

# CAREC Economic Outlook

**Stronger Growth, Improving Stability, Increasing Trade**

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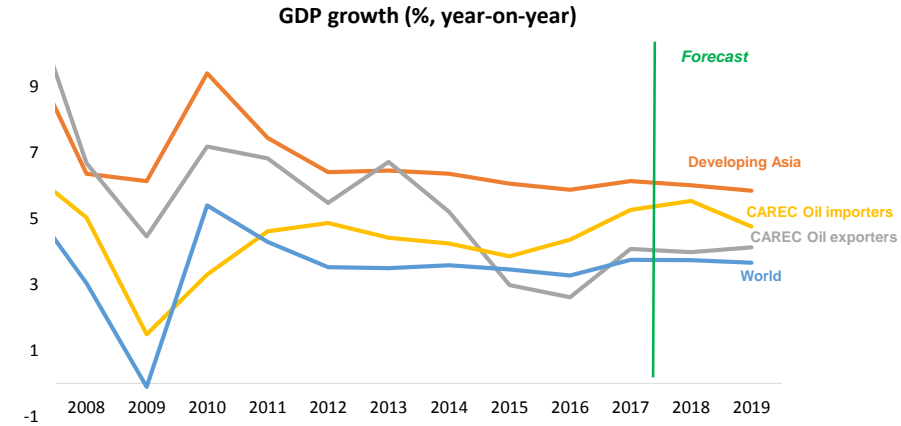
## Key Messages

- **CAREC region's positive outlook is supported by rising oil prices and higher remittances**
  - The CAREC region (excluding PRC) to continue solid growth at 4.8% in 2018 and 4.4% in 2019.
  - Inflationary pressures reduced and current accounts and currencies stabilized in many CAREC economies.
  - But rising oil prices will stoke inflation, and balance of payment pressures will continue in oil exporting economies.
- **CAREC region's trade with the rest of the world (and among themselves) increased**
  - But remains restrained by comparatively high tariffs and non-tariff barriers
  - Structural challenges remain, such as the need to diversify exports, improve the business environment.
- **Risks are to the downside**
  - Any escalation of the trade conflict could disrupt cross-border production links
  - If tightened more than investors expect, US monetary policy could accelerate capital outflow from Asian economies, including CAREC countries
  - Unsustainable debt buildups can weigh on the real economy



## Economic Outlook

Higher oil prices and remittances improve CAREC outlook

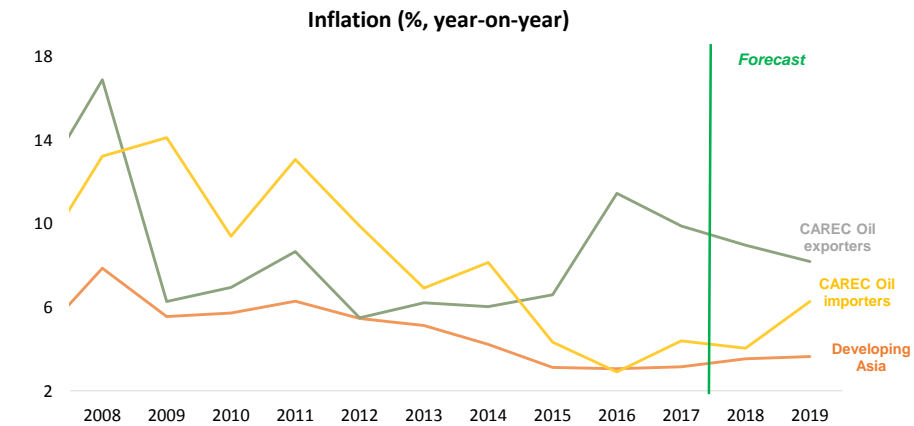


Source: Asian Development Outlook Database and IMF World Economic Outlook October 2018 and author's calculations.



