KYRGYZ REPUBLIC

Table 1	2018
Population, million	6.3
GDP, current US$ billion	8.0
GDP per capita, current US$	1277
International poverty rate ($1.9)[a]	1.5
Lower middle-income poverty rate ($3.2)[a]	19.6
Upper middle-income poverty rate ($5.5)[a]	66.4
Gini index[a]	27.3
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2016).

Real GDP growth slowed in 2018 reflecting a deceleration in most economic sectors. On the demand side, growth was driven by private consumption fueled by remittances and supported by monetary easing. Growth is projected to accelerate in 2019 before stabilizing in 2020–21 in line with gold output projections. Risks to the outlook include a slowdown in regional growth, fluctuations in global commodity prices, and failure to implement fiscal consolidation measures.

Recent developments

Real GDP growth slowed to 3.5 percent in 2018 (from 4.7 percent in 2017). Excluding gold production, output growth slowed to 3.5 percent from 5.1 percent a year earlier. On the demand side, growth was supported by consumption (fueled by remittance inflows and a relatively relaxed monetary policy) and investment, with a negative contribution from net exports. On the supply side, while slowing (only agriculture grew at a faster rate than in 2017), a positive expansion was recorded in all sectors.

Following an improvement in 2017, the external position deteriorated in the first nine months of 2018. The current account deficit widened to 12.2 percent of GDP (from 6.6 percent a year earlier), reflecting a larger trade deficit (which rose to 40.9 percent of GDP in January-September). The current account deficit was financed by foreign direct investment (FDI), a debt write-off of $240 million by the Russian Federation, and a drawdown on foreign exchange reserves.

The fiscal accounts strengthened significantly in 2018. Strong tax collections, coupled with the underperformance of capital investment, reduced the deficit to 1.6 percent of GDP in 2018 (from 4.6 percent in 2017). Tax revenue rose to 25.4 percent of GDP in 2018 from 23.9 percent in 2017, driven mainly by higher collections of import taxes. However, non-tax revenue and grant support declined and, as a result, total revenues fell to 31.8 percent of GDP (from 32.6 percent in 2017). Total spending was reduced to 33.4 percent of GDP (from 37.2 percent a year earlier) due to under-execution of the investment program. Excluding on-lending, the fiscal deficit fell to 1 percent of GDP, a decline from the 3.1 percent of GDP deficit recorded in 2017.

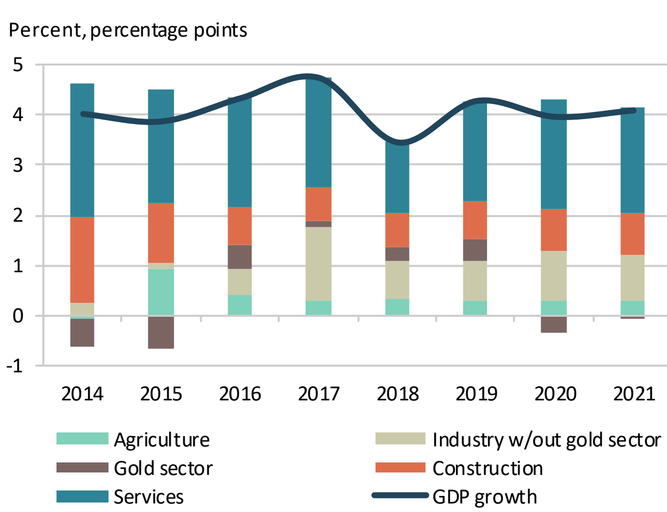
Annual inflation eased markedly in 2018, falling to 0.5 percent by end-2018 from 3.7 percent at end-2017. Food prices dropped by 2.6 percentage points as food supply exceeded demand. A broadly stable exchange rate also helped to contain inflationary pressures.

With inflation well below the target range of 5-7 percent, monetary policy was loosened slightly in 2018. The National Bank cut its policy interest rate by 25 basis points to 4.75 percent in May 2018. The som experienced some fluctuations against the U.S. dollar in 2018, mainly owing to seasonal factors. The National Bank intervened in the foreign exchange market both as a buyer and seller with net sales of $134 million during the year. Gross international reserves declined by 3.2 percent in 2018 but remained adequate at four months of goods and services import cover.

Banking sector performance remains robust with the key indicators well above the required levels. However, the sector is vulnerable to interest rate and concentration risks.

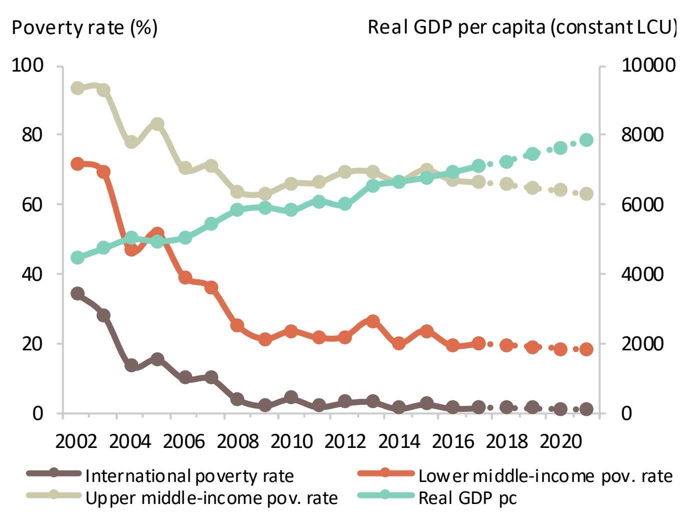
The poverty rate (measured at $3.20 per day, in 2011 PPP terms) was estimated at 19.3 percent in 2018. Higher remittance inflows supported household consumption while falling food prices supported

FIGURE 1 Kyrgyz Republic / Real GDP growth and contributions to real GDP growth



Sources: Kyrgyz authorities; World Bank staff calculations.

