



CAREC Economic and Financial Stability Cluster Forum

Social Spending to Tackle Rising post-COVID-19 Inequality in CAREC

Background¹

After a contraction of 1.5% in 2020, the CAREC region is projected to grow at 4.1% in 2021, slightly moderating to 3.9% in 2022 (IMF, World Economic Outlook, October 2021). Output losses in 2020 have been particularly large for the region's countries that rely on tourism (e.g. Georgia), commodity exports (e.g. Kazakhstan, Azerbaijan, Mongolia) and for those with limited policy space to respond (e.g. Tajikistan, the Kyrgyz Republic). Despite the nascent recovery, the regional outlook remains uncertain, depending on the path of the pandemic, the effectiveness of policy actions to limit scarring, enhanced inflationary pressures, the evolution of global financial conditions and commodity prices, and economic developments in trade partner countries.

Even before the COVID-19 crisis, poverty and high and rising inequality were posing significant challenges for the policymakers in the CAREC countries. Many economies of the region entered the crisis with limited fiscal space and inadequate capacity to tackle health and economic crises. The COVID-19 crisis has exposed vulnerabilities in health infrastructure and social safety nets of the region. The income losses caused by the pandemic threaten to leave lasting scars and have a multidimensional effect on the region's economies. COVID-19 pushed almost 2 million more people into extreme poverty and 10 million more people into poverty in the CAREC region, compared with a scenario without COVID-19 (ADB, Key Indicators for Asia and the Pacific, 2021).² The economic growth projected for this year and next will not bring poverty in 2022 down to what it would have been in 2020 had the pandemic not happened. Progress on reducing poverty has thus been set back more than 2 years.

The severe contraction in 2020 had adverse impacts on employment and incomes. In the CAREC region, the losses in working hours are estimated at an average of 8% in 2020 relative to the fourth quarter of 2019 (International Labor Organization, COVID-19 Monitor, 2021). Prolonged business closures and unemployment increased the risk of substantial labor market scarring. Unemployment rates soared across CAREC, increasing in 6 of the 8 economies with available data. As elsewhere in the world, certain segments of society were affected more than others; low-skilled and informally employed workers have generally been hit the hardest, as they were more likely to work in contact-intensive sectors. At the same time, learning losses associated with school closures have reached 0.25 learning-adjusted years of schooling on average in CAREC (ADB, Asian Development Outlook, April 2021), while disparities in access to schooling, especially during online instruction could further amplify income inequality in the future. Income inequality within the region's countries, measured by Gini coefficient, is estimated to widen by 0.04 points, on average (IMF, Fiscal Monitor, October 2020).

Tackling rising inequality and poverty is now more urgent in CAREC countries. Public investment in high quality education and health care should be increased; fiscal transfers should be better targeted toward retraining and reallocating workers; and social safety nets should be

¹ The background note is based on IMF, Social Spending for Inclusive Growth in the Middle East and Central Asia, Departmental Paper Series, No. 20/12, September 2020.

² The number of people living in extreme poverty is defined as those living below the income threshold of USD 1.90 a day (2011 purchasing power parity), while poverty is measured using the higher threshold of USD 3.20 a day.



strengthened. This would make recovery more inclusive and reduce the economic scarring from the pandemic.

While there is significant cross-country diversity, social spending in the region has been generally lower than in other parts of the world (IMF, Social Spending for Inclusive Growth in the Middle East and Central Asia, September 2020). Governments in the CAREC region devote 11.7% of GDP on average to social spending, compared to the average of 14.1% in emerging market economies. While socioeconomic outcomes in the region have improved substantially over the last two decades, the rate of progress appears to be slowing down, making CAREC countries lag its peers on health and education indicators. The efficiency of social spending has also generally been low in the region. Higher and more efficient public spending on health and education significantly improve health and education outcomes. To this end, policymakers in the region would need to mobilize additional financial resources and prioritize social spending, but also improve efficiency of this spending by strengthening institutions, governance and transparency. Without weakening debt sustainability, the needed fiscal space could be created through expenditure reprioritization and enhanced revenue mobilization.

For their part, the International Financial Institutions (IFIs) provided extensive emergency financing during the COVID-19 crisis to support spending, including on health, education and social protection. Going forward, as the economies emerge from the crisis, possible engagement with the IFIs would gradually return to conventional modes of program and project financing. Furthermore, with the recovery, donor financing is likely to return to pre-crisis levels, while large social spending needs remain, which calls for additional efforts and reforms to attract donor money.

