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Stephan Barisitz

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Oesterreichische Nationalbank
Otto-Wagner-Platz 3, 1090 Vienna, Austria
PO Box 61, 1011 Vienna, Austria
www.oenb.at
oenb.info@oenb.at
Phone (+43-1) 40420-6666

Robust growth in Central Asia 2019-24 – in the face of uncertainties, the pandemic and protracted war in the neighborhood

Stephan Barisitz[1]

In contrast to most Central, Eastern and Southeastern European (CESEE) economies, Central Asia (CA) – comprising Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – has witnessed quite robust demographic as well as economic growth in the period from 2019 to 2024. This period was marked by the aftermath of the oil price and Russian ruble plunge of 2014-16, the COVID-19 crisis (2020-21) and Russia's invasion of Ukraine and incisive Western sanctions imposed on Russia (2022-24). China overtook Russia to become the region's most important trading partner, while trade shares of EU countries have somewhat declined. Led by Kazakhstan (2015), most Central Asian countries made steps to move away from their US dollar pegs toward inflation targeting. Higher energy and commodity prices, Russia's surprisingly swift recovery from its Western sanctions-induced recession following its invasion of Ukraine, inflows of some highly skilled migrants from Russia ("relokanty"), strongly growing labor migration to and remittance inflows from Russia, and increased gains from transit trade with the region's northern neighbor all underpinned CA's economic expansion in 2022, 2023 and 2024. There are strong indications that at least part of CA's recently swelling transit trade has been in circumvention of Western sanctions against Russia. In the long run, Russia's war in Ukraine and heightened tensions between the United States and China could deepen global economic fragmentation, yet losses for CA according to IMF experts would likely remain comparatively limited given the region's already high level of trade concentration with its immediate neighbors China and Russia.

JEL classification: E52, E63, G21, G28, P34
Keywords: state-led economy, structural reforms, heterogeneity, monetary policy, exchange rate regime, sanctions, banking, oil and gas exporters, relokanty, remittances, transit trade, COVID-19, fragmentation, Central Asia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan

Central Asia (CA) is here understood to consist of the five Central Asian former Soviet republics Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. These five countries are dealt with in this study, which is an update of an article published a decade ago in the OeNB's former quarterly *Focus on European Economic Integration*.[2]

As opposed to other former Soviet republics, the CA countries have been less in the focus of geopolitical tensions in recent years and lately have witnessed quite robust demographic as well as economic growth (see chart 1). In terms of GDP per capita (based on purchasing power parities), Kazakhstan, the richest country of the region, has most recently attained almost 90% of Russia's level and is, by a wide margin, the second-richest country of the former Soviet space.[3]

Retracing and analyzing the perhaps surprisingly positive economic experiences of CA in the last five to six years is the task of this study.

The region's economic heterogeneity is worth recalling. CA ranges from relatively market-oriented countries open to foreign direct investment (FDI) and the world economy (like Kazakhstan) to countries holding on to salient elements of a centrally planned economy (the most

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[1] Oesterreichische Nationalbank, Central, Eastern and Southeastern Europe Section, stephan.barisitz@oenb.at. Opinions expressed by the authors of studies do not necessarily reflect the official viewpoint of the OeNB or the Eurosystem. The author is most grateful to Julia Wörz (OeNB) for her valuable comments and suggestions. Cutoff date: December 10, 2024.

[2] Barisitz, S. 2014. Macrofinancial Developments and Systemic Change in CIS Central Asia from 2009 to 2014. OeNB: Focus on European Economic Integration Q3/14. 48-73.

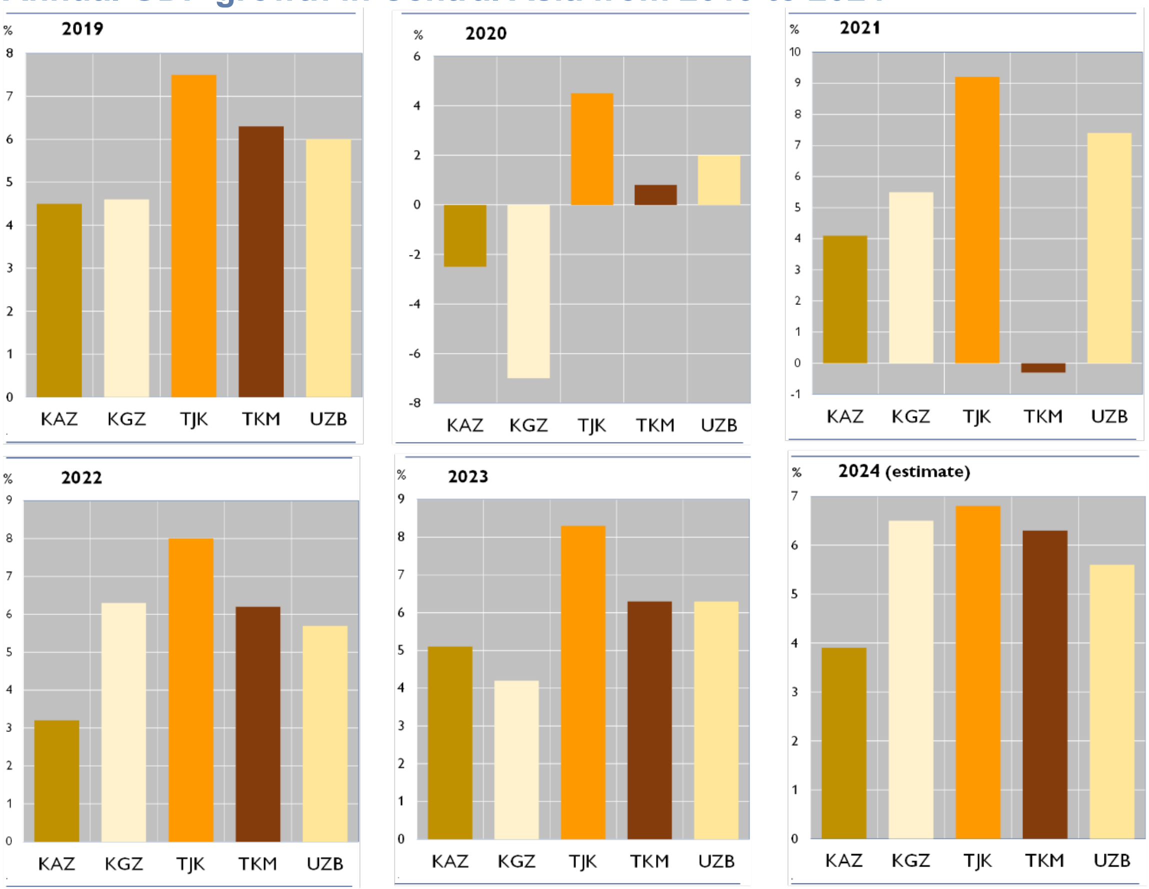
[3] Excluding the Baltic republics.

pertinent example: Turkmenistan). CA moreover consists of oil and gas exporters (Kazakhstan and Turkmenistan[4]) and oil and gas importers (Kyrgyzstan and Tajikistan). The latter often import their energy from Russia and are also dependent on remittance transfers from abroad, mostly from Russia.[5] Uzbekistan combines elements of both of the two groups of countries: It exports comparatively modest amounts of hydrocarbons, while featuring some inflows of remittances (again largely from Russia). Two CA economies – Kazakhstan and Kyrgyzstan – together with Russia, Belarus and Armenia, are members of the Eurasian Economic Union (EAEU), a customs union established in 2014/15.

Three successive, but clearly distinct, periods of observation seem to suggest themselves. Section 1 provides the point of departure: a relatively benign pre-crisis period (up to early 2020). This is abruptly interrupted by the impact of the COVID-19 pandemic (up to early 2022), as discussed in section 2. The latter upheaval, in turn, is suddenly superseded by the repercussions of Russia's invasion of Ukraine and of Western sanctions against Russia (from 2022 and ongoing), which are dealt with in section 3. Section 4 wraps up the study with a summary as well as an outlook and some concluding remarks.

Chart 1

Annual GDP growth in Central Asia from 2019 to 2024



Source: National statistics, IMF.

[4] Turkmenistan featured the world's fifth-largest natural gas reserves in 2022 (following Russia, Iran, Qatar, and the United States) ([Natural gas reserves by country and type | Statista]).

[5] Exports of particular metals also play a role for CA oil and gas importers: exports of gold for Kyrgyzstan, Tajikistan and Uzbekistan, moreover exports of aluminum for Tajikistan.

1 Relatively benign pre-crisis point of departure (up to 2019/20)

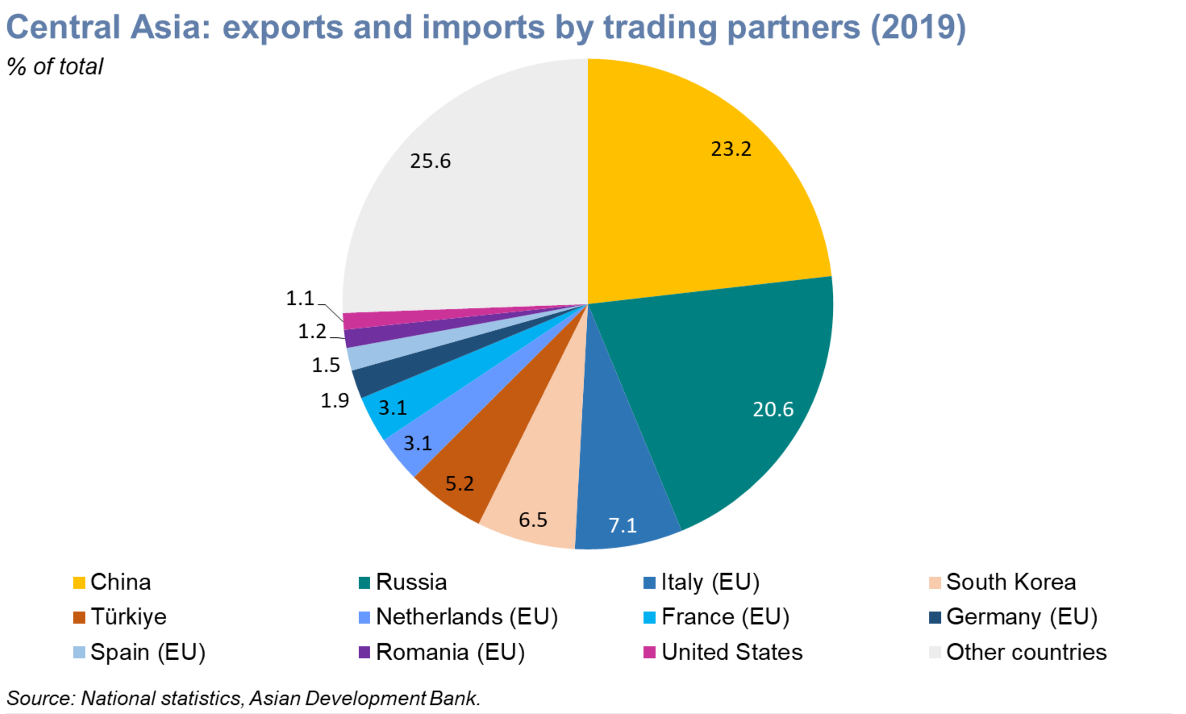
After overcoming adverse external shocks in the mid-2010s, the CA economies resumed their growth paths in the second half of that decade. Growth had decelerated in 2015-16, following a steep decline of oil and commodity prices and a slowdown of external demand. Remittances from Russia sent home by guest workers (mostly from oil-importing CA countries) declined. The depreciation of the Russian ruble in 2014-16 put pressure on external balances and currencies. Kazakhstan abandoned its exchange rate peg to the US dollar in favor of an inflation targeting framework and more flexible exchange rate. Kyrgyzstan, Tajikistan and Uzbekistan announced their intentions to move to inflation targeting and adopted less rigid exchange rate frameworks. Despite these transitions accompanied by devaluations, as of 2019, exchange rates in the region remained largely managed and often overvalued (IMF 2019a, p. 8).

Banking systems across the region also remained saddled with unaddressed legacy challenges, including high levels of problem assets. Officially reported nonperforming loans (NPLs) were relatively low, but problem assets (defined as restructured, watch and loss loans) tended to be elevated. This reflected a more or less pronounced combination of weak underwriting standards (Kyrgyzstan, Tajikistan), directed lending (Kazakhstan, Uzbekistan), foreign currency lending to unhedged borrowers (Tajikistan), a weak payment culture and modest rule of law (IMF 2019a, p. 7). More generally, as of 2019, incomplete structural and institutional reforms also reflected the continuing dominance of state-owned enterprises (SOEs) in various local markets – in the most pronounced manner in Turkmenistan.

As chart 2 below shows, in 2019 the five largest common trading partners[6] of the CA countries were China (23.2%), Russia (20.6%), Italy (7.1%), South Korea (6.5%) and Türkiye (5.2%). CA's six largest EU trading partners (Italy, Netherlands, France, Germany, Spain and Romania) together accounted for 17.9% of the region's total foreign trade turnover.

[6] Referring to trading partners with more than 1% of countries' foreign trade turnover.

