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INFORMATION DISCLOSURE

This Review includes a detailed description of the current internal and external macroeconomic setting and a consistent set of forecasts that takes into account the interrelationships between the economies of the EDB operating region and the external sector.

The forecasts of the main macroeconomic indicators were prepared by the EDB jointly with the EEC using an integrated system of models based on a multi-country structural dynamic macroeconomic general equilibrium model. More detailed information about the structure of the integrated system of models, its main components, and its use for analysis of the macroeconomic situation and forecasting is contained in a joint EDB and EEC report entitled “Forecasting System for the Eurasian Economic Union”.

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LIST OF ABBREVIATIONS

**EAEU** – Eurasian Economic Union

**EDB** – Eurasian Development Bank

**EEC** – Eurasian Economic Commission

**GDP** – Gross Domestic Product

**KGS** – Kyrgyz som

**KR** – Kyrgyz Republic

**OPEC** – Organization of Petroleum Exporting Countries

**pp** – percentage point

**Q** – quarter

**U.S. or USA** – United States of America

**USD** – United States dollar

**%** – per cent

**% YoY** – Year-on-Year Growth Rate
SUMMARY

GDP growth in the Kyrgyz Republic accelerated to 4.5% in 2019, largely on account of production activity at the Kumtor mine, whose gold output exceeded the company’s targets. In other sectors, services and the construction industry were the key drivers of growth.

Inflation accelerated to 3.1% by the end of 2019, up from 0.5% a year before. The slowing inflation trend stopped in 2Q2019 as world grain and meat product prices grew and the supply of vegetables was limited in the domestic market. The non-food basket price remained virtually the same as in 2018 as the som to U.S. dollar exchange rate remained stable.

The current account deficit has tended to narrow as exports grow (primarily, gold) while imports of goods and services decline. The lower volume of imported goods partly results from the use of tangible inventory stocks accumulated in the preceding year (textile imports) and from a weak price situation in the world energy commodity market.

The State budget posted a deficit of 0.1% of GDP in 2019, while the target was 1.7% of GDP. Its income side grew as all the key revenue items increased. The operating expenditures were executed in full. Expenses on the purchase of non-financial assets grew at a slower rate than planned.

The National Bank of the Kyrgyz Republic reduced its policy rate by 50 basis points in 2019, to 4.25% as of end of December 2019, and took a number of decisions to narrow the interest rate band. The main thrust of its exchange rate policy remained the same, while its lending policy became more reserved, which was one of the factors that drove the interbank loans rate closer to the policy rate.

In 2020, Kyrgyz GDP growth will decelerate to 3.0%. The constraints on its performance will include lower gold output at Kumtor. Moreover, the negative consequences of the coronavirus spread will weaken external demand and restrict the real sector’s performance in the Kyrgyz Republic. International financial assistance to the country is expected to open up more opportunities for fiscal maneuvers aiming to support the economy.

The inflation acceleration trend will continue in the first half of 2020. The increase of regional wheat prices, resulting from a low 2019 wheat harvest in Kazakhstan, will support inflation in the KR till mid-2020. The process will also be driven by a continued upward trend in sugar and vegetable oil prices and the increase of excises in early 2020 under the EAEU countries’ mid-term plan to harmonize their tobacco excise policies. Inflation will be supported from 2Q2020 by som weakening passed through to domestic prices. In 2021–2022, inflation will fluctuate in the lower segment of the 5.0–7.0% target range.
In 2019, GDP growth accelerated to 4.5%, up from 3.8% the year before, largely on account of increased gold production. Output at the Kumtor mine reached 600 thousand ounces in 2019\(^1\), which exceeded the company’s target (535–565 thousand ounces\(^2\)). The economy excluding that gold mining company’s output developed at a steady rate of 3.8% (vs. 3.7% in 2018).

Intra-year GDP growth remains volatile due to the Kumtor mine’s production cycle. Thus, 43% of 2018 gold output was concentrated in the 4\(^{th}\) quarter, while output in 2019 was evenly spread across the year (with 25% of annual production in each quarter).

