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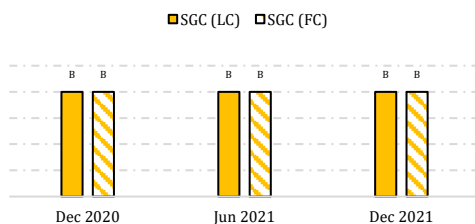
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Ratings

Sovereign Government Credit (LC)	B
Sovereign Government Credit (FC)	B
Outlook (LC)	Negative
Outlook (FC)	Negative

* These ratings are unsolicited

Ratings dynamics



Main Economic Indicators of Kyrgyzstan

Macro indicators	2018	2019	2020
Gross gov. debt, KGS bn	312	312	319
Nominal GDP, KGS bn	530	569	590
Real GDP growth, %	4,7	3,5	4,5
Gross gov. debt/GDP, %	58,8	54,8	54,1
Deficit (surplus)/GDP, %	-3,7	-0,6	-0,1
Inflation rate, %	3,7	0,5	3,1
Current Account Balance/GDP, %	-	-	4,5
External debt, USD bn	-	-	4,1
Development indicators	2020		
Inequality adj. HDI	0,61		
GDP per capita, USD th	5,5		

Source: RAEX-Europe calculations based on data from the IMF, WB, Ministry of Finance of the Kyrgyz Republic and NBKR.

RAEX-Europe confirmed at 'B' the credit ratings of Kyrgyzstan. The rating outlook is negative. The ratings are withdrawn.

RAEX-Europe confirmed the sovereign government credit ratings (SGCs) of Kyrgyzstan at 'B' (Moderately low level of creditworthiness of the government) in national currency and at 'B' (Moderately low level of creditworthiness of the government) in foreign currency. The rating outlook is negative which means that in the mid-term perspective there is a high probability of downgrading the rating score.

Summary

The ratings of Kyrgyzstan were confirmed at 'B' and the outlook remains negative and the ratings have been withdrawn. The decision mainly reflects the economic and fiscal downturn derived from the pandemic as well as the unstable political climate. Moreover, despite the banking sector having posted favorable figures, it is expected to show asset quality deterioration as a lagged effect from the crisis.

However, we expect the economy to pick up further in 2022 as the world recovers from the pandemic. Nevertheless, the recovery will mostly be dictated by the pace of the worldwide vaccination campaign.

The economy bounced back in 2021. After a strong contraction of the economy in 2020, the economy barely grew in 9M 2021 by 0,1% y-o-y as the reopening of the economy supported private consumption. We saw a hike in the hospitality sector, while imports also increased. Nevertheless, we also observed negative industrial and construction growth in the same period, while gold output was also down. In addition, a key issue to monitor is the government seizure of the Kumtor gold mine from the Canadian operator Centerra Gold, as gold output is one of the main supports of the economy and could carry negative consequence for the creditworthiness of the country. Thus, we expect the economy to grow at around 2,1% in 2021 (see graph 1).

In 2022, we anticipate the economy to recover further as the expectation is that the global outlook will improve and the pandemic will ease. However, as we have seen recently, there is no guarantee the pandemic will start to wane if vaccination rates across the world remain not ideal. We project the Kyrgyz economy to grow by around 5% in 2022. In regard to the official level of unemployment level, the reading was reported at

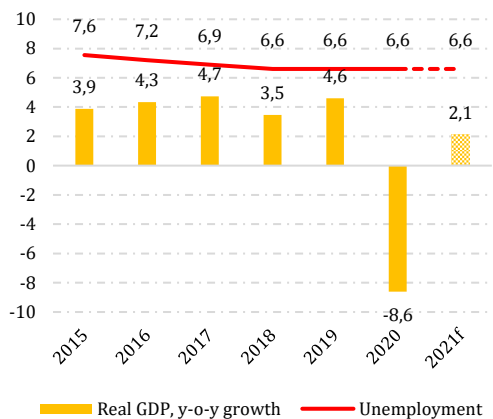
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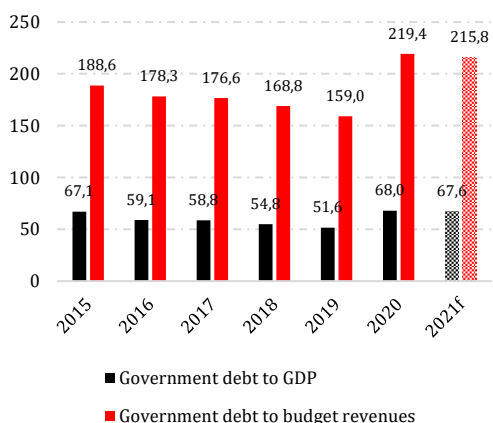
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Graph 1: Macroeconomic indicators, %



