



## Kyrgyz Republic

### Highlights

- **Gross domestic product (GDP) growth has slowed in 2023, mainly due to a decline in gold output.** Overall growth was less than 3 per cent year on year from January to July 2023, but other (non-gold) manufacturing activities and services expanded at double-digit rates, and the short-term prospects for growth remain favourable.
- **The government is undertaking reforms to the business and investment environment.** Recent measures include an adjustment to the timetable for introducing mandatory cash registers, electronic invoices and shipping bills, easing access to visas for foreign investors and reducing the regulatory burden on businesses.
- **The authorities are taking measures to strengthen water and energy security.** A new National Water Strategy to 2040 should strengthen water-sector governance and foster improved water conservation practices, while staggered increases in electricity tariffs, introduced over the course of 2023, will induce energy saving behaviour and encourage private-sector investment in renewable energy, including solar and wind.

### Key priorities for 2024

- **The government should step up efforts to capitalise on the country's competitive advantages.** In light of new opportunities arising from geopolitical developments, the authorities should upgrade the country's logistics capacity and facilitate the emergence of export-oriented "clusters" in agriculture and light industry. Building on recent improvements in digitalisation and human capital development, the High Technology Park and the Park of Creative Industries should be leveraged to attract international companies, start-ups and entrepreneurs willing to invest in the Kyrgyz Republic.
- **The government should ensure greater compliance with international sanctions by Kyrgyz companies and banks.** Several Kyrgyz companies have recently been sanctioned by the US Treasury for helping Russia circumvent sanctions, potentially hurting the country's appeal as a partner for Western investors and its access to international banking and financial services.
- **Active promotion of regional dialogue to address border management issues would further improve transport connectivity, energy and water cooperation.** The momentum created by a recent border agreement between the Kyrgyz Republic and Uzbekistan should be used to reach closure with other Central Asian neighbours on water sharing, border demarcation and the cross-border movement of persons and goods.

#### Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	4.6	-7.1	5.5	7.0	4.6
Inflation (average)	1.1	6.3	11.9	13.9	11.7
Government balance/GDP	-0.1	-3.1	-0.7	-0.3	-1.8
Current account balance/GDP	-11.5	4.5	-8.0	-46.5	-20.0
Net FDI/GDP [neg. sign = inflows]	4.6	-5.2	2.6	2.7	n.a.
External debt/GDP	95.3	111.5	103.7	n.a.	n.a.
Gross reserves/GDP	27.4	36.1	34.1	25.6	n.a.
Credit to private sector/GDP	24.6	28.3	25.6	23.1	n.a.

## Macroeconomic developments and policy response

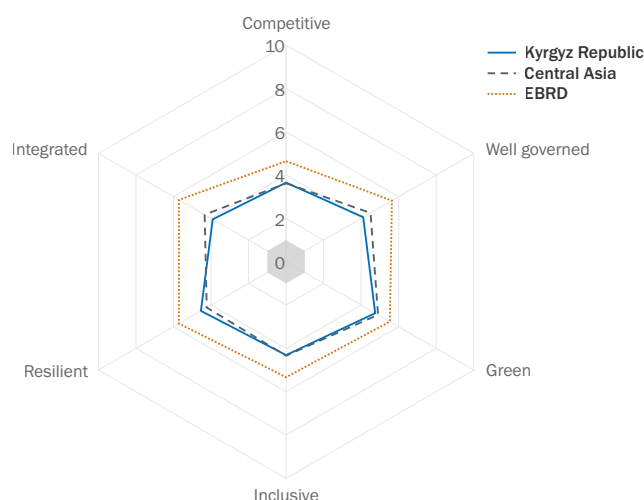
**The economy slowed significantly in the first half of 2023 on reduced gold output.** GDP added just 2.9 per cent year on year in the first seven months of the year, far below the 2022 growth rate (7 per cent). However, this slowdown was almost entirely due to a contraction (-11.7 per cent) in a single sector – gold and base metals – which accounts for more than 58 per cent of the country's manufacturing output. Other manufacturing activities expanded at impressive rates, led by the fast-growing, labour-intensive textile sector (up 40.2 per cent year on year). The revival of tourism provided a boost to hospitality (up 25.9 per cent) and other services, such as wholesale and retail trade (up 12 per cent), despite a plunge in net remittances (-28.5 per cent) due to high base effects. Of special note was the strong expansion of international trade: in the first half of 2023, imports and exports grew 30.3 and 34.6 per cent year on year, respectively, on the back of a resumption in gold exports and a boom in intermediated trade activities. Imports of goods from China neared US\$ 10 billion (€9.46 billion) in January-July 2023 (up 27 per cent year on year), according to official Chinese data.

