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# Growth in China's embrace? Economy of Kyrgyzstan

Szabolcs Veres

## Abstract

The economy of Kyrgyzstan has been undergoing a deep transformation over the last decades. For an extended period, agriculture constituted the primary economic sector. However, it has since been partially replaced by the service sector. Following the dissolution of the Soviet Union's planned economy and the subsequent declaration of independence, the Kyrgyzstani state was confronted with a series of considerable economic challenges during the 1990s. However, it has since demonstrated a notable capacity for recovery. Nevertheless, Kyrgyzstan is a country with a high poverty rate, with approximately 25 percent of the population living below the poverty line in 2023. Additionally, the country has a significant informal economy. It is estimated that up to 60 percent of the gross domestic product is generated in this sector and thus not included in the official figures. Approximately 25 percent of the gross domestic product is remitted by Kyrgyz individuals employed abroad. Kyrgyzstan is a member of several international organizations, including the World Trade Organization, the Commonwealth of Independent States, the Eurasian Economic Community, the Organization for Economic Cooperation and Development, and the Shanghai Cooperation Organization.

**Keywords:** Kyrgyzstan, economy, inflation, trade

## Introduction

For decades, Kyrgyzstan has been classified as a low-income country at the global and regional levels. However, according to [data](#) from the World Bank for 2024, the country has transitioned out of this category. Our nominal gross domestic product (GDP) per capita is currently above 2.000 dollars, and at purchasing power parity (PPP), it is approximately 6.500 dollars. The country's economy is significantly reliant on gold exports, which constitute approximately 10 percent of the country's GDP and nearly half of its total exports. Additionally, remittances from Kyrgyz citizens employed abroad, predominantly in Russia<sup>1</sup>, account for over a quarter of the country's GDP. The combined impact of the global pandemic and political unrest in 2020 has triggered a recession in Kyrgyzstan, the severity of which has not been witnessed since 1994, with a decline in GDP of 8.6 percent.

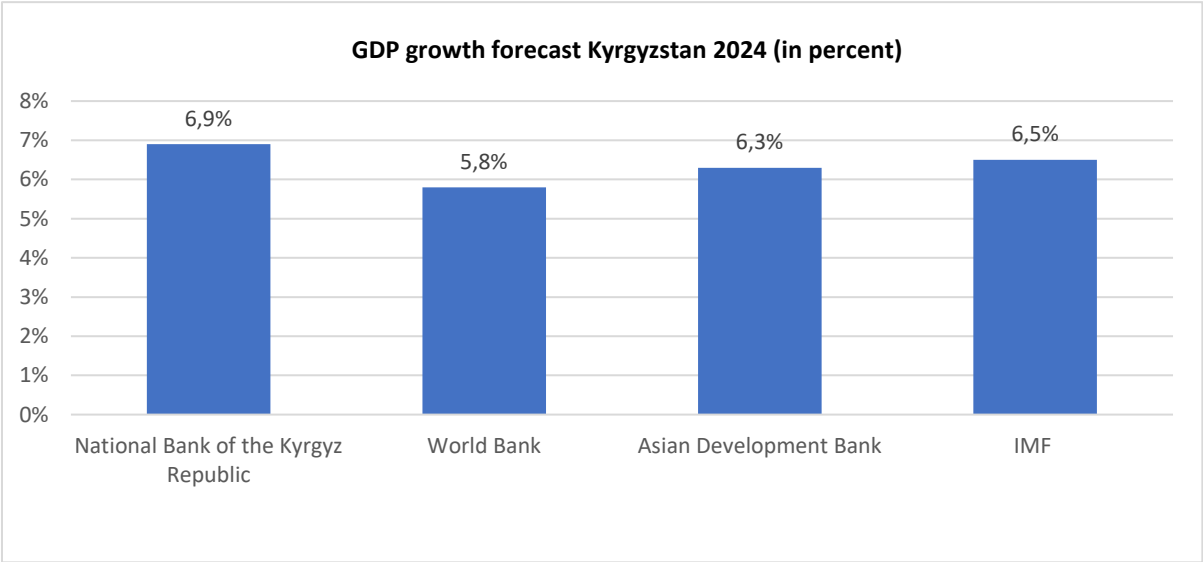
Kyrgyzstan's close economic ties [with China](#) have facilitated the financing of infrastructure projects in the country. Kyrgyzstan has long sought to attract foreign investment to expand its export base (e.g., construction of hydroelectric power plants), but the challenging business environment and disputes with foreign investors have thus far constituted a significant impediment to the country's investment attractiveness. Following the protests that occurred in the wake of the 2020 parliamentary elections, Sadir Zaharov was [elected](#) president of the country in January 2021 with a significant margin of victory. In April of the same year, the Central Asian country proceeded to transform its parliamentary system into a presidential

