



COVID-19 crisis response in Central Asia

Updated 16 November 2020

The global COVID-19 pandemic has had a significant negative impact on the economies of Central Asia. This updated policy note reports on the latest developments in the region and looks ahead to identify the key challenges likely to be faced by the region's policy makers in the short- to medium-term. It examines five major economic challenges facing countries as they recover from the COVID-19 crisis – debt sustainability, migration, job retention, private sector fragility, and lack of connectivity – and proposes ways forward.



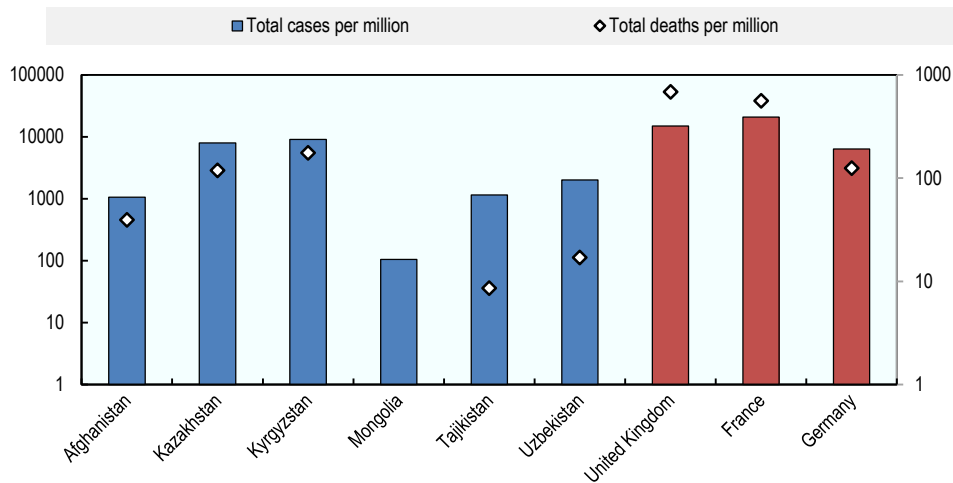
Introduction

The COVID-19 pandemic continues to affect the economies of Central Asia. Regional growth halted abruptly in early 2020. Trade remains severely disrupted by both supply- and demand-side issues, consumption and investment have plummeted, and there is a risk that inequalities across the region will worsen, with women, migrants, informal workers and rural dwellers all likely to be significantly affected.

As of autumn 2020, the crisis has had a more severe impact on the region's economies than it has on public health, with Central Asia avoiding the morbidity and mortality rates seen in some OECD member countries. Official data suggests that cases and fatalities across the region remain relatively low, and, save a limited number of dangerous outbreaks in June and July, strict lockdown measures appear to have prevented the virus from circulating as widely as in many OECD countries or in regional peers. In the five weeks to the end of October, only Kyrgyzstan reported significant new numbers of infections, causing the number of daily new cases in the country to resume a worrying upwards trend. In terms of deaths per million inhabitants, only Kyrgyzstan (42nd) counts among the 50 worst-hit countries in the world, followed by Kazakhstan (61st), Afghanistan (86th) and Uzbekistan (109th) (ECDC, 2020^[1]).

The public health situation nevertheless remains precarious. Healthcare systems across Central Asia have long suffered from underfunding and corruption, have limited spare capacity, and are beset by significant regional disparities in levels of quality and access. In addition, with households in Central Asia having some of the highest out-of-pocket shares of healthcare expenditure in the world, a deterioration in the public health situation could quickly create significant administrative and household pressures, in the context of rising poverty levels across the region (World Bank, 2019^[2]) (World Bank, 2020^[3]). At the same time, the question of managing the return of migrants from high-risk countries such as Russia and Iran could create an additional strain even as the public health situation shows signs of normalising domestically.

Figure 1. Total COVID-19 cases and deaths in Central Asia and selected OECD countries (log scale)



Note: According to official government statistics and the WHO, Turkmenistan is yet to record a case of COVID-19.
Source: (ECDC, 2020^[1]), OECD calculations.

In contrast to the relatively successful containment of the virus in most of Central Asia, the impact of the pandemic on the region's economies has been profound – indeed, the economic shock was manifest even before the first cases of COVID-19 were reported in the region. The region depends heavily on growth



drivers such as migrant remittances and extractive-sector exports, so the closure of borders and the collapse in international demand had a significant impact on immediate growth prospects as early as in February. At the same time, issues such as the relatively undiversified structures of production and exports, the limited size of the private sector, employment gaps, and high levels of informality in some countries will make it hard to respond to the crisis, particularly given the stress it has placed on public finances.

The COVID-19 pandemic and the economic crisis it has engendered constitute the third major exogenous shock to hit Central Asia in a little more than a decade. The experience of previous crises suggests that the economic shadow of COVID-19 in Central Asia will be long and may undermine regional prosperity long after the pandemic itself has subsided. In part, this is due to the diminishing effectiveness of many of the region's key growth drivers, compounded by a failure to address longstanding barriers to more inclusive and sustainable growth. The purpose of this note is therefore to take stock of the measures being implemented by governments in Central Asia in the current phase of the crisis, but also to look ahead to the key challenges they are likely to face as they chart their recovery from it.

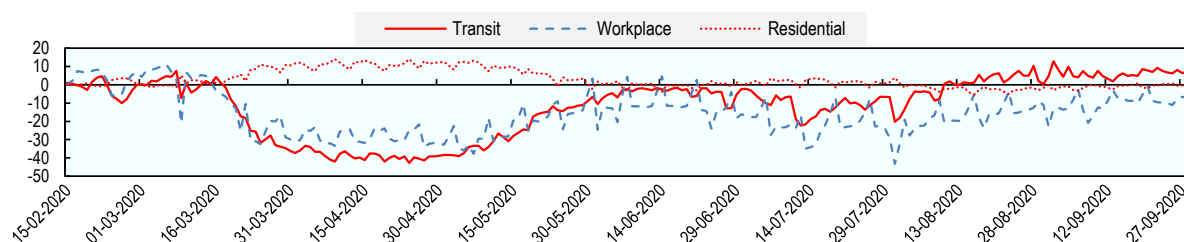
COVID-19 in Central Asia: economic impact

Regional overview

Latest forecasts estimate that the region's economies will contract this year by 1.7% on average, a figure that conceals dramatic variations across Central Asia, from a contraction of 12.6% in Kyrgyzstan to growth of 1.8% in Turkmenistan according to official data (World Bank, 2020^[4]) (IMF, 2020^[5]). Growth may remain sluggish, despite a resumption of domestic economic activity, as seen in the gradual increase in transit and workplace mobility since governments began relaxing a number of lockdown restrictions around July (Figure 2). Economic forecasts anticipate a sharp recovery in 2021, though growth may be significantly slower should there be new waves of infections and confinement.

Figure 2. Economic activity across Central Asia remains below pre-COVID levels

Countries across Central Asia have seen differing severity of lockdown, and are at different stages of reopening



Note: Average Google Mobility Report recordings for Afghanistan, Kazakhstan, Kyrgyzstan, Mongolia and Tajikistan. Data was recorded from 15/02/20-30/09/20 for all countries, with a gap from 19/05-02/07 for Afghanistan. The percentage change is calculated against a 5-week average recorded from 03/01/20-06/02/20.

Source: OECD calculations based on [Google Mobility Reports](#) data.

Given the trade dependence of the Central Asian economies, their immediate prospects will be shaped in large part by global trends. At present, the OECD expects global GDP to contract by 4.5% in 2020 under its baseline scenario. All G20 economies except China are projected to shrink this year, with the hardest-hit countries recording GDP declines of 10%. Worldwide, as many as 90 million people could be pushed into extreme poverty this year alone, a 14% increase in one year. More may follow in 2021. This baseline scenario projects global growth of around 5% in next year, leaving global GDP at end-2021 close to the level of end-2019: with reference to pre-crisis trends, this implies a loss of 7.5-8% of global GDP (equivalent



to the economies of France and Germany). Under the downside scenario, the loss could be as great as 13%. The protracted slow-down in trade and global demand will hit Central Asian economies, given their reliance on tradable activities (particularly agriculture, mining and tourism), although China's strength could give them an important boost.

The risks to the global outlook, moreover, are biased towards the downside, suggesting that the recovery will be slow and uncertain (OECD, 2020^[6]). Even now, momentum in many countries appears to be plateauing and confidence remains weak, against the backdrop of a resurgent virus in the developed world. While China has so far bounced back fairly well, its outlook is also clouded by global factors, and Central Asia states will feel the effects of reduced demand for labour in Russia, as well as lower global demand for the region's key exports.

