

Kyrgyzstan

Economic Outlook 2025



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Executive Summary

The Kyrgyz Republic has demonstrated remarkable economic resilience and dynamism between 2022 and 2024, achieving an average annual Gross Domestic Product (GDP) growth of 9%.

This robust expansion was primarily fueled by a significant surge in re-export trade, buoyant domestic demand supported by strong remittance inflows and wage growth, and substantial investment, particularly in the construction sector. Preliminary data for early 2025 indicates continued, albeit moderating, momentum with GDP expanding by 11.7% in January-April.

Looking ahead to 2025, the consensus among international financial institutions and national authorities points towards a moderation in GDP growth, though projections vary. Forecasts range from 4.5% (World Bank, earlier estimate) to 8.5% (Asian Development Bank), with the International Monetary Fund (IMF) and European Bank for Reconstruction and Development (EBRD) anticipating growth around 6.8%-7.0%.

This anticipated slowdown is largely attributed to the expected normalization of re-export trade volumes that significantly benefited the economy in the preceding years. Inflation is projected to remain broadly stable and within the National Bank of the Kyrgyz Republic's (NBKR) target range of 5-7%, supported by prudent monetary policy. However, pressures from strong domestic demand, potential utility tariff adjustments, and import dependence persist.

The fiscal balance, after achieving surpluses in 2023 and 2024, is expected to shift towards a deficit in 2025 due to large-scale public investments in infrastructure, though public debt is anticipated to remain at manageable levels.

Key opportunities for the Kyrgyz economy in 2025 and beyond include the development of strategic infrastructure projects such as the China-Kyrgyzstan-Uzbekistan (CKU) railway and the Kambarata-1 Hydropower Plant (HPP). These projects promise to enhance connectivity, energy security, and transit potential.

The burgeoning IT sector, particularly the High Technology Park, and the tourism industry also offer significant growth and diversification prospects. Ongoing structural reforms aimed at improving governance, the business climate, and State-Owned Enterprise (SOE) management, if effectively implemented, can unlock further economic potential.

Nevertheless, the Kyrgyz Republic faces considerable downside risks. Geopolitical uncertainties, primarily related to the war in Ukraine and associated sanctions on Russia, could impact trade, remittances, and overall regional stability. The normalization of re-export trade poses a significant risk to GDP growth if it occurs more sharply than anticipated.

Volatility in global commodity prices, particularly for gold (a key export) and oil and food (key imports), could affect the terms of trade and inflation. Domestic political stability, while improved, remains a factor given historical precedents. Furthermore, the country's vulnerability to climate change, especially its impact on agriculture and hydropower, presents a long-term challenge.

Overall, the economic outlook for Kyrgyzstan in 2025 is one of continued growth, albeit at a more sustainable pace than the exceptional rates seen recently. Navigating the evolving external environment, managing fiscal pressures from ambitious investment plans, and pressing forward with structural reforms will be imperative for ensuring sustained and inclusive economic development.

1. Global and Regional Context

The economic trajectory of the Kyrgyz Republic in 2025 will be significantly influenced by prevailing global and regional economic conditions. Globally, 2024 saw varied economic performance across major economies, with projections for 2025 indicating continued, though potentially uneven, growth.

Key factors shaping the global outlook include persistent inflationary pressures in some regions, the trajectory of monetary policy in advanced economies, and ongoing geopolitical tensions that affect trade flows and investor sentiment. Commodity markets, particularly for energy (oil), precious metals (gold), and food, experienced volatility in 2024, and this trend is expected to continue influencing the Kyrgyz economy, given its reliance on gold exports and imports of fuel and food.

Within Central Asia, economic dynamics are diverse. Neighbouring economies like Kazakhstan and Uzbekistan are also navigating the impacts of global trends and regional developments. The Eurasian Economic Union (EAEU), of which Kyrgyzstan is a member, continues to shape trade and investment patterns, primarily with Russia and Kazakhstan.

China's Belt and Road Initiative (BRI) remains a significant factor, with projects like the CKU railway poised to enhance regional connectivity. The Asian Development Bank (ADB) projects a moderation in growth for the broader Caucasus and Central Asia region, from 5.7% in 2024 to 5.4% in 2025, citing weak external demand and stricter fiscal policies in some countries.

The Kyrgyz economy's notable dependence on a narrow set of external factors renders it particularly susceptible to fluctuations in the international and regional environment. Recent strong economic performance has been closely linked to the economic health of the Russian Federation (a primary source of remittances and a key EAEU partner), the scale of re-export activities (often influenced by regional trade dynamics and sanctions regimes), and prevailing global prices for commodities such as gold.

This reliance underscores an inherent vulnerability to external shocks. For instance, a slowdown in the Russian economy or a depreciation of the ruble could significantly impact remittance inflows, a vital source of household income and domestic demand in Kyrgyzstan. Similarly, the boom in re-exports, which contributed substantially to recent GDP growth, is largely a consequence of specific geopolitical circumstances and is expected to normalize, potentially impacting trade volumes and associated economic activity.

This external sensitivity means that domestic policies, while important, have limited control over some of the major economic drivers, emphasizing the critical need for economic diversification and the development of robust mechanisms to absorb external

shocks. International financial institutions consistently point to the normalization of this re-export trade as a primary reason for the anticipated moderation in Kyrgyzstan's growth, suggesting that the exceptional economic expansion observed in 2022-2024 may have been, in part, a temporary phenomenon linked to these specific external conditions.

2. Macroeconomic Performance and Outlook for 2025

Gross Domestic Product (GDP)

The Kyrgyz Republic's economy demonstrated exceptional strength between 2022 and 2024, recording an average real GDP growth of 9% annually. This period of high growth was significantly influenced by robust domestic demand, substantial inflows of remittances, increased trade (including significant re-export activities), and strong investment in construction.

The momentum carried into the beginning of 2025, with the National Statistical Committee reporting GDP growth of 11.7% in January-April 2025 compared to the same period in 2024. For the first quarter of 2025, real GDP growth reached 13.1%. This strong start suggests continued dynamism, though forecasts from various institutions anticipate a moderation as the year unfolds and as the impact of temporary factors, such as the re-export boom, diminishes.

Forecasts for GDP growth in 2025 vary among international organizations and national authorities, reflecting differing assumptions about the persistence of recent growth drivers and the impact of external factors.

- The **International Monetary Fund (IMF)** projects GDP growth to moderate to 6.8% in 2025.
- The **World Bank** initially forecasted 4.5% for 2025 but later updated its projection to 6.8%.
- The **Asian Development Bank (ADB)** offers the most optimistic forecast at 8.5%.
- The **European Bank for Reconstruction and Development (EBRD)** anticipates growth of 7.0%.
- The **Kyrgyz Government (Ministry of Economy)** forecasts a more conservative 6.0% growth for 2025.

For 2026, growth is generally expected to stabilize further: the IMF projects a convergence towards a potential rate of about 5.25% in the medium term; the World Bank sees stabilization around 5.5%; the ADB forecasts a strong 8.6%; and the EBRD projects 6.0%.

The primary drivers for 2025 are expected to be continued, albeit moderating, re-export trade, resilient domestic demand supported by remittances and wage growth, and significant public and private investment, particularly in construction and large-scale infrastructure projects. In the first four months of 2025, services accounted for the largest share of GDP at 52.0%, followed by the commodity-producing sectors at 30.8% (including industry at 20%, construction over 6%, and agriculture over 4%), and taxes on products at 17.2%.

The considerable divergence in 2025 GDP growth forecasts, ranging from the World Bank's earlier 4.5% (later revised to 6.8%) to the ADB's 8.5%, underscores a high degree of uncertainty. This uncertainty is primarily linked to the sustainability of the recent surge in re-export activities and the broader impact of regional geopolitical factors. The ADB's more bullish forecast might reflect greater optimism regarding the continuation of current trade dynamics or a more immediate positive impact from new investment projects.

