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ENTREPRENEURSHIP AND EMERGING ECONOMY RECOVERY POST-COVID-19 IN CENTRAL ASIA

Abstract: The article outlines the COVID-19 pandemic's unpredictable impacts on the global economy, including Central Asian countries, especially on small and medium-sized firms, as well as entrepreneurs, which have suffered significant impacts. On the other side, the author tries to explain the resilience that has grown as an entrepreneurial skill that helps firms to adapt and grow in the face of adversity. Entrepreneurs are critical to a society's economic recovery following catastrophic disruptions like as the COVID-19 epidemic. According to the author, entrepreneurs' capacity to discover and act on entrepreneurial possibilities during the crisis indicates their resilience, and their inventions enable new patterns of labor, learning, and leisure activities in post-COVID-19 communities. In this paper, the author discusses an analytical method that drove such resilient entrepreneurship during the COVID-19 epidemic in Uzbekistan, and he calls for more study on the interplay between external shocks, diverse forms of entrepreneurship, and the repercussions for resilience in developing economies.

Keywords: Covid-19, economy, small business, private entrepreneurship, pandemic, digital technology, global crisis, small and medium-sized firms.

INTRODUCTION

During the recent years the COVID-19 pandemic has been an unpredictable impact on the global economy of developing Central Asian countries, especially on small and medium-sized firms, as well as entrepreneurs, which have suffered significant impacts. The emergence of the COVID-19 pandemic in Central Asia in early 2020 sparked massive social and economic disruption in a region currently recovering from the 2008-09 Global Financial Crisis and the 2014-15 commodities price shock. Economic performance in the aftermath of previous crises suggested that the commodity-driven and cyclical growth paths pursued by most countries in the region had begun to run out of steam even before the pandemic: trend GDP growth was slowing, productivity growth was stagnant, inequality was rising, and The decreased potential of extractives-driven growth, particularly hydrocarbon-driven growth, impacted nations such as Kyrgyzstan, Tajikistan, and Uzbekistan, who were less key exporters of fuel and metals[1]. They had long exported surplus labor and earned substantial remittance inflows in exchange. Their economic health and stability were therefore heavily reliant on labor-market conditions in richer neighbors, mainly Russia and, to a lesser extent, Kazakhstan. Central Asian republics were therefore fighting to regain development momentum and establish the groundwork for new growth models when the COVID-19 epidemic struck the area — first through the commerce channel, then with the virus directly. As a result of fundamental structural flaws, Central Asian nations were particularly exposed to the shockwaves unleashed by the pandemic. The impact on local economic activity was significant, with enterprises closing as containment measures were implemented in the majority of countries, travel was restricted, and borders were briefly blocked. However, the crisis's

impact on the region's economy has been particularly severe, since trade disruptions, poor global demand for energy and commodities, and restrictions on people mobility have all had an impact on the region's primary development drivers. Complicating matters is the reality that the revival of these development drivers was primarily dependent on variables outside the region's governments' control. According to official data, Central Asia's aggregate GDP dropped by 1.7 percent in 2020 (Figure 1) [1], wiping off at least four years of per capita income advances for certain nations in the area and reversing progress toward poverty reduction (World Bank, 2021 [1]). An estimated 1.4 million individuals were driven into poverty in Central Asia, accounting for 58 percent of the overall poverty rise in the Europe and Central Asia area as defined by the World Bank. The impact on nations where the extractive and tourist sectors are important, such as Kazakhstan and Kyrgyzstan, has been particularly severe; their economies have dropped by 2.5 and 8%, respectively. According to Google Mobility statistics, despite the elimination of containment measures, economic activity in Q1 2021 is expected to be considerably lower than the baseline. There are indicators in every nation in the area that the recovery would be slower than projected. The pandemic's residual impacts and a sluggish vaccine rollout may reduce growth in the near term, leading to slower convergence with advanced OECD countries in the long run. Complicating matters is the reality that the resurgence of these growth drivers was primarily dependent on circumstances outside the region's governments' control. Despite its geographical isolation, Central Asia's economic growth is inextricably linked to demand from a number of external global demand centers.
(Figure 1)

