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CCAMTAC Regional Webinar on “Paving the Way to More Resilient, Inclusive, and Greener Economies in the Caucasus and Central Asia” (Part 1) Thursday, August 24, 2023

Introduction:

Mr. Norbert Funke, Director, CCAMTAC

Moderator:

Ms. Aliya Kistaubayeva, Economic Analyst, CCAMTAC

Presenter:

Mr. Nikoloz Giginishvili, Deputy Division Chief, Middle East and Central Asia Department, IMF

Interventions:

Mr. Eduard Hakobyan, Deputy Minister, Ministry of Finance of the Republic of Armenia

Mr. Ilimbek Abdylbaev, Expert, Economic Department, National Bank of Kyrgyz Republic

Following the release of the IMF’s Middle East and Central Asia Departmental paper [“Paving the Way to More Resilient, Inclusive, and Greener Economies in the Caucasus and Central Asia”](#), the webinar was dedicated to the chapter on the *Structural Determinants of Long-term Growth* in the region. The chapter aims to identify the most binding constraints to growth in the region and quantify growth impacts of structural reforms.

Nikoloz Giginishvili presented the findings of growth diagnostics for CCA countries. He first outlined the trends and the growth constraints facing the region, and then discussed the ways to address these challenges. As demonstrated by various indicators, market and governance reforms slowed since the 2000s in most CCA countries, and with that productivity gains also declined, while contribution of labor to growth has remained small. Without higher and more inclusive growth, it could take decades for the region to close income gaps with more advanced peers in emerging Europe and many countries will continue to struggle to create enough jobs and raising living standards for their population. To reverse this trend, the region needs a new growth model where the private sector takes the lead, and the state provides a supportive business environment and essential public goods and service.

The growth diagnostics identified that the main constraints to growth in the CCA are high cost of finance, gaps in human capital and physical infrastructure, inadequate ICT and innovation, poor governance, weaknesses in product and labor markets, and a large SOE presence in the economy.



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The analysis showed that structural reforms in these areas could raise medium-term output by 5-7 percent. Governance reforms, including state-owned enterprise reforms and privatization, are estimated to yield the largest output gains for the region. This is followed by labor market reforms, easing of external finance and trade restrictions, and liberalizing product and financial markets. Moreover, countries with better governance tend to derive greater growth dividends from other reforms, which suggests that strengthening governance could amplify the positive impact of other reforms and should be prioritized. The speaker also emphasized that because reforms tend to yield better outcomes, when implemented during economic expansions, countries should take advantage of upcycles. Priority should also be given to 'low-hanging fruits' – the reforms that require little financial resources but have a potential of generating high economic and social returns.

Eduard Hakobyan from Armenia welcomed the IMF paper as timely and relevant for the region. His comments focused on practical aspects of the paper for policymakers, stressing in particular the quantification of impacts of structural reforms on growth and identification of reform gaps for potential policy improvements. Mr. Hakobyan elaborated on Armenia's growth prospects, the factors behind improving potential growth and ongoing structural reform agenda that the Armenian authorities are pursuing to strengthen competitiveness of the economy. Among priorities, he emphasized governance reforms, digitalization, effective public infrastructure investments, and fiscal measures to promote private investment and human capital development. Ilimbek Abdyldaev from the Kyrgyz Republic provided a detailed overview of long-term growth challenges facing the country, including those related to monetary policy and financial sector development. He stressed that the Kyrgyz government's plans to invest in infrastructure would strengthen country's medium-term growth prospects, which are subject to significant uncertainty in view of the economic activity of main trading partners.

The subsequent discussions and the questions from the audience centered on (i) governance reform priorities for Central Asia; (ii) technical aspects of the estimation of structural reforms' impact on output; and (iii) the prospects of income convergence of the CCA region with emerging European countries.