Kyrgyz Republic – Monthly Economic Update

May 2021

- *The country is going through a third wave of the COVID-19 pandemic. With a slow rate of mass vaccination and a failure to follow stringently social distancing and sanitary requirements by the majority of the population, daily infections remain high.*
- *Real GDP contracted by 3.4 percent in January-April 2021, year-on-year, due to a fall in gold production while non-gold economy registered positive growth for the first time since the economy was hit by the pandemic.*
- *The central bank has further tightened monetary policy in response to high inflation.*
- *The fiscal deficit narrowed substantially because of higher revenues and despite a surge in spending. The improved revenue performance reflects increased tax revenues owing to higher prices for imported goods and gold.*

The country is going through a third wave of the COVID-19 pandemic. With a slow rate of mass vaccination (75,000 people or about 1.1 percent of total population since the start of vaccination) and a failure to follow stringently social distancing and sanitary requirements by the majority of the population, the daily cases of newly infected have started to increase since early March (around 45 cases, measured as 7-day moving average) and peaked to 353 cases as of May 11. On average, the number of new daily cases was above 300 people in May (measured as 7-day moving average). The total number of infected people since the outbreak of the pandemic has reached 105,111 and death toll 1,815 people as of May 31, 2021 (Figure 1).

Real GDP contracted by 3.4 percent, year on year, in January-April 2021. This was driven by a fall in gold production by 34 percent while non-gold output grew by 1.1 percent. Positive non-gold output growth was registered for the first time since the country was hit by the COVID-19 pandemic. (Figure 2). Sectors such as non-gold manufacturing, trade, transportation and communication are showing signs of recovery with positive growth after almost a one-year period of contraction. At the same time, other sectors – construction, hotels and catering – remain depressed.

The trade deficit is estimated to have widened to 33 percent of GDP in the first quarter of 2021 from 29 percent a year ago. This mainly reflects a decline in exports by 9 percent in US dollar terms because of a fall in gold exports. Imports in US dollar terms dropped by 2 percent mainly reflecting a decline in consumer goods. Remittances – which are not part of the trade balance, but which help finance imports of consumer goods – grew by almost 19 percent in US dollar terms owing to both the low base effect and growing economic activity in Russia.

Twelve-month inflation eased to 8.7 percent in April 2021 from 9.7 percent at the end of December 2020 as food price inflation moderated. Fuel prices rose by 19 percent year-on-year in April reflecting higher import prices.

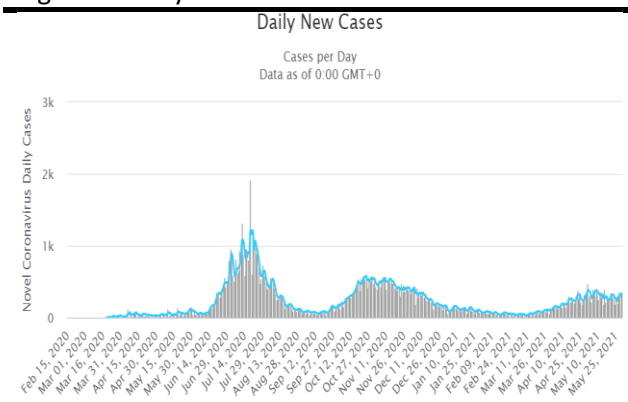
Monetary policy has been further tightened in response to high inflation. The central bank raised its policy rate by 100 basis points to 6.5 percent in April. This was the second increase after a 50 basis points hike in February. Credit to the economy grew by 12.4 percent, year-on-year. The nominal exchange rate has been stable broadly as the central bank has intervened in the foreign exchange market 6 times selling US$270 million since the beginning of the year (Figures 4 and 5). Foreign exchange reserves amounted to a solid 6 months of imports at the end of April 2021.

The fiscal deficit narrowed substantially in the first quarter of 2021 owing to higher revenues and despite a surge in spending. The general government budget deficit declined significantly to 1.9 percent of GDP in the first quarter of 2021 from 6.2 percent of GDP a year ago (Table 1). Revenues rose to 38.4 percent of GDP from 31.4 percent a year earlier, reflecting improved tax collections owing to higher import prices (e.g. VAT on gasoline and food) and gold prices (mining companies' tax rate increases as gold prices rise). Expenditures increased to 40.3 percent of GDP in the first quarter 2021 from 37.6 percent a year ago, driven by a

higher wage bill, transfers and subsidies, and capital outlays. Public debt increased slightly to 70.2 percent of GDP as of February 2021 from 68.1 percent in December last year (Figure 6).

