Macroeconomic Trends and Forecasts

Kyrgyz Republic

Research Department

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Summary

Trends:

• Economic growth accelerates to 4.5% YoY in 2019:
  ✓ Production growth at the Kumtor gold mine exceeded company’s targets
  ✓ Construction and Services – growth drivers in other sectors

• Inflation accelerated:
  ✓ Growth of the global wheat and meat prices

• Policy rate is down, the NB KR decides to narrow the interest rate band

• State budget balance improves

Forecast 2020-2022:

• GDP growth at 0.1% in 2020:
  ✓ Lockdown to contain COVID-19
  ✓ Production at Kumtor will fall
  ✓ Remittances will decrease
  ✓ Authorities’ measures to support economic activity
  ✓ Support of international financial institutions

• GDP growth will recover in 2021-2022 as the worldwide lockdown will be eased

• Inflation within the target
Real Sector. GDP Growth Accelerates

Real GDP increased by **4.5% YoY** in 2019 (3.8% in 2018):

+ Kumtor expanded the production of gold above its targets
+ Construction and Services – growth drivers in other sectors
- Output of refined oil products and generation of electricity, gas, steam and conditioned air dropped

**Economic Activity**

*Source: KR National Statistical Committee, calculations by the authors, EEC*
Inflation. Acceleration due to Food Price Volatility

Inflation accelerated to 3.1% in 2019 (0.5% in 2018):

+ A hike in vegetable price inflation in domestic market
+ Acceleration in global grain and meat prices
- Weak inflation of non-food goods (0.6%) and services (0.4%)

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 assets allocation by commercial banks

Reserve assets increase

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**Balance of Payments**

(for the period)

Note: the balance of payments was compiled in accordance with the International Monetary Fund's Balance of Payments Manual, 5th Edition.

* – EDB provisional estimate
Source: KR National Bank
Fiscal Sector. State Budget’s Balance Improves

State budget’s deficit at **0.1% GDP** in 2019 (deficit of 1.1% of GDP in 2018):

+ Growth of all the key revenue items (tax, non-tax revenues, transfers)
+ Limited expenditures’ growth

*Source: KR National Statistical Committee, calculations by the authors*
Monetary Sector. Policy Rate Reduced

Policy rate reduced from 4.75% to 4.25%

- Low inflation in the beginning of 2019

Interest rate band width reduced: lower bound (overnight deposit rate) raised to 2.0%, upper bound (overnight credit rate) cut to 5.75%

Credit auctions decreased

Stable som exchange rate

Source: KR National Bank, calculations by the authors
Forecast. Pandemic will affect the economy through the following channels

External

- Weak external demand (-1.2 pp)
- Remittances drop (-0.7 pp)
+ World gold prices increase (0.2 pp)

Domestic

- Lockdown will temporary decrease output, consumption, investments, external trade with total effect of \([-1.9, -3.0]\)
+ Policy response and international financial institutions support (0.2-0.4 pp)

Note: contribution to GDP growth is presented in parentheses, provided that lockdown lasts 1.5 months

Source: authors’ calculations
Forecast. Economic Growth to Decelerate

GDP growth will decelerate to **0.1%** in 2020:

- Consequences of the COVID-19 pandemic
- Authorities’ measures to support economic activity
- Support of international financial institutions

Recovery of economic activity in 2021–2022:

- World economy and commodity markets stabilize
- Implementation of structural reforms

Risks Shifted Towards Growth Deceleration

Source: authors’ calculations
Forecast. Acceleration of Inflation in 2020

Acceleration of inflation in 2020 to $5.6\%$:

- National currency depreciation
- Temporary hike in rush demand for essential goods in 1Q2020

Inflation in 2021–2022 – within the NB KR target:

- Disinflationary impact of domestic demand
- Decrease of exchange rate undervaluation

Source: authors’ calculations
Forecast. Interbank interest rate to increase to the policy rate

- According to our estimates, keeping policy rate at current 5.0% in 2020 would support economy amid decreasing inflationary risks, while interbank interest rates will increase to the level of policy rate.

- Early in the 2020 year, the som was pressurized by the worsening global economic outlook. Those factors are likely to persist in the coming months, and the national currency’s exchange rate versus the U.S. dollar will stay close to its current levels. Then we expect the som to partially regain lost ground, as the world economic situation stabilizes.

Sources: authors calculations
## Forecast. Key Macroeconomic Indicators

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<tbody>
<tr>
<td><strong>Consumer price index</strong></td>
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<td>(% growth December to previous year’s December)</td>
<td>3.7</td>
<td>0.5</td>
<td>3.1</td>
<td>5.6</td>
<td>3.2</td>
<td>4.3</td>
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<td><strong>GDP in constant prices</strong></td>
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<td>(% growth YoY)</td>
<td>4.7</td>
<td>3.8</td>
<td>4.5</td>
<td>0.1</td>
<td>5.6</td>
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<td><strong>Inerbank rate</strong></td>
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<td>(the year’s average, % per annum)</td>
<td>1.7</td>
<td>2.2</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>6.6</td>
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<td><strong>Nominal exchange rate</strong></td>
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<td>KGS per USD (the year’s average)</td>
<td>68.9</td>
<td>68.8</td>
<td>69.8</td>
<td>77.9</td>
<td>79.0</td>
<td>80.6</td>
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Note: P - projected
Sources: authors’ calculations