

Kyrgyz Republic – Monthly Economic Update

September 2021

- *The COVID-19 pandemic situation eased towards the end of August. The vaccine rolling out rate has been slow and social distancing and sanitary requirements remain necessary to contain the spread of the virus.*
- *Real GDP contracted by 1.6 percent in January-July 2021, year-on-year, due to a fall in gold production while the non-gold economy is recovering.*
- *Inflation continues to rise owing to food and fuel prices.*
- *The budget ran a surplus in January-July 2021 due to improved revenues performance and lower expenditures as a share of GDP.*

The COVID-19 pandemic situation eased towards the end of August. The country experienced a third wave on pandemic during mid-June and mid-August with the daily cases of new infections, measured as a 7-day moving average, peaking to 1,467 in early July. As of September 8, 2021, the daily cases declined to 129. The total number of people infected by the COVID-19 virus amounted to more than 177,000 and the death toll to more than 2,500. The vaccination is ongoing but slow. As of September 8, 2021, about 9 percent of the total population were vaccinated fully and about 18 percent received the first dose of vaccine. Social distancing and sanitary requirements remain necessary to keep the spread of the virus under control.

Real GDP contracted by 1.6 percent in January-July 2021, year-on-year. This mainly resulted from a fall in gold production by 33 percent while non-gold output grew by 3.6 percent (Figure 2). Positive non-gold output growth was driven by non-gold manufacturing, trade, transportation, and communication, while agriculture and construction continued to decline. Growth was supported by increased remittance inflows (28 percent in US dollars). However, with high uncertainty about the length the COVID-19 pandemic, the ongoing inventory of laws following the adoption of a new Constitution and the upcoming parliamentary elections at the end of November, investment

remains subdued (-7.5 percent, year-on-year). In addition, businesses are concerned about a new law on economic emergency regime that allows the government to change tax rates and tax administration without parliament's approval, and to intervene in companies' activities.

The trade deficit is estimated to have significantly widened to 41 percent of GDP in January-June 2021 from 18 percent a year ago. This increase was driven by both a fall in exports by 9 percent in the US dollar terms and a significant rise in imports by 40 percent in the US dollar terms. While weak export performance was mainly due to lower gold export (despite increased prices) and the impact of the COVID-19 pandemic on external trade. At the same time, the increase in imports reflects largely higher prices of imported food, fuel, and consumer goods.

12-month inflation increased to 14.6 percent in July 2021, from 9.7 percent in December 2020. Inflation was mainly driven by food and fuel prices that rose by 23 percent and 55 percent, respectively, reflecting rising global trends (Figure 3).

In response to rising inflation the central bank increased the policy rate by 100 basis points to 7.5 percent in July 2021. This has been a third increase with a cumulative increase of 250 basis points since the start of the year. Credit to the economy grew by 12.2 percent, year-on-year. The foreign exchange market was stable during May-August with no interventions from the central bank since the end of April (Figures 4 and 5).

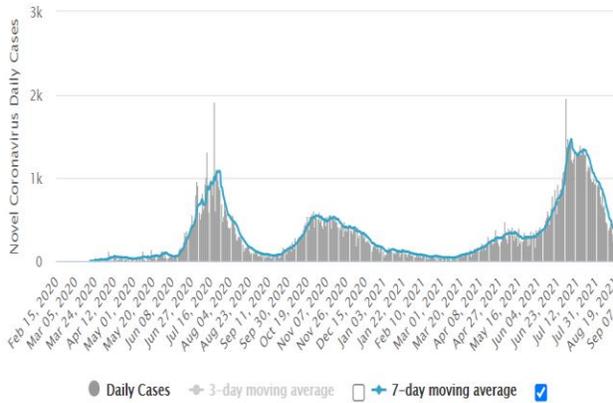
The budget ran a surplus of 1.4 percent of GDP in January-July 2021, owing to higher revenues and lower expenditures as a share of GDP. Revenues increased to 37.7 percent of GDP from 32.3 percent a year ago thanks to both tax and non-tax revenues (Table 1). Improved tax performance reflects increased tax revenues from imported goods - VAT on imports (75 percent of total VAT revenues), customs duties and excises on imports (80 percent of total excise tax revenues) as well as taxes from

mining companies resulting from higher gold prices and the start of the Djerui gold mining operation. Non-tax revenues increased thanks to the central bank profit transfers and a higher amount of receipts from public paid services. Expenditures declined to 36.3 percent of GDP from 38.8 percent a year ago owing to wage bill, transfers and subsidies, pension spending. Public debt amounted to 66.4 percent of GDP, down from 68.1 percent at the end of December 2020 (Figure 6).

Overall, the banking sector remains resilient. The banking sector soundness indicators stand solid

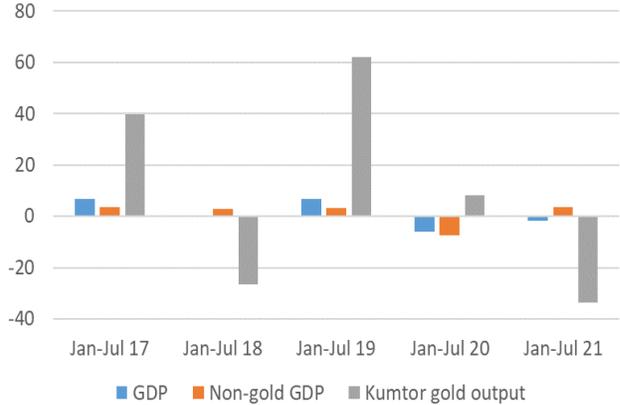
although the non-performing loans ratio has increased. The capital adequacy ratio was at 22.3 percent as of end-July 2021, well above the 12 percent requirement level. The liquidity ratio was high at 63.5 percent, greater than the required 45 percent. The banks' profitability ratios (returns to assets and equity) improved to 1.2 percent (from 0.9 percent in December 2020) and to 7.7 percent (from 5.5 percent in December 2020). At the same time, the non-performing loans ratio increased to 12 percent from 10.5 percent in December 2020.

