

KYRGYZ REPUBLIC

Table 1 **2023**

Population, million	7.1
GDP, current US\$ billion	14.0
GDP per capita, current US\$	1974.0
International poverty rate (\$2.15) ^a	0.3
Lower middle-income poverty rate (\$3.65) ^a	11.3
Gini index ^a	26.4
School enrollment, primary (% gross) ^b	96.2
Life expectancy at birth, years ^b	72.0
Total GHG emissions (mtCO2e)	14.0

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2022), 2017 PPPs.
 b/ WDI for School enrollment (2023); Life expectancy (2022).

Economic growth remained strong and inflation declined sharply in the first half of 2024. The fiscal balance was positive owing to strong revenue performance. GDP growth is projected at 5.8 percent in 2024, mainly driven by consumption and investment. Inflation is projected to remain at around 4 percent. The fiscal balance is projected to improve in 2024 due to lower capital spending.

Key conditions and challenges

The Kyrgyz Republic remains one of the poorest countries in the region, with poverty levels remaining stubbornly high. As a small, relatively undiversified economy, the Kyrgyz Republic is subject to significant economic risks. Domestic prices are sensitive to rising global food and fuel prices, and international earnings depend on gold exports and remittances. The economy has limited gross international reserves to absorb shocks, while nondiscretionary fiscal expenditure is high, and the country is at a moderate risk of debt distress. The country has a young and growing population, abundant natural resources, and is near large markets. However, economic opportunities and job creation are limited due to a stagnant private sector, constrained by a weak competitive environment, undue advantage of poorly performing SOEs, a high level of informality, and an onerous business environment. Private sector-led growth will require ambitious reforms to ensure a level playing field, reduce the cost of regulatory compliance, remove barriers for cross-border trade, and maximize spillovers from FDI.

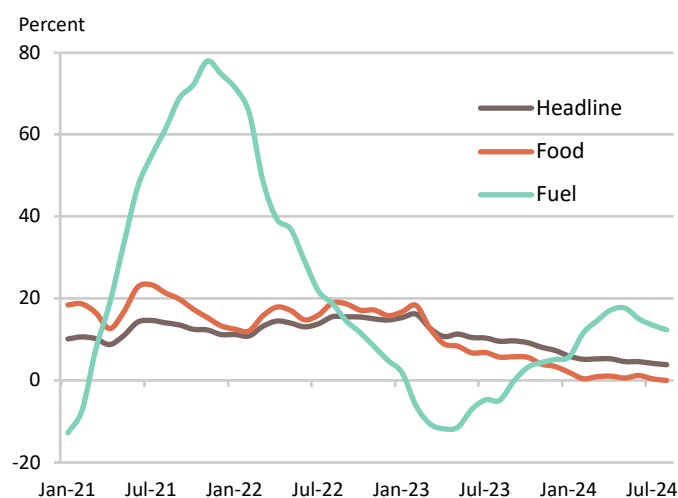
Recent developments

The Kyrgyz economy continued to perform strongly in the first half (H1) of 2024,

supported by the transit trade of goods mainly from China to Russia and rising inflows of remittances. Real GDP expanded by 8.1 percent in H1 2024, driven by consumption, exports, and investment. On the production side, growth has been supported by construction and services which grew by 48 percent and 7.7 percent in real terms, respectively.

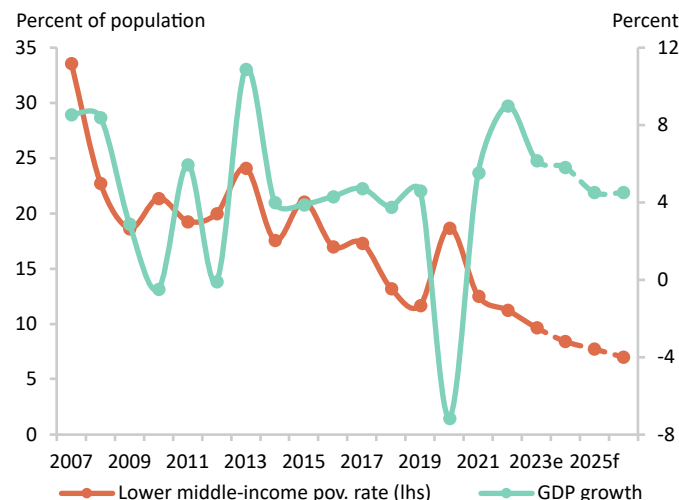
Consumer price inflation fell gradually over H1 2024, to 5.0 percent in July 2024, the lower end of the central bank's target range of 5–7 percent, enabling the central bank to cut the policy interest rate by 400 basis points to 9 percent by May 2024. The drop in inflation was driven by declining food price inflation, while fuel price inflation accelerated, and inflation of nonfood and service prices remained elevated. Credit to the economy continued to grow, year-on-year (y-o-y), at 15 percent in real terms as of June 2024. While the nonperforming loans ratio increased to 11.9 percent as of end-June 2024, from 9.2 percent at end-December 2023, the banking sector remained well capitalized, with capital adequacy and liquidity ratios at 22.3 percent and 78.8 percent, respectively, well above requirements. The current account deficit reached 80.4 percent of GDP (US\$2.2bn) in the first quarter (Q1) of 2024, the largest deficit to date. This anomaly is likely driven by the under-reporting of re-exports of imported goods to Russia, mainly from China—it was almost entirely matched in the Balance of Payments by an increase in “errors and omissions” to 77 percent of GDP (US\$2.1 billion). Exports of goods and services grew by 22 percent (in US\$ terms) in Q1 2024, owing to increases in gold, tourism,

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



Source: Kyrgyz authorities.

