# KAZAKHSTAN

## Highlights

- **The economy is contracting in 2020.** Real GDP fell by 2.8 per cent year-on-year in the first three quarters of 2020, driven by weak domestic and external demand caused by lower commodity prices, a cut in oil production, as well as Covid-19-related disruption of domestic economic activity.
- **The government has put in place a comprehensive anti-crisis package.** The list of adopted measures is extensive and includes liquidity support to individuals, firms and the banking sector, and extra spending on healthcare and public works.
- **Progress has occurred on longer-term diversification of the economy and the renewable energy reform agenda.** The government rejected a proposal to introduce local content premia in the renewable energy sector and, in August 2020, issued a green bond on the Astana International Exchange, representing the first listing of green bonds in Kazakhstan.

## Key priorities for 2021

- **The immediate priority is to continue providing support to sectors affected by Covid-19 disruptions and sustain private sector employment.** To help businesses stay afloat, support measures should combine tax/liquidity measures to smoothen income shocks and boost consumption in the hardest hit sectors, such as recreation and hospitality. Measures should be well-targeted to optimise the use of scarce financial resources.
- **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 supply of medical equipment. To further food security, it is also desirable to improve the organisation, and enhance the climate resilience, of the agriculture sector.
- **Efforts are needed to improve inclusion across regions and for vulnerable population groups.** Reforms in education and vocational education 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, and boost job creation in the modern sector of the economy.

Main macroeconomic indicators %

| | 2016 | 2017 | 2018 | 2019 | 2020 proj. |
|---|---|---|---|---|---|
| GDP growth | 1.1 | 4.1 | 4.1 | 4.5 | -4.0 |
| Inflation (average) | 14.6 | 7.4 | 6.0 | 5.2 | 6.8 |
| Government balance/GDP | -4.5 | -4.3 | 2.6 | -0.6 | -5.0 |
| Current account balance/GDP | -5.9 | -3.1 | -0.1 | -3.6 | -4.0 |
| Net FDI/GDP [neg. sign = inflows] | -12.5 | -2.8 | -0.1 | -2.0 | -0.5 |
| External debt/GDP | 118.5 | 100.7 | 90.0 | 87.5 | n.a. |
| Gross reserves/GDP | 21.6 | 19.3 | 18.1 | 16.1 | n.a. |
| Credit to private sector/GDP | 33.0 | 29.2 | 25.9 | 24.5 | n.a. |

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## Covid-19: macroeconomic implications

**The outbreak of the coronavirus crisis and the subsequent collapse of commodity prices has put the economy under pressure.** On the external side, Kazakhstan faces lower commodity prices and lower demand for its exports. In line with its OPEC+ commitments, Kazakhstan agreed to reduce domestic oil production by around 6 per cent year-on-year in 2020. At the same time, domestic containment measures undertaken by the authorities to reduce the spread of the virus are negatively weighing on private consumption and investment. Nevertheless, the economy is reasonably resilient to external shocks, thanks to significant fiscal buffers.

**Real GDP contracted by 2.8 per cent year-on-year in the first three quarters of 2020.** With the state of emergency declared on 16 March until 1 June, and mild quarantine re-introduced from 1 July until mid-August, the retail trade, transport and hospitality industries were strongly affected by the lockdown. Trade and transportation declined by 9.5 per cent and 17.1 per cent year-on-year, respectively, in the first three quarters of 2020. Construction, however, continued to grow during the same period (up by 10.5 per cent year-on-year). Fixed investment declined by 4.9 per cent year-on-year in the first three quarters of 2020, mostly due to investment into the Tengiz oilfield being put on hold due to Covid-19. This has led to a contraction in imports, primarily of capital goods, generating a current account surplus in the first half of 2020 of around US$ 2.1 billion (3 per cent of GDP) versus a deficit of US$ 1.9 billion a year earlier.

**The exchange rate depreciated in response to lower oil prices.** A depreciation of 15 per cent in the first three months of 2020 prompted the central bank to raise the policy rate from 9.25 per cent to 12.0 per cent in March 2020 and intervene in the foreign exchange market. In addition, the government instructed state-owned enterprises to sell their export earnings in the domestic foreign exchange market. After exchange rate pressures subsided, the policy rate was lowered to 9.5 per cent in April and 9.0 per cent in July 2020. As of October 2020, the Kazakh tenge/US dollar rate is down 11 per cent since the start of the year.

**A moderate recession in 2020 is expected to be followed by a rebound in 2021.** Real GDP is expected to contract by 4 per cent in 2020 before growing by 3 per cent in 2021. The upturn next year will be supported by recovery of private consumption and higher oil prices, but significant downside risks remain, notably a possible resurgence of the pandemic which would likely keep oil prices depressed in the short term.

## Policy response to Covid-19

**The authorities put in place a comprehensive crisis mitigation package.** In May 2020, the government approved a Comprehensive Plan for Economic Recovery in 2020, worth about 9 per cent of GDP. The list of adopted measures is extensive, covering liquidity support to individuals, firms and the banking sector, as well as spending on healthcare and public works. To finance this, the government increased the guaranteed transfer from the National Fund by KZT 2 trillion (US$ 4.7 billion) and intends to issue bonds, including in roubles, on the Moscow Exchange and Astana International Exchange. In addition, the government received a US$ 1 billion assistance package from the Asian Development Bank to help mitigate the health, social and economic impacts of the Covid-19 pandemic. The authorities plan to introduce further measures in case of prolonged economic disruption.

**Government support to individuals includes cash payments to the self-employed and unemployed, an extension of the social safety net and programmes to create more jobs.** Cash transfers amounting to the minimum wage of around US$ 95 per month were made to around 4.5 million affected individuals during the state of emergency starting from March 2020. The government raised pensions and social benefits by 10 per cent and provided food and utilities support. Furthermore, 2.7 per cent of GDP has been allocated to support employment under an "Employment Roadmap" programme, aiming to create 242,000 jobs through implementation of large-scale infrastructure and construction projects. The government also introduced a subsidised mortgage programme for young families (that is, those married for less than three years). In order to ensure food security, the authorities resorted to wheat and flour export quotas and banned exports of such foodstuffs as buckwheat, potatoes, sugar and sunflower oil in March to June 2020.

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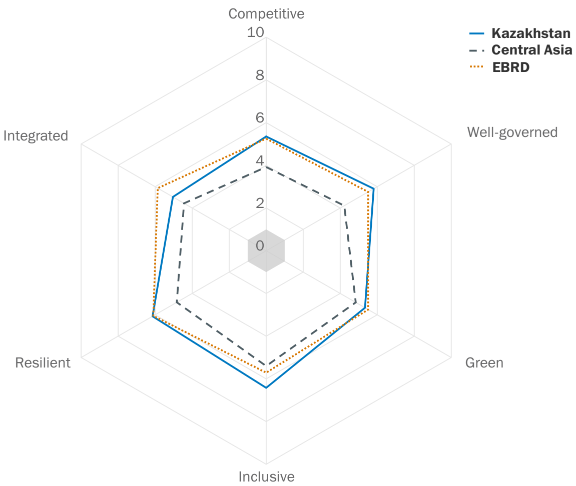
**Firms were helped by tax exemptions and incentives, concessional lending and loan deferrals.** The government is supporting import-substitution activities by manufacturing and agribusiness firms through subsidised lending of 1.5 per cent of GDP under the State Programme "Economy of Simple Things". Additional financing of 0.6 per cent of GDP is made available to small and medium-sized enterprises (SMEs) to finance short-term working capital needs. Farmers are offered forward contracts and fuel subsidies on top of concessional lending. Fiscal measures include exemption from income tax and social payments for six months, tax deferrals and value-added tax reduction on essential food products from 12 per cent to 8 per cent. Moreover, eligible borrowers are granted loan repayment deferral by banks and other lenders.

