INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/208

KYRGYZ REPUBLIC

2019 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

July 2019

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with the Kyrgyz Republic, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its June 7, 2019 consideration of the staff report that concluded the Article IV consultation with the Kyrgyz Republic.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 7, 2019, following discussions that ended on March 19, 2019, with the officials of the Kyrgyz Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 23, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).

The documents listed below have been or will be separately released:

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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June 28, 2019

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IMF Executive Board Concludes 2019 Article IV Consultation with the Kyrgyz Republic

On June 7, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Kyrgyz Republic.

The economy has experienced moderate growth of 3.5 percent in 2018, benefiting from a benign regional environment. Core inflation has declined, and lower food prices have pushed headline inflation to 1.5 percent on average. The current account deficit of the balance of payments weakened to 8.7 percent of GDP while gross official foreign exchange reserves declined to the still adequate level equivalent to four months of imports of goods and services.

The general government deficit measured according to the IMF Government Finance Statistics Manual declined to 1.3 percent of GDP in 2018, mainly owing to lower-than-budgeted spending on investment and goods and services. While the National Bank of the Kyrgyz Republic (NBKR) loosened monetary policy, it made further progress in reducing excess liquidity and dollarization. The soundness of the banking sector improved, but the NBKR took the unusual step of acquiring a problem bank.

Growth is expected to moderately rise in 2019 owing to gold production and fiscal expansion and reach about four percent in the medium term. However, risks are tilted to the downside mainly because of the impact of trade tensions on the regional economic environment.

Executive Board Assessment[2]

Executive Directors welcomed the improved macroeconomic and financial conditions but noted that the economy remains vulnerable to external shocks and that risks are tilted to the downside. Continued stability-oriented macroeconomic policies and further policy reform is therefore needed to create the necessary buffers and to generate increased inclusive growth.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

While stressing the need to ensure long-term debt sustainability, a modest expansionary fiscal stance, as implied by the 2019 Budget, was considered appropriate. Given the negative output gap and tighter than anticipated fiscal stance in 2018, an increase in the deficit could be helpful without jeopardizing long-term sustainability. To create the appropriate fiscal buffer, the fiscal deficit should, however, remain below 2.5 percent of GDP from 2020 and beyond, allowing the stabilization of public debt.

Directors saw the need for heightened efforts to increase fiscal space for development needs by improving domestic revenue mobilization and expenditure efficiency. They called for reducing tax exemptions, the high public-sector wage bill, and energy sector subsidies, and to strengthen public financial management. They emphasized that the general government budget deficit should be measured in line with the Government Financial Statistics Manual to include on-lending to loss-making state-owned enterprises.

Directors considered the monetary policy stance as appropriate but saw merit in greater exchange rate flexibility. They welcomed steps taken to move toward inflation targeting, including reducing excess liquidity, dollarization, and the width of the interest rate corridor. To help this transition and allow the economy to adjust to shocks through the exchange rate channel, Directors recommended that the National Bank of the Kyrgyz Republic (NBKR) maintain two-way exchange rate flexibility and limit interventions solely to smoothing excessive fluctuations.

Directors stressed the importance of implementing risk-based supervision and strengthening the bank resolution framework. Directors urged the NBKR to transfer the recently acquired problem bank to the state as soon as possible, to eliminate conflict of interest with its role as central bank and banking supervisor, to protect the central bank's balance sheet, and to allow it to better focus on monetary policy formulation and implementation and banking supervision. Directors noted the challenge of maintaining correspondent banking relationships (CBRs) and supported the call for an active role of the Fund in assisting members to address CBR withdrawal.

Directors emphasized the importance of structural reforms to increase income and reduce poverty. The reform should focus on enhancing financial sector development, restructure the energy sector, and improve governance. A gradual increase in residential tariffs, with cash transfers to compensate the poor, is necessary to increase capacity and to unleash the growth potential of the energy sector. Strengthening the fiscal framework, improving financial sector oversight, further bolstering the AML/CFT framework, and buttressing the rule of law should help improve governance and reduce vulnerabilities to corruption.

It is expected that the next Article IV consultation with Kyrgyz Republic will be held on the standard 12-month cycle.

Kyrgyz Republic: Selected Economic Indicators, 2016-24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Projections			
Real Sector									
Nominal GDP (in billions of soms)	476.3	530.5	557.1	590.8	640.6	697.9	766.0	830.9	901.2
Real GDP (growth in percent)	4.3	4.7	3.5	3.8	3.4	3.8	4.6	3.4	3.4
Nongold real GDP (growth in percent)	4.3	5.1	3.5	3.7	3.6	3.8	4.3	4.4	4.4
Consumer prices (12-month percent change, eop)	-0.5	3.7	0.5	4.7	5.1	5.0	5.0	5.0	5.0
Consumer prices (12-month percent change, average)	0.4	3.2	1.5	2.2	4.9	5.0	5.0	5.0	5.0
General government finances (in percent of GDP) 1/									
Revenue	33.1	33.4	32.8	34.5	32.5	32.6	32.5	32.3	32.0
Of which: Tax revenue	19.5	19.3	20.7	21.9	21.8	21.8	21.7	21.5	21.2
Expense	31.8	30.1	28.9	31.0	30.9	29.6	29.6	29.6	29.7
Gross operating balance	1.3	3.2	3.9	3.5	1.6	3.0	2.9	2.7	2.2
Net acquisition of nonfinancial assets	7.7	7.8	5.2	6.9	4.6	6.0	5.9	5.7	5.2
Overall balance (net lending/borrowing) 2/	-6.4	-4.6	-1.3	-3.3	-3.0	-3.0	-3.0	-3.0	-3.0
Total public debt 3/	59.1	58.8	56.0	56.1	55.5	55.3	54.5	54.4	54.4
Banking sector									
Reserve money (percent change, eop)	27.6	16.9	6.3	5.5	11.2	13.7	15.8	8.9	10.9
Broad money (percent change, eop)	14.6	17.9	5.5	8.8	11.8	14.2	16.4	9.4	10.9
Credit to private sector (percent change, eop)	-1.0	15.7	18.2	6.7	9.1	9.6	10.9	10.5	10.3
Credit to private sector (in percent of GDP)	20.0	20.8	23.4	23.6	23.7	23.9	24.1	24.6	25.0
External sector									
Current account balance (in percent of GDP)	-11.6	-6.2	-8.7	-9.6	-7.7	-7.1	-6.8	-8.4	-8.7
Export growth (percent change)	-0.9	7.7	0.4	3.2	2.5	4.4	6.5	-1.5	-0.5
Import growth (percent change)	-2.3	6.8	8.8	2.9	3.0	5.6	6.1	4.7	2.9
Gross international reserves (in millions of U.S. dollars) 4/	1,773	1,971	1,919	1,854	1,873	1,930	2,084	2,012	1,862
Gross international reserves (months of next year imports, eop)	4.2	4.3	4.0	3.8	3.6	3.5	3.6	3.4	3.0
External public debt outstanding (in percent of GDP)	54.4	53.0	48.0	47.9	46.7	45.4	44.0	43.2	42.7

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ General government comprises the State government, the Social Fund, and the Mandatory Health Insurance Fund. The State government comprises central and local governments.

2/ Includes loans on-lent by the State government to state-owned enterprises in the energy sector.

3/ Calculated at end-period exchange rates.

4/ Gross international reserves exclude reserve assets in non-convertible currencies.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

May 23, 2019

KEY ISSUES

Context. The economy is growing steadily, benefiting from a benign regional environment, particularly in Russia, the source of most remittances and non-gold export receipts. Low inflation, lower fiscal deficits, and a stable banking sector point to the success of stabilization policies implemented by the government and National Bank of the Kyrgyz Republic (NBKR, the central bank) under eight successive Fund-supported programs. However, the economy remains vulnerable to external shocks because of the high level of remittances (29 percent of GDP), the concentration of exports on gold (37 percent of exports of goods), the level and composition of the public debt (56 percent of GDP, 4/5 of which is denominated in foreign currency), and the level of the current account deficit (8.7 percent of GDP). In addition, economic growth has been insufficient to significantly raise living standards and continue to reduce poverty.

Focus of consultation. To *cement macro and financial stability*, staff recommended the following actions: allowing more exchange rate flexibility; keeping the general government budget deficit at about 3.3 percent of GDP in 2019 and 2.5 percent of GDP in 2020 and beyond to build buffers; and transferring the problem bank the NBKR recently acquired to the state as soon as possible to eliminate the conflict of interest with its role as banking supervisor. To *finance development needs*, staff recommended gradually reducing tax exemptions, the high wage bill, and subsidies to the energy sector, while also strengthening public financial management to identify other expenditure savings. To *remove obstacles to private-sector led growth*, staff recommended steadfast implementation of reforms to boost financial sector development, unleash the potential of the energy sector, and improve governance.

Approved By
Juha Kähkönen (MCD) and Vitaliy Kramarenko (SPR)

Discussions were held in Bishkek during March 6–19. The staff team comprised Christian Josz (head), Wei Shi, Iulia Ruxandra Teodoru (MCD), Balazs Csonto (SPR), Sabrina Lando, Sebastiaan Pompe (LEG), Yahia Said (outgoing Resident Representative), Tigran Poghosyan (incoming Resident Representative), Lilia Kadyrberdieva and Erkeaim Shambetova (local economists). Tolgonai Osmongazieva and Aigerim Toigonbaeva (local office) assisted the mission with communication and logistics. The team met with Minister of Finance Jeenbaeva, Minister of Economy Pankratov, Chairman of the National Bank Abdygulov, other senior officials, and representatives of the private sector, civil society, and the diplomatic community. Paul Inderbinen and Chorobek Imashov (both OED) participated in some of the policy discussions. Galina Lagveshkina, Mikhail Surin, and Alex Grinin assisted with interpretation and translation services. Jimmy Hatem and Vahid Khatami (MCD) provided research assistance, and Juan Rigat and Gintare Gedrimaite (MCD) helped prepare the report.

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ANNEXES

BACKGROUND

1. **A new president and prime minister came to power over the past 18 months**. President Jeenbekov was elected for a single six-year term in October 2017. Parliament appointed a new prime minister in April 2018. Parliamentary elections are scheduled for September 2020.

2. **The Kyrgyz Republic has made progress toward macroeconomic and financial stability under eight successive Fund-supported programs** (Figure 1). The latest program, a three-year arrangement under the Extended Credit Facility, ended in April 2018. During the past decade, real GDP growth reached 4.0 percent on average, in line with comparators, but was volatile. Average inflation was reduced to 1.5 percent in 2018. High development needs kept the general government budget deficit (3.7 percent of GDP on average over the last five years), the public debt (56 percent of GDP in 2018) and the current account deficit (12 percent of GDP on average over the last five years) elevated.

3. **However, the economy remains vulnerable to external shocks**. The economy still heavily relies on remittances (29 percent of GDP) and gold (37 percent of exports of goods and 9 percent of GDP). Public debt is high and mostly (79 percent) denominated in foreign currency. The current account deficit is high. Against this background, the KGS has been broadly stable against the dollar since mid-2016, supported by significant—and remarkably transparent— foreign exchange interventions relative to the size of the foreign exchange market (Figure 2).

4. **Economic growth has been insufficient to significantly raise living standards and continue to reduce poverty**. Potential output growth is estimated at 4 percent per year, thanks to an increase in gold production mainly financed by FDI, but the business environment remains challenging. The provision of public services suffers from weaknesses in public financial management, an oversized civil service, and untargeted social transfers and energy subsidies that reduce the space for investment in human capital and infrastructure. Below-cost-recovery residential energy tariffs do not allow for adequate maintenance of existing, and development of new, production capacity.

5. **While well capitalized, the banking sector remains shallow** (Figure 1 and Table 10). The banking sector is well capitalized thanks to the NBKR's enforcement of prudential norms. The average lending rate, currently 14 percent in real terms, remains high. With credit to the economy at 23 percent of GDP in 2018, the banking sector is shallow.

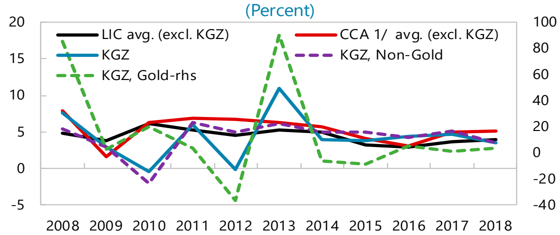
6. **Bringing the economy to a higher growth trajectory requires far-reaching structural reforms to address gaps in skills, infrastructure, and institutions**. Large infrastructure gaps, room for improvement in governance and the rule of law, and the high cost of finance appear to be the most binding constraints to private investment and growth.[1] Additional challenges are the low

[1] Kyrgyz Republic—Selected Issues, *Constraints to Private Investment and Economic Growth* (forthcoming).

Figure 1. Kyrgyz Republic: Economic Setting, 2008–18

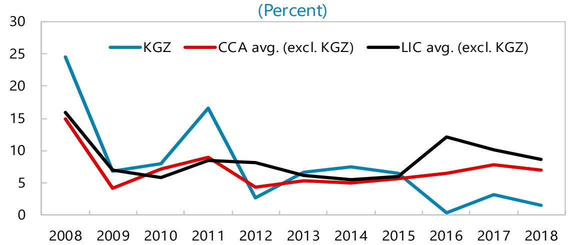
The economy grew in line with comparators but growth was volatile owing to gold production (about 9 percent of GDP).

Real GDP Growth
(Percent)



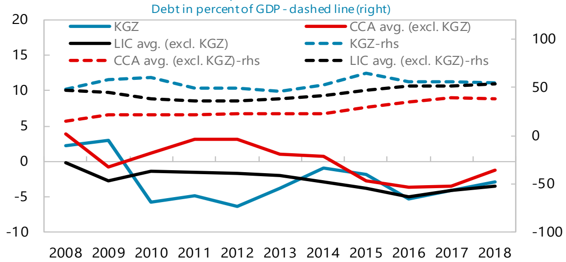
Average inflation decreased to 1.5 percent in 2018.

Consumer Price Inflation
(Percent)



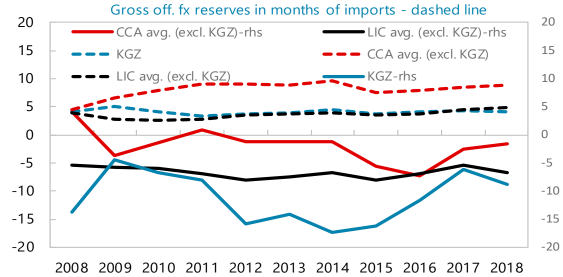
Budget deficits were relatively high resulting in significantly higher public debt (56 % of GDP in 2018) than in CCA (37 % of GDP).

Public Finances [2/]
Fiscal balance in percent of GDP - solid line (left);
Debt in percent of GDP - dashed line (right)



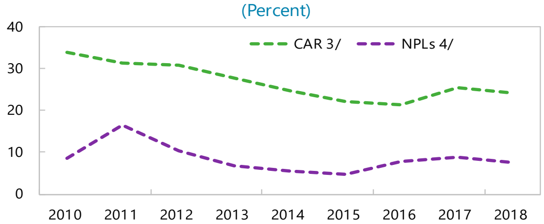
High development needs resulted in high current account deficits financed by aid and foreign direct investment (mostly gold sector).

External Sector
Current account balance in percent of GDP- solid line;
Gross off. fx reserves in months of imports - dashed line



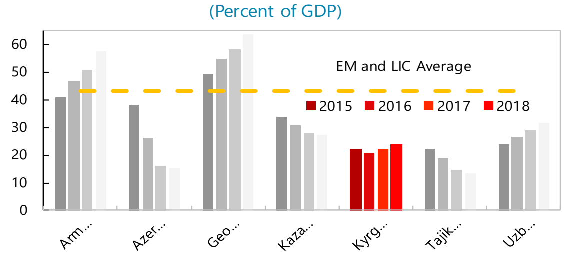
The banking sector is well capitalized with sill sizable non-performing loans ...

Financial Stability
(Percent)



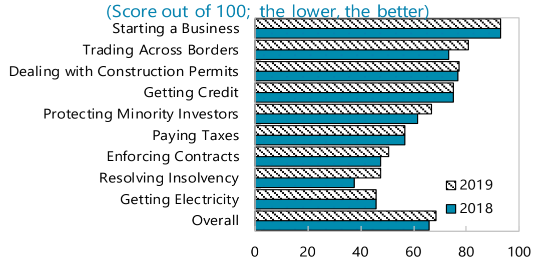
... but it remains shallow.

Credit to Economy
(Percent of GDP)



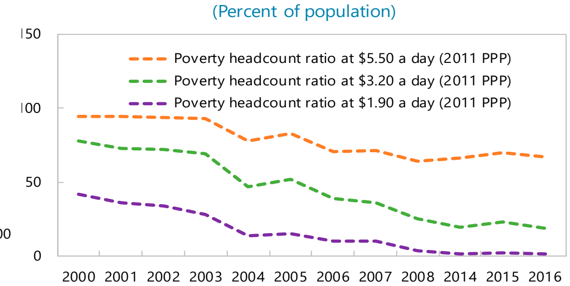
The business environment remains challenging.

World Bank Doing Business Indicators [5/]
(Score out of 100; the lower, the better)



Progress in poverty reduction has stalled.

Poverty Rate
(Percent of population)



Sources: Kyrgyz Republic authorities, IMF staff calculations, and World Development Indicators, World Bank, 2018 Doing Business database.

1/ CCA countries include Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
2/ Overall fiscal deficit for Kyrgyz Republic includes on-lending to energy state-owned enterprises.
3/ Capital adequacy ration (CAR) is measured as regulatory capital to risk-weighted assets.
4/ Non-performing loans (NPLs) is measured as a ratio of non-performing loans to total loans.
5/ The World Bank Doing Business Indicators are survey-based indicators reflecting investors' perceptions on the business environment. As they reflect perceptions, they should be interpreted with caution.

quality of education and onerous regulations. The business environment and governance are the two dimensions where the Kyrgyz Republic performs less well in a comparison of inclusive growth indicators with emerging markets and developing economies (Table 11).

7. **Implementation of IMF advice has been mixed** (Annex 1). Since the 2017 Article IV Consultation progress was made in reducing the budget deficit and inflation and strengthening the monetary and fiscal frameworks. However, little action was taken to reduce tax exemptions, implement a comprehensive Financial Management Information System (FMIS), improve wage bill and public investment management, raise energy tariffs, strengthen the banking law, and liquidate insolvent banks.

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

8. **The economy experienced moderate growth in 2018 with subdued inflationary pressure** (Figure 2 and Tables 1-2). Overall GDP growth decelerated from 4.7 percent in 2017 to 3.5 percent in 2018 as the fiscal stance tightened and remittances growth slowed down. Consequently, core inflation declined from 4.5 percent (year-over-year) in December 2017 to 2.9 percent at end-2018 (1.2 percent in March 2019), while low food prices pushed headline inflation even lower to 1.5 percent on average (-0.7 percent year-over-year in March 2019).

9. **The external position weakened in 2018 while gross official foreign exchange reserves remained at an adequate level** (Table 3). The current account deficit widened from 6.2 percent of GDP in 2017 to 8.7 percent of GDP in 2018. Exports declined by 4.7 percent in volume, while imports increased by 1.2 percent, which may partly reflect progress in capturing imports by the customs administration. The growth of remittances decelerated in the second half of 2018 reflecting depreciation of the ruble against the dollar. Given the stability of the KGS/$ exchange rate, the latter also contributed to the appreciation of the KGS by 4 percent in real effective terms on average in 2018. According to the External Sector Assessment (Annex 2), the external position is weaker than implied by fundamentals and desirable policy settings. Gross official foreign exchange reserves were still adequate according to the reserve adequacy metrics.

10. **The general government deficit declined to 1.3 percent of GDP in 2018, mainly owing to lower-than-budgeted spending on investment and goods and services** (Tables 6-9). The deficit[2] was lower than the 3.4 percent of GDP approved by parliament in the supplementary budget

[2] The general government deficit measured by staff is higher than the one measured by the authorities by 1.2 percent of GDP in 2017 and 0.4 percent of GDP in 2018. This is because staff records on-lending to loss-making energy state-owned companies (SOEs) as capital transfers "*above the line*" of the deficit, in line with the IMF Government Finance Statistics Manual (GFSM), while the authorities record the latter as acquisition of financial assets, "*below the line*". All the fiscal balances presented in this staff report record on-lending to energy sector SOEs as capital transfers above the line.

in October. The reduction of capital expenditure materialized because of slower implementation than budgeted. Overall revenue declined by 0.5 percent of GDP despite a strong tax revenue performance (reflecting a significant improvement in VAT collection) as other revenue (which in 2017 was beefed up by a one-off collection of litigation proceeds) and budget support grants declined.

Kyrgyz Republic: General Government Finances, 2017–18
(In percent of GDP)

	2017	2018	Diff.
Revenue	33.4	32.8	-0.5
Taxes	19.3	20.7	1.4
Social contributions	5.4	5.5	0.1
Grants	2.2	1.6	-0.6
Other revenue	6.4	5.0	-1.5
Current expense	30.1	28.9	-1.2
Net acquisition of nonfinancial assets	7.8	5.2	-2.6
Net lending/borrowing	-4.6	-1.3	3.3

Sources: Kyrgyz authorities and IMF staff estimates.

11. **While the NBKR loosened monetary policy, it made further progress in reducing excess liquidity and dollarization** (Tables 4-5 and 10). Amid low inflation, the NBKR lowered the policy rate from 5.0 to 4.75 percent in May 2018 and 4.5 percent in February 2019. In 2018 credit to the economy grew by double digits for the second year in a row but from a low base. Surplus liquidity in the banking system has been reduced. The width of the interest corridor has also been reduced, but the interbank rate has remained at the bottom of the interest rate corridor. Both the share of banks' foreign exchange deposits in the total deposits and the share of foreign exchange loans in total loans were reduced by about one-third over the past three years but remain significant: 45 and 38 percent for deposits and loans, respectively.

12. **While further progress was made in strengthening the soundness of the banking sector, the NBKR took the unusual step of acquiring a problem bank** (Table 10). At end-2018, the aggregate capital adequacy ratio amounted to 23.7 percent, about twice the 12 percent minimum required. The non-performing loan ratio slightly declined to 7.5 percent at end-2018. Given the high level of capitalization, small open foreign exchange exposure (net liability of

Kyrgyz Republic. Results of Bank Stress Tests, June 2018

	Banking system 1/	Large banks 2/	Medium-sized banks 3/	Small banks
Credit Risk				
Increase in the share of NPLs, in percent, that would bring the capital-adequacy ratio (CAR) below 12 percent	57	36	80	100
Interest Rate Risk				
Decrease in the weighted average interest rate on loans, in percentage points, that would bring the CAR below 12 percent	16	11	16	28
Decrease in the weighted average interest rate on loans, in percentage points, that would bring the net profit to zero	2	N/A	N/A	N/A
Exchange Rate Risk				
Depreciation of the KGZ vis-à-vis the USD, in percent, that would bring the CAR below 12 percent	100	100	100	100
Depreciation of the KGZ vis-à-vis the USD, in percent, that would bring the net profit to zero	100	100	100	100
Liquidity Risk				
Outflow of deposits, in percent of total deposits, that would bring the liquidity ratio below 45 percent	30	32	29	28

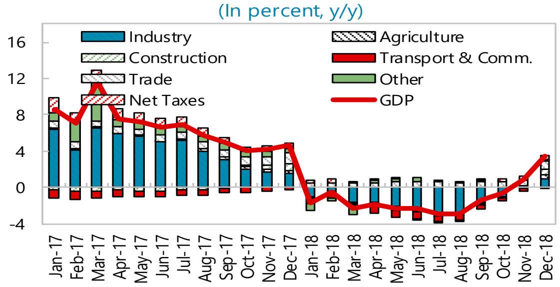
Source: NBKR.
N/A: not available.
1/ 25 banks.
2/Five banks.
3/Five banks.

Figure 2. Kyrgyz Republic: Recent Economic Developments

Industry, trade, and construction were the main contributors to growth in 2018.

Contribution to GDP Growth

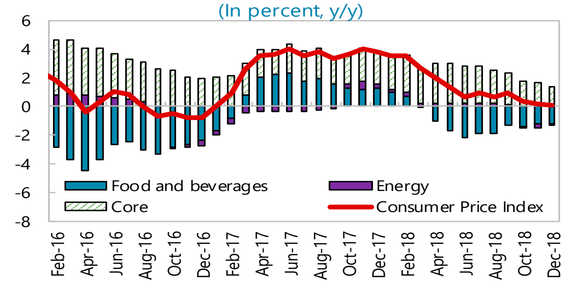
(In percent, y/y)



The contribution from food prices has been negative since Q2 2018, while core inflation has slowed.

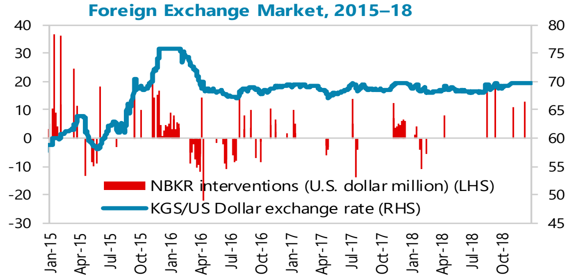
Contribution to Inflation

(In percent, y/y)



The KGZ/USD exchange rate has been stable over the past two years with less frequent but still sizeable foreign exchange interventions

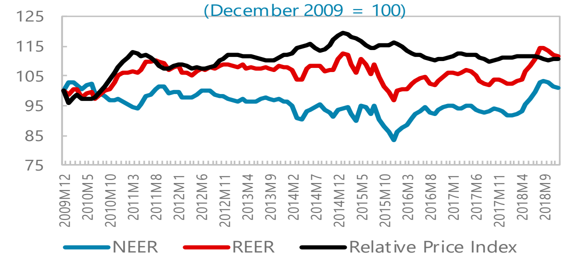
Foreign Exchange Market, 2015–18



The recent stability of the KGS/USD exchange rate has contributed to a sizeable appreciation of the real effective exchange rate (+15 percent since end-2015).

Nominal and Real Effective Exchange Rate

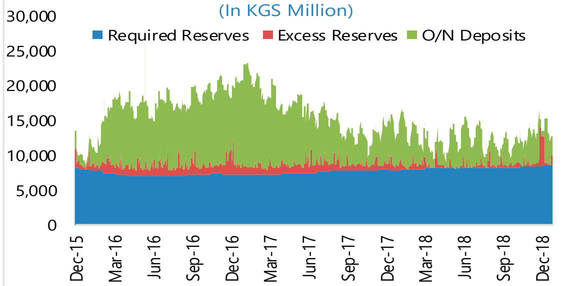
(December 2009 = 100)



Excess liquidity in the banking system has been reduced.

Surplus Liquidity

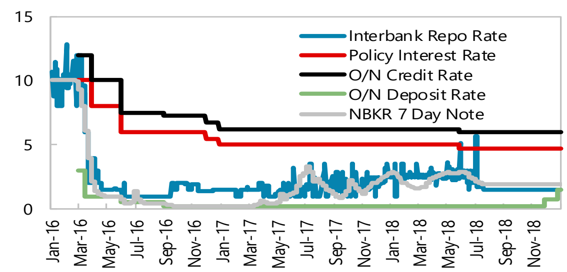
(In KGS Million)



The interbank rate has mostly stayed at the bottom of the interest rate corridor of the central bank.

Interest Rate Corridor and Market Interest Rates

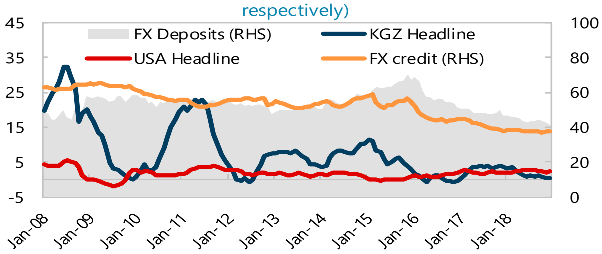
(In percent)



Dollarization has substantially declined while the inflation differential with the US almost disappeared.

Headline Inflation and Dollarization

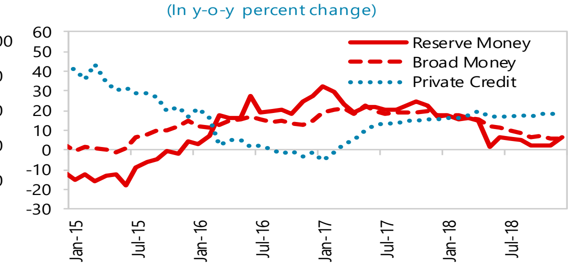
(Percent change year-over-year and percent of total, respectively)



In spite of low money growth, private sector credit growth has been growing strongly, but from a low base.

Monetary Aggregates and Credit, 2015–18

(In y-o-y percent change)



Sources: Kyrgyz authorities and IMF staff estimates.

$19 million, or 4 percent of bank capital at end-2018), and ample liquidity (liquidity ratio of 67 percent), the banking system is resilient to substantial credit, exchange rate, and liquidity shocks. However, the system's low profitability (return on assets 1.4 percent) makes it vulnerable to a small reduction of the interest rate on loans. While banks' direct exposure to foreign exchange risk is low, indirect exposure via the foreign exchange risk of unhedged borrowers, who earn revenue in KGS but carry debt in dollars and make up about 25 percent of total loans and two thirds of foreign exchange loans, is higher. The liquidation of four insolvent banks has not yet been concluded because the bank resolution process is ineffective. In October 2018, the NBKR became the owner of 72 percent of the shares of a mid-sized problem bank, after taking possession of the shares that it had accepted as collateral for emergency liquidity assistance. It subsequently increased its share in the capital to 85 percent.