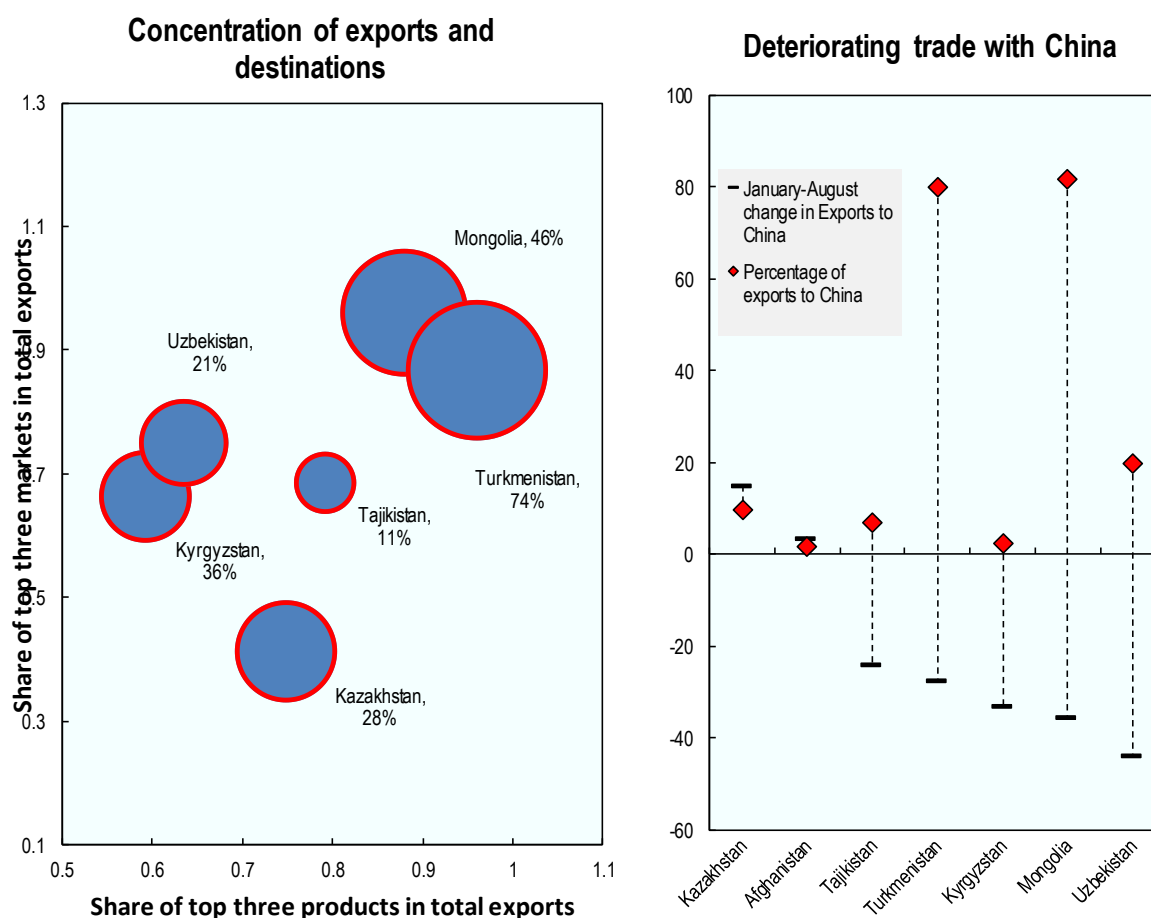
The domestic private sector is still too small and too fragile to act as a growth driver; indeed, the risk is that the devastating impact of the present crisis will set its development back even further. With trade revenues and remittances integral to supporting domestic consumption, jobs and investment, the short term outlook is grim. For example, in Kyrgyzstan, where remittances amount to almost a third of GDP, inflows fell by 62% in April at the height of the first lockdown in Russia (National Bank of Kyrgyzstan, 2020^[7]). Whilst remittances have since rebounded (though they remain down 7% YTD), the drastic and sudden fall highlighted yet again the precariousness of the country's external position. Early data from Russia suggests that similar falls have affected Tajikistan and Uzbekistan (Central Bank of Russia, 2020^[8]).

Trade data for many countries tell a similar story. In the first half, for example, Uzbekistan and Kazakhstan saw exports fall by 22% and 13% respectively, with the consequences of COVID-19 for the latter compounded by falling global oil prices and the application of OPEC+ cuts (State Statistical Committee of Uzbekistan, 2020^[9]; QazTrade, 2020^[10]; S&P Global, 2020^[11]). For economies with both a narrow range of export products and a narrow range of trade partners, the impact of lower external demand has been particularly painful. In Turkmenistan, for example, where over 90% of exports are hydrocarbons, the country's 27% fall in exports to China is likely to create far more immediate pressures than Uzbekistan's 44% decline, because over 80% of Turkmen exports are destined for China compared to 20% of Uzbekistan's (Figure 3).

The human cost of the contraction across Central Asia will be profound, and will require tailored and incisive policy interventions to support people and businesses. Of the 2.4 million people in Europe and Central Asia that the World Bank estimates will be pushed into poverty in 2020, 58% – some 1.4 million – live in Central Asia (World Bank, 2020^[4]). Where and to what extent these pressures manifest themselves will depend largely on the composition of countries' labour markets, levels of informality, and levels of urbanisation. In countries such as Kyrgyzstan and Kazakhstan, where the services sector accounts for two thirds of employment, the impact of lockdown measures and lower consumption on retail risks having a serious impact on the job market (ILO, 2020^[12]). With all countries in the region already facing tighter fiscal constraints, governments in Central Asia need to ensure that policy interventions reach particularly vulnerable populations including the low-paid, youth, and women (Box 1), and take into account additional risks and pressure points in the year ahead.



Figure 3. A deterioration in external conditions has already had a profound impact on a number of concentrated and trade-dependent Central Asian economies



Note: (1) In the chart on the right, the percentage next to each circle represents the share of exports in GDP, signifying the relative importance of external trade to each country. (2) The chart on the right details the relative importance of the Chinese market for Central Asian exports, and gives an indication of the impact of the decline of trade with China on public finances.

Source: (OECD, 2018^[13]), Chinese Customs Authority, National Statistical Authorities.

Box 1. The socio-economic burden of COVID-19 on women

The socio-economic costs of COVID-19 have so far fallen disproportionately on women. While men have experienced higher death rates across Central Asia, women have felt the secondary effects of the pandemic with increases in domestic violence, drops in employment, increased burdens of unpaid care work and poorer job conditions.

Sectors with higher shares of female employment have been hit particularly hard (textile, accommodation and food services), while childcare options outside the home are much reduced. As a result, women's employment rates have fallen sharply. With COVID-19, women are facing greater reductions in paid hours of work and more job losses, with 26% of women reporting a job loss in Kazakhstan, compared to 22% of men. Some national surveys have confirmed that women-led businesses have been harder hit: in Afghanistan, more women than men entrepreneurs discontinued



their business activities, while in Kyrgyzstan, a higher proportion of women-led MSMEs (72%) reported they could not repay their loans, compared with men-led MSMEs (61%).

An additional risk that COVID-19 poses to Central Asian women is that it could further reinforce their domestic care burdens, limiting even more their opportunities to take up paid work. In Kyrgyzstan and Kazakhstan, 80% of women reported a rise in household tasks, compared with 58% of men. Women have also been more affected by the reduction in remittances. In Kyrgyzstan, 88% of women reported a decline in remittances received, compared to 47% of men.

Sources: (Giuliano, 2020^[14]; UN, 2020^[15]; UNIDO, 2020^[16]; ADB and UNDP, 2020^[17]).

There is also likely to be an important spatial dimension with respect to the distributional impacts of the pandemic. The expected further slow-down in trade and global demand will hit rural economies especially hard, given their higher reliance on tradable activities such as agriculture, mining and tourism. This has clear implications for regional policy and the urban/rural divide. Moreover, while rural regions may be less at risk of contagion, they also tend to have poorer healthcare and social infrastructure, and rural dwellers in Central Asia tend on the whole to be less able to work remotely (OECD, 2020^[18]). Moreover, the quality of (especially digital) infrastructure and access to online learning, as well as digital skills, tend to be poorer. Across much of Central Asia, the cost of access to internet and mobile broadband is quite high relative to income (OECD, 2020^[19]). A further critical point is that the potential for remote working varies with skill levels – in other words, one form of inequality reinforces the other. Inter-regional skills gaps and digital divides (in terms of both skills and access) are not new challenges for Central Asia, but they matter now more than ever. Most countries need to invest more in the quality of provision of on-line learning opportunities.

Policy responses across Central Asia

Policy responses to COVID-19 differ widely across the region and largely reflect i) governments' assessment of the health situation and ii) their fiscal capacity (Table 1).

