ECONOMIC GROWTH, DEMOGRAPHIC TRENDS, AND THE LABOR MARKET:

Realities and Challenges

Abridged Version

EFSD
EURASIAN FUND FOR STABILIZATION AND DEVELOPMENT



2026 Flagship Report

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Abbreviations & Acronyms

ALMPs	Active Labor Market Programs
CIS	Commonwealth of Independent States
COVID-19	Coronavirus Disease 2019
EAEU	Eurasian Economic Union
EFSD	Eurasian Fund for Stabilization and Development
GDP	Gross Domestic Product
HSE	Higher School of Economics, HSE University
ICT	Information and Communication Technologies
ILO	International Labour Organization
IMF	International Monetary Fund
JEL	Journal of Economic Literature
LFS	Labor Force Survey
NES	New Economic School
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
SNA	System of National Accounts
SMEs	Small and Medium-sized Enterprises
UN	United Nations
WBES	World Bank Enterprise Survey

Introduction

Within its mandate, the Eurasian Fund for Stabilization and Development (EFSD, Fund) conducts annual comprehensive diagnostics of macroeconomic stability, grounded in the continuous analysis of macroeconomic trends, risks, and imbalances. Risks to long-term growth and macroeconomic stability can be triggered by demographic shocks, structural and institutional bottlenecks, as well as sectoral imbalances and shocks.

The economies of all countries in the Eurasian region are undergoing structural transformation, altering sources of growth, key institutions, the role of specific sectors, and the employment structure. Changes are also taking place in policies aimed at fostering economic growth and ensuring macroeconomic stability.

In this context, the labor market is of particular interest. Its performance shapes key aggregate indicators such as labor force size, employment and unemployment levels, labor share of value added, as well as real wage dynamics and dispersion, among others. A superficial look at the aggregate figures presented in standard statistical reports suggests unconditional progress and the absence of serious problems in this area. However, beneath this “smooth” surface of prosperity lies a more complex and less clear-cut reality that carries significant medium- and long-term risks.

This report focuses on the labor markets of four countries in the Eurasian region: Armenia, Kazakhstan, the Kyrgyz Republic, and Tajikistan. The retrospective analysis spans a 15-year period, from 2010 to 2024.

1. Macroeconomic Conditions for Labor Market Development

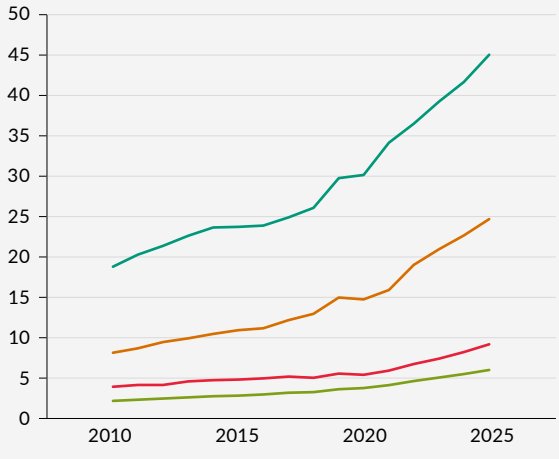
Over the period under review, the analyzed economies achieved significant progress in terms of absolute economic growth, employment, and real household incomes. Domestic demand, bolstered by rising household incomes and public investment, served as the primary growth driver. The contribution of sectors producing tradable goods and services, including agriculture (with the exception of Tajikistan), declined, whereas the contribution of non-tradable sectors, namely construction and services, expanded.

Economic expansion and income growth were accompanied by a reduction in poverty levels, though poverty rates remain elevated in Armenia, the Kyrgyz Republic, and Tajikistan. The pace of poverty reduction lagged behind GDP growth rates, while inequality levels remained virtually unchanged. Furthermore, the labor share of GDP remains suppressed.

Despite shared underlying trends in structural transformation, the economic growth models of individual countries exhibit distinct differences that shape their future dynamics, long-term growth sustainability, and prospective labor demand.

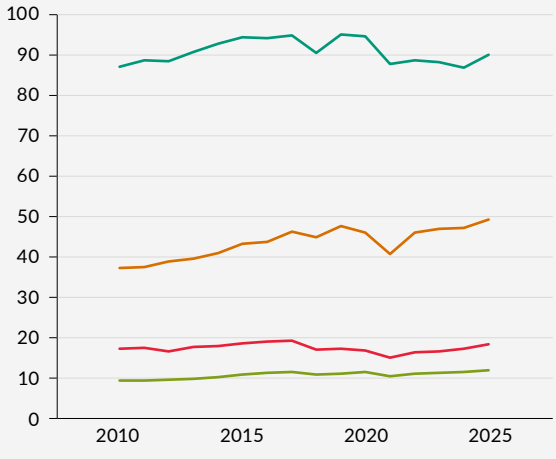
Over the 15-year period, **Armenia's** GDP increased by approximately 2.1 times, with average growth rates reaching 8.5% in the post-pandemic period. Growth was primarily driven by non-tradable sectors: market services and construction. This momentum was largely

Figure 1.
GDP per Capita at PPP (USD, thousand)



Source: IMF.

Figure 2.
GDP per Capita at PPP, as % of Russia



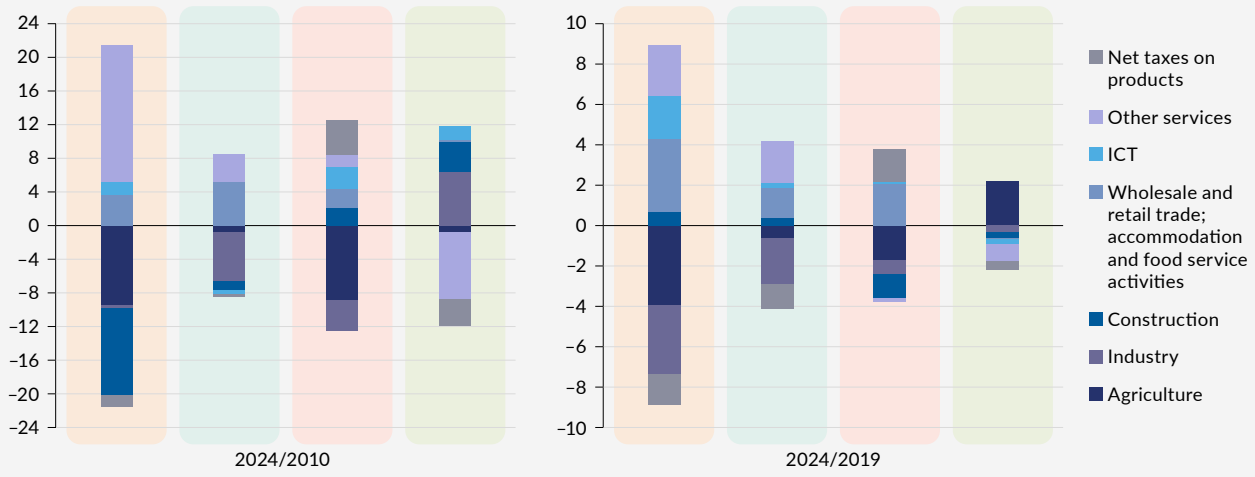
Source: World Bank.

propelled by temporary external factors, including inflows of foreign capital, skilled personnel, and financial transfers, alongside expanding tourism activity and intensified re-export operations. The role of these drivers grew particularly pronounced toward the end of the period. These capital and human flows simultaneously expanded productive capacity, particularly within services, ICT, finance, and construction. While Armenia advanced in diversifying its economic base, the future quality and sustainability of its growth will depend on its capacity to transition from temporary external stimuli toward productivity growth and the expansion of the tradable sector, including export-oriented industries.

Kazakhstan's economy maintains its position as the largest and most developed in Central Asia. The economy remains defined less by the absolute share of industry in gross value added and more by the heavy concentration of exports and fiscal revenues in extraction, metallurgy, and energy. Across the economic structure, activity is gradually shifting toward domestic demand-oriented sectors, evidenced by growing shares in retail trade, hospitality, and other market services. Kazakhstan's future economic trajectory will hinge on its ability to leverage accumulated reserves and institutional capacity to raise productivity, expand non-resource exports, and generate high-quality jobs outside the extractive sector.

Average economic growth in **the Kyrgyz Republic** over the 15 years of historical data stood at 5.4%, yielding a cumulative expansion of 2.2 times. The country's growth model relies heavily on robust domestic demand, manifested in a construction boom and service sector expansion. Although the share of agriculture halved over the 15-year period, it remains substantial. A persistent living-standards gap relative to Russia continues to drive outward labor migration, particularly from rural regions.

Figure 3.
Change in GDP Composition by Economic Activity, p. p.



Sources: Authors' calculations are based on data from national statistical agencies.

While absolute volumes of cross-border private remittances continue to grow, their relative share as a percentage of GDP is gradually moderating. Nevertheless, household consumption remains strongly dependent on migrant worker transfers.

Tajikistan's economy more than tripled in real terms, yet a substantial prosperity gap relative to regional leaders persists.



High Labor Turnover

100% workforce replacement annually

Economic growth relies heavily on external financial flows, including worker remittances. Structural transformation remains constrained: while agriculture continues to account for a high share of total output, industry's contribution grew primarily through the expansion of the mining and energy sectors.

In both the Kyrgyz Republic and Tajikistan, future development will depend on establishing a more balanced foundation for economic growth that harmonizes non-tradable activities (trade and construction) with tradable sectors (mining, manufacturing, and agriculture). Over the foreseeable horizon, labor migration will continue to play a structural role in both economies. Persistent bottlenecks to economic expansion include severe infrastructure constraints, weak private sector development, variable quality of public services, and low efficiency among state-owned enterprises.

2. Demographic Trends and Labor Markets

Across all analyzed economies, population dynamics and demographic structures represent critical determinants of economic development and long-term stability. The labor market serves as a key transmission mechanism through which demographic shifts influence economic performance and living standards.

Central Asian economies are characterized by rapid population growth driven by high fertility rates and a youthful age profile. Conversely, Armenia exhibits an opposing trajectory defined by population aging and contraction. These structural divergences are clearly reflected in their respective age pyramids: the near-perfect triangular profiles of Central Asian populations stand in stark contrast to Armenia's diamond-shaped demographic profile. Observed fertility rates and underlying trends dictate future population dynamics. According to UN demographic projections, by 2040, the total population of Tajikistan and the Kyrgyz Republic is projected to expand by approximately 20% and 30%, respectively,

while their working-age populations will increase by 26% and 40%. In Armenia, both total population and working-age cohorts are expected to shrink by 10–12%.

Can a high proportion of youth serve as a primary catalyst for economic expansion, while a low share triggers stagnation? The potential "demographic dividend" is structurally linked to a reduction in the demographic dependency ratio, that is, a declining ratio of non-working-age dependents to the working-age population. However, across all four countries, this dependency ratio has increased: in Armenia due to population aging; in Kazakhstan driven by the simultaneous expansion of child and elderly cohorts; and in the Kyrgyz Republic and Tajikistan owing to rapid growth in child cohorts. Over the past 15 years, labor productivity remained the principal driver of GDP growth across all four nations, whereas the contribution of age-structure shifts (conceived as the "demographic dividend") was either negligible or negative. Consequently, working-age population growth alone did not correlate with accelerated economic growth.

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Structural Reallocation

Shifts from agriculture to services



Each economy faces a distinct demographic challenge: Armenia encounters labor supply contraction coupled with emigration; Kazakhstan deals with an uneven age structure and rural-to-urban migration flows; while the Kyrgyz Republic and Tajikistan face absorption pressures from a rapidly expanding young labor force. In the coming years, the Kyrgyz Republic and Tajikistan are expected to experience a rapid decline in dependency ratios, opening a demographic "window of opportunity". In contrast, the decline in Kazakhstan's dependency ratio will decelerate due to population aging, while Armenia's dependency burden will continue to rise. The overarching conclusion is that harnessing potential demographic dividends requires sustainable job creation, productivity gains, and structural improvements in educational quality.

Table 1.
Population Trends:
Retrospective (2010–2024) and Prospective (2025–2040)



	2010	2025	2040
	3.05	2.95	2.67
	2.05	1.97	1.73

Change: 2025 → 2040

– 0.29 mln (– 9.0 %)	– 0.23 mln (– 12 %)

2010 → 2025

– 0.09 mln (– 3 %)	– 0.08 mln (– 4 %)



	2010	2025	2040
	5.5	7.3	8.76
	3.6	4.5	5.72

Change: 2025 → 2040

+ 1.46 mln (+ 20 %)	+ 1.19 mln (+ 27 %)

2010 → 2025

+ 1.83 mln (+ 33 %)	+ 0.96 mln (+ 25 %)

* Table 1 presents the population of Armenia based on *World Population Prospects 2024* data. According to the Statistical Committee of the Republic of Armenia, the population stood at 3.08 million in 2025, registering a slight increase compared to 2010. These figures incorporate the inward migration flows to Armenia from Karabakh.

