

The World Bank in the Kyrgyz Republic

Country Snapshot



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

October 2016

THE KYRGYZ REPUBLIC	2015
Population, million	5.9
GDP, current US\$ billion	6.6
GDP per capita, current US\$	1,108
Poverty rate (\$5/day 2005PPP terms) (2014)	83.9
Life Expectancy at birth, years (2014)	70.0

At a Glance

- The Kyrgyz Republic has progressively increased economic output over the past two decades, but the growth has been volatile. The economy remains characterized by significant informality and relies heavily on a few sectors plus remittances.
- Despite important progress since 2011, governance remains one of the country's key development challenges. Further improvements in the rule of law, transparency, and regulatory reforms are needed for the country to attract investment and enable the private sector to become an engine of growth and job creation.
- The World Bank is working with the Kyrgyz Republic to improve the national governance system; fight corruption; boost economic growth, public finances, and global competitiveness; and improve social conditions.

Country Context

Landlocked, largely mountainous, and with a population of nearly 6 million, the Kyrgyz Republic is a vibrant democracy that adopted a parliamentary system in 2011 and is one of the few lower-middle-income countries in the Europe and Central Asia region (GNI per capita of US\$1,170 in 2015).

Although its economy and society are the most liberal in Central Asia, the Kyrgyz Republic has experienced significant political and social instability since independence in 1991. Weak governance and entrenched corruption were major stress factors underlying political and social upheavals in 2005 and 2010. The Kyrgyz economy is vulnerable to external shocks, owing to its reliance on one gold mine, Kumtor, which accounts for over 10% of GDP, and on worker remittances, equivalent to about 30% of GDP in 2011–15.

In order for the Kyrgyz Republic 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 in the young labor force. Above all, dramatic improvements in governance are required, as corruption remains pervasive in the public sector, posing binding constraints to economic growth, competitiveness, and social equity.

The Government of the Kyrgyz Republic has committed itself to improved governance at the national and local levels and reduced corruption as the basis for the country's economic and social development.

The World Bank and the Kyrgyz Republic

The strategic focus of the ongoing World Bank program in the Kyrgyz Republic as highlighted in the 2013–17 Country Partnership Strategy (CPS) has been to support the country's efforts to improve governance, with a particular emphasis on three broad areas of engagement: 1) raising the standards of public administration and public service delivery; 2) improving the business and investment climate; and 3) strengthening the stewardship of natural resources and the physical infrastructure.

Over the next several years, the World Bank will continue to provide assistance to the Kyrgyz Republic, supporting the Government's important public investments program and maintaining the CPS focus on governance.

However, with the challenging external environment and weaker prospects for growth, the World Bank will focus on helping the country to mitigate the impact of the economic slowdown on job creation, provide protection to vulnerable populations, and exploit new opportunities for private sector development, while accelerating the pace of structural reforms.

Key Engagement

In the Kyrgyz Republic, agriculture remains one of the most important sectors of the economy, providing about one-third of the country's employment and about 12% of total exports.

Reforms and investments in the irrigation subsector remain an important item on the country's development agenda. The World Bank has supported the irrigation sector through a number of projects in the past and continues to do so through the ongoing Second On-Farm Irrigation Project and the National Water Resources Management Project. Results to date include the establishment of 481 water users associations and the rehabilitation of irrigation schemes covering 175,000 hectares of land across the country.

In addition, the World Bank has been assisting the Kyrgyz Republic in improving marketing links

WORLD BANK PORTFOLIO

- Number of Projects: 11 (worth \$207.85 in Total)
- Trust Funds (>\$5 Million): 5 (\$73.56 in Total)
- IDA financing in the Kyrgyz Republic:
 - 45% is provided in the form of IDA grants
 - 55% 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

between farmers and businesses. The Agribusiness and Marketing Project has boosted the trade and promotion of Kyrgyz agricultural products, both domestically and abroad. Crop and livestock farming have been supported by the Agriculture Investments and Services Project, the Agricultural Productivity Assistance Project (APAP), and the ongoing Pasture and Livestock Improvement Project and Support to Community Seed Funds Project.

The World Bank will continue to support the Kyrgyz Republic's agriculture sector through several new projects—the Agricultural Productivity and Nutrition Improvement Project and the Integrated Dairy Productivity Improvement Project—to promote the development of agriculture value chains as well as the export of agriculture products.



Veterinarians are now better trained and equipped to treat livestock diseases

Recent Economic Developments

After growing by 3.5% in 2015, the Kyrgyz economy contracted by 2.3% in the first half of 2016, reflecting a sharp decline in gold output and the weak performance of the non-gold sector, in particular, industry and services. On the demand side, investment contributed positively, thanks to public outlays that partly compensated for lackluster consumption growth and a negative contribution from net exports.

