

# Macroeconomic update: Central Asia and Uzbekistan

Eric Livny, Lead Regional Economist  
March 2024

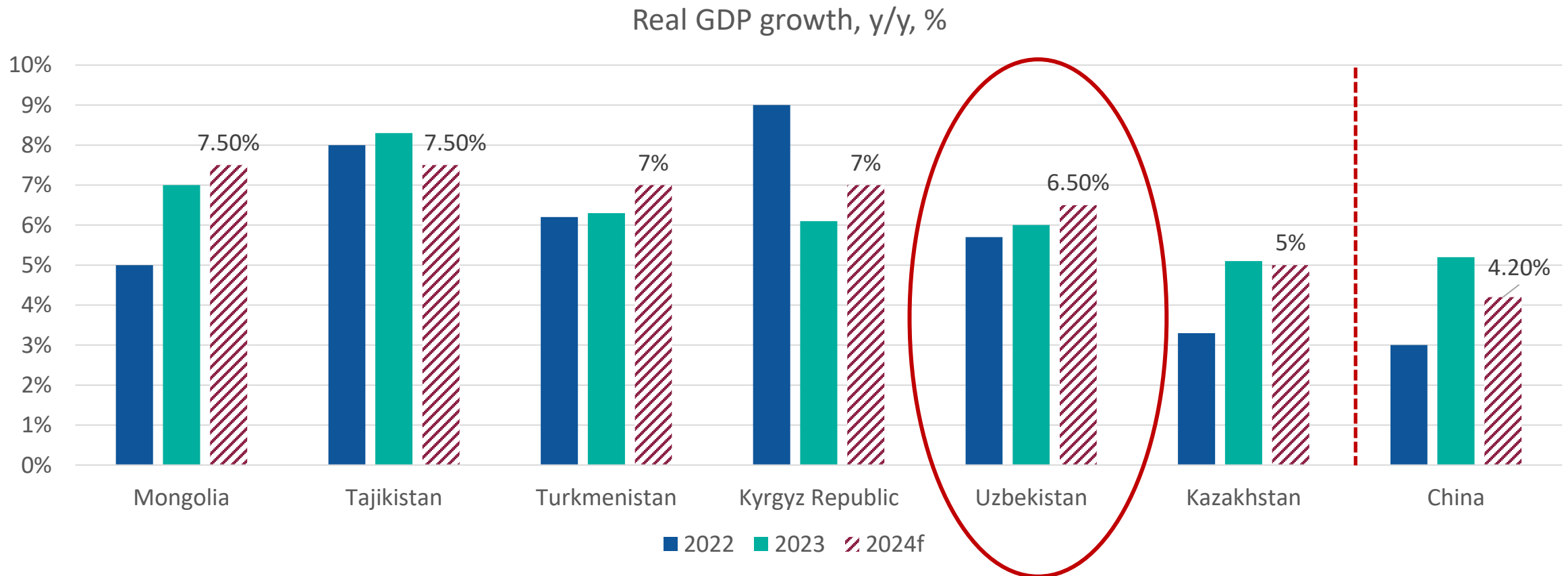


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# Most Central Asian economies accelerated in 2023, and are forecasted to remain on a strong growth trajectory in 2024



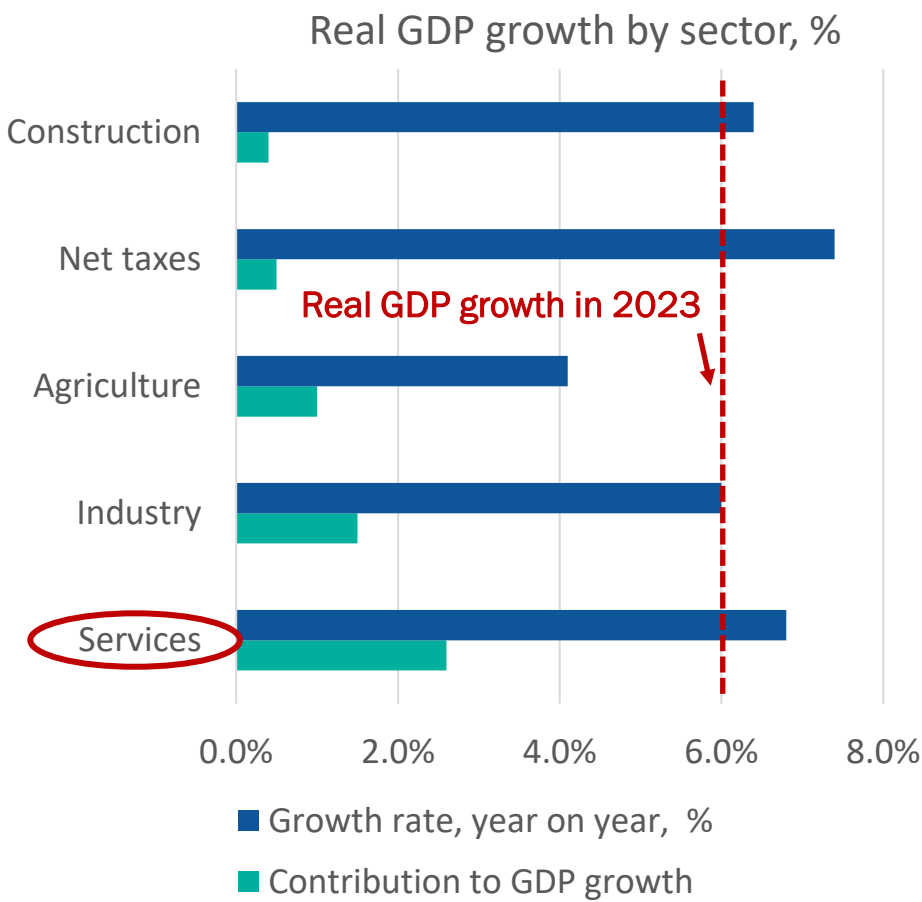
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Source: IMF WEO, National statistical authorities, EBRD

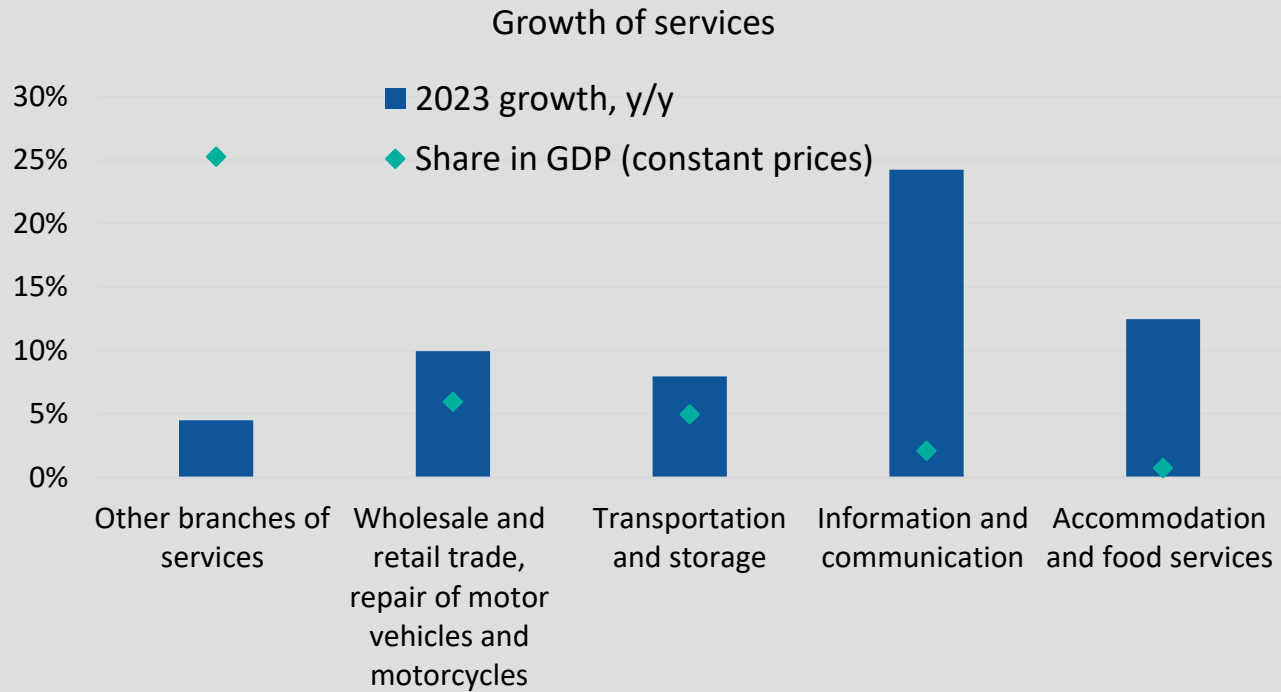
Note: China forecasts are from the IMF, CA forecasts based on EBRD TR

# All key sectors expanded in Uzbekistan with services leading the way



Source: National statistical authorities

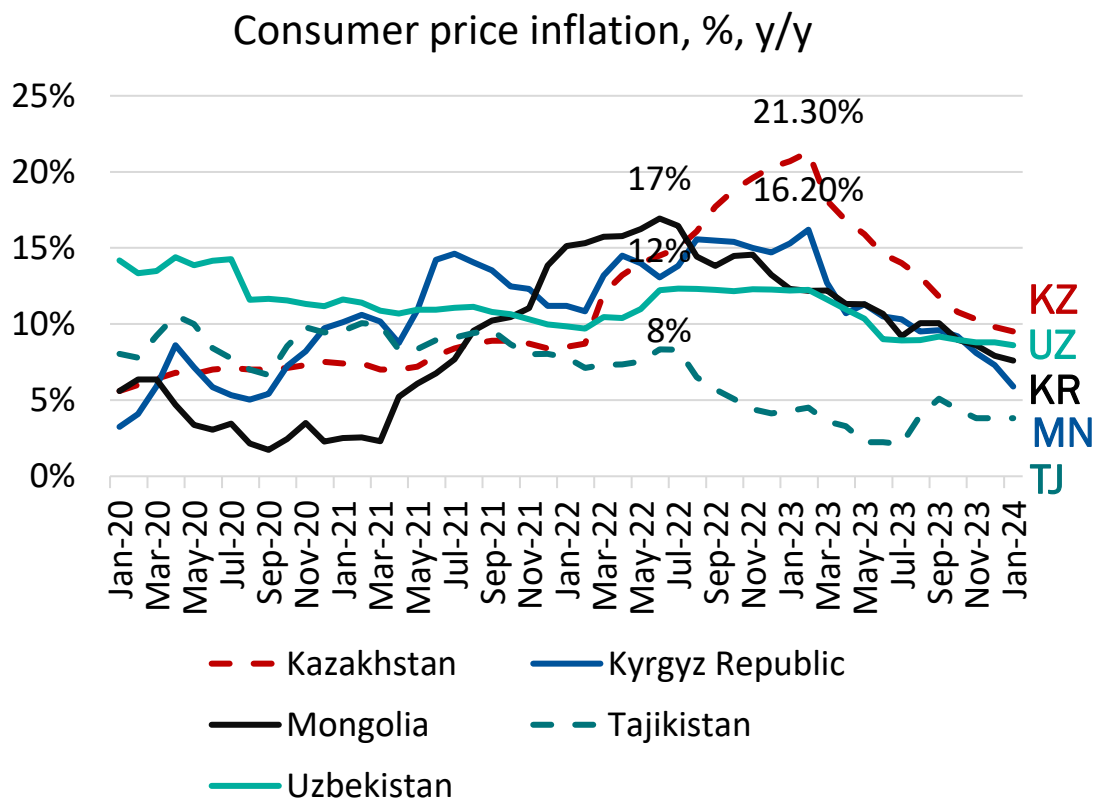
Supported by growing incomes, remittances and relocation from Russia, as well as a partial revival of tourism, **trade and hospitality** sectors added 10% and 12%, respectively. The **ICT** sector grew considerably (up 24.3% y/y), but remains a tiny fraction of Uzbekistani GDP.





