

Kyrgyzstan

Economic Outlook 2026



Presented by Khan Teniri Capital

Executive Summary

The economic trajectory of the Kyrgyz Republic as it enters 2026 is defined by a distinct structural pivot. Following a period of aggressive, consumption-led expansion in 2024 and 2025—characterized by double-digit GDP growth rates and significant overheating—the national economy is transitioning toward a more sustainable, albeit moderated, model of investment-led development. This report forecasts a complex macroeconomic environment for 2026, where the deceleration of headline growth metrics masks a profound deepening of capital markets, a radical overhaul of the energy sector, and the maturation of strategic infrastructure projects.

The prevailing narrative for 2026 is one of "managed modernization" amidst elevated geopolitical friction. Real GDP growth is projected to moderate from the 9.0% highs of 2024-2025 to a sustainable range of **6.0% to 8.4%**, depending on the realization rate of mega-projects. The divergence in forecasts between major institutions—with the Asian Development Bank (ADB) retaining a bullish 8.4% projection against the International Monetary Fund's (IMF) conservative 5.3%—underscores the high degree of uncertainty regarding the execution of capital-intensive initiatives like the China-Kyrgyzstan-Uzbekistan (CKU) railway and the Kambar-Ata-1 hydropower plant.

Fiscal consolidation serves as a cornerstone of the 2026 outlook. The Ministry of Finance projects a state budget surplus exceeding **436 million soms**, driven by improved tax administration and the successful issuance of the country's debut \$700 million sovereign Eurobond in 2025. This surplus, however, is structurally engaged in servicing debt and financing the "protected articles" of the budget, leaving little room for discretionary fiscal stimulus.

The financial sector faces a dual reality. On one hand, the Kyrgyz Stock Exchange (KSE) is experiencing a renaissance, with trading volumes growing sixfold over two years and market capitalization reaching 230 billion soms. On the other, the banking system is navigating a minefield of secondary sanctions. The designation of specific Kyrgyz financial institutions by the US Treasury in 2025 has forced a bifurcation of payment channels, complicating trade with Russia—the country's largest energy partner—and introducing significant transaction friction.

This report provides an exhaustive analysis of these dynamics. It dissects the interplay between domestic tariff reforms and inflation, evaluates the sustainability of the construction boom, and assesses the geopolitical risks inherent in Kyrgyzstan's re-export economy.

1. Global and Regional Macroeconomic Context

1.1 The Central Asian Growth Nexus

The economic outlook for Kyrgyzstan cannot be decoupled from the broader Central Asian performance, which acts as both a buffer and a catalyst for domestic growth. The region, comprising Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, and Uzbekistan, is undergoing a synchronized period of expansion. The European Bank for Reconstruction and Development (EBRD) forecasts regional growth to average **6.1% in 2025** before moderating to **5.2% in 2026**. This regional buoyancy provides a favorable external environment for Kyrgyzstan, facilitating cross-border trade and intra-regional investment.

Kazakhstan, the region's largest economy, is projected to see stabilized oil production at the Tengiz field, while Uzbekistan continues its aggressive market liberalization. For Kyrgyzstan, this regional stability is crucial. The interdependence is visible in energy swaps and water management agreements signed to cover deficits through 2026. However, the region remains highly sensitive to commodity price volatility. While high gold prices have bolstered Kyrgyzstan's reserves, the fluctuation in oil and gas prices impacts the disposable income of neighboring trading partners, thereby influencing demand for Kyrgyz re-exports and agricultural produce.

1.2 The Russian Economic Gravity

Despite efforts to diversify, the Russian Federation remains the dominant gravitational force on the Kyrgyz economy. In 2026, this influence will manifest primarily through three channels: remittances, labor migration, and the re-export trade.

Remittance inflows, which historically account for a massive portion of GDP (over 30% in previous years, though moderating to roughly 14-17% recently due to GDP denominator growth), showed resilience in 2025, reaching **\$1.367 billion** in just the first five months—a 16% year-on-year increase. This occurred despite a reduction in the number of officially registered Kyrgyz migrants in Russia from roughly 650,000 to 350,000.

For 2026, the outlook for remittances is precarious. The tightening of Russian migration laws, including stricter expulsion rules and shorter stay limits introduced in 2025, threatens to cap the earning potential of the migrant workforce. However, the data suggests a "value over volume" trend: while fewer migrants may be present, higher wages in Russia's labor-starved economy are driving higher per-capita transfers. The reliance on this inflow exposes the Kyrgyz economy to the risk of a Russian economic contraction or further capital control measures by Moscow.

