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## CCAMTAC Regional Webinar on “Regional Developments and Economic Outlook: Safeguarding Macroeconomic Stability amid Continued Uncertainty”

Tuesday, May 23, 2023

### Introduction and Moderation:

**Mr. Norbert Funke**, Director, CCAMTAC

### Presenters:

**Mr. Filippo Gori**, Economist, Middle East and Central Asia Department, IMF

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

### Interventions:

**Mr. Alisher Tolepbergen**, Director, Economic Modeling Development Center, NAC Analytica, Kazakhstan

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

While the IMF and CCAMTAC had presented some key outtakes from the Regional Economic Outlook for the Caucasus and Central Asia (CCA), the webinar provided the audience an opportunity to learn in greater detail about the recent economic developments and their implications and forecast of key macroeconomic variables.

The first part of the REO presentation, delivered by Filippo Gori, was focused on an overview of key macroeconomic developments in CCA. CCA countries have faced spillovers from the war in Ukraine, including through global commodity prices. In 2022, the Russian economy contracted less than initially anticipated, and neighboring countries benefitted from substantial inflows of income, capital, migrants, and increased transit trade from Russia. Additionally, the higher prices of energy commodities positively impacted the external balances of oil-exporting nations. However, the appreciation of the ruble resulted in significant imported food inflation in most CCA countries due to their heavy reliance on food imports from Russia. Overall, inflation in the region remained high due to elevated global commodity prices and wage pressures. In 2023 it is expected that the economic growth rate will decelerate as the spillover effects from 2022 gradually fade away. Nevertheless, the war has introduced substantial uncertainty into the economic outlook. Considering the relatively small size of the CCA economies, any reversal of inflows, worse-than-projected economic growth in Russia, disruptions in supply chains, or lower remittances could potentially lead to a negative shock for the CCA economies in the future.

In the second part of the REO presentation, Rodrigo Garcia-Verdu elaborated on the monetary policy stance observed in the Middle East and Central Asia (ME&CA). The response of countries



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to the surge in inflation during 2021-22 has exhibited significant variations in their monetary policy approaches. Most central banks using policy rates have appropriately adopted a tight or neutral stance, while others require further tightening. However, in several countries which don't use a policy rate, the implementation of monetary policy continues to face challenges due to a lack of coordination with fiscal policy or fiscal dominance. The effectiveness of monetary policy transmission differs between countries with floating or managed exchange rate regimes and those with a fixed exchange rate. In the former, the exchange rate channel plays a significant role, whereas the credit channel is relatively weak. The effectiveness of the credit or lending channel of monetary policy among oil-exporting countries also varies depending on the price of oil, with weaker transmission during period of high oil prices. From the policy perspective, even countries that have implemented appropriate measures would benefit from strengthening their monetary policy frameworks, while ensuring financial stability and promoting financial development.

In his intervention, Alisher Tolepbergen from Kazakhstan agreed with the IMF's outlook on economic growth and inflation for the country in 2023-24. He also shared his views about the sources of inflation persistence, including backward-looking behavior, mark-up deviations, unanchored inflation expectations, and wage growth in Kazakhstan. Nodirbek Achilov from CBU, revealed that economic growth in Uzbekistan in 2022 was better than what was expected initially, which resulted from the fiscal stimulus and favorable external conditions (remittances and trade). While CBU hasn't raised its policy rate in the reported period, its policy stance remained tight following the pre-pandemic policy hikes.

During the general discussion, the questions to the speakers and comments covered (i) the causes of the wage-price spiral in CCA countries (high wage indexation or de-anchored inflation expectations); (ii) the estimation and interpretation of terminal rates; and (iii) the risks from the ongoing war in Ukraine.