CAREC 19th Ministerial Conference

Macroeconomic Prospects for CAREC Countries in the Post-COVID Environment

High-Level Webinar

December 7, 2020

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CAREC

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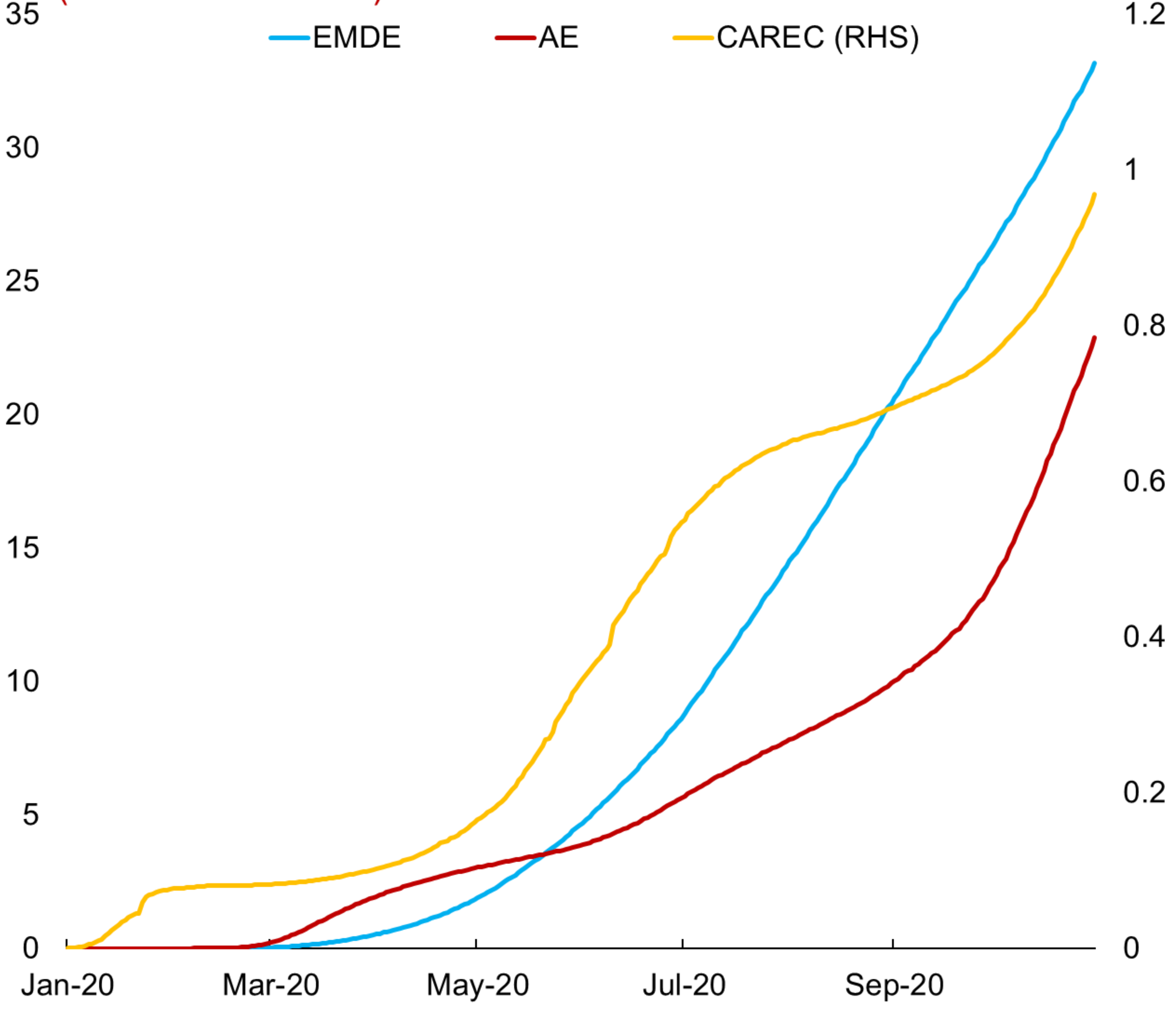
A Shock Like No Other

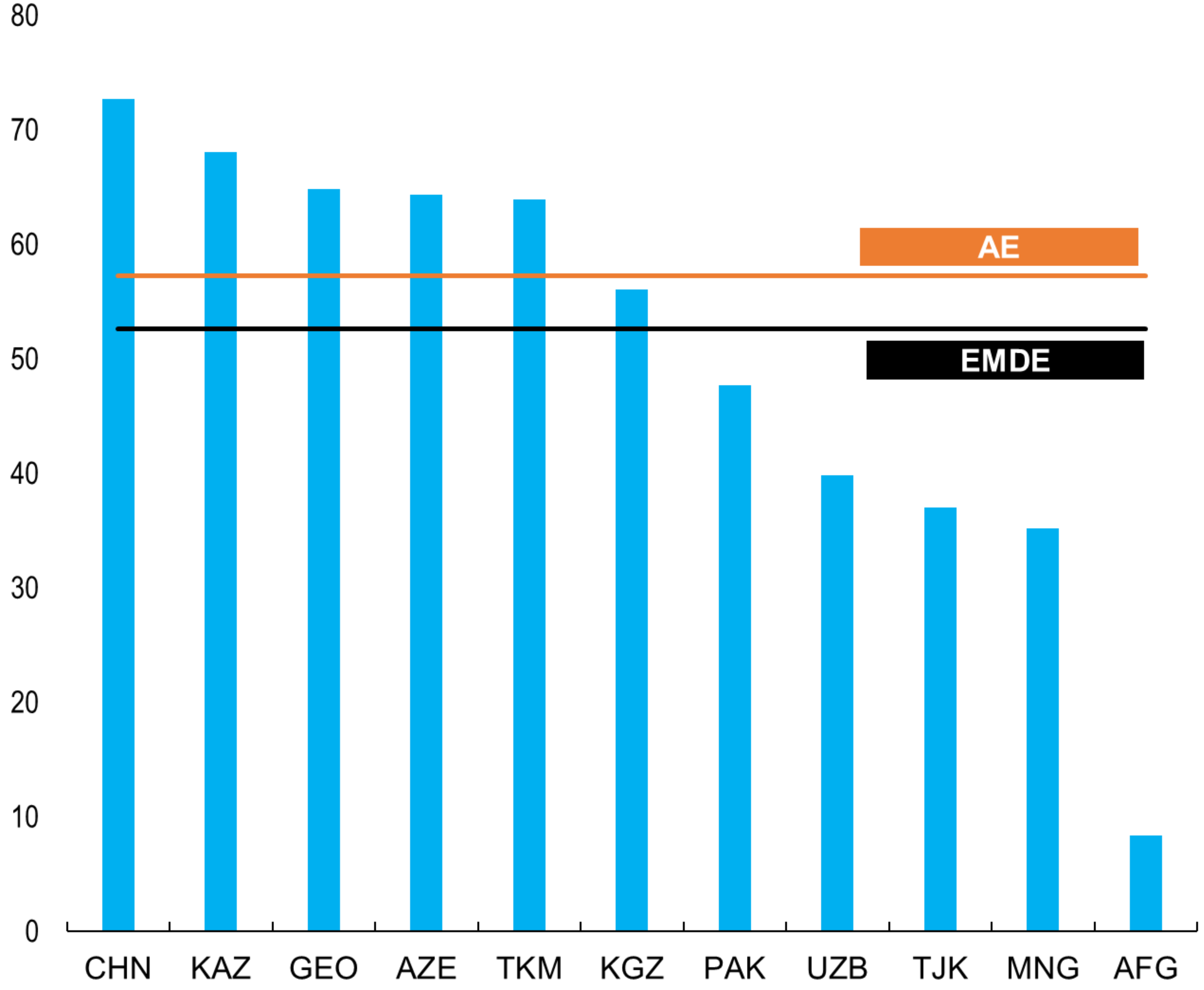
The Worst Global Recession Since the Great Depression

COVID-19 infections prompted lockdowns and social distancing

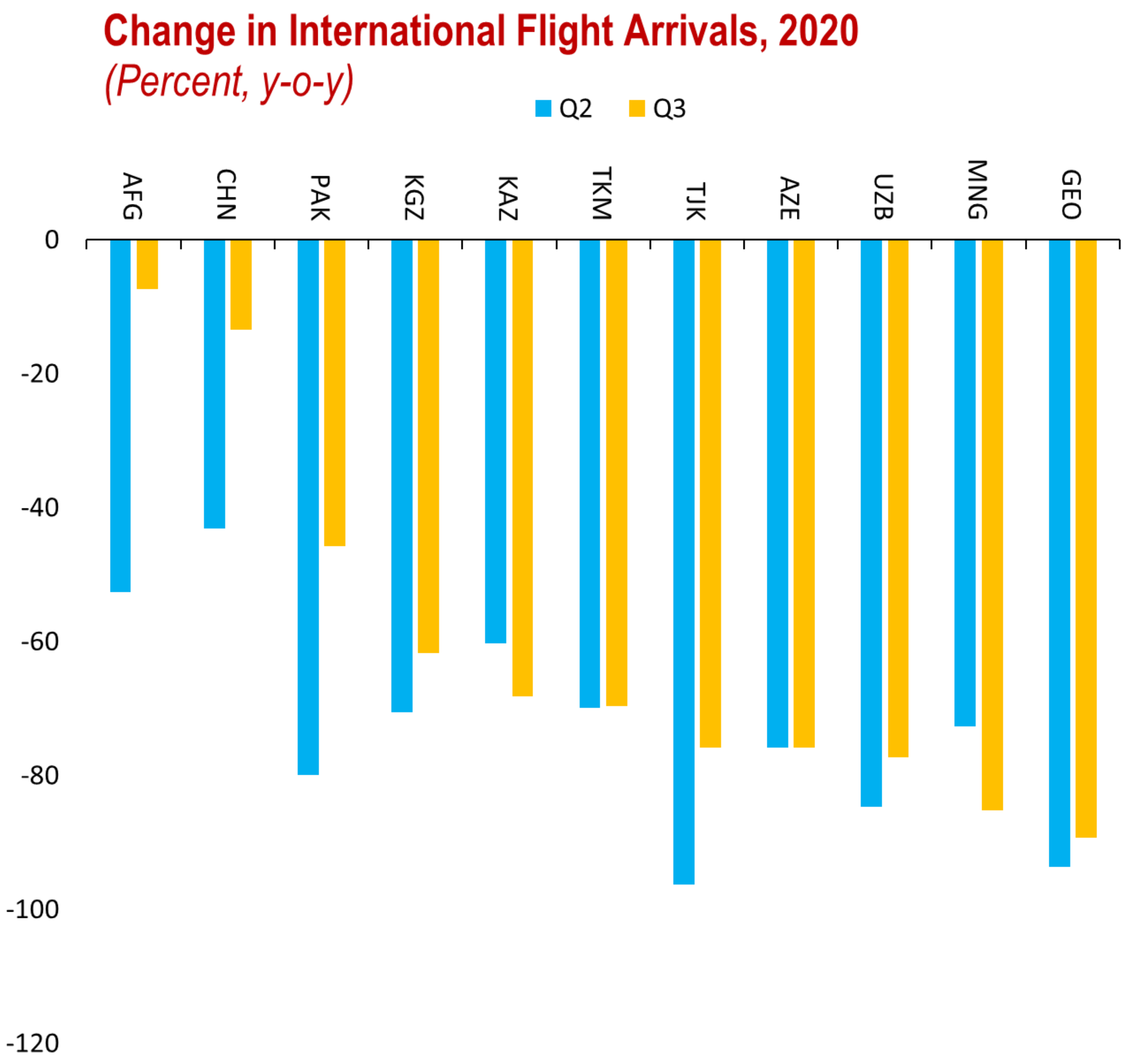
Cumulative COVID-19 Cases
(In million of cases)

