



Reference Document
For Session 2 of the NFP Meeting
October 2018

Draft Terms of Reference:
**Way Forward for Cooperation on the
Macroeconomic and Financial
Stability Cluster**

**Consultation Meeting of the National Focal Points
Central Asia Regional Economic Cooperation
9–10 October 2018
Ashgabat, Turkmenistan**

Draft Terms of Reference for the Macroeconomic and Financial Stability Cluster

Objective: Achieving sustained high and inclusive growth and job creation requires macroeconomic and financial stability. The new cluster will provide a new platform for CAREC members to discuss and share knowledge and experience on their macroeconomic and financial stability challenges, with a view to improve CAREC members' macroeconomic policy management, promote their financial stability, and strengthen their investment climate. Over time, as policy dialogue among CAREC countries matures, mutually supportive arrangements to institutionalize cooperation of central banks and financial markets regulators and deal with the impact of external shocks such as on the pattern of currency swaps under the Chang Mai Initiative could be explored.

Scope: The range of possible topics would include: (i) scope and requirements for shifting from pro-cyclical to more counter-cyclical monetary, fiscal, and financial policies; (ii) the fiscal and financial sustainability of CAREC members' present development plans; (iii) scope for promoting more inclusive growth and job creation through prioritizing government spending, fairer taxation, and financial inclusion; (iv) domestic financial market development; (v) harmonization of financial sector regulation across CAREC members; (vi) promotion of trade and private investment; and (vii) enhancement of economic diversification.

Targeted audience: the ministries of finance and economy, central banks, and financial sector regulators.

Outputs: Knowledge events, policy seminars, regulators' forums, analytical products, and eventually formalized arrangements for cooperation.

Main platforms: One annual seminar, for example during the Astana Economic Forum,¹ ADB and IMF-World Bank annual meetings, or other mutually agreed venues and platforms; with smaller policy and peer-to-peer learning events and workshops held within the region. CAREC Ministerial conferences also provide the opportunity to hold roundtable discussions on important topics of policy significance.

A first workshop on promoting experience-sharing among financial markets' regulators is proposed. Pakistan's Securities and Exchange Commission (SECP) has kindly offered to host this first meeting in Islamabad.

Content: The seminars and workshops would be based on country experiences, regional and global case studies, analytical products of ADB, IMF, World Bank and other partner institutions and would feature guest speakers from the different institutions.

The work program for the next 1-2 years could include the following topics:

- *Twining high public investment with public debt sustainability.* Many CAREC countries are implementing large-scale public investment projects in a setting of already relatively elevated public debt and within relatively weak public investment management (PIM) frameworks. This topic would focus on how the public investment could be undertaken within a sound PIM framework while respecting fiscal sustainability considerations. Specific issues that could be covered include the dynamic interactions between public investment and debt sustainability, the IMF's PIM assessment framework, policy-based support from ADB, World Bank and other development partners on strengthening fiscal and debt sustainability frameworks, and the need for more rigorous and transparent arrangements for the appraisal,

¹ A first event on "Cyclical Macro Policies in CAREC Countries" was organized on the sidelines of the Astana Economic Forum in May 2018.

selection, approval, and implementation of public investment projects. The regulation and oversight of public-private partnerships (PPPs) and their associated fiscal risks as well as the integration between national investment plans and capital budgeting could also be explored.

- *Are debts in CAREC countries too high?* This topic could review basic debt statistics across different sectors for CAREC countries and examine how fiscal policy can help the private sector deleveraging process. How can policy makers bring down the debt in a growth friendly way? It would utilize information from the April 2018 Fiscal Monitor, MCD's May 2018 Regional Economic Outlook, and country specific debt sustainability analyses (DSAs). The session could also highlight the Fund's work on strengthening public debt transparency (recent G-20 note) and the creation of an expanded debt database.
- *Inclusive growth: Moving from Talk to Practice.* Building on past achievements of CAREC member countries and support from international development partners, this topic could focus on policies that promote sustainable and inclusive growth. Economists have become increasingly aware of the risk that relatively healthy growth can be undercut by excessive inequality. If growth is not widely shared, policymakers may find it difficult to rally support for efficiency-enhancing structural reforms—particularly when adverse shocks occur. Key issues would include the role of tax system progressivity, social and infrastructure spending, employment and training programs (for entrepreneurs, youth, women, and the rural areas), and the role of financial access in promoting inclusive growth.

Policy perspectives for promote greater economic diversification: CAREC countries have so far had a mixed experience in promoting economic diversification to lessen their dependence on natural resources, reduce volatility, and promote greater economic stability. Policies to create a level playing field for the private sector as the main engine for economic diversification, streamlining and corporatizing the role of state-owned enterprises, and exploring the benefits and costs of industrial policy type measures for diversification could be taken up by member countries under this topic.