

# Labor Market Challenges and Policy Reforms in the Kyrgyz Republic

Jean van Houtte and Farid Talishli

SIP/2025/082

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on May 7, 2025. This paper is also published separately as IMF Country Report No 25/119.

**2025  
JUN**



**IMF Selected Issues Paper**  
Middle East and Central Asia Department

**Labor Market Challenges and Policy Reforms in the Kyrgyz Republic, Kyrgyz Republic**

**Prepared by Jean van Houtte and Farid Talishli**

Authorized for distribution by Nick Gigineishvili  
June 2025

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**ABSTRACT:** This SIP reviews the labor market constraints to growth and development in the Kyrgyz Republic, including gender-specific constraints. It is motivated by the high annual population growth rate of 2 percent, which implies 50,000 new labor market entrants per year. The review canvasses broadly recent additions to the relevant economic literature and databases. The SIP finds that significant informality, low worker productivity, a skills mismatch, and the gender gap in labor participation undermine improvements in, and the efficient allocation of, the labor force. The paper suggests a sharper focus of more flexible labor market policies, a more cost-effective education system, and better social safety nets.

**RECOMMENDED CITATION:** Talishli, Farid; and van Houtte, Jean (2025). LABOR MARKET CHALLENGES AND POLICY REFORMS IN THE KYRGYZ REPUBLIC, IMF Selected Issues Paper, Middle East and Central Asia Department, SIP/2025/082. Washington, D.C.: International Monetary Fund.

JEL Classification Numbers:	J31, O40, J21, O47, J24
Keywords:	Growth, Labor Market, Labor Productivity, Gender, Structural Reforms.
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## SELECTED ISSUES PAPERS

# **Title Labor Market Challenges and Policy Reforms in the Kyrgyz Republic**

Kyrgyz Republic

Prepared by Jean van Houtte and Farid Talishli<sup>1</sup>

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<sup>1</sup> The authors would like to thank Subir Lall and Nick Gigineishvili for their helpful comments and valuable guidance.



# KYRGYZ REPUBLIC

## SELECTED ISSUES

May 7, 2025

Approved By  
Middle East and  
Central Asia  
Department

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# LABOR MARKET CHALLENGES AND POLICY REFORMS IN THE KYRGYZ REPUBLIC<sup>1</sup>

## A. Importance of Labor Market Analysis

1. **Well-functioning labor markets play a crucial role in promoting inclusive economic growth (IMF, 2017).** This is especially pertinent in emerging and developing economies, where there is substantial potential to improve labor market policies to reduce inequality, increase productivity, and decrease informality.
2. **The main goal of labor market policies is to ensure high and stable employment and productivity while providing adequate protection to workers (IMF, 2019).** Maintaining stable and high employment requires flexible labor legislation that provides employees with basic job protection while also easing hiring and firing procedures. This flexibility allows attracting talent and improves the efficiency of resource allocation in the economy. At the same time, Active Labor Market Policies (ALMPs) and a well-functioning unemployment benefits system are needed to protect workers in case of job losses and provide a basic level of social security, thus furthering the objective of equity. Striking the right balance between efficiency and equity is essential to achieving broader objectives of labor market policies.
3. **In the Caucasus and Central Asia (CCA) region, labor market policies are generally less advanced than in Emerging Europe (EMEU).** The CCA region is comparable to EMEU in terms of labor market flexibility and efficiency. In terms of effectiveness, labor regulations in the CCA region focus on worker protection but unemployment benefits are often limited, underfunded, and cover only a small segment of the population. In contrast, EMEU typically offers more comprehensive social safety nets, including unemployment insurance, pensions, and healthcare benefits.
4. **Active Labor Market Policies (ALMPs), such as vocational training and job search assistance, are also underdeveloped in the CCA region.** EMEU, by comparison, has more prevalent programs, such as job retraining, apprenticeships, and job placement services. Furthermore, many CCA countries maintain rigid labor codes that restrict workforce mobility and contribute to high informality (Gigineishvili et al., IMF, 2023).

