



IMPACT OF COVID-19 ON THE KYRGYZ ECONOMY

The coronavirus outbreak affected almost the entire world, causing one of the largest economic crises since the Second World War. The leaders of almost all countries of the world, including Kyrgyzstan, are trying to find a balance between protecting public health and maintaining the normal operation of the economy with minimal damage. For Kyrgyzstan, this crisis can be described as one of the most severe since the country gained independence. Moreover, its scale is estimated to be more severe than the crisis Kyrgyzstan faced after the collapse of the Soviet Union.

The first COVID-19 cases in Kyrgyzstan were registered on March 13, 2020 when three citizens returning from Saudi Arabia tested positive for coronavirus. Under the decree of resident Sooronbay Jeenbekov, a state of emergency was announced on March 25, 2020. The authorities also imposed a curfew in six of the seven regions of the country.

According to the official website Covid.kg that provides statistical data related to the coronavirus situation in Kyrgyzstan, as of June 20, 2020, the number of coronavirus cases in the country exceeded 3,000, while the number of people who lost their lives reached 37. Nowadays, the country is adversely affected not only by the virus but also by the economic recession. According to experts, the situation is worsening day by day. At the beginning of the pandemic, most economists projected global economic growth rates for 2020 to be negative. In addition, it is estimated that significant declines in revenues may occur worldwide, and Kyrgyzstan is not an exception. The coronavirus outbreak can cause an economic stagnation in Kyrgyzstan and a rise in unemployment and poverty towards the end of the year, even if the country succeeds in overcoming the disease stage.

Before the COVID-19 pandemic, the Kyrgyz government estimated the Gross Domestic Product (GDP) growth to be at 5%. However, due to the COVID-19 outbreak, economic forecasts for practically every country, including Kyrgyzstan, have deteriorated sharply. Today, Kyrgyzstan is included in the list of the countries economies of which will suffer most from the pandemic. According to the projections of the International Monetary Fund (IMF), the GDP of Kyrgyzstan will contract by 4%. If the forecast regarding Kyrgyzstan becomes

a reality, this decline will be the worst performance among the Central Asian countries. It is expected that the crisis will significantly affect state budget revenues. Experts note that the country may lose more than half of its treasury's income, or almost 85 billion soms (about \$1.135 billion). Nevertheless, it is not yet clear how long the COVID-19 outbreak will last and what the specific consequences will be.

There are approximately 12,000 small and medium-sized enterprises in Kyrgyzstan. More than half of these are in Bishkek. The nationwide state of emergency in the country left the majority of the enterprises without income and workers without jobs. These include hotel facilities, travel companies, catering businesses, shopping malls, beauty salons, car washes, taxi services, and others. In Kyrgyzstan, the service sector accounts for about 50% of the country's economy. Half of the country's 2,600,000 working-age citizens are employed in this sector. Experts estimate that the service sector will decline by 70% in 2020. In other words, 500,000 to 700,000 Kyrgyz citizens confront the risk of becoming unemployed. Taking this into account, as well as inflation, the budget execution in 2020 may amount to 45-50% only. In other words, Kyrgyzstan's budget, which is \$2.2 billion, is expected to be reduced by up to \$1 billion. The budget of the country for 2020 was approved at the level of 163 billion 710 million soms (approximately \$2.185 billion). The government expected to receive 93 billion soms (about \$1.241 billion) in taxes and 35 billion soms (around \$467 million) in customs duties. However, this year, the risk of not reaching the budget revenue to be obtained in taxes and customs duties appears to be quite high.

According to the latest data, the IMF Board of Directors approved \$80.7 million in assistance to Kyrgyzstan under the Rapid Financing Instrument (RFI) and \$40.4 million under the Rapid Credit Facility (RCF). This is the second IMF emergency assistance to Kyrgyzstan since the outbreak of the pandemic. Thus, on March 26, 2020, the IMF Board of Directors approved the allocation of \$120.9 million, then on April 6, 2020, they decided to increase the annual emergency funding amount provided under the RCF to 100%. Thanks to the additional allocation of funds, the total amount of loans provided to Kyrgyzstan to combat the

COVID-19 pandemic has reached \$242 million.