13. **Over the medium term, growth should gradually increase, the fiscal deficit widen moderately, and the external position weaken owing to a decline in gold production**. Non-gold real GDP growth should gradually pick up to potential. Gold GDP growth should slow owing to a decline in production in the largest mine. Inflation should remain at the low end of the NBKR target range of 5-7 percent. The general government fiscal deficit is projected to widen to 3.3 percent of GDP in 2019, but from then on should not exceed 3 percent of GDP, in line with the draft fiscal rule presently considered by parliament that caps debt at 70 percent of GDP and the budget deficit at 3 percent of GDP. This would stabilize public debt at 54 percent of GDP in 2024. The current account should strengthen in the short term owing to the increase in gold exports, but return to 9 percent of GDP over the medium term as gold exports decline. Therefore, gross official foreign exchange reserves would fall to 3.0 months of imports in 2024, a level just adequate under the Fund's standard reserve adequacy metric (Annex 2). In the medium to long terms, total public debt should remain sustainable provided the government implements the fiscal rule and other exports are developed to replace the main gold mine, which will cease production by 2026.

Kyrgyz Republic: Selected Economic Indicators, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Proj.			
Real GDP (growth in percent)	4.3	4.7	3.5	3.8	3.4	3.8	4.6	3.4	3.4
Nongold real GDP (growth in percent)	4.3	5.1	3.5	3.7	3.6	3.8	4.3	4.4	4.4
Consumer prices (12-month percent change, average)	0.4	3.2	1.5	2.2	4.9	5.0	5.0	5.0	5.0
Public Revenue (in percent of GDP) 1/	33.1	33.4	32.8	34.5	32.5	32.6	32.5	32.3	32.0
Of which: Tax revenue (in percent of GDP)	19.5	19.3	20.7	21.9	21.8	21.8	21.7	21.5	21.2
Public Current Expense (in percent of GDP) 1/	31.8	30.1	28.9	31.0	30.9	29.6	29.6	29.6	29.7
Net acquisition of nonfinancial assets (in percent of GDP) 1/	7.7	7.8	5.2	6.9	4.6	6.0	5.9	5.7	5.2
Overall balance (net lending/bnrrowing, in percent of GDP) 1/ 2/	-6.4	-4.6	-1.3	-3.3	-3.0	-3.0	-3.0	-3.0	-3.0
Total public debt	59.1	58.8	56.0	56.1	55.5	55.3	54.5	54.4	54.4
Of which domestic debt	4.7	5.8	8.0	8.2	8.8	9.9	10.5	11.2	11.7
Reserve money (percent change, eop)	27.6	16.9	6.3	5.5	11.2	13.7	15.8	8.9	10.9
Broad money (percent change, eop)	14.6	17.9	5.5	8.8	11.8	14.2	16.4	9.4	10.9
Credit to private sector (percent change, eop)	-1.0	15.7	18.2	6.7	9.1	9.6	10.9	10.5	10.3
Current account balance (in percent of GDP)	-11.6	-6.2	-8.7	-9.6	-7.7	-7.1	-6.8	-8.4	-8.7
Gross International reserves (in millions of U.S. dollars) 3/	1,773	1,971	1,919	1,854	1,873	1,930	2,084	2,012	1,862
Gross reserves (months of next year imports, eop) 3/	4.2	4.3	4.0	3.8	3.6	3.5	3.6	3.4	3.0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ General government comprises the State government, the Social Fund, and the Mandatory Health Insurance Fund. The State government comprises central and local governments.

2/ Includes loans on-lent by the State government to state-owned enterprises in the energy sector.

3/ Gross international reserves exclude reserve assets in non-convertible currencies.

14. **Risks to the outlook are tilted to the downside** (Annex 3). Weaker-than-expected global growth due to rising protectionism, a slowdown in Russia and Kazakhstan due to lower oil prices, or in China due to trade tensions, could dampen external demand, remittances, FDI, and aid. A sharp tightening of global financial conditions and the potential strengthening of the dollar would increase debt and banking sector vulnerabilities. Fiscal pressures could build up, and structural reforms lose momentum in the run up to the 2020 parliamentary election. Gold production or prices might be lower than expected. Exclusive reliance on nested correspondent banking relationships (CBR) weakens the reliability of access to US dollars. Upside risks include expanded trade with the Eurasian Economic Union (EEU) and Uzbekistan and increased trade with, and investment from, China.

15. **The authorities broadly shared staff's views on recent developments, outlook, and risks, although they were slightly more optimistic about the medium-term growth prospects**. The reduced output in the largest goldmine could be compensated by other mines. Fiscal discipline should not falter before the parliamentary elections because of the government's conservative fiscal plans and the expected approval of the fiscal rule.

POLICY DISCUSSIONS

A. Cementing Macroeconomic and Financial Sector Stability

Monetary and Exchange Rate Policy

16. **The authorities and staff agreed that the monetary policy stance is appropriate**. Both headline and core inflation are well below the inflation target range. Output is estimated to be about one percent below potential. Projected inflation is on track to stay within the target range over the next 12 to 18 months. Nonetheless, the NBKR should be prepared to tighten the stance if upward food prices or the gradual increase in excise taxes to the EEU levels threaten to spill out to core inflation.

17. **They also agreed that the NBKR is on the right path to strengthen the monetary policy framework for moving toward inflation targeting**. To strengthen the role of the interest rate as an operational target of monetary policy, the NBKR should continue to: (i) decrease dollarization by implementing prudential rules and developing foreign exchange rate risk-hedging instruments; (ii) reduce excess liquidity; (iii) narrow the interest rate corridor while bringing short-term money market rates closer to the policy rate; and (iv) develop a domestic security market with the Ministry of Finance. Promoting financial sector deepening by reducing banks' high operating costs, fostering greater competition, reducing information asymmetries, and strengthening the rule of law, would also strengthen monetary policy transmission.

18. **Staff saw merit in allowing more exchange rate flexibility**. The importance the authorities attach to the stability of the exchange rate is understandable, considering the weight of imported goods in the consumer price index (35 percent), the still high dollarization, and the high

share of foreign exchange-denominated debt in total public debt. However, limiting interventions solely to smoothing excessive fluctuations the NBKR would help the economy adjust to external shocks through the exchange rate channel, correct the currency's overvaluation (Annex 2) and foster export diversification. The NBKR noted that it had reduced the frequency of its interventions sharply over the last couple of years and that their aim was to smooth excessive fluctuations of the exchange rate in reaction to sudden shocks such as the announcement of sanctions against Russia and the emergence of trade tensions between the USA and China in early 2018, or the monetary policy tightening in the USA and the weakening of oil prices at the end of 2018.

19. **Staff highlighted the risk of further increasing the share of gold in official foreign exchange reserves**. The share of gold in gross foreign exchange reserves increased from 13 percent at end-2017 to 21 percent at end-2018. Since gold price volatility is one of the main external shocks the Kyrgyz economy is exposed to, further increasing the share of gold would increase the exposure of the economy to the volatility of gold prices through both the export and reserve channels. The NBKR explained that increasing the share of monetary gold was motivated by the objective of reducing exposure to reserve currency volatility during trade tensions.

Fiscal Policy

20. **The authorities and staff agreed that the expansionary fiscal stance implied by the 2019 budget approved by Parliament is appropriate** (Tables 6-9). Parliament approved a general government budget for 2019 with a deficit of 2.5 percent of GDP (including on-lending to loss-making energy sector companies—1.2 percent of GDP—above the line), with higher spending on goods and services and capital expenditure partly offset by a continued improvement in tax collection (owing to an increase in the excise on tobacco and an expected improvement in tax administration) and higher projected external budget support. Staff projects the general government budget deficit, including a $30 million budget grant for additional investment announced by Russia in March, to reach 3.3 percent of GDP in 2019 because of more conservative tax revenue projections, notably VAT revenue that look too ambitious considering the 2018 outcome. The expansionary fiscal stance in 2019 is appropriate in view of the output gap and the unexpectedly tight stance in 2018.

Kyrgyz Republic: General Government Finances, 2018–19
(In percent of GDP)

	2018 (a)	2019 Auth.	2019 Proj. (b)	Diff. (b) - (a)
Revenue	32.8	34.7	34.5	1.7
Taxes	20.7	22.4	21.9	1.2
Social contributions	5.5	5.6	5.6	0.0
Grants	1.6	2.0	2.2	0.6
Other revenue	5.0	4.8	4.8	-0.2
Current expense	28.9	30.7	31.0	2.1
Net acquisition of nonfinancial assets	5.2	6.5	6.9	1.6
Net lending/borrowing	-1.3	-2.5	-3.3	-2.0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

21. **For 2020 and the medium term, staff recommended keeping the general government deficit not higher than 2.5 percent of GDP**.[3] Measures to bring the deficit to that path should

[3] Calculated according to GFSM (¶10). Holding the fiscal deficit at 2.5 rather than 3.0 percent of GDP beyond 2020 would reduce the debt to 50 rather than 54 percent of GDP by 2024.

include reducing tax exemptions, better capturing imports, and identifying expenditure savings through improvement in public financial management. This would help build buffers needed in view of the relatively high public debt, the downside risks on the horizon, and the unknown cost of the NBKR's takeover of a problem bank. The closure of the main gold mine by 2026 will represent a loss of fiscal revenue of about one percent of GDP annually, which can be recouped with tax or expenditure reforms. The authorities are reviewing staff recommendations on the 2020 budget and beyond.

22. **The authorities and staff agreed that the fiscal rule should set a budget deficit ceiling of 3 percent of GDP but differed on the measurement of the deficit, the level of the public debt ceiling, and the modalities for modifying the budget**. Staff considered adopting the rule a major step forward but noted some room for improvement. First, the budget deficit should be recorded in line with GFSM, that is including on-lending to loss-making SOEs as capital grants contributing to the deficit rather than as a financing item. Second, as recommended by IMF technical assistance and confirmed by an updated calibration, it would be preferable for the fiscal rule to cap debt at 60-65 rather than 70 percent of GDP to provide a safety margin. Finally, to strengthen the credibility of the budget, additional spending should be approved ex-ante in a supplementary budget rather than allowed by a sub-committee of Parliament and regularized ex-post by a supplementary budget. The authorities were not convinced of the merits of the proposed treatment of on-lending to loss-making SOEs. For them, 70 percent of GDP was a more appropriate ceiling, considering the experience in 2015 when the depreciation of the KGS pushed the public debt close to 70 percent. They also preferred to keep the current flexibility of adjusting the budget to address unforeseen circumstances.

23. **The authorities and staff agreed that continued fiscal discipline and progress in public investment management and the business environment are needed to maintain debt sustainability**. Public debt, mostly on concessional terms, remains at a moderate risk of debt distress.[4] However, the debt outlook remains vulnerable, especially to a deceleration in real GDP and exports growth and the depreciation of the KGS. To address these vulnerabilities, the authorities plan to remain cautious when contracting and guaranteeing new debt, strengthen fiscal discipline, improve public investment management, and continue improving the business environment to maintain the export potential of the country after the main gold mine closes.

Financial Stability

24. **The authorities and staff agreed that the NBKR should continue to implement risk-based supervision**. Banking sector stability is improving thanks to the NBKR's implementation of prudential norms, comprehensive monitoring and stress-testing of financial institutions, and gradual implementation of risk-based supervision. The NBKR plans to continue closely monitoring the development of banks' indirect exposure to foreign exchange risk. Regarding Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT), the NBKR plans to swiftly update its

[4] Kyrgyz Republic—Debt Sustainability Analysis (forthcoming).

regulations to the 2018 AML/CFT legislation and step up implementation of risk-based supervision, including by enhancing the monitoring of cross-border financial flows.

25. **The authorities and staff agreed on the need to remove the problem bank from the NBKR balance sheet but differed on the timeline and other modalities**. Together with a World Bank mission providing technical assistance on bank resolution, staff recommended that the NBKR sell the problem bank, which was involved in money laundering, to the state property fund as soon as possible, based on an independent expert valuation that should determine whether the bank should be closed. This would end the NBKR's conflict of interest with its role as central bank and banking sector supervisor (including regarding AML/CFT), restore a level playing field in the banking sector, minimize the NBKR's financial exposure, and strengthen financial sector stability. The NBKR planned to maintain its ownership with a view to restructure the problem bank and list it on a foreign stock exchange in about a year. It plans to deal with the conflict of interest by creating a new department separate from banking supervision to manage its share in that bank. The NBKR nevertheless showed openness to cede the problem bank to the state sooner if the government agreed. The government was not interested in taking over the problem bank until it becomes profitable.

26. **The authorities and staff agreed on the need to strengthen the bank resolution framework, with differing views on how to do it**. Staff considered that the takeover of a problem bank by the NBKR and the protracted liquidation of four insolvent banks highlighted the need to improve the bank resolution framework. The banking law would need to be amended to: strengthen the NBKR vetting of shareholders; prevent the NBKR from acquiring shares in commercial banks; strengthen the independence of the NBKR Board, as recommended by the latest IMF Safeguards Assessment; and ensure that the framework for judicial reviews of NBKR bank resolution decisions adequately takes into account financial stability considerations. The fiscal code would need to be amended to allow the state to guarantee emergency liquidity assistance by the NBKR, or NBKR lending to the Deposit Protection Agency (DPA) in case of systemic crisis. The shares of intervened banks would need to be excluded from the list of eligible collateral for NBKR emergency liquidity assistance. The authorities agreed with some but not all staff recommendations: they reminded staff that the country's constitution ruled out the limitation of judicial review of bank resolution decisions[5] and expressed concern that amending the fiscal code to allow the government to guarantee commercial bank or DPA debt to the NBKR would open the door for government guarantees of other SOEs' debt.

27. **Views differed on the need to gradually wind down the NBKR's quasi-fiscal activities**. For staff, the NBKR should gradually wind down its lending to the Russian Kyrgyz Development Fund (RKDF) and its credit auctions for directed commercial bank lending subsidized by the government and transfer them to the government budget. Indeed, such quasi-fiscal activities distract the NBKR from its main task as a central bank and bank supervisor and are counterproductive for banking

[5] In 2017 the Ministry of Justice provided Fund staff with an official opinion that the proposed amendments of the banking law on judicial review (limiting the remedy available) and non-suspension of the NBKR decisions would be unconstitutional.

sector development; the Banking Law should be amended to eliminate the possibility for the NBKR to lend to non-supervised entities. The NBKR underlined that the Banking Law allows it to lend to the RKDF to facilitate the development of the economy. It sees its credit auctions for directed commercial bank lending as a relevant monetary policy tool.

B. Creating Fiscal Space for Development Needs

28. **To finance the large development needs, the authorities need to increase domestic revenue and expenditure efficiency**. To meet the Sustainable Development Goals in health, education, water/sanitation, electricity, and infrastructure, the spending needs are large (Appendix 4). However, there is limited room to take on more debt. Therefore, fiscal space will have to come from gains in revenue mobilization and expenditure efficiency.

29. **Based on technical assistance recommendations of the IMF and the World Bank, staff identified several ways to create fiscal space** (Figure 3). At 20.7 percent of GDP in 2018, the tax ratio is above peer levels, but there may be room to increase it further by better capturing imports from China [6] and reducing tax exemptions (3.8 percent of GDP in 2018). At 10.2 percent of GDP in 2018, the public wage bill is much higher than in peers. It could be gradually reduced through attrition, creating a central registry for public sector employees, updating norms to set the number of staff positions, automatizing routine tasks, conducting functional reviews to identify structural gaps, and reforming the wage-setting framework. At 3 percent of GDP in 2017, social assistance is relatively high but its coverage of the needy could be improved by moving from category to income-based transfers. Raising non-residential energy tariffs above cost could free about 2 percent of GDP per year (¶34). Health expenditures appear relatively efficient but there is room to increase the efficiency of education spending. Strengthening public investment management by improving prioritization, firming up public financial management by implementing FMIS, including a wage module, and further progress by the State Property Fund in controlling SOEs could result in additional expenditure savings.

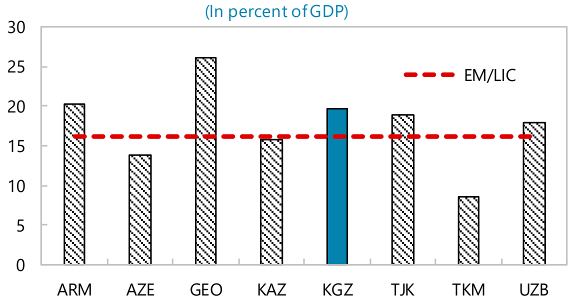
30. **The authorities broadly agreed with the fiscal space identified by staff but highlighted difficulties in tapping it**. Some tax exemptions are important for growth and employment, and their removal requires careful study. The average wage in the public sector is low compared to peers and may need to be increased to attract competent staff in health and education. Additional technical assistance to implement FMIS, including a wage module, would be welcome.

[6] There is a high margin of uncertainty around the measure of imports, with the Chinese customs administration reporting exports to the Kyrgyz Republic in 2016 that were about four times higher than the imports from China reported by the Kyrgyz customs administration (*OECD, Anti-corruption Reforms in Kyrgyzstan, 4th Round of Monitoring of the Istanbul Anti-Corruption Plan, 2018*), https://www.oecd.org/corruption/acn/istanbulactionplancountryreports.htm, (pp. 219-221).

Figure 3. Kyrgyz Republic: Revenue and Expenditure Reform Priorities

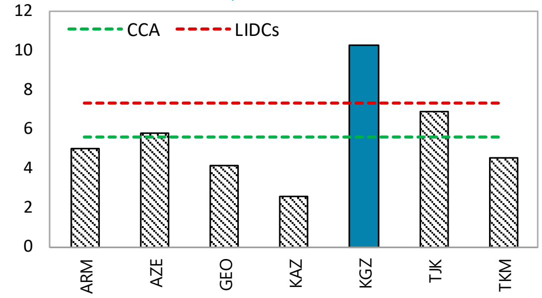
The Kyrgyz Republic compares favorably with peers in tax collection …

Tax Revenue, 2017
(In percent of GDP)



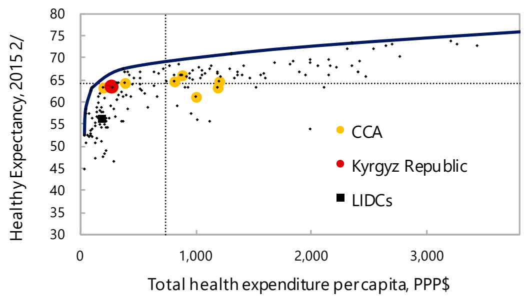
… but the government wage bill is significantly higher than peers.

Wage Bill, 2017 or Latest Available 1/
(In percent of GDP)



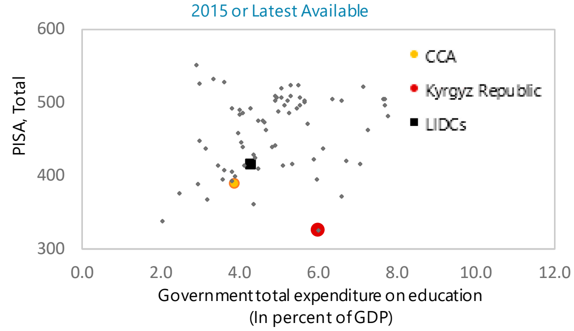
Performance of the health sector is on par with peers …

Health Efficiency Frontier, Latest Available



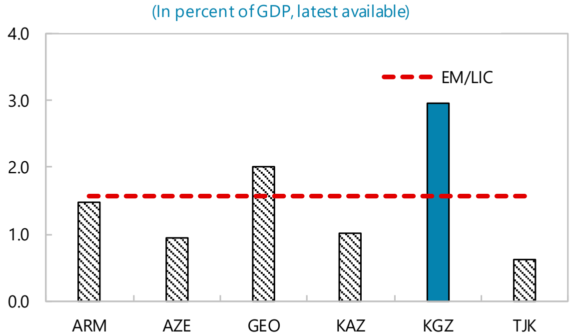
… while quality of education needs to be improved.

Spending on Education and PISA Score 3/
2015 or Latest Available



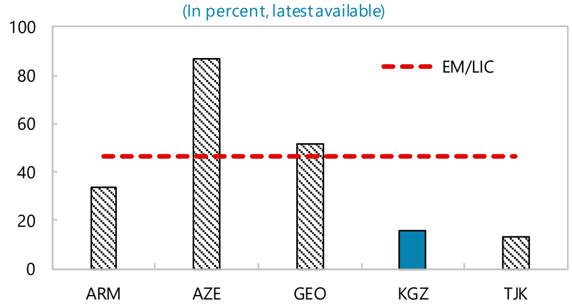
Total spending on social assistance is higher than peers …

Social Assistance Spending
(In percent of GDP, latest available)



… but the coverage for the most needy is low.

Social Assistance, Coverage, First Quartile
(In percent, latest available)



Source: World Economic Outlook, IMF FAD Expenditure Assessment Tool (EAT), updated November 2018.
1/ For KGZ, includes wages paid to doctors and nurses through the Mandatory Health Insurance Fund.
2/ Healthy life expectancy (HALE) is a measure of health expectancy that computes the equivalent number of years of life expected to be lived in full health.
3/ PISA refers to the Programme for International Student Assessment conducted by the Organisation for Economic Co-operation and Development (OECD).

C. Removing Obstacles to Private-Sector-Led Growth

Deepening Financial Sector Development

31. **In reaction to the low level of bank credit and high interest rates, the RKDF and the authorities have subsidized lending to stimulate credit**. At 23 percent of GDP in 2018, credit to the private sector lags peers and has barely improved in recent years, and financial inclusion for both firms and individuals is low. The lending interest rate—14 percent in real terms—and lending-deposit spread—10 percentage points—are among the highest in the world, because of high bank operating costs[7] and insufficient competition. Banks only provide highly collateralized credit, which constrains access to finance for asset-light small and medium-sized enterprises (Annex 5). In response to the high lending rates, the RKDF (with capital of $500 million or 7 percent of GDP, of which about 60 percent has been lent) and the authorities, through NBKR credit auctions for agricultural and other-directed lending and government subsidized mortgage lending, have been providing credit at about one third of market interest rates.

32. **To promote financial deepening, staff recommended reducing banks' high operating costs, fostering greater competition, reducing information asymmetries, and strengthening the rule of law**. The provision of subsidized credit runs the risk of weakening banks' profitability and increasing the concentration of banks' credit risks if large customers move to the RKDF because of cost considerations. This, in turn, could slow down financial sector development. The authorities should instead address the root causes of low financial intermediation by: (i) identifying and remedying the reasons for high operating costs at commercial banks; (ii) fostering greater competition by: actively encouraging the entry of new banks and the exit of failed ones, through improving the bank resolution process; and identifying and addressing constraints to the development of capital markets; (iii) mitigating credit risks by strengthening the rule of law; (iv) reducing information asymmetries by developing the infrastructure for local ratings and expanding the coverage of credit registries; (v) developing legal, financial, and infrastructural arrangements for a collateral framework; and (vi) facilitating the development of mobile payments to increase financial inclusion.

33. **The authorities broadly agreed with staff's recommendations but highlighted implementation difficulties**. Bank operating costs are high because of the branch network. High lending rates also reflect the high cost of funding and high credit risk. Work is being done to improve the coverage of credit registries, the scoring of borrowers, and corporate ratings, and to extend collateral beyond real estate assets.

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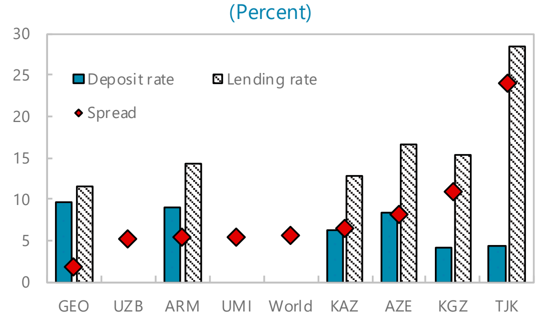
[7] High operating costs are by far the most important driver of interest spreads in CCA countries according to Raja Almarzoqi and Sami Ben Naceur, Determinants of Bank Interest Margins in the Caucasus and Central Asia, IMF Working Paper/15/87.

Figure 4. Kyrgyz Republic: Constraints to Financial Deepening and Inclusion

Interest rate spreads and the cost of credit are relatively high …

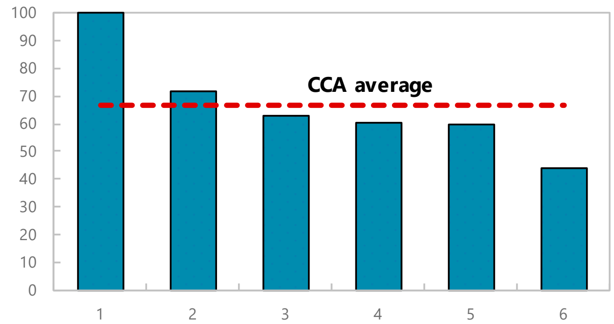
Interest Rate Spread, 2017
(Percent)



Source: World Development Indicators, Kyrgyz authorities, 2018, and IMF staff calculation.
Note: UMI = Upper middle income.

… due to a lack of bank competition …

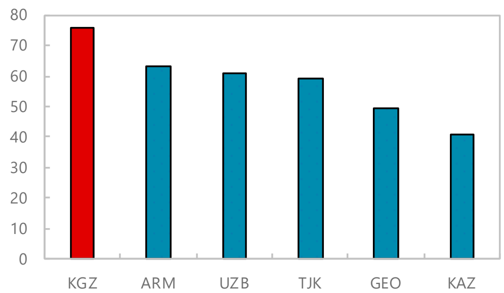
Three Largest Banks' Asset Concentration, 2017
(Percent of Total)



Source: World Bank Finstats Database, 2016, and IMF staff calculations.

… and high operating costs.

Banks' Non-Interest Expense, 2017
(Percent of gross income)



Source: FSIs, and IMF staff calculations.

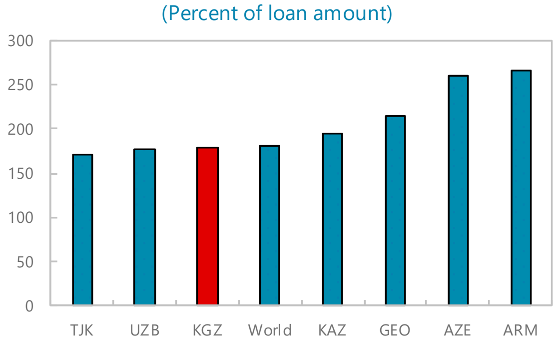
Kyrgyz Republic: Decomposition of Interest Spreads, 2018
(In percent, annualized)

Interest earned on loans	14.7
Interest paid on interest bearing liabilities	4.5
Spread	10.2
Operating costs/loans	9.1
Loan loss provisions/loans	1.1
Interest paid to cover required reserves	0.4

Sources: NBKR, and IMF staff calculations.

Collateral requirements exceed loan value.

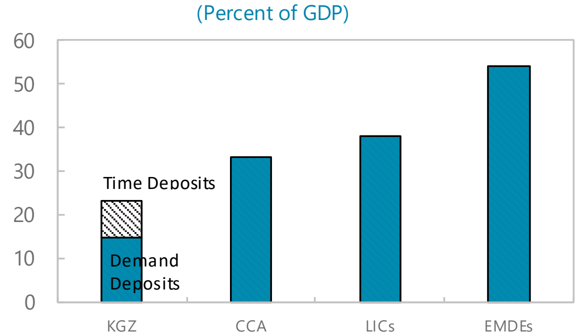
Value of Collateral Needed for a Loan, 2017
(Percent of loan amount)



Sources: World Bank Enterprise Survey, World Development Indicators, and IMF staff calculations.

The deposit base is low and the maturity short.

Deposits and Maturity, 2018
(Percent of GDP)



Sources: Financial Inclusion Database, Kyrgyz authorities, and IMF staff calculations.

Reforming the Energy Sector

34. **Staff and the authorities agreed that the chronic deficit of residential tariffs compared to costs has stymied the growth and export potential of the hydro-power energy sector**. Structural cash shortfalls of about 2 percent of GDP per year have led to chronic under-maintenance and under-investment, power outages, and infrastructure decay (45 percent of the generation capacity is beyond its useful life). Difficulty in getting electricity is among the most stringent constraints to doing business.

35. **Staff noted the urgent need to start gradually increasing residential tariffs while compensating the poor with cash transfers, while the authorities did not see such an increase socially acceptable anytime soon**. To make such an increase acceptable to the population, staff recommended adopting and communicating a reform strategy to all stakeholders, in line with successful experiences abroad.[8] Such a strategy should explain the challenges, highlight the progress already made to decrease the operating costs and reduce the distribution and commercial losses, and explain the need to gradually increase residential tariff above cost to make the energy sector financially self-sustained. Staff supports the World Bank's recommendation to increase residential electricity and heating tariffs by, respectively, 10 and 15 percent every two years, which would achieve full cost recovery in 10 years. The strategy should include cash transfers to compensate the poor, as part of the overall reform of social assistance. The authorities recognized the need to increase residential tariffs but highlighted the risks of social unrest given past experience. Considering the political cycle and the perception of pervasive governance problems in the sector, they considered that increasing residential tariffs would not be possible any time soon.

