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Revised

June 2, 2021

**Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Al-Riffai on Kyrgyz Republic
(Preliminary)
Executive Board Meeting
June 4, 2021**

We thank staff for their reports and as well as Mr. Trabinski and Mr. Imashov for their candid Buff statement. The Kyrgyz Republic is weathering the impacts of the COVID pandemic satisfactorily. Significant fiscal and monetary sector support measures helped mitigate the impacts of the pandemic. The pace of the vaccine rollout, the continued support to the economy, as well as the implementation of economic reforms will determine the pace and extent of the economic recovery. We note that the immediate objective is to restore macroeconomic stability by balancing the support to the economy with the rebuilding of buffers to strengthen resilience. We agree with the thrust of the staff reports and have the following to highlight.

We concur with staff's and the Government of Kyrgyz Republic's (GoK) stance that in light of the uncertain outlook, fiscal policy continues to support the economy in 2021, rebuild buffers in the medium term, aiming to reduce public debt to below 60 percent of GDP in 2025 to make space for development spending needs. Until the pandemic subsides, fiscal space can be attained by rationalizing and reallocating non-priority spending in favor of priority sectors and by increasing domestic resource mobilization. In the meantime, it will be crucial to preserve health and social spending and prioritize public investment projects with the highest social and economic returns. We take positive note of staff's discussions with the GoK around a contingency plan in case the pandemic lengthens and welcome that the plan favors expenditure reallocation in favor of the health and social sectors. We also believe that further strengthening of public financial management would be imperative going forward.

The current monetary policy framework appropriately targets price stability by controlling inflation and anchoring its expectations. We note that annual inflation will stay elevated in the coming months due to base effects but will decline to about 7.4 percent by end-2021 and return to the central bank's target range of 5–7 percent thereafter. The National Bank of the Kyrgyz Republic (NBKR) provided liquidity support to the banking sector, introduced

lending moratoria, and temporarily modified some macroprudential measures to address the tightness within the system brought on by the pandemic. The banking sector remains liquid and profitable, *can staff comment on the impacts of the higher credit growth and higher NPLs on the banking sector?*

Kyrgyz Republic is part of the Central Asian Power System and there are new integration plans that include connecting the electricity-exporting countries including the Kyrgyz Republic with Afghanistan and Pakistan to supply them with electricity. We note that the project is in its advanced stages of planning and could be operational after 2023. Residential demand for energy is significant and we take note that Mr. Trabinski and Mr. Imashov in their Buff statement state that the residential tariff structure for electricity may be revised once the political economy permits. We see merit in this approach and in addressing inefficiencies in the sector. *Can staff provide more details and a timeline for the planned reforms of the energy sector?*

We welcome leveraging the digital transformation movement towards more inclusive and sustainable growth and development. Though the Kyrgyz Republic has lagged behind its regional neighbors in ICT access and digital infrastructure development, the IT sector is one of its fastest growing sectors. In the last six years, the Kyrgyz Republic has risen in the rankings of the Global Innovation Index from 117th (2013) to 90th (2019) among 129 countries, outperforming other neighboring countries in adopting innovation digital activities. In 2019, the Kyrgyz government adopted the “Digital Kyrgyzstan 2019-2023” strategy aimed at accelerating digital transformation. We welcome the move towards greater digital transformation and see the benefits to improve budget planning and execution, accounting and financial reporting, as well as payroll management. Furthermore, we see merit in also leveraging digitalization advances to facilitate trade procedures, promote financial inclusion, and better target the social safety net.

We wish the people and Government of the Kyrgyz Republic success in their stabilization and reform efforts.