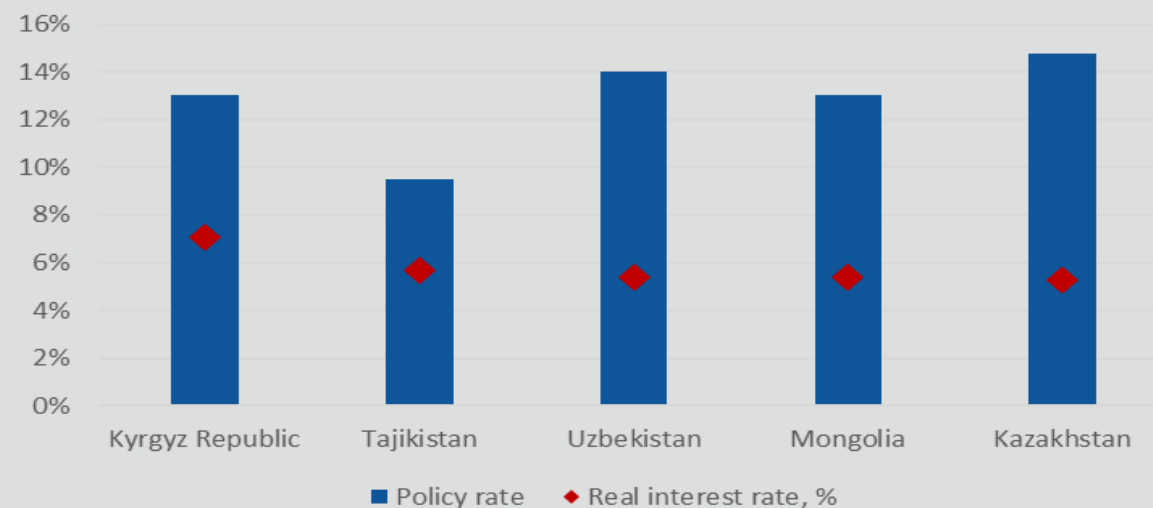
# Inflation trends downward on tight monetary policy but regulators are cautious about easing their stance amid pro-inflationary risks

Inflation fell to single digits by end 2023, having peaked in late-2022-early 2023



While inflation is trending downward, the regulators continue to maintain a conservative monetary policy stance, with real interest rates ranging from 5.25% to 7.1%.

Policy rates and real interest rates, %



### Key pro-inflationary risks:

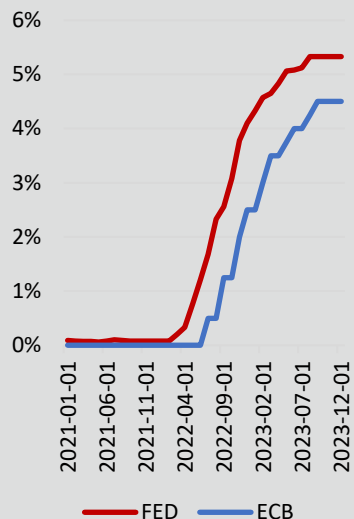
- Escalating global conflicts leading to a spike in transportation, energy and food prices
- Pro-cyclical fiscal policies in some countries (Uzb, Kaz, Mon)
- Planned tariff adjustments



# The borrowing costs facing CA have come down as FED and ECB rates peak, contributing to resilience

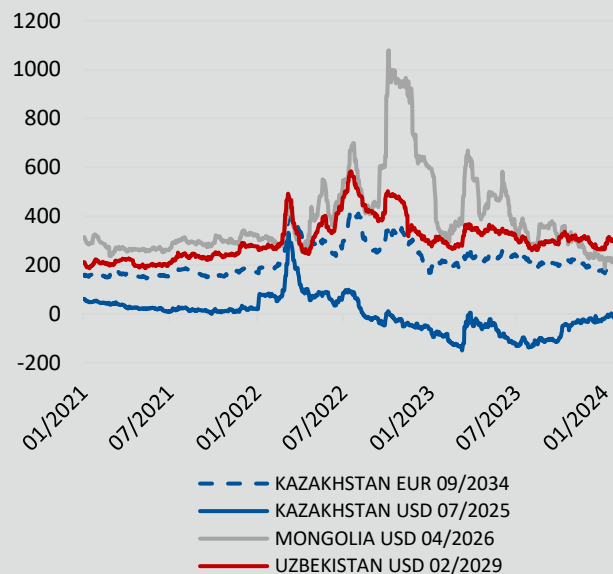
CA sovereign bond yield spreads decline despite ECB and FED maintaining high policy rates, reflecting growing investor confidence in CA region (amid demonstrated resilience)

ECB, FED rates, end of period, %



Source: FRED ST. Louis

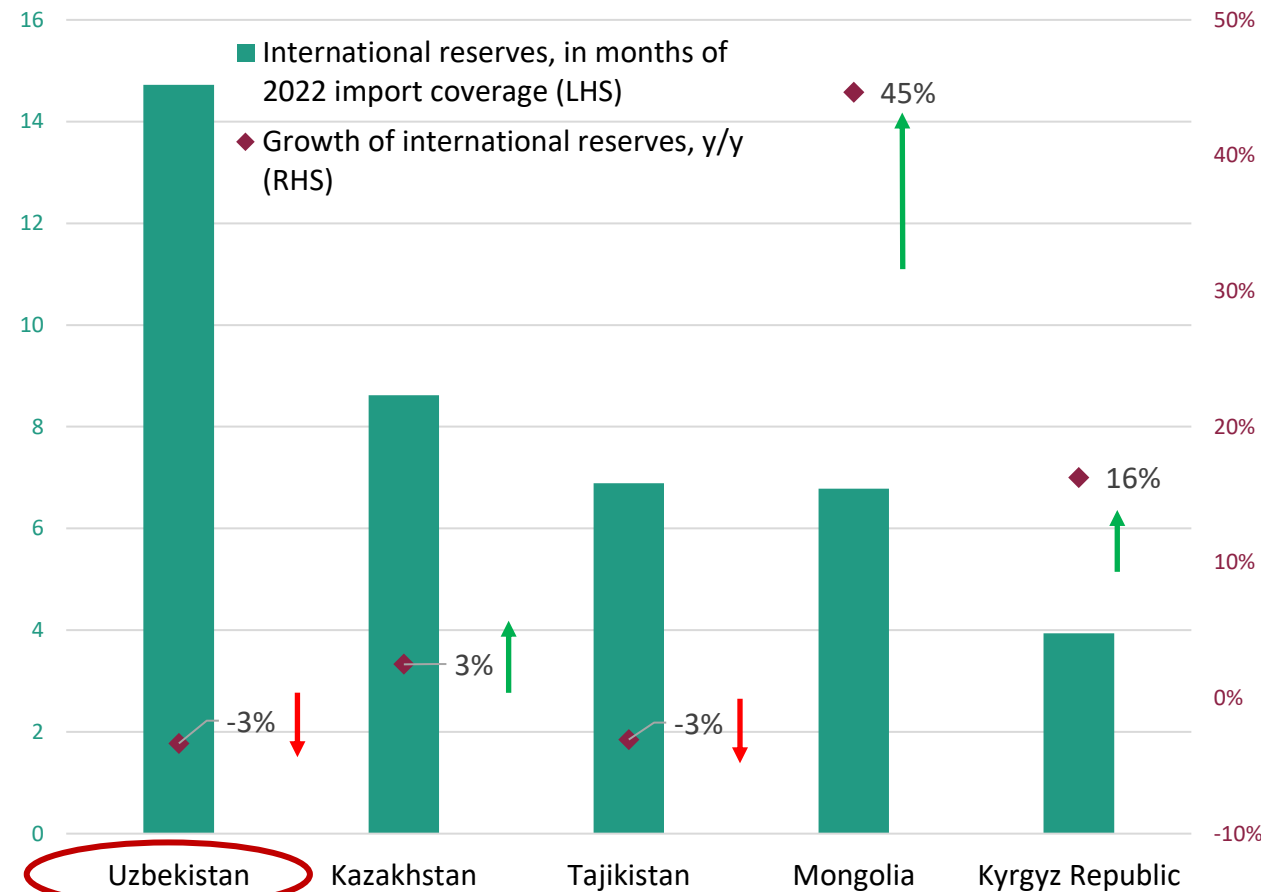
CA sovereign bonds' yield spread to benchmark bonds, basis points



Source: Bloomberg

Mongolia was able to partly refinance US\$ 1.1 billion (€1.04 billion) in debt maturing in 2023 and 2024 by issuing a new US\$ 650 million bond with a lower coupon rate. It also rolled over the US\$1.8 billion PBOC swap till 2026 in August 2023

International reserves provide a comfortable cushion (more than 6 months of imports, except KR)



Source: National authorities (as of December 2023/ H1 for TJ,

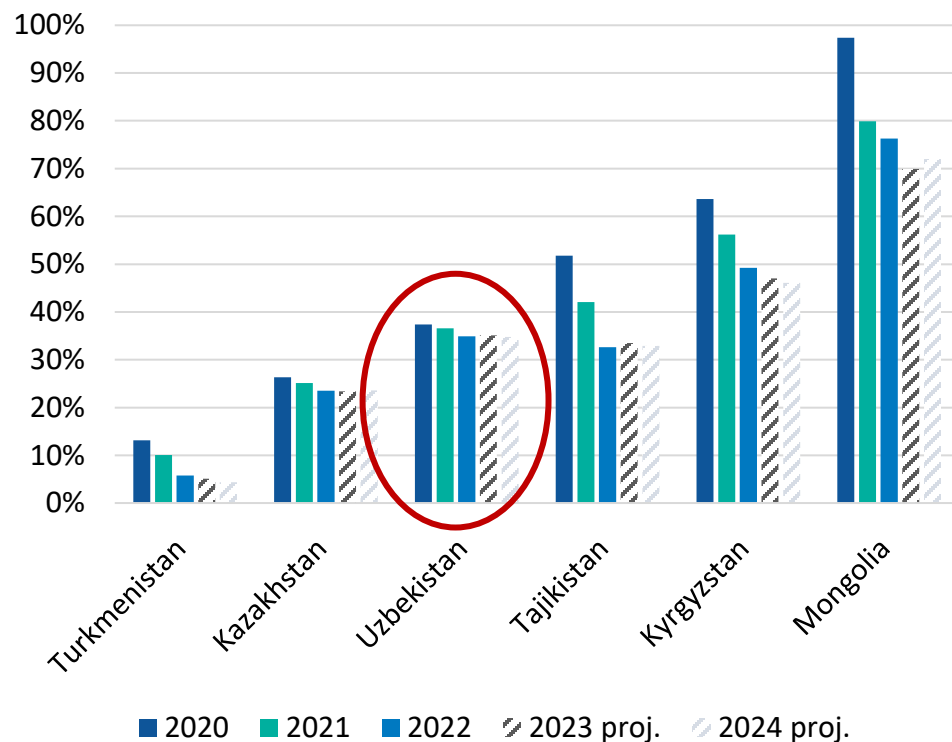
# Uzbekistan's resilience is bolstered by low public debt and strong fiscal buffers



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In 2021-23, **public debt as a share of GDP declined** from 2020 peak on strong growth, and is forecasted to decrease in most countries in 2024

**Government debt, % of GDP**



Source: IMF

## Public finances remain sustainable despite fiscal deficit reaching 5.5% in 2023

- Uzbekistan's **public debt level is relatively low** (36% of GDP in 2023) and IMF expects it to further decline to 34.8% in 2024.
- Most government debt is FX-denominated**, but the high share of concessional debt (88.8 per cent of external debt) and elevated fiscal buffers (international reserves stood at US\$ 34.5 billion as of January 1, 2024) help mitigate foreign currency risks.
- While the 2024 budget was approved with a deficit of 4% of GDP, **government actions are expected to support fiscal consolidation in the medium term.**
- Electricity tariffs for businesses have been increased in October 2023; tariffs for households will increase in May 2024**, allowing to partially cut government subsidies. Further rationalization of subsidies and social assistance, and actions tackling informality will positively impact the fiscal stance.
- On February 23, 2024, **Fitch affirmed Uzbekistan's** Long-Term Foreign-Currency Issuer Default Rating (IDR) **at 'BB-' with a Stable Outlook.**

# Central Asia in a changing geopolitical environment



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# Migration crises, political polarization and wars threaten the post-WWII global world order



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## 2 billion people will vote in 64 countries in 2024, but not so many in Central Asia...



