



CPF Consultations, 2017

Insights from the Systematic  
Country Diagnostic

What will it take to  
transition:

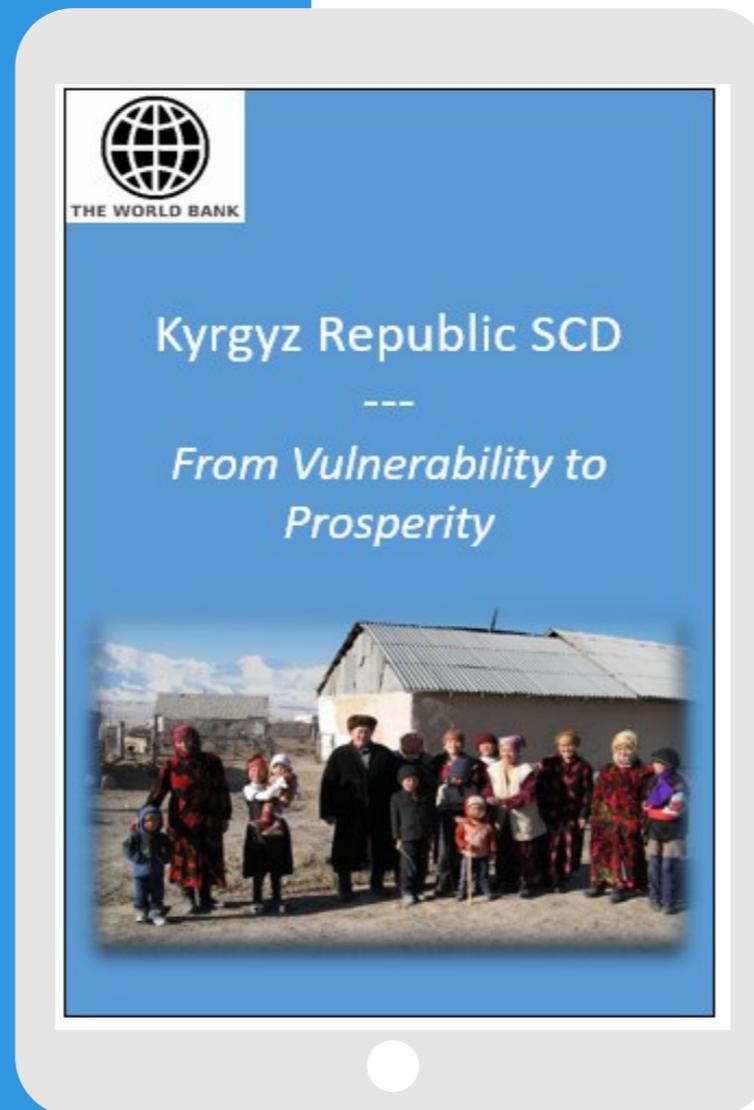
***From Vulnerability to  
Prosperity***



# It's time to turn the corner!

After Independence, remittances, gold exports and migration were central to how families adjusted to the change.

This was enough to reduce poverty but not to generate durable prosperity.



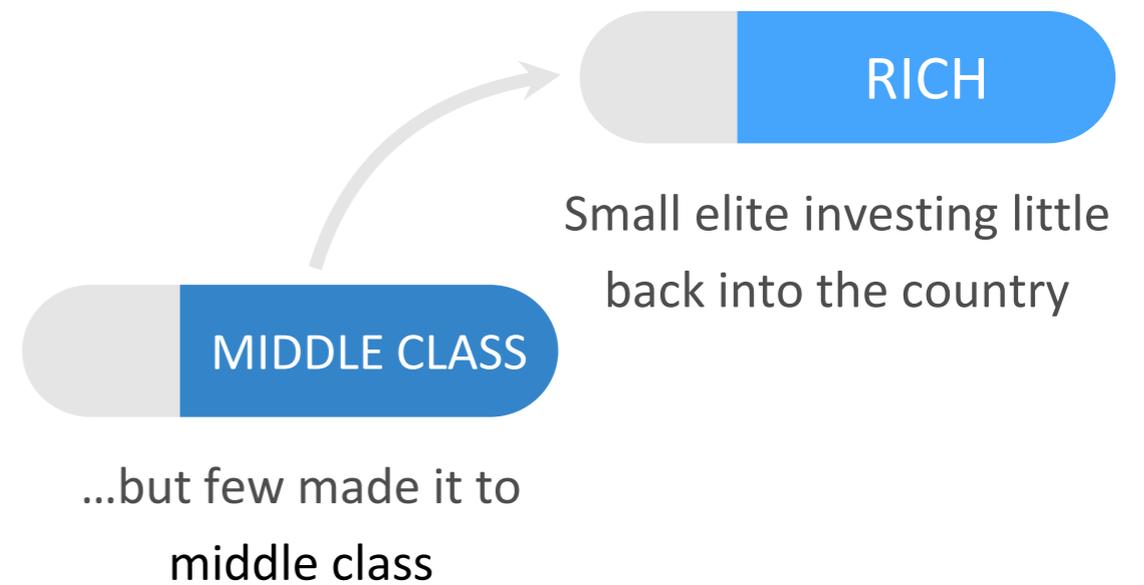
Much more can be done to revitalize the economy and ensure a sustainable future for the Kyrgyz people

