

ECONOMIC MONITOR

KYRGYZSTAN

Overview

- » 2021: GDP growth of 3.6%
- » 2022: no negative effect of war in Ukraine and sanctions on Russia so far; instead, high growth of 7.7% in 7M2022 due to increased gold production and robust remittances
- » Rising food prices and high inflation (15.6% in Aug-22) lead to economic and social problems
- » Volatile exchange rate: depreciation after beginning of the war in UKR, afterwards appreciation vs. the US dollar; Som appreciation also supported by influx of Russian citizens
- » Imports up by 67% in 6M2022, while exports remain flat; but expected resumption of gold exports should strongly increase exports
- » Currently large current account deficit, but magnitude should decrease due to resumption of gold exports
- » Low budget deficit of 1.3% of GDP in 2021; should be even lower in 2022; government debt of approx. 61% of GDP relatively high, but should decrease in light of high growth

Special topics

- » **Energy balance and trade.** Potential to increase electricity trade with neighbours
- » **Kumtor mine dispute.** After settlement of dispute in July 2022, resumption of exports imminent

Basic indicators

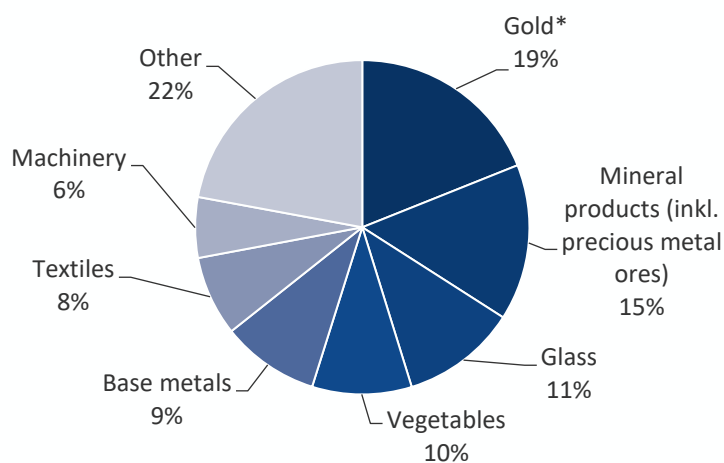
	Kyrgyzstan	Tajikistan	Uzbekistan	Kazakhstan	Turkmenistan	Russia
GDP, USD bn	8.5	8.5	69.2	197.1	63.4	1,775.5
GDP/capita, USD	1,287	878	2,001	10,380	10,310	12,198
Population, m	6.6	9.6	34.6	19.0	6.2	145.6

Sources: National statistics, IMF, 2021

Trade structure

Exports

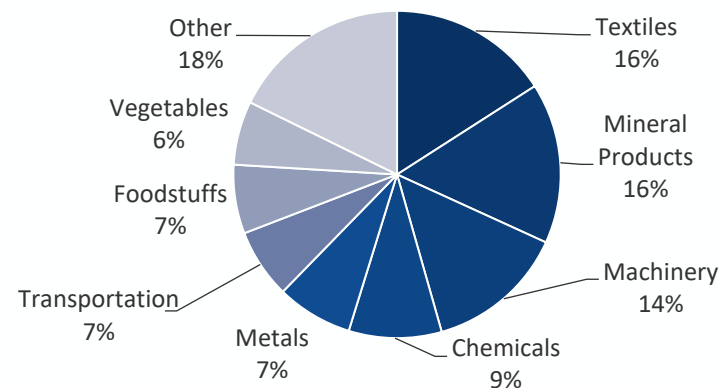
KAZ 26% | RUS 23% | UK 14% | EU 3% | Other 34%



Source: National Bureau of Statistics, data for 2021; note: trade in goods;
*low gold exports in 2021; in 2020, gold share in total exports was 53%