Mongolian parliamentary election will determine the composition of the State Great Khural



The legislative chamber (lower house) elections under a mixed-member electoral system will be held in Uzbekistan, most likely in December



Kazakhstan might hold a referendum on nuclear power plant construction in the country



## International military conflicts and domestic tensions threaten to destabilize global security

- Russia's war on Ukraine
- Israel-Gaza War
- US and UK weighing military response against Iran and its proxies in the Middle East
- Tensions around Taiwan rising due to recent election results
- Migration crises in the US and Europe lead to political polarization, rising tensions

## Major international elections to be held in 2024 amid growing political polarization

- On January 13, 2024, William Lai of the Democratic Progressive Party (DPP) won the presidential vote in Taiwan, in an **outcome unfavourable for China**. Nonetheless, the pro-Chinese Kuomintang party managed to get the majority seats in the parliament. **Military escalation in the Taiwan strait seems unlikely in the near future.**
- Presidential elections will be held in the **Russian Federation** on March 15-17. While the outcomes of the vote seem predetermined, citizens across the country are collecting signatures for **Boris Nadezhdin**, who is trying to register as a candidate and runs on an anti-war platform.
- It is unclear if **Ukraine** is going to have presidential elections or postpone them due to the **martial law**.
- **American** voters will head to the polling stations to choose their president on November 5 in a vote that will have global geopolitical ramifications.





# Central Asia is affected by tectonic geopolitical shifts

- Asia is rising
- Global South increasingly confronts the Global North (expansion of BRICS; ICJ ruling against Israel; financial/economic/military rivalries)
- Russia is pivoting to Asia



## Implications for Central Asia

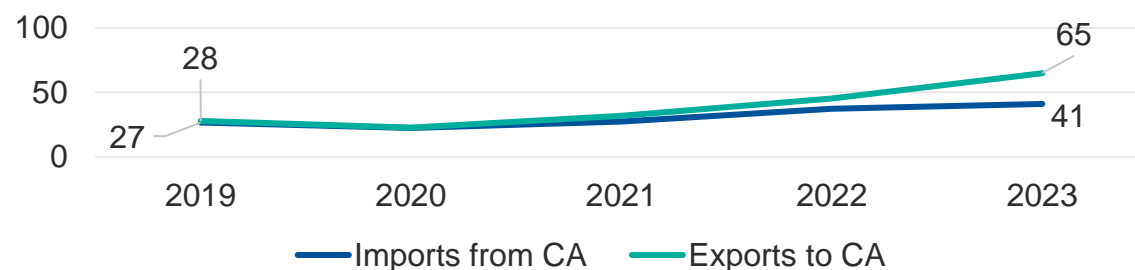
- China, Gulf countries, Türkiye and Iran expand their presence in CA
- Central Asia's strategic significance for Russia is increasing
- Central Asian nations draw closer together, seek to expand transport/trade corridors to East and South



# China's shadow looms ever larger over Central Asia

**Trade links intensify.** China and UZ seek to increase trade turnover to US\$ 20 billion (from US\$ 14 billion in 2023). China-KZ trade turnover reached US\$ 41 billion in 2023.

Chinese trade with Central Asia\*, US\$ billion

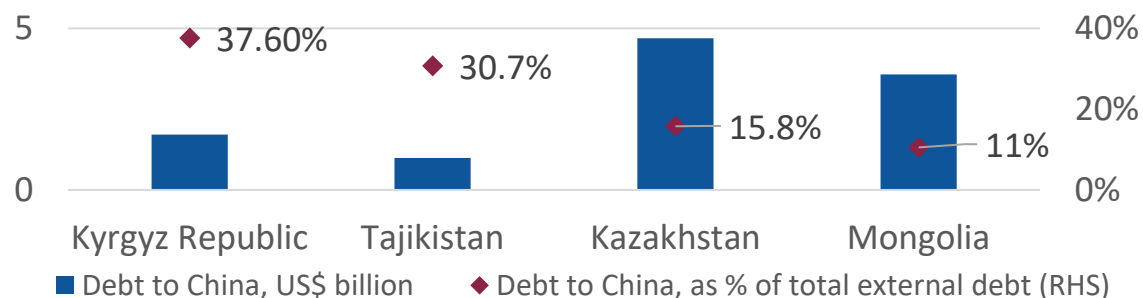


Source: China's custom authorities

Note: \* inclusive of Mongolia and Turkmenistan

**China is a key creditor for Kyrgyz Republic and Tajikistan.**

Debt to China, latest available\*



Source: Ministry of Finance, Central Bank, news outlets

Note: \* 2022 for TJ, Nov 2023 for KR, Oct 2023 for MN and KZ

**China casts a web bilateral and multilateral partnerships over CA:**

- In May 2023, China hosted high level China-CA summit designed to strengthened economic and security links.
- Kazakhstan and China established a visa-free regime in 2023, to facilitate business, investment, trade and tourism.
- **Uzbekistan and China announced the All-Weather Comprehensive Strategic Partnership for a New Era**, to enhance cooperation on BRI, economic & technological ties, connectivity, protection of the environment, renewables, science, technology, and culture.

**Chinese group to build four hydro dams in Kyrgyzstan**

August 23, 2023

By RFE/RL's Tajik Service

David Rogers  
28.07.23

**Tajikistan, China Discuss Bilateral Ties, Sign \$400 Million In Deals**

**Kazakhstan and China Sign 47 Agreements Worth \$ 22 Billion, as Tokayev Outlines Key Areas for Partnership**

BY DANA OMIRGAZY in INTERNATIONAL on 18 MAY 2023

**Turkmenistan and China explore enhanced transport and logistics partnership**

Transport | Materials | 20 November 2023 04:00 (UTC +04:00)

# While getting closer to China, Central Asian nations also strengthen ties with other Asian economies and Gulf countries



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Hosted by Saudi Arabia in July 2023, the first Gulf-Central Asia Summit resulted in the adoption of a Joint Action Plan for Strategic Dialogue and Cooperation for 2023-2027

## Renewable energy is a focal point for Central Asia's cooperation with the Gulf countries

Masdar and EDF Sign Major Agreement with Government of the Kyrgyz Republic to Develop up to 3.6GW of Hydropower and Renewable Projects USA - English

### Masdar to develop 500 MW of renewables in Tajikistan

### Acwa Power signs deals worth \$12bn to develop Uzbekistan energy projects

► Saudi utility plans to develop the largest single onshore wind project in the world, with a total capacity of 1.5 gigawatts

UAE and Kazakhstan sign landmark agreements to develop 1GW of renewables capacity

02 DEC 2023 5 min 369

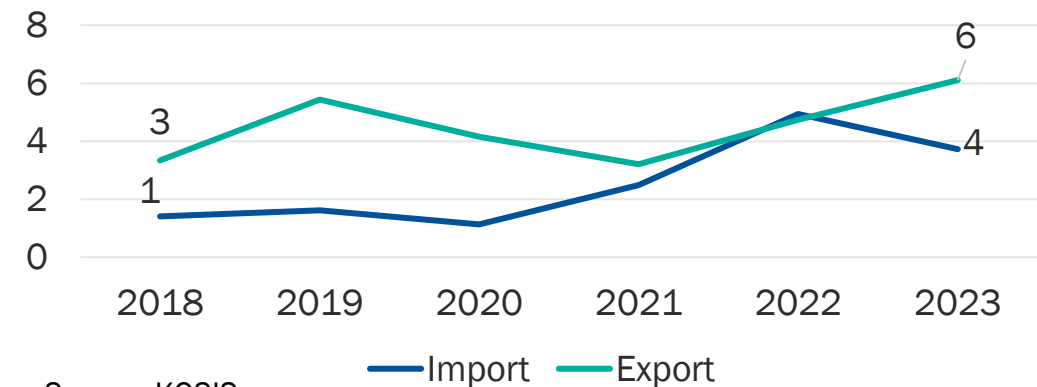
News Corporate

Saudi Arabia to provide US\$100 million to Tajikistan for completion of construction of Roghun HPP

## Ties with other Asian countries are strengthening as well

- Japan will host 1<sup>st</sup> Japan-Central Asia Forum in 2024 to strengthen economic ties with the region.
- In November 2023, South Korea-Central Asia Cooperation Forum was held in Ashgabat, where countries discussed potential cooperation in transport, healthcare, climate change and environmental protection, ICT, education, and tourism.
- Busan Economic Forum was hosted in Samarkand In August 2023 to increase awareness of business and investment opportunities between South Korea and Central Asia.

South Korea has significantly increased its exports to Central Asia, US\$ billion



Source: KOSIS



# Ties between Türkiye and CA economies strengthen

## Trade linkages are strengthening:

- Total trade turnover with Central Asia more than doubled since 2019, standing at US\$ 13.2 billion in 2023.
- Trade reached US\$ 5.9 billion with KZ and US\$2.86 billion with UZ.

Türkiye's exports and imports from Central Asia in January-November of respective years, US\$ billion



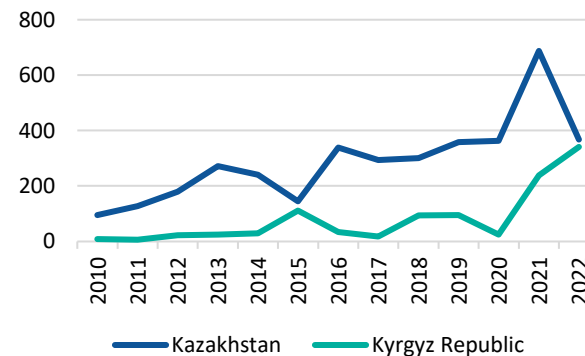
Source: Turkish statistical Institute

## The presence of Turkish businesses is growing

In 2023, the number of enterprises with Turkish participation in Kazakhstan increased by 6.6% and reached 5.4 thousand entities. Turkish businesses are mostly concentrated in construction (31.2%), retail and wholesale trade (26.8%), manufacturing (8%) and hotels and restaurants (6.74%).

Turkish investment in the region is on the rise. Kazakhstan has been the largest recipient of Turkish FDI in the region, but Kyrgyzstan is catching up...

Inflow of FDI from Türkiye, US\$ million



Source: CEIC

Energy, agriculture and transport are among the target sectors:

**The Turkish conglomerate Alarko is investing \$650 million in Kazakhstan's agricultural sector**

09.08.2023

Istanbul meeting paves the way for the development of the Uzbekistan–Turkmenistan–Iran–Türkiye multimodal transport corridor

27/12/2023 By Admin

**Investment fund set by 5 Turkic states receives official approval**

BY DAILY SABAH WITH AGENCIES | ISTANBUL | DEC 14, 2023 - 10:13 AM GMT+3 |

**Turkmen Gas may Flow to Türkiye via Iran**

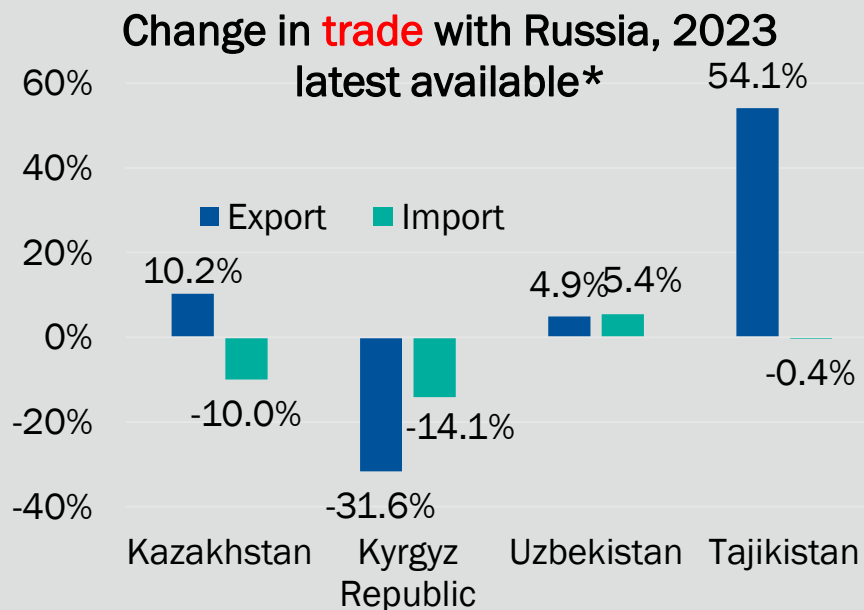
07/12/2023 By Admin

# While Russia is still a major counterpart for CA economies, its role as a trade and transport partner diminishes



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As Russia fell under sanctions, CA economies fostered direct links with third countries, diminishing Russia's role as a trade and logistics hub serving CA. Exports to Russia spiked in 2022 on intermediated trade, but moderated in 2023.

