMI VERSUS BLOOMBERG CONSENSUS REAL GDP GROWTH  
FORECASTS, %

TABLE: EMERGING MARKETS, REAL GDP GROWTH, %

## I would like to order

Product name: Caucasus Business Forecast Report Q4 2013

Product link: <https://marketpublishers.com/r/C0D06FC5E38EN.html>

Price: US\$ 1,195.00 (Single User License / Electronic Delivery)

If you want to order Corporate License or Hard Copy, please, contact our Customer Service:

[info@marketpublishers.com](mailto:info@marketpublishers.com)

## Payment

To pay by Credit Card (Visa, MasterCard, American Express, PayPal), please, click button on product page <https://marketpublishers.com/r/C0D06FC5E38EN.html>