INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/91

KYRGYZ REPUBLIC

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

February 2023

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 2022 Article IV consultation with Kyrgyz Republic, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis following discussions that ended on November 2022, 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 January 4, 2023.
- An **Informational Annex** prepared by the IMF staff
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.

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

*Selected Issues

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR23/44

IMF Executive Board Concludes 2022 Article IV Consultation with the Kyrgyz Republic

FOR IMMEDIATE RELEASE

Washington, DC — February 16, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the 2022 Article IV consultation[1] with the Kyrgyz Republic and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

The economy of the Kyrgyz Republic has shown resilience to the spillovers from the war in Ukraine and is estimated to have grown by 5.5 percent in 2022, driven by gold production, trade, transportation, and agriculture. Annual inflation increased to over 15 percent during the year, mainly due to high global food and fuel prices, but core inflation also rose to double digits. The general government deficit, including lending to energy sector state-owned enterprises, is estimated to have widened to 5.2 percent of GDP in 2022 from 0.8 percent the year before, primarily due to a significant increase in public sector salaries and pensions, and public investment, offsetting efforts to strengthen tax administration that have yielded a remarkable improvement in tax revenue of around 6 percentage points of GDP. Imports are estimated to have increased considerably, partly because of higher oil prices, but also due to an increase in transit trade, while gold exports were negligible. The banking system has remained financially healthy, but non-performing loans increased to more than 12 percent of total loans.

Growth in 2023 is expected to ease to 3.5 percent, as the projected global slowdown and the contraction in Russia start to weigh on the Kyrgyz economy. Inflation is expected to decline to about 10 percent by end-2023 and the current account deficit to narrow to more sustainable levels, but the elevated fiscal deficit would result in a moderate build-up of public debt in the medium term. In view of the heightened global uncertainty, policy priorities include restoring macroeconomic buffers to strengthen resilience to future shocks and implementing structural reforms to support higher and more inclusive growth and poverty reduction.

Executive Board Assessment

The Kyrgyz Republic has shown resilience in the face of multiple shocks, but risks are elevated. Unexpected migration of capital and productive labor from Russia have supported activity. However, inflation surged, external and fiscal balances deteriorated, international

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

[2] The Executive Board takes decisions under its lapse-of-time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

reserves declined, and poverty increased. Total public debt fell, largely because of high nominal GDP and real appreciation of the exchange rate.

The outlook is subject to heightened uncertainty at a time when macroeconomic buffers have been eroded. The decline in the net inflow of remittances suggests that adverse spillovers from the war in Ukraine are starting to materialize. In addition, high commodity prices, the global slowdown and the tightening of global financial conditions are likely to weigh on output growth. However, policy flexibility is constrained by reduced buffers, while forthcoming concessional external financing is limited. The main challenge for policymakers is to strengthen macroeconomic stability, rebuild policy space for future shocks, mobilize financing for development needs, and raise growth potential by advancing reforms.

Fiscal policy should aim to reduce deficits while creating space for priority spending on infrastructure, health and education, and social protection. The expansionary stance in 2022 would need to be reversed in the coming years to restore fiscal buffers, contain build-up of public debt, and alleviate financing constraints. It is recommended maintaining public debt below 60 percent of GDP in the medium term and reducing it more thereafter. Growth-friendly consolidation can be achieved by reducing tax expenditure, optimizing tax policy, strengthening tax and customs administration, reducing the public sector wage bill, and raising electricity tariffs to reduce energy subsidies. Channeling dividends of the state-owned Kumtor Gold Company to the budget would significantly ease financing constraints. Strengthening social safety nets would support the poverty reduction objective.

Monetary policy should aim at reducing inflation to mid-single digits. This will require a restrictive monetary policy stance and tightening of liquidity. Discontinuing NBKR's purchases of gold would prevent further injection of liquidity while resumption of gold exports is critical for sustainability of the balance of payments. The exchange rate was overvalued by about 5-10 percent in 2021, but the NBKR remains committed to exchange rate flexibility, which provides important cushion against external shocks. Renewed efforts are needed to introduce amendments to the NBKR law to strengthen governance and operational independence of the central bank.

While there has been some progress on governance, important gaps remain, which if properly addressed, could have a transformative impact on investment and growth. Opportunities for corruption can be reduced by strengthening income and asset declarations by public officials and investigating illicit enrichment. Competitive bidding should remain integral part of the public procurement law and should extend to SOEs. Its exclusion would increase risks of corruption and may put at risk access to concessional external financing. A comprehensive SOE ownership and oversight policy would improve SOE governance, while strengthening the AML/CFT framework and improving monitoring of cross-border activities can be a potent tool in deterring corruption.

The Kyrgyz Republic needs its own climate adaptation policy to strengthen resilience. This requires creating fiscal space for additional public spending on green infrastructure, healthcare, education, and social safety nets. Strengthening domestic institutions and governance would be essential to support climate policies. Despite its low carbon footprint, the country should also contribute to global mitigation efforts by reducing pollution, investing in renewables, and raising electricity tariffs.

Table 1. Kyrgyz Republic: Selected Social and Economic Indicators, 2019-2027

I. Social and Demographic Indicators

Population (in millions, 2021)	6.6	GINI Index (2020)	0.29
Unemployment rate (ILO estimate, in percent, 2021)	9.1	Life Expectancy at birth in years (2020)	72
Poverty rate (in percent, national definition, 202)	33	Adult literacy rate (percent of popul., 2018)	99.6
Per capita GDP (world Bank, in million U.S. dollars, 2021)	1276	Under-five mortality (per 1000 live births, 2020)	18

II. Economic Indicators

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Estimate			Projections		
Real Sector									
Nominal GDP (in billions of soms)	619	602	723	859	1,009	1,129	1,242	1,363	1,486
Nominal GDP (in millions of U.S. dollars)	8,872	7,792	8,549	10,061	11,275	11,969	12,779	13,617	14,410
Real GDP (growth in percent)	4.6	-8.6	3.6	5.5	3.5	3.8	4.0	4.0	4.0
Nongold real GDP (growth in percent)	4.1	-9.0	3.9	4.9	3.7	4.0	4.1	4.1	4.1
GDP per capita (in U.S. dollars)	1,389	1,196	1,285	1,481	1,627	1,691	1,768	1,847	1,914
Consumer prices (12-month percent change, eop)	3.1	9.7	11.2	15.4	10.0	6.0	5.5	5.5	4.0
Consumer prices (12-month percent change, average)	1.1	6.3	11.9	13.5	12.4	7.8	5.8	5.5	4.8
General government finances (in percent of GDP 1/									
Revenue	32.5	30.8	34.0	39.6	36.4	36.8	36.3	36.1	35.8
Of which: Tax revenue	19.6	17.4	20.5	26.8	25.8	25.9	25.6	25.4	25.3
Expense	27.4	30.0	28.3	34.0	34.9	34.4	34.4	34.2	34.0
Gross operating balance	5.1	0.9	5.7	5.6	1.6	2.4	1.9	1.9	1.8
Net acquisition of nonfinancial assets	5.2	4.1	6.5	10.7	6.2	6.8	6.7	6.7	6.8
Overall balance (net lending/ borrowing) 2/	-0.1	-3.3	-0.8	-5.2	-4.6	-4.4	-4.7	-4.8	-5.0
Primary net lending/ borrowing	0.8	-2.3	0.0	-4.2	-3.6	-2.9	-2.7	-2.4	-2.4
Total state government debt 3/	51.6	67.6	60.8	58.3	57.9	57.8	58.7	59.6	61.0
Of which domestic debt	8.3	9.7	10.3	11.4	13.8	16.7	19.6	22.6	25.8
Monetary sector									
Reserve money (percent change, eop)	11.0	24.8	6.5	40.4	6.4				
Broad money (percent change, eop)	12.8	23.9	19.1	27.7	9.6				
Credit to private sector (private change, eop)	14.9	12.6	11.7	9.9	7.8				
Credit to private sector (in percent of GDP)	24.2	28.1	26.1	24.1	22.2				
Velocity of broad money 4/	2.7	2.1	2.1	2.0	2.1				
Policy Rate	4.3	5.0	8.0	...	...				
External sector									
Current account balance (in percent of GDP)	-12.1	4.8	-8.6	-28.7	-10.6	-10.0	-9.1	-8.5	-8.0
Export of goods and services (in millions of U.S. dollars)	3,126	2,444	3,301	4,399	5,356	5,682	5,958	6,315	6,716
Export growth (percent change)	13.8	-21.8	35.0	33.3	21.8	6.1	4.9	6.0	6.4
Import of goods and services (in millions of U.S. dollars)	5,690	4,060	5,938	8,587	7,820	8,207	8,464	8,851	9,281
Import growth (percent change)	-3.8	-28.7	46.3	44.6	-8.9	4.9	3.1	4.6	4.9
Gross International reserves (in millions of U.S. dollars) 5/	2,176	2,628	2,779	2,367	1,994	1,724	1,608	1,582	1,571
Gross reserves (months of next year imports, eop)	6.4	5.3	3.9	3.6	2.9	2.4	2.2	2.0	2.0
External public debt outstanding (in percent of GDP)	43.3	57.9	50.6	46.9	44.1	41.1	39.1	37.0	35.2
External public debt service-to-export ratio (in percent)	6.6	9.7	5.6	7.9	8.1	7.9	6.7	6.9	6.6
Memorandum items:									
Exchange rate) soms per U.S. dollar, average)	69.8	77.4	84.7	...	...	...	...	...	...
Real effective exchange rate (2010=100) (average)	99.9	95.8	95.2	...	...	...	...	...	...

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).
The State government comprises central and local governments.

2/ Includes loans 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 2022 ARTICLE IV CONSULTATION

January 4, 2023

KEY ISSUES

Context. The Kyrgyz Republic is facing significant policy challenges stemming from multiple shocks: the anticipated spillovers from the projected contraction in Russia; the global slowdown; global financial tightening; and still-high food and energy prices. Strong output growth in 2022 was a positive surprise, but elevated inflation remains persistent, the current account and fiscal deficits have widened, international reserves have declined, and poverty has increased. In view of heightened uncertainty, policy buffers that were eroded in addressing the pandemic need to be rebuilt.

Policy recommendations. To strengthen resilience to future shocks, the Kyrgyz Republic needs to contain fiscal deficits, reduce inflation, and accumulate reserves. In the medium term, it also needs to accelerate structural reforms to raise potential output, generate more jobs and incomes, and reduce poverty.

- Monetary policy needs to be restrictive until disinflation is well-established. Domestic liquidity should also be reduced, including by discontinuing NBKR's purchases of gold. Preserving and enhancing exchange rate flexibility is critical to cushion against possible shocks.

- Fiscal policy faces the dual challenge of reducing deficits to strengthen debt sustainability and creating fiscal space for priority spending on infrastructure, human capital, and social protection. Key consolidation measures include reducing tax exemptions and strengthening tax administration, reducing the public wage bill and energy subsidies. Channeling Kumtor profits to the budget could boost fiscal space further.

- The banking system is healthy, but heightened risks call for vigilance. The NBKR should monitor pockets of vulnerabilities and be ready to provide liquidity support to solvent banks as needed.

- Governance reforms, such as improving management of state-owned enterprises, strengthening regulations, and combating corruption would support the business climate and growth prospects. Early action on climate change would strengthen long-term resilience of the economy.

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

Discussions with the authorities were held during November 9-22, 2022 in Bishkek. The staff team comprised Nikoloz Gigineishvili (head), Jean van Houtte, Nasir Rao (all MCD), Alexandra Solovyeva (FAD), Tigran Poghosyan (Resident Representative), Lilia Kadyrberdieva, and Erkeaim Shambetova (both Resident Representative office) with support from Aigerim Toigonbaeva and Liliya Nigmatullina. Cornelius Kuth (OED) participated in the discussions.

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CONTEXT

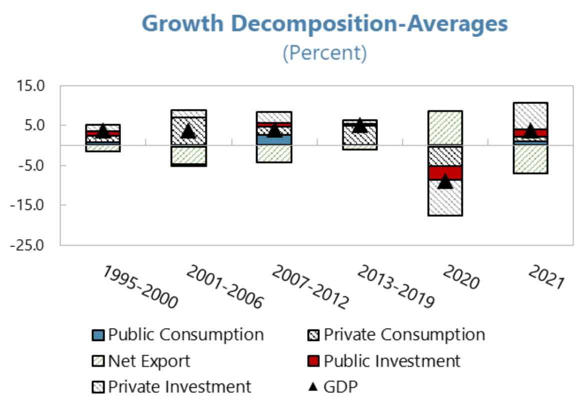
1. **The Kyrgyz Republic weathered the Covid shock relatively well.** Macroeconomic stability was maintained despite a significant contraction in 2020 thanks to the buffers that had been built before the pandemic: inflation was in low single digits; external reserves had reached 6.4 months of imports; total public debt had fallen to 51.6 percent of GDP, and the fiscal deficit was small.

2. **The economy is now facing new challenges.** The authorities are confronted with increased uncertainty stemming from the spillovers from Russia's war in Ukraine and the global slowdown. Like the rest of the Caucasus and Central Asia, the Kyrgyz Republic is particularly exposed to Russia through remittances, trade (including energy imports) and financial linkages. However, with macroeconomic buffers largely eroded, there is little policy space left to respond to future shocks. Public debt stood at 60.8 percent of GDP at end-2021, while inflation rose to double digits and reserves declined.

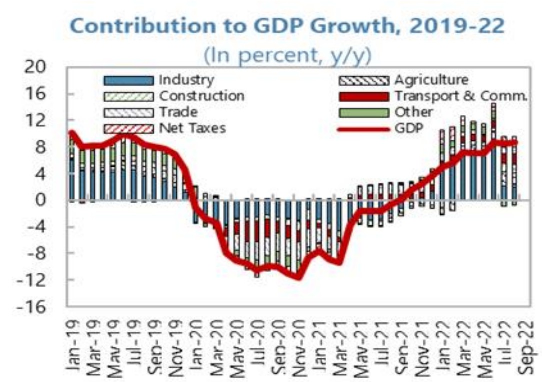
3. **The political situation remains calm, but rising poverty could spark social tensions.** The security situation has remained stable since the ceasefire agreement with Tajikistan in September. Based on the authorities' estimates, the poverty rate increased to 33 percent in 2021 from 25 percent in 2020, partly due to inflation, while the social safety net was unable to provide adequate protection. On the other hand, the recent resolution of the dispute around the Kumtor gold mine between the authorities and a foreign investor could strengthen the investment climate and facilitate gold exports[1].

Figure 1. Kyrgyz Republic: Real Sector and Social Indicators

Growth rebounded strongly after COVID.



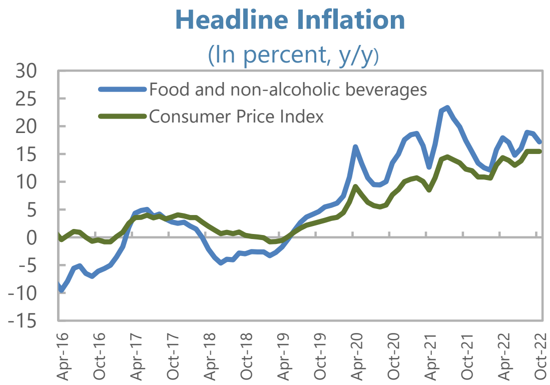
The rebound was driven by gold production, agriculture, trade and transportation.



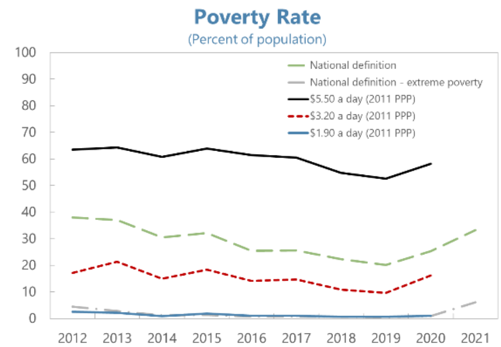
[1] In an out-of-court settlement in April 2022 the Kyrgyz Republic received full ownership of Kumtor Gold Company in exchange for its share in the investor company. The London Bullion Market Association (LMBA) restored Kyrgyz Republic's Good Delivery status in September 2022 which allows selling of Kyrgyz gold bullion in international markets.

Figure 1. Kyrgyz Republic: Real Sector and Social Indicators (Concluded)

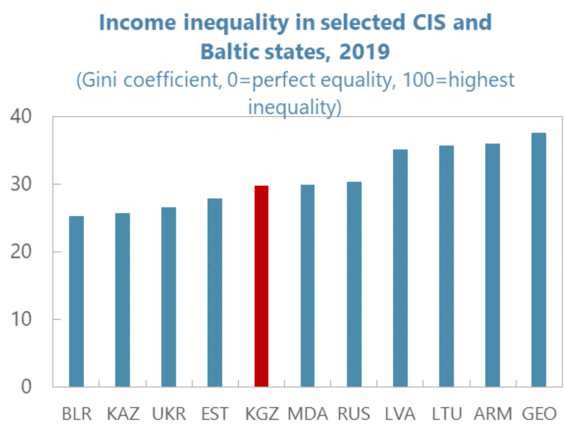
Inflation rose to double digits, partly due to food and fuel prices…



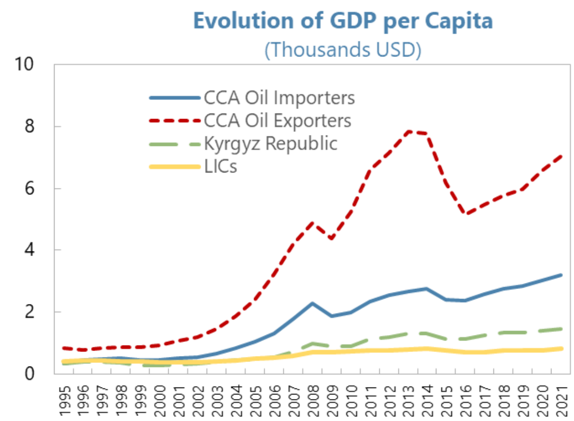
Poverty increased…



… while inequality remains low



…and income convergence has slowed.

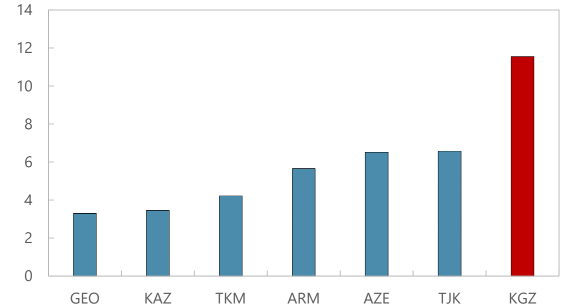


Sources: Country authorities and IMF Staff calculations.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. **The Kyrgyz economy has shown resilience to the spillovers from the war, but inflation remains high.** Following the 8.6 percent contraction in 2020, real GDP grew by 3.6 percent in 2021. Activity picked up strongly from the fourth quarter of 2021, and this momentum carried into 2022, which recorded 7 percent growth in the first eleven months of 2022. The Russian economy's less-than-expected contraction and migration of capital and labor from Russia to CCA countries, including the Kyrgyz Republic, appear to have muted the war's spillovers so far. Growth was primarily driven by gold production, agriculture, trade, and transportation (Table 2). Inflation increased to 14.9 percent in November (y/y), partly due to high global food and fuel prices, but core inflation also rose into double digits. The cyclical recovery in revenue supported by improved tax administration continued in 2022, and the state budget recorded a surplus of 1.6 percent of GDP in

CCA: Public Wage Bill, 2021
(Percent of GDP)

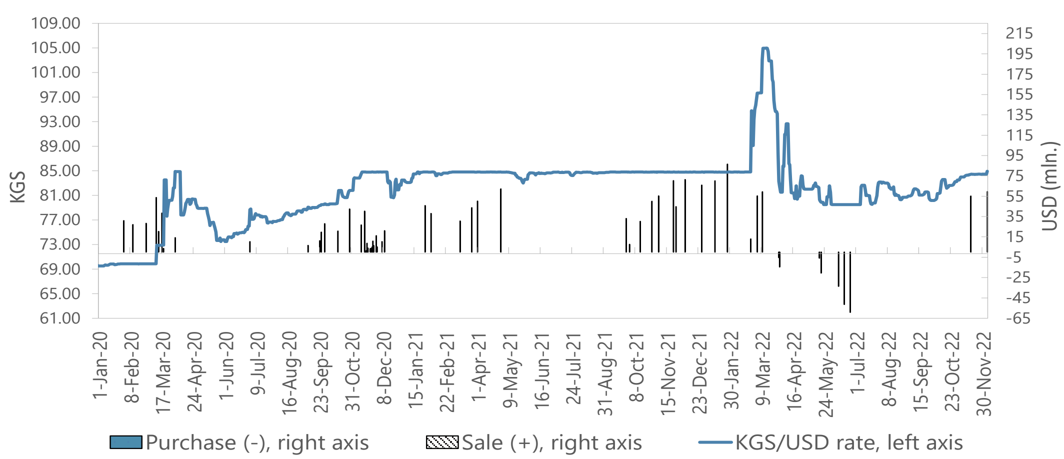


Note: Public wage bill corresponds to the compensation of employees of general government.
Sources: IMF WEO database; and IMF staff calculations.

the first three quarters of the year. However, this does not yet fully reflect the impact of public wage and pension increases, which were introduced from April and October 2022 respectively, and significant investment spending included in the amended budget in the last quarter of the year. Although wage and pension increases were motivated by significant gaps between private and public wages, and by further erosion of public pay and pensions due to high inflation, the near doubling of wages of the large public sector will raise the already high wage bill.

5. The external position has weakened since 2020. The current account turned from a surplus in 2020 into a deficit of 8.6 percent of GDP in 2021 and widened significantly more in 2022. Net money transfers from abroad—which in addition to remittances may also be capturing capital flight from Russia—declined by 15 percent through October. Imports increased by 80 percent in the first three quarters, partly due to higher oil prices. A large part of non-oil imports is likely to reflect re-exports to Russia, which are not fully captured by the intra-Eurasian Customs Union trade statistics because monitoring of trade within the Union is limited. These unrecorded exports could explain large positive errors and omissions, which reached 18.6 percent of GDP in H1 2022, and helped sustain exchange rate stability. At the same time, gold exports were negligible as most domestic gold was purchased by the National Bank of the Kyrgyz Republic (NBKR). Mirroring the path of the ruble/USD exchange rate, the som has fully recovered against the dollar after the depreciation in February and is now at the pre-war levels.

