

# The World Bank in the Kyrgyz Republic

## Country Snapshot



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

October 2018

THE KYRGYZ REPUBLIC	2018
Population, million	6.2
GDP, current US\$ billion	7.6
GDP per capita, current US\$	1,220
Life Expectancy at birth, years (2018)	70.7

### At a Glance

- The Kyrgyz Republic's Sustainable Development Strategy 2040 and the medium-term development plan for 2018–22 have outlined steps for future development efforts and a shift toward a private sector-led economic model.
- The World Bank is working with the Kyrgyz Republic to boost economic growth and competitiveness and improve public administration, public service delivery, the business environment, and social conditions.
- The poverty rate (measured at US\$3.2/day at 2011 purchasing power parity) was 19.3% in 2017. A moderate growth in services and agriculture—sectors that employ a large share of the bottom 40% of the population—constrained real labor income growth for the poor. Meanwhile, higher remittances supported household consumption.

### Country Context

The Kyrgyz Republic is a land-locked, lower-middle-income country of 6.2 million people. It has rich endowments, including arable land (7% of the country), pasture land (48%), and substantial forests and minerals, and there is substantial room for the expansion of its agriculture sector, hydroelectricity production, and tourism industry.

The country has experienced 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, a parliamentary constitution with elaborate checks and balances was adopted in late 2010, making the Kyrgyz Republic the only Central Asian country in which the president is limited to a single term.

The president elected under this constitution served a full six-year term. Following peaceful elections, a successor took office in November 2017. A new coalition Government—accountable to the parliament—has embarked on an ambitious reform agenda.

The 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 27% of GDP in 2017.

To realize the country's potential, economic activities need to be diversified through increased private sector development and improved occupational skills and productivity in the young labor force.

## The World Bank and the Kyrgyz Republic

Since the Kyrgyz Republic joined the World Bank in 1992, the Bank's financial assistance has amounted to over US\$1.5 billion.

The World Bank's support has helped the country to maintain macroeconomic stability, invest in strategic infrastructure, and improve access to social services. To enhance the impact of the sizable external assistance that the country enjoys and avoid a duplication of effort by donors, the World Bank Group, through its convening role, worked closely with the Government to help improve broader donor coordination in the country and link it more directly to identified national priorities.

World Bank-supported programs have delivered important development results in many areas, including health care, education, rural development, irrigation, water supply and sanitation, transport infrastructure, and public financial management.

### Key Engagement

The strategic focus of the World Bank's program as highlighted in the 2019–22 Country Partnership Framework is to assist the Kyrgyz Republic in promoting diversified, export-oriented, inclusive, and sustainable growth.

World Bank engagement for the next several years will be built around three focus areas:

First, strengthening the foundations for inclusive private sector-led growth, focusing especially on fiscal stability, improvements to the regulatory environment for business, and risk reduction;

Second, boosting overall productivity and building greater connectivity through support for the development of promising natural resource sectors and greater digital and physical connectivity; and

Third, expanding economic opportunities and building resilience through investments in human capital, efforts to decentralize and support regional development, and better adaptation to environmental and climate risks.

### WORLD BANK PORTFOLIO

No. of IDA Projects: 14

Lending: \$308 million

No. of IDA Projects (regional): 3 for \$96 million

Trust Funds: \$83.5 million

- 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

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.

## Recent Economic Developments

Real GDP contracted by 0.2% year-on-year (y-o-y) in January–July 2018, driven by a sharp decline in gold output (-20.6%, y-o-y). Inflation fell to 1.1% in July from 3.7% in December 2017, driven mainly by a decline in food prices.

Export earnings fell by 4.5% due largely to a decline in gold exports. Meanwhile, the import bill increased by 38.8% on the back of the continued growth of remittances. The Kyrgyz som remains broadly stable, and international reserves stood at 4.9 months of imports cover at end-March 2018.

The fiscal deficit narrowed to 1.5% of GDP in January–July 2018, down from a deficit of 3.8% of GDP in the same period of 2017. Tax revenue performance was strong at 24.8% of GDP (up from 22.3% a year earlier).

However, both non-tax revenue and grant support declined. Meanwhile, total expenditure declined to 33% of GDP in the first half of 2018 (from 36.2% a year earlier), the result of reduced capital outlays. Total public debt declined to 56.4% of GDP (from 59.9%) thanks to the Russian debt write-off (US\$240 million).

The poverty rate (measured at US\$3.2/day at 2011 purchasing power parity) stagnated at 19.3% in 2017. A moderate growth in services and agriculture constrained real labor income growth for the poor.

## Economic Outlook

Real GDP growth is projected to decelerate to 3.1% in 2018 (from 4.6% in 2017) as gold production contracts. Growth is expected to gradually pick up thereafter, reaching 3.9% by 2020.

This scenario assumes moderate growth in Russia and Kazakhstan, which will benefit the Kyrgyz economy via the remittance and trade channels. Inflationary pressures will increase toward the end of 2018 as fuel prices rise. Over the medium term, inflation is projected to remain below 5–7%.

Although remittance inflows are expected to rise further, the current account deficit is projected to remain elevated at about 9% of GDP. The authorities are committed to reducing the deficit to 3% of GDP by 2020. In 2018–20, tax revenue should rise as a share of GDP following the implementation of measures to expand the tax base.

Non-tax revenue is also forecast to rise through the better management of state-owned enterprises and an increase in the share of the Central Bank's profits to the budget.

With growth in the agriculture and construction sectors expected to remain modest, further increases in remittances will support rural poverty reduction. Social transfers and a scheduled pension increase will also support the most vulnerable. The poverty rate is projected to decline to 19% in 2018.

## Project Spotlight

### Digital CASA (Central Asia – South Asia) – Kyrgyz Republic Project



Digital CASA - Kyrgyz Republic Project aims to integrate this landlocked country into the global digital economy. (Photo: Vlad Ushakov)

“Digital CASA - Kyrgyz Republic” is a five-year project supporting the Government’s ambitious digital transformation agenda.

The project objectives are to increase access to more affordable Internet, attract more private investments in information communications and

technology (ICT), and improve the Government’s capacity to deliver digital services.

This project is part of a larger integrative Digital CASA regional program, and Kyrgyzstan is one of the first two countries, together with Afghanistan, to join. The Digital CASA aims to integrate the landlocked countries of Central Asia and parts of South Asia into the regional and global digital economies, helping them reap digital dividends.



The World Bank project will create opportunities for digital skills development and new jobs. (Photo: Pavel Kondrashin)

The project sets up the ambitious goal of transforming Kyrgyzstan into a regional digital hub. The country’s central geographic location in the region, relatively cheap energy resources, and favorable climate lend themselves well to the possibility of creating a number of “green” data processing centers.

The project enjoys strong political support from the country’s leadership. “The project will let us make a qualitative breakthrough and integrate into the global digital economy. The project initiatives will also help to eradicate corruption by minimizing the human factor through automated processes,” said Eshmambet Amatov, Deputy Chairman of the State Committee of Information Technologies and Communications.

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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