



# **CAREC Economic and Financial Stability Cluster Forum**

## **Countercyclical Fiscal Measures for Recovery**

**High-Level Webinar**

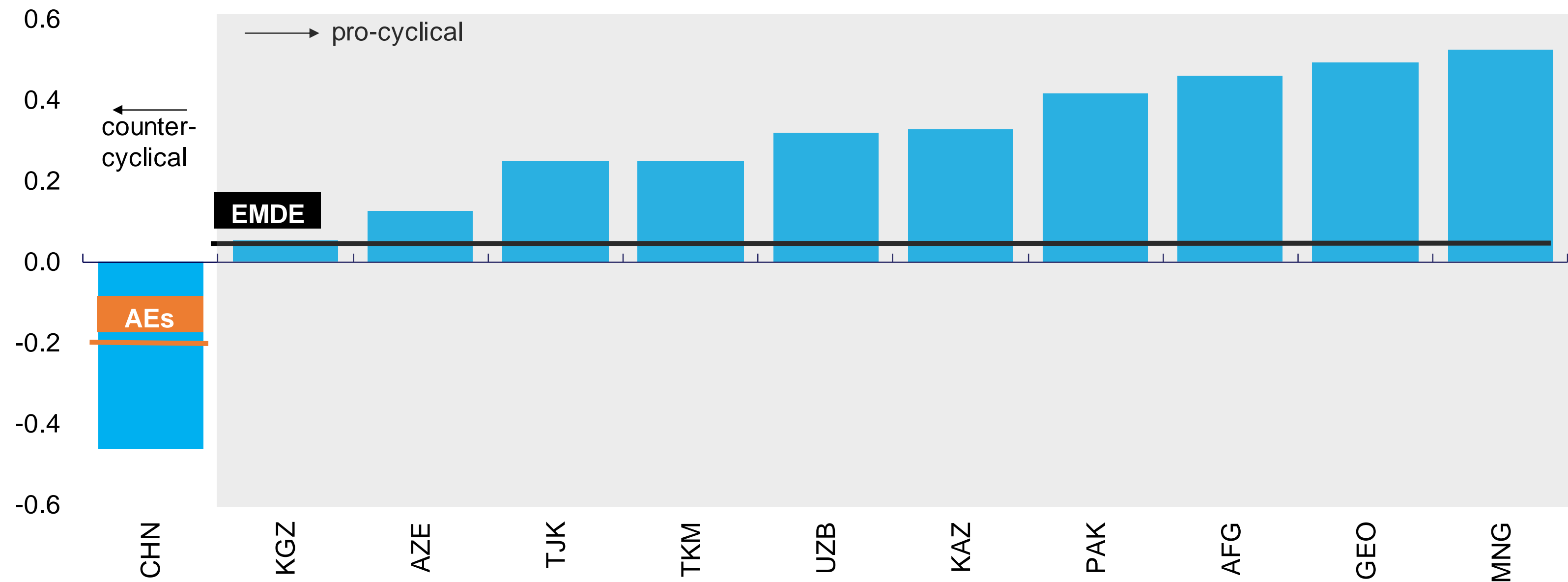
**October 28, 2020**

Joint Development Partner Presentation  
(ADB, IMF, World Bank)



# Fiscal policy in most CAREC countries has been procyclical since 1995

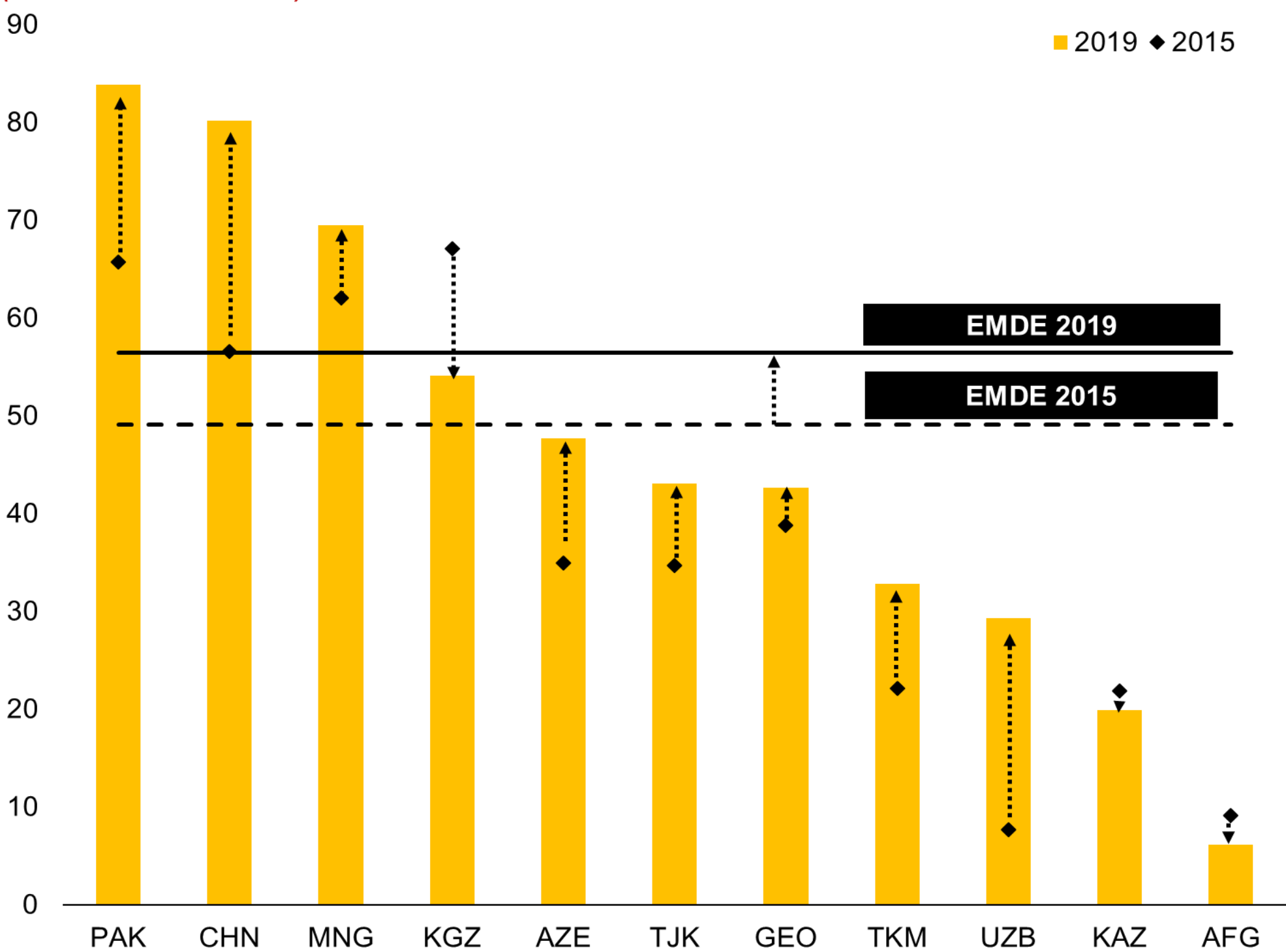
Correlations between Output and Expenditure, 1995-2019



