

KYRGYZ REPUBLIC

| Table 1 | 2021 |
|--|--------|
| Population, million | 6.7 |
| GDP, current US\$ billion | 8.3 |
| GDP per capita, current US\$ | 1235.8 |
| International poverty rate (\$2.15) ^a | 1.3 |
| Lower middle-income poverty rate (\$3.65) ^a | 18.7 |
| Upper middle-income poverty rate (\$6.85) ^a | 67.6 |
| Gini index ^a | 29.0 |
| School enrollment, primary (% gross) ^b | 102.6 |
| Life expectancy at birth, years ^b | 71.8 |
| Total GHG emissions (mtCO2e) | 10.1 |

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2020).

The economy has so far proved more resilient than expected to spillovers from Russia's war in Ukraine. Growth accelerated to 7.7 percent in January-July 2022 and is projected to be 4 percent in 2022. Inflation has increased and is expected to reach 15 percent in 2022 and moderate thereafter. The fiscal deficit is projected to widen this year but decline to under 3 percent of GDP in the medium term.

Key conditions and challenges

The Kyrgyz Republic has experienced volatile growth in the past decade. The economy remains heavily dependent on gold production (10 percent of GDP and 35 percent of exports), remittances (25 percent of GDP), and foreign aid.

The Kyrgyz economy was heavily impacted by the COVID-19 pandemic in 2020 as GDP contracted by 8.4 percent and the poverty profile deteriorated. The last two years have also seen significant political and governance upheavals, with a new Constitution shifting back to a presidential form of governance, and snap parliamentary and presidential elections. Political uncertainties continue to hamper the government's ability to implement reforms. The nationalization of the largest gold producer, Kumtor Gold Company, dented investor confidence. New risks have emerged following Russia's war in Ukraine and subsequent sanctions on Russia.

While there has been some progress towards fiscal consolidation in recent years, broadening the tax base and improving the public spending efficiency remain key challenges. The private sector is hindered by an excessive bureaucratic burden. Accelerating economic growth will require stronger institutions and policies to foster private sector growth, spur international trade, and improving the commercial soundness of the energy sector.

Recent developments

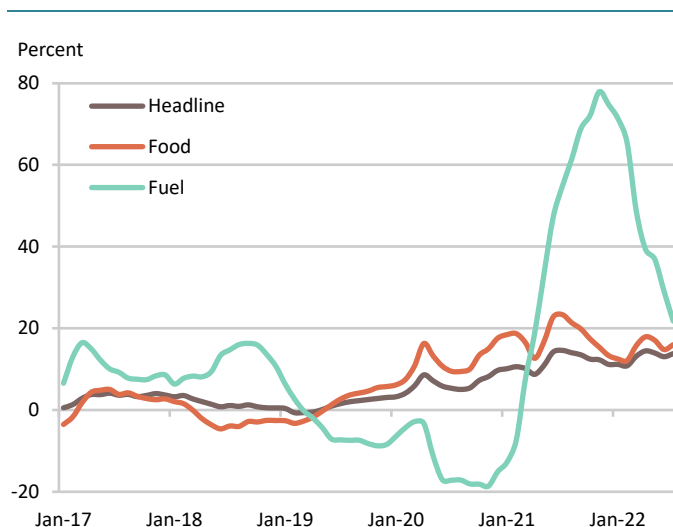
The Kyrgyz economy has so far proved more resilient than expected to the spillovers of the war in Ukraine. Real GDP grew 7.7 percent during January-July, yoy, driven by gold production (43.1 percent growth, yoy), agriculture (8.4 percent), construction (3.6 percent), and services (3.5 percent). Domestic demand was supported by remittance inflows (7.5 percent growth in US\$ terms) from Russia, aided by a strong Russian ruble.

Gold was mainly purchased by the Central Bank, reducing gold exports in the first half of the year. As a result, total exports declined by 40.5 percent, yoy, while imports grew by 68.7 percent, yoy, mainly driven by fuel and consumer goods. This led to an increase in the current account deficit to an estimated 15 percent of GDP. The Central Bank also sold US\$217 million of forex reserves in Q1 to avoid sharp fluctuations of the Som and purchased US\$46 million in Q2. As of end-June 2022, gross reserves are about 5 months of imports.

Inflation increased to 13.8 percent in July from 11.2 percent in December 2021, driven by global food and fuel prices. To combat inflation, the Central Bank gradually raised the policy rate from 8 to 14 percent between December and March. Credit growth slowed to 9.6 percent in June 2022 from 11.8 percent in December 2021, mainly due to a decline in FX loans.

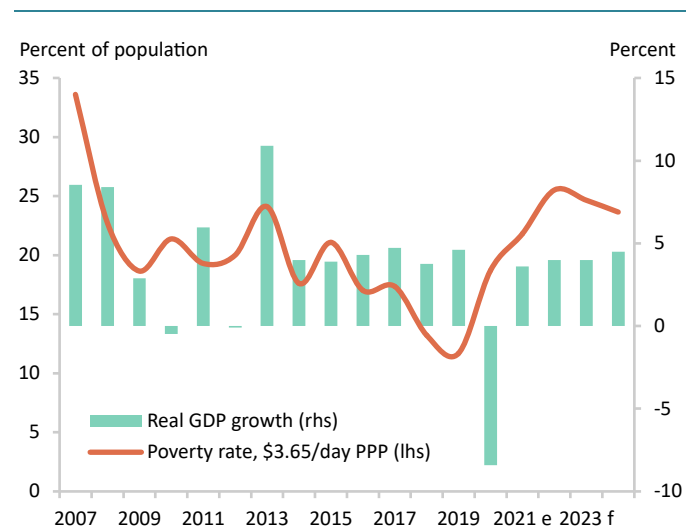
The fiscal position was solid in the first 7 months of 2022. The budget ran a surplus of 1.4 percent of GDP, slightly better than

FIGURE 1 Kyrgyz Republic / Headline, food and fuel inflation



Source: Kyrgyz authorities.