Imports

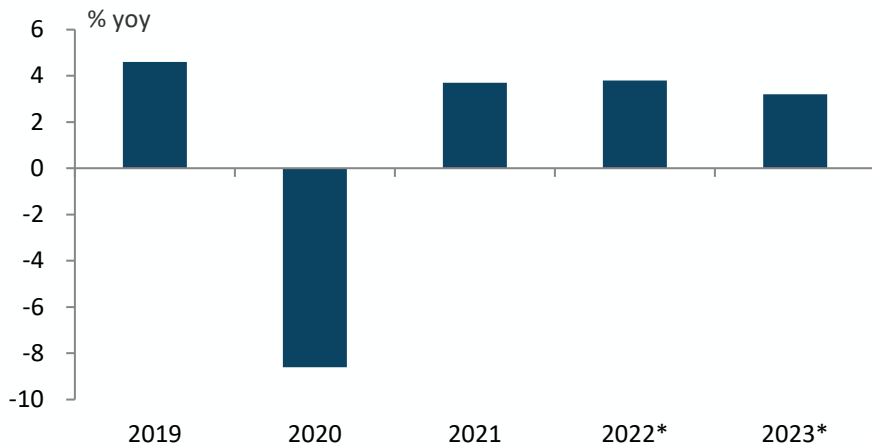
RUS 33% | CHN 27% | EU 5% | Other 35%



Source: National Bureau of Statistics, data for 2021; note: trade in goods

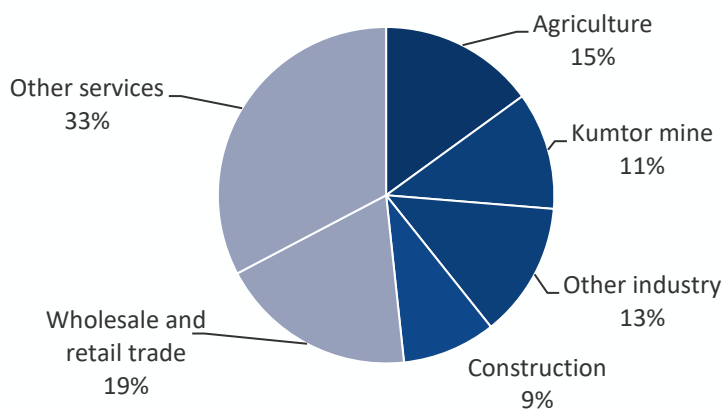
Economic growth

Real GDP growth



Source: National Bureau of Statistics, *IMF forecast (October 2022)

Composition of GDP



Source: National Bureau of Statistics

GDP

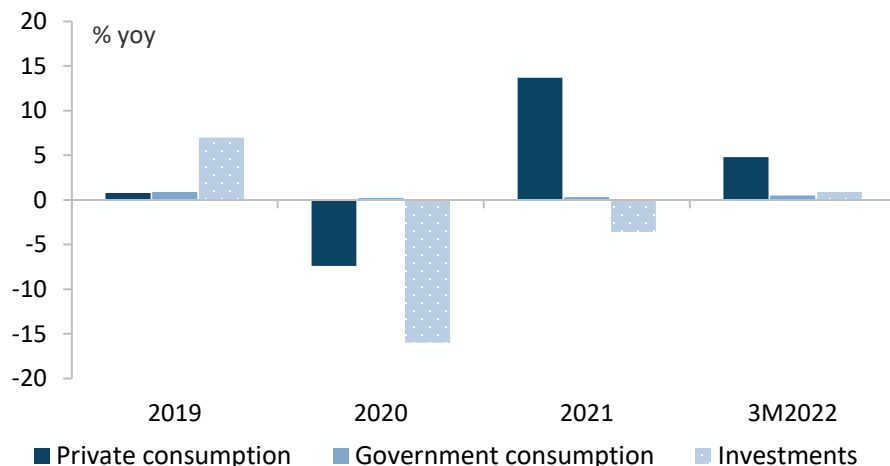
- » 2021: increase of 3.6% yoy
- » 2022: in spring, weak growth expected due to effect of war in UKR and sanctions against RUS
- » But: negative shock so far absent; in fact, 7M2022 growth amounted to 7.7%
- » Fresh IMF forecast for 2022: 3.8%
- » Forecast not simple due to over proportional importance of Q4 in the economy

Composition of GDP

- » Relatively large agricultural sector, 15% of GDP and 40% of employment
- » Kumtor gold mine accounts to 11% of value added and almost half of industrial production
- No negative effect of war in UKR and sanctions against RUS on GDP growth
- Economy highly dependent on agriculture and Kumtor gold mine

