



ECONOMIC AND FINANCIAL STABILITY CLUSTER PROGRESS REPORT AND WORK PLAN

Reference Document
For the Senior Officials' Meeting
30 June 2021

ABBREVIATIONS

ADB	Asian Development Bank
CAREC	Central Asia Regional Economic Cooperation
COVID-19	Coronavirus disease 2019
IFI	International financing institution
IMF	International Monetary Fund
MC	Ministerial Conference
WB	World Bank

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I. Key Developments and Results

Under the Economic and Financial Stability Cluster, the Central Asia Regional Economic Cooperation (CAREC) envisions to support macroeconomic and financial stability for stronger economic resilience and improved investment climate in the region. The Cluster continues with its mandate of promoting policy dialogue on important economic and financial stability issues in the region, as well as regional learning on macroeconomic policy coordination. In 2020, despite the disruptions brought about by the COVID-19 pandemic, two high-level forums were organized in coordination with the International Monetary Fund (IMF) and World Bank (WB), albeit both in virtual format.

The first in a series of high-level policy dialogues on important economic and financial stability issues in CAREC member countries, held in October 2020, discussed countercyclical fiscal measures for recovery and was attended by ministers and senior officials from CAREC countries. The second high-level policy dialogue, the CAREC Economic and Financial Stability Cluster Forum, discussed financial stability implications and regional cooperation amid the coronavirus disease (COVID-19) pandemic. Senior officials from central banks, financial regulatory authorities, and finance ministries from CAREC countries, together with senior representatives from the Asian Development Bank (ADB), IMF and the WB.

The CAREC Institute published a working paper on [Financial Inclusion and Fintech in CAREC: Constraints and Prospects](#) which discusses financial inclusion as an imperative to achieving economic growth in a globalized market, and as an essential element to accomplish important objectives, such as poverty alleviation, anti-corruption measures, employment, social equity, and wealth redistribution. It examines the potential of financial technology (Fintech) for accelerating financial inclusion level and discusses prospects to widen the net of financial services in the CAREC region.

Indicators	Target 2020	Target 2030	Progress
CAREC governments' institutional capacity for policy formulation and implementation regarding economic and financial stability strengthened	At least 1 high-level forum on economic and financial stability held per year	At least 2 high-level fora on economic and financial stability held per year	Two high-level policy dialogues held in 2020
Information and experiences among CAREC capital market regulators on best practices to accelerate capital market development and facilitate innovation exchanged	CAREC Capital Market Regulators Forum institutionalized through an inaugural meeting in 2019 and second meeting in 2020	At least 1 annual meeting of CAREC capital market regulators At least 1 annual meeting of capital market regulators' working groups	2 nd Capital Market Regulators' Forum moved to be rescheduled

Indicators	Target 2020	Target 2030	Progress
CAREC Forum on economic and financial stability was attended by high-level participants	At least 30% of participants are at the level of Central Bank Governor or Minister	At least 60% of participants of at least one of the two annual CAREC Fora per year are at the level of Central Bank Governor or Minister	Majority of attendees to 2020 high-level policy dialogues were deputy/vice ministers of finance and central bank deputy governors.
Development partner coordination in the area of economic and financial stability strengthened	CAREC economic and financial stability forum co-organized by at least two other international financing institutions (IFI)	CAREC economic and financial stability forum co-organized by at least three other IFIs	High-level policy dialogues held in 2020 were organized by ADB in coordination with the IMF and WB
CAREC economic and financial stability background paper jointly produced by co-organizers of CAREC forum.	At least one joint background paper produced per year.	At least one joint background paper produced per year.	Analytical work on various topics planned for 2021 completion.
ADB research related to economic and financial stability within ADB is coordinated in a one-ADB approach to benefit CAREC countries	At least 1 study of ERCD/SDCC on regional economic and financial stability issues is covering at least 3 CAREC countries	At least 2 studies of ERCD/SDCC on regional economic and financial stability issues are together covering at least 3 CAREC countries.	Analytical work on various topics planned for 2021 completion.
CAREC Capital Market Regulators supported with knowledge products, capacity building and events to exchange experiences on product innovation.	By 2020, at least 1 working group on capital market regulation constituted. By 2020, at least one report on capital market regulatory gaps and cooperation potential finalized.	By 2030, at least 3 working groups on capital market regulation constituted. By 2030, at least ten reports on capital market regulatory gaps and cooperation potential finalized.	Targets for 2020 moved for 2021 completion.
Pilot initiatives for regulatory and legal harmonization tested.	By 2020, at least one report on potential capital market innovations in CAREC countries finalized.	By 2030, at least 3 pilot initiatives tested and shared in the CAREC capital market regulators forum.	Draft blueprint report targeted for 2021 circulation to CAREC DMCs for comments.

