INTERNATIONAL MONETARY FUND

Caucasus, Central Asia, and Mongolia

Regional Capacity Development Center

DEVELOPMENT PARTNERS: SWITZERLAND | RUSSIA | CHINA | KOREA | UNITED STATES | EUROPEAN UNION | ASIAN DEVELOPMENT BANK | POLAND

MEMBER COUNTRIES: ARMENIA | AZERBAIJAN | GEORGIA | KAZAKHSTAN | THE KYRGYZ REPUBLIC | MONGOLIA | TAJIKISTAN | TURKMENISTAN | UZBEKISTAN

CCAMTAC- Regional Research Seminar Series

"US Monetary Policy Spillovers to Middle East and Central Asia: Shocks, Fundamentals, and Propagations"

February 29, 2024

Introduction:

Mr. Norbert Funke, Director, CCAMTAC

Moderator:

Mr. Nurdaulet Abilov, Economic Analyst, CCAMTAC

Presenters:

Mr. Giovanni Ugazio, Lead Economist, Western Hemisphere Department, International Monetary Fund

Mr. Weining Xin, Senior Economist, Asia Pacific Department, International Monetary Fund

Interventions:

Mr. Nurbulat Mukanov, Advisor to Governor, National Bank of Kazakhstan

Mr. David Tutberidze, Head of Macroeconomic Research Unit, Macroeconomics and Statistics Department, National Bank of Georgia

The research seminar was dedicated to the spillovers of US monetary policy shocks to the Caucasus, Central Asia and Middle East (CCAME) region. As inflation started rising in 2022-23 most central banks responded by raising the policy rates and committed to monetary policy tightening until inflation would fall to the target. Amid the global monetary tightening cycle most central banks closely monitored the monetary policy stance of the Fed in accommodating inflation due to the significant spillover effects it could have on the rest of the world.

Mr. Giovanni Ugazio explained conceptual differences between the two types of US monetary policy shocks: (1) the pure monetary policy shock unrelated to the economic outlook, (2) the information news shock which is associated with the Fed's change in the economic outlook, e.g. strong demand leading to higher inflation. The pure contractionary monetary policy shocks are unexpected and have an adverse impact on CCAME countries via lower consumption and exports (due to weak external demand), but the positive information news shocks, which are defined as the monetary policy tightening due to better economic outlook, have a positive impact via rising consumption, exports, and investment (due to lower uncertainty).

Mr. Weining Xin presented key empirical results of the research paper. They find that weak economic fundamentals (high external and public debt, weak fiscal balances, and low foreign exchange reserves) can amplify the negative spillovers of contractionary US monetary policy shocks. Also, the effect of positive information news shocks is strengthened by low public debt and high foreign exchange reserves, while lower external debt and strong fiscal balances do not result in a better growth outcome. In addition, high oil prices mitigate the impact of contractionary monetary policy for oil exporters whereas the effect of positive news information shocks on oil-exporting countries is ambiguous when oil prices are high. According to the study, the global risk appetite plays an amplification role in the transmission of contractionary monetary policy shocks and positive news information shocks. When the global risk appetite is high, positive news information shocks lead to a better growth outcome, while low global risk appetite implies negative spillovers from the contractionary monetary policy shocks. The presentation was summarized by three key takeaway points: (i) not all US monetary tightening cycles have negative spillovers to the rest of the world, (ii) having strong economic fundamentals makes CCAME economies less prone to US contractionary monetary policy shocks, (iii) high oil prices dampen the US monetary policy spillovers, while global risk appetite amplifies them.

Country authorities made interventions at the end of the research seminar. Mr. Nurbulat Mukanov emphasized that there are indeed significant US monetary policy spillovers and they used to be stronger in the pre-inflation targeting period in Kazakhstan. He also mentioned that the reduction in the level of dollarization also helped insulate the economy from the US monetary policy shocks. Mr. Mukanov also suggested taking into consideration macroprudential policy measures in CCAME countries when assessing the spillovers of US monetary policy. Mr. David Tutberidze discussed alternative methods of decomposing US monetary policy shocks and raised important points regarding the historical decomposition of US monetary policy shocks in the research paper. He suggested using other methodologies to complement the current methodology used in the paper to identify and distinguish between contractionary monetary policy shocks and information news shocks.