FIGURE 2 Kyrgyz Republic / Real GDP growth and poverty rate



Sources: Kyrgyz authorities and World Bank staff.

and trade logistics service exports. Imports of goods and services increased by 38 percent (in US\$ terms), including imports destined for re-export. However, early released data for Q2 2024 suggest that exports and imports both declined. Remittances (in US\$ terms) grew by 6.4 percent in H1 2024, y-o-y, although as a share of GDP, they were lower than a year ago (22.4 percent vs 25.6 percent).

The som strengthened by 3 percent against the U.S. dollar over H1 2024, although the real effective exchange rate depreciated by 0.3 percent. Gross international reserves increased to 3.3 months of imports (US\$3.8bn) from 3.1 months (US\$3.2bn) at end-December 2023.

The government's fiscal position remained strong in H1 2024, with an estimated surplus of 5.6 percent of GDP, supported by increases in tax and non-tax revenues compared to a year ago (by 1.3 and 2 percentage points of GDP, respectively), as well as repayments of on-lent loans to the budget by SOEs (7.9 percent of GDP). Current and capital expenditures declined by 1.2 and 3.2 percentage points of GDP compared to

a year ago, respectively. Public debt decreased from 45.5 percent of GDP in December to 41.2 percent by end-June. In 2023, the poverty rate (US\$3.65/day poverty line), dropped to 9.7 percent, from 11.3 percent in 2022. This decline was supported by lower inflation and robust growth. Poverty reduction is expected to continue into 2024, driven by the implementation of social protection programs, higher pensions, and increased lending to vulnerable households.

Outlook

GDP growth is projected to slow to 5.8 percent in 2024, as exports continue to be weak in H2 2024 due to an expected reduction in re-exports. Aggregate demand is expected to be supported by public and private consumption and investment. On the production side, construction and services are expected to contribute the most to growth. GDP is expected to stabilize at 4.5 percent over the medium term in the

absence of structural reforms to raise productivity and potential growth.

Assuming the central bank maintains a prudent monetary stance, inflation is projected to remain below 5 percent by end-2024 and thereafter in the medium term.

The current account deficit is projected at 10.8 percent of GDP in 2024 and to narrow to 8.2 percent by 2026 as an external demand for goods and services grows and remittance inflows increase.

The fiscal balance is projected at a surplus of 2.6 percent of GDP in 2024 mainly as a result of repayments of on-lent loans by SOEs and lower capital spending. In the medium-term, the fiscal balance is expected to remain positive despite a rise in current spending while revenues remain broadly unchanged as a share of GDP.

In the medium term, the poverty level is expected to continue declining to around 8 percent, driven by the positive effects of lower inflation and expanding social protection programs.

Risks to this outlook arise mainly from the geopolitical situation and the uncertain outlook for transit trade and remittances.

TABLE 2 Kyrgyz Republic / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	5.5	9.0	6.2	5.8	4.5	4.5
Private consumption	18.8	17.0	10.4	6.2	4.3	4.4
Government consumption	0.5	4.4	0.9	0.6	0.5	0.3
Gross fixed capital investment	8.0	6.9	11.0	12.9	13.2	13.4
Exports, goods and services	16.4	59.2	-4.9	28.7	10.2	9.7
Imports, goods and services	38.8	66.7	34.1	15.0	8.7	9.0
Real GDP growth, at constant factor prices	5.5	12.1	4.7	5.8	4.5	4.5
Agriculture	-4.5	7.3	0.6	2.5	2.2	2.3
Industry	6.5	11.9	2.7	5.3	6.0	6.0
Services	14.5	16.0	8.4	8.3	5.4	5.3
Inflation (consumer price index)	11.9	13.9	10.8	4.6	4.5	4.3
Current account balance (% of GDP)	-8.0	-42.4	-48.2	-10.8	-8.6	-8.2
Net foreign direct investment inflow (% of GDP)	6.1	4.2	1.1	3.8	3.6	3.2
Fiscal balance (% of GDP)	-0.3	-1.3	1.2	2.6	2.5	1.4
Revenues (% of GDP)	31.8	34.6	37.2	36.6	37.1	37.2
Debt (% of GDP)	55.8	46.9	45.5	40.9	40.4	39.9
Primary balance (% of GDP)	1.2	0.0	2.3	3.6	3.3	2.1
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	0.7	0.3	0.3	0.2	0.2	0.2
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	12.5	11.3	9.7	8.4	7.7	7.0
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	62.2	60.1	57.2	54.7	53.2	51.5
GHG emissions growth (mtCO₂e)	9.9	-0.6	-0.4	0.0	0.3	1.0
Energy related GHG emissions (% of total)	66.2	64.5	64.0	63.2	62.2	61.4

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 2016-KIHS, 2019-KIHS, and 2022-KIHS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.

b/ Projection using point-to-point elasticity (2016-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.