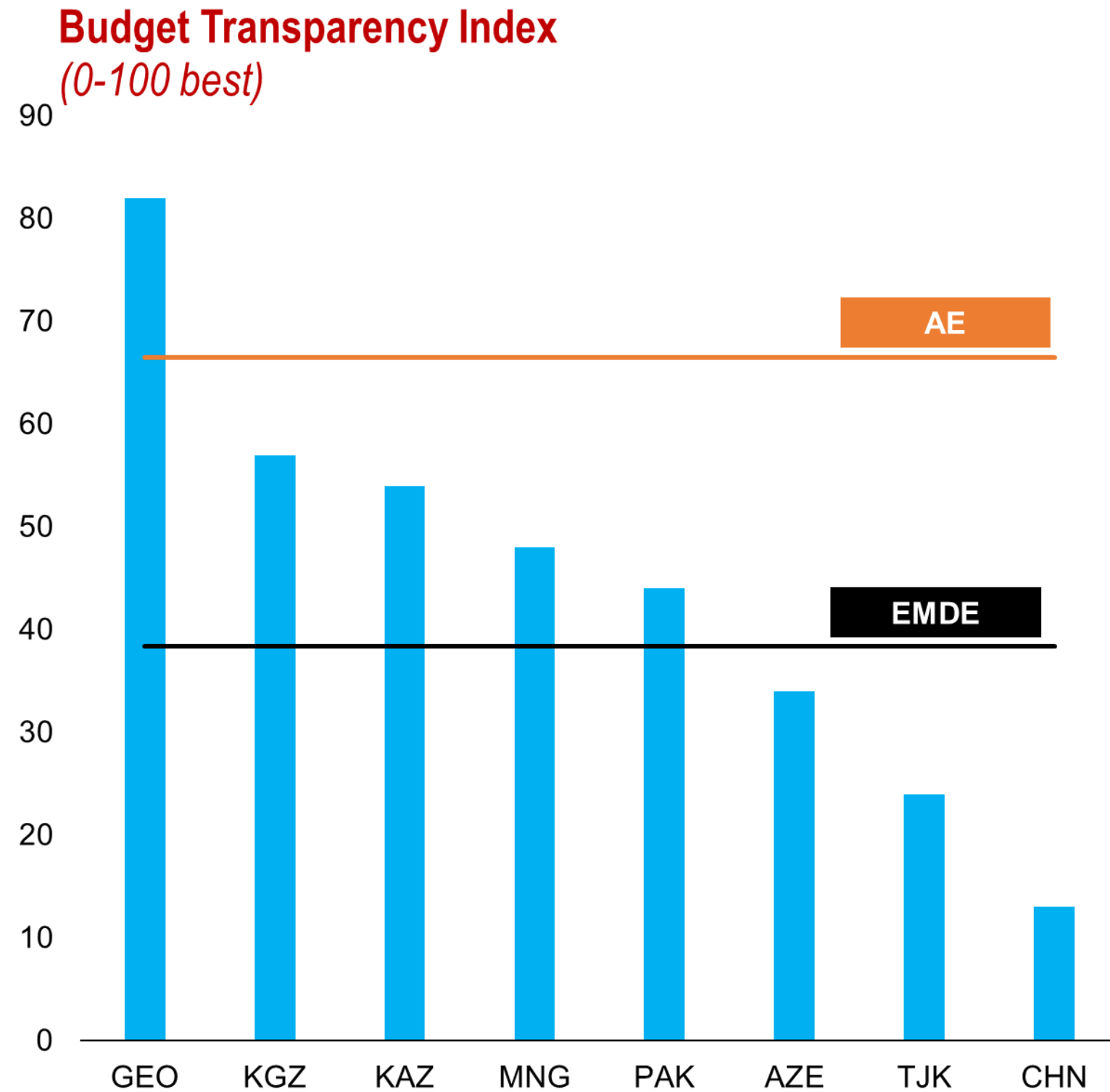
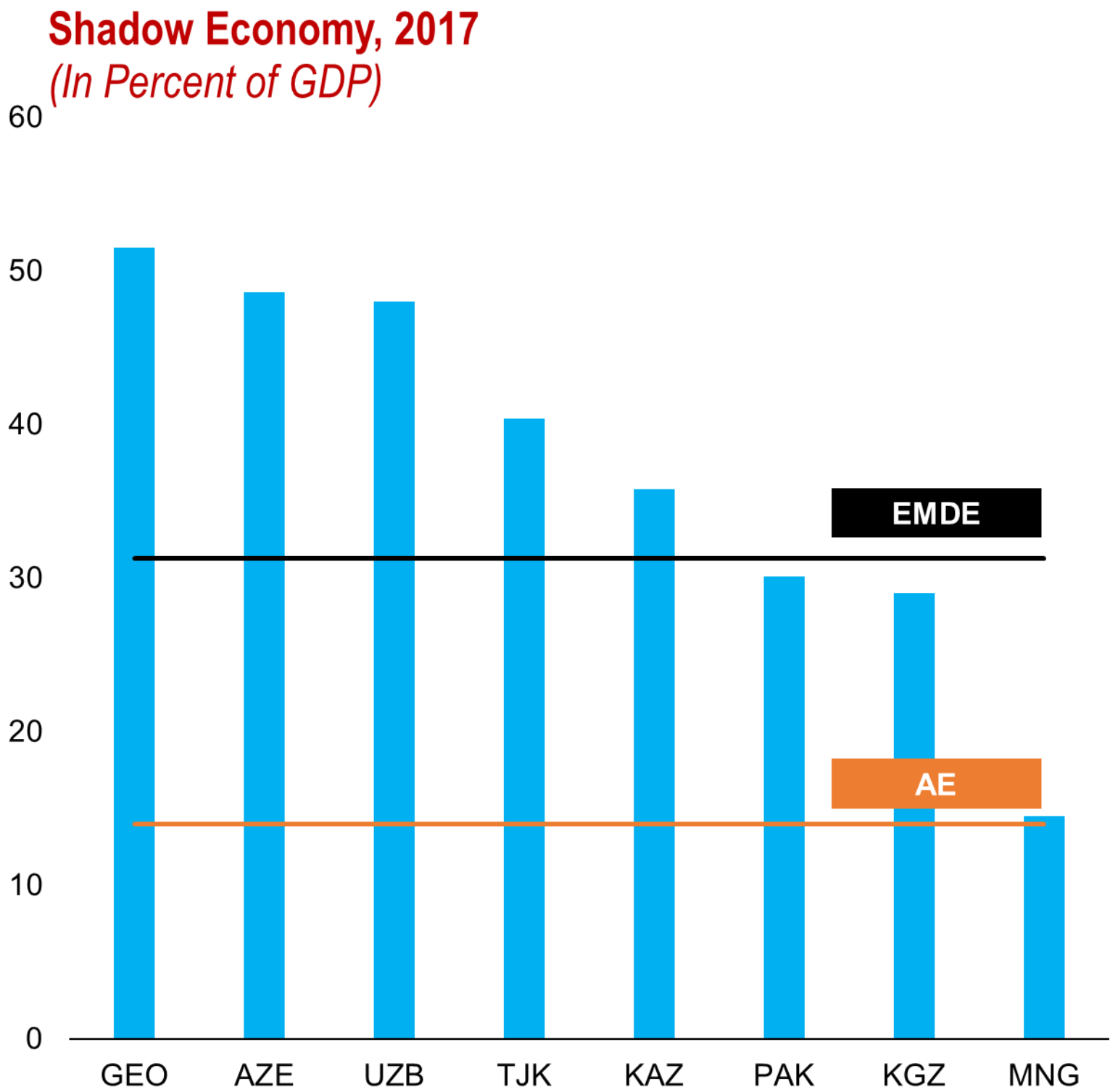