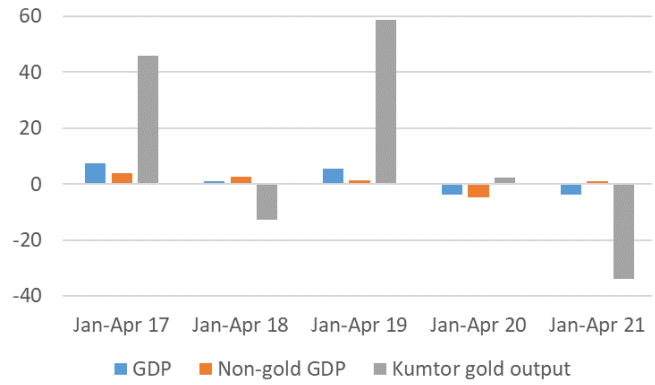
Overall, the banking sector remains resilient. The banking sector soundness indicators stand strong although the non-performing loans ratio increased, and the banks' profitability ratios declined. The capital adequacy ratio is at 22.9 percent as of end-March 2021, well above the 12 percent requirement level. The liquidity ratio is high at 65.5 percent, greater than the required 45 percent. At the same time, the non-performing loans ratio increased to 11.2 percent from 8.1 percent and banks' returns to assets and to equity declined to 0.9 percent (from 1.3 percent) and 5.5 percent (from 8.4 percent), respectively.

Figure 1. Daily new COVID-19 cases



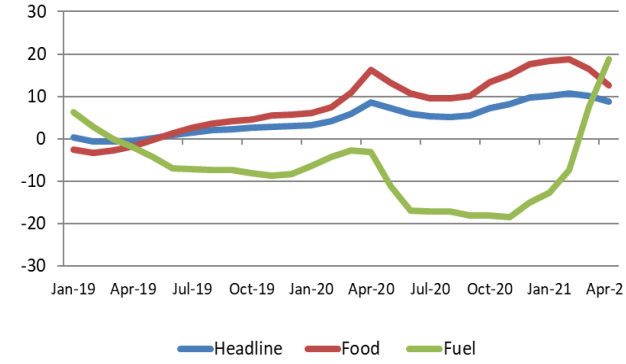
Source: Worldometer.

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



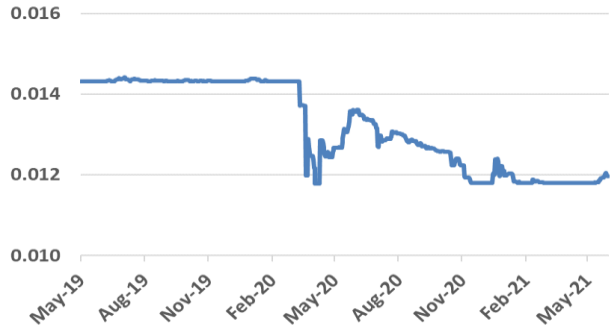
Source: NSC.

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



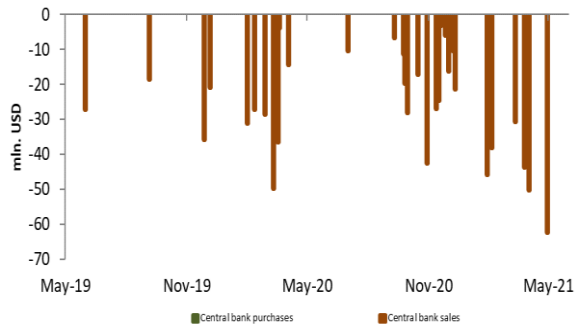
Source: NBKR

Figure 4. Exchange rate (USD per one Som)



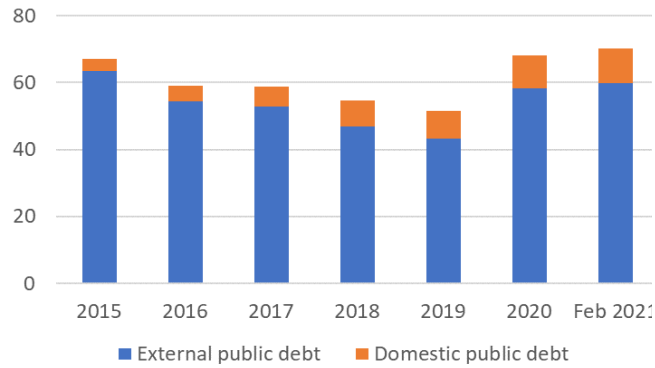
Source: NBKR

Figure 5. Exchange market interventions



Source: NBKR

Figure 6. Public debt (percent of GDP)



Source: MoEF

Table 1: General Government Fiscal Accounts

	2020	2020 Q1	2021 Q1
Total revenues and grants	29.9	31.4	38.4
Total revenues	27.9	30.5	37.1
Current revenues	27.8	30.5	37.0
Tax revenues	22.2	24.8	31.1
Non-tax revenues	5.6	5.7	5.6
Capital revenues	0.1	0.1	0.1
Grants	2.0	0.9	1.3
Program grants	1.1	0.4	0.0
PIP grants	0.9	0.5	1.3
Total expenditure (incl. net lending)	34.1	37.6	40.3
Current expenditure	30.6	34.4	37.4
Wage	9.2	11.1	12.3
Transfer and subsidies	5.3	5.6	6.6
Social Fund expenditures	9.5	11.9	12.4
Interest	1.4	1.8	2.1
Purchase of other goods and services	5.2	4.0	4.0
Capital expenditure	3.3	3.6	4.0
o/w foreign financed	2.6	3.3	3.5
Net lending	0.2	-0.3	-1.1
Overall balance	-4.2	-6.2	-1.9
Financing	4.2	6.2	1.9
External	3.4	0.3	-1.0
Domestic	0.9	5.8	2.9

Source: Ministry of Finance.