



COVID-19

Response and Recovery

Mobilizing financial resources for development

DA-COVID-19 project led by Debt and Development Finance Branch, Division on Globalization and Development Strategies (DDFB/DGDS)



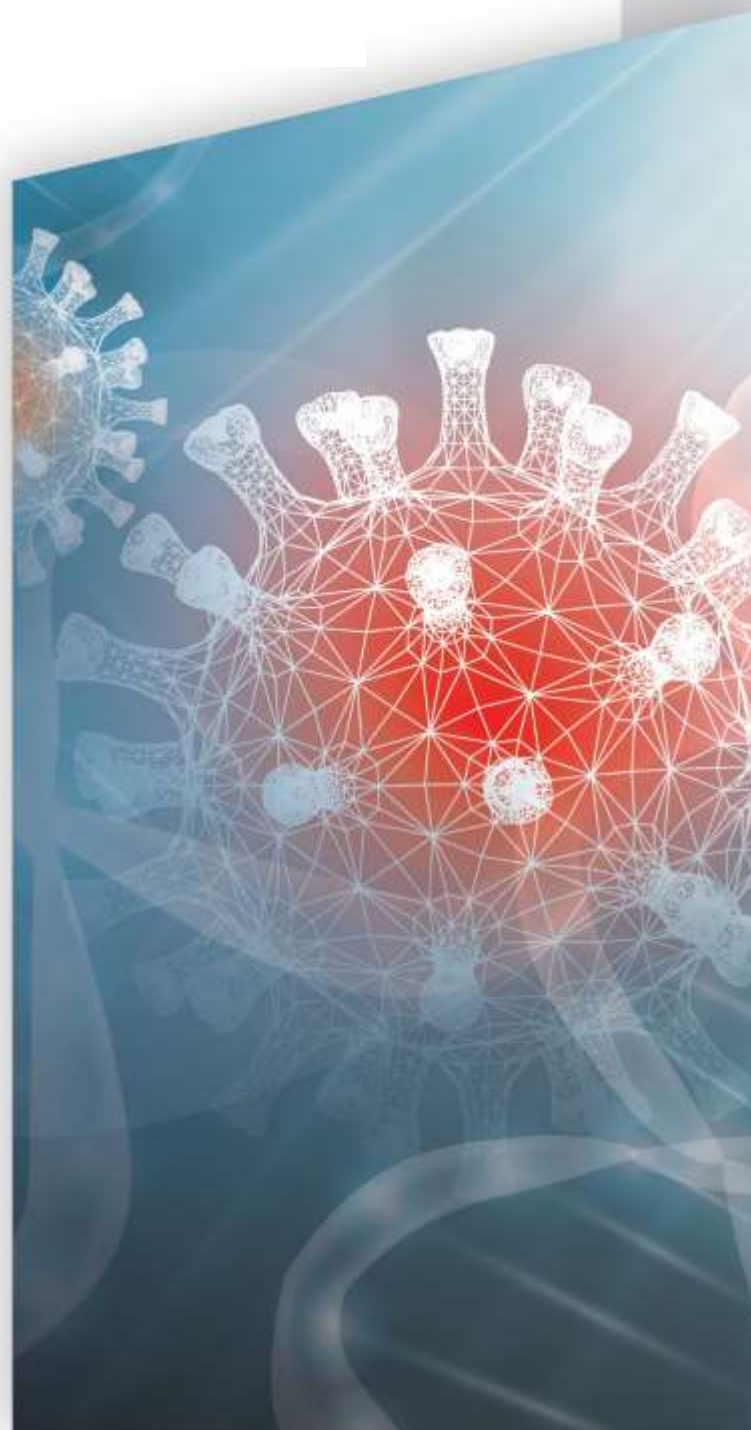
Policy Response of Central Asian Economies to the COVID-19 Pandemic and an Assessment of its Impact in Kyrgyzstan

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About the COVID-19 Response and Recovery project

This paper is an output from the project “**Response and Recovery: Mobilising financial resources for development in the time of COVID-19**”, which is co-ordinated by the Debt and Development Finance Branch of UNCTAD and jointly implemented with ECA, ECLAC and ESCAP. This project is one of the five UN Development Account short-term projects launched in May 2020 in response to the COVID-19 crisis.

The project aims to enable low-income and middle-income developing countries (LICs and MICs) from Africa, Asia-Pacific, and Latin America and the Caribbean to diagnose their macro-financial, fiscal, external financial and debt fragilities in the global context, and design appropriate and innovative policy responses to the COVID-19 pandemic leading toward recoveries aligned with the achievement of the Sustainable Development Goals (SDGs).

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Introduction

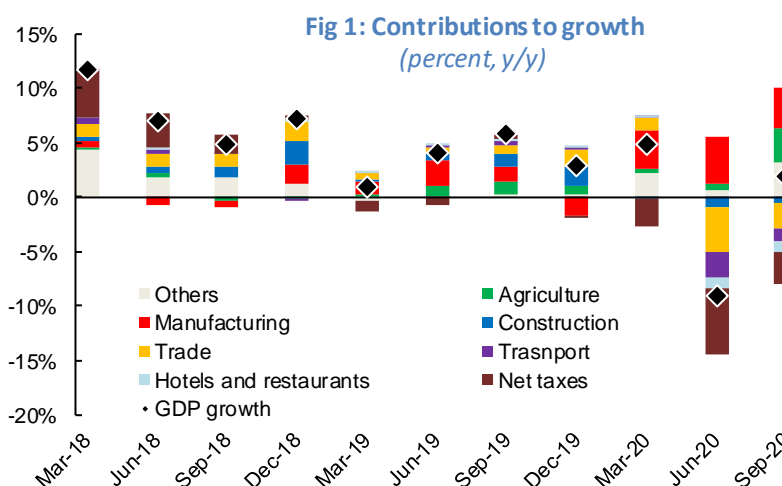
The COVID-19 pandemic led to an unprecedented contraction in the global economy that is likely to result in large fiscal deficits and inflated debt positions across countries. Stringent economic lockdown measures that started in China and were implemented in varying degrees in almost all countries of the world slowed down trade and economic activity. This has adversely impacted developing and low-income countries that rely heavily on trade and remittances, like those in central Asia. While the central Asian countries was affected by the virus much later than other neighboring countries, its equally stringent lockdown response, fall in oil prices and the subsequent pressures on their currencies is likely to affect the region more than any other economic shock in recent times. The uncertainty around the virus, the probability of another wave of the disease and delay in accessing vaccine could further extend lockdowns and hamper the economic recovery. However, several countries have launched clinical trials to test vaccines for immunization against this disease. A timely development in this front could increase efforts to re-open countries safely and aid economic recovery. This paper compares the social, and economic policy responses of the countries in the central Asian region with a special focus on Kyrgyzstan. It consists of six sections. The first section analyses Kyrgyzstan's socio-economic situation and their capacity to respond to the pandemic. The section highlights vulnerabilities in the economy and social structure that is likely to be affected the most due to the country's stringent lockdown measures. The second section of the reports reviews the revenue and expenditure trends in the country and discusses the fiscal impact in the short and long run. The third section delves into the status of the country with respect to the Sustainable Development Goals and presents a qualitative analysis of how the country's trajectory in achieving these Goals will be affected due to this shock. The fourth section of this paper enunciates steps taken by Kyrgyzstan to contain the virus, strategies to test and treat patients and the strategies to minimize economic shock. In addition to monetary, financial, macro prudential, and fiscal policies, this sections also discusses the impact on small and medium scale enterprises and the policy responses to support this sector. Each sub-section presents a comparative analysis of Kyrgyzstan's responses with those adopted in neighboring countries –Armenia, Azerbaijan, Georgia, Kazakhstan, Tajikistan, Turkmenistan, and Uzbekistan. The fourth section discusses the impact of a few policy options on the fiscal position of Kyrgyzstan. The

fifth section of the report discusses the fiscal impact of social and economic policies in Kyrgyzstan using the UNESCAP COVID-19 model¹. Finally, the report concludes with proposed policy responses calling for the country to re-prioritize spending towards health, education, and social spending.

I. Impact of COVID-19 pandemic on Kyrgyzstan's economic and social development

Growth in Kyrgyzstan has been volatile. The country's growth was driven by an increase in exports dominated by gold and a large inflow of remittances that makes the country vulnerable to external shocks.

The COVID-19 pandemic saw countries closing their borders to the movement of people and goods and shutting economic activity to contain the spread of the virus. This expectedly affected both trade and remittances. The country registered a sharp decline in 2019 nominal growth due to slowdown in the secondary and tertiary sectors, especially financial and professional services. The slowdown in 2019 will be further exacerbated by the shutdown in economic activities that will weigh heavily on the economy's growth. Stringent lockdown measures that lasted months and stalled economic activity, an unprecedented decline in global growth, fall in gold prices, additional spillovers



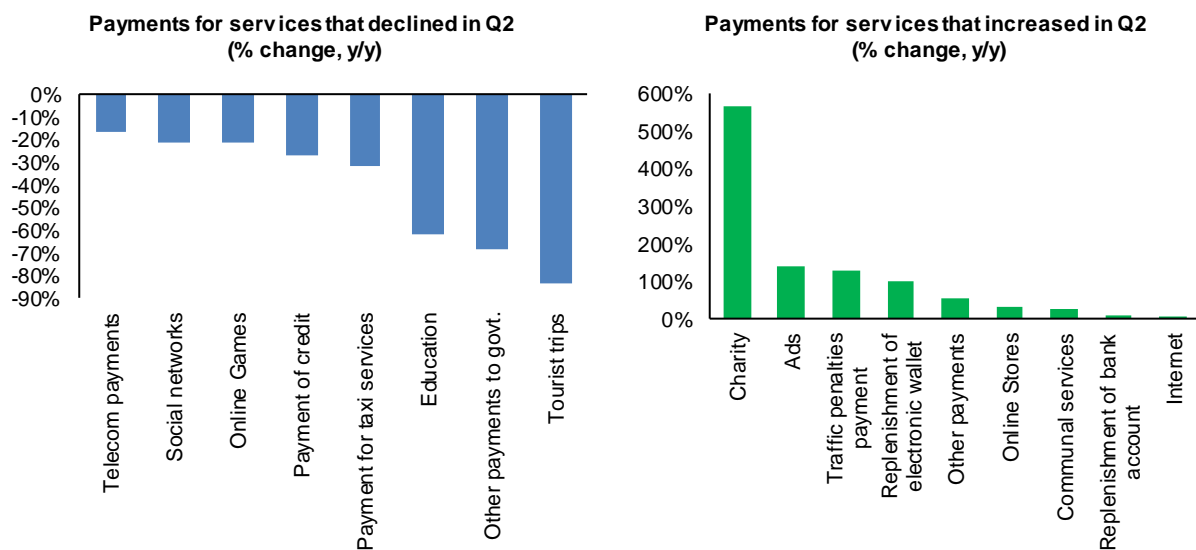
Source: Bulletin of NBKR, November 2020.

from slowdown in the Russian Federation and Kazakhstan due to falling oil prices, and reduced trade with China will dampen economic growth further in Kyrgyzstan.

¹ This model provides a country overview, illustrating key factors that are expected to affect the impact of the crisis on the economy, putting this into a regional and global context. These include measures of the spread of the pandemic, the country's exposure to external shocks, the stringency of measures that have been required to contain the pandemic, the industrial structure of production and trade, social conditions, and the policy backdrop. For details, please refer to <https://www.unescap.org/resources/assessing-impact-covid-19-asia-and-pacific-and-designing-policy-responses-excel-based#> for the base model. The model used for Kyrgyzstan has been modified to reflect WEO October 2020 numbers and current oil prices and COVID related numbers.

As of the second quarter of 2020, growth slowed down to -9% which was a steep decline compared to a growth rate of 4.19% in the same period in 2019. The transport industry's value-add declined by 29% in the first six months of 2020 compared to those in 2019. Similarly, hotel services value-add declined by 35% and that of construction sector declined by 8%. In the second quarter, agriculture, and manufacturing were the only sectors that grew. All other sectors registered negative growth. Growth in nominal terms picked up in the third quarter with a growth rate of 1.98% compared to the same period last year. Bulk of this growth came from the agriculture and manufacturing sectors. Trade, transport, construction, and hotel and restaurants have not yet recovered from the impact of the pandemic even though lockdown restrictions were eased significantly. Digital economic activity reflected in the volume of electronic payments made during the lockdown months declined in the second quarter of 2020 but the total value of transactions increased, mostly due to an increase in digital payments of taxes, fines due to traffic violations² and charity. Other payments that increased were those made to online stores, for replenishing bank accounts and electronic wallets etc. Compared to the second quarter last year, the value of payments that declined were for telecom services, education, payment of credit due to financial institutions, other payments to state government, advertising services, tourism etc. (NBKR, 2020).

Fig 2: Change in value of digital payments by activity



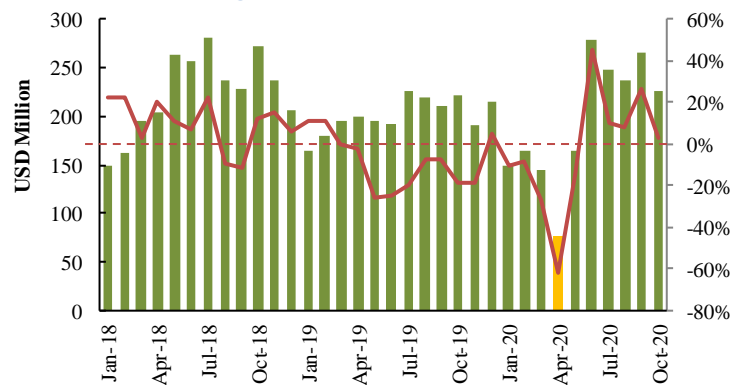
Source: National Bank of Kvravzstan.

² The increase in online payments of fines due to traffic violations could be due to close-down of conventional ways of payment, a stricter regulation on the movement of people or speeding issues related to emergency situation. Granular data is not available.

Slowdown in inflow of remittances are also expected to affect the investments in the construction sector. Agriculture growth is expected to be stable. While economic activity of Kyrgyzstan is expected to pick up in coming months following the ease of lockdown restrictions, the pandemic is expected to have a more pronounced impact on Kyrgyzstan's economy than those of its neighbors. According to data from the National Bank of Kyrgyzstan, industrial production declined from 109.8 in February to 99.8 in May 2020. Retail turnover also declined by 13% at the end of the first 6 months of 2020 compared to the same period in 2019. The annual CPI inflation fell to 5.0% in August 2020 which has been the lowest rate since March. This was mostly led by a decline in food prices that fell from 16.3% in April to 9.4% in August. The spike in food inflation rate in April, that increased the CPI inflation rate to 8.7% was mostly due to supply shortages caused due to the lockdown. This was the highest recorded CPI inflation rate since 2015 (NBKR, 2020). The National Bank of Kyrgyzstan has a target range of 5% to 7%. The Bank had increased their benchmark rate from 4.25% to 5% in February 2020. As on November 30, they kept the rate at 5% to try and anchor inflation within the target range. The existing social policies and policy measures announced so far by the government are likely to have a positive impact but those are not likely strong enough to dampen the impact of the lockdown and their dependence on external factors. Trade, transport, and construction sectors are important contributors of country's growth that are expected to be affected strongly due to the lockdown.