The IMF, EBRD, and the more recent World Bank forecast are relatively clustered, suggesting a consensus around strong but moderating growth. This variance likely stems from differing assumptions about the pace of "normalization" of re-export trade, a key theme in the analyses of most international financial institutions. Financial service providers should therefore advise clients to consider a range of economic scenarios.

A critical factor in the recent high growth has been the surge in re-export trade, particularly of goods such as machinery and transport equipment, largely destined for Russia and other EAEU countries. Import statistics reveal that from 2021 to 2024, Kyrgyzstan's goods imports more than doubled, driven almost entirely by machinery and transport equipment, with China accounting for a significant portion of this upswing. A considerable share of these imports is believed to have limited links with the domestic Kyrgyz economy and is likely re-exported. The "normalization" or potential disruption of these trade flows, therefore, represents a primary downside risk to the 2025 economic outlook, as highlighted by the IMF.

Table 1: Key Macroeconomic Indicators

Indicator	2023 (Actual)	2024 (Estimate/ Actual)	2025 (Forecast)	2026 (Forecast)
Real GDP Growth (%)	9.0	9.0	6.0 - 8.5 (range)	4.5 - 8.6 (range)
Nominal GDP (USD Billion)	15.1	17.5 - 17.7	19.0 - 19.8	19.0 - 21.2
GDP per capita (USD)	2,185	2,400 - 2,504	2,500 - 2,747	2,600 - 2,879
Inflation, CPI (average, %)	10.8	5.0 - 6.7	5.0 - 7.0	5.0 - 7.8
Inflation, CPI (eop, %)	7.3	6.3	6.0	5.5
Unemployment Rate (%)	4.1 (ILO)	4.0 (S&P) / 1.8 (Official Reg.)	3.8 (S&P) / ~4-5 (ILO est.)	3.6 (S&P) / ~4-5 (ILO est.)
Fiscal Balance (% of GDP)	+1.8 to +3.3	+1.8 to +2.8	-3.4 to +1.0 (range)	-2.5 to -2.0 (range)
Public Debt (% of GDP)	42.0 - 44.9	36.6 - 37.5	<42	<42
Current Account Bal. (% GDP)	-45.0	-25.2 to -38.7	-8.5 to -5.7 (range)	-7.5 to -6.0 (range)

Note: Ranges for 2025/2026 forecasts reflect differing projections from sources discussed in the text. Official registered unemployment is significantly lower than ILO-comparable estimates.

Table 2: Comparative GDP Growth Forecasts for 2025 & 2026 (%)

Institution	2025 GDP Growth Forecast (%)	2026 GDP Growth Forecast (%)
IMF	6.8	~5.25 (medium term)
World Bank	6.8 (latest) / 4.5 (earlier)	~5.5 (medium term) / 4.5
ADB	8.5	8.6
EBRD	7.0	6.0
Kyrgyz Gov. (MoE)	6.0	-

Inflation and Monetary Policy

Recent inflation dynamics in Kyrgyzstan show a moderation from earlier highs. Consumer price inflation dropped to 4.9% in September 2024 and stood at 2.2% for the period January-April 2025 relative to December 2024. Annual inflation (April 2025 to April 2024) was recorded at 6.9%, within the National Bank of the Kyrgyz Republic's (NBKR) medium-term target range of 5-7%. For January-April 2025, consumer prices increased by 7.1% compared to April 2024.

The NBKR has maintained a cautious monetary policy stance. The discount rate has been held at 9.00% since May 2024, a decision reaffirmed in April 2025. The central bank's primary objective is to ensure price stability, with an explicit inflation target of 5-7% by the end of 2025. The IMF has noted that robust domestic demand warrants continued vigilance, suggesting that a tightening of monetary policy might become necessary if inflationary pressures persist or rise. The NBKR has also conducted interventions in the foreign exchange market to manage volatility.

Inflation forecasts for 2025 and 2026 vary:

- The **ADB** projects inflation at 6.0% in 2025, rising to 7.8% in 2026, driven by robust domestic demand, anticipated increases in utility tariffs, continued import dependence, and elevated inflation expectations.
- The **EBRD** projected average inflation of 6.7% for 2024.
- The **IMF** forecasts end-of-period inflation at 6.0% for 2025 and average inflation at 5.0% for 2025.
- The **World Bank** anticipates inflation to be below 7% by end-2025 and around 6% thereafter in the medium term.

Key drivers of inflation include strong domestic demand, planned adjustments to utility tariffs, the country's reliance on imported goods, potential currency depreciation, and the volatility of global commodity prices.

The NBKR faces a complex challenge in balancing the need to sustain economic growth with the imperative of keeping inflation within its target range, especially given strong domestic demand and potential external price shocks. The IMF's cautionary statements regarding potential future tightening suggest that if inflation accelerates beyond the upper end of the target band, the NBKR might need to adjust its policy stance, which could, in turn, temper the high growth rates. This is particularly relevant as strong GDP growth, expanding credit to the economy, and rising real wages all point to persistent demand-side pressures.

Furthermore, the IMF has suggested measures to enhance the effectiveness of monetary policy transmission, including lifting interest rate caps on NBKR notes and phasing out subsidized lending programs. These suggestions imply that current mechanisms might not be fully efficient in conveying policy signals throughout the economy. Subsidized lending, often directed by state objectives, can counteract contractionary monetary policy aims and distort credit markets. Addressing these aspects could improve the NBKR's ability to manage liquidity and inflation.

Labor Market, Wages, and Social Conditions

The labor market in Kyrgyzstan presents a mixed picture, with official registered unemployment figures differing notably from broader estimates. As of January-April 2025, official registered unemployment stood at 47,300 people, a significant decrease of 21.8% year-on-year.

The Ministry of Labour reported 70,600 unemployed individuals as of January 1, 2025, translating to an official unemployment rate of 1.8%. However, international organizations using ILO methodology provide higher estimates: S&P Global Ratings projects

unemployment at 3.8% for 2025, down from an estimated 4.0% in 2024, while the IMF reported an ILO-defined unemployment rate of 4.1% for 2023.

This discrepancy suggests that a considerable portion of unemployment may not be captured by official registration statistics, possibly due to high levels of informal employment or discouraged workers. For instance, in 2024, while 154,732 people applied to employment services, only a small fraction were placed in jobs or received unemployment benefits, indicating limitations in the official system's reach or strict eligibility criteria.

Nominal wages have seen significant growth. In January-March 2025, the average monthly nominal accrued wage (excluding small enterprises) was 40,264 soms, an 18.3% increase compared to the same period in 2024. Sectors experiencing the most substantial wage growth include real estate operations, construction, administrative and support services, healthcare and social services, and information and communication.

Real wages were reported to be up by 6.3% year-on-year in the first eight months of 2024. Overall, the real incomes of the population increased by 12.9% in 2024, with the average per capita income reaching 11,318 soms per month after taxes and mandatory payments.

Despite income growth, poverty remains a significant concern. According to national poverty lines, 29.8% of the population was living in poverty in 2023, with 5.0% in extreme poverty. The World Bank reported a poverty headcount ratio of 33.3% in 2021 based on national lines and estimated that 4.4% of the population lived on less than \$3.65 per day in 2024. The IMF's figure for the national poverty rate in 2023 was 29.7%. The World Bank anticipates that poverty reduction will continue in 2025, partly due to enhanced social protection programs.

The critical role of remittances in poverty alleviation cannot be overstated. The World Bank has highlighted that without these inflows, the poverty rate among Kyrgyz households with migrant family members would increase dramatically, potentially from 10% to 50%. This underscores the economy's social vulnerability to shocks affecting migrant labor markets, particularly in Russia, the primary source of these transfers.