Strengthening Governance

36. **Staff noted that strengthening the fiscal framework, financial sector oversight, anti-corruption and AML/CFT efforts, and the rule of law would help reduce vulnerabilities to corruption**. As part of the Framework for Enhanced Fund Engagement in Governance approved in April 2018,[9] staff discussed vulnerabilities with the authorities and encouraged further action in the following areas: (i) *fiscal governance*: modernize tax and custom administration, publish and streamline tax exemptions, implement the procurement code including for SOEs, and implement a computerized FMIS (¶29); (ii) *financial sector oversight:* amend the banking and other laws to make bank resolution effective (¶26); (iii) *central bank governance and operations:* amend the banking law to strengthen the independence of the central bank (¶26); (iv) *market regulation*: ensure simplicity, transparency, and predictability of the import licensing process, and eliminate licensors' discretion; (v) *AML/CFT*: ensure effective implementation of measures related to politically-exposed persons

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[8] Kyrgyz Republic—Selected Issues, *Unleashing the Potential of the Electricity Sector* (forthcoming).

[9] IMF, Review of 1997 Guidance Note on Governance – A Proposed Framework for Enhanced Fund Engagement (April 2018): [https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/04/20/pp030918-review-of-1997-guidance-note-on-governance.](https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/04/20/pp030918-review-of-1997-guidance-note-on-governance)

Box 1. Challenges and Reform Priorities for Respect of the Rule of Law

Comparative indicators reveal that respect for the rule of law has much room for improvement in the Kyrgyz Republic. The Worldwide Governance Indicator, the World Bank Doing Business Index, the household and expert based survey of the World Economic Forum, and the World Justice Project – Rule of Law all indicate low performance regarding the respect of the rule of law.

There is evidence that market participants have low trust in the courts and the legal enforcement system. In tax enforcement, the case inflow has been dropping steadily from 215 cases in 2015 to 115 in 2018 (Interview Tax Chamber of the Kyrgyz Republic). Important market actors avoid the formal enforcement system: the loan portfolio of banks is heavily directed toward secured lending, with mandatory arbitration clauses cutting out the courts entirely; the service portfolio of telecom companies is heavily tilted toward prepay systems to sidestep the need for cumbersome recovery; the Kyrgyz Republic has almost the same number of international arbitration cases as other countries in the region with significantly larger populations and economies.

A serious vulnerability to effective court enforcement is that courts are widely perceived as not independent. The role of political agents in appointing and disciplining judges feeds that perception: members of parliament hold two-thirds of the votes in the recruitment of judges; and members of parliament and the Office of the President each hold one-third of the votes in their disciplinary oversight. Judges are appointed for a probationary period of five years, which could create a sense of dependency to the appointing authorities. Reports of heavy imbalance in the win-loss rate in the courts in favor of the state also feed that perception: a recent report[1] says that 96 percent of people who find themselves in a court (both civil and criminal) receive a guilty verdict, unless they are state officials; in the above example of tax cases, according to the Tax Chamber, the win-loss rate for taxpayers shifted from 54-46 percent in favor of taxpayers, to 2-98 percent in favor of the state, between 2010 and 2018.

To address that perception, the authorities should take steps to make the judiciary more independent and transparent. Such steps could include: giving the judiciary a controlling majority in selecting and disciplining judges; abolishing the probationary period of judges; upholding the statutory deadlines; and publishing regular statistics, including on the inflow and outflow of cases, with a break-down per court and per case type and the outcome.

[1] https://www.opendemocracy.net/en/odr/rough-justice-in-kyrgyzstan/ (December 18, 2018).

and transparency of beneficial ownerships, and strengthen risk-based supervision; (vi) *rule of law*: take steps to make the judiciary more independent and publish statistics on court proceedings (Box 1); and (vii) *anti-corruption*: ensure compliance of domestic laws with the obligations under the United Nations Convention against Corruption and strengthen the asset declaration regimes by publishing comprehensive declarations of high-level public officials, investigating illicit enrichment, and publishing the results of verifications and sanctions imposed.

37. **The authorities broadly agreed with staff recommendations and underlined ongoing progress**. Tax administration is being modernized with World Bank assistance. The effectiveness of court proceedings is being improved with European Union assistance. AML/CFT legislation has been strengthened with IMF assistance, and implementation by the NBKR and the Financial Intelligence Unit has started. On asset declaration, areas of improvement have been identified and legal amendments are being prepared to improve the effectiveness of the verification process.

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38. **While macroeconomic and financial stability has improved, the economy is still vulnerable to external shocks and not growing enough to make further inroads into poverty**. The economy is growing steadily, benefiting from a benign regional environment. Low inflation, a small fiscal deficit in 2018, and a stable banking sector point to the success of stabilization policies implemented by the government and NBKR. However, the economy remains vulnerable to external shocks because of its dependence on remittances, gold, the level of its current account deficit, and the level and composition of its public debt. In addition, economic growth has been insufficient to significantly raise living standards and reduce poverty.

39. **Economic growth is expected to slightly increase in the short and medium term with downside risks**. Growth is expected to moderately rise in 2019 owing to gold production and fiscal expansion and reach about 4 percent in the medium term. However, risks are tilted to the downside mainly because of the impact of trade tensions on the regional economic environment.

40. **While the monetary policy stance is appropriate, more exchange flexibility is warranted**. The announced monetary policy is on track to keep inflation within the target range over the next 12 to 18 months. By further reducing excess liquidity, dollarization and the width of the interest rate corridor, the NBKR is on the right path toward strengthening the monetary policy framework to move toward inflation targeting. To help this transition and allow the economy to adjust to shocks through the exchange rate channel, the NBKR should maintain two-way exchange rate flexibility and limit interventions solely to smoothing excessive fluctuations.

41. **The expansionary fiscal stance implied by the 2019 budget approved by Parliament is appropriate.** The budget deficit should be measured in line with the GFSM. The (GFSM-defined) general government budget deficit should stay within 3.3 percent of GDP in 2019, which would be appropriate in view of the negative output gap and the unexpectedly tight fiscal stance in 2018.

42. **In 2020 and the medium term, the general government deficit should not exceed 2.5 percent of GDP**. Building buffers is needed considering the relatively elevated level of public debt, the downside risks on the horizon, and the unknown cost of the NBKR's take-over of a problem bank.

43. **The NBKR should transfer the problem bank it recently acquired to the state as soon as possible**. This is indispensable to eliminate the conflict of interest with its role as a central bank and banking supervisor, maintain a level playing field in the banking sector, and protect the NBKR balance sheet. It is also important for the NBKR to focus on continuing to implement risk-based supervision to further strengthen the stability of the banking sector, and to work with the government to strengthen the bank resolution framework. NBKR's other quasi-fiscal activities should also gradually be transferred to the budget.

44. **Gains in domestic revenue mobilization and in expenditure efficiency will be needed to finance the development needs**. Given the limited scope to further increase debt, fiscal space

should be sought by gradually reducing tax exemptions, the relatively high public-sector wage bill, and energy sector subsidies. Implementing a computerized FMIS to inform budget execution and improving public financial management should help achieve additional expenditure savings.

45. **Steadfast implementation of reforms is needed to increase financial sector development, unleash the growth potential of the energy sector, and improve governance**. Reducing banks' high operating costs, fostering greater competition, decreasing information asymmetries, and strengthening the rule of law will increase financial sector development. A gradual increase in residential tariffs, with cash transfers to compensate the poor, is indispensable to unleash the growth potential of the energy sector. Strengthening the fiscal framework, financial sector oversight, anti-corruption, AML/CFT, and the rule of law will help reduce vulnerabilities to corruption.

46. It is proposed that the next Article IV consultation takes place according to the standard 12-month cycle.

Table 1. Kyrgyz Republic: Selected Social and Economic Indicators, 2016–24

I. Social and Demographic Indicators

Population (in millions, 2017)	6.3	GINI Index (2017)	27.3
Unemployment rate (official, in percent, 2017)	6.9	Life expectancy at birth in years (2017)	71.0
Poverty rate (in percent, national definition, 2016)	25.6	Adult literacy rate (percent of popul., 2015)	99.5
GNI per capita (2017, Atlas method, U.S. dollars)	1,130	Under-five mortality (per 1000 live births, 2017)	20

II. Economic Indicators

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Proj.			
Real sector									
Nominal GDP (in billions of soms)	476.3	530.5	557.1	590.8	640.6	697.9	766.0	830.9	901.2
Nominal GDP (in millions of U.S. dollars)	6,813	7,703	8,093	8,334	8,781	9,288	9,897	10,423	10,976
Real GDP (growth in percent)	4.3	4.7	3.5	3.8	3.4	3.8	4.6	3.4	3.4
Nongold real GDP (growth in percent)	4.3	5.1	3.5	3.7	3.6	3.8	4.3	4.4	4.4
GDP per capita (in U.S. dollars)	1,110	1,231	1,268	1,280	1,324	1,373	1,434	1,482	1,530
Consumer prices (12-month percent change, eop)	-0.5	3.7	0.5	4.7	5.1	5.0	5.0	5.0	5.0
Consumer prices (12-month percent change, average)	0.4	3.2	1.5	2.2	4.9	5.0	5.0	5.0	5.0
Investment and savings (in percent of GDP)									
Investment	31.6	30.7	28.3	28.0	28.1	28.2	27.9	26.5	26.1
Public	10.1	9.7	6.0	8.9	6.9	8.0	7.8	7.5	8.3
Private	21.5	21.0	22.3	19.1	21.2	20.1	20.1	18.9	19.0
Savings	20.0	24.5	19.6	18.4	20.4	21.1	21.2	18.1	17.3
Public	0.5	2.5	2.9	2.3	0.8	2.3	2.2	1.9	1.5
Private	19.5	22.0	16.7	16.1	19.6	18.8	19.0	16.2	15.8
Savings-investment balance	-11.6	-6.2	-8.7	-9.6	-7.7	-7.1	-6.8	-8.4	-8.7
General government finances (in percent of GDP) 1/									
Revenue	33.1	33.4	32.8	34.5	32.5	32.6	32.5	32.3	32.0
Of which: Tax revenue	19.5	19.3	20.7	21.9	21.8	21.8	21.7	21.5	21.2
Expense	31.8	30.1	28.9	31.0	30.9	29.6	29.6	29.6	29.7
Gross operating balance	1.3	3.2	3.9	3.5	1.6	3.0	2.9	2.7	2.2
Net acquisition of nonfinancial assets	7.7	7.8	5.2	6.9	4.6	6.0	5.9	5.7	5.2
Overall balance (net lending/borrowing) 2/	-6.4	-4.6	-1.3	-3.3	-3.0	-3.0	-3.0	-3.0	-3.0
Primary net lending/borrowing	-5.3	-3.5	0.0	-1.8	-1.6	-1.6	-1.5	-1.4	-1.3
Total state government debt 3/	59.1	58.8	56.0	56.1	55.5	55.3	54.5	54.4	54.4
Of which domestic debt	4.7	5.8	8.0	8.2	8.8	9.9	10.5	11.2	11.7
Monetary sector									
Reserve money (percent change, eop)	27.6	16.9	6.3	5.5	11.2	13.7	15.8	8.9	10.9
Broad money (percent change, eop)	14.6	17.9	5.5	8.8	11.8	14.2	16.4	9.4	10.9
Credit to private sector (percent change, eop)	-1.0	15.7	18.2	6.7	9.1	9.6	10.9	10.5	10.3
Credit to private sector (in percent of GDP)	20.0	20.8	23.4	23.6	23.7	23.9	24.1	24.6	25.0
Velocity of broad money 4/	2.9	2.7	2.7	2.7	2.6	2.5	2.3	2.3	2.3
Policy Rate	5.0	5.0	4.8	4.5	...	...	...	...	...
External sector									
Current account balance (in percent of GDP)	-11.6	-6.2	-8.7	-9.6	-7.7	-7.1	-6.8	-8.4	-8.7
Export of goods and services (in millions of U.S. dollars)	2,449	2,638	2,649	2,733	2,801	2,924	3,113	3,067	3,050
Export growth (percent change)	-0.9	7.7	0.4	3.2	2.5	4.4	6.5	-1.5	-0.5
Import of goods and services (in millions of U.S. dollars)	4,789	5,113	5,564	5,728	5,899	6,231	6,613	6,927	7,127
Import growth (percent change)	-2.3	6.8	8.8	2.9	3.0	5.6	6.1	4.7	2.9
Gross International reserves (in millions of U.S. dollars) 5/	1,773	1,971	1,919	1,854	1,873	1,930	2,084	2,012	1,862
Gross reserves (months of next year imports, eop)	4.2	4.3	4.0	3.8	3.6	3.5	3.6	3.4	3.0
External public debt outstanding (in percent of GDP)	54.4	53.0	48.0	47.9	46.7	45.4	44.0	43.2	42.7
External public debt service-to-export ratio (in percent)	5.9	7.1	6.9	7.7	7.1	8.0	7.9	8.2	7.9
Memorandum items:									
Exchange rate (soms per U.S. dollar, average)	69.9	68.9	68.8	...	...	...	...	...	...
Real effective exchange rate (2010=100) (average)	102.8	104.5	108.6	...	...	...	...	...	...

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ General government comprises the State government, the Social Fund, and the Mandatory Health Insurance Fund. The State government comprises central and local governments.
2/ Includes loans on-lent by the State government to state-owned enterprises in the energy sector.
3/ Calculated at end-period exchange rates.
4/ Twelve-month GDP over end-period broad money.
5/ Gross international reserves exclude reserve assets in non-convertible currencies.

Table 2. Kyrgyz Republic: National Accounts, 2015–24

(In percent, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Est.			Proj.			
	(GDP share)				(growth rate in real terms)					
Agriculture, Hunting, Fishing, Forestry	14.1	2.9	2.2	2.7	3.3	3.3	3.3	3.3	3.3	3.3
Industry	16.7	5.9	8.9	5.5	4.4	2.3	4.7	8.0	-3.2	-3.0
Industry without Kumtor	7.9	6.8	18.4	7.3	3.6	5.0	6.0	6.0	7.5	7.5
Construction	8.4	9.3	7.9	7.8	9.0	9.0	9.1	9.1	9.1	9.1
Transport	3.9	0.1	9.4	3.9	6.5	6.0	6.0	6.0	6.0	6.0
Communication	4.3	-9.1	-16.7	-7.5	0.0	1.0	2.0	2.0	2.0	2.0
Trade	18.8	8.0	7.1	5.1	5.1	4.0	4.0	5.5	5.5	5.5
Other	22.1	2.4	-29.6	0.6	0.6	0.6	0.6	1.2	1.2	1.2
Net Taxes on Products	11.8	4.3	4.7	3.5	3.8	3.3	3.8	4.4	3.4	3.4
Gross Domestic Product	100.0	4.3	4.7	3.5	3.8	3.4	3.8	4.6	3.4	3.4
Gold [1/]	8.8	5.2	1.3	3.3	5.4	-0.9	3.3	10.3	-15.6	-15.2
Non-Gold GDP	91.2	4.3	5.1	3.5	3.7	3.6	3.8	4.3	4.4	4.4
Memorandum items:					(In billions of soms)					
Gross Domestic Product	430.5	476.3	530.5	557.1	590.8	640.6	697.9	766.0	830.9	901.2
Gold [1/]	37.8	48.4	44.9	48.0	53.5	50.8	53.7	56.6	44.7	40.0
Non-Gold GDP	392.7	427.9	485.6	509.1	537.3	589.9	644.1	709.4	786.1	861.3

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Until 2018, Kumtor only in line with official data. 2019 and beyond, Kumtor and others.

Table 3. Kyrgyz Republic: Balance of Payments, 2016–24
(In millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Proj.			
Current account balance	-792	-477	-702	-794	-669	-654	-666	-870	-955
Excluding transfers	-2,696	-2,847	-3,123	-3,279	-3,391	-3,614	-3,845	-4,174	-4,369
Trade balance	-2,137	-2,383	-2,779	-2,888	-2,997	-3,199	-3,383	-3,723	-3,924
Exports, fob	1,608	1,814	1,815	1,901	1,944	2,040	2,193	2,130	2,091
CIS countries	639	772	837	849	866	897	930	967	1,007
Of which: Energy products	50	100	131	131	131	131	131	131	131
Of which: Re-exports of consumer goods	50	50	52	53	54	57	59	62	65
Non-CIS countries	969	1,042	978	1,052	1,078	1,142	1,263	1,163	1,083
Of which: Gold	702	700	664	729	742	788	890	769	667
Imports, fob	3,744	4,197	4,594	4,789	4,941	5,239	5,576	5,853	6,015
CIS countries	1,639	1,941	1,868	1,865	1,930	2,022	2,138	2,231	2,281
Of which: Energy (including for re-exports)	467	567	559	509	523	533	549	560	560
Non-CIS countries	2,106	2,256	2,727	2,924	3,011	3,216	3,438	3,621	3,734
Of which: Goods for re-exports	40	40	42	42	43	45	47	49	52
Services	-204	-92	-135	-106	-101	-108	-118	-137	-153
Receipts	841	824	834	832	857	885	920	938	960
Payments	-1,045	-916	-969	-938	-958	-993	-1,038	-1,074	-1,112
Income	-356	-372	-208	-284	-292	-307	-344	-314	-292
Interest payments	-68	-76	-75	-68	-72	-73	-80	-86	-94
Other net income	-288	-295	-133	-216	-220	-234	-264	-228	-198
Current Transfers (net)	1,904	2,369	2,421	2,485	2,722	2,960	3,179	3,304	3,413
Of which: Private	1,820	2,263	2,375	2,407	2,711	2,910	3,132	3,256	3,365
Capital Account	113	134	99	156	108	113	119	124	130
Official	99	131	102	156	108	113	119	124	130
Private	14	3	-3	0	0	0	0	0	0
Financial account	574	330	237	584	598	615	719	692	687
Commercial banks	58	-19	44	0	0	0	0	0	0
Medium- and long-term loans (net)	87	173	-72	198	199	192	253	252	265
Disbursement	688	668	489	616	620	693	792	834	878
Of which: Loan financed PIP (excl. energy investments financed by China)	53	80	94	177	168	201	218	229	242
Of which: Energy investments financed by China (PIP)	258	243	36	101	96	115	122	129	136
Amortization	-601	-494	-562	-418	-421	-501	-539	-583	-613
Foreign direct investment	579	-78	48	386	399	423	466	441	422
Portfolio investment	-7	-25	-9	0	0	0	0	0	0
Other (including SDR allocation)	0	0	0	0	0	0	0	0	0
Net short-term flows	-143	276	227	0	0	0	0	0	0
Errors and omissions	415	131	138	0	0	0	0	0	0
Overall balance	309	117	-227	-54	37	74	171	-54	-139
Financing	-309	-117	227	54	-37	-74	-171	54	139
Net international reserves	-339	-153	-13	54	-37	-74	-171	54	139
Gross official reserves (–, increase)	-326	-141	16	78	-11	-49	-148	77	158
IMF	-13	-13	-29	-25	-26	-24	-23	-23	-19
Exceptional financing (including arrears) 1/	30	36	240	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
GDP (in millions of U.S. dollars)	6,813	7,703	8,093	8,334	8,781	9,288	9,897	10,423	10,976
Current account balance (percent of GDP)	-11.6	-6.2	-8.7	-9.5	-7.6	-7.0	-6.7	-8.3	-8.7
Current account balance excluding official transfers (percent of GDP)	-12.9	-7.6	-9.2	-10.5	-7.7	-7.6	-7.2	-8.8	-9.1
Growth of exports of GNFS (volume, percent)	-1.6	1.3	-4.7	3.3	1.3	2.5	4.6	-3.2	-2.3
Growth of imports of GNFS (volume, percent)	3.7	1.1	1.2	5.5	2.7	4.2	4.6	3.2	1.3
Terms of trade (goods, percentage change)	4.9	-1.1	-2.8	1.5	0.2	-0.5	-0.6	-0.6	-0.6
Gold price (U.S. dollars per ounce)	1,248	1,257	1,269	1,321	1,359	1,398	1,430	1,463	1,498
Fuel Price Index (2005=100)	100.0	123.9	157.7	134.6	134.3	131.8	130	130	131
External Public Debt (in millions of U.S. dollars) 2/	3,742	4,081	3,830	3,935	4,038	4,156	4,291	4,438	4,620
As percent of GDP	54.4	53.0	48.0	47.9	46.7	45.4	44.0	43.2	42.7
External public debt service-to-exports ratio 2/ 3/	5.9	7.1	6.9	7.7	7.1	8.0	7.9	8.2	7.9
Gross reserves 4/	1,773	1,971	1,919	1,854	1,873	1,930	2,084	2,012	1,862
In months of subsequent year's imports	4.2	4.3	4.0	3.8	3.6	3.5	3.6	3.4	3.0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Russian debt write-off.

2/ Public and publicly-guaranteed debt.

3/ Net of rescheduling.

4/ Valued at end-period exchange rate. Gross international reserves exclude reserve assets in non-convertible currencies.

Table 4. Kyrgyz Republic: NBKR Accounts, 2016–19

	2016	2017	2018 Est.	2019 Proj.
	(In millions of soms)			
Net foreign assets	126,837	140,889	142,089	141,338
Net international reserves [1/]	121,250	134,783	134,078	133,327
Long-term foreign liabilities	-7,864	-8,311	-8,222	-8,222
Other foreign assets	13,451	14,418	16,233	16,233
Net domestic assets	-41,253	-40,870	-35,742	-29,103
Net claims on general government	-7,747	-8,994	-12,290	-5,290
Of which: Total government deposits (including foreign exchange deposits)	-8,049	-9,235	-12,469	-5,469
Of which: Securitized government debt	313	251	189	189
Claims on commercial banks	-10,993	-8,825	-3,277	-3,638
Of which: NBKR notes	-5,243	-5,212	-7,992	-8,969
Other items net [2/]	-20,927	-22,616	-19,923	-19,923
Reserve money	85,584	100,019	106,347	112,235
Currency in circulation	74,839	91,104	100,372	106,042
Commercial banks' reserves	10,745	8,915	5,975	6,193
Of which: Required reserves	7,244	8,061	5,258	5,264
	(Contribution to reserve money growth, in percentage point) [3/]			
Net foreign assets	5.5	16.4	1.2	-0.7
Net domestic assets	22.2	0.4	5.1	6.2
Of which: Net claims on general government	8.9	-1.5	-3.3	6.6
Reserve money	27.6	16.9	6.3	5.5
Of which: Currency in circulation	24.5	19.0	9.3	5.3
Memorandum items:				
Reserve money growth (12-month change, in percent)	27.6	16.9	6.3	5.5
Gross International Reserves (in millions of U.S. dollars)	1,773	1,971	1,919	1,818
Net international reserves (in millions of U.S. dollars)	1,751	1,958	1,920	1,854
Exchange rate, som per U.S. dollar, end of period	69.2	68.8	69.9	…

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Gross international reserves exclude reserve assets in non-convertible currencies.

2/ Reflects valuation changes owing to exchange rate movements.

3/ Contribution is defined as change of asset stock relative to previous end-year reserve money stock (in percent).

Table 5. Kyrgyz Republic: Monetary Survey, 2016–19

	2016	2017	2018 Est.	2019 Proj.
	(In millions of soms)			
Net foreign assets	136,028	152,811	150,112	149,361
Net domestic assets	27,989	40,579	53,959	72,753
Domestic credit	85,425	102,468	120,654	139,448
Net claims on general government	-10,019	-8,002	-9,890	146
Credit to the rest of the economy [1/]	95,444	110,470	130,544	139,302
Of which: In foreign exchange	41,699	41,726	49,079	52,371
Other items net	-57,435	-61,889	-66,695	-66,695
Broad money (M2X)	164,017	193,391	204,071	222,114
Of which:				
Broad money, excluding foreign exchange deposits (M2)	115,444	142,859	154,576	170,908
Currency held by the public	69,339	84,451	84,827	98,747
Total domestic currency deposit liabilities	46,105	58,408	69,750	72,161
	(Contribution to broad money growth, in percentage point) [2/]			
Net foreign assets	1.2	10.2	-1.4	-0.4
Net domestic assets	13.4	7.7	6.9	9.2
Domestic credit	4.2	10.4	9.4	9.2
Net claims on general government	7.1	1.2	-1.0	4.9
Credit to the rest of the economy	-0.7	9.2	10.4	4.3
Other items (net)	9.2	-2.7	-2.5	0.0
Broad money (M2X)	14.6	17.9	5.5	8.8
Of which:				
Broad money, excluding foreign exchange deposits (M2)	23.2	16.7	6.1	8.0
Currency held by the public	11.3	9.2	0.2	6.8
Total deposit liabilities	23.5	7.5	5.9	1.2
Memorandum items:				
Broad money (M2X) (12-month change, in percent)	14.6	17.9	5.5	8.8
Credit to the rest of the economy (12-month change, in percent) [1/]	-1.0	15.7	18.2	6.7
Credit to the rest of the economy (in percent of GDP)	20.0	20.8	23.4	23.7
M2X velocity [3/]	2.9	2.7	2.7	2.7
M2X multiplier	1.9	1.9	1.9	2.0
Dollarization indicators (in percent)				
Loan dollarization	43.7	37.8	37.6	37.6
Deposit dollarization	51.3	46.4	41.5	41.5

Sources: Kyrgyz authorities and IMF staff estimates and projections.
1/ Includes lending by the Russia-Kyrgyz Development Fund via banks.
2/ Contribution is defined as change of asset stock relative to previous end-year broad money stock (in percent).
3/ Twelve-month GDP over end-period broad money.

Table 6. Kyrgyz Republic: State Government Finances, 2016–24

(In millions of soms)

	2016	2017	2018	2019		2020	2021	2022	2023	2024
			Est.	Auth.	Proj.			Proj.		
Revenues	130,791	147,857	151,472	170,460	169,474	171,859	188,032	205,325	220,565	236,269
Taxes	92,929	102,184	115,198	132,051	129,510	139,634	152,063	166,256	178,333	190,635
Taxes on income, profits, and capital gains	22,253	24,392	26,702	27,394	28,398	30,057	32,714	35,577	36,630	36,823
Payable by individuals	10,594	11,110	11,474	n.a.	12,567	13,398	14,687	16,088	17,559	19,145
Payable by corporations and other enterprises	9,034	10,505	11,469	n.a.	11,469	11,930	12,876	13,835	12,937	11,025
Unallocable	2,624	2,777	3,759	n.a.	4,362	4,729	5,152	5,655	6,134	6,653
Taxes on property	2,495	2,625	2,810	2,696	2,696	2,831	2,987	3,172	3,348	3,648
Land tax	990	1,052	1,128	1,091	1,091	1,091	1,091	1,091	1,091	1,200
Property tax	1,505	1,573	1,682	1,606	1,605	1,740	1,896	2,081	2,257	2,448
Taxes on good and services	54,369	58,671	67,366	81,608	78,753	85,842	94,133	103,267	112,004	121,643
VAT	39,297	45,131	52,786	62,659	60,934	65,815	72,092	79,089	85,756	92,847
Net turnover tax	6,014	4,034	4,283	4,772	4,543	4,926	5,366	5,889	6,388	7,206
Excises	9,059	9,506	10,296	14,177	13,276	15,102	16,675	18,288	19,859	21,590
Taxes on international Trade	13,809	16,493	18,319	20,352	19,663	20,903	22,228	24,240	26,350	28,599
Grants (including project grants)	10,098	11,830	9,147	11,589	13,144	5,740	9,121	9,601	10,266	10,961
Program grants	6,321	7,794	3,479	2,094	5,672	928	3,903	3,804	3,957	4,117
PIP grants	3,777	4,036	5,668	9,495	7,472	4,812	5,217	5,797	6,309	6,843
Other Revenues	27,763	33,843	27,127	26,820	26,820	26,485	26,849	29,469	31,965	34,673
Of which mineral development	881	1,184	1,416	1,214	1,214	1,283	1,358	1,491	1,617	1,617
Expense	125,602	131,243	130,985	149,598	150,287	162,130	167,473	183,256	198,908	216,564
Compensation of Employees	44,746	46,478	48,665	51,751	51,751	55,491	59,632	64,091	69,521	75,410
Wages and salaries	39,625	41,112	43,135	n.a.	45,870	49,081	52,517	56,193	60,953	66,117
Social Fund Contribution	5,121	5,366	5,531	n.a.	5,881	6,411	7,116	7,898	8,568	9,293
Use of goods and services 1/	24,325	28,317	25,204	31,024	31,024	32,672	32,800	36,000	39,050	42,358
Interest	5,125	5,871	7,149	8,048	8,738	9,253	10,114	11,727	13,341	15,076
Domestic interest	1,770	2,398	3,381	n.a.	4,461	4,842	5,662	6,886	8,067	9,318
Foreign interest	3,355	3,472	3,769	n.a.	4,277	4,411	4,452	4,841	5,274	5,758
Subsidies to public corporations	4,566	5,336	4,549	4,927	4,927	5,100	5,262	5,776	6,265	6,796
Grants	10,282	6,845	2,603	7,794	7,794	10,071	6,123	6,500	7,023	7,602
to international organizations	493	479	614	680	680	713	748	785	824	878
to other general government units 2/	9,790	6,366	1,989	7,114	7,114	9,358	5,374	5,715	6,199	6,724
Social Benefits	36,557	38,396	42,814	46,054	46,054	49,543	53,543	59,162	63,708	69,322
Social Assistance	11,155	11,463	12,642	14,163	14,163	17,014	19,647	22,455	24,272	26,773
Transfer to Social Fund and Mandatory Health Insurance Fund 1/	25,402	26,933	30,173	31,891	31,891	32,529	33,896	36,707	39,435	42,549
Gross operating balance	5,189	16,614	20,487	20,861	19,187	9,730	20,558	22,070	21,657	19,706
Net acquisition of nonfinancial assets	36,442	41,125	28,748	38,125	40,182	28,952	41,505	45,053	46,591	46,770
Acquisition of nonfinancial assets	36,592	41,170	28,815	38,125	40,252	29,029	41,588	45,145	46,690	46,945
Domestically financed capital expenditure	22,278	22,373	17,819	16,463	18,590	13,145	20,320	20,153	19,560	17,517
Foreign loan financed PIP	11,417	14,762	6,439	13,980	13,980	11,071	16,051	19,194	20,820	22,584
Foreign grant financed PIP	2,897	4,036	4,557	7,682	7,682	4,812	5,217	5,797	6,309	6,843
Disposals of nonfinancial assets	150	45	67	n.a.	71	77	83	92	99	175
Net lending/borrowing (overall balance)	-31,253	-24,511	-8,261	-17,264	-20,994	-19,223	-20,946	-22,983	-24,934	-27,064
Acquisition of financial assets	-5,837	393	2,749	n.a.	-7,993	-1,563	1,950	1,077	1,198	1,329
Domestic	-5,837	393	2,749	n.a.	-7,993	-1,563	1,950	1,077	1,198	1,329
Currency and deposits (NBKR)	-6,531	456	3,234	n.a.	-7,000	0	0	0	0	0
Loans 2/	694	87	-307	n.a.	-633	-1,211	2,302	1,429	1,550	1,681
Shares and Equity (Privatization)	0	-150	-178	n.a.	-360	-352	-352	-352	-352	-352
Foreign	0	0	0	n.a.	0	0	0	0	0	0
Net Incurence of Liabilities	21,412	19,733	3,603	n.a.	13,002	17,660	22,897	24,060	26,132	28,393
Foreign	20,195	16,414	2,993	n.a.	9,192	9,456	10,657	12,246	13,622	16,459
Public investment program (PIP)	21,708	22,251	8,999	n.a.	19,713	19,219	23,727	26,338	28,569	30,990
Disbursements (BOP support)	4,334	1,817	994	n.a.	0	0	0	0	0	0
Total amortization	-5,848	-7,654	-7,000	n.a.	-10,521	-9,763	-13,071	-14,092	-14,947	-14,531
Domestic	1,217	3,320	610	n.a.	3,810	8,204	12,240	11,814	12,509	11,934

Sources: Kyrgyz authorities, and Fund staff estimates and projections.

