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# A754-Economic Report 2024

## KYRGYZ REPUBLIC

5 September 2024

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### Executive Summary

Growth remained robust post-pandemic and moderated to 4.2% from 6.3% in 2022, while economy still remains strong in 2024, with robust gains in almost all sectors but a slowdown in gold production. Robust economic growth however will likely slow to 4.4% in 2024 and 4.5% in 2025.

- In 2024-25 the main policy focus will be on strengthening financial stability. Kyrgyz President Japarov has pledged to tackle the informal economy, but this may be difficult in view of its large size. Organised crime and widespread corruption will continue to impede revenue growth and constrain foreign investment, although measures are being taken to tackle the issues (especially on organized criminality).
- Overall economic activity in 2024 will slow as a result of the reduced gold exports. Still-tight lending conditions and persistent inflation will also stunt growth. Nevertheless, expansion in manufacturing is projected to accelerate growth and strong growth is expected in the agricultural and consumer goods sectors.
- The Kyrgyz Republic had level of public debt estimated at almost 50% of GDP in 2023. The risk of sovereign default is moderate, as reserves are enough to cover 2.5-3 months of imports.
- The attractiveness of Kyrgyzstan for foreign investors and entrepreneurs remains ambiguous. On the one hand, risks remain high and terms of engagement complicated. On the other, there is interesting potential and encouraging reforms are being undertaken, some of which are supported by Switzerland.
- Sectors that offer the best perspectives are textile, IT and energy infrastructure.
- Border disputes with Tajikistan are less likely in 2024-25. Türkiye and other actors continue to push for a definite border delineation agreement between the two states, which boosts the chances of a deal and reduces risks of fighting in border areas.

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## 1 ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

The Kyrgyz Republic is a small land-locked country with the open economy that is vulnerable to economic fluctuations with major trading partners, such as Russia, China and Kazakhstan. Besides, it is a lower-middle income country with one of the lowest gross domestic products among Central Asian countries. Economic growth stood at 4.2% in 2023, which is the average (3-4%) annual growth rate for Kyrgyzstan since 2021. Trade and construction emerged as the leading factors, followed by transport and communications. Growth was supported by inward labour migration from Russia and large unrecorded re-exports (most of which is likely to come from China, and most likely to be destined for Russia), boosting VAT revenue<sup>1</sup>. Economic sanctions imposed by the Western countries against Russia resulted in new regional trade patterns: some of the local (Kyrgyz) companies benefited from illicit trade (re-exports) of goods and services from third countries to Russia, although it is hard to say who and how much.

Kyrgyzstan's economic system is informal. Critical impediments for further private sector development as identified by the private sector are: i) corruption, ii) legal uncertainty, iii) lack of skills, iv) market accessibility, and v) access to finance.

After independence in 1991, Kyrgyzstan has earned income in great majority by transit trade and remittances, such as re-export of goods imported from China to Russia and Kazakhstan (thanks to the country's accession to WTO back to 1998), and sending labor migrants to Russia. Industrial production decreased sharply after the collapse of the Soviet Union in 1991. In the early 2000s, Kyrgyzstan entered Bretton Woods Institutions (WB and IMF) and joined Swiss-led voting (constituency) groups at these organizations.

In 2015, Kyrgyzstan joined Eurasian Economic Union (EAEU) after Russia, Belarus and Kazakhstan mainly due to political and economic pressures from Russia. Other than mining (mainly gold), agriculture and livestock, there are no other major industries in the country, and employment opportunities in the country are structurally insufficient. Sectors like textiles and tourism cannot compensate this tendency because they consist mostly of micro- and small enterprises requiring less labor force.

Official government data proves that the economic structure of the country is sub-optimal and not sustainable as industry/manufacturing accounts only for one third of the country's GDP. And since the share of gold production by Kumtor (biggest gold mine) is decreasing year-to-year, industry/manufacturing will shrink further in the medium-term, with the mine schedule to close around 2030.

*Table 1. Gold production at Kumtor (Source: <https://www.kumtor.kg/ru/deposit/reports/>)*

Year	2019	2020	2021	2022	2023
Production volumes in kgs	18'668	17'298	14'561	17'305	13'567

Agriculture, forestry, and fisheries altogether account for around 15% of GDP, down from 35% in 2001. At the same time, the service sector accounts for almost 60% of GDP.

With such unbalanced structure of economy, it is difficult to ensure steady economic growth and inclusive development as the service sector is dependent on market fluctuations caused by regional (external) and domestic shocks, and does not provide enough jobs, unlike industrial and agricultural sectors.

According to the Ministry of Labour, the official unemployment rate is almost 5% at the beginning of 2024<sup>2</sup> but, in reality, very few people in Kyrgyzstan have stable, formal and full-time employment. Therefore, many people have left Kyrgyzstan to work abroad. According to official data approx. 657,000 Kyrgyzstanis are working now abroad including those in Russia (411,000). Some 265,000 are or have become dual citizens (Russia-Kyrgyzstan)<sup>3</sup>; here is also a number of unregistered

<sup>1</sup> In relation to this development, the authorities revised last year the share of net indirect taxes in GDP for 2022, leading to a 2022 GDP growth figure of 9% (up from 6.3%). IMF disagreed with this re-evaluation of 2022 GDP.

