



# KYRGYZ REPUBLIC

March 2024

## 2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KYRGYZ REPUBLIC

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 2023 Article IV consultation with the Kyrgyz Republic, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 5, 2024, consideration of the staff report that concluded the Article IV consultation with the Kyrgyz Republic.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 5, 2024, following discussions that ended on November 22, 2024, with the officials of the Kyrgyz Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 19, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for the Kyrgyz Republic.

The document listed below 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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## IMF Executive Board Concludes 2023 Article IV Consultation with Kyrgyz Republic

FOR IMMEDIATE RELEASE

**Washington, DC—March 4, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV consultation<sup>1</sup> with the Kyrgyz Republic and considered and endorsed the staff appraisal on a meeting on February 5, 2024.

The Kyrgyz economy grew strongly in 2023, led by construction and trade, despite the challenging regional environment. Tax revenue mobilization improved, and public debt declined. Headline inflation fell from 14.7 percent in December 2022 to 7.3 percent in December 2023, supported by a marked reduction in food and fuel inflation, but demand pressures have kept core inflation elevated. The official current account deficit has remained significant due to the decline in net remittance inflows, lower gold exports, and unrecorded re-exports.

Output is expected to grow at its potential rate of 4 percent in the medium term, inflation decline to mid-single digits, and public debt remain contained. The current account deficit should narrow to more sustainable levels provided exports of gold production fully resume and re-exports are reflected in external accounts. The main risk to the outlook is a further escalation of the war in Ukraine and secondary sanctions that could weaken the Russian economy, reduce remittances and trade, and thereby growth and fiscal revenue.

Current favorable macroeconomic conditions present a window of opportunity to strengthen the policy framework and raise growth prospects through structural reforms. The priorities are strengthening governance, including management and privatization of state-owned enterprises, enhancing competition, reforming the electricity sector, and strengthening social safety nets. Early reform efforts will also help to unlock concessional external financing.

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<sup>1</sup> 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 that forms the basis for discussion by the Executive Board.

## **Executive Board Assessment<sup>2</sup>**

Directors agreed with the thrust of the staff appraisal. They welcomed the strong recovery and steps taken to preserve macroeconomic stability, amidst the challenging external environment. Directors highlighted that while the outlook is favorable, it is subject to substantial risks, including related to the war in Ukraine, geoeconomic fragmentation, and climate change. Directors emphasized the need to capitalize on the favorable macroeconomic conditions to strengthen the policy framework and implement reforms to build resilience and support higher and more inclusive growth.

Directors welcomed the strong fiscal discipline and revenue performance, which have contained the fiscal deficit and reduced debt. They emphasized the need for continued consolidation to strengthen debt sustainability, while creating space for priority development and social spending. Noting the need to sustainably increase revenues, Directors encouraged efforts to streamline tax exemptions and special tax regimes and further strengthen revenue administration. Measures to contain the wage bill and reduce energy subsidies are also important.

Directors underscored the need for tight monetary policy to durably reduce inflation and for measures to improve the effectiveness of monetary policy. They highlighted that discontinuing central bank purchases of domestically produced gold would help to contain liquidity injections. Directors stressed the need to strengthen the autonomy and governance of the central bank by implementing the remaining Safeguards Assessment recommendations. Noting the need to buttress competitiveness and safeguard reserves, Directors encouraged greater exchange rate flexibility. Directors welcomed the authorities' commitment to improving balance of payments statistics and highlighted the important role that Fund technical assistance could play. While noting that the banking sector remains sound, Directors encouraged continued vigilance, given risks related to nonperforming loans and increased foreign exchange exposures.

Directors called for ambitious reforms to support higher and more inclusive growth. They underscored the importance of measures to improve governance, strengthen competition policies, and enhance management of state-owned enterprises. Noting the importance of anticorruption efforts, Directors recommended steps to enhance transparency and strengthen the AML/CFT framework. These efforts together with energy sector reform would help to improve the efficiency of resource allocation, mitigate risks from climate change and geoeconomic fragmentation, and catalyze external concessional financing.

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

## Kyrgyz Republic: Selected Social and Economic Indicators, 2019–28

I. Social and Demographic Indicators										
Population (in millions, 2022)	7.0		GINI Index (2020)		0.29					
Unemployment rate (ILO estimate, in percent, 2022)	4.6		Life Expectancy at birth in years (2021)		72					
Poverty rate (in percent, national definition, 2021)	33		Adult literacy rate (percent of popul., 2019)		100					
Per capita GDP (World Bank, in million U.S. dollars, 2022)	1,655		Under-five mortality (per 1000 live births, 2021)		17.4					
II. Economic Indicators										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Projections									
<b>Real Sector</b>										
Nominal GDP (in billions of soms)	654	640	783	971	1,134	1,286	1,429	1,568	1,708	1,847
Nominal GDP (in millions of U.S. dollars)	9,372	8,283	9,256	11,672	12,782	13,791	14,873	15,842	16,752	17,594
Real GDP (growth in percent)	4.6	-7.0	5.5	6.3	4.2	4.4	4.2	4.0	4.0	4.0
Nongold real GDP (growth in percent)	4.1	-7.5	5.9	5.2	4.5	4.3	4.3	4.1	4.1	4.1
GDP per capita (in U.S. dollars)	1,467	1,271	1,391	1,718	1,844	1,949	2,058	2,149	2,226	2,289
Consumer prices (12-month percent change, eop)	3.1	9.7	11.2	14.7	10.0	8.0	5.5	5.5	4.0	4.0
Consumer prices (12-month percent change, average)	1.1	6.3	11.9	13.9	11.7	8.6	6.6	5.5	4.8	4.0
<b>General government finances (in percent of GDP 1/</b>										
Revenue	30.8	29.0	31.4	36.5	38.5	36.0	35.2	34.6	34.2	33.9
Of which: Tax revenue	18.6	16.4	18.9	23.4	25.5	25.2	24.6	24.1	23.8	23.7
Expense	25.9	28.2	26.1	27.8	30.3	29.3	29.1	28.9	28.9	29.0
Gross operating balance	4.9	0.8	5.3	8.7	8.2	6.8	6.1	5.6	5.3	4.9
Net acquisition of nonfinancial assets	4.9	3.9	6.0	9.0	8.1	8.4	7.8	7.8	7.9	7.8
Overall balance (net lending/ borrowing) 2/	-0.1	-3.1	-0.7	-0.3	0.1	-1.6	-1.7	-2.2	-2.6	-2.9
Primary net lending/ borrowing	0.8	-2.1	0.0	0.8	1.1	-0.5	-0.6	-0.9	-1.2	-1.3
Total state government debt 3/	48.8	63.6	56.2	49.2	46.9	44.3	42.7	42.1	42.2	42.9
Of which domestic debt	7.8	9.2	9.5	9.7	9.8	10.0	10.2	11.5	13.2	14.9
<b>Monetary sector</b>										
Reserve money (percent change, eop)	11.0	24.8	6.5	44.9	3.0	7.1				
Broad money (percent change, eop)	12.8	23.9	19.1	30.6	18.4	10.8				
Credit to private sector (private change, eop)	14.9	12.6	11.7	11.4	21.5	14.1				
Credit to private sector (in percent of GDP)	22.9	26.4	24.1	21.7	22.5	22.6				
Velocity of broad money 4/	2.8	2.2	2.3	2.2	2.2	2.2				
Policy Rate	4.3	5.0	8.0	13.0	...	...				
<b>External sector</b>										
Current account balance (in percent of GDP)	-11.5	4.5	-8.0	-43.6	-31.8	-9.7	-7.9	-5.9	-5.0	-5.0
Export of goods and services (in millions of U.S. dollars)	3,126	2,444	3,301	3,564	6,672	9,598	10,212	10,575	10,783	10,903
Export growth (percent change)	13.8	-21.8	35.1	8.0	87.2	43.9	6.4	3.6	2.0	1.1
Import of goods and services (in millions of U.S. dollars)	5,690	4,060	5,938	10,497	11,989	12,434	13,017	13,328	13,641	14,036
Import growth (percent change)	-3.8	-28.7	46.3	76.8	14.2	3.7	4.7	2.4	2.4	2.9

Gross International reserves (in millions of U.S. dollars) 5/	2,176	2,628	2,779	2,633	2,953	2,584	2,311	2,226	2,185	2,167
Gross reserves (months of next year imports, eop)	6.4	5.3	3.2	2.6	2.9	2.4	2.1	2.0	1.9	1.8
Gross reserves (months of next year imports adjusted for re-exports, eop)	6.5	5.3	3.2	3.6	3.8	3.2	2.7	2.5	2.3	2.2
External public debt outstanding (in percent of GDP)	41.0	54.5	46.7	39.5	37.1	34.4	32.5	30.6	29.0	28.0
External public debt service-to-export ratio (in percent)	6.6	9.7	5.6	7.3	6.2	5.0	4.6	4.2	4.0	3.6
<i>Memorandum items:</i>										
Exchange rate) soms per U.S. dollar, average)	69.8	77.4	84.7	83.2	...	...	...	...	...	...
Real effective exchange rate (2010=100) (average)	99.9	95.8	95.2	105.8	...	...	...	...	...	...

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.



# KYRGYZ REPUBLIC

## STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

January 19, 2024

### KEY ISSUES

**Context.** The new trade and labor migration patterns that emerged since the start of Russia's war in Ukraine have provided an unexpected boost to growth. Tax revenue increased considerably since 2021, public debt declined below 50 percent of GDP by end-2022, and inflation while still elevated has decelerated into the single digits in 2023. The authorities should take advantage of these generally favorable macroeconomic conditions to strengthen their policy framework and advance structural reforms on multiple fronts to build resilience, support higher and more inclusive growth, and mitigate the risks from heightened global uncertainty.

#### Key Policy Recommendations

- The National Bank of the Kyrgyz Republic (NBKR) should remain firmly focused on reducing inflation to its target range of 5–7 percent. The effectiveness of monetary policy can be improved by strengthening central bank independence, reducing excess liquidity, including by halting its purchases of gold, and increasing exchange rate flexibility. Liquidity tightening should go hand in hand with an adequately tight interest rate policy until headline and core inflation decline durably.
- Fiscal performance has been favorable with strong revenue collections and a sizable reduction in public debt. Kyrgyz Republic's large development and social spending needs require additional fiscal space, which can be created by streamlining inefficient tax exemptions and special tax regimes, improving revenue administration, reducing energy subsidies, and strengthening public investment and wage bill management.
- The banking system is healthy but heightened global risks call for closer scrutiny and system-wide vigilance. The NBKR should be ready to provide liquidity support to solvent banks as needed.
- Structural reforms could sustainably lift output and strengthen country's long-term resilience. Priorities include addressing governance and corruption vulnerabilities, improving management of state-owned enterprise (SOE) and market regulations, and reforming the energy sector. These reforms supplemented by timely action towards the green transition would also mitigate the risks of climate change.

Approved By  
**Subir Lall (MCD) and  
 Jay Peiris (SPR)**

Discussions with the authorities were held during November 8–22, 2023 in Bishkek. The staff team comprised Nikoloz Gigineishvili (head), Jean van Houtte, Nasir Rao (all MCD), Thomas Benninger (FAD), Farid Talishli (Resident Representative), Erkeaim Shambetova and Anvar Muratkhanov (both Resident Representative office) with support from Aigerim Toigonbaeva. Marcel Peter and Lilia Kadyrberdieva (OED) participated in some of the discussions.

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## CONTEXT

1. **Regional geopolitics continue to dominate the economic landscape in the Kyrgyz Republic.** Russia's war in Ukraine and the sanctions it triggered have reshaped trade and migration patterns. An unexpected inflow of productive labor and income from Russia and a significant increase in trade, predominantly re-exports from China to Russia, have provided a boost to domestic demand and growth in 2022. These factors have continued to sustain growth in 2023, while inflation has remained elevated in high single digits despite the recent downward trend. However, the risk of fragmentation has risen globally, and the increased dependence of the Kyrgyz Republic on Russia and China has exposed it to the risk of a reversal of trade and labor migration.
2. **Despite the strong post-pandemic recovery, poverty and inequality remain significant challenges and the economy remains vulnerable to shocks.** The poverty rate is estimated to remain around 33 percent, in part due to relatively high inflation. Without higher and more inclusive growth it would take decades for the Kyrgyz Republic to reach income levels of emerging European peers. To increase growth sustainably and strengthen resilience, including to climate change, the country needs to rebuild macroeconomic buffers, improve social protection, and deepen structural reforms to create a supportive business environment for strong private sector-led growth. The current period of economic recovery offers an opportunity to strengthen the policy framework and reinventorize such reforms.

## RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

3. **The Kyrgyz economy has shown resilience in the face of the war in Ukraine.** Growth was broad-based in 2022 reaching 6.3 percent and has remained robust at 4.4 percent in eleven months of 2023 despite the weaker performance of gold production and agriculture. Trade and construction emerged as the leading sectors, followed by transport and communications. Headline inflation declined from 14.7 percent in December 2022 to 8.1 percent in November 2023 on the back of easing food and energy prices and a stable exchange rate, but core inflation, which excludes food and energy prices, has remained elevated in double digits, suggesting persistent demand pressures.<sup>1</sup>
4. **The official current account deficit widened significantly in 2022.** It reached 43.6 percent of GDP as non-oil imports increased by 26 percent of GDP, gold exports were suspended, and net money transfers declined. However, the balance of payments (BoP) also recorded exceptionally large and positive errors and omissions (E&O) of 37 percent of GDP. In staff's view, this reflects large unrecorded re-exports to Russia, which are not captured in trade statistics as trade within the Eurasian Customs Union is not subject to customs declarations.<sup>2</sup> These re-exports are estimated by staff at about 30 percent of GDP, and if included in trade, would lower the current account deficit in 2022 to around 11 percent of GDP. A similar trend continued in 2023 with the current account

<sup>1</sup> Effective December 1, 2023, district heating tariffs in Bishkek were raised by 41.7 percent, with a minor expected impact on headline inflation due to its small weight of only 0.9 percent in the CPI.

<sup>2</sup> 2023 Selected Issues Paper, *New Trade Patterns and the Cost of Economic Fragmentation*.



deficit and E&O reaching 27 and 23.3 percent of GDP respectively in the first half. Gross reserves declined from 3.2 months of total imports in 2021 to 2.6 months by end-2022, primarily because of import growth, but stood at 3.6 months of imports net of re-exports.<sup>3</sup>

**5. The general government budget deficit narrowed to 0.3 percent of GDP in 2022 from 0.7 percent in 2021.** Tax revenue improved sharply by 4.5 percent of GDP due to the one-off income tax payment by Kumtor Gold Company (1.5 percent of GDP) and higher VAT on imports (3 percent of GDP), providing fiscal space for higher spending on public wages, interest payments and capital expenditure. A higher surplus of the Social Fund and lower transfers to SOEs have also contributed to the improved fiscal outturn. As a result, and in combination with strong GDP growth, public debt fell from 56 percent of GDP in 2021 to 49 percent in 2022.

**6. The economy is projected to revert to its pre-Ukraine war outlook over the medium term.** Growth is expected at around 4.2 percent for 2023, in part due to lower gold production and a poor harvest. With a recovery in these sectors, growth would reach 4.4 percent in 2024 and return to its potential rate of around 4 percent in the medium term when the spillovers from the war in Ukraine, including trade growth, are projected to fade. Adequately calibrated monetary policy would gradually reduce inflation to mid-single digits by 2025. Assuming uninterrupted gold exports, which partially resumed from Q2 2023, and after accounting for re-exports for the second half of the year, the current account deficit is projected to reach 31.8 percent of GDP in 2023,<sup>4</sup> and to narrow to 5 percent of GDP in the medium term with a gradual moderation of external trade.

**7. The positive outlook is subject to risks due to heightened global uncertainty.** Further escalation of the war in Ukraine and tightening of Western sanctions on Russia could reverse the recent trade and migration flows, weaken the Russian economy and the ruble, further reduce remittances, and thereby weigh on growth and fiscal revenue. The war could also lead to the reemergence of global food and energy price inflation, while the risk of secondary sanctions could reduce trade and, consequently, growth and fiscal revenue. The global uncertainty from the unfolding events in the Middle East further clouds the outlook and adds to geo-economic fragmentation risks. These risks could be compounded by a sustained reduction in gold prices, possible power outages due to the ageing electricity infrastructure, extreme climate events, and cyberthreats.

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<sup>3</sup> This measure of reserve coverage excludes self-financed re-exports from imports, and more accurately reflects the strength of international reserves.

<sup>4</sup> The full-year projection of the BOP reflects actual errors and omissions for the first half of 2023, which amount to 23.3 percent of GDP.

## POLICY DISCUSSIONS

*In the face of the heightened uncertainty and a substantially weaker external position at end 2022 than the level implied by medium-term fundamentals and desirable policies, the Kyrgyz Republic should take advantage of current favorable macroeconomic conditions to increase its resilience to shocks and sustainably raise growth. For this, policy buffers should be strengthened by containing fiscal financing needs and strengthening public debt sustainability, reducing inflation, and rebuilding reserves. Addressing structural constraints to growth would raise medium-term growth prospects, and support job and income creation.*

### A. Fiscal Policy

**8. The general government budget is projected to be balanced in 2023.** Tax revenue is expected to increase by 1.1 percent of GDP compared to 2022, driven by VAT on imports that more than offsets a dip in the income tax. Non-tax revenue would also increase by 1.3 percent of GDP thanks to Kumtor dividends (1 percent of GDP) and a profit distribution from the NBKR. Grants and social contributions are lower by 0.8 and 0.6 percent of GDP respectively. On the expenditure side, a higher wage bill (by 1.3 percent of GDP) and higher social benefits (by 0.4 percent of GDP) reflect the full-year impact of wage and pension increases in 2022, while capital spending is estimated at 8.1 percent of GDP. The scheduled debt repayments, capital injections in state-owned banks to support subsidized lending, and lending to SOEs have resulted in budget financing needs of about 2 percent of GDP, financed by net foreign borrowing of 1.4 percent of GDP, and 0.7 percent of GDP in domestic borrowing. The mission welcomed the authorities' decision to discontinue the issuance of fixed-rate treasury obligations to finance public construction through state-owned banks, and to repay the existing stock. This practice should be avoided in the future to prevent fragmentation of the government securities market and valuation losses for the participating banks.

**9. The authorities are projecting budget surpluses in 2024 and beyond** (Text Table 1). In the draft 2024 budget, tax revenue increases by 1.5 percentage points of GDP, which assumes continued improvement in import VAT, while non-tax revenue declines by more than 3 percent of GDP, the latter reflecting decreasing dividends, including from the NBKR. On the expenditure side, the projected reductions in the wage bill by 2 percent of GDP, social benefits by 1 percent of GDP, and capital expenditure by almost 2 percent of GDP is partially offset by higher goods and services spending, subsidies and interest payments, which results in an overall surplus of 1.6 percent of GDP. The authorities' medium-term projections envisage further improvements in fiscal balances underpinned by a steady rise in tax-to-GDP ratio to nearly 29 percent in 2026, and more moderate expenditure increases.

**10. Staff cautioned the authorities against excessive revenue and expenditure optimism.** The mission commended the authorities' prudent approach to borrowing and the demonstrated spending restraint but noted that revenue shortfalls and expenditure overruns could undermine their medium-term objectives and lead to unwarranted expenditure cuts, especially of capital spending, or a reversal of the recent favorable public debt dynamics. In the absence of new tax measures, VAT collections could moderate as the unusually strong import growth observed in 2022

and 2023 are unlikely to be sustained, while re-exports could generate VAT refund claims. Similarly, the planned reduction in the wage bill and social benefits may not be feasible without a well-articulated public employment and compensation policy, and improved targeting of social safety nets. With unchanged policies staff projects lower tax revenue, a higher wage bill and social benefits, and a budget deficit of 1.6 percent of GDP in 2024, rising to nearly 3 percent of GDP by 2028. While financing of this magnitude appears feasible in view of ample bank liquidity, the mission urged reducing fiscal deficits further and seeking concessional external financing to lower borrowing costs, further strengthen debt sustainability, and support disinflation. The mission welcomed the authorities' intention to seek external investments and private sector participation to finance the Kambar-Ata 1 hydro-power plant and the China–Kyrgyzstan–Uzbekistan railway to minimize additional borrowing needs.

**Text Table 1. Kyrgyz Republic: Summary of State Government Budget, 2023-2026 1/**  
(In percent of GDP)

	2023	2024		2025		2026	
	Estimate	State budget	IMF	MTEF	IMF	MTEF	IMF
<b>Revenues</b>	<b>33.9</b>	<b>32.2</b>	<b>31.4</b>	<b>32.3</b>	<b>30.6</b>	<b>32.8</b>	<b>30.0</b>
Tax revenues	25.5	27.0	25.2	27.9	24.6	28.8	24.1
Non-tax revenues	7.1	3.7	4.8	3.5	4.8	3.4	4.8
Grants	1.2	1.4	1.4	0.9	1.2	0.5	1.1
<b>Expenditures 2/</b>	<b>25.6</b>	<b>24.4</b>	<b>24.7</b>	<b>25.1</b>	<b>24.6</b>	<b>27.0</b>	<b>24.5</b>
Salaries	11.1	9.2	11.0	8.4	10.9	8.1	10.9
Goods and services	2.7	4.0	2.7	3.7	2.7	3.7	2.7
Subsidies to public corporations	0.5	0.4	0.5	0.3	0.5	0.3	0.5
Interest payments	1.2	1.5	1.3	1.4	1.3	1.3	1.4
Grants	5.1	5.6	5.1	5.0	5.1	4.5	5.1
Social benefits	2.6	1.6	2.6	1.4	2.6	1.3	2.6
Other	2.3	2.1	1.5	4.9	1.4	7.9	1.3
<b>Gross operating balance</b>	<b>8.2</b>	<b>7.8</b>	<b>6.7</b>	<b>7.2</b>	<b>6.0</b>	<b>5.7</b>	<b>5.6</b>
<b>Net acquisition of nonfinancial assets</b>	<b>8.1</b>	<b>6.2</b>	<b>8.4</b>	<b>5.4</b>	<b>7.8</b>	<b>3.8</b>	<b>7.8</b>
<b>Net lending/borrowing (overall balance)</b>	<b>0.1</b>	<b>1.6</b>	<b>(1.6)</b>	<b>1.8</b>	<b>(1.8)</b>	<b>1.9</b>	<b>(2.2)</b>
<i>Memorandum items:</i>							
Nominal GDP (in billion soms)	1,134	1,286	1,286	1,429	1,429	1,568	1,568
Nominal GDP growth (in percent)	4.2	4.4	4.4	4.2	4.2	4.0	4.0

Sources: country authorities; and IMF staff estimates and projections.

1/ The State budget covers the central government and local authorities, but not the social fund.

2/ Expenditures include on-lending to energy sector SOEs for the IMF, whereas the Kyrgyz authorities classify it as an acquisition of financial assets.

## 11. According to the DSA, public debt is sustainable with a moderate risk of debt distress.

In the baseline scenario total public debt remains below 48 percent of GDP over the medium term. External debt makes up 80 percent of the total in 2023, but comes down to around 60 percent by 2028, as domestic financing gradually substitutes for scarce external financing. The moderate risk of external debt distress is based on the breach of the threshold for the PV of external debt-to-GDP ratio under a standard export shock, and a lower assessment of debt carrying capacity. Sustainability is warranted by the limited size of the breach, the consistent downward trend thereafter, and some space to absorb shocks as implied by the granular analysis of the risk rating.

**12. Fiscal policy reforms could create more fiscal space.** Staff analysis suggests that the Kyrgyz Republic could raise tax revenue by up to 4 percent of GDP in the medium term while improving the efficiency and equity of the tax system by (1) eliminating inefficient VAT exemptions, the costs and benefits of which are being assessed by the authorities, and streamlining special tax regimes;<sup>5</sup> (2) increasing the progressivity of the Personal Income Tax; and (3) further strengthening revenue administration, building on the successful digitalization efforts and the introduction of electronic cash registers, which have improved tax compliance.<sup>6</sup> The mission offered technical assistance in these areas. On the expenditure side, long-standing priorities are a consolidation of the public wage bill by capping wage increases to below inflation while limiting headcount through attrition; and reducing energy subsidies.<sup>7</sup> In the medium term, there is a need for a comprehensive reform of the public employment and compensation framework. The mission welcomed the authorities' decision to transfer 40 percent of Kumtor's 2022 profits to the budget and recommended channeling all of Kumtor's future net profits to the treasury after necessary investments for its mining operation.

**13. Reforms of Public Financial Management (PFM) would further improve the efficiency of public spending.** The mission welcomes timely and regular publication of detailed budget documents by the Ministry of Finance. Budget preparation and wage bill management can be strengthened by implementing the respective IFMIS modules, while fiscal transparency can be further improved by limiting the use of extra-budgetary funds such as the Stabilization Fund. Better targeted social spending, which is high by international standards would help increase the efficiency of social spending, improve social outcomes, and shield the poor from the impact of electricity tariff increases and inflation. Fiscal discipline could be improved by strengthening of the MTEF and operationalizing an SOE fiscal risks framework, the latter benefiting from CCAMTAC technical assistance, and strengthening capital expenditure management, which would benefit from the Fund's Public Investment Management Assessment.

### **Authorities' Views**

**14. The authorities expect continued strong revenue yield from policy and administrative reforms.** They project that the recent abolition of the exclusion of transactions subject to VAT from the Sales Tax and VAT administrative reforms would yield higher revenue in the coming years, and viewed the possible slowdown in VAT collections on imports or emergence of VAT claims as a moderate risk, but not a baseline. They intend to perform a thorough assessment of the effectiveness of tax exemption in 2023–27, and expect this mandatory cost-benefit analysis—introduced with the revised tax code in 2022—to yield more revenue in the medium-term. The authorities also consider that their special tax regimes simplify the tax system, especially for medium and small-size enterprises, and improve the investment climate.