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<sup>1</sup> This figure has declined somewhat in recent years due to the weakness of the Russian economy, and it is probable that the economic impact of the Russian-Ukrainian conflict on Russia will further exacerbate this decline.

system by calling a [referendum](#).

Furthermore, Kyrgyzstan is among the most economically disadvantaged countries in the Central Asian region, where the prevalence of poverty is gradually declining. The Asian Development Bank (ADB) estimates that approximately 33.2 percent of the population [lives](#) below the national poverty line in 2022. Nevertheless, income disparity in the country has been on a gradual decline since 2006, as evidenced by the expansion of employment opportunities, an increase in the minimum wage, the expansion of social support systems, and the enhancement of the quality of education.



Source: own compilation based on the IMF, World Bank, Asian Development Bank and National Bank of the Kyrgyz Republic data

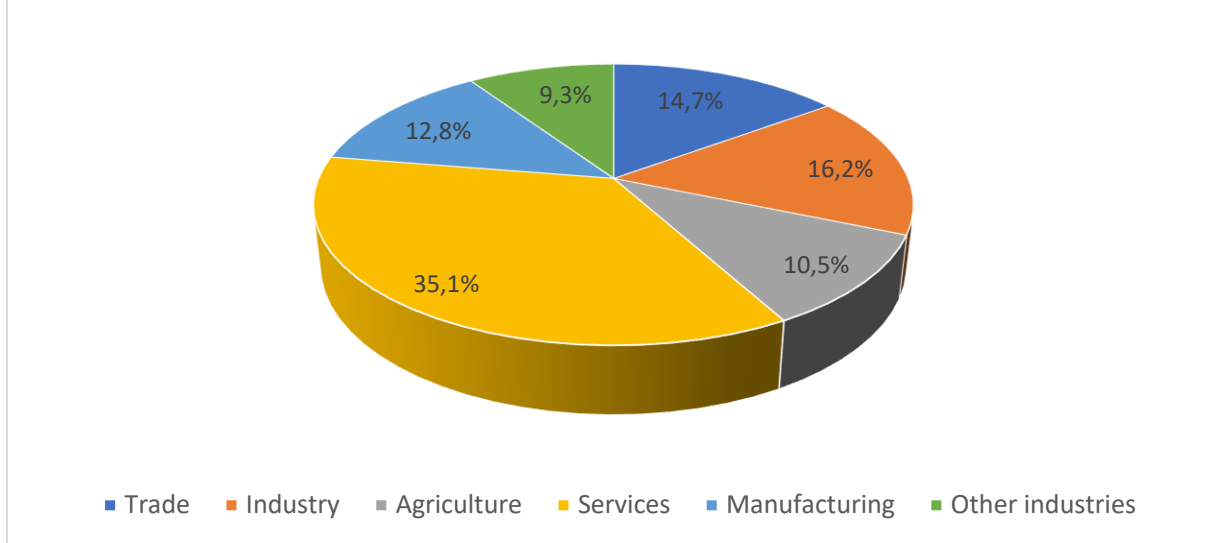
### Economy grew in first half 2024

According to the National Statistical Committee's report, the Kyrgyz economy [reached](#) KGS (Kyrgyz national currency is the Kyrgyz som) 560 billion (USD 6.5 billion) in June 2024 (preliminary estimates), with growth of 8.1 percent. Excluding the Kumtor (Revenues of the largest gold-mining enterprise of Kyrgyzstan) companies, growth was 9.9 percent. The Kyrgyz government has hailed this figure as a success, calling it the most significant achievement in recent years. The services sector had the largest share in the structure of GDP with a total volume of almost 52 percent.