Consequently, the economic recovery in the country requires emergency measures and long-term investments. No virus outbreak has ever caused such severe economic consequences globally. Even in countries with developed economies, economic activities have almost halted. There is a risk that the economic consequences of prolonged quarantine and the devaluation of the national currency may have long-term effects on the Kyrgyz economy. There is a possibility that thousands of small and medium-sized enterprises will cease their activities. Another point is that unemployment rates will increase sharply with the return of migrant workers who have lost their jobs in neighboring countries. It is worth noting that before the pandemic Kyrgyzstan was among the countries that were most dependent on remittances from migrant workers as a percentage of GDP (33%). Experts predict that the anticipated 15% decline in remittances this year will translate into a loss of approximately \$361 million, or almost 5% of GDP, for Kyrgyzstan.

In terms of measures to be taken against the crisis, assisting socially vulnerable population groups should be the priority for the Kyrgyz government. At the same time, administrative reforms can create opportunities for economic growth and stability. Besides, one of the best ways to fix the country's economy is to attract long-term large-scale investments. New investments in hydro and solar energy, as well as new projects on the purification of drinking water, will not only create jobs but will also improve the quality of life in Kyrgyzstan.

In this period, long-term credit supply and cooperation with strategic investors play a significant role. In addition, it is possible to increase the country's national debt to a limited extent, under conditions of new reforms, business development, and increased tax base. At the same time, there should be full transparency in terms of how these loans are spent. Investments should be attracted not only to the energy sector but also to the social infrastructure. All these measures can create necessary conditions for a gradual, if not immediate, recovery of the country's economy in the long term.

Politics, Foreign Affairs, and Security

- The Collective Security Treaty Organization (CSTO) and the Russian Ministry of Internal Affairs jointly draft a new anti-drug strategy of the CSTO member states for the period until 2025. Since 2003, the CSTO has been conducting anti-drug operations under the code name “Channel” to counter illegal drug trafficking. As a result, in 2017-2019, the law enforcement authorities seized more than 67.6 tons of narcotic substances (RIA Novosti, 23.06.2020).
- Russia held a military parade to celebrate the 75th anniversary of the World War Two victory. Initially scheduled for May 9, it was postponed because of the coronavirus pandemic. Presidents of Belarus, Moldova, Serbia and all the Central Asian states, except Turkmenistan, arrived in Moscow to attend the event, but Kyrgyz President Sooronbay Jeenbekov returned to Bishkek after two people in his delegation tested positive for COVID-19 (Reuters, 24.06.2020).
- Turkmenistan and Uzbekistan held online consultations on political and economic issues at the level of deputy ministers of foreign affairs. The parties discussed the development of the political-diplomatic dialogue between the two countries and expressed readiness to continue cooperation in the framework of international and regional structures. They also addressed issues of economic cooperation, including in the fields of trade, transport, transit, energy, and water management (MFA of Turkmenistan, 23.06.2020).
- Following the meeting of the joint inter-governmental Ukraine-Hungary commission on economic cooperation held in Kiev, Hungarian Foreign Minister Peter Szijjarto explained why his country blocked talks of the Ukraine-NATO Commission. According to Szijjarto, Budapest seeks to resolve issues related to the rights of the Hungarian minority in Ukraine’s Zakarpattia region as soon as possible. In particular, Hungary insists that Ukraine must restore the access of ethnic Hungarians to education in their mother tongue (UNIAN, 25.06.2020).
- According to Georgian Prime Minister Giorgi Gakharia, who presented his annual report to the parliament, Russia is a key challenge for Georgian security and is responsible for all human rights violations in the Georgian occupied regions of Abkhazia and Tskhinvali. As stated by Gakharia, Georgia’s Euro-Atlantic integration is in progress and the country’s final goal is the NATO membership, which includes the creation of “effective armed forces” compatible with NATO forces (Agenda.ge, 26.06.2020).
- The OSCE organized a two-day online training on anti-money laundering and combating terrorist financing in Nur-Sultan. About 50 officials from law-enforcement agencies and the financial sector participated in the event. Experts from Georgia and Italy delivered presentations on laundering schemes of illegal incomes and recommendations by the Financial Action Task Force to prevent such schemes. Participants were also familiarized with the concept of beneficial ownership and money laundering risks associated with legal persons (OSCE, 23.06.2020).