In terms of broader human development, Kyrgyzstan's Human Development Index (HDI) value for 2022 was 0.701, placing it in the "High human development" category at rank 117 out of 193 countries. The UNDP's 2025 Human Development Report, based on 2023 data, was published in May 2025, and will provide updated figures.

3. Fiscal Policy and Public Debt

Budget Performance and Projections

Kyrgyzstan's fiscal performance has been notably strong in recent years, characterized by budget surpluses. In 2023, the surplus was reported between 1.8% (World Bank, S&P) and 3.3% of GDP (EBRD). This trend continued into 2024, with estimates for the surplus ranging from 1.8% to 2.8% of GDP. This robust fiscal position has been attributed to effective tax collection, including reforms in tax and customs administration initiated since 2021, which have also helped reduce informality.

Data for early 2025 shows continued strength: in January-March 2025, budget revenues reached 147 billion KGS against expenditures of 100.9 billion KGS, resulting in a surplus of 46.2 billion KGS (approximately \$0.5 billion USD). For January-April 2025, the surplus grew to 57.4 billion KGS on revenues of 212.3 billion KGS.

However, projections for the full year 2025 indicate a likely shift towards a fiscal deficit. This is primarily due to planned large-scale public investments in infrastructure.

- The **IMF** forecasts an overall fiscal balance of -3.4% of GDP in 2025, with revenues at 32.1% of GDP and expenditures (including net acquisition of nonfinancial assets of 8.7% of GDP) significantly higher.
- The **World Bank** projects a fiscal deficit of 2.2% of GDP in 2025.
- **S&P Global Ratings** is more optimistic, forecasting a small surplus of 1.0% of GDP for 2025.
- In contrast, the **Kyrgyz Ministry of Finance** announced that the budget for 2025 was formed with a planned surplus of 24.3 billion KGS, based on revenues of 430.2 billion KGS and expenditures of 405.9 billion KGS.

This discrepancy between the Ministry of Finance's planned surplus and the deficits projected by the IMF and World Bank is significant. It likely reflects differing assumptions about revenue performance or, more critically, the full budgetary impact of the announced large-scale public investments, such as the Kambarata-1 HPP.

The IMF has noted that its projections include capital expenditure for major infrastructure projects that are not yet fully incorporated into the authorities' official budget. This implies a potential risk that actual fiscal outcomes could be less favourable than officially planned if these large projects proceed without corresponding revenue enhancements or sustainable financing.

The government's stated fiscal policy priorities for 2025 include improving the quality of life through funding for social programs, healthcare, education, and housing, alongside stimulating economic growth via infrastructure development and national projects.

To support fiscal sustainability amidst these spending pressures, the IMF has recommended several measures: enhancing tax policy by reducing exemptions and increasing the progressivity of personal income tax, strengthening revenue administration, containing the public wage bill, reducing energy subsidies, channeling all net profits from the Kumtor gold mine to the treasury, and privatizing nonstrategic SOEs.

While recent fiscal consolidation and strong revenue growth have created some fiscal space, the ambitious public investment agenda for 2025 and beyond will rigorously test this. The long-term sustainability of this investment drive, without jeopardizing hard-won gains in debt reduction, will hinge on successful revenue mobilization strategies and meticulous project prioritization, as urged by international partners.

Table 3: General Government Fiscal Operations (% of GDP)

Indicator	2023 (Actual)	2024 (Estimate /Actual)	2025 (Forecast - IMF)	2025 (Forecas t - WB)	2025 (Forecas t - S&P)	2025 (Forecast - Gov.)
Total Revenue	34.2 - 34.5	35.3 - 35.6	32.1	~32.2^	34.4	~25.2 (as % of Nom. GDP)
Tax Revenue	21.9	22.5	21.4	-	-	-
Total Expendit ure	32.4	32.5	26.8	~34.4^	-	~23.8 (as % of Nom. GDP)
Net Acquisitio n of Nonfinan cial Assets	6.8	7.1	8.7	-	-	-
Overall	+1.6 to	+1.8 to	-3.4	-2.2	+1.0	+1.4

Fiscal Balance	+1.8	+2.8				(surplus of 24.3B KGS / ~1712B KGS GDP)
Primary Balance	+2.9	+4.0	-	-	+2.5	-

^ WB projects deficit of 2.2% with revenues declining and expenditures rising. Gov. revenue/expenditure as % of GDP calculated using Gov. nominal figures and S&P nominal GDP forecast for 2025.

Public Debt Dynamics

Kyrgyzstan has made significant strides in reducing its public debt burden in recent years. Public debt declined to approximately 36.6%-37.5% of GDP by the end of 2024, a substantial improvement from 42% of GDP in 2023 and a peak of 64% of GDP in 2020. This reduction has been attributed to strong nominal GDP growth and fiscal consolidation efforts.

For 2025, the IMF projects that public debt will remain contained under 42% of GDP, even with the anticipated increase in public investment. S&P Global Ratings forecasts that net general government debt will rise only marginally to 32% of GDP by 2028, from around 30% through 2025-2027.

The structure of Kyrgyzstan's public debt is predominantly external, with most loans contracted from official multilateral and bilateral creditors at concessional terms, involving long maturities and favorable interest rates. As of end-2024, external debt constituted about 25% of GDP. The largest external creditors include the Export-Import Bank of China (holding approximately 36% of government external debt), the Asian Development Bank (16%), the World Bank (16%), and the IMF (8%).

Recognizing the importance of prudent debt management, the Kyrgyz government approved a Public Debt Management Strategy for the period 2025-2027 in January 2025. This strategy will be crucial in guiding borrowing decisions, especially as the country embarks on large infrastructure projects. The IMF has urged caution regarding external commercial borrowing, emphasizing the need to prioritize concessional financing to maintain debt sustainability.

While the current debt level is considered manageable and the recent improvements are commendable, the planned increase in public investment, financed partly through new borrowing, necessitates careful and strategic debt management. Maintaining the predominantly concessional nature of external debt will be key to mitigating risks associated with interest rate fluctuations and refinancing pressures. Any significant shift towards commercial borrowing terms could increase fiscal vulnerabilities and debt servicing costs.

4. External Sector Dynamics

Balance of Payments

The Kyrgyz Republic's balance of payments is characterized by a historically large current account deficit, significantly influenced by merchandise trade, service flows, and substantial remittance inflows. In 2023, the current account deficit was exceptionally large, reported at -45.0% of GDP by the IMF and -44.9% by S&P. For 2024, estimates show some improvement but still a very wide deficit: the IMF reported -30.7% of GDP, S&P -35.1%, and the NBKR -25.2% of GDP. The World Bank noted a deficit of 38.7% of GDP in the first three quarters of 2024.

A crucial aspect of interpreting these figures is the role of unrecorded re-exports. The IMF estimates that about 23% of GDP in the 2024 current account deficit can be attributed to such flows, suggesting an adjusted underlying deficit closer to 8% of GDP. The National Bank's 2024 annual report also indicates a large positive "errors and omissions" item of \$3.49 billion, pointing to statistical challenges in fully capturing these trade dynamics.

For 2025, the current account deficit is projected to narrow further as re-export trade normalizes and export growth continues, albeit at a more moderate pace.

- The **IMF** forecasts a deficit of -8.5% of GDP for 2025, stabilizing around 6-7% in the medium term.
- **S&P Global Ratings** projects a deficit of -5.7% of GDP.
- The **World Bank** anticipates the deficit to narrow to 8.3% of GDP in 2025 and further to 7.2% by 2027.

Gross international reserves have strengthened significantly, reaching \$4.8 billion by October 2024 (EBRD, covering 4.7 months of imports) and \$5.088 billion by end-2024 (NBKR, covering 4.3 months of future imports). S&P projects usable reserves at \$4.71

billion for 2025. The IMF has recommended reducing the concentration of these reserves in gold and enhancing exchange rate flexibility to bolster external resilience.