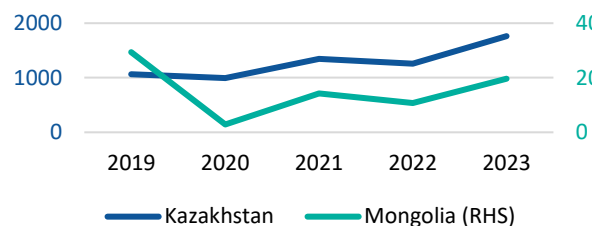


Source: National authorities

Note: \*Jan-Nov for KZ, KR, UZ, 2023 for TJ

## Russian investment in CA is on the rise

FDI inflow from Russia in January-September of selected years, US\$ million



Source: CEIC

In January-September 2023, the inflow of Russian investment in Kazakhstan and Mongolia added 40% and 83% y/y respectively. According to the EDB, **Kazakhstan is the largest recipient of Russian FDI in CA, with 99 ongoing projects worth US\$12.9 billion.** Russian FDI is mostly concentrated in **mining, extraction, and chemicals.** With e-commerce expansion, construction of **logistical centres** serving Russian marketplaces has gained momentum.

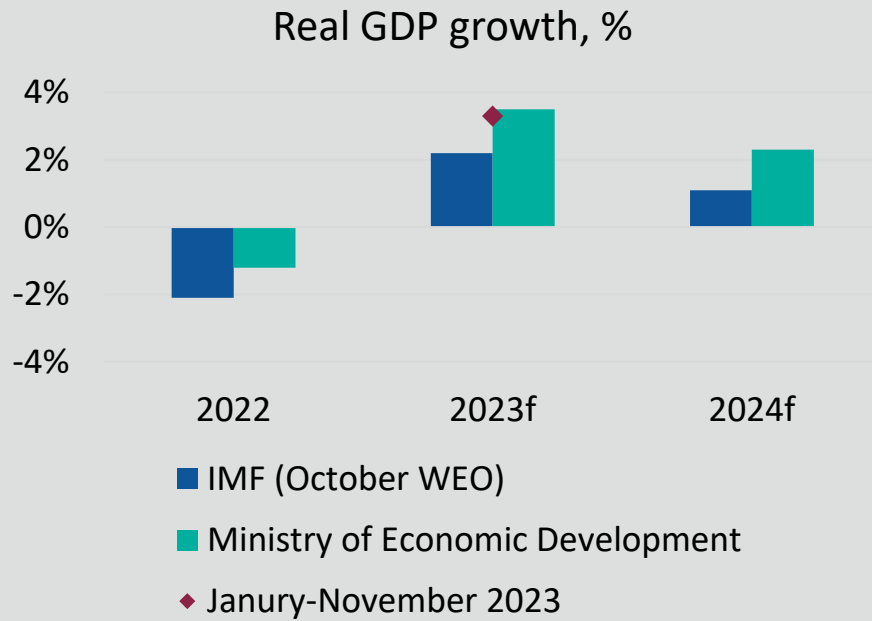
According to EDB, **Uzbekistan is the second largest receiver of Russian investments in Central Asia with 26 projects worth US\$ 9.3 billion.** Russian FDI is concentrated in the **oil and gas industry**, however in recent years Russia started to explore new industries. In early 2023, Russia purchased 58.41% shares in the authorized capital of the Uzbek developer of power grid facilities, "Elektrqishloqqurilish" JSC. Additionally, Russian Sberbank registered its trademark in Uzbekistan

**With six projects worth US\$ 946 million, the Kyrgyz Republic is third on the list of CA recipients of Russian FDI.** In 2023 alone, the Russian-Kyrgyz Development Fund invested US\$ 160 million (the Fund's record)\* as compared to US\$ 480 million over previous 7 years (2015-2022). Some of the largest projects include **Kulanak HPP, cement plant "Terek Tash", and ceramic tile plant "Asyltash"**



# The Russian economy has been resilient to sanctions

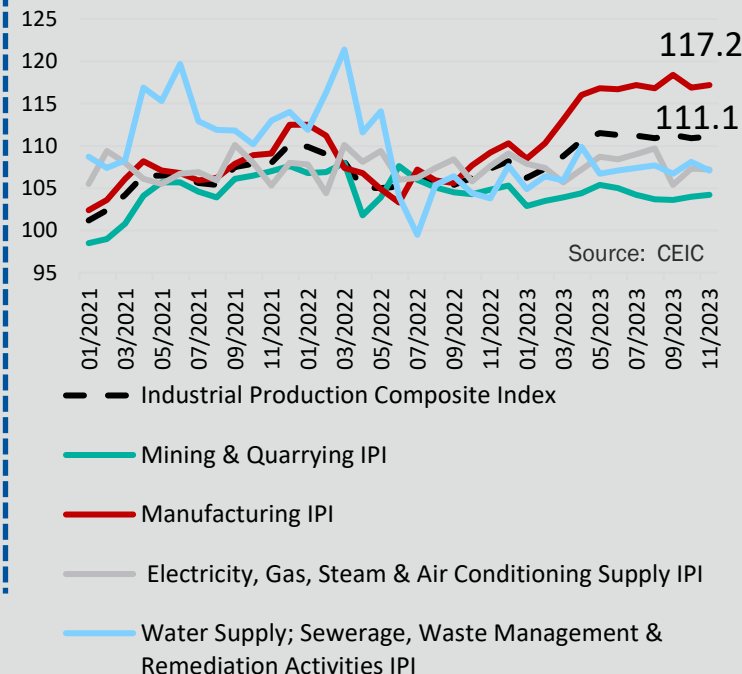
Russia's real **GDP added 3.6%** in 2023. GDP figures for 2022 have been revised upwards - the economy contracted by just 1.2%. **In 2024, GDP is expected to add between 0.5-2.3%, with the consensus forecast standing at 1.3%.**



Source: IMF WEO, Interfax

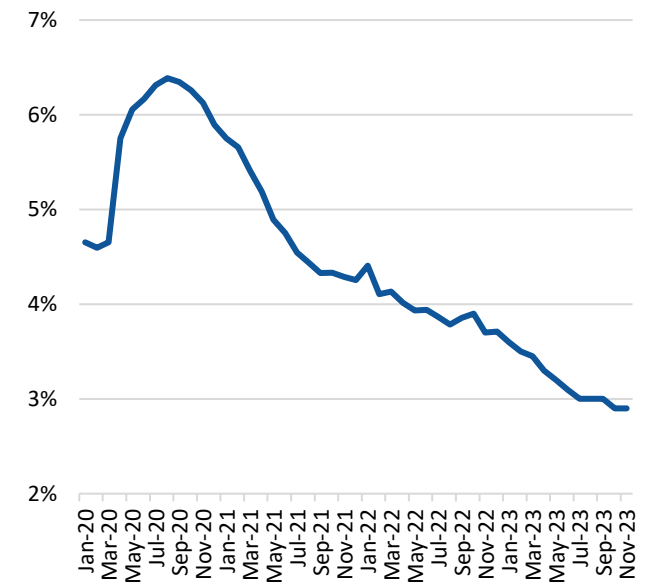
Russian GDP growth was **mainly driven by growing manufacturing output** serving war-economy needs.

Industrial production index, 2020=100, seasonally adjusted and adjusted data by working days



**Russia's unemployment reached an all-time low of 2.9% in January 2024, suggesting Russia's militarized economy is likely to remain hungry for Central Asian workers**

Unemployment rate in Russia, %



Source: CEIC



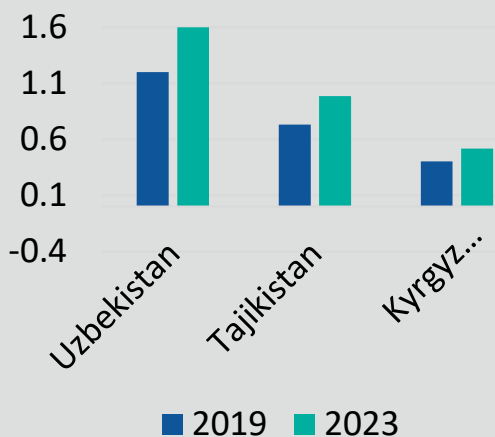
# Russian demand for Central Asian workers remains high, but remittances appear to have peaked in 2022

In January-September 2023, **1.6 million Uzbek, 985 thousand Tajik and 516 thousand Kyrgyz workers** migrated to Russia, a **1/3 increase** relative to the pre-Covid period.

Central Asian currencies traded at below their pre-war values vs. the Russian rouble for much of 2022, increasing the value of remittances in local currencies. **However, in 2023, the value of remittances decreased amid the rouble's devaluation**

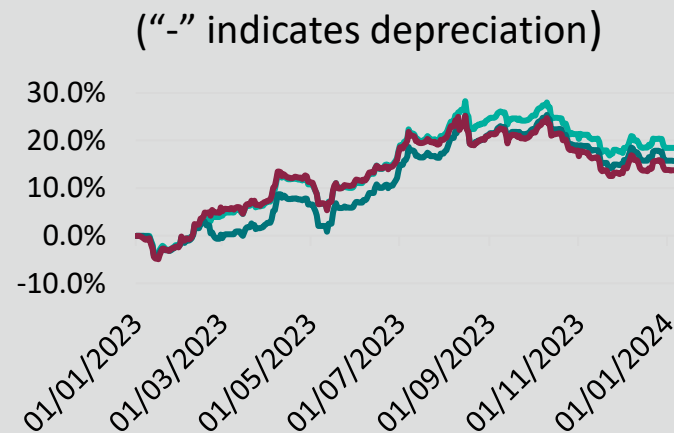
According to World Bank estimates, remittances slightly declined in 2023 (not in Tajikistan) but continue to exceed pre-pandemic levels. All in all, **remittances continue to represent a very large part of the countries' GDP (20.5% in KR, 48.2% in TJ and 17.8% in UZ).**

Labour migrants in Jan-Sep, million people



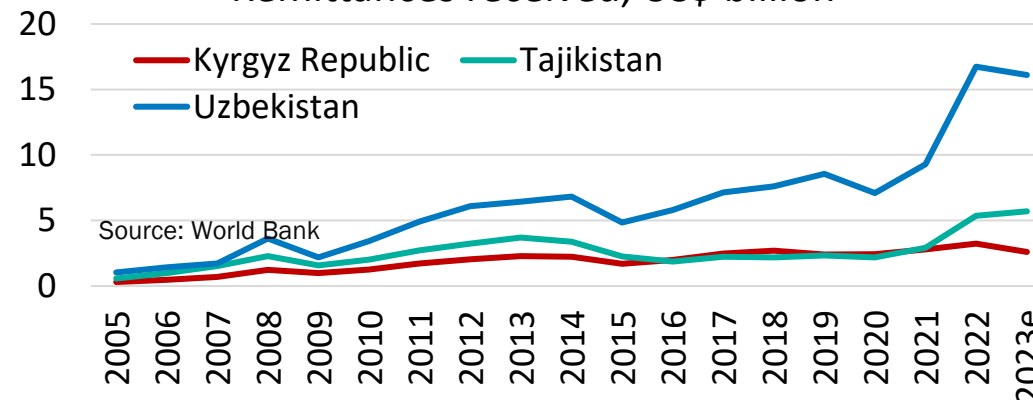
Source: Rosstat

Nominal change in CA currencies against RUB, December 2022=100



Source: CEIC — KGS — TJS — UZS

Remittances received, US\$ billion



The geography of labour migration and remittances is gradually changing: **the share of transfers from Russia in the total volume received by Uzbekistan decreased from 87% in 2022 to 78% in 2023**, while remittances from other countries increased by 14% on the back of active labour migration policies by the Uzbek authorities.