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## Inflation in check despite rising global commodity prices



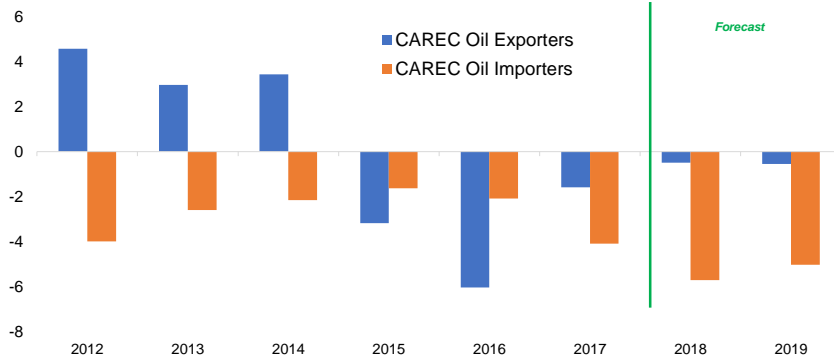
Source: Asian Development Outlook database and author's calculations.



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## External pressures remain in oil importing countries

Current Account Deficits, % of GDP



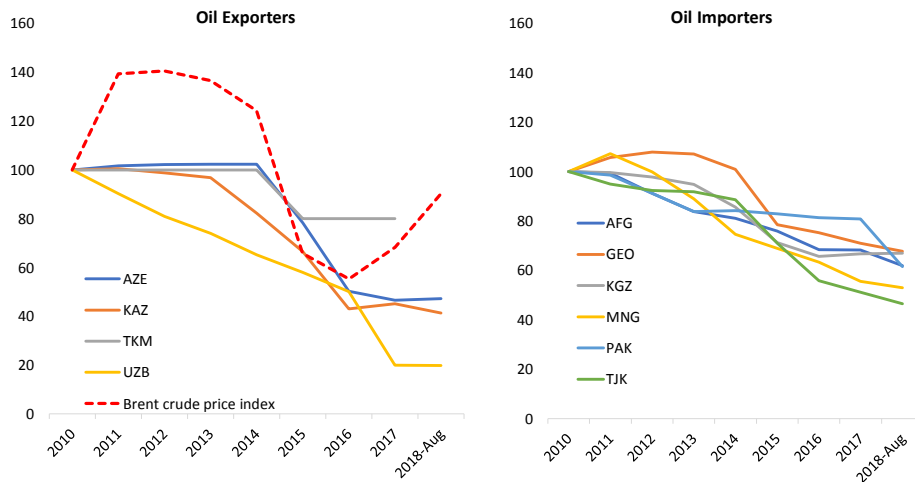
Source: Asian Development Outlook database and author's calculations



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## Exchange rates mostly stabilizing after major adjustments

Nominal Exchange Rates, USD per national currency index, annual average, 2010=100



Source: International Monetary Fund, International Financial Statistics and national central banks and author's calculations

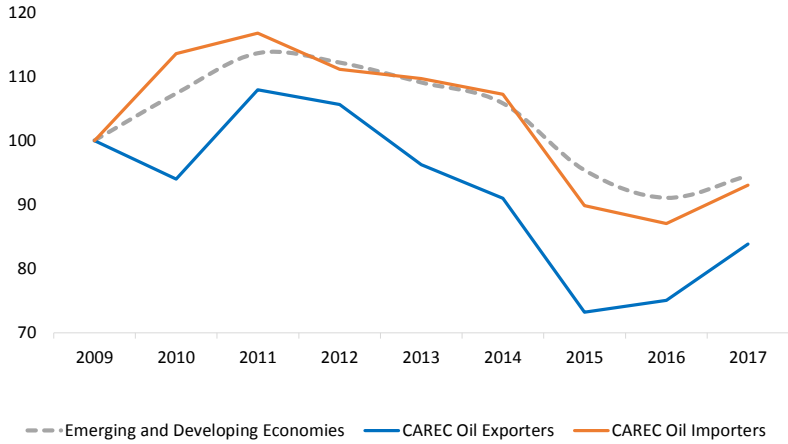
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## Trade prospects