<sup>2</sup> 64,600 people in Kyrgyzstan are officially registered as unemployed.

<sup>3</sup> According to the IOM.

(seasonal) migrants. While Russia continues to be the main destination, the number of migrants in that country decreased by 30% from 2022 to 2023. The geography of migration is slowly expanding, Kyrgyz migrants are heading to European countries, the U.S., Arab countries and South Korea. The remittances accounts for 20.5% of country's annual GDP (from 30% in 2022)<sup>4</sup>. This economic system relying predominantly on services and migrant remittances is vulnerable to economic and political shocks (both internal and external). It is an urgent issue to foster domestic industry.

Following an almost 20% drop in exports in 2022, when gold exports dropped hundredfold to \$13.1 million, exports surged by almost 50% in 2023 as gold exports rebounded sharply to \$1.28 billion. This is due to the NBKR buying most of the country's gold for a few years and selling it for hard currency; according to IMF and NBKR, with the resolution of the LBMA issue, the NBKR will stop being the main / only gold exporter. Imports, which rose by 76% in 2022, increased a further 26% in 2023 because of strong domestic demand and imports of consumer goods and vehicles, mainly from the People's Republic of China, for re-export.

The banking sector remains sound, and the systemic risks are contained but supervisory vigilance is warranted. Banks have a risk-weighted capital adequacy at 25.0% on average and the liquidity ratio of 76.6%. Asset quality has improved in 2023, and profitability remains strong. Foreign exchange exposure of the banks has increased. According to National Bank of the Kyrgyz Republic (NBKR), all commercial banks appear resilient to various external and internal shocks, including interest rate shocks as most government bonds are held to maturity. Banks are continuing to face higher costs of correspondent banking due to the isolation of major Russian banks from the western financial system, but do not seem to face major challenges with respect to cross-border payments.

Since 2022, the South Korean Kookmin Bank has been providing the main corresponding services (SWIFT transfers). It has limited SWIFT transfers and announced that it will stop all transfer to KG in USD in September 2024. In August 2024, a correspondent banking relationship (access to USD cash clearing services) between Citi (New York) and KICB was announced. Another local bank (RSK Bank) is might open an external correspondent account in Euros in late 2024.

Strong revenue performance pushed the budget into surplus. The general government fiscal balance (i.e. difference between total Government revenues and expenditures) moved from a deficit (-0.3% of GDP) in 2022 to a +0.1% surplus in 2023 as revenues grew faster than expenditures. Improved tax administration and an expanded tax base boosted revenue from 29.5% of GDP in 2022 to 32.0% in 2023, with gains in both tax and nontax revenues. Gains in tax revenue reflected a 34.0% rise in value-added tax collections on unusually strong imports. With strong nominal GDP growth, public debt declined from 49.2% of GDP at the end of 2022 to 46.9% a year later, with domestic debt rising from 9.2% of GDP to 11.8% and external debt falling from 37.6% of GDP to 33.7%. Most external debt is held by IFIs, and by the Chinese ExIm Bank (in this order).

Growth is projected to moderate further toward its long-term potential rate. Despite strong growth in the first quarter of 2024 at almost 9%, GDP expansion is expected to reach 4.4% in 2024 and to 4.5% in 2025, reflecting slower growth in construction and services. Public programs for housing notwithstanding, construction on urban infrastructure, irrigation, and social and industrial facilities will slow to 9.0% in 2024 and stabilize in 2025. Growth in tourism will further support growth in services, though to a lesser extent of 3-4% annually. According to local experts, gold production is expected to decelerate gradually as the Kumtor mine depletes, though recently announced new technologies for gold extraction may buoy production. In any case, expansion in manufacturing is projected to accelerate growth in industry by 4.0% in 2024 and 2025. Growth in agriculture is forecast to recover by 2.5% each year, with livestock providing most of the increase, as crop production will continue to face a scarcity of water for irrigation. On the demand side, investment and private consumption will remain the main sources of growth, with higher household incomes supporting private consumption as inflation slows and remittances are projected to remain robust.

Continuing geopolitical tensions and sanctions could slow growth in the Russian Federation, reducing trade, investment, and remittances for the Kyrgyz Republic too. Slower growth and declines in vehicle imports could also cut revenue, limiting funds to rehabilitate existing infrastructure and finance new infrastructure projects. Power shortages from aging electricity infrastructure and limited water supply, droughts/floods caused by climate change, and a sustained drop in gold prices could exacerbate these risks.

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<sup>4</sup> According to the World Bank.

The country's leadership announced an ambitious reform program to modernise the economy with 'green' and digital ambitions and to fight corruption. The Kyrgyz Government's Development Plan (until 2030) will guide through implementation of the Government which adhere to principles of systemic changes towards responding to crisis, optimisation of resource use, digitalisation, regional development, good governance, enabling business environment and green economy (a Green Taxonomy is currently being drafted). So far, most reforms remain only on paper.