Total population

Ages 15–64

	2010	2025	2040
Total population	16.2	20.28	24.25
Ages 15–64	11.17	12.55	15.30

Change: 2025 → 2040

+3.97 mln (+20%)

+2.75 mln (+22%)

2010 → 2025

+4.08 mln (+25%)

+1.38 mln (+12%)



	2010	2025	2040
Total population	7.7	10.6	13.7
Ages 15–64	4.59	6.34	8.8

Change: 2025 → 2040

+3.12 mln (+29%)

+2.46 mln (+39%)

2010 → 2025

+2.94 mln (+38%)

+1.75 mln (+38%)



Source: National Statistical Services; UN Department of Economic and Social Affairs, Population Division, World Population Prospects 2024. Population and labor force projections are based on underlying demographic trends excluding short-term migration shocks.

3. Migration Flows and Their Impact

An analysis of the interplay between demographic trends, economic growth, and labor market performance in the Eurasian region cannot overlook migration processes and their structural implications. This report examines three distinct dimensions of mobility: permanent, temporary labor, and internal migration. Between 2010 and 2024, permanent migration dynamics varied markedly across countries. Net negative migration flows observed during the 2010s transitioned into net positive balances in the 2020s across all analyzed economies except Tajikistan, which sustained a persistent net outflow.

Remittances strongly condition domestic demand, support private consumption, and mitigate poverty levels. Inbound cross-border transfers account for up to one-third of GDP in the Kyrgyz Republic and up to half of GDP in Tajikistan, establishing both nations among the most remittance-dependent economies globally.

Available estimates regarding the volume of labor migrants vary widely depending on data sources and underlying methodologies. Armenia's contribution to international labor migration has experienced a gradual decline. Kazakhstan does not serve as a major donor of labor migrants to foreign markets; instead, its role as a destination country absorbing labor flows from other Central Asian states continues to expand. Existing estimates of annual labor outflows from the Kyrgyz Republic range from 300,000 to 1 million individuals. Computations based on the 2024 Labor Force Survey (LFS) indicate approximately 330,000 citizens employed abroad, whereas synthetic panel adjustments roughly double this figure. Pre-pandemic World Bank estimates adopted a conservative baseline of 500,000 migrants, accounting for nearly 20% of the country's total employed population[1]. The Ministry of Internal Affairs of the Russian Federation reported that 1.74 million Tajik citizens were registered for labor migration purposes in 2024. Given Tajikistan's larger population and lower income levels relative to the Kyrgyz Republic, the true scale of labor migration could be at least twice as large as that of the Kyrgyz Republic. Nevertheless, all migration statistics require cautious interpretation due to significant data quality constraints.

Russia remains the predominant destination for labor migrants from the region; however, tightening Russian migration policies are progressively diminishing its absorption capacity. Although Kazakhstan is increasingly absorbing labor migrants from neighboring republics, its overall capacity as a host economy remains fundamentally incomparable to Russia's scale.

Temporary labor emigration is of vital importance for the Kyrgyz Republic and Tajikistan, given the constrained absorption capacity of their domestic

[1] Jobs in the Kyrgyz Republic. World Bank, 2018.

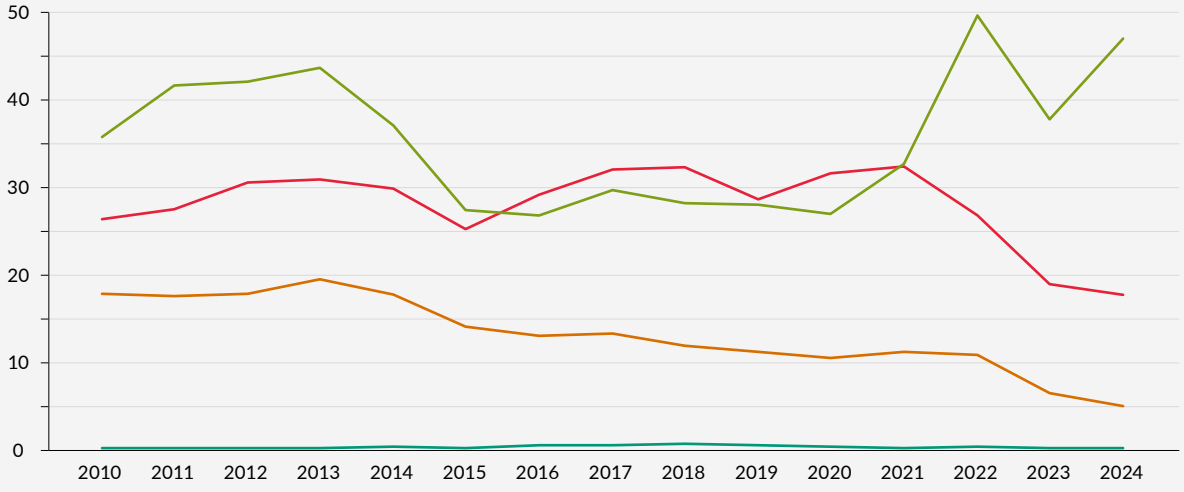
labor markets. High migration "donation" alleviates domestic labor supply pressures, serves as a key mechanism for suppressing unemployment, and generates a substantial portion of household incomes. Remittances strongly condition domestic demand, support private consumption, and mitigate poverty levels. Inbound cross-border transfers account for up to one-third of GDP in the Kyrgyz Republic and up to half of GDP in Tajikistan, establishing both nations among the most remittance-dependent economies globally.

The downside of this "migration dividend" is the manifestation of a specific form of Dutch disease. Key symptoms include local currency overvaluation and the stimulation of imports at the expense of non-resource exports. Under the specific conditions of these economies, this phenomenon is accompanied by the preservation of redundant rural employment, delayed structural transformation, and expanding labor market informality. Immediate private gains from migration can generate disincentives for investing in human capital, as migrants are predominantly employed in low-skilled jobs requiring no specialized education. Collectively, these factors freeze the economic structure and perpetuate low aggregate productivity.

A typical labor migrant is a young rural male with no more than secondary general education and lacking formal vocational training. When returning migrants resettle in rural areas and resume subsistence farming, they remain excluded from the structural transformation of the economy.

The primary driver of labor migration is the expected wage differential between destination and source labor markets. This income gap is widest for rural populations in the Kyrgyz Republic and Tajikistan seeking employment in Russian

Figure 4.
Cross-Border Private Remittances, % of GDP



Source: World Bank, national banks.

or Kazakhstani urban centers. A typical labor migrant is a young rural male with no more than secondary general education and lacking formal vocational training. When returning migrants resettle in rural areas and resume subsistence farming, they remain excluded from the structural transformation of the economy.

Intensive external migration, yielding higher labor income gains than domestic rural-to-urban migration, can disincentivize the latter. As potential earnings in domestic urban centers converge with foreign wage levels, the relative benefits of internal rural-to-urban migration increase. This internal reallocation drives labor out of agriculture and fosters broader structural transformation – a trajectory currently observed in Armenia and Kazakhstan.

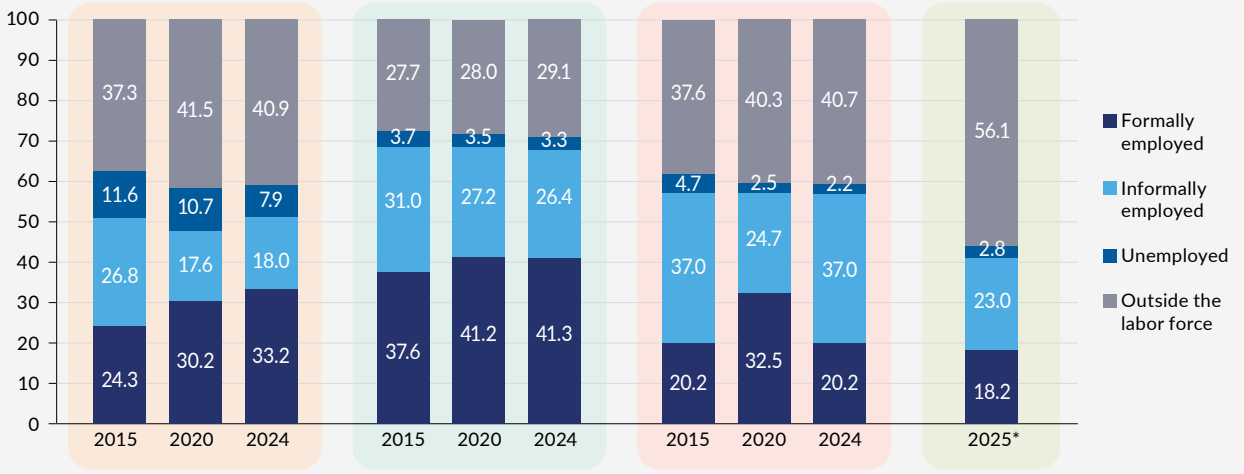
The gradual erosion of Russia's role as the primary destination country necessitates adaptive migration policy responses in sending nations. For the Kyrgyz Republic and Tajikistan, strategic responses must encompass destination diversification alongside effective reintegration frameworks for returning migrants, including targeted support for small business development and entrepreneurship. For Armenia, facing population contraction and aging, policies should focus on incentivizing the return of its diaspora. For Kazakhstan, the main challenge centers on managing large-scale internal migration from rural areas to major urban agglomerations. Across all contexts, these dynamics require proactive expansion of urban social and housing infrastructure. An overarching priority for all countries is the alignment of migration frameworks with national strategies aimed at generating productive employment. Given their structural weight, internal and external migration processes warrant dedicated further empirical research and systematic monitoring.

4.
Labor Market Overview: Trends, Employment Rates, and Sectoral Structure

A significant desynchronization exists between the dynamics of the working-age population and the dynamics of the labor force and employment. Across all countries, the growth of the working-age population was largely absorbed by economic inactivity (out of the labor force).

In Armenia, against the background of marginal population growth, both the labor force and unemployment shrank. In Central Asian countries, by contrast, the labor force expanded in absolute terms, but grew more slowly than the population, which was accompanied by faster growth in the number of people outside the labor force. In Kazakhstan, this outpacing was a relatively moderate 6 percentage

Figure 5.
Population Structure (Ages 15–74) by Labor Market Status: Armenia, Kyrgyz Republic, Kazakhstan (2015, 2020, 2024); Tajikistan (2025), %



Armenia Kazakhstan Kyrgyz Republic Tajikistan

Source: LFS (Labor Force Survey).

Note: The share of informal employment in Tajikistan has been estimated based on statistics on formal and informal employment outside agriculture, and under the assumption that formal employment in the agriculture sector in Tajikistan is close to zero.

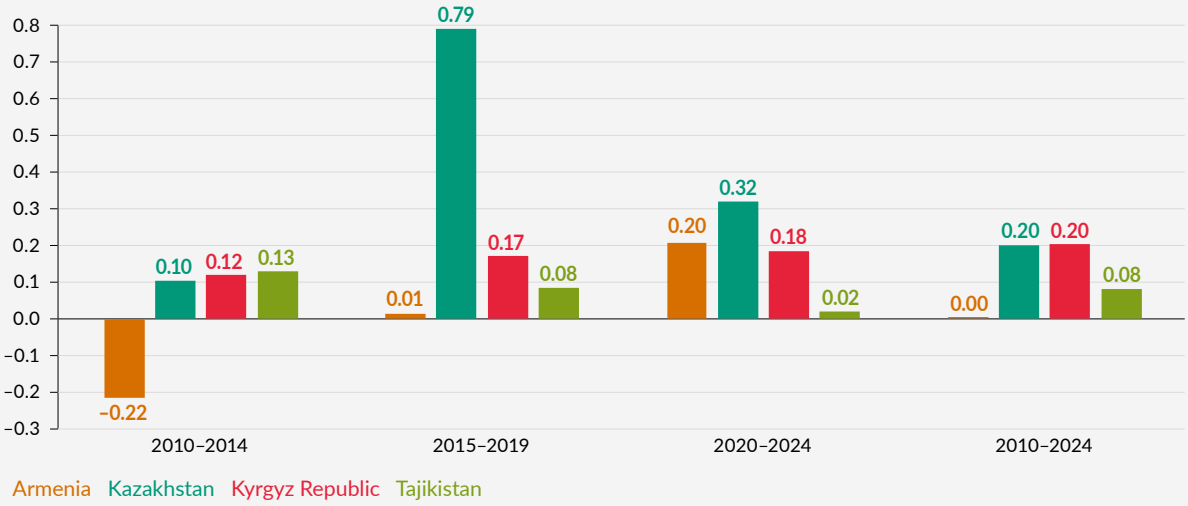
points, owing to shifts in the age pyramid (an expansion of the population aged 65 and older). In the Kyrgyz Republic, it equaled 17 percentage points, while in Tajikistan it reached 39 percentage points. The number of unemployed persons, within the labor force, declined across all countries, though this was also partially driven by outflows from the labor market. Kazakhstan is distinguished by a consistently high labor force participation rate, with less than 30% of the working-age population remaining outside the labor force. In Tajikistan, however, over half of the population is economically inactive, while in Armenia and the Kyrgyz Republic, two out of every five working-age individuals are inactive. In the Kyrgyz Republic and Tajikistan, labor market exit (alongside migration) serves as one of the key channels for absorbing the growing population on the labor market and maintaining low unemployment rates.