# Progress in expanding fiscal space has been limited in recent years

Public Debt, 2015-19  
(In Percent of GDP)



# High levels of informality and weaknesses in public financial management exacerbate tendency for procyclicality



# COVID pandemic poses unique challenges for designing a countercyclical fiscal policy response

## Uncertainty about Output Gap

- Relative weight of demand and supply shocks?
- Long-term impact on unemployment cost and economic structures?

## Uncertainty about Effectiveness of Fiscal Policy

- Larger because of deep recessions and limited monetary policy space?
- Smaller because of shut-downs, rising precautionary savings, already high public and private debt?

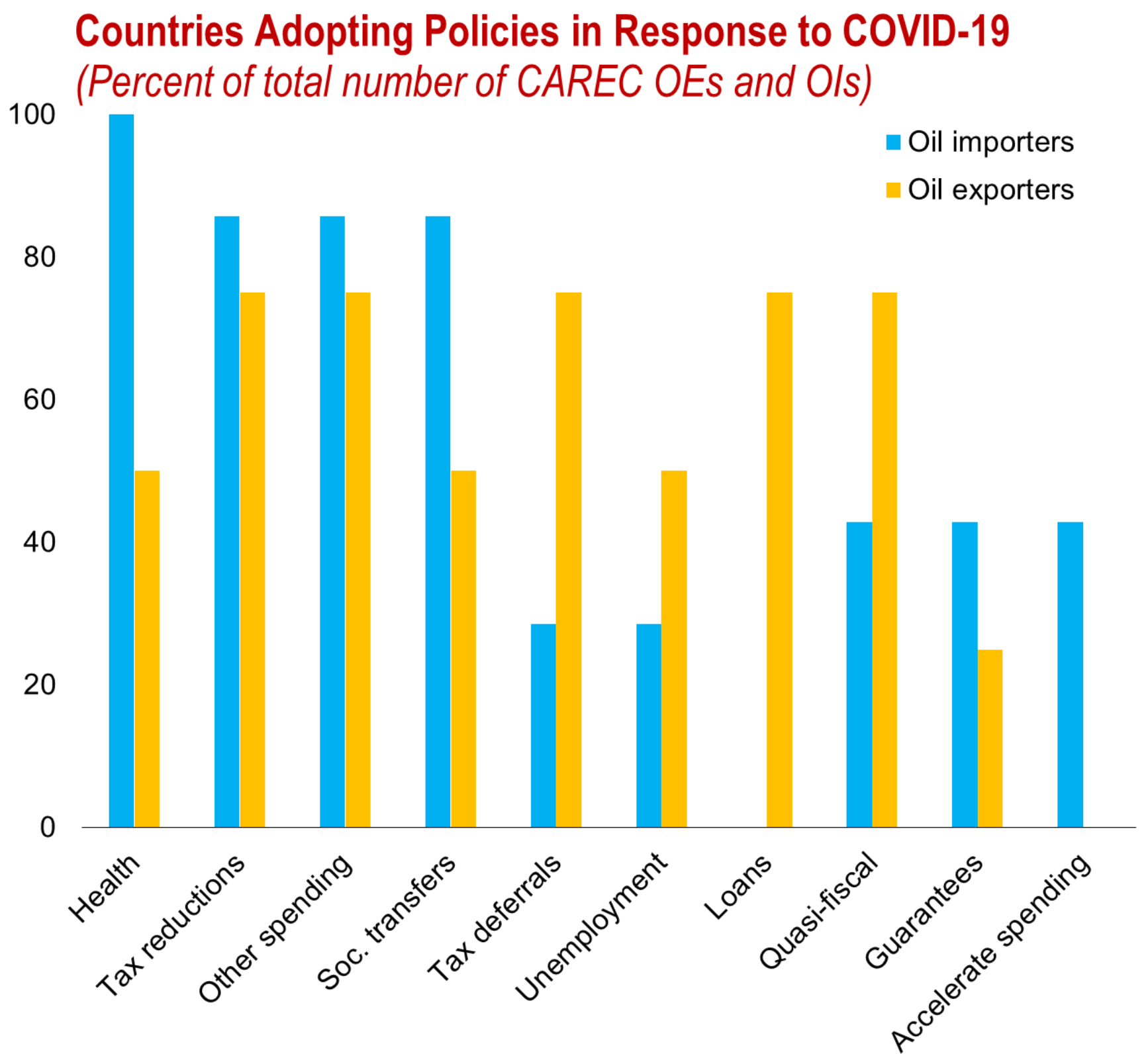
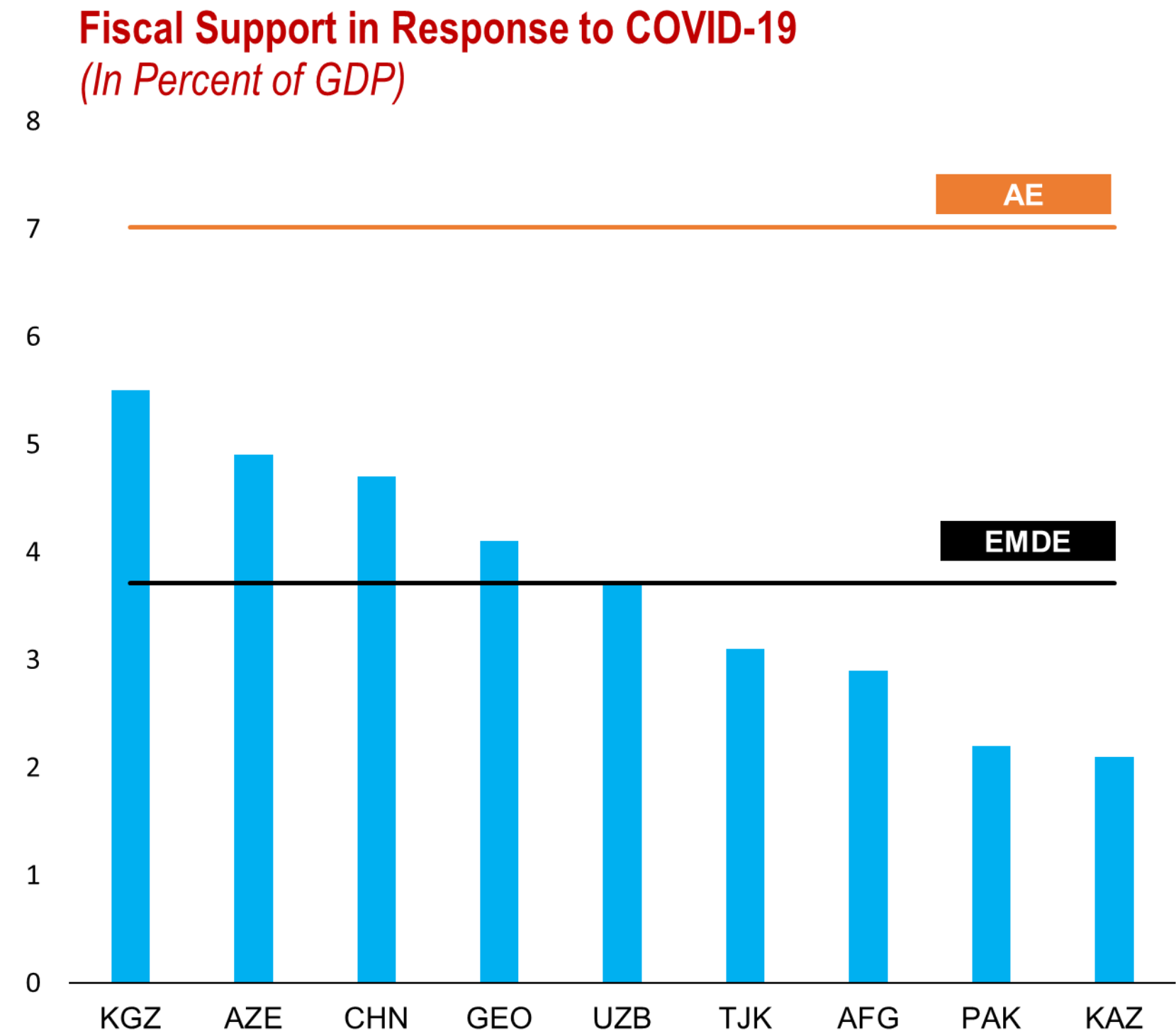
## Uncertainty about Buffers Needed for Future Crises

