
COVID-19 and the economy: Challenges and Prospects for Central Asia

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Agenda

I. The international environment

- 1) Latest economic data
- 2) Government reactions

II. Central Asia

- 1) Challenges and forecasts
- 2) Most vulnerable parts of the population in CA
- 3) Fiscal and monetary space in CA
- 4) Responses by CA countries

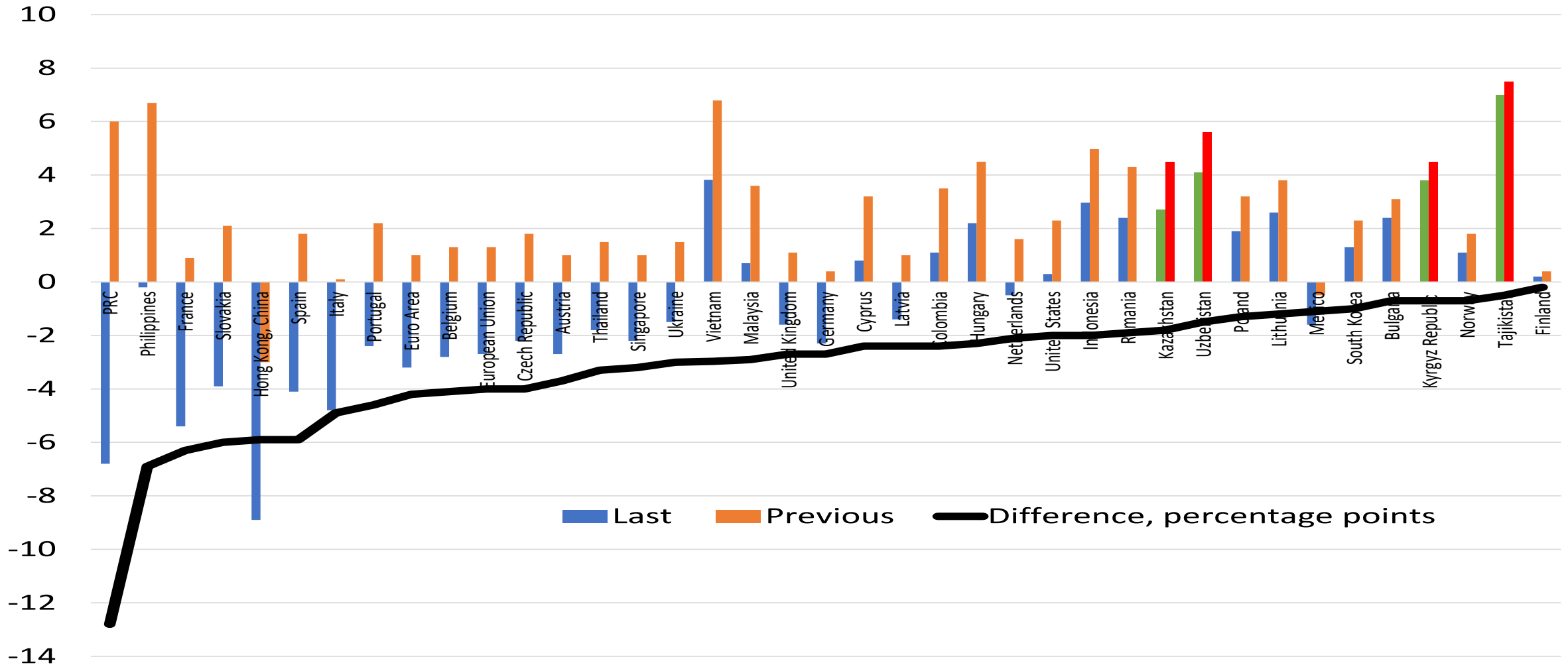
I. The international environment: heavy slowdown



Source: antenne.at

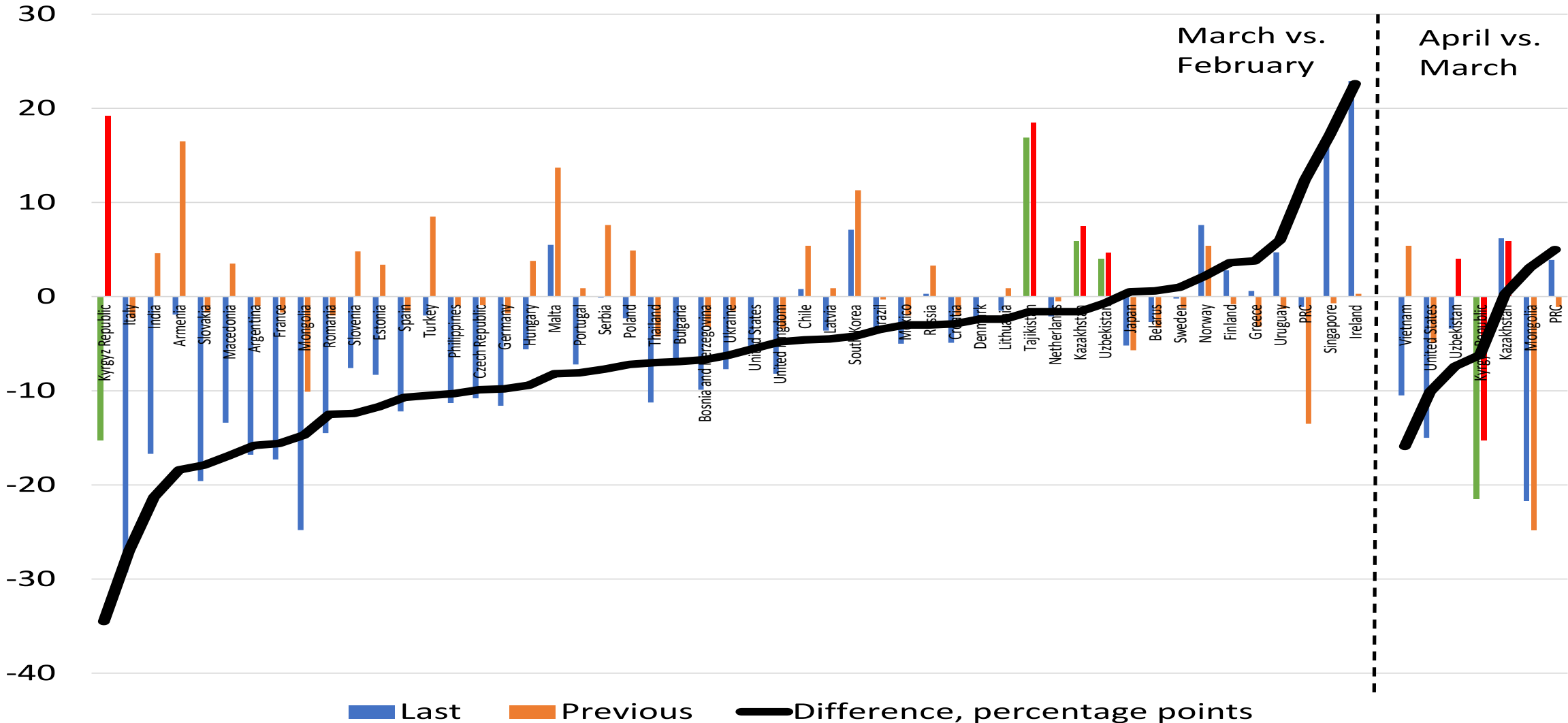
1) Latest economic data

Real GDP growth, % YoY Q1 2020



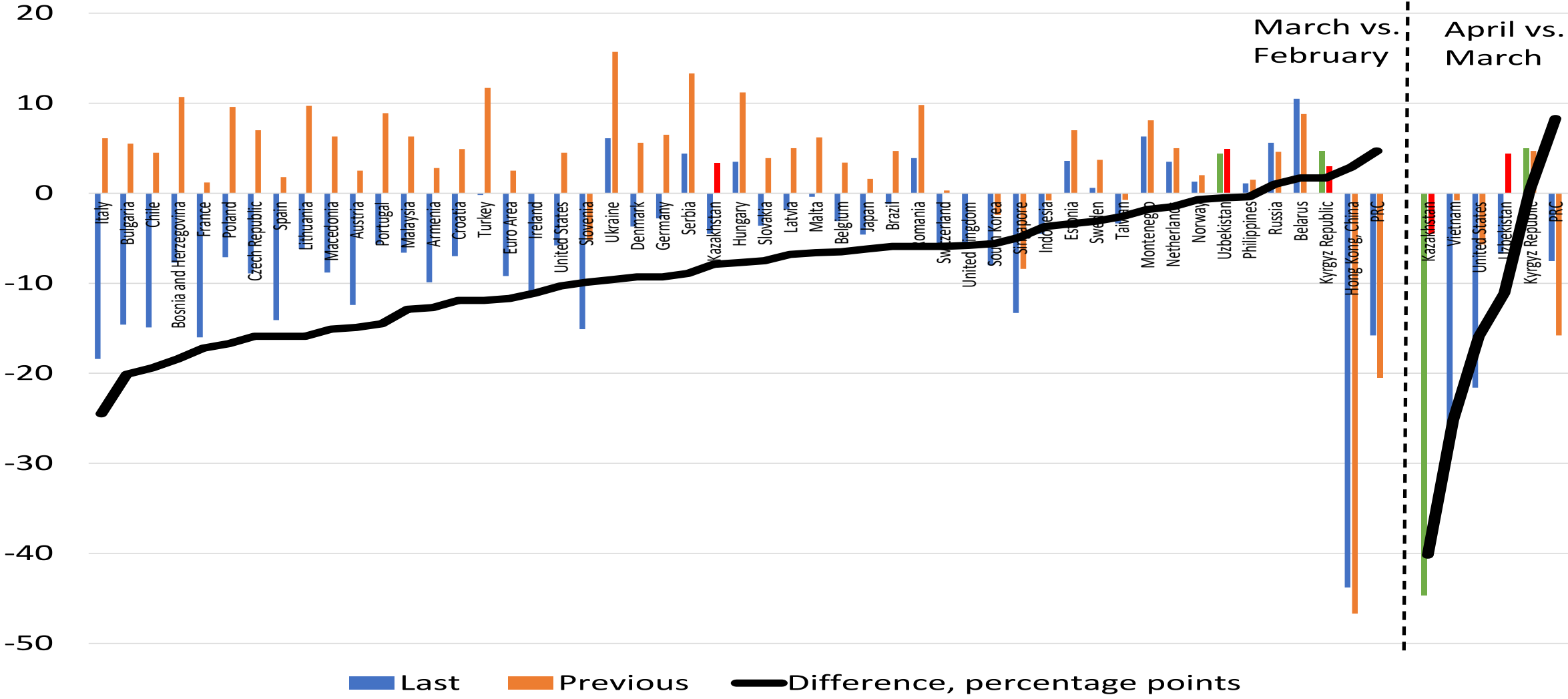
Source: TradingEconomics, national statistic agencies, author's calculations

