INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/174

KYRGYZ REPUBLIC

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

August 2021

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 2021 Article IV consultation with Kyrgyz Republic, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 4, 2021 consideration of the staff report that concluded the Article IV consultation with Kyrgyz Republic.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 4, 2021, following discussions that ended on March 30, 2021, with the officials of Kyrgyz Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 18, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff[s] of the IMF and the World Bank.
- A **Supplementary Information** updating information on recent developments.

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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PRESS RELEASE

PR21/160

IMF Executive Board Concludes 2021 Article IV Consultation with the Kyrgyz Republic

FOR IMMEDIATE RELEASE

Washington, DC – June 8, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Kyrgyz Republic.

The Kyrgyz economy was severely hit by the COVID-19 pandemic, but the authorities reacted swiftly to protect public health and cushion the impact on the economy. Real GDP declined by 8.6 percent in 2020 due to significant contraction in exports, gold mining, industry, tourism, transport, and construction. Headline inflation rose to 9.7 percent in 2020, primarily because of imported food price inflation and the exchange rate pass-through, while public debt increased by 16.5 percent of GDP to 68 percent. The authorities' crisis mitigating measures amounting to 7.2 percent of GDP included emergency health spending, a food security program, temporary tax deferrals and subsidized loans to small and medium enterprises, liquidity support to banks, deferrals of loan payments, and the temporary relaxation of capital and loan provisioning norms. Nevertheless, unemployment and poverty increased in 2020.

Growth is expected to rebound in 2021–22. The economy is projected to grow by 3.8 percent in 2021 and by 6.4 percent in 2022, underpinned by the more favorable global outlook, higher gold production, and a gradual rebound in tourism, transportation and related services. Annual inflation will remain elevated in the coming months but gradually return to the central bank's target range of 5–7 percent. The current account deficit is projected at about 6 percent of GDP in 2021 and in the medium term, driven by a recovery in imports and the opening of the borders.

The level of uncertainty, however, remains high. A slow rollout of vaccines or emergence of new COVID-19 variants may delay the recovery to 2022 or beyond, while lower gold prices or weaker remittances could weaken the balance of payments. More depreciation due to external pressures would further raise public debt while financing constraints could limit fiscal room for countercyclical policies. While securing vaccines is a top priority to contain the pandemic, with macroeconomic buffers largely exhausted in 2020, policymakers will face tighter constraints with less room for policy flexibility. Advancing structural reforms would be critical to improve the business climate and strengthen market confidence.

[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. Due to the COVID-19 pandemic, the 2021 discussions were carried out virtually.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted that the Kyrgyz Republic was severely hit by the COVID-19 pandemic. Output contracted, inflation and public debt rose, and unemployment and poverty increased. Directors commended the authorities' broad-based policy response which, backed by financial support from the international community, supported households and firms during the crisis. Despite the expected economic rebound in 2021–22, uncertainty remains high. In that context, Directors emphasized the importance of securing vaccines as soon as possible to save lives and revive economic activity. Accommodative policies should be maintained in the near term supported by medium-term fiscal consolidation. Noting that policy flexibility was constrained by limited macroeconomic buffers, Directors stressed the importance of advancing structural reforms to improve the business climate and strengthen market confidence.

Directors emphasized that fiscal policy should support the economy in the near-term but aim to reduce public debt to below 60 percent of GDP by 2025. To achieve the needed fiscal consolidation and create space for the country's development needs, they urged the authorities to reduce the wage bill, goods and services spending and energy subsidies, and improve revenue mobilization and public financial management. They noted, however, that if financing becomes a constraint, additional expenditure cuts would be necessary while protecting social spending. A demonstrated commitment to reforms would engender additional concessional donor financing.

Directors emphasized that monetary policy should remain focused on price stability. Given the recent increase in inflation, they welcomed the National Bank of Kyrgyz's (NBKR) decision to raise the policy rate and stressed that further monetary tightening would be warranted if second-round inflation pressures emerged. They also welcomed the central bank's intention to adopt an inflation targeting framework over the medium-term and its commitment to maintain exchange rate flexibility as a shock absorber.

Noting the resilience of the banking sector, Directors encouraged the NBKR to remain vigilant to ensure financial sector stability given a possible rise in NPLs. They also stressed the importance of strengthening institutional and operational independence of the central bank.

Directors agreed that the Kyrgyz Republic needs an ambitious implementation of structural reforms to achieve higher and more inclusive, private sector-led growth. They urged the authorities to strengthen governance, including transparency of emergency spending, and reduce perceptions of corruption, restore financial viability of the energy sector, improve access to finance, reduce non-tariff trade barriers, and improve human capital and female labor force participation. Strengthening the AML/CFT framework would also be important. Directors also stressed the criticality of political stability, policy predictability, and a market-friendly business environment. A speedy and transparent resolution of the ongoing commercial dispute with the largest foreign investor would be critical to ensure uninterrupted gold production while protecting the environment.

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[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.

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

Table 1. Kyrgyz Republic: Selected Social and Economic Indicators, 2017–25

I. Social and Demographic Indicators			
Population (in millions, 2021)	6.6	GINI Index (2019)	0.36
Unemployment rate (official, in percent, 2019)	3.0	Life expectancy at birth in years (2019)	71.5
Poverty rate (in percent, national definition, 2019)	20.1	Adult literacy rate (percent of popul., 2018)	99.6
Per capita GDP (2019, U.S. dollars)	1,430	Under-five mortality (per 1000 live births, 2019)	17.5

II. Economic Indicators

	2017	2018	2019	2020 Est.	2021	2022	2023 Proj.	2024	2025
Real sector									
Nominal GDP (in billions of soms)	530.5	569.4	619.1	598.3	679.9	768.3	850.6	928.3	1,013.6
Nominal GDP (in millions of U.S. dollars)	7,701	8,276	8,870	7,741	8,027	8,723	9,376	9,934	10,531
Real GDP (growth in percent)	4.7	3.8	4.6	-8.6	3.8	6.4	4.4	4.0	4.0
Nongold real GDP (growth in percent)	5.1	3.7	4.1	-9.0	4.6	5.5	4.5	4.1	4.1
GDP per capita (in U.S. dollars)	1,296	1,364	1,430	1,224	1,206	1,284	1,353	1,404	1,457
Consumer prices (12-month percent change, eop)	3.7	0.5	3.1	9.7	7.4	5.6	5.1	5.1	5.0
Consumer prices (12-month percent change, average)	3.2	1.5	1.1	6.3	9.4	6.2	6.1	5.0	5.0
Investment and savings (in percent of GDP)									
Investment	30.7	27.7	26.4	18.7	25.2	25.6	26.6	28.0	28.9
Public	9.7	5.9	7.2	5.3	9.0	8.9	8.2	8.3	8.2
Private	21.0	21.8	19.2	13.4	16.2	16.7	18.5	19.6	20.5
Savings	24.5	15.7	14.3	23.2	19.4	19.4	20.5	21.9	22.8
Public	3.1	3.6	4.3	0.0	0.2	0.8	1.1	1.2	1.3
Private	21.5	12.1	10.0	23.2	19.2	18.6	19.4	20.7	21.5
Savings-investment balance	-6.2	-12.1	-12.1	4.5	-5.8	-6.2	-6.1	-6.1	-6.2
General government finances (in percent of GDP) 1/									
Revenue	33.3	32.5	32.4	31.0	31.1	31.0	30.9	30.8	30.8
Of which: Tax revenue	19.3	20.2	19.6	17.5	18.9	20.1	20.1	20.1	20.2
Expense	29.2	27.9	27.4	30.1	29.4	29.2	28.7	28.6	28.4
Gross operating balance	4.1	4.6	5.1	0.9	1.7	1.9	2.2	2.3	2.4
Net acquisition of nonfinancial assets	7.9	5.2	5.2	4.1	6.0	5.8	5.5	5.6	5.6
Overall balance (net lending/borrowing) 2/	-3.7	-0.6	-0.1	-3.3	-4.2	-4.0	-3.4	-3.4	-3.2
Primary net lending/borrowing	-2.9	0.4	0.7	-2.3	-3.3	-3.0	-2.4	-2.3	-2.1
Total state government debt 3/	58.8	54.8	51.6	68.0	67.1	65.1	63.5	63.6	64.3
Of which domestic debt	5.8	7.8	8.3	9.8	10.2	12.5	14.1	16.7	19.5
Monetary sector									
Reserve money (percent change, eop)	16.9	6.3	11.0	24.8	0.8	14.0	10.3	9.1	9.1
Broad money (percent change, eop)	17.9	5.5	12.8	23.9	1.9	14.6	11.4	10.2	10.2
Credit to private sector (percent change, eop)	15.7	18.2	14.9	12.6	1.7	14.3	11.1	9.8	10.0
Credit to private sector (in percent of GDP)	20.8	22.9	24.2	28.2	25.3	25.6	25.6	25.8	26.0
Velocity of broad money 4/	2.7	2.8	2.7	2.1	2.3	2.3	2.3	2.3	2.2
Policy Rate	5.0	4.8	4.3	...	...	...	...	...	...
External sector									
Current account balance (in percent of GDP)	-6.2	-12.1	-12.1	4.5	-5.8	-6.2	-6.1	-6.1	-6.2
Export of goods and services (in millions of U.S. dollars)	2,638	2,746	3,126	2,432	2,572	3,216	3,409	3,579	3,772
Export growth (percent change)	7.7	4.1	13.8	-22.2	5.7	25.0	6.0	5.0	5.4
Import of goods and services (in millions of U.S. dollars)	5,113	5,913	5,690	4,000	5,113	5,819	6,085	6,335	6,626
Import growth (percent change)	6.8	15.6	-3.8	-29.7	27.8	13.8	4.6	4.1	4.6
Gross International reserves (in millions of U.S. dollars) 5/	1,971	1,919	2,176	2,628	2,384	2,302	2,202	2,065	1,924
Gross reserves (months of next year imports, eop)	4.0	4.0	6.5	6.2	4.9	4.5	4.2	3.7	3.3
External public debt outstanding (in percent of GDP)	53.0	47.0	43.3	58.3	56.8	52.6	49.4	46.9	44.7
External public debt service-to-export ratio (in percent)	6.6	6.5	6.6	9.7	8.7	8.0	9.4	9.7	9.9
Memorandum items:									
Exchange rate (soms per U.S. dollar, average)	68.9	68.8	69.8	77.4	...	...	...	...	...
Real effective exchange rate (2010=100) (average)	97.3	100.8	101.0	85.3	...	...	...	...	...

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 (MHIF). 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.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

May 18, 2021

KEY ISSUES

Context. The Kyrgyz economy is highly dependent on remittances and foreign aid and does not have access to international capital markets. Inequality is relatively low, but poverty is widespread. The COVID crisis led to a sharp recession with output contracting by 8.6 percent in 2020, public debt rising by 16.5 percent of GDP to 68 percent, and the som depreciating by 19 percent against the US$. Under the assumption that the global pandemic begins to decisively recede this year, a rebound in growth is expected in 2021–22. However, significant uncertainty surrounds the baseline outlook and the recovery could be delayed if downside risks materialize. In the medium to long term, the main challenge is to create jobs for about 65,000 new jobseekers annually and to reduce labor out-migration. This will require deep structural reforms to transform the economy from a reliance on remittances to more diversified and private sector-led growth that is underpinned by higher investment and exports.

Policy recommendations. Macroeconomic policies should continue to support the economy in 2021 but start rebuilding buffers thereafter to strengthen resilience. This year, the fiscal deficit could be allowed to widen to permit additional health and social spending and some recovery in postponed public investment, while the central bank should monitor demand pressures and be prepared to tighten the monetary stance if inflation continues to rise. In the medium term, fiscal policy should be anchored to the objective of reducing public debt to below 60 percent of GDP by 2025, and aim to create fiscal space by reducing the public sector wage bill, energy subsidies, goods and services spending, and strengthening tax policy and administration to raise more revenue. Monetary policy should be calibrated to maintain inflation in mid-single digits while preserving exchange rate flexibility. If downside risks to growth were to materialize, monetary and fiscal support to the economy would need to be maintained for longer and the planned fiscal consolidation may need to be backloaded. To raise the economy's growth potential, structural reforms should aim to strengthen governance, improve access to finance, electricity, and export markets, and strengthen the labor market.

Approved By
Subir Lall (MCD) and Uma Ramakrishnan (SPR)

Discussions with the authorities were held remotely during March 12-30, 2021. The staff team comprised Nikoloz Gigineishvili (head), Iulia Teodoru, Jean van Houtte, Tigran Poghosyan (Resident Representative), Lilia Kadyrberdieva, and Erkeaim Shambetova (both Resident Representative office) (all MCD) with support from Vahid Khatami and Liliya Nigmatullina. Piotr Trabinski and Chorobek Imashov (OED) participated in the discussions.

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ANNEXES

CONTEXT

1. **The Kyrgyz Republic has made notable progress towards achieving macroeconomic stability during the past decade, but poverty has remained widespread.** According to World Bank data, inequality as measured by the Gini coefficient has been relatively low but has been inching up since 2016. While extreme poverty declined noticeably since 2000, about 60 percent of the population still lived on less than $5.5/day[1] before the outbreak of the pandemic (Figure 1). This suggests that the economy's growth rate in past decades has been unable to generate sufficient jobs and incomes to absorb the growing labor force and mitigate out-migration. At the same time, the income gap with the average for emerging markets has widened, and the economy has remained dependent on remittances and foreign aid while private sector development has been hampered by gaps in skills, inadequate infrastructure, weak governance, and the poor business climate.

2. **The Kyrgyz Republic was hit hard by the COVID-19 pandemic.** In response, the authorities took a range of measures to protect public health and cushion the impact on the economy and were supported by the international community in their efforts. The Kyrgyz Republic was the first IMF member to receive the Fund's COVID-related emergency financial assistance of about $242 million (100 percent of quota) under the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF). Although growth is expected to rebound in 2021–22, significant uncertainty will continue to surround the outlook, and the path to a sustainable recovery will depend on the timeline of vaccination and the calibration of policy responses. In all cases, reaching the full growth potential will take a number of years.

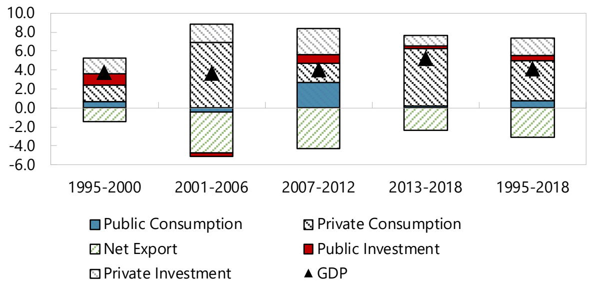
3. **The political transition is expected to be completed with the parliamentary elections in the autumn of this year.** Public protests following the contested parliamentary elections in October 2020 led to the resignation of the government and the president, and the annulment of the election results. A new president was elected in January 2021 with an overwhelming majority and the constitutional referendum in April introduced a presidential form of government. The new administration announced an ambitious reform program to modernize the economy and fight corruption and has raised the expectations of the public and development partners. The recent border conflict between the Kyrgyz Republic and Tajikistan resulted in casualties on both sides, and the need to rebuild damaged infrastructure will likely add to budgetary spending needs. Looking ahead, political stability, policy predictability and the decisive implementation of reforms would be critical to strengthen business confidence.

[1] In 2011 PPP US dollars.

Figure 1. Kyrgyz Republic: Growth, Poverty, and Inequality

Growth was mainly driven by private consumption.

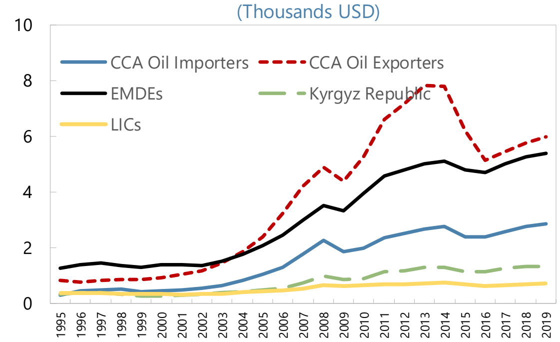
Kyrgyz Republic: Growth Decomposition-Averages
(Percent)



Sources: Country authorities and IMF staff calculations.

Increasing income gap with CCA and emerging markets.

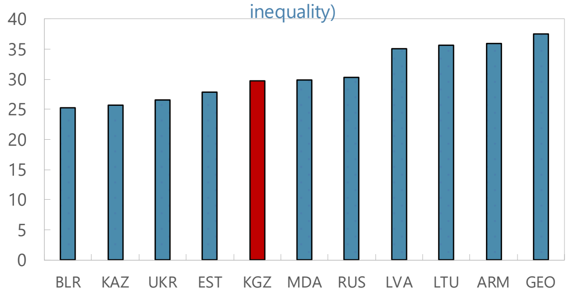
Evolution of GDP per Capita
(Thousands USD)



Source: United Nations and IMF staff calculations.
Note: EMDEs - Emerging Market and Developing Economies.

Inequality is relatively low.

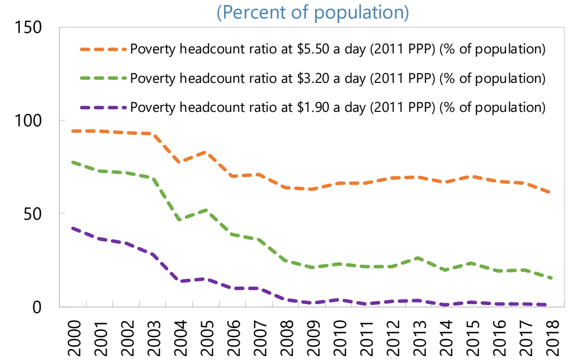
Income inequality in selected CIS and Baltic states, 2019
(Gini coefficient, 0=perfect equality, 100=highest inequality)



Source: Standardized World Income Inequality Database, and IMF staff calculations.

Extreme poverty was reduced, but two thirds of the population is still vulnerable to falling back into poverty.

Poverty Rate
(Percent of population)



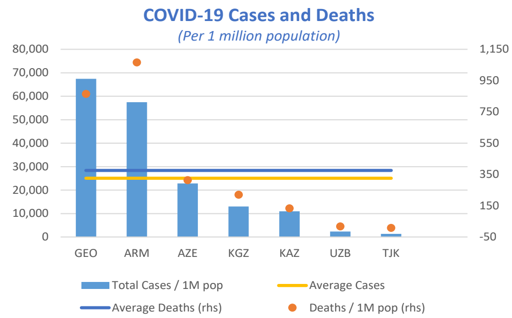
Source: World Development Indicators, and IMF staff calculations.

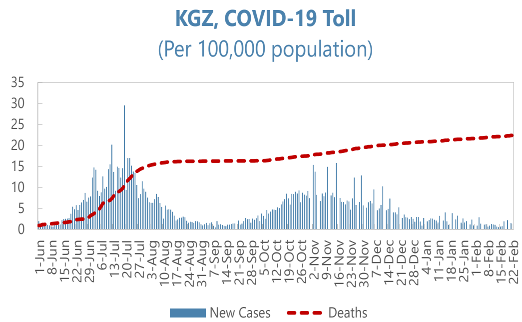
RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. The authorities made significant efforts to protect public health and the economy during the pandemic. Crisis mitigating measures amounting to 7.2 percent of GDP included emergency health spending, stepping up of the food security program for the vulnerable, and temporary tax deferrals and subsidized loans to support small and medium enterprises (SMEs). The National Bank of the Kyrgyz Republic (NBKR) raised its policy rate three times by a cumulative 225 bps to 6.5 percent between early 2020 and April 2021, while supporting banks through liquidity injections, deferrals of loan payments and the temporary relaxation of capital and loan provisioning norms. Emergency health spending itself was somewhat limited at only 0.2 percent of GDP, but the difficulty in containing the spread of the virus has revealed the need to strengthen the national healthcare system, including its financing, medical infrastructure, logistics of procuring medicines, equipment and vaccines, and training of medical personnel. Recently, the authorities announced plans to reform healthcare and optimize health spending and are actively seeking access to additional vaccines from several sources.

Box 1. Policy Responses to the COVID-19 Crisis

The Kyrgyz economy was hit hard by the COVID-19 pandemic. The infection rates surged twice in 2020, peaking in July and in November. The epidemiological situation improved in early 2021, but new COVID-19 cases have started to rise again from March 2021. The authorities took decisive measures to contain the spread of the virus and support the economy.

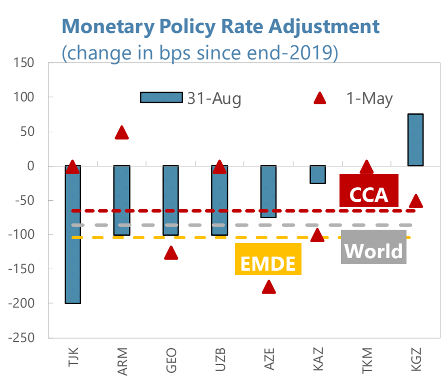


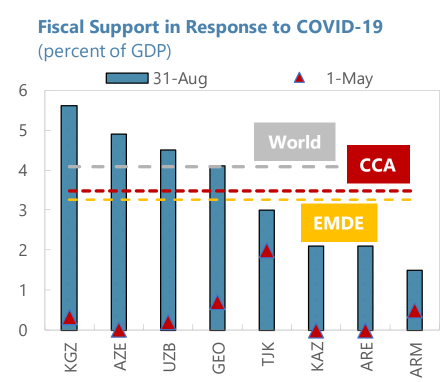


Source: World Health Organization, and IMF staff calculations.

In collaboration with international organizations, the authorities adopted a health sector contingency plan, with an estimated cost of $16 million (0.2 percent of GDP) to provide training for health-care workers, procure personal protective equipment and medical tests, and launch a communication plan on virus containment. To mitigate the economic impact, they passed a package of anti-crisis measures of $15 million (0.2 percent of GDP) including the postponement of tax payments, time-bound exemptions of property and land taxes, and temporary price controls on 11 essential food items. Much larger follow-up measures of about $540 million (7 percent of GDP) included temporary tax exemptions for SMEs, a food security program to support vulnerable groups, and subsidized loans to SMEs ($133 million, 1.8 percent of GDP).

The NBKR injected KGS 4 billion in banks to provide liquidity support and allowed a 6-month loan repayment extension for businesses and households. It also eased macroprudential norms by: 1) reducing the monthly liquidity ratio from 45 of 30 percent; 2) removing daily and weekly liquidity ratio requirements; 3) reducing the minimum threshold for mandatory reserve requirements from 80 to 70 percent; 4) reducing risk-weights of corporate and retail loans in FX from 150 to 100 percent; 5) increasing the overdue threshold from 90 to 270 days for creating loan-loss reserves for overdue accrued interest. Other supervisory measures included allowing not to downgrade loan classifications if caused by COVID-induced weakening of borrowers' financial conditions.





Source: National authorities, and IMF staff estimates.

5. **Activity has been significantly affected by the crisis.** Output contracted by 8.6 percent in 2020 after growing by about 4 percent annually in the preceding two years. The decline in activity was pronounced in exports, gold mining, industry, tourism, transport and construction. Headline inflation rose to 9.7 percent in 2020 from 3.1 percent in 2019, primarily due to imported food price inflation and the exchange rate pass-through. Public debt rose by 16.5 percent of GDP to 68 percent, reflecting a combined impact of the larger fiscal deficit (3.3 percent of GDP in 2020 compared to 0.1 percent in 2019), lower GDP and the weaker exchange rate. The fiscal deficit in 2020 was significantly smaller than expected as the authorities cut capital and goods and services spending amid financing constraints—donor financing fell short by 2.4 percent of GDP in view of the political events in October, and domestic financing also fell short by the same magnitude due to the associated high costs.

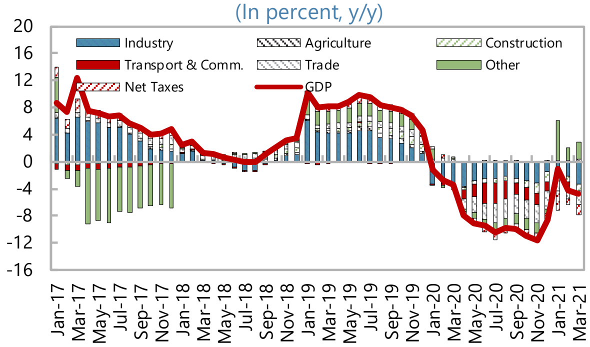
6. **The authorities concurred with staff's overall assessment that the external position in 2020 was moderately stronger than the level implied by fundamentals and desirable policies (Annex III).** The overall balance of payments worsened from a $47 million surplus in 2019 to a $126 million deficit in 2020. Non-gold exports declined by 14 percent and tourism by 77 percent, while remittances, which fell sharply in the early months of the crisis, subsequently recovered, and even exceeded the 2019 level. With imports contracting even more (27 percent) due to the depreciation of the exchange rate, border closures during the pandemic, and reduced demand, the current account balance improved significantly to a surplus of 4.5 percent of GDP, but the financial account weakened. Public and private sector external borrowing, FDI, and net portfolio inflows all declined resulting in pressure on the exchange rate. Financial support of the international community helped to maintain gross international reserves, which declined only marginally from 6.5 to 6.2 months of prospective imports.

7. **Growth is expected to rebound in 2021–22, but uncertainty remains high.** Barring a resurgence of the pandemic, the economy is projected to grow by 3.8 percent in 2021 and by 6.4 percent in 2022, underpinned by the more favorable global outlook, recovery of domestic activity, higher gold production, and a rebound in tourism, transportation and related services. Growth should gradually converge to its potential of 4 percent in the medium term. Annual inflation will remain elevated in the coming months due to base effects but decline to about 7.4 percent by end-2021 and return to the central bank's target range of 5–7 percent thereafter. The current account deficit is projected at about 6 percent of GDP in 2021 and should remain at that level over the medium term, driven by a recovery in imports with a rebound in growth and the opening of the borders. Gross reserves would decline to 3 months of imports by 2025, underscoring the need to step-up reform efforts to revive donor financing and private capital inflows. The automatic stabilizers and phasing out of emergency spending should reduce the overall budget deficit to about 3.2 percent of GDP by 2025, bringing public debt to about 64 percent of GDP.

Figure 2. Kyrgyz Republic: Real and External Developments

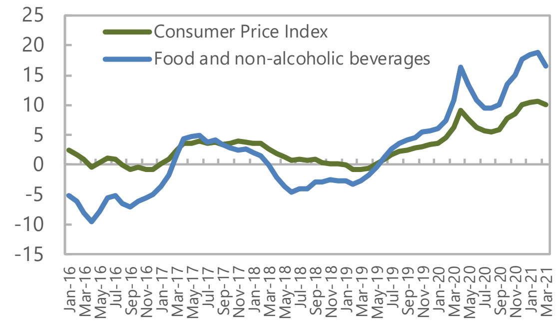
Industry, transport, trade, and construction were the sectors most hard hit during the COVID-19 crisis.

Contribution to GDP Growth, 2017-21
(In percent, y/y)



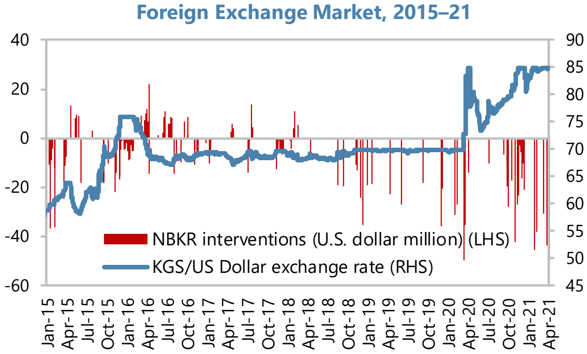
Headline inflation has picked up, due to rising food prices and core inflation.

Headline and Core Inflation (In percent, y/y)



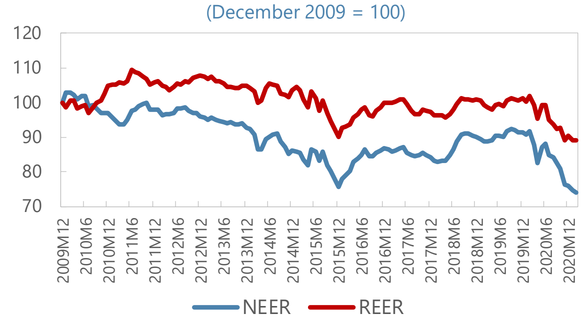
The KGZ/USD exchange rate had been stable over the past four years but flexibility increased in response to the pandemic.