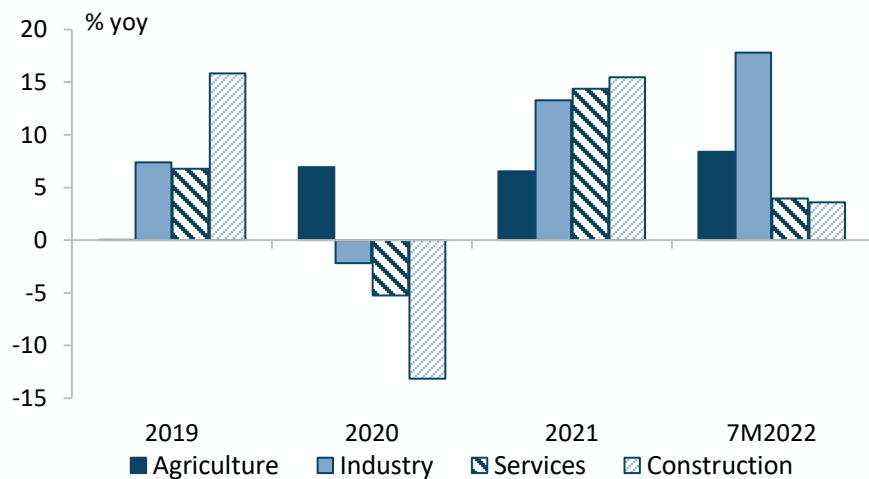
GDP: demand and supply

Growth of GDP components, demand side



Source: World Bank, Poverty & Equity and Macroeconomics

Sectoral dynamics



Source: National Bureau of Statistics Kyrgyzstan

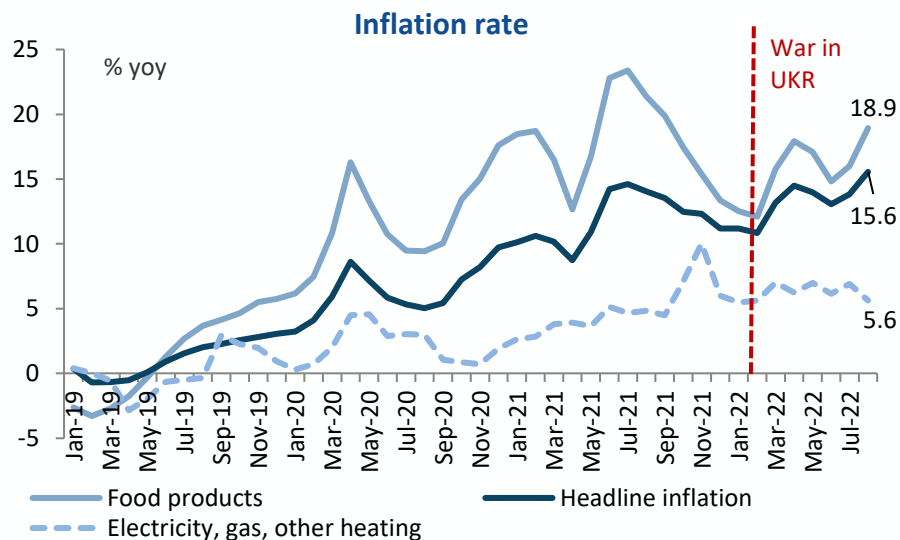
Demand side

- » 2021: growth based on strong private consumption on the back of high remittances
- » 3M2022: consumption again main growth driver
- » Influx of Russian citizens likely contributes to increasing consumption

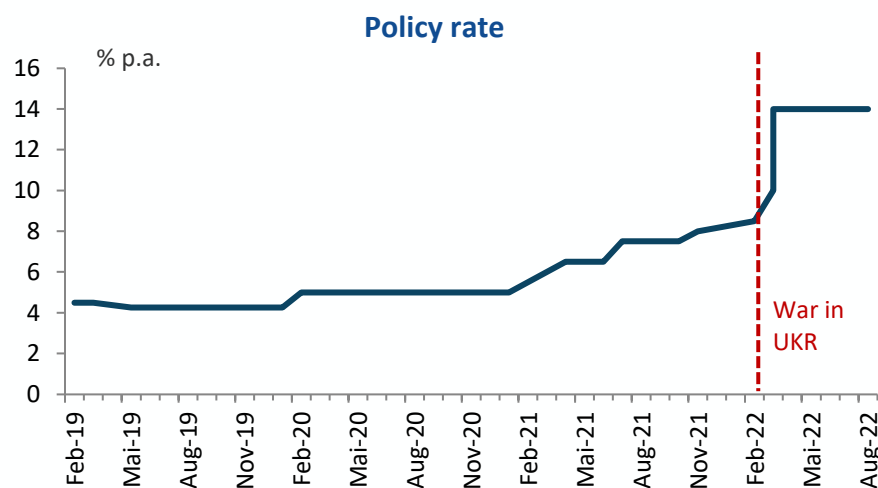
Sector-specific perspective

- » 7M2022: strong growth of industry (17.8% yoy) mainly due to resumption of gold production
- » Agriculture also above average: 8.4% yoy
- » Services and construction increase, but less dynamic than previous year
- Growth driven by consumption
- Upward trend across all sectors

