KAZAKHSTAN

Highlights

- **The economy is recovering, albeit gradually.** Real gross domestic product (GDP) grew by 3.0 per cent year-on-year in the first three-quarters of 2021, driven by the recovery of domestic demand thanks to government stimulus policies and rising commodity prices. However, growth continues to be negatively affected by recurring domestic restrictions to contain the spread of Covid-19, and rising inflation and real estate prices are a growing concern.
- **The Comprehensive Plan for Economic Recovery has been extended until the end of 2021.** It includes more than 160 measures related to, among other things, investment promotion, support for small and medium-sized enterprises (SMEs), labour market, digitalisation, efficiency of fiscal revenues and the financial sector.
- **A National Development Plan through to 2025 has been adopted.** The plan rests on three main pillars: citizen welfare, quality of institutions and a strong economy. The government seeks, among other things, to strengthen the healthcare system, reduce the state's footprint in the economy, put in place an effective industrial policy framework, and promote digitalisation and the transition to a green economy.

Key priorities for 2022

- **Fiscal support measures need to be better targeted.** State support was extensive even before the Covid-19 pandemic-related crisis. To better use scarce financial resources and encourage green investment and innovation, the government should design policies to deliver private-sector support in a targeted way using market-based incentives.
- **The authorities should step up efforts to build resilience.** The healthcare system's capacity should be further strengthened, with an emphasis on commissioning new hospitals and increasing the supply of medical equipment. To bolster food security, it is desirable to improve the organisation of the agriculture sector and enhance its climate resilience – an urgent challenge illustrated by the severe drought plaguing Kazakhstan and the region in 2021.
- **Efforts are needed to improve inclusion across regions and for vulnerable population groups.** Reforms in education and vocational training need to accelerate, with a focus on digital skills. The government should take advantage of the opportunities offered by rapid advances in remote working and learning to improve the quality of training and education available for workers in need of upskilling and reskilling.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	4.1	4.1	4.5	-2.6	3.6
Inflation (average)	7.4	6.0	5.2	6.8	7.7
Government balance/GDP	-4.3	2.6	-0.6	-7.0	-2.5
Current account balance/GDP	-3.1	-0.1	-3.6	-3.7	-1.0
Net FDI/GDP [neg. sign = inflows]	-2.8	-0.1	-2.0	-2.3	-2.5
External debt/GDP	100.7	90.0	87.5	96.7	n.a.
Gross reserves/GDP	19.3	18.1	16.1	21.0	n.a.
Credit to private sector/GDP	29.1	25.9	24.2	25.8	n.a.

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Covid-19: macroeconomic implications

Real GDP grew by 3.0 per cent year-on-year in the first three-quarters of 2021. The recovery was enabled by fiscal support measures and expansion in private consumption. Growth in real wages and consumer lending, together with stimulus measures, benefited household demand. Fixed investment remains sluggish due to the contraction in the mining sector but it has been growing outside of mining. Growth is held back by domestic restrictions to contain the spread of Covid-19 and a reduction in mining output to comply with Organization of the Petroleum Exporting Countries Plus (OPEC+) agreements.

Inflation is inching up. The inflation rate rose from 7.5 per cent year-on-year in December 2020 to 8.9 per cent year-on-year in September 2021, fed by rising international food and commodity prices, as well as pent-up demand fuelled by social transfers and other stimulus measures. Real estate prices surged, driven by increased mortgage lending and people spending their retirement savings (allowed from January 2020). Credit growth accelerated to 16.0 per cent year-on-year in August 2021 from 8.0 per cent a year ago. The central bank responded to inflationary pressures by hiking the policy rate stepwise from 9.0 to 9.25 per cent in July 2021, to 9.5 per cent in September 2021, and to 9.75 per cent in October 2021. The exchange rate bottomed out in early April 2021 after a short bout of depreciation triggered by new sanctions imposed on Russia, but is currently stable.

The current account was in deficit in the first half of 2021. Preliminary estimates show a deficit of US$ 1.7 billion in January to June 2021 compared with US$ 0.8 billion a year ago. This is due to a surge in net investment income payments made to foreign direct investors (up by 43 per cent year-on-year) and growing consumer goods imports (27 per cent year-on-year). The export of goods rose by a modest 3.4 per cent year-on-year, driven by non-oil exports.

Economic growth is forecast to accelerate in the short term. Real GDP is expected to grow by 3.6 per cent in 2021 and 3.8 per cent in 2022, supported by higher oil prices, fiscal stimulus and recovery of private consumption. Significant downside risks remain, however, including those related to the path of Covid-19 infections.

Policy response to Covid-19

Measures to support SMEs are continuing in 2021. Credit support, tax and loan payment deferrals for SMEs have been extended. Concessional lending (at 6.0 per cent) is provided via state programmes such as the Employment Roadmap, the Business Roadmap and the Economy of Simple Things. There are also tax incentives in agriculture, tourism, transport and catering. A special retail tax regime was introduced in early 2020 for SMEs in sectors most affected by the Covid-19 pandemic, substituting a 3.0 per cent corporate income tax (on gross income) for social tax and value added tax (VAT) payments.

The Comprehensive Plan for Economic Recovery has been extended until the end of 2021. It includes more than 160 measures targeting, among other things, investment promotion, SME support, the labour market, digitalisation, the efficiency of fiscal revenues and the financial sector. Revisions to the 2021 budget include additional spending to support the fight against Covid-19 within a broader stimulus package. The overall fiscal stimulus package in 2021 amounts to about 1.6 per cent of GDP.

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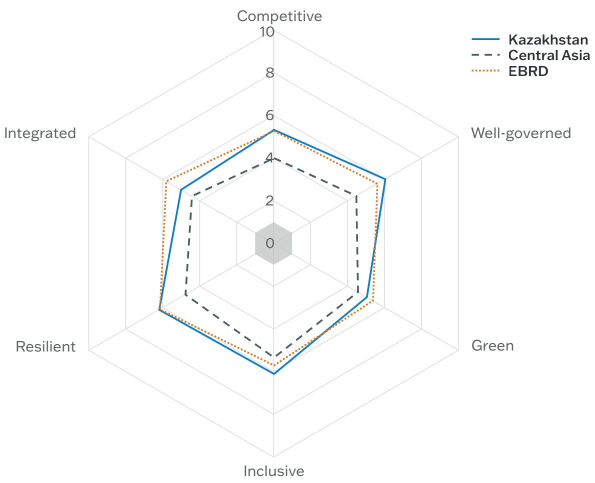
Assessment of transition qualities (1-10)



Structural reform developments

Major development programmes are envisaged in the coming years. The overall fiscal framework for 2022-24 and the proposed 2022 budget remain somewhat expansionary, to accommodate the ruling party's development programmes and social welfare commitments. The government plans major increases in healthcare, education and social spending, which are likely to add to inflationary pressures (although the government is projecting an actual slowdown in inflation from 6-7 per cent in 2021 to 4-5 per cent by 2024). These extra expenditures will be partially balanced by cuts in spending on municipal infrastructure and transport.

