

Macroeconomic Trends and Forecast

Kyrgyz Republic

Research Department

December 2020



Summary

Trends:

- GDP will drop by **7.5%** YoY in 2020 (compared to **4.5%** YoY growth a year earlier)
 - ✓ Wide scale economic shock caused by the COVID-19 pandemic
 - ✓ Decreased domestic and foreign demand
 - ✓ Decline in remittances
- Accelerated inflation:
 - ✓ Growth in global food prices
 - ✓ Weakened national currency
- Policy rate set at **5.0%** as of end of 2020
- State budget deficit will reach **6.1%** of GDP (**0.1%** GDP a year earlier)

Forecast for 2021-2022:

- In 2021-2022 economic growth is expected to reach an average of **4.4%** p.a.:
 - ✓ Fading effects of the pandemic
 - ✓ Gradual recovery of domestic and foreign demand
 - ✓ Increase in remittances inflows
- Medium-term risks shifted towards greater GDP decline due to uncertainty spurred by the pandemic
- Slowdown of inflation
 - ✓ Subdued domestic and foreign demand
 - ✓ Exchange rate stabilization

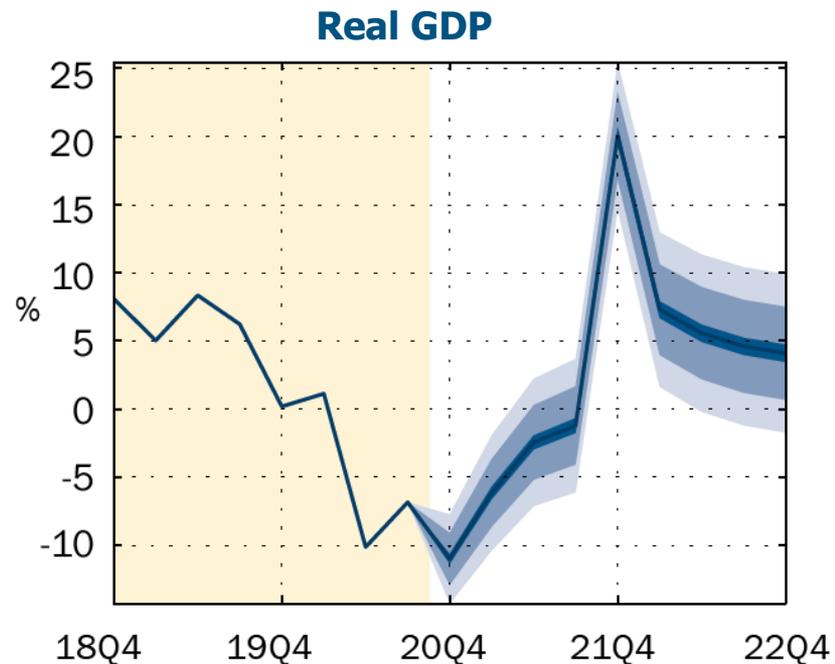
Forecast. Economic growth to recover on account of fading effects of the pandemic

GDP will increase by **3.7%** in 2021 and by **5.1%** in 2022:

- + Global economy recovery and commodity markets stabilization
- + Expansionary monetary and fiscal policy
- + Recovery of the remittance inflows

The economy is expected to reach pre-crisis levels by the beginning of 2022.

Risks to the medium-term forecasts are shifted towards a downturn



Note: seasonally adjusted data.

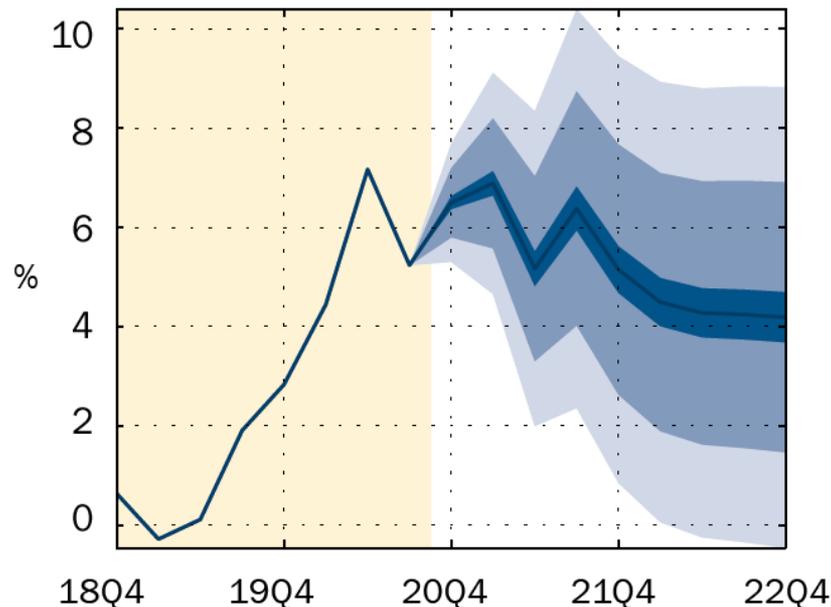
Source: EDB calculations

Forecast. Inflation to slowdown of in 2021-2022 amid moderate demand

Inflation to slow down to **5.2%** YoY by the end of 2021, and to **4.2%** YoY – in 2022:

