Kyrgyz Republic – Monthly Economic Update

October 2021

- *The COVID-19 pandemic situation remains challenging. 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 growth turned positive by 0.1 percent in January-September 2021, year-on-year, driven by non-gold economy.*
- *Inflation remains elevated owing to food and fuel prices.*
- *The budget ran a surplus in January-September 2021 owing to improved revenues performance and repayments of budgetary loans.*

While new cases of the COVID-19 infection declined in September-October 2021, the overall epidemiological situation remains challenging. The daily cases of new infections, measured as a 7-day moving average, declined to about 100 in the last two months from over 1,300 in mid-July (Figure 1). The total number of people infected by the COVID-19 virus reached to almost 181,000 and the death toll to 2,664 as of October 28, 2021. The vaccination is ongoing but at a slow pace. According to the Ministry of Health, only about 11 percent of the total population have been fully vaccinated and about 15 percent - received the first dose of vaccines. Therefore, social distancing and sanitary requirements remain necessary to keep the spread of the virus under control.

Real GDP growth turned positive by 0.1 percent in January-September 2021, year-on-year, after 0.7 percent contraction during the first eight months. This has been the first growth episode since the first quarter of 2020 when the Kyrgyz economy experienced the shock of COVID-19 pandemic (Figure 2). This fragile recovery was driven by 3.6 percent growth of non-gold economy, year-on-year, supported by non-gold industry, trade, transport and communication, hotel and catering services. At the same time, agriculture, construction and gold production contracted by 5 percent, 7.2 percent and 23 percent, year-on-year, respectively. Domestic demand was boosted by remittances, which increased by 18.5 percent during the first nine months of 2021, year-on-year. Economic activity was supported by recovering trade relations in a favorable regional environment.

The trade deficit is estimated to have significantly widened to 43.4 percent of GDP in January-July 2021 from 18 percent a year ago. Exports declined by 17 percent in US dollars due to about 30 percent fall in gold exports (in US dollars) outweighing about a 9 percent increase in non-gold exports (in US dollars). Imports, on the other hand, increased by 40 percent (US dollars) reflecting a combined impact of an increased volume of equipment, machinery, chemical products, and textile imports, and increased prices for food and fuel imports.

Twelve-month inflation remains high at 13.5 percent in September 2021, up from 9.7 percent in December 2020. Inflation was mainly driven by food and fuel prices that rose by 20 percent and 69 percent, respectively, mirroring global trends (Figure 3).

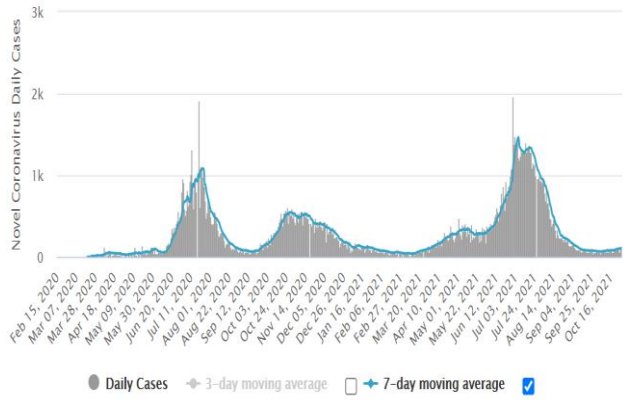
The central bank kept its policy rate unchanged at 7.5 percent in September-October. Credit to economy increased by 10.8 percent, year-on-year. The central bank intervened in the foreign exchange market by selling $110.8 million during September-October to maintain stability of the national currency and satisfy the increased demand for foreign exchange by importers (Figures 4 and 5). However, after receiving additional SDR allocations, gross international reserves stood comfortable at 6.7 months of imports as of end-September.

The fiscal stance remained prudent as the budget ran a surplus of 1.5 percent of GDP in January-September 2021 supported by a strong revenue performance and repayment of budgetary loans. Fiscal revenues increased to 34.5 percent of GDP from 29.2 percent a year ago driven by tax and non-tax revenues while official grants have declined (Table 1). Improved tax collection was contributed by both domestic activity (VAT and excise tax on domestic goods) and by higher imports (VAT, excise tax and customs duties). Non-tax revenues increased thanks to the transfer of the central

bank's profit and increased amounts from public paid services. Public spending was contained and increased only marginally to 34.3 percent of GDP from 33.8 percent a year ago because of the externally financed capital spending and purchase of goods and services. At the same time, repayment of budget loans, 1.3 percent of GDP in net terms, also contributed to the improved fiscal position. Public debt amounted to 64.4 percent of GDP, down from 68.1 percent at the end of December 2020 (Figure 6).

