



TECHNICAL ASSISTANCE REPORT

KYRGYZ REPUBLIC

Medium-Term Public Compensation Management: Benchmarking and Implementation

August 2026

Prepared By
Rodrigo Cerda, Nick Carroll and Mengfei Gu

The contents of this document constitute technical advice provided by the staff of the International Monetary Fund to the authorities of the Kyrgyz Republic Ministry of Finance (the "CD recipient") in response to their request for technical assistance. Unless the CD recipient specifically objects to such disclosure, this document (in whole or in part) or summaries thereof may be disclosed by the IMF to the IMF Executive Director for Kyrgyz Republic, to other IMF Executive Directors and members of their staff, as well as to other agencies or instrumentalities of the CD recipient, and upon their request, to World Bank staff, and other technical assistance providers and donors with legitimate interest (see [Staff Operational Guidance on the Dissemination of Capacity Development Information](#)). Publication or Disclosure of this report (in whole or in part) to parties outside the IMF other than agencies or instrumentalities of the CD recipient, World Bank staff, other technical assistance providers and donors with legitimate interests shall require the explicit consent of the CD recipient and the IMF's Fiscal Affairs department.

The analysis and policy considerations expressed in this publication are those of the Fiscal Affairs Department.

This technical assistance (TA) was provided with financial support from the European Union under the Public Financial Management Partnership Program (EU PFM PP).

International Monetary Fund, IMF Publications
P.O. Box 92780, Washington, DC 20090, U.S.A.
T. +(1) 202.623.7430 F. +(1) 202.623.7201
publications@IMF.org
IMF.org/pubs

Contents

Acronyms and Abbreviations	5
Preface	6
Executive Summary	7
I. Background	10
II. Sectoral Issues in Health, Education and Public Administration Employment and Wages	14
A. Issues in the Relative Remuneration Across Sectors	14
B. Issues in Employment Across Sectors	17
III. Options for Reform	21
A. Key Principles for Designing Reform Options and Avoiding Abrupt Wage Adjustments	21
B. Modelling Reform Options	22
IV. Implementation of Reforms	26
A. The Regular Review of Public Compensation and Wages	26
B. The Role of Comprehensive Reviews of the Pay Structure	27
C. Other Implementation Considerations	29
 Boxes	
1. Three Case Studies of Regular Wage Setting: UK and Ireland, Denmark and Romania.	27
2. Three Case Studies of Structural Pay Design: Sweden, Latvia and Slovenia	28
 Figures	
1: Recent Trends in Government Spending on Compensation of Employees	11
2: Government Compensation of Employees and Employment, 2023 or LVA	13
3: Ratio of Average Wages to the National Average Level (Top 8 Largest Industries), 2023	14
4: Public Health Sector Wages Relative to Office Clerks, Pre- 2024-26 Reforms	15
5: Public Administration Salaries Relative to Total Average Wages, 2023	15
6: Primary School Teachers' Salaries Relative to Office Clerks	15
7: Sectoral Wages of Government Employees Relative to GDP Per Capita	16
8: Wage Compression in the Public Health Sector, P90/ P10	17
9: Wage Compression in the Public Education Sector, P90/ P10	17
10: Distribution of Public Employees by Industry, 2017, Share of Paid Government Employees	18
11: School Students Per School Teacher	19
12: Medical Doctors Per 10,000 Population, 1990-2021	19
13: Nurses and Midwives Per 10,000 Population, 1990-2021	19
14: Teacher-Student Ratio (LVA) and PISA Score (2011)	20
15: Doctors Per Capita and Life Expectancy	20
16: Summary of Key Issues Identified	21

17: Key Principles for Overall Reform Design.....	22
18: Illustrative Fiscal Impact from Reform Scenarios	24
19: Illustrative Employment Levels Across Scenarios, Change in Employment 2026-30	24
20: Illustrative Annual Nominal Wage Levels Across Scenarios	25
21: Evolution of Doctors' and Nurses' Relative Wages Under the Gradual Reform Scenario (Ratio to Clerks' Wages)	25
22: Illustrative Scenario of Annual Wage Bill Adjustment	26
23: Illustrative Example of Pay-Grid Design	28

Tables

1: Employment and Composition in the General Government, 2025	12
2: Illustrative Fiscal Impact from Reform Scenarios	24

Annexes

Annex I. Methodology for Reconciling and Projecting the Wage Bill	31
---	----

Acronyms and Abbreviations

ADB	Asian Development Bank
CD	Capacity Development
COLA	Cost of Living Adjustment
FAD	Fiscal Affairs Department
GDP	Gross Domestic Product
HRMIS	Human Resource Management Information System
ILO	International Labour Organization
IMF	International Monetary Fund
MoF	Ministry of Finance
MTBF	Medium-Term Budget Framework
OECD	Organization for Economic Cooperation and Development
OME	Office of Manpower Economics (UK)
SOE	State Owned Enterprise
WEO	World Economic Outlook
WPP	World Population Prospects

Preface

At the request of the Minister of Finance, a team from the IMF's Fiscal Affairs Department (FAD) visited Bishkek during the period November 3 – November 7 2025 to conduct a technical assistance mission on Public Compensation Management. The mission was led by Mr. Rodrigo Cerda and comprised of Mr. Nick Carroll (FAD) and Ms. Mengfei Gu (FAD). The purpose of the mission was to assess the issues in public compensation management with a particular focus on reviewing and updating government pay.

The mission met with the Minister of Finance, Mr. Almaz Baketayev, as well as the Deputy Ministers of Finance, Ms. Zhibek Duisheeva and Mr. Nurbek Akjolov. The mission also held technical meetings with the Ministry of Finance. The team is grateful for the support of Mr. Nuradil Karypbaev and his team in the Department of Staffing and Wage Analysis, for the coordination of a wide range of meetings and support for the information and data requests.

The mission team had meetings with the Ministry of Economy and Commerce, Ministry of Education, Ministry of Health and the Mandatory Health Insurance Fund, as well as the Ministry of Labour and the Social Fund. It also met with the World Bank and the EU delegation to the Kyrgyz Republic. We are grateful for the funding provided by the European Union under the Public Financial Management Partnership Program (EU PFM PP) for this mission.

The mission would also like to thank the IMF Resident Representative, Mr. Farid Talishli, local economist, Ms. Erkeaim Shambetova and the wider Resident Representative office for their cooperation in the coordination of the mission.

Executive Summary

The mission evaluated and provided recommendations on both the overall challenge of a high and volatile public-sector wage bill growth and the specific sectoral issues driving wage and employment pressures. At the aggregate level, the mission examined broad wage-bill dynamics, including trends in total compensation, fiscal sustainability, and the volatility of wage-bill spending. In parallel, it reviewed sector-level conditions by analyzing wage levels and dispersion across key public occupations, identifying recruitment and retention challenges, assessing gaps in wage structures and headcount, and comparing these with international benchmarks. This combined assessment provided the basis for identifying fiscal space and formulating policy options for targeted and sustainable wage adjustments. The aim of this technical assistance is to improve government employment effectiveness and efficiency. While equity considerations are relevant for the setting of government salaries, reducing overall income inequality should not be the primary goal of government salary adjustments.

Public compensation is relatively high and adjusted only infrequently. Government compensation of employees accounts for 9.5 percent of GDP. The Kyrgyz Republic has one of the highest government wage bills in the region. The wage bill has fluctuated between 8 percent and 10.5 percent in recent years, largely because nominal wages remain fixed for extended periods and are then subject to substantial adjustments. These large, intermittent increases in wages and salaries create risks to inflation and macroeconomic stability.

Wages for medical professionals have remained low, while salaries in General Public Administration Wages have been comparatively high. Prior to the 2024 wage adjustment, doctors' base salaries were broadly at the same level as administrative and managerial personnel, with differences in remuneration largely reflecting occupation-specific allowances and supplements. Following the 2024 wage reforms, doctors began earning approximately 1.3-1.5 times more than administrative personnel. While this represents a substantial improvement, the gap remains below the typical ratio of 2.5-5 observed in comparator countries. This disparity has contributed to a long-term decline in the number of doctors per capita, with similar trends seen among nurses. In contrast, General Public Administration salaries are roughly 25 percent higher than the national average wage, exceeding levels in some benchmark countries such as Armenia and Mongolia.

The 2026 Wage Bill reform significantly narrows the gap between medical professionals' salaries and those of their peers, but it comes at a high fiscal cost, creating a substantial one-time increase in spending. The wage hikes in 2024 and 2026 markedly improve the relative pay of doctors and nurses. However, the doubling of salaries in the social sector --including health and education-- in 2026 will lead to a sharp rise in expenditure, leaving limited scope for further adjustments.

A more gradual implementation of the 2026 wage adjustment would ease the need for difficult employment and prioritization decisions. The modelling presented in this paper shows that a phased approach can still close the gap for medical professionals while preserving fiscal space for future adjustments, if required.

Medium-term compensation reforms are essential. Over time, increasing the number of medical professionals and teachers will put additional pressure on the budget. Some fiscal space could be created by consolidating positions in public administration and non-teaching staff, as well as by moderating salary growth within public administration.

A regular mechanism for reviewing government wages and salaries should be established. This process should include periodic updates on key indicators such as inflation, fiscal space and job-specific labor market conditions. In addition, the provision allowing funds for health sector vacancies to be reallocated to existing staff should be removed, as it creates an incentive to leave positions unfilled and is inconsistent with sound Public Financial Management practices.

