



Kyrgyz Republic

Highlights

- **The economy is growing strongly in 2022.** Real gross domestic product (GDP) expanded 7.2 per cent year on year from January to September 2022 amid strong growth in industrial production, hospitality, trucking, retail and wholesale trade. However, a 6.5 per cent year-on-year drop in net remittances in January-August 2022 and strong inflationary pressures are clouding the outlook.
- **New tax and customs regulations have been introduced.** The new tax code mandates the use of cash registers, resulting in significantly higher tax revenues. By reducing illicit trade, these reforms may also help level the playing field for companies operating in the formal economy.
- **The investment environment is improving.** Strengthening the powers of the business ombudsman gives Kyrgyz companies an effective channel for addressing grievances. By resolving a long-running dispute with Canada's Centerra Gold Inc over the Kumtor gold mine, the government has cleared a major roadblock to gold exports and further foreign direct investment (FDI) in mining activities.

Key priorities for 2023

- **The need to ensure food and energy security is both urgent and challenging.** With food expenditure accounting for more than 50 per cent of total household spending, rising food and energy prices are putting additional pressure on vulnerable population groups. Because it has limited fiscal space, the government should opt for well-targeted and effective mechanisms to support those in need.
- **The authorities should step up efforts to ensure macroeconomic stability.** The recent increase in government revenues should be used to strengthen fiscal buffers rather than finance additional current expenditures, which may potentially add to inflationary pressures resulting from the country's reliance on imported commodities.
- **Efforts to improve the investment climate must continue.** The government should adopt measures to enhance access to electricity and other essential infrastructure, liberalise the labour market (ease restrictions on the hiring of foreigners) and streamline the licensing, permits and inspection systems. Investment in agriculture could be facilitated by establishing "free agricultural zones" to overcome legal restrictions on the foreign ownership of land.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	3.5	4.6	-8.6	3.7	7.0
Inflation (average)	1.5	1.1	6.3	11.9	13.5
Government balance/GDP	-0.6	-0.1	-3.3	-0.4	-3.3
Current account balance/GDP	-12.1	-11.9	4.8	-8.7	-12.5
Net FDI/GDP [neg. sign = inflows]	-1.7	-4.6	5.2	-6.8	-3.6
External debt/GDP	101.7	104.4	117.4	106.1	n.a.
Gross reserves/GDP	26.1	27.4	36.1	34.9	n.a.
Credit to private sector/GDP	23.4	24.6	28.3	26.0	n.a.

Macroeconomic developments and policy response

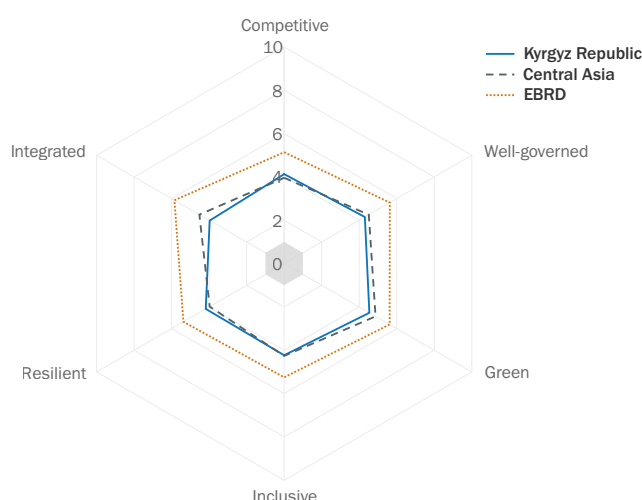
The economy has bounced back robustly in 2022. The economy expanded 7.2 per cent year on year in the first nine months of 2022 despite a major drop in exports. Wage increases for public-sector employees and strong demand for qualified labour, coupled with the government’s efforts to reduce informality led to more than a 25 per cent increase in nominal wages – well above inflation (which was 15.5 per cent in September). Strong domestic demand resulted in gains in industrial production (up 16.6 per cent year on year), hospitality (up 19.4 per cent year on year), retail and wholesale trade (up 7.2 per cent year on year) and trucking (up 35.5 per cent year on year). Imports saw a gain of 77.2 per cent year on year in January-August 2022 on the back of higher global prices for food and energy products, as well as lower corruption in customs administration at the country’s borders. In the first seven months of 2022, the Kyrgyz Republic imported 4.8 times more knitted fibre and 2.3 times more synthetic fibre than a year ago, suggesting a potential boost in re-exporting activity and textile production. However, stagnant fixed capital investment (up just 0.5 per cent year on year in January-September 2022) may hold back further growth.