A common feature across all four economies is that even rapid economic growth exhibits a weak influence on employment dynamics. In Central Asian countries, total employment increased by 13–18% over the 15-year period, whereas in Armenia, following a prolonged contraction, it merely returned to 2010 levels. Even the acceleration of GDP growth in the post-pandemic period was not accompanied by acceleration in employment growth.

Estimates of the employment elasticity (per 1% GDP growth) across different sub-periods vary considerably (Figure 6). On

A common feature across all four economies is that even rapid economic growth exhibits a weak influence on employment dynamics.

Figure 6.
Employment Elasticity, 2010–2024



Source: National Statistics and World Bank Data, authors' calculations.

average over the period, elasticities were highest in Kazakhstan and the Kyrgyz Republic (around 0.2), but substantially lower in Armenia and Tajikistan. In recent years, elasticity stood at 0.32 in Kazakhstan, remaining much lower in the other countries. Low elasticity would be understandable under conditions of simultaneously high, stable employment rates (as in Kazakhstan) and a stagnant population (as in Armenia); however, such a combination of circumstances does not exist in any of the analyzed economies. Across all countries, economic growth relied on a rather narrow sectoral base, and its gains translated primarily into real wage growth for workers in the formal sector. Given the challenges posed by rapid adult population growth in Central Asian countries, the low responsiveness of job creation to the labor demand potentially generated by economic growth warrants additional analysis.

Across all countries, economic growth relied on a rather narrow sectoral base, and its gains translated primarily into real wage growth for workers in the formal sector.

The total number of employed persons depends on the size of the working-age population and its employment participation rate – the employment-to-population ratio (EPR). Except for Kazakhstan, where the EPR ratio for the total population (aged 15 and older) exceeds 65%, the analyzed countries are characterized by relatively low values. In the Kyrgyz Republic, values comparable to Kazakhstan's for men are combined with low values for women. In Armenia, the EPR ratio hovers around 50%, and in Tajikistan around 40%. Across all countries, the observed values are highly stable over time. Available surveys may understate male employment rates in Tajikistan, as they might fail to capture employment in foreign labor markets.

The male employment rate in Armenia exceeds the female rate by 20 percentage points, and in the Kyrgyz Republic and Tajikistan by 24–25 percentage points. Cross-country variation in employment rates is well illustrated by age distributions, particularly among women. In Armenia, Kazakhstan, and the Kyrgyz Republic, male employment rates in prime working ages (25–59 years) do not fall below 80%, but in Tajikistan they remain consistently low. Female employment rates at prime ages in Kazakhstan are comparable to those of men. In the other three countries, female employment rates are substantially lower and vary markedly along the age profile. In Armenia and the Kyrgyz Republic, they gradually increase (from 50–55% at ages 25–29) to reach a peak (around 70%) by ages 40–45, before declining again. Female employment rates in Tajikistan remain low across all age groups, failing to reach even 50%. Across all countries, employment participation among both men and women in the extreme age groups remains substantially below average.

With increasing levels of educational attainment, including participation in all forms of formal training, employment participation increases, particularly among women. In Armenia, Kazakhstan, and the Kyrgyz Republic, the share of tertiary education holders among the employed expanded by approximately 5 percentage points over the 15-year period. Given the gradual spread of vocational training, an upward movement in employment rates can be anticipated. This applies to a lesser extent to Tajikistan, where shifts in the educational structure of the population over recent decades have been minimal.

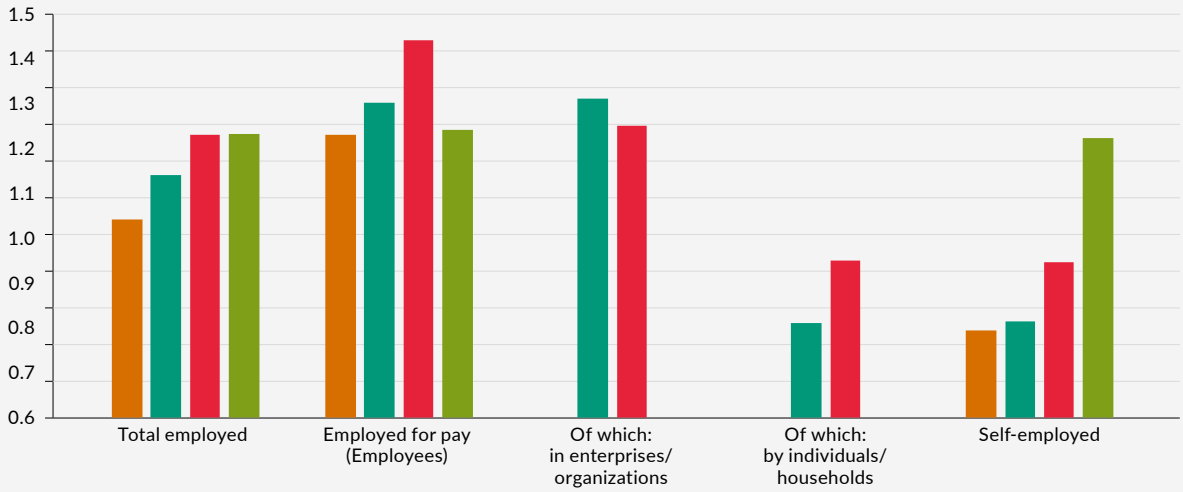
Female employment rates at prime ages in Kazakhstan are comparable to those of men. In the other three countries, female employment rates are substantially lower and vary markedly along the age profile.

Employment is inherently heterogeneous, comprising segments of jobs of varying quality and characteristics. One such division involves the classification into wage/salaried workers and non-wage workers (self-employed).

Wage workers can be statistically divided into many categories. First, those employed in organizations and enterprises that are legal entities (hereinafter “organizations” or the “corporate segment”). This segment includes, in particular, all public sector entities and large enterprises, regardless of ownership form. Only the organizations and enterprises belonging to this segment are legal entities subject to full regulatory frameworks. As a rule, commercial enterprises in this segment are more productive, technologically advanced, and capital-intensive than those outside it. Despite numerous exceptions, on average, job quality (wages, social guarantees, working conditions) is higher in the corporate segment than in the non-corporate segment.

Second, wage employment under unincorporated individual entrepreneurs and private individuals. Enterprises operated by private individuals are typically micro-enterprises with small headcounts and can be viewed as part of the household sector within the boundaries of the System of National

Figure 7.
Relative Changes in Employment by Employment Type, 2010–2024



Source: National Statistics and authors' calculations.

Accounts (SNA). A significant portion of this segment is informal (unregistered, tax-evading, etc.) or semi-formal, making statistical observation difficult. Wage workers in this category are virtually deprived of social protection in the form available within the corporate segment.

The number of wage workers expanded faster than total employment (including the self-employed) everywhere except Tajikistan. While in Kazakhstan employment expansion was driven primarily by job creation in the corporate segment, in the Kyrgyz Republic roughly 75% of all additional wage jobs were created outside this segment. In Tajikistan, both segments of workers – wage earners and self-employed – grew at approximately equal rates, jointly adding around half a million employed persons. Unfortunately, statistics in Tajikistan do not separate wage workers employed by private households from the total paid workforce; however, this category appears to be merged with the self-employed.

The non-corporate segment of wage employment, exhibiting many attributes of informality, continues to play a vital role in absorbing the growing population into the labor market; its role is particularly pronounced in the Kyrgyz Republic.

The non-corporate segment of wage employment encompasses both sole propreators and domestic workers. Statistically disentangling these two categories is not always feasible. In Kazakhstan, this group accounted for approximately 12% of total employment, and its share has remained virtually unchanged since 2012. In the Kyrgyz Republic, its share stood at 38% in 2024, representing a decline compared to 2010. Nevertheless, in both economies, the numbers of such workers expanded by

250,000 and 420,000, respectively. This type of employment, exhibiting many attributes of informality, continues to play a vital role in absorbing the growing population into the labor market; its role is particularly pronounced in the Kyrgyz Republic.

The countries of the region are characterized by substantial cross-sectoral labor productivity differentials. In 2024, the cross-sectoral productivity gap in Armenia increased fourfold, in the Kyrgyz Republic, it stood at 20%, while in Kazakhstan and Tajikistan, average labor productivity in the services sector was approximately twice as high as in agriculture. Under these conditions, cross-sectoral labor reallocation (from agriculture to services) should yield a positive contribution to aggregate productivity growth.

A decomposition of aggregate labor productivity growth into sectoral productivity growth components and structural employment shifts demonstrates that, over a 15-year period, structural shifts accounted for roughly a quarter of average annual productivity growth in Armenia (23%, or 1.29 out of 5.71 percentage points) and in Kazakhstan (27%, or 0.85 out of 3.2 percentage points), and 12% (1.03 out of 8.33 percentage points) in Tajikistan. The smallest contribution was recorded in the Kyrgyz Republic (4%, or 0.17 out of 4.0 percentage points), where the cross-sectoral productivity gap was minimal.

In the post-COVID period (2020–2024), these proportions shifted. In Tajikistan, the contribution of structural shifts expanded to one-third, whereas in Armenia, Kazakhstan, and the Kyrgyz Republic, it declined. Judging by the persistent share of agricultural employment and the magnitude of the productivity gap, the potential for structural transformation remains far from exhausted, particularly in the Kyrgyz Republic and Tajikistan.

A transition from informal agriculture to the semi-informal or informal services sector severely constrains the structural reallocation effect.

From the standpoint of labor reallocation effects on productivity, the specific subsegment of the services sector that expands as agriculture contracts is critical. A transition trajectory from informal agriculture to the semi-informal or informal services sector severely constrains the structural reallocation effect. Micro- and small enterprises, typical of this economic segment, generally employ rudimentary technologies and basic human capital, rendering them incapable of achieving economies of scale. Furthermore, small firm size implies a truncated job ladder, which stifles firm-level human capital accumulation and professional advancement. Upward mobility along a job ladder typically drives earnings growth, but this mechanism remains inherently constrained here.

Across all countries, micro- and small enterprises predominate, and according to available statistics, this distribution has not changed radically over time. The structural logic of economic development assumes that business units established as micro-enterprises gradually grow

> **Across all countries, micro- and small enterprises predominate, and according to available statistics, this distribution has not changed radically over time.**

in size, surviving market selection to transition into larger enterprise tiers and capturing economies of scale. In Armenia's private sector, roughly 70% of workers are employed in business units with fewer than 10 employees; in Kazakhstan, approximately a quarter of total employment is concentrated in micro-organizations with up to 15 employees; while in the Kyrgyz Republic, nearly one in every two workers is employed in micro-businesses with up to 5 employees, an outcome consistent with the large share of individual employers. Although the distribution of employment across formal organizations and enterprises is skewed toward larger business units, the weight of micro-business remains substantial even within this group.

If enterprise scale matters and yields significant economic gains, what prevents firms from expanding and achieving economies of scale? This problem stems from institutional and structural factors, remaining a major impediment to economic development and growth.

