



**Kyrgyzstan  
Country Partnership Strategy  
2017-2018**

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## I. Main Economic Indicators

	2012	2013	2014	2015	2016
Population (mid-year; mln)	5.6	5.7	5.8	6.0	6.1
Average exchange rate (Som ,KGS/ USD)	47	48.40	53.7	64.5	69.9
Inflation rate (CPI average; %)	2.8	6.6	7.5	6.5	0.4
GDP at current prices (local cur.,bln)	310.5	355.3	400.7	430.5	458
GDP at current prices (USD bln)	6.6	7.3	7.5	6.7	6.5
GDP / capita (in cur. prices; USD)	1166.1	1269.7	1266.6	1109.4	1072
Real GDP growth (%)	-0.1	10.9	4.02	3.46	3.76
Unemployment rate (ILO definition; eop; %)	8.43	8.33	7.55	7.50	7.46
Direct foreign investment (USD mln)	293	626	248	1142	467
Central Gov. Budget balance /GDP (%)	-5.5	-5.3	0.8	-1.5	-4.6
Gross Gen. Government Debt/GDP (%)	48.9	46.1	52.2	64.8	58.1
Export (fob, USD bln)	1.89	2.06	1.9	1.48	1.54
Import (fob, USD bln)	5.37	6.07	5.73	4.1	3.9
Trade balance (exp. fob. - imp.fob.; USD bln)	-3.5	-4.0	-3.8	-2.6	-2.4
Current account balance (USD bln)	0.25	-0.97	-1.19	-1.06	-0.63
Current account / GDP (%)	3.7	-13.2	-15.9	-16.0	-9.65
Official reserves (incl. gold; eop; USD bln)	2.06	2.2	1.95	1.77	1.96

**Sources:** IMF, ADB and National Statistical Committee of Kyrgyz Republic.

## II. Economic Overview and Outlook

### Real Sector

Kyrgyz republic's real GDP growth was realized at 3.76% in 2016 compared to 3.46% realized in the previous year. Growth was mainly on account of strong performance observed in gold mining and exports which was counterbalanced by subdued external demand from its main trading partners. Remittances, which constitute one third of GDP, showed significant recovery expanding by 22% boosting private consumption.

The industrial sector which constitutes 28.4% of GDP grew by 5.9% compared to 2.9% last year on account of increase in gold production whereas textiles, apparel, manufacturing and electricity generation experienced deceleration in growth. Growth in construction declined to 7.5% following 16.3% expansion last year, as growth in capital investment further shrank by 3.8% from the earlier contraction of 14%.

Agriculture sector which constitutes 15.9% of GDP grew by 3% underpinned by growth in livestock and key crops but significantly below the 6.2% growth rate realized last year. Growth in the services sector slowed down to 3% from 3.5% realized last year. Services sector constitutes 55.6% of GDP.

### External Sector

Kyrgyz republic's exports rebounded and increased by 4% in 2016 to USD 1.54 billion compared to contraction of 22% witnessed last year. Exports rose mainly on account of higher gold and agricultural exports. Imports posted a decline of 4.8% and were realized at USD 3.9 billion compared to 28.5% contraction recorded last year. The decline in imports was mainly on account of lower imports of vehicles, tobacco and livestock. As a result, the trade balance shrank by 7.7% to USD 2.4 billion and in terms of GDP stood at 36.9%. Current account deficit shrank by 40.5% to USD 0.63 billion and as percentage of GDP stood at 9.65%.

### Fiscal Outlook

In 2016 fiscal deficit increased to 4.6% of GDP from 1.5% realized in 2015. Revenues as percentage of GDP declined to 28.5% following 29.8% recorded in 2015 mainly on account of VAT exemptions whereas expenditure rose to 33.1% of GDP from 31.3 % of GDP in the last year.

Public debt in terms of GDP decreased to 58.1% in 2016 from 64.8% last year. Public and publicly guaranteed external debt in terms of GDP is projected to decline to 60.7% from 64.6% last year. The reduction in debt is due to rescheduling of some public investment projects and appreciation of som.

