Kazakhstan

Highlights

- **Growth moderated in 2024.** Real gross domestic product (GDP) expanded by 3.2 per cent year on year in the first half of the year. Growth was driven by a strong performance in manufacturing and trade but held back by stagnation in mining and quarrying.
- **The new National Development Plan envisages a doubling of GDP by 2029.** The plan aims to promote competition, innovation and inclusion and to enable a predictable business environment.
- **The country is taking steps to limit the state's footprint in the economy.** The recent initial public offering (IPO) of state airline Air Astana signals the authorities' intention to proceed with their privatisation agenda. A renewed moratorium on the creation of state-owned enterprises (SOEs) is likely to foster competition and private-sector growth.

Key priorities for 2025

- **The authorities should strengthen fiscal management and maintain the counter-cyclicality of transfers from the National Fund.** In January-July 2024, budget revenues were 12 per cent below target indicating a need to improve tax mobilisation and administration. National Fund assets have been overused of late, and the 2025 draft budget envisages transfers increasing by another 50 per cent, leaving Kazakhstan more vulnerable to future economic shocks.
- **Investment in renewables should be accelerated and existing capacity modernised to meet growing energy needs.** In 2023, electricity consumption surpassed production capacity. The energy sector has suffered from years of underinvestment, resulting in massive infrastructural wear and tear. Solving the energy challenges will require an upgrade of existing generation capacity and transmission lines and the introduction of further renewable energy sources.
- **Effective implementation of the government's reform agenda will require a strengthening of institutional capacity and improvements in interagency coordination.** The ambitious reform agenda will require effective planning, a results-based management framework, less bureaucracy and better-trained personnel.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-2.6	4.1	3.3	5.1	4.0
Inflation (average)	6.8	8.0	15.0	14.6	8.7
Government balance/GDP	-7.7	-4.4	0.8	-0.6	-1.3
Current account balance/GDP	-6.4	-1.4	3.1	-3.8	-4.5
Net FDI/GDP [neg. sign = inflows]	-4.2	-2.3	-2.2	-2.0	na
External debt/GDP	95.9	83.3	71.5	62.3	na
Gross reserves/GDP	20.8	17.4	15.6	13.8	na
Credit to private sector/GDP	25.6	26.0	25.0	26.1	na

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Macroeconomic developments and policy response

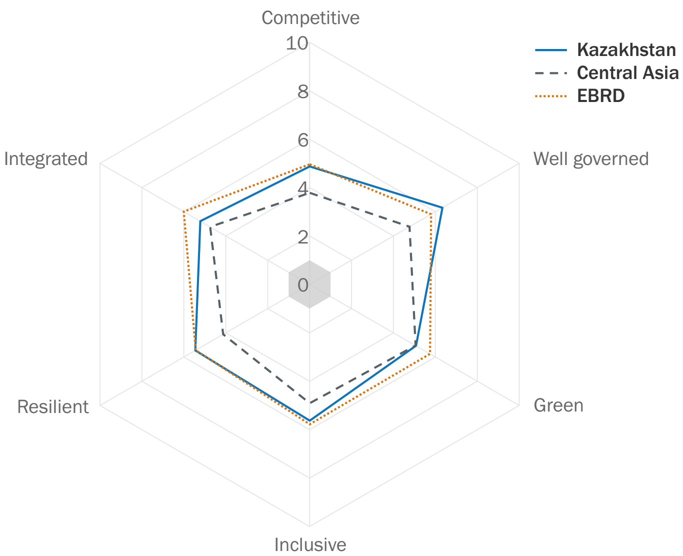
Economic growth moderated in the first half of 2024. Real GDP grew by 3.2 per cent year on year in the first half of 2024, compared with 5.3 per cent in the first half of 2023. Relative stagnation in the mining and quarrying sector (up 0.3 per cent year on year) was offset by buoyant growth in manufacturing activity (up 5.1 per cent year on year). As a result, industrial production emerged as the main growth driver (up 2.7 per cent year on year). Since April 2023, the unemployment rate has remained at an historical low (4.7 per cent), bolstering real wages by 1.7 per cent year on year on average in the first half of the year. Higher incomes contributed to rising consumer spending, boosting retail and wholesale trade (up 3.9 per cent year on year). On the external side, exports rose by 2.1 per cent year on year, but their performance was hindered by lower animal and plant product exports (down 19.8 per cent year on year). A decline in imports of mineral products, vehicles and equipment helped expand the trade surplus.

Inflation is still above the central bank's target of 5 per cent. In 2024, the rate of growth of the consumer price index has largely been on a downward trajectory, dropping to 8.3 per cent as of September 2024. In response to the decline in inflation, the National Bank of Kazakhstan has continued to ease monetary policy, cutting rates by a cumulative 150 basis points in the year to October 2024. Bolstered by higher foreign-exchange sales by the National Fund, the Kazakh tenge (KZT) strengthened against the US dollar in January-May 2024, but has significantly depreciated since then, in tandem with a decline in transfers from the National Fund and a strengthening dollar.

Strong international reserves are supporting debt sustainability, but fiscal discipline has weakened. Public and publicly guaranteed debt (PPGD) increased 5.8 per cent in the first six months of the year, reaching KZT 30.3 trillion (US$ 67.7 billion or €60.1 billion, around 26 per cent of 2023 GDP). Meanwhile, external PPGD was estimated at US$ 19.0 billion (€17.1 billion or 7 per cent of 2023 GDP). As of July 2024, international reserves stood at US$ 41.8 billion (€37.6 billion, up 16.5 per cent year to date), cushioning the country from potential external risks. That said, Kazakhstan continues to run a budget deficit because of lower revenue mobilisation and elevated expenditure. The draft budget for 2025-27 envisages a budget deficit of 2.7 per cent of GDP in 2025, similar to the planned deficit of 2.6 per cent of GDP in 2024.

Short-term growth is expected to pick up. The economy is projected to grow by 4.0 per cent in 2024, accelerating to 5.5 per cent growth in 2025, helped by the planned expansion of the Tengiz oil field. Key risks to the outlook include weakening investor confidence amid poor fiscal management, an overreliance on Russian infrastructure for oil transit, and commodity price volatility. Reforms aimed at diversification and infrastructure investment to support implementation of the National Development Plan could provide an upside.