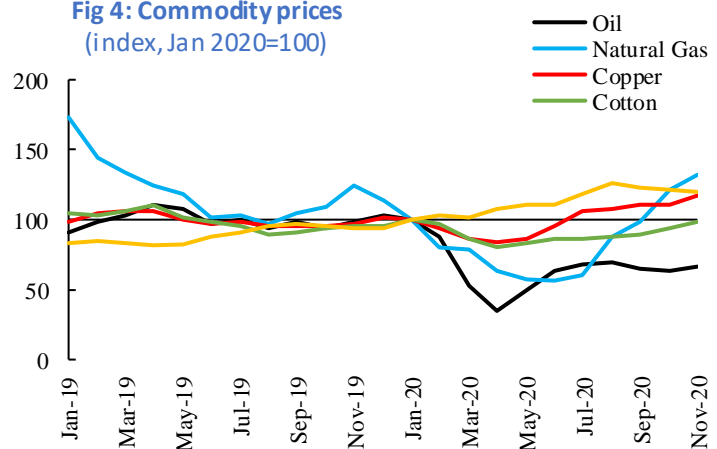
Inflow of remittances, that have averaged around 30% of the GDP in the last few years, are typically higher than other capital inflows like FDI and foreign aid. Remittances as a share of its GDP has more than doubled in the last fifteen years, increasing the country's dependence on the Russian Federation's growth which contributes to almost 97% of Kyrgyzstan's remittances. The remittance inflows fell to the lowest level of \$76 million in April 2020, a reduction of almost 62% compared to the remittances in April

Fig 3: Inflow of remittances



Source: National Statistical Committee of the Kyrgyzstan

Fig 4: Commodity prices
(index, Jan 2020=100)



Source: IMF Primary Commodity Prices

last year (International Transactions Reporting System, 2020). There has been a recovery in the inflows of remittances since June but by the end of the third quarter, the overall inflows have declined by almost 2.8% compared 2019. A large share of these remittances is invested into residential projects in and around major cities of Kyrgyzstan, the wages, jobs, and growth of the domestic construction sector will be adversely affected as well.

Kyrgyzstan's top 3 trade partners are China, the Russian Federation, and Kazakhstan. Trade with these three countries amounts to almost 84% of Kyrgyzstan's total trade. The lockdown and subsequent slowdown in these three countries will adversely impact Kyrgyzstan's economic growth. Trade data from FY20 indicates that both exports and imports have reduced significantly since January. The imports, dominated by food and fuel, were at an all-time low since 2016 registering a continuous year-on-year negative growth since the beginning of 2020. The growth in exports has been more volatile and has been lower than usual due to slowdown in the country's major trade partners. Gold, most of it sourced from the Kumtor mine, is the dominant commodity that is exported. The expected reduction in the production of gold from Kumtor mine is likely to be offset by the production from the project in Djerooi. Other exports include agricultural commodities like cotton, kidney beans, meat and dairy products. Manufacturing goods are also a large share of exports but most of these exports are re-exports of imports from China along with small-scale garments exports to the Russian Federation. Kyrgyzstan's Dordoi market is one of the largest public markets in this region that allows cross-border trade of goods between China and other countries like Kazakhstan, The Russian Federation and Uzbekistan (Yamano, Hill, Ginting, & Samson, 2019). Most recent fluctuations in the exports of commodities from Kyrgyzstan has been due to volatility in prices.

The fall in oil prices, that are still below pre-COVID times, and the increase in gold prices, that are above pre-COVID times, are likely to help the Kyrgyz economy absorb some of the external shocks. These along with China's economic recovery are reflected in the increase in Kyrgyzstan's exports (IMF PCS, 2020). In 2008 and 2010 as well, the increase in gold prices helped the country mitigate the risks due to increase in import prices following the food and fuel price shocks and political instability in the country.

Diversification of tradable commodities is a challenge in Kyrgyzstan due to significant geographic barriers and a rough terrain. It is known as a double-landlocked country as three of its neighbors - Tajikistan, Uzbekistan and Kazakhstan are also landlocked. With almost 90% of the land above 1.5 kilometers, the country has several regions that are still not connected by road transport. Most of the

economic activity is centered in the north near the capital Bishkek. Moreover, proximity to China makes its manufacturing sector less competitive.

Kyrgyzstan has one of the highest unemployment rates in the central Asian region. Almost 50% of the employment is in sectors like trade, tourism and transport, sectors that were most severely hit due to the lockdown. Informal employment is extremely high in the country. Almost one-third of the country's workforce is employed overseas, mostly in the Russian Federation. According to a report from the Eurasian Economic Commission, the pandemic will render almost 500,000 people unemployed in Kyrgyzstan, that amounts to almost 20% of the estimated total employed population of million in 2019 (Yamano, Hill, Ginting, & Samson, 2019). And unemployment benefits are small. Reduced trade and declining remittances will negatively impact growth and unemployment rates in the country. Moreover, a lot of Kyrgyz nationals work in the Russian Federation. Economic growth in the Russian Federation and their aging population attracted several Kyrgyz workers that created distortions in Kyrgyzstan's domestic labor market resulting in low wages and limited employment opportunities. Slowdown in the Russian Federation along with restrictions on the movement of labor across borders will likely lead to a lower demand of labor from Kyrgyzstan that will likely increase unemployment levels in Kyrgyzstan.

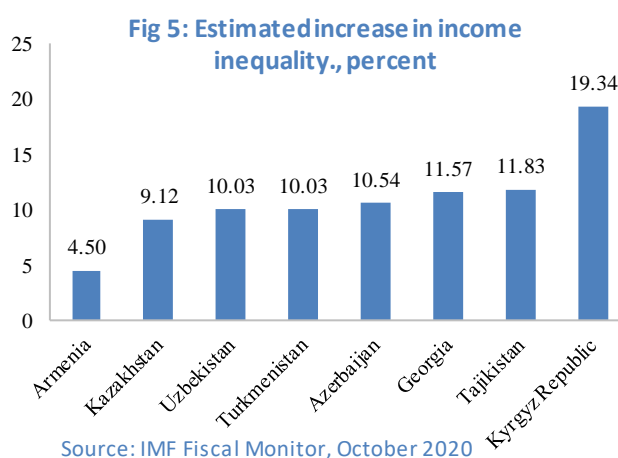
Youth, individuals in lower income deciles and those in the informal sector are the most vulnerable. According to ILO estimates, as of 2018, almost 59 thousand people in the age group of 15-24 were unemployed. Unemployment in the bottom income deciles is high—around 12%—and the top deciles is low—around 3% (OECD, 2018). Making things worse is the lack of formal employment among those in the bottom decile. Only those in the top deciles have protections such as social insurance and pensions. The female unemployment rate of 6.5% was higher than the national average of 6%. However, the gender gap in unemployment had reduced from 3.3 percentage points in 2017 to 0.8 percentage points in 2018. A report by UNDP and ADB estimates that by the end of 2020, unemployment among women will increase to 11.8% while those for men will increase to 14.7% (ADB & UNDP, 2020). This is mostly because sectors like construction and industry, which have been affected the most, usually employ more men than women. The informal sector accounted for two-thirds of the total employment; up from 60% in 2002 (OECD, 2018). According to ILO estimates, almost 68% of the total non-agricultural employment was in the informal sector. In addition, those in rural areas are more likely to be employed in the informal sector. Moreover, informal activity is concentrated in the agriculture, trade and construction sectors which were impacted due to the lockdown. An important reason behind the high share of informal employment is that many

entrepreneurs want to avoid payment of social guarantees to workers (OECD, 2018). As a result, a large percentage of the workforce remain disconnected from pension benefits and other welfare spending.

Any economic shock would most affect those living in poverty and those living on the brink of poverty. To the poor, the economic shock could exacerbate shortages of food and essential commodities. To those on the brink, an economic shock may push them into poverty. As of 2019, 20% of the population of Kyrgyzstan were living below the national poverty line. Furthermore, 1 in 3 (33% of the population) have incomes more than the national poverty line but less than 1.5 times the national poverty line (OECD, 2018). This group is vulnerable, and an economic shock may nudge them over the poverty line. As a result, severe economic restrictions, lockdowns, and closure of businesses should be seen in the context of its effect on those i) who are already

poor and ii) those who are one shock away from poverty. Together, this means that between 50% to 55% of the population (20% below poverty line and 33% between the poverty line and 1.5 times the poverty line) of 6.5 million people can be deemed to be vulnerable. More importantly, poverty is concentrated among Kyrgyzstan's young. Child poverty and associated health risks are also

alarmingly high. The poverty rate among children between the age of 0 and 17 years was 28.3% in 2018. About 12% of the children below five are stunted as of 2018. Yet, welfare spending is skewed towards the old and the retired. A second source of vulnerability is the high rate of child labor³. One-third of children aged between 5 and 11 are engaged in some form of employment. Furthermore, among children aged between 15 and 17, two-thirds are a part of the labor force⁴. There are no social protections for these children. Lack of pay during the lockdown, high prices, and hazardous conditions on reopening may add to their vulnerabilities. In the absence of food related aid, the problem of stunting may be aggravated in the aftermath of COVID-19. Income inequality in Kyrgyzstan favors comparably with that in neighboring countries. According to the World Development Indicators,

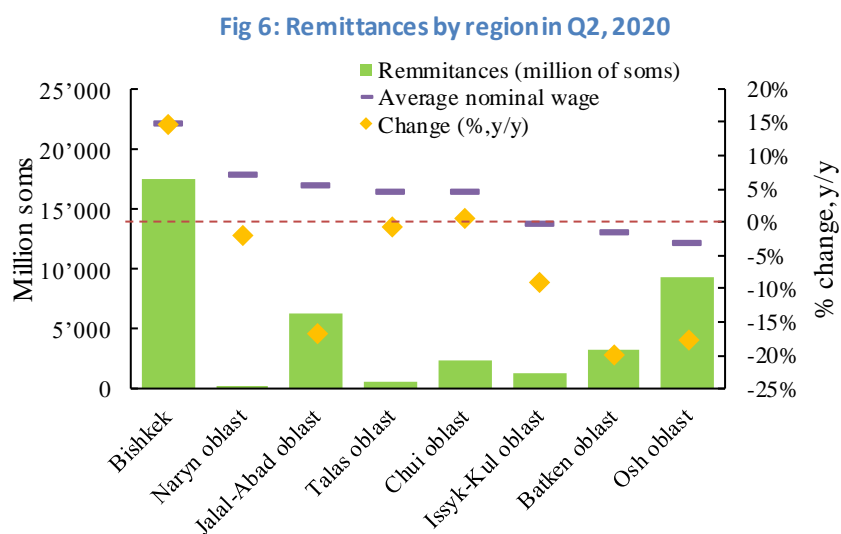


³ ILO (2016), *Results of National Child Labour Survey presented in Bishkek*, International Labor Organization, Geneva.

⁴ ILO (2008), "Working Children in Kyrgyzstan: Results of the 2007 Child Labour Force Survey," International Labour Organization, Bishkek.

Kyrgyzstan's gini coefficient in 2018 was 27.7%; this is considerably lower than that of Georgia (36.4%), Tajikistan (34%), Armenia (34.4%). The COVID-19 model estimates that the Gini Coefficient is likely to increase to 27.8%. According to IMF estimates, Kyrgyzstan will see the highest increase in income inequality, followed by Tajikistan, Georgia, and Azerbaijan.

The regional inequality within the country is also likely to deepen as most formal jobs and higher wages are concentrated in the urban areas around the capital Bishkek. Even though remittances decreased on an average in the country, the remittance inflows



Source: NBKR.

increased in Bishkek by almost 15% compared to the same period last year. However, in all other regions, inflow of remittances decreased. Chui region, where Bishkek is, has lower income and remittances compared to the capital. Batken oblast, which is among the poorest regions in the country, had the highest reduction in inflows of almost 20% closely followed by Osh oblast with a reduction of 18% (NBKR, 2020). Osh region has the second largest city of Kyrgyzstan, called Osh city. In comparison to Bishkek, the region's wage levels are much lower than that of Bishkek. Naryn oblast, which has relatively higher wages but high levels of inequality, had the lowest share of transfers in the second quarter. The major contributors to the rural-urban divide in deprivations are access to drinking water, electricity, and mortality. The difference in mortality can be directly attributed to differences in access to healthcare and hospitals. The relative lack of healthcare facilities in rural areas will handicap efforts to contain, test, and cure COVID-19.

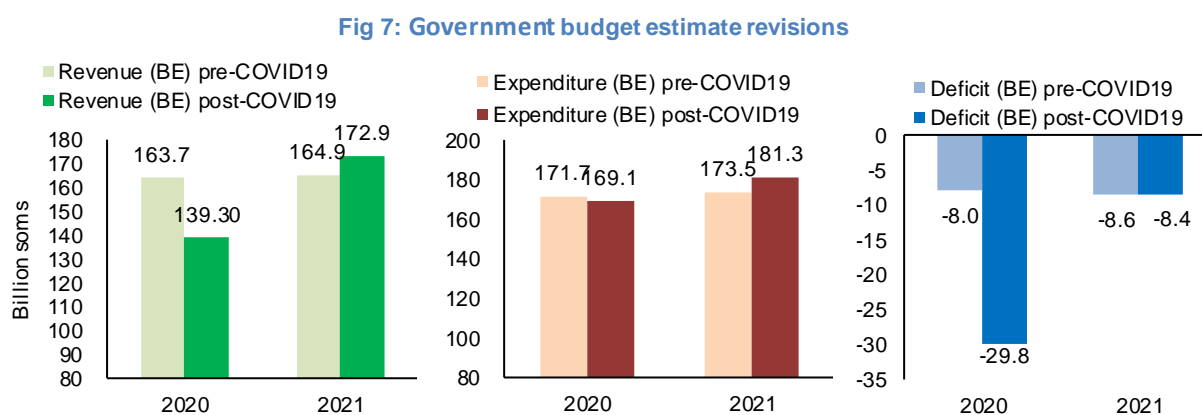
There are fewer women in the labor force, and more women are unemployed than men. Moreover, women usually work in government services or humanitarian and education sectors, which have lower wages than the construction or industry sectors that have a higher share of men. Additionally, UNDP's Human Development Report of 2018 estimates that women on an average earn 51% less than men in Kyrgyzstan. According to the UNDP-ADB report, 67% female workers and 58% male workers faced difficulties in covering household expenditures in a survey conducted in April-June 2020 by the

Ministry of Economy of Kyrgyzstan. Similarly, 62% women entrepreneurs and 55% of male entrepreneurs surveyed, reported similar difficulties during the lockdown. While the gender gap in unemployment will likely not widen due to the pandemic, the existing wage inequality will likely amplify the financial burden on women.

II. Impact of COVID-19 pandemic on Kyrgyzstan's fiscal position

Emergency expenditures on health, social and growth policy measures, and reduced revenues due to complete shutdown of economic activity for a couple of months are expected to inflate the fiscal deficit of the country.