Foreign Exchange Market, 2015–21



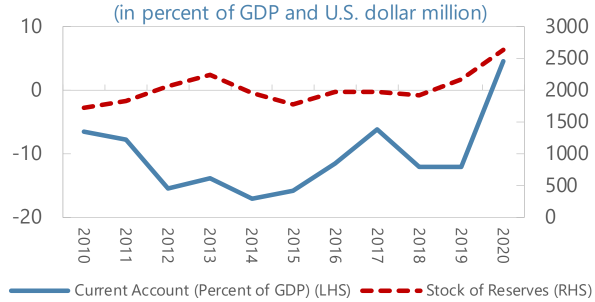
Higher exchange rate flexibility has partly reversed the sizeable appreciation of the real effective exchange rate since 2015.

Nominal and Real Effective Exchange Rate, 2009-21
(December 2009 = 100)



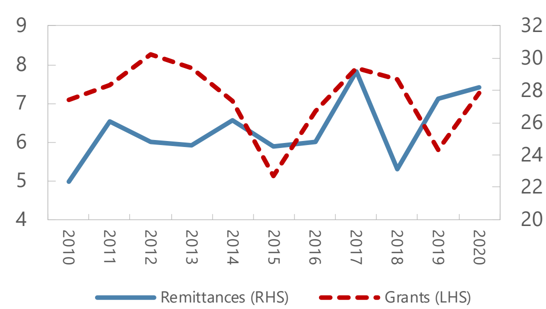
The CA turned into surplus in 2020, but the financial account weakened and international reserves declined to about 6 months of prospective imports.

CA Deficit and International Reserves
(in percent of GDP and U.S. dollar million)



Remittances fell sharply in the early months of the COVID crisis, but recovered subsequently to the 2019 level. Grants have remained resilient in 2020.

Remittances and Grants (in percent of GDP)

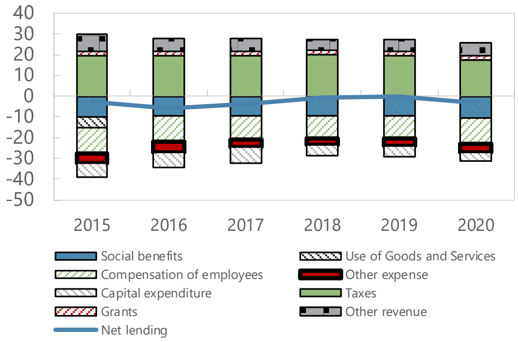


Sources: Kyrgyz authorities and IMF staff estimates.

Figure 3. Kyrgyz Republic: Fiscal and Monetary Developments

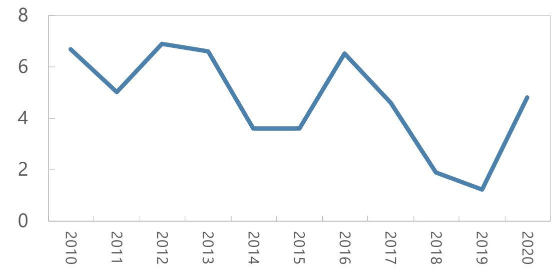
After a relatively strong fiscal position, the budget deficit has widened in response to the COVID crisis.

Fiscal Balance (in percent of GDP)



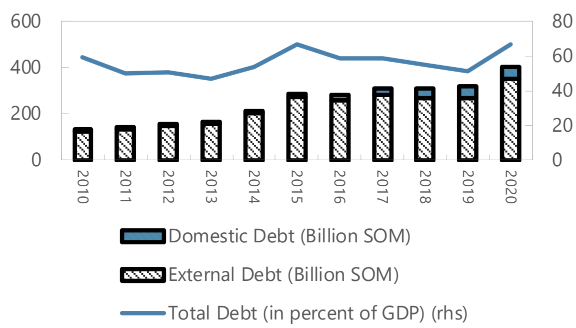
Gross financing need spiked to about 5 percent of GDP.

Gross Financing Need (in percent of GDP)



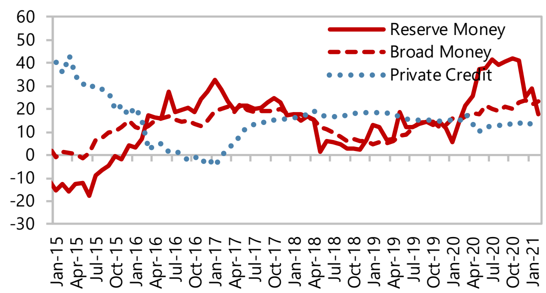
Public debt rose by 16.5 percent of GDP to 68 percent, reflecting a combined impact of the larger fiscal deficit, lower GDP and the weaker exchange rate.

Gross Public Debt (in percent of GDP)



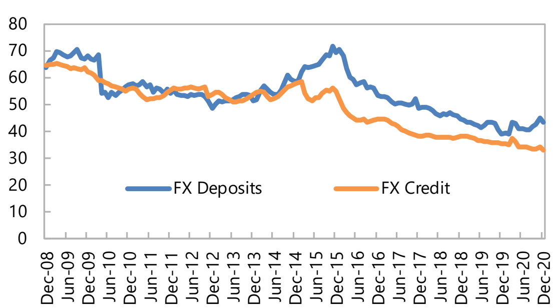
Liquidity injections by the NBKR have kept credit growth resilient during the COVID crisis.

Monetary Aggregates and Credit, 2015–21
(In y-o-y percent change)



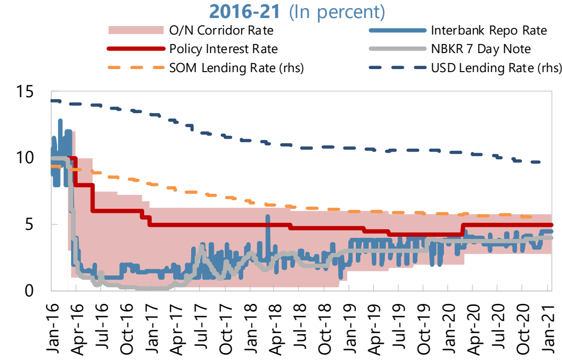
Exchange rate depreciation has caused deposit dollarization to increase from 39 percent in Feb to 45 percent in Nov 2020.

Dollarization, 2008-20
(in y-o-y percent change)



The interbank rate has gradually increased towards the policy rate.

Interest Rate Corridor and Market Interest Rates, 2016-21 (In percent)



Sources: Kyrgyz authorities and IMF staff estimates.

8. The baseline projections are subject to downside risks (Annex I), primarily due to the uncertainty about the vaccine rollout. A slower than expected rollout of vaccines or emergence of new COVID-19 variants may delay the recovery to 2022 or beyond and, therefore, securing vaccines as soon as possible is essential. Lower gold prices or weaker remittances could weaken the balance of payments. More depreciation due to external pressures would further raise public debt while financing constraints could limit fiscal room for countercyclical policies. A rise in nonperforming loans (NPLs) may constrain credit, causing a further decline in investment. If these risks materialize, accommodative macroeconomic policies will need to be maintained longer, health and social spending increased, and contingency measures identified to address financing constraints.

POLICY DISCUSSIONS: RESTORING STABILITY AND SUPPORTING INCLUSIVE GROWTH

The immediate objective is to restore macroeconomic stability by finding a balance between supporting the economy and starting to rebuild buffers to strengthen resilience. Structural reforms to increase investment, exports and competitiveness will be essential to raise growth in the medium term and create jobs for the young and growing population.

A. Fiscal Policy

9. The authorities and staff agreed that in view of the uncertain outlook fiscal support to the economy should be maintained in 2021. The projected general government budget deficit of 4.2 percent of GDP will reduce public debt by about 1 percent of GDP, while maintaining the fiscal stimulus. The budget reflects a cyclical recovery in tax revenue and the observed improvement in tax compliance due to digitalization of tax filings, a moderate decline in the public sector wage bill as a share of GDP after accounting for the announced increase in wages of health and culture sector workers, and the budgeted increase in spending on goods and services and investment. About 40 percent of budget financing is assumed to be mobilized from concessional external sources, and 60 percent domestically. As government paper currently accounts for only 8 percent of banking sector assets, there is room for absorption in the domestic financial market. However, if sufficient financing cannot be mobilized, the authorities should identify non-priority expenditure cuts while preserving health and social spending, and public investment projects with the highest expected social and economic returns. Renewed efforts to engage with international partners to demonstrate credible commitment to reforms would help to mobilize more concessional resources given that higher domestic financing may increase borrowing costs and crowd out private credit.

10. In the medium term, the priority is to reduce public debt while creating fiscal space for development needs. Staff’s updated DSA suggests that public debt remains sustainable with a moderate risk of distress. At 68 percent of GDP, public debt leaves limited room for fiscal policy to respond to future downturns. Moreover, external debt service payments are expected to increase in the coming years, which will further erode fiscal space. Staff recommended anchoring medium-term fiscal policy to reducing public debt to below 60 percent of GDP by 2025. This debt level is still considerably higher than the pre-crisis 51.6 percent of GDP but would provide a fiscal buffer during downturns. To achieve this target, consolidation measures of about 1 percent of GDP would be needed if taken in 2022, or more if delayed, to reduce the overall fiscal deficit to about 3 percent of GDP by 2025. Without consolidation measures, public debt would continue to rise in the longer term and diverge from the staff-recommended policy anchor. The authorities considered that reducing public debt to 60 percent of GDP by 2025 was ambitious, but acknowledged that financing constraints could accelerate fiscal consolidation, albeit possibly at the cost of lower medium-term growth.

11. More fiscal efforts will be needed to create room for spending on health, education, social assistance, and infrastructure. Staff proposed options to achieve the desired fiscal consolidation and create fiscal space, with priority given to expenditure measures:

(i) *Reducing the wage bill*. At almost 13 percent of GDP, the general government wage bill is one of the highest in the region and among LICs, and accounts for about 30 percent of government expenditure. A gradual wage bill reduction is the authorities' priority and is critical for both long-term budget sustainability and effective public service delivery. Gains could be achieved by limiting nominal wage growth below inflation and allowing headcount reduction through attrition. In the medium term, the Kyrgyz Republic would benefit from a reform of the public sector compensation and employment system, which is currently opaque, and complex. Based on functional reviews the reform will need to enhance the public sector payroll system, adopt a unified wage grid, and modernize the legal framework for public service remuneration. Setting up a comprehensive public employment and compensation database and implementing a human resource management module in the Integrated Financial Management Information System (IFMIS) would be important first steps. The Fund will provide technical assistance on rationalizing the wage bill and strengthening PFM.

(ii) *Streamlining goods and services spending*. Containing the growth rates of spending on goods and services to inflation would generate additional savings of 0.4 percent of GDP in 5 years.

(iii) *Reducing energy subsidies*. The electricity sector has been running chronic deficits for years requiring budget subsidies, estimated at about 3 percent of GDP per year (direct and indirect). In addition, according to the World Bank estimates, its debt to the central government amounts to about 20 percent of GDP. While commercial tariffs are above cost-recovery, residential tariffs are well below that level. Moreover, the sector is poorly managed and is in urgent need of investment to improve the service quality. Reforming the energy sector is one of the authorities' main priorities, and they saw merit in staff recommendations to develop, with support from the World Bank, a medium-term reform plan to optimize costs, strengthen governance and accountability, improve revenue generation, and gradually raise residential tariffs. Any adjustment in residential tariffs would need to be paired with targeted social assistance to protect vulnerable households. The losses in the heating sector would also need to be addressed.

(iv) *Raising tax revenue*. Revenue loss is estimated at about 3.5 percent of GDP, mainly due to the inefficient tax system, incentives, and exemptions. Eliminating some of these inefficiencies (e.g., improving the VAT refund mechanism, improving taxpayer segmentation, reducing tax exemptions) while strengthening tax administration (e.g., improving e-filing, taxpayer registration, and risk-based auditing) could generate additional revenue. Further revenue is expected to be mobilized with the planned gradual increases of excises on tobacco and petroleum, which are currently below regional peers. Consideration could also be given to improving the sales tax and the VAT. The authorities plan to review staff recommendations as part of the ongoing modernization of the tax code, which is seeking to incentivize compliance and reduce the administrative burden on taxpayers. The authorities have requested IMF technical assistance to support this effort.

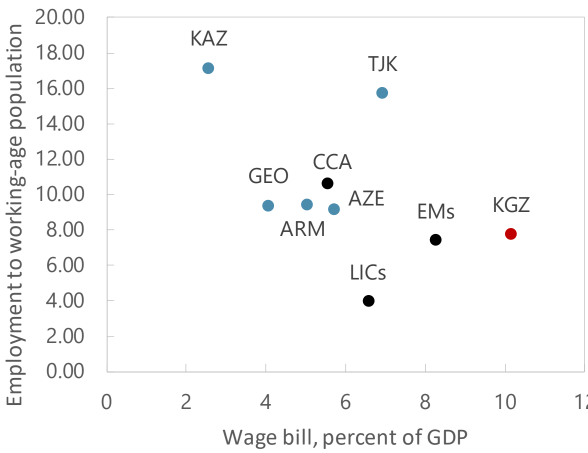
12. The authorities and staff agreed that social assistance needs to be strengthened. According to World Bank estimates, poverty increased by 11 percentage points to 31 percent in 2020 as incomes declined. Unemployment rose and may increase further this year. Compared to other low-income countries, social spending in the Kyrgyz Republic is relatively high (3.6 percent of GDP), but does not translate into better social and poverty outcomes due to weak targeting, low coverage, and limited adequacy. Household survey data suggest that the coverage of the lowest income quintile is only 17.4 percent, 34 percentage points below the regional median. Adequacy is also low for the bottom quintile at 11.4 percent, compared to the regional average of 21.6 percent, and the bottom three income deciles receive 20.5 percent of the total, compared to 45.2 percent allocated to the top three deciles. In addition, the overlaps between various social programs result in resource misallocation and administrative burdens. These shortcomings can be addressed by broadening the coverage of social assistance, shifting from categorical to income-based targeting, and consolidating social assistance programs to eliminate duplication.

13. Strengthening public financial management remains a priority for the authorities. As part of the ongoing reorganization of the government, they merged the Ministry of the Economy and the Ministry of Finance, including tax and customs authorities, which was an important decision to eliminate fragmentation of the budget process, strengthen reporting lines and enhance accountability. Through streamlining and digitalization, they intend to improve budget planning and execution, accounting and financial reporting, and payroll management. To support these efforts the Fund has provided extensive technical assistance on program-based budgeting and implementation of FMIS. The mission also recommended strengthening the debt management strategy, which is published, by introducing medium and long-term debt projections, borrowing plans and risk assessments. The authorities noted that they plan to implement the World Bank's Debt Management Performance Assessment (DeMPA).

Figure 4. Kyrgyz Republic: Wage Bill

The public wage bill is high compared to peers and public sector employment higher than in low-income countries (LICs).

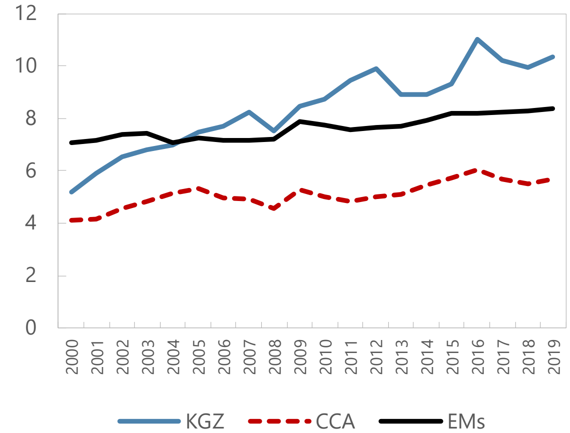
Wage Bill and Public Sector Employment, 2018
(In percent)



Sources: World Economic Outlook, and IMF staff estimates.

The wage bill is on an upward trend.

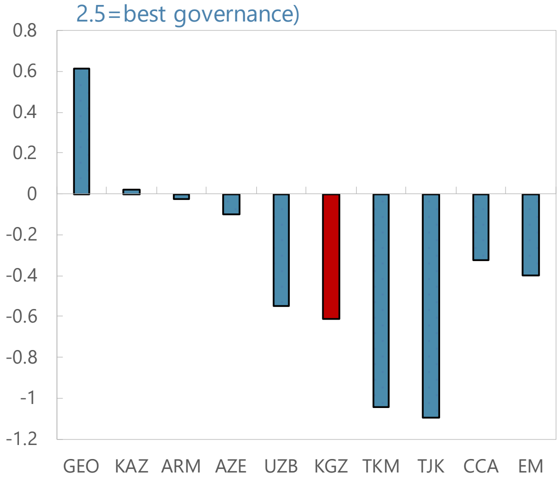
Compensation of Employees, 2000-19
(Percent of GDP)



Sources: World Economic Outlook, and IMF staff estimates.

Enterprise perception of government effectiveness is low.

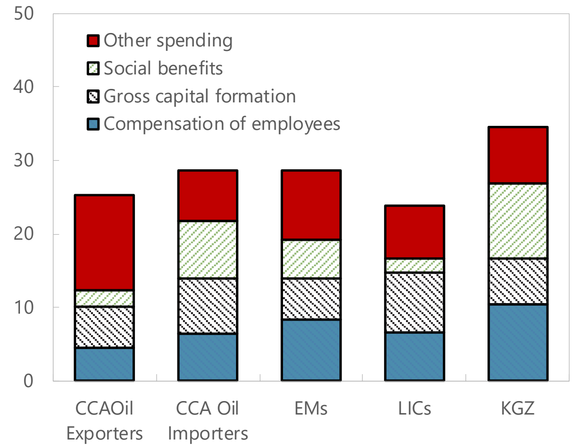
Government Effectiveness, 2018
(Indicators range from -2.5 and 2.5, with 2.5=best governance)



Source: Worldwide Governance Indicators.

The high wage bill contributes to crowding out of capital expenditure

General Government Expenditure , 2018
(Percent of GDP)



Source: World Economic Outlook, and IMF staff estimates.

B. Monetary, Exchange Rate, and Financial Policies

14. Price stability remains the main objective of monetary policy. Credit growth remained strong through February 2021 (12 percent y-o-y), including for industry, trade, consumer credit, mortgages, and transport. Headline inflation reached 10.2 percent in March 2021, primarily due to exchange rate pass-through and imported food prices, which rose globally. The NBKR's decisions to raise the policy rate by 50 basis points in February 2021 and by another 100 basis points in April 2021 signaled its commitment to contain inflation and preempt possible emergence of demand pressures, while avoiding a premature withdrawal of stimulus considering the uncertain recovery. Assuming the above factors are transient, inflation going forward is expected to be contained. However, the NBKR will continue monitoring food and non-food prices, wages, remittance flows, credit and import growths, and other indicators of demand pressures, and is prepared to tighten the monetary policy stance further if inflation continues to increase and signs of second-round inflation pressures emerge. Preserving institutional and operational independence of the central bank will be critical for the efficient conduct of monetary policy. Clearly communicating the policy direction would help anchor inflation expectations. At the same time, the NBKR will continue providing liquidity support selectively to banks if they experience temporary liquidity pressures. The mission concurs.

15. The NBKR remains committed to exchange rate flexibility, which serves as a buffer against external shocks. After a prolonged period of stability, the som depreciated by 19 percent against the US dollar since March 2020. The increased flexibility of the exchange rate marks a welcome break from the past. Nevertheless, the exchange rate remains an important nominal anchor given high import dependence of consumption, high dollarization, and a large share of FX debt in total public debt. The NBKR balanced the use of macroprudential tools and FX interventions to maintain financial stability and avoid excessive swings in the exchange rate. As a result, the NBKR sold about $520 million during 2020 and another $208 million in 2021. International reserves are projected to decline further in the coming years, primarily due to a weaker financial account. Going forward, the NBKR intends to preserve exchange rate flexibility and use FX interventions to smooth volatility. However, the authorities and the mission agreed that the exchange rate alone cannot address the underlying structural weaknesses of the balance of payments, which require deep structural reforms to improve competitiveness of the economy. Mobilizing additional concessional foreign financing would also support international reserves.

16. Staff supported the NBKR's intention to adopt inflation targeting in the medium term. For a smooth transition, the authorities and staff agreed on the need to strengthen central bank's legal and operational autonomy. The NBKR is continuing to build its analytical capacity, develop money markets to improve monetary transmission, strengthen the bank resolution framework, and improve communication. To further improve liquidity management and increase the role of the interest rate as the operational target of monetary policy, the NBKR intends to gradually phase out the transitional arrangement of interest rate caps. Other measures, as recommended Fund's technical assistance, include: (i) reducing the daily limit for reserve requirements; (ii) using the 7-day note as the main liquidity absorption instrument; (iii) introducing short-term repos; (iv) enhancing the usage of the standing lending facility with adequate collateral; and (v) clearly communicating monetary and FX policy decisions. The mission offered additional Fund TA on liquidity management and the Banking Law, which the authorities are considering.

17. Following the 2021 Safeguards Assessment, authorities and staff agreed to strengthen central bank governance and operational autonomy. This includes the introduction of a majority of non-executive Directors to serve on the Board and the strengthening of the rules on the composition of the audit committee, to ensure accountability and separation of oversight responsibility consistent with good governance practices. In addition, the authorities committed to gradually wind down the NBKR's non-core central bank operations (i.e., divesting its ownership in Keremet Bank and the Guarantee Fund, and discontinuing lending to non-supervised entities), as well as introduce statutory mechanisms for the recapitalization of the NBKR. The NBKR is implementing the safeguards recommendations and has advanced building its capacity for the internal audit function, strengthening its foreign reserves operations, and establishing a stand-alone unit for enterprise-wide operational risk management.

18. The banking sector is in good financial health, but risks remain. Despite ample capital and liquidity buffers prior to the pandemic, the COVID crisis and a slow recovery could pose challenges. Since non-performing loans (NPL) tend to respond with a lag to an underlying weakening of the economy, elevated credit risk may materialize with a delay. Asset quality may weaken with the lapse of the temporary tax deferrals to SMEs while the deferrals of loan payments allowed during the pandemic could delay realization of NPLs. Since March 2020, NPLs increased from 8.3 to 10.5 percent, and banks' profitability and capital ratios have declined somewhat (Table 10). The most affected were loans in trade, services, construction, transport, agriculture, and mortgages. The stress tests conducted by the NBKR indicate that the banking sector is resilient to severe shocks, including further deterioration of credit quality, thanks to strong capital buffers with the capital adequacy ratio at nearly 25 percent at end-2020. The NBKR is committed to continued supervisory vigilance and comprehensive stress-testing to monitor systemic vulnerabilities. The mission underscored and the authorities agreed that maintaining sound accounting, reporting, and provisioning standards is critical to properly appraise risks, while allowing banks sufficient time to restore capital, if impaired. Preparing a comprehensive NPL resolution strategy would also be essential.

C. Policy Response in a Downside Scenario

19. The mission and the authorities discussed a contingency plan for a scenario with a prolonged pandemic. If this risk materialized, weaker growth and likely worsening of external and fiscal accounts could warrant policy recalibration. The 2021 the fiscal deficit could be allowed to widen more to provide additional support for the most affected sectors and vulnerable households. However, higher public debt and the financing constraint would limit room for the deficit expansion and require expenditure reallocation from lower priority spending while prioritizing health and social spending. Renewed efforts will be needed to mobilize additional concessional financing, including by advancing some growth friendly reforms such as improving the business climate and stepping up the fight against corruption. The NBKR would maintain the monetary stimulus and liquidity support to banks for longer, preserve exchange rate flexibility and use foreign exchange interventions to prevent sharp exchange rate volatility but not defend any particular level, and apply macro-prudential tools flexibly to ensure sustainability of the banking sector. However, the additional impact from a protracted pandemic is assessed as moderate given the already significant GDP contraction in 2020 (see also Risk Assessment Matrix in Annex I).

D. Medium-Term Structural Reforms for Growth and Job Creation

20. The Kyrgyz Republic needs higher and more inclusive growth to absorb the rapidly growing labor force. Otherwise, unemployment would rise especially for youth, outmigration would accelerate and the income gap with emerging markets widen further. The challenge for policymakers will be to guide the transformation of the economy from remittance and aid dependency to private sector-led growth underpinned by investment and exports. The government should seek to provide a market-friendly business climate, a stable legal framework, a competitive environment, and opportunities for human capital development. The authorities agreed that structural reforms are needed in the following areas to address the main bottlenecks to growth (Annex IV).

21. Governance. The authorities' new Anti-Corruption Strategy aims to address systemic corruption by enhancing the role of the civil society, strengthening transparency and accountability of public institutions, and improving trust in courts and law enforcement. The authorities are also considering an IMF Fiscal Transparency Evaluation and Governance Diagnostics. There was a broad agreement with staff that the authorities' objectives can be further supported by:

(i) improving governance and transparency of SOEs and optimizing the government's ownership of SOEs, including through divestiture. These will help to increase efficiency and competition and reduce risks of contingent liabilities. Institutional oversight for all SOEs (except for energy sector SOEs, which report to the newly established Ministry of Energy) is now vested in the State Property Fund (SPF), which was itself placed under the new Ministry of Economy and Finance. SOEs are required to provide annual audited financial statements to the SPF. The authorities were receptive to the mission recommendation to publish these statements.

(ii) further strengthening the AML/CFT regime to address its remaining weaknesses, which may lead to further pressures on the correspondent banking relationships. This includes strengthening risk-based AML/CFT supervision, monitoring of cross-border activities with a focus on detecting and recovering proceeds of corruption, and implementing the remaining recommendations from the EAG assessment.

(iii) publishing comprehensive asset and income declarations by senior public officials and investigating illicit enrichment.

22. Transparency of emergency spending. The revised procurement law—enacted in January 2021—requires disclosure of beneficial owners in all public contracts, which is a welcome institutional reform. Staff reiterated that full contracts with identities of beneficial owners, including for all emergency spending contracts, and audit reports should be published as committed in the Letters of Intent under the RFI/RCF. The authorities noted, however, that it may not be possible to apply the procurement law retroactively to the emergency spending of 2020 but committed to disclose beneficial ownership information in all future procurement contacts. They also plan to publish audit reports of all public procurement contracts for 2020 by end-September. Improving efficiency and transparency of complaints handling would further strengthen the public procurement system. The mission welcomed that SOEs are subject to the public procurement law.

23. **Access to finance.** Addressing information asymmetries and fostering competition would help reduce high interest rate spreads and high collateral requirements by banks. The authorities and staff agreed that there is scope for expanding the coverage of credit registries and improving lender access to borrower information; encouraging entry of new banks and strengthening the bank resolution framework to facilitate speedy exit of the failed ones; developing a competition law; automating information exchanges between financial institutions and with the tax authority; and developing capital markets and fintech. On its part, the NBKR recently modified provisions related to permissible collateral and property appraisal (Annex V). The NBKR's efforts to improve financial literacy are welcome.

24. **Access to export markets.** Underdeveloped infrastructure, inadequate quality and phytosanitary controls, and lengthy customs procedures are significant non-tariff barriers. To address some of these issues, the authorities are planning to speed up implementation of WTO agreements to simplify trade procedures, including through digitalization, simplify customs procedures, improve quality controls, eliminate duplication of phytosanitary inspections, and introduce e-commerce legislation and supportive infrastructure. Speedy progress in these areas would support Kyrgyz exports.

25. **Education and skills upgrading.** The Kyrgyz Republic spends more per capita on education than its peers but continues to underperform on school enrollment and test scores. Most education spending is on wages, while the outlays to improve the quality of education, such as modern teaching practices, new learning strategies, textbooks and other materials, are small. The authorities and staff agreed that it will be critical to reprioritize the education budget and develop an education reform strategy. Better integrating women in the labor market and supporting youth employment would also raise potential growth. The young would benefit from improving the quality of education, while women, in addition, would benefit from availability of childcare, flexible work arrangements, and better access to finance.