Industrial production, % YoY 2020



Source: TradingEconomics, national statistic agencies, author's calculations

Retail sales, % YoY 2020



Source: TradingEconomics, national statistic agencies, author's calculations

2. Government Reactions



Source: facebook.com

Famous student of economic crises, now World Bank Chief Economist, Carmen Reinhart:



“... A health emergency can evolve into a financial crisis.

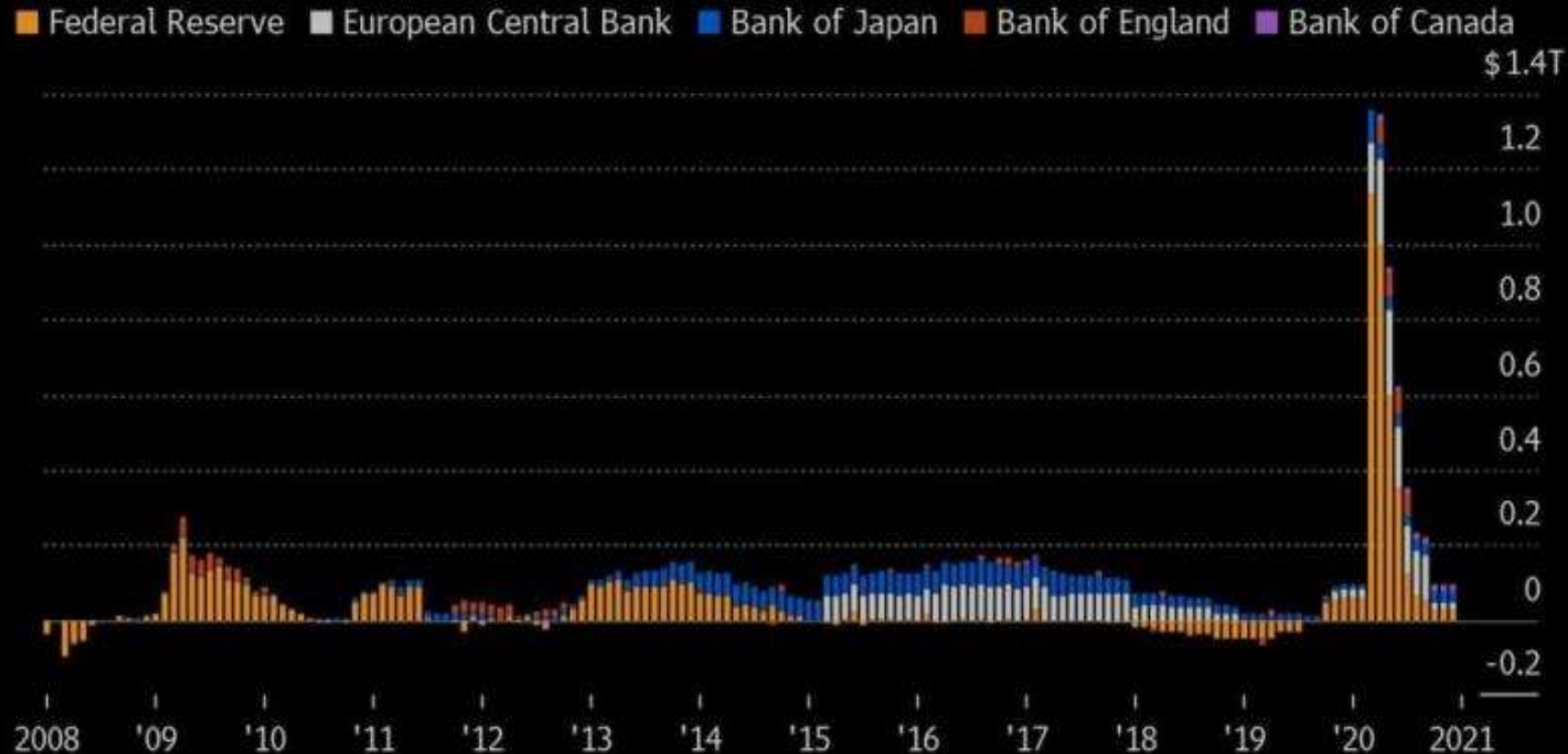
Clearly, this is a **‘whatever-it-takes’ moment for large-scale, outside-the-box fiscal and monetary policies.**”

Source: <https://www.project-syndicate.org/commentary/covid19-crisis-has-no-economic-precedent-by-carmen-reinhart-2020-03>

Unprecedented quantitative easing

Quantitative Easing

Net asset purchases for G-7 central banks were close to \$1.4 trillion in March

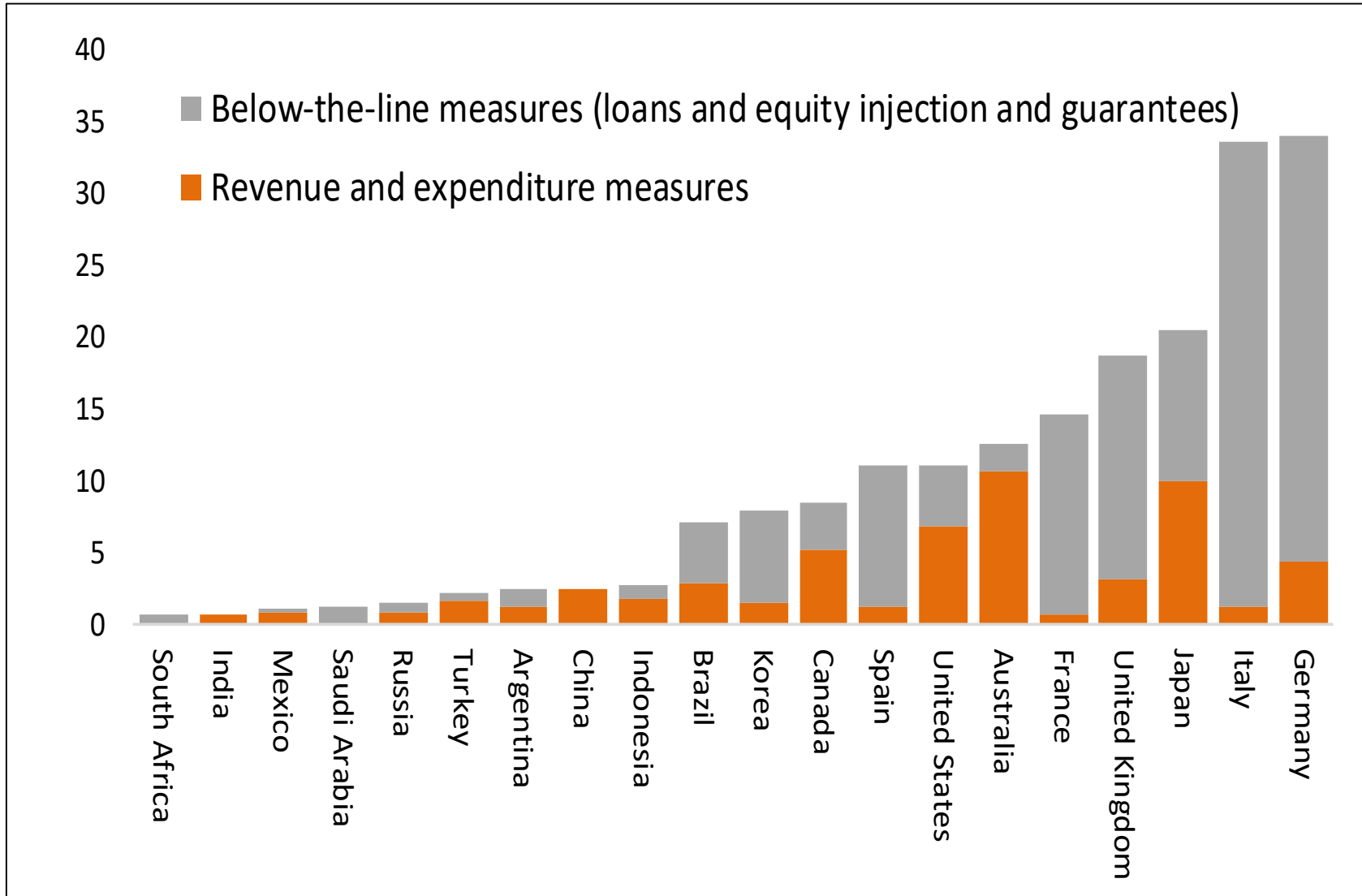


Source: Bloomberg Economics

Bloomberg

Peoples Bank of China: Liquidity injection into the banking system via open market operations, including RMB 3 trillion in the first half of February and 170 billion in late-March; expansion of re-lending and re-discounting facilities by RMB 1.8 trillion (combined about \$0.7 trillion)