1/ Compared to IMF Country Report No. 18/53, transfer to the Mandatory Health Insurance Fund was reclassified from use of goods and services to transfer to Social Fund and Mandatory Health Insurance Fund.

2/ Refers to loans on-lent by the State governement to energy sector state-owned companies that, compared to IMF Country Report No. 18/53, were recorded as capital transfers instead of acquisition of financial assets.

Table 7. Kyrgyz Republic: State Government Finances, 2016–24

(In percent of GDP)

	2016	2017	2018	2019		2020	2021	2022	2023	2024
			Est.	Auth.	Proj.			Proj.		
Revenues	27.5	27.9	27.2	28.9	28.7	26.8	26.9	26.8	26.5	26.2
Taxes	19.5	19.3	20.7	22.4	21.9	21.8	21.8	21.7	21.5	21.2
Taxes on income, profits, and capital gains	4.7	4.6	4.8	4.6	4.8	4.7	4.7	4.6	4.4	4.1
Payable by individuals	2.2	2.1	2.1	n.a.	2.1	2.1	2.1	2.1	2.1	2.1
Payable by corporations and other enterprises	1.9	2.0	2.1	n.a.	1.9	1.9	1.8	1.8	1.6	1.2
Unallocable	0.6	0.5	0.7	n.a.	0.7	0.7	0.7	0.7	0.7	0.7
Taxes on property	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Land tax	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Property tax	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Taxes on good and services	11.4	11.1	12.1	13.8	13.3	13.4	13.5	13.5	13.5	13.5
VAT	8.2	8.5	9.5	10.6	10.3	10.3	10.3	10.3	10.3	10.3
New turnover tax	1.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Excises	1.9	1.8	1.8	2.4	2.2	2.4	2.4	2.4	2.4	2.4
Taxes on international Trade	2.9	3.1	3.3	3.4	3.3	3.3	3.2	3.2	3.2	3.2
Grants (including project grants)	2.1	2.2	1.6	2.0	2.2	0.9	1.3	1.3	1.2	1.2
Program grants	1.3	1.5	0.6	0.4	1.0	0.1	0.6	0.5	0.5	0.5
PIP grants	0.8	0.8	1.0	1.6	1.3	0.8	0.7	0.8	0.8	0.8
Other Revenues	5.8	6.4	4.9	4.5	4.5	4.1	3.8	3.8	3.8	3.8
Of which mineral development	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Expense	26.4	24.7	23.5	25.3	25.4	25.3	24.0	23.9	23.9	24.0
Compensation of Employees	9.4	8.8	8.7	8.8	8.8	8.7	8.5	8.4	8.4	8.4
Wages and salaries	8.3	7.8	7.7	n.a.	7.8	7.7	7.5	7.3	7.3	7.3
Social Fund Contribution	1.1	1.0	1.0	n.a.	1.0	1.0	1.0	1.0	1.0	1.0
Use of goods and services [1/]	5.1	5.3	4.5	5.3	5.3	5.1	4.7	4.7	4.7	4.7
Interest	1.1	1.1	1.3	1.4	1.5	1.4	1.4	1.5	1.6	1.7
Domestic interest	0.4	0.5	0.6	n.a.	0.8	0.8	0.8	0.9	1.0	1.0
Foreign interest	0.7	0.7	0.7	n.a.	0.7	0.7	0.6	0.6	0.6	0.6
Subsidies to public corporations	1.0	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Grants	2.2	1.3	0.5	1.3	1.3	1.6	0.9	0.8	0.8	0.8
to international organizations	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
to other general government units [2/]	2.1	1.2	0.4	1.2	1.2	1.5	0.8	0.7	0.7	0.7
Social Benefits	7.7	7.2	7.7	7.8	7.8	7.7	7.7	7.7	7.7	7.7
Social Assistance	2.3	2.2	2.3	2.4	2.4	2.7	2.8	2.9	2.9	3.0
Transfer to social fund and mandatory health insurance fund [1/]	5.3	5.1	5.4	5.4	5.4	5.1	4.9	4.8	4.7	4.7
Gross operating balance	1.1	3.1	3.7	3.5	3.2	1.5	2.9	2.9	2.6	2.2
Net acquisition of nonfinancial assets	7.7	7.8	5.2	6.5	6.8	4.5	5.9	5.9	5.6	5.2
Acquisition of nonfinancial assets	7.7	7.8	5.2	6.5	6.8	4.5	6.0	5.9	5.6	5.2
Domestically financed capital expenditure	4.7	4.2	3.2	2.8	3.1	2.1	2.9	2.6	2.4	1.9
Foreign loan financed PIP	2.4	2.8	1.2	2.4	2.4	1.7	2.3	2.5	2.5	2.5
Foreign grant financed PIP	0.6	0.8	0.8	1.3	1.3	0.8	0.7	0.8	0.8	0.8
Disposals of nonfinancial assets	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing (overall balance)	-6.6	-4.6	-1.5	-2.9	-3.6	-3.0	-3.0	-3.0	-3.0	-3.0
Acquisition of financial assets	-1.2	0.1	0.5	n.a.	-1.4	-0.2	0.3	0.1	0.1	0.1
Domestic	-1.2	0.1	0.5	n.a.	-1.4	-0.2	0.3	0.1	0.1	0.1
Currency and deposits (NBKR)	-1.4	0.1	0.6	n.a.	-1.2	0.0	0.0	0.0	0.0	0.0
Loans [2/]	0.1	0.0	-0.1	n.a.	-0.1	-0.2	0.3	0.2	0.2	0.2
Shares and Equity (Privatization)	0.0	0.0	0.0	n.a.	-0.1	-0.1	-0.1	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	0.0	0.0	0.0
Net Incurence of Liabilities	4.5	3.7	0.6	n.a.	2.2	2.8	3.3	3.1	3.1	3.2
Foreign	4.2	3.1	0.5	n.a.	1.6	1.5	1.5	1.6	1.6	1.8
Public investment program (PIP)	4.6	4.2	1.6	n.a.	3.3	3.0	3.4	3.4	3.4	3.4
Disbursements (BOP support)	0.9	0.3	0.2	n.a.	0.0	0.0	0.0	0.0	0.0	0.0
Total amortization	-1.2	-1.4	-1.3	n.a.	-1.8	-1.5	-1.9	-1.8	-1.8	-1.6
Domestic	0.3	0.6	0.1	n.a.	0.6	1.3	1.8	1.5	1.5	1.3

Sources: Kyrgyz authorities, and Fund staff estimates and projections.

1/ Compared to IMF Country Report No. 18/53, transfer to the Mandatory Health Insurance Fund was reclassified from use of goods and services to transfer to Social Fund and Mandatory Health Insurance Fund.

2/ Refers to loans on-lent by the State governement to energy sector state-owned companies that, compared to IMF Country Report No. 18/53, were recorded as capital transfers instead of acquisition of financial assets.

Table 8. Kyrgyz Republic: General Government Finances, 2016–24, GFSM 2001 Presentation[1/]

(In millions of soms)

	2016	2017	2018	2019		2020	2021	2022	2023	2024
			Est.	Auth.	Proj.			Proj.		
Revenue	157,664	176,918	182,740	205,053	203,199	207,906	227,562	248,962	268,138	287,948
Taxes	92,929	102,184	115,198	132,051	129,510	139,634	152,063	166,256	178,333	190,635
Taxes on income, profits, and capital gains	22,253	24,392	26,702	27,394	28,398	30,057	32,714	35,577	36,630	36,823
Payable by individuals	10,594	11,110	11,474	n.a.	12,567	13,398	14,687	16,088	17,559	19,145
Payable by corporations and other enterprises	9,034	10,505	11,469	n.a.	11,469	11,930	12,876	13,835	12,937	11,025
Other income taxes	2,624	2,777	3,759	n.a.	4,362	4,729	5,152	5,655	6,134	6,653
Taxes on property	2,495	2,625	2,810	2,696	2,696	2,831	2,987	3,172	3,348	3,648
Taxes on goods and services	54,369	58,671	67,366	81,608	78,753	85,842	94,133	103,267	112,004	121,643
Value-added taxes	39,297	45,131	52,786	62,659	60,934	65,815	72,092	79,089	85,756	92,847
Turnover and other general taxes on goods and service:	6,014	4,034	4,283	4,772	4,543	4,926	5,366	5,889	6,388	7,206
Excises	9,059	9,506	10,296	14,177	13,276	15,102	16,675	18,288	19,859	21,590
Taxes on international trade and transactions	13,809	16,493	18,319	20,352	19,663	20,903	22,228	24,240	26,350	28,599
Social contributions	26,558	28,740	30,800	33,149	32,920	33,805	36,370	39,919	43,301	46,969
Grants	10,098	11,830	9,147	11,589	13,144	5,740	9,121	9,601	10,266	10,961
Program grants	6,321	7,794	3,479	2,094	5,672	928	3,903	3,804	3,957	4,117
Project grants	3,777	4,036	5,668	9,495	7,472	4,812	5,217	5,797	6,309	6,843
Other revenue	28,078	34,165	27,595	28,264	27,625	28,727	30,009	33,186	36,237	39,383
Expense	151,569	159,883	160,992	181,609	182,325	197,828	206,629	226,481	246,034	267,758
Compensation of employees [2/]	52,419	54,273	56,642	60,313	60,312	64,662	69,460	74,630	80,811	87,505
Wages and salaries	46,185	47,776	49,953	n.a.	53,187	56,919	60,916	65,200	70,603	76,454
Social contributions	6,235	6,497	6,689	n.a.	7,125	7,743	8,543	9,429	10,208	11,050
Purchases/use of goods and services	26,826	30,747	28,584	34,582	34,610	36,502	36,951	40,557	43,993	47,719
Interest	5,125	5,871	7,149	8,048	8,738	9,253	10,114	11,727	13,341	15,076
Foreign interest	3,355	3,472	3,769	n.a.	4,277	4,411	4,452	4,841	5,274	5,758
Domestic interest	1,770	2,398	3,381	n.a.	4,461	4,842	5,662	6,886	8,067	9,318
Subsidies to public corporations	4,566	5,336	4,549	4,928	4,927	5,100	5,262	5,776	6,265	6,796
Grants	13,743	10,916	6,780	12,146	12,146	14,652	11,001	11,854	12,831	13,901
To international organizations	498	484	620	686	686	719	755	793	832	887
To other general government units [3/]	13,245	10,432	6,160	11,461	11,461	13,932	10,245	11,061	11,999	13,015
Social benefits [4/]	48,889	52,739	57,288	61,592	61,592	67,659	73,842	81,937	88,794	96,761
Social Assistance	11,155	11,463	12,324	14,163	14,163	17,014	19,647	22,455	24,272	26,773
Social Security Benefits	37,735	41,277	44,964	47,429	47,429	50,646	54,194	59,483	64,522	69,988
Gross operating balance	6,095	17,036	21,748	23,443	20,874	10,078	20,933	22,481	22,103	20,190
Net acquisition of nonfinancial assets	36,694	41,388	29,052	38,450	40,509	29,301	41,880	45,465	47,037	47,254
Acquisition of nonfinancial assets	36,844	41,433	29,119	38,450	40,579	29,377	41,963	45,556	47,137	47,429
Domestically financed [5/]	22,530	22,636	18,123	16,788	18,917	13,493	20,695	20,565	20,007	18,002
Foreign financed	14,314	18,798	10,996	21,662	21,662	15,884	21,268	24,991	27,130	29,427
Disposals of nonfinancial assets	-150	-45	-67	n.a.	-71	-77	-83	-92	-99	-175
Net lending/borrowing	-30,599	-24,352	-7,304	-15,007	-19,635	-19,223	-20,946	-22,983	-24,934	-27,064
Net acquisition of financial assets	-5,837	393	1,595	n.a.	-6,633	-1,563	1,950	1,077	1,198	1,329
Domestic	-5,837	393	1,595	n.a.	-6,633	-1,563	1,950	1,077	1,198	1,329
Currency and deposits	-6,531	456	2,080	n.a.	-5,641	0	0	0	0	0
Loans	694	87	-307	n.a.	-633	-1,211	2,302	1,429	1,550	1,681
Sales of equity (privatization proceeds)	0	-150	-178	n.a.	-360	-352	-352	-352	-352	-352
Foreign	0	0	0	n.a.	0	0	0	0	0	0
Net incurrence of liabilities	21,412	19,733	3,603	n.a.	13,002	17,660	22,897	24,060	26,132	28,393
Foreign	20,195	16,414	2,993	n.a.	9,192	9,456	10,657	12,246	13,622	16,459
Program loans	4,334	1,817	994	n.a.	0	0	0	0	0	0
Public investment program loans	21,708	22,251	8,999	n.a.	19,713	19,219	23,727	26,338	28,569	30,990
Amortization	-5,848	-7,654	-7,000	n.a.	-10,521	-9,763	-13,071	-14,092	-14,947	-14,531
Domestic	1,217	3,320	610	n.a.	3,810	8,204	12,240	11,814	12,509	11,934

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Differences with the State government finance table are: (i) other revenue includes revenue of the Social Fund net of social contributions; (ii) wage bill covers the Social Fund and those paid to doctors and nurses through the Mandatory Health Insurance Fund (MHIF); (iii) goods and services include the Social Fund and the MHIF; (iv) grants to international organization and other general government units, and domestically financed capital expenditure include the Social Fund and the MHIF; and (v) transfer to the MHIF is deducted from social benefits as the MHIF is consolidated into the general government.

2/ Including wages paid to doctors and nurses through the MHIF.

3/ Includes loans on-lent by the State government to state-owned energy companies and current grant by the Social Fund and the MHIF.

4/ Transfer by the state government to the MHIF has been allocated into wages, goods and services, grants to other general government units, and acquisition of nonfinancial assets.

5/ Including acquisition of nonfinancial assets of the MHIF.

Table 9. Kyrgyz Republic: General Government Finances, 2016–24, GFSM 2001 Presentation[1/]

(In percent of GDP)

	2016	2017	2018	2019		2020	2021	2022	2023	2024
			Est.	Auth.	Proj.			Proj.		
Revenue	33.1	33.4	32.8	34.7	34.4	32.5	32.6	32.5	32.3	32.0
Taxes	19.5	19.3	20.7	22.4	21.9	21.8	21.8	21.7	21.5	21.2
Taxes on income, profits, and capital gains	4.7	4.6	4.8	4.6	4.8	4.7	4.7	4.6	4.4	4.1
Payable by individuals	2.2	2.1	2.1	n.a.	2.1	2.1	2.1	2.1	2.1	2.1
Payable by corporations and other enterprises	1.9	2.0	2.1	n.a.	1.9	1.9	1.8	1.8	1.6	1.2
Other income taxes	0.6	0.5	0.7	n.a.	0.7	0.7	0.7	0.7	0.7	0.7
Taxes on property	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Taxes on goods and services	11.4	11.1	12.1	13.8	13.3	13.4	13.5	13.5	13.5	13.5
Value-added taxes	8.2	8.5	9.5	10.6	10.3	10.3	10.3	10.3	10.3	10.3
Turnover and other taxes on goods and service:	1.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Excises	1.9	1.8	1.8	2.4	2.2	2.4	2.4	2.4	2.4	2.4
Taxes on international trade and transactions	2.9	3.1	3.3	3.4	3.3	3.3	3.2	3.2	3.2	3.2
Social contributions	5.6	5.4	5.5	5.6	5.6	5.3	5.2	5.2	5.2	5.2
Grants	2.1	2.2	1.6	2.0	2.2	0.9	1.3	1.3	1.2	1.2
Program grants	1.3	1.5	0.6	0.4	1.0	0.1	0.6	0.5	0.5	0.5
Project grants	0.8	0.8	1.0	1.6	1.3	0.8	0.7	0.8	0.8	0.8
Other revenue[1/]	5.9	6.4	5.0	4.8	4.7	4.5	4.3	4.3	4.4	4.4
Expense	31.8	30.1	28.9	30.7	30.9	30.9	29.6	29.6	29.6	29.7
Compensation of employees [2/]	11.0	10.2	10.2	10.2	10.2	10.1	10.0	9.7	9.7	9.7
Wages and salaries	9.7	9.0	9.0	n.a.	9.0	8.9	8.7	8.5	8.5	8.5
Social contributions	1.3	1.2	1.2	n.a.	1.2	1.2	1.2	1.2	1.2	1.2
Purchases/use of goods and services	5.6	5.8	5.1	5.9	5.9	5.7	5.3	5.3	5.3	5.3
Interest	1.1	1.1	1.3	1.4	1.5	1.4	1.4	1.5	1.6	1.7
Foreign interest	0.7	0.7	0.7	n.a.	0.7	0.7	0.6	0.6	0.6	0.6
Domestic interest	0.4	0.5	0.6	n.a.	0.8	0.8	0.8	0.9	1.0	1.0
Subsidies to public corporations	1.0	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Grants	2.9	2.1	1.2	2.1	2.1	2.3	1.6	1.5	1.5	1.5
To international organizations	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
To other general government units [3/]	2.8	2.0	1.1	1.9	1.9	2.2	1.5	1.4	1.4	1.4
Social benefits [4/]	10.3	9.9	10.3	10.4	10.4	10.6	10.6	10.7	10.7	10.7
Social Assistance	2.3	2.2	2.2	2.4	2.4	2.7	2.8	2.9	2.9	3.0
Social Security Benefits	7.9	7.8	8.1	8.0	8.0	7.9	7.8	7.8	7.8	7.8
Gross operating balance	1.3	3.2	3.9	4.0	3.5	1.6	3.0	2.9	2.7	2.2
Net acquisition of nonfinancial assets	7.7	7.8	5.2	6.5	6.9	4.6	6.0	5.9	5.7	5.2
Acquisition of nonfinancial assets	7.7	7.8	5.2	6.5	6.9	4.6	6.0	5.9	5.7	5.3
Domestically financed [5/]	4.7	4.3	3.3	2.8	3.2	2.1	3.0	2.7	2.4	2.0
Foreign financed	3.0	3.5	2.0	3.7	3.7	2.5	3.0	3.3	3.3	3.3
Disposals of nonfinancial assets	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing	-6.4	-4.6	-1.3	-2.5	-3.3	-3.0	-3.0	-3.0	-3.0	-3.0
Net acquisition of financial assets	-1.2	0.1	0.3	n.a.	-1.1	-0.2	0.3	0.1	0.1	0.1
Domestic	-1.2	0.1	0.3	n.a.	-1.1	-0.2	0.3	0.1	0.1	0.1
Currency and deposits	-1.4	0.1	0.4	n.a.	-1.0	0.0	0.0	0.0	0.0	0.0
Loans	0.1	0.0	-0.1	n.a.	-0.1	-0.2	0.3	0.2	0.2	0.2
Sales of equity (privatization proceeds)	0.0	0.0	0.0	n.a.	-0.1	-0.1	-0.1	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	4.5	3.7	0.6	n.a.	2.2	2.8	3.3	3.1	3.1	3.2
Foreign	4.2	3.1	0.5	n.a.	1.6	1.5	1.5	1.6	1.6	1.8
Program loans	0.9	0.3	0.2	n.a.	0.0	0.0	0.0	0.0	0.0	0.0
Public investment program loans	4.6	4.2	1.6	n.a.	3.3	3.0	3.4	3.4	3.4	3.4
Amortization	-1.2	-1.4	-1.3	n.a.	-1.8	-1.5	-1.9	-1.8	-1.8	-1.6
Domestic	0.3	0.6	0.1	n.a.	0.6	1.3	1.8	1.5	1.5	1.3

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Differences with the State government finance table are: (i) other revenue includes revenue of the Social Fund net of social contributions; (ii) wage bill covers the Social Fund and those paid to doctors and nurses through the Mandatory Health Insurance Fund (MHIF); (iii) goods and services include the Social Fund and the MHIF; (iv) grants to international organization and other general government units, and domestically financed capital expenditure include the Social Fund and the MHIF; and (v) transfer to the MHIF is deducted from social benefits as the MHIF is consolidated into the general government.

2/ Including wages paid to doctors and nurses through the MHIF.

3/ Includes loans on-lent by the State government to state-owned energy companies and current grant by the Social Fund and the MHIF.

4/ Transfer by the state government to the MHIF has been allocated into wages, goods and services, grants to other general government units, and acquisition of nonfinancial assets.

5/ Including acquisition of nonfinancial assets of the MHIF.

Table 10. Kyrgyz Republic: Selected Financial Soundness Indicators, 2016–18

(In percent, unless otherwise indicated)

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Capital Adequacy									
Regulatory capital to risk weighted assets	24.8	25.1	24.0	23.8	24.2	24.2	24.0	23.5	23.7
Tier 1 capital to risk weighted assets	21.1	22.5	21.1	20.3	20.2	21.8	21.0	19.9	19.5
Capital to total assets	16.8	16.8	16.8	16.7	17.0	16.6	16.7	16.6	16.5
Liquidity									
Liquidity ratio	75.5	73.7	64.4	65.8	65.1	69.0	65.5	64.8	66.9
Excess reserves/total reserves	17.6	8.6	12.8	18.0	12.6	10.4	14.8	10.6	27.6
Asset quality									
Nonperforming loans/total loans	8.8	8.6	8.4	8.1	7.6	7.9	7.4	7.4	7.5
Restructured Loans	9.6	8.8	8.6	7.5	7.1	6.4	...	...	...
Prolonged Loans	4.9	5.1	4.4	4.4	4.1	...	...	...	...
Nonperforming loans by sector (share of total loans)							...	...	...
Industry	0.9	0.9	0.9	0.9	0.8	1.6	...	...	...
Agriculture	1.0	1.0	0.9	0.8	0.7	0.8	...	...	...
Trade	3.5	3.5	3.6	3.2	3.0	3.0	...	...	...
Construction	0.7	0.5	0.5	0.8	0.6	0.7	...	...	...
Mortgage	0.9	0.9	0.8	0.8	0.7	0.7	...	...	...
Consumer loans	0.5	0.5	0.4	0.4	0.3	0.3	...	...	...
Other	1.3	1.4	1.3	1.3	1.5	0.8	...	...	...
Nonperforming loans by currency (share of total loans)									
Foreign currency nonperforming loans	5.7	5.3	5.4	5.1	4.7	4.9	...	...	...
KGS nonperforming loans	3.1	3.4	3.1	3.0	2.9	3.1	...	...	...
Loan-loss provisioning/nonperforming loans	56.9	56.5	55.3	54.6	58.4	56.6	55.6	55.6	54.3
Nonperforming assets/total assets	4.6	4.6	4.7	4.5	4.2	4.3	4.2	4.3	4.3
Earnings and profitability									
Return on equity	3.3	2.5	4.5	7.2	7.6	7.1	8.3	9.2	9.5
Return on assets	0.5	0.4	0.7	1.1	1.2	1.1	1.3	1.4	1.4
Net interest margin	7.0	7.2	7.5	7.7	7.8	7.7	7.8	7.8	7.9
Spread	6.3	6.6	6.9	7.1	7.2	7.1	7.2	7.2	7.2
Income from services and commission fee/total income	7.8	9.7	8.0	10.8	10.9	11.0	10.9	11.3	11.4
Loans and deposits									
Loans/deposits	95.0	93.6	98.2	96.5	94.6	90.3	97.7	101.7	100.5
Loans/total assets	52.6	52.9	55.4	55.3	54.7	53.6	56.7	57.7	57.5
Foreign currency exposure									
Foreign currency exposure (in KGS billion)	1.3	0.6	0.2	0.8	1.0	0.9	1.6	1.5	1.3
Loans/deposits (in foreign currency)	79.2	78.3	80.9	76.5	73.9	71.7	80.2	81.3	85.8
Share of foreign currency deposits in total deposits 1/	53.4	52.7	50.5	49.8	48.7	48.6	45.9	47.0	44.5
Share of foreign currency loans in total loans	44.5	44.0	41.6	39.5	38.0	38.6	37.7	37.6	38.0
Memorandum items:									
Assets to GDP	37.2	36.3	36.8	37.3	37.1	38.1	38.6	38.9	39.7
Deposits to GDP	20.6	20.5	20.8	21.4	21.5	22.6	22.4	22.1	22.7

Source: National Bank of the Kyrgyz Republic.

1/ Without deposits of banks, nonbank financial-credit institutions, and deposits of the Government of the Kyrgyz Republic.

Table 11. Kyrgyz Republic: Inclusive Growth Indicators

	5Y Trend	Indicator	EMDE Average
Growth			
GDP per capita growth (percent; 2015-18 average)	↘	2.1	3.1
Gross fixed capital formation (percent of GDP; 2015-17 average)		32.4	24.1
Poverty and Inequality			
Poverty headcount ratio at $3.20/day (percent of population; 2016)	↘	19.1	32.9
Multidimensional poverty (percent of population)		2.2	31.2
Prevalence of stunting (% of children under 5, 2014)	↘	12.9	22.7
GINI Index (2016)	↘	26.8	39.6
Child mortality (per 1,000, 2016)	↘	21.1	36.6
Growth in mean consumption (growth, %, bottom 40th percentile)		0.6	2.4
Human Development and Access to Services			
Human Development Index (2017)	↗	0.7	0.6
Life expectancy at birth (years, 2016)	↗	71.0	69.5
Access to electricity (% of population, 2016)	↗	100.0	78.4
Net school enrollment, secondary, total (% population, 2016)	↗	85.5	63.1
Individuals using internet (% population, 2016)	↗	34.5	40.8
Literacy rate (% population, 2009)	↗	99.2	79.1
Government			
Commitment to reducing inequality index (2017)		0.35	0.35
Government spending on social safety net programs (percent of GDP, 2018)		3.1	1.6
Coverage of social safety net programs in poorest quintile (% population, 2013)		16.0	42.3
Government expenditure on education, total (% GDP, 2017)	↗	7.2	4.6
Health expenditure, domestic general government (% of GDP, 2015)	↘	3.7	2.9
Access to Finance			
Account at a financial institution (% age 15+, 2017)	↗	38.3	43.0
Domestic credit to private sector (% GDP, 2017)	↗	21.7	39.8

	5Y Trend	Indicator	EMDE Average
Labor Markets			
Unemployment rate (% of total labor force, 2018)	↘	6.9	7.5
Female (% of female labor force, ILO estimate, 2018)	↘	8.9	9.6
Youth (% of total labor force ages 15-24, ILO estimate 2018)	↘	15.0	16.5
Labor force participation (% of total population ages 15+, 2018)	↘	67.1	63.0
Female (% of female population ages 15+, 2018)	↘	48.0	51.0
Youth (% of population ages 15-24, 2018)	↘	41.5	43.5
Business Environment[1]			
Ease of Doing Business (DTF, 2018)	↗	65.7	56.2
Registering property (DTF, 2018)	↘	90.2	57.4
Enforcing Contracts (DTF, 2018)	↘	48.6	52.4
Paying Taxes (DTF, 2018)	↘	56.6	63.8
Getting electricity (DTF, 2018)	↘	44.2	60.0
Trading across borders (DTF, 2018)	↘	56.6	62.8
Global Competitiveness Index (2018)	↗	3.9	3.9
Governance[1]			
Global Competitiveness Index - Institutions Index (2017)	↗	3.4	3.6
Government Effectiveness (WGI, 2016)	↘	-0.9	-0.5
Regulatory Quality (WGI, 2016)	↘	-0.4	-0.4
Rule of Law (WGI, 2016)	↗	-1.0	-0.4
Control of Corruption (WGI, 2016)	↗	-1.1	-0.3
Corruption Perceptions Index (2017)	↗	29.0	36.2
Gender Equity and Inclusion			
Account at a financial institution (female vs male, %, 2014)		105.5	79.6
Female employment to population ratio (%, 2017)	↘	43.9	46.8
Literacy rate (female vs male, %, 2009)		99.5	86.1
Net school enrollment, secondary (female vs male, %, 2016)	↗	100.1	97.3
Gender Gap Index (2017)	↘	0.7	0.7
Female seats in Parliament (share of total seats, 2018)	↘	19.0	19.5

Better than EMDE Average (green) **Worse than EMDE Average** (pink)

Sources: IMF World Economic Outlook, World Bank, World Economic Forum, International Labour Organization, Transparency International, UNDP, Oxfam International.

