

CAREC INSTITUTE RESEARCH CONFERENCE

4-5 March 2021

Session Two

Regional Integration and Macroeconomic Dynamics Beyond
COVID-19 Pandemic

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Pakistan Institute of Development Economics



COVID-19 and Debt Sustainability in CAREC Region

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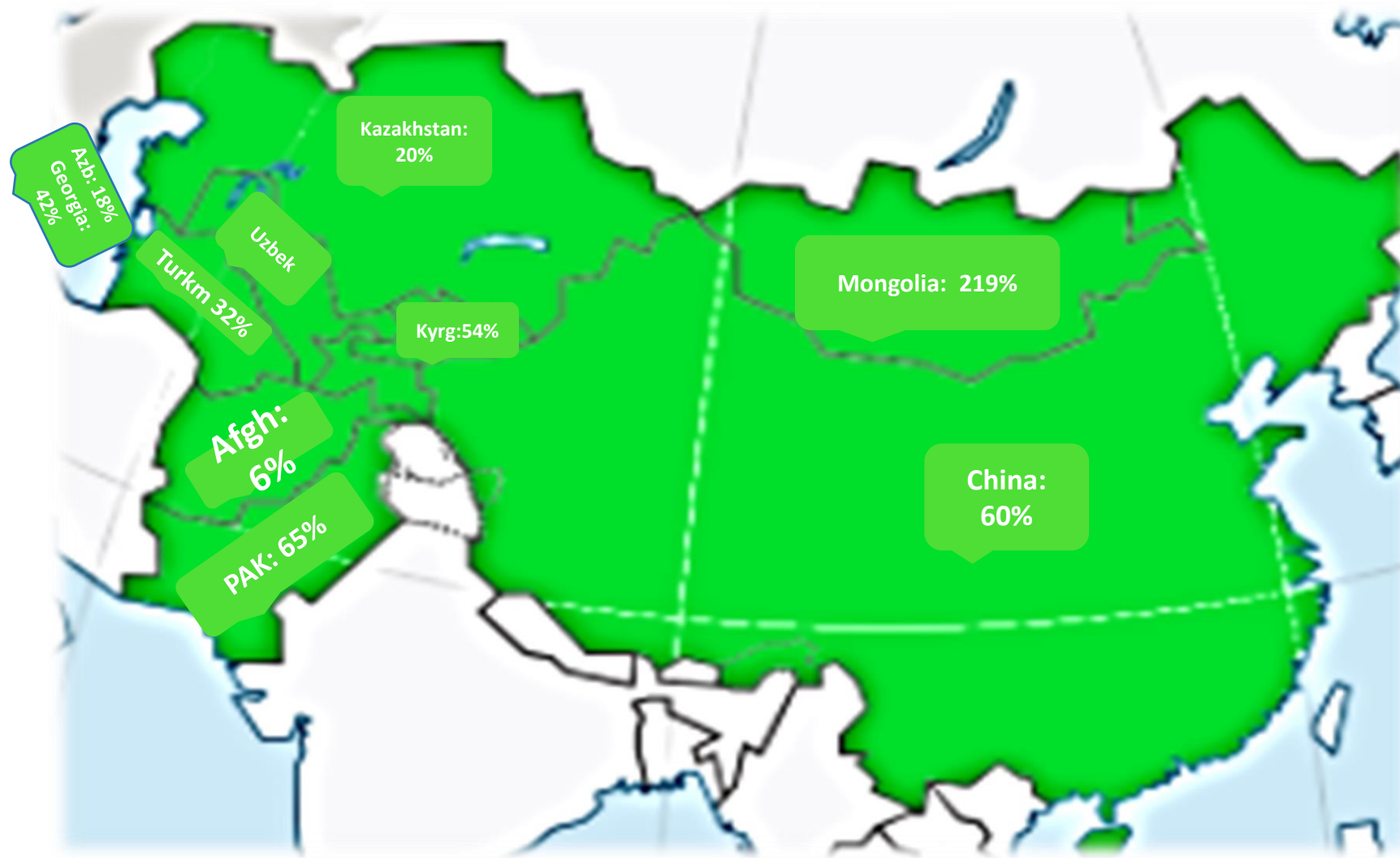
Sequence of the presentation

- Debt in the CAREC region
- Reasons for debt accumulation in the CAREC region
- Consequences of the debt accumulation in the CAREC region
- Debt sustainability Analysis for the CAREC region
- Conclusion