Table of Recommendations

	Issues	Recommendations
1	Large, infrequent wage and salary adjustments do not allow for salaries to keep track with the cost of living and undermine macroeconomic stability.	Introduce a regular and more frequent adjustment on government wages and salaries drawing on the international experience (including potentially targeted adjustments).
2	The large one-off increase in salaries in 2026 is expensive and imposes a large economic shock that can feed inflation.	Gradually implement the 2026 proposal for increases in salaries and wages over 2026-30.
3	The typical level of pay dispersion within occupations in the Kyrgyz Republic appears low relative to peers and may not support performance and talent management.	Undertake benchmarking and assessment of the relative wages and salaries of government employees within and across occupations. In coordination with the World Bank, consider whether some targeted pay-scale changes are needed over time to address labor market needs.
4	Low salaries of medical professionals have resulted in challenges with recruitment and retention and have resulted in a range of non-transparent payment practices.	Maintain the relative wages and salaries of doctors and nurses in the 2024-26 proposals. Review doctors per capita relative to domestic needs and peer countries and gradually increase the number of medical professionals over 2026-30.
5	Reallocating spending on vacancies to existing staff incentivizes the non-filling of positions and is not consistent with good practice.	With the increase in wages in the health sector, remove the provision that spending on vacancies can be reallocated to existing staff in the health sector.
6	General Public Administration salaries relative to average wages are high.	Subject to labor market conditions for specific positions, moderate growth in the wages of

		employees in general public administration over time.
7	Spending on educational wages and salaries are high and educational outcomes are weak.	Identify concrete measures to rationalize the non-teaching workforce, including options for consolidating roles where staffing levels are currently excessive. Using the 2026 wave of PISA, identify good global practice models of teaching, governance and leadership that could be applied to the Kyrgyz Republic.
8	A lack of a centralized database limits the ability to: (a) make policies to reduce reliance on ad hoc allowances to improve transparency, (b) undertake comparisons across institutions and occupations, and (c) strengthen monitoring and policy formulation.	Establish a centralized, comprehensive database covering wages, salaries and allowances for all government employees.

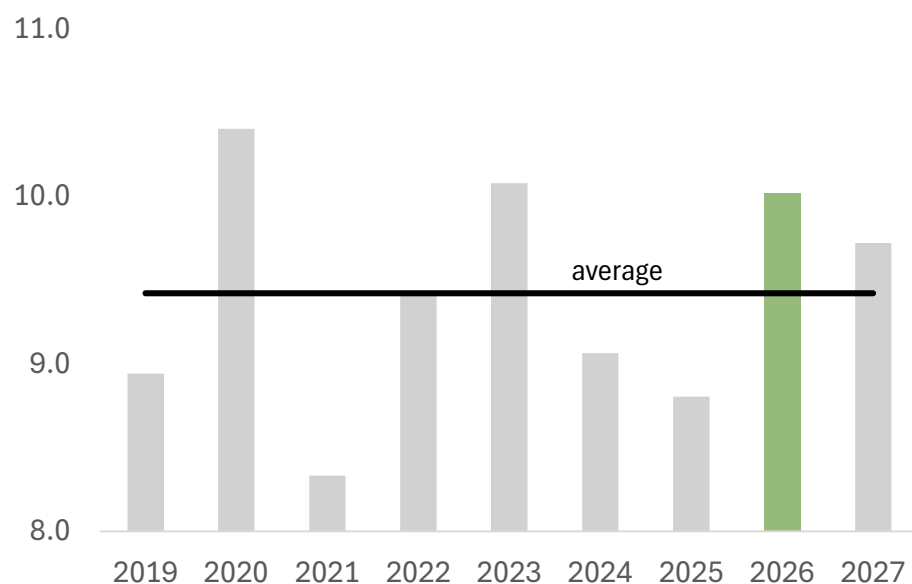
I. Background

- 1. The technical assistance mission aimed to evaluate strategies for improving the management of government wages and employment.** Its objectives included: assessing wage levels and their dispersion across key government occupations, examining recruitment, retention, and motivation challenges, identifying gaps in wages and headcount, exploring the best international practices and country experiences, and discussing fiscal space alongside policy options for wage adjustments.
- 2. This report should be read alongside the January 2025 scoping report on public compensation in the Kyrgyz Republic.** The IMF Capacity Development report from 2025 provided an overview of key issues in public compensation, highlighting data and modelling constraints. It analyzed recent pay adjustments, challenges in forecasting the wage bill and summarized previous work on system limitations affecting wage bill management (including regulatory and public financial management issues). Building on that foundation, this mission focuses on assessing wage and employment differences across sectors and developing a streamlined, fit-for purpose framework to evaluate the fiscal sustainability of various options based on the available data.
- 3. This report offers a rapid assessment of public compensation spending, drawing primarily on available payroll data and the professional judgement of staff.** The figures presented are illustrative of the potential impact of reforms, and further detailed analysis will be required to validate these findings. Several data challenges remain. For instance, payroll data is reported by position rather than by individual, requiring adjustments to account for staff holding multiple positions. Estimates for 2024–2026 rely on assumptions regarding the relationship between aggregate and sector payroll data, the impact of reforms on sectoral salaries, and natural growth in government employment. Additionally, some of the regular Kyrgyz payroll data reporting includes social security contributions, while others exclude them, creating inconsistencies that must be addressed. A lack of international comparable data, means that different comparators are used at various points in the report for benchmarking.
- 4. The medium-term focus on public compensation reforms is less constrained by debt levels and more by the need to improve the efficiency of public spending.** Although the Kyrgyz government reduced public debt to about 36.6 percent of GDP by end-2024—providing apparent room for budget maneuver--, the key challenge is ensuring that higher wage spending translates into better services and improved human-capital outcomes. The policy debate therefore centers not on fiscal sustainability by itself, but on whether existing resources are used effectively, how compensation reforms can support productivity, and how to align wage increases with broader efforts to strengthen expenditure efficiency. Nevertheless, the large pipeline of infrastructure and development projects will increase gross financing needs and underscore the need for careful prioritization and medium-term fiscal sustainability.
- 5. In 2022, the government prioritized improving government remuneration to boost motivation and retain skilled workers.** Average civil servant salaries have increased sharply but intermittently, supported by stronger tax revenue mobilization and efforts to reduce public debt. For instance, in 2022 there was a doubling in salaries for some occupations. These adjustments aimed to increase public compensation faster than inflation. According to the IMF Country Report No. 24/64, sustained economic growth in the Kyrgyz economy has enabled these adjustments in public sector pay.

6. The 2026 wage bill would bring public compensation back to levels more in line with the upper range observed in comparable economies (Figure 1). Historically, wages and salaries have exhibited pronounced year-to-year volatility, with periods of nominal freezes followed by sizable adjustments. As a result, government spending on the wage bill has fluctuated between 8.3 percent and 10.4 percent, at times diverging from levels seen in peer countries with similar income levels and public-sector structures. Key recent adjustments or proposals to government pay since 2023 include:

- 2024: A decree increased health sector remuneration, including 50 percent raise for doctors and 25 percent for nurses.
- 2025: Pay equalization of 7-25 percent for the lowest paid employees across government that compressed wages between medium and high earners.
- 2026: 63 percent increase in remuneration for the social sector, followed later by a 26 percent increase for the central apparatus.

Figure 1: Recent Trends in Government Spending on Compensation of Employees



Source: IMF staff calculations based on data provided by the Ministry of Finance. Excludes spending on social funds.

Note: The 2027 value reflects the budget draft, which is lower than the baseline wage-bill projection.

7. It is important to avoid large and infrequent adjustments to public sector wages, as such practices tend to amplify macroeconomic volatility. Recent episodes of sizable, discretionary, and procyclical wage increases have generated significant inflationary pressures, particularly when implemented in a stop-and-go manner rather than through predictable, gradual adjustments. Large wage hikes can place immediate demand pressures on the economy and spill over into higher private-sector wages, contributing to broader inflation dynamics that take time to unwind. Experience in Mongolia illustrates these risks: episodes of sharp public-sector wage increases were followed by persistent inflationary pressures and economy-wide wage spillovers, complicating macroeconomic management, as documented in IMF Working Paper WP/23/64.

8. The adjustments in public compensation have varied significantly across different sectors.

Health and education have been prioritized with substantial salary increases aimed at attracting and retaining qualified professionals. Teachers and healthcare workers received large pay raises compared to previous years, addressing some of the challenges in these essential services. However, disparities persist, as some sectors continue to lag behind in compensation levels. This raises concerns about equity and fairness within the broader public service. The IMF's 2023 Article IV Mission underscores the importance of maintaining competitive salaries in these priority sectors to enhance service delivery and sustain workforce quality.

9. General government compensation spending was estimated at 9.5 percent of GDP in 2025

(Table 1). This allocation primarily covered basic salaries which accounted for approximately 73 percent of the total, while allowances and additional payments represented about 27 percent, with the remainder directed to pensions and related obligations. Notably, revenue-collecting agencies have the authority to grant supplementary allowances and payments to their employees beyond these standard provisions.

10. The educational workforce represents 55 percent of the public sector's workforce and accounts for 45 percent of total compensation spending. The health workforce comprises 22 percent of government employment and 19 percent of compensation. Employment in Other Public Administration totals 63100 people, with annual remuneration --including social contributions-- amounting to 666,200 SOMS per year (or 23 percent of employment and 25 percent of remuneration).