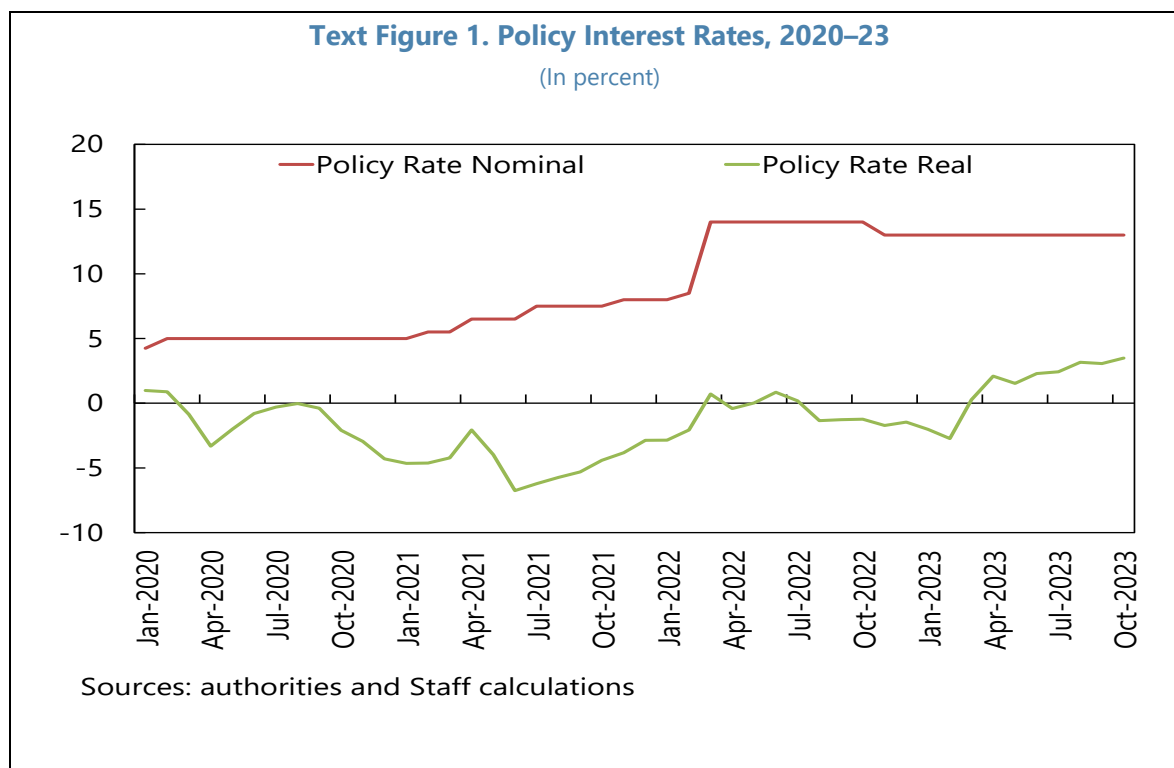
<sup>5</sup> The authorities estimate the total tax expenditures in 2022 at 6.2 percent of GDP of which 2.6 percent are related to the VAT.

<sup>6</sup> 2023 Selected Issues Paper, *Tax Potential*.

<sup>7</sup> Energy sector reforms are discussed in Section C below.

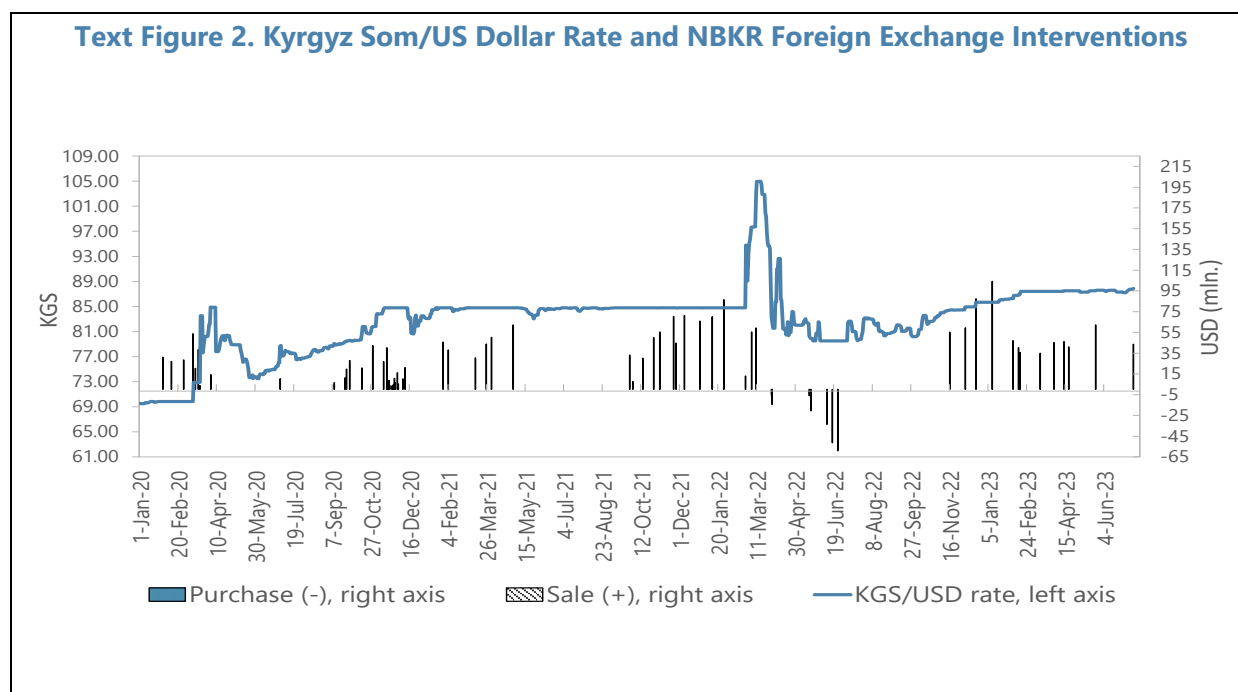
## B. Monetary, Exchange Rate and Financial Sector Policies

**15. Despite declining inflation since February 2023, the NBKR has kept its policy rate unchanged at 13 percent.** Staff assessed that persistent inflation is largely driven by domestic demand,<sup>8</sup> which is manifested in strong wage (14 percent y/y in September) and credit growth (27 percent y/y in October). In addition, the authorities' decision to support sales and exports of domestically produced gold through the central bank has led to significant surplus liquidity and complicated the conduct of monetary policy. While policy interest rates in real terms turned positive in 2023 as inflation subsided, the mission advised the authorities to maintain an adequately tight interest rate policy and, consistent with it, tight liquidity conditions until headline and core inflation decline durably. The NBKR should also be prepared to tighten its policy more if the recent disinflation trend reverses. Part of the surplus liquidity has been sterilized by the NBKR at considerable cost through the sale of central bank notes and sizeable FX interventions of US\$296 million in 2022 and US\$656 million in 2023. However, for a lasting solution to the liquidity problem, NBKR's gold purchases should discontinue, which will also strengthen interest rate pass-through. Monetary policy transmission can be further strengthened by lifting interest rate caps on auctions of NBKR notes, improving communication and coordination between monetary and fiscal policies, and containing subsidized lending programs, including by a growing number of development funds.



<sup>8</sup> 2023 Selected Issues Paper, *Developments and Drivers of Inflation*.

**16. The External Sector Assessment (ESA) suggests that the external position of the Kyrgyz Republic in 2022 was substantially weaker than the level implied by medium-term fundamentals and desirable policies.** The NBKR’s foreign exchange interventions have supported stability of the som/USD exchange rate in 2023, but the real effective exchange rate has appreciated by 6.8 percent due to the significant inflation differential with trade partners. The ESA however, does not capture large E&O in the BoP, which as discussed, is likely to reflect unrecorded exports. Adjusting the current account for the latter, the overvaluation of the som for 2022 stands at 16.4 percent, which while still large is explained by the discontinuation of gold exports. The mission stressed that exporting gold without NBKR’s involvement will be critical for balance of payments sustainability, while greater exchange rate flexibility and continued conversion of non-monetary gold to reserves would strengthen external buffers against possible shocks. As of end-November 2023, the NBKR held an equivalent of US\$1.54 billion in non-monetary gold<sup>9</sup> which if converted to reserves would increase international reserves to 5.8 months of prospective imports at end-2023. The mission also informed the authorities that the Multiple Currency Practice (MCP) in the Kyrgyz Republic will be considered eliminated as of February 1, 2024—i.e., prior to the Board meeting—when the new MCP policy becomes effective. Restrictions on the export of U.S. dollar notes by individuals, introduced by the authorities in the aftermath of the start of Russia’s war in Ukraine to address shortage of cash U.S. dollars, remain in place.<sup>10</sup>

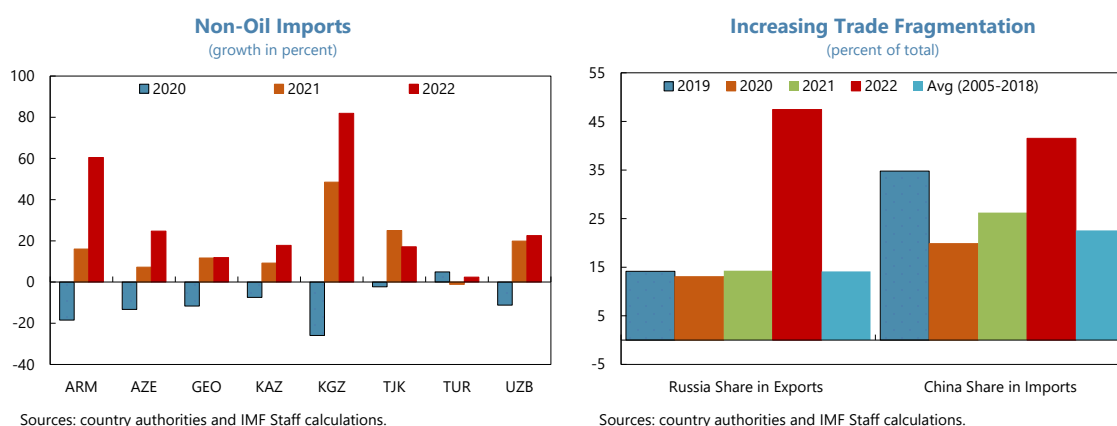


<sup>9</sup> In 2023, the NBKR converted an equivalent of US\$666 million from non-monetary to monetary gold.

<sup>10</sup> In January 2023, the authorities imposed a temporary ban on the export of cash in USD from Kyrgyz Republic with different limits for non-resident/foreign citizen (USD 5,000) and for resident/Kyrgyz citizens (USD 10,000). If residents/Kyrgyz citizens export USD cash in excess of the limit of USD 10,000, a charge of 10 percent of the amount over the USD 10,000 is charged. These measures are being assessed as CFMs under the Institutional View on the Liberalization and Management of Capital Flows.

### Box 1. The New External Trade Patterns and the Risk of Fragmentation for the Kyrgyz Republic

Since the start of Russia's war in Ukraine, the trade patterns of the Kyrgyz Republic have changed considerably. China's leading share in imports jumped from 26 percent in 2021 to 42 percent in 2022. In addition to the increased import concentration, the value of merchandise imports increased by 26 percent of GDP in 2022 alone and has more than doubled between 2021 and 2023 to around US\$10 billion. The fastest growing imports include household electronics, footwear, computers, construction equipment, cell phones and cars. Staff's analysis suggest that a large part of these imports is being reexported to Russia but is not captured in official statistics because trade within the Eurasian Economic Union is not subject to customs declarations. Therefore, Russia's dominant share in Kyrgyz exports jumps from 48 (excluding unrecorded re-exports) to 77 percent.



The risk of global fragmentation has increased in recent years. Heightened tensions between China and the US, and Russia's war in Ukraine could lead to a global geopolitical divide. A long-term cost estimate for the Kyrgyz Republic is around 2.7 percent of GDP, compared to 8 percent in advanced economies, in an extreme scenario of a bipolar world with China and US-led blocks. The cost of fragmentation for the Kyrgyz Republic is relatively low due to its already high trade concentration with China and Russia even before the war in Ukraine. This cost could be further reduced by expanding and diversifying trade with the rest of the world.

**17. The autonomy and governance of the NBKR need to be strengthened.** Operational and legal autonomy of the NBKR is essential for the credibility and the effectiveness of monetary policy. To effectively serve its primary objectives of price and financial sector stability, as mandated by law, the central bank should not be expected to pursue other priorities such as sales and exports of domestically produced gold or lowering interest rates for reasons unrelated to price stability. Overriding the banking law by passing new laws in 2022 and 2023 to allow a transfer of 90 percent of NBKR's profit to the budget undermines the institutional integrity and independence of the central bank, and should be avoided in the future to preserve the central bank's ability to serve its price and financial sector stability mandates. NBKR autonomy and credibility could be further strengthened by implementing the remaining recommendations of the Safeguards Assessment: introducing a non-executive majority to the NBKR's board and the audit committee, divesting ownership in Keremet bank and the Guarantee Fund, and winding down non-core central bank operations. The mission welcomed full repayment of the NBKR loan by the Russian-Kyrgyz Development Fund.



**18. The banking sector remains sound, and the systemic risks are contained but supervisory vigilance is warranted.** Banks are liquid and well capitalized with risk-weighted capital adequacy at 25.2 percent on average and the liquidity ratio of 76.6 percent. Asset quality has improved in 2023 after weakening in 2022, and profitability remains strong. NPLs decreased from 12.8 percent of total loans in December 2022 to 9.5 percent in November 2023, but may increase again if growth slows. Foreign exchange exposure of the banks has also increased. Based on NBKR's own stress-tests, banks appear resilient to various severe shocks, including interest rate shocks as most government bonds are held to maturity. Banks are continuing to face higher costs of correspondent banking due to the isolation of major Russian banks from the western financial system, but do not seem to face major challenges with respect to cross-border payments.

### **Authorities' Views**

**19. The NBKR agreed that demand pressures have contributed to persistent inflation.** It conveyed that its decision to maintain the policy rate at 13 percent was guided by its primary objective of reducing inflation to its target range of 5–7 percent. It acknowledged that winding down its gold purchases would affect the level of excess liquidity, which was costly to sterilize, and that a resumption of direct gold exports improved the current account deficit to some extent. The NBKR noted that it converted part of its non-monetary gold to reserves, and that future conversions would be informed by its reserve management strategy. The authorities also recognized the challenges with external accounts and formed an interdepartmental group to improve BoP statistics. They are also considering staff's offer of technical assistance in this area.

## **C. Structural Reforms**

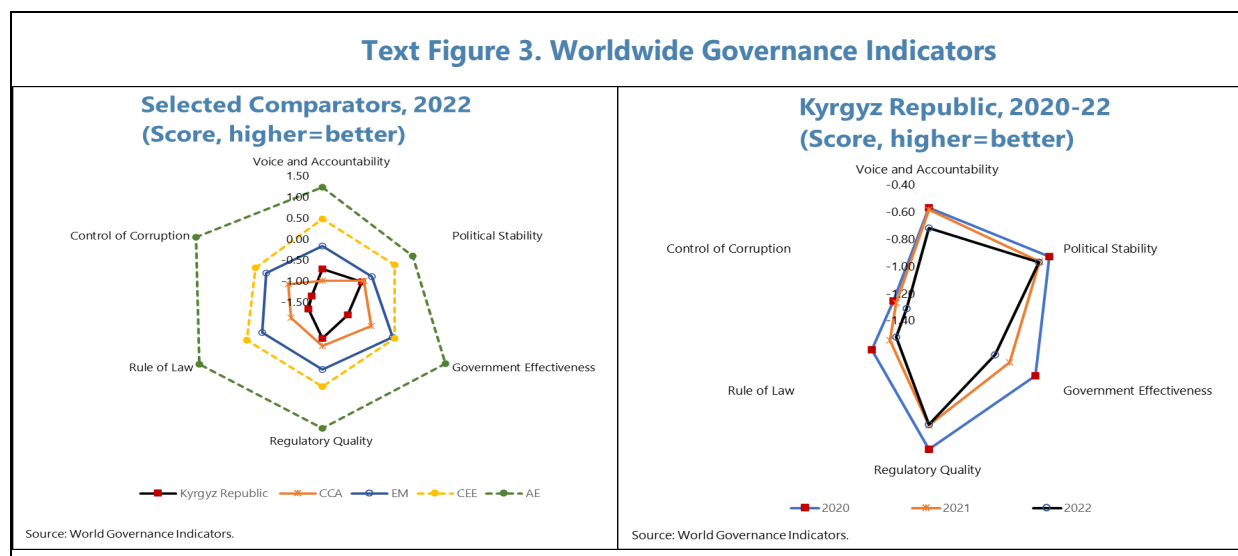
**20. The current favorable outlook is an opportunity to undertake structural reforms to raise medium to long-term growth.** The priority is to reduce the state footprint in the economy, which remains significant. It is reflected in a large number of SOEs, intrusive regulations and market interventions, which undermine the efficiency of resource allocation and productivity. A recent MCD departmental paper<sup>11</sup> finds that governance reforms, sound management of SOEs and privatization, and strong competition policies could durably increase annual growth in the Kyrgyz Republic by about 2.5 percent. These reforms would also help offset potential costs of fragmentation and mitigate the risks of climate change, to which the region and the Kyrgyz Republic are particularly susceptible.

**21. Governance remains an important challenge.** The World Governance Indicators weakened in 2021 and 2022 (Text Figure 3), with government effectiveness and the rule of law showing the largest declines. International experience, including in the Caucasus and Central Asia (CCA), shows that a marked improvement in governance could be achieved in less than a decade through well-chosen and sequenced structural reforms. Allowing public access to income and asset declarations by public officials was an important anti-corruption measure, but the recent tax amnesty law may

<sup>11</sup> 'Paving the Way to More Resilient, Inclusive and Greener Economies in the Caucasus and Central Asia', MCD Departmental Paper DP/2023/004.



have unintended consequences by hindering investigation and prosecution of economic crimes and raising money laundering concerns. Staff welcomes the decision to preserve competitive bidding in the public procurement framework, and urges the authorities to broaden the scope of its application to all public procurement, including by SOEs. Awarding public contracts on a non-competitive basis should be restricted to few well-motivated exceptions.



**22. The authorities have improved the SOE oversight framework by centralizing and standardizing SOE financial reporting.** Consequently, the draft 2024 budget includes an informative fiscal risk statement for SOEs, which is a useful tool for monitoring the risks of sizable contingent liabilities. The SOE surveillance would further benefit from greater clarity on the reporting timeframe, methodological improvements, and broadening the coverage to include large SOEs like the state railway company and Kyrgyz Telecom, as well as financial sector SOEs and the companies owned by them (e.g., Alpha Telecom, which is owned by the State Development Bank (SDB). Moreover, staff recommends articulating a comprehensive SOE ownership policy with clear policy objectives as a shareholder and, consistent with it, clear criteria to determine which SOEs serve strategic public interests and should remain in state ownership, and which should be divested. If done through a transparent competitive process, privatization of non-strategic SOEs could generate significant growth benefits in the medium term<sup>6</sup>. Development funds and the SDB could be useful in addressing market failures, but they should not compete with or crowd out the private sector, including in privatizations. They should also avoid external borrowing to preserve debt sustainability.

**23. The authorities plan to strengthen the financial sustainability of the electricity sector.** Residential tariffs were increased by 30 percent in May 2023, but nonetheless average tariffs remain among the lowest in the world, partly because of a generous lifeline tariff that benefits the rich disproportionately. Because of low tariffs electricity is also a preferred source of energy for residential heating, thus adding to the network load and financial distress, reducing the quality of service, and ultimately the attractiveness of the sector to investors. The reform plan for financial recovery, which is

being developed with the support of the World Bank among others, envisages (i) a gradual increase of tariffs to cost recovery while protecting vulnerable households; (ii) reducing technical and commercial losses; and (iii) strengthening the sector regulation. The development of the much-needed new production and transmission infrastructure is predicated on the financial soundness of the sector.

**24. There is scope to improve market regulations.** The use of price controls<sup>12</sup> and state monopolies should be avoided. Even if well-intentioned due to social considerations, they may undermine competition, create opportunities for corruption, and result in product shortages or lower quality of goods and services. Such social objectives can be better addressed by strengthening adequacy and targeting of social spending, which would also help mitigate the impact of the energy tariff reform on the vulnerable.

**25. The authorities have strengthened AML/CFT legislation in 2023.** The Eurasian Group (EAG) noted progress in addressing technical compliance deficiencies identified in the baseline EAG Mutual Evaluation Report from 2017. The EAG upgraded the status for Recommendation 8 on Non-Profit Organizations from non-compliant to partially compliant. The Kyrgyz Republic is now compliant or mostly compliant with all the 40 recommendations, which is higher than the average compliance rate in the CCA. However, the effectiveness ratings remain insufficient in the 11 areas that are assessed. Strengthening the implementation capacity of risk-based AML/CFT supervision and monitoring of cross border activities to detect and recover proceeds of crimes, including from corruption and targeted financial sanctions implementation, would be important to address the EAG's unchanged assessment that understanding of ML/FT risks is low, and that the confiscation of the proceeds of crime is rarely effective. Enhancing the effectiveness of the system and mitigating AML/CFT risks will also help address risks to the financial sector, including related to correspondent banking.

### ***Authorities' Views***

**26. The authorities expressed their commitment to structural reforms.** They underscored their efforts to improve governance and fight corruption, including through continued digitalization of tax administration and implementation of AML/CFT rules. They expressed confidence that the one-off and time-bound tax amnesty on the previously undeclared income and assets would incentivize investments, reduce the shadow economy, and yield more tax revenue in the medium term. The authorities also appreciated the Fund's technical assistance on SOE risk management and intend to further strengthen transparency and oversight of the sector. They also believe that the acquisition of Alfa Telecom by the SDB would considerably improve management, operations, and profitability of the telecom company. They reiterated their strong commitment to address climate risks, including through the development of regional hydropower capacity, and environmentally friendly transportation and tourism. They underscored, however, that the high cost of climate policies was a significant constraint.

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<sup>12</sup> Price controls are in place for bread and coal; the list of eligible goods also includes flour, baked goods, milk, butter, vegetable oil, meat, sugar, rice, pasta, eggs, potatoes, carrots, onions, gasoline and diesel fuels, liquefied gas, mineral fertilizers, and animal food.

## STAFF APPRAISAL

**27. The Kyrgyz Republic has navigated an uncertain global environment relatively well.** A strong economy is helping to alleviate unemployment and poverty, while lower public debt provides additional fiscal space for priority spending on public infrastructure, human capital development and social protection. Inflation has also declined, but demand pressures have kept it above the central bank's target range, limiting the progress in poverty reduction. With adequately calibrated monetary policy, however, inflation is expected to return to its pre-pandemic level by 2025.

**28. The outlook is generally favorable, but subject to downside risks.** A further escalation of the war in Ukraine and secondary sanctions could disrupt the new trade and labor migration patterns that have provided a boost to growth in the last two years. A reversal of these flows and a possible return of Kyrgyz migrant workers may reduce remittances and trade, and dent economic activity and budget revenue. These risks are further exacerbated by possible geopolitical fragmentation, and susceptibility of the country to climate change.

**29. Strong revenue performance and fiscal discipline have contained the fiscal deficit and public debt.** Kyrgyz Republic's large development needs, however, require additional fiscal space which can be created by reducing tax exemptions and special tax regimes, increasing progressivity of the Personal Income Tax, further strengthening revenue administration, and containing the public wage bill and energy subsidies. Channeling Kumtor profits to the budget and privatization of non-strategic commercial SOEs through competitive public tenders would provide additional fiscal resources. The mission welcomes the discontinuation of special fixed-rate treasury securities and recommends mobilizing domestic financing through standard marketable treasury bills and bonds.

**30. Monetary policy should remain focused on further reducing inflation, which requires a high degree of NBKR autonomy.** Pursuing other priorities such as gold exports and lowering market interest rates impede the effectiveness of monetary policy. To contain demand pressures and liquidity injections, the NBKR should discontinue purchases of domestic gold and maintain adequately tight policy interest rates until headline and core inflation decline durably. Given that the external position of the Kyrgyz Republic in 2022 was substantially weaker than the level implied by medium-term fundamentals and desirable policies, greater exchange rate flexibility and resumption of gold exports without NBKR's participation is critical for balance of payments sustainability and to address the overvaluation of the som, which is assessed at 16 percent after accounting for the staff estimates of unrecorded re-exports.

**31. The generally favorable macroeconomic environment presents an opportunity to move forward with ambitious structural reforms.** Better governance, SOE management and stronger competition policies would improve productivity and the efficiency of resource allocation and promote higher and more inclusive growth in the medium term. The Kyrgyz Republic needs a sound SOE ownership policy to maximize economic returns on its state assets and decide which SOEs to retain and which to privatize through open competitive tenders. Greater transparency and coverage of income and asset disclosure rules by public officials, strengthening of the AML/CFT

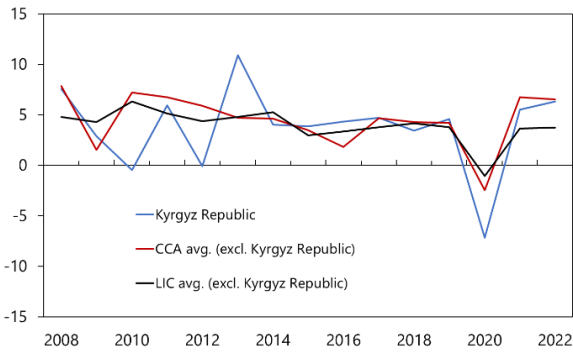
framework, and improved monitoring of cross-border activities could support the authorities' anti-corruption efforts. To this end, state monopolies, tax amnesties and non-competitive public procurements should also be avoided. These reforms, together with the planned reform of the electricity sector, would considerably strengthen the business climate, lay the ground for the Kyrgyz Republic's climate adaptation policy, and help address the risks of fragmentation. They would also catalyze concessional external financing.