A first group of countries (Kazakhstan, Mongolia and Uzbekistan) responded swiftly to the crisis, implementing strict confinement measures, closing borders and designing large support packages. They implemented further sanitary and fiscal measures as the crisis grew worse, before progressively lifting them during the summer. A second group of countries (Afghanistan, Kyrgyzstan) acknowledged the situation early but reacted with a delay, partly due to public capacities and slower, more complex policy processes. The size of responses is being limited by narrow fiscal space with fast deteriorating public accounts and amplified needs for international emergency support. The third group of countries (Tajikistan, Turkmenistan) has reported few or no cases of COVID-19 and has designed limited, focused policy measures at the start, before progressively developing more over time.

As regards restrictions on international movement, only Afghanistan has comprehensively reopened its borders to civilian traffic; travel to Turkmenistan and Mongolia is still almost entirely closed, and travel to Kazakhstan, Kyrgyzstan and Tajikistan allowed only for certain nationalities and with strict quarantine requirements (IATA, 2020^[20]).



Table 1. Policy responses have widely differed across Central Asia countries

	Overall	Containment			Macroeconomic	Fiscal and other measures (for firms)		
	Policy response	Containment measures	Health support	Income support	Incl. prudential regulations	Financial	Taxation	Digitalisation
KZ	Highly responsive	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MG	Highly responsive	Yes	Yes	Yes	Yes	Yes	Limited	Yes
UZB	Highly responsive	Yes	Yes	Yes	Yes	Yes	Yes	Yes
AFG	Constrained response	Yes	Yes	Limited	Yes	Limited	Limited	No
KG	Constrained response	Yes	Yes	Limited	Yes	Yes	Limited	Yes
TAJ	Limited response	Limited	Limited	Limited	No	No	No	No
TURK	Limited response	Limited	No	No	No	No	No	No

Note: Afghanistan (AFG), Kazakhstan (KZ), Kyrgyzstan (KG), Mongolia (MG), Tajikistan (TAJ), Turkmenistan (TURK) and Uzbekistan (UZB)
 Yes: wide national plans and measures; Limited: Limited set of measures and restrictions in size or extent; No: virtually no policy response observed.

Source: OECD analysis (2020).

A second wave of lockdowns may be more localised than the first

As in numerous OECD and non-OECD countries, governments across Central Asia may find themselves compelled to reintroduce strict containment measures to prevent the outbreak of a second wave of infections. Since summer, the signs from Central Asia's governments are that policy responses to mitigate the possibility of second waves will follow the more localised and targeted approach taken by a number of countries, with an emphasis on keeping certain sectors of the economy open, maximising the protection of the most vulnerable in society, while ensuring that measures correspond to local risks and needs.

In Kazakhstan, for example, the government and local authorities have increased adapted regional stringency to local outbreaks and placed targeted restrictions on certain socio-demographic groups, restricting the movement of people over the age of 65 in a number of cities. Similarly, in Kyrgyzstan new internal travel restrictions came into place for the Batken region at the end of September, with PCR tests required for travellers coming into the country via that region from Uzbekistan and Tajikistan, whilst the government has devolved decision making regarding school closures to local authorities.

The experience of the past few months suggests that while government responses may be more tailored to local conditions, new challenges for co-ordination, both internally and internationally, will be required to ensure that containment decisions are co-ordinated and that both central and sub-national authorities have the capacities and resources to meet the challenges of a situation that is liable to change quickly.

Towards recovery: the major economic challenges ahead

Many economic and social challenges facing Central Asia in the year or two ahead will be similar to those confronting OECD countries. How should governments maintain business liquidity? How can they support workers and households? How do policy-makers ensure that trade remains open? At the same time, a



number of challenges are complicated by long-standing structural issues in the region's economies and labour markets – the risk of public debt distress, significant fiscal constraints and high levels of labour migration being major examples.

To enable a more sustainable economic recovery, governments in Central Asia will need to address five structural challenges that the COVID-19 pandemic has made more acute: boosting connectivity, transitioning to a more private-sector-oriented growth model, enhancing labour market functioning and productivity, improving conditions for migrants and the productive use of remittances, and strengthening public debt and financial management.

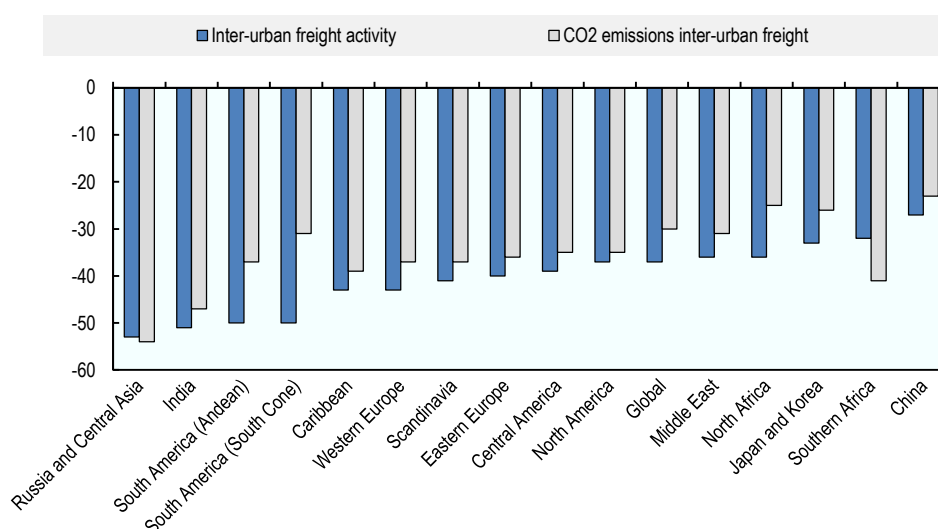
1. Regional co-operation and connectivity are needed to resume trade and growth

Context

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^[21]), despite the fact that their location and landlocked position impose higher transport costs. The global health crisis, both in terms of its impact on demand and logistical disruptions, has already had severe consequences for trade in the region, with freight transport (measured in tonne-kilometres) projected to be 53% lower in 2020 than the previous year (ITF, 2020^[22]).

One consequence of the decline in global trade is the impact on freight related CO₂ emissions, a reminder of the sustainability challenges surrounding the expansion of freight traffic in Central Asia that governments in the region seek. In Russia and Central Asia, the decline in freight transport is likely to be accompanied by a 54% drop in freight-related CO₂ emissions, a significantly larger decline than anticipated in other regions of the world (Figure 4) (ITF, 2020^[22]). Indeed, Central Asia is among the only regions surveyed by the International Transport Forum where projected freight-related CO₂ reductions exceed the projection in freight reduction themselves. The decline in both volumes and emissions is indicative of a number of trade challenges that are central to the region's long-term sustainability, including the volatility and environmentally deleterious consequences of resource extraction and processing, the large distances to major centres of global demand, and insufficient sustainability planning in infrastructure.

Figure 4. Projected declines in trade freight and associated emission reductions



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



Central Asia suffers from a geographically imposed distance penalty, which in light of deteriorating external conditions will only further reduce the region's competitiveness for exporters. Yet, these distance penalties are compounded by infrastructure bottlenecks, policy barriers and poor trade facilitation; better policies, including better inter-agency co-operation and automation, could help lower costs, reduce border crossing time and help recovery, substantially improving connectivity even without expensive new investments in physical infrastructure. Indeed, the COVID crisis has demonstrated that governments in Central Asia are capable of flexible trade policy when conditions demand it, and improvements in the past six months should serve to show how trade simplification can help all countries in the region.

For example, when the pandemic first reached Central Asia, Kazakhstan introduced green corridors for much needed medical goods and food products, lowering the risk management level from red to yellow, as well as introducing a range of tariff and tax deferrals. Its regional neighbours did likewise. In Kyrgyzstan, the government deferred a range of trade-related tariff and tax payments. In Uzbekistan, the government opened a call centre to help traders with their queries, and used the moment to expand digitalisation in customs and trade procedures. These measures amounted to a concerted effort from regional policy-makers to keep trade flowing. As the region begins to open back up, it will be imperative that border re-opening is executed in a co-ordinated manner, with policy-makers coming together to agree the best way to return the movement of goods and people to pre-COVID levels. The increased co-ordination and co-operation seen in 2020 between the region's governments could augur well for the region's recovery if this recent experience can be expanded beyond the crisis and into a range of new activities.