# Dependence on Russian energy...

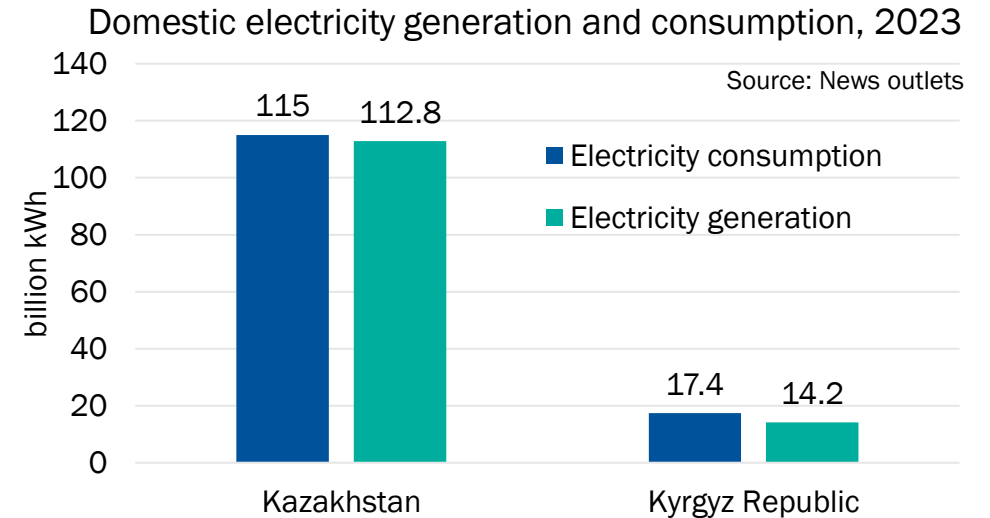


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Uzbekistan started importing Russian **natural gas** via Kazakhstan through the Centre-Asia-Centre pipeline in October 2023. Annual gas imports under the 2-year agreement will comprise **2.8 billion cubic meters** (bcm).

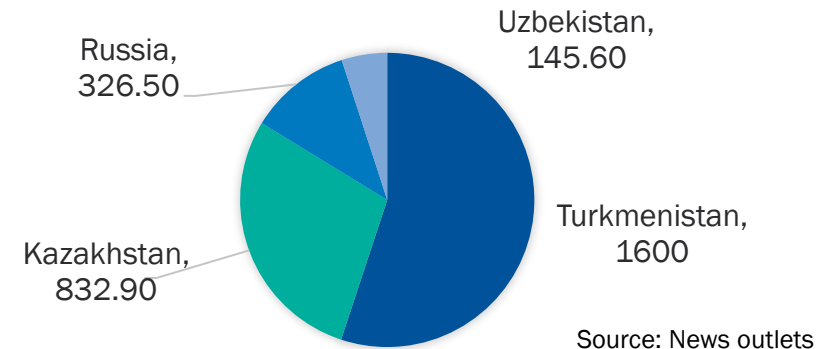
- The **Kyrgyz Republic** for the first-time imported **electricity** from Russia through Kazakhstan. The plan is to import 1.5 billion kWh in 2024 to cover electricity shortages.
- **Kazakhstan** imported record-high volumes of **electricity** (4.7 billion kWh) from Russia's Inter RAO in 2023, which will also build **three thermal power plants** (Kokshetau, Semey, and Oskemen) **with a combined capacity of 960 MW**. The estimated costs for each TPP range from \$767 million to more than \$1 billion, to be financed by the Russian banks.
- **Mongolia** bought record-high 900 mln kWh of **electricity** from Inter RAO in 2023, but Russian electricity exports were **cut by more than 50%** in mid-December, causing **electricity shortages**. Slightly earlier, the Russian global fuel export ban coupled with a 40% increase in domestic fuel consumption caused a **fuel deficit in Mongolia**.
- **Rosatom** is developing **renewable** energy projects in the **Kyrgyz Republic** and eyes close cooperation with **Uzbekistan** and **Kazakhstan** on **nuclear** power plants and small **modular reactors**.

## Electricity generation falls short of consumption...



## ...making countries dependent on imports

Electricity imports of the Kyrgyz Republic in 2023, billion Wh





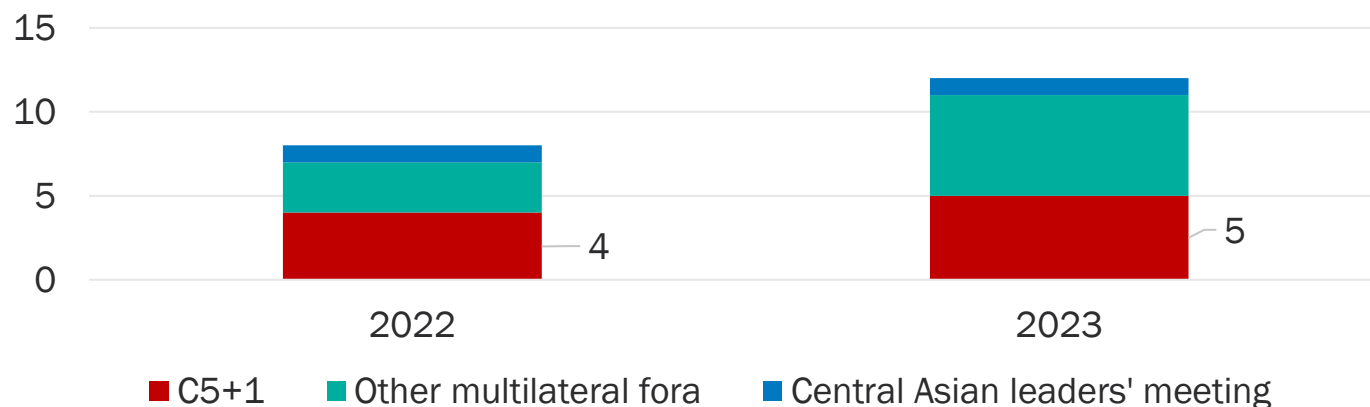
# Central Asian **integration** gains traction



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## CA leaders are busy doing diplomacy after COVID-imposed isolation...

Number of high-level meetings among Central Asian leaders



Central Asian leaders met more frequently in 2023 than in 2022. An increase in the number of **C5+1 format meetings** attests to the strengthening of Central Asia's regional identity and cohesion.

Meetings among Central Asian leaders have focused on common challenges:

- **The water-energy nexus and transboundary water management**
- **Counter-terrorism and regional security**
- **Industrial cooperation and intra-regional trade**

## ... and resolving border issues

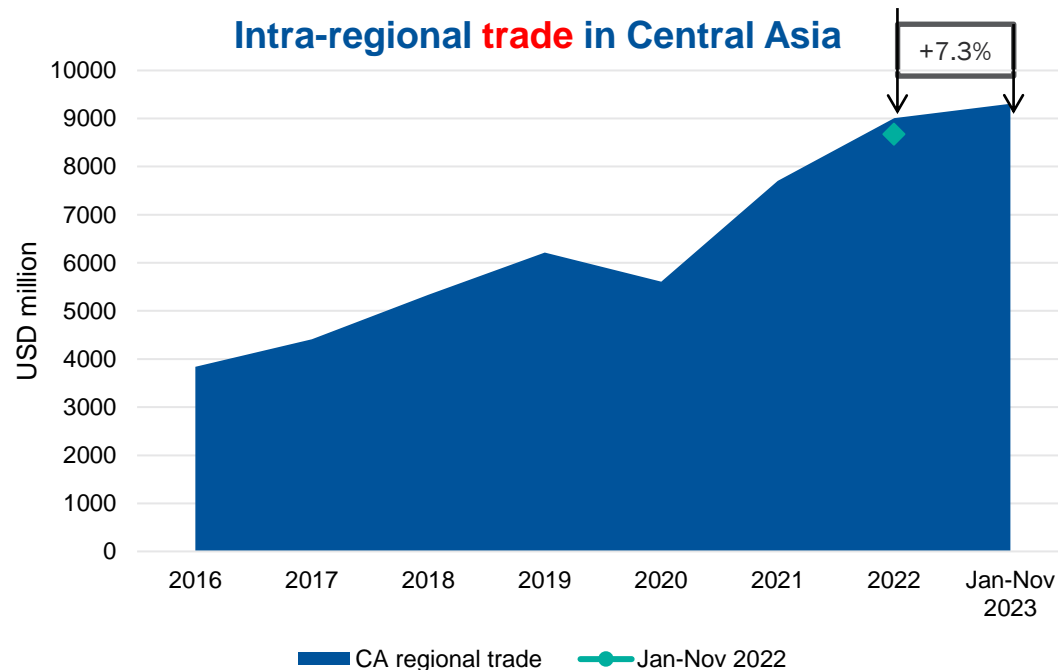
Border disputes were not discussed at the V Consultative Meeting of Central Asian leaders in Dushanbe, but have been resolved **bilaterally**.

- **Kyrgyz Republic and Tajikistan** preliminarily agreed on 90% of the 972-kilometer-long border as of December 2023. Sadyr Japarov expects the border talks to be completed by spring 2024.
- **Uzbekistan and the Kyrgyz Republic** finalised the border delimitation procedures in January 2023 after signing a protocol on demarcation in September 2022. The border between the two countries reaches 1379 kilometres.



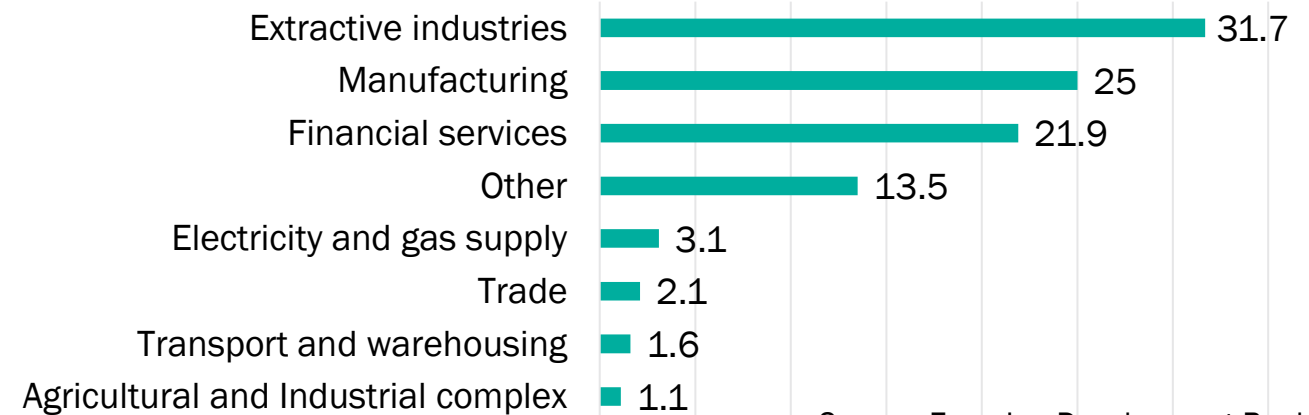
# Intra-regional trade and FDI are on the rise

**Intra-regional trade** almost tripled since 2016, driven by **Uzbekistan's reopening**. Despite a 4% decline in bilateral trade between Uzbekistan and Kazakhstan in the first 9 months of 2023, intra-regional trade volumes grew by 7.3% in Jan-Nov 2023 y/y. **UzKazTrade LLC** was established in 2023 to bring bilateral trade to \$10 billion.



