



# Central Asian economic outlook

**Eric Livny, Lead Regional Economist, Central Asia**

May 2023



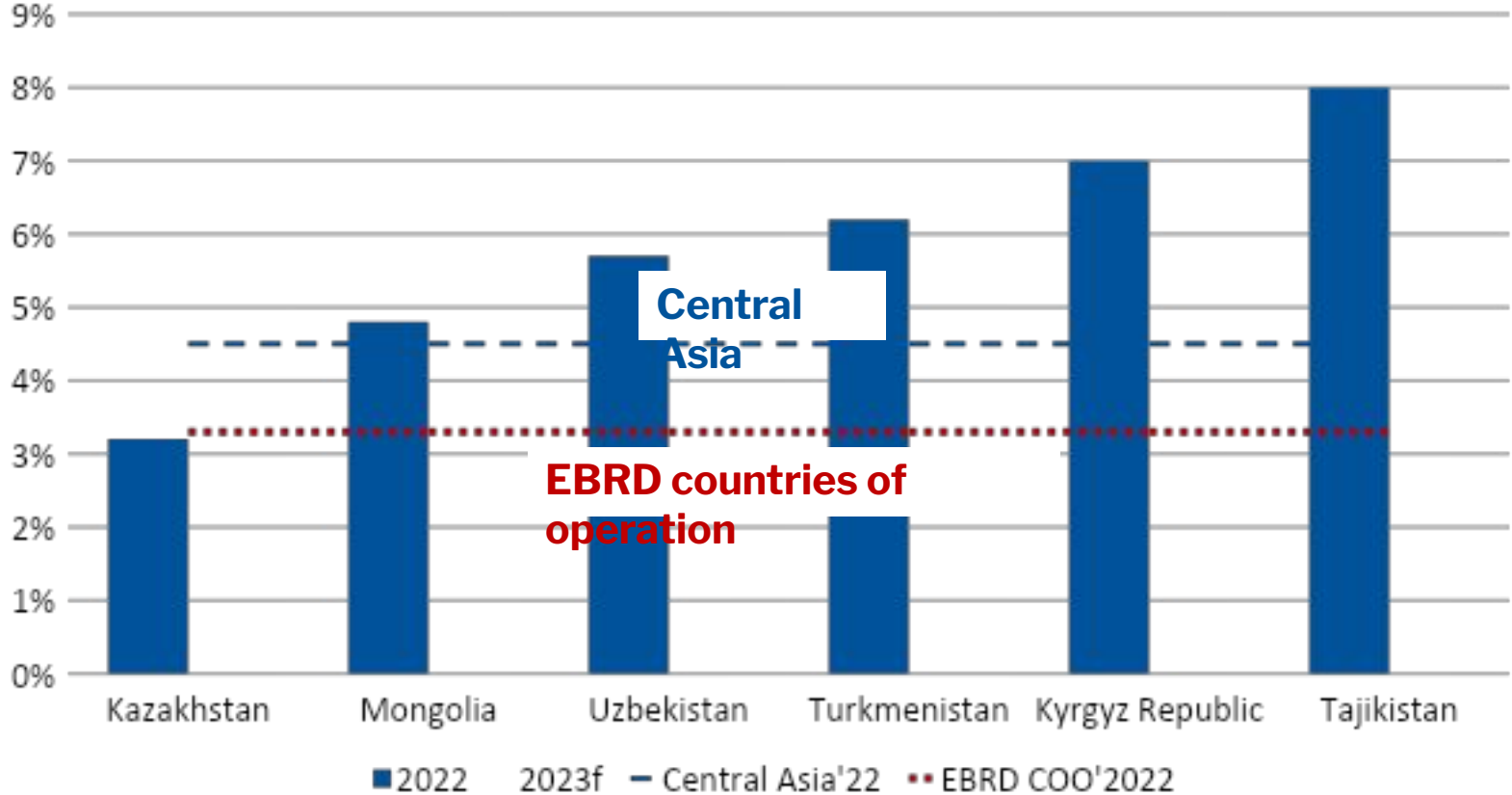
**European Bank**  
for Reconstruction and Development

