

KYRGYZ REPUBLIC

Table 1 **2023**

Population, million	6.9
GDP, current US\$ billion	14.0
GDP per capita, current US\$	2023.9
International poverty rate (\$2.15) ^a	0.7
Lower middle-income poverty rate (\$3.65) ^a	12.5
Upper middle-income poverty rate (\$6.85) ^a	62.2
Gini index ^a	28.8
School enrollment, primary (% gross) ^b	94.2
Life expectancy at birth, years ^b	71.9
Total GHG emissions (mtCO2e)	13.4

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2021), 2017 PPPs.
 b/ WDI for School enrollment (2022); Life expectancy (2021).

Economic growth was 6.2 percent and inflation was 10.8 percent in 2023. The fiscal balance was positive (1.2 percent of GDP) owing to strong revenue performance. GDP growth is projected to decline to 4.5 percent in 2024, reflecting a slowdown in the services sector, and inflation is expected to moderate to 5 percent. The fiscal deficit as a share of GDP is projected to widen due to lower tax revenues and higher capital spending.

Key conditions and challenges

The Kyrgyz Republic remains one of the poorest countries in the region with poverty stubbornly high at above 11 percent and an estimated additional 31 percent of the population vulnerable to poverty if the economy suffers any shocks.

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. There is also a risk that remittances may decline with economic and financial implications. The economy has limited gross international reserves (GIR) to absorb shocks, while non-discretionary fiscal expenditure is high and the country is at a moderate risk of debt distress.

Economic opportunities and job creation are limited due to a stagnant private sector, constrained by a weak competitive environment, undue advantage enjoyed by poorly performing SOEs, high levels of informality, and a restrictive business environment. Private sector-led growth will require ambitious reforms to reduce the cost of regulatory compliance, ensure a level playing field, remove barriers for cross-border trade, and maximize spillovers from FDI.

Recent developments

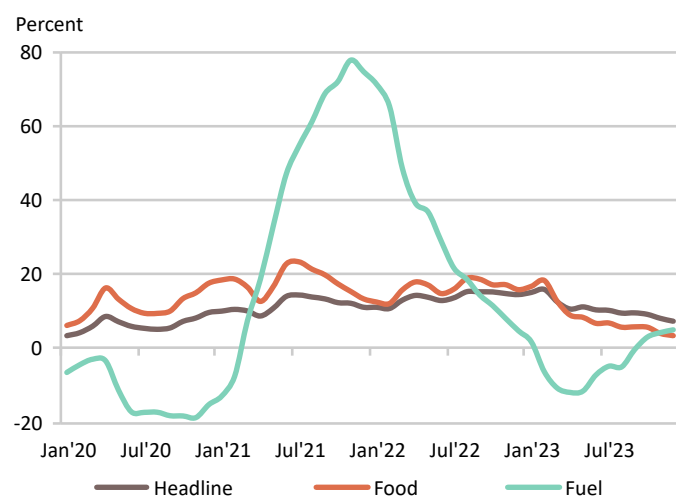
After growing at 9.0 percent in 2022, real GDP is estimated to have expanded by 6.2 percent in 2023. The services sector has driven growth, particularly services associated with transit trade since Russia's invasion of Ukraine. On the demand side, growth has been supported by higher consumption and exports.

Consumer price inflation decreased from 13.8 percent in 2022 to 10.8 percent in 2023, as global food and fuel price pressure abated and domestic monetary policy remained tight.

According to official statistics, the current account deficit amounted to 66.2 percent of GDP (US\$3.4 billion) in H1 2023, the largest deficit to date, with 'errors and omissions' of 57 percent of GDP which is likely driven by under-reporting of exports. Imports increased by 38 percent in H1 2023, while exports soared by 52 percent (both in US\$ terms) due to the resumption of gold exports, growth in tourism, and services related to transit trade. Income inflows declined due to a drop in inward remittances from 30.8 percent of GDP in H1 2022 to 25.6 percent a year later.

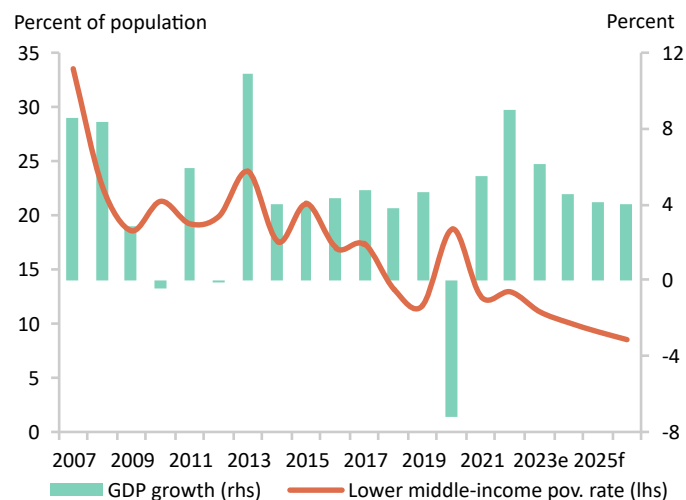
The deterioration in the external balance put pressure on the exchange rate, weakening the Kyrgyz Som against the US dollar by 4.4 percent in 2023. The central bank sold US\$650 million of GIR to limit excess fluctuations in the exchange rate. GIR recovered slightly to 3.1 months of import

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.

cover by the end of 2023, but this remains below comfortable levels.