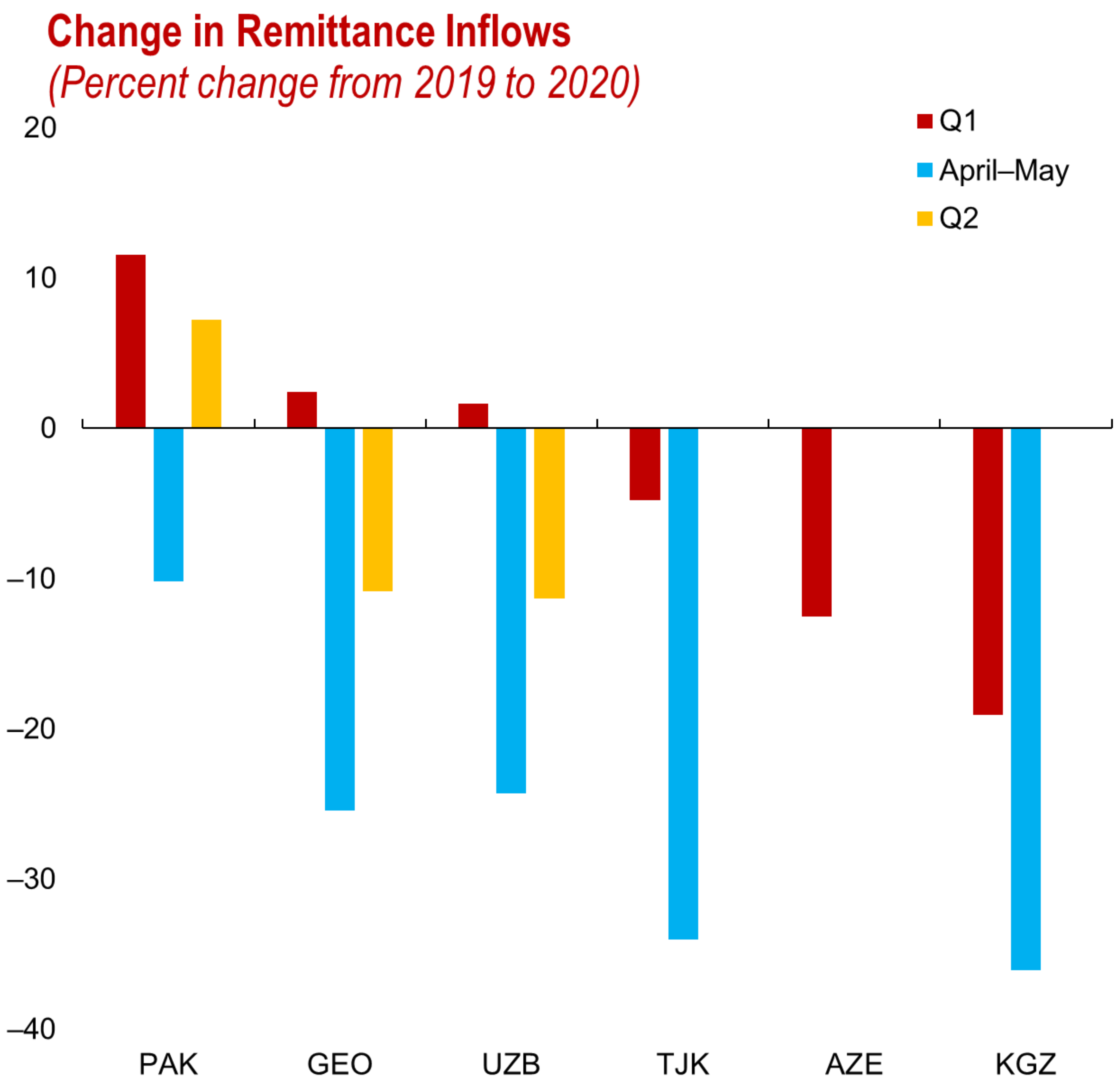


Stringency Index, latest available
(0-100 strictest)



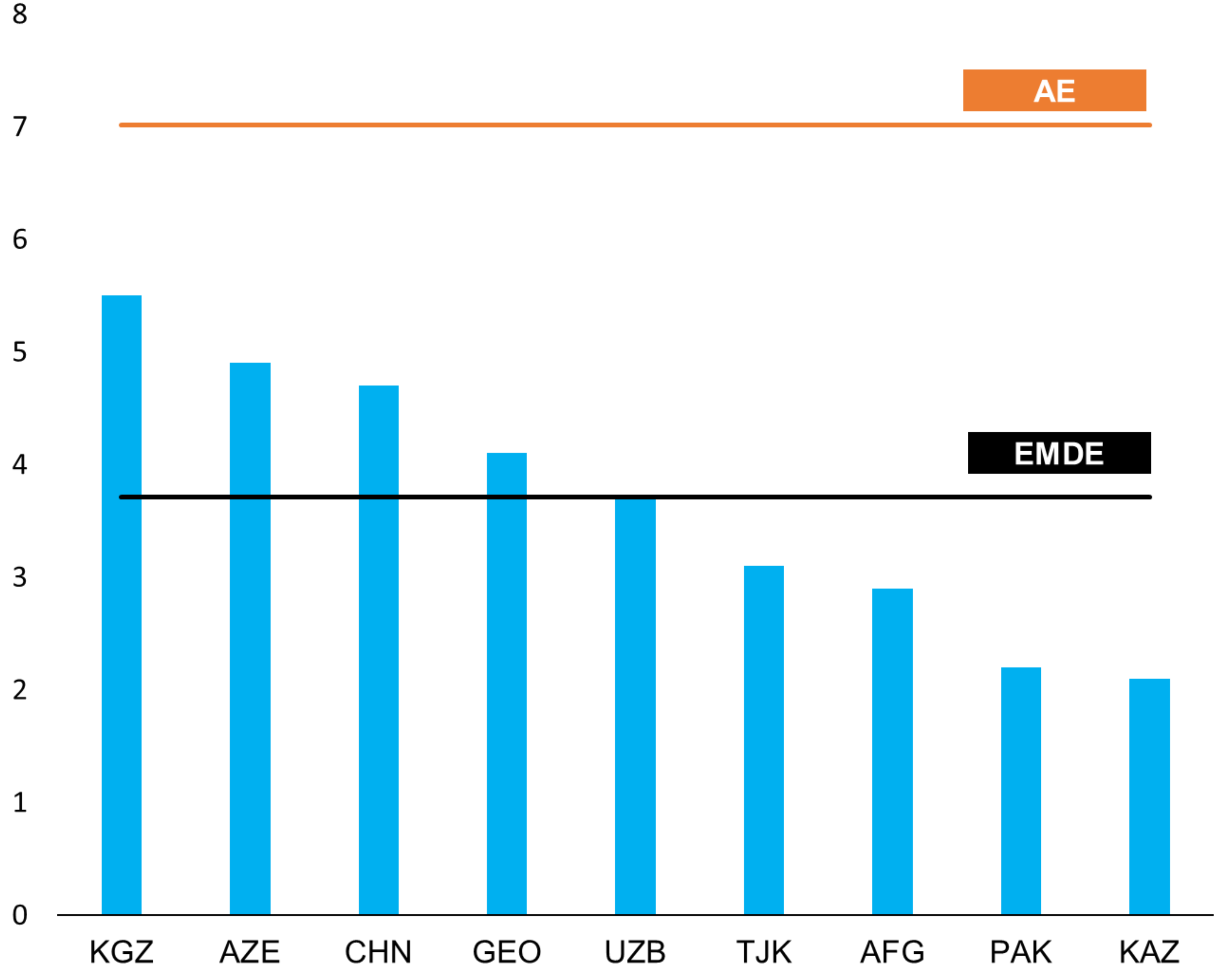
COVID disrupted economic activity and cross-border flows