Table 1: Employment and Composition in the General Government, 2025

	Number of Employees		Compensation		Remuneration per employee	
	Thousands	% of Working Age Population	Millions (SOMS)	% of GDP	thousand (SOMS)	ratio of GDP per capita
General Government	275.6	6.3	170188	9.5		
Education	151.6	3.5	60635	3.4	399.9	1.6
Health	60.8	1.4	32787	1.8	539.0	2.2
Other Public Admin	63.1	1.4	42066	2.3	666.2	2.7
Other payroll spending			34699	1.9		

Source: IMF staff calculations based on data provided by authorities, the Government Financial Statistics and the National Statistical Committee.

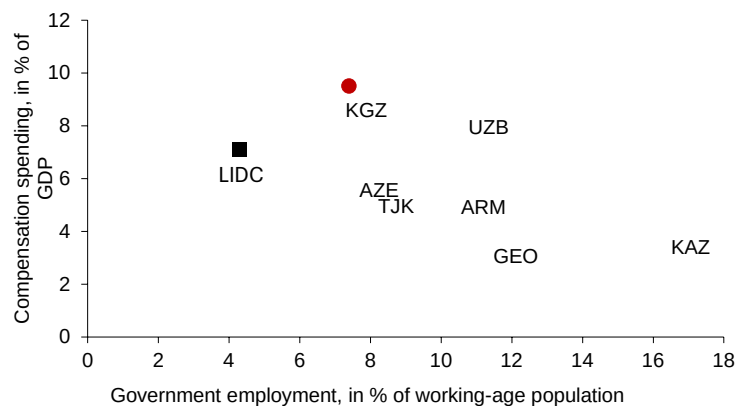
Note: Health includes spending by the Medical Insurance Fund. Compensation includes employer social contributions and spending on the Social Fund (and so it differs from Figure 1 above).

Note: The 2025 figures shown are IMF staff estimates derived through reconciliation of payroll, budget, and statistical sources and do not represent official Ministry of Finance administrative statistics. Estimates combine Ministry of Finance payroll aggregates, National Statistical Committee data, adjusted headcount estimates and assumptions regarding positions per employee. The table is intended for wage bill analysis and scenario modelling rather than as an official employment count.

11. The Kyrgyz Republic maintains a relatively high wage bill and a larger government workforce compared to the average low-income country. It allocates a higher share of GDP to public compensation and employs more personnel than low-income peers, though its workforce remains smaller than that of regional counterparts (Figure 2). Public compensation amounts to about 9.5 percent of GDP—above regional averages—while IMF estimates of employment in general government is 7.5 percent of the working-age population. The employment figure reflects an updated estimate that incorporates previously unrecorded salary payments into the official headcount. According to data from the National Statistical Committee, employment in public administration represented approximately 3.9

percent of the working-age population in 2024. The difference reflects the broader coverage of the general government measure used in this report, which includes employment in sectors such as education and health in addition to public administration.

Figure 2: Government Compensation of Employees and Employment, 2023 or LVA



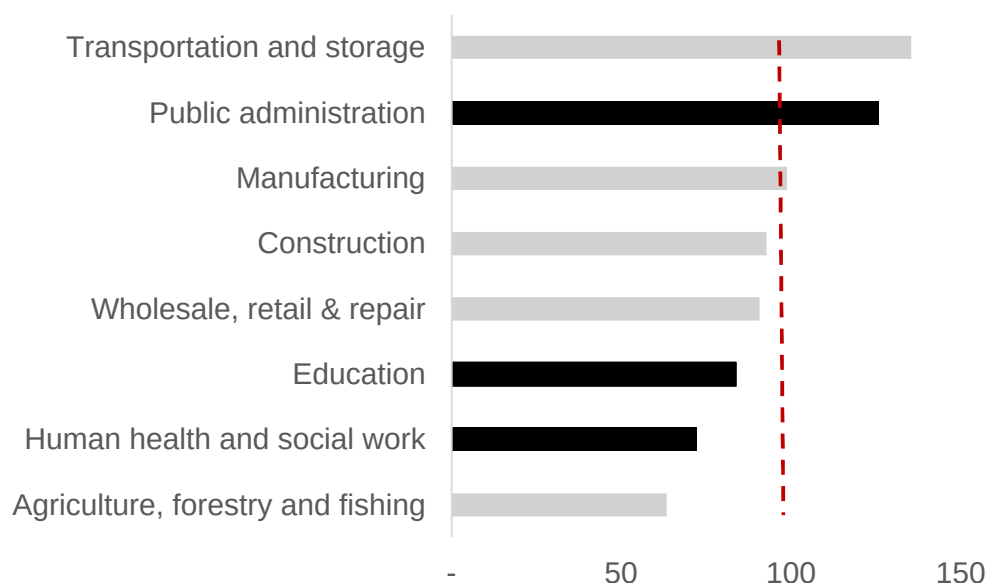
Source: Staff calculations based on WEO and ILO data. Note: an adjustment for employment by 50,000 is assumed to take account of “unaccounted” salaries.

II. Sectoral Issues in Health, Education and Public Administration Employment and Wages

A. Issues in the Relative Remuneration Across Sectors

12. Prior to the reform, social sector wages in 2023 were significantly lower than those in other industries (Figure 13). Health sector wages averaged 72 percent of the overall wage level, while education sector wages stood at 84 percent of average. In contrast, wages in public administration were 26 percent above average. The 2024-26 reform program aimed to reduce these disparities and strengthen motivation, retention, and recruitment across government (see paragraph 6 above).

Figure 3: Ratio of Average Wages to the National Average Level (Top 8 Largest Industries), 2023



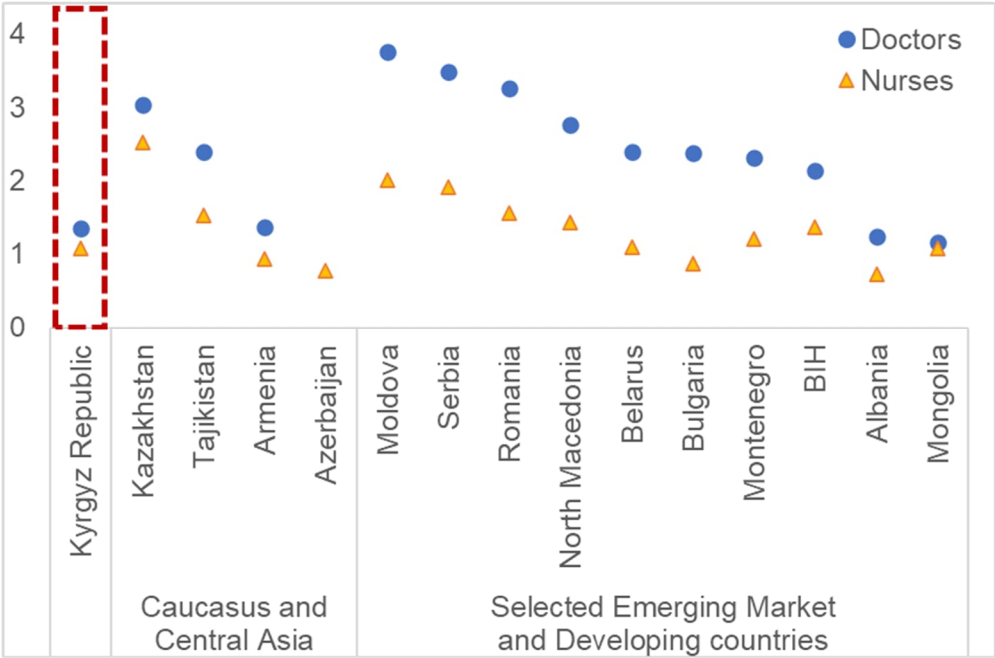
Source: IMF staff calculations based on data from the National Statistical Committee of the Kyrgyz Republic.

13. Prior to the 2024 health sector reforms, doctors' base salaries were broadly aligned with administrative personnel, with differences arising primarily through allowances and supplements linked to the nature of the work. Before the adjustments, doctors' relative wages in the Kyrgyz Republic were low compared to international peers (Figure 4). In most countries, doctors typically earn three to four times more than clerical positions, yet in Kyrgyz their earnings were only about 1.3 times higher than clerical occupations prior to the 2024 adjustments. Nurses also received lower relative wages than their counterparts in other countries.

14. Using 2023 data, relative salaries in public administration were higher than those in peer countries, while school teachers' wages were broadly comparable. In a sample of peer countries, public administration salaries in the Kyrgyz Republic were 1.3 times the average wage --below the ratios observed in Türkiye and Georgia, but significantly above those in Mongolia, Armenia and Bosnia (Figure 5). Using an alternative measure, based on salaries relative to clerical positions, primary school teachers'

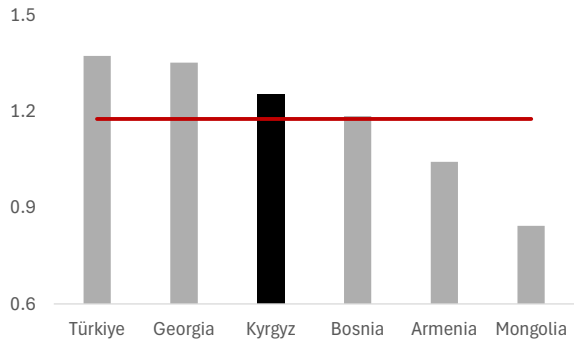
wages were slightly below both the median and mean values, yet remained within the normal range of relative levels (Figure 6). To put it another way, Kyrgyz teachers earned 1.4 times that of office clerks, which was close to the median value of 1.5 times office clerks, but above the 25th percentile ratio of 1.2 in the sample.