- Access to financing is constrained.
- Future fiscal crises may be looming.

# How should fiscal policy respond during lockdowns, reopening, and recovery?

- Large, timely, temporary fiscal support to save lives and livelihoods.
- Adequately resource healthcare systems.
- Targeted support of employment and to firms, to promote safe reopening and recovery.
- If fiscal space permits, broad stimulus through public investment and social safety nets. Otherwise, offsetting measures while maximizing the multiplier.

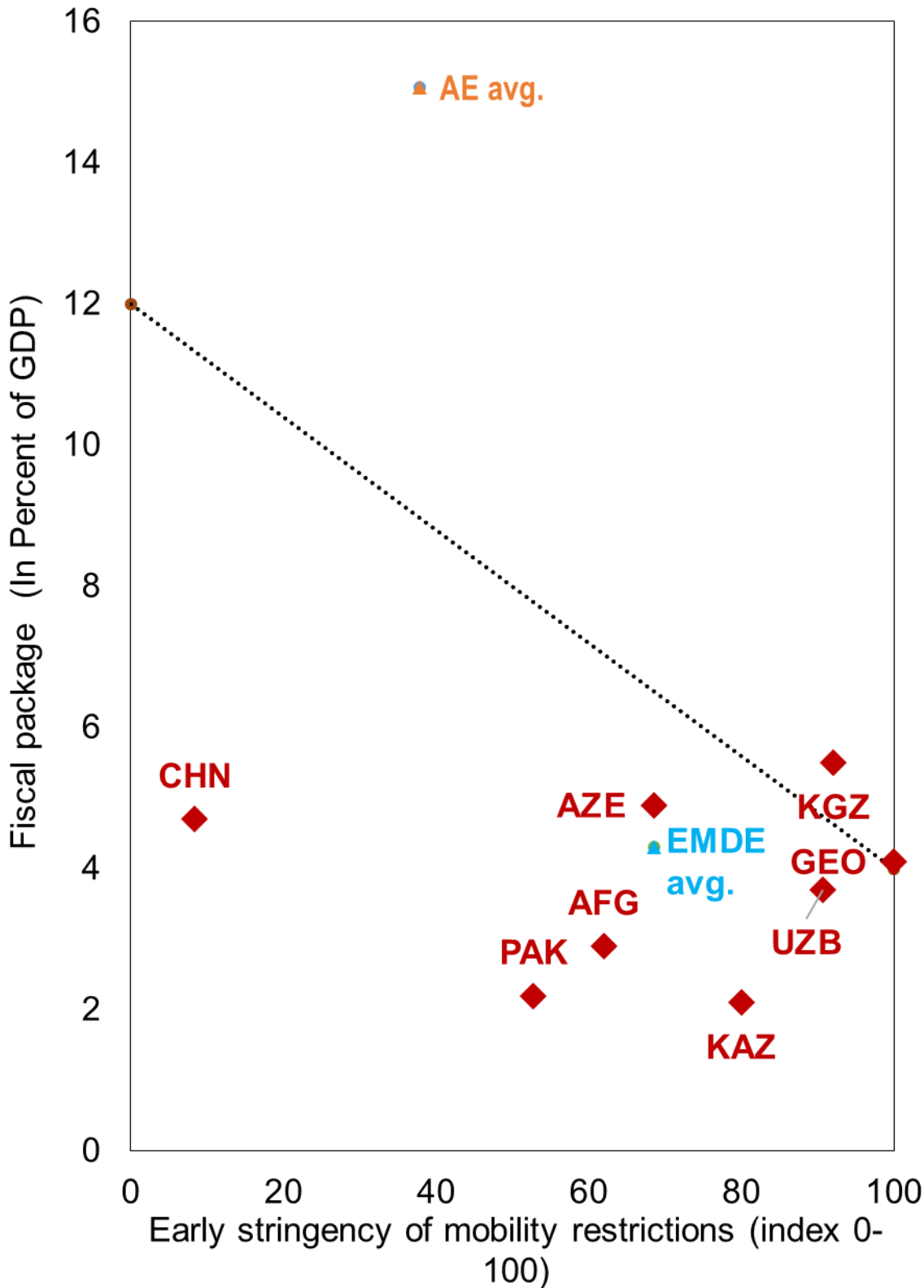
# CAREC countries deployed large, timely and innovative fiscal measures in response to COVID