Text Figure 1. KGS/USD Rate and NBKR FX Interventions



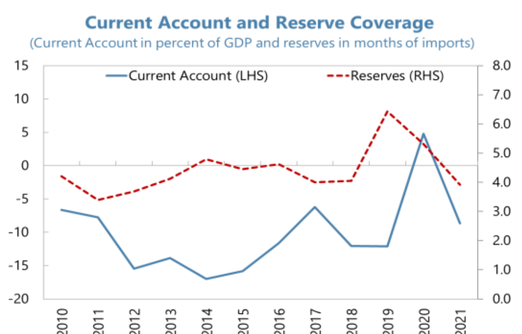
Source: Country Authorities

6. The outlook is subject to heightened uncertainty. Growth is expected to reach 5.5 percent in 2022 and slow to 3.5 percent next year, as the projected contraction in Russia starts to weigh on the Kyrgyz economy while gold production of the Kumtor mine reaches capacity and activity in the agriculture sector slows from exceptionally high levels. In the medium term, GDP is projected to converge to its potential growth rate of about 4 percent. Inflation is expected to remain in the mid-teens in 2022, held up by wage growth, a temporary demand boost from inflow of Russian migrants, and still elevated international food and energy prices. It should decline to about 10 percent by end-2023 and to mid-single digits thereafter if global commodity prices moderate and monetary policy is adequately tightened to contain demand pressures. After adjusting for re-exports,[2] the CA deficit is projected to reach 28.7 percent of GDP in 2022 but narrow to 10.5 percent in 2023 provided gold exports resume. International reserves are projected to decline to 2 months of imports by 2027 from 3.9 months in 2021. Without gold exports, however, the CA deficit would remain at unsustainably high levels.

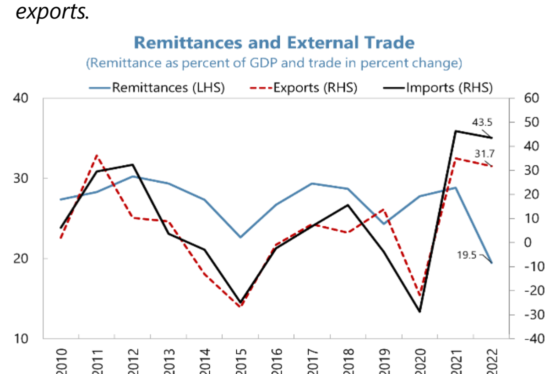
7. Risks are mostly to the downside. A stronger contraction of the Russian economy could result in lower growth and remittances, and a possible return of migrant workers. The resulting reduction in disposable incomes combined with high inflation, if persistent, would increase poverty further and add to social pressures. A growth slowdown could also weaken the quality of banks' loan portfolios. Without additional fiscal space, large new infrastructure projects, such as China–Kyrgyzstan-Uzbekistan railway and Kambarata-1 hydropower plant, would widen the fiscal deficit and weaken debt sustainability. These risks could be compounded by escalation of regional conflicts, the reemergence of the pandemic, shortages of power supply due to the ageing electricity infrastructure or a sustained reduction in gold prices. On the upside, the new wave of capital and labor immigration from Russia could improve the short-term growth outlook.

Figure 2. Kyrgyz Republic: External and Monetary Sectors

The external position has weakened.



Net remittances declined, while imports grew faster than exports.

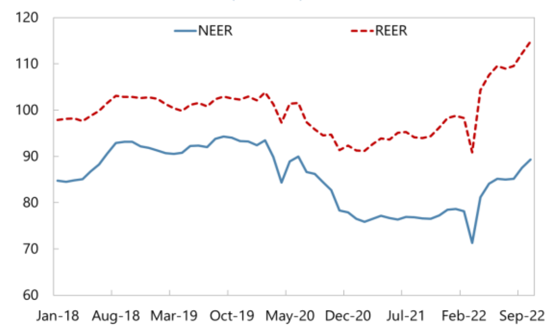


[2] Re-exports have been calculated as a difference between the projected non-energy imports and the imports for domestic consumption. The latter is based on the historical non-energy imports as a share of GDP adjusted for additional domestic demand from the Russian migrants.

Figure 2. Kyrgyz Republic: External and Monetary Sectors (Concluded)

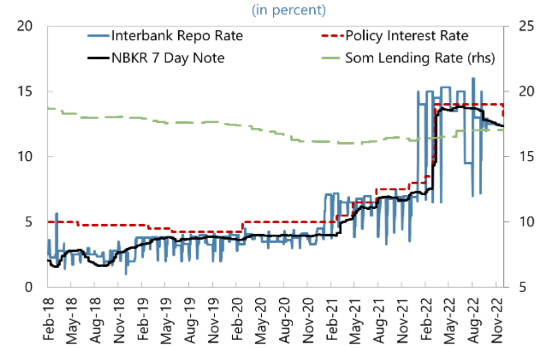
The real exchange rate appreciated in 2022 as inflation picked up.

Nominal and Real Effective Exchange Rates, 2018-22
(2010=100)



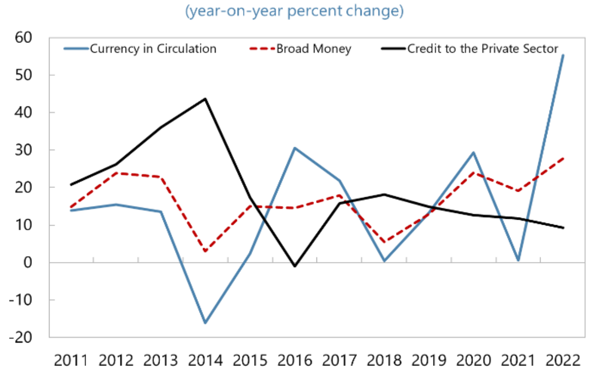
Monetary policy rates were tightened.

Interest Rate Corridor and Market Interest Rates, 2018-22
(in percent)



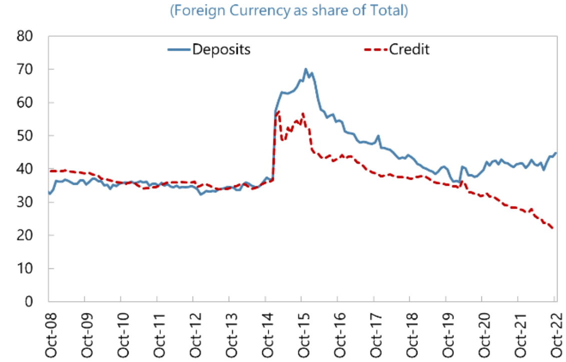
but liquidity increased sharply as currency in circulation expanded, while credit growth slowed.

Monetary Aggregates 2011-22
(year-on-year percent change)



Meanwhile, deposit dollarization has decreased.

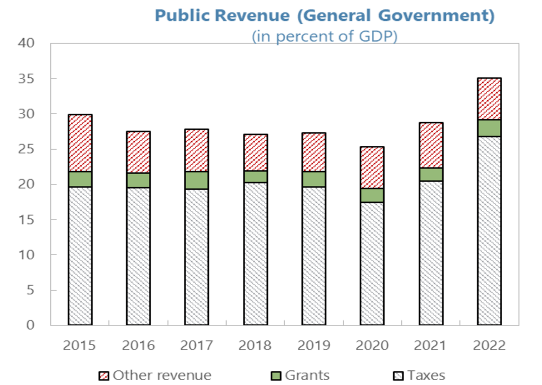
Dollarization, 2008-22
(Foreign Currency as share of Total)



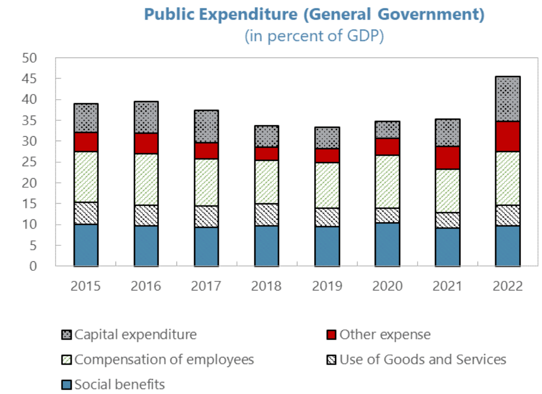
Sources: Country authorities and IMF Staff calculations.

Figure 3. Kyrgyz Republic: Fiscal Sector

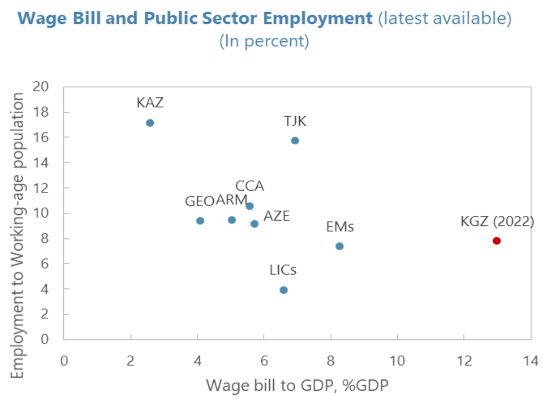
Revenue collection improved with recovery and better compliance…



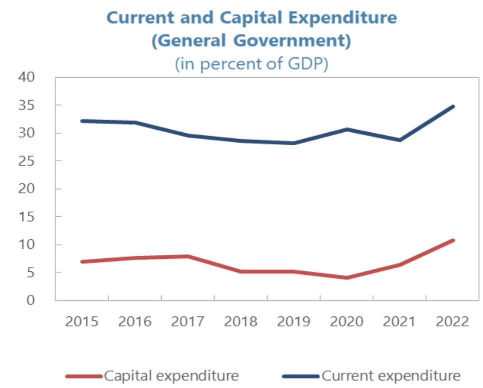
… but expenditure also increased, primarily due to higher public wages and capital spending.



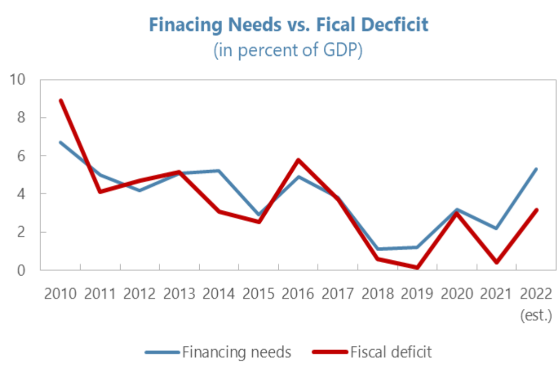
The wage bill is higher than in comparators…



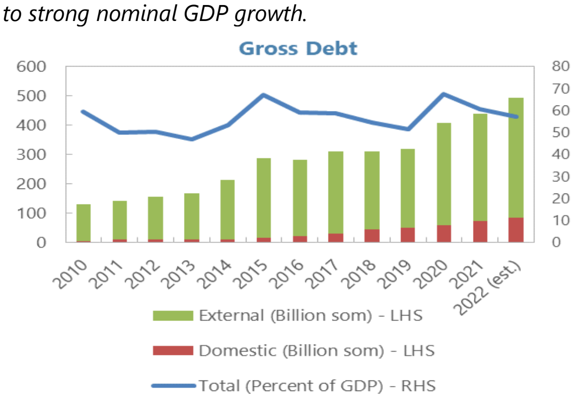
… and tends to crowd out capital expenditure.



As a result, the fiscal deficit and financing needs increased…



… even though total public debt declined since 2020 thanks to strong nominal GDP growth.



Sources: Country authorities and IMF Staff calculations.

POLICY DISCUSSIONS

Policy space is limited, while the projected medium-term growth is insufficient to generate enough income to lift people out of poverty. The Kyrgyz Republic needs to rebuild macroeconomic buffers to strengthen the resilience that served it well during the pandemic. It will need to reduce inflation and fiscal deficits and replenish foreign exchange reserves. Structural reforms are needed to accelerate growth and job creation.

A. Fiscal Policy

9. The amended 2022 budget envisages widening of the general government deficit to 5.2 percent of GDP from 0.8 percent in 2021.[3] Excluding Kumtor's onetime payment of back taxes of 1.8 percent of GDP, tax revenue has increased by 4.3 percent of GDP, which is an exceptional accomplishment thanks to improved tax administration (Annex II). However, expenditure has increased considerably more, including public investment by about 4 percent of GDP to 10.7 percent of GDP, compensation of employees by 2.5 percent of GDP to 13 percent of GDP, as well as social benefits, goods and services, and other spending. Net external financing, including from a partial draw-down of the 2021 SDR allocation, accounts for 2.7 percentage points of GDP. Excess liquidity in banks should allow raising the remaining 2.5 percent of GDP domestically, currently at annual interest rates of up to 16 percent. The issuance of domestic bonds to inject capital in three state-owned banks to support subsidized lending to agriculture, SMEs and housing adds 1.1 percent of GDP to public debt.[4]

10. The authorities project a significant fiscal consolidation from 2023 resulting in surpluses from 2024. This is predicated on a continuous improvement in tax revenue to nearly 31 percent of GDP in 2023 and to over 37 percent by 2025. The authorities also project a sharp decline in capital spending (to 6 percent of GDP in 2023 and 5.3 percent in 2025), the wage bill and other spending. Staff cautioned against excessive optimism about tax revenue without specific tax policy and administrative measures, noting that any tax amnesty and new preferential tax regimes would undermine revenue. The envisaged cuts in capital spending would delay infrastructure investment and could reduce growth, while a reduction in goods and services spending could adversely affect delivery of public services. To avoid these expenditure cuts, however, decisive measures will be needed to create fiscal space and mobilize concessional external financing.

[3] This includes lending to energy sector SOEs, which the authorities classify as acquisition of financial assets.

[4] This is part of the authorities' medium-term plan to provide interest rate subsidies to priority sectors, including 'Financing Agriculture -10' approved in January 2022 (http://cbd.minjust.gov.kg/act/view/ru-ru/218814?cl=ru-ru), 'Lending to Agro-industrial Complex' (http://cbd.minjust.gov.kg/act/view/ru-ru/219019) approved in March 2022, and affordable housing program 'My house 2021-2026' (http://cbd.minjust.gov.kg/act/view/ru-ru/158356), approved in July 2021.

Text Table 1. Kyrgyz Republic: State Government Budget, 2022-2025 1/
(in percent of GDP)

	2022	2023	2024	2025	2023	2024	2025
	Estimate	IMF Staff projections			State budget projections		
Revenues	35.0	32.3	32.7	32.3	38.0	41.4	42.5
Taxes	26.8	25.8	25.9	25.6	31.2	35.2	37.1
Grants (including project grants)	2.4	1.2	1.1	1.1	2.1	1.3	0.9
Other revenues	5.9	5.3	5.7	5.7	4.7	4.9	4.5
Expense 2/	29.5	30.8	30.4	30.5	33.8	32.8	34.6
Compensation of employees	11.6	12.7	12.7	12.5	12.8	11.7	10.7
Use of goods and services	4.1	3.9	3.9	3.9	3.6	3.3	3.0
Interest	1.3	1.4	2.0	2.4	1.5	1.5	1.4
Subsidies to public corporations	0.6	0.7	0.7	0.8	0.5	0.5	0.4
Social benefits	2.0	2.9	2.9	2.9	2.0	1.9	1.7
Other expense	8.8	8.0	7.1	7.0	13.3	14.0	17.3
Capital transfers to SOEs (energy sector)	1.2	1.2	1.2	1.2	...	...	...
Net acquisition of nonfinancial assets	10.7	6.2	6.8	6.6	6.5	7.2	5.8
Net lending/borrowing (overall balance) 2/	-5.2	-4.6	-4.4	-4.7	-2.3	1.3	2.1
Memorandum item:							
Nominal GDP (in billions of soms)	859	1,009	1,129	1,242	927	1,022	1,127
Nominal GDP growth (percent)	18.8	17.4	11.9	10.0	12.4	10.2	10.3

Sources: Kyrgyz authorities, and Fund staff estimates and projections.
1/ The State government comprises central and local governments.
2/ Expense and net lending/borrowing include capital transfers to energy SOEs for the IMF projections and do not include them for the state budget projections.

11. **Staff projects the fiscal deficit to decline to 4.6 percent of GDP in 2023 and remain just under 5 percent of GDP in the medium term**. After adjusting for one-off tax payments by Kumtor in 2022, total tax revenue is projected to remain around 25.5 percent of GDP. With the full year impact of the wage and pension increases and no wage indexation in 2023, the public wage bill would reach almost 14 percent of GDP in 2023; the pension increase would add 0.9 percent of GDP to social spending; and domestic interest payments would rise from 0.7 percent of GDP in 2022 to 2.4 percent by 2027, reflecting a significant increase in costly domestic borrowing needs given the limited foreign financing available. Raising about 4 percent of GDP per year in a shallow domestic bond market would lead to higher interest rates and crowding out of private sector credit, even if the banking system remains liquid and the Social Fund provides part of the needed financing.

12. **The Debt Sustainability Analysis implies a medium risk of debt distress**. Despite the projected deficits, total public debt would remain under 60 percent of GDP through 2026, largely thanks to growth in nominal GDP. Without fiscal consolidation, however, public debt would reach 61 percent of GDP in 2027 and keep rising thereafter. Staff advised the authorities to anchor fiscal policy to keep public debt below 60 percent of GDP in the medium term and reduce it further to rebuild fiscal buffers and strengthen resilience to future shocks. This would entail reducing primary fiscal deficits from the estimated 4.2 percent of GDP in 2022 to 1 percent of GDP by end-2027,

which corresponds to the debt stabilizing primary balance needed to maintain public debt around the current level.

13. The Kyrgyz Republic will need to create fiscal space for priority spending on infrastructure, human capital, and social protection. Tax revenue can be raised by reducing tax exemptions, incentives, and preferential tax regimes, strengthening taxation of e-commerce, raising excises on tobacco and petroleum, which are low by international standards, and adjusting other specific excises to inflation. Tax administration can be strengthened further by continuing to improve e-filing, taxpayer registration, risk-based auditing and expanding the use of cash registers. Further, since Kumtor is now fully state-owned, it should be brought under the same tax regime as other gold mining companies[5] and its dividends be channeled to the budget to reduce the deficit. The revenue loss from tax exemptions estimated at 3.5 percent of GDP in the 2021 Article IV consultation will require reassessment in view of the new tax code and the changing structure of the economy due to the Covid pandemic and the impact of the war in Ukraine. The Fund's technical assistance could help the authorities implement a holistic reform of tax policy and administration, including assessment of tax expenditures.

14. More fiscal space can be created by reducing expenditure and strengthening public finance management (PFM). The public wage bill should be contained. Limiting nominal wage growth to below inflation and freezing public employment at the current levels would yield fiscal savings of about 1.5 percent of GDP per year by 2027; allowing headcount reduction through attrition and public employment optimization, including by steadfast implementation of the Presidential decree to reduce central government headcount by up to 30 percent, would generate more savings[6]. A comprehensive reform of the public sector compensation and employment framework should also be pursued. Gradually raising electricity tariffs and lowering operating costs of the energy sector would reduce subsidies and generate fiscal savings, part of which should be used for targeted social assistance to the most vulnerable. These measures should be supplemented with PFM reforms to strengthen wage bill management; implement IFMIS modules for budget preparation and payroll; and limit extra-budgetary funds such as the Stabilization Fund.

15. Strengthening social protection would support inclusive growth. Before 2020, poverty rates had been steadily declining, and inequality was relatively low in the Kyrgyz Republic. With the onset of the pandemic, however, the decline in real incomes pushed nearly 1 million people into poverty in 2020-21. Social spending is high compared to low-income countries and the CCA, but because of weaknesses in coverage, adequacy and targeting, social safety nets (SSN) were unable to protect the vulnerable and prevent an increase in poverty. A reform of social protection should aim at strengthening its efficiency and developing an adaptive SSN system that can provide adequate and well-targeted social benefits to the vulnerable in a fiscally sustainable manner and scale up during economic downturns as needed.[7]

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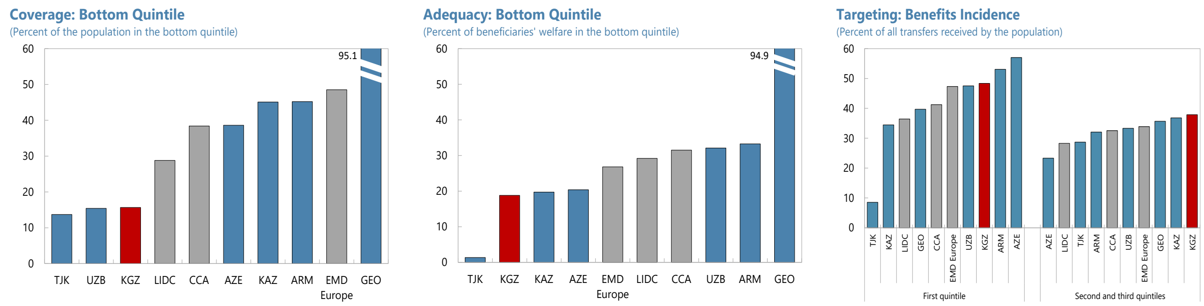
[5] Kumtor is still operating under a preferential tax regime that was agreed with the foreign investor.

[6] The civil service accounts for about one-eighth of total public sector employment.

[7] See Social Safety Nets and Poverty in the Kyrgyz Republic in Selected Issues Paper.

Text Figure 2. Social Assistance Programs: Performance Indicators



Source: IMF Fiscal Affairs Department Social Protection and Labor Toolkit; World Bank.

Authorities' Views

16. The authorities diverged from staff on fiscal projections. They believe that the digitalization of tax and customs administration that delivered strong revenue performance in 2022 will continue to bring more revenue in the medium term, while the Presidential decree limiting headcount in government bodies would reduce the wage bill. They project fiscal consolidation to reduce public debt to under 43 percent of GDP by 2027. They also expressed confidence that domestic markets would be able to provide necessary financing at reasonable costs, should the need arise. The authorities also noted that their debt management strategy for 2021-24 puts a limit on public debt at 70 percent of GDP.