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

**Figure 1. Kyrgyz Republic: Real Sector and Social Indicators**

Growth outpaced comparators in 2022...

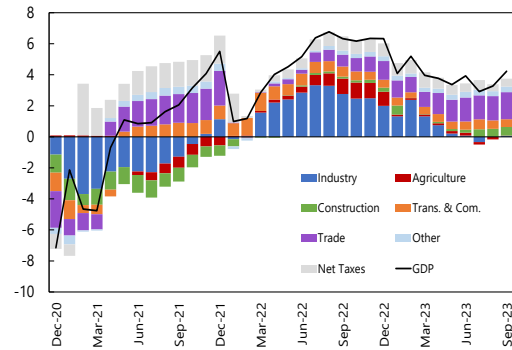
**Real GDP Growth**  
(Percent)



Sources: country authorities and IMF staff estimates.

... and has remained strong in 2023.

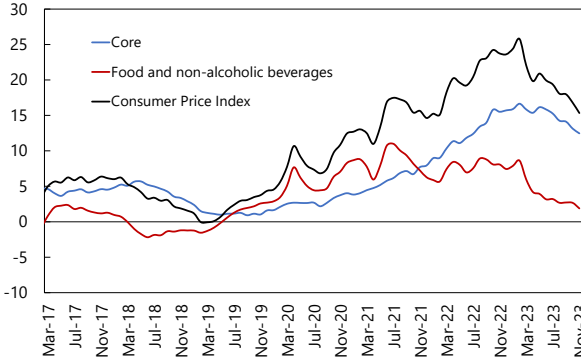
**Contribution to GDP Growth**  
(In percent, year on year change)



Sources: country authorities and IMF staff estimates.

Headline inflation eased as commodity prices fell, but core inflation remains elevated

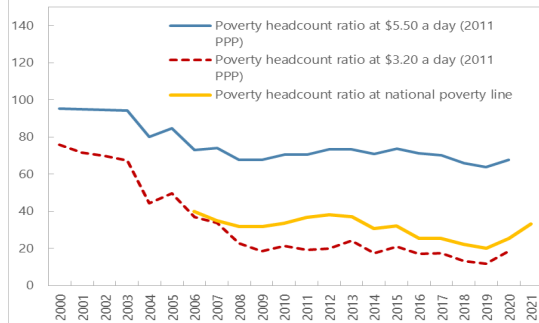
**Headline Inflation**  
(In percent, year on year change)



Source: country authorities.

... keeping poverty relatively high.

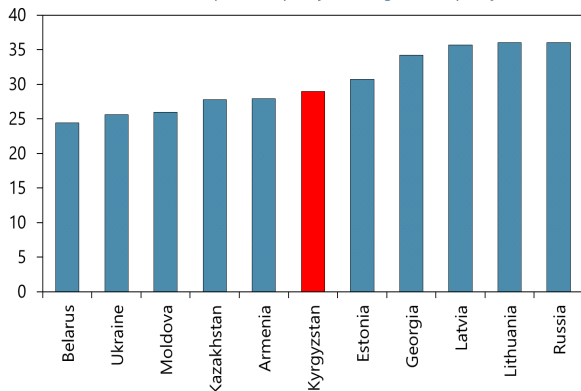
**Poverty Rate**  
(Percent of population)



Source: World Development Indicators, World Bank.

Income inequality remains relatively low in 2022...

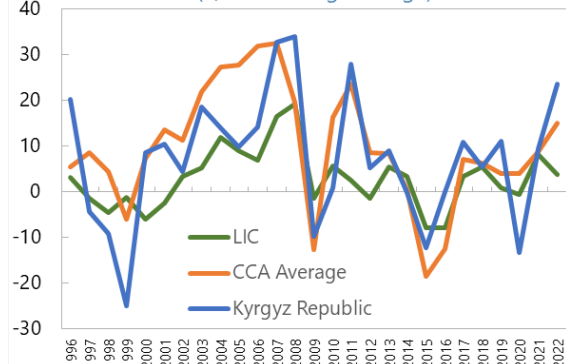
**Income Inequality in Selected Countries, 2022**  
(Gini coefficient, 0=perfect equality, 100=highest inequality)



Source: country authorities.

... and per capita income increased.

**Evolution of GDP per Capita**  
(Y/Y Percentage change)

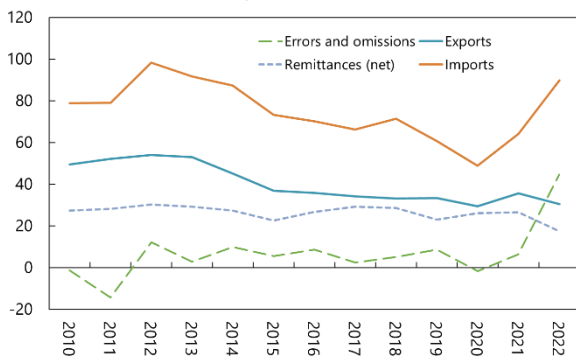


Source: country authorities.

**Figure 2. Kyrgyz Republic: External and Monetary Sectors**

*External accounts weakened, but errors and omissions surged...*

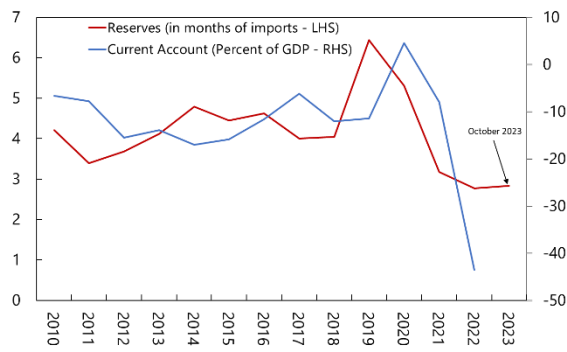
**Elements of the Current Account**  
(In percent of GDP)



Source: country authorities

*...causing a deterioration in the current account and reserve buffers*

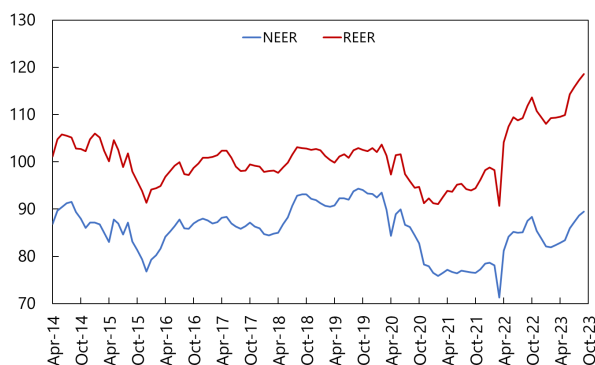
**CA Deficit and International Reserves**  
(In percent of GDP and months of imports)



Sources: country authorities.

*...while the exchange rate appreciated in real effective terms*

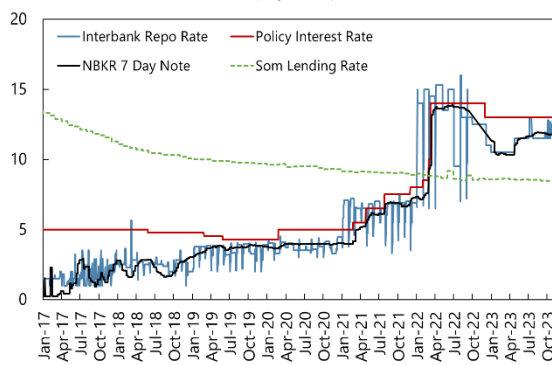
**Nominal and Real Effective Exchange Rates, 2014-23**  
(Base 100 - December 2009)



Sources: country authorities; and IMF staff estimates.

*The monetary policy rate was on hold...*

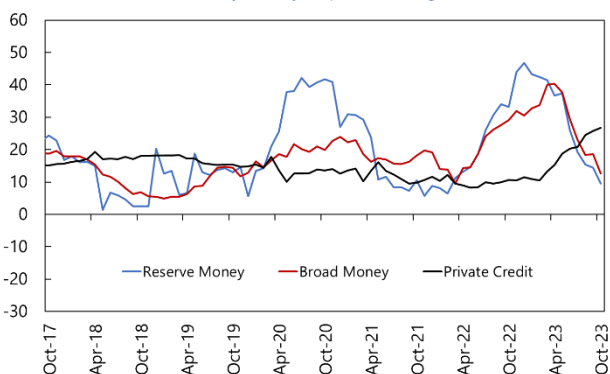
**Interest Rate Corridor and Market Interest Rates, 2017-23**  
(In percent)



Source: country authorities.

*...but bank liquidity increased*

**Monetary Aggregates and Credit**  
(In year on year percent change)

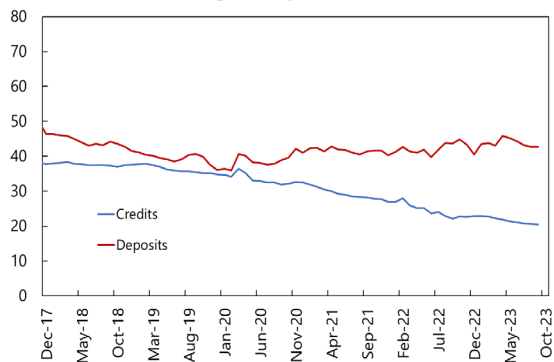


Source: country authorities.

*... while credit dollarization declined further.*

**Dollarization**

(Foreign currency as share of total)

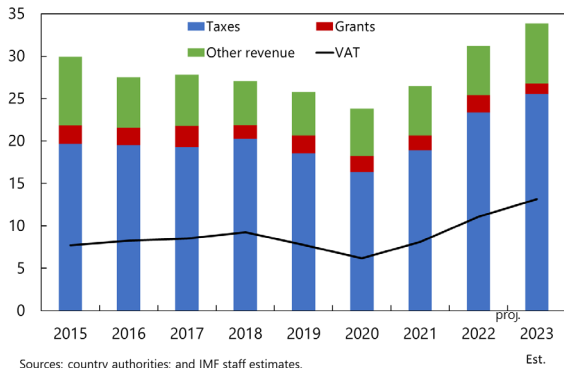


Sources: country authorities.

**Figure 3. Kyrgyz Republic: Fiscal Sector**

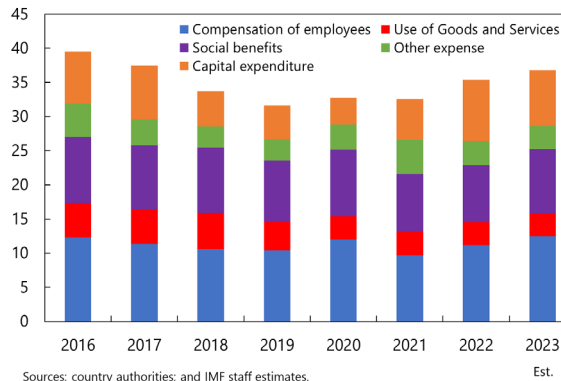
VAT on imports is helping sustain revenue collection...

**Public Revenue - General Government**  
(In percent of GDP)



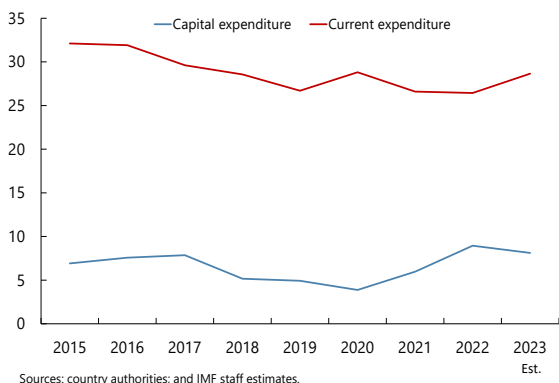
... while expenditure growth is contained.

**Public Expenditure - General Government**  
(in percent of GDP)



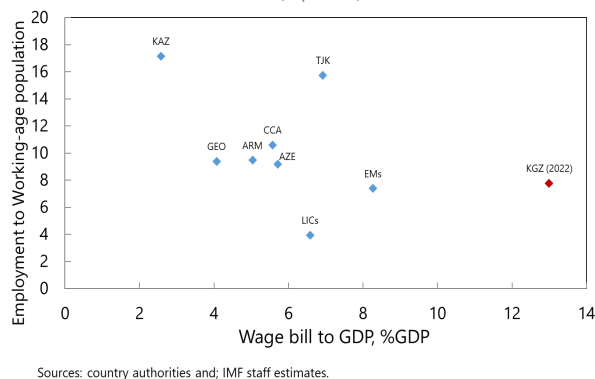
Current expenditure increased while capital spending declined...

**Current and Capital Expenditure - General Government**  
(In percent of GDP)



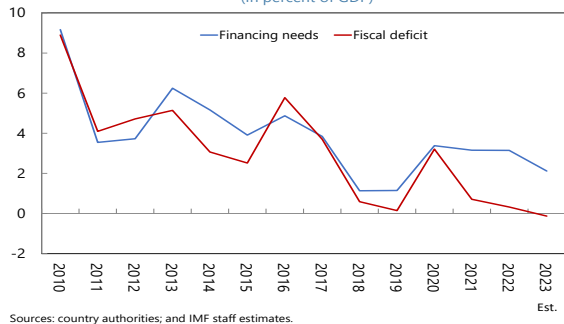
... due in part to the sizable wage bill in 2023.

**Wage Bill and Public Sector Employment**  
(in percent)



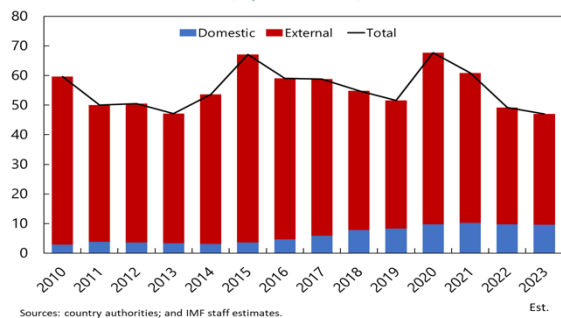
The fiscal deficit fell, but financing needs remained high due to amortization and transfers to SOEs.

**Financing Needs vs. Fiscal Deficit**  
(In percent of GDP)



Total public debt has declined thanks to small deficits and strong nominal GDP growth.

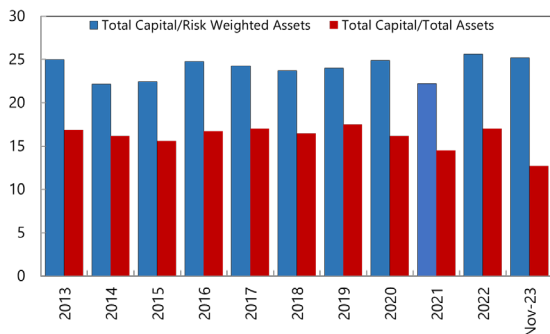
**Gross Debt**  
(In percent of GDP)



**Figure 4. Kyrgyz Republic: Financial Soundness Indicators**

*Kyrgyz banks remain well capitalized...*

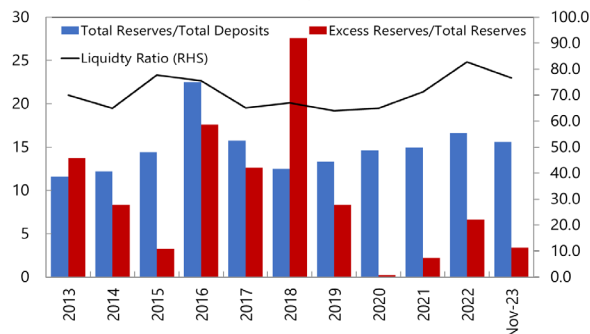
**Capital Adequacy Ratio**  
(In percent)



Source: country authorities.

*...and liquid.*

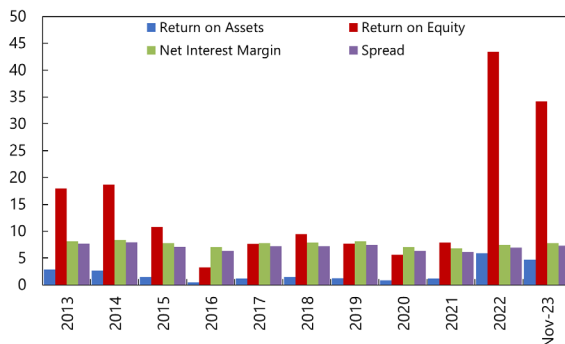
**Banking System Liquidity**  
(In percent)



Source: country authorities.

*Profitability remained strong mainly because of commissions on the increased FX transactions...*

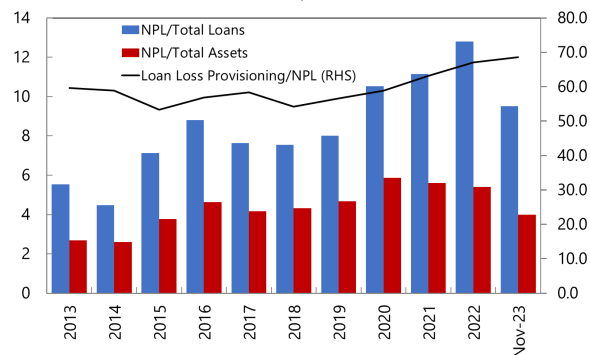
**Profitability**  
(In percent)



Source: country authorities.

*... and asset quality has improved.*

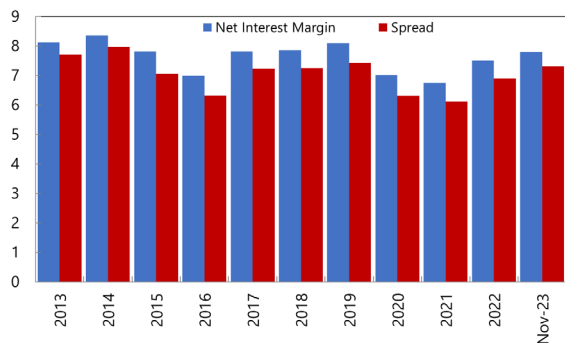
**Asset Quality**  
(In percent)



Source: country authorities.

*Spreads and net interest margins have remained broadly stable ...*

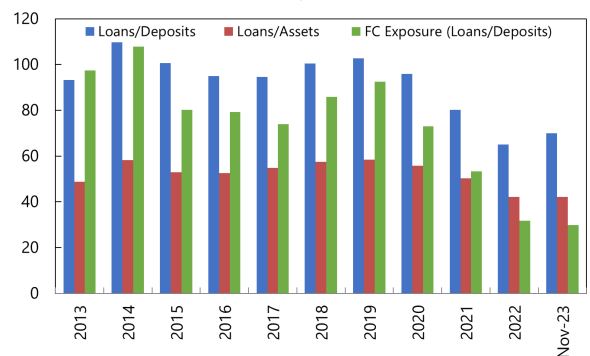
**Spread and Net Interest Margin**  
(In percent)



Source: country authorities.

*...while FX exposure declined significantly.*

**Loan Structure**  
(In percent)



Source: country authorities.





**Table 2. Kyrgyz Republic: National Accounts, 2019–28**  
(In percent)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Proj.					
	(growth rate in real terms)									
Agriculture, Hunting, Fishing, Forestry	2.5	0.9	-4.5	7.3	0.0	5.0	3.0	2.0	2.0	2.0
Industry	6.6	-6.5	6.5	12.2	-0.3	5.7	2.9	2.9	3.0	2.6
Construction	10.7	-15.6	-4.9	8.0	14.0	10.0	9.0	9.0	9.0	9.0
Transport	4.2	-30.6	18.5	10.1	5.0	4.0	4.0	4.0	4.0	4.0
Communication	-0.5	-4.0	11.2	5.8	5.0	5.0	5.0	5.0	5.0	5.0
Trade	5.9	-14.9	15.3	7.7	10.0	7.0	6.5	5.5	5.5	5.5
Other	1.2	-1.4	1.5	1.1	1.0	1.0	1.9	2.0	2.0	2.0
Net Taxes on Products	4.6	-5.8	18.2	6.3	5.0	4.8	5.0	5.0	5.0	5.0
Gross Domestic Product	4.6	-7.0	5.5	6.3	4.2	4.4	4.2	4.0	4.0	4.0
Gold 1/	11.5	-3.9	1.2	22.1	-3.7	8.5	0.7	0.7	0.8	0.0
Non-Gold GDP	4.1	-7.5	5.9	5.2	4.5	4.3	4.3	4.1	4.1	4.1
<i>Memorandum items:</i>	(In billions of soms)									
Gross Domestic Product	654	640	783	971	1,134	1,286	1,429	1,568	1,708	1,847
Gold 1/	57	56	51	56	62	74	80	85	90	94
Non-Gold GDP	597	584	732	915	1,073	1,212	1,349	1,482	1,617	1,753

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Staff estimate for 2022.

**Table 3. Kyrgyz Republic: Balance of Payments, 2019–28**  
(Millions of U.S. dollars, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
									Proj.	
Current account balance	-1,073	374	-739	-5,085	-4,067	-1,332	-1,169	-935	-835	-874
Excluding transfers	-3,344	-1,872	-3,260	-7,203	-5,873	-3,408	-3,422	-3,411	-3,554	-3,865
Trade balance	-2,626	-1,440	-2,419	-6,824	-4,871	-2,549	-2,583	-2,587	-2,683	-2,979
Exports, fob 1/	2,043	2,016	2,779	2,190	5,161	7,969	8,485	8,761	8,924	8,972
CIS countries	642	797	1,039	1,696	3,636	5,826	6,190	6,290	6,372	6,353
CIS countries w/o Re-exports	593	760	999	1,693	1,821	2,601	2,965	3,226	3,461	3,587
Of which: Energy products	177	92	79	59	21	20	20	21	15	15
Re-exports to CIS Countries	49	37	41	3	1,815	3,225	3,225	3,064	2,911	2,765
Non-CIS countries	1,401	1,219	1,740	493	1,525	2,143	2,294	2,471	2,552	2,620
Of which: Gold	833	987	1,412	13	980	1,470	1,542	1,592	1,633	1,657
Imports, fob	4,669	3,456	5,199	9,014	10,032	10,518	11,068	11,348	11,607	11,951
CIS countries	1,961	2,006	2,843	3,336	3,474	3,717	3,891	3,742	3,773	3,772
Of which: Energy	627	477	804	944	729	750	763	772	788	813
Non-CIS countries	2,707	1,449	2,355	5,678	6,558	6,801	7,177	7,606	7,834	8,179
Services	62	-176	-218	-109	-446	-287	-222	-166	-175	-155
Receipts	1,083	428	522	1,375	1,511	1,629	1,727	1,814	1,859	1,931
Payments	-1,021	-604	-740	-1,483	-1,957	-1,916	-1,949	-1,980	-2,034	-2,086
Income	-779	-256	-622	-270	-556	-572	-617	-658	-697	-732
Interest payments	-82	-104	-105	-135	-100	-72	-78	-84	-89	-94
Other net income	-698	-153	-517	-136	-456	-500	-539	-574	-607	-638
Current Transfers (net)	2,270	2,246	2,521	2,118	1,807	2,076	2,254	2,476	2,720	2,990
Of which: Private	2,158	2,166	2,465	2,036	1,767	2,006	2,209	2,431	2,675	2,945
Capital Account	88	80	134	181	198	202	198	196	191	190
Official	92	88	120	163	138	148	150	155	158	161
Private	0	-8	14	18	20	22	23	25	27	29
Financial account	466	-473	666	295	622	869	758	686	631	688
Commercial banks	-1	-179	-235	-253	-80	-76	-72	-69	-65	-62
Medium- and long-term loans (net)	135	133	233	187	142	243	96	72	97	145
Disbursement	766	743	782	1,098	747	914	852	852	898	945
Public	374	390	502	750	366	503	408	380	399	421
Private	392	353	280	348	381	411	443	472	499	524
Amortization	-630	-610	-549	-911	-605	-671	-756	-780	-801	-800
Public	122	154	146	187	278	334	376	368	359	329
Private	509	456	403	724	327	336	380	412	442	471
Foreign direct investment	337	-582	561	509	491	512	544	563	581	606
Portfolio investment	25	15	0	0	0	0	0	0	0	0
Other (including SDR allocation)	0	0	241	0	0	0	0	0	0	0
Net short-term flows	-30	141	-134	-150	69	189	189	119	19	-1
Errors and omissions 2/	566	-104	502	4,318	2,974	0	0	0	0	0
Overall balance	47	-123	564	-292	-272	-261	-213	-53	-12	5
Financing	-47	123	-564	292	272	261	213	53	12	-5
Net international reserves	-42	114	-611	285	-394	261	213	53	12	-5
Gross official reserves (-, increase)	-16	-108	-585	307	-320	369	273	85	40	19
IMF	-26	222	-26	-22	-73	-108	-60	-32	-28	-23
Exceptional financing (including arrears) 3/	-5	12	47	7	0	0	0	0	0	0
Conversion of non-monetary gold into monetary gold	0	0	0	0	666	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>										
GDP (in millions of U.S. dollars)	9,372	8,283	9,256	11,672	12,782	13,791	14,873	15,842	16,752	17,594
Current account balance (percent of GDP)	-11.5	4.5	-8.0	-43.6	-31.8	-9.7	-7.9	-5.9	-5.0	-5.0
Current account balance excluding official transfers (percent of GDP)	-12.6	3.5	-8.6	-44.3	-32.1	-10.2	-8.2	-6.2	-5.3	-5.2
Growth of exports of GNFS (volume, percent)	15.2	-24.7	11.8	-1.2	96.3	43.4	7.4	5.5	1.2	1
Growth of imports of GNFS (volume, percent)	-0.8	-23.3	17.2	50.3	22.1	2.6	3.6	1.2	1.0	2
Terms of trade (goods, percentage change)	1.7	7.1	-5.7	-6.9	3.7	-0.8	-1.3	-1.9	-0.6	-1
Gold price (U.S. dollars per ounce)	1,392	1,770	1,800	1,802	1,959	2,071	2,158	2,212	2,250	2,283
Fuel Price Index (2005=100)	129.3	91.7	183.1	299.5	185.5	190.3	181.1	169.7	161.3	155.9
External Public Debt (in millions of U.S. dollars) 4/	3,851	4,217	4,316	4,479	4,575	4,669	4,767	4,778	4,790	4,859
As percent of GDP	41.0	54.5	46.7	39.5	37.1	34.4	32.5	30.6	29.0	28.0
External public debt service-to-exports ratio 4/ 5/	6.6	9.7	5.6	7.3	6.2	5.0	4.6	4.2	4.0	3.6
Gross reserves 6/	2,176	2,628	2,779	2,633	2,953	2,584	2,311	2,226	2,185	2,167
In months of subsequent year's imports	6.4	5.3	3.2	2.6	2.9	2.4	2.1	2.0	1.9	1.8
In months of subsequent year's imports (adjusted for re-exports)	6.5	5.3	3.2	3.6	3.8	3.2	2.7	2.5	2.3	2.2

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Staff assume that gold production is exported as of the second half of 2023.