A new National Development Plan through to 2025 is in place. The plan, adopted in March 2021, is built on three main pillars: citizen welfare, quality of institutions and a strong economy. The government will seek, among other things, to strengthen the healthcare system, reduce the state's footprint in the economy, put in place a new industrial policy framework, and promote digitalisation, trade and financial integration, regional development and green economy transition. Key targets to be achieved are 5 per cent annual real GDP growth by 2025, a doubling of non-extractive exports and increasing the share of SMEs in GDP to 35 per cent.

The government is committed to restarting privatisation through a programme for 2021-25. Due to the Covid-19 pandemic and the associated deterioration in market sentiment, initial public offerings of KazMunaiGas (the national oil and gas company), Air Astana (the national airline), KazPost (the national postal operator) and Kazakhstan Temir Zholy (the national railways), initially planned for early 2020, were postponed until 2021-23. The new plan envisages privatising 736 state assets (including subsidiaries). Fifty per cent of enterprises will be privatised in 2021, 30 per cent in 2022 and the rest in 2023-24, according to the plan. The target is to reduce the share of state-owned enterprises (SOEs) in the economy to 14 per cent of GDP by 2025.

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Kazakhstan is making progress on the green economy agenda. In December 2020 the president announced the country's commitment to reaching carbon neutrality by 2060. As part of this journey, the country will accelerate transition to renewable energy sources and will plant two billion trees in the next five years to increase carbon absorption. In addition, the new environmental code, effective since July 2021, makes climate change adaptation a legal norm for sectoral and regional policy planning. The 50 largest companies, accounting for 80 per cent of emissions in Kazakhstan, are expected to upgrade to the best available technologies by 2025.

Bitcoin mining has gained prominence due to favourable regulation and low electricity prices. The growth in mining has also been given impetus by new restrictions imposed on cryptocurrency use in China since May 2021. Mining in Kazakhstan has reportedly made up about 8.2 per cent of the average monthly Bitcoin hash rate, ranking third behind China and the United States of America as of April 2021. The regulatory framework has been conducive to investment: the law on the regulation of digital technology has legalised the process of cryptocurrency mining and participation in the global cryptocurrency industry. Cheap electricity (KZT 8 per kilowatt hour (kWh)) is another major incentive for foreign investment in the area. The authorities signed a law on taxation of crypto miners in June 2021, according to which, starting in January 2022, registered miners will be charged an extra KZT 1 (US$ 0.0023) per kWh.

KYRGYZ REPUBLIC

Highlights

- **The economy is recovering but gold production has dropped.** Real gross domestic product (GDP) expanded by 0.1 per cent year-on-year in the first three-quarters of 2021. However, gold production and exports declined significantly. Remittances are surging, supporting domestic demand. Services are recovering, while labour-intensive agriculture contracted in January-September 2021 due to drought.
- **A new tariff policy for heat and electricity has been proposed.** Once implemented, the policy would see a gradual increase in tariffs to achieve cost recovery by 2025. Substantial tariff reforms have been adopted in the past few years but have not been implemented consistently because of concerns about affordability and potential political repercussions.
- **Construction of the CASA-1000 electricity transmission line in the Batken region has started.** The project, with a total cost of US$ 1 billion, will help unlock the hydropower potential of Central Asia and significantly reduce carbon emissions in the region.

Key priorities for 2022

- **The immediate priority is to continue supporting sectors affected by the Covid-19 pandemic and sustain private-sector employment.** Beyond this immediate need, the country should improve the conditions for investment in the labour-intensive sectors of the economy, such as hospitality, modern agriculture, and the garment and food processing industries. At present, the economy is dependent on aid and remittances (about 30 per cent of GDP), with Russia's economy serving as a safety valve for pressures building up in the Kyrgyz labour market.
- **Fiscal consolidation is urgently needed.** Public debt rose from 51.6 per cent to 68.0 per cent of GDP in 2020, of which external public debt (58.3 per cent of GDP) is on concessional terms. To reduce the debt burden to manageable levels, the government should downsize non-priority spending. The authorities should streamline the tax and customs administration, optimise the public sector wage bill (at 13 per cent of GDP, it is one of the highest in the region, about 30 per cent of government expenditure) and reduce energy subsidies (as part of the recently announced tariff reform).
- **Issues surrounding the Kumtor gold mine should be resolved.** It is critical that the government restores the country's access to global gold markets and addresses foreign investors' concerns resulting from the appointment of external management in the Kumtor Gold Company in May 2021.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	4.7	3.5	4.5	-8.6	2.5
Inflation (average)	3.2	1.5	1.1	6.3	12.0
Government balance/GDP	-3.7	-0.6	-0.1	-3.3	-4.0
Current account balance/GDP	-6.2	-12.1	-5.6	4.5	-6.0
Net FDI/GDP [neg. sign = inflows]	1.4	-1.7	-2.5	4.0	2.0
External debt/GDP	91.0	83.8	82.7	89.9	n.a.
Gross reserves/GDP	28.3	26.6	28.7	29.9	n.a.
Credit to private sector/GDP	21.4	23.4	24.6	28.5	n.a.

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Covid-19: macroeconomic implications

Economic growth is being held back by a major drop in gold production and exports. The economy is recovering from the lows of the 2020 recession and real GDP posted a small growth of 0.1 per cent year-on-year in the first three-quarters of 2021. Recovery is constrained by a major contraction of gold exports (down 2.9 times year-on-year in January-August 2021, and that is despite Jerooy, the country's second-largest gold mining project, moving to production in March 2021). On top of that, on 17 September 2021, the London Bullion Market Association (LBMA) temporarily suspended Kyrgyzaltyn, the country's state-owned gold producer, from its list of acceptable refiners. LBMA's decision may also restrict Kyrgyzaltyn's access to other gold hubs, including Switzerland and New York. On the positive side, GDP excluding Kumtor grew by 3.6 per cent year-on-year in the first three-quarters of 2021, driven by growth in retail trade, transport and communication. Agriculture was down by 5 per cent year-on-year in the same period, due to drought. Services expanded by 5.7 per cent year-on-year, enabled by the increased inflow of remittances (up 21 per cent year-on-year in US dollar terms in the first eight months of 2021) and the easing of lockdown measures.

Inflation is rising. Inflation has been consistently above the central bank's target corridor of 5-7 per cent so far in 2021, reaching 13.5 per cent in September 2021. This trend reflects rising global food prices along with the remittance-financed surge in consumer demand. To quell inflationary pressures, the central bank raised the policy rate stepwise from 5.5 to 6.5 per cent in April and to 7.5 per cent in July 2021.

International trade has strongly rebounded. Imports in the first eight months of 2021 increased by 41 per cent year-on-year, driven by major increases in clothing and accessories (up by a factor of 4.3 (x4.3)), knitted fabrics (x2.7), and threads and fibres (x1.8), reflecting positive dynamics in the country's textile production and re-exporting activity. Including gold, total exports in January-August 2021 were down 19.5 per cent year-on-year.