The Kyrgyz som (KGS) appreciated by 3.6% against the US dollar in the first ten months of 2024. The NBKR officially maintains a floating exchange rate regime, though it intervenes to smooth sharp fluctuations. As of June 6, 2025, the official exchange rate was approximately 87.45 KGS per USD.

The volatility and sheer scale of the reported current account deficits, even when adjusted for estimated re-exports, highlight a significant external vulnerability. The large "errors and omissions" figure further complicates an accurate assessment of the external position. This implies that underlying external imbalances could be masked or exacerbated by these substantial, hard-to-track, and potentially transient trade flows.

Foreign Trade

Foreign trade dynamics in early 2025 showed a contraction compared to the exceptionally high levels of the previous year. In January-March 2025, total foreign trade turnover amounted to \$3.318 billion, a decrease of 14.7% year-on-year. Exports reached \$506.8 million (a 6.5% decrease), while imports stood at \$2.812 billion (a 16.1% decrease). This contrasts with the full-year 2024 performance, where, according to the NBKR, exports of goods and services grew by 45.7% (largely driven by gold), and imports decreased by 2.1%. S&P projected real export growth of 20.0% in 2024, slowing to 5.0% in 2025.

Key export commodities for Kyrgyzstan include gold, which forms a significant portion of export revenues. In 2024, gold exports amounted to \$2.5 billion according to the NBKR, with the United Kingdom being a primary buyer (\$1.2 billion for 14.9 tonnes). Other important exports include agricultural products, textiles, refined petroleum products, food products, tobacco, and ores and concentrates. In January-March 2025, there were notable declines in exports of meat, cotton fiber, gold, and ferrous metals, while exports of asbestos cement products, equipment and mechanical devices, dairy products, and ores and concentrates of precious metals increased.

On the import side, key commodities include machinery and transport equipment (especially passenger cars, often for re-export), petroleum products, natural gas, chemical products, food products, and pharmaceuticals. During January-March 2025, imports of knitted fabrics, land transport vehicles, and clothing saw declines, whereas imports of footwear, vegetables and root crops, fabrics of synthetic complex threads, articles of ferrous metals, plastics, and petroleum products increased.

Kyrgyzstan's main trading partners include members of the **Eurasian Economic Union (EAEU)**, particularly Russia and Kazakhstan. Trade with EAEU countries increased by

7.8% in the first quarter of 2025. Russia accounted for 68.6% and Kazakhstan for 29.2% of Kyrgyzstan's mutual trade with EAEU states in this period. **China** is the largest source of imports and a crucial partner for Belt and Road Initiative projects, such as the CKU railway. Other notable trading partners include Afghanistan (which became a significant destination for Kyrgyz fuel exports in Q1 2025 ⁴²), Turkey, Uzbekistan, and various European countries (often as the origin of goods later re-exported).

The phenomenon of **re-exports** has been a defining feature of Kyrgyzstan's recent trade performance. Significant volumes of goods, especially cars, machinery, and equipment, are imported (mainly from China and Europe) and subsequently re-exported to Russia and other EAEU countries, often leveraging Kyrgyzstan's position within the EAEU and its trade links.

The heavy reliance on gold exports and the re-export trade, concentrated on a few key markets like the EAEU for re-exports and specific buyers for gold, creates inherent vulnerabilities. A downturn in global gold prices or disruptions to re-export channels—for example, through stricter enforcement of international sanctions or the opening of alternative trade routes—could severely impact Kyrgyzstan's trade revenues and, consequently, its GDP growth. The IMF and EBRD consistently flag the expected normalization of re-exports as a primary factor for moderating economic growth.

Membership in the EAEU presents both opportunities and challenges. While it facilitates trade with Russia and Kazakhstan, it also entails adherence to common external tariffs and can lead to non-tariff barriers, such as reported border delays with Kazakhstan. The benefits of EAEU integration are not always straightforward for smaller member economies like Kyrgyzstan, and the unrecorded nature of some intra-EAEU re-export trade further complicates statistical assessment and policy formulation.

Remittances

Remittances from Kyrgyz citizens working abroad, predominantly in Russia, are a cornerstone of the national economy, significantly supporting domestic consumption, contributing to poverty reduction, and influencing exchange rate stability.

In 2024, the total volume of incoming money transfers reached \$2.9 billion, a remarkable 110% increase compared to 2023. However, due to strong GDP growth, remittances as a share of GDP decreased to 14% in 2024, down from 32% in 2021.⁴³ The World Bank estimated that remittances accounted for 24% of Kyrgyzstan's GDP in 2024.³²

Data for early 2025 shows evolving trends. In the first quarter of 2025, the overall inflow via International Money Transfer Systems (IMTS) reached 68 billion soms (approximately \$777.5 million), a 1.6-fold increase year-on-year in value. Notably, while remittances denominated in US dollars saw a decline (number of transactions down 18.5%, value

down 10.5%), transfers in Kyrgyz soms and Russian rubles experienced significant growth. In March 2025 alone, \$294.5 million in remittances flowed into the country, primarily from CIS countries.

Russia remains the principal source of remittances, traditionally accounting for over 90% of the total. However, there is an emerging trend of a decreasing share from Russia, with a corresponding redistribution to other countries, including the USA and the UK, the latter potentially linked to increased seasonal work opportunities.

The Kyrgyz economy's dependence on these flows makes it vulnerable to economic conditions in Russia, fluctuations in the ruble's exchange rate, and changes in migration policies in host countries. The observed shift in the currency composition of remittances—away from US dollars towards rubles and soms—likely reflects de-dollarization efforts in Russia and adaptive responses to sanctions affecting traditional payment systems.

The growing diversity in remittance source countries, if sustained, could gradually reduce the over-reliance on the Russian corridor and mitigate some associated risks. While re-exports are expected to normalize downwards, remittances, though also subject to external vulnerabilities, may offer a comparatively more stable, albeit still susceptible, source of external financing and support for domestic demand, particularly if efforts to diversify migration destinations prove successful.

Foreign Direct Investment (FDI)

Attracting Foreign Direct Investment (FDI) remains a priority for the Kyrgyz government, with recent trends showing some positive momentum but also highlighting ongoing challenges. In 2023, net FDI as a percentage of GDP was -3.5% according to the EBRD (where a negative sign indicates inflows), though the US State Department reported a decrease in FDI by 24% in 2023 to less than \$800 million.

For 2024, data from the National Statistical Committee indicates a total FDI inflow of \$872.6 million, a 3.3% increase year-on-year, accompanied by a significant reduction in FDI outflow to \$284.9 million from \$685.6 million in 2023. S&P Global Ratings estimated net FDI at 3.0% of GDP for 2024, projecting a decrease to 2.0% for 2025.

Sectorally, for the first nine months of 2024, manufacturing attracted the largest share of FDI (\$281.9 million), followed by wholesale and retail trade (\$158.5 million), mining (\$93.4 million), financial intermediation and insurance (\$79.5 million), and professional, scientific, and technical activities (\$53.8 million). Geographically within Kyrgyzstan, the capital city Bishkek received the majority of FDI in 2024 (50%, \$229.3 million), followed by the Chui region (21%, \$96.6 million) and the Jalal-Abad region (14%, \$65.8 million).

Key traditional investor countries include Russia and China, with growing interest from other partners. The government is actively working to improve the investment climate, including through a proposed new version of the Law on Investments (November 2023) aimed at creating a level playing field for both national and foreign investors, and an investor visa program.

Discrepancies in reported FDI figures from various sources suggest potential differences in methodologies, such as net versus gross inflows or the inclusion of reinvested earnings. The IMF has noted that "non-resident direct investors' participation in share capital (primarily reinvested profits)" was a driver for FDI inflow in 2024, which implies that a portion of recorded FDI may not represent new greenfield investments but rather the reinvestment of profits by existing foreign-owned enterprises, particularly in established sectors like mining.

