

COVID-19 crisis response in Central Asia

Updated 4 June 2020





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This note provides an overview of the social and economic impact of the COVID-19 pandemic on Central Asia and of the measures being undertaken by governments in the region. The overview of actions taken by governments in the region concerns both containment and deconfinement measures, with the note also providing a preliminary outline of some possible policy options to mitigate the effects of the crisis.

Overview

The global COVID-19 pandemic is having a significant negative impact on the economies of Central Asia. Trade has been severely disrupted, healthcare systems are coming under strain, and consumption and investment are plummeting. The crisis is affecting key drivers of growth in the region, including migrant remittances, oil and mineral exports, and the service sector. Relatively undiversified structures of production and exports, along with the high level of informality in some countries, have exacerbated a number of challenges that arise as governments respond to the crisis and have put pressure on public finances.

Governments in the region have made serious interventions to support the liquidity of households and businesses and most of them are now starting to relax confinement measures. A number of countries have implemented short-term public health, monetary and economic policy measures, especially for small firms and have received emergency assistance from international partners. The gradual deconfinement initiated



in some countries will call for a careful observation of health measures and the use of test, track and trace strategies when possible as well as the continuation of some economic support to accompany business reopening and recovery. This will also be an opportunity to consider long-term overdue structural reforms to the business environment and competition that will be crucial to long-term recovery and resilience.

The Social and Economic Cost of COVID-19 in Central Asia

The economic impact of COVID-19 will challenge government capacities in both OECD and emerging economies

The outbreak of COVID-19 has required governments to move rapidly to expand the capacity of their healthcare sectors and cushion the economic effects of containment policies and their effect on consumption. Estimates by the OECD suggest a potential initial impact of partial or complete shutdowns on activity between one quarter and one third of GDP in OECD member economies and selected emerging countries (OECD, 2020^[1]). The IMF estimates that global growth will decrease to -3% in 2020 (IMF, 2020^[2]). GDP has contracted by 3.5% in the EU during the first quarter (European Commission, 2020^[3]).

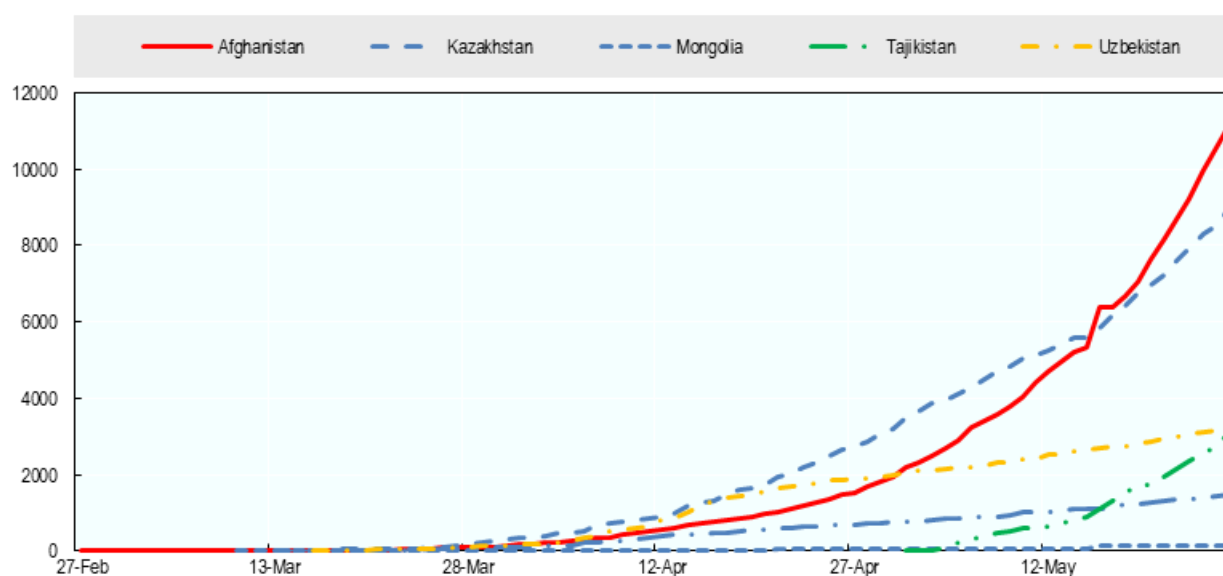
Policy interventions must aim to sustain household income, business activity, and the macroeconomic fundamentals to allow for a quick and sustainable recovery. While these measures imply substantial costs to public finances, the cost of inaction – a long-term destruction of productive capacity – would be even higher.

- **People.** Most urgently, governments need to implement public health measures to contain the spread of COVID-19, and support healthcare systems under pressure. Several OECD countries have designed partial work schemes for businesses affected by the crisis.
- **Firms: economic measures to support business activity.** The pandemic is having a devastating impact on the revenues and liquidity of businesses and their capacity to comply with tax requirements. Most OECD economies have designed substantial fiscal measures to support firms through credit guarantee, loans, and tax deferrals, and workers through wage support.
- **Macro.** Central Banks have injected sizeable sums to support the economy, both through quantitative easing (unlimited in the case of the US Federal Reserve) and lending support to firms and households: the US Federal Reserve has announced actions to support up to USD 2.3 tr in loans and the European Central Bank has launched a EUR 750 billion Pandemic Emergency Purchase Programme (PEPP). Both institutions have cut key interest rates since COVID-19 arrived in Central Asia comparatively late.

Countries in Central Asia started to report their first COVID-19 cases in mid-March, with the exception of Afghanistan, which reported its first cases late February. The number of cases has risen significantly since, following a similar trend to most of the world (Figure 1). Mongolia adopted strict containment measures early, closing all borders, and has so far limited the number of declared cases. Most other countries have put in place stringent lockdown and quarantine measures. As of 25 May, only Turkmenistan had yet to report any confirmed cases.



Figure 1. COVID-19 in Central Asia has spread rapidly in the region since the first cases were reported (as of 29/05/2020)



Source: ECDC, OECD calculations

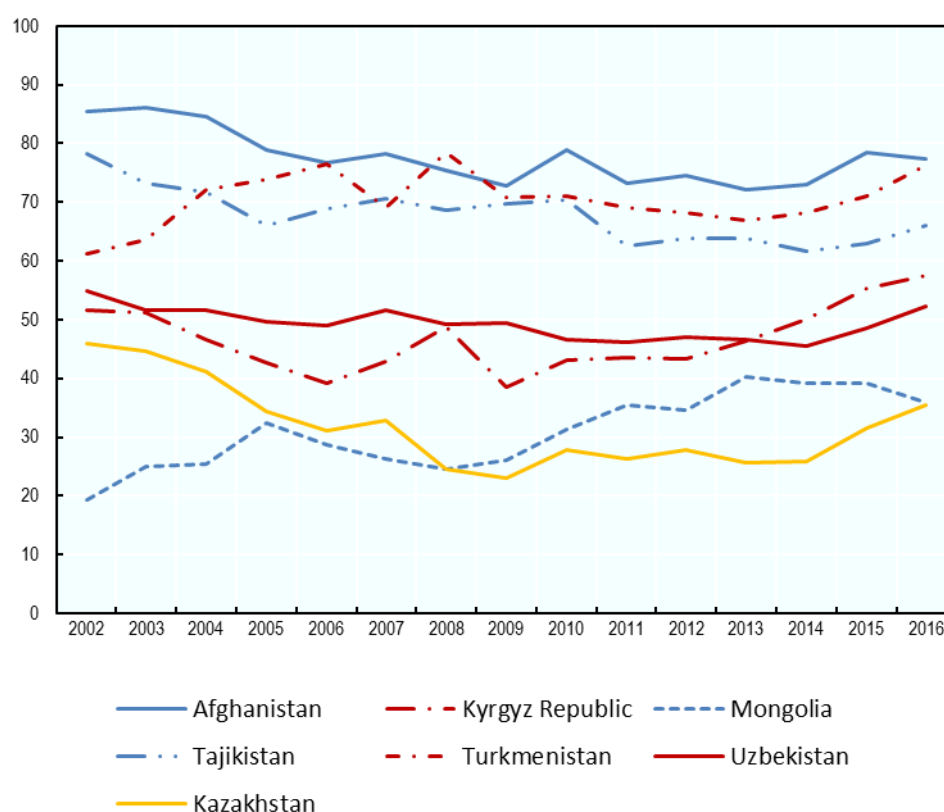
Underfunded health systems, returning migrants, and high levels of informality risk exacerbating the social cost of the pandemic in Central Asia

The spread of COVID-19 in Central Asia is likely to put significant strain on the region's healthcare systems, with the latest data available showing average regional healthcare spending at 6.3% GDP, or about 740 USD per capita at purchasing power parity exchange rates, significantly below the OECD average (World Bank, 2019^[4]). Even in cases where spending has been higher, such as Kazakhstan, healthcare system performance has significantly lagged OECD standards (OECD, 2018^[5]). Low levels of government spending have led to an unusually large share of the cost of healthcare being transferred to households, putting further downward pressure on consumption, with Central Asia having some of the highest ratios of out-of-pocket healthcare spending to total health expenditure in the world (Figure 2). Women, in particular, have poorer access to healthcare, due in part to the limited number of female doctors and in part to inadequate levels of provision in many rural areas.



Figure 2. With healthcare systems under-resourced, citizens bear the brunt of costs

Out-of-pocket healthcare spending as total of healthcare expenditure (%)



Source: (World Bank, 2019^[4])

Returning migrants may increase the strain on stretched healthcare systems

Border closures and falling demand for labour have led to large numbers of migrant workers returning to or staying in their home countries. At the same time, many labour migrants, unable to return and often stuck in or turned away from airports, have continued to work in countries with high rates of infection. Given the migrants' poor access to healthcare, this raises a risk that the virus may be reintroduced to Central Asia at a later point in time. A number of governments have taken steps to support the repatriation of migrant workers on condition of strict quarantine measures upon their return, but these returning populations will invariably stretch already under-resourced social services. At the onset of the crisis, it was estimated that there were between 2.7 and 4.2m Central Asian labour migrants in Russia.

Internal and external factors will put regional economic stability under pressure

GDP growth is expected to turn negative in most Central Asia countries in 2020

The multiple effects of the COVID-19 on commodities, trade and local economies will have a big impact on GDP growth in the region, which is expected to turn negative in 2020 (Table 1). These economic growth rates are likely to be further revised down in the upcoming months, as lockdown measures are very



progressively removed and the risk of the second wave can materialise, while global trade forecasts remain bleak with a possible decline of up to a third in 2020 (WTO, 2020^[6]).

Table 1. GDP growth will be negative in most Central Asia countries in 2020

The high differences with original forecasts underscore the depth of the economic shock

	GDP growth 2019	GDP growth forecast 2020 (estimates as of October 2019)	GDP growth forecast 2020 (estimates as of May 2020)	GDP growth forecast 2021 (estimates as of April 2020)
Afghanistan	+3%	+3.5%	-3%	+4.5%
Kazakhstan	+4.5%	+3.9%	-2.5%	+4.1%
Kyrgyzstan	+4.5%	+3.4%	-4%	+8.0%
Mongolia	+5.1%	+5.4%	-1%	+8%
Tajikistan	+7.5%	+4.5%	-2%	+5.5%
Turkmenistan	+6.4%	+6%	+1.8%	+6.5%
Uzbekistan	+5.4%	+6%	+1.8%	+7.0%

Source: (IMF, 2019^[7]) (IMF, 2020^[2])>

The COVID-19 pandemic and the consequent economic crisis constitute the third major exogenous shock to hit Central Asia in a little more than a decade. Recovery following each of the two prior shocks fell short of a return to the trend rates seen beforehand (Figure 3 below). If this pattern repeats itself yet again, the coming decade will be bleak. It is vital that policies to support recovery are aligned with long-term structural needs, so as to help Central Asia countries recover their dynamism and establish a trajectory of sustained, strong, and inclusive growth.

Efforts to limit the spread of COVID-19 will significantly increase trade costs

Being relatively small, and in most cases fairly undiversified, Central Asian economies depend heavily on foreign trade. The ratio of trade turnover to GDP across the region averages 65%, higher than the 58% OECD average (World Bank, 2020^[8]). This is despite the fact that their location and landlocked position impose higher transport costs. As ITF (2019) shows, these costs are in many instances increased by poor trade facilitation and inadequate connective infrastructure. The distance penalties that affect producers in Central Asia are only partly a product of geography – they are also the product of policy. Prior to the crisis, governments in the region were working to address this, reducing physical infrastructure bottlenecks and improving border procedures and other aspects of trade facilitation. These gains, however, have been put at risk by the current crisis.

As countries in Central Asia have progressively closed their borders with neighbours and restricted internal movement of people and goods to stem the spread of COVID, value chains have been disrupted. These value chains – as well as the availability of domestic goods and the concomitant question of food security – will be further imperilled by border restrictions imposed by China, Iran and Russia. At the same time, a number of high value adding sectors, such as petrochemicals and garments, may be affected by both lower demand and restrictions on the movement of labour and goods. Not only will lower and more expensive trade have an impact on consumption, but it also risks further reducing the manufacturing competitiveness of a region where connectivity and regulatory barriers already create significant costs.

COVID-19 may have a particularly severe impact on undiversified economies

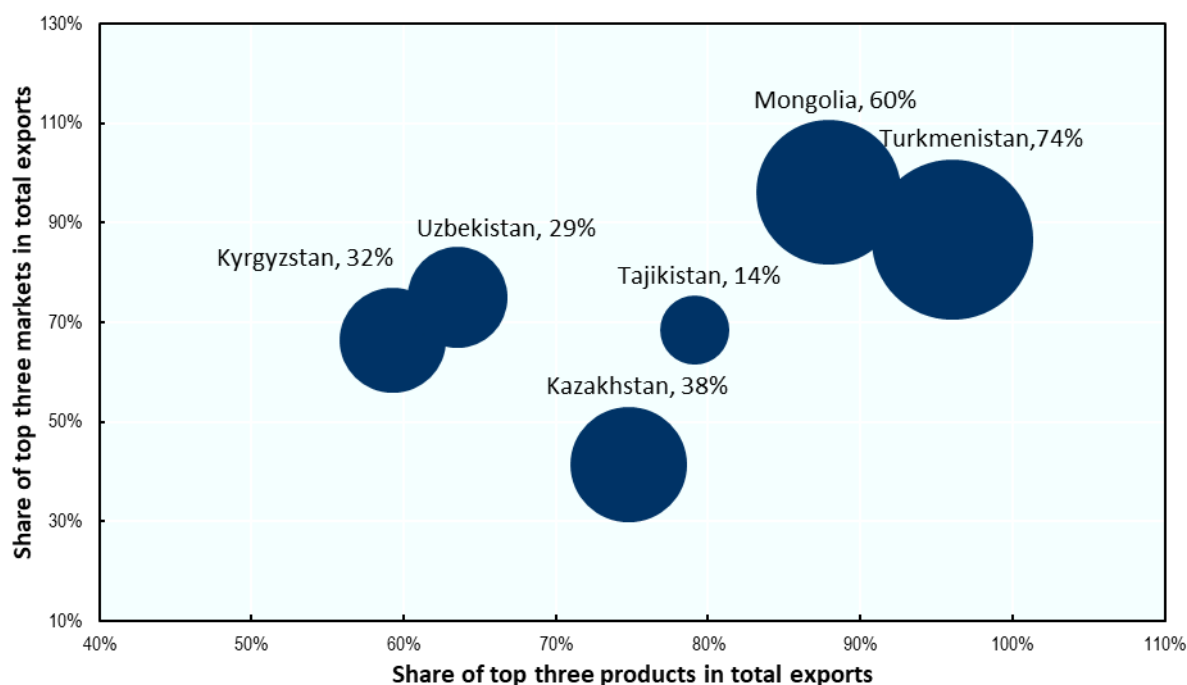
Protracted and stalled diversification reforms have left many economies in Central Asia with highly concentrated and undiversified production and export profiles, relying heavily on the export of raw



extractive goods. This lack of diversification will not only have implications for revenues, but also for employment, investment, productivity, and longer-term recovery.

Economic concentration leaves many economies in the region highly vulnerable to the kinds of external shocks that the COVID-19 pandemic is likely to trigger in global markets (Figure 3). For one, the Central Asian economies in which exports constitute over a third of GDP have export baskets in which the top three products account for over two-thirds of all exports. In addition, with the exception of Kazakhstan, the countries of Central Asia export to a very narrow range of markets. This economic concentration leaves them highly vulnerable to external shocks, since the impact of any decrease in demand for key export products is magnified by a small range of trading partners and a lack of alternative products due to low levels of diversification.