# Today the steps to durable prosperity are broken

## The path to Middle Class is broken



Many have escaped  
poverty

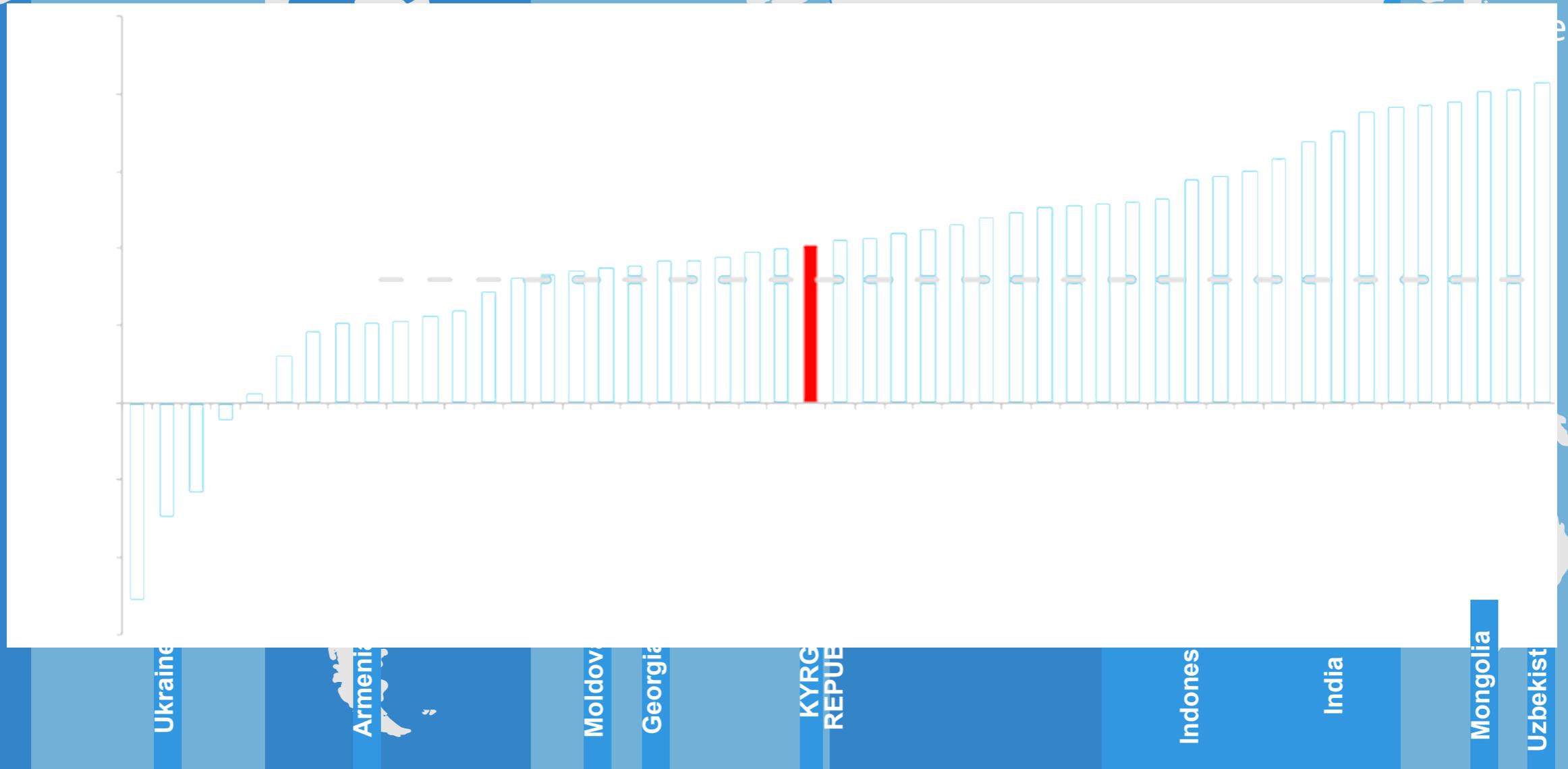




# The post-independence development trajectory

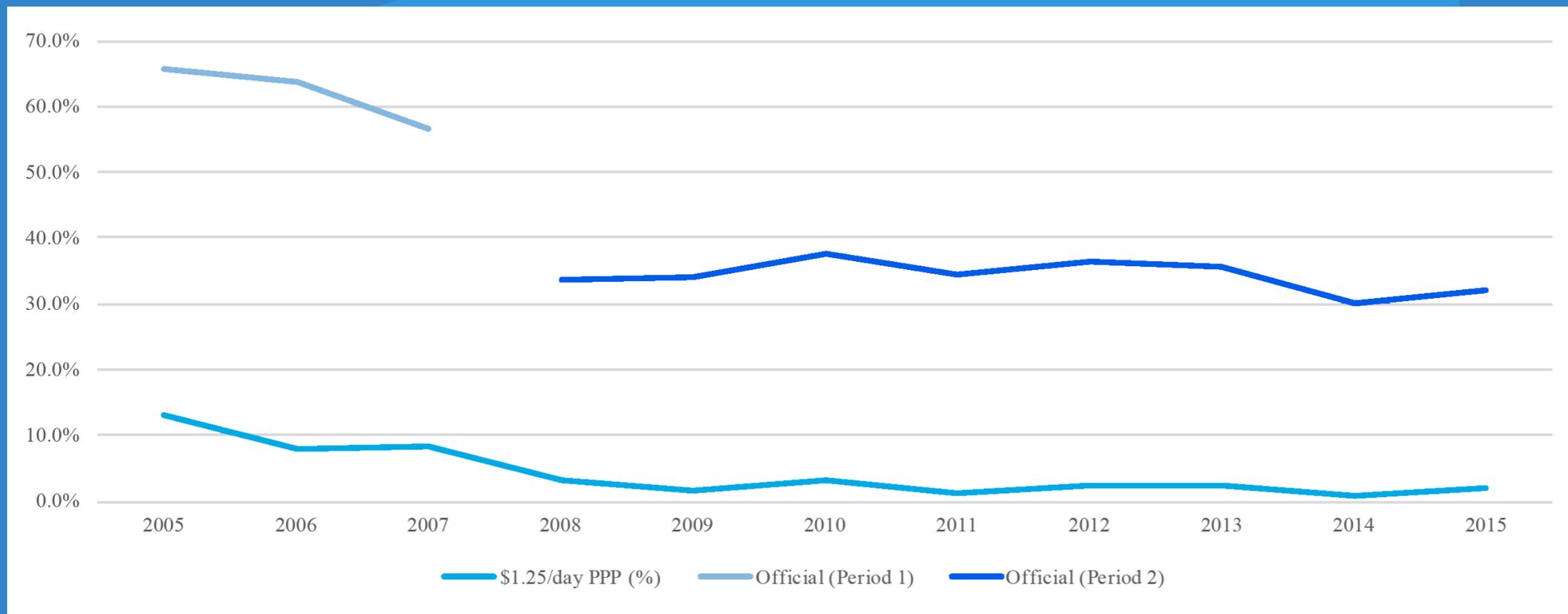
At first glance, the country has done reasonably well

Economic growth averaged 4%: not a stellar performance but sufficient for incomes to grow



