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POLICY BRIEFING
KYRGYZSTAN

Economic implications on Kyrgyzstan of the war in Ukraine and the sanctions against Russia

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Summary

- » Western sanctions against RUS, as a reaction to the war in UKR, weaken the Russian economy with possible negative effects on the KGZ economy. We assess effect on key areas.

Energy prices

- » The war has led to higher global energy prices. KGZ imports 50% of its energy consumption, mainly oil products. Price effect so far limited, as KGZ imports oil products from RUS, which trade at a discount compared to oil from other countries

Exposure to Russia: remittances, tourism and exports

- » RUS is a key source country for remittances and tourism in KGZ; however, tourism increased while remittances decreased only slightly
- » KGZ also features a significant export exposure towards RUS (23% of total); no negative effect so far; in fact, exports to RUS increased by 92% yoy in 6M2022

Migration

- » Possible positive effect via migration of (qualified) workforce from RUS to KGZ in particular for the IT sector

Macroeconomic implications

- » High inflation (15.6% in Aug-22); to a large extent because of higher food prices due to war in UKR
- » But no negative impact on economic growth; 7M2022: GDP up by 7.7%
- Apart from inflation, no negative shock on the KGZ economy so far; economy develops much better than expected; however, this could change if economic situation in RUS worsens

Outline

1. Introduction
2. Economic outlook in RUS in 2022
3. Implications of higher energy prices
4. Exposure to Russia: remittances, tourism and exports
5. Migration of workforce
6. Macroeconomic effects
 - I. Inflation
 - II. GDP

1. Introduction

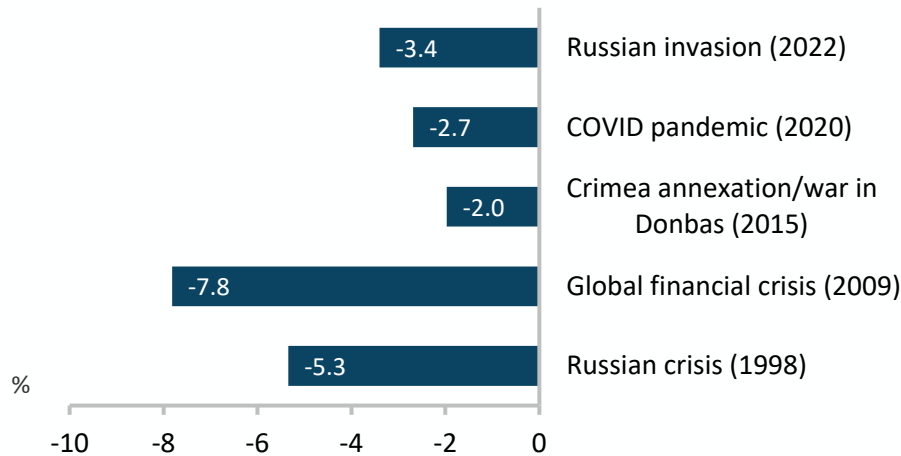
- » As a response to Russia's invasion of Ukraine, Western countries imposed economic sanctions on RUS
- » This has weakened the RUS economy
- » In turn, this could have a negative effect of countries that have economic links with RUS, such as KGZ
- » In this analysis, we focus on different channels
 - Higher energy prices
 - Exposure to the RUS economy due to remittances, tourism and exports
 - Migration flows

Aim of this policy briefing

- » Estimation of these effect on KGZ
- » Assessment of the macroeconomic implications for KGZ