1.3 The "Middle Kingdom" Vector

China's role in the 2026 outlook is characterized by a shift from pure trade to strategic infrastructure investment. Trade volumes have reached historic highs, with Chinese exports to Kyrgyzstan recording **\$7.85 billion**, dominated by vehicles and electronics. The discrepancy between Chinese export data and Kyrgyz import data confirms the massive scale of the re-export economy, where goods transit through Kyrgyzstan to Russia and other EAEU markets.

More critically for 2026, China has become the primary financier and contractor for the **China-Kyrgyzstan-Uzbekistan (CKU) railway**. This shift marks a deepening of economic integration under the Belt and Road Initiative (BRI). The construction phase, peaking in 2026, is expected to inject significant liquidity into the local construction and materials sectors, providing a counterbalance to any potential slowdown in consumption.

2. Domestic Macroeconomic Projections 2026

2.1 GDP Growth: The Great Moderation

The consensus among international financial institutions indicates that the overheating observed in 2024 and 2025 will cool in 2026, leading to a "soft landing." The growth forecast for 2026 is a subject of significant debate, reflecting differing weightings of investment realization versus consumption fatigue.

Table 1: Divergent GDP Growth Forecasts for 2026

Institution	2025 Forecast	2026 Forecast	Primary Drivers & Risks Identified
Asian Development Bank (ADB)	8.3%	8.4%	Bullish on service sector expansion and sustained government investment in infrastructure.
World Bank	6.8%	6.5%	Expects moderation as reduced re-export activity and weaker domestic demand take hold.
EBRD	9.0%	6.0%	Cites high base effects and risks from remittance volatility and commodity prices.
EFSD	9.0%	6.4%	Growth driven by construction and investment activity; slowdown from 2025 peak.
IMF	8.0%	5.3%	Most conservative; sees normalization of demand and potential external shocks.

Analysis: The ADB's forecast of **8.4%** appears to assume the seamless execution of the "Three Peaks" ski resort and the CKU railway projects. If these capital-intensive projects proceed without bureaucratic or funding delays, the multiplier effect on the construction and service sectors could indeed sustain high growth. Conversely, the IMF's **5.3%** likely accounts for the drag of inflation on real incomes and the potential for secondary

sanctions to disrupt trade logistics. The World Bank's **6.5%** represents a middle path, acknowledging the resilience of domestic consumption while factoring in a slowdown in the re-export trade.

2.2 Inflation Dynamics: Structural vs. Cyclical

Inflation in 2026 will be driven less by global food prices and more by domestic administrative decisions. The government's **Mid-Term Tariff Policy (2025-2030)** creates a structural inflationary floor.

- **Tariff-Push Inflation:** The schedule for electricity tariff increases is fixed. For 2026, the residential electricity tariff is set to increase by **21 tyiyns** per kilowatt-hour. While seemingly small, this adjustment ripples through the economy, raising costs for cold storage, retail, and services.
- **Non-Food Inflation:** The sharpest price increases are observed in non-food goods, driven by imported fuels, lubricants, and the secondary effects of tariff hikes. The friction in cross-border payments (discussed in Section 4) adds a premium to all imported goods, further sustaining non-food inflation.
- **Forecasts:** The ADB projects inflation to average **8.0%** in 2026, a notable increase from previous estimates, attributing this to utility costs and currency volatility. The IMF is slightly more optimistic, forecasting a moderation to **6.9%**.

2.3 Monetary Policy Stance

The National Bank of the Kyrgyz Republic (NBKR) enters 2026 with a hawkish stance. Having raised the policy rate to **11.00%** in November 2025 (a 100 basis point hike), the regulator has signaled its prioritization of price stability over credit growth.

This tight monetary policy is designed to:

1. **Curb Dollarization:** By maintaining attractive yields on Som-denominated assets, the NBKR aims to prevent a flight to hard currency.
2. **Manage Excess Liquidity:** The banking sector has operated with a surplus of liquidity, which the NBKR actively sterilizes through notes issuance.
3. **Anchor Expectations:** With administrative prices (tariffs) rising, the central bank must prevent these one-off hikes from de-anchoring long-term inflation expectations.