STAFF APPRAISAL

26. **The Kyrgyz Republic was severely hit by the COVID-19 pandemic.** Real GDP contracted by 8.6 percent in 2020, inflation and public debt increased, jobs were lost, and poverty increased. The authorities took decisive measures to support people and the economy, including through emergency health spending and food security program, and a comprehensive set of macroeconomic policies, which cushioned the impact of the shock. The authorities' efforts have been backed by financial support from the international community.

27. The economy is expected to recover in 2021–22, but uncertainty remains high. A slow rollout of vaccines or emergence of new COVID-19 variants may delay the recovery beyond 2022. Therefore, securing vaccines as soon as possible and launching a mass-vaccination campaign are critical to save lives, reopen borders and revive economic activity. If downside risks materialize, accommodative macroeconomic policies will need to be maintained longer, and health and social spending increased. However, with macroeconomic buffers largely exhausted in 2020, policymakers will face tighter constraints with less room for policy flexibility. Advancing structural reforms would be critical to improve the business climate and strengthen market confidence.

28. Fiscal policy should continue to support the economy in near term and aim to rebuild the buffers in the medium term. The moderately expansionary stance in 2021 would maintain the needed fiscal stimulus while preserving some fiscal space in view of the uncertain outlook. However, if sufficient financing cannot be mobilized, the authorities should identify contingency expenditure cuts while protecting the vulnerable. Beyond the current year, the fiscal stance should be anchored to the goal of reducing public debt to below 60 percent of GDP by 2025, which will require consolidation measures of about 1 percent of GDP if taken in 2022. This can be achieved by optimizing the public sector wage bill, reducing goods and services spending and energy subsidies, and improving revenue mobilization. A demonstrated commitment to reforms would engender additional concessional donor financing and reduce domestic borrowing needs.

29. Monetary policy remains focused on controlling inflation and anchoring inflation expectations. The NBKR's recent decision to raise the policy rate by 150 basis points signaled its commitment to contain inflation, while appropriately avoiding a premature withdrawal of stimulus. The NBKR should continue monitoring demand indicators and be prepared to tighten monetary policy further if signs of second-round inflation pressures emerge. At the same time, liquidity support should be provided selectively to banks if they experience temporary liquidity difficulties. The mission welcomes the NBKR's commitment to maintain exchange rate flexibility, which is a crucial buffer against external shocks, and its intention to phase out the central bank's non-core operations and its ownership of entities it supervises. Preserving institutional and operational independence of the central bank will be critical for the efficient conduct of monetary policy and sustaining macroeconomic stability.

30. The overarching challenge in the medium term is to achieve higher and more inclusive growth to absorb the rapidly growing labor force. The Kyrgyz Republic needs to transform from an economy characterized by remittance and aid dependency to a more diversified and private sector-led economy underpinned by investment and exports. The state has an important role to play in this process by providing political stability, policy predictability, quality healthcare, education and infrastructure, and a market-friendly business environment. To address key bottlenecks to growth, structural reforms are needed to strengthen governance and reduce corruption, restore financial viability of the energy sector, improve access to finance, reduce non-tariff trade barriers, and improve human capital.

31. Staff recommends that the next Article IV consultation is held on a standard 12-month cycle.

Figure 5. Kyrgyz Republic: Constraints to Growth

Governance indicators have remained at a low level.

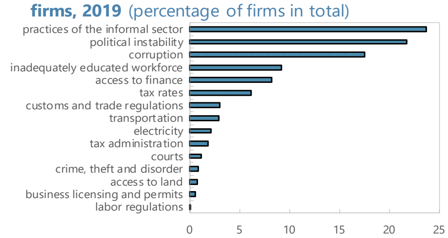
Kyrgyz Republic: Governance Indicators, 2000-18 (Percentile rankings)

	2000	2018
Regulatory quality	51	38
Voice and accountability	15	34
Political stability and absence of violence/terrorism	40	25
Government effectiveness	36	29
Rule of law	25	18
Control of corruption	20	16
Average	31	27

Source: Worldwide Governance Indicators. Survey-based indicators that reflect respondents' perceptions on the quality of governance and should therefore be interpreted with caution.

For firms, governance constraints top all factors.

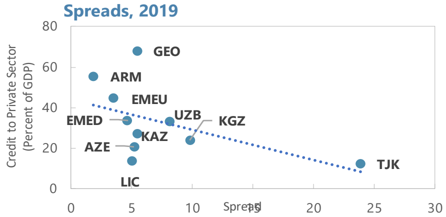
Kyrgyz Republic: Biggest obstacles for firms, 2019 (percentage of firms in total)



Source: Enterprise Surveys.

Bank credit to the private sector is low and spreads high.

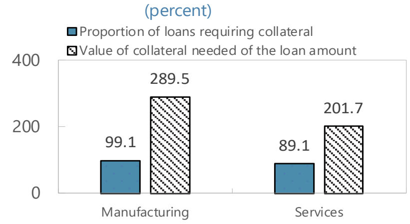
Private Sector Credit and Interest Rate Spreads, 2019



Source: IMF, Financial Soundness Indicators; World Bank

Collateral requirements are high.

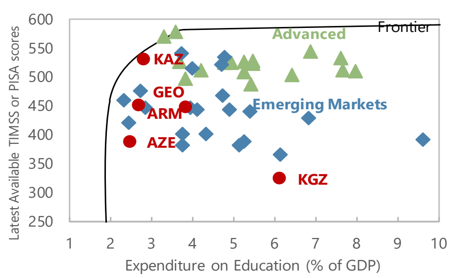
Kyrgyz Republic: Collateral, 2019 (percent)



Source: Enterprise Surveys.

Education spending is high but achievements are low.

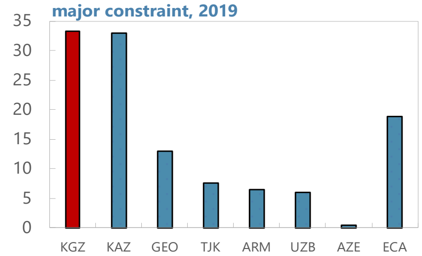
Student Performance and Education Spending, latest available year



Source: TIMSS and PISA evaluations, UNESCO and IMF staff calculations.

Thus, quality of education sis a concern for firms.

Percent of firms identifying an inadequately educated workforce as a major constraint, 2019

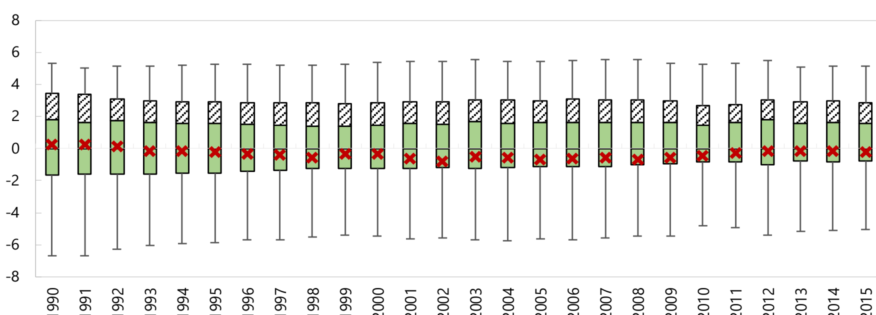


Source: Enterprise Surveys.

Overall performance of the Kyrgyz electricity sector is weak in cross-country comparison and showed only modest improvement over the past two and half decades.

Kyrgyz Republic: Electricity Sector Performance, 1990-2015

Composite Index



Sources: World Bank World Development Indicators, Enterprise Surveys, Sustainable Energy for All, Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank), and IMF staff estimates.

Note: Boxplots are based on data for 81 countries, mostly emerging markets and low-income countries. The two whiskers mark the minimum and maximum of the sample (excluding outliers), while the green-shaded and black-lined areas mark the second and third quartiles. Kyrgyz indicators are shown by the red crosses. See IMF Country Report No. 19/209, pp. 11-28-30 for more details.

Table 1. Kyrgyz Republic: Selected Social and Economic Indicators, 2017–25

I. Social and Demographic Indicators

Population (in millions, 2021)	6.6	GINI Index (2019)	0.36
Unemployment rate (official, in percent, 2019)	3.0	Life expectancy at birth in years (2019)	71.5
Poverty rate (in percent, national definition, 2019)	20.1	Adult literacy rate (percent of popul., 2018)	99.6
Per capita GDP (2019, U.S. dollars)	1,430	Under-five mortality (per 1000 live births, 2019)	17.5

II. Economic Indicators

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.			Proj.		
Real sector									
Nominal GDP (in billions of soms)	530.5	569.4	619.1	598.3	679.9	768.3	850.6	928.3	1,013.6
Nominal GDP (in millions of U.S. dollars)	7,701	8,276	8,870	7,741	8,027	8,723	9,376	9,934	10,531
Real GDP (growth in percent)	4.7	3.8	4.6	-8.6	3.8	6.4	4.4	4.0	4.0
Nongold real GDP (growth in percent)	5.1	3.7	4.1	-9.0	4.6	5.5	4.5	4.1	4.1
GDP per capita (in U.S. dollars)	1,296	1,364	1,430	1,224	1,206	1,284	1,353	1,404	1,457
Consumer prices (12-month percent change, eop)	3.7	0.5	3.1	9.7	7.4	5.6	5.1	5.1	5.0
Consumer prices (12-month percent change, average)	3.2	1.5	1.1	6.3	9.4	6.2	6.1	5.0	5.0
Investment and savings (in percent of GDP)									
Investment	30.7	27.7	26.4	18.7	25.2	25.6	26.6	28.0	28.9
Public	9.7	5.9	7.2	5.3	9.0	8.9	8.2	8.3	8.2
Private	21.0	21.8	19.2	13.4	16.2	16.7	18.5	19.6	20.5
Savings	24.5	15.7	14.3	23.2	19.4	19.4	20.5	21.9	22.8
Public	3.1	3.6	4.3	0.0	0.2	0.8	1.1	1.2	1.3
Private	21.5	12.1	10.0	23.2	19.2	18.6	19.4	20.7	21.5
Savings-investment balance	-6.2	-12.1	-12.1	4.5	-5.8	-6.2	-6.1	-6.1	-6.2
General government finances (in percent of GDP) 1/									
Revenue	33.3	32.5	32.4	31.0	31.1	31.0	30.9	30.8	30.8
Of which: Tax revenue	19.3	20.2	19.6	17.5	18.9	20.1	20.1	20.1	20.2
Expense	29.2	27.9	27.4	30.1	29.4	29.2	28.7	28.6	28.4
Gross operating balance	4.1	4.6	5.1	0.9	1.7	1.9	2.2	2.3	2.4
Net acquisition of nonfinancial assets	7.9	5.2	5.2	4.1	6.0	5.8	5.5	5.6	5.6
Overall balance (net lending/borrowing) 2/	-3.7	-0.6	-0.1	-3.3	-4.2	-4.0	-3.4	-3.4	-3.2
Primary net lending/borrowing	-2.9	0.4	0.7	-2.3	-3.3	-3.0	-2.4	-2.3	-2.1
Total state government debt 3/	58.8	54.8	51.6	68.0	67.1	65.1	63.5	63.6	64.3
Of which domestic debt	5.8	7.8	8.3	9.8	10.2	12.5	14.1	16.7	19.5
Monetary sector									
Reserve money (percent change, eop)	16.9	6.3	11.0	24.8	0.8	14.0	10.3	9.1	9.1
Broad money (percent change, eop)	17.9	5.5	12.8	23.9	1.9	14.6	11.4	10.2	10.2
Credit to private sector (percent change, eop)	15.7	18.2	14.9	12.6	1.7	14.3	11.1	9.8	10.0
Credit to private sector (in percent of GDP)	20.8	22.9	24.2	28.2	25.3	25.6	25.6	25.8	26.0
Velocity of broad money 4/	2.7	2.8	2.7	2.1	2.3	2.3	2.3	2.3	2.2
Policy Rate	5.0	4.8	4.3	…..	…	…	…	…	…
External sector									
Current account balance (in percent of GDP)	-6.2	-12.1	-12.1	4.5	-5.8	-6.2	-6.1	-6.1	-6.2
Export of goods and services (in millions of U.S. dollars)	2,638	2,746	3,126	2,432	2,572	3,216	3,409	3,579	3,772
Export growth (percent change)	7.7	4.1	13.8	-22.2	5.7	25.0	6.0	5.0	5.4
Import of goods and services (in millions of U.S. dollars)	5,113	5,913	5,690	4,000	5,113	5,819	6,085	6,335	6,626
Import growth (percent change)	6.8	15.6	-3.8	-29.7	27.8	13.8	4.6	4.1	4.6
Gross International reserves (in millions of U.S. dollars) 5/	1,971	1,919	2,176	2,628	2,384	2,302	2,202	2,065	1,924
Gross reserves (months of next year imports, eop)	4.0	4.0	6.5	6.2	4.9	4.5	4.2	3.7	3.3
External public debt outstanding (in percent of GDP)	53.0	47.0	43.3	58.3	56.8	52.6	49.4	46.9	44.7
External public debt service-to-export ratio (in percent)	6.6	6.5	6.6	9.7	8.7	8.0	9.4	9.7	9.9
Memorandum items:									
Exchange rate (soms per U.S. dollar, average)	68.9	68.8	69.8	77.4	…	…	…	…	…
Real effective exchange rate (2010=100) (average)	97.3	100.8	101.0	85.3	…	…	…	…	…

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 (MHIF). 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, 2017–25
(in percent)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.			Proj.		
				(growth rate in real terms)					
Agriculture, Hunting, Fishing, Forestry	2.2	2.6	2.5	1.1	2.0	3.3	3.3	3.3	3.3
Industry	8.9	5.4	6.6	-7.5	-1.5	20.8	6.3	3.5	3.2
Industry without Kumtor	18.4	7.3	3.9	-10.0	10.0	11.0	11.0	7.0	7.0
Construction	7.9	7.8	10.7	-15.9	5.0	8.0	8.0	9.1	9.1
Transport	9.4	2.9	4.2	-30.9	7.0	8.0	6.0	6.0	6.0
Communication	-16.7	-0.9	-0.5	-3.9	2.0	2.0	2.0	2.0	2.0
Trade	7.1	5.7	5.9	-15.7	7.0	8.0	5.5	5.5	5.5
Other	-29.6	1.0	1.2	-2.6	3.0	3.0	1.2	1.2	1.2
Net Taxes on Products	4.7	3.8	4.6	-8.6	3.0	3.4	3.4	3.4	3.4
Gross Domestic Product	4.7	3.8	4.6	-8.6	3.8	6.4	4.4	4.0	4.0
Gold [1/]	1.3	3.3	11.5	-4.8	-11.2	29.2	2.3	0.6	0.0
Non-Gold GDP	5.1	3.7	4.1	-9.0	4.6	5.5	4.5	4.1	4.1
Memorandum items:				(In billions of soms)					
Gross Domestic Product	530.5	569.4	619.1	598.3	679.9	768.3	850.6	928.3	1013.6
Gold [1/]	44.9	37.8	56.9	68.4	72.3	73.5	73.5	76.9	79.9
Non-Gold GDP	485.6	531.6	562.2	529.9	607.7	694.7	777.1	851.4	933.7

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Until 2020, Kumtor only in line with official data. 2021 and beyond, Kumtor and others.

Table 3. Kyrgyz Republic: Balance of Payments, 2017–25
(in millions of U.S. dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.			Proj.		
Current account balance	-477	-997	-1,073	349	-465	-542	-575	-607	-648
Excluding transfers	-2,847	-3,418	-3,344	-1,897	-2,827	-2,919	-3,019	-3,122	-3,243
Trade balance	-2,383	-3,034	-2,626	-1,413	-2,353	-2,477	-2,584	-2,696	-2829
Exports, fob	1,814	1,916	2,043	2,010	2,051	2,452	2,598	2,724	2867
CIS countries	772	938	916	791	881	974	1,055	1,136	1236
Of which: Energy products	100	160	127	93	177	183	198	213	228
Of which: Re-exports of consumer goods	50	52	49	37	38	42	46	49	54
Non-CIS countries	1,042	978	1,127	1,219	1,170	1,478	1,543	1,587	1631
Of which: Gold	700	664	833	987	921	1,200	1,241	1,261	1273
Imports, fob	4,197	4,950	4,669	3,422	4,404	4,929	5,181	5,420	5697
CIS countries	1,941	2,223	2,215	1,975	2,379	2,653	2,777	2,909	3032
Of which: Energy (including for re-exports)	567	810	627	491	700	741	742	741	733
Non-CIS countries	2,256	2,727	2,454	1,447	2,025	2,275	2,405	2,511	2665
Of which: Goods for re-exports	40	42	39	30	30	34	37	39	43
Services	-92	-133	62	-154	-188	-126	-92	-60	-24
Receipts	824	830	1,083	423	521	764	811	855	905
Payments	-916	-963	-1,021	-577	-709	-890	-903	-915	-930
Income	-372	-251	-779	-330	-286	-316	-343	-366	-390
Interest payments	-76	-77	-82	-102	-50	-60	-67	-74	-80
Other net income	-295	-174	-698	-228	-236	-257	-276	-292	-310
Current Transfers (net)	2,369	2,421	2,270	2,246	2,362	2,377	2,444	2,515	2595
Of which: Private	2,263	2,375	2,158	2,166	2,290	2,379	2,446	2,517	2597
Capital Account	134	95	89	80	159	135	144	151	159
Official	131	102	89	80	159	135	144	151	159
Private	3	-7	0	0	0	0	0	0	0
Financial account	330	178	466	-353	89	350	412	428	406
Commercial banks	-19	44	-1	-179	0	0	0	0	0
Medium- and long-term loans (net)	173	-84	135	90	40	144	156	135	96
Disbursement	668	606	766	628	575	648	664	672	779
Public	323	145	188	191	296	271	258	192	204
Private	345	461	578	437	279	377	405	479	575
Amortization	-494	-690	-630	-538	-535	-504	-508	-536	-684
Public	-111	-360	-122	-154	-176	-201	-210	-206	-280
Private	-383	-331	-509	-383	-359	-303	-298	-330	-404
Foreign direct investment	-78	139	337	-512	49	207	256	292	310
Portfolio investment	-25	-9	25	15	0	0	0	0	0
Other (including SDR allocation)	0	0	0	0	0	0	0	0	0
Net short-term flows	279	89	-30	233	0	0	0	0	0
Errors and omissions	131	302	566	-203	0	0	0	0	0
Overall balance	117	-422	47	-126	-217	-57	-19	-29	-84
Financing	-117	422	-47	126	217	57	19	29	84
Net international reserves	-153	177	-42	114	217	57	19	29	84
Gross official reserves (–, increase)	-141	188	-16	-108	244	82	99	137	141
IMF	-13	-11	-26	222	-27	-26	-80	-108	-57
Exceptional financing (including arrears) 1/	36	245	-5	12	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)	7,703	8,271	8,872	7,747	8,027	8,723	9,376	9,934	10531
Current account balance (percent of GDP)	-6.2	-12.1	-12.1	4.5	-5.8	-6.2	-6.1	-6.1	-6.2
Current account balance excluding official transfers (percent of GDP)	-7.6	-12.6	-13.4	3.5	-6.7	-6.2	-6.1	-6.1	-6.1
Growth of exports of GNFS (volume, percent)	1.2	-1.1	15.2	-25.1	-4.0	26.0	5.7	4.5	4.5
Growth of imports of GNFS (volume, percent)	0.9	7.9	-0.9	-24.5	16.6	15.7	5.2	3.9	3.9
Terms of trade (goods, percentage change)	-1.2	-2.6	1.7	7.0	-1.3	0.7	0.4	-0.2	-0.3
Gold price (U.S. dollars per ounce)	1,257	1,269	1,392	1,770	1,861	1,875	1,897	1,915	1933
Fuel Price Index (2005=100)	123.9	157.7	130.4	91.4	126.0	118	115	114	113
External Public Debt (in millions of U.S. dollars) 2/	4,081	3,830	3,851	4,217	4,505	4,572	4,615	4,643	4694
As percent of GDP	53.0	47.0	43.3	58.3	57.5	53.2	50.0	47.4	45.2
External public debt service-to-exports ratio 2/ 3/	6.0	6.7	6.5	8.4	8.7	8.0	9.4	9.7	9.9
Gross reserves 4/	1,971	1,919	2,176	2,628	2,384	2,302	2,202	2,065	1924
In months of subsequent year's imports	4.0	4.0	6.5	6.2	4.9	4.5	4.2	3.7	3.3

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, 2017–21

	2017	2018	2019	2020	2021
					Proj.
	(In millions of soms)				
Net foreign assets	140,717	142,089	160,750	222,109	212,329
Net international reserves 1/	134,614	134,078	151,838	216,677	206,896
Long-term foreign liabilities	-8,311	-8,222	-8,147	-9,995	-9,995
Other foreign assets	14,415	16,233	17,059	15,427	15,427
Net domestic assets	-40,698	-35,741	-42,685	-74,772	-63,751
Net claims on general government	-8,994	-12,290	-16,906	-13,727	-13,609
Of which: Total government deposits (including foreign exchange deposits)	-9,235	-12,469	-17,033	-16,749	-16,630
Of which: Securitized government debt	251	189	127	3,021	3,021
Claims on commercial banks	-8,818	-3,277	-10,020	-18,628	-8,727
Of which: NBKR notes	-5,212	-7,992	-8,049	-12,991	-16,084
Claims of other financial corporations	-432	-252	-432	-1,150	-1,150
Other items net 2/	-22,454	-19,922	-15,326	-41,267	-40,266
Reserve money	100,019	106,347	118,065	147,338	148,577
Currency in circulation	91,104	93,566	106,245	134,629	139,663
Commercial banks' reserves	8,915	12,781	11,820	12,708	8,915
Of which: Required reserves	8,061	8,507	10,259	12,658	8,023
	(Contribution to reserve money growth, in percentage point) 3/				
Net foreign assets	16.2	1.4	17.5	52.0	-6.6
Net domestic assets	0.6	5.0	-6.5	-27.2	7.5
Of which: Net claims on general government	-1.5	-3.3	-4.3	2.7	0.1
Reserve money	16.9	6.3	11.0	24.8	0.8
Of which: Currency in circulation	19.0	2.5	11.9	24.0	3.4
Memorandum items:					
Reserve money growth (12-month change, in percent)	16.9	6.3	11.0	24.8	0.8
Gross International Reserves (in millions of U.S. dollars)	1,971	1,919	2,176	2,628	2,384
Net international reserves (in millions of U.S. dollars)	1,955	1,920	2,180	2,622	2,384
Exchange rate, som per U.S. dollar, end of period	68.8	69.9	69.6	82.6	…

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, 2017–21

	2017	2018	2019	2020	2021
					Proj.
			(In millions of soms)		
Net foreign assets	152,811	150,112	164,586	246,056	236,275
Net domestic assets	40,579	53,959	65,674	39,192	54,346
Domestic credit	102,468	120,657	136,369	149,184	163,296
Net claims on general government	-8,002	-9,890	-13,597	-19,745	-8,500
Credit to the rest of the economy 1/	110,470	130,546	149,966	168,928	171,796
Of which: In foreign exchange	41,726	49,079	52,131	57,591	58,582
Other items net	-61,889	-66,697	-70,695	-109,992	-108,950
Broad money (M2X)	193,391	204,071	230,261	285,248	290,621
Of which:					
Broad money, excluding foreign exchange deposits (M2)	142,859	154,576	181,768	219,104	222,530
Currency held by the public	84,451	84,827	96,010	124,172	124,805
Total domestic currency deposit liabilities	58,408	69,750	85,758	94,932	97,725
Net foreign assets	10.2	-1.4	7.1	35.4	-3.4
Net domestic assets	7.7	6.9	5.7	-11.5	5.3
Domestic credit	10.4	9.4	7.7	5.6	4.9
Net claims on general government	1.2	-1.0	-1.8	-2.7	3.9
Credit to the rest of the economy	9.2	10.4	9.5	8.2	1.0
Other items (net)	-2.7	-2.5	-2.0	-17.1	0.4
Broad money (M2X)	17.9	5.5	12.8	23.9	1.9
Of which:					
Broad money, excluding foreign exchange deposits (M2)	16.7	6.1	13.3	16.2	1.2
Currency held by the public	9.2	0.2	5.5	12.2	0.2
Total deposit liabilities	7.5	5.9	7.8	4.0	1.0
Memorandum items:					
Broad money (M2X) (12-month change, in percent)	17.9	5.5	12.8	23.9	1.9
Credit to the rest of the economy (12-month change, in percent) 2/	15.7	18.2	14.9	12.6	1.7
Credit to the rest of the economy (in percent of GDP)	20.8	23.4	25.0	28.2	25.3
M2X velocity 3/	2.7	2.8	2.7	2.1	2.3
M2X multiplier	1.9	1.9	2.0	1.9	2.0
Dollarization indicators (in percent)					
Loan dollarization	38.0	38.0	35.2	33.0	
Deposit dollarization	48.7	44.5	39.1	43.4	

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, 2017–25 1/

(in millions of soms)

	2017	2018	2019	2020	2021		2022	2023	2024	2025
				Est.	Auth.	Proj.			Proj.	
Revenues	149,490	152,014	167,094	152,149	189,229	179,108	202,973	224,618	245,374	268,909
Taxes	102,184	115,197	121,526	104,702	144,235	128,794	154,545	170,699	186,447	204,507
Taxes on income, profits, and capital gains	24,392	26,702	29,818	32,351	n.a.	34,207	39,098	42,873	47,365	52,344
Payable by individuals	11,110	11,474	12,862	12,151	n.a.	14,038	15,638	17,085	19,298	22,079
Payable by corporations and other enterprises	13,282	15,228	16,956	20,200	n.a.	20,169	23,460	25,788	28,067	30,265
Unallocable	0	0	0	0	n.a.	0	0	0	0	0
Taxes on property	2,625	2,810	2,950	2,804	n.a.	3,186	3,600	3,986	4,350	4,750
Land tax	1,818	1,966	1,229	1,123	n.a.	1,276	1,442	1,596	1,742	1,902
Property tax	807	844	1,721	1,681	n.a.	1,910	2,158	2,390	2,608	2,848
Taxes on good and services	58,671	67,366	66,756	52,237	n.a.	68,842	84,725	94,001	102,483	111,950
VAT	45,131	52,786	50,912	39,461	n.a.	53,279	65,906	72,744	78,757	86,220
Net turnover tax	4,034	4,283	4,216	3,782	n.a.	4,209	5,361	6,453	7,450	8,133
Excises	9,507	10,296	9,945	8,994	n.a.	11,354	13,458	14,804	16,275	17,597
Taxes on international Trade	16,493	18,319	21,968	17,307	n.a.	22,557	27,121	29,837	32,248	35,463
Grants (including project grants)	13,468	9,216	13,258	11,916	13,726	14,950	8,114	9,285	10,217	11,214
Program grants	7,802	3,563	8,216	6,537	4,651	4,651	0	0	0	0
PIP grants	5,667	5,653	5,042	5,379	9,075	10,298	8,114	9,285	10,217	11,214
Other Revenues	31,380	27,534	32,310	35,531	31,268	35,365	40,313	44,634	48,710	53,188
Of which mineral development	1,184	1,416	1,214	1,283	n.a.	1,358	1,491	1,617	1,617	1,617
Expense	131,219	131,493	140,047	150,648	168,533	167,381	188,418	206,785	225,553	246,647
Compensation of Employees	51,366	51,010	58,482	66,549	69,175	70,678	77,437	82,858	88,658	94,864
Wages and salaries	45,419	45,257	51,724	58,981	61,182	62,684	68,680	73,487	78,631	84,136
Social Fund Contribution	5,948	5,753	6,758	7,568	7,993	7,993	8,758	9,371	10,027	10,728
Use of goods and services	22,253	25,608	21,861	17,931	29,256	27,501	32,829	36,348	39,667	43,314
Interest	5,867	7,083	7,785	8,465	9,788	8,912	10,810	13,727	16,529	20,334
Domestic interest	2,397	3,385	4,034	4,061	4,533	4,461	5,739	8,347	10,850	14,427
Foreign interest	3,470	3,697	3,751	4,404	5,255	4,451	5,071	5,380	5,680	5,907
Subsidies to public corporations	5,336	4,549	4,387	4,138	4,975	4,955	5,599	6,199	6,765	7,387
Grants	31,112	31,581	32,254	36,456	35,498	35,498	39,270	43,475	47,472	51,830
to international organizations	479	614	476	314	535	535	568	603	645	692
to other general government units 2/	30,633	30,967	31,778	36,142	34,963	34,963	38,702	42,872	46,826	51,138
Social Benefits	8,278	9,008	10,442	10,939	10,479	10,479	11,889	13,163	14,426	15,752
Social Assistance	8,278	9,008	10,298	10,939	10,479	10,479	11,889	13,163	14,426	15,752
Social security benefits	0	0	144	0	0	0	0	0	0	0
Other expense	6,996	2,645	4,816	6,170	9,361	9,359	10,584	11,016	12,036	13,165
Capital transfers to SOEs (energy sector)	6,366	1,989	3,933	3,240	8,389	8,389	9,489	9,803	10,713	11,720
Gross operating balance	18,271	20,520	27,047	1,500	20,696	11,727	14,554	17,833	19,820	22,262
Net acquisition of nonfinancial assets	43,218	28,764	31,412	24,447	41,179	40,181	44,340	46,539	51,566	56,370
Acquisition of nonfinancial assets	43,123	28,815	31,499	24,535	41,179	40,181	44,340	46,539	51,566	56,370
Domestically financed capital expenditure	22,373	17,819	19,001	12,408	16,647	15,648	24,038	23,614	36,770	40,151
Foreign loan financed PIP	14,762	6,439	8,452	6,817	13,538	13,538	12,187	13,640	4,579	5,005
Foreign grant financed PIP	5,988	4,557	4,046	5,311	10,995	10,995	8,114	9,285	10,217	11,214
Disposals of nonfinancial assets	-95	51	87	89	n.a.	0	0	0	0	0
Net lending/borrowing (overall balance)	-24,947	-8,244	-4,365	-22,946	-20,483	-28,453	-29,785	-28,706	-31,746	-34,108
Acquisition of financial assets	2,008	3,432	-407	688	n.a.	1,002	2,065	-136	2,414	2,666
Domestic	2,008	3,432	-407	688	n.a.	1,002	2,065	-136	2,414	2,666
Currency and deposits (NBKR)	348	857	2,603	-285	n.a.	-119	-129	-136	-264	-264
Loans 2/	1,747	1,321	-2,651	973	n.a.	1,120	2,195	0	2,678	2,930
Shares and Equity (Privatization)	-87	1,254	-360	0	n.a.	0	0	0	0	0
Foreign	0	0	0	0	n.a.	0	0	0	0	0
Net Incurence of Liabilities	26,843	14,609	7,495	19,351	n.a.	29,828	32,601	28,591	33,622	35,579
Foreign	24,068	9,993	2,945	21,933	n.a.	18,702	6,152	4,421	-1,284	-7,283
Public investment program (PIP)	22,251	8,999	13,047	12,535	n.a.	25,100	23,871	23,442	17,970	19,655
Disbursements (Program)	1,817	994	30	21,314	n.a.	8,470	0	0	0	0
Total amortization	0	0	-10,132	-11,917	n.a.	-14,868	-17,719	-19,021	-19,254	-26,938
Domestic	2,775	4,617	4,550	-2,582	n.a.	11,126	26,449	24,170	34,906	42,862

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

1/ The State government comprises central and local governments.