The pre-COVID19 Kyrgyz government had approved the budget for 2020 with revenue estimates of 163.71 billion soms, expenditure of 171.66 billion soms and a deficit estimate of 7.95



Sources: Ministry of Finance, 24.kg; CIS-legislation.

billion soms. However, due to the severe impact of the COVID-19 lockdown measures, by December 2020, the government revised the budget estimates for 2020 and 2021. As of December 2020, the state revenue in 2020 is now estimated to be 139.2 billion soms with an expenditure of 169.1 billion soms. The revenue estimates have declined by 24.4 billion soms amounting to almost 15% reduction from earlier estimates for 2020. The expenditure estimates have been revised by almost 2.6 billion soms amounting to a reduction of approximately 2% from previous estimates. The deficit is estimated to be -29.8 billion soms in 2020 amounting to almost 5.3% of the GDP as opposed to 8 billion soms estimated at the beginning of the year. However, the increase in number of cases in October followed by the political unrest in the country and the side-effects of the impending winter season could lead to another wave of infection that could restrict economic activity. Accordingly, the deficit estimates

for the country from several multilateral organizations are much higher. Here is a comparison of the estimates from the government, World Bank, and the IMF for 2020:

Source	Real growth rate	Fiscal Deficit (2020)
Kyrgyz government	-5.0%	-5.6%
World Bank	0.4%	-7.7%
IMF	-12.0%	-7.28%

With relaxed stringency measures and vaccines likely to be made available to the general population after March 2021, state revenues should increase as economy picks up activity. Government's revised forecasts for 2021 look optimistic with much higher expenditure (181.3 billion soms at an annual growth rate of 24%) and revenue (172.9 billion soms at an annual growth rate of 7%) from that previously forecasted before the pandemic and they estimate the deficit is likely to be around 8.4 billion soms, which is 1.5% of the GDP forecast. The IMF however estimates that the deficit is likely to reduce to 5.46% in 2021 and is unlikely to go down to pre-COVID-19 levels in the medium term. It is important to note that the government estimates are calculated differently from those of the IMF⁵. Here are the growth and deficit projections from and IMF as per the October 2020 World Economic Outlook Report:

	2019	2020E	2021E	2022P	2023P	2024P	2025P
IMF Real growth rate (%)	4.5	-12.0	9.8	7.9	6.5	4.1	4.1
IMF General government net lending/borrowing (% of GDP)	-0.1	-7.3	-5.5	-3.0	-3.0	-3.0	-3.0

In the medium term, according to the Ministry of Finance, production at Kumtor mine is expected to go down by 40% in 2023 compared to 2022 levels, that will lead to a relatively weaker growth rate in 2023. Accordingly, it is estimated that after a recovery growth rate of 5% in 2021, and 5.6% in 2022, the real growth rate in 2023 will reduce to 1.6%. Growth in services, construction, and agriculture

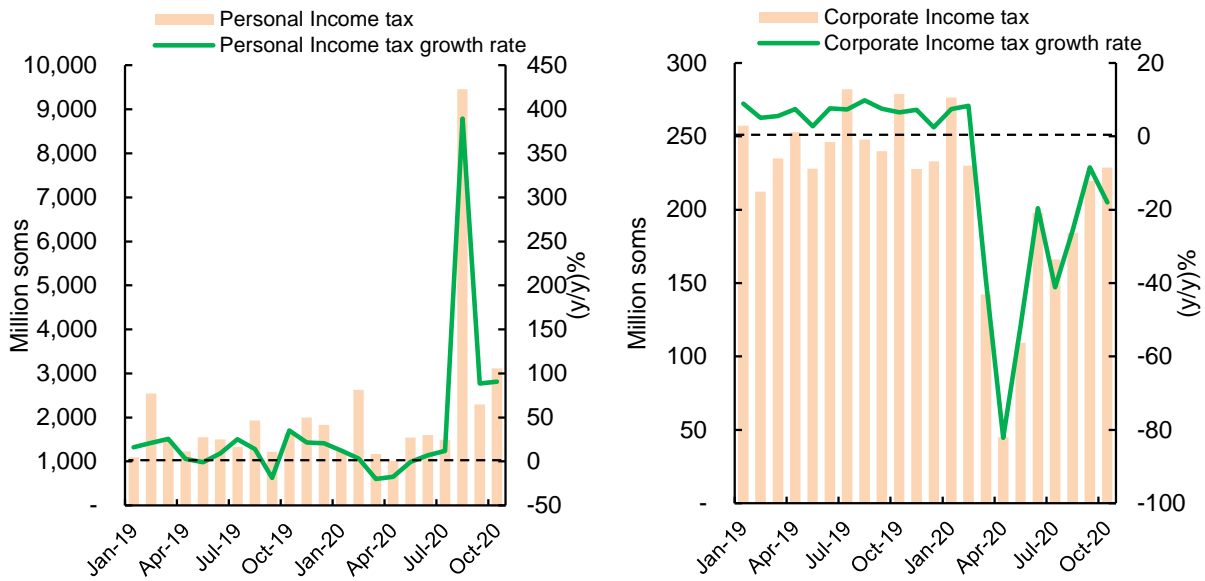
⁵ IMF estimates are different from Kyrgyz State government finances because of the following items : (i) other revenue includes revenue of the Social Fund net of social contributions; (ii) wage bill covers the Social Fund and those paid to doctors and nurses through the Mandatory Health Insurance Fund (MHIF); (iii) goods and services include the Social Fund and the MHIF; (iv) grants to international organization and other general government units, and domestically financed capital expenditure include the Social Fund and the MHIF; and (v) transfer to the MHIF is deducted from social benefits as the MHIF is consolidated into the general government.

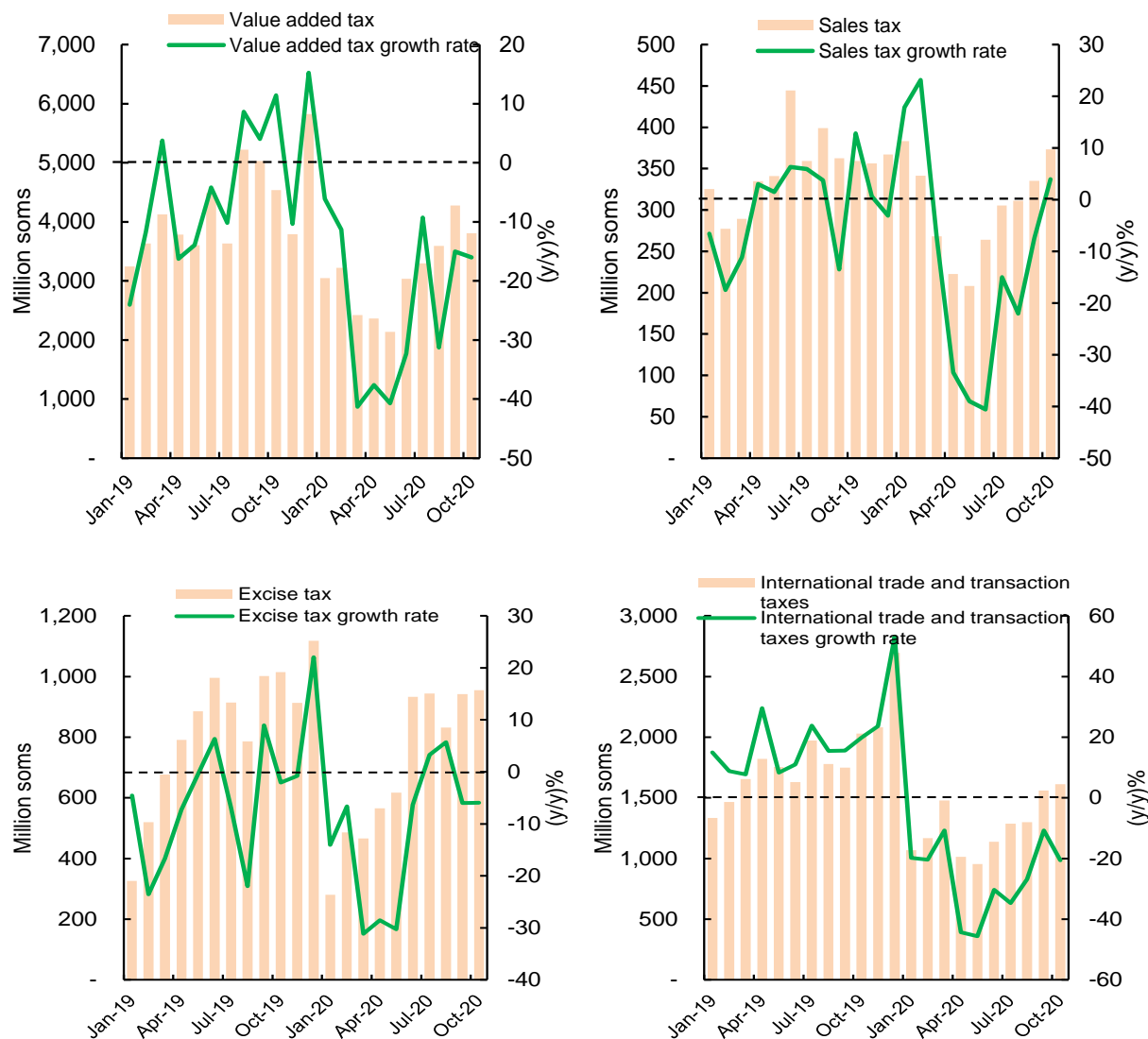
sector are expected to generate employment and increase in income but will only barely compensate for the loss in industry income linked to Kumtor mines (MoF, 2021).

Stringent lockdown measures within the country and across economic partners have impacted all bases of revenue receipts from wages, income, exports, and especially remittances, most of which are invested into the construction sector. The government receipts are estimated to be 17% lower than those in 2019. At the end of October 2020, the government receipts amounted to 116.22 billion soms, almost 70% of which came from tax revenues alone, which is along expected trends. After a significant drop in all sources of tax revenue due to minimal economic activity, some revenue sources bounced back in the second half of the year as lockdown measures were significantly reduced. For instance, the slowdown in economic activities within the country and in neighboring countries like Russian Federation, Kazakhstan, China and other trade partners of Kyrgyzstan resulted in job losses due to which the income tax revenues plummeted in the months following the lockdown. Personal income tax revenues, that have had a volatile year-on-year growth rate in the last couple of years, fell in March and April before picking up growth in May 2020. In August, revenues from personal income tax increased at an unprecedented rate of almost 389%, followed by 88% and 90% growth in the months of September and October, compared to the revenues in the same period last year. Other direct taxes, like those from Kumtor gold mine and property taxes also recorded high growth rates in the second half of the year. Property taxes had reduced by 71% in April 2020 compared to the same period last year. Among direct taxes, corporate tax levels, however, are much below pre-COVID-19 levels in levels and growth compared to last year. In October 2020, corporate income tax revenues were almost 18% lower than those in the same period last year. The trend for corporate tax revenues is seasonal with October typically registering highest revenue inflows in the last quarter. Expectedly, the revenues from corporate taxes are not likely to see significant gains in the last two months. This also reflects the severe impact that the lock down has had on businesses in the country that resulted in closure of some and slowdown in others. The political uncertainty has also led to civil unrest that affected formal mining operations in some regions, temporarily impacting revenues from mining activities. If it is assumed that tax revenue will contribute 70% of the total government revenue in FY2020, the tax revenue should grow at a monthly CAGR of 9.48% to meet the revised revenue estimates of the state. It is highly likely that among direct tax sources, revenues from personal income tax and mining activities will be able to compensate for the shortfall in corporate tax revenues to meet the direct tax targets. Personal income taxes have typically peaked in November of last quarter and are likely to do so this quarter as well.

However, tax revenues on goods and services have been affected more adversely than direct tax sources. Slowdown in cross-border trade, especially from China, and domestic consumption has led to a decrease in all indirect taxes and international trade that are yet to recover to pre-pandemic levels. The total taxes on goods and services amounted to 41.29 billion soms in October. This is approximately short by 12.4 billion soms of the estimated revenues from this source for 2020 if the share of contribution is assumed the same as 2019. These indirect taxes will have to grow at a higher monthly CAGR of 14.4% to meet the budgeted estimates for 2020. Value added tax (VAT), especially on imports from China, has declined significantly since January 2020. VAT revenues typically amount to 45% of total tax receipts and are the largest contributors to tax revenues. Value added taxes will have to grow at a monthly CAGR of almost 16% to meet the estimated revenue targets, while tax revenues from international trade and transactions will have to increase at a monthly CAGR of almost 20%. Non-tax revenues, that amounted to 24.8 billion soms by the end of October, are likely to be more than the estimated values of 25.5 billion soms estimated in June 2020. Any slowdown in trade, or border closures or economic activity will impact these revenues and could lead a shortfall in revenue realization.

Fig 8: Kyrgyzstan Tax Revenue



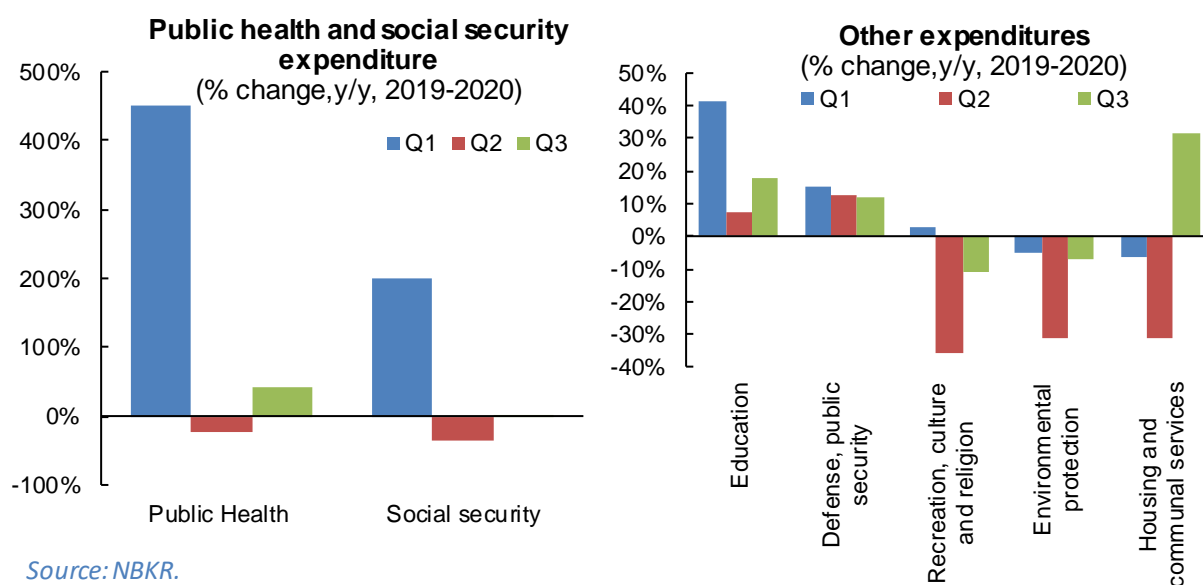


Source: National Statistical Committee of Kyrgyzstan.

Kyrgyzstan has one of the highest expenditure commitments in the region as a share of its GDP. Typically, a large share of this expenditure is directed towards pension, education, and health, that amount to almost half of the government expenditure. The government had already spent a large share of its budgeted expenditure on non-COVID related items at the beginning of the 2020, especially on education in the first three months. Consequently, most of the expenditure through the year was directed towards public health. Public health expenditure increased by 452% in the first quarter, followed by a slight decline in the second quarter, and a 43% increase in the third quarter of 2020, amounting to an increase of 28% at the end of third quarter compared to the expenditures in the same period in 2019. Moreover, expenditure on education and defense and social security also increased. To create fiscal space for public health expenditure, the government significantly curtailed outflows on recreation, religious and cultural expenditures and housing and communal services, especially in

the first two quarters of 2020. An undesired side effect of the pandemic was a decline in expenditure on environmental protection, which declined in all three quarters of 2020 compared to last year. The Kyrgyz government's expenditure on environmental protection is one of the lowest in the region. In 2018, while countries like Armenia and Georgia spent between 0.38% and 0.34% of their GDP on environment protection, Kyrgyzstan allocated only 0.17% of its GDP for this purpose⁶. As a share of its operational expenditure, Kyrgyzstan has reduced expenditure on environmental protection from 0.68% in 2016 to 0.55% in 2019. As of October 2020, this share was 0.39% of the total operational expenditure.

Figure 9: Public expenditure

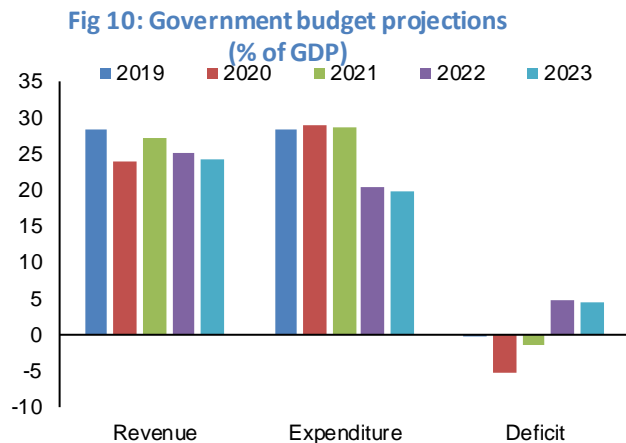


Source: NBKR.

As of October 2020, 115.9 billion soms have been spent on operational expenditures and 16.2 billion soms on purchase of non-financial assets, that amounts to 132.2 billion soms. The government is likely to spend most of the remaining 36 billion soms of the estimated expenditure in the last two months on public health and social security as the country braces for another wave of the pandemic and other ailments associated with cold weather. In 2021, the increased expenditure will mostly be on health, economic issues, and public services. The Ministry of Finance estimates that expenditure on environment and housing and utilities will be lesser than the levels in 2020 and 2019 (MoF, 2021).