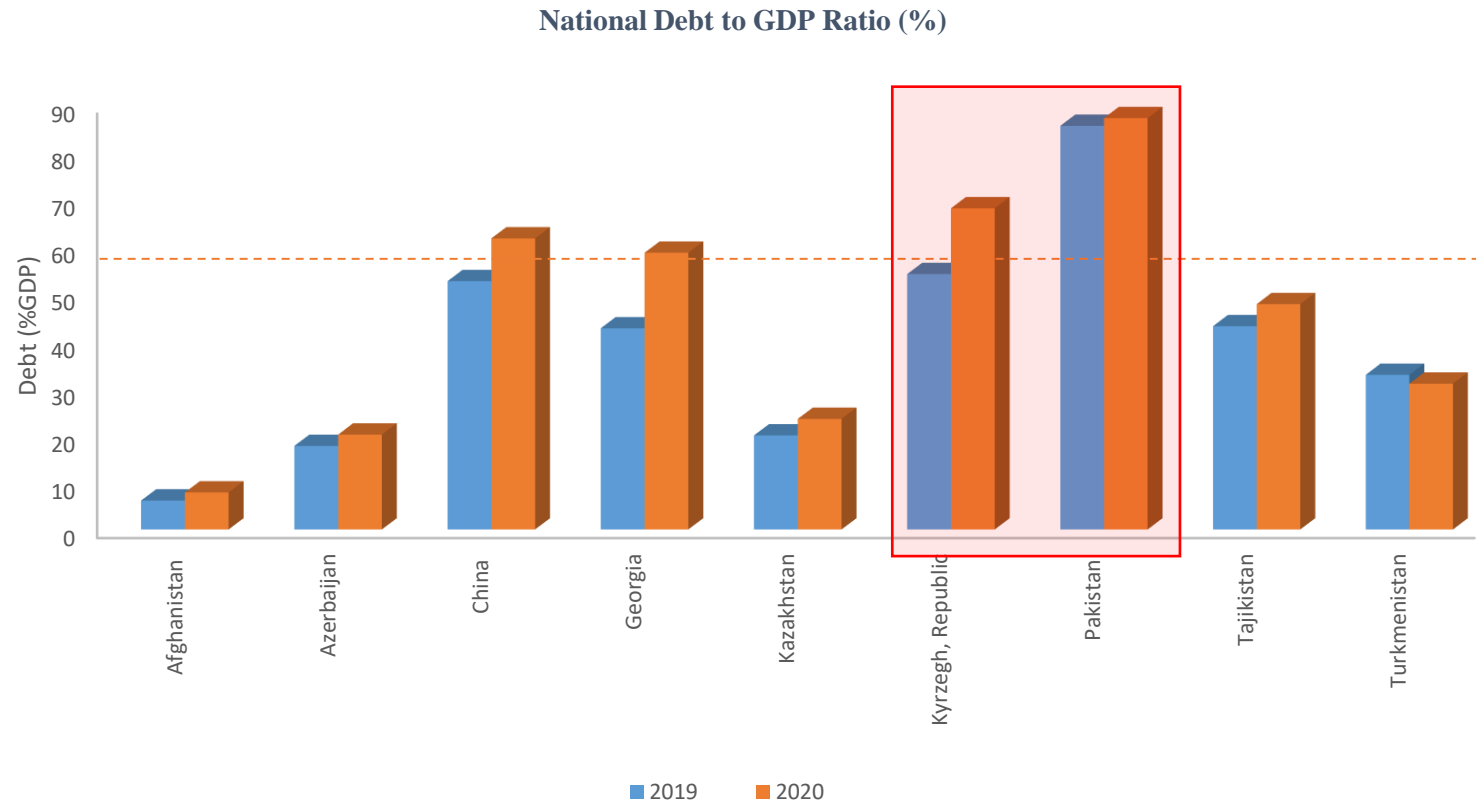
Debt sustainability?

Debt is considered sustainable if the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default” (Hakura, 2020).

