



Opening remarks by Dr. Aynul Hasan, Chief, Development Policy Section, Macroeconomic Policy and Development Division, ESCAP

High-level Policy Dialogue “Macroeconomic Policies for Sustainable and Resilient Growth in North and Central Asia”, 27-28 August 2013, Almaty, Kazakhstan

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Mr. Grigori Marchenko, Governor of the National Bank of Kazakhstan,  
H.E. Mr. Nodar Khaduri, Minister of Finance of Georgia,  
Distinguished participants,  
Dear colleagues,

On behalf of UN ESCAP, it is my great pleasure to welcome you to this timely policy dialogue on sustainable and resilient growth. I wish to thank all the distinguished participants and colleagues for bringing your rich expertise and experiences to this international conference.

My deep appreciation goes to our host, the National Bank of Kazakhstan and Governor Marchenko. I understand that he is one of the foremost policy makers in this region, having contributed significantly to shaping Kazakhstan’s present-day banking and pension systems.

ESCAP, founded in 1947, is one of the UN’s five regional commissions, covering a vast region stretching from Turkey to the Pacific islands. We promote regional cooperation and the exchange of best practices in a number of inter-linked areas including macroeconomic policy, social development, environment, energy, trade, investment, transport, ICT, disaster management and statistics.

Countries in North and Central Asia are important members of ESCAP. I first visited Almaty in 2004 for the UN Almaty programme of action for the landlocked developing countries. The second time was in 2007, when the ESCAP Commission session was held here. More recently, our subregional office was established here in Almaty to better serve our member states in North and Central Asia. I am therefore very glad to continue this strong partnership through this policy dialogue.

Today’s policy dialogue for North and Central Asia is part of a series of ESCAP consultations in the wake of the global financial and economic crisis, following those for South and South-West Asia, East and North-East Asia, and the Pacific islands. We plan to convene a final regional meeting next year in the Republic of Korea.

So let me share with you the main lessons learned from these consultations and my thoughts on what could be some of the key issues for North and Central Asia.

Back in 2008 and 2009, the impact of the global financial crisis was severely felt in Asia through various trade and financial channels as well as a sharp decline in commodity prices. Countries began to respond with various stimulus programmes and support for the banking sector and the real economy. The challenges were multiple and so were the policy responses. One of the important lessons learned from this is the **importance of policy coordination**. This, of course, happened at the international level through forums such as the G20, but also importantly, at the national level among various ministries, the central bank and regulatory bodies. We learned that we could no longer work in ‘silos.’ Fiscal stimulus programmes would not have been effective without a supportive monetary stance and strong banking systems. Likewise, efforts to curb inflation or strengthen macro-prudential measures would have been impossible without the cooperation of fiscal authorities. This is why we invited to this meeting both finance ministries and central banks, so that we could address the key challenges in the most effective manner.

Another key lesson learned is that **short-term and long-term challenges are closely linked together**, and so too our responses be. The strategy is to ensure that our responses to imminent problems are designed and implemented in such a manner that they also contribute to strengthening the long-term health of the economy. This was in fact the case of various fiscal stimulus programmes enacted in recent years. In responding to weak external demand, many countries took the opportunity to address social inequalities and infrastructure deficits – issues which are important for the long-term. I believe this is also true for monetary and financial policies. Challenges can be turned into opportunities. During the Asian financial crisis, East Asia was severely hit. But this became an opportunity for the region to rise up and make its banking sector robust to future crises. I believe the same will be true for North and Central Asia as it addresses the banking sector challenges such as the non-performing loans. With the healthy long-term development of the financial sector in mind, I hope this will also be an opportunity to re-examine whether credit is being channelled to the most productive sectors of the economy and whether small and medium-sized enterprises, low income and rural households also have strong access to the finance they need. In fact, if we fail to focus on the long-term issues which may appear to be less urgent, we may leave our economies vulnerable to supply-side bottlenecks, short-lived business cycles, and sharp trade-offs between growth and stability. So always keeping in mind the long-term dynamics of the economy will be critical to sustaining growth over a long period.

Another related key lesson learned is that we should **look beyond aggregate figures** when we make policy decisions and **focus more on the quality and composition** of matters. The traditional indicators we follow, including GDP growth, headline inflation, budget balance, public debt and current account balance, are certainly useful but can also be misleading at times and divert our attention from seeing what is really underneath those aggregate figures. For instance, if there is high GDP growth this year but that growth is composed of things which will not exist next year, we should be concerned. If we achieved fiscal balance, but if that balance was achieved by cutting down on critical public expenditures and investments for the future, we should be concerned. Also, in addressing inflation, we should look into its composition – how much is imported or food price driven – so that we do not jump to the conclusion and raise policy interest rates, but rather take broad measures such as addressing the supply-side factors. Sometimes, just looking at the aggregate figures can also cause panic when there is no reason to panic. For instance, persistent and large net capital outflow is often cited as an imminent problem

and a reflection of weak business environment. Some of this could be true, but it certainly is not the entire truth. Official figure on the net capital outflow from Russia in 2012 was \$56 billion, a significant amount. However, this figure captures capital repatriated by parent banks from their Russian subsidiaries in order to repair their balance sheets. It also includes mergers and acquisitions made by Russian companies overseas, which reflect their expansion into the global market and facilitate technology transfer. In addition, repayment of foreign debt by Russian companies, payments of dividends to foreign stakeholders, and purchases of foreign currency by Russian residents are also included. In other words, a significant part of the 'outflows' would return back to the country as FDI. So the 'real' capital outflow could be only 50% of the original figure. So let us go beyond aggregates and look more carefully to what is underneath.

So far, I have only highlighted some of the broad lessons learned. This meeting, of course, will try to tackle some of the more concrete challenges such as managing the external headwinds coming from the continued uncertainties in the global economy, addressing income inequalities and expanding opportunities for productive employment, financing infrastructure development, and so on. These, I will speak more in the next session on current macroeconomic challenges. But when it comes to North and Central Asia, I think the most important challenge is one of **economic diversification**. And this is not merely an issue of reducing reliance on commodities or enhancing private sector development but also goes back to the geographical significance of this region, which was historically the crossroads for the movement of people, goods, capital and ideas across Europe on the one hand and East Asian on the other – via West and South Asia. Central Asia was at the centre of the well-known historic trade and transport network called the Silk Route. Today, Central Asia is once again at a crossroad. It is independent and enormously endowed with natural, mineral and human resources but has fallen short of unlocking its true economic growth and development potential. Meanwhile, Asia is now driving world economic growth and there is much opportunity for North and Central Asia to benefit from the rise (or a resurgence) of Asia. This is particularly so as the West continues to struggle. So what I wish to emphasize is that we should look at not only product diversification but also market diversification and strategic opportunities from the changing global environment. Critical to this will be regional cooperation, which assumes greater importance for North and Central Asia given its land-lockedness. I am sure we will discuss more on economic diversification in session five tomorrow, but I want to take this opportunity to inform you that ESCAP will convene a Ministerial on regional economic cooperation and integration in December this year in Bangkok. I look forward to the strong participation of countries in North and Central Asia.

With these words, let me once again, on behalf of UN ESCAP, thank you all for your time and

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