Assessment of transition qualities (1-10)



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Structural reform developments

The government introduced a new National Development Plan. The plan, adopted by the government in August 2024, targets a doubling of GDP to US$ 450 billion (€404.5 billion) by 2029, a 1.4-fold increase in GDP per capita and a 1.9-fold increase in the median wage over the same period. It further envisages a number of important reforms, including: greater liberalisation and competition; ensuring property rights and a predictable business environment; improving education and healthcare; supporting entrepreneurial and creative activities; fostering innovation and digitalisation; and reducing gaps in regional development.

Kazakhstan is advancing on its green agenda. The country joined the Global Methane Pledge at the COP28 climate conference in November 2023, aligning methane abatement measures with the goals of the country's 2060 decarbonisation strategy. In the first half of 2024, generation from renewable energy sources increased slightly, reaching 6.5 per cent of total generation capacity, with a plan to introduce an additional 196.9 MW of capacity by the end of 2024. In August 2024, the International Centre for Green Technologies and Investment Projects signed a memorandum of understanding with the Japan Centre of Assistance for International Projects, aimed at facilitating knowledge exchange, cooperating on greenhouse gas reduction projects and boosting scientific collaboration.

Efforts to improve the investment climate continue. In August 2024 the government launched the Green Corridor system to facilitate domestic and foreign investment. Designed to accelerate investment projects, the system simplifies interactions with government agencies. This should enable quicker understanding of regulatory processes, ease the process for securing licences and provide a platform for addressing infrastructural issues.

The state's footprint in the economy is being limited. February 2024 saw a key step in the government's privatisation agenda, when Air Astana completed its IPO, with 58 per cent distributed among domestic participants. On 10 May 2024 the President signed a decree on measures to liberalise the economy. This envisages the creation of a National Privatisation Office, which will develop standards for the privatisation of state assets and compile a list of potential privatisation targets. Another step in limiting the role of SOEs in the economy was the reintroduction of a moratorium on quasi-state company creation. In place from 21 August 2024 to the end of 2026, it will constrain the role of SOEs in competitive sectors and help foster private-sector growth. That said, there are exclusions to the moratorium, including special presidential orders and cases where creating an SOE is needed to enable the implementation of the Law on the Return of Illegally Acquired Assets.

The country has taken an important step towards tackling gender-based violence. In April 2024 Kazakhstan made amendments to some legislative acts to ensure women's rights and the safety of children. The legislation reintroduces criminal penalties for battery and the "intentional infliction of light bodily harm" on a perpetrator's dependents. It eliminates the option of reconciliation in such cases. The law signals the authorities' commitment to preventing harassment and violence in the workplace.

Kyrgyz Republic

Highlights

- **The economy is growing strongly.** Real gross domestic product (GDP) showed buoyant growth of 8.4 per cent year on year in the first nine months of 2024, mainly thanks to elevated investment and domestic demand.
- **The authorities are encouraging the integration of returning emigrants into the economy.** The new “Mekenim 1+1” programme, to be piloted in the Batken region, provides matching funding to returning emigrants and to Kyrgyz nationals living abroad who are willing to invest in businesses in the Kyrgyz Republic.
- **The Kyrgyz Republic became the first Central Asian country to ratify the International Labour Organization (ILO) Violence and Harassment Convention No. 190 (C190).** The step signals the country’s commitment to ensuring the fundamental right of individuals to a workplace free from violence and harassment.

Key priorities for 2025

- **The authorities should finalise the country’s border demarcation with Tajikistan.** Resolution of the long-standing dispute will enhance security, support investment confidence and enable closer regional cooperation on energy, transport and water management.
- **The sanctions compliance framework should be strengthened further.** While re-export volumes have decreased relative to 2022, according to available data, enhanced efforts are needed to ensure adherence to global sanctions arising from Russia’s war on Ukraine. More emphasis should be put on capacity building to enable financial institutions and relevant government bodies to monitor and enforce sanctions compliance.
- **Transparency and governance standards need further improvement.** In recent years, the country has claimed significant progress in tackling organised crime and the informal economy. Nevertheless, further action is needed to enhance accountability and efficiency in public institutions.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-7.2	5.5	6.3	4.2	9.0
Inflation (average)	6.3	11.9	13.9	10.8	6.7
Government balance/GDP	-2.1	0.0	0.8	3.3	-0.3
Current account balance/GDP	4.5	-8.0	-43.6	-30.4	-9.5
Net FDI/GDP [neg. sign = inflows]	4.9	-2.4	-0.5	-3.5	na
External debt/GDP	112.3	105.8	80.3	72.3	na
Gross reserves/GDP	33.9	32.2	24.0	25.3	na
Credit to private sector/GDP	26.6	24.2	20.8	21.7	na

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Macroeconomic developments and policy response

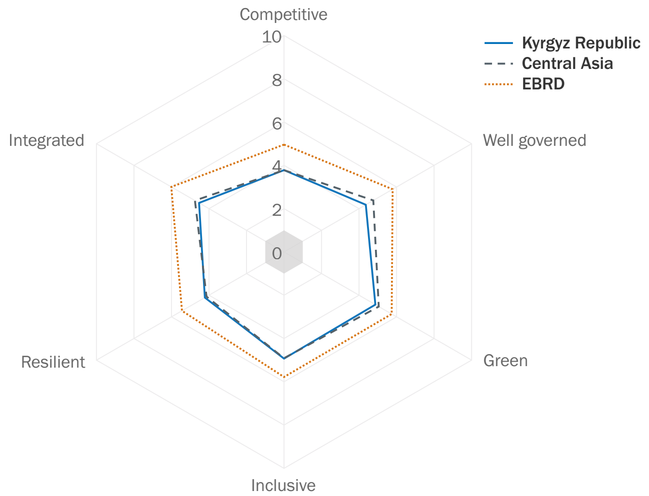
Growth has accelerated significantly in 2024. In January-September 2024, real GDP grew by 8.4 per cent year on year on the back of buoyant demand and investment. Fixed capital investment expanded by 52.1 per cent year on year, including a doubling of public investment. In the first eight months of 2024, elevated tourist arrivals, coupled with growing net remittances (up 21.0 per cent year on year) and real wages (up 6.3 per cent year on year), fuelled a consumption boom, boosting retail and wholesale trade (up 16.6 per cent year on year in January-September 2024), hotels, restaurants and catering (up 18.8 per cent year on year) and passenger transportation (up 8.6 per cent year on year). Solid growth in the production of textiles (up 13.2 per cent year on year), computers and electronics (up almost 4.5-fold year on year), and vehicles and equipment (up 1.5-fold year on year) offset a decline in mining (down 0.7 per cent year on year) and base metal production (down 5.1 per cent year on year), supporting the industrial sector (up 4.2 per cent year on year). In January-August 2024, exports added 13.1 per cent year on year, thanks to increasing gold exports (up 17 per cent year on year). Imports grew 8.1 per cent year on year on the back of a notable expansion in the imports of petroleum products (up 1.6-fold year on year), equipment (up 1.6-fold year on year), and natural and liquefied gas (up 1.6-fold year on year).