Inflation and monetary policy



Source: National Bureau of Statistics Kyrgyzstan



Source: National Bank of Kyrgyzstan

Inflation

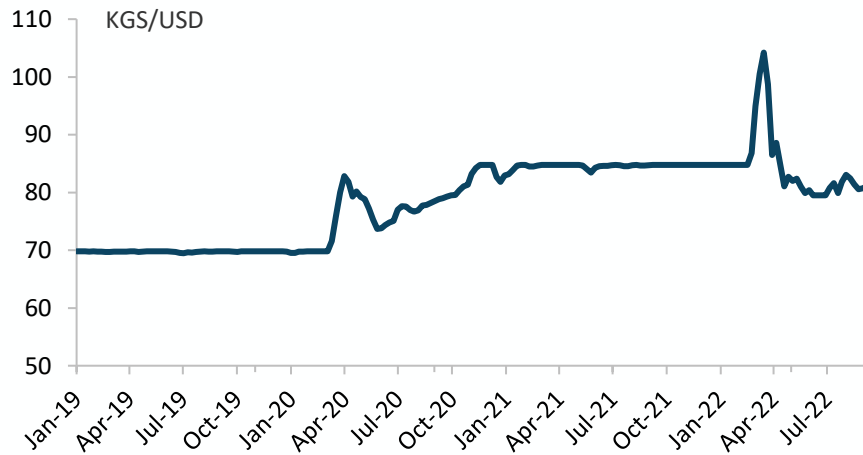
- » Upward trend for inflation since 2019
- » Since war in UKR: acceleration in inflation
- » Increase in food prices above average; critical economic and social issue, as food accounts for almost 47% of CPI basket
- » Moderate increase of prices for gas and electricity due to own energy resources; however, much higher fuel prices

Monetary policy

- » 2022: with start of war in UKR, National Bank increased its policy rate
- » But: NBRK purchases of domestic gold contributed to higher money supply
- » Inflation to remain elevated at least until end of this this year
- » High inflation currently the most urgent economic and social issue
- » Strengthening NBRK independence important for fighting inflation

Exchange rate and currency reserves

Exchange rate

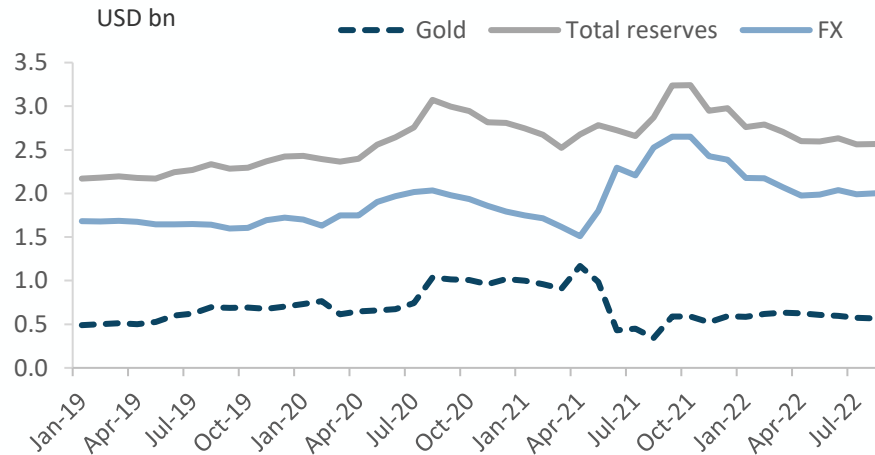


Source: National Bank of Kyrgyzstan

Exchange rate

- » Strong volatility of KGS/USD rate since start of war in UKR
 - First: depreciation by 23%
 - Afterwards: appreciation
 - Net result: Som 4% stronger than at the beginning of the year
- » Parallel development to the RUS rouble
- » Influx of RUS citizens to KGZ likely contributed to Som appreciation