Industrial output increased by 6.9% in 2019 (vs. 5.1% the year before). In addition to the strong performance of the gold production sector, the economy was supported by mining industries and the production of foodstuffs, textiles,

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\(^2\) [https://www.kumtor.kg/ru/](https://www.kumtor.kg/ru/) Retrieved on 12.02.20.
Investment activity expanded in 2019 at a rate (5.8%) higher than the 2018 figure (3.4%). The greatest growth of investment was recorded in the construction of water supply facilities (3.1 times as much as in 2018) that mainly used funds attracted by the public sector via international development finance institutions. Utilization of investments in wholesale and retail trade increased 1.4 fold, and in the mining industries it rose by 21.5%. In this case, funding was provided by enterprises and organizations, foreign direct investors, and foreign loans. The transport sector is a leader in terms of investments, but its share of all investments decreased to 12.3% in 2019, down from 13.7% the year before.

**Stable Agricultural Output Performance**

The agricultural growth rate stayed at the 2.6% level. The torrid summer of 2019 affected the yield of grains, vegetables, cotton and tobacco, resulting in 2.6% growth of crop farming output in 2019 (after 3.4% the year before). Gross livestock farming output grew by 2.5% (vs. 2.2% in 2018).

**Figure 2. Production Activity (period’s growth rate year-on-year)**

[Graph showing industrial and agricultural output growth rates from 2017 to 2019]

Source: KR National Statistical Committee

**Investment Underpins Domestic Demand**

Investment activity expanded in 2019 at a rate (5.8%) higher than the 2018 figure (3.4%). The greatest growth of investment was recorded in the construction of water supply facilities (3.1 times as much as in 2018) that mainly used funds attracted by the public sector via international development finance institutions. Utilization of investments in wholesale and retail trade increased 1.4 fold, and in the mining industries it rose by 21.5%. In this case, funding was provided by enterprises and organizations, foreign direct investors, and foreign loans. The transport sector is a leader in terms of investments, but its share of all investments decreased to 12.3% in 2019, down from 13.7% the year before.

**Retail Sales Growth Slows Down**

Retail sales in 2019 grew at a slower rate (4.7%) than in 2018 (6.3%), but showed a steadier performance. While in the preceding years consumer activity would peak in the 4th quarters, intra-year growth in 2019 was stable. With inflation accelerating in the food sector, food sales growth decelerated to 4.6% in 2019, down from 9.8% the year before.
Despite volatile movement, real incomes trended upwards amid their nominal growth and low inflation. Employment earnings were the key contributor to their growth (6.3 pp), while revenues from personal smallholdings decreased (–0.6 pp). Real wages increased by 9.9% YoY in 2019. Growth of average monthly nominal wages was observed at enterprises and organizations engaging in most types of economic activity, except for information and telecommunication sectors and transport services.

The highest growth of average monthly wages was observed in construction (12.2% compared with 2018) and the mining sector (11.3%).

Recorded unemployment increased from 2.8% of the economically active population at the end of 2018 to 3.0% as of 31 December 2019.
Inflation

**Inflation Accelerates but Keeps Below Target**

The consumer price index began accelerating from 2Q2019. While 0.7% YoY deflation was recorded in March 2019, the month of December saw 3.1% YoY inflation. Nevertheless, the figure remained below the National Bank’s target of 5.0–7.0%. Core inflation grew as well, to 2.4% YoY in December 2019, up from 0.7% in March 2019.

**Food Segment is Main Contributor to Inflation**

The upward inflation trend in 2019 was driven by growing food prices. The appreciation of fruit (20.0% in December 2019 compared with December 2018) and vegetables (5.7% YoY) resulted both from the preceding year’s low base and from the torrid summer of 2019, that affected output. Accelerated appreciation of meat products (5.8% YoY) and cereals and bakery products (9.1% YoY) was driven by external factors. Thus, reduced meat supply in China in 2019, caused by an outbreak of African swine plague, supported meat price growth in the world market. The low 2019 grain harvest in Kazakhstan caused the domestic prices of cereals and bakery products to rise. The resultant inflation in the food segment was 5.7% YoY as of the end of December 2019, whereas 0.7% YoY deflation was recorded in March 2019.

Alcohol and tobacco products appreciated in price in 2019 as cigarette excises were raised in the process of excise harmonization among the EAEU member States.