The economy is expected to grow moderately in 2021. A projected 2.5 per cent growth rate is fuelled by a strong recovery in remittances from Russia and growth in private consumption, which will positively affect the services industry. However, fixed investment is expected to remain subdued in 2021 due to political risks and investment climate concerns resulting from the government's decision to take temporary control of Kumtor in May 2021 and the ratcheting up of inspections and regulatory pressure on medium-sized businesses. Real GDP growth is projected to accelerate to 5.0 per cent in 2022. Significant downside risks are associated with the Covid-19 pandemic continuing to weigh on the hospitality sector in 2022 and the Kyrgyz Republic's future ability to access global gold markets.

Policy response to Covid-19

Additional measures to support economic recovery were adopted in February 2021. They are outlined in the Plan of Priority Measures to ensure social stability and economic sustainability. First, the plan seeks to improve the quality and increase the number of electronic government services available to the public. Second, to aid businesses, the government will simplify administrative procedures and invest in the automation of customs and tax processes. Third, to ensure the healthcare system is resilient to future waves of the Covid-19 pandemic, the government will intensify the vaccination campaign and introduce preventive measures in schools to curb the spread of coronavirus.

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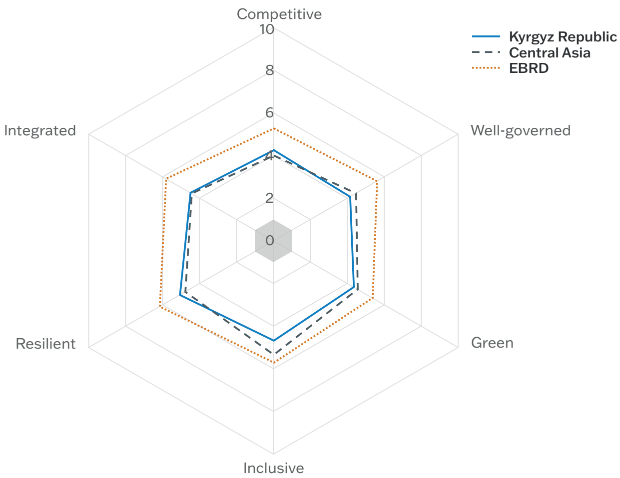
An export ban on some food, medical and pharmaceutical products was introduced in November 2020. The ban on food exports was extended in June 2021 for another six months. The list of restricted items include wheat, wheat flour, sugar, rice, vegetable oil and chicken eggs. In addition, imports of granulated sugar and refined vegetable oil were exempt from value added tax (VAT) until the end of August 2021 for private-sector companies, and until the end of December 2021 for the State Material Reserves Fund. Enterprises processing certain domestic agricultural inputs (such as flour from cereals, vegetables and nuts) only need to pay 20 per cent VAT. Medicines and pharmaceutical products are also subject to a temporary export ban to ensure adequate domestic supply.

Assessment of transition qualities (1-10)



Structural reform developments

A new tariff policy for heat and electricity for 2021-25 was announced. Stalled for at least a decade due to concerns about affordability and potential political repercussions, this reform, announced in June 2021, envisages a gradual increase in tariffs to achieve cost recovery by 2025. A new constitution and the shift to a presidential system could make it easier to implement necessary energy reforms. At the moment, the Kyrgyz Republic has one of the lowest electricity tariffs in the world, leading to inefficient use of energy, severe under-spending on maintenance and new investment, as well as poor supply reliability and quality. In 2021 the electricity deficit is forecast at around 3 billion kilowatt-hours (to be covered by electricity imports from Kazakhstan, Turkmenistan and Uzbekistan).

Overzealous anti-corruption efforts are being reined in. Implementation of the new Anti-Corruption Strategy for 2021-24 had led to a wave of tax audits targeting the country's medium-sized businesses, which many in the business community viewed as harassment. In June 2021 President Sadyr Japarov issued a decree shutting down the notorious Anti-Corruption Committee under the State Security Council, and announced the government's intention to streamline the tax, judicial and law enforcement systems with an eye to stopping business harassment and improving the country's investment climate. Corruption is seen as a major obstacle to private-sector development, as the Kyrgyz Republic ranks 124th out of 180 countries on Transparency International's Corruption Perceptions Index in 2020.

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A new tax code is being developed to simplify tax administration and reduce informality. The new tax code envisages simplifying VAT refunds and reimbursements and developing an alternative approach to resolving tax disputes. Tax administration procedures will be streamlined to reduce the scope for interpretation and eliminate inconsistencies in applying legal norms and requirements. This is an important reform for the country as the current tax administration is complicated and tax compliance costs are very high.

Construction of the CASA-1000 project has begun. This project, which started in the southern part of the country in February 2021, will facilitate the export of hydropower from the Kyrgyz Republic and Tajikistan to and through Afghanistan and to Pakistan. CASA-1000 could provide substantial revenues to the Kyrgyz Republic and Tajikistan with minimal impact on regional carbon emissions. However, recent instability in Afghanistan has placed a significant degree of uncertainty over its prospects.

The banking sector remains resilient despite deteriorating asset quality. Weakening asset quality is manifested in rising non-performing loan ratios (11.4 per cent in June 2021 versus 8.1 per cent in January 2020). Nevertheless, the banking sector remains resilient with the capital adequacy ratio at 22.9 per cent as of the end of March 2021 and the liquidity ratio at 65.5 per cent. Both indicators are well above the ratios set by the central bank.

MONGOLIA

Highlights

- **The economy is firmly on the road to recovery following a major recession in 2020.** Driven by the mining sector, the economy grew by 6.3 per cent year-on-year in the first half of 2021 thanks to strong demand from China and elevated commodity prices.
- **A comprehensive stimulus plan to protect health and revive the economy was approved in February 2021.** Largely financed by the central bank, the package (around 27 per cent of gross domestic product (GDP)) will be implemented in 2021-23. It includes measures to improve access to credit, save jobs, provide housing and promote manufacturing, agriculture and non-mining exports.
- **The Bank of Mongolia has progressed on banking sector reforms.** Amendments to the banking law will require the five systemically important banks to conduct initial public offerings (IPOs) in the stock market and become public companies by June 2022, with a cap on bank shareholder rights at 20 per cent.