- Weak domestic demand
- Petering out of the 2020 high base effect
- Easing pressure from the exchange rate and world food prices

Inflation
(the last month in a quarter vs. the last month of the same quarter a year before)

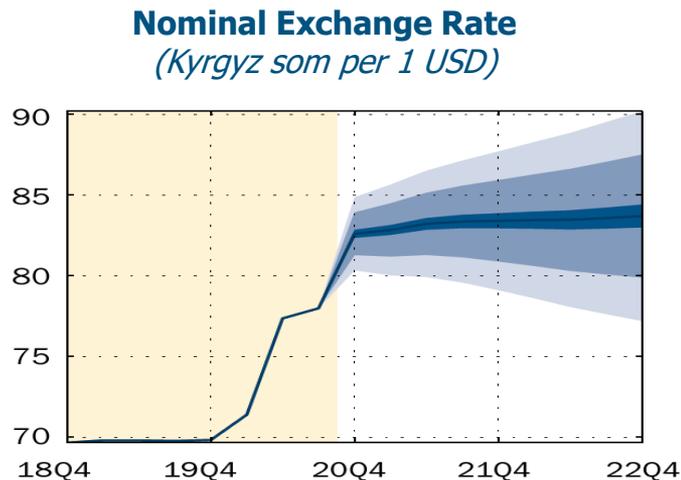
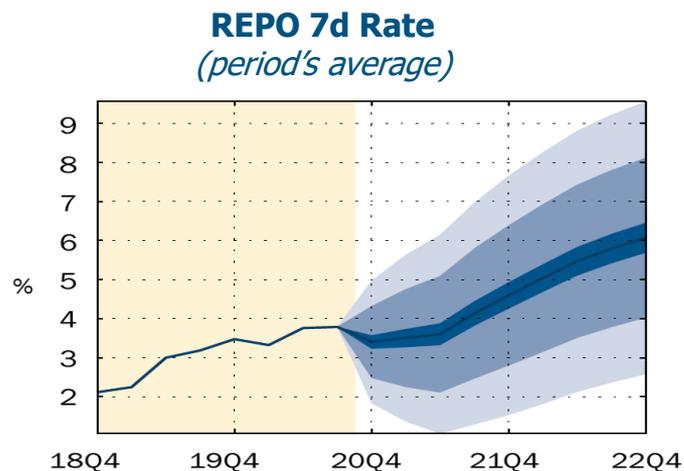


Note: seasonally adjusted data.

Source: EDB calculations

Forecast. Policy rate to be set at 5.0% till the end of 2021

- We believe that the potential for reducing the policy rate in the medium term is exhausted, which is why we expect it to remain at 5.0% until the end of 2021.
- Relative stability of the dynamics of the som exchange rate is expected, provided that the current direction of the exchange rate policy pursued by the National Bank of the Kyrgyz Republic is maintained.



Source: EDB calculations

Forecast. Risks are downward shifted

- Uncertain development of the global epidemiological situation raises the probability of slower recovery of the economy of the Kyrgyz Republic
- An increase in demand and a reduction in the export volumes of a number of food products may drive up their prices in the world market and as a consequence increases inflationary risks in the Kyrgyz Republic
- Geopolitical tensions in the region (the likely tightening of anti-Russian sanctions) may increase volatility in the domestic currency market, as well as to reduction of remittances and exports to Russia. Risks of socio-political tension may remain within the country in 2021.

Forecast. Key Macroeconomic Indicators

Indicator	2017	2018	2019	2020F	2021F	2022F
GDP in constant prices (<i>% growth YoY</i>)	4.7	3.8	4.5	-7.5	3.7	5.1
Consumer price index (<i>% growth in December to previous year's December</i>)	3.7	0.5	3.1	6.5	5.2	4.2
REPO rate — 7d (<i>the year's average%</i>)	1.7	2.2	2.9	3.6	4.0	5.6
National currency to U.S. Dollar exchange rate (<i>the year's average</i>)	68.9	68.8	69.8	77.3	83.2	83.5

Source: National agencies, EDB calculations