**Prudential requirements have been loosened to encourage bank lending.** In March 2020, the financial market regulator lowered risk weights for SMEs for loans in local currency from 75 per cent to 50 per cent and for loans in foreign currency from 100 per cent to 50 per cent. The regulator also reduced the liquidity coverage ratio requirement and the capital conservation buffer. The list of eligible collaterals for lending was expanded. Overall, as confirmed by the asset quality review (AQR) completed in February 2020, Kazakhstan's banking system is not facing serious downside risks, as capitalisation is sufficient both at the systemic level and at the level of the 14 individual banks included in the AQR.

Assessment of transition qualities (1-10)




## Structural reform developments

**Two new agencies were set up in September 2020 to give a fresh impulse to economic reform.** These are an Agency for Strategic Planning and Reforms and an Agency for the Protection and Development of Competition. The former will include the Committee on Statistics and the Supreme Presidential Council for Reforms, whose decisions will be final. The latter will play a key role in regulating "monopolistic players" and in bringing order to "commodity trading", particularly in the areas of oil products, electricity and coal.

**Privatisation of several key assets has been postponed.** Due to the pandemic and the associated decline in market sentiment, initial public offerings (IPOs) of KazMunaiGas (the national oil and gas company), Air Astana, KazPost and Kazakhstan Temir Zholy (the national railways), initially planned for early 2020, were postponed until 2021-23. Kazatomprom, the national nuclear company of Kazakhstan, was the first "blue chip" to be partially privatised via IPO on the London

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Stock Exchange and at the Astana International Financial Centre in 2018-19. In June 2020, the authorities sold another 6.3 per cent stake in Kazatomprom, leaving the remaining government stake at 75 per cent. In addition, the government aims to proceed with the sale of KazPost to a strategic investor by the end of 2020.

**The government remains committed to longer-term diversification and a renewable energy agenda.** The government is revising its Strategic Development Plan 2025 to address new development challenges and opportunities in the post-Covid-19 world, with a strong emphasis on digitalisation, investing in human capital and diversifying the economy. And although coronavirus risks diverting attention away from climate change mitigation, the authorities are pressing ahead with renewable energy reforms. In April 2020, the government rejected a proposal to introduce local content premia in the renewable energy sector as it contradicts the country's commitments under the Enhanced Cooperation Agreement with the European Union, World Trade Organization terms and other international agreements. In addition, a new methodology for regulatory asset-based tariffs was approved in May 2020, ensuring gradual repayment of the capital invested, including an estimated return on capital. Furthermore, a green bond was issued by Damu Fund on the Astana International Exchange in August 2020 – the first listing of green bonds in Kazakhstan. This represents an important step towards developing a green economy.

**A landmark public-private partnership (PPP) project is set to begin.** In August 2020, the financial closure of Big Almaty Ring Road (BAKAD) marked the conclusion of an eight-year effort to put in place the legal framework for foreign-invested, international-standard PPP projects in Kazakhstan. The largest infrastructure project in Kazakhstan outside the oil and gas sector, BAKAD, involves the construction of a 66 km ring road around Almaty. The project will be implemented by a Turkish-Korean consortium, and financed by the EBRD, Bank of China, PGGM, the Eurasian Development Bank and the Islamic Development Bank. Once completed, it is expected to help remove a major transport bottleneck in Almaty and increase the transit throughput capacity, while reducing local air pollution.

# KYRGYZ REPUBLIC

## Highlights

- **Real GDP contracted sharply in the first three quarters of 2020.** A drop of 6.0 per cent in GDP year-on-year in this period was partly influenced by a 7 per cent year-on-year drop in remittances in the first eight months of 2020, and by strong social distancing measures which had a severe impact on services and construction.
- **Bilateral and multilateral creditors have provided support.** The Kyrgyz Republic was the first country to receive Covid-19-related emergency financial assistance from the International Monetary Fund (IMF), amounting to a Rapid Credit Facility of US$ 241.8 million, while major bilateral creditor countries have agreed to postpone debt repayments.
- **The government responded to the pandemic with a package of economic stimulus measures.** An anti-crisis fund, amounting to 2 per cent of GDP in 2020 and 7 per cent of GDP in 2021, was created to provide concessional financing to enterprises in the hardest-hit sectors and encourage digitalisation.

## Key priorities for 2021

- **The authorities should continue providing targeted support to vulnerable households and small and medium-sized enterprises (SMEs).** This will be particularly vital in the hardest-hit sectors, such as hospitality and construction, with a focus on preserving existing, and creating new, jobs for returning migrants and young workers, including through public work programmes.
- **Further efforts are needed to digitalise the economy.** Measures should be taken to upgrade internet connectivity, particularly in the regions, and develop digital skills to enable remote learning and working.
- **Maintaining macroeconomic stability while exercising fiscal discipline will be important.** The government has committed to stabilise public debt at a sustainable level, and the authorities should therefore refrain from non-priority spending in order to bring the fiscal deficit below 3 per cent of GDP in 2021.

Main macroeconomic indicators %

| | 2016 | 2017 | 2018 | 2019 | 2020 proj. |
|---|---|---|---|---|---|
| GDP growth | 4.3 | 4.7 | 3.5 | 4.5 | -9.5 |
| Inflation (average) | 0.4 | 3.2 | 1.5 | 1.1 | 6.0 |
| Government balance/GDP | -5.8 | -3.7 | -0.6 | -0.1 | -7.0 |
| Current account balance/GDP | -11.6 | -6.2 | -12.1 | -5.6 | -14.0 |
| Net FDI/GDP [neg. sign = inflows] | -9.1 | 1.4 | -1.7 | -2.5 | -0.5 |
| External debt/GDP | 100.2 | 91.0 | 83.8 | 82.7 | n.a. |
| Gross reserves/GDP | 28.9 | 28.3 | 26.6 | 28.7 | n.a. |
| Credit to private sector/GDP | 20.6 | 21.4 | 23.4 | 25.8 | n.a. |

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## Covid-19: macroeconomic implications

**The economy is being severely affected by Covid-19 disruptions.** This is due to the country's high external vulnerability, strict lockdown measures crippling domestic demand, and the government lacking the means for significant stimulus spending. With travel restrictions in place and bleaker economic prospects in Russia, the Kyrgyz Republic is seeing a significant reduction in remittances and a worsening of domestic demand conditions. Remittance inflows from Russia declined by 7 per cent year-on-year in US dollar terms in the first eight months of 2020, severely affecting domestic consumption and construction activities. The state of emergency from late March until mid-May 2020, and milder social distancing measures in place since June 2020, have depressed domestic demand; a dramatic drop in imports from China (65 per cent year-on-year in the first five months of 2020) hit associated domestic production, re-export activities, and budget revenues. A particular concern is that many households rely on the large informal economy (23 per cent of GDP in 2018 according to official estimates), comprising mostly micro enterprises that are difficult to target by the government's fiscal stimulus and other support measures.