Inflationary pressures persist, prompting some short-term measures. Fuelled by rising global prices and supply-chain disruptions, annual inflation reached 15.5 per cent in September 2022, far exceeding the National Bank’s target range of 5-7 per cent and putting pressure on vulnerable households. The Kyrgyz som suffered the largest depreciation of the Central Asian currencies following the Russian rouble’s collapse in early March 2022, but has since recovered to its pre-war value, in line with its regional peers. To soften the impact, in April 2022 the authorities prolonged until the end of 2022 the zero per cent value added tax (VAT) rate on imported grain for those involved in flour processing. What is more, to prevent a sugar deficit, in March 2022 the government reached agreement with the Eurasian Economic Commission on the delivery of 105,000 tonnes of duty-free sugar and raw materials. Concurrently, the authorities introduced a six-month ban on sugar exports, effective June 2022.

The fiscal stance is improving. In January-August 2022 growth in government spending (up 45.7 per cent year on year) was offset by a substantial (1.5-fold) increase in tax revenues (mostly VAT), resulting in a budget surplus of 1.2 per cent of GDP. However, since the beginning of 2022 gross international reserves have shrunk 18.8 per cent from US\$ 2,978 million in December 2021 to US\$ 2,416 million in August 2022. On the positive side, the government recently created the Holding of Nomads wealth fund to facilitate the accumulation of revenues from the Kumtor gold mine.

The economy should continue to grow strongly in the short term. We forecast an expansion in GDP of 7.0 per cent in both 2022 and 2023. The economy stands to gain from increased re-export opportunities, the relocation of Russian companies and individuals, including information technology (IT) developers and entrepreneurs. Nevertheless, downside risks remain, mostly related to rising inflation, high reliance on remittances from Russia and other regional and global shocks.

CHART Assessment of transition qualities (1-10)



Structural reform developments

A new national development programme for 2021-26 was approved in October 2021. The programme seeks to achieve a sustainable 5 per cent annual GDP growth rate, GDP per capita of at least US\$ 1,500, a decrease in the unemployment rate to 5 per cent and a reduction in the poverty rate to 20 per cent. A corresponding roadmap was developed in January 2022 to boost economic activity, support entrepreneurship, implement fiscal reforms and promote initiatives in the areas of energy, mining, manufacturing, transport and the green economy.

A new public debt management strategy for 2022-24 has been introduced. The strategy, approved in July 2022, is designed to improve the country's debt sustainability. Under the strategy, new loans should have at least a 35 per cent concessional element, debt servicing should be timely and no more than 45 per cent of total debt should be attributed to a single creditor.

The authorities have introduced a new tax code. The new code, effective from 2022, mandates the use of cash registers at all points of sale. This reform is likely to help the authorities clamp down on illicit trade and shadow economic activities, thus contributing to public revenues, levelling the playing field for companies operating in the formal economy and creating incentives for investment in manufacturing.

The Kyrgyz authorities have resolved a long-running dispute with a major foreign investor. In April 2022 the authorities reached agreement with Canada's Centerra Gold Inc over Kumtor, the country's largest gold mine. The dispute arose when the government introduced external management to the mine, claiming violation of the country's environmental and mining standards. According to the agreement, Kumtor will be fully transferred to the Kyrgyz Republic. In another positive development, on 3 May 2022, the London Bullion Market Association restored Kyrgyzaltyn, the country's exclusive exporter of gold, to its Good Delivery list of accredited refiners, clearing a major roadblock to future gold exports and FDI.

A major railway construction project is about to be launched. A trilateral agreement signed at the Shanghai Cooperation Organization in Samarkand in September 2022 paves the way for the construction of the US\$ 4-5 billion China-Kyrgyz Republic-Uzbekistan railway project. On ice for more than 20 years, this project will enhance regional connectivity by creating strong competition on the east-west railway routes across Eurasia.

A new programme has been launched to develop public-private partnerships (PPPs) from 2022 to 2026. Approved in June 2022, the programme aims to streamline the regulatory and legal framework and introduce financial tools to increase the attractiveness of PPP projects. It mandates the creation of a rigorous PPP methodology and a strengthening of the government's institutional capacity in related areas.

Further measures to diversify the economy are advancing. In an effort to diversify the economy, the Concept for the Development of Creative Economy for 2022-26 was approved in April 2022. In August 2022, the president signed a law on the Park of Creative Industries, seeking to stimulate innovation, increase the investment attractiveness of creative activities and reduce the national economy's dependence on the mining sector and migrant remittances.

In August 2022 the Kyrgyz Republic piloted its Digital Nomad initiative, seeking to create favourable conditions for developers and IT specialists from abroad. The project envisages granting "digital nomad" status to qualified foreigners, which will significantly reduce red tape and ease the relocation process by allowing for visa- and work permit-free entry to and employment in the country.