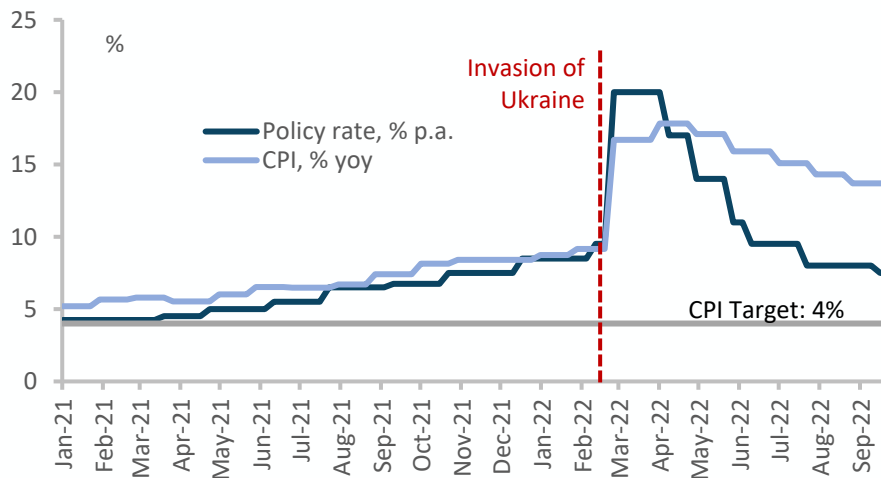
2. Economic outlook in Russia in 2022

Historic GDP declines



Sources: Rosstat and IMF October 2022 forecast

Inflation and key policy rate



Source: CBR

Severe economic and financial damage

- » The war has led to several waves of sanctions on RUS by Western countries
- » According to new IMF Oct forecast RUS real GDP likely to decline by 3.4% in 2022
- » Thus, impact lower than previously anticipated but still severe, larger than impact of COVID pandemic
- » Inflation accelerated after the start of the war, exchange rate weakened
- » CBR is facing a trade-off between supporting the real economy and financial stability / inflation objectives
 - To avoid run on deposits, CBR hiked the key rate to 20% p.a. in Feb-22
 - Once financial stability was restored, the key rate was gradually cut to 7.5% p.a., though inflation is still above target

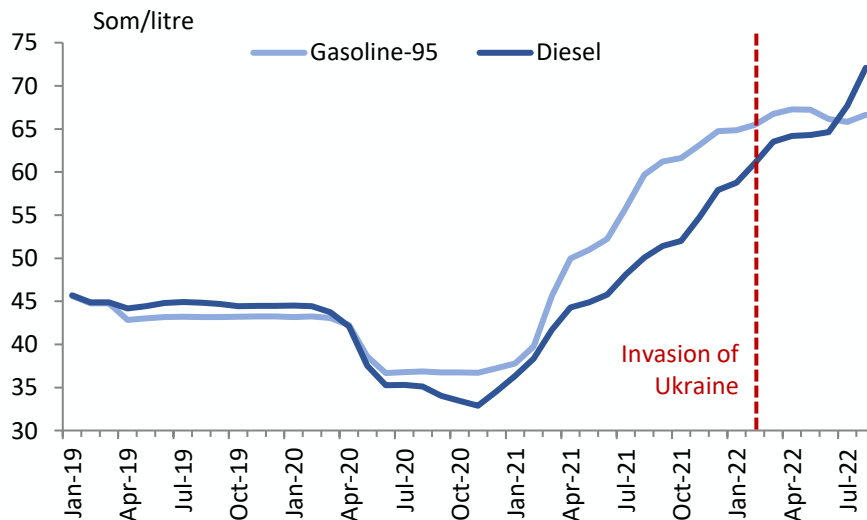
3. Implications of higher energy prices

Energy balance

PJ, avg. 2017-2019	Con- sumption	Production	Imports (RUS share)	Exports
Crude oil	-	9	12 (57%)	2
Oil products	73	18	59 (85%)	5
Natural gas	11	1	12 (89%)	-
Coal	41	35	19 (0%)	13
Renewables	51	51	-	-