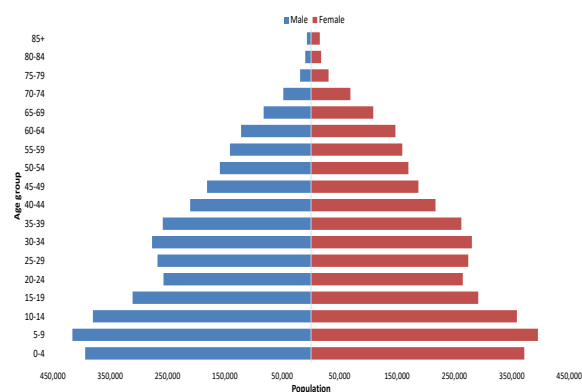
## B. Overview of the Labor Market in the Kyrgyz Republic

5. **The Kyrgyz Republic has a young and growing population.** About 32 percent of the population is under 15 years and 5.7 percent is over 65 years (Figure 1). The share of youth in the total working population is one the highest in the region and is projected to increase further (Figure 2). The population has grown by almost 2 percent per year since 2000, and is estimated to grow by

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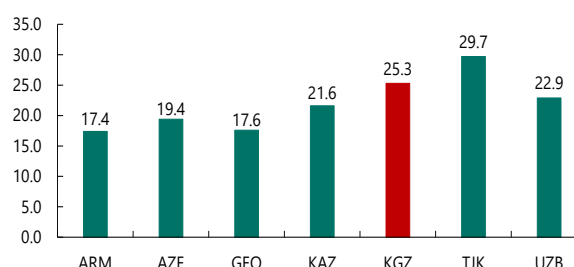
1.4 percent per year<sup>2</sup> in the medium term. According to the World Bank, the labor force is projected to grow by about 50,000 every year.

**Figure 1. Population Tree of the Kyrgyz Republic in 2023**



Source: National Statistical Committee.

**Figure 2. Share of Youth in Working Age Population, 2023**



Source: National Statistical Committee and IMF staff calculations.

Note: Youth age is 15-24 years, working age is 15-64.

**6. The Kyrgyz Republic needs higher and more inclusive growth to absorb the rapidly growing labor force.** Staff estimates suggest that the economy needs to grow by over 6.5 percent a year over the medium to long term to generate sufficient jobs and contain unemployment. Otherwise, social inequality and outmigration would increase and the output gap with emerging markets would widen further. This will require structural reforms to raise potential output. The government should seek to provide a market-friendly business climate, improve governance and a competitive environment, strengthen labor markets, and enhance the opportunities for human capital development.

**7. The Kyrgyz Republic employs approximately 2.3 million people, the majority in the informal sector.** The labor force participation (LFP) rate is 65.6 percent, which is similar to most Central Asian countries but is higher than that of the Caucasus region.<sup>3, 4</sup> However, the formal sector employs only about 600,000 people (Table 1), including those working in state-owned enterprises (SOEs). The public sector accounts for around 60 percent of the employment in the formal economy, indicating a significant reliance on state-driven formal employment (Figure 3). A dominant role of the public sector in the economy and the labor market poses potential challenges to economic growth. High expenditures on public sector wages may crowd out critical investments, such as infrastructure projects, that are essential for long-term development. Furthermore, an oversized

<sup>2</sup> UN World Population prospects.

<sup>3</sup> Except for Azerbaijan with LFP around 70 percent.

<sup>4</sup> ILO database. [ILOSTAT Data Explorer](https://data.ilo.org/iloexplorer).

public sector risks stifling private sector growth by diverting productive human capital and reducing space for entrepreneurship and innovation.

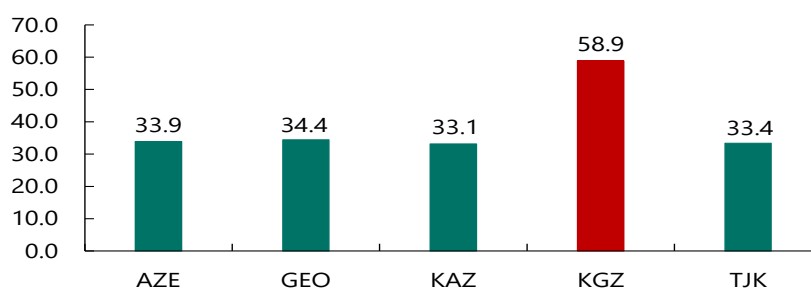
**Table 1. Kyrgyz Republic: Employment Structure**  
(million persons)

<b>Total</b>	<b>2.33</b>
Formally employed	0.58
Public sector	0.34
SOE	0.04
Agriculture and Industry	0.09
Services	0.11
Informally employed	1.75
Agriculture	0.34
Industry	0.55
Services	0.86

Source: National Statistical Committee.