Key priorities for 2022

- **The social and economic effects of the Covid-19 pandemic need to be mitigated while strengthening fiscal buffers and avoiding the risk of overheating.** The government should continue to protect those most affected by the Covid-19 crisis through job creation and expanded social protection. At the same time, government priorities should focus on gradually withdrawing excess liquidity and increasing savings held in sovereign wealth funds.
- **It is critical to reach an agreement with Rio Tinto on the Oyu Tolgoi (OT) copper and gold mine.** Resolving outstanding issues with OT will be vital to increasing the country's benefits from investment in the mining sector, attracting more foreign direct investment (FDI) to Mongolia and helping to sustain high growth rates.
- **Banking sector reforms should advance further but take into account the absorption capacity of domestic capital markets.** Ambitious IPO targets for the five systemic banks should be balanced against the currently small liquidity of the Mongolian Stock Exchange, which makes it challenging to absorb upcoming large equity offerings.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	5.3	7.2	5.1	-6.5	6.1
Inflation (average)	4.3	6.8	7.3	3.7	6.5
Government balance/GDP	-3.8	3.0	0.9	-9.8	-6.0
Current account balance/GDP	-10.1	-16.8	-15.6	-5.1	-8.0
Net FDI/GDP [neg. sign = inflows]	-13.1	-14.9	-17.6	-13	-14.0
External debt/GDP	245.4	235.3	221.0	246.0	n.a.
Gross reserves/GDP	26.4	27.1	31.4	35.0	n.a.
Credit to private sector/GDP	53.1	55.7	49.6	46.4	n.a.

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Covid-19: macroeconomic implications

Mongolia recorded real GDP growth of 6.3 per cent year-on-year in the first half of 2021. Growth was driven by the mining sector thanks to higher demand from China and elevated commodity prices. Exports rose by 25 per cent year-on-year in the first seven months of 2021 thanks to strong performances in iron ores and concentrates, copper concentrates and coal. Overall, mining output increased 34 per cent year-on-year in the first seven months of 2021. Services grew by a much more modest 3.0 per cent year-on-year. Agriculture was down by 4.6 per cent year-on-year due to large losses in livestock. Mongolia has one of the highest vaccination rates in the world: by late June 2021 more than 60 per cent of its population had been fully vaccinated.

The Bank of Mongolia loosened monetary policy and banking regulations. During 2020-21, the central bank reduced the reserve requirement by 2 percentage points, suspended the debt-service-to-income ceiling on consumer loans, provided longer-term financing to the banking sector and introduced temporary forbearance measures (softening asset classification requirements, extending maturities on consumer and mortgage loans, and restructuring business loans in the banking sector). The policy rate has been kept unchanged at 6.0 per cent since November 2020, supporting credit expansion (up 12 per cent year-on-year in July 2021). With the economy recovering, inflation accelerated to 9.0 per cent in August 2021 from a low of 2.3 per cent in December 2020. This is still within the central bank target corridor of between 4 and 8 per cent.

Reserve coverage has improved significantly. Since January 2020 the local currency (MNT) has lost 5 per cent against the US dollar, but it has been flat since September 2020. Gross international reserves are now at US$ 4.7 billion, having dipped as low as US$ 2.3 billion in spring 2020 due partly to a Eurobond repayment of US$ 500 million by a commercial bank. Reserves have since recovered, providing nine-month import cover, thanks to strong import compression, robust growth in gold exports, the recovery of coal and copper exports to China, as well as borrowing from international financial institutions and Eurobond issues. However, international reserves include a large borrowed component (swaps with domestic banks and China).

GDP is expected to grow strongly in the short term. Real GDP is forecast to expand by 6.1 per cent in 2021 and 6.5 per cent in 2022, supported by China's demand for Mongolia's key exports, higher private and public consumption and the recovery of FDI, which is contingent on the successful conclusion of negotiations over OT, Mongolia's largest FDI-financed project. Fiscal policy will support growth in 2021, with the budget deficit planned at 5.1 per cent of GDP.

Policy response to Covid-19

A comprehensive stimulus plan to protect health and revive the economy was approved. Largely financed by the central bank, the new package, approved in February 2021 and amounting to around 27 per cent of GDP, will be implemented in 2021-23. It includes measures to increase access to credit, promote manufacturers and business industries, save jobs, provide housing, support agricultural production and develop non-mining export products. The Bank of Mongolia will increase: repurchase agreement (repo) funding by MNT 2 trillion (US$ 700 million) per year; funding available to small and medium-sized enterprises (SMEs) by MNT 500 million (US$ 175,000); and funding for non-mining exporters by MNT 3 billion (US$ 1 million). In April 2021 the government launched a one-time cash handout equivalent to MNT 1 trillion (US$ 350 million or about 3 per cent of GDP) to support households.

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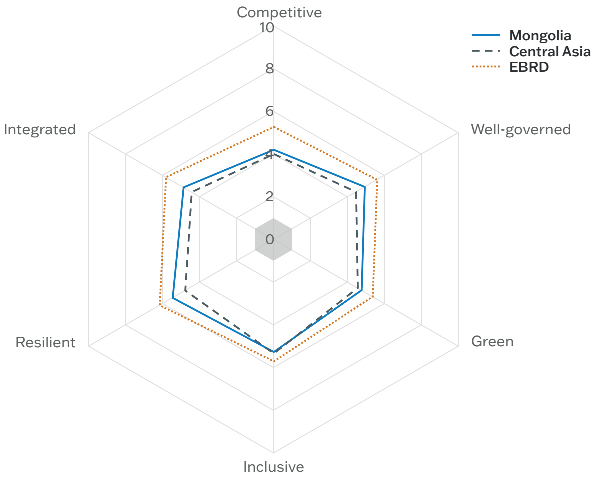
A three-year joint project, Mongolia Covid-19 Crisis Response, was launched in October 2020. The European Union is providing support of €1 million and the World Health Organization is providing €62,000 and technical guidance to Mongolia's health sector. The project will focus on strengthening the capacity of the national health system, as well as laboratory capacity at the national and sub-national levels. It will also ensure continuity and quality of essential healthcare services during widespread community transmission and lockdown. In addition, the Asian Development Bank approved a US$ 100 million loan in March 2021 to strengthen Mongolia's health sector and its response to the coronavirus pandemic.

Assessment of transition qualities (1-10)



Structural reform developments

Long-term reform planning has advanced. With both the presidency and parliament controlled by the Mongolian People's Party since June 2021, the government has been able to push ahead with its long-term development programme, Vision 2050, launched in 2020. This aims to diversify the economy away from raw material exports, mainly through large state projects, but also by stimulating growth in new sectors and attracting foreign investment.

The Bank of Mongolia has progressed on banking sector reforms. In January 2021 parliament approved amendments to the banking law, which requires five systemically important banks to become public companies through IPOs by June 2022, with a cap on bank shareholder rights at 20 per cent. This is expected to reduce shareholder concentration in the banking sector and provide for timely and fully transparent disclosure of the banks' financials and operations.

Progress has been made in resolving a dispute over Mongolia's largest copper and gold mine. The cost of expanding the OT mine has surged to US$ 6.75 billion from its original budget of US$ 5.3 billion in 2016, which became a bone of contention between the operator, Rio Tinto, and the government. An independent review dismissed Rio Tinto's explanation for the delays as being caused by geological difficulties. Subsequently, Rio Tinto expressed its willingness to reduce the interest rate on the loans it provided to the government of Mongolia to finance its share of the construction costs. In exchange, a long-term power agreement is sought by Rio Tinto.