2/ Includes grants to the Social Fund and the Mandatory Health Insurance Fund (MHIF).

Table 7. Kyrgyz Republic: State Government Finances, 2017–25 1/

(in percent of GDP)

	2017	2018	2019	2020	2021		2022	2023	2024	2025
				Est.	Auth.	Proj.		Proj.		
Revenues	28.2	26.7	27.0	25.4	27.8	26.3	26.4	26.4	26.4	26.5
Taxes	19.3	20.2	19.6	17.5	21.2	18.9	20.1	20.1	20.1	20.2
Taxes on income, profits, and capital gains	4.6	4.7	4.8	5.4	n.a.	5.0	5.1	5.0	5.1	5.2
Payable by individuals	2.1	2.0	2.1	2.0	n.a.	2.1	2.0	2.0	2.1	2.2
Payable by corporations and other enterprises	2.5	2.7	2.7	3.4	n.a.	3.0	3.1	3.0	3.0	3.0
Unallocable	0.0	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	0.0	0.0
Taxes on property	0.5	0.5	0.5	0.5	n.a.	0.5	0.5	0.5	0.5	0.5
Land tax	0.3	0.3	0.2	0.2	n.a.	0.2	0.2	0.2	0.2	0.2
Property tax	0.2	0.1	0.3	0.3	n.a.	0.3	0.3	0.3	0.3	0.3
Taxes on good and services	11.1	11.8	10.8	8.7	n.a.	10.1	11.0	11.1	11.0	11.0
VAT	8.5	9.3	8.2	6.6	n.a.	7.8	8.6	8.6	8.5	8.5
New turnover tax	0.8	0.8	0.7	0.6	n.a.	0.6	0.7	0.8	0.8	0.8
Excises	1.8	1.8	1.6	1.5	n.a.	1.7	1.8	1.7	1.8	1.7
Taxes on international Trade	3.1	3.2	3.5	2.9	n.a.	3.3	3.5	3.5	3.5	3.5
Grants (including project grants)	2.5	1.6	2.1	2.0	2.0	2.2	1.1	1.1	1.1	1.1
Program grants	1.5	0.6	1.3	1.1	0.7	0.7	0.0	0.0	0.0	0.0
PIP grants	1.1	1.0	0.8	0.9	1.3	1.5	1.1	1.1	1.1	1.1
Other Revenues	5.9	4.8	5.2	5.9	4.6	5.2	5.2	5.2	5.2	5.2
Of which mineral development	0.2	0.2	0.2	0.2	n.a.	0.2	0.2	0.2	0.2	0.2
Expense	24.7	23.1	22.6	25.2	24.8	24.6	24.5	24.3	24.3	24.3
Compensation of Employees	9.7	9.0	9.4	11.1	10.2	10.4	10.1	9.7	9.6	9.4
Wages and salaries	8.6	7.9	8.4	9.9	9.0	9.2	8.9	8.6	8.5	8.3
Social Fund Contribution	1.1	1.0	1.1	1.3	1.2	1.2	1.1	1.1	1.1	1.1
Use of goods and services	4.2	4.5	3.5	3.0	4.3	4.0	4.3	4.3	4.3	4.3
Interest	1.1	1.2	1.3	1.4	1.4	1.3	1.4	1.6	1.8	2.0
Domestic interest	0.5	0.6	0.7	0.7	0.7	0.7	0.7	1.0	1.2	1.4
Foreign interest	0.7	0.6	0.6	0.7	0.8	0.7	0.7	0.6	0.6	0.6
Subsidies to public corporations	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Grants	5.9	5.5	5.2	6.1	5.2	5.2	5.1	5.1	5.1	5.1
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/	5.8	5.4	5.1	6.0	5.1	5.1	5.0	5.0	5.0	5.0
Social Benefits	1.6	1.6	1.7	1.8	1.5	1.5	1.5	1.5	1.6	1.6
Social Assistance	1.6	1.6	1.7	1.8	1.5	1.5	1.5	1.5	1.6	1.6
Other expense	1.3	0.5	0.8	1.0	1.4	1.4	1.4	1.3	1.3	1.3
Capital transfers to SOEs (energy sector)	1.2	0.3	0.6	0.5	1.2	1.2	1.2	1.2	1.2	1.2
Gross operating balance	3.4	3.6	4.4	0.3	3.0	1.7	1.9	2.1	2.1	2.2
Net acquisition of nonfinancial assets	8.1	5.1	5.1	4.1	6.1	5.9	5.8	5.5	5.6	5.6
Acquisition of nonfinancial assets	8.1	5.1	5.1	4.1	6.1	5.9	5.8	5.5	5.6	5.6
Domestically financed capital expenditure	4.2	3.1	3.1	2.1	2.4	2.3	3.1	2.8	4.0	4.0
Foreign loan financed PIP	2.8	1.1	1.4	1.1	2.0	2.0	1.6	1.6	0.5	0.5
Foreign grant financed PIP	1.1	0.8	0.7	0.9	1.6	1.6	1.1	1.1	1.1	1.1
Disposals of nonfinancial assets	0.0	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing (overall balance)	-4.7	-1.4	-0.7	-3.8	-3.0	-4.2	-3.9	-3.4	-3.4	-3.4
Acquisition of financial assets	0.4	0.6	-0.1	0.1	n.a.	0.1	0.3	0.0	0.3	0.3
Domestic	0.4	0.6	-0.1	0.1	n.a.	0.1	0.3	0.0	0.3	0.3
Currency and deposits (NBKR)	0.1	0.2	0.4	0.0	n.a.	0.0	0.0	0.0	0.0	0.0
Loans 2/	0.3	0.2	-0.4	0.2	n.a.	0.2	0.3	0.0	0.3	0.3
Shares and Equity (Privatization)	0.0	0.2	-0.1	0.0	n.a.	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	0.0	0.0
Net Incurence of Liabilities	5.1	2.6	1.2	3.2	n.a.	4.4	4.2	3.4	3.6	3.5
Foreign	4.5	1.8	0.5	3.7	n.a.	2.8	0.8	0.5	-0.1	-0.7
Public investment program (PIP)	4.2	1.6	2.1	2.1	n.a.	3.7	3.1	2.8	1.9	1.9
Disbursements (Program)	0.3	0.2	0.0	3.6	n.a.	1.2	0.0	0.0	0.0	0.0
Total amortization	0.0	0.0	-1.6	-2.0	n.a.	-2.2	-2.3	-2.2	-2.1	-2.7
Domestic	0.5	0.8	0.7	-0.4	n.a.	1.6	3.4	2.8	3.8	4.2

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

1/ The State government comprises central and local governments.

2/ Includes grants to the Social Fund and the Mandatory Health Insurance Fund (MHIF).

Table 8. Kyrgyz Republic: General Government Finances, 2017–25, GFSM 2014 Presentation 1/
(in millions of soms)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.			Proj.		
Revenue	176,581	184,877	200,880	185,582	211,721	238,403	262,665	286,094	312,394
Taxes	102,184	115,197	121,526	104,702	128,794	154,545	170,699	186,447	204,507
Taxes on income, profits, and capital gains	24,392	26,702	29,818	32,351	34,207	39,098	42,873	47,365	52,344
Payable by individuals	11,110	11,474	12,862	12,151	14,038	15,638	17,085	19,298	22,079
Payable by corporations and other enterprises	13,282	15,228	16,956	20,200	20,169	23,460	25,788	28,067	30,265
Other income taxes	0	0	0	0	0	0	0	0	0
Taxes on property	2,625	2,810	2,950	2,804	3,186	3,600	3,986	4,350	4,750
Taxes on goods and services	58,671	67,366	66,756	52,237	68,842	84,725	94,001	102,483	111,950
Value-added taxes	45,131	52,786	50,912	39,461	53,279	65,906	72,744	78,757	86,220
Turnover and other general taxes on goods and services	4,034	4,283	4,216	3,782	4,209	5,361	6,453	7,450	8,133
Excises	9,507	10,296	9,945	8,994	11,354	13,458	14,804	16,275	17,597
Taxes on international trade and transactions	16,493	18,319	21,968	17,307	22,557	27,121	29,837	32,248	35,463
Social contributions	29,003	30,655	32,481	33,186	32,411	35,203	37,795	40,446	43,185
Grants	13,468	9,461	13,268	11,916	14,950	8,114	9,285	10,217	11,214
Program grants	7,800	3,808	8,216	6,537	4,651	0	0	0	0
Project grants	5,667	5,653	5,042	5,379	10,298	8,114	9,285	10,217	11,214
Other revenue	31,925	29,564	33,605	35,778	35,566	40,541	44,886	48,984	53,488
Expense	154,661	158,810	169,467	180,367	199,922	224,103	244,305	265,139	288,283
Compensation of employees	60,247	60,125	67,911	76,549	80,762	88,105	94,225	100,818	107,910
Wages and salaries	53,009	53,048	59,784	67,534	72,769	79,348	84,854	90,792	97,182
Social contributions	7,238	7,076	8,126	9,015	7,993	8,758	9,371	10,027	10,728
Purchases/use of goods and services	26,710	30,274	27,431	21,995	34,438	40,584	44,898	48,996	53,528
Interest	4,611	5,826	5,459	5,982	6,185	7,301	8,623	9,895	11,513
Foreign interest	3,470	3,697	3,751	4,404	4,451	5,071	5,380	5,680	5,907
Domestic interest	1,141	2,129	1,708	1,578	1,733	2,230	3,243	4,216	5,605
Subsidies to public corporations	5,336	4,549	4,387	4,138	4,955	5,599	6,199	6,765	7,387
Grants	486	620	767	2,878	540	573	607	650	696
To international organizations	484	620	480	318	540	573	607	650	696
To other general government units	2	0	287	2,560	0	0	0	0	0
Social benefits	49,842	54,727	58,602	62,217	63,138	70,748	78,065	85,243	93,281
Social Assistance	8,278	9,008	10,299	10,939	10,479	11,889	13,163	14,426	15,752
Social Security Benefits	41,564	45,719	48,302	51,278	52,659	58,859	64,902	70,818	77,529
Other expense	7,418	2,679	4,888	6,608	9,904	11,194	11,688	12,770	13,968
Capital transfers to SOEs (energy sector)	6,366	1,989	3,933	3,240	8,389	9,489	9,803	10,713	11,720
Gross operating balance	21,919	26,067	31,413	5,215	11,798	14,300	18,360	20,955	24,111
Net acquisition of nonfinancial assets	41,722	29,427	32,235	24,803	40,624	44,836	47,086	52,163	57,023
Acquisition of nonfinancial assets	41,627	29,477	32,321	24,892	40,624	44,836	47,086	52,163	57,023
Domestically financed	22,636	18,123	19,823	12,764	16,092	24,534	24,161	37,367	40,804
Foreign financed	20,750	10,996	12,498	12,128	24,532	20,302	22,925	14,796	16,219
Disposals of nonfinancial assets	95	-51	-87	-89	0	0	0	0	0
Net lending/borrowing	-19,802	-3,360	-821	-19,588	-28,826	-30,535	-28,726	-31,208	-32,913
Net acquisition of financial assets	743	3,104	-407	688	1,002	2,065	-136	2,414	2,666
Domestic	743	3,104	-407	688	1,002	2,065	-136	2,414	2,666
Currency and deposits	-918	529	2,603	-285	-119	-129	-136	-264	-264
Loans	1,747	1,321	-2,651	973	1,120	2,195	0	2,678	2,930
Sales of equity (privatization proceeds)	-87	1,254	-360	0	0	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	20,377	6,464	7,495	19,351	29,828	32,601	28,591	33,622	35,579
Foreign	17,602	1,847	2,945	21,933	18,702	6,152	4,421	-1,284	-7,283
Program loans	1,817	994	30	21,314	8,470	0	0	0	0
Public investment program loans	22,251	8,999	13,047	12,535	25,100	23,871	23,442	17,970	19,655
Amortization	0	0	-10,132	-11,917	-14,868	-17,719	-19,021	-19,254	-26,938
Domestic	2,775	4,617	4,550	-2,582	11,126	26,449	24,170	34,906	42,862

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 (MHIF).

Table 9. Kyrgyz Republic: General Government Finances, 2017–25, GFSM 2014 Presentation 1/

(in percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.	Proj.				
Revenue	33.3	32.5	32.4	31.0	31.1	31.0	30.9	30.8	30.8
Taxes	19.3	20.2	19.6	17.5	18.9	20.1	20.1	20.1	20.2
Taxes on income, profits, and capital gains	4.6	4.7	4.8	5.4	5.0	5.1	5.0	5.1	5.2
Payable by individuals	2.1	2.0	2.1	2.0	2.1	2.0	2.0	2.1	2.2
Payable by corporations and other enterprises	2.5	2.7	2.7	3.4	3.0	3.1	3.0	3.0	3.0
Other income taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on property	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Taxes on goods and services	11.1	11.8	10.8	8.7	10.1	11.0	11.1	11.0	11.0
Value-added taxes	8.5	9.3	8.2	6.6	7.8	8.6	8.6	8.5	8.5
Turnover and other taxes on goods and services	0.8	0.8	0.7	0.6	0.6	0.7	0.8	0.8	0.8
Excises	1.8	1.8	1.6	1.5	1.7	1.8	1.7	1.8	1.7
Taxes on international trade and transactions	3.1	3.2	3.5	2.9	3.3	3.5	3.5	3.5	3.5
Social contributions	5.5	5.4	5.2	5.5	4.8	4.6	4.4	4.4	4.3
Grants	2.5	1.7	2.1	2.0	2.2	1.1	1.1	1.1	1.1
Program grants	1.5	0.7	1.3	1.1	0.7	0.0	0.0	0.0	0.0
Project grants	1.1	1.0	0.8	0.9	1.5	1.1	1.1	1.1	1.1
Other revenue[1/]	6.0	5.2	5.4	6.0	5.2	5.3	5.3	5.3	5.3
Expense	29.2	27.9	27.4	30.1	29.4	29.2	28.7	28.6	28.4
Compensation of employees	11.4	10.6	11.0	12.8	11.9	11.5	11.1	10.9	10.6
Wages and salaries	10.0	9.3	9.7	11.3	10.7	10.3	10.0	9.8	9.6
Social contributions	1.4	1.2	1.3	1.5	1.2	1.1	1.1	1.1	1.1
Purchases/use of goods and services	5.0	5.3	4.4	3.7	5.1	5.3	5.3	5.3	5.3
Interest	0.9	1.0	0.9	1.0	0.9	1.0	1.0	1.1	1.1
Foreign interest	0.7	0.6	0.6	0.7	0.7	0.7	0.6	0.6	0.6
Domestic interest	0.2	0.4	0.3	0.3	0.3	0.3	0.4	0.5	0.6
Subsidies to public corporations	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Grants	0.1	0.1	0.1	0.5	0.1	0.1	0.1	0.1	0.1
To international organizations	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
To other general government units	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Social benefits	9.4	9.6	9.5	10.4	9.3	9.2	9.2	9.2	9.2
Social Assistance	1.6	1.6	1.7	1.8	1.5	1.5	1.5	1.6	1.6
Social Security Benefits	7.8	8.0	7.8	8.6	7.7	7.7	7.6	7.6	7.6
Other expense	1.4	0.5	0.8	1.1	1.5	1.5	1.4	1.4	1.4
Capital transfers to SOEs (energy sector)	1.2	0.3	0.6	0.5	1.2	1.2	1.2	1.2	1.2
Gross operating balance	4.1	4.6	5.1	0.9	1.7	1.9	2.2	2.3	2.4
Net acquisition of nonfinancial assets	7.9	5.2	5.2	4.1	6.0	5.8	5.5	5.6	5.6
Acquisition of nonfinancial assets	7.8	5.2	5.2	4.2	6.0	5.8	5.5	5.6	5.6
Domestically financed	4.3	3.2	3.2	2.1	2.4	3.2	2.8	4.0	4.0
Foreign financed	3.9	1.9	2.0	2.0	3.6	2.6	2.7	1.6	1.6
Disposals of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing	-3.7	-0.6	-0.1	-3.3	-4.2	-4.0	-3.4	-3.4	-3.2
Net acquisition of financial assets	0.1	0.5	-0.1	0.1	0.1	0.3	0.0	0.3	0.3
Domestic	0.1	0.5	-0.1	0.1	0.1	0.3	0.0	0.3	0.3
Currency and deposits	-0.2	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.3	0.2	-0.4	0.2	0.2	0.3	0.0	0.3	0.3
Sales of equity (privatization proceeds)	0.0	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.8	1.1	1.2	3.2	4.4	4.2	3.4	3.6	3.5
Foreign	3.3	0.3	0.5	3.7	2.8	0.8	0.5	-0.1	-0.7
Program loans	0.3	0.2	0.0	3.6	1.2	0.0	0.0	0.0	0.0
Public investment program loans	4.2	1.6	2.1	2.1	3.7	3.1	2.8	1.9	1.9
Amortization	0.0	0.0	-1.6	-2.0	-2.2	-2.3	-2.2	-2.1	-2.7
Domestic	0.5	0.8	0.7	-0.4	1.6	3.4	2.8	3.8	4.2

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 (MHIF).

Table 10. Kyrgyz Republic: Selected Financial Soundness Indicators, 2016–20

	Dec-16	Dec-17	Dec-18	Dec-19	Mar-20	Jun-20	Sep-20	Oct-20	Nov-20	Dec-20
Capital Adequacy										
Regulatory capital to risk weighted assets	24.8	24.2	23.7	24.0	25.1	25.6	25.2	25.1	25.0	24.9
Tier 1 capital to risk weighted assets	21.1	20.2	19.5	20.1	23.1	23.3	22.4	22.2	21.8	21.6
Capital to total assets	16.8	17.0	16.5	17.5	17.0	17.3	16.7	17.0	16.7	16.2
Liquidity										
Liquidity ratio	75.5	65.1	66.9	64.0	67.0	63.2	66.2	65.3	62.0	64.9
Excess reserves/total reserves	17.6	12.6	27.6	8.3	2.3	13.8	5.8	4.5	8.6	0.2
Asset quality										
Nonperforming loans/total loans	8.8	7.6	7.5	8.0	8.3	8.6	9.7	10.0	10.5	10.5
Restructured Loans	9.6	7.1	...	...	...	...	...	...		...
Prolonged Loans	4.9	4.1	...	...	...	...	...	...		...
Nonperforming loans by sector (share of total loans)			...	...	...	...	...	...		...
Industry	0.9	0.8	...	...	...	...	...	...		...
Agriculture	1.0	0.7	...	...	...	...	...	...		...
Trade	3.5	3.0	...	...	...	...	...	...		...
Construction	0.7	0.6	...	...	...	...	...	...		...
Mortgage	0.9	0.7	...	...	...	...	...	...		...
Consumer loans	0.5	0.3	...	...	...	...	...	...		...
Other	1.3	1.5	...	...	...	...	...	...		...
Nonperforming loans by currency (share of total loans)										
Foreign currency nonperforming loans	5.7	4.7	...	...	...	...	...	...		...
KGS nonperforming loans	3.1	2.9	...	...	...	...	...	...		...
Loan-loss provisioning/nonperforming loans	56.9	58.4	54.3	56.6	58.1	58.6	56.8	57.2	57.5	58.9
Nonperforming assets/total assets	4.6	4.2	4.3	4.7	4.8	4.9	5.5	5.7	5.9	5.9
Earnings and profitability										
Return on equity	3.3	7.6	9.5	7.7	8.4	7.8	7.5	7.5	7.5	5.5
Return on assets	0.5	1.2	1.4	1.2	1.3	1.2	1.2	1.2	1.2	0.9
Net interest margin	7.0	7.8	7.9	8.1	7.6	7.3	7.1	7.0	7.0	7.0
Spread	6.3	7.2	7.2	7.4	6.8	6.6	6.4	6.3	6.3	6.3
Income from services and commission fee/total income	7.8	10.9	11.4	12.2	8.5	9.0	9.9	10.0	10.1	10.2
Loans and deposits										
Loans/deposits	95.0	94.6	100.5	102.7	101.5	99.2	99.6	101.3	99.9	95.9
Loans/total assets	52.6	54.7	57.5	58.5	58.0	56.8	56.5	57.5	56.6	55.8
Foreign currency exposure										
Foreign currency exposure (in KGS billion)	1.3	1.0	1.3	2.2	1.1	0.8	0.7	0.8	0.8	1.3
Loans/deposits (in foreign currency)	79.2	73.9	85.8	92.5	87.4	83.1	79.5	80.0	75.9	72.9
Share of foreign currency deposits in total deposits 1/	53.4	48.7	44.5	39.1	43.5	40.8	41.8	42.5	44.8	43.4
Share of foreign currency loans in total loans	44.5	38.0	38.0	35.2	37.4	34.2	33.3	33.5	34.1	33.0

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.

Annex I. Risk Assessment Matrix

(March 2021)[1]

Source of Risks	Relative Likelihood	Possible Impact if Risk is Realized	Policy Response
Global Risks			
Unexpected shifts in the COVID-19 pandemic. **Prolonged pandemic.** The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. For countries with policy space, prolonged support—while needed to cushion the economy—exacerbates stretched asset valuations, fueling financial vulnerabilities. For those with limited space, especially EMs, policy support is insufficient.	Medium	**Staff assessment:** Medium A resurgence of the pandemic or emergence of new virus strains could result in lower domestic demand, a delayed recovery in tourism, slow growth and higher unemployment. In addition, global slowdown could lead to lower trade, FDI inflows, remittances, and foreign aid.	Maintain monetary stimulus and fiscal support to the most affected sectors and vulnerable households. Subject to availability of budget financing, allow a larger deficit in 2021, while prioritizing health and social spending; seek additional donor support; maintain exchange rate flexibility.
Widespread social discontent and political instability. Social tensions erupt as the pandemic and inadequate policy response cause socio-economic hardship (unemployment, poverty, and shortages and higher prices of essentials—often exacerbating pre-existing inequities), or due to unequal access to vaccines. Growing political polarization and instability weaken policymaking and confidence.	High	**Staff assessment:** Medium Social tension globally could spill over to Kyrgyz Republic with implications for political and economic stability.	Adopt policies and reforms to foster higher and more inclusive growth and strengthen social safety nets. Mobilize donors financing.
Oversupply and volatility in the oil market. Higher supply (due to, e.g., OPEC+ disagreements) and lower demand (including due to a slower global recovery from COVID)	Medium	**Staff assessment:** Medium As an oil importer, the Kyrgyz Republic would benefit from lower global	Use fiscal savings from lower oil prices for other priority spending and/or fiscal consolidation.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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). Non-mutually exclusive risks may interact and materialize jointly.

lead to renewed weakness in energy prices. Uncertainty about production cuts, prospects for the shale gas industry, and the pace of demand recovery lead to bouts of volatility.		oil prices. Increased volatility could transmit through remittances, oil imports, the exchange rate, external demand and aid flows.	To absorb oil price volatility, maintain exchange rate flexibility, and reprioritize spending to support the vulnerable.
Source of Risks	**Relative Likelihood**	**Possible Impact if Risk is Realized**	**Policy Response**
Country-Specific Risks			
Lower gold prices. Global recovery could lead to portfolio reallocation from gold to higher yielding assets and result in a fall in gold prices.	**Medium**	**Staff assessment:** **Medium** Lower gold prices would weaken growth, the external and fiscal positions.	Maintain exchange rate flexibility, prioritize fiscal expenditure to avoid excessive buildup of public debt, and strengthen the business environment to support economic activity.
Build-up of vulnerabilities in the financial sector from COVID-19. Balance sheet vulnerabilities may start showing up with a delay.	**Medium**	**Staff assessment:** **Medium** A rise in nonperforming loans may constrain credit, causing a further decline in investment and availability of budget financing. Bank capitalization remains strong, but pockets of liquidity shortages may appear.	Stand ready to provide liquidity; maintain sound accounting, reporting and provisioning standards to properly appraise risks; allow more time to restore impaired capital, if needed; prepare a comprehensive NPL resolution strategy.

Annex II. Implementation of 2019 Article IV Consultation's Key Recommendations

Staff Advice	Policy Action
Fiscal Policy	
Strengthen the overall fiscal framework and pursue fiscal consolidation to maintain debt sustainability and promote inclusive growth.	The overall fiscal deficit was reduced to 0.1 percent of GDP in 2019, but the COVID crisis has led to a significant countercyclical increase in the deficit and public debt. Nevertheless, the risk of public debt distress remains moderate. If the pandemic recedes, fiscal consolidation is expected to resume from 2022.
Streamline current expenditures, especially the wage bill and subsidies, and better target social assistance programs.	The COVID crisis has undermined feasibility of reducing some categories of current spending, but the authorities new reform program prioritizes modernization of the public sector compensation system and reforming the energy sector.
Increase tax revenues by removing tax exemptions and strengthening tax administration.	The tax-to-GDP ratio fell in 2020 with GDP contraction, but is expected rebound with the growth recovery. At the same time, tax compliance was improved with digitalization of tax e-filings. More progress can be achieved by reducing tax exemptions.
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. Strengthen central bank governance and reduce non-core operations.	Continuous progress made in the transition to IT. After a prolonged period of stability, the som depreciated by 19 percent against the US dollar in 2020, which marks a welcome break from the past. The authorities are planning to strengthen NBKR governance by introducing a majority of non-executive members in its Board, and to develop a medium-term plan to unwind its ownership in Keremet Bank and the Guarantee Fund.
Structural Reforms	
Remove obstacles to private sector-led growth through reforms to boost financial sector development, reform the energy sector, and improve governance.	The financial sector has remained strong so far and has weathered the crisis well. The NBKR implemented measures to help reduce the high collateral requirements and increase financial literacy, but more structural reforms are needed to increase financial inclusion and reduce the cost of financial intermediation. Reforms of the electricity sector have not progressed but is now the declared priority of the new administration. The authorities have developed a new Anti-Corruption Strategy and have recently streamlined government institutions to enhance accountability. The procurement law was amended to require disclosure of beneficial ownership in public contracts. But further efforts are needed to reduce corruption, strengthen the rule of law and enhance transparency.