⁶ Government Finance Statistics, Expenditure by Function of Government (COFOG)

In the medium term, according to the Ministry of Finance, budget revenue is estimated to be around a quarter of the GDP while the expenditure is likely to go below pandemic levels. Due to decline in Kumtor's production, tax revenues from this source are likely to reduce by almost 38% in 2023. The reduction in expenditure in 2022 and 2023 is projected with the intention of reducing the budget deficit and to maintain the stability of the debt situation with an expected loss of revenue in mind (MoF, 2021).

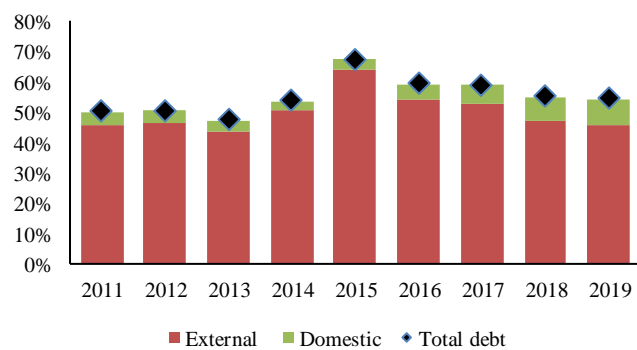


Source: *Macroeconomic Prospects for Development*. MOF.

Majority of Kyrgyzstan's debt for the 2020 fiscal will be financed from external sources like the World Bank, China, Asian Development Bank, and the European Central Bank. China's International Development Association (IDA) and the ADB are the largest creditors of the country. Kyrgyzstan is eligible for grants, concessional loans and postponement in debt servicing provisions that will help reduce its cost of borrowing. The general government gross debt in 2019 amounted to 54% of the GDP and was the highest in the region. According to IMF WEO October 2020 data, the debt levels are likely to increase to 68% of the GDP in 2020 and will gradually decline to 60% by 2023. In comparison, the WEO October 2019 release had estimated debt to remain around 55% till 2023. The debt levels in 2020 have been revised by 12 percentage points by the IMF.

Almost 80% of this debt is external (mostly in dollars) that increases the country's exposure to exchange rate shocks. The recent appreciation of the dollar relative to som has increased debt service risks as some of the old loans are close to their repayment date. However, most of this debt has been financed by grant aid and concessional borrowings with long maturities and low interest rates. Historically, grants and concessional loans were the norm, but as their economy grew, the share of loans at market rates increased. The country has around 200 public external loans most of which have an average interest rate between 0.75% and 2% with a repayment period of up to 40 years (MoF, 2021). In addition, the country has non-concessional short-

Fig 11: Debt as a share of GDP (%)



Source: NBKR.

term private debt that amounts to almost 40%-50% of the GDP. According to NBKR's banking sector report, the share of non-performing loans to total loans increased from 8.1% in February to 8.7% in May 2020. This could be because of an increase in the number of non-performing loans due to lockdown (because of the short-term nature of such loans) as well as a reduced growth in the total number of loans disbursed during this period. Most of the domestic debt is on account of government treasury bonds. A small share is due to treasury bills and obligations of the Government of Kyrgyzstan on indexed bonds (MoF, 2021).

The significant decline in revenues and the inevitable emergency expenditures compelled the Kyrgyzstan government to seek help from the international community to help fund its deficit through aid, concessional loans, and debt service suspension. According to a report by UNDP and ADB, grants, concessional lending and postponement of debt service are likely to amount to \$500 million in 2020, which is approximately 42.5 billion soms⁷.

Foreign aid inflows – As it is a low-income country, Kyrgyzstan is eligible for high foreign aid. Kyrgyzstan has had the highest Official Development Assistance inflow as a share of GNI in the region between 2010 and 2018, that averaged around 8%. In 2018, the share of ODA fell to approximately 5%. In 2019, foreign aid in different forms financed about 13% of the general government expenditure. All the ODA was used to fund their fiscal deficits in the past. As the government of Kyrgyzstan looks for channels to mobilize foreign aid again to fund its increased deficit this year, the share of foreign aid is likely to increase again.

Foreign concessional lending – The government of Kyrgyzstan has financed current account and fiscal deficits through long term concessional lending in the past. In 2019, this amounted to 2.2% of the country's GDP. Such concessional loans and grants from international financial agencies are likely to increase in short term.

Postponed debt service – The IMF, World Bank, G-20 and other multilateral agencies already have a provision for a temporary postponement of debt service from IDA eligible and low-income countries. Kyrgyzstan is eligible for this provision and has already requested this temporary relief. Kyrgyzstan has a high debt share from China and even though China is a part of the G-20, it has not

⁷ Assuming an exchange rate of 85 soms/USD

yet acceded to requests of debt-write offs from other countries. It is possible that China will use its recourse on resource collateral rights if the country is unable to service debt timely⁸.

III. Impact on progress of Sustainable Development Goals

The stringent lockdown measures are likely to significantly impact the progress of the country towards meeting the SDG goals. The one positive impact of the lockdown has been a temporary improvement in the air quality across countries. According to the COVID-19 model estimates, due to the complete lockdown and following slowdown in economic activity, the carbon dioxide emissions are likely to reduce to 10.0 MtCO₂ in 2020 from 10 MtCO₂ in 2019. However, as economic activity picks up pace, the pollution levels are likely to go up again to pre-COVID levels in 2022. Similarly, PM_{2.5} levels are expected to reduce to 19.5 micrograms per cubic meter in 2020 from 21.8 micrograms per cubic meter in 2019. In addition, according to a report by UNDP and ADB, the reduction in the country's GDP is likely to adversely affect goals on poverty, food security, health, education, gender equality, work quality, inequalities, and development of sustainable cities. The table below discusses the SDG goals, their status, and the likely impact of the pandemic on these goals.

	SDG Goals	Pre-COVID-19 status	Impact of COVID-19 pandemic
Goal 1	No poverty	20% of the population was below the poverty line in 2019. Poverty disproportionately affected children in the country and having a job does not guarantee a decent life in the country. Coverage of extremely poor population receiving low-income benefits was 31% in 2018. Poverty levels in rural areas are 3.7 percentage points higher than those in urban areas.	The lockdown measures are likely to increase unemployment in the country. This will be exacerbated due to restrictions on the movement of people across borders. Slowdown in major trading partners like the Russian Federation, China and Kazakhstan are likely to affect inflow of remittances. All these are likely to increase poverty levels in the country. Moreover, the poor coverage of social schemes are likely to increase out of pocket expenditures of poor people and subsequently increase poverty rates.
Goal 2	Zero hunger	Agriculture sector is the biggest employer of the country. The country has been doing well in terms of availability, access, stability, and utilization of food resources. Around 430,000 small farms provide up to 60% of agriculture produce.	The temporary ban on the movement of grains between neighboring countries affected their supply but the domestic supply was steady and is expected to remain stable in future. Fall in income levels might affect the purchasing power of citizens impacting their access to

⁸ <https://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-central-asia-5305f172/>

Table 3: Analysis of the COVID-19 pandemic on Kyrgyzstan's SDG goals			
	SDG Goals	Pre-COVID-19 status	Impact of COVID-19 pandemic
			food. Lack of demand and disruptions in domestic transportation can affect small farmers.
Goal 3	Good health and well being	Kyrgyzstan compares favorably in health sector performance, especially in child and maternal care. However, tuberculosis is a major concern, as it is one of the 27 countries identified by WHO to have high multi-drug resistance to tuberculosis. The burden of non-communicable diseases (NCDs) among adults is growing rapidly in developing countries due to the aging population. Cardiovascular disease, cancer, diabetes and chronic respiratory disease are the four main causes of NCD.	Out of pocket expenditures are likely to increase in the absence of a comprehensive national health care plan. People with co-morbidities are likely to have reduced access to proper healthcare.
Goal 4	Quality education	91% in the primary school age have access to a school. In the 2018/2019 school year, about 85 per cent (or more than 128,000) of the permanent population aged 6 years were enrolled in pre-primary education. However, only 51.3 per cent of children aged 7 to 14 successfully completed three basic skills and numeracy tasks.	The quality of education is likely to suffer in the current academic year, especially in rural areas, as schools move to remote learning curriculum. Absence of robust digital networks will affect connectivity of students, especially in rural areas. Low technical know-how is likely to adversely affect the pedagogy.
Goal 5	Gender Equality	The constitution gives both men and women equal right but there is visible disparity. More women are married before the legal age than men; the share of seats held by women in the Parliament is gone down in the recent years; only 37.8% of workers holding managerial positions in the country are women. One of the most common and popular professions is teaching. The professional level of teaching staff is quite high. At the beginning of the 2018/2019 school year, more than 96 per cent of all primary school teachers (grades 1-4) and 98 per cent of all secondary school teachers (grades 5-11) had a higher or secondary special education. The percentage	It is expected that the female workforce in the formal sector will not be affected as badly because most of them work in the public sector or in sectors that were not as badly affected by the lockdown related slowdown. However, those in the informal sector, particularly in urban areas, are more likely to have lost their jobs. A survey by the government reports that households with a female breadwinner were among the most affected group. Moreover, lockdown is likely to increase domestic violence against women. Reports suggest that between January and March 2020, cases of domestic violence increased by 65% compared to those in the same period in 2019.

Table 3: Analysis of the COVID-19 pandemic on Kyrgyzstan's SDG goals			
	SDG Goals	Pre-COVID-19 status	Impact of COVID-19 pandemic
		of certified teachers in primary and secondary schools had increased by 3.2 per cent compared to the 2013/2014 school year.	
Goal 6	Clean water and sanitation	91% of the Kyrgyz population has access to clean drinking water; 96% of the population use safely managed sanitation services that include hand washing facility with soap and water. However, only 31% of the population has access to sanitary facilities. 95% of the wastewater generated is treated effectively.	Along with masks, constant handwashing and access to proper sanitation facilities are essential preventative measures to fight the pandemic. The population in rural and remote areas that do not have access to clean water or sanitation facilities are more vulnerable to spread of infection. The country's solid waste management facilities are outdated. Improper disposal of biohazardous wastes generated from COVID-19 are likely to contaminate water, soil and air.
Goal 7	Affordable and clean energy	Only 76% of the population has reliable access to electricity and only 20% of households used clean energy for cooking and heating.	The country relies significantly on imports to meet its energy needs. Moreover, in the last three years, the increasing demand of energy is increasingly being met by coal. A lower growth rate, absence of a large-scale renewable source and higher unemployment could further increase the dependency of the country and its households on coal to meet the energy needs.
Goal 8	Decent work and economic growth	Almost 71% of the population works in the informal sector. Women's participation in public life has increased but they earn 71.6% of a man's pay. They also spend thrice as much time on domestic and unpaid work than men.	A report by UNDP and ADB estimates that by the end of 2020, unemployment among women will increase to 11.8% while those for men will increase to 14.7%. Slowdown within the country and in trading partners are likely to impact several jobs, affecting women and youth disproportionately. GDP per capita and per employed person is likely to fall.
Goal 9	Industry, Innovation, and Infrastructure	92% of freight is carried by road and 91% of 732 million people in the country travel on buses and minibuses. While 99% of the population is covered by a mobile network, only 70% of the population has access to high-speed internet.	The lockdown measures temporarily affected the transport and aviation sectors. There are several small-scale businesses that have been affected negatively due to slowdown in economic activity. The lack of access to digital connectivity has affected businesses that could not avail this channel to connect

Table 3: Analysis of the COVID-19 pandemic on Kyrgyzstan's SDG goals			
	SDG Goals	Pre-COVID-19 status	Impact of COVID-19 pandemic
			with their market or conduct financial transactions.
Goal 10	Reduced inequality	The median per capita income is 4,466 soms per month in 2018 with 11.9% of the population that had consumption below half of this median income. There is a significant rural-urban divide in income distribution with a larger share of poorer people in rural areas.	The lockdown measures and the slowdown in economy is likely to exacerbate the inequality due to several reasons like lack of job opportunities and poor connectivity among others that will affect rural areas more.
Goal 11	Sustainable Cities and Communities	In 2018, a third of the country's population lived in urban areas. Only 49% found access to public transport convenient. Most waste was generated in cities of Bishkek and Osh and Chui region.	Slowdown in economic activities is likely to affect the growth towards creating sustainable cities and communities. The urban areas are likely to see an increased inflow of internal migrants looking for job opportunities.
Goal 12	Responsible Consumption and Production	The country relies on natural resources for growth which are not managed properly resulting in degradation of natural capital. Moreover, in 2018, Kyrgyzstan generated 1.9 tons of hazardous waste per capita. The most significant volume of hazardous waste was found in Issyk-Kul region.	There are no specific government regulations for sustainable production or consumption yet. A large section of the population is dependent on natural pastures where yield has decreased 2-2.5 times in the recent past due to reckless practices. This dependence could increase due to job losses and people relying more on agriculture for subsistence. Moreover, cost cutting measures by construction sector and other industries could lead to relaxation in environment friendly practices. Unsustainable resource management will increase risks associated with health, security and poverty.
Goal 13	Climate Action	Almost 75% of the population lives in seismic zones that are prone to earthquakes of magnitude 8 or more in the Richter scale. Several regions are susceptible to landslides. The country faces threats from land degradation and forest diseases, rising temperatures, river flow shifts, shrinking glacial areas, changing biodiversity, and drought. 321 people died in the last five years from natural disasters. They also	Kyrgyzstan, due to its geographical location, is prone to numerous natural disasters. Non-compliance with safety rules due to reduced expenditure or inadequate planning related to land use can exacerbate their disaster susceptibility. Cost cutting and increasing energy needs could mean more reliance on coal instead of green energy. This will likely dampen its effect of lockdown on CO2 emission.

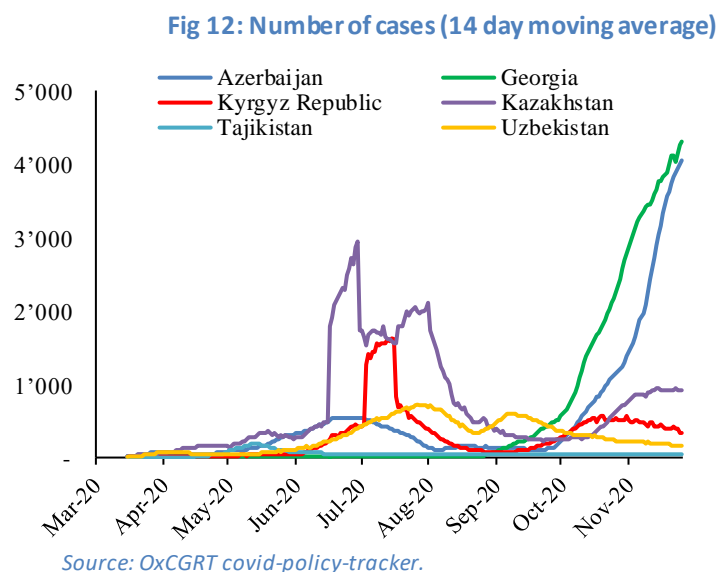
Table 3: Analysis of the COVID-19 pandemic on Kyrgyzstan's SDG goals			
	SDG Goals	Pre-COVID-19 status	Impact of COVID-19 pandemic
		have a limited exposure to green energy. Share of renewable energy generation was 1.38% in 2018. However, 92% of electricity was from hydropower plants.	
Goal 14	Life Below Water	Kyrgyzstan is a landlocked country.	No impact.
Goal 15	Life on Land	5.6% of the total area of the country is covered by forest and 7.4% of the area of the country was designated as protected area.	There has been an increase in the share of protected areas of important biological diversity in the recent years. However, public expenditure on conservation is likely to reduce in the short term to make fiscal space for priority spending on the health sector.
Goal 16	Peace and Justice Strong Institutions	Around 60% of the population feels safe walking alone in the area they live in. Moreover, 74% of children between the age of 1-14 years experienced were subjected to a violent method of discipline in 2018.	Crime rates are likely to increase, especially in the urban centers due to increased unemployment rates and increasing poverty. Remote schooling can increase incidences of domestic violence to discipline children. Women and youth are likely to face more discrimination at workplace than men.
Goal 17	Partnership to achieve Goals	Kyrgyzstan is one of the most open economies in the region.	As tax revenues are likely to decline, the government has sought help from the International Monetary Fund and other development organizations like the Asian Development Bank to help the country fight the economic effects of the pandemic.