## 2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

At present, almost all Swiss investments were directed to the following two sectors: i) telecommunication and information technology and ii) finance and insurance. New potential areas for Swiss investments, agro-processing/agri-business, tourism and infrastructures (dams) are also top priorities for the government and can be considered as the most promising sectors for Swiss investors, provided the country remains politically stable and secure in the medium- and long-term and investment protection improves. The textile and garment sector is fairly well-developed and could open investment avenues considering the existing export markets to Russia and Kazakhstan, especially in the light of Kyrgyzstan's membership in the EAEU and possibility to enter EU market (GSP+); so far, the sector is not targeted by sanctions on Russia. Since 2019, the Swiss Government is supporting initiatives in the tourism sector that could contribute to increase attractiveness for potential investments and growth. In this sector, ambitious projects have also been announced, including the projet "Three Peaks" proposed by the "Société des 3 Vallées (S3V)", which manages the French Méribel and Courchevel ski areas. However, there is currently no systemic approach of issues around tourism (e.g. protection and safety of tourists, transport infrastructure). Swiss potential investors could also consider ICT solutions aimed at improved connectivity within the country and hydropower (both small hydropower plants and contribution/sub-contracting to big infrastructures like Kambarata-1 HPP and the China-Kyrgyzstan-Uzbekistan railway).

The Government outlined the following four priority sectors in the National Development Strategy by 2030: *agriculture/agro-processing, mining, light industry (garment industry) and tourism*. To ensure sustainable and inclusive economic growth, the Government plans to develop these priority sectors by mainly SMEs (with the focus on export-oriented enterprises), except for mining. There also is a plan to develop the digital industry in the country, for which the whole Ministry of Digitalization was established.

Although there are several favorable factors such as human capital (skillful and relatively cheap labor force), low tariffs for energy and water, innovative and a flexible private sector, and despite the progress made, including measures supported by Switzerland, the systemic issues remain important.

Reforms have been enacted in some sectors (including water, energy, business climate, public finance management – that are priority sectors for Swiss Cooperation Program). This is especially true of the energy and utilities sectors but the lack of planning capacities affects the national authorities and local governments; a short-term vision and the interest to have quick wins/benefits are also major constraints to systemic changes.

The textile and clothing industry is one of the drivers of the country's industrial development. It accounts for about 5% of the country's GDP. It provides employment for nearly 150'000 people (approx. 30% of the total industrial workforce) and consists mainly of micro- and small-sized companies (and most of them are not properly registered). There are almost no local sources of fabrics for the garment industry (almost no local production), but fabrics can be relatively easily purchased, including from neighbouring countries.

The IT sector deserves more attention amongst sectors for potential Swiss investments as it characterized by a solid infrastructure and skilled labor force:

- ❖ >5,000 highly qualified local IT specialists (programmers);
- ❖ >300 officially registered IT companies in Kyrgyzstan;
- ❖ Less control by Government on internet contents than in other countries in the region;

- ❖ One of the best internet connectivity<sup>5</sup> (with the higher speed/traffic of internet<sup>6</sup>) amongst the neighbouring countries at reasonably low price for the internet services;
- ❖ Presence of fairly dynamic start-ups for the whole range of digital services with pro-active and vocal business associations that have full back-up support by Government (e.g. High Technology Park of the Kyrgyz Republic);
- ❖ Lowest electricity tariff/cost - 0.038 USD/kWh<sup>7</sup> for businesses) if to compare with the regional peers - neighbouring countries (Kazakhstan and Uzbekistan)<sup>8</sup>;
- ❖ Expanding investments from overseas (unprecedented growth of investments into IT sector from over the last few years);
- ❖ Legal framework that regulates operations of “High-Tech/Industrial Park” - online-based government-affiliated organization that was established in 2011 which aims to foster a knowledge-intensive industry centered on the IT industry and support the economy led by highly intelligent human resources; and
- ❖ Well-formulated Government policy in digitalization.

The digitization policy (“Taza Koom” or Clean Society) of Kyrgyz Government was first formulated and presented several years ago. This policy aims at improving the efficiency of public sectors for the entire society, promoting foreign investments and fighting against corruption. As a part of e-government initiative, a data sharing system among ministries - “Tunduk<sup>9</sup>” was launched in 2018. However, from an investor perspective, the IT infrastructure can still be considered as under-matured (especially in the countryside where internet and mobile coverage is not sufficient), with limited support of the IT sector by the Government.

Kyrgyzstan has considerable untapped renewable energy potential. Existing renewable energy consists of large HPPs, which account for 30% of total energy supply, but only 10% of the hydropower potential has been developed. Opportunities to develop decentralised renewable energy technologies are especially promising, primarily small run-of-river hydropower stations and solar power plants. As above, Swiss investors should favour provision of goods and services rather than operation.

In 2016, there was approximately 40 MW of installed small hydro capacity. As of now, Government supports the construction of approximately 80<sup>10</sup> small hydroelectric plants (of which approx. 30 are fully operational already) with total capacity of 80 MW and the total budget (investments) of USD 130 million<sup>11</sup>. The biggest energy infrastructure project in the country is Kambarata-1 HPP. The future HPP will boast a capacity of 1860 MW, with a reservoir volume of 5.4 billion cubic meters and a dam reaching 256 meters in height. Anticipated to generate an average of 5.6 billion kWh of electricity annually, the construction is anticipated to take a decade, with the initial hydroelectric unit projected to be operational within four years. Construction costs are estimated to USD 5-6 billion, with a projected payback period of 13–15 years. Kyrgyz Government expects that the problem of seasonal shortages of electricity will be solved with Kambar-Ata-1 and that export of generated electricity to the neighbouring countries (e.g. Pakistan) at a very high price will enable the Government to reinvest revenues into development of outdated infrastructures in energy sector.