Despite government efforts and some positive inflow trends, the overall investment climate in Kyrgyzstan continues to face significant challenges. Perceived corruption (Transparency International ranked Kyrgyzstan 141 out of 180 countries in its 2023 Corruption Perceptions Index), institutional weaknesses, and the need for stronger rule of law and protection of property rights are consistently highlighted by international observers as deterrents to FDI.

The US State Department's 2024 Investment Climate Statement notes that companies with foreign ownership may face more scrutiny and that personal relationships and a local presence are critical for navigating the market. These qualitative assessments suggest that improving the fundamental aspects of the business environment is crucial for attracting more substantial and diversified FDI, beyond what current figures might indicate.

5. Banking Sector and Financial Stability

Health of the Banking System

The banking system of the Kyrgyz Republic demonstrated resilience and positive growth throughout 2024, maintaining stability into early 2025. According to the National Bank of the Kyrgyz Republic's (NBKR) Annual Report for 2024, the sector remained stable and resilient.

Key indicators point to a healthy expansion:

- **Assets:** Total assets of financial and credit organizations (FCOs) grew by 32.6% in 2024, reaching 876.1 billion soms. Another source indicates banking sector assets increased by 32.8% in 2024.
- **Loan Portfolio:** The loan portfolio of FCOs expanded by 31.0% to 389.6 billion soms in 2024, with other data suggesting a 32.2% growth in the credit portfolio. There was a notable shift towards longer-term, investment-oriented loans, particularly benefiting the agro-industrial complex, trade, and construction services.
- **Deposits:** The deposit base of FCOs showed robust growth of 37.4%, reaching 599.9 billion soms in 2024, reflecting increased public and business confidence in the banking system. A significant trend was the growth in national currency deposits, which exceeded a 60% share of the total deposit base.
- **Profitability:** The NBKR itself reported a profit of 7.3 billion soms for the first quarter of 2025, a significant turnaround from a loss in the same period of 2024.
- **Capital Adequacy:** The banking sector maintains a high level of capital adequacy, suggesting a capacity for further financial intermediation.
- **Liquidity:** Commercial banks generally operate with excess liquidity, which is managed by the NBKR through its various instruments. The banking sector is described as highly liquid.
- **Dollarization:** The trend of declining dollarization in the loan portfolio continued, while the share of foreign currency deposits in the total deposit base remained stable.
- **Digitalization:** The most striking development has been the rapid advancement in digital payments. The volume of transactions using QR codes surged in 2024, with the number of operations increasing 20.9 times and their value 26.2 times. The NBKR is also actively pursuing the development of a national digital currency, the "digital som".
- **Islamic Finance:** This segment continued its expansion, with financing based on Islamic principles growing by 45.3% in 2024 to reach 10.6 billion soms.

The explosive growth in QR code payments and the strategic push for a digital som signify Kyrgyzstan's ambition to modernize its financial infrastructure rapidly. This digital leapfrog has the potential to significantly enhance financial inclusion and operational efficiency. However, such rapid transformation also introduces new challenges, particularly concerning cybersecurity and the need for robust regulatory frameworks to manage associated risks, a point also highlighted by the IMF in the context of digital assets.

While overall credit to the economy is expanding robustly, the EBRD has observed that corporate lending remains modest. This suggests that a significant portion of the credit growth might be concentrated in consumer lending, as also noted by the IMF, or directed towards large state-supported projects. A broader reach of credit to small and medium-sized enterprises (SMEs) is essential for fostering diversified private sector-led growth, which remains a key area for development.

Financial Stability Assessment

The NBKR, in its financial stability report (latest available covering up to end-2023), assessed systemic risks as present but moderate. The IMF's 2025 Article IV Consultation noted that while inflation has declined, underlying demand pressures require continued vigilance. The Fund also acknowledged that favorable public debt dynamics have created fiscal space for investment. A point of attention from the IMF is the strong growth in consumer loans despite high interest rates, prompting a suggestion for proactive macroprudential measures such as building countercyclical capital buffers and limiting loan-to-value ratios to mitigate potential risks and ensure resilience to shocks.

The EBRD has also commented on the high liquidity within the banking sector but pointed out that corporate lending remains relatively subdued.

In response to the international sanctions landscape, the NBKR took steps in August 2024, instructing local banks to strengthen their Know-Your-Customer (KYC) practices and to cease business interactions with entities identified in Western sanctions lists. This highlights the ongoing efforts to ensure compliance and mitigate risks associated with international financial restrictions.

Table 4: Key Banking Sector Indicators

Indicator	End-2023 (Actual)	End-2024 (Actual)	Q1 2025 (Latest Avail.)
Total FCO Assets (KGS Billion)	~660.7	876.1	-
FCO Asset Growth (%)	-	+32.6	-
FCO Loan Portfolio (KGS Billion)	~297.4	389.6	-
FCO Loan Growth (%)	-	+31.0	-
FCO Deposit Base (KGS Billion)	~436.6	599.9	-
FCO Deposit Growth (%)	-	+37.4	-
Capital Adequacy Ratio (%)	High (Specific figure from NBKR report needed)	High (Specific figure from NBKR report needed)	-
Non-Performing Loans Ratio (%)	(NBKR report data needed)	(NBKR report data needed)	-
Loan Dollarization (%)	Declining (Specific figure from NBKR report needed)	Declining (Specific figure from NBKR report needed)	-
Deposit Dollarization (%)	Stable (Specific figure from NBKR report)	Stable (Specific figure from NBKR)	-

	needed)	report needed)	
Assets / GDP (%)	-	53.5	57.6 (end Q1 2025)
Credits / GDP (%)	-	22.4	23.5 (end Q1 2025)
Deposits / GDP (%)	-	38.9	42.2 (end Q1 2025)

6. Key Sectoral Outlooks for 2025

Agriculture

The agricultural sector remains a vital component of the Kyrgyz economy. In 2024, the sector demonstrated positive performance. Gross agricultural output in January-April 2025 grew by 2.8% compared to the same period in 2024, primarily driven by a 2.8% increase in livestock production.

The ADB reported a recovery in agricultural growth from 0.6% in 2023 to 6.3% in 2024. For the full year 2024, gross agricultural output increased by 6.3% year-on-year, with plant production up by 10.3% and livestock production by 3.1%. Favorable weather conditions contributed to an above-average cereal production of 2.2 million tonnes in 2024, including approximately 750,000 tonnes of wheat, 650,000 tonnes of barley, and nearly 770,000 tonnes of maize.

Looking to 2025, the planting of winter cereal crops (mainly wheat and barley for harvest between June and August 2025) was completed in November 2024 under favorable weather conditions, with adequate soil moisture levels reported for early crop development. Wheat import requirements for the 2024/25 marketing year are forecast at a near-average level of 350,000 tonnes. Retail prices for first-grade wheat flour showed a slight year-on-year decrease between December 2024 and April 2025. Some forecasts for 2025 suggest growth in plant production by 6.6% and livestock production by 1.8% , with a target for vegetable production around 742,000 tonnes.

The government is prioritizing sustainable agricultural development through its Green Agriculture Strategy 2024-2028, which focuses on organic farming, climate-smart agriculture, and sustainable land and water management. A draft Green Economy Programme for 2025-2029 is also under development.

Despite recent positive harvests, the agricultural sector faces significant long-term challenges. Climate change impacts, such as droughts and temperature extremes, pose a considerable threat to yields and overall productivity. Weak infrastructure, the prevalence of small-scale farming operations, and broader food security concerns persist. The 2025 Global Report on Food Crises identified Kyrgyzstan as a country "at risk," underscoring these structural vulnerabilities that extend beyond annual weather patterns. The successful implementation and tangible impact of the Green Agriculture Strategy and related initiatives will be crucial for building long-term resilience in this vital sector.