FIGURE 2 Kyrgyz Republic / Actual and projected poverty rate and real GDP growth



Source: Kyrgyz authorities and World Bank staff.

the previous year. Total revenues increased to 45.9 percent of GDP from 38.6 percent a year ago, driven by higher tax receipts. At the same time, spending increased to 44.5 percent of GDP from 37.2 percent a year ago driven mainly by capital outlays. The surplus, along with the appreciation of the Som, helped reduce public debt to below 50 percent of GDP in July 2022.

The COVID-19 pandemic increased the poverty rate from 11.7 percent in 2019 to 18.7 percent in 2020 (at the US\$3.65 a day, 2017 PPP). Poverty is estimated to have deteriorated further in 2021, mainly due to increased food prices, lower real incomes, and limited job opportunities. High inflation is the most significant immediate concern for the welfare of the population. The public sector salary increases in April and August 2022 and enhancement to the social assistance program (targeted to the poor), have softened the negative impact of the food price increase on the population.

Outlook

GDP growth for 2022 is expected to be 4 percent, because of moderate growth of the gold sector in the second half of the year. On the demand side, consumption will be supported by remittances and investments spurred by high public outlays, while net exports are expected to contribute negatively to growth. GDP growth is expected to remain at 4 percent in 2023 and 4.5 percent in 2024, assuming that the economy adjusts to the spillovers from the Russian sanctions.

Inflation is expected to remain elevated at about 15 percent by end-2022, driven by further food and energy price increases. With the Central Bank expected to keep its policy rate at the current level to bring inflation down to its target range of 5-7 percent, inflation is projected to gradually moderate to 7 percent by end-2024.

The current account deficit is projected to be 12.7 percent of GDP in 2022, reflecting the fall in gold exports, with a decline in 2023-24 reflecting an export revival.

The fiscal deficit is expected to widen in 2022 due to the increases in social transfers and public sector salaries in H2 2022. The deficit is expected to narrow to under 3 percent of GDP over 2023-24 mainly thanks to higher revenues from the mining sector and containment of expenses.

High food prices and job insecurity will continue to be the most significant challenge that impact and deepen poverty in 2022. The poverty rate will likely increase up to 25.5 percent (3.65\$ a day, 2017PPP). The government's measures, such as increases in pensions and scaling up and extension of the coverage of the social protection program targeted to the poor will help to mitigate the adverse effects produced by the loss of labor incomes and higher inflation.

TABLE 2 Kyrgyz Republic / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

| | 2019 | 2020 | 2021 | 2022e | 2023f | 2024f |
|--|-------|-------|------|-------|-------|-------|
| Real GDP growth, at constant market prices | 4.6 | -8.4 | 3.6 | 4.0 | 4.0 | 4.5 |
| Private Consumption | 0.8 | -8.3 | 13.5 | 3.6 | 4.0 | 4.3 |
| Government Consumption | 0.5 | 0.9 | 0.3 | 0.7 | 0.8 | 0.6 |
| Gross Fixed Capital Investment | 7.1 | -16.2 | -3.6 | 14.7 | 14.0 | 11.3 |
| Exports, Goods and Services | 16.2 | -27.3 | 24.5 | 12.1 | 12.0 | 12.5 |
| Imports, Goods and Services | 6.1 | -28.0 | 39.1 | 14.0 | 14.3 | 12.1 |
| Real GDP growth, at constant factor prices | 3.6 | -8.4 | 3.6 | 3.9 | 4.1 | 4.5 |
| Agriculture | 2.5 | 0.9 | -5.0 | 4.4 | 2.0 | 2.5 |
| Industry | 6.6 | -7.0 | 7.2 | 10.0 | 8.7 | 8.0 |
| Services | 3.2 | -16.5 | 10.4 | 0.7 | 3.5 | 4.4 |
| Inflation (Consumer Price Index) | 1.1 | 6.3 | 11.9 | 15.2 | 8.0 | 6.0 |
| Current Account Balance (% of GDP) | -12.1 | 4.8 | -8.7 | -12.7 | -11.8 | -10.2 |
| Net Foreign Direct Investment Inflow (% of GDP) | 3.8 | -7.5 | 7.0 | 1.9 | 2.7 | 2.6 |
| Fiscal Balance (% of GDP) | -0.5 | -4.2 | -0.3 | -3.2 | -3.0 | -2.8 |
| Debt (% of GDP) | 51.6 | 67.7 | 60.3 | 55.2 | 52.3 | 50.9 |
| Primary Balance (% of GDP) | 0.5 | -2.9 | 1.4 | -1.7 | -1.6 | -1.6 |
| International poverty rate (\$2.15 in 2017 PPP)^{a,b} | 0.7 | 1.3 | 1.3 | 1.2 | 1.2 | 1.1 |
| Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b} | 11.7 | 18.7 | 21.8 | 25.5 | 24.7 | 23.6 |
| Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b} | 63.7 | 67.6 | 67.3 | 67.0 | 66.6 | 66.2 |
| GHG emissions growth (mtCO₂e) | -7.8 | -20.9 | -6.7 | -5.3 | 1.1 | -0.1 |
| Energy related GHG emissions (% of total) | 69.5 | 64.0 | 62.0 | 61.4 | 61.8 | 60.7 |

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

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Calculations based on ECAPOV harmonization, using 2009-KIHS, 2019-KIHS, and 2020-KIHS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

b/ Projection using point-to-point elasticity (2009-2019) with pass-through = 0.87 based on GDP per capita in constant LCU.