Chart 2



1.1 Kazakhstan

Given sluggish investment and international supply restrictions (OPEC+), Kazakh oil production remained rather flat in the second half of the 2010s, yet economic growth (average annual GDP growth 2017-19: 4.2% in real terms) was buoyed by two subsequent fiscal stimulus packages. The political transition from President Nursultan Nazarbayev, who stepped down in March 2019, to President Kassym-Jomart Tokayev, who won elections three months later, was buoyed by fresh spending on social matters, regional and rural development. In 2019, inflation picked up, owing to increasing public expenditure but also to devaluation pressures on the Kazakh tenge against the backdrop of sanctions-triggered devaluation pressures on the Russian ruble. But price rises stayed within the National Bank of Kazakhstan's (NBK's) 4%-6% target band. That was also because of continuing price controls on food, utilities and some other goods (ADB 2019, p. 142).

Regarding the banking sector, extensive state credit subsidies and related party lending complicated the development of credit risk assessment and management. In late 2018 to early 2019, the authorities continued cleaning-up efforts of previous years: The NBK revoked licenses of three credit institutions and provided support of KZT 1 trillion or 2% of GDP to Tsesnabank, then the second-largest bank, with ownership transferred to a new investor (IMF 2019b, p. 5).[7]

1.2 Kyrgyzstan

The Kyrgyz economy grew steadily in the second half the 2010s (average GDP growth 2017-19: 4.4%), benefiting from an improved regional economic environment, including in Russia, the

[7] Altogether, IMF staff estimates support to the Kazakh banking sector in 2017-2019 of about KZT 4.3 trillion (7% of GDP), injected by the budget, the National Fund of the Republic of Kazakhstan (NFRK, the country's sovereign wealth fund) and the NBK (IMF 2019b, p. 9).

source of most remittances and non-gold export receipts (IMF 2019c, p. 1). Buoyant gold production, mostly from Kumtor, the country's largest gold mine[8], boosted growth in 2019. High gold exports also helped narrow the large current account deficit (over 9% of GDP on average in 2017-19). Remittances declined from 29% of GDP in 2018 to 23% in 2019, reflecting the depreciation of the Russian ruble against the Kyrgyz som, which remained broadly stable against the US dollar in a managed float (IMF 2019c, p. 6). Inflation and fiscal deficits have been relatively low.

1.3 Tajikistan

Reported economic activity was strong and slightly accelerated (average GDP growth 2017-19: 7.4%). Activity was boosted by aluminum production as well as growth in electricity generation, benefiting from the commissioning of the first two units (of a total of four) of the Rogun hydropower dam in 2018-19.[9] Moreover, a significant increase in gold exports and an upswing in remittance inflows in 2019 (to 28% of GDP) supported growth and reduced the country's current account deficit. Ongoing spending on construction work on the Rogun project also kept fiscal policy expansionary (ADB 2020, pp. 161-162). Notwithstanding the National Bank of Tajikistan's (NBT's) planned transition to inflation targeting in the medium term and its establishment of a target of 7% ±2 percentage points, foreign exchange controls were kept in place, parallel markets subsisted and the Tajik somoni's exchange rate flexibility to the US dollar remained limited. Inflation picked up in 2019 due i.a. to food price rises in partner countries and despite the monetary authority's expanding sales of treasury bills and of NBT securities, but remained within the target range.

1.4 Turkmenistan

Higher hydrocarbon output and recovering international energy prices supported Turkmen economic expansion (reported at 6.3% on average in 2017-19). Authorities continued to pursue an investment-led growth strategy underpinned by centrally-planned production targeting, import substitution and export promotion policies, directed concessional lending and related broad exchange controls on international transactions and payments. To contain inflation, the authorities maintained price controls on various locally-produced foods and services in state-run shops (IMF 2019d; ADB 2020, pp. 166-167). Turkmenistan's current account balance improved following the signing in mid-2019 of a five-year gas delivery contract with Russia. Regular gas supplies to Russia had been halted in 2016, following a price dispute. The new contract trimmed the republic's dependence on China as its sole gas export market, although China remained Turkmenistan's most important trading partner by far (see also charts in the annex). The official exchange rate, which has been stable at about TMT 3.5 to the US dollar since early 2015 (when the Turkmen currency had devalued by 20%), has remained considerably overvalued compared to parallel market rates (ADB 2019, p. 152).

[8] Situated in the Tian Shan range in the oblus (oblast/region) Issyk-Kul, eastern Kyrgyzstan.

[9] The Rogun project is situated on the Vakhsh river in the Tian Shan range, 100 km northeast of the Tajik capital Dushanbe. Once finished, it would be the largest hydropower station in CA with the world's tallest embankment dam. Apart from covering growing domestic electricity demand, about 60% of the project's total clean energy generation is expected to be exported to markets including Uzbekistan and Kazakhstan. As of early 2023, about USD 3.5 billion had been spent, largely from budget sources, on the Rogun station (IMF 2023c, p. 41).

1.5 Uzbekistan

Uzbekistan's economic growth reached an annual average of 5.4% in 2017-19. This upswing was influenced by a first wave of important economic reforms following the changeover of power at the top of the republic. After Islom Karimov's death in September 2016, Shavkat Mirziyoyev took over as head of state and in December won the presidential election. Reforms effectively started in 2017; foreign exchange liberalization came first, followed by a tax reform and an upgrading of economic statistics. An improved business climate spurred some investment, including FDI (IMF 2019e, p. 5; ADB 2020, p. 171). The external position initially deteriorated significantly, reflecting the foreign exchange regime change and the lifting of exchange controls that had repressed imports in the past. That said, the Uzbekistan sum's real exchange rate depreciated by about 35% in three years (2016-19), improving external cost competitiveness (IMF 2019e, p. 7). Another positive effect of foreign exchange liberalization was that the number of Uzbek workers abroad (mostly in Russia) grew, which caused inflows of remittances to increase (to 9% of GDP in 2017 and 14.5% of GDP in 2019).

Tax reform and greater fiscal transparency gave budget revenues a boost (ADB 2020, p. 172). Foreign exchange liberalization not only unified the official and parallel exchange rates at a substantially depreciated rate but also eliminated all exchange restrictions subject to IMF jurisdiction. In addition, first steps at liberalizing prices and rapid credit growth acted as potent factors fueling inflation, which exceeded 15% (year-end) in 2019. Efforts at modernizing the Uzbek economy which accompanied the reform wave were supported by a (yet) unreformed banking sector dominated by state-owned banks (SOBs) which carried out policy-based lending operations.

2 COVID-19 crisis period (2020-2021/22): mostly shallow dip followed by robust recovery

From the spring of 2020, the COVID-19 pandemic i.a. stifled mobility, shut down borders, interrupted trade and disrupted domestic supply as well as demand. Given the slump of hydrocarbon prices in 2020 triggered by the pandemic[10], CA oil and gas exporters suffered a larger economic blow on average than oil and gas importers that year, but exporters' economic rebound in 2021 was also more vivid than that of importers. While workers' remittances had taken a hit in 2020, they were buoyant in late 2021 and bolstered oil importers' recovery of consumption.[11] In all countries observed except largely centrally-planned Turkmenistan, crisis response measures and economic recovery were driven or assisted by fiscal expansion. After the major anticyclical effort in 2020, the (partial) withdrawal of pandemic-related spending and a rebound in revenues brought about an improvement of fiscal balances in 2021/22 (IMF 2022a, p. 2). The recovery of economic activity from the second half of 2021 was mainly driven by strong domestic demand, notably consumption (IMF 2022a, p. 1). All in all, three countries witnessed COVID-19-triggered recessions or stagnations (average GDP growth rates 2020-21: Kazakhstan: +0.8%, Kyrgyzstan: -0.8%, Turkmenistan: +0.3%), while two did not (Tajikistan: +6.9%, Uzbekistan: +4.7%). The latter partly benefited from sizeable government expenditures.

[10] The average annual Brent oil price declined by 35% to USD 42 per barrel in 2020, before recovering to USD 71 in 2021.

[11] As an example, Tajik remittances were strongly influenced by the suspension (in March 2020) and resumption (in September 2021) of regular flights to Russia (ADB 2022, p. 184).

To support growth against the initial economic onslaught of the pandemic until the summer of 2020, most CA central banks had cut their policy rates. Countries with more flexible exchange rates (Kazakhstan, Kyrgyzstan, Uzbekistan) saw their currencies depreciate early in the pandemic, which contributed to rising inflation. Once economies had touched the ground and recovery had set in, monetary policies were tightened again. Assisted by prudential relaxations, CA banks largely remained resilient and banking sectors stable through the COVID-19 crisis.

In the following, some selective country-specific facts in the period from 2020 to early 2022 are outlined:

While *Kazakhstan* had not yet fully overcome the pandemic, the doubling of the price of liquified petroleum gas (LPG) in January 2022 following its programed liberalization triggered popular protests that swiftly spread across the republic. The focus of the unrest soon broadened to inequality and other socioeconomic and corruption-related issues. Calm returned after several days, but the events resulted in numerous casualties and arrests. President Tokayev i.a. appointed a new prime minister, canceled LPG price liberalization, established a moratorium on home utility price increases and introduced rent subsidies for vulnerable groups (IMF 2022b, p. 4).

Soon after the onset of the COVID-19 pandemic, *Kyrgyzstan* was beset by political turmoil following the contested parliamentary elections of October 2020. Violent protests calmed down after the annulment of the election and a return to the presidential system (which had already existed until 2010), confirmed by a referendum and the election of a new president in early 2021. The combination of the pandemic and political unrest triggered the largest GDP contraction in the region in 2020 (-7%) and the weakest cumulative economic growth in 2020-21 (-1.5%).

3 Period of Russia's war in Ukraine (from 2022): marked growth performance

3.1 GDP growth and migration movements

The continued post-COVID-19 rebound, higher energy and commodity prices, the milder-than-expected contraction of the Russian economy in 2022 (-1.2%) followed by its surprisingly swift recovery in 2023 (+3.6%) and so far in 2024 (January-September: +4.2% year on year), sizeable if partly temporary inflows of migrants from Russia, higher labor migration to and remittance inflows from Russia and increased gains from intermediary trade all underpinned CA economic expansion in 2022, 2023 and the first three quarters of 2024. These factors may contribute to explaining why the region outperformed most CESEE EU member states and Western Balkans countries in terms of growth in these years.[12] Good harvests in Russia in 2022 and 2023 also helped sustain food imports, alleviating food security concerns.

Following Russia's invasion of Ukraine in February 2022 and severe Western sanctions, CA received major inflows of money, businesses and people from Russia (EBRD 2024a, p. 22). Several hundreds of thousands of individuals, including highly skilled information and communication technology (ICT) professionals, are estimated to have left Russia in 2022-23, yet up to about half of them are estimated to have returned later (Hugot and Mogilevskii 2023, pp. 34-35; Kamalov and Sergeeva 2024). Many chose to relocate to CA and/or Transcaucasia, benefiting from linguistic and cultural proximity and the relative ease of gaining residence. Local ICT as well as financial sectors received a boost. Given the relatively high purchasing power of Russian migrants ("relokanty"), some CA economies experienced strong demand-driven growth

[12] Pre-war growth forecasts for CA were equally surpassed (Hugot and Mogilevskii 2023, p. 34; IMF 2024a, p. 9).

in service-oriented activities, such as real estate, catering, transportation, financial and insurance services (EBRD 2024a, p. 22). At least temporarily, relokanty fueled price pressures in the rental and property markets of some countries (IMF 2023a, 18).

In 2022, CA witnessed a surge in money transfers from Russia. In part, these inflows constituted remittances from CA citizens – mostly Tajiks, Kyrgyz and Uzbeks – in Russia, and in part, money transfers by Russian citizens to their newly opened bank accounts in CA countries. Outmigration and mobilization in the Russian army doubtlessly increased labor demand in Russia in certain occupations and locations. As a result, registrations as job seekers in Russia in 2022 rose by 11% for Kyrgyz citizens, 45% for Tajiks and 29% for Uzbeks (Hugot and Mogilevskii 2023, p. 36). Given the exclusion of many large Russian banks from the SWIFT global payment system (a key Western sanctions measure), opening bank accounts in CA was a way for Russians to reconnect to international interbank payment facilities. Around 500,000 bank accounts were reportedly opened by Russian visitors or migrants in Kazakhstan in the two years following the start of the war against Ukraine.[13] Yet money transfers from Russian migrants have waned since the beginning of 2023. This was partly due to strengthened sanctions compliance practices of local banks and partly to the return of a number of relokanty to Russia or to their moving on to third countries (EBRD 2024a, p. 24).

3.2 Trade, current account and fiscal developments

Generally, in 2022-23 trade links with Russia intensified, boosted to a large degree by increasing transit or intermediary trade. Adapting to adjustments in trading routes and other logistical challenges since Russia started its war in Ukraine has brought about an increase in CA trade with Russia, even after controlling for price rises associated with Russian energy deliveries (IMF 2023a, p. 11). Re-exports from CA to Russia were primarily aimed at replacing Russian imports from sanctioning countries, whether for products under sanction or not (ADB 2023, p. 37-38). In 2022, re-exports from Kazakhstan amounted to USD 670 million (21% of total Kazakh exports to Russia), re-exports from Kyrgyzstan came to USD 560 million (80% of total Kyrgyz exports to Russia), re-exports from Uzbekistan were USD 220 million (20% of total Uzbek exports to Russia). Re-exported goods included automatic data processing machines, printers, components of electrical engines and tractors from Kazakhstan, automatic locks and packaging appliances from Kyrgyzstan, printers and some varieties of plastics from Uzbekistan. These three economies had boosted their imports mostly from the European Union and China (Hugot and Mogilevskii 2023, p. 38; Astrov et al. 2024, 20).