Figure 4: Public Health Sector Wages Relative to Office Clerks, Pre- 2024-26 Reforms



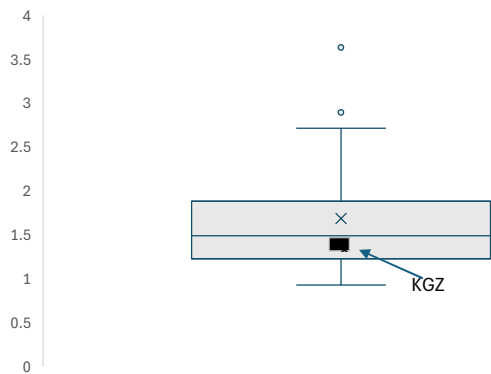
Source: World Bank Bureaucracy Indicators.

Figure 5: Public Administration Salaries Relative to Total Average Wages, 2023



Source: ILO and National Statistical Committee (for Kyrgyz).

Figure 6: Primary School Teachers' Salaries Relative to Office Clerks

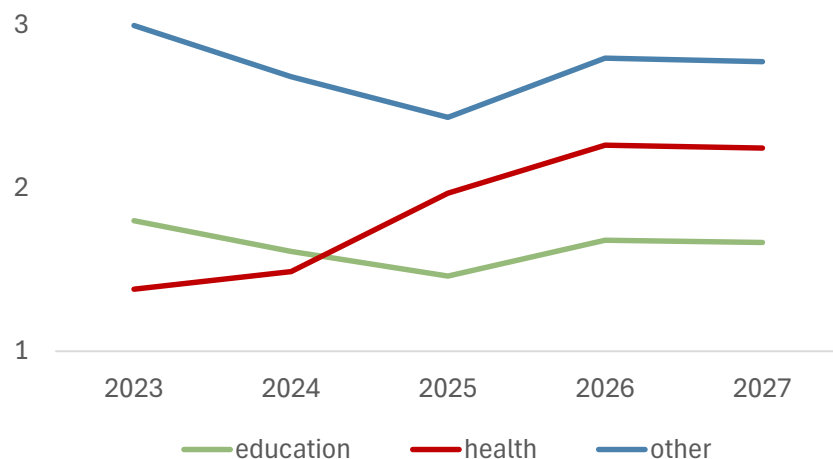


Source: World Bank Bureaucracy Indicators, from 2017.

15. The reforms implemented between 2024 and 2026 significantly increased health sector wages relative to GDP per capita. Figure 7 shows the distribution of primary school teachers' salaries relative to office clerks across countries: the box represents the interquartile range, the line inside the box the median, the whiskers the broader range, and dots indicate outliers. The black square marks Kyrgyz

Republic (KGY), indicating where it sits relative to the international distribution—teachers' salaries are only modestly higher than those of office clerks compared with peers. A key objective of these changes was to raise health sector pay compared to education and public administration. As a result, average wages in the health sector rose from 1.4 times GDP per capita in 2023 to 2.3 times GDP per capita in 2026. Assuming clerical pay grows in line with GDP per capita, the ratio of doctors' salaries to clerks' wages – shown in the earlier Figure would increase from 1.35 in 2023 to approximately 2 in 2027.

Figure 7: Sectoral Wages of Government Employees Relative to GDP Per Capita



Source: IMF Staff estimates based on authorities' data on payroll and employment and assumptions about the ratio of positions to employment. The figures differ from the above because these estimates exclude social security contributions paid on behalf of employees.

16. It is essential to look beyond average wages and consider whether the degree of dispersion within occupations can reward experience while maintaining fairness (OECD, 2024).¹

Wage dispersion refers to the gap between the highest (90th percentile) and lowest salaries (10th percentile), typically measured by the compression ratio. In most cases, this ratio ranges from 1:3.5 and 1:10. Across OECD countries, pay structures often include systematic progression based on seniority, performance, or a combination of both, offering employees a clear path to advancement. To address recruitment and retention challenges in high-demand sectors such as information technology, healthcare, and finance organizations frequently use market supplements or targeted allowances. These measures are usually supported by evidence of skill shortages (such as unfilled vacancies, high turnover rates and qualitative information on employee satisfaction) and are periodically reviewed to ensure internal equity.

17. The optimal level of dispersion should balance recruitment needs with equity. It must reflect several key factors. First, attractiveness for top talent - overly compressed pay reduces incentives for ambitious or highly skilled individuals to join or remain in public sector careers. Second, retention of senior staff - when wage progression is limited, experienced employees may feel undervalued, increasing the risk of turnover at higher levels. Finally, equity and motivation - excessive dispersion can undermine

¹ Source: OECD (2024), Salary systems in Public Administration and their reforms.

perceptions of fairness and demotivate lower-paid staff, while too little dispersion makes it difficult to recognize responsibility and expertise appropriately.

18. Government wages in public health and education in the Kyrgyz Republic are characterized by low average levels and high compression relative to other countries, suggesting that the elevated wage bill reflects employment levels rather than high pay (Figures 8 and 9). In the health sector, wages at the 90th percentile are only 3.6 times those at the 10th percentile, compared with ratios ranging from 3 to 7 elsewhere, while compression is even more pronounced in education, where the 90th-percentile wage is just twice the 10th-percentile wage, compared with ratios of 2 to 5 in peer countries. Given these low and compressed wage structures, the comparatively high wage bill appears to be driven primarily by the size and composition of public employment—particularly the large number of non-teaching staff in education—rather than by elevated wage levels. Distinguishing between wage structure and staffing levels is therefore critical for understanding the sources of wage-bill pressures and for designing targeted reform options.

Figure 8: Wage Compression in the Public Health Sector, P90/ P10

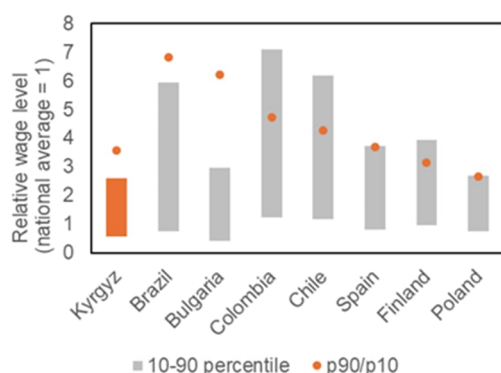
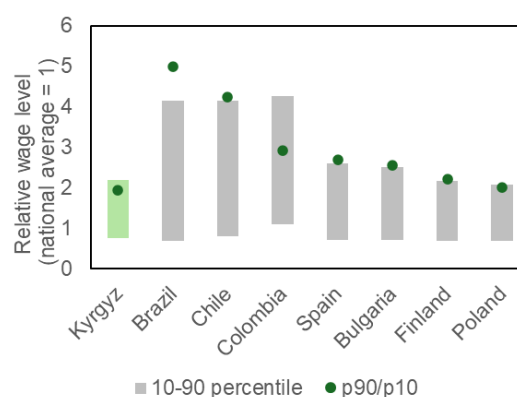


Figure 9: Wage Compression in the Public Education Sector, P90/ P10



Source: IMF staff estimates based on Luxembourg Income Study and from Kyrgyz authorities.

Note: The wage compression ratio in public education is calculated using Ministry of Education estimates. Using Ministry of Finance data instead yields a ratio of 4.7, meaning the 90th-percentile wage is 4.7 times the 10th-percentile wage. The divergence across data sources underscores substantial measurement differences, indicating that these figures should be interpreted with caution and are not, on their own, a sufficient basis for drawing firm conclusions.

B. Issues in Employment Across Sectors

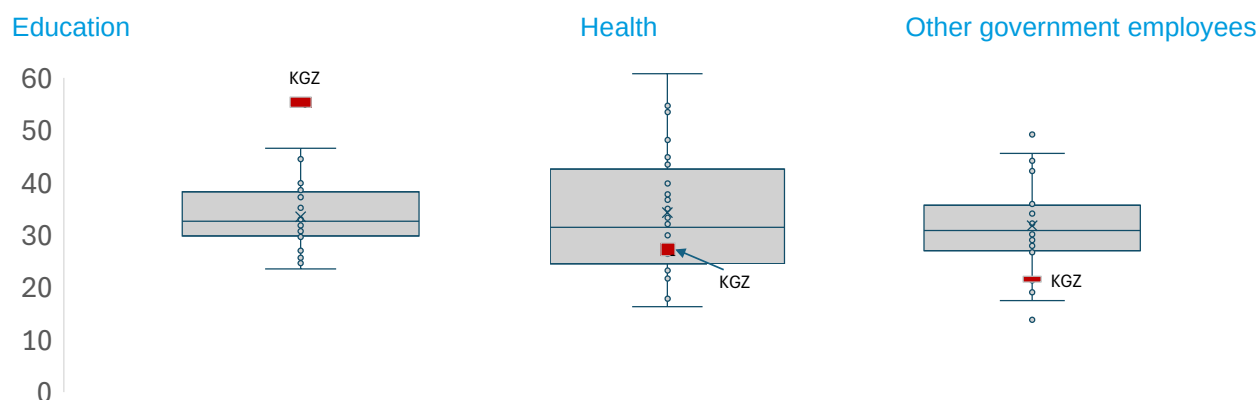
19. The Kyrgyz workforce includes a large educational workforce compared to other countries (Figure 10). Nearly half of all government employees work in the education sector, one of the highest shares among benchmarked countries, compared to a median of about 30 percent. It is important to note that many teachers in the Kyrgyz Republic work fewer than 30 hours per week, meaning full-time equivalent employment may be lower than the headcount suggests. Another notable feature is the size of the non-teaching workforce, which accounts for 36 percent of the total employment in education.

