

Kyrgyzstan: Economic situation

Political instability in Kyrgyzstan – climaxing in two uprisings which ended with governments ousted, as well as an ethnic riot in June 2010 – has worsened the already fragile economic situation, with the country highly dependent on foreign aid, exports of gold and remittances sent home by migrant workers. The newest member of the Eurasian Economic Union, Kyrgyzstan has come under further economic pressure following Russia's economic slowdown.

Economic policy

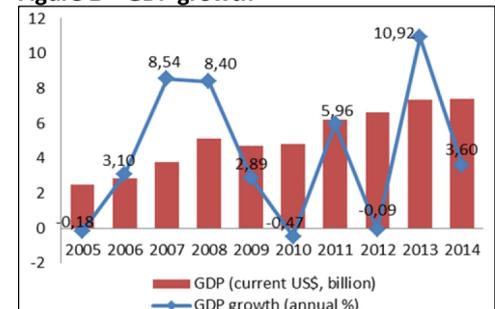
Post-Soviet era reforms

Widely hailed as an '[island of democracy](#)' in the first decade of its independence, Kyrgyzstan was eager to [transform](#) the political and economic system it inherited from the Soviet era. Reforms leading to the privatisation of state-owned enterprises, the adoption of a national currency, and deregulation helped Kyrgyzstan [establish](#) itself as the most liberal regime in Central Asia, and [become the first](#) state from the region to join the [World Trade Organization](#). Ranking [82nd](#) in the [Index of Economic Freedom](#), it is recognised as 'moderately free' and performs better than other Central Asian states, except [Kazakhstan](#).

High but volatile economic growth

The Kyrgyz economy faced sharp falls in gross domestic product (GDP) in the first years of independence; from 1991 to 1995, GDP fell by 12.5% at average per year, even reaching -20.1% in 1994. Since 1996, the country's [GDP growth](#) has been volatile, reflecting both domestic political instability and external shocks. For instance, due to the [1998 Russian crisis](#), GDP growth fell to 2.1% in 1998, down from 9.9% in 1997. Similarly, as a result of the 2008 global financial crisis, Kyrgyz economic growth slowed to 2.9% in 2009. In 2010, due to the anti-government [protests](#) that ousted President [Kurmanbek Bakiyev](#) and the ensuing [ethnic violence](#), GDP decreased by 0.47%, the first time since 2005, when another uprising, namely the [Tulip Revolution](#), had overthrown President [Askar Akayev](#). Growth rebounded in 2011 at almost 6%, but dropped again to -0.09% in the following year. After reaching its peak in 2013 with 10.9%, growth decelerated to 3.6% in 2014 as a result of the slowdown in the Russian economy. The [National Bank of the Kyrgyz Republic](#) (NBKR) [announced](#) that growth in the January-September 2015 period was 6.3% (compared to the IMF's 1.7% [projection](#) for 2015). All in all, GDP has tripled in the last decade, reaching US\$7.4 billion (US\$1 269 [per capita](#)) at the end of 2014.

Figure 1 – GDP growth



Data source: World Bank.

Kumtor Gold Mine: unstable but indispensable source of income

The country's biggest enterprise, investor and taxpayer, the [Kumtor gold mine](#), operated by Canada-based [Centerra Gold](#), has produced [315 tonnes of gold](#) since it started operation in 1997. Kumtor's [share](#) of Kyrgyzstan's 2014 GDP was 7.4%, while its share of aggregate industrial output was 23.1%, contributing US\$120 million to the state budget. Fluctuations in gold prices and production have an [impact](#) on the country's economic performance. For instance, its GDP slumped in 2012 [because](#) of a decrease in gold [production](#). Kumtor is at the centre of [political disputes](#) about a possible [nationalisation](#) of the mine, while at the same time negotiations on a new [deal](#) between the government and Centerra have dragged on since 2013. Prime Minister Joomart Otorbayev [resigned](#) in April 2015, after failing to finalise the deal.

Russia's economic slowdown and Kyrgyzstan's EEU membership

The Russian economic slowdown is [worsening](#) the economic outlook all across the region. As one of the most impoverished countries in the region, Kyrgyzstan faces a reduction in trade volumes, foreign direct



investment and remittance inflows from migrants working in Russia ([remittances](#) accounted for 30.2% of GDP in 2014 and 31.1% in 2013). According to the [IMF](#), remittances fell by 25% in the first five months of 2015. Albeit delayed, Kyrgyzstan's [accession](#) to the [Eurasian Economic Union](#) (EEU) on 12 August 2015 has, inter alia, entitled its citizens to work in any EEU member state on equal terms with the local workforce, [including](#) in Russia and Kazakhstan. Moreover, Kyrgyzstan is expected to benefit from the [Russian-Kyrgyz Development Fund](#), set up to ease the country's adaptation to the EEU.

