INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

March 24, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by staffs of the International Monetary Fund and the International Development Association.

Kyrgyz Republic Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate*
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Some space*
Application of judgment	*No*

The debt sustainability analysis (DSA) indicates that Kyrgyz Republic remains at moderate risk of debt distress, with some space, for both external debt and overall public debt, despite the expected spike of total public debt to 66 percent of GDP in 2020 in reaction to the outbreak of the COVID-19 pandemic and the depreciation of KGS vis-à-vis the US dollar.[1] This assessment is grounded on the projection that the authorities will strictly adhere to their fiscal rule of keeping the budget deficit at no more than 3 percent of GDP once the economy has fully recovered from the current crisis. The Kyrgyz Republic's current debt-carrying capacity is assessed as strong. However, the debt outlook remains vulnerable to shocks to real GDP growth and exports. Remaining cautious when contracting and guaranteeing new debt, including by avoiding non-concessional financing, and improving public investment management would help reducing these vulnerabilities.

[1] This DSA analysis is based on the latest framework for DSA for low-income countries. See IMF, 2018, Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries.

PUBLIC DEBT COVERAGE

1. **The debt coverage is limited to state government debt (both central and local government), state guarantees, and the debt of the central bank towards the IMF** (Text Table 1). Almost all the public sector debt is issued by the central government. Local governments have no external debt and insignificant domestic debt. The social security fund has no debt. State-owned enterprises (SOEs) have no external debt and limited short-term domestic borrowing from the banking sector. Most of SOEs borrowing is from the government. In addition, the government has no outstanding guarantee of any debt as the budget code prevents the state from guaranteeing debt of SOEs and other public entities since 2007, except for the cases stipulated by the obligations of the Kyrgyz Republic within its membership in international and inter-governmental organizations. Nevertheless, a contingent liability shock of 7 percent of GDP was applied, reflecting risks around the operation of SOEs (2 percent of GDP, which is about the structural cash shortfall of loss-making energy sector SOEs)[2] and the default value representing the average cost to the government during a financial crisis (5 percent of GDP, Text Table 2).

Text Table 1. Kyrgyz Republic: Public Debt Coverage

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Text Table 2. Kyrgyz Republic: Combined Contingent Liability Shock

1	The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			7.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

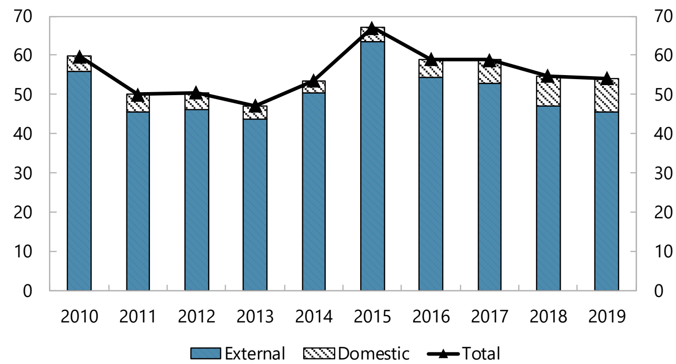
[2] IMF Country Report No. 19/208, Kyrgyz Republic—Staff Report for 2019 Article IV Consultation, ¶34.

BACKGROUND

2. **Overall public debt has been on a downward trajectory for the last four years due to the decline in external debt** (Text Chart 1). The substantial depreciation of KGS against the US$ during 2014–15 caused public debt to increase to 67 percent of GDP in 2015. The appreciation of KGS against the US$ since 2015, the write-off of Russian debt in 2018 ($240 million in 2018, or 3 percent of GDP), and the low general government budget deficit in 2018 (0.6 percent of GDP) and 2019 (0.1 percent of GDP) resulted in a decline of total public debt to 54.1 percent of GDP in 2019. Domestic debt has increased from 3.6 percent in 2015 to 8.7 percent of GDP in 2019, accounting for about 16 percent of total debt. Domestic public debt is mostly held by commercial banks (50 percent) and the social security fund (30 percent).

Text Chart 1. Public Debt, (2010-2019)

Percent of GDP



Sources: Country authorities

UNDERLYING ASSUMPTIONS

3. **The macroeconomic assumptions underlying this debt sustainability analysis (DSA) have deteriorated in the short term compared to the previous DSA owing to the outbreak of Coronavirus (COVID-19)** (Text Table 3):

Text Table 3. Kyrgyz Republic: Selected Indicators, 2017-2025

	2019	2020	2021	2022	2023	2024	2025
Real GDP growth (percent)							
Current DSA	4.5	0.4	6.0	4.3	4.0	4.1	4.1
Previous DSA[1]	3.8	3.4	3.8	4.6	3.4	3.4	4.0
Overall fiscal balance (percent of GDP)							
Current DSA[2]	-0.1	-7.8	-4.8	-3.0	-3.0	-3.0	-3.0
Previous DSA[1]	-3.3	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Current account balance (percent of GDP)							
Current DSA	-9.2	-14.5	-10.0	-7.5	-7.3	-7.1	-7.0
Previous DSA[1]	-9.6	-7.7	-7.1	-6.8	-8.4	-8.7	-8.5
PIP Disbursements (millions of US$)							
Current DSA	268	362	415	395	416	438	464
Previous DSA[1]	414	351	409	439	463	487	515

Sources: Kyrgyz authorities and IMF staff estimates.
1/ IMF Country Report No. 19/208, Kyrgyz Republic—2019 Article IV Consultation Staff Report--Debt Sustainability Analysis.
2/ Including onlending to energy SOEs.