1 / Indicators use official sources and surveys to summarize perceptions of the quality of governance and business environments.

Note: EMDEs are Emerging Markets and Developing Economies (155 countries).

Annex I. Implementation of 2017 Article IV Consultation's Key Recommendations

Staff Advice	Policy Action
Fiscal Policy	
Pursue growth-friendly fiscal consolidation to maintain debt sustainability and promote inclusive growth.	The fiscal consolidation is ahead of the path recommended but little progress has been made to tilt the composition of expenditure towards investment.
Increase tax revenues by removing tax exemptions and strengthening tax administration.	Progress was made to better capture imports but no headway in reducing tax exemptions.
Streamline current expenditures, especially the wage bill and subsidies, increase electricity tariffs, and better target social assistance programs.	The objective of reducing the wage bill is clear but concrete measures to implement it are lacking. Neither progress on energy tariff reforms nor on moving away from category to income-based social transfers.
Strengthen the overall fiscal framework and improve public financial management (PFM).	The fiscal rule proposed to Parliament is a crucial step forward, but it should: measure the deficit in line with the IMF Government Finance Statistics Manual (GFSM), that is including on-lending to loss-making SOEs as capital grants contributing to the deficit rather than as a financing item; cap the debt ceiling at 60-65 rather than 70 percent of GDP; and eliminate the possibility of extra-budgetary spending without prior approval of a supplementary budget. Little progress in public investment and wage bill management and implementation of a comprehensive computerized Financial Management Information System (FMIS).
Monetary/Exchange Rate and Financial Policies	
Maintain price stability, enhance the monetary policy framework to transition to an inflation targeting (IT) regime, including by pursuing a flexible exchange rate policy and by reducing dollarization. Strengthen central bank governance.	Continuous progress made in the transition to IT and reducing the dollarization of the economy. KGS/$ exchange rate has been remarkably stable since mid-2016. The NBKR still lacks a board with a majority of non-executive directors.
Strengthen financial stability and reduce subsidized lending.	Mixed progress on financial stability. Continuous progress on financial soundness indicators thanks to NBKR's implementation of prudential norms, its comprehensive monitoring and stress-testing of both bank and non-bank financial institutions, and its gradual implementation of risk-based supervision. However, the recent takeover by the NBKR of a medium-sized bank was a step backwards: it undermines the credibility of the central bank as supervisor and exposes it to unnecessary financial risks. No progress in the reduction of subsidized lending.
Structural reforms	
Improve governance and accelerate structural reforms to support inclusive growth.	Mixed progress. The authorities are taking measures to address corruption, including by implementing an electronic asset declaration system for civil servants. But further efforts are needed to strengthen the rule of law and enhance transparency. Below-cost electricity and heating residential tariffs have led to further energy sector decay. Continuous contract renegotiation with the largest foreign investor has been sending a negative signal to potential foreign investors. Adoption of an AML/CFT law is welcome but supporting regulations as well as steadfast implementation of the former is needed to address the laundering of corruption's proceeds. Paying taxes, enforcement of contracts, and trading across borders remain areas for improvement.

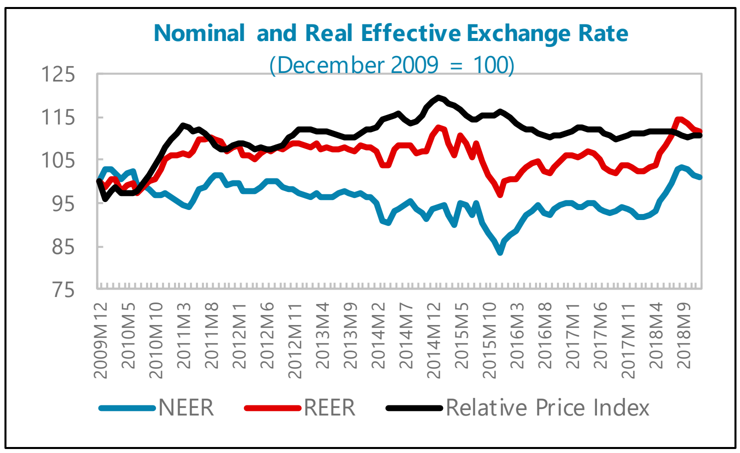
Annex II. External Sector Assessment[1]

The Kyrgyz Republic's external position is weaker than implied by fundamentals. Gross official foreign exchange reserves are above adequate levels indicated by IMF reserve adequacy metrics.

1. **Net investment position:** The net international investment position (NIIP) of the Kyrgyz is estimated at -92 percent of GDP in 2018. Gross assets are estimated at 53 percent of GDP (international reserves, foreign direct investment (FDI) assets and other assets of 24, 8 and 21 percent of GDP, respectively), while gross liabilities amounted to 145 percent of GDP (external public and publicly guaranteed debt, private external debt and FDI liabilities of around 48, 30 and 66 percent of GDP, respectively). External public debt is contracted at concessional terms, which, together with limited short-term volatile capital inflows, mitigates risks.

2. The **current account deficit** widened to 8.7 percent of GDP in 2018, driven by a slowdown in remittance growth and an improvement in import capture by the Customs Administration. A further increase in the current account deficit due to weak remittances in 2019 on the back of the depreciation of the ruble vis-à-vis the $ in 2018 should be followed by a temporary improvement in 2020-22 on the back of a recovery in remittances and an increase in gold production. In the medium term, however, this would be offset by the scaling-up of public investments and the substantial decline in gold production and exports starting in 2023.

3. The KGS bilateral **exchange rate** vis-à-vis the USD has been stable since mid-2016. The real effective exchange rate (REER) has appreciated by 15 percent since late-2015, notwithstanding a slight depreciation at the end of 2018, reflecting the appreciation of the dollar vis-a-vis the Russian ruble, and the Kazakh tenge.



4. **Foreign exchange reserves** at 4.0 months of imports at end-2018 are above levels indicated by both the Fund's reserve adequacy metric for credit constrained economies with either floating or fixed exchange rates regimes [2] and the standard metric of three months of imports. However, owing to the fall in gold exports, the reserves coverage of imports is projected to

[1] Prepared by Balazs Csonto.

[2] The adequate level of reserves for credit constrained economies is estimated at 2.7 and 1.1 months of imports in the case of fixed and floating regimes, respectively.

decrease to 3.6 months in 2022 and three months in 2024, the minimum level indicated by the standard reserve adequacy metric.

5. **External Assessment.**[3]

- The External Balance Assessment Current Account (CA) model identifies a negative current account gap of 4.2 percent of GDP[4] and an overvaluation of the REER by 12 percent (Text Table). The policy gap reduces the current account gap by 1.2 percent of GDP (in absolute terms), primarily because of the excessively tight fiscal stance in 2018.

- The Index REER (IRRER) model identifies an overvaluation of the REER by 20 percent compared to its fitted value, based on a regression of the REER on its fundamental explanatory variables.[5]

- The External Sustainability (ES) balance-sheet approach indicates an overvaluation of the REER by 17 percent, calculated on the basis of the assumption that the NIIP is stabilized at its 2018 level.[6] External risks associated with the level of the NIIP are mitigated by several characteristics of the Kyrgyz economy, such as the high share of FDI liabilities (almost half of total external liabilities), the low integration with global financial markets and thus the limited exposure to volatile portfolio flows, as well as the concessional nature of public sector borrowing.

External Sector Assessment: Summary Table [1]
(percent of GDP, unless otherwise indicated)

	CA model	IREER model	ES model[2]
CA - Actual	-8.7		
Cyclically adjusted CA	-8.7		
Cyclically adjusted CA Norm	-4.5		
CA - GAP	-4.2		-5.7
o/w Policy gap	1.2		
REER Gap (in percent) [3]	12	20	17
Memorandum item:			
Elasticity of current account to REER	-0.34		

1/ CA model: Current Account model; IREER: Real Effective Exchange Rate Index model; ES model: External Sustainability Balance Sheet Model.
2/ ES model assumes the stabilization of the Net International Investment Position (NIIP).
3/ Positive numbers indicate overvaluation.

Given the results of the CA, IREER and ES models, the external position is assessed to be weaker than implied by fundamentals.

[3] Based on IMF, 2019, The Revised EBA-Lite Methodology (forthcoming).

[4] Implementing the Revised EBA-Lite Methodology resulted in significant upward revision of the current account norm to - 4.5 percent of GDP (from - 8.7 percent of GDP at the 2017 Article IV Consultation), mostly owing to improvements to the regression models that more accurately reflect the impact of aid and remittances (see IMF (2019), ¶¶22-31 and Annex III.A showing the old and revised model specifications).

[5] See IMF (2019), with Annex III.B containing the list of explanatory variables.

[6] See IMF (2019), ¶¶74-82 for a description of the revised ES model.

Annex III. Risk Assessment Matrix

(February 2019)[1]

Source of Risks	Relative Likelihood	Possible Impact if Risk Is Realized	Policy response
Global Risks			
Rising protectionism and retreat from multilateralism. Escalating and sustained trade actions threaten the global trade system, regional integration, as well as global and regional collaboration.	High	**Staff assessment:** Medium The shock could transmit through trade, foreign direct investment (FDI) and aid from affected countries.	Diversify trade, FDI and aid. Build up financial buffers.
Sharp tightening of global financial conditions (i.e. market expectation of tighter U.S. monetary policy, or sustained decline in risk appetite). This causes higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; capital account pressures; and a broad-based downturn.	Low/ Medium	**Staff assessment:** Medium Could weaken KGS exchange rate, increase public debt, worsen balance sheet of banks, corporates, and households, reducing banks' profitability and asset quality, and increase debt distress.	Allow two-way exchange rate flexibility, undertake fiscal adjustment to mitigate domestic and external imbalance, implement de-dollarization strategy, and strengthen the bank supervisory and resolution framework.
Weaker-than-expected global growth. In the U.S., stretched asset valuations, rising leverage, and unwinding of the fiscal stimulus; in Europe, adverse financial market reaction to debt sustainability concerns and, in MT, rising sovereign yields for high-debt countries; in China, intensification of trade tensions and/or a housing market downturn, and in MT, insufficient progress in deleveraging and rebalancing.	Medium/ High/ Medium	**Staff assessment:** Medium Effects through trade, FDI and aid.	Continue fiscal adjustment to build financial buffers and diversify trade, FDI and aid.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risks	Relative Likelihood	Possible Impact if Risk Is Realized	Policy response
Large swings in energy prices and its effects on main trading partners (Russia and Kazakhstan). Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. Lower oil prices could lead negatively impact growth in Russia and Kazakhstan.	Medium	**Staff assessment:** **High** The shock could transmit through remittances, oil imports, the exchange rate, external demand, investment and aid flows from affected countries.	Allow two-way exchange rate flexibility and implement de-dollarization strategy, strengthen supervisory and resolution framework of the financial sector, and build up financial buffers.
Cyber-attacks on critical global financial, transport or communication infrastructure and broader private and public institutions trigger systemic financial instability or widespread disruptions in socio-economic activities.	Medium	**Staff assessment:** **Medium** Reduce confidence and growth.	Implement policies to protect critical financial, transport, communication or energy infrastructure.
Country-Specific Risks			
Delays and setback in reforms. Pressures in the run-up to the 2020 parliamentary elections could cause delays in enacting laws by legislative branch and in implementing reforms by executive branch.	Medium	**Staff assessment:** **Medium** Fiscal discipline could falter, and ad hoc spending initiatives could be proposed which could undermine fiscal consolidation efforts.	Make best effort to pass amendments to the Budget Code to adopt fiscal rule capping debt at 60-65 percent of GDP and eliminating extra-budgetary spending. Implement fiscal consolidation.
Lower gold production or prices. Ongoing disputes with the major goldmining company could lead to lower gold production and investor confidence. Improvement in global economic environment could lead to a drop of gold's safe haven appeal and a fall in gold prices.	Medium	**Staff assessment:** **Medium** Lower growth and budgetary revenue and less FDI.	Resolve disputes with main foreign investor in a timely and mutually satisfactory manner. Allow two-way exchange rate flexibility. Build up financial buffers.
Build-up of risks in the financial sector. Subsidized lending mostly by the Russian Kyrgyz Development Fund (RKDF) exacerbates the low profitability and high credit and deposit risk concentration of banks. Exclusive reliance on nested correspondent banking relationships (CBR) weakens reliability of access to $. The recent takeover of a medium-sized bank by the National Bank of the Kyrgyz Republic (NBKR, central bank) undermines banking sector discipline.	Medium	**Staff assessment:** **Medium** Slow progress in financial sector stability and development.	Gradually phase-out subsidized lending. Improve the regulation of financial markets to reduce the cost of credit. Implement AML/CFT law and strengthen monitoring of cross-border financial flows. The NBKR should get out of owning and managing commercial banks. Improve bank resolution framework.

Annex IV. Preliminary Costing of Achieving Selected Sustainable Development Goals[1]

The Kyrgyz Republic ranks close to 75th percentile in terms of the overall Sustainable Development Goals (SDG) indicators, while there remains room for improvement for individual goals. To assist the authorities' commitment to achieve the SDGs, this annex presents preliminary costing of five major goals to illustrate the potential financing needs.[2] The costing estimate amounts to over 100 percent of 2018 GDP during 2019–30. The authorities are encouraged to undertake deeper analysis for more accurate costing.

1. **Making substantial progress towards the SDGs calls for additional spending on human and physical capital**. Preliminary costing suggests an additional spending need of over 100 percent of 2018 GDP during 2019–30, of which around 40 percent would be on human resources in health and education to keep up with the growing demand of the population, and the rest is needed for new investment or rehabilitation in road, water and sanitation, and electricity sectors.

2. **Health**. The sector is characterized by relatively ample human resources and moderate pay to doctors and has delivered reasonably good outcomes—one of the good performers among countries with similar per capita income.[3] However, compared with other good performers, there seems to be room to have a more efficient allocation of medical staff and make the doctors' wage more competitive. The costing exercise keeps a constant ratio of doctors (1.9 doctors per 1000 population) and assumes a gradual decline for other medical staff to the average of good performers (from 6.6 per 1000 population in 2018 to 5.4 in 2030). It also assumes a gradual convergence in doctors' wage as a ratio to per capita GDP from 5.8 to 8.1 during the same period, closing half of the wage gap between the Kyrgyz doctors and that of the high-pay good performers. Demand for health service is assumed to follow population growth as projected by the United Nations. Relative to the baseline where the country spends a constant share of GDP on wages, the exercise suggests a cumulative 18 percent of 2018 GDP additional spending would be needed to meet the growing demand up to 2030.

3. **Education.** Though enrollment rate is almost universal for primary and secondary education in the Kyrgyz Republic, it is relatively low for pre-primary and tertiary education (below 50 percent). The costing exercise assumes a gradual improvement of average enrollment from its current level (58 percent) to the average of Caucasus and Central Asia (CCA) countries (69 percent) during 2019–

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[1] Prepared by Wei Shi and Erkeaim Shambetova.

[2] The costing methodology mainly follows the IMF Staff Discussion Note by Vitor Gaspar and others, *Fiscal Policy and Development: Human, Social and Physical Investment for the SDGs*, forthcoming. Excel-based templates designed by the IMF Fiscal Affairs Department (FAD) are used in costing health, education, water and sanitation, and road, with country-specific parameters calibrated by staff.

[3] Good performers in the health sector refer to those scored above 70 under the third Sustainable Development Goal (SDG3). Countries with expected per capita GDP below 3000 dollars that fall into this category include Honduras, the Kyrgyz Republic, Morocco, Moldova, Nicaragua, Uzbekistan, and Vietnam.

30. As a conservative estimate, student-teacher ratio (15.1) and teachers' wages to per capita GDP ratio (3) are kept as constant. The resulted additional spending amounts to around 25 percent of 2018 GDP to keep up with the expected expansion of student-age population and to facilitate higher enrollment.

4. **Road**. Road costing is highly tentative owing to data limitation. The methodology aims to estimate the length of new road needed based on the targeted improvement in access—measured by rural access index to capture the connectivity of remote areas—and the predicted trend for economic and population growth.[4] Assuming an improvement of the rural access index to the average for emerging and developing Europe (from 76 percent to 81 percent), an extra 1900 kilometers of road will need to be built with an estimated cost of 40 percent of 2018 GDP.

5. **Water**. The methodology is developed by the World Bank which measures the infrastructure needs for affordable, safe, and sustainable access to water and sanitation services.[5] The estimated investment needs are around $955 million, or 12 percent of 2018 GDP.

6. **Electricity**. The Kyrgyz Republic enjoys almost universal access to electricity and stands well regarding SDG on electricity. However, the sector is in financial distress and suffers from under-maintenance and under-investment.[6] To keep the sector running, the rehabilitation needs alone are estimated at $865 million, or 11 percent of 2018 GDP.[7]

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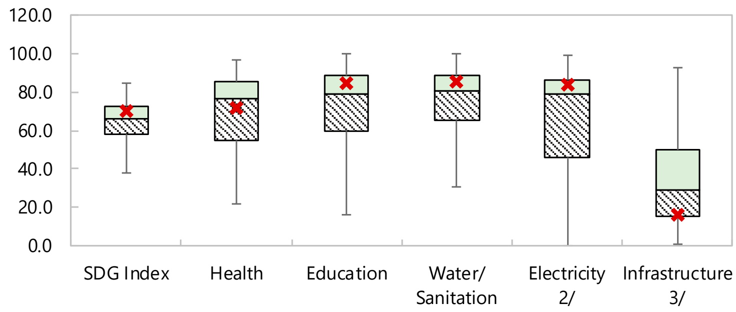
[4] For the Kyrgyz Republic, the unit cost is estimated as the average of four recent road construction projects (Bishkek-Osh, Bishkek-Naryn-Torugart, Taraz-Talas-Suusamyr, and Alternative North-South Road), which is around $1.2 million per kilometer, much higher than global average ($0.5 million). As these are long-distance roads, the implied unit cost would overstate the cost for local roads. Consequently, only international and state roads are considered in the exercise, which are measured at 9841 kilometers. See World Road Transport Organization, *Road Transport in Kyrgyzstan–2013*, Bishkek 2013. Information on the four road projects can be found in *Data Collection and Survey on Osh City Road Transportation in the Kyrgyz Republic* by Japan International Cooperation Agency Katahira & Engineers International, March 2016.

[5] Guy Hutton and Mili Varughese, *The Costs of Meeting the 2030 Sustainable Development Goal Targets on Drinking Water, Sanitation, and Hygiene Summary Report*, World Bank, January 2016.

[6] Kyrgyz Republic—Selected Issues, *Unleashing the Potential of the Electricity Sector* (forthcoming).

[7] World Bank, Power Sector Policy Note for the Kyrgyz Republic, April 2014.

Kyrgyz Republic: SDG Index and Selected Goals 1/



Source: IMF staff calculations using Sachs, J., Schmidt-Traub, G., Kroll, C., Durand-Delacre, D. and Teksoz, K. (2017): SDG Index and Dashboards Report 2018. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN).

1/ The box plots show, from bottom to top, the minimum, first, second and third quartile, and the maximum of cross-country distribution for each index. Red cross marks the value for the Kyrgyz Republic.

2/ Indicator: Access to electricity (percentage of population).

3/ Indicator: Quality of Infrastructure.

Costing of Selected SDGs 1/

(In percent of 2018 GDP)

Health 2/	17.7
Education 2/	24.6
Road	40.7
Water and Sanitation	11.8
Electricity 3/	10.7
Total	105.5

Source: IMF staff.

1/ The table presents cumulative additional spending during 2019-30 for health and education, stock of new investment for road, water and sanitation without considering depreciation, and rehabilitation cost for electricity.

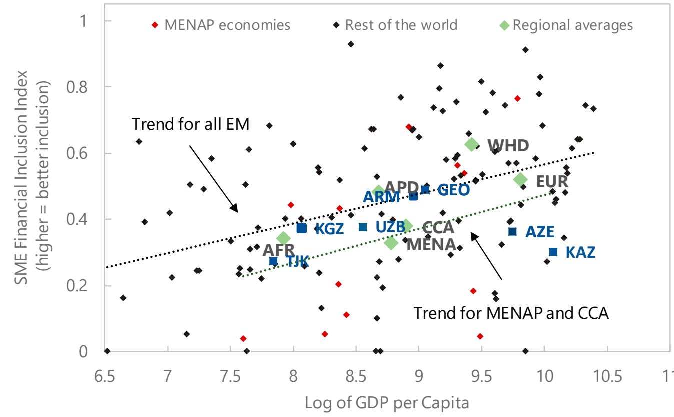
2/ Includes only additional spending on human resource.

3/ The Kyrgyz Republic has achieved universal access to electricity and has a high share produced by hydropower. Therefore, only rehabilitation cost is included in the SDG costing.

Annex V. Benefits of Financial Inclusion of Small and Medium-Sized Enterprises (SME) in the Kyrgyz Republic[1]

1. **SME financial inclusion is at the core of the economic diversification, growth, and job creation challenges of the Kyrgyz Republic**. SMEs represent 93 percent of firms and 33 percent of employment and contribute about 35 percent to GDP,[2] but their access to and usage of financial services is lagging Caucasian and Central Asia (CCA) countries such as Georgia, Armenia, Uzbekistan and Emerging Markets (EMs). Twenty six percent of SMEs have bank loans, which is higher than the CCA average but less than in Armenia and Georgia. Nine percent use bank finance for investment, while most use their internal finances for such purposes. Access to financing is one of the most problematic factors for doing business in the Kyrgyz Republic (World Economic Forum—WEF—Executive Opinion Survey).

SME Financial Inclusion Index for Emerging Markets



Sources: WEO and IMF, 2019, SME Financial Inclusion in the Middle East and Central Asia, Middle East and Central Asia Department Paper, No 19/02.

2. **SME financial inclusion is associated with growth and employment benefits and enhanced macro policy effectiveness**. Closing the SME financial inclusion gap vis-à-vis the 90th percentile of Emerging Markets (EMs), could boost growth by up to 1 percentage point. In addition, SME financial inclusion is associated with better tax collection, enhanced monetary policy transmission and price stability (Figure 1), and better diversification of credit portfolios and risk exposures. The Kyrgyz Republic has relatively high collateral requirements, lending-deposit interest spread, and financial access costs, which constrain SME inclusion. Dynamic stochastic general equilibrium model simulations for the Kyrgyz Republic show that relaxing such key constraints would yield a cumulative increase in long-term GDP by around 14 percent and productivity by 5 percent (Figure 2).

3. **Meaningful, safe and sustainable SME financial inclusion requires a holistic approach**. Empirical analysis for the CCA region shows that macroeconomic stability, limited public sector size, financial sector soundness and a competitive banking system are critical economic fundamentals for SME financial inclusion. Strong governance sound financial supervision, credit information availability, and an enabling business environment play a significant role in facilitating SME financial inclusion. Policies could be prioritized as follows: relaxing collateral constraints, given it would have the highest impact on growth and productivity, followed by reducing the cost of credit. In this

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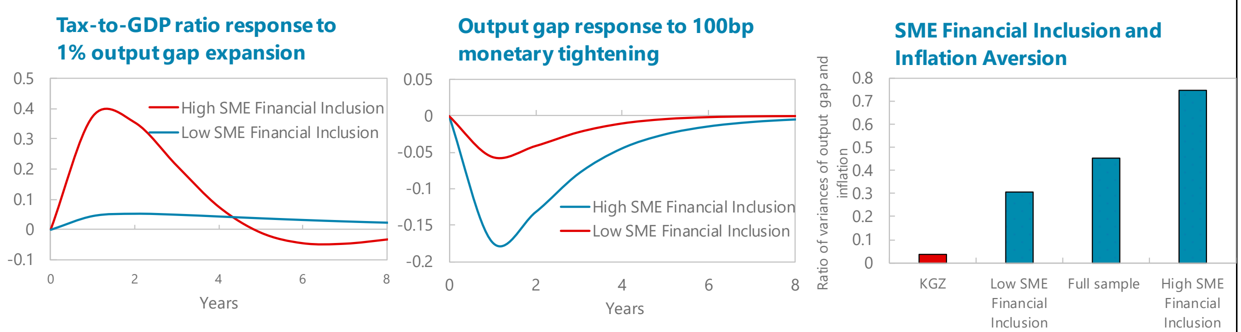
[1] Prepared by Iulia Ruxandra Teodoru based on the findings of: *IMF, SME Financial Inclusion in the Middle East and Central Asia, Middle East and Central Asia Department Paper, No 19/02.*

[2] World Bank Enterprise Surveys, 2013.

context, relaxing collateral constraints and expanding the eligible collateral, as well as strengthening the legal framework for the enforcement of collateral would be important. Also, reducing the cost of foreign exchange hedging instruments would protect economic agents against foreign exchange risk. Further, credit guarantee schemes have proven to contribute to financial inclusion in EMs. Such schemes should be established as independent entities with clearly defined objectives and adequate funding, have a sound governance structure, adhere to strong credit risk management practices, and be properly supervised.[3]

4. **Developing capital markets and Fintech can facilitate greater and less costly SME access to financing**. Local currency corporate bond markets could be supported by developing corporate ratings and reducing burdensome regulations. Fintech— "technologically-enabled financial innovation that could result in new business models, applications, processes, or products"[4]— could help enhance competition in the financial sector.

Figure 1. SME Financial Inclusion and Macro Policy Effectiveness

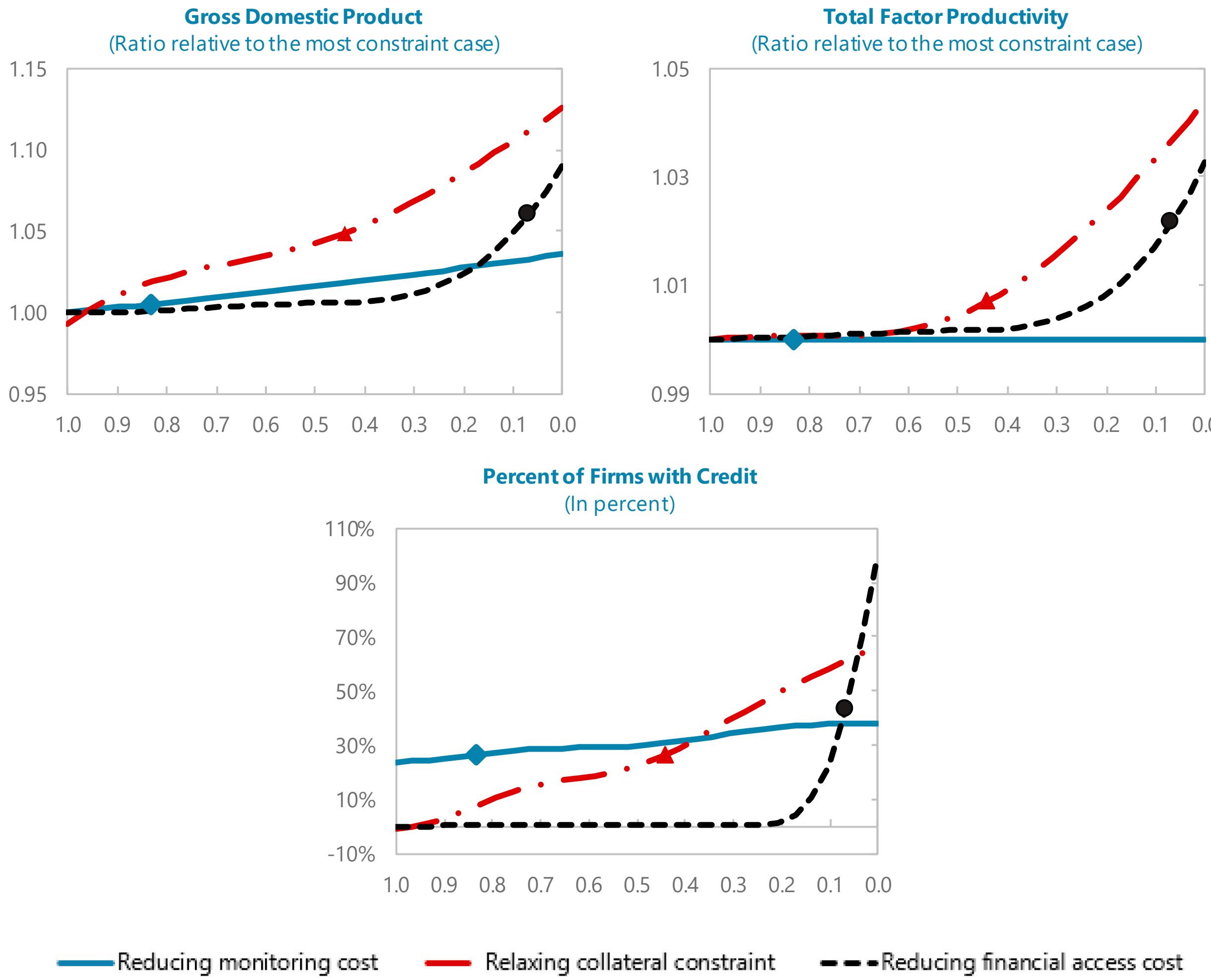


Source: World Bank Enterprise Surveys, Haver, and IMF staff calculations.