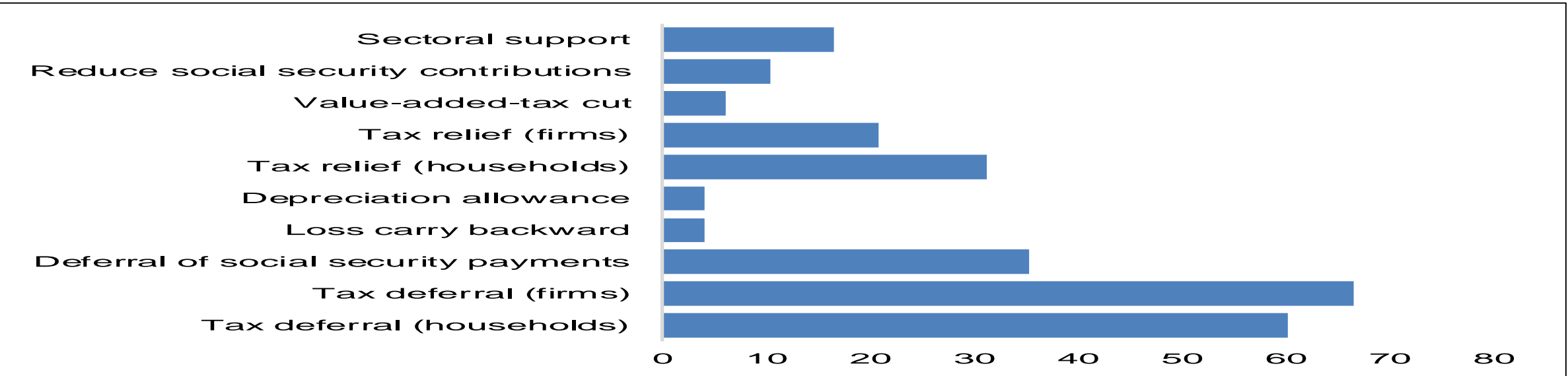
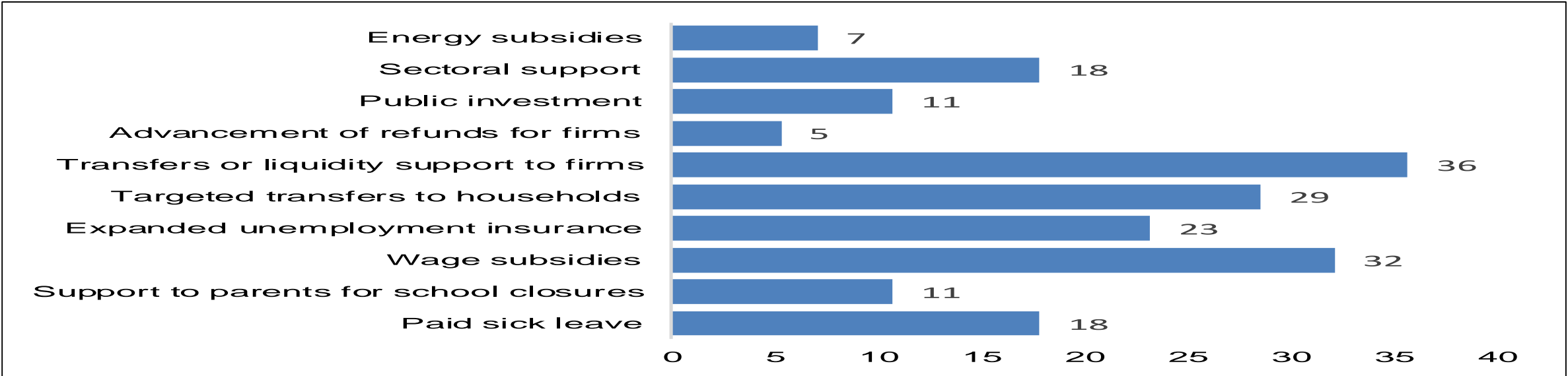
G-20 Fiscal packages, % of GDP



Definitions, measures and time horizons vary among countries, and programs still develop.

Therefore the numbers in the chart are only rough estimates which also may change over time.

Percent of economies with fiscal support measures, by type



Source: IMF, Fiscal Monitor April 2020

Other measures include

- Spending on healthcare equipment, hospital capacity and R&D
- State equity stakes (e.g. Tui, Renault, Alitalia, Lufthansa)
- Looser regulation such as looser insolvency laws
- Employment retention support
- Expanded access to short-term work subsidies
- Support of wages and rents for small merchants
- Direct financial support for microenterprises and self-employed
- Transfers or cash handouts to quarantined households, families with children, the elderly and other vulnerable population groups

II. Central Asia



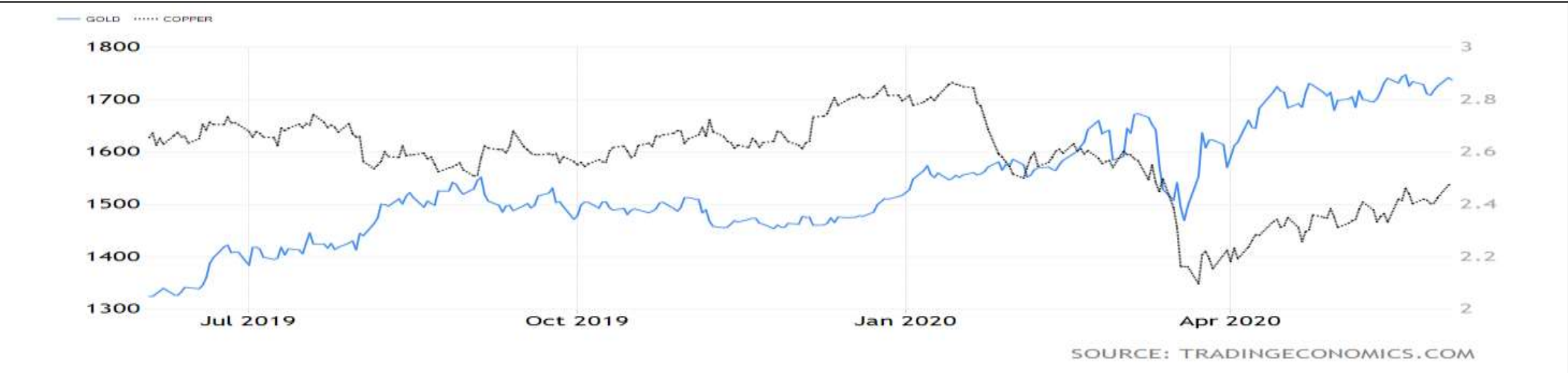
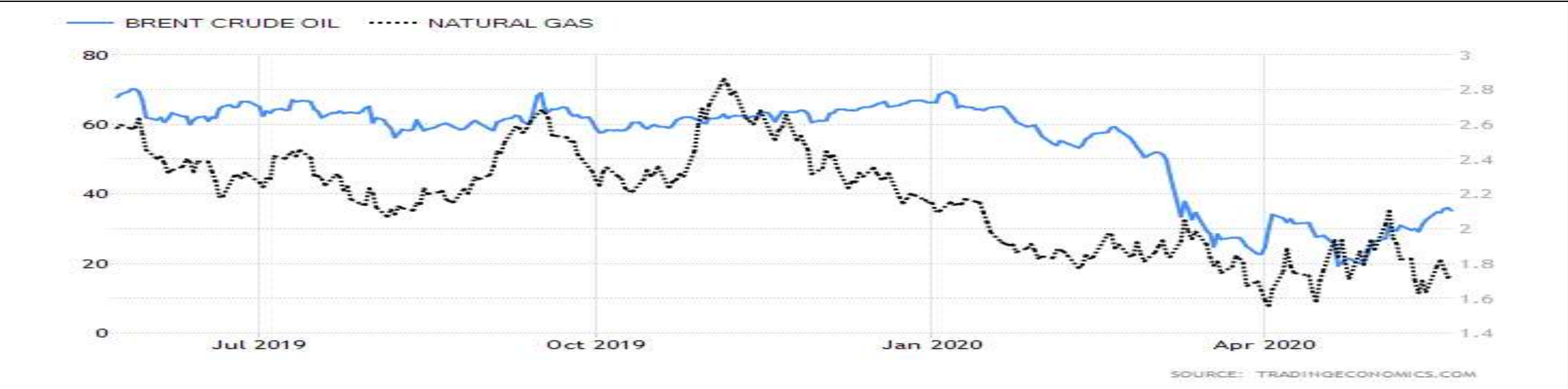
Source: <https://cabar.asia/en/the-corona-crisis-in-central-asia-economic-impact-of-the-pandemic/>

