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CCAMTAC Regional Webinar on “Regional Economic Outlook: Regional Developments in the Caucasus and Central Asia and the Impact of the War in Ukraine”

Thursday, December 8, 2022

Introduction:

Mr. Herve Joly, Director, Joint Vienna Institute (JVI)

Moderator:

Ms. Aliya Kistaubayeva, Economic Analyst, CCAMTAC

Presenters:

Mr. Rodrigo Garcia-Verdu, Senior Economist, Middle East and Central Asia Department, IMF

Mr. Troy Matheson, Senior Economist, Middle East and Central Asia Department, IMF

Interventions:

Mr. Mirza Gelashvili, Deputy Minister, Ministry of Finance, Georgia

Mr. Nodirbek Achilov, Director, Monetary Policy Department, Central Bank of Uzbekistan

The adverse impact of Russia’s war in Ukraine on the Caucasus and Central Asia (CCA) has thus far been milder than expected. Countries in the region have indeed benefited from large inflows of capital and highly skilled workers from Russia. Still, the CCA’s strong ties to Russia entail substantial risks to the region’s outlook. The challenge for authorities is to restore price stability while managing these unexpected and positive developments and protecting against the possible reversal of recent financial and human inflows.

The first part of the REO presentation, delivered by Rodrigo Garcia-Verdu, was focused on an overview of key macroeconomic developments in CCA. In the global context, it was confirmed that risks of persistently high commodity prices, tightening financial conditions, and a slowdown in economic activity have materialized. Nevertheless, economic recovery in the region was resilient, but it was accompanied by widespread inflation and a rising cost of living. In response to inflation, central banks raised their policy rates, while fiscal authorities introduced price various subsidies to tackle high energy and food price. Considering the impact of the war in Ukraine, it was observed to be milder than expected initially. Several countries in CCA, including Georgia, Armenia, and Uzbekistan, experienced surging money transfers that reinforced the domestic demand. As a result, real growth projections were revised upward for 2022, but still lower than pre-war expectations in most CCA countries. This tendency is expected to persist in the medium term. Inflation in 2022 is expected to increase significantly compared to pre-war



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projections, driven primarily by surging food prices. Fiscal and external balances are to show divergent trends in CCA. More precisely, oil exporters and middle-income economies may experience improvements in primary balance and current account, while low-income countries are prone to be negatively affected by higher government spending and more expensive imports.

In the second part of the REO presentation Troy Matheson elaborated on the risks to poverty and inequality in the CCA due to the war in Ukraine. These risks are stemming from a potential decrease in remittances and rising food prices for low-income households. The poorest countries in the CCA are expected to bear the brunt of the impact on poverty, which could increase by about twice the regional average and add to already-difficult policy challenges. Mitigating the war's potential impact on the vulnerable will be a key priority for policymakers and will require stronger social safety nets, such as targeted cash transfers and direct distribution of food staples. Policies that increase coverage, targeting, adequacy and efficiency of social nets should be implemented. That said, policymakers need to understand the heterogeneity of the war's impacts across households and countries when designing policy support programs to help the most in need.

In his intervention, Mirza Gelashvili from Georgia shared fiscal authorities' assessment of the impact of the war in Ukraine on the country's economy. Georgia has been experiencing double-digit economic growth, but the speaker believed that this was not primarily a result of increased remittances and inflow of human capital from Russia, but rather the post-pandemic recovery of tourism and export. Nodirbek Achilov, explained the drivers of inflation in Uzbekistan and the central bank's policy response to tame a rapid price increase. It was claimed that the geopolitical tension in the region translated into higher import inflation and exchange rate fluctuations, which in turn affected inflation expectations. Uzbek monetary authorities reacted by raising the policy rate and revising their forecast of inflation and the estimated timeframe of its return to the target.

During the general discussion, the questions to the speakers and comments covered (i) the impact of the war in Ukraine on investment and trade structure in Uzbekistan; (ii) the contribution of real estate/rent prices on inflation in Georgia and Uzbekistan; (iii) appropriate mix of fiscal and monetary policy amid regional and global developments; and (iv) impact of tax relief measures in Uzbekistan.

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