**Figure 5. Inflation**

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

![Inflation Chart](chart.png)

**Source:** KR National Statistical Committee, KR National Bank
Service and Non-Food Sector Inflation Slows Down

Weak inflation in the non-food goods sector resulted from relative stability of the som to U.S. dollar exchange rate and depreciation of liquid fuel and lubricants – due in particular to a weak price situation in the world oil market. Non-food inflation was 0.6% YoY in December 2019.

Service price growth slowed down to 0.4% YoY in 2019 (vs. 4.1% YoY the year before) as the high base effect petered out in the telecommunication sector and hotel and restaurant service prices decreased.

Figure 6. Inflation Components (last month in quarter vs. last month of same quarter a year before)

Source: KR National Statistical Committee, calculations by the authors

The External Sector

Current Account Deficit Decreases

We estimate the negative current account balance to have narrowed in 2019 compared with 2018 as the trade deficit decreased and service trade surplus occurred. The Current Transfers item remains in surplus declining, to our estimates, by USD 297.6 million in 2019, as remittances fell by USD 290.7 million. In April 2019 the Central Bank of Russia established a limit of 100 thousand rubles a month on sending money to the KR via money transfer services, which caused the current transfers surplus to decrease.

Capital Inflow on Financial Account Transactions

In 2019, capital inflow via financial account transactions resulted primarily from foreign direct investment and loans attracted by the private sector. The increase of foreign assets by the banks was also a contributor.
Balance of Payments

Figure 7. Balance of Payments

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

International Reserves Grow

Gross international reserves amounted to USD 2.4 billion as of the end of December 2019, a 12.5% increase from the beginning of the year. The share of monetary gold increased to 28.9%, up from 21.4% over the same period.

Trade Deficit Narrows

According to provisional data from the National Statistical Committee of the KR, the trade deficit decreased as exports rose while imports fell compared with 2018.

Export revenue grew in 2019, mainly on account of a 24.8% increase of gold sales compared with 2018. Exports excluding gold declined by 3.5%,...
mainly as exports of textiles fell by 24.7%; non-precious metals by 28.5%; and machinery and equipment by 22.8%.

The imports decrease in 2019 largely resulted from smaller volumes of imported textiles (–25.2% YoY), footwear (–30.9% YoY), and mineral fuel (–23.4% YoY).

**Figure 9.**
**Product Groups’ Contribution to Goods Export and Import Growth**
*(January to December 2019 vs. January to December 2018)*

<table>
<thead>
<tr>
<th>Product Groups</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td></td>
<td></td>
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<tr>
<td>Mineral products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemical Products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wood</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Textiles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Precious metals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machines and Equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: KR National Bank, calculations by the authors*

**The Fiscal Sector**

**State Budget in Deficit**

The state budget deficit decreased to 0.1% of GDP in 2019, down from 1.1% of GDP the year before. The budget's income side outstripped expenditure growth.

**Budget Income Side Grows**

The budget’s incomes, including revenue from the sale of non-financial assets, grew by 10.3% compared with 2018. Growth was observed in all the key items. Tax revenues increased by 4.3% YoY, mainly on account of greater receipts of profit and income taxes and customs duties. Non-tax revenues grew by 25.7% in 2019, mainly on account of increased voluntary capital transfers. Growth of official transfers by 44.9% in 2019 was largely provided by official grants received from foreign Governments.

**Expenditures Increase**

The budget’s expenditures, including the purchase of non-financial assets, grew by 6.1% in 2019 compared with 2018. Operating expenditures grew mainly on account of greater allocations for general purpose public services, health, education, and social security. Funds allocated for the purchase of non-financial assets increased by 9.3% in 2019 compared with 2018.
Public Debt Increases  Public debt increased by 2.7% in absolute terms compared with the beginning of 2019. The trend towards a gradual increase of domestic debt’s share (+15.0% compared with 2018) through the placement of mid-term and long-term treasury securities in the domestic market continued in 2019. External public debt increased at a more moderate rate (0.7%) in 2019. The buildup of external debt resulted from new borrowings received under bilateral concessional credit facilities (1.8%), while non-preferential lending debt and that owed to international development institutions declined by 0.9%. 