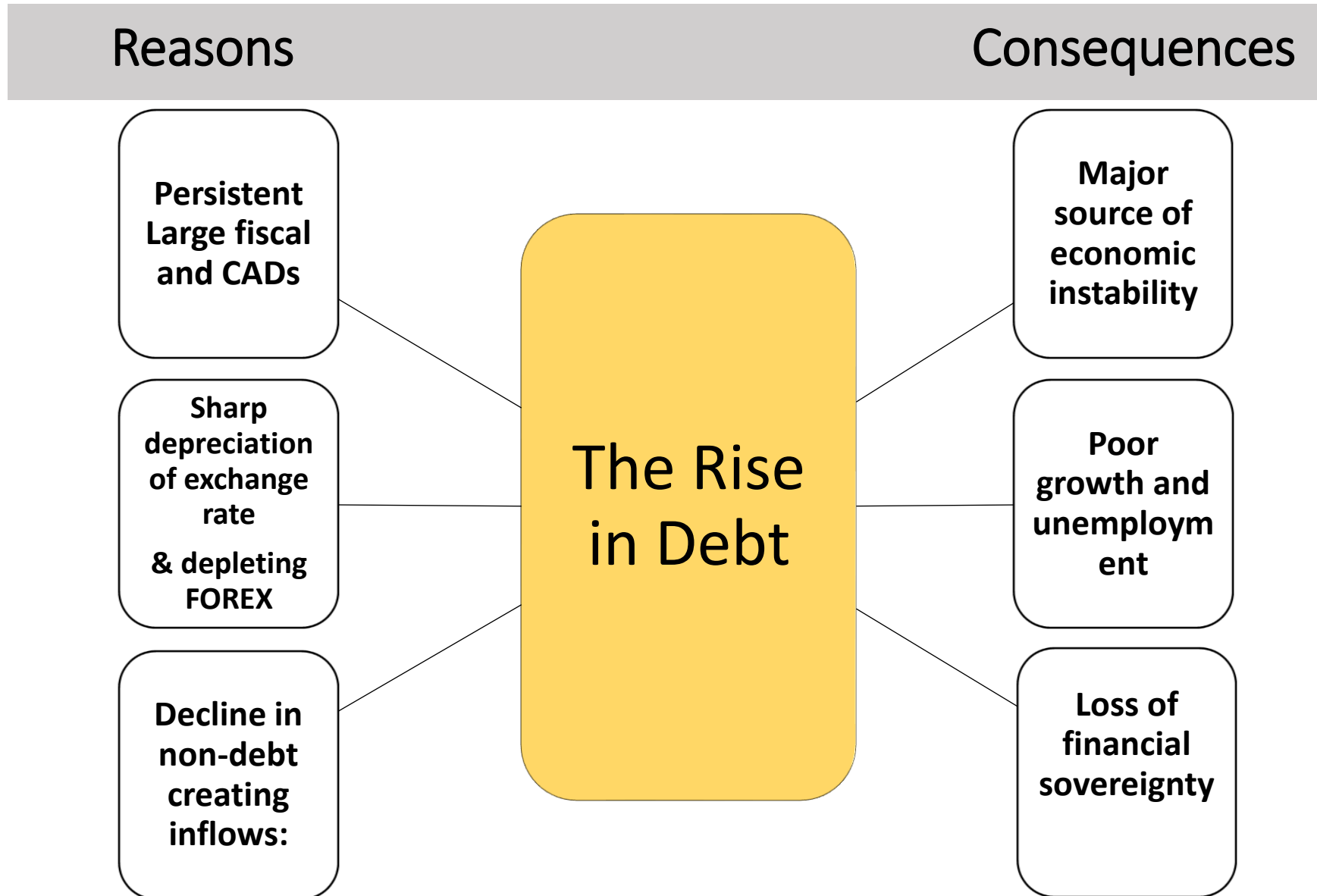
Debt in CAREC Region: 2019



Debt in CAREC Region

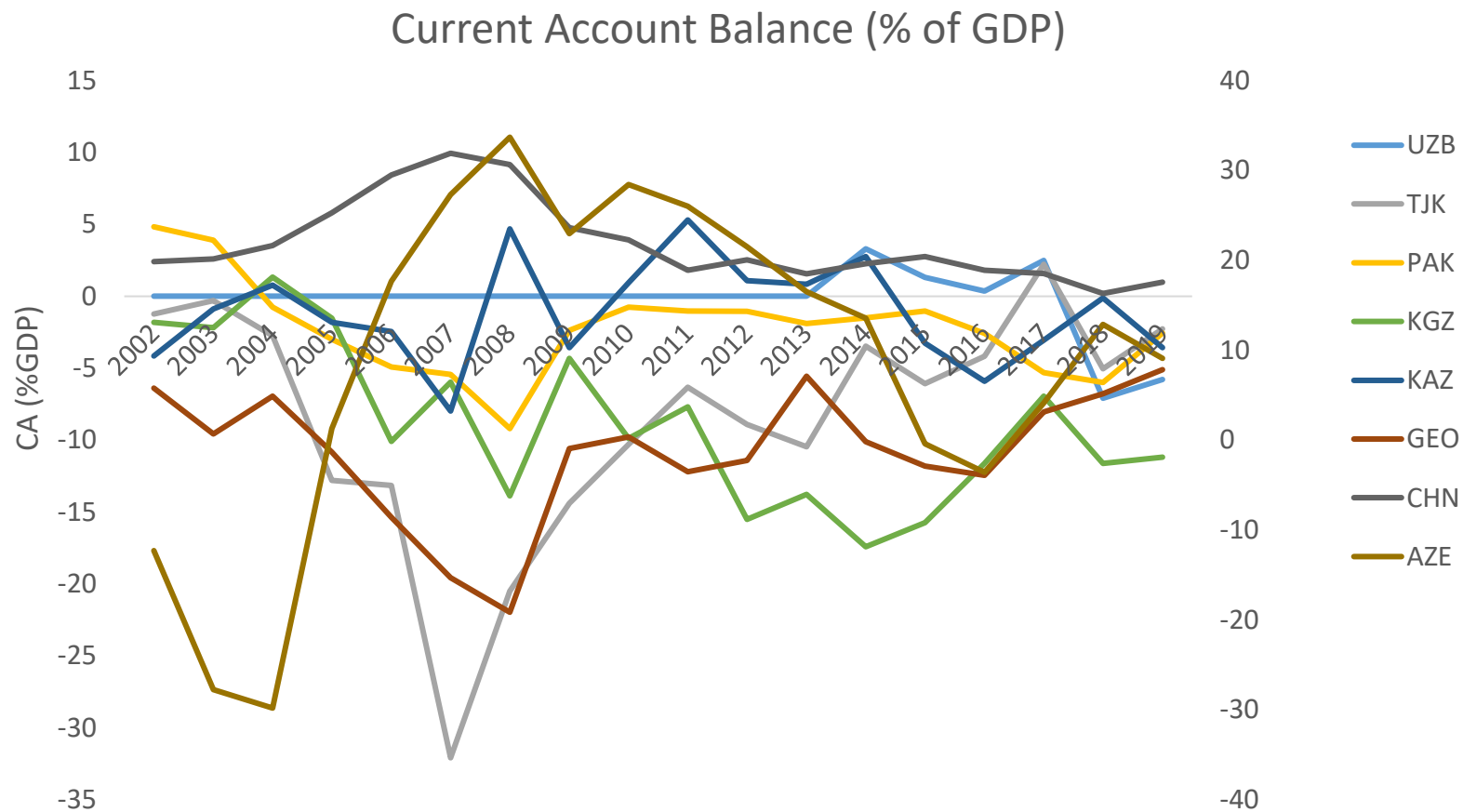