**Real GDP dropped 6.0 per cent year-on-year in the first three quarters of 2020,** driven by contractions in construction, retail trade and the hospitality industry (down 7.7, 16.2 and 45.4 per cent year-on-year, respectively). Agriculture grew by 2.1 per cent year-on-year during the same period. Industrial production shrank by 1.9 per cent year-on-year as mining recorded a decline of 5.9 per cent. Excluding the Kumtor gold mine, GDP declined by 7.1 per cent year-on-year during this period.

**The exchange rate depreciated after a lengthy period of stability since mid-2016.** In March 2020, the weakening of oil prices and the fall in remittances led to a significant weakening of the som by 16 per cent over the month. The som has somewhat strengthened since then, supported partly by foreign exchange interventions. Inflation spiked at 8.6 per cent year-on-year in April 2020, but gradually decelerated to 5.4 per cent in September (within the central bank's target corridor of 5-7 per cent), as restrictive measures weigh on domestic demand and the earlier impact of panic hoarding subsided.

**The economy is facing a deep recession in 2020 but some growth in 2021.** With domestic demand remaining subdued and tourism activities not materialising in the third quarter of 2020, we expect a GDP contraction of 9.5 per cent in 2020. In 2021, the economy is forecast to grow by 3.0 per cent with domestic demand picking up and international trade, transport and tourism linkages being partially revitalised. This forecast is subject to very significant downside risks stemming from the political turmoil in the wake of the October 2020 elections.

## Policy response to Covid-19

**The government's anti-crisis measures are aimed at protecting public health, stabilising the socio-economic situation and re-launching economy activity.** Reflecting the tight fiscal space, the policy response has focused mostly on supporting enterprise liquidity rather than on social protection for households. In May 2020, an anti-crisis fund was created to provide concessional financing to enterprises of around 2 per cent of GDP in 2020 and 7 per cent of GDP in 2021. The main targeted sectors are tourism, light industry, the pharmaceutical industry, manufacturing, agribusiness and freight transportation. In order to promote digitalisation, concessional loans are also available to SMEs transitioning to digital systems with transparent accounting and reporting of operations. Other measures include reduced social contributions by businesses, a moratorium on business inspections and a temporary ban on bankruptcy procedures of businesses until 2021.

**The central bank loosened prudential requirements and postponed enactment of several financial regulations.** As of March 2020, the National Bank of the Kyrgyz Republic recommends banks and non-bank financial institutions (NBFIs) to provide a grace period for loan repayments of at least three months, it prohibits the imposition of fines and penalties for non-fulfilment of loan obligations, and it allows banks and NBFIs not to downgrade the loan classification category when changing the terms of contracts of the affected borrowers. In addition, the liquidity ratio has been lowered from 45 per cent to 30 per cent, short-term liquidity ratio requirements are removed and

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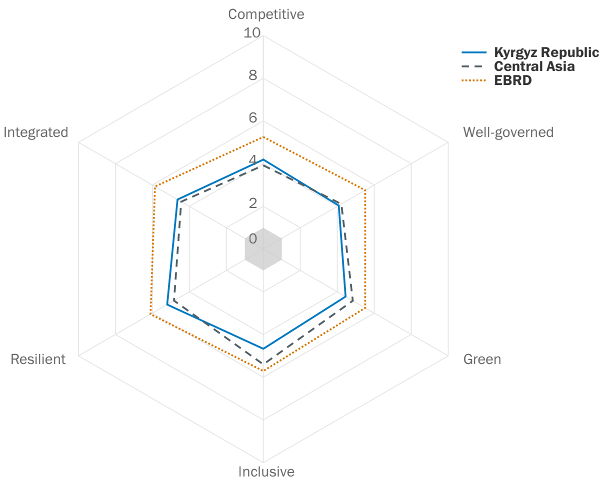
risk-weights of corporate and retail loans in foreign currency are reduced from 150 per cent to 100 per cent. According to government estimates, half of the banks' loan portfolios have undergone loan restructuring since the start of the Covid-19 crisis.

**The Kyrgyz Republic was the first country to receive Covid-19-related emergency financial assistance from the IMF.** The IMF provided US$ 120.9 million in March 2020 and another US$ 121.1 million in May 2020 after doubling the country's quota under the Rapid Credit Facility. The loan is helping the country close a balance-of-payments gap estimated at about US$ 500 million. Given strong pressures on the fiscal account, the IMF support helps to preserve fiscal space for essential Covid-19-related health expenditures. In addition, the government received US$ 50 million in loan and grant financing from the Asian Development Bank and a US$ 100 million loan from the Eurasian Development Bank. The state budget recorded a deficit of 7.1 per cent of GDP in May 2020 (compared with a surplus of 1 per cent a year ago) reflecting significant healthcare spending and loss of taxes on ailing enterprises and international trade.

**Major bilateral lenders have agreed to a postponement of external debt repayments.** In June 2020 a memorandum was signed by the government with Paris Club countries – Germany, France, Denmark, Japan and South Korea – to delay repayments until 2022-24. Debt restructuring is also being considered with these countries. Similar agreement was reached with China, Saudi Arabia and Kuwait and the G20 economies. The IMF assesses the Kyrgyz Republic's risk of debt distress as moderate, and the authorities have committed to keep the general government deficit at or below 3 per cent of GDP in the short and medium term. Public debt is estimated at 62.2 per cent of the forecasted GDP in June 2020, up from 54 per cent in 2019.

Assessment of transition qualities (1-10)




## Structural reform developments

**Banking sector indicators remain stable, partly helped by the relaxation of prudential regulations.** The capital adequacy ratio was 25.6 per cent at 30 June 2020 (compared with 24 per cent in 2019). The liquidity ratio stood at 63 per cent at 30 June 2020 (compared with 64 per cent in 2019). The non-performing loan ratio increased slightly to 8.8 per cent in July 2020 from 7.9 per cent a year ago. Nevertheless, the sector's capitalisation and asset quality are expected to worsen somewhat, reflecting the economic contraction in 2020.

**The Kyrgyz Republic has to import electricity in 2020 and early 2021 because of a shortage of water in the Toktogul reservoir.** The country is planning to purchase 1 billion kWh of electricity from Kazakhstan, Tajikistan and Turkmenistan. The cost of imported electricity exceeds revenues

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from residential tariffs, necessitating cross-subsidisation by other sectors. Residential tariffs are to remain unchanged in 2020, thus failing to encourage households to save energy. Consequently, electricity consumption in the Kyrgyz Republic exceeds that of peer countries with similar weather conditions, according to an IMF study. Low tariffs also lead to suboptimal investment in the sector, inefficient use of energy, and financial losses. Energy sector companies' cumulative debts reached KGS 110 billion as of May 2020 (US$ 1.5 billion, 19 per cent of GDP).

**E-government reforms have progressed thanks to steps taken under the digital transformation concept "Sanarip Kyrgyzstan 2019-2023".** In the UN Global E-Government Development Index for 2020, the Kyrgyz Republic ranked 83rd out of 193 countries, second after Kazakhstan in Central Asia. The country advanced eight notches from last year. In particular, the Kyrgyz Republic posted a 73 per cent improvement in telecommunications infrastructure.

**The new Business Ombudsman Institute is operational.** The institute, established to defend the rights, interests and freedoms of entrepreneurs, accepted its first complaints in April 2020 in the midst of the crisis. As of the end of September 2020, 17 investigations had been completed, with five cases resolved with an overall monetary value of around KGS 7 million (US$ 86,000).