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The country needs to step up efforts for green energy transition to be able to fulfil its nationally determined contribution (NDC) target within the agreed timeframe. Mongolia has an NDC target of generation capacity from renewable energy sources of 20 per cent by 2023 and 30 per cent by 2030. The country's ability to deliver on its NDC commitment will be stretched by the government's July 2021 decision to construct a new coal-fired power plant. The Baganuur plant will operate under a 21-year power purchase agreement; its two 200 MW blocks are expected to be completed in July 2026 and October 2026. The plant will not be a combined heat and power plant, so will not help the country meet heat demand.

TAJIKISTAN

Highlights

- **The economy is growing strongly again.** Real gross domestic product (GDP) expanded by 8.7 per cent year-on-year in the first half of 2021. Domestic demand started recovering with retail trade turnover growing and fixed investment increasing, while exports surged, driven by precious metals.
- **Two troubled banks, Agroinvestbank and Tojiksodirotbank, were finally liquidated.** Despite earlier efforts focused on restructuring and recapitalisation, the banks were wound down because their financial situation was not improving.
- **A single window for the registration of export, import and transit procedures has been launched.** The system is designed to speed up and simplify the exchange of information between stakeholders engaged in export-import and transit transactions. This is a significant contribution to the ease of cross-border trading.

Key priorities for 2022

- **The government should step up efforts to create new opportunities for young workers and returning migrants.** The government needs to improve tax administration practices within the currently developed tax code to reduce the burden of tax compliance on businesses, which will create more opportunities for formal employment. Any spending measures should be balanced against the need to pursue fiscal consolidation.
- **Further efforts are needed to advance the digitalisation agenda.** The regulatory framework should be updated in line with international practices and broadband access should be expanded, which will improve businesses' access to information and finance, while enabling more Tajik workers to learn and work remotely.
- **Fiscal discipline should be maintained.** Since Tajikistan has a high risk of debt distress, the government should adhere to its commitment to consolidate the budget and manage any new borrowing in accordance with the updated Debt Management Strategy for 2021-23.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	7.1	7.3	7.5	4.5	6.5
Inflation (average)	7.3	3.8	7.8	8.6	8.5
Government balance/GDP	-6.0	-2.8	-2.1	-4.4	-3.0
Current account balance/GDP	2.2	-5.0	-2.3	4.2	2.0
Net FDI/GDP [neg. sign = inflows]	-2.6	-2.9	-2.6	-1.3	-3.0
External debt/GDP	77.2	79.4	80.3	80.6	n.a.
Gross reserves/GDP	18.0	17.1	18.1	26.8	n.a.
Credit to private sector/GDP	13.0	11.9	11.6	12.9	n.a.

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Covid-19: macroeconomic implications

The economy is recovering strongly. Real GDP expanded by 8.7 per cent year-on-year in the first half of 2021. Domestic demand started recovering, with retail trade turnover growing 17.1 per cent year-on-year and fixed investment increasing 22.1 per cent year-on-year in the first half of 2021. Industrial output grew at a very high rate (23.4 per cent year-on-year in the first six months of 2021) with strong gains in mining (150 per cent year-on-year) and manufacturing (20.3 per cent year-on-year). Agriculture expanded by 8.1 per cent over the same period. The trade deficit narrowed in the first half of 2021 to US$ 619 million, from US$ 850 million in the first half of 2020. Exports nearly doubled in this period, driven by precious metals, while imports rose by 23 per cent year-on-year as domestic demand has expanded. However, data from the Russian central bank show that remittances from Russia to Tajikistan declined by 37 per cent year-on-year in US dollar terms in the first quarter of 2021.

Inflation has been above target since September 2020. Annual inflation was 9.0 per cent in June 2021, outside the central bank target corridor of between 4 and 8 per cent. The policy rate was raised from 10.75 per cent in January 2021 to 11.0 per cent in February, and was further increased by 1 percentage point in April and another 1 point in August. Loan growth accelerated to 14 per cent year-on-year in June 2021 from 10 per cent a year ago. The non-performing loan (NPL) ratio declined to 15.3 per cent in June 2021 from 30.4 per cent in June 2020, reflecting the liquidation in May 2021 of two troubled banks with a high concentration of NPLs (see below).

Fiscal accounts have improved. From January to May 2021 the state budget surplus was TJS 133 million (0.2 per cent of GDP) compared with a deficit of TJS 364 million (0.4 per cent of GDP) a year before. Revenues increased by 31 per cent in this period year-on-year thanks to a strong growth in tax receipts, while expenditures increased by 24.3 per cent year-on-year primarily in the energy sector, transport and communications as well as healthcare and social protection. The country's public debt reached almost 48 per cent of GDP in 2020, up from 43 per cent in 2019, as the government relied on external financing to mitigate the impact of the Covid-19 pandemic. The current public debt portfolio is mostly concessional, with the share of commercial loans at around 15 per cent of the total public debt stock, following the US$ 500 million Eurobond issued in 2017. Tajikistan's foreign exchange reserves were assessed at close to US$ 2 billion in August 2021, providing for eight months of import coverage, a significant improvement over the pre-pandemic situation. In addition, Tajikistan received a windfall of US$ 236 million worth of Special Drawing Rights allocated by the International Monetary Fund (IMF) in August 2021, which it can use to mitigate the economic impact of the Covid-19 pandemic.

The economy is expected to grow by 6.5 per cent in 2021. Remittances will support private consumption, and further expenditure on the Roghun project will drive public investment. In 2022 real GDP is forecast to grow by 6.2 per cent. Downside risks relate to the Covid-19 pandemic continuing to disrupt trade and mobility. The main upside risk is associated with a rapid intensification of trade, transport and investment linkages with Uzbekistan. In the longer term, re-establishing trade and transport connections with Afghanistan will be important for the Tajik economy, particularly given Tajikistan's plans to increase electricity exports following the completion of the Roghun hydropower plant and the CASA-1000 electricity transmission lines.

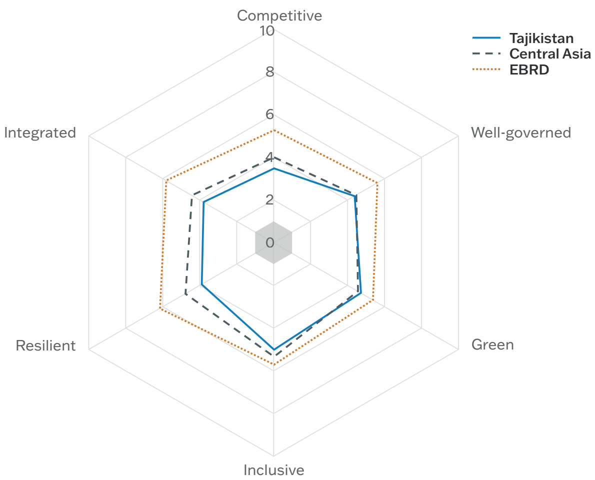
Policy response to Covid-19

Measures are still in place to mitigate the impact of the Covid-19 pandemic. A government decree, "Preventing the effect of the Covid-19 pandemic on social and economic sectors of Tajikistan", approved in June 2020, remains the main anchor of the country's policy response to Covid-19. It includes measures such as price controls for key consumer goods and medical supplies, provision of free medical care to citizens diagnosed with Covid-19, tax holidays and free rent of state property. In addition, in August 2021 the government announced that 165,000 vulnerable families will receive TJS 500 (US$ 44) in emergency cash assistance.