Note: Excluding 0.35 million workers abroad.

**Figure 3. Size of Public Sector**  
(as percent of total formally employed)



Source: National Statistical Committee.

**8. Informality remains a significant challenge in the Kyrgyz Republic.** The informal economy employs 1.75 million people and is estimated to account for 19 percent of GDP in 2023<sup>5</sup>. Informal employment is typically characterized by the absence of social protection, low wages, and minimal job security. It is prevalent in sectors such as small-scale retail, domestic work, and subsistence agriculture, where workers often lack formal contracts and protection.

**9. Economic growth during the last two decades contributed to reducing unemployment, but productivity remains weak.** Average economic growth for the last 18 years was 4.9 percent while unemployment during the same period declined from about 8 percent to 4 percent<sup>6</sup>. However, productivity remains low in the Kyrgyz economy. The low productivity can be attributed to several

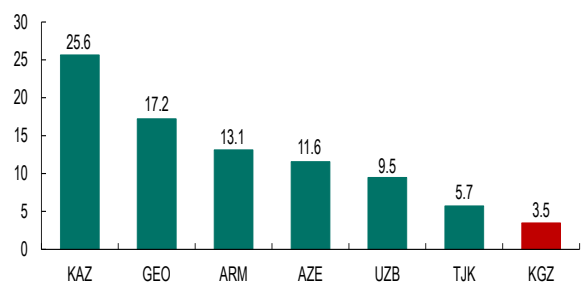
<sup>5</sup> <https://stat.gov.kg/ru/statistics/nacionalnye-scheta/>

<sup>6</sup> Unemployment in the Kyrgyz Republic is one of the lowest in CCA and Emerging Europe.  
<https://databank.worldbank.org/source/world-development-indicators>



factors, including the concentration of the workforce in traditionally less productive sectors (e.g., agriculture, transportation, and construction) and the large informal sector, where access to training and organizational efficiency are limited. The output per worker is lowest in the CCA region (Figure 4). Moreover, capital-intensive sectors like gold mining, which accounts for 6.5 percent of GDP, employs only 0.2 percent of the workforce. The average output per worker in sectors that typically generate more jobs is therefore even lower. Agriculture, which employs 24 percent of the workforce, contributes under 9 percent of GDP, pointing to economy's overall low labor productivity. An analysis of unit labor costs (ULC) also indicates lower productivity in agriculture, non-gold industry, and transport and communication sectors (Figure 5).

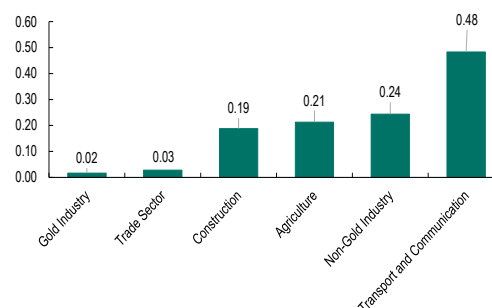
**Figure 4. Output per Worker in 2023**  
(in constant 2015 prices, thousand USD)



Source: National Statistical Committees.

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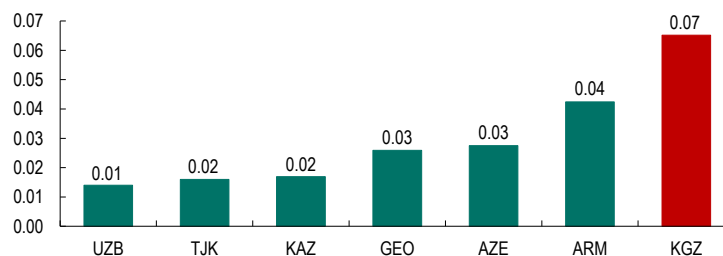
**Figure 5. Unit Labor Costs per Industry in the Kyrgyz Republic**  
(in KGS per unit of real output, lower value – higher competitiveness of the sector)



Source: National Statistical Committee.