Source: Author's calculations based on CEIC data and statistics committees

## Mutual FDI structure in Central Asia, %



Source: Eurasian Development Bank  
MMI Database

**Total mutual FDI reached \$1.1 billion** (1H 2023) – **x1.8 increase since 2016** (Eurasian Development Bank)

- **27 large-scale mutual investment projects**
- **Kazakhstan (87%) and Uzbekistan (13%) are major investors**
- **Kyrgyz Republic receives 63% of mutual FDI**, (Bozymchak copper and gold mine – 32% of mutual FDI), followed by Uzbekistan (24%), Kazakhstan (11%), and Tajikistan (2%).

## Major economic trends and policy priorities

- Water, energy and transport
- Diversification and industrial policies
- Tourism
- Fight against informality
- Digitalization



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# Central Asia fights **organised crime** and tackles **informality** by streamlining tax administration and anti-corruption practices

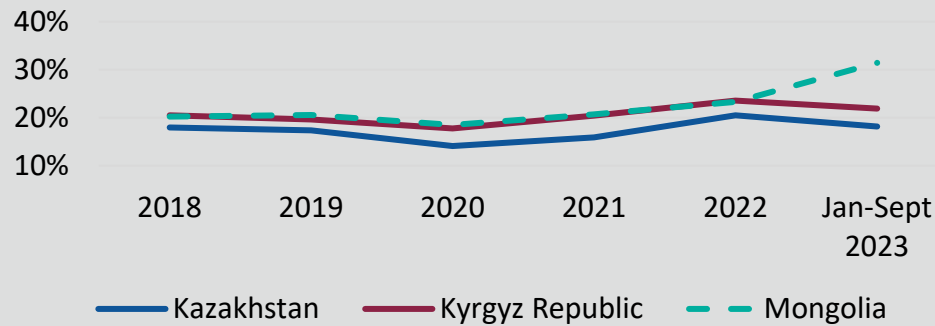
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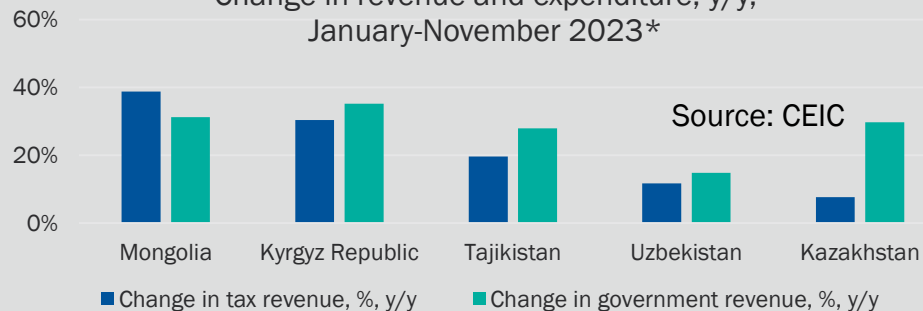
Central Asian economies are gradually formalising as reflected in improved tax collection. Meanwhile, revenue mobilization enables greater expenditure (including rise in public sector wages!). In January-November 2023 government expenditure added 26% in KZ, 25% in KR and 20% in MN.

Tax revenues, % of GDP



Source: CEIC

Change in revenue and expenditure, y/y, January-November 2023\*



Source: CEIC

- The Kyrgyz Republic is implementing an ambitious and controversial tax administration reform requiring all businesses to install cash registers at all POS, issue electronic invoices and waybills, forcing large companies to gradually formalize their SME supply chains.
- Kazakh government approved a Comprehensive Plan of Measures to Counteract the Shadow Economy in July 2023. From January 2023, public sector employees and their spouses are required to declare incomes and property. In 2023, the country has returned US\$ 2.2 billion of illegally withdrawn assets.
- Mongolian parliament is reviewing an anti-corruption strategy. The draft document aims to enhance the governance of state-controlled assets, standardize SOE operations, and improve transparency in public appointments and procurement.
- Tajikistan increased public sectors workers' salaries by 20% in July 2023 and is planning another 40% increase from July 2024.
- Uzbekistan increased public sector salaries by 7% (on average) starting from December 1, 2023

## The fight against organised crime is ongoing in Kyrgyz Republic

KYRGYZSTAN | JUSTICE & CRIME | JULY 20, 2023 | 03:58 PM  
Kamchybek Tashiev says organized crime groups in Kyrgyzstan to be eliminated  
ENGLISH  
SCNS of Kyrgyzstan estimates and seizes assets of crime boss Kamchi Kolbaev

ENGLISH

09:32, 05 October 2023, Bishkek - 24.kg news agency, by Darya PODOLSKAYA

Crime boss Kamchi Kolbaev killed during detention in Bishkek

\* Jan-July 2023 for Tajikistan, 2023 for Uzbekistan, Mongolia

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# The looming **water** crisis threatens national and regional security



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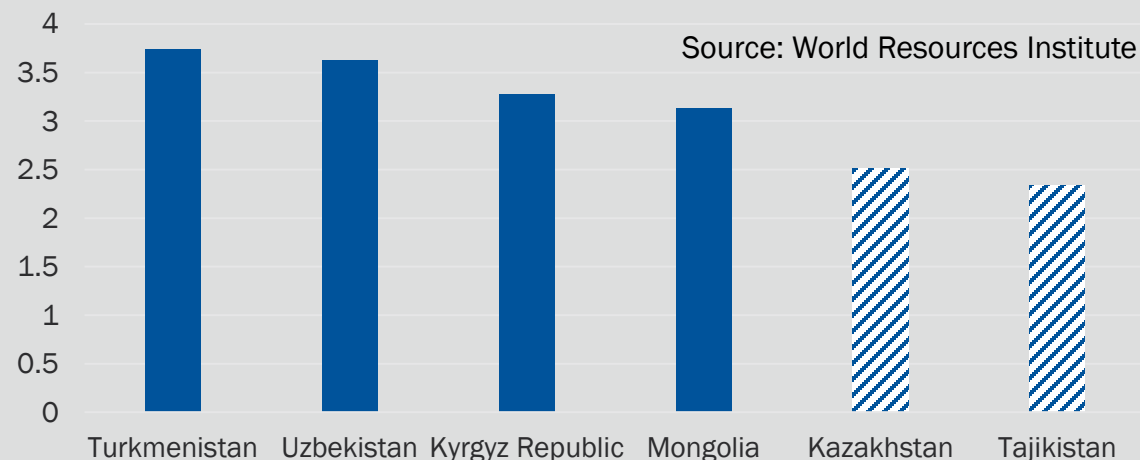
## Water shortages have become a regular occurrence across the region

- In **Kazakhstan**, a state of emergency was declared in the Mangystau region, over critically low water levels in the Caspian in June. Zhambyl region faced a **lack of irrigation water in August**.
- In **Bishkek** taps ran dry in summer 2023, as the city struggled with the worst **water scarcity** in a decade.
- In **Ashgabat**, residents had their water switched off amidst extreme heat last summer. The authorities had to introduce **water rations** in the capital and remote regions in 2022.

## Forecasts are distressing:

- If no actions are taken, **crop yields** will decline by 30% by 2050, creating around 5.1 million **internal climate migrants** by that year (World Bank)
- Water volumes in the **Syr Darya and Amu Darya** rivers will decrease by 30 to 40% by 2050-2100 (Asian Development Bank)
- **Uzbekistan's** water deficit might reach 7 billion cubic meters (bcm) by 2030 and 15 bcm by 2050.
- **Kazakhstan** might face water shortages of 12-15 bcm by 2040s.

Water stress index  
[0 to 5]



Country	Share of population with access to safe drinking water, 2022
Kazakhstan	89%
<b>Uzbekistan</b>	80%
Kyrgyz Republic	76%
Tajikistan	55%
Mongolia	39%

Source: World Bank

# Yet, water scarcity also encourages tariff reforms and adaptation measures



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## Case in point: irrigation reforms in Uzbekistan

President Mirziyoyev declared 2024 the year of a “transition to an emergency mode of operation to save water” and a “high-impact year for canal concreting.” On January 5, he signed a decree on improving the management of water systems.

### “Carrots”

- Special **5-year credit line with a 2-year grace period** to help introduce water-saving technologies (2024)
- **Subsidies of 15%** for agricultural machinery and **30%** for laser levelling technologies (2023-2026)
- Water-saving tech + water measuring tools for irrigation -> **x0.5 water tariff relief applied** (2025)

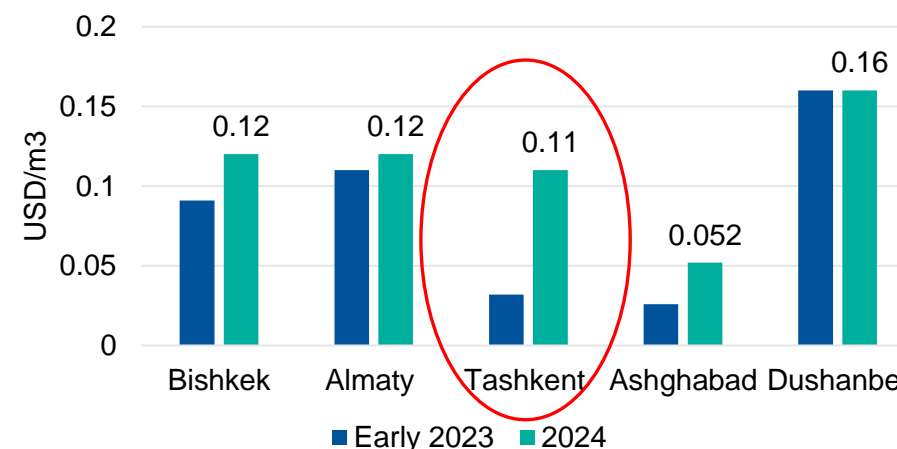
### “Sticks”

- No water-saving tech + no water measuring tools for irrigation -> **x1.5 increase in water tariff rate (2025)**
- Increased land and water taxes for areas with no laser levelling (2026)

**The Kyrgyz Republic** adopted its National Water Strategy in 2023; **Tajikistan** will likely finalize its water strategy in 2024.

**Drinking water** tariffs are being gradually increased throughout the region (but irrigation tariffs are the elephant in the room!)

## Drinking water tariffs for the general population



Source: Author's calculations

- Tariff rates for drinking water and wastewater increased across the region in 2023, with the most dramatic 3.5x hike in **Uzbekistan**.
- In Tajikistan, tariffs did not increase but **differentiated rates apply for users with and w/o water meters**.



# Power shortages trigger sectoral reforms and tariff increases

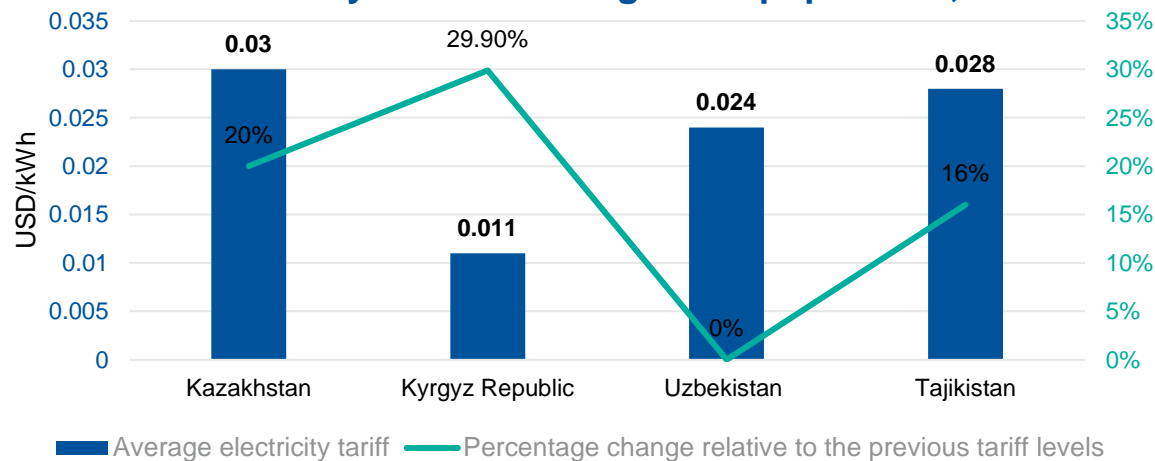


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Central Asian countries are **gradually increasing** the tariffs for electricity.