B. Monetary, Exchange Rate, and Financial Policies

17. In late November the NBKR lowered its policy rate by 100 basis points to 13 percent to encourage higher bank lending. In October credit grew by 10 percent y-o-y, but reserve money and broad money growth reached 33.6 and 29 percent respectively, fueled by the NBKR's purchases of non-monetary gold. Staff noted that high food and fuel prices, immigration from Russia and strong GDP and real wage growth may keep inflation pressures elevated and recommended a restrictive monetary stance and tightening of liquidity until disinflation is firmly established. The recent increase in the interest rate cap on NBKR note auctions is welcome, but the effectiveness of monetary policy can be strengthened by fully lifting the cap, improving liquidity management, better coordinating monetary and fiscal policies, and containing Government's subsidized lending programs. All banks, including private ones, should have equal access to any such program to provide a level playing field.

18. The external sector was weaker in 2021 than implied by fundamentals and desirable policies (Annex III). The real effective exchange rate appreciated by 12 percent in the first 10 months of 2022. Given the heightened risks to the outlook, greater exchange rate flexibility gains particular importance to absorb future shocks, while FX interventions should only be used to smooth volatility. To strengthen medium-term competitiveness, however, structural reforms would also be needed for a lasting solution. Temporary relaxation of some prudential regulations introduced during the pandemic as emergency measures are now being phased out, which is welcome, but the limits on the export of foreign exchange cash by financial institutions remain in place. The NBKR's extensive purchases of gold result in an injection of domestic liquidity that is unwarranted by the primary disinflation objective and entail significant sterilization costs. They also undermine exports and result in concentration of reserve assets in gold. Staff recommended discontinuation of gold purchases by the NBKR and resumption of gold exports without NBKR's involvement, which is critical for balance of payments sustainability. Conversion of the non-monetary gold on the NBKR's balance sheet to foreign exchange would considerably increase and diversify international reserves.

19. Parliament rejected most draft amendments to the NBKR law that aimed to address the 2020 Safeguards Assessment recommendations. The new law now envisages a proper recapitalization and profit distribution mechanisms, which is an important accomplishment, but does not introduce a majority of non-executive members of the NBKR Board and the Audit Committee, or provisions to wind down non-core central bank operations. These provisions are essential to strengthen governance and independence of the central bank and renewed efforts are needed to introduce them in the law expediently. While the majority of other recommendations of the Safeguards Assessment were implemented, the NBKR should continue its efforts to divest Keremet Bank and develop a strategy to unwind its ownership of the Guarantee Fund. Enforcing strict limits on lending to non-supervised entities are also critical.

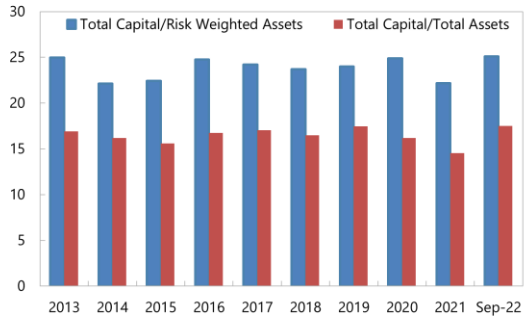
20. In May 2022, the authorities signed an Agreement to transfer ownership of the 2021 SDR allocation from the NBKR to the MoF. The transfer takes place gradually and about two thirds of the allocation was drawn by the MoF in 2022 to service external public debt. The transaction was implemented based on the directive of the Cabinet of Ministers, a decision of the Budget, Economic and Fiscal Policy committee of the Parliament, and the legal opinions from the Ministry of Justice and General Prosecutor which state that the transaction does not contradict domestic laws. Staff advised the authorities to provide the analysis of enabling legislation to justify the transaction and will continue to follow up. In this connection, staff also informed the authorities about the forthcoming review by the Fund of the use of the 2021 SDR allocations by the membership.

21. The banking sector remains sound, but the heightened uncertainty calls for supervisory vigilance. Banks are liquid and well capitalized with capital adequacy at 25.1 percent on average and the liquidity ratio of 79.6 percent as of September 2022, but asset quality has weakened. NPLs increased from 10.5 percent in 2020 to 12.8 percent of banking system loans in September 2022 and may weaken further if the economy slows. Based on the NBKR's own stress-tests, banks appear resilient to various severe shocks, including interest rate shocks as most government bonds are held to maturity. Although capital buffers are strong, the NBKR should develop a comprehensive NPL resolution strategy and be ready to provide liquidity support to solvent banks as needed. The isolation of major Russian banks from the western financial system raised costs of correspondent banking but does not seem to pose a major challenge for cross-border payments. The authorities requested Fund TA on payments systems.

Figure 4. Kyrgyz Republic: Financial Soundness Indicators

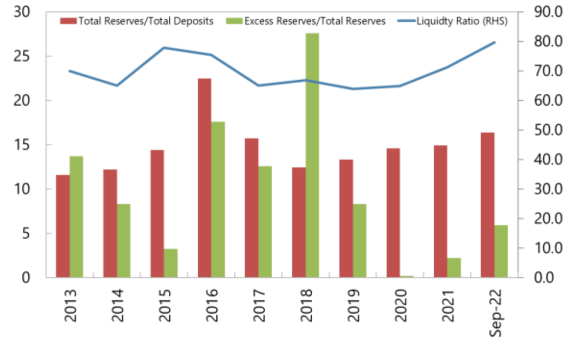
Kyrgyz banks are well capitalized…

Capital Adequecy Ratio
(in percent)



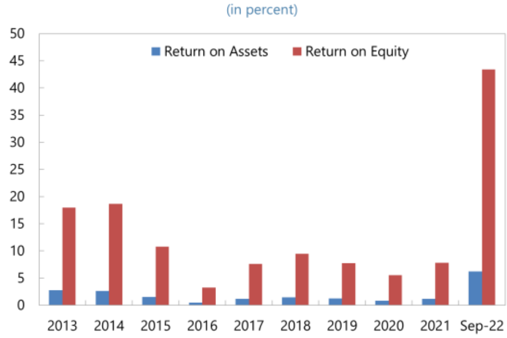
… and liquid.

Banking System Liquidity
(in percent)



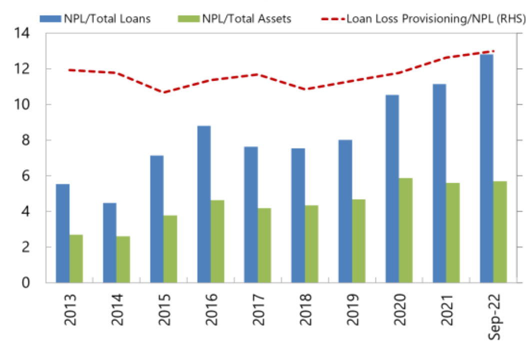
Profitability improved considerably in 2022…

Profitability
(in percent)



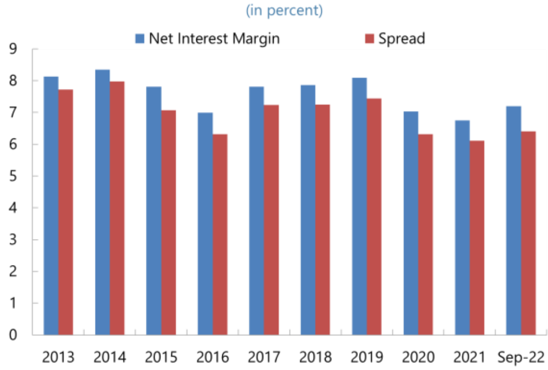
… but asset quality has deteriorated.

Asset Quality
(in percent)



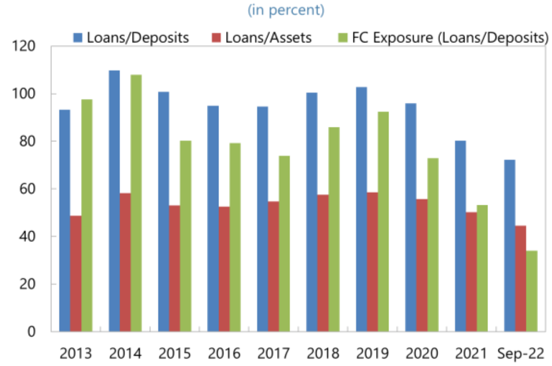
Spreads and net interest margins have remained broadly stable …

Spread and Net Interest Margin
(in percent)



…but FX exposure declined.

Loan Structure
(in percent)



Sources: Country authorities and IMF staff calculations.

Authorities' Views

22. The NBKR believes that inflation has peaked and projects a decline through 2023. Moreover, while recognizing possible demand pressures, it assessed the increased liquidity as unlikely to support financial intermediation, and lowered policy rates after the mission's conclusion to encourage bank lending. It agreed, however, to wind down its gold purchases. The conversion of non-monetary gold to reserve assets will take into account global gold price dynamics to avoid valuation losses and will be guided by NBKR's reserve management strategy. With respect to the transfer of the SDR allocation, however, the authorities believe that the legal opinions from the Ministry of Justice and General Prosecutor provide sufficient legal justification, consistent with domestic legislation and the legal system of the Kyrgyz Republic.

C. Structural Reforms

23. Strengthened governance can have a transformative impact on investment and growth.[8] It is estimated that governance reforms in the Kyrgyz Republic could increase its growth by 1.2 percentage points each year, and output gains could be even larger if accompanied by other reforms[9]. The Kyrgyz Republic could considerably improve its standing in governance indicators by strengthening control of corruption, the rule of law, the regulatory quality, competition, and transparency and accountability of the public sector.

Wordwide Governance Indicators, 2020
(Score, higher = better)

Source: World Governance Indiactors

24. Laws and regulations should be strengthened to minimize opportunities for corruption. Digitization of tax administration and allowing public access to income and asset declarations by government officials were important steps in this regard. However, asset declaration access should be broadened, verification of declared information strengthened and the triggers for investigation and prosecution for illicit enrichment established. The draft amendment to the public procurement law to exclude competitive bidding, if passed, would undermine the integrity of the procurement system, and considerably increase risks of corruption. It could lead to misuse of public resources, further weaken the investment climate, and may put at risk the access to concessional external financing. Audits of public procurement contracts, including for all emergency spending during the pandemic, have been published[10], but full contracts and the identities of beneficial owners remain to be published as committed under the RFI/RCF. The emergence of state-owned

[8] See Governance Challenges in the Kyrgyz Republic in Selected Issues Paper

[9] Forthcoming MCD departmental paper 'Paving the Way to More Resilient, Inclusive and Greener Economies in the Caucasus and Central Asia'.

[10] Audit reports are available at https://www.esep.kg/images/docs/2021/otchet_byudjet2020_ru.pdf

monopolies, such as Kara-Balta Distillery with exclusive rights to produce, import and sell ethyl alcohol, undermines competition, and can lead to misallocation of resources.

25. Strengthening corporate governance for State-Owned Enterprises (SOE) could generate significant growth dividends for the Kyrgyz Republic. SOEs are a significant source of economic and fiscal risk, which requires vigilant oversight and sound management to ensure that public resources generate the highest possible social and economic returns for taxpayers without crowding out the private sector. The largest SOEs are in energy, telecommunications, mining, and financial services – sectors that are critical for economic development and growth. The legal and corporate governance frameworks, however, are fragmented and lack a clear ownership policy. Exclusion of SOEs from the 2021 public procurement law to expedite SOE procurement further weakened governance. Financial reporting is mandated under the accounting law, with solid requirements to comply with IFRS, but its implementation has been uneven. The key reform areas to improve SOE governance include:

a. *Streamlining and harmonizing legislation* to define legal forms of government ownership; its role and the powers as a shareholder; and reporting and disclosure requirements. In addition, all SOEs should be subject to the public procurement law.

b. *Articulating a clear ownership policy* to define the government's policy objectives as a shareholder, the mandate of each SOE, and how the government will exercise its ownership rights. This policy should determine which SOEs serve important public interests and should therefore remain in state ownership, and which should be divested to reduce state footprint.

c. *Establishing a strong corporate governance framework* to ensure professional management and oversight of SOEs. In view of capacity limitations, the application of the corporate governance framework could start with the largest SOEs.

d. *Strengthening institutional oversight* to ensure transparency and accountability. SOEs should publish audited financial accounts, and the government should publish annual reviews of the SOE sector performance, reporting to the public how it exercised its ownership rights in achieving its policy objectives and serving public interests.

e. The MoF should exercise financial oversight over all SOEs.

26. The authorities have strengthened AML/CFT legislation. The 2018 reforms improved risk-based AML/CFT supervision and transparency of beneficial ownership. The Kyrgyz Republic complies or mostly complies with 39 of the 40 recommendations from the Financial Action Task Force (FATF), which is higher than the average compliance rate in the CCA. However, the Eurasian Group effectiveness assessment found that understanding of ML/FT risks is low, and the confiscation of the proceeds of crime is rarely effective. This underscores the importance of strengthening analytical and implementation capacity of risk-based AML/CFT supervision and monitoring of cross-border activities to detect and recover proceeds of crimes, including corruption.

27. Addressing climate-related challenges would open new opportunities for more sustainable and greener growth.[11] The Kyrgyz Republic, like other countries in the region, is particularly exposed to the risks from global warming, and needs to develop its own climate adaptation policy to strengthen resilience. This requires creating fiscal space for additional public spending on green infrastructure, healthcare, training and education, and social safety nets. Despite its low carbon footprint, the country should also contribute to global mitigation efforts by reducing air, soil, and water pollution, expanding renewables, and raising electricity tariffs to cost recovery, which would attract private investment in clean power generation.

Authorities' Views

28. The authorities shared the staff's assessment of reform priorities. They agreed with staff on the need to strengthen governance, fight corruption and improve implementation capacity for AML/CFT. They also appreciated staff recommendations on SOE governance reforms and intend to optimize the number of non-strategic commercial SOEs, starting with telecom. They have made strong commitments to address climate-related challenges, and as part of their plan have prioritized green energy, agriculture and industry, environmentally friendly transportation, sustainable tourism, waste management, and green cities. They highlighted financial constraints as an impediment to climate policies.

STAFF APPRAISAL

29. The Kyrgyz Republic has shown resilience in the face of multiple shocks, but risks are elevated. Unexpected migration of capital and productive labor from Russia have supported activity. However, inflation surged, external and fiscal balances deteriorated, international reserves declined, and poverty increased. Total public debt fell, largely because of high nominal GDP and real appreciation of the exchange rate.

30. The outlook is subject to heightened uncertainty at a time when macroeconomic buffers have been eroded. The decline in the net inflow of remittances suggests that adverse spillovers from the war in Ukraine are starting to materialize. In addition, high commodity prices, the global slowdown and the tightening of global financial conditions are likely to weigh on output growth. However, policy flexibility is constrained by reduced buffers, while forthcoming concessional external financing is limited. The main challenge for policymakers is to strengthen macroeconomic stability, rebuild policy space for future shocks, mobilize financing for development needs, and raise growth potential by advancing reforms.

31. Fiscal policy should aim to reduce deficits while creating space for priority spending on infrastructure, health and education, and social protection. The expansionary stance in 2022 would need to be reversed in the coming years to restore fiscal buffers, contain build-up of public debt, and alleviate financing constraints. Staff recommends maintaining public debt below 60 percent of GDP in the medium term and reducing it more thereafter. Growth-friendly consolidation can be achieved by reducing tax expenditure, optimizing tax policy, strengthening tax and customs

[11] See Climate Change Adaptation and Mitigation in the Kyrgyz Republic in Selected Issues Paper.

administration, reducing the public sector wage bill, and raising electricity tariffs to reduce energy subsidies. Channeling dividends of the state-owned Kumtor Gold Company to the budget would significantly ease financing constraints. Strengthening social safety nets would support the poverty reduction objective.

32. Monetary policy should aim at reducing inflation to mid-single digits. This will require a restrictive monetary policy stance and tightening of liquidity. Discontinuing NBKR's purchases of gold would prevent further injection of liquidity while resumption of gold exports is critical for sustainability of the balance of payments. The exchange rate was overvalued by about 5-10 percent in 2021, but the NBKR remains committed to exchange rate flexibility, which provides important cushion against external shocks. Renewed efforts are needed to introduce amendments to the NBKR law to strengthen governance and operational independence of the central bank.

33. While there has been some progress on governance, important gaps remain, which if properly addressed, could have a transformative impact on investment and growth. Opportunities for corruption can be reduced by strengthening income and asset declarations by public officials and investigating illicit enrichment. Competitive bidding should remain integral part of the public procurement law and should extend to SOEs. Its exclusion would increase risks of corruption and may put at risk access to concessional external financing. A comprehensive SOE ownership and oversight policy would improve SOE governance, while strengthening the AML/CFT framework and improving monitoring of cross-border activities can be a potent tool in deterring corruption.

34. The Kyrgyz Republic needs its own climate adaptation policy to strengthen resilience. This requires creating fiscal space for additional public spending on green infrastructure, healthcare, education, and social safety nets. Strengthening domestic institutions and governance would be essential to support climate policies. Despite its low carbon footprint, the country should also contribute to global mitigation efforts by reducing pollution, investing in renewables, and raising electricity tariffs.

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

Table 1. Kyrgyz Republic: Selected Social and Economic Indicators, 2019–27

I. Social and Demographic Indicators

Population (in millions, 2021)	6.6	GINI Index (2020)	0.29
Unemployment rate (ILO estimate, in percent, 2021)	9.1	Life expectancy at birth in years (2020)	72.0
Poverty rate (in percent, national definition, 2020)	33	Adult literacy rate (percent of popul., 2018)	99.6
Per capita GDP (World Bank, in million U.S. dollars, 2021)	1,276	Under-five mortality (per 1000 live births, 2020)	18

II. Economic Indicators

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Estimate	Projections				
Real sector									
Nominal GDP (in billions of soms)	619	602	723	859	1,009	1,129	1,242	1,363	1,486
Nominal GDP (in millions of U.S. dollars)	8,872	7,792	8,549	10,061	11,275	11,969	12,779	13,617	14,410
Real GDP (growth in percent)	4.6	-8.6	3.6	5.5	3.5	3.8	4.0	4.0	4.0
Nongold real GDP (growth in percent)	4.1	-9.0	3.9	4.9	3.7	4.0	4.1	4.1	4.1
GDP per capita (in U.S. dollars)	1,389	1,196	1,285	1,481	1,627	1,691	1,768	1,847	1,914
Consumer prices (12-month percent change, eop)	3.1	9.7	11.2	15.4	10.0	6.0	5.5	5.5	4.0
Consumer prices (12-month percent change, average)	1.1	6.3	11.9	13.5	12.4	7.8	5.8	5.5	4.8
General government finances (in percent of GDP) 1/									
Revenue	32.5	30.8	34.0	39.6	36.4	36.8	36.3	36.1	35.8
Of which: Tax revenue	19.6	17.4	20.5	26.8	25.8	25.9	25.6	25.4	25.3
Expense	27.4	30.0	28.3	34.0	34.9	34.4	34.4	34.2	34.0
Gross operating balance	5.1	0.9	5.7	5.6	1.6	2.4	1.9	1.9	1.8
Net acquisition of nonfinancial assets	5.2	4.1	6.5	10.7	6.2	6.8	6.7	6.7	6.8
Overall balance (net lending/borrowing) 2/	-0.1	-3.3	-0.8	-5.2	-4.6	-4.4	-4.7	-4.8	-5.0
Primary net lending/borrowing	0.8	-2.3	0.0	-4.2	-3.6	-2.9	-2.7	-2.4	-2.4
Total state government debt 3/	51.6	67.6	60.8	58.3	57.9	57.8	58.7	59.6	61.0
Of which domestic debt	8.3	9.7	10.3	11.4	13.8	16.7	19.6	22.6	25.8
Monetary sector									
Reserve money (percent change, eop)	11.0	24.8	6.5	40.4	6.4				
Broad money (percent change, eop)	12.8	23.9	19.1	27.7	9.6				
Credit to private sector (percent change, eop)	14.9	12.6	11.7	9.9	7.8				
Credit to private sector (in percent of GDP)	24.2	28.1	26.1	24.1	22.2				
Velocity of broad money 4/	2.7	2.1	2.1	2.0	2.1				
Policy Rate	4.3	5.0	8.0	...	...				
External sector									
Current account balance (in percent of GDP)	-12.1	4.8	-8.6	-28.7	-10.6	-10.0	-9.1	-8.5	-8.0
Export of goods and services (in millions of U.S. dollars)	3,126	2,444	3,301	4,399	5,356	5,682	5,958	6,315	6,716
Export growth (percent change)	13.8	-21.8	35.0	33.3	21.8	6.1	4.9	6.0	6.4
Import of goods and services (in millions of U.S. dollars)	5,690	4,060	5,938	8,587	7,820	8,207	8,464	8,851	9,281
Import growth (percent change)	-3.8	-28.7	46.3	44.6	-8.9	4.9	3.1	4.6	4.9
Gross International reserves (in millions of U.S. dollars) 5/	2,176	2,628	2,779	2,367	1,994	1,724	1,608	1,582	1,571
Gross reserves (months of next year imports, eop)	6.4	5.3	3.9	3.6	2.9	2.4	2.2	2.0	2.0
External public debt outstanding (in percent of GDP)	43.3	57.9	50.6	46.9	44.1	41.1	39.1	37.0	35.2
External public debt service-to-export ratio (in percent)	6.6	9.7	5.6	7.9	8.1	7.9	6.7	6.9	6.6
Memorandum items:									
Exchange rate (soms per U.S. dollar, average)	69.8	77.4	84.7	...	...	...	...	...	...
Real effective exchange rate (2010=100) (average)	99.9	95.8	95.2	...	...	...	...	...	...

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). The State government comprises central and local governments.