2/ Errors and omission for 2023 reflect the actual figure for the first half of the year

3/ Russian debt write-off.

4/ Public and publicly-guaranteed debt.

5/ Net of rescheduling.

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

Table 4. Kyrgyz Republic: NBKR Accounts, 2019–24

	2019	2020	2021	2022	2023	2024
					Proj.	
(In millions of soms)						
Net foreign assets	160,750	222,109	222,086	223,687	286,686	259,871
Net international reserves 1/	151,838	216,677	232,796	223,317	271,400	244,584
Long-term foreign liabilities	-8,147	-9,995	-30,259	-16,171	-9,525	-9,525
Other foreign assets	17,059	15,427	19,548	16,541	24,811	24,811
Net domestic assets	-42,685	-74,772	-65,177	3,694	-52,429	-8,974
Net claims on general government	-16,906	-13,727	-19,720	-26,245	-27,400	-27,400
Of which: Total government deposits (including foreign exchange deposits)	-17,033	-16,749	-22,731	-31,349	-34,749	-34,749
Of which: Securitized government debt	127	3,021	3,011	5,104	7,349	7,349
Claims on commercial banks	-10,020	-18,628	-30,846	-57,445	-78,298	-49,843
Of which: NBKR notes	-8,049	-12,991	-18,494	-34,351	-55,204	-38,296
Claims of other financial corporations	-432	-1,151	-2,948	-2,995	-3,111	-3,111
Other items net 2/	-15,326	-41,266	-11,663	90,380	56,380	71,380
Reserve money	118,065	147,338	156,908	227,381	234,256	250,897
Currency in circulation	106,245	134,629	139,922	198,810	204,821	219,370
Commercial banks' reserves	11,821	12,708	16,986	28,571	29,435	31,526
Of which: Required reserves	10,259	12,658	16,299	25,053	27,080	29,036
(Contribution to reserve money growth, in percentage point) 3/						
Net foreign assets	17.5	52.0	0.0	1.0	27.7	28.9
Net domestic assets	-6.5	-27.2	6.5	43.9	-24.7	-21.9
Of which: Net claims on general government	-4.3	2.7	-4.1	-4.2	-0.5	-3.3
Reserve money	11.0	24.8	6.5	44.9	3.0	7.0
Of which: Currency in circulation	11.9	24.0	3.6	37.5	2.6	5.6
<i>Memorandum items:</i>						
Reserve money growth (12-month change,	11.0	24.8	6.5	44.9	3.0	7.0
Gross International Reserves (in millions of U.S. dollars)	2,176	2,628	2,779	2,633	2,953	1,724
Exchange rate, som per U.S. dollar, end of period	69.6	82.6	84.8	85.7	...	...

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, 2019–24

	2019	2020	2021	2022	2023	2024
					Proj.	
	(In millions of soms)					
Net foreign assets	164,586	246,056	269,446	293,690	356,688	336,873
Net domestic assets	65,674	39,192	70,333	150,033	168,515	245,207
Domestic credit	136,370	149,184	166,419	179,343	231,825	281,517
Net claims on general government	-13,597	-19,745	-22,240	-30,891	-23,586	-9,836
Credit to the rest of the economy 1/	149,966	168,928	188,660	210,235	255,411	291,353
Of which: In foreign exchange	52,131	55,001	52,284	48,390	58,788	67,061
Other items net	-70,695	-109,992	-96,087	-29,310	-63,310	-36,310
Broad money (M2X)	230,261	285,248	339,778	443,722	525,203	582,080
Of which:						
Broad money, excluding foreign exchange deposits (M2)	181,768	219,104	253,188	335,509	395,497	435,238
Currency held by the public	96,010	124,172	124,838	176,430	204,821	219,370
Total domestic currency deposit liabilities	85,758	94,932	128,351	159,079	190,676	215,867
	(Contribution to broad money growth, in percent) 2/					
Net foreign assets	7.1	35.4	8.2	7.1	14.2	-3.8
Net domestic assets	5.7	-11.5	10.9	23.5	4.2	14.6
Domestic credit	7.7	5.6	6.0	3.8	11.8	9.5
Net claims on general government	-1.8	-2.7	-0.9	-2.5	1.6	2.6
Credit to the rest of the economy	9.5	8.2	6.9	6.3	10.2	6.8
Other items (net)	-2.0	-17.1	4.9	19.7	-7.7	5.1
Broad money (M2X)	12.8	23.9	19.1	30.6	18.4	10.8
Of which:						
Broad money, excluding foreign exchange deposits (M2)	13.3	16.2	11.9	24.2	13.5	7.6
Currency held by the public	5.5	12.2	0.2	15.2	6.4	2.8
Total deposit liabilities	7.8	4.0	11.7	9.0	7.1	4.8
<i>Memorandum items:</i>						
Broad money (M2X) (12-month change, in percent)	12.8	23.9	19.1	30.6	18.4	10.8
Credit to the rest of the economy (12-month change, in percent) 2/	14.9	12.6	11.7	11.4	21.5	14.1
Credit to the rest of the economy (in percent of GDP)	22.9	26.4	24.1	21.7	22.5	22.6
M2X velocity 3/	2.8	2.2	2.3	2.2	2.2	2.2
M2X multiplier	2.0	1.9	2.2	2.0	2.2	2.3

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, 2019–28 1/**  
(In millions of soms)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Proj.					
<b>Revenues</b>	167,431	152,149	209,827	300,622	383,799	404,057	437,435	470,901	507,279	545,532
<i>Taxes</i>	121,526	104,702	147,907	224,896	289,811	323,704	351,880	377,673	406,484	437,144
Taxes on income, profits, and capital gains	29,818	32,351	39,972	80,001	72,135	85,922	93,660	102,164	111,654	121,462
Payable by individuals	12,862	12,151	15,325	20,279	23,722	24,239	27,403	29,772	32,312	35,304
Payable by corporations and other enterprises	16,956	20,200	24,647	59,609	48,414	61,684	66,257	72,392	79,341	86,158
Taxes on property	2,950	2,804	3,081	3,188	2,607	2,957	3,284	3,603	3,925	4,246
Land tax	1,229	1,123	1,236	1,068	873	990	1,100	1,207	1,314	1,422
Property tax	1,721	1,681	1,845	2,120	1,734	1,966	2,184	2,396	2,610	2,824
Taxes on good and services	66,756	52,237	79,935	123,674	185,378	202,130	219,516	234,491	251,481	269,623
VAT	50,912	39,461	63,634	107,616	149,330	161,012	174,273	184,413	196,378	210,422
Net turnover tax	4,216	3,782	4,930	6,435	18,778	21,478	23,978	26,465	28,933	31,366
Excises	9,945	8,994	11,371	11,743	17,269	19,639	21,264	23,613	26,170	27,835
Taxes on international Trade	21,968	17,307	22,918	17,907	29,490	32,495	35,220	37,195	39,185	41,556
<i>Grants (including project grants)</i>	13,595	11,916	13,738	19,493	14,030	18,469	16,814	17,813	18,653	19,527
Program grants	8,216	6,537	5,261	7,641	3,530	6,530	4,323	4,453	4,587	4,724
PIP grants	5,379	5,379	8,477	11,852	10,500	11,940	12,490	13,360	14,066	14,803
<i>Other Revenues</i>	32,310	35,531	48,182	56,233	79,958	61,884	68,741	75,415	82,142	88,861
Of which mineral development	1,682	1,283	1,358	1,560	1,728	1,814	1,905	2,000	2,000	2,000
<b>Expense</b>	140,047	150,648	173,000	229,513	290,937	317,574	351,421	383,321	418,469	455,725
<i>Compensation of Employees</i>	58,482	66,549	65,230	96,136	126,210	141,693	156,181	170,450	184,542	200,228
Wages and salaries	51,724	58,981	57,822	84,978	109,351	122,766	135,319	147,682	159,892	173,483
Social Fund Contribution	6,758	7,568	7,408	11,158	16,859	18,927	20,862	22,768	24,650	26,746
<i>Use of goods and services</i>	21,861	17,931	21,966	26,433	30,881	35,018	38,898	42,675	46,482	50,283
<i>Interest</i>	7,785	8,465	8,437	10,948	14,121	16,260	18,617	21,327	26,107	31,713
Domestic interest	4,034	4,061	4,654	5,969	7,183	9,786	12,132	14,667	19,114	24,376
Foreign interest	3,751	4,404	3,783	4,979	6,938	6,474	6,485	6,659	6,993	7,337
<i>Subsidies to public corporations</i>	4,387	4,138	5,280	5,828	6,128	6,949	7,719	8,045	8,762	8,531
<i>Grants</i>	32,254	36,456	39,218	49,579	58,038	65,541	72,575	79,434	86,490	93,594
to international organizations	476	314	570	820	1,432	1,595	1,740	1,874	2,003	2,127
to other general government units 2/	31,778	36,142	38,648	48,760	56,606	63,946	70,835	77,561	84,486	91,467
<i>Social benefits</i>	10,442	10,939	12,235	17,429	29,160	33,114	36,778	40,349	43,948	47,543
<i>Other expense</i>	4,816	6,170	20,633	23,119	26,400	19,000	20,653	21,042	22,138	23,832
Capital transfers to SOEs (energy sector)	3,933	3,240	7,662	4,914	10,000	11,000	11,500	11,000	11,200	12,000
<b>Gross operating balance</b>	27,384	1,500	36,827	71,109	92,862	86,482	86,014	87,580	88,810	89,808
<b>Net acquisition of nonfinancial assets</b>	31,412	24,447	46,253	86,425	91,411	106,810	110,785	121,850	133,256	143,744
Acquisition of nonfinancial assets	31,499	24,535	46,363	86,425	91,411	106,810	110,785	121,850	133,256	143,744
Domestically financed capital expenditure	19,001	12,408	27,653	62,041	65,233	64,977	75,786	83,975	90,552	97,958
Foreign loan financed PIP	8,452	6,817	10,716	14,113	15,678	30,417	23,413	25,657	30,107	32,184
Foreign grant financed PIP	4,046	5,311	7,995	10,271	10,500	11,417	11,586	12,217	12,597	13,603
Disposals of nonfinancial assets	87	89	110	0	0	0	0	0	0	0
<b>Net lending/borrowing (overall balance)</b>	-4,028	-22,946	-9,427	-15,316	1,451	-20,328	-24,772	-34,270	-44,446	-53,937
<b>Acquisition of financial assets</b>	3,896	-2,669	19,167	27,444	25,481	9,166	6,462	7,983	4,833	8,135
<b>Domestic</b>	3,896	-2,669	19,167	27,444	25,481	9,166	6,462	7,983	4,833	8,135
Currency and deposits (NBKR)	4,565	-285	5,982	8,619	3,400	0	-264	-264	-264	-264
Loans 2/	-309	973	0	7,916	9,481	7,166	6,725	8,247	5,096	8,399
Shares and Equity (Privatization)	-360	0	13,185	10,910	12,600	2,000	0	0	0	0
<b>Foreign</b>	0	0	0	0	0	0	0	0	0	0
<b>Net Incurrence of Liabilities</b>	7,495	21,627	28,594	43,020	24,030	29,493	31,233	42,253	49,279	62,072
<b>Foreign</b>	2,945	24,208	20,092	38,461	15,561	15,733	3,144	1,142	4,039	9,703
Public investment program (PIP)	13,047	15,025	25,710	27,614	25,159	37,582	29,638	32,604	35,204	38,583
Disbursements (Program)	30	21,100	6,766	28,070	15,053	9,328	9,608	4,958	5,460	5,635
o/w use of 2021 SDR allocation				13,935	7,836					
Total amortization	-10,132	-11,917	-12,384	-17,223	-24,650	-31,177	-36,102	-36,421	-36,625	-34,515
<b>Domestic</b>	4,550	-2,582	8,502	4,559	8,469	13,760	28,090	41,111	45,240	52,369
Net domestic debt issuance to banks	...	...	4,614	-7,891	8,460	13,751	28,089	41,110	45,240	52,367
Net domestic debt issuance to the Social Fund	0.0	0.0	3,888	12,450	9	9	1	2	-1	2
<b>Errors and Omissions</b>	-429	1,350	0	260	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, 2019–28 1/**  
(In percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Proj.					
<b>Revenues</b>	25.6	23.8	26.8	31.0	33.8	31.4	30.6	30.0	29.7	29.5
<i>Taxes</i>	18.6	16.4	18.9	23.2	25.5	25.2	24.6	24.1	23.8	23.7
Taxes on income, profits, and capital gains	4.6	5.1	5.1	8.2	6.4	6.7	6.6	6.5	6.5	6.6
Payable by individuals	2.0	1.9	2.0	2.1	2.1	1.9	1.9	1.9	1.9	1.9
Payable by corporations and other enterprises	2.6	3.2	3.1	6.1	4.3	4.8	4.6	4.6	4.6	4.7
Taxes on property	0.5	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Land tax	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Property tax	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on good and services	10.2	8.2	10.2	12.7	16.3	15.7	15.4	15.0	14.7	14.6
VAT	7.8	6.2	8.1	11.1	13.2	12.5	12.2	11.8	11.5	11.4
New turnover tax	0.6	0.6	0.6	0.7	1.7	1.7	1.7	1.7	1.7	1.7
Excises	1.5	1.4	1.5	1.2	1.5	1.5	1.5	1.5	1.5	1.5
Taxes on international Trade	3.4	2.7	2.9	1.8	2.6	2.5	2.5	2.4	2.3	2.2
<i>Grants (including project grants)</i>	2.1	1.9	1.8	2.0	1.2	1.4	1.2	1.1	1.1	1.1
Program grants	1.3	1.0	0.7	0.8	0.3	0.5	0.3	0.3	0.3	0.3
PIP grants	0.8	0.8	1.1	1.2	0.9	0.9	0.9	0.9	0.8	0.8
<i>Other Revenues</i>	4.9	5.6	6.2	5.8	7.0	4.8	4.8	4.8	4.8	4.8
Of which mineral development	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
<b>Expense</b>	21.4	23.6	22.1	23.6	25.6	24.7	24.6	24.5	24.5	24.7
<i>Compensation of Employees</i>	8.9	10.4	8.3	9.9	11.1	11.0	10.9	10.9	10.8	10.8
Wages and salaries	7.9	9.2	7.4	8.8	9.6	9.5	9.5	9.4	9.4	9.4
Social Fund Contribution	1.0	1.2	0.9	1.1	1.5	1.5	1.5	1.5	1.4	1.4
<i>Use of goods and services</i>	3.3	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7
<i>Interest</i>	1.2	1.3	1.1	1.1	1.2	1.3	1.3	1.4	1.5	1.7
Domestic interest	0.6	0.6	0.6	0.6	0.6	0.8	0.8	0.9	1.1	1.3
Foreign interest	0.6	0.7	0.5	0.5	0.6	0.5	0.5	0.4	0.4	0.4
<i>Subsidies to public corporations</i>	0.7	0.6	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5
<i>Grants</i>	4.9	5.7	5.0	5.1	5.1	5.1	5.1	5.1	5.1	5.1
to international organizations	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
to other general government units <sup>2/</sup>	4.9	5.6	4.9	5.0	5.0	5.0	5.0	4.9	4.9	5.0
<i>Social Benefits</i>	1.6	1.7	1.6	1.8	2.6	2.6	2.6	2.6	2.6	2.6
<i>Other expense</i>	0.7	1.0	2.6	2.4	2.3	1.5	1.4	1.3	1.3	1.3
Capital transfers to SOEs (energy sector)	0.6	0.5	1.0	0.5	0.9	0.9	0.8	0.7	0.7	0.6
<b>Gross operating balance</b>	4.2	0.2	4.7	7.3	8.2	6.7	6.0	5.6	5.2	4.9
<b>Net acquisition of nonfinancial assets</b>	4.8	3.8	5.9	8.9	8.1	8.3	7.8	7.8	7.8	7.8
Acquisition of nonfinancial assets	4.8	3.8	5.9	8.9	8.1	8.3	7.8	7.8	7.8	7.8
Domestically financed capital expenditure	2.9	1.9	3.5	6.4	5.8	5.1	5.3	5.4	5.3	5.3
Foreign loan financed PIP	1.3	1.1	1.4	1.5	1.4	2.4	1.6	1.6	1.8	1.7
Foreign grant financed PIP	0.6	0.8	1.0	1.1	0.9	0.9	0.8	0.8	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	0.0
<b>Net lending/borrowing (overall balance)</b>	-0.6	-3.6	-1.2	-1.6	0.1	-1.6	-1.7	-2.2	-2.6	-2.9
<b>Acquisition of financial assets</b>	0.6	-0.4	2.4	2.8	2.2	0.7	0.5	0.5	0.3	0.4
<b>Domestic</b>	0.6	-0.4	2.4	2.8	2.2	0.7	0.5	0.5	0.3	0.4
Currency and deposits (NBKR)	0.7	0.0	0.8	0.9	0.3	0.0	0.0	0.0	0.0	0.0
Loans <sup>2/</sup>	0.0	0.2	0.0	0.8	0.8	0.6	0.5	0.5	0.3	0.5
Shares and Equity (Privatization)	-0.1	0.0	1.7	1.1	1.1	0.2	0.0	0.0	0.0	0.0
<b>Foreign</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Incurrence of Liabilities</b>	1.1	3.4	3.7	4.4	2.1	2.3	2.2	2.7	2.9	3.4
<b>Foreign</b>	0.5	3.8	2.6	4.0	1.4	1.2	0.2	0.1	0.2	0.5
Public investment program (PIP)	2.0	2.3	3.3	2.8	2.2	2.9	2.1	2.1	2.1	2.1
Disbursements (Program)	0.0	3.3	0.9	2.9	1.3	0.7	0.7	0.3	0.3	0.3
o/w use of 2021 SDR allocation	0.0	0.0	0.0	1.4	0.7	0.0	0.0	0.0	0.0	0.0
Total amortization	-1.5	-1.9	-1.6	-1.8	-2.2	-2.4	-2.5	-2.3	-2.1	-1.9
<b>Domestic</b>	0.7	-0.4	1.1	0.5	0.7	1.1	2.0	2.6	2.6	2.8
Net domestic debt issuance to banks	...	...	0.6	-0.8	0.7	1.1	2.0	2.6	2.6	2.8
Net domestic debt issuance to the Social Fund	...	...	0.5	1.3	0.0	0.0	0.0	0.0	0.0	0.0
<b>Errors and Omissions</b>	-0.1	0.2	0.0	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, 2019–28,**  
**GFSM 2014 Presentation 1/**  
(In millions of soms)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Proj.					
<b>Revenues</b>	201,217	185,582	245,585	354,460	437,139	463,581	502,710	541,794	583,228	626,918
<b>Taxes</b>	121,526	104,702	147,907	227,017	289,811	323,704	351,880	377,673	406,484	437,144
Taxes on income, profits, and capital gains	29,818	32,351	39,972	80,001	72,135	85,922	93,660	102,164	111,654	121,462
Payable by individuals	12,862	12,151	15,325	20,279	23,722	24,239	27,403	29,772	32,312	35,304
Payable by corporations and other enterprises	16,956	20,200	24,647	59,609	48,414	61,684	66,257	72,392	79,341	86,158
Other income taxes	0	0	0	113	0	0	0	0	0	0
Taxes on property	2,950	2,804	3,081	3,188	2,607	2,957	3,284	3,603	3,925	4,246
Taxes on goods and services	66,756	52,237	79,935	125,795	185,378	202,130	219,516	234,491	251,481	269,623
Value-added taxes	50,912	39,461	63,634	107,616	149,330	161,012	174,273	184,413	196,378	210,422
Turnover and other general taxes on goods and services	4,216	3,782	4,930	6,435	18,778	21,478	23,978	26,465	28,933	31,366
Excises	9,945	8,994	11,371	11,743	17,269	19,639	21,264	23,613	26,170	27,835
Taxes on international trade and transactions	21,968	17,307	22,918	17,907	29,490	32,495	35,220	37,195	39,185	41,556
Social contributions	32,481	33,186	38,075	51,560	52,997	59,134	64,842	70,419	75,432	80,826
Grants	13,605	11,916	13,738	19,493	14,030	18,469	16,814	17,813	18,653	19,527
Program grants	8,216	6,537	5,261	7,641	3,530	6,530	4,323	4,453	4,587	4,724
Project grants	5,379	5,379	8,477	11,852	10,500	11,940	12,490	13,360	14,066	14,803
Other revenue	33,605	35,778	45,865	56,391	80,301	62,273	69,174	75,890	82,659	89,420
<b>Expense</b>	169,467	180,367	204,443	270,214	343,548	376,278	415,803	453,244	493,367	535,970
Compensation of employees	67,911	76,549	75,862	108,580	141,764	158,680	174,354	189,680	204,915	221,926
Wages and salaries	59,784	67,534	66,918	95,650	122,313	136,943	150,510	163,785	176,958	191,659
Social contributions	8,126	9,015	8,944	12,930	19,450	21,738	23,844	25,896	27,956	30,267
Purchases/use of goods and services	27,431	21,995	26,864	32,666	37,614	42,592	47,230	51,722	56,310	60,916
Interest	5,459	5,982	5,754	10,505	11,248	13,324	16,190	19,860	24,196	29,275
Foreign interest	3,751	4,404	3,783	4,979	6,938	6,474	6,485	6,659	6,993	7,337
Domestic interest	1,708	1,578	1,971	5,526	4,310	6,850	9,706	13,200	17,203	21,938
Subsidies to public corporations	4,387	4,138	5,280	5,878	6,128	6,949	7,719	8,045	8,762	8,531
Grants	767	2,878	3,135	7,764	1,432	1,595	1,740	1,874	2,003	2,127
To international organizations	480	318	575	820	1,432	1,595	1,740	1,874	2,003	2,127
To other general government units	287	2,560	2,560	6,944	0	0	0	0	0	0
Social benefits	58,602	62,217	66,379	80,929	117,928	132,974	146,635	159,631	173,532	187,728
Other expense	4,888	6,608	21,169	23,851	27,435	20,165	21,934	22,433	23,649	25,467
Capital transfers to SOEs (energy sector)	3,933	3,240	7,662	4,914	10,000	11,000	11,500	11,000	11,200	12,000
<b>Gross operating balance</b>	31,750	5,215	41,142	84,246	93,591	87,302	86,907	88,550	89,861	90,948
<b>Net acquisition of nonfinancial assets</b>	32,235	24,803	46,681	86,935	92,132	107,621	111,677	122,818	134,308	144,883
Acquisition of nonfinancial assets	32,321	24,892	46,791	86,935	92,132	107,621	111,677	122,818	134,308	144,883
Domestically financed	19,823	12,764	28,080	62,551	65,954	65,788	76,678	84,944	91,604	99,096
Foreign financed	12,498	12,128	18,711	24,384	26,178	41,833	34,999	37,874	42,704	45,787
Disposals of nonfinancial assets	-87	-89	-110	0	0	0	0	0	0	0
<b>Net lending/borrowing</b>	-484	-19,588	-5,539	-2,689	1,459	-20,319	-24,771	-34,268	-44,447	-53,935
<b>Net acquisition of financial assets</b>	6,546	1,113	19,167	27,444	25,481	9,166	6,462	7,983	4,833	8,135
Domestic	6,546	1,113	19,167	27,444	25,481	9,166	6,462	7,983	4,833	8,135
Currency and deposits	4,565	-285	5,982	8,619	3,400	0	-264	-264	-264	-264
Loans	2,342	1,397	0	7,916	9,481	7,166	6,725	8,247	5,096	8,399
Sales of equity (privatization proceeds)	-360	0	13,185	10,910	12,600	2,000	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0	0
<b>Net incurrence of liabilities</b>	7,495	21,627	24,706	30,570	24,021	29,484	31,232	42,251	49,279	62,070
Foreign	2,945	24,208	20,092	38,461	15,561	15,733	3,144	1,142	4,039	9,703
Program loans	30	21,100	6,766	28,070	15,053	9,328	9,608	4,958	5,460	5,635
Public investment program loans	13,047	15,025	25,710	27,614	25,159	37,582	29,638	32,604	35,204	38,583
Amortization	-10,132	-11,917	-12,384	-17,223	-24,650	-31,177	-36,102	-36,421	-36,625	-34,515
Domestic	4,550	-2,582	4,614	-7,891	8,460	13,751	28,089	41,110	45,240	52,367