II. Challenges and Key Issues

The COVID-19 pandemic has not only caused unprecedented human and health crises. It also caused dramatic impacts on global economies and financial systems, and the prolonged effect of the pandemic has significantly affected global financial stability.

Risk asset prices have fallen sharply and many equity markets, regardless of size of economy, have experienced declines and the spike in volatility has caused significant deterioration in market liquidity. The initial responses of central banks to stabilize financial systems and support the economy by easing monetary policy rates, providing additional liquidity and implementing broad-based programs, among others have helped cushion the effects of the pandemic on the economies and financial systems.

However, the prolonged duration of the pandemic continue to pose threats to the financial system, and central banks and finance ministries would need to continuously strategize on monetary, fiscal, and financial policies with the objective of cushioning the impact of the pandemic and ensure sustainable post-pandemic recovery.

In the context of CAREC, regional and international cooperation on economic and financial stability issues would play a vital role in ensuring support to vulnerable economies and strengthening post-pandemic recovery efforts in the region.

III. Work Program for 2021

A. Macroeconomic and Fiscal Policy Forum (Q4 2021)

Topic: The role of fiscal policies in addressing post-pandemic inequality

Subtopic: Redistributive fiscal policies and social spending for tackling inequality over the coming years in the CAREC countries

Reference paper: IMF Departmental Paper No. 2020/012, Social Spending for Inclusive Growth in the Middle East and Central Asia

In the aftermath of the COVID-19 crisis inequality has risen in all CAREC countries that can damage social cohesion, lead to political polarization, and ultimately weigh on economic growth. The objective of this event is to focus on the role of fiscal policies in addressing post-pandemic high levels of inequality.

The event will provide a venue for the policy makers of CAREC member countries and development partners to discuss recent trends in income inequality in the region and present a roadmap of redistributive fiscal policies over the coming years, such as progressivity of income taxation and public spending policies for achieving more equitable education and health outcomes.

B. High Level Policy Dialogue on Financial Stability (Q3 2021; to be held on the sidelines of the Astana Finance Days)

Financial inclusion—the extension of savings, credit, insurance, and payment services to underrepresented segments of society—contributes to inclusive growth and reduced levels of inequality. Greater access to financial services can help firms invest, employ people, and expand.

For households, it can reduce the vulnerability to adverse shocks and poverty traps. Greater financial inclusion can also foster more effective macroeconomic frameworks, as it supports higher fiscal activity, augments multipliers and improves monetary policy transmission.

The Covid-19 pandemic has posed unprecedented challenges to the global economy and financial system to date. Widely adopted lock-down measures to prevent spreading of the virus had a profound impact especially on the underserved segment of the economy, low income households and micro-, small-, and medium-sized enterprises (MSMEs). However, new opportunities emerged with fintech and innovative financial solutions enhancing financial inclusion and broadening access to financial services by capitalizing on technological advances. It mitigates the risks and lack of information associated with underserved households and MSMEs via digital financial services and enhanced risk management.

The event will provide a venue for the policy makers of CAREC member countries, development partners, and private sector participants to share and learn lessons from (i) various governments' policy responses to the pandemic, particularly to promote financial inclusion for the poor and MSMEs under the COVID-19 pandemic crisis; and (ii) use of fintech and innovation to effectively promote financial inclusion.

C. CAREC Regional Capital Market Development Blueprint Report (2022)

The Secretariat, in consultation with member countries and development partners, will carry out a study on CAREC regional capital market development and prepare a blueprint report with (i) macroeconomic analysis on the benefits/justification of regional cooperation initiatives for integrated capital markets development in CAREC countries; (ii) landscape of capital markets development and regulatory framework in each country of CAREC; (iii) establishing an achievable vision and goals with a road map for enhanced regional cooperation for integrated capital market development in CAREC region; (iv) options for the structure of capital market regulators forum; (v) identification of next steps and pilot projects/studies to be carried out in various areas including bond markets, equity markets, legal/regulatory harmonization, capacity building, standard settings, cross-listing, mutual/multilateral recognition, etc.