

Statement
by
Mr Andrey Shirokov, the Managing Director
the Eurasian Fund for Stabilization and Development
at
the CAREC Ministerial Conference

December 7, 2020

Honorable Ministers, Dear Colleagues!

Economic environment has drastically changed since the last CAREC Ministerial meeting. The COVID-19 pandemic is testing macroeconomic resilience and capacities of states to react swiftly and effectively to minimize the negative impact of the crisis. In the EFSD region, economies severely suffered from contraction in business activities and trade, travel restrictions and reduction in remittances, and disruptions of global value chains.

The virus was spreading with alarming speed setting tight timelines to deploy protective measures. Apart from direct containment measures the states had to ensure that there are mechanisms in place to protect vulnerable population. According to the ILO, large-scale workplace closures in response to pandemic reduced hours worked by 17,3 % worldwide in 2Q2020 compared to 4Q2019. This translates into the loss of 495 million full-time jobs (calculated on the basis of a 48-hour working week), with lower-middle-income countries the hardest hit. The situation is worse in the economies with large informal sector, which is highly relevant for CAREC region.

The CAREC countries adopted a set of emergency measures that allowed cushioning the impact of pandemic on individuals and firms. In the EFSD member-countries in the CAREC region the fiscal measures included direct support of individuals through cash transfers, postponement of tax and debt payments, as well as support of core sectors including agriculture and SMEs. The central banks temporary eased regulatory requirements, adjusted policy rates, supported the financial sector with needed liquidity, maintained flexible exchange rates, allowing national currencies to depreciate while controlling excessive volatility. The financial regulators also incentivized financial sector to support key economic sectors with postponement of payments on loans and soft restructuring.

These and other measures that accompanied sanitary and healthcare activities allowed cushioning the immediate negative impact of the pandemic. We estimate a strong rebound in global GDP growth of 5,4-percent in 2021 after 4-percent downturn in 2020. However, the COVID-19 disruption will notably shift growth trends down in most countries. If we look at 3-4 years perspective, on average for CAREC countries the outputs still may be 10 percentage points below the level estimated before the pandemic. Thus higher average growth will be needed in the medium term to fully compensate losses to income brought by the pandemic. In addition, the negative immediate and tail effects of the crisis are likely to decrease potential growth in many countries. In the EFSD countries, for example, according to our estimates, the potential annual growth may become lower by 1/2 percentage points on average.

The pandemic has been negatively affecting macroeconomic balances. Fiscal deficits are expected to increase, compared to pre-pandemic stance, with some countries facing a sharp increase close to 10% of GDP.

On the backdrop of weaker growth and wider fiscal deficits, the debt dynamic and sustainability is expected to deteriorate in many countries. We estimate that in the EFSD recipient member-states the debt-to-GDP ratio will go up by 8 percentage points on average.

As a result, many countries will face limited fiscal space to support their economies and the need for comprehensive adjustment in years ahead. We see that the authorities are mindful of debt sustainability and are considering consolidation measures that can be implemented over the medium term.

This year, the EFSD in coordination with IMF and other development partners provided the emergency stabilization financing in the form of budget and balance of payment support. The programs, supported by this financing, included governments' measures to counter the impact of COVID, with monetary and fiscal safeguards ensured as well.

On a development part, we initiated the emergency social grants program that should support health sector projects in low-income countries. These grants will provide countries with new ambulances, mobile laboratories and COVID-19 tests, construction of medical facilities and hospital staff training.

The initial shocks of the pandemic on the economies have somewhat moderated. The EFSD is now starting to discuss with authorities the support that could be provided during the recovery phase beyond 2020.

Digital services for people, socializing services for distance life are high on the agenda now. The pandemic accelerates the process of digitalization. In this regard, diversification efforts will be essential to move the CAREC toward building resilient economies that promote human capital development supported by digital integration.

We are confident that coordination between IFIs and other development partners is not only advantageous but also indispensable to effectively support the member-states. The EFSD - acting as a Regional Financing Arrangement within the Global Financial Safety Net - is working together with other IFIs to cover fiscal needs of its member states and investing in critical infrastructure. In 2021, the recovery period gives us an opportunity to improve collaboration with the IMF and other institutions that provide policy based lending to support strong, sustainable and balanced, and inclusive growth.

The EFSD welcomes CAREC's focus on openness and outreach. We appreciate that CAREC Program has become an important platform and effective framework that promotes cooperation of development partners and the governments on many levels and on numerous topics. We also believe that for the future of CAREC it is important to synchronize its agenda with other regional and global initiatives. For example, CAREC Program could work with Belt and Road Initiative and the Eurasian Economic Union so that governments benefit from convergence of standards and practices, as well as from improved soft and hard connectivity.