Inflation has dropped to low levels. The rate of inflation in the Kyrgyz Republic, at 4.9 per cent in September 2024, is the second lowest in the region. In May 2024, the National Bank of the Kyrgyz Republic opted to ease policy for the first time since November 2022, cutting the policy rate to 9 per cent. In the 10 months to October 2024, the Kyrgyz som (KGS) appreciated 3.6 per cent against the US dollar, largely thanks to increased remittances and FDI.

The fiscal position on revenue mobilisation continues to improve. In January-August 2024, budget revenues increased by 18.0 per cent year on year thanks to an impressive uptick in tax receipts (up 18.4 per cent year on year). In contrast, expenditures grew only 8.1 per cent year on year, resulting in a budget surplus of 6.2 per cent of GDP (compared with a surplus of 3.3 per cent of GDP in January-August 2023). The country's international reserves reached US$ 4.8 billion (€4.4 billion) in October 2024, the highest level since 2010, covering 4.7 months of imports and cushioning the country against potential external risks.

Strong economic growth is expected to continue in the short term. Real GDP growth is projected to reach 9.0 per cent in 2024 and moderate slightly to 7.0 per cent in 2025. There is significant upside potential to the outlook, including from increases in silver and gold exports, growth in tourism and accelerated infrastructure investment. On the downside, secondary sanctions remain a threat, despite the authorities' efforts to ensure compliance with international sanctions on dealings with Russia.

Assessment of transition qualities (1-10)



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Structural reform developments

The National Investment Agency proposed a new version of the Law on Investments. The draft document, published in November 2023, seeks to level the playing field for national and foreign investors. It defines investor rights in cases of expropriation and proposes a dispute resolution mechanism. Earlier in 2023, in a measure designed to facilitate foreign investment, the Kyrgyz Cabinet of Ministers approved a bill granting five- and ten-year investor visas to foreigners meeting certain investment thresholds.

Significant progress has been made on resolving long-standing border issues with Tajikistan. As of August 2024, the two countries had agreed on 94 per cent of disputed territories. A full resolution of the border issue will enhance cross-border cooperation, improve security, and facilitate investment and trade.

Measures are being taken to mitigate the risk of secondary sanctions. In August 2024, the central bank asked local banks to strengthen know-your-client practices and to halt business interactions with parties identified in Western sanctions lists, including Sberbank, MTS Bank, Tinkoff Bank and the Russian national card payment system, NSPK.

The introduction of a foreign agent-style law may hinder civic freedoms. In April 2024, the president signed a new law on non-governmental organisations (NGOs). The law requires NGOs to submit financial reports, register with the Ministry of Justice and disclose foreign funding. Those receiving foreign funds will be classified as “foreign agents” and will be subject to additional reports and inspections.

An anti-corruption strategy for 2025-30 was introduced. On 5 June 2024, the president approved a new anti-corruption strategy and an action plan for its implementation. It focuses on introducing effective anti-corruption measures, increasing trust in government agencies and fostering intolerance for corrupt practices.

The Kyrgyz government ratified ILO C190. C190 affirms the fundamental right of individuals to a workplace free from violence and harassment. By ratifying the convention in March 2024, the Kyrgyz Republic became the first country in Central Asia to do so. The authorities will now start implementing legislative reforms to align with C190.

Efforts to facilitate gender inclusion are ongoing. In March 2024, the authorities endorsed a state programme to support women’s leadership that will run to 2030. With the goal of increasing female participation in decision-making, the programme aims to prepare women for leadership roles, including through the provision of training opportunities and job placements, and the creation of a pool of female candidates capable of and interested in taking managerial positions.

Measures to bring back labour migrants are being developed. Inspired by the successful example of Moldova, the “Mekenim 1+1” programme aims to encourage returning migrants (as well as those still living abroad) to invest in businesses in the Kyrgyz Republic by providing matching funds. Both migrants and their immediate relatives are eligible for the programme. A pilot is expected to be launched in the Batken region.

The China-Kyrgyz Republic-Uzbekistan railroad project is gaining steam. On 6 June 2024, the three countries signed a trilateral government agreement to build a new railway. A 523 km railway line will connect the three countries, facilitating trade links and boosting the Kyrgyz Republic’s transit potential.

Digital initiatives are ongoing. On 5 April 2024 the government introduced a new digital development concept for 2024-28. The concept envisages enhancing government efficiency, reducing bureaucracy and enabling better interaction between citizens, businesses and the state through digital platforms. As well as prioritising artificial intelligence, it includes plans to integrate government information systems and databases to foster data-driven decision-making. The EBRD is actively supporting the authorities’ e-Governance reform agenda. In February 2024, under the existing framework agreement, the EBRD supported the launch of e-registration for businesses and e-notary systems. The Bank also supports the ongoing implementation of e-remote identification for the banking sector to promote access to finance.

Mongolia

Highlights

- **Economic growth remains robust in 2024, although slightly lower than in 2023.** The economy grew by 5.6 per cent year on year in the first half of 2024. Severe weather early in the year led to massive livestock losses, but exports grew strongly, supported by windfall commodity revenues.
- **Mongolia is strengthening ties with neighbouring Central Asian economies.** The country is enhancing cooperation with the region via joint cultural, economic and scientific initiatives. Furthermore, trade linkages are likely to intensify following recent agreements with Kazakhstan and Uzbekistan.
- **New industrial clusters will support economic diversification.** In June 2024, the authorities decided to set up special economic zones for agriculture and building-material production. While helping to ensure a stable domestic supply, the initiative will also support export-oriented production.