Given sharply rising oil prices in 2022 (the average Brent oil price exceeded USD 100 per barrel) followed by moderating prices in 2023, current account balances of oil and gas exporters first improved, then deteriorated again. Comparable dynamics can be observed with respect to current account developments for oil and gas importers, who benefited from higher income transfers in 2022, followed by a degree of "normalization" of the latter in 2023 (IMF 2024a, p. 10). The unwinding of fiscal stimuli served during the pandemic in 2020 and/or 2021 led to near-balanced budgets, except for Turkmenistan, whose oil price-driven growth spike in 2022 (after economic stagnation during the pandemic) contributed to a fiscal surplus, and Uzbekistan, which continued to provide a fiscal stimulus in 2023.

[13] Nonresidents' bank deposits increased from March to December 2022 from the equivalent of 1% to 6% of GDP in Uzbekistan, from 2% to 5% in Kyrgyzstan and from 1% to 3% in Kazakhstan (IMF 2023a, p. 18).

3.3 Inflation, monetary policy and banking sector development

In Kazakhstan, Kyrgyzstan and Uzbekistan, inflation was driven up and reached double digits in 2022 by a combination of elevated global commodity prices, wage pressures and demand pressures from Russian migrants. These three countries also witnessed a significant imported inflation component, reflecting high shares of imports from Russia (Kazakhstan: 35%, Kyrgyzstan: 24%, Uzbekistan: 20%) and an exchange rate depreciation against the Russian ruble in 2022. In 2023, inflation receded to single digits again amid monetary policy tightening, a decline of commodity prices, re-appreciation tendencies against the Russian currency and weaker demand pressures from Russian migrants. Yet inflation remained above central bank targets in Kazakhstan and Uzbekistan owing to robust domestic demand and stubbornly high inflation expectations (IMF 2024a, p. 10). The post-COVID-19 economic upswing or robust growth helped CA banks recover or increase their profitability. Yet structural vulnerabilities of banking systems remain, given rather modest levels of loan loss provisioning, elevated foreign exchange exposures and currency mismatches amid widespread if declining dollarization (IMF 2024a, p. 11).

3.4 China boosts its lead as major trading partner of CA, while Middle Corridor for China-EU overland trade (circumventing Russia) has yet to take off

As regards CA's five largest trading partners, chart 3 shows that not much changed in 2023 (compared to 2019, as described above): China expanded its market share to over one-quarter (26.8%), while Russia's market share shrank to less than one-fifth (17.8%), followed by Italy (7.5%), Türkiye (5.4%) and South Korea (3.9%). While Italy's market share slightly rose, positions of other EU member states declined. The combined market share of the four largest EU trading partners of CA (Italy, France, Netherlands, Germany, which each accounted for more than 1% of the region's trade turnover in 2023) shrank to 12.5% (from 14.8% in 2019).

Sanctions against Russia destabilized traditional overland trade (rail) routes between China and the EU, partially diverting East-West connectivity away from the Northern Corridor running through Russia and Belarus[14] toward neighboring CA and Transcaucasian transit countries (IMF 2023a, p. 18). The currently most promising alternative, the Middle Corridor,[15] also called Transcaspian International Transport Route, is running though Kazakhstan, crossing the Caspian Sea, then through Azerbaijan and Georgia, then crosses the Black Sea or leads to Europe via Türkiye. While it has benefited from the opening of the trans-Kazakhstan railroad in 2014 and the Baku-Tbilisi-Kars railroad in 2017, it is still saddled with considerable cost disadvantages which are difficult to overcome: challenging and partly inhospitable terrain, forced multimodal transportation, multiple borders and checks, diverse regulatory regimes. That said, in 2022 Kazakhstan, Azerbaijan, Georgia and Türkiye signed a roadmap for 2022-27 to support the development of the Middle Corridor (IMF 2024a, p. 34). Furthermore, the EU in February 2024 announced plans to invest EUR 10 billion in the Middle Corridor (The Economist 2024, p. 44).

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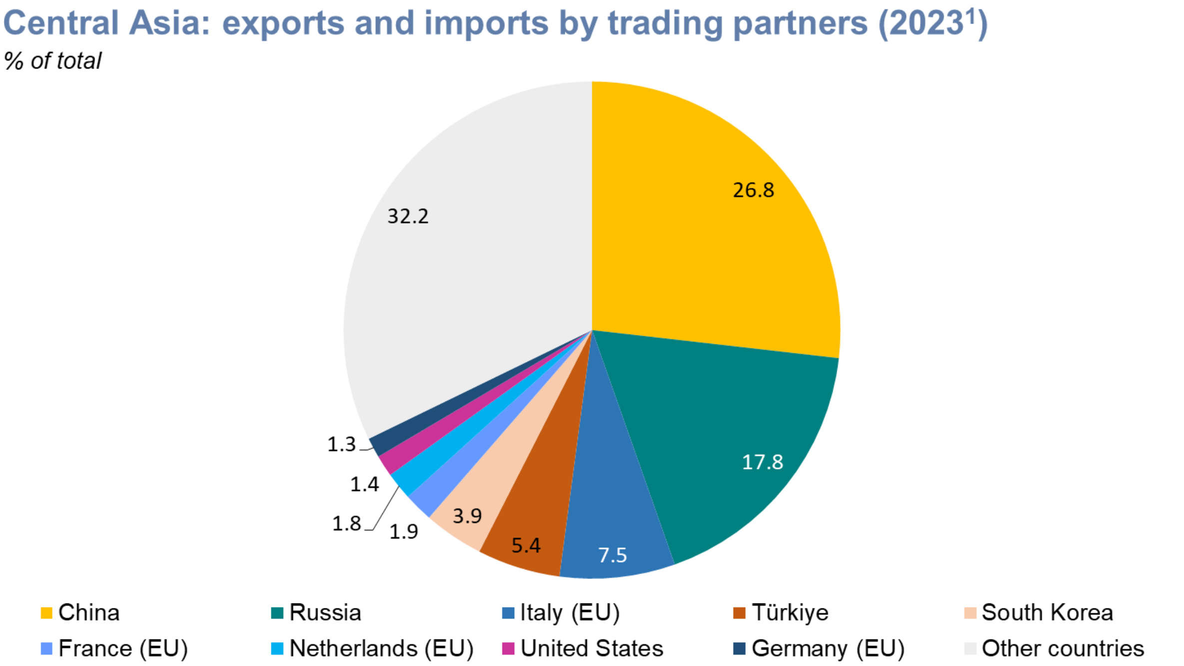
[14] Thus, volumes conveyed along the Northern Corridor reportedly dropped by over 60% from 2021 to 2023 (IMF 2024a, p. 34).

[15] A second alternative is the Southern Corridor, running via Uzbekistan, Turkmenistan, Iran and Türkiye.

Chart 3



Source: National statistics, Asian Development Bank.
[1] Data for Turkmenistan: 2022.

3.5 Developments in individual countries

3.5.1 Kazakhstan

In 2022, Kazakh economic expansion slowed to 3.2%. The slowdown reflected temporary disruptions in oil production (temporary breakdowns in the Kashagan oil field[16]), even if the oil price had reached record levels that year; Russia's mild recession in 2022 also weighed on Kazakh economic activity.[17] 2023 saw a re-acceleration of Kazakh GDP growth to 5.1% due to higher oil production, notwithstanding the weakening of the oil price that year; Russia's 2023 economic recovery helped stimulate Kazakh growth. From January to June 2024, economic growth dropped to 3.2% (year on year), due to massive floods in the west of the country and lackluster oil output, but supported by infrastructure construction, transportation and warehousing (EBRD 2024b, p. 22).

After Russia launched its invasion of Ukraine, more than 200,000 Russian citizens entered Kazakhstan in the course of 2022, but toward the end of that year about 150,000 had left again, and new inflows dwindled (IMF 2022c, p. 16). From late 2021 to October 2023, the country reportedly witnessed a doubling of the number of business entities with Russian participation (from around 8,000 to 19,000), driven by a fivefold increase in ICT businesses (EBRD 2024a, p. 23). As of early 2024, almost half of all foreign companies working in Kazakhstan were estimated

[16] Situated northeast of the Caspian Sea.

[17] According to an IMF Selected Issues study (Arzoumanian 2022, pp. 15, 28), shocks to growth in Russia have a substantial impact on Kazakhstan, are transmitted primarily through the trade channel and play a dominant role in driving Kazakhstan's cyclical production fluctuations, including relative to impacts of global factors.

to be Russian (Mallinson 2024).[18] Since the start of the war in Ukraine, a structural break in trade flows appears to have emerged, with a number of Western countries cutting their exports to Russia and increasing them to Kazakhstan. As of early 2024, countries like China, Türkiye and Kyrgyzstan had raised their exports both to Russia and Kazakhstan. Russia's shares in Kazakhstan's imports and exports are gauged to have decreased by about 30% and increased by about 40%, respectively, in 2023 (IMF 2024b, p. 6-7).

In 2022, high international commodity prices strengthened Kazakhstan's current account, while in 2023, flagging commodity prices coupled with an upswing in domestic demand pushed the current account back into the red. Overall, fiscal policy tightened from 2021 to 2022: Strong oil and other fiscal revenues more than offset a large spending increase in 2022 intended, inter alia, to satisfy social demands linked to the unrest that had erupted in early 2022 (see section 2 above). Fiscal policy remained relatively tight in 2023.

Inflation continued to rise and spiked at over 20% at end-2022, way above the NBK's 4%-6% target range (table 1). The surge was mainly driven by food price rises reflecting global developments, the depreciation of the Kazakh tenge, notably against the Russian ruble, some sanctions-disrupted supply chains from Russia, rapid wage and consumer credit growth, and higher rental prices associated with the inflow of Russian citizens (IMF 2022c, p. 4-5; Hugot and Mogilevskii 2023, p. 35; ADB 2023, p. 69). To rein in price pressures, the government temporarily restricted the exports of several products, extended the fuel price freezes introduced in January 2022 in response to disturbances and confirmed its moratorium on utility price increases (IMF 2022c, p. 6). The NBK foreign exchange interventions to counter the depreciation pressures reduced official reserves, which remained at a comfortable level though (almost one-quarter of GDP).

[18] During a late-fall 2023 visit to Germany, Kazakh head of state Kassym-Jomart Tokayev stated that, while "following the sanctions regime" – a claim that has been called into question by many experts – his country was not "anti-Russia" and valued "comprehensive cooperation with Russia, with which our republic shares the longest border in the world" (Bekmurazaev 2023; Caron 2024). In August 2024, the Kazakh authorities appear to have gone one step further when Serik Jumanğarin, deputy prime minister and minister of trade and integration, said that Kazakhstan will not follow sanctions if they harm domestic companies that function as the main employers in their areas, citing as an example sanctions-blocked sales of iron pellets to Russia, which had triggered huge losses for Kazakh producers (Gizitdinov 2024).

Table 1

Kazakhstan: key macroeconomic and financial sector indicators

	2019	2020	2021	2022	2023	2024 (projection)
GDP growth (annual, in real terms, %)	4.5	-2.5	4.1	3.2	5.1	3.9
Current account balance (% of GDP)	-3.9	-6.4	-1.4	3.1	-3.3	-1.3
Net FDI flows[1] (% of GDP)	-3.3	-3.4	-1	-3.6	-3.4	-3.3
Gross external debt (% of GDP)	87.8	96.2	84.4	71.2	61.3	58.4
Gross international reserves[2] (USD billion)	29	35.6	34.4	35.2	35.9	40.2
Gross international reserves[2] (% of GDP)	16	20.8	17.5	15.6	13.8	12.8
NFRK[3] foreign assets (% of GDP)	34	34.3	28.1	24.7	22.7	21.5
Debt service ratio (% of goods and services exports)	55	69.2	44.6	45.2	x	x
General government budget balance (% of GDP)	-0.6	-7.1	-5	0.8	-0.6	-1.3
CPI inflation (year end, %)	5.4	7.5	8.4	20.4	9.7	8.3
Exchange rate: KZT/USD (annual average)[4]	382.8	413	425.9	460.1	456.2	x
Exchange rate: KZT/USD (year end)[4]	381.2	420.7	431.7	461	453.6	x
Exchange rate: KZT/RUB (year end)[4]	5.4	5.3	5.2	5.1	x	x
Level of monetization (broad money/GDP, %)	30.7	35.3	35.9	33.1	34	34.5
NBK[5] policy rate (year end, %)	9.25	9	9.75	16.75	16.6	x
Credit to the economy (annual growth, %)	6.3	22.7	13.4	20.7	10.9	14.6
Nonperforming loans (to total gross loans, %)	8.1	6.9	3.3	3.4	x	x
Return on equity (banks, %)	25.2	19.3	30.6	30.7	x	x
Share of foreign currency loans in total loans (%)	16.9	13.7	11.3	9.9	x	x
Foreign currency liabilities to total liabilities (%)	38	35.4	32.6	33.9	x	x
Capital adequacy ratio[6] (banks, %)	24.2	27	23.4	21.7	x	x
Unemployment rate (average, %)	4.8	4.9	4.9	4.9	4.7	4.7
Memorandum items:						
Population (million)	*18.5*	*18.8*	*19*	*19.6*	*19.9*	*20.1*
GDP (nominal, KZT billion) [5)]	*69,533*	*70,649*	*83,952*	*103,766*	*117,265*	*135,806*
GDP (nominal, USD billion)	*181.7*	*171.1*	*197.1*	*225.5*	*260.5*	*296.7*

Source: National statistics, IMF, Statista.
[1] *Negative sign = inflows.*
[2] *NFRK financial assets are not included.*
[3] *NFRK = National Fund of the Republic of Kazakhstan (oil stabilization fund and soverign wealth fund).*
[4] *KZT = Kazakh tenge.*
[5] *NBK = National Bank of Kazakhstan (Kazakstan Ulttyk Banki, Natsionalny Bank Kazakhstana).*
[6] *Regulatory capital to risk-weighted assets.*
Note: x = data not yet available.