Fiscal policy remained expansionary, and capital spending increased significantly in line with the planned investment scale-up. Given a parallel decline in revenues, reflecting the overall weakness of the economy as well as a drop in non-tax income, the budget ran a deficit of 8.6% of GDP as of July 2016. Nonetheless, the public debt-to-GDP ratio improved to 64.1% as of end-June (from 68.3% at the end of 2015), thanks to the appreciation of the som.

After depreciating by over 20% relative to the U.S. dollar in 2015, the som appreciated by 11.3% during the first half of 2016, reflecting similar trends in the values of the Russian ruble and Kazakh tenge. In turn, this affected the real value of remittances, which increased by 7% in dollar terms. Reflecting the stabilization of the exchange rate as well as low food and energy prices, year-over-year average inflation barely reached 1.3%.

On the external side, the decline in gold production affected the overall performance of exports, which contracted by 23.6% over the first half of the year. Meanwhile, imports also contracted, albeit to a lesser extent, given the very sharp drop already observed in 2015 and the high import content of public investments. The uptick in remittance inflows helped to contain the current account deficit at around 9% of GDP.

The poverty rate (measured at US\$2.5/day) increased by 1.4 percentage points to 30.6% of the population in 2015 due to weak economic growth and lower remittance inflows. The

slowdown in services and construction led to fewer employment opportunities and stagnant real wages for low-income unskilled workers. In rural areas, households had lower agricultural income due to the lower prices of vegetables, meat, and fruits. Pensions and cash benefits to poor families helped to mitigate the impact of the decline in real incomes, but the targeted cash transfer program remains underfunded, reaching less than one-third of the poorest quintile.

Economic Outlook

Given the low performance of the Kyrgyz economy in the first half of the year, with the significant drop in gold production and exports and the persistence of regional headwinds, GDP growth is expected to moderate to 2.2% over 2016. Gold production is projected to recover over the second half of the year (declining overall by 3.2%), agricultural output to grow by 1.5% (against 6.2% in 2015), and the non-gold industry to contract by over 2%, reflecting supply side constraints and increased competition from Kazakh producers. In line with weak demand and declining prices for food and fuel, inflation should not exceed 3.5%.

Fiscal balances are expected to deteriorate relative to 2015, with the overall deficit reaching 7.4% of GDP. The widening deficit is projected to come about as a result of both lower non-tax revenues and higher investment outlays. Meanwhile, recurrent spending should remain stable as a share of GDP at just over 30%.

Looking forward to 2017 and 2018, output growth is expected to recover to 3 and 3.7%, respectively, as the external environment continues to improve and Kyrgyz producers adapt to the new requirements under the Eurasian Economic Union. The poverty rate is projected to remain broadly unchanged at about 31% of the population over 2016–18. Low agricultural growth will impede poverty reduction in rural areas, but if improvements in safety net targeting materialize, these, along with the recovery in remittances, could marginally support poverty reduction.

Project Spotlight



Villages developed local investment plans through a participatory process.

Many Kyrgyz people live in rural areas, where the poverty rate is high, the population depends on agriculture, and basic necessities such as drinking water, health, and child care are often lacking. The World Bank–financed Third Village Investment Project (VIP-3) aims to alleviate rural poverty by building local self-government and village-level capacity to plan and implement local

development programs. The project works with members of local communities, administration staff, and council members to increase their capacity for participatory development through social mobilization, training, and peer-to-peer learning.

Village-level investment projects for financing are selected through a competitive process. Villages develop local investment plans through a participatory process, in which they assess local needs and identify priorities for investments, taking into account the needs of women and vulnerable groups such as youth and children. Regional and national selection committees then judge the investment plans against a set of criteria, and those ranked highest have their priorities funded by the project. An important feature of the project is that it works only with rural communities, where the highest number of low-income people reside, providing employment and important enduring benefits for the poor. For example, a large number of investments are expected to finance the rehabilitation of kindergartens, schools, and health clinics, which will contribute to mitigating the high maternal mortality rates and improving education services for the rural poor.

The project builds on the achievements of the previous VIPs (VIP-1, 2003–08 and VIP-2, 2006–14). VIP-1 helped 1,661 villages to implement 4,344 microprojects. All 475 ayil aymaks (local municipalities) of the country participated in VIP-2 and roughly 2.3 million people benefited directly from the completion of about 6,000 microprojects, including over 317,000 from drinking water projects, 131,000 from electricity supply projects, 570,000 from new or rehabilitated primary health facilities, and about 1,028,700 from school construction and rehabilitation projects. In total, around 1,700 villages across the country improved their social and economic infrastructure. VIP-3 will be implemented between 2016 and 2020 in four northern regions (Naryn, Issykkul, Chui, and Talas oblasts) and will directly benefit 266 communities with nearly 29,000 residents.

The “Country Snapshot” is a bi-annual update, highlighting the country’s recent developments, economic outlook and major overview of the World Bank’s partnership with the country. You can find the latest updates at <http://www.worldbank.org/kyrgyzrepublic>



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