- **Tajikistan and Kyrgyz Republic:** tariff increases of 16% and 30% respectively
- **Uzbekistan:** tariffs increased **2.2 times** for budgetary organisations and **2 times** for legal persons, but **remained unchanged for the population**
- **Kazakhstan:** tariff ceilings went up for 50 groups of energy producers, by an average of 2 KZT/kWh. KZ Minister of the National Economy announced gradual tariff increases for municipal services until 2030 (by apr. 20-30% annually), with compensation for vulnerable groups

**Electricity tariffs for the general population, 2024**



Source: Author's calculations

Note: Data for Kazakhstan reflects tariff ceilings for generation and does not include transmission, distribution, and other relevant costs

## 2023 – a year of ambitious energy sector reforms

- **Turkmenistan** adopted a **law on “Energy-saving and energy efficiency”** in late 2023 to address growing domestic demand and enhance its export potential.
- **Uzbekistan** created the Agency for the development and regulation of the energy market. A **unified platform for electricity trading** is to be created by the end of 2024, and a **free wholesale power market** is to be introduced in 2026.
- **Kazakhstan** enhanced grid stability by introducing **the single-buyer mechanism** and **real-time balancing electricity market** in summer 2023,.



# Cargo flows along the Trans-Caspian International **Transport** route (TITR) increase but operational inefficiencies remain



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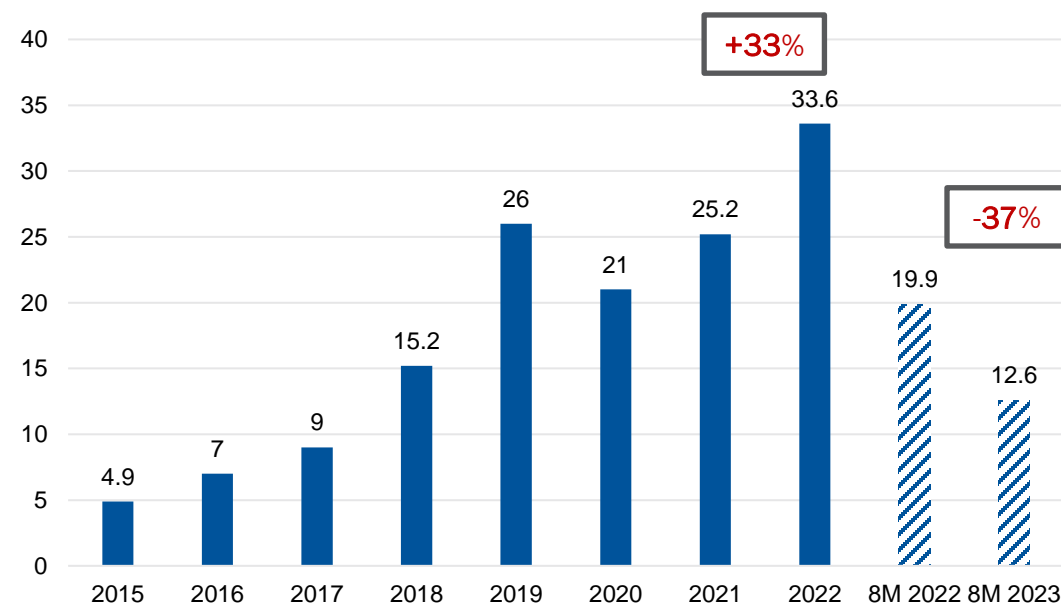
The World Bank projects that trade via the TITR (Middle Corridor, MC) will substantially increase, reaching **11 million tonnes by 2030** contingent on infrastructure development (in the absence of adequate investment transportation demand will be 35% lower).

Cargo volumes transported via the TITR reached **1.3 million tons in H1 2023** – an **increase of 77%** relative to last year. As volumes along the Northern Corridor (NC) declined by 56%, the **TITR accounted for 18% of NC's volumes** (compared to only 6% in 2022).

**The TITR's share compared to alternative trade routes will remain modest.** Transportation volumes along the Northern Corridor fell from 618 thousand TEUs in 2021 to 386 thousand TEUs in 2022 but are still **11 times greater** than those along the Middle Corridor in 2022. Moreover, **transportation time via the MC was twice longer compared to NC** in 2022, since the former was unprepared for such a sharp increase in demand.

Despite the initial post-war surge in container traffic along the TITR, **volumes decreased by 37% y/y in Jan-Aug 2023** due to operational inefficiencies and high costs.

## Container traffic along the Middle Corridor, thousand TEUs



Source: the World Bank 2023, based on the data from the Trans-Caspian International Transport Route Association





# Discussions (and MoUs) on alternative **transport corridors** advance but prospects are unclear...

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## Central Asian countries join multiple corridor initiatives with the participation of Russia, Iran, and China

- July 2023: Russia consented to **Turkmenistan's** accession to the **International North-South Corridor**
- Nov 2023: memorandum on **Belarus-Russia-Kazakhstan-Uzbekistan-Afghanistan-Pakistan transport corridor** was signed
- Nov 2023: **Russia, Uzbekistan, and the Kyrgyz Republic** agree to develop a multimodal corridor, **bypassing Kazakhstan** via the Caspian Sea and Turkmenistan
- Nov 2023: **Uzbekistan, Turkmenistan, Iran, and Türkiye** agreed to form a multimodal corridor, connecting Europe and Asia
- Nov 2023: Turkmenistan and Kazakhstan agree to jointly develop the **China-Kazakhstan-Turkmenistan-Iran** multimodal transport corridor



Some projects have less certain prospects....

Ambitious China-Kyrgyzstan-Uzbekistan  
Railway Project Faces Major Funding  
Challenges

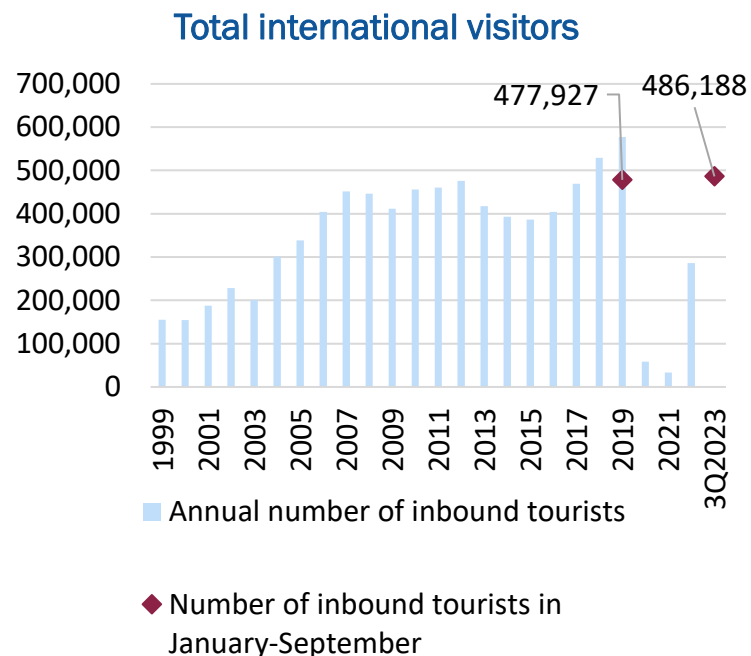
# Tourism activities are booming as Covid-related restrictions came to an end



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## Mongolia is an excellent case in point...

While annual data are yet to be released, the **number of inbound tourist arrivals in January-September 2023 has already exceeded the pre-pandemic record of 2019.**



**Tourism from China has recovered only partially, indicating the possibility of further increases in international arrivals** in 2024 and beyond. Strong growth in tourism from Russia and South Korea bring their share in international arrivals to 35% and 25%, respectively, ahead of China with only 18%.

Supported by a major increase in international arrivals, **in January-October 2023, revenues in hotels, restaurants and air transport grew** by 42%, 27% and 95% y/y respectively.

Source: National Statistics office

In January-September 2023, **Kazakhstani hotels and apartments hosted 37% more foreign visitors compared to a year ago.** More than half indicated “business” as a purpose of their visit. Nevertheless, the country is likely to attract more “leisure” tourists in upcoming years, as Saty village (near Almaty next to Kolsai lake) was awarded Best Tourism Villages 2023 by the United Nations World Tourism Organization (UNWTO), while the city of Almaty was recognised as one of the 2024 travel destinations by the New York Times.

During first three quarters of 2023, export of tourist services in the Kyrgyz Republic (i.e. **Tourist services for non-residents**) **grew 2.2 times, reaching US\$ 806 million.**

According to World Economic Forum’s **Tourism Development Index 2021**, Kazakhstan is ranked 66th, Mongolia - 84th, Kyrgyz Republic - 90th, Tajikistan - 92<sup>nd</sup> among 117 rated countries.



# Growing (social) media coverage and liberalization of visa requirements are likely to boost the region's attractiveness

Regional economies may be able to attract even larger numbers of tourists thanks to active efforts:

- **Kazakhstan** adopted the **Tourism Development Concept for 2023-2029** in July 2023 elevating tourism's priority for the country's economic development. It also introduced a **visa-free regime with China**.
- **The Kyrgyz Republic** strengthened bilateral cooperation with third countries. In October 2023, France and Kyrgyz Republic discussed **France's participation in developing ski resorts**, in November KR hosted talks with Japan Association of Travel Agents to enhance KR's attractiveness to Japanese tourists.
- **Mongolian** authorities declared 2023-2025 as "years to visit Mongolia", aiming to attract at least **1 million foreign visitors per year** (compared to close to 0.5 million in 2023). To enhance its connectivity, Mongolia signed **Open Skies agreement with the US** in August 2023, **agreements with national airline carriers** and aviation regulators of **Turkiye** (in Jan 2023) and **Vietnam** (in Dec 2023), and an agreement with **Singapore** enabling Mongolian airlines to use Singapore as a **transit hub**.
- **Tajikistan plan to attract up to 1.5 million tourists by 2025**. WTO's international consultants prepared a tourism satellite account (TSA) and a plan for sustainable tourism development in Tajikistan for 2022-2030 in H1 2023. The authorities are in the process developing a "tourism master plan" envisioning **US\$ 100 million investment in tourism infrastructure**.
- A home of the ancient cities, **Uzbekistan is expected to connect Samarkand** (via Air Samarkand) to **Türkiye, Vietnam, Malaysia, Indonesia, and China, and Europe** during 2024.