Figure 3. Central Asian economies are characterised by highly concentrated export baskets and a small number of dominant trade partners



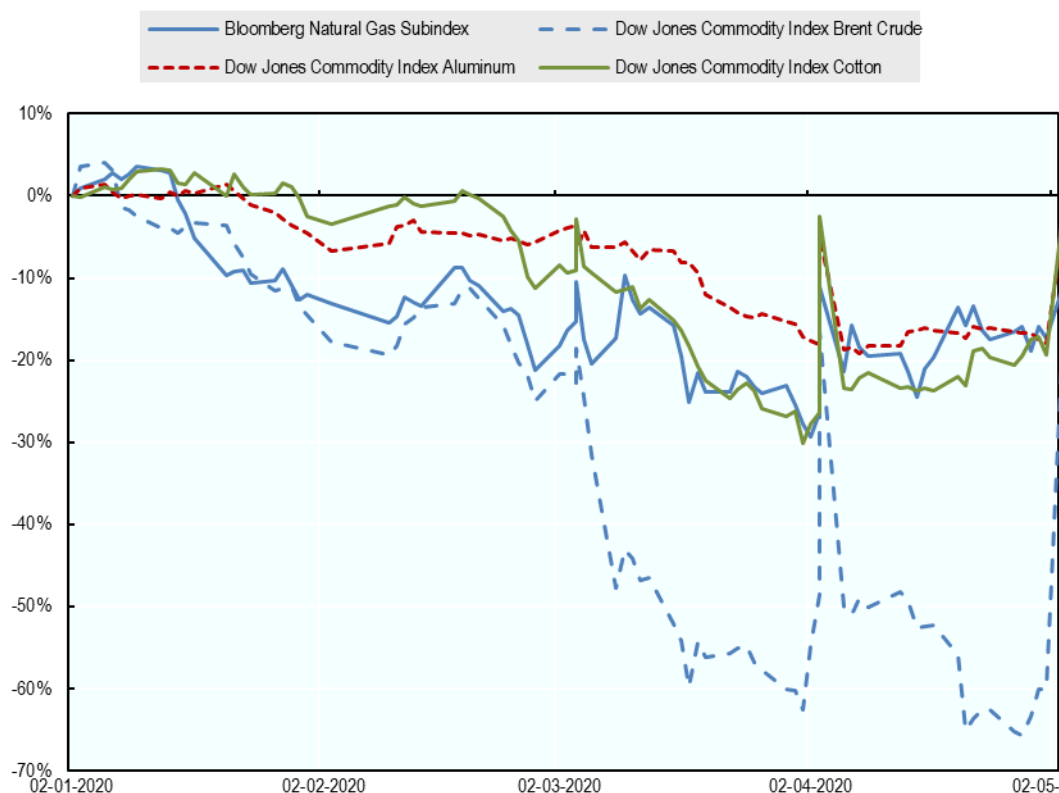
Note: The size of the bubble and the percentage next to the country name indicate the share of exports in GDP

Source: (OECD, 2018^[9])

At the same time, falling levels of demand have led to significant price decreases in a number of Central Asia's key export products, such that lowering trade volumes will be compounded by falling nominal values. As of early May, a number of major oil indices had crashed over 60% in value since the beginning of the year, in a reflection of both falling demand in industries such as aviation and manufacturing as well as structural issues in the oil sector. While not as dramatic, a number of other commodity indices indicate similar negative trends, likely to have a significant and detrimental impact on the trade-dependent economies of Central Asia (Figure 4).



Figure 4. The value of many key Central Asian exports has plummeted since January 2020



Source: (Financial Times, 2020_[10])

The drop in global demand for primary commodities is already making itself felt in the region. In Kazakhstan, for instance, the government has had to revise its state budget for 2020, which was based on an average annual Brent oil price of 50-55USD per barrel – as of May 2020, the price had collapsed to 25 USD (Financial Times, 2020_[10]) (Government of Kazakhstan, 2020_[11]). Chinese imports from Central Asia fell sharply in the first quarter, and PetroChina issued a *force majeure* notice, cutting planned gas purchases from Kazakhstan, Turkmenistan and Uzbekistan. According to Chinese trade data, Q1 imports from Mongolia, Turkmenistan and Uzbekistan were down 47.5, 22.3 and 38.4%, respectively, with imports from Kyrgyzstan down 17.6% (General Administration of Customs of China, 2020_[12]). For Mongolia and Turkmenistan, where China accounts for the overwhelming majority of exports, the cost of this contraction will have been especially great.¹

Falling trade revenues will also create challenges for countries with high levels of external debt

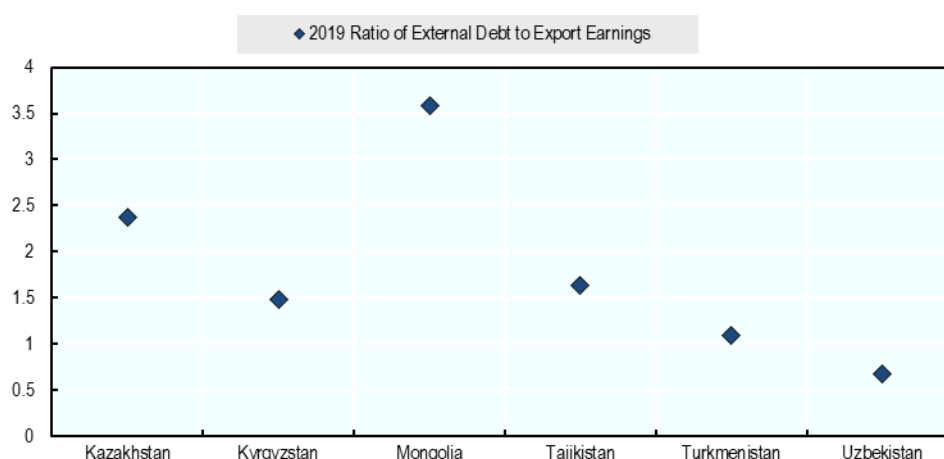
Many economies in Central Asia continue to have very high levels of external debt, often dollarised and linked to a narrow range of capital-intensive industries that provide the majority of trade revenues. While the larger economies of Kazakhstan and Uzbekistan are able to mitigate some of the pressures by using reserves, the pressures for smaller economies, in particular Mongolia, Kyrgyzstan and Tajikistan, are

¹ China accounted for 76% of Mongolia's exports in 2017 and 80% of Turkmenistan's; by contrast only about 17% of Uzbek exports went to China, and this share has been falling steadily since 2013; the corresponding figure for Kyrgyzstan was 5.3%.



particularly severe. In Mongolia, for example, external debt in 2019 stood at 221% GDP or 30.7bn USD, with a debt-export revenue ratio of 3.6 suggesting that it would require 43 months of trade receipts at the 2019 average to cover outstanding external debts (Figure 5) (CEIC, 2019^[13]). Mongolia has agreed on an IMF programme to support its public finances and reform agenda since 2017. With further declines likely in both the demand for, and the prices of, many of the region's key export products (Figure 6), some countries could face serious challenges in meeting their external debt commitments.

Figure 5. Falling export revenues could create difficulties for countries with high levels of external debt



Note: The ratio used is 2019 gross export of services and goods and total external debt in million USD. A ratio of '1' implies that 12 months' export earnings would be required to clear outstanding debt.

Source: OECD calculations based on national account data

Despite the ability of Kazakhstan and Uzbekistan being relatively better positioned to deal with immediate debt pressures, the crisis nevertheless highlights the fiscal and monetary challenges engendered by a dependency on commodity exports, and the lack of sustainability therein.

Falling remittances will further squeeze consumption and government revenues

Russia's decision in March 2020 to close its borders to non-Russian citizens, though subsequently relaxed in respect of citizens of the Commonwealth of Independent States, highlighted the precariousness of many Central Asians' reliance upon that country for employment. In Tajikistan and Kyrgyzstan, for example, where the domestic private sector has been unable to provide a sufficient quantity of quality jobs, labour migration has been an economic lifeline for many households, with remittances accounting for around 30% GDP in both countries (World Bank, 2019^[14]) (EBRD, 2019^[15]). Yet the countries to which labour has traditionally migrated – in particular, Russia and, to a lesser extent, Kazakhstan – are themselves highly dependent on the export of commodities. Recession in such economies will have an impact on the demand for labour, invariably affecting many households across Central Asia.

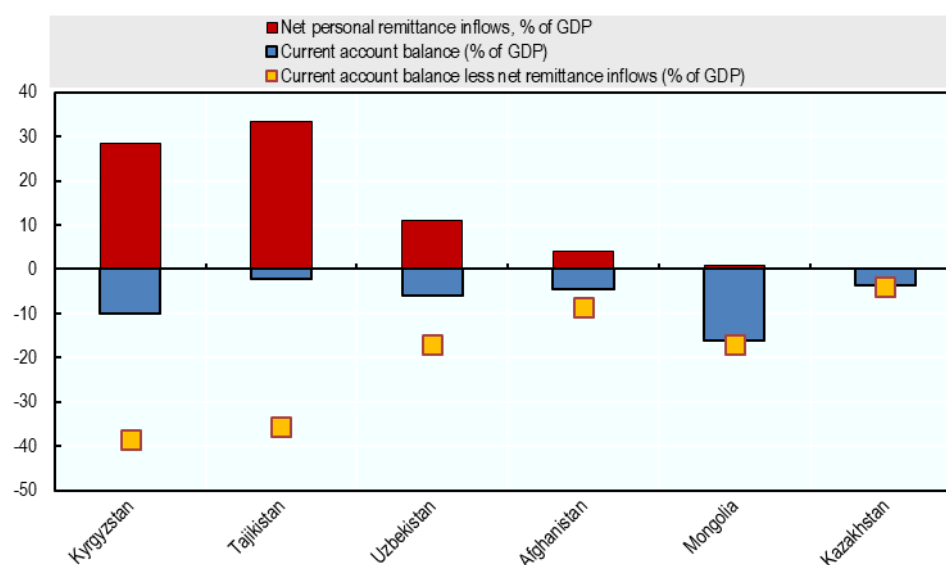
On 18 April, the Russian government issued a decree that automatically extended work permits and labour patents until 15 June, giving a temporary reprieve to migrants stuck in the country² (Government of Russia, 2020^[16]). Yet, even if *de jure* restrictions are eased or lifted, the longer-term economic consequences of a

² Neither of these permits are necessary for migrants from Kazakhstan or Kyrgyzstan, owing to their membership of the Eurasian Economic Union.



prolonged recession in key migrant destinations are severe for many Central Asian economies. In April, the World Bank estimated that remittances to Central Asian economies could fall by more than a quarter this year, a sharper fall than all other regions analysed (World Bank, 2020^[17]). Kyrgyzstan already saw remittances fall by 9% year-on-year in the first quarter (IMF, 2020^[18]). Any significant fall in remittance revenues would therefore have serious implications for Central Asian economies' current account deficits (Figure 6).

Figure 6. A decline in remittances could widen current account deficits



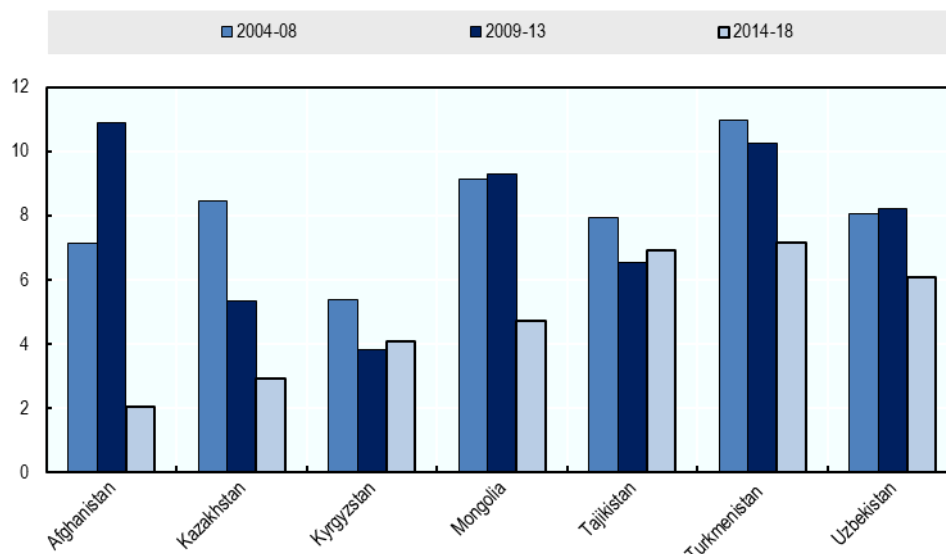
Source: National banks of Kyrgyzstan, Tajikistan, Uzbekistan, Afghanistan, Mongolia and Kazakhstan

Shrinking budget revenues will limit governments' ability to respond to the crisis

As domestic growth and export revenues fall, public finances will come under strain. The shock of the global drop in commodity prices – a trend already being replicated in 2020 – had a particularly strong impact on countries with large extractive sectors. The sharp fall in growth seen in 2016, and the inability of countries to recover to pre-2015 growth rates since, laid bare the limitations of resource-dependent growth models for long-term, resilient development. The combination of reduced export earnings, particularly for hydrocarbon exporters such as Kazakhstan and Turkmenistan, and significant trade disruptions will narrow the fiscal space for governments to respond, limiting their ability to stimulate local demand, support businesses, and address long-term priorities.



Figure 7. Average real GDP growth rates in five-year increments, 2004-18



Source: (World Bank, 2019^[4])

The ability of Central Asian countries to implement similar emergency measures to those being undertaken by OECD members is constrained by limited budgets and far more expensive government borrowing. For example, Uzbekistan and Tajikistan's 10-year dollar denominated bonds have current yields of 4.75% and 7.125% respectively, while Kazakhstan and Mongolia's 5-year bonds are currently yielding 5.125% and 9.25% - with growing uncertainty in the global economy, the cost of borrowing may continue to further increase in the coming years (CBonds, 2020^[19]). Fiscal space in these countries is therefore likely to shrink further as the economic effects of the pandemic are felt, forcing governments to cut spending at a time where interventions will be necessary, or seek alternative sources of funding. Some countries, such as Kyrgyzstan and Tajikistan, have already turned to international donors to obtain emergency financing, but it is not clear to what extent such institutions will be able to provide the types of debt-funded direct financial support being implemented by national governments elsewhere.

Falling domestic consumption will hit VAT revenues

Indirect consumption taxes, in particular value-added tax (VAT), comprise a substantial proportion of tax contributions to budgeted revenues in each country of Central Asia, with the regional average VAT contribution of 33.6% significantly higher than the 21.2% OECD average. The economic implications of COVID-19, including lower remittances, will lead to markedly lower domestic consumption (OECD, 2020^[20]). This may have a disproportionately large effect on state revenues at a time where governments look to provide fiscal stimulus packages to mitigate the economic fallout. Similar tightening is likely across the private sector, with early indications from Kazakhstan's manufacturing PMI falling from 50 in January to 39.3 in April, the lowest value since data collection began, indicating substantially lower factory orders, new business, job creation and medium-term business confidence (IHS Markit, 2020^[21]).

Declining economic activity and fiscal measures adopted by governments will also lead to significantly reduced tax receipts from personal and corporate income taxes, as well as through lower levels of customs duties. For countries where the nominal value and volume of trade is likely to fall, the narrowing of the domestic tax base is liable to create particularly acute fiscal pressures. Not only does this risk shrinking the immediate fiscal space available to governments in which to calibrate their post crisis recoveries, the



implications will likely persist through lower levels of employment and the serious concomitant risk of immediate and future loss of income.

A number of countries face a serious risk of indebtedness

Before the COVID-19 outbreak, the level of international reserves and debt ratios were seen as broadly adequate and sustainable across the Central Asian region (IMF, 2020^[22]). The sharp declines in commodity prices and remittances, as well as the cost of the fiscal support packages undertaken by governments have increased debt ratios, while expectations of further downside risks have put pressure on local currencies and sovereign spreads. The latest estimates suggest an increase in debt-to-GDP ratios in 2020 by 3 percentage points in Kazakhstan (to 23.1% of GDP), 7pp in Tajikistan (to 51.8%), 8pp in Uzbekistan (to 36.9%), and 15pp in Kyrgyzstan (to 69.2%) (IMF, 2020^[22]). Moreover, as these figures are based on an assumption of recovery in 2021, they may increase further if other downside risks materialise. With higher costs of debt servicing and refinancing, the impact of increased debt will likely be felt for several years, reducing fiscal space at a time when governments will be looking for ways to support economic recovery.

In addition, global financial conditions have tightened markedly, with large portfolio outflows, a strong decline in equity markets, in particular for energy sectors, and a rise in global risk sentiment, which has led to an increase in 10-year government bond yields and sovereign spreads (IMF, 2020^[22]). This tightening might prove to be a significant challenge for the region's economic stability, particularly for countries with high levels of dollarised debt financed primarily by export revenues. Almost all of Tajikistan and Uzbekistan's debt, for instance, is dollarised (100% and 97% respectively), leaving them vulnerable to exchange-rate depreciation, the more so that Tajikistan has significantly lower gold and international reserves than Uzbekistan. Kazakhstan is somewhat less exposed since only 35% of the country's debt is in USD and EUR (Reuters, 2020^[23]). Finally, if portfolio outflows continue, there is a risk that the region could suffer from a major decline in investment.