Way forward

How then can the recent, if targeted, improvements in trade facilitation help with the broader recovery effort in Central Asia? In part, improving intra-regional connectivity, especially 'soft' measures such as the harmonisation of border procedures, could have significant positive spill-over effects for many regional development priorities. Indeed, in a region where countries significantly lag the OECD average in the OECD Trade Facilitation Indicators, addressing the factors that make Central Asia's borders "thick" in economic terms will be crucial to making durable improvements to connectivity, and will thereby improve its competitiveness; better co-operation between customs agencies, strengthened enforcement of procedures at customs and expanded digitalisation are the main priorities here. Similarly, the crisis has again shown the importance of intra-regional co-operation in the management of infrastructure and freight to keep crucial trade flows open – the recent OECD-ITF report *Enhancing Freight and Connectivity in Central Asia* highlights, among other things, the potential for creating a regional logistics observatory which might be instructive for how the region's governments could formalise some of the improvements in co-operation made in recent months (OECD and ITF, 2019^[23]).

One notable example of where better connectivity may have significant if indirect impact on the region's recovery is FDI attraction, an ambition of each of the governments in the region. For market-seeking FDI, the individual economies of Central Asia may be too small to warrant consideration in a suppressed global economy, but taken together, the Central Asian market is significant, held back primarily by a lack of internal coherence and connectivity. This logic can also be extended to a range of other sectors where, taken together, the region has a comparative advantage and assets, such as tourism. One positive to come out of a difficult 2020, could be an increased willingness to accept that healthy regional co-operation need not preclude targeted and strategic economic co-operation.



2. Restarting economic growth will require further support to firms and longer-term reforms of the business environment

Context

The COVID-19 pandemic has had tremendous negative effects on business activity, amplified by the confinement and sanitary restrictions, resulting in loss of revenues, closure of shops, disruption of supply chains, liquidity shortages and lay-offs. Uncertainties regarding the course of the pandemic and the prospects for economic recovery continue to undermine investment and confidence. In most of Central Asia, as in OECD member economies, between 60 and 80% of firms have been deeply affected by the crisis, according to surveys by local chambers of commerce and business associations. The impact of the crisis on the private sector, especially on SMEs, which are less able to buffer the shock, has required government support.

During the period of strictest confinement measures, governments developed support packages for SMEs and entrepreneurs involving fiscal and tax measures, simplified administrative procedures and requirements and suspension of audits and inspections. Emergency support financial programmes have been at the core of the policy responses, such as earmarked loan portfolios, loan guarantees and special funds for SMEs and entrepreneurs, where and to the degree that fiscal space allowed. Tax and social security payment exemptions and, in some cases, utility and rent payment deferrals have been employed. Support to SMEs and entrepreneurs has been largely channelled through SME agencies, including DAMU in Kazakhstan and the new SME agencies in Uzbekistan and Mongolia.

Governments in the region have also moved to accelerate the digitalisation of public services and tax administration, which was already under way, helping businesses connect to e-commerce platforms and creating new services, such as cash transfers and issuance of electronic permits for urban circulation during the confinement. Kyrgyzstan, for example, has further implemented digital initiatives and moved more than 80 government services online through the *Tunduk* initiative, while Mongolia has accelerated the development of the e-Mongolia platform and Uzbekistan of online one-stop shops.

Way forward

As the threats and effects of COVID-19 in Central Asia are likely to last, with a second wave hitting several countries, governments should pursue and recalibrate their support schemes for businesses. Some restrictions such as social distancing, constraints on opening hours and number of clients, and mandatory sanitary equipment, have been maintained to contain the pandemic. In addition, businesses will need continued support to reopen and ramp up their activities. Emergency financial support should be reduced gradually and, where discontinued, should be phased out, with clear schedules to help businesses anticipate and adjust. Support to most affected sectors may need to continue: for instance, tax deferrals and financial schemes, especially in transport, catering, hospitality and tourism, could be prolonged until the recovery materialises. Governments could also further support businesses' own digital transition by helping companies move from brick-and-mortar shops to online commerce, providing training programmes to managers and entrepreneurs, financing digital projects through vouchers and grants, and facilitating relations between large digital service providers and smaller firms to help them raise their digital uptake.

OECD member countries have developed large national plans and sets of measures to support business liquidity and survival, which have not been discontinued after the first confinement. If some of these measures have progressively been scaled down, others have nevertheless been extended to help businesses reopen and ramp up their activities, with a focus on the most affected sectors. France has for instance prolonged measures and added new funds to support targeted businesses in the recovery period. The recovery *plan de relance* includes support for digitalisation, additional loan guarantees and grants, export vouchers, new tax decreases and deferrals for firms in the industry and in most affected sectors. All mechanisms have been introduced on a single online business platform and are channelled through the



government or Bpifrance, the French public bank for SMEs. Governments in OECD countries such as Italy, Japan and Korea have supported digitalisation by providing advice and training, free access to services from large IT companies, or subsidies for firms to go online. Over the long term, better digital connectivity and competition with large retailers will also be needed.

Business associations have played a key role during the COVID-19 outbreak and can also help inform policy making and address business needs in the recovery period. They should be involved in consultations on recovery support to firms. They can provide inputs through surveys and business roundtables, help identify the most affected measures and suggest additional measures. They can also promote government support and enhance firms' awareness of, and access to, existing measures.

In the long run, Central Asian countries need to carry out long-overdue structural economic reforms, improve the legal environment for businesses and transition to a more-private-sector driven growth model. Reforming the governance of state-owned enterprises will help reduce distortions induced by state intervention (OECD, 2018^[24]). Enhancing the provision of labour-market relevant skills, not least by improving access to, and quality of, training programmes, will help close skill gaps. Crucial issues for firms in the legal environment include SME regulatory simplification, taxation, dispute settlement and competition. Governments need in particular to close the gap between the *de jure* requirements and the *de facto* implementation and step up their efforts in fighting corruption (OECD, Forthcoming^[25]; OECD, 2020^[26]). This will require better legislation, digitalisation and implementation capabilities, as well as sustained co-operation with businesses and international partners.

3. Employment support measures need to be adjusted to support workers and allow reallocation of workers to essential and viable sectors

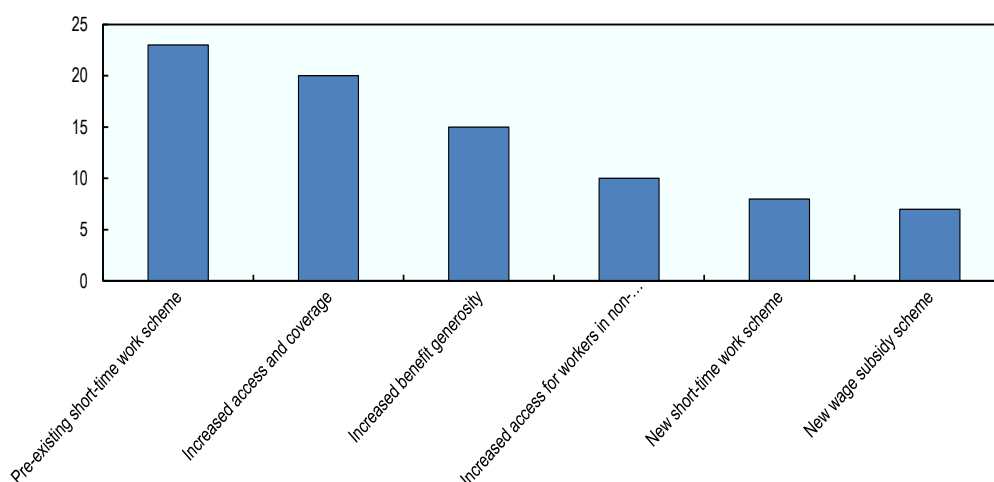
Context

In Central Asia, as in OECD countries, governments moved rapidly to provide immediate support to firms and workers (and to limit unemployment) as soon as the first economic effects of the COVID-19 pandemic were felt (OECD, 2020^[19]). Some countries used direct transfers to entrepreneurs and workers while a few set up job-retention schemes, such as the private employment subsidy scheme in Mongolia (OECD, 2020^[19]). In the late spring, as COVID-19 numbers showed some signs of improvement, most Central Asian countries started easing restrictions to relieve the burden on financially-constrained households and employers. Following a resurgence of cases, restrictive measures were reintroduced over the summer; these again hit employment. Support measures cushioned the effect on the labour market but did not prevent surges in unemployment. The unemployment rate in Kazakhstan increased from 4.8% in 2019 to above 5% during the summer and could reach 6.1% at the end of the year. In Uzbekistan, the government reported an increase by more than 6 percentage points compared to pre-crisis levels, to reach 13.2% during the summer.

OECD governments have tried to help workers in the short-term while trying to support viable jobs in order to accelerate reallocation of employment to high-performance firms and sectors. Governments have used a wide range of instruments during the confinement, including the promotion of training while on reduced working hours, wage subsidies, and the development of short-time work (STW) schemes, complemented with a work resumption subsidy and strengthened monitoring of proper use of STW support (Figure 5) (OECD, 2020^[27]; OECD, 2020^[28]). Job retention schemes are now being wound down progressively for the most part, by decreasing coverage and access, using a clear timetable and adjustment criteria to reduce uncertainty. However, they have been prolonged for targeted sectors where activity remained largely curtailed even after the end of the strictest confinement measures.



