

Kyrgyz Republic – Monthly Economic Update

April 2021

- *A third wave of COVID-19 cases appears to be building up in the Kyrgyz Republic as the number of daily cases is rapidly increasing.*
- *The economy remains in deep recession as real GDP contracted by 9.4 percent in the first quarter of 2021, year-on-year.*
- *The central bank has tightened monetary policy in response to rising inflation.*
- *The fiscal deficit narrowed substantially because of higher revenues and despite a surge in spending.*

The impact of the global COVID-19 pandemic on the Kyrgyz Republic has continued into 2021. As of mid-April 2021, a third wave of COVID-19 cases appears to be building up with daily new cases rapidly increasing to more than 300 cases from around 45 cases in early March (Figure 1). Since the outbreak of the pandemic in March 2020, the total number of infected people reached to 91,374 and death toll 1,542 people (as of April 16, 2021).

The economy remains in deep recession owing to continued declines in consumption, investment and exports. Real GDP is estimated to have contracted by 9.4 percent in the first quarter of 2021 (year-on-year) (Figure 2). The contraction was driven by continued declines in consumption and investment. On the production side, output fell in gold production by 41 percent, non-gold industry by 18 percent, construction by 20 percent and services by 5.5 percent. Agriculture is the only sector that registered positive growth (0.9 percent) in the first quarter. The impact of the crisis continues to weigh on external trade. This was further deteriorated by weak gold export performance that shrunk twice as much in January-February 2021 compared to the same period of last year. As a result, both exports and imports in US dollars declined by 25 percent

and 15 percent, respectively, in January-February 2021 (year-on-year).

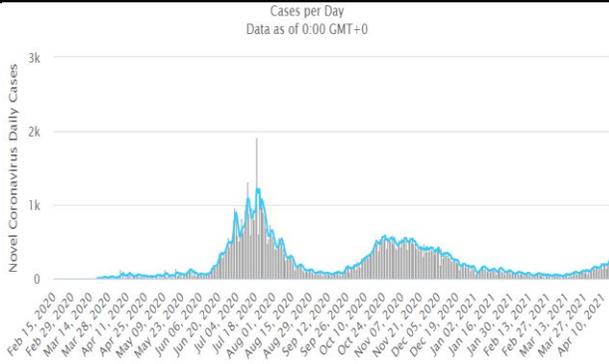
Higher increases in prices for food and fuel pushed 12-month inflation to 10.2 percent in March 2021 from 5.9 percent a year earlier (Figure 3). Inflation was driven mainly by food prices (an increase of 16.5 percent, year-on-year), specifically prices for meat (24 percent), cooking oil (49 percent) and sugar (47 percent). Fuel prices also surged, reflecting higher global oil prices, by 15 percent in March alone and 25 percent since the beginning of the year.

Monetary policy has been tightened in response to rising inflation. The central bank raised its policy interest rate by 50 basis points to 5.5 percent in February 2021. After a depreciation of 2.6 percent in January 2021, the Som has been stable against the US dollar, supported by central bank exchange market interventions (Figure 4); the central bank sold \$158 million in the first quarter of 2021, \$38 million less than in the same period a year ago (Figure 5).

The fiscal deficit narrowed substantially owing to higher revenue and despite a surge in spending. The budget deficit declined significantly to 0.5 percent of GDP in January-February 2021 from 4.9 percent of GDP a year ago (Table 1).¹ Revenues rose to 33.1 percent of GDP from 26.7 percent a year earlier, because of higher payments by mining companies and better administration of imports. Expenditures increased to 33.6 percent of GDP in January-February 2021 from 31.6 percent a year ago, driven by a higher wage bill, transfers and subsidies. However, capital outlays fell to 3.7 percent of GDP from 4.9 percent a year ago. Public debt increased slightly to 70.2 percent of GDP in January 2021 from 68.1 percent in December last year (Figure 6).