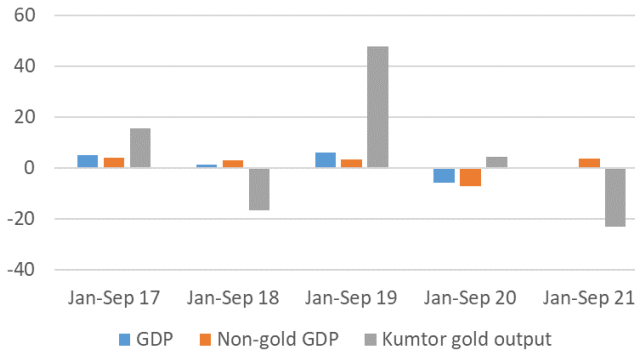
Overall, the banking sector remains resilient. The banking sector soundness indicators stand solid although the non-performing loans ratio has increased to 12 percent from 10.5 percent in December 2020. The capital adequacy ratio was at 22.3 percent as of end-September 2021, well above the 12 percent requirement level. The liquidity ratio was high at 65.1 percent, greater than the required 45 percent. The banks' profitability ratios (returns to assets and equity) improved to 1.1 percent (from 0.9 percent in December 2020) and to 7.6 percent (from 5.5 percent in December 2020).

Figure 1. Daily new COVID-19 cases



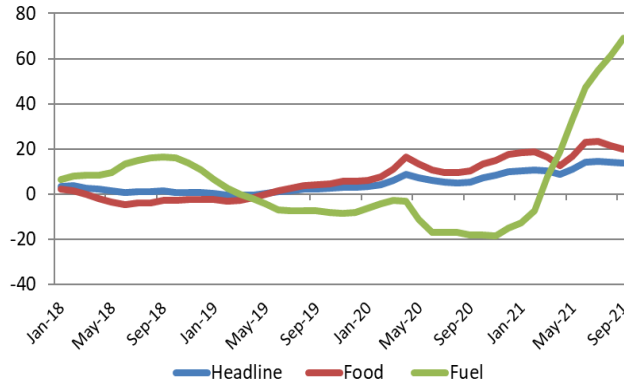
Source: Worldometer.

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



Source: NSC.

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

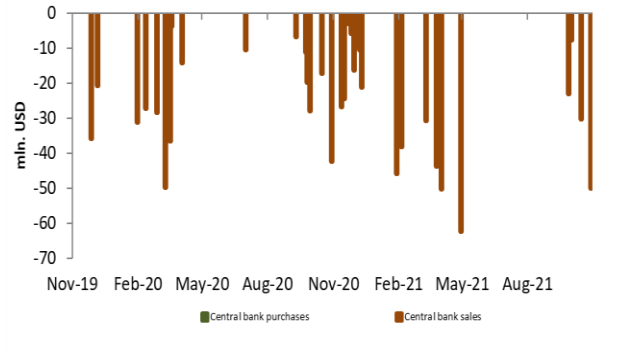


Source: NBKR

Figure 4. Exchange rate (USD per one Som)

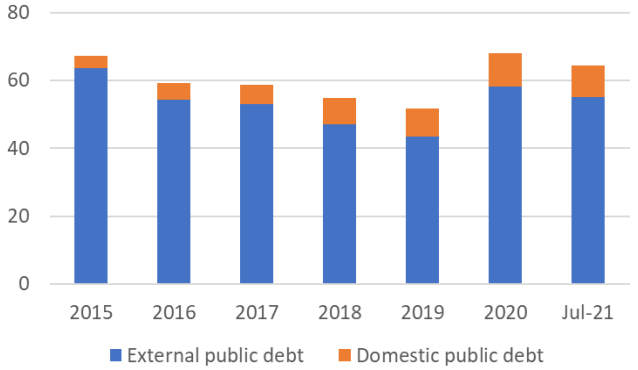
Source: NBKR

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-Sep	2021 Jan-Sep
Total revenues and grants	29.9	29.2	34.5
Total revenues	27.9	27.4	33.2
Current revenues	27.8	27.4	33.2
Tax revenues	22.2	22.1	26.6
Non-tax revenues	5.6	5.3	6.6
Capital revenues	0.1	0.1	0.1
Grants	2.0	1.8	1.3
Program grants	1.1	1.1	0.2
PIP grants	0.9	0.7	1.1
Total expenditure (incl. net lending)	34.1	34.4	33.0
Current expenditure	30.6	30.4	30.2
Wage	9.2	9.5	9.4
Transfer and subsidies	5.3	3.1	3.2
Social Fund expenditures	9.5	10.0	9.2
Interest	1.4	1.3	1.4
Purchase of other goods and services	5.2	4.2	4.8
Capital expenditure	3.3	3.4	4.0
o/w foreign financed	2.6	2.2	2.9
Net lending	0.2	0.6	-1.3
Overall balance	-4.2	-5.2	1.5
Financing	4.2	5.2	-1.5
External	3.4	5.0	-0.1
Domestic	0.9	0.2	-1.4

Source: Ministry of Finance.