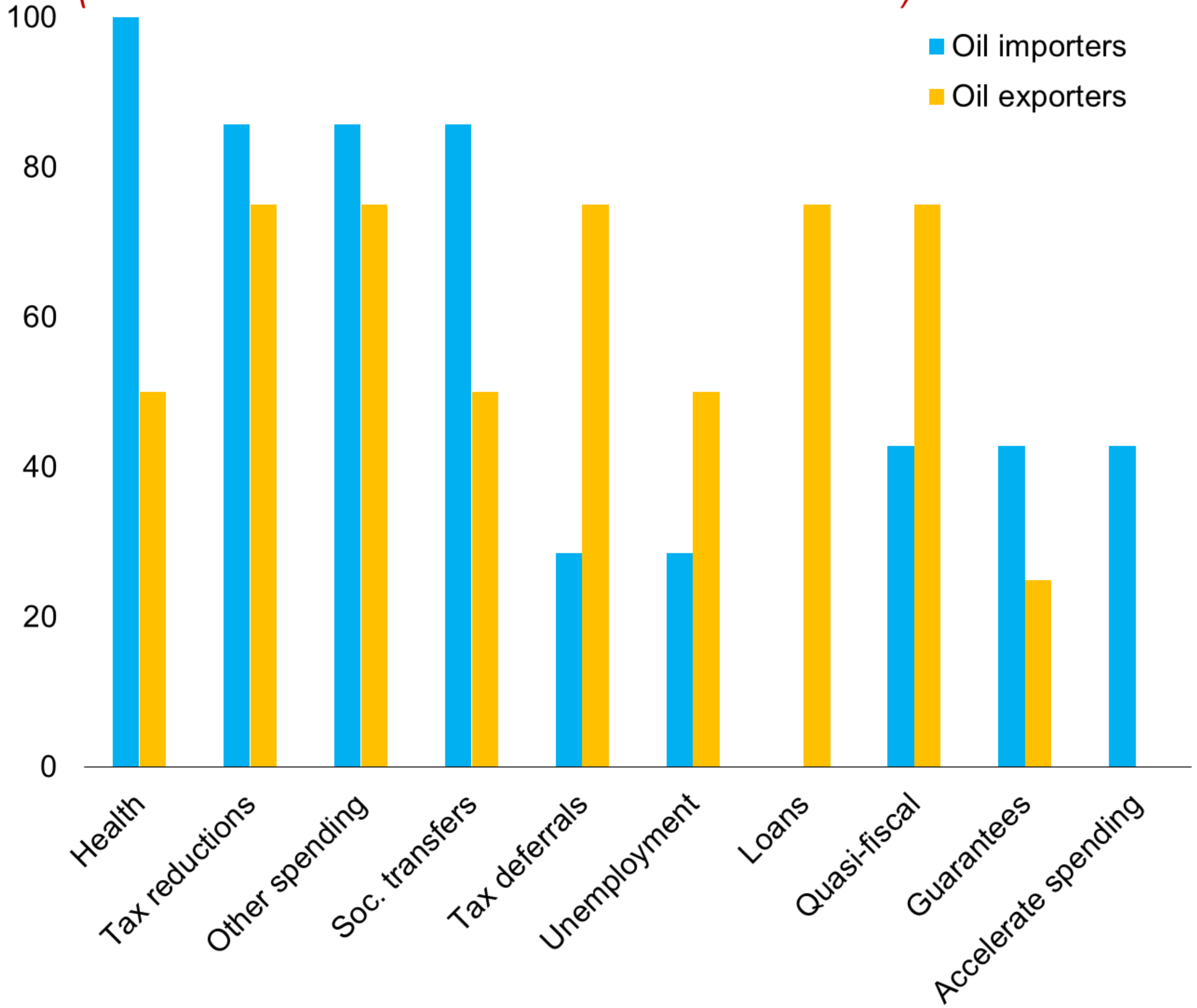


Large fiscal stimulus supported public healthcare and provided relief to people and firms

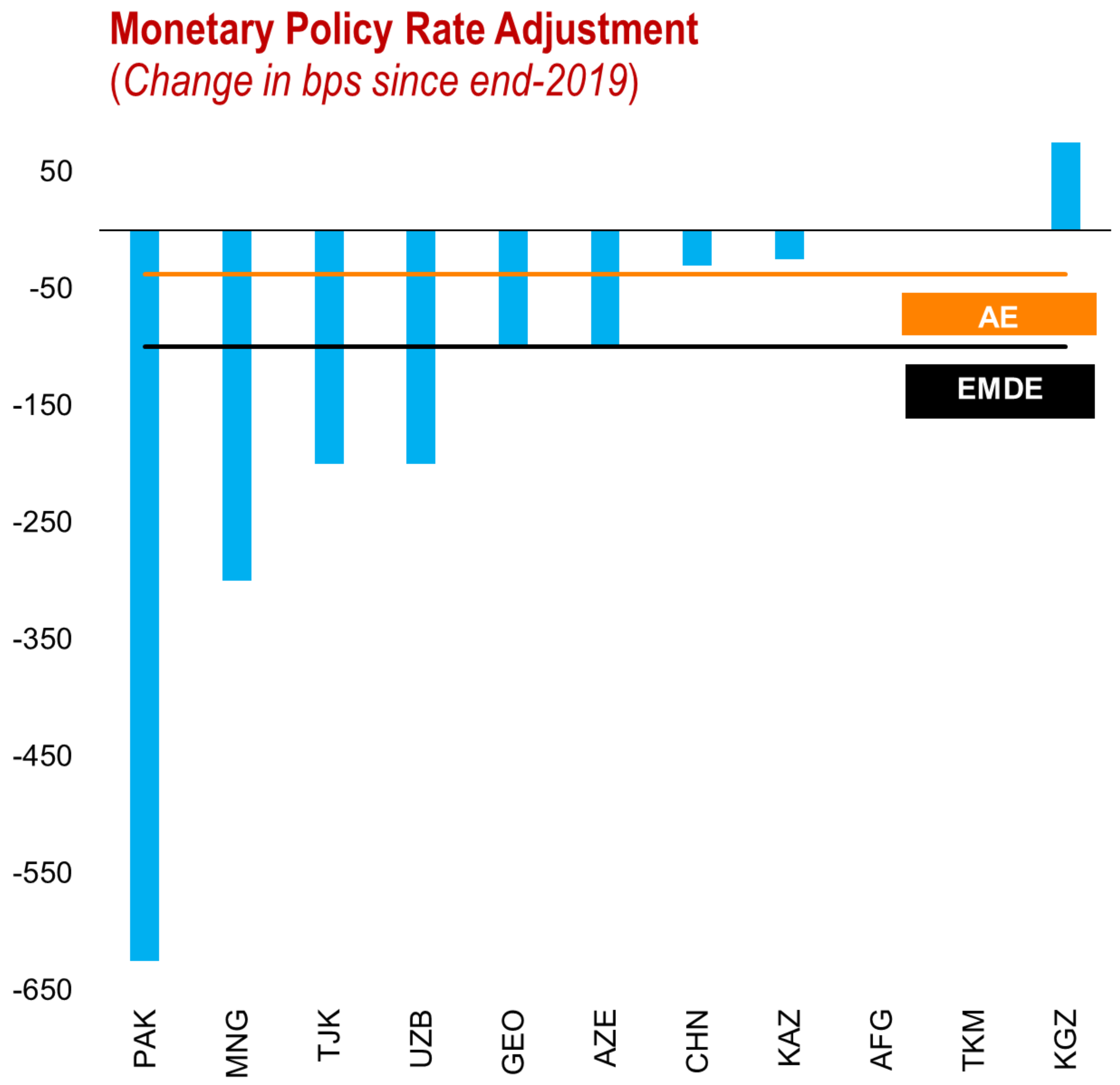
Fiscal Support in Response to COVID-19
(In Percent of GDP)

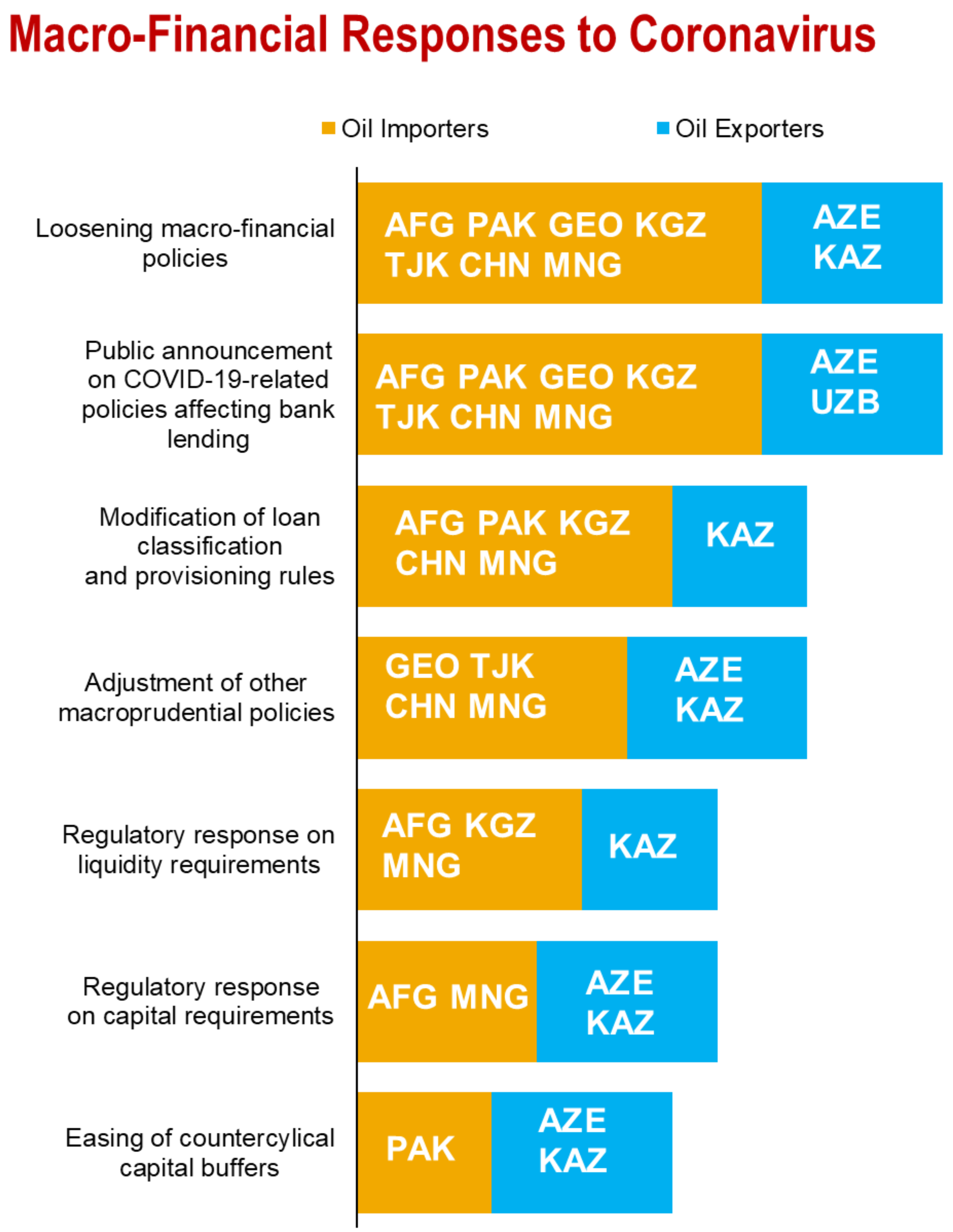


Countries Adopting Policies in Response to COVID-19
(Percent of total number of CAREC OEs and OIs)