Source: IEA, UN Comtrade, own calculations

Prices for fuel in KGZ



Source: Statistical Committee of Kyrgyzstan

Starting point

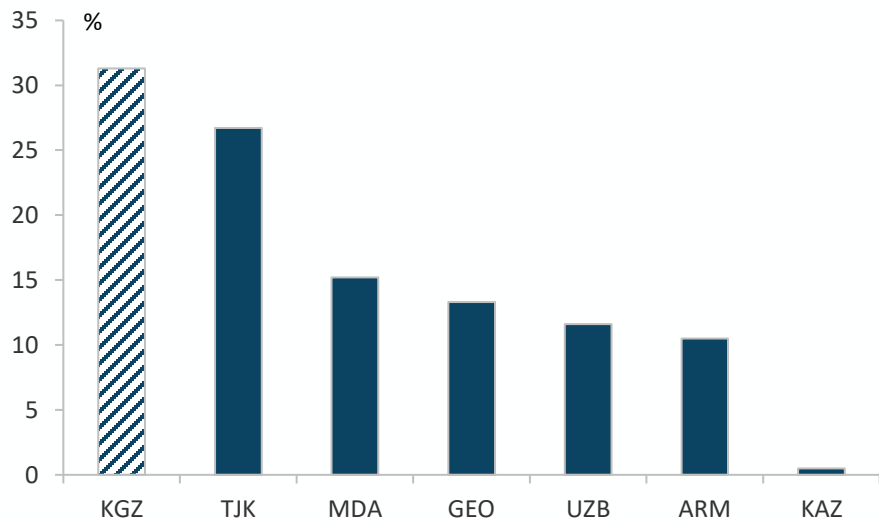
- » >90% of electricity in KGZ produced from hydropower; very high
- » Nevertheless, around 71% of energy consumption from fossil fuels
 - Around 50% of supply is imported
 - Most imports from RUS, especially oil and gas; coal from KAZ
 - Oil products heavily used in transport and residential sectors

Analysis of effect

- » Stable prices for gas imported from RUS
- » Oil prices surged in 2021, but no increase for RUS oil since start of war
- » KGZ government limits prices for 92 petrol and diesel as socially important goods
- So far limited effect on energy prices

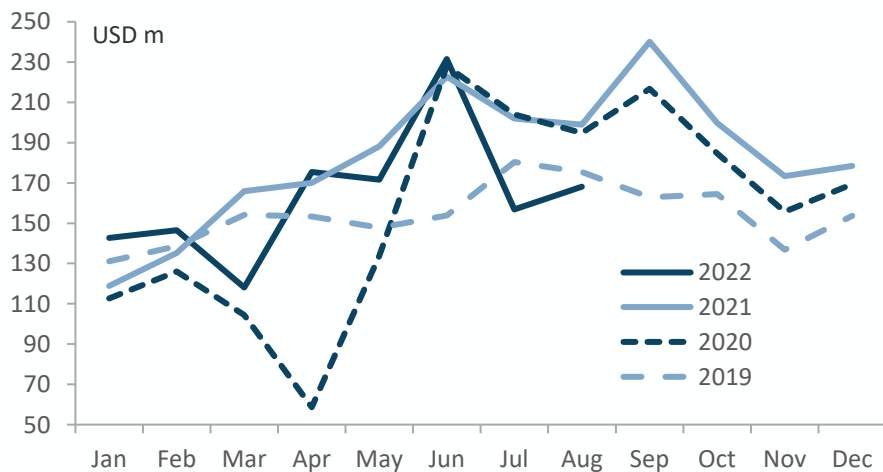
4. Exposure to Russia: remittances

Personal remittances inflow as % of GDP



Source: World Bank, data for 2020

Monthly net remittances



Source: National bank Kyrgyzstan, Note: remittances made through the money transfer systems

Starting point

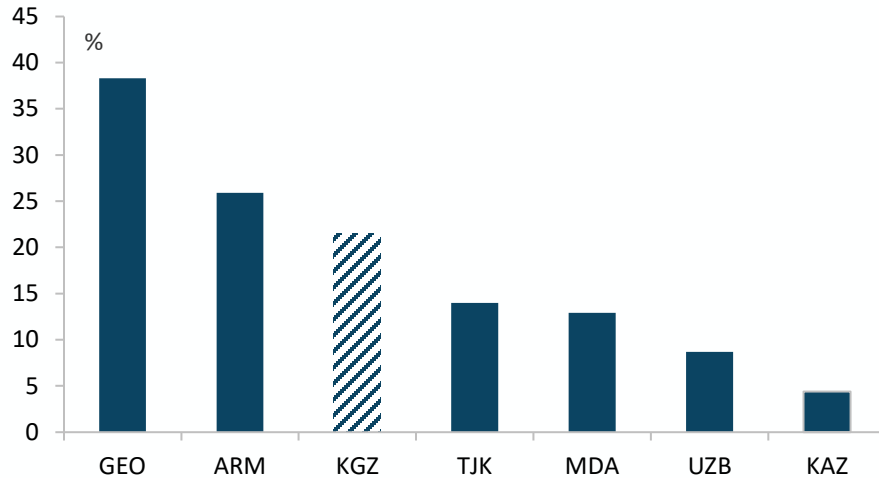
- » Remittances play a major role in the economy of KGZ: 31% of GDP in 2020
- » RUS is the main source of remittances: 83% to 97% depending on source