Central Asian economies are also particularly exposed to the outsized role of China as the source of much of the region's debt

In recent years, Kyrgyzstan, Mongolia and Tajikistan have seen their external debt to China increase drastically in connection with infrastructure projects under the Belt and Road Initiative (Center for Global Development, 2018^[24]). According to official figures, Kyrgyzstan in late 2019 had total foreign debt of about USD 3.8bn, of which roughly 1.8bn was owed to the Export-Import Bank of China (Eximbank). Almost half of Tajikistan's external debt is owed to China (Reuters, 2020^[25]). This dynamic could result in large and unsustainable debt liabilities having a negative impact on public investment and governance. Kyrgyzstan has applied for debt relief from China to be able to fund COVID-19 economic mitigation measures (Reuters, 2020^[25]).

The impact of COVID-19 risks aggravating economic and social inequalities

High-productivity jobs are concentrated in a few sectors

A longstanding issue in Central Asia is that most employment is in low-productivity activities, both formal and informal, with the most productive sectors – often capital-intensive extractive industries –employing comparatively few people. Kazakhstan is a telling example in this regard: resource extraction accounts for over a fifth of GDP but employs only 2% of the population and yet accounts for the vast majority of productivity gains in the country (OECD, 2017^[26]). One can easily imagine that with suppressed demand for many key extractive goods, the contribution of these high-productivity sectors will fall in the months and years to come.



More broadly, only 45.5% of Central Asian workers are employed in service sectors, compared with 73% in OECD countries (ILO, 2020^[27]). This regional average masks significant disparities at the country-level – which range from 64% in Kazakhstan to 33% in Tajikistan. Services sector growth has in many cases been fuelled by inflows from resource exports, particularly high-value services like finance (Ibid.). These sectors are thus vulnerable to the drop in export revenues.

Large imbalances in terms of productivity and employment across sectors in Central Asia's economies are indicative of stalled diversification – the limited change in sectoral employment over the past twenty years an example of this – and speak to the interconnectedness between diversification and long-term social stability. Against a backdrop of rapidly expanding labour forces, governments in the region have increasingly sought avenues to develop the private sector so that it can provide good quality jobs for a young and skilled workforce. Yet the inability of the private sector to create the jobs necessary is, in many cases, a reflection of the favoured treatment of extractive sectors, neglect of the business environment, low levels of competition, and the misallocation of state resources to large SOEs. This is an inauspicious environment for employment creation, and one in which a sustained economic downturn will only further complicate matters, rendering it more urgent than ever for governments across Central Asia to remove barriers to entrepreneurship and facilitate private sector development.

The socio-economic costs of COVID-19 may disproportionately be borne by women

Across the world, men are somewhat more likely to contract COVID-19 and far more likely to die from it³. However, the evidence to date suggests that women may be far more exposed to the socio-economic impacts of the crisis. In Europe and Central Asia, for example, women perform on average twice as much unpaid care work as men, a burden currently increased by school closures, food insecurity, and members of the family falling ill. In addition, the enforced confinement of families has had severe implications for women's safety at home, with recent months seeing a surge in domestic violence across Central Asia. In Kazakhstan, calls to support hotlines have tripled, and in Kyrgyzstan, cases of domestic violence have increased by 67%. In Uzbekistan, the government has established a hotline with lawyers and therapists supporting victims of domestic violence. Seasonal migration usually tends to reduce intimate partner violence, but with cross-border migration coming to a halt, women face greater insecurities at home.

Adding to the burden of unpaid work and increased domestic violence, women face increased economic and health insecurities. For instance, across Central Asia, women account for the majority of workers in the textile sector, which has been severely affected by the economic downturn. Similarly, women make up the majority of healthcare and social workers, putting them at a heightened risk of infection. The impact of the virus can therefore be unequal, from varying shares in sectoral employment, to roles in the informal economy and the implications for health. It is thus critical that governments in the region mainstream gendered considerations into their policy responses. The same is true for other vulnerable groups in society, such as the elderly and disabled.

Administering support for those in need is complicated by high levels of economic informality

A high level of economic informality across Central Asia creates a number of additional pressures for vulnerable populations and governments, in terms of both the economic impact of the crisis and the ability to administer support to those that need it most. Whilst a level of economic informality can act as a buffer against economic shocks, the nature of this particular crisis and the measures taken to contain it – namely restrictions on the movement of people – limit the informal sector's traditional role as a source of resilience

³ Sex disaggregated COVID-19 infection and mortality data at Global Health 5050, <https://globalhealth5050.org/covid19/>, accessed on 14 May 2020.



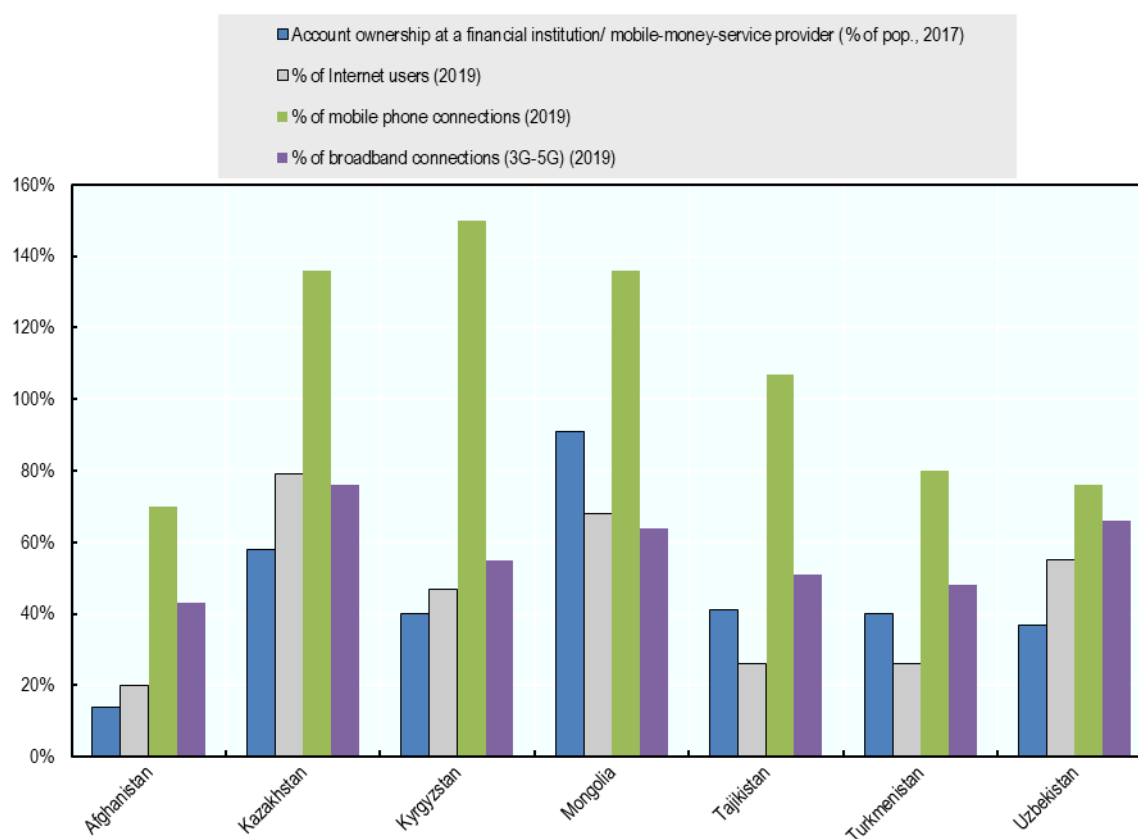
for many low-income people. At the same time, where workers and businesses in formal economic activities often have access to safety nets or direct state support, such as is being undertaken in a number of OECD countries in the wake of COVID-19, the same is not true for their informal counterparts. Many informal firms, for example, lack the infrastructure that would allow them to move operations to a home-work basis, which not only makes it harder for them to adapt, but puts their workers in a greater position of risk. For most informal workers, teleworking is not an option.

The economic impact is therefore likely to be particularly severe for the informal workers, with the ILO estimating that the monthly earnings of such workers could fall by a third (ILO, 2020^[28]). With only 38% adults in Central Asia having any savings, the ability of households to withstand any immediate drop in earnings may be particularly restricted (World Bank Group, 2019^[29]). Governments in Central Asia will therefore have to ensure that measures to support households and firms extend beyond the formal sector, particularly in countries such as Afghanistan, where the informal economy accounts for 80% of economic activity. Similarly, given the key role of many informal workers, from municipal functions such as refuse collectors to other essential services like *mashrutka* drivers, mechanics, or shuttle traders, interruptions to the informal economy could have severe implications for social and economic stability.

The administrative implications of economic informality are also considerable. With many workers and firms below their government's radar, it may be difficult for policy-makers to obtain accurate data on the real composition of their economies and work forces, complicating efforts to design policy responses and administer support to those that need it most. This is particularly true for direct financial support to workers and firms, as is currently being pursued in both OECD and non-OECD countries, with low financial inclusion and digital connectivity complicating such efforts in Central Asia (see Figure 8).



Figure 8. Financial inclusion is low but varying levels of digital connectivity could provide options for innovative policy responses



Source: (World Bank, 2019^[4]); Datareportal, 2019

A prolonged shut-down of the economy may create pressures for the region's education systems and exacerbate socio-economic inequalities

As of 6 May, 177 countries had closed educational institutions in an attempt to limit the impact of COVID-19 on 1.3 billion learners and those with whom they might come into contact. In many places, teachers and students have turned to distance learning to mitigate interruption, with all OECD countries having provided learners with some type of online platforms with educational resources for students as well as training materials for teachers. However, many countries in Central Asia do not have the same capacities to implement digital solutions in education, owing to varying levels of technology access and internet penetration across the region. For example, according to the PISA 2018 assessment, OECD countries report that more than 85% students have access to a computer at home, compared to approximately 60% in Kazakhstan. It is therefore essential that governments in Central Asia ensure that policy responses to interruptions in education systems are inclusive and take into account local constraints.

Despite numerous ongoing projects to improve digital connectivity, access to the internet is a particular barrier to home learning in Central Asia. In 2019, fixed internet penetration in the region was 54%, with significant variations across countries. Quality of access is equally variably, with international bandwidth per capita in Turkmenistan, Tajikistan, Uzbekistan and Afghanistan ranging from 1.8 to 12 Kbps, with less than 10 Kbps per capita considered unusable. At the same time, as noted in figure 8, Central Asia has comparatively high rates of mobile penetration, which might provide an avenue for delivering digitalised services to households and businesses as countries attempt to contain the crisis. In addition, despite many



countries having relatively uncompetitive telecommunications markets, the monthly price for 1 gigabyte of mobile internet is below the 2% monthly GNI target in all countries of the region bar Afghanistan and Tajikistan, where it is 3.7 and 6.2% respectively (Cable.co.uk, 2020^[30]). The testing phase to launch online classes in Kazakhstan showed that internet bandwidth in the country was not sufficient to support online learning of 2.5 million children. Similarly, Tajikistan, where internet costs are among the highest in the region, stated that the country will not implement distance learning. In light of connectivity challenges, many countries in the region have implemented educational broadcasting on national television, while countries with better internet access, such as Kyrgyzstan and Uzbekistan, have established digital learning platforms.

The reopening of schools is likely to be a lengthy process, reflecting localised progress in containing the virus. As of early May, 71 countries had announced a timeline for reopening schools, with twelve having already reopened them. In Central Asia, Kazakhstan has closed schools until further notice, Mongolia and Uzbekistan have postponed school reopening until September; there is little information available on other countries in the region. As in OECD countries, the process of reopening of schools must strike a balance between ensuring the health and well-being of students while considering long-term implications of the missed months of schooling and reducing the socio-economic gap in access to education.

The crisis will have an asymmetric spatial impact that will require local responses

Key sectors of the economy are concentrated in sub-national regions

Many of the measures undertaken to prevent the spread of COVID-19 will undoubtedly vary in their impact on regions and cities within countries. For example, many regional economies rely disproportionately on specific sectors, which may be more or less affected by containment measures. Tourism, for example, will be hit hard by measures to contain the virus, while energy and mineral sectors will be more vulnerable to changes in commodity prices as a result of the pandemic's economic impact. Moreover, in many countries, containment measures are stricter in large cities, where social distancing can be harder to achieve.

In Kyrgyzstan, for example, tourism accounts for only 5.2% of GDP, but almost half of all tourist services (hotels, sanatoria, etc.) are concentrated around the Issyk-Kul Lake (State Committee on Statistics of Kyrgyzstan, 2019^[31]). The sudden cessation of tourist activity will therefore have a disproportionately large impact on that region, with consequences for local labour markets and public finances. At the same time, with almost 70% of tourists to the Issyk-Kul region arriving from Kazakhstan, the region is indicative of how localised recovery will depend on decisions taken at a national level and, in some cases, abroad, requiring a co-ordinated approach when Central Asian governments begin to lift restrictions and enter into deconfinement (World Bank, 2018^[32]). Similarly, in Uzbekistan, industry accounts for around 27% GDP at the national level, but almost 54% in Navoi oblast, where gas and mineral extraction sectors are significant contributors to the region's economy (State Committee on Statistics of Uzbekistan, 2019^[33]). Understanding how the economic consequences, both endogenous and exogenous, will affect the economic health of regions and cities is therefore imperative if governments are to be able to plan and allocate resources to the people and places most in need.

Levels of labour migration are not shared equally across Central Asia's regions

As with the location of key industries, the geographic dispersion of labour migrants and emigrants is not evenly shared across the countries of Central Asia. Accordingly, barriers to migration – in terms of both demand and supply – will have an asymmetric localised impact on a number of economies in the region. For example, in 2014 it was calculated that around 66% of labour migrants from Kyrgyzstan to Russia



originate from the regions of Osh, Baktan and Zhalal Abad, despite these regions accounting for 41% of the country's population (State Migration Service of Kyrgyzstan, 2014^[34]). The unequal share of labour migration, and its concomitant contribution to local economies, is not restricted to external migration, with internal migration also important for a number of Central Asian countries, particularly for seasonal agricultural work. In Tajikistan, for example, a little over 45 thousand people migrated internally for economic reasons in 2018, yet Khatlon region alone accounted for almost half of these (State Committee on Statistics of Tajikistan, 2019^[35]). Similarly, over half of these internal migrants came from rural settlements, indicating that any disruption to the movement of people not only has an impact at the national level, but also risks serious localised consequences within communities where job creation and public services are already limited (Ibid.).

A number of key policy areas are devolved to regional governments, which may lead to accountability and resource challenges

The variance in regional capacities to deal with the social and economic implications of the COVID-19 pandemic risks aggravating the crisis and deepening inter-regional inequalities. Some of the most crucial responses to the current crisis require actions by local governments and rely on their capacity to enforce lockdown, health and containment measures, to mobilise local health systems and to find temporary economic measures to support local businesses and citizens.

In the Tashkent region of Uzbekistan, for example, there are 63 doctors per 10,000 population, while in the neighbouring Qashqadaryo region, the country's third most populous, there are only 14 per 10,000 (Ministry of Health of Uzbekistan, 2020^[36]). Similarly, the daily capacity of outpatient clinics in Tajikistan is characterised by deep regional inequalities, with Dushanbe's outpatient infrastructure able to cope with 151 people per 10,000 of the city's population, compared to only 63.7 per 10,000 in Khatlon, a region with over three times Dushanbe's population (State Committee on Statistics of Tajikistan, 2019^[35]). The varying capacities across regional healthcare systems risk severely aggravating the ability of governments to cope with the crisis at subnational levels, especially given the strain on local services generated by larger-than-normal populations due to limited labour mobility.

Managing the crisis will create governance and accountability challenges

Decision-making remains centralised in most Central Asia countries, limiting the flexibility of governments' policy responses to the crisis

In many countries in Central Asia, decision-making is overwhelmingly concentrated within powerful executive branches of government at the national level. At the regional and subregional level, where the frontline of the social and economic fight against the crisis is fought, autonomy is often limited, with local leaders either unable or unwilling to make decisions that would best serve their constituents. With the COVID-19 crisis, inflexible decision-making and lines of command risk having a severely negative impact on the ability of subnational authorities to manage the immediate period of the crisis in particular. As countries move into stages of deconfinement, the need for open lines of communication between national and subnational levels of government will be of extreme importance, since effective monitoring and control – through test, track and trace programmes – will rely upon the timely availability of data and the authority to act upon it quickly.



The implementation of support measures may overwhelm under-resourced administrations

Government responses to support businesses during and after the COVID-19 crisis will require the rapid application of emergency legislation and measures in a context where the implementation of existing statutes and protections remains a serious challenge, with uneven regulatory implementation a longstanding barrier to developing the business climate in Central Asia (OECD, Forthcoming^[37]). In cases where businesses or citizens are required to petition for support – such as with the opt-in direct cash transfer policy implemented by the government of Kazakhstan in March 2020 – there is a risk that administrations will be completely overwhelmed (OECD, 2020^[38]).

Fiscal pressure may lead to increased predatory behaviour towards firms, creating challenges for young oversight institutions. In periods where governments in Central Asia have come under budgetary pressures in the past, firms and entrepreneurs have noted that predatory behaviour on the part of the state towards the private sector has increased. For example, businesses have complained that when the government has faced fiscal pressure state agencies have made requests of firms for advance tax and other forms of irregular payments, whilst inspections and from permitting and licensing bodies have increased (OECD, Forthcoming^[37]). With government revenues likely to fall across the region, there is a chance that such behaviour may increase, placing further burdens on an already squeezed private sector. This may, therefore, be a watershed moment for many of the young oversight agencies across the region, such as the recently created business ombudsmen in Kyrgyzstan and Uzbekistan, as well as a trying time for civil society – and the government's reception to the observations of the latter.