- **Growth and inflation.** Projections in 2020 have substantially worsened due to the expected economic disruption during the first semester of 2020 on the back of the outbreak of COVID-19, the closure of the border with China, and the 20 percent depreciation of KGS vis-à-vis the USD dollar since the beginning of the year. Economic growth is expected to rebound in 2021, and come back to potential, which is estimated at about 4 percent over the medium term. Inflation is projected to spike to about 11 percent in the short term, but then stay at the lower end of the authorities' target range (5 to 7 percent).

- **Fiscal policy.** The fiscal deficit is expected to widen to 7.8 percent of GDP in 2020 but then gradually decrease to 3 percent of GDP already in 2022, in line with the fiscal rule which is still pending approval of the parliament. The debt will spike to 66 percent of GDP in 2020 and then stabilize at about 60 percent of GDP in the medium-to long-term.

- **External sector.** The current account deficit is expected to widen to about 14.5 percent of GDP in 2020, owing to a weakening of tourism and remittances , and then to be reduced to 7 percent of GDP in the short and medium term owing to the depreciation of the KGS in 2020 that is supposed to be permanent. The current account is expected to be financed by foreign direct investment (FDI) and aid.

- **Financing assumptions.** The new external borrowing is assumed to remain on concessional terms as the country is expected to stay a low-income country over the projection horizon. The size of domestic debt on market terms is expected to double from 8 to 16 percent of GDP over the projection horizon in sync with the development of the domestic financial market.

4. **Realism tools suggest that the baseline projections are reasonable:**

- *Drivers of debt dynamics* (Figure 3)**.** A comparison with the distribution of past forecast errors for low-income countries (LICs) shows that the unexpected changes to Kyrgyz Republic's external debt are below the interquartile range due to the large depreciation of KGS vis-à-vis the US$ during 2014-16, while the unexpected changes to public debts are within the interquartile range for both public and publicly guaranteed (PPG) external debt for LICs.

- *Realism of planned fiscal adjustment* (Figure 4). The projected 3-year adjustment in the primary balance is near the median and well below the top quartile of the distribution of the past adjustments to primary fiscal deficit of the sample of LICs under an IMF program.

- *Consistency between fiscal adjustment and growth* (Figure 4). The growth projection for 2020 is below the growth path suggested by a fiscal multiplier of 0.2 due to the current economic shock caused by COVID-19 and the depreciation of KGS.

- *Consistency between public investment and growth* (Figure 4). The contribution of public investment to growth is slightly higher than the previous DSA, but still below historical contribution.

COUNTRY CLASSIFICATION AND STRESS TESTS

5. **The Kyrgyz Republic's debt-carrying capacity is assessed as strong** (Text Table 4). The country's Composite Indicator (CI) index[3] is 3.19, above the threshold of 3.05 for strong debt-carrying capacity. The CI is calculated for the last two IMF World Economic Outlook (WEO) vintages (October 2019 and April 2019) and the World Bank's 2018 CPIA. This translates into the following external debt burden thresholds: 240 percent of the present value (PV) of external debt-to-exports ratio, 55 percent of the PV of external debt-to-GDP, 21 percent of the PV of external debt service-to-exports, and 23 percent of the PV of debt service-to-revenue. The total public debt burden threshold is 70 percent of the PV of total public debt-to-GDP ratio.

Text Table 4. Kyrgyz Republic: Debt-Carrying Capacity and Relevant Indicative Thresholds

Debt Carrying Capacity	Strong

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Strong	Strong 3.19	Strong 3.19	Strong 3.19

EXTERNAL debt burden thresholds	Strong
PV of debt in % of	
Exports	240
GDP	55
Debt service in % of	
Exports	21
Revenue	23

TOTAL public debt benchmark	Strong
PV of total public debt in percent of GDP	70

EXTERNAL DSA

6. **The risk of external debt distress in Kyrgyz Republic is assessed to be moderate** (Figure 1, and Tables 1 and 3). Total external debt stood at about 76 percent of GDP in 2019, of which 46 percent of GDP is external Public and Publicly Guaranteed (PPG) debt and the balance of 31 percent of GDP is private external debt. It is projected to spike to about 88 percent of GDP in 2020, on the back of 20 percent depreciation of the KGS vis-à-vis the US dollar. However, it will be

[3] The CI is a function of the World Bank's Country Policy and Institutional Assessment (CPIA) score, international reserves, remittances, country and global economic growth. The calculation is based on 10-year averages of the variables, across 5 years of historical data and 5 years of projection. For more details, see IMF, 2018, Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries.

on a downward trajectory to about 75 percent of GDP over the long term, driven by decline in PPG external debt owing to the moderate shift from external to domestic financing expected over the projection horizon (¶3). Private external debt is expected to remain at about 30 percent of GDP. The PV of PPG external debt is projected to jump to 38 percent of GDP, and then declines to about 31 of percent of GDP at the end of projection horizon, well below the sustainability threshold of 55 percent of GDP. The PV of debt to exports burden indicator breaches its threshold for three years (2022-24) under exports shock scenario, suggesting a moderate risk of debt distress. The debt services to revenue ratio is stable over the medium term, and well below its threshold with a shock to exports, the most extreme shock. The resilience of the external debt risk assessment to all the standardized stress tests, i.e. the downside scenarios on growth, primary balance, depreciation, and combined shocks (alternative scenarios B1 to B5 in Table 3), indicate that the sustainability of the external debt would remain resilient to a more severe impact of the COVID-19 crisis than assumed in this analysis.