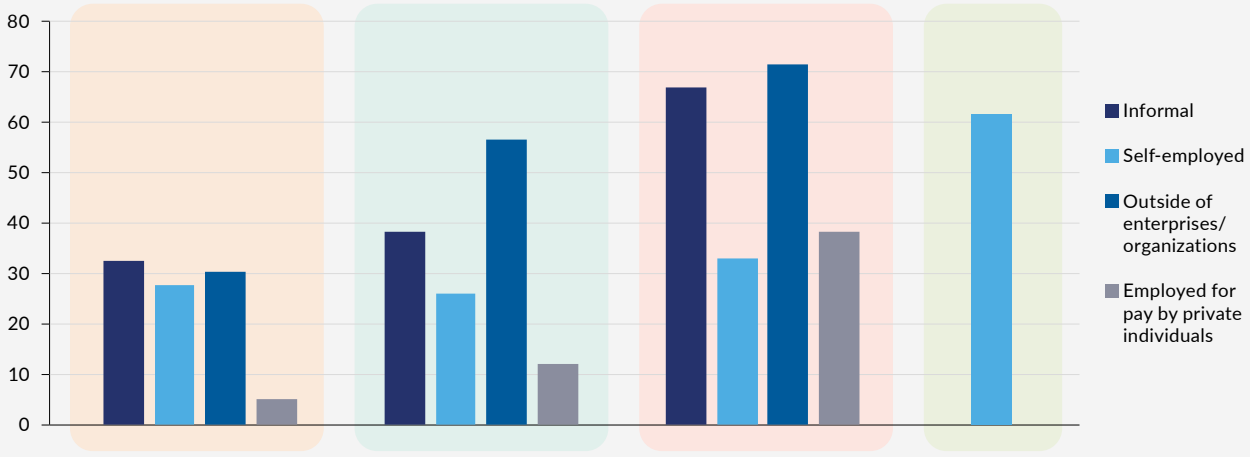
5. "Is it Normal to be Informal?" Job Quality, Informal Employment, and Self-Employment

The problematic nature of labor market informality has long been recognized, yet a consensus on how to define and measure it remains elusive. Despite ILO efforts to standardize labor market informality statistics, informality continues to be measured in diverse ways using various data sources based on practical availability. Furthermore, between complete formality and complete informality lies an extensive gray zone containing distinct characteristics of both states.

In the economies analyzed in this report, informality is a pervasive phenomenon regardless of the statistical metrics applied. We estimate the share of informal employment using four alternative definitions.

The first estimate measures the share of informal workers using a legalistic definition (formal tax registration and social security contributions) derived from Labor Force Surveys (LFS). This group comprises informal self-employed workers and informally employed wage workers. The second estimate isolates the share of self-employed workers, also identified via LFS data, representing a specific subset of the first metric. For Tajikistan, the corresponding question was included in the 2020 Population Census. The

Figure 8.
Estimates of Informality Across Alternative Definitions, % of Total Employment



Armenia Kazakhstan Kyrgyz Republic Tajikistan (2020)

Sources: National Statistics, authors' calculations.

third estimate captures the share of sole proprietors and paid domestic workers. Finally, the fourth estimate measures the share of workers employed outside the corporate segment (which comprises legal entities of all types).

For Armenia, three of the four estimates clustered around 30% of total employment in 2024. The estimate for workers outside the corporate segment is calculated as the residual between total employment and headcount figures registered with the State Revenue Committee.

In Kazakhstan, estimates vary from 12% paid employment for private individuals (based on LFS data) to over half for non-corporate sector employment (according to administrative statistics). In the Kyrgyz Republic, the share of informally employed workers (under the legalistic definition) virtually mirrors the estimated share of employment outside the corporate segment, both yielding approximately two-thirds of total employment. For Tajikistan, two estimates of self-employment are available: one derived as the residual between total employment and wage employment, exceeding 50% in 2024; the second, based on 2020 Census data, yields 62% of total employment. Actual informality levels may be higher, as these metrics appear to exclude informal wage workers.

The share of informal employment (under the legalistic definition, and for Tajikistan as self-employment) followed divergent trajectories over the analyzed period. In Armenia, it declined by 22 p.p. (from 52% to 30% of total employment) and in Kazakhstan, it dropped by 8 percentage points. In the Kyrgyz Republic, it rose by 16 percentage points, underscoring its pivotal role in absorbing expanding labor supply. Comparative time-series data are unavailable for Tajikistan, but the share of

The structural characteristics of informal employment are remarkably similar across all countries. It predominates in agriculture as well as in service activities such as retail trade, catering, and transport.

self-employment remains stably high at over 50%.

The structural characteristics of informal employment are remarkably similar across all countries. It predominates in agriculture as well as in service activities such as retail trade, catering, and transport. In Tajikistan, nearly three-quarters of informally employed individuals are concentrated in agriculture, compared to over half in Armenia. In Kazakhstan, informal labor is divided roughly equally between agriculture and market services, whereas in the Kyrgyz Republic, market services constitute the primary domain of informal labor.

Both supply-side and demand-side factors govern the dynamics and structural composition of informal employment. First, expanding labor supply across Central Asian economies interacts with demand constraints, shaping how new entrants are absorbed. In the Kyrgyz Republic, informal employment expanded by 60% between 2010 and 2024, whereas total employment grew by only around 20%.

Second, structural shifts involving labor reallocation from agriculture to market services have sustained informality, as the services sector remains largely informal and dominated by micro-businesses. Consequently, structural reallocation alters the composition of informality rather than reducing its overall prevalence.

Despite variations in statistical definitions and estimates, the core conclusion remains that informality constitutes a severe structural impediment for all analyzed economies, placing a durable drag on labor productivity growth and living standards. Informality poses heightened risks when accompanied by labor market segmentation that restricts worker mobility and cross-sectoral reallocation. Under such conditions, the informal segment reproduces itself as a chronic trap from which workers lack viable exit options.

One approach to curbing informality focuses on improving tax administration and increasing administrative enforcement on economic units operating within government detection parameters. However, pursuing "formalization" strictly through enhanced tax compliance and regulatory pressure fails to address the fundamental traits of these jobs – namely, their rudimentary technology, low productivity, depressed wage levels, and absence of social safety nets. Ultimately, the entrenchment and proliferation of informal employment stem primarily from the lack of formal alternatives, specifically, private sector weaknesses and its inability to generate decent-quality jobs. The primary and indispensable path toward resolving this challenge lies in establishing conditions that foster the creation of formal private-sector jobs as the preferred alternative, requiring institutional reforms and deep structural adjustments.

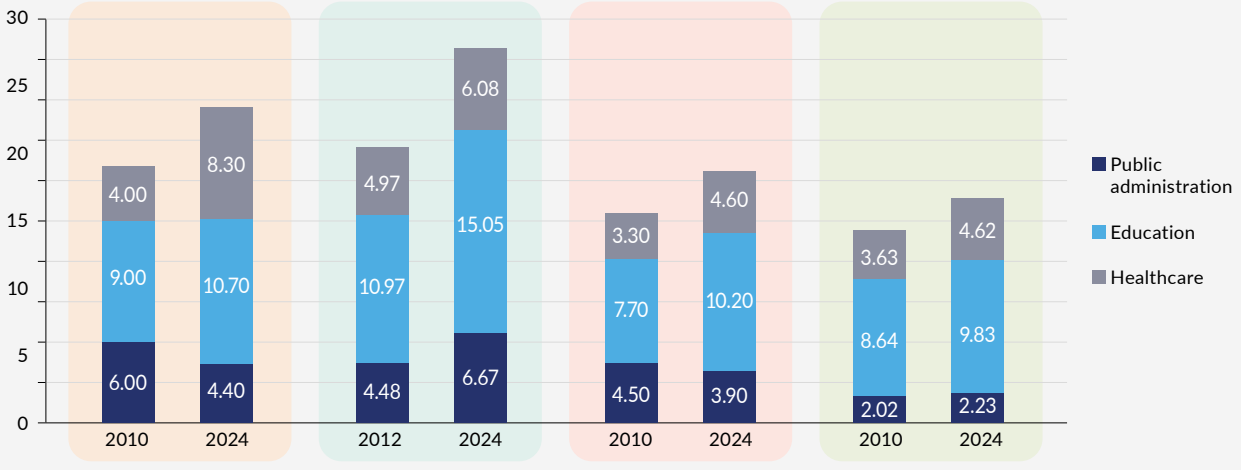
6.
Public Sector: Producer of Public Goods or Social Safety Net Institution?

The public sector, encompassing public administration, education, and healthcare, funded predominantly through budgetary sources, is responsible for state functioning and the provision of vital public goods such as education, healthcare, and social assistance. The skills and motivation of public sector employees, in turn, depend on how hiring and promotion mechanisms are structured, how workers accumulate experience and qualifications, and how their labor efforts are remunerated.

In 2010, these three economic activities accounted for 15% to 20% of total employment across the analyzed economies. Over the subsequent 15 years, the relative weight of the public sector expanded universally, reaching 17% to 27% by 2024 (Figure 9). This range aligns with values typical of OECD countries. The highest figures were recorded in Kazakhstan and Armenia, while the lowest were observed in the Kyrgyz Republic and Tajikistan. Growth over this period was driven primarily by an expanding headcount in education, reflecting

Over the subsequent 15 years, the relative weight of the public sector expanded universally, reaching 17% to 27% by 2024 (Figure 9). This range aligns with values typical of OECD countries.

Figure 9.
Employment Composition in the Public Sector, %



Armenia Kazakhstan Kyrgyz Republic Tajikistan

Source: National Statistical Services, CIS Statistical Committee, authors' calculations.

Regarding employment within formal entities – the corporate segment, where these three activities account for the vast majority of formal workers – the public sector share is higher still. For instance, in the Kyrgyz Republic it exceeds 60%, in Kazakhstan 50%, in Armenia 28% (of all workers registered with the State Revenue Committee), and in Tajikistan 33% (among all wage employees, the formal share of whom remains unknown).

demographic trends on the supply side and rising demand for tertiary education on the demand side. High birth rates and the corresponding expansion of child cohorts across Central Asian economies generate growing demand for teachers and related professions. The public sector also plays a vital role in sustaining female employment, as its gender balance is strongly skewed toward women. In the Kyrgyz Republic, one in every three employed women (33%) works in these three sectors, while in Kazakhstan the proportion reaches two in five (38%).

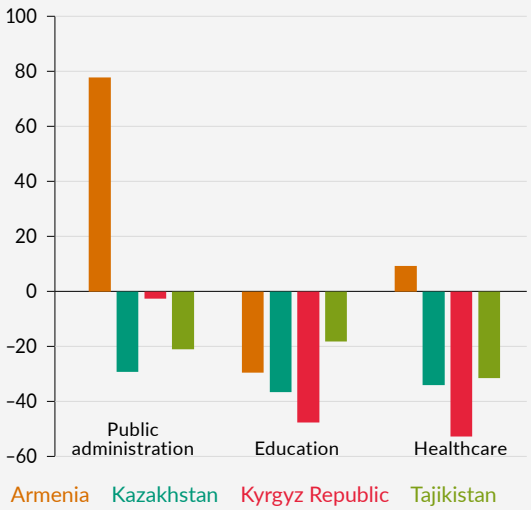
Regarding employment within formal entities – the corporate segment, where these three activities account for the vast majority of formal workers – the public sector share is higher still. For instance, in the Kyrgyz Republic it exceeds 60%, in Kazakhstan 50%, in Armenia 28% (of all workers registered with the State Revenue Committee), and in Tajikistan 33% (among all wage workers, the formal share of whom remains unknown). These ratios indicate less that the public sector is quantitatively bloated and more that the formal private sector as an alternative avenue for employment (rather than functional scope) remains weak in its capacity to generate decent jobs.

The average worker in education and healthcare earns significantly less than a worker in manufacturing, where low- and medium-skilled labor predominates.

The average worker in education and healthcare earns significantly less than a worker in manufacturing, where low- and medium-skilled labor predominates (Figure 10). To evaluate how wage gaps evolve across the earnings distribution in Armenia and the Kyrgyz Republic, we rely on quantile regression estimations while controlling for individual human capital characteristics and regional fixed effects. Wage employees in non-agricultural private-market enterprises serve as the reference comparison group.

In Armenia, when moving from the 10th to the 90th percentile of the wage

Figure 10.
Relative Wages in the Public Sector (Ratio to Manufacturing), % Gap, 2024



Source: National Statistical Services, CIS Statistical Committee, authors' calculations.

distribution, the gap between employees in public administration, education, and healthcare and employees in the corresponding deciles in the market sector changes progressively as follows: from a 12.5% bonus to a 7% penalty for public administration employees; from −7% to −30% in education; from actual parity (0%) to −15.6% in healthcare.

In Kyrgyzstan, the gap for public administration employees is becoming moderately positive, while the penalty for education and healthcare employees noticeably decreases in the lower part of the wage distribution. However, in the upper part of the distribution (90th percentile), the penalty increases sharply and reaches 14% and 37%, respectively. Because the upper tail concentrates the most highly qualified and experienced professionals, these substantial wage discounts heighten the risk of adverse selection into these essential occupations, directly undermining the quality of public goods.

Given the limited range of formal employment opportunities for women with tertiary or specialized secondary education, the public sector provides a major share of such skilled positions. Standard monetary gap estimates do not account for the full bundle of non-wage amenities associated with public sector employment (such as enhanced job security, guaranteed paid leave, and schedule flexibility for childcare). The presence of these non-monetary benefits enhances the attractiveness of even low-wage positions, particularly since the occupational mobility of teachers and healthcare professionals is constrained by their specialized, non-transferable human capital investments. At the same time,

Institutional reforms targeting public sector compensation systems and aiming to raise relative wages and make them more robust, would be beneficial across all analyzed economies.

this arrangement increases the likelihood that, rather than cultivating strategically vital human capital, the public sector functionally operates as a substitute for formal social safety net institutions.