Falling investment entails a number of risks

The attraction of foreign direct investment (FDI) remains a central pillar of economic development strategies in Central Asia. Despite ongoing reforms, however, FDI inflows to the region have been falling in recent years. Given the impact of the COVID-19 crisis on the global economy, they will likely fall further in the years to come, with global FDI flows expected to fall by 30% in 2020 (OECD, 2020^[39]). With reduced investor appetite for emerging markets, there is a risk that governments may lower screening standards, or that stretched administrations' governance of foreign and domestic investment slips. For countries such as Uzbekistan, which is in the early stages of a wide-ranging privatisation programme, it is important that the immediate fiscal pressures arising from lower trade and domestic consumption do not lead to a "fire sale" of critical assets. At the same time, governments coming under pressure from large external debt liabilities may be at risk from predatory and aggressive acquisitions of such assets.

Central Asian governments have created disaster management institutions, but their preparedness for a crisis of this magnitude is untested

As a region, Central Asia has always been prone to natural disasters and faces acute risks from climate change. The region is criss-crossed by a plethora of fault lines, making it a highly seismically active area. Floods, droughts, avalanches and landslides are regular occurrences, at times with severe consequences for the affected populations. To manage the social and economic cost of such disasters, all Central Asian countries have put in place disaster management institutions, either departments within ministries (Afghanistan, Mongolia, Turkmenistan), committees for emergency situations (Tajikistan), or ministries dedicated to tackling emergency-situations (Kyrgyzstan, Kazakhstan, Uzbekistan). Every year, most countries allocate a budget for emergency situations, though it remains unclear how and when these funds may be used.

Realising that most challenges extend borders, Central Asian governments have also started co-ordinating regional efforts, with multiple initiatives aiming to ensure effective regional responses in times of crisis.



Indeed, one of the few positives to emerge in the early stages of the crisis has been the apparent willingness of governments in the region to improve co-ordination, particularly at the higher political levels.

Nearly all countries in Central Asia have established disaster management plans, though a number of these are now dated. Before COVID-19, these plans had been criticised for being unrefined and unreflective of realities on the ground and not embedded within regional, sub-regional and other national programmes. The spread of COVID-19 has therefore challenged the countries' reaction mechanisms, and revealed the limitations of overly centralised decision-making across the region. Instead of relying or building upon existing plans, institutions and actors, Central Asian countries established dedicated COVID-19 committees and actions plans. Their preparedness for a crisis of this magnitude however remains untested. Pre-existing emergency institutions have mostly carried out support and implementation functions: in Tajikistan, the Committee for Emergency Situations, for instance, is providing awareness campaigns, and Mongolia's National Emergency Agency has implemented different actions, including creating new field hospitals, and offered emergency response trainings to strengthen the co-ordination between government organisations.

Policy responses in Central Asia

Virtually all Central Asian governments have prepared and implemented specific policy responses to address the health situation and fight the economic consequences of the pandemic (Table 3). Several have designed dedicated national plans or funds to gather and channel financial flows, including Kazakhstan, Kyrgyzstan, Mongolia and Uzbekistan.

Most of the region's governments have developed specific measures aimed to support business activities. They have increased the liquidity and credit lines for businesses through dedicated funds and commercial banks. Some have also supported deferral of loan repayment from banks. Another policy response relates to taxation, with governments postponing tax declarations, deferring tax payments, suspending tax audits or exempting firms from social contributions, among other measures.

The drop in commodity prices and exports, as well as the uncertain economic outlook, have led central banks in the region to adopt differing policy responses. The National Bank of Kazakhstan adopted an initially restrictive monetary policy, increasing its policy rate, while supporting the currency against over-depreciation, in an attempt to prevent a surge of pass-through inflation. By contrast, the central banks of Mongolia and Kyrgyzstan have eased constraints on banks' liquidity ratios and lowered policy rates in an attempt to channel additional liquidity to the economy. Kazakhstan followed suit in early April. Uzbekistan has adopted a third approach, allowing for targeted and eased refinancing operations of commercial banks, while keeping its policy rate unchanged at a record high.

Several countries have called for emergency financial support from international partners and have received emergency funding to mitigate the immediate economic impact of the COVID-19. For instance, Kyrgyzstan has been the first country to benefit from emergency support funds from the IMF and has received additional funds since.

Policy responses to the crisis have been costly

Central Asian countries have taken comprehensive measures to respond to both the sanitary and economic emergencies created by the COVID pandemic. All governments of the region have announced and started to implement sanitary and fiscal packages, ranging from initial estimates of 1.5% of GDP in Uzbekistan, to 5.6% in Kyrgyzstan, and 9% in Kazakhstan. The packages include measures to provide the health sector with the means to combat the epidemic and to support businesses and households (see section 5 for details on the measures adopted by individual countries).



These emergency measures are critical to help the region withstand the pandemic and the associated economic shocks, but against a backdrop of sharply falling export and remittance incomes, this response puts considerable strain on public finances. Current account and fiscal balances are set to move – in some cases deeply – into negative territory. During the first quarter of 2020 for instance, the implementation of containment measures caused an 11% drop in tax revenues in Uzbekistan. Across the region, fiscal and current account deficits are projected to rise substantially; Table 2 shows the adjustment of IMF projections in the early months of the crisis.

Table 2. Fiscal and current account projections before and after the onset of the pandemic

	General government net lending/borrowing (% of GDP)		Current account balance (% of GDP)	
	Oct 2019	Apr 2020	Oct 2019	Apr 2020
Afghanistan	-0.05	-4	0.2	4.9
Kazakhstan	0.04	-5.3	-1.5	-6.8
Kyrgyzstan	-3	-9.6	-8.3	-16.6
Mongolia	-0.9	-5.3	-12.4	-10.2
Tajikistan	-3	-6.4	-5.8	-7.7
Turkmenistan	-0.3	-2.6	-3	-1.4
Uzbekistan	0.4	-3.3	-5.6	-9.4

Source: (IMF, 2020^[22]).

Given this constrained environment, governments in the region have financed their crisis response packages through a reprioritisation of public spending, the use of existing fiscal buffers, and through large grants and debt financing, mainly from international donors. A presidential decree in Uzbekistan, for example, allowed the country to take USD 3.1bn in soft and long-term loans from international financial institutions (IFIs), including the World Bank, the ADB, the Islamic Development Bank, and the Asian Infrastructure Investment Bank. In addition, most of already scheduled funds for 2020 were redirected to financing health measures, and donors such as the EU in collaboration with the WHO provided additional funding for the health sector across the region.

In this regard, the size and scope of the current economic downturn, and the already constrained fiscal margins that are the legacy of previous crises, will make ensuring the sustainability of public finances and debt servicing one of the most pressing issues to solve to secure long-term growth.

Several countries have started to relax or end containment measures

According to official statistics, containment measures, including strict lockdown regimes for some populations, have helped mitigate the effects of the pandemic in Central Asia. Total deaths per million inhabitants in early May were still remarkably low in the region in comparison to OECD countries. As of the first week of May, the region's most affected country, Afghanistan, had registered 1.9 deaths per million inhabitants, followed by Kyrgyzstan (1.5), Kazakhstan (1.3) and Uzbekistan (0.3), far below Germany (79.4), France (379.3), Italy (474.8), or Spain (540.4). Indeed, Kazakhstan registered only 25 deaths in just under 4 000 confirmed cases. There are similarly low infection rates in Uzbekistan, with 2 000 confirmed cases, and Kyrgyzstan (about 800 cases). The official number of recoveries is correspondingly high (about 1400 in Uzbekistan, 1100 in Kazakhstan, and 600 in Kyrgyzstan).

These outcomes may reflect differences in reporting methods, which can make comparisons difficult even among OECD countries, and some observers have questioned the official numbers with respect to infections in some countries in the region. However, it is clear that Central Asia has not yet (and may never)



witnessed outbreaks on the scale seen in some western countries. Factors such as younger, more dispersed populations may play a role – as, paradoxically enough, might poorer connectivity. The biggest local outbreaks in Western Europe and North America have, after all, been in the most globally connected cities – dense agglomerations that are also key nodes in international passenger and freight transport networks. Early and decisive measures to tighten border controls and restrict the spread of the virus have also played a role: Central Asian countries began introducing quarantines, questionnaires and testing of new arrivals in February, before such measures had become widespread in Europe.

After weeks of strict lockdowns and quarantines in Kazakhstan, Uzbekistan, and Kyrgyzstan, governments have begun easing restrictions on movement and business activity. Progressive reopening might help limit the negative impact of the pandemic on their economies, relieving partially the burden on financially constrained households and businesses. That said, health officials warn that the danger has not passed, and many restrictions remain in force.



Table 3. Overview of the main announced measures in Central Asia as of 2 June 2020

	Containment				Macroeconomic and prudential regulations	Fiscal measures (for firms)		
	Containment measures	Health support	Income support	Deconfinement		Financial	Taxation	Others
Afghanistan	Closure of all borders (except for food supply) Prohibitions of public gathering and closures of education institutions Lockdown in 20 provinces Border screenings & quarantine measures	Building of testing facilities; covid wards; sourcing further medical supply (0.5% of GDP)	Food supply to vulnerable groups	Opening of air corridors for trade. Gradual reopening of economic trade across Pakistani and Iranian borders Gradual lifting of curfew	CB injecting funds into the currency market; reduction of foreign interventions; allow depreciation of Afghani; facilitate operations for commercial banks; relax asset classification and loan-loss provisions, injecting funds into currency market; reduced foreign interventions; relax asset classification and loan loss provisions	Liquidity support for businesses (development partners)	Deadline extension for tax returns and filing	Simplification of some procedures for businesses Extensions for payments, including salaries and rent Enhancing connectivity: roads/ hydropower dams Financial support to agribusiness sector
Kazakhstan	State of Emergency declared Closure of all borders for non-citizens Closure of public places Quarantine of the main cities Air and train traffic suspended Ban on key food exports, food price control	Disinfection of main cities by the army Free medical service (granted to all citizens until Jul.1) A COVID-specific hospital has been built in Nur-Sultan	Extension of the social safety net with wage and unemployment subsidies ('anti-crisis package') Additional KZT 1 tn allocated to support employment under the "Employment Roadmap" program Food baskets for most vulnerable populations	State of emergency lifted on 11 May, quarantine measures maintained but relaxed in three stages, depending on the local epidemiological situation Gradual reopening of economic activity since end of April Gradual easing of lockdown measures on individuals	Initial increase of the policy rate by the National Bank from 9.25% to 12%, then decrease to 9.5% Eased refinancing operations of commercial banks Temporary limits on cash withdrawals by businesses Eased prudential regulations	Liquidity support for businesses ('anti-crisis package') KZT 600bn support for SMEs to finance working capital	Temporary tax reliefs as part of the Government anti-crisis package	Overall government 'anti-crisis package' of USD 10bn Subsidized lending was increased from KZT600bn (USD1.5 billion) to KZT1trn, and interest rates cut from 13-15% to 6% Announcement of a government's Comprehensive Economic Growth Recovery Plan to stimulate business activity, support employment and increase incomes

Kyrgyzstan	State of Emergency Curfew in the capital Temporary travel ban on foreign nationals Passenger trains suspended Closure of schools and public places Quarantine measures	Health sector contingency plan: enhance testing; trainings for health personnel	Support package for vulnerable groups in society	Three-stage reopening of economic activity starting by beginning of May, to be completed by the third week of May	Policy rate maintained at 5% Reduction of the minimum threshold level for mandatory reserve requirements for banks; lower liquidity ratio	Suspension of loan repayment Liquidity support for businesses	Extension of the deadline to submit tax declaration Removed penalties Electronic system of fiscalisation of tax procedures	Extension of the moratorium on SMEs checks Easing business environment for SMEs Awareness campaigns for SMEs Amended state procurement policies Recommend to postpone utility and rent payments
Mongolia	Closure of borders Prohibitions of public gathering and closures of education institutions; obligations to wear masks Suspension of passenger trains Control checks at the entrance of the main cities	Construction of field hospitals and extension of the number of beds Massive disinfection campaigns Bonuses for medical staff Emergency training exercises	Three-month private employment subsidy scheme New public scheme with additional cash transfers to households, orphans, the elderly and other vulnerable groups	Reopening of VET and training centers as well as a limited number of public places (gyms, etc) Testing of 10,000 people Parliamentary elections to be held on 24 June	Decrease of the policy rate from 11% to 9% Reduction of the liquidity ratio of banks from 25% to 20% 8% interest rate mortgage program by the Central Bank with commercial banks	Deferrals on consumption and business loan repayment Borrowers' credit rating maintained for 6 months	Exemptions from social insurance contributions, waiver of personal income tax and corporate tax for 6 months	Overall government plan of USD 1.7bn, complemented by additional social measures Acceleration of the nationwide Digital Mongolia programme and launched its open data portal Sector-specific measures for cashmere (soft loans, minimum prices) Law passed to improve bank governance and digitalisation
Tajikistan	Closure of borders and international airspace Regulations on food markets and price controls Ban on key food exports Requirement to wear masks Closure of schools Restrictions on mass events	Awareness campaigns Disinfection of public places			Policy rate increased to 12.75% in February and decreased to 11.75% in May Depreciation of the local currency Reduction of required reserves ratio of credit financial institutions	N/A	N/A	Implementation of the Action Plan Establishment of permanent headquarters to counter the spread of the virus

Turkmenistan	Closure of borders Restrictions on internal movements of people and goods				N/A	N/A	N/A	The President on 3 April instructed the government to begin preparing measures to mitigate the economic impact of the pandemic, including support for SMEs and enterprises producing essential goods
Uzbekistan	State of Emergency declared Closure of borders Prohibition of public gatherings and closure of public places Main cities quarantined Suspension of domestic and urban transport	Construction of 10 hospitals in Tashkent (10 000 beds) and regions Medical NGOs allowed to provide medical services 'Neighbor committees' monitor the respect of health measures Information portal and map locating confirmed cases	Employment Promotion Fund and Public Works Fund provided employment to approx. 140 000 unemployed Massive support to specific sectors Sponsorship co-ordination centers distributed food and sanitary products to > 200 000 families 'Kindness and support' movement aims at supporting income and families through businesses	Gradual reopening of economic activity in Tashkent since end of April Gradual extension to the regions based on a color code assessing the degree of contamination Gradual easing of lockdown measures on individuals Economic post-lockdown plan being prepared	Policy rate decreased by 1 p.p. to 15% Repeated refinancing operations of commercial banks to inject liquidity in the economy Several Uzbek banks have imposed restrictions for buying US dollars after continued depreciation of the currency	Interest-free loans to industries most exposed Grace period on final loan payments for entrepreneurs No change in the credit quality classification	6 months deferral of tax payments for businesses Reduction of personal income tax rate for entrepreneurs Moratorium on tax audits Return of VAT for all textile and cotton for businesses to maintain working capital	Anti-Crisis Fund of USD 1bn, including a budget allocation to the State Fund for Entrepreneurship Support Reorganisation of government organisations

Policy options for Central Asia

Specific health, fiscal, and macro measures are needed to fight the immediate effects of COVID-19

Containment measures: Containing the outbreak while protecting employment

Most Central Asian countries have taken strong measures to **protect the health of their population and contain the pandemic**, including quarantines, lockdowns and awareness campaigns. It is important that all governments acknowledge the realities and challenges of the pandemic, and implement immediate health and containment policy responses, such as workplace social distancing, school closures, bans on public gatherings and mobilisation of healthcare capabilities, including the mobilisation of inactive health professionals and the provision of spaces to diagnose and treat patients safely (OECD, 2020^[40]).

OECD countries have also attempted to increase their health systems' capabilities, mobilising inactive health professionals and optimising available space in hospitals. Most countries, such as Japan and the UK, have redirected production capacities to produce required medical equipment. Specific financial bonuses and mortgage programmes were also designed to support and reward the medical staff (OECD, 2020^[41]). In addition to calling back retired and unemployed medical staff, France has created a temporary military field hospital in one the most affected areas. Considering the comparatively limited resources of healthcare systems in the region, Central Asia's governments will also need to adopt measures that increase existing capacities by sourcing and producing medical and protective equipment with the support of international donors, mobilising available health professionals (military, retired and volunteer medical students), making diagnostics and treatment free-of-charge, and increasing space in healthcare facilities, for instance by putting more beds in hospitals, isolating and treating separately suspected and confirmed cases and transferring patients to other hospitals. Mongolia, for example, has expanded its hospital capacity by adding beds and creating new field hospitals through the action of the National Emergency Agency.

To respond rapidly to the supply- and demand-related shocks that businesses face, OECD governments have reacted with **short-time work schemes (STW)**, introduced after the financial crisis in 2008. Under STW schemes, governments provide public income support to those with reduced hours or complete suspensions. Firms make use of STW to avoid laying off staff or closing down. These schemes have been widely used in OECD countries to support firms and workers (Box 1).