Key priorities for 2025

- **Diversification efforts should accelerate.** Mongolia should attempt to diversify its economy and exports beyond the mining sector. In particular, investment in agriculture, tourism and manufacturing would make the economy more resilient and robust.
- **Steps should be taken to strengthen domestic and external connectivity.** Investment in developing and modernising the country's transport and energy infrastructure is vital for its growth outlook.
- **The authorities should accelerate investment in renewables.** Mongolia is an electricity importer and remains highly dependent on power from Russia and China. The country is highly vulnerable to fluctuations in electricity supply, as illustrated by its periodic blackouts. Investment in renewable energy sources could improve its resilience.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-4.6	1.6	5.0	7.0	5.0
Inflation (average)	3.7	7.4	15.2	10.4	9.8
Government balance/GDP	-9.2	-3.1	0.7	2.5	0.0
Current account balance/GDP	-5.1	-13.8	-13.4	1.2	-7.5
Net FDI/GDP [neg. sign = inflows]	-12.9	-14.2	-14.6	-11.3	na
External debt/GDP	243.1	221.2	194.5	170.1	na
Gross reserves/GDP	34.1	28.7	19.8	24.1	na
Credit to private sector/GDP	45.8	47.5	41.0	39.5	na

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Macroeconomic developments and policy response

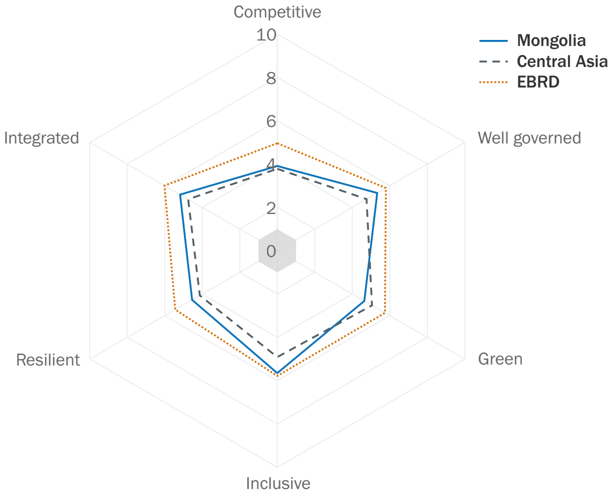
The economy continues to grow strongly. Real gross domestic product (GDP) grew 5.6 per cent year on year in the first half of 2024. Real wages were up 16.1 per cent year on year in the first quarter and the minimum wage was raised by 20 per cent in January 2024, helping to boost monthly average household expenditure by 20.1 per cent year on year in the second quarter. As non-food items and services account for 64 per cent of household expenses, the service sector emerged as the main growth driver, contributing 4.4 percentage points to economic expansion in the first half of 2024. The services boom was also bolstered by elevated tourist arrivals, driving growth in the hotels sector (up 11.7 per cent year on year), food and beverages services (up 20.1 per cent year on year) and transportation revenues (up 24.8 per cent year on year). Robust growth in mining and quarrying (up 21.1 per cent year on year) supported coal and copper concentrate exports, boosting foreign-currency revenues. On the downside, a severe "dzud" (adverse winter weather conditions) led to massive livestock losses (estimated at 8.1 million heads) and a 26.7 per cent year-on-year decline in agricultural output in the first half of 2024.

Inflation returned to the central bank's target. As of September 2024, inflation stood at 6.7 per cent. Inflationary pressures have been easing in 2024 on the back of Mongolian tugrik (MNT) appreciation and the normalisation of global food prices, enabling the Bank of Mongolia to bring the policy rate down to 10.0 per cent in September 2024.

The fiscal position remains robust thanks to high commodity revenues. In January-July 2024, the government budget surplus expanded 15.7 per cent year on year, despite a notable rise in expenditures (up 37.5 per cent year on year). Meanwhile, government revenues increased 36.5 per cent year on year on the back of strong growth in tax receipts. In recent months, international reserves have decreased slightly, falling 2.1 per cent on the month to US$ 4.7 billion (€4.2 billion) in July 2024 (but still up 23 per cent year on year), covering six months of imports.

Strong economic growth is expected to continue in the short run. Real GDP growth is forecast to decline to 5 per cent in 2024 because of the contraction in agricultural output, but then rebound to 8 per cent in 2025 as agriculture returns to normal and mining expands strongly. The outlook remains highly sensitive to economic activity in China, the primary destination for Mongolian exports. Another risk is that energy supply may not keep pace with the country's growing energy needs.

Assessment of transition qualities (1-10)



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Structural reform developments

Cross-border financial liberalisation has advanced. In late 2023, Mongolia adopted a law on investment banking, which permits foreign financial institutions to provide prescribed banking services in the country. Before that, foreign banks were only allowed to have representative offices.

Environmental challenges are being addressed. Five hundred new environmental monitoring stations have been installed across the country's capital, Ulaanbaatar. By enabling more efficient monitoring of the sources of pollution, the initiative aims to help reduce pollution and combat soil degradation. In June 2024, Mongolia signed a US$ 198 million (€177.8 million) Project Finance for Permanence agreement with The Nature Conservancy, aimed at conserving Mongolia's ecosystems. In addition, the recently introduced Eternal Mongolia initiative will support the implementation of environmentally friendly policies. The government has declared green development a top priority and will place a strong focus on renewable energy and battery storage to decrease the country's dependency on energy imports.

Mongolia has become an upper-middle-income country. On 1 July 2024, the World Bank reclassified Mongolia from a lower-middle-income country to an upper-middle-income one, as its annual gross national income per capita surpassed the threshold of US$ 4,516 (€4,055).

New industrial zones may strengthen competitiveness and resilience. In June 2024, the authorities decided to set up two special economic zones in Ulaanbaatar to foster the production of agricultural products and building materials. These zones are designed not only to strengthen the country's resilience by ensuring adequate domestic supply but also to support the launch of export-oriented production.

