



CAREC Forum

Macroeconomic Policies for Economic and Financial Stability: Lessons from Countercyclical Responses to Economic Crisis

16 May 2018, Astana, Kazakhstan

CONCEPT NOTE

Background

The Central and West Asia region's economies were impacted significantly by the global financial and economic crisis in 2007—2008, followed by an oil price shock in 2014. Economic growth in Central Asia and the Caucasus countries decreased from 12.0% in 2007 to 3.2% in 2009. While recovering from 2010 onwards, with growth rates above 6.0%, the 2014 oil price drop lowered growth to an average of 3.3% between 2015-2017. The crisis not only affected economic growth but also revealed structural weaknesses like low economic diversification, lagging export competitiveness, and unstable banking systems—which undermined the countries' resilience and their capacities to withstand the impact of such crises.

Since 2014, oil-exporting CAREC¹ members have had to cope with reduced revenues from mineral exports—giving rise to higher fiscal deficits, burgeoning external account deficits, and pressure on currencies. Oil-importing countries in the CAREC region, on the other hand, although benefiting from lower oil prices, have had to countenance slower growth in their main trading partners, decreasing remittances, exchange rate fluctuations, and debt sustainability problems.

Countries in the region have pursued various responses to mitigate and overcome the impact of such external shocks. For example, Kazakhstan, to boost growth, is pursuing an ambitious infrastructure investments and reform program since late 2014, funded by an expansionary fiscal policy using resources from the sovereign wealth fund and support from international financial institutions (IFIs). Azerbaijan pursued a similar expansionary fiscal policy after the 2014 oil-price drop, which was supported by substantial transfers to the budget from its sovereign wealth fund to sustain economic growth. However, in 2016 and 2017, this support was cut back, which resulted in negative economic growth in 2017. This year, Azerbaijan intends to expand its budget expenditure again to support the recovery of the economy. Both countries allowed their currencies to depreciate more than 50%, reflecting the deep impact of the oil price drop.

Pakistan, an oil-importing country, benefited from the oil price drop and was able to rein in its current deficit, while experiencing a gradual revival in its growth rates from 4.1% in fiscal year (FY) 2014, to 5.3% in FY2017. However, with imports increasing together with growth, and with

¹ The Central Asia Regional Economic Cooperation (CAREC) Program is a partnership of 11 member countries and development partners working together to promote development through cooperation, leading to accelerated economic growth and poverty reduction. CAREC countries include: Afghanistan, Azerbaijan, the People's Republic of China, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

exports shrinking and remittances stagnant, the external account has subsequently deteriorated and foreign exchange reserves are steeply declining, while exchange rates remained largely stable. Tajikistan, on the other hand, experienced weakening exchange rates following shrinking remittance inflows from its workers in oil-exporting Russia and financed countercyclical expenditure with mounting external public debt.

Oil prices are expected to remain in the range of \$62 in 2018 and 2019.² Albeit higher than 2015-2017, oil-exporters are still adjusting fiscal and monetary policies to oil-prices likely below \$100 per barrel. These countries need to accelerate economic diversification of their economies to reduce dependency on oil exports, while ultimately scaling-back expansionary fiscal policies. Oil-importers in the CAREC also need to diversify and expand their exports and remittances base. Several countries in the region face banking sector vulnerabilities, symbolized by non-performing loans and constrained access to finance, particularly for financing of small- and medium-sized enterprises. In conclusion, although improved, macroeconomic fundamentals of countries in the region will remain under stress and continued vigilance is needed.

The Proposed Forum

Purpose: With support from the Asian Development Bank (ADB), the International Monetary Fund (IMF), and the World Bank, the CAREC Secretariat proposes to organize a forum to discuss lessons learned from external economic shocks and the implementation of countercyclical policies in the region. The purpose of this Forum is to exchange experiences regarding the design and implementation of post-crisis macroeconomic policies and identify successful strategies to mitigate the impact of future economic crisis, protect financial and economic stability, and promote sustained growth going forward.

Topics and Questions: The broad topics for Forum discussion are the countercyclical fiscal and monetary policies practiced in the region; challenges regarding entry and exit of countercyclical policies and expenditure programs and related debt dynamics; monetary and exchange rate policies; and experience of International Financial Institutions (IFIs) on providing countercyclical support to member countries. Key questions for discussions could include:

- *What lessons can be drawn from fiscal and monetary responses to recent external shocks by CAREC member countries and the impact of these responses on growth and economic stability?*
- *Was the support of development partners during the crises helpful and how can its impact and coordination be improved?*
- *How can macroeconomic frameworks in member countries be optimized going forward to make sustained progress on the twin objectives of promoting growth and maintaining macroeconomic stability?*

Participants: The Forum targets senior leaders of the ministries of economy, finance and central banks of CAREC member countries, together with senior IFI officials.

Design: The Forum will include selected country presentations to be led by the respective country delegations. IFIs will have an opportunity to share their experiences. A panel discussion comprising of country delegations and IFIs will be convened to discuss macroeconomic policy options and opportunities for the future.

Date/Venue: The half-day Forum will be conducted in the morning of 16 May, on the day before the Astana Economic Forum on 17—19 May.

Organization: The Forum will be organized by the CAREC Secretariat, supported by ADB, with discussions led by the IMF and contributions from ADB and the World Bank.

² https://www.eia.gov/outlooks/steo/report/global_oil.php [accessed 12 March 2018]