Box 1. Examples of STW in OECD countries

France has simplified its previously existing STW schemes (*chômage partiel*) to make them available to its entire workforce, replacing up to 84% of their wage, coupled with enforcement mechanisms. The country has extended the duration of its STW for an expected additional month beyond the end of confinement in order to help companies transition.

Germany has adjusted its existing STW scheme (*Kurzarbeit*) to cover companies where at least 10% of employees need to reduce working hours. The Federal Labour Office pays 60% of net wages lost due to reduced hours (67% in case of dependent children), as well as all social contributions.

Poland has set up a scheme in the event the company has to reduce working time. The scheme supports the payment of 80% of the wage (under the national median salary threshold) to the employee where 40% is paid by the State and 40% by employers. This applies only to firms that have experienced



at least a 25% fall in their revenues compared to the previous month since January 2020 or a 15% fall compared to the same two months in 2019. The state will also cover all social contributions (employer and employee).

Source: (OECD, 2020^[20]; Financial Times, 2020^[42]; Government of Poland, 2020^[43])

However, some business closures remain inevitable. OECD countries have extended **access to unemployment benefits** for non-standard recipients, such as self-employed workers, and considered one-off payments. Australia and Italy offer lump sums to those affected by the crisis who would usually have not been eligible for unemployment benefits (Box 2). Delivery means were updated: applications can now be filed by phone or digitally. Governments have also introduced temporary deferments of utility or rent payments, and inhibited evictions (OECD, 2020^[41]).

Box 2. Support to self-employed workers in Italy

Italy has been one of the countries most affected by COVID-19 and has adopted strict containment measures that have had a strong negative impact on smaller firms, entrepreneurs and self-employed. Italy has adopted a large range of measures for businesses of all sizes that benefit the self-employed, including tax and social security reliefs and deferrals, credit guarantees and soft loans. The government also provides tax credits to help finance commercial rents and work-place sanitation.

Specific measures were also designed for the self-employed. Italy has provided the self-employed (not enrolled in a professional order) with a non-taxable EUR 600 cash transfer and has set up a fund of Last Resort amounting to EUR 300m to support employees and self-employed workers who are not covered by the cash transfer but have ceased, reduced or suspended work due to the COVID-19 outbreak. Like SMEs, the self-employed also benefit from a vast moratorium on loans that represents an estimated EUR 220bn.

Source: (Ministry of Economy and Finance of Italy, 2020^[44])

Across Central Asia, government-mandated confinement measures have paralysed much of the economy, both formal and informal, for extended periods, though some countries, such as Uzbekistan, have begun to enter a period of gradual deconfinement. There is thus a need to create a **social protection floor for the entire population** to make sure that citizens have a safety net on which to rely, by guaranteeing access to healthcare and basic income (OECD/ILO, 2019^[45]). In Central Asia, which already faces challenges with public service delivery, administering this type of programme across geographically fragmented countries remains difficult. Such measures must be adapted to local conditions. Morocco, for example, has expanded its unemployment scheme beyond the formal sector. Payments occur through mobile payment platforms, also allowing collection of data on the informal sector. To finance the scheme, the government set up a *Special Fund for the Management and Response to COVID-19*, financed by donations, IFIs and state funds.

Apart from their economic costs, containment measures – in Central Asia no less than in other regions of the world – may bring about lasting changes in state-society relations. Measures put in place to contain the pandemic may have long-term negative effects on the space in which civil society operates. In the context of the current crisis, this has raised concerns around the world about the extension of public surveillance and the perceived use of the crisis in some countries to tighten political control and restrict civic space. More broadly, the pandemic risks overburdening countries' basic governance functions, which



could threaten socio-political cohesion, exacerbate corruption, unsettle relations between central and sub-national governments, and transform the role of non-state actors.

Fiscal measures: stimulating liquidity, financing and digitalisation

Governments and central banks play a crucial role in **providing liquidity to businesses**, in particular SMEs, which are more vulnerable to financing fluctuations and therefore less prepared to withstand a sharp disruption. Central banks can provide funds to banks and nonbank financial companies, to foster lending to financially distressed businesses, while several Central Asian governments have designed **anti-crisis measures to stimulate business activity**, focusing largely on taxation and SMEs. Some of these measures are in line with OECD countries' responses and could be more broadly applied in Central Asia. They include: deferral of loan repayments, especially for loans disbursed by SME funds; the creation of loan distress funds, as was done in the United States, possibly financed by the state and IFIs; and the development of emergency credit products and guarantees, preferably to be channelled by SME agencies in partnership with banks, as has been done in France (Box 3).

Box 3. The role of Bpifrance in France's public responses for SMEs

Bpifrance, the French public bank for SMEs, has been instrumental in France's responses to the COVID-19 in favour of SMEs. Bpifrance is implementing a EUR 300bn state guarantee scheme (PGE-loans) to support banks in providing loans to businesses, with a 90% cover by the state. It is also providing unsecured loans of EUR EUR 10,000-5m with maturities of 3 to 5 years for SMEs, with a significant delay in repayment. Bpifrance has also suspended the payment of its loan instalments.

To support the innovation ecosystem, Bpifrance has maintained its innovation funds of EUR EUR 1.3bn planned for 2020 and launched 2 calls for proposals on R&D projects and health responses to the COVID-19. Bpifrance is also increasing equity funding for French startups and SMEs with the launch of the "Fund for reinforcement of SMEs" (EUR EUR 100m), and the "French Tech Bridge" (EUR EUR 80m) to support start-ups.

Bpifrance is also rolling out export measures, by strengthening the export guarantee and pre-financing system for SMEs and expanding the coverage of the short-term export credit reinsurance scheme. A programme of geographical, sectorial and thematic information webinars is also carried out and is supported by the regional networks of export advisors.

To support the roll-out of these measures, Bpifrance has launched a communication campaign, created a hot line and used its website.

In addition to Bpifrance, France has created a Solidarity Fund to support the most fragile entrepreneurs and SMEs. The Fund provided a cash amount of up to 1 500 euros for the most affected microbusinesses and entrepreneurs, the self-employed and liberal professions.

Source: Bpifrance (2020).

Some Central Asian countries and most OECD members are providing **tax relief to businesses and households**, representing up to 1.5% of GDP. They have deferred the payment of corporate and personal income taxes, VAT and social contributions, extended deadlines for filling tax returns, waived or deferred payment of certain taxes and suspended tax audits. The acceleration of tax refunds (in particular VAT) has also been observed in many OECD countries. Most of these responses have been designed as short term measures targeted to the most affected players and sectors (OECD, 2020^[46]).



Box 4. Examples of selected tax measures for businesses in OECD countries

The Czech Republic has implemented an unlimited postponement of corporate income tax based on evidence provided by businesses and approved by tax authorities and has allowed loss carry-back for the 2020 tax year. It has also waived the advanced payment of the CIT due in June 2020.

Italy has suspended tax and social contributions payments for March and April and VAT payments for March for firms with revenues of less than EUR 2m and for all firms in the most affected sectors. It has also introduced different tax credits to sanitize firms or in different sectors. All tax payments for firms in the most affected areas (under lockdown) have been suspended from end of February to end of April 2020.

Turkey has postponed withholding tax, VAT and social security payments regarding April, May, and June 2020 for 6 months for the most affected sectors including retail, steel, automotive, transportation, textile, food and beverage.

Source: (OECD, 2020^[38])

OECD countries are **conducting massive awareness campaigns** to inform businesses about risks and possible mitigation measures. Campaigns have been rolled out in co-ordination with business associations and SME agencies, often heavily relying on digital and social media channels. The French government, for example, has prepared an operational handbook on protective sanitary measures for delivery companies.

Some initiatives have also encouraged **digitalisation** of communications and activities, including Francedigital in France and programmes to move from physical activities to online business portals in Korea. Teleworking has been widely encouraged in OECD countries, with some governments providing subsidies to employers or employees that need to equip with remote IT devices. Across Central Asia, this coincides well with digital priorities and achievements over the last few years. To further promote teleworking in businesses, governments could consider increasing awareness among firms, providing financial support to help SMEs develop teleworking capacities and collaborating with technology companies to offer SMEs better access to digital solutions (OECD, 2020^[41]). The crisis could also give a unique opportunity for governments to push forward their digitalisation agendas (box 5).

Box 5. Boosting government digitalisation in Central Asia in the context of COVID-19

Digitalisation of government services can increase the reach, quality and transparency of service delivery in Central Asia. They also diminish physical interactions and opportunities for informal profit-seeking, thus also contributing to higher trust in government.

In addition to individual country's investments in digital government, usually supported by international donors, large regional initiatives such as the World Bank's Digital CASA programme are supporting the development of digital infrastructure in the region. With the need for remote services, the crisis has further demonstrated the need for more and better ICT investments. Such programmes need to be priorities for governments as digital connectivity remains limited for citizens and business use.

Several countries of the region have developed their own government digital platforms, with Kazakhstan's portal egov.kz regularly identified as one of the most advanced digital governments in the world in the UN e-government survey. More than 237 services are available on the egov.kz platform



from licensing to payments and 30 million services were provided online in 2018. An app has also been developed. Kyrgyzstan has also launched an ambitious national digital initiative *Taza Koom* to support further digitalisation of the country and its administration. Uzbekistan has also identified transition to the digital economy and e-government as one of the top priorities for the next five years. While an estimated 30% of public services are currently online, the government is planning a massive transition of public services to online services and the roll-out of a hundred projects for the economy, with a specific focus on the telecommunications and agricultural sectors, as well as the set-up of IT parks. Other countries need to map their existing digital services and platforms and attempt to develop them into online one-stop shops for businesses.

Other digital solutions are being developed for customs, with the support of international partners, but these initiatives are stuck in a number of countries partly due to technical issues. Digitalisation efforts could be pursued and would also require better harmonisation of requirements between countries, that could be part of the renewed regional dialogue. Tax is also another area where digitalisation can bring substantial benefits. Kazakhstan has been able, with World Bank's support, to digitalise tax administration for businesses which allows firms to register, declare, and pay taxes online.

As part of their digitalisation agenda, governments should also consider ways to encourage businesses to move online by promoting digital upskilling programmes, supporting interactions with e-commerce platforms and helping business online development, for instance through vouchers for website creation and upgrading by consultants.

Source: (OECD, Forthcoming^[37]; egov.kz, 2020^[47])

The COVID-19 crisis also called for specific measures to address the challenges facing informal-sector workers and firms. Policy responses might include vouchers (food; trainings); in-kind support (food, masks); revenue reliefs that target those taxes and charges that weigh most on informal actors (waiving of utility and rent payments, VAT reductions, market taxes and taxes/charges affecting the movement of remittances); or enhancing access to finance for non-formal firms. This can simultaneously increase informal agents' trust in the state, and enhance formalisation, while also helping gather data on informal workers – which had been conducted sporadically up until now. Kazakhstan and Mongolia have already put in place cash transfer mechanisms transcending the formal sector by targeting self-employed workers, but further measures are needed.

Monetary policy and prudential regulation: ensuring immediate monetary response and providing liquidity

Against the backdrop of falling commodity exports, and the grim economic outlook, central banks have provided a first set of measures to support their currencies against over-depreciation, prevent a potential surge of pass-through inflation, and provide liquidity to commercial banks. The magnitude of the slowdown will require a delicate balance between containing inflation and providing liquidity support to businesses and households to sustain activity and consumption. A liquidity crisis could significantly worsen the extent of the slowdown and delay prospects for recovery. In addition, Central Banks of the region have only limited room for manoeuvre: the high degree of informality in Central Asia and the persistent weakness of banking sectors in the region do not allow the transmission channels of monetary policy to function as they do in most OECD economies. Central banks will have to rely on their reserves for any large-scale support measures, which may make the stability of their currencies less robust and limit their ability to manage exchange-rate fluctuations.

During the first quarter of 2020, the COVID-19 induced crisis created some inflationary pressures from supply chain disruptions, although contained by low demand. Even though inflation accelerated only



slightly in Kazakhstan, Kyrgyzstan and Tajikistan, currency depreciations have put upward pressure on inflation and therefore limited the scope for accommodative monetary policies in these countries.

Governments should define clear health and economic strategies as they move towards deconfinement

Deconfinement: testing, tracking, and tracing

The transition out of lockdown and confinement measures is complex and uncertain. As yet, no country has proceeded far enough to provide clear indications of what might constitute “best practice”. What is clear is that the transition needs to be carefully phased and thought through to avoid triggering a second wave of the epidemic as the country resumes a more normal economic life. OECD countries that have started to ease lockdown measures have used an adaptable approach based primarily on the recognition that the reintroduction of physical distancing measures might be needed to manage any new outbreak. This requires a detailed surveillance and testing-tracing-tracking (TTT) programme to identify, test and isolate all cases, and to trace and quarantine their contacts, so as to maintain the reproductive factor of COVID-19 below 1 and keep the number of cases flat (OECD, 2020^[48]; OECD, 2020^[49]; WHO, 2020^[50]). As soon as an increase in the number of new cases is determined, physical distancing measures should be quickly reintroduced. In this regard, the easing of lockdown restrictions must necessarily be envisioned in the short-term and possibly subject to rapid reversals and adaptations.

This is particularly challenging given the need to manage the expectations of citizens and firms. There are two main issues here. First, the evidence suggests that expectations about the duration of any confinement measures affects compliance and thus the effectiveness of such policies (Briscese et al., 2020^[51]). In particular, “negative surprises”, such as longer-than-expected extensions seem to be associated with a lower willingness to comply. Given that individual compliance has collective benefits, but full enforcement is both costly and controversial, public authorities must manage communications about confinement measures very carefully (Ibid). At the same time, as measures are eased, the prospect of renewed tightening can distort agents’ behaviour in a variety of ways. Above all, it may make firms more reluctant to invest or hire, while prompting households to make consumption, savings and location choices that intended to protect them from renewed confinement (i.e., relocating to places where the perceived risk is lower, stockpiling essential goods, etc).

In Central Asia, both rates of infection and health system capacities vary within and across countries, which requires -specific national and even local approaches to deconfinement. Easing lock-down measures therefore challenges governments’ ability to create trust amongst the population in relation to large-scale testing, and to plan for post-crisis recovery. Full transparency and timeliness of communication might be the key to the first issue, building trust in the government’s efforts to test, track and trace possible new cases without curtailing civic freedoms (OECD, 2020^[49]). Kazakhstan, Uzbekistan and Kyrgyzstan have branded deconfinement measures as efforts to restart the engines of their economies. Yet, policy measures for the gradual relaxation of lockdowns need to be distinct from the planning of recovery and long-term growth to prevent rushing measures that would entail a relapse of the pandemic and of its adverse economic effects.

Ensuring a sustainable recovery as post-lockdown policies unfold

Most projections predict a recovery and stabilisation by 2021, under the baseline scenario of no protracted outbreaks that would further weaken global demand, lower commodity prices, and increase negative secondary effects on trade and remittances from a slowdown in Russia. However, large downside risks characterise this outlook (IMF, 2020^[22]). For Central Asian countries to secure a rapid and sustained



recovery and avoid a multi-dip recession, post-lockdown policies should kick-start the economy by unlocking long-term growth drivers.

Restoring confidence and supporting the engines of growth

Businesses and households have benefitted from large fiscal support packages across the region to withstand the loss of revenue induced by the lockdown. For recovery to occur, activity and consumption need to pick up rapidly and in a sustained manner. However, the easing of lockdown measures alone will not allow liquidity constrained businesses and households to go back to normal. A negative risk sentiment might worsen anticipations and prevent a rebound in activity and consumption, as businesses might not be willing to invest in an uncertain environment, while households might be anticipating a raise of taxes. Governments will therefore face the double challenge of restoring the confidence of businesses, foreign investors, and households, while supporting financially constrained enterprises and individuals during at least the first phase of deconfinement. Careful communication about timely support measures, in particular with respect to tax, may encourage households to consume, and businesses to resume investments, and therefore support the recovery.

Many households have suffered income reductions and losses, which reduced their propensity to consume, except for goods of first necessity, exposing them to high relative costs of core essentials (housing, food, utilities, education, public health) (OECD, 2020^[52]). In this regard, government intervention helping the most vulnerable households to meet their essential needs should be extended beyond the states of emergency in the region until the economic rebound has taken hold. Additional measures (e.g. wage support, or consumption loans) might be targeted at supporting household consumption to accompany the initial steps of economic recovery. However, such measures should be calibrated carefully, so as not to overburden public finances or further weaken banking sectors across the region.

On the business front, recovery planning by governments should take into account a strategic analysis of critical companies and sectors whose disruptions and layoffs would have long-lasting negative impacts by further reducing national capacities to deliver goods and services (OECD, 2020^[52]). Targeted loans and investments into selected sectors, based on the mitigation measures implemented during the pandemic could be used to critically support most affected industries and secure employment during the first stages of recovery.

Strengthening the financial sector and secure its contribution to the recovery

Financial systems across the region have been relatively stable in recent years (IMF, 2020^[22]), but the region has a history of banking crises, most recently against the backdrop of global shocks in 2008-09 and 2014-15. The weakness of banking sectors across much of the region has been a drag on the development of the private sector due to limited access to finance and an absence of deep, well-functioning capital markets.