Source: KR National Statistical Committee, calculations by the authors
**Monetary Conditions**

**Policy Rate Reduced** Against a low inflation background, the National Bank of the KR reduced its policy rate on two occasions in the first half of 2019: from 4.75% to 4.5% in February and by another 25 basis points in May. Then inflation embarked on a steady upward trend, which partly necessitated keeping the policy rate at 4.25%. The interest rate band was narrowed gradually during 2019. Thus, in May the overnight loan rate was reduced to 5.75%, while the overnight deposit rate was raised to 2.0% in May and August.

The cost of short-term credit resources in the interbank market appreciated to 3.5% per annum in 4Q2019, up from 2.1% as of the end of 2018, as excessive liquidity was gradually reduced in the banking system.

**Lower Volumes of Credit Auctions** On forty-three occasions in 2019 (versus seven in the previous year) the National Bank of the KR held credit auctions to refinance banks under Government programs undertaken to support regions and agricultural sectors. Supply amounted to 54.5 billion soms, 4.5 times as much as in 2018. However, the commercial banks utilized 2.0 billion soms in credit funds (vs. 3.0 billion the year before). The National Bank of the KR made no moves to lend to the Russian-Kyrgyz Development Fund in 2019.

**Loan and Deposit Market Rates Reduced** The price of credit resources provided by commercial banks declined from 16.6% in January to 15.8% in December 2019. The rate on loans in national currency was 18.9%, and in foreign currency 9.1%, in December 2019. The volume of loans issued in 2019 grew by 14.8% YoY, mainly as lending to agriculture increased (23.6% YoY) and more consumer loans were issued (28.1% YoY).

The attraction of new deposits slowed down to 10.8% in 2019 (vs. 14.0% the year before), and the average 2019 interest rate on deposits was 1.0% (vs. 1.5% in 2018).

The demand deposits taken in 2019 accounted for 90.1% of all deposits attracted, and the year’s average interest rate on them was 0.26% per annum. Loans issued for one to three years at an average rate of 18.1% accounted for 39.0%, and loans with longer than three-year maturity and 12.2% interest on average accounted for 33.3% of all the loans issued.

**Kyrgyz Som Stable** The domestic foreign exchange market was fairly stable during 2019. With demand for foreign exchange exceeding supply, the National Bank of the KR made selling interventions whose net volume was USD 143.5 million (vs. USD 134.0 million the year before).
The Kyrgyz som to U.S. dollar exchange rate fluctuated between 69.4 and 69.9 KGS per USD during 2019, an increase by 1.0% YoY on average. In 2018, the som’s foreign currency rate was somewhat more varied, between 67.9 and 69.9 KGS per USD. The real effective exchange rate strengthened by 0.9% compared with 2018. Mixed trends were observed in the basket of the main trade partner countries’ currencies. Thus, the som strengthened in real terms against the Kazakh tenge (by 5.4%), euro (by 3.7%), and Chinese yuan (by 1.1%), but weakened in real terms versus the Russian ruble (by 1.0%) and the U.S. dollar (by 2.1%).

Figure 12. Monetary Policy Rates (the period’s average)

Source: KR National Bank, calculations by the authors
ECONOMIC OUTLOOK

Background

Moderate External Demand in Medium Term

Economic growth in most of the countries that are the main trade partners of the Kyrgyz Republic slowed down in 2019. The Republic of Kazakhstan was an exception, with fiscal stimulation measures and increased investment activity largely offsetting the impact of the weak external situation and serving to accelerate Kazakhstan’s economic growth to 4.5% in 2019, up from 4.1% in 2018. Russia’s GDP increased by 1.3% in 2019, after 2.5% the year before. Economic growth in the first half of the year was constrained by the increased fiscal load and weak external demand. In the second half of the year, Russian output began showing signs of recovery, supported by the easing of tax and budgetary policy and bank lending conditions.

The Eurozone’s aggregate GDP growth declined to 1.2%, from 1.9% in 2018; the U.S. economy grew by 2.3% after 2.9%, and China’s grew by 6.1% after 6.6%. The slowing global trade and worsening economic sentiment amid mounting trade protectionism constrained production and investment activities and were only partially offset by stimulative domestic policies.

