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CCAMTAC Regional Webinar on

“Regional Developments and Economic Outlook: Building Resilience and Fostering Sustainable Growth”

Thursday, November 16, 2023

Introduction and Moderation:

Mr. Norbert Funke, Director, CCAMTAC

Presenters:

Mr. Hasan Dudu, Economist, Middle East and Central Asia Department, IMF

Ms. Anja Baum, Senior Economist, Middle East and Central Asia Department, IMF

Mr. Weining Xin, Economist, Asia Pacific Department

Interventions:

Mr. Tsend-Ayush Bold-Erdene, Head of Division, Monetary Policy Department, Bank of Mongolia

Across the Middle East and Central Asia (MECA), the combined effects of global headwinds, domestic challenges, and geopolitical developments weigh on economic momentum, which has been relatively strong in 2022 and early 2023. In the Caucasus and Central Asia (CCA), growth is projected to slow somewhat in 2024 and policy space in several countries in the region is more limited as fiscal debt is higher than before the pandemic. As a part of outreach related to the release of the latest Regional Economic Outlook publication for Middle East and Central Asia, IMF staff gave a comprehensive overview of the Fund's assessment of economic developments in the region, the forecast of key macroeconomic variables and discussed reforms that can promote resilience and economic prosperity in the broader region in the long run.

In his presentation of regional developments and economic outlook, Hasan Dudu confirmed that the growth in CCA moderated since mid-2022 partly due to the high base effect and subdued effect in extractive industries in several countries. The inflation declined on average in the region because of lower food and energy prices, timely monetary and fiscal tightening as well as exchange rate appreciation. High service prices and real wage growth prevented faster disinflation and kept inflation above target rates in some CCA countries. Monetary policy settings remained tight with policy rates higher than their natural level, however, several central banks started to reduce rates in 2023 amid slowing down inflation. Importantly, external borrowing costs decreased for CCA countries in 2023. The recovery since the pandemic in some countries translated into job creation and lower unemployment. At the same time, labor productivity in the region lags more advanced economies, which necessitates structural reforms.



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That said, according to IMF REO, the economic growth in the CCA is projected to remain robust in 2023 (4.6 percent) and 2024 (4.2 percent), despite some moderation as migration, trade, and financial flows from Russia gradually normalize. However, countries in the region still face uncertainty stemming from the ongoing war in Ukraine and geopolitical fragmentation. With inflation dynamics diverging across CCA, it is expected that it will ease at a slower pace amid strong domestic demand and wage growth in most countries. While the balance of risks has improved since the April assessment, it remains tilted to the downside.

From the policy perspective, Anja Baum pointed out that the policy space in many MECA economies diminished following an extended period of shocks. Amid high public debt and inflation, fiscal consolidation, and tight monetary policy, reforms are needed in many countries in the region, as they have a major impact on key macroeconomic indicators. Not only do structural reforms increase potential growth, but they also contribute to the near-term economic activity. According to the IMF analysis, reforms in governance, labor markets, and business regulations would be particularly beneficial for MECA countries, helping to strengthen resilience and ensure economic stability. The strategic sequencing and packaging of reforms can magnify dividends. Georgia and Uzbekistan were indicated as good examples of successful reform implementation in CCA. Weining Xin elaborated on the index used to assess the impact of reforms in the labor market and reiterated the importance of the sequencing and packing of reforms to achieve synergies and higher gains.

In his intervention, Tsend-Ayush Bold-Erdene from Mongolia shared how the economic outlook of Mongolia corresponds to the one of CCA. Economic growth in Mongolia in the first half of 2023 remained strong largely due to extractive industries (coal, copper, gold) and it is expected to remain stable in the medium term. As in CCA, inflation in Mongolia was slowing down while remaining persistent. To achieve its inflation target, the Bank of Mongolia kept its monetary policy tight since 2022, but the policy space has been shrinking. At the same time, the risks to Mongolia's economy are associated with both domestic and external developments. In conclusion, Mr. Bold-Erdene agreed with the IMF's findings on the importance of structural reforms, especially the ones related to economic diversification.

During the general discussion, the questions to the speakers and comments covered (i) the cumulative effect of reforms; (ii) the overcoming entrenched inflation expectations; (iii) the steps to achieve structural reforms; (iv) the outlook for key trading partners of Central Asian countries; and (v) the sustainability of implemented structural reforms.