20. The size of the education workforce in the Kyrgyz Republic is not explained by an unusually low student-teacher ratio. In fact, the number of teachers per student is not particularly high compared to other countries (see Figure 11). This suggests that the main drivers are large school-age population and a relatively high ratio of non-teaching to teaching staff. High-performing countries such as Nepal, Mongolia and Vietnam demonstrate that strong education outcomes can be achieved even with higher teaching-to-student ratios, highlighting that efficiency and staffing composition matter as much as overall workforce size.

21. The health workforce is a smaller share of total government employment, with about 25 percent of government employees working in the health sector. This is below the median of 33 percent and the mean of 35 percent observed in comparator countries (Kazakhstan, Russian Federation, Tajikistan and Uzbekistan). Moreover, the number of doctors and nurses per 10,000 population has been declining over the long term (Figure 12 and Figure 13).

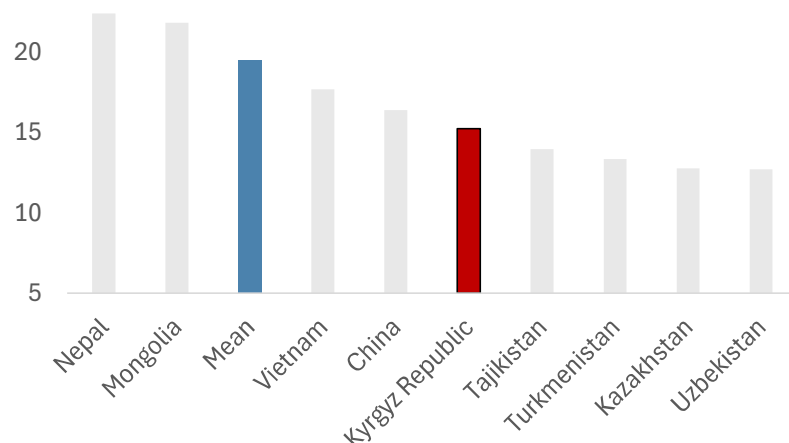
22. Employees outside health and education do not constitute a particularly large share of the government workforce. Employees outside health and education account for only 22 percent of government employment, compared with a typical share of 31 percent in benchmarked countries. This group is highly diverse, including civil servants, sector-specific staff, municipal employees, and some workers whose roles fall outside of these categories.

Figure 10: Distribution of Public Employees by Industry, 2017, Share of Paid Government Employees



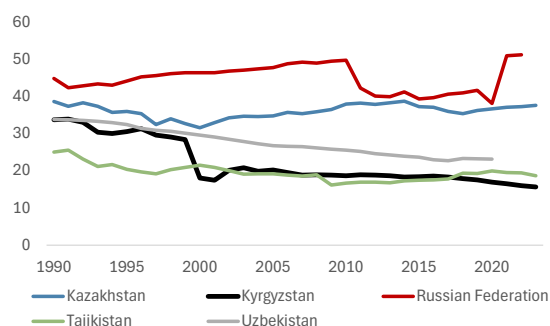
Source: Staff estimates based on Worldwide Bureaucracy Indicators (2017) for samples of 28 European countries, national authority estimates for 2025, including adjustment for positions per staff member as well as an estimate of unidentified staff members.

Figure 11: School Students Per School Teacher



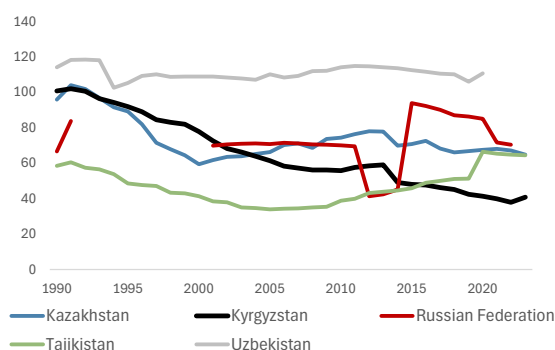
Source: IMF staff estimates based on World Bank data.

Figure 12: Medical Doctors Per 10,000 Population, 1990-2021



Source: WHO, 2025, Global Health Observatory.

Figure 13: Nurses and Midwives Per 10,000 Population, 1990-2021



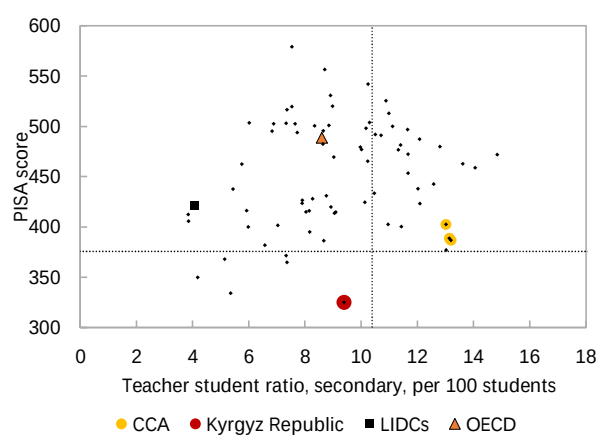
Source: WHO, 2025, Global Health Observatory.

23. Overall spending efficiency appears relatively high in health but low in education.

Workforce outcomes depend not only on the number of employees but also on their efficiency and effectiveness. As noted earlier, the teacher-student ratio is not particularly high; however, educational outcomes in the Kyrgyz Republic have historically lagged behind those of other countries (Figure 14).² In contrast, the health sector shows a different pattern: Healthy Life Expectancy (HALE) in the Kyrgyz Republic is comparatively high relative to the number of doctors per capita (Figure 15).

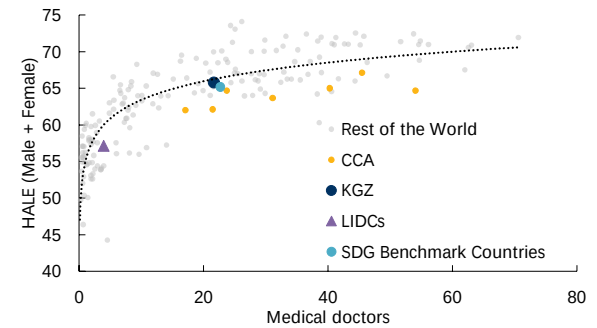
² Note that the Kyrgyz Republic is participating in the 2026 PISA cycle and updated will be available to provide updated education efficiency estimates.

Figure 14: Teacher-Student Ratio (LVA) and PISA Score (2011)



Source: IMF staff estimates based on data from the World Bank and OECD.

Figure 15: Doctors Per Capita and Life Expectancy



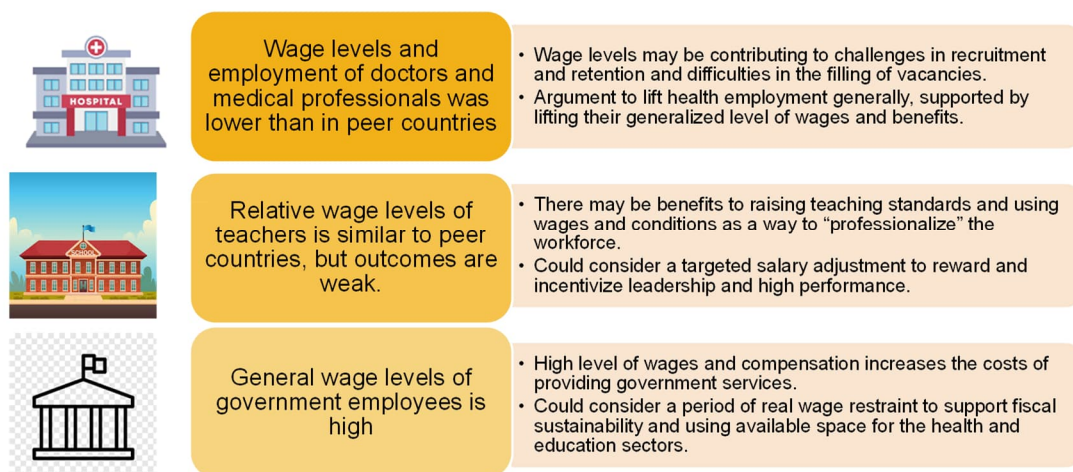
Source: IMF staff estimates based on data from the World Bank and WHO.