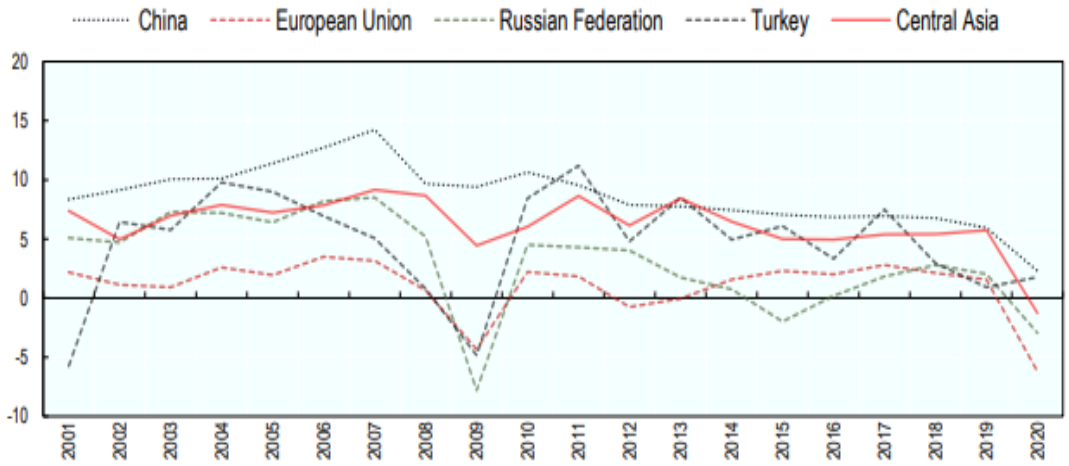


Figure 1. Real GDP growth in Central Asia and key regions

According to government figures, Central Asia's aggregate GDP dropped by 1.7 percent in 2020 (Figure 1), wiping off at least four years of per capita income advances for certain nations in the area and reversing progress toward poverty reduction (World Bank, 2021 [1]). An estimated 1.4 million individuals were driven into poverty in Central Asia, accounting for 58 percent of the overall poverty rise in the Europe and Central Asia area as defined by the World Bank. The impact on nations where the extractive and tourist sectors are important, such as Kazakhstan and Kyrgyzstan, has been particularly severe; their economies have dropped by 2.5 and 8%, respectively. There are signs in every nation in the area that the recovery would be slower than projected. The pandemic's residual impacts and a delayed vaccine rollout may reduce growth in the medium term and hinder convergence with advanced OECD countries in the long run [2].

The COVID-19 pandemic is possibly the most significant economic shock that have struck Central Asia since its turbulent first decade of independence (Figure 2). Growth is predicted to go up in 2021, but the pace of recovery remains uncertain due to severe budgetary pressures, reliance on the recovery of important markets for exports of commodities and surplus labor, and an uneven and tardy vaccine implementation (IMF, 2020 [3]). Growth in each of the region's economy is expected to be slower in the following years, despite staying positive, than in the years preceding the epidemic. Recovery from both the 2008 Global Financial Crisis and the 2014-15 commodity slump resulted in trend rates that were lower than they had been before to the shock. If this tendency continues, the area will underperform for years to come, and income convergence would virtually come to a halt. This emphasizes the need of policies that promote a shift in development patterns and assist the area in regaining the momentum it has lost as a result of multiple shocks since 2008.