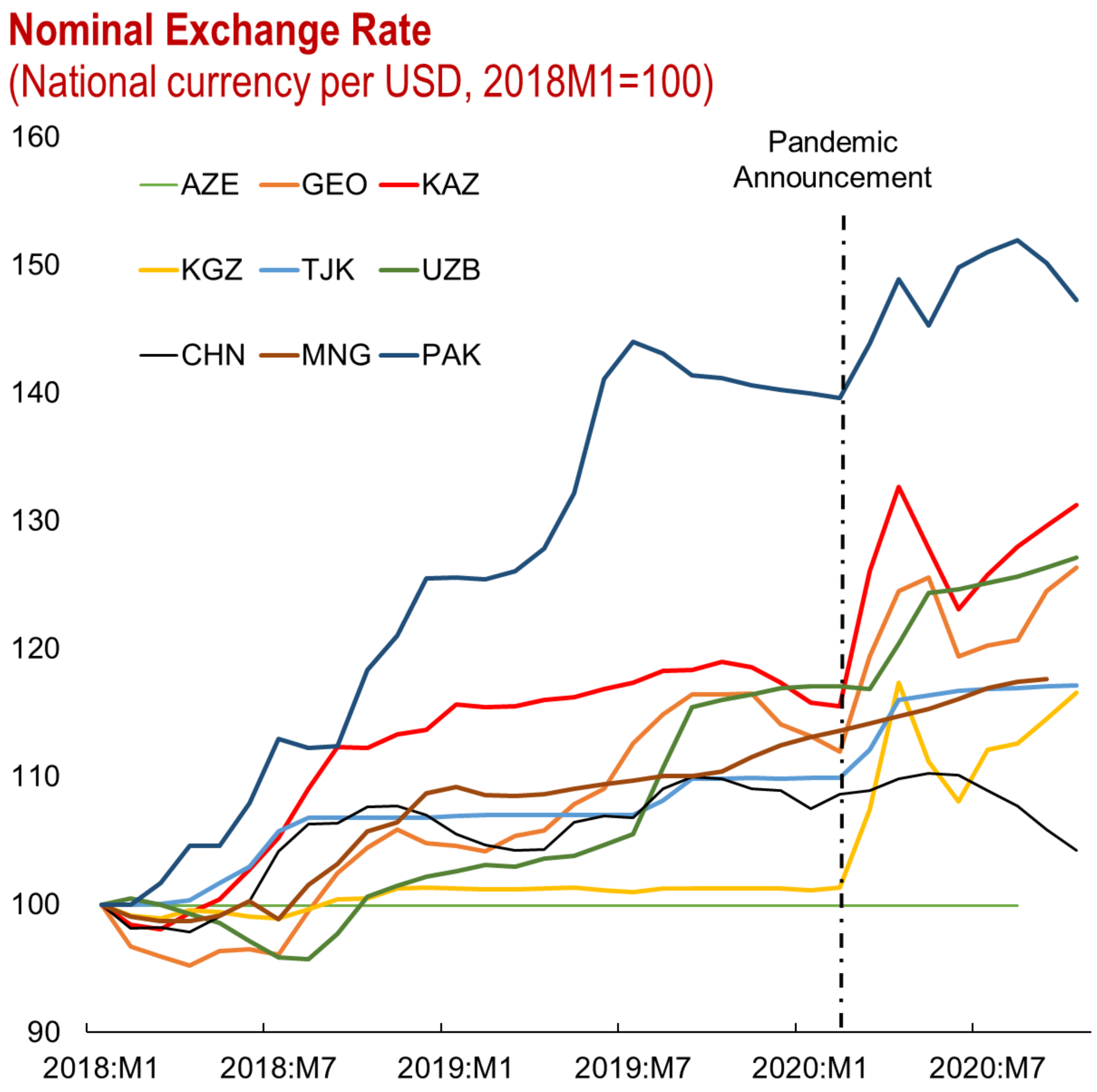


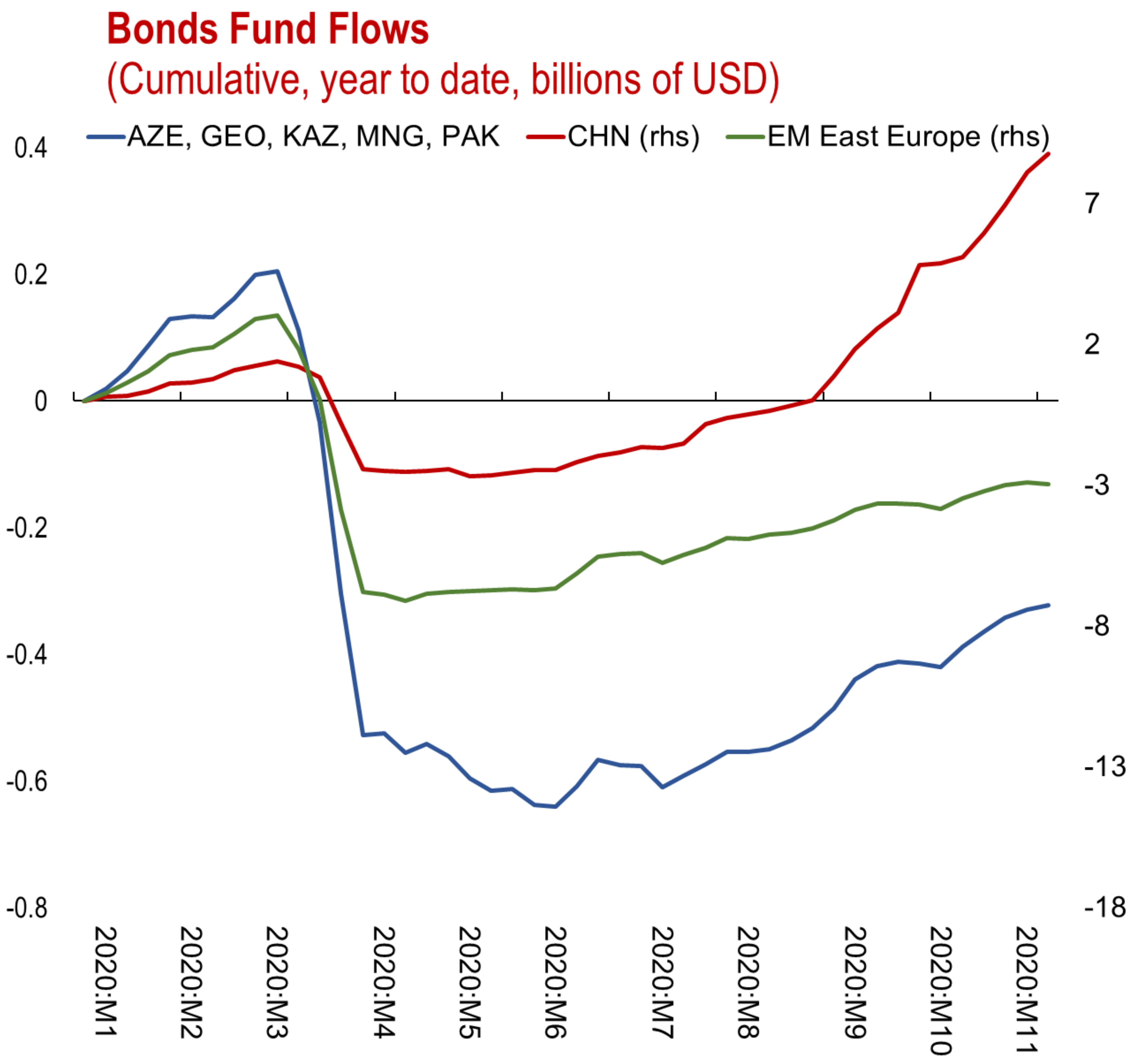
Monetary and financial sector measures helped ease financial conditions and keep credit flowing