Country	How many nations can visit country visa-free	Comments
<b>Uzbekistan</b>	92 countries	10-365 days visa free entry
Kazakhstan	82 countries	14-90 days visa free entry
Kyrgyz Republic	77 countries	30-indefinite stay visa free entry
Mongolia	63 countries	21-90 days visa free entry
Tajikistan	62 countries	30-90 days visa free entry, unlimited for citizens of Russia, Kyrgyz Republic, Kazakhstan, Moldova, Georgia, Belarus
Turkmenistan	No visa free entry	



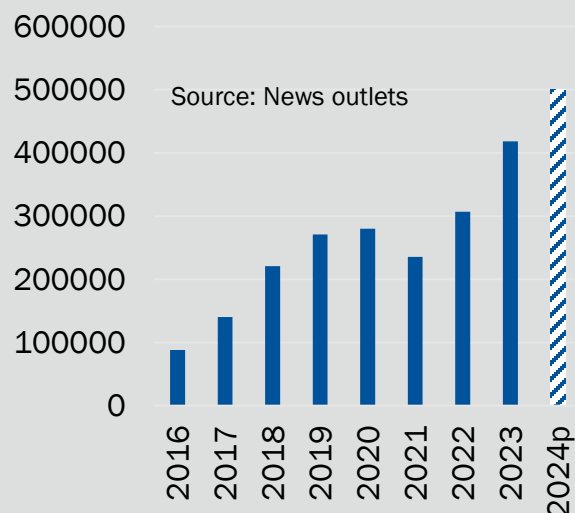
# Whither **diversification**: automotive industry



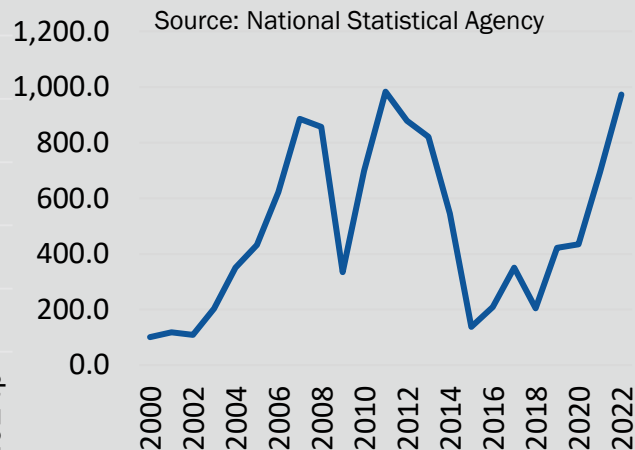
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Uzbekistan is currently the second largest car manufacturer in the post-Soviet space.

Production of automobiles, units



Export of machines and transport equipment, US\$ million



**Uzbekistan's automotive industry dates to early independence days.** In 1993, Uzbekistan reached agreement with South Korea's Daewoo leading to the establishment of a joint venture in 1994. Production started in 1996.

**UzAuto plans to further expand its capacity to produce Kia, Exeed, BYD and Chery cars.** In 2024, the company plans to produce 500 thousand vehicles, and expand production to 1 million vehicles/year by 2030.

Building on Uzbekistan's perceived success, other CA countries intend to develop their automotive industries.



In late 2023, **Uzbekistan and Kyrgyz Republic** agreed to launch joint production of cars in early 2024.

In 2023, **Tajikistan and China** agreed to establish a joint venture with annual production of **1,500 electric cars**.

**Kazakhstan** plans to fully meet domestic demand by producing 150 thousand vehicles in 2024, and **500 thousand/year by 2026**.

In August 2023, **Kia** announced plans to build (US\$ 190 mln) an assembly plant in Kazakhstan. **Exeed and Geely** production facilities will be built as well. Additionally, **Škoda** announced plans to start production in Kazakhstan in early 2024.

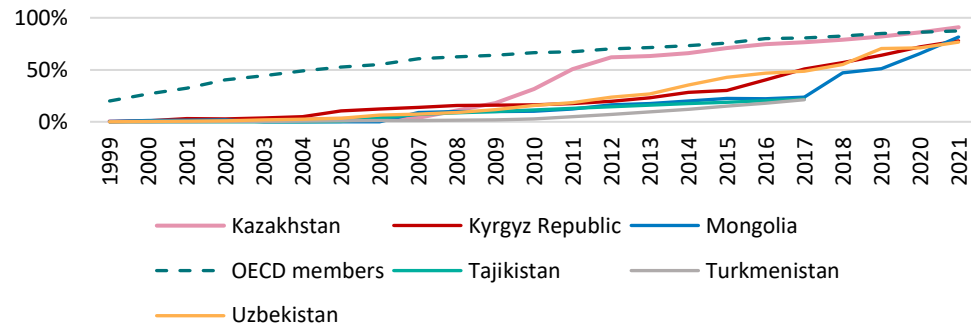


# Trends in digitalization

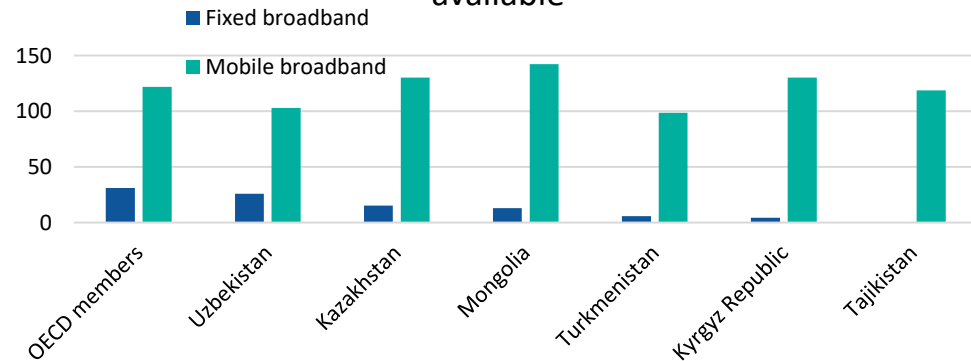


Internet is widely available and at par with OECD levels in most Central Asian economies. That said the nature of connectivity is different. **CA nations mostly use mobile broadband**

Individuals using the Internet (% of population)



Internet Subscribers per 100 People, 2022 or latest available\*

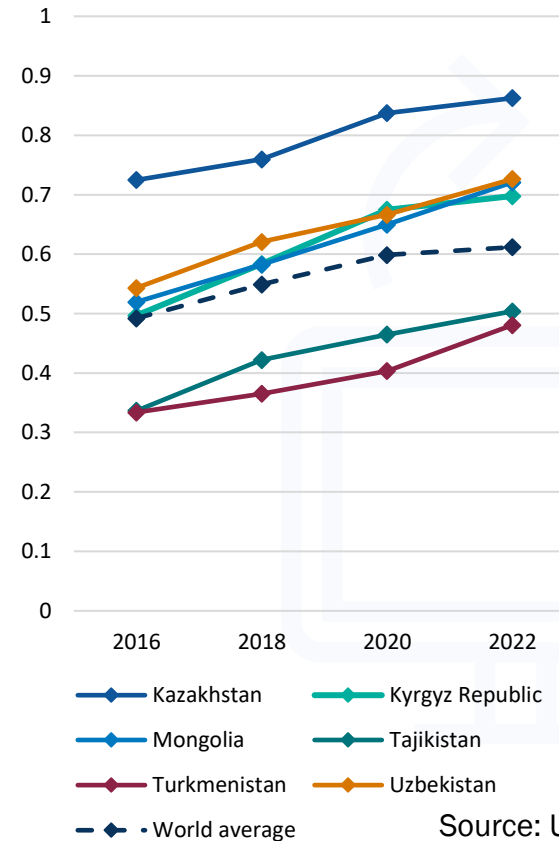


Source: World Bank

Note: 2021 for KR and TJ, 2021 for TM mobile broadband

## Central Asian economies gradually adopt e-governance technologies

UN E-Government Development Index (EGDI)  
0 (worst) - 1 (best)



Source: UN EGDI

Examples:

In 2023, **Kazakhstan introduced a digital currency**. The digital tenge is to reduce corruption and streamline payments, helping ensure government control of public spending.

While Tajikistan has 119 mobile broadband subscribers per 100 people, but **95% of the country's territory has only 2G coverage\***. Tajikistan has recently signed a memorandum with Huawei Technologies Tajikistan to install/upgrade 7,6 thousand base stations (to support a 5G network). Concurrently, **Tajikistan signed an MoU with Kazakhstan to adopt e-governance technologies**.



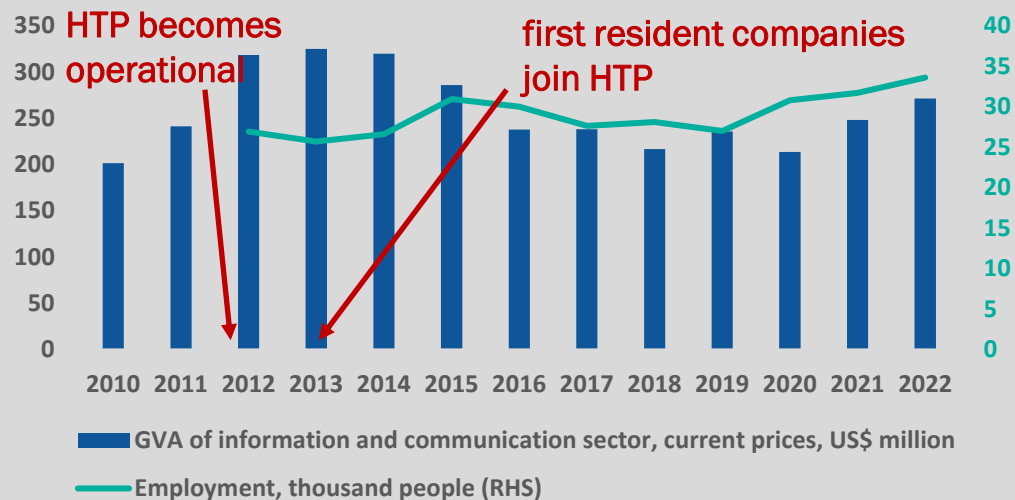
# Whither diversification: IT sector boom

KR's High Technology Park (HTP) was established in 2011, and became operational in late 2012. HTP is fully owned by the government but is **financed by resident companies** (1% of revenue). HTP residents enjoy significant tax **preferences**.

- 0% corporate income tax, VAT, reverse VAT, and sales tax
- 5% personal income tax for employees (KR level – 10%).

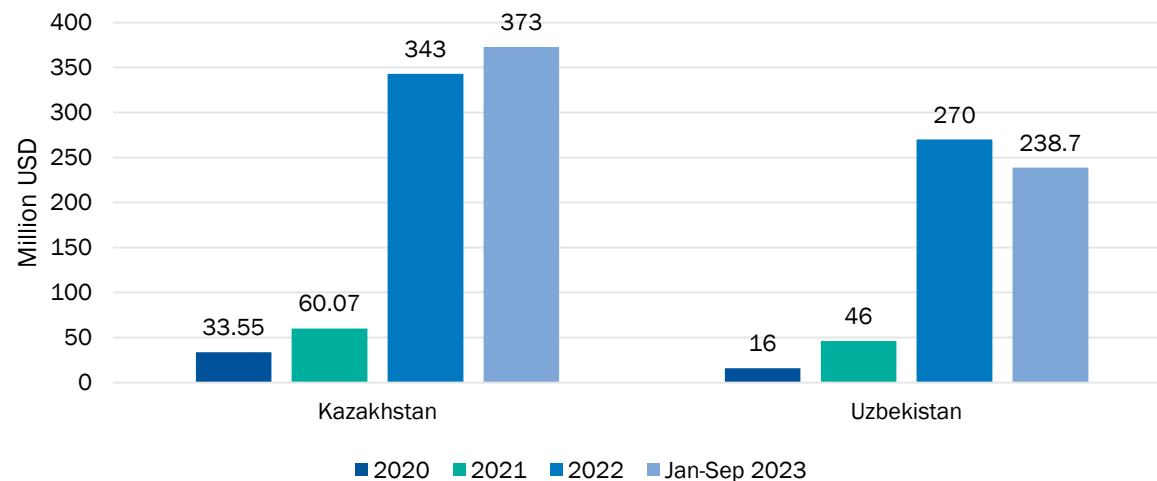
While enjoying tax preferences, HTP makes a solid contribution to state budget (**US\$ 1.6 million in 2022**)

## ICT sector development in KR



Source: National Statistical Committee of the Kyrgyz Republic, authors' calculations

## Exports of IT services are set to increase further



Source: News outlets

### Astana Hub, Kazakhstan

- >1300 residents
- Exemptions from corporate tax, VAT (12%), income tax, social tax, and a simplified visa regime
- **\$1.6 billion** cumulative revenue since 2018 and **\$199 million** in export revenue in H1 2023

### IT Park, Uzbekistan

- >500 residents
- Exemptions from all taxes and budgetary payments, except for the income tax (7.5%) until 2028
- Exports of IT products in H1 2023 comprised **\$145.7 million** (2.7 times greater than in 2022)

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