

The World Bank in the Kyrgyz Republic

Country Snapshot



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

April 2019

THE KYRGYZ REPUBLIC	2018
Population, million	6.3
GDP, current US\$ billion	8.0
GDP per capita, current US\$	1,277
Life Expectancy at birth, years (2018)	70.7

At a Glance

- The Kyrgyz Republic's Sustainable Development Strategy 2040 and 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 percent in 2018. Moderate growth in services and agriculture—sectors that employ a large share of the bottom 40 percent—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 6.3 million people. It has rich endowments, including arable land (7 percent of the country), pastures (48 percent), and substantial forests and minerals, and there is significant potential 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 first elected under this constitution served a full six-year term. Following peaceful elections, President Sooronbai Jeenbekov took office in November 2017. The coalition government is accountable to the parliament.

The economy is vulnerable to external shocks owing to its reliance on one gold mine, Kumtor, which accounts for about 10 percent of GDP, and on worker remittances, equivalent to about 27 percent of GDP in 2018.

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.

World Bank 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 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.

Third, expanding economic opportunities and building resilience through investments in human capital, efforts to decentralize and support

WORLD BANK PORTFOLIO

No. of IDA Projects (Country): 15

Lending: \$281 million (IDA18)

No. of IDA Projects (Regional): 4 for \$156 million

Trust Funds: \$12 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

regional development, and better adaptation to environmental and climate risks.

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.



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Recent Economic Developments

Real GDP growth slowed to 3.5 percent in 2018 from 4.7 percent in 2017. Inflation fell to 0.5 percent by end-2018 from 3.7 percent at end-December 2017, driven mainly by a decline in food prices.

The fiscal deficit narrowed to 1.6 percent of GDP in 2018, down from a deficit of 4.6 percent of GDP in 2017, on account of strong tax collections coupled with the under-execution of the investment program.

Tax revenue rose to 25.4 percent of GDP in 2018 from 23.9 percent in 2017, thanks mainly to higher import tax collections.

Due to lower non-tax revenues and grant support, however, total revenues fell to 31.8 percent of GDP (from 32.6 percent in 2017). Total spending declined to 33.4 percent of GDP (from 37.2 percent a year earlier).

The current account deficit widened to 12.2 percent of GDP (from 6.6 percent a year earlier), reflecting a larger trade deficit of 40.9 percent of GDP in January–September 2018.

The current account deficit was financed by foreign direct investment, a debt write-off of US\$240 million by the Russian Federation, and a drawdown on foreign exchange reserves.



With the growth in the agriculture and construction sectors expected to remain modest, further increases in remittances will support rural poverty reduction.

Economic Outlook

Real GDP growth is projected to accelerate to 4.3 percent in 2019 and stabilize at around 4 percent thereafter.

This scenario reflects the gold production forecast and assumes moderate growth in Russia and Kazakhstan, which will benefit the Kyrgyz economy through remittance and trade channels.

Assuming exchange rate stability and no significant adverse shocks to global food prices, inflation will remain below the central bank's target range of 5–7 percent over the medium term.

The current account deficit is projected to remain elevated at about 10 percent of GDP. The authorities are committed to reducing the deficit to 3 percent of GDP by 2020. In 2019–20, tax revenues as a share of GDP are projected to rise following the implementation of measures to expand the tax base.

Meanwhile, recurrent expenditures are forecast to decline on the back of efforts to streamline non-priority purchases and reduce the wage bill as a share of GDP. Public investment spending is expected to decelerate slightly.

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Social transfers and a scheduled pension increase will also support the most vulnerable. The poverty rate is projected to decline to 18.8 percent in 2019.

Project Spotlight

The Kyrgyz Early Education Project (2014–18)



Teachers note a remarkable improvement in children's language and cognitive development skills. (Photo: Barchynai Kydykeeva)

The Kyrgyz Early Education Project has led to improvements in the quality of preschool education and in children's readiness for learning. There is now more equitable access to preschool education, and a full-year school preparation program for 6-year-old children has achieved nearly universal enrollment.

Cost-effective preschool models have also been introduced. The results of a learning assessment revealed a remarkable improvement in children's language and cognitive development skills, which are known to play a crucial role in overall attainment at later stages in life.

"Thanks to the Early Education Project, the disadvantaged children in the program were catching up developmentally to their relatively more advantaged peers. It is very important that the project helped decrease the social and demographic inequalities as compared by age, single parenthood, mother's education, parental incomes, and school language." – says Minister of Education Gulmira Kudaiberdieva.

The project results demonstrated a more efficient alternative use of the education budget. Throughout the country, both school preparation classes and community-based kindergartens for 10,000 children are operating at already existing schools or other suitable facilities and are focused on the learning process.

Equitable access to preschool education was achieved through reaching out to the most disadvantaged regions and providing them with quality teaching and learning materials, furniture, sanitary facilities, and equipment.



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