Government Debt: -VE Consequences



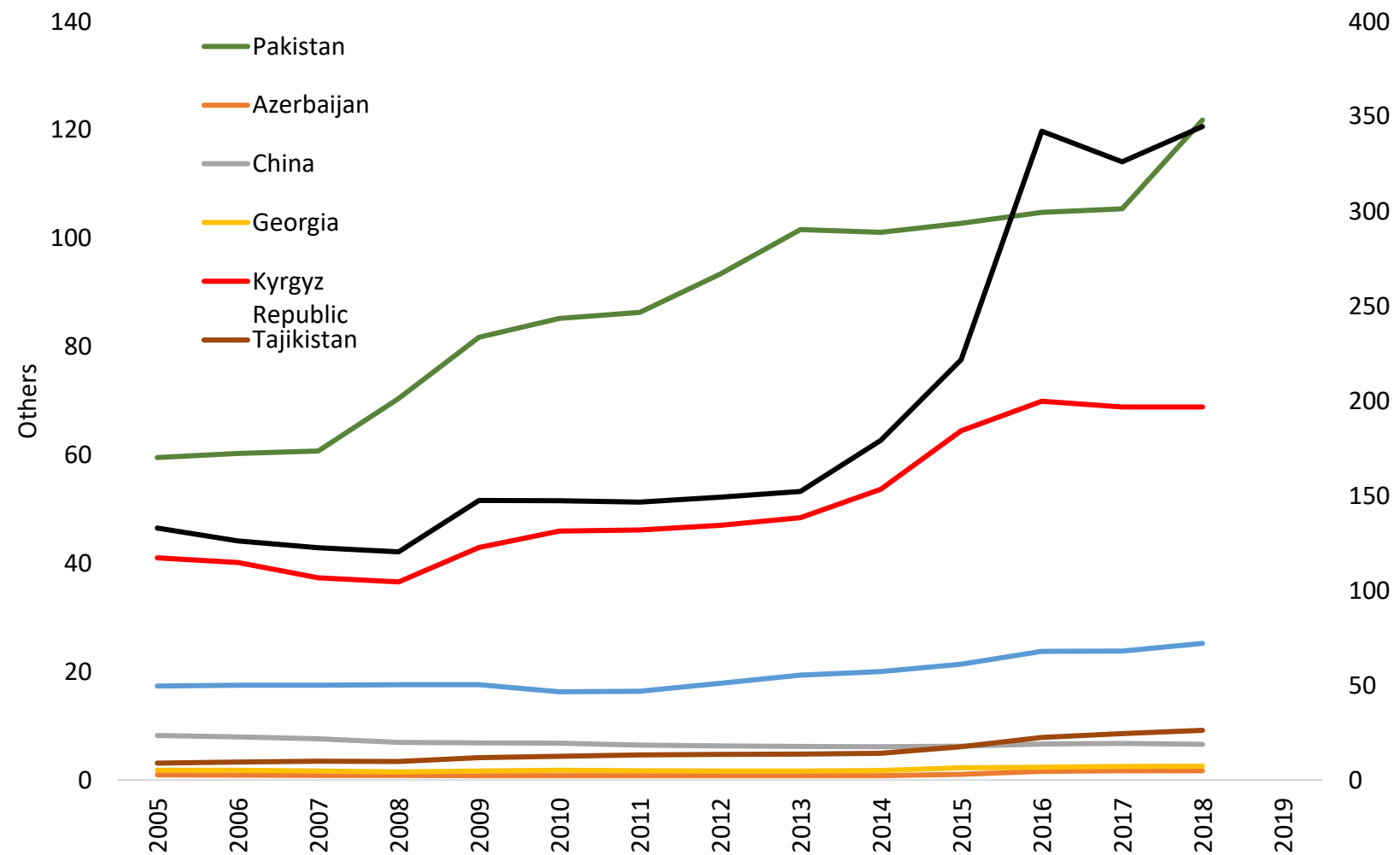
Reasons of Debt Accumulation

Current Account Balance



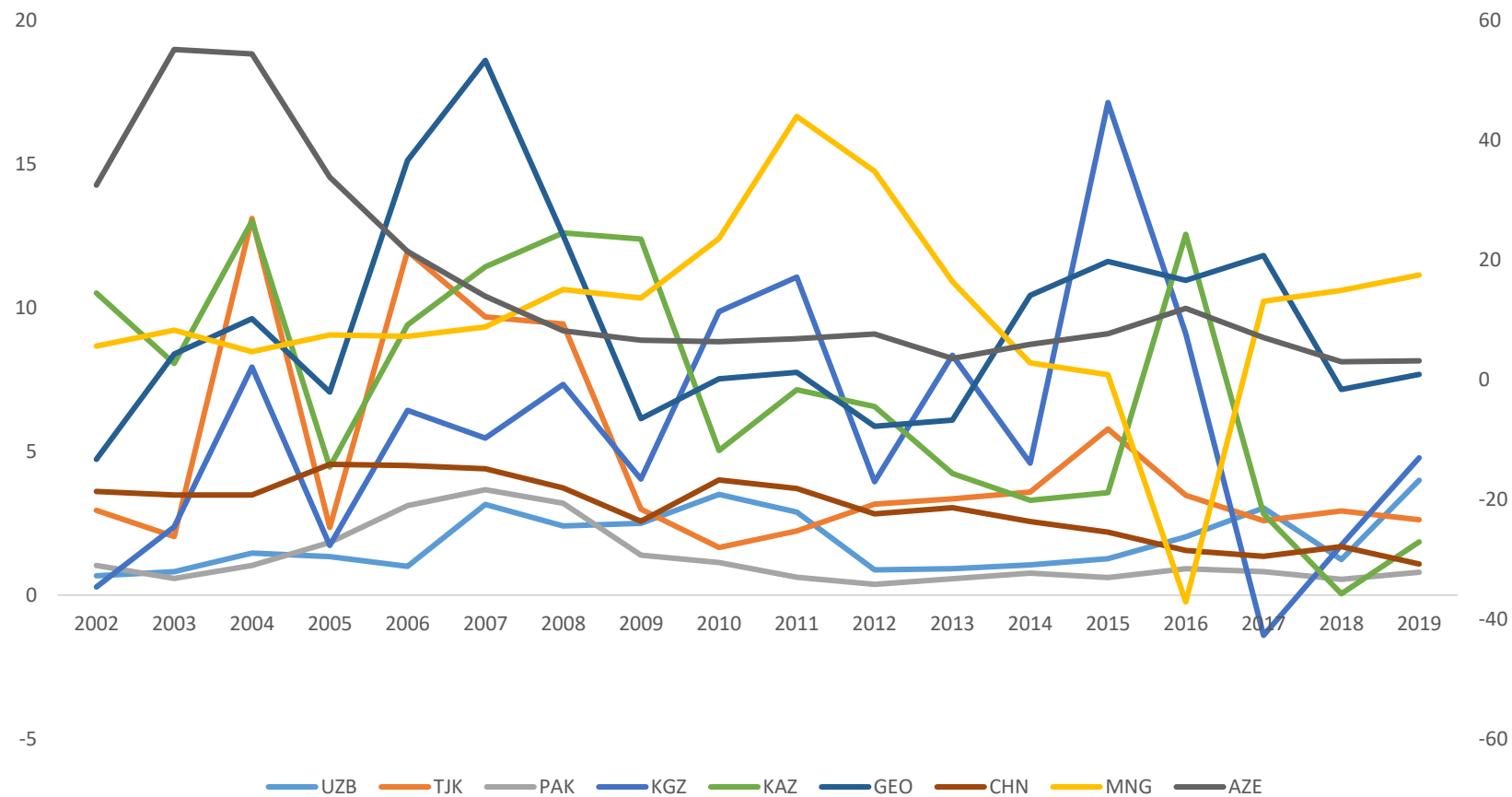