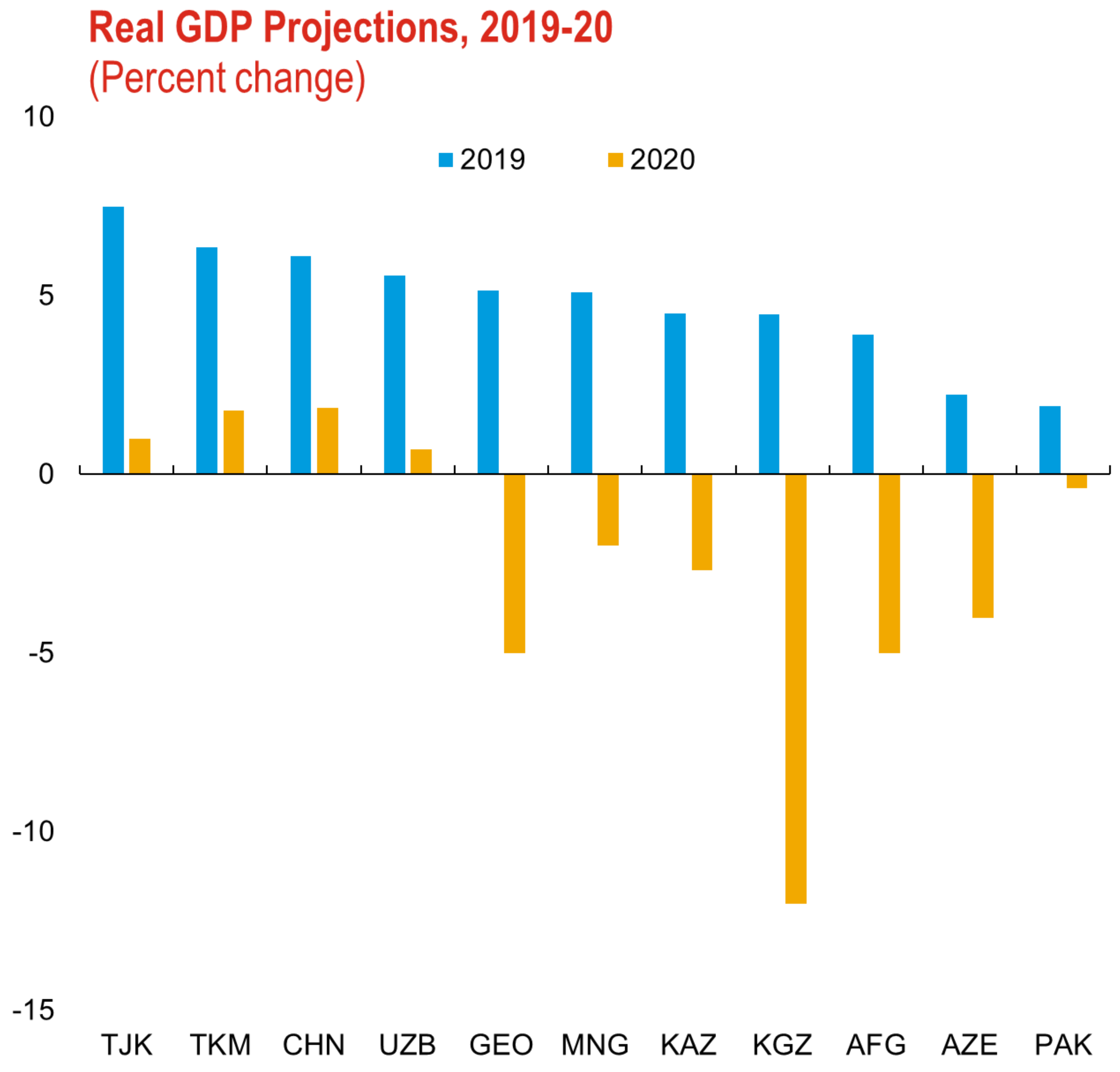


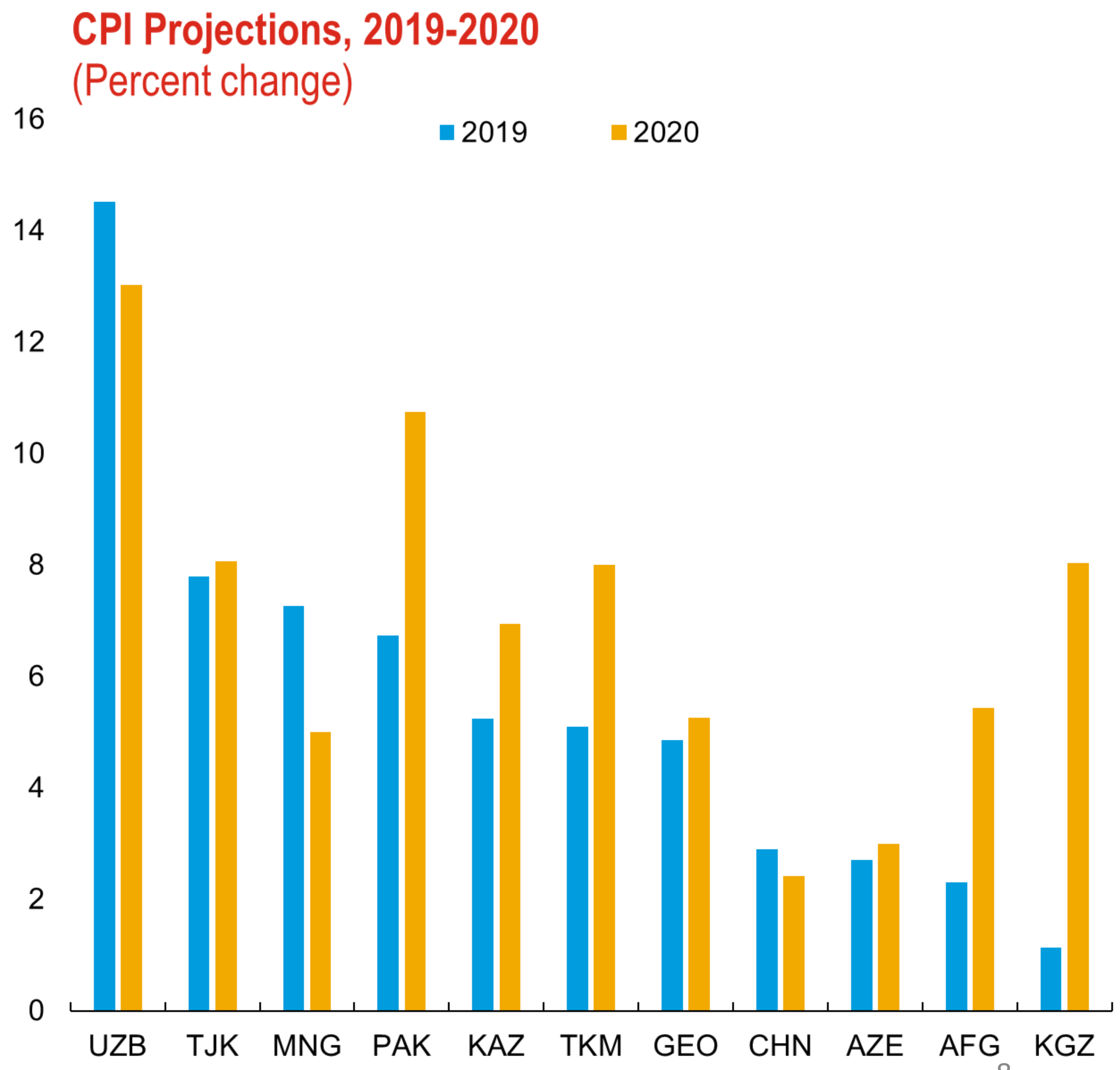
Exchange rate pressure persists, and bond fund inflows are sluggish





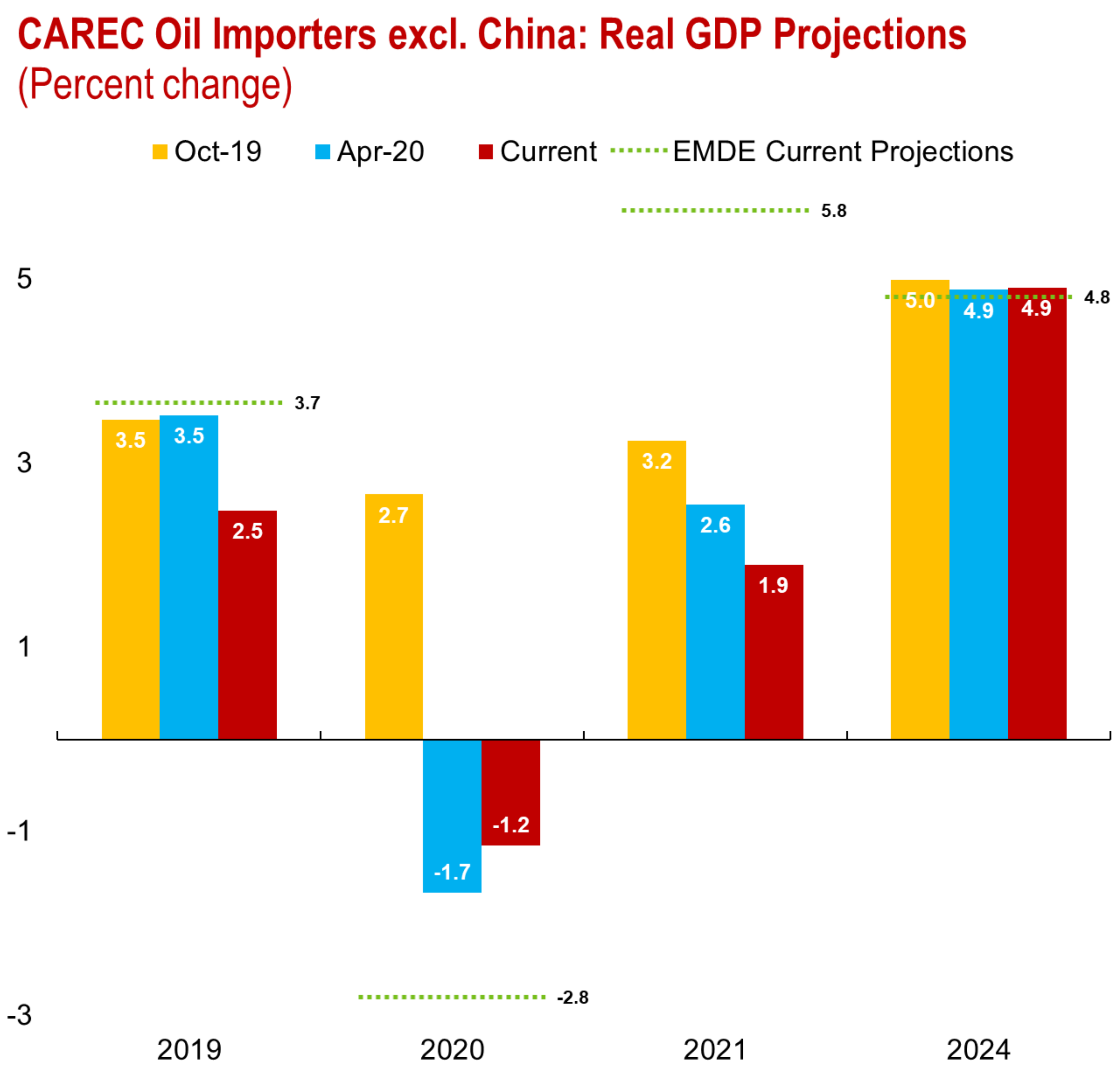
Many CAREC countries entered recession in 2020, with elevated inflation rates