Wage-setting mechanisms in the public sector exert several macroeconomic externalities. First, depressed public sector pay contributes to lowering the overall equilibrium wage level across the broader economy, functioning as an institutional mechanism that complements other labor market institutions. Second, it disincentivizes transitions from informal to formal employment, as narrowing the net wage differential between the two sectors reduces the returns to formalization. Third, it depresses the overall return on education, thereby eroding private incentives to invest in human capital.

Given the size of the public sector, its share in fiscal expenditures, and its footprint on the labor market, its dynamics warrant further empirical research. Institutional reforms targeting public sector compensation systems and aiming to raise and harden relative wage structures would be beneficial across all analyzed economies. Adhering to the principle of “equal pay for equal work” requires that public sector remuneration be anchored, ceteris paribus, to prevailing private market benchmarks for workers possessing comparable human capital.

7. Labor and Job Mobility

Structural shifts entail the reallocation of labor (and other productive resources) across economic sectors. One mechanism of labor reallocation operates through intergenerational replacement, whereby younger cohorts refrain from entering sectors dominated by older workers. Comparing sector-level employment structures across 5-year age cohorts over the observation period reveals no evidence that intergenerational replacement served as the primary reallocative mechanism, despite its presence.

Another mechanism operates via inter-job mobility, where workers shift sectors by changing employers. In both instances, this process is mediated by labor flows through hiring and separations, as well as job creation and destruction at the firm micro-level.

Labor turnover data covering hires and separations for 2010–2024 demonstrate relatively high rates in Kazakhstan throughout the period, with a slight upward trajectory over time. Annual turnover averaged roughly 50%, with hiring consistently exceeding separations, thereby generating net employment growth in the corporate segment. High turnover rates reflect a continuous pipeline of open vacancies, facilitating access to employment opportunities. In the Kyrgyz Republic and Armenia, turnover intensity was substantially lower; Armenia experienced marginal net employment growth in organizations, whereas corporate sector employment in the Kyrgyz Republic at best stagnated over the full period. Hiring and separation rates moved procyclically, such that cyclical labor shedding was subsequently partially offset by new intake, though separation metrics exhibited greater volatility than hiring metrics.

Labor turnover in Tajikistan was 2.5 times lower than in Kazakhstan and half the

Table 2.
Labor Turnover in Organizations, 2010–2024, %

	Hires	Separations	Turnover	Difference
Armenia (avg. 2013–2017)	20.5	20.0	40.5	0.5
Kazakhstan (avg. 2012–2023)	27.0	25.7	52.7	1.3
Kyrgyz Republic (avg. 2010–2024)	20.7	22.9	43.6	–2.2
Tajikistan (avg. 2019–2023)	11.4	8.9	20.3	2.5
For comparison: Russia (avg. 2015–2019)	28.5	33.0	61.5	–4.5

Source: National Statistical Services, authors' calculations.

rate observed in Armenia and the Kyrgyz Republic. This pattern admits several non-mutually exclusive explanations. First, the small corporate segment (dominated by the public sector) is characterized by employment stability and high barrier-to-entry dynamics. A weak formal private sector fails to generate sufficient gross job openings. Second, labor market institutions may impede or slow new hires. The depressed turnover metrics in Tajikistan align with the broader picture of sluggish structural transformation amid a persistently high agricultural share and an underdeveloped formal private services sector.

An examination of turnover components across economic activities reveals marked sectoral heterogeneity. Turnover intensity remains low in public sector, whereas in certain market services and construction, it can exceed 100%, indicating complete workforce replacement within a single year. However, sectoral turnover statistics may overstate true mobility due to the widespread deployment of fixed-term contracts, notwithstanding legal restrictions on their use. Accounting for this circumstance, mobility intensity falls short of what is required to drive structural transformation.

An alternative perspective on labor mobility is provided by the proportion of short-tenure workers, defined as those employed with their current employer for one year or less. A higher share of short-tenure workers means greater labor market fluidity and a larger pool for potential structural reallocation. Conditional probabilities of short tenure across analyzed economies (Armenia,

Labor turnover data (encompassing hiring and separations from all causes) for 2010–2024 demonstrate relatively high rates in Kazakhstan throughout the period, with a slight upward trajectory over time.

In the Kyrgyz Republic and Armenia, turnover intensity was substantially lower. Labor turnover in Tajikistan was 2.5 times lower than in Kazakhstan and half the rate observed in Armenia and the Kyrgyz Republic.

Kazakhstan, and the Kyrgyz Republic) hover within the 8–15% range. A portion of these new hires reflects intra-sectoral rather than cross-sectoral mobility. While these estimates are typical for many developing economies, this level of fluidity remains insufficient to catalyze intensive structural shifts.

Worker mobility constitutes a necessary but insufficient condition for structural transformation. Structural shifts require "creative destruction" that reshapes economic structure, as expanding firms in growing sectors generate new positions while contracting firms in declining sectors destroy them. Job creation and job destruction (the two core components of this dynamic) are asymmetrical, proceeding at unequal speeds and affecting sectors and regions unevenly. The empirical analysis of job flows relies on four waves of the World Bank Enterprise Survey (WBES) conducted across all four countries[1]. Despite some

[1] World Bank Enterprise Surveys. URL: https://www.enterprisesurveys.org/en/enterprisesurveys

The steep drop-off in job creation rates as firms mature points to expansion barriers or structural disincentives to scaling up. This truncates a fundamental channel of creative destruction, namely, the capacity of high-productivity enterprises to expand, capture market share, and displace less efficient incumbents.

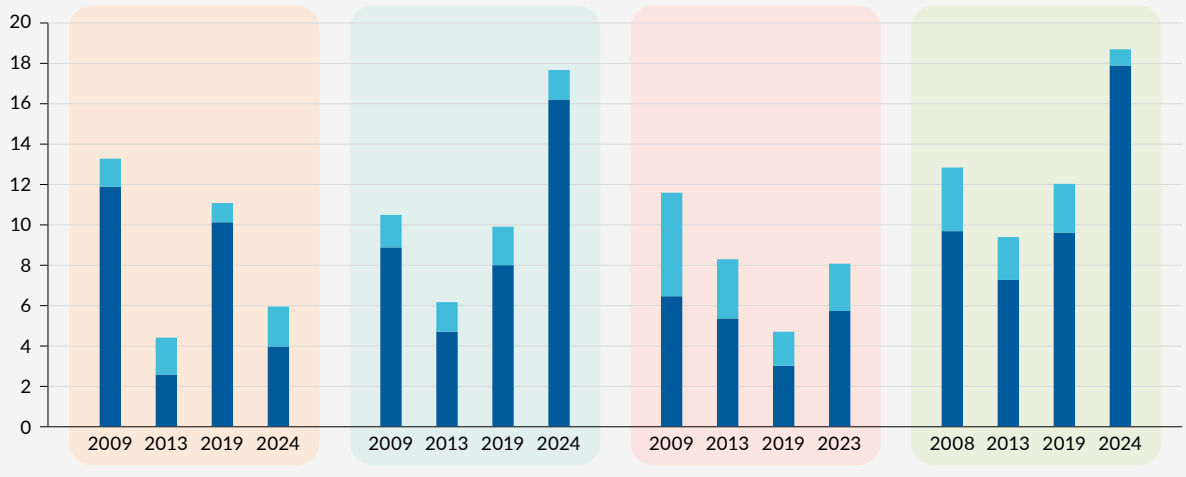
data limitations, the WBES provides an invaluable source of firm-level behavioral data for these economies.

Gross job creation rates varied widely across time and countries (Figure 11a, b). Within the WBES sample, the job creation rate ranged from 2.6% to 11.9% in Armenia, 4.7% to 16.3% in Kazakhstan, 3.1% to 6.5% in the Kyrgyz Republic, and 7.3% to 17.9% in Tajikistan. In 2024, peak values were observed in Kazakhstan and Tajikistan. The contribution of new firms to gross job creation was substantial in Kazakhstan (44%) and Tajikistan (60%), but remained under 15% in the other two economies.

Gross job creation is driven predominantly by young firms (aged 5 years or less), which largely dictate overall creation intensity. However, the distribution of positive net employment changes between young and mature firms exhibits minimal variation: the vast majority of expanding enterprises add only 2 to 4 net jobs per year on average, irrespective of age, and the correlation between firm age and size remains weak (0.17 to 0.43 depending on the country and observation period). Between 80% and 90% of all surveyed enterprises employ no more than 50 workers.

The steep decline in job creation rates as firms mature points to expansion barriers or structural disincentives to scaling up. This constrains creative destruction,

Figure 11 a, b.
Job Creation and Job Destruction Rates, %



Source: Authors' calculations based on World Bank Enterprise Survey (WBES) data.

namely, the capacity of better-performing firms.

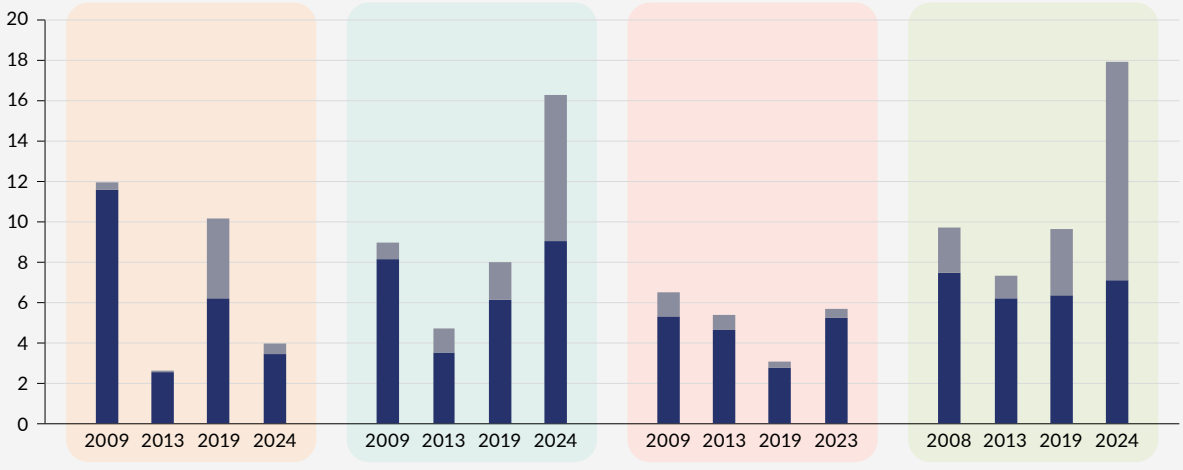
Job destruction rates were significantly lower, ranging from 1.5% to 3.0% in 2013 and from 0.8% to 2.4% in 2024. These estimates should be interpreted with caution, as firm survey data are susceptible to survivorship bias (positive selection of surviving entities) and fail to capture the full employment impact of complete firm closures.

What conclusions regarding job flow dynamics can be drawn from these empirical findings? Contextualizing these metrics against international benchmarks from structurally and institutionally comparable economies is instructive. A detailed study on Turkish firm-level data indicates gross job reallocation rates (creation plus destruction) ranging between 34% and 44%[2]. These values align with metrics observed in other fast developing economies, but stand substantially above the estimates derived from the WBES dataset for the target region.

The WBES-based estimates can also be benchmarked against cross-country figures covering transition and developing economies[3]. In 2013, job creation rates in the analyzed economies were markedly lower than international benchmarks: 2.6% in Armenia, 4.7% in Kazakhstan, 5.4% in the Kyrgyz Republic, and 7.3% in Tajikistan, compared to a range of 9.5% to 17.5% recorded in Latvia, Mexico, Argentina, Estonia, Hungary, Slovenia,

[2] Ayhan S., H Lehmann, S Pelek. (2025) Job creation and job destruction in Türkiye. Eurasian Economic Review 15 (3), pp. 741–773.

[3] World Bank. World Development Report 2013: Jobs.



Source: Authors' calculations based on World Bank Enterprise Survey (WBES) data.

and Romania during the 2000s. By 2024, performance had diverged: job creation rates in Kazakhstan and Tajikistan surged to 16.3% and 17.9%, respectively, converging toward the upper bound of the international benchmark, whereas creation intensity in Armenia and the Kyrgyz Republic experienced much weaker growth, only a fraction of the level recorded in international comparators.

Although precise cross-country comparison is constrained by data limitations, job creation rates across the analyzed economies remain insufficient to drive productivity-enhancing structural transformation.