Analysis of effect

- » Straight after the start of the war in UKR: expectation of decrease of remittances due to economic weakness in Russia
 - Word Bank, March 2022: -33%
 - National Bank, May 2022: -20%
- » But: economic situation in RUS better than expected
- » Gross remittances increased but also stronger outflows, net remittances decreased by 6% in M82022 yoy
- Expected shock did not materialise; only slight decrease of net remittances
- Demand for Kyrgyz labour migrants in Russia still high

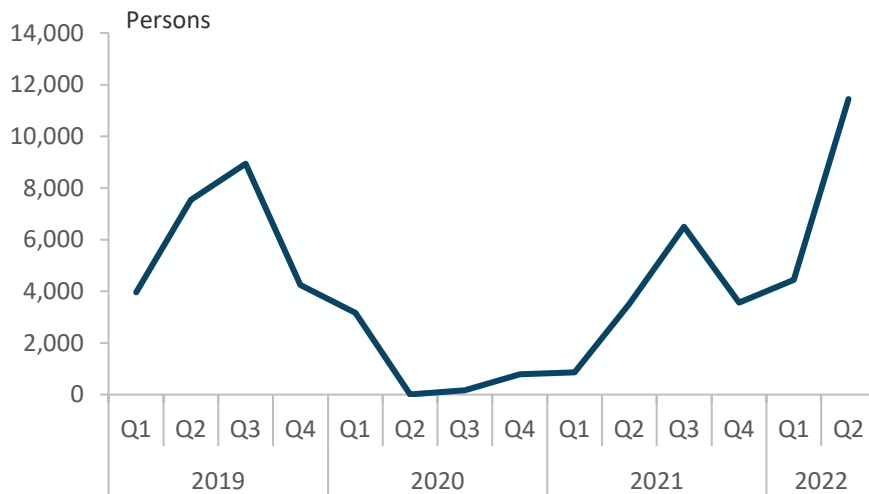
Exposure to Russia: tourism

Visitor spending in total exports of goods and services



Source: World Travel & Tourism Council, data for 2019

Russian tourists in Kyrgyzstan



Source: Federal Security Service (FSB) Russia

Starting point

- » Tourism spending 22% of total exports of goods and services, highest value in Central Asia
- » UZB by far the most important source country for tourism, followed by KAZ
- » 22% of inbound arrivals from RUS (2019)

Analysis of effect

- » Tourist revenues more than doubled according to Statistical Committee
- » According to Russian sources, also number of tourists from RUS increased
- No negative effect on tourism