Reasons of Debt Accumulation

Exchange Rate Fluctuations

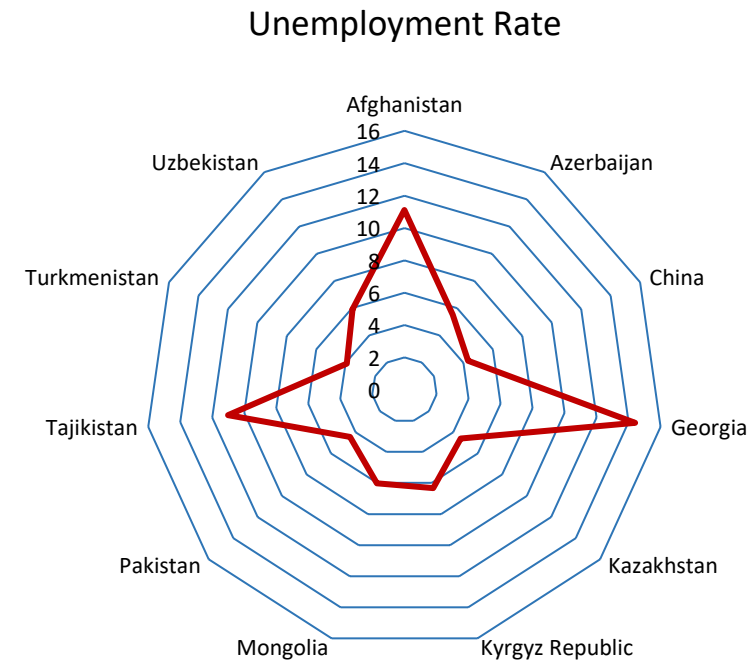
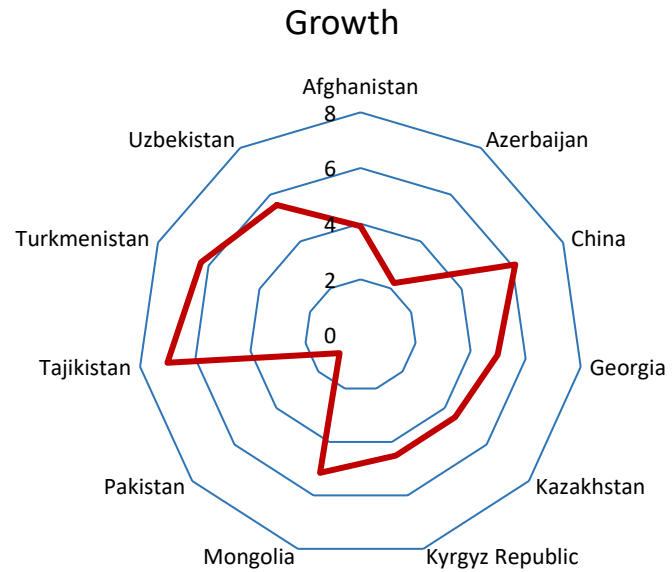