Efforts towards more openness and integration would improve external conditions

### Trade Openness

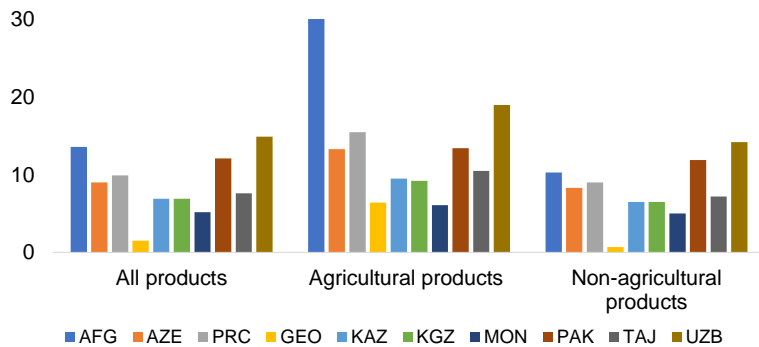
(Index 2009=100 of the sum of exports and imports as a percent of GDP in nominal terms)



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Further tariff liberalization could also contribute to trade expansion in the region

Average 'most favored nation' tariffs in the CAREC countries (2016)



Source: Regional Trade Dynamics and Selected Indicators in the CAREC Region, ADB, January 2018



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## Trading across Borders

Country/Region	Rank out of 189
Europe and Central Asia	54
South Asia	117
Georgia	43
People's Republic of China	58
Kyrgyz Republic	70
Azerbaijan	84
Kazakhstan	102
Mongolia	117
Pakistan	142
Tajikistan	148
Uzbekistan	165
Afghanistan	177

Source: World Bank, Ease of Doing Business Report 2019. Data for Turkmenistan not available.

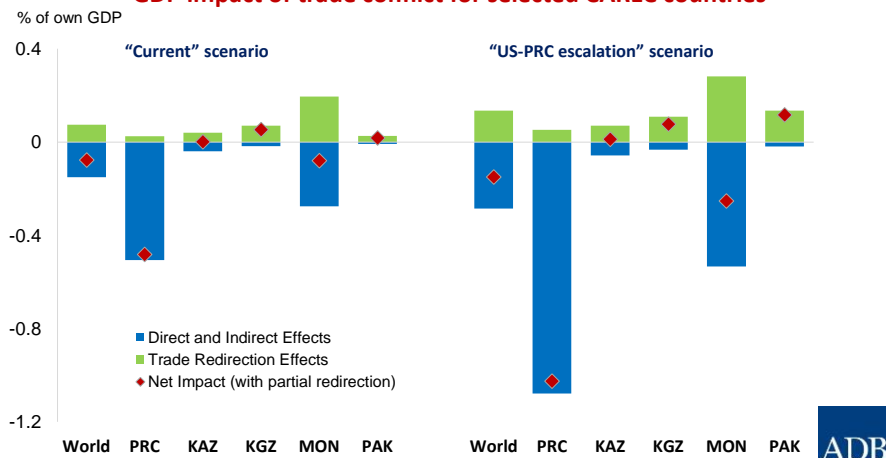


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## Risks

Trade conflict is a main risk to economic outlook but the impact is low for most CAREC countries

