

KYRGYZ REPUBLIC

Table 1	2021
Population, million	6.7
GDP, current US\$ billion	8.5
GDP per capita, current US\$	1275.9
International poverty rate (\$1.9) ^a	1.1
Lower middle-income poverty rate (\$3.2) ^a	16.2
Upper middle-income poverty rate (\$5.5) ^a	58.1
Gini index ^a	29.0
School enrollment, primary (% gross) ^b	102.6
Life expectancy at birth, years ^b	71.6
Total GHG Emissions (mtCO2e)	10.3

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

a/ Most recent value (2020), 2011 PPPs.

b/ WDI for School enrollment (2020); Life expectancy (2019).

Spillovers from Russia's invasion of Ukraine are expected to reverse the progress made by the Kyrgyz economy in recovering from the COVID pandemic in 2021 when annual GDP growth was 3.6 percent. The economy is now projected to contract by 5 percent in 2022, and inflation is likely to exceed 15 percent, creating significant further pressure on fiscal and debt management as well as pushing more people into poverty.

Key conditions and challenges

The economy remains heavily dependent on gold production (about 10 percent of GDP and 35 percent of exports), remittances (30 percent of GDP), and foreign aid. The country has witnessed significant political and governance changes over the past two years, accompanied by policy uncertainty. Overall, the economic situation was further complicated by security concerns arising from border conflicts. Strong and sustainable growth needs a larger private sector, more international trade, and a conducive macroeconomic environment. However, large infrastructure gaps, the weak rule of law and governance, a poor business environment, onerous regulations, and financially unsustainable energy sector policies are constraining growth. The poor condition of the energy sector - the result of below-cost recovery tariffs that have endured for years - and noncompliance with WTO and Eurasian Economic Union regulatory standards are especially binding constraints.

Recent developments

The Kyrgyz economy was hit hard by the pandemic in 2020 but began recovering in 2021 as GDP grew by 3.6 percent. Strong industry and services growth helped offset subdued agriculture and construction

activity. The gold sector grew by 1 percent, and fewer pandemic restrictions spurred economic activity and remittance inflows. However, in the first two months of 2022, annual growth slowed to 2 percent on lower gold production and weaker services growth.

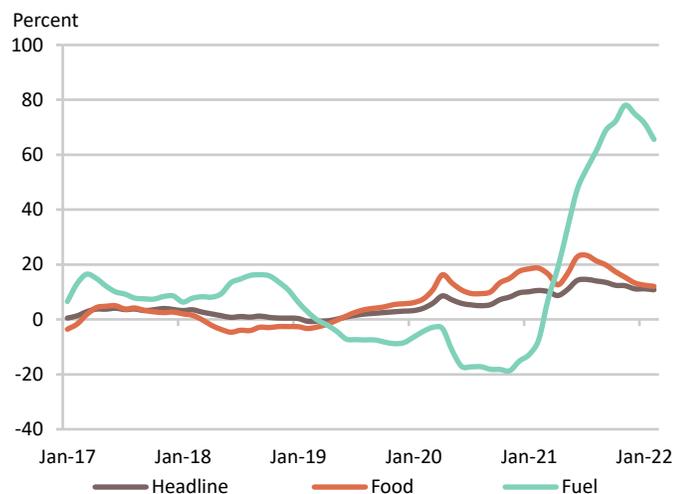
The 2021 current account deficit was about 3.3 percent of GDP against a 4.8 percent surplus in 2020. The main driver was a sharper trade deficit of 24.8 percent of GDP, compared to 18.5 percent in 2020. Exports (in US dollars) rose 40 percent while imports climbed 49 percent, reflecting higher imports of machinery, chemicals, and textiles; and increased food and fuel prices.

Inflation increased to 11.2 percent in December 2021 from 9.7 percent a year ago but has since fallen to 10.8 percent in February 2022. This was due to higher food and fuel prices which grew by 13.3 and 74.8 percent, respectively in 2021.

In response to higher inflation, the central bank raised its policy rate four times, by a cumulative 350 basis points, in 2021 and early 2022, to 8.5 percent. To mitigate inflation risks and smooth exchange rate volatility, the central bank sold \$689 million in foreign reserves in 2021.

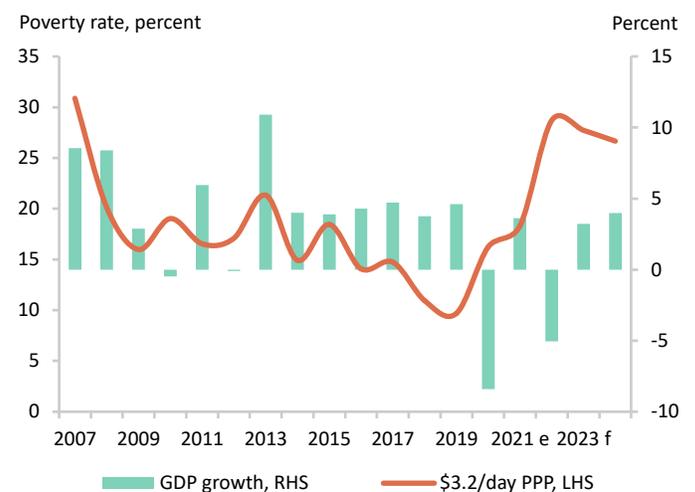
Following Russia's invasion of Ukraine, the som depreciated by 23 percent against the US Dollar but has since regained about half of its lost value. In March, the central bank raised its policy rate twice more by a total of 550 basis points to 14 percent. Credit growth in the economy remained robust at 10 percent in December 2021, although slightly slower than in 2020.