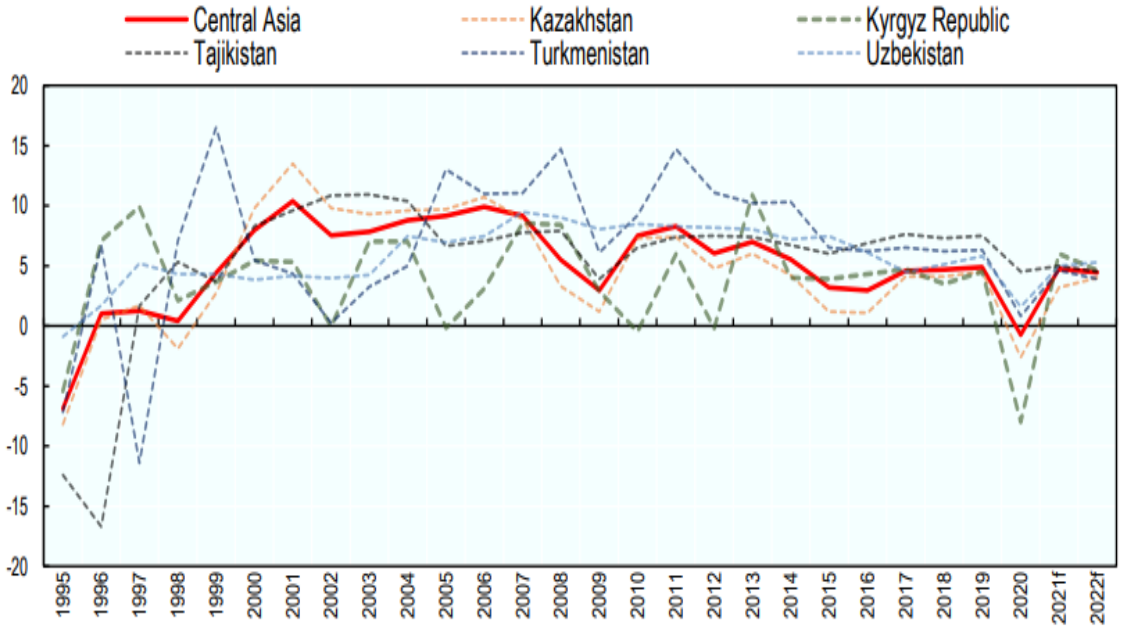


Figure 2. Long-term real GDP growth in Central Asia

The year 2020 witnessed Central Asia's first economic decline in almost two decades, with the recession following a long-term slowing in real GDP growth. Economic activity in Central Asia remained low in the first quarter of 2021, albeit some hints of recovery were beginning to show. Data from Google Mobility, which tracks changes in a variety of economic activity proxies such as transit passenger counts, shop footfall, and workplace activity, reveal that only public transportation surpassed the baseline established in early 2020, before the epidemic struck (Figure 3). Other activity indices, such as the number of individuals visiting stores and going to work, remained much lower than the pre-pandemic baseline.