In the course of 2022, the monetary authority raised its policy rate in successive steps by 700 basis points (from 9.75% to 16.75%; the largest hike took place immediately after Russia had launched its invasion of Ukraine).[19] This major effort, combined with exchange rate re-appreciation against the Russian ruble (to which the tightening exercise had contributed), the above-mentioned government intervention, as well as waning food prices, brought inflation down again to just below 10% at end-2023. In the meantime, the NBK's inflation target was adjusted upward to 5% (from the previous 3%-4% range) and the policy rate was lowered again between August and November 2023 by 100 basis points to 15.75% (ADB 2024a, p. 71). With inflation slowly receding through the summer of 2024, the monetary authority gradually further reduced its policy rate (to 14.25% at end-June).

Russia's war in Ukraine and Western punitive measures gave rise to deposit withdrawals from sanctioned Russian bank subsidiaries (accounting for about 15% of total Kazakh banking assets before the war). Two of these three subsidiaries were acquired by local entities, the third one was recapitalized (IMF 2022c, p. 5). The Kazakh banking sector as of the summer of 2024 remained

[19] This of course recalls the Bank of Russia's more-than-doubling of its key interest rate in late February/early March of the same year from 9.5% to 20.0%, which was followed, however, by a substantial lowering of the key interest rate in the spring and summer of 2022.

sound as far as capitalization, profitability and liquidity are concerned. Notwithstanding the NBK's elevated policy rate, rapid retail credit expansion, while supported by a government-subsidized lending program, has fueled rising household indebtedness. Related party transactions continue to require close monitoring (IMF 2024b, p. 7).

3.5.2 Kyrgyzstan

Kyrgyzstan has been a major beneficiary of a surge of intermediated trade (predominantly re-exports from China to Russia) as well as of money transfers and of the relocation of businesses and highly skilled individuals following Russia's invasion of Ukraine and the imposition of Western sanctions (EBRD 2024a, p. 28). Russia's smaller-than-expected contraction in 2022, which was more than offset by its recovery in 2023 and further expansion in 2024, coupled with migration of capital and labor to Kyrgyzstan (even if later partly reversed), appear to have muted any substantial negative spillover from the war in Ukraine so far (IMF 2023b, p. 4; IMF 2024c, p. 3). Among the CA countries, Kyrgyzstan probably received most Russian migrants relative to its population. The country's economic growth in 2022 accelerated to 6.3%, driven by a rebound of gold production,[20] real wage increases, strong domestic demand and dynamically expanding services, trade and transportation. Growth slowed down somewhat in 2023 (to +4.2%) because of a drop in gold production. From January to July 2024, growth accelerated again to 8.7% (year on year), led by manufacturing activities, tourism, remittances (up 12% in the first half of 2024) and credit growth, which in turn boosted trade (EBRD 2024b, p. 22).

The reported current account deficit multiplied: It expanded from 8% of GDP in 2021 to 43.6% of GDP in 2022 (table 2). Imports increased by 73% in 2022, partly reflecting oil prices and domestic demand, exports (as officially measured) declined 21% as gold exports were suspended, with the NBRK purchasing domestically-produced gold to replenish its reserves. The most important explanatory variable for the multiplication of the recorded current account shortfall in 2022 were re-exports to Russia, which inflated imports from outside the EAEU (predominantly from China). These were then not fully captured as exports by the intra-EAEU trade statistics because trade within the EAEU is not subject to mandatory customs declarations and its monitoring is limited. As IMF staff notes, these unrecorded exports could explain exceptionally large positive errors and omissions and could have helped sustain the exchange rate stability of the Kyrgyz som toward the Russian ruble (IMF 2023b, p. 5).[21] Similar forces appear to have been at work in 2023, and sizeable de-facto re-exports continued even if dynamics slowed down somewhat, resulting in a still very high current account shortfall of 31.8% of GDP.[22]

In the fiscal sphere, the cyclical recovery in revenues underpinned by improved tax administration continued in 2022. In 2023, strong revenue performance even pushed the budget into a slight surplus (0.1% of GDP) (ADB 2024a, p. 77). Inflation rose to 14.7% at end-2022, well above the

[20] The upswing of Kyrgyz gold production probably benefited from the final resolution of the dispute around the Kumtor gold mine between the authorities and a foreign investor, Centerra Gold Inc. (Canada). In an out-of-court settlement in April 2022, Kyrgyzstan received full ownership of the Kumtor gold company in exchange for relinquishing its share in the foreign investor company (IMF 2023b, p. 3).

[21] Thus, China's leading share of Kyrgyz *imports* leapt from 26% in 2021 to 42% in 2022. Purchases expanding fastest consisted i.a. of household electronics (e.g. dishwashers, sewing and washing machines), footwear, computers, construction equipment, mobile phones and automobiles. Russia's dominant share in Kyrgyz *exports* shot up from 14% in 2021 (excluding unrecorded exports) to 48% and 77% respectively (the latter percentage including estimated unrecorded exports), in 2022 (Rao and van Houtte 2023, p. 22, 24, 26).

[22] One of the striking contributing factors to these re-exports probably were German deliveries of automobiles and spare parts to Kyrgyzstan, which reportedly soared 50-fold between 2021 and 2023 (The Economist 2024, p. 44).

5%-7% target range set by the National Bank of the Kyrgyz Republic (NBKR). This reflected elevated global food and fuel prices, and strong domestic demand stemming from robust wage growth and an influx of relocating Russians. In the first quarter of 2022, the NBKR had tightened its monetary stance in response to an upsurge of inflationary pressure against the backdrop of a plunge of the Kyrgyz som, in tandem with the Russian ruble, by about one-quarter against the US dollar (ADB 2023, p. 76). In this period, the monetary authority in three steps almost doubled the policy rate to 14%, after which the rate remained unchanged until end-November 2022, when it was lowered by 100 basis points to 13% to prop up growth in the light of slowing inflation. Even though inflation had fallen to 10.0% in December 2023 and further to 5.3% in March 2024 – thus falling once more within the target range – the monetary authority only eased its stance again in April and June 2024, when the policy rate was adjusted downward in two steps of a total of 400 basis points to 9.0%. As of July 2024, inflation was below the NBKR's target range.

Table 2

Kyrgyzstan: key macroeconomic and financial sector indicators

	2019	2020	2021	2022	2023	2024 (projection)
GDP growth (annual, in real terms, %)	4.6	-7	5.5	6.3	4.2	6.5
Current account balance (% of GDP)	-12.1	4.5	-8	-43.6	-31.8	-9.7
Net FDI flows[1] (% of GDP)	-3.6	-7.0	-6.1	-4.4	-3.8	-3.7
Current private transfers (net, % of GDP)	23.1	26.2	26.7	17.5	13.8	14.6
External public debt (% of GDP)	41	54.5	46.7	39.5	37.1	34.4
External public debt service-to-exports ratio (%)	6.6	9.7	5.6	7.3	6.2	5
Gross international reserves (USD billion)	2.18	2.63	2.78	2.63	2.95	2.58
Gross international reserves (% of GDP)	20.9	29.7	28	21.2	21	18.7
General government budget balance[2] (% of GDP)	-0.1	-3.1	-0.7	-0.3	0.1	-1.6
Total government debt (% of GDP)	48.8	63.6	56.2	49.2	46.9	44.3
CPI inflation (year end, %)	3.1	9.7	11.2	14.7	10	8
Exchange rate: KGS/USD (annual average)[3]	69.8	77.4	84.7	83.2	87.9	x
Exchange rate: KGS/USD (year end)[3]	69.6	82.6	84.8	85.7	x	x
Level of monetization (broad money/GDP, %)	35.2	44.6	43.4	45.7	46.3	45.3
NBKR[4] policy rate (year end, %)	4.25	5	8	13	13	x
Credit to the economy (annual growth, %)	13	9.4	11.5	7.8	29.3	21.4
Nonperforming loans (to total gross loans, %)	8	10.5	11.1	12.8	9.5[5]	x
Share of foreign currency deposits in total deposits (%)	39.1	43.4	42.2	48.3	51.3[5]	x
Share of foreign currency loans in total loans (%)	35.2	33	28	23.6	22.0[5]	x
Return on equity (banks, %)	7.7	5.5	7.8	43.4	34.1[5]	x
Capital adequacy ratio[6] (banks, %)	24	24.9	22.2	25.6	25.2[5]	x
Unemployment rate (average, %)	4.3	4.6	4.1	4.1	4	x
Memorandum items:						
Population (million)	*6.39*	*6.52*	*6.65*	*6.8*	*6.93*	*7.08*
GDP (nominal, KGS billion) [4]	*654*	*640*	*783*	*971*	*1,134*	*1,286*
GDP (nominal, USD billion)	*9.37*	*8.28*	*9.26*	*11.67*	*12.78*	*13.79*

Source: National statistics, IMF, Statista.

[1] *Negative sign = inflows.*

[2] *Overall balance (including government loans to SOEs in the energy sector).*

[3] *KGS = Kyrgyz som.*

[4] *NBKR = National Bank of the Kyrgyz Republic (Kyrgyz Respublikasynyn Uluttuk Banki, Natsionalny Bank Kyrgyzskoy Respubliki).*

[5] *November 2023.*

[6] *Regulatory capital to risk-weighted assets.*

Note: x = data not yet available.

From January to September 2022, the issuance of Visa cards in Kyrgyzstan expanded by 48%, with most cards being issued for Russians traveling abroad. That year, the country saw its bank deposits increase by about two-thirds; yet, with many relokanty heading home again or moving to third countries, deposits started to shrink again (EBRD 2024a, p. 24). Overall, the banking sector has remained healthy despite some erosion of asset quality.

3.5.3 Tajikistan

Tajikistan witnessed continued strong economic growth in 2022-23: GDP increased by 8.0% in 2022, followed by a slight acceleration to 8.3% in 2023. Growth was broad-based, reflecting industry, particularly mining (including gold production), agriculture and services (IMF 2023c, p. 4, 17). In 2022, a surge of remittances from an expanding number of Tajik guest workers in Russia helped buttress domestic demand. 2023 featured a decline of – still high – remittances, combined with a wider fiscal deficit and a reduced National Bank of Tajikistan (NBT) policy interest rate (given relatively low inflation). At +8.2%, the economy continued its brisk growth in the first half of 2024, led by sizeable gains in mining and a substantial expansion of fixed investment (+12%), which was inter alia related to the ongoing construction of the Rogun power plant.

Following a spike of remittances in 2022 (a rise by more than one-half from 32.7% of GDP in 2021 to 50.9% of GDP in 2022), triggered by heavy Russian demand for migrant labor, these payments declined again to 37.6% of GDP in 2023, which is however still way above the traditional level of Tajik remittance transfers from Russia of about 30% of GDP (see table 3; IMF 2024d, p. 35; ADB 2024a, p. 83). In any case, the mentioned spike of 2022 pushed the current account surplus up to 15.6% of GDP, notwithstanding a widening of the trade deficit given recovering domestic demand, and contributed to a sizeable boost of official reserves. In 2023 the current account then slipped into a small deficit given a further widening of the trade shortfall.