The effects of COVID-19 are therefore most likely to exacerbate the existing vulnerabilities in the financial systems and create new ones in relation to liquidity provision and prudential regulation. The recent rise in consumer credit growth (retail and mortgage) was indeed allowed by relaxed lending standards and subsidised and directed lending in Kazakhstan and Kyrgyzstan, while the need for liquidity provision to households and businesses during lockdown has led to a further easing of prudential regulations. The combination of both trends might drastically increase capital needs of banks, for instance in Kazakhstan where four of the 14 largest banks in the country have already such needs (IMF, 2020^[22]), and could prevent credit supply during the recovery period. In addition, across the region non-performing loans are likely to increase following the pandemic, and therefore further constrain banks' liquidity. The issue might be most pressing for Kyrgyzstan and Tajikistan, which were engaged in a resolution and restructuring



agenda prior to the pandemic. For instance, some of the region's central banks are already considering forbearance for households and SMEs. Mongolia has passed a new law to strengthen bank's governance, supervision and digitalisation.

Renew commitments to reforms to allow for a strong private-sector led recovery

The current crisis could also bring an additional blow to the private sector by leading countries back to a more state-directed economic model. The private sector in most Central Asian countries remains weak, and the bulk of the economy relies on large state-owned enterprises (SOEs). The COVID-19 crisis further exacerbated this situation, as the slowdown hit young private firms in service sectors harder than large businesses in more traditional ones, while governments also have the capacity and incentives to support SOEs if required (Fitch, 2020^[53]). Once the economy has kick-started, governments should renew their commitment to reforms to secure a sustainable recovery: level the playing field for all businesses to operate under equal conditions will be crucial.

Strategic foresight: anticipating the long-term challenges

Longer term: diversification and improving the overall environment for firms

Diversifying production to support healthcare systems in the short-term and creating opportunities for the future

The COVID-19 crisis could serve as an opportunity to foster greater diversification of production and exports within existing sectors and extend it to new ones. In the short term, there are a number of manufacturing sectors that could be recalibrated to produce materials beneficial to combatting the spread of COVID-19. For example, Afghanistan, Tajikistan and Kyrgyzstan have well-developed garment industries, which could produce items of protective clothing and other materials needed by health professionals in managing the spread of the virus. The same is true of the petrochemical and medical industries of Turkmenistan, Uzbekistan and Kazakhstan, which, where possible, could pivot production to personal protective equipment such as masks and goggles, and medical equipment.

The experience of OECD members suggests that diversification in the services sector is another way to enable businesses to navigate changes to their typical business environments. The speed with which many catering services have shifted to delivery-oriented business models is a case in point, and, given relatively high levels of mobile connectivity, is something that could be replicated across Central Asia.

As in normal times, policy and regulatory support, combined with effective governance and communication, are key to facilitating these changes. For example, ministries of health, industry and trade need to co-ordinate effectively to ensure that frontline medical workers have the equipment they need and that manufacturers have the support and liquidity necessary to shift production. In Central Asia, where many economies are characterised by a high degree of state involvement, many of the feedstock and ancillary industries may be controlled by SOEs, in which case transparent co-ordination is necessary.

This also requires a degree of regulatory flexibility. Does the immediate – or indeed long-term – economic benefit of allowing a temporary change in production, even if it does not correspond to the originally licensed function of the premises or equipment, justify the government showing some flexibility? If a license is required for a restaurant to provide delivery services, can this be expedited? These are the choices governments need to make. Flexibility now may augur well for longer-term ambitions, creating opportunities for new technologies to be applied, productivity and value added to rise, and a more diverse portfolio of products for export.



Improving the overall environment for firms

Not only will the slowdown limit the ability of Central Asian governments to react to the immediate needs of firms and citizens, it risks creating serious fiscal pressure, particularly for countries with large current account deficits and large foreign currency denominated debt. It is essential that in dealing with the immediate social and economic consequences of the pandemic, governments are able to maintain momentum with structural and legal reforms that increase long-run resilience. Governments must therefore be attuned to the demands of the private sector, and undertake the regulatory, policy and investment decisions that supply the conditions for business development in the long run.

Improving regional policy dialogue and co-ordination

Building up business confidence and securing a sustainable recovery will require reducing uncertainty. While there are global risk factors that governments cannot easily address, they can take steps to reduce the costs associated with policy uncertainty, particularly with respect to trade policy and *ad hoc* protectionist measures. While most Central Asian countries imposed limits or bans on the export of key agricultural or medical products during lockdown amidst food security and sanitary concerns, these measures need to remain time-bound, and be reversed. In April, several bans on the export of fresh agricultural products had already been partially lifted, to avoid a full break-down of regional trade and value chains.

As governments prepare for recovery, it is crucial to acknowledge that further protectionist policies might be counterproductive, as they would impose additional costs on firms and consumers, reducing prospects for a rebound, and increasing the size of needed additional government support for firms and consumers (OECD, 2020^[54]). Governments should therefore commit not to impose new tariffs or trade restrictive measures to restore business confidence. In particular, a co-ordinated approach to re-opening and trade facilitation across the region could help restore confidence. While it was relatively straightforward for individual governments, in Central Asia and elsewhere, to close borders, restrict exports and introduce other restrictions in response to the emergency, the success of reopening will depend to a great extent on what *others* do. Improved regional co-operation might thus be crucial (Finnish Institute of International Affairs, 2020^[55]).

The pandemic has underscored the stark interdependencies in the region, as border closures exacerbated food and utility supply challenges. While governments had to make sure that essential and emergency-related sectors were maintained throughout the crisis, including healthcare, electricity, utilities and telecommunications, as well as food supply and distribution, unilateral and uncoordinated border closures have had negative impacts on labour migrants' ability to return home, and affected the level of remittances. Although road freight has been exempted from bans, the movement of goods was periodically interrupted, severely affecting import-dependent countries in the region.

Diversifying relations with external partners

Central Asian countries have received increased international support to fight COVID-19 from IFIs, the European Union and individual countries, particularly China. China has provided protective equipment, support to health infrastructure development, soft loans and other types of financial support to the region since the beginning of the outbreak. This support comes in the context of China's investment of more than USD 50bn in Central Asia since 2000, most conspicuously under the Belt and Road Initiative (BRI) (Aiddata, 2019^[56]). BRI projects have also financed beneficiary countries' borrowing, leading to important external debt owed by some countries to China. For example, it has been estimated that, at the end of 2017, China owned up to 42% of Kyrgyzstan's public debt through Eximbank (Mogilevskii, 2019^[57]).



The COVID-19 shock has strained already fragile public finances and increased the amount of outstanding debts, generating risks for asset management and delivery on major infrastructure projects. Project evaluation and asset management were weak across much of the region even prior to the current crisis (OECD and ITF, 2019^[58]). The financial pressures generated by the crisis reinforce the need to address these weaknesses: governments will have to learn to do more with less if they are to deliver infrastructure and services in a financially sustainable way. Central Asian countries need to develop evaluation and planning tools for infrastructure development, from project selection through operation and maintenance. They also need to strengthen public financial management and consider all international financing options available to sustain public finances. Mongolia, for example, has received an IMF package in 2017 to support public finances and reforms (IMF, 2017^[59]).

Improving fiscal positions in Central Asia through better domestic resource mobilisation

COVID-19 has put pressure on Central Asia countries' fiscal position and increased public debt. Fiscal measures to support businesses have further decreased state revenues and the cost of health measures will weigh on public budgets. In the short term, the assistance of external partners, particularly IFIs, will help absorb part of the shock, but this might not be sufficient to restore public finances, and better domestic resource mobilisation will be needed over the medium and longer-terms (OECD, 2020^[60]). Such a policy shift might prove crucial to balance the need for external assistance and the desire to support recovery, on the one hand, with debt sustainability on the other.

This might provide an opportunity for countries to explore new fiscal options, especially better tax policies and modernised tax administration to broaden the tax base and increase tax efficiency. More stable and transparent tax codes can help better understand and enforce measures for businesses with the objective of increasing the tax-to-GDP ratio over time (OECD, 2020^[60]). Effective taxation of large domestic and multinational enterprises (MNE) is another cornerstone towards fairer tax policies and increased revenues. Considering adherence and enforcement of international tax mechanisms, such as the Global Forum on Transparency and Exchange of Information for Tax Purposes and Base Erosion and Profit Shifting (BEPS) at their own pace could help countries of the region in these endeavours. Simplification of tax administrations through digitalisation can also support these efforts, with the help of the international community, towards better domestic resource mobilisation (OECD, 2020^[46]).

Country overviews

Afghanistan

Economic overview

Afghanistan has been facing much uncertainty in recent years, resulting from political crisis, armed conflict and climate impacts. These developments have led to reduced FDI (inflows fell from USD 4.3bn in 2005 to 0.6bn in 2018), increased spending including on security, and volatile GDP growth rates. In 2019, GDP growth stood at 2.9%, linked to a recovering agricultural sector after severe droughts at the beginning of the year. The trade deficit remains large, mostly financed by grant inflows, causing regular exchange rate fluctuations in the local currency. At the same time, customs revenues remain central to Afghanistan's own tax revenues, allegedly rising to 40% in 2019. Exports have been increasing at an annual rate of 14.7% with foodstuffs dominating the formal export basket. Pre-COVID-19, Afghanistan was facing increasing domestic revenue inflows, largely in line with its plan to become fiscally self-sufficient over the longer term. However, with COVID-19, domestic revenue mobilisation prospects look bleak, and support from external partners is expected to decline, owing above all to cuts in US aid for the country.



Economic impact

Short-term indicators. The IMF expects the economy to contract by around 3% this year, following growth of roughly the same magnitude in 2019 (IMF, 2020^[2]). Unemployment stood at 39.5% in 2017, and 80% of employment is informal. COVID-19 is having an additional impact on the strained official and informal labour markets, in particular with returning migrants seeking employment and businesses experiencing reduced revenue (some up to 90%) or halting operations. The purchasing power of casual laborers declined by 20%, whilst prices have been rising: the World Food Programme recorded a 15-18% increase of prices of wheat flour in April alone.

Public finances. Almost half of the state budget is financed by donors, including 37% by the United States. Thus, despite low public debt (7% of GDP), Afghanistan is classified as being at high risk of external debt distress. The costs of containing COVID-19 (0.5% of GDP), coupled with the USD 1bn reduction in the 2020 budget and the drop in national revenues (by 10%) are severely squeezing the budget. Remittances are expected to contract by 50%. The IMF is estimating the current account deficit at 4.5% percent of GDP, with a fiscal deficit of 3.5% (IMF, 2020^[6]). The government has announced austerity measures, but with increased spending on the crisis, the fiscal balance is expected to widen to 5%. The IMF has therefore approved USD 220m in emergency financing.

Financial markets. Afghanistan's formal financial market remains small, as informal practices predominate. Food prices and CPI inflation have already soared over the past month, linked to Afghanistan's dependence on imports. The border closings thus had direct effects on price stability, with end-June inflation expected to rise above 5%. Afghanistan is a largely dollarised economy, with savings and large transactions mostly taking place in US dollars, even more so in times of crisis. With foreign currency denominated deposits constituting 66% of total deposits, this makes the banking system even more vulnerable to exchange rate fluctuations and a potential solvency risk. The Central Bank is therefore limited in its role as a lender of last resort, and remains confined by its stock of foreign exchange reserves of USD 6.7bn.

Policy reactions

Public health measures. Afghanistan faced its first COVID-19 case end-February, following a wave of returnees from Iran (230.000), who had left in response to the deteriorating economic situation. The government introduced social distancing measures until May 24, ordering 20 of the 34 provinces under complete lockdown, banning public gatherings, and requesting both houses of Afghanistan's parliament to telework. Some borders to Iran and Pakistan are occasionally re-opened for food imports and returning migrants, with all other country borders closed. Erratic border closures have sparked price increases and stalled essential food imports, prompting the government to co-ordinate with Central Asia to continue food supply. The government introduced screening at borders and has been quarantining infected returnees. Commercial air traffic from abroad has been suspended (excluding Dubai and Pakistan), but internal traffic largely continues. The government approved USD 1.1bn (0.5% of GDP) for urgent health needs, and plans to spend 2% of GDP up until the end of 2020, with one third directed to health expenditures. It is also working on improving export channels for medical supplies and encouraging companies to shift production to medical equipment. The authorities have also started releasing 10,000 vulnerable prisoners to slow the spread of the virus. All education institutions have been closed until further notice. On May 7, the Ministry of Education launched an online website for distant learning and has been providing classes through radio and TV. Both the Taliban and the government are implementing awareness campaigns. Several military officers have tested positive, prompting countries to pull out soldiers, despite rising insurgent attacks across the country. Development partners, including the World Bank, the ADB and the EU, are re-programming their existing efforts to support the government's efforts to set up additional labs and dedicated COVID wards, and source medical supply.



Monetary policy. A Financial Stability Committee has been meeting on a regular basis to assess signs of liquidity stress and monitor price stability. The central bank has been injecting funds into the currency market and has reduced foreign interventions. The Central Bank reiterated its commitment to a flexible exchange rate regime, and will allow a depreciation of the Afghani to respond to balance of payments pressures. The CB is facilitating operations for commercial banks by abolishing penalties for late reporting or lower liquidity, and it stands ready to provide liquidity to banks as a lender of last resort. The CB has been relaxing asset classification and loan-loss provisioning. Other measures aim to simplify cashless payments and engage money-service providers to ensure uninterrupted services.

Economic support measures. The government has announced large-scale investments across the country, including hydropower dams, roads and agricultural projects. While direct support to businesses remains limited despite several meetings between the government and private sector representatives, the government is working on a package of economic measures, also considering mid-term impact.. The IFC is providing fast-track financing to support companies affected by the outbreak. A fund is being set up, allowing private actors and diaspora to donate; donations will then be channelled to the Ministry of Public Health as well as affected SMEs. Large corporations have agreed to provide raw material to SMEs on credit terms. The Ministry of Finance has extended the deadline for filing income tax returns until May 20, and put in place extensions for salary payments, payments to vendors, and rental payments for March and April. The government has allocated USD 179m to the agricultural sector. The governmental crisis response has been dominated by ensuring adequate food supply, which had been interrupted by erratic border closures and the spring flood season. It is importing essential goods from India and China, and Kazakhstan, Afghanistan's largest source of wheat, has agreed to continue its supply. A multitude of development partners have introduced cash-based and in-kind assistance to vulnerable groups and direct financial support to MSMEs. The government has also put in place a large-scale programme, handing out daily food supplies to vulnerable groups using bakeries in selected cities, which have been identified by local actors. This programme has been reported to serve up to 1m inhabitants in Kabul.

Deconfinement. In line with the beginning harvesting season, the government has re-initiated trade with Pakistan and Iran. Under strict hygienic measures, Afghan goods can now cross the Pakistani borders, and air corridors have reopened in order to export goods (pine nuts in particular) to China and India. The government has further announced the gradual lifting of curfew and quarantine measures across the country.

Outlook

COVID-19 arrives at a time of political uncertainty following the 2019 presidential elections, after which two candidates declared victory. A deal has now been signed between both counterparts. However, the U.S.-Taliban peace deal has not yet resulted in reduced violence, directly hindering medical care delivery to Taliban controlled areas. The population is thus vulnerable, as Afghans have one of the highest shares out-of-pocket expenditures on health in the world and an estimated 14m facing emergency food insecurity. The government will have to build better health infrastructure, ensure price stability and food security, support its private sector by implementing policies beyond Kabul and the formal sector, and ensure the stability of the formal and informal financial sector to provide liquidity, while containing inflation.

Kazakhstan

Economic overview

After a decade of commodity-driven growth, the combined impact of lower global oil demand and price volatility triggered a sharp slowdown in 2015-16. In 2017-18, the economy recovered, growing at a solid but unspectacular rate of 4.1%, still driven largely by oil output and increases in commodity prices, which



underpinned rising domestic consumption and positive spill-over effects on the non-oil manufacturing and services sectors. Growth moderated in 2019 due to stagnating oil production, low foreign investment, and subdued domestic demand. The fall in commodity prices and demand with the COVID-19 outbreak is significantly hitting the growth rate, exports and government revenues, calling for state support.

Economic impact

Short-term indicators. At least 1.5 million people are estimated to be on unpaid leave or have lost their job due to the outbreak of COVID-19. According to official data, SMEs that are most likely to be severely affected (trade, tourism, and catering) employ over 1.6 million workers. Experts estimated that 300,000 SMEs had stopped working nation-wide. Growth for 2020 is expected to fall at -2.5% of GDP, after 4.5% in 2019 (IMF, 2020^[2]).

Public finances. The current drop in global demand for extractive goods and commodity prices has already forced the government to revise its state budget for 2020 (Government of Kazakhstan, 2020^[11]), with a planned cut of USD 1.25bn budget spending. During the first quarter of 2020, the implementation of containment measures has caused a drop in tax revenues, and the budget deficit is projected to rise to -5.3% of GDP in Kazakhstan (IMF, 2020^[22]).

Financial markets. Sovereign interest rates on the 10-year bonds issued in tenge have increased by about 10% since the beginning of March; the value of the associated credit default swaps (CDS) has likewise increased by about 40%. However, one-year default probability has remained stable. Between the beginning of March and April, the tenge depreciated by about 15% against the dollar. It partially recovered by 4% since, despite remaining vulnerable to oil price vulnerability.