In general, Kyrgyzstan is ready to provide land to investors for construction of hydropower plants. There are suitable locations for construction of hydropower plants. The central Government has introduced state of emergency in energy, effective from August 1, 2023 for three years. The Ministry of Energy is now closely supervising and supporting individually all investment projects by investors in energy sector by conducting feasibility studies, business plans, ToR for potential investments. The Ministry also coordinates investors’ activities with the government agencies. Local authorities are

<sup>5</sup> Among the Central Asian countries, Kyrgyzstan held the second position in mobile internet speed, surpassed only by Kazakhstan. According to Speedtest Global Index, Kyrgyzstan ranked 88th in the world in terms of mobile internet speed (26.09 Mbit/s) as of the end of September 2023. As for other countries of Central Asia, Kazakhstan ranked 66th with a speed of 36.03 Mbit/s. Uzbekistan was ranked 100th with a speed of 23.63 Mbit/s, Tajikistan was 136th with 9.76 Mbit/s,

<sup>6</sup> There are two kinds of internet connections in the country: i) with CIS countries – mainly via fixed (radio-relay) communication via leased connections to Moscow International Interconnection Switchboard; and ii) with the rest of the World - via satellite communications (Intersputnik and Intelsat).

<sup>7</sup> This includes all components of the electricity bill such as the cost of power, distribution and taxes. For comparison, the average price of electricity in the world is USD 0.153 per kWh for businesses, so electricity tariffs in KGZ is almost 24% of the World’s average prices for businesses. Source: [https://www.globalpetrolprices.com/Kyrgyzstan/electricity\\_prices/](https://www.globalpetrolprices.com/Kyrgyzstan/electricity_prices/).

<sup>8</sup> In Kazakhstan businesses have to pay 0.076 USD/kWh, in Uzbekistan – 0.071, and in Switzerland – 0.256 USD/kWh.

<sup>9</sup> “TUNDUK” system is followed by the example of Estonia’s “X-road”.

<sup>10</sup> Besides, there are currently 5 MoUs that are in the different stages of finalization with foreign investors from PRC and Arab countries for construction of small solar power plants.

<sup>11</sup> By 2026 Government plans to increase capacity of small HPPs by 150 MW with estimated budget (investments) of USD 200 million.

interested in investments in energy sector on their territories, as they will receive 1% from profit, new jobs will be created and local economic activities in the regions will be enhanced.

### 3 FOREIGN ECONOMIC POLICY

#### 3.1 Host country's policy and priorities

In 2024-25 the country's main foreign economic policy challenge will be to maintain its relationship with China, with a highly negative trade balance and new debt contracted because of infrastructure projects, incl. the 486 kms-long China-Kyrgyzstan-Uzbekistan Railroad with the total budget of USD 4.7 billion (Kyrgyzstan will fund its share of USD 1 bio with debt). This may threaten the lowering of debt to China that occurred in recent years.

Kyrgyzstan is a signatory to 27 international conventions on human rights, good governance, labor and environmental standards as well as 28 double taxation avoidance agreements. Kyrgyz Republic signed 32 Bilateral Investment Treaties. Besides, the country is a member of various international organizations (WTO, Bretton Woods Institutions, UNO, WHO, EBRD, ADB, AIIB, OSCE), as well as regional unions and organizations (CIS, Shanghai Cooperation Organization SCO<sup>12</sup>, CSTO, Central Asian Cooperation Organization CACO<sup>13</sup>, and Russian-led Eurasian Economic Union EAEU), and involved in regional initiatives (e.g. "CASA-1000" regional project).

Countries in Central Asia have increasingly spoken as "one voice" on the global water/energy/climate platform. Central Asian states also presented a regional statement during the UN Water Conference in New York in March 2023. Political will for interstate water cooperation is obviously increasing including on data and technical exchanges for joint management and operations of water facilities. First, with the signed border treaty between Kyrgyzstan and Uzbekistan and an agreement on joint management of the Andijan (Kempir Abad) reservoir in November 2022. Second, the signing of a project preparation roadmap in January 2023 between the energy ministers of Kyrgyzstan, Kazakhstan and Uzbekistan on the joint construction of the Kambar-Ata 1 hydropower plant.

Agro-processing/agri-business followed by tourism, the top priorities for Kyrgyz Government, should be further developed to unfold the potential of the country in the regional and other markets in the future. Yet, so far, in spite of existing regional organizations like the EAEU<sup>14</sup>, only around 30% of trade is conducted between EAEU member-states. Kyrgyzstan has not yet been able to take fully advantage of its accession to the EAEU, due to issues of certification, quality and competitiveness. While the EAEU has been a relatively successful geopolitical project for Russia, it remains largely ineffective in terms of economic cooperation and integration, which are paradoxically the very reasons for being.