PUBLIC DSA

7. **The risk of total public debt distress is assessed to be moderate** (Figure 2 and Tables 2 and 4). The public debt outlook in 2020 has deteriorated since the last DSA, driven by the impact of COVID-19 on the economy and the KGS depreciation (Text Table 5). Higher primary deficit, depreciation of KGS and lower growth will increase public debt by 12 percent to 66 percent of GDP in 2020. Total public debt is expected to hover around 61 percent of GDP over the medium term. The PV of total public debt is projected to stay between 40 and 50 percent of GDP, well below the sustainability threshold of 70 percent of GDP. Total public debt remains vulnerable to shocks, especially to real GDP growth and exports. Under the shock scenario to real GDP growth, the PV of debt-to-GDP ratio breaches its sustainability threshold in 2026 and remains above the threshold until the end of the projection horizon. The resilience of public debt risk assessment to all the standardized stress test except the one of prolonged lower growth (alternative scenario B1 in Table 4) also indicate that the sustainability of the public debt would remain resilient to a more severe impact of the COVID-19 crisis than assumed in this analysis.

Text Table 5. Kyrgyz Republic: Comparison of Debt Ratio

(In percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	Long Term (2030)
PPG external debt-to-GDP ratio								
Current DSA	45.5	56.5	53.5	51.8	50.5	48.9	47.6	42.0
Previous DSA[1]	47.9	46.7	45.4	44.0	43.2	42.7	41.4	36.4
Public debt-to-GDP ratio								
Current DSA	54.1	65.9	64.8	64.0	62.9	61.9	60.9	59.6
Previous DSA[1]	56.1	55.5	55.3	54.5	54.4	54.4	54.3	54.0

Sources: Kyrgyz authorities and IMF staff estimates.

1/ IMF Country Report No. 19/208, Kyrgyz Republic—2019 Article IV Consultation Staff Report--Debt Sustainability Analysis.

RISK RATING AND VULNERABILITIES

8. **The DSA indicates that overall public debt and external debt remain at a moderate risk of debt distress.** External debt is still sensitive to exports shock. Total public debt is vulnerable to a real GDP growth shock and breaches the PV of debt-to-GDP ratio threshold under such a shock.

9. **The Kyrgyz Republic is assessed to have some space to absorb shocks** (Figure 5). The external PPG debt outlook remains vulnerable to large external shocks, to a decline in exports and other flows (official and private transfers and foreign direct investment), a depreciation of the KGS as well as combined external shocks. Given the gap between debt burden indicators and their respective thresholds, the Kyrgyz Republic has some space to absorb shocks without being downgraded to high risk of debt distress.

10. **The authorities need to maintain fiscal discipline, remain cautious when contracting or guaranteeing new debt and continue to improve the business climate**. To keep public debt sustainable, the authorities need to reduce the deficit to three percent of GDP once the economy recovers from the COVID-19 crisis and rigorously adhere to the fiscal rule being considered by Parliament thereafter. While necessary to fill the large infrastructure gap, externally-financed public investments could undermine debt sustainability. In this context, further efforts are needed to strengthen both public debt management, while keeping new borrowing on concessional terms, and public investment management, to ensure that potential gains from externally financed public investment projects are fully realized. Moreover, the authorities should continue to improve the business environment to maintain and develop the country's export potential over the medium and long term.

AUTHORITIES' VIEWS

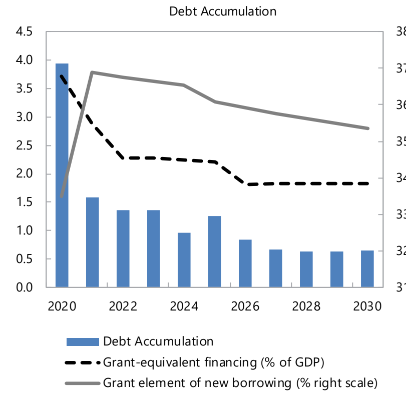
11. **The authorities agreed with the overall assessment.** They noted that the fiscal rule being considered by Parliament will help keeping the overall public debt sustainable.

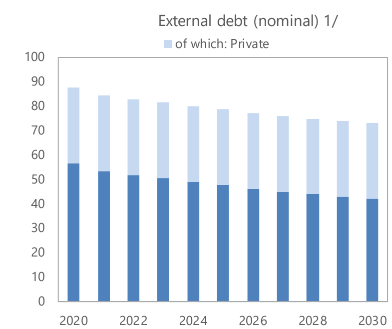
Table 1. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2017-2040