# MONGOLIA

## Highlights

- **The Covid-19 pandemic has exposed Mongolia's key economic vulnerabilities.** The economy's extreme dependence on China as its main export market and a narrow specialisation in a small number of mineral commodities have contributed to a 9.7 per cent year-on-year fall in GDP in the first half of 2020.
- **The authorities adopted two packages of anti-crisis fiscal measures to stimulate economic activity and save jobs.** Measures include tax exemptions, increases in child allowances and unemployment benefits, credit guarantees to small and medium-sized enterprises (SMEs) and soft loans for cashmere producers.
- **Mongolia received substantial assistance from international financial institutions.** Among other support, a US$ 99 million emergency assistance package from the International Monetary Fund (IMF) is helping the country meet urgent budgetary and balance-of-payments needs and support the most affected sectors and vulnerable groups.

## Key priorities for 2021

- **A key priority is to mitigate the social and economic impacts of the pandemic.** The government should continue protecting those most affected by the crisis through job creation and expanded social protection, while improved access to digital technologies and skills will increase inclusion, especially for those in remote areas and migrants living on the outskirts of large cities.
- **Macroeconomic stability and fiscal discipline should be maintained.** The authorities should stick to their commitment to unwind fiscal loosening in 2021 once the immediate impact of the pandemic subsides.
- **Investment climate and governance issues need to be addressed.** The Investment Protection Council can be used as an effective tool to protect the rights and interests of investors. Public investment in physical and human capital is also key for attracting foreign direct investment and achieving longer-term diversification of the economy.

Main macroeconomic indicators %

| | 2016 | 2017 | 2018 | 2019 | 2020 proj. |
|---|---|---|---|---|---|
| GDP growth | 1.2 | 5.3 | 7.2 | 5.1 | -6.5 |
| Inflation (average) | 0.7 | 4.3 | 6.8 | 7.3 | 5.0 |
| Government balance/GDP | -15.3 | -3.8 | 3.0 | 0.9 | -12.0 |
| Current account balance/GDP | -6.3 | -10.1 | -16.8 | -15.6 | -13.0 |
| Net FDI/GDP [neg. sign = inflows] | 37.2 | -13.1 | -14.9 | -17.6 | -8.0 |
| External debt/GDP | 183.9 | 245.4 | 235.3 | 221.0 | n.a. |
| Gross reserves/GDP | 11.7 | 26.4 | 27.1 | 31.4 | n.a. |
| Credit to private sector/GDP | 56.9 | 53.1 | 55.7 | 50.1 | n.a. |

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## Covid-19: macroeconomic implications

**The pandemic has exposed the Mongolian economy's key vulnerabilities.** These are, first: the extreme dependence on China as the main export market (accounting for 93 per cent of total exports in 2019), and second, the narrow specialisation in a very small number of mineral commodities (around 87 per cent of total exports). In the first eight months of 2020, as a result of the partial border closure in February 2020 for freight cargo and weaker demand, exports declined by around 17 per cent year-on-year, with coal exports contracting by 45 per cent and copper by 24 per cent. In contrast, gold exports rose by 233 per cent year-on-year in the same period. The drop in export revenues and the introduction of tax relief measures have resulted in a 19 per cent contraction year-on-year of fiscal revenues in January to August 2020, and the delay in the production schedule of Oyu Tolgoi's phase 2 may put further pressure on the budget. Public debt had already reached 69 per cent of GDP at the end of 2019, and Mongolia faces large bond maturities in 2021-24 equal to roughly half of international reserves.

**Mongolia's economy is one of the most severely affected by Covid-19 in Central Asia.** Real GDP fell by 9.7 per cent year-on-year in the first half of 2020, as partial lockdown measures from mid-February 2020 until 30 April 2020 significantly constrained household demand. This period also included a temporary suspension of coal exports to China in February and March, tight restrictions on international flights and railways, and strict social-distancing measures. The transportation, trade and services sectors posted losses. Mining was down by 30 per cent year-on-year in the first half of the year, with production of most commodities shrinking, except for gold.

**Credit to the economy is declining due to lower levels of economic activity and higher risks.** Total outstanding loans shrank by 4 per cent year-on-year in September 2020 compared with 11 per cent growth a year ago. Both retail and corporate loans dropped despite steps taken by the central bank to soften prudential regulations (and hence support bank lending to the private sector) and reduce the policy rate (stepwise from 11.0 per cent in February 2020 to 9.0 per cent in April 2020 and further to 8.0 per cent in September). Inflation decelerated significantly to 1.7 per cent year-on-year in September 2020, well below the target rate of 8 per cent, amid sluggish domestic demand. The exchange rate depreciated by a modest 5 per cent between the beginning of 2020 and 30 September 2020, as the central bank regularly intervened in the foreign exchange market. As a result, gross international reserves dropped from an historic high of US$ 4.4 billion in February 2020 to US$ 3.6 billion by 31 August 2020.

**A strong recession in forecast in the short term, but with some recovery in 2021.** With tourism activities not materialising in the third quarter of 2020 (severely affecting the hospitality sector and cashmere exports), Mongolia's GDP is expected to contract by 6.5 per cent in 2020. The economy is forecast to grow by 5.0 per cent in 2021 as tourism and China's demand for Mongolia's key exports gradually recover, but significant downside risks remain, to do mainly with a possible resurgence of the pandemic.

## Policy response to Covid-19

**The authorities adopted two packages of anti-crisis fiscal measures to stimulate economic activity and save jobs.** The first set of measures (amounting to 14 per cent of GDP), approved in April 2020, include tax exemptions on selected imported food and medical items, exemptions on income tax and social security contributions, an increase in child allowances and unemployment benefits, credit guarantees to SMEs and soft loans to cashmere producers. The second package (2 per cent of GDP), approved in May, provided additional support to households (increasing social welfare pensions and food stamp allowances for the elderly, disabled and orphans), as well as subsidies to the cashmere sector.

**The central bank implemented prudential measures to support the banking sector and stimulate lending.** In March 2020, the central bank reduced reserve requirements in local currency and banks' liquidity ratios. In addition, the central bank has taken temporary financial forbearance measures to ease the financial pressure on distressed businesses and households. These involve easing loan classifications, restructuring standards allowing a deferred payment of consumption

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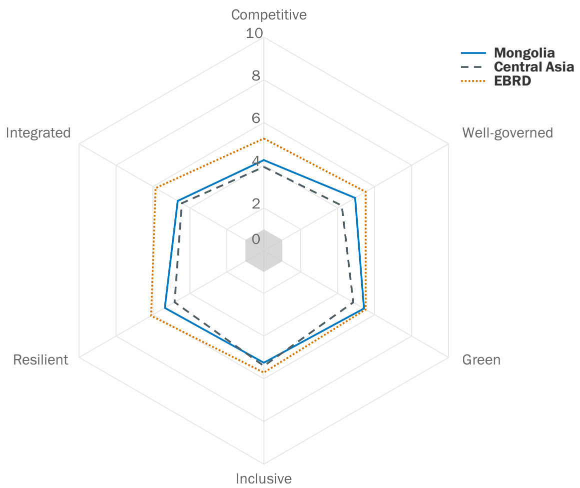
loan principals and interests, and suspending corrective actions against breaches of the capital conservation buffer. Furthermore, the central bank temporarily resumed a subsidised mortgage loan programme for an estimated MNT 150 billion (US$ 52 million) until the end of 2020.