Note: Unit labor costs are calculated as the ratio of the wage costs per worker to the real output per worker in a specific sector.

**Figure 6. Unit Labor Costs in 2023: Cross-country Analysis**  
(in USD per unit of real output, lower value – higher competitiveness)

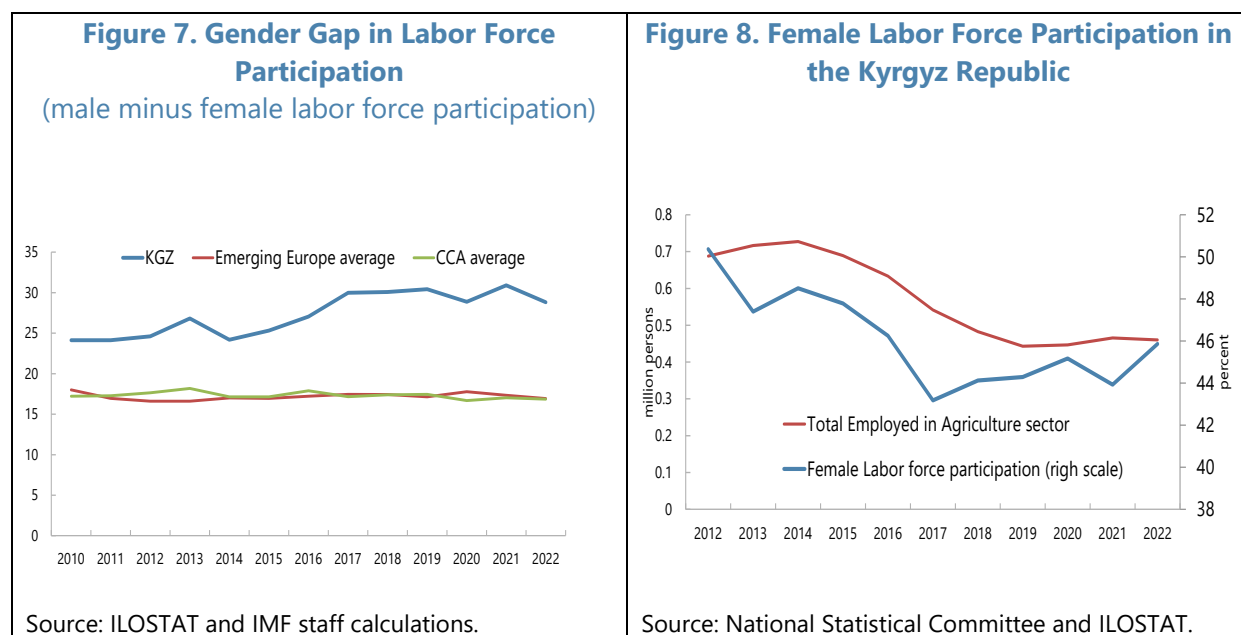


Source: National Statistical Committees.

Note: Unit labor costs are calculated as the ratio of the real wage costs per worker to the real GDP per worker in constant 2015 prices.