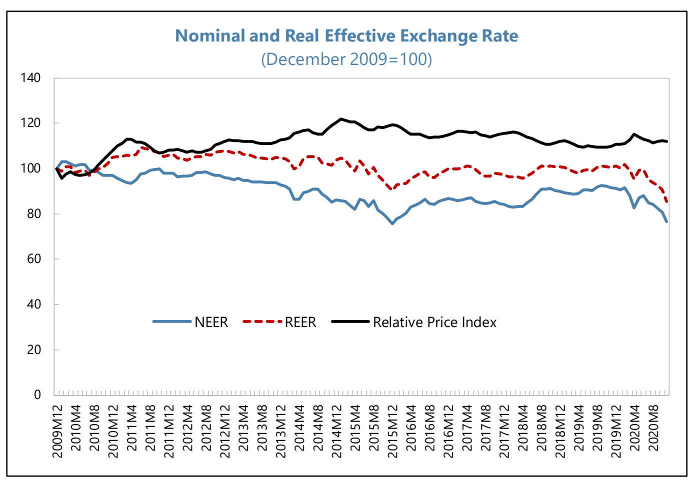
Annex III. External Sector Assessment

The external position of the Kyrgyz Republic in 2020 was moderately stronger than the level implied by medium-term fundamentals and desirable policies. However, the current account is projected to return to a deficit in 2021. Gross official foreign exchange reserves are above adequate levels indicated by the IMF reserve adequacy metric, but some reserve accumulation is needed over the medium term. To increase competitiveness of the economy, structural reforms should focus on strengthening governance, improving access to finance, reducing non-tariff trade barriers, and improving human capital.

1. **The Kyrgyz Republic's net investment position worsened in 2020.** The net international investment position (NIIP) was about -87 percent of GDP in 2020. Gross assets are estimated at about 72 percent of GDP (international reserves, foreign direct investment (FDI) assets, and other assets of 34, 15 and 23 percent of GDP, respectively), while gross liabilities amounted to 159 percent of GDP (external public and publicly guaranteed debt, private external debt, and FDI liabilities of around 54, 38 and 67 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 turned into a surplus of 4.5 percent of GDP in 2020 (from 12 percent deficit in 2019).** The improvement was primarily driven by significant import compression, which reflects the depreciation of the exchange rate, border closures during the pandemic, and reduced demand. Workers remittances fell sharply at the beginning of the COVID-19 crisis, but recovered subsequently ending the year at the 2019 level. Exports of goods have remained at the same level as in 2019 due to strong growth in gold exports, while non-gold exports fell. Exports of services also declined because of the pandemic-related travel restrictions. The current account balance is projected at about minus 6 percent of GDP in 2021 and should remain at that level over the medium term, driven by a recovery in imports with a rebound in growth and the opening of the border with China.

3. **After a prolonged period of** stability, the KGS exchange rate depreciated by about 19 percent vis-à-vis the US dollar in 2020. The real effective exchange rate (REER) depreciated by 14.8 percent y-o-y in November 2020.



4. **Gross foreign exchange reserves** decreased from 6.5 months of imports of goods and services at end-2019 to 6.2 months of imports of goods and services in 2020. Private sector external borrowing, FDI, and net portfolio inflows all declined resulting in pressures on reserves and the exchange rate. During 2020, the NBKR sold $519.7 million to cushion excessive fluctuations in the exchange rate. Gross reserves are projected to decline to about 5 months of imports of goods and services in 2021 and further to 2.8 months by 2026, slightly below the

levels indicated by the standard reserve adequacy metric and the IMF's reserve adequacy metrics for credit constrained economies with either floating or fixed exchange rates regimes[1].

External Assessment[2]

Kyrgyz Republic: Model Estimates for 2020 (in percent of GDP)		
	CA model	**REER model**
CA-Actual	**4.5**	
Cyclical contributions (from model) (-)	2.7	
COVID-19 adjustor (+) 1/	-3.1	
Adjusted CA	**-1.3**	
CA Norm (from model) 2/	**-3.2**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-3.2**	
CA Gap	**1.8**	**0.0**
o/w Relative policy gap	3.7	
Elasticity	-0.37	
REER Gap (in percent)	**-4.9**	**0.0**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism, oil, remittances balances, and gold exports.
2/ Cyclically adjusted, including multilateral consistency adjustments.

- The Current Account (CA) model identifies a current account gap of 1.8 percent of GDP and suggests a REER gap of 4.9 percent (Text Table). The large negative output gap reduces the actual CA surplus by 2.7 percent of GDP. The adjustors applied to the tourism (0.002 percent of GDP), oil (0.6), and remittances (1.3) balances to exclude transitory effects on the CA balance, and the adjustment to the gold exports (1.2) reduce the CA surplus by 3 percent of GDP. The relative fiscal policy gap of 2.7 percent of GDP reflects a smaller fiscal stimulus and stronger fiscal position in the Kyrgyz Republic compared to the world.

- The Som depreciated by 19 percent during 2020. The REER gap consistent with the staff assessed CA gap is -4.9 percent. The EBA-lite IREER model identifies that the REER is broadly in line with its fitted value based on a regression of the REER on its fundamental explanatory variables[3], resulting in a REER gap of 0.02 percent (Text Table). Taking into account uncertainties surrounding the impact of the border closures on the imports and remittances, staff puts more weight on the REER model and assesses the REER gap to be in the range of [-3; +2]. This range, which applies only to the staff-assessed REER gap, reflects both the uncertainty and some skewness (resulting from putting some weight on the REER gap resulting from EBA-lite CA model as well).

[1] The adequate level of reserves for credit constrained economies is estimated at 3.1 and 1.2 months of imports in the case of fixed and floating regimes, respectively (see IMF, 2015, Assessing Reserve Adequacy—Specific Proposals).

[2] Based on IMF, 2019, The Revised EBA-Lite Methodology.

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

Annex IV. Potential Output Growth and Growth-Augmenting Structural Reforms

This annex analyzes growth developments in the Kyrgyz Republic over the past two decades. It estimates potential output growth at about 4 percent, and identifies governance, access to finance, education and the energy sectors as key reform areas that could increase potential growth by at least two percentage points.

A. Introduction

1. The Kyrgyz economy grew annually on average by 4.2 percent during 1995–2019, compared to the average growth of 6.4 percent in the Caucasus and Central Asia (CCA) and 5.3 percent in EMDEs. Therefore, income per capita has increased less than in comparator countries, and the income gap has widened (Figure 1). At the projected average growth rate of 4.1 percent over medium to long-term and population growth of 2 percent, it would take more than 30 years for the Kyrgyz Republic with $1,189 per capita GNI to reach $2,541—the current midpoint for lower middle-income economies.[4] With higher growth of 6 percent the time needed to close the income gap would shrink to 16 years. This note examines the factors that drove growth in the Kyrgyz Republic since its independence, and structural reforms that could increase potential growth.

B. Estimation of Potential Output Growth

2. Over the past two decades, GDP growth was mostly driven by private consumption on the demand side, and by total factor productivity (TFP) and labor on the supply side. The contribution of private consumption was 4.2 percent during 1995–2018, the same level as average GDP growth, while the positive contributions of private investment (1.8 percent), public consumption (0.8 percent) and public investment (0.5 percent) were offset by the negative contribution of net exports (3.1 percent, Figure 1). Inward remittances, which increased from 3 percent of GDP in 2000 to about 29 percent of GDP in 2019, fueled private consumption and imports of consumer goods. The growth accounting exercise based on a Cobb-Douglas production function suggests that the contributions of TFP and labor to growth have been around 2 and 1.1 percent, respectively, while that of capital was less than one percent but increasing (Figure 1). The contribution of labor declined after 2007 as a result of outward migration and the declining work force participation by women.[5] Real growth, as well as TFP and capital contributions were below the respective CCA averages, while the labor contribution was above.

[4] According to the World Bank, lower middle-income economies have GNI per capita between $1,036 and $4,045, and upper middle-income economies between $4,046 and $12,535. The midpoint for lower middle-income economies is $2,541. (https://www.worldbank.org/en/country/mic/overview#1).

[5] SM/17/268, Kyrgyz Republic, Selected Issues, *Economic Transformation: A Human Based Diversification*.

3. **Estimates suggest that the potential output increased to about 4 percent during the past two decades[6].** The average of all approaches indicates that the potential growth over the sample was 4.1 percent but that it increased by 0.5 percent from 1995–2000 to 2013–2019 (Table 1). However, the subsamples show that potential output growth was increasing or stable in three different approaches (HP filter, BK filter and multivariate filter), while the production function approach shows that potential output growth has been declining since 2007, reflecting the drop in labor productivity.

C. Growth-Augmenting Structural Reforms

4. **Strengthening governance, increasing access to finance, improving the quality of education, and reforming the energy sector are key to boost growth**. The findings of five independent growth diagnostic studies are summarized in Table 2 below.[7]

Strengthening Governance

5. **The Kyrgyz Republic has considerable room to improve its ranking in governance indicators.** The Worldwide Governance Indicators (WGI)[8] show clear improvement on voice and accountability, while other indicators have exhibited little progress. In addition, all growth diagnostics studies suggest that political stability, strengthening confidence in the rule of law, and strengthening the control of corruption would support formalization of businesses and entry of foreign investors.

6. **Strengthening institutions, enhancing transparency, and streamlining regulations are key to combatting corruption and improving the business environment.** Improving the business environment and tackling corruption could, per staff estimates, increase growth of per-capita GDP by 0.8 percent a year.[9] The key reform priorities are: (i) *fiscal governance*: modernize tax and custom administration, streamline tax exemptions, improve wage bill and public investment management, implement the procurement code, including for state-owned enterprises, and a computerized Financial Management Information System; (ii) *financial sector oversight*: strengthen the bank resolution framework; (iii) *market regulation*: simplify import licensing, and make it transparent and predictable, and eliminate licensors' discretion; (iv) *AML/CFT:* align AML/CFT framework with the FATF standards, ensure effective implementation of measures related to politically-exposed persons and increase transparency of beneficial ownerships, and strengthen risk-based supervision; (v) *rule of law*:

[6] The estimates are based on 1. Hodrick-Prescott (HP) and Baxter-King (BK) univariate filters to decompose raw GDP data into a cyclical component and a trend (Hodrick and Prescott,1997; and Christiano and Fitzgerald, 2003); 2. A growth accounting framework with a Cobb-Douglas production function; and 3. A multivariate filter to embed the structural relationship between inflation, unemployment and the output gap (Blagrave et al., 2015).

[7] The studies were done by the ADB, the EBRD, the IMF, the USAID, and the WB.
Yamano, T., Hill, H., Ginting, E. and Samson, J., 2019, *Kyrgyz Republic: Improving Growth Potential*, September 2019, Asian Development Bank.
Holzhacker, H. and Skakova D., 2019, *Kyrgyz Republic Diagnostic*, EBRD.
IMF, 2019, *Constraints to private investment and economic growth in the Kyrgyz Republic*, Selected Issues Paper.
Gellerson, M., Martinez, N., Oliver P., and Spanjers, J., 2019, *Kyrgyz Republic Inclusive Growth Diagnostic*, USAID
World Bank, 2018, *Kyrgyz Republic: From Vulnerability to Prosperity*, Systematic Country Diagnostic.

[8] Worldwide Governance Indicators, http://info.worldbank.org/governance/wgi/.

[9] IMF, 2017, Kyrgyz Republic—Staff Report for the 2017 Article IV Consultation.

strengthen independence of judiciary and publish statistics on court proceedings; and (vi) *anti-corruption*: align laws with the UN Convention against Corruption, strengthen the asset declaration regime by allowing public access to comprehensive declarations of high-level public officials, investigate illicit enrichment, and publish the results of verifications and sanctions imposed.

Improving Access to Finance

7. **Inadequate access to finance is an important impediment to growth.** Credit to the economy is only 28 percent of GDP in 2020, and interest rate spread and collateral requirements by banks are high relative to comparators due to weak competition, high credit risk, weaknesses in the rule of law, high operating costs, and information asymmetries.[10] Dynamic stochastic general equilibrium model simulations show that relaxing collateral requirements, reducing lending-deposit interest spreads, and reducing financial access costs would raise long-term GDP by around 14 percent and productivity by 5 percent.[11] Collateral constraints can be addressed by expanding the range of eligible assets, strengthening the legal framework for collateral enforcement and strengthening the rule of law. The NBKR recently amended regulations to allow non-property guarantees as permissible collateral, modified the coverage and loan-to-value ratio requirements for property collateral, and strengthened provisions to improve the quality of property appraisal and ensure appraisers' independence. Greater competition can be achieved by facilitating entry of new banks and exit of failed ones, improving the bank resolution process, and developing capital markets. Mobile banking and fintech would help reduce financial access costs.

Improving the Quality of Education

8. **Improving education is essential to close the skills gap, boost labor productivity and increase growth.** While the Kyrgyz Republic spends significantly more on education than its peers, it continues to rank poorly on school enrollment and test scores.[12] Vocational education and training (VET) could also be improved to help more than 3,000 students find a job each year.[13] Education reform is necessary to upgrade teaching practices, learning strategies and education materials and modernize education financing to deliver better outcomes.[14]

Reforming the Energy Sector

9. **Difficulty in getting electricity is among the most stringent constraints for businesses**. Energy companies are running chronic deficits, while poor maintenance and under-investment have led to infrastructure decay with 45 percent of the generation capacity being beyond its useful life. Low

[10] IMF, 2021, "Annex: What Drives Bank Lending Spread and Collateral Requirements in the Kyrgyz Republic", forthcoming.

[11] IMF, 2019, Kyrgyz Republic—Staff Report for the 2019 Article IV Consultation.

[12] Gellerson, M., Martinez, N., Oliver P., and Spanjers, J., 2019, Kyrgyz Republic Inclusive Growth Diagnostic, USAID; and OECD, 2010, Program for International Student Assessment, PISA 2009 Results: What Students Know and Can Do: Student Performance in Reading, Mathematics and Science, Volume I.

[13] Holzhacker, H. and Skakova, D. 2019, *Kyrgyz Republic Diagnostic, European Bank for Reconstruction and Development*.

[14] World Bank, 2014, *Kyrgyz Republic Public Expenditure Review Policy Notes Education*.

tariffs have hindered private sector participation, and development and utilization of country's abundant hydro-power potential. The Kyrgyz electricity sector continues to significantly underperforms it peers,[15] and is in urgent need for reforms to restore its financial sustainability and improve service quality. A comprehensive approach is needed to optimize costs, strengthen governance, improve collections, and raise residential tariffs, which are well below cost-recovery. The impact of higher tariffs on the most vulnerable households, however, would need to be mitigated through targeted social protection. The regulatory framework may also need to be upgraded to make the energy sector attractive to private investors. Staff analysis suggests that closing 10 percent of the gap in electricity sector performance with the median country of a sample of 81 countries could raise per capita GDP the following year by 1.1 percent.[16]

[15] IMF, 2019, *Kyrgyz Republic: Unleashing the Potential of the Energy Sector,* Selected Issues Paper.

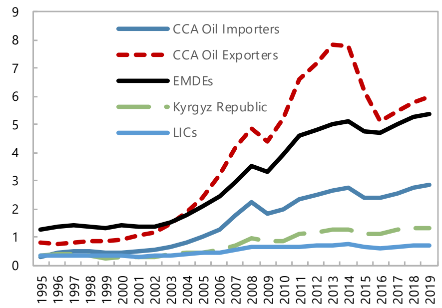
[16] Ibid.

Figure 1. Kyrgyz Republic: Drivers of Output Growth, 1995–2018

The income gap with emerging market countries increased.

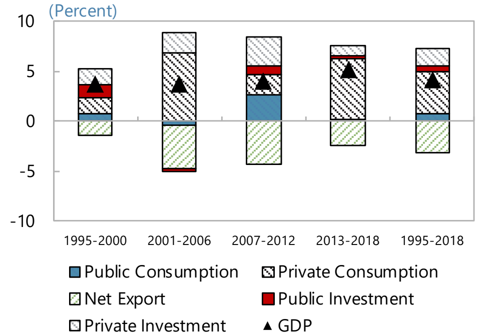
On the demand side, real GDP growth was mostly driven by private consumption and private investment.

Evolution of GDP per Capita
(Thousands USD)



Source: IMF Data Mapper.

Kyrgyz Republic: Growth Decomposition-Averages
(Percent)

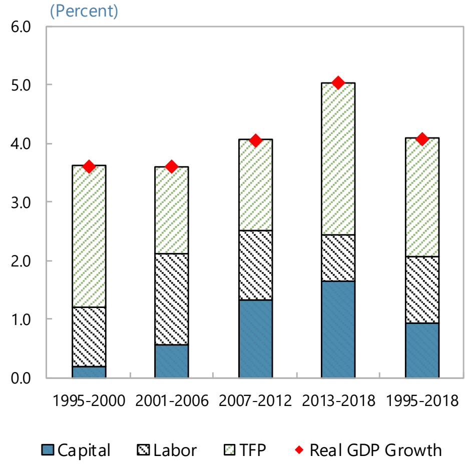


Sources: Country authorities and IMF Staff

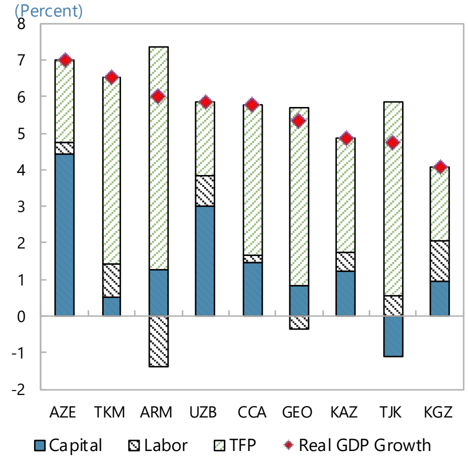
On the supply side, growth was mostly driven by total factor productivity (TFP) and labor.

Real GDP growth and TFP and capital contributions lagged other CCA countries.

Kyrgyz Real GDP: Contribution of Capital, Labor and Productivity
(Percent)



Real GDP: Contribution of Capital, Labor and Productivity, 1995-2018
(Percent)



Source: Country authorities, Penn World Tables (version 9.1), and IMF Staff estimates.

Potential Output Growth, 1995–2019

(Percent)

	HP Filter	Baxter-King Filter	PF Approach	Multivariate Filter	Average
1995-2000	4.2	4.6	3.9	2.6	3.8
2001-2006	4.2	3.9	4.6	3.5	4.0
2007-2012	4.2	4.2	4.1	4.1	4.1
2013-2019	4.2	4.5	3.7	4.7	4.3
1995-2019	4.2	4.3	4.1	3.8	4.1

Table 1. Kyrgyz Republic: Structural Reform Priorities to Increase the Growth Potential of the Economy, 2018–19

ADB [1/]	EBRD [2/]	IMF [3/]	USAID [4/]	WB [5/]
Governance and the business environment	Governance and the business environment	Governance and rule of law	Economic governance related to the application of the rule of law	Governance
Access to finance	Access to finance	Cost of finance	Access to finance	
Labor market reform (both supply-quality of education- and demand-business environment)	Skills and qualifications of the workforce	Quality of education	Quality of education	
Energy sector reform	Transport and energy infrastructure	Infrastructure gaps, including energy	Electricity	Removing constraints for mining and hydropower development
Trade policy, including institutional mechanism to meet international sanitary standards and simpler border control			Infrastructure	Addressing external competitiveness constraints, through upgrading quality of transport and information and communication technology (ICT)infrastructure
Fiscal reforms strengthening public investment management and better targeting social spending				Strengthen public financial management: public investment, wage bill, public procurement
				Improve targeting of social protection programs
				Improve agriculture productivity

Sources: WB, ADB, EBRD, USAID and IMF.
1/ Yamano et al. (2019), Asian Development Bank, pp. 41-47
2/ Holzhacker and Skakova, European Bank for Reconstruction and Development, p. 5.
3/ IMF (2019), p.3.
4/ Gellerson et al. (2019), United States Agency for International Development, pp. ix-xi.
5/ World Bank (2018), pp. 18-20 and 33-38.

Annex V. What Drives Bank Interest Rate Spreads in the Kyrgyz Republic

This analytical note identifies the determinants of interest rate spreads in the Kyrgyz Republic. It finds that more competition, higher capital, lower credit risk, larger loan size, and lower deposit rates, as well as external funding costs appear to be key to lowering spreads. Lowering operating costs for small and medium-sized banks would also be critical to reduce their relatively higher spreads. At the same time, a stronger legal framework and greater transparency on the creditworthiness of borrowers could reduce the high collateral requirements which likely constrain credit.

1. **Limited access to finance for SMEs and its high cost are one of the main reasons for the relatively low level of private investment and per capita income in the Kyrgyz Republic (Figure 1).** Access of firms to bank loans (25.8 percent) or the share of investment financed by banks (7.2 percent) is lower compared to lower middle income economies in Europe/Central Asia (29 and 39 percent, respectively, for access to bank loans, and 13 percent for both comparator groups for bank-financed investment). The share of small firms with a bank loan or a credit line, and the proportion of investment of small firms financed by banks is less than half that of large firms. Firms operating in manufacturing appear to have better access to bank loans. More broadly, financial sector deepening indicators such as private banking credit to GDP is well below Georgia, Armenia, Emerging Europe, and emerging market and developing economies (EMs) while the cost of finance is much higher.

2. **In the aftermath of the COVID-19 pandemic, structural reforms should resume to secure SME financial inclusion and reduce the cost of financial intermediation**. While a swift policy response was essential to preserve macro-financial stability and the flow of credit to the economy during the pandemic, it will be critical to rebuild buffers fast to maintain strong balance sheets and embark on broader reforms to facilitate greater financial inclusion. It is critical to implement measures that strengthen transparency and longer-term resilience of the financial system to avoid lasting distortions in the financial sector and avoid build-up of liabilities for the public sector. Achieving lasting SME financial inclusion is key to sustainable and inclusive growth in the Kyrgyz Republic in the medium term. The analysis in this note takes a closer look at the determinants of interest rate spreads to inform policymakers of the needed reforms.

3. **Interest rate spreads and collateral requirements by banks in the Kyrgyz Republic are relatively high from both the regional and global perspective**. Although they have declined relative to the 2000s and more recently since 2008, interest rate spreads still remain high (10 percentage points) despite the strengthened macroeconomic stability and improved banking supervision (Table 1). High spreads constrain financial intermediation and hamper the effectiveness of the credit channel of monetary policy transmission. At the same time, internal policies of banks on collateral appear to be stringent. The proportion of loans requiring collateral is 93.6 percent and the collateral-to-loan ratio is 244 percent, which are higher than the average in EMs overall or in Emerging Europe (Figure 1). Moreover, these indicators have increased since 2013 when the respective ratios were 84.7 and 194 percent. While high interest rate spreads can indicate a lack of competition and

efficiency, high collateral requirements could stem from weaknesses in the rule of law and illiquid and volatile property markets, which may ration credit supply.

4. **Empirical analysis identifies competition, bank capital, loan size, credit risk, deposit rates, and the protection of property rights as key explanatory variables for interest rate spreads**. Higher competition would provide incentives to lower operating costs and reduce profits margins. Higher capital ratios are associated with lower spreads, which could be a reflection of unutilized resources in banks with higher capital which exert a downward pressure on their lending rates. Spreads could be reduced as the loan size increases which is most likely a reflection of the credit worthiness of borrowers, or larger loans could have lower operating costs. Also, lower credit risk (proxied by NPLs or loan loss provisioning) is associated with lower spreads. Lower interest rates (i.e., deposit rate) is also associated with lower spreads. At the same time, while not tested due to lack of data, external funding costs are likely to be positively associated with spreads. Thus, it would be important to further increase competition by leveling the playing field and encouraging entry of banks, improving coverage of credit bureaus and bank access to borrower information, and enhancing disclosure of loan and deposit terms. Credit risk can be reduced by strengthening the rule of law, while the cost of funds can be lowered by expanding the domestic funding base, strengthening deposit insurance, developing more competitive hedging instruments, and improving financial literacy. Protection of property rights and strengthening the business environment would reduce the associated risks and therefore the respective risk premia which are reflected in interest rates.

5. **Lending spreads have decreased over time but remain relatively high for small and medium-sized banks.** This is likely to be reflective of improved competition, as evidenced by lower concentration in the market (i.e., a fall in the Herfindahl-Hirschman Index). Smaller and medium-sized banks tend to have higher spreads due to higher costs of funding and higher overheads (higher headcount per loan). These costs can be reduced by expanding domestic funding base and lengthening maturities of deposits,[1] and fostering greater financial inclusion of the population and improving access to bank services. Developing and expanding fintech, e.g., e-wallet and mobile banking technologies, could bring down funding and operating costs. Given that the cost of FX funding is high due to a 5–6 percent hedging cost, reducing that cost by using more competitive hedging instruments could also help reduce spreads while ensuring that hedging remains in place.

6. **The NBKR sets minimum prudential requirements for collateral, but banks' requirements are considerably higher.** The NBKR Regulation on asset classification requires at least 120 percent collateral for a loan to be classified as 'normal' assets, if government securities, NBKR notes, and funds in a separate deposit account serve as collateral. Further, uncollateralized (unsecured) loans should not exceed 50 percent of a bank's net total capital. While these are the minimum collateral requirements, banks' internal policies could be more stringent. Depending on the type of collateral, as well as the region in which the firm borrows, discount rates (from market values) are applied to the collateral value which can range from 50 percent to 90 percent. For example, real estate in the capital is relatively liquid, are discounted by 30 percent, while less-liquid real estate in rural areas or factories are

[1] Time deposits comprise about 40 percent in total deposits (weighted average interest rates on these are over 8 percent), while demand deposits constitute the remaining 60 percent (at weighted average interest rates of about 1 percent).

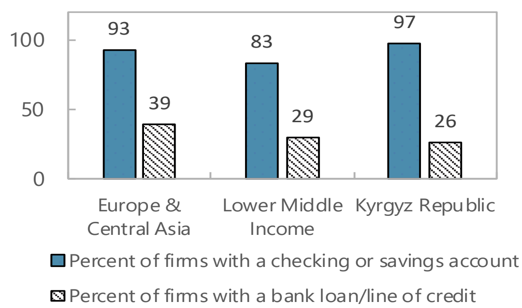
discounted by 40 percent; and movables and stocks/equity by 50 percent. Banks also do not accept agricultural land as collateral given the restrictions on owning and selling it—agricultural land should be sold by a bank within two years, and should first be offered to local buyers. This challenge is particularly acute for SMEs in agriculture, especially in the south, which face difficulties with valuation of their land in rural areas. Around 40–50 percent of SMEs fail to obtain a bank loan due to prohibitively high collateral requirements by banks. It appears that the proportion of loans requiring collateral is higher in manufacturing than in services, and is higher in the regions of Chui, Jalalabad, and Issyk-Kul than it is in the capital and in other regions.

7. Banks cite information on SME creditworthiness, and collateral and legal risks, as justification for their high collateral requirements. SMEs' credit worthiness is not easily available or sufficiently transparent to mitigate information asymmetries. The collateral risk—the risk that the collateral can decline in value and be insufficient to cover the loan—or collateral illiquidity—the risk that the process to liquidate the collateral can be time-consuming and costly—are additional concerns expressed by banks with respect to collateral recovery. Banks used to seize collateral out of court through arbitration, but more recently, when the real estate used as collateral is the only property of the borrower, banks must follow court proceedings in three stages of appeal, which prolongs the recovery.