8. What Hides Behind Low Unemployment?

Following the discussion of employment issues, this report analyzes the level and structure of non-employment, inactivity, and unemployment. High rates of non-participation in the labor force are characteristic of women across all countries except Kazakhstan. In Armenia, the female inactivity rate stands at 46% in the 25–34 age group, subsequently declining to 33–35% in the 35–54 age group, and reaching 50% in the 55–64 age group. Over the past decade, rural women in prime working ages actively exited the labor force, which may represent a behavioral response to the contraction of the agricultural sector under conditions of high unemployment and low employment probabilities.

In the Kyrgyz Republic, two out of three women (65%) aged 20–24 are outside the labor force; this rate gradually declines with age to 28% in the 40–44 age group, before rising again to 43% in the 55–59 age group, 63% in the 60–64 age group, and 80% in the 65–69 age group. Under age 40, economic inactivity is even more prevalent in urban areas than in rural ones; however, beyond age 40, rural inactivity exceeds urban rates by 3, 6, and ultimately 10 percentage points by ages 50–54. In the oldest age cohorts, this gap narrows once again.

Labor market withdrawal, alongside informal employment and external migration, serves to maintain low official unemployment rates and aids high-fertility countries in adapting to population growth. In any case, low participation rates reflect severe constraints regarding the availability of jobs, particularly those offering high productivity and attractive remuneration.

Tajikistan is distinguished by the lowest overall labor force participation rates across all age groups. In the 20–24 age bracket, nearly nearly half of men are economically inactive, with only a small percentage of this group continuing formal education. Even in the 30–49 prime age bracket, nearly a quarter of all men remain outside the labor force. It is plausible that a portion of these “inactive” individuals are

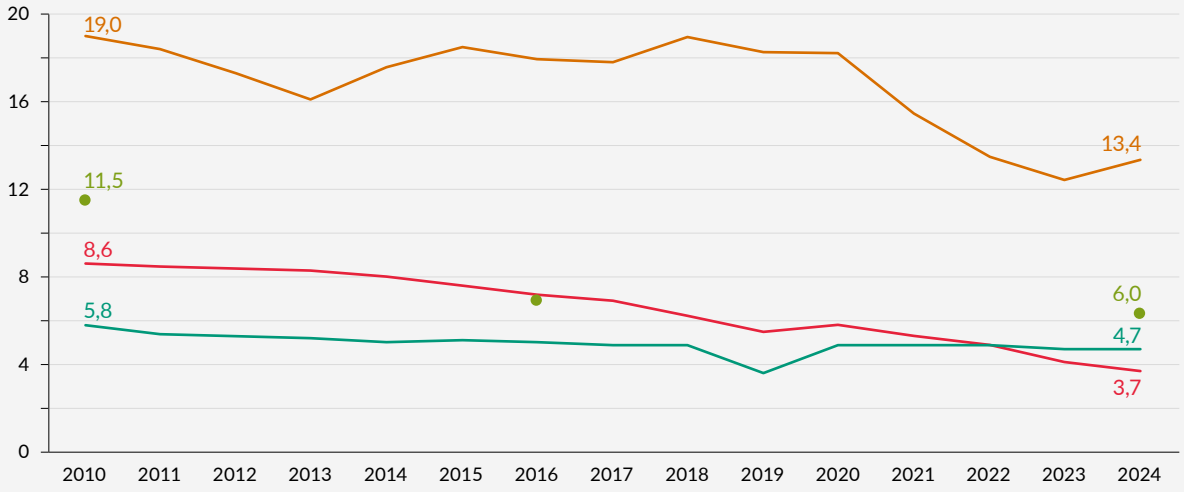
active as labor migrants, though available data do not permit precise statistical verification. Labor force non-participation among women is twice as high as among men: between 60% and 70% of women aged 25–44 do not participate in the labor market. In the 50–59 age group, roughly 35% of men and over 60% of women are inactive.

Labor market withdrawal, alongside informal employment and external migration, serves to maintain low official unemployment rates and aids high-fertility countries in adapting to population growth. In any case, low participation rates reflect severe constraints regarding the availability of jobs, particularly those offering high productivity and attractive remuneration.

The unemployment rate reflects the search costs borne by non-employed individuals and depends on both the inflow rate into unemployment and its duration. Across all analyzed countries, a downward trend in unemployment rates is observable; in 2024, these rates stood at 13.4% in Armenia, 4.7% in Kazakhstan, 3.7% in the Kyrgyz Republic, and 6.0% in Tajikistan (Figure 12). In the Central Asian economies, statistically measured unemployment remained a secondary concern throughout the observation period, despite rapid growth in labor supply.

In Armenia, the unemployment rate remained persistently high alongside a stagnant labor supply. The unemployment rate hovered around 18–19% until 2020, after which a decline commenced. Gender differentials in unemployment rates are minor, but unemployment manifests primarily as an urban rather than a rural phenomenon. Rural self-employment (and

Figure 12.
Unemployment Trends:
Armenia, Kyrgyz Republic, Kazakhstan, 2010–2024; Tajikistan, 2009, 2016, and 2025, %



Armenia, total Kazakhstan, total Kyrgyz Republic, total Tajikistan, total*

Source: Labor Force Surveys.

Note: data for Tajikistan are presented for the years in which the LFS were conducted (2009, 2016, and 2025).

inactivity) appears to effectively absorb potential unemployed individuals. The higher degree of formalization in urban economies constrains their absorption capacity, while higher reservation wages translate into longer job search durations.

Unemployment duration data highlight a structural feature of unemployment in Armenia: nearly half of the unemployed report durations exceeding one year. In Kazakhstan, 55% of unemployed individuals remain in this status for no more than 3 months; in the Kyrgyz Republic, the figure is 42%, compared to only 21% in Armenia.

The narrowing of the gap between rural and urban unemployment over time occurred primarily through a reduction in urban unemployment rates.

The unemployment rate in Armenia varies substantially across age groups. Youth unemployment (ages 15–24) stood at 27% (double the national average) and reached 32% among young women. In the 25–34 age bracket, it aligned with the national average, continuing to decline in older cohorts. Urban unemployment was double the rural rate overall, with the ratio reaching three to one in older age brackets. Holding vocational training or tertiary education reduces unemployment risks.

Unemployment duration data highlight a structural feature of unemployment in Armenia: nearly half of the unemployed report durations exceeding one year. This indicates that high unemployment is driven less by large inflows to unemployment and more by weak outflow rates and prolonged unemployment spells. In Kazakhstan, 55% of unemployed individuals remain in this status for no more than 3 months; in the Kyrgyz Republic, the figure is 42%, compared to only 21% in Armenia. Labor markets in the Kyrgyz Republic, and particularly Kazakhstan, exhibit greater fluidity in this regard, though questions remain regarding how this mobility is structured and where it leads. In the Kyrgyz Republic, transitions out of unemployment are likely directed toward informal employment or inactivity, whereas in Kazakhstan, transitions into formal and informal employment are more probable, with lower rates of exit into inactivity. Without panel microdata, these observations remain expert evaluations rather than established empirical evidence.

What accounts for the high share of long-term structural unemployment in Armenia? Until 2026, eligibility for low-income household social assistance was contingent upon official registration as unemployed. This mechanism may have inflated unemployment statistics through pseudo-unemployed individuals who were not actively seeking work or who engaged in sporadic, hard-to-capture employment. Modifications to social assistance access rules enacted in 2026 (specifically the shift



Evidence-Based Policy Foundation

Rigorous analysis requires transparent microdata access

toward imputing income to non-working citizens at the value of the minimum food basket) are expected to eliminate this statistical overhang.

The analysis of unemployment levels must be supplemented by an examination of the labor market flows. For evidence-based labor market policies, understanding where unemployed people come from, how long completed unemployment spells last, and which labor-market states they enter upon leaving unemployment is essential. While a reduction in unemployment rates is generally favorable, the transition trajectory is equally critical. Exiting unemployment into a formal sector job is not equivalent in its economic ramifications to exiting into self-employment or inactivity. Furthermore, questions arise regarding the role of active and passive labor market policies (such as minimum wages and unemployment benefits) and individual worker characteristics (e.g., educational attainment and experience). Panel data tracking individual trajectories across labor market states over time can provide insights into these mechanisms.

Empirical literature demonstrates that unemployment rates tend to rise with economic development[1]. In lower-income economies, labor markets are often segmented, featuring a large traditional/informal segment that absorbs surplus labor. Self-employment may also serve as a disguised form of unemployment in the absence of institutional social protection[2].

Introducing an effective unemployment protection system that incentivizes active job search may lead to an increase in the official unemployment rate via inflows from inactivity and marginal employment. Ceteris paribus, the absence of unemployment protection preserves low-productivity jobs, impedes structural transformation, and adversely impacts long-term economic growth.

Unemployment, informal employment, and economic inactivity function largely as substitutes in absorbing surplus labor supply, with the operational distribution among them in a given country depending on its economic structure and labor market institutions. As economic development progresses, workers increasingly queue for positions in the formal/modern sector that offer social protection. This search process is associated with higher recorded unemployment and stronger social safety nets. Introducing an effective unemployment protection system that incentivizes active job search may lead to an increase in the official unemployment rate via inflows from inactivity and marginal employment. Ceteris paribus, the absence of unemployment protection preserves low-productivity jobs, impedes structural transformation, and adversely impacts long-term economic growth.

[1] Feng Y., Lagakos D., Rauch J. E. Unemployment and development //The Economic Journal. – 2024. – V. 134. – No. 658. – P. 614–647.

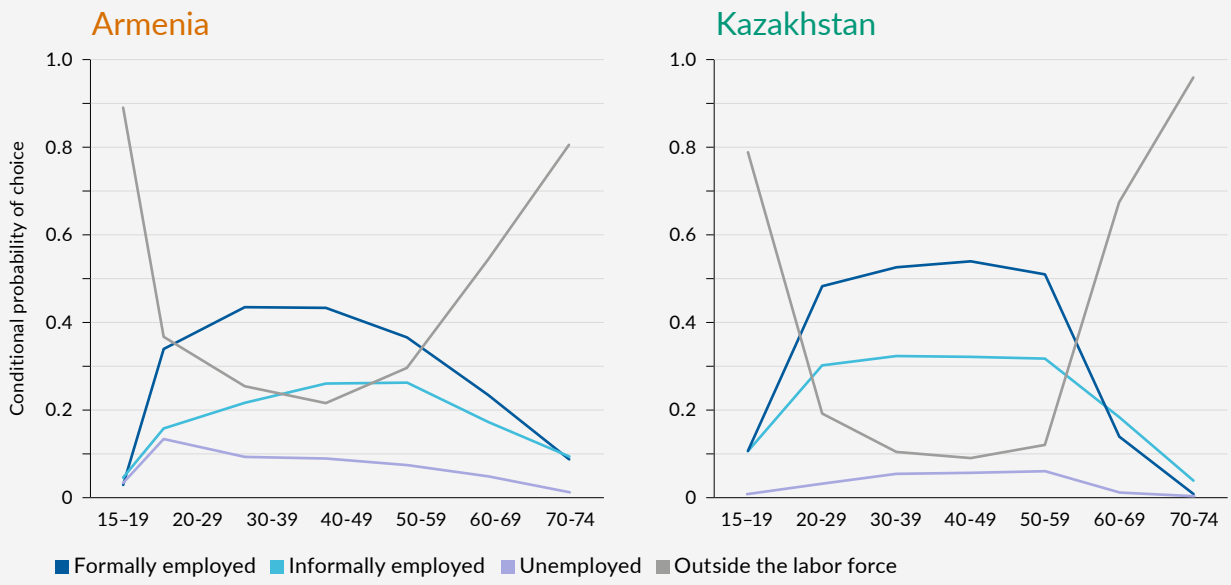
[2] Donovan K., Lu W. J., Schoellman T. Labor market dynamics and development //The Quarterly Journal of Economics. – 2023. – V. 138. – No. 4. – P. 2287–2325.

9. Making Labor Market Choice

The report presents estimates of the probability of belonging to each of these states depending on individual characteristics, calculated using a multinomial logit regression. The model controls for gender, age, educational attainment, area of residence, marital status, household composition, whether there are children and migrants in the household, as well as regional fixed effects. Moving rightward along the age scale, the population structure shifts, reflecting changing probabilities across life stages. Individuals in younger and older age cohorts are more likely to remain outside the labor force, whereas individuals in prime working ages are distributed between formal and informal employment. The extreme age cohorts exhibit steep profiles for both inactivity and employment.