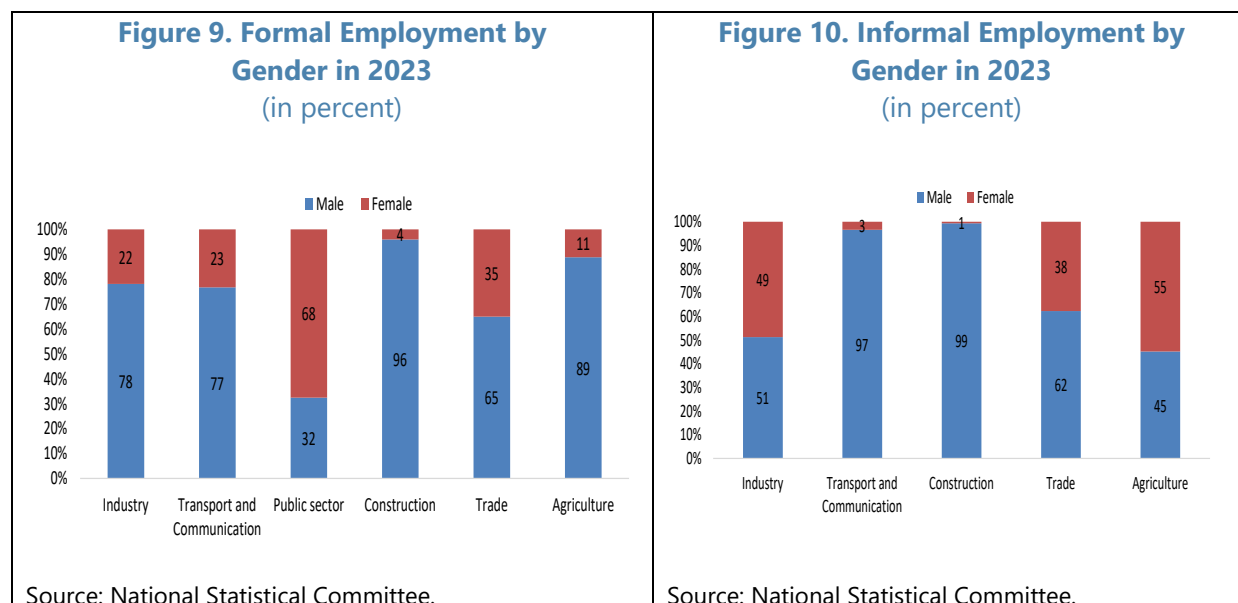
**10. The unit labor costs in the Kyrgyz Republic are higher than elsewhere in the CCA region (Figure 6).** Moreover, a 5 percent average annual increase in real wages in the Kyrgyz Republic since 2018 has been outpaced only by that of Kazakhstan and Uzbekistan. Since productivity remains low and with gains well below real wage increases, unit labor costs are therefore becoming less competitive compared to regional peers.

**11. The gender gap in labor force participation in the Kyrgyz Republic is sizable and the fastest-growing in the region.** Approximately 70 percent of working-age men are employed compared to only 45 percent of women (Figure 7). This disparity is partly driven by parenthood, as women often leave the labor force for caregiving responsibilities, whereas men's participation remains largely unaffected. The limited availability of affordable childcare further restricts women's employment opportunities and contributes to their higher unemployment rates relative to men. Additionally, remote work, which began emerging rapidly after the COVID-19 shock, remains underdeveloped in the Kyrgyz Republic, making it difficult for women to work from home. In this regard, the recent revisions to the Labor code, which envisage remote and hybrid work arrangements by agreement between the parties, is a welcome development. While the gender gap has historically been relatively high compared to peer countries, it widened further starting in 2014 as the agricultural sector—traditionally a major employer of women—began to shrink. For example, employment in the agricultural sector declined from 727,000 in 2014 to 460,000 in 2022 (Figure 8). While men were able to transition to other sectors, many women were unable to find alternative employment.