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, 2019–28,**  
**GFSM 2014 Presentation**  
(In percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Proj.									
Revenue	30.8	29.0	31.4	36.5	38.5	36.0	35.2	34.6	34.2	33.9
Taxes	18.6	16.4	18.9	23.4	25.5	25.2	24.6	24.1	23.8	23.7
Taxes on income, profits, and capital gains	4.6	5.1	5.1	8.2	6.4	6.7	6.6	6.5	6.5	6.6
Payable by individuals	2.0	1.9	2.0	2.1	2.1	1.9	1.9	1.9	1.9	1.9
Payable by corporations and other enterprises	2.6	3.2	3.1	6.1	4.3	4.8	4.6	4.6	4.6	4.7
Other income taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on property	0.5	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	10.2	8.2	10.2	13.0	16.3	15.7	15.4	15.0	14.7	14.6
Value-added taxes	7.8	6.2	8.1	11.1	13.2	12.5	12.2	11.8	11.5	11.4
Turnover and other taxes on goods and services	0.6	0.6	0.6	0.7	1.7	1.7	1.7	1.7	1.7	1.7
Excises	1.5	1.4	1.5	1.2	1.5	1.5	1.5	1.5	1.5	1.5
Taxes on international trade and transactions	3.4	2.7	2.9	1.8	2.6	2.5	2.5	2.4	2.3	2.2
Social contributions	5.0	5.2	4.9	5.3	4.7	4.6	4.5	4.5	4.4	4.4
Grants	2.1	1.9	1.8	2.0	1.2	1.4	1.2	1.1	1.1	1.1
Program grants	1.3	1.0	0.7	0.8	0.3	0.5	0.3	0.3	0.3	0.3
Project grants	0.8	0.8	1.1	1.2	0.9	0.9	0.9	0.9	0.8	0.8
Other revenue	5.1	5.6	5.9	5.8	7.1	4.8	4.8	4.8	4.8	4.8
Expense	25.9	28.2	26.1	27.8	30.3	29.3	29.1	28.9	28.9	29.0
Compensation of employees	10.4	12.0	9.7	11.2	12.5	12.3	12.2	12.1	12.0	12.0
Wages and salaries	9.1	10.6	8.5	9.9	10.8	10.6	10.5	10.4	10.4	10.4
Social contributions	1.2	1.4	1.1	1.3	1.7	1.7	1.7	1.7	1.6	1.6
Purchases/use of goods and services	4.2	3.4	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Interest	0.8	0.9	0.7	1.1	1.0	1.0	1.1	1.3	1.4	1.6
Foreign interest	0.6	0.7	0.5	0.5	0.6	0.5	0.5	0.4	0.4	0.4
Domestic interest	0.3	0.2	0.3	0.6	0.4	0.5	0.7	0.8	1.0	1.2
Subsidies to public corporations	0.7	0.6	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Grants	0.1	0.4	0.4	0.8	0.1	0.1	0.1	0.1	0.1	0.1
To international organizations	0.1	0.0	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	0.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	9.0	9.7	8.5	8.3	10.4	10.3	10.3	10.2	10.2	10.2
Other expense	0.7	1.0	2.7	2.5	2.4	1.6	1.5	1.4	1.4	1.4
Capital transfers to SOEs (energy sector)	0.6	0.5	1.0	0.5	0.9	0.9	0.8	0.7	0.7	0.6
Gross operating balance	4.9	0.8	5.3	8.7	8.2	6.8	6.1	5.6	5.3	4.9
Net acquisition of nonfinancial assets	4.9	3.9	6.0	9.0	8.1	8.4	7.8	7.8	7.9	7.8
Acquisition of nonfinancial assets	4.9	3.9	6.0	9.0	8.1	8.4	7.8	7.8	7.9	7.8
Domestically financed	3.0	2.0	3.6	6.4	5.8	5.1	5.4	5.4	5.4	5.4
Foreign financed	1.9	1.9	2.4	2.5	2.3	3.3	2.4	2.4	2.5	2.5
Disposals of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing	-0.1	-3.1	-0.7	-0.3	0.1	-1.6	-1.7	-2.2	-2.6	-2.9
Net acquisition of financial assets	1.0	0.2	2.4	2.8	2.2	0.7	0.5	0.5	0.3	0.4
Domestic	1.0	0.2	2.4	2.8	2.2	0.7	0.5	0.5	0.3	0.4
Currency and deposits	0.7	0.0	0.8	0.9	0.3	0.0	0.0	0.0	0.0	0.0
Loans	0.4	0.2	0.0	0.8	0.8	0.6	0.5	0.5	0.3	0.5
Sales of equity (privatization proceeds)	-0.1	0.0	1.7	1.1	1.1	0.2	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	0.0
Net incurrence of liabilities	1.1	3.4	3.2	3.1	2.1	2.3	2.2	2.7	2.9	3.4
Foreign	0.5	3.8	2.6	4.0	1.4	1.2	0.2	0.1	0.2	0.5
Program loans	0.0	3.3	0.9	2.9	1.3	0.7	0.7	0.3	0.3	0.3
Public investment program loans	2.0	2.3	3.3	2.8	2.2	2.9	2.1	2.1	2.1	2.1
Amortization	-1.5	-1.9	-1.6	-1.8	-2.2	-2.4	-2.5	-2.3	-2.1	-1.9
Domestic	0.7	-0.4	0.6	-0.8	0.7	1.1	2.0	2.6	2.6	2.8

Sources: Kyrgyz authorities and IMF staff estimates and projections.  
(MHIF).

**Table 10. Kyrgyz Republic: Selected Financial Soundness Indicators, 2019–23**

	Dec-19	Dec-20	Dec-21	Dec-22	Nov-23
<b>Capital Adequacy</b>					
Regulatory capital to risk weighted assets	24.0	24.9	22.2	25.6	25.2
Tier 1 capital to risk weighted assets	20.1	21.6	19.2	19.2	20.8
Capital to total assets	17.5	16.2	14.5	17.0	12.7
<b>Liquidity</b>					
Liquidity ratio	64.0	64.9	71.3	82.8	76.6
Total reserves/total deposits	13.3	14.6	14.9	16.6	15.6
Excess reserves/total reserves	8.3	0.2	2.2	6.6	3.4
<b>Asset quality</b>					
Nonperforming loans/total loans	8.0	10.5	11.1	12.8	9.5
Loan-loss provisioning/nonperforming loans	56.6	58.9	63.2	67.1	68.6
Nonperforming assets/total assets	4.7	5.9	5.6	5.4	4.0
<b>Earnings and profitability</b>					
Return on equity	7.7	5.5	7.8	43.4	34.1
Return on assets	1.2	0.9	1.2	5.9	4.7
Net interest margin	8.1	7.0	6.7	7.5	7.8
Spread	7.4	6.3	6.1	6.9	7.3
Income from services and commission fee/total income	12.2	10.2	13.4	8.9	12.5
<b>Loans and deposits</b>					
Loans/deposits	102.7	95.9	80.3	65.0	69.9
Loans/total assets	58.5	55.8	50.3	42.1	42.2
<b>Foreign currency exposure</b>					
Foreign currency exposure (in KGS billion)	2.2	1.3	2.7	2.1	(0.3)
Loans/deposits (in foreign currency)	92.5	72.9	53.2	31.7	29.9
Share of foreign currency deposits in total deposits <sup>1/</sup>	39.1	43.4	42.2	48.3	51.3
Share of foreign currency loans in total loans	35.2	33.0	28.0	23.6	22.0

Source: National Bank of the Kyrgyz Republic.

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

**Annex I. Risk Assessment Matrix**  
(July 2023)

Risk 1/	Description of Potential Shock	Likelihood / Timeframe	Possible Impact (if realized) / Transmission Channels	Policy Advice
<b>Conjunctural risks</b>				
<b>Intensification of regional conflict(s).</b>	Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	<b>High</b>	<b>Medium</b> A reversal of trade flows and inward migration, and 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.	Allow for more exchange rate flexibility and recalibrate 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.
<b>Commodity price volatility.</b>	A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	<b>High</b>	<b>Medium</b> 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.	Allow for more 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.
<b>Social discontent.</b>	High inflation, real income loss, and spillovers from crises in other countries (including migration) worsen inequality, trigger social unrest, and give rise to financing pressures and detrimental populist policies. This exacerbates imbalances, slows	<b>Medium</b>	<b>Medium</b> 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).

<b>Risk 1/</b>	<b>Description of Potential Shock</b>	<b>Likelihood / Timeframe</b>	<b>Possible Impact (if realized) / Transmission Channels</b>	<b>Policy Advice</b>
	growth, and triggers market repricing.			
<b>Monetary policy miscalibration.</b>	Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	<b>Medium</b>	<b>Medium</b> Inflation would rise and the current account deficit widen, resulting in strong exchange rate pressures. Social conditions would deteriorate and poverty increase. Depreciation would increase public debt.	Allow for more 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.
<b>Abrupt global slowdown or recession.</b>	Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.	<b>Medium</b>	<b>Medium</b> Kyrgyz Republic's relatively limited integration into the global economy dampens the likely impact of a global downturn, except for the spillovers from Russia	Allow for more exchange rate flexibility and recalibrate 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.
<b>Systemic financial instability.</b>	Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	<b>Medium</b>	<b>Medium</b> The limited integration of the Kyrgyz banking system in international financial markets would contain the impact, but growth slowdown could weaken banks' asset quality.	Maintain supervisory vigilance and closely monitor banks' balance sheets. Calibrate stress tests to reflect such a risk.
<b>Sovereign debt distress.</b>	Domino effects of higher global interest rates, a growth slowdown in AEs, and/or disorderly debt events in some	<b>Medium</b>	<b>Medium</b> The Kyrgyz Republic does not rely on international financial markets for its	Pursue fiscal consolidation by strengthening tax policy and administration, and reducing energy subsidies and the public wage bill. Delay

Risk 1/	Description of Potential Shock	Likelihood / Timeframe	Possible Impact ( <i>if realized</i> ) / Transmission Channels	Policy Advice
	EMDEs spillover to other highly indebted countries, resulting in capital outflows, an increase in risk premia, and loss of market access.		financing. However, large public investments that require international finance could fail to materialize and trigger a call on high-cost domestic financing. A higher interest bill would crowd out other priority spending, lead to debt build-up and pose a risk to debt sustainability.	low-priority capital spending. Accelerate structural reforms to support private sector led growth.
<b>Structural risks</b>				
<b>Deepening geoeconomic fragmentation</b>	Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	<b>High</b>	<b>High</b> Increased geo-economic fragmentation would disrupt traditional trade routes exacerbating inflation and costs from the lack of economic and trade diversification of the country.	Accelerate reforms to promote economic and trade diversification and attract FDI. Strengthen policies and regulatory compliance against the risks of secondary sanctions.
<b>Extreme climate events</b>	Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	<b>Medium</b>	<b>Medium</b> The Kyrgyz Republic could face escalating natural disasters such as droughts, heatwaves, floods, mudflows, and landslides, causing land degradation, air pollution, infrastructure damage, and loss of life.	Implement policies to advance the green transformation, including by fostering mitigation and adaptation. Build fiscal buffers if needed to facilitate the transition.
<b>Cyberthreats</b>	Cyberattacks on critical physical or digital infrastructure (including digital currency platforms)	<b>Medium</b>	<b>Medium</b>	Accelerate efforts to enhance cyber-security.

<b>Risk 1/</b>	<b>Description of Potential Shock</b>	<b>Likelihood / Timeframe</b>	<b>Possible Impact (<i>if realized</i>) / Transmission Channels</b>	<b>Policy Advice</b>
	trigger financial instability and disrupt economic activities.		Cyberattacks could disrupt the payment system, which relies on electronic means to a large extent.	
<b>Domestic risks</b>				
<b>Sustained reduction in gold prices</b>	Portfolio reallocation due to rising yields on other financial assets could result in lower prices for gold	<b>Medium</b>	<b>Medium</b> 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.
<p><sup>1</sup> 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.</p>				

## Annex II. External Sector Assessment

**Overall Assessment:** *The external position of the Kyrgyz Republic in 2022 was substantially weaker than the level implied by medium-term fundamentals and desirable policies. The officially reported current account has been adjusted to reflect staff estimates of unrecorded re-exports to Russia, which have increased considerably since the start of the war in Ukraine and are captured by the large and positive errors and omission. With this adjustment the remaining current account gap and the respective overvaluation reflect the discontinuation of gold exports in 2022. Gross official foreign exchange reserves were slightly below the adequate levels indicated by the IMF reserve adequacy metric and are projected to decline further over the medium term.*

**Potential Policy Responses:** *Potential policies to reduce external sector imbalances and align the external sector with fundamentals in the medium term include resumption of gold exports, greater exchange rate flexibility, accumulation of reserves and reforms to strengthen competitiveness.*

### Foreign Assets and Liabilities: Position and Trajectory

**1. Background:** The Kyrgyz Republic's Net International Investment Position (NIIP) improved significantly from -85 percent of GDP in 2021 to -68 percent of GDP in 2022, reflecting a sharp increase in nominal GDP in US dollar terms. Gross foreign assets declined from 63 percent of GDP in 2021 to 51 percent of GDP (international reserves, foreign direct investment assets, and other investments of 20, 2.7, and 26.5 percent of GDP, respectively) in 2022. Gross foreign liabilities also fell from 148 percent of GDP to 119 percent (external public and publicly guaranteed debt, private external debt, and foreign direct investment liabilities of around 50, 12, and 50 percent of GDP, respectively).

**2. Assessment:** The negative NIIP does not pose immediate risks to external stability. Concessional external public debt coupled with limited short-term volatile capital inflows largely mitigate the external risks. Prior to the improvement in 2022, the NIIP was broadly stable over the previous five years.

2022 (Percent of GDP)	NIIP	Gross Assets	Debt Assets	Gross Liab.	Debt Liab.
	-68	50	1.4	117	50

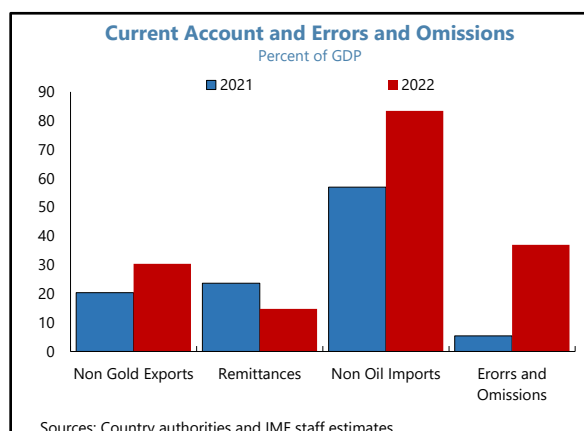
### Current Account—Background

**3. The officially recorded current account deficit widened to 43.6 percent of GDP in 2022 from 8 percent in 2021.** This deterioration primarily came from a substantial increase in imports, higher domestic demand partly due to migrant inflows a decline in workers' remittances and discontinuation of gold exports. Strong growth in non-gold and services exports—59 and 163 percent respectively—were insufficient to offset a 21 percent decline in net private transfers, which includes workers' remittances, discontinuation of gold exports, and a 77 percent increase in imports. Imports of goods and services jumped from 64 percent of GDP in 2021 to 90 percent in 2022. The current account deficit for the first half of 2023 was 27.0 percent of GDP, as imports grew

by more than 30 percent during the period. The NIIP further improved to -63 percent of GDP in first half of 2023, largely driven by an increase in nominal GDP in U.S. dollar terms.

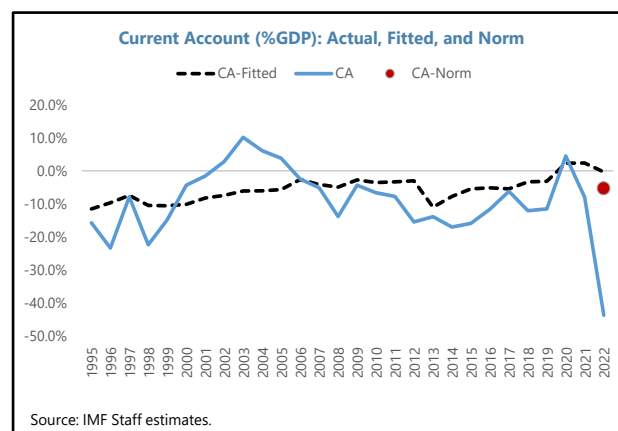
**4. However, staff believes that the official CA deficit is overstated due to unrecorded re-exports to Russia.**

Non-energy imports, mainly consumer goods and household electronics, increased to 82 percent of GDP, which cannot be explained by domestic demand even after accounting for additional consumption by migrants. Therefore, staff concludes that a large part of the import increase was re-exported to the Eurasian Customs Union (EACU),<sup>1</sup> mainly to Russia, but unrecorded because intra-EACU trade is not subject to mandatory Customs declarations and not monitored by national Customs of member countries. Consequently, this unrecorded trade is reflected in large positive errors and omissions, which amounted to 37 percent of GDP in 2022 and about 23 percent of GDP in the first half of 2023. Assuming uninterrupted gold exports, which resumed in Q2 2023, and after accounting for re-exports for the second half, the current account deficit is expected to come down to 31.8 percent of GDP in 2023, further narrowing gradually to about 5 percent of GDP in the medium term.



**Current Account—Assessment**

**5. The Current Account (CA) model identifies a negative current account gap** of 5.7 percent of GDP implying an overvaluation of the REER by 16.4 percent (Text Table). This CA gap reflects equal but offsetting adjustments for cyclical factors (output gap) and the Covid pandemic, statistical adjustment for large positive errors and omissions capturing unrecorded reexports of 32.7 percent of GDP and a policy gap of 4.6 percent of GDP. The policy gap is primarily because of a tighter fiscal stance compared to its desired level and the rest of the world.



**6. Staff assesses the external position of the Kyrgyz Republic in 2022 as substantially 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 re-exports to Russia. If corrected for these re-exports, the 2022

<sup>1</sup> The EAEU includes Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, and Russia, and provides for free movement of goods within the EAEU.



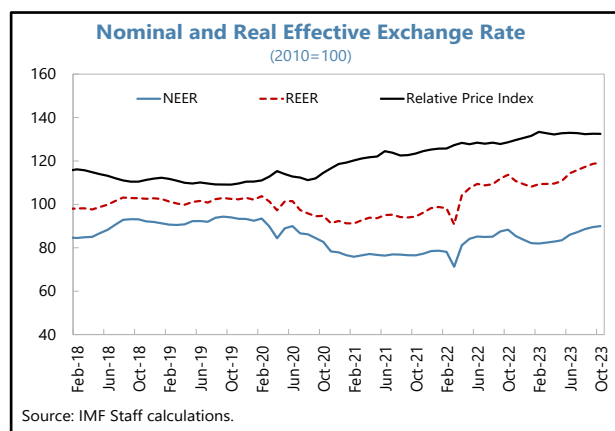
CA deficit would narrow to 10.9 percent yielding a negative CA gap of 5.7 percent and an overvaluation of the REER by 16.4 percent.

<b>Kyrgyz Republic: EBA-lite Model Results, 2022</b>		
	<b>CA model 1/</b>	<b>REER model 1/</b>
	(In percent of GDP)	
<b>CA-Actual</b>	<b>-43.6</b>	
Cyclical contributions (from model) (-)	0.4	
COVID-19 adjustors (-) 2/	-0.4	
Natural disasters and conflicts (-)	-0.1	
Statistical Adjustor 3/	32.7	
<b>Adjusted CA</b>	<b>-10.9</b>	
<b>CA Norm</b> (from model) 4/	<b>-5.3</b>	
Adjustments to the norm (-)	0.0	
<b>Adjusted CA Norm</b>	<b>-5.3</b>	
<b>CA Gap</b>	<b>-5.7</b>	<b>2.1</b>
o/w Relative policy gap	4.6	
Elasticity	-0.3	
<b>REER Gap</b> (in percent)	<b>16.4</b>	<b>-6.0</b>
1/ Based on the EBA-lite 3.0 methodology 2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.4 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/ In staff assessment, large unrecorded reexports to Russia are not captured in the trade statistics. 4/ Cyclically adjusted, including multilateral consistency adjustments.		

## Real Exchange Rate

**7. The Kyrgyz som remained broadly stable against the USD during 2022.** Its intra-month movements remained within the 2.5 percent band, and on the annual basis, it depreciated by 1.03 percent. The real effective exchange rate (REER) appreciated by 12.6 percent during 2022, largely reflecting the inflation gap between the Kyrgyz Republic and its trading partners, and appreciation of the Kyrgyz Som in nominal effective terms. REER has further appreciated by 6.8 percent during 2023 so far.

**8. The REER model points to an undervaluation of about 6 percent, an opposing result to the CA model.** In this model the REER-norm and the REER fitted values are higher than the actual REER, implying the need for appreciation to close the gap. 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



considerably smaller than the CA balance in the Kyrgyz Republic. Therefore, staff puts more weight on the results of the CA model. Resumption of gold exports, accumulation of reserves and reforms to strengthen competitiveness would help align the external sector with fundamentals.

### Capital and Financial Accounts: Flows and Policy Measures

**9. Background.** In 2022, the capital and financial account balance (excluding changes in reserves) weakened to 4.1 percent of GDP from 8.6 percent in 2021, driven by a decline in Foreign Direct Investment (FDI) from 60.9 percent of GDP in 2021 to 50.2 percent in 2022, and an increase in currency and deposits from 15 percent of GDP to 17 percent. Direct Investment abroad by the Kyrgyz Republic declined by over \$500 million during the year. Nonresident deposits increased to 5 percent of GDP from 2 percent in the preceding year.

**10. Assessment.** The Kyrgyz Republic remains potentially vulnerable to sudden shifts in the global and regional financial conditions. Efforts to secure more concessional financing and implementation of reforms geared to attract FDI will be important to mitigate these vulnerabilities over the medium term.

### FX Intervention and Reserves Level

**11. Background.** To support the Kyrgyz som and sterilize the liquidity injected by gold purchases, the NBKR carried out significant foreign exchange interventions—net sales of \$296 million in 2022 and \$656 million during 2023 so far. NBKR's interventions kept the som/USD exchange rate broadly stable in 2022 and 2023 at the expense of foreign exchange reserves, which declined to 2.6 months of prospective imports of goods and services in 2022 from 3.2 months in 2021. Gross reserves are projected to increase to about 2.8 months of imports of goods and services in 2023<sup>2</sup>, and then decline to 2.4 months in 2024, and further to 1.8 months by 2028, which is below the IMF's reserve adequacy metrics for credit constrained economies.<sup>3</sup> The projected reserve coverage of

<sup>2</sup> In 2023, authorities converted domestically produced gold and boosted their reserve level.

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

imports, however, does not reflect the fact that the re-exported part of imports is self-financed, excluding which the reserve coverage increases to 3.8 month in 2023 and 2.2 months in 2028. In last few months, NBKR has converted \$660 million worth of non-monetary gold to monetary gold and improved their reserve level.

**12. Assessment.** The NBKR is still holding a stock of non-monetary gold (equivalent to \$1.54 billion at end-November 2023), which if converted to monetary gold would further strengthen NBKR's international reserves. With conversion of existing stock of non-monetary to monetary gold, gross reserves are projected to increase to about 4.3 months of import of goods and services in 2023, and gradually decline to 3.2 months by 2028.

## Annex III. Implementation of Key Recommendations of the 2022 Article IV Consultation

Staff Advice	Implementation
<i>Fiscal Policy</i>	
Raising tax revenue by reducing tax exemptions, incentives, and preferential tax regimes; strengthening taxation of e-commerce; raising excises on tobacco and petroleum, adjusting other specific excises to inflation, and strengthening tax administration through e-filing, taxpayer registration, risk-based auditing and expanding the use of cash registers.	Tax policy measures have not been implemented. Tax collections increased considerably in 2022 primarily due to one-off tax payment by Kumtor (1.7 percent of GDP) and an increase in VAT collections on imports, driven by a significant increase in imports. The efforts to digitalize tax procedures and promote e-tax reporting have helped to improve tax administration.
Maintain public debt below 60 percent of GDP in the medium term and reducing it more thereafter.	Low financing needs helped keep total public debt below 49 percent of GDP at the end of 2022. It is projected to remain under 50 percent in the medium term.
Contain the public wage by limiting nominal wage growth to below inflation and allowing headcount reduction through attrition and public employment optimization. In the medium term, a comprehensive reform of the public sector compensation and employment framework should be pursued.	Staff recommendations have not been implemented, but the public wage bill as a share of GDP is projected to be lower thanks to stronger nominal GDP growth in 2022, but also active headcount management and limited bonus pay
Gradually raise electricity tariffs and lower operating costs of the energy sector to reduce subsidies and generate fiscal savings.	In Spring 2023, residential electricity tariffs above the lifeline were increased by about 30 percent, resulting in an average tariff increase of 10 percent. The average residential tariff remains well below the cost recovery level. Commercial tariffs are above cost-recovery.
Implementing Integrated Financial Management Information System (IFMIS) modules for budget preparation and payroll and limiting extra-budgetary funds.	There has been no progress on IFMIS or extrabudgetary funds.
Strengthen the efficiency of social protection to provide adequate and well-targeted social benefits to the vulnerable in a fiscally sustainable manner.	Social protection benefits remain category-based rather than need-based.
Channel Kumtor profits to the budget.	A part of Kumtor profits was transferred to the State budget in 2023.
<i>Monetary/Exchange Rate, Financial Policies, and Safeguards Assessment</i>	
Discontinue gold purchases by the NBKR and resume gold exports without NBKR's involvement.	The NBKR has continued to purchase domestically produced gold, a part of which has been exported by the NBKR.