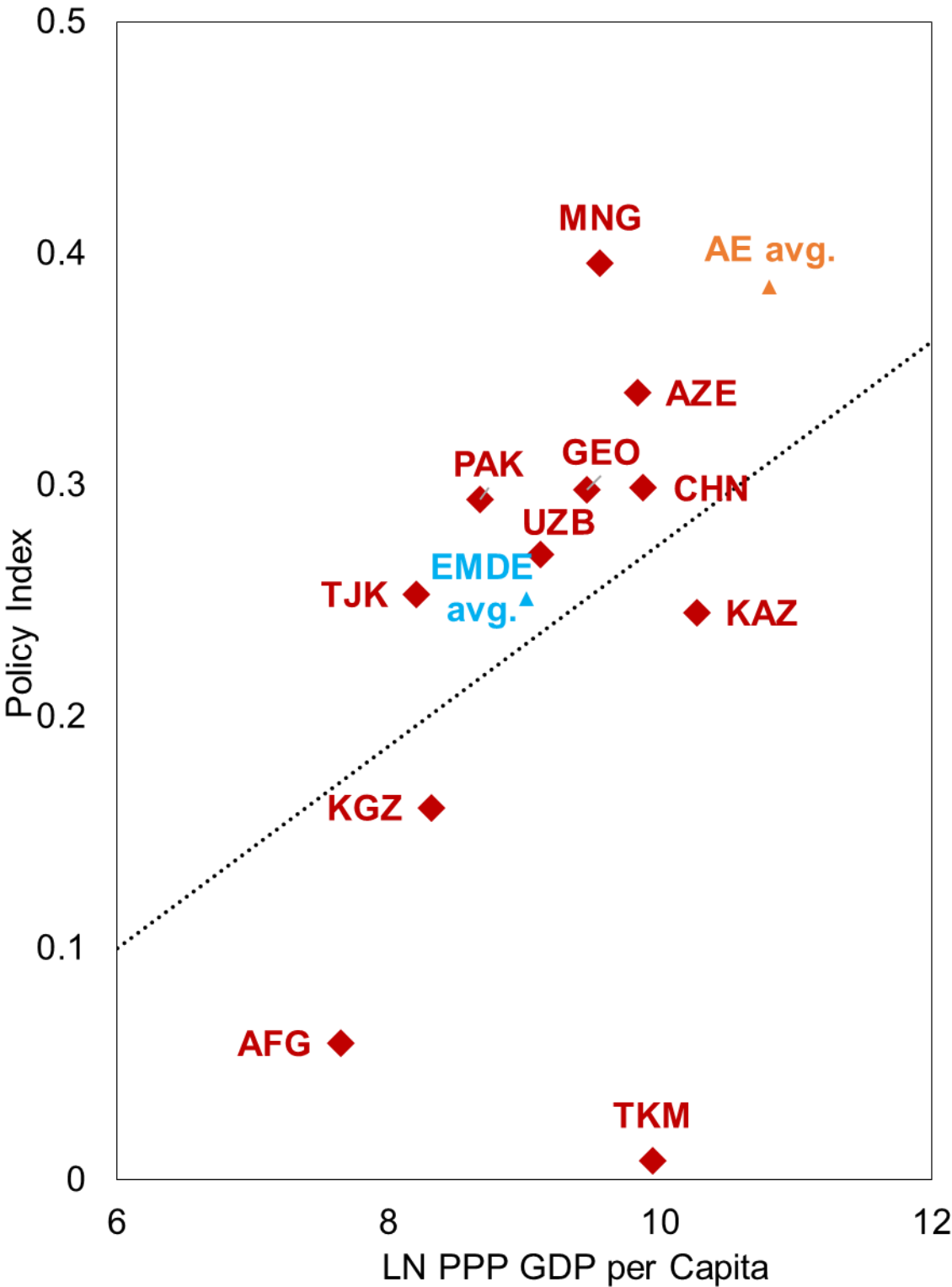
Sources: National Authorities, and IMF Staff Calculations.  
Note: OE= oil exporters, OI= oil importers.

# Size of packages varied depending on stringency of lockdowns and fiscal space

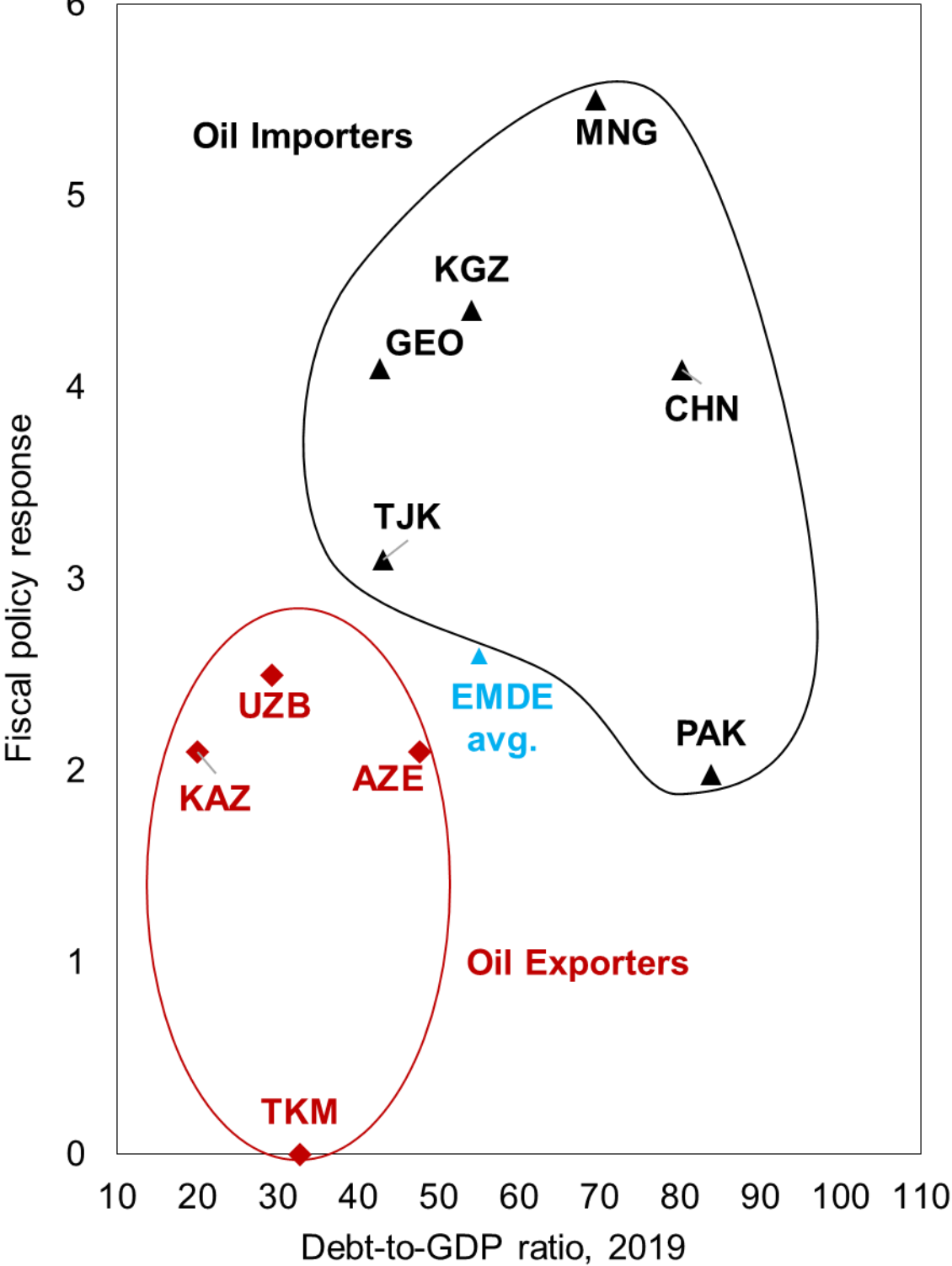
Fiscal Measures and Early Stringency of Mobility