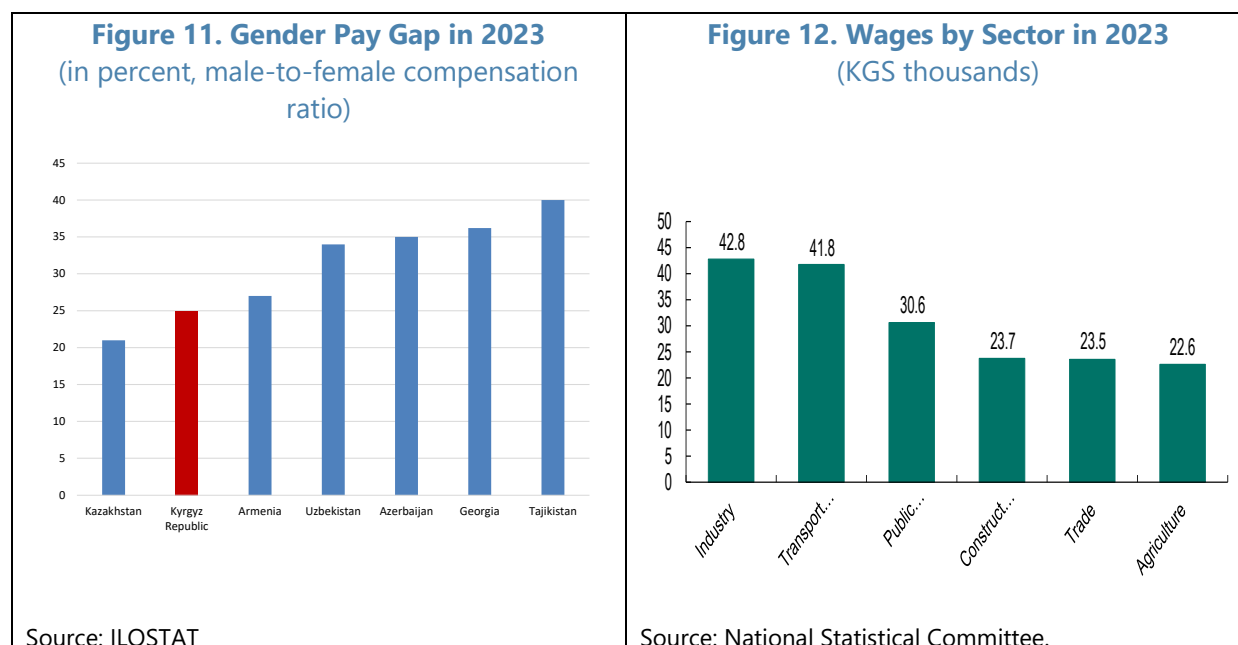


**12. While gender disparities persist across the labor market, the nature and extent of these gaps differ significantly between the formal and informal sectors.** The gender gap in the formal sector is relatively small (Figure 9) but remains significant in the informal sector (Figure 10). In both sectors, men are predominantly employed in industries such as services, manufacturing, and construction, with some jobs legally inaccessible to women. The public sector has a higher

proportion of female employees, largely due to the strong presence of women in education and healthcare, where they play a critical role in the country's workforce. Formal sector jobs, especially in public service, provide greater stability and career progression opportunities. In the informal sector, however, women are concentrated in low-wage, insecure jobs with limited opportunities for advancement.



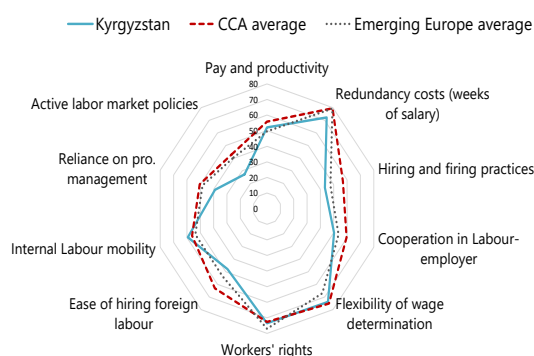
**13. The gender pay gap in the Kyrgyz Republic is relatively small compared to peer countries.** On average, women in the Kyrgyz Republic earn 25 percent less than men (Figure 11). This disparity is partly due to the fact that women are predominantly employed in lower-paying sectors such as agriculture and trade, while higher-paying industries like industry, transport, and communication are primarily male-dominated (Figure 12).