# In 2022, CA economies have proven resilient to Russia's war on Ukraine. Strong growth likely to continue in 2023

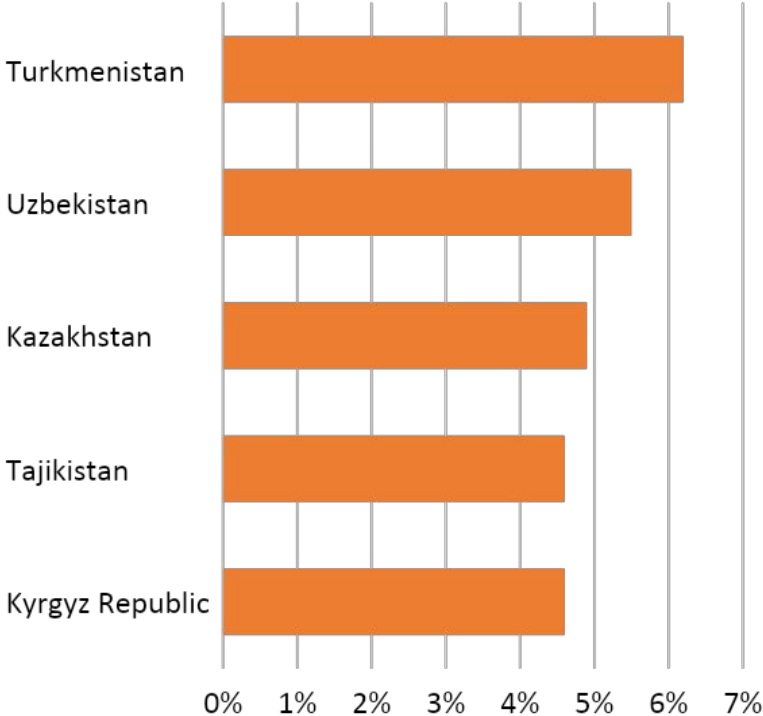


European Bank  
for Reconstruction and Development

Real GDP growth, y/y, 2022 and 2023 forecast



Real GDP in 1Q 2023 or latest available\*



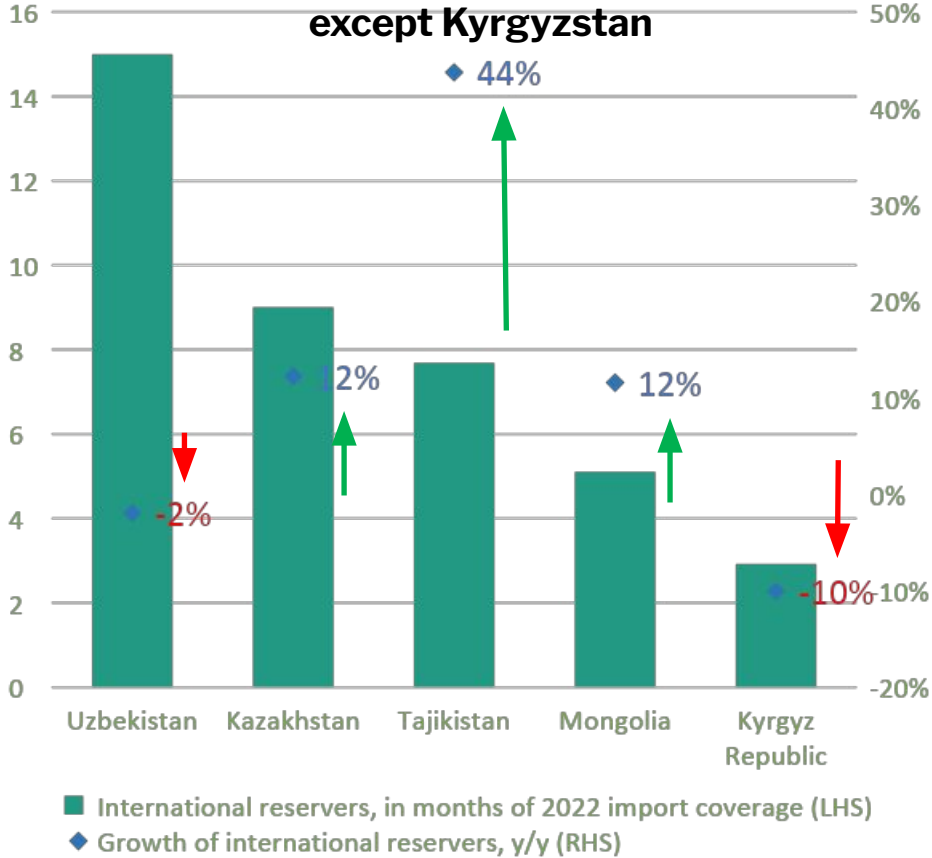
Source: National authorities and EBRD  
 Note: Weights for CA and COO averages are based on the values of gross domestic product in 2022 at market exchange rates

Source: National authorities  
 Note: January-February 2023 for Tajikistan

# Most CA countries have grown while reducing public debt and accumulating international reserves

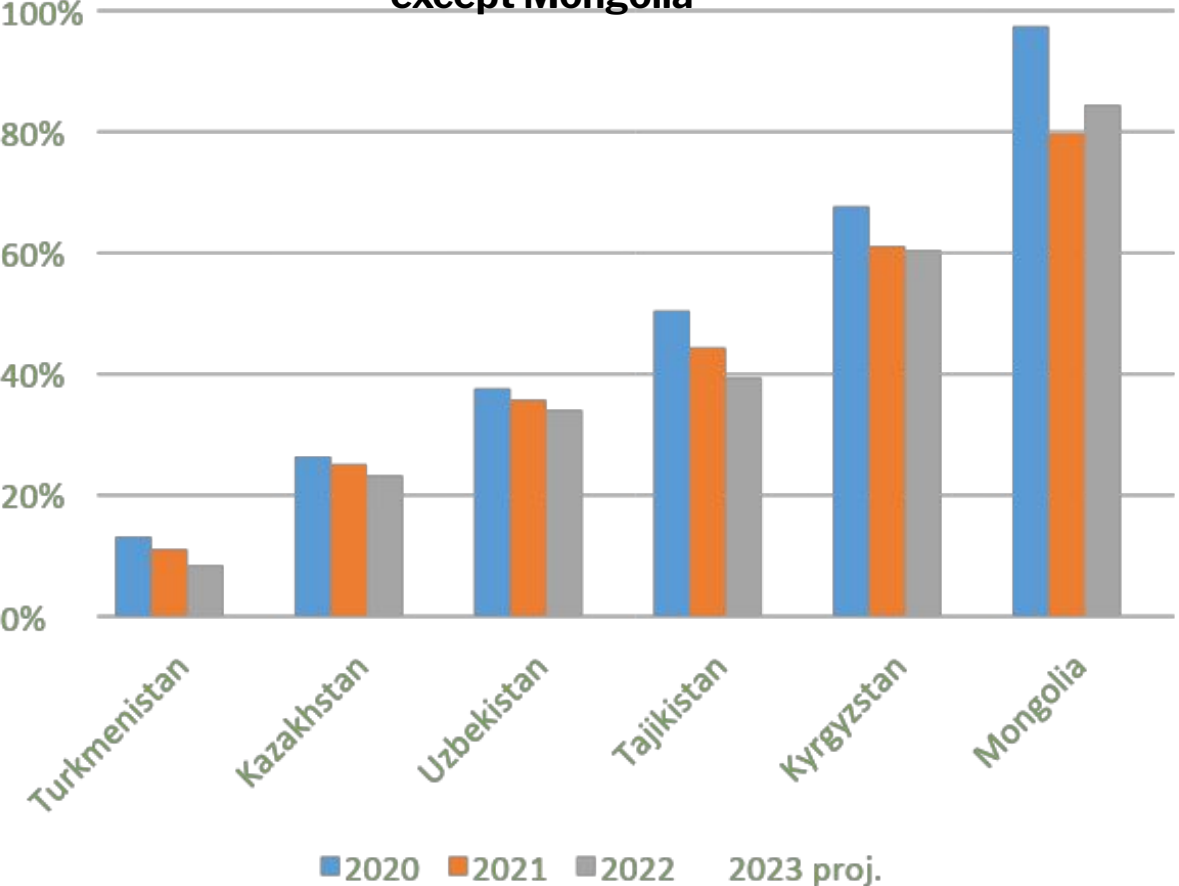


**International reserves** provide at least 5 months of 2022 import cover (as of April 2023), except Kyrgyzstan



Source: National authorities  
14 May, 2023

In 2022, **public debt** as a share of GDP declined on strong growth in all CA countries, except Mongolia