Economy, Finance, and Energy

- The government of Kazakhstan will update the Strategic Development Plan for 2025 to incorporate a new mechanism called the “institute of regulatory appeal”, which will allow entrepreneurs and business associations to cancel or suspend decisions of central and local governmental bodies by filing a complaint. Moreover, the government will reduce control and supervision, continue to improve financial measures of state support, and minimize requirements for licenses and permits to simplify market entry for new businesses (The Astana Times, 24.06.2020).
- The Asian Development Bank (ADB) approved a \$1 billion assistance package to help Kazakhstan mitigate the adverse impacts of the COVID-19 pandemic and a similar \$500 million loan to Uzbekistan. According to the ADB, its aid will support measures aimed at improving the health policy, maintaining social protection and the employment level, as well as economic stimulus plans introduced by the governments of the two countries (Reuters, 25.06.2020).
- The Turkmenistan-European Union Joint Committee held its 19th session in the online format to discuss prospects for expanding bilateral trade and economic cooperation. The parties addressed opportunities for partnership in the agricultural sector, the fields of energy, transport, communications, digitalization and environmental protection, and the humanitarian sphere. They paid particular attention to the consolidation of efforts for efficiently combating the COVID-19 pandemic and overcoming its negative socio-economic consequences (Turkmenistan Today, 25.06.2020).
- The coronavirus pandemic caused a 30% decline in revenue for 60% of Russian small and medium-sized enterprises (SMEs), while only 10% of such businesses currently make profit. As a result, the Russian government is adjusting its national project aimed at supporting them. Currently, the main targets of the project are to increase the share of SMEs in the country’s GDP up to 32.5% and the number of people employed in this sector up to 25 million by 2024 (TASS, 25.06.2020).
- President of Moldova Igor Dodon announced that Russia would extend the preferential trade regime with Moldova starting July 1. Under the regime, Moldovan exports of fruits, vegetables, preserved food and wine products to Russia will be exempt from customs duties. According to Dodon, these preferences will enable Moldovan producers to save at least €20-25 million per year. Moreover, Russia agreed to provide additional privileges for Moldova’s transport companies (TASS, 25.06.2020).
- According to the press service of Naftogaz, the national oil and gas company of Ukraine, in June 2020, the wholesale price of natural gas for the population, heat producers and other protected consumers decreased by 6% compared to May 2020 – to 2.14 hryvnia per cubic meter. Since January 2020, the gas price for the population has fallen by 54% and by 61% compared with the relevant period last year (Ukrinform, 23.06.2020).

Society and Culture

- Prime Minister of Kazakhstan Askar Mamin met with Director General of the Russian Roscosmos state corporation Dmitry Rogozin. The parties resolved the main issues related to the launch of the Baitekrek joint project that provides for the creation of the Soyuz-5 launch complex at the Baikonur Cosmodrome. According to the preliminary agreement, Russia will be responsible for the rocket construction, while Kazakhstan will bear infrastructure costs (Roscosmos, 26.06.2020).
- According to the Ministry of Foreign Affairs of Kazakhstan, the country sent a shipment of humanitarian assistance to Afghanistan. The cargo, which was delivered in 46 railway wagons, included 1,900 tons of flour, 500 tons of pasta, 4,000 liters of sunflower oil and 200,000 cans of condensed milk. The government of Afghanistan will distribute food products among the Afghan regions in need (Tengrinews, 22.06.2020).
- The Turkish Cooperation and Coordination Agency (TIKA) provided humanitarian aid to people affected by the dam collapse in the Sardoba district of Uzbekistan’s Syrdarya region. Seven semi-trailer trucks delivered 4,000 beds, quilts, pillows, and bed linens to the regional governor’s office to be distributed to those in need. As stressed by the TIKA representative, the agency would continue to stand in solidarity with the people of Uzbekistan in both good times and bad times (Kun.uz, 27.06.2020).
- The Yunus Emre Institute’s Moscow branch, the Embassy of Turkey in Russia and the Turkish Linguistic Society organized the international online conference “Teaching Turkish in Russia and academic papers on Turkey and Turkology”. Turkish and Russian Turkologists discussed the history of studying Turkish and other Turkic languages in Russia, the translation of books of Turkish authors, and the teaching of the Turkish language and literature during the pandemic (St. Petersburg University, 25.06.2020).
- Kyrgyz and Uzbek officials and supreme muftis met in Kyrgyzstan’s Batken region to discuss topical issues in the religious sphere, such as preserving stability in society and strengthening interethnic harmony and interfaith tolerance. The parties also considered ways to raise literacy of religious leaders and civil society in the process of building a platform for interstate dialogue. A reciprocal meeting was later held in Uzbekistan’s Fergana region (Kabar, 25.06.2020).
- The Turkic Council convened via video-conference the fifth meeting of the ministers in charge of tourism of its member and observers states. The parties agreed to coordinate their efforts in the fight against COVID-19 in the tourism sector by sharing information and best practices. They also noted the importance of applying technology and digitalization in the tourism industry, such as creating a single map of tourist destinations of the Turkic countries, organization of virtual tours, and launching a tourism TV channel (Turkic Council, 23.06.2020).