



Senior Officials' Meeting

28 June 2022

# CAREC 2030: Economic & Financial Sustainability

July 2021 to June 2022

Central Asia Regional Economic  
Cooperation (CAREC) Program





**CAREC ECONOMIC AND FINANCIAL  
SUSTAINABILITY CLUSTER  
PROGRESS REPORT AND WORK PLAN  
JULY 2021 - JUNE 2022**

Reference Document  
Virtual Senior Officials' Meeting  
Central Asia Regional Economic Cooperation 28  
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## **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



## 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 2021, despite continued disruptions brought about by the COVID-19 pandemic, two high-level forums on important economic and financial stability issues in the CAREC region were organized by the Asian Development Bank (ADB) in coordination with the International Monetary Fund (IMF) and World Bank (WB), both in virtual format.

The [first high-level policy dialogue](#) was held on 1 July 2021 as a side event during the [Astana Finance Days 2021: Restoring the Growth](#) conference and attended by senior officials from central banks, financial regulatory authorities, and finance ministries from CAREC countries, together with representatives from the ADB, IMF, WB and private sector. The event highlighted the role of fintech innovation to increase access to finance for small businesses and the poor who have been disproportionately impacted by the COVID-19 pandemic.

The [second high-level policy dialogue](#) discussing Social Spending to Tackle Rising post-COVID-19 Inequality was held on 22 November, attended by ministers, deputy ministers, central bank governors and senior officials from CAREC member countries. Keynote statements were delivered by the ADB, IMF and WB, and panelists from CAREC countries and development partners provided views on social spending measures in the context of the broader COVID-19 crisis response and macroeconomic policies.

The CAREC Institute, together with the ADB Institute, published a book on [COVID-19 and Economic Recovery Potential in the CAREC Region](#) which explores ways to unlock sustainable and inclusive growth opportunities in CAREC countries by analyzing innovations in digital transformation, e-taxation, financial technology promotion, and debt sustainability, and the impact on small businesses and households. The book's insights provide a springboard for crisis response efforts across CAREC countries aimed at accelerating economic recovery.

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 2021
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 <sup>nd</sup> Capital Market Regulators' Forum is rescheduled to 2023



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 high-level policy dialogues were ministers/deputy ministers of finance, central bank governors/deputy governors and senior officials of CAREC countries
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 2021 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 2022-2025 completion under proposed technical assistance
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 2022-2025 completion under proposed technical assistance
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 2023-2025 completion under proposed technical assistance.
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 study on CAREC Capital Markets Landscape study prepared and circulated to CAREC DMCs for comments, and finalized in 2022



## II. Challenges and Key Issues

The prolonged COVID-19 pandemic has not only caused unprecedented human and health crises but also caused dramatic impacts on global economies and financial systems. The effect of the pandemic has significantly affected global financial stability and continues to pose threats to the financial systems of CAREC countries. 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.

And just as the region, and the world in general, is slowly gaining pace on the road to recovery from the economic impact of the pandemic, the Russia-Ukraine conflict and the accompanying sanctions have triggered a new wave of economic and financial impacts to the region given the high dependence of a number of CAREC countries on Russia.

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 and resilience from the impacts of the geopolitical conflicts in the region.

## III. Proposed Work Program for 2022

### A. CAREC High-level Financial Stability Forum (Q3 2022; virtual)

*Topic:* Russian Sanctions and its Impact on Financial Stability in the CAREC region

*Subtopic:* Elevated risks to financial stability in the region and policy response; Challenges to banking sector, financial institution, payment system, and mitigation measures

The CAREC region, especially Central Asian economies, have strong economic linkages with the Russian economy through trade, remittances, FDI, tourism and financial transactions. The recent sanctions imposed on Russia because of geopolitical conflicts with Ukraine could induce severe recession in Russia and is expected to impact through direct and indirect channels fiscal and trade balances, inflation, monetary and exchange rate policies, and financial intermediation in the CAREC region. Compounded by the COVID-19 pandemic shock, the impact from the Russian economic sanctions may be more significant on remittance reliant economies and net oil importers, magnifying vulnerabilities, including higher debt distress risk and deterioration of banking system's financial intermediation capacity. Meanwhile, higher global energy and food price could support post pandemic recovery and fiscal balance in net oil exporters.

Indirect negative effects of sanctions on Russian banks could test the financial systems in the region as these banks play an integral role in the Central Asian financial systems. Further, the Russian disconnect from SWIFT holds grave consequences for the CAREC member states, including disruptions in financial flows in countries that rely on Russia to complete cross-border transactions.

In this context, it will be meaningful to examine what will be the challenges to the financial stability in the region and explore policy measures that will mitigate the risks posed. This virtual event will provide a venue for CAREC member country policy makers, development partners, and private sector representatives to share their views, experiences, and plans for:

1. macroprudential policy framework and measures aimed at mitigating the elevated risks to financial stability in CAREC region; and
2. emerging challenges to the overall banking system, financial institutions, and



international payment system, and policy measures to mitigate the risks arising.

## **B. CAREC High-level Fiscal Policy Forum (Q4 2022; hybrid format)**

*Topic:* Domestic Resource Mobilization

*Subtopic:* Mobilizing taxes for development amid post-pandemic uncertainty and a new economic shock in the CAREC region

Achieving the SDGs for a greener and more inclusive future will require vast public spending in CAREC. The need to restore fiscal sustainability in the wake of the COVID-19 pandemic and the ongoing crisis brought about by Russia-Ukraine conflict is crucial for all countries. In this context, revenue mobilization remains essential to augment fiscal space across the region. Potential exists to increase tax revenue, with tax capacity estimates, which benchmark revenue against key economy characteristics, suggesting that CAREC could increase tax revenue from a pre-pandemic average.

## **C. Study on CAREC Regional Capital Market Landscape (Q4 2022)**

The Secretariat, in consultation with member countries and development partners, will carry out a study on CAREC Regional Capital Market Landscape to set the stage for future analytical work under the cluster. The proposed study will: (i) examine the landscape of capital market development and regulatory framework in each CAREC country; (ii) contemplate the establishment of an achievable vision and goals with a road map for enhanced regional cooperation for integrated capital market development in CAREC region; (iii) deliberate on options for the structure of the capital market regulators forum; and (iv) identify next steps and pilot projects/studies to be carried out in various areas including bond markets, equity markets, legal and regulatory harmonization, capacity building, standard setting, cross-listing, mutual and multilateral recognition, among others.

## **D. Proposed Technical Assistance Project supporting the CAREC Regional Capital Markets Regulators Forum (Q3 2022)**

The proposed project will support the CAREC program's operational priorities under CAREC 2030 to strengthen economic and financial stability, investment, and financial integration in the region by promoting policy dialogue and regional learning. It is envisioned to support CAREC countries to complete the groundwork for the formal establishment of the CAREC Capital Markets Regulators Forum and launch its activities. The forum is designed to enhance regional cooperation and integration (RCI) efforts in the development of the CAREC countries' capital markets by promoting knowledge exchange, building capacity, and piloting such regional initiatives as the harmonization of legal and regulatory frameworks. Target approval of the proposed project is by Q3 2022.