

The World Bank in the Kyrgyz Republic

Country Snapshot



An overview of the World Bank's work in the Kyrgyz Republic

April 2018

THE KYRGYZ REPUBLIC	2017
Population, million	6.2
GDP, current US\$ billion	7.2
GDP per capita, current US\$	1,160
Life Expectancy at birth, years (2016)	70.7

At a Glance

- Growth accelerated to 4.5% in 2017 from 3.8% in 2016, supported by continued improvements in the Russian and Kazakh economies and by expansionary macroeconomic policies. Growth was driven by the non-gold industry and by public investment, exports, and private consumption that was fueled by a steady rebound in remittances.
- Modest growth increases in agriculture and construction, together with remittances and social transfers, are likely to support rural poverty reduction. The poverty rate is projected to decline to 18.5% in 2018 and 16.7% in 2020.
- The Kyrgyz Republic enjoys a large regional export potential in hydro energy and promising possibilities in trade transit in roads and railways linking China to the west. The World Bank is working with the Kyrgyz Republic to boost economic growth and competitiveness and also to improve public administration, public service delivery, the business environment, and social conditions.

Country Context

The Kyrgyz Republic is a land-locked, lower-middle-income country of 6 million people with rich endowments in agriculture, hydropower, and tourism.

The country has experienced political and social instability since independence in 1991. Corruption and nepotism were major stress factors underlying political and social upheavals in 2005 and 2010. To prevent the concentration of power in one office, a parliamentary constitution with elaborate checks and balances was adopted in late 2010.

The president elected under this constitution served a full term of six years marked by relative stability. Following peaceful elections, a successor took office in November 2017, and the new coalition Government, which is accountable to the parliament, has embarked on an ambitious reform agenda.

The Kyrgyz economy is vulnerable to external shocks owing to its reliance on one gold mine, Kumtor, which accounts for about 10% of GDP, and on worker remittances, equivalent to about 30% of GDP in 2011–16.

For the country to realize its growth potential—including to export hydroelectricity as a nexus for regional trade and transport and to promote tourism—economic activities need to be diversified through increased private sector development and improved occupational skills and productivity among the youth.

The World Bank and the Kyrgyz Republic

The strategic focus of the World Bank's program as highlighted in the 2018–22 Country Partnership Framework is to support the Kyrgyz Republic in establishing a stronger basis for sustainable, inclusive, and private sector-led growth.

Support for these areas will be provided through concessional International Development Association (IDA) lending, supplemented by trust fund financing and intensified Advisory Services and Analytics that emphasize practical, problem-solving advice. With a challenging external environment and weaker prospects for growth, the World Bank will focus on helping the Kyrgyz Republic to foster more inclusive economic growth, build a more resilient economy, and undertake transformative investments to enhance growth potential.

Key Engagement

A number of World Bank-supported programs have delivered important development results:

- Births according to clinical protocols increased from 5.7% to 58%, improving maternal and child health service quality in rayon hospitals.
- Equipment for emergency pre-hospital pediatric care in seven oblast and remote rayon Family Medicine Centers (FMCs) has been provided.
- Residents of 55 villages have benefited from improved access to a water supply.
- More than 100,000 children now have free access to preschool education.
- 10,000 primary school teachers were trained on the new curriculum.
- 700,000 copies of textbooks, teacher guides, and student workbooks were printed and distributed.
- A land and real estate registration system, the State Registration Service, was created.

WORLD BANK PORTFOLIO

Number of Projects: 21

Lending: \$416.52 million

IDA financing in the Kyrgyz Republic:

- 50% is provided in the form of IDA grants
- 50% are highly concessional IDA credits with no interest and only a 0.75% service charge
- Credits are repayable in 38 years, including a six-year grace period

- The Kyrgyz Agricultural Finance Corporation was established and transformed into the Ayil Bank, the country's main rural bank.
- The Community Development and Investment Agency was established, improving infrastructure in 1,700 communities.
- Reforms in pasture management were supported with establishment of 454 Pasture Users Unions.
- A control program reduced the incidence of human brucellosis cases by almost four times.
- More than 600 Community Seed Funds were established and provided with high-quality seeds, fertilizers, and training.
- New crisis management centers in Bishkek and Osh significantly improved the "112" emergency call system, early warning systems, and disaster information management.
- 680,000 people in the south now benefit from improved connectivity and cross-border trade with Tajikistan.
- Automated weigh-in-motion systems were introduced along major international corridors to address vehicle overloading, prevent damage to roads, and improve traffic safety.
- 35,000 Severelectro customers have benefited from the installation of more accurate electricity meters and 200,000 now receive a more reliable electricity supply.