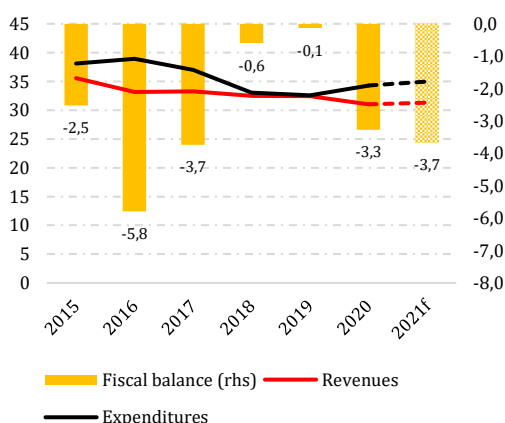
Source: RAEX-Europe calculations based on data from the IMF

Graph 2: Government debt dynamics, %



Source: RAEX-Europe calculations based on data from the IMF

Graph 3: Fiscal budget dynamics, % of GDP



Source: RAEX-Europe calculations based on data from the IMF

around 7% in 2020, but we consider the real level of unemployment significantly higher since large part of the labor force before the pandemic worked abroad and we expect it to have increased in 2021.

Parliamentary elections took place in November with results showing six parties will enter the parliament. Even though the results appear to show a pro-government stance, we have yet to see what these results will mean for economic and political stability.

Government debt remained stable in 2021. We expect government debt to post slightly lower figure in 2021 as compared to a year before. According to our estimate, government debt will stand at 67% of GDP and 215% of budget revenues by the end of 2021 (see graph 2). The slight decrease will mainly be propelled by marginal increases in domestic and external debt, while nominal GDP will be higher. Despite 85% of debt being denominated in FX, the currency risk is partially mitigated since most of the external debt is at concessional terms. In addition, short-term debt remained low at 0,2% of total debt as of July 2021.

In addition, the Executive Board of the IMF approved a decision to write off debts under the Disaster Containment and Relief Fund (CCRT) for 24 low-income member countries, including Kyrgyzstan. Thus, the government debt will be trimmed by SDR 8,8 m equivalent to USD 12,6 m for the period from October 2021 to January 2022.

Fiscal deficit set to remain relatively unchanged in 2021. In 2020, we saw the deficit increase up to 3,3% of GDP and we expect a similar metric for the end of 2021. As of 9M 2021, revenues of the state budget had already hiked substantially driven by income tax and VAT collection. In regard to expenses, these have also climbed in the same period as the government keeps supporting the economy as anti-pandemic measures continued to be implemented by the government included support to vulnerable groups, subsidized credits, among others. Thus, we anticipate the fiscal deficit to stand at around 3,7% of GDP by the end of 2021 (see graph 3).

Given the high level of government debt and low public buffers, we consider that the authorities do not have substantial room to maneuver in case additional shocks were to occur. However, the continued availability of concessional funds for the country is a good sign that the support may come again if needed.

