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CCAMTAC Regional Webinar on

“Paving the Way to More Resilient, Inclusive, and Greener Economies in the Caucasus and Central Asia: The Role of State in Promoting Long-Term Growth”

Tuesday, September 5, 2023

Introduction and moderation:

Mr. Norbert Funke, Director, CCAMTAC

Presenters:

Mr. Jiri Jonas, Senior Economist, Middle East and Central Asia Department, IMF

Mr. Jean van Houtte, Senior Economist, Middle East and Central Asia Department, IMF

Intervention:

Ms. Ketevan Chapidze, Head of Economic Analysis and Reforms Department, Ministry of Economy and Sustainable Development of Georgia

This was the second webinar that was dedicated to 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 \(CCA\)”](#). The session focused on the role of the state in promoting long-term growth. Following the collapse of the Soviet Union, most countries in CCA were transitioning to a market economy. Even though the CCA region began to move away from central planning in early 1990s, the state footprint remains significant, and the region recorded significant state-led growth. While the state has an important role to play in providing public goods, looking ahead, it should consider re-orienting its activities and focusing more on providing a stable regulatory framework for private investment and private sector-led growth. IMF staff analyzed the areas where the state in its proper role could support such growth.

In the first part of the presentation, Jiri Jonas gave a comprehensive overview of the existing state footprint in CCA and shared how state involvement in *public investment*, *ICT*, *state-owned enterprises (SOEs)*, and *financial development*, could be re-focused to promote private-led growth. Public investment has been relatively high in the CCA in the last decade, however, there are significant differences among countries in the region. For higher public investment to translate into higher economic growth, the quality of public investment management is crucial and there is room for improvement in most CCA countries. Though CCA countries are good at planning and implementing public investment projects, they fall short on allocation, suggesting misallocation of capital. The state has an important role to support ICT investment. The importance of ICT for economic performance is increasing as ICT affects economic performance of other sectors. The internet usage in the region has reached the level of advanced economies (AE), however, the internet infrastructure capacity is lagging. Since the expansion of internet coverage can be quite expensive for the private sector, public investment can play an important role in supporting improved access to information and communication



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technologies (ICT). The role of SOEs in the CCA economies needs to be re-considered. As several earlier IMF studies have found, the SOE presence remains relatively large in several CCA countries. To improve the situation with SOEs the IMF staff recommends: (i) developing a policy with clear SOE ownership; (ii) divesting from commercially viable entities and restructuring or closing non-viable ones; and (iii) improving the performance of SOEs that are to remain in state ownership. Moving on, the IMF Financial Development Index suggests that in the CCA financial development has been improving at a steady but moderate pace. To promote economic growth with further financial development a country should reduce state-owned banks, strengthen regulatory and supervisory frameworks, enforce the rule of law, and promote fair competition among banks. developments of both financial markets and financial institutions, and could also reduce costs of financing to businesses, hence, supporting private sector growth.

In the remaining part of the presentation, Jean van Houtte elaborated on the role of the state in *regulation and governance, and human capital and the labor market* and ways in which it can be changed to promote sustainable growth in the long run. Governance in most CCA countries is weaker than in EMEU and AE. In this regard, efforts to improve governance and fight corruption can yield greater output payoffs if combined or followed by other reforms that increase competitiveness and access to broader markets. Additionally, human capital needs skilling to match the needs of investors, and a well-functioning labor market remain critical for higher growth. The region needs to ensure affordable and good-quality education and healthcare, which may require an increase in public expenditure as non-communicable diseases become prevalent. Measures to support the labor market may include pursuing openness to the global economy and enhancement of tertiary education.

During her intervention, Ketevan Chapidze from Georgia pointed out that the country achieved notable progress in different economic dimensions, including macroeconomic stability, reduction of external vulnerability, improving governance, and other structural parts of the economy. The recent strong growth performance of Georgia was built on the harmonization of regulations with the EU and the implementation of structural reforms. These reforms aimed at improving the governance of SOEs, capital market development, and supporting entrepreneurship and competition. She also highlighted the importance of developing transport infrastructure for Georgia to diversify risks associated with trade, supply chains, and security, and to increase connectivity with the EU. In the structural part of the economy, Georgia also promotes active labor policies and educational reforms to improve target sector competitiveness and reduce skills mismatch. The government also works on improving the quality of investments and sectoral diversification to increase investment payoffs.

The subsequent discussions and the questions from the audience centered on (i) the optimal level of public investment as a percent of GDP; (ii) the quantitative impact of improvement in areas of state economic presence; (iii) ways in which the IMF can support regional authorities in analytics and reforms; and (iv) the methodology and data sources used to perform the analysis for the paper.