Convert non-monetary gold on the NBKR's balance sheet to foreign exchange to increase and diversify international reserves.	The NBKR has exported some non-monetary gold, but is still holding a significant stock.
Eliminate the interest rate cap on NBKR note auctions to strength the effectiveness of monetary policy.	Interest rate caps on NBKR note auctions remain in place.
Divest NBKR's ownership in Keremet Bank, develop a strategy to unwind its ownership of the Guarantee Fund, and strengthen its governance and operational independence.	The NBKR is intending to divest Keremet Bank but means to retain ownership of the Guarantee Fund. The suspension of the NBKR profit distribution provision for 2021 and 2022 by passing a constitutional law undermines the independence of the central bank.
Strengthening analytical and implementation capacity of risk-based AML/CFT supervision and monitoring of cross border activities.	Not implemented.
<i>Structural Reforms</i>	
Strengthen the SOE ownership and corporate governance frameworks by streamlining and harmonizing legislation; articulating ownership policy and disclosure requirements, and strengthening institutional oversight, transparency and accountability. SOEs should be subject to the public procurement law.	There has been no change to the SOE ownership and governance framework. The recent amendments to the public procurement law weakened the requirements for mandatory competitive bidding, while SOEs remain excluded from the law.
To minimize opportunities for corruption, strengthen income and asset declarations by public officials and investigating illicit enrichment.	The 2023 law on the Legalization and Amnesty of Individuals' Assets undermines the credibility of the anti-corruption framework.
To addressing climate-related challenges, create fiscal space for additional public spending on green infrastructure, healthcare and education, and social safety nets; reduce air, soil, and water pollution, and expand renewables.	The authorities announced their intention to develop renewable energy sources, including hydropower



# KYRGYZ REPUBLIC

## STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

January 19, 2024

Prepared By

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

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## RELATIONS WITH THE FUND

(As of November 30, 2023)

**Membership Status:** Joined: May 8, 1992

Article VIII

<b>General Resources Account:</b>	<b>SDR million</b>	<b>Percent of Quota</b>
Quota	177.60	100.00
Fund Holdings of Currency (Exchange Rate)	266.12	149.84
Reserve Tranche Position	0.31	0.18

<b>SDR Department:</b>	<b>SDR million</b>	<b>Percent Allocation</b>
Net Cumulative Allocation	254.96	100.00
Holdings	145.29	56.99

<b>Outstanding Purchases and Loans:</b>	<b>SDR million</b>	<b>Percent of Quota</b>
Emergency Assistance (including ENDA, EPCA, and RFI)	88.80	50.00
RCF Loans	59.20	33.33
ECF Arrangements	39.96	22.50

### 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 <sup>1/</sup>

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

		<b>Forthcoming</b>			
	2023	2024	2025	2026	2027
Principal	13.11	72.52	38.59	18.50	15.65
Charges/Interest		7.92	5.11	4.58	4.58
<b>Total</b>	13.11	80.44	43.70	23.08	20.23

<sup>1/</sup> 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. In addition, the laws passed by Parliament in 2022 and 2023 suspended the provisions of the NBKR law on profit distribution and allowed for the transfer of 90 percent of the 2021 and 2022 NBKR's profit to the budget.

**Exchange Rate Arrangements**

The de jure exchange rate arrangement is floating arrangement. The NBKR participates and intervenes in the interbank foreign exchange market to limit exchange rate volatility as necessary. Since February 2022, the exchange rate increased its flexibility and followed a depreciating trend against the U.S. dollar with one realignment in February 2023. Accordingly, the de facto exchange rate arrangement was reclassified twice: (1) to "other managed" from "stabilized" effective February 25, 2022, and (2) to "crawl-like" from "other managed" effective October 21, 2022.



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 official exchange rate becomes effective from the next working 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.

Under the MCP policy, which is in place until February 1, 2024, the Kyrgyz Republic maintains a multiple currency practice (MCP) arising from the use of the official exchange rate for government transactions as 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. The authorities intend to continue to use the official exchange rate for government transactions. Staff does not recommend approval of this MCP. Under paragraph 42 of the IMF Policy Paper “Review of the Fund’s Policy on Multiple Currency Practices – Proposals for Reforms” (2022), as of the effective date of the new MCP policy (February 1, 2024), the existing MCP will be considered eliminated.

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 2022 Article IV consultation discussions were held in November 2022 and were completed by the Executive Board in January 2023 (on lapse of time basis).

#### **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 twelfth resident representative of the Fund in the Kyrgyz Republic, Mr. Farid Talishli, took his post in Bishkek in July 2023.

## RELATIONS WITH OTHER INTERNATIONAL INSTITUTIONS

(As of December 07, 2023)

### 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 World 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](http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=KG)

## TECHNICAL ASSISTANCE PROVIDED BY THE FUND

(January 2014 – November 2023)

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
	SOE oversight and performance management	November 22 – December 5, 2022	State Property Management Fund
	Select Taxation Issues	June 20 – July 4, 2023	State Tax Service

<b>IMF Dept.</b>	<b>Type of Mission</b>	<b>Mission Dates</b>	<b>Requestor</b>
	State Owned Enterprises Fiscal Risks	November 13-24, 2023	Ministry of Finance and State Agency Management of Property
<b>MCM</b>	Operational Advice on Improving the Monetary Policy Framework	February 3–14, 2014	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	April 20–28, 2015	National Bank of the Kyrgyz Republic
	Strengthening Near-Term Modeling and Forecasting Capacities	April 18–29, 2016	National Bank of the Kyrgyz Republic
	Medium-Term Debt Management Strategy	April 20–28, 2016	Ministry of Finance
	Strengthening Banking Supervision	May 24–June 1, 2016	National Bank of the Kyrgyz Republic
	Monetary Policy and Inflation Targeting Framework	April 10–25, 2017	National Bank of the Kyrgyz Republic
	IFRS 9 Training for NBKR Banking Supervisors	May 29–June 2, 2017	National Bank of the Kyrgyz Republic Banking Supervisors
	Monetary Policy and Inflation Targeting Framework – Follow Up	April 4–13, 2018	National Bank of the Kyrgyz Republic
	Inflation Targeting	October 29–November 14, 2018	National Bank of the Kyrgyz Republic
	Cyber Security	March 6–20, 2019	National Bank of the Kyrgyz Republic
	Inflation Targeting	September 2019	National Bank of the Kyrgyz Republic
	Covid-19: Implications on Asset Classification and Provisioning (virtual)	June 17-26, 2020	National Bank of the Kyrgyz Republic
	Inflation Targeting (virtual)	August-September 2020	National Bank of the Kyrgyz Republic
	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

<b>IMF Dept.</b>	<b>Type of Mission</b>	<b>Mission Dates</b>	<b>Requestor</b>
MCM /CCA MTAC	Macroeconomic Framework - Review and Reinforcement of Quarterly Projection Model Forecasting Performance	March 13 - March 30, 2023 (virtual)	National Bank of the Kyrgyz Republic
MCM	Enhancing Monetary Operations	October 23 – November 3, 2023	National Bank of the Kyrgyz Republic
MCM /CCA MTAC	Macroeconomic Framework - Review and Reinforcement of Quarterly Projection Model Forecasting Performance	August 28 - September 8, 2023	National Bank of the Kyrgyz Republic
<b>LEG</b>	AML/CFT Follow-up	February 2014	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	January 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	June 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	October–November 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	January 2016	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	April 2016	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT risk-based supervision and SFIS IT workflow procedures	June/July 2016	National Bank of Kyrgyz Republic,

<b>IMF Dept.</b>	<b>Type of Mission</b>	<b>Mission Dates</b>	<b>Requestor</b>
			State Financial Intelligence Service
	IT (setting up analytical reporting software)	August 2016	State Financial Intelligence Service
	AML/CFT risk-based supervision (IMF/WB mission)	October 2016	National Bank of Kyrgyz Republic
	Legal Frameworks for Bank Resolution	September 20–22, 2017	National Bank of the Kyrgyz Republic, Ministry of Justice
	AML/CFT supervision (WB/IMF workshop)	October 3–7, 2017	National Bank of the Kyrgyz Republic
	AML/CFT Legal drafting	February 2018	State Financial Intelligence Service
	AML/CFT Legal drafting	July 2018	State Financial Intelligence Service
	AML/CFT supervision (WB/IMF workshop)	October 2018	National Bank of Kyrgyz Republic
<b>LEG/ FIN</b>	Safeguards-Related Issues: proposals to strengthen the central bank's governance	July 9-11, 2018	National Bank of Kyrgyz Republic
<b>LEG/ FIN</b>	Assessment of safeguards-related areas (remote)	October 19 – 30, 2020	National Bank of Kyrgyz Republic
<b>STA</b>	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,

<b>IMF Dept.</b>	<b>Type of Mission</b>	<b>Mission Dates</b>	<b>Requestor</b>
			National Statistical Committee, and the Social Fund
	National Accounts EDDI2	November 6–24, 2017	National Statistics Committee
	Quarterly National Accounts	April 2–20, 2018	National Statistics Committee
	Government Finance Statistics	October 23-27, 2018	Ministry of Finance
	National Accounts EDDI2	November 12–23, 2018	National Statistics Committee
	External Sector Statistics	June 24-July 5, 2019	National Bank of the Kyrgyz Republic
	Government Finance Statistics	May 20-24, 2019	Ministry of Finance
	Government Finance Statistics	September 30-October 11, 2019	Ministry of Finance
	Government Finance Statistics	April 26-May 7, 2021 (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
	National Accounts	September 18 – 29, 2023	National Statistics Committee
	Government Finance Statistics	September 18 – 29, 2023	Ministry of Finance
<b>ICD</b>	Quarterly Projection Model review and validation (1/2).	March 13 – 31, 2023	National Bank of the Kyrgyz Republic
	Quarterly Projection Model review and validation (2/2).	August 28 – September 8, 2023	National Bank of the Kyrgyz Republic
	Macroeconomic Framework Refresher	November 20 – December 1, 2023	National Bank of the Kyrgyz Republic



### 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 by end of 2023, implementation of the System of National Accounts 2008 (2008 SNA) was finalized in May 2023 with major revision of national accounts time series from 2019 year.

### 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 provide 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).

**Table 1. Kyrgyz Republic: Table of Common Indicators Required for Surveillance**

(As of December 15, 2023)

	Date of Latest Observation	Date Received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Frequency of Publication <sup>6</sup>
Exchange Rates	12/15/2023	12/15/2023	D	D	D
Reserve/Base Money	11/30/2023	12/15/2023	M	M	M
Broad Money	11/30/2023	12/15/2023	M	M	M
Central Bank Balance Sheet	11/30/2023	12/15/2023	M	M	M
Consolidated Balance Sheet of the Banking System	11/30/2023	12/15/2023	M	M	M
Interest Rates <sup>1</sup>	11/30/2023	12/15/2023	M	M	M
Consumer Price Index	11/30/2023	12/15/2023	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing <sup>2</sup> —General Government <sup>3</sup>	10/31/2023	11/25/2023	M	M	A
Revenue, Expenditure, Balance, and Composition of Financing <sup>2</sup> —Central Government	10/31/2023	11/25/2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>4</sup>	10/31/2023	11/25/2023	Q	Q	Q
External Current Account Balance	06/30/2023	11/14/2023	Q	Q	Q
Exports and Imports of Goods and Services	06/30/2023	11/14/2023	Q	Q	Q
GDP/GNP	11/30/2023	12/11/2023	M	M	M
Gross External Debt	8/31/2023	09/25/2023	Q	Q	A
International Investment Position <sup>5</sup>	06/30/2023	11/14/2023	Q	Q	Q

<sup>1</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

<sup>2</sup> Foreign and domestic financing only.

<sup>3</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>4</sup> Including currency and maturity composition.

<sup>5</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>6</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).



# KYRGYZ REPUBLIC

## STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

January 19, 2024

Approved By  
**Subir Lall and Jay Peiris**  
(IMF) and **Asad Alam and**  
**Manuela Francisco** (IDA)

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

<b>Risk of external debt distress</b>	Moderate
<b>Overall risk of debt distress</b>	Moderate
<b>Granularity in the risk rating</b>	Some space to absorb shocks
<b>Application of judgment</b>	No

Staff assesses the Kyrgyz Republic's public debt as sustainable with moderate risks of external and overall debt distress. Because the Kyrgyz Republic's debt carrying capacity has been downgraded to "medium" from "strong,"<sup>1</sup> all relevant thresholds have been lowered, resulting in a breach of the external debt threshold of the PV of debt-to-GDP ratio between 2025 and 2029 under a standard shock to exports. Moreover, the customized stress test that was applied in the 2022 DSA reflecting the discontinuation of gold exports and the collapse in re-exports would still result in a breach of the threshold for the ratio of the PV of external debt-to-GDP had the debt carrying capacity remained "strong." Finally, because external debt burden indicators trend downward and the breaches are limited, staffs judge external public debt to be sustainable, with some space to absorb shocks. The PV of total public debt-to-GDP breaches its benchmark under the baseline scenario in 2028 under a standard shock to growth, resulting in the "moderate" rating for the overall risk of debt distress. Without fiscal discipline, the overall deficit will start increasing after 2026 as interest payments increase, and total public debt continues to rise to 67.2 percent of GDP by 2043. Creating fiscal space and containing debt vulnerabilities will require improving tax collections, reducing the wage bill and energy subsidies, strengthening debt management, seeking concessional financing and improving public investment management.

<sup>1</sup> The DSA reflects medium debt carrying capacity considering the Kyrgyz Republic's Composite Indicator of 2.97, based on the October 2023 World Economic Outlooks and the 2022 CPIA vintage.

## 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 US\$242 million), retroceded to the central government, is projected to be fully drawn down by end 2023 and is therefore 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 by law. 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.<sup>2</sup> 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 15 percent of GDP in 2022),<sup>3</sup> and the recent conversion of energy SOE debt to equity due to solvency issues, a contingent liability shock of 7 percent of GDP is applied, of which 2 percent of GDP reflects an operational risk stemming from the structural cash shortfall of loss-making energy sector SOEs<sup>4</sup> 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	

<sup>2</sup> 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 could be approved as a government regulation.

<sup>3</sup> These comprise state participation through equity and largely concessional on-lending in the power generation and transmission companies.

<sup>4</sup> IMF Country Report No. 23/91, Kyrgyz Republic—Staff Report for the 2022 Article IV Consultation.

**Text Table 2. Kyrgyz Republic: Combined Contingent Liability Shock**

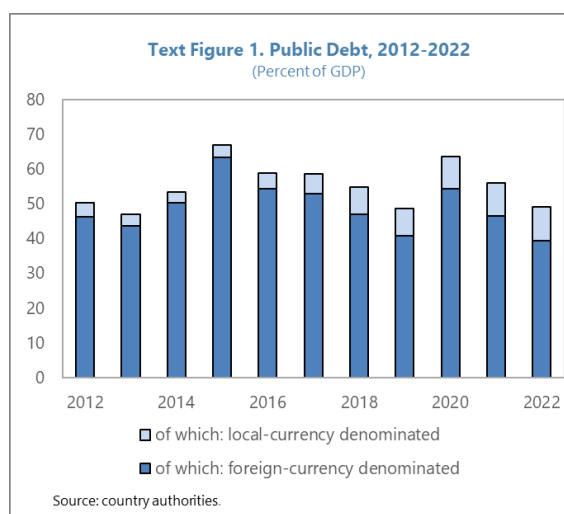
The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3 SoE's debt (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%.

## BACKGROUND

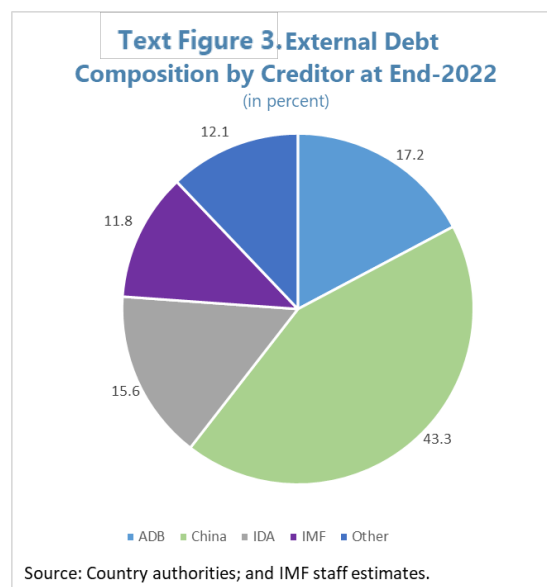
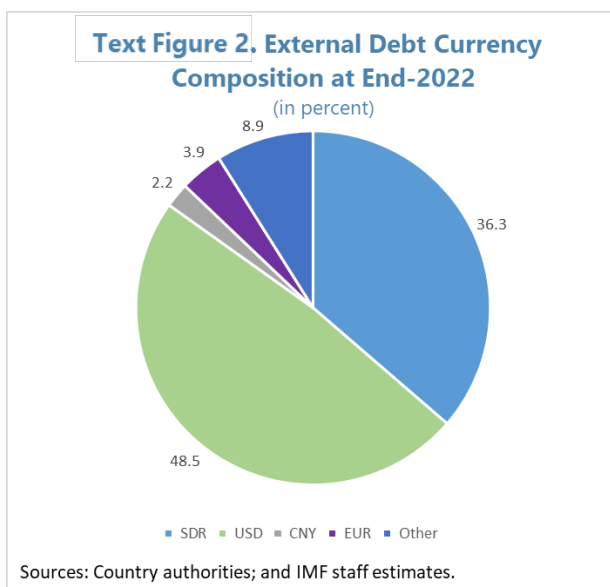
**2. Public debt decreased to 49.2 percent of GDP in 2022 from 56.2 percent of GDP in 2021** (Text Chart 1). This decline was a result of a restated higher nominal GDP for 2021, a small overall fiscal deficit and a strong nominal GDP growth in 2022 (including almost 2 percentage points of GDP of public debt eliminated by a higher GDP deflator) while the exchange rate depreciated at a slower pace. External debt decreased by 7.2 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 (50 percent).

**3. External debt continues to be mostly denominated in US dollars and SDRs.** These two currencies account for more than 84 percent of nominal external debt at end 2022 (Text Chart 2) vs 80 percent at end 2021. The euro accounts for just under 4 percent.





**4. China remains the largest creditor at end 2022.**<sup>5</sup> Official external debt owed to China accounts for over 40 percent of total external debt, with the Asian Development Bank (AsDB) and the International Development Association (IDA–World Bank) each owed over 15 percent (Text Chart 3). The IMF is now owed almost 12 percent of the total after the equivalent of US\$112 million of the SDR allocation was drawn down in 2022. As in the last DSA, the large creditors in the “Other” category include the Japanese International Cooperation Agency, the Islamic Development Bank, other bilateral lenders, and the Eurasian Development Bank.



## UNDERLYING ASSUMPTION

**5. The macroeconomic outlook (Text Table 3) shows limited spillovers from the war in Ukraine:**

- Growth and inflation. Growth was strong in 2022 due to a sharp recovery in gold production and agriculture, as well as significant increases in trade, transport, communications, and construction. It will however taper off in 2023 due to the previous year’s base effects. 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 as the Kumtor mine depletes its ore, and an expansion of the services sector. End-of-period inflation reached 14.7 percent in 2022, but has come down to below 10 percent by October 2023 and is forecast in mid-single digits in 2025.

<sup>5</sup> 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 six years with a one-year grace period.

Text Table 3. Kyrgyz Republic: Selected Indicators, 2021–43

	2021	2022	2023	2024	2023-28	2029-33	2034-43
Real GDP growth (percent)							
Current DSA	5.5	6.3	4.2	4.4	4.1	3.9	4.0
Previous DSA <sup>1</sup>	3.7	5.5	3.5	3.8	4.1	3.9	4.0
Overall fiscal balance (percent of GDP)							
Current DSA <sup>2</sup>	-0.7	-0.3	0.1	-1.6	-1.8	-3.5	-5.1
Previous DSA <sup>1</sup>	-0.8	-5.2	-4.6	-4.4	-4.8	-5.5	-5.1
Revenues and grants (percent of GDP)							
Current DSA	31.4	36.5	38.5	36.0	35.4	33.1	32.3
Previous DSA <sup>1</sup>	34.0	39.6	36.4	36.8	36.8	35.1	34.4
Public expenditure (percent of GDP)							
Current DSA	32.1	36.8	38.4	37.6	37.2	36.6	37.4
Previous DSA <sup>1</sup>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Current account balance (percent of GDP)							
Current DSA	-8.0	-43.6	-31.8	-9.7	-10.9	-4.6	-4.1
Previous DSA <sup>1</sup>	-8.6	-28.7	-10.6	-10.0	-12.5	-5.8	-5.4
Exports of goods and services (percent of GDP)							
Current DSA	35.7	30.5	52.2	69.6	63.9	58.2	51.0
Previous DSA <sup>1</sup>	38.6	43.7	47.5	47.5	46.4	45.2	43.4
Imports of goods and services (percent of GDP)							
Current DSA	64.2	89.9	93.8	90.2	86.1	77.0	76.5
Previous DSA <sup>1</sup>	69.5	85.3	69.4	68.6	69.8	61.6	62.9
PIP Disbursements (millions of US\$)							
Current DSA	304	328	255	368	312	390	475
Previous DSA <sup>1</sup>	162	296	271	258	240	250	359
Reserves in months of prospective imports							
Current DSA	3.2	2.6	2.8	2.4	2.2	2.1	2.4
Previous DSA <sup>1</sup>	3.9	3.6	2.9	2.4	2.5	2.6	3.4

Sources: Kyrgyz authorities; and IMF and World Bank staff estimates and projections.  
1/ IMF Country Report No. 23/91, Kyrgyz Republic -- Staff Report for the 2022 Article IV Consultation -- Debt Sustainability Analysis; outer year averages refer to 2022-27, 2028-32 and 2033-42, respectively.  
2/ Including onlending to energy SOEs.

- Fiscal policy. The overall budget deficit decreased to 0.3 percent of GDP in 2022 from 0.7 percent of GDP in 2021, on the back of strong import VAT collection and despite the significant increase in the public wage bill and capital spending. It is projected to be almost nil in 2023 as a result of the sharp increase in VAT revenue, as the full-year effect of the increase in public wages, pensions, and social assistance was contained. In addition, the capital injections in state-owned banks and the development fund are expected to add 2.6 percentage points of GDP to the financing needs, which are assumed to be filled by domestic debt. The deficit is projected to increase only gradually to slightly under 3 percent of GDP through 2028, helped by high nominal GDP projections. It will continue widening gradually from then on due to a gradual ebbing of the high VAT as imports moderate; high public investment, and the growing interest payments from the accruing non-concessional domestic debt, which rise from 1 percent of GDP in 2023 to 1.6 percent by 2028. Interest payments become the main driver of the increasing fiscal deficit by 2043.

- External sector. The current account deficit expanded substantially from 8.0 percent of GDP in 2021 to about 46 percent in 2022 as imports surged due to increased regional trade, with net money transfers falling by 17.4 percent. The widening of the trade balance in 2022 was largely due to discontinuation of gold exports with domestically produced gold purchased by the National Bank of the Kyrgyz Republic, and inadequate statistical recording of re-exports to the Eurasian Customs Union (EACU), mostly to Russia, as intra-EACU trade is not subject to mandatory customs monitoring by member countries. Staffs believe that these re-exports are captured by BoP errors and omissions, which surged to more than 37 percent of GDP in 2022. In 2023, net remittances are slated to fall by another 3.6 percentage points of GDP to 13.8 percent of GDP, but the resumption of gold exports from the second half of the year should limit the CA deficit to about 20 percent of GDP. Starting in 2024, Staffs project a full resumption of gold exports and an increase in exports that offsets in part the recorded increase in imports since 2022.
- 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. As in the previous DSA, IDA loan disbursements increase to around US\$70 million by 2030 and fall to around US\$25 million over the following 8 years.<sup>6</sup> Since overall net external financing is expected to decline over time, the share of net domestic borrowing is expected to comprise over 40 percent of net financing needs in 2023 and increase to almost 100 percent of net financing needs by 2028, 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 mid-single digits.

## 6. Baseline projections are realistic:

- 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 stabilization of total public debt in the medium term reflects high nominal GDP growth, and limited financing needs despite high domestic interest rates due to inflation. The gradual increase in the total public debt ratio beyond 2026 is explained by the expected widening of the general government deficit due to lower revenue and high cost of domestic debt, while nominal GDP growth slows.
- Realism of planned fiscal adjustment (Figure 4). The projected 3-year adjustment shows a some deterioration of the primary balance and is close to the middle of the chart. This is accounted for by the deterioration in tax revenue and the large size of the wage bill.

<sup>6</sup> 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 2023 is below the cone of growth path suggested by different fiscal multipliers as new drivers of growth linked to external trade have become more important.
- Consistency between public investment and growth (Figure 4). The path for public investment decreases in 2023 after a significant increase in 2022 including for emergency reconstruction on the border with Tajikistan. It rises slightly above levels from the previous DSA and espouses the same trend from 2023 onward.

## COUNTRY CLASSIFICATION AND STRESS TESTS

**7. The Kyrgyz Republic's debt-carrying capacity is medium** (Text Table 4). The country's Composite Indicator (CI) score<sup>7</sup> is 2.97 for its most recent vintage. It is below the threshold of 3.05 for strong debt-carrying capacity. The assessment of medium capacity is supported by the previous vintage CI score, which was also under 3.05.<sup>8</sup> The CI is calculated for the last two IMF World Economic Outlook (WEO) vintages (October 2023 and April 2023) and the World Bank's 2022 CPIA. The lower CI score is due to a lower CPIA score and a lower ratio for the coverage of imports by reserves. This translates into the following external debt burden thresholds: 180 percent of the present value (PV) of external debt-to-exports ratio, 40 percent of the PV of external debt-to-GDP, 15 percent of the PV of external debt service-to-exports, and 18 percent of the PV of debt service-to-revenue. The total public debt benchmark is 55 percent of the PV of total public debt-to-GDP ratio.

<sup>7</sup> 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](#).

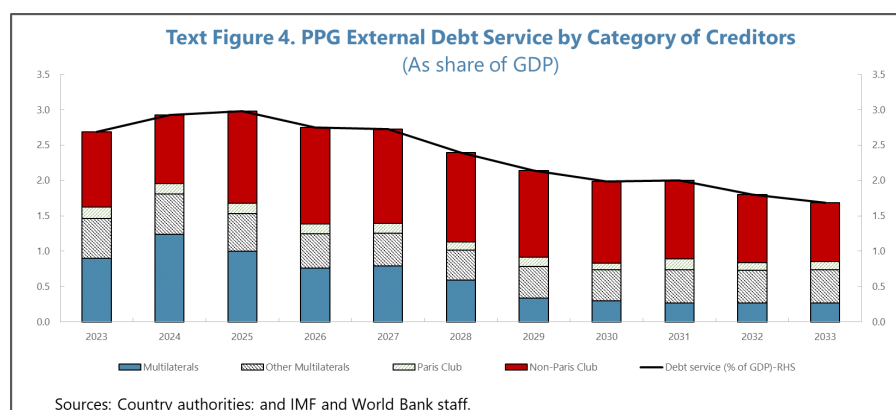
<sup>8</sup> To reduce potential variations in risk assessments stemming from volatility in macroeconomic projections, a change in country classification would require at least two consecutive designations in the new category. For more details, see [IMF, 2018, Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries](#).