Monetary policy continues to tighten. The inflation rate has been hiking consistently in 2021, which has been a response to the overall recovery in global demand and increase in economic activity after the contraction in 2020. The inflation rate reading as of October 2021 was 12,5% y-o-y, despite the figure being high and way off the National Bank of the Kyrgyz

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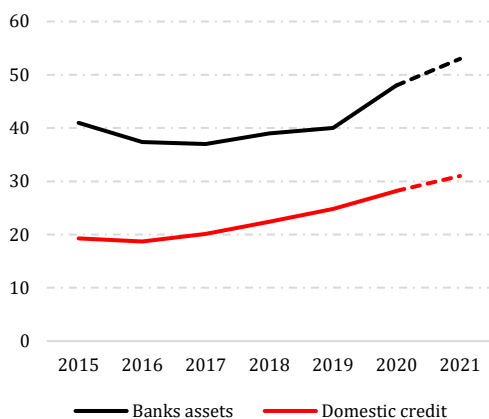
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Republic (NBKR) target of 5%-7%, it has indeed declined as compared to July 2021 when the metric was 14,6% y-o-y. These dynamics have caused the NBKR to increase the policy rate once again since our latest review back in June 2021. In July 2021, the rate was increased from 6,5% to 7,5%. Despite the low transmission effectiveness of the monetary policy, the latest rate hike appears to have appeased further price increases. We expect inflation to remain high and volatile within the following years as it highly depends on external factors.

Graph 4: Credit to the economy dynamics, % of GDP

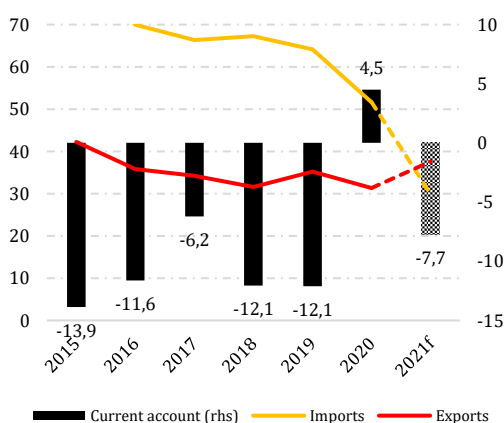


Source: RAEX-Europe calculations based on data from the WB and NBKR

We continue to believe, the NBKR has taken important steps to improve monetary policy transmission and predictability. One of the actions taken to improve this was narrowing the boundaries of the interest rate corridor. Despite this, levels of financial dollarization remained high, which continues to hamper the effectiveness of the monetary policy. As of September 2021, the share of FX deposits in total deposits stood at 42,3%, while the share of FX loans was 29,3%. We anticipate the effectiveness of the monetary policy to remain limited by elevated dollarization levels.

The banking sector deteriorated slightly. Financial soundness indicators have been deteriorating slightly in 2021, but the sector remains overall healthy. As of 2Q 2021, the capital adequacy ratio stood declined by 3p.p. down to 21,9%, as compared to year-end 2020. The level of NPLs to total loans ratio increased from 10,1% at the end of 2020, up to 11% in 2Q 2021. This metric has been steadily increasing for the past two years and we expect it to increase going forward as the effects from the pandemic will be reflected in future periods NPLs. However, stress tests performed by the NBKR have shown that even at this level of NPLs, the strong capital adequacy of the system would potentially be ready to absorb shocks. On the other hand, profitability has remained practically unchanged in the first 2Q of 2021 as ROA and ROE posted readings of 1,3% and 7,2% respectively.

Graph 5: External sector indicators, % of GDP



Source: RAEX-Europe calculations based on data from the IMF and NBKR

Credit to the economy continued to increase at a fairly stable pace. As of September 2021 it had grown by 10% y-o-y led by consumer loans increasing by 22% and trade loans, which hiked by 20% as of the same date. Thus, we expect banks assets and private credit to GDP to be at 53% and 31% in 2021 (see graph 4).

External position remains depressed. As mentioned in our previous review, 2020 saw a steep decline in imports due to the border closure with China and a reduced domestic demand, while weak external demand caused an also steep decline in exports, which led to a current account surplus of 4,5% (see graph 5). In 2021, we have seen a substantial increase in imports as the economy recovers from the pandemic and the borders open. On the other hand, gold exports have declined substantially partly

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due to the turmoil in the Kumtor mine. This is expected to turn the current account balance into a deficit of 7,7% in 2021.