Reasons of Debt Accumulation

FDI Fluctuations

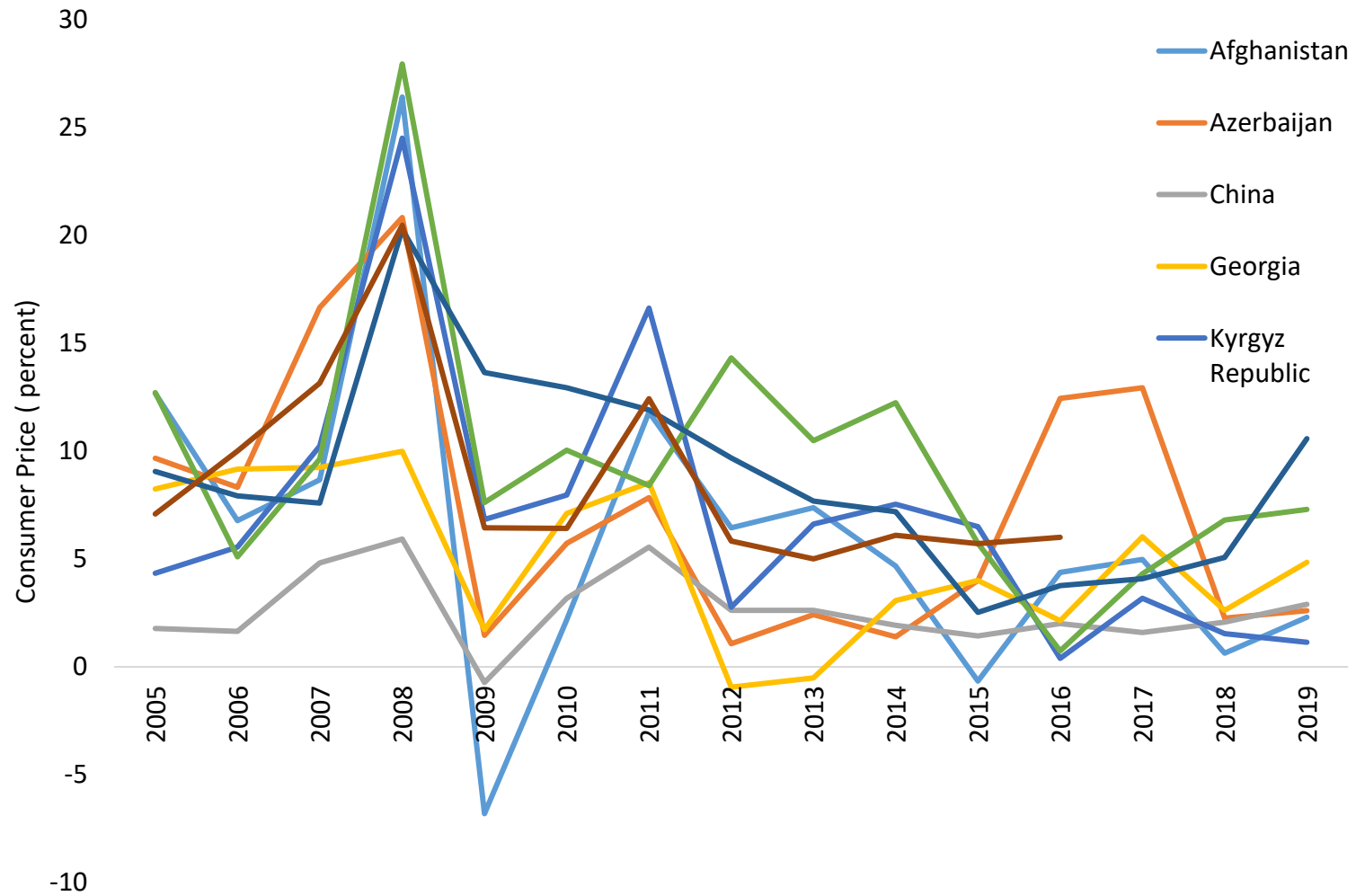


Economic Consequences



Source: World Bank, 2020

Economic Consequences



CAREC: Sub-regions

1. First Sub-Region

- 5 states (history + development + economies are same) Kazakhstan, Uzbekistan, Kyrgyz, Tajikistan, Turkmenistan

2. Second Sub-Region

- Afghan, Pakistan

3. Third Sub-Region

- China, Mongolia (China focus)

4. Fourth Sub-Region (Caucasus)

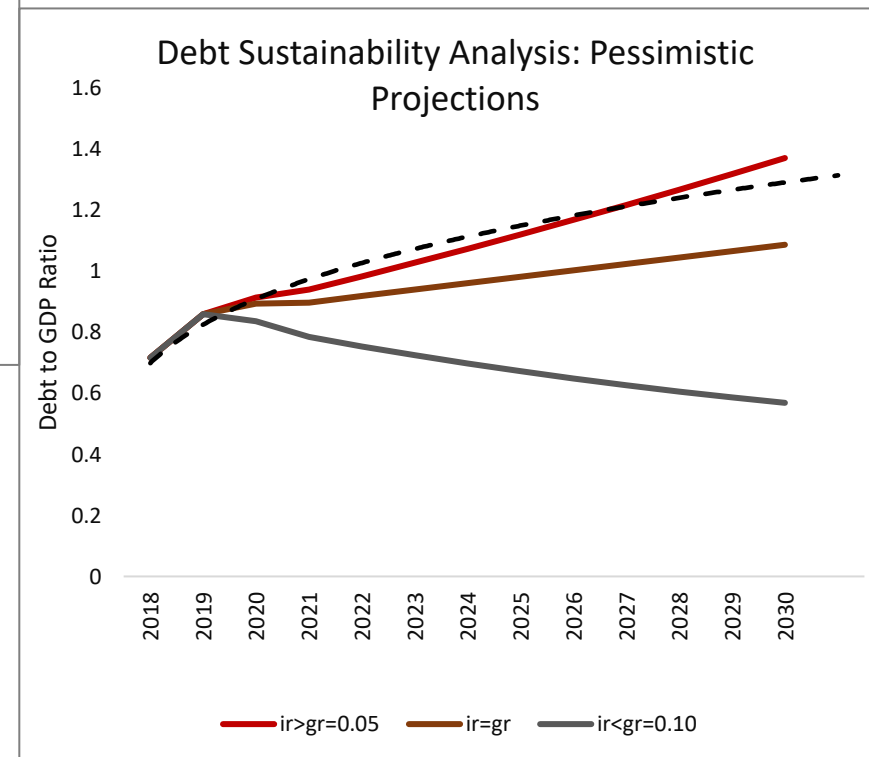
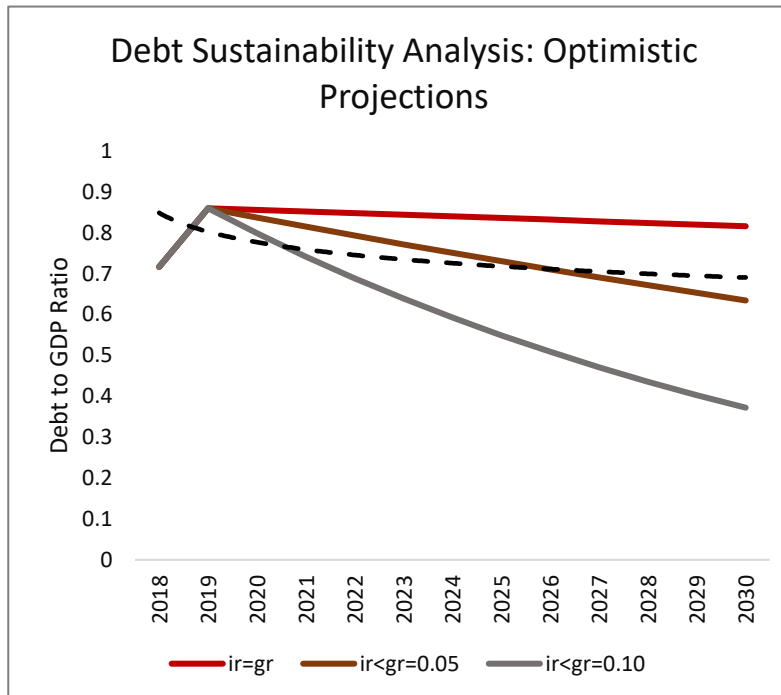
- Azerbaijan, Georgia (Georgia advance)

Debt Sustainability Analysis Framework (DSA)