FIGURE 2 Kyrgyz Republic / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

the purchasing power of poor households. Moderate growth in construction and agriculture—sectors that employ more than one-half of the of the bottom 40 percent —constrained an increase in real labor incomes and the number of jobs for the poor.

Outlook

Real GDP growth is projected to accelerate to 4.3 percent in 2019 and stabilize at around 4 percent thereafter. This scenario reflects the gold production forecast and assumes moderate economic growth in Kazakhstan and Russia, which will benefit the Kyrgyz economy through the traditional channels of remittances and trade. Export earnings are expected to provide an additional boost to growth as access to the Eurasian Economic Union market expands.

Average annual consumption growth is projected at around 3 percent in 2019–21, mainly reflecting rising remittance inflows. Investment is expected to grow at about 12 percent per year.

More buoyant economic activity will stoke inflationary pressures in 2019. However, assuming exchange rate stability and no significant adverse shocks to global food prices, inflation will remain below the central bank's target range over the medium term.

The current account deficit is projected to remain elevated at about 10 percent of GDP, reflecting structural constraints, the significant import content of public investment, and an indirect feed-through effect via imports. Borrowing and FDI will finance the deficit.

To rebuild fiscal buffers, the authorities are committed to reducing the deficit to 3 percent of GDP by 2020 and maintaining it below this level thereafter in line with the fiscal rule. In 2019–21, tax revenues as a share of GDP are projected to rise on account of the government's commitment to implement policy measures to expand the tax base and reduce tax exemptions. Meanwhile, recurrent expenditures are forecast to decline following efforts to streamline non-priority purchases and reduce the wage bill as a share of GDP. Public investment spending is forecast to decelerate slightly.

Further increases in remittances, together with modest growth in the agriculture and construction sectors, will support household consumption and rural poverty reduction. Social transfers and pensions (which contribute 16.3 percent of income among the poor) will continue to support poor households. The poverty rate is projected to decline slightly to 18.8 percent in 2019 and 17.9 percent by 2021.

Risks and challenges

The Kyrgyz Republic's economic performance will remain vulnerable to developments in its major regional trading partners. Specifically, an unexpected slowdown in Russia or Kazakhstan could negatively impact the baseline scenario through decreased remittances and trade. A continuous real appreciation of the som against trading partner currencies would undermine the competitiveness of Kyrgyz goods and services. Export earnings could fall considerably in the event of a slowdown in gold output or a decline in gold prices. The inability to successfully implement the fiscal consolidation plan could jeopardize macroeconomic stability and sustainability.

A central challenge for Kyrgyz producers will continue to be meeting EEU standards. In addition, improving the business environment and addressing issues related to energy pricing will be critical to boost exports and support overall growth in the medium term.

TABLE 2 **Kyrgyz Republic** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	4.3	4.7	3.5	4.3	4.0	4.1
Private Consumption	-0.6	6.3	3.2	3.4	3.3	3.4
Government Consumption	1.5	1.3	-0.9	-1.2	2.1	2.0
Gross Fixed Capital Investment	7.8	9.2	2.1	16.8	9.7	10.8
Exports, Goods and Services	-3.8	6.1	4.8	5.6	6.4	7.0
Imports, Goods and Services	-1.1	7.4	8.5	11.5	8.1	9.3
Real GDP growth, at constant factor prices	4.3	4.7	3.5	4.3	4.0	4.1
Agriculture	2.9	2.2	2.7	2.5	2.5	2.5
Industry	7.1	8.6	6.2	7.2	5.3	6.0
Services	4.5	5.3	3.1	4.5	4.6	4.6
Inflation (Consumer Price Index)	0.4	3.2	1.5	4.1	4.5	5.0
Current Account Balance (% of GDP)	-11.6	-6.4	-10.9	-9.7	-10.3	-9.4
Net Foreign Direct Investment (% of GDP)	8.5	-1.0	5.7	5.6	5.8	5.7
Fiscal Balance (% of GDP)	-6.3	-4.6	-1.6	-3.7	-3.0	-3.0
Debt (% of GDP)	59.1	58.8	56.0	56.5	56.6	56.5
Primary Balance (% of GDP)	-4.5	-2.8	-0.4	-2.6	-1.7	-1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.4	1.5	1.4	1.2	1.1	1.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	19.1	19.6	19.3	18.8	18.4	17.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	67.2	66.4	65.8	64.9	64.1	63.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2011-KIHS and 2017-KIHS. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(b) Projection using average elasticity (2011-2017) with pass-through = 0.7 based on GDP per capita in constant LCU.