International currency reserves

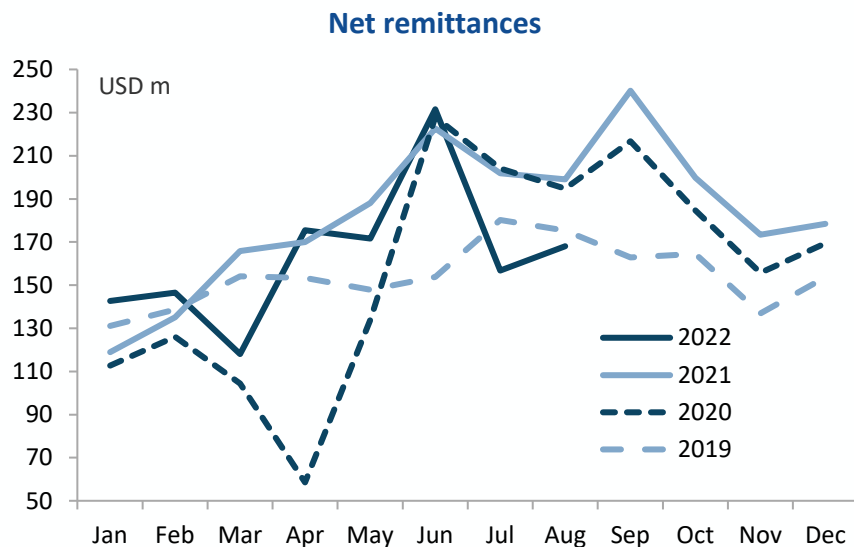


Source: National Bank of Kyrgyzstan, IMF

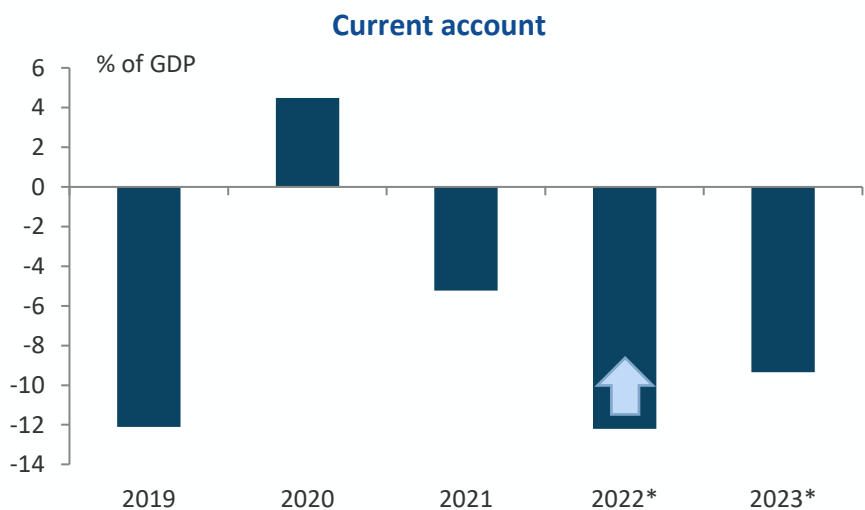
International reserves

- » At USD 2.4 bn around 5 month of import cover; not very comfortable buffer
- » Reserves likely to increase once exports of gold resumes
- » Strong volatility of KGS/USD exchange rate since start of the war
- » Recent appreciation instrumental in fighting inflation

Remittances and current account



Source: National Bank of Kyrgyzstan



Source: IMF; *forecast

Remittances

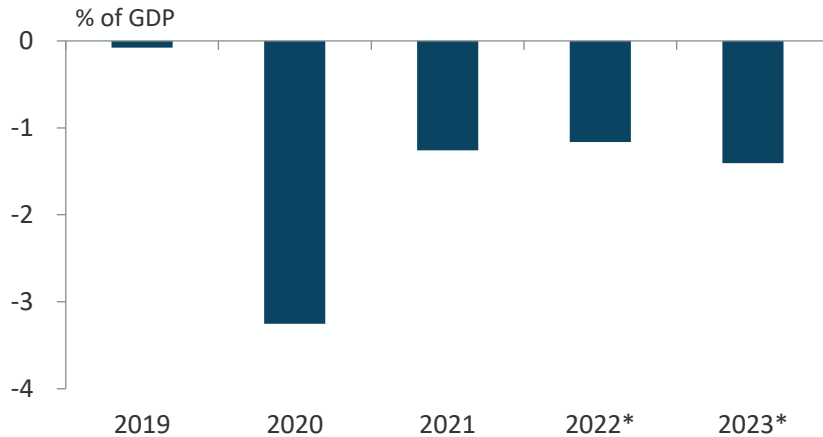
- » Expectation straight after the begin of the war in UKR: negative effect of sanctions against Russia on remittances to KGZ
- » Mar-22: decrease of remittances
- » Afterwards: increase of gross remittances but also stronger outflows
- » Net remittances in 8M2022 -6% yoy, only small decrease

Current account

- » Currently: high deficit due to rising imports and flat exports
- » But: deficit likely to shrink on the back of expected resumption of gold exports and strong remittances' dynamics
- Only minor drop of net remittances, demand for Kyrgyz labour migrants in Russia remains high
- Size of current account deficit in 2022 still unclear and hard to forecast