The external setting remained highly uncertain early this year. On the one hand, the Phase 1 trade agreement entered into by the USA and China reduced the risk of global recession. On the other hand, the spread of the coronavirus may offset the positive effect of emerging progress in the settlement of their trade conflict. The EDB’s baseline scenario is for the epidemic to gradually stabilize this year but that it will still depress economic activity worldwide.

Russian GDP is projected to grow by 1.3% in 2020, like the year before. Domestic demand will be supported by the implementation of the national projects passing into their main stage and by household income stimulation measures. Russian non-energy producers may derive additional competitive

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advantages from a weakening ruble. On the other hand, the said factors’ positive contribution to economic growth may be offset by the adverse consequences of the spread of coronavirus and falling oil prices, resulting from the weakening of external demand for Russian exports, worsening economic sentiment and the disruption of production chains. In 2021 and 2022, Russia’s annual economic growth will accelerate to 1.9% as the world economy and commodity markets stabilize and domestic structural reforms are implemented.

We estimate China’s economic growth to slow down to 5.0% in 2020. The key factor will be the coronavirus epidemic’s effects on consumer and manufacturing activities. The shock is supposed to be temporary and the Chinese economy should begin recovering this year, supported by monetary and fiscal stimuli. It should be noted that the assessment of the current situation’s impact on business activity is far from certain.

Economic growth in the Eurozone is projected to slow down in 2020. Late 2019 and early 2020 data point to continued weakness of the German industrial sector, and the consequences of the spread of coronavirus will have an additional negative effect. The Eurozone’s economy will stay supported by its soft monetary policy; in conjunction with a recovery of global trade, projected for the medium term, this will serve to accelerate the zone’s GDP growth.

The weaker fiscal impetus will slow U.S. economic growth in the medium term and cause it to stabilize at its near-potential level. The worsening global economic situation and the problems faced by Boeing Corporation⁴ may be additional constraints in 2020. We estimate U.S. monetary policy to retain its stimulative nature throughout the projection period.

The uncertain global outlook put pressure on commodity prices in 2019, with most of them depreciating. The fall of energy prices accelerated early this year because of the negative effect of the spread of coronavirus on energy consumption predicted by international organizations, as well due to the unexpected outcome of negotiations in the OPEC+ Ministerial Committee, which failed to reach consensus to extend the oil production reduction agreement. We expect a weak price situation in the world energy market to prevail in the coming months. In the medium term, the weakening

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⁴ In December 2019 Boeing Corporation announced the suspension of production of its 737 MAX airliners. According to the company’s latest statements, it expects to resume production in mid-2020. For more information see Boeing Statement Regarding 737 MAX Production and Boeing Statement on 737 MAX Return to Service.
of the coronavirus epidemic’s negative effects and recovery of demand for hydrocarbons will support oil prices.

External Inflation Background Sends Mixed Signals

The external sector’s inflationary pressure on the Kyrgyz economy is expected to be low in the medium term, but the short-term balance of risks is shifted towards the acceleration of import prices.

Inflation in Russia slowed down to 3.0% YoY in 2019, which is below the Central Bank’s target of 4%. This was facilitated by a strengthening ruble, moderate consumer activity and increasing supply of food. The EDB projects the said factors’ impact to gradually weaken in the current year as household demand strengthens and the Russian currency’s exchange rate decreases. The resultant 2020 inflation is estimated at 3.8%, while in 2021–2022 inflation is projected to be close to the target set by the Bank of Russia.

The rate of the consumer price index change in Kazakhstan kept within the 4.0–6.0% target range during 2019 and was 5.4% as of the end of the year. As of the beginning of 2020, the inflationary risks are tilted to the upside due to faster growth of food prices, raised petrol excises and the Kazakh currency weakening. We estimate inflation in Kazakhstan to overshoot the upper limit of its target range and to reach 6.0% by the end of the year. In later years, it will fluctuate within the target ranges of 4.0–6.0% in 2021 and 3.0–5.0% in 2022.

