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June 2, 2021

**Statement by Mr. Hendrick and Ms. Bustillo on Kyrgyz Republic
(Preliminary)
Executive Board Meeting
June 4, 2021**

We thank staff for the insightful report on Kyrgyz Republic and Mr. Trabinski and Mr. Imashov for their informative Buff statement. The Kyrgyz economy was hard hit by COVID-19 with real GDP growth contracting by 8.6 percent in 2020. While the economy is projected to rebound in 2021-22, the outlook remains uncertain and dependent on the vaccine rollout and on supportive policies. As indicated in the Buff statement, accelerating vaccine production and widespread distribution remains critical.

We welcome the authorities' swift measures to tackle the pandemic crisis. The authorities' fiscal, monetary, and financial policy response to mitigate the health and economic impact of the pandemic was facilitated by ample buffers and support from the international community. While growth is expected to rebound in 2021, uncertainty remains high and additional policy measures could be needed. In this regard, we support continued accommodative policies to protect the most vulnerable and appropriately support the recovery. At the same time, we are encouraged by the authorities' commitment to identify cuts in non-priority expenditures while protecting health and social spending, if sufficient financing cannot be mobilized. Going forward, a credible medium-term strategy is needed to reduce the public debt. We share the authorities' view that the main challenge will be to reconcile the reduction of public debt with supporting development needs. To this end, mobilizing additional domestic tax revenues would create fiscal space to support essential spending and we are encouraged by the authorities' request for technical assistance to support efforts to raise tax revenues. Further, we agree with staff on the need to step-up efforts to mobilize concessional financing. *We welcome staff's updates on prospects for greater donor financing under the new administration.*

The authorities remain committed to price stability. We take positive note of the central bank focus on price stability while seeking to avoid a premature withdrawal of stimulus. Given the uncertain environment, we agree with staff that it is essential to closely monitor demand pressures and clearly communicate the central bank's policy direction to anchor inflation expectations. Furthermore, we welcome the authorities' intention to transition to inflation targeting. However, we underscore that this requires pressing ahead with efforts to strengthen central bank governance. We are also encouraged

by the authorities' commitment to continue with a flexible exchange rate policy and the use of FX interventions to only smooth volatility. However, we concur with staff that addressing balance-of-payment weaknesses will also require structural reforms to improve competitiveness.

Keeping the banking system resilient. The stress tests run by the central bank indicate that the banking sector is resilient to severe shocks including further deterioration of credit quality. We welcome the authorities' readiness to continued supervisory vigilance and monitoring vulnerabilities

Structural reforms to underpin sustained growth. We welcome the proposals in Annex IV on governance, access to finance, education, and energy sector reform which are critical to remove obstacles to growth. At the same time, active labor market policies and institutions are needed to address the increasing labor force and reduce the prevailing high poverty rates. *We would appreciate staff's comments on labor market policies to generate employment, in particular high-productivity employment on a sufficient scale, which could foster more inclusive growth.*

On climate change. We commend the Kyrgyz Republic on their actions to tackle climate change and preservation of water resources.

With these remarks, we wish the authorities and people of the Kyrgyz Republic success in their future endeavors in these difficult times.