

Kyrgyz Republic – Monthly Economic Update

May 2022

- *Real GDP grew strongly by 5.4 percent in January-April 2022, year-on-year, driven by the gold sector. The non-gold sector expanded modestly by 3.5 percent.*
- *Inflation increased to 14.5 percent in April 2022, up from 11.2 percent in December last year driven by food and fuel prices.*
- *The fiscal outcomes in January-April 2022 appear to be robust with the government running a surplus of 1.2 percent of GDP thanks to strong revenue performance.*

According to preliminary statistics, real GDP expanded by 5.4 percent in January-April 2022, year-on-year (Figure 1). The gold sector increased by 25 percent, with a sharp increase in the months of April, from the low base in the same period last year. The non-gold sector grew moderately at 3.5 percent, year-on-year, driven by manufacturing, agriculture, construction, hotel and catering services and transportation. In general, the economy has been recovering from the COVID-19 pandemic and the impact of the Russia-Ukraine conflict on the country's real sector seems to have been muted so far as the remittances (in US dollar terms) declined only by 4.6 percent and the volume of external trade is still growing.

The trade deficit is estimated to have increased to 84 percent of GDP in first quarter of 2022 from 40 percent a year ago. Exports are estimated to have declined by 13.6 percent (in US dollar terms), year-on-year, mainly reflecting a fall in gold exports while non-gold exports grew by 29 percent (in US dollar terms).¹ At the same time, imports increased by 75 percent (in US dollar terms) on account of increased domestic demand as well as higher import prices for food and fuel.

Inflation remains elevated in spite of recent appreciation of the exchange rate and tightening of the monetary stance. The 12-month inflation rate increased to 14.5 percent in April 2022, up

from 11.2 percent in December last year, driven by increases for food and fuel prices - 18 percent and 55 percent, respectively (Figure 2).

In response to higher inflation, the central bank raised its policy rate three times by 600 basis points cumulatively to 14 percent in the January-March 2022. Following Russia's invasion of Ukraine, the som depreciated against the US dollar by 23 percent in March but then started to appreciate mirroring the Russian ruble movement. As a result, the som has appreciated by 6.2 percent since the start of the year (Figure 3). In order to smooth the exchange rate fluctuations, the central bank intervened in the foreign exchange market, selling USD217.6 million during the first quarter and buying USD80.2 million during April-May (Figure 5). Credit growth in the economy remained robust at 9.3 percent in April 2022, although slightly slower than in December 2020.

The fiscal outcomes were robust in January-April 2022. The budget ran a surplus of 1.2 percent of GDP thanks to strong revenue performance. Total revenues increased to 47.3 percent of GDP from 40.4 percent a year ago driven mainly by tax revenues (Table 1). Increased income tax revenues came from the corporate sector and the Kumtor gold mine that pays gross income tax and a new tax on development of the mineral resource base amounting to 6.6 percent of GDP (1.1 percent last year). In addition, VAT on imports from non-Eurasian Economic Union member countries increased to 7.4 percent of GDP (3 percent last year). But at the same time, customs revenues, received as a share of the Eurasian Economic Union's customs revenues, declined to 2.1 percent of GDP (3.9 percent last year) because of the sanctions on Russia and Belarus. Total spending increased to 46.2 percent of GDP in January-April 2022 from 38.8 percent a year ago on account of both current and capital spending (Table 1). The increase in current spending resulted from higher

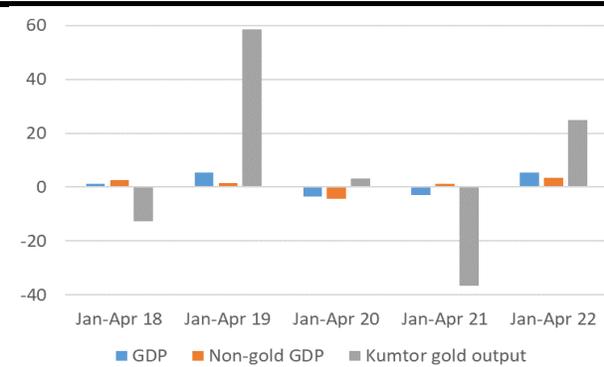
¹ Lower gold exports in the first quarter of 2022 are likely to reflect a decline in gold production by 7.4 percent in the first two months of 2022.

social benefits as per government’s decisions to support the poor and the vulnerable population from October 2021 and January 2022, and increased spending on goods and services due to higher prices. The robust fiscal stance along with the exchange rate appreciation helped to reduce the public debt to GDP ratio to 57.5 percent from 60.3 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

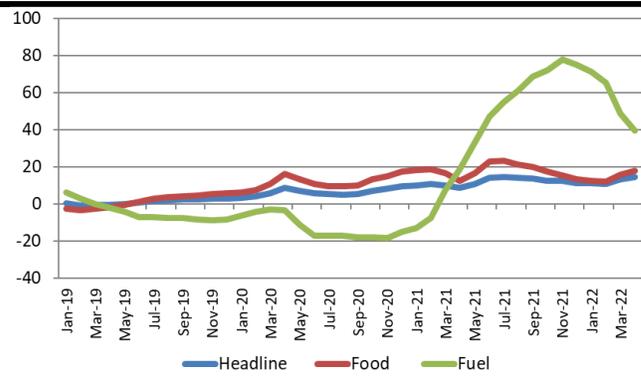
increased to 12.4 percent in April 2022 from 11.1 percent December last year. The capital adequacy ratio was at 25 percent as of end-April 2022, well above the 12 percent requirement level. The liquidity ratio was high at 69.5 percent, greater than the required 45 percent. The banks’ profitability ratios (returns to assets and equity) improved to 3.1 percent (from 1.2 percent in December 2021) and to 20.6 percent (from 7.8 percent in December 2021).