Consumer price index growth in the Eurozone and USA is projected to be lower than the European Central Bank and Federal Reserve system targets throughout the time horizon, amid moderate economic activity, decreasing energy prices and low inflationary expectations. Inflation in China is expected to slow down gradually after accelerating in 2019 as the meat price shock effect peters out.

Short-term inflation acceleration risks may emanate from the global goods and commodity markets. The food price index will continue to grow in early 2020 as vegetable oil, sugar, grains and milk products appreciate. Starting from the second half of 2020, the world food price trends will stabilize, and no shock surges are expected in the medium term.

The deterioration of the growth outlook has boosted investors’ interest in ‘defensive’ assets, which has caused the price of gold to grow. We expect this asset to stay attractive both this and next year, while in 2022 gold prices should adjust as the global economic situation normalizes.
In 2020, lower gold output at the Kumtor mine, which the company expects to be 520–560 thousand ounces, or 10.0% less than in 2019 on average, will be the main constraint to GDP growth. In the following years, the mine’s output is projected to gradually decline. Given Kumtor’s significance for the economy, its performance will largely determine the GDP numbers.

The emergency situation declared in late March 2020 due to the coronavirus pandemic will restrict activity in the service sector, primarily of the retail trade, hotel business, and transport companies. Our baseline scenario assumes its negative impact to be temporary and entail no secondary effects.

We expect the authorities’ fiscal stimulation capacity to be enhanced by international financial assistance to be received. In late March 2020, the International Monetary Fund approved the allocation of USD 80.6 million to

### Table 1. Projected Main Foreign Economic Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Average annual Urals oil price (USD per barrel)</th>
<th>Average annual gold price (USD per ounce)</th>
<th>Food prices, 2010 index=100</th>
<th>Russia’s real GDP growth rate, %</th>
<th>Kazakhstan’s real GDP growth rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>44.1</td>
<td>1644</td>
<td>88.8</td>
<td>1.3</td>
<td>3.5</td>
</tr>
<tr>
<td>2021</td>
<td>49.8</td>
<td>1658</td>
<td>87.0</td>
<td>1.9</td>
<td>3.4</td>
</tr>
<tr>
<td>2022</td>
<td>52.8</td>
<td>1651</td>
<td>87.8</td>
<td>1.9</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: calculations by the authors, EEC

### Economic Policy to Retain its Main Thrust

Our baseline scenario assumes economic policy to retain its current focus. In the medium term, the National Bank of the KR is expected to continue credit operations in order to stimulate the real sector of the economy under State programs aiming to develop agricultural sectors and regions of the country. Exchange rate policy is expected to continue unchanged in the medium term.

According to estimates voiced by the Ministry of Finance of the KR, the budget deficit is to be widened to 1.2% of GDP in 2020, up from 0.1% of GDP in 2019. In the medium term, the budget deficit is to be reduced to 0.7% of GDP.

### Economic Activity

#### Growth to Slow Down in 2020

In 2020, lower gold output at the Kumtor mine, which the company expects to be 520–560 thousand ounces, or 10.0% less than in 2019 on average, will be the main constraint to GDP growth. In the following years, the mine’s output is projected to gradually decline. Given Kumtor’s significance for the economy, its performance will largely determine the GDP numbers.

The emergency situation declared in late March 2020 due to the coronavirus pandemic will restrict activity in the service sector, primarily of the retail trade, hotel business, and transport companies. Our baseline scenario assumes its negative impact to be temporary and entail no secondary effects.

We expect the authorities’ fiscal stimulation capacity to be enhanced by international financial assistance to be received. In late March 2020, the International Monetary Fund approved the allocation of USD 80.6 million to
the Republic under its Rapid Financing Instrument, as well as USD 40.3 million under its Rapid Credit Facility.

**Short-term Risks Tilted Towards Slower Growth**

The risks of a more moderate economic performance prevail in the short run. This primarily results from the fact that the implications of the spread of coronavirus for the world economy are currently hard to predict due to uncertainty as to the scale and duration of this epidemic. We expect its adverse effects to be concentrated on the demand side and to have no significant impact on production capacity. Otherwise it may have stronger and more protracted consequences for the Kyrgyz economy. There is also a probability of oil prices staying low for a long time and exerting a stronger impact on economic growth in the Russian Federation, which may, in turn, affect the volume of remittances and Kyrgyz goods exports.