Regional ties are being strengthened. While Mongolia's trade turnover with its Central Asian neighbours still accounts for less than 0.5 per cent of its trade, it has increased almost 2.5-fold from 2018. Trade links with Kazakhstan and Uzbekistan are likely to intensify in the short term. Kazakh President Kassym-Jomart Tokayev suggested increasing trade turnover between Mongolia and Kazakhstan to a targeted US$ 500 million (€449 million). Concurrently, an intergovernmental programme on trade, economic and investment cooperation for 2024-26 was signed between Mongolia and Uzbekistan. Closer regional cooperation is also evident across the board, with joint initiatives aimed at forging stronger economic, cultural and tourism ties.

The Bank of Mongolia published its first sex-disaggregated green loan report. The sex-disaggregated data will enable a better understanding of female borrowing needs and support gender inclusion.

Tajikistan

Highlights

- **The economy is growing rapidly.** In the first half of 2024, real gross domestic product (GDP) posted solid growth of 8.2 per cent year on year. Growth was broad-based, with services, industrial production and investment activity emerging as the main drivers.
- **The International Monetary Fund (IMF) has approved a Policy Coordination Instrument (PCI) for Tajikistan.** This programme is designed to strengthen fiscal resilience and economic policies and help the authorities to make progress in the area of structural reform.
- **Measures have been introduced to green the economy.** In order to reduce emissions, public transport in the capital, Dushanbe, is set to switch over to e-vehicles. Moreover, the government plans to have renewable energy sources provide up to 1.5 GW of power by the end of 2027.

Key priorities for 2025

- **Cross-border cooperation and trade should be enhanced.** Full resolution of the longstanding border dispute with the Kyrgyz Republic will enhance security and support investor confidence, and the authorities should take steps to enable closer regional cooperation in the areas of energy, transport and water management.
- **Further efforts are needed to improve the investment climate.** Areas where measures could be introduced include the protection of property rights, the consistency of law enforcement mechanisms and the streamlining of bureaucracy. If successful, these measures could help the country to attract the investment it needs to complete the Roghun project.
- **The authorities should support the reintegration of returning migrants.** Initiatives in this area should focus on both: (i) economic opportunities (reskilling, job placements, fund matching programmes for entrepreneurs, and measures incentivising employers to hire migrants); and (ii) addressing the social and psychological needs of returnees.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	4.4	9.4	8.0	8.3	9.0
Inflation (average)	8.6	9.0	6.6	3.7	4.9
Government balance/GDP	-3.4	0.2	0.5	-0.3	-1.8
Current account balance/GDP	4.1	8.2	15.6	-0.7	-2.1
Net FDI/GDP [neg. sign = inflows]	-1.3	-0.9	-1.6	-1.2	na
External debt/GDP	81.6	74.5	59.0	51.8	na
Gross reserves/GDP	27.5	28.0	36.7	na	na
Credit to private sector/GDP	13.0	10.3	10.4	12.4	na

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Macroeconomic developments and policy response

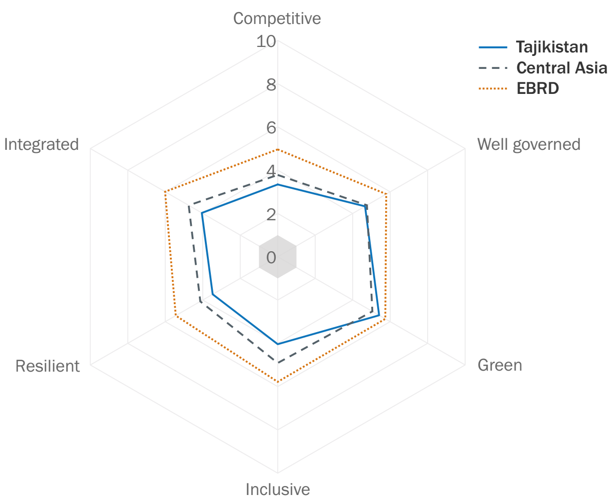
The economy posted strong growth in the first half of 2024. Real GDP rose by 8.2 per cent year on year, with domestic demand being the key driver. Growth in real wages (which rose by 19.6 per cent year on year from January to August 2024) boosted demand for hotels, restaurants and catering (which saw year-on-year growth of 14.4 per cent in the period from January to August 2024) and retail and wholesale trade (which rose by 11.8 per cent year on year). Increases in minimum wages, public-sector salaries, pensions and stipends, which took effect in July 2024, will provide further support for domestic purchasing power. Strong domestic demand facilitated import growth in January to August 2024 (with imports rising by 21.5 per cent year on year). As a result, the country recorded a trade deficit of US$ 3.2 billion (26.5 per cent of 2023 GDP), despite a significant uptick in exports of precious and semi-precious metals. Industrial production (which rose by 13.2 per cent year on year) was another driver of growth, supported by gains in mining (up 23.7 per cent year on year) and manufacturing (up 6.7 per cent year on year). On the expenditure side, fixed capital investment was up 8.1 per cent year on year, reflecting ongoing Roghun-related construction work and progress with other infrastructure projects.

Inflation has dropped significantly, falling to low levels. Price controls and a conservative monetary policy have helped bring inflation down, with a rate of just 3.4 per cent being recorded in July 2024, prompting the central bank to lower its policy rate by 25 basis points to 9 per cent in August 2024. Supported by strong export revenues, the Tajik somoni gained 2.5 per cent against the US dollar in the first eight months of 2024.

The country's fiscal position has improved. In the first eight months of 2024 budget revenues increased by 10.9 per cent year on year, supported by an increase in tax revenues (which rose by 12.4 per cent year on year). Effective revenue mobilisation supported budget expenditure, which increased by 10.6 per cent year on year and was mainly allocated to education, social security and energy. In February 2024 the IMF Executive Board approved a 22-month PCI for Tajikistan. That instrument is designed to assist the authorities with structural reforms and make the country's fiscal framework more resilient. In August 2024, citing the country's strong growth performance, the ratings agency Standard & Poor's (S&P) upgraded Tajikistan's long-term rating from "B-" to "B", with a stable outlook. According to S&P, Tajikistan is expected to record modest fiscal deficits and maintain sufficient foreign currency reserves in the coming years.