1) Challenges and forecasts

Channels and resilience

	<i>Resilience to domestic disruption</i>		<i>Resilience to external shocks</i>			
	Retail service shocks	Labour market shocks	Commodity prices	Global value chains	Tourism	Remittances
Kazakhstan	high	moderate	low	high	high	high
Kyrgyz Republic	high	moderate	moderate	high	high	low
Tajikistan	high	low	low	high	high	low
Turkmenistan	high	low	low	high	high	high
Uzbekistan	high	high	moderate	high	high	high

Challenge: Commodity prices



Challenge: sharp decline in remittances

Table 1.2 Estimates and Projections of Remittance Flows to Low- and Middle-Income Regions

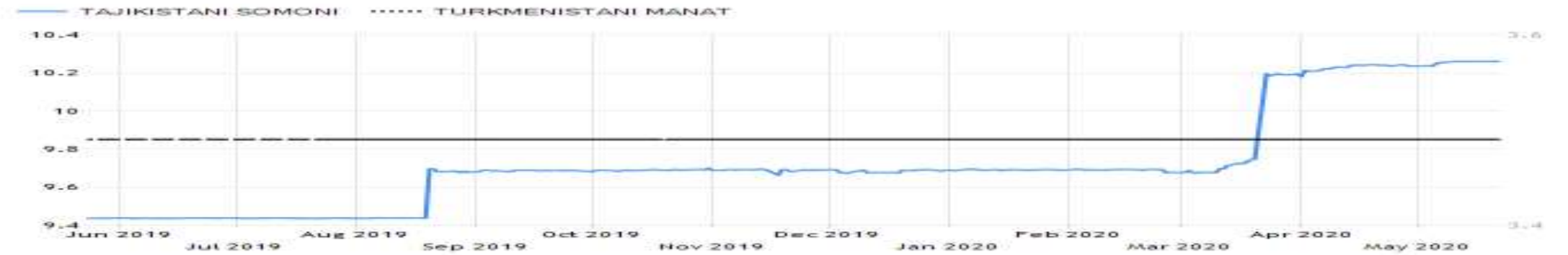
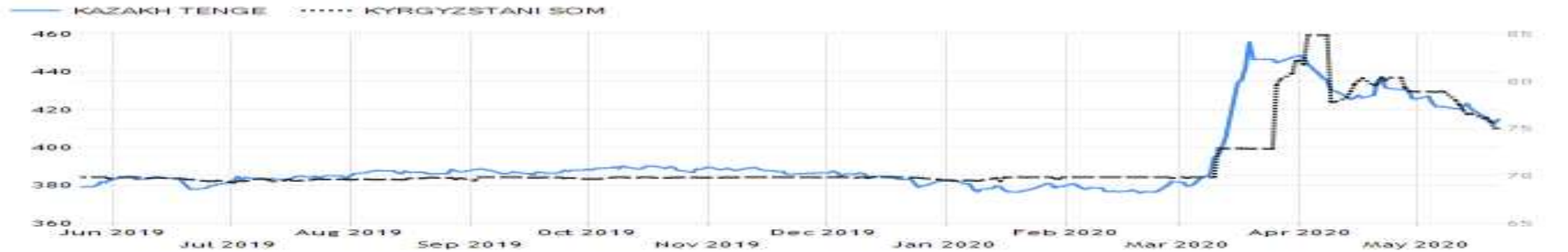
Region	2009	2016	2017	2018	2019e	2020f	2021f
	(\$ billion)						
Low and middle income	307	446	487	531	554	445	470
East Asia and Pacific	80	128	134	143	147	128	138
Europe and Central Asia	36	46	55	61	65	47	49
Latin America and the Caribbean	55	73	81	89	96	77	82
Middle East and North Africa	33	51	57	58	59	47	48
South Asia	75	111	118	132	140	109	115
Sub-Saharan Africa	29	39	42	48	48	37	38
World	437	597	643	694	714	572	602

Remittances 2019e as % of GDP

Kyrgyz R.	29.2
Tajikistan	28.2
Georgia	14.2
Uzbekistan	6.9

Source: <http://documents.worldbank.org/curated/en/989721587512418006/pdf/COVID-19-Crisis-Through-a-Migration-Lens.pdf>

Challenge: Currency depreciation



Growth forecasts: V-shaped (a lot will depend on measures)

(based on moderate scenarios, pandemic peaks in the second quarter 2020)

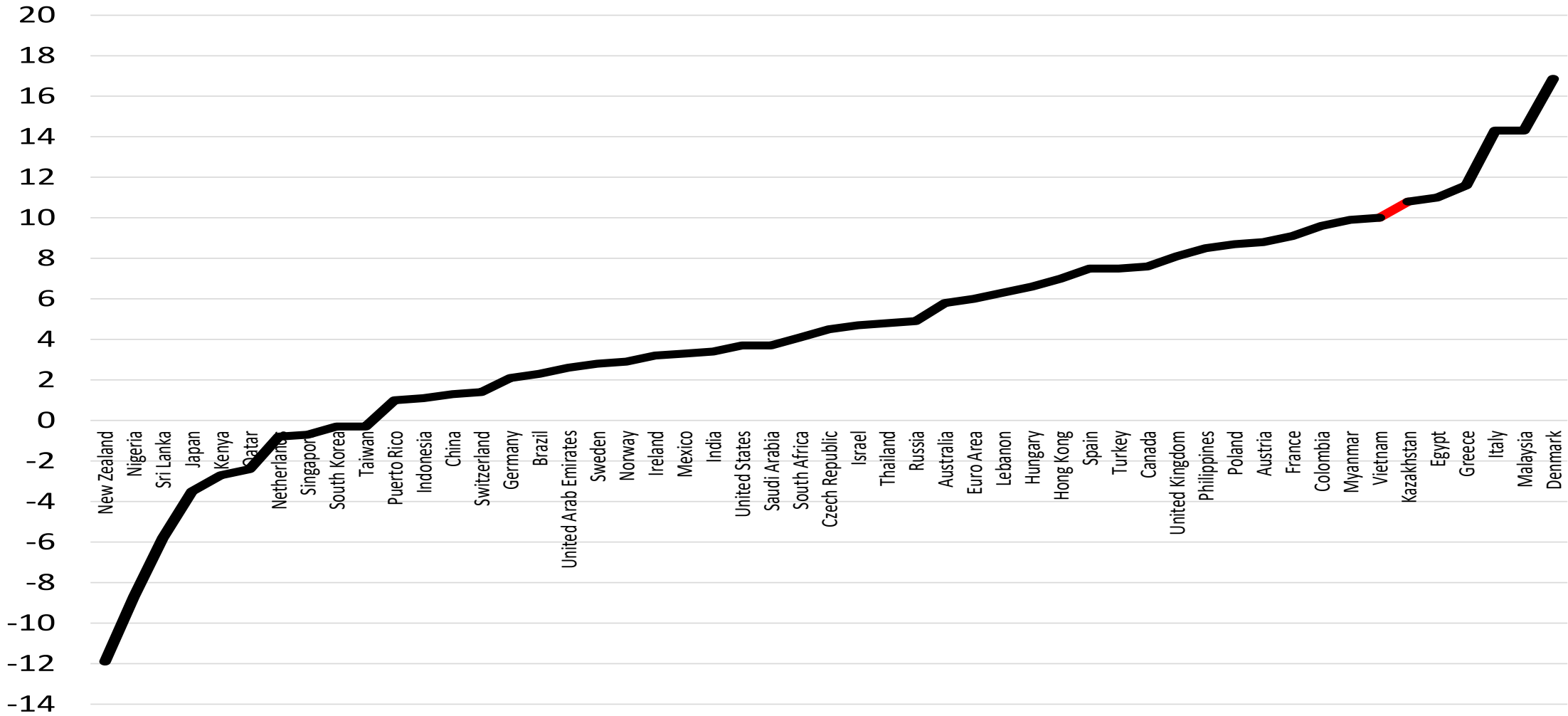
	2019E	2020F	2021F
	average ADB/WB/IMF		
Kazakhstan	4.5	-0.5	3.6
Kyrgyz R.	4.5	0.1	5.3
Tajikistan	7.5	2.5	4.7
Turkmenistan	6.3	3.9	6.1
Uzbekistan	5.6	2.7	6.4
Simple average	4.8	1.5	5.1

2020F			2021F		
ADB	WB	IMF	ADB	WB	IMF
1.8	-0.8	-2.5	3.6	3.0	4.1
4.0	0.4	-4.0	4.5	3.5	8.0
5.5	1.0	1.0	5.0	3.7	5.5
6.0		1.8	5.8		6.4
4.7	1.6	1.8	5.8	6.5	7.0
4.4	0.6	-0.4	4.9	4.2	6.2

Sources: <https://www.adb.org/publications/asian-development-outlook-2020-innovation-asia>,

<https://openknowledge.worldbank.org/handle/10986/33477> , <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