At first glance, the country has done reasonably well

Poverty has fallen, from very high initial levels – extreme poverty is now low

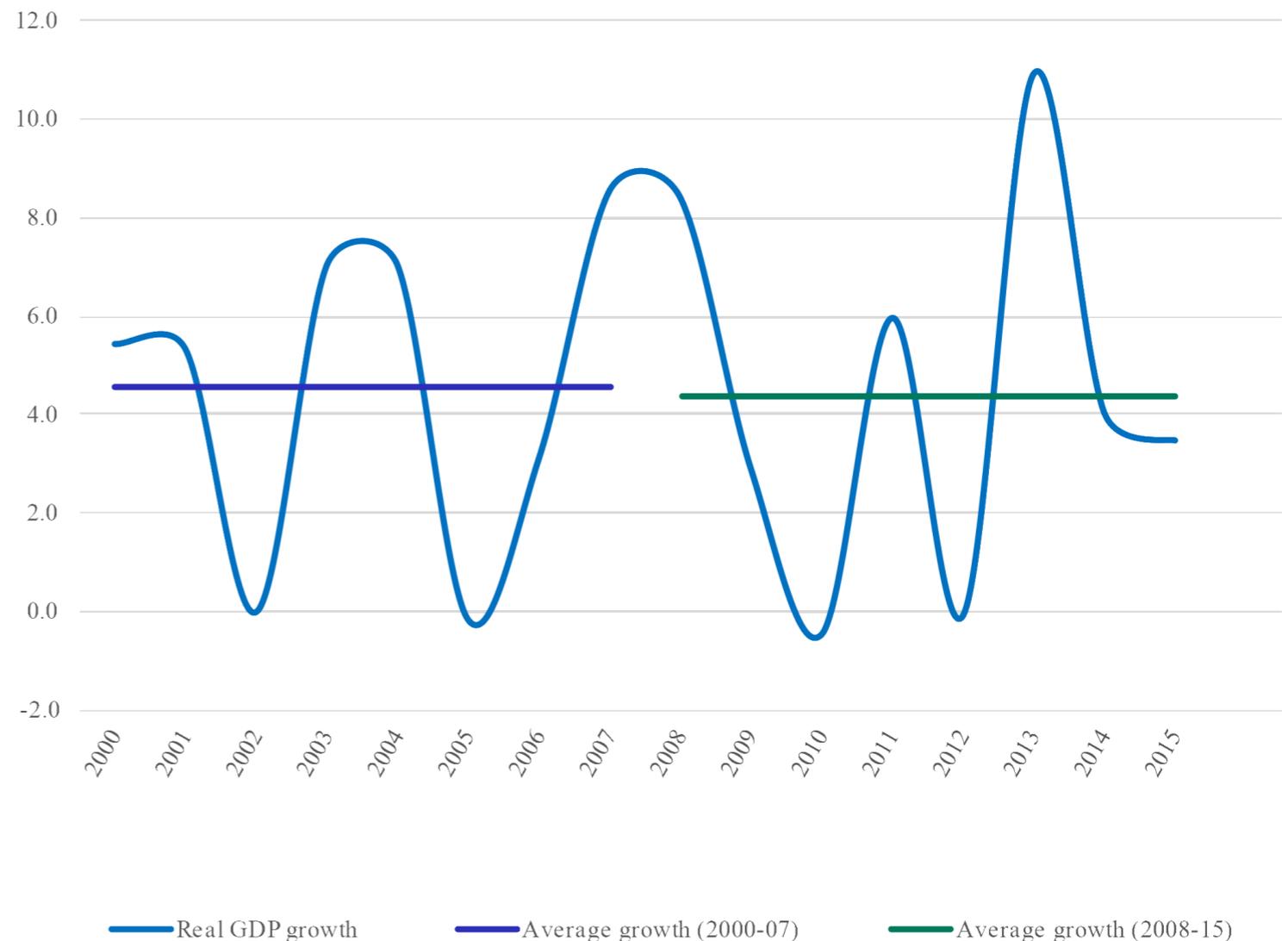


...but progress on poverty reduction has stagnated after 2010

## ...But the foundations are weak

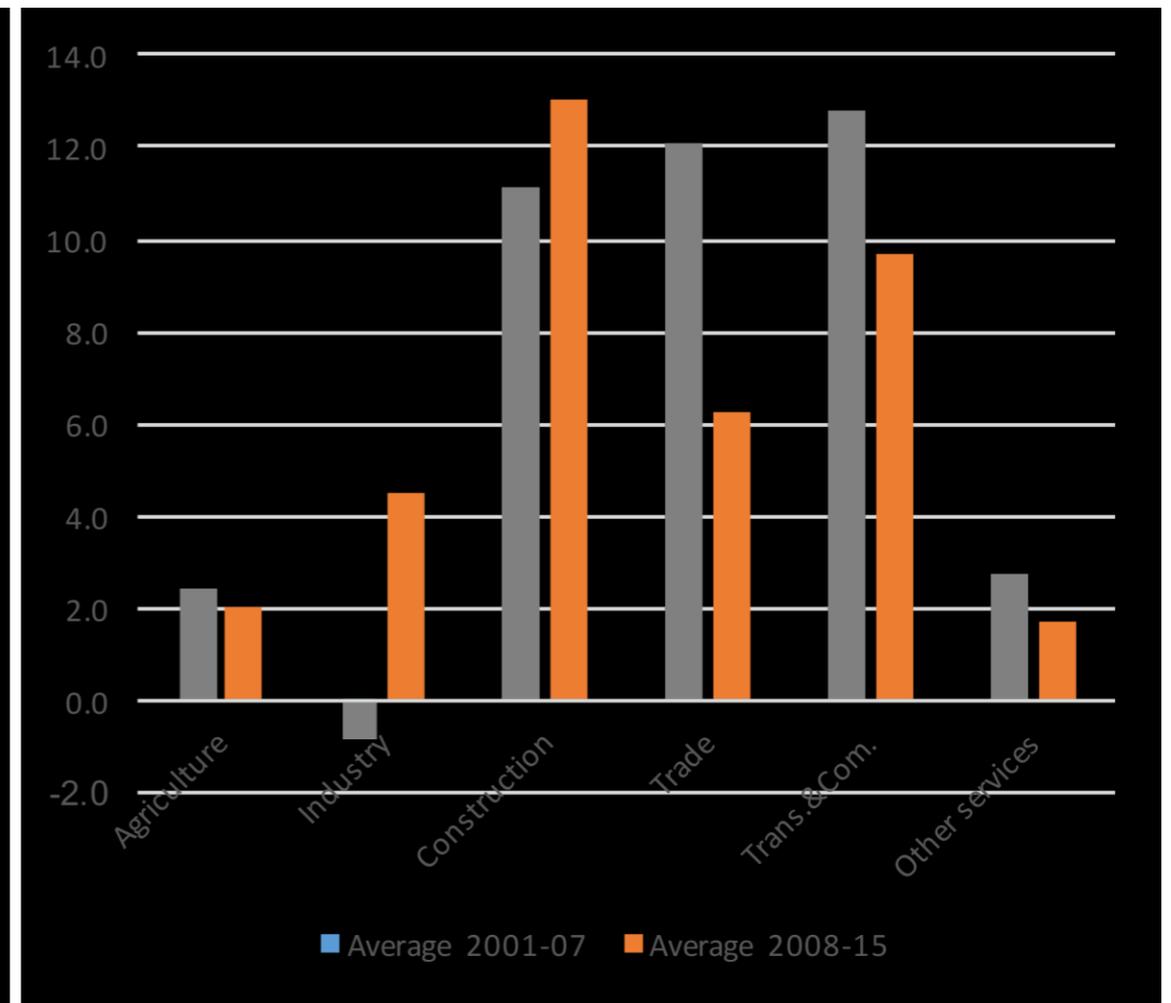
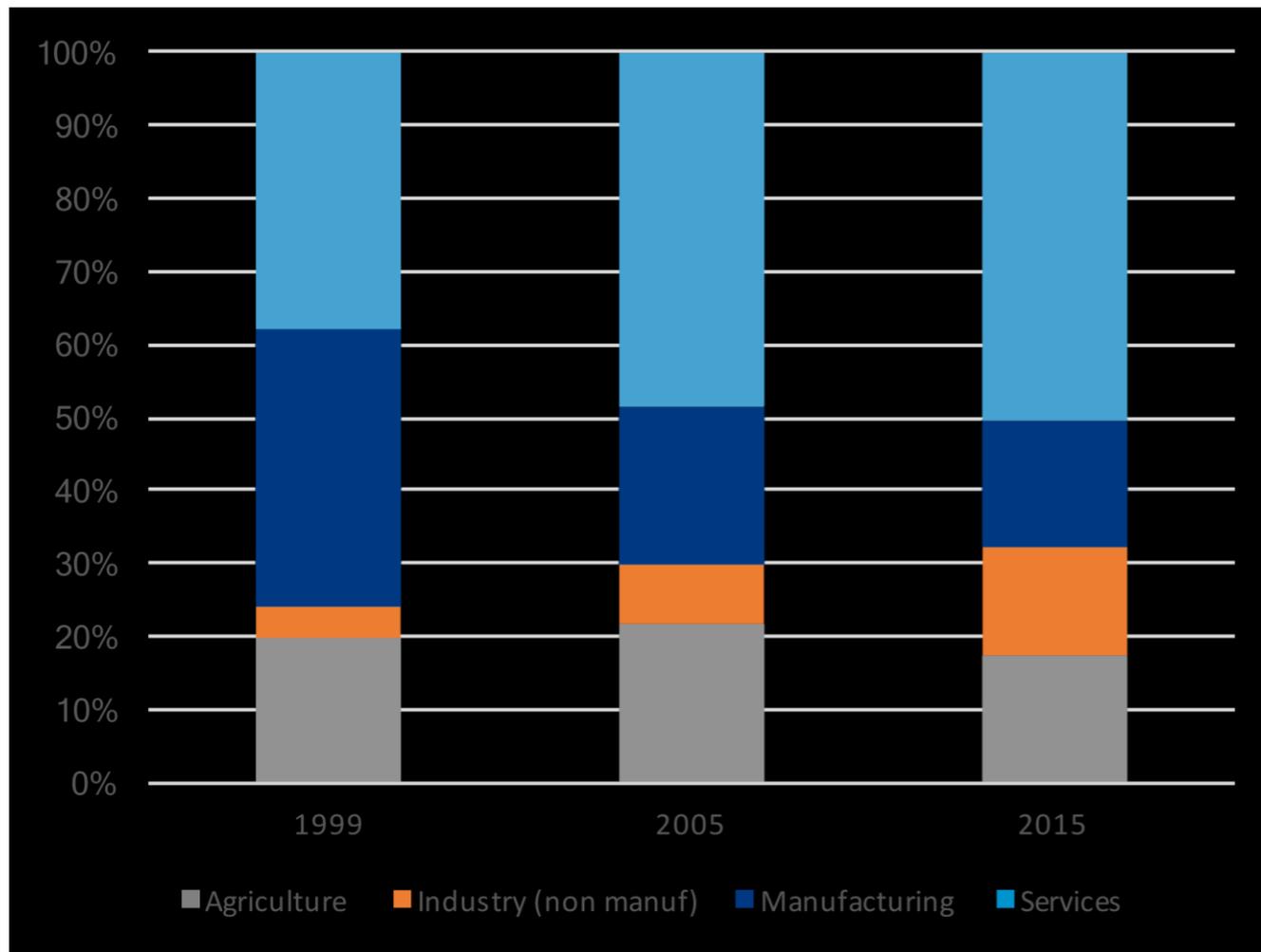
...because growth is dependent on unstable and exhaustible drivers, i.e.: gold production, remittances, public spending