Sources: (ADB & UNDP, 2020); (UN VNR, 2020), (UN, 2019) and author's own analysis.

IV. Comparative analysis of policy responses in the region

The COVID-19 pandemic hit the central Asian region much later than other neighboring countries in Europe and Asia. Georgia confirmed its first positive case on February 29, 2020 followed by Azerbaijan and Armenia that reported their first positive cases on March 1. First confirmed cases in Kyrgyzstan, Kazakhstan and Uzbekistan were reported in the middle of March while Tajikistan did not report confirmed cases till May. As of December 10, 2020, there were 155,440 cases and 2,691 deaths in Armenia; 162,774 cases and 1,793 deaths in Azerbaijan; 178,953 cases and 1,657 deaths in Georgia;

76,301 cases and 1,306 deaths in Kyrgyzstan; 12,588 cases and 88 deaths in Tajikistan; 74,498 cases and 611 deaths in Uzbekistan; and 183,630 million cases and 2,550 deaths in Kazakhstan. Kazakhstan, Kyrgyzstan, Georgia, Armenia, and Azerbaijan saw a spike in the number of cases per day around mid-October⁹. While Kyrgyzstan was able to contain the spread of the virus and now has a



downward trend in the number of cases per day, the other four countries were reporting an increase in number of daily cases till December 10. This wave of infection has affected Georgia and Azerbaijan badly.

All countries responded quickly with strong shut down measures soon after the first few cases were detected. Government response to COVID-19 can be broadly classified into three types; i) measures to contain the spread of virus, ii) measures related to testing and treating those infected by the virus, and iii) measures to provide economic relief to individuals and support the broader economy. Spillovers between various governmental responses call for a fine balance in government strategy. There is some evidence to suggest that lockdowns—closure of schools, markets, and workplaces—help in containing the spread of the virus. However, lockdowns exacerbate social and income inequalities and have a large deleterious impact on the most marginal sections of the workforce. For example, daily wage laborers may lose their means of livelihood and may not have savings to sustain during the lockdown. Likewise, school closures may disproportionately impact the female labor force. Third, those employed in unorganized sector, petty businessmen, street hawkers may not have income or business during the lockdown. Thus, a stringent lockdown presents a dichotomy; wherein a lockdown may help contain the virus but at the same time severely impair the economy and disrupt the lives of the poor and the vulnerable at a disproportionately higher rate. Accordingly, after a few months of stringent lockdown measures, almost all countries relaxed their policies to resume economic and social activities. Here is a comparative analysis of the three types of responses and their likely impact on economy in 2020¹⁰.

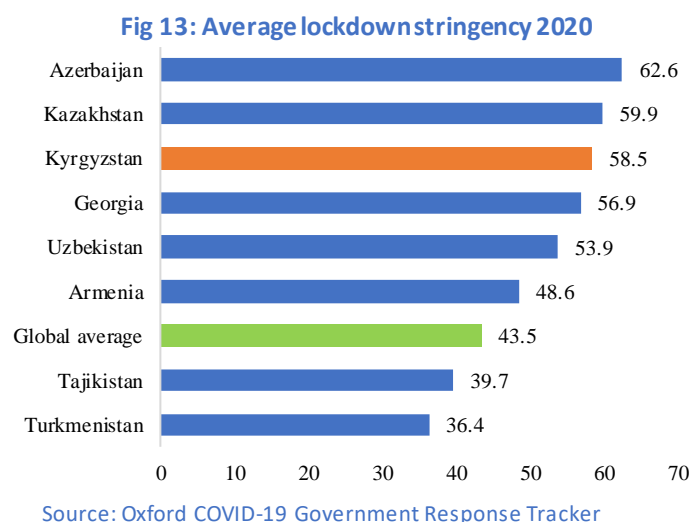
⁹ Data obtained from <https://covidtracker.bsg.ox.ac.uk/>

¹⁰ These responses have been compiled using information from IMF COVID-19 Policy Tracker, UNESCAP COVID-19 Policy Responses in Asia, and COVID-19 Health System Response Monitor.

Public health responses

(i) Strategies to contain the spread of the virus

Efforts to contain the spread of the virus have mostly involved imposition of restrictions on free movement of people and goods. Expectedly, there has been tremendous heterogeneity in strategies adopted to contain the virus. On the one hand, some countries have imposed indiscriminate draconian lockdowns; while, on the other hand, some have adopted the 'business-as-usual' approach. The 8 countries in the region



were compared using the index compiled by the Oxford COVID-19 Government Response Tracker. This tracker assesses school closures, workplace closures, cancellation of public events, restrictions on gatherings, closure of public transport, "stay at home" requirements, restrictions on domestic travel, and restrictions on international travel. The data till November was used directly from the tracker while that for December was calculated assuming a 30% decline in stringency measures from November. This methodology is also relevant for the region because most countries saw a spike in the number of cases during October and November due to domestic and external political issues, including Kyrgyzstan. Based on these assumptions, it was observed that the region on an average had more stringent lockdown measures than the global average. Azerbaijan, Kazakhstan, and Kyrgyzstan had the most stringent policies in the region. The adverse economic impact has forced most countries to gradually ease lockdown conditions. Most countries have now resumed economic activities at pre-lockdown levels with exceptions for containment zones and with revised strategies to test and treat patients. Kyrgyzstan has also opened international borders to 31 countries to help revive its tourism sector. Wearing masks is not mandatory in all countries except Georgia where violators are fined. A limited form of contact tracing that includes voluntary identification of contact with an infected person followed by home quarantine is being practiced in most countries in the region. Physical distancing measures have been in place in all countries except Azerbaijan.

Most countries are now graduating towards developing a roadmap for a vaccination program as a containment measure. Azerbaijan seems to be ahead of the curve and has already identified high risk groups who will be vaccinated first like health workers, law enforcement agencies working closely with patients and those with underlying conditions. They will initially vaccinate only up to 20% of the population which will be voluntary. Detailed vaccination strategies from other countries are not public yet. Kyrgyzstan joined the Global COVID-19 Vaccine Availability Mechanism (COVAX) initiative by Coalition of Epidemic Preparedness Innovations (CEPI), GAVI and WHO, in September to prepare for developing a vaccine program. The COVAX initiative aims to make available up to 2 billion COVID-19 vaccine shots by the end of 2021 to the vulnerable and high-risk population and frontline workers of low income at affordable prices. Once a vaccine is approved by relevant authorities and is considered safe and effective, doses will be made available to participating countries at the same rate, proportional to the size of their population. Participating countries, through this route, will receive doses only for up to 20% of their population until all other countries in the financing group have received their share¹¹.

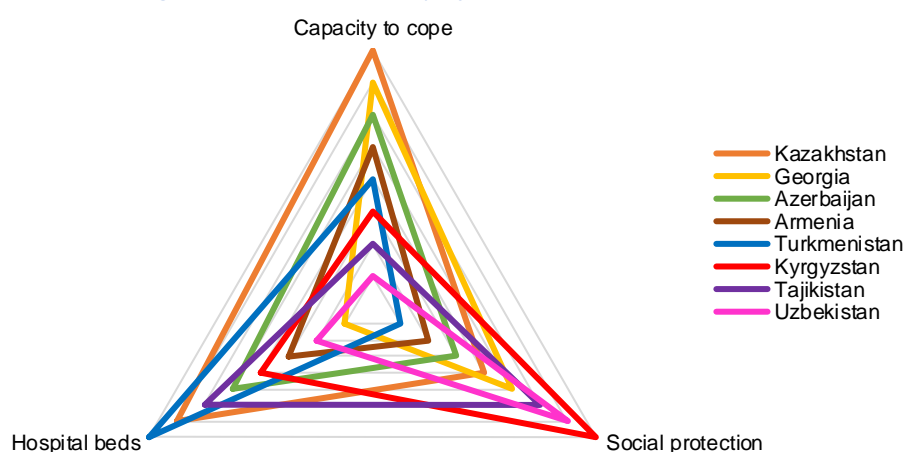
(ii) Strategies to test and treat patients and contain the spread of virus

The COVID-19 pandemic has tested the efficiency of health systems across the globe. As this disease is highly contagious, it is essential to isolate infected patients. This increases the burden on the existing health infrastructure as patients COVID-19 have to be treated in specially designated and isolated wards, floors, hospitals or make-shift facilities to prevent patients with other co-morbidities from contracting the virus. Most countries needed emergency financing to create new health facilities by converting large public spaces into COVID-19 treatment centers, to buy testing kits, personal protective equipment (PPE), oxygen cylinders, ventilators, and remedial medicines. Relative to the region and comparable countries, Kyrgyzstan performs well only when it comes to social protection for the elderly. It is behind most countries in the region when it comes to the number of beds in hospitals or their capacity to cope that measures governance, medical capacities, and insurance coverage. Kazakhstan ranks well in its capacity to cope with health emergencies and number of hospital beds. As a result, even with a high number of cases, Kazakhstan fared better than Kyrgyzstan, Armenia and Azerbaijan when deaths relative to cases were compared with the global and regional average. Kyrgyzstan first implemented a coordinated public information campaign to provide citizens with information on COVID-19. Their second response was towards testing. Initially, testing was limited to those who i) show symptoms and ii) meet specific criterion, such as are emergency workers,

¹¹ <https://www.neweurope.eu/article/kyrgyzstan-may-receive-coronavirus-vaccine-for-20-of-its-population/>

or were in contact with a known case, or are admitted to hospital. Now anyone with symptoms can have themselves tested. In comparison, Azerbaijan had been testing those with symptoms since 3rd March; Georgia had been doing the same since 1st April; Kazakhstan initiated public testing to include symptomatic and asymptomatic cases on 1st May. Tajikistan, Turkmenistan, and Uzbekistan continue to offer test only under limited circumstances. Also, Kyrgyzstan offers limited tracing which excludes a large proportion of the population. This contrasts with majority of the countries in the region — Azerbaijan, Georgia, Kazakhstan, and Uzbekistan — that implemented comprehensive contact tracing. While comprehensive contact tracing involves tracing for all positive cases, a limited tracing focuses on a small sample of confirmed cases. Turkmenistan does not offer any contract tracing to its citizens.

Fig 14: Social conditions of the countries in the region
(Higher score means better performance)



Sources: ILO; WDI, World Bank; World Risk Index Institute of Regional Development Planning (IREUS), University of Stuttgart.

When it comes to paying for testing and treatment, all primary care and emergency services are free of charge in Kyrgyzstan. Accordingly, hospitalized patients with COVID-19 are treated as emergency cases without co-payments or out-of-pocket payments. All others pay from their own pockets. In Kazakhstan, while the government pays for the treatment for COVID-19 cases, the cost of PCR-testing is paid out of pocket or through private insurances. PCR tests done for domestic travel using flights are also paid out of pocket. Mild and asymptomatic cases are treated in their homes while those with medium or severe symptoms are hospitalized. Armenia has declared all COVID-19 related health services free of charge with no exceptions. The government has also formed a Humanitarian Fund that will be used to finance health services like overtime to medical staff. Purchase of essential equipment and supplies will be financed through budget and a range of donors. In Azerbaijan, the Ministry of Health is providing care for outpatient, emergency, and urgent medical needs for COVID -19 patients at home while TABIB (Management Union of the Medical Territorial Unions) is taking care of inpatient

treatments. Their government is taking care of all testing and treatment costs related to COVID-19. In Georgia, the government had budgeted a temporary funds transfer to both private and public hospitals. All facilities are being compensated for infrastructure and staff. The government will fund necessary health services related to COVID-19 from the basic package of benefits and without out-of-pocket payments regardless of whether patients have medical insurance.

In addition to continued public health communication about maintaining hygiene and practicing physical distance or wearing masks, alternative channels to improve access to medical services and consultations have been introduced through digital medium like phones, video calls and text messages. Kyrgyzstan has a hotline, dedicated WhatsApp number and a telephone number for all COVID-19 related concerns. Mobile health applications have been updated to integrate COVID-19 related information. Kazakhstan has created a mobile hospital in Nur-Sultan and increased availability of video, telephone and alternative consultations for all health services. They also have provisions for remote monitoring of potential contact person. Armenia has increased the availability and use of telephones for medical consultations. In September, they released a new application that allowed citizens to find and choose a doctor nearby. In Azerbaijan, the Ministry of Health uses a platform called Teletababat, to provide remote diagnostics of COVID-19 patients via video calls. This telehealth project also allows patients to pass a medical examination online for medical certificates. They also have a mobile app called "Video Doktor" mobile app for remote medical consultations for all patients during the COVID-19. Georgia has no such platforms yet.

A common feature among all countries was the absence of an effective pandemic response plan. Most countries in the region did not have any such plan prior to the pandemic. Those who did, including Kyrgyzstan, had an outdated plan that could not be implemented. Most countries had to come up with new plans to deal with this pandemic. This highlights a major policy gap that must be addressed as globalization and increase in tourism are going to make our world more susceptible to such pandemics in future and countries must be ready to absorb these shocks in future. The next table summarizes the containment, testing and treatment strategies currently in place in the region.

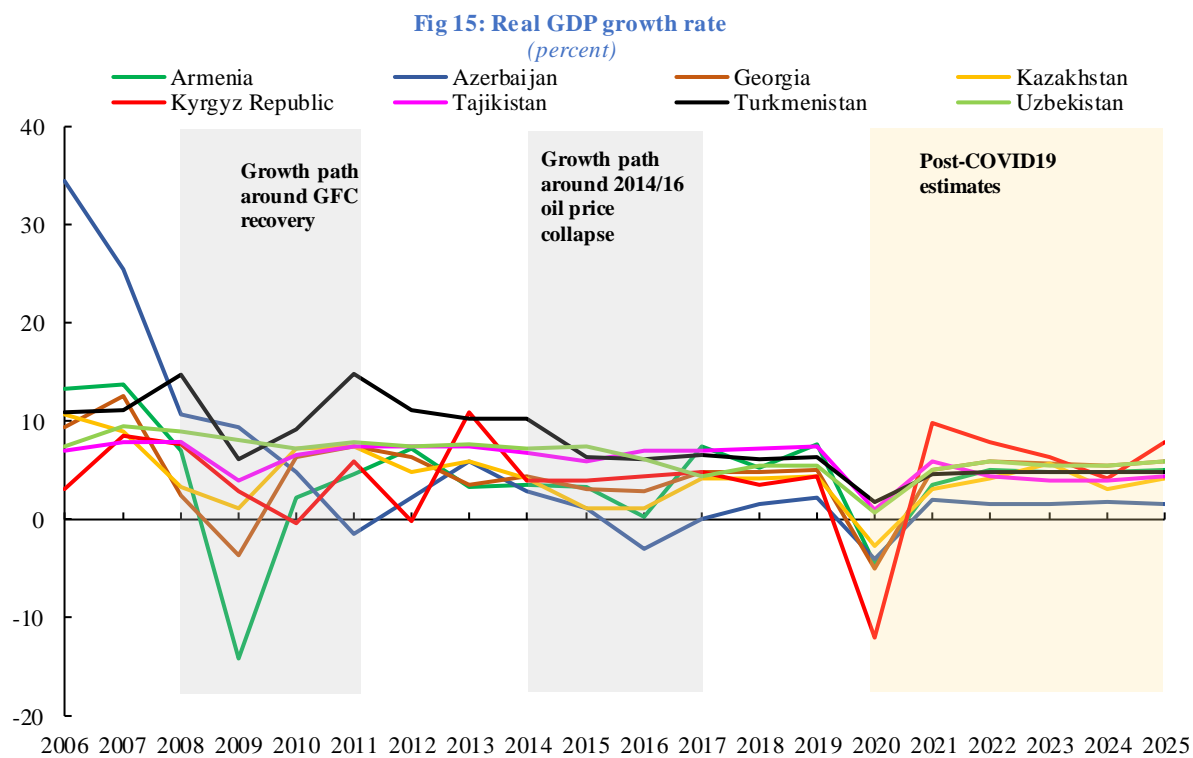
Table 4: Public health policy measures for COVID-19 for re-opening						
Public health policy measures for COVID-19	Kyrgyzstan	Kazakhstan	Uzbekistan	Armenia	Azerbaijan	Georgia
Re-opening	Phased	Phased	Phased	Phased	Phased	Phased
Contact tracing	Yes	Yes	No	Yes	Yes	No
Public communication risk	Yes	Yes	Yes	Yes	Yes	Yes
Mandatory Masks	No	Conditional	No	Conditional	No	Yes
Physical distancing	Yes	Yes	Yes	Yes	No	Yes
Alternative ways of seeing patients like video calls	Yes	Yes	Yes	Yes	Yes	No
Co-payments or out-of-pocket payments	No	-	-	No	No	No
Pre-Covid pandemic response plan	Not activated as it was outdated	No	No	Not activated as it was outdated	No	No

Source: COVID-19 Health System Response Monitor

Policies to minimize economic shocks

The pandemic has affected almost every country of the world and an unprecedented contraction is expected, affecting almost all countries of the world. According to IMF's October 2020 estimates, global growth is projected at -4.4% in 2020. Several countries responded to the pandemic through severe lockdown measures that completely shut economic activities. As a result, millions across the globe lost their jobs while businesses that did not have adequate cushion or the capacity to pivot their business strategies in response, had to shut shop. Sectors like tourism, aviation and small and medium

scale enterprises were hit hard. As the lockdown measures are likely to affect the poor households the most, the poverty levels are likely to increase globally in 2020. However, as lockdowns are being lifted and imposed only locally in containment zones, businesses are resuming activity. As more and more countries roll-out their vaccination programs, it is expected that most countries will be able to grow in 2021. IMF estimates the global growth in 2021 will be around 5.2%.



