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June 2, 2021

**Statement by Mr. Odonye and Mr. Cham on Kyrgyz Republic
(Preliminary)
Executive Board Meeting
June 4, 2021**

We thank staff for the comprehensive report and Mr. Trabinski and Mr. Imashov's insightful Buff statement.

The Kyrgyz Republic entered the COVID-19 pandemic relatively strong, which helped endure the aftermath. A sharp contraction in tourism, exports and domestic activity induced by the pandemic have resulted to a rise in domestic prices, increased unemployment and poverty rate as well as elevated public debt. Significant uncertainty remains on the way to early recovery expected in 2021-222 largely due to a protracted path of the virus. In this regard, we broadly agree with the thrust of the staff assessment and welcome the authorities' recovery plan to implement reforms to restore macroeconomic stability. Beyond the crisis, we encourage the authorities to deepen medium-term structural reforms to transform the economy from reliance on remittances to a more diversified and private sector-led growth.

We commend the authorities' swift measures to mitigate the impact of the pandemic through emergency health spending, food security program for the most vulnerable, flexibility of financial conditions to ensure liquidity flow to small and medium enterprises (SMEs). Complemented by financial assistance from development partners including the IMF's RCF/RFI facility, we expect economic recovery in 2021-22, which might be delayed by the slow rollout of the vaccines and the emergence of new COVID-19 variant. In this regard, we support continued accommodative policies, increased health and social spending and urge the authorities to intensify vaccination rollout to save lives, restore economic activity and fast track the pace of recovery. *We welcome the health-sector contingency plan in collaboration with international organizations and would appreciate further updates on prospects for the authorities to continue protecting the vulnerable under the protracted crisis.*

Careful rebalancing would be key to allow temporary widening of the fiscal deficit to support the economy in 2021 while rebuilding buffers to strengthen resilience in medium term. In this regard, we urge the authorities to strengthen public financial management, integrate

investment planning in budget process, enhance reporting and accountability to ensure fiscal sustainability and put public debt on a downward trajectory. Key fiscal consolidation measures include reducing the public sector wage bill, energy subsidies and associated spending on goods and services. Strengthening tax policy and revenue administration would help raise revenue to create fiscal space for critical spending. Further commitment to reforms by the authorities would stimulate additional concessional donor financing to complement domestic borrowing.

Calibrating monetary policy to mid-single digits inflation would be consistent with the National Bank of the Kyrgyz Republic (NBKR's) objective of price stability. Recent decisions to raise the policy rate to 6.5 percent and 5.5 percent in April 2021 and February 2021 respectively, reflect the inflation containment goal. Looking forward, a gradual unwinding of the loan payment deferrals and strengthening of capital and loan provisioning relaxed to enhance liquidity, would be important. This will require NBKR to monitor demand pressures including food and non-food prices, wages, remittance flows, credit and import growth as well as tighten monetary policy if inflation pressures emerge. We welcome continued the commitment to exchange rate flexibility as shock absorber. Further, we encourage the NBKR to preserve institutional and operational independence of the central bank through clear communication of policy decisions to ensure effective and efficient conduct of monetary policy, including the steps to unwind the liquidity injection made during the crisis.

Finally, implementing structural reforms is critical to absorb the increasing labor force and ensure sustainable and inclusive growth. We encourage the authorities to broaden the coverage of social spending to improve poverty indicators, shift to income-based targeting and consolidate social assistance. Enhancing the business environment, boosting the education system, and stepping up infrastructure investment among others, are very crucial. Additional structural measures should continue to improve governance and transparency of SOEs, strengthen the AML/CFT regime and publish asset and income declarations of senior public officials, including those for all beneficial owners of public contracts in line with transparency of COVID-19 funding. Focus on increase climate-resilient investment and diversification of the economy is vital to deepen private sector-led growth to increase growth and create jobs for the teeming labor force.