For 2026, we do not anticipate a significant loosening of monetary policy. The persistent inflationary pressure from the service sector and the need to support the Som in a volatile geopolitical environment necessitate a high real interest rate environment.

3. Fiscal Policy and Sovereign Debt Management

3.1 The Structural Budget Surplus

A defining characteristic of the 2026 outlook is the consolidation of the fiscal position. The Ministry of Finance projects a state budget surplus exceeding **436 million soms** for 2026. This follows a robust performance in 2025, where the surplus reached 11.2 billion soms.

Drivers of Fiscal Health:

- **Revenue Growth:** State budget revenues are projected to reach **505 billion soms** in 2026. This is supported by the "whitewashing" of the economy—digitization of tax administration, mandatory use of electronic invoices, and improved customs collection.
- **Dividend Windfalls:** State-owned enterprises (SOEs), particularly the Kumtor Gold Company, are contributing record revenues. Kumtor reported **80 billion soms** in revenue for the first ten months of 2025 alone, far exceeding targets.

However, the surplus is "technical" in nature. It is largely earmarked for debt repayment and financing the recapitalization of SOEs in the energy and banking sectors, rather than available for populist spending.

3.2 Sovereign Debt: Entering Global Capital Markets

2025 was a watershed year for Kyrgyz sovereign finance with the successful issuance of the country's debut **\$700 million Eurobond**.

- **Terms:** 5-year maturity, 7.75% coupon.
- **Demand:** The order book peaked at over **\$2.1 billion**, indicating strong appetite from international investors (UK, US, Europe, Asia) for Kyrgyz credit.
- **Legal & Advisory:** The issuance was advised by GRATA International and is listed on the London and Hong Kong Stock Exchanges.

For 2026, the management of this commercial debt becomes a central theme. The budget must now account for significant interest payments in hard currency, increasing the sensitivity of the fiscal balance to the Som/USD exchange rate.

3.3 Domestic Debt Market Development

To reduce reliance on external debt, the Ministry of Finance is aggressively developing the domestic market for Government Treasury Bonds (GKO). The issuance strategy for December 2025 provides a template for 2026:

- **Issuance Volume:** Planned issuances of **10.3 billion soms** in a single month.
- **Tenor Extension:** A shift toward longer maturities, with 5, 7, and 10-year bonds being auctioned.
- **Yields:** Coupon rates are set at **6% for 5-year bonds** and **8% for 10-year bonds**.

Insight: The disparity between the 10-year bond yield (8%) and the policy rate (11%) suggests a segmented market. Domestic banks and institutional investors are likely incentivized or mandated to hold these securities, providing the government with a low-cost funding channel that is partially insulated from market rates.

4. The Banking Sector and Financial Markets

4.1 Sector Performance and Stability

The Kyrgyz banking sector enters 2026 in a position of capital strength but operational complexity.

- **Profitability:** The sector remains highly profitable. The NBKR itself reported a net profit of **33.2 billion soms** in the first nine months of 2025, driven by gold revaluation and foreign reserves management.
- **Asset Quality:** The Non-Performing Loan (NPL) ratio stood at **10.8%** in late 2025. While elevated compared to developed markets, this is manageable within the context of high interest margins and robust collateral coverage.
- **Credit Growth:** The credit portfolio expanded by 35.2% in 2025, driven by consumer lending and trade finance.

A key regulatory headwind for 2026 is the **ban on transfer fees**. The NBKR has prohibited commercial banks from charging commissions on domestic mobile/internet transfers and certain international inflows throughout 2026. This populist measure will compress fee income, forcing banks to optimize operational costs or widen lending spreads to maintain Return on Equity (ROE).

4.2 The Sanctions Landscape: A Compliance Minefield

The most significant risk to the financial sector in 2026 is the tightening noose of secondary sanctions. The actions taken by the US Treasury and UK Foreign Office in 2025 have fundamentally altered the compliance landscape.

- **Case Study: Keremet Bank:** In January 2025, the US Treasury sanctioned Keremet Bank for facilitating transactions for Russian defense firms and for its sale to a Russian-linked entity. This designation effectively cut the bank off from the US financial system.
- **Bifurcation of Payments:** To protect the broader banking system, the government has centralized ruble transactions through specific state-owned institutions like **Capital Bank**. Major private banks (Optima, Demir, Bakai) have ceased or severely restricted Russian transfers to avoid losing their correspondent banking relationships.
- **Operational Impact:** For businesses, this has resulted in a "compliance tax." Payment processing times for Russian trade have increased to three days, and commission fees have doubled or tripled.