III. Options for Reform

A. Key Principles for Designing Reform Options and Avoiding Abrupt Wage Adjustments

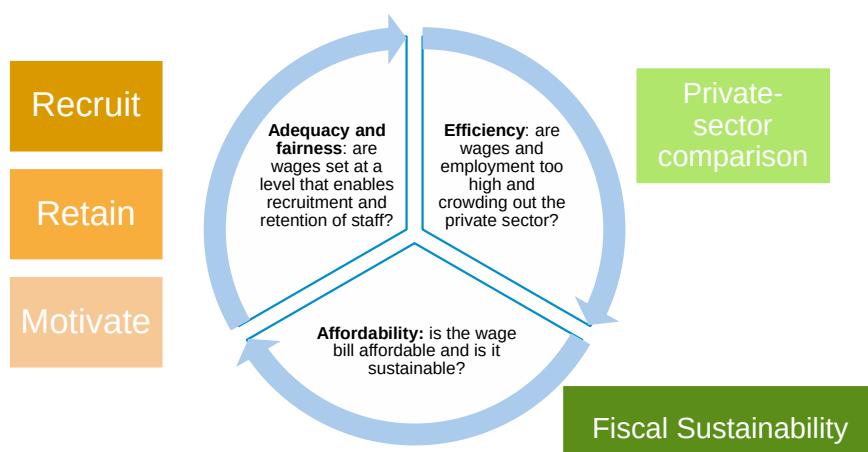
24. The issues outlined in the last section point to several areas that require reform. Three broad conclusions emerge (see Figure 16). First, wages and employment in the health sector remain low, signaling a need for targeted interventions. Second, relative wage levels in education are comparable to peer benchmarks, yet employment in this sector is high, suggesting different dynamics at play. Third, other government employees exhibit relatively low employment levels but receive high wages per person, highlighting an imbalance.

Figure 16: Summary of Key Issues Identified



25. Reform options should strike a balance between recruitment and retention needs, while ensuring equity, efficiency and affordability. Although there are key areas for reform, there are guiding principles. Figure 17 presents a simple “reform design triangle” that highlights three tests any wage-bill/compensation reform package should pass simultaneously: adequacy and fairness (are wages set high enough—and distributed fairly enough—to recruit and retain staff), efficiency (are wages and employment appropriately sized, and do they avoid distorting the labor market), and affordability (does the package fit within budget constraints and remain robust to shocks). The callouts around the triangle emphasize how to operationalize these tests: on the left, reforms should support the HR objectives to recruit, retain, and motivate; on the right, reforms should be benchmarked against private-sector comparators to avoid misalignment; and at the bottom, “affordability” links back to the broader macro-fiscal anchor (often summarized as fiscal sustainability in the surrounding text), ensuring reforms are not only desirable but also feasible over time.

Figure 17: Key Principles for Overall Reform Design



B. Modelling Reform Options

26. The mission developed a simplified wage bill projection and simulation framework that provides general directions and the size of the impact for potential reforms. In line with the Government Finance Statistics Manual 2014 (GFSM 2014), the projections and simulations include wages, employer social security contributions, and social fund transfers covering compensation costs. The framework encompasses both republican and local government, reflecting general government wage bill. Due to the absence of individual-level data, projections rely on aggregate government compensation expenditures by sector from treasury execution and other data provided by the Ministry of Finance. Sector-specific wages per employee and employment are modeled separately to support analysis of sectoral policy reforms (based on data provided by the authorities). Given the data constraints outlined in Annex I, the reform scenarios presented in this section should be taken with caution.

27. The baseline scenario assumes no policy changes and reflects the authorities' current wage adjustment plan. On the compensation side, the model incorporates the scheduled wage increases for education, health, and public administration starting in April 2026, with the full-year impact realized in 2027. Nominal wages are assumed to remain unchanged during 2028–29, followed by a cumulative five-year CPI-based adjustment in 2030.³ This approach aligns with the authorities' historical practice of implementing infrequent but substantial wage increases, followed by periods of limited or no adjustments. On the employment side, headcount in the education sector is projected to grow in line with population trends, while employment in other sectors remains constant.

28. Under the baseline scenario, the wage bill is projected to rise to 10.8 percent of GDP in 2026, placing it at a high level by international standards and moving the Kyrgyz Republic further above the range observed in comparable countries. It is expected to increase further to 10.9 percent of GDP in 2027, reflecting the full-year impact of the wage adjustment and approaching the 2023 peak of 11.0 percent of GDP. This upward trend leaves little room for further wage increases without requiring difficult trade-offs with other spending priorities and indicates rising pressure on the budget as the wage

³ The five-year cumulative CPI growth is about 22 percent.

bill moves further above levels observed in comparable countries. **The mission analyzed several reform scenarios to illustrate alternative wage bill trajectories, each based on different assumptions regarding employment growth, wage adjustments, and sectoral prioritization.** Among these, a gradual wage-adjustment path emerges as the most fiscally sustainable option, enabling the authorities to narrow wage gaps and mitigate macro-fiscal risks. The results are presented below in Table 2 and Figure 18, and are described in detail below.

- *Scenario 1 assumes the implementation of the authorities' proposed 2026 wage package, with its full-year impact realized in 2027. Starting in 2028, wages are projected to grow in line with inflation, averaging 5 percent annually. Employment policy remains unchanged from the baseline - headcount in the education sector increases in line with population growth, averaging 2.1 percent, while employment in other sectors stays constant throughout the projection period. This approach produces a smoother wage bill trajectory from 2028 onward compared with the baseline. Introducing CPI-based wage adjustments in 2028 and 2029 adds costs of 0.5 and 0.9 percent of GDP, respectively. Nevertheless, by 2030 the wage bill declines to 9.6 percent of GDP, which is lower than under the baseline scenario.*
- *Scenario 2 involves reallocating the 2026 wage package and smoothing wage growth over the projection period, rather than implementing the large increase assumed under the baseline⁴. An additional inflation adjustment of 5 percent is applied in 2030 for the education and health sectors compared to other sectors. Employment policy remains unchanged from the baseline. This approach results in a more gradual and fiscally sustainable wage bill trajectory, with the wage bill steadily declining and stabilizing at 8.6 percent of GDP by 2030, generating saving of 1.4 percent of GDP compared to the baseline.*
- *Scenario 3 maintains the wage adjustments assumed under the baseline for 2026–29 but introduces savings measures by freezing wages in the public administration sector. In 2030, cumulative CPI-based adjustments are applied only to the health and education sectors. Employment remains fixed at the general government level, creating fiscal space through a combination of limited wage growth in public administration and a stable headcount. This approach yields savings of 0.9 percent of GDP in 2030. A zero-growth employment policy does not preclude hiring new teachers or doctors; rather it enables redeployment within a fixed total headcount. Compared to the baseline, this scenario reduces overall employment by about 13,000 positions over 2026–30, primarily through reallocations from non-teaching education staff and public administration.*
- *Scenario 4 adopts the gradual adjustment approach outlined in Scenario 2 but prioritizes health sector employment growth in line with population trends throughout the projection period. Employment in the education sector is also assumed to grow with population, as in the baseline, while headcount in public administration remains fixed. This measure enables the hiring of approximately 6,600 additional health workers over the forecast horizon (Figure 19). The*

⁴ An annualized wage growth rate of 8 percent in education, 9 percent in health, and 5 percent in public administration.

resulting wage bill trajectory is like Scenario 2 but comes at a higher cost, delivering savings of 1.2 percent of GDP in 2030 compared to the baseline.

Table 2: Illustrative Fiscal Impact from Reform Scenarios

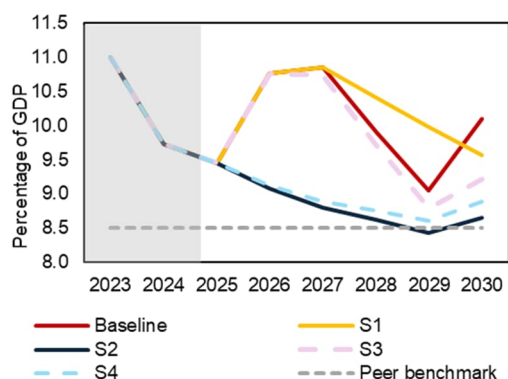
(relative to baseline, percent of GDP)

Scenarios	2026	2027	2028	2029	2030
Baseline: 2026 package with delayed wage adjustment	10.8	10.9	9.9	9.0	10.1
S1: 2026 package with CPI wage adjustments starting in 2028	0.0	0.0	0.5	0.9	0.5
S2: Reallocation of the 2026 package with gradual adjustment	-1.7	-2.0	-1.3	-0.6	1.4
S3: 2026 package with savings options	0.0	-0.1	-0.2	-0.3	-0.9
S4: Gradual wage adjustment with priority for health employment	-1.6	-2.0	-1.2	-0.4	-1.2

Source: Kyrgyz republic authorities, IMF staff calculations.

Note: The table shows the fiscal impact of each scenario with respect to the baseline. Positive values indicate savings. E.g., S1 reduces the wage bill to $10.1 - 0.5 = 9.6$ in 2030.

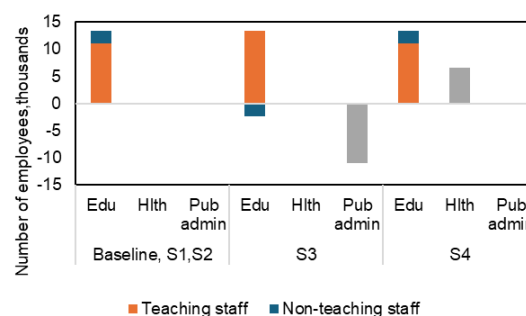
Figure 18: Illustrative Fiscal Impact from Reform Scenarios



Source: Kyrgyz republic authorities, IMF staff calculations.

