KYRGYZ REPUBLIC

Table 1	2020
Population, million	6.6
GDP, current US$ billion	7.7
GDP per capita, current US$	1178.4
International poverty rate ($1.9)[a]	0.6
Lower middle-income poverty rate ($3.2)[a]	9.7
Upper middle-income poverty rate ($5.5)[a]	52.6
Gini index[a]	29.7
School enrollment, primary (% gross)[b]	106.0
Life expectancy at birth, years[b]	71.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Real GDP contracted by 8.6 percent in 2020 because of the COVID-19 outbreak, the policies to limit its impact, and the domestic political turmoil. External trade declined sharply, and the fiscal position deteriorated. The poverty rate is estimated to have more than doubled compared to the precrisis period. GDP growth is forecast to recover in 2021, assuming that domestic economic activity picks up and external trade resumes as the pandemic wanes, political stability is maintained, and external demand recovers.

Key conditions and challenges

The Kyrgyz Republic was making strides toward macroeconomic stability before the COVID-19 pandemic. Real GDP growth averaged 4 percent over the last decade, average inflation was low at 1.1 percent and the fiscal deficit was reduced to 0.5 percent of GDP in 2019. As a result of debt forgiveness from the Russian Federation and prudent debt management policy, government debt fell to 52 percent of GDP at end-2019 from 67 percent in 2015.

The Kyrgyz som was broadly stable against the U.S. dollar, and the country's foreign exchange reserves were equivalent to 6 months of import cover in December 2019.

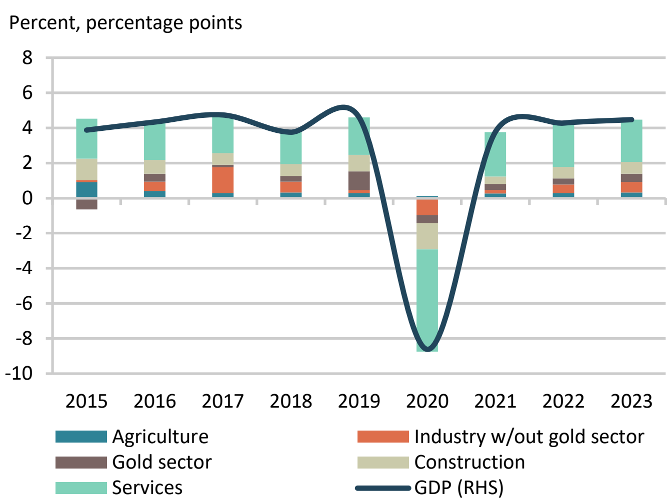
However, the Kyrgyz economy has remained vulnerable to external shocks owing to its heavy dependence on remittances (27 percent of GDP) and gold exports (9 percent of GDP). Together with political instability, these vulnerabilities have resulted in volatile economic growth. Consequently, it has been insufficient to raise living standards or reduce poverty. Substantial import spending for investment kept the current account deficit high (12 percent of GDP).

Strong and sustainable economic growth requires institutional strengthening and policies to develop the private sector, spur international trade, and encourage fiscally sustainable energy production. Constraints to private investment and growth include the large infrastructure gap, weak rule of law and governance, poor business environment, and onerous regulations. The energy sector's financial weaknesses—stemming from below-cost recovery tariffs and a failure to meet WTO and Eurasian Economic Union standards and technical regulations—further limit the Kyrgyz Republic's growth potential.

Recent developments

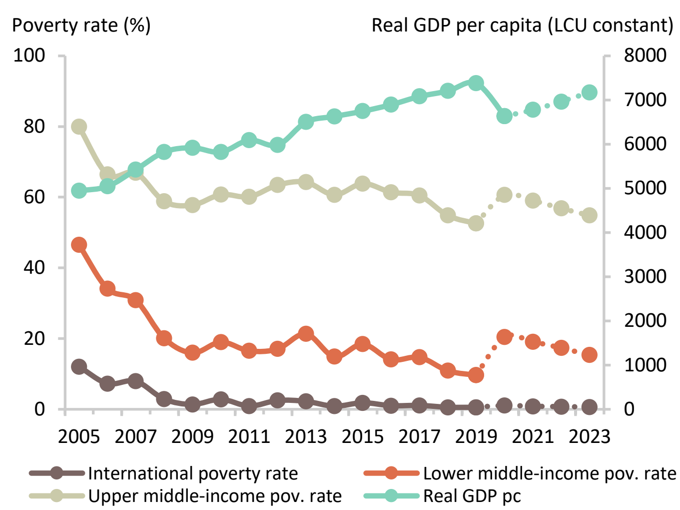
The March–May 2020 lockdown, which included border closures to contain the spread of COVID-19, was a major shock to the Kyrgyz economy, significantly reducing household incomes and business revenues. In October 2020, political turmoil worsened the country's investment climate. As a result—and despite the easing of lockdown restrictions later in the year—real GDP contracted by 8.6 percent in 2020. Twelve-month inflation rose to 9.7 percent in December (from 3.1 percent a year earlier), primarily driven by exchange rate depreciation (19 percent). The current account is estimated to have run a surplus of 4 percent of GDP in 2020, reflecting a 30 percent contraction in imports and resilient export earnings that—supported by gold exports—declined only by about 2 percent. Remittances remained at 2019 levels. Gross official reserves remained adequate at 5.9 months of imports as the central bank purchased domestically-produced gold to offset sales of foreign exchange ($518 million, three times as much as in 2019) to limit som volatility.