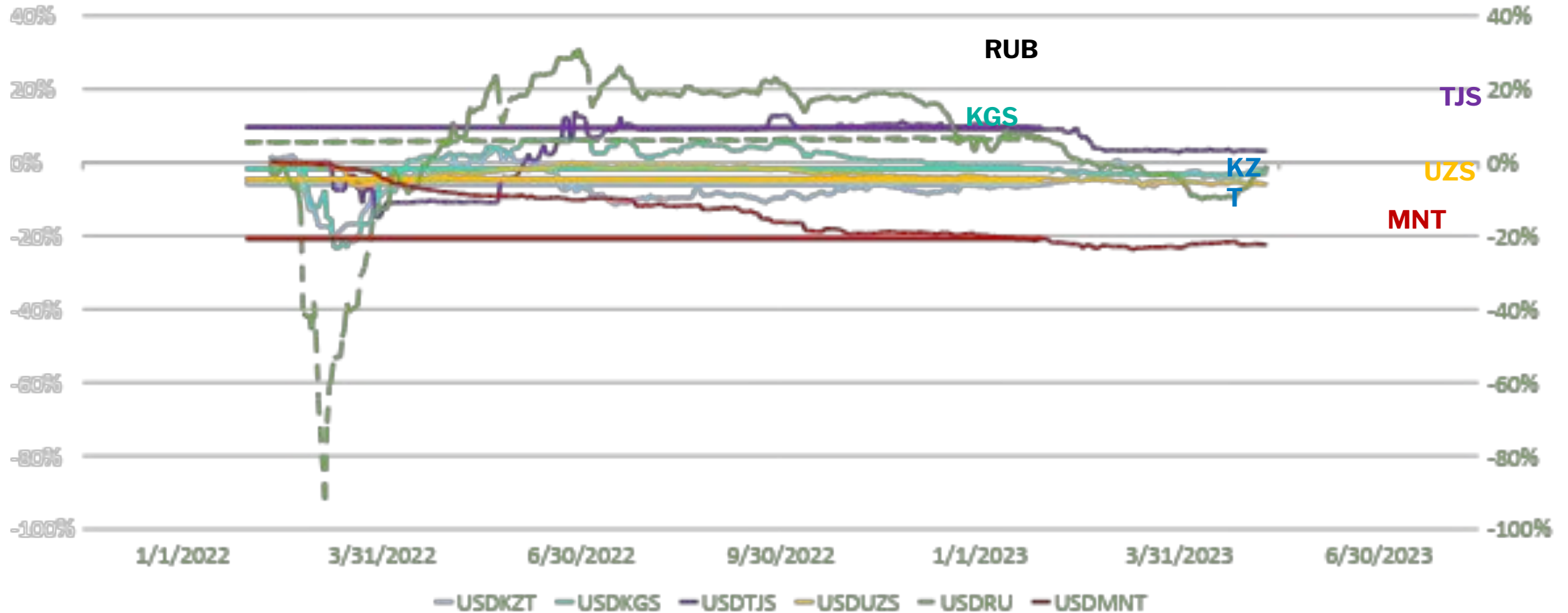
Source: IMF

# Turbulence in foreign exchange markets ended by April 2022



European Bank  
for Reconstruction and Development

Nominal change in **Central Asian currencies vs. USD**  
compared to **December 31, 2021**

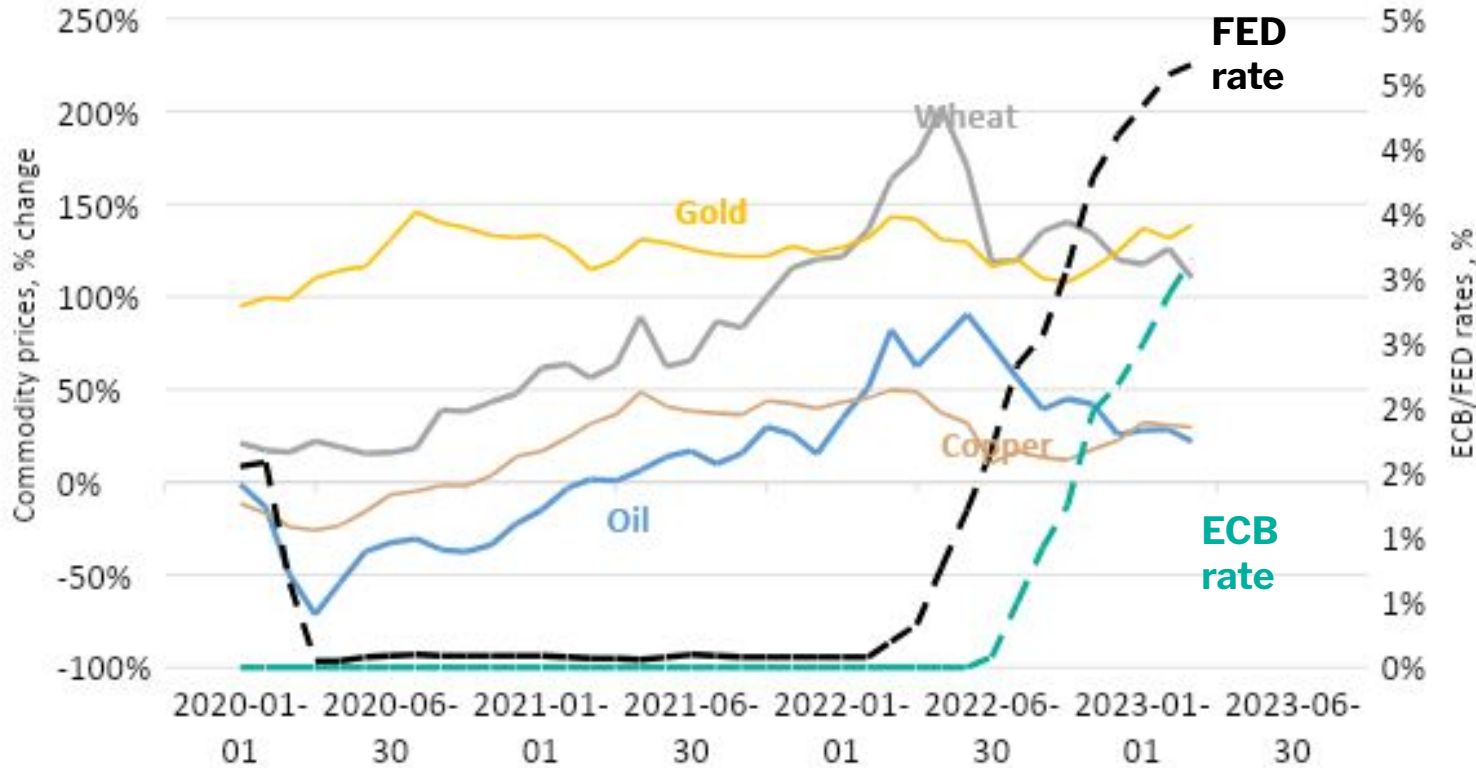


# The main challenge facing all Central Asian economies nowadays is **uncertainty** over the cost of borrowing, inflation and energy/commodity prices