2/ Includes loans 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, 2019–27

(in percent)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Estimate			Projections		
			(growth rate in real terms)						
Agriculture, Hunting, Fishing, Forestry	2.5	1.1	-5.0	6.0	3.0	3.0	3.0	3.0	3.0
Industry	6.6	-7.5	7.2	12.5	2.4	2.9	3.0	3.0	3.0
Industry without Gold	3.9	-10.0	12.9	5.5	4.0	5.0	5.0	5.0	5.0
Construction	10.7	-15.9	-4.8	5.5	6.0	9.1	9.1	9.1	9.1
Transport	4.2	-30.9	18.0	10.0	6.0	5.0	6.0	6.0	6.0
Communication	-0.5	-3.9	12.9	6.0	4.2	2.0	2.0	2.0	2.0
Trade	5.9	-15.7	11.4	6.0	4.2	5.5	5.5	5.5	5.5
Other	1.2	-2.6	0.9	1.9	2.2	1.0	1.5	1.5	1.5
Net Taxes on Products	4.6	-8.6	3.6	5.5	4.0	4.0	4.0	4.0	4.0
Gross Domestic Product	4.6	-8.6	3.6	5.5	3.5	3.8	4.0	4.0	4.0
Gold 1/	11.5	-4.8	1.0	20.0	0.7	0.7	0.8	0.9	0.9
Non-Gold GDP	4.1	-9.0	3.9	4.9	3.7	4.0	4.1	4.1	4.1
Memorandum items:			(In billions of soms)						
Gross Domestic Product	619	602	723	859	1,009	1,129	1,242	1,363	1,486
Gold 1/	57	56	55	56	58	63	67	71	75
Non-Gold GDP	562	546	668	804	951	1,066	1,175	1,292	1,411

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, 2019–27

(in millions of U.S. dollars)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Estimate	Projections				
Current account balance	-1,073	374	-739	-2,885	-1,195	-1,201	-1157	-1161	-1159
Excluding transfers	-3,344	-1,872	-3,260	-4,924	-3,296	-3,383	-3,425	-3,515	-3,601
Trade balance	-2,626	-1,440	-2,420	-3,860	-2,223	-2,323	-2331	-2381	-2427
Exports, fob	2,043	2,016	2,779	3,696	4,653	4,950	5194	5518	5882
CIS countries	642	555	1,039	3,389	3,189	3,413	3,413	3,442	3,565
Of which: Re-exports	...	...	...	1,807	1,717	1,531	1449	1372	1318
Non-CIS countries	1,401	1,461	1,740	307	1,464	1,536	1781	2076	2317
Of which: Gold	833	987	1,412	3	1,129	1,171	1216	1248	1282
Imports, fob	4,669	3,456	5,199	7,556	6,876	7,272	7525	7899	8309
CIS countries	1,961	1,761	2,843	4,102	4,107	4,319	4404	4538	4768
Of which: Energy	627	477	804	1,261	1,114	1,079	1064	1047	1036
Non-CIS countries	2,707	1,695	2,355	3,454	2,769	2,953	3121	3361	3541
Services	62	-176	-218	-328	-241	-202	-176	-155	-138
Receipts	1,083	428	522	703	703	732	764	797	834
Payments	-1,021	-604	-740	-1,030	-944	-935	-939	-952	-973
Income	-779	-256	-622	-736	-832	-858	-919	-980	-1036
Interest payments	-82	-104	-105	-86	-95	-76	-84	-90	-95
Other net income	-698	-153	-517	-651	-736	-782	-835	-889	-941
Current Transfers (net)	2,270	2,246	2,521	2,039	2,101	2,182	2268	2354	2442
Of which: Private	2,158	2,166	2,465	1,960	2,101	2,182	2268	2354	2442
Capital Account	88	80	134	180	104	110	116	122	128
Official	92	88	120	180	104	110	116	122	128
Private	0	0	14	0	0	0	0	0	0
Financial account	466	-473	567	446	790	919	978	1039	1021
Commercial banks	-1	-179	-235	-124	-113	-40	-40	-40	-40
Medium- and long-term loans (net)	135	125	133	110	157	120	116	91	94
Disbursement	766	736	682	724	780	758	781	847	910
Public	699	703	637	936	1,054	960	990	1104	1200
Private	67	33	46	-212	-274	-202	-208	-256	-290
Amortization	-630	-610	-549	-614	-623	-638	-665	-756	-815
Public	630	610	549	614	623	638	665	756	815
Private	-122	0	-146	-272	-302	-311	-301	-363	-396
Foreign direct investment	337	-582	561	411	536	629	702	748	792
Portfolio investment	25	15	0	0	0	0	0	0	0
Other (including SDR allocation)	0	0	241	0	0	0	0	0	0
Net short-term flows	-30	141	-134	50	210	210	200	240	175
Errors and omissions 1/	566	-104	602	1,868	0	0	0	0	0
Overall balance	47	-123	564	-390	-300	-172	-64	-1	-10
Financing	-47	123	-564	390	300	172	64	1	10
Net international reserves	-42	114	-611	389	300	172	64	1	10
Gross official reserves (–, increase)	-16	-108	-585	412	373	271	116	26	10
IMF	-26	222	-26	-23	-72	-98	-52	-25	0
Exceptional financing (including arrears) 2/	-5	12	47	2	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)	8,872	7,792	8,549	10,061	11,275	11,969	12,779	13,617	14,410
Current account balance (percent of GDP)	-12.1	4.8	-8.6	-28.7	-10.6	-10.0	-9.1	-8.5	-8.0
Current account balance excluding official transfers (percent of GDP)	-13.4	3.8	-9.3	-29.5	-10.6	-10.0	-9.1	-8.5	-8.0
Growth of exports of GNFS (volume, percent)	14.9	-24.7	12.1	30.5	23.5	5.9	4.7	6.2	6.0
Growth of imports of GNFS (volume, percent)	-1.4	-23.3	17.2	23.8	-5.7	5.8	2.7	3.8	4.0
Terms of trade (goods, percentage change)	1.4	7.1	-5.8	-9.0	1.4	0.4	-0.4	-0.7	-0.5
Gold price (U.S. dollars per ounce)	1,392	1,770	1,800	1,796	1,760	1,811	1,866	1,899	1,932
Fuel Price Index (2005=100)	129.0	91.9	183.5	310.4	270.4	233.6	213.5	202.2	198.7
External Public Debt (in millions of U.S. dollars) 3/	3,851	4,217	4,316	4,681	4,789	4,842	4,926	4,964	5,005
As percent of GDP	43.3	57.9	50.6	46.9	44.1	41.1	39.1	37.0	35.2
External public debt service-to-exports ratio 3/ 4/	6.6	9.7	5.6	7.9	8.1	7.9	6.7	6.9	6.6
Gross reserves 5/	2,176	2,628	2,779	2,367	1,994	1,724	1,608	1,582	1,571
In months of subsequent year's imports	6.4	5.3	3.9	3.6	2.9	2.4	2.2	2.0	2.0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Errors and omission for 2022 reflect the actual figure for the first half of the year

2/ Russian debt write-off.

3/ Public and publicly-guaranteed debt.

4/ Net of rescheduling.

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

Table 4. Kyrgyz Republic: NBKR Accounts, 2019–23

	2019	2020	2021	2022	2023
				Estimate	Projection
	(In millions of soms)				
Net foreign assets	160,750	222,109	222,086	202,633	192,116
Net international reserves 1/	151,838	216,677	232,796	203,753	185,400
Long-term foreign liabilities	-8,147	-9,995	-30,259	-16,759	-8,923
Other foreign assets	17,059	15,427	19,548	15,639	15,639
Net domestic assets	-42,685	-74,772	-65,177	17,679	42,293
Net claims on general government	-16,906	-13,727	-19,720	-19,720	-19,584
Of which: Total government deposits (including foreign exchange deposits)	-17,033	-16,749	-22,731	-22,731	-22,595
Of which: Securitized government debt	127	3,021	3,011	3,011	3,011
Claims on commercial banks	-10,020	-18,628	-30,846	-47,938	-23,459
Of which: NBKR notes	-8,049	-12,991	-18,494	-28,312	-16,124
Claims of other financial corporations	-432	-1,150	-2,948	-3,243	-3,243
Other items net 2/	-15,326	-41,267	-11,663	88,580	88,580
Reserve money	118,065	147,338	156,908	220,312	234,409
Currency in circulation	106,245	134,629	139,922	193,875	206,280
Commercial banks' reserves	11,820	12,708	16,986	26,437	28,129
Of which: Required reserves	10,259	12,658	16,299	25,394	27,047
	(Contribution to reserve money growth, in percentage point) 3/				
Net foreign assets	17.5	52.0	0.0	-12.4	-4.8
Net domestic assets	-6.5	-27.2	6.5	52.8	11.2
Of which: Net claims on general government	-4.3	2.7	-4.1	0.0	0.1
Reserve money	11.0	24.8	6.5	40.4	6.4
Of which: Currency in circulation	-1.2	24.0	3.6	34.4	5.6
Memorandum items:					
Reserve money growth (12-month change, in percent)	11.0	24.8	6.5	40.4	6.4
Gross International Reserves (in millions of U.S. dollars)	2,176	2,628	2,779	2,367	1,994
Exchange rate, som per U.S. dollar, end of period	69.6	82.6	86.8	…	…

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

2/ Includes holdings of non-monetary gold.

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, 2019–23

	2019	2020	2021	2022	2023
				Estimate	Projection
	(In millions of soms)				
Net foreign assets	164,586	246,056	269,446	261,833	257,236
Net domestic assets	65,674	39,192	70,333	172,182	218,615
Domestic credit	136,370	149,184	166,419	215,526	260,959
Net claims on general government	-13,597	-19,745	-22,240	8,202	37,498
Credit to the rest of the economy 1/	149,967	168,928	188,660	207,324	223,460
Of which: In foreign exchange	52,131	55,001	50,750	72,771	78,435
Other items net	-70,696	-109,992	-96,087	-43,344	-42,344
Broad money (M2X)	230,261	285,248	339,778	434,015	475,851
Of which:					
Broad money, excluding foreign exchange deposits (M2)	181,768	219,104	253,188	322,762	350,963
Currency held by the public	96,010	124,172	124,838	193,875	206,280
Total domestic currency deposit liabilities	85,758	94,932	128,351	128,887	144,683
	(Contribution to broad money growth, in percent) 2/				
Net foreign assets	7.1	35.4	8.2	-2.2	-1.1
Net domestic assets	5.7	-11.5	10.9	30.0	10.7
Domestic credit	7.7	5.6	6.0	14.5	10.5
Net claims on general government	-1.8	-2.7	-0.9	9.0	6.8
Credit to the rest of the economy	9.5	8.2	6.9	5.5	3.7
Other items (net)	-2.0	-17.1	4.9	28.9	10.5
Broad money (M2X)	12.8	23.9	19.1	27.7	9.6
Of which:					
Broad money, excluding foreign exchange deposits (M2)	13.3	16.2	11.9	20.5	6.5
Currency held by the public	5.5	12.2	0.2	20.3	2.9
Total deposit liabilities	7.8	4.0	11.7	0.2	3.6
Memorandum items:					
Broad money (M2X) (12-month change, in percent)	12.8	23.9	19.1	27.7	9.6
Credit to the rest of the economy (12-month change, in percent) 2/	14.9	12.6	11.7	9.9	7.8
Credit to the rest of the economy (in percent of GDP)	24.2	28.1	26.1	24.1	22.2
M2X velocity 3/	2.7	2.1	2.1	2.0	2.1
M2X multiplier	2.0	1.9	2.2	2.0	2.0

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, 2019–27 1/
(in millions of soms)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Estimate			Projections		
Revenues	167,431	152,149	209,827	300,895	325,781	369,415	401,601	437,425	473,658
Taxes	121,526	104,702	147,907	230,081	260,593	292,536	317,400	346,362	376,347
Taxes on income, profits, and capital gains	29,818	32,351	39,972	68,469	68,534	76,010	82,871	89,987	103,725
Payable by individuals	12,862	12,151	15,325	18,626	22,529	25,291	28,399	31,029	33,866
Payable by corporations and other enterprises	16,956	20,200	24,647	49,843	46,004	50,719	54,472	58,959	69,859
Taxes on property	2,950	2,804	3,081	3,661	4,298	4,811	5,291	5,807	6,329
Land tax	1,229	1,123	1,236	1,469	1,724	1,930	2,123	2,330	2,540
Property tax	1,721	1,681	1,845	2,192	2,573	2,881	3,168	3,477	3,790
Taxes on good and services	66,756	52,237	79,935	125,841	150,695	170,952	186,121	203,867	217,894
VAT	50,912	39,461	63,634	105,000	126,876	144,387	157,468	172,211	184,275
Net turnover tax	4,216	3,782	4,930	6,333	7,405	8,271	9,123	10,022	10,985
Excises	9,945	8,994	11,371	14,508	16,414	18,294	19,529	21,634	22,634
Taxes on international Trade	21,968	17,307	22,918	27,110	32,067	35,763	38,117	41,213	42,418
Grants (including project grants)	13,595	11,916	13,738	20,221	11,807	12,688	13,608	14,292	15,168
Program grants	8,216	6,537	5,261	6,918	5,000	5,000	5,000	5,000	5,000
PIP grants	5,379	5,379	8,477	13,666	6,807	7,688	8,608	9,292	10,168
Other Revenues	32,310	35,531	48,182	50,594	53,381	64,190	70,594	76,771	82,142
Of which mineral development	1,682	1,283	1,358	1,560	1,728	1,814	1,905	2,000	2,000
Expense	140,047	150,648	173,000	253,509	310,421	342,845	378,484	412,428	447,956
Compensation of Employees	58,482	66,549	65,230	99,904	128,066	143,213	155,192	167,507	179,681
Wages and salaries	51,724	58,981	57,822	87,980	112,781	126,119	136,669	147,515	158,236
Social Fund Contribution	6,758	7,568	7,408	11,924	15,285	17,093	18,523	19,993	21,446
Use of goods and services	21,861	17,931	21,966	35,002	39,340	43,645	48,000	52,680	57,419
Interest	7,785	8,465	8,437	10,970	14,526	22,051	29,197	35,814	43,408
Domestic interest	4,034	4,061	4,654	5,970	9,008	16,061	22,844	29,066	36,292
Foreign interest	3,751	4,404	3,783	5,000	5,518	5,990	6,354	6,747	7,116
Subsidies to public corporations	4,387	4,138	5,280	4,922	7,511	8,409	9,340	10,251	11,173
Grants	32,254	36,456	39,218	49,492	59,514	66,984	74,036	80,403	87,611
to international organizations	476	314	570	816	917	1,008	1,089	1,173	1,255
to other general government units 2/	31,778	36,142	38,648	48,676	58,597	65,975	72,947	79,230	86,356
Social benefits	10,442	10,939	12,235	17,045	28,776	32,273	35,493	38,954	42,458
Other expense	4,816	6,170	20,633	36,174	32,689	26,270	27,227	26,819	26,206
Capital transfers to SOEs (energy sector)	3,933	3,240	7,662	10,000	12,000	13,622	14,743	15,819	17,206
Gross operating balance	27,384	1,500	36,827	47,386	15,360	26,570	23,117	24,997	25,701
Net acquisition of nonfinancial assets	31,412	24,447	46,253	91,781	62,122	76,483	81,838	90,686	100,424
Acquisition of nonfinancial assets	31,499	24,535	46,363	91,781	62,122	76,483	81,838	90,686	100,424
Domestically financed capital expenditure	19,001	12,408	27,653	63,738	40,642	51,297	56,414	61,916	67,485
Foreign loan financed PIP	8,452	6,817	10,716	15,610	12,673	16,498	16,815	19,479	22,771
Foreign grant financed PIP	4,046	5,311	7,995	12,432	8,807	8,688	8,608	9,292	10,168
Disposals of nonfinancial assets	87	89	110	0	0	0	0	0	0
Net lending/borrowing (overall balance)	-4,028	-22,946	-9,427	-44,395	-46,762	-49,913	-58,721	-65,689	-74,723
Acquisition of financial assets	3,896	-2,669	13,185	15,411	-136	-264	-264	-264	-264
Domestic	3,896	-2,669	13,185	15,411	-136	-264	-264	-264	-264
Currency and deposits (NBKR)	4,565	-285	0	0	-136	-264	-264	-264	-264
Loans 2/	-309	973	0	5,729	0	0	0	0	0
Shares and Equity (Privatization)	-360	0	13,185	9,682	0	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0
Net Incurence of Liabilities	7,495	19,138	22,612	59,806	46,627	49,649	58,457	65,425	74,460
Foreign	2,945	21,719	11,665	29,360	17,447	5,071	5,939	3,808	4,246
Public investment program (PIP)	13,047	12,535	17,283	18,078	24,543	29,458	29,980	34,663	39,160
Disbursements (Program)	30	21,100	6,766	28,826	19,904	4,995	5,186	5,436	5,902
o/w use of 2021 SDR allocation				13,935	7,836				
Total amortization	-10,132	-11,917	-12,384	-17,543	-26,999	-29,382	-29,227	-36,292	-40,817
Domestic	4,550	-2,582	10,947	30,445	29,179	44,579	52,518	61,618	70,214
Net domestic debt issuance to banks	...	...	6,961	30,442	29,161	44,568	52,515	61,619	70,200
Net domestic debt issuance to the Social Fund	0.0	0.0	3,986	3	19	11	3	-1	14
Errors and Omissions	-429	-1,139	0	0	0	0	0	0	0

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, 2019–27 1/
(in percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Estimate	Projections				
Revenues	27.0	25.3	29.0	35.0	32.3	32.7	32.3	32.1	31.9
Taxes	19.6	17.4	20.5	26.8	25.8	25.9	25.6	25.4	25.3
Taxes on income, profits, and capital gains	4.8	5.4	5.5	8.0	6.8	6.7	6.7	6.6	7.0
Payable by individuals	2.1	2.0	2.1	2.2	2.2	2.2	2.3	2.3	2.3
Payable by corporations and other enterprises	2.7	3.4	3.4	5.8	4.6	4.5	4.4	4.3	4.7
Taxes on property	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Land tax	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Property tax	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Taxes on good and services	10.8	8.7	11.1	14.6	14.9	15.1	15.0	15.0	14.7
VAT	8.2	6.6	8.8	12.2	12.6	12.8	12.7	12.6	12.4
New turnover tax	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Excises	1.6	1.5	1.6	1.7	1.6	1.6	1.6	1.6	1.5
Taxes on international Trade	3.5	2.9	3.2	3.2	3.2	3.2	3.1	3.0	2.9
Grants (including project grants)	2.2	2.0	1.9	2.4	1.2	1.1	1.1	1.0	1.0
Program grants	1.3	1.1	0.7	0.8	0.5	0.4	0.4	0.4	0.3
PIP grants	0.9	0.9	1.2	1.6	0.7	0.7	0.7	0.7	0.7
Other Revenues	5.2	5.9	6.7	5.9	5.3	5.7	5.7	5.6	5.5
Of which mineral development	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Expense	22.6	25.0	23.9	29.5	30.8	30.4	30.5	30.3	30.2
Compensation of Employees	9.4	11.1	9.0	11.6	12.7	12.7	12.5	12.3	12.1
Wages and salaries	8.4	9.8	8.0	10.2	11.2	11.2	11.0	10.8	10.7
Social Fund Contribution	1.1	1.3	1.0	1.4	1.5	1.5	1.5	1.5	1.4
Use of goods and services	3.5	3.0	3.0	4.1	3.9	3.9	3.9	3.9	3.9
Interest	1.3	1.4	1.2	1.3	1.4	2.0	2.4	2.6	2.9
Domestic interest	0.7	0.7	0.6	0.7	0.9	1.4	1.8	2.1	2.4
Foreign interest	0.6	0.7	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Subsidies to public corporations	0.7	0.7	0.7	0.6	0.7	0.7	0.8	0.8	0.8
Grants	5.2	6.1	5.4	5.8	5.9	5.9	6.0	5.9	5.9
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 2/	5.1	6.0	5.3	5.7	5.8	5.8	5.9	5.8	5.8
Social Benefits	1.7	1.8	1.7	2.0	2.9	2.9	2.9	2.9	2.9
Other expense	0.8	1.0	2.9	4.2	3.2	2.3	2.2	2.0	1.8
Capital transfers to SOEs (energy sector)	0.6	0.5	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Gross operating balance	4.4	0.2	5.1	5.5	1.5	2.4	1.9	1.8	1.7
Net acquisition of nonfinancial assets	5.1	4.1	6.4	10.7	6.2	6.8	6.6	6.7	6.8
Acquisition of nonfinancial assets	5.1	4.1	6.4	10.7	6.2	6.8	6.6	6.7	6.8
Domestically financed capital expenditure	3.1	2.1	3.8	7.4	4.0	4.5	4.5	4.5	4.5
Foreign loan financed PIP	1.4	1.1	1.5	1.8	1.3	1.5	1.4	1.4	1.5
Foreign grant financed PIP	0.7	0.9	1.1	1.4	0.9	0.8	0.7	0.7	0.7
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 (overall balance)	-0.7	-3.8	-1.3	-5.2	-4.6	-4.4	-4.7	-4.8	-5.0
Acquisition of financial assets	0.6	-0.4	1.8	1.8	0.0	0.0	0.0	0.0	0.0
Domestic	0.6	-0.4	1.8	1.8	0.0	0.0	0.0	0.0	0.0
Currency and deposits (NBKR)	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans 2/	0.0	0.2	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Shares and Equity (Privatization)	-0.1	0.0	1.8	1.1	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 Incurence of Liabilities	1.2	3.2	3.1	7.0	4.6	4.4	4.7	4.8	5.0
Foreign	0.5	3.6	1.6	3.4	1.7	0.4	0.5	0.3	0.3
Public investment program (PIP)	2.1	2.1	2.4	2.1	2.4	2.6	2.4	2.5	2.6
Disbursements (Program)	0.0	3.5	0.9	3.4	2.0	0.4	0.4	0.4	0.4
o/w use of 2021 SDR allocation				1.6	0.8				
Total amortization	-1.6	-2.0	-1.7	-2.0	-2.7	-2.6	-2.4	-2.7	-2.7
Domestic	0.7	-0.4	1.5	3.5	2.9	3.9	4.2	4.5	4.7
Net domestic debt issuance to banks			1.0	3.5	2.9	3.9	4.2	4.5	4.7
Net domestic debt issuance to the Social Fund			0.6	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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, 2019–27, GFSM 2014 Presentation 1/
(in millions of soms)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Estimate	Projections				
Revenues	201,217	185,582	245,585	339,933	367,688	415,569	451,388	491,509	531,279
Taxes	121,526	104,702	147,907	230,081	260,593	292,536	317,400	346,362	376,347
Taxes on income, profits, and capital gains	29,818	32,351	39,972	68,469	68,534	76,010	82,871	89,987	103,725
Payable by individuals	12,862	12,151	15,325	18,626	22,529	25,291	28,399	31,029	33,866
Payable by corporations and other enterprises	16,956	20,200	24,647	49,843	46,004	50,719	54,472	58,959	69,859
Other income taxes	0	0	0	0					
Taxes on property	2,950	2,804	3,081	3,661	4,298	4,811	5,291	5,807	6,329
Taxes on goods and services	66,756	52,237	79,935	125,841	150,695	170,952	186,121	203,867	217,894
Value-added taxes	50,912	39,461	63,634	105,000	126,876	144,387	157,468	172,211	184,275
Turnover and other general taxes on goods and services	4,216	3,782	4,930	6,333	7,405	8,271	9,123	10,022	10,985
Excises	9,945	8,994	11,371	14,508	16,414	18,294	19,529	21,634	22,634
Taxes on international trade and transactions	21,968	17,307	22,918	27,110	32,067	35,763	38,117	41,213	42,418
Social contributions	32,481	33,186	38,075	38,819	41,650	45,866	49,470	53,737	57,244
Grants	13,605	11,916	13,738	20,221	11,807	12,688	13,608	14,292	15,168
Program grants	8,216	6,537	5,261	6,918	5,000	5,000	5,000	5,000	5,000
Project grants	5,379	5,379	8,477	13,666	6,807	7,688	8,608	9,292	10,168
Other revenue	33,605	35,778	45,865	50,813	53,638	64,477	70,910	77,119	82,520
Expense	169,467	180,367	204,353	291,993	351,663	388,259	427,472	465,659	504,637
Compensation of employees	67,911	76,549	75,862	112,033	139,948	156,349	169,104	181,950	194,907
Wages and salaries	59,784	67,534	66,918	98,195	122,788	137,173	148,389	159,725	171,114
Social contributions	8,126	9,015	8,944	13,838	17,160	19,175	20,715	22,225	23,794
Purchases/use of goods and services	27,431	21,995	26,783	41,319	46,754	51,992	57,117	62,472	68,062
Interest	5,459	5,982	5,754	7,985	10,923	17,233	24,628	32,907	39,779
Foreign interest	3,751	4,404	3,783	5,000	5,518	5,990	6,354	6,747	7,116
Domestic interest	1,708	1,578	1,971	2,985	5,405	11,243	18,275	26,160	32,662
Subsidies to public corporations	4,387	4,138	5,280	4,922	7,511	8,409	9,340	10,251	11,173
Grants	767	2,878	3,135	821	922	1,013	1,093	1,178	1,260
To international organizations	480	318	575	821	922	1,013	1,093	1,178	1,260
To other general government units	287	2,560	2,560	0	0	0	0	0	0
Social benefits	58,602	62,217	66,379	88,049	112,107	126,083	137,967	149,013	162,087
Social Assistance	10,299	10,939	12,235	16,837	19,568	21,965	24,157	26,512	28,897
Social Security Benefits	48,302	51,278	54,144	71,212	92,539	104,118	113,811	122,501	133,189
Other expense	4,888	6,608	21,159	36,864	33,499	27,182	28,223	27,889	27,369
Capital transfers to SOEs (energy sector)	3,933	3,240	7,662	10,000	12,000	13,622	14,743	15,819	17,206
Gross operating balance	31,750	5,215	41,233	47,940	16,025	27,309	23,915	25,850	26,643
Net acquisition of nonfinancial assets	32,235	24,803	46,673	92,332	62,769	77,211	82,633	91,540	101,353
Acquisition of nonfinancial assets	32,321	24,892	46,784	92,332	62,769	77,211	82,633	91,540	101,353
Domestically financed	19,823	12,764	28,073	64,289	41,289	52,025	57,210	62,770	68,413
Foreign financed	12,498	12,128	18,711	28,042	21,480	25,186	25,423	28,771	32,939
Disposals of nonfinancial assets	-87	-89	-110	0	0	0	0	0	0
Net lending/borrowing	-484	-19,588	-5,441	-44,391	-46,744	-49,902	-58,718	-65,690	-74,710
Net acquisition of financial assets	6,546	1,113	13,185	9,682	-136	-264	-264	-264	-264
Domestic	6,546	1,113	13,185	9,682	-136	-264	-264	-264	-264
Currency and deposits	4,565	-285	0	0	-136	-264	-264	-264	-264
Loans	2,342	1,397	0	0	0	0	0	0	0
Sales of equity (privatization proceeds)	-360	0	13,185	9,682	0	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	7,495	19,138	18,626	54,073	46,608	49,638	58,454	65,426	74,446
Foreign	2,945	21,719	11,665	23,631	17,447	5,071	5,939	3,808	4,246
Program loans	30	21,100	6,766	28,826	19,904	4,995	5,186	5,436	5,902
Public investment program loans	13,047	12,535	17,283	18,078	24,543	29,458	29,980	34,663	39,160
Amortization	-10,132	-11,917	-12,384	-23,272	-26,999	-29,382	-29,227	-36,292	-40,817
Domestic	4,550	-2,582	6,961	30,442	29,161	44,568	52,515	61,619	70,200