#### 3.2 Outlook for Switzerland (potential for discrimination or comparative advantage)

Since the establishment of bilateral diplomatic relations back to 1992, Switzerland and Kyrgyzstan signed more than 20 agreements on issues of bilateral cooperation, incl. Agreement on Trade and Economic Cooperation (in force since 01.05.1998); Investment protection agreement (in force since 17 April 2003); Double taxation agreement (in force since 5 June 2002 (*part: withholding tax from 1.1.2003*); Air Transport Agreement (concluded on 25 October 2002); and Framework agreement on technical and financial cooperation and humanitarian aid (in force since 20 February 2003).

Since 2016 the Swiss side (SIF) has been trying to amend Double taxation agreement (DTA) by adapting the exchange of information provision to the international standards. The Swiss Government also added some other provisions which are the new minimum standard resulting from the OECD/G20 project on "base erosion and profit shifting" (BEPS). However, because of the lack of attention and efforts deployed on this topic from both sides, no progress on the proposed by Swiss side amendments into DTA has been observed so far.

Due to the small volumes (except gold) of both bilateral trade and investment flows between KG and CH, there is no potential for discrimination regarding Swiss exporters and investors. For the same reasons, there are no also comparative advantages/disadvantages or implications these bilateral agreements provide for Swiss businesses.

<sup>12</sup> China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan + Uzbekistan, Indian, Pakistan, (2017).

<sup>13</sup> Dieser Organisation gehören - neben Kirgistan – auch Russland, Usbekistan, Kasachstan und Tadschikistan an.

<sup>14</sup> The member-states of the Eurasian Economic Union (EAEU) are the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic and the Russian Federation.

## 4 FOREIGN TRADE

### 4.1 Developments and general outlook

The Kyrgyz Republic has a large trade deficit (i.e., imports prevail over exports) owing to its heavy reliance on energy, machinery, and food imports. The balance between imports and exports in 2023 amounted to USD 9.1 billion. In Kyrgyzstan's overall trade structure, the trade balance is always negative as exports accounts for roughly 20% and imports – 80%. The recorded trade deficit, which does not fully count reexports to the Russian Federation because of limited monitoring of trade within the Eurasian Economic Union (EAEU), surged in 2023. The trade deficit is projected to further narrow in 2024 and 2025. This will reflect a further rise in gold exports<sup>15</sup>, slower import growth, and reexports that is to be better reflected in trade statistics. Besides, the trade deficit should shrink as exports grow with higher gold exports, including sales of gold reserves accumulated by the central bank and expansion in other exports. Imports of vehicles intended for reexport has been declined because the reexport of cars from the Kyrgyz Republic to the Russian Federation became unprofitable from 1 April 2024, when Russian customs clearance for reexported vehicles increased due to additional customs duties introduced by Russian authorities for cars imported from EAEU countries. So, Russian Government amended the rules of collection, calculation, payment and recovery of the *utilization fee* for wheeled vehicles and trailers.

Following a drop in exports in 2022 mainly because of gold, exports surged by almost 47% in 2023 and amounted USD 3.3. billion as gold exports<sup>16</sup> rebounded sharply. Imports, which rose by 75.7% in 2022, increased a further 26.0% and amounted to USD 12.4 billion in 2023 because of strong domestic demand and imports of consumer goods and vehicles, mainly from China, for reexport. Thus, the overall trade turnover (sum of exports and imports) in 2023 amounted in absolute figures to USD 15.7 billion and increased by almost 30% against overall trade turnover in 2022 (USD 12.1 billion).

If to analyse and compare the trade patterns and trends over the last year, one can observe that trade with EAEU accounts for roughly 30% in the overall trade turnover, incl. exports – 37%, and imports – 25%. External trade (beyond EAEU area) accounts for 70% in the overall trade volume, incl. exports – 63%, and imports – 75%.

Trade statistics in 2023 reflect no major changes in trade flows of goods in 2023 as well as patterns and trends in the last few years. Kyrgyzstan exported its goods to more than 90 states and imported goods from around 110 countries around the World in 2023. The main destinations of Kyrgyz exports in 2023 according to the government trade statistics were: Russia (23% of total export), Kazakhstan (14%), Uzbekistan (9%), UAE (6%), Turkey (5%) and China/Hong Kong (4%). Switzerland was the main destination of exports due to gold last year. Among the main export goods are ore and concentrates, dairy products, cement, metals, textiles and clothing, cotton, fruits and vegetables. Besides, exports to these and other countries comprises of chemical, pharmaceutical industries, machinery and manufacturing as well as agriculture. That is why exports of Kyrgyzstan have to be further diversified and increased.

The main sources of imports in 2023 were China (43%), Russia (18%), Kazakhstan (7%), South Korea (5%), Turkey (4%), USA (3.5%) and Germany (3.4%). Main imported goods are oil, construction materials, textiles, food, and consumer goods. For more detailed information on foreign trade of Kyrgyz Republic see *Annex 3 “Trade partners 2023”*.