Table 3

Tajikistan: key macroeconomic and financial sector indicators

	2019	2020	2021	2022	2023	2024 (projection)
GDP growth (annual, in real terms, %)	7.5	4.5	9.2	8	8.3	6.8
Current account balance (% of GDP)	-2.2	4.1	8.2	15.6	-0.7	-2.1
Net FDI flows[1] (% of GDP)	-2.6	-1.3	-0.9	-1.7	-1.8	-3.2
Remittance inflows (% of GDP)	28	26.9	32.7	50.9	37.6	34.3
Public and publicly guaranteed external debt (% of GDP)	36.8	43.8	37.1	28.5	27.6	27.8
External public debt service-to-exports ratio (%)	19.2	14.4	9.4	13.3	14	15.8
Gross official reserves (USD billion)	1.39	2.24	2.5	3.8	3.61	3.65
Gross official reserves (% of GDP)	17.7	27.5	28	36.2	30.4	28.2
General government budget overall balance (% of GDP)	-2.1	-4.3	-0.7	-0.2	-1	-2.5
CPI inflation (year end, %)	8	9.4	8	4.2	3.8	6
Exchange rate: TJS/USD (annual average)[2]	9.5	10.3	11.3	11	10.9	x
Exchange rate: TJS/USD (year end)[2]	9.7	11.3	11.3	10.2	11	x
Level of monetization (broad money/GDP, %)	28	31.3	28.1	33.9	33.9	33.9
NBT[3] refinancing rate (year end, %)	12.25	10.75	13.25	13	10	x
Credit to the economy[4] (annual growth, %)	10.3	14.8	-4.8	18.6	32.1	12.1
Nonperforming loans (to total gross loans, %)	26.1	23.8	13.7	12.2	11.1[5]	x
Share of foreign currency loans in total loans (%)	50.5	43.2	34	29	31.8[6]	x
Deposit dollarization (%)	46.8	44.6	46.1	45.9	46.4	x
Return on equity (banks, %)	7.7	9.1	4.8	28.3	26.3[6]	x
Capital adequacy ratio[7] (banks, %)	21.4	18.2	23.4	25.3	23.1[6]	x
Unemployment rate (ILO estimate, average, %)	6.9	7.2	7.3	7	7	x
Memorandum items:						
Population (million)	*9.29*	*9.47*	*9.66*	*9.84*	*10.01*	*10.19*
GDP (nominal, TJS billion)[3]	*79,110*	*83,958*	*101,076*	*115,739*	*128,984*	*143,365*
GDP (nominal, USD billion)	*8.3*	*8.13*	*8.93*	*10.49*	*11.86*	*12.95*

Source: National statistics, IMF, Statista.

[1] *Negative sign = inflows.*

[2] *TJS = Tajik somoni.*

[3] *NBT = National Bank of Tajikistan (Bonki Millyi Tochikiston, Natsionalny Bank Tadzhikistana).*

[4] *Credit to the private sector and net credit to public nonfinancial corporations.*

[5] *End-November 2023.*

[6] *End-September 2023.*

[7] *Regulatory capital to risk-weighted assets.*

Note: x = data not yet available.

Given increasing investment-driven expenditures, improved tax administration, electronic filing as well as the authorities' steps to implement their financial recovery program for the loss-making electricity sector helped raise budget revenues. These steps included electricity tariff increases for households but also for the large state-owned Tajik Aluminum Company (TALCO) again after a pause during the pandemic (ADB 2023, p. 81; IMF 2023c, p. 8). As table 3 shows, the modest budget deficit slightly increased from 0.7% of GDP in 2021 to 1.0% in 2023.

Notwithstanding higher commodity prices (notably for imported food and fuel), inflation was halved from 8.0% in 2021 to 4.2% in 2022 (year-end). This was attributable in part to a quite tight monetary stance: The NBT had raised its policy rate by 250 basis points to 13.25% in 2021 and then only marginally reduced it to 13.0% in 2022. The monetary authority thus maintained one of the highest nominal and real policy rates in the region. Moreover, the Tajik somoni's appreciation, largely in parallel with the Russian ruble, vis-à-vis the US dollar, helped alleviate imported price pressures (ADB 2023, p. 81).[23] Finally, the government released strategic food reserves to maintain the supply of key staples (flour, sugar, cooking oil, etc.). These measures left inflation near the lower end of the NBT's medium-term target range of between 4% and 8% (IMF 2023c, p. 5-6; ADB 2023, p. 80-81). Inflation further eased to 3.8% at end-2023 and 3.4% (year

[23] The Tajik somoni's broadly tracking the Russian ruble also helped stabilize the domestic value of huge remittance inflows.

on year) in July 2024 (EBRD 2024b, p. 23). The waning of price pressures opened the door to a substantial reduction of the policy rate – by a total of 300 basis points in 2023 to 10% and a further 100 basis points to 9% at end-August 2024. While depreciating against the US dollar (by 7%), in 2023 the Tajik somoni no longer moved in tandem with the ruble, but appreciated by 16% against the Russian currency – which trimmed the domestic value of remittances and was followed by the return of some Tajik guest workers from Russia.

Tajik financial soundness indicators further improved in 2022 and 2023 as the resolution of two ailing formerly systemic credit institutions (Agroinvestbank (AIB) and Tajik Sodirotbank (TSB)) and the sale of their assets helped clean up legacy loans in the banking sector. Yet sector profitability somewhat declined (ROE fell from 28% in 2022 to 19% in 2023) as local banks severed ties with their sanctioned Russian counterparts (ADB 2024a, p.82-83).

3.5.4 Turkmenistan

Gains in hydrocarbon (particularly gas) production, prices and exports spurred the country's economic recovery in 2022 (+6.2%) and 2023 (+6.3%). Growth was reported in most sectors, with industry being the main driver (2022: +6.3%, 2023: +4.3%). Economic recovery furthermore owed to increasing domestic demand following the end of a protracted lockdown in 2020-21 (ADB 2023, p. 85; ADB 2024a, p. 87). The main domestic growth driver on the demand side were public investments. Capital formation in various parts of social infrastructure under the President's Program for Socio-Economic Development in 2022-2028 expanded by 7.5% and attained about 18% of GDP in 2023. This initiative was reported to include the commissioning of new health centers, schools, cultural centers and residential complexes as well as advancing stages of construction of the new administrative "smart city" of Arkadag (ADB 2024a, p. 87).[24] Fixed capital formation was also boosted by construction work on the 600 km Ashgabat-Türkmenabat[25] motorway. Domestic demand further benefited from a 10% upward adjustment of public sector salaries, pensions and social benefits (effective on January 1, 2024), which contributed to a GDP expansion of 6.3% in the first half of 2024 (year on year) (EBRD 2024b, p. 23).

The current account remained in surplus in 2022-23. Recovering exports of hydrocarbons expanded to satisfy mainly Chinese gas demand and to a lesser extent that of neighboring Azerbaijan, Iran and Iraq (gas swap arrangements) (ADB 2024b, p. 104). In the fiscal sphere, rising hydrocarbon prices and production helped turn the marginal budget surplus of 0.5% of GDP in 2021 into a surplus of 2.5% of GDP in 2022, which then dropped to 1.3% in 2023 (table 4). Yet this did not include sizeable extrabudgetary spending that continued to finance many public projects. That said, a Fitch Ratings report of February 2024 (Fitch Ratings 2024) found Turkmenistan's public debt to have decreased and the country's sovereign net foreign assets to have increased from 46% of GDP in 2022 to 52% of GDP a year later.

[24] Arkadag is a new planned urban center near the Turkmen capital Ashgabat. Construction was launched in 2019. The first building phase was finished in March 2023 at an estimated cost of USD 3.3 billion. The second building phase is budgeted at a cost of USD 1.5 billion. Arkadag and its construction are under direct presidential supervision; it is conceived as a town of 70,000 inhabitants and as a scientific, educational and cultural focus of the nation.

[25] City on the Amu Dar'ya (near the Uzbek border), formerly Chardzhou.

Table 4

Turkmenistan: key macroeconomic and financial sector indicators

	2019	2020	2021	2022	2023	2024 (projection)
GDP growth (annual, in real terms, %)	6.3	0.8	-0.3	6.2	6.3	6.3
Current account balance (% of GDP)	2.8	2.6	6.6	7	4.8	4.1
Foreign direct investment (% of GDP)	x	x	-0.9	-1.5	-0.3	-0.3
Total public sector external debt (% of GDP)	12.1	9.9	8	5.8	4.7	4.7
Overall fiscal balance (% of GDP)[1]	-0.4	0.1	0.5	2.5	1.3	0.9
Total public debt (% of GDP)[2]	15.3	13.1	10.7	5.8	4.7	4.7
CPI inflation (year end, %)	13	10	21.1	3	1.5	7.8
Exchange rate: TMT/USD (annual average)[3]	3.5	3.5	3.5	3.5	3.5	3.5
Money supply (M3, annual growth, %)	12.9	11.8	-1.4	21.2	x	x
Broad money (annual growth, %)[4]	x	x	-1.4	1	4.4	7.4
Credit to the economy (annual growth, %)	x	x	7.3	8.2	-1.3	5.9
Unemployment rate (average, %)	4.1	4.5	4.5	4.1	4.1	x
Memorandum items:						
Population (million)	*6.16*	*6.25*	*6.34*	*6.43*	*6.52*	*6.6*
GDP (nominal, TMT billion) [3]	155.4	159.3	213.3	272.9	269.9	286.6
GDP (nominal, USD billion)	44.4	45.5	52.4	60.9	78	77.1

Source: National statistics, IMF, EBRD, ADB, Statista.

[1] Excluding receipts from government bond issuance and privatization proceeds.

[2] Including domestic government debt and external public debt.

[3] TMT= Turkmenistan new manat (Central Bank of Turkmenistan/Türkmenistanyň Merkezi Banky/Tsentralny Bank Turkmenistana).

[4] Including foreign currency deposits at the Central Bank of Turkmenistan.

Note: x = data not yet available.

Inflation slowed down sharply from double digits in 2021 (year-end), as monetary and credit policies were tightened and price and foreign exchange controls reinforced; exchange rate pressures eased. Inflation dropped to 3.0% in 2022 and 1.5% in 2023, but price rises began to pick up again in the second half of 2023 (ADB 2024a, p. 87; IMF 2024e) and may be fueled by the generous wage hike at the beginning of 2024. The Central Bank of Turkmenistan (CBT) upheld its fixed exchange rate regime, and foreign exchange demand on the parallel market continued to produce a substantial differential between official and parallel rates. Foreign exchange rationing continued. The banking sector, still dominated by SOBs, continued to mostly lend to SOEs in the authorities' priority sectors, with some loans extended to private firms if they were sufficiently active in import substitution or export promotion (ADB 2024a, p. 87-89).

3.5.5 Uzbekistan

In 2022, GDP growth decelerated following the country's robust recovery from the COVID-19 pandemic in 2021, but remained strong at 5.7%. Expansion of industrial production edged down from 8.8% in 2021 to 5.2% in 2022, growth in services eased accordingly, from 9.5% to 8.5%. The driving forces of economic growth in 2022 were a surge of remittance payments and an influx of migrants following Russia's invasion of Ukraine, and – partly triggered by the above inflows – vigorous real wage growth, which fueled domestic demand. Moreover, external demand also rose (IMF 2023d). In 2023, economic growth accelerated to 6.3%, supported by a revival of industrial activity (+6.0%).[26] While remittance inflows shrank though stayed strong (see below), fiscal policy became more accommodative and i.a. delivered a boost of heavy public infrastructure

[26] Yet mining and quarrying only increased by a modest 1% in 2023, reflecting partial reserve depletion which caused oil and gas extraction to plunge (ADB 2024a, p. 91). Energy shortages led to a sharp increase in mineral fuel imports from January to July 2024 (EBRD 2024b, p. 24).

investment. The Uzbek economy grew by 6.4% in the first half of 2024 (year on year), again boosted by sizeable public fixed capital formation.

Table 5

Uzbekistan: key macroeconomic and financial sector indicators

	2019	2020	2021	2022	2023	2024 (projection)
GDP growth (annual, in real terms, %)	6	2	7.4	5.7	6.3	5.6
Current account balance (% of GDP)	-5.6	-5	-7	-3.5	-7.7	-6.3
Net FDI flows[1] (% of GDP)	-3.8	-2.9	-3.3	-3.2	-2.4	-3.2
Remittance inflows (% of GDP)	14.5	11.9	13.5	19.3	15	15.2
Gross external debt (% of GDP)	37.2	58	57.6	54.6	54.8	56.9
Total debt service payments (% of GDP)	4.5	5.7	8.4	9.1	8.6	8.3
Gross international reserves (USD billion)	29.2	34.9	35.1	35.8	34.6	32.3
Gross international reserves (% of GDP)	48.7	57.9	50.5	44.5	38	x
UFRD[2] (USD billion)	12	11.6	9.6	9.5	7.7	7.8
Debt service ratio (% of goods and services exports)	15.7	23.3	17.1	18.1	18.1	x
Consolidated budget balance[3] (% of GDP)	-3.8	-4.3	-5.5	-4	-4.9	-4
CPI inflation (year end, %)	15.2	11.2	10	12.3	8.8	10.4
Exchange rate: UZB/USD (annual average)[4]	8,837	10,054	10,609	11,047	11,736	x
Exchange rate: UZB/USD (year end)[4]	9,516	10,477	10,838	11,225	12,339	x
Level of monetization (broad money/GDP, %)	17.3	17.3	19	18	18.8	19.8
CBRU policy rate (year end, %)	16	14	14	15	14	x
Credit to the economy (annual growth, %)	48.1	34.4	18.4	21.4	23.2	16.7
Nonperforming loans (to total gross loans, %)	1.5	2.1	5.1	3.5	3.5	x
Return on equity (banks, %)	13	10.3	6.1	13.3	14.2	x
Share of foreign currency loans in total loans (%)	47.1	49.2	49.2	46.7	44.1	x
Foreign currency liabilities to total liabilities (%)	56.9	59.7	57.5	55.4	52.5	x
Capital adequacy ratio[5] (banks, %)	23.5	18.4	17.5	17.8	17.5	x
Unemployment rate (average, %)	9	10.5	9.6	8.9	6.8	6.3
Memorandum items:						
Population (million)	*33.3*	*33.9*	*34.6*	*35.3*	*36*	*36.9*
GDP (nominal, UZS billion)[3]	529	606	738	897	1,063	1,230
GDP (nominal, USD billion)	59.9	60.3	69.5	76.9	x	x

Source: National statistics, IMF, Statista.