The strong growth is set to continue. Real GDP is projected to grow by 8 per cent in 2024 and 7 per cent in 2025 on the back of sustained domestic demand, robust export revenues and ongoing investment in infrastructure. At the same time, the country remains vulnerable to interruptions in remittance inflows.

Assessment of transition qualities (1-10)



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Structural reform developments

Significant progress has been made with the resolution of the longstanding border dispute with the Kyrgyz Republic. By August 2024, the two countries had agreed on 94 per cent of the disputed territories. Full resolution of the border issue will enhance cross-border cooperation, improve security and facilitate investment and trade.

Efforts to green the economy have been stepped up. In January 2024 city authorities in the capital, Dushanbe, announced that all of the existing fleet of buses would be replaced with e-buses in the coming years in order to reduce CO_2 emissions. Concurrently, all taxis would be replaced with electric vehicles by 1 September 2025. To prevent electricity shortages, the authorities now require (as of April 2024) all new and renovated buildings to be equipped with solar panels. Reflecting Tajikistan's commitment to further developing renewable energy sources, the country's president announced at the "Voice of the Global South" summit in August 2024 that Tajikistan was aiming to obtain 100 per cent of its electricity from green sources by 2032. As part of that endeavour, the authorities plan to increase the country's renewable energy capacity to 1.5 GW by 2027.

Tajikistan is aiming to achieve greater inclusivity and climate resilience. In May 2024 the country signed the UNICEF Declaration on Children, Youth and Climate Action, signalling its commitment to adopting more inclusive climate policies and ensuring the wellbeing of children and young people. UNICEF will assist Tajikistan with the implementation of the declaration by helping the country's Committee for Environmental Protection to strengthen its education, healthcare and social protection systems and make them more resilient to climate change risks.

Digital solutions for the education system are being rolled out. In March 2024 the government introduced a programme aimed at implementing information and communication technology in general educational institutions over the period 2024-28. That programme seeks to improve the quality, recognition and effectiveness of the country's education system by modernising teaching methods, enhancing educational services and improving the technology and other equipment that is used by educational institutions.

The digitalisation agenda is gaining traction. Following the issuance of a decree on measures to increase non-cash payments in August 2023, numbers of non-cash payments have risen significantly. By June 2024 the number of holders of bank payment cards had increased by 30 per cent year on year, the number of point-of-sale terminals had risen by 71.2 per cent year on year, and transaction volumes for payment cards had grown by 49.5 per cent year on year. The World Bank's E-GATE programme, which was launched in 2023, is likely to facilitate e-commerce through capacity building, technical assistance to help the government to develop necessary legislation, and measures to help local micro, small and medium-sized enterprises to join global e-commerce market places.

Efforts to enhance infrastructure are under way. In July 2024 the government established the Committee of Housing and Communal Services to help improve infrastructure service delivery and the management of communal facilities. That new committee has been tasked with overseeing water supply and waste management, conducting research, and drawing up strategies for optimising resource use. It will also monitor and enforce compliance with legal requirements, propose tariffs, and manage finances, public engagement and investor relations within the water sector.

Turkmenistan

Highlights

- **Economic growth remains stable.** Real gross domestic product (GDP) expanded 6.3 per cent year on year in January-July 2024, according to official data, thanks to an uptick in government-led investment activity, construction and services.
- **The newly introduced law on energy saving and efficiency lays the ground for greater energy resilience.** The new law is designed to facilitate the development of energy-efficient technologies, ensure the rational use of energy resources and enhance energy savings.
- **The authorities launched a single window for export-import operations.** By streamlining procedures, the system could boost foreign trade.

Key priorities for 2025

- **The authorities should continue their efforts to diversify gas exports.** More than 70 per cent of Turkmenistan's gas is exported to China, making the country vulnerable to fluctuations in Chinese economic activity. A new memorandum of understanding between Türkiye and Turkmenistan potentially opens up access to European Union markets in future, while the development of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline is a key priority, as it will potentially unlock gas exports to the vast South Asian market.
- **The very large gap between the official and parallel exchange rates needs to be reduced.** The current situation, which restricts access to foreign exchange for entrepreneurs, creates strong incentives for emigration and brain drain, exacerbating the human-capital bottleneck facing the country's industrial sector.
- **The use of water for irrigation needs to be rationalised.** With the highest risk of water stress in Central Asia, Turkmenistan must adopt a comprehensive approach to ensuring water security. Necessary measures should include incentives to adopt water-saving agricultural crops and technologies, as well as water re-use and recycling.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-2.1	-0.3	5.3	2.0	6.3
Inflation (average)	6.1	19.5	11.2	-1.7	6.3
Government balance/GDP	-0.1	0.5	2.5	1.3	0.9
Current account balance/GDP	2.9	6.6	7.0	4.8	4.1
Net FDI/GDP [neg. sign = inflows]	-3.1	-2.6	-1.7	-2.3	na
External debt/GDP	10.0	8.0	5.8	4.7	na
Gross reserves/GDP	na	na	na	na	na
Credit to private sector/GDP	na	na	na	na	na

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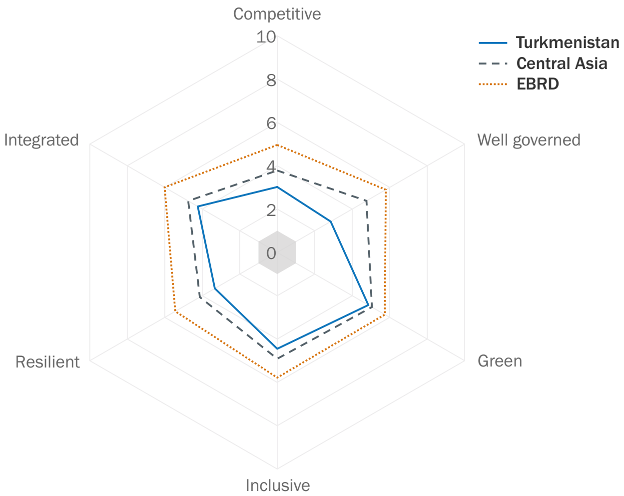
Macroeconomic developments and policy response

The economy is growing solidly, according to official data. The authorities reported a 6.3 per cent year-on-year increase in real GDP in January-July 2024, driven by government-led investment in the modernisation and development of social and industrial infrastructure. Construction activity rose 9.3 per cent year on year in the same period. Agriculture (up 7.8 per cent year on year) and transport (up 7.1 per cent year on year) also recorded robust growth. The industrial sector grew 3.6 per cent year on year, with oil, gasoline and polypropylene production exceeding plans. On the demand side, a 10.5 per cent uptick in wages helped drive an expansion in services (up 7 per cent year on year). In August 2024, the president signed a resolution on the construction of the Satlyk-1 gas compressor station, which will help sustain high natural gas production and support export growth. No official data on inflation are reported. The International Monetary Fund projects average inflation of 6.3 per cent in 2024.