### GDP impact of trade conflict for selected CAREC countries



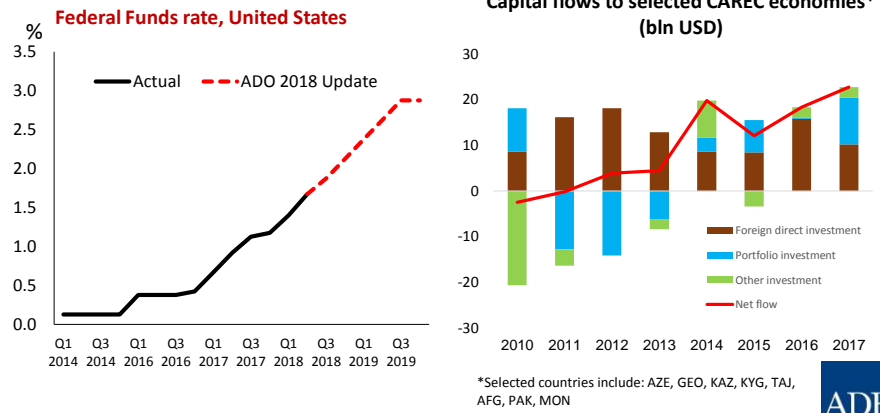
Source: Abiad, A., K. Baris, A. Bernabe, D. Bartuflo, S. Camingue-Romance, P. Feliciano, V. Mercer-Blackman, and J. M. Mariasingham. Forthcoming. The Impact of Trade Conflict on Developing Asia. ADB Economics Working Paper Series. Asian Development Bank



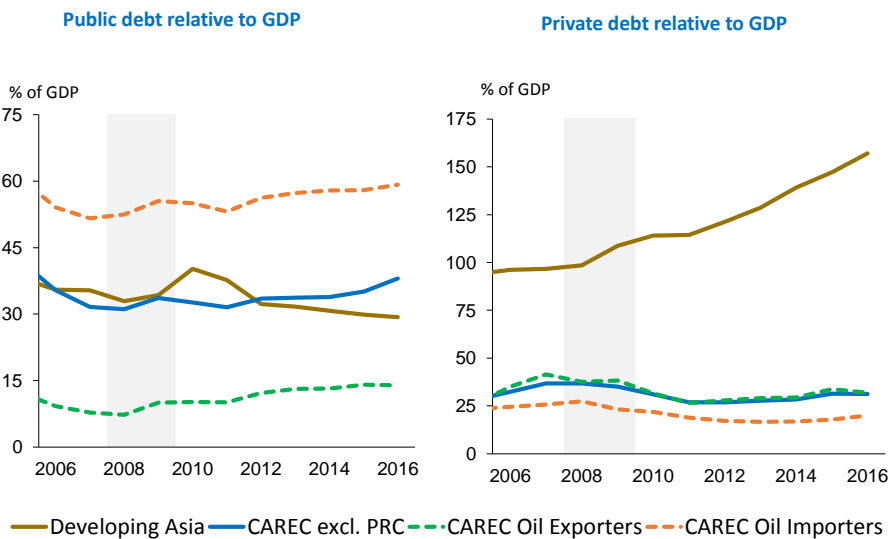
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## Risks of capital shifts induced by interest-rate

- Rising path of US Fed interest rates
- A faster-than-expected increase could affect CAREC countries' capital flows, trigger further appreciation of the USD and exacerbate debt vulnerabilities



## Debt buildups can weigh on real economy



## CAREC 2030's Operational Priorities



**Economic and  
Financial Stability  
Cluster**



**Trade, Tourism, and  
Economic Corridors  
Cluster**



**Infrastructure and  
Economic Connectivity  
Cluster**



**Agriculture and Water  
Cluster**



**Human Development  
Cluster**



**ICT cuts  
across all  
sectors**



## Way Forward for Cooperation on the Economic and Financial Stability Cluster

### Objective

- Promote policy dialogue and regional learning on macroeconomic policy coordination, including forging appropriate countercyclical policy responses at the regional level during periods of economic crisis

### Outputs

- Knowledge events and analytical products
- Policy seminars and regulators' forums
- Institutionalized arrangements for cooperation

### Policy Advice

- Public investment requirements and debt sustainability in CAREC countries
- Policies on inclusive growth, job growth and skills
- Greater economic diversification through a regionally coordinated approach
- Regulatory and tariff reform for energy trade in CAREC

### Audience

- Central Banks, Financial Sector Regulators, Ministries of Finance and Economy etc.

### Main platforms

- Annual seminars, Peer-to-peer learning events and workshops
- Roundtable discussions at the Ministerial Conference on topics of policy significance