Figure 5. With recovery OECD countries have mainly adjusted existing job retention schemes



Source: (OECD, 2020^[27]).

Self-employed and informal workers have borne a heavy burden in Central Asia, where most economies are characterised by high levels of economic informality – particular informal employment but also, in some cases, business informality (OECD, 2020^[19]). Initial public support measures across the region have provided for an increase in the generosity of social safety nets and in-kind support for the most vulnerable. Efforts to tackle informality in the longer run can build on the temporary expansion of sick leave or unemployment benefits to non-standard workers to strengthen their social protection, but first and foremost require governments to address structural labour market issues, including entry barriers for youth, employment incentives and labour law compliance (OECD, 2020^[29]; OECD, 2020^[30]; OECD, 2017^[31]).

Way forward

Active labour market policies (ALMPs) in Central Asia should aim to support workers rather than jobs. This requires targeting sectors where unemployment has risen most, providing workers with a revenue (salary or unemployment benefit in case of lay-off), employment (be it under partial form), and training to avoid any loss of human capital. In a transitory phase, this would allow workers and households to regain revenues, while being in employment or training. As the economic recovery starts, this could help accelerate reallocation of a qualified work force to the sectors that proved viable, or are essential.

To sustain longer-term economic recovery, governments will also need to carry out in-depth reforms to increase employment levels, enhance labour productivity and make labour markets more inclusive. Scaling up ALMPs would include better job matching, improvements of public employment services, more training opportunities, more effective safety nets and income support, and enhanced employment incentives especially for the youth and women. More flexible labour laws can help increase the access of youth, women and older workers to employment, for instance by easing employment protection legislation on dismissal procedures, sector restrictions and retirement, combined with adequate income support and ALMPs, and developing legislation on temporary contracts. Particularly in economies with comparatively high levels of informality, overly constraining labour regulations can entrench labour-market dualism, benefiting “insiders” on strongly protected contracts but leaving the rest in a state of precarity. A more flexible framework – that is less costly to employers but more consistently applied – could help encourage more formal employment creation. Strengthening compliance with labour regulations could also foster



better social protection and formal employment. Kazakhstan, for example, has revised its Labour Code and developed an Employment Roadmap featuring increased ALMPS (OECD, 2017^[28]).

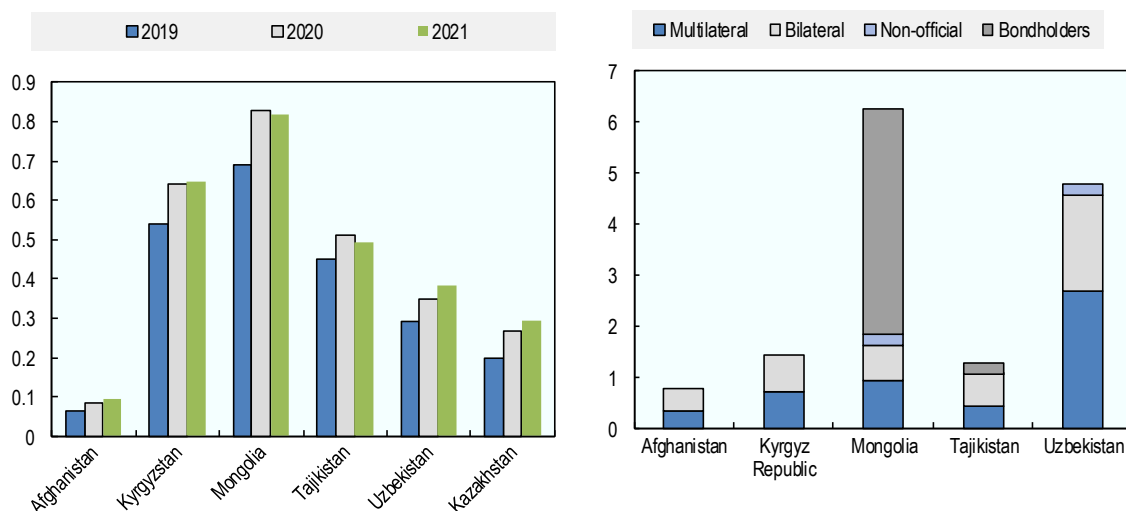
4. Long-term growth will be conditional on sustainable debt and revenue management

Context

The level of indebtedness of Central Asian economies was seen as broadly adequate and sustainable prior to the pandemic. However, the crisis necessitated costly fiscal responses, and hit the region's public budgets particularly hard on the revenue side, given sharp declines in commodity prices and remittances. Currencies came under pressure due to higher expectations of further downside risks (OECD, 2020^[19]). While weaker exchange rates could offer some relief, by increasing the domestic revenue value of export earnings, they also increase debt burdens and reduce the economies' aggregate purchasing power. Debt ratios for 2020 have increased across the region and the full cost to public finances is not yet fully reflected in the most recent data (Figures 6 and 7).

Public debt is expected to increase further and will be carried over the next years, constraining fiscal space and increasing the risk of debt distress for some countries. The increase reflects new borrowing to finance recovery, the contraction of GDP and currency depreciation – even though the current environment of low global interest rates makes borrowing costs less sensitive to debt increases (EBRD, 2020^[32]; OECD, 2020^[29]). Tajikistan, and Kyrgyzstan in particular, face high risks of debt distress, with both countries having been made eligible for the “debt service standstill” from all official bilateral creditors until end 2020, agreed on by the G20 on 15 April (OECD, 2020^[33]). Tajikistan and Kyrgyzstan asked for such a write-off, in particular from China, their largest single creditor (Eurasianet, 2020^[34]).

Figure 6. Debt levels (%GDP) and total debt service across Central Asia



Note: Turkmenistan data non available; Non-official includes bondholders, commercial banks and other private entities.
Source: (World Bank, 2020^[31]).

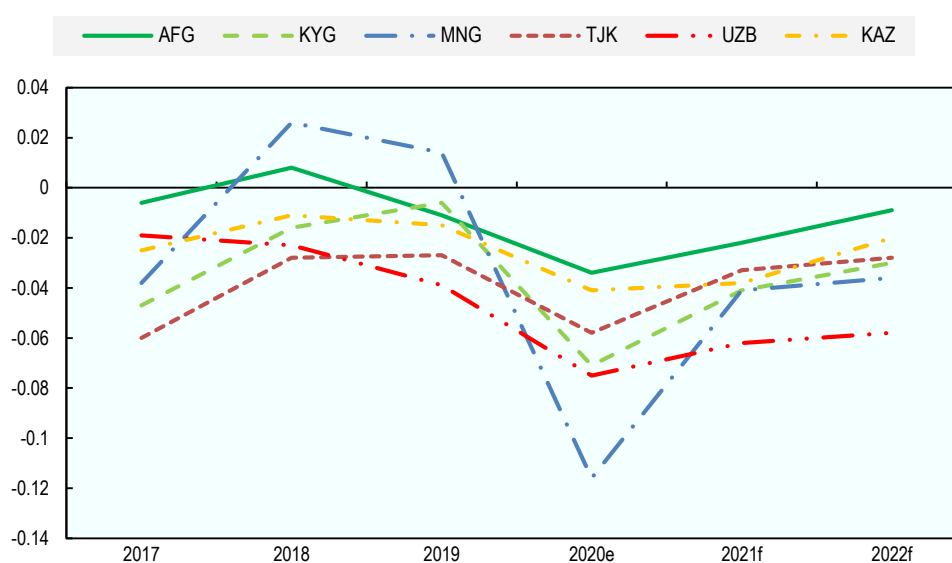
However, debt sustainability in Central Asia needs also to be considered as an issue of state revenue management and exposure to a limited number of creditors. The crisis has severely reduced state revenues across the region. While tax revenue and GDP trends tend to move together, tax revenues tend to decrease faster than GDP in cases of limited or negative growth (Belinga, 2014^[36]). In particular, the value-added tax (VAT), which represents on average 33.6% of budget revenues in Central Asia (compared



to 21.2% in OECD countries), has had a disproportionately large effect on state revenues, in large part thanks to the impact of reduced remittances export revenues on domestic consumption (OECD, 2020^[19]). In addition, persistently low/volatile oil and commodity prices will also continue to have considerable revenue impacts on Central Asia's economies. As a result, general government fiscal balances across the region have been driven into negative territory (Figure 8) (World Bank, 2020^[3]).