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, 2019–27, GFSM 2014 Presentation 1/
(in percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Estimate			Projections		
Revenue	32.5	30.8	34.0	39.6	36.4	36.8	36.3	36.1	35.8
Taxes	19.6	17.4	20.5	26.8	25.8	25.9	25.6	25.4	25.3
Taxes on income, profits, and capital gains	4.8	5.4	5.5	8.0	6.8	6.7	6.7	6.6	7.0
Payable by individuals	2.1	2.0	2.1	2.2	2.2	2.2	2.3	2.3	2.3
Payable by corporations and other enterprises	2.7	3.4	3.4	5.8	4.6	4.5	4.4	4.3	4.7
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	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Taxes on goods and services	10.8	8.7	11.1	14.6	14.9	15.1	15.0	15.0	14.7
Value-added taxes	8.2	6.6	8.8	12.2	12.6	12.8	12.7	12.6	12.4
Turnover and other taxes on goods and services	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Excises	1.6	1.5	1.6	1.7	1.6	1.6	1.6	1.6	1.5
Taxes on international trade and transactions	3.5	2.9	3.2	3.2	3.2	3.2	3.1	3.0	2.9
Social contributions	5.2	5.5	5.3	4.5	4.1	4.1	4.0	3.9	3.9
Grants	2.2	2.0	1.9	2.4	1.2	1.1	1.1	1.0	1.0
Program grants	1.3	1.1	0.7	0.8	0.5	0.4	0.4	0.4	0.3
Project grants	0.9	0.9	1.2	1.6	0.7	0.7	0.7	0.7	0.7
Other revenue	5.4	5.9	6.3	5.9	5.3	5.7	5.7	5.7	5.6
Expense	27.4	30.0	28.3	34.0	34.9	34.4	34.4	34.2	34.0
Compensation of employees	11.0	12.7	10.5	13.0	13.9	13.8	13.6	13.3	13.1
Wages and salaries	9.7	11.2	9.3	11.4	12.2	12.1	11.9	11.7	11.5
Social contributions	1.3	1.5	1.2	1.6	1.7	1.7	1.7	1.6	1.6
Purchases/use of goods and services	4.4	3.7	3.7	4.8	4.6	4.6	4.6	4.6	4.6
Interest	0.9	1.0	0.8	0.9	1.1	1.5	2.0	2.4	2.7
Foreign interest	0.6	0.7	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Domestic interest	0.3	0.3	0.3	0.3	0.5	1.0	1.5	1.9	2.2
Subsidies to public corporations	0.7	0.7	0.7	0.6	0.7	0.7	0.8	0.8	0.8
Grants	0.1	0.5	0.4	0.1	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	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	9.5	10.3	9.2	10.2	11.1	11.2	11.1	10.9	10.9
Social Assistance	1.7	1.8	1.7	2.0	1.9	1.9	1.9	1.9	1.9
Social Security Benefits	7.8	8.5	7.5	8.3	9.2	9.2	9.2	9.0	9.0
Other expense	0.8	1.1	2.9	4.3	3.3	2.4	2.3	2.0	1.8
Capital transfers to SOEs (energy sector)	0.6	0.5	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Gross operating balance	5.1	0.9	5.7	5.6	1.6	2.4	1.9	1.9	1.8
Net acquisition of nonfinancial assets	5.2	4.1	6.5	10.7	6.2	6.8	6.7	6.7	6.8
Acquisition of nonfinancial assets	5.2	4.1	6.5	10.7	6.2	6.8	6.7	6.7	6.8
Domestically financed	3.2	2.1	3.9	7.5	4.1	4.6	4.6	4.6	4.6
Foreign financed	2.0	2.0	2.6	3.3	2.1	2.2	2.0	2.1	2.2
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	-0.1	-3.3	-0.8	-5.2	-4.6	-4.4	-4.7	-4.8	-5.0
Net acquisition of financial assets	1.1	0.2	1.8	1.1	0.0	0.0	0.0	0.0	0.0
Domestic	1.1	0.2	1.8	1.1	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales of equity (privatization proceeds)	-0.1	0.0	1.8	1.1	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	1.2	3.2	2.6	6.3	4.6	4.4	4.7	4.8	5.0
Foreign	0.5	3.6	1.6	2.7	1.7	0.4	0.5	0.3	0.3
Program loans	0.0	3.5	0.9	3.4	2.0	0.4	0.4	0.4	0.4
Public investment program loans	2.1	2.1	2.4	2.1	2.4	2.6	2.4	2.5	2.6
Amortization	-1.6	-2.0	-1.7	-2.7	-2.7	-2.6	-2.4	-2.7	-2.7
Domestic	0.7	-0.4	1.0	3.5	2.9	3.9	4.2	4.5	4.7

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ General government comprises the State government, the Social Fund, and the Mandatory Health Insurance Fund

Table 10. Kyrgyz Republic: Selected Financial Soundness Indicators, 2019–22

	Dec-19	Dec-20	Dec-21	Sep-22
Capital Adequacy				
Regulatory capital to risk weighted assets	24.0	24.9	22.2	25.1
Tier 1 capital to risk weighted assets	20.1	21.6	19.2	20.3
Capital to total assets	17.5	16.2	14.5	17.5
Liquidity				
Liquidity ratio	64.0	64.9	71.3	79.6
Total reserves/total deposits	13.3	14.6	14.9	16.4
Excess reserves/total reserves	8.3	0.2	2.2	5.9
Asset quality				
Nonperforming loans/total loans	8.0	10.5	11.1	12.8
Loan-loss provisioning/nonperforming loans	56.6	58.9	63.2	65.0
Nonperforming assets/total assets	4.7	5.9	5.6	5.7
Earnings and profitability				
Return on equity	7.7	5.5	7.8	43.4
Return on assets	1.2	0.9	1.2	6.2
Net interest margin	8.1	7.0	6.7	7.2
Spread	7.4	6.3	6.1	6.4
Income from services and commission fee/total income	12.2	10.2	13.4	8.0
Loans and deposits				
Loans/deposits	102.7	95.9	80.3	72.3
Loans/total assets	58.5	55.8	50.3	44.6
Foreign currency exposure				
Foreign currency exposure (in KGS billion)	2.2	1.3	2.7	1.7
Loans/deposits (in foreign currency)	92.5	72.9	53.2	34.0
Share of foreign currency deposits in total deposits 1/	39.1	43.4	42.2	48.6
Share of foreign currency loans in total loans	35.2	33.0	28.0	22.9

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

Risk 1/	Description of Potential Shock	Likelihood / Timeframe	Possible Impact *(if realized)* / Transmission Channels	Policy Advice
Conjunctural Risks				
Intensifying spillovers from Russia's war in Ukraine.	Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	**High**	**Medium** A stronger contraction of the Russian economy could result in lower growth and remittances, trade disruptions, and a possible return of migrant workers. The resulting reduction in disposable incomes combined with high inflation, if persistent, would reduce growth, raise public debt, increase poverty, and add to social pressures.	Maintain exchange rate flexibility and calibrate monetary policy to contain inflation. Provide targeted support to the most vulnerable, while creating additional fiscal space by reducing universal subsidies, eliminating inefficient tax exemptions, and seeking external concessional financing. Enhance oversight of the financial system and mitigate risks to the banking sector.
Commodity price shocks.	A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	**High**	**Medium** Higher food and energy prices would increase inflationary pressures, weaken the CA and the exchange rate, lead to food and energy insecurity, and cause social discontent. Depreciation would increase public debt. Higher gold prices, on the other hand, would strengthen the current account.	Maintain exchange rate flexibility and adequately tight monetary policy to prevent second round inflation. Provide targeted social assistance to the poor, while seeking external concessional financing.
Systemic social unrest	Rising inflation, declining incomes, and worsening inequality amplify social unrest and political instability, causing capital outflows from EMDEs, slowing economic growth, and giving rise to economically damaging populist policies (e.g.,	**High**	**Medium** A significant reduction in remittances and incomes combined with high inflation would further increase poverty, result in social discontent, and undermine political stability.	Reduce inefficient energy subsidies to create fiscal space and strengthen social safety nets. Seek to mobilize more donor financing. Prioritize reforms that have greatest potential to improve the business climate and support activity (e.g. governance)

Risk 1/	Description of Potential Shock	Likelihood / Timeframe	Possible Impact *(if realized)* / Transmission Channels	Policy Advice
	preserving fossil fuel subsidies).			
De-anchoring of inflation expectations and stagflation.	Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	**Medium**	**Medium** Inflation would rise sharply and the current account deficit widen, resulting in strong exchange rate pressures. Social conditions would deteriorate and poverty increase. Depreciation would increase public debt.	Maintain exchange rate flexibility and adequately tight monetary policy to prevent second round inflation. Create more fiscal space by optimizing expenditure and the tax system, strengthen social safety nets and seek external concessional financing.
Abrupt global slowdown or recession.	Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices.	**Medium**	**Medium** Kyrgyz republic's relatively limited integration into the global economy dampens the likely impact of a global downturn, except for the spillovers from Russia	Maintain exchange rate flexibility and calibrate monetary policy to contain inflation. Provide targeted support to the most vulnerable, while creating additional fiscal space by reducing universal subsidies, eliminating inefficient tax exemptions, and seeking external concessional financing. Enhance oversight of the financial system and mitigate risks to the banking sector.
Local Covid-19 outbreaks.	Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions,	**Medium**	**Medium** Renewed lockdowns and trade disruptions could result in significant growth slowdown or contraction	Secure vaccines to minimize spread of the virus, strengthen social safety nets and provide support to the most affected and vital sectors of the economy.

Risk 1/	Description of Potential Shock	Likelihood / Timeframe	Possible Impact *(if realized)* / Transmission Channels	Policy Advice
	slower growth, capital outflows, and debt distress in some EMDEs.			
		Domestic Risks		
Sustained reduction in gold prices	Portfolio reallocation due to rising yields on other financial assets could result in lower prices for gold	**Medium**	**Medium** Lower gold prices would weaken growth, the external and fiscal positions.	Allow for more exchange rate flexibility and strengthen the business environment to support economic activity.
A rise in public debt	New large infrastructure projects, and higher domestic interest rates due to the increased domestic borrowing would widen fiscal deficits and result in build-up of public debt and higher debt service	**Medium**	**High** Accumulation of high interest debt would pose a risk to debt sustainability and undermine investor confidence	Pursue fiscal consolidation by strengthening tax policy and administration, and reducing energy subsidies and the public wage bill. Delay low-priority capital spending. Accelerate structural reforms to support private sector led growth.

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

Annex II. Implementation of 2020 Article IV Consultation's Key Recommendations

Staff Advice	Policy Action
Fiscal Policy	
Staff recommended anchoring medium-term fiscal policy to reducing public debt to below 60 percent of GDP by 2025. 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.	In 2022, the authorities have significantly increased pensions and public wages. Other expenses have increased by more than 1 percent of GDP due to unforeseen expenditures related to a border conflict. Overall, total expenditures have increased by more than 5 percent of GDP and 2022 projected budget deficit has widened to 5.2 percent.
Reduce the wage bill by limiting nominal wage growth below inflation and allowing headcount reduction through attrition. In the medium term, reform of the public sector compensation and employment system based on functional reviews, enhance the public sector payroll system, adopt a unified wage grid, modernize the legal framework for public service remuneration, and setup a comprehensive public employment and compensation database by implementing a human resource management module in the Integrated Financial Management Information System (IFMIS).	In 2022, salaries of social workers, employees of law enforcement bodies, public and municipal employees have increased leading to a projected spike of the public wage bill to 13 percent of GDP. In the medium term, the authorities are considering streamlining the public headcount and introducing the concept of salary indexation. The Ministry of Finance has updated and unified the remuneration policy for public employees and is planning to automate the public payroll system and integrate with the Integrated Financial Management Information System (IFMIS).
Streamline goods and services spending by containing the growth rates of spending on goods and services to inflation.	In 2022, goods and services spending has increased by more than 1 percent of GDP mainly due to expenditures related to a border conflict.
Reduce energy subsidies by reforming the energy sector and developing a medium-term reform plan to optimize costs, strengthen governance and accountability, improve revenue generation, and gradually raise residential tariffs.	In 2022, the authorities have introduced a new tariff for public institutions and offered a new tariff for limitless energy consumption. An increase of KGS 0.11 in residential tariff is being considered for 2023. In 2022, the Cabinet of Ministers has decided to swap the liabilities of the National Energy Holding company for government-owned equity. The Ministry of Energy is planning to undertake several large-scale hydro and renewable energy projects.
Raise tax revenues by reducing tax system inefficiencies (e.g., improving the VAT refund mechanism, improving taxpayer segmentation, reducing tax exemptions) and strengthening tax administration (e.g., improving e-filing, taxpayer registration, and risk-based auditing).	Tax collections have increased significantly in 2021-22, mainly due to tax administration and digitalization measures, such as e-invoice, e-filing, goods e-tracking system, introduction of online cash machines and simplification of tax procedures for SMEs.
Strengthen social assistance by broadening the coverage of social assistance, shifting from categorical to income-based targeting, and consolidating social assistance programs to eliminate duplication.	Social benefits for vulnerable layers of society have increased in 2021-22. Pensions, including basic pensions, have increased notably in 2022. No changes were introduced to the system of social protection to strengthen targeting or broadening the coverage.
Strengthen PFM by following recommendations from the IMF TA on program-based budgeting and implementation of FMIS. Strengthen the debt management strategy by introducing medium and long-term debt projections, borrowing plans and risk assessments.	In line with the IMF TA recommendation, fiscal authorities have updated the regulatory framework for program budgeting. With assistance of the IMF PFM experts, the authorities have initiated the work on the concept paper on the performance-based budgeting with a view to finalize it by end-2022 and to adopt in 2023.

Staff Advice	Policy Action
Monetary/Exchange Rate, Financial Policies, and Safeguards Assessment	
Continue the transition to inflation targeting and strengthen liquidity management through gradually phasing out the transitional arrangement of interest rate caps, using the 7-day note as the main liquidity absorption instrument, introducing short-term repos, enhancing the usage of the standing lending facility with adequate collateral, and clearly communicating monetary and FX policy decisions.	The NBKR has established a more symmetric interest rate corridor and has been gradually enhancing its liquidity forecasting techniques. However, the NBKR continues capping rates of NBKR note auctions, which cannot exceed the policy rate for short-term notes (up to 28 days) and the overnight loan rate for longer-term notes (91-days). The NBKR is planning to gradually lift these caps depending on the market conjuncture. The NBKR did not use repo operations due to high excess liquidity. The NBKR has continued to improve the communications policy, including through official social networks, regular TV and radio programs, as well as special thematic videos and brochures.
Prepare a comprehensive NPL resolution strategy.	Work to improve the insolvency legislation and to develop a secondary market for NPLs that would help to address NPL issues and prepare a comprehensive NPL resolution strategy has not yet started. It regularly forecasts NPLs, implements measures to reduce them as part of risk-based supervision, and recommends commercial banks to develop action plans to reduce NPLs.
Strengthen central bank governance and operational autonomy by 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. 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). Introduce statutory mechanisms for the recapitalization of the NBKR.	The new Constitutional Law "On the National Bank of the Kyrgyz Republic" envisages a proper recapitalization and profit distribution mechanisms, but does not introduce a majority of non-executive members of the NBKR Board and the Audit Committee or provisions to wind down non-core central bank operations. The law limits lending to international organizations created jointly by the Kyrgyz Republic with other states to fifteen percent of the paid authorized capital of the international organization, provided that it complies with the monetary policy objectives and is collateralized by highly liquid freely convertible foreign currency. During 2021-2022, the loan limit to the Russian Kyrgyz Development Fund has remained at the previously agreed level of KGS 3 billion. In October of 2022, the NBKR submitted a formal proposal to the Cabinet of Ministers to transfer its ownership in Keremet Bank to the Government in exchange for long-term government securities. The NBKR intends to continue maintaining ownership in the Guarantee Fund until the achievement of strategic goals.
Structural Reforms	
Strengthen governance by improving transparency of SOEs, optimizing government's ownership of SOEs, strengthening the AML/CFT regime, publishing comprehensive asset and income declarations by senior public officials, and investigating illicit enrichment.	A recent trend of decentralization in SOE governance and segregation of ownership between the line ministries and sectoral agencies is diverging the country from the best practice in international experience. The AML/CFT law adopted in 2018 and related reforms meet most FATF recommendations, but proper enforcement requires better understanding of the ML/TF risks, coordination of relevant domestic bodies, and higher effectiveness of the AML/CFT

Staff Advice	Policy Action
	measures. Tax declarations are mandatory for public officials and politicians. They are published by tax authorities and available to the public.
Publish full contracts with identities of beneficial owners, including for all emergency spending contracts, and audit reports as committed in the Letters of Intent under the RFI/RCF.	The public procurement portal is currently undergoing the upgrade process to meet the requirements of the new law on public procurement adopted in 2022. The new version of the portal is expected to become operational in 2023 and envisages the possibility to publish awarded contracts with identities of beneficial owners. The Chamber of Accounts has published an audit report covering the emergency spending in 2021 (https://www.esep.kg/images/docs/2021/otchet_byudjet2020_ru.pdf).
Remove obstacles to private sector-led growth through reforms to boost access to finance, access to export markets, and education and skill upgrading.	On March 16, 2022, the Cabinet of Ministers approved the National Financial Inclusion Strategy for 2022-2026. The strategy covers digital financial services, development of physical and financial sector infrastructure, diversification of financial products, financial consumer protection, and financial literacy. With the assistance of development partners, the authorities are implementing reforms in the education sector and promoting development of SMEs via professional skills upgrade.