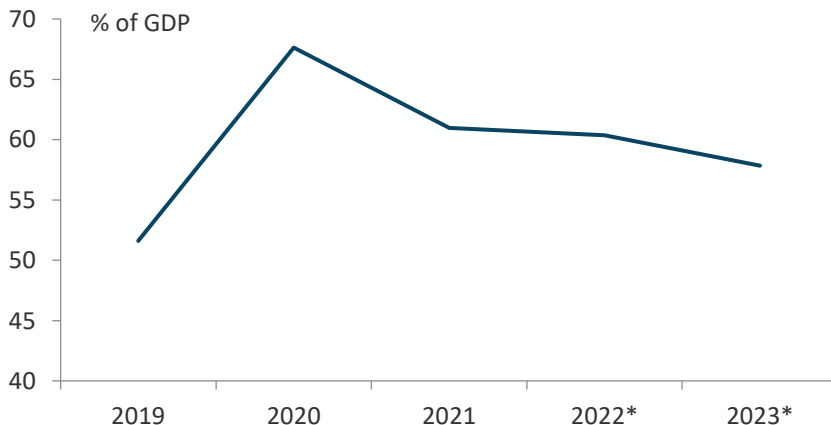
Public finances

Budget balance



Source: IMF; *forecast

Public debt



Source: IMF; *forecast

Budget balance

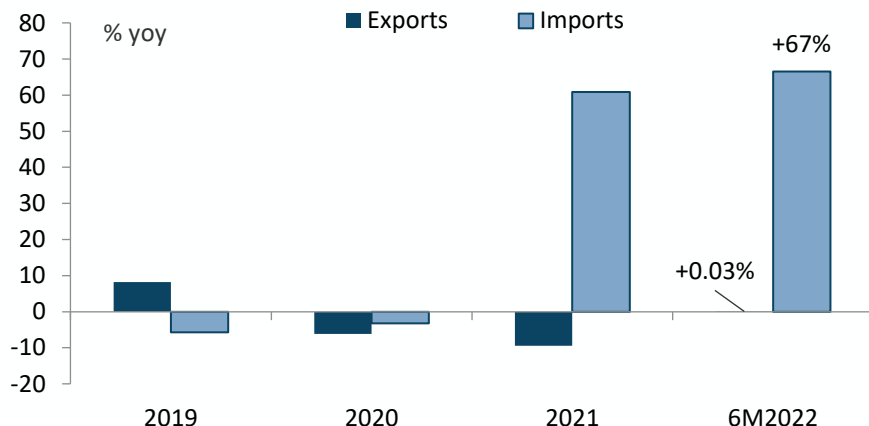
- » 2021: deficit narrowed down to 1.3% of GDP after high deficit during pandemic
- » Reasons apart from economic recovery is improved revenue collection
 - Introduction of compulsory use of cash registers and digital tax filing
- » 2022: deficit to decrease further; in 6M2022 even budget surplus
- » However, public expenditures in Q4 usually much higher than in other quarters

Public debt

- » 2020: strong recession and high expenditure increased debt to almost 68% of GDP
- » Fiscal position improved in 2021 due to high revenues and conservative spending
- » 2022: with high growth and low deficit, debt as a % of GDP should decrease
- **Currently positive fiscal trend**
- **Debt ratio somewhat high, but likely to decrease**