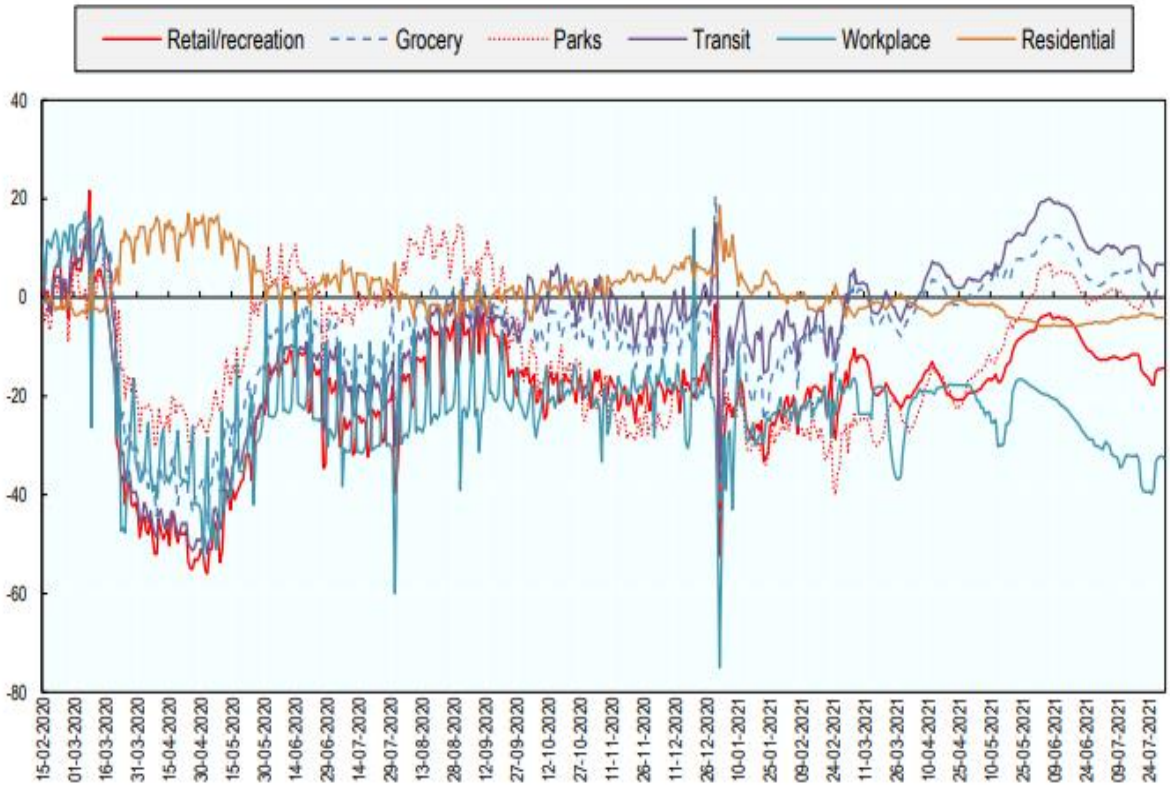


Figure 3. Economic activity in Central Asia: Google Mobility
Activity remains below pre-COVID levels in many areas of the region's economy

Preliminary statistics from national statistical organizations and company surveys paint a similar image of a reluctant reopening. The IHS Markit Composite PMI3 for Kazakhstan, which fell to a record low of 15 in April 2020, remained below 50 a year later (a score of 50 indicates a monthly growth in production and orders). Managers identified supply chain difficulties, shortages, higher raw material costs, and unfavorable exchange rates as factors leading to input price inflation [4].

Early data from Kyrgyzstan indicate a mixed start to the pandemic's second year. Policy responses in Central Asia, initially to restrict the spread of COVID-19 and then to alleviate its socioeconomic impact, have been comparable to those seen in OECD nations, with intervention sizes reflecting governments' budgetary capabilities as well as their sense of public health risk. All Central Asian nations imposed tight limits on international travel beginning in the first quarter of 2020, with many of these limitations continuing in effect until the summer of 2021 (excluding Kyrgyzstan, which repealed most restrictions in April 2021). Internal mobility restrictions were also imposed in Kazakhstan, Kyrgyzstan, Turkmenistan, and Uzbekistan in March 2020. These finished first in Uzbekistan (June 2020) and Kyrgyzstan (October 2020), and are still running in the others, with the exception of a brief respite in Kazakhstan during the summer of 2020. Tajikistan, on the other hand, had a limited domestic travel prohibition that only lasted until the summer of 2020. [5]. The Turkmen authorities maintain that there are no cases in the country, but Turkmenistan has kept internal travel restrictions in place longer than any other Central Asian country (these restrictions remained in place at the time of writing in August 2021), implying tacit acceptance that COVID-19 is circulating in the country and could spread even if no foreign travel occurs. Kazakhstan, Kyrgyzstan, Uzbekistan, and,

to a lesser extent, Tajikistan's economic reactions were broadly consistent with those found in OECD nations. Income assistance, including price restrictions, contributed to the strengthening of the social safety net. To keep firms afloat, policymakers extended business liquidity and credit lines via designated funds and commercial banks. Some people also advocated for bank loan repayment deferment. Taxation has been another important policy lever, both in terms of policy and administration, with governments, among other things, deferring tax filings, deferring payments, halting audits, and/or exempting corporations from social obligations. Moratoria on company inspections have also become popular throughout the region. Another policy option utilized by some governments to maintain providing services is digitalisation. Turkmenistan is an outlier in this regard: it has not declared any new projects since it does not recognize COVID-19 on its territory.

