

# KYRGYZ REPUBLIC

**Table 1** **2022**

Population, million	6.8
GDP, current US\$ billion	11.5
GDP per capita, current US\$	1697.5
International poverty rate (\$2.15) <sup>a</sup>	1.3
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	18.7
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	67.6
Gini index <sup>a</sup>	29.0
School enrollment, primary (% gross) <sup>b</sup>	99.2
Life expectancy at birth, years <sup>b</sup>	71.9
Total GHG emissions (mtCO2e)	15.5

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2020), 2017 PPPs.

b/ Most recent WDI value (2021).

*Growth is projected at 3.5 percent in 2023 due to a slowdown in agriculture and a contraction in manufacturing. Inflation remains high and the external position is weak. Fiscal outcomes were favorable in H1 2023 due to improved revenue performance, but driven by higher spending, the fiscal deficit is expected to increase slightly.*

## Key conditions and challenges

Economic growth has been volatile in the past decade due to overdependency on gold production and remittances, and because of political instability. On average, over the last decade, gold production and remittances accounted for 10 percent and 25 percent of GDP, respectively, while development assistance amounted to approximately 5 percent of GDP. High prices for imported food and fuel, and utility tariff adjustments kept domestic inflation in double digits for the last four years, adversely affecting poor households.

Although political stability was restored after the upheavals of 2020, public trust in government remains weak and frequent personnel changes within government continue to hinder decision-making. Russia's invasion of Ukraine and subsequent international sanctions triggered a decline in net remittances and increased uncertainty and risks to economic activity.

Growth is constrained by the lack of a competitive private sector. Fostering private sector development will require boosting competition and facilitating investment, notably by reducing the bureaucratic burden (particularly related to licensing, inspection, and taxation regimes), strengthening the rule of law and protecting investor rights, improving digitalization, attracting FDI, and facilitating cross-border trade.

## Recent developments

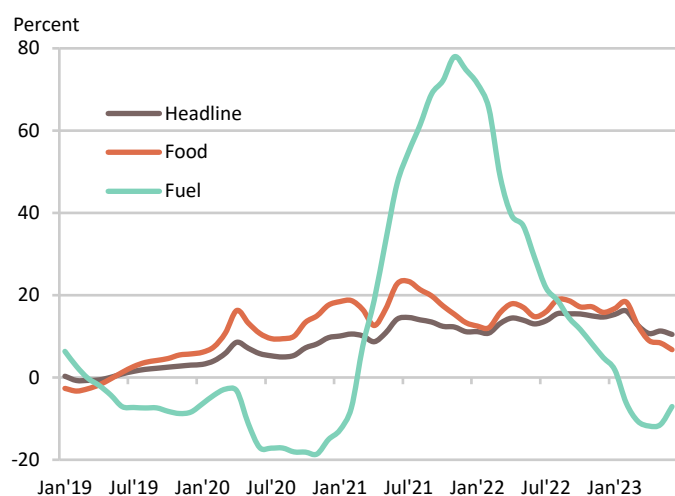
Economic growth moderated from 6.3 percent in 2022 to 3.9 percent in H1 2023 (yoy), as agricultural growth halved and gold production fell, following a build-up of gold stocks in 2022. Net remittance inflows in USD fell by 24 percent (yoy), contributing to an estimated 0.3 percent contraction in consumption.

CAD is estimated to have remained abnormally high in Q1 2023, with official statistics recording a 45.4 percent of GDP deficit. Such a large deficit, as in 2022, is associated with elevated errors and omissions (about 40 percent of GDP) indicating these figures are unconfirmed. Unrecorded (re-)exports and/or capital inflows may explain these numbers. Exports in USD are estimated to have increased by 15.6 percent (yoy) due to the resumption of gold exports, while imports grew by 27.4 percent (yoy), reflecting increased imports of food, fuel, machinery, equipment, textile and consumer goods.

The deterioration in the trade balance and the decline in remittance inflows have put pressure on the exchange rate, weakening the KGS against the USD by 1.8 percent in H1 2023. The National Bank of the Kyrgyz Republic (NBKR) sold more than USD 450 million in foreign reserves in a bid to avoid sharp fluctuations in the exchange rate. As a result, reserves fell by USD 359 million to 3.6 months of import cover by June 2023, down from 4 months at the end of 2022.

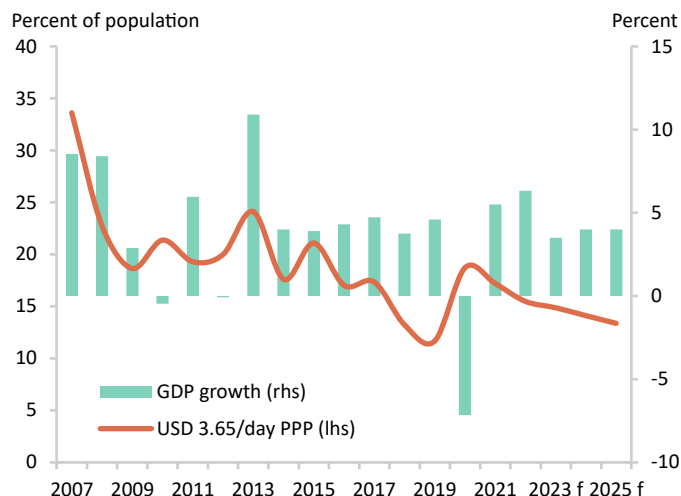
Inflation remained high, easing slightly to 10.5 percent by June 2023 as fuel and food

**FIGURE 1 Kyrgyz Republic /** Headline, food and fuel inflation



Source: Kyrgyz authorities.