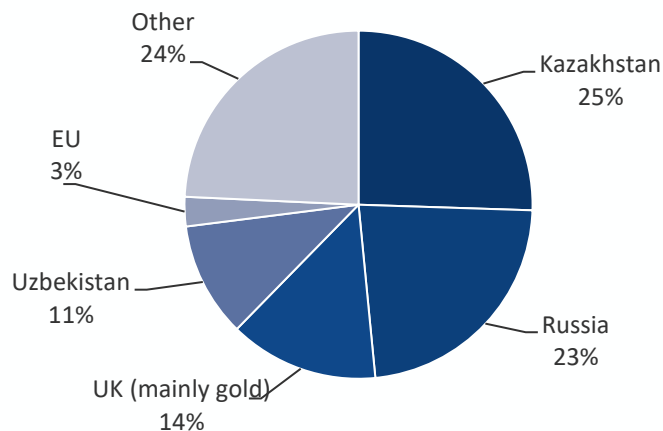
External trade

Trade in goods



Source: National Bureau of Statistics Kyrgyzstan

Exports by country



Source: UN Comtrade, 2021

Exports

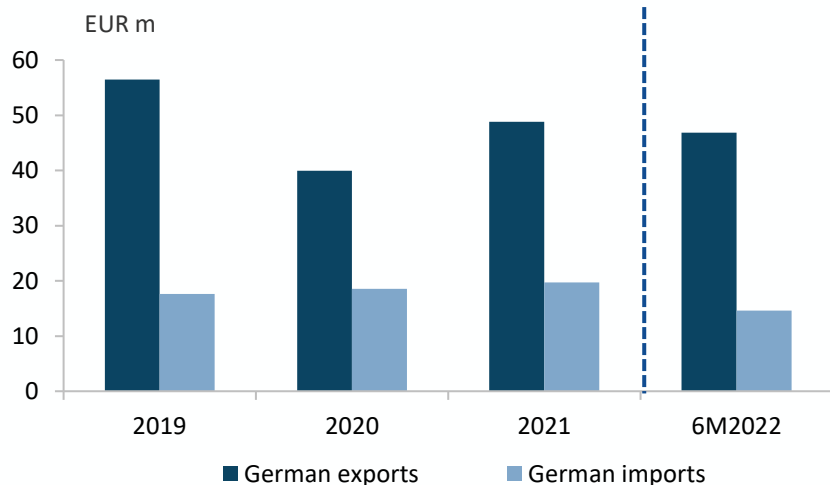
- » 6M2022: poor exports' dynamics; similar level as in 2021
- » Reason: almost no gold exports, see special topic below
- » However: gold exports, which amounted to USD 1 bn (12% of GDP) in the past, likely to resume soon
- » Exports to RUS increase strongly (+92%); no negative impact of war in UKR visible
 - Increase mainly due to vegetables and processed food products

Imports

- » 6M2022: strong increase in imports by 67% yoy
- » Imports from RUS increased by 24%
- Intensification of trade with RUS despite war in UKR and sanctions on RUS
- On the downside: increasing exposure to RUS economy

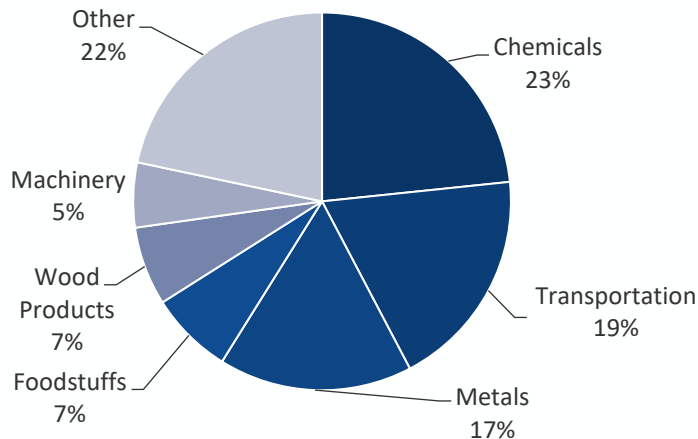
Bilateral trade between Germany and Kyrgyzstan

German exports to Kyrgyzstan



Source: Federal Statistical Office of Germany, UN Comtrade

German exports to Kyrgyzstan



Source: Federal Statistical Office of Germany, 2021

Bilateral trade volume

- » Trading volume rather low
- » German trade surplus with Kyrgyzstan

German exports to Kyrgyzstan

- » 6M2022: export of goods amount to EUR 46.8 m, strong increase of 111% yoy
- » Increased export of cars, wood products and construction materials

German imports from Kyrgyzstan

- » 6M2022: EUR 14.62 m, +44% yoy
- » Higher export of vegetable products and silver scrap
- Dynamic trade increase, although from a low level

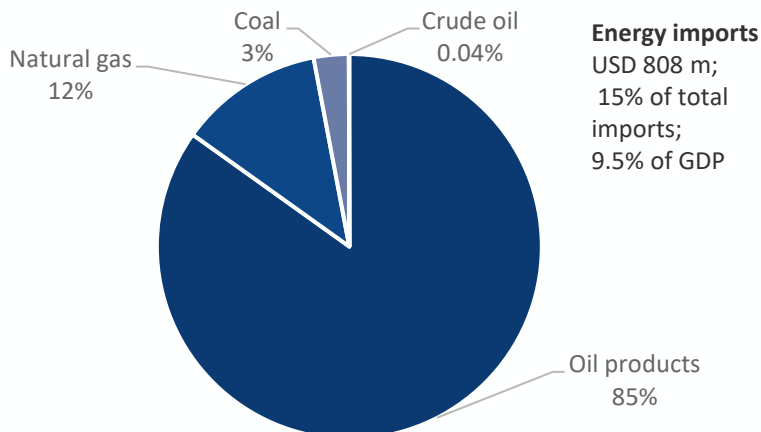
Energy balance and trade

Energy balance

<i>PJ, avg. 2017-2019</i>	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, own calculations