This economic impact and recovery due to the COVID-19 pandemic are likely to be different from the economic slowdown and recovery of these countries during the Global Financial Crisis in 2008 or the oil price collapse in 2014 and 2016. The impact of Global Financial Crisis in the central Asian region was not as severe as that in other regions of the world. Most countries in this region grew at a slower rate and countries picked up economic growth by 2010, especially energy exporters like Kazakhstan, Uzbekistan, and Turkmenistan. Georgia, Armenia, and Kyrgyzstan were the three countries that recorded negative growth in the period around the Global Financial Crisis. Kyrgyzstan was the only country that had a negative growth in 2010. This was mainly because due to increase in import prices following the food and fuel price shocks and subsequent political instability in the country. Oil price collapse in 2014 and 2016 affect the growth of oil exporters. Azerbaijan registered a negative growth in 2016.

Based on the IMF estimates, almost all countries in the central Asian region are expected to experience a V-shape recovery by 2021 following a synchronous decline in 2020. Azerbaijan, Kazakhstan (both oil exporters), Kyrgyzstan (due to heavy dependence on remittances), and Georgia will be most severely affected in the region in 2020. According to IMF, Kyrgyzstan's economy is estimated to contract at a real rate of 12.02% as per IMF estimates. GDP in Armenia (4.5%), Azerbaijan (4.0%), Kazakhstan (2.7%), and Georgia (5%) will also contract in 2020 but not as much as that of Kyrgyzstan. Economies of Tajikistan, Turkmenistan, Uzbekistan are estimated to grow at 1%, 1.78% and 0.70% respectively in 2020. The current geo-political tensions in the region are likely to increase uncertainty and recovery in the region. Recent reports from UNESCAP (Huang & Saxena, 2020) and relevant literature (Cerra & Saxena, 2008) suggest that permanent closure of several MSMEs, smaller policy space, lower confidence in economy and lower external demand from trading partners will lead to permanent losses in output. Consequently, even though economic growth will return to normal by 2021, the economic recovery path will not be the same as what was estimated pre-COVID19.

As a response to the diseases, all countries had adopted some form of monetary, fiscal, and financial policies to varying degrees to support their economy. The impact of these policies has been able to mitigate the effects of the lockdown to varying degrees in different countries. The policies adopted by governments in response to the economic shock range from cash transfers for income support, tax deferrals, food, or food subsidies, to debt relief or debt moratorium. The second type operates at a systemic level and include monetary or fiscal measures such as reduction in corporate taxes or import duties, soft credit, and stimulus spending. Since 10th April 2020, Kyrgyzstan has been providing partial income support to its citizens. This relief measure covers workers in both formal and informal sectors. Some of the relief measures that were offered at a are discussed below.

(iii) Monetary, Macro prudential, and Financial Policies

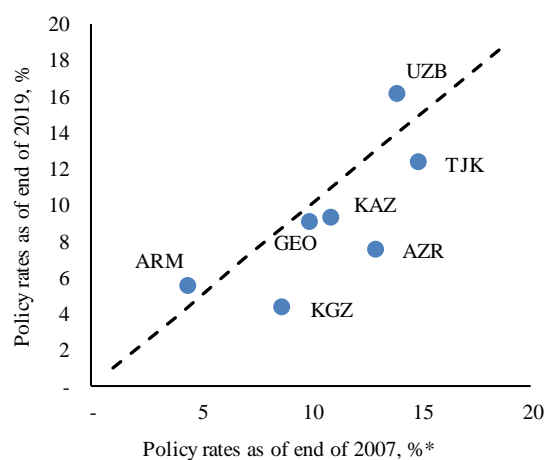
Monetary policy space for most countries at the beginning of the year was smaller than that before the 2008 Global Financial Crisis¹². However, most countries have enough policy room to respond to the pandemic, and expectedly most banks have been able to reduce their policy rates between 75 to 200 basis points to improve liquidity. Kyrgyzstan is the only country that increased its policy rate in February 2020 from 4.25% to 5% and did not change its rate to help maintain inflation between the 5% to 7% range. The central bank of Kazakhstan had raised the policy rates from 9.25% to 12% in March to reduce pressure on their currency due to falling oil prices. In April, their bank reduced the

¹² In the scatter plots shown here, all countries that are below the 45-degree line have policy rates below those that are shown at the x-axis.

rate to 9.5%. In Tajikistan, the central bank has initially raised the policy rate to 12.75% from 12.25% in February to contain inflation but has been subsequently reducing it. As of November, their policy rate was 10.75%. The central bank of Uzbekistan reduced its policy rate from 16% to 15% in April that was at 14% by the end of September. Armenia gradually lowered its policy rate from 5.5% in February to 5.25% in March to 5% in May and 4.5% in June. Azerbaijan has also cut its refinancing rates to 6.5% in September from 7.25% in May. Georgia has reduced its refinancing rates by 100 basis points from 9% in March to 8% in September to improve liquidity. Turkmenistan has not announced any monetary policy measures yet.

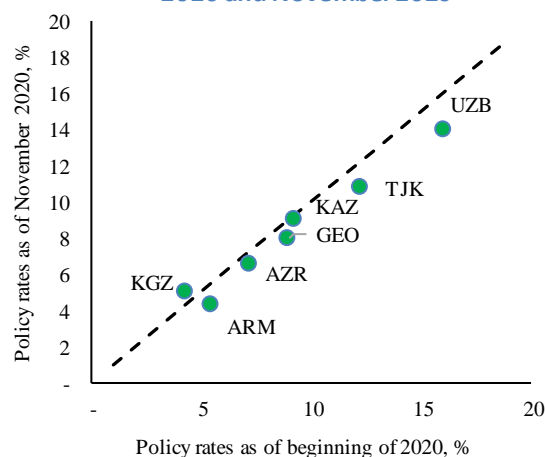
Countries also implemented other policies to improve liquidity. For instance, Kyrgyzstan lowered liquidity ratio to 30% from 45%. Threshold on mandatory reserve requirements were lowered to 70% from 80% and risk weights of forex corporate and retail loans were reduced from 150% to 100%. Arrears are considered overdue after 270 days instead of 90 days. Moreover, financial institutions have the discretion to not downgrade classifications due to the financial condition of the borrower. As part of the country's anti-crisis plan, their central bank has allocated 5.2 billion soms as floating capital, agriculture finance, microcredit finance, support to SMEs and to increase authorized capital of the Guaranteed Fund. Kazakhstan has also cut their base rate to 9.25% and widened their interest rate range by +/-200 bps to stimulate economic growth. Their central bank has also lowered risk weights, expanded the list of eligible collaterals, lowered capital conversion buffers by 1 percentage point, reduced liquidity coverage ratio and lowered limits on foreign currency positions. To improve liquidity, Tajikistan has reduced the reserve requirements till the end of the year and reduced the refinancing rates. In Uzbekistan, the central bank has suggested domestic banks to defer loan payments of firms in sectors affected by the pandemic. In Azerbaijan, the central bank held

Fig 16 (a): Policy rates, 2007, 2019



Source: Central Bank data sourced from CEIC.

Fig 16(b): Policy rates at the beginning of 2020 and November 2020



Source: Central Bank data sourced from CEIC.

a deposit auction in June to stabilize money supply in the country. These macro prudential measures are likely to improve the liquidity and attract foreign investments.

Most countries also implemented financial policies to help reduce the pressure on their currency. The Kyrgyz central bank has conducted 9 interventions to sell \$220.8 million of the country's international reserves as a response to the appreciation of the US dollar. In Kazakhstan, the central bank has introduced capital controls against excessive volatility by introducing a limit on the bid-ask spread and lowered the ceiling for FX purchase without supporting import documents. They have also called on state enterprises to sell a part of their forex reserves to support their currency and reduce its vulnerability to oil price volatility. The central bank in Armenia has conducted forex swap operations to provide liquidity. Armenia sold \$20 million at foreign exchange auction to support its currency and conducted foreign exchange swaps with banks and other microfinance institutions. Tajikistan allowed a one-off 5% depreciation of its currency to adjust the official exchange rate. Turkmenistan has tightened foreign exchange transactions for private businesses. The central bank has asked all domestic companies engaged in exports to surrender all their foreign currency income at official exchange rate to the Stabilization Fund. The government has also formed a Reserve Currency Fund that will accumulate all currency earnings of all ministries, industry departments, and legal entities with public shareholding, among others.

(iv) Fiscal policy response

The Kyrgyz government announced several relief packages to support the health sector and help the economy recover. A health sector contingency plan of around \$16 million was adopted to train health care workers, procure medical equipment, and put together a communication plan. An economic crisis package of \$15 million has been approved that includes postponement of tax payments, time bound exemptions of property and land taxes, and temporary price control on 11 essential food items. A second economic package of \$540 million will help SMEs through temporary tax exemptions and subsidized credit to banks to fund them through soft loans, and to support food security programs. In July, additional 391.7 million soms (approx. \$4.6 million) from state budget was allocated to Compulsory Medical Insurance Fund and 110.8 million soms (approx. \$1.3 million) to Health Ministry. The government also postponed the deadline for submitting a single tax return for individuals and individual entrepreneurs and transferred cash to vulnerable population as well. The announced policy measures amount to a total of 7.4% of the GDP, out of which the biggest chunk is allocated for providing firm liquidity support. Health care allocation and direct benefit transfer have a much smaller

share in comparison. Here are some fiscal measures adopted by the Kyrgyzstan government to cushion the impact of the lockdown¹³:

- Tax submission for individuals and individual entrepreneurs was postponed till September 1, 2020 and tax return submission were postponed till April 1, 2021. Deferment of unpaid taxes and social contributions of affected SMEs for 3 months and tax returns till April 1, 2021
- Continued provision of electricity, water, gas, and other utilities to all subscribers, even if payments have been delayed initially. Affected SMEs were offered utilities at discounted rates. Deferral in payments of rents for government property for 3 months from April 1, 2020
- Suspension of tax sanctions and penalties for untimely payment of taxes till July 1, 2020
- Moratorium on tax inspections by state authorities extended till January 1, 2022
- Temporary ban on bankruptcy proceedings till January 1, 2021
- Temporary price controls on essential food items
- Temporary ban of exports of health and medical equipment
- State companies provided monetary aid of USD 0.28 million and food assistance amounting to USD 0.34 million.
- USD 176 Mn support package for financing SMEs and patent -holders in export oriented, processing and food security sectors.
- Subsidized credit to banks to provide funding to SMEs through soft loans
- Negotiations with donor support to limit the financing gap

While the government has done a commendable job to help reduce the immediate shock of the lockdown on individuals and businesses, they have not yet introduced policies to support medium term growth or any structural reforms that could have a medium-to-long term fiscal impact. In addition, measures like cash transfers to support individuals who have lost their jobs, increase in amount of social security benefits, early withdrawal of a portion of social security for the elderly, or employment benefits to firms to support their workforce are some measures adopted by other countries that were not offered by Kyrgyzstan. Measures to address the increase in debt levels should also be explored.

¹³ <https://home.kpmg/xx/en/home/insights/2020/04/kyrgyzstan-tax-developments-in-response-to-covid-19.html>

Table 5: Comparison of policy response with fiscal implications								
Policy response	Kyrgyzstan	Kazakhstan	Tajikistan	Uzbekistan	Armenia	Azerbaijan	Georgia	Turkmenistan
Cash payments/Transfer of social benefits	Yes	Yes	Yes	Yes	Yes		Yes	
Additional support to the health sector	Yes	Yes	Yes	Yes		Yes	Yes	Yes
Subsidies to affected sectors		Yes				Yes	Yes	
Employment support		Yes		Yes		Yes	Yes	
Subsidized lending	Yes	Yes		Yes	Yes		Yes	
Tax exemptions	Yes	Yes	Yes	Yes		Yes	Yes	
Tax holidays			Yes					
Tax payment deferment	Yes	Yes		Yes				
Tax incentive		Yes				Yes		
Tax rate deduction			Yes	Yes		Yes	Yes	
Price controls	Yes	Yes					Yes	

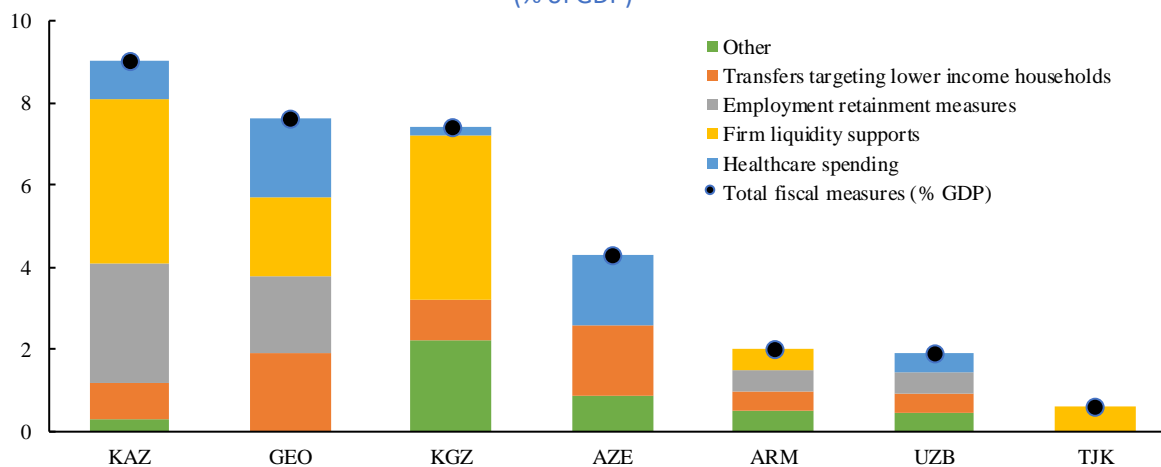
Source: UNESCAP, <https://www.unescap.org/covid19/policy-responses>

In comparison, Kazakhstan government adopted several more targeted policies. In addition to cash payments of \$95 per unemployed person, the government has also increased the pension and social benefits by 10%. They have subsidized the use of diesel for the agriculture sector. They have also allocated KZT 1.8 trillion (approx. \$4.29 billion) to support employment under an “Employment Roadmap Program”. Moreover, in addition to tax exemptions, they have also offered tax incentives to agriculture, civil aviation and tourism sectors. Georgia is another country in the region that has introduced targeted policy measures. Their government is supporting people who have lost their jobs with a monthly allowance of GEL 200 (approx. \$61) for six months (total of \$366 per person). They have given tax exemptions to employees who earn less than GEL 750 (approx. \$228) and tax cuts to those who earn less than GEL 1500 (approx. \$456). The government will also write-off overdue fines

of individuals and businesses using state irrigation system. All other countries in comparison have introduced lesser number of policy measures that also amount to a smaller share of their GDP.