The region's output will be below the prepandemic trend in 2021 and 2022 despite the rebound in growth. With the delayed recovery making it even more difficult to avoid long-term economic scarring, now is a good time to review the challenges faced by CAREC members in implementing policies that aim to improve socioeconomic outcomes and confront rising inequality, 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 policymakers, finance, social affairs or education ministries and other officials from CAREC countries, together with senior representatives from the ADB, IMF, and the WB. After an opening presentation on “Tackling Inequality in an Uncertain Recovery” and statements by development partners, selected country delegates will be invited to share their experiences and lessons learned on social spending and building a strong and resilient social protection system against future shocks and pandemics. The panel discussion will close with a brief summary of the main results of the discussion.

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| Date | Monday, 22 November 2021 8:00 pm - 10:00 pm (Manila), 7:00 am –09:00 am (D.C.) |
| Format | Virtual webinar using Zoom |
| Participants | High level government officials, including ministers of finance, social affairs or education from CAREC region, ADB, IMF, World Bank staff |



CAREC High-Level Policy Dialogue on Social Spending to Tackle Rising post-COVID-19 Inequality in CAREC

Agenda

Moderator: Mr. Tariq Niazi, Director, Public Management, Financial Sector, and Trade Division, Central and West Asia Department, ADB

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| <p>22 November 2021 7:45pm–8:00pm (Manila time)</p> | <p>Registration to the zoom meeting</p> |
| <p>8:00pm–8:05pm</p> | <p>Welcome Remarks by Mr. Anar Kerimov, Deputy Minister, Ministry of Labour and Social Protection of Population, Republic of Azerbaijan (CAREC chair)</p> |
| <p>8:05pm–8:20pm</p> | <p>Opening Presentation (joint presentation by development partners): Tackling Inequality on An Uncertain Road to Recovery</p> <p>Presenter: Mr. Alain Borghijs, Officer-In-Charge, Regional Cooperation and Operations Coordination Division, Central and West Asia Department, ADB</p> |
| <p>8:20pm–8:35pm</p> | <p>Statements by development partners</p> <p>Mr. Jihad Azour, Director, Middle East and Central Asia Department, IMF Ms. Tatiana Proskuryakova, Regional Director, Central Asia Region, World Bank Mr. Yevgeniy Zhukov, Director General, Central and West Asia Department, ADB</p> |
| <p>8:35pm – 9:55pm</p> | <p>Moderated panel discussion on social spending measures in the context of the broader COVID-19 crisis response and macroeconomic policies</p> <p>Moderated by: Mr. William Seitz, Senior Economist and Team Leader, Poverty and Equity Program in Central Asia, World Bank</p> <p>Panel discussants:</p> <ul style="list-style-type: none"> • Mr. Koba Gvenetadze, Governor, National Bank of Georgia • Mr. Majidi Yusuf, Deputy Minister of Finance, Tajikistan • Mr. Begmyrat Allakbayev, Deputy Minister of Finance and Economy, Turkmenistan • Mr. Nessibkulov Yerzhan, Director of Department for International Economic Cooperation, Ministry of National Economy, Kazakhstan • Mr. Noor Rehman, Director General, Benazir Income Support Program, Pakistan • Mr. Peizhuang Yi, Level I Bureau Rank Official, Department of Social Assistance, Ministry of Civil Affairs, People's Republic of China <p>To give views:</p> <ul style="list-style-type: none"> • Mr. Yevgeniy Zhukov, Director General, Central and West Asia Department, ADB • Mr. Jihad Azour, Director, Middle East and Central Asia Department, IMF |



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| | <ul style="list-style-type: none"> • Mr. William Seitz, Senior Economist and Team Leader, Poverty and Equity Program in Central Asia, World Bank • Mr. Andrey Shirokov, Managing Director, Eurasian Fund for Stabilization and Development <p>Specific questions for CAREC countries</p> <ul style="list-style-type: none"> • What is the social spending policy experience and lessons learned in CAREC countries to build a strong and resilient social protection system against future shocks and pandemics? • What lessons can CAREC countries learn from each other, and from other countries in designing effective, adequate and sustainable social spending responses to tackle the post-COVID-19 inequality? • What can CAREC countries expect from IFIs to improve socioeconomic outcomes going forward in the aftermath of the COVID-19 crisis? |
| <p>9:55pm-10:00pm</p> | <p>Summary and way forward</p> <p>Mr. Tariq Niazi, Director, Public Management, Financial Sector, and Trade Division, Central and West Asia Department, ADB</p> <p>Concluding remarks</p> <p>Mr. Anar Kerimov, Deputy Minister, Ministry of Labour and Social Protection of Population, Republic of Azerbaijan</p> |