#### 4.1.1 Trade in goods

### 4.2 Bilateral trade (Swiss perspective)

The real trade volume between Switzerland and Kyrgyzstan (across all sectors) is low. However, Switzerland is a major buyer of Kyrgyz gold and is therefore considered an important trading partner for the country. According to the official data of the Swiss trade statistics, the real (non-gold) trade turnover between Switzerland and Kyrgyzstan (across all sectors) totals almost CHF 15.96 million<sup>17</sup> which corresponds to roughly 25 minutes of trade with the EU over the equivalent of an entire year. Over the last 15 years, Swiss exports have never exceeded CHF 16 million, while imports have risen to over CHF 1 billion thanks to gold. The recent trend of bilateral trade though reflects slight increase

<sup>15</sup> Gold exports might rise should price for gold rises substantially, and also due to selling of gold reserves by the regulator – NBKR.

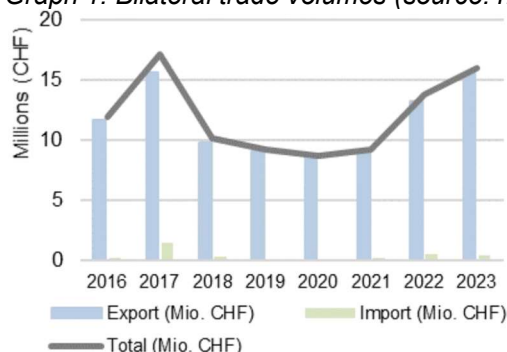
<sup>16</sup> NBKR purchased 20.72 tons of the gold at the domestic market of precious metals in 2023 (26.99 tons in 2022) of which 17.13 tons were sold in 2023 (0.13 tons in 2022).

<sup>17</sup> This corresponds to roughly 25 minutes of trade with the EU over the equivalent of an entire year.



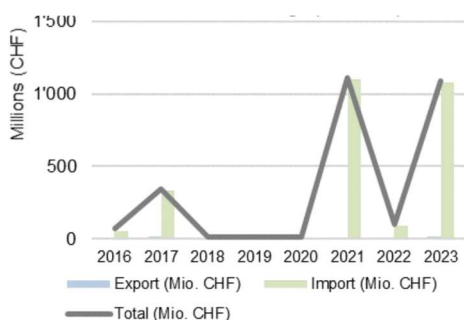
of non-gold trade turnover figures year-by-year. So, the overall bilateral trade between the Swiss Confederation and the Kyrgyz Republic increased (by 16%) from CHF13.74 million in 2022 - up to CHF15.96 million (2023), including CHF15.5 million (or 17% increase from the previous year) exports of the Swiss Confederation, and CHF0.47 million (or -15% decrease with 2022) imports from the Kyrgyz Republic. There is a positive trade balance of CHF15.02 million. The graph below vividly depicts this positive trend.

Graph 1. Bilateral trade volumes (source: <https://www.gate.ezv.admin.ch/swissimpex/public/>)



According to Kyrgyz official data on trade, in 2023 the trade turnover of the Kyrgyz Republic incl. gold with the Swiss Confederation made up USD 1.1 billion (a level similar to 2021 versus USD10.2 million in 2022<sup>18</sup>, catapulting Switzerland to the top of the export statistics for 2023. The reason for this substantial hike in the overall bilateral trade turnover is gold export, which accounted for almost 99% of the total trade turnover. Gold exports to Switzerland are subject to large annual fluctuations that well reflects ups and downs in the graph below.

Graph 2. Bilateral trade volumes with gold (source: <https://www.gate.ezv.admin.ch/swissimpex/public/>)



The Embassy monitors the gold trade with respect to annual production figures and monetary operations by the National Bank. So far, there is no indication that the exported gold is of any origin other than Kyrgyzstan.

#### 4.2.1 Trade in goods

Besides gold, there are other traded goods grouped by the main economic categories for 2023 are as follows below (*in the order of trade turnover volumes*):

- 1) Consumer goods (CHF 8.26 million);
- 2) Capital goods (CHF 3.76 million);
- 3) Raw materials and semi-finished products (CHF 3.58 million); and
- 4) Energy sources (CHF 0.36 million).

The above breakdown of trading goods by main categories has been roughly stable over the last few years.

## 5 DIRECT INVESTMENTS

### 5.1 Developments and general outlook

<sup>18</sup> Kyrgyz official data on bilateral (CH-KG) trade include gold, and therefore, Swiss trade statistics differs from the Kyrgyz data as latter includes gold trade while Swiss data excludes gold trade.

Kyrgyzstan is not-well positioned in Global rankings in terms of investment climate, governance and economic freedom. According to the Index of Economic Freedom<sup>19</sup> (2024) Kyrgyzstan is ranked only 112 out of 176 countries in the World.

Inflow of Foreign Direct Investments (FDIs) has a non-linear dynamic/trend in recent years as shown in the below table. In fact, FDIs inflow has been actually decreased in 2023, amounting to only USD 845 million (or -30% from 2022).