Kyrgyzstan and Tajikistan's debt distress risk is high because of increased reliance on short-term, expensive, and sometimes resource-backed borrowing. Such collateralised debt, mainly off budget, raises the risk of debt unsustainability and distress, as such instruments are more difficult to restructure, and influence negatively both future debt servicing capacity and access to concessional financing (OECD, 2020^[19]; OECD, 2020^[29]; Mihalyi, 2020^[38]; Imam, 2019^[39]). In addition, Tajikistan and Kyrgyzstan's debt is particularly exposed to China. Given increasing repayment difficulties with respect to loans undertaken to finance infrastructure projects, China could decide to exercise resource collateral rights, as it did in sub-Saharan Africa. Indeed, despite being a signatory to the G20 agreement, China has so far not acceded to the countries' request for debt write-offs. In addition, the exact amounts and terms of China-held debt (both official bilateral loans and alternative loans channelled through SOEs) remain unclear. Without China's writing-off of Tajikistan and Kyrgyzstan's debt, revenue collection and the ability to service other outstanding loans in both countries would be further weakened (OECD, 2020^[33]; Eurasianet, 2020^[34]; Center for Global Development, 2018^[40]).

Figure 7. General government fiscal balances in Central Asia



Note: Turkmenistan data not available.

Source: (World Bank, 2020^[37]).

Way forward

Looking ahead, current responses to the crisis need to build long-term debt and growth sustainability, calling for new approaches in resource mobilisation and management, focusing on taxation and public finance management. This requires creating fiscal space, reducing debt sustainability risks, corruption and illicit financial flows, and further diversifying their economies. The quality and governance of public financial management should also be improved on issues such as result orientation, multi-year budgeting and budget transparency (OECD, 2018^[41]).



Beyond a necessary diversification of external financing, broadening tax bases, increasing tax compliance, tackling inefficient tax expenditures, moving the tax mix to policies least detrimental to growth and digitalising tax administration should be priorities in ongoing tax reforms. Broadening the tax base, in particular for personal income tax (PIT), social security contributions (SSC) and VAT, could help meet financing needs, and reinforce their sustainability by moving away from volatile revenue sources. A larger review of major taxes and tax incentives could help improve their design and implementation with a focus on consistency, hence raising revenue collection efficiency. First measures in Central Asia could include the introduction of a universal, end-of-the-year tax declaration in all countries, further simplifications and digitalisation of SME tax regimes, and reforms of the SSC system to support social protection systems, which have been under particular strain during the crisis (OECD, 2020^[42]; OECD, Forthcoming^[25]). Most countries have implemented tax deferrals that have proven useful in the COVID-19 context and will need to be reassessed and progressively phased out in the mid-term. In addition, the region should join international tax cooperation efforts, fostering the use of international standards and instruments such as the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting, to effectively tax cross-border activity and offshore assets (OECD, 2020^[43]; OECD, 2020^[19]).

5. Better conditions for migrants and for the use of their remittances could support growth

Context

A lack of quality jobs across much of Central Asia continues to drive high levels of labour migration, particularly to Russia and Kazakhstan. Outward migration reduces the labour-market pressures generated by rapidly expanding labour forces in countries of origin, whilst migrant remittances create a significant source of revenue for both governments and households. In previous crises, the large number of labour migrants has served to some extent as an economic and social buffer for the Central Asian economies, particularly Kyrgyzstan and Tajikistan.

This year, however, the combination of demand- and supply-side barriers to labour migration caused by COVID-19 has overturned this historical pattern, at a cost to migrants, their families and societies, and creating a range of challenges for governments. In the initial stage of the crisis, the closure of borders and lockdown of economic activity stopped migrants traveling abroad for work, reduced the opportunities in the external markets where many already were, and suppressed job opportunities for those remaining in their country of origin. For those staying in Russia, the social and economic impact was severe, and highlighted the particularly acute vulnerabilities endured by migrants compared to formally employed residents. One survey of Central Asian migrants in Russia found that 40% of respondents had lost their job and 75% were forced into unpaid leave, compared to 23% and 48% of the local population (Gurevich and Kolesnikov, 2020^[44]). At the same time, poor living conditions, lower access to healthcare and high levels of informality put those still abroad at greater health risk as well as economic insecurity, with over 90% migrants assumed to be working informally (Rocheva and Varshaver, 2017^[45]).

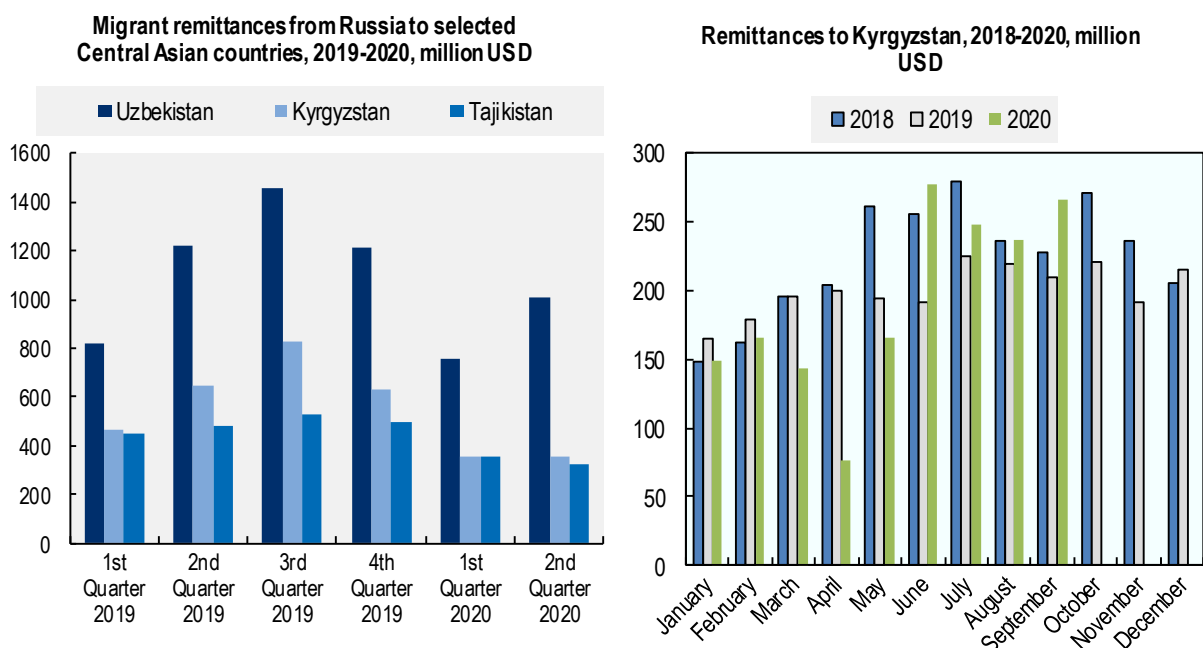
For migrants who attempted to return home, containment measures created a series of further challenges. In one survey of Tajik migrants in Russia, some 46% said that they were unable to return to Tajikistan, while 80% of those still in Tajikistan but seeking to return to Russia were blocked. Border closures have contributed to a range of social and organisational challenges, with thousands of migrants remaining stuck at border crossings, usually in temporary camps (Gershkovich, 2020^[46]). Although their return by land to Tajikistan, Kyrgyzstan and Uzbekistan is dependent on the periodic granting of transit permission from Kazakhstan, more migrants arrive at the makeshift camps by the day. This situation is also causing distress for their families left at home who remain dependent on the transfers from migrants stuck or out of a job.

One of most immediate consequences of labour migration was an abrupt decline in remittances. For both governments and households, remittance income, particularly from Russia, were crucial to sustaining



consumption, with remittance inflows to Central Asia in 2019 amounting to some 15% the region's GDP, and almost a third of that of Kyrgyzstan and Tajikistan. Early data from Kyrgyzstan – the only Central Asian country to release monthly figures in 2020 – show that the initial lockdown in Russia was followed by a sharp decline in remittances received in Kyrgyzstan, with a year-on-year fall of as much as 60% in April alone (Figure 9). While remittance inflows did rebound in Q3, as Russia reopened, data from the Russian Central Bank show that they remain significantly below the levels of 2019, with the average payment similarly reduced. In a region where household savings are minimal, this risks significant immediate consequences for many of Central Asia's most vulnerable; the World Bank estimates that an additional 1.4 million people will likely fall into poverty in Central Asia (using the \$3.20 a day PPP threshold), out of a total of 2.6m people at risk in Europe and Central Asia.

Figure 8. Remittance inflows have bounced back from their early lockdown lows



Source: Quarterly data of the Central Bank of the Russian Federation, National Bank of Kyrgyzstan.