Growth has been highly volatile: with booms and troughs that reveal fragility



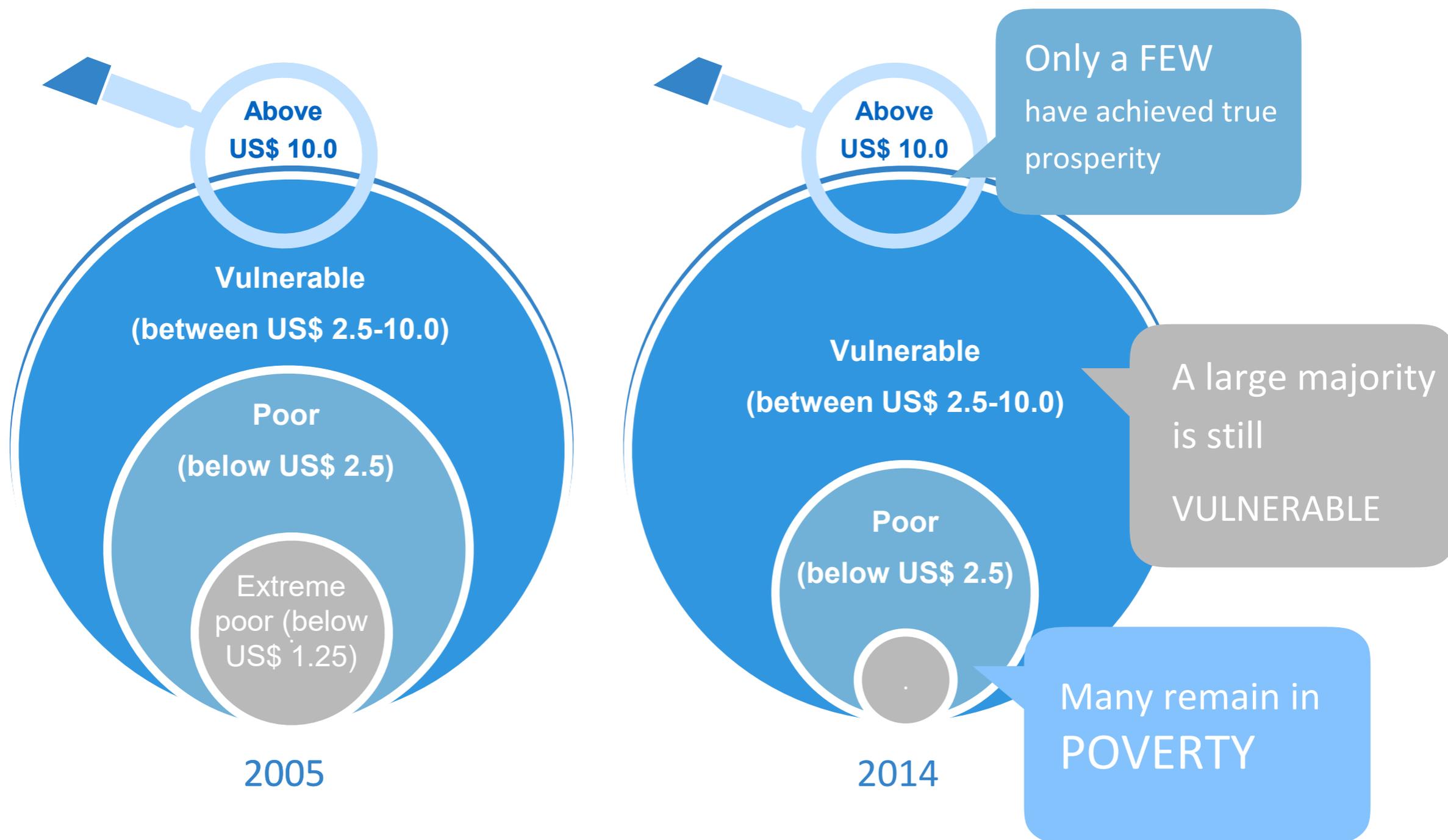
## ...But the foundations are weak

The structure of the economy has shifted with agriculture and manufacturing losing ground to gold, construction and services



...reflecting an economy that lacks dynamism and export potential

# Vulnerability is a defining feature of the country

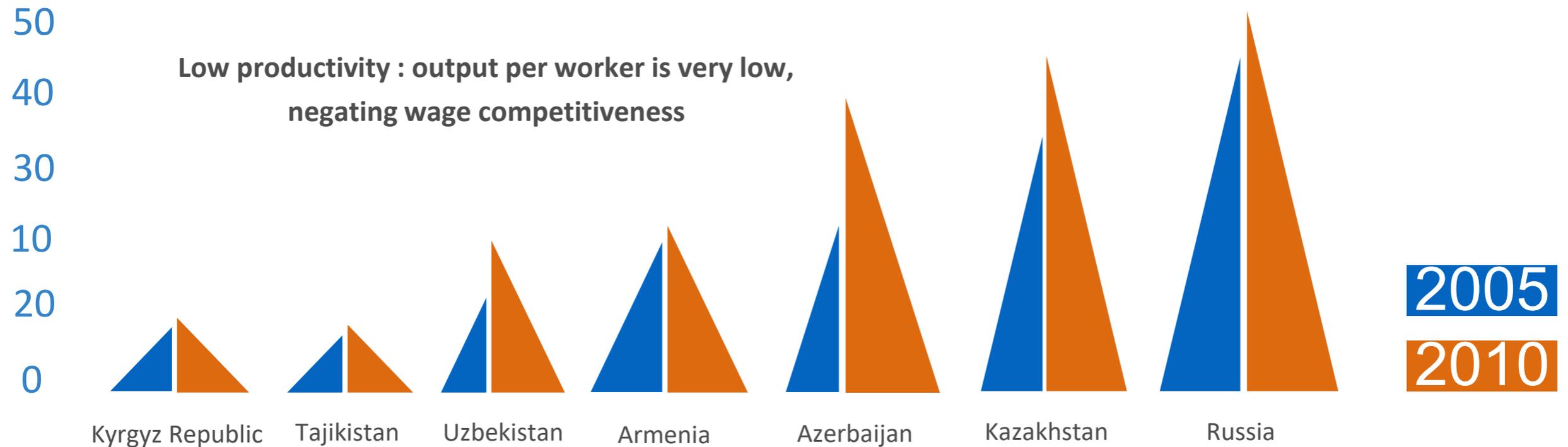


A photograph showing a combine harvester in a field at sunset. The sun is low on the horizon, creating a bright orange and yellow glow. In the background, a large electricity pylon stands prominently. The harvester is in the foreground, and the field is dark. The overall scene is a mix of agriculture and infrastructure.

A wake-up call: to change the trajectory, the country needs a new model!

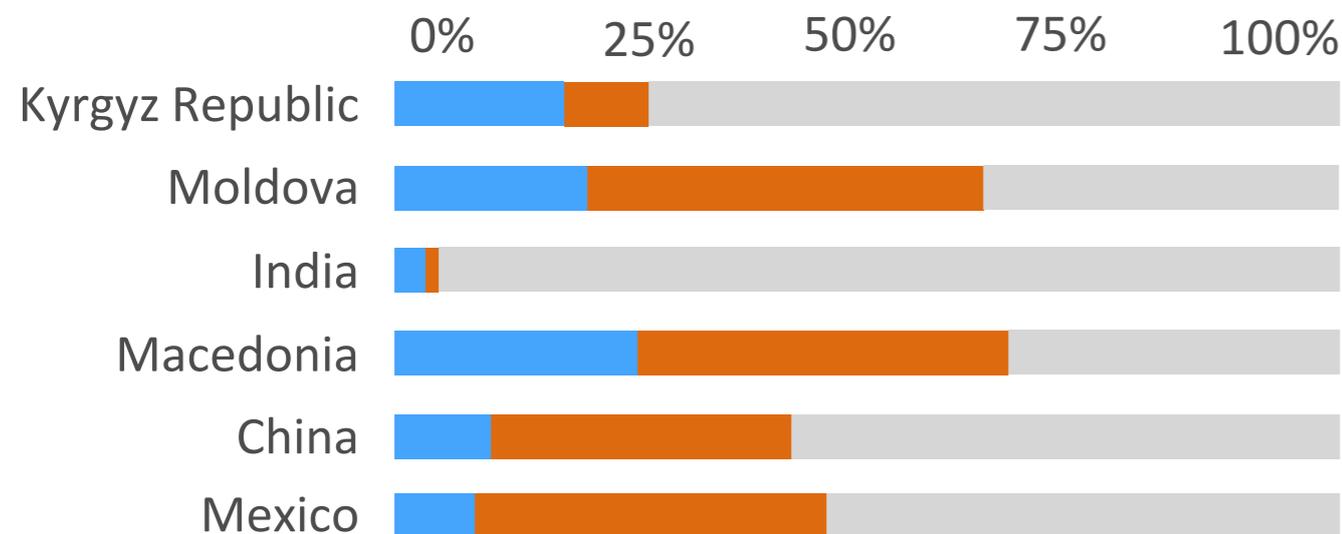
# The economy is informal and unproductive