[1] Negative sign = inflows.

[2] UFRD = Uzbekistan Fund for Reconstruction and Development (part of gross international reserves).

[3] Adjusted for financing operations, such as equity transactions, policy lending and privatization receipts of SOEs.

[4] UZS = Uzbekistan sum (Central Bank of the Republic of Uzbekistan (CBRU)/O'zbekiston Respublikasi Markaziy Banki/Tsentralny bank Respubliki Uzbekistan).

[5] Regulatory capital to risk-weighted assets.

Note: x = data not yet available

Swelling cross-border transfers from Russia halved the country's current account shortfall from 7% of GDP in 2021 to 3.5% in 2022. Remittance payments from Uzbek guest workers, mostly employed in Russia, expanded from USD 9.4 billion (or 13.5% of GDP) in 2021 to USD 15.6 billion (19.3% of GDP) in 2022 (IMF 2024f, p. 31-32).[27] In the same year, exports of goods and services gathered momentum, as strong demand from Russia and higher prices boosted deliveries of petrochemicals, steel, food, machinery and equipment, and apparel. After expanding by more than half in 2021, tourism services almost quadrupled in 2022, benefiting from an influx of short- and long-term visitors from Russia (ADB 2023, p. 91). Imports of some of the just-mentioned goods also gained steam – petrochemicals, food, machinery and equipment, and travel and transportation services – which suggests that some re-exporting activities have also gained prominence in Uzbekistan in recent years.

[27] Apart from increasing Russian labor demand, this spike in remittances was also influenced by a depreciation of the Uzbekistan sum against the Russian ruble (by about 8-10%) in 2022.

In 2023, the current account shortfall expanded sharply again; despite a surge in gold prices and exports, the deficit widened to 7.7% of GDP that year. Alongside a 10% depreciation of the Uzbek currency against the US dollar (in this case largely in tandem with the Russian ruble), remittance transfers dropped to 15% of GDP again. In 2024, remittances are estimated to have remained around the level of the previous year, while Uzbekistan reached agreements with several other countries – apart from Russia – to facilitate outward labor migration, including with Germany, Slovakia and Latvia (EBRD 2024c, Country assessment Uzbekistan).[28]

As table 5 shows, the budget deficit widened from 4.0% of GDP in 2022 to 4.9% in 2023. In 2022, improvements in tax collection and a broadening of the tax base (e.g. related to VAT) were coupled with the scaling back of pandemic fiscal support measures. 2023 featured government efforts to stimulate the economy, including higher-than-budgeted public wage adjustments, and an upswing of investment and project lending by the Uzbekistan Fund for Reconstruction and Development (UFRD), the state's sovereign wealth fund.[29]

Acceleration of inflation in 2022 to 12.3% (year-end) reflected higher global prices for food and energy as well as an influx of Russian citizens into Uzbekistan, which raised housing rental prices by 25%, up from 9% in 2021 (ADB 2023, p. 9). The CBRU responded to sudden pressure on the Uzbekistan sum and the outbreak of inflationary tensions following Russia's invasion of Ukraine by sharply raising its policy rate from 14% to 17% in March 2022. The Uzbek central bank then reduced the policy rate again in two steps to 15% in July 2022 and subsequently to 14% in March 2023. Inflation decelerated to 8.8% at end-2023 and 8.1% in April 2024, yet ticked up again to 10.5% in July 2024 against the backdrop of energy tariff adjustments at end-June. Meanwhile, the CBRU further eased its policy rate by 50 basis points in July 2024 to 13.5%.

The Uzbekistan sum's exchange rate to the US dollar has been steadily depreciating and trading in a narrow range. In 2023, the Uzbek currency weakened 10% against the US dollar. While the exchange rate regime is de jure floating, the IMF classifies it as a de facto crawl-like arrangement. During 2022-23, the Uzbek central bank intervened in the foreign exchange market to manage the impact on the exchange rate of the significant expansion of remittance inflows from Russia and of their volatility following the invasion of Ukraine (IMF 2024f, p. 14). Privatization of large SOBs has been advancing most recently; thus, after the privatization of Ipoteka Bank in 2023, the authorities are reportedly on track toward selling SQB (Sanoat Qurilish Bank/Uzpromstroybank) and Asakabank to private investors (IMF 2024g).

4 Summary and outlook

4.1 Overview

In contrast to other former Soviet republics as well as to most CESEE countries, Central Asia (CA) – here taken to comprise Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – has witnessed quite robust demographic as well as economic growth lately.[30] This study retraces

[28] The share of remittances from Russia declined to 77% in the period from January to June 2024 (from 87% in 2022) (ADB 2024b, p. 104).

[29] The UFRD, already referred to earlier, is a 100% state-owned body established by presidential decree in 2006, that finances investment projects in Uzbekistan's priority industrial sectors – oil and gas, chemicals, energy, metals and mining, transportation and telecommunications infrastructure.

[30] To make a short comparison, in the period from 2019 to 2024 the total population of the above-mentioned five countries grew by about 10% to 80.9 million, while the total population of the five Central European countries Czechia, Hungary, Poland, Slovakia and Slovenia simultaneously shrank by 2% to 64.7 million. Incidentally, in 2024 the number of inhabitants of

and analyzes the perhaps surprisingly positive economic experience of CA in the last five to six years.

CA's economic heterogeneity is worth recalling. CA ranges from relatively market-oriented countries open to FDI (like Kazakhstan) to countries holding on to elements of a centrally-planned economy (most pertinent example: Turkmenistan). Kazakhstan and Turkmenistan are oil and gas exporters; Kyrgyzstan and Tajikistan are oil and gas importers which also receive sizeable remittance transfers from abroad (mostly from Russia); Uzbekistan combines elements of both groups: It exports smaller amounts of hydrocarbons and boasts some remittance inflows. In 2019, CA's five largest trading partners were China (23.2%), Russia (20.6%), Italy (7.1%), South Korea (6.5%) and Türkiye (5.2%).

After overcoming adverse external shocks (oil price slump and slowdown of external demand) in the mid-2010s, the CA countries resumed their growth paths in the second half of that decade. Average annual *GDP growth rates for 2017-19* ranged from 4.2% in Kazakhstan to 7.4% in Tajikistan (see tables 1 to 5). The depreciation of the Russian ruble in 2015-16 had put pressure on external balances and currencies. Kazakhstan in August 2015 abandoned its exchange rate peg to the US dollar in favor of an inflation targeting regime and more flexible exchange rate. Kyrgyzstan, Tajikistan and Uzbekistan also announced their intentions to move to inflation targeting and adopted less rigid exchange rate frameworks. After the changeover of power from Islom Karimov to Shavkat Mirziyoyev in Tashkent in 2016, the new president's liberalizing economic reforms increased Uzbek workers' mobility and turned Uzbekistan into a country benefiting from large income transfers from abroad. Thus, in the late 2010s, Uzbekistan joined Kyrgyzstan and Tajikistan as high-remittance inflow countries.

Given the slump of hydrocarbon prices in 2020 triggered by the COVID-19 pandemic, CA oil and gas exporters suffered a larger economic blow on average than oil and gas importers that year, but exporters' rebound in 2021 was also stronger than that of importers. Average *GDP growth rates for 2020-21* ranged from -0.8% in Kyrgyzstan (that had also suffered from serious political unrest and undergone a change of government in late 2020/early 2021) to 6.9% in Tajikistan. In all countries observed except largely centrally-planned Turkmenistan, crisis response measures were driven or assisted by fiscal expansion. To support growth against the initial economic onslaught of the pandemic until the summer of 2020, most central banks had cut their policy rates. Countries with more flexible exchange rates (Kazakhstan, Kyrgyzstan, Uzbekistan) witnessed their currencies depreciating early on, which contributed to inflationary pressures. Once economies had touched the ground and recovery had set in, monetary policies were tightened again.

CA economic expansion was underpinned by a number of factors in 2022, 2023 and the first half of 2024: higher energy and commodity prices, the milder-than-expected contraction of the Russian economy in 2022 (-1.2%) followed by its surprisingly swift recovery in 2023 and 2024, sizeable (yet partly temporary) inflows of often highly skilled migrants from Russia, higher labor migration to and remittance inflows from Russia, and increased gains from (partly not fully recorded) transit trade.[31] Average *GDP growth rates for 2022-24*[32] ranged from 4.1% in Kazakhstan to 7.7% in Tajikistan. The above-mentioned factors may contribute to explaining why the region

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the most populous CA country, Uzbekistan (36.9 million), surpassed that of the most populous Central European country, Poland (36.7 million) (https://www.statista.com/).

[31] In some cases, re-exports to Russia (from Kazakhstan, Kyrgyzstan) and remittance inflows from Russia (to Tajikistan, Uzbekistan) had likely already gained momentum in late 2021.

[32] 2024: IMF projection; Turkmenistan: average of EBRD (6.3%) and ADB projections (6.5%).

most recently outperformed most CESEE EU member states and Western Balkans countries in terms of growth.

Generally, in 2022-23 CA trade links with Russia intensified, to a large degree promoted by increasing transit or intermediary trade, substantial parts of which are not sufficiently captured in official statistics (Hiault 2024). Adapting to adjustments in trading routes and other logistical challenges since Russia had started its war in Ukraine overall boosted CA's trade with its northern neighbor in 2022, even after controlling for price changes associated with Russian energy, according to IMF calculations (IMF 2023a, p. 11). In 2023, China had reportedly strengthened its lead as the region's most important trading partner (26.8%). Russia's market share declined (to 17.8%) according of official data, followed by the market shares of Italy (7.5%), Türkiye (5.4%) and South Korea (3.9%). Re-exports from CA to Russia were primarily aimed at replacing Russian imports from sanctioning countries, whether for products under sanction or not. CA ICT sectors received a boost from Russian migrants ("relokanty"). Those that remained in the region likely created sustainable linkages with Russia (Livny 2023).

Kyrgyzstan became a regional center for re-exports (predominantly from China to Russia) but, interestingly, lost some importance as a recipient of remittance inflows. Remittances declined from 27.2% of Kyrgyz GDP in 2017-19 (pre-pandemic) to 15.3% in 2022-24.[33] Meanwhile, it was particularly Tajikistan, but also Uzbekistan, that reinforced their importance as sources of migrant labor for Russia and beneficiaries of remittance transfers. Thus, remittance inflows to Tajikistan grew from 29.4% of GDP on average in 2017-19 to 40.9% in 2022-24. Respective transfers to Uzbekistan increased from 12.3% to 16.5%.

The unwinding of fiscal stimuli served during the pandemic in 2020 and/or 2021 led to near-balanced budgets across the region, except for Turkmenistan, whose oil price-driven growth spike in 2022 (after economic stagnation during the pandemic) contributed to a fiscal surplus, and Uzbekistan, which continued to serve a fiscal stimulus in 2023. Centralized Turkmenistan remained partly isolated from its neighbors and did not participate in any major way in re-exporting operations or sending its guest workers abroad.

In Kazakhstan, Kyrgyzstan and Uzbekistan, *inflation* was driven up and reached double digits in 2022 by a combination of elevated global commodity prices, wage pressures and demand pressures from relokanty (focusing on rental and property markets). These three countries also witnessed a significant imported inflation component, reflecting high shares of imports from Russia (Kazakhstan: 35%, Kyrgyzstan: 24%, Uzbekistan: 20%), and exchange rate depreciation against the Russian ruble in 2022. The Uzbek central bank's policy rate reaction to Russia's war in Ukraine more or less corresponded to that of the neighboring Kazakh and Kyrgyz monetary authorities: Respective policy rates were initially sharply adjusted upwards (in February to March 2022) and were gradually reduced again in the following two years – yet featured an immediate spike in late 2022/early 2023 in the Kazakh case. In 2023, inflation receded to single digits again amid tighter monetary policies, a decline of commodity prices, re-appreciation tendencies against the Russian ruble and less demand pressures from Russian migrants. In contrast, the Tajik and Turkmen inflation rates declined in 2022 as well as 2023, as both countries had focused their efforts on bringing down high 2021 inflation. Tight monetary and credit stances were applied. While the Tajik somoni appreciated, largely in parallel to the Russian ruble, vis-à-vis the US dollar

[33] 2024: IMF projection.

in 2022, the Turkmenistan new manat's stability was administratively upheld by reinforced price and foreign exchange controls.

The post-pandemic economic upswing or robust growth helped CA banks recover or increase their profitability. Yet structural vulnerabilities of regional banking systems remain, given typically rather modest levels of loan loss provisioning, elevated foreign currency exposures and currency mismatches amid widespread, if declining, dollarization.