**Mongolia received US$ 99 million emergency financial assistance from the IMF.** This is to help the country meet urgent budgetary and balance-of-payments needs stemming from the outbreak of Covid-19, and to support the most affected sectors and vulnerable groups. The IMF's previous Extended Fund Facility (EFF) arrangement with the government of Mongolia went off track due to insufficient progress on the recapitalisation of banks and expired in May 2020. Only five out of 11 reviews were completed under the EFF programme. The authorities have reiterated their commitment to ensure a fully capitalised banking system after Covid-related pressures subside and to address the outstanding commitments under the EFF. In addition, in May 2020 the Asian Development Bank provided a US$ 100 million loan to mitigate the severe health and economic impacts of the Covid-19 pandemic.

Assessment of transition qualities (1-10)




## Structural reform developments

**Mongolia is making progress with addressing deficiencies in anti-money laundering and combating the financing of terrorism (AML/CFT).** Mongolia was added to the Financial Action Task Force's (FATF) grey list in October 2019 after the country failed to pass the necessary requirements related to AML/CFT. The FATF's June 2020 plenary meeting recognised that Mongolia has successfully addressed all six high priority actions and warrants an onsite assessment to verify that the implementation of Mongolia's AML/CFT reforms has begun and is being sustained, and that the necessary political commitment remains in place to sustain implementation in the future. Some key reforms conducted by the government include applying a risk-based approach to supervision and applying proportionate and dissuasive sanctions for breaches of AML/CFT obligations, along with demonstrating increased investigations and prosecutions of different types of money laundering activity in line with identified risks.

**The government intends to take measures to amend the Oyu Tolgoi investment agreement.** In December 2019 the parliament issued a resolution that directed the cabinet to seek discussions with Rio Tinto to amend the investment agreement and the Oyu Tolgoi Underground Mine Development and Financing Plan, and develop an option to convert the 34 per cent government share ownership into a royalty or production-sharing arrangement. This is regarded as a negative signal for investors and underscores the longstanding strained relations over taxation, delays and other aspects of the large-scale copper mining project between the government and Rio Tinto, the operator of the copper and gold mine.

# TAJIKISTAN

## Highlights

- **The Tajik economy continues to grow despite the impact of the Covid-19 pandemic.** Real GDP rose by 3.5 per cent year-on-year in the first half of 2020 thanks to strong performances in industry (leading to a dramatic increase in gold exports) and agriculture.
- **The government has focused its limited crisis response resources on healthcare, food security, targeted support of vulnerable households, and tax benefits to small and medium-sized enterprises (SMEs).** Low-income households received cash transfers, and firms were granted tax holidays, free rent of state property, property tax exemptions and postponements of non-tax audits.
- **Tajikistan received a comprehensive foreign aid package.** This includes US$ 189.5 million in emergency financing from the International Monetary Fund (IMF), a US$ 52.5 million grant from the Asian Development Bank, a US$ 11.3 million grant from the World Bank, and debt relief of US$ 50 million under the G20 debt service suspension initiative.

## Key priorities for 2021

- **The authorities should continue providing targeted support to vulnerable households and SMEs in the hardest-hit sectors.** There should also be a focus on preserving existing jobs, and creating new opportunities, for young workers and returning migrants, including through public work programmes.
- **Reforms need to continue to improve the business environment and attract foreign investment.** The focus should be on easing two key constraints for businesses: tax administration practices, and currency restrictions. The business environment is also hampered by governance deficiencies and a lack of a level playing field, which should be tackled to facilitate the flow of investment.
- **Fiscal and monetary discipline should be maintained.** The authorities should adhere to the targeted overall fiscal deficit of 4.4 per cent of GDP in 2021 and refrain from non-priority spending, while the central bank should continue exercising strong oversight of the banking sector to ensure confidence in the banking system.

Main macroeconomic indicators %

| | 2016 | 2017 | 2018 | 2019 | 2020 proj. |
|---|---|---|---|---|---|
| GDP growth | 6.9 | 7.1 | 7.3 | 7.5 | -1.0 |
| Inflation (average) | 5.9 | 7.3 | 3.8 | 7.8 | 8.0 |
| Government balance/GDP | -9.0 | -6.0 | -2.8 | -2.1 | -6.0 |
| Current account balance/GDP | -4.2 | 2.2 | -5.0 | -2.3 | -7.5 |
| Net FDI/GDP [neg. sign = inflows] | -3.5 | -2.6 | -2.9 | -2.6 | -0.1 |
| External debt/GDP | 68.9 | 77.2 | 79.4 | 80.3 | n.a. |
| Gross reserves/GDP | 9.4 | 18.0 | 17.1 | 18.1 | n.a. |
| Credit to private sector/GDP | 19.2 | 13.7 | 12.3 | 11.8 | n.a. |

CONTINUES

## Covid-19: macroeconomic implications

**Tajikistan's economy initially appeared to be relatively immune to the Covid-19 pandemic, but problems have arisen.** With the first Covid-19 cases declared only at the end of April 2020, Tajikistan was able to introduce relatively mild containment measures, and did so later than most regional peers. Temporary restrictions included a ban on mass gatherings and closing of some local businesses, schools and kindergartens, but most SMEs were able to continue operating through much of the period. The economy was mainly affected by the disruption to transportation links with key trading partners and limited access to the Russian labour market. International arrivals halved in the first half of 2020 while remittances from Russia declined by around 15 per cent year-on-year in the same period, weighing on consumption, imports and the government's tax receipts.

**Despite external pressures, Tajikistan's economy grew by 3.5 per cent year-on-year in the first half of 2020.** Growth was driven by strong performances in industry (leading to a dramatic increase in gold exports) and agriculture. Freight transportation, hospitality, retail trade and services to households had a negative contribution to growth. The country's gold exports (to Switzerland) increased by 140 per cent year-on-year in US dollar terms. Excluding precious metals, exports took a major hit, declining by 22 per cent year-on-year. Tax revenues were 7 per cent lower than targeted in the first half of 2020, forcing the government to cut budget outlays to public management, industry and construction. The central bank reduced the policy rate stepwise from 12.25 per cent in December 2019 to 10.75 per cent in August 2020 in order to support domestic demand.

**The exchange rate was mildly devalued.** In response to deteriorating external accounts, the central bank devalued the exchange rate by 5 per cent in March 2020. Overall, the official exchange rate weakened by 6 per cent in the first three quarters of 2020. The gap between the official and parallel market exchange rate was 3.2 per cent at 30 June 2020. Inflation stood at 6.6 per cent year-on-year in September 2020 (slightly down from 8.1 per cent a year ago).

**The economy is expected to go into a slight recession in the short term, with some recovery in 2021.** The economy is forecast to contract by 1 per cent in 2020 but grow by 3 per cent in 2021, following expected economic recoveries in Russia and China. Risks are tilted to the downside, especially if a prolonged pandemic continues to affect key trading partners.