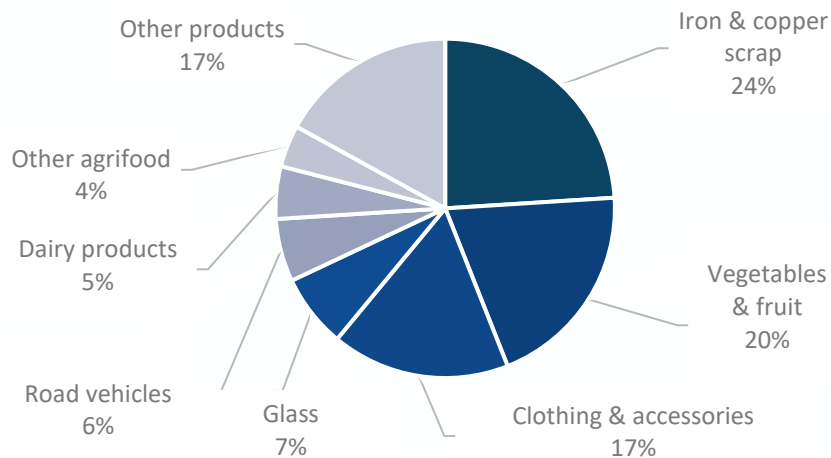
Exposure to Russia: exports

KGZ exports of goods to RUS



Source: National Statistics Committee of Kyrgyzstan

Structure of KGZ exports to RUS, 2021



Source: ITC Trade Map

Starting point

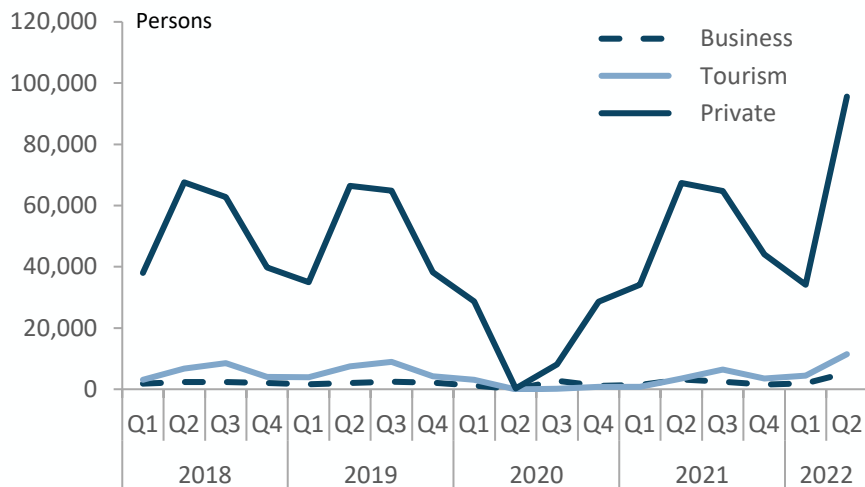
- » 2021: USD 413 m of exports of goods to RUS
- » RUS most important market for KGZ exports, 23% of total exports
- » Main exports are agricultural goods and metalliferous scrap

Analysis of effect

- » Early forecasts predicted a significant decline of exports to RUS, due to expected economic slowdown in RUS
- » However, data for 6M2022 shows a different picture; exports to RUS almost doubled (+92%)
- » Increase in traditional categories such as agricultural & food products, clothing & fashion goods
- » Expected export shock due to economic decline in Russia did not materialise

5. Migration of workforce to KGZ

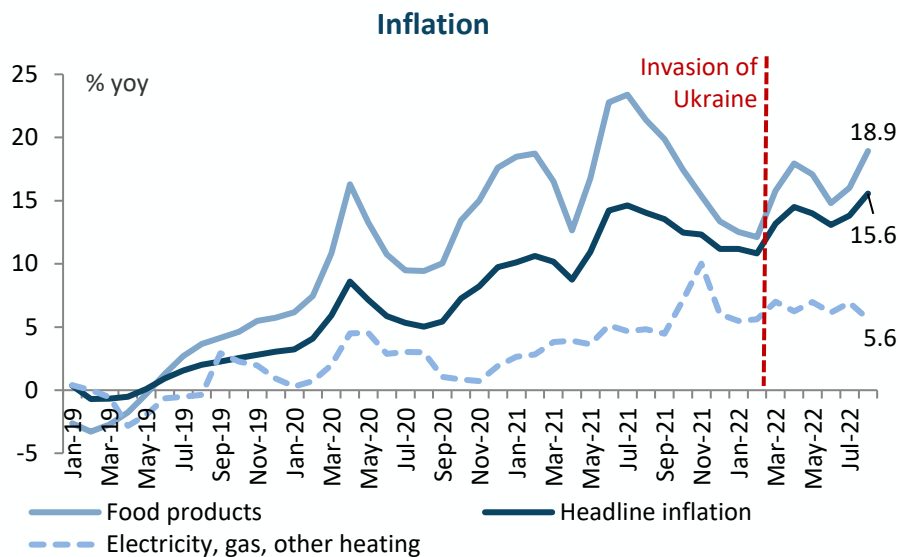
Russian citizens leaving RUS to KGZ by stated purposes



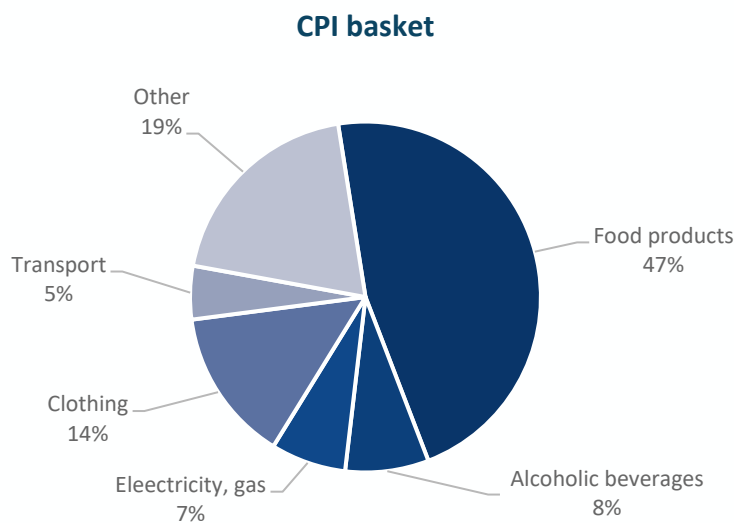
Source: Federal Security Service (FSB) Russia