The construction sector recorded the highest growth in the first half of the year 48.5 percent compared to the same period last year. Wholesale and retail trade grew by 21 percent and agriculture by 3.3 per cent. The volume of industrial production, on the other hand, fell, rising by only 1 percent in June.

At the same time, prices of consumer goods and duties rose by an average of 2.4 percent. Prices for alcohol and tobacco rose by 6.1 percent, non-food by 1.8 percent, food by 1.5 percent and utilities by 3.6 percent.

Structural breakdown of Kyrgyzstan's economy in 2023 (percentage)



However, the largest growth in the Kyrgyz economy has been in re-exports, light manufacturing and manufacturing. Construction is also growing slightly. Construction and infrastructure projects are mainly financed from the budget, the national reserve and money raised from investors. In addition, global inflation, devaluation and price increases, as well as the increase in the money supply, are affecting the current economic growth figures. The economy appears to be grown.

Analysts, however, see other reasons for Kyrgyzstan's strong economic performance. The Eurasian Fund for Stabilization and Development published a quarterly report on 9 July 2024 saying that the Russian factor has had a significant impact on Kyrgyzstan's economy. Around 3 percent of growth can be explained by changes in economic trends related to outflows of labor and capital from Russia and parallel imports. It should be noted, however, that Kyrgyzstan's national statistics cannot fully reflect the real situation. The organization (Eurasian Fund) [forecasts](#) economic growth of 4.8 percent in 2024 and 4 percent in 2026.

In a report published in June, the World Bank predicts that Kyrgyzstan's economic growth will decline slightly to 4.5 percent [in 2024](#). The downward trend will continue in the coming years. In addition to the World Bank, several other reports on the conditions hampering economic development in the Central Asian region, including Kyrgyzstan, highlight that geopolitical tensions related to Russia's invasion of Ukraine, the possibility of a continuation of the conflict and the risk of its escalation make the future of the region uncertain. In addition, political instability in the region continues. Increased trade restrictions could further slow trade and economic growth, given the decline in exports in recent years. The effects of climate change will also have a negative impact on development. Inflation has slowed recently, but the escalation of the conflict in the Middle East is likely to push up energy prices. Higher-than-expected wage growth will also add to inflationary pressures.

At the same time, the Kyrgyz government hopes that the [Kambarata HPP-1](#) and the [China-Kyrgyzstan-Uzbekistan railway](#) project will generate economic growth of at least 10 percent. According to government promises the development of the [Kyzyl-Ompol](#) deposit, which

contains titanium magnetite, will usher in a new era of development for Kyrgyzstan.

### **Monetary and fiscal stability**

Several challenges to Kyrgyzstan's monetary stability measures occurred in 2021/2022. By early 2023, however, the country had been spared major destabilization.

In 2021, the inflation rate was 11.9 percent, and estimates for 2022 are around 14 per cent. Thus, at least part of the current inflation dynamics is seasonal (i.e. with winter, prices of agricultural products rise seasonally, and as they are usually higher in winter, prices of some energy products also rise).

Kyrgyzstan has a floating exchange rate regime. After Russia began its invasion of Ukraine, the exchange rate became volatile in March 2022, and the Kyrgyz som (as well as the Russian ruble) fell by more than 30 percent against the US dollar and the euro. Within a month, the rate had stabilized at its pre-March level (around KGS 83 = USD 1). During this period, the National Bank's main instrument for maintaining exchange rate stability – intervention on the market by buying or selling US dollars at a predetermined price – was used, with the National Bank mainly selling US dollars. At the beginning of 2024, one dollar cost more than KGS 87 (Now December 2024 USD 1 = 86.8 KGS).

However, it was a mystery of 2022 that, given the high demand for the USD dollar and the low supply of USD dollars, its exchange rate against the Kyrgyz som seemed to stabilize for most of the year. Although the dollar exchange rate remained stable, the absence of a reformed and controlled system led to a black market for foreign exchange – a scenario Kyrgyzstan had not experienced since the early 1990s and one that posed a real threat to its efficient exchange rate regime. However, this informal market had limited impact due to a combination of low demand for these coins and a general distrust of unofficial transactions.