## Policy response to Covid-19

**The government's anti-crisis response focuses on food security, vulnerable groups, and tax benefits to SMEs.** To prevent panic-buying and control prices, the government temporarily banned the export of wheat, rice, lentils, peas, mung beans, eggs, potatoes and meat. Price controls were introduced for key consumer goods and medical supplies, and essential imports were exempt from value-added tax. Vulnerable households received cash transfers equivalent to the minimum wage (around US$ 12 a week). Free medical care is provided to citizens diagnosed with Covid-19, along with sick leave and compensation benefits. Firms benefited from tax holidays, free rent of state property, property tax exemptions as well as postponements of non-tax audits. Public servant salaries, pensions and scholarships were increased by 10 to 15 per cent in September 2020. Health workers are to receive supplemental pay, while utilities tariff increases have been postponed until the end of 2020.

**The central bank adopted an action plan to mitigate the impact of the Covid-19 pandemic.** To free up liquidity for banks, in April 2020 the National Bank of Tajikistan (NBT) reduced reserve requirements for liabilities in local currency from 3 to 1 per cent and, in foreign currency, from 9 to 5 per cent. It exempted credit institutions from paying fees for using the settlement system. The NBT also recommended banks to waive penalties for affected businesses and individuals who struggle to repay their loans between May and October 2020. In addition, banks are also encouraged to prioritise lending to enterprises engaged in import-substituting activities.

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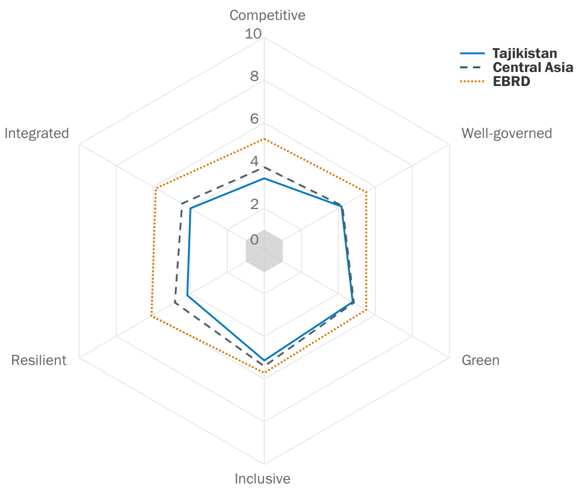
**Policy response to Covid-19 is being supported by international financial assistance.** Among others, Tajikistan received US$ 189.5 million in emergency financing from the IMF for budget support. The IMF estimates that a worsening in Tajikistan's external and fiscal positions will lead to a large fiscal and external financing gap in 2020 of around US$ 150 to US$ 400 million (2 to 5 per cent of GDP). The IMF assistance will provide a sizeable share of the financing needed to implement anti-crisis measures. The government also attracted a US$ 52.5 million grant from the Asian Development Bank, a US$ 11.3 million grant from the World Bank, and support from other development partners. The IMF and the authorities agreed on the implementation of fiscal consolidation measures of 2 per cent of GDP in 2021-22 to ensure debt sustainability. This will be achieved via a combination of revenue and expenditure measures to ensure that priority capital spending could be financed domestically to reduce reliance on external financing. In addition, Tajikistan received six-month debt relief from the IMF (amounting to US$ 10 million), with potential extensions of up to a maximum of two years from April 2020; debt relief around US$ 50 million was also provided under the G20 debt service suspension initiative.

Assessment of transition qualities (1-10)




## Structural reform developments

**A new Tax Code is being developed.** This effort is being supported by international partners and is being designed in consultation with the private sector. Disruptive tax collection practices are a key challenge for Tajik businesses, and the private sector's engagement in the tax reform process is a positive development. The new Tax Code aims to simplify tax administration, reduce the tax burden, eliminate inconsistencies that allow for ambiguous interpretation and arbitrary application of many provisions, and incentivise businesses to move out of the informal sector. The draft Tax Code has been submitted to ministries and parliament for review and is expected to be finalised by January 2021.

**Further steps have been taken to reform the energy sector.** In 2019, the government adopted Resolution No. 389 of 2019, creating the Electricity Sector Regulation Department to serve as an independent sector regulator. The asset and inventory split between transmission and distribution, and functional unbundling of the national utility company Barki Tojik, were largely completed. Barki Tojik also proceeded with legal unbundling: in accordance with the government decree No. 330: OSHC "Barqi Tojik" was split into two companies: Shabakahoi Intiqoli Barq OJSC (transmitting electric networks) and Shabakahoi Taqsimoti Barq OJSC (electrical distribution network). As envisioned by the Ministry for Energy and Water Resources, the new companies are to become fully operational by the end of 2020, following the appointment of new management, and the establishment of separate balance sheets and income statements.

# TURKMENISTAN

## Highlights

- **Turkmenistan continues to report strong GDP growth despite a large drop in the country's export revenues.** Officially reported real GDP growth slowed to 5.8 per cent year-on-year in the first three quarters of 2020 from 6.3 per cent a year ago.
- **The Covid-19 pandemic has hit Turkmenistan's export revenues hard.** The outbreak of the crisis and the subsequent collapse of demand for gas has led China, Turkmenistan's main export market, to significantly reduce its pipeline gas imports from Turkmenistan.
- **The budget is being revised to cut down spending.** In April 2020 the president instructed the government to prepare proposals for revising the state budget and expenditure and to develop short- and medium-term measures to reduce the negative impact of the global economic contraction and the virus on business activities.

## Key priorities for 2021

- **A key priority is to deal with the economic and healthcare implications of Covid-19.** The government should offer financial support to the affected sectors and households. Measures should focus on liquidity as well as solvency.
- **Currency convertibility issues need to be addressed and the exchange rate should be adjusted to reflect macroeconomic fundamentals.** 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 take measures to 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 in planning investment, production and financial management decisions, while also helping the government take timely policy actions grounded in rigorous statistical evidence.

Main macroeconomic indicators %

| | 2016 | 2017 | 2018 | 2019 | 2020 proj. |
|---|---|---|---|---|---|
| GDP growth | 6.2 | 6.5 | 6.2 | 6.3 | -1.0 |
| Inflation (average) | 3.6 | 8.0 | 13.3 | 5.1 | 8.0 |
| Government balance/GDP | -2.4 | -2.8 | -0.2 | -0.3 | -1.4 |
| Current account balance/GDP | -20.2 | -10.4 | 5.5 | 5.1 | 1.0 |
| Net FDI/GDP [neg. sign = inflows] | -6.2 | -5.5 | -4.9 | -4.8 | -2.5 |
| External debt/GDP | 23.1 | 26.9 | 27.7 | 29.2 | 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

**Turkmenistan continues to report strong GDP growth despite the global economic contraction.** Officially reported real GDP growth slowed to 5.8 per cent year-on-year in the first three quarters of 2020 from 6.3 per cent a year ago. The government reported that retail trade turnover increased by 19.4 per cent year-on-year in the first three quarters of 2020. According to official data, Covid-19 has not been diagnosed in the country. However, the authorities took preventive steps to restrict cross-border and internal movements and impose social distancing. Large shopping centres, markets, theatres, parks and sports facilities had to briefly suspend operations from 21 July to 1 August 2020. Nevertheless, domestic containment measures in Turkmenistan have thus far been milder than in other Central Asian countries, with services and small and medium-sized enterprise (SME) sectors affected to a much lesser extent than elsewhere.