Monetary policy

As a consequence of Russia's economic slowdown, the national currency, the *som* (KGS), has depreciated. On 1 January 2016, the US dollar-som official [exchange rate](#) increased by 28.8% year-on-year, reaching 75.9 som for US\$1. The currency's depreciation has exerted pressure on volatile [inflation](#), which rose to 10.5% in January 2015. In September 2015, the inflation rate came down to [6.4%](#) in line with the National Bank's [aim](#) to maintain it at a level of 5-7% in the [medium term](#). Its discount rate followed a trend similar to inflation, rising from 4.15% in January 2014 to [11%](#) in January 2015, then decreasing to [10%](#) in December 2015. The National Bank pursues a floating exchange rate regime and intervenes in case of sharp fluctuations. Interventions on the exchange market caused the international reserves to decrease by 12.5% at the end of 2014.

Fiscal policy

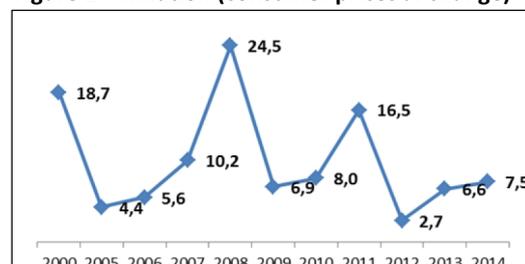
[General government revenue](#) has increased considerably in the past decade, from 26 billion som in 2005 to 143 billion som (36% of GDP) in 2014. [Total government expenditure](#) has followed the same trend, increasing from 27.4 billion som to 142.1 billion (35.8% of GDP). The IMF [expects](#) a deficit of 19 billion som in 2015. According to the [draft budget](#) for 2016, the deficit will amount to 27.3 billion som or 5.5% of GDP in 2017. Between January and July 2015, tax revenue amounted to 26.1 billion som. Some 7.4 billion som has been [allocated](#) from the budget for servicing the public debt, of which 3.7 billion for servicing the external debt. Kyrgyzstan's recent loan drawn to pay for investments in the infrastructure and energy sectors has [increased](#) public external debt to 46.7% of GDP in 2014, up from 43.8% in 2013 (see Figure 3 below).

International trade

Kyrgyzstan [opened](#) its customs borders to the EEU after Kazakhstan, the only EEU member state it shares a border with, [ratified](#) the agreement on Kyrgyzstan's accession to the Union. The agricultural sector (accounting for [17.3%](#) of GDP in 2014) is optimistic about the EEU, as it will ease its exports to the rest of the EEU (Russia, Kazakhstan, Belarus and Armenia) and will bring down its import costs, as import duties on goods from the EEU disappear. However, [re-export](#) of Chinese goods will be [negatively](#) affected since EEU membership requires higher import tariffs. While the top five [destinations](#) for Kyrgyz exports are Uzbekistan, Kazakhstan, the United Arab Emirates, Russia and Afghanistan, its top five import origins are China, Russia, Kazakhstan, Turkey and Uzbekistan. The trade deficit is largely responsible for the [current account deficit](#) which equalled US\$1.78 billion (23.7% of GDP) in 2014, when total imports (US\$5.29 billion) exceeded total exports (US\$1.89 billion) by US\$3.4 billion. In 2014, EU [exports to and imports from](#) Kyrgyzstan equalled €402 million and €79 million, respectively, accounting for some 18% of the total trade deficit. Since 1999, EU-Kyrgyzstan trade relations have been governed by a [Partnership and Cooperation Agreement](#).

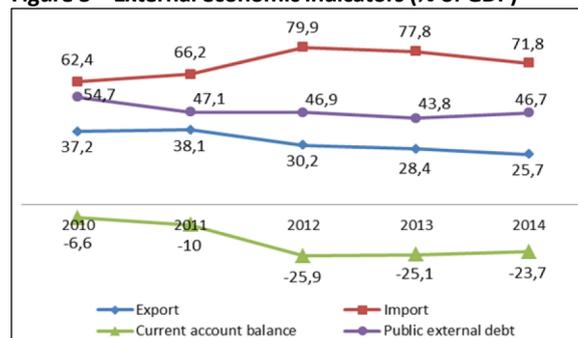
The EU's [Multi-Annual Indicative Programme](#) for 2014-2020 provides assistance of €184 million to Kyrgyzstan. In addition, in October 2013, Parliament and the Council adopted a [decision](#) to provide macro-financial assistance to Kyrgyzstan worth €30 million with a view to alleviating its balance of payments difficulties. In the course of 2015, the European Union [disbursed](#) the highest amount it has ever disbursed to Kyrgyzstan. The total of €34.6 million paid from the EU's general budget included €24.6 million in development assistance and a €10 million grant payment for macro-financial assistance.

Figure 2 – Inflation (consumer prices % change)



Data source: [IMF](#).

Figure 3 – External economic indicators (% of GDP)



Data source: [NBKR](#), p. 169.