Kyrgyz Republic – Monthly Economic Update

January 2022

- *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.*
- *The Kyrgyz economy has slowly recovered in 2021 as real GDP expanded by 3.6 percent driven by industry and the services sector.*
- *Inflation increased to double-digit at 11.2 percent in December 2021, up from 9.7 percent a year ago driven by food and fuel prices.*
- *The budget deficit declined sharply to 0.3 percent of GDP in 2021 from 4.2 percent in 2020, owing to improved revenues performance and lower expenditures as a share of GDP.*

With a fast spread of Omicron, a new strain of the COVID-19 virus, across the globe, the Kyrgyz Republic has gone through its fourth wave of pandemic in January 2022. The daily cases of new infections, measured as a 7-day moving average, peaked at 816 people on January 23 and declined to 213 people on February 5, 2022 (Figure 1). The total number of people infected by the COVID-19 virus reached to 199,436 and the death toll to 2,902 as of February 5, 2022. The vaccination is ongoing but at a slow pace. According to Our World in Data, only about 16.6 percent of the total population have been fully vaccinated and about 20.4 percent received at least one dose of vaccines as of February 5, 2022. Therefore, social distancing and sanitary requirements remain necessary to keep the spread of the virus under control.

According to preliminary statistics, real GDP expanded by 3.6 percent in 2021, slowly recovering from the significant impact of the COVID-19 pandemic in 2020 and as the domestic political situation stabilizes. Growth was driven by industry (7.2 percent) and services (6.5 percent) while agriculture (-5 percent) and construction (-4.8 percent) remained subdued. Despite a significant fall in the earlier part of the year, gold production registered 1 percent growth for the whole year (Figure 2). Compared to 2020, domestic economic activity benefited from less restrictive pandemic measures on mobility, open border with neighbors for trade and higher remittances inflows.

The current account balance is estimated at -1.7 percent of GDP in 2021 compared to a surplus of 4.8 percent of GDP in 2020. This resulted from a worsening of the trade deficit to 30.2 percent of GDP from 18.5 percent a year ago. Exports in US dollars are estimated to have increased by 18.3 percent. At the same time, imports in US dollars increased by 44 percent reflecting a combined impact of an increased volume of equipment, machinery, chemical products, and textile imports, and increased prices for food and fuel imports.

Inflation was high throughout the year remaining in double digits; it increased to 11.2 percent in December 2021 from 9.7 percent a year ago. Inflation was mainly driven by food and fuel prices that rose by 13.3 percent and 74.8 percent, respectively, mirroring global trends and reflecting weak contestability of these markets domestically (Figure 3).

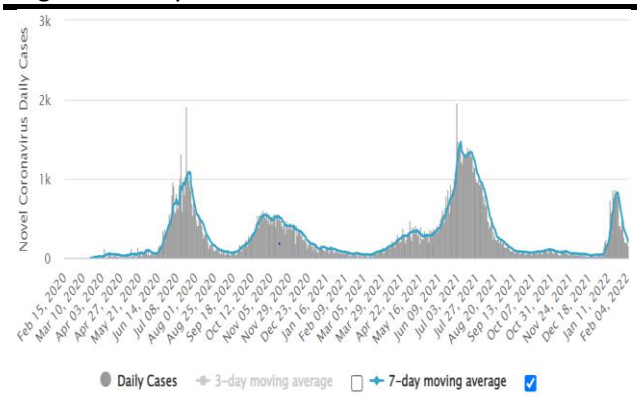
In response to high inflation the central bank has raised the policy rate four times during the year. The policy rate was cumulatively increased by 300 basis points to 8 percent since the start of the year. However, monetary policy tightening had a limited impact as the policy rate remained negative in real terms. The central bank maintained cautiously the stability of the exchange rate given its high pass-through impact on the price level (Figure 4). This resulted in a sale of $689 million of foreign reserves in 2021, almost 50 percent more than in 2020 ($468 million) (Figure 5). The growth rate of credit to the economy slowed slightly but remained at a still robust 10 percent in December 2021.

The fiscal outcomes improved significantly in 2021. The deficit fell to 0.3 percent of GDP from 4.2 percent of GDP in 2020 (Table 1). This was mainly thanks to improved revenue performance; total revenues increased

to 31.3 percent of GDP from 27.7 percent in 2020 driven by tax and non-tax revenues reflecting the surge in imports, an overall economic recovery, and improved tax administration. At the same time, expenditures increased slightly to 34.3 percent of GDP from 33.7 percent a year before as an increase in capital spending more than offset a decline in current spending. A repayment of budget loans also contributed to reducing the fiscal deficit with net lending amounting to 0.8 percent of GDP. The robust fiscal stance helped to significantly reduce the burden of public debt which amounted to 58.9 percent of GDP, down from 68.1 percent at the end of December 2020 (Figure 6).