## C. Policies Affecting the Labor Market

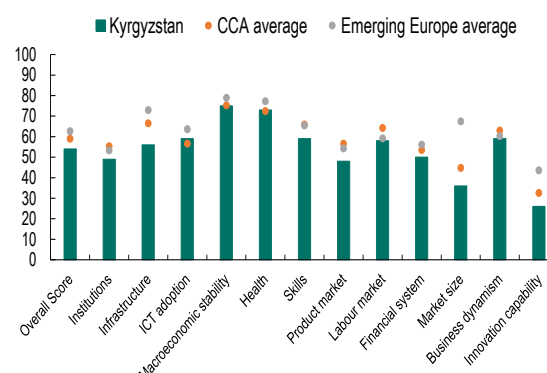
**14. Labor market regulations in the Kyrgyz Republic are more restrictive compared to the average of CCA countries.** Based on World Economic Forum's Global Competitiveness Index it ranks below its regional comparators on most labor market components, including active labor market policies, reliance on professional management, the ease of hiring foreign labor and procedures for hiring and firing employees (Figure 13 and 14). For example, compared to Kazakhstan's streamlined procedures for hiring skilled foreign workers, Kyrgyz Republic's quota system and burdensome procedures for obtaining work permits complicate hiring of foreign talent. Firing and hiring procedures are also cumbersome and time-consuming. Employers must adhere to strict documentation requirements and justifications to terminate employees, which increases compliance costs. This contrasts with Kazakhstan and Uzbekistan, which provide more flexibility to employers. These rigidities increase compliance costs, which can be particularly burdensome for small and medium-sized enterprises, contributing to informality in the economy. Informal labor arrangements often bypass minimum wage requirements and social protections, weakening labor market efficiency and equity. Recently, however, the new Labor Code envisages simplified mechanisms for concluding employment contracts, which provides additional flexibility.

**Figure 13. Labor Market Regulation Indicator**  
(higher the score the better market regulation)



Source: 2019 Global Competitiveness Report of World Economic Forum.

**Figure 14. Global Competitiveness Index**



Source: 2019 Global Competitiveness Report of World Economic Forum.

**15. Labor market “safety net” programs play a limited role in the CCA region and in the Kyrgyz Republic.** Determining and verifying eligibility for unemployment benefits is a challenge due to significant informal employment. Tracking informal workers and their pay is difficult, which increases the risk of ineligible claims for unemployment benefits (Brollo, Ibarra, and Campante Vale, 2024). Further complications arise from limited technical and administrative capacity to provide job search assistance and training, which are essential elements of an efficient unemployment benefit scheme. The average unemployment benefit coverage in the Kyrgyz Republic is 0.3 percent, compared to 5.4 percent in other CCA countries and 20 percent in EMEU (Table 2). Unlike advanced economies, where these benefits automatically expand during economic shocks to stabilize household income and consumption, they are static in the Kyrgyz Republic.

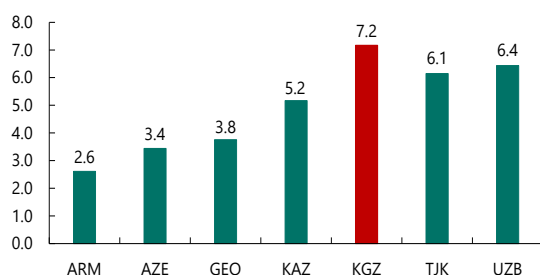
**Table 2. Kyrgyz Republic: Unemployed Benefit Coverage**  
(percentage of unemployed receiving unemployment benefits)

ARM	0.0
AZE	1.6
GEO	0.0
KAZ	23.2
<b>KGZ</b>	<b>0.3</b>
TJK	6.5
UZB	6.0
<b>CCA average</b>	<b>5.4</b>
<b>Emerging Europe average</b>	<b>20.0</b>

Source: ILOSTAT.

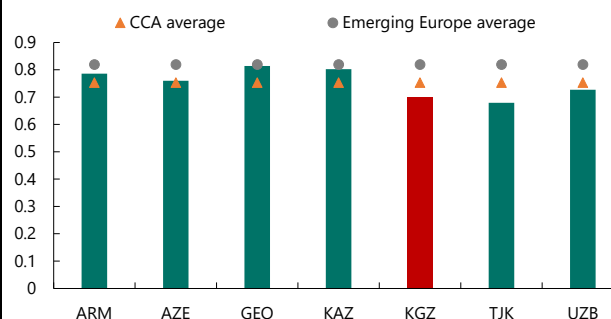
**16. The Kyrgyz Republic's spending on education is the highest in the region, but education outcomes are weaker.** The government spending on public education covers 11 years of schooling and exceeds 7 percent of GDP (Figure 15). However, learning-adjusted years of schooling is only 8.4 years, while 64 percent of primary school graduates are not proficient in reading and comprehension<sup>7</sup> and the primary school completion rate is 93 percent<sup>8</sup>. These are lower than the respective regional averages<sup>9</sup>. Preschool coverage in the Kyrgyz Republic is the lowest in the region. Only 28.3 percent of kids are covered by preschool education, while in Kazakhstan and Uzbekistan, this indicator is 92.5 percent and 74 percent, respectively<sup>10</sup>. Expected years of schooling for men and women are similar but below their international comparators.