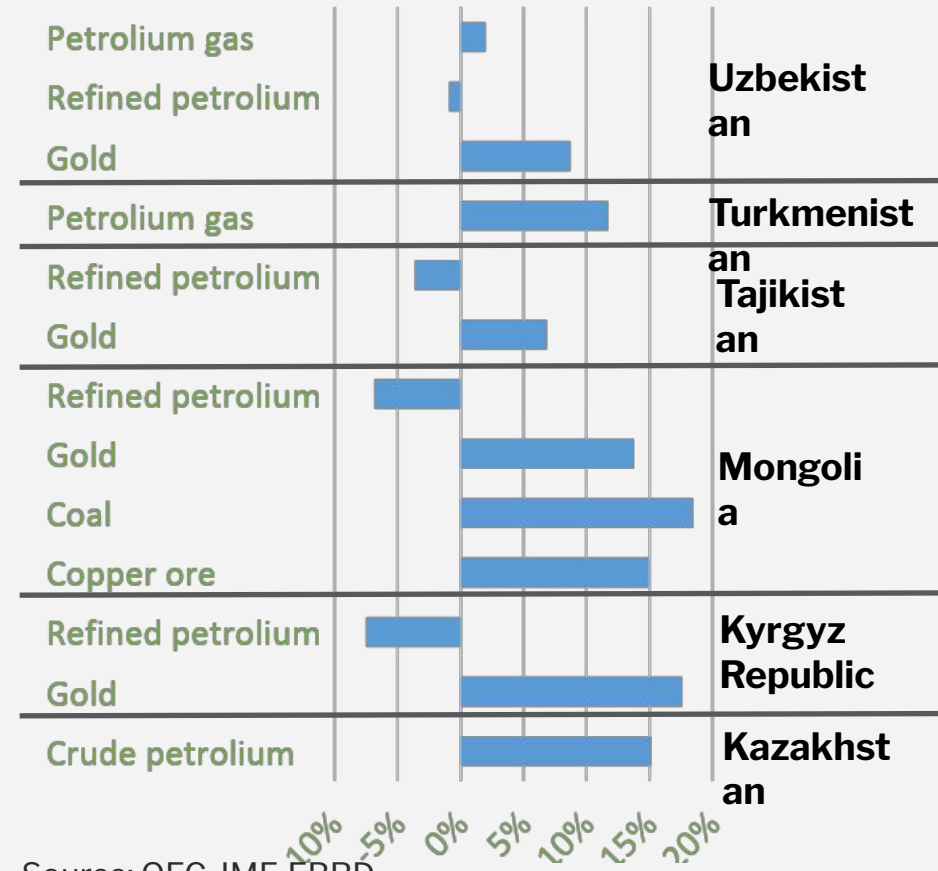
European Bank  
for Reconstruction and Development