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	**81.1**	**76.5**	**76.4**	**87.5**	**84.5**	**82.8**	**81.5**	**79.8**	**78.6**	**73.0**	**74.7**	**81.3**	**79.1**
of which: public and publicly guaranteed (PPG)	**53.0**	**47.0**	**45.5**	**56.5**	**53.5**	**51.8**	**50.5**	**48.9**	**47.6**	**42.0**	**43.8**	**50.5**	**48.1**
Change in external debt	-6.8	-4.6	-0.1	11.1	-3.0	-1.7	-1.3	-1.6	-1.2	-0.9	0.6		
Identified net debt-creating flows	**-2.9**	**4.8**	**5.0**	**11.3**	**0.1**	**-1.0**	**-0.8**	**-0.8**	**-2.2**	**-1.4**	**-0.5**	**0.8**	**0.0**
Non-interest current account deficit	**5.5**	**11.4**	**8.5**	**13.8**	**9.3**	**6.8**	**6.6**	**6.5**	**6.3**	**6.4**	**6.4**	**11.0**	**7.5**
Deficit in balance of goods and services	32.1	38.3	35.8	34.0	30.4	27.3	26.7	26.2	25.8	26.2	28.9	**35.8**	**27.4**
Exports	34.2	33.2	33.3	29.7	32.1	34.1	34.1	34.2	34.6	38.5	58.0		
Imports	66.4	71.5	69.1	63.8	62.4	61.4	60.9	60.4	60.4	64.8	86.9		
Net current transfers (negative = inflow)	-30.8	-29.3	-29.9	-23.2	-24.0	-23.5	-23.1	-22.6	-22.4	-22.3	-24.0	**-29.2**	**-22.7**
of which: official	-1.4	-0.6	-1.4	0.0	-0.4	-0.4	-0.4	-0.4	-0.4	0.0	0.0		
Other current account flows (negative = net inflow)	4.2	2.4	2.7	3.0	2.9	3.1	3.0	2.9	2.9	2.5	1.5	**4.4**	**2.8**
Net FDI (negative = inflow)	**1.0**	**-1.7**	**-2.5**	**-2.9**	**-5.0**	**-5.1**	**-4.9**	**-4.8**	**-6.1**	**-5.6**	**-4.8**	**-6.3**	**-5.2**
Endogenous debt dynamics 2/	**-9.5**	**-4.9**	**-1.0**	**0.4**	**-4.2**	**-2.7**	**-2.5**	**-2.5**	**-2.4**	**-2.2**	**-2.2**		
Contribution from nominal interest rate	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.7		
Contribution from real GDP growth	-3.7	-2.6	-3.3	-0.3	-5.0	-3.4	-3.2	-3.2	-3.1	-2.8	-2.9		
Contribution from price and exchange rate changes	-6.5	-3.0	1.7	...	...	...	...	...	...	...	...		
Residual 3/	**-3.9**	**-9.4**	**-5.1**	**-0.2**	**-3.1**	**-0.8**	**-0.5**	**-0.8**	**1.0**	**0.5**	**1.1**	**-2.0**	**-0.3**
of which: exceptional financing	-0.5	-2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**32.4**	**38.1**	**37.4**	**36.7**	**35.9**	**34.8**	**34.0**	**29.3**	**30.7**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**97.2**	**128.2**	**116.7**	**107.7**	**105.3**	**101.6**	**98.3**	**76.0**	**52.9**		
PPG debt service-to-exports ratio	**6.1**	**14.4**	**-0.4**	**9.6**	**8.1**	**8.5**	**8.3**	**9.2**	**8.2**	**8.4**	**4.2**		
PPG debt service-to-revenue ratio	**6.8**	**15.5**	**-0.4**	**10.4**	**9.1**	**9.8**	**9.5**	**10.5**	**9.3**	**10.7**	**8.1**		
Gross external financing need (Million of U.S. dollars)	1049.9	1530.2	795.4	1473.4	958.3	831.3	869.4	1046.7	962.7	1667.6	2426.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.7	3.5	4.5	0.4	6.0	4.3	4.0	4.1	4.1	4.0	4.0	**4.1**	**3.9**
GDP deflator in US dollar terms (change in percent)	7.9	3.8	-2.1	-5.2	0.1	1.3	1.9	1.9	1.9	1.0	-0.5	**2.3**	**0.7**
Effective interest rate (percent) 4/	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	**0.8**	**0.9**
Growth of exports of G&S (US dollar terms, in percent)	7.7	4.1	2.6	-15.0	14.4	12.3	6.1	6.4	7.2	8.3	10.6	**3.1**	**6.3**
Growth of imports of G&S (US dollar terms, in percent)	6.8	15.6	-1.2	-12.1	3.9	3.9	5.1	5.3	6.1	7.0	9.0	**6.3**	**4.1**
Grant element of new public sector borrowing (in percent)	...	...	...	33.5	36.9	36.7	36.6	36.5	36.1	35.4	34.7	**...**	**35.9**
Government revenues (excluding grants, in percent of GDP)	30.7	30.8	31.8	27.6	28.5	29.4	29.7	30.0	30.3	30.5	29.9	**31.3**	**29.7**
Aid flows (in Million of US dollars) 5/	195.6	137.4	190.1	347.4	290.3	248.0	258.3	267.1	275.9	282.4	405.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.7	2.9	2.3	2.3	2.2	2.2	1.8	1.8	**...**	**2.2**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	41.3	55.8	48.8	48.9	48.8	48.2	42.9	42.9	**...**	**46.1**
Nominal GDP (Million of US dollars)	7,703	8,271	8,455	8,052	8,546	9,026	9,568	10,149	10,768	13,872	22,113		
Nominal dollar GDP growth	13.1	7.4	2.2	-4.8	6.1	5.6	6.0	6.1	6.1	5.0	3.5	**6.5**	**4.6**
Memorandum items:													
PV of external debt 7/	...	...	63.4	69.1	68.4	67.7	66.9	65.8	64.9	60.3	61.7		
In percent of exports	...	...	190.2	232.3	213.2	198.6	196.0	192.1	187.9	156.4	106.3		
Total external debt service-to-exports ratio	20.7	26.5	10.3	24.8	21.4	21.8	21.7	25.4	25.3	29.1	16.0		
PV of PPG external debt (in Million of US dollars)			2737.9	3070.7	3197.9	3313.9	3437.3	3529.0	3656.8	4063.5	6789.9		
(PVt-PVt-1)/GDPt-1 (in percent)				3.9	1.6	1.4	1.4	1.0	1.3	0.7	1.4		
Non-interest current account deficit that stabilizes debt ratio	12.4	16.0	8.6	2.7	12.3	8.6	7.9	8.1	7.6	7.3	5.8		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

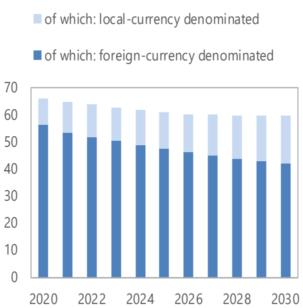
Table 2. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017-2040