EXPANSIONARY MONETARY POLICY HAS COME AMID CONTINUED INFLATION

To stabilize and boost economic activity, central banks used expansionary monetary policies. Except for Turkmenistan, broad money rose strongly in 2020, with double-digit percentage growth in other economies (7.5 percent , down from 12.9 percent in 2019). Kyrgyzstan saw the greatest rise, at 23.2 percent, followed by Tajikistan at 18.5 percent, Uzbekistan at 17.9 percent, and Kazakhstan at 16.9 percent (IMF, 2020 [3]; OECD, 2021[6]. Simultaneously, central banks acted to stabilize national currencies, with a 19 percent depreciation of the Kyrgyz som likely contributing to the country's large surge in inflation – partially imported owing to rising food and basic commodity costs around the region. Other regional central banks took steps to boost exchange rate flexibility and enable their currencies to decline throughout the year. The Kyrgyz som, Uzbek sum, Kazakh tenge, and Tajik somoni all depreciated sharply against the US dollar in the second quarter of 2020. The Turkmen manat's official currency rate remained steady, but an unofficial rate of roughly 30 manat to the dollar, over 10 times the official peg, indicates a considerable overvaluation [7]. In late 2019, the market rate for the Turkmen manat was at 18:1, indicating that the crisis has had a significant impact on demand for foreign cash. While lower exchange rates may provide some relief to local exporters, they also risk raising the region's debt loads and lowering the purchasing power of consumers and businesses throughout the region's economy.

In a situation of relatively weak financial institutions, substantial domestic dollarisation, a large amount of external debt denominated in dollars, and undeveloped local capital, Inflationary pressures may be reduced as a result of monetary policy actions. While the effect of Although the pandemic may have exacerbated these structural flaws, it did not cause them. Inflationary pressures are anticipated to prevail in the coming years. The extent to which increased inflation rates in Central Asia will remain is unknown, although figures from the first quarter of this year suggest that they will. Statistics from Kazakhstan and Kyrgyzstan for the first half of 2021, as well as data from Tajikistan for the first half of 2021, indicate that inflationary pressures are building. Pressures remain severe, owing mostly to rising prices for imported groceries and basic goods. Only Uzbekistan appears to be in a stable state. If inflation continues high and a new negative shock hits the area, it is doubtful that central banks will cut policy rates further to support credit to consumers and businesses, as this would carry a large risk of accelerating price growth. Rising inflation would be a negative factor for investors' expectations in nations that have just entered international financial markets, such as Kazakhstan and Uzbekistan, and might lead to higher volatility in their currencies.

GOVERNMENT SHOULD COME UP TO REINFORCE FINANCIAL SYSTEM AND THE BANKING SECTOR'S SUSTAINABILITY

The establishment of better capital markets is critical to the development of the private sector in Central Asia. In the pre-pandemic era, the region's financial systems were quite stable (IMF, 2020 [8]). Nonetheless, the 2008 and 2014-15 financial crises weakened the resilience of banking sectors that were already underdeveloped. The absence of robust capital markets and well-developed banking institutions has stifled private sector growth. The issue has been particularly serious in Kazakhstan, where tenge liquidity has remained difficult, reflecting the National Bank's high level of dollarisation and rigid monetary policy, as well as the considerable underdevelopment of local money markets [9].

COVID-19's regional and national implications are anticipated to worsen existing vulnerabilities while creating new ones in the areas of liquidity availability and prudential regulation. By loosening lending regulations, including subsidised and directed lending, Kazakhstan and Kyrgyzstan enabled an acceleration of consumer credit growth in 2020. The necessity to provide liquidity to families and companies during the shutdown resulted in a further relaxation of prudential norms in nearly all nations in the area [10]. The combination of these developments may significantly boost bank capital requirements, particularly in Kazakhstan, where four of the 14 biggest banks already have such requirements in 2020. (IMF, 2020 [8]).