**Commodity prices, % change, December 2017=100, and ECB/FED rates in levels.**



Source: FRED St. Louis, World Bank, EBRD calculations  
14 May, 2023

**Major commodity exports and imports, average share of GDP in 2019-2021**



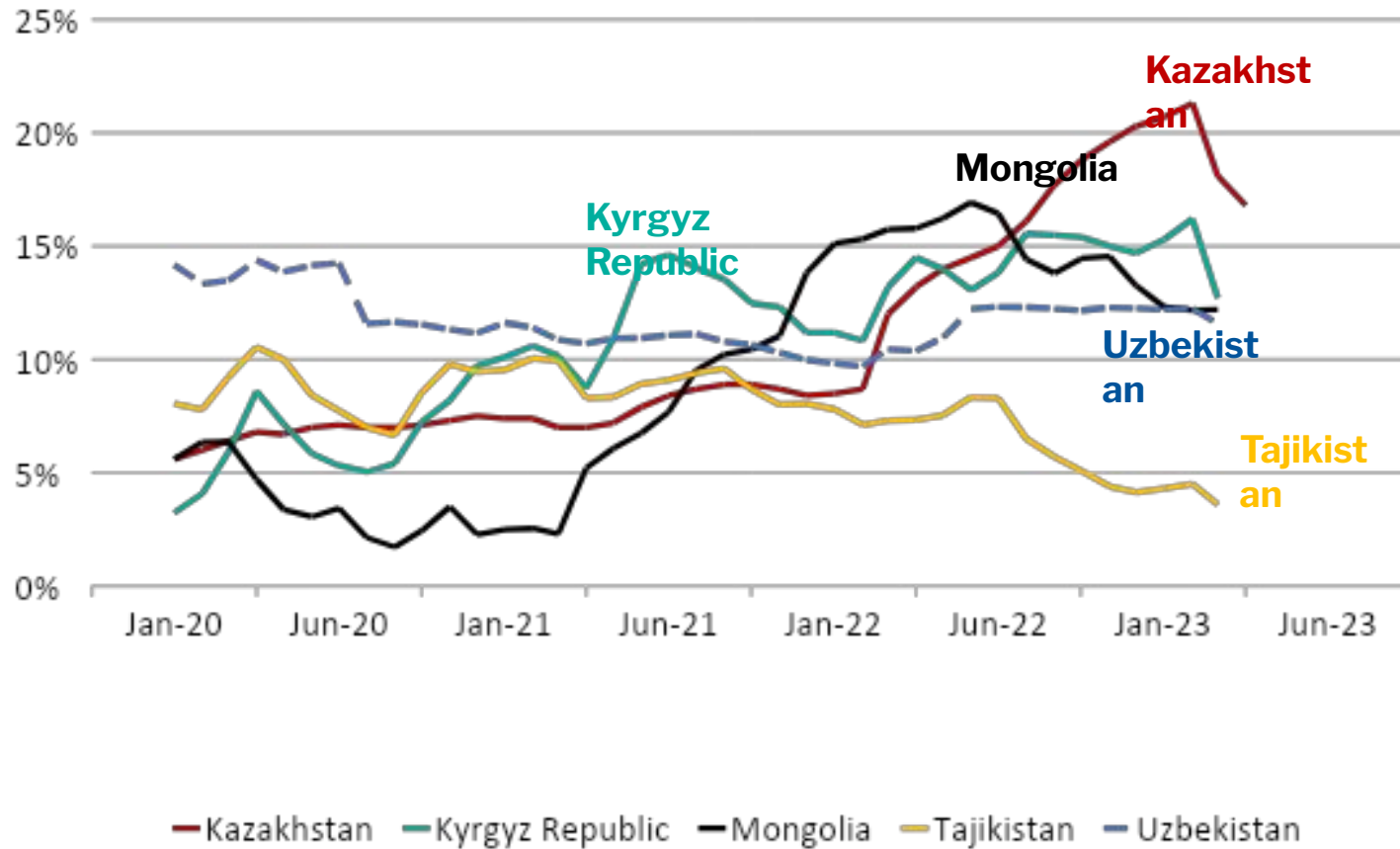
Source: OEC, IMF, EBRD calculations

# Inflation has peaked in all CA countries but is still a major concern given its social and political implications

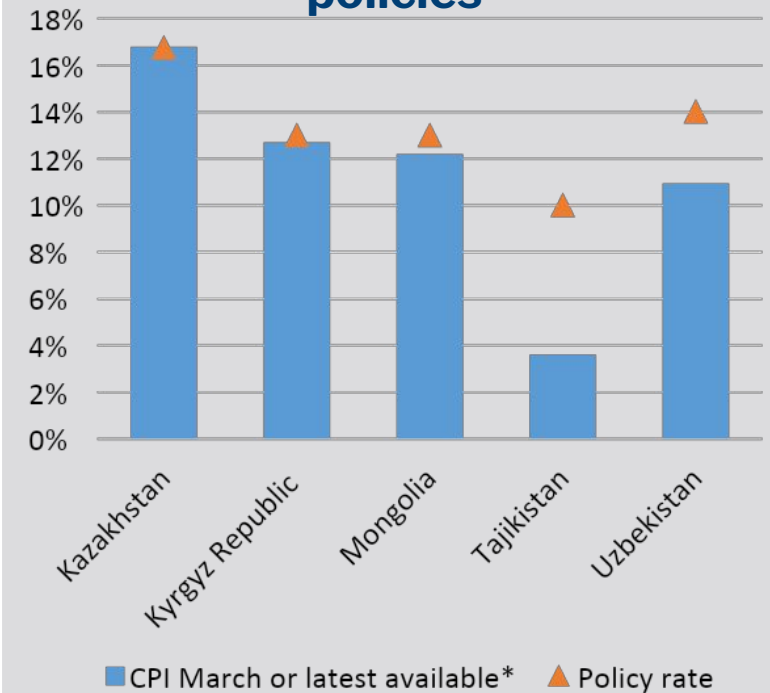


European Bank  
for Reconstruction and Development

Strong growth of **nominal wages** coupled with a surge in **transport, food** and **commodity prices** added to inflationary pressures



**Inflation persists** despite monetary tightening, reflecting a continuation of **generous fiscal policies**



Source: CEIC, Central Bank of Kazakhstan, April 2023  
Data for KZ and UZ

Source:  
CEIC

14 May, 2023

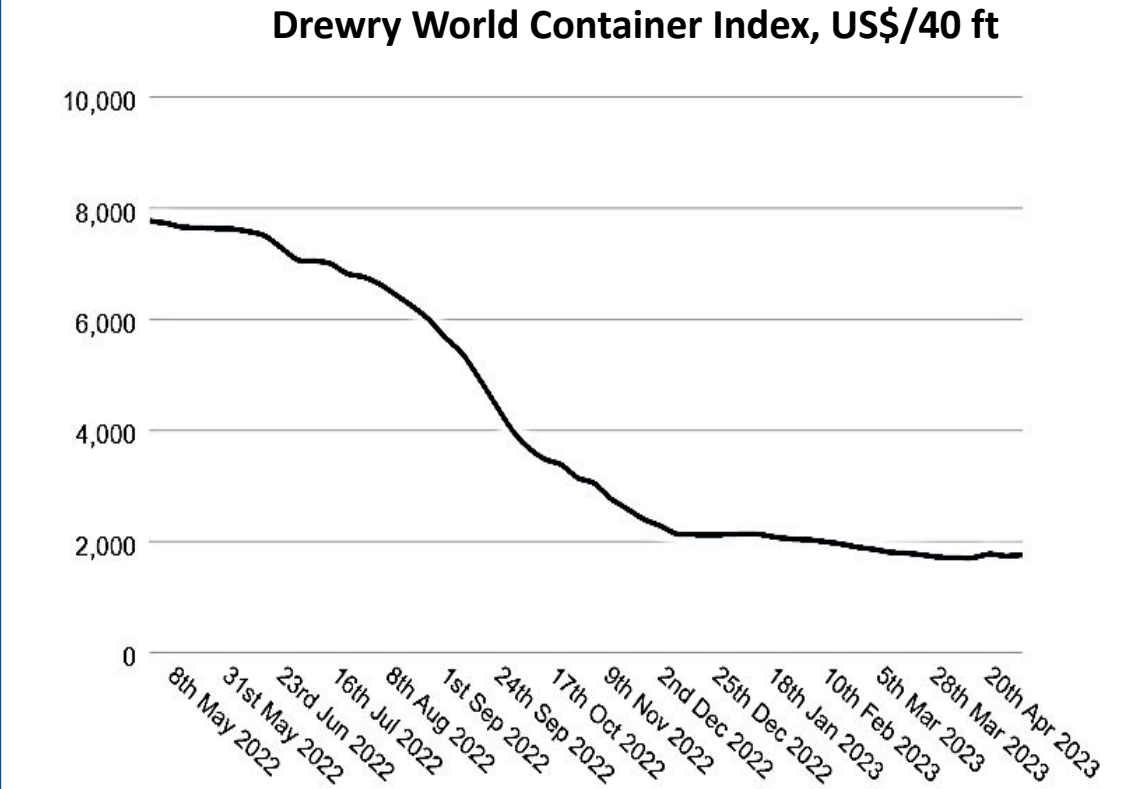
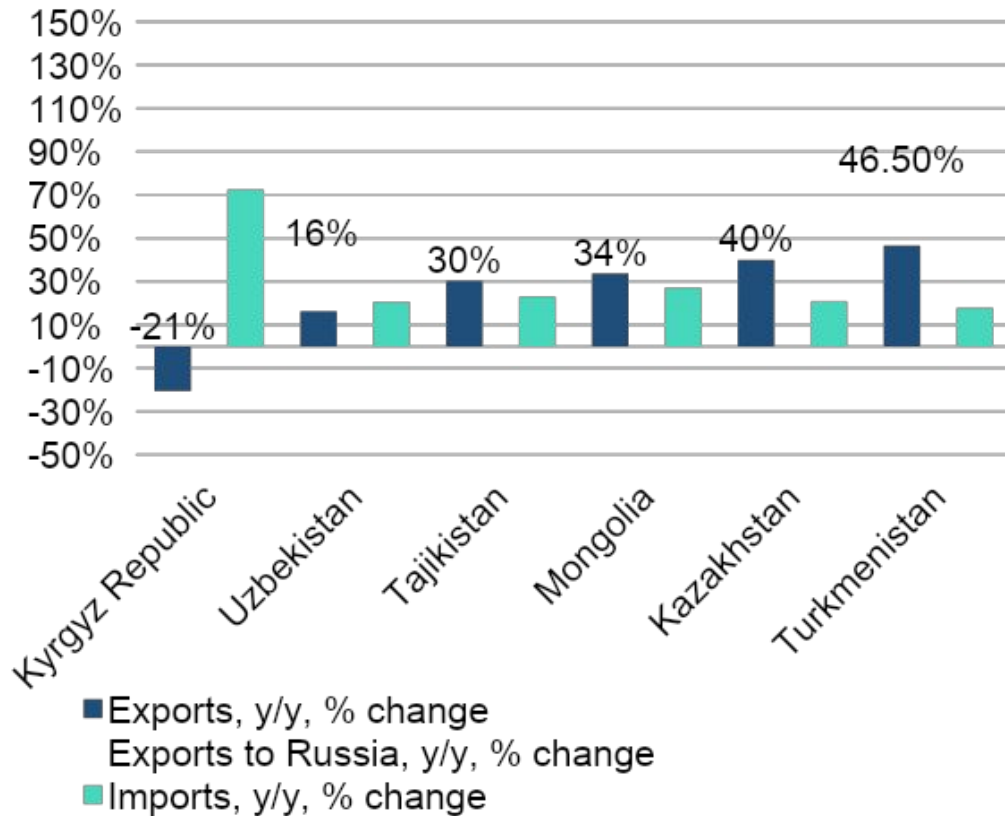
# Fuelled by Russia's demand and elevated commodity prices, international trade was a key driver of Central Asia's growth in 2022