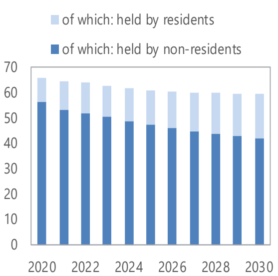
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	58.8	54.8	54.1	65.9	64.8	64.0	62.9	61.9	60.9	59.6	59.7	55.5	61.8
of which: external debt	53.0	47.0	45.5	56.5	53.5	51.8	50.5	48.9	47.6	42.0	43.8	50.5	48.1
Change in public sector debt	-0.3	-4.0	-0.7	11.8	-1.2	-0.8	-1.0	-1.0	-1.0	-0.2	0.7		
Identified debt-creating flows	-3.2	-5.7	-2.2	7.6	0.4	-0.9	-0.6	-0.6	-0.6	-0.1	-0.1	-0.4	0.4
Primary deficit	2.9	-0.4	-0.8	6.4	3.6	1.7	1.7	1.7	1.7	1.6	1.6	2.8	2.3
Revenue and grants	33.3	32.5	34.0	28.6	30.1	30.3	30.6	30.9	31.1	30.9	30.5	33.7	30.5
of which: grants	2.5	1.7	2.2	1.1	1.6	0.9	0.9	0.9	0.9	0.5	0.5		
Primary (noninterest) expenditure	36.2	32.0	33.3	35.1	33.6	32.0	32.3	32.6	32.8	32.5	32.0	36.5	32.8
Automatic debt dynamics	-5.7	-2.6	-1.4	1.1	-3.1	-2.6	-2.3	-2.3	-2.2	-1.7	-1.6		
Contribution from interest rate/growth differential	-2.8	-2.7	-3.5	1.1	-3.1	-2.6	-2.3	-2.3	-2.2	-1.7	-1.6		
of which: contribution from average real interest rate	-0.1	-0.8	-1.1	1.4	0.6	0.1	0.2	0.2	0.2	0.6	0.6		
of which: contribution from real GDP growth	-2.7	-2.0	-2.3	-0.2	-3.7	-2.7	-2.5	-2.5	-2.5	-2.3	-2.3		
Contribution from real exchange rate depreciation	-2.9	0.1	2.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.4	-2.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.0
Privatization receipts (negative)	0.0	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-0.4	-2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	2.9	1.8	1.5	4.2	-1.6	0.1	-0.4	-0.4	-0.5	-0.1	0.8	0.0	0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	41.0	49.6	49.6	49.4	48.9	48.4	47.7	47.3	47.4		
PV of public debt-to-revenue and grants ratio	...	...	120.5	173.3	164.9	163.1	159.7	156.4	153.3	153.0	155.5		
Debt service-to-revenue and grants ratio 3/	6.3	14.7	-0.4	40.0	38.8	46.6	49.3	50.7	51.3	66.1	60.7		
Gross financing need 4/	4.6	1.7	-1.0	17.9	15.2	15.9	16.8	17.4	17.6	22.0	20.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.7	3.5	4.5	0.4	6.0	4.3	4.0	4.1	4.1	4.0	4.0	4.1	3.9
Average nominal interest rate on external debt (in percent)	1.3	1.3	1.5	1.5	1.5	1.4	1.4	1.4	1.5	1.5	1.7	1.3	1.5
Average real interest rate on domestic debt (in percent)	-6.0	-3.6	0.8	-0.8	1.7	4.4	4.8	4.8	4.8	5.8	5.8	-6.4	4.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.5	0.2	4.8	...	...	...	...	...	...	...	...	-1.1	...
Inflation rate (GDP deflator, in percent)	6.3	3.7	-0.8	9.6	8.1	5.3	5.0	5.0	5.0	4.0	4.0	7.2	5.3
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.4	-8.3	8.5	5.9	1.6	-0.6	4.9	5.0	4.8	4.0	-0.1	4.0	3.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.2	3.5	-0.1	-5.3	4.7	2.5	2.7	2.7	2.7	1.8	0.8	3.2	1.8
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

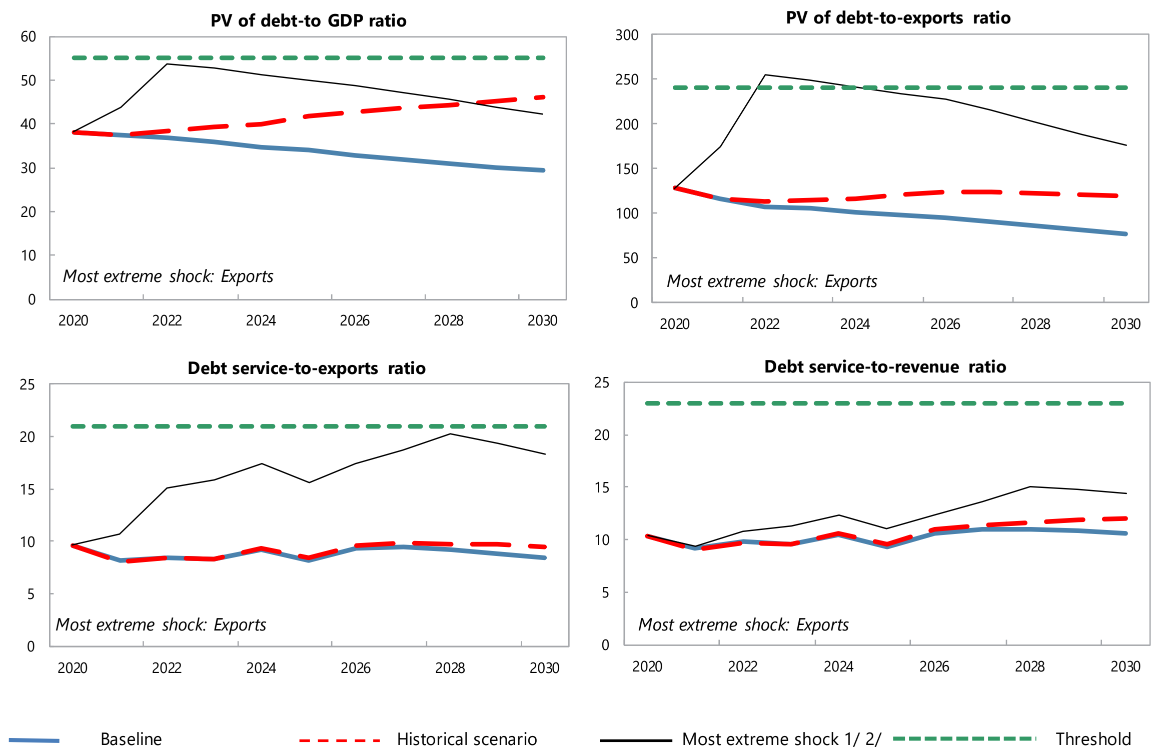
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2020–2030