Sentiment Difference May and April, percentage points



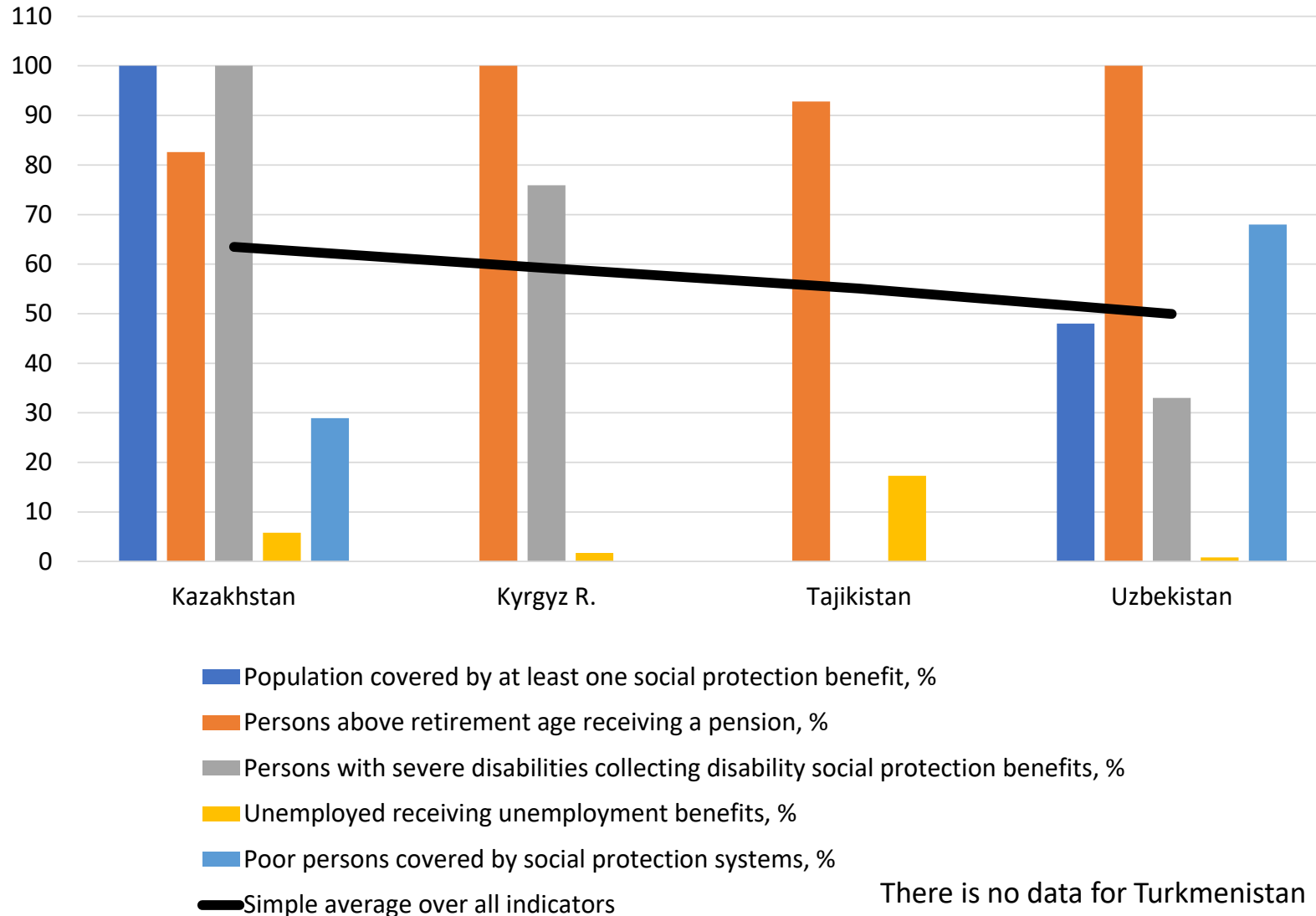
Source: TradingEconomics, author's calculations

2. Most vulnerable parts of the population



Source: socialplatform.org

Population covered by social protection, %, latest available



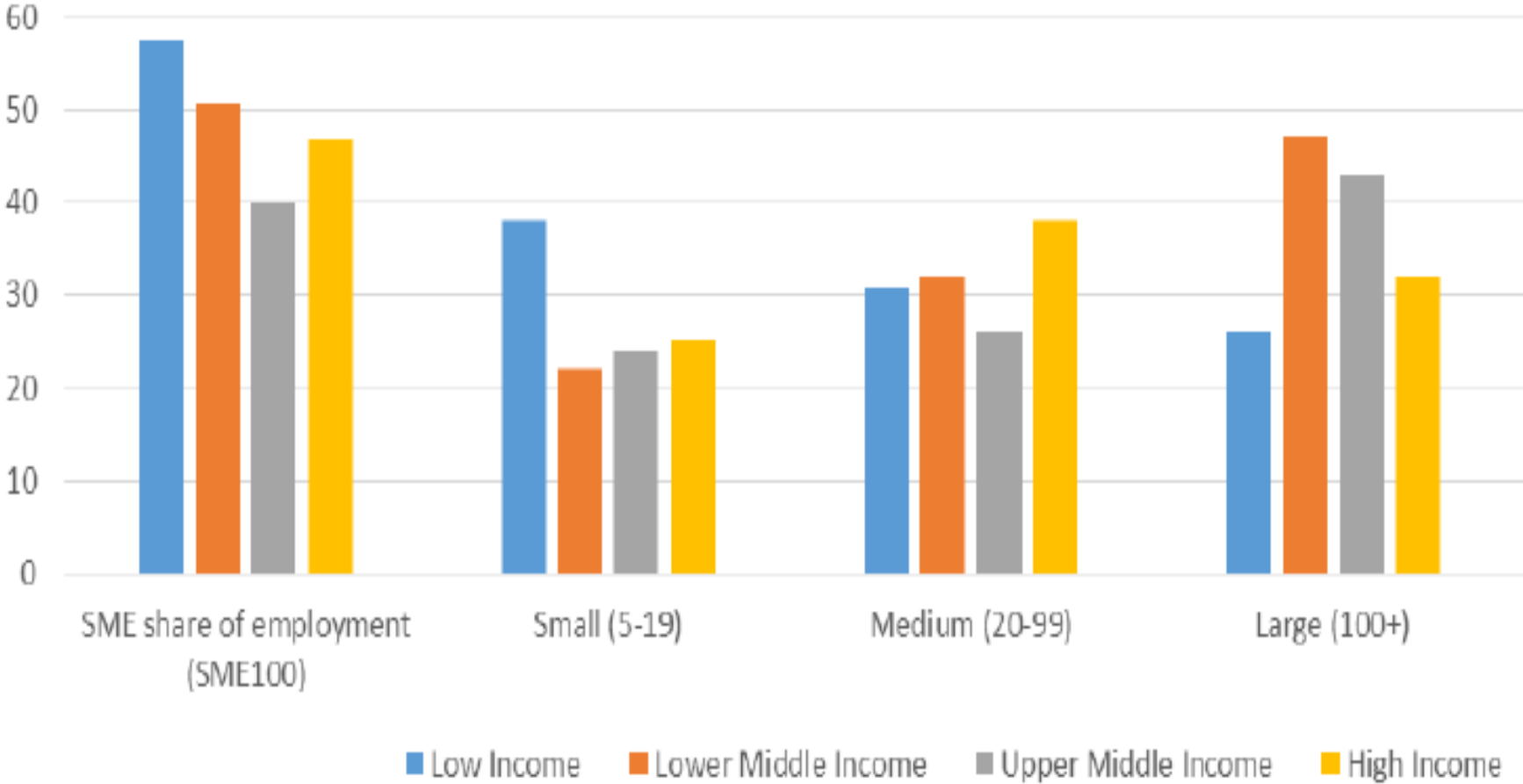
There is no data for Turkmenistan
Source: ILOSTAT

Data availability for vulnerable parts of the population is low in the CA region, which by itself is an indication of poor protection.

Unemployment benefits look especially problematic.

Из-за объявленного в Казахстане режима ЧП и карантина в связи с коронавирусом на рынке труда сложилась сложная ситуация: на 2 месяца без дохода остались более 4 млн человек. Об этом на заседании Правительства сообщил министр труда и социальной защиты населения РК Биржан Нурымбетов, передает корреспондент Kazpravda.kz.