CONTINUES

Tajikistan received further financial assistance in 2021. The World Bank provided US$ 8.63 million to finance the purchase of vaccines and US$ 12.57 million in grant financing in February 2021 as part of the Tajikistan Emergency Covid-19 Project, to further strengthen Tajikistan's healthcare capacity and protect vulnerable population groups. In addition, the Asian Development Bank approved a US$ 25 million grant in June 2021 to help the country procure vaccines and improve the country's capacity to implement its vaccination programme.

Assessment of transition qualities (1-10)



Structural reform developments

A single window for the registration of export, import and transit procedures has been launched. The system, which began operating in September 2020, is designed to speed up and simplify information exchange between stakeholders engaged in export-import and transit transactions. This mechanism allows exporters and importers to provide standard documentation required by government agencies in a single form and to one agency. This is a significant contribution to the ease of cross-border trading.

Agricultural sector reform seeks to increase productivity and improve access to export markets. In October 2020 the government adopted a new concept for creating and developing agro-industrial clusters up to 2040. The main aim is to diversify agricultural production and facilitate the deeper processing of food products through increased cooperation among farms, aggregators, processing enterprises, research institutions and other upstream and downstream actors. In addition, the government approved a programme to promote the introduction of international food security standards (International Standard Global GAP) to improve agricultural producers' access to export markets.

Two major banks have closed. The two troubled banks, Agroinvestbank and Tojiksodirotbank, were finally liquidated in May 2021, in line with a long-standing IMF recommendation. Earlier efforts to improve the situation with these banks were focused on restructuring and recapitalisation; back in December 2016 the government announced a US$ 422 million (6.1 per cent of GDP) bail-out programme for the two banks, funded through the issue of special government debt securities guaranteed by the National Bank of Tajikistan. The banks were then wound down in May 2021 because their financial situation was not improving. This is a major step towards strengthening the banking sector and lowering the NPL ratio significantly.

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Energy sector reform is advancing. In accordance with government decree number 330 issued in June 2019, Barqi Tojik remains responsible for the generation of power while electricity transmission and distribution assets were transferred to the newly created Shabakahoi Intiqoli Barq and Shabakahoi Taqsimoti Barq, respectively. These new companies are now fully operational. The government is working to further amend the legal and regulatory framework to reflect the new business structure of the power sector.

TURKMENISTAN

Highlights

- **Turkmenistan's economy continues to grow rapidly in 2021.** Real gross domestic product (GDP) growth was reported at 6.2 per cent year-on-year in the first three-quarters of 2021 after decelerating to 5.9 per cent year-on-year in 2020. Exports (primarily gas exports to China) rose by 36 per cent year-on-year in the first half of 2021 but are still below 2020 levels.
- **The digitalisation agenda is promoted through a government programme.** Signed in August 2021, a new government programme seeks to promote the development of information technology products by the country's small and medium-sized enterprises (SMEs). The programme includes such instruments as subsidised loans to SMEs as well as measures to support the demand for domestically produced software products and equipment.
- **Talks are under way to advance the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project.** Progress on this important project will depend on, among other things, discussions with the new regime in Afghanistan.

Key priorities for 2022

- **The government needs to deal with the healthcare implications of Covid-19.** In previous years, Turkmenistan made heavy investment in upgrading equipment and hard infrastructure. The focus should shift to strengthening the qualifications and skills of medical staff.
- **Currency convertibility issues should be resolved and the exchange rate adjusted to reflect macroeconomic fundamentals.** Using access to foreign currency at an undervalued exchange rate as a support mechanism for selected entrepreneurs, as the government has been doing, is clearly inferior to market-based selection of the fittest firms. Removing exchange rate distortions would improve the competitiveness of the country's exports and correct external imbalances while stimulating growth of the private sector.
- **The authorities should increase data transparency.** Collection of economic and social data and its availability must be improved to facilitate sound decision-making by all stakeholders and the public at large. Greater transparency would help private-sector actors to make investment, production and financial management decisions, while also helping the government take timely policy actions grounded in rigorous statistical evidence.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	6.5	6.2	6.3	5.9	6.3
Inflation (average)	8.0	13.3	5.1	7.6	12.5
Government balance/GDP	-2.8	-0.2	-0.3	-0.2	-0.3
Current account balance/GDP	-10.4	5.5	5.1	-2.6	1.0
Net FDI/GDP [neg. sign = inflows]	-5.5	-4.9	-4.8	-2.5	-3.5
External debt/GDP	26.9	27.7	29.2	28.5	n.a.
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	n.a.	n.a.	n.a.	n.a.	n.a.

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Covid-19: macroeconomic implications

According to official data, the economy continues to grow at pace in 2021. Real GDP growth was reported at 6.2 per cent year-on-year in the first three-quarters of 2021. In 2020 the economy grew by 5.9 per cent. Such strong growth in 2020 is hard to reconcile with the wider economic context and global disruption to trade and mobility. The IMF estimates that real GDP in 2020 contracted by 3.4 per cent while average annual inflation accelerated from 5.1 per cent in 2019 to 7.6 per cent.

External accounts came under pressure. The current account balance turned from a surplus of 1.3 per cent of GDP in 2019 to a deficit of 0.5 per cent in 2020. Exports, a major source of growth, plummeted by 30.7 per cent in 2020, while imports rose by 1.6 per cent, according to IMF data. Exports rose by 18 per cent year-on-year in the first five months of 2021 but are still below 2019 levels. The official exchange rate peg is maintained at TMM 3.5 per US dollar. The parallel market exchange rate depreciated from TMM 18 per US dollar in December 2019 to TMM 40 in April 2021 but has recovered since then to TMM 20-25 per US dollar as of October 2021.

State finances were balanced in 2020. The government budget turned into a marginal surplus (0.1 per cent of GDP) in 2020 from a deficit of 0.4 per cent of GDP in 2019. However, the 2021 budget envisages total spending being 6 per cent below the 2020 budget, indicating strained public finances. More than 70 per cent of expenditures will be directed at social sectors, such as education and healthcare. Wages and pensions will increase by 10 per cent in 2021.

The bulk of external debt was paid off. The government reported that in June 2021 it paid off the debt it owed China for the construction of a gas pipeline and associated projects, and that henceforth all gas revenues would accrue to the state budget. In August 2021 Fitch assigned Turkmenistan a B+ rating with a stable outlook. The rating balances healthy fiscal and external positions with concerns over the difficult business environment, weak institutional capacity and state-centric economic policies.

