

CLUSTER ON ECONOMIC AND FINANCIAL STABILITY

REPORT FROM ASTANA MEETING AND WAY FORWARD

Bangkok

June 28, 2018

Overview

- Objectives of new CAREC cluster
- Report on Astana Meeting
- Way forward



New CAREC Economic and Financial Stability Cluster: Objectives of 2030 LT Strategy

Improving macroeconomic policies

- By adopting counter-cyclical monetary and fiscal policies (*Astana meeting topic*)
- By considering regional risk-sharing arrangements to buffer shocks

Promoting financial stability

- By adopting counter-cyclical financial sector policies (*Astana meeting topic*)
- By developing domestic financial markets
- By harmonizing financial sector regulation
- By promoting financial initiatives that increase trade and investment

Strengthening investment climate

- To boost private investment, including attracting cross-border investments
- To promote economic diversification



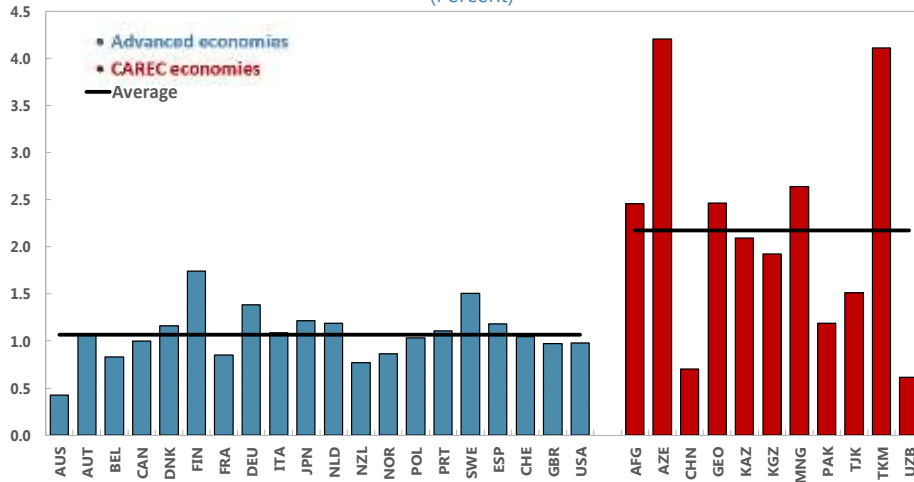
Report on Astana Meeting: Benefits of Counter-Cyclical Policies

- Counter-cyclical stabilization policies reduce output volatility
 - Output volatility especially bad for low-income and young workers
- Counter-cyclical stabilization policies increase average output growth
- But designing and implementing counter-cyclical stabilization policies is a challenge for all countries
 - But especially for low- and middle-income countries



Report on Astana Meeting: Cycles in CAREC Economies

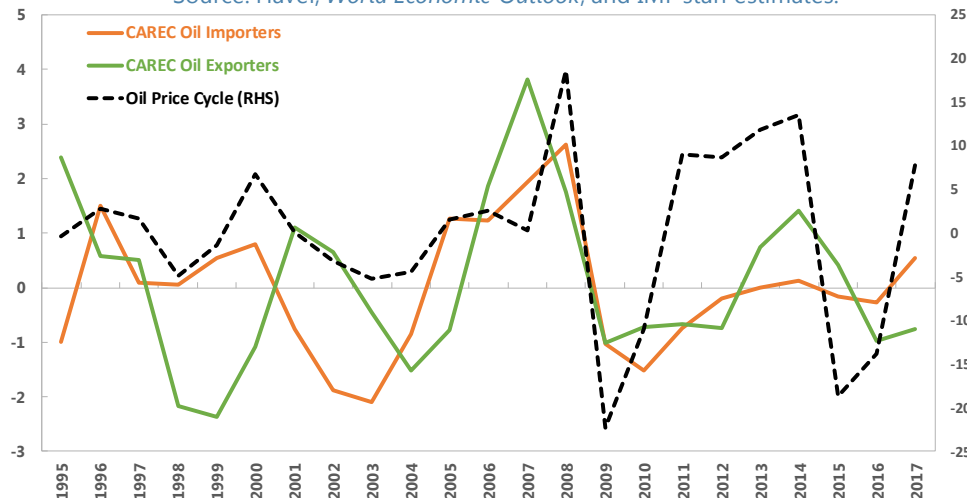
AEs and CAREC Economies: Standard Deviation of Output Cycles, 1995-2017
(Percent)



- Separating output cycles (temporary shocks) from output trends (permanent) shocks is difficult, especially in real time
- Historically, output cycles in CAREC economies about twice as large as cycles in advanced economies

Weighted Average Output Cycle and Oil Price Cycle, 1995-2017

Source: Haver, *World Economic Outlook*, and IMF staff estimates.