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: Source: World Bank. Note: see Table 2.

The central bank raised the policy interest rate by 75 basis points to 5 percent in February 2020 in response to higher inflation. The rate has remained unchanged since even with inflation trending higher in the fourth quarter. Reflecting heightened uncertainty, the central bank allowed greater exchange rate flexibility, eased regulatory requirements for commercial banks, and provided additional liquidity. This stance was appropriate to absorb the COVID-19 shock and support economic activity.

Surging expenditures and weaker revenues drove a widening of the general government deficit in 2020, to 4.2 percent of GDP (from 0.5 percent in 2019). The fiscal easing was appropriately aimed at supporting private enterprises and addressing health and social needs. Tax payment deferments and temporary tax exemptions for crisis-affected businesses resulted in a decline of 1.4 percent of GDP in tax revenues. An increase in grant receipts partially offset the tax shortfall. Spending increased by 2.2 percent of GDP, driven by increased compensation to medical workers, and spending on medicines, personal protective equipment, and other medical materials. The higher deficit—together with the GDP contraction and som depreciation—drove an increase in public debt to 68 percent of GDP in December 2020.

The combined health and economic shocks of 2020 drove up poverty and diminished social welfare. A significant share of the population is vulnerable and at risk of falling into poverty due to lower incomes, higher food prices, or job losses. The poverty rate is estimated to have more than doubled in 2020 from 9.7 percent in 2019 (US$ 3.2/day, 2011 PPP).

Outlook

The coronavirus pandemic and the political turmoil have weakened the Kyrgyz Republic's macroeconomic outlook, with medium-term growth projections below prepandemic forecasts. Real GDP is projected to recover to its pre-pandemic level only by 2023; the recovery is expected to take even longer in real GDP per capita terms. Our baseline scenario projects real GDP growth of 3.8 percent in 2021 as economic activity recovers, driven by services and construction. Growth is forecast to increase to an average of 4.4 percent in 2022–23. This scenario assumes a reduction of new COVID-19 cases as vaccines are deployed, that political stability is maintained, and external demand and trading conditions improve. With the stabilization of the exchange rate, average inflation is expected to moderate to 5.4 percent. The current account deficit is projected to widen to about 7 percent of GDP in 2021, reflecting a faster pace of import recovery relative to export growth.

The fiscal deficit is projected to narrow to 3.9 percent of GDP in 2021, driven by higher tax revenues thanks to economic recovery and the expiration of tax deferments and exemptions. Over the medium term, the authorities are targeting a fiscal deficit of 3 percent of GDP. Fiscal consolidation requires measures to expand the tax base, roll back pandemic-related expenditures, streamline nonpriority purchases, and reduce the wage bill as a share of GDP.

Under a downside scenario, which assumes a continued impact of COVID-19 owing to a delay in vaccine availability and the reemergence of political instability, real GDP is expected to grow by only 1.5 percent in 2021, with the current account and fiscal deficits deteriorating to around 10 percent and 4.5 percent of GDP, respectively.

The poverty rate is projected to remain elevated in 2021–22 as households continue to face the pandemic's impacts. The social assistance system will remain under pressure as social transfers support poor and vulnerable groups. Existing social protection programs will require scaling up to help the population cope with the shock.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.8	4.6	-8.6	3.8	4.3	4.5
Private Consumption	5.0	0.8	-6.8	3.0	3.4	3.6
Government Consumption	1.3	0.5	-1.2	2.0	-3.7	-1.9
Gross Fixed Capital Investment	6.9	7.1	-21.2	10.2	12.9	12.0
Exports, Goods and Services	-2.7	16.2	-14.3	5.3	7.3	8.0
Imports, Goods and Services	7.4	6.1	-16.5	7.4	8.5	9.3
Real GDP growth, at constant factor prices	3.1	3.6	-8.6	3.8	4.3	4.5
Agriculture	2.6	2.5	1.1	2.0	2.2	2.5
Industry	5.1	6.6	-7.5	5.8	8.4	8.7
Services	2.8	3.2	-17.0	4.6	4.4	4.2
Inflation (Consumer Price Index)	1.5	1.1	6.3	5.4	5.0	5.0
Current Account Balance (% of GDP)	-12.1	-12.1	4.0	-7.0	-7.6	-7.4
Net Foreign Direct Investment (% of GDP)	0.5	3.8	-1.8	0.8	1.2	2.3
Fiscal Balance (% of GDP)	-1.6	-0.5	-4.2	-3.9	-3.4	-2.9
Debt (% of GDP)	54.7	51.6	68.1	68.4	67.7	66.4
Primary Balance (% of GDP)	-0.5	0.5	-3.0	-2.0	-1.6	-1.2
International poverty rate ($1.9 in 2011 PPP)[a,b]		0.6	1.1	0.8	0.7	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		9.7	20.5	19.1	17.3	15.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		52.6	60.7	59.1	56.9	54.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2019-KIHS.Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.