Institutional tensions at the National Bank coincided with monetary instability. The bank's chairman was replaced in 2021 as part of a political showdown, allegedly for resisting efforts to compromise on the Kumtor gold assets. While the accusation was never substantiated, the bank's performance in the following period – particularly in 2022, after the start of the war in Ukraine – fueled fears about the bank's independence from the government.

### **Inflation**

According National Statistics Committee (NSC) since the beginning of 2024, [inflation](#) in Kyrgyzstan was 3.4 percent. NSC observed that the prices of non-food products increased by 2.9 percent, food and non-alcoholic beverages by 1.4 percent, alcoholic beverages and tobacco by 9.2 percent, and tariffs for services to the public by 7 percent.

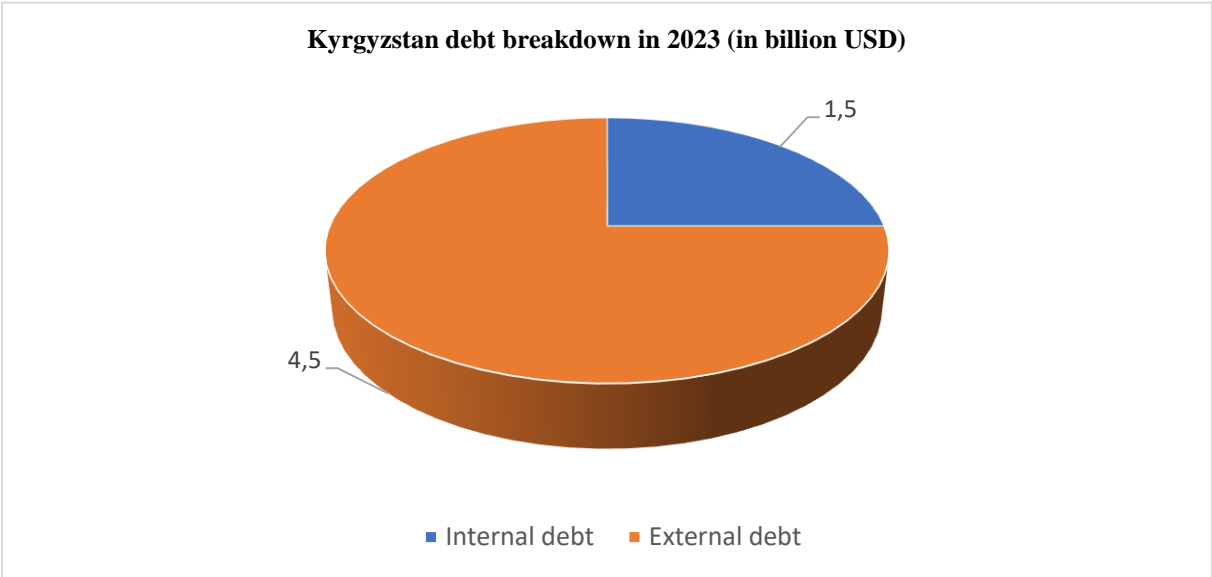
The items with the highest price increases were meat (11 percent), animal fats (9.5 percent), cream ice cream (8.6 percent), potatoes (7.5 percent), salt (7.2 percent), fatty cottage cheese (6.2 percent), and soft drinks (4.8 percent). Additionally, the prices of other foodstuffs, including fish, sweets, rice, cheese, milk, butter and sugar, have increased.

Concurrently, the [Kyrgyz Cabinet of Ministers](#) forecasts inflation to reach 5.8 percent by the end of next year, in comparison to December of the previous year. This is in accordance with the data presented in the draft budget of the Kyrgyzstan for the 2025 and 2026-2027 planning periods. The objective is to maintain the inflation rate within the 5-7 percent range over the

medium term. This is dependent on the assumption that by the end of 2024, the Kyrgyz monetary policy will be pursued according to the mandate of the Kyrgyz National Bank to maintain the purchasing power of the national currency, with the aim of promoting the country's long-term economic growth. In order to achieve this, a continuation of sterilization operations is planned, with the aim of withdrawing excess liquidity through open market operations. This will serve to limit the impact of monetary factors on inflation.

**State debt**

As detailed in the Kyrgyz Ministry of Finance report, the public debt of Kyrgyzstan [reached](#) USD 6 billion in 2023. The external debt was valued at USD 4.48 billion, while the internal debt was USD 1.518 billion. During the reporting period, the total debt increased by USD 13.58 million, with external debt decreasing by USD 4.15 million and internal debt increasing by USD 17.72 million.