Policy Response Index vs Ln PPP GDP per Capita



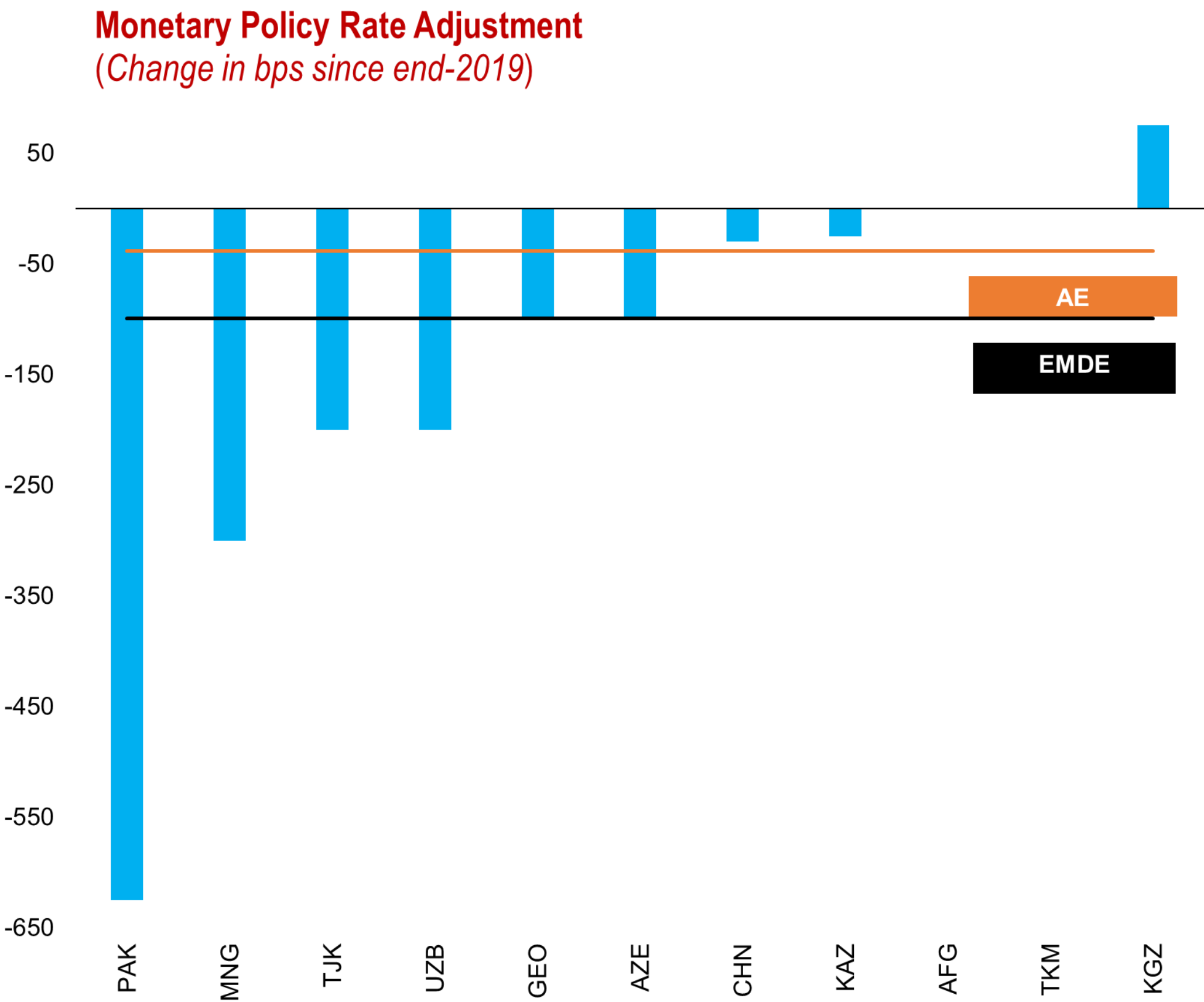
Fiscal Responses to COVID-19 and 2019 Public Debt Levels  
(In Percent of GDP)