Industry and Mining

The industrial sector demonstrated strong growth in early 2025. Overall industrial production increased by 14.5% in January-April 2025 compared to the same period in 2024. Excluding the Kumtor gold mine, industrial growth was even more pronounced at 22.6%. Key drivers during this period included a 1.5-fold increase in the production of refined petroleum products, a 1.6-fold increase in food products (including beverages) and tobacco products, and significant growth in wooden and paper products (+47.6%), pharmaceutical products (+43.2%), and rubber, plastic products, and construction materials (+41.3%). Manufacturing output surged by 18.7%, while mining output grew by a more modest 1.4% in January-April 2025. EBRD data for January-September 2024 also highlighted strong growth in textiles (+13.2%), computers and electronics (up almost 4.5-fold), and vehicles and equipment (+1.5-fold), though mining (-0.7%) and base metal production (-5.1%) saw declines in that period.

The **Kumtor gold mine** remains a critical component of the industrial sector and a major source of export revenue.

- In 2024, Kumtor produced 12,552 kg (approximately 12.55 tonnes or 403,500 ounces) of gold, slightly exceeding its plan of 12,509 kg. Revenue from gold sales reached \$989.1 million against a planned \$739.3 million, resulting in a net profit of \$397.4 million (plan: \$186.8 million). The company contributed \$184.8 million (16.1 billion KGS) in taxes and mandatory payments to the state budget.
- It is important to note that while financial performance in 2024 was strong, likely buoyed by high global gold prices, physical gold output has seen a decline from pre-nationalization levels. Production fell from over 600,000 ounces in 2019 to under 404,000 ounces in 2023. The 2024 output is similar to the 2023 level.
- For 2025, Kumtor officials project a slight increase in gold output. Strategic priorities include the development of underground mining at the main Kumtor site,

advancing the Togolok deposit, continuing geological exploration in the promising Dzhangart area, and initiating a project to extract gold by processing tailings from the existing tailing dump. The IMF has recommended that all of Kumtor's net profits be channeled directly to the state treasury.

The future contribution of Kumtor to the economy will heavily depend on the successful and efficient execution of these new, technically complex projects, such as transitioning to underground mining. This shift requires significant investment and specialized expertise, distinct from the previous open-pit operations, and the state's capacity to manage these effectively will be paramount.

The robust growth observed in non-gold manufacturing sectors, including refined petroleum, food products, textiles, and even computers/electronics, is a positive indicator of potential economic diversification. However, some of this expansion, particularly in electronics and vehicles, might be linked to the recent surge in re-export activities. The substantial increase in electronics production (4.5-fold in Jan-Sep 2024 according to EBRD) suggests a connection to the re-export boom discussed in the external sector analysis. This implies that a portion of the recorded industrial growth could also be temporary or driven by external demand related to current geopolitical trade shifts.

Services

The services sector is the largest contributor to Kyrgyzstan's GDP, accounting for 52% in January-April 2025, and has been a key driver of recent economic growth.

Trade and Logistics:

Wholesale and retail trade turnover grew by 8.8% year-on-year in January-April 2025, with retail trade alone expanding by an impressive 15.2%. This growth has been significantly fueled by a consumption boom, supported by increased remittances and rising real wages. The logistics sector has also benefited from the rerouting of regional supply corridors following geopolitical shifts, enhancing Kyrgyzstan's role as a transit hub.

Tourism:

The tourism sector is a priority for development and has shown strong recovery and growth.

- **Arrivals:** In 2024, Kyrgyzstan welcomed 8.625 million tourists, an increase of over 80,000 compared to 2023. The majority of visitors came from Uzbekistan (61.7%), Kazakhstan (28.3%), and Russia (5.6%).
- **Revenue:** In 2024, hotels provided services worth 8.1 billion soms, revenues from tourist transportation reached 17 billion soms, and retail turnover within the tourism

sector amounted to 55.3 billion soms. Foreign tourists spent an estimated \$1.016 billion in Kyrgyzstan during 2024, a 2.2% increase year-on-year. For the first half of 2024, tourism revenue was reported at \$479 million.

- **2025 Outlook and Policy:** The government has set an ambitious target of attracting 10 million tourists in 2025. The declaration of 2025 as the "Year of Mountain Tourism" underscores this focus. A State Program for Sustainable Tourism Development for 2025–2030 has been adopted, emphasizing infrastructure development (including plans for 40 new modern tourist bases across the country), the introduction of green technologies, enhanced safety measures, development of the domestic market, and full digitalization of the industry.
- **Major Projects:** A significant development is the planned Ala-Too ski resort, envisioned as the largest in Central Asia with 250 km of slopes. Construction of the first phase (Jyrgalan sector) reportedly began in Q1 2025, with partial opening scheduled for December 2026. Achieving the 10 million tourist target for 2025, a roughly 16% increase from 2024, will depend heavily on the successful rollout of these infrastructure projects, effective international and regional marketing campaigns, and continued regional stability, given the current concentration of tourist arrivals from neighboring countries.

Information Technology (IT) and Digital Economy:

The IT sector in Kyrgyzstan is emerging as a dynamic and significant contributor to economic diversification and export earnings, largely driven by the High Technology Park (HTP).

- **HTP Performance (2024):** HTP residents generated revenue of 11.4 billion soms in 2024, a 46% increase compared to 2023. Exports accounted for 93.6% of this revenue, totaling 10.67 billion soms (approximately \$122-130 million), a 45% year-on-year growth. The number of resident companies in HTP grew to 477, employing 2,859 specialists.
- **Digital Development Strategy:** The government's Digital Development Concept for 2024-2028 prioritizes e-governance, artificial intelligence, and the integration of government information systems.
- **Digital Som:** Legislation for a national digital currency, the "digital som," has been signed, and its implementation is underway, aiming to modernize the financial ecosystem.
- **E-commerce and Fintech:** The government is actively promoting cashless payment systems, such as QR codes, and developing digital platforms to support SMEs. Fintech is recognized as one of the fastest-growing sectors in the country.

The strong export performance of the HTP positions the IT sector as a key engine for economic diversification, reducing reliance on traditional sources like gold and

remittances. Sustaining this impressive growth trajectory will require continued investment in human capital development (IT skills training), a stable and supportive regulatory environment for tech companies, and efforts to attract further international clients and investment into the park.

Construction

The construction sector has been a major engine of GDP growth in Kyrgyzstan recently. Gross construction output surged by 53.3% year-on-year in January-April 2025. This boom is directly linked to a significant increase in investment in fixed capital, which itself grew by 62.0% in the same period. The World Bank also identified construction as a primary driver of overall GDP growth in 2024.

Investment in fixed capital has been directed towards diverse areas, including mining, manufacturing, electricity supply, information and communication technology (ICT), education, and particularly housing construction. The EBRD noted a doubling of public investment in the first nine months of 2024.

The sustainability of this construction boom is contingent upon the continuation of these investment flows, both public and private, and the economic viability and effective management of the projects being undertaken. Large-scale national projects like the Kambarata-1 HPP and the China-Kyrgyzstan-Uzbekistan railway are expected to further fuel construction activity in the coming years. However, their long-term financing arrangements and ultimate economic returns will be critical determinants of the sector's sustained contribution to the economy.