As previously stated, the current ratio of government debt to gross domestic product (GDP) is 57.82 percent which is low in international comparison. Over half of the external debt is comprised of multilateral loans, amounting to approximately USD 2 billion 347 million. Concurrently, bilateral loans total approximately to USD 2 billion dollars. Of this amount, USD 1.7 billion dollars is provided by the Export-Import Bank of China.

**Labor market**

According to the National Statistical Committee 2023, the population of the country amounted to 6 million 747.3 thousand people. Of these, the economically active population is 2 million 712.7 thousand people. According to the report of the Ministry of Labor, the number of employees as of December 1, 2023 was 2 million 581.1 thousand people, while the number of unemployed – 131.6 thousand people. Thus, the general unemployment rate amounted to 4.9 percent.

The number of the unemployed registered with the employment service amounted to 94.8 thousand people. The number of officially registered unemployed amounted to 70.2 thousand people. Unemployment benefits were also granted to 166 thousand, unemployed citizens. During the reporting period, 15.3 thousand unemployed citizens were employed with the



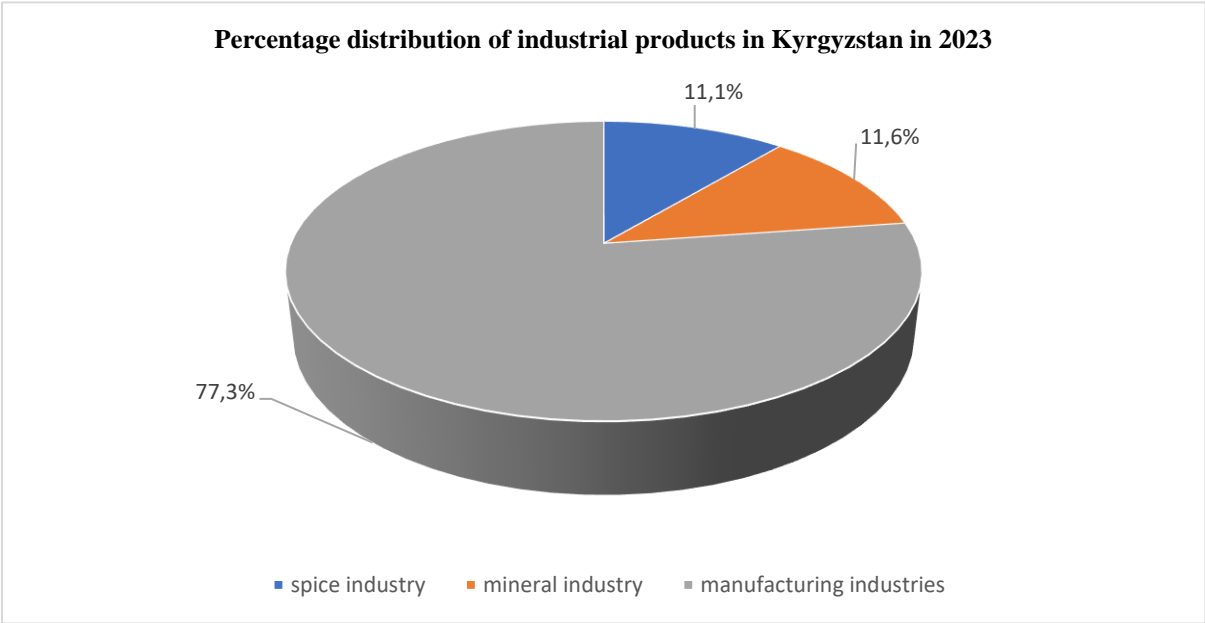
assistance of the employment service.

**Average salary of Kyrgyz citizens**

According to the calculations of the National Statistical Committee, the average monthly nominal accrued salary of employees of enterprises and organizations (excluding small enterprises) in 2023 amounted to 32 174 soms (USD 374), what increasing to 34 046 (USD 394) som in the first half of [2024](#). This is 22.2 percent more compared to the same indicator of 2022. At the same time, real wages, calculated taking into account the consumer price index, increased by 9.6 percent.

