

High level CAREC Forum on Macroeconomic Policies for Economic and Financial Stability: Lessons from Fiscal and Monetary Policy Responses to External Shocks

16 May, 9:00–12:30, Astana Ritz Carlton

Asian Development Bank

Vice President

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Honorable Governors and Deputy Governors of Central Banks, Senior Officials from Ministries of Finance and Economy, Deputy Managing Director of the IMF, distinguished colleagues,

I welcome you to this first high-level Forum of the Central Asia Regional Economic Cooperation Program (CAREC) on Macroeconomic Policies for Economic and Financial Stability. I am very excited that we can now discuss macroeconomic policies under the CAREC program since the adoption of the CAREC 2030 strategy. We hope that the Forum will be a great success and the first of a series of forums we will convene in the CAREC region. Our Forum, of course, coincides with the Astana Economic Forum, which has now become the preeminent annual regional forum of senior officials, business leaders and intellectuals, and in which many of you will take part. The theme of our Forum today, which is focused on economic and financial stability sits well with the city of Astana's ambition to become a world-class financial center and a regional hub of economic activities going forward.

Ladies and gentlemen,

I am proud to be part of this Forum, which brings together decision-makers on fiscal and monetary policies that ensure macroeconomic stability in the respective countries of the CAREC region. I am also happy to see the joint and collaborative efforts of the International Monetary Fund, World Bank, and the Asian Development Bank in organizing this Forum.

CAREC, under its long-term 2030 strategy, has prioritized regional efforts to promote economic and financial stability. Economic and financial stability is first of the five operational clusters the strategy has introduced. This new strategy was endorsed by our Ministers in Dushanbe on 27 October 2017. With this endorsement, CAREC now has the mandate to provide a forum to exchange lessons learned and discuss ideas on macroeconomic policy for growth and stability in the region. I am also pleased that the IMF has agreed to support and lead the implementation of this cluster under the CAREC framework.

Ladies and Gentlemen,

Ten years on, the after-effects of the 2007—2008 global economic and financial crisis are still being felt in the CAREC region. Just as the countries of the region began recovering in the post-crisis period, they were hit again by the plunge in oil prices dropped in 2014. The average economic growth rate in the CAREC region, excluding the People's Republic of China, declined from 8.8% in 2007 to 5.8% in 2008 and to 2.5% in 2009. Growth recovered from 2010 onwards to average around 5% in the region but fell again to 3.4% in 2015 in the aftermath of the oil price shock. The average growth rate of 5% in the CAREC region in 2017 is still way below the 8.8% growth in 2007.

Likewise, trade volume growth rates in the CAREC region have not recovered to the pre-crisis levels; several countries continue to run high fiscal and current account deficits; and there are persistent weaknesses in the financial sector with high ratios of non-performing loans.

We have learned important lessons in macroeconomic management from these crises periods. We have gained experience on the application of monetary, fiscal, and exchange rate measures to counter the effect of economic shocks. This enabled us to support the governments in mitigating the immediate impact of economic recession by facilitating countercyclical expenditures in promoting social infrastructure and generating employment. We have accumulated knowledge on how to set the path to economic recovery—a recovery that is inclusive and leads to more resilience against future shocks. This enabled us to support the governments in initiating or sustaining a structural reform agenda that promoted policy reforms preparing the country to better withstand the future economic shocks.

During my visits to CAREC countries, I have witnessed the different countercyclical approaches adopted by countries in response to the crises. In Kazakhstan, an oil-exporting country, the government has been pursuing an ambitious infrastructure investments and reform program since late 2014, funded by the sovereign wealth fund and supported by international development partners. Azerbaijan has pursued a similar expansionary fiscal policy after the 2014 oil-price drop; however, in 2016 and 2017, this support was cut back, which resulted in recession in 2017. Both Kazakhstan and Azerbaijan allowed their currencies to depreciate more than 50% to correct their economic imbalances.

In contrast, Pakistan, an oil-importing country, benefited from the oil-price drop and was able to rein in its current account deficit, while experiencing a gradual revival in its growth rates from 4.1%

in fiscal year 2014 to 5.3% in 2017. However, with imports increasing together with growth, and with exports and remittances slowing down, the external account has subsequently deteriorated, which is now being partially addressed through exchange rate depreciation. Tajikistan, another oil-importing country, has also experienced weakening exchange rates following shrinking remittance inflows and financed countercyclical expenditure with mounting external public debt.

For its part, ADB has been supporting our developing member countries after the 2008 and 2014 external shocks through countercyclical and policy-based loans, policy advice, and technical assistance. ADB increased its assistance to severely affected countries by 40% in 2009 and a further 11% in 2010. Recognizing the gravity of the economic and financial crises, we approved a Countercyclical Support Facility (CSF) in 2009. In the same year, we approved five CSF loans each in the amount of \$500 million, including for Kazakhstan. And, after the oil price shock, we used the CSF to support Kazakhstan's recovery in 2015 with \$1 billion and supported Azerbaijan in 2016 with \$500 million.

Also, oil-importing countries benefited from ADB's policy-based support. In Pakistan, we teamed-up with the IMF, World Bank, and JICA to improve bottlenecks in the energy sector with ADB and World Bank loans amounting to \$2.2 billion since 2014. In Tajikistan and Kyrgyz Republic, we are supporting improvements to the investment climate and in Georgia we support domestic resource mobilization through policy-based loans.

We have coordinated closely with the IMF on our policy-based support to our developing member countries. We have worked extensively with the World Bank, including on cofinanced budget support for Kazakhstan.

To me, the most important questions to ask are: was our support the most effective and how can we get better?

We have seen that policy-based lending has provided valuable and much needed support that has helped build confidence in member country economy that were faced with large economic shocks. We have learnt that it is important to provide such support in a timely manner and directly after the shock to maximize our development impact. We have observed that a focus on a few well researched and supported reforms increases the chance of successful implementation. And we have found that a focus on public financial management and capital market reforms can have profound impact in addressing the impacts of economic and financial crisis.

Where do we go from here? The CAREC forum provides an opportunity to regularly share knowledge and experience on effective macroeconomic management to strengthen stability and promote growth. We should seize this opportunity and intensify efforts to maximize cross-learning to inform the design and implementation of future economic policies in the region. We could think about institutionalizing policy dialogue among central banks, ministries of finance, and among capital markets regulators in the CAREC countries through regional meetings that can be rotated across countries. Such cooperation dialogue could ultimately evolve into mutually supportive arrangements, like a regional safety net to deal with external shocks. Examples could be possible arrangements on currency swaps and regional contingent financing facilities between central banks and ministries of finance in the region. We can learn a lot from the Chiang Mai Initiative under ASEAN+3 cooperation framework, including China, Japan, Korea in 2000, and its expansion and multilateralization through the Chiang Mai Initiative Multilateralization Agreement in 2009 and the introduction of a Precautionary Line (CMIM-PL) in 2012.

Ladies and Gentlemen,

I think that overall, the CAREC region has navigated well in the post economic and financial crises period. ADB stands ready to continue and expand our support for CAREC member countries to implement macroeconomic management-related reforms, improve resilience, and diversify their economies.

I wish you a successful forum.

Thank you for your attention.