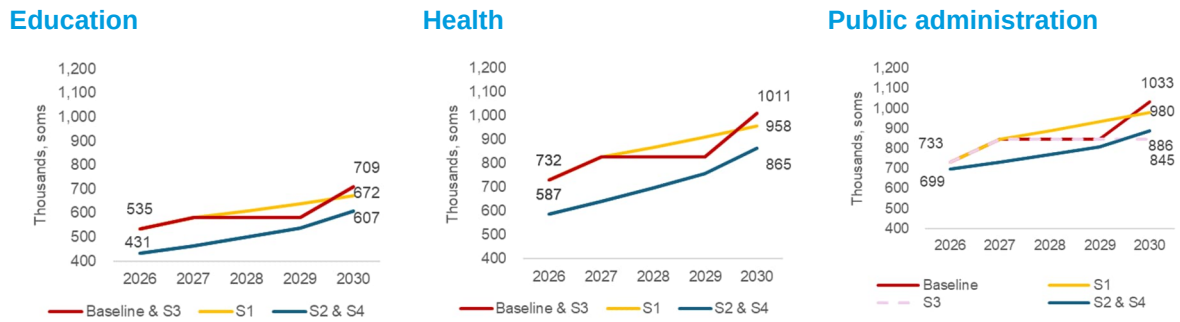
Note: Baseline = 2026 package with delayed wage adjustment; S1 = 2026 package with CPI-based wage adjustments starting in 2028; S2 = reallocation of the 2026 package with gradual adjustment; S3 = 2026 package with savings options; S4 = gradual wage adjustment with priority for health employment.

Figure 19: Illustrative Employment Levels Across Scenarios, Change in Employment 2026-30



29. Under the baseline, the 2026 reform allows health-sector wages to adjust rapidly, but the front-loaded profile raises spending early in the projection horizon, leaving limited scope for subsequent adjustments and increasing upward pressure on public debt dynamics over the medium term as higher primary spending persists. Achieving a sustainable wage bill will require difficult trade-offs. Scenario 3 offers a cost-saving option by holding general public service wages constant in nominal terms (Figure 20). Scenarios with more gradual increases provide a smoother and more sustainable trajectory. Gradual implementation of the 2026 package, as in Scenarios 2 and 4, enables wages to rise steadily, helping close gaps for medical professionals while reducing the need for sharp adjustments elsewhere. Under Scenario 2, doctors' and nurses' relative wages can reach Tajikistan's level by 2028 and gradually move toward Kazakhstan's level thereafter (Figure 21).

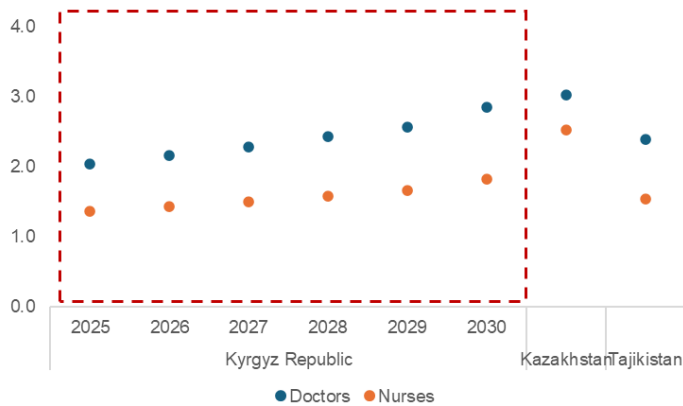
Figure 20: Illustrative Annual Nominal Wage Levels Across Scenarios



Source: Kyrgyz republic authorities, IMF staff calculations.

Note: Wage levels are gross of social security contributions and reflect per-employee earnings after accounting for staff who hold multiple positions. Baseline = 2026 package with delayed wage adjustment; S1 = 2026 package with CPI-based wage adjustments starting in 2028; S2 = reallocation of the 2026 package with gradual adjustment; S3 = 2026 package with savings options; S4 = gradual wage adjustment with priority for health employment.

Figure 21: Evolution of Doctors' and Nurses' Relative Wages Under the Gradual Reform Scenario (Ratio to Clerks' Wages)



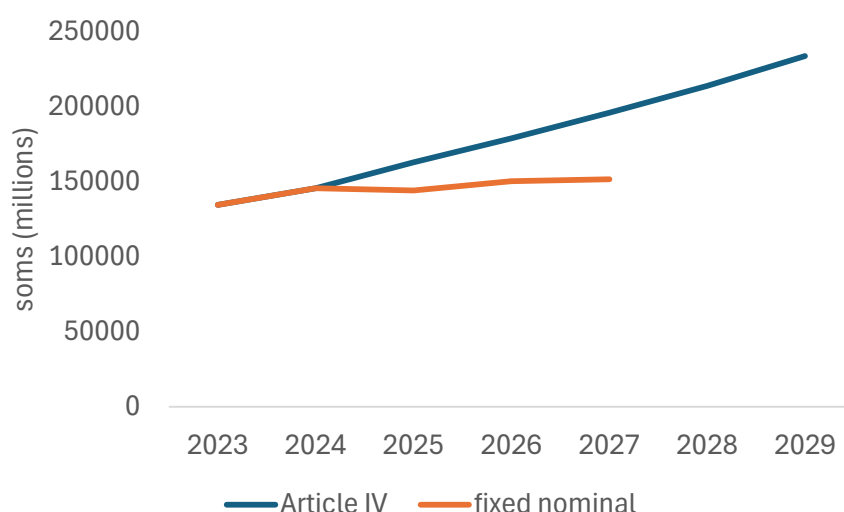
Source: IMF staff estimates based on World Bank Bureaucracy indicators and authorities' payroll data.

IV. Implementation of Reforms

A. The Regular Review of Public Compensation and Wages

30. Wage levels can be adjusted through the regular review process. The previous section outlined scenarios for reform, and the first way to implement these is through the standard mechanism for annual adjustments of wages and employment through the budget and related processes. This approach is reflected in the trajectory of total wage spending shown in Figure 22. Adjustments are typically based on monitoring high-level macroeconomic data and are carried out every one to two years. The process usually involves collaboration between the Ministry of Finance, which sets the overall budget envelope, and the relevant sectoral agencies, which identify specific workforce needs, all within the framework of the budget cycle and supported by specialized units.

Figure 22: Illustrative Scenario of Annual Wage Bill Adjustment



Source: IMF, 2025, Staff Report on the Kyrgyz Republic Article IV consultation.

31. Wages and salaries should be updated regularly to reflect inflation, changes in the cost of living and developments in private-sector wages, as well as broader labor-market conditions. Best practice is to combine workforce planning with an assessment of fiscal space to guide adjustment in wages, salaries and employment as circumstances permit. During periods of high inflation and tight labor markets, public wage policy must strike a careful balance between attracting and retaining skilled civil servants and avoiding actions that could exacerbate inflationary pressures.

32. Wages and compensation should be updated regularly to maintain competitiveness and fairness. Automatic indexation poses significant risks to fiscal sustainability and inflation control. Therefore, most countries regularly update the payroll envelope without directly linking wages to inflation or other macro-economic indicators (IMF, 2023), which reduces flexibility in managing fiscal priorities. Moreover, tying pay to the Consumer Price Index can entrench inflationary pressures and create spillover effects into the private sector. Three case studies of regular wage setting are outlined below (Box 1).

33. A regular mechanism for reviewing government wages should be established.

The Department of Staffing and Wage Analysis within the Ministry of Finance, in coordination with other ministries, should prepare an annual report on compensation policies that align with fiscal sustainability and labor market trends. The report should draw on analysis from Household survey conducted by the National Statistics Committee, data from the new Centralized Accounting System, and relevant international evidence. Its findings would guide the Ministry of Finance and the Cabinet of Ministers in decisions on public wage-setting. If needed, the IMF can provide training to the Department on headcount and payroll analysis.

Box 1. Three Case Studies of Regular Wage Setting: UK and Ireland, Denmark and Romania

Pay review bodies have played an important role in analyzing data and guiding wage adjustments in the United Kingdom and Ireland. In the UK, eight pay review bodies provide critical input for monitoring and informing wage adjustments for more than 45 percent of public sector staff, excluding civil servants and local government employees.

Denmark applies a decentralized wage-setting approach through collective bargaining. The wage bill is linked to programs rather than strict employment limits, allowing institutions to decide whether to hire fewer staff and offer more competitive pay within an overall budget. This approach provides significant flexibility in wage bill planning while maintaining a centrally determined budgetary envelope set by the Ministry of Finance.

Romania relies on strategic workforce planning led by a centralized agency. The Ministry of Labour and Social Solidarity (MLSS) is responsible for preparing annual normative acts to enforce Framework Law No. 153/2017, guiding public institutions in applying the wage system and monitoring compliance. Line ministries assist in implementing wage legislation and may develop normative acts related to specific bonuses. The Ministry of Finance oversees wage bill planning and monitors personnel-related expenditures, supporting MLSS in collecting pay data.

Source: OECD (2024), Salary systems in Public Administration and their reforms.