European Bank  
for Reconstruction and Development

Contrary to expectations, **trade activities increased** across CA in 2022 (except Kyrgyzstan's gold exports) on Russia's strong demand

**Cargo costs** have fallen sharply, providing further impetus to international trade



Source: CEIC

Source: Drewry - Service Expertise - World Container Index - 04 May

# Central Asia assumed a large role in Russia's “intermediated trade” with Türkiye and China...



European Bank  
for Reconstruction and Development

Chinese and Turkish exports to Russia and Central Asia, 2017-2019 monthly average = 100



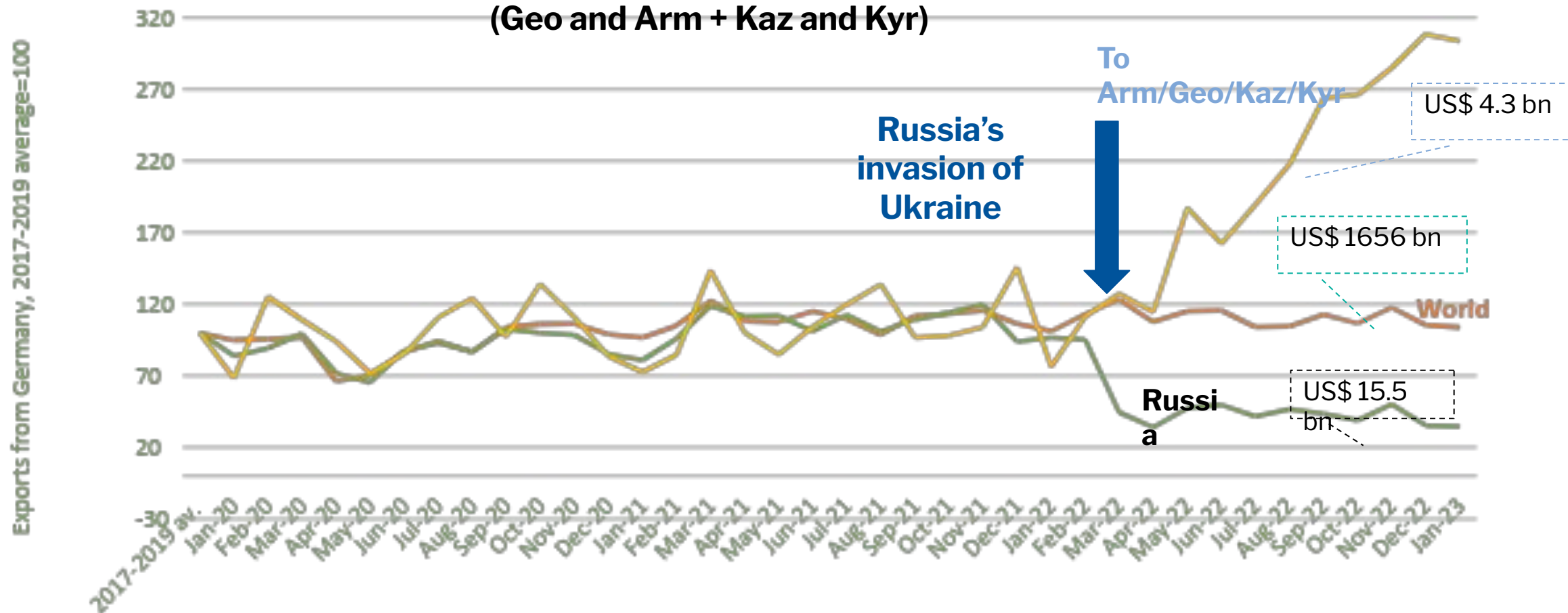
Note: Data call-outs for 2022 export values

... as well as Russia's intermediated trade with **EU/UK**  
 (together with Armenia and Georgia)