The private sector is not productive: firms are too small and informal to be competitive and create jobs



## Private sector jobs are mostly informal

(employment as share of total)



Public Sector

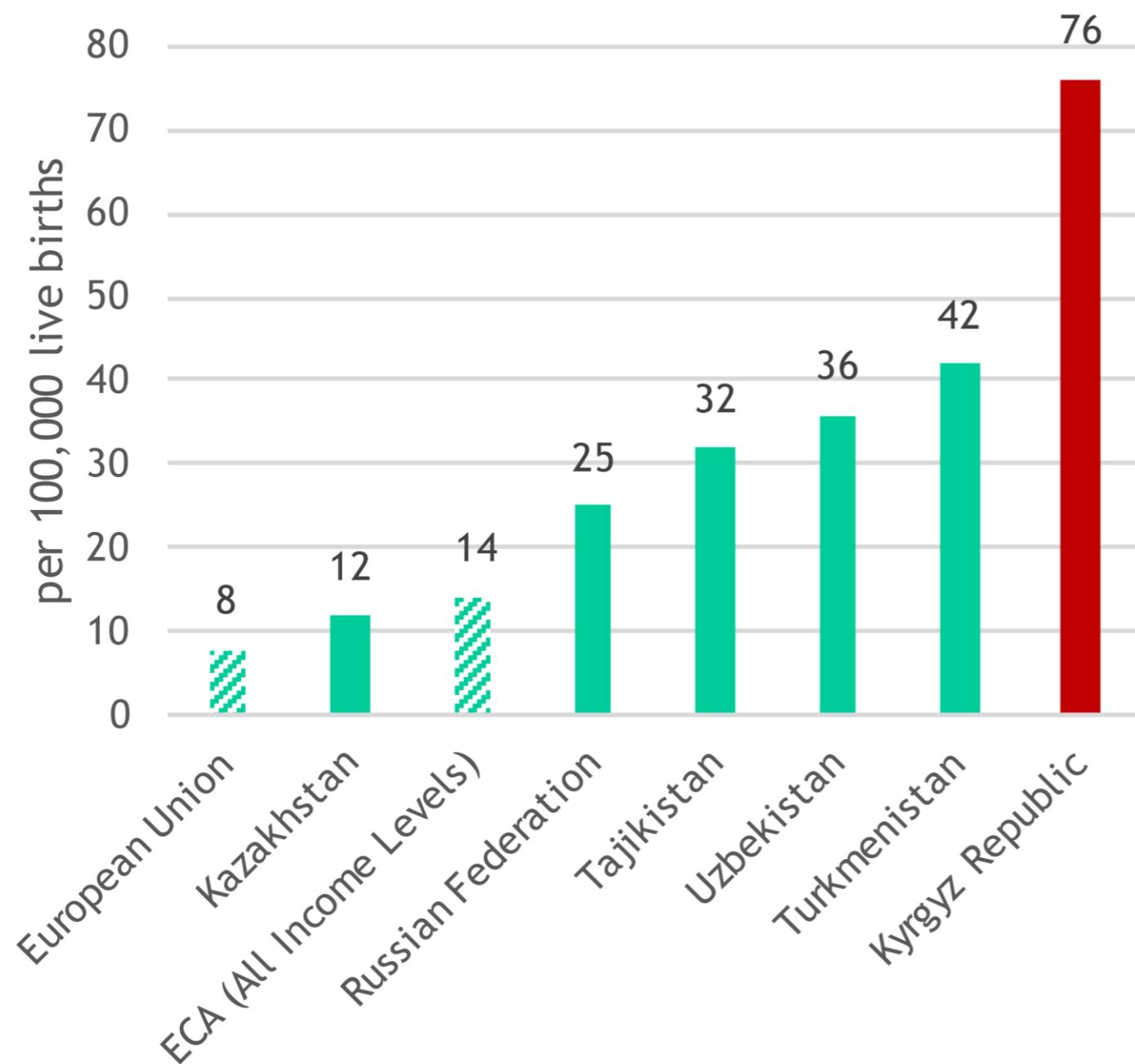
Private Formal

Private Informal



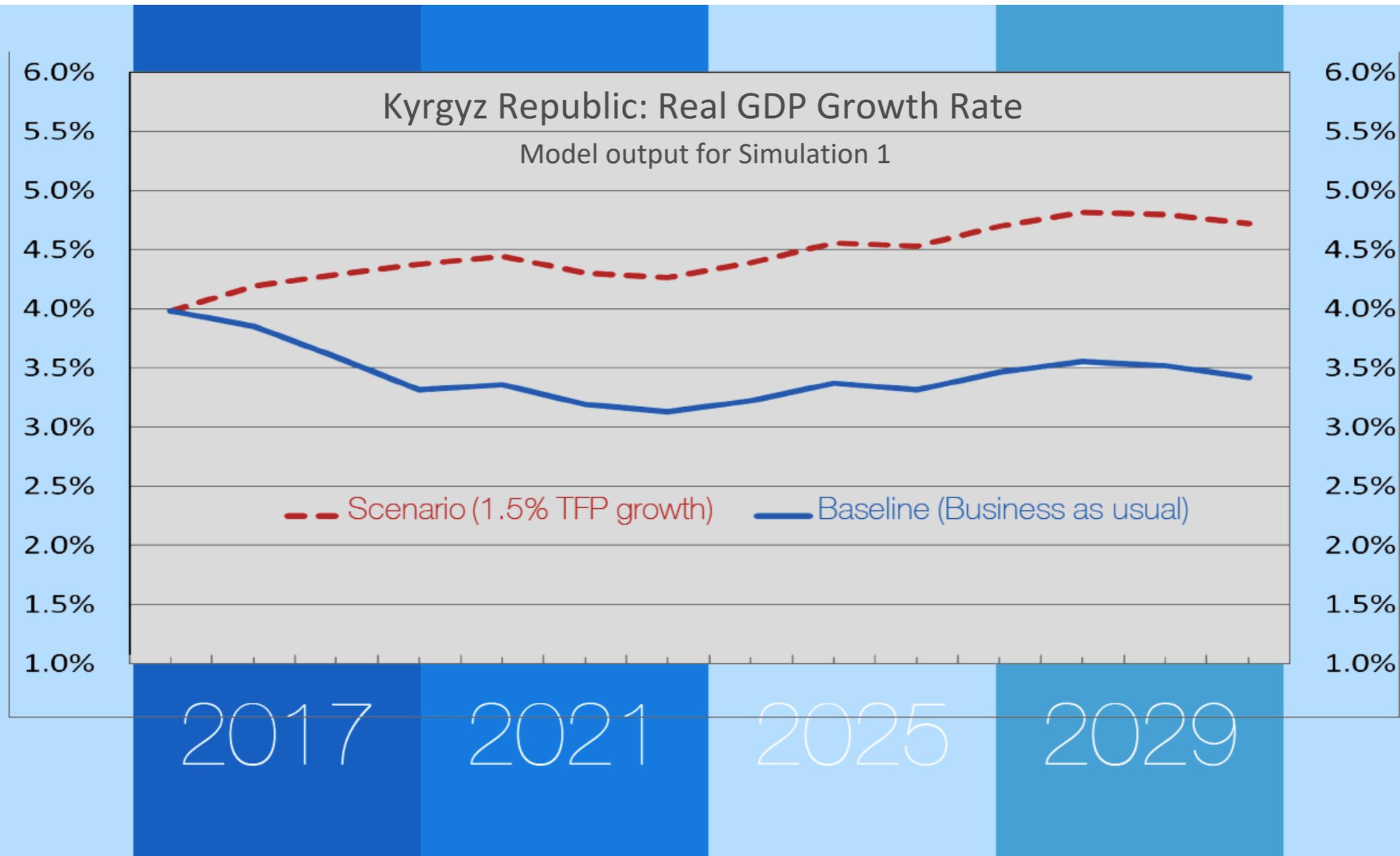
# ...High social spending is not translated into results

Basic health challenges still remain: maternal mortality is still stubbornly high