Table 2. Inflow of FDIs dynamics (USD mln.) 2016-2023

Year	2016	2017	2018	2019	2020	2021	2022	2023
FDIs inflows	814.0	616.8	851.7	1,076.9	537.6	1,006.1	1,202.6	844.9

According to the Kyrgyz National Statistics Committee, the main investors in 2023 were China (33% of total FDIs inflows), followed by Russia (19%), then Kazakhstan (12%), United Kingdom (5%) and Turkey (4.4%). For more detailed information on FDIs by countries see Annex 5. The bulk of all FDIs were directed for: 1) manufacturing and processing (28%); 2) mining and geological exploration (26%); 3) financial services and insurance (19%); 4) wholesale and retail trade (14%); 5) construction (3%); 6) professional and technical science (2.7%); and 7) transport and cargo (2%).

## 5.2 Bilateral investment

In 2023, according to the data of Kyrgyz National Statistical Committee, Swiss FDIs totalled USD148.9 million<sup>20</sup> (2022: USD63.8 million). The inflow of Swiss FDIs in the amount of USD26.5 mln. accounts for only 3% of the total FDIs inflow (USD844.9 million), and places Switzerland at 8<sup>th</sup> rank in terms of FDIs inflows over the past (2023) year.

Table 3. Inflow of Swiss FDIs over 2016-2023 (mln. USD)

Year	2016	2017	2018	2019	2020	2021	2022	2023
FDIs inflows	3.6	5.5	19.4	103.3	39.9	9.3	16.4	26.5

The relatively strong Swiss presence in the country through the SDC-SECO cooperation programmes and projects counterbalance an insignificant presence of Swiss private sector in the country, and provide some opportunities for Swiss potential investors.

## 6 ECONOMIC AND TOURISM PROMOTION

### 6.1 Swiss foreign economic promotion instruments

In the spirit of Switzerland's new foreign economic policy strategy, Switzerland's international cooperation portfolio in Central Asia offers a privileged entry point for all Swiss actors potentially interested in the region.

Given the small size of the Kyrgyz economy, no Swiss Business Associations is active in trade and investment promotion in the country. Swiss firms with questions or problems can directly contact the Swiss Embassy in Bishkek or the official Swiss organization for export and investment promotion [Switzerland Global Enterprise](#) (S-GE). Moreover, there is the [Joint Chamber of Commerce](#) (JCC) Switzerland Eastern Europe Central Asia South Caucasus which also includes Kyrgyzstan. The Kyrgyz Republic is not yet pro-actively involved in the activities of these regional organizations and platforms. Since 2019 the Economic Diplomacy Department (so to call 'Department VI') was established under the Kyrgyz Ministry of Foreign Affairs (MoFA). One of its main functions is to intensify economic diplomacy by fulfilment of the main three tasks: i) attraction of foreign investments, ii) promotion of tourism, and iii) promotion of export of domestic products abroad through Kyrgyz Missions/Embassies all over the World. The Minister of Economy and Commerce is also personally responsible for attracting FDIs, and a similar function has been added into ToR of almost all relevant line-ministries.

<sup>19</sup> <https://www.heritage.org/index/pages/all-country-scores> and <https://www.heritage.org/index/pages/report>

<sup>20</sup> Beside FDIs themselves, this amount also includes portfolio investments, other private investments and ODA (Official Development Assistance) – i.e. grants and technical assistance.

## **6.2 The host country's interest in Switzerland**

Switzerland has a good reputation in the Kyrgyz Republic concerning tourism, watch industry, jewellery, electrical equipment and machinery, pharmaceutical industry, financial services and banking sector, education, agro-processing (mainly dairy/cheese products) and other services.

Swiss tourism is mainly promoted by the Swiss Embassy and the Swiss cooperation portfolio in Kyrgyzstan includes projects related to tourism, which create close ties between various Swiss and Kyrgyz actors. The number of visas issued to Kyrgyz citizens, especially during high/peak tourism season (May-August), has recovered from the covid effect. The steady number of tourists demonstrates the popularity of Switzerland as a destination

## Annex 1 – Economic structure

**Economic structure of the host country**

	<b>2018</b>	<b>2023</b>
<b>Distribution of GDP</b>		
Primary sector	15%	12%
Manufacturing sector	29%	31%
Services	56%	58%
- of which public services	5%	12%
<b>Distribution of employment</b>		
Primary sector	30%	28%
Manufacturing sector	20%	18%
Services	50%	54%
- of which public services	5%	10%

Source(s): Host country's government agencies (National Statistical Committee, National Bank of Kyrgyz Republic, Ministry of Economy and Commerce, Ministry of Finance).

## ANNEX 2 – Main economic data

## Host country's main economic data

	2022	2023	2024 (proj.)
<b>GDP (USD bn)*</b>	<b>11.67</b>	<b>12.78</b>	<b>13.79</b>
<b>GDP per capita (USD)*</b>	<b>1,718</b>	<b>1,844</b>	<b>1,949</b>
<b>Growth rate (% of GDP)*</b>	<b>6.3</b>	<b>4.2</b>	<b>4.4</b>
<b>Inflation rate (%)*</b>	<b>14.7</b>	<b>10.0</b>	<b>8.0</b>
<b>Unemployment rate (%)*</b>	<b>4.6</b>	<b>4.0</b>	<b>9.1</b>
<b>Fiscal balance (% of GDP)*</b>	<b>-0.3</b>	<b>0.1</b>	<b>-1.6</b>
<b>Current account balance (% of GDP)*</b>	<b>-43.6</b>	<b>-31.8</b>	<b>-9.7</b>
<b>Total external debt (% of GDP)**</b>	<b>49.2</b>	<b>46.9</b>	<b>44.3</b>
<b>Debt-service ratio (% of exports)**</b>	<b>7.3</b>	<b>6.2</b>	<b>5.0</b>
<b>Reserves (months of imports)**</b>	<b>2.6</b>	<b>2.9</b>	<b>2.4</b>