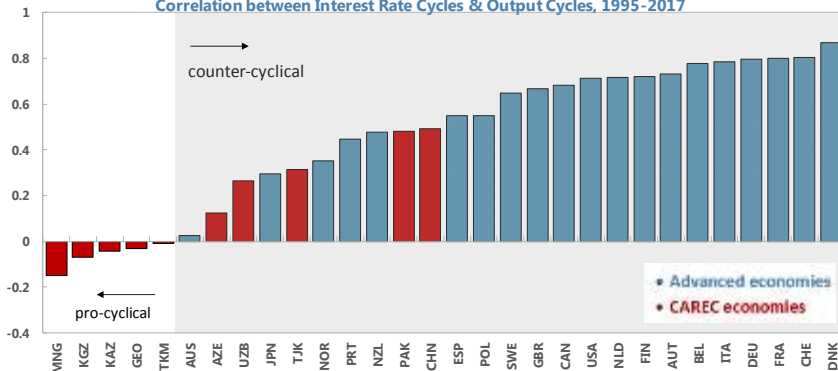


- Commodity price cycle key external driver of output cycles in many CAREC economies

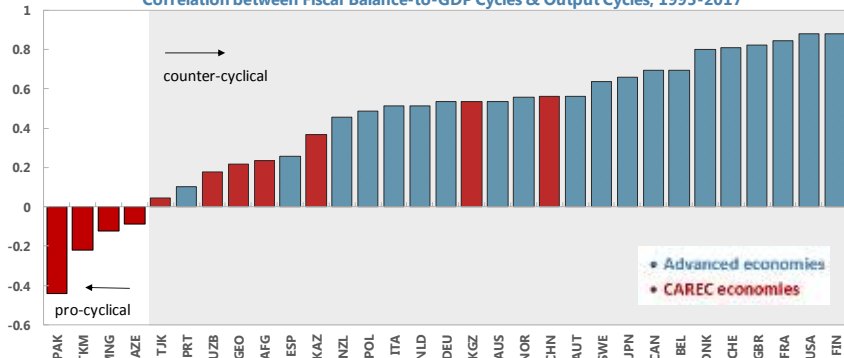


Report on Astana Meeting: Cyclical Policy Behavior in CAREC Economies

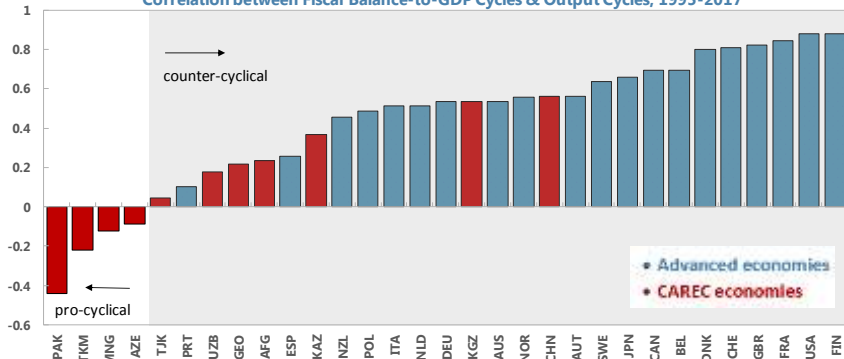
Correlation between Interest Rate Cycles & Output Cycles, 1995-2017



Correlation between Fiscal Balance-to-GDP Cycles & Output Cycles, 1995-2017



Correlation between Fiscal Balance-to-GDP Cycles & Output Cycles, 1995-2017



• Monetary policy

- In many CAREC economies, counter-cyclical monetary policy option during downturns not available
- This often reflects fear of free falling exchange rates = perceived need to defend exchange rates during downturns by hiking interest rates

• Fiscal policy

- In many CAREC economies, during output expansion phase (good times) pressures to spend more and cut taxes
- During output downturns (bad times), need to cut spending and raise taxes because of high fiscal deficits and inability to borrow
- Public investment spending especially pro-cyclical