Annex III. External Sector Assessment

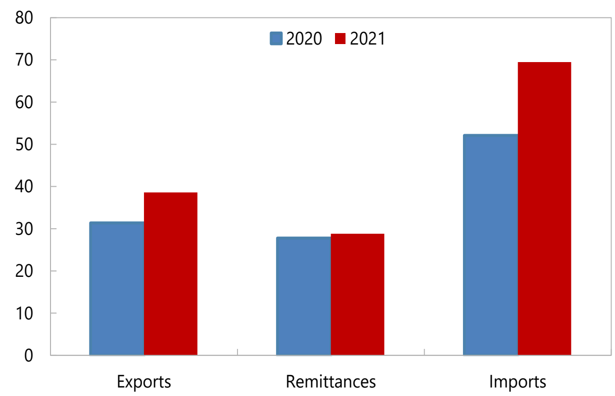
The external position of Kyrgyz Republic in 2021 was weaker than the level implied by medium-term fundamentals and desirable policies. The EBA lite CA and IREER models yield opposite assessments, but staff puts more weight on the CA model. It believes, however, that the estimated overvaluation of 10.2 percent is overstated due to large unrecorded exports and remittances, reflected in the errors and omissions. Gross official foreign exchange reserves are currently slightly above adequate levels indicated by the IMF reserve adequacy metric but are projected to decline steadily over the medium term. Fiscal consolidation, resumption of gold exports, accumulation of reserves and reforms to strengthen competitiveness would help align the external sector with fundamentals in the medium term.

1. **The Kyrgyz Republic's Net International Investment Position (NIIP) weakened slightly from -85 percent of GDP and reached -86 percent of GDP in 2021.** Gross international assets declined from 72 percent of GDP in 2020 to 67 percent of GDP (international reserves, foreign direct investment assets, and other assets of 33, 10, and 24 percent of GDP, respectively) in 2021. Gross international liabilities also declined from 157 percent of GDP to 153 percent (external public and publicly guaranteed debt, private external debt, and foreign direct investment liabilities of around 50, 17, and 66 percent of GDP, respectively). Concessional external public debt coupled with limited short term volatile capital inflows largely mitigate the external risks.

2. **The current account turned into a deficit of 8.6 percent of GDP in 2021 from a 4.8 percent surplus in 2020.** The deterioration primarily came from substantial increase in imports driven by post-pandemic recovery, rebound in growth and higher global commodity prices. Strong growth in remittances and exports of goods and services – 14 and 35 percent respectively – were insufficient to offset 50 percent growth in import of goods and 22 percent growth in services. Imports as percent of GDP jumped from 52 percent in 2020 to 69.5 percent in 2021. The current account balance is expected to deteriorate further during 2022 to 28.7 percent of GDP, but gradually narrow to about 9 percent of GDP in the medium term, partly thanks to slightly better gold prices and the expected moderation of food and energy prices.

Current Account Balance Factors

Percent of GDP



Source: Country authorities and IMF staff estimates.

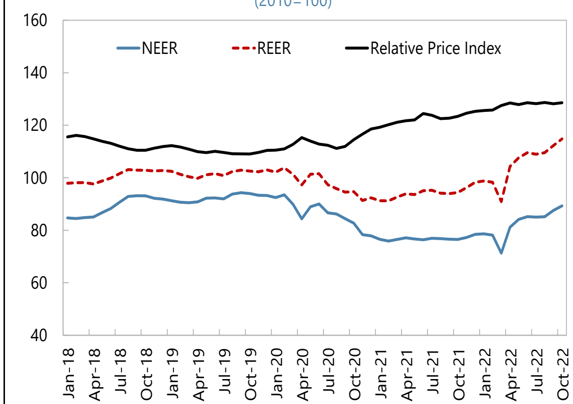
3. **However, the headline CA deficit could be overstated.** Large positive errors and omissions (7 percent of GDP in 2021 and 18.6 percent of GDP in H1 2022) are likely to be capturing unrecorded transit trade and remittances. Non-energy trade shows a significant increase in imports from outside

the Eurasian Economic Union (EAEU)[1], and a simultaneous increase in exports to Russia, the share of which in total exports rose from 14 percent in 2021 to 38 percent in H1 2022, lending support to the anecdotal evidence of significantly increased re-exports to Russia. However, the recorded re-exports are likely to be only a fraction of the actual volumes as intra-EAEU trade is not subject to tariffs and filing by exporters is voluntary. These possible discrepancies would render the external sector weaker than it actually is.

4. The Kyrgyz som remained broadly stable against the USD during 2021. Its intra-month movements remained well within the 2.5 percent band, but on the annual basis, it depreciated by 8.6 percent. The real effective exchange rate (REER) depreciated by 3.7 during 2021, largely reflecting the inflation gap between Kyrgyz Republic and its trading partners, and depreciation of Kyrgyz Som against trading partner's currency basket as indicated by the depreciated nominal effective exchange rate (NEER) and 8 percent growth in Relative Price Index (RPI). REER has appreciated by almost 12 percent during the first 10 months of 2022.

Nominal and Real Effective Exchange Rate

(2010=100)



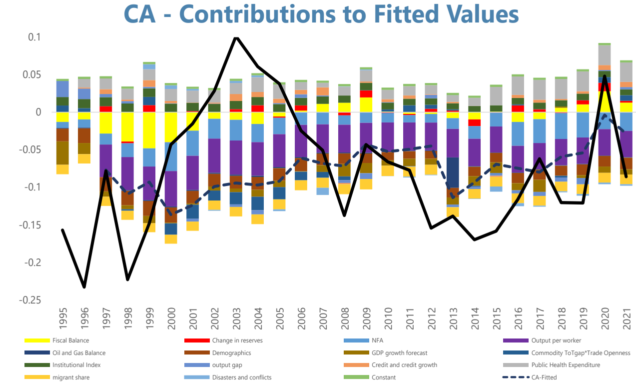
Source: IMF Staff calculations

5. Gross reserves declined to 3.9 months of imports of goods and services from 5.3 months in 2020. Higher FDI and private sector external borrowing were outweighed by the weaker current account. Gross reserves are projected to further decline to about 3.6 months of imports of goods and services in 2022, 2.9 months in 2023, and further to 2.0 months by 2027, which is slightly below the IMF's reserve adequacy metrics for credit constrained economies.[2]

6. External Assessment[3]

- **The Current Account (CA) model** identifies a negative current account gap of 4.7 percent of GDP and suggests an overvaluation of REER by 10.2 percent (Text Table). The large negative output gap further raises the actual CA deficit by additional 1.1 percent of GDP. The adjustors applied to the tourism (0.7 percent of GDP), and no temporary adjustment for

CA - Contributions to Fitted Values



Source: IMF Staff calculations

[1] The EAEU includes Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, and Russia, and provides for free movement of goods within the EAEU.

[2] The adequate level of reserves for credit constrained economies is estimated at 3 months of imports (see IMF, 2015, Assessing Reserve Adequacy—Specific Proposals).

[3] Based on IMF EBA Lite Methodology.

remittances as the war in Ukraine is expected to have a lasting impact in the medium term, result in an overall adjustor decrease of 0.7 percent of GDP to the actual CA deficit. The policy gap is estimated at 3.4 percent of GDP, primarily because of the tighter fiscal stance compared to its desired level. It also reflects a smaller fiscal stimulus and stronger fiscal position in Kyrgyz Republic compared to the world in 2021.

- **The REER model** points to an undervaluation of about 15 percent. The REER model determined that the REER-norm and the REER fitted values are higher than the actual REER, implying the need for REER appreciation to close the gap with its norm. Real interest rate gap between Kyrgyz Republic and rest of the world is the major contributor to REER norm.

- **Staff Assessment:** Staff assesses the external position of Kyrgyz Republic in 2021 as weaker than the level implied by medium-term fundamentals and desirable policies. The CA and REER models yield opposite results. As discussed above, the large positive errors and omissions are likely to be capturing unrecorded current account transactions – transit trade and remittances mostly. If at least half of this was recorded in the current account, the overvaluation would reduce to under 5 percent. In the REER model, the main cause of the undervaluation is the interest rate differential with the rest of the world, implying that the model results are driven by capital and financial account, which are limited and considerably smaller than the CA. Considering the significant foreign exchange interventions – net sales of $699 million – by the NBKR during 2021, staff is of the view that the exchange rate was somewhat overvalued in the range of 5-10 percent. Fiscal consolidation, resumption of gold exports, accumulation of reserves and reforms to strengthen competitiveness would help align the external sector with fundamentals.

Table 1. Kyrgyz Republic: EBA-lite Model Results, 2021

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-8.6**	
Cyclical contributions (from model) (-)	1.1	
COVID-19 adjustor (-) 2/	0.7	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	**-8.7**	
CA Norm (from model) 3/	**-5.3**	
Adjusted CA Norm	**-5.3**	
CA Gap	**-3.5**	**5.1**
o/w Relative policy gap	3.4	
Elasticity	-0.34	
REER Gap (in percent)	**10.2**	**-15.0**

1/ Based on the EBA-lite 3.0 methodology

2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.7 percent of GDP) and no temporary adjustment for remittances (as the war in Ukraine is expected to have a lasting impact in the medium term).

3/ Cyclically adjusted, including multilateral consistency adjustments.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

January 4, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of November 30, 2022)

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)	295.76	166.53
Reserve Tranche Position	0.31	0.18

SDR Department:	**SDR million**	**Percent Allocation**
Net Cumulative Allocation	254.96	100.00
Holdings	183.51	71.98

Outstanding Purchases and Loans:	**SDR million**	**Percent of Quota**
Emergency Assistance (including ENDA, EPCA, and RFI)	118.40	66.67
RCF Loans	59.20	33.33
ECF Arrangements	56.13	31.61

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)**
RFI	May 08, 2020	May 12, 2020	59.20	59.20
RCF	May 08, 2020	May 12, 2020	29.60	29.60
RCF	Mar 26, 2020	Mar 30, 2020	29.60	29.60

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

	Forthcoming				
	2022	2023	2024	2025	2026
Principal	5.71	53.17	72.52	38.59	18.50
Charges/Interest		6.23	4.42	2.37	1.98
Total	5.71	59.40	76.94	40.95	20.48

[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 and suggested amendments to the NBKR law.

The Kyrgyz Republic parliament amended the NBKR law but rejected key draft amendments aimed to address the 2020 Safeguards Assessment recommendations. Though, the new law envisages a proper recapitalization and profit distribution mechanisms, which is an important accomplishment, but does not introduce a majority of non-executive members of the NBKR Board and the Audit Committee, or provisions to wind down non-core central bank operations.

Exchange Rate Arrangements

The NBKR publishes daily the exchange rate of the som in terms of the U.S. dollar, which is determined in the interbank foreign exchange market. The official exchange rate of the som against the dollar is calculated as the daily weighted average of the exchange rates used in the purchase and sale transactions of dollars conducted in the foreign exchange market through the Automated Trading System (ATS) of the NBKR for the reporting period from 3:00 pm of the previous trading day to 3:00 pm of the current trading day. The government uses the official exchange rate for budget and tax accounting purposes as well as for all payments between the government and enterprises and other legal entities.

The Kyrgyz Republic maintains a multiple currency practice (MCP) arising from the use of the official exchange rate for government transactions. The official rate may differ by more than 2 percent from the exchange rate prevailing on the FX market at the time of the government transaction because it is based on the weighted average of the exchange rates of the preceding days. Since early 2018, the official and market exchange rates have stayed within a two percent band. However, larger deviations occurred during the period from February 25 through August 22, 2022, when the deviations reached 3 percent. 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 security reasons relating to the restriction of financial transactions and the freeze of accounts of certain individuals or organizations associated with terrorism pursuant to (i) relevant U.N. Security Council resolutions; and (ii) the list of current terrorist organizations designated by the U.S. Secretary of State. The authorities have notified these measures to the Fund in May 2007 pursuant to Executive Board decision No. 144-(52/51).

Article IV Consultations

The Kyrgyz Republic is on a 12-month consultation cycle. The 2021 Article IV consultation discussions were held in March 2021 and were completed by the Executive Board in June 2021.

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 November 30, 2022)

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 – November 2022)

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
	Review the New Draft Tax Code	October 6, 2021 (virtual)	Ministry of Economy and Commerce
	Implementing the Results Based Budgeting	June 22- July 5, 2022	Ministry of Finance
MCM	Operational Advice on Improving the Monetary Policy Framework	February 3–14, 2014	National Bank of the Kyrgyz Republic

IMF Dept.	Type of Mission	Mission Dates	Requestor
	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
	Capacity development – Central bank policy and operations (remote)	January-March 2021	National Bank of the Kyrgyz Republic
	Monetary Policy and Operational Framework (remote)	October 8–November 11, 2021	National Bank of the Kyrgyz Republic
MCM /LEG	Central bank digital currency (virtual)	January 15-April 20, 2021	National Bank of the Kyrgyz Republic
MCM /ITD/ LEG	Central bank digital currency (virtual)	July 20 – November 30, 2021	National Bank of the Kyrgyz Republic
MCM /CCA MTAC	Central Bank Operations-Monetary Policy Implementation	October 3 – October 7, 2022	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

IMF Dept.	Type of Mission	Mission Dates	Requestor
	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

IMF Dept.	Type of Mission	Mission Dates	Requestor
	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
LEG/ FIN	Assessment of safeguards-related areas (remote)	October 19 – 30, 2020	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

IMF Dept.	Type of Mission	Mission Dates	Requestor
	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 (virtual)	Ministry of Finance
	Government Finance Statistics	December 6-17, 2021(virtual)	Ministry of Finance
	Government Finance Statistics	April 24-29, 2022 (virtual)	Ministry of Finance
	National Accounts	April 18 -22, 2022 (virtual)	National Statistics Committee
	National Accounts	September 5 -16, 2022	National Statistics Committee
	Government Finance Statistics	September 12 – 23, 2022	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 Commerce, 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.

In 2021, the authorities requested IMF TA mission on national accounts to assist in the compilation of discrete estimates of quarterly GDP. Following up on remote TA mission in April 2022, IMF's Capacity Development Center for Caucasus, Central Asia, and Mongolia (CCAMTAC) TA mission visited Bishkek during September 5-16, 2022. The mission assisted the NSC in developing quarterly national accounts on a discrete basis. The NSC plans to release quarterly GDP estimates in June 2023 in parallel with the implementation of the System of National Accounts 2008 (2008 SNA) and major revision of national accounts time series.

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

Kyrgyz Republic: Table of Common Indicators Required for Surveillance

(As of December 15, 2022)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	12/15/2022	12/15/2022	D	D	D
Reserve/Base Money	12/1/2022	12/14/2022	M	M	M
Broad Money	12/1/2022	12/14/2022	M	M	M
Central Bank Balance Sheet	12/1/2022	12/14/2022	M	M	M
Consolidated Balance Sheet of the Banking System	12/1/2022	12/14/2022	M	M	M
Interest Rates[1]	9/30/2022	10/25/2022	M	M	M
Consumer Price Index	11/30/2022	12/13/2022	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing[2]—General Government[3]	10/31/2022	12/15/2022	M	M	A
Revenue, Expenditure, Balance, and Composition of Financing[2]—Central Government	10/31/2022	12/15/2022	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[4]	12/31/2021	11/15/2022	Q	Q	Q
External Current Account Balance	6/30/2022	10/20/2022	Q	Q	Q
Exports and Imports of Goods and Services	6/30/2022	10/20/2022	Q	Q	Q
GDP/GNP	11/30/2022	12/13/2022	M	M	M
Gross External Debt	12/31/2021	11/15/2022	Q	Q	A
International Investment Position[5]	6/30/2022	10/20/2022	Q	Q	Q

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

[2] Foreign and domestic financing only.

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

[4] Including currency and maturity composition.

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

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

KYRGYZ REPUBLIC

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

January 4, 2023

Approved By
Subir Lall and Uma Ramakrishnan (IMF) and Lalita M. Moorty and Manuela Francisco (IDA)

Prepared by staffs 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	Tool not applicable[1]
Application of judgment	Yes for external PPG; No for total PPG

The risk of overall public debt distress remains at moderate on account of the rapid accumulation of domestic debt. While there is no breach of the external debt thresholds under any standard shock, by applying a customized stress test on exports reflecting the recent discontinuation of gold exports the rapid rise in transit trade, and considering the heightened global uncertainty, staffs judge external public debt to be sustainable and at moderate risk of debt distress. The PV of total public debt-to-GDP does not breach its threshold under the baseline scenario before 2032, but it does under a standard stress test, thus warranting a "moderate" rating for the overall risk of debt distress. The Kyrgyz Republic's current debt-carrying capacity is assessed as strong, but fiscal space to absorb shocks is narrowing after the substantial public wage increase in 2022.[2] Without fiscal consolidation public debt will continue to rise in the longer term. Improving tax collections, reducing the wage bill and energy subsidies, strengthening debt management, avoiding non-concessional borrowing and improving public investment management would be important to reduce fiscal imbalances and containing debt vulnerabilities.

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[1] The tool for granularity assessment is not applied because the moderate risk comes from the staffs' judgement.

[2] 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](#).

PUBLIC DEBT COVERAGE

1. Public and Publicly Guaranteed (PPG) 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. The 2021 SDR allocation (SDR 170 million, equivalent to USD 242 million) was transferred from the National Bank of the Kyrgyz Republic (NBKR) to the Government to pay for external debt service. The full amount is projected to be drawn down over 2022-23 and therefore is counted fully toward public debt after that point. 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 and have no external debt. Their short-term domestic borrowing from the banking sector is limited and they do not have long-term domestic debt. In addition, the government has no outstanding guarantees.[3] An analysis of fiscal risks by the World Bank found no significant PPG debt for new companies created as Public-Private Partnerships. Nevertheless, given the large stock of liabilities associated with the energy sector (equivalent to around 20 percent of GDP), a contingent liability shock of 7 percent of GDP was applied, of which 2 percent of GDP reflects an operational risk stemming from the structural cash shortfall of loss-making energy sector SOEs[4] and 5 percent of GDP is the default value representing the average cost to the government during a financial crisis (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%.

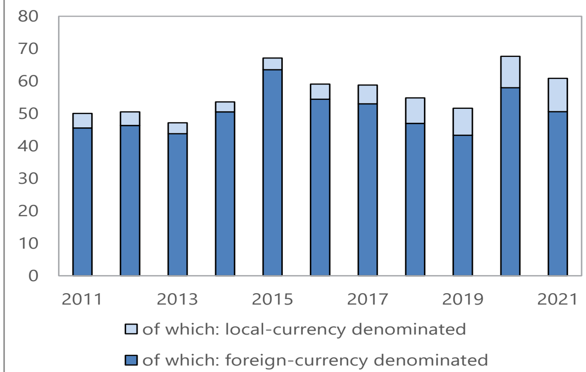
[3] The Budget Code prevented the state from guaranteeing debt of SOEs and other public entities since 2007, except when stipulated by the obligations of memberships in international and inter-governmental organizations. However, the recent changes in the Budget Code allows the government to issue guarantees subject to conditions, which are now being developed and will be approved as a government regulation.

[4] IMF Country Report No. 21/75, Kyrgyz Republic—Staff Report for the 2021 Article IV Consultation.

BACKGROUND

2. Public debt increased to 67.6 percent of GDP in 2020 (from 51.6 percent in 2019) after a steady decline since 2015, but fell to 60.8 percent of GDP in 2021 (Text Figure 1). This decline was driven by the ratio of external debt-to-GDP underpinned by increases in real GDP and GDP deflator while the exchange rate was broadly stable. External debt decreased by 7.3 percentage points of GDP, while domestic debt increased marginally. Domestic public debt is held mostly by commercial banks (50 percent) and the social security fund (30 percent).

Text Figure 1. Public Debt, 2011-2021
(Percent of GDP)

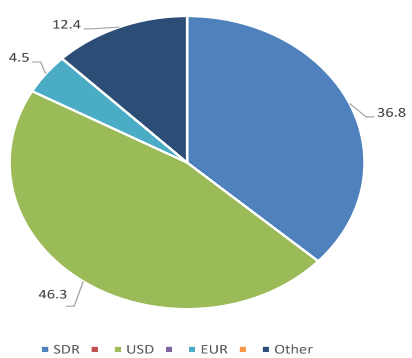


Source: country authorities.

3. External debt is mostly denominated in US dollars and SDRs. These two currencies account for more than 80 percent of nominal external debt at end 2021 (Text Figure 2). The third most important currency, the euro, accounts for just over 12 percent.

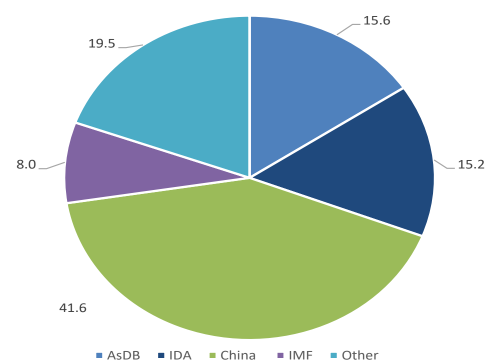
4. After Debt Service Suspension Initiative (DSSI) relief, the composition of external debt by creditor indicates that China was the largest creditor at end 2021.[5] Official external debt owed to China accounts for over 40 percent of total external debt after a re-profiling of its debt, with the Asian Development Bank (AsDB) and the International Development Association (IDA – World Bank) each owed over 15 percent (Text Figure 3). The IMF is owed 8 percent of the total.[6] The large creditors in the "Other" category include the Japanese International Cooperation Agency, the Islamic Development Bank, the Government of Turkey, and the Eurasian Development Bank.

Text Figure 2. External Debt Currency Composition at End-2021



Source: Country authorities.

Text Figure 3: External Debt Composition by Creditor at End-2021



Source: Country authorities.

[5] In 2021, under the DSSI, the country reached agreements with the creditors from China, Germany, France, Turkey, Saudi Arabia and Japan to postpone debt service payments due July-December 2021 for up to 6 years with a one-year grace period.