Table 5: Sectoral Contribution to GDP and Growth Rates (Illustrative)

Sector	% of GDP (Jan-Apr 2025)	Real Growth Rate (Jan-Apr 2025 YoY, %)	Key Drivers / 2025 Outlook
Agriculture, Forestry, Fisheries	>4%	+2.8	Livestock production; Favorable winter crop conditions; Green Agriculture Strategy; Climate vulnerability a concern.
Industry (Total)	20%	+14.5	Broad-based growth; Non-gold manufacturing strong; Mining

			moderate.
Mining & Quarrying	-	+1.4	Kumtor output stable/slight increase expected; New Kumtor projects critical.
Manufacturing	-	+18.7	Refined petroleum, food, textiles, construction materials; Some linkage to re-exports.
Construction	>6%	+53.3	High public & private investment; Housing; Major infrastructure projects (Kambarata-1, CKU railway) to support future growth.
Services (Total)	52%	- (aggregate not specified)	Domestic demand; Trade; Tourism; IT.
Wholesale & Retail Trade, Vehicle Repair	-	+8.8	Strong consumer demand; Re-export related activities.
Hotels & Restaurants (Proxy for Tourism)	-	+37.8	Recovery and growth in tourist arrivals; Ambitious targets for 2025.
Information & Communication (incl. IT)	-	+5.7 (overall communication services)	HTP exports +45% in 2024; Digitalization drive.

Note: % of GDP for sub-sectors not always available for the exact period. Growth rates are for Jan-Apr 2025 unless stated. Overall Services growth not explicitly given for Jan-Apr 2025, but components show strong performance.

7. Investment Climate, Structural Reforms, and Major Projects

Business Environment and Credit Ratings

The Kyrgyz government is actively seeking to attract Foreign Direct Investment (FDI), with growing opportunities identified in sectors such as textiles, agriculture, franchising, IT, hydropower, and green construction. Efforts to improve the investment landscape include a proposed new version of the Law on Investments (tabled in November 2023), designed to create a more equitable environment for both domestic and foreign investors.

Despite these efforts, the investment climate faces persistent challenges. Perceived corruption remains a significant concern, with Kyrgyzstan ranking 141 out of 180 countries in Transparency International's 2023 Corruption Perceptions Index. International financial institutions consistently highlight the need for stronger rule of law, better protection of property rights, and improvements in institutional capacity. The US State Department's 2024 Investment Climate Statement notes that companies with foreign ownership might encounter greater scrutiny and that local networks are often crucial for navigating the business environment.

Reflecting recent macroeconomic improvements and fiscal management, Kyrgyzstan received positive actions on its sovereign credit ratings in early 2025:

- **S&P Global Ratings** assigned 'B+/B' long- and short-term sovereign credit ratings with a Stable Outlook on March 28, 2025. The agency cited the rapid economic growth from 2022-2024, robust domestic demand, and benefits from rerouted regional supply corridors as positive factors. However, it also pointed to vulnerabilities in the balance of payments, the structure of exports, and dependence on remittances, while noting the country's comparatively strong fiscal position.
- **Fitch Ratings** assigned a 'B' long-term foreign-currency issuer default rating with a Stable Outlook on April 28, 2025. Fitch highlighted sustainable economic growth (averaging 9% annually from 2022-2024 driven by trade, capital inflows, and construction) and sound fiscal performance (budget surpluses in 2023 and 2024 due to effective tax collection). The agency expects medium- to long-term growth to be supported by investments in the energy and mining sectors, favorable demographic trends, and efforts towards economic diversification and formalization.

These positive rating actions serve as an important endorsement of Kyrgyzstan's recent economic performance. However, the "Stable" outlooks from both agencies also reflect the persistent vulnerabilities and the need for continued reform momentum to address

underlying structural challenges. The successful management of external sector risks, particularly those related to re-exports and remittances, will be crucial for maintaining these ratings.

Table 6: Sovereign Credit Ratings Summary (as of mid-2025)

Rating Agency	Long-Term Rating	Short-Term Rating	Outlook	Date of Latest Action
S&P Global Ratings	B+	B	Stable	March 28, 2025
Fitch Ratings	B	-	Stable	April 28, 2025
Moody's Investors Service	B3 (from 2022)	-	Stable (from 2022)	(Older data)

Note: Moody's rating is older; recent actions by S&P and Fitch are more current.

Government's Structural Reform Agenda

The Kyrgyz government, with the support of international financial institutions, is pursuing a structural reform agenda aimed at enhancing productivity, improving the business climate, and ensuring macroeconomic stability. The IMF's key policy recommendations for the medium term include rebuilding policy buffers, strengthening fiscal sustainability, safeguarding monetary policy independence, and advancing structural reforms to boost productivity.

Specific areas of reform include:

- **Governance and State-Owned Enterprise (SOE) Management:** Efforts are focused on reducing the footprint of SOEs in the economy, enhancing competition, and moving towards the privatization of nonstrategic commercial SOEs.

- **Anti-Corruption:** The implementation of a national anti-corruption strategy (e.g., for 2025-2030) is considered crucial for building trust in public institutions and improving the business environment.
- **Business Climate and Rule of Law:** Strengthening the rule of law and ensuring robust protection of property rights are paramount for attracting private investment and fostering innovation. Ongoing tax and customs reforms, initiated in early 2021, aim to reduce informality and level the playing field for businesses.
- **Labor Markets:** Reforms are targeted at increasing labor market flexibility, reducing gender gaps in employment and pay, and improving social safety nets to support more inclusive growth.
- **Digitalization:** A core component of the reform agenda is the Digital Development Concept for 2024-2028, which emphasizes the development of e-governance services, fostering artificial intelligence capabilities, and integrating government information systems. The introduction of the Digital Som and the promotion of e-commerce are key initiatives within this strategy.
- **Sanctions Compliance:** Authorities are working to strengthen the framework for compliance with international sanctions, particularly important given the increase in re-export trade.

The National Program for Development of the Kyrgyz Republic until 2026 outlines strategic goals including reducing unemployment, attracting FDI, managing public debt effectively, and lowering poverty levels. While a comprehensive reform agenda is in place, the consistency and effectiveness of its implementation will be critical for achieving long-term sustainable growth. Historically, the pace and depth of reform implementation have varied, a factor noted by observers like the EBRD. Therefore, the successful execution of the current ambitious plans, particularly in areas like anti-corruption and digital transformation, will be a key determinant of Kyrgyzstan's future economic trajectory.

Major Infrastructure Projects

Two large-scale infrastructure projects are central to Kyrgyzstan's development strategy and are expected to significantly impact the economy in the coming years: the Kambarata-1 Hydropower Plant (HPP) and the China-Kyrgyzstan-Uzbekistan (CKU) Railway.

Kambarata-1 Hydropower Plant (HPP):

- This project is a strategic priority for enhancing Kyrgyzstan's energy security and has the potential to make the country a significant electricity exporter in Central Asia. The plant is designed with a capacity of 1,860 MW and an expected annual generation of 5 billion kWh.

- Significant progress is being made on preparatory works. An updated feasibility study and Environmental Impact Assessment (EIA) were scheduled for completion by May 2025. The World Bank's Board of Directors is expected to review financing for the project in the second half of 2025.
- The World Bank is already providing Technical Assistance (TA) for the project, focusing on verifying technical feasibility, enhancing environmental and social sustainability, and developing robust financial and commercial frameworks. An initial financial strategy was presented to the government in January 2025. The ADB is also reportedly considering an allocation for the first phase of Kambarata-1.
- The energy ministers of Kyrgyzstan, Kazakhstan, and Uzbekistan signed an agreement in June 2024 regarding preparations for the project, indicating regional cooperation.

China-Kyrgyzstan-Uzbekistan (CKU) Railway:

- A trilateral intergovernmental agreement for the construction of this railway was signed in June 2024.
- The railway will span approximately 486-523 km, with the Kyrgyz section being around 312 km long. It will connect Kashgar in China with Andijan in Uzbekistan, traversing Kyrgyzstan.
- Construction of the Kyrgyz section is anticipated to commence around June-July 2025, with a planned completion date by 2031. The project involves significant engineering challenges, including numerous bridges and tunnels.
- The CKU railway is expected to significantly boost Kyrgyzstan's transit potential, facilitate trade links between East Asia and the Middle East/Europe, and stimulate economic development along its corridor. China holds a 51% share in the joint railway company, with Kyrgyzstan and Uzbekistan each holding 24.5%.

