



CAREC Economic and Financial Management Cluster Forum

High-Level Panel Discussion: Countercyclical Fiscal Measures for Recovery

Background

In 2018, the Asian Development Bank (ADB), International Monetary Fund (IMF), and World Bank (WB) organized a CAREC Forum in Astana, Kazakhstan to discuss countercyclical policy frameworks. That event underscored that the 2008 Global Financial Crisis (GFC) and the 2014-15 oil price shocks provided CAREC governments with valuable experience in implementing countercyclical policies but left the region with the challenge of lower economic growth and higher public and external debt. While some progress had been made, many countries had yet to move to a full-fledged use of countercyclical policies. On the fiscal front, policies were thought to be at best neutral, with limited transparency, few automatic stabilizers, constraints on borrowing, and the lack of fiscal rules all seen as restricting effective countercyclical policy implementation.

Today, CAREC countries are again being severely tested by a global economic crisis caused by the COVID-19 pandemic. Trade—a key source of economic growth—has declined sharply. Regional exports and imports (excluding the People’s Republic of China, PRC) have declined by 30% and 20% (q/q), respectively, in q1 2020. In tourism, CAREC countries’ estimated losses vary from 1% to 14% of GDP. As a result, regional economic growth (excluding PRC) is expected to decline from 3.3% in 2019 to -0.5% in 2020 before recovering to 3.1% in 2021.¹

CAREC members have implemented various measures to limit infections, strengthen the health care system, and soften the adverse impact on the economy. Many governments have introduced innovative stimulus packages focused on preserving employment in affected industries, providing assistance to the most vulnerable through targeted cash transfers, and reducing tax burdens. Such measures range from 1% to 9% of GDP in CAREC countries. To complement the fiscal response, macroeconomic management has focused on stabilizing the exchange rates, easing monetary conditions, and ensuring continued provision of credit.

Difficult policy decisions lie ahead. Recessions caused by the pandemic, and measures to contain it, are reducing fiscal space. Compared to the pre-COVID-19 forecasts, public-debt-to-GDP ratios are expected to rise further, with some CAREC countries qualifying for and availing debt payment suspension.² There is a consensus that the fiscal stimulus should be time-bound, well-targeted, and sustainable. However, high uncertainty about the future path of the pandemic and the long-term impact of COVID and measures to contain and mitigate its spread complicate the calibration of the size, composition and duration of the stimulus. Fiscal policymakers face

¹ ADB. 2020. *ADO Supplement June 2020*. Manila.

² On 15 April 2020 the Group of Twenty (G20) agreed on a coordinated debt service suspension initiative, for the poorest countries that request forbearance, including CAREC members such as Afghanistan, Pakistan, the Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan (the latter did not opt for debt suspension).



the difficult task of ensuring that their smart and regionally coordinated policies will help to alleviate long-term negative effects and prepare for the post-COVID-19 recovery.

For their part, the IFIs have tracked evolving COVID-related fiscal policies, expanded or modified their economic support facilities, and produce a variety of special series notes, papers, and blogs on good fiscal policy practices in the time of COVID.³

With the economic impact of the pandemic expected to persist, now is a good time to review the challenges faced by CAREC members in implementing countercyclical fiscal policies, synthesize experiences and successful lessons so far and explore considerations for the future.

High-Level Virtual Panel Discussion

To discuss these issues, the CAREC Secretariat proposes to conduct a high-level panel discussion comprising senior finance ministry and other officials from CAREC countries, together with senior representatives from the ADB, IMF, and WB. After a joint presentation by development partners on prudent countercyclical fiscal management, country delegates will be invited to share their experiences and lessons learned to counter economic effects of the pandemic and the way forward towards a sustainable path to recovery. The panel discussion will close with a brief summary of the main results of the discussion.

Date	28 October 2020 7:30–9:30 pm (Manila time) /am (Washington, D.C. time)
Objective	The CAREC Secretariat is inviting Ministers of Finance to share experiences and approaches on managing fiscal responses to the COVID-19 pandemic to prepare the economies for a quick recovery after the pandemic, while keeping fiscal and external balances in check and protecting debt sustainability. ADB, IMF, and the WB will offer their take on macroeconomic management during the crisis and moderate discussions on how to address the common challenges and work together in the CAREC region.
Participants	Ministers of Finance, and high-level government officials from the CAREC region, high-level representatives from the ADB, IMF, and WB.

³ See (IMF) <https://www.imf.org/en/Topics/imf-and-covid19>, (WB) <https://www.worldbank.org/en/who-we-are/news/coronavirus-covid19>, and (ADB) <https://www.adb.org/what-we-do/covid19-coronavirus>.



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Agenda

Wednesday, 28 October 2020	
7:15–7:30	Registration to the zoom meeting
7:30–7:35	Welcome remarks by Afghanistan representative (CAREC chair) <i>Moderator: Mr. Safdar Parvez, ADB</i>
7:35–7:50	Joint presentation by development partners on prudent countercyclical fiscal management <i>Presenter: Ms. Natalia Tamirisa, IMF</i>
7:50–8:05	Statements by development partners Mr. Werner Liepach, Director General, Central and West Asia Department, ADB Ms. Lilia Burunciuc, Regional Director, Central Asia Region, World Bank Mr. Jihad Azour, Director, Middle East and Central Asia Department, IMF
8:05–9:25	Moderated panel discussion on approaches for saving lives and livelihoods, safe reopening and recovery, while promoting macroeconomic stability <i>Moderator: Mr. Hans Timmer, Chief Economist for South Asia, World Bank</i> Discussion on specific questions (one question to be chosen per country) <ul style="list-style-type: none">• What is the fiscal policy experience and lessons learned in CAREC countries?• How to strike the appropriate balance between the need to provide lifelines and support the recovery, on the one hand, and to preserve fiscal sustainability, on the other?• How can fiscal stimulus packages be designed to address the short-term needs while achieving longer-term goals focused on fostering economic diversification, formalization, and SME-led growth?• What lessons can CAREC countries learn from each other, and from other countries in designing effective and sustainable fiscal responses to the COVID-19 pandemic and the economic crisis it caused?• How should policymakers adjust their 2021 budgets, medium-term expenditure frameworks, and fiscal reform plans? What new fiscal priorities should come to the forefront, given the continuing pandemic, likely permanent scarring from it, and rising debt concerns?• What can CAREC countries expect from IFIs in terms of policy support and financial support going forward, if the economic crisis continues into 2021?
9:25–9:30	Summary and way forward