[3] IMF, *SME Financial Inclusion in the Middle East and Central Asia,* Middle East and Central Asia Department Paper, 2018, *Forthcoming*.

[4] Financial Stability Board, *FinTech credit: Market structure, business models and financial stability implications,* 2017.

Figure 2. Kyrgyz Republic: Impact of Relaxing Financial Frictions



Sources: IMF World Economic Outlook, World Bank Enterprise Surveys, 2013, World Development Indicators, and IMF staff estimates.

Notes:

1. Horizontal axis shows the scale of the relaxation of the three financial frictions listed above, normalized to be between 1 (no relaxation) and 0 (maximum relaxation).

2. The dots represent the initial status of each financial friction for the Kyrgyz Republic.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

May 21, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department
(In collaboration with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2019)

Membership Status: Joined: May 8, 1992 Article VIII

General Resources Account:	**SDR million**	**Percent of Quota**
Quota	177.60	100.00
Fund Holdings of Currency (Exchange Rate)	177.48	99.93
Reserve Tranche Position	0.15	0.08

SDR Department:	**SDR million**	**Percent Allocation**
Net Cumulative Allocation	84.74	100.00
Holdings	96.25	113.59

Outstanding Purchases and Loans:	**SDR million**	**Percent of Quota**
ESF Arrangements	1.67	0.94
RCF Loans	6.66	3.75
ECF Arrangements	109.41	61.61

Latest Financial Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
ECF	April 8, 2015	April 7,2018	66.60	57.08
ECF	June 20, 2011	July 7, 2014	66.60	66.60
ESF	December 10, 2008	June 9, 2010	66.60	33.30

Projected Payments to the Fund [1/]

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2019	2020	2021	2022	2023
Principal	15.30	18.71	17.13	16.17	16.17
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	15.30	18.71	17.13	16.18	16.18

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Status of HIPC and MDRI Assistance

On November 30, 2011, the Executive Board considered the addition of income and indebtedness criteria for end-2010 to the HIPC Initiative framework, which resulted in the removal of the Kyrgyz Republic from the ring-fenced list of eligible countries.

Safeguards Assessments

An update assessment with respect to the new ECF approved by the IMF Board on April 8, 2015 was completed on October 5, 2015. The assessment concluded that the National Bank of the Kyrgyz Republic (NBKR) continues to have significant vulnerabilities in the legal structure, particularly in governance arrangements. The audit committee's authority remains limited, as it only has an advisory role vis-à-vis the NBKR Board. The Banking Law, which was adopted by Parliament in September 2016, did not address all safeguards recommendations. Furthermore, the Office of the President requested amendments before signing the Law that claw back some of the improvements in central bank independence in the version originally approved by the Parliament. Key outstanding safeguards concerns include the composition of the NBKR Board, which is comprised only of executive members. Previous assessments were completed in October 2011, April 2009, October 2005, and January 2002.

Exchange Rate Arrangements

The currency of the Kyrgyz Republic has been the som (100 tyiyn = 1 som) since May 10, 1993. The de jure exchange rate arrangement is floating arrangement. The NBKR participates and intervenes in the interbank foreign exchange market to limit exchange rate volatility as necessary. The de facto exchange rate arrangement was reclassified to stabilized from other managed, effective January 26, 2018. The NBKR publishes daily the exchange rate of the som in terms of the U.S. dollar, which is determined in the interbank foreign exchange market. The official exchange rate of the som against the dollar is calculated as the daily weighted average of the exchange rates used in the purchase and sale transactions of dollars conducted in the foreign exchange market through the Automated Trade System (ATS) of the NBKR for the reporting period from 3:00 pm of the previous trading day to 3:00 pm of the current trading day. The government uses the official exchange rate for budget and tax accounting purposes as well as for all payments between the government and enterprises and other legal entities.

The Kyrgyz Republic maintains a multiple currency practice (MCP) arising from the use of the official exchange rate for government transactions. The official rate may differ by more than 2 percent from market rates because it is based on the average transaction weighted rate of the preceding day. In practice, the official and market exchange rates have stayed within a two percent band since early 2018. The authorities intend to continue to use the official exchange rate for government transactions. Staff does not recommend approval of this MCP.

Kyrgyz Republic maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for the MCP discussed above and exchange restrictions maintained for security reasons relating to the restriction of financial transactions and the freeze of accounts of certain individuals or organizations associated with terrorism pursuant to (i) relevant U.N. Security Council resolutions; and (ii) the list of current terrorist organizations designated by the U.S. Secretary of State. The authorities have notified these measures to the Fund in May 2007.

Article IV Consultations

The Kyrgyz Republic is on a 12-month consultation cycle. The 2017 Article IV consultation discussions were held in April 2017 and were completed by the Executive Board in October 2017.

FSAP Participation and ROSC Assessment

An FSAP update mission in July 2013 reviewed progress since the 2007 assessment, and the Board discussed the Financial System Stability Assessment (FSSA) along with the fifth ECF review in December 2013. The FSSA was not published. A fiscal ROSC mission was held in March 2001 and the ROSC Fiscal Transparency Module was published on March 13, 2002. A data ROSC mission was held in November 2002 and the ROSC Data Module was published in November 2003. A fiscal ROSC reassessment was held in September 2007.

Resident Representative

The eleventh resident representative of the Fund in the Kyrgyz Republic, Mr. Poghosyan, took his post in Bishkek in March 2019.

RELATIONS WITH OTHER INTERNATIONAL INSTITUTIONS

(As of April 2, 2019)

Asian Development Bank:

- Country page: https://www.adb.org/countries/kyrgyz-republic/main
- ADB projects and results: https://www.adb.org/countries/kyrgyz-republic/results

European Bank for Reconstruction and Development:

- Country page: https://www.ebrd.com/kyrgyz-republic.html
- EBRD projects: https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?1=1&filterCountry=Kyrgyz%20Republic

World Bank Group:

- Country page: https://www.worldbank.org/en/country/kyrgyzrepublic
- Overview of Word Bank Group lending: https://financesapp.worldbank.org/en/countries/Kyrgyz%20Republic/
- IBRD-IDA project operations: http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=KG

TECHNICAL ASSISTANCE PROVIDED BY THE FUND

(January 2014–March 2019)

FAD	Tax Administration Enforcement (Module 6—TPA TTF)	January 8–22, 2014	Ministry of Finance, State Tax Service, State Customs Service
	Public Finance Management	May 2–13, 2014	Ministry of Finance
	Public Finance Management	December 5–18, 2014	Ministry of Finance
	Public Finance Management	April 23–May 7, 2015	Ministry of Finance
	Tax Policy (Impact of the Accession to the EEU)	April 29–May 13, 2015	Ministry of Economy
	Public Finance Management (Fiscal risk disclosure)	September 17–October 1, 2015	Ministry of Finance
	Public Investment Management Assessment Information-Gathering	December 14–16, 2015	Ministry of Finance, Ministry of Economy
	Public Investment Management Assessment	January 27–February 10, 2016	Ministry of Finance, Ministry of Economy
	Managing Government Wage Expenditure	March 15–28, 2016	Ministry of Finance, Ministry of Labor
	Treasury and Accounting Reform and Fiscal Risks Disclosure	September 19–30, 2016	Ministry of Finance
	Government Subsidies Review: Energy Subsidy and Social Protection	February 22–March 7, 2017	Ministry of Finance
	Treasury and Accounting Reform and Fiscal Risks Disclosure	April 17–27, 2017	Ministry of Finance
	A Rules-Based Fiscal Framework	June 13–26, 2017	Ministry of Finance
	Financial Management Information System Strategy	July 14–25, 2017	Ministry of Finance
	Incorporation of Fiscal Rules in the Budget Code	December 11-15, 2017	Ministry of Finance
MCM	Operational Advice on Improving the Monetary Policy Framework	February 3–14, 2014	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	April 20–28, 2015	National Bank of the Kyrgyz Republic
	Strengthening Near-Term Modeling and Forecasting Capacities	April 18–29, 2016	National Bank of the Kyrgyz Republic
	Medium-Term Debt Management Strategy	April 20–28, 2016	Ministry of Finance
	Strengthening Banking Supervision	May 24–June 1, 2016	National Bank of the Kyrgyz Republic
	Monetary Policy and Inflation Targeting Framework	April 10–25, 2017	National Bank of the Kyrgyz Republic
	IFRS 9 Training for NBKR Banking Supervisors	May 29–June 2, 2017	National Bank of the Kyrgyz Republic Banking Supervisors

	Monetary Policy and Inflation Targeting Framework – Follow Up	April 4–13, 2018	National Bank of the Kyrgyz Republic
	Inflation Targeting	October 29–November 14, 2018	National Bank of the Kyrgyz Republic
	Cyber Security	March 6–20, 2019	National Bank of the Kyrgyz Republic
LEG	AML/CFT Follow-up	February 2014	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	January 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	June 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	October–November 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	January 2016	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	April 2016	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT risk-based supervision and SFIS IT workflow procedures	June/July 2016	National Bank of Kyrgyz Republic, State Financial Intelligence Service
	IT (setting up analytical reporting software)	August 2016	State Financial Intelligence Service
	AML/CFT risk-based supervision (IMF/WB mission)	October 2016	National Bank of Kyrgyz Republic
	Legal Frameworks for Bank Resolution	September 20–22, 2017	National Bank of the Kyrgyz Republic, Ministry of Justice

	AML/CFT supervision (WB/IMF workshop)	October 3–7, 2017	National Bank of the Kyrgyz Republic
	AML/CFT Legal drafting	February 2018	State Financial Intelligence Service
	AML/CFT Legal drafting	July 2018	State Financial Intelligence Service
	AML/CFT supervision (WB/IMF workshop)	October 2018	National Bank of Kyrgyz Republic
LEG/FIN	Safeguards-Related Issues: proposals to strengthen the central bank's governance	July 9-11, 2018	National Bank of Kyrgyz Republic
STA	Price Statistics	March 31–April 11, 2014	National Statistics Committee
	External Sector Statistics	February 16–27, 2015	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 15–28, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	October 26–November 6, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	April 4–15, 2016	National Bank of the Kyrgyz Republic
	Quarterly National Accounts	April 11–16, 2016	National Statistics Committee
	Government Finance Statistics	April 11–22, 2016	Ministry of Finance
	Monetary and Financial Statistics	April 13–26, 2016	National Bank of the Kyrgyz Republic
	National Account EDDI2	April 17–28, 2017	National Statistical Committee
	Government Finance Statistics (Training)	April 24–May 5, 2017	Ministry of Finance, the National Bank of Kyrgyz Republic, National Statistical Committee, and the Social Fund
	National Accounts EDDI2	November 6–24, 2017	National Statistics Committee
	Quarterly National Accounts	April 2–20, 2018	National Statistics Committee
	Government Finance Statistics	October 23-27, 2018	Ministry of Finance
	National Accounts EDDI2	November 12–23, 2018	National Statistics Committee

List of Resident Advisors

FD	Banking Supervision/Restructuring Advisor	Mr. Svartsman	January 2004–January 2005
MFD	Public Debt Policy and Management	Mr. Azarbayejani	December 2002–December 2004
MCM	Debt Management and Development of Government Securities Management	Mr. Riecke	August 2006–June 2011
MCD	Macroeconomic Analysis and Forecasting	Mr. Petkov	January 2010–January 2011
MCM	Banking Supervision/Restructuring Advisor	Mr. Svartsman	October 2010–April 2013
LEG	Long-Term Banking Advisor	Mr. Zaveckas	August 2012–April 2014
MCM	Banking Supervision/Restructuring Advisor	Mr. Svartsman	July 2013–January 2014
MCM	Banking Supervision/Restructuring Advisor	Ms. Sonbul Iskender	January 2016–present

STATISTICAL ISSUES

Data provision is adequate for surveillance. The four institutions responsible for collecting, compiling and disseminating macroeconomic statistics—the National Statistics Committee (NSC), the Ministry of Economy, the Ministry of Finance, and the National Bank of the Kyrgyz Republic (NBKR)—have legal and institutional environments that support statistical quality, and their respective staff are well-versed in current methodologies.

The NSC maintains a comprehensive and regularly updated website with data that largely incorporate international methodological recommendations with adequate coverage and timeliness (http://www.stat.kg). In February 2004, the Kyrgyz Republic subscribed to the SDDS.

National Accounts

In general, dissemination of national accounts statistics is timely. Technical assistance has been received from the IMF, EUROSTAT, OECD, the World Bank, and bilateral donors. While significant progress has been made in improving the national accounts estimation process, problems persist regarding the quality of the source data. Efforts are needed to improve the quality of the source data for quarterly GDP estimates. Moreover, while the quarterly GDP estimates are disseminated on a discrete basis for SDDS purposes, these estimates are still derived from cumulative data. Difficulties also remain in properly estimating the degree of underreporting, especially in the private sector.

Five IMF technical assistance missions on national accounts were conducted during the period 2016–18. The first two missions in April 2016 and April 2017 contributed to the development of quarterly source data on a discrete basis. The next three peripatetic missions contributed to the compilation of quarterly GDP estimates based on discrete quarterly data. The latest mission conducted in November 2018 finalized the compilation of quarterly GDP estimates for 2010–17. The NSC is planning to disseminate discrete quarterly estimates of GDP by June 2019.

These missions also contributed to the improvement of annual GDP estimates by: (i) reducing the discrepancies between GDP by production and expenditure; and (ii) improving the estimates of imputed rent of owner-occupied dwellings.

Price and Labor Market Statistics

The concepts and definitions used in the CPI, which has been published since January 1995, are broadly consistent with international standards. The price index covers all urban resident households of all sizes and income levels, but needs to cover rural households, which comprise the majority of the population.

The PPI, which has been published since October 1996, is compiled broadly in accordance with international standards, although its coverage needs to be improved. The coverage of the PPI was broadened in May 1997 and is expected to be further expanded in the coming years.

Progress has been made in computing unit value indices for imports and exports. Work continues regarding computation of these indices using a standard index presentation and the development of an export price index. However, problems in customs administration have led to incomplete coverage of trade and the lack of an appropriate valuation system. Moreover, the data processed by customs have suffered due to the use of an outdated computer software system.

Problems exist in the compilation of the average wage, especially with respect to the valuation of payments in kind and the coverage of the private sector. Monthly and annual data are not comparable because of different coverage and classifications. These problems extend to employment data as well. The coverage of unemployment includes an estimate of unregistered unemployed.

Government Finance Statistics

The Kyrgyz Republic has been a beneficiary of a SECO funded three-year project (2016-2019) that aims at improving fiscal transparency. Since 2018 the Ministry of Finance of the Kyrgyz Republic compiles and disseminates annual GFS for the whole general government, including social security funds, and extended the data coverage with balance sheet and functional classification of expenditure. Starting in Q1 2018, the authorities began reporting quarterly general government data for publication in the IFS. The data reported for publication in the GFS Yearbook start in 2012 and cover general government and its subsectors. Data are now being compiled using the GFSM 2014 analytical framework. However, on-lending to loss-making energy state-owned enterprises are incorrectly classified as accumulation of financial assets below the line rather than spending (i.e. transfers) above the line, which is inconsistent with the GFSM Manual.

In May 2018 the Kyrgyz Republic started regularly reporting debt securities and loans to the common WB / IMF quarterly Public Sector Debt Statistics (PSDS) database.

The Ministry of Finance is working on: i) reconciling the deficit and financing data; ii) compiling quarterly data and metadata for all PSDS instruments; and iii) reconciling all macroeconomic statistics.

Monetary and Financial Statistics (MFS)

The NBKR reports regular data using the IMF recommended Standardized Report Forms (SRFs) and covering the central bank balance sheet (SRF 1SR), other depository corporations (SRF 2SR), and other financial corporations (OFCs, SRF 4SR). Going forward, the NBKR needs to expand the coverage of the OFC survey by including insurance corporations, pension funds, and investment funds. The NBKR reports some data and indicators of the Financial Access Survey (FAS), including the two indicators of the U.N. Sustainable Development Goals.

Financial Sector Surveillance

The NBKR reports Financial Soundness Indicators (FSIs) to STA on a regular quarterly basis. All core and additional FSIs relevant for the Kyrgyz Republic are reported.

External Sector Statistics

Starting with 2017, quarterly data on the balance of payments and international investment position (IIP) are compiled and disseminated following the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* basis. Data are disseminated meeting the SDDS required timeliness and periodicity. Further improvements are needed in estimation of shuttle trade and remittances, in coverage of transactions related to direct investment (inward and outward), including investment income, and in cross-border transactions related to gold mining. Also, further work is needed for adjusting the trade statistics to the requirements of Eurasian Economic Union (EAEU) and in reconciling the customs declarations database for the trade with EAEU members and with the rest of the world.

The Kyrgyz Republic participates in the IMF's Coordinated Direct Investment Survey (CDIS), reporting inward and outward direct investment.

The External Debt Division of the Ministry of Finance is in charge of monitoring the public sector external debt and of submitting the gross external debt statistics (GEDS) for all institutional sectors to the World Bank's Quarterly External Debt Statistics (QEDS) database. The compilation of QEDS tables is executed in collaboration with the NBKR; the latter provides inputs on private sector external debt (banks and other sectors).

Kyrgyz Republic: Table of Common Indicators Required for Surveillance

(As of May 2, 2019)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	3/31/19	3/31/19	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/31/2019	4/10/2019	M	M	M
Reserve/Base Money	3/1/2019	3/1/2019	D	D	M
Broad Money	3/1/2019	3/1/2019	M	M	M
Central Bank Balance Sheet	3/31/2019	4/10/2019	D	D	M
Consolidated Balance Sheet of the Banking System	2/28/19	2/28/19	M	M	M
Interest Rates[2]	3/31/19	3/31/19	M	M	M
Consumer Price Index	3/31/19	3/31/19	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	1/31/19	1/31/19	M	M	A
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	1/31/19	1/31/19	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/31/18	12/31/18	Q	Q	Q
External Current Account Balance	9/30/18	9/30/18	Q	Q	Q
Exports and Imports of Goods and Services	3/31/19	3/31/19	Q	Q	Q
GDP/GNP	3/31/19	3/31/19	M	M	M
Gross External Debt	9/30/18	9/30/18	Q	Q	A
International Investment Position[6]	9/30/18	9/30/18	Q	Q	Q

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

[3] Foreign and domestic financing only.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

May 21, 2019

Approved By
Juha Kähkönen and Vitaliy Kramarenko (IMF) and Lalita Moorty (IDA)

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

This joint World Bank/IMF Debt Sustainability Analysis (DSA) has been prepared in the context of the 2019 Article IV Consultation, for the first time based on the revised framework for low-income countries.[1] Results indicate moderate risk of debt distress for both external and overall public debt. However, the debt outlook remains vulnerable, especially to a deceleration in real GDP and exports growth and the depreciation of the KGS. To address these vulnerabilities, the authorities need to remain cautious when contracting and guaranteeing new debt, maintain fiscal discipline, improve public investment management, and continue improving the business environment to maintain the export potential of the country after the main gold mine will close in 2026.

[1] See IMF, 2018, Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries.

Public Debt Coverage

1. Public sector debt comprises 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 central government debt. Local governments have no external debt and negligible domestic debt vis-à-vis non-governmental entities. According to the 2019 budget, there is no outstanding state guarantee because the budget code has been preventing the state from guaranteeing debt of state-owned enterprises (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. SOEs have no external debt, while their domestic debt vis-à-vis non-governmental entities is limited to short term borrowing from commercial banks and is not significant, as most of their borrowing is from the State. The social security fund has no debt. 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	
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

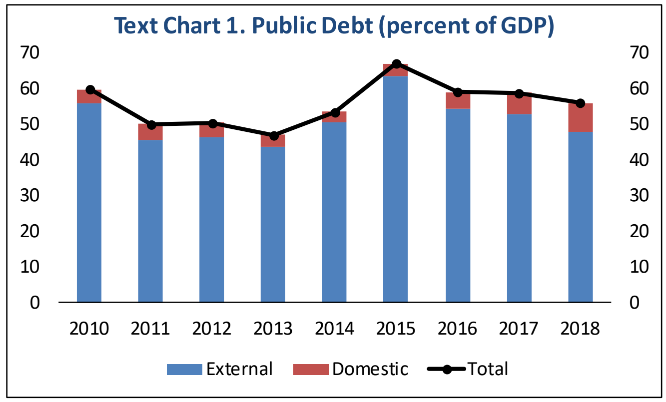
1	The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP	35 percent of PPP stock	0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	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] Kyrgyz Republic—Staff Report for 2019 Article IV Consultation, ¶35 (forthcoming).

Background

2. Public debt decreased over the last three years, driven by external debt (Text Chart 1). Following a sharp increase between 2013-15 mostly due to the significant depreciation of the KGS vis-à-vis the U.S. dollar, public debt decreased from 67.1 percent of GDP in 2015 to 56.0 percent of GDP in 2018. This was the result of the decline in external debt by 16 percent of GDP thanks to the appreciation of the KGZ as well as the debt relief received from Russia.[3] At the same time, domestic debt rose from 3.6 to 8.0 percent of GDP, thereby increasing its share from 5 to 14 percent in total debt. The domestic public debt is composed of treasury bills and bonds that are mostly held by commercial banks (50 percent) and the social security fund (30 percent).



Underlying Assumptions

3. The current DSA is built on revised macroeconomic assumptions (Text Table 3). Economic growth is projected to be slightly lower in the near term than in the last DSA. Following a substantial widening in 2018-19, the current account deficit is expected to narrow between 2020-22 on the back of a recovery of remittances and a slight increase in gold exports. Over the medium term, the current account deficit is projected to increase owing to the decline in gold production and exports starting in 2023. Over the long term, other exports are projected to materialize to partially replace the exports of the main gold mine that accounted for 37 percent of exports in 2018 and is projected to cease operations in 2026. The source of such exports could be new gold mines, other minerals, such as rare earths, or hydropower, for which only 10 percent of the potential has been exploited so far. A steady flow of foreign direct investment (FDI) prompted by sustained improvement in the business environment is projected to materialize to limit the gradual drop of the level of exports to about 5 percent of GDP over the projection horizon. After an unexpectedly tight fiscal stance in 2018, we project a moderate fiscal loosening in 2019 to close the output gap to be followed by strict adherence to the fiscal rule presently considered by parliament that caps debt at 70 percent of GDP and the budget deficit at 3 percent of GDP over the medium and long term. The budget deficit should be recorded in line with the IMF Government Finance Statistics Manual (GFSM), that is including on-lending to loss making state-owned enterprises as capital grants contributing to the deficit rather than as a

[3] The initial agreement between Russia and the Kyrgyz Republic signed in 2014 to write-off of a $300 million debt (4.0 percent of GDP) in equal tranches over a 10-year period was revised to write off the outstanding $240 million in 2018.

(continued)

financing item. The authorities have room to keep the deficit at such level while financing their development needs by reducing tax exemptions, better capturing imports, reducing transfers to energy sector SOEs and identifying other expenditure savings through progress in public investment and financial management.[4] Beyond firm commitments in the near term, a limited amount of grants (current grants around 0.4% of GDP and capital grants around 1% of GDP) is projected to continue over the medium term. These grants are highly likely and their inclusion does not change the risk rating.

Text Table 3. Kyrgyz Republic: Selected Indicators, 2016-24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP growth (percent)									
Current DSA	4.3	4.7	3.5	3.8	3.4	3.8	4.6	3.4	3.4
Previous DSA[1]	3.8	3.2	3.3	4.9	4.6	4.0	4.8	3.3	3.7
Overall fiscal balance (percent of GDP)									
Current DSA[2]	-6.4	-4.6	-1.3	-3.3	-3.0	-3.0	-3.0	-3.0	-3.0
Previous DSA[1,3]	-6.9	-5.9	-4.0	-5.3	-3.2	-2.6	-2.4	-2.5	-2.5
Current account balance (percent of GDP)									
Current DSA	-11.6	-6.2	-8.7	-9.6	-7.7	-7.1	-6.8	-8.4	-8.8
Previous DSA[1]	-12.1	-10.0	-13.1	-12.2	-11.6	-11.1	-10.6	-10.1	-10.0
PIP Disbursements (millions of US$)									
Current DSA	311	323	131	278	263	316	340	358	377
Previous DSA[1]	311	368	341	400	258	328	330	360	392

Sources: Kyrgyz authorities and IMF staff estimates.
1/ IMF Country Report No. 18/53, Kyrgyz Republic—4th and 5th Reviews under the Extended Credit Facility.
2/ Including onlending to energy SOEs.
3/ Including total onlending to SOEs.

4. **The realism tools suggest that the baseline scenario is credible.** There are small differences between the past and projected drivers of external and public debt dynamics; however, unexpected changes in debt are close to the upper end of the interquartile range (Figure 3). The lower projected contribution of the primary deficit to changes in public debt is due to the improvement in the fiscal balance. This, however, is in line with the historical distribution of adjustments under Fund-supported programs in LICs (Figure 4). Moreover, while the planned adjustment reflects the change in the fiscal balance between 2017-20, the bulk of the improvement already took place in 2018.

5. **The stable debt outlook reflects the broadly neutral fiscal stance in the medium term.** Total public debt is expected to hover around 55 percent of GDP over the medium term as the impact of positive growth/interest differential is offset by the fiscal deficit (Table 2). As the financing need is expected to be increasingly covered through domestic debt issuance, the composition of total public debt is projected to shift from external towards domestic debt. Domestic debt is expected to double from 8 percent of GDP in 2018 to 16 percent of GDP in the long term and the increase is projected to be subscribed by commercial banks while leaving room for credit to the private sector, in sync with the gradual deepening of the financial sector.

[4] Kyrgyz Republic—Staff Report for 2019 Article IV Consultation, ¶¶28-30 (forthcoming).

Country Classification

6. **The Kyrgyz Republic's debt-carrying capacity is assessed to be strong.** The country's Composite Indicator (CI) index, [5] calculated based on the April 2019 WEO and the 2017 World Bank Country Policy and Institutional Assessment (CPIA) score, is 3.19, above the threshold of 3.05 for strong debt-carrying capacity (Text Table 4). This translates into the following external debt burden thresholds and public debt benchmark: 240 percent for the present value (PV) of external debt-to-exports ratio, 55 percent for the PV of external debt-to-GDP ratio, 21 percent for the external debt service-to-exports ratio, 23 percent for the external debt service-to-revenue ratio, and 70 percent for 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 April 2019 WEO	Classification based on October 2018 WEO	Classification based on the two previous vintages
Strong	Strong 3.19	Strong 3.19	Strong 3.24

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

External DSA

7. **The debt outlook remains vulnerable to external and domestic shocks.** Because of the write-off of Russian debt, external public and publicly guaranteed (PPG) debt declined to 48.0 percent of GDP in 2018 from 53.0 percent in 2017. PPG external debt is projected to gradually

[5] The CI is a function of the CPIA, 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.

(continued)

decrease further over the medium term. Total external debt decreased from 91.0 percent of GDP in 2017 to 85.0 percent in 2018 and will decline further towards 75 percent in the medium term.[6]

8. External debt remains at moderate risk of distress. Public and publicly guaranteed (PPG) external debt in PV terms is estimated to decline from 35 percent of GDP in 2018 to below 30 percent of GDP over the long term. While most external debt burden indicators remain below their indicative sustainability thresholds under shock scenarios and suggest limited rollover risks, the debt service-to-exports ratios breach its threshold in the medium term in the case of a shock to exports (Figure 1 and Table 3), indicating moderate risk of debt distress. Moreover, the PV of debt-to-exports also breaches its threshold, albeit for only a year. The assessment of moderate risk is also supported by the overvaluation of the exchange rate highlighted by the External Sector Assessment,[7] the need for continued fiscal discipline in strict adherence to the draft fiscal rule, the expectations of continuing external concessional financing, and the large dependence on remittances and gold exports.