Economic growth is expected to moderate in the short term. Real GDP growth is projected at 6.3 per cent in 2021 due to substantial export growth. The growth rate of the economy is forecast to slow to 5.5 per cent in 2022, reflecting structural challenges in many areas, including the poor quality of the business environment, limited financial sector depth and restrictions on private sector operations in the country. Major uncertainty remains around these forecasts given the absence of reliable economic data and the global situation with the Covid-19 pandemic.

Policy response to Covid-19

There are no officially registered Covid-19 cases in the country as of August 2021 but several lockdown measures are in place. Due to a spike in Covid-19 cases in neighbouring countries, the authorities in Turkmenistan enacted nationwide restrictions in June 2021. There are limitations on domestic travel (roads, railways, airports). Land borders with Afghanistan, Iran, Kazakhstan and Uzbekistan are closed, and international commercial flights are suspended. All major shopping centres, swimming pools and gymnasiums are closed in Ashgabat as of August 2021. Gatherings, including family celebrations, have been banned across the country. Social distancing of at least two metres is to be maintained and face masks are compulsory in public areas. Vaccination is also compulsory for the population above the age of 18.

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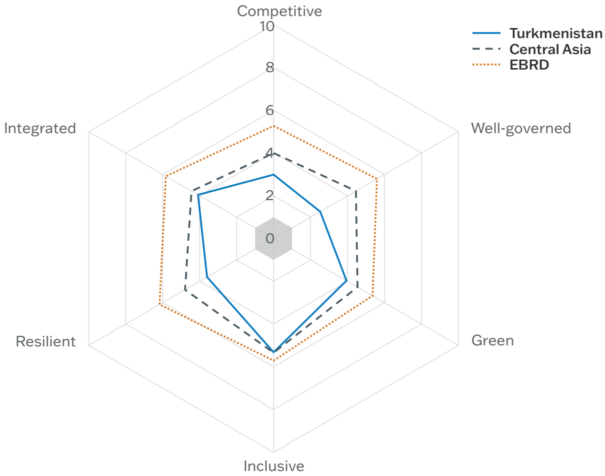
The World Bank approved US$ 20 million for the Turkmenistan Covid-19 Response Project. The loan, approved in July 2021, will support priority activities under the National Pandemic Preparedness and Response Plan. The country's Covid-19 pandemic preparedness activities cover a range of possible transmission scenarios. An Emergency Anti-Epidemic Commission Operational Headquarters has been established to coordinate the national Covid-19 pandemic preparedness and response effort.

Assessment of transition qualities (1-10)



Structural reform developments

Financial support will be provided to SMEs to help their digitalisation efforts. The relevant resolution was signed by the president in August 2021 as part of the Concept for the Development of the Digital Economy in Turkmenistan for 2019-25. Loans will be issued to SMEs to help them develop hardware and software products. The loans will be for five years at a 2 per cent interest rate with a grace period of two years. In addition, financing will be provided for the purchase and commissioning of domestic software products and equipment for a period of three years at a 2 per cent interest rate with a grace period of six months.

Talks are under way on advancing the TAPI gas pipeline project. Turkmenistan failed to reach financial close for the project in 2020 but aims to do so in 2021. This pushes the deadline for the project to become operational from 2021 to 2023. The pipeline's design capacity is planned to be 33 billion cubic metres of gas annually, helping Turkmenistan to reduce dependence on China as the country's main export market. Further progress will depend on ongoing discussions with the new regime in Afghanistan, which is yet to form a unified position towards the project.

UZBEKISTAN

Highlights

- **Uzbekistan's economy is recovering rapidly.** Real gross domestic product (GDP) increased by 6.9 per cent year-on-year in the first three-quarters of 2021, driven by services, manufacturing and mining. Investment activity has also started to recover, with fixed investment up by 5.0 per cent year-on-year in the first three-quarters of 2021.
- **State-owned enterprise (SOE) reform is advancing.** A new SOE strategy for 2021-25 seeks to reduce the state's footprint in the industrial, mining and manufacturing sectors, and ensure that SOEs are governed and managed in line with market principles.
- **Uzbekistan has committed to reaching carbon neutrality in power generation by 2050.** The authorities aim to develop power sources with low-carbon emissions, including solar, hydro, wind and nuclear, and modernise the electricity grid. Gas-fired power generation will be used in the transition to carbon neutrality and plans are under way for the construction of a comprehensive hydrogen energy infrastructure.

Key priorities for 2022

- **The immediate priority is to continue supporting people's livelihoods.** Besides economic measures for the most vulnerable, relevant infrastructure should be put in place to ensure that the healthcare system has sufficient capacity for the sick during the Covid-19 pandemic.
- **The authorities should step up efforts to accelerate digital transformation.** Investment in broadband infrastructure, digital skills and the information technology ecosystem is essential to enable remote working and learning for all groups of the population.
- **The government should adjust reform priorities in light of the post-Covid-19 situation.** In the short term, priority should be given to macroeconomic stabilisation, continued improvement of the investment climate and other measures to build investor confidence. Earlier plans for large-scale privatisation of state-owned banks and enterprises may have to be delayed to include restructurings in case of a slower-than-expected economic recovery or adverse market momentum.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	4.5	5.4	5.6	1.6	6.8
Inflation (average)	13.9	17.5	14.5	12.9	11.0
Government balance/GDP	1.3	1.7	-0.3	-3.1	3.0
Current account balance/GDP	2.5	-7.1	-5.6	-5.0	-6.5
Net FDI/GDP [neg. sign = inflows]	-3.0	-1.2	-4.0	-3.0	-4.5
External debt/GDP	26.3	33.3	43.4	57.1	n.a.
Gross reserves/GDP	47.5	53.7	50.3	60.5	n.a.
Credit to private sector/GDP	16.6	23.8	30.0	37.0	n.a.

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Covid-19: macroeconomic implications

The economy is recovering rapidly. Real GDP increased by 6.9 per cent year-on-year in the first three-quarters of 2021 (compared with 0.4 per cent growth a year ago). While growth was recorded across the board, the expansion in services, manufacturing and mining was particularly strong (7.6, 7.4 and 14.2 per cent year-on-year, respectively). On the demand side, a surge in remittances from Russia (up 35 per cent year-on-year in US dollar terms in the first eight months of 2021) stimulated private consumption and growth in retail trade (up 10.9 per cent year-on-year in the first three-quarters of 2021). Investment activity has also started recovering, with fixed investment up by 5.0 per cent year-on-year in January-September 2021. Exports declined by 20 per cent year-on-year in the first eight months of 2021, as gold exports were drastically reduced (down 24 per cent year-on-year). On the positive side, exports of gas, textiles and non-ferrous metals rose by 43, 60 and 72 per cent year-on-year, respectively.