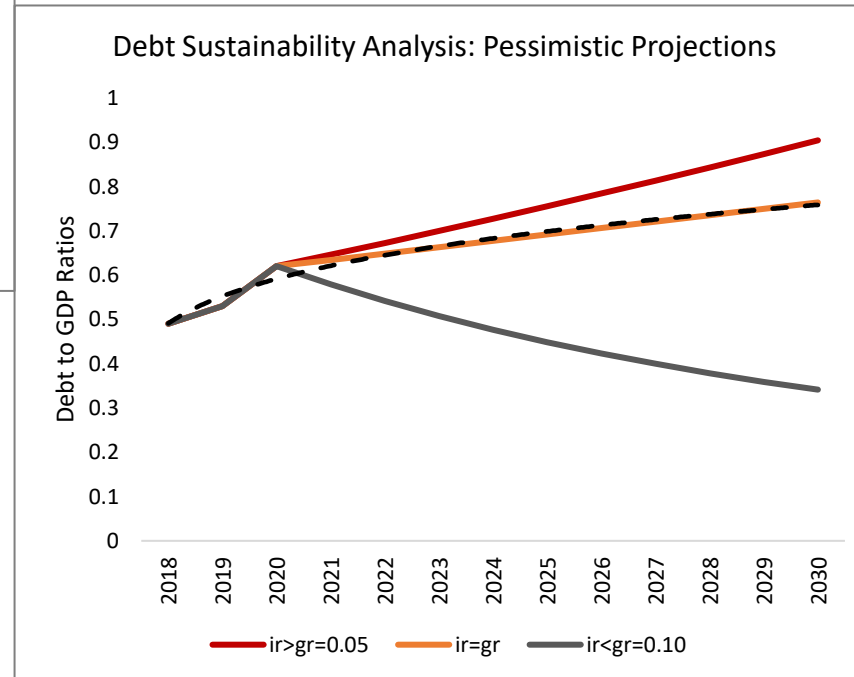
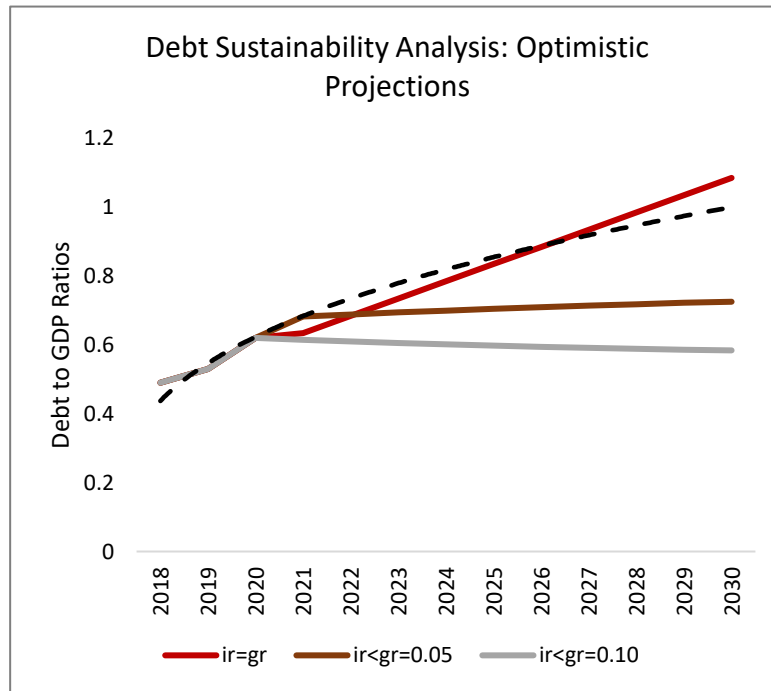
- Sustainability Analysis (DSA) framework tests the nexus of monetary policy, fiscal policy and debt sustainability:

$$d_t = \frac{(1 + r)}{(1 + g)} * d_{t-1} + pb_t$$

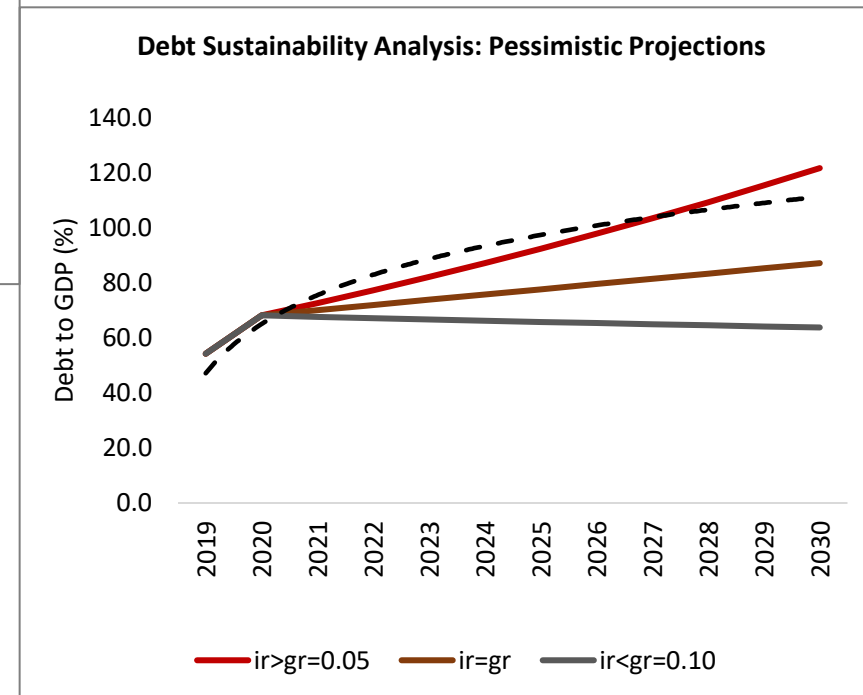
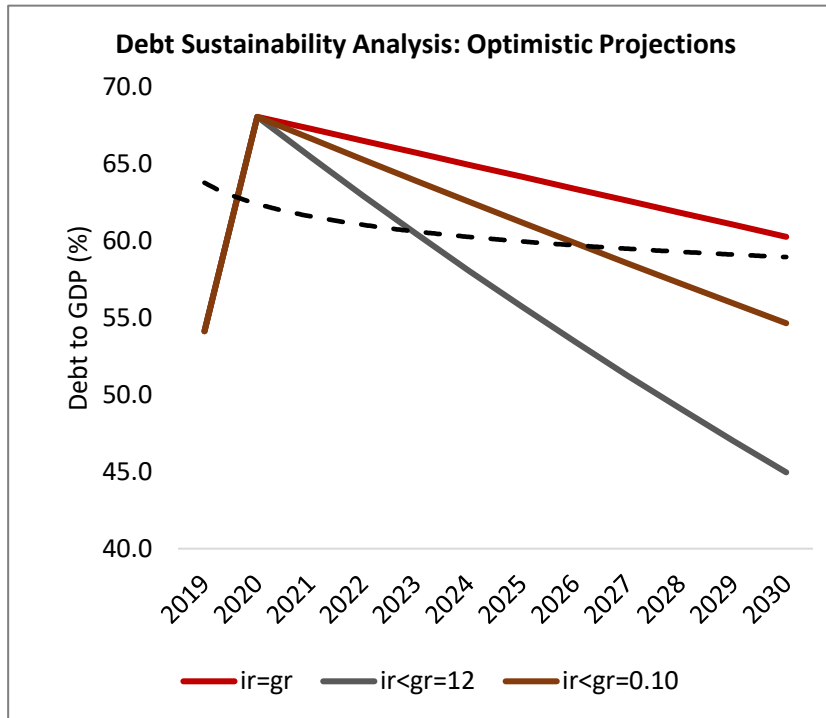
Debt Sustainability Analysis (DSA): Pakistan