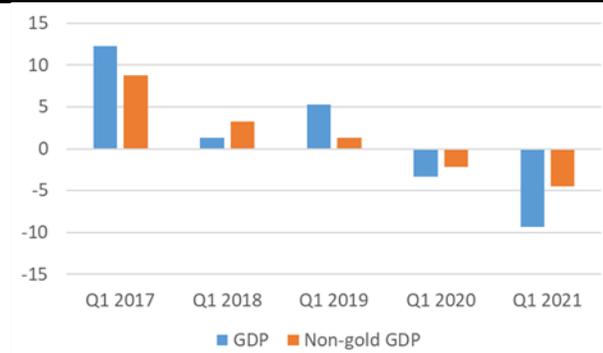
¹ State government budget

Figure 1. Daily new COVID-19 cases



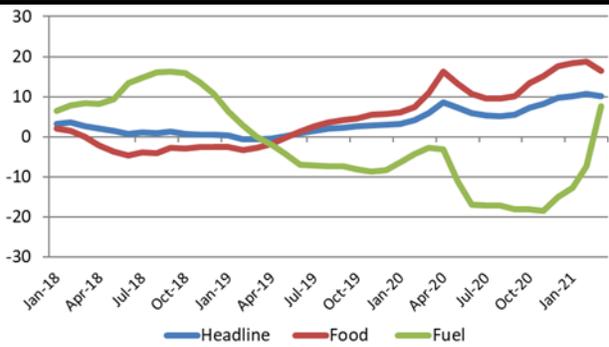
Source: Worldometer.

Figure 2. Real GDP growth (percent, year-on-year)



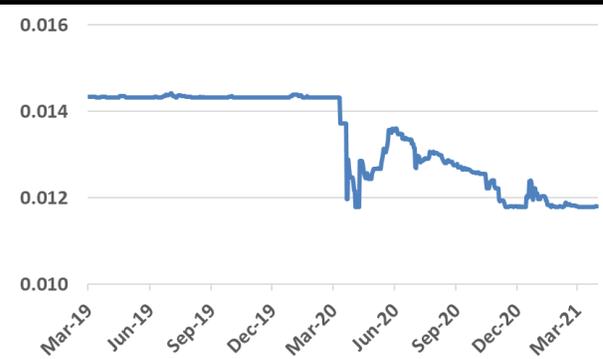
Source: NSC.

Figure 3. Inflation, (percent, year-on-year)



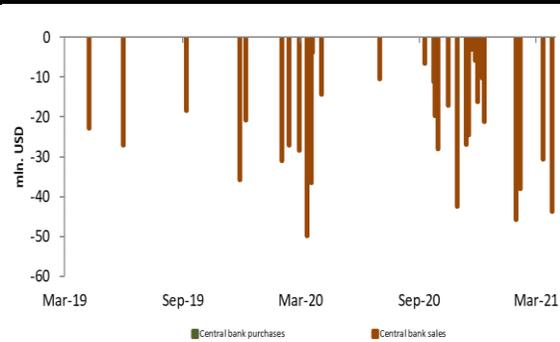
Source: NBKR

Figure 4. Exchange rate (USD per one Som)



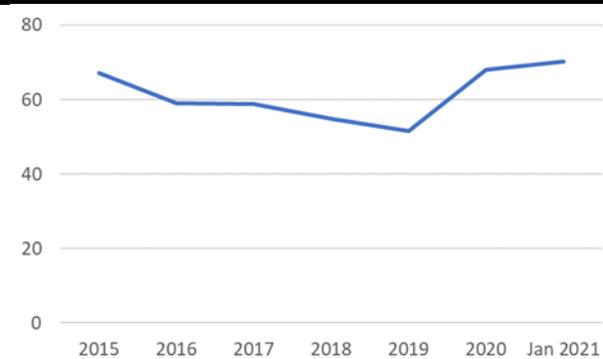
Source: NBKR

Figure 5. Exchange market interventions



Source: NBKR

Figure 6. Public debt (percent of GDP)



Source: MoEF

Table 1: State Government Budget

	2020	Jan-Feb 2020	Jan-Feb 2021
Total revenues and grants	25.4	26.7	33.1
Total revenues	23.5	25.5	32.4
Current revenues	23.4	25.5	32.3
Tax revenues	17.9	21.4	26.3
Non-tax revenues	5.6	4.1	6.0
Capital revenues	0.0	0.0	0.0
Grants	2.0	1.2	0.8
Program grants	1.1	0.6	0.0
PIP grants	0.9	0.6	0.8
Total expenditure (incl. net lending)	29.6	31.6	33.6
Current expenditure	26.0	27.4	31.0
Wage and SF contribution	10.3	11.4	13.4
Wage	9.2	10.0	11.8
SF contribution	1.2	1.4	1.6
Transfer and subsidies	3.1	3.7	4.3
Transfer to SF	3.8	5.1	5.4
Transfer to Medical Insurance Fund	2.2	2.2	2.7
Interest	1.4	1.7	2.0
Purchase of other goods and services	5.2	3.4	3.2
Capital expenditure	3.3	4.9	3.7
Domestically financed	0.7	0.2	0.1
PIP loans	1.7	4.1	2.9
PIP grants	0.9	0.6	0.8
Net lending	0.2	-0.7	-1.0
Overall balance	-4.1	-4.9	-0.5
Financing	4.1	4.9	0.5
External	3.4	2.4	-0.4
Domestic	0.8	2.5	0.9