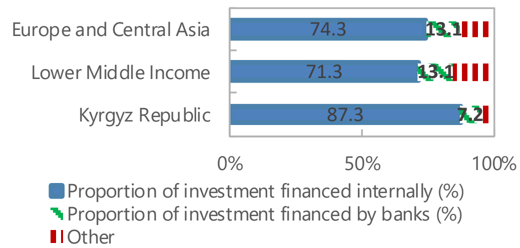
8. Strengthening the rule of law and greater transparency on the creditworthiness of borrowers would also support a gradual relaxation of collateral constraints and credit supply. Strengthening the legal framework to enforce collateral would reduce the banks' legal costs and risks, and lead to more relaxed collateral requirements. Banks could also rely more on information about borrower creditworthiness than on collateral via increased coverage by credit bureaus and use new credit scoring technologies. This could also allow the NBKR to relax collateral regulations and thereby support credit growth.

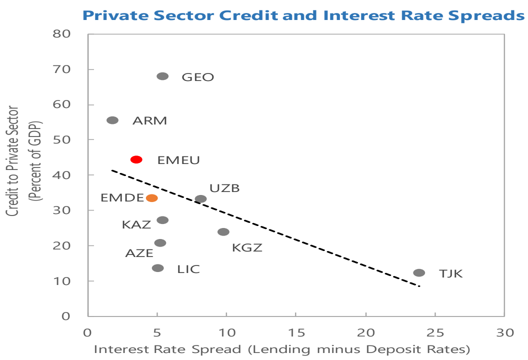
Figure 1. Kyrgyz Republic: Financial Development and Soundness Indicators, 2019

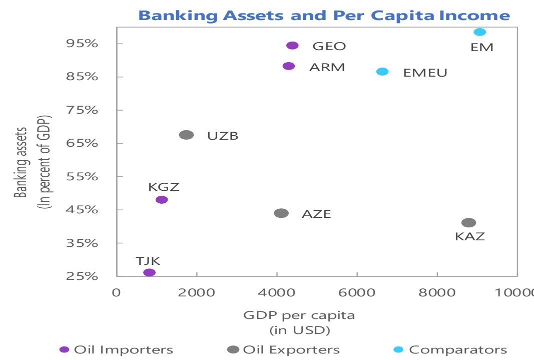
Use of Financial Services



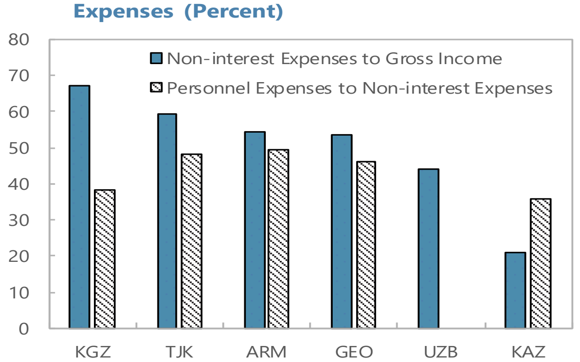
Sources of financing for purchase of fixed assets



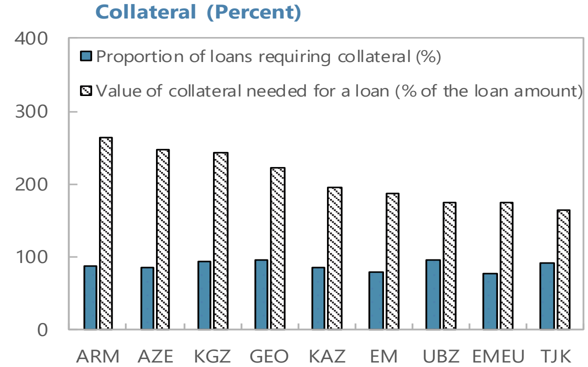




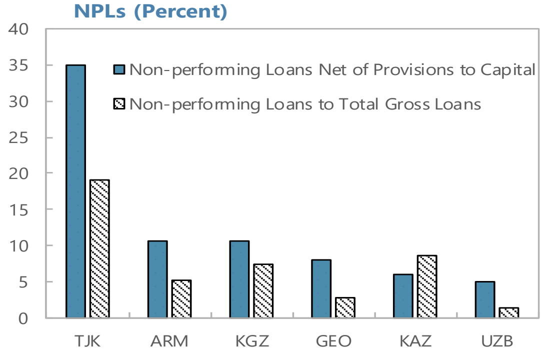
Expenses (Percent)



Collateral (Percent)



NPLs (Percent)



Quality of Legal Framework and Credit Information

	Strength of legal rights index (0=weak to 12=strong)	Depth of credit information index (0=low to 8=high)	Private credit bureau coverage (% of adults)	Rule of Law (-2.5=weak to 2.5=strong)
KAZ	6	7	59.3	-0.4
GEO	9	8	100	0.3
UZB	6	7	42.7	-1.1
KGZ	9	6	37.9	-0.9
ARM	6	8	80	-0.2
TJK	1	7	44.9	-1.3
AZE	8	8	41.5	-0.6
Average	**6.4**	**7.3**	**58.0**	**-0.6**

Source: World Bank, and Worldwide Governance Indicators, 2018.

Source: IMF, WEO and Financial Soundness Indicators; World Bank Enterprise Survey; Worldwide Governance Indicators.

Table 1. Contribution to Interest Rate Spreads

(in percent)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Interest earned on loans	18.4	16.0	20.0	21.8	19.4	18.2	18.7	16.7	15.4	18.8	19.7	16.4	14.2
Interest paid on interest bearing liabilities	2.8	3.6	4.9	4.4	3.4	4.0	4.4	4.1	4.9	6.4	6.9	5.0	4.4
Spread	**15.6**	**12.4**	**15.0**	**17.4**	**16.0**	**14.3**	**14.3**	**12.5**	**10.5**	**12.4**	**12.8**	**11.3**	**9.8**
Operating costs/loans	6.2	5.7	7.0	6.4	6.8	7.6	7.1	6.2	6.1	5.9	6.3	6.4	6.1
Loan loss provisions/loans	1.6	0.8	1.7	1.6	2.9	-0.3	0.0	0.8	0.7	1.6	1.6	0.6	1.1
Interest paid to cover required reserves	0.3	0.4	0.5	0.4	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.4	0.3
Pre-tax profit	7.5	5.5	5.8	9.0	6.1	6.7	6.8	5.2	3.3	4.5	4.3	4.0	2.3

Sources: NBKR, and IMF staff calculations.

Annex VI. Income Inequality in the Kyrgyz Republic: the Role of Remittances and Social Transfers[1]

Remittances and social transfers have contributed to reducing income inequality in the Kyrgyz Republic. However, the average income remains low and predominant part of the population is slightly above the poverty threshold. A comprehensive strategy is needed to lift living standards through faster and inclusive growth. Remittances would help boost growth, if used more for investment than consumption, while better targeting of non-pension social transfers would help reduce income inequality further.

A. Stylized Facts on Income Inequality in the Kyrgyz Republic

1. **Relatively high poverty remains the main policy challenge in the Kyrgyz Republic, but income inequality has been on a declining path over the last decade.** The Gini coefficient has dropped from 0.42 in 2006 to 0.36 in 2018 and is comparable to CIS countries and Baltic states (Figure 1). Both urban and rural areas experienced a reduction in income inequality, but the level of inequality remains higher in rural areas (0.37 in 2018) compared to urban areas (0.33 in 2018). The main contributor to the decline in income inequality is the reduction of inequality within regions. The share of inequality between regions in total inequality is low, ranging between 6–11 percent over 2006–18.

2. **The decline in inequality was supported by rising income of poorest households.** Over the 2008-18 period, real household income grew by 54.4 percent (Figure 1). For households up to 68th percentile of income distribution, income growth exceeded the average. The poorest households experienced the highest growth rates, lifting many out of poverty.[2] By contract, the richest 20th percentile experienced lower than average growth rates. Taken together, this contributed to a lower dispersion of income distribution centered around higher mean income in 2018 compared to 2008.

3. **Regional differences in income inequality and income levels are sizeable.** Southern regions (except for Osh) tend to have higher income inequality (Gini coefficient ranging between 0.36–0.40) compared to Northern regions (Gini coefficient ranging between 0.28-0.36). In addition, income levels vary widely across regions, especially for the middle-class.

B. The Role of Social Transfers and Remittances

4. **Social transfers and remittances have contributed to the decline in income inequality.** For instance, real incomes of the poorest decile increased by 160 percent over 2008–18 (Figure 2), but they would have declined by 62 percent if social transfers were excluded and increased by 131 percent if remittances were excluded. The impact of remittances and social transfers on income growth gradually declines for richer households but remains positive. For social transfers, the main contributor to growing income is pensions. Excluding pensions, the impact of social transfers is present only for the poorest decile.

[1] Prepared by Tigran Poghosyan and Erkeaim Shambetova.

[2] See Seitz, W. 2019. "Where They Live: District-Level Measures of Poverty, Average Consumption, and the Middle Class in Central Asia," World Bank Policy Research Working Paper 8940.

5. Social transfers and remittances are progressive, especially when pensions are included. A larger proportion of poorer households receive social transfers and remittances, compared to richer households (Figure 3). For instance, 93.4 (31.6) percent of households in the poorest decile receive social transfers including (excluding) pensions, compared to 27.8 (3.1) percent in the richest decile. The larger impact of pensions is due to their dominant share in total social benefits (78 percent). Similarly, 35.7 percent of households in the poorest decile receive remittances, compared to 8 percent in the richest decile, suggesting that remittances are also progressive.[3]

6. The share of households receiving social transfers increased over time on account of growing pension recipients, while the share of households receiving remittances stayed broadly flat.[4] The former increased from 46.3 percent in 2006 to 57.3 percent in 2018 (Figure 3), mostly driven by the increase in pension recipients, while the share of recipients of non-pension social transfers fell from 13.5 percent in 2006 to 7.4 percent in 2018. This decline was a result of a decline in eligibility for non-pension social transfers due to drop in poverty. By contrast, the share of households receiving remittances increased marginally from 17.7 percent in 2008 to 18.3 percent in 2018, possibly implying a stable base of households receiving remittances despite the growing size of total remittances.

7. Our logit regression shows that the likelihood of receiving social transfers and remittances depends on the socioeconomic characteristics of households, decreases with income, and moves over time.[5]

- **Social transfers**. Households with a larger number of adults (especially older adults), with at least one member with secondary or tertiary education, and located in rural areas are more likely to receive social transfers. However, the likelihood of receiving non-pension social transfers is lower for households with tertiary education. Non-pension social transfers are more likely to flow to households with children through various children support programs (e.g., child allowance at birth and universal child allowance) which constitute a sizeable part of non-pension transfers.

- **Remittances.** Households with a larger number of adults (including older adults) and with at least one member with tertiary education are less likely to receive remittances. This is because better education implies less migration. By contrast, households with children, with at least one member with secondary education, and located in rural areas are more likely to receive remittances. A need to support children is an important driver for migration and remittances.

- **Level of income**. The likelihood of receiving social transfers and remittances is decreasing with the level of pre-transfer and pre-remittance income. The progressivity of transfers and remittances helps explain the reduction in income inequality observed in the past decade.

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[3] See Chami, R., Hakura, D., and Montiel, P. 2009. "Remittances: An Automatic Output Stabilizer?" *IMF Working Paper WP/09/91* for the discussion on how remittances play a role of automatic stabilizers in response to income shocks.

[4] The number of pension recipients has increased by 23 percent cumulatively over 2010–18.

[5] See Lambert, F. and H. Park. 2019. "Income Inequality and Government Transfers in Mexico," IMF Working Paper WP/19/148 for a similar analysis for Mexico.

- **Time effects**. The likelihood of receiving transfers has increased over time driven by a growing number of pensioners. By contrast, the likelihood of receiving non-pension social transfers has decreased. For remittances, the likelihood decreased in 2010–14, consistent with a declining share of households receiving remittances (Figure 3) despite the growing volume of remittances.[6]

C. Policy Recommendations

8. Targeted policies are needed to remove growth bottlenecks and raise living standards. The declining income inequality combined with still high share of households living just above the poverty line suggests that income redistribution will not be as effective in lifting living standards as measures aimed at raising incomes for all.[7] For this purpose, policies should be geared toward removing inclusive growth bottlenecks and accelerating growth rates above the current levels.

9. Better targeting of non-pension social transfers could help reduce inequality further. The analysis suggests that social transfers helped reduce income inequality, but the effect came mainly from pensions. Non-pension social transfers did not have sizeable impact on reducing inequality. Means-tested social transfers constitute only a small portion of non-pension social transfers. Gradual transition from categorical to mean-tested social transfers would contribute to the reduction of income inequality. It would also help improve sustainability of the social spending policy, since demographic developments imply greater pressures on categorical social transfers going forward.

10. Remittances would contribute to inclusive growth if used more for investment than consumption. Remittances appear to mostly support consumption. Using the difference-in-difference approach[8], we find that one percentage point higher growth in remittances would result in about 0.25 percentage points higher growth rate in the 75th percentile more consumption-oriented industry (textile production) compared to the 25th percentile of consumption-oriented industry (construction). Gradual redirection of remittances from consumption to investment would revive economic activity and generate new jobs. Remittance-driven investment is likely to concentrate in the SME sector, contribute to economic diversification, and lower dependence on gold production and remittance-based consumption.

[6] See World Bank dataset (https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=KG).

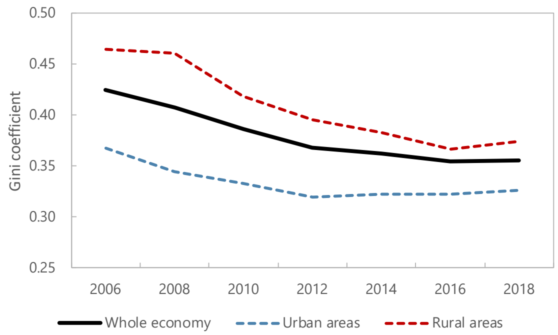
[7] The World Bank's 'Kyrgyz Republic: From Vulnerability to Prosperity: A Systematic Country Diagnostic' (2018). reports that only 2 percent of the population was in the middle class (daily income between 10-50 international dollars), while 65 percent was vulnerable to falling back into poverty (2.5–10 international dollars) in 2015.

[8] See Rajan, R., and L. Zingales. 1998. "Financial Dependence and Growth," *American Economic Review* 88: pp. 559-87. The empirical specification is: $g_{it} = \alpha_i + \beta * (SH_i * REM_t) + \gamma * Trend + \varepsilon_{it}$, where g_{it} is the growth of value added of sector i in period t (in USD), α_i are sector-specific fixed effects, SH_i is the percentage share of output of sector i that was used for consumption by households in the initial year of the sample period, REM_t are remittances in period t (in logs), and *Trend* is the time trend. The main coefficient of interest is β, which measures the differential growth impact of remittances in more consumption-oriented sectors relative to less consumption-oriented sectors.

Figure 1. Kyrgyz Republic: Income Inequality

Income inequality has declined over the last decade ...

Income inequality in the Kyrgyz Republic, 2006-18

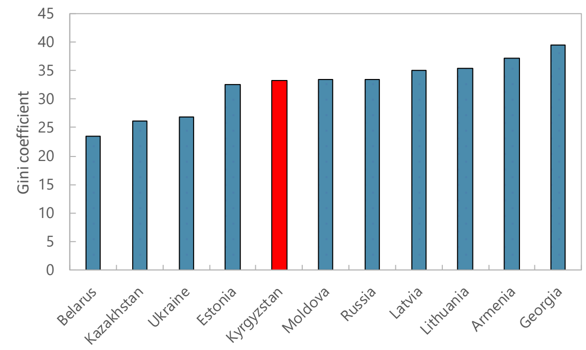


Source: Kyrgyz integrated household survey, IMF staff calculations.

Note: The Gini coefficient measures the magnitude of income inequality, ranging from 0 (perfect equality) to 1 (highest inequality).

... to a level comparable to an average CIS and Baltic country.

Income inequality in selected CIS and Baltic states, 2016



Source: Standardized World Income Inequality Database (SWIID).

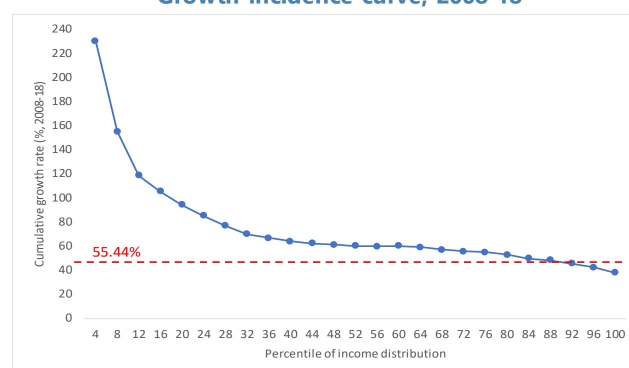
Reduction of inequality was mostly driven by declining inequality within regions ...

Theil index: Decomposing inequality into within and between components, 2006-18

Source: Kyrgyz integrated household survey, IMF staff calculations.

... and was supported by rising incomes of poorest households.

Growth incidence curve, 2008-18

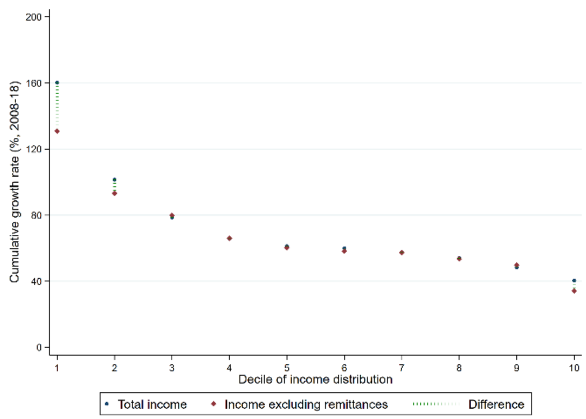


Source: Kyrgyz integrated household survey, IMF staff calculations.
Note: The vertical axis displays the cumulative growth rate of the average real household income (weighted by household size) over 2008-18. The horizontal dashed line shows the growth rate in the household income (weighted by household size) for the whole economy over 2008-18.

Figure 2. Kyrgyz Republic: Impact of Social Transfers and Remittances on Household Income Growth, 2008–18

Remittances helped boost incomes of poorest households…

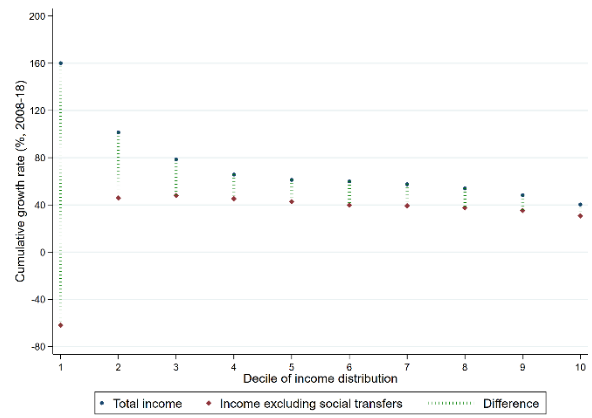
Impact of remittances



Source: Kyrgyz integrated household survey, IMF staff calculations.

… while total social transfers increased incomes of all households, with the impact gradually declining for richest households…

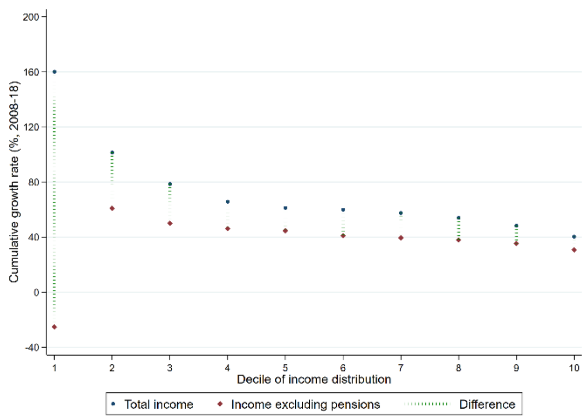
Impact of total social transfers



Source: Kyrgyz integrated household survey, IMF staff calculations.

… mostly due to pension transfers …

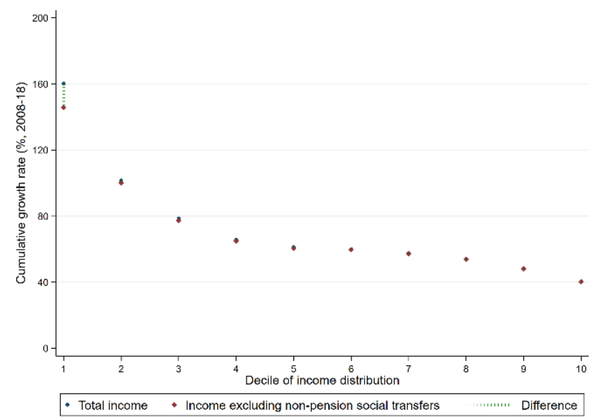
Impact of pensions



Source: Kyrgyz integrated household survey, IMF staff calculations.

… while non-pension transfers were mostly directed to poorest households.

Impact of non-pension social transfers

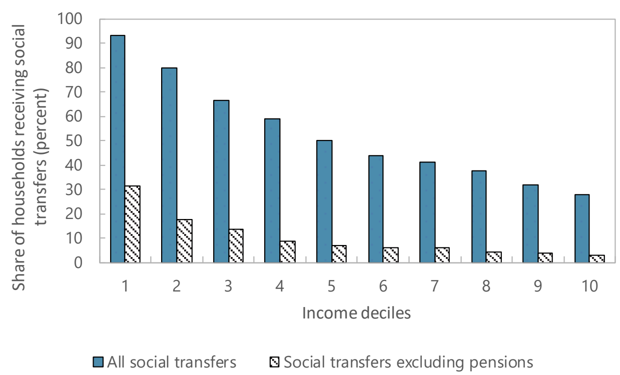


Source: Kyrgyz integrated household survey, IMF staff calculations.

Figure 3. Kyrgyz Republic: Share of Households Receiving Social Transfers and Remittances by Income Decile and Over Time

Both total and non-pension social transfers are progressive ...

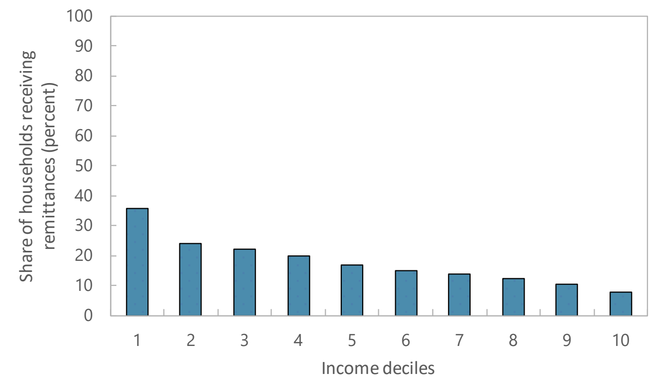
Social transfers: By income decile



Source: Kyrgyz integrated household survey, IMF staff calculations.
Note: 1 = poorest income decile, 10 = richest income decile. The income deciles are calculated using total income excluding social transfers and remittances.

... and so are remittances.

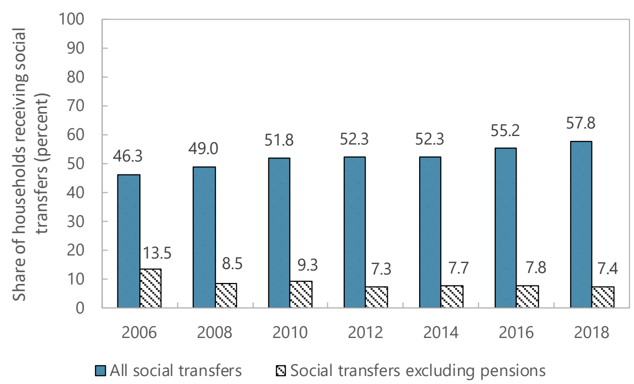
Remittances: By income decile



Source: Kyrgyz integrated household survey, IMF staff calculations.
Note: 1 = poorest income decile, 10 = richest income decile. The income deciles are calculated using total income excluding social transfers and remittances.

The share of households receiving total social transfers has increase over time, but the share of households receiving non-pension social transfers has decreased ...

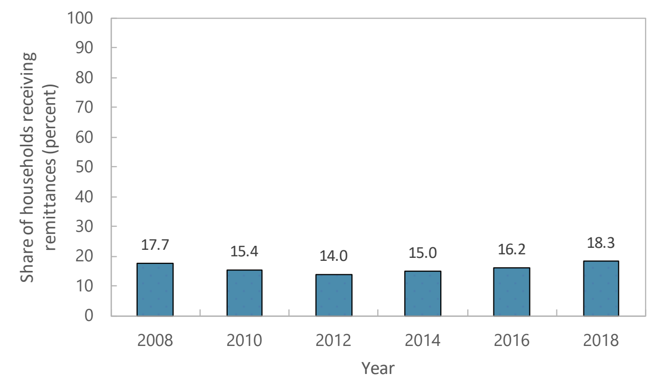
Social transfers: Over time



Source: Kyrgyz integrated household survey, IMF staff calculations.

... while the share of households receiving remittances has varied, decreasing in 2008-14 and increasing in 2014-18.

Remittances: Over time



Source: Kyrgyz integrated household survey, IMF staff calculations.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

May 18, 2021

Approved By
Subir Lall and Uma Ramakrishnan (IMF) and Lalita M. Moorty and Marcello Estevao (IDA)

Prepared by staff of the International Monetary Fund and the International Development Association

Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Some Space
Application of judgment	No

This debt sustainability analysis (DSA) indicates that the Kyrgyz Republic's public debt remains sustainable and at moderate risk of debt distress for both external public debt and total public debt. The external and total public debt outlooks remain vulnerable to export shocks and real GDP growth shocks, respectively. The breaches of the debt thresholds under these standard shocks imply moderate risk ratings for external and total public debt. The Kyrgyz Republic's current debt-carrying capacity is assessed as strong, and there remains some space to absorb shocks, despite the COVID crisis-induced spike in total public debt to 68 percent of GDP in 2020.[1] *Without consolidation measures public debt would continue to rise in the longer term. Strengthening debt management, avoiding non-concessional borrowing and improving public investment management would help reduce fiscal and external imbalances, thus containing debt vulnerabilities.*

[1] The DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework (DSF) for Low-Income Countries (LICs). See IMF, 2018, Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries. The Kyrgyz Republic's debt-carrying capacity remains strong as its Composite Indicator is 3.123, which is based on the 2020 October WEO and the 2019 CPIA that was released in July 2020.

PUBLIC DEBT COVERAGE

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

Text Table 1. Kyrgyz Republic: Public Debt Coverage

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

Text Table 2. Kyrgyz Republic: Combined Contingent Liability Shock

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

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

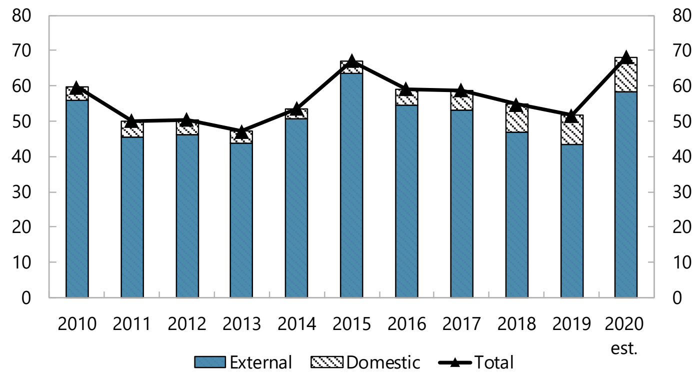
[2] IMF Country Report No. 19/208, Kyrgyz Republic—Staff Report for 2019 Article IV Consultation, ¶34.

BACKGROUND

2. **After a steady decline since 2015, public debt increased significantly in 2020** (Text Chart 1). A lower output (GDP expressed in US$ declined by 13 percent), the 19 percent depreciation of Kyrgyz Som against the US dollar (year-on-year at end December), and an increase in the general government budget deficit (estimated at 3.3 percent of GDP) in 2020 resulted in a sharp increase in public debt to 68 (16.4 percentage points higher than in 2019). Domestic debt has increased from 3.6 percent in 2015 to 9.8 percent of GDP in 2020, accounting for about 14.5 percent of total debt. Domestic public debt is mostly held by commercial banks (50 percent) and the social security fund (30 percent).