These large-scale infrastructure projects hold transformative potential for Kyrgyzstan by addressing critical energy needs, improving regional connectivity, and enhancing its strategic transit role. However, their successful realization is fraught with challenges. Such mega-projects are inherently complex, carry long timelines, and require substantial and sustained financing.

Effective project management, transparent procurement processes, and robust governance will be essential to mitigate execution risks, avoid cost overruns, and ensure that the anticipated economic benefits materialize for the Kyrgyz Republic. The financing structures, involving international financial institutions for Kambarata-1 and a joint venture for the CKU railway, will be critical to their progress.

8. Key Risks and Opportunities for 2025

Downside Risks

The Kyrgyz economy, despite its recent strong performance, faces several significant downside risks in 2025:

- **Geopolitical Instability and Sanctions:** The primary external risk stems from ongoing geopolitical tensions, particularly the war in Ukraine and the associated international sanctions on Russia. Given Kyrgyzstan's close economic ties with Russia (a major trading partner and the primary source of remittances), an escalation of sanctions, a significant downturn in the Russian economy, or sharp ruble depreciation could severely impact Kyrgyz exports, remittance inflows, and overall economic growth. The EBRD specifically notes secondary sanctions as a threat, despite authorities' compliance efforts.
- **Normalization/Disruption of Re-export Trade:** The surge in re-export activities has been a key driver of recent high GDP growth. A faster-than-anticipated normalization of these trade flows, or their disruption due to changes in sanctions regimes or the opening of alternative trade routes, could lead to a sharper economic slowdown than currently projected by most institutions. This trade is considered by S&P to be based on "unusually accommodative" regional trade conditions.
- **Commodity Price Volatility:** The Kyrgyz economy is sensitive to fluctuations in global commodity prices. A significant decline in the price of gold, a key export, would adversely affect export revenues and fiscal income. Conversely, increases in the prices of imported oil and food could fuel domestic inflation and strain household budgets.
- **Domestic Political Stability:** While political stability appears to have improved recently, Kyrgyzstan has a history of political volatility, including three revolutions in the past two decades. Any resurgence of domestic political instability could undermine investor confidence, disrupt economic activity, and derail reform efforts.
- **Climate Change Impacts:** The country is highly vulnerable to the impacts of climate change, including melting glaciers affecting water availability for agriculture and hydropower (a key energy source), and an increased frequency of extreme weather events. These can have direct negative consequences on agricultural output, energy production, and overall economic stability.
- **Execution Risks for Major Projects:** Delays, cost overruns, or challenges in securing full financing for large-scale infrastructure projects like Kambarata-1 HPP and the CKU railway could temper their expected economic benefits and potentially strain public finances.

- **Fiscal Slippage:** Pressure to increase social spending or higher-than-budgeted costs for large investment projects could lead to a wider fiscal deficit than planned, potentially increasing borrowing needs and debt vulnerabilities if not matched by revenue enhancements.
- **External Financing Conditions:** A tightening of global financial conditions or reduced appetite for lending to emerging markets could increase borrowing costs and limit access to external financing needed for development projects.

Upside Opportunities

Alongside the risks, several opportunities could positively influence Kyrgyzstan's economic outlook in 2025:

- **Strategic Infrastructure Development:** The successful advancement and eventual completion of the Kambarata-1 HPP and the CKU railway present significant upside potential. Kambarata-1 could ensure energy self-sufficiency and generate export revenue, while the CKU railway could transform Kyrgyzstan into a key transit hub, boosting trade and logistics services.
- **Continued Growth in IT and Digital Economy:** The High Technology Park (HTP) has demonstrated strong export growth, and the broader digital transformation agenda (including the Digital Som and e-governance initiatives) could unlock further productivity gains and create new economic avenues. Continued government support and investment in human capital could accelerate this trend.
- **Tourism Sector Expansion:** With a new sustainable tourism development program and major projects like the Ala-Too ski resort, the tourism sector has the potential to attract significantly more visitors and revenue, contributing to economic growth and job creation, especially in rural areas. The "Year of Mountain Tourism" in 2025 could provide an additional boost.
- **Strengthened Regional Cooperation and Trade Diversification:** Ongoing efforts to improve relations with neighbors, such as the border demarcation agreement with Tajikistan, can enhance regional stability and trade. Diversifying export markets and remittance sources beyond traditional partners could reduce external vulnerabilities.
- **Effective Implementation of Structural Reforms:** Tangible progress in structural reforms, particularly in improving governance, combating corruption, enhancing the business climate, and reforming SOEs, could significantly boost investor confidence, attract more FDI, and improve overall economic efficiency and competitiveness.
- **Increased FDI Attraction:** A more stable political environment, coupled with positive credit rating actions and improvements in the legal framework for investment, could lead to higher inflows of FDI into priority sectors like renewable energy, agribusiness, and manufacturing.

- **Demographic Dividend:** Kyrgyzstan has a relatively young and growing population. With appropriate investments in education and skills development, this demographic profile can translate into a productive labor force and sustained domestic demand. The "Mekenim 1+1" program to encourage returning migrants to invest could also tap into this human capital.
- **Higher-than-Expected Commodity Prices:** If global prices for gold remain elevated or increase further, it would provide a significant boost to Kyrgyzstan's export earnings and fiscal revenues.

Conclusions

The Kyrgyz Republic's economy is poised for continued, albeit moderating, growth in 2025, following an exceptional period of expansion. The outlook is one of cautious optimism, with significant opportunities balanced by notable risks. GDP growth is projected to remain robust, driven by domestic demand, ongoing investment, and the performance of key sectors like services and construction. Inflation is expected to be managed within the central bank's target range, though vigilance against demand-pull and cost-push pressures will be necessary. The fiscal position, after recent surpluses, is likely to see a deficit due to increased public investment, making prudent debt management crucial.

The successful implementation of strategic infrastructure projects, particularly the Kambarata-1 HPP and the CKU railway, holds the potential to transform the country's long-term economic landscape by enhancing energy security, improving connectivity, and boosting its role as a regional transit hub. The dynamism of the IT sector, centered around the High Technology Park, and the untapped potential of the tourism industry, supported by new government strategies, offer promising avenues for economic diversification and foreign exchange generation.

However, the Kyrgyz economy remains highly susceptible to external shocks. Geopolitical developments, particularly those affecting Russia, and the consequent impact on trade, remittances, and regional stability, pose the most significant near-term risk. The anticipated normalization of re-export trade, which significantly buoyed recent growth, will likely act as a headwind. Fluctuations in global commodity prices, especially for gold, also present a considerable uncertainty. Internally, ensuring continued political stability and consistently implementing the ambitious structural reform agenda—covering governance, anti-corruption, business climate enhancement, and SOE management—will be paramount for unlocking sustainable and inclusive growth. Addressing climate change vulnerabilities, particularly in agriculture and energy, requires sustained long-term commitment.

For the financial services sector, the outlook implies a need for careful risk assessment, particularly concerning clients exposed to volatile external sectors or dependent on specific trade corridors. Opportunities may arise from financing new growth sectors like IT and tourism, supporting SME development, and participating in the digitization of financial services, including the rollout of the Digital Som. Understanding the nuances of the evolving regulatory landscape, including sanctions compliance and new investment laws, will be essential.

Ultimately, Kyrgyzstan's economic trajectory in 2025 and beyond will depend on its ability to navigate a complex external environment while capitalizing on domestic strengths and diligently pursuing reforms that foster a more resilient, diversified, and competitive economy. Building stronger institutional capacity and enhancing the rule of law will be fundamental to attracting the investment needed to achieve these goals and improve the living standards of its population



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