Policy reactions

Public health measures. Kazakhstan declared a state of emergency on 16 March that ended on 11 May. Exports of key food products have been banned, while imports of food products and freight have been maintained and a cap on food prices introduced. The government has closed all borders to entry of non-citizens, has initially quarantined the main cities of Nur-Sultan and Almaty, then also Shymkent and remaining regions, and has put air, train, and car traffic on hold, though national traffic is now resuming. Educational institutions, public places, non-essential businesses have been closed, and working hours of public transport limited. Quarantine measures are being cautiously relaxed with the reopening of stores. A recent surge in cases has prompted the government to restate the importance of social distancing and containment measures in local media. The government required to wear masks in all public places and transport. A new hospital has been built in Nur-Sultan and is operating, and the number of people for COVID-19 testing is planned to be increased up to 25,000 per day. According to official statistics, more than 662,000 people have been tested so far.

Monetary policy. After an increasing its policy rate in mid-March as the tenge came under pressure, the National Bank of Kazakhstan (NBK) cut it to 9.5% and expanded further the interest rate band to +/- 2%. The NBK also eased refinancing operations for commercial banks. Foreign exchange controls for SOEs have been introduced to support the tenge. The NBK has also set temporary limits on the amount of cash that legal entities are permitted to withdraw from their bank accounts. The new measure will be effective starting from 1 June until 31 December 2020. Since April, the NBK has ceased FX interventions.

Economic support measures. The government designed an anti-crisis package of 10 billion USD (4.4trn tenge or about 9% of GDP) to cushion the economic impact of the pandemic. Measures are to support businesses, in particular SMEs, and households. The state will finance an extension of the social safety net by providing wage and unemployment subsidies, and food baskets to the most vulnerable. According to official statistics, more than 1.6 million people and 11.5 thousand SMEs benefited from a deferral of payments of loans, and new preferential loans totalling USD 870 mn (360 bn tenge). Businesses are



granted liquidity support, loan guarantees, and temporary tax reliefs to sustain operations and shield employment partly channelled through the DAMU fund. In particular, the National Social Security Fund grants wage subsidies, channelled through firms to employees of MSMEs on unpaid leave until the end of the emergency situation. This had benefited 4.25m workers by end April.

Deconfinement. Even though the state of emergency was extended until mid-May, economic activity has been allowed gradually to resume. By the end of April, industrial enterprises, construction companies and certain service providers were allowed to resume activities in the country's largest cities, while from the beginning of May non-essential stores and most business activities (eg. real estate and insurance companies, advertising agencies, lawyers and notaries) were allowed to reopen. Restaurants and cafes were also allowed to resume activity, although reduced, and in compliance with strict sanitary requirements, while Hotels should reopen on 1 July. Schooling will continue online. In addition, internal flights resumed within the month, and lockdown measures on individuals were gradually eased, with sporting and family activities allowed outdoors. The government has announced that it is developing rehabilitation package to support the worst-hit industries and plans to create more than one million jobs this year as part of the new Employment Roadmap state programme, as a major measure to secure employment in the post-emergency period. The government also adopted a *Comprehensive Economic Growth Recovery Plan* at the end of May to stimulate business activity, support employment and increase revenues. Fiscal measures include notably the expansion of concessional lending and guarantee mechanisms, the reimbursement of export costs and additional deferrals of tax and loan payments. Simplified measures for administrative procedures and tax administrations are also foreseen (Government of Kazakhstan, 2020^[62]). The government has also announced the creation of a state commission for economic growth rehabilitation to develop proposals for the economic recovery.

Outlook

COVID-19 has already reduced state revenues and necessitated a significant fiscal response, while further negative effects on trade and industrial production are expected. Given the structural challenges facing the Kazakhstani economy, prospects for resilience will crucially rely on the ability of the social safety net to sustain household consumption, and of the banking sector to provide liquidity to the private sector and of improving the investment and business environment, including SOE governance and competition.

Kyrgyzstan

Economic overview

The Kyrgyz economy has grown at an average rate of 4% since 2014, and whilst growth slowed to 3.5% in 2018, it reached 4.5% in 2019 due to a 15% increase in output from the country's largest gold mine, Kumtor. The higher earnings from gold exports combined with lower import spending has resulted in the current account deficit narrowing from 12.1% GDP in 2018 to 9.3% GDP in 2019. Remittances from labour migrants continued to support domestic demand and reduce the current account deficit. FDI in non-extractive sectors remains low, with limited investment in the financial and manufacturing sectors. COVID-19 has had a negative impact on these economic drivers and will turn the GDP growth negative in 2020. The economic slowdown in Russia, where the government estimates April GDP down about 20% year-on-year in real terms, will reduce the demand for migrant labour, leading to a sharp drop in remittance income. At the same time, lower global demand and trade disruptions are decreasing export revenues. Both of these factors, coupled with floods in May, are putting a strain on public finances, and have led to the government requesting emergency international support.



Economic impacts

Short-term indicators. COVID-19 has already severely affected a major part of Kyrgyzstan's economy. The IMF projects real GDP to drop by 4% in 2020, and a widening of the general government deficit to 8.8% of GDP. According to the Ministry of Labour and Social Development, an estimated 1-1.8m workers (out of a total workforce of 2.6m) fell into unemployment following the outbreak of the crisis, though these numbers must be interpreted in the context of Kyrgyzstan's relatively high share of informal employment. In Bishkek alone, 15,000 businesses were closed, gravely affecting the capital's budget.

Public finances. Domestic revenue collection and export revenues have fallen sharply due to reduced commodity prices and border restrictions. On top of reduced border revenues (-20%), containment measures have caused an 11% drop in tax revenue. Altogether, the Ministry of Finance in mid-May anticipated a 20% revenue shortfall for the year. Remittances, which amount to as much as one-third of GDP, are expected to drop by 15-30% this year. Kyrgyzstan's total public debt is projected to increase from 54.1% to 69% of GDP in 2020. The IMF has agreed to provide USD 120m in emergency financing. On 8 May, the IMF approved the second tranche of funding of the same amount. Other international actors have offered budget financial support, including the EU (36m), the ADB (120m), and the *Eurasian Fund for Stabilisation and Development* (100m), totalling USD 462m. The government will cut all non-essential expenditures and strengthen procurement, while safeguarding and aiming to create further space for health spending. Over the next 3 years, the government aims to reduce the public sector by 20%.

Financial markets. The IMF estimates inflation to rise to an average of 10.6% in 2020, up from 1.1% last year. By end-March, the Kyrgyz Som (KGS) had depreciated by 20% against the USD since the beginning of the year. The National Bank of the Kyrgyz Republic (NBKR) intervened in order to smooth out sharp fluctuations in the forex market. To support the KGS in the local financial market and comply with mandatory reserve requirements, the NBKR has granted loans to commercial banks in KGS, and has sold USD 227 m of foreign exchange reserves as of end-April 2020.

Policy reactions

Public health measures. The government has declared a state of emergency, with some districts in quarantine and Bishkek under a nightly curfew. With deconfinement measures in place, regulations on movement and curfew are gradually being relaxed. All education facilities are closed until 1 September, with online enrolment in selected cities. Mobility across the country is restricted, and large gatherings are banned. Border crossings and freight are restricted, with foreign nationals facing a temporary travel ban. Quarantine measures have been introduced and nationwide testing started on May 4. After the complete interruption of trade activities, a gradual resumption is planned, with stringent health checks and potential quarantine measures for importers. One percent of the annual state budget has been allocated to react to COVID-19, including expenditure on additional medical supply and salaries for health personnel. The government has also adopted a health sector contingency plan (USD 16m) in order to enhance testing, and provide training for healthcare workers. It is co-ordinating with international partners to ensure imports for medicine and medical supply (China, Eurasian Economic Union, World Bank, IDB) and has put in place a fund for private actors to donate to – as of April 27, the Ministry of Health has collected USD 1.6m. On top of expanding health expenditures, the government has been supporting vulnerable groups across the country, by distributing food supplies to families in need. Prices for 11 essential food items have been frozen, and the government is preparing a support package to maintain food security and support vulnerable groups, which have been estimated at 29% of the population by the United Nations.).

Monetary policy. The NBKR maintains its flexible foreign exchange regime and limits FOREX interventions to prevent sharp exchange rate fluctuations. It further decided to 1) lower its liquidity ratio from 45 to 30%, whilst removing its necessary requirements; 2) reduce the minimum threshold level for reserve requirements from 80 to 70%; 3) reduce risk-weights of FX corporate and retail loans from 150 to 100%.



The policy rate remains at 5%. The NBKR has recommended banks to create flexible conditions on interest payments and the classification categories of borrowers, on top of extending the moratorium for business checks.

Economic support measures. On April 30, the government adopted the Act on New Economic Freedom and Development, which plans to re-launch economic activity in Kyrgyzstan for USD 400m or 5.2% of GDP. The policy has the overarching aim to enhance the business environment by further digitalising the economy (cashless payments), introducing justified tariffs, launching new infrastructure projects, adopting a new investment code, ensuring the protection of private property rights and guarantees for investors, extending privatisation across the country, and fostering free capital movement. These measures are coupled with direct measures to simplify business operations over the short-term, which entail reducing licenses and the number of taxes and inspections, and offering digital procedures where possible. The government also reduced social contributions, extended the deadline to submit tax declarations and suspended audits for all businesses. It introduced a temporary ban on bankruptcy procedures of businesses until January 2021. After offering a short-term 3-month plan to businesses⁴, the government has now channelled USD 176m into a second business support package to offer preferential financing for SMEs and patent-holders in export-oriented, processing and food security sectors. Local banks have lowered the minimum credit threshold, and credit worth USD 50m has already been issued, 81% of which to the regions. The EBRD also offers measures of concessional financing for SMEs and emergency financing mechanisms to guard the liquidity of banks. The Russian Kyrgyz Development Fund has also simplified procedures to facilitate lending to businesses.

Deconfinement. Despite the prolongation of the state of emergency until mid-May, the first week of the month saw the initial stage of easing economic activity in manufacturing, transport and construction, as well as for notaries, and businesses engaged in trading activities. These measures are said to allow 20 000 businesses representing 130 000 jobs, to resume operations. A second wave of easing is scheduled for mid-May, allowing financial and consumer services, all types of stores, and public transport to resume their activities. Full reopening of all economic activities is planned for June 1st with the lifting of remaining restrictions on business activities.

Outlook

Kyrgyzstan has been severely affected by COVID-19, rapidly depleting public finances and paralysing most of the country's economy. To counter the effects of the crisis, the government will have to follow through with its measures to support the private sector, and continue to strengthen the social safety net, whilst closely observing monetary fluctuations. Over the long-term, the reduction of the fiscal deficit should remain at the forefront of the government's agenda and measures to improve the legal environment for businesses, formalise business activities and further decrease trade barriers will be needed to ensure sustainable growth.

Mongolia

Economic overview

The sustained growth of the Mongolian economy has been primarily driven by the export of extractive products, and has therefore fluctuated with changes in the prices of and demand for these commodities, particularly of copper. Mongolia's exports remain concentrated in terms of both products and destinations, making the country particularly vulnerable to external shocks. Public finances were hit by the 2015 commodity price slump and pushed the Mongolian authorities to secure a support package from the IMF.

⁴ Including measures to ensure food security; delaying social contributions for 3 months; discounts on renting state property; deferring utility bills, cancellation of tax sanctions and penalties until July.



The COVID-19 crisis has led to a steady decrease in commodity prices and demand, especially from China, and Mongolia had to stop coal exports for a few weeks at the beginning of the crisis due to sanitary measures, before resuming them. Exports fell by 45% in the first quarter driven by falling exports volumes of coal and copper to China, and the economy is expected to shrink this year by about 1% in real terms. Two-thirds of businesses report income losses, in particular in the tourism and cashmere sectors.

Economic impacts

Short-term indicators. First-quarter GDP was down 10.7% year-on-year in real terms, owing to sharp contractions in mining and services. While GDP estimates for January-April are not yet available, the preliminary estimates for gross industrial output in January-April point to an even sharper contraction: the National Statistical Office reports a 24.1% year/year drop in industrial output in the first four months of the year, driven by a 33% drop in the mining sector. According the Mongolian Chamber of Commerce and Industry, two thirds of businesses were affected by the COVID-19 and more than 8,000 jobs could be lost. This would increase unemployment rate from 8% to approx. 12%. The Employment Insurance Fund has increased its expenditures by close to 25% during the first quarter. Overdue loans have risen by 6.7% in April.

Public finances. Tax revenues fell by 14.2%% year-on-year during the first four months of 2020 while government expenditures increased by 16.7%. The anti-crisis package has been supported by IFIs, including the ADB and the World Bank. These measures will nevertheless put a strain on public finances. The government has also received EUR 50.8m in budget support package from the EU with a focus on boosting employment and improving transparency in public finances in the current context. The current account deficit reached USD 350.2m in January-March, compared to a surplus USD 220m in the first quarter of last year, mainly due to falling mining export earnings.

Financial markets. The Stock Exchange MSE Top-20 Index has fallen by almost 13% since the beginning of 2020, which is less than the main global stock markets.

Policy reactions

Public health measures. Mongolia has prolonged the state of emergency until 30 June. Mongolia closed all borders with Russia and China early in the crisis and enforced a travel ban on foreign nationals. Public gatherings have been prohibited and people are required to wear masks in public places. A month-long campaign was launched to promote wearing mask. All public places are closed while restaurants and places holding a liquor license are operating with reduced hours. Closure of schools will last until 1 September. Compulsory isolation has been extended up to 21 days for people presenting symptoms. The country has expanded its number of beds and built temporary hospitals in the capital and in regions. The National Emergency Agency has also carried out emergency training exercises in response to the pandemic, including a real-life lockdown exercise in the Chingeltei region. Mongolia is also providing specific bonuses and advantages to reward its medical staff. Disinfection campaigns are conducted in the main cities, and control points have been established at the entrances to the capital. Imported food and non-food products are disinfected by public authorities. Coal exports to China have resumed, but carriages are disinfected in a systematic manner. Health projects funded by the ADB and the World Bank will also support increasing health capabilities in the country, in particular for hospitals.

Monetary policy. The Bank of Mongolia has cut its policy rate from 11 to 10%, then to 9% and expanded the interest-rate corridor to +/-1. The BoM has decided to extend the maturity limit on consumer loans up to 12 months for lenders experiencing difficulty in their loan repayments, and has received massive requests for support. The BoM also increased its purchases of gold since the beginning of the year and has launched a massive low-interest mortgage programme with the support of banks.



Economic support measures. On 27 March 2020, the government announced an initial national package of seven measures totalling MNT 5.1 trn (1.7bn) to protect the health and income of people, preserve employment and stimulate the economy during the COVID-19. The package was backed by the Parliament on 9 April and contains a series of measures, including, but not limited to the following:

- temporary tax exemptions for six months from 1 April, including the waiver of personal income tax for employees, exemption from social insurance contributions for all private entities, and exemption of corporate tax for entities with annual revenues of less than MNT 1.5bn (EUR 5 m) (mining, oil, retail and tobacco sectors are excluded from the scheme);
- a monthly payment of MNT 200,000 (EUR 65) for three months to employees of private companies that keep their workers on the job despite declining revenues;
- a planned fuel subsidy to reduce retail fuel prices; and
- sector-specific measures for cashmere producers, including loans and stable prices.

The government has also prepared a new package of social measures totalling USD 284m targeted to children, elderly and vulnerable groups. This package notably increases the monthly child allowances, pensions, and food vouchers to low-income adults as well as cash transfers to single parents, orphans and the disabled until 1 October.

In addition to these packages, the government approved a list of consumer food products to be exempt from customs and value added tax until 30 June 2020. Several laws have also been adopted on the banking system and governance. One of the new laws aim to increase the transparency and governance of the banking system and encourage the development of e-banking services. The government has also been empowered by a new law to take containment and financial measures to fight the COVID-19. It has also postponed the planned IPO on Erdenes Tavan Tolgoi JSC considering the current economic context. Mongolia has also increased the provision of credit guarantees to support SMEs through its public institutions.

Deconfinement. The government considers that the country is still at high-risk, thus maintaining containment measures at this stage and expanding health measures. Nevertheless, VET schools and training centres nationwide and a number of public places in Ulaanbaatar including gyms have reopened under restricted sanitary conditions. An attempt to reopen bars and nightclub in Ulaanbaatar fell short due to violations of social distancing measures. 11,000 citizens have been tested for the COVID-19 and the country is observing strict isolation measures. Parliamentary elections will take place and are scheduled for 24 June 2020.

Outlook

According to latest estimates by the IMF, the economy will contract by around 1% in 2020. However, a much deeper fall cannot be ruled out, as Mongolia's growth prospects will largely be determined by commodity markets and developments elsewhere. Mineral exports are the main driver of growth, and they have been falling due to weak demand. Chinese imports from Mongolia fell by 25% during January-March, though the restarting of Chinese industries and coal imports could slightly cushion the effects of COVID going forward. The use of public funds will also need to be carefully administered by public agencies and accompanied by structural reforms to the legal environment for businesses. While Mongolia is receiving financial assistance from the IMF and the ADB, The impact on public finances will need to be assessed and measures to ensure post-COVID-19 fiscal consolidation could be needed.