**Figure 15. Public Education Expenditures in 2023**  
(Percent of GDP)



Source: IMF GFS

**Figure 16. Human Development Index, 2022**



Source: Human Development Report 2023-2024.

<sup>7</sup> The World Bank's Learning Poverty brief for the Kyrgyz Republic, 2019.

<sup>8</sup> The World Bank's Human Capital brief, 2023.

<sup>9</sup> According to the World Bank's Human Capital Index, learning adjusted years of schooling is 10.5 for Kazakhstan, 9.2 for Uzbekistan, and 8 for Tajikistan.

<sup>10</sup> National Statistical Committees of Kyrgyzstan, Kazakhstan, and Uzbekistan.

**17. There is significant room to improve the quality of education in the Kyrgyz Republic.**

The weaknesses, especially in tertiary education, are reflected in skill mismatches in the labor market. Sixty percent of adults in the Kyrgyz Republic have less than a basic understanding of literacy and numeracy in a problem-solving context, including computer literacy. In comparison, the average rates in Europe and Central Asia countries are 22 percent for literacy and 25 percent for numeracy (World Bank 2022). According to the 2023 World Bank Enterprise Survey, the lack of skilled and adequately educated workers is one of the main obstacles for businesses. The Kyrgyz Republic also falls below the averages for the CCA and EMEU on the Human Development Index (Figure 16).

**D. Conclusion and Policy Options****18. Improving labor market efficiency is a critical policy objective to address the challenges posed by the expected increase in the labor force.**

Staff analysis suggests that the Kyrgyz economy needs to grow by over 6.5 percent per year in the medium to long term to create sufficient jobs for about 50,000 new entrants in the labor market each year. Without higher growth and more flexible labor market regulations the country will face a formidable challenge of containing unemployment, poverty, social inequality, and outmigration of talents. Structural reforms that improve the business climate, including measures that strengthen governance, transparency and competition, and support private sector development can raise potential output and help generate more jobs and income.

**19. There is significant room for improvement in the design of labor market policies to reduce inequality, increase productivity, and decrease informality.** The labor market requires more flexible hiring and retention rules that prioritize protecting workers rather than protecting jobs, as seen in more advanced economies. This approach can enhance labor market flexibility, reduce informality, and promote economic growth by enabling firms to adjust their workforce more efficiently and encouraging formal employment. Additionally, simplifying procedures for hiring foreign professionals would facilitate knowledge transfer and enhance the private sector's efficiency.

**20. Strengthening the social safety net and developing active labor market policies is essential.** Establishing an unemployment insurance system and expanding vocational training programs and job search assistance can better align training with labor market demands and improve employment outcomes. The unemployment insurance system should scale up during economic downturns and scale back when the economy stabilizes. Additionally, job placement services, career counseling, and upskilling opportunities would provide essential support to job seekers.

**21. Reforming the education system is another important policy objective.** Inadequate education results in a skills and gender gaps, low wages, higher unemployment and informality, and limits the economy's capacity to diversify and transition into higher-value industries. Reforms should focus on delivering more years of quality learning and skill development to align with labor market

demands, improving tertiary education and expanding access to vocational training programs.<sup>11</sup> Enhancing education would also help mitigate emigration.

**22. Implementation of reforms aimed at strengthening gender equality could** increase female labor force participation and contribute to economic growth. Ending gender restrictions on access to certain positions is important. Expanding affordable childcare services, promoting flexible work arrangements, and developing skills training programs tailored to women would empower them to participate more actively in the workforce, unlock their potential and contribute to overall economic prosperity.

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<sup>11</sup> The Government of the Kyrgyz Republic has adopted Education Development Strategy 2040 aiming to improve the quality of education.

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