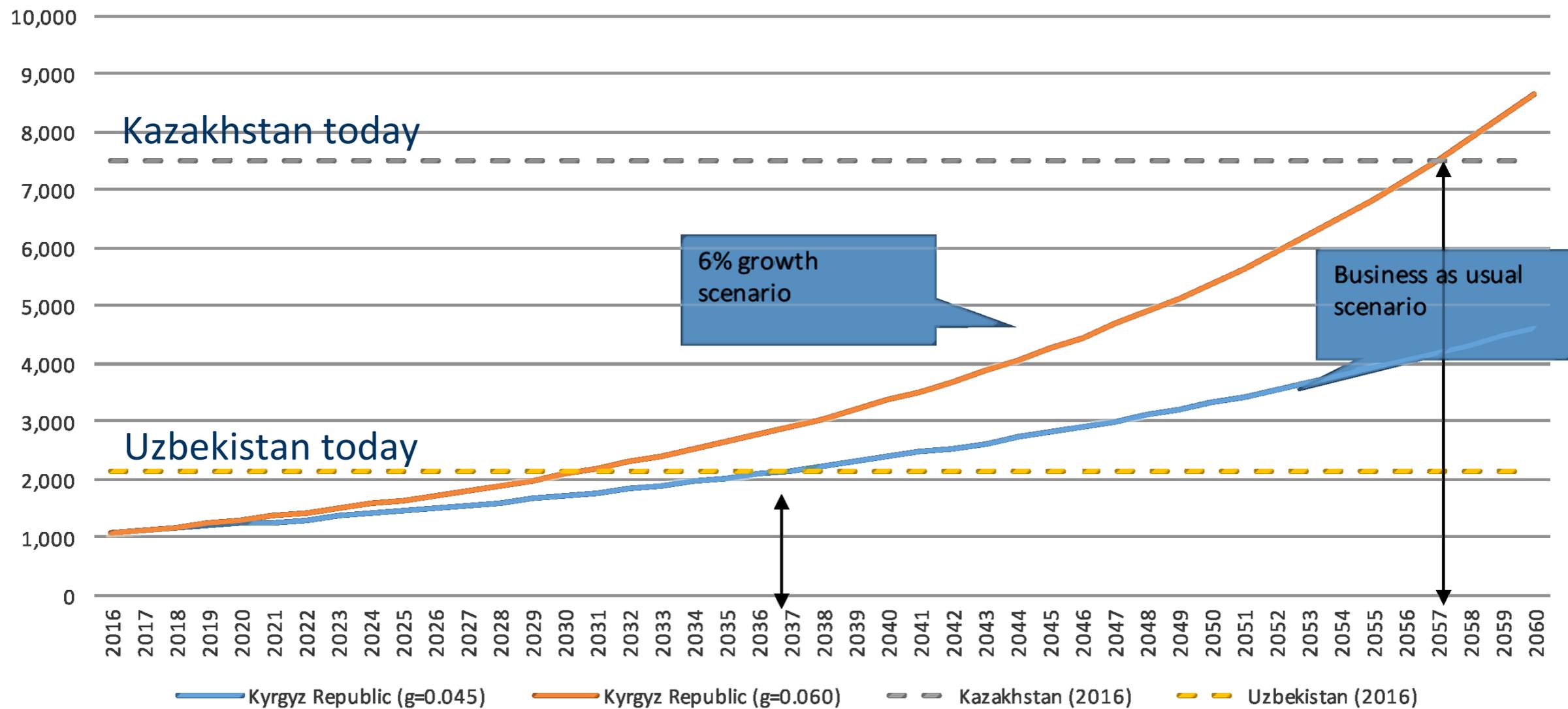
# The economy is not dynamic in the long run

Without a sharp increase in productivity economic growth will remain modest



# What got you here won't get you there

If growth does not accelerate the country will continue to fall behind its peers and neighbors



The country needs a new model to enable the private sector to grow, formalize and create jobs while boosting export potential

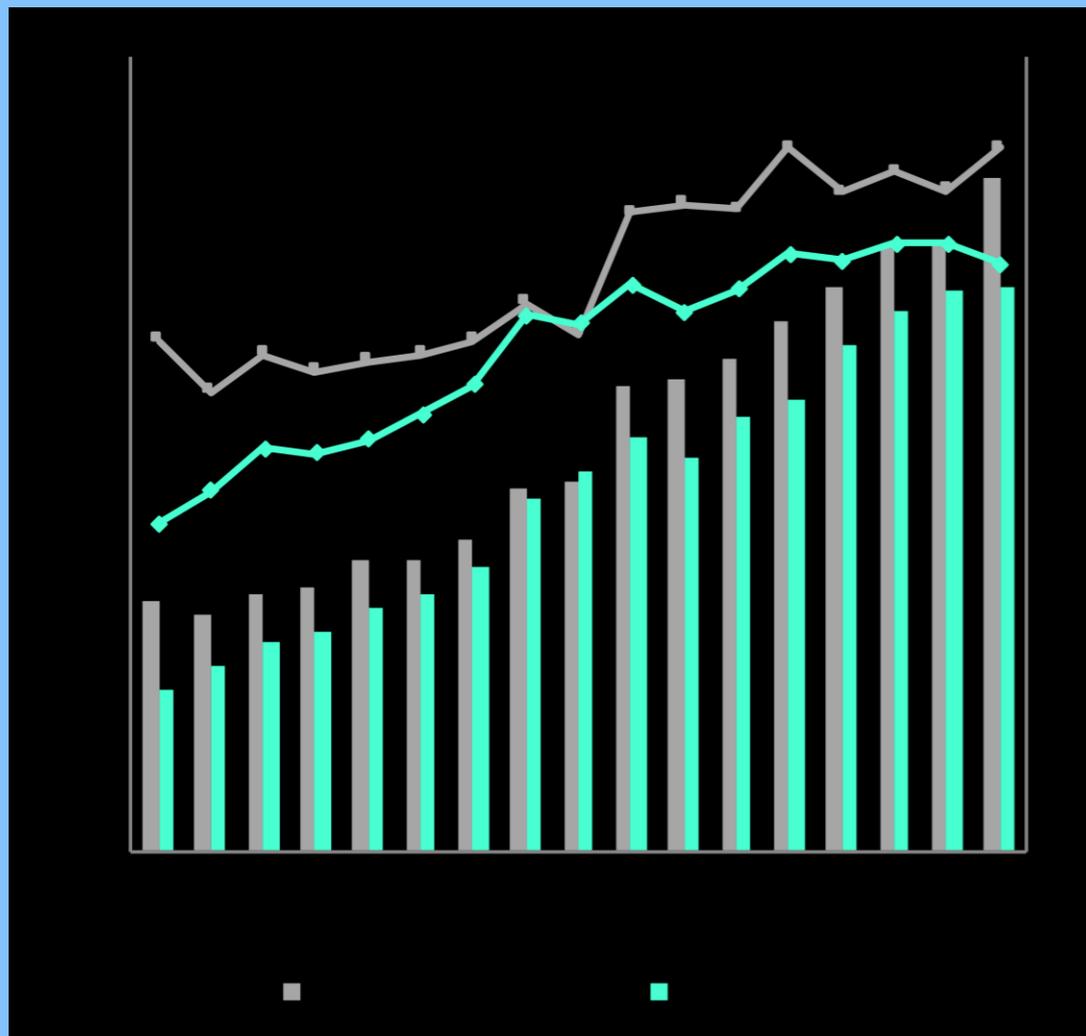


# A stable enabling environment for investment is key

Macro-fiscal stability is a necessary foundation. Today the country has accumulated too much debt and must improve spending efficiency

