Macroeconomic Trends and Forecasts

Kyrgyz Republic
Summary

Basic facts:

• Economic growth accelerates to 6.4% YoY in 2019H1:
  ✓ Production growth at the Kumtor gold mine
  ✓ Net export improvement
  ✓ Acceleration of investments’ growth

• Inflation stops to decelerate:
  ✓ Growth of the global wheat and meat prices

• Policy rate is down in comparison with end-2018, the NB KR decides to narrow the interest rate band

• State budget balance improves

Forecast (2019-2021):

• GDP growth at 4.0% in 2019:
  ✓ Production at Kumtor will fall in 2019H2

• GDP growth will decelerate in 2020-2021:
  ✓ Reduction of gold production at enterprises developing the Kumtor

• Acceleration of inflation to the target in the medium term

• Stable som exchange rate
Real Sector. GDP Growth Accelerates

Real GDP increases by **6.4% YoY** in 2019H1 (3.5% in 2018):

+ Kumtor expands the production of gold
+ The increase in the growth rate of completed construction work
- Inventory stocks drop

Sources: National statistical committee, authors’ calculations, EEC
Inflation. Modest Acceleration due to Food Price Volatility

Inflation returned to the positive zone in 2Q2019 (0.9% in June 2019):

+ A hike in vegetable price inflation in June
+ Acceleration in global grain prices
- Non-food deflation
- Growth of service prices drop

Sources: National statistical committee, NB KR
External Sector. Current Account Deficit Decreases

A decrease in the current account deficit:

- Trade and income deficits shrink
- The amount of incoming transfers decreased

Financial account is in surplus:

- FDI inflow

Foreign loans to corporate sector Reserve assets increase

Source: NB KR
* - preliminary data
Fiscal Sector. State Budget’s Balance Improves

State budget’s surplus at **0.1% GDP** in 2019H1 (deficit of 0.2% of GDP in 2018H1):

+ Non-tax revenues’ increase
+ Limited expenditures’ growth
- Tax revenue’s decrease (VAT import revenues drop)

Sources: National statistical committee, authors’ calculation
Monetary Sector. Policy Rate Reduced

Policy rate reduced to 4.25% by end-June 2019 (cut by 0.25 pp twice – in February and in May):

- Low inflation

Interest rate band width reduced: lower bound (overnight deposit rate) raised to 1.75%, upper bound (overnight credit rate) cut to 5.75%

Stable som exchange rate

Source: NB KR
Forecast. Economic Growth to Decelerate

EDB expects real GDP growth at **4.0%** in 2019. Expansion will be moderate in 2019H2:

- Gold production at Kumtor shrinks by 33.4% YoY in 2019H2 (EDB’s estimate)

GDP growth is expected at 3.6% in 2020 and 3.1% in 2021

Source: authors’ calculations, EEC
Forecast. Inflation Reaches Target in the Medium Term

Inflation in the medium term will continue to gradually approach the target of the National Bank:

+ Growing global grain and meat prices: lower harvest in RK, swine fever in China
+ The increase in customs tariffs on imports of personal vehicles as part of the unification of the KR tariff policy with the EAEU Customs Code

Inflation
(period to the same period of the previous year)

Source: authors’ calculations, EEC
Forecast. Refinancing Rate Increases in Line with Inflation

In the medium term interbank rates up as inflation approaches the NB KR’s target range. Som exchange rate within 69-70 per U.S. dollar as the NB KR continues the policy of smoothening its sharp fluctuations.

**REPO 7d Rate**
(period’s average)

**Nominal Exchange Rate**
(Kyrgyz som per 1 USD)

Sources: authors calculations, EEC
## Forecast. Key Macroeconomic Indicators

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<tr>
<td><strong>Consumer price index</strong>&lt;br&gt;(% growth December to previous year’s December)</td>
<td>-0.5</td>
<td>3.7</td>
<td>0.5</td>
<td>2.6</td>
<td>3.5</td>
<td>5.9</td>
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<td><strong>GDP in constant prices</strong>&lt;br&gt;(% growth YoY)</td>
<td>4.3</td>
<td>4.6</td>
<td>3.5</td>
<td>4.0</td>
<td>3.6</td>
<td>3.1</td>
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<td><strong>Interbank repo rate 7d</strong>&lt;br&gt;(the year’s average% per annum)</td>
<td>3.7</td>
<td>1.7</td>
<td>2.2</td>
<td>2.9</td>
<td>4.2</td>
<td>6.0</td>
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<td><strong>Nominal Kyrgyz Som to U. S. Dollar exchange rate</strong>&lt;br&gt;(KGS per USD (the year’s average))</td>
<td>69.9</td>
<td>68.9</td>
<td>68.8</td>
<td>69.8</td>
<td>69.9</td>
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Note: P - projected  
Sources: authors’ calculations, EEC