**Covid-19 has hit Turkmenistan's export revenues hard.** In 2019, Turkmenistan was number one exporter of gas to China. Around 90 per cent of Turkmenistan's exports are supplied to China. The outbreak of the coronavirus crisis and the subsequent collapse of demand for gas has led China to reduce its pipeline gas imports. In March 2020, China issued a *force majeure* notice to its gas suppliers to suspend imports. In May 2020, the Chinese authorities indicated their intention to cut natural gas imports proportionally between Turkmenistan, Uzbekistan and Kazakhstan. According to the International Monetary Fund (IMF) and Trade Map data, exports declined by 44 per cent year-on-year in the first seven months of 2020, mostly consisting of gas supplies to China.

**Reduced foreign exchange inflows have translated into tighter foreign exchange regulations.** These added restrictions are interfering with private sector activities. While the official exchange rate peg is maintained at 3.5 manats per US dollar, the parallel market exchange rate has depreciated from 18 to 19 manats per US dollar in January 2020 to 23 to 24 manats in September 2020. In May the government established the Reserve Currency Fund which will accumulate the foreign currency earnings of all state enterprises.

**The economy is likely to contract in the short term, given the large drop in gas exports.** We forecast GDP to contract by 1.0 per cent in 2020 and return to growth of 1.0 per cent in 2021, supported by a recovery in China's demand for gas. Major uncertainty remains around these forecasts given the paucity of reliable economic data in Turkmenistan.

## Policy response to Covid-19

**A plan is in place to combat Covid-19 infections.** In March 2020, the president approved the Preparedness and Response Plan, which is designed to prevent the emergence of Covid-19 in Turkmenistan. The plan was developed in collaboration with the United Nations and its agencies (United Nations Development Programme, World Health Organization [WHO] and the United Nations Children's Fund). Measures in the plan have been reported to fully comply with WHO recommendations. Those undertaken so far include closures of borders, restrictions on internal movement, cancellations of public sport activities, closures of gyms, theatres and other public places, and extensions of school holidays. Passenger railway transportation has been suspended since mid-July 2020 and citizens are required to wear masks in all public places.

**The budget is being revised to cut down spending.** In April 2020 the president instructed the government to prepare proposals for revising the state budget and expenditure and to develop short- and medium-term measures to reduce the negative impact of the global economic contraction and the virus on business activities. Suggestions focused on expanding lending to SMEs, tax and loan deferrals, supporting the transportation sector and creating jobs in the private sector. At the same time, all social payments and healthcare expenditure will be safeguarded, while construction spending will be downsized to preserve only socially important facilities.

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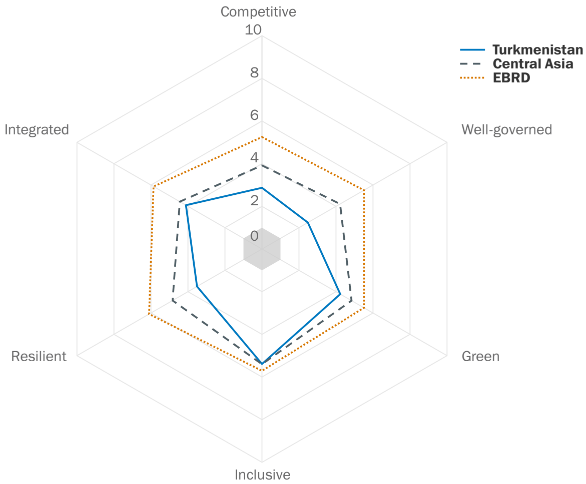
Assessment of transition qualities (1-10)




## Structural reform developments

**There has been steady progress with advancing the digitalisation agenda.** Digitalisation has been identified as the core pillar of the Program of the President of Turkmenistan for the socio-economic development of the country for 2020-25. An important milestone in this regard was the adoption of the Law of Turkmenistan "on electronic documents, electronic document management and digital services" in March 2020. In July 2020 the Ministry of Finance and Economy implemented electronic document management for its units, with the president emphasising the need to transition to e-government. In August 2020 online registration of businesses was introduced, allowing entrepreneurs to accelerate the process of registration and liquidation. In addition, the "Electronic Tax" system is being introduced to optimise tax returns and simplify tax reporting.

**Turkmenistan was granted observer status in the WTO in July 2020.** The authorities had previously submitted a request for observer status in May 2020, intending to start negotiations for WTO accession within five years. This is a positive step towards further integration into global trade and may provide an impetus towards diversifying the economy from hydrocarbon exports. In addition, there are associated benefits of increased transparency for investors and trading partners.

**Construction of the Turkmenistan–Afghanistan–Pakistan–India (TAPI) gas pipeline is being delayed.** Turkmenistan failed to reach financial close for the project, which is worth US$ 8 to 10 billion, in early 2020 and will aim to do so in 2021. This pushes the deadline for the project to become operational from 2021 to 2023. So far the Turkmen side has built 200 kilometres of the pipeline from the Galkynysh gasfield to its border with Afghanistan. The pipeline's design capacity is planned to be 33 billion cubic metres of gas annually, helping reduce dependence on China as the country's main export market.

# UZBEKISTAN

## Highlights

- **The economy is proving to be relatively resilient to the impact of Covid-19.** Growth slowed but remained positive at 0.4 per cent year-on year in the first three quarters of 2020, led by growth in agriculture and construction. Also, the economy is less dependent on external developments than some of its Central Asian peers.
- **The government's Anti-Crisis Fund is strengthening both the healthcare system and support for affected workers and businesses.** By investing in public infrastructure works and developing private land plots, the fund is also helping to create earning opportunities for low-income families.
- **Ambitious market reforms continue to advance despite the crisis.** Measures have been adopted in the past year to strengthen judicial independence and improve other aspects of the investment climate, privatise and develop the banking sector, promote export-oriented agribusiness clusters, and attract private investment in the electricity sector.

## Key priorities for 2021

- **The immediate key priority is to continue providing support to sectors affected by Covid-19 and sustain private sector employment.** To help businesses stay afloat, support measures should seek to smoothen income shocks and boost consumption in the hardest-hit sectors, such as recreation and hospitality.
- **The authorities should step up efforts to promote digital transformation.** Investment in broadband infrastructure, and upgrading digital skills and the IT ecosystem are essential to enable remote working and learning for all groups of the population.
- **The government should adjust reform priorities in light of post-Covid-19 realities.** 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 in case of slower-than-expected economic recovery. Where feasible it would be important to proceed with divesting smaller-sized assets, while proceeding with improving corporate governance at state-owned enterprises and banks.

Main macroeconomic indicators %

| | 2016 | 2017 | 2018 | 2019 | 2020 proj. |
|---|---|---|---|---|---|
| GDP growth | 6.1 | 4.5 | 5.4 | 5.6 | -2.0 |
| Inflation (average) | 8.8 | 13.9 | 17.5 | 14.5 | 13.0 |
| Government balance/GDP | 0.8 | 1.3 | 1.7 | -0.3 | -4.5 |
| Current account balance/GDP | 0.4 | 2.5 | -7.1 | -5.6 | -7.0 |
| Net FDI/GDP [neg. sign = inflows] | -2.0 | -3.0 | -1.2 | -4.0 | -3.0 |
| External debt/GDP | 17.9 | 26.3 | 33.9 | 41.7 | n.a. |
| Gross reserves/GDP | 32.3 | 47.5 | 53.7 | 50.3 | n.a. |
| Credit to private sector/GDP | 12.4 | 16.6 | 23.8 | 30.0 | n.a. |

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## Covid-19: macroeconomic implications

**Uzbekistan's economy is proving relatively resilient to the impact of Covid-19.** Compared with other countries in Central Asia, Uzbekistan's economy is more diversified: industrial output (mining, manufacturing and construction) accounted for 36 per cent of its GDP in 2019. Industry, and construction in particular (14 and 19 per cent growth in 2018 and 2019, respectively), also served as the main engines of growth in recent years. The country's export structure is quite diversified as well. Commodity exports constituted about 50 per cent of total exports in 2019, with gold accounting for more than half, providing a natural hedge in turbulent times.