Text Chart 1. Public Debt, (2010-2020)

Percent of GDP



Sources: Country authorities

UNDERLYING ASSUMPTIONS

3. **The macroeconomic outlook underlying this DSA has weakened in the short term due to the COVID-crisis compared to the previous DSA.** The revised projections assume that that the global pandemic recedes this year and activity rebounds in 2021-22 (Text Table 3):

Text Table 3. Kyrgyz Republic: Selected Indicators, 2019-2039

(percent of GDP)

	2019	2020	2021	2022	2021-26	2027-31	2032-41
Real GDP growth (percent)							
Current DSA	4.6	-8.6	3.8	6.4	4.4	4.0	4.0
Previous DSA[1]	4.5	0.4	6.0	4.3	n.a.	n.a.	n.a.
Overall fiscal balance (percent of GDP)[2]							
Current DSA	-0.1	-3.3	-4.2	-4.0	-3.6	-3.4	-3.3
Previous DSA[1]	-0.1	-7.8	-4.8	-3.0	n.a.	n.a.	n.a.
Current account balance (percent of GDP)							
Current DSA	-12.1	4.5	-5.8	-6.2	-6.2	-7.6	-4.7
Previous DSA[1]	-9.2	-14.5	-10.0	-7.5	n.a.	n.a.	n.a.
PIP Disbursements (millions of US$)							
Current DSA	188	162	296	271	240	250	359
Previous DSA[1]	268	362	415	395	n.a.	n.a.	n.a.

Sources: Kyrgyz authorities and IMF staff estimates.

1/ IMF Country Report No. 20/90, Kyrgyz Republic—Request for Purchase under the Rapid Financing Instrument and Disbursement under the Rapid Credit Facility Staff Report--Debt Sustainability Analysis.

2/ Including onlending to energy SOEs.

- **Growth and inflation.** Growth in 2020 was substantially weaker than in the previous DSA but is expected to rebound to 3.8 percent in 2021 and further increase to 6.4 percent in 2022, underpinned by a more favorable global outlook, a recovery of domestic activity as borders reopen, higher gold production, an increase in remittances from oil exporting neighbors, and a rebound in tourism, transportation and related services. Growth should gradually converge to its potential of 4 percent in the medium term and is expected to remain at its potential over the longer term in the absence of structural reforms. End-of-period inflation reached 9.7 percent in 2020 but is projected to decline to 7.4 percent in 2021 and remain in the authorities' target range (5 to 7 percent) in the medium and long term.

- **Fiscal policy.** The overall budget deficit increased from near balance in 2019 to 3.3 percent of GDP in 2020, and is projected to reach 4.2 percent of GDP in 2021, before gradually declining to about 3.3 percent of GDP by 2026 thanks to a gradual decrease in the size of the wage bill as a percentage of GDP, and a decrease in foreign-financed public investment. The overall deficit is projected to remain at the same level over the long term.

- **External sector.** The current account deficit swung from a deficit of 12 percent of GDP in 2019 to a surplus of 4.5 percent of GDP in 2020, primarily because of significant import compression, which reflects the depreciation of the exchange rate, border closures during the pandemic, and reduced demand. Imports are projected to rebound in 2021 and the current account deficit should reach upward of 6 percent of GDP in the medium term (2026).

- **Financing assumptions.** The new external borrowing is assumed to remain mostly on semi-concessional terms and the country is expected to remain IDA-eligible over the projection horizon, but net external financing is expected to decline. As a result, the share of domestic borrowing is expected to increase from 26 percent of the total in 2021 to about 70 percent in 2026. If financing becomes a constraint, the deficit is likely to be lower and therefore domestic debt as well. Domestic borrowing is assumed at interest rates of 6 to 11 percent for maturities ranging between 1 year and 10 years in the medium term, with a decrease thereafter for bonds ranging from 100 to 200 basis points as the financial market develops.

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

- *Drivers of debt dynamics (Figure 3).* The realism tool on the drivers of debt dynamics does not raise any flag. The forecast error on the change in the ratio of public debt-to-GDP over the past five years is small (even negative for the external public debt ratio). The projected public debt ratio is expected to decline more significantly (-4 percentage points of GDP) than previously evidenced in a more significative way (+1 percentage points of GDP), but the difference is small and well substantiated by the expected recovery of economic growth.

- *Realism of planned fiscal adjustment* (Figure 4). The projected evolution of the primary balance shows no adjustment and is near the median of the distribution of the past adjustments to primary fiscal deficit of the sample of LICs, and thus does not raise concerns.

- *Consistency between fiscal adjustment and growth* (Figure 4). The growth projection for 2021 is well above the growth path suggested by different fiscal multipliers as post-crisis growth is projected to rebound to more than 6 percent in 2022, driven by tourism, transport and industry. The result generated by this realism tool is not reliable, as the impact of the COVID-19 pandemic is not well captured by this exercise.

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

COUNTRY CLASSIFICATION AND STRESS TESTS

5. **The Kyrgyz Republic's debt-carrying capacity is assessed as strong** (Text Table 4). The country's Composite Indicator (CI) index[3] is 3.12, above the threshold of 3.05 for strong debt-carrying capacity. The CI is calculated for the last two IMF World Economic Outlook (WEO) vintages (October 2020 and April 2020) and the World Bank's 2019 CPIA. This translates into the following external debt burden thresholds: 240 percent of the present value (PV) of external debt-to-exports ratio, 55 percent of the PV of external debt-to-GDP, 21 percent of the PV of external debt service-to-exports, and 23 percent of the PV of debt service-to-revenue. The total public debt burden threshold is 70 percent of the PV of total public debt-to-GDP ratio.

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

Debt Carrying Capacity	Strong		
Final	**Classification based on current vintage**	**Classification based on the previous vintage**	**Classification based on the two previous vintages**
Strong	Strong 3.12	Strong 3.19	Strong 3.19

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

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

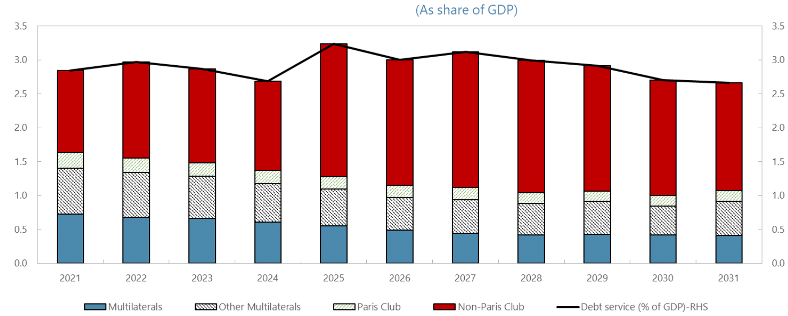
[3] The CI is a function of the World Bank's Country Policy and Institutional Assessment (CPIA) score, international reserves, remittances, country and global economic growth. The calculation is based on 10-year averages of the variables, across 5 years of historical data and 5 years of projection. For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

EXTERNAL DSA

6. **All four external debt ratios remain well under their respective thresholds under the baseline scenario** (Figure 1, and Tables 1 and 3). External Public and Publicly Guaranteed (PPG) debt was 58 percent of GDP at end-2020 and another 29.5 percentage points are private external debt. Private external debt is expected to gradually decline to under 22 percent of GDP by 2026 as net external private borrowing is projected to grow less than nominal GDP growth under the baseline scenario. While the PV of PPG external debt increased to 36 percent of GDP in 2020 (from about 32 percent at end-2019 estimated in the previous DSA), it is also projected to decline to about 28 of percent of GDP by end-2026, well below the threshold of 55 percent of GDP. This is consistent with the gradual decrease under the baseline of the ratio of nominal debt to GDP after an uptick in debt service in 2025 due to higher payments due to non-Paris Club creditors (Text Chart 2).

7. **While external debt stock and debt service ratios remain under their respective thresholds in the baseline scenario, two ratios breach their respective thresholds for continuous years and significantly under the most impactful standard stress test ("most extreme shock"): a shock to exports.** Under this shock, the applicable thresholds for the Kyrgyz Republic are breached significantly for the PV of debt-to-exports and the debt service-to-exports, the latter of which rises above the 21 percent benchmark to 25 percent in 2029, and declines thereafter. The PV of debt-to-exports breaches its threshold during 2023-2028 by an average deviation of 10 percent, and subsequently gradually decreases. The PV of PPG external debt-to-GDP ratio also breaches its threshold, but for only one year and by a marginal amount (55.7 percent vs. a threshold value of 55 percent). The risks posed by private external debt decrease, given diminishing outstanding levels over time.

Text Chart 2. PPG External Debt Service by Category of Creditors
(As share of GDP)



Source: Country authorities; and IMF staff projections.

PUBLIC DSA

8. The two debt stock ratios used to assess the risk of total public debt distress remain stable under the baseline scenario, but the debt service ratio increases steadily (Figure 2 and Tables 2 and 4). In 2020 public debt increased by nearly 17 percentage points to 68 percent of GDP due to output contraction during the COVID-19 crisis, the depreciation of the exchange rate and the

Text Table 5. Kyrgyz Republic: Comparison of Debt Ratio

(In percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	Long Term (2031) 2/
PPG external debt-to-GDP ratio								
Current DSA	58.3	56.8	52.6	49.4	46.9	44.7	42.8	34.6
Previous DSA[1]	56.5	53.5	51.8	50.5	48.9	47.6	42.6	42.0
Public debt-to-GDP ratio								
Current DSA	68.0	67.1	65.3	64.4	64.6	64.6	65.0	69.1
Previous DSA[1]	65.9	64.8	64.0	62.9	61.9	60.9	60.3	59.6

Sources: Kyrgyz authorities and IMF staff estimates.

1/ IMF Country Report No. 20/90, Kyrgyz Republic—Request for Purchase under the Rapid Financing Instrument and Disbursement under the Rapid Credit Facility Staff Report--Debt Sustainability Analysis.

2/ for the previous DSA: 2030.

increase in the primary fiscal deficit (Text Table 5). It is expected to remain around 65 percent of GDP over the medium term, but rise to 77 percent of GDP by 2041. The PV of total public debt is projected to stay under 56 percent of GDP target of the debt strategy through 2026 and below the sustainability threshold of 70 percent of GDP. Moreover, debt service should remain manageable in the medium term: the ratio of debt service-to-revenue (including grants) averages 24 percent in the next five years. It is projected to rise in the medium term, reflecting an increase in gross financing need due to more expensive domestic financing compared to external financing.

9. Total public debt is particularly vulnerable to a growth shock and the PV of total public debt over GDP breaches its benchmark within the stress test horizon. The most severe test is a simulated growth shock. Under this shock, the PV of debt-to-GDP ratio reaches 70 percent of GDP by 2023 and is on a persistent upward trajectory. Moreover, such a shock would put the two other indicators on an upward path: the PV of debt-to-revenue ratio would reach 420 in 2031, and the debt service-to-revenue ratio raises above 50 percent by 2028. Although no explicit benchmark exists for these two ratios, the projections point to potentially severe debt and liquidity difficulties in the long run under a GDP shock.

A. Risk Rating and Vulnerabilities

10. The DSA indicates that external debt remains at a moderate risk of debt distress. The breaches of their respective thresholds by the PV of debt-to-exports ratio and the debt service-to-export ratio under the most impactful standard stress test cause the assessment of the risk of external debt distress to be moderate. Conversely, the PV of external debt-to-GDP ratio is assessed to be resilient even under its "most extreme" shock, because this ratio breaches its threshold for only one year (i.e., 2023) and marginally (i.e., 0.7 percentage point of GDP).

11. External debt is deemed to be sustainable. The profiles of all ratios under the baseline are projected to show a downward trajectory before 2031, driven by the decline in PPG external debt.

12. Overall public debt remains at a moderate risk of debt distress primarily because of the moderate risk of external debt distress. However, total public debt is also vulnerable to a real GDP growth shock; the PV of debt-to-GDP ratio breaches its threshold of 70 percent by an increasing margin under such shock, confirming the determination of a moderate risk of total debt distress. The steady increase in the debt service ratio over time under the baseline scenario further supports this determination. However, the resilience of the public debt risk assessment to other standardized stress tests indicates that public debt would remain sustainable.

13. A granular assessment of the moderate risk rating shows that the Kyrgyz Republic has some space to absorb shocks (Figure 5). The external PPG debt outlook is resilient under the baseline. While it is vulnerable to large external shocks, especially to exports, the gap between debt burden indicators and their respective thresholds indicates that the Kyrgyz Republic has some space to absorb shocks without being downgraded to high risk of debt distress.

14. The authorities need to maintain fiscal discipline, strengthen public debt management, and improve the business climate. The heightened uncertainty in the global economic outlook affects prospects for economic recovery and exports, both of which are critical elements of Kyrgyzstan's debt sustainability. To keep public debt sustainable, the deficit should be reduced under 3.5 percent of GDP in the medium term after the economy recovers from the COVID-19 crisis. To meet the country's growing spending needs on health and education, infrastructure, and social assistance without undermining debt sustainability, further efforts are needed to strengthen public debt management, while keeping new borrowing on concessional terms; improve public investment management to contain contingent liabilities and spur growth; raise spending efficiency; and create additional fiscal space by expenditure prioritization, as well as tax policy and administrative measures to raise more tax revenue. These efforts would strengthen engagement with donors and help mobilize additional concessional financing. Equally important are structural reforms to improve the business environment and strengthen the competitiveness of Kyrgyz exports over the medium and long term.

AUTHORITIES' VIEWS

15. **The authorities broadly shared the views of Bank and Fund staff.** They expressed a strong commitment to debt sustainability and prudent debt management. To guide fiscal policy, the authorities intend to adopt a fiscal rule that will put a ceiling on the budget deficit. They also intend to set a legally binding overall debt ceiling for nominal debt as a percentage of GDP.

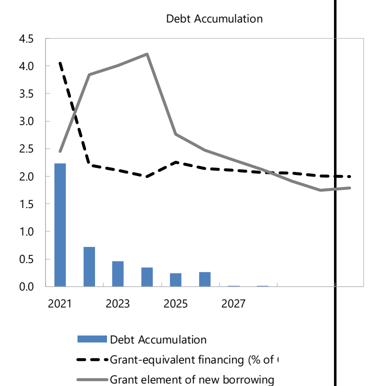
Table 1. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2018-2041

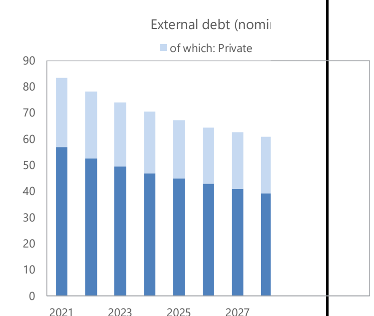
(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	**76.5**	**72.8**	**87.8**	**83.3**	**78.1**	**73.9**	**70.4**	**67.2**	**64.3**	**56.1**	**55.7**	**81.0**	**66.7**
of which: public and publicly guaranteed (PPG)	**47.0**	**43.3**	**58.3**	**56.8**	**52.6**	**49.4**	**46.9**	**44.7**	**42.8**	**34.6**	**29.5**	**50.6**	**43.8**
Change in external debt	-4.6	-3.7	14.9	-4.4	-5.2	-4.2	-3.5	-3.2	-2.9	-1.7	3.6		
Identified net debt-creating flows	**4.8**	**3.1**	**12.7**	**1.9**	**-1.1**	**0.2**	**0.4**	**0.6**	**2.0**	**2.0**	**0.5**	**2.3**	**2.1**
Non-interest current account deficit	**11.4**	**11.5**	**-5.4**	**5.1**	**5.6**	**5.5**	**5.5**	**5.6**	**6.4**	**5.8**	**3.3**	**10.1**	**6.3**
Deficit in balance of goods and services	38.3	28.9	20.2	31.6	29.8	28.5	27.7	27.1	27.7	27.2	23.9	**34.2**	**28.8**
Exports	33.2	35.2	31.4	32.0	36.9	36.4	36.0	35.8	34.7	34.3	41.1		
Imports	71.5	64.1	51.6	63.7	66.7	64.9	63.8	62.9	62.4	61.5	65.1		
Net current transfers (negative = inflow)	-29.3	-25.6	-29.0	-29.4	-27.3	-26.1	-25.3	-24.6	-24.1	-23.5	-22.2	**-28.7**	**-25.1**
of which: official	-0.6	-1.3	-1.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	2.4	8.2	3.4	2.9	3.0	3.0	3.1	3.1	2.8	2.1	1.6	**4.7**	**2.5**
Net FDI (negative = inflow)	**-1.7**	**-3.8**	**6.6**	**-0.6**	**-2.4**	**-2.7**	**-2.9**	**-2.9**	**-2.6**	**-1.6**	**-1.2**	**-4.9**	**-2.0**
Endogenous debt dynamics 2/	**-4.9**	**-4.6**	**11.5**	**-2.6**	**-4.3**	**-2.5**	**-2.2**	**-2.0**	**-1.8**	**-2.2**	**-1.6**		
Contribution from nominal interest rate	0.6	0.6	0.9	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.4		
Contribution from real GDP growth	-2.6	-3.3	7.2	-3.3	-4.9	-3.2	-2.8	-2.6	-2.4	-2.6	-2.0		
Contribution from price and exchange rate changes	-3.0	-1.9	3.4	...	...	...	...	...	...	...	...		
Residual 3/	**-9.4**	**-6.8**	**2.3**	**-6.4**	**-4.1**	**-4.4**	**-3.9**	**-3.8**	**-4.9**	**-3.8**	**3.1**	**-2.2**	**-4.9**
of which: exceptional financing	-3.0	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**36.0**	**36.9**	**34.6**	**32.6**	**31.1**	**29.6**	**28.2**	**22.2**	**19.4**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**114.6**	**115.1**	**93.8**	**89.7**	**86.4**	**82.6**	**81.3**	**64.7**	**47.1**		
PPG debt service-to-exports ratio	**15.0**	**5.7**	**9.2**	**8.9**	**8.0**	**7.9**	**7.5**	**9.0**	**8.6**	**7.9**	**4.1**		
PPG debt service-to-revenue ratio	**16.2**	**6.6**	**9.9**	**9.8**	**9.9**	**9.6**	**9.0**	**10.9**	**10.1**	**9.3**	**5.8**		
Gross external financing need (Million of U.S. dollars)	1548.0	1367.3	700.0	950.8	839.8	826.6	851.4	1022.2	1186.9	1538.5	852.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.8	4.6	-8.6	3.8	6.4	4.4	4.0	4.0	3.7	4.8	4.0	**3.4**	**4.2**
GDP deflator in US dollar terms (change in percent)	3.8	2.5	-4.4	-0.2	2.1	3.0	1.9	2.0	1.9	1.0	-1.0	**2.0**	**1.4**
Effective interest rate (percent) 4/	0.9	0.9	1.1	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.8	**0.8**	**0.9**
Growth of exports of G&S (US dollar terms, in percent)	4.1	13.8	-22.2	5.7	25.0	6.0	5.0	5.4	2.5	13.8	7.4	**1.8**	**6.8**
Growth of imports of G&S (US dollar terms, in percent)	15.6	-3.8	-29.7	27.8	13.8	4.6	4.1	4.6	4.9	5.7	4.9	**2.4**	**7.6**
Grant element of new public sector borrowing (in percent)	...	...	...	36.2	37.4	37.6	37.7	36.5	36.2	35.6	34.4	**...**	**36.4**
Government revenues (excluding grants, in percent of GDP)	30.8	30.3	29.0	28.9	30.0	29.8	29.7	29.7	29.6	29.0	29.0	**31.2**	**29.3**
Aid flows (in Million of US dollars) 5/	137.4	190.1	154.3	306.7	228.0	228.9	225.5	267.3	262.6	298.7	404.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.0	2.2	2.1	2.0	2.3	2.1	2.0	1.8	**...**	**2.3**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	55.4	53.4	55.6	57.6	53.0	53.7	55.4	57.2	**...**	**54.7**
Nominal GDP (Million of US dollars)	8,271	8,872	7,747	8,027	8,723	9,376	9,934	10,531	11,129	14,247	22,359		
Nominal dollar GDP growth	7.4	7.3	-12.7	3.6	8.7	7.5	5.9	6.0	5.7	5.8	3.0	**5.5**	**5.7**
Memorandum items:													
PV of external debt 7/	...	...	65.5	63.4	60.1	57.1	54.6	52.1	49.8	43.7	45.6		
In percent of exports	...	...	208.6	197.9	163.1	157.2	151.7	145.5	143.2	127.5	110.7		
Total external debt service-to-exports ratio	27.1	21.9	24.9	22.8	17.5	16.6	16.7	19.8	19.8	19.3	4.1		
PV of PPG external debt (in Million of US dollars)			2787.6	2960.5	3018.2	3058.4	3090.8	3114.9	3142.8	3161.1	4333.8		
(PVt-PVt-1)/GDPt-1 (in percent)				2.2	0.7	0.5	0.3	0.2	0.3	0.0	0.6		
Non-interest current account deficit that stabilizes debt ratio	16.0	15.2	-20.3	9.6	10.8	9.7	9.0	8.7	9.3	7.5	-0.4		

Definition of external/domestic debt

Is there a material difference between the two criteria?





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) + Εα (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, Ε=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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

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

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

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

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

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

Table 2. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018-2041
(in percent of GDP, unless otherwise indicated)

	Actual			Projections							
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041
Public sector debt 1/	**54.8**	**51.6**	**68.0**	**67.1**	**65.1**	**63.5**	**63.6**	**64.3**	**64.8**	**66.8**	**63.5**
of which: external debt	**47.0**	**43.3**	**58.3**	**56.8**	**52.6**	**49.4**	**46.9**	**44.7**	**42.8**	**34.6**	**29.5**
Change in public sector debt	-4.0	-3.2	16.4	-1.0	-2.0	-1.6	0.1	0.7	0.5	-0.5	-1.1
Identified debt-creating flows	**-5.7**	**-4.7**	**13.4**	**-1.1**	**-1.3**	**-0.4**	**0.0**	**0.0**	**0.2**	**0.1**	**-0.4**
Primary deficit	**-0.4**	**-0.7**	**2.3**	**3.3**	**3.0**	**2.4**	**2.3**	**2.1**	**2.0**	**1.7**	**0.3**
Revenue and grants	32.5	32.4	31.0	31.1	31.0	30.9	30.8	30.8	30.7	30.1	30.1
of which: grants	1.7	2.1	2.0	2.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Primary (noninterest) expenditure	32.0	31.7	33.3	34.5	34.1	33.2	33.1	32.9	32.7	31.8	30.4
Automatic debt dynamics	**-2.6**	**-3.9**	**11.1**	**-4.4**	**-4.3**	**-2.8**	**-2.2**	**-2.1**	**-1.9**	**-1.6**	**-0.7**
Contribution from interest rate/growth differential	-3.7	-1.2	4.1	-4.4	-4.3	-2.8	-2.2	-2.1	-1.9	-1.6	-0.7
of which: contribution from average real interest rate	-1.8	1.2	-0.8	-1.9	-0.2	-0.1	0.2	0.3	0.4	1.5	1.8
of which: contribution from real GDP growth	-2.0	-2.4	4.9	-2.5	-4.1	-2.7	-2.4	-2.4	-2.3	-3.1	-2.5
Contribution from real exchange rate depreciation	1.1	-2.7	7.0	...	...	...	...	...	...	...	...
Other identified debt-creating flows	**-2.7**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	-2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual	**1.8**	**1.5**	**3.0**	**0.1**	**-0.7**	**-1.1**	**0.0**	**0.6**	**0.3**	**-0.6**	**-0.7**
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	**...**	**...**	**48.3**	**48.0**	**47.6**	**47.2**	**48.3**	**49.6**	**50.6**	**54.8**	**53.9**
PV of public debt-to-revenue and grants ratio	**...**	**...**	**155.7**	**154.3**	**153.5**	**153.0**	**156.7**	**160.8**	**164.9**	**181.9**	**178.9**
Debt service-to-revenue and grants ratio 3/	**15.4**	**6.2**	**9.3**	**11.6**	**15.2**	**16.9**	**17.8**	**21.1**	**23.3**	**33.9**	**36.5**
Gross financing need 4/	1.9	1.2	5.2	7.0	7.7	7.6	7.8	8.6	9.2	11.9	11.3
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	3.8	4.6	-8.6	3.8	6.4	4.4	4.0	4.0	3.7	4.8	4.0
Average nominal interest rate on external debt (in percent)	1.3	1.5	1.8	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.5
Average real interest rate on domestic debt (in percent)	-3.6	-3.8	-5.4	-1.6	2.0	2.4	3.9	4.0	4.3	5.7	5.8
Real exchange rate depreciation (in percent, + indicates depreciation)	2.5	-5.8	14.9	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.4	3.9	5.8	9.4	6.2	6.1	5.0	5.0	5.0	4.0	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-8.3	3.5	-4.0	7.5	5.2	1.9	3.6	3.4	3.1	4.2	3.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.5	2.5	-14.2	4.3	5.0	3.9	2.2	1.5	1.5	2.2	1.4
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

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.

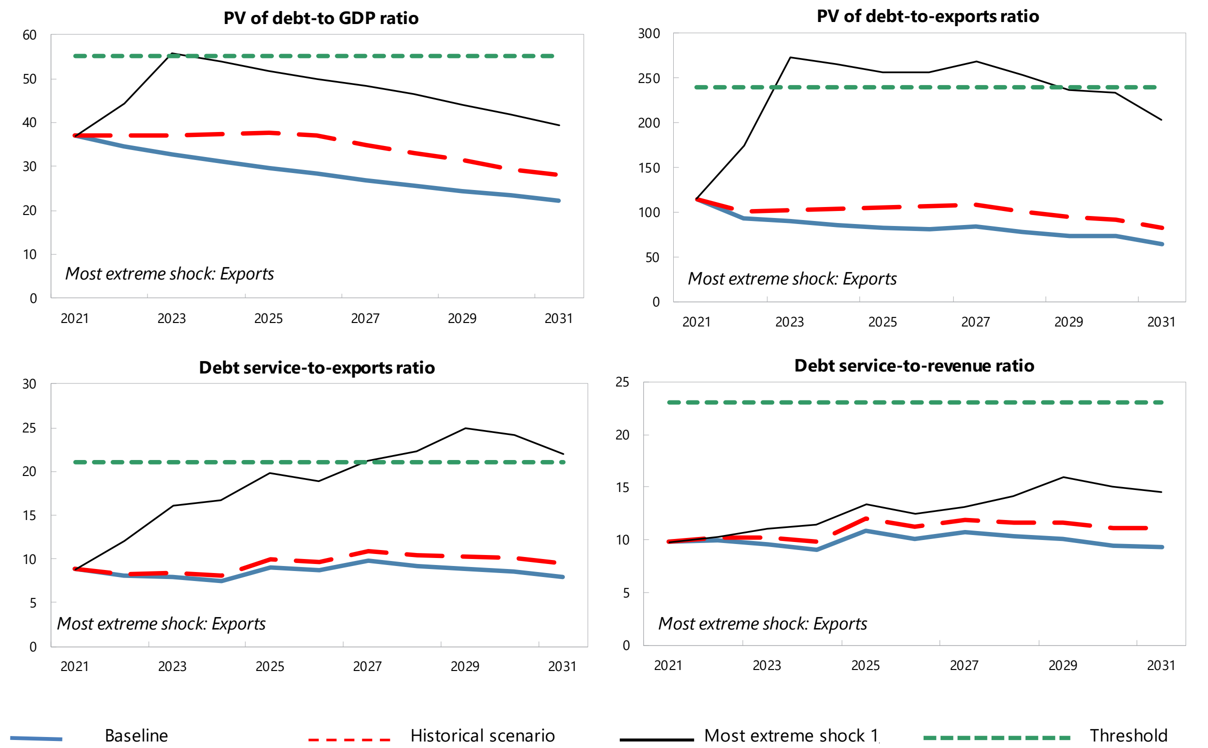
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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, 2021–2031



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

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

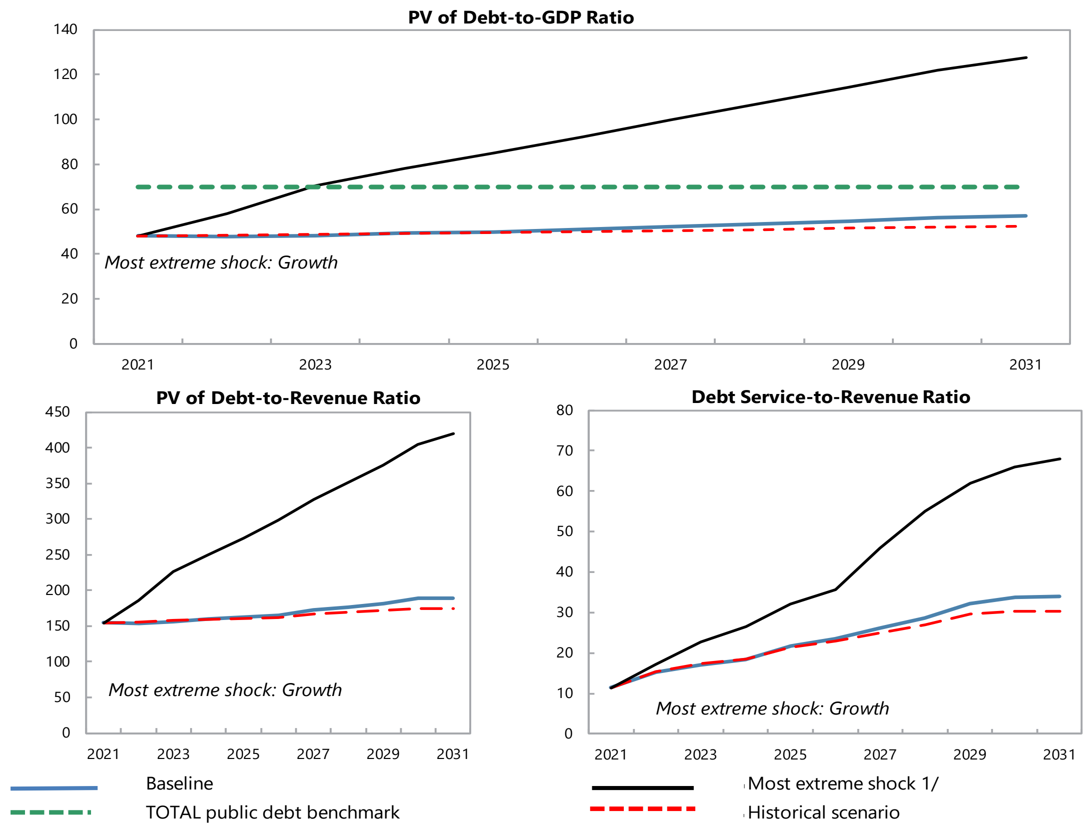
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace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

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. 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.