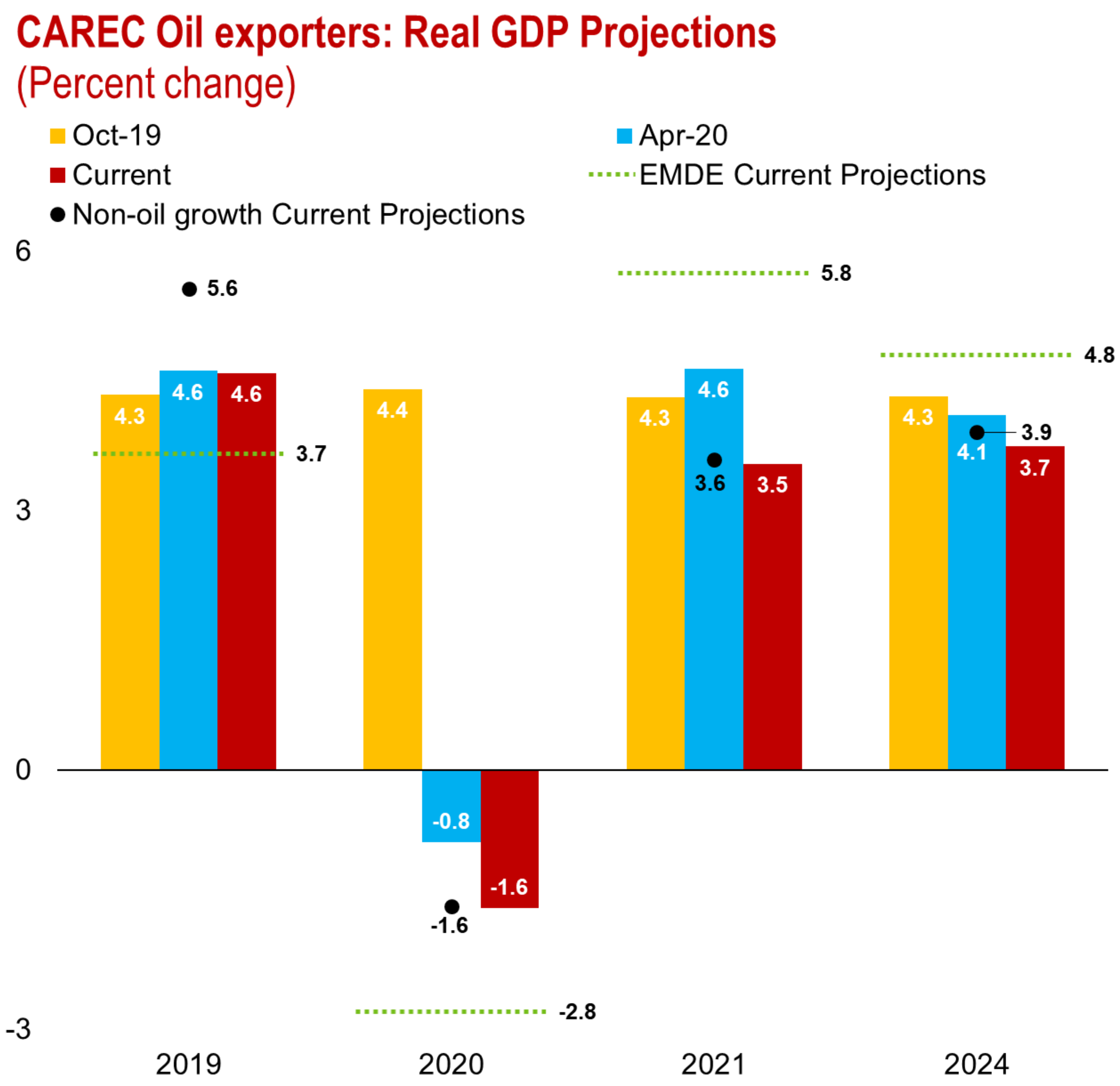




The Long Ascent

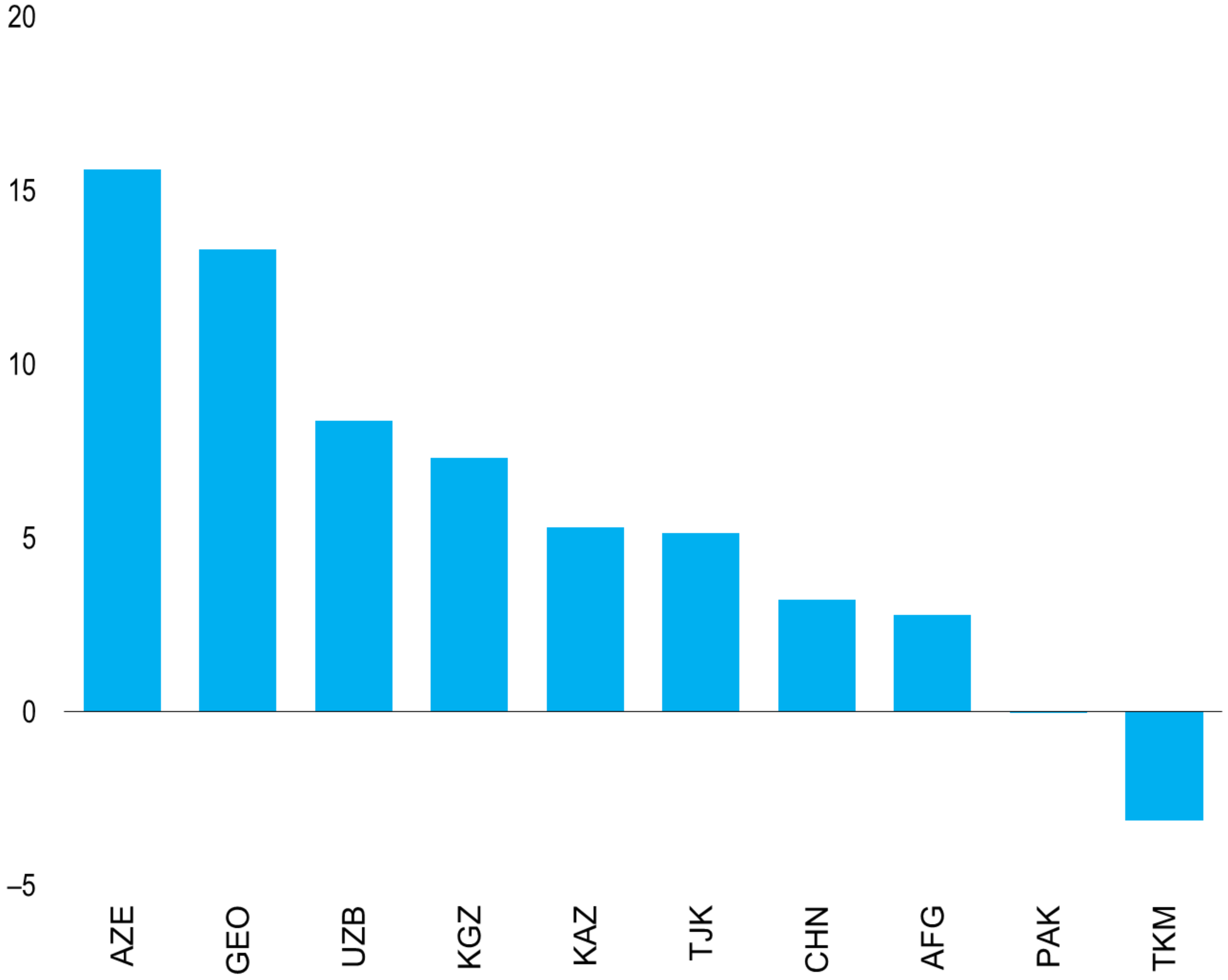
Recovery is expected to be gradual and uncertain



