



CAREC High-Level Virtual Panel on Countercyclical Fiscal Measures for Recovery

28 October 2020, 7.30 pm Manila time; Virtual meeting

SUMMARY

A virtual high-level panel discussing Countercyclical Fiscal Measures for Recovery on 28 October was attended by ministers and senior officials from CAREC member countries. After a joint development partner presentation on prudent countercyclical fiscal management delivered by the International Monetary Fund's Ms. Natalia Tamirisa, ADB Director General of the Central and West Asia Department Mr. Werner Liepach, World Bank Regional Director of the Central Asia Region Ms. Lilia Burunciuc, and the IMF's Director of the Middle East and Central Asia Department Mr. Jihad Azour provided their views on macroeconomic management during the current crisis. A panel discussion on fiscal measures to mitigate the effects of COVID-19 joined by the heads of country delegations followed, which was moderated by the World Bank's Chief Economist for South Asia, Mr. Hans Timmer.

The coronavirus pandemic is having a severe impact on CAREC economies. Trade has declined sharply and 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. CAREC country members have implemented various measures to strengthen the health care system, contain the spread of the pandemic, and soften the adverse impact on the economy. Many CAREC governments have introduced large fiscal 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 2% to 5.5% of GDP in CAREC countries. However, the recession caused by the pandemic, and fiscal measures taken 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 low-income CAREC countries qualifying for and availing debt payment suspension.

The discussion at the webinar reviewed the challenges faced by CAREC members in implementing countercyclical fiscal policies, and helped synthesize experiences and successful lessons so far and explore considerations for the future. The event took place amid high uncertainty about the long-term impact of COVID-19, the most appropriate measures to contain its spread, and the right calibration of the size, composition and duration of fiscal stimulus. International financial institutions reported on best practice fiscal policies, expanded economic support and advice to support CAREC countries during the pandemic.

ADB's Werner Liepach mentioned that structural reforms and targeted infrastructure and social investments will be critical to contain the longer-term economic effects of the pandemic. Financing will need to be found in ways that does not jeopardize fiscal sustainability. World Bank's Lilia Burunciuc offered insights on pro-cyclicality of fiscal policies, in oil importers because of low buffers, while oil exporters face the challenge of low diversification of the economy and hence are disproportionately affected by external shocks. The COVID-19 crisis has reduced fiscal space and therefore requires an even stronger focus on economic return on public investments, reducing inefficiencies, and increasing effectiveness of project implementation and access to capital markets. IMF's Jihad Azour stated that countries that have available fiscal space, should continue to use it to save lives and livelihoods and get the recovery going. Countries with limited fiscal space would need to reprioritize public expenditures and deal with rising vulnerabilities. Once the recovery is secured, countries can shift to rebuilding buffers. In doing so, transformation to a greener, more inclusive, diversified, and ultimately more sustainable growth will be important. All partners agreed that the global pandemic can only be overcome by regional and coordinated measures.

During the panel discussion, the Afghan acting minister of finance, Mr. Abdul Hadi Arghandiwal, reported that the national budget has been considerably revised to support the health response to COVID-19, ensure food security, and protect jobs in the country. Azerbaijan's Mr. Ilham Karimov, head of Budget Policy and Medium-Term Expenditure Center of the Ministry of Finance, shared that in response to the crisis, a Solidarity fund has been set up, modular hospitals were built, and an economic stimulus package is being implemented with tax exemptions and measures for businesses to stay afloat amounting to 4.8% of GDP.

Mr. Weihua Liu, Deputy Director General of the Department of International Economic and Financial Cooperation in the Ministry of Finance of the People's Republic of China reported on a future special bond issuance program to help local governments finance necessary anti-pandemic measures, while keeping the reform momentum on track. Fiscal measures introduced include the reduction of taxes and fees, support to small- and medium-sized enterprises, and an increase in transfers from the central to the local governments. Tajikistan's Deputy Minister of Finance, Mr. Yusuf Majidi outlined fiscal measures to strengthen the health care system, support to the private sector including through tax holidays, and targeted social assistance, balancing the revenue shortfall with the need to provide stimulus and support the health care system. Mr. Nikoloz Gagua, Deputy Minister of Finance of Georgia reported on the severe impact of the crisis on Georgia, transmitted through reduced tourism and remittance receipts. Fiscal reforms are underway to keep debt levels below 60% of GDP, while supporting the economy.

Uzbekistan's Deputy Minister of Finance, Mr. Akhadbek Khaydarov, mentioned the close coordination of the fiscal measures to keep medium term public debt levels in check. The government is using fiscal buffers to support the economy and small businesses through an anti-crisis fund. The Vice Minister of National Economy of Kazakhstan, Mr. Azamat Amrin reported on fiscal measures undertaken to increase access to finance for entrepreneurs, and special procurement procedures that were introduced to fast-track the purchase of needed medical supplies.

Pakistan's Mr. Mohsin Chandna, Special Secretary Finance, highlighted the government's effort in increasing cash transfers to the needy and vulnerable people, tax exemptions for health imports, and supportive monetary policy measures. Mongolia's Ms. Zolboo Ganbold, Head of Budget Consolidation Division of the Ministry of Finance discussed fiscal measures and stimulus amounting to 5% of GDP and Mongolia's Anti-Pandemic law. The representative from Turkmenistan, Mr. Rovshen Nuryagdyev, Deputy Minister of Finance and Economy, shared how the government is prioritizing investment in infrastructure and the social sector, with additional support from the Stabilization Fund. Mr. Avtandil Alybaev, Deputy Minister of Economy of the Kyrgyz Republic noted the country's significant revenue shortfall in 2020 and the need for further development partner support during this difficult economic situation.

The moderator summarized the main points of the discussion mentioning that fiscal policy is a balancing act between stimulus during the current recession, that keeps businesses afloat, retains jobs, and supports social protection systems, while maintaining buffers for sustained economic recovery. Fiscal and debt sustainability remain important medium-term goals to progress on the structural reform path and create conditions for higher growth in the emerging new normal. The moderator concluded that when the house is on fire, the most urgent task is to put out the fire and, when rebuilding the house, to prevent the fire from reoccurring. Translated to the COVID-19 crisis, it would mean to focus on saving lives and to prepare for the time when a vaccine will be available, while supporting the economic recovery through stimulus packages. In the medium and the long run, it is crucial to restore buffers and build back better for greener, more diverse economies, and resilient health care systems.

ADB's Director Mr. Safdar Parvez thanked all participants for their contributions. The next CAREC high-level policy dialogue will focus on financial stability and inclusion and will be held on 14 December 2020, after the 2020 CAREC Ministerial Conference on 7 December. He extended an invitation to all participants to attend these forthcoming meetings.