\* Source: IMF Country Report No. 24/64, 2023 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Kyrgyz Republic (March 2024)

\*\* IMF Country Report No. 24/64, 2023 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Kyrgyz Republic (March 2024).

## ANNEX 3 – Trade partners

## Trade partners of the host country      Year: 2023

Rank	Country	Exports from the host country (USD million)	Share	Change <sup>21</sup>	Rank	Country	Imports to the host country (USD million)	Share	Change <sup>10</sup>
1	<b>Switzerland</b>	<b>1,088.6</b>	<b>33%</b>	<b>x</b>	1	China	5,353.3	43%	132%
2	Russia	747.8	23%	70%	2	Russia	2,182.9	18%	91%
3	Kazakhstan	455.7	14%	111%	3	Kazakhstan	862.2	7%	112%
4	Uzbekistan	290.8	9%	123%	4	South Korea	550.7	5%	352%
5	UAE	189.4	6%	188%	5	Turkey	453.4	4%	93%
6	Turkey	153.1	5%	109%	6	U.S.	430.6	3.5%	178%
7	China (Hong Kong)	117.4	4%	721%	7	Germany	421.8	3.4%	256%
..	.....	..	..	..	..	.....	.....		
	<b>EU</b>	<b>1,148.7</b>	<b>35%</b>	<b>x</b>		<b>EU</b>	<b>1,105.4</b>	<b>9%</b>	<b>191%</b>
..	.....	..	..	..	..	<b>Switzerland</b>	<b>0.14</b>	<b>0.1%</b>	<b>146.4%</b>
	<b>Total</b>	<b>3,308.9</b>	<b>100%</b>	<b>147%</b>		<b>Total</b>	<b>12,352.0</b>	<b>100%</b>	<b>126%</b>

Source(s): National Statistical Committee of the Kyrgyz Republic ([www.stat.kg](http://www.stat.kg))<sup>21</sup> Change from the previous year in %

## ANNEX 4 – Bilateral trade

## Bilateral trade between Switzerland and the host country

	<b>Export</b> (CHF million)	<i>Change (%)</i>	<b>Import</b> (CHF million)	<i>Change (%)</i>	<b>Balance</b> (in million)	<b>Volume</b> (in million)
2019	9.09	-7.3	0.12	-59.1	8.96	9.21
2020	8.60	-5.4	0.13	2.9	8.47	8.72
2021	8.97	4.3	0.21	67.4	8.75	9.18
2022	13.2	47.2	0.55	156	12.6	13.74
<b>2023</b> (Total 1)*	<b>15.5</b>	<b>17.4</b>	<b>0.47</b>	<b>-14.9</b>	<b>15.02</b>	<b>15.96</b>
<b>2024</b> (I-IV)**	<b>3.8</b>	<b>-6.1</b>	<b>0.14</b>	<b>48.0</b>	<b>3.64</b>	<b>3.93</b>

\*) 'Economic' total (total 1): **not including gold bars and other precious metals**, currencies, previous stones and gems, works of art and antiques

\*\*) Change (%) from the previous year

<b>Exports</b>	<b>2022</b> (% of total)	<b>2023</b> (% of total)
1. Raw materials and semi-finished products	98.0	98.0
2. Energy sources	97.9	96.5
3. Capital goods	93.8	94.6
4. Consumer goods	96.5	96.8

<b>Imports</b>	<b>2022</b> (% of total)	<b>2023</b> (% of total)
1. Raw materials and semi-finished products	96.0	96.0
2. Energy sources	100.0	99.9
3. Capital goods	92.8	93.3
4. Consumer goods	87.7	88.6

Source: Federal Office for Customs and Border Security (<https://www.gate.ezv.admin.ch/swissimpex/>)

## ANNEX 5 – Main investing countries

## Main investing countries in the host country

Year: 2023

Rank	Country	Direct investment (mln. USD, stock)	Variation (stock)	Inflows over past year (mln. USD)	Share
1	China	765.0	-12%	280.7	33%
2	Russia	3,239.4	-4%	159.8	19%
3	Kazakhstan	580.6	-50%	101.3	12%
4	United Kingdom	440.5	+51%	42.9	5%
5	Turkey	198.3	-55%	37.0	4.4%
6	UAE	89.4	-50%	33.8	4%
7	Netherlands	77.7	-81%	29.9	3.5%
8	Switzerland	148.9	+134%	26.5	3.2%
	.....	....	...	.....	..
	Total	7,110.6	-21%	844.9	100%

Source(s): National Statistical Committee of the Kyrgyz Republic ([www.stat.kg](http://www.stat.kg))