4.2 Short- and long-term prospects

The *immediate outlook for economic growth* and stability in CA in 2024 and 2025 is quite sanguine according to IMF, EBRD and ADB: Kazakh GDP growth is expected to accelerate from 3.5%-4% (2024) to 5%-5.5% (2025) once production from the Tengiz oil field gathers steam. Kyrgyz economic expansion is projected to ease from 6.5%-7% in 2024 to around 6% in 2025, as spillovers from the war in Ukraine, including intermediated trade expansion, gradually fade. Tajikistan's strong GDP growth of 6.5%-7% (2024) is similarly expected to slightly moderate to 6%-6.5% (2025) against the backdrop of still very large, if declining, remittance inflows. Sizeable public investment in the Rogun power plant is also expected to leave its mark. Notwithstanding the challenging business environment in Turkmenistan, a positive outlook for energy, notably expanding gas production and exports, as well as ongoing public investment argue for continued growth of around 6% p.a. in this country. Finally, the Uzbek economy is forecast to expand by 5%-6% in 2024 as well as in 2025, on the back of strong domestic demand and fixed investment. While China is the region's leading trade partner, Russia comes second, boasting a strong position in energy deliveries and as a recipient country of re-exports, guest workers and as origin of remittance transfers. A much weaker growth outlook in Russia could thus adversely affect CA exports, remittance inflows, domestic demand, budget revenue, reserves and even banking sectors. While a further tightening of secondary sanctions could weaken or shift some CA countries' economic relations with their northern neighbor (e.g. in the financial and trade spheres), incisive negative changes do not appear likely at least in the medium term, given the already accumulated experience of the last two and a half years of geopolitical conflict, waves of sanctions, circumvention effects and resilience.

That said, *in the long run*, Russia's war in Ukraine and heightened tensions between the United States and China could deepen economic fragmentation and trigger a global geopolitical divide. For example, Bolhuis, Chen and Kett (2023) estimate that, for Kyrgyzstan, this could lead to economic costs in the amount of 2.7% of GDP in the long-term. The average cost for CA in general is not much different at 2.2% of GDP (Rao and van Houtte 2024, p. 29). Yet, one should note that this compares to about 8% in advanced (e.g. Western European) economies in an extreme scenario of a bipolar world with Eastern- and Western-led blocks. The cost of fragmentation for Kyrgyzstan or CA is relatively limited due to the country's or region's already high level of trade concentration with its neighbors China and Russia even before the war in Ukraine (IMF 2024c, p. 10).

Regrettably, geoeconomic and geopolitical arguments appear to weigh quite heavily in current economic policy discussions, also in CA. However, there are arguably more severe and elementary risks, such as climate change and aggravating water scarcity. In the very arid landlocked region, this would jeopardize food security and public health and may soon concentrate minds to a greater degree (Livny 2023; EBRD 2024a, p. 30).

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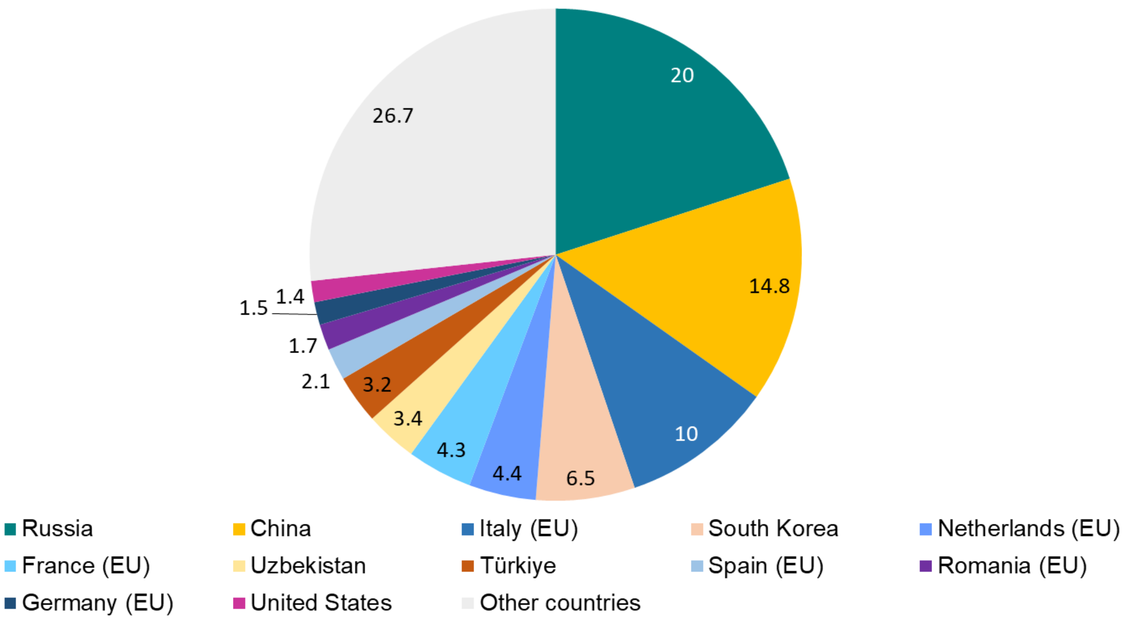
Annex

Chart A1

Kazakhstan: exports and imports by trading partners (2019)

% of total

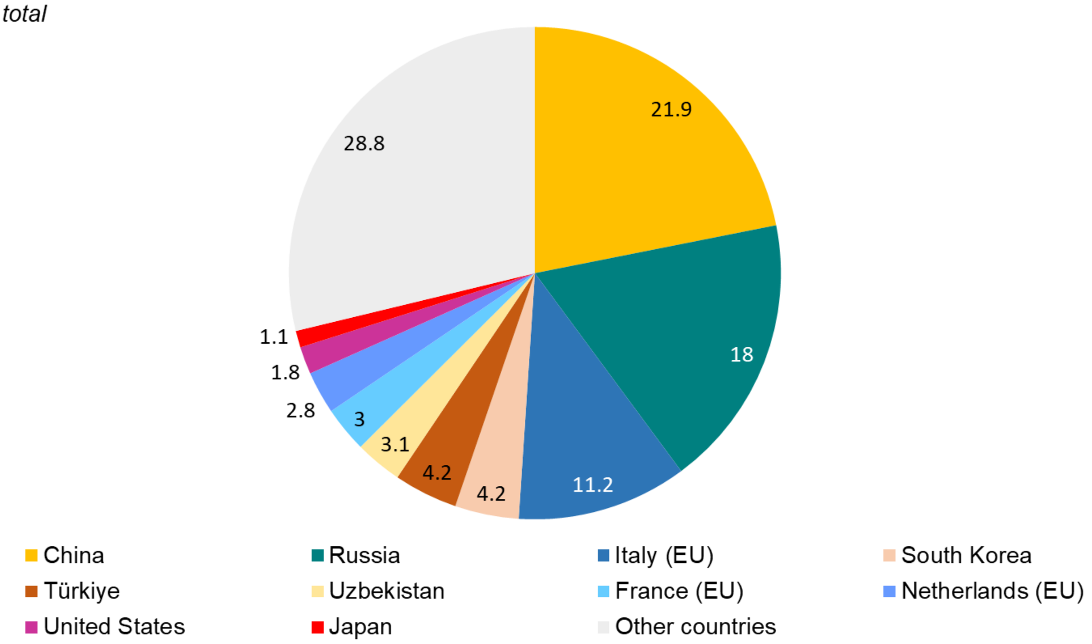


Source: National statistics, Asian Development Bank.

Chart A2

Kazakhstan: exports and imports by trading partners (2023)

% of total

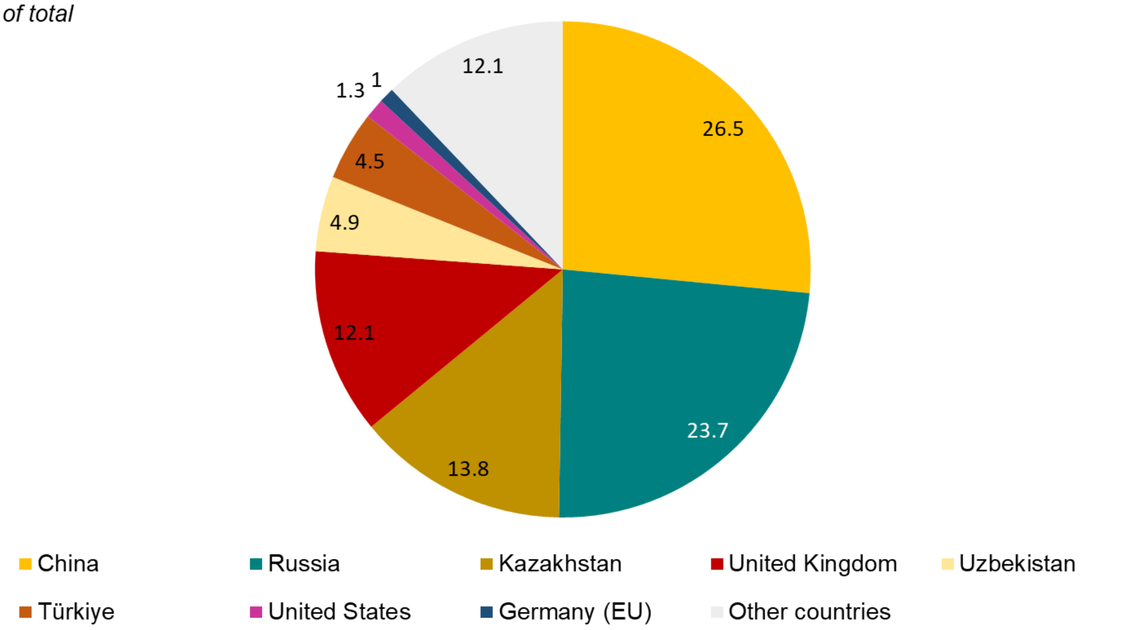


Source: National statistics, Asian Development Bank.

Chart A3

Kyrgyzstan: exports and imports by trading partners (2019)

% of total

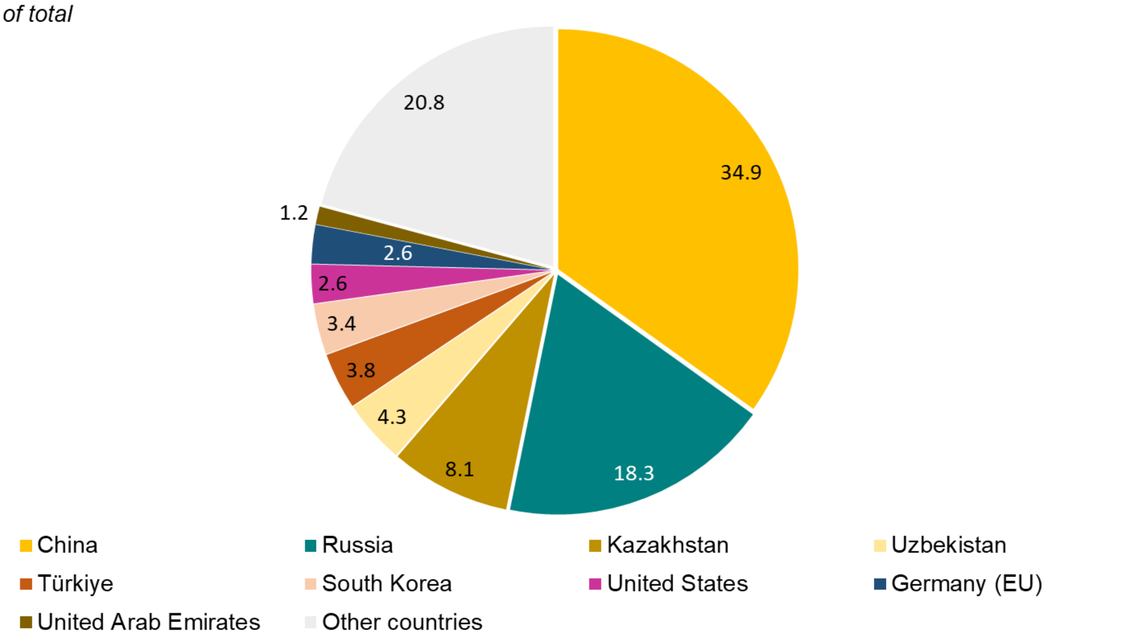


Source: National statistics, Asian Development Bank.

Chart A4

Kyrgyzstan: exports and imports by trading partners (2023)

% of total

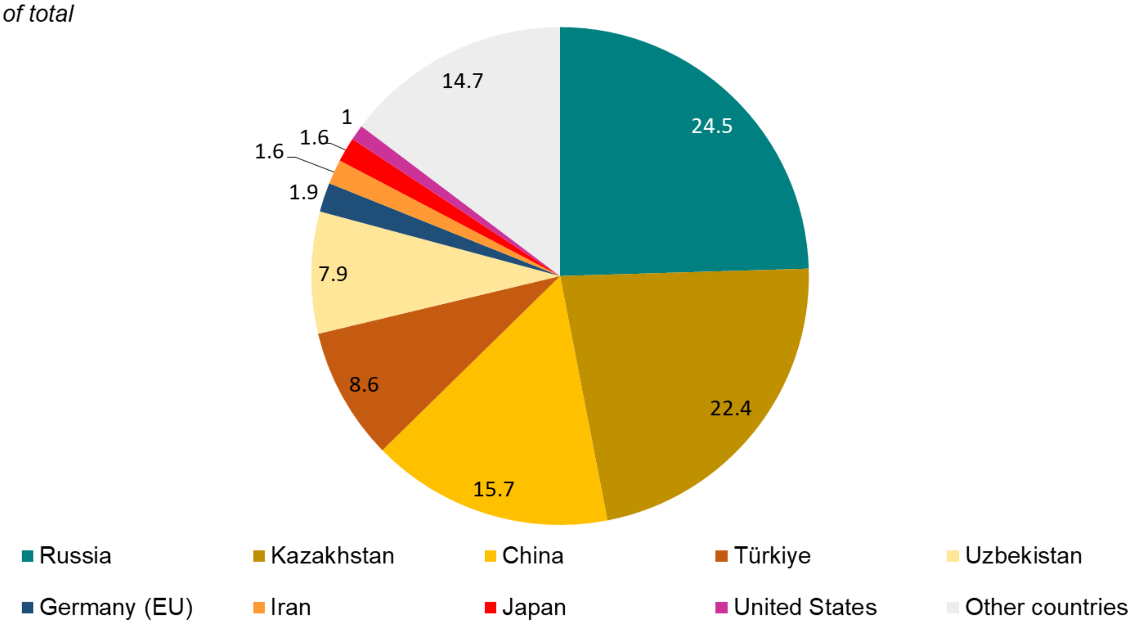


Source: National statistics, Asian Development Bank.