Furthermore, non-performing loans (NPLs) are projected to rise across the area as a result of the pandemic, severely limiting bank liquidity. All of this might stymie much-needed loan availability throughout the recovery. The issue may be especially serious for Kyrgyzstan and Tajikistan, both of which were already working on resolution and restructuring plans prior to the outbreak. Despite the fact that Uzbekistan's NPLs are expected to triple to 4.5 percent by November 2020, the country's banking sector appears to be sufficiently capitalised to sustain any credit shocks. In comparison, while NPLs in Kazakhstan have been relatively stable thus far, they may rise in the near future as support measures are phased down (IMF, 2021 [11]).

CONCLUSION

As a conclusion one can say that, while non-performing loans (NPLs) are projected to rise across the area as a result of the pandemic, severely limiting bank liquidity. All of this might stymie much-needed loan availability throughout the recovery. The issue may be especially serious for Kyrgyzstan and Tajikistan, both of which were already working on resolution and restructuring plans prior to the outbreak. Despite the fact that Uzbekistan's NPLs are expected to triple to 4.5 percent by November 2020, the country's banking sector appears to be sufficiently capitalised to sustain any credit shocks. In comparison, while NPLs in Kazakhstan have been relatively stable thus far, they may rise in the near future as support measures are phased down (IMF, 2021 [11]). The initial answers to the crisis demonstrated a growing tendency toward regional cooperation, which might lead to the formation of a regional, inclusive, and mutually beneficial recovery agenda.

The measures taken by Central Asian governments to promote their private sectors closely resembled those found in OECD nations, with most examples deviating mainly in breadth and funding. The focus will now shift to how to reduce support without jeopardizing recovery. This is a delicate balance to strike in Central Asia, where budgetary space is restricted and macroeconomic pressures are more intense than in OECD

nations. The significance on export income and migrant remittances, high levels of external debt, persistent inflation, and restricted tax bases are at the basis of the region's low economic resilience and, if left unchecked, create sustainability concerns about continued state intervention.

Because of structural concerns, Central Asia was particularly vulnerable to the economic consequences of the epidemic. When the global pandemic first hit Central Asia, the traditional drivers of regional economic growth had run out of steam: trend GDP growth had been slowing since the 2008 Global Financial Crisis, productivity growth had stagnated, inequality was rising, and convergence with OECD and EU countries was slowing. Despite reforms implemented throughout the region in the years preceding the pandemic, underdeveloped private sectors, serious flaws in the business climate, overreliance on primary commodity exports and migrant labor, weak competition, and high levels of informality all contributed to a loss of momentum. Central Asian countries required better, more durable, and long-term growth models.

The area is being confronted with three challenges.

First, they must ensure that enterprises and people emerge from the continuing crisis in the best possible shape. This will need careful management of the withdrawal of assistance, with the goal of minimizing the loss of viable enterprises. Support must be more targeted, and market disciplines must be permitted to resume regular operation.

Second, governments must redouble their efforts to fix the numerous structural flaws that were evident before to the crisis and have exacerbated its impact. This entails enhancing the domestic business climate in order to foster greater entrepreneurship, investment, and innovation.

Third, policymakers must guarantee that policies are established and executed to maximize Central Asia's future competitiveness in the global economy as the world moves toward a low-carbon transition and digital transformation. The successful management of these processes will be important to the increase of productivity, job creation, and investment. establishing the groundwork for a more sustainable economic future Prior to the COVID-19 outbreak, Central Asian reforms were mostly motivated by worries over the region's traditional sources of growth, including the export of excess labor and extractive products, as well as the increase of non-tradable businesses related with these.

In a post-pandemic setting, recovery planning necessitates dealing with the global economy's continued high level of uncertainty in order to adjust to a more competitive environment for foreign direct investment and to keep up with an international move toward decarbonisation. These issues contribute to the structural vulnerabilities that need to be addressed in Central Asia, while a constantly rising labor force will boost the need for quality employment even more. The epidemic has raised the opportunity cost of insufficient change across Central Asia, pushing governments to handle an unanticipated and still hard public health crisis while also planning for stronger and more resilient economies.

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