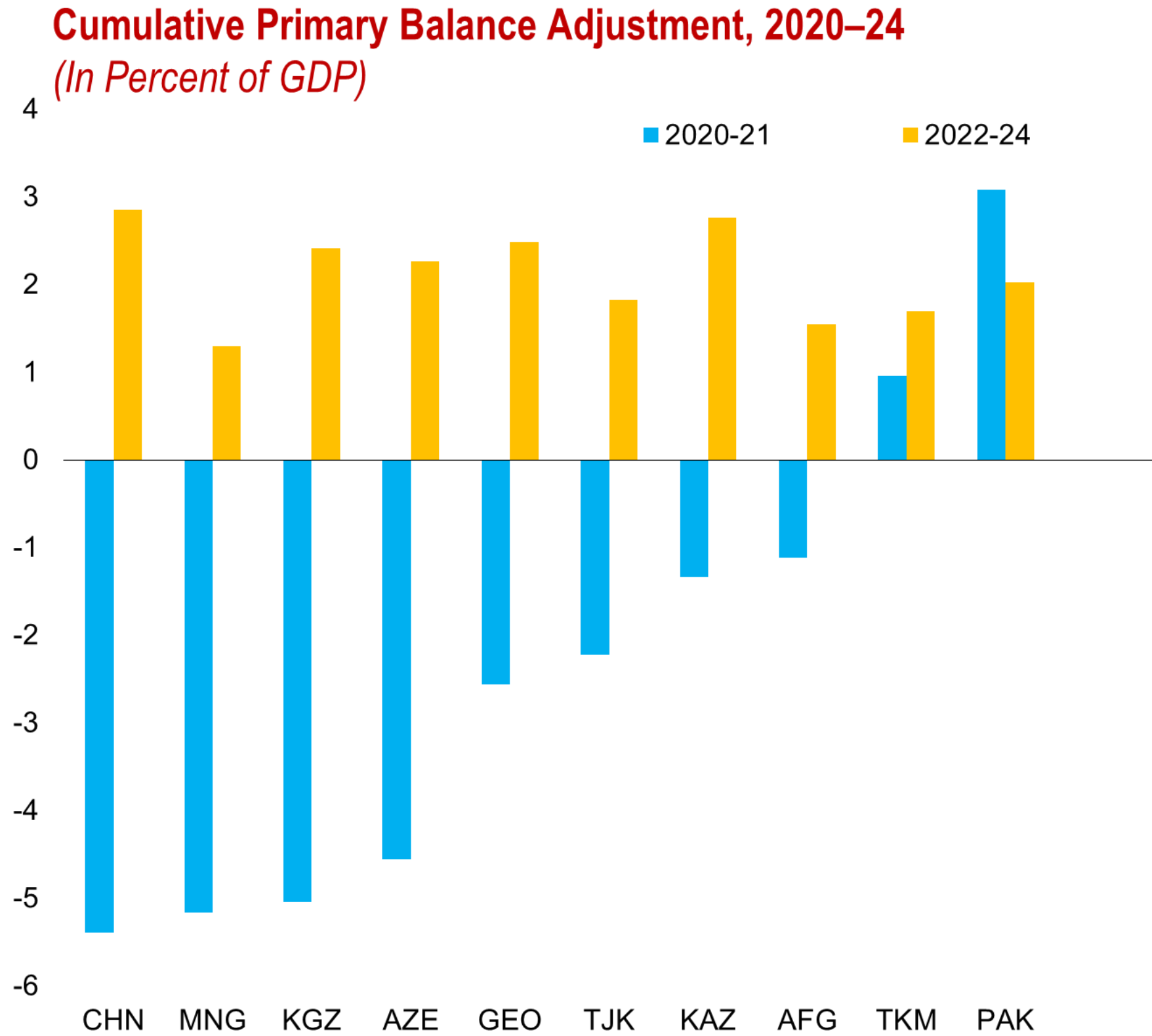
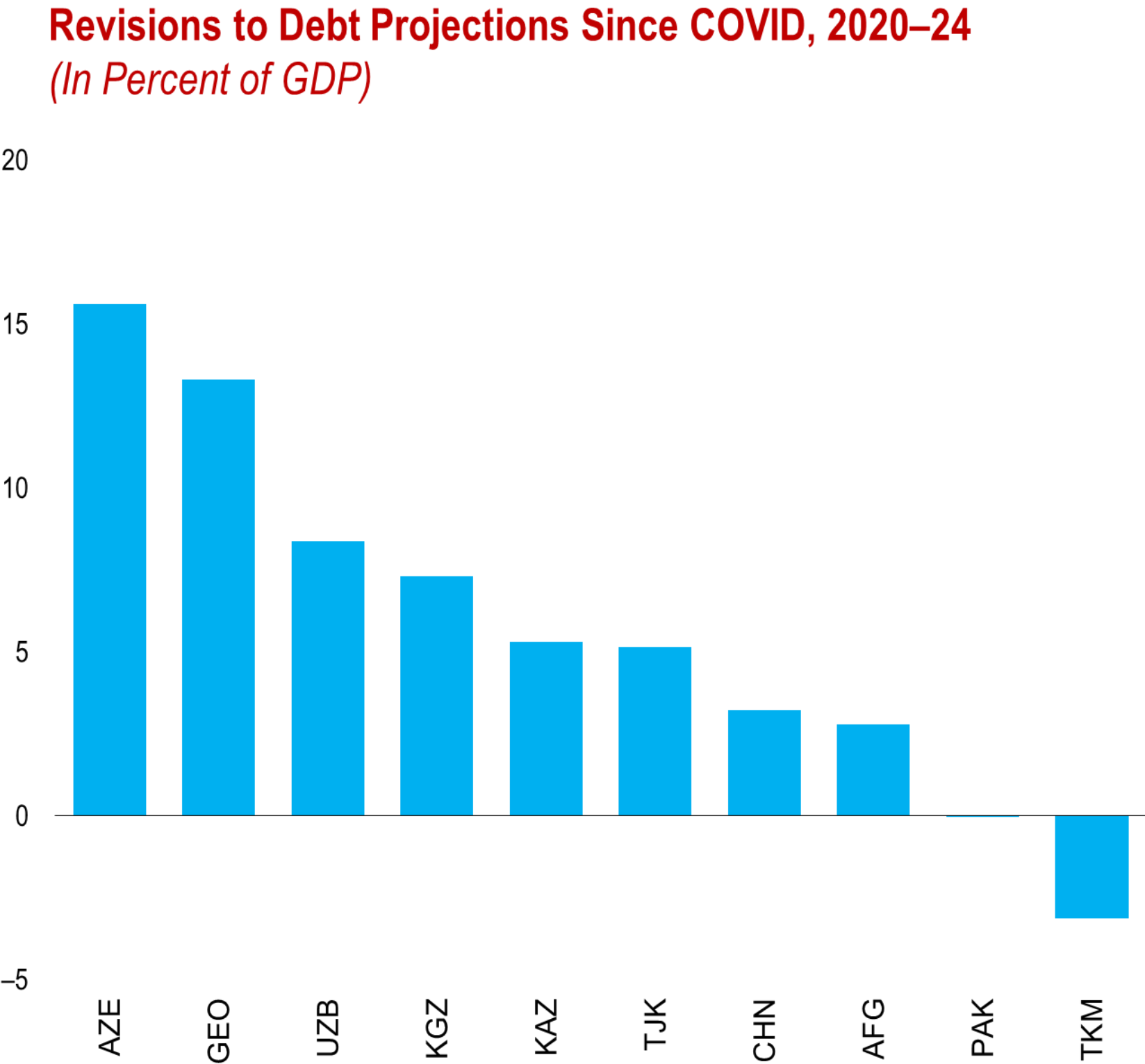
Sources: Oxford COVID-19 Government Tracker, National Authorities, and IMF Staff Calculations.  
Note: The regression line in the 1<sup>st</sup> chart reflects all countries with available observations regardless of income/regional groupings. Fiscal responses are above-the-line expenditure and revenue measures.