Chart A5

Tajikistan: exports and imports by trading partners (2019)

% of total

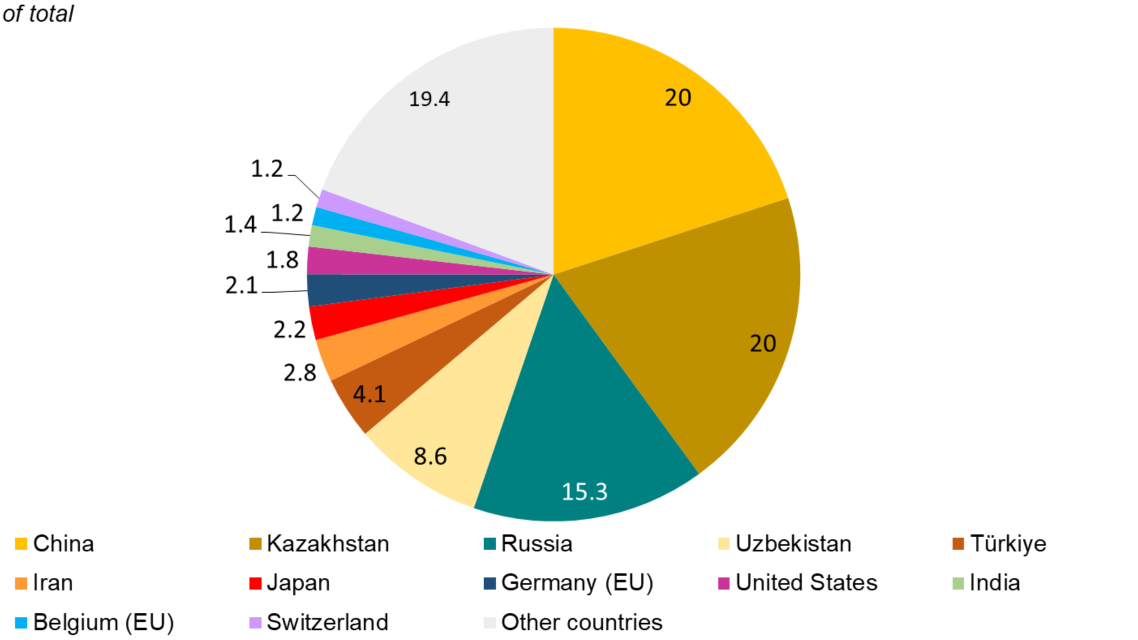


Source: National statistics, Asian Development Bank.

Chart A6

Tajikistan: exports and imports by trading partners (2023)

% of total

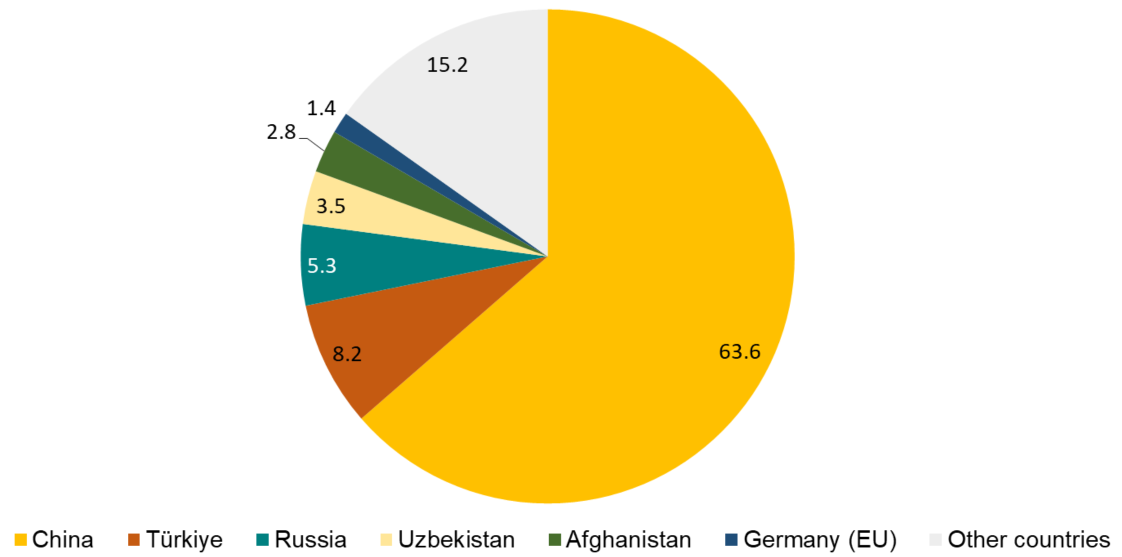


Source: National statistics, Asian Development Bank.

Chart A7

Turkmenistan: exports and imports by trading partners (2019)

% of total

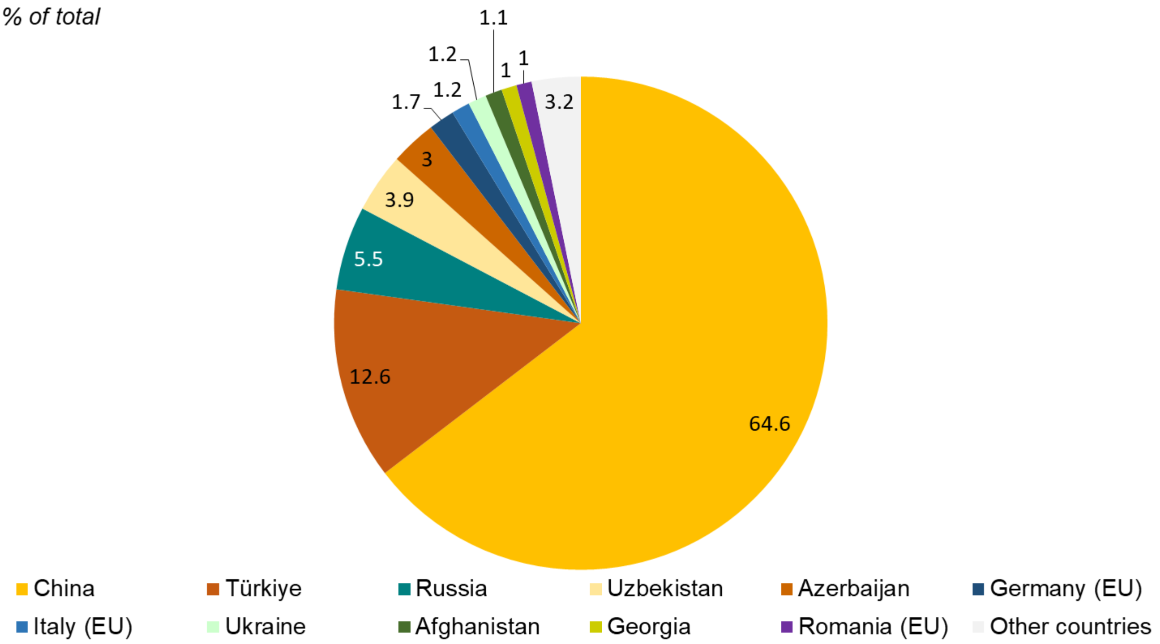


Source: National statistics, Asian Development Bank.

Chart A8

Turkmenistan: exports and imports by trading partners (2022)

% of total

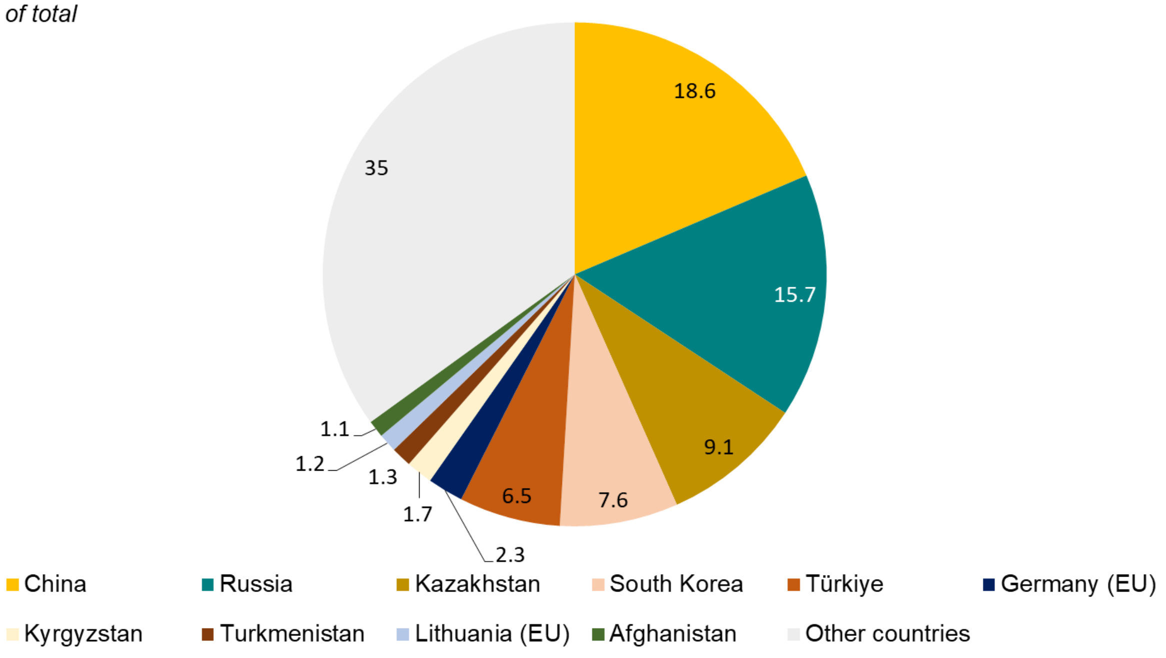


Source: National statistics, Asian Development Bank.

Chart A9

Uzbekistan: exports and imports by trading partners (2019)

% of total

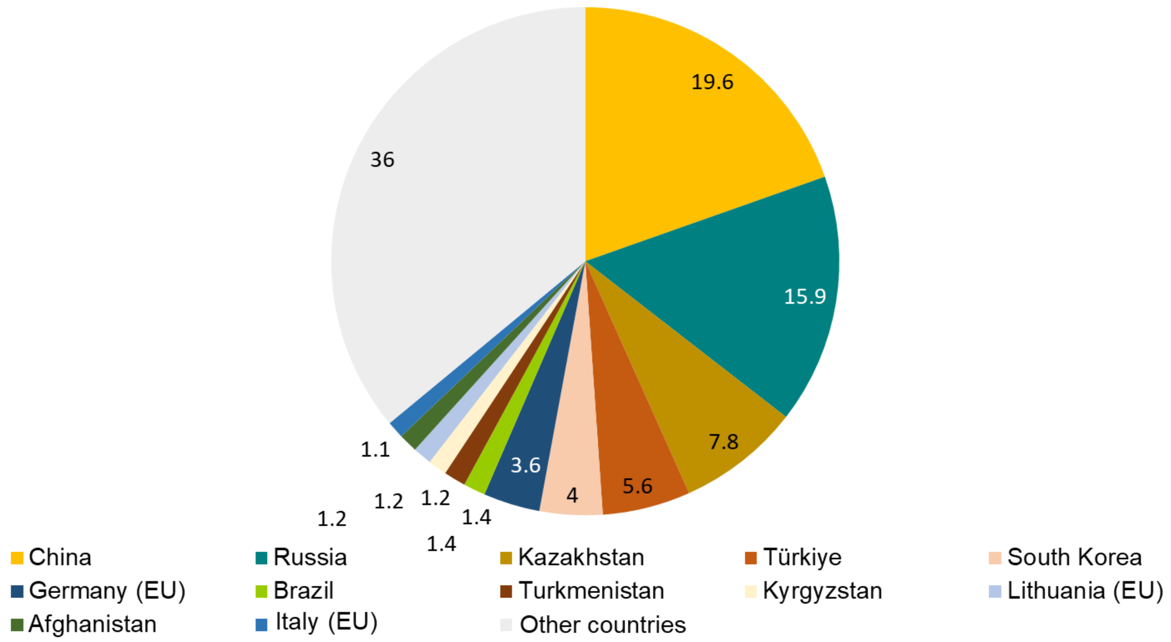


Source: National statistics, Asian Development Bank.

Chart A10

Uzbekistan: exports and imports by trading partners (2023)

% of total



Source: National statistics, Asian Development Bank.