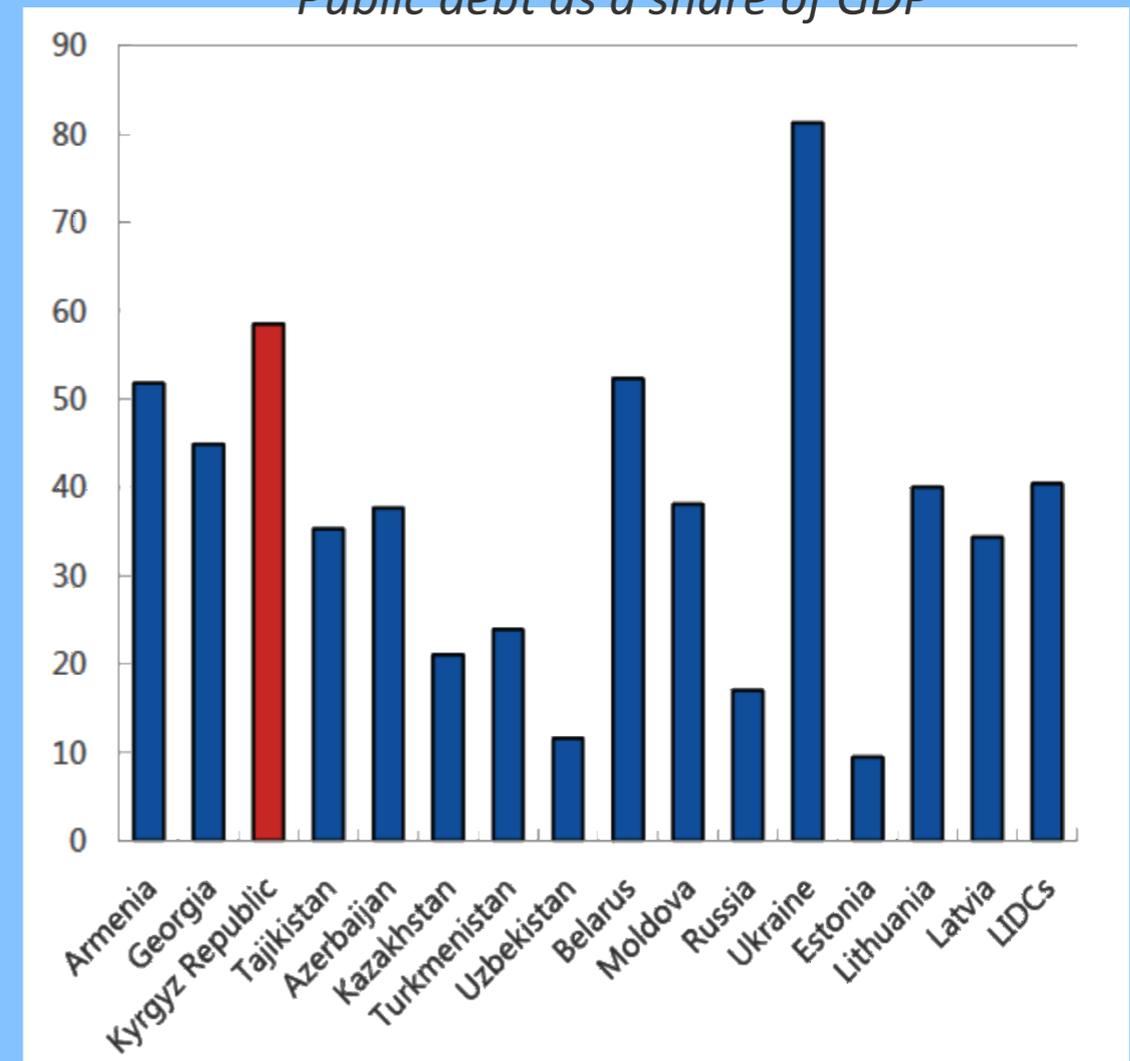
Fiscal balances have deteriorated

*Million KGS, percent of GDP*



A public debt grown to sustainability limits

*Public debt as a share of GDP*



# A more conducive business environment will help...

## Trade policy and facilitation

For tradeable export-oriented products, including technical standards and physical and quality infrastructure.

## Investment climate

Still weak in key areas such as utility connections, tax payments, and insolvency.

## Informality

A significant cross cutting problem that undermines competitiveness, productivity, and fiscal resources.