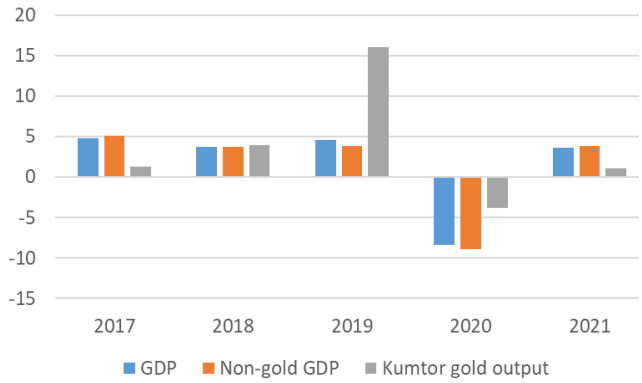
Overall, the banking sector remains resilient. The banking sector soundness indicators stand solid although the non-performing loans ratio has increased to 11.1 percent in December 2021 from 10.5 percent a year ago. The capital adequacy ratio was at 22.2 percent as of end-December 2021, well above the 12 percent requirement level. The liquidity ratio was high at 71.3 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 7.8 percent (from 5.5 percent in December 2020).

Figure 1. Daily new COVID-19 cases



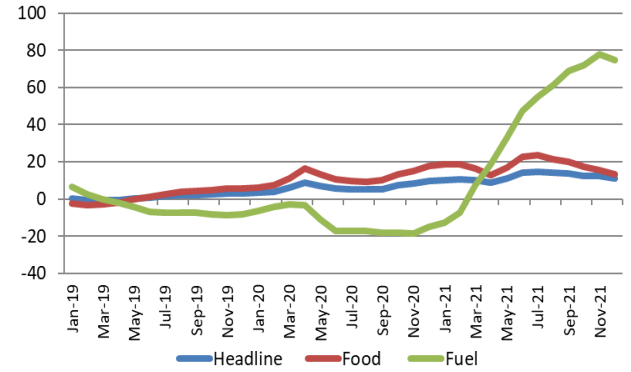
Source: Worldometer.

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



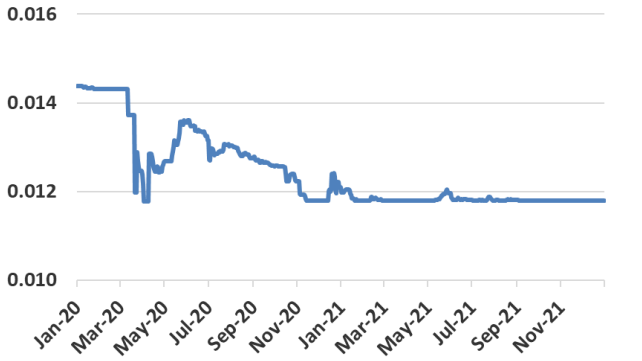
Source: NSC.

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



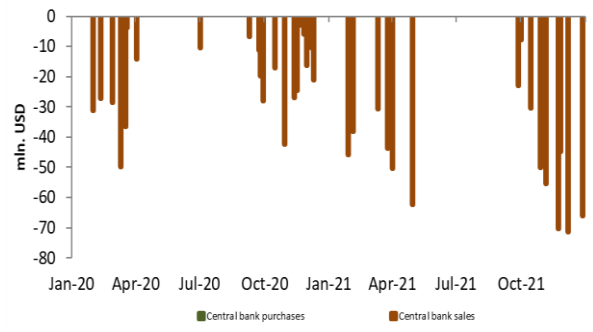
Source: NBKR

Figure 4. Exchange rate (USD per one Som)



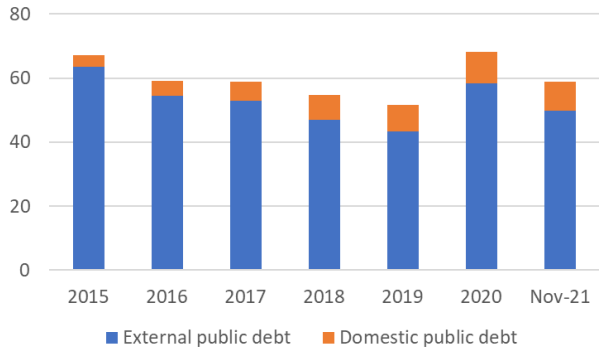
Source: NBKR

Figure 5. Exchange market interventions



Source: NBKR

Figure 6. Public debt (percent of GDP)



Source: MoEF

Table 1: General Government Fiscal Accounts (% of GDP)

	2020	2021
Total revenues and grants	29.7	33.2
Total revenues	27.7	31.3
Current revenues	27.6	31.3
Tax revenues	22.1	25.1
Non-tax revenues	5.5	6.2
Capital revenues	0.1	0.0
Grants	2.0	1.9
Program grants	1.1	0.5
PIP grants	0.9	1.4
Total expenditure (incl. net lending)	33.9	33.5
Total expenditure	33.7	34.3
Current expenditure	30.4	29.3
Wage	9.1	8.9
Transfer and subsidies	5.2	5.2
Social Fund expenditures	9.4	8.4
Interest	1.4	1.2
Purchase of other goods and services	5.2	5.6
Capital expenditure	3.3	5.0
o/w foreign financed	2.6	3.6
Net lending	0.2	-0.8
Overall balance	-4.2	-0.3
Financing	4.2	0.3
External	3.3	1.7
Domestic	0.9	-1.4

Source: Ministry of Finance.