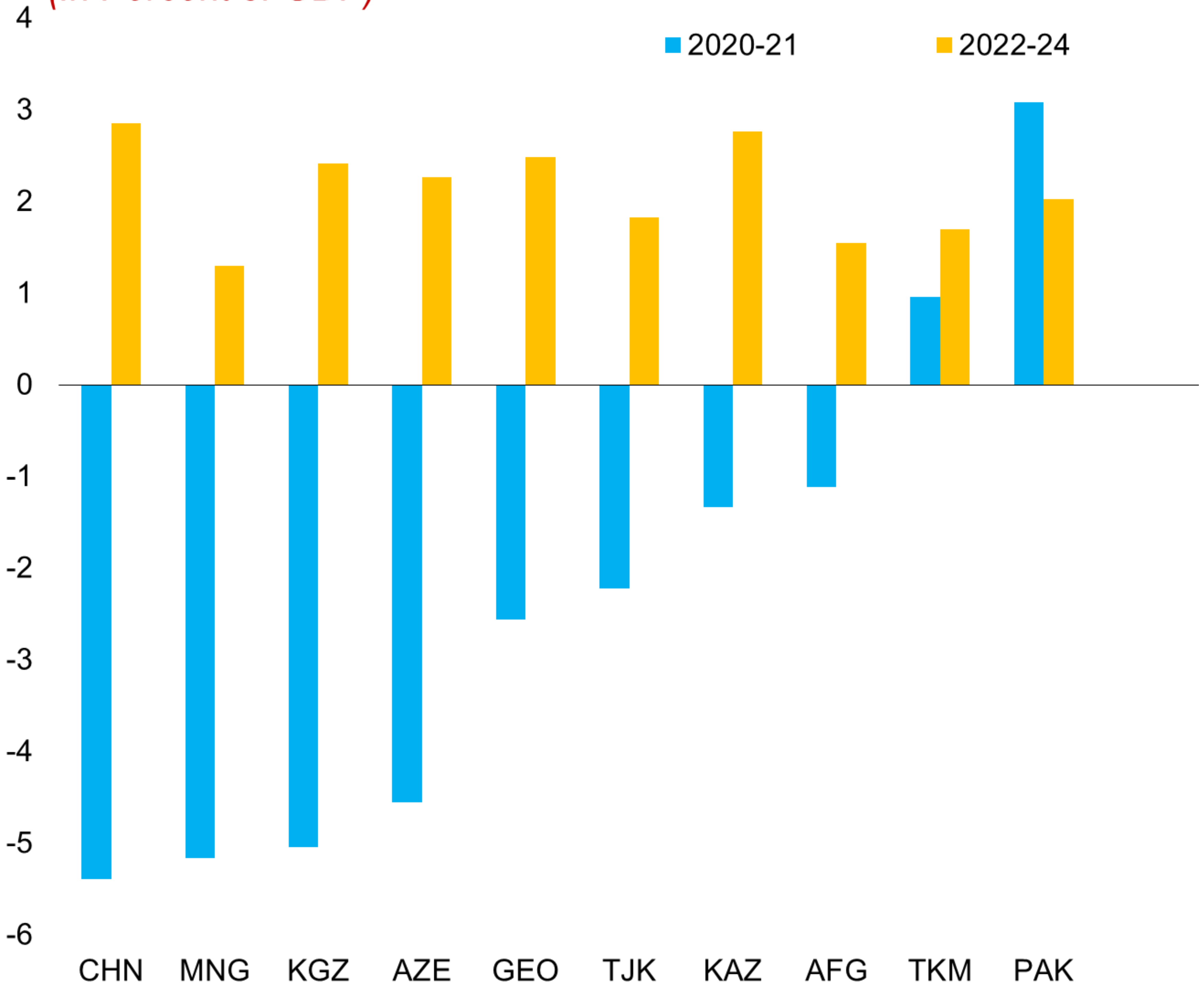


Public debt is set to rise, requiring adjustment and fiscal reforms over the medium term

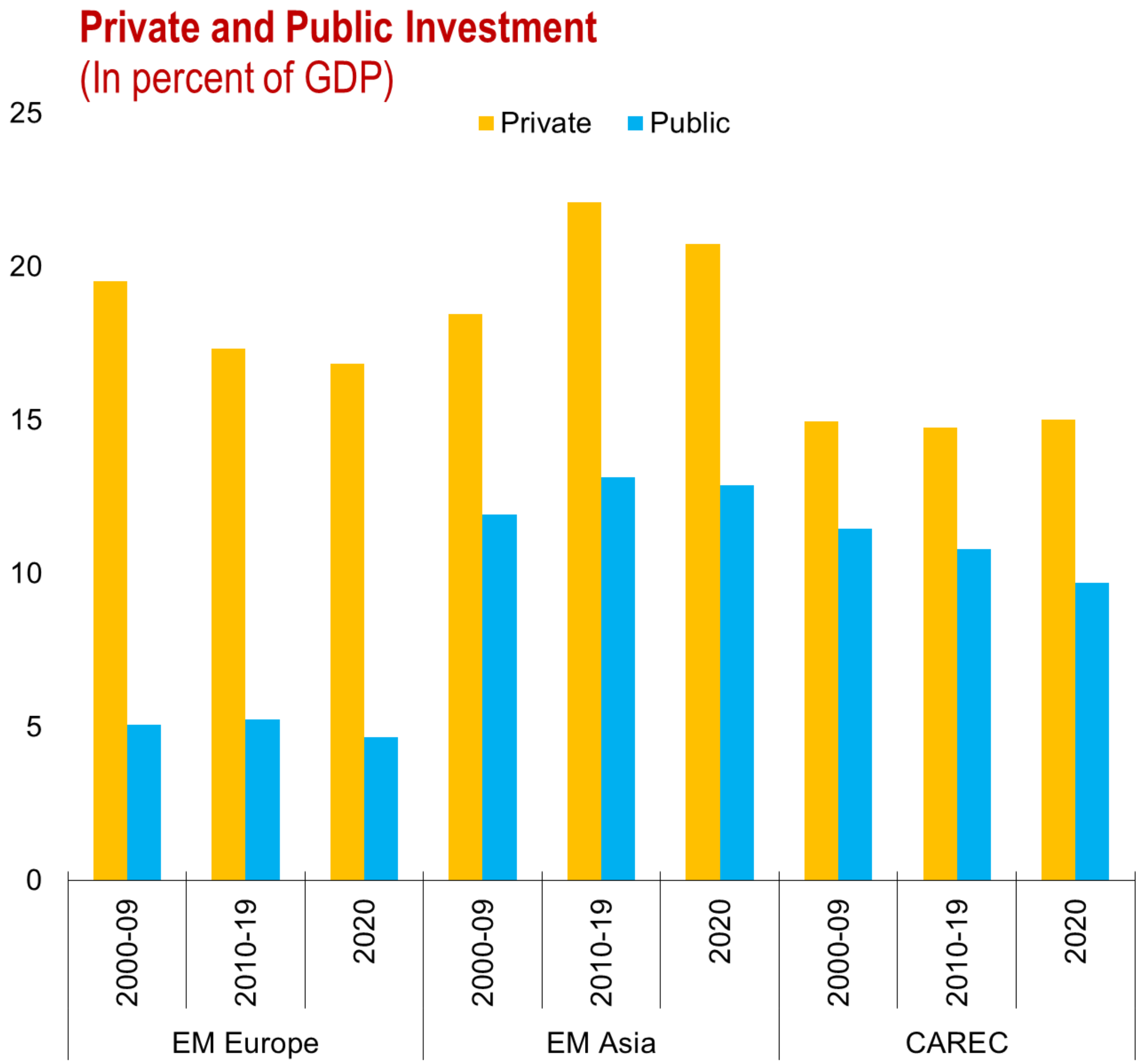
Revisions to Debt Projections Since COVID, 2020–24
(In Percent of GDP)

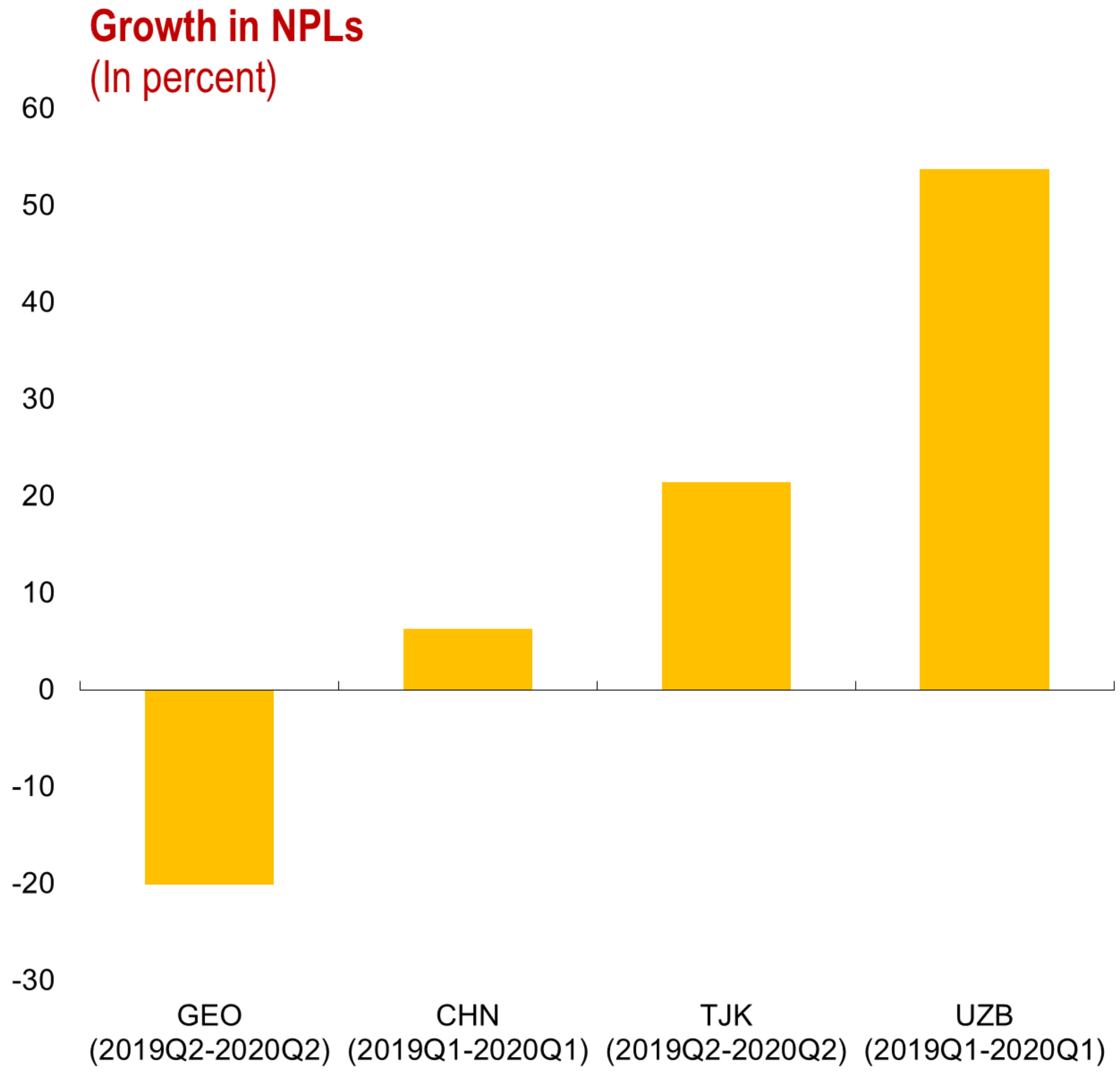


Cumulative Primary Balance Adjustment, 2020–24
(In Percent of GDP)