Fiscal balance has been maintained. Budget revenue collections were 2.9 per cent better than expected in January-July 2024, while expenditures were kept within initial targets. Fitch Ratings forecasts the government budget to record a surplus of 0.2 per cent of GDP in 2024 on the back of elevated tax receipts. According to Fitch, Turkmenistan's international reserves have continued to grow, reaching 55 months of current external payments, way above the level of any other rated sovereign. The country's robust fiscal stance, low public debt and ability to maintain fiscal discipline led the agency to upgrade Turkmenistan's rating from "B+" to "BB-" with a "stable" outlook in August 2024.

Economic growth is expected to be maintained. Real GDP is forecast to expand by 6.3 per cent in both 2024 and 2025 on the basis of continued investment in energy, infrastructure and the agro-industrial complex. The authorities' efforts to modernise the economy and diversify gas export routes may offer an upside. On the downside, commodity price volatility and lower-than-expected growth in key trading partners may dent the outlook.

Assessment of transition qualities (1-10)



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Structural reform developments

Efforts to curb methane emissions and promote energy resilience are gaining traction. Having joined the Global Methane Pledge at the COP28 climate conference in November 2023, the Turkmen authorities have now approved the 2023-24 Methane Roadmap and formed the Intersectoral Commission for the Reduction of Methane Emissions. In summer 2024, a strategic advisory board, established in cooperation with the United Nations and the government, developed a comprehensive three-year (2025-28) Plan of Transition to Green Energy for consideration by the authorities in the lead-up to COP29. In parallel, in April 2024, the government introduced a law on energy saving and energy efficiency designed to ensure the rational use of energy resources, facilitate the adoption of energy-efficient technologies and encourage the use of renewable energy sources. In August 2024, the Ministry of Foreign Affairs unveiled a six-year plan to deepen international cooperation in the field of renewable energy (solar, wind and biomass).

Digital initiatives and improved regulation are designed to boost exports and international trade. A single digital window for export-import operations was launched in July 2024. This will facilitate the use of e-documentation in international trade transactions. The e-platform conforms to the previously adopted Law on Electronic Government, as well as United Nations and World Trade Organization recommendations. It will significantly simplify the process of obtaining the necessary licences and certifications, thus reducing corruption risk and lowering transaction costs for businesses. Regulatory improvements and monitoring efforts to prevent forced and child labour in cotton harvesting are being jointly undertaken by the International Labour Organization and the Turkmen authorities as part of the Roadmap 2024-25.

Substantial progress has been made on transport connectivity. Both cargo and passenger transportation more than doubled in the first half of 2024 on the back of significant infrastructure improvements. The State Agency for Management of Highway Construction is accelerating the construction and reconstruction of the country's interregional roads, while actively promoting the Turkmenbashi International Seaport as a regional transit hub. The second stage of the Turkmen Autobahn project (Ashgabat-Mary-Lebap) was completed in spring 2024, reducing the travel time between Ashgabat and Mary, the country's major agribusiness and industrial hub, to less than three hours. Once the last section of this highway, running through the Karakum desert from Mary to Turkmenabat, is opened, it will dramatically cut the transit time to the border with Uzbekistan.

Uzbekistan

Highlights

- **The economy continues to grow strongly.** In the first half of 2024, economic growth accelerated slightly to 6.4 per cent year on year, with the services sector the main driver, accounting for 2.8 percentage points of the growth rate.
- **Electricity and gas tariffs were brought closer to cost-reflective levels.** This step will facilitate resource-saving behaviour and may encourage private investment in the energy sector.
- **Measures to improve conditions for Uzbek migrants abroad are under way.** The authorities have introduced a number of steps to support its citizens abroad, including signed agreements with several countries.

Key priorities for 2025

- **The authorities should make fiscal management more effective.** The government budget has continued to record substantial deficits in 2024 and active fiscal consolidation measures are needed to make it more sustainable.
- **Facilitating further investment in renewables would improve energy resilience.** In recent years, gas production has fallen below consumption needs, prompting the authorities to start importing Russian gas. Investment in green energy would strengthen Uzbekistan's energy independence and enable exports in the longer term.
- **The authorities should accelerate the pace of privatisation.** The successful privatisation of Ipoteka Bank in 2023 was a welcome sign of the authorities' commitment to reducing the state's footprint in the economy. Further privatisations would strengthen the corporate governance framework in the main economic sectors and bode well for the country's investment climate.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	2.0	7.4	5.7	6.0	6.0
Inflation (average)	12.9	10.9	11.5	10.0	11.6
Government balance/GDP	-3.3	-4.8	-4.4	-4.6	-3.3
Current account balance/GDP	-5.0	-7.0	-0.8	-4.9	-4.9
Net FDI/GDP [neg. sign = inflows]	-2.9	-3.3	-3.3	-2.4	na
External debt/GDP	57.7	57.7	52.6	54.4	na
Gross reserves/GDP	58.0	50.8	44.1	38.0	na
Credit to private sector/GDP	35.5	35.6	36.3	38.8	na

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Macroeconomic developments and policy response