In 2026, we expect this bifurcation to deepen. Banks will have to choose between serving the Russian trade corridor (and facing Western isolation) or adhering to Western compliance (and losing lucrative remittance/trade business). The risk of further designations remains high if evasion schemes persist.

4.3 Capital Markets Renaissance: The Rise of the KSE

The Kyrgyz Stock Exchange (KSE) is undergoing a rapid maturation. Trading volumes grew sixfold between 2023 and 2025, reaching **169.95 billion soms**, with market capitalization hitting **230 billion soms**.

- **Drivers:** The growth is driven by the mandatory listing of SOEs and the burgeoning corporate bond market.
- **Key Listings:** Companies like **Manas International Airport** and **O! Bank** have become liquidity leaders. O! Bank alone accounted for 300 million soms of primary market activity in a single day in November 2025.
- **Green Finance:** 2026 will see the expansion of the green bond market. The IFC invested \$15 million in the country's first sustainability bond issued by KICB in 2025, and the ADB has approved a \$50 million program to support green capital markets.

5. Strategic Infrastructure: The Connectivity Revolution

5.1 China-Kyrgyzstan-Uzbekistan (CKU) Railway

The CKU railway is the single most transformative project for the Kyrgyz economy, breaking its logistical landlock and reducing reliance on the northern route through Russia.

- **Status:** Construction began in July 2024, with 2026 representing a peak capital expenditure year.
- **Financing:** The project cost is estimated between **\$4.7 billion and \$8 billion**. It is structured as a Joint Venture: China (51%), Kyrgyzstan (24.5%), Uzbekistan (24.5%).
- **2026 Allocation:** The Kyrgyz government has allocated **4.291 billion soms** (approx. \$50.8 million) for its equity contribution in 2026, ramping up from 2.4 billion soms in 2025.
- **Impact:** The railway reduces the China-Europe route by 900km and transit time by 7-8 days. For 2026, the primary economic impact will be localized in the construction sector (employment, materials), but the long-term strategic value is immense.

5.2 Aviation and Logistics

Complementing the rail network, the aviation sector is expanding. **Manas International Airport** has seen its shares become the most liquid asset on the KSE, reflecting strong investor confidence in its role as a regional hub. The airport is undergoing modernization to handle increased cargo volumes, positioning Bishkek as a logistics node for e-commerce flows between China and the CIS.

6. Energy Sector Transformation

6.1 The Crisis of Deficit

The energy sector is in a race against time. Consumption has grown by over 1 billion kWh annually, far outstripping generation capacity. In 2026, the country will continue to face a deficit, managed through imports from Kazakhstan, Turkmenistan, and Uzbekistan, and demand-side management measures like rolling blackouts and consumption caps (3kW limits for households).

6.2 The Mid-Term Tariff Reform (2025-2030)

To fund the modernization of the grid and attract investment, the government is adhering to a strict tariff increase schedule.

- **Residential Policy:** Tariffs will increase annually. In **2026**, the rate for households will rise by **21 tyiyns**. This follows a 26 tyiyn hike in 2025.
- **Commercial Policy:** Tariffs for non-residential consumers are adjusted for inflation and currency depreciation.
- **Social Impact:** The government has maintained social tariffs for low-income households but rejected proposals to allow "unlimited consumption at a higher price" for the wealthy, citing the need for absolute conservation during winter peaks.

6.3 Kambar-Ata-1: The Mega-Project

The **Kambar-Ata-1 Hydropower Plant** (1,860 MW) is the flagship solution.

- **Cost:** ~\$4.2 billion.
- **Financing:** The World Bank, EIB, and EBRD have formed a donor committee. The EU has committed **\$1 billion** to the project.
- **2026 Status:** The project will be in the active construction phase for main infrastructure (dams, tunnels).
- **Geopolitics:** It is a trilateral project with Kazakhstan and Uzbekistan (34% Kyrgyz ownership, 33% each for neighbors), securing regional water-energy cooperation.

6.4 Water Security and Agriculture

The energy crisis is inextricably linked to water security. The **Water Stress Index** for Kyrgyzstan has reached **3.28**, approaching pre-crisis levels.