### Inflation Dynamics and Monetary Policy

In 2016 deflationary trend from last year continued with consumer price inflation decelerating to 0.4% from 6.5% recorded last year. Som appreciation against USD of 8.7% on basis of end-of-period exchange rate coupled with low food and oil prices helped to keep inflation subdued.

The central bank pursued a loose monetary policy wherein policy rate was reduced in measured steps from 10% at the beginning of 2016 to 5%. It is pertinent to mention here that monetary policy has a limited impact as there is extensive dollarization in the economy with 44.5% of the loans and 53.4% of deposits denominated in foreign currencies.

### **Future Outlook**

Economic growth is projected to slow down to 3.5% in 2017 on account of high base effect and expected decline in gold production. In 2018 growth is projected to recover to 3.8% underpinned by strengthening of external demand on account of economic growth rebounding in China, Kazakhstan and Russian Federation after their recent subdued economic performance.

Kyrgyz Republic's membership of Eurasian Economic Union (EEU) is expected to boost trade with member countries by reducing non-tariff barriers over the long term. Current account deficit is expected to increase to 11.5% of GDP in 2017 and further rise to 11.9% of GDP in 2018. Budget deficit is projected to shrink to 3% of GDP in 2017 and further narrow to 2.5% of GDP in 2018 as government is expected to cut down on expenditure and increase revenues by reforming tax policy and administration. Inflation is projected to rise to 5% in 2017 due to import tariffs rising to EEU mandates and ease to 4% in 2018.

### **III. Main Business Strategy**

Within the framework of its business plan, the Bank continues to pursue a comprehensive program to encourage other ECO member states to become a member of the Bank. In this context, Kyrgyz Republic with paid-in capital contribution of SDR 2 mln signed the Articles of Agreement establishing the Bank on 12 February 2015. After ratification of the subject agreement, Kyrgyzstan has become the member of the Bank in August 2015. As the new shareholder of the Bank having 0.6% share Kyrgyzstan continues its paid-in capital contribution payments through equal consecutive annual installments.

This country strategy document is the primary analytical and planning tool that would enable ETDB to design, execute, monitor, review, and evaluate its operations in Kyrgyzstan. The Bank's role and priorities are defined according to (i) country development priorities and (ii) available resources, strategies and policies of ETDB. In this respect, ETDB will seek viable opportunities and will continue closely monitoring the developments in the Kyrgyz economy in order to stand prepared to support bankable projects. In close coordination with development partners, the Bank would align its operations with the development priorities of Kyrgyzstan and foster co-financing opportunities.

ETDB will provide support for implementation of development projects in various sectors including agribusiness, energy, mining, infrastructure, transport, logistics, manufacturing, water supply and sanitation, tourism etc., foster trade finance and support development of small and medium-sized enterprises. Moreover, realization of projects on public-private partnership would be other focus areas for the Bank in its engagement with Kyrgyzstan. The Bank will work with selected local financial institutions in Kyrgyzstan where such delegation of responsibility will assist the Bank in serving a targeted market segment more efficiently and effectively than the Bank might be able to do directly. Supporting expansion of the financial sector and improving financial inclusion is important in enhancing credit flow to development of real sector.

#### **(i) Micro, Small and Medium Sized Enterprises (M-SMEs) Development Facility**

Under this facility the ETDB provides loans to local banks and financial intermediaries for supporting development of loans extended to the M-SMEs. The main goal of these intermediated loans is to support growth and employment potential of the M-SMEs and poverty alleviation efforts. Thus, promoting the production and innovation capacity of vibrant SMEs in the member states remains a priority for the Bank.

The government's economic development agenda is galvanizing reforms for the development of the SME sector. ETDB would contribute for the development of M-SME segment in Kyrgyzstan through local financial institutions- Banks and MFIs. The Bank will also consider the options to find suitable partners to support the development of non-bank financial sector as well. ETDB is already in contact with the offices of the Ministry of Finance, seeking referrals of plausible counterparties and will continue exploring the financial sector in Kyrgyz Republic to secure the first mandate for operation in this member state.