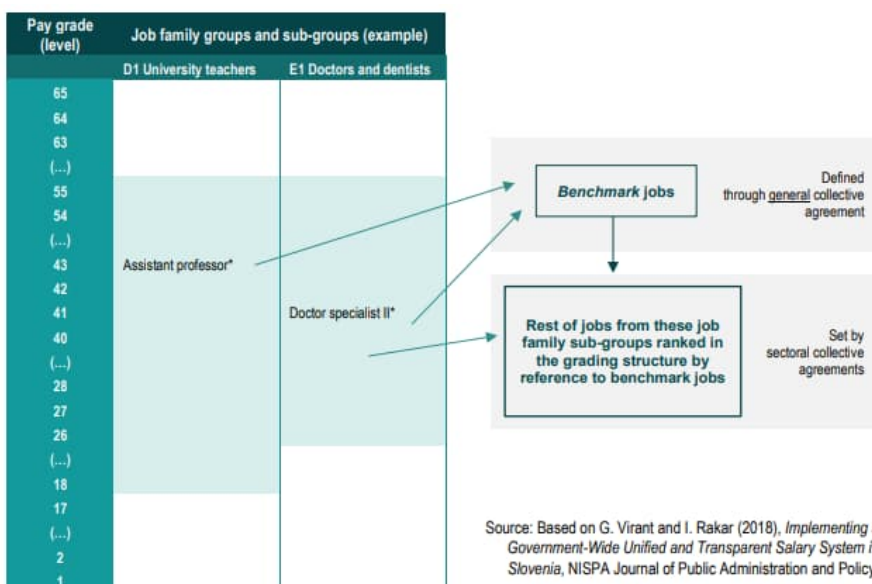
B. The Role of Comprehensive Reviews of the Pay Structure

34. Comprehensive reviews of salary structures offer an alternative approach that is conducted infrequently. When concerns arise about wage alignment within and across occupations, a full review of the salary structure—including pay grid design—may be undertaken. These reviews rely on HR frameworks and technical evaluations of job tasks and requirements. Because they involve significant changes to pay structure and carry fiscal and bargaining risks, such reviews typically occur infrequently, often once a decade or less. Three case studies of structural pay design are outlined below (Box 2).

35. Structural reviews of the salary systems carry significant risks that must be carefully managed. These reviews are highly technical and time consuming, requiring detailed job evaluations such as task mapping, skill requirements, and compensation for difficult or unpleasant work. They often lead to a “no losers” political stance, meaning downward wage adjustment are avoided. As a result, costs can escalate beyond initial estimates since wages typically move only upward. Such reviews may also

trigger “catch-up dynamics”, where groups with previously less favorable settlements seek to renegotiate. In some cases, they introduce automatic wage adjustments within pay bands, creating built-in wage drift.

Figure 23: Illustrative Example of Pay-Grid Design



Source: OECD (2024), Salary systems in Public Administration and their reforms.

Box 2. Three Case Studies of Structural Pay Design: Sweden, Latvia and Slovenia

In Sweden, decisions on pay are devolved to individual agencies. Each agency responsible for employment manages its own budgets, including staff salaries. Collective agreements follow a multi-step process: they begin at the central level, proceed within each agency, and conclude with individual negotiations. The overarching objective is to maintain competitive remuneration relative to a broader labor market for comparable roles. Managers have discretion over how the allocated wage bill is used, whether to hire additional staff or increase salaries for existing employees.

Latvia combines a unified pay structure with built-in flexibility. Public sector wages are governed by a single remuneration system that applies across central and local government levels. A common grading framework is used for most public employees, but to maintain competitiveness for certain professionals and managers, salaries are linked to the national average wage and adjusted using a range of coefficients. The system also takes into account the financial capacity of the individual ministries and agencies, allowing for some flexibility within the unified structure.

Slovenia applies a centralized wage-setting system governed by the Law on the Salary System of the Public Sector, which establishes a uniform salary system for all public servants. A single pay scale was introduced for all public employees; while supplements and bonuses were reformed and significantly limited. The Public Sector Salary System Act defines the procedures for determining salaries, and the General Collective Agreement for the Public Sector sets benchmark positions and job titles, as well as the rules for bonuses and criteria for evaluating work performance.

Source: OECD (2024), Salary systems in Public Administration and their reforms.

C. Other Implementation Considerations

36. The government would benefit from adopting principles and recommendations for a Medium-Term Wage Setting Policy. This report has outlined the key challenges in determining government wages and employment. Future reforms should focus on strengthening benchmarking mechanisms, establishing a regular review process, and streamlining broad-based allowances to enhance efficiency and fiscal sustainability.

Principles	Recommendations
Competitive Benchmarking: Compensation should reflect recruitment trends and be benchmarked against the private sector for competitiveness.	Strengthen Benchmarking Mechanisms: Regularly compare government pay with private standards and monitor recruitment and retention metrics.
Base Salary Emphasis: The majority of pay should come from base salaries to ensure transparency, equity, and consistency.	Integrate Broad-Based Payments: Reduce reliance on allowances, such as the 13th salary, by incorporating non-targeted payments into base pay structure.
Selective Use of Allowances: Allowances are used sparingly for specific job conditions like night shifts or remote work.	Streamline Allowances: Ensure allowances are targeted, justified, and transparent to improve equity and system clarity.
Regular Compensation Reviews: Frequent reviews ensure alignment with fiscal sustainability and labor market dynamics.	Establish Review Mechanisms: Create regular, independent reviews of compensation policies aligned with fiscal sustainability and labor market trends.

37. Wage increases in the health and education sectors should be aligned to sectoral priorities. Recent proposals for substantial wage hikes in the social sector, particularly in health, highlight the importance of linking remuneration designs that promote professional development and high performance. Future pay decisions should reinforce initiatives aimed at improving efficiency and effectiveness in education and health services.

- In health, current spending efficiency is relatively high but maintaining this will be challenging as capacity and spending expand. Alongside wage bill increases, reform should focus on shifting care from hospitals to lower-cost settings such as primary health care, reducing high out-of-pocket costs for households and sustaining service delivery in regional areas.
- In education, any increase in employment and wages should be complemented by measures to strengthen teaching quality and school leadership. The upcoming 2025 PISA assessment provides an opportunity to incorporate international best practices, enhance teaching skills and support professional development.

38. Frequent Temporary Bonuses in the Ministry of Health’s budget execution should be eliminated. In the health sector, employees may be granted additional remuneration where there are vacancies and they may collect additional salaries. If not properly regulated, such can undermine fiscal discipline, create inequities in compensation, and generate long-term budgetary pressures. To prevent misuse, many countries have adopted legal, institutional, and procedural safeguards including legal prohibitions, centralized approval mechanisms, supplementary budget requirements and, performance-based incentives.

39. Periodic reviews of employment levels across sectors could align overall government employment with priorities. This report has shown that there is a high share of government employment in education, with lower shares in health and general public administration. Reviews of spending by sector would enable an assessment of whether the overall level and composition of employment in each sector was efficient and aligned with overall government objectives.

Annex I. Methodology for Reconciling and Projecting the Wage Bill

Inconsistencies in compensation of employee data across different sources make reconciliation challenging. For example, payroll data are reported in terms of *positions* rather than unique employees, requiring adjustments to account for staff holding multiple positions. Average wage estimates also differ greatly depending on whether they are calculated using payroll tables (after adjusting positions to staff), taken from the National Statistics Committee, or inferred from discussions with the authorities. In addition, some Kyrgyz payroll sources include employer social-security contributions in the reported figures, while others do not, further complicating comparability. There is also an inconsistency in terms of year trends. The 2024 average wages calculated dropped a lot using the by-department payroll table.

The mission reconciles wage bill data by combining headline government compensation spending from treasury execution data, by-sector budget information, and adjusted headcount estimates.

The reconciliation begins in 2023, the year for which departmental payroll tables are most reliable. For the education and health sectors, aggregate by-sector payroll data are paired with adjusted staff numbers obtained through discussions with the respective ministries to calculate average wages. For public administration, the mission uses average wage information reported by the National Statistics Committee and then back-calculates the corresponding adjusted headcount. 2024 to 2026 estimates are based on (1) the 2023 starting point; 2) the relationship between the aggregate and sectoral payroll data, (3) the impact of the 2024–26 reforms on sectoral salaries; and (4) expected natural growth in education employment.

Table AI.1: Computation and Assumptions for Variables in Simplified Wage Bill Projection

Framework	Categories	Share of total employee compensation (%)
A. Policy simulation	Accounted wage bill (wages and salaries + employer contributions)	
	Education	79
	Health	
	Public Administration	
B. Grows with accounted wage bill	Unaccounted wage bill (secret department)	14
	Social fund transfer	7

Source: Kyrgyz republic authorities, IMF staff calculations.

Due to the lack of individual payroll data, the scenarios presented in this report apply a simplified approach to establish a baseline for the government's wage bill and estimate the fiscal impact of various policy options. The projections follow the same aggregation and reconciliation methodology

described above and are computed separately for three sectors: education, health, and public administration. Table AI.1 summarizes the breakdown of the wage bill components. The model applies policy assumptions to the accounted wage bill (Part A of Table AI.1) and assumes that the unaccounted wage bill and the social fund transfer components (Part B of Table AI.1) grow proportionally with the accounted wage bill envelope. For both the baseline and the policy simulation scenarios, the model tracks the evolution of sector-specific average wages, employment levels, and the aggregate wage bill over time, using macroeconomic indicators and projections from the IMF's World Economic Outlook (WEO) and IMF staff estimates. Table AI.2 presents the macroeconomic assumptions used in the model.

Table AI.2: Macroeconomic Assumptions (2026–2030)

Variables	Unit	Source	2026	2027	2028	2029	2030
Nominal GDP (Soms)	Million	IMF staff estimates	2,025,782	2,260,467	2,499,225	2,764,865	3,057,731
Inflation	%	IMF staff estimates	6.9	5.5	5.0	5.0	5.0
Population growth	%	IMF WEO	2.0	2.1	2.1	2.0	2.1
Nominal GDP growth	%	IMF staff estimates	12.5	11.6	10.6	10.6	10.6
Nominal GDP per capita growth	%	IMF staff estimates	10.3	9.3	8.3	8.5	8.3

Source: IMF staff calculations.