Figure 1. Real GDP growth (percent, year-on-year)



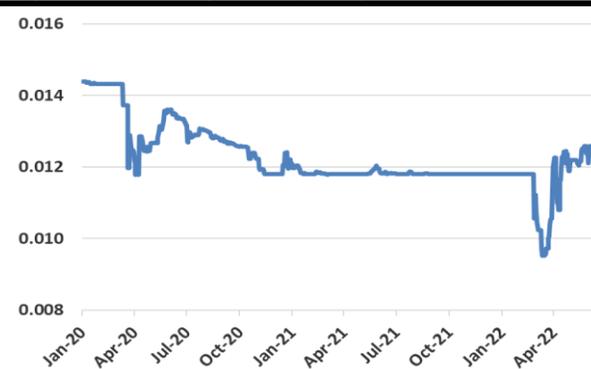
Source: NSC

Figure 2. Inflation (percent, year-on-year)



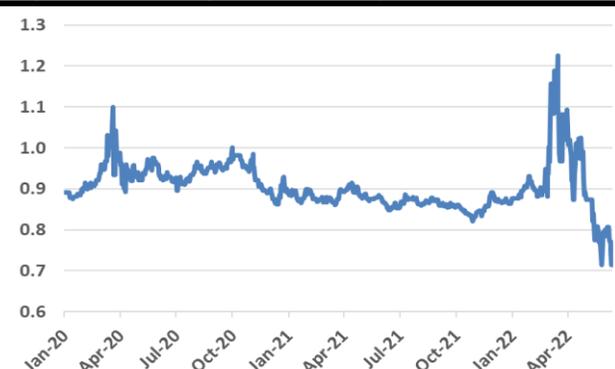
Source: NBKR

Figure 3. Exchange rate (USD per one Som)



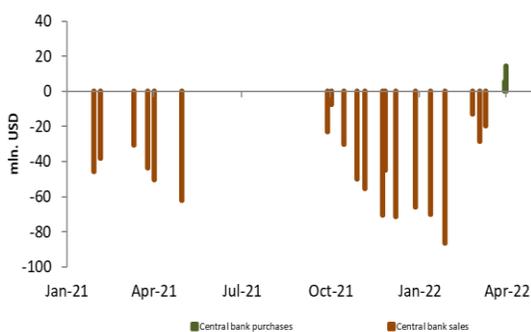
Source: NBKR

Figure 4. Exchange rate (Ruble per one Som)



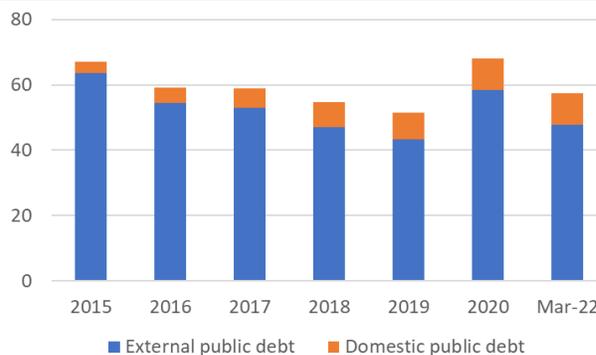
Source: NBKR

Figure 5. Exchange market interventions



Source: NBKR

Figure 6. Public debt (percent of GDP)



Source: MoF

Table 1. General Government Finances (percent of GDP)

	2021	2022
	Jan-Apr	Jan-Apr
Total revenues and grants	40.4	47.3
Total revenues	39.2	46.0
Current revenues	39.2	45.9
Tax revenues	30.1	38.7
Non-tax revenues	9.1	7.2
Capital revenues	0.1	0.1
Grants	1.2	1.4
Program grants	0.0	0.4
PIP grants	1.2	0.9
Total expenditure (incl. net lending)	38.8	46.2
Total expenditure	39.8	44.4
Current expenditure	35.6	38.4
Wage	12.0	12.1
Transfer and subsidies	4.0	4.5
Social Fund expenditures	11.6	10.6
Interest	2.1	1.8
Purchase of other goods and services	3.7	6.7
Capital expenditure	4.2	6.0
o/w foreign financed	3.1	3.2
Net lending	-1.0	1.7
Overall balance	1.6	1.2
Financing	-1.6	-1.2
External	-1.0	-0.7
Domestic	-0.6	-0.5

Source: Ministry of Finance.