Recent Economic Developments

The Kyrgyz economy has recovered from the external shocks of 2014–15. Growth accelerated to 4.5% in 2017 from 3.8% a year earlier, supported by continued improvements in the Russian and Kazakh economies and by expansionary macroeconomic policies. On the production side, growth was driven by the non-gold industry, and on the demand side by public investment, exports, and private consumption, fueled by a steady rebound in remittance inflows.

Growth decelerated in agriculture and services. Inflation rose slightly in 2017, reaching 3.7%, given buoyant domestic demand. The current account deficit is estimated to have narrowed to 9.4% of GDP in 2017 from 12.1% a year before, as exports picked up and remittances grew robustly. With public spending remaining high, the estimated overall fiscal deficit was 5% of GDP in 2017, down from 6.6% in 2016 but above the levels of previous years.

The poverty rate (measured at below US\$3.2 per day in 2011 purchasing power parity terms) is estimated to have fallen to 19% in 2016. Low consumer price growth and higher remittance inflows supported household consumption. At the same time, the moderate growth in services and agriculture, where about 50% of the bottom 40% are employed, constrained real labor income growth for the poor.

Economic Outlook

Real GDP growth is projected to decelerate slightly to 4.2% in 2018, as industrial output growth moderates, and then pick up to reach 5% by 2020. This scenario assumes that a recovery takes hold in the region, benefiting the Kyrgyz economy via the traditional remittance and trade channels. An additional boost is expected to come from exports, mainly thanks to enhanced access to the Eurasian Economic Union market.

Inflation is envisaged to remain in line with the National Bank's target of 5%, assuming no significant global food price increases and relative exchange rate stability. Although remittance inflows are expected to grow further, the current account deficit is projected to remain elevated at around 10% of GDP, reflecting the structural features of the economy and continued high, albeit gradually moderating levels of public investment. The fiscal deficit is projected to decline to 2.9% of GDP by 2020 due to measures to increase tax revenues and curtail current spending, while capital expenditures will remain relatively elevated.

Modest increases in growth in agriculture and construction and a solid performance in remittances are likely to support a reduction in rural poverty. Social transfers will also continue to play an important role in driving poverty reduction in both urban and rural areas. A scheduled increase in pensions should also benefit poor households, given that pensions represent close to 15% of income among the poor. The poverty rate is projected to decline to 18.5% in 2018 and 16.7% in 2020.

Project Spotlight

Central Asia Regional Links Program Offers Digital Solutions to Preserve Roads of International Importance in the Kyrgyz Republic



Sultan Asangodjaev, truck driver: "It's good that the scale is automatic. We pass very quickly, without delay, in less than five minutes."

The World Bank–funded Central Asia Regional Links (CARs) program supports the Government's efforts to develop international transport corridors and rehabilitate and preserve strategic roads. Digital solutions are being introduced to address overloading, prevent damage to roads of international importance,

and ensure road preservation. Vehicles exceeding the maximum weight limit pose an enormous risk to safety, especially on the country's mountainous terrain. "Thanks to an initiative of the Ministry of Transport and Roads, and with support from the World Bank, we have introduced, for the first time in the Kyrgyz Republic, two systems of automatic weigh-in-motion control. These two facilities are in stations "Kemin" and "Sosnovka," strategic locations along the Bishkek-Naryn-Torugart road and the Bishkek-Osh road," said Jamshytbek Kalilov, Minister of Transport and Roads.

Trucks do not stop or slow down when passing through this system. Individual items of vehicle data are recorded using axle load sensors and inductive loops installed in the road surface, and the camera picks up the license plate and the speed. This information is displayed at the control station and transferred to the server of the Ministry of Transport and Roads, where it is kept for 50 years.

According to the Minister of Transport and Roads, the digital solutions reduce the "human factor," and the collection of fees at these stations has increased by 2.5 times. "We have asked the World Bank to support the installation of three more systems of automatic weigh-in-motion control and to combine and extend them with other applications for intelligent traffic management," said Minister Kalilov. The new digital solutions are part of the Government's program of digitization called "Taza Koom."



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