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	5	5

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2020-2030

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	23%	23%
Domestic medium and long-term	0%	0%
Domestic short-term	77%	77%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	4.7%	4.7%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–2030

(in percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	38	37	37	36	35	34	33	32	31	30	29
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	38	37	38	39	40	42	43	44	44	45	46
B. Bound Tests											
B1. Real GDP growth	38	41	42	41	40	39	38	36	35	34	33
B2. Primary balance	38	38	38	37	36	36	35	34	33	32	31
B3. Exports	38	44	54	53	51	50	49	47	45	44	42
B4. Other flows 3/	38	42	46	45	43	42	41	40	39	37	36
B5. Depreciation	38	47	41	40	38	37	36	35	34	33	33
B6. Combination of B1-B5	38	48	50	49	48	47	45	44	42	41	39
C. Tailored Tests											
C1. Combined contingent liabilities	38	38	39	38	38	37	36	35	35	34	33
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	128	117	108	105	102	98	95	90	85	81	76
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	128	117	112	115	117	121	124	123	122	121	119
B. Bound Tests											
B1. Real GDP growth	128	117	108	105	102	98	95	90	85	81	76
B2. Primary balance	128	118	110	109	106	104	101	96	91	87	82
B3. Exports	128	175	**254**	**249**	**241**	234	228	216	202	189	176
B4. Other flows 3/	128	131	134	131	127	123	120	113	106	99	93
B5. Depreciation	128	117	94	92	89	86	83	78	74	71	67
B6. Combination of B1-B5	128	167	133	186	180	174	169	160	150	140	131
C. Tailored Tests											
C1. Combined contingent liabilities	128	120	113	112	110	107	105	100	95	91	86
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	10	8	8	8	9	8	9	9	9	9	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	10	8	8	8	9	8	10	10	10	10	9
B. Bound Tests											
B1. Real GDP growth	10	8	8	8	9	8	9	9	9	9	8
B2. Primary balance	10	8	8	8	9	8	9	10	9	9	9
B3. Exports	10	11	15	16	17	16	17	19	20	19	18
B4. Other flows 3/	10	8	9	9	10	9	10	11	11	10	10
B5. Depreciation	10	8	8	8	9	8	9	9	8	8	8
B6. Combination of B1-B5	10	10	13	13	14	12	14	16	15	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	10	8	9	8	9	8	10	10	9	9	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	10	9	10	10	11	9	11	11	11	11	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	10	9	10	10	11	10	11	11	12	12	12
B. Bound Tests											
B1. Real GDP growth	10	10	11	11	12	11	12	13	13	12	12
B2. Primary balance	10	9	10	10	11	9	11	11	11	11	11
B3. Exports	10	9	11	11	12	11	12	14	15	15	14
B4. Other flows 3/	10	9	10	10	11	10	11	12	13	13	13
B5. Depreciation	10	12	12	12	13	11	13	14	13	12	12
B6. Combination of B1-B5	10	10	12	11	12	11	12	14	14	14	14
C. Tailored Tests											
C1. Combined contingent liabilities	10	9	10	10	11	10	11	11	11	11	11
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2020–2030

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	50	50	49	49	48	48	48	47	48	47	47
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	50	50	50	49	48	48	47	46	46	45	45
B. Bound Tests											
B1. Real GDP growth	50	56	62	65	67	70	**72**	**75**	**78**	**81**	**84**
B2. Primary balance	50	52	53	52	52	51	51	51	50	50	50
B3. Exports	50	55	64	63	62	61	61	61	60	59	58
B4. Other flows 3/	50	54	59	58	57	56	56	56	55	55	54
B5. Depreciation	50	57	54	52	49	47	45	43	41	39	38
B6. Combination of B1-B5	50	50	51	50	49	49	48	48	49	49	49
C. Tailored Tests											
C1. Combined contingent liabilities	50	56	55	55	54	53	52	52	52	52	52
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	173	165	163	160	156	153	155	154	154	154	153
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	173	167	165	161	157	153	153	151	149	147	145
B. Bound Tests											
B1. Real GDP growth	173	184	204	211	217	223	236	245	254	262	270
B2. Primary balance	173	172	176	172	167	164	165	164	164	163	162
B3. Exports	173	182	211	206	201	197	198	197	194	191	187
B4. Other flows 3/	173	180	193	189	185	181	182	181	179	177	175
B5. Depreciation	173	190	179	170	160	151	146	140	134	128	122
B6. Combination of B1-B5	173	167	168	162	159	156	158	158	158	158	157
C. Tailored Tests											
C1. Combined contingent liabilities	173	186	183	178	174	170	171	170	169	169	168
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	40	39	47	49	51	51	54	57	61	64	66
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	40	40	47	49	49	49	50	52	53	54	55
B. Bound Tests											
B1. Real GDP growth	40	42	59	71	79	85	93	101	107	114	119
B2. Primary balance	40	39	52	59	58	57	59	61	64	66	69
B3. Exports	40	39	47	50	52	52	55	59	64	67	69
B4. Other flows 3/	40	39	47	50	51	52	55	59	63	65	68
B5. Depreciation	40	37	46	45	50	50	53	56	59	61	63
B6. Combination of B1-B5	40	38	47	50	51	52	55	59	63	66	69
C. Tailored Tests											
C1. Combined contingent liabilities	40	39	64	63	61	60	61	63	65	67	69
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