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.

The government's fiscal position improved significantly in 2021. The deficit fell to 0.3 percent of GDP from 4.2 percent in 2020 on improved revenue collection and restrained public spending growth. Total revenues increased to 31.3 percent of GDP from 27.7 percent in 2020 on a surge in import tax receipts, rebounding domestic activity, and improved tax administration. Public spending increased marginally to 34.3 percent of GDP from 33.7 percent in 2020, with an increase in capital spending offsetting sharply lower recurrent spending. The fiscal improvement reduced public debt to 60.3 percent of GDP, from 67.7 percent at end-2020.

The COVID-19 pandemic increased the poverty rate (US\$3.2 a day, 2011 PPP) from 9.7 percent in 2019 to 16.2 percent in 2020. It is estimated to have slightly deteriorated further in 2021 due to higher food prices and fewer job opportunities.

Outlook

The spillovers of Russia's invasion of Ukraine have significantly worsened the

outlook for the Kyrgyz economy, which is projected to contract by 5 percent in 2022. This is mainly due to a fall in private consumption and investment spending from an anticipated 33 percent decline in remittance inflows. The fiscal deficit is expected to again widen to 5 percent of GDP in 2022, and external trade is expected to shrink. Forecasts of weak agricultural output in 2022 and continued uncertainties around gold production will further constrain growth. Growth is expected to recover to 3.2 percent in 2023 and 4.0 percent in 2024, assuming a stabilization in the conflict and continued public investment growth. These projections also assume domestic political stability and further easing of pandemic conditions. However, risks remain high of the outlook further worsening.

Inflation will increase to about 18 percent by end-2022, from further food and fuel price increases, before moderating to 8 percent by end-2023. The current account deficit in 2022 is projected to widen to 11 percent of GDP, reflecting drops in remittances and gold exports. The deficit is expected to narrow over the medium-term

alongside a recovering economy and a revival in exports.

The fiscal deficit is expected to widen to 5.3 percent of GDP in 2022 as the government increases spending to offset domestic spillovers from the war in Ukraine. Expansions of social spending and public wages are expected to help offset the impact of the remittance shock and weaker economic activity. The deficit is expected to narrow to 3 percent of GDP over 2023-24 as conditions improve.

Lower remittances, high food prices, fewer job opportunities domestically and abroad, and economic contraction will likely increase and deepen poverty in 2022. The impact of sanctions on Russia may sever a vital lifeline for Kyrgyz households reliant on remittances from Russia. The government's anti-crisis measures, such as increased pensions and wages for government officials and social assistance, will partly soften the negative impact on the poor.

TABLE 2 Kyrgyz Republic / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.6	-8.4	3.6	-5.0	3.2	4.0
Private Consumption	0.8	-8.3	2.4	-5.2	2.7	3.2
Government Consumption	0.5	0.9	1.9	1.7	0.3	0.3
Gross Fixed Capital Investment	7.1	-16.2	17.9	4.1	10.8	11.5
Exports, Goods and Services	16.2	-27.3	-1.4	1.1	8.0	7.2
Imports, Goods and Services	6.1	-28.0	11.1	9.0	11.3	10.5
Real GDP growth, at constant factor prices	3.6	-8.4	3.6	-5.0	3.2	4.0
Agriculture	2.5	1.1	0.0	-2.2	3.5	2.6
Industry	6.6	-7.5	-2.8	0.4	1.7	8.0
Services	3.2	-16.4	10.2	-9.9	3.6	3.5
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	-3.3	-11.4	-10.1	-10.0
Net Foreign Direct Investment (% of GDP)	3.8	-7.5	0.7	1.3	2.5	2.2
Fiscal Balance (% of GDP)	-0.5	-4.2	-0.3	-5.3	-4.4	-3.0
Debt (% of GDP)	51.6	67.7	60.3	65.2	61.3	57.9
Primary Balance (% of GDP)	0.5	-2.9	1.3	-3.6	-2.9	-1.7
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.6	1.1	1.1	1.1	1.1	1.1
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	9.7	16.2	18.3	28.7	27.7	26.7
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	52.6	58.1	58.7	56.7	57.2	58.0
GHG emissions growth (mtCO2e)	-6.7	-20.1	-7.2	-4.8	-1.2	-0.6
Energy related GHG emissions (% of total)	71.7	64.4	61.3	58.1	56.3	54.6

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

a/ Calculations based on ECAPOV harmonization, using 2017-KIHS and 2020-KIHS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

b/ Projection using point-to-point elasticity (2017-2020) with pass-through = 0.87 based on GDP per capita in constant LCU.