The announced policy measures of Kyrgyzstan, that amounts to almost 7.4% of their GDP, are the third highest in the region, after Kazakhstan whose policy measures will have a fiscal impact of 9% of their

Fig 17: Fiscal Measures, 2020
(% of GDP)

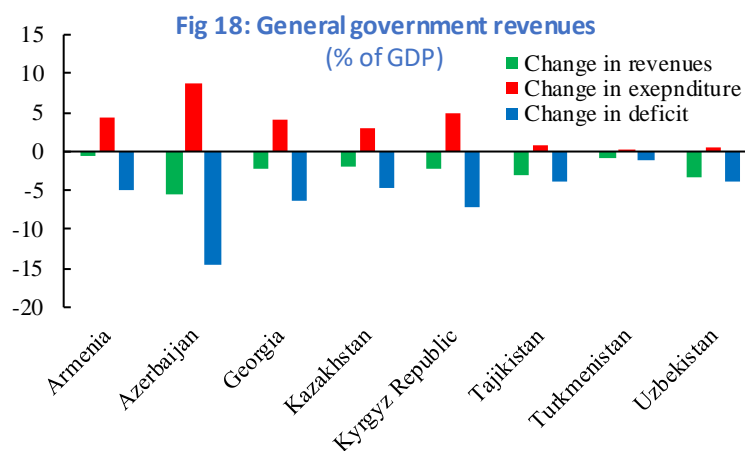


Source: COVID-19 Model.

GDP and Georgia. Both Kazakhstan and Kyrgyzstan have offered firm liquidity amounting to 4% of their respective GDP. Kazakhstan's employment retainment measures amount to 2.8% of its GDP. Kyrgyzstan does not have any such provision yet. Both Georgia and Uzbekistan have allocated equal shares to targeted transfers, employment benefits, firm liquidity support and health care. However, Georgia has transferred 1.9% of its GDP to all categories of relief while Uzbekistan has a much smaller allocated share of approximately 0.5% of its GDP for each category. Fiscal impact of healthcare spending as a share of GDP in Georgia (1.9%) and Azerbaijan (1.7%) was the highest. Kyrgyzstan's fiscal impact of healthcare spending was relatively smaller at 0.2% of its GDP. Tajikistan so far has offered only firm liquidity support to amounting to 0.6% of its GDP. Turkmenistan has not yet announced a detailed economic or anti-crisis package yet.

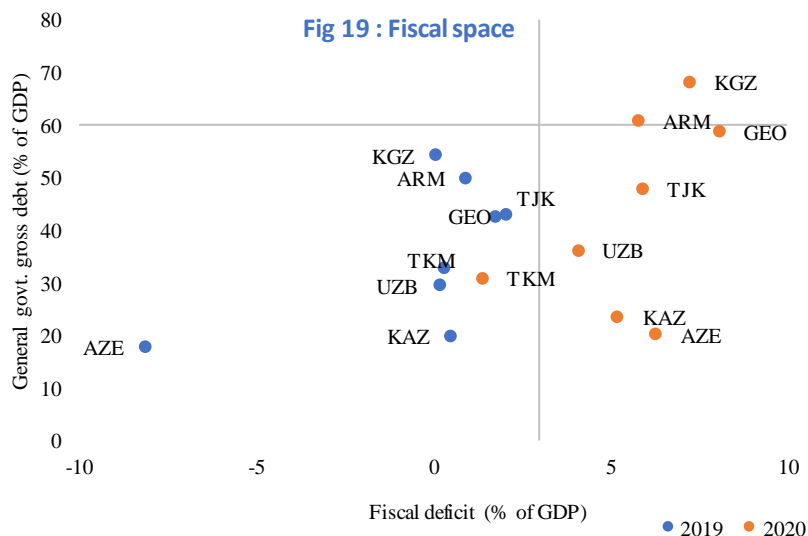
The slowdown in economic activity due to stringent lockdown measures is likely to reduce the revenue collection by governments. On an average, Kyrgyzstan's tax revenue as a share of GDP fares better than most other central Asian countries. Only Armenia and Georgia have a higher share of tax revenue to GDP. All three countries have a higher share tax revenue collection than those of low-income countries on an average. In Kyrgyzstan, almost 24% to 40% of the economy is in the informal sector.

This means that the formally employed must bear a heavy burden of tax compliance and the scope of increasing tax rates further is limited. It is highly unlikely that Kyrgyzstan will be able to increase its tax efforts in the medium term. Moreover, Kyrgyzstan has the highest government expenditure as a



Source: IMF, WEO Oct 2020.

share of its GDP in the region. This limits the fiscal space available in the country to increase spending on development and emergency situations. In 2020, it is estimated that Kyrgyzstan's revenue share will be the second highest in the region, second to Azerbaijan. While Azerbaijan will face revenue loss mostly due to fall in oil prices and the political unrest in the country, Kyrgyzstan's revenue losses would be due to a decline in indirect taxes on goods and services and taxes on trade.



Source: IMF WEO, October 2020.

A comparative analysis of the fiscal deficit and general government gross debt

levels in countries using the COVID-19 model's baseline assumptions shows that Kyrgyzstan, which already has the highest debt in the region will be among the worst affected countries in terms of fiscal space. The oil-exporters – Kazakhstan, Uzbekistan, Azerbaijan, and Turkmenistan typically have had fiscal surpluses or small deficits as a share of their GDP. The oil importers – Kyrgyzstan, Tajikistan, Georgia, and Armenia usually run fiscal deficits. While fiscal space is usually not as big a challenge for oil-exporters, the sharp decline in oil prices with production cuts has affected their economies, too. In addition, slowdown in trade and tourism and aviation sectors will add to the fiscal woes of both oil exporters and importers. It is estimated that the fiscal deficits in almost all countries are likely to increase and in all countries in the region except Turkmenistan, the deficit will be more than 3%. Georgia and Kyrgyzstan are likely to breach the Maastricht criteria of 3% deficit and 60% debt in 2020

(IMF, 2020). Accordingly, all governments must increase their efforts to mobilize revenues, improve expenditure efficiency and try and keep their costs of borrowing low. For instance, all four oil exporters spend between 4% to 16% of their GDP on carbon subsidies. Reducing these subsidies could create fiscal space for other measures related to COVID-19 and at the same time encourage the use of cleaner energy. However, none of the oil-importers in the region have this option. Moreover, their dependence on the Russian Federation and China as trade partners and for remittances will significantly affect their fiscal space availability in future.

The large deficits are likely to elevate debt levels in the region and increase the risks associated with their sustainability. The World Bank Group, IMF, and Regional Development Banks among others have extended their collective support to help mitigate the adverse effects of the pandemic on low-income countries. These include delivery of a comprehensive IMF support package; implementation of urgently proposed support by the WBG and multilateral development banks amounting to more than \$200 billion; addressing debt vulnerabilities in low-income countries due to the pandemic; and enhanced coordination among international organizations to maximize their impact and optimize the use of resources. Kyrgyzstan has received emergency assistance under the Rapid Financing Instrument and the Rapid Credit Facility from the IMF while Tajikistan and Uzbekistan accessed the Rapid Credit Facility only. These financing schemes do not have any ex-post conditionality and the RCF is offered at zero interest. Armenia and Georgia adapted their IMF supported program that now includes COVID-19 related funding. Kyrgyzstan has also received financial support from Asian Development Bank. Moreover, the G-20 Debt Suspension Initiative has extended a time-bound suspension of debt service payments from the poorest countries that request forbearance. Using a common term sheet to provide the key features for this debt service suspension initiative, all bilateral official creditors will participate in this initiative. They also requested private creditors, working through the Institute of International Finance, to participate in the initiative on comparable terms. Multilateral development banks are also exploring options for the suspension of debt service payments over the suspension period, while maintaining their current rating and low cost of funding. Kyrgyzstan, Uzbekistan, and Tajikistan are eligible for International Development Assistance and will be eligible for these benefits. Kyrgyzstan and Tajikistan have already requested relief through this initiative.

(v) Policies to help small and medium scale enterprises

As of 2018, there were 14,520 small and 769 medium scaled businesses in Kyrgyzstan. In addition, there were 401,658 individual entrepreneurs and 439,602 peasant farms. Together, this sector

employed 492.7 thousand people in the country. The small and medium scale business and individual entrepreneurs' amount to almost 20% of the total employment in the country. In the last quarter (Jan-March 2020), this sector accounted for one-third of the country's GDP. The gross value added by the SME sector had increased by 9% in the period this quarter compared to the same period in 2019. This increase was mostly driven by the increase in wholesale retail and trade. While the absolute value of industrial output of the SME sector increased; the share of the SME sector in industrial output declined from 16.1% to 15% between the periods January to March 2019 and 2020. This decline was due to reduced industrial output in the capital city of Bishkek (NSC Open Data , 2020).

According to the SME Competitive Outlook 2020 report by the International Trade Center¹⁴, almost 20% of small firms globally are likely to go bankrupt due to the economics effects of the pandemic. Moreover, the slowdown in China, the United States and the European Union are most likely to impact trade in all developing nations, not just those of their partners but also of those countries that do not have a direct relationship with them. This report also found out that globally, small businesses led by women and youth have been more sternly affected than those led by men. In Kyrgyzstan, the slowdown in the United States, China and European Union is most likely to affect exports in sectors like precious metals (gold), leather goods, cotton, and wool and animal hair among others. Almost 74% of the small and medium scale enterprises in the country operate in this sector. Moreover, 33% of the female workforce in employed in these sectors that will be affected negatively (Intracen, 2020).

The government of Kyrgyzstan has announced several packages to support the SME sector during the economic lockdown. One among them is a deferral of tax payment. The government has deferred unpaid taxes and social contributions of affected companies for three months. However, this is a deferral and not a cancellation of tax. While it may offer some liquidity to businesses in the near-term; businesses will remain liable for unpaid taxes. Second, a deferral of mandated social contributions may have adverse effects employee pensions and social security. The long-run detrimental effects, if any, on individual savings, pensions, and welfare need to be examined. The government has provided discounts in leases to companies on state-owned property and in utility bills. Furthermore, the government has allowed for suspension of audits for all businesses. This may incentivize tax evasion and the utility of suspension of audits (instead of a deferment) needs to be examined. About 13% of the total loan support offered by the Krygyz National Bank is mandated towards SMEs. An additional \$176 million has been offered to SMEs, export-oriented units, and food processing units through a

¹⁴ <https://www.intracen.org/publication/smeco2020/>

second business support package. The country's MSME sector has also been offered emergency financing by World Bank to support upto 65,000 MSME units¹⁵.

In contrast with Kyrgyzstan, Kazakhstan has announced the region's most comprehensive package to support SMEs. First, the Kazakhstan government has exempted affected SMEs from income tax, social tax, mandatory pension, and compulsory medical insurance for a period of six months from 1st April to 1st October 2020. Furthermore, the government has also exempted property taxes on retail, entertainment, and tourism centers. In terms of credit, the government has announced subsidized loans and a reduction in risk weights of SME exposure to banks.

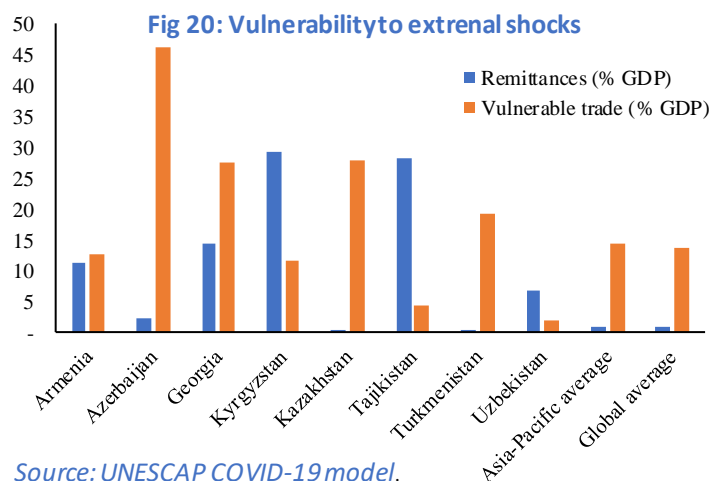
Despite limited fiscal capacity, Tajikistan's support for the SME sector is marginally stronger than that offered by Kyrgyzstan. First, Tajikistan has offered a tax holiday from 1st April to 1st September for tourism facilities, retail, health, and sports centers. Second, from 1st May to 1st August 2020, SMEs that completely shut down their activities are exempted from state property rents. While the number of measures is limited, a tax waiver offers substantially more support than a tax deferral. For this reason, Tajikistan's support for SMEs can be considered stronger than that offered by Kyrgyzstan. Among other countries, Georgia offered an automated refund of VAT to SME; a deferral of tax payments until November 2020; state subsidies to pay employee salary; and credit guarantees. Azerbaijan offered partial coverage of salaries; partial tax waivers; and a 60% credit guarantee. Uzbekistan offered tax deferrals until October; a moratorium on tax audits until the end of 2020; and deferred loan repayments; and finally, Turkmenistan has, as yet, not announced any support for SME.

¹⁵ <https://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-central-asia-5305f172/>

V. Fiscal impact of economic, and social policies in Kyrgyzstan using the COVID-19 model

Kyrgyzstan continues to err on the side of caution and still has stringent policies compared to other countries in the region. Movement into big cities like Bishkek that have higher case load, is still controlled, and regulated. According to WHO, the country has cases in clusters only. While the addition of daily new cases has slowed down significantly since the peak in July, the political disturbances since October had increased the number of cases in October and November. While the stringency of lockdown in the Russian Federation (50.1) was lower than that of Kyrgyzstan, the level in and China (66.3) and Kazakhstan (81), the two other most important trading partners of Kyrgyzstan was higher. Moreover, the Russian Federation and Kazakhstan, which also have cases present in clusters, have reported a high number of cases in the first weeks of December according to WHO. These are major trading partners, and their economic slowdown have a significant impact on the growth prospects of Kyrgyzstan. This is also represented through the UNESCAP covid-19 model measures of vulnerability to trade and dependence on remittances. Vulnerability to trade is defined as the share of a country on exports of fuel, machinery and transport equipment, transport service and travel service. Oil exporters like

Azerbaijan and Kazakhstan have a higher vulnerability because of their reliance on oil exports but Georgia and Kyrgyzstan are also vulnerable to trade shocks. Moreover, Kyrgyzstan's high reliance on remittances also makes it susceptible to external shocks like lock down that could further impact its revenue receipts.