Inflationary pressures subsided. Inflation has slowed (10.8 per cent in September 2021 versus 14.2 per cent a year earlier) thanks to currency stabilisation and conservative monetary policies implemented by the central bank. The policy rate was reduced from 16 per cent in early 2020 to 14 per cent in September 2020 and maintained at that level since then. After depreciating by 12 per cent on average in 2020, the exchange rate has been stable in 2021. Credit growth picked up to 22 per cent in June 2021 in real terms (both in corporate and retail segments) from 12 per cent a year ago, reflecting the reinvigoration of economic activity. At the same time, non-performing loans increased to 5.5 per cent in June 2021, versus 2.1 per cent at the end of 2020.

Public debt has risen significantly, due to increased external borrowing. The level of debt rose from 29.7 per cent of GDP in 2019 to 38.9 per cent of GDP in 2020. Significant external financing came from multilateral and bilateral creditors (around US$ 1.7 billion) and international sovereign bond placements of US$ 750 million in November 2020. As a result, external public debt surged from 15.7 per cent of GDP in 2019 to 21.1 per cent in 2020, prompting the government to set a cap on external public debt at 60 per cent of GDP. The overall fiscal deficit reached 4.3 per cent of GDP in 2020, up from 3.8 per cent in 2019. High gold prices had a positive impact on fiscal revenues and helped keep the rise of the deficit in check. Fiscal measures will continue to support the economy in 2021, with the consolidated fiscal deficit targeted at 5.5 per cent of GDP.

The economy is projected to grow at a high rate in the short term. GDP is forecast to expand by 6.8 per cent in 2021 and 6.0 per cent in 2022. A remittance-led surge in private consumption along with increased investment in infrastructure will be the key drivers of GDP growth. However, the forecast is subject to a high degree of uncertainty related to the path of the Covid-19 pandemic, potential resumption of international tourism, regional tensions and the situation in Afghanistan.

Policy response to Covid-19

Policies to facilitate post-Covid-19 recovery have been maintained through 2021. The framework for the Covid-19 response is the government's resolution "On measures to restore economic growth in 2020-21 and continue systemic structural reforms", which was adopted in September 2020. One of the goals is to support key sectors of the economy and maintain annual economic growth at around 5.0-5.5 per cent from 2021. Key measures include reforming the banking system and the agricultural sector, facilitating investment, improving the competitive environment and putting in place effective industrial policies, as well as supporting exporting enterprises. The issue of rising debt is also addressed via measures to optimise public investment expenditures, ensure more efficient spending of externally borrowed funds and restrict the issue of new external debt. A sum of UZS 3 trillion (US$ 280 million) is earmarked in the 2021 state budget to mitigate the economic impacts of the Covid-19 pandemic. The government plans to support households and businesses via interest rate compensation, a revolving export credit facility, subsidies for the unemployed and a range of other measures.

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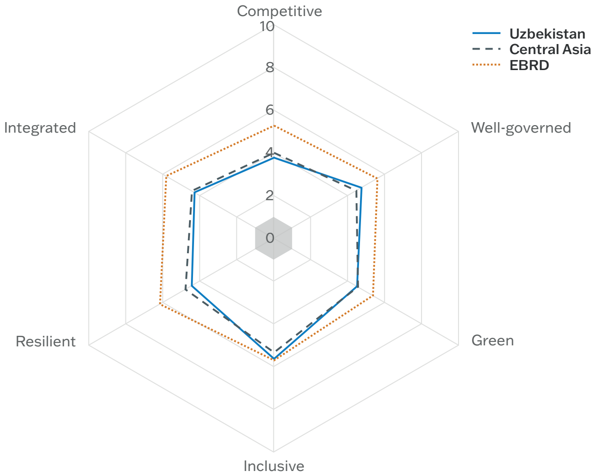
Assessment of transition qualities (1-10)



Structural reform developments

The digitalisation agenda has been laid out in the "Digital Uzbekistan-2030" strategy. Approved by a presidential decree in October 2020, the plan is to connect every settlement to the internet by the end of 2022 and upgrade digital skills, among other goals. More than 280 projects will facilitate the digital transformation of regions and sectors, aiming to double the share of digital services in GDP in the next two years. As part of the strategy, three new data centres will be launched, in Tashkent, Bukhara and Kokand. About US$ 2.5 billion of investment will be attracted for the development of digital infrastructure in 2021-22. The strategy also envisages a gradual digitalisation of the banking sector, allowing for wider access to remote banking services by the population at large.

SOE reform is advancing. In March 2021 the government adopted the Strategy for the Management and Reform of Enterprises with State Participation for 2021-25. The strategy seeks to reduce the state's footprint in the industrial, mining and manufacturing sectors and ensure that SOEs are governed and managed in line with market principles. According to the strategy, new laws on privatisation and state property management will be adopted at the end of 2021. Key targets under the strategy are a 75 per cent reduction in the number of enterprises with state participation, initial public offerings (IPOs) and secondary placements of shares of at least 20 SOEs, and bringing the share of independent members on the supervisory boards of SOEs to 30 per cent by 2025.

Uzbekistan has made a commitment to reach carbon neutrality in power generation by 2050. The new commitment was announced in February 2021. The authorities aim to develop power sources with low-carbon emissions, including solar, hydro, wind and nuclear, as well as modernise the electricity grid. Gas-fired power generation will be used in the transition to carbon neutrality. As part of this commitment, a hydrogen energy strategy was adopted in April 2021, envisaging the construction of a comprehensive hydrogen energy infrastructure, driving the country's energy efficiency and security. To build the necessary professional expertise, a National Research Institute for Renewable Energy Sources has been established under the Ministry of Energy. The institute is to run a laboratory to test and certify renewable and hydrogen energy technologies.

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Capital markets are being reformed. To accelerate the government's goal to reform the capital market by 2023, a presidential decree "On measures for the further development of the capital market" was signed in April 2021. The decree abolishes the Capital Market Development Agency and transfers its functions to the Ministry of Finance. The government is planning to pass a new capital markets law by the end of 2021. This is expected to improve the efficiency of conducting IPOs and security payment orders, designate the functions of underwriters, enhance accounting and listing requirements, introduce sukuk (Islamic) bonds and other types of instruments (exchange-traded funds, futures and so on), and permit foreigners to invest in government bonds. Starting from 1 January 2023 Uzbek companies will need to place their shares first on the domestic stock exchange and only then on foreign stock markets.

Uzbekistan has made major progress in eliminating child labour and forced labour in the cotton industry. The International Labour Organization reported that in 2020 systematic child labour was no longer used during the cotton harvest in Uzbekistan. Reforms are being implemented step-by-step and continue to have a significant positive impact. However, there are still challenges with uneven implementation in certain provinces and districts. The nationwide share of forced pickers dropped by 33 per cent in 2020. The vast majority of pickers participated in the harvest voluntarily but about 4 per cent were subject to direct or perceived forms of coercion. Some provinces and districts had very few or no forced labour cases in 2020.