**Industry**

In January-November 2023, industrial output amounted to 428.15 billion KGS (USD 4.9 billion). Such data was reported by the National Statistical Committee. In the total volume of industrial production, the share of mining of minerals amounted to 11.6 percent, manufacturing 77.3 percent, provision of electricity, gas, steam and conditioned air 10.1 percent, water supply, treatment, waste treatment and obtaining secondary raw materials – 1 percent. This is due to the growth of production of rubber and plastic products, other non-metallic mineral products (by 1.8 times), pharmaceutical products (by 1.5 times), textile production, production of clothing and footwear, leather and other leather goods (by 23.6 percent), wood and paper products, printing activities (by 23 percent). In addition, the volume of production of mining products amounted to USD 574 million (49.5 billion KGS). The volume of supply of electricity, gas, steam and conditioned air amounted to USD 501 million (43.2 billion KGS). The volume of water supply, treatment, waste treatment and obtaining secondary raw materials amounted to USD 47.6 million.



Source: National Statistical Committee of the Kyrgyz Republic data

**Export and Import**

[According](#) to the National Statistical Committee, the volume of Kyrgyzstan’s foreign and

mutual trade in goods in January-December 2023 amounted to USD 16 billion and increased by 29.9 percent compared to January-December 2022.

Export amounted to USD 2.4 billion and increased by 29.6 percent due to a threefold increase in exports of goods, mainly to non-CIS<sup>2</sup> countries. Import amounted to USD 9.8 billion and increased by 23.8 percent y-o-y, due to a 1.5-fold increase in receipts from non-CIS countries. Thus, in the structure of trade turnover, exports accounted for 19.9 percent and imports for 80.1 percent. The trade balance deficit in January-October 2023 amounted to USD 7.4 billion.

Mutual trade with member states of the Eurasian Economic Union (EAEU) accounted for 27.6 percent of the country's total trade turnover, including 40.7 percent of exports and 24.4 percent of imports. Among CIS countries, a significant share of exports went to Russia (24.3 percent), Kazakhstan (15.7 percent) and Uzbekistan (9.5 percent). Russia (16.4 percent), Kazakhstan (7.4 percent) and Uzbekistan (3.1 percent) accounted for the largest volumes of imports.

Foreign trade with third countries in the total volume of trade turnover of the country amounted to 72.4 percent, including 59.3 percent in exports and 75.6 percent in imports. The main export partners among non-CIS countries were Switzerland (27.2 percent), the United Arab Emirates (7.2 percent), Türkiye (5.3 percent), China (2.5 percent) and Iran (0.8 percent). Significant imports came from China (43.1 percent), Japan (2.1 percent), the South Korea (4.5 percent), Türkiye (3.9 percent), the United States (3.6 percent) and Germany (3.4 percent).

### **State budget**

Earlier, the Ministry of Finance presented a draft updated [law](#) “On the Republican Budget for 2023”. The Jogorku Kenesh (The Supreme Council of Kyrgyzstan) adopted the budget in three readings December 14. According to the bill, the revenue part of the national budget for 2023 is proposed in the amount of 352.8 billion soms (USD 4 billion). The expenditure part is projected in the amount of 361.8 billion soms (USD 4.2 billion).

### **Untapped potential?**

Kyrgyzstan's mineral wealth is a major attraction for investors. The country is rich in gold and the mining sector plays a key role in its economy. According to the [World Gold Council](#), Kyrgyzstan was produce around 29.3 tons of gold in 2022, highlighting the significant investment potential in the sector. Of the strategic mining areas, [Kutmor](#) remains a major gold deposit in Central Asia, contributing strongly to Kyrgyzstan's economy. In fact, Kumtor Gold Company has reported gold production of 13.5 tons in 2023, resulting in a net profit of USD 302.4 million.

In addition to mineral resources, Kyrgyzstan has stunning natural sites, which are the number one destination for tourists coming to the country. The Asian country's mountainous terrain and almost untouched lakes offer the potential to exploit the potential of its tourism infrastructure. In addition to its excellent topography for tourism, Kyrgyzstan has significant [hydropower potential](#) and projects such as Kambar-Ata [1](#) and [2](#) hydropower plants will contribute to meeting regional energy needs.

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<sup>2</sup> CIS- Commonwealth of Independent States