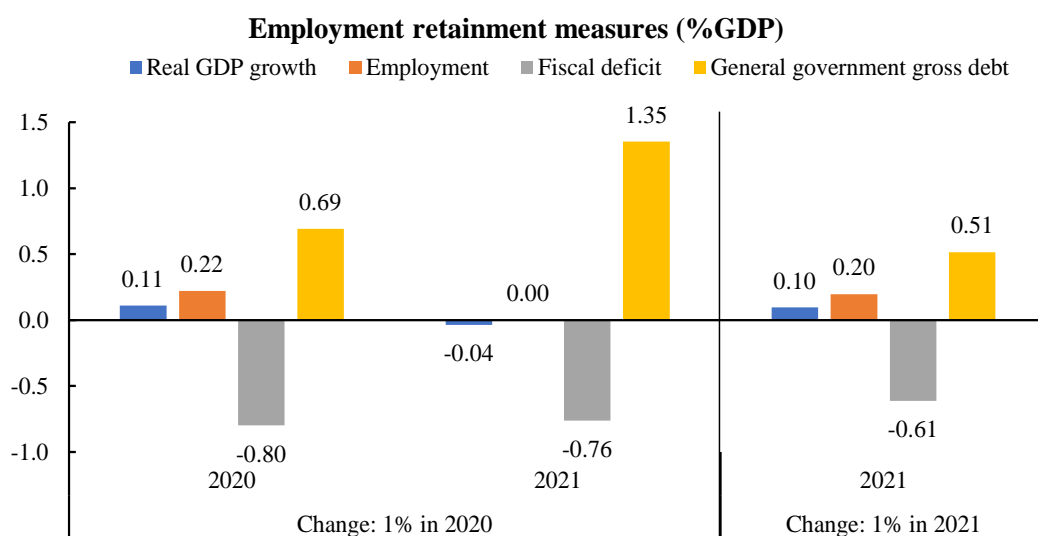


With the highest debt and high deficit levels compared to other countries in the region, Kyrgyzstan has limited fiscal policy space to respond comparatively. Inflation targeting limits the country's monetary policy room to improve liquidity, too. Moreover, reduced demand due to job losses and reduced inflow of remittances can dampen the effect of any policy measure taken by the government. In this section, we analyze the impact of increased fiscal spending on several policy tools available to the Kyrgyzstan

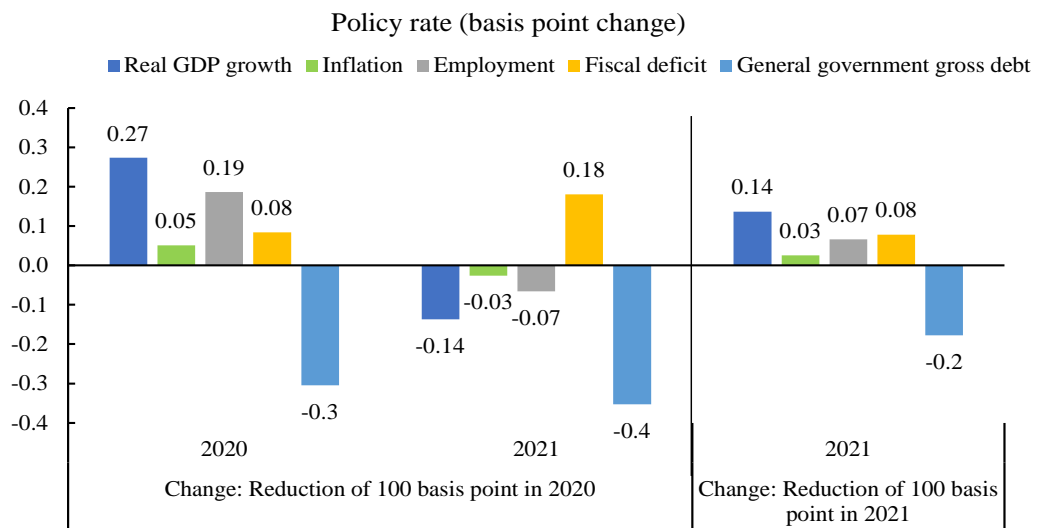
government and assess their impact on growth, fiscal deficit and debt levels using the COVID-19 model. Currently, the government has announced that its relief measures will amount to 7.4% of the GDP in 2020. Using various scenarios, changes in GDP, deficit and debt and some other relevant indicators are compared with the baseline assumptions where the model estimates a growth rate of -12% in 2020, a fiscal deficit of -12.9% and gross debt level of 74.6%.

The Kyrgyz government has not spent anything on employment retention measures yet. Allocating a spending of 1% on this provision in 2020 would have had a positive impact on the growth rate and the employment rate. However, the fiscal deficit and general government debt levels would have increased in both 2020 and 2021. While it is unlikely that the government will invest on employment retention measures this year, allocating this amount to the next fiscal will result in higher growth and rate and employment; with a higher deficit of 0.6 percentage points and a 0.5 percentage point increase in debt from the baseline in 2021.

Fig 21:



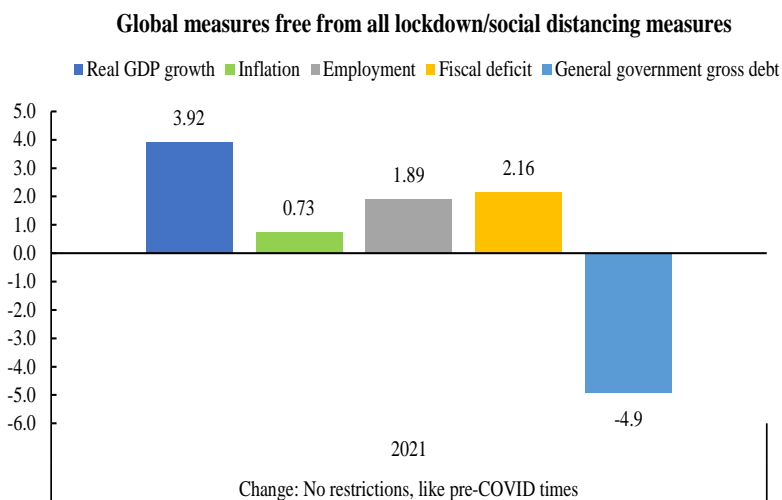
Source: COVID-19 Model.



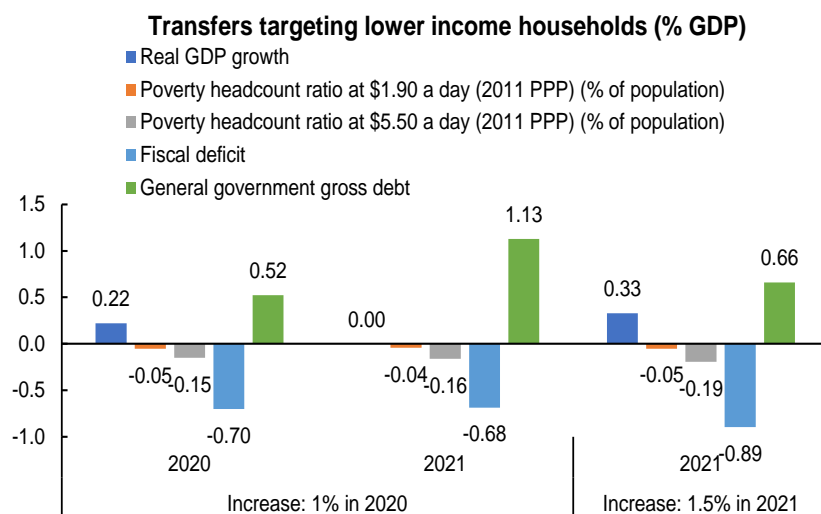
Source: COVID-19 Model.

Fig 22:

A reduction in 100 basis points in the policy rate in 2020 would have had a positive effect on the growth rate, employment, deficit, and debt levels. The inflation would slightly more than the IMF estimates of 8% for 2020. The growth rate in 2022 would have been affected negatively, but deficit and debt levels would have improved. However, assuming 2021 will have some social distancing measures in place till a safe vaccine has been developed and delivered, a gradual 100 basis point reduction in 2021 can have a positive impact on growth rate, employment, deficit, and debt. Inflation will increase slightly but is likely to stay within the upper limit of 6%.



Source: COVID-19 Model.

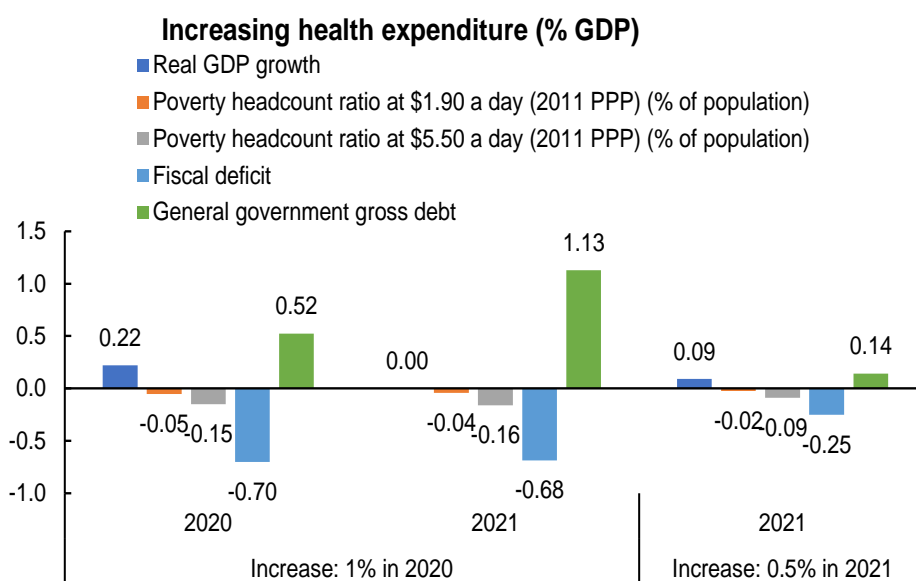


Source: COVID-19 Model.

A best-case scenario assumption for Kyrgyzstan and the global economy would be under the assumption that from 2021, all lockdown/social distancing measures cease to exist due to implementation of an effective global vaccine strategy and yet the country continues with its planned expenditures on COVID-19 impacted priority sectors. In this case, the country will gain in terms of economic growth, employment, reduced deficit, and debt. Expected inflation rate will be 28 basis points higher than the upper limit of 6%.

Fig 23:

Direct transfers to low-income groups, up to 2% of the GDP would have helped reduce poverty levels. However, a similar improvement in poverty levels can be achieved by spending up to 1% more in 2021 from the current assumptions of a reduced expenditure on this group. Similarly, increasing the health care expenditure by



Source: COVID-19 Model.

0.5 percentage points in 2021, will have similar impact on poverty levels, that a 1 percentage point increase in 2020 would have had. This is assuming the government will incur additional expenditure on acquisition of vaccines and roll-out of the vaccine program, in addition to continued COVID-19 related expenditures in the first half of 2021.

VI. Policy recommendations in alignment with Agenda 2030

In the next few months, the Kyrgyz government has the uphill task of ensuring the country is on a track for economic recovery while ensuring the spread of the pandemic is contained, the vulnerable are protected, small businesses are given the support to survive, and inequality does not exacerbate. In

this direction, the government should consider implementing short- and medium-term policies to help support the economic revival.

Tax-related reforms: Corporate income tax revenues have not yet recovered from the impact of the COVID-19 related closures. This is most likely due to a severe impact on businesses that have either faced huge losses or closed during the lockdown period. Deferring tax payments for companies in sectors that were affected, can provide companies to increase their investments in the short run. Moreover, Kyrgyzstan has a history of companies that don't want to register formally to avoid paying social security. Providing a one-time employee wage-linked credit to companies for registering formally can help improve tax revenue generation. This will also help reduce the trust deficit. Housing schemes through public-private participation can incorporate property tax incentives in the short run to encourage investments and ascertain future revenues. The government can also consider a short-term cess on gold exports to gain from the increase in gold prices. Similarly, the government can consider adding a small cess on gasoline/diesel prices to take advantage of the fall in global crude-oil prices and help improve its revenue collection. The cess revenue can be spent on targeted social expenditures or on environmental expenditure that have seen a decline during 2020. A similar, time-bound cess can be levied on VAT once borders reopen and trade resumes.

Improve public expenditure efficiency: To support economic recovery, the government must increase fiscal space in the short-to-medium run by reducing leakages in the financial outflows and reduce inefficiencies in the public financial management system. One way to do so is by asking line ministries to target savings in their budgets by deferring expenditure on items that can be postponed. For instance, budgeted expenditure on sports activities, religious schemes, or fairs can be re-prioritized and re-directed to priority sectors while lockdown measures are in place. Demands for reducing subsidies in the energy sector has been in the pipeline for a while. The government should also explore and establish an infrastructure pipeline to ensure economic activity and engage the private sector accordingly – for instance, the Kyrgyz economy is likely to benefit from China's Belt Road Initiative (BRI) provided it implements complementary policies to improve domestic connectivity and transport sector. As their economy is highly dependent on the construction sector, a social housing scheme that engages the private sector can be announced to infuse funds into the economy and create jobs. The government has also set up an Anti-Crisis Fund to subsidize export-oriented firms and to ensure all fiscal activities of the government in response to the pandemic are coordinated. Ensuring transparency in financial transactions and reducing delays in transfers will improve efficiency of cash management. In addition to using domestic resources, the government is already in talk with several

multilateral and bilateral partners that have extended a financing gap support of \$500 million. The government has already implemented some of its response measures to the pandemic and towards economic revival while it is in the process of implementing others. Through all of this, it is imperative the government continuously monitors and reviews the state budget expenditure to curb unnecessary spending and prioritize spending on proposals listed below:

Revitalize health sector: Globalization has led to high levels of trade integration and increased the movement of goods and people across borders. As a result, countries have become more susceptible to pandemics like the COVID-19. While the state guarantees basic health care and emergency services, the medical fraternity and health sector resources are likely to be exhausted fighting the pandemic. The COVID-19 pandemic has also exposed the weaknesses of public health care systems in terms of accessibility. The government must prioritize the modernization of the primary health care and sanitary services through channels like telemedicine and online consultations in the short-term and improve the financial management of the primary care facilities to reduce the burden of out-of-pocket expenditure burden on the poor in the medium term. The country has sought help from the World Bank to strengthen its health sector through projects that will improve the health sector infrastructure by 2022. It is also essential for Kyrgyzstan to revise and update its pandemic response strategy and ensure that it is reviewed periodically in case of another emergency. These recommendations are also in line with the National Development Strategy of the country.

Support human capital: The Kyrgyz government has devolved school reopening decisions sub-national governments. While some schools are operational, others are not. With schools shut or on remote learning mode for several months, the delivery of pedagogy has likely suffered in areas with limited connectivity. This transition has highlighted the need to improve the digital connectivity and data bandwidth to support such programs in future. The poor connectivity is likely to have affected the quality and continuity of education in the school. However, the Kyrgyz government must take relevant measure to ensure safe continuity of education through all possible channels like radio, television, and the internet. The informal economy in urban areas is already affected badly. The government should put in place well targeted measures to help the transition of labor between sectors by providing platforms for job-search, training programs, and maintaining employability. Public works programs or wage and hiring subsidies to the private sector can lead to job creation and can address three purposes – reduce informality in the economy, generate employment within the country, and increase the coverage of social protection. Based on the analysis above, providing employment retention measures to private sector amounting to 1% of the GDP will improve the employment rate, growth,

and fiscal condition in the country. Such job-creating incentives and investments are likely to be more effective in addressing the demand-shortage issues that are expected to follow soon after the lockdown measures are lifted completely and can also help reduce the burden of unemployment support.

Re-prioritize social spending: Kyrgyzstan's economy is headed towards an unprecedented contraction in the aftermath of the COVID-19 pandemic. As lockdown measures are being lifted, the discovery of a vaccine could fasten the pace of economic recovery. Until then, Kyrgyzstan must continue to support its economy and people through robust safety nets. The government has already reduced spending on non-priority sectors. Along with foreign aid inflows, the government can free budget resources for protected expenditure that include public sector salaries and social benefits.

Kyrgyzstan's social spending as a share of GDP is among the highest in the region, but the coverage of the population in the lowest income quartile is relatively poor. A large share of the social spending supports the elderly alone. Moreover, the growth rate of contributors of the national pension scheme is less than the growth rate of the beneficiaries because of the large number of people in the informal sector. There has been a strong call for improvements in targeting of social transfers in the country. A more targeted, income-based social spending scheme should be developed to reduce the gap. Based on the COVID-19 estimates, an increased expenditure of 1.5% of the GDP on low-income group transfers in 2021 will help mitigate the effects of the pandemic on the poverty levels prevalent in the country.

Incentivize investments into the formal financial sector: The large gap between the deposit and credit rates in the country acts as a disincentive for investing remittances into the formal banking system. This should be addressed by the central government to ensure remittances flow through formal financial channels.

Provide liquidity and solvency support: The central bank can improve liquidity or subsidize long term funding. Based on the analysis earlier, it is recommended to reduce its policy rate in the medium run up to 100 basis points. In addition, financial intermediaries can be allowed to use their capital and liquidity buffers. While the government has introduced policies for audit suspension and tax deferrals to provide immediate relief to firms during the lock down, these are short-term measures - firms will still have to pay taxes this year. Introducing other measures like providing collateral free working capital loans to businesses in vulnerable sectors like tourism and trade can help them avoid insolvency.

Moreover, debt restructuring measures like lowering interest rates or changing to the maturity of the loan can help reduce the burden of debt-servicing on the borrowers and allow for timely exit for non-viable firms. Debt forgiveness with strict financial covenants can be used for some sectors under stress ensuring employment is not affected.

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