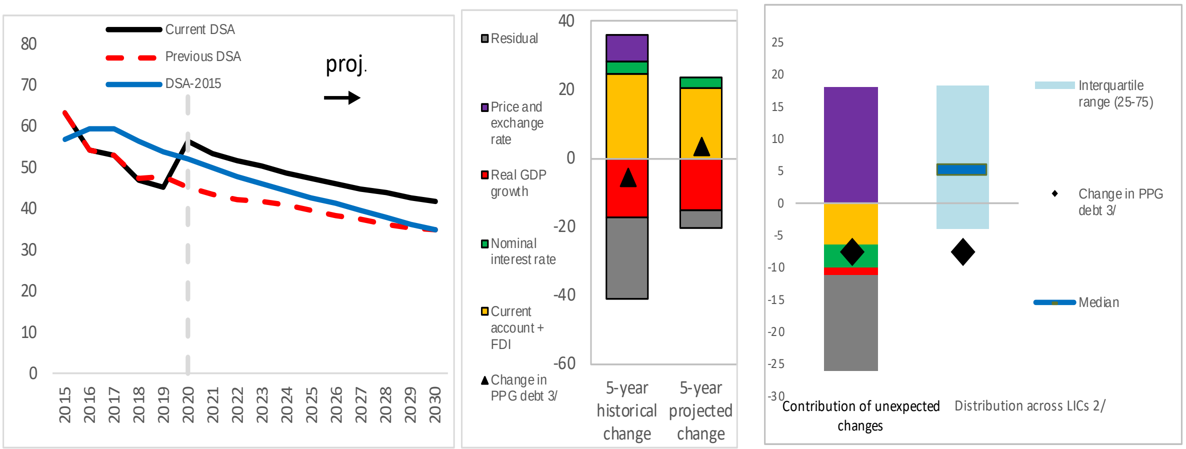
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Kyrgyz Republic: Drivers of Debt Dynamics—Baseline Scenario

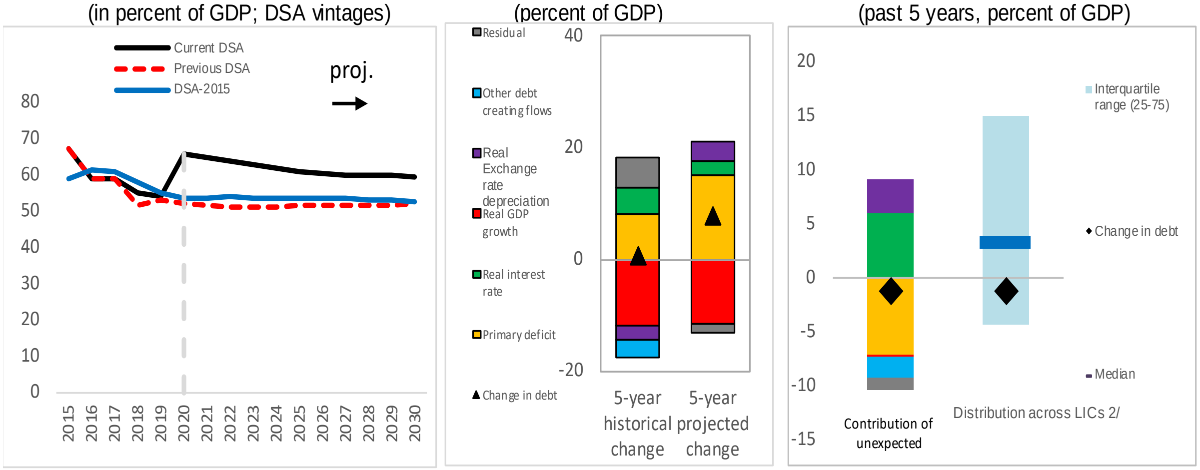
External debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



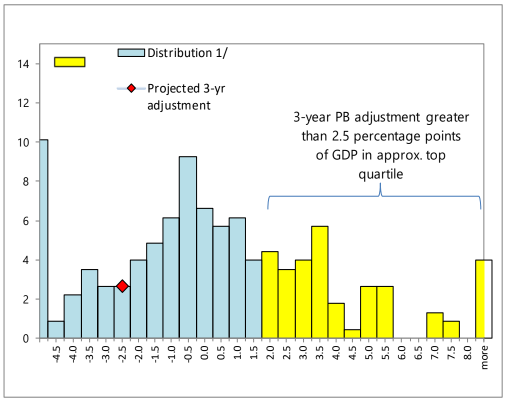
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

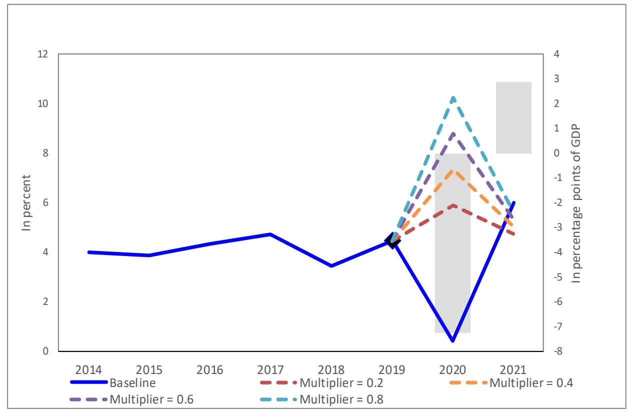
Figure 4. Kyrgyz Republic: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



