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CCAMTAC- Regional Research/Analytical Economic Policy Seminar “Financial Development and Growth in the Caucasus and Central Asia”

Thursday, April 14, 2022

Introduction:

Norbert Funke, Director, CCAMTAC

Moderator:

Altnai Aidarova, Resident Advisor, CCAMTAC

Presenter:

Tigran Poghosyan, Resident Representative to the Kyrgyz Republic, IMF

Discussant:

Michail Bogatyrev, Head of Economic Modelling Division, National Bank of the Kyrgyz Republic

Norbert Funke and Altnai Aidarova started the seminar by pointing out that empirical evidence suggests that financial development can promote economic growth, however, countries must be cautious as an excessive and rapid development of the financial sector may lead to vulnerabilities. The draft research paper would draw on an updated multidimensional [index of financial development](#) developed by IMF colleagues and compare developments in the region and assess the potential growth impact of financial development.

Mr. Tigran Poghosyan, the IMF's resident representative to the Kyrgyz Republic presented stylized facts on financial development in the CCA countries relative to their EM and LIC peers and gave his assessment on how financial development can boost growth in the CCA. According to IMF's multidimensional index of financial development, CCA countries have made progress following their independence in the early 1990s. However, the progress was uneven across the CCA, resulting in a divergence of financial development over time and mixed performance relative to EM and LIC peers. Financial institutions have progressed the most, while financial markets remain underdeveloped in most CCA countries except Kazakhstan. In terms of sub-indicators of financial development, financial access has expanded remarkably, while the depth of financial intermediation has remained largely shallow, and the efficiency of financial intermediation has fluctuated over time and across CCA countries. Standard growth regressions suggest a bell-shaped relationship between financial development and growth. Thus CCA countries with a relatively low level of financial development have scope to boost



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annual growth rates between 0.5-3 percent by reaching the level of financial development of frontier CCA countries. According to Tigran Poghosyan such improvement in financial development could be achieved through country-specific measures targeting key characteristics of financial development covering depth, access, and efficiency of financial intermediation.

In his comments, Mr. Bogatyrev from the National Bank of Kyrgyz Republic (NBKR) agreed that the topic and findings of the IMF working paper are quite relevant for economic policy decision making and elaborated on the factors that attributed to positive changes in the country's financial development. From the research perspective, Mr. Bogatyrev suggested considering additional explanatory variables (inflation, nominal, and real effective exchange rates, etc.) to see how they may affect the regressions results and encouraged to provide more practical policy recommendations. The subsequent discussion focused on methodological aspects of the research and comments of the National Bank of Kazakhstan representative regarding the country's high score on the financial development index.

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