**(ii) Short Term Trade Finance Facility (STTF)**

Trade finance is a distinct core business of the Bank. The STTF facility has been designed to strengthen the ability of local banks to support entrepreneurs throughout the member states to expand their trade transactions. The Bank offers a number of instruments designed to address funding needs of suppliers/exporters and /or buyers/importers. ETDB will liaise with the concerned quarters for initiating a short term trade finance facility for the leading financial institutions of the country to support the government's ongoing endeavors to encourage export-oriented production.

**(iii) Corporate and Project Finance**

The Corporate & Project Finance operations are aimed to contribute towards attainment of ETDB's primary objective of nurturing and promoting sustainable economic development. By providing a full range of financing and facilitation options to its clientele in member states, the Bank is targeting both public and private sector enterprises in the designated business segments. In view of the national development priorities the primary objective is to maximize economic and developmental impact in a most efficient and effective manner from perspectives of risk, return and value addition. The products available are short term trade loans and short to medium corporate loans for acquisition of equipment, modernization of plant and structures and other related expenditures and longer tenure project finance loans for the development of the member country.

## **IV. Conclusion**

As a landlocked and largely mountainous country with a modest domestic market, the Kyrgyz Republic has been taking important steps to improve the economy's competitiveness. The economy remains heavily dependent on performance of few sectors mainly a gold mine (Kumtor) and worker remittances (equivalent to about 30% of GDP) from abroad. Although the economy demonstrates positive growth rates, it is expected to remain on a lower-growth trajectory due the sluggish revival of internal and external demand. The inflow of remittances is growing but is still below pre-crisis levels. The trade balance continues to be effected depending on gold exports, trade diversion after Eurasian Economic Union (EEU) accession, external demand and the relative appreciation of the som against the main trading partner currencies. Despite high level of capital adequacy and enhanced regulatory framework, monitoring the non-performing loans as well as possible risks associated with foreign exchange volatility, dollarization, and economic slowdown remain vital for the sustainability of the financial sector.

In order to unlock the economy's potential and accelerate the non-gold GDP growth (gold has accounted for an average of 30 percent of the country's total exports and accounts for about 10% of GDP), further improving the business climate, addressing infrastructure bottlenecks and fostering financial inclusion are necessary. Economic activities need to be diversified through increased private sector development and improved productivity.

Given its important hydroelectricity export potential and good transit position, the country is engaged in several regional integration processes which create opportunities in terms of export markets and potential inwards investments. In light of the high debt burden (remaining above 60% of GDP), the Government has committed to a significant fiscal consolidation over 2017–18. Going forward, while abiding to credible fiscal rules, growth-friendly investments will help the Kyrgyz Republic improve its competitiveness.

ETDB will cooperate closely with international financial institutions and other development partners to mobilize further resources for maximum development impact in Kyrgyzstan. The current country program document has been developed with the strategic goal of promoting market-driven economic diversification in alignment with the National Sustainable Development Strategy of the Kyrgyz Republic. ETDB will strengthen its cooperation with the Ministry of Finance in order to identify opportunities in projects that are strategically important for the country. In the coming years, the Bank would inter alia focus on following major areas:

**Financial sector:** Support developing sustainable financial sector. Providing short-medium-term funds to local financial institutions aimed to ensure efficient financing of the private sector and improve competitiveness of M-SMEs.

**Trade:** Support expansion & diversification of trade in terms of markets and products with an aim to contribute the target of Kyrgyzstan to boost exports.

**Manufacturing:** The Bank will seek to support enhancing capacity and competitiveness of the enterprises with a particular focus on supporting involvement of new technologies, innovation, R&D, exports and high value-added products.

**Agribusiness:** Supports will be structured for increasing efficiency, productivity and quality in production. Support investments in rehabilitation of irrigation networks, agri-food processing as well as packing, certification, etc. to boost production, competitiveness and exports.

**Infrastructure:** Support realization of priority infrastructure projects as critical for development of transport infrastructure to enhance internal and regional connectivity. The Bank will also focus on development of municipal infrastructure projects including water supply and wastewater treatment systems.

**Energy:** Given the country's important energy export potential, the Bank will strive to contribute rehabilitation and developing energy infrastructure projects and construction/reconstruction of power lines. Promote projects that will improve efficiency, viability and sustainability in the sector.