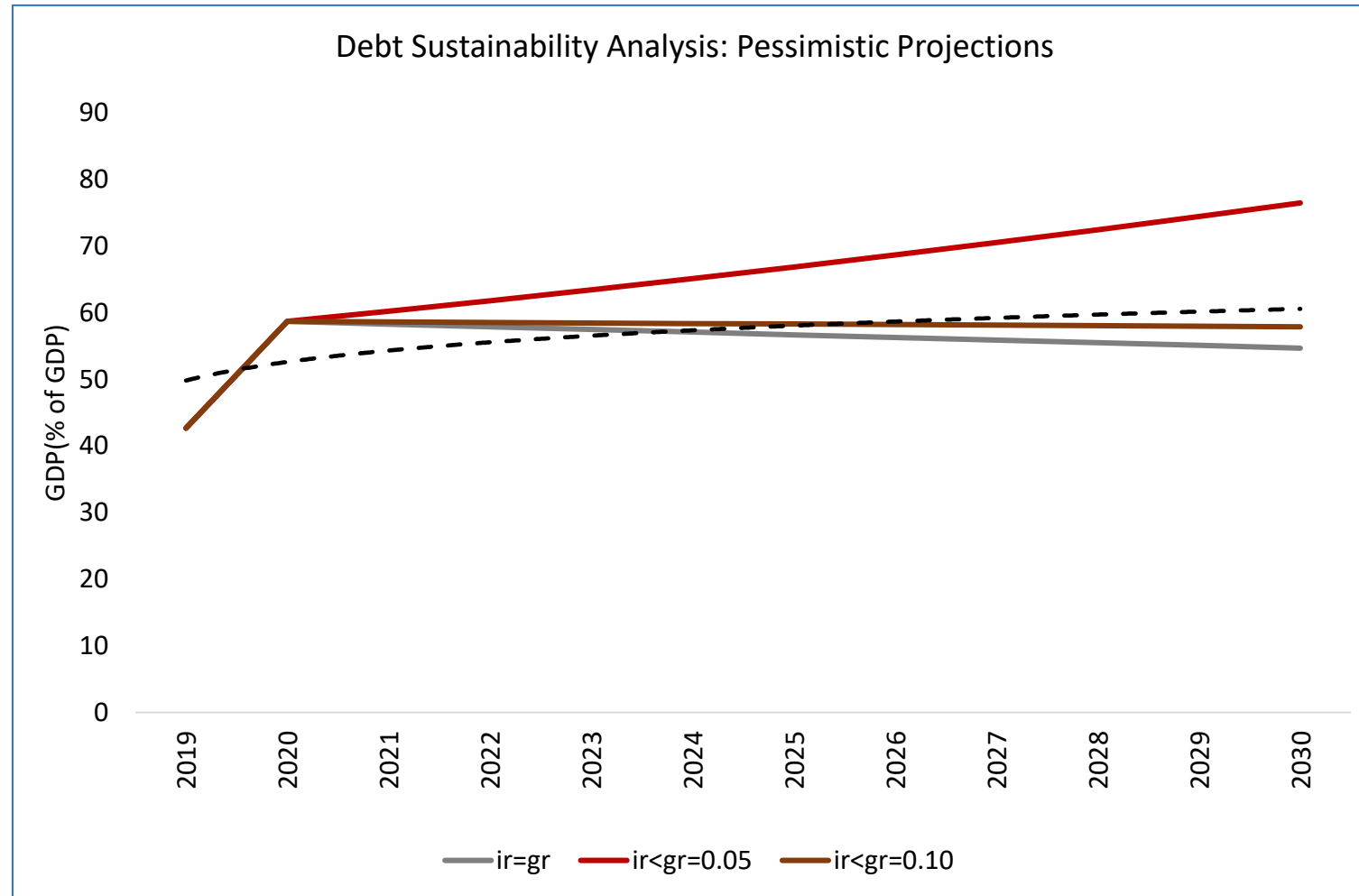
Debt Sustainability Analysis (DSA): China



Debt Sustainability Analysis (DSA): Kyrgyz



Debt Sustainability Analysis (DSA): Georgia



Conclusion

- Current account deficit and exchange rate fluctuations are contributing to debt accumulation.
- Debt accumulation that subsequently cause economic growth, employment and inflation in most of the CAREC region
- To overcome the COVID-19 and fiscal crisis CAREC countries are in dire need to have sound debt management and debt transparency mechanisms.
- Reinforcement of monetary, exchange rate, and fiscal policies frameworks can safeguard CAREC countries' debt sustainability.