Overview

• Main messages
• The present: Macroeconomic outlook
• The past: Understanding resilience from the past
• The future: Building forward better
• Fiscal and financing options
• Key takeaways
Main messages

• The socio-economic impact of the COVID-19 pandemic was amplified due to lack of resilience and investments in people and the planet.

• Continuity in policy support is a must and recovery policy packages should focus on building resilience and investing in the 2030 Agenda.

• To deal with various economic and non-economic shocks, a more integrated risk management approach to planning and policymaking is needed.

• We propose a "Building Forward Better" policy package that calls for investments in social services, digital access and green development.

• To implement such a policy package, countries would need to build fiscal space and explore a range of financing options.
The present: COVID-19 is a stark reminder that health emergencies cause not only social damage but also entail economic risks.
The region experienced its **worst economic performance** in recent history...

GDP growth (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>5.7</td>
</tr>
<tr>
<td>2017</td>
<td>5.9</td>
</tr>
<tr>
<td>2018</td>
<td>5.3</td>
</tr>
<tr>
<td>2019</td>
<td>4.2</td>
</tr>
<tr>
<td>2020</td>
<td>-1.0</td>
</tr>
<tr>
<td>2021</td>
<td></td>
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<tr>
<td>2022</td>
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</table>
..And the economy plunged into yet another deceleration in NCA.
… largely caused by the COVID-19 pandemic,

Cumulative total of COVID-19 cases and deaths per 100,000 population

Source: WHO, accessed 7th April 2021
...and a global collapse in oil prices...

Source: WB
… with significant socio-economic costs.

### Percentage working hours lost in 2020 due to the COVID-19 crisis

- **Armenia**: 16.8
- **Azerbaijan**: 14.1
- **Georgia**: 13.1
- **Kyrgyzstan**: 11.7
- **Kazakhstan**: 11.5
- **Russian Federation**: 8.5
- **Uzbekistan**: 8.5
- **Turkmenistan**: 3.8
- **Tajikistan**: 3.2

### Post-Pandemic increase in poverty (North and Central Asia, millions of persons)

- **Armenia**: 1.47
- **Azerbaijan**: 3.11
- **Georgia**: 4.63

Source: ESCAP based on ILO (2021) and WB data
Given considerable uncertainty, economic outlook is cautiously optimistic for 2021-22

GDP growth (%)
Such optimism is supported by multiple factors…

- Vaccine rollouts have begun
- Fiscal and monetary policies are expected to remain accommodative
... Fiscal and monetary policies are expected to remain accommodative.

Fiscal support package, as a share of GDP

- Developing Asia Pacific
- Azerbaijan
- Georgia
- Uzbekistan
- Kyrgyz Republic
- Kazakhstan*
- Russia
- Tajikistan
- Armenia

Central Bank policy rate changes since the beginning of 2020, basis points

- Uzbekistan
- Russian Federation
- Tajikistan
- Azerbaijan
- Georgia
- Kazakhstan
- Kyrgyzstan
- Armenia
- Turkmenistan

Source: IMF, as of February 2021

Source: ESCAP, as of 23 March 2021
Such optimism is supported by multiple factors...

- Vaccine rollouts have begun
- Fiscal and monetary policies are expected to remain accommodative
- Somewhat recovery of oil prices
- Major economies worldwide are gradually recovering
...but risks are tilted to the **downside**...

- Slow progress & uncertainties in vaccination
- Trade in services (international tourism) remains subdued
- Debt distress is on the rise
- Long-lasting impacts on productivity
- Capital flow uncertainties & risk of stagflation
- Lingering trade tensions
…with expected permanent losses in output...