SME share in employment by size and income group, %

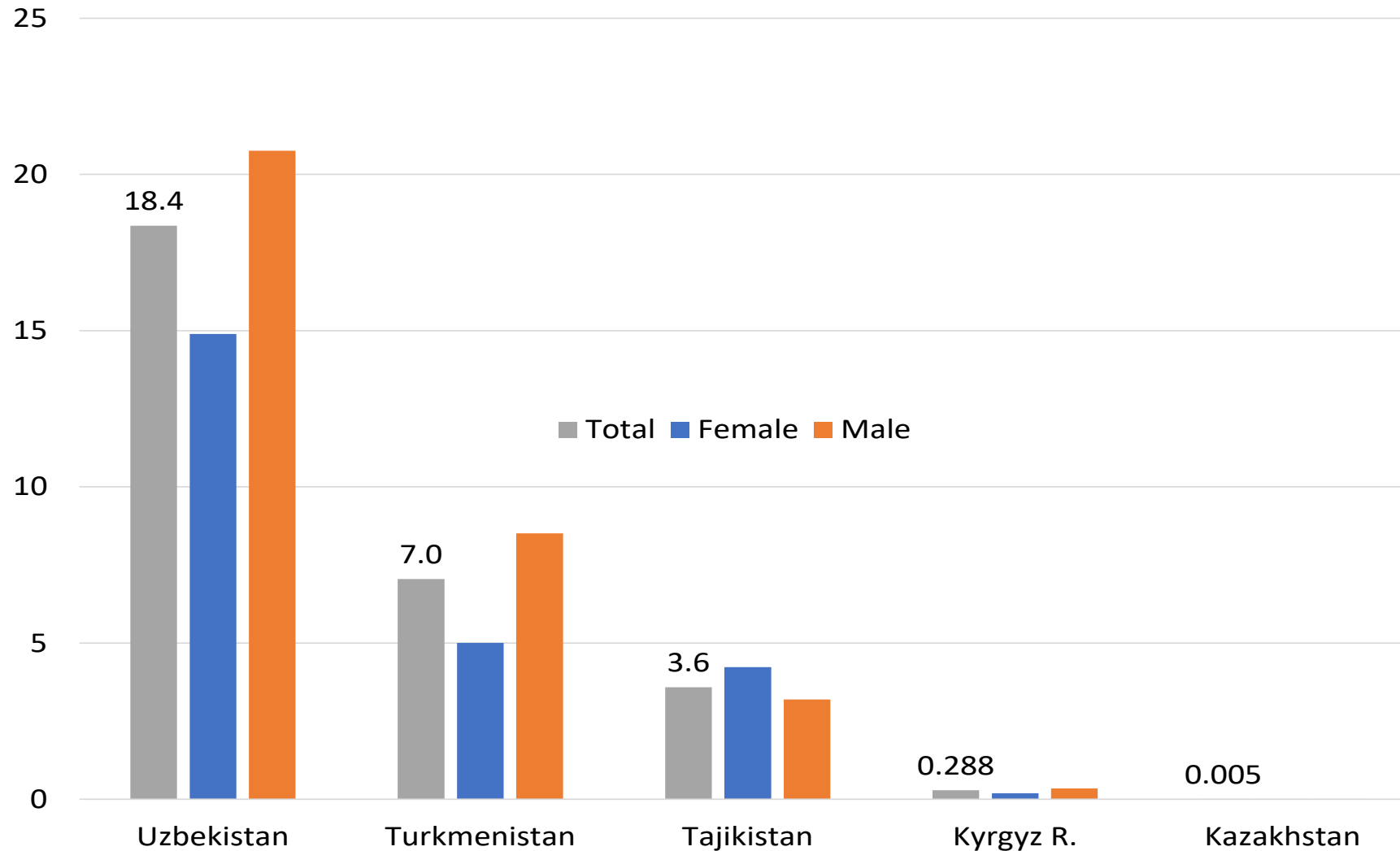


There is little detailed data for the CA region, but in most countries micro and small enterprises account for a substantial share of employment.

And these enterprises are among the most vulnerable by lockdowns.

Source: World Bank Group, Ruchima Kumar, Targeted Financing for SMEs, 2017

Employed living below US\$1.90 PPP, %, latest available

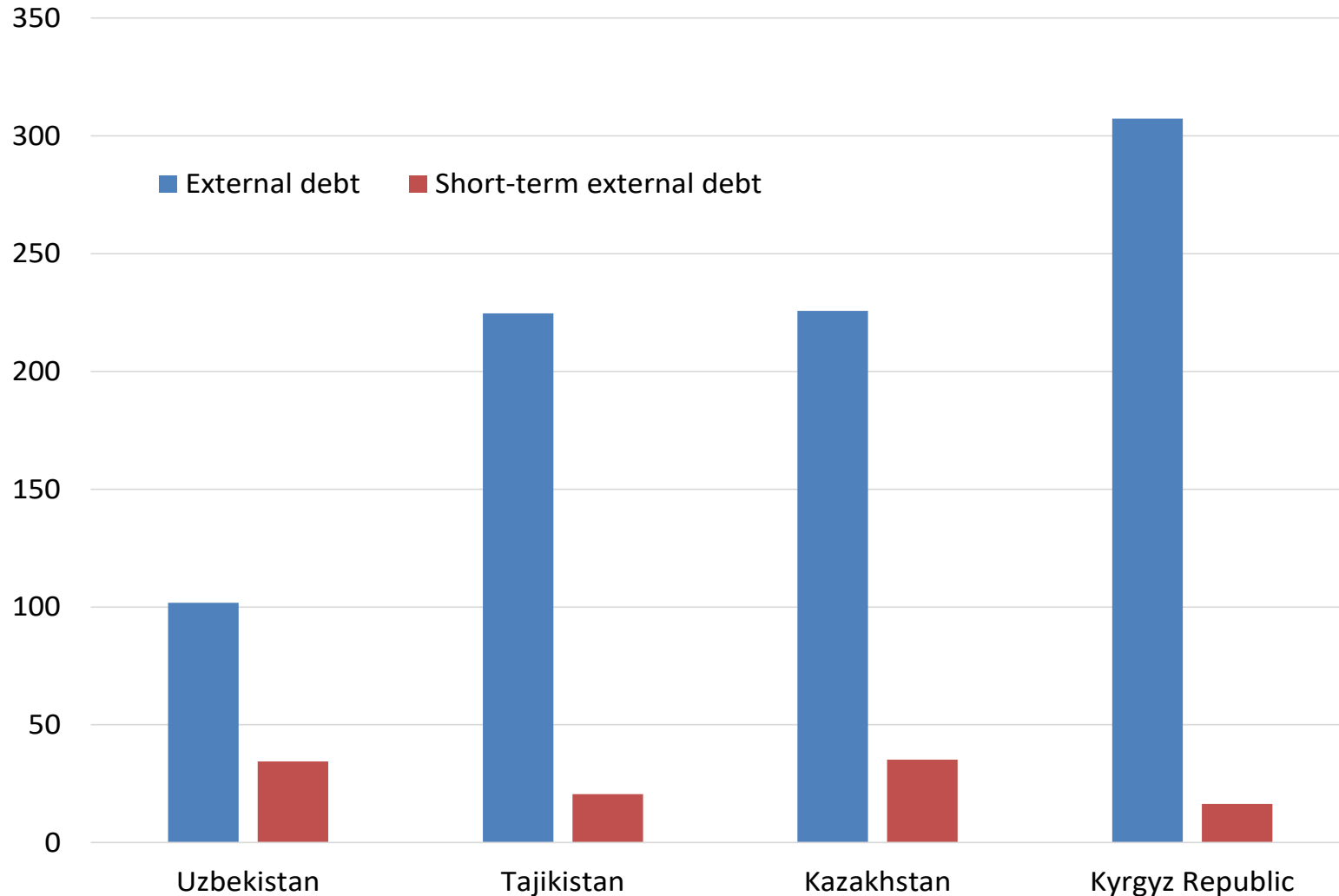


A high poverty ratio usually coincides with low social protection.