Tajikistan

Economic overview

According to official government data, real GDP grew by 7.5% in 2019, supported by strong growth in manufacturing (14%), agriculture (7%) and retail (9%) (World Bank, 2020^[62]). GDP per capita nevertheless remains the lowest in Central Asia. The IMF expects growth to fall to around 1% this year under its baseline scenario for the pandemic (IMF, 2020^[2]). There are substantial downside risks attached to the public health emergency, in terms of both local economic resilience and the impact of a deteriorating external environment on the country's economic and social recovery.

Growth continues to be driven by public investment, raw materials, and remittance-fuelled consumption, all of which render the economy vulnerable to deterioration in the external environment. Investment fell by 7% in 2019, with FDI inflows remaining concentrated in extractive sectors. Public investment has largely focussed on the Roghun hydroelectric power plant (World Bank, 2019^[14]). The concentration of public investment in a few large infrastructure and energy projects may have crowded out investment in these under resourced sectors, limiting their ability to cope with a significant demand increase. The government is now taking measures to prevent the spread of COVID-19 in the country, with this requiring the reallocation of already limited public funds for healthcare and social protection. The government has turned to financial assistance, including from the World Bank and the EU, to obtain emergency resources to support the health and social sector. The impact of COVID-19 will lower demand for key exports and demand for migrant labour, with falling trade and remittance revenues likely to strain public finances and investment capacity.

Economic impacts

Short-term indicators. A large informal sector and the significant number of labour migrants working abroad might exacerbate the economic impact of the crisis. In 2019, an estimated 500,000 Tajik migrants were working in Russia, generating remittance inflows equivalent to around one-third of GDP. In March 2020, the level of remittance inflows from Russia was 50% lower than the equivalent period in 2019, and such flows could fall further in the coming months (AsiaPlus, 2020^[63]). This significant collapse in inflows will not only lead to lower levels of consumption and growth, but may have serious implications for the country's current account balance. At the same time, local labour markets are characterised by a high degree of informality, with formal dependent employment in the private sector estimated at only 13% of total employment in 2017. This high level of informality not only reduces the tax base from which the government can raise public revenues, but it also makes it difficult for the government to administer support to a large number of people outside formal economic and public institutions.

Public finances. The country has relatively high levels of external debt, estimated by the World Bank at 50-55% of GDP (38.9% of GDP according to official government data at the end of 2018). The country's export base is limited, with receipts from exports and remittance payments crucial to the country's balance of payments, and both these sources of revenue are likely to fall in 2020-21. Tajikistan may therefore face particularly acute budgetary pressures due to COVID-19, with the government needing to dispense additional expenditure on social and economic mitigation at a time where revenues will fall. Accordingly, the country's overall budget deficit is projected to rise to 7.7% of GDP in 2020 from 2.8% in 2019 (World Bank, 2020^[64]).

Financial markets. The main risk factors are currency volatility and high dependence on imports (four times greater than exports). Falling remittances will undermine the country's ability to pay for such imports. The official somoni-dollar rate has increased by 5% to TJS 10.25, while a weakening rouble has reduced the value of those remittances still coming into the country. As a result, prices for staple goods have increased, with an immediate term risk that these prices will rise further due to panic buying.



Policy reactions

Public health measures. Prior to the first cases of COVID-19 in Tajikistan at the end of April, local containment measures had been comparatively limited. The country's borders and airspace for all international air carriers were closed, but freight transport remained in operation, though foreign drivers were not allowed to enter the country. Public places are being disinfected on a daily basis and awareness campaigns are being held to inform the population on the effects of the virus. At the end of April, the government took additional measures to stop the spread of the virus. All citizens are now required to wear masks in public and mass events are restricted to a minimum. All mosques have been closed as of 17 April, kindergartens and schools are closed between 27 April and 17 August and university students are on holiday from 4 May. Some local businesses are closed in Dushanbe and will remain so until 31 May. The World Bank has approved grant financing of USD 11.3m to help establish around 100 new, fully equipped Intensive Care Unit (ICU) beds in health facilities across Tajikistan, and strengthen the health system's capacity to treat individuals infected with COVID-19.

Monetary policy. The National Bank of Tajikistan increased its refinancing rate by 50 b.p. to 12.75% in February due to rising inflation and reduced it to 11.75% in May as part of monetary stimulus measures. Annual inflation is projected at 10.6%. The required reserves ratio for savings and other liabilities has been reduced from 3% to 1% in national currency and from 9% to 5% in foreign currency until 31 December 2020.

Economic support measures. The government is implementing an Action Plan to reduce the impact of external risks to the national economy, which focusses on providing food security and price stability of staple goods, ensuring timely delivery of social assistance, supporting vulnerable segments of the population, providing tax benefits to SMEs, postponing non-tax audits of businesses and attracting financial assistance from IFIs. As part of the implementation of the Action Plan, the government intends to increase healthcare spending in 2020, as well as spending on social protection of vulnerable segments of the population and support for severely affected sectors of the economy. Tajikistan has also created permanent headquarters for countering the spread of the virus, which on 22 March implemented an Action Plan to strengthen anti-epidemic measures in the country and on 25 April introduced an export ban on all types of cereals and legumes such as wheat, rice, lentils, peas, mung beans, eggs, potatoes as well as all types of meat.

According to preliminary estimates by the government, the total damage to the economy due to the COVID-19 crisis may amount to more than USD 650m. The government is negotiating with IFIs and development partners to obtain financial assistance to mitigate the economic consequences of the crisis. In addition to a grant provided by the World Bank, Tajikistan received EUR 1m from Germany, USD 80m from the ADB and EUR 78m from the EU (including a EUR 30m loan from EIB). The IMF has approved immediate debt relief to the government and approved a 10-year interest-free loan of USD 189.5m (80% of quota) with a 5-year grace period.

Outlook

A number of structural issues in the country's economy, notably its heavy reliance on migrant remittances, will likely exacerbate the severity of the economic impact of the pandemic in Tajikistan. According to the assessment of the government of Tajikistan, economic growth in 2020 will be between 6.2% and 5.8% in the optimistic and pessimistic scenarios, slightly lower than official 2019 predictions; however, forecasts from international organisations such as the IMF and EBRD are significantly more conservative, at 1% and -1% respectively. Over the short term, the government will need to focus on appropriate resource allocation to protect the health of the population, enforce containment measures, ensure food security and provide support to the private sector, including through financial programmes and tax reliefs. Over the long run,



the country should continue its efforts to improve the business climate to increase private investment and employment.

Turkmenistan

Economic overview

According to the official data, real GDP grew by 6.3% in 2019, with growth continuing to be driven by the export of hydrocarbons. Trade turnover amounts to 117.9% GDP, with 90% of total exports being hydrocarbons, and over 80% of exports going to China. Turkmenistan is therefore particularly exposed to developments in that country. Early data suggests that the immediate impact of COVID-19 in China has already seriously affected Turkmenistan's export revenues, with Chinese imports of Turkmen goods down 22.3% in the first quarter of 2020 (China General Administration of Customs, 2020^[65]). Public revenues will be severely affected by the COVID-19, particularly through falling export revenues, with this likely to act as an impediment to further developments of the domestic economy. The large presence of the state in the economy, and the risk that this leads to the misallocation of ever scarcer resources, may be a particular risk for the contribution of the private sector to recovery, growth and employment (EBRD, 2019^[66]).

Economic impacts

Short-term indicators. The IMF's April 2020 *World Economic Outlook* projects growth of just 1.8% this year under its baseline scenario. (IMF, 2020^[2]). Much will depend on the authorities' success in keeping the disease at bay and on China's recovery from the slowdown.

Public finances. Due to Turkmenistan's dependence on gas exports, the country is particularly vulnerable to drops in demand in its major export markets, notably China. China has sought oil-indexed pricing agreements in its long-term gas contracts, which would imply a significant drop in the price of the Turkmenistan's main export, and volumes have been reduced as well. On 8 May, the President gave an address in which he anticipated the current crisis to be more severe for public finances than the 2008 and 2014-15 crises, and signalled that the state budget and budgets for SOEs would be revised downwards (Turkmen Portal, 2020^[67]). In the same address, the president requested all deputy-prime ministers to formulate cost-saving plans. Early indications of wage reductions for employees of a number of SOEs suggest that these budgetary revisions have are being implemented immediately, with the cost of the crisis being passed onto workers. Such shortfalls will negatively affect the both government's ability to address immediate COVID-19 consequences and its capacity to address long-standing structural issues in the Turkmen economy.

Policy reactions

Public health measures. As of early April 2020, there were no officially confirmed cases of COVID-19 in Turkmenistan. The government has generally refrained from talking about the pandemic, and aside from some limited public health information, there has been little guidance to citizens or firms on preventive measures. Nevertheless, the government has taken a number of steps to prevent a COVID outbreak. It has closed its borders to non-nationals, and all non-Turkmen carriers have ceased flights to the country. Significant restrictions on internal movement have also been put in place. Turkmenistan has one of the highest ratios of out-of-pocket spending to total health expenditure in the world, which means that the costs of a major COVID outbreak might be passed onto an economically precarious population, particularly at a time when public finances are likely to come under severe pressure.

Monetary policy. Turkmenistan has an official fixed exchange rate of 3.51 manat/USD, which many observers have long considered to be seriously overvalued (the informal rate is close to 22/USD) and therefore deleterious to export-oriented enterprises. The effects of the COVID-19 may further reduce the



competitiveness of domestic industries, while complicating trade and profit repatriation. At the same time, with declining dollarised trade receipts from gas exports, the government has increased already strict currency controls. In mid-May, President Berdymukhamedov announced that all foreign currency earnings from both public and private firms must be paid into the country's Stabilisation Fund, an instrument first set up in 2008 (Government of Turkmenistan, 2020^[68]). Firms would then be reimbursed the manat value of the dollar earnings at the government's official rate. Given the significant difference between the official and unofficial exchange rate, and with a lack of clarity over how this mechanism would be enforced or managed, the decision is likely to have a deleterious impact on the country's small, export-orientated private sector and the investment climate more broadly.

Economic support measures. As of early April 2020, the government had not issued any advice to entrepreneurs or outlined any plans on how the private sector would be supported should the COVID-19 pandemic have a serious impact on the economy. Restrictions on internal movement, however, had reportedly strained the supply of food and basic goods to shops and markets throughout the country, leading to prices increases and shortages. There have also been widespread reports of difficulties for citizens seeking to withdraw cash from banks and also with card-based payments.

Outlook

In the short term, the government should prepare strong interventions to protect the health of its population and mitigate the economic impact of COVID-19. The primary driver of the country's growth – natural resource extraction – has already been affected, and conditions are likely to deteriorate further due to falling global demand. In the absence of a robust and competitive private sector that might have provided alternative revenue streams, growth will fall markedly in 2020. Diversification efforts, improvements in the business climate and further opening to foreign investments are needed. Relaxing foreign exchange controls could also strengthen tradable competitiveness and investor confidence, though early indications are that controls are currently being tightened rather than loosened.

Uzbekistan

Economic overview

The effects of the COVID-19 crisis will slow down the economic growth experienced by the country to an expected +1.8% in 2020. Real GDP growth had accelerated slightly in 2019 to 5.6%, supported by a 34% year-on-year increase in investment, largely driven by direct lending to SOEs, and growth in the agricultural and manufacturing sectors. Since 2016, growth has been supported by an active programme of economic reforms, including currency liberalisation. Despite these reforms, FDI inflows remain low, at 1.2% of GDP in 2018, though trends prior to the COVID-19 suggested that foreign investment had begun to increase. Uzbekistan has one of the more diversified export baskets in Central Asia and trades with a wider range of countries than most of its regional peers. Strong export growth and remittance contributions have contributed to a narrowing of the current account deficit from 7.1% in 2018 to 4.2% in 2019 (World Bank, 2020^[62]). The government response to the COVID-19 will probably increase the account deficit, while growth of the domestic economy is likely to slow.

Economic impacts

Short-term indicators. Growth for 2020 is expected to slow markedly, to 1.8%, assuming that the pandemic and required containment efforts peak in the second quarter for most countries and recede in the second half (IMF, 2020^[2]). Impacts on the economy are very large, in particular due to the size of the informal sector. According to the Ministry of Labour, only 5.7 million people are employed in the formal sector out of 19 million in the labour force, leaving a large amount of people vulnerable to the slowdown.



Public finances. The government indicated that if export revenues decrease due to falling gas prices (following lower oil prices) and the devaluation of the Russian and Kazakh currencies, subsequent losses to the state budget (about USD 1.1bn according to official figures) should be fully compensated by higher gold prices. A law to review of public budget and prioritise expenditures is being prepared to help stabilise the budget and mitigate the negative impact of the pandemic.

Financial markets. The exchange rate depreciated by 6.5% between 28 February and mid-April. The currency has been strongly supported by the Central Bank's sale of foreign currency which should increase by 30% compared to last year, on the back of higher gold prices.

Policy reactions

Public health measures. Uzbekistan began implementing national quarantine and preventative measures in March. Borders have been closed, and the capital, Tashkent, has been quarantined. All transport within the country has been put on hold, and schools, public places and non-essential businesses have been closed. Only freight transport has been excluded from bans. Remote schooling has covered around 500,000 students and 7m children from more than 10 000 education institutions while final exams at higher educational institutions will be held online. These measures are being relaxed as Uzbekistan is moving to deconfinement. The country is also expecting to open the first wing of a new 10,000-bed hospital in May to help manage the pandemic. A EU support package of €36 million will assist the country in addressing immediate needs in the health sector and in its short- and long-term socio-economic recovery.

Monetary policy. The Central Bank has decreased its policy rate by 1 p.p. mid-April to 15%, but the rate remains at a very high level to contain inflation amid external uncertainty due to the coronavirus outbreak and the expected effects of price liberalisation for selected goods and services. The bank also has offered several targeted refinancing operations for commercial banks (350bn UZS), but did not change regulatory, capital or liquidity requirements.

Economic support measures. An Anti-Crisis Fund of UZS 10 tn sum – EUR 950 m – (1.5% of GDP) has been set up to cover immediate medical and quarantine expenses, increase the number of social benefit recipients, provide liquidity, interest subsidies, loan repayment deferrals, guarantees to businesses, and finance infrastructure work in regions to sustain employment. The Fund also finances an allocation of UZS 200bn (EUR 19 m) to the Public Works Fund to support employment and the construction of additional infrastructure, and of UZS 500bn (EUR 47m) to the State Fund for Entrepreneurship Support to assist job creations by businesses. The State Fund for Business Development Support will also provide businesses with partial compensation for loan interest expenses and a guarantee in the amount of up to 50 percent of the loan amount. A series of fiscal measures have been set up in addition. In particular, tax deferrals for most affected SMEs and individual entrepreneurs until October; a moratorium on tax audits until the end of 2020 and on bankruptcy procedures until October; a deferral of the scheduled increase of tax rates; an extension of tax declaration submission until October; an ease of VAT calculation and payment requirements for small businesses; no excise tax and customs duties for the import of 20 types of basic consumer goods until the end of the year; and the suspension of rent payments for the use of state property by business entities that have been forced to suspend their activities. Several sectors have received specific support and funding, including the construction sector which was allocated a further UZS 3trn (EUR 320m). Finally, for households, parents are granted a 100% temporary disability benefit, and child care benefits and material assistance are automatically extended for all beneficiaries. Social safety net coverage has been overall expanded by 10%.

Deconfinement. By the end of April, selected enterprises (eg. construction materials, auto parts stores, large car services, insurance companies, notaries, craftsmen, agricultural businesses, and chain stores) were permitted to gradually resume operations. According to official numbers, 5 400 out of the 14 000 companies in the Tashkent region whose activities had been strictly checked, could resume their activities.



A similar easing of economic activity occurs also in regions, based on a colour code assessing the severity of the virus in specific regions and cities. In particular, freight traffic for fresh agricultural goods between the regions and the capital Tashkent was allowed to resume to mitigate the financial losses of agricultural companies. Individuals also benefit from a gradual easing of rules, allowing for short outdoor activities with children, and a restricted use of cars for essential movements (eg. going to work, buying essentials or medicine). Mid-May, the government has developed an economic post-crisis action plan for businesses and households, providing for an extension of most economic, tax, and social measures adopted during the outbreak.

Outlook

The global economic impacts of the COVID-19 weaken the Uzbek economy, notably through the fall of prices and sales of natural gas to Russia and China, the curtailing of remittances flows from workers in Russia (about 1.3bn USD), the partial closing of Kazakhstan, the country's main export market for fresh agricultural products, and the weight of announced relief measures on public finances. In parallel, the government has proposed to join the Eurasian Economic Union (EAEU) as an observer state. For the economy to withstand the shock, the government will have to strike the right balance between immediate measures to speed up the recovery and continued reform effort to sustain the country's growth potential and the diversification of its economy, including attracting investment and improving the legal environment for businesses. New priorities on digitalisation can also help support new economic opportunities and the quality of public services.

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