Economic output trend in Asia-Pacific developing countries (trillion US$)

Cumulative output loss 2020-22: $2.6 trillion

Previous trend
2020-2022
Forecast

Source: ESCAP estimation
...and a likely “K-shaped” recovery in the Asia Pacific region..
… For instance, uneven vaccine distribution in NCA

Source: WHO Coronavirus Dashboard, accessed April 12th
Near-term policy priorities

➢ Put pandemic control first

➢ Prioritize inclusiveness for a robust recovery

➢ Ensure continuity in fiscal & monetary support

An inclusive recovery would deliver 3 benefits:

1. Shorten pandemic threat for all
2. Reduce risk of post-pandemic unrest
3. Most effectively support rebound in aggregate demand
The past: Learning from Past Crises and Recoveries to Build Resilience
North and Central Asia faces a wide risk landscape...
...where adverse shocks leave long-term scars.
However, policy choices can reduce such a setback.

<table>
<thead>
<tr>
<th>Economic policies</th>
<th>Structural factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal policy</td>
<td>Health and social protection system</td>
</tr>
<tr>
<td>Monetary and financial measures</td>
<td>Infrastructure quality</td>
</tr>
<tr>
<td>Reserves and exchange rate regime</td>
<td>Economic diversification</td>
</tr>
<tr>
<td>External financing</td>
<td>Governance and institutions</td>
</tr>
</tbody>
</table>
Pandemics have a more severe economic and social impact...
... in countries with pre-existing structural vulnerabilities

**GDP per capita** impact of pandemics

**Consumption** impact of pandemics

**Human capital** impact of pandemics
Lesson learned – 1: Respond strongly & swiftly to shocks to safeguard sustainable development

Potential boost to sustainable development from resilience-enhancing policies

- **GDP per capita**
  - Financial crises: 0.0
  - Natural disasters: 1.0
  - Epidemics: 5.0

- **Human capital**
  - Financial crises: 0.0
  - Natural disasters: 0.5
  - Epidemics: 1.5

- **Environmental performance**
  - Financial crises: 0.0
  - Natural disasters: 1.0
  - Epidemics: 2.0

Potential boost to sustainable development from resilience-enhancing policies:

- **Financial crises**
- **Natural disasters**
- **Epidemics**
Lesson learned – 2: Integrate risk management into national development planning and policymaking
Lesson learned – 3: **Strengthen the resilience of vulnerable countries**

![Graph showing various indices for North and Central Asia and OECD (Asia Pacific)]
The Future: Build Forward Better to enhance the resilience of people and the planet
SDG Progress in North & Central-Asia has been lagging...
We propose a “Building Forward Better” policy package...
...which brings **social & environmental benefits**...

North and Central Asia

**Number of poor people**

**Gini coefficient**

**Carbon emissions**

**Air quality (PM2.5)**

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Ambitious Spending
...which brings social & environmental benefits...

North and Central Asia

Number of poor people

-3.0
-2.0
-1.0
0.0
1.0
2.0
Million persons

2020 2022 2024 2026 2028 2030 2032 2034 2036 2038 2040

Carbon emissions

2020 2022 2024 2026 2028 2030 2032 2034 2036 2038 2040

Gini coefficient

Average change
-0.8
-0.6
-0.4
-0.2
0.0

2020 2022 2024 2026 2028 2030 2032 2034 2036 2038 2040

Percentage change

2020 2022 2024 2026 2028 2030 2032 2034 2036 2038 2040

Air quality (PM2.5)

-60.0
-40.0
-20.0
0.0

Percentage change

2020 2022 2024 2026 2028 2030 2032 2034 2036 2038 2040

-60.0
-40.0
-20.0
0.0

Ambitious Spending  Business-as-usual spending
... and reduces fiscal burden.
... However, the picture is **less rosy** for the whole region.
Which fiscal and financing policies can help?
Policy options for NCA countries

Eligible countries should actively engage in **debt relief** initiatives.

Small countries could explore use of **diaspora bonds**.

Ease investment policies for **pension and sovereign wealth funds**.

Enhance **public debt management strategies**.

Explore more **emergency financing mechanisms**.
Key takeaways

• Despite a cautiously optimistic outlook, there is a risk of a K-shaped recovery – policymakers should prioritize inclusiveness for a robust recovery.

• Policymakers should assess the wider risk landscape and focus on “reducing setbacks” as well as “accelerating progress” on sustainable development.

• COVID-19 presents an opportunity to build forward better – recovery policy packages should adequately focus on social services, digital access, and climate action.