The profiles by labor market status display a similar structural form across all analyzed countries, yet their quantitative parameters vary substantially. In the 20–60 age cohorts, the probability of formal employment exceeds 50% in Kazakhstan and stands at approximately 40% in Armenia. In the Kyrgyz Republic, informal employment represents the most probable outcome (40–50%). The second most probable state in Kazakhstan and Armenia is informal employment, accounting for 30% and approximately 20%, respectively. In the Kyrgyz Republic, formal employment ranks second in terms of probability, with chances ranging

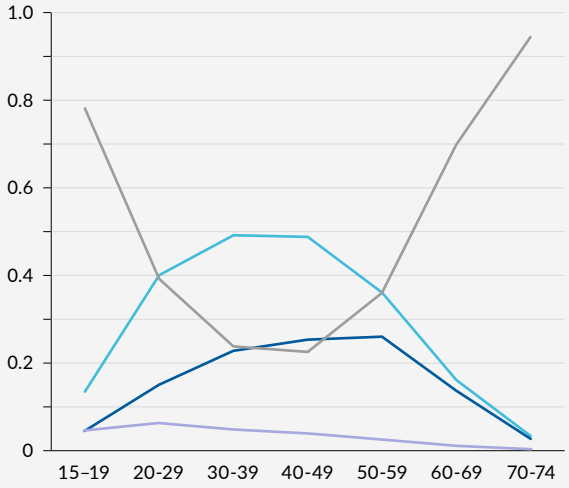
Figure 13 a, b, c.
Predicted Conditional Probabilities of Labor Market Status Choice (Based on Multinomial Logistic Regression), 2024



between 20% and 25%. The probability of unemployment fluctuates around 10% in Armenia and remains below 5% in the Kyrgyz Republic and Kazakhstan. With the exception of the youngest and oldest (60+) cohorts, the probability of inactivity remains low in Kazakhstan (around 10%), but is persistently higher in the Kyrgyz Republic and Armenia (exceeding 20%). In the Kyrgyz Republic, inactivity begins to rise sharply among individuals in their 50s, whereas in Armenia and Kazakhstan this sharp increase occurs after age 60.

Conditional probabilities of labor market status with removed compositional effects demonstrate which alternative positions on the labor market an average working-age person takes across the age dimension. The relative proportions of employment versus inactivity, unemployment versus inactivity, and unemployment versus informal employment differ between labor market entrants, prime-age workers, and individuals transitioning out of the labor force; these ratios, in turn, vary across countries. Beneath the low unemployment rates in the Kyrgyz Republic lie elevated risks of inactivity or informal employment, whereas in Kazakhstan low unemployment is accompanied by heightened risks of informal employment. Higher unemployment in Armenia, reflecting the relatively greater appeal of this status within the country, potentially mitigates the risks of inactivity and informality: informal employment functions in most instances as an involuntary choice under conditions of formal sector job constraints and the absence of a comprehensive unemployment insurance system.

Kyrgyz Republic



Source: Labor Force Surveys, authors' calculations.

In the 20–60 age cohorts, the probability of formal employment exceeds 50% in Kazakhstan and stands at approximately 40% in Armenia. In the Kyrgyz Republic, informal employment represents the most probable outcome (40–50%). The second most probable state in Kazakhstan and Armenia is informal employment, accounting for 30% and approximately 20%, respectively. In the Kyrgyz Republic, formal employment ranks second in terms of probability, with chances ranging between 20% and 25%.

10. Revisiting Employment: A Forward-Looking Perspective

Overlaying age- and gender-specific employment rates onto long-term demographic population projections through 2040 yields employment forecasts for the analyzed countries. The report utilizes the United Nations medium-variant demographic projections and suggests alternative scenarios for prospective changes in employment rates.

> **In Armenia, under the most optimistic scenario, total employment in 2040 will be approximately 10% higher than under the baseline scenario.**

The latter incorporate historical baseline levels as well as key patterns observed in peer economies. Within the selected forecast horizon, fertility and mortality rates exert virtually no influence on total population size.



Intergenerational Replacement Failure

Younger cohorts avoid agriculture-dominated sectors

For Armenia, three employment evolution scenarios are considered. The first, a baseline/inertial scenario, assumes that employment rates remain fixed at mid-2020s levels. The second scenario assumes a moderate increase in labor force participation, while the third, most optimistic scenario additionally incorporates a further 50% contraction in unemployment. A contraction of the employed population and workforce aging are anticipated under all scenarios. However, under the most optimistic scenario, total employment in 2040 will be approximately 10% higher than under the baseline scenario.

In Kazakhstan, male and female employment rates across the entire age distribution are close to their potential ceiling, leaving limited scope for further growth. Assuming these rates persist alongside projected working-age population growth, total employment is expected to expand by nearly 20% (or by 1.8 million individuals), despite a contraction in the prime-age cohort (ages 35–44) and rapid growth among younger and older age brackets.

For the Kyrgyz Republic, and particularly Tajikistan, forward-looking scenarios are evaluated, encompassing both the preservation of the status quo and employment rate growth resulting from a narrowing gender gap. Increases in employment rates could stem from rising female labor force participation due to a gradual fertility decline, as well as

constraints on external labor migration. Both countries face an inevitable and substantial expansion in labor supply, which must be absorbed by either formal or informal employment.

In the Kyrgyz Republic, the employed population could grow from 2.7 million to 3.4–3.7 million individuals by 2040 (an increase of 27–38%). In Tajikistan, employment is projected to expand from 3.0 million to 4.0–5.1 million individuals (an increase of 33–69%). The demographic structure of the employed workforce will become younger due to an increasing share of young workers (in contrast to population aging in Armenia and non-linear cohort dynamics in Kazakhstan).

Central Asian economies will confront the imperative of creating millions of new jobs to absorb a growing labor supply amid intensifying constraints on labor

In the Kyrgyz Republic, the employed population could grow from 2.7 million to 3.4–3.7 million individuals by 2040 (an increase of 1.27 to 1.38 times). In Tajikistan, employment is projected to expand from 3.0 million to 4.0–5.1 million individuals (an increase of 1.33 to 1.69 times).

emigration. Conversely, the labor force contraction in Armenia may be partially offset through unemployment reduction and elevated female participation rates. A central concern for all economies remains the overall quality of this employment.

Table 3.
Employment Predictions Under Alternative Scenarios, thousand people

Country	Scenario	2025			2040			Net changes	
		Men	Women	Total	Men	Women	Total	2040/2025	2040–2025
Armenia	1	654	517	1171	592	449	1041	0.89	–130
	2	654	517	1171	664	518	1182	1.01	11
	3	688	543	1231	751	546	1297	1.05	66
Kazakhstan	1	4826	4483	9309	5768	5297	11,065	1.19	1756
Kyrgyz Republic	1	1677	1078	2755	2086	1306	3392	1.23	682
	2	1677	1078	2755	2086	1614	3700	1.34	974
Tajikistan	1	1850	978	2828	2465	1346	3811	1.35	983
	2	1850	978	2828	3217	2036	5253	1.86	2425

Source: Authors' calculations

11. Labor Market Institutions Regulations

Core labor market institutions comprise the system of norms and regulations governing market functioning. Key among these are minimum wage regulations, wage-setting rules, unemployment benefit eligibility criteria, and job protection regulations (employment protection legislation). These regulatory norms are binding exclusively for formal sector organizations, where state monitoring and enforcement are feasible. However, spillover effects from regulation into the informal segment, as well as feedback responses from informality, cannot be ruled out.

Primary mechanisms for job protection include restrictions on fixed-term contracts and rules governing the termination of open-ended employment. Severance payments required from employers upon termination, while deterring economic layoffs, increase hiring costs for new workers and thereby constrain job creation. An imbalance skewed toward protecting existent jobs (rather than protecting workers through unemployment insurance mechanisms) reduces labor market flexibility and delays structural transformation.

An analysis of labor legislation indicates that the most liberal employment regulation (regarding hiring and firing) has developed in Kazakhstan and Armenia, whereas the most stringent regulation exists in Tajikistan. Concurrently, Kazakhstan exhibits the highest employment rate, while Tajikistan records the lowest. Although causal inferences cannot be established from this association alone, the alignment is illustrative in its own right.

It bears reiterating that statutory labor regulations apply solely to formal sector entities, as enforcement outside this boundary is unfeasible. Individual employers, even those holding formal legal status (e.g., registered tax entities), retain considerable operational discretion regarding hiring and firing. Entirely informal firms and unregistered workers operate entirely beyond the reach of regulation. This asymmetric regulatory structure incentivizes prospective employers to keep firm size below regulatory thresholds beyond which compliance costs escalate sharply. These dynamics contribute to labor market segmentation into a protected segment ("good jobs") and an unprotected segment ("bad jobs"). This issue manifests most acutely in the Kyrgyz Republic and, above all, Tajikistan. For these economies, the experience of Kazakhstan and Armenia in modernizing labor legislation provides actionable policy lessons.



Urban Unemployment Risk

Double the rural rate

12.
Labor Market Statistics and Monitoring

An informed and evidence-based labor market policy is impossible without a robust statistical foundation. The depth and validity of analytical work are invariably constrained by data availability and quality. However, the mere availability of substantial volumes of labor market data and information on participant behavior is insufficient for formulating and justifying policy interventions. Serving merely as raw inputs for subsequent in-depth research, these data must reach analysts capable of conducting rigorous evaluations and deriving well-founded conclusions. Transparent data access is required for researchers across the public and private sectors, international organizations, universities, and academic institutions who can perform independent analyses of anonymized microdata utilizing modern statistical, econometric, and modeling techniques. It would be advisable to establish a system supporting independent economic analysis, encompassing the engagement of universities, academic institutes, and think tanks, open data access, competitive research grant funding on priority topics, and the organization of academic and policy-oriented seminars and conferences.

The experience of the statistical authorities in Armenia regarding labor market data collection through diverse statistical instruments, data presentation in official publications and on the Statistical Committee of the Republic of Armenia website, and the provision of public access could offer valuable insights for all countries in the region. Statistical agencies in Kazakhstan and the Kyrgyz Republic perform extensive work in collecting labor market data; however, public access to microdata remains restricted, and subsequent research is hampered, particularly by a lack of methodological documentation. Labor market statistics in Tajikistan remain in an embryonic state, severely limiting the scope for substantive analysis.

In the Kyrgyz Republic, the employed population could grow from 2.7 million to 3.4–3.7 million individuals by 2040 (an increase of 1.27 to 1.38 times). In Tajikistan, employment is projected to expand from 3.0 million to 4.0–5.1 million individuals (an increase of 1.33 to 1.69 times).

Establishing causal relationships requires longitudinal series and panel data structures. The primary vector for statistical improvement lies in refining labor force surveys as the main data source on labor supply and household behavior. For Armenia, it would be expedient to consider adopting a rotating sample design to generate panel data on household labor market dynamics. For Kazakhstan, priorities include introducing questions regarding wages and labor income into the survey, developing a rotating sample design to generate panel data on household labor market behavior, and ensuring public access to anonymized LFS microdata. For the Kyrgyz Republic, recommended measures include establishing a rotating sample design to

generate panel data on household labor market behavior and providing public access to anonymized LFS microdata. For Tajikistan, the immediate priority is transitioning to regular LFS administration, publishing detailed methodological guidelines and survey instruments, and granting public access to microdata.

Household surveys are predominantly oriented toward analyzing labor supply. Analyzing labor demand requires data on enterprise and firm behavior, which necessitates expanding the utilization of existing administrative statistical reporting as well as conducting specialized enterprise surveys. Panel survey data regarding growth barriers faced by small and medium-sized enterprises would enhance understanding of employment dynamics, structure, and constraints.

Administrative records from taxpayer registries (for both individuals and legal entities), business registers, and registered unemployment databases (by virtue of their panel structure) can substantially refine the understanding of labor market processes. It is advisable to establish mechanisms providing access to anonymized administrative datasets. Furthermore, expanding data integration capabilities by embedding standardized statistical identifiers across separate resources will be essential for building a unified labor market information system.

13. Main Findings and Policy Recommendations

The majority of Eurasian economies, including the four countries examined in this study, have demonstrated impressive growth rates over the past five years, with their real GDP more than doubling since 2010. These economies have successfully maintained macroeconomic and financial stability, absorbed systemic pressures from global and regional shocks, and sustained growth rates exceeding the expectations of most analysts and policymakers. This unexpected economic resilience creates the impression of an improvement in the quality of economic growth and, by extension, in the demand for labor.

The observed economic expansion has unfolded against the backdrop of demographic processes that have significantly impacted labor supply. In three of the countries, where the demographic transition remains incomplete – Kazakhstan, the Kyrgyz Republic, and Tajikistan – the working-age share of the population continues to rise. This opens potential avenues for achieving a demographic dividend to foster economic growth. Conversely, in Armenia, labor force contraction and population aging may catalyze accelerated structural transformation within the labor market, aiding in the reduction of unemployment and inactivity rates.