Challenging labour markets and limited fiscal space to provide direct public support to households means that for those migrants able to return or staying in their country of origin, willingly or otherwise, the situation is similarly complicated. So far, migrants have received little financial and social support upon their return, coupled with stigmatisations and a lack of skills hindering their reintegration in the local formal labour market. Initial forecasts anticipate a 10-20% increase in Central Asia's active labour force if migrants' international movements consider to be impeded. That only 32% of erstwhile Tajik migrants could find employment in their own country this year is indicative of the challenges that lie ahead for this vulnerable group. Returning migrants also increased the pressure on already overstretched local health systems. The dispersion of labour migrants across regions within sending countries is uneven, since they tend to come primarily from poorer and more remote areas. For instance, in 2014 it was estimated that around 66% of labour migrants from Kyrgyzstan to Russia originated from the regions of Osh, Baktan and Zhalal Abad, which are home to just 41% of the country's population. In Tajikistan, a little over 45 000 people migrated internally for economic reasons in 2018, yet Khatlon region alone accounted for almost half of these. This points to localised pressures whose importance will only emerge in the months ahead, particularly in places struggling with underfunded health and social infrastructure.



Way forward

Governments across the region must find ways to support labour migrants, both those abroad and those that have returned home. Many migrants require immediate income support, as well as access to healthcare and housing. The governments of those countries in which migrants find themselves temporarily stranded can do much to lessen stress and hardship and lowering the risk of migrants falling into informal and high-risk work by facilitating the legal stay of migrants, calling for regional dialogue. Russia, for example, extended the validity of all work permits until December 2020. This is an important step, but the region's response should be co-ordinated and responsibility shared. Complicated and costly patent procedures for migrants could also be simplified over the long-term (Rocheva and Varshaver, 2017^[45])

The COVID-19 pandemic has also shown the resilience of remittances and migrants, calling for long-term responses to issues and opportunities provided by seasonal migration flows. Governments also need to assess how these volatile remittance flows can be better used to create domestic job opportunities and private sector growth. The OECD's principles for financial education could be leveraged to structure sound national financial-literacy strategies that target current and potential migrants and their families, helping them to make productive use of remittances and use formal financial channels. Despite reservations around the fiscal sustainability of universal social support, experience from a number of Latin American countries suggests that such an approach is in fact a more cost-effective and efficient way of supporting informal workers. Policy-makers in Central Asia may benefit from looking at this experience and assessing its applicability for local contexts (Arnold, Garda and Gonzalez-Pandiella, 2020^[47]). Governments should also provide returning migrants with education and upskilling programmes, particularly on entrepreneurship, to increase local work opportunities as was done for instance in Moldova.

Background: Country effects and responses

Afghanistan

Economic impact. Since July 2020, Afghanistan has slowly but surely advanced its deconfinement process, by reopening schools, borders and internal and international transport. Yet, the lockdown process, as well as both demand and supply side contractions, left Afghanistan's economy in a difficult situation. GDP is set to contract between 5-7.4% in 2020, due to lower outputs in industry and services and drastically declining domestic revenues. The fiscal deficit is expected to widen to 4% of GDP, with development partners pledging to cover half of it. Afghanistan's chamber of commerce reported a 65% decline in exports in April-July, year-on-year and noted that the private sector is struggling to make ends meet as COVID-19 effects coalesce with the declining security situation. A World Bank survey reported that 30% of small businesses have shut down, and 88% reported a decline in sales. The country is faced – for the first time since 1990 – with a declining Human Development Index (HDI). Government estimates show 90% of the population living below the poverty line, linked to declining incomes, staggering unemployment figures (approx. 53%) and rising food prices. A Ministry of Health survey indicated that nearly one third of the country's population had already contracted COVID-19. In addition, an estimated 350 000 returning migrants and continued arm conflict continue to displace people across the country, making it difficult to abide by COVID-19 preventative measures.

Economic support measures. During the lockdown, the government focused its support on the country's expanding vulnerable population, putting in place bread distribution programmes, which reportedly reached up to 90% of the population. With deconfinement and on-going peace negotiations with the Taliban, the government has shifted its priority towards stabilising the economy. The President has proposed a trust fund, mechanisms to exempt firms from tax penalties, and waiving the rent of state-owned properties. Limited government support for firms has been provided so far and stimulus packages for firms are now under discussion. Government support has been bundled within a short-term employment programme, and additional storage facilities which allowed those that were unable to export to store their commodities.



To offset the limited nature of government support, development partners, including the EU and the World Bank, have stepped in with dedicated business support.

Kazakhstan

Economic impact. The COVID-19 crisis hit Kazakhstan both through the consumption channel, resulting from the nationwide and global lockdown, and the revenue side with the sharp decline in oil prices. Overall, GDP is estimated to have contracted by 3% in January-August 2020, investments dropped by 5.2%, and inflation increased due to both supply disruptions and currency depreciation. Unemployment has risen by 0.2% to 5% in July according to official statistics, and is expected to increase to above 6% by the end of 2020. If growth is expected to recover moderately in 2021, Kazakhstan's economy remains vulnerable to a new deterioration of the sanitary situation that would severely affect business activity and employment (World Bank, 2020^[3]; OECD, 2020^[19]).

Economic support measures. The government of Kazakhstan reacted rapidly to the pandemic, designing an anti-crisis package of USD 10 bn (KZT 4.4 trn or about 9% of GDP) to augment the social safety net and support businesses, in particular SMEs (OECD, 2020^[19]). Kazakhstan started deconfining in May, while developing new support and recovery measures. A joint action plan of the government and the National Bank included an additional series of support measures on taxation, digitalisation, public-private partnerships (PPPs), and reforms of the regulatory environment for investments. A "Comprehensive Economic Growth Recovery Plan" was also developed during the summer, providing for an expansion of business financing and concessional lending, together with extensions to the Employment Roadmap. As a second wave threatens the country, a new medium-term growth agenda has been presented, and the creation of a Supreme Council for reforms under the President and an Agency for Strategic Planning and Reforms was announced in September. The country is now adopting a new series of containment measures at regional levels, including lockdowns and mobility restrictions.

According to official statistics, support programmes so far have provided employment to over 750 000 people, and direct income support to about 4.6 million. As of September, banks have granted KZT 160 bn (USD 386 m) in preferential loans to SMEs, while more than 1.6 million people and 11 000 SMEs have received deferral on loan payments (about KZT 360 bn or USD 870m). Tax incentive measures have benefited more than 270 000 companies and individual entrepreneurs (World Bank, 2020^[48]). The DAMU Fund alone has supported more than 7000 entrepreneurial projects for a total of KZT 566 bn (USD 1.3 bn) during the COVID-19 crisis.

Kyrgyzstan

Economic impact. COVID-19 has had an immediate and severe impact on the economy, with GDP falling by 5.9% year-on-year in January-July, the sharpest downturn in Central Asia over that period (World Bank, 2020^[3]). Despite a loosening of restrictions, economic activity remains suppressed, with workplace activity 30% lower than the beginning of the year and retail activity 20% lower. A lower trade deficit masks the deteriorating picture of Kyrgyzstan's external position. Except for a slight increase in gold exports, trade has been significantly reduced, with external trade falling by 22% in the first half, with a 33% drop in exports to China. Kyrgyzstan's tourism sector nearly vanished amidst the pandemic (decline by 90%). At the same time, imports fell by over 50% the first seven months relative to the same period in 2019, to just USD 825m. Domestic revenue collection and customs revenues have fallen sharply due to reduced trade and suppressed commodity prices, lower domestic consumption and the impact of mobility restrictions imposed to limit the spread of the virus. By mid-May, the Ministry of Finance anticipated a 20% revenue shortfall for the year, with increased spending on health and social assistance pushing the fiscal deficit to 7.4% of GDP in the first half of 2020, up from 0.3%. Though the drop in remittances has not been as dramatic as initially feared, inflows are down 13% year-on-year, which will have hit household finances and increase the risk of poverty for many. Returning labour migrants and domestic contraction have led to an increase in



unemployment, with worst-case scenarios estimating a surge of up to 21%. The World Bank expects the poverty rate to increase by 5.8 percentage points in 2020. The country's path to recovery also depends on political stability. Street protests in early October resulted in the annulling of the 4 October parliamentary elections, a change of government and the resignation of the president. The prospect of fresh parliamentary and presidential elections has heightened uncertainty.

Support measures. After the adoption of the *Act on New Economic Freedom* in April, including measures to enhance the business environment, the government put in place an Anti-Crisis Fund. It offers fiscal stimuli for export oriented SMEs, on top of temporary taxation and debt-service relief measures for all firms. Poor and vulnerable groups in society heavily depend on their monthly payment from the Social Fund. To counter the surge in prices, which particularly affected vulnerable households, the government is aiming to regulate coal prices. The National Bank has remained responsive throughout the crisis, and is now cushioning the financial system's adjustment, by selling forex reserves and purchasing locally produced gold. The government is also mobilising foreign aid to support the country's declining fiscal situation and to restructure debt repayments. The World Bank for instance is providing emergency financing for up to 65 000 MSMEs. Other development partners have offered their support, but the irregular transfer of power in October has also had an impact on donor relations, adding to the economic pressure and the uncertainty surrounding debt relief and budget support.