[6] SDRs from the 2021 SDR allocation are not included, since they have not been drawn by end-2021.

UNDERLYING ASSUMPTIONS

5. **Compared to the previous DSA, the macroeconomic outlook has weakened in the short term due to the impact of the war in Ukraine.** The new projections assume that that the rebound from the global pandemic will be tempered by the adverse spillovers from the war (Text Table 3):

Text Table 3. Kyrgyz Republic: Selected Indicators, 2020-2042
(persent of GDP)

	2020	2021	2022	2023	2022-27	2028-32	2033-42
Real GDP growth (percent)							
Current DSA	-8.6	3.7	5.5	3.5	4.1	3.9	4.0
Previous DSA [1]	-8.6	3.8	6.4	4.4	4.4	4.0	4.0
Overall fiscal balance (percent of GDP)							
Current DSA [2]	-3.3	-0.8	-5.2	-4.6	-4.8	-5.5	-5.1
Previous DSA [1]	-3.3	-4.2	-4.0	-3.4	-3.6	-3.4	-3.3
Revenues and grants (percent of GDP) [3]							
Current DSA	30.8	34.0	39.6	36.4	36.8	35.1	34.4
Current account balance (percent of GDP)							
Current DSA	4.8	-8.6	-28.7	-10.6	-12.5	-5.8	-5.4
Previous DSA [1]	4.5	-5.8	-6.2	-6.1	-6.2	-7.6	-4.7
Exports of goods and services (percent of GDP) [3]							
Current DSA	31.4	38.6	43.7	47.5	46.4	45.2	43.4
Imports of goods and services (percent of GDP) [3]							
Current DSA	52.1	69.5	85.3	69.4	69.8	61.6	62.9
PIP Disbursements (millions of US$)							
Current DSA	188	162	296	271	240	250	359
Previous DSA [1]	162	296	271	258	228	250	359
Reserves in months of prospective imports [3]							
Current DSA	5.3	3.9	3.6	2.9	2.5	2.6	3.4

Sources: Kyrgyz authorities; and IMF and World Bank staff estimates and projections.
1/ IMF Country Report No. 21/75, Kyrgyz Republic -- Staff Report for the 2021 Article IV Consultation -- Debt Sustainability Analysis; outer year averages refer to 2021-26, 2027-31 and 2032-41, respectively.
2/ Including onlending to energy SOEs.
3/ Data was not quoted for the previous DSA.

- **Growth and inflation.** Growth rebounded, as expected, to 3.7 percent in 2021 and is estimated to have increased to 5.5 percent in 2022, supported by higher gold production, agriculture, trade and transport. In the absence of new structural reforms, growth is expected to converge to its estimated potential of 4 percent in the medium and long term, which foresees the gradual decline of gold production and an expansion of the services sector. End-of-period inflation reached double digits (11.2 percent) in 2021 and remains in the mid-teens in 2022 (15.4 percent in October) before it is forecast to decline to 10 percent in 2023 and to mid-single digits thereafter.

- **Fiscal policy.** The overall budget deficit decreased to 0.8 percent of GDP in 2021 from 3.3 percent of GDP in 2020, but is estimated to have reached 5.2 percent of GDP in 2022 as a result of public wage, pension and social assistance increases. In contrast with the previous DSA, the deficit is projected to continue to increase from 2023 due to the steep rise in the wage bill and pensions, higher public investment, and the growing interest payments from the accruing non-concessional domestic debt, which rise from 0.7 percent of GDP in 2022 to 2.4 percent by 2027. The increase in the non-discretionary elements of public expenditure makes it more difficult to restore sustainable fiscal balances. Moreover, although Kumtor is now fully state-owned, no dividend payments to budget are assumed. Therefore, the overall deficit is projected to increase gradually from more than 4.6 percent of GDP in 2023 to around 5 percent over the long term—requiring a steady increase in domestic financing throughout that may challenge the depth of the local market.

- **External sector.** The current account deficit swung from a surplus of 4.5 percent of GDP in 2020 to a deficit of 8.6 percent of GDP in 2021 as borders reopened and imports rebounded. Imports continued to increase in 2022 due to high global oil and food prices, and the increased regional trade, including transit trade. Non-gold exports also increased because of the new transit trade, and helped offset the discontinuation of gold exports as domestically produced gold has been purchased by the National Bank of the Kyrgyz Republic. Remittances declined by 13 percent on a net basis for the first 9 months through September, and the increase of outward transfers to Russia. As a result, the current account deficit should reach 28.7 percent of GDP in 2022 but recover to about 10 percent of GDP in 2023 with the resumption of gold exports and the normalization of global energy prices. Existing creditors are projected to continue to provide external support, albeit entirely as loans, thus helping to narrow the CA deficit to around 8 percent by 2027.

- **Financing assumptions.** The new external borrowing is assumed to remain mostly on concessional terms and the country is expected to remain IDA-eligible over the projection horizon. When compared with the previous DSA, IDA loan disbursements have been increased to around US$70 million by 2030, roughly twice the amount under the previous DSA, and reduced to around US$25 million over the following 8 years, in line with the previous DSA.[7] Nonetheless, net external financing is expected to decline over time. As a result, the share of net domestic borrowing is expected to increase to over 40 percent of gross financing needs in 2022 from almost zero the year before. It is projected to fill more than 60 percent of gross financing needs by 2027, when new external financing is offset by equivalent levels of amortization. Domestic borrowing rates are assumed at 12.4 to 16.4 percent for maturities ranging between 1 year and 20 years in 2023, with a gradual decrease by 2027 to between 6.7 and 10.7 percent respectively as the financial market develops and inflation eases back down to low single digits.

- **Realism of the baseline projections.**

  - *Drivers of debt dynamics.* The forecast error of the change in the ratio of public debt-to-GDP over the past five years has been small (Figure 3). The projected significant increase in the total public debt ratio is explained by the expected widening of the general government deficit due to the higher wage bill and the cost of domestic debt, while nominal GDP growth moderates due to lower projected inflation.

  - *Realism of planned fiscal adjustment* (Figure 4). The projected 3-year adjustment shows a significant deterioration of the primary balance and is close to the outer bound of the chart. However, it is realistically accounted for by the large increase in the wage bill.

[7] IDA financing terms are a zero-interest rate and 50-year maturity period with 10 year grace period (IDA50) and a zero-interest rate and 12 year maturity period with 6 year grace period (SML) for the IDA-20 cycle, and 0.75 percent interest rate, 38 year maturity period with 6 year grace period (IDA regular) for the remaining years.

- *Consistency between fiscal adjustment and growth* (Figure 4). The growth projection for 2022 is within the cone of growth path suggested by different fiscal multipliers and does not raise any flags.
- *Consistency between public investment and growth* (Figure 4). The path for public investment increases faster in 2022 than in the previous DSA but then falls back below levels from the previous DSA and espouses the same trend from 2023 onward. Private investment converges to the level of the previous DSA over the medium term, after being crowded out by the higher wage bill and public investment in 2022.

COUNTRY CLASSIFICATION AND STRESS TESTS

6. The Kyrgyz Republic's debt-carrying capacity is strong (Text Table 4). The country's Composite Indicator (CI) index[8] is 3.06, which is just above the threshold of 3.05 for strong debt-carrying capacity. The assessment of strong capacity in one of the past two CI vintages supports the rating.[9] The CI is calculated for the last two IMF World Economic Outlook (WEO) vintages (October 2022 and April 2022) and the World Bank's 2021 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 3.06	Medium 3.03	Strong 3.16

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

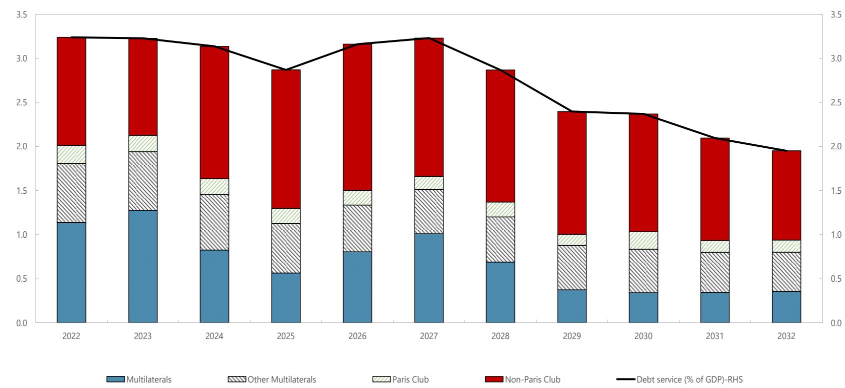
[8] The CI is a function of the World Bank's Country Policy and Institutional Assessment (CPIA) score, international reserves, remittances, country and global economic growth. The calculation is based on 10-year averages of the variables, across 5 years of historical data and 5 years of projection. For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

[9] To reduce potential variations in risk assessments stemming from volatility in macroeconomic projections, a change in country classification would require at least two consecutive designations in the new category. For more details, see IMF, 2018, Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries.

EXTERNAL DSA

7. **All four external debt ratios remain below their respective thresholds under the baseline scenario** (Figure 1, and Tables 1 and 3). External Public and Publicly Guaranteed (PPG) debt was 50.6 percent of GDP at end-2021 and private external debt was 26.5 percent of GDP. The latter is expected to gradually decline to 21.6 percent of GDP by 2027 as net external private borrowing is projected to grow less than nominal GDP. The PV of PPG external debt decreased to 35.7 percent of GDP in 2021 (from about 36 percent at end-2020 estimated in the previous DSA) and is projected to decline further to about 23.2 of percent of GDP by end-2027 (below the 55 percent threshold) on the back of higher projected inflation in the near term. This is consistent with the gradual decrease of the ratio of nominal debt to GDP after debt service peaks in 2027 (Text Figure 4).

Text Figure 4. PPG External Debt Service by Category of Creditors
(As share of GDP)

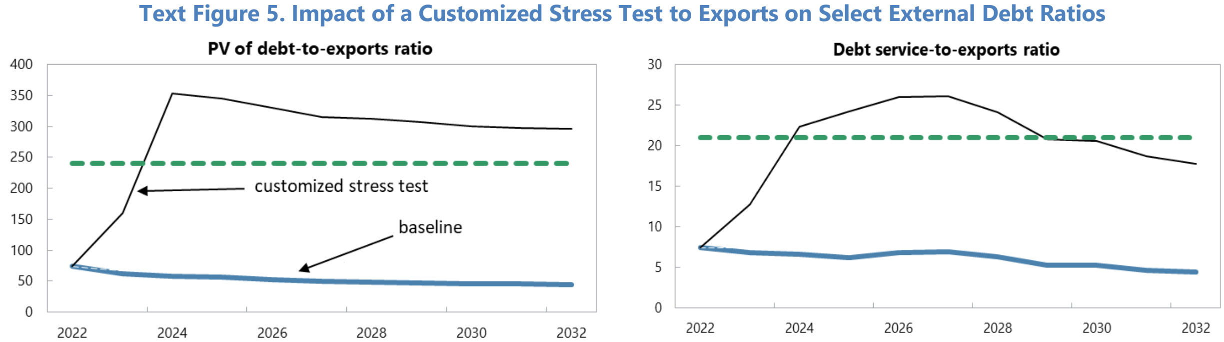


Sources: Country authorities; and IMF and World Bank staff projections.

8. **Unlike the previous DSA in which two ratios breached their respective thresholds under the "most extreme shock", all external debt ratios remain under their respective thresholds for the same standard stress tests.** This is attributable to the declining external borrowing profile, and the higher nominal value of the denominators for all ratios, as inflation increased.

9. **However, a customized stress test on exports mirroring the non-export of gold or a collapse in transit trade causes a sustained breach of thresholds for the PV of debt-to-exports ratio and the debt service-to-exports ratio.** The customized stress test doubles the size of the exports growth shock to two standard deviations, resulting in negative export growth of almost 35 percent in 2023 and 2024.

Text Figure 5. Impact of a Customized Stress Test to Exports on Select External Debt Ratios



Sources: IMF and World Bank staff projections

PUBLIC DSA

The PV of debt-to-GDP ratio, used to assess the risk of total public debt distress, increases gradually under the baseline scenario, but does not breach its threshold (Figure 2 and Tables 2 and 4). In 2022 public debt is estimated to have subsided to 58.3 percent of GDP from 60.8 percent of GDP the year before (Text Table 5). Despite larger fiscal deficits than in the previous DSA, the faster growth in nominal GDP will put total public debt on a lower trajectory. Under the baseline scenario, it is expected to reach around 61 percent of GDP by 2027 compared to 65.4 percent by 2026 in the previous DSA and continue to rise to over 68 percent of GDP by 2038, whereas it decreases monotonously in the previous DSA to under 50 percent by 2040. Similarly, the ratio of debt service-to-revenue (including grants) rises to more than 20 percent over the next five years, and remains at that level until 2032, reflecting the effect of high interest rates on domestic debt.

Text Table 5. Kyrgyz Republic: Comparison of Debt Ratios 2021-32
(in persent of GDP)

	2021	2022	2023	2024	2025	2026	2027	Long Term (2032) 2/
PPG external debt-to-GDP ratio								
Current DSA	50.6	46.9	44.1	41.1	39.1	37.0	35.2	31.4
Previous DSA[1]	56.8	52.6	49.4	46.9	44.7	42.8	41.0	34.6
Public debt-to-GDP ratio								
Current DSA	60.8	58.3	57.9	57.7	58.7	59.5	60.9	70.5
Previous DSA[1]	67.1	65.3	64.5	64.7	64.9	65.4	66.4	70.7

Sources: Kyrgyz authorities; and IMF and World Bank staff estimates and projections.

1/ IMF Country Report No. 21/75, Kyrgyz Republic -- Staff Report for the 2021 Article IV Consultation -- Debt Sustainability Analysis.

2/ for the previous DSA: 2031.

10. Total public debt is particularly vulnerable to a growth shock, which is the most severe test. Under this shock, the PV of debt-to-GDP ratio breaches the threshold of 70 percent of GDP by 2026, well before the stress test horizon of 2032, and continues a persistent upward trajectory thereafter. Moreover, such a shock would put the two other indicators on a monotonously upward path: the PV of debt-to-revenue ratio would reach 300 percent in 2032, and the debt service-to-revenue ratio would rise above 35 percent by 2032. Although no explicit benchmark exists for these two ratios, the projections point to potentially severe debt and liquidity difficulties in the long run.

A. Risk Rating and Vulnerabilities

11. Despite a 'low' risk rating suggested by mechanical standard stress tests, staff assess external debt to be sustainable and at moderate risk of debt distress. All ratios under the baseline are projected to show a downward trajectory before 2032, driven by low external borrowing and the decline in PPG external debt. While there is no breach of their respective thresholds by any of the four ratios under the baseline and standard stress test, a customized stress test on exports justifies maintaining the risk of external debt distress at "moderate". Moreover, the heightened uncertainty illustrated in part by the high residual for 2022, and the rise in downside regional risks pose new challenges that are not well captured under the standard tests. These risks include possible spillovers from the Russia's invasion of Ukraine, global financial tightening and its impact on interest rates, denominator effects associated with high inflation that can be reversed in the future, increased demand for public spending as inflation erodes purchasing power, and the limited diversification of exports. These factors all argue for a "moderate" rating for the risk of external debt distress.

12. The risk of debt distress for overall public debt remains "moderate", as the PV of debt-to-GDP ratio breaches its threshold of 70 percent before 2032 under a standard stress test. This ratio is driven by growing domestic borrowing at high interest rates in the absence of concessional external finance. Over time, the interest payments become an accelerating driver of financing needs and an important contributor to automatic debt dynamics. However, total public debt is still assessed as sustainable since the ratio under the baseline ceases to increase before 2042.

13. Staffs see fiscal space to absorb shocks narrowing. This is due to the rapid deterioration of the total PPG debt in the near term, and the breach of the threshold under a standard stress test by 2026 indicates that the Kyrgyz Republic needs urgent fiscal consolidation. Moreover, the envisaged domestic financing for the foreseeable future creates additional risks to the economy as it could crowd out lending to the private sector and constrain delivery of public services.

14. The authorities need to take decisions in the near term to reduce the fiscal deficit; strengthen public debt and expenditure management; and improve the business climate. To keep public debt sustainable, the primary deficit should be reduced under 1 percent of GDP in the medium term from the projected 2.4 percent. Additional fiscal space can be created by lowering the wage bill and energy subsidies, prioritizing other expenditure, and improving tax policy and administration to raise more revenue. 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; and public investment management to contain contingent liabilities and spur growth; and raise spending efficiency. 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.

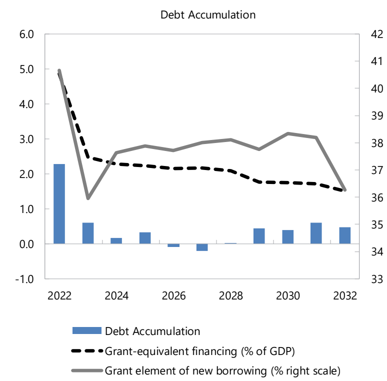
AUTHORITIES' VIEWS

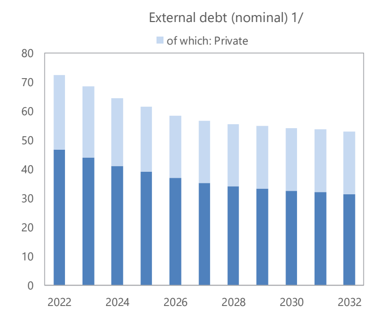
15. The authorities broadly shared the views of Bank and Fund staff. They noted that they have a nominal debt ceiling of 70 percent of GDP, and reiterated their commitment to adhere to it. Their medium-term budget projections assume a continuous increase in budget revenue leading to surpluses and reduced borrowing needs, consistent with their debt rule. However, they recognized the challenges to debt sustainability in the event of a laxer fiscal stance, including the increased cost of borrowing domestically, the shallowness of the domestic debt market, and the limited external concessional financing options.

Table 1. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2019-2042
(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	**72.8**	**87.4**	**77.1**	**72.2**	**68.5**	**64.4**	**61.5**	**58.4**	**56.6**	**52.9**	**48.9**	**81.3**	**59.3**
of which: public and publicly guaranteed (PPG)	**43.3**	**57.9**	**50.6**	**46.7**	**44.0**	**40.9**	**39.0**	**36.9**	**35.1**	**31.4**	**27.3**	**51.0**	**36.9**
Change in external debt	-3.7	14.6	-10.3	-4.9	-3.7	-4.1	-2.9	-3.1	-1.8	-0.7	-0.6		
Identified net debt-creating flows	**3.1**	**12.8**	**-5.7**	**21.0**	**3.6**	**2.3**	**1.2**	**0.7**	**0.3**	**-1.8**	**0.3**	**4.2**	**1.9**
Non-interest current account deficit	**11.5**	**-5.7**	**7.9**	**28.1**	**10.0**	**9.5**	**8.5**	**8.0**	**7.6**	**5.1**	**5.0**	**10.2**	**9.0**
Deficit in balance of goods and services	28.9	20.7	30.9	41.6	21.9	21.1	19.6	18.6	17.8	16.7	21.7	**34.6**	**20.2**
Exports	35.2	31.4	38.6	43.7	47.5	47.5	46.6	46.4	46.6	44.6	42.8		
Imports	64.1	52.1	69.5	85.3	69.4	68.6	66.2	65.0	64.4	61.4	64.5		
Net current transfers (negative = inflow)	-25.6	-28.8	-29.5	-20.3	-18.6	-18.2	-17.7	-17.3	-16.9	-18.3	-21.0	**-28.7**	**-18.0**
of which: official	-1.3	-1.0	-0.7	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	8.2	2.4	6.6	6.8	6.8	6.6	6.7	6.7	6.7	6.7	4.4	**4.2**	**6.7**
Net FDI (negative = inflow)	**-3.8**	**7.5**	**-6.6**	**-4.1**	**-4.8**	**-5.3**	**-5.5**	**-5.5**	**-5.5**	**-5.5**	**-3.3**	**-4.2**	**-5.3**
Endogenous debt dynamics 2/	**-4.6**	**11.0**	**-7.0**	**-3.1**	**-1.7**	**-1.9**	**-1.9**	**-1.8**	**-1.7**	**-1.4**	**-1.5**		
Contribution from nominal interest rate	0.6	0.9	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4		
Contribution from real GDP growth	-3.3	7.1	-3.0	-3.6	-2.3	-2.5	-2.4	-2.3	-2.2	-1.9	-1.9		
Contribution from price and exchange rate changes	-1.9	2.9	-4.8	...	...	...	...	...	...	...	...		
Residual 3/	**-6.8**	**1.8**	**-4.7**	**-25.9**	**-7.3**	**-6.4**	**-4.1**	**-3.8**	**-2.1**	**1.1**	**-0.9**	**-3.9**	**-4.1**
of which: exceptional financing	0.1	-0.2	-0.5	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	**...**	**...**	**35.7**	**32.3**	**29.3**	**27.8**	**26.4**	**24.7**	**23.1**	**19.9**	**18.3**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**92.5**	**73.8**	**61.8**	**58.6**	**56.5**	**53.1**	**49.6**	**44.6**	**42.7**		
PPG debt service-to-exports ratio	**5.7**	**9.1**	**6.2**	**7.4**	**6.8**	**6.6**	**6.1**	**6.8**	**6.9**	**4.4**	**3.7**		
PPG debt service-to-revenue ratio	**6.6**	**9.9**	**7.5**	**8.7**	**9.1**	**8.8**	**8.1**	**9.0**	**9.3**	**5.7**	**4.8**		
Gross external financing need (Million of U.S. dollars)	1367.0	818.7	727.3	3088.4	1281.0	1209.3	1120.0	1169.7	1182.4	838.8	1885.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.8	-8.6	3.7	5.5	3.5	3.8	4.0	4.0	4.0	3.7	4.0	**3.0**	**4.0**
GDP deflator in US dollar terms (change in percent)	2.5	-3.9	5.8	11.6	8.2	2.2	2.7	2.5	1.7	1.0	1.0	**0.5**	**3.1**
Effective interest rate (percent) 4/	0.9	1.1	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	**0.8**	**0.9**
Growth of exports of G&S (US dollar terms, in percent)	13.8	-21.8	35.0	33.3	21.8	6.1	4.9	6.0	6.4	3.7	4.8	**1.7**	**9.0**
Growth of imports of G&S (US dollar terms, in percent)	-3.8	-28.7	46.3	44.6	-8.9	4.9	3.1	4.6	4.9	4.5	5.7	**4.2**	**6.6**
Grant element of new public sector borrowing (in percent)	...	...	...	40.7	35.9	37.6	37.9	37.7	38.0	36.3	33.2	**...**	**37.9**
Government revenues (excluding grants, in percent of GDP)	30.3	28.9	32.1	37.2	35.3	35.7	35.3	35.0	34.7	33.9	33.4	**31.4**	**35.0**
Aid flows (in Million of US dollars) 5/	195.0	154.3	162.4	402.3	300.7	310.3	323.6	330.3	354.4	313.4	386.0		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.9	2.5	2.3	2.2	2.2	2.2	1.5	1.3	**...**	**2.3**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	57.0	51.6	54.4	54.5	54.1	53.7	51.3	50.9	**...**	**52.9**
Nominal GDP (Million of US dollars)	8,872	7,792	8,549	10,061	11,274	11,967	12,778	13,615	14,408	18,331	29,888		
Nominal dollar GDP growth	7.3	-12.2	9.7	17.7	12.1	6.2	6.8	6.6	5.8	4.7	5.0	**3.6**	**7.2**
Memorandum items:													
PV of external debt 7/	...	...	62.2	57.8	53.9	51.3	48.9	46.2	44.6	41.4	39.8		
In percent of exports	...	...	161.2	132.2	113.4	108.1	104.8	99.6	95.7	92.8	93.0		
Total external debt service-to-exports ratio	21.9	27.8	18.4	15.2	12.8	12.4	12.3	13.0	13.2	11.0	10.7		
PV of PPG external debt (in Million of US dollars)			3052.6	3247.4	3308.7	3327.9	3367.7	3356.3	3328.8	3646.3	5464.6		
(PVt-PVt-1)/GDPt-1 (in percent)				2.3	0.6	0.2	0.3	-0.1	-0.2	0.5	0.6		
Non-interest current account deficit that stabilizes debt ratio	15.2	-20.3	18.3	33.0	13.8	13.6	11.5	11.1	9.3	5.8	5.6		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