European Bank  
 for Reconstruction and Development

**Germany's exports to Russia, world and CCA4  
 (Geo and Arm + Kaz and Kyr)**

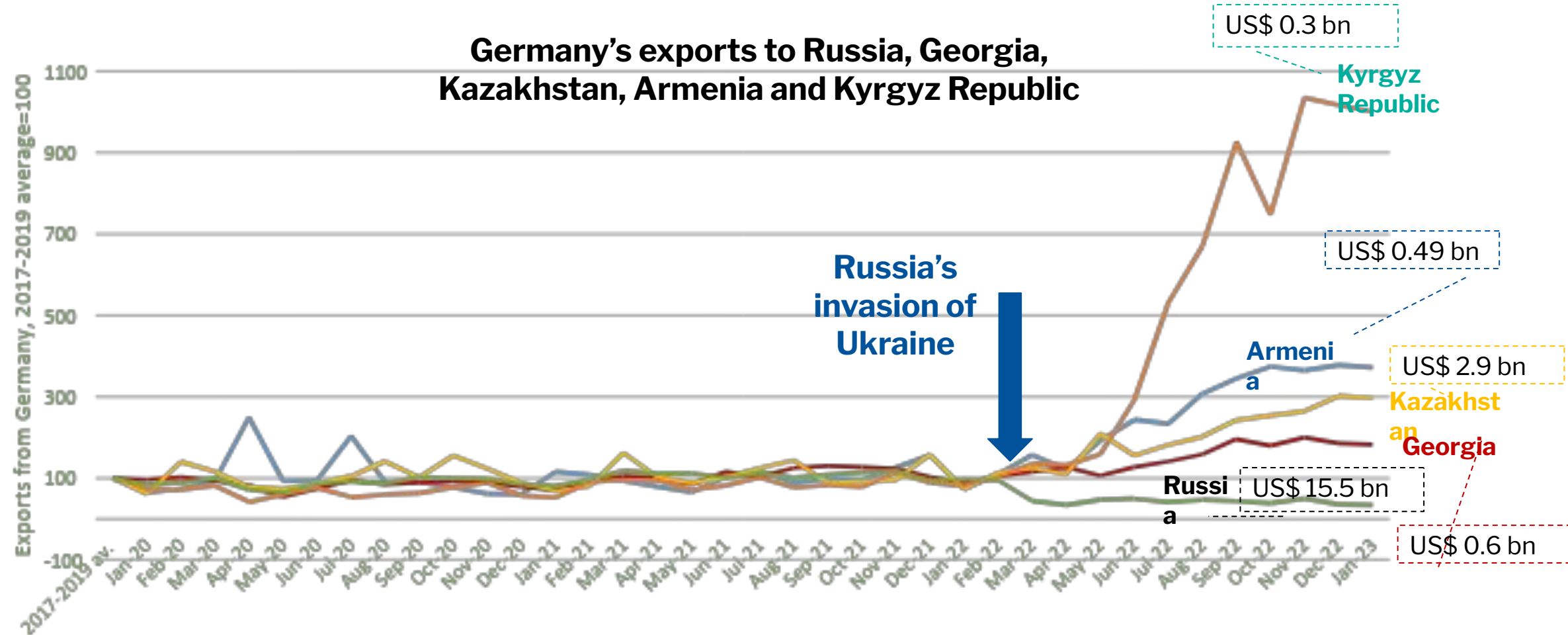


Note: Data call-outs for 2022 export values

# Kyrgyz Republic and Armenia are the champions of intermediated trade among CCA4



European Bank  
for Reconstruction and Development



Note: Data call-outs for 2022 export values

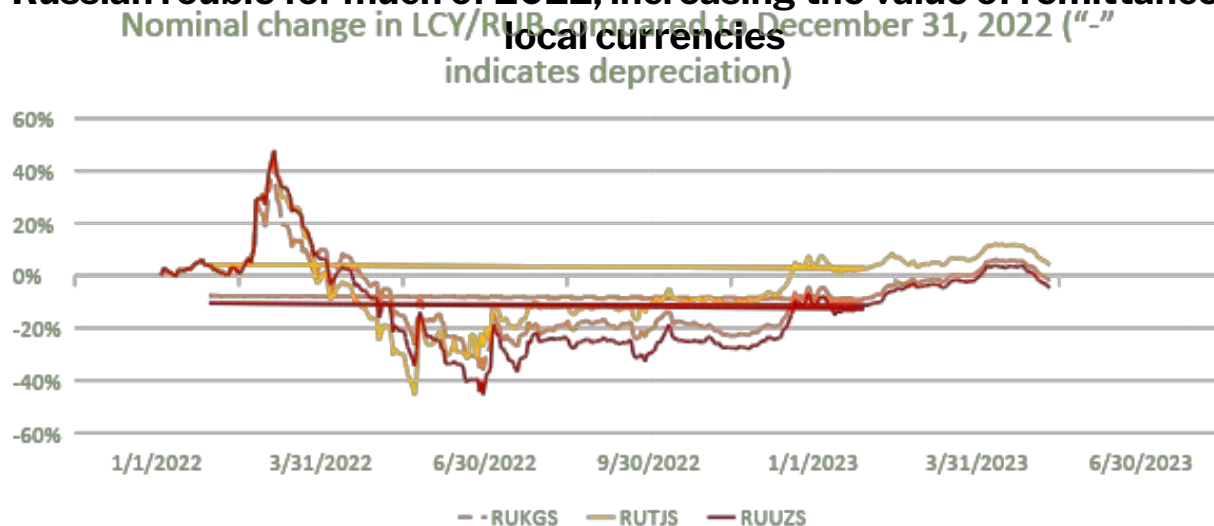
# In 2022, labour migration from CA to Russia and money transfers in the opposite direction reached unprecedented levels



European Bank  
for Reconstruction and Development

- The volume of money transfers to Central Asia skyrocketed on “**banking tourism**”, increasing deposits and boosting banking sector profits.
  - Kazakhstan has seen an **almost x7 increase in money transfers** from Russia (from a relatively low base)
- Labour remittances increased on very strong **demand for Central Asian workers**.
  - Uzbekistan has seen a **110% increase in remittances**, bringing them to more than \$16.9bln or 23% of GDP.

**Central Asian currencies traded at below their pre-war values vs. the Russian rouble for much of 2022, increasing the value of remittances in local currencies**

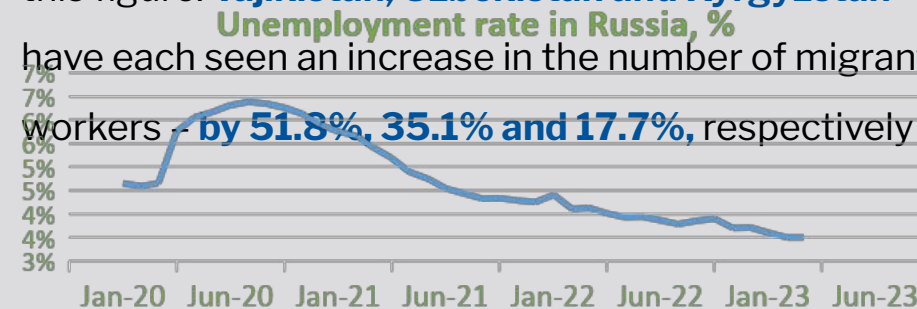


Source: Investment.com, EBRD calculations

14 May, 2023

## Russia’s militarized economy is likely to remain hungry for Central Asian workers:

- According to the IMF, the Russian economy contracted by **only 2.2%** in 2022. Growth is expected to pick up in 2023 and 2024 (0.7% and 1.3%, respectively)
- Russia’s **unemployment** reached an all time minimum of **3.5%** in Feb 2023.
- In 2022, **labour migration to Russia** climbed to almost **3.5mln**, with Central Asia accounting for about 90% of this figure. **Tajikistan, Uzbekistan and Kyrgyzstan** have each seen an increase in the number of migrant workers - **by 51.8%, 35.1% and 17.7%**, respectively