3. Fiscal and monetary space in the CA region



External debt, 2018, % of exports of goods and services

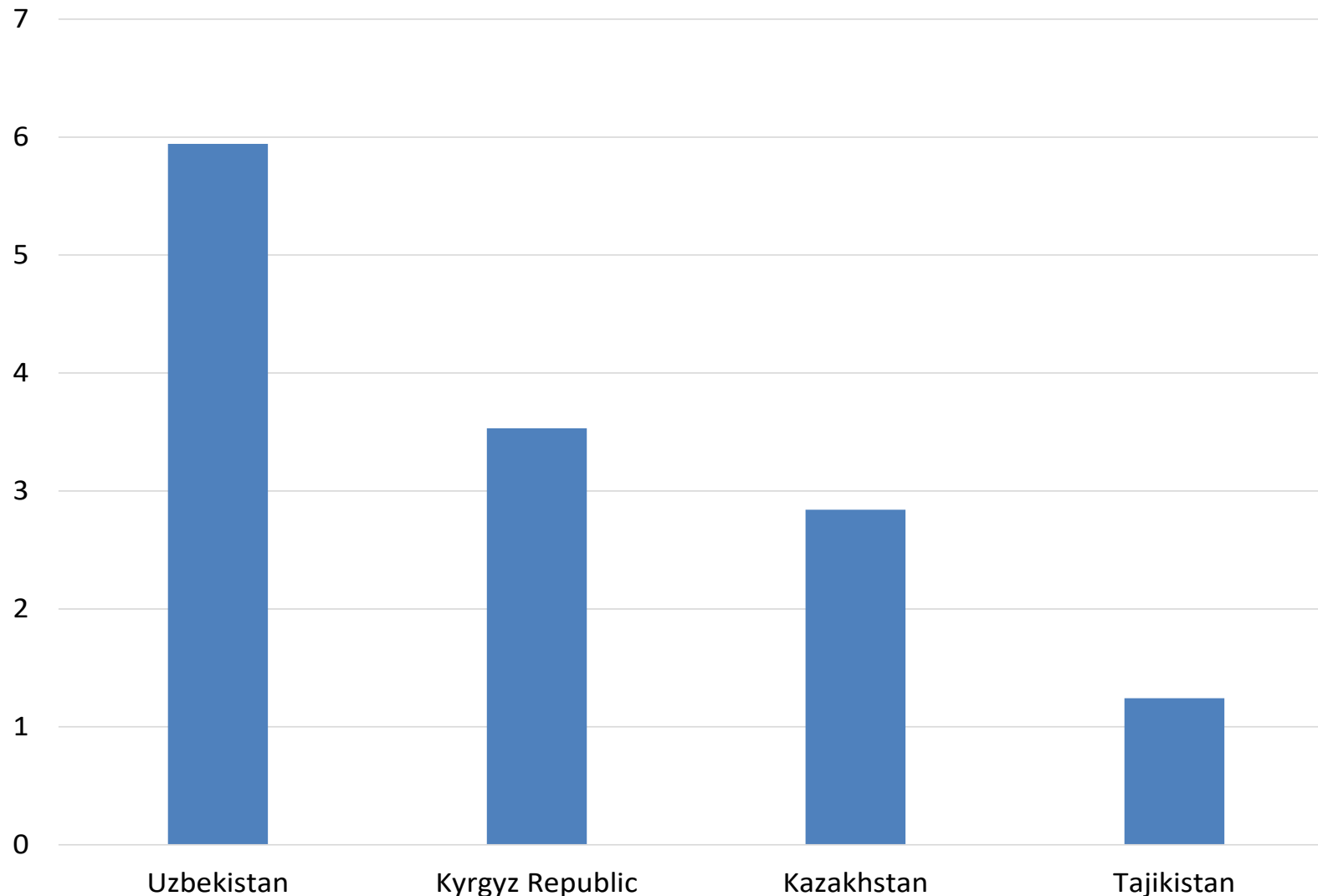


Short-term external debt is not very substantial, but total **external debt is quite high throughout the region.**

Weaker exchange rates not only fuel **inflation**, but also increase **foreign debt service** (usually denominated in dollars) in national currency terms, a substantial problem for entities not fully hedged by foreign currency earnings.

Source: IMF, International Debt Statistics (There are no data for Turkmenistan)

International reserves, 2018, months of imports



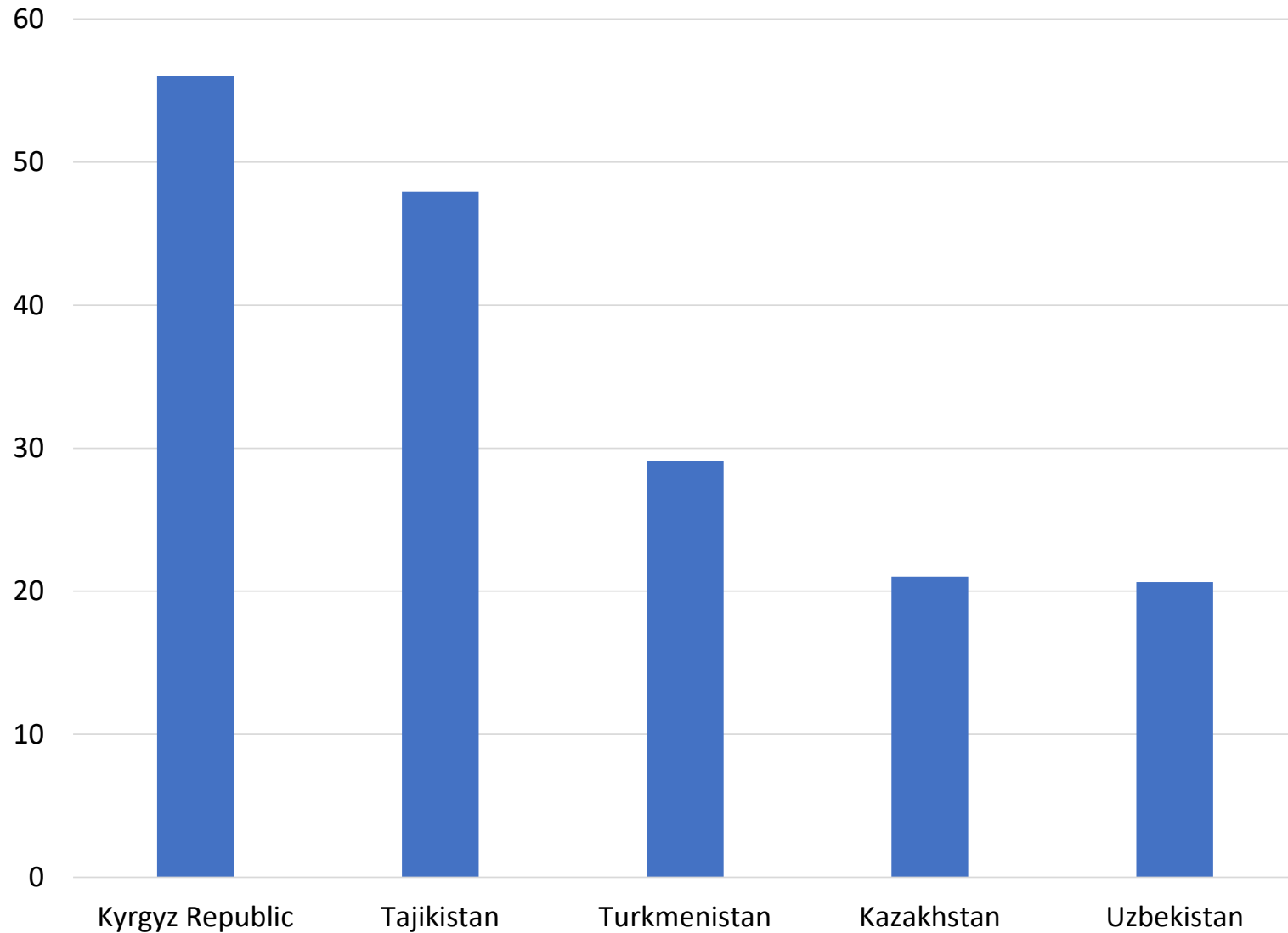
The level of international reserves of the CA countries is relatively solid, except for Tajikistan.

However, if low dollar inflows because of low commodity prices and declining remittances and money outflows accelerate depreciation, countries could run into difficult positions.

Space for monetary easing is therefore limited. Fiscal measures are preferable (also because they reach more directly the one in need).

Source: IMF, International Debt Statistics (There are no data for Turkmenistan)

General government debt, 2018, % of GDP



Source: IMF, WEO database

The **fiscal position of some CA countries is relatively favorable** as their public debt is rather low. Kazakhstan and Turkmenistan possess **sovereign wealth funds**.

However, the **drop in oil and gas prices strongly impacts government revenues in Kazakhstan and Turkmenistan**, which might find themselves in less solid financial circumstances than before.

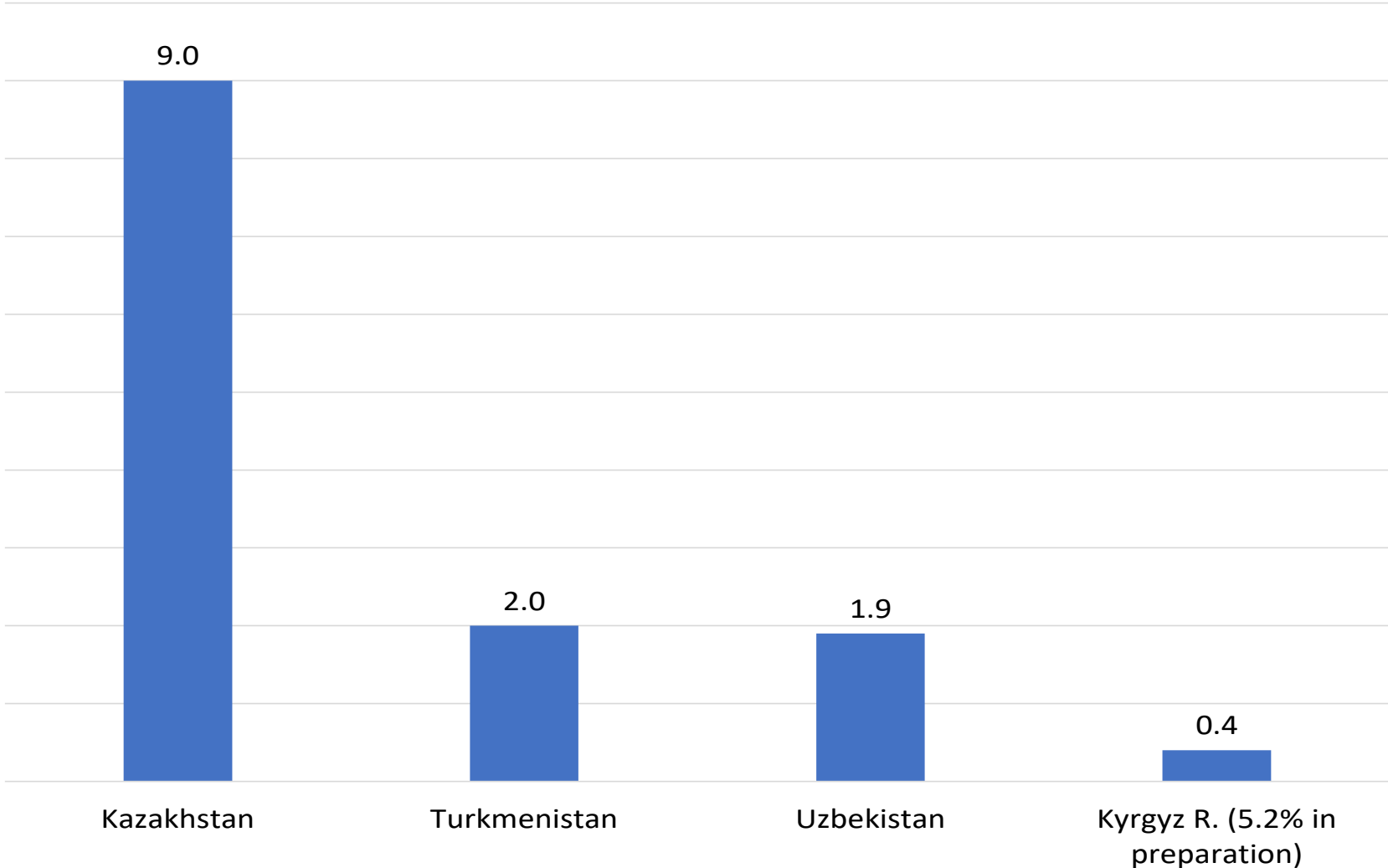
Government debt is relatively high in the Kyrgyz Republic and Tajikistan.