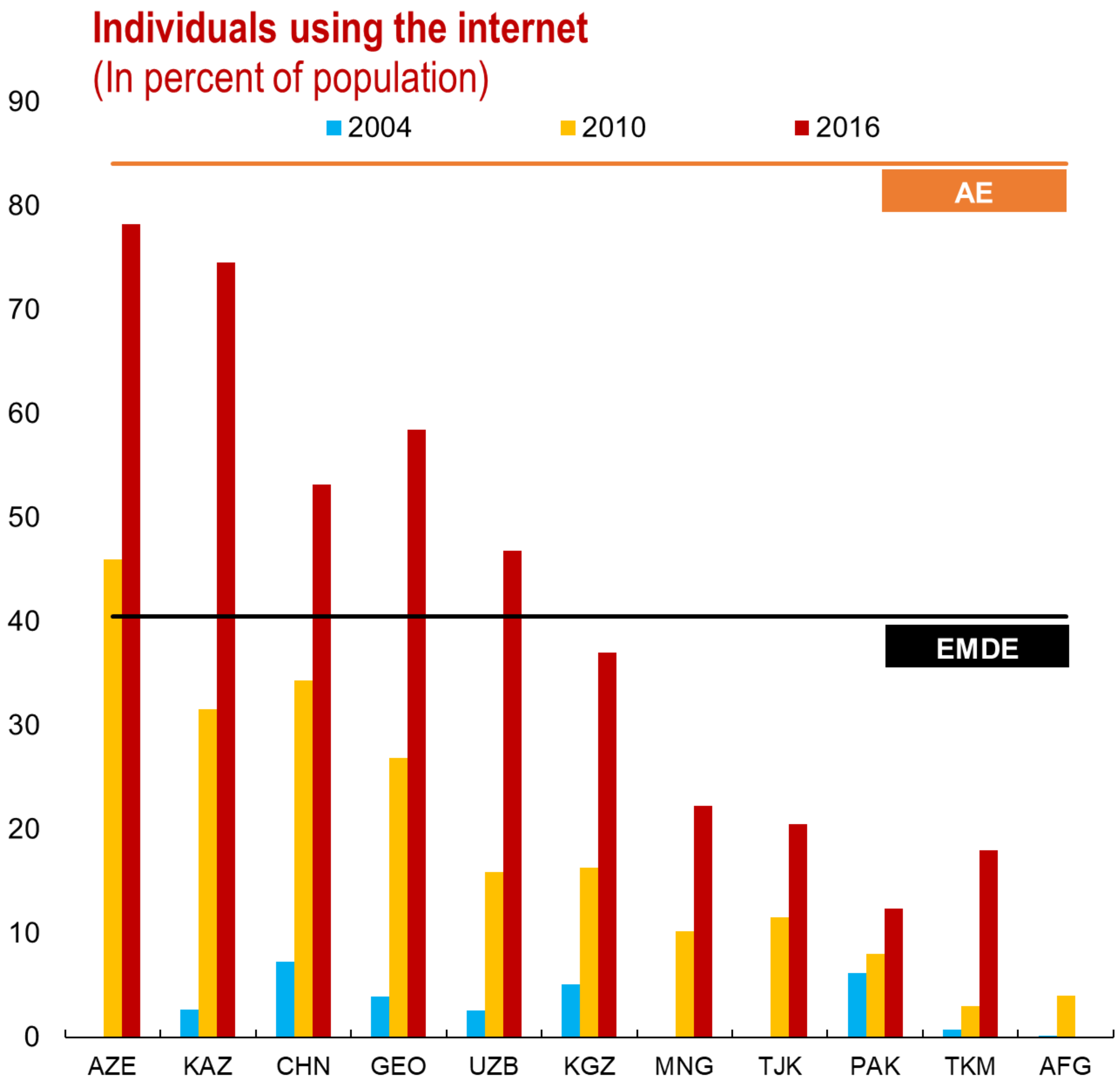


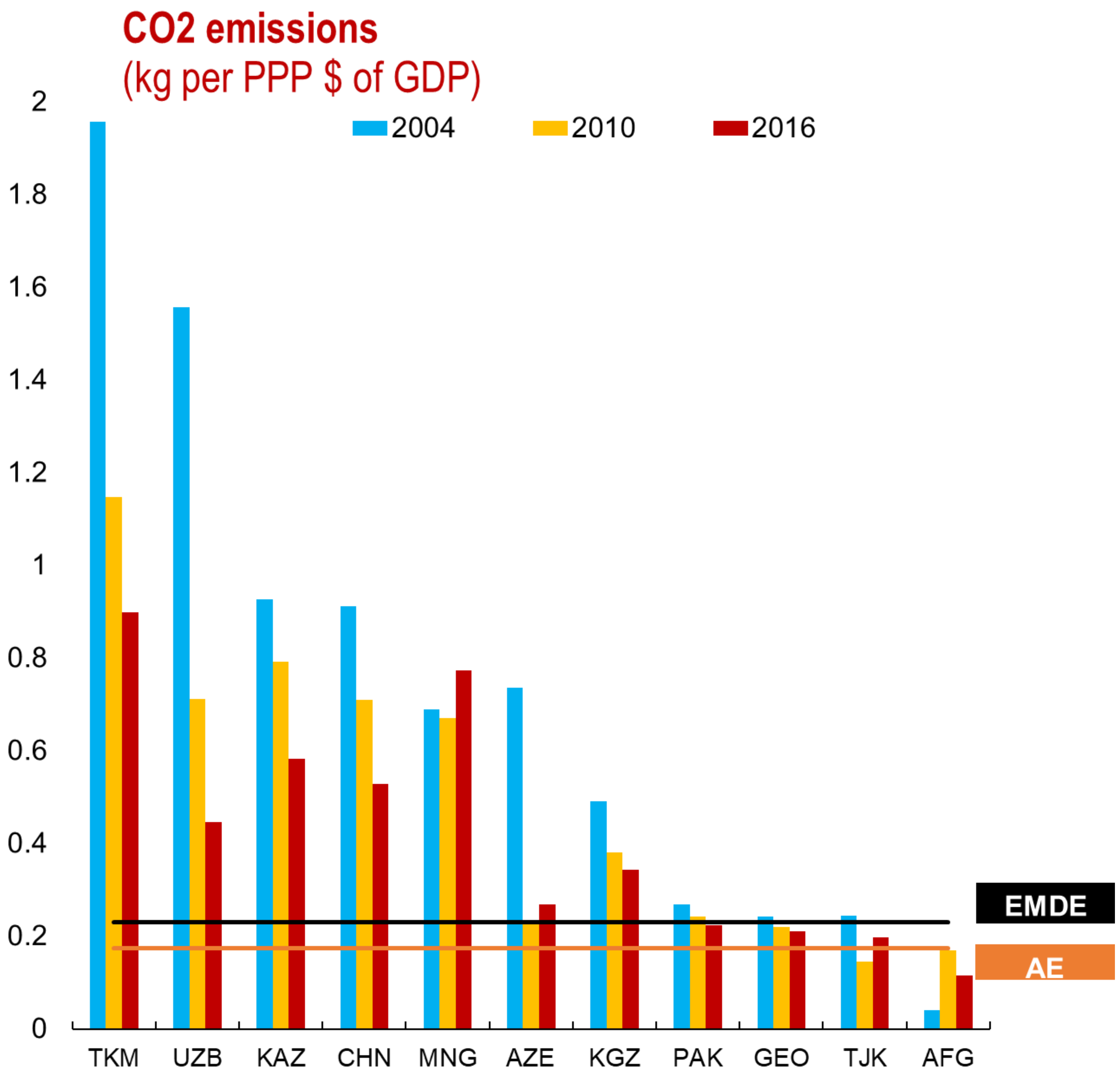
Scarring: the pandemic is likely to have a long-term impact on people, firms, and the economy





CAREC countries have an opportunity to accelerate green investment and digital transformation





Support the Nascent Recovery
Mitigate Scarring
Create Better, Greener, Fairer Future

Building a bridge from the pandemic to the recovery and to a better future

Unprecedented policy support has:

- Saved lives and livelihoods
- Kept markets functioning
- Maintained the flow of credit
- Avoided adverse macro-financial feedback loops…
- …and widespread bankruptcies

… **but may exacerbate future vulnerabilities:**

- Real-financial disconnect
- Rising debt and insolvencies
- Depletion of buffers
- Excessive risk-taking

Near-Term Policies

- **Fiscal:** do not withdraw support too quickly, target it, gradually shift from protecting old jobs to helping people get back to work, deal with debt early
- **Monetary**: maintain accommodation if possible
- **Liquidity support**: continue but adjust pricing to incentivize exit
- **Banks**: encourage the use of capital and liquidity buffers
- **Borrower support**: extend moratoria (if needed); facilitate debt restructuring; efficient out-of-court workouts

Medium- and Longer-term Policies

- **Fiscal:** foster sectoral reallocation, support the vulnerable, rebuild buffers, growth-climate-inclusiveness friendly fiscal policy, strengthen MT frameworks
- **Monetary** accommodation if possible until objectives achieved
- **Liquidity support:** withdraw gradually once pandemic under control
- **Banks:** rebuild buffers & reduce problem assets over time
- **Non-bank financial institutions**: enhance the regulatory framework
- **Debt overhang**: recapitalize/restructure/resolve nonviable firms
- **Lower for longer:** contain excessive risk-taking via prudential policies
- **Stronger, more sustainable growth**: see next slide

A new growth model needed for the post-COVID 21st century: strong, resilient, inclusive, and green