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

Debt Carrying Capacity		Medium		
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages	
Medium	Medium 2.97	Medium 3.04	Strong 3.06	
EXTERNAL debt burden thresholds		Weak	Medium	Strong
PV of debt in % of				
Exports		140	180	240
GDP		30	40	55
Debt service in % of				
Exports		10	15	21
Revenue		14	18	23
TOTAL public debt benchmark		Weak	Medium	Strong
PV of total public debt in percent of GDP		35	55	70

## EXTERNAL DSA

**8. 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 39.5 percent of GDP at end-2022 and private external debt was 23.9 percent of GDP. The latter is expected to gradually decline to less than 20 percent of GDP by 2028 as net external private borrowing is projected to grow less than nominal GDP. The PV of PPG external debt decreased to 28.8 percent of GDP in 2022 (from about 35.7 percent at end-2021 estimated in the previous DSA) and is projected to decline further to about 19.3 percent of GDP by end-2028 (well 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 2025 and 2027 (Text Chart 4). The high residual in 2022 and 2023 is attributable to the high errors and omissions in the BOP, which are not projected onward.



**9. Unlike in the previous DSA, one external debt ratio breaches its threshold under a standard stress test.** The ratio of the PV of external debt-to-GDP breaches its threshold between 2025 and 2029 when a standard stress test to exports is applied. This is attributable to the lowering

of the thresholds, despite a declining external borrowing profile and the higher value of the denominators for all ratios, as inflation pushed up nominal GDP and exports are projected higher. Among all standard stress tests, a shock on exports consistently yields the most extreme values for the three remaining ratios.

**10. Moreover, the customized stress test on exports mirroring the discontinuation of gold exports and a collapse in re-exports causes a breach of both new and old thresholds for the PV of debt-to-GDP ratio.** The customized stress test is the same as in the previous DSA; it reduces exports by 2 standard deviations, resulting in negative export growth of 36.8 percent annually over the two years and a decrease in exports equivalent to US\$4.5 billion in 2025 (over the baseline). In this case, the threshold for PV of external debt-to-GDP ratio is briefly breached in 2025 before all external debt burden indicators decrease monotonously under the respective thresholds (Figure 1).

## PUBLIC DSA

**11. The PV of debt-to-GDP ratio, used to assess the risk of total public debt distress, increases gradually under the baseline scenario and does not breach its benchmark.** (Figure 2 and Tables 2 and 4). In 2023 public debt is estimated to have subsided to 46.9 percent of GDP from 49.2 percent of GDP the year before (Text Table 5). Under the baseline scenario, it is expected to decrease to 42.7 percent of GDP by 2025 due to lower fiscal imbalances and sustained buoyant growth, but increasing interest payments will put total public debt on an upward trajectory starting in 2027. It will rise to almost 67 percent of GDP by 2043, whereas it increased faster in the previous DSA and topped 68 percent by 2038. The ratio of debt service-to-revenue (including grants) rises to more than 15 percent 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 2022–33**  
(In percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	Long Term (2033) <sup>2/</sup>
<b>PPG external debt-to-GDP ratio</b>								
Current DSA	39.5	37.1	34.4	32.5	30.6	29.0	28.0	25.2
Previous DSA <sup>1</sup>	46.9	44.1	41.1	39.1	37.0	35.2	34.1	31.6
<b>Public debt-to-GDP ratio</b>								
Current DSA	49.2	46.9	44.3	42.7	42.1	42.2	42.9	48.2
Previous DSA <sup>1</sup>	58.3	57.9	57.8	58.7	59.6	61.0	62.9	70.7

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

1/ IMF Country Report No. 23/91, Kyrgyz Republic -- Staff Report for the 2022 Article IV Consultation -- Debt Sustainability Analysis.

2/ for the previous DSA: 2032.

**12. As in the previous DSA, total public debt is vulnerable to a growth shock, which is the most extreme test.** Under this shock, the PV of debt-to-GDP ratio breaches the benchmark of 55 percent of GDP by 2028 and continues a persistent upward trajectory thereafter. This shock also puts the two other indicators on an upward path: the PV of debt-to-revenue ratio would reach over 230 percent by 2033, and the debt service-to-revenue ratio would peak at 30 percent in 2032. Although no explicit benchmark exists for these two ratios, the projections point to potential debt and liquidity vulnerabilities in the long run.

## A. Risk Rating and Vulnerabilities

**13. The mechanical risk rating suggested by the baseline and the stress tests support staffs' assessment of external debt as at moderate risk of debt distress.** The breach of a threshold by one of the four ratios under a standard stress test and a customized stress test on exports, as in the previous DSA, justifies maintaining the risk of external debt distress at "moderate." This assessment is further supported by the heightened uncertainty stemming from the amplitude and rapidity of the decrease in exports, and the rise in downside regional risks pose challenges that are not well captured under the standard tests. These risks include possible adverse spillovers from Russia's invasion of Ukraine, higher global interest rates, 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. Moreover, staffs assess external debt as sustainable, because there are no breaches of relevant thresholds under the baseline for any external debt burden indicators, and they are all projected on a downward trajectory before 2033, driven by low external borrowing and the decline in PPG external debt.

**14. The risk of overall public debt distress remains "moderate," as the PV of debt-to-GDP ratio breaches its benchmark of 55 percent before 2033 under a standard stress test.** This ratio is driven by growing domestic borrowing as a residual source of financing at high interest rates in the absence of more concessional finance. Over time, the interest payments themselves become a driver of financing needs and an important contributor to automatic debt dynamics. However, total public debt is still assessed as sustainable since the PV of public debt-to-GDP ratio under the baseline remains below 50 percent of GDP by 2043, even though it increases monotonically. This is consistent with finding of "some fiscal space" evidenced by the granularity tool in Figure 5.

**15. Fiscal space is limited, yet necessary to ward off future shocks.** While total PPG debt in the near term is on a lower upward trajectory than in the previous DSA, the breach of the benchmark under a standard stress test by 2033 indicates that the Kyrgyz Republic needs fiscal consolidation or access to more concessional financing. 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. The increasing issuances of domestic debt projected in this DSA call for a deeper and more liquid financial sector.

**16. To keep public debt sustainable, the primary deficit should be reduced under 1.0 percent of GDP in the medium term.** This can be achieved by improving revenue mobilization,

including by streamlining tax exemptions and strengthening tax administration, the rationalization of the public wage bill, reducing subsidies, and improved targeting of social benefits.

**17. The authorities need to further strengthen public debt and expenditure management and improve the business climate.** Public investment management can contain contingent liabilities and spur growth, and raise spending efficiency. Reviewing the state's involvement in the economy through SOEs, and improving their oversight, should improve the efficiency of resource allocation and lead to reduced contingent liabilities. Financial performance of SOEs, including Kumtor, should be made transparent and accessible to the public, and its profit distribution be channeled to the budget. 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

**18. The authorities broadly shared the views of Bank and Fund staff.** They noted that their nominal debt ceiling of 70 percent of GDP is not breached over the long term in this analysis. They reiterated their commitment to adhere to it and indicated that their medium-term revenue projections point to continuous increases, higher surpluses, and reduced borrowing needs, consistent with their debt rule. They recognized the risks posed by the current high interest rate environment and a potential reversal of trade and migration flows. They acknowledged the challenges of shallow domestic debt markets, and the limited external concessional financing options, but emphasized their adoption of a new Public-Private Partnership framework to mobilize financing for commercially viable ventures.



**Table 1. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2020–43**  
(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 8/ Historical Projections		
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
<b>External debt (nominal) 1/</b>	<b>82.4</b>	<b>71.7</b>	<b>63.5</b>	<b>60.0</b>	<b>56.3</b>	<b>53.5</b>	<b>50.6</b>	<b>49.0</b>	<b>48.0</b>	<b>45.1</b>	<b>42.0</b>	<b>78.7</b>	<b>49.9</b>
<i>of which: public and publicly guaranteed (PPG)</i>	54.5	46.7	39.5	37.1	34.4	32.5	30.6	29.0	28.0	25.2	22.0	49.4	29.4
Change in external debt	13.5	-10.8	-8.2	-3.5	-3.7	-2.8	-2.9	-1.6	-1.0	-0.6	-0.5		
<b>Identified net debt-creating flows</b>	<b>11.6</b>	<b>-6.7</b>	<b>24.4</b>	<b>25.5</b>	<b>3.5</b>	<b>2.0</b>	<b>0.4</b>	<b>-0.4</b>	<b>-0.3</b>	<b>-0.9</b>	<b>-3.8</b>	<b>5.3</b>	<b>2.4</b>
<b>Non-interest current account deficit</b>	<b>-5.4</b>	<b>7.3</b>	<b>43.1</b>	<b>31.3</b>	<b>9.2</b>	<b>7.4</b>	<b>5.5</b>	<b>4.6</b>	<b>4.6</b>	<b>4.5</b>	<b>1.3</b>	<b>12.9</b>	<b>7.6</b>
Deficit in balance of goods and services	19.5	28.5	59.4	41.6	20.6	18.9	17.4	17.1	17.8	20.5	27.3	35.7	20.7
Exports	29.5	35.7	30.5	52.2	69.6	68.7	66.8	64.4	62.0	55.4	49.7		
Imports	49.0	64.2	89.9	93.8	90.2	87.5	84.1	81.4	79.8	75.9	77.1		
Net current transfers (negative = inflow)	-27.1	-27.2	-18.1	-14.1	-15.1	-15.2	-15.6	-16.2	-17.0	-19.7	-27.9	-26.9	-16.8
<i>of which: official</i>	-1.0	-0.6	-0.7	-0.3	-0.5	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1		
Other current account flows (negative = net inflow)	2.3	6.1	1.8	3.8	3.6	3.7	3.7	3.7	3.8	3.6	1.9	4.1	3.7
<b>Net FDI (negative = inflow)</b>	<b>7.0</b>	<b>-6.1</b>	<b>-4.4</b>	<b>-3.8</b>	<b>-3.7</b>	<b>-3.7</b>	<b>-3.6</b>	<b>-3.5</b>	<b>-3.4</b>	<b>-4.0</b>	<b>-3.8</b>	<b>-4.2</b>	<b>-3.7</b>
<b>Endogenous debt dynamics 2/</b>	<b>9.9</b>	<b>-8.0</b>	<b>-14.3</b>	<b>-1.9</b>	<b>-2.0</b>	<b>-1.7</b>	<b>-1.6</b>	<b>-1.5</b>	<b>-1.5</b>	<b>-1.4</b>	<b>-1.3</b>		
Contribution from nominal interest rate	0.8	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3		
Contribution from real GDP growth	5.6	-4.1	-3.6	-2.4	-2.5	-2.2	-2.0	-1.9	-1.9	-1.9	-1.6		
Contribution from price and exchange rate changes	3.5	-4.6	-11.2	...	...	...	...	...	...	...	...		
<b>Residual 3/</b>	<b>1.9</b>	<b>-4.0</b>	<b>-32.6</b>	<b>-29.0</b>	<b>-7.2</b>	<b>-4.8</b>	<b>-3.3</b>	<b>-1.2</b>	<b>-0.6</b>	<b>0.4</b>	<b>3.3</b>	<b>-6.4</b>	<b>-4.0</b>
<i>of which: exceptional financing</i>	-0.1	-0.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Sustainability indicators</b>													
<b>PV of PPG external debt-to-GDP ratio</b>	...	...	<b>28.8</b>	<b>26.6</b>	<b>24.8</b>	<b>23.2</b>	<b>21.6</b>	<b>20.2</b>	<b>19.3</b>	<b>16.6</b>	<b>15.1</b>		
<b>PV of PPG external debt-to-exports ratio</b>	...	...	<b>94.2</b>	<b>50.9</b>	<b>35.7</b>	<b>33.8</b>	<b>32.4</b>	<b>31.4</b>	<b>31.2</b>	<b>30.1</b>	<b>30.4</b>		
<b>PPG debt service-to-exports ratio</b>	<b>9.1</b>	<b>6.2</b>	<b>6.9</b>	<b>5.1</b>	<b>4.2</b>	<b>4.3</b>	<b>4.1</b>	<b>4.2</b>	<b>3.9</b>	<b>3.0</b>	<b>2.7</b>		
<b>PPG debt service-to-revenue ratio</b>	<b>9.9</b>	<b>7.5</b>	<b>6.1</b>	<b>7.2</b>	<b>8.5</b>	<b>8.8</b>	<b>8.2</b>	<b>8.2</b>	<b>7.3</b>	<b>5.3</b>	<b>4.3</b>		
Gross external financing need (Million of U.S. dollars)	818.7	727.4	5486.6	4180.8	1490.1	1379.8	1151.7	1083.6	1091.8	1082.8	573.4		
<b>Key macroeconomic assumptions</b>													
Real GDP growth (in percent)	3.8	5.5	6.3	4.2	4.4	4.2	4.0	4.0	4.0	4.0	4.0	5.2	4.0
GDP deflator in US dollar terms (change in percent)	-4.8	5.9	18.6	5.1	3.3	3.5	2.5	1.7	1.0	1.0	1.0	2.2	2.0
Effective interest rate (percent) 4/	1.1	0.9	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.8	0.9	0.8	0.9
Growth of exports of G&S (US dollar terms, in percent)	-21.8	35.1	8.0	87.2	43.9	6.4	3.6	2.0	1.1	2.7	5.1	1.5	14.3
Growth of imports of G&S (US dollar terms, in percent)	-28.7	46.3	76.8	14.2	3.7	4.7	2.4	2.4	2.9	4.6	5.3	8.7	4.5
Grant element of new public sector borrowing (in percent)	...	...	...	42.8	38.8	37.9	36.7	38.3	38.0	37.6	33.2	...	...
Government revenues (excluding grants, in percent of GDP)	27.1	29.6	34.5	37.3	34.6	34.0	33.4	33.1	32.9	31.9	31.8	...	...
Aid flows (in Million of US dollars) 5/	154.3	162.4	234.3	274.0	406.5	385.3	341.0	363.6	367.3	384.6	392.0	31.1	33.3
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.5	2.6	2.4	2.0	2.0	2.0	1.6	1.1	...	2.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	59.8	58.1	54.6	57.1	57.7	57.0	56.6	50.7	...	57.1
Nominal GDP (Million of US dollars)	8,283	9,256	11,672	12,782	13,791	14,873	15,842	16,752	17,594	22,398	36,407		
Nominal dollar GDP growth	-11.6	11.7	26.1	9.5	7.9	7.8	6.5	5.7	5.0	5.0	5.0	6.4	6.1
<b>Memorandum items:</b>													
PV of external debt 7/	...	...	52.7	49.5	46.8	44.1	41.6	40.2	39.3	36.6	35.0		
In percent of exports	...	...	172.7	94.9	67.2	64.3	62.3	62.4	63.4	66.1	70.5		
Total external debt service-to-exports ratio	27.8	18.4	27.2	10.0	7.7	8.1	8.0	8.3	8.2	7.9	8.2		
PV of PPG external debt (in Million of US dollars)	...	...	3359.3	3397.5	3426.7	3449.8	3428.1	3390.5	3400.3	3728.6	5496.8		
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	0.3	0.2	0.2	0.2	-0.1	-0.2	0.1	0.4	0.5		
Non-interest current account deficit that stabilizes debt ratio	-18.8	18.1	51.3	34.8	12.9	10.2	8.4	6.2	5.6	5.0	1.7		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - \rho(1+g) + \epsilon\alpha(1+r)] / (1+g+\rho+g\rho)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate,  $\rho$  = growth rate of GDP deflator in U.S. dollar terms,  $\epsilon$  = nominal appreciation of the local currency, and  $\alpha$  = 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.

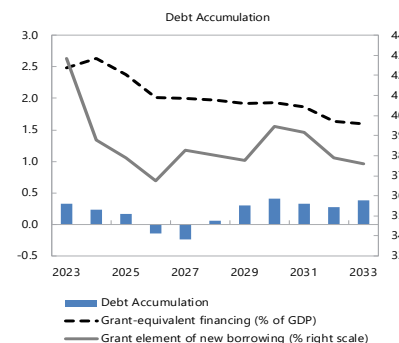
5/ Defined as grants, concessional loans, and debt relief.

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.

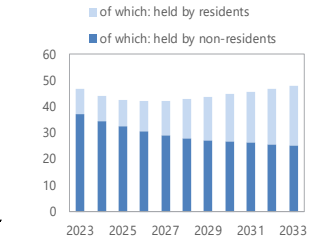
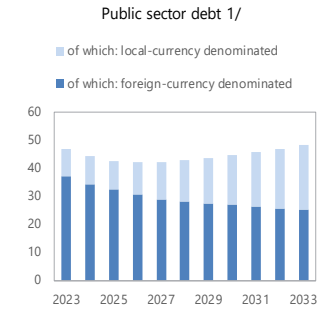
Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No



**Table 2. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–43**  
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
<b>Public sector debt 1/</b>	63.6	56.2	49.2	46.9	44.3	42.7	42.1	42.2	42.9	48.2	67.2	55.8	44.6
of which: external debt	54.5	46.7	39.5	37.1	34.4	32.5	30.6	29.0	28.0	25.2	22.0	49.4	29.4
<b>Change in public sector debt</b>	14.8	-7.4	-7.0	-2.3	-2.6	-1.6	-0.6	0.1	0.7	1.2	2.2		
<b>Identified debt-creating flows</b>	11.9	-8.2	-9.7	-3.7	-1.5	-1.1	-0.5	0.0	0.3	0.9	2.0	-1.2	-0.2
<b>Primary deficit</b>	2.1	0.0	-0.8	-1.1	0.5	0.6	0.9	1.2	1.3	1.5	2.1	1.5	1.0
Revenue and grants	29.0	31.4	36.5	38.5	36.0	35.2	34.6	34.2	33.9	32.7	32.3	33.2	34.3
of which: grants	1.9	1.8	2.0	1.2	1.4	1.2	1.1	1.1	1.1	0.9	0.6		
Primary (noninterest) expenditure	31.1	31.3	35.7	37.4	36.6	35.8	35.5	35.3	35.3	34.2	34.4	34.7	35.3
<b>Automatic debt dynamics</b>	9.8	-9.9	-10.0	-3.7	-2.2	-1.7	-1.4	-1.2	-1.0	-0.6	-0.1		
Contribution from interest rate/growth differential	2.2	-2.9	-5.1	-3.7	-2.2	-1.7	-1.4	-1.2	-1.0	-0.6	-0.1		
of which: contribution from average real interest rate	-1.6	0.5	-1.7	-1.7	-0.2	0.0	0.2	0.4	0.6	1.2	2.4		
of which: contribution from real GDP growth	3.8	-3.3	-3.3	-2.0	-2.0	-1.8	-1.6	-1.6	-1.6	-1.8	-2.5		
Contribution from real exchange rate depreciation	7.6	-7.0	-4.9	...	...	...	...	...	...	...	...		
<b>Other identified debt-creating flows</b>	0.0	1.7	1.1	1.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Privatization receipts (negative)	0.0	1.7	1.1	1.1	0.2	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		
<b>Residual</b>	2.9	0.8	2.7	1.4	-1.1	-0.5	-0.1	0.1	0.3	0.3	0.2	1.1	0.1
<b>Sustainability indicators</b>													
<b>PV of public debt-to-GDP ratio 2/</b>	...	...	39.3	37.4	35.2	33.8	33.5	33.8	34.5	40.0	60.5		
<b>PV of public debt-to-revenue and grants ratio</b>	...	...	107.8	97.0	97.6	95.9	96.9	98.8	101.6	122.1	187.1		
<b>Debt service-to-revenue and grants ratio 3/</b>	9.3	7.1	5.8	8.2	12.9	13.5	13.1	13.9	13.6	12.7	18.6		
Gross financing need 4/	4.8	3.9	2.4	3.1	5.3	5.4	5.5	5.9	5.9	5.7	8.1	1.7	
<b>Key macroeconomic and fiscal assumptions</b>													
Real GDP growth (in percent)	3.8	5.5	6.3	4.2	4.4	4.2	4.0	4.0	4.0	4.0	4.0	5.2	4.0
Average nominal interest rate on external debt (in percent)	1.8	1.4	1.3	1.5	1.5	1.4	1.4	1.4	1.5	1.5	1.6	1.4	1.5
Average real interest rate on domestic debt (in percent)	-5.1	-13.8	-14.3	-6.6	0.2	2.7	4.3	5.6	6.5	6.4	6.1	-7.1	4.1
Real exchange rate depreciation (in percent, + indicates depreciation)	19.9	-13.1	-11.3	...	...	...	...	...	...	...	...	0.0	...
Inflation rate (GDP deflator, in percent)	3.4	16.0	16.7	12.1	8.6	6.6	5.5	4.8	4.0	4.0	4.0	7.7	5.6
Growth of real primary spending (deflated by GDP deflator, in percent)	-3.6	6.2	21.1	9.2	2.1	1.9	3.1	3.6	3.8	3.9	4.1	3.1	3.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-12.7	7.4	6.2	1.2	3.1	2.2	1.5	1.1	0.7	0.4	-0.1	1.6	1.1
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



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.

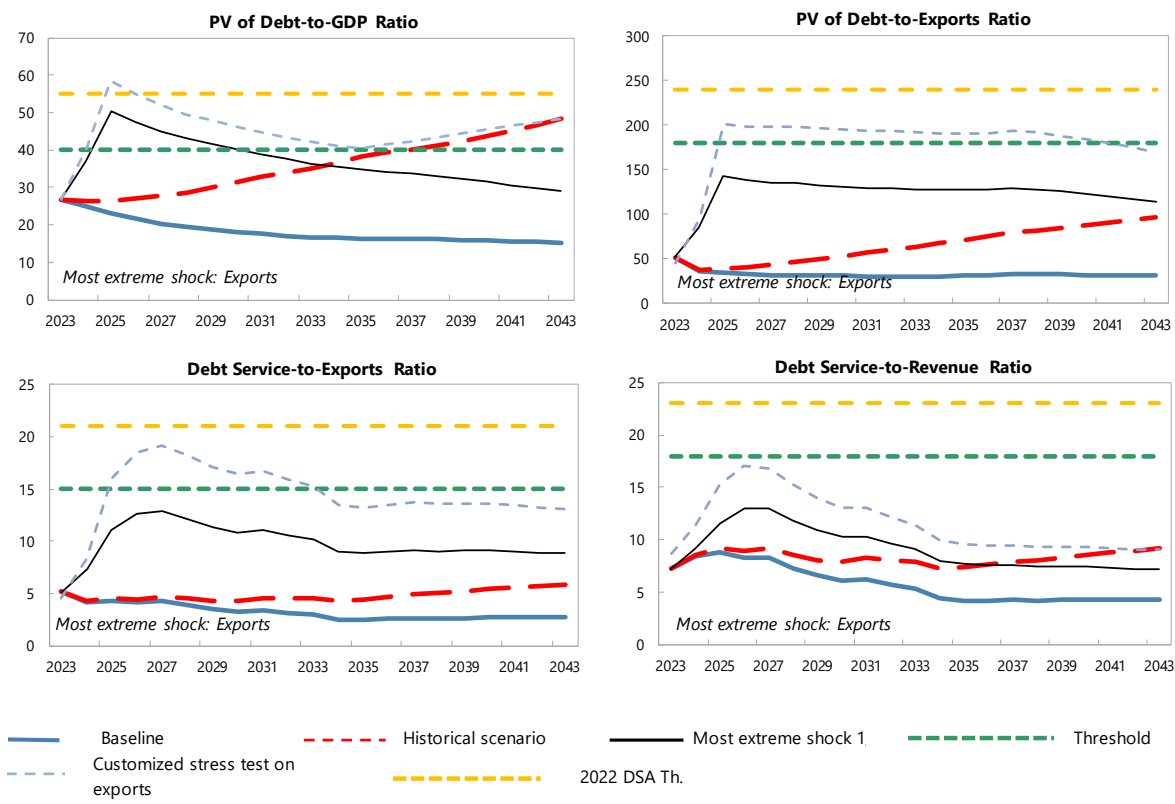
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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 (i.e., a primary surplus), which would stabilize 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, 2023–43**

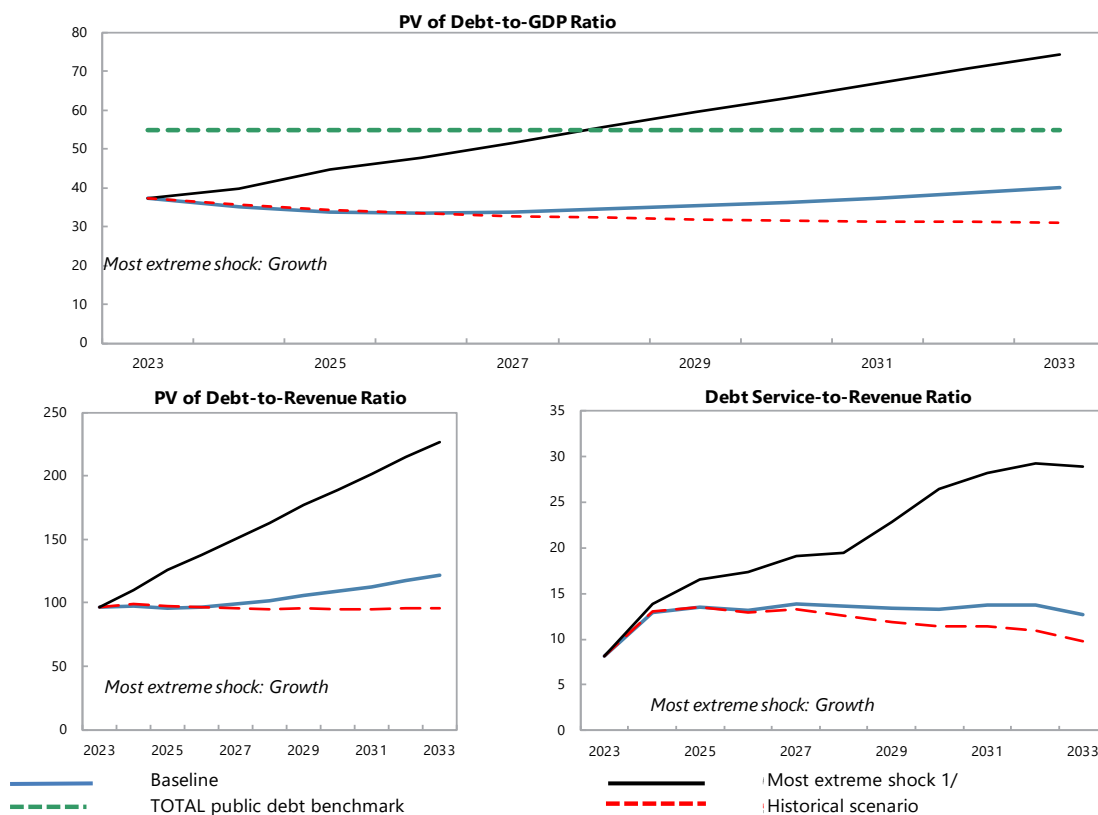


Customization of Default Settings			Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Size	Interactions		Default	User defined
<b>Tailored Stress</b>			<b>Shares of marginal debt</b>		
Combined CL	No		External PPG MLT debt	100%	
Natural disaster	n.a.	n.a.	<b>Terms of marginal debt</b>		
Commodity price	n.a.	n.a.	Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
Market financing	n.a.	n.a.	USD Discount rate	5.0%	5.0%
			Avg. maturity (incl. grace period)	343	343
			Avg. grace period	321	321

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.