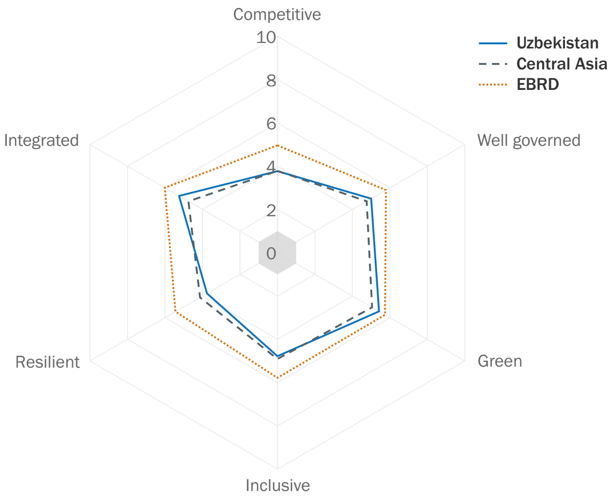
Economic growth picked up in the first half of 2024. The economy grew by 6.4 per cent year on year in the first six months of the year. Incoming remittances rose 25 per cent year on year and amounted to US$ 6.5 billion (€5.8 billion), supporting expansion in the services sector (up 6.4 per cent year on year, accounting for 2.8 percentage points of gross domestic product [GDP] growth). Mining stagnated, however, because of lower natural gas extraction. Even so, industrial production expanded 7.8 per cent on the year (accounting for 2 percentage points of GDP growth) thanks to a rise in manufacturing output (up 9.4 per cent year on year). Lower gas extraction led to energy shortages, prompting a 78.1 per cent year-on-year increase in mineral fuel imports in the first seven months of 2024. Concurrently, gold exports declined (down 25.6 per cent year on year), further widening the trade deficit, which reached US$ 7.3 billion (€6.5 billion, almost 8 per cent of 2023 GDP).

Inflation remains relatively high. As of July 2024, inflation was still in double digits, at 10.5 per cent, the highest rate in the Central Asian region. Inflationary pressures persisted because of rising imports, currency depreciation, energy tariff adjustments and government spending. Nevertheless, in July 2024, the Central Bank of the Republic of Uzbekistan reduced its policy rate by 50 basis points to 13.5 per cent. The Uzbek som (UZS) continued to depreciate through 2024, losing around 2.9 per cent against the US dollar from 1 January to 9 September.

International reserves act as a strong buffer, but fiscal discipline has weakened. In the first seven months of 2024, the budget deficit had already reached UZS 36.5 trillion (around €2.5 billion, or 3 per cent of 2023 GDP), while the 2024 consolidated budget deficit limit stood at UZS 52.6 trillion (€3.7 billion, 4 per cent of GDP). As more than 70 per cent of subsidies were allocated to the energy sector, upward tariff adjustments introduced in May 2024 are likely to help reduce government expenditure. According to Fitch Ratings, the budget deficit will reach 4.2 per cent of GDP in 2024 before moderating to 3.4 per cent in 2025. Increases in public-sector wages (effective October 2024) and pensions (from September 2024) are likely to put additional pressure on the government purse. On the positive side, Uzbekistan's international reserves increased to US$ 37.4 billion (€33.6 billion) in July 2024 (up 8 per cent in the year to date), aided by growing gold reserves, covering 11.7 months of imports.

The country will remain on a robust growth trajectory in the short term. Real GDP is forecast to grow by 6.0 per cent in both 2024 and 2025, supported by infrastructure investment and buoyant domestic demand. On the upside, market-oriented reforms could enhance the business climate and increase foreign direct investment. On the downside, energy deficits and disruptions to remittance inflows could hamper growth.

Assessment of transition qualities (1-10)



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Structural reform developments

Uzbekistan is attempting to improve conditions for labour emigrants abroad and to diversify migration patterns. A new presidential decree, passed in April 2024, introduced measures to support Uzbek labour migrants in other countries, including subsidies for professional and language certification, visa processing, travel costs, and financial and legal assistance for those in distress. In addition, to facilitate emigrants' return, employers in Uzbekistan who hire them will receive monthly subsidies. To reduce dependency on Russia, Uzbekistan has reached agreements with several countries to facilitate outward labour migration, including Germany. For instance, 390 positions were secured for Uzbek workers at Volkswagen and Volvo factories in the Slovak Republic, while in June 2024, a memorandum of understanding was signed with Latvia to train 600 Uzbek truck drivers to work in the EU.

Efforts to align national legislation with World Trade Organization (WTO) agreements are ongoing. A presidential decree issued in June 2024 envisages abolishing the exclusive rights of particular enterprises, export subsidies, and inefficient tax and customs benefits. Also, the government is revising customs duties to meet WTO standards and plans to unify rail freight services tariffs for export-import operations by 2030.

Long-overdue tariff reform will support energy-sector sustainability. In October 2023, electricity and gas tariffs for businesses were increased. However, for sociopolitical reasons, the authorities postponed any tariff increases for the public until May 2024. On 1 May 2024, Uzbekistan raised electricity and gas prices for households for the first time since August 2019, while simultaneously introducing consumption-based social supports for vulnerable groups. The households in question will pay lower rates for consumption within a set limit (up to 200 kWh of electricity per month and specific seasonal gas limits depending on the region). Usage beyond these limits will be subject to higher tariffs, based on consumption levels. A further price increase is scheduled for April 2025. Furthermore, on 1 August 2024, a new billing system for electricity consumption was introduced. This includes a mobile app, enabling users to track payments and usage. Overall, these initiatives could stimulate private investment in the energy sector and encourage resource-saving behaviour.

Uzbekistan has set up a National Investment Fund to manage state assets effectively. The new fund, established in August 2024, will be responsible for implementing Organisation for Economic Co-operation and Development corporate governance and international financial reporting standards, as well as integrating environmental, social and governance principles into the Fund's assets, thus increasing its market value and attracting institutional investors to participate in its investment and privatisation processes. Initially, the Ministry of the Economy and Finance will be the Fund's sole shareholder. By the end of 2026, the authorities plan to list the Fund's shares on the Tashkent and international stock exchanges.

Business support measures are gaining traction. Under a plan announced by the president in August 2024, branches of the state-owned Entrepreneurship Development Company will be established in each region of the country. The company will provide credit guarantees to support sustainable and solvent entrepreneurs. Some regulatory requirements have been abolished or adjusted. For example, micro-credit limits have been expanded, collateral requirements have been lifted for loans below a certain threshold and conditions for opening micro-credit organisations have been simplified. In addition, in response to popular demand, microfinance organisations are now allowed to offer Islamic financing products. Concurrently, to enable access to finance for small and medium-sized enterprises, Uzbekistan is advancing regulatory reforms aimed at creating a favourable environment for factoring.