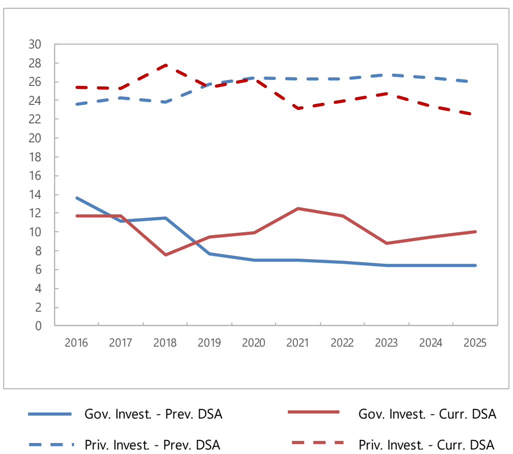
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

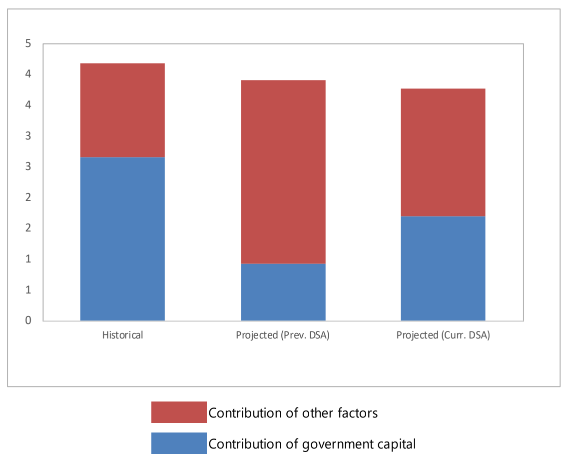
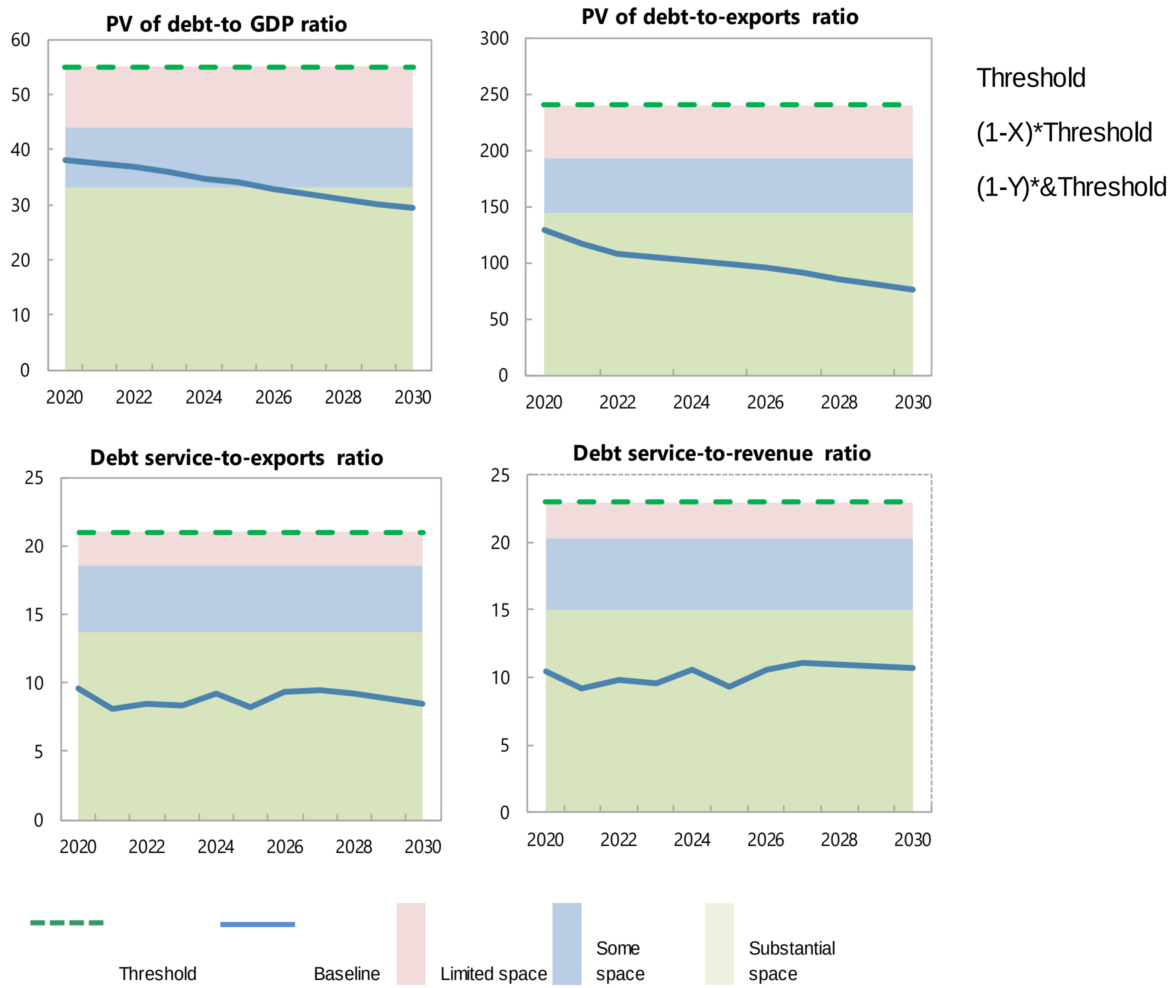


Figure 5. Kyrgyz Republic: Qualification of the Moderate Category, 2020–2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.