4. Responses by CA countries



Source: <https://cabar.asia/en/the-corona-crisis-in-central-asia-economic-impact-of-the-pandemic/>

CA countries' fiscal packages, % of GDP



Definitions, measures and time horizons vary among countries, and programs still develop.

Therefore the numbers in the chart are only rough estimates which also may change over time.

There are no data for Tajikistan.

However, it is clear that the **programs are of substantial size.**

Source: IMF, Covid-19 policy tracker; UN ESCAP, News

CA policies

	Kazakhstan	Kyrgyz R.	Tajikistan	Turkmenistan	Uzbekistan	Number of countries with these policies
Spending on healthcare equipment and hospital capacity	●	●	●	●	●	5
Special payments to health care workers		●			●	2
State loans and loan guarantees to businesses, interest payment subsidies	●				●	2
Tax reductions and deferrals for businesses or population, waived social security contributions	●	●			●	3
Support for micro or small enterprises	●	●				2
Public works to support employment					●	1
Financial support for self-employed	●	●			●	3
Expanding unemployment benefits, extension of periods	●				●	2
Paid sick leave for the infected	●					1

CA policies (continued)

	Kazakhstan	Kyrgyz R.	Tajikistan	Turkmenistan	Uzbekistan	Number of countries with these policies
Transfers or cash handouts to quarantined households, families with children, the elderly or other vulnerable population groups	●	●			●	3
Providing a food safety net for the most vulnerable		●			●	2
Central bank policy rate cuts	●				●	2
Liquidity support to banks	●					1
Extension of loan/interest repayment periods	●	●			●	3
Prudential requirements loosened	●	●				2
Intervention on foreign exchange market	●					1
Establishing a support fund collecting private donations					●	1
Approaching development partners for help		●	●		●	3
Mutual help given within CA	●				●	2

Responding to COVID-19



Kazakhstan

- Anti-crisis package** US \$10 billion to support vulnerable individuals and businesses, strengthen the health system
- Support for SMEs**
- KZT 600 billion to help SMEs finance working capital
 - Deferral of taxes and other mandatory fees for SMEs in affected sectors until Jun 2020
- Employment support** Within “employment roadmap”, more than 6,500 infrastructure projects provided and 255,000 jobs to be created
- Bonuses to medics** About KZT 40 billion allocated for bonuses to doctors and medical workers
- Tax reliefs**
- VAT reduced from 12% to 8% for essential food products until Oct 2020
 - Civil aviation to be exempted from VAT until the end of 2020
 - Individual entrepreneurs exempted from individual income tax



Kyrgyz Republic

- Anti-crisis package I** US \$15 million to relieve tax burdens and temporarily control the price of 11 essential food items
- Anti-crisis package II** About US \$540 million to support SMEs and provide a food security net to the vulnerable groups
- Compensation payments to doctors** KGS 2,300 to be paid to doctors, KGS 2,000 — to paramedical staff, and KGS 1,800 — to the junior medical staff per day of work
- Support for individuals**
- At least 250,000 citizens received humanitarian aid
 - At least 300 tons of flour for the poor allocated from the State Material Reserves Fund
- Support for businesses**
- Moratorium on inspections of business entities to be extended until January 1, 2022
 - Commercial banks of Kyrgyzstan restructured more than 57,000 loans in the amount of KGS 46.5 billion to support bank customers



Selected crisis response measures to date



Responding to COVID-19



Tajikistan

- Policy rate cut by 100 basis points to 11.75 percent on 27 April to ease monetary conditions
- Reserve requirement for local currency and foreign exchange deposits lowered to boost liquidity in the system
- Foreign exchange liquidity provided to banks



Turkmenistan

- The Extraordinary Commission on combatting the spread of disease set up in January
- Measures including closure of borders, flight cancellations and rerouting, and mandatory COVID-19 testing for arriving travelers taken by authorities
- Medical institutions being supplied with protective equipment



Uzbekistan

- **Anti-crisis package** US \$294 million allocated to mitigate the Covid-related impact
 - Additional US \$196.5 million to be allocated to support businesses and the population
- **Loan repayment deferrals** A delay for repayment of loans provided to 87,000 business entities for a total of US \$1.7 billion and US \$491 million for ordinary citizens
- **Support for businesses and self-employed**
 - Payment of taxes and other payments totaling US \$39 million deferred for over 250,000 entrepreneurs and businesses, 83,000 farms
 - Rent of more than 11,000 entrepreneurs exempted
 - Property and land tax of certain businesses exempted from 1 June to 1 September
 - The self-employed to be exempt from income tax

Selected crisis response measures to date



More support, longer? Example: the Presidential Decree of 18 May in Uzbekistan.

УКАЗ

ПРЕЗИДЕНТА РЕСПУБЛИКИ УЗБЕКИСТАН

ОБ ОЧЕРЕДНЫХ МЕРАХ ПО ПОДДЕРЖКЕ НАСЕЛЕНИЯ И СУБЪЕКТОВ ПРЕДПРИНИМАТЕЛЬСТВА В ПЕРИОД КОРОНАВИРУСНОЙ ПАНДЕМИИ

В целях стимулирования экономического роста и инвестиционной активности, восстановления темпов производства, повышения занятости, увеличения доходов населения и поддержки субъектов предпринимательства в период коронавирусной пандемии:

1. Освободить на период с 1 июня по 1 сентября 2020 года от уплаты налога на имущество и земельного налога:

субъекты малого предпринимательства;

рынки и торговые комплексы, кинотеатры, предприятия общественного питания, предприятия общественного транспорта, спортивно-оздоровительные заведения, а также юридические лица, осуществляющие деятельность по перевозке пассажиров, оказанию бытовых услуг, предоставлению помещения в аренду, в том числе для проведения банкетов.

2. Предоставить дополнительную государственную поддержку субъектам малого предпринимательства в виде списания сумм:

The economy is important, other measures too

(e.g. special protection for women)

COVID-19 IMPACT ON WOMEN
In Asia and the Pacific

POLICY MEASURES
In Asia and the Pacific

WOMEN WILL CONTINUE TO SHOULDER A DISPROPORTIONATE AND INCREASING BURDEN OF CARE

SUPPORT WOMEN ON THE FRONT LINES

PROMOTE FLEXIBLE WORK ARRANGEMENTS

PROVIDE TAILORED ADVICE TO CARE TAKERS

WOMEN ARE AT INCREASED RISK OF GENDER-BASED VIOLENCE

PROVIDE PSYCHO-SOCIAL SUPPORT

BUILD RESILIENCE TO FUTURE SHOCKS

ANALYSE SEX-DISAGGREGATED DATA

WOMEN IN VULNERABLE EMPLOYMENT MAY FALL BACK INTO POVERTY

TARGET ECONOMIC RECOVERY EFFORTS TO WOMEN

ACCESS TO HEALTH SERVICES FOR WOMEN MAY DWINDLE

STRENGTHEN ESSENTIAL HEALTH SERVICES

PROMOTE UNIVERSAL HEALTH CARE

UNITED NATIONS ESCAP 5 **DECADE OF ACTION**

Big questions to be discussed

- **Is it already time for easing protection measures such as the lock-down, closing of schools, prohibiting big events, and others?**
- **If so, what is the likelihood of a second wave of the pandemic and how long economic support programs therefore need to last?**
- **Even if there is no second wave, how long might it take for the economy to recover, and how much longer economic support programs need to last because of this reason? Will there be a V-shaped recovery?**
- **Which parts of business and population should be targeted by support programs? Are direct transfers to the population better or is crediting businesses the better way?**
- **How big is the fiscal space in Central Asia to go on with government support measures?**
- **To what extent monetary policy can be relaxed without causing too much currency depreciation and inflation?**
- **Would regional cooperation help or should better each country care for its own population? Should international organizations such as the IMF and the World Bank be approached for help?**

The even bigger question:

What kind of future after Covid-19?

**Looking forward to a fruitful discussion and
to humanity prevailing over covid-19!**



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