Figure 2. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2021-2031



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	33%	33%
Domestic medium and long-term	60%	60%
Domestic short-term	7%	7%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.0%	4.0%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	0.8%	0.8%

* 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 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	37	35	33	31	30	28	27	26	24	23	22
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	37	37	37	37	38	37	35	33	31	29	28
B. Bound Tests											
B1. Real GDP growth	37	39	41	39	37	35	34	32	31	29	28
B2. Primary balance	37	35	33	32	31	29	28	27	26	25	24
B3. Exports	37	44	**56**	54	52	50	48	46	44	42	39
B4. Other flows 3/	37	40	43	42	40	39	37	36	34	32	30
B5. Depreciation	37	44	35	33	31	30	28	26	25	24	23
B6. Combination of B1-B5	37	51	53	51	49	48	46	44	41	39	37
C. Tailored Tests											
C1. Combined contingent liabilities	37	36	34	33	31	30	29	28	27	26	25
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	115	94	90	86	83	81	84	79	74	74	65
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	115	100	102	104	105	107	109	101	95	91	82
B. Bound Tests											
B1. Real GDP growth	115	94	90	86	83	81	84	79	74	74	65
B2. Primary balance	115	95	92	89	85	84	88	83	78	78	69
B3. Exports	115	174	**273**	**265**	**257**	**256**	**269**	**253**	237	233	204
B4. Other flows 3/	115	109	120	116	112	111	116	109	102	101	88
B5. Depreciation	115	94	76	73	69	68	69	64	61	61	54
B6. Combination of B1-B5	115	167	123	185	179	177	185	173	162	160	140
C. Tailored Tests											
C1. Combined contingent liabilities	115	98	94	91	87	86	91	86	82	82	72
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	9	8	8	7	9	9	10	9	9	9	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	9	8	8	8	10	10	11	10	10	10	9
B. Bound Tests											
B1. Real GDP growth	9	8	8	7	9	9	10	9	9	9	8
B2. Primary balance	9	8	8	8	9	9	10	9	9	9	8
B3. Exports	9	12	16	17	20	19	**21**	**22**	**25**	**24**	**22**
B4. Other flows 3/	9	8	8	8	10	9	10	11	11	11	10
B5. Depreciation	9	8	8	7	9	8	9	9	8	7	7
B6. Combination of B1-B5	9	11	13	13	15	15	16	18	18	17	16
C. Tailored Tests											
C1. Combined contingent liabilities	9	8	8	8	9	9	10	9	9	9	8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	10	10	10	9	11	10	11	10	10	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	10	10	10	10	12	11	12	12	12	11	11
B. Bound Tests											
B1. Real GDP growth	10	11	12	11	14	13	13	13	13	12	12
B2. Primary balance	10	10	10	9	11	10	11	10	10	10	10
B3. Exports	10	10	11	11	13	13	13	14	16	15	15
B4. Other flows 3/	10	10	10	10	12	11	12	12	13	12	12
B5. Depreciation	10	12	12	11	13	12	13	13	11	10	10
B6. Combination of B1-B5	10	11	13	12	14	13	14	16	16	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	10	10	10	9	11	10	11	11	10	10	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	23	23	23	23	23	23	23	23	23	23	23

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

Table 4. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2021–2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	PV of Debt-to-GDP Ratio										
Baseline	48	48	48	49	50	51	52	53	55	56	57
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	48	48	49	49	49	50	50	51	51	52	52
B. Bound Tests											
B1. Real GDP growth	48	58	**70**	**78**	**85**	**92**	**100**	**107**	**114**	**122**	**128**
B2. Primary balance	48	50	52	53	53	54	55	56	58	59	60
B3. Exports	48	56	68	68	69	69	**70**	**71**	**71**	**72**	**71**
B4. Other flows 3/	48	53	59	60	61	61	63	63	64	65	65
B5. Depreciation	48	55	53	52	50	49	49	48	48	48	47
B6. Combination of B1-B5	48	49	51	53	55	57	59	61	63	65	67
C. Tailored Tests											
C1. Combined contingent liabilities	48	54	54	55	56	57	58	59	60	62	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.
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
	PV of Debt-to-Revenue Ratio										
Baseline	154	154	156	160	162	166	173	177	181	189	189
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	154	156	158	160	161	162	167	169	171	175	175
B. Bound Tests											
B1. Real GDP growth	154	186	226	251	274	298	328	351	375	404	420
B2. Primary balance	154	160	167	171	173	176	183	187	191	199	199
B3. Exports	154	181	219	222	223	226	233	235	236	241	237
B4. Other flows 3/	154	172	192	195	196	200	207	210	212	218	216
B5. Depreciation	154	179	172	169	164	161	162	160	159	160	156
B6. Combination of B1-B5	154	159	166	172	177	184	194	201	209	218	221
C. Tailored Tests											
C1. Combined contingent liabilities	154	174	175	179	181	184	191	195	199	206	207
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	11	15	17	18	22	23	26	29	32	34	34
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	11	15	17	18	22	23	25	27	30	30	30
B. Bound Tests											
B1. Real GDP growth	11	17	23	26	32	36	46	55	62	66	68
B2. Primary balance	11	15	18	20	23	24	29	32	34	35	35
B3. Exports	11	15	18	20	23	25	28	31	37	38	38
B4. Other flows 3/	11	15	17	19	23	24	27	30	35	36	36
B5. Depreciation	11	16	19	19	23	25	27	27	32	33	33
B6. Combination of B1-B5	11	15	18	19	23	25	29	31	37	39	40
C. Tailored Tests											
C1. Combined contingent liabilities	11	15	20	20	23	25	36	31	34	35	36
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

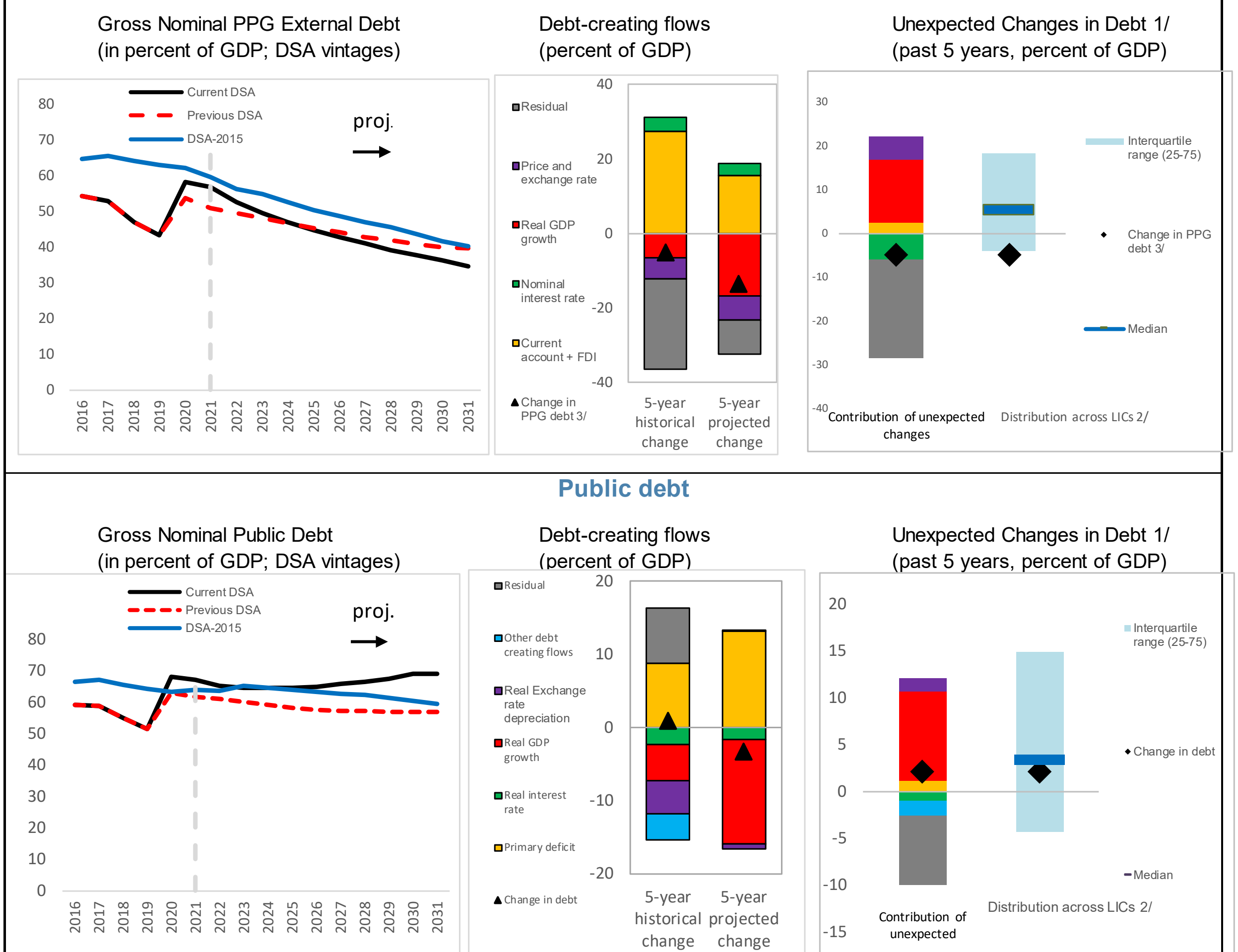
Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

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



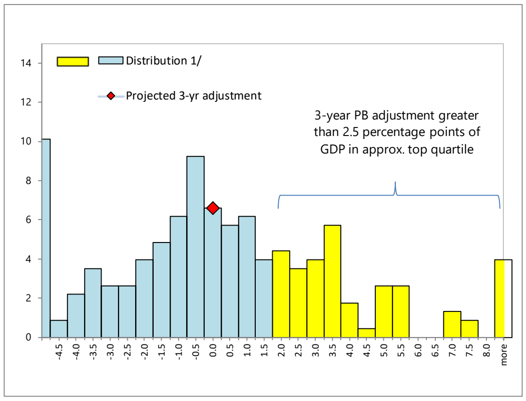
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

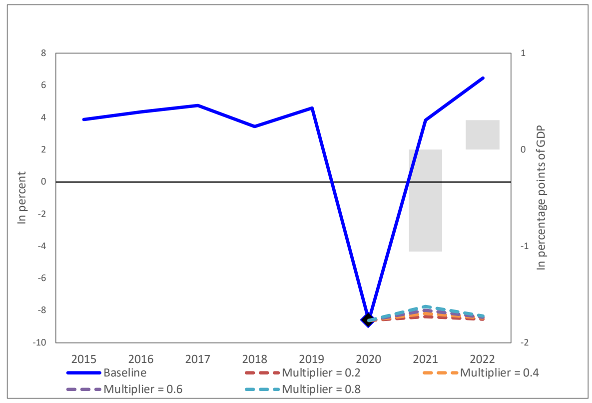
Figure 4. Kyrgyz Republic: Realism Tools

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



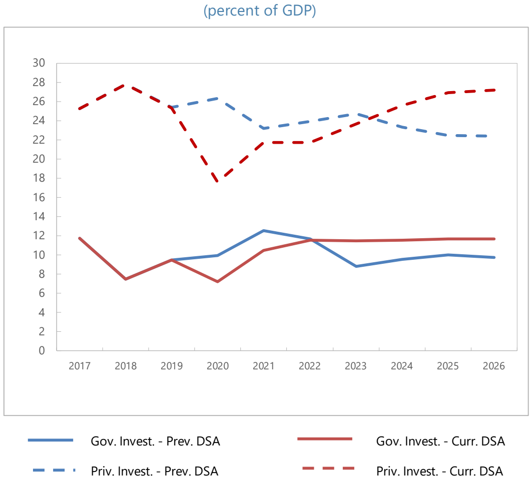
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

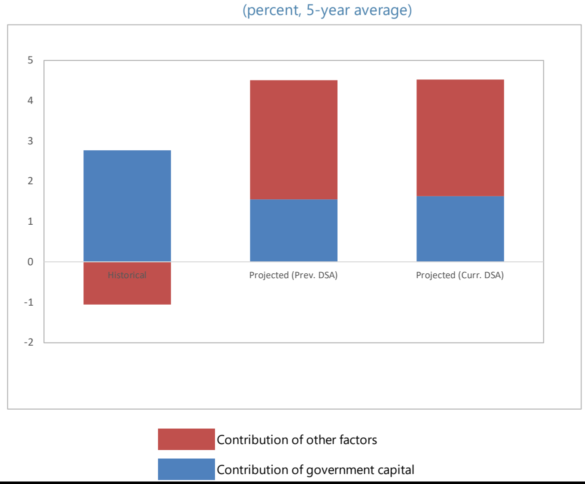
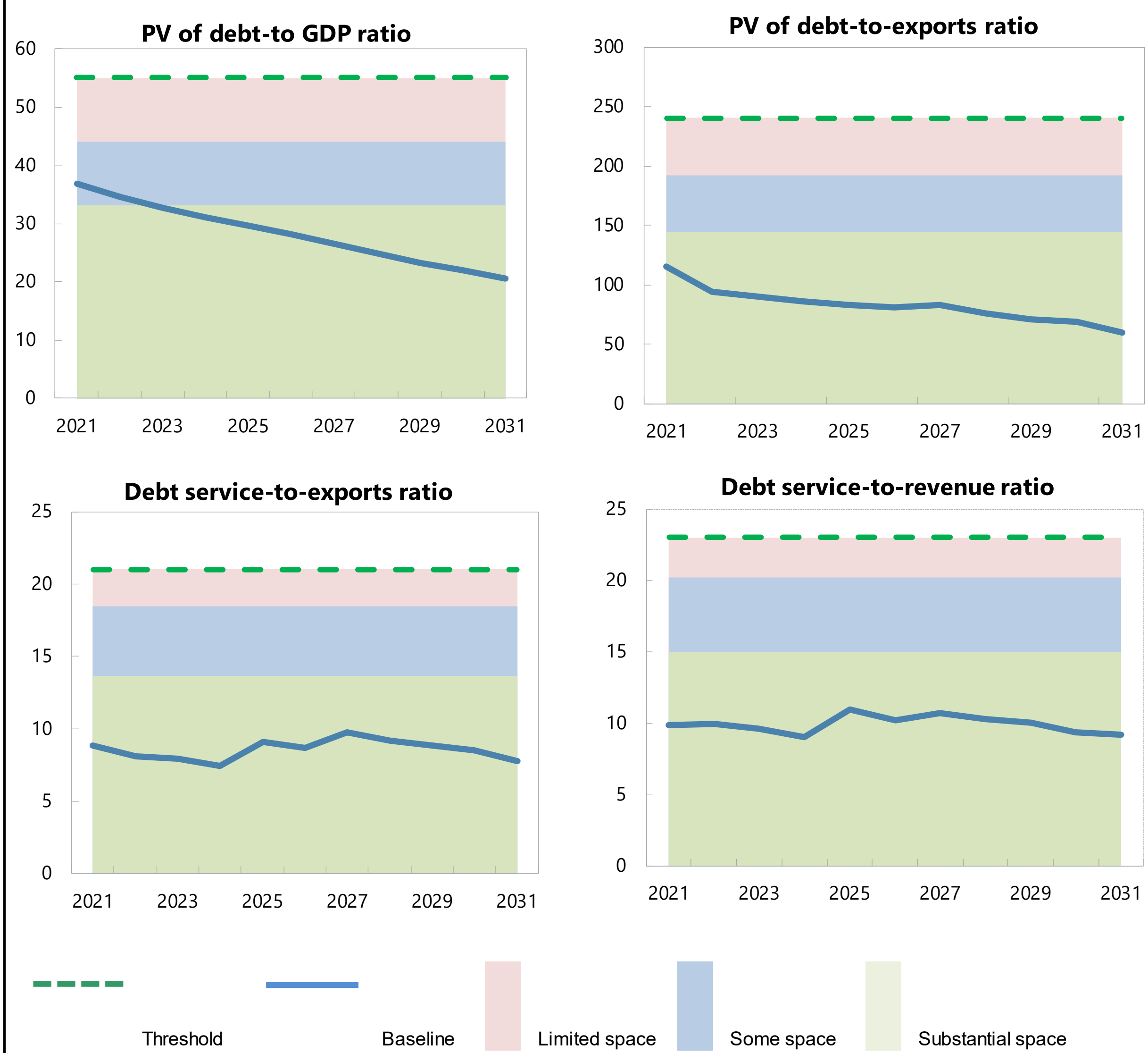


Figure 5. Kyrgyz Republic: Qualification of the Moderate Category, 2021–2031 1/



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 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 18, 2021

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of March 31, 2021)

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)	295.82	166.56
Reserve Tranche Position	0.31	0.18

SDR Department:	**SDR million**	**Percent Allocation**
Net Cumulative Allocation	84.74	100.00
Holdings	106.54	125.73

Outstanding Purchases and Loans:	**SDR million**	**Percent of Quota**
RCF Loans	59.2	33.33
Emergency Assistance (including ENDA, EPCA, RFI)	118.40	66.67
ECF Arrangements	82.77	46.61

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

Outright Loans:

	Date of Arrangement	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
RCF	May 08, 2020	May 12, 2020	29.60	29.60
RFI	May 08, 2020	May 12, 2020	59.20	59.20
RFI	Mar 26, 2020	Mar 30, 2020	59.20	59.20

Projected Payments to the Fund [1/]
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	2022	2023	2024	2025
Principal	16.17	16.17	53.17	72.52	38.59

Charges/Interest	0.93	1.24	1.19	0.68	0.11
Total	17.11	17.42	54.37	73.20	38.70

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 in connection with the emergency financing under the RFI/RCF disbursements approved by the IMF Executive Board in March and May 2020 was completed on January 13, 2021. The assessment of the National Bank of the Kyrgyz Republic (NBKR) found that the shortcomings in the legal structure seen in the last assessment are still evident. As a result, key vulnerabilities remain in the governance arrangements, which lack independent oversight. The NBKR's participation in ownership of a bank and a guarantee fund also present conflict of interest issues. That said, the NBKR maintains broadly strong controls over its operations and has sound financial reporting practices. In addition, the external and internal audit arrangements have been enhanced. Previous assessments were completed in October 2015, 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 15, 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 "other managed" from "stabilized", effective March 12, 2020. 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 Trade Information Electronic System (TIES) 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. The authorities confirm that 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.

In addition to the MCP discussed above, the Kyrgyz Republic maintains exchange restrictions for AML/CFT reasons which have been last notified to the Fund in 2007 for approval in accordance with the procedures of Decision 144.

Article IV Consultations

The Kyrgyz Republic is on a 12-month consultation cycle, which was paused last year due to the COVID-19 pandemic. The 2019 Article IV consultation discussions were held in March 2019 and were completed by the Executive Board in June 2019.

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 7, 2021)

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 2021)

IMF Dept.	Type of Mission	Mission Dates	Requestor
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
	Amend the Budget Code to Support the New Fiscal Rules System	December 11-15, 2017	Ministry of Finance
	Incorporation of Fiscal Rules in the Budget Code	December 11-15, 2017	Ministry of Finance
	Use of IT in Budget Preparation	September 8-October 2, 2020 (virtual)	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
	Inflation Targeting	September 2019	National Bank of the Kyrgyz Republic
	Covid-19: Implications on Asset Classification and Provisioning (virtual)	June 17-26, 2020	National Bank of the Kyrgyz Republic
	Inflation Targeting (virtual)	August-September 2020	National Bank of the Kyrgyz Republic
MCM /LEG	Central bank digital currency (virtual)	January 15-April 20, 2021	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
	External Sector Statistics	June 24-July 5, 2019	National Bank of the Kyrgyz Republic
	Government Finance Statistics	May 20-24, 2019	Ministry of Finance
	Government Finance Statistics	September 30-October 11, 2019	Ministry of Finance
	Government Finance Statistics	April 26-May 7, 2021	Ministry of Finance

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–July 2019

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 and Industry, 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.

The authorities requested the remote IMF TA mission on national accounts to assist in the compilation of discrete estimates of quarterly GDP. The mission is scheduled for July 2021 and will be conducted by the newly established IMF's Capacity Development Center for Caucasus, Central Asia, and Mongolia (CCAMTAC).

Price and Labor Market Statistics

The concepts and definitions used in the CPI, which has been published since 1992, are broadly consistent with international standards. The CPI weights cover urban and rural households.

The PPI, which has been published since 1994, 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. Ideally, import and export price indices should be compiled using the recommend hybrid approach (combination of unit values for tightly defined products and price surveys to collect data for all other products).

Kyrgyz Republic is a member of the CCAMTAC and future TA on price statistics and national accounts will provided under the work program of CCAMTAC.

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 made significant progress in government financial statistics (GFS), benefiting from 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 *GFSM 2014*.

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. However, the reporting of PSDS has been suspended with the latest data reported for Q1 2019.

The Ministry of Finance is working on: i) improving fiscal data in accordance with *GFSM 2014*; ii) resuming PSDS reporting and expanding the coverage of debt instruments.; and iii) reconciling all macroeconomic statistics for consolidated general government.

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 (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the 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 Eurasia Custom Union (CU) and in reconciling the customs declarations database for the trade with CU 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 the 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 NBRK; the latter provides inputs on private sector external debt (banks and other sectors).

Kyrgyz Republic: Table of Common Indicators Required for Surveillance

(As of April 14, 2021)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	3/31/2021	3/31/2021	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/31/2021	3/31/2021	M	M	M
Reserve/Base Money	4/1/2021	4/1/2021	D	D	M
Broad Money	4/1/2021	4/1/2021	M	M	M
Central Bank Balance Sheet	4/1/2021	4/1/2021	D	D	M
Consolidated Balance Sheet of the Banking System	4/1/2021	4/10/2021	M	M	M
Interest Rates[2]	3/31/2021	3/31/2021	M	M	M
Consumer Price Index	3/31/2021	4/22/2021	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	3/31/2021	4/10/2021	M	M	A
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	3/31/2021	4/10/2021	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	3/31/2021	4/10/2021	Q	Q	Q
External Current Account Balance	3/31/2021	4/10/2021	Q	Q	Q
Exports and Imports of Goods and Services	3/31/2021	4/10/2021	Q	Q	Q
GDP/GNP	3/31/2021	4/14/2021	M	M	M
Gross External Debt	12/31/2020	1/31/2021	Q	Q	A
International Investment Position[6]	3/31/2021	4/10/2021	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 2021 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

May 26, 2021

Prepared By | Middle East and Central Asia Department

This statement provides information that has become available since the staff report (SM/21/75) was issued to the Board on May 19, 2021. This information does not alter the thrust of the staff appraisal but raises an additional risk to the outlook.

1. **Output and inflation through April are consistent with staff projections.** GDP contracted by 3.8 percent in January–April 2021 compared to the contraction of 9.4 percent in January-March. Excluding gold production, GDP grew by 1.1 percent through April compared to negative 4.5 percent through March. In the first four months of 2021, industry excluding gold grew by 10.9 percent, construction by 17 percent, transport by 7 percent, trade at 3 percent, and communications by 2 percent. Gold mining contracted by 9.8 percent consistent with the staff report projections. Headline y-o-y inflation declined to 8.7 percent in April from 10.2 percent in March due to base effects – monthly inflation recorded 0.85 percent in April 2021 compared to 2.2 percent in April 2020.

2. **Recent developments around Kumtor Gold Company (KGC)[1] may negatively affect the business environment.** On May 6, the parliament of the Kyrgyz Republic passed amendments to the law on joint stock companies and the criminal code permitting the state to appoint external management in companies that operate under concessions and pose threats to lives and ecology. The amendments were signed by the President on May 14. On May 8, a district court in Bishkek ordered KGC to pay about US$3.2 billion for the environmental damages caused by disposal of waste rocks on glaciers that led to their destruction and sliding; the use of clean water for chemical processing of gold ore instead of technical water; and disposal of the polluted water in rivers instead of recycling. On May 17, new external management was appointed in KGC for three months for violating environmental laws and damaging the ecology. In addition, the State Tax Service initiated a court case against

[1] KGC is the largest gold mining company in the Kyrgyz Republic, owned by publicly traded Centerra Gold, in which the Kyrgyz government has a 26 percent stake and the remainder is owned by private international investors. KGC is the largest FDI in the Kyrgyz Republic.

KGC for unpaid taxes. Centerra Gold, which owns KGC, viewed the authorities' actions as violations of investor rights and the long-standing investment agreement, and filed for international arbitration against the Kyrgyz Republic. Constructive engagement between the authorities and the investor will be critical to resolve the matter in a transparent and mutually acceptable manner that allows uninterrupted gold production while protecting the environment. Meantime, any government decisions that are seen as arbitrary could undermine investor sentiment in the country.

3. A possibility of suspending KGC operations because of the ongoing commercial dispute poses a significant risk to the macroeconomic outlook. KGC's output accounts for about 10 percent of GDP and 40 percent of exports, and its budget contribution is estimated at about 1.7 percent of GDP in 2020. An interruption of gold production might significantly reduce growth, and weaken external and fiscal positions. Concessional external financing may also decline. If such a downside risk materializes, policy adjustments would be needed. The shortfall in budgetary resources may require fiscal tightening and expenditure reallocation from low to high priority spending, while preserving exchange rate flexibility would be critical to help absorb any balance of payments pressures. At the same time, implementing planned reforms decisively to strengthen the business climate, address governance issues, and reduce corruption will be essential to improve investor confidence and mobilize concessional financing.