9. The Kyrgyz Republic is assessed to have some space to absorb shocks. The external PPG debt outlook remains vulnerable to large external shocks, to a decline in exports and other flows, the 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 (Figure 5).

Public DSA

10. The public debt outlook has remained broadly unchanged since the last DSA (Text Table 5)**.** Public debt (external plus domestic) decreased from 58.8 percent of GDP in 2017 to 56.0 percent of GDP in 2018. Total public debt is expected to be manageable in the medium and long term but remains sensitive to shocks, especially to real GDP growth and the depreciation of the KGS. Specifically, the PV of debt-to-GDP ratio breaches its sustainability threshold in the case of shocks to real GDP growth over the medium and long term (Figure 2 and Table 4). Rollover risks associated with public debt are expected to remain modest in the years ahead, albeit increasing over the 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.

[6] This implies that private external debt (for example, debt of commercial banks) would be in the range of 20-40 percent of GDP in the medium term.

[7] Kyrgyz Republic, Staff Report fort the 2019 Article IV Consultation, Annex 2. External Sector Assessment (forthcoming).

Text Table 5. Kyrgyz Republic: Comparison of Debt Ratio
(percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	Long Term (2028)
PPGE debt to GDP ratio										
Current DSA	54.4	53.0	48.0	47.9	46.7	45.4	44.0	43.2	42.7	37.8
Previous DSA[1]	56.6	54.5	55.8	56.1	54.1	53.1	51.5	50.1	48.7	42.0
Public debt to GDP ratio										
Current DSA	59.1	58.8	56.0	56.1	55.5	55.3	54.5	54.4	54.4	54.0
Previous DSA[1]	58.1	57.1	58.2	58.4	56.2	55.0	53.2	51.7	50.9	47.1

Sources: Kyrgyz authorities and IMF staff estimates.

1/ IMF Country Report No. 18/53, Kyrgyz Republic—4th and 5th Reviews under the Extended Credit Facility.

Conclusion

12. Both external and overall public debt remains at moderate risk of distress. Both the results of stress tests and country-specific circumstances point toward moderate risk of external debt distress. Given this assessment of external debt and that at least one indicator breaches the threshold under the public debt stress tests, overall public debt is also assessed to have moderate risk of debt distress.

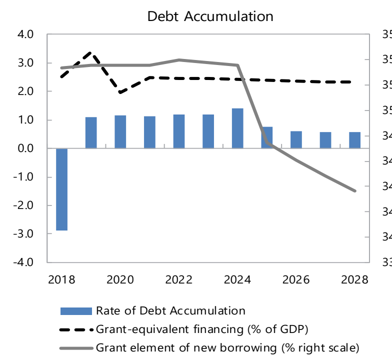
13. The authorities need to maintain fiscal discipline, remain cautious when contracting or guaranteeing new debt and continue to improve the business climate. To keep the public debt sustainable, the authorities will need to strictly adhere to the fiscal rule considered by Parliament. While necessary to fill the large infrastructure gap, externally-financed public investments, could undermine debt sustainability. In this context, further efforts are needed to strengthen public debt and public investment management, to ensure that potential gains from externally financed public investment projects are fully realized. Moreover, the authorities should keep improving the business environment to maintain the country's export beyond the closure of the main gold mine. An attractive business environment will be of paramount importance to generate new exports to replace those of the main gold mine that will close in 2026.

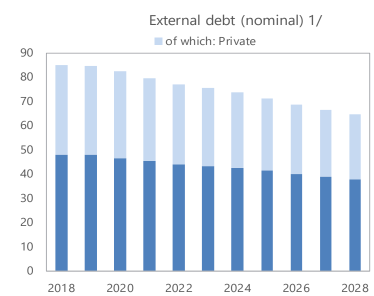
Table 1. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2015–38

(In percent of GDP unless, otherwise indicated)

	Actual			Projections								Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
External debt (nominal) 1/	**109.4**	**99.7**	**91.0**	**85.0**	**84.7**	**82.3**	**79.7**	**77.1**	**75.4**	**64.6**	**56.6**	**88.3**	**75.4**
of which: public and publicly guaranteed (PPG)	**63.5**	**54.4**	**53.0**	**48.0**	**47.9**	**46.7**	**45.4**	**44.0**	**43.2**	**37.8**	**37.0**	**51.2**	**43.3**
Change in external debt	19.7	-9.7	-8.7	-5.9	-0.4	-2.3	-2.7	-2.6	-1.7	-2.0	-0.6		
Identified net debt-creating flows	**11.5**	**1.0**	**-4.3**	**5.1**	**1.8**	**0.4**	**-0.4**	**-1.4**	**1.7**	**-1.2**	**0.9**	**-5.0**	**0.8**
Non-interest current account deficit	**15.0**	**10.6**	**5.2**	**7.7**	**8.5**	**6.6**	**6.1**	**5.7**	**7.3**	**6.1**	**7.3**	**6.9**	**7.0**
Deficit in balance of goods and services	36.4	34.3	32.1	36.0	35.9	35.3	35.6	35.4	37.0	34.5	36.8	**31.5**	**35.9**
Exports	37.0	35.9	34.2	32.7	32.8	31.9	31.5	31.5	29.4	28.8	27.4		
Imports	73.4	70.3	66.4	68.7	68.7	67.2	67.1	66.8	66.5	63.3	64.2		
Net current transfers (negative = inflow)	-24.2	-27.9	-30.7	-29.9	-29.8	-30.9	-31.8	-32.1	-31.7	-30.5	-31.0	**-28.9**	**-30.9**
of which: official	-1.5	-1.2	-1.4	-0.6	-0.9	-0.1	-0.5	-0.5	-0.5	-0.4	-0.3		
Other current account flows (negative = net inflow)	2.9	4.2	3.8	1.6	2.3	2.2	2.3	2.4	1.9	2.1	1.5	**4.4**	**2.0**
Net FDI (negative = inflow)	**-15.1**	**-8.5**	**1.0**	**-0.6**	**-4.6**	**-4.5**	**-4.6**	**-4.7**	**-4.2**	**-5.5**	**-5.1**	**-7.1**	**-4.4**
Endogenous debt dynamics 2/	**11.6**	**-1.2**	**-10.5**	**-2.1**	**-2.0**	**-1.6**	**-1.9**	**-2.4**	**-1.4**	**-1.7**	**-1.3**		
Contribution from nominal interest rate	1.0	1.0	1.0	0.9	1.1	1.1	1.0	1.0	1.1	1.0	1.0		
Contribution from real GDP growth	-3.9	-4.7	-4.2	-3.0	-3.1	-2.7	-2.9	-3.4	-2.5	-2.8	-2.3		
Contribution from price and exchange rate changes	14.5	2.5	-7.3	...	...	...	...	...	...	...	...		
Residual 3/	**8.2**	**-10.7**	**-4.5**	**-11.0**	**-2.2**	**-2.7**	**-2.3**	**-1.2**	**-3.4**	**-0.8**	**-1.6**	**4.9**	**-3.2**
of which: exceptional financing	0.0	-0.4	-0.5	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**40.1**	**35.5**	**35.5**	**34.8**	**34.0**	**33.0**	**32.5**	**28.0**	**27.1**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**117.2**	**108.3**	**108.3**	**109.2**	**108.0**	**104.9**	**110.4**	**97.2**	**98.8**		
PPG debt service-to-exports ratio	**4.6**	**5.4**	**6.1**	**18.9**	**8.6**	**7.9**	**8.8**	**8.6**	**9.1**	**10.8**	**8.4**		
PPG debt service-to-revenue ratio	**5.1**	**6.2**	**6.7**	**19.9**	**8.7**	**8.0**	**8.9**	**8.7**	**8.6**	**10.3**	**7.5**		
Gross external financing need (Million of U.S. dollars)	680.4	783.8	1052.7	1320.4	853.3	720.3	760.1	766.7	1039.6	1123.3	2069.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.9	4.3	4.7	3.5	3.8	3.4	3.8	4.6	3.4	4.4	4.3	**4.4**	**3.9**
GDP deflator in US dollar terms (change in percent)	-13.9	-2.2	7.9	1.5	-0.7	1.9	1.9	1.9	1.9	1.0	1.0	**3.5**	**1.4**
Effective interest rate (percent) 4/	1.0	0.9	1.1	1.1	1.3	1.3	1.3	1.4	1.5	1.6	1.8	**1.0**	**1.4**
Growth of exports of G&S (US dollar terms, in percent)	-26.9	-0.9	7.7	0.4	3.2	2.5	4.4	6.5	-1.5	7.6	6.6	**4.5**	**3.8**
Growth of imports of G&S (US dollar terms, in percent)	-24.8	-2.3	6.8	8.8	2.9	3.0	5.6	6.1	4.7	5.0	5.9	**7.2**	**4.9**
Grant element of new public sector borrowing (in percent)	...	...	...	34.9	35.0	35.0	35.0	35.0	35.0	34.0	33.3	**...**	**34.7**
Government revenues (excluding grants, in percent of GDP)	33.5	31.0	31.1	31.2	32.3	31.6	31.3	31.2	31.0	30.2	30.6	**30.6**	**31.0**
Aid flows (in Million of US dollars) 5/	143.7	144.4	171.8	222.7	326.9	212.7	282.1	291.5	300.9	357.8	530.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.5	3.4	1.9	2.5	2.5	2.4	2.3	2.2	**...**	**2.5**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	60.7	61.0	49.9	53.0	52.4	52.2	50.5	48.8	**...**	**53.2**
Nominal GDP (Million of US dollars)	6,678	6,813	7,703	8,093	8,334	8,781	9,288	9,897	10,423	13,674	22,904		
Nominal dollar GDP growth	-10.6	2.0	13.1	5.1	3.0	5.4	5.8	6.6	5.3	5.4	5.3	**8.2**	**5.4**
Memorandum items:													
PV of external debt 7/	...	...	78.1	72.5	72.3	70.5	68.3	66.1	64.7	54.8	46.6		
In percent of exports	...	...	228.2	221.4	220.4	221.0	216.8	210.2	219.8	190.2	170.1		
Total external debt service-to-exports ratio	27.8	26.1	21.6	28.0	19.5	19.4	21.2	21.4	23.4	26.5	24.7		
PV of PPG external debt (in Million of US dollars)			3091.4	2869.6	2959.6	3057.1	3156.8	3267.0	3385.4	3826.0	6208.3		
(PVt-PVt-1)/GDPt-1 (in percent)				-2.9	1.1	1.2	1.1	1.2	1.2	0.6	1.4		
Non-interest current account deficit that stabilizes debt ratio	-4.6	20.4	14.0	13.7	8.8	8.9	8.7	8.3	9.0	8.1	7.9		

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.

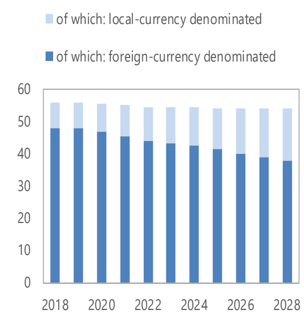
Table 2. Kyrgyz Republic: Public Sector Debt Sustainability Framework, 2015-38

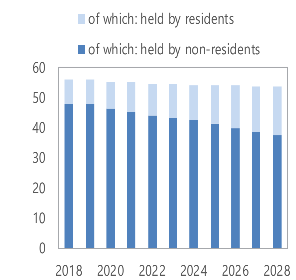
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
Public sector debt 1/	67.1	59.1	58.8	56.0	56.1	55.5	55.3	54.5	54.4	54.0	54.0	55.3	54.8
of which: external debt	63.5	54.4	53.0	48.0	47.9	46.7	45.4	44.0	43.2	37.8	37.0	51.2	43.3
Change in public sector debt	13.5	-8.0	-0.3	-2.8	0.1	-0.6	-0.2	-0.7	-0.1	0.0	0.0		
Identified debt-creating flows	12.4	-5.9	-2.6	-3.9	1.5	-0.1	-0.3	-0.7	-0.1	-0.2	-0.1	-0.4	-0.4
Primary deficit	1.8	5.4	3.5	0.0	1.9	1.6	1.6	1.5	1.4	1.0	0.9	2.9	1.3
Revenue and grants	35.6	33.1	33.4	32.8	34.5	32.5	32.6	32.5	32.3	31.4	31.6	33.3	32.3
of which: grants	2.2	2.1	2.2	1.6	2.2	0.9	1.3	1.3	1.2	1.1	1.0		
Primary (noninterest) expenditure	37.4	38.5	36.8	32.8	36.4	34.0	34.2	34.0	33.7	32.4	32.5	36.2	33.6
Automatic debt dynamics	10.6	-10.8	-5.7	-0.9	-0.3	-1.6	-1.8	-2.1	-1.4	-1.2	-1.0		
Contribution from interest rate/growth differential	-2.3	-3.3	-3.2	-1.9	-1.5	-1.6	-1.8	-2.1	-1.4	-1.5	-1.3		
of which: contribution from average real interest rate	-0.3	-0.5	-0.5	0.1	0.5	0.2	0.2	0.3	0.3	0.8	0.9		
of which: contribution from real GDP growth	-2.0	-2.8	-2.7	-2.0	-2.0	-1.8	-2.0	-2.4	-1.8	-2.3	-2.2		
Contribution from real exchange rate depreciation	12.9	-7.5	-2.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	-0.4	-0.4	-3.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.3
Privatization receipts (negative)	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	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)	0.0	-0.4	-0.4	-3.0	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	1.0	-2.2	2.3	2.1	-0.2	-0.5	0.1	-0.1	0.0	0.5	0.5	0.5	0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	46.0	44.0	44.2	44.2	44.4	44.0	44.2	44.6	44.5		
PV of public debt-to-revenue and grants ratio	...	...	137.8	134.1	128.1	136.1	136.0	135.5	136.9	142.2	140.8		
Debt service-to-revenue and grants ratio 3/	4.8	5.8	6.3	37.2	32.4	33.4	35.9	38.8	41.4	58.9	61.5		
Gross financing need 4/	2.9	6.6	5.6	9.3	13.0	12.4	13.2	14.0	14.7	19.5	20.3		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.9	4.3	4.7	3.5	3.8	3.4	3.8	4.6	3.4	4.4	4.3	4.4	3.9
Average nominal interest rate on external debt (in percent)	1.3	1.3	1.3	1.3	1.6	1.6	1.5	1.5	1.6	1.7	1.8	1.2	1.6
Average real interest rate on domestic debt (in percent)	-3.3	-5.7	-6.0	6.7	8.5	4.9	4.8	4.8	4.8	5.8	5.8	-8.4	5.6
Real exchange rate depreciation (in percent, + indicates depreciation)	26.6	-12.3	-4.7	...	...	...	...	...	...	...	...	0.6	...
Inflation rate (GDP deflator, in percent)	3.4	6.1	6.3	1.5	2.2	4.9	5.0	5.0	5.0	4.0	4.0	9.6	4.1
Growth of real primary spending (deflated by GDP deflator, in percent)	2.3	7.3	0.3	-7.8	14.9	-3.3	4.2	4.0	2.4	3.6	4.4	7.0	2.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-11.7	13.4	3.8	2.8	1.8	2.2	1.8	2.2	1.5	1.1	0.9	1.8	1.7
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.

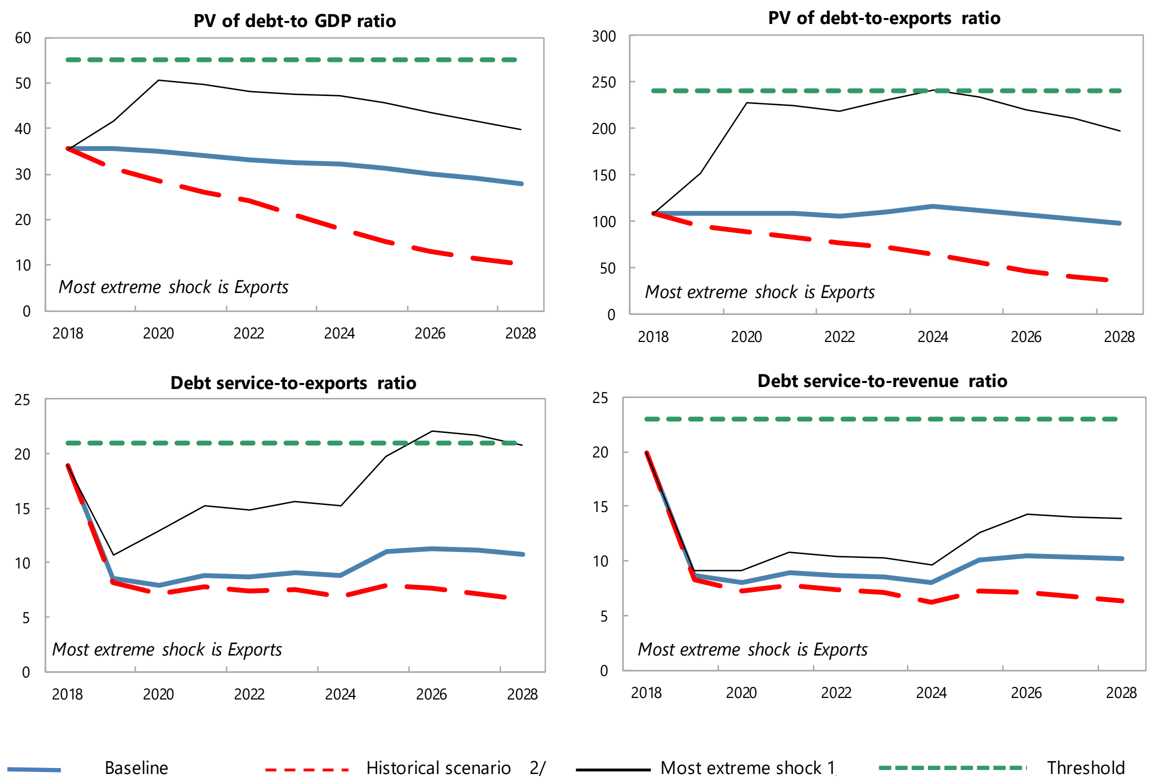
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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, 2018-28 1/



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	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 for 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	1.9%	1.9%
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.

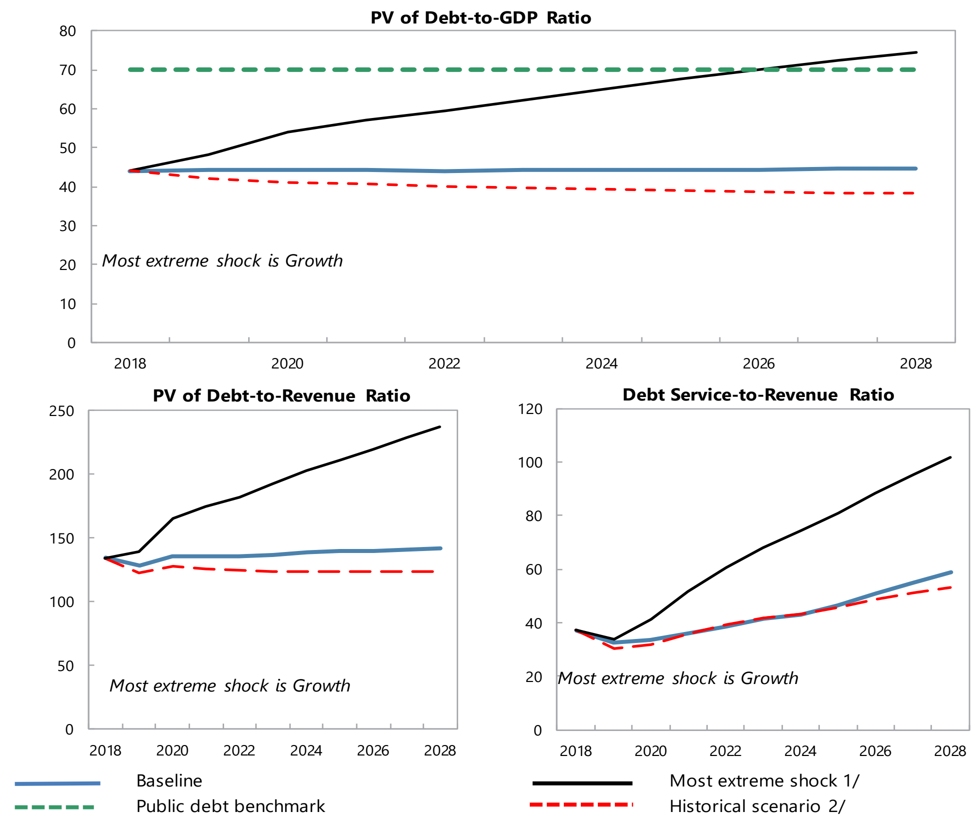
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are 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 historical scenario leads to much more favorable debt dynamics than the baseline mainly because the average annual FDI inflow was much higher than projected in the base line (see Table 1).

Note: debt service was very high in 2018 because debt relief by Russia ($240 million) was recorded as debt amortization financed by debt relief in the balance of payments.

Figure 2. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2018-28



Borrowing Assumptions for 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	1.9%	1.9%
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	5%	5.0%

* 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 2028. 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 historical scenario leads to more favorable debt dynamics than the baseline in spite of higher primary deficits mostly because of the countervailing impact of the higher GDP deflator and the lower interest rate than in the baseline (see Table 2).

Table 3. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018-28

(In percent)

	Projections										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio											
Baseline	**35.5**	**35.5**	**34.8**	**34.0**	**33.0**	**32.5**	**32.2**	**31.1**	**30.0**	**28.9**	**28.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	35.5	31.2	28.4	26.0	24.2	21.1	17.8	15.3	13.1	11.3	10.2
B. Bound Tests											
B1. Real GDP growth	35.5	37.5	38.7	37.8	36.7	36.1	35.8	34.6	33.3	32.2	31.1
B2. Primary balance	35.5	36.0	36.3	36.2	35.8	35.7	35.7	34.8	33.7	32.7	31.7
B3. Exports	35.5	41.6	50.7	49.6	48.2	47.5	47.0	45.5	43.4	41.5	39.8
B4. Other flows 2/	35.5	40.7	45.8	44.8	43.6	43.0	42.5	41.1	39.2	37.5	36.0
B5. One-time 30 percent nominal depreciation	35.5	45.0	35.9	35.0	34.0	33.4	33.1	31.9	30.9	30.1	29.3
B6. Combination of B1-B5	35.5	44.5	47.4	46.4	45.1	44.4	44.0	42.4	40.5	38.8	37.3
C. Tailored Tests											
C1. Combined contingent liabilities	35.5	36.6	36.7	36.5	35.9	35.7	35.6	34.8	33.7	32.8	31.9
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	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of debt-to-exports ratio											
Baseline	**108.3**	**108.3**	**109.2**	**108.0**	**104.9**	**110.4**	**115.8**	**111.7**	**106.6**	**102.6**	**97.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	108.3	95.2	89.0	82.7	76.9	71.7	64.2	54.9	46.6	40.1	35.5
B. Bound Tests											
B1. Real GDP growth	108.3	108.3	109.2	108.0	104.9	110.4	115.8	111.7	106.6	102.6	97.2
B2. Primary balance	108.3	109.9	113.9	115.1	113.7	121.2	128.3	124.9	119.9	116.0	110.3
B3. Exports	108.3	151.2	227.1	225.1	219.1	230.7	241.9	233.4	220.7	210.5	197.7
B4. Other flows 2/	108.3	124.0	143.7	142.4	138.6	146.0	153.0	147.4	139.5	133.1	125.0
B5. One-time 30 percent nominal depreciation	108.3	108.3	88.9	87.7	85.2	89.5	93.9	90.2	86.7	84.1	80.3
B6. Combination of B1-B5	108.3	141.2	135.9	165.7	161.3	169.8	178.0	171.1	162.1	154.9	145.8
C. Tailored Tests											
C1. Combined contingent liabilities	108.3	111.5	115.0	115.8	114.1	121.3	128.3	124.8	119.9	116.1	110.7
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	**18.9**	**8.6**	**7.9**	**8.8**	**8.6**	**9.1**	**8.8**	**11.0**	**11.3**	**11.1**	**10.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	18.9	8.2	7.1	7.7	7.4	7.5	6.9	7.9	7.7	7.2	6.6
B. Bound Tests											
B1. Real GDP growth	18.9	8.6	7.9	8.8	8.6	9.1	8.8	11.0	11.3	11.1	10.8
B2. Primary balance	18.9	8.6	8.0	9.0	8.8	9.3	9.1	11.4	11.9	11.8	11.6
B3. Exports	18.9	10.7	12.9	15.3	14.9	15.6	15.2	19.8	22.1	21.6	20.8
B4. Other flows 2/	18.9	8.6	8.3	9.8	9.5	10.0	9.7	12.8	14.0	13.7	13.2
B5. One-time 30 percent nominal depreciation	18.9	8.6	7.9	8.3	8.1	8.5	8.3	10.5	9.7	9.6	9.3
B6. Combination of B1-B5	18.9	9.5	10.4	11.8	11.5	12.0	11.7	15.8	16.5	16.1	15.6
C. Tailored Tests											
C1. Combined contingent liabilities	18.9	8.6	8.0	9.0	8.8	9.3	9.1	11.3	11.6	11.5	11.1
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	**19.9**	**8.7**	**8.0**	**8.9**	**8.7**	**8.6**	**8.0**	**10.0**	**10.4**	**10.3**	**10.3**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	19.9	8.3	7.2	7.8	7.4	7.1	6.2	7.2	7.1	6.7	6.3
B. Bound Tests											
B1. Real GDP growth	19.9	9.2	8.9	9.9	9.7	9.6	8.9	11.2	11.6	11.5	11.4
B2. Primary balance	19.9	8.7	8.0	9.0	8.9	8.8	8.2	10.4	10.9	11.0	11.0
B3. Exports	19.9	9.1	9.1	10.7	10.5	10.3	9.6	12.6	14.2	14.1	13.9
B4. Other flows 2/	19.9	8.7	8.4	9.8	9.6	9.4	8.8	11.7	12.9	12.7	12.6
B5. One-time 30 percent nominal depreciation	19.9	11.0	10.2	10.6	10.4	10.3	9.5	12.1	11.3	11.3	11.3
B6. Combination of B1-B5	19.9	9.3	9.3	10.5	10.3	10.1	9.4	12.8	13.5	13.3	13.2
C. Tailored Tests											
C1. Combined contingent liabilities	19.9	8.7	8.1	9.1	8.9	8.8	8.2	10.3	10.7	10.6	10.6
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/ 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.

2/ Includes official and private transfers and FDI.

Table 4. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2018-28

	Projections										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of Debt-to-GDP Ratio											
Baseline	**44.0**	**44.2**	**44.2**	**44.4**	**44.0**	**44.2**	**44.3**	**44.4**	**44.4**	**44.5**	**44.6**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	44	42	41	41	40	40	39	39	39	38	38
B. Bound Tests											
B1. Real GDP growth	44	48	54	57	59	62	65	68	70	72	75
B2. Primary balance	44	47	51	51	50	50	50	50	50	50	49
B3. Exports	44	49	56	56	56	56	56	55	55	54	53
B4. Other flows 2/	44	49	55	55	55	55	55	55	54	53	53
B5. One-time 30 percent nominal depreciation	44	52	49	48	45	43	41	39	37	36	34
B6. Combination of B1-B5	44	45	46	44	43	43	44	44	44	44	44
C. Tailored Tests											
C1. Combined contingent liabilities	44	51	50	50	50	50	50	49	49	49	49
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.
Public debt benchmark	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**
PV of Debt-to-Revenue Ratio											
Baseline	**134.1**	**128.1**	**136.1**	**136.0**	**135.5**	**136.9**	**138.7**	**139.6**	**140.3**	**141.2**	**142.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	134	123	127	126	125	124	124	124	124	124	124
B. Bound Tests											
B1. Real GDP growth	134	139	166	174	182	192	203	212	220	228	237
B2. Primary balance	134	137	156	155	154	154	156	156	157	157	158
B3. Exports	134	141	173	172	171	172	174	174	172	171	170
B4. Other flows 2/	134	143	171	170	169	170	172	171	170	169	168
B5. One-time 30 percent nominal depreciation	134	151	151	146	139	134	130	124	119	114	109
B6. Combination of B1-B5	134	132	143	134	133	134	136	137	138	139	140
C. Tailored Tests											
C1. Combined contingent liabilities	134	147	155	154	152	153	155	155	156	156	157
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	**37.2**	**32.4**	**33.4**	**35.9**	**38.8**	**41.4**	**43.3**	**46.6**	**50.9**	**55.0**	**58.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	37	30	32	36	39	42	43	46	49	51	53
B. Bound Tests											
B1. Real GDP growth	37	34	41	52	60	68	74	81	88	95	102
B2. Primary balance	37	32	42	52	51	51	51	53	57	60	64
B3. Exports	37	32	34	37	40	42	44	48	54	58	61
B4. Other flows 2/	37	32	34	37	40	42	44	48	53	57	61
B5. One-time 30 percent nominal depreciation	37	31	33	32	38	41	42	45	49	53	56
B6. Combination of B1-B5	37	32	33	36	38	41	43	46	50	54	58
C. Tailored Tests											
C1. Combined contingent liabilities	37	32	50	49	49	50	50	52	56	59	62
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/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

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

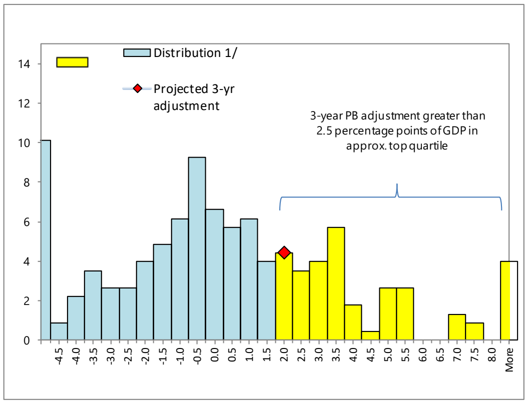
1/ Difference between anticipated and actual contributions on debt ratios.