Energy carrier imports



Source: UN Comtrade, 2021

Energy balance

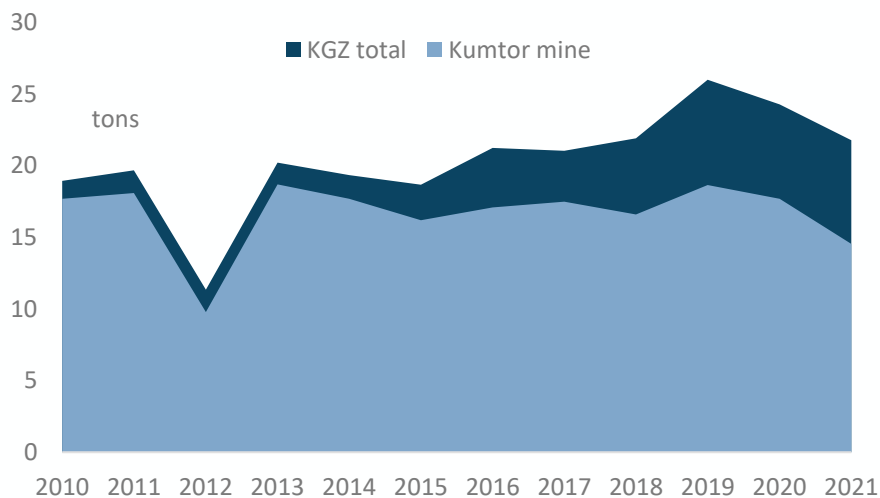
- » KGZ has abundant water energy resources, >90% of electricity produced from hydropower
- » Nevertheless, 71% of energy consumption is from fossil fuels
 - Around 50% of supply is imported
 - Most imports from RUS, especially oil and gas; coal from KAZ
 - Oil products heavily used in transport and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

Energy trade

- » Export ambitions of hydro power, but aging infrastructure, many plants >30 years
- » In winter lower hydro generation and stronger use of CHP plants burning coal, gas and oil (mazut)
- » So far, only limited exports and imports
- **Great potential to increase hydro generation and electricity trade with neighbours**

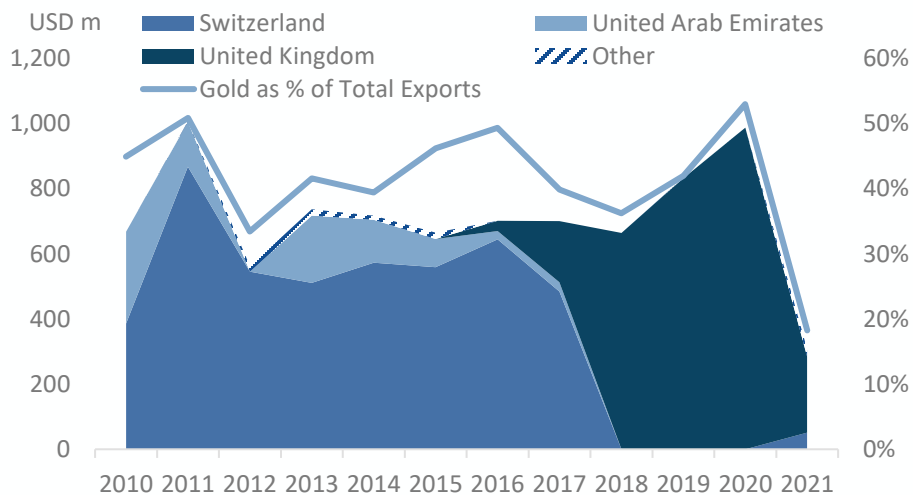
Kumtor mine dispute

Gold production



Source: gold.org, kumtor.kg

Gold export by destinations



Source: UN Comtrade, own calculations

- » Gold production amounted to 21.8 tons in 2021 (0.6% of world production)
- » Kumtor mine ranging from 67% to 93% of total KGZ production in 2010-2021; operated by Canadian mining firm Centerra Gold
- » In May 2021 the government seized the mine after environmental allegations
- » This led to a cascade of disputes and prevented gold exports, since KGZ was blocked from London's bullion market
- » The dispute was settled in July 2022 with the government taking over the mine and exiting its 26% stake of Centerra Gold
- » Upon settlement, KGZ re-added the Good Delivery List
- » Kumtor projects to produce 17.3 tons in 2022 (up from 14.6 tons in 2021)
- **After resumption of production, restart of gold exports imminent**

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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