**Figure 13. Real GDP**

(period’s growth rate, year-on-year)

In 2021 and 2022, economic activity will recover as the world economy and commodity markets stabilize. External demand, strengthening as global economic growth recovers, will drive up exports.

**Risks to Economic Growth to Persist**

The mid-term risks for the KR’s GDP emanate both from the external sector and from the domestic economy. There remains a probability of a stronger global slowdown than assumed in the baseline scenario, that will probably lead to a weakening of Kyrgyz exports.

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5 Here and elsewhere the chart ranges correspond to the 10%, 50% and 75% confidence intervals.
Inflation

Inflation to Reach Target Range in 2Q2020

In the first half of 2020, the consumer price index in the KR will still tend towards acceleration. The increase in regional wheat prices, resulting from a lower 2019 wheat harvest in Kazakhstan and from the export restrictions imposed in the Russian Federation, will push up Kyrgyz inflation till approximately mid-2020. The continued upward trend in world sugar and vegetable oil prices as well as the raised excises early this year under the EAEU countries’ mid-term plan to harmonize their tobacco excise policies will be additional contributors to the process. The said factors are exerting a short-term effect that will peter out by mid-2020. Starting from 2Q2020, inflation will be driven by the national currency’s weakening passed through to domestic prices.

Figure 14. Inflation
(last month in quarter vs. last month of same quarter a year before)

Note: seasonally adjusted data.
Source: calculations by the authors, EEC

2021–2022 Inflation to Be Within Target

In 2021–2022, inflation will fluctuate in the lower segment of the 5.0–7.0% target range, constrained by weak inflation in the main trade partner countries and in the world goods and commodity markets. The exchange rate movement and monetary policy will have a neutral effect on the consumer price index.

Monetary Conditions

Interbank Rates to Rise Gradually

In February 2020, the KR National Bank raised its policy rate from 4.25% to 5.0% as inflation accelerated, driven by the growth of world food prices. In early 2020, with an excess of liquidity still felt in the banking sector and the
National Bank’s credit policy focus unchanged, the 7-day interbank REPO rates remained in the lower segment of the interest rate band. The EDB baseline scenario is for the policy rate to stay at its current level in 2020, and for the money market rates to approach policy rate by the end of 2020.

In 2021–2022 the rate is projected to rise to its neutral level, that we estimate at 7.0–8.0%. This will be promoted by inflation settling within its target range.

**National Currency to Depreciate**

Early this year, the som was pressurized by mounting fears of the negative impact of the coronavirus epidemic on the world economy. This factor is 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 economy stabilizes. Consequently, we project the year’s average Kyrgyz som to U.S. dollar exchange rate to be some 73.2 KGS per USD.
### Table 2. Main Macroeconomic Indicators of the Kyrgyz Republic

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<tbody>
<tr>
<td><strong>Consumer price index</strong></td>
<td>4.7</td>
<td>3.8</td>
<td>4.5</td>
<td>3.0</td>
<td>3.7</td>
<td>3.8</td>
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<tr>
<td>(% growth December to previous year’s December)</td>
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<tr>
<td><strong>GDP in constant prices (% growth YoY)</strong></td>
<td>3.7</td>
<td>0.5</td>
<td>3.0</td>
<td>5.5</td>
<td>5.1</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>Interbank repo rate 7d</strong></td>
<td>1.7</td>
<td>2.2</td>
<td>2.9</td>
<td>4.0</td>
<td>6.0</td>
<td>8.0</td>
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<td>(the year’s average% per annum)</td>
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<tr>
<td><strong>Nominal Kyrgyz Som to U. S. Dollar exchange rate</strong>, KGS per USD (the year’s average)</td>
<td>68.9</td>
<td>68.8</td>
<td>69.8</td>
<td>73.2</td>
<td>74.1</td>
<td>75.5</td>
</tr>
</tbody>
</table>

Note: P = Projected  
Source: calculations by the authors, EEC
Your comments and suggestions concerning this review are welcome at: pressa@eabr.org