**FIGURE 2 Kyrgyz Republic /** GDP growth and poverty rate



Sources: Kyrgyz authorities and World Bank staff.

prices moderated. Recent tariff increases for utilities, including electricity and water, were the largest contributors to inflation.

The NBKR kept its policy rate unchanged at 13 percent during H1 2023 after a 500 basis point increase in 2022.

The budget surplus strengthened in H1 2023 to 2.2 percent of GDP from 1.2 percent in H1 2022 thanks to strong tax performance, particularly VAT on imported goods, which more than compensated for the increase in public wages, social transfers and pensions from 2022, and higher spending on public infrastructure. Strong fiscal outcomes contributed to a reduction in public debt to an estimated 48.1 percent of GDP as of mid-2023, down from 49.2 percent in December 2022.

Banks remained well capitalized with a capital adequacy ratio of 23.5 percent as of the end of June 2023, nearly double the minimum regulatory requirement of 12 percent. The liquidity level was 83.9 percent, well above the 45 percent minimum requirement. The quality of loans improved slightly, with the non-performing loan ratio declining to 10.9 percent from 12.8 percent at the end of 2022.

The poverty rate (at USD 3.65/day) is expected to decline from 17.2 percent in 2021 to 15.5 percent in 2022. Increase in public and private wages, and social assistance

under the “Social Contract” program drive poverty reduction, despite a lower volume of remittances and decelerating growth.

## Outlook

GDP growth is expected to moderate to 3.5 percent in 2023 as gold production contracts and the agriculture sector experiences a slowdown. On the demand side, consumption and investment are expected to support growth, while net exports are projected to make a negative contribution. GDP is expected to converge to a potential growth rate of only 4 percent over the medium term in the absence of structural reforms.

Inflation is expected to remain elevated at 12 percent in 2023, driven by rising tariffs for electricity and other utilities. Assuming the NBKR maintains its monetary policy, inflation is projected to moderate gradually to 7 percent by the end of 2025.

The current account deficit is projected to be about 29 percent of GDP in 2023 and to narrow in 2024–2025 as external demand for non-gold goods improves and export of services increases. The deficit is expected to be financed by inward FDI and external borrowing.

The fiscal deficit is projected to increase slightly to 1.6 percent of GDP in 2023 as the full year effect of increases in public sector wages and social benefits will limit the decline in overall spending relative to the expected decline in non-tax revenues and grants as a share of GDP. The deficit is expected to widen to 2.6 percent of GDP in 2024, reflecting higher capital spending, and to narrow to 2.1 percent in 2025 as the authorities plan to consolidate current and capital spending.

In 2023, high food prices, job insecurity, and declining remittances will continue to be the most significant concerns for the welfare of the population. Poverty levels are expected to decline by 0.6 percent to 14.9 percent, reflecting the positive effect of increased social protection programs and wage increases exceeding the negative impact of falling remittances and slower growth.

Risks to this outlook remain significant. A deterioration of the Russian economy may lead to added decline in remittances. Stricter application of the existing international sanctions on Russia, or imposition of secondary sanctions against Kyrgyz-based companies might significantly impact trade and domestic economic activity. The domestic political situation remains sensitive to the upcoming increase in electricity and other utility tariffs.

**TABLE 2 Kyrgyz Republic / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-7.1	5.5	6.3	3.5	4.0	4.0
Private consumption	-8.3	20.9	6.4	1.3	3.4	3.9
Government consumption	0.9	0.4	1.6	1.4	0.4	0.4
Gross fixed capital investment	-16.2	8.2	22.2	17.8	17.4	15.8
Exports, goods and services	-27.3	16.4	-7.3	27.0	15.5	16.4
Imports, goods and services	-28.0	39.3	62.1	13.3	13.5	14.0
<b>Real GDP growth, at constant factor prices</b>	-7.1	5.5	6.3	3.5	4.0	4.0
Agriculture	0.9	-4.5	7.3	2.0	2.5	2.5
Industry	-6.5	6.5	12.2	3.8	5.3	6.0
Services	-13.7	14.4	3.0	4.7	4.5	4.2
<b>Inflation (consumer price index)</b>	6.3	11.9	13.9	12.0	10.0	7.0
<b>Current account balance (% of GDP)</b>	4.5	-8.0	-47.0	-29.1	-10.4	-10.6
<b>Net foreign direct investment inflow (% of GDP)</b>	-7.0	6.1	6.5	3.9	4.0	3.9
<b>Fiscal balance (% of GDP)</b>	-4.0	-0.3	-1.4	-1.6	-2.6	-2.1
<b>Revenues (% of GDP)</b>	29.0	31.8	36.2	34.5	34.1	33.4
<b>Debt (% of GDP)</b>	63.7	55.7	49.2	48.9	48.2	47.2
<b>Primary balance (% of GDP)</b>	-2.8	1.2	-0.1	-0.4	-1.6	-1.2
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	1.3	1.4	1.6	1.6	1.7	1.8
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	18.7	17.2	15.5	14.9	14.1	13.4
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	67.6	66.0	64.0	63.3	62.3	61.3
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-1.9	6.8	8.4	6.6	4.5	4.2
<b>Energy related GHG emissions (% of total)</b>	70.7	72.4	73.7	74.5	74.7	74.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2014-KIHS, 2019-KIHS, and 2020-KIHS. Actual data: 2020. Nowcast: 2021–2022. Forecasts are from 2023 to 2025.

b/ Projection using average elasticity (2014–2019) with pass-through = 0.7 based on GDP per capita in constant LCU.