- » Apparent influx of RUS citizens to KGZ, especially highly qualified IT specialists, since start of the war in Ukraine
- » However, no quantitative KGZ data available on immigration of RUS citizens
- » RUS data show rise of entries into KGZ by 42% in Q2-2022 due to “private reasons”
- » Strong increase of tourism and business entries as well, however smaller magnitude
- » Assessment of data and economic impact difficult, more information necessary
- Immigration of RUS IT specialists might pose a chance to develop the IT sector in KGZ
- Further research necessary to assess the economic impact and create favourable conditions to keep workforce in the country

6. Macroeconomic effect: inflation



Source: Statistical Committee of Kyrgyzstan



Source: Statistical Committee of Kyrgyzstan

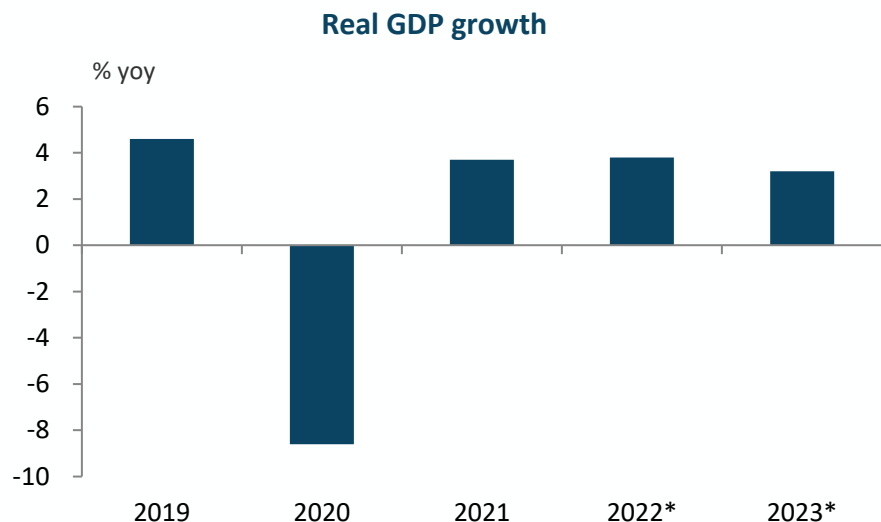
Starting point

- » KGZ net importer of food, including cereals, vegetables and fats & oils
 - Imports 2021: USD 823 m
 - Exports 2021: USD 305 m
- » With almost 47% large share of food in CPI basket

Analysis of effect

- » Higher food prices due to war in Ukraine
- » 7M2022: food imports increased by 39%, mainly due to sugar and processed food
- Strong rise in inflation since beginning of the war in Ukraine
- High inflation currently the most urgent economic and social issue

Macroeconomic effect: GDP



Source: National Bureau of Statistics, *EBRD forecast (September 2022)

Regional comparison of real GDP forecasts for 2022

	2021	2022*	2023*
Kyrgyzstan	3.7	3.8	3.2
Kazakhstan	4.1	2.5	4.4
Uzbekistan	7.4	5.2	4.7
Russia	4.7	-3.4	-2.3
Tajikistan	9.2	5.5	4.0
Turkmenistan	4.6	1.2	2.3

Sources: EBRD, IMF; *forecast

Analysis of effect

- » Expected negative effect of the war in UKR and the sanctions against RUS on the Kyrgyz economy did not materialise
- » Instead: increase of exports to RUS, net remittances only slightly decreased
- » Increase of gold production should boost growth and exports
- » On top: immigration of highly qualified workforce from RUS support consumption; chance for IT sector growth
- » IMF Oct. forecast: 3.8% growth yoy, might even be higher (7.7% in 7M2022)
- » Growth comparable to peers
- » No negative shock on GDP so far; in fact, relatively high economic growth in 2022

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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