Mongolia

Economic Impact. GDP is expected to contract this year by around 2.4%, in stark contrast to the pre-COVID projection of 5.4% growth. Mongolia remains heavily reliant on commodity exports and COVID-19 has further reduced both commodity prices, which had been declining before the outbreak, and external demand. Mining exports to China, the main destination of Mongolian exports, fell by about a third in the first half, year-on-year, though China's rebound is clearly good news for Mongolia. Strict containment measures have been effective in limiting the number of cases to around 300, but they have come at the price of reduced trade, mobility and business operations, especially for local firms. More than two-thirds of businesses have been affected by the pandemic according to the Mongolian Chamber of Commerce and Industry. Fallen revenues and the magnitude of the policy response have further aggravated general government and external debt, which stood at 72 and 220% of GDP, respectively, even before the pandemic. While external debt is overwhelmingly in foreign currency, it is mainly long-term. Nevertheless, the external financing need is large.

Support measures. The government adopted a rapid and steady policy response to COVID-19, closing borders and putting in place strict confinement and sanitary measures. A national package made of seven key measures, ranging from an employment support scheme to tax exemptions, was implemented early on. It was later complemented by additional socio-economic and sectors-specific measures and laws. Health capacities were increased, including by the creation of field hospitals. In September, the government designed a *National Action Plan 2020-21* to support economic recovery and mid-term development. The digital programme e-Mongolia has also been accelerated. The Bank of Mongolia has also played a key role by decreasing the policy rate from 11% to 9% and supporting liquidity and provision of credit to businesses. While most restrictions have been progressively lifted, the country has maintained a heightened state of readiness until the end of the year, and taking *ad hoc*, selected containment measures such as the closure of two border points with Russia late October.

Tajikistan

Economic impact. The global health crisis has had a significant impact on a number of Tajikistan's key economic drivers, with real GDP growth projected to fall to 1.6% in 2020, down from just under 7% in 2019. The most significant impacts on the country's economy have come through trade disruptions, lower migrant remittances and a concomitant slump in domestic consumption, and lower commodity prices for many of



the country's main exports. One immediate consequence of the slowdown is a possible reversal of much of the progress in reducing the national poverty rate, which in 2019 had fallen to 26.3% of the population. In 2020, the World Food Programme estimated that some 47% of Tajiks were living on less than USD 1.33 per day, with a third of the population suffering from malnutrition. The disruptive impact of the pandemic on supply chains and business has led to significant food price increases, creating a difficult situation for many households in what is already the region's poorest country in per capita terms.

The impact on the country's labour market has also been substantial. A large informal sector, with only 13% of the workforce formally employed by the private sector in 2017, and the significant number of labour migrants working abroad have created additional challenges in administering support to those that need it most, whilst building pressure on local labour markets. Given the high rates of informality, it is disappointing if not surprising that the World Bank calculated that only 5% of households received government aid as of August 2020 (World Bank, 2020^[49]). The estimated 500 000 Tajik migrants working in Russia in 2019 generated remittance inflows equivalent to around one-third of GDP; in March 2020, inflows were 50% lower than in March 2019.

This significant collapse in remittance payments has not only led to lower levels of consumption and growth, it may have serious implications for the country's current account balance. More worryingly, the fall risks squeezing the most vulnerable at time where they are most at risk – according to the World Bank, two out of five households had reduced their food consumption during the peak of the pandemic. The deteriorating economic situation is likely to have a significant impact on public finances. Public debt is projected to increase to 51% GDP in 2020 from 45.2% in 2019, with the fiscal deficit growing to 2.3% GDP. Despite these constraints, the government has moved ahead with promised public sector wage and pension increase, though forecast inflation in 2020 of 10% is likely offset them to a significant extent.

Support measure. Despite acknowledging the threat of the pandemic to the country's economy rather late, the government has now undertaken a range of measures to support the private sector and households. The government continues to implement an Action Plan to reduce the impact of external risks to the national economy. The programme of support has so far focussed on providing food security and price stability of staple goods, ensuring timely delivery of social assistance and supporting vulnerable segments of the population. At the same time, the government has also provided a number of non-monetary support to the private sector and households, with a number of tax benefits to SMEs, postponement of non-tax audits of businesses and attracting financial assistance from IFIs. The government has also postponed a number of anticipated changes, such as the increase in utility tariffs, whilst instructing commercial banks to restructure loans and drop penalties for missed payments.

Turkmenistan

Economic impact. The government reports no cases of COVID-19 in the country. Nevertheless, a high reliance on trade combined with Turkmenistan's small private sector and concomitantly narrow domestic tax base means that the economy is extremely vulnerable to deterioration in external conditions. The dramatic drop in demand for and value of the country's main export product – natural gas – has had a profound impact, with real GDP growth expected to drop to 1.8% in 2020, down from 6.3% in 2019 on the official data. The large presence of the state in the economy, which may lead 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^[50]). With natural gas accounting for over 90% exports and China accounting for 80% of trade, any drop in demand from China will have immediate and serious consequences for public finances, undermining the government's ability to commit to necessary long-term market adjustments as well as undertaking export-oriented investment. Initial data from China suggests that imports of natural gas from Turkmenistan fell by 27% in the first eight months of 2020, implying a significant reduction of trade revenues for the government. While China's apparent rebound is clearly good news for Turkmenistan, the path to recovery will still be difficult and subject to important downside risks.



Policy responses. Despite the government claiming that there are no cases of COVID-19 in the country, a range of containment measures designed to restrict the movement of people and goods were implemented in early summer and remain in place as of October 2020. All ground transportation between regions has been stopped, with a lack of clarity from the government regarding under which conditions such restrictions will be lifted. Whilst all international travel to Turkmenistan remains banned, with the exception of repatriation flights, internal air travel continues to operate, albeit at a reduced capacity. With air travel now the only means of inter-regional travel within the country, ticket prices have reportedly risen fifteen-fold.

The government has implemented a number of measures to offset the impact of COVID-19 on the economy. Many of these measures, though, will reinforce long-standing concerns surrounding currency controls and convertibility, at a time where the international investment environment will be increasingly crucial to long-term recovery. All firms are to be required to sell 100% of foreign currency earnings to the Stabilisation Fund, an instrument first established in 2008, which would be held at the Central Bank. Under a presidential decree, all foreign earnings are to be repaid to firms at the over-valued official exchange rate, implying substantial reduction in real earnings. On 8 May, the President gave an address in which he indicated that the current crisis could 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^[51]). He instructed 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 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.

Uzbekistan

Economic impact. For the first time in over two decades, growth dropped close to zero in early 2020, as investments fell by 12.8% during the first half and poverty levels rose. Unemployment jumped from 9.4% to 15% between the two first quarters of 2020. Nevertheless, increased gold production and prices, and the resilience of the agricultural sector have softened the decline in industrial and service sectors. Meanwhile, new lockdown measures since summer have slowed the recovery in employment and business activity, reducing the outlook for a quick recovery in 2021 (World Bank, 2020^[3]; OECD, 2020^[19]). At the beginning of September, the government revised its 2020 growth forecast downward from 5.5% to 2.2%, though the IMF and World Bank remain more bearish, forecasting growth of 0.7% and 0.6% respectively.

Support measures. The government reacted quickly and in proportion to the shock experienced by the economy. An Anti-Crisis Fund of UZS 10 trn sum (EUR 950 m or 1.5% of GDP) was created to cover immediate social needs and to support businesses and employment. Since February, a total of about 2.5% of GDP has been spent, accounting for a cumulative increase in social payments of 17% and of minimum wages by 10% (OECD, 2020^[19]). After an early deconfinement in May, and faced with the resurgence of the pandemic since, Uzbekistan has reintroduced quarantine measures and sanitary restrictions. During the summer, additional support measures were developed, mainly extending measures developed under the initial package and expanding unconditional income support measures for households. According to official data to July, UZS 2.3 trn of tax incentives were provided to economic sectors, and by the end of August, USD 6.1 bn had been spent, mostly to support businesses and household incomes through the Anti-Crisis Fund. In early September, the government adopted a large-scale post-crisis programme for 2020-21, with a focus on restoring investment and economic activity, and creating conditions for further economic reforms. The plan will be implemented in two stages, with a focus on stabilisation and recovery until the end of 2020, before moving to structural reforms in 2021 (Government of Uzbekistan, 2020^[52]).



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