# Fiscal relief complemented monetary easing and measures to ensure flow of credit



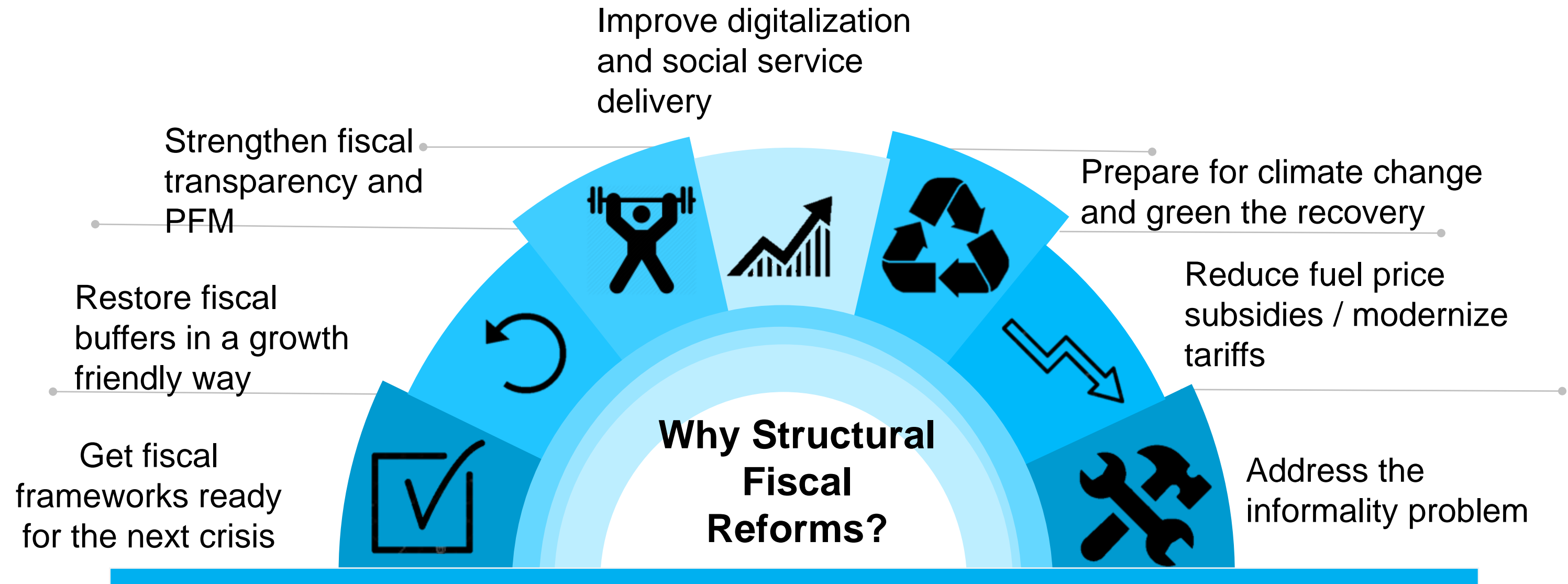
# Public debt is expected to rise following the COVID pandemic, requiring significant adjustment over the medium term



# What are fiscal policy priorities for the coming years?

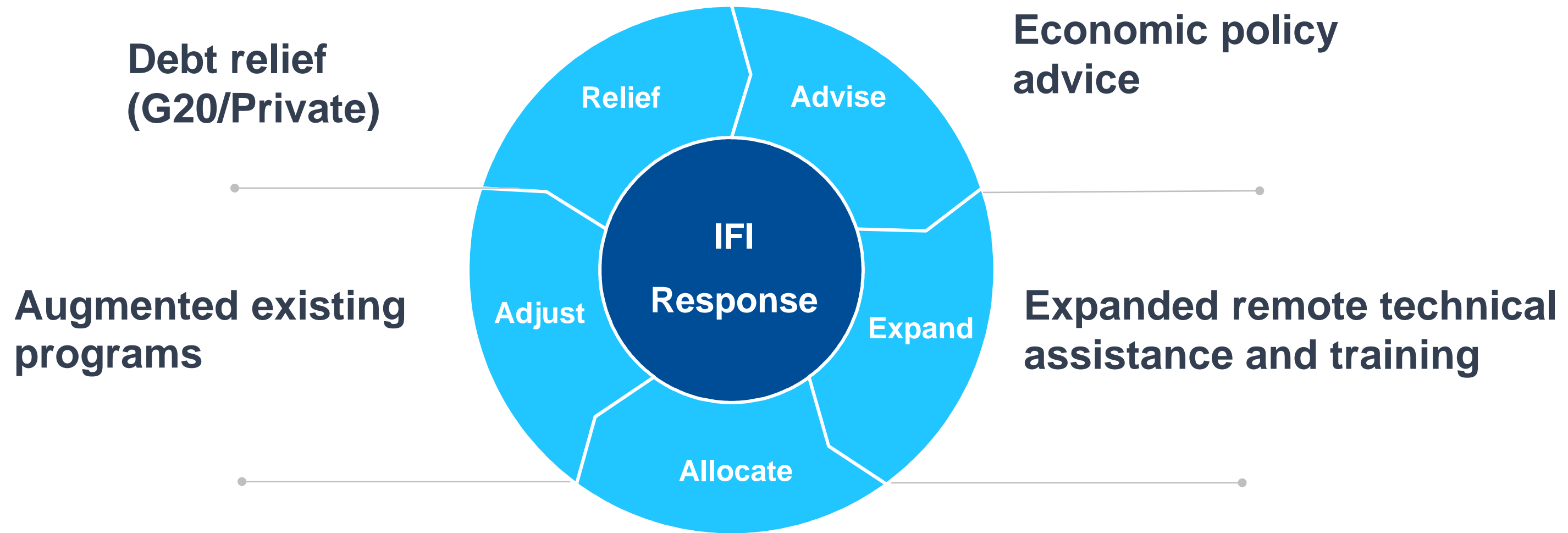
- Continue to defend public health.
- Avoid premature or abrupt withdrawal of support.
- Facilitate reallocation of resources while cushioning the impact.
- Outline how plan to reduce extraordinary spending once economies return to full strength.
- Deal with debt: debt management, transparency.

# Structural fiscal reforms are crucial to strengthen resilience and reduce policy procyclicality





# IFIs initiatives to assist member countries during the pandemic



## New COVID-19 lending facilities and financial assistance:

- **ADB: \$20 billion for more than 45 countries.**
- **IMF: \$100 billion for more than 100 countries.**
- **WB: \$160 billion for more than 100 countries.**

# Takeaways

- Large, timely and innovative fiscal support measures have helped save lives and livelihoods.
- Countries have appropriately transitioned to targeted support to promote safe reopening and recovery.
- Need to avoid premature withdrawal of support and keep fiscal policy flexible while preparing medium-term fiscal and debt plans.
- The COVID crisis underscores the importance of strengthening fiscal frameworks and building buffers in good times, to enable countercyclical policy.
- IFIs stand ready to support countries through financing, policy advice and capacity development.