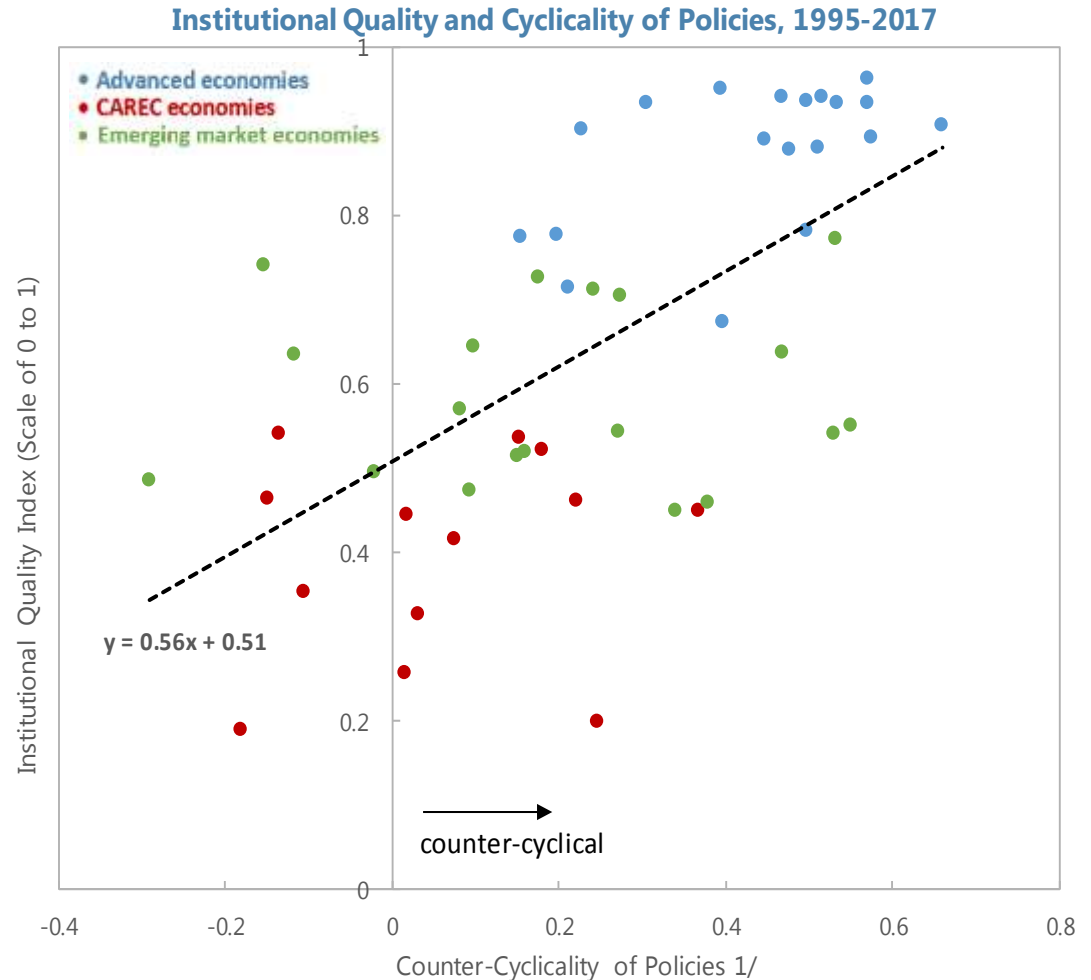
• Financial sector policies

- In many CAREC economies (but also AEs), supervisory and regulatory frameworks not sufficiently rules- and risk-based



Report from Astana Meeting: Graduating from Pro-Cyclical to Counter-Cyclical Policies

- Better policy frameworks help
 - Monetary policy: inflation targeting
 - Fiscal policy: fiscal rules and stabilization funds
 - Financial sector policies: Basel III
- But better policy frameworks do not automatically yield counter-cyclical policies
- Ultimate graduation bottleneck seems to be quality of governance (or institutional quality)



Sources: *International Country Risk Guide Index*, and IMF staff calculations.
1/ Simple average of monetary, fiscal, and financial sector policy correlations.

Way Forward: Ideas to Establish Cluster as a Peer-to-Peer Learning Platform

Audience

- Ministries of finance, central banks, and financial sector regulators

Platform

- One main annual seminar (one location/timing option: Astana Economic Forum)
- Smaller events to be held within the region
- Focus on policy dialogue among CAREC members and peer-to-peer learning

Contents

- Presentations of CAREC country experiences
- IFI presentations on “hot” stabilization topics
- Discussions of non-CAREC country case studies
- Guest speakers from other institutions (e.g., BIS, ECB, FED)
- Use of IMF analytical products (Article IV, WEO, REO and GFSR reports)



Way Forward: Ideas to Establish Cluster as a Peer-to-Peer Learning Platform

Metrics

- Indicators of cyclical policy implementation
- Financial market development indicators
- Investment climate indicators
- Cross-border investment indicators
- Export diversification measures
- Regional trade and supply chain indicators
- Indicators on use of trade finance and hedging