The government's fiscal position remained strong in 2023. The budget is estimated to have run a surplus of 1.2 percent of GDP in 2023, supported by increases in tax and non-tax revenues. Alongside strong revenues, expenditures increased, specifically wages and salaries, social benefits, and pensions. The fiscal surplus and economic growth have led to a lower public debt level of 45.5 percent of GDP as of end-December 2023, down from 46.9 percent a year earlier.

After a remarkable decline by 6.2 percentage points to 12.5 percent in 2021, the poverty rate (measured at US\$ 3.65/day) increased slightly to 13 percent in 2022 on the back of high consumer price inflation. However, it is estimated to have declined to 11.2 percent in 2023 as inflation softened amid economic growth. Progress in poverty reduction is also supported by social assistance improvements such as pension increases, expansion of cash grants under "Social Contract" program, and the increase in transfers under the "Ui-Bulogo Komok" program.

Outlook

GDP growth is expected to decline to 4.5 percent in 2024 as growth in the services sector slows. On the demand side, consumption growth would moderate despite a slight increase in remittance inflows, while investment and net exports are expected to support growth. Annual GDP growth is expected to slow down to 4 percent over the medium term in the absence of structural reforms to raise potential growth.

Assuming the central bank maintains a prudent monetary stance and global food and fuel prices remain stable, inflation is projected to decline to within the target range of 5 to 7 percent by the end of 2024 and remain stable in the medium term.

The current account deficit is projected at 10.5 percent of GDP in 2024 and narrowing to 7.7 percent by 2026 as external demand for non-gold goods improves, exports of services continue to grow, and remittance inflows gradually increase. The deficit is expected to be financed by inward FDI and external borrowing.

The fiscal surplus is projected to turn into a deficit of 1.6 percent of GDP in 2024 owing to lower tax revenues. The deficit is expected to widen further to 2.4 percent of GDP by 2026, mainly due to higher capital spending.

High consumer prices and job insecurity will continue to be the most significant concerns for the welfare of the population. In 2024, the poverty level is expected to decrease slightly, with the continued effect of stabilizing inflation, social protection initiatives, and growth.

Risks to this outlook remain significant. There are external risks to growth, mainly arising from the geo-political situation and trade flows with Russia. Marked deterioration of the Russian economy may flow on through lower remittances and export demand. Possible upward spikes in global food and fuel prices might reverse the downward trend and push inflation into double digits.

Increasing the potential growth will require bold reforms to improve governance and reduce corruption, remove administrative barriers to private sector development, improve the electricity sector by adjusting tariffs to achieve cost recovery, and reduce the footprint of SOEs in the economy.

TABLE 2 Kyrgyz Republic / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.5	9.0	6.2	4.5	4.2	4.0
Private consumption	18.8	17.0	5.8	4.9	4.0	4.0
Government consumption	0.5	4.4	2.3	0.6	0.5	0.3
Gross fixed capital investment	8.0	6.9	9.4	15.0	15.5	16.0
Exports, goods and services	16.4	-1.6	49.7	21.5	20.4	17.5
Imports, goods and services	38.8	66.7	29.5	13.5	13.1	13.0
Real GDP growth, at constant factor prices	5.5	9.4	6.2	4.5	4.2	4.0
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	10.1	11.9	5.6	4.7	4.4
Inflation (consumer price index)	11.9	13.9	10.8	8.4	7.0	5.5
Current account balance (% of GDP)	-8.0	-42.7	-25.2	-10.5	-8.3	-7.7
Net foreign direct investment inflow (% of GDP)	6.1	4.2	3.7	3.9	3.9	3.5
Fiscal balance (% of GDP)	-0.3	-1.3	1.2	-1.6	-1.9	-2.4
Revenues (% of GDP)	31.8	34.6	37.2	31.9	29.6	27.9
Debt (% of GDP)	55.8	46.9	45.5	44.8	44.5	44.1
Primary balance (% of GDP)	1.2	0.0	2.3	-0.5	-1.0	-1.6
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	0.7	0.7	0.6	0.5	0.4	0.4
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	12.5	13.0	11.2	10.2	9.3	8.6
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	62.2	61.3	58.4	56.6	55.1	53.6
GHG emissions growth (mtCO₂e)	4.6	-1.0	0.6	0.4	0.7	0.8
Energy related GHG emissions (% of total)	65.9	64.6	64.3	63.7	63.0	62.4

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-. 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.