\* 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.

**Figure 2. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2023–33**



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
<b>Shares of marginal debt</b>		
External PPG medium and long-term	45%	45%
Domestic medium and long-term	50%	50%
Domestic short-term	6%	6%
<b>Terms of marginal debt</b>		
<b>External MLT debt</b>		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
Avg. maturity (incl. grace period)	343	343
Avg. grace period	321	321
<b>Domestic MLT debt</b>		
Avg. real interest rate on new borrowing	5.5%	5.5%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	4	4
<b>Domestic short-term debt</b>		
Avg. real interest rate	2.0%	2.0%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. 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 extreme 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, 2023–33**

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>PV of debt-to GDP ratio</b>											
<b>Baseline</b>	27	25	23	22	20	19	19	18	18	17	17
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	27	26	26	27	28	29	30	31	33	34	35
<b>B. Bound Tests</b>											
B1. Real GDP growth	27	27	27	25	23	22	22	21	20	20	19
B2. Primary balance	27	25	24	22	21	20	20	19	19	18	18
B3. Exports	27	37	<b>50</b>	<b>47</b>	<b>45</b>	<b>43</b>	<b>42</b>	<b>40</b>	39	38	36
B4. Other flows 3/	27	28	29	28	26	25	24	23	23	22	21
B5. Depreciation	27	31	27	25	23	22	22	21	20	20	19
B6. Combination of B1-B5	27	37	38	35	33	32	31	30	29	28	27
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	27	26	24	23	21	20	20	20	19	18	18
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.
<b>Threshold</b>	40	40	40	40	40	40	40	40	40	40	40
<b>PV of debt-to-exports ratio</b>											
<b>Baseline</b>	51	36	34	32	31	31	31	30	30	30	30
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	51	38	39	40	43	46	49	53	56	60	64
<b>B. Bound Tests</b>											
B1. Real GDP growth	51	36	34	32	31	31	31	30	30	30	30
B2. Primary balance	51	36	35	34	33	33	32	32	32	32	32
B3. Exports	51	85	143	138	135	135	132	131	130	129	128
B4. Other flows 3/	51	40	43	41	40	40	39	39	39	39	38
B5. Depreciation	51	36	31	30	29	29	28	28	28	28	28
B6. Combination of B1-B5	51	78	49	85	83	83	81	81	80	80	79
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	51	37	35	34	33	33	33	33	33	33	33
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	180	180	180	180	180	180	180	180	180	180	180
<b>Debt service-to-exports ratio</b>											
<b>Baseline</b>	5	4	4	4	4	4	3	3	3	3	3
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	5	4	5	4	5	4	4	4	5	4	5
<b>B. Bound Tests</b>											
B1. Real GDP growth	5	4	4	4	4	4	3	3	3	3	3
B2. Primary balance	5	4	4	4	4	4	4	3	4	3	3
B3. Exports	5	7	11	13	13	12	11	11	11	11	10
B4. Other flows 3/	5	4	5	5	5	4	4	4	4	4	3
B5. Depreciation	5	4	4	4	4	4	3	3	3	3	3
B6. Combination of B1-B5	5	7	9	9	9	8	8	7	8	7	7
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	5	4	4	4	4	4	4	3	4	3	3
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.
<b>Threshold</b>	15	15	15	15	15	15	15	15	15	15	15
<b>Debt service-to-revenue ratio</b>											
<b>Baseline</b>	7	8	9	8	8	7	7	6	6	6	5
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	7	9	9	9	9	8	8	8	8	8	8
<b>B. Bound Tests</b>											
B1. Real GDP growth	7	9	10	10	10	8	8	7	7	7	6
B2. Primary balance	7	8	9	8	8	7	7	6	6	6	5
B3. Exports	7	9	12	13	13	12	11	10	10	10	9
B4. Other flows 3/	7	8	9	9	9	8	7	7	7	6	6
B5. Depreciation	7	11	11	10	10	9	8	7	8	7	6
B6. Combination of B1-B5	7	9	11	11	11	10	9	8	9	8	7
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	7	8	9	8	8	7	7	6	6	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.
<b>Threshold</b>	18	18	18	18	18	18	18	18	18	18	18

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, 2023–33**

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>PV of Debt-to-GDP Ratio</b>											
<b>Baseline</b>	37	35	34	33	34	34	35	36	37	39	40
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	37	36	34	33	33	32	32	32	31	31	31
<b>B. Bound Tests</b>											
B1. Real GDP growth	37	40	45	48	51	<b>56</b>	<b>60</b>	<b>63</b>	<b>67</b>	<b>71</b>	<b>75</b>
B2. Primary balance	37	37	38	37	37	38	39	39	40	41	43
B3. Exports	37	45	<b>55</b>	54	53	53	54	54	54	55	<b>56</b>
B4. Other flows 3/	37	38	40	39	39	40	41	41	42	43	45
B5. Depreciation	37	41	37	36	35	34	34	35	35	35	36
B6. Combination of B1-B5	37	37	36	34	34	35	36	37	38	39	40
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	37	40	38	38	38	39	39	40	41	42	43
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.
<b>TOTAL public debt benchmark</b>	55	55	55	55	55	55	55	55	55	55	55
<b>PV of Debt-to-Revenue Ratio</b>											
<b>Baseline</b>	97	98	96	97	99	102	106	109	113	118	122
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	97	99	97	97	96	95	96	95	95	96	96
<b>B. Bound Tests</b>											
B1. Real GDP growth	97	110	126	138	150	163	177	189	201	215	227
B2. Primary balance	97	103	107	108	109	112	115	118	121	126	130
B3. Exports	97	124	157	156	156	157	160	162	164	168	170
B4. Other flows 3/	97	107	114	114	116	118	122	125	128	132	136
B5. Depreciation	97	114	105	103	101	101	102	104	105	108	110
B6. Combination of B1-B5	97	101	102	98	100	103	107	111	114	119	124
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	97	111	109	110	112	114	116	119	123	128	132
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.
<b>Debt Service-to-Revenue Ratio</b>											
<b>Baseline</b>	8	13	14	13	14	14	13	13	14	14	13
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	8	13	14	13	13	13	12	11	11	11	10
<b>B. Bound Tests</b>											
B1. Real GDP growth	8	14	17	17	19	19	23	26	28	29	29
B2. Primary balance	8	13	14	15	15	15	17	17	15	15	14
B3. Exports	8	13	15	16	17	17	16	16	17	16	15
B4. Other flows 3/	8	13	14	14	15	14	14	14	15	15	14
B5. Depreciation	8	13	15	14	15	15	14	12	14	14	13
B6. Combination of B1-B5	8	13	14	13	14	14	13	13	14	14	13
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	8	13	16	14	15	15	21	15	15	15	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

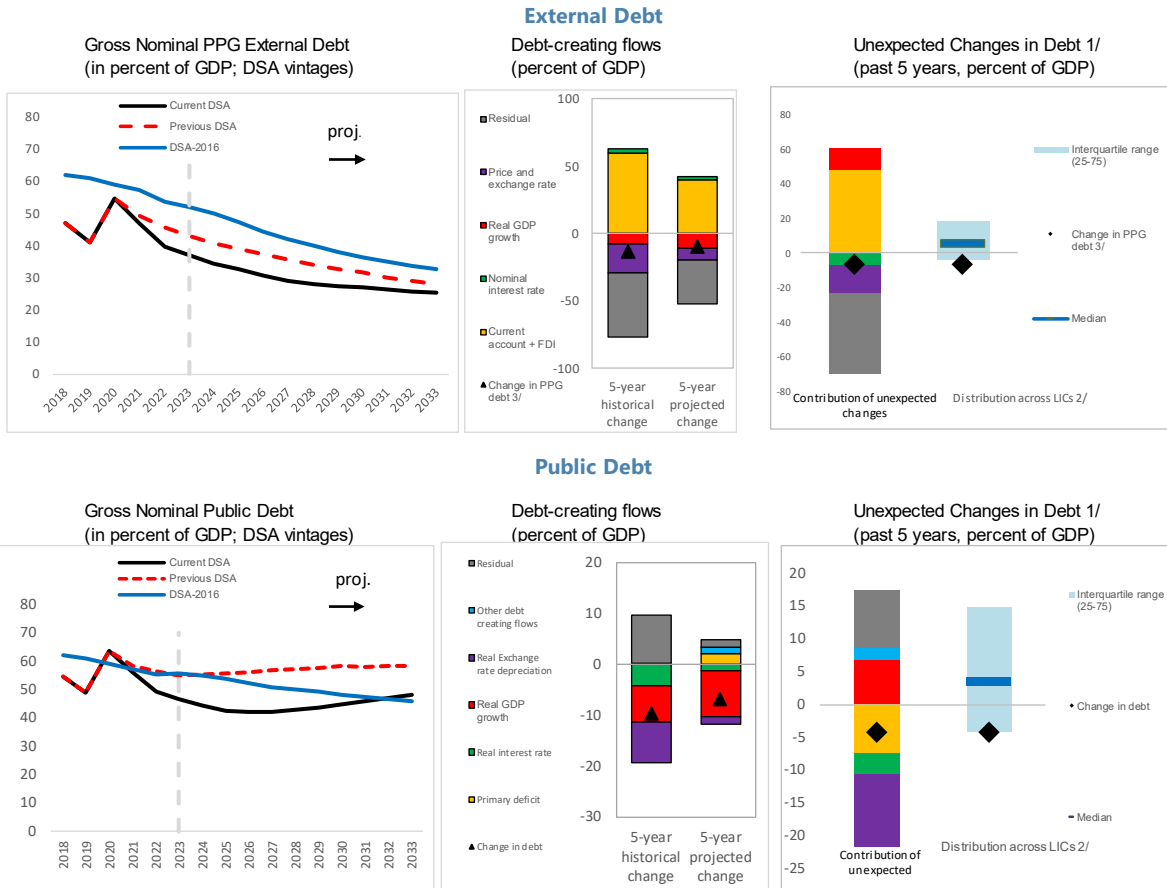
Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

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



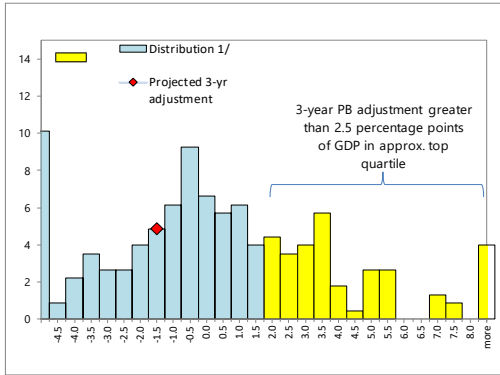
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

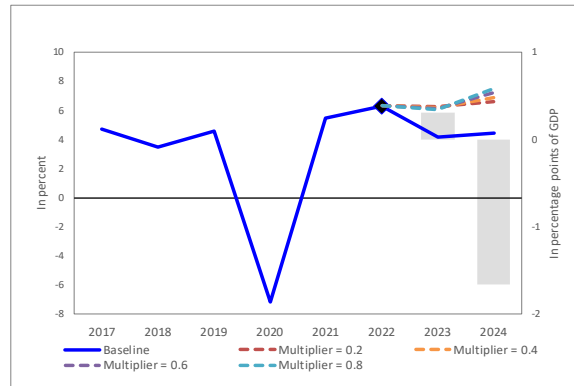
Figure 4. Kyrgyz Republic: Realism Tools

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



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

Fiscal Adjustment and Possible Growth Paths 1/



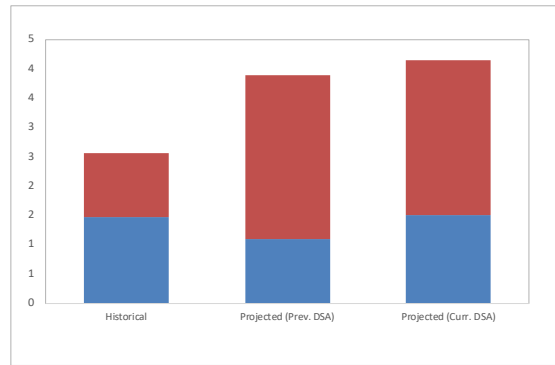
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates  
(percent of GDP)



Gov. Invest. - Prev. DSA      Gov. Invest. - Curr. DSA  
Priv. Invest. - Prev. DSA      Priv. Invest. - Curr. DSA

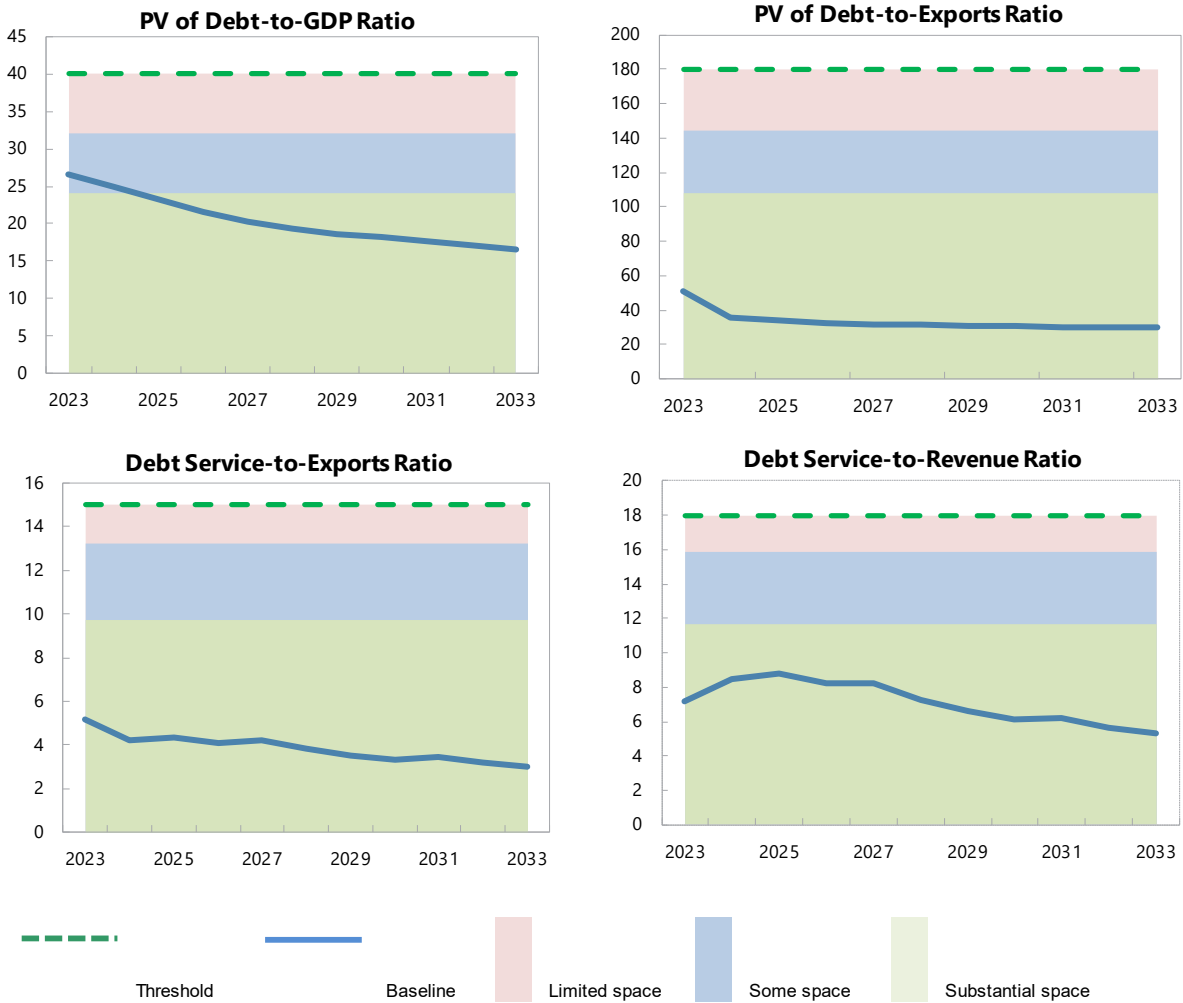
Contribution to Real GDP growth  
(percent, 5-year average)



Contribution of other factors  
Contribution of government capital



**Figure 5. Kyrgyz Republic: Qualification of the Moderate Category, 2023–33 1/**



Sources: Country authorities; and staff estimates and projections.

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



# KYRGYZ REPUBLIC

## STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

February 2, 2024

Prepared By

Middle East and Central Asia Department

*This statement provides information that has become available since the staff report (SM/24/20) was issued to the Board on January 23, 2023. This information does not alter the thrust of the staff appraisal.*

- 1. The National Statistics Committee of the Kyrgyz Republic recently released revised GDP figures for 2022 and published full year figures for 2023, using a new methodology.** The GDP growth rate for 2022 has been increased from 6.2 percent to 9 percent. For 2023, output growth was reported at 6.2 percent compared to 4.4 percent growth through November. Staff is analyzing the nature of the revision. The new data do not change the thrust of the staff appraisal and staff's policy recommendations remain valid.
- 2. Headline inflation declined to 7.3 percent in December from 8.1 percent in November, approaching the central bank's target range of 5-7 percent.** Core inflation also fell, but has remained in double digits at 11.4 percent, down from 12.4 percent in November. At its January Monetary Policy Meeting, the central bank kept its policy rate unchanged at 13 percent, which the mission supports in view of the lingering demand pressures.
- 3. Preliminary fiscal outturns point to an overall surplus of general government of 1.6 percent of GDP.** In large part, this is due to a surplus of the Social Fund, which both the authorities and staff projected to be balanced. For the central government, somewhat lower tax revenue was more than offset by higher non-tax revenue. Current spending, including wages and goods and services, was about 0.5 percent of GDP higher, and capital spending 0.3 percent of GDP lower than projected.

**Statement by Mr. Marcel Peter and Ms. Lilia Kadyrberdieva on Kyrgyz Republic  
February 5, 2024**

On behalf of our Kyrgyz authorities, we thank staff for the constructive discussions during the Article IV mission, the comprehensive reports, as well as the insightful Selected Issues papers. The Kyrgyz authorities attach great importance to staff's assessment of the current economic challenges and their policy recommendations.

**Economic developments and outlook**

Against the backdrop of a slowdown in global growth, economic policy in 2023 remained focused on ensuring macroeconomic stability, including through effective measures to curb inflation, to prevent the emergence of crises, as well as to minimize their impact. The authorities continued to implement the National Development Program, the main goals of which include ensuring an average annual real economic growth rate of 5 percent and reducing the poverty level to below 20 percent. The Action Plan of the Cabinet of Ministers for 2023 was adopted, which aims at creating conditions for the full realization of the country's economic potential by implementing measures to develop strategic sectors of the economy—agricultural, energy, and services—that can contribute to the creation of new jobs.

In 2023, including with the assistance of the Fund, the national statistics authority completed the long-lasting task of improving national accounts statistics by updating their methodology in accordance with the 2008 System of National Accounts (2008 SNA). As a result, GDP growth rates over the last few years were revised using the 2008 SNA. For 2023, GDP growth was 6.2 percent, driven by growth in the service sector and commodity production. Rising real wages, expanding consumer loans, and growth in the inflow of remittances supported domestic demand. A drag on economic growth was the reduction in output at Kumtor gold mine. Excluding Kumtor, GDP grew by 8.1 percent in 2023.

Headline inflation declined from a peak of 16.2 percent in February to 7.3 percent in December 2023, reflecting the monetary policy implemented by the National Bank of the Kyrgyz Republic (NBKR) and the weakening of external inflationary pressures. However, core inflation remains in double-digits, indicating continued demand pressures and inflationary risks. Despite some exchange rate volatility and a deterioration of the balance of payments, the country's international reserves increased by 16 percent over the year and exceeded USD 3 billion at the end of 2023.

The authorities broadly agree with staff on the outlook and risks. Although GDP grew faster than expected, uncertainty surrounding the outlook for the Kyrgyz economy remains high. The country continues to face economic policy challenges stemming

mainly from the global slowdown, world price volatilities, geo-economic fragmentation, and climate change. However, the authorities remain committed to increasing potential growth and further diversifying the economy over the medium term, thereby improving the economic outlook.

### **Fiscal policy**

Fiscal consolidation and public debt sustainability, while increasing fiscal space for priority spending, remain the authorities' medium-term objectives. According to preliminary data, the general government budget was in surplus in 2023, with public debt below 50 percent of GDP. Over the medium term, fiscal policy will be used as a tool for creating an environment conducive to job-rich, private sector-led growth and to increasing the country's attractiveness to investment.

With the entry into force of the new tax code in 2022, the resources of the state budget increased, along with an improvement in the administration of tax procedures. The continued introduction of new information technologies in tax and customs procedures will allow to further optimize tax collection processes, which will lead to an increase in budget revenues. The results of the first stage of the assessment of the effectiveness of five tax exemptions propose to abolish the income tax benefit for credit unions from January 1, 2027, and to not extend the exemption from value added tax on imported banking equipment beyond January 1, 2024. The authorities consider it premature to increase the progressivity of the personal income tax.

The medium-term goal of the government's spending policy is to maintain the social orientation of spending along with a reduction of non-priority expenses. The government will optimize budgetary resources by improving the efficiency and targeting of spending.

### **Monetary policy and financial sector**

Monetary policy remains restrictive to contain inflationary pressures. The NBKR has kept the policy rate high at 13 percent since November 2022, combined with prudent liquidity management measures. Despite annual inflation dropping to 5.9 percent as of January 19 this year, the NBKR decided on January 29 to keep the policy rate unchanged at 13 percent. The current monetary policy is aimed at reducing inflation to the target range of 5–7 percent in the medium term. The NBKR currently projects inflation for 2024 near the upper level of the range. It is worth noting that since August 2020, the NBKR has not been involved in subsidized lending.

The domestic foreign exchange market has been quite susceptible to external shocks and heightened uncertainty in external financial markets. However, the NBKR successfully contained exchange rate volatility and minimized adverse inflationary pressures and risks

to the economy. The authorities will cautiously maintain two-way exchange rate flexibility as a key to reducing external imbalances and safeguarding reserves. Interventions in the foreign exchange market will be used to smooth excessive fluctuations.

The NBKR will continue to strengthen monetary transmission and gradually phase out its non-core activities. For example, the NBKR's loan to the Russian-Kyrgyz Development Fund was fully repaid in 2023. The NBKR also plans to sell its ownership in Keremet Bank to the government in 2024. On January 31, 2024, the parliament considered and adopted in the first reading the bill on the acquisition of Keremet Bank by the Cabinet of Ministers from the NBKR. The NBKR's gold operations will primarily be determined by its reserve management strategy. Finally, the authorities created an interdepartmental working group to address the issues with the external accounts and find ways to improve the balance of payments statistics.

The banking system is well-capitalized and stable. The current monetary policy is inducing an increase in savings by the population, leading to a significant expansion of the deposit base of commercial banks. Concurrently, the banking sector expanded its loan portfolio by 26.3 percent. Although the key performance indicators of the banking sector show sufficient liquidity and capital buffers as well as a decline in non-performing loans, the NBKR remains vigilant and continuously enhances its risk-based supervision.

### **Structural reforms**

The Kyrgyz authorities recognize the importance of institutional and structural reforms to ensure broad-based and inclusive growth. They are committed to further improving the business and investment climate; supporting SMEs; enhancing governance, public financial management and accountability; increasing economic diversification; and strengthening human capital. They will address outstanding AML/CFT issues and pursue an ambitious digitalization agenda. The authorities acknowledge the importance of further improving the governance of SOEs and implementing energy sector reforms. They intend to increase the efficiency of the development funds and the State Development Bank (SDB) in addressing market failures. Given the SDB's role in mobilizing financing, including from external sources, the authorities will be vigilant to avoid excessive borrowing by SDB with a view to safeguarding the country's debt sustainability. The authorities remain committed to strengthening the country's resilience to climate change, including through investments in green infrastructure.