Figure 1. Daily new COVID-19 cases



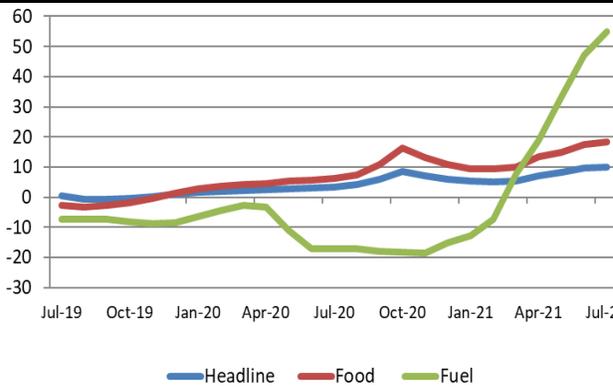
Source: Worldometer.

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



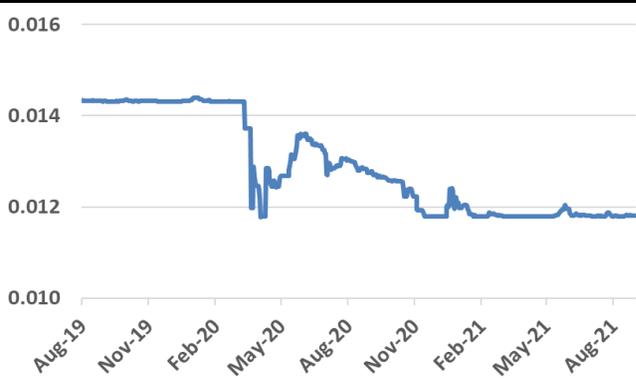
Source: NSC.

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



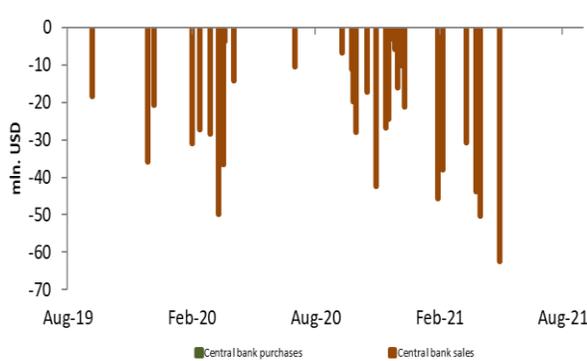
Source: NBKR

Figure 4. Exchange rate (USD per one Som)



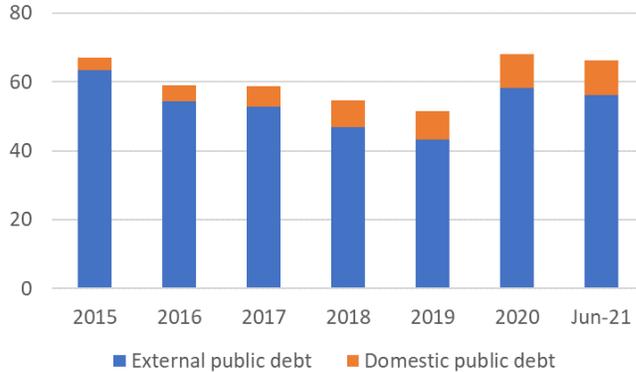
Source: NBKR

Figure 5. Exchange market interventions



Source: NBKR

Figure 6. Public debt (percent of GDP)



Source: MoEF

Table 1: General Government Fiscal Accounts

	2020	2020 Jan-Jul	2021 Jan-Jul
Total revenues and grants	29.9	32.3	37.7
Total revenues	27.9	30.0	36.0
Current revenues	27.8	30.0	35.9
Tax revenues	22.2	23.9	28.5
Non-tax revenues	5.6	6.0	7.4
Capital revenues	0.1	0.1	0.1
Grants	2.0	2.3	1.8
Program grants	1.1	1.6	0.7
PIP grants	0.9	0.7	1.0
Total expenditure (incl. net lending)	34.1	38.8	36.3
Current expenditure	30.6	35.0	33.5
Wage	9.2	11.4	11.1
Transfer and subsidies	5.3	6.1	5.6
Social Fund expenditures	9.5	11.4	10.3
Interest	1.4	1.7	1.7
Purchase of other goods and services	5.2	4.4	4.7
Capital expenditure	3.3	3.5	3.5
o/w foreign financed	2.6	2.6	2.8
Net lending	0.2	0.3	-0.7
Overall balance	-4.2	-6.5	1.4
Financing	4.2	6.5	-1.4
External	3.4	7.1	-0.7
Domestic	0.9	-0.7	-0.7

Source: Ministry of Finance.