**Economic growth is slowing but remains positive.** Real GDP increased by 0.4 per cent year-on-year in the first half of 2020, led by growth in agriculture and construction (3.4 and 8.6 per cent year-on-year, respectively). Industry output dropped by 2.7 per cent and gas production fell by 19.6 per cent year-on-year. Services, however, recovered in the third quarter of 2020 and recorded an increase of 1.8 per cent year-on-year in January to September 2020. The government imposed the first round of lockdown restrictions from mid-March until May 2020 and the second round from 10 July until 17 August 2020, gradually easing them since then. As a result, the unemployment rate surged to 13.2 per cent in January to July 2020 from 9.1 per cent a year ago. Real incomes started contracting in April 2020 and posted a decline of 1.7 per cent year-on-year in June 2020.

**The country faces rising external pressures.** While imports of goods decreased by 15 per cent year-on-year in the first eight months of 2020, growth of exports stalled in the same period, with the trade balance remaining negative. Energy exports declined by around 78 per cent year-on-year, owing to weak demand from China and Russia. Gold exports rose significantly by 47 per cent year-on-year in January to August 2020 thanks to the positive effect of record-high gold prices and higher gold shipments. Exports of services declined by 76 per cent year-on-year (mostly transport and tourism receipts). At the same time, closure of borders and limited economic activity in Russia and Kazakhstan led to a decline in remittances by 5.4 per cent year-on-year in US dollar terms in the first eight months of 2020.

**The economy is forecast to contract in the short term but recover in 2021.** Real GDP is forecast to drop by 2.0 per cent in 2020. A recovery of 4.5 per cent is expected in 2021, driven by an expected rebound in exports and domestic demand. Thus any failure of this rebound to materialise (because of a prolonged pandemic) is a key risk.

## Policy response to Covid-19

**An Anti-Crisis Fund has been established.** This fund, of around 1.5 per cent of GDP, was established in April 2020 to strengthen the healthcare system and support vulnerable workers and affected businesses. Its revenues come from the state budget as well as loans from the International Monetary Fund, World Bank and Asian Development Bank (totalling more than US$ 1 billion). The fund finances spending on medicine, healthcare and medical workers' bonuses. It also allocates funding to support employment through public infrastructure works and development of private land plots of low-income families. Several sectors, such as aviation (Uzbekistan Airways) and transport (Tashkent Metro), received financial support during lockdown. In addition, the fund covers government expenditures on provision of liquidity, interest subsidies and guarantees to businesses.

**The central bank eased monetary policy but maintained prudential requirements.** As inflationary pressures eased, the central bank's policy rate was reduced from 16.0 per cent to 15.0 per cent in April 2020, and to 14.0 per cent in September 2020. In January 2020 the central bank introduced an interest rate corridor of plus/minus 1 per cent around the policy rate as part of its transition to an inflation-targeting regime, with the target rate declining from 10 per cent in 2021 to 5 per cent in 2023. In terms of prudential measures, the regulator recommended that banks deferred loan repayment by affected individuals and entrepreneurs until October 2020. Some banks were given access to targeted refinancing operations from the central bank.

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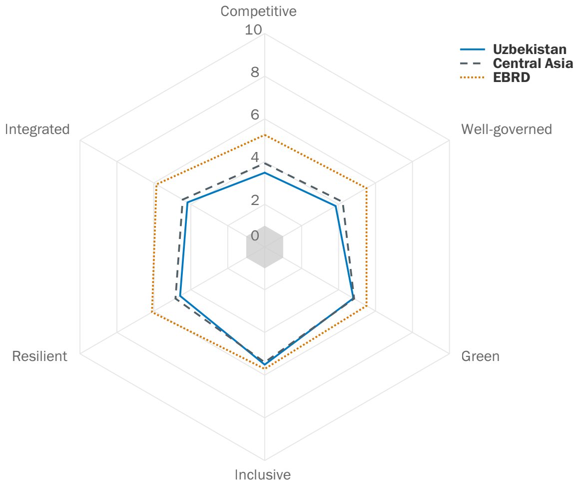
Assessment of transition qualities (1-10)




## Structural reform developments

**A new banking sector development strategy has been approved.** The strategy, approved in May 2020, sets out an ambitious reform plan for the period 2020-25. It seeks to reduce state ownership in the banking sector and state-directed lending to the private sector. The government intends to keep shares in only three banks – the National Bank for Foreign Economic Activity, Agrobank and Microcreditbank. Other measures include improving the legal framework by introducing Basel standards and international financial reporting standards, facilitating digitalisation and improving customer services. Lastly, the reform calls for new preferential loans to be issued at interest rates not lower than the refinancing rate since 1 January 2020 and not lower than market rates as of 1 January 2021.

**The authorities outlined post-Covid development plans for the transport sector.** In the airline sector the aim is to attract new air carriers in order to increase competition and outsource the management of Uzbekistan Airways to an experienced foreign company. Airports will be modernised by attracting private investments through public-private partnerships. The plan for the railways sector is to restructure the non-core activities of the state-owned integrated monopoly, Uzbekistan Temir Yullari, and improve the tariff-setting mechanisms. The introduction of the "user pays" principle is envisaged for the road sector.

**The government is planning to implement energy sector reforms to meet growing demand for electricity.** Its efforts will be guided by the Concept for Provision of Electric Energy to Uzbekistan in 2020-30, which was approved in May 2020. The concept envisages transition to the wholesale electricity market by 2023, the establishment of an independent energy regulator in 2020-21, and the introduction of differentiated tariffs for electricity from 2022. In addition, there are plans to create an energy market operator – a state-owned company with online platforms for wholesale market customers to carry out purchases and sales of electricity and natural gas. The government also sets new targets for power generation, including solar, hydro, wind and nuclear power to meet growing demand (annual power consumption is expected to rise by 6-7 per cent a year until 2030).

**Development of the agricultural sector is advancing under a new strategy.** Approved in October 2019, Uzbekistan's Agriculture Development Strategy for 2020-30 aims to liberalise the sector, remove export barriers and eliminate mandatory production quotas for cotton and wheat. It provides a plan for diversifying agricultural production, phasing out state control of production, and the sale and processing of cotton and wheat. Agribusiness clusters will be created in the cotton,

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wheat, horticulture and livestock sectors in order to attract private capital, increase value added through deeper processing, and improve access to export markets. The sector's development will be accompanied by measures to ensure environmental protection and efficient use of resources.

**Reforms have been introduced to the rule of law.** Recent presidential decrees seek to advance the rule of law by introducing plea bargaining arrangements and ensuring greater independence of lower level courts. The plea bargaining mechanism will pave the way for faster trials and shorter prison terms for suspects who cooperate with investigators. In addition, a presidential decree from 24 July 2020 introduced additional measures to further improve judicial procedures. A panel of judges within the Supreme Court will consider investment disputes and competition involving large investors.