Under such predominantly favorable conditions, labor market imbalances and structural bottlenecks would ideally diminish, fostering long-term economic sustainability and advancing population welfare through the expansion of formal, high-productivity jobs. Nevertheless, our comprehensive analysis of regional labor markets reveals contrasting underlying trends, summarized in the following core findings relevant across all analyzed states:

- **The elasticity of formal, high-productivity job creation relative to economic growth is marginal.** This is primarily attributable to the fact that economic activity across the examined countries remains poorly diversified, gradually shifting toward non-tradable, lower-productivity sectors characterized by a high prevalence of informal employment. The narrow structural foundation of economic growth impedes the generation of a sufficient volume of high-productivity employment. In our view, this constitutes the primary long-term impediment to sustainable economic growth and successful labor market transformation across the region.

- **The narrow structural base of economic growth has prevented full achievement of the demographic dividend.** Output growth was predominantly driven by gains in labor productivity, whereas the contribution of demographic change (growth in the working-age population) was minimal. Shifts in the age structure of the working-age population exerted either a negligible positive impact on economic growth or actively dampened it.

- **Labor market absorption of population growth occurred largely through the expansion of informal employment or labor force withdrawal.** Widespread labor market informality persists as a major structural challenge across all discussed economies, constraining growth in labor productivity and household living standards. The challenges of informality are further compounded by labor market segmentation, which restricts workforce dynamism and cross-sectoral reallocation. The prevalence of inactivity and the entrenchment of informal employment arrangements stem largely from a deficit of formal alternatives, namely, the weakness of the private sector and its inability to generate decent jobs under rising demographic pressure.

- **Structural shifts involving resource reallocation from agriculture to non-agricultural economic activities represent a vital reserve for economic growth.** This growth mechanism is utilized to varying degrees and remains far from exhausted. However, its ultimate potential relies heavily on formal job creation within the private sector.

- **Labor migration (both external and internal) remains an essential adjustment mechanism for labor markets facing demographic pressure and structural constraints.** Nevertheless, the acute migration dependence of the Kyrgyz Republic and Tajikistan as labor-exporting economies raises significant concerns. Such reliance creates disincentives for domestic high-productivity job creation and renders these economies highly vulnerable to shifts in the migration policies of host countries. Sustaining outbound

migration flows at or near current levels will prove increasingly problematic and indeed, unlikely over the medium to long term.

» **The public sector's role as the primary generator of formal employment is growing across all analyzed countries; however, public sector wage levels remain substantially depressed relative to market sectors.** This wage penalty negatively affects human capital quality and worker motivation within the public sector, while dampening the cross-sectoral flow of labor from informal to formal employment by minimizing incentives for transition. Consequently, this depresses both social and private returns to education, eroding household incentives to invest in human capital.

> **The strategic benchmark for labor market policy must pivot toward maximizing productive and well-remunerated employment. It is advisable to abandon headline unemployment minimization as a politico-economic measure of efficiency, shifting focus toward curbing informal and marginal employment and retaining individuals within the active labor force.**

» **Employment promotion and unemployment reduction policies in the analyzed countries appear predominantly focused on keeping the unemployment rate as low as possible and consider it a political and economic indicator of performance.** In the context of weak unemployment protection (characterized by low benefit levels, stringent eligibility criteria, and short duration of payments), surplus labor relative to market demand is systematically displaced into informal self-employment or out of the labor force entirely.

Demographic projections through 2040 indicate the continued rapid expansion of the working-age population in Central Asian economies and a slight contraction in Armenia. Given the long-term structural characteristics of economic growth and labor demand, alongside anticipated demographic trends governing labor supply, the creation of a sufficient volume of formal, high-productivity jobs across the analyzed countries appears unlikely within the forecast horizon to 2040. Informality and inactivity will most likely persist at elevated levels, while labor migration, both internal and external, will remain a vital mechanism for balancing labor supply and demand. For the EFSD as a stabilization institution, this implies that ongoing labor market imbalances may generate substantial risks to the long-term economic sustainability of these countries during their structural transformation. Mitigating these risks requires a systemic and coordinated policy framework at both the macroeconomic and microeconomic levels.

The core mechanism for addressing these challenges lies in establishing conditions conducive to formal job creation within the private sector, offering a superior alternative to informality, inactivity, and labor migration. This requires fundamental structural shifts within the economies of the analyzed states, which in turn demand a favorable institutional environment for private sector development, accelerated investment, the modernization and diversification of infrastructure (energy, logistical, digital, etc.), equitable access to infrastructure, export promotion, integration into global value chains,

and technological upgrading and sophistication.

The strategic benchmark for labor market policy must pivot toward maximizing productive and well-remunerated employment. It is advisable to abandon headline unemployment minimization as a politico-economic measure of efficiency, shifting focus toward curbing informal and marginal employment and retaining individuals within the active labor force. Excessive legislative and administrative measures that artificially suppress unemployment should be curtailed in favor of policies that foster the expansion of productive employment. Key measures in this domain include facilitating the entry and scale-up of new enterprises (supporting startups and removing growth barriers), refining tax policy, reducing hiring costs, streamlining access to infrastructure for new firms, ensuring a favorable investment climate, comprehensively developing human capital, and entering new export markets.

On the labor demand side, the principal challenge remains the net creation of formal jobs. The rate of net formal job growth (job creation minus job destruction) must outpace working-age population growth. This is essential not only to absorb new labor market entrants but also to generate the demand-side conditions required to reduce informal employment, enhance youth and female labor force integration, and reintegrate returning migrant workers.

On the labor supply side, a key priority remains the accumulation of human capital to enhance workforce mobility, facilitate skill acquisition, and adapt existing skill sets amid ongoing and

On the labor demand side, the principal challenge remains the net creation of formal jobs.

anticipated structural shifts across the region's economies. Recommended measures include improving educational quality, establishing robust frameworks and infrastructure for vocational training and lifelong reskilling, eliminating gender- and age-based discrimination, and enforcing meritocratic (as opposed to kinship- or clan-based) principles in hiring and promotion.

Across all analyzed economies, an institutional reform of public sector pay structures aiming to implement the principle of "equal pay for equal work" would yield significant benefits. Under this principle, compensation levels within the public sector should, ceteris paribus, be aligned with those prevailing in the market sector for workers with *comparable* human capital. Such alignment would enhance worker motivation and substantially improve the quality of public goods provided.

Across all analyzed economies, it is advisable to enhance the accessibility of passive labor market policy instruments (in terms of income replacement rates, eligibility criteria, and benefit duration) for broader categories of job seekers. Examples include establishing a basic

Across all analyzed economies, an institutional reform of public sector pay structures aiming to implement the principle of "equal pay for equal work" would yield significant benefits.

minimum unemployment allowance for individuals lacking prior social security contributions and introducing benefit levels stratified by contribution history or tenure (where currently absent). There are no uniform or off-the-shelf formulas in this domain; *country-specific empirical studies* on the impact of standard policy instruments on unemployment spell durations, transitions from unemployment into employment or inactivity, and choices between inactivity and active job search will allow for the precise calibration of reform parameters.

Active labor market programs (ALMPs), given their high unit cost per net outcome, face inherent constraints when formal private-sector job creation remains slow. It would be prudent to undertake a comprehensive performance audit of existing programs to identify specific tracks and target demographics for which current interventions achieve their objectives at economically viable costs. Priority should shift toward mitigating information asymmetries in the labor market, supporting vulnerable population groups, and facilitating access to private digital job portals.

Below, we highlight key distinguishing structural characteristics of the labor markets and ongoing transformation processes across the analyzed states that must be factored into policy design.

Armenia

- Against the backdrop of negligible population growth between 2010 and 2024, Armenia experienced a significant contraction in its labor force, accompanied by rising labor force inactivity and a moderate reduction in headline unemployment.
- Rural-to-urban migration serves as a vital component of structural transformation. By 2024, the share of agricultural employment declined by 28 percentage points to 18%.
- Despite rapid economic growth rates, high unemployment, including long-term and youth unemployment, remains an acute challenge, coupled with relatively low labor force participation rates and elevated informality. Based on Labor Force Survey data, estimates of informal employment and self-employment hovered around 30% of total employment in 2024.
- The relatively high unemployment rate is driven less by a high inflow of workers into unemployment than by low outflow rates and prolonged unemployment durations ("stagnant unemployment").
- Armenia has completed its demographic transition, characterized by low fertility and mortality rates. Natural population growth has virtually halted, and population aging is underway.

- By 2040, Armenia's total population is projected to contract by 10% and its working-age population by 12% (a decrease of approximately 290,000 and 230,000 individuals, respectively). The country faces risks associated with an escalating dependency ratio and a contracting labor supply, which can only be partially offset through higher participation rates and further unemployment reduction.

- A potential rise in the relative price of labor as a factor of production, stemming from labor supply contraction, could serve as an additional catalyst for technological upgrading and structural transformation, provided a favorable institutional environment is maintained.

Kazakhstan

- In the context of an ongoing demographic transition and a growing working-age population, Kazakhstan exhibits a high labor force participation rate which, given the low unemployment rate, translates into a high overall employment rate. Unusually for an economy with such a high fertility rate, female employment matches levels observed in Central and Eastern European countries.

- The migration potential of rural Kazakhstan is being realized domestically through rural-to-urban population flows, directed predominantly toward the three major metropolises (Almaty, Astana, and Shymkent). This inflow is driven by substantial income differentials between rural areas and rapidly expanding urban agglomerations. Over the period under review, the combined population of these three million-plus cities expanded by 2.0 million individuals, placing increasing pressure on metropolitan labor markets and urban infrastructure.

- Approximately three-quarters of workers in Kazakhstan are employed in enterprises with up to 100 employees, whereas the employment share of large enterprises (250 or more employees) continues to contract.

- Low headline unemployment in Kazakhstan masks elevated risks of informal employment, whereas labor force inactivity remains exceptionally rare.

- According to our projections, total employment over the 15-year forecast horizon (2026–2040) is expected to expand from 9.3 million to 11.1 million individuals (an increase of approximately 19%). This will require the net creation of roughly 1.8 million jobs by 2040. Total population size, the working-age population, and total employment are projected to grow at virtually identical rates, a synchronization absent in the preceding decade.

Kyrgyz Republic

- Amid an incomplete demographic transition and rapid expansion of the working-age population, male employment rates remain relatively high, whereas female employment rates remain persistently low.
- Growth in the working-age population is absorbed through three primary channels: informal employment, external labor migration, and labor force non-participation (inactivity).
- The net volume of formal sector jobs failed to expand, while the share of informal employment rose from half to roughly two-thirds of total employment. Informality is particularly prevalent in agriculture and market services.
- The low headline unemployment rate is sustained by alternative channels of economic activity (informal jobs and emigration) and reinforced by the design of passive labor market institutions (benefit levels and eligibility conditions).
- Structural shifts exerted a weak impact on aggregate productivity growth due to marginal intersectoral productivity differentials and the concentration of labor reallocation from agriculture into low-productivity informal services.
- The public sector accounts for over 60% of total formal employment, yet public sector compensation remains lower than that of non-agricultural market sector workers with comparable characteristics. This wage penalty worsens at higher skill levels, negatively affecting self-selection into the teaching and medical professions and eroding worker motivation.
- Labor market institutions, specifically employment protection legislation regarding dismissals and unemployment protection mechanisms, are misaligned with real labor market conditions, fail to protect workers, and foster market segmentation.
- By 2040, under the UN medium-variant demographic projection and depending on cohort-specific employment rate trajectories, total employment is projected to grow from 2.7 million to 3.4–3.7 million individuals (an expansion of 27–38%). Absorbing this increment will necessitate intensive, formal job creation.

Tajikistan

- Amid an incomplete demographic transition and rapid expansion of the working-age population, employment rates for both men and women remain low.
- Growth in the working-age population is absorbed through three primary channels: informal employment, external labor migration, and labor force non-participation (inactivity).
- While the exact volume of formal sector jobs is difficult to quantify, it appears not to have increased. Self-employment accounts for approximately 60% of total employment, with informality particularly pervasive in agriculture and market services.
- The unemployment rate remains moderately low. This outcome is driven by alternative avenues of economic activity (informal work and migration) and reinforced by the design of passive labor market policy institutions (benefit levels and eligibility conditions).
- Structural shifts have been constrained and have exerted a weak impact on aggregate productivity growth.
- The public sector accounts for more than one-third of all wage earners (employees), yet their average compensation is significantly lower than that of workers in industry. This wage gap adversely affects recruitment into the teaching and medical professions as well as employee motivation.
- Labor market institutions, specifically employment protection legislation regarding dismissals and unemployment benefits, are poorly suited to actual labor market conditions, fail to protect workers, and foster market segmentation.
- By 2040, under the UN medium-variant demographic projection and depending on cohort-specific employment rate trajectories, total employment is projected to grow from 3.0 million to 4.0–5.1 million individuals (an expansion of 33–69%). Accommodating this growth will necessitate rapid formal job creation.

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