Stress factors:

- The economy is highly dependent on other countries in the export market, imports and remittances inflows. Most of cross-border payments continue to proceed from Russia due to the high amount of labor force from Kyrgyzstan, while around 40% of all export goes to the Great Britain (moderately weak stress-factor);
- Financial dollarization in Kyrgyzstan shows encouraging dynamics, but remains high: as of September 2021, 29,3% of total loans and 42,3% of total deposits were denominated in foreign currency (very weak stress-factor).

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Significant decline of external government debt;
- Improvement of the country's fiscal stance and trade balance;
- Continued improvement of the banking system performance.

The following developments could lead to a downgrade:

- A lingering economic recession beyond our projected levels;
- Unsustainable increase in the levels of government debt combined with the inability to restructure obligations or obtain further financial support.

ESG Disclosure:

Inherent factors

- Quality of fiscal policy; quality of monetary policy; natural resources; natural and climatic threats; environmental threats; level of corruption, CPI; Government Effectiveness Index; quality of the business environment; position in Doing Business Ranking; level of investment in human capital, adjusted for inequality; Rule of Law Index; transparency of government policymaking Index; level of information transparency of the government; Political Stability and Absence of Violence/Terrorism Index; natural disasters, constant exposure to difficult natural conditions.

Drivers of change factors

- None.

Next scheduled rating publication: N/A. The full sovereign rating calendar can be found at [Sovereign Rating Calendar 2021](#)

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RATING HISTORY:

Date	Review reason	SGC		Outlook	
		National currency	Foreign currency	National currency	Foreign currency
25.06.2021	Scheduled revision of both types of ratings for the country	B	B	Negative	Negative
18.12.2020	Scheduled revision of both types of ratings for the country	B	B	Negative	Negative
26.06.2020	Scheduled revision of both types of ratings for the country	B	B	Negative	Negative
27.12.2019	Scheduled revision of both types of ratings for the country	B	B	Stable	Stable
28.06.2019	Scheduled revision of both types of ratings for the country	B	B	Stable	Stable
04.01.2019	Scheduled revision of both types of ratings for the country	B	B	Stable	Stable
13.07.2018	Scheduled revision of both types of ratings for the country	B	B	Stable	Stable
19.01.2018	Scheduled revision of both types of ratings for the country	B	B	NA	NA
21.07.2017	Scheduled revision of both types of ratings for the country	B	B	NA	NA
27.01.2017	Scheduled revision of both types of ratings for the country	B	B	NA	NA
29.07.2016	Scheduled revision of both types of ratings for the country	B	B	NA	NA
19.02.2016	First assignment of both types of ratings for the country	B	B	NA	NA

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Minute's summary

The rating committee for Kyrgyzstan was held on 17 December 2021. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Sovereign methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The following methodology was used for the rating assessment: [Methodology for Assigning Sovereign Government Credit Ratings – Full Public Version \(from April 2019\)](#). Descriptions and definitions of all rating categories can be found under the [Rating scale](#) section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

The definition of default can be found on the Agency's website in the section for [Internal policies](#).

These ratings are unsolicited. The rated entity did not participate in the rating process.

Main sources of information: International Monetary Fund, World Bank, World Economic Forum, Doing Business, United Nations, Kyrgyz Stock Exchange (KSE), National Bank of Kyrgyzstan (NBKR), Ministry of Finance of the Kyrgyz Republic, Ministry of Economy of the Kyrgyz Republic, National Statistical Committee of the Kyrgyz Republic, Transparency International, Human Development Report.

ESG Disclosure

We consider Environmental, Social, and Governance (ESG) risks and opportunities in the creditworthiness analysis of our Sovereign entities. The disclosure document can be found on the Agency's website in the section: [ESG factors in RAEX-Europe's Credit Ratings](#)

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information that was considered to be reliable, complete and non-biased. The responsible expert performed the rating assessment of the country with information considered as the most reliable and up to date in accordance to the overall position of the country and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Regulatory use

SGC ratings can be used for regulatory purposes according to the ESMA definition.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. All employees involved in the rating assessment and revision of the rated entity have reported absence of conflicts of interests before initiation of the rating process.

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The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

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