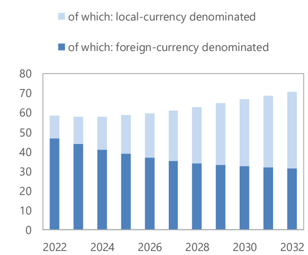
Table 2. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019-2042

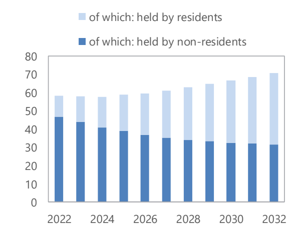
(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	51.6	67.6	60.8	58.3	57.9	57.7	58.7	59.6	60.9	70.6	77.3	57.1	62.4
of which: external debt	43.3	57.9	50.6	46.7	44.0	40.9	39.0	36.9	35.1	31.4	27.3	51.0	36.9
Change in public sector debt	-3.2	16.0	-6.8	-2.5	-0.4	-0.2	1.0	0.9	1.4	2.0	-0.3		
Identified debt-creating flows	-4.8	13.0	-7.6	0.1	0.8	0.9	1.2	1.1	1.2	1.7	-0.6	0.4	1.2
Primary deficit	-0.8	2.3	0.0	4.2	3.5	2.9	2.7	2.4	2.4	2.0	-0.4	2.1	2.6
Revenue and grants	32.5	30.8	34.0	39.6	36.5	36.8	36.3	36.1	35.8	34.6	34.1	33.6	36.0
of which: grants	2.2	2.0	1.9	2.4	1.2	1.1	1.1	1.0	1.0	0.7	0.7		
Primary (noninterest) expenditure	31.7	33.1	33.9	43.8	40.0	39.7	39.1	38.5	38.1	36.6	33.7	35.7	38.7
Automatic debt dynamics	-3.9	10.8	-9.4	-5.2	-2.7	-2.0	-1.5	-1.4	-1.1	-0.3	-0.2		
Contribution from interest rate/growth differential	-4.0	6.0	-4.3	-5.2	-2.7	-2.0	-1.5	-1.4	-1.1	-0.3	-0.2		
of which: contribution from average real interest rate	-1.6	1.2	-1.8	-2.1	-0.7	0.2	0.7	0.9	1.2	2.1	2.8		
of which: contribution from real GDP growth	-2.4	4.9	-2.4	-3.2	-2.0	-2.1	-2.2	-2.3	-2.3	-2.4	-3.0		
Contribution from real exchange rate depreciation	0.1	4.7	-5.2	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.1	0.0	1.8	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.1
Privatization receipts (negative)	-0.1	0.0	1.8	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	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	1.6	3.0	0.8	-2.6	-1.2	-1.1	-0.3	-0.2	0.1	0.3	0.3	0.7	-0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	46.0	44.1	44.4	45.0	46.5	47.7	49.3	59.4	68.5		
PV of public debt-to-revenue and grants ratio	...	...	135.6	111.6	121.8	122.4	127.8	132.3	137.8	171.6	200.9		
Debt service-to-revenue and grants ratio 3/	6.2	9.3	7.1	9.8	14.3	15.6	16.2	17.8	18.9	17.8	19.9		
Gross financing need 4/	1.1	5.1	4.2	9.2	8.8	8.6	8.6	8.8	9.1	8.1	6.4		
												2.3	
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.8	-8.6	3.7	5.5	3.5	3.8	4.0	4.0	4.0	3.7	4.0	3.0	4.0
Average nominal interest rate on external debt (in percent)	1.5	1.8	1.4	1.2	1.3	1.3	1.4	1.4	1.4	1.5	1.6	1.4	1.4
Average real interest rate on domestic debt (in percent)	-3.8	-6.0	-13.7	-5.9	-3.7	3.5	6.0	6.1	6.7	6.6	6.1	-6.1	4.3
Real exchange rate depreciation (in percent, + indicates depreciation)	0.7	9.6	-9.3	...	...	...	...	...	...	...	...	0.9	...
Inflation rate (GDP deflator, in percent)	3.4	6.4	15.8	12.7	13.4	7.8	5.8	5.5	4.8	4.0	4.0	6.5	6.4
Growth of real primary spending (deflated by GDP deflator, in percent)	3.5	-4.6	6.3	36.2	-5.4	3.0	2.4	2.3	3.1	2.2	3.1	2.3	5.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.4	-13.8	6.8	6.8	4.0	3.0	1.8	1.5	1.0	0.0	-0.1	1.0	1.3
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

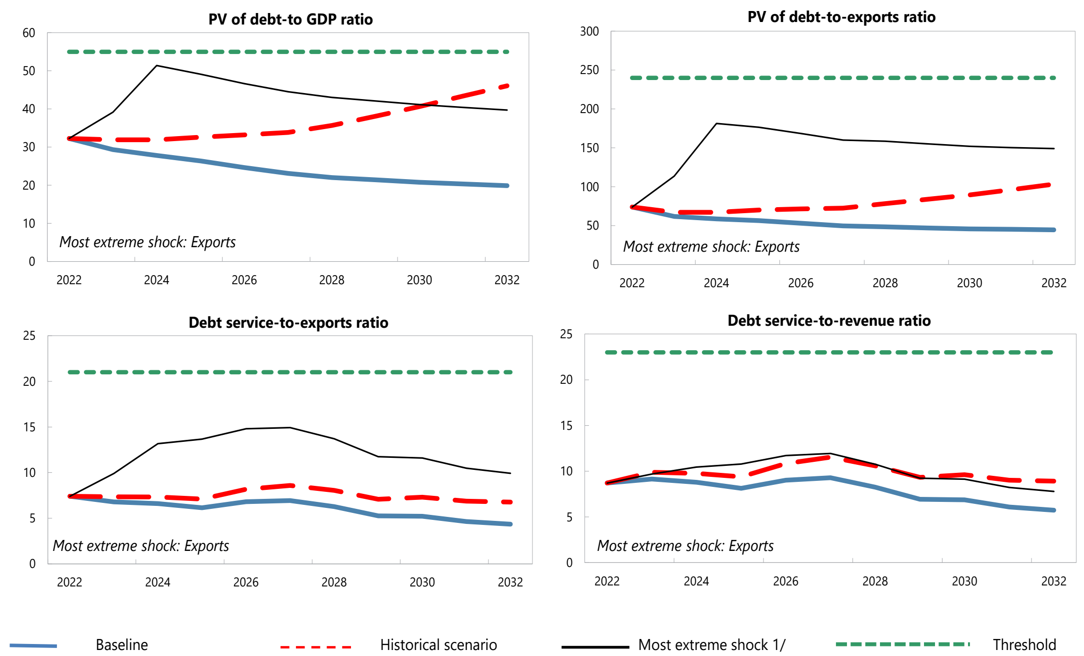
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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

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

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

Figure 1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2022–2032



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.

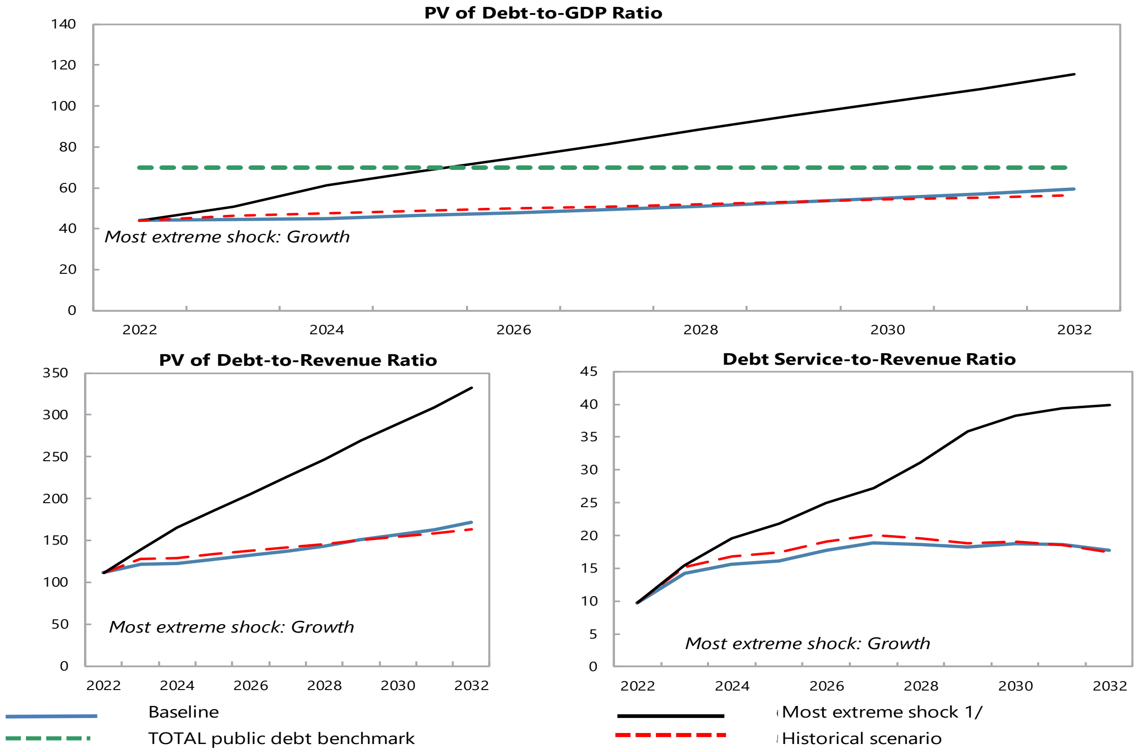
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	383	50
Avg. grace period	361	10

* 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 2032. 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, 2022-2032



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	37%	37%
Domestic medium and long-term	57%	57%
Domestic short-term	6%	6%
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)	373	50
Avg. grace period	352	10
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.9%	4.9%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	1.5%	1.5%

* 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 2032. 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, 2022–2032

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	32	29	28	26	25	23	22	21	21	20	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	32	32	32	33	33	34	36	38	41	43	46
B. Bound Tests											
B1. Real GDP growth	32	32	33	31	29	28	26	26	25	24	24
B2. Primary balance	32	30	29	27	26	24	23	23	22	22	21
B3. Exports	32	39	52	49	47	45	43	42	41	40	40
B4. Other flows 3/	32	34	37	35	33	32	30	30	29	28	28
B5. Depreciation	32	37	32	30	28	26	25	24	23	23	22
B6. Combination of B1-B5	32	41	44	42	40	38	36	36	35	34	33
C. Tailored Tests											
C1. Combined contingent liabilities	32	31	29	28	26	25	24	24	23	23	22
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	74	62	59	57	53	50	49	47	46	45	45
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	74	67	67	70	72	73	79	84	90	97	103
B. Bound Tests											
B1. Real GDP growth	74	62	59	57	53	50	49	47	46	45	45
B2. Primary balance	74	63	60	59	55	52	51	50	49	48	48
B3. Exports	74	114	182	177	169	160	159	155	152	151	149
B4. Other flows 3/	74	72	78	76	72	68	67	65	64	63	62
B5. Depreciation	74	62	53	51	48	44	43	42	41	40	39
B6. Combination of B1-B5	74	106	82	120	114	108	106	104	102	100	99
C. Tailored Tests											
C1. Combined contingent liabilities	74	65	62	60	57	53	53	52	51	50	50
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	7	7	7	6	7	7	6	5	5	5	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	7	7	7	7	8	9	8	7	7	7	7
B. Bound Tests											
B1. Real GDP growth	7	7	7	6	7	7	6	5	5	5	4
B2. Primary balance	7	7	7	6	7	7	6	5	5	5	4
B3. Exports	7	10	13	14	15	15	14	12	12	11	10
B4. Other flows 3/	7	7	7	7	7	7	7	6	6	5	5
B5. Depreciation	7	7	7	6	7	7	6	5	5	5	4
B6. Combination of B1-B5	7	9	11	10	11	11	10	9	9	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	7	7	7	6	7	7	6	5	5	5	5
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	9	9	9	8	9	9	8	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	9	10	10	9	11	12	11	9	10	9	9
B. Bound Tests											
B1. Real GDP growth	9	10	10	10	11	11	10	8	8	7	7
B2. Primary balance	9	9	9	8	9	9	8	7	7	6	6
B3. Exports	9	10	10	11	12	12	11	9	9	8	8
B4. Other flows 3/	9	9	9	9	10	10	9	8	8	7	6
B5. Depreciation	9	11	11	10	11	11	10	8	8	7	7
B6. Combination of B1-B5	9	10	11	10	11	12	10	9	9	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	9	9	9	8	9	9	8	7	7	6	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.
1/ 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, 2022–2032

	Projections 1/										
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
PV of Debt-to-GDP Ratio											
Baseline	44	44	45	46	48	49	51	53	55	57	59
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	44	47	48	49	50	51	52	53	54	55	57
B. Bound Tests											
B1. Real GDP growth	44	51	61	68	**75**	**81**	**88**	**95**	**102**	**108**	**115**
B2. Primary balance	44	46	48	50	51	52	54	56	58	60	62
B3. Exports	44	52	64	65	65	67	68	70	**72**	**73**	**75**
B4. Other flows 3/	44	49	54	55	56	58	60	62	63	65	67
B5. Depreciation	44	50	47	47	46	46	46	47	47	47	48
B6. Combination of B1-B5	44	45	47	48	50	51	54	56	59	61	63
C. Tailored Tests											
C1. Combined contingent liabilities	44	50	50	52	53	54	56	58	60	62	64
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	111	122	122	128	132	138	144	151	157	163	171
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	111	127	129	134	138	142	146	151	154	158	163
B. Bound Tests											
B1. Real GDP growth	111	138	166	186	206	226	247	270	289	309	332
B2. Primary balance	111	126	131	136	141	146	152	159	165	171	179
B3. Exports	111	143	173	178	181	186	191	199	204	210	218
B4. Other flows 3/	111	135	148	153	156	162	167	175	181	186	195
B5. Depreciation	111	136	128	129	128	128	129	133	134	136	140
B6. Combination of B1-B5	111	123	127	132	137	144	151	160	167	174	183
C. Tailored Tests											
C1. Combined contingent liabilities	111	137	137	143	147	152	157	164	170	176	184
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	10	14	16	16	18	19	19	18	19	19	18
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	10	15	17	17	19	20	20	19	19	19	17
B. Bound Tests											
B1. Real GDP growth	10	15	20	22	25	27	31	36	38	39	40
B2. Primary balance	10	14	16	17	19	20	21	21	20	19	19
B3. Exports	10	14	16	18	19	20	20	20	20	20	19
B4. Other flows 3/	10	14	16	17	18	20	19	19	19	19	18
B5. Depreciation	10	15	17	17	19	20	19	16	19	18	17
B6. Combination of B1-B5	10	14	16	16	18	19	19	19	20	20	20
C. Tailored Tests											
C1. Combined contingent liabilities	10	14	18	18	19	20	27	21	20	20	19
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

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

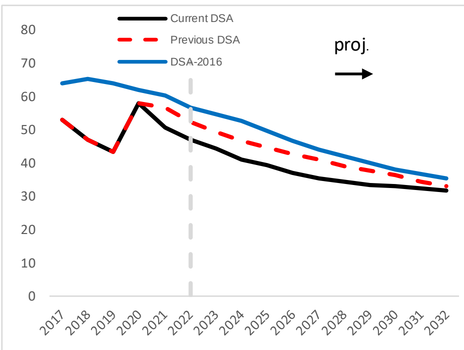
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

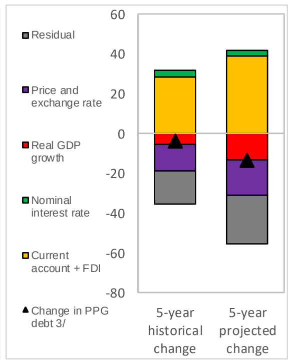
Figure 3. Kyrgyz Republic: Drivers of Debt Dynamics—Baseline Scenario

External Debt

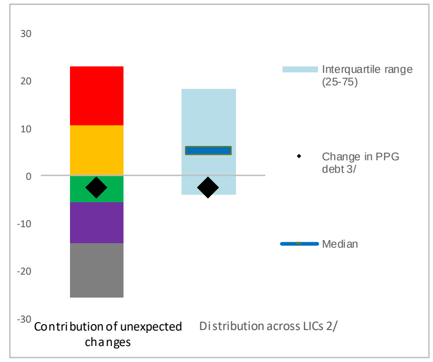
Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)

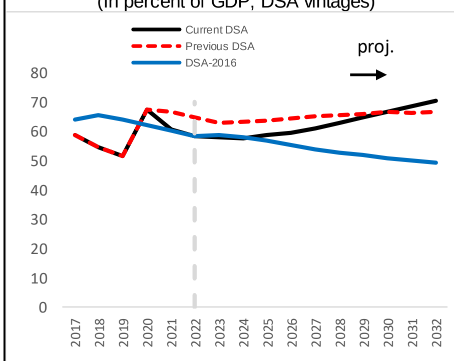


Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

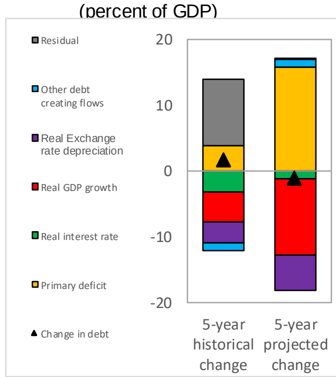


Public Debt

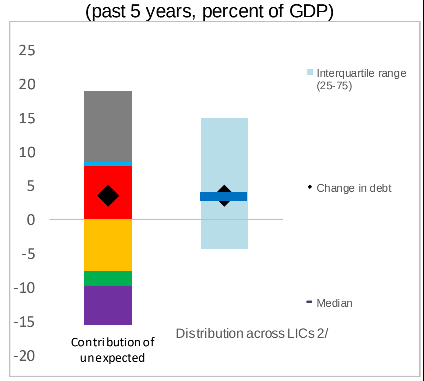
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



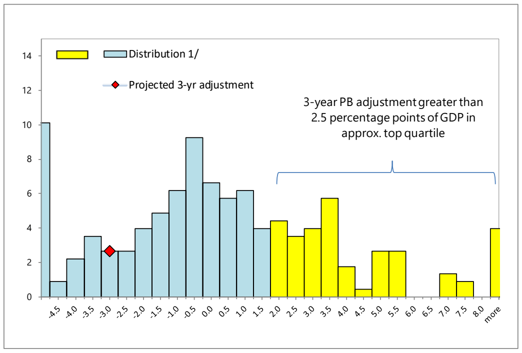
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

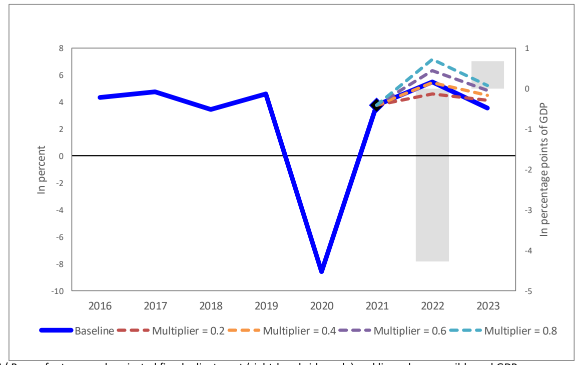
Figure 4. Kyrgyz Republic: Realism Tools

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



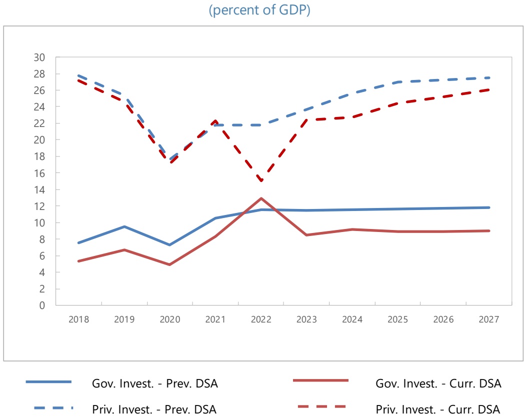
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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