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.

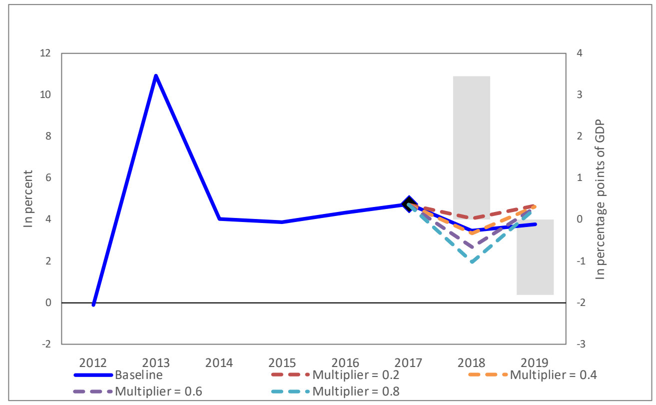
Figure 4. Kyrgyz Republic: Realism Tools

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



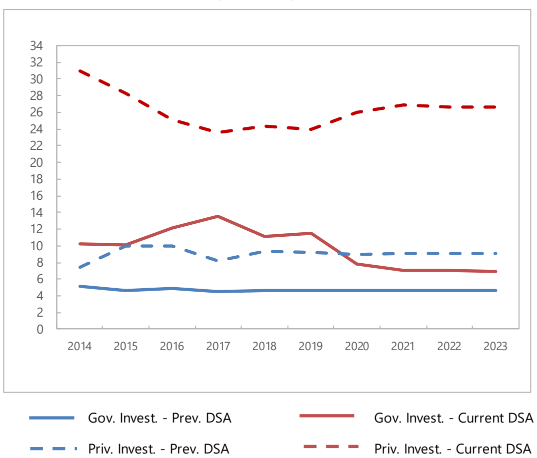
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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
(% of GDP)



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

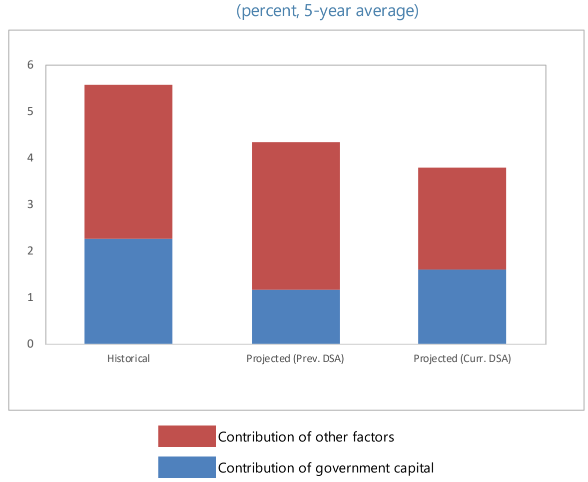
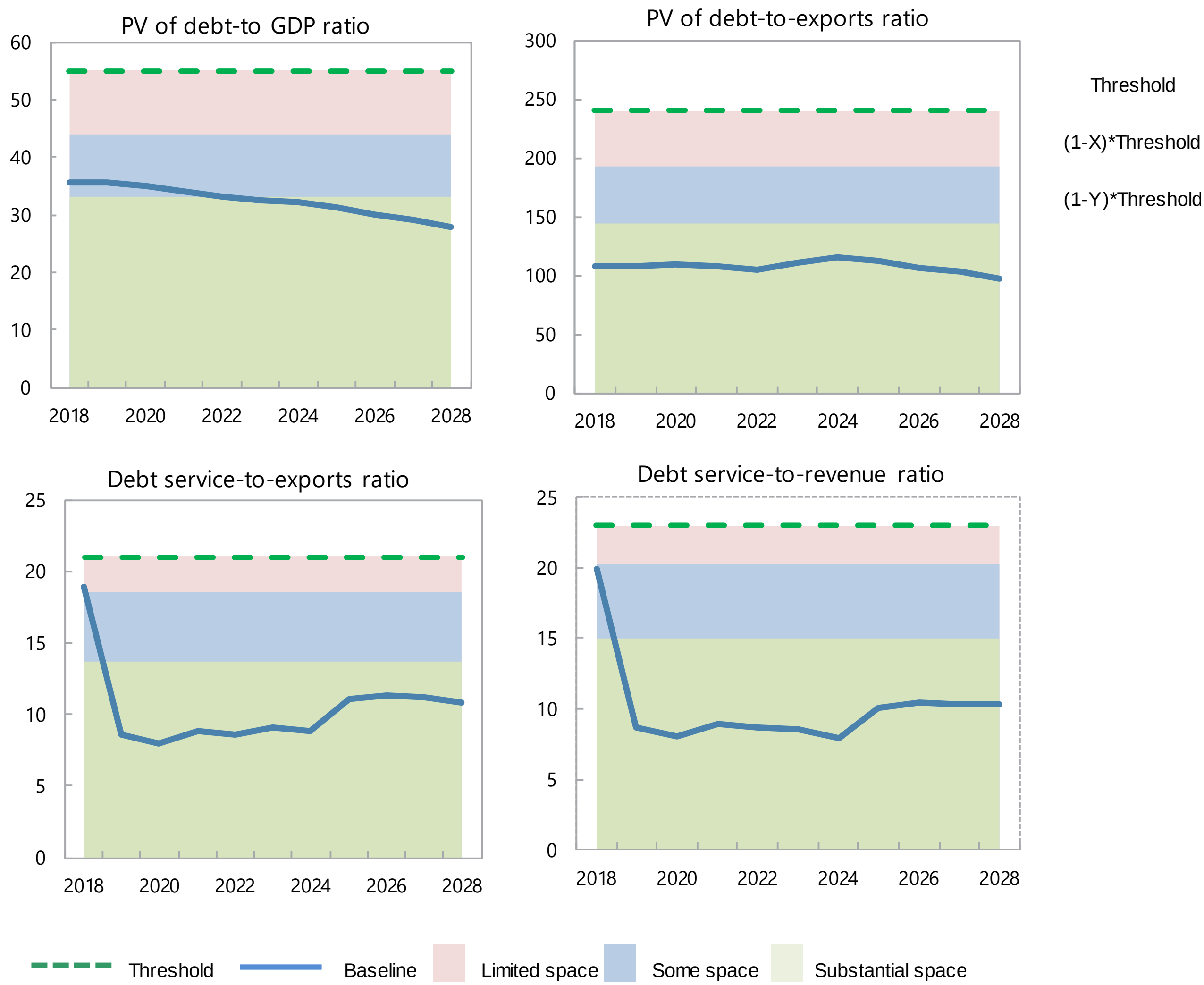


Figure 5. Kyrgyz Republic: Qualification of the Moderate Category, 2018-2028 1/



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.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

June 6, 2019

Prepared By | Middle East and Central Asia Department

This supplement provides information that has become available since the issuance of the staff report. The information does not alter either the thrust of the staff appraisal or the assessment of debt sustainability.

The authorities brought to the attention of staff new data on population, which led staff to revise the historical estimates and projections of GDP per head in Table 1 of the Staff Report, for which revised numbers are attached.

The authorities also brought to the attention of staff revised historical balance of payments data for 2009-13, which led staff to revise the historical scenario in their debt sustainability analysis, for which revised Figure 1 and Tables 1 and 3 are attached. The revisions to this data did not alter the conclusions of the DSA in any way.

Table 1. Kyrgyz Republic: Selected Social and Economic Indicators, 2016–24

I. Social and Demographic Indicators

Population (in millions, 2017)	6.3	GINI Index (2017)	27.3
Unemployment rate (official, in percent, 2017)	6.9	Life expectancy at birth in years (2017)	71.0
Poverty rate (in percent, national definition, 2016)	25.6	Adult literacy rate (percent of popul., 2015)	99.5
GNI per capita (2017, Atlas method, U.S. dollars)	1,130	Under-five mortality (per 1000 live births, 2017)	20

II. Economic Indicators

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Proj.			
Real sector									
Nominal GDP (in billions of soms)	476.3	530.5	557.1	590.8	640.6	697.9	766.0	830.9	901.2
Nominal GDP (in millions of U.S. dollars)	6,813	7,703	8,093	8,334	8,781	9,288	9,897	10,423	10,976
Real GDP (growth in percent)	4.3	4.7	3.5	3.8	3.4	3.8	4.6	3.4	3.4
Nongold real GDP (growth in percent)	4.3	5.1	3.5	3.7	3.6	3.8	4.3	4.4	4.4
GDP per capita (in U.S. dollars)	1,132	1,255	1,293	1,305	1,347	1,399	1,460	1,507	1,557
Consumer prices (12-month percent change, eop)	-0.5	3.7	0.5	4.7	5.1	5.0	5.0	5.0	5.0
Consumer prices (12-month percent change, average)	0.4	3.2	1.5	2.2	4.9	5.0	5.0	5.0	5.0
Investment and savings (in percent of GDP)									
Investment	31.6	30.7	28.3	28.0	28.1	28.2	27.9	26.5	26.1
Public	10.1	9.7	6.0	8.9	6.9	8.0	7.8	7.5	8.3
Private	21.5	21.0	22.3	19.1	21.2	20.1	20.1	18.9	19.0
Savings	20.0	24.5	19.6	18.4	20.4	21.1	21.2	18.1	17.3
Public	0.5	2.5	2.9	2.3	0.8	2.3	2.2	1.9	1.5
Private	19.5	22.0	16.7	16.1	19.6	18.8	19.0	16.2	15.8
Savings-investment balance	-11.6	-6.2	-8.7	-9.6	-7.7	-7.1	-6.8	-8.4	-8.7
General government finances (in percent of GDP) 1/									
Revenue	33.1	33.4	32.8	34.5	32.5	32.6	32.5	32.3	32.0
Of which: Tax revenue	19.5	19.3	20.7	21.9	21.8	21.8	21.7	21.5	21.2
Expense	31.8	30.1	28.9	31.0	30.9	29.6	29.6	29.6	29.7
Gross operating balance	1.3	3.2	3.9	3.5	1.6	3.0	2.9	2.7	2.2
Net acquisition of nonfinancial assets	7.7	7.8	5.2	6.9	4.6	6.0	5.9	5.7	5.2
Overall balance (net lending/borrowing) 2/	-6.4	-4.6	-1.3	-3.3	-3.0	-3.0	-3.0	-3.0	-3.0
Primary net lending/borrowing	-5.3	-3.5	0.0	-1.8	-1.6	-1.6	-1.5	-1.4	-1.3
Total state government debt 3/	59.1	58.8	56.0	56.1	55.5	55.3	54.5	54.4	54.4
Of which domestic debt	4.7	5.8	8.0	8.2	8.8	9.9	10.5	11.2	11.7
Monetary sector									
Reserve money (percent change, eop)	27.6	16.9	6.3	5.5	11.2	13.7	15.8	8.9	10.9
Broad money (percent change, eop)	14.6	17.9	5.5	8.8	11.8	14.2	16.4	9.4	10.9
Credit to private sector (percent change, eop)	-1.0	15.7	18.2	6.7	9.1	9.6	10.9	10.5	10.3
Credit to private sector (in percent of GDP)	20.0	20.8	23.4	23.6	23.7	23.9	24.1	24.6	25.0
Velocity of broad money 4/	2.9	2.7	2.7	2.7	2.6	2.5	2.3	2.3	2.3
Policy Rate	5.0	5.0	4.8	4.5	...	...	...	...	...
External sector									
Current account balance (in percent of GDP)	-11.6	-6.2	-8.7	-9.6	-7.7	-7.1	-6.8	-8.4	-8.7
Export of goods and services (in millions of U.S. dollars)	2,449	2,638	2,649	2,733	2,801	2,924	3,113	3,067	3,050
Export growth (percent change)	-0.9	7.7	0.4	3.2	2.5	4.4	6.5	-1.5	-0.5
Import of goods and services (in millions of U.S. dollars)	4,789	5,113	5,564	5,728	5,899	6,231	6,613	6,927	7,127
Import growth (percent change)	-2.3	6.8	8.8	2.9	3.0	5.6	6.1	4.7	2.9
Gross International reserves (in millions of U.S. dollars) 5/	1,773	1,971	1,919	1,854	1,873	1,930	2,084	2,012	1,862
Gross reserves (months of next year imports, eop)	4.2	4.3	4.0	3.8	3.6	3.5	3.6	3.4	3.0
External public debt outstanding (in percent of GDP)	54.4	53.0	48.0	47.9	46.7	45.4	44.0	43.2	42.7
External public debt service-to-export ratio (in percent)	5.9	7.1	6.9	7.7	7.1	8.0	7.9	8.2	7.9
Memorandum items:									
Exchange rate (soms per U.S. dollar, average)	69.9	68.9	68.8	...	...	...	...	...	...
Real effective exchange rate (2010=100) (average)	102.8	104.5	108.6	...	...	...	...	...	...

Sources: Kyrgyz authorities and IMF staff estimates and projections.

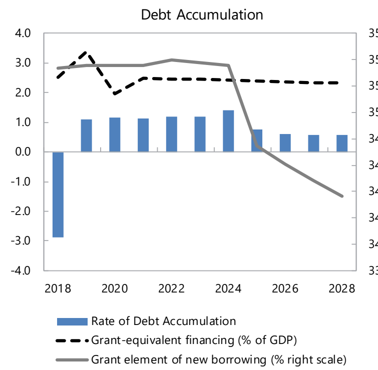
1/ General government comprises the State government, the Social Fund, and the Mandatory Health Insurance Fund. The State government comprises central and local governments.
2/ Includes loans on-lent by the State government to state-owned enterprises in the energy sector.
3/ Calculated at end-period exchange rates.
4/ Twelve-month GDP over end-period broad money.
5/ Gross international reserves exclude reserve assets in non-convertible currencies.

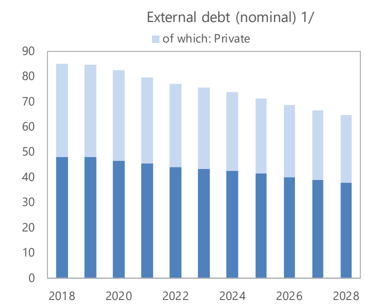
Table 2. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2015–38

(In percent of GDP unless, otherwise indicated)

	Actual			Projections								Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
External debt (nominal) 1/	109.4	99.7	91.0	85.0	84.7	82.3	79.7	77.1	75.4	64.6	56.6	88.3	75.4
of which: public and publicly guaranteed (PPG)	63.5	54.4	53.0	48.0	47.9	46.7	45.4	44.0	43.2	37.8	37.0	51.2	43.3
Change in external debt	19.7	-9.7	-8.7	-5.9	-0.4	-2.3	-2.7	-2.6	-1.7	-2.0	-0.6		
Identified net debt-creating flows	11.3	1.0	-4.3	5.1	1.8	0.4	-0.4	-1.4	1.7	-1.2	0.9	-1.5	0.8
Non-interest current account deficit	14.9	10.6	5.2	7.7	8.5	6.6	6.1	5.7	7.3	6.1	7.3	10.4	7.0
Deficit in balance of goods and services	36.4	34.3	32.1	36.0	35.9	35.3	35.6	35.4	37.0	34.5	36.8	34.8	35.9
Exports	37.0	35.9	34.2	32.7	32.8	31.9	31.5	31.5	29.4	28.8	27.4		
Imports	73.4	70.3	66.4	68.7	68.7	67.2	67.1	66.8	66.5	63.3	64.2		
Net current transfers (negative = inflow)	-24.4	-27.9	-30.8	-29.9	-29.8	-30.9	-31.8	-32.1	-31.7	-30.5	-31.0	-28.7	-30.9
of which: official	-1.7	-1.2	-1.4	-0.6	-0.9	-0.1	-0.5	-0.5	-0.5	-0.4	-0.3		
Other current account flows (negative = net inflow)	2.9	4.2	3.8	1.6	2.3	2.2	2.3	2.4	1.9	2.1	1.5	4.3	2.0
Net FDI (negative = inflow)	-15.1	-8.5	1.0	-0.6	-4.6	-4.5	-4.6	-4.7	-4.2	-5.5	-5.1	-7.0	-4.4
Endogenous debt dynamics 2/	11.6	-1.2	-10.5	-2.1	-2.0	-1.6	-1.9	-2.4	-1.4	-1.7	-1.3		
Contribution from nominal interest rate	1.0	1.0	1.0	0.9	1.1	1.1	1.0	1.0	1.1	1.0	1.0		
Contribution from real GDP growth	-3.9	-4.7	-4.2	-3.0	-3.1	-2.7	-2.9	-3.4	-2.5	-2.8	-2.3		
Contribution from price and exchange rate changes	14.5	2.5	-7.3	...	...	...	...	...	...	...	...		
Residual 3/	8.3	-10.7	-4.4	-11.0	-2.2	-2.7	-2.3	-1.2	-3.4	-0.8	-1.6	1.4	-3.2
of which: exceptional financing	0.0	-0.4	-0.5	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	40.1	35.5	35.5	34.8	34.0	33.0	32.5	28.0	27.1		
PV of PPG external debt-to-exports ratio	...	...	117.2	108.3	108.3	109.2	108.0	104.9	110.4	97.2	98.8		
PPG debt service-to-exports ratio	4.6	5.4	6.1	18.9	8.6	7.9	8.8	8.6	9.1	10.8	8.4		
PPG debt service-to-revenue ratio	5.1	6.2	6.7	19.9	8.7	8.0	8.9	8.7	8.6	10.3	7.5		
Gross external financing need (Million of U.S. dollars)	670.4	784.2	1049.9	1320.4	853.3	720.3	760.1	766.7	1039.6	1123.3	2069.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.9	4.3	4.7	3.5	3.8	3.4	3.8	4.6	3.4	4.4	4.3	4.4	3.9
GDP deflator in US dollar terms (change in percent)	-13.9	-2.2	7.9	1.5	-0.7	1.9	1.9	1.9	1.9	1.0	1.0	3.5	1.4
Effective interest rate (percent) 4/	1.0	0.9	1.1	1.1	1.3	1.3	1.3	1.4	1.5	1.6	1.8	1.0	1.4
Growth of exports of G&S (US dollar terms, in percent)	-26.9	-0.9	7.7	0.4	3.2	2.5	4.4	6.5	-1.5	7.6	6.6	4.5	3.8
Growth of imports of G&S (US dollar terms, in percent)	-24.8	-2.3	6.8	8.8	2.9	3.0	5.6	6.1	4.7	5.0	5.9	7.1	4.9
Grant element of new public sector borrowing (in percent)	...	...	...	34.9	35.0	35.0	35.0	35.0	35.0	34.0	33.3	...	34.7
Government revenues (excluding grants, in percent of GDP)	33.5	31.0	31.1	31.2	32.3	31.6	31.3	31.2	31.0	30.2	30.6	30.6	31.0
Aid flows (in Million of US dollars) 5/	143.7	144.4	171.8	222.7	326.9	212.7	282.1	291.5	300.9	357.8	530.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.5	3.4	1.9	2.5	2.5	2.4	2.3	2.2	...	2.5
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	60.7	61.0	49.9	53.0	52.4	52.2	50.5	48.8	...	53.2
Nominal GDP (Million of US dollars)	6,678	6,813	7,703	8,093	8,334	8,781	9,288	9,897	10,423	13,674	22,904		
Nominal dollar GDP growth	-10.6	2.0	13.1	5.1	3.0	5.4	5.8	6.6	5.3	5.4	5.3	8.2	5.4
Memorandum items:													
PV of external debt 7/	...	...	78.1	72.5	72.3	70.5	68.3	66.1	64.7	54.8	46.6		
In percent of exports	...	...	228.2	221.4	220.4	221.0	216.8	210.2	219.8	190.2	170.1		
Total external debt service-to-exports ratio	27.8	26.1	21.6	28.0	19.5	19.4	21.2	21.4	23.4	26.5	24.7		
PV of PPG external debt (in Million of US dollars)			3091.4	2869.6	2959.6	3057.1	3156.8	3267.0	3385.4	3826.0	6208.3		
(PVt-PVt-1)/GDPt-1 (in percent)				-2.9	1.1	1.2	1.1	1.2	1.2	0.6	1.4		
Non-interest current account deficit that stabilizes debt ratio	-4.8	20.4	13.9	13.7	8.8	8.9	8.7	8.3	9.0	8.1	7.9		

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.

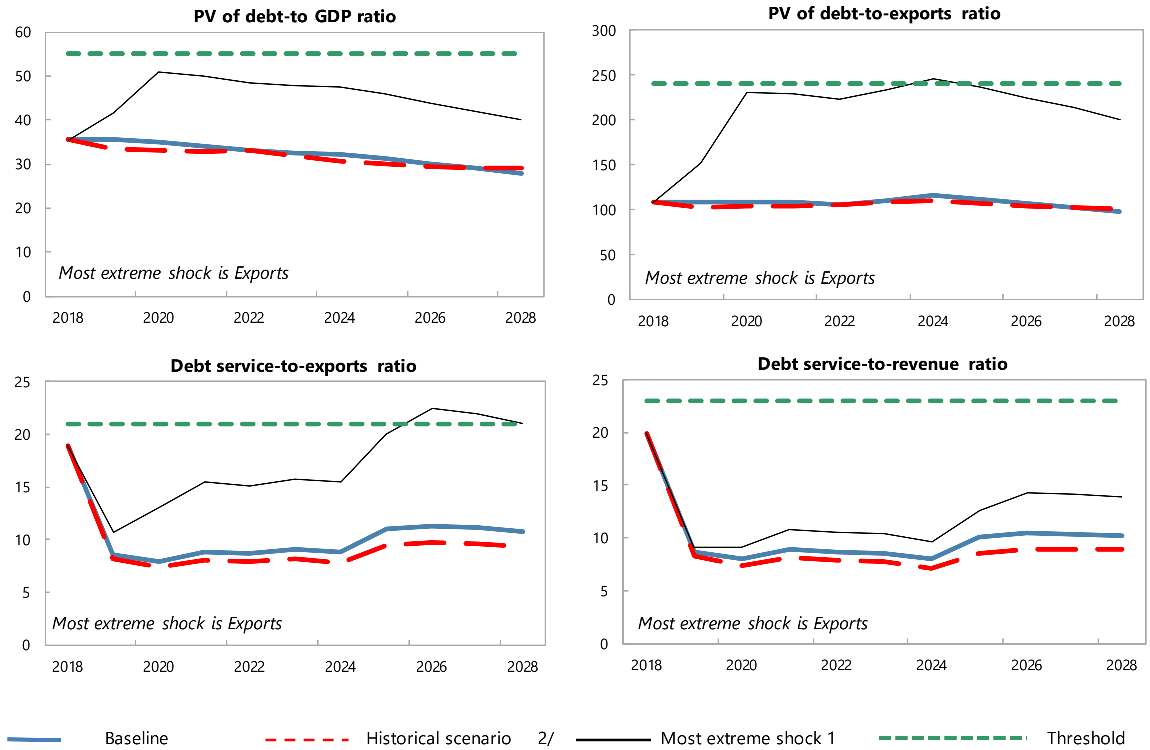
5/ Defined as grants, concessional loans, and debt relief.

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.

Figure 1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2018-28



Customization of Default Settings		
	Size	**Interactions**
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	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 for 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	1.9%	1.9%
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 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are 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 historical scenario leads to similar debt dynamics as the base line in spite of a higher current account deficit because the average annual FDI inflow and the GDP deflator were much higher than in the baseline (see Table 1).

Note: debt service was very high in 2018 because debt relief by Russia ($240 million) was recorded as debt amortization financed by debt relief in the balance of payments.

Table 3. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018-28

(In percent)

	Projections										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio											
Baseline	**35.5**	**35.5**	**34.8**	**34.0**	**33.0**	**32.5**	**32.2**	**31.1**	**30.0**	**28.9**	**28.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	35.5	33.5	33.0	32.8	33.1	32.0	30.7	29.9	29.3	29.0	29.2
B. Bound Tests											
B1. Real GDP growth	35.5	37.5	38.7	37.8	36.7	36.1	35.8	34.6	33.3	32.2	31.1
B2. Primary balance	35.5	36.0	36.3	36.2	35.8	35.7	35.7	34.8	33.7	32.7	31.7
B3. Exports	35.5	41.8	51.0	49.9	48.5	47.8	47.3	45.8	43.7	41.8	40.1
B4. Other flows 2/	35.5	40.7	45.9	44.9	43.7	43.1	42.6	41.2	39.3	37.6	36.1
B5. One-time 30 percent nominal depreciation	35.5	45.0	35.9	35.0	34.0	33.4	33.1	31.9	30.9	30.1	29.3
B6. Combination of B1-B5	35.5	44.7	47.7	46.6	45.3	44.7	44.2	42.6	40.7	39.0	37.5
C. Tailored Tests											
C1. Combined contingent liabilities	35.5	36.6	36.7	36.5	35.9	35.7	35.6	34.8	33.7	32.8	31.9
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	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of debt-to-exports ratio											
Baseline	**108.3**	**108.3**	**109.2**	**108.0**	**104.9**	**110.4**	**115.8**	**111.7**	**106.6**	**102.6**	**97.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	108.3	102.3	103.4	104.2	105.1	108.7	110.3	107.2	104.2	102.7	101.4
B. Bound Tests											
B1. Real GDP growth	108.3	108.3	109.2	108.0	104.9	110.4	115.8	111.7	106.6	102.6	97.2
B2. Primary balance	108.3	109.9	113.9	115.1	113.7	121.2	128.3	124.9	119.9	116.0	110.3
B3. Exports	108.3	152.3	230.5	228.4	222.4	234.2	245.5	236.9	224.0	213.6	200.5
B4. Other flows 2/	108.3	124.1	144.0	142.7	138.9	146.3	153.4	147.8	139.8	133.4	125.3
B5. One-time 30 percent nominal depreciation	108.3	108.3	88.9	87.7	85.2	89.5	93.9	90.2	86.7	84.1	80.3
B6. Combination of B1-B5	108.3	142.0	136.6	167.3	162.9	171.5	179.8	172.8	163.7	156.4	147.1
C. Tailored Tests											
C1. Combined contingent liabilities	108.3	111.5	115.0	115.8	114.1	121.3	128.3	124.8	119.9	116.1	110.7
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	**18.9**	**8.6**	**7.9**	**8.8**	**8.6**	**9.1**	**8.8**	**11.0**	**11.3**	**11.1**	**10.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	18.9	8.2	7.3	8.1	7.9	8.2	7.8	9.4	9.7	9.6	9.4
B. Bound Tests											
B1. Real GDP growth	18.9	8.6	7.9	8.8	8.6	9.1	8.8	11.0	11.3	11.1	10.8
B2. Primary balance	18.9	8.6	8.0	9.0	8.8	9.3	9.1	11.4	11.9	11.8	11.6
B3. Exports	18.9	10.7	13.0	15.4	15.1	15.8	15.4	20.0	22.4	21.9	21.1
B4. Other flows 2/	18.9	8.6	8.3	9.8	9.5	10.0	9.7	12.8	14.0	13.7	13.2
B5. One-time 30 percent nominal depreciation	18.9	8.6	7.9	8.3	8.1	8.5	8.3	10.5	9.7	9.6	9.3
B6. Combination of B1-B5	18.9	9.5	10.4	11.8	11.5	12.1	11.8	15.9	16.6	16.3	15.7
C. Tailored Tests											
C1. Combined contingent liabilities	18.9	8.6	8.0	9.0	8.8	9.3	9.1	11.3	11.6	11.5	11.1
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	**19.9**	**8.7**	**8.0**	**8.9**	**8.7**	**8.6**	**8.0**	**10.0**	**10.4**	**10.3**	**10.3**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	19.9	8.3	7.4	8.1	7.9	7.8	7.1	8.6	8.9	8.9	9.0
B. Bound Tests											
B1. Real GDP growth	19.9	9.2	8.9	9.9	9.7	9.6	8.9	11.2	11.6	11.5	11.4
B2. Primary balance	19.9	8.7	8.0	9.0	8.9	8.8	8.2	10.4	10.9	11.0	11.0
B3. Exports	19.9	9.1	9.1	10.8	10.5	10.4	9.7	12.6	14.3	14.1	13.9
B4. Other flows 2/	19.9	8.7	8.4	9.8	9.6	9.5	8.8	11.7	12.9	12.8	12.6
B5. One-time 30 percent nominal depreciation	19.9	11.0	10.2	10.6	10.4	10.3	9.5	12.1	11.3	11.3	11.3
B6. Combination of B1-B5	19.9	9.3	9.3	10.5	10.3	10.1	9.4	12.8	13.6	13.4	13.2
C. Tailored Tests											
C1. Combined contingent liabilities	19.9	8.7	8.1	9.1	8.9	8.8	8.2	10.3	10.7	10.6	10.6
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/ 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.

2/ Includes official and private transfers and FDI.