**Inflationary pressures have receded while the banking sector saw record profits.** Annual consumer price inflation peaked at 16.2 per cent in February 2023, but slowed thereafter to 10.3 per cent in July 2023. Having ratcheted up the policy rate to 14 per cent in March 2022, the National Bank of the Kyrgyz Republic reduced it by 100 basis points to 13 per cent in November 2022, but has left it unchanged ever since as of the end of August 2023. The Kyrgyz som has been relatively stable against the US dollar since early 2023. Meanwhile, banking sector profits soared in 2022 (up 539 per cent year on year) on the back of high interest rates and elevated transaction fees. Moreover, the growth in bank foreign currency-denominated deposits has significantly outpaced the expansion in lending, leading to a massive accumulation of liquidity.

**Tax reforms and a dramatic increase in trade activity have boosted fiscal performance.** In the first half of 2023, budget revenues increased 31.6 per cent year on year. Sales tax receipts grew nearly threefold, driven mainly by improvements in tax administration, while significant gains were recorded in receipts from all tax and non-tax revenue sources. Expenditures soared as well (up 31.2 per cent), but the budget recorded a small surplus of about 1.2 per cent of GDP. Carefully staggered increases in electricity tariffs will reduce government spending on energy subsidies and help alleviate budgetary pressures. Government revenues in 2023 are also being boosted by a new law that requires the central bank to transfer the bulk of its profits to the state coffers. That said, the International Monetary Fund (IMF) continues to project an increase in the fiscal deficit as a result of recent hikes in public wages and pensions and very ambitious public investment plans. On the downside, the country's gross international reserves shrank by 9.8 per cent from January to July 2023 (to US\$ 2.45 billion [€2.32 billion], covering just three months of 2022 imports) after interventions by the central bank.

**Robust growth is expected in the short term.** We forecast the economy to grow by 4.6 per cent in 2023 and 7 per cent in 2024, supported by political stability, windfall gains from intermediated trade, the relocation of Russian companies and individuals, strong domestic demand resulting from growing wages and remittances, and a boom in the export-oriented textile and tourism sectors. However, vulnerabilities remain, particularly in relation to potential water shortages and external factors, such as possible secondary sanctions on Kyrgyz companies, uncertain Russian demand for Kyrgyz goods and workers, and further fluctuations in the rouble's value and its impact on remittances from Russia.

### Assessment of transition qualities (1-10)



## Structural reform developments

**Steps are being taken to improve the business environment.** To reduce the pressure on small and medium-sized enterprises, the government adjusted the timetable for introducing mandatory cash registers, electronic invoices and shipping bills, allowing businesses to adapt to the new requirements. In January 2023 the Kyrgyz legislature approved a bill granting 5- and 10-year investor visas to foreigners meeting certain investment thresholds. In April 2023 the government introduced the Programme on the Development of Businesses to 2026, crafted in collaboration with business community representatives. The proposed measures aim to alleviate the fiscal and regulatory burden on local businesses while enhancing their resilience to external shocks.

**Efforts to digitalise the banking sector are ongoing.** In 2022 the National Bank of the Kyrgyz Republic approved the Concept of the Digital Som. If implemented, the innovation could significantly enhance financial inclusion and promote the formalisation of commercial activities. The government has also taken further steps to digitalise the banking sector, including standardised QR codes and the acceptance of cashless payments for all state-provided services.

**The government adopted a National Water Strategy to 2040.** In response to persistent water shortages, the government started to develop the National Water Strategy in 2021. After several revisions, the president approved it in February 2023. The document sets out measures to optimise water use across sectors, enhance inter-agency coordination and water-sector governance, introduce a single information system on water resources, and promote improved water conservation practices in the long term.

**Cross-border collaboration on the construction of the Kambar-Ata 1 hydropower plant may enhance regional water and energy security.** In January 2023 Kazakhstan, the Kyrgyz Republic and Uzbekistan endorsed a roadmap for implementing the Kambar-Ata 1 hydropower plant project, expected to be the Kyrgyz Republic's largest power facility, with a generation capacity of 1,860 MW and an annual output of 5.6 billion kWh. The Kyrgyz Republic is promoting the project with the World Bank, as well as with investors from China, Russia and the United Arab Emirates. If implemented, the project will enhance energy security upstream in the Kyrgyz Republic and stabilise water supply downstream in Uzbekistan and Kazakhstan.