- **Investment Need:** The Ministry of Water Resources estimates a need for **\$1.2 billion** to provide clean drinking water to 960 villages that currently lack it.
- **Issyk-Kul Strategy:** A new environmental strategy for Lake Issyk-Kul was launched to combat water level decline (down 2.75 meters since 1927) and pollution. This includes modernizing wastewater treatment and enforcing eco-standards on the booming tourism sector.

7. Key Industries: Mining, Tourism, and Manufacturing

7.1 Mining: Beyond Kumtor

Gold production remains the fiscal anchor. **Kumtor Gold Company** exceeded revenue targets by 45% in 2025, generating **80 billion soms**.

- **Outlook:** Production is expected to remain stable in 2026.
- **Diversification:** The government is aggressively promoting exploration. 26 auctions for subsoil rights were held in 2025. The focus is expanding to rare earth elements and polymetals to reduce the mono-reliance on gold.

7.2 Tourism: The "Three Peaks" Cluster

Tourism is being industrialized. The government is constructing the **"Three Peaks" (Ala-Too Resort)** ski cluster in Issyk-Kul, aiming to create the largest ski resort in Central Asia.

- **Scale:** 250km of slopes, 49 hotels, 20km of cable cars.
- **Timeline:** The first phase (Jyrgalan) is scheduled to open in **December 2026**.
- **Partners:** The cable cars are being built by **Doppelmayr**.
- **Investment:** The project is expected to generate tax revenues of up to EUR 146 million over four seasons once fully operational.

Additionally, the investment attraction program for tourism has been extended through the end of 2026, supporting projects like **Baytik Mountain Resort** and **Chatkal Resort** which focus on year-round (non-winter) tourism.

8. Social Indicators, Labor & Migration

8.1 The Remittance Dilemma

The economy remains heavily dependent on remittances, primarily from Russia. In 2025, inflows defied gravity, rising to **\$1.367 billion** in 5 months despite a drop in migrant numbers.

- **Risk:** 2026 poses a significant risk as Russian migration policies tighten. The potential expulsion or voluntary return of migrants could spike domestic unemployment.
- **Labor Shortage:** Paradoxically, Kyrgyzstan faces a domestic labor shortage in construction and agriculture, as the remaining workforce prefers higher wages abroad. This is driving real wage growth domestically, contributing to inflation.

8.2 Poverty and Inequality

While GDP growth is strong, inequality remains a concern. The rejection of the "pay for unlimited electricity" proposal by President Japarov highlights the political sensitivity to wealth gaps during times of resource scarcity. The \$1.2 billion gap in clean water infrastructure for villages underscores the rural-urban divide.

8.3 Digital Transformation

The government is advancing the **Digital Som** project, with a pilot phase expected to mature by 2027. In the interim, 2026 will see the expansion of digital governance, with tax administration and social payments increasingly digitized to reduce corruption and the shadow economy.

9. Conclusion: Strategic Outlook for 2026

The year 2026 represents a critical juncture for the Kyrgyz Republic. The economy is attempting to execute a "triple jump":

1. **Fiscal:** Moving from deficit/grant dependence to surplus and commercial borrowing.
2. **Infrastructure:** Transitioning from Soviet-era legacy systems to modern, regional connectivity (CKU, Kambar-Ata).
3. **Financial:** Evolving from a cash-based economy to a digitized, capital-market-driven system.

Risk Matrix:

- **High Risk:** Secondary sanctions crippling the banking sector's ability to process international payments.
- **Medium Risk:** Execution delays in the CKU railway or Three Peaks resort leading to a growth undershoot.
- **Medium Risk:** Water deficits exacerbating the energy crisis and impacting agriculture.
- **Low Risk:** Sovereign default (mitigated by Kumtor revenues and low external debt service relative to exports).

Final Verdict:

For investors, Kyrgyzstan in 2026 offers high-yield opportunities in government securities (8% yield on 10-year bonds), green finance, and tourism infrastructure. However, these returns come with a significant geopolitical risk premium. The "soft landing" GDP growth of ~6.5% is realistic, provided the government maintains its fiscal discipline and navigates the sanctions landscape with pragmatic diplomacy. The successful launch of the Three Peaks resort in December 2026 could serve as a powerful signal of the country's new economic capacity.