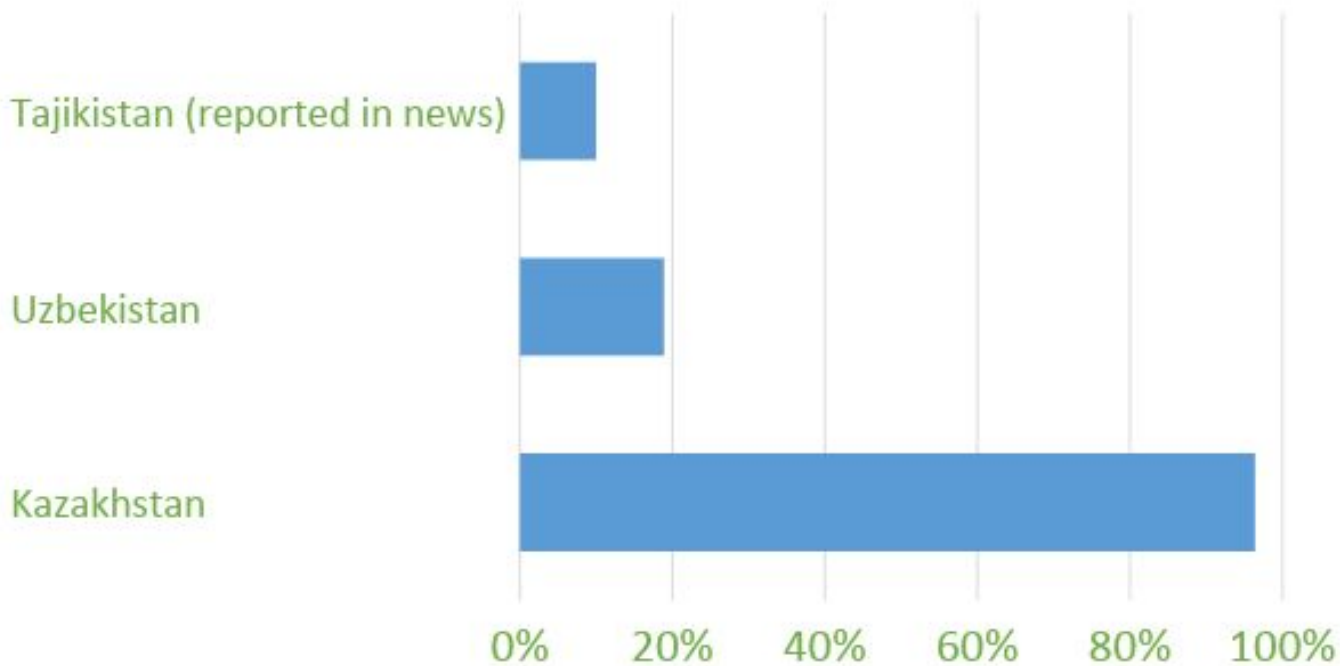
Source: CEIC

# SME activities are affected by relocation of companies and distribution hubs to Central Asia, and declining producer costs



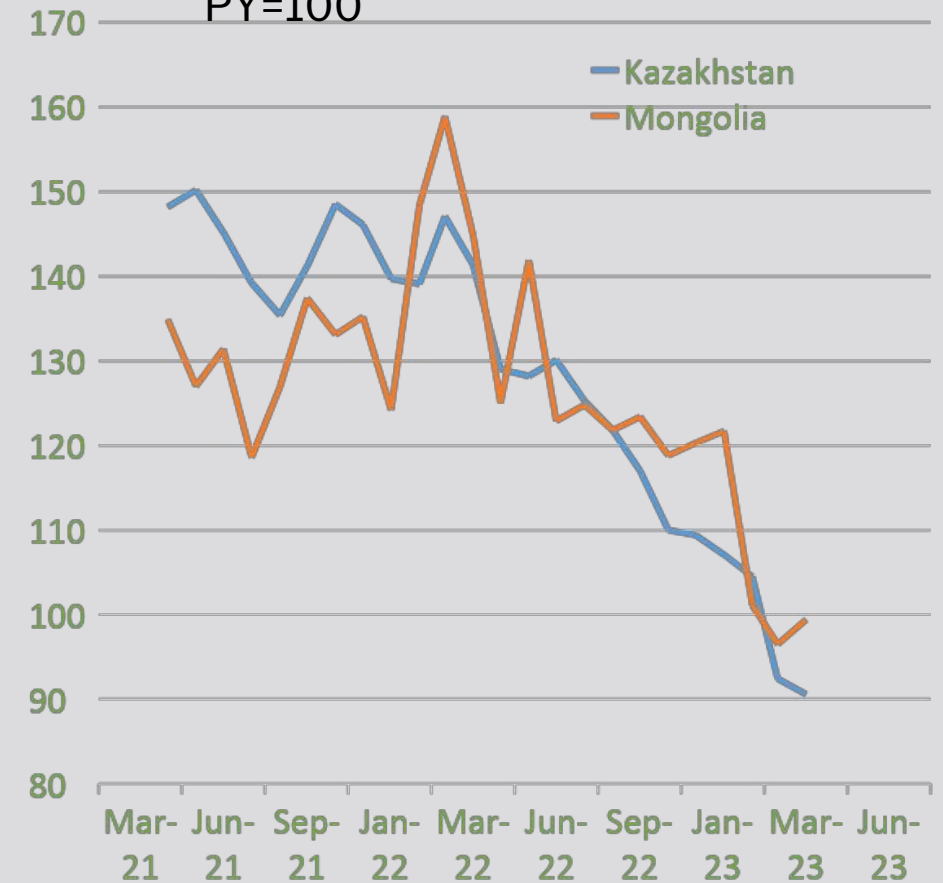
European Bank  
for Reconstruction and Development

Growth in the number of operating firms with Russian participation in 2022, %



Source: National authorities, local news outlet

Producer price index, SM  
PY=100



Source: CEIC

# Upside and downside risks related to the regional outlook



European Bank  
for Reconstruction and Development

Upside

- **Relocation** of foreign firms and investment in new activities related to voluntary exit of major global players from Russia
- **China's reopening** increasing demand for commodities and lowering the cost of logistics
- **International interest** in Central Asian transit, natural resources and

- Risk of **secondary sanctions** as part of EU's 11<sup>th</sup> package
- Potential escalation in Russia's war on Ukraine **interrupting transit routes**
- **Political economy constraints**: PEP presence in key sectors standing in the way of reforms, privatization and investment; populist fiscal policies feeding into inflation

Downside



**Eric Livny**  
Associate Director,  
Lead Regional Economist, Central Asia

Email: [LivnyE@ebrd.com](mailto:LivnyE@ebrd.com)

Find us on social media