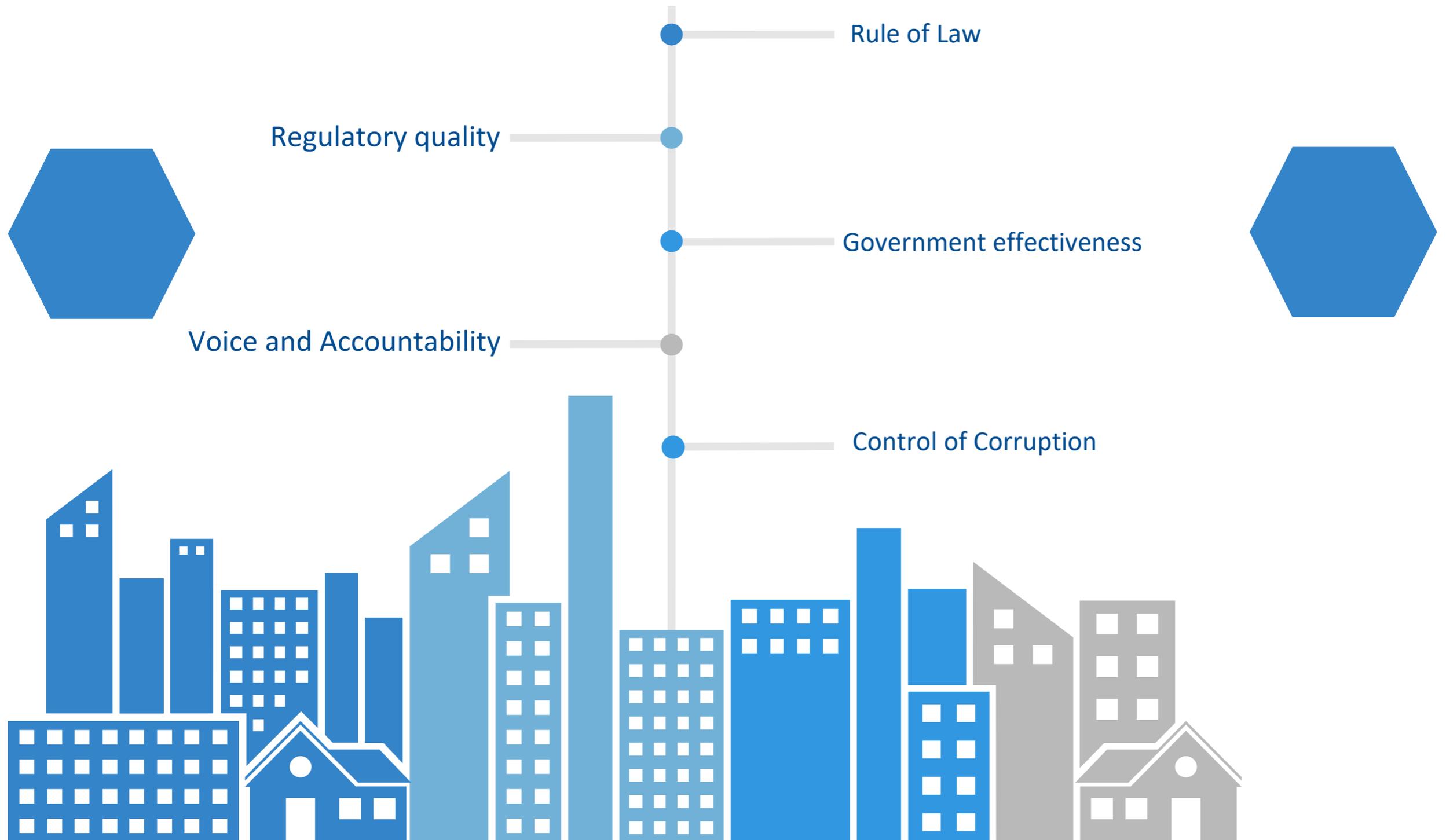
TRADE POLICY AND FACILITATION

INVESTMENT CLIMATE

INFORMALITY

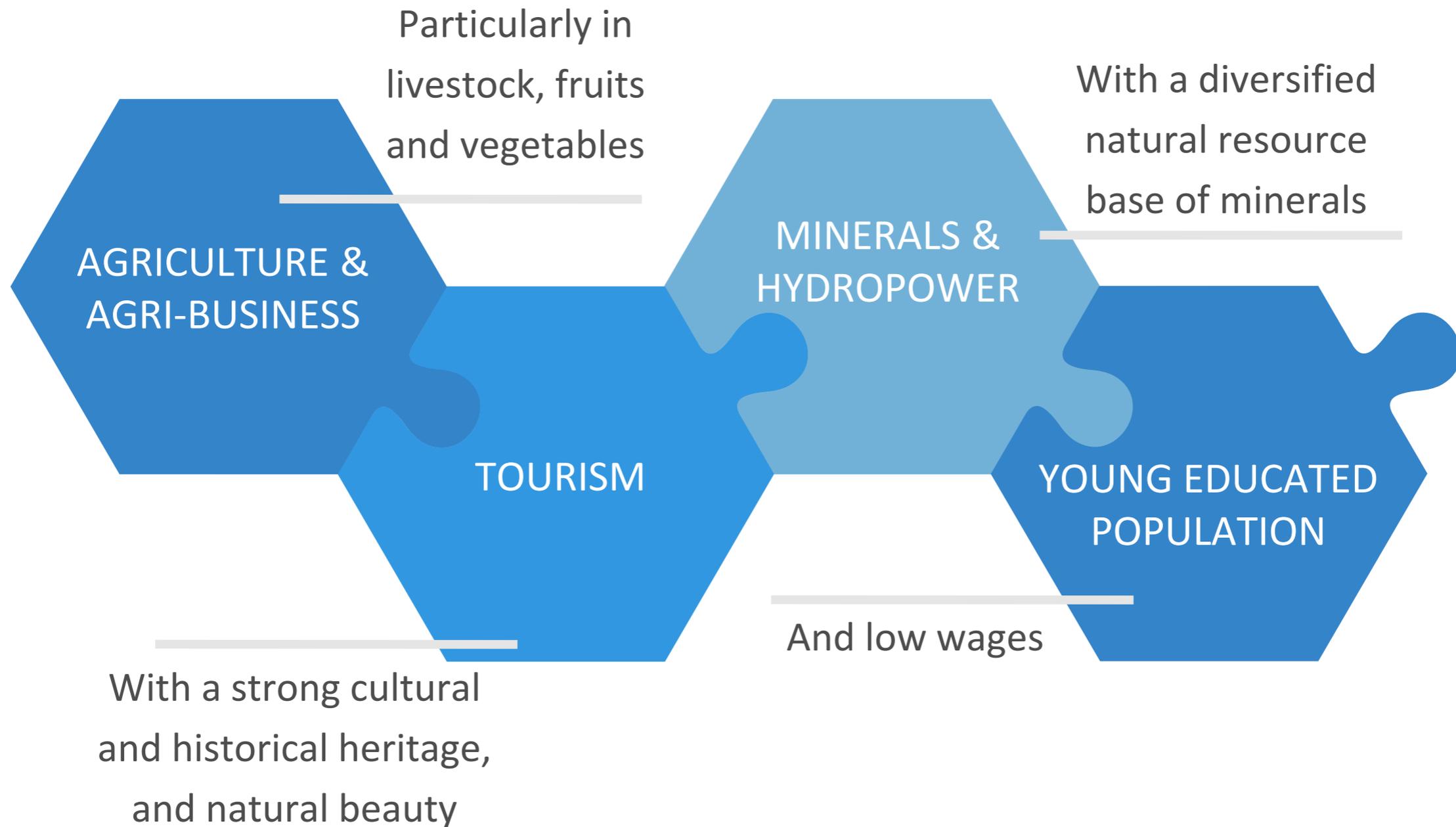
...but governance concerns are even more important

Governance remains a concern for the private sector; not just corruption but policy instability, poor implementation and enforcement

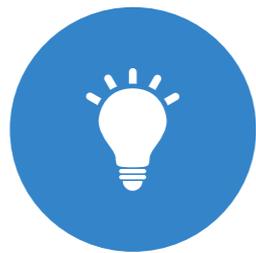
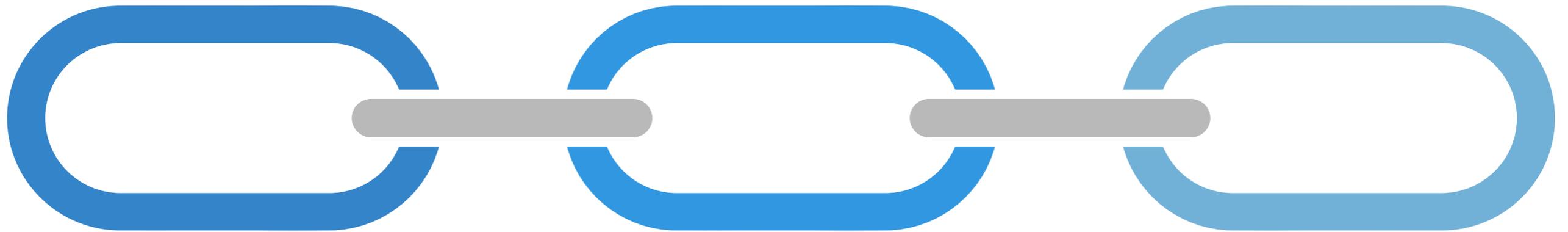


# Focus on key endowments

The country has many sources of potential competitive advantage



# Policy priorities



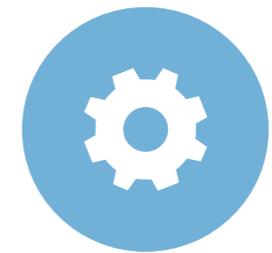
Catalytic priorities for  
faster growth

Refocus the  
development model  
on private sector  
growth and export  
orientation



Foundational priorities to  
remain on track

Provide a conducive  
environment for the  
transition



Inclusiveness and  
sustainability priorities

Maintain the highly  
inclusive features of  
the Kyrgyz Republic

## Catalytic priorities for faster growth



Refocus the development model on private sector growth and export orientation

- **Recalibrate macro-fiscal policy**  
Sustainable, flexible, efficient, supportive
- **Improve the business climate**  
With focus on implementation, export promotion, and focused intervention to remove barriers in competitive sectors
- **Address administrative bottlenecks in public services to firms and citizens**

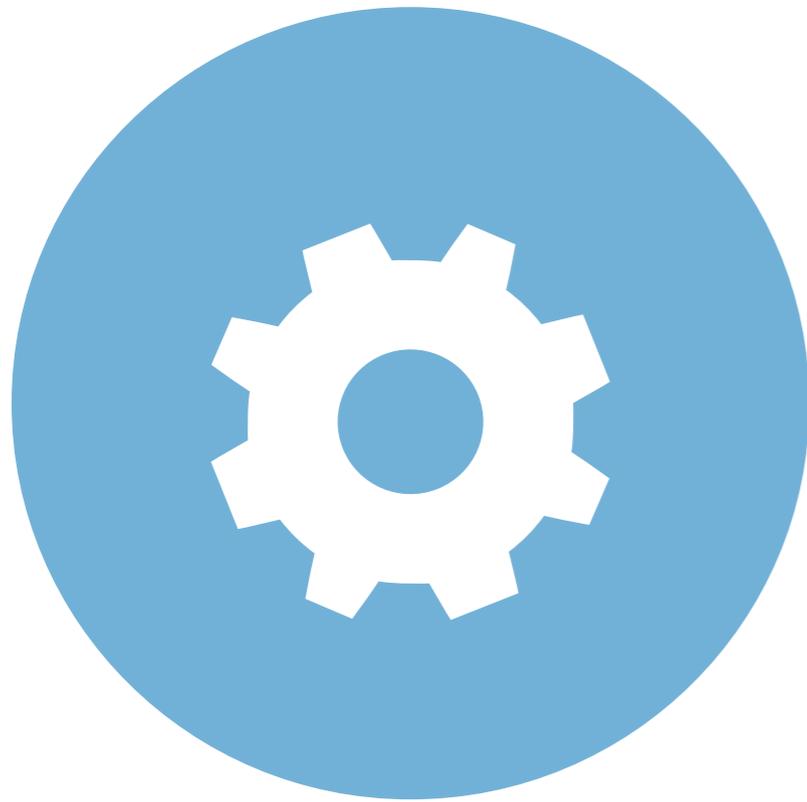
## Foundational priorities to remain on track



Provide a conducive  
environment for the  
transition

- **Address the infrastructure deficit – particularly connective**  
Removing governance and pricing bottlenecks to private investments
- **Strengthen outcomes from investments in human capital**  
By tackling the quality deficit in social services and equalizing access to opportunities
- **Remove constraints for mining and hydropower development**

## Inclusiveness and sustainability priorities



Maintains the highly inclusive features of the Kyrgyz society

- Improve agricultural productivity and commerciality
- Improve targeting in social assistance
- Promote sustainable use and management of natural resources and mitigate climate-change and disaster