# KYRGYZ REPUBLIC – DEBT SUSTAINABILITY ANALYSIS[1]

1. **Kyrgyz Republic's short-term growth prospects are stable despite of the COVID-19 pandemic and its impact on the global economy**. Supported by fiscal policy, real gross domestic product (GDP) is expected to grow by 4% or more in 2020-2021, slightly above average growth during the preceding five years (Table 1). Growth will slow down to 3.4% in 2023 and 2024, assuming a decline in gold production and exports. Average annual inflation (GDP deflator) is projected at 4.3% in 2020–2024, slightly above its recent trend.

2. **Countercyclical fiscal policy will deteriorate budget imbalances.** Higher spending on measures to contain the impacts from coronavirus disease (COVID-19) is forecasted to widen fiscal deficits, including interest payments, to 9.6% of GDP in 2020. Deficits will decline gradually as fiscal spending normalizes, down to just over 3% in 2022–2024 (Table 1). Consolidation is expected to benefit also from the Government's continued efforts to restrain unprioritized expenditure and improve tax policy and administration.

3. **Higher fiscal deficits raise public debt, but the debt ratio stabilizes over the medium-term**. With primary deficits as the main driver, the debt ratio is expected to jump to 66% in 2021, from 56% of GDP in 2019, and to mildly decline thereafter (Table 1 and Graph 1). A temporary shock, such as to economic growth below baseline assumptions, could push the debt ratio higher (Graph 2).

4. **Public debt is sustainable, but the impending upward shift adds to fiscal vulnerabilities.**[2] Public external debt constitutes about 85% of the Kyrgyz Republic's total debt and is mostly contracted on highly concessional terms. While this keeps borrowing costs low and limits rollover and interest-rate risks, the foreign-currency denomination of external debt constitutes a significant currency risk. Further risks derive from the economy's heavy dependence on gold exports and remittances, making it susceptible to external shocks. Against this backdrop, fiscal prudence is paramount for public debt sustainability, and is expected to be cemented by the adoption of fiscal rules that would place a 70% cap on public debt and 3% cap on fiscal deficits, both in ratio to GDP.

5. **External indicators suggest that Kyrgyz Republic's reserves position is adequate**. International reserves amount to 1.7 years of external debt service and nearly 5 months of imports (Table 3). However, total external debt, at about 100% of GDP, is high and constitutes a risk to sustainability.[3] Additional international reserves would help create additional buffers to weather temporary external shocks.

6. **Financial assistance from Asian Development Bank will not add to Kyrgyz Republic's debt vulnerability and risks in the medium term**. The proposed Asian Development Bank (ADB) loan in the amount of $50 million, on broadly concessional terms, represents only 1.5% of the country's outstanding public debt stock of $4.65 billion. While providing critical countercyclical support to the economy, it will not significantly affect the debt

[1] The macroeconomic, fiscal, and debt forecasts for 2020–2021 are based on ADB's Asian Development Outlook (ADO) 2020 and IMF's World Economic Outlook (WEO) April 2020, while the forecasts for 2022–2024 rely on (International Monetary Fund's WEO October 2019. The debt sustainability analysis (DSA) refers to the gross debt of the General Government.

[2] The IMF and World Bank's Debt Sustainability Framework for Low-Income Countries finds the Kyrgyz Republic at a 'moderate risk of debt distress' (IMF Country Report No. 20/90, March 2020).

[3] World Bank data put external debt as a ratio of GDP at 100.1%. IMF Art. IV and country reports put this ratio somewhat lower, between 76% and 88%.

ratio, nor will it add significantly to the annual debt service obligations facing the government (Graph 3). However, additional loans have been approved or are being proposed by the International Monetary Fund ($241.8 million) and the Eurasian Fund for Stabilization and Development ($100 million). This would add another 7.3% to the public debt stock and, jointly with ADB lending, ramp up public debt to 68% of GDP in 2020, slightly under the Government's 70% of GDP cap on public debt and indicating that upper limits are being reached.

## Kyrgyz Republic: Public Debt Sustainability Assessment

(variables expressed in percentage of GDP, unless otherwise indicated)

### Table 1: Baseline Scenario

| | Actual | | | | | Est. | Forecast | | | | | Avg. | Avg. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 15-19 | 20-24 |
| **Public Debt** | **53.6** | **67.1** | **59.1** | **58.8** | **56.0** | **56.3** | **63.2** | **66.6** | **65.5** | **65.1** | **64.8** | | |
| **Macroeconomic Indicators** | | | | | | | | | | | | | |
| Real GDP Growth (%) | 4.0 | 3.9 | 4.3 | 4.7 | 3.5 | 3.8 | 4.0 | 4.5 | 4.6 | 3.4 | 3.4 | 4.0 | 4.0 |
| Inflation (%, based on GDP Deflator) | 8.4 | 3.4 | 6.1 | 6.3 | 1.5 | 1.3 | 3.5 | 3.0 | 5.0 | 5.0 | 5.0 | 3.7 | 4.3 |
| Depreciation of Local Currency against US dollar (%) | 10.8 | 20.1 | 8.5 | -1.5 | 0.0 | 3.0 | 2.9 | 3.0 | 3.0 | 3.0 | 3.0 | 6.0 | 3.0 |
| Interest Rate on Government Debt (%, average effective) | 2.0 | 1.8 | 1.7 | 2.1 | 2.3 | 2.8 | 2.7 | 2.8 | 3.0 | 3.1 | 3.3 | 2.1 | 3.0 |
| **Fiscal Indicators (General Government)** | | | | | | | | | | | | | |
| Revenue | 35.6 | 35.6 | 33.5 | 33.7 | 32.8 | 33.3 | 32.5 | 32.6 | 32.5 | 32.3 | 32.0 | 33.8 | 32.4 |
| Primary Expenditure | 38.1 | 37.3 | 38.8 | 37.2 | 32.8 | 34.5 | 40.6 | 37.4 | 34.0 | 33.7 | 33.3 | 36.1 | 35.8 |
| Interest Payments | 0.9 | 0.9 | 1.1 | 1.1 | 1.3 | 1.5 | 1.4 | 1.6 | 1.8 | 1.9 | 2.0 | 1.2 | 1.7 |
| Primary Balance | -2.6 | -1.8 | -5.3 | -3.5 | 0.0 | -1.2 | -8.2 | -4.8 | -1.5 | -1.4 | -1.3 | -2.4 | -3.4 |
| Overall Balance | -3.4 | -2.7 | -6.4 | -4.6 | -1.3 | -2.7 | -9.6 | -6.4 | -3.3 | -3.3 | -3.3 | -3.6 | -5.2 |

### Table 2: Baseline Scenario - Change in Public Debt

| | Actual | | | | | Est. | Forecast | | | | | Cum. | Cum. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 15-19 | 20-24 |
| **Change in Public Debt** | **6.5** | **13.5** | **-8.0** | **-0.3** | **-2.8** | **0.3** | **6.9** | **3.4** | **-1.1** | **-0.3** | **-0.3** | **2.8** | **8.5** |
| Identified debt-creating flows | 6.5 | 13.5 | -8.0 | -0.3 | -2.8 | 0.3 | 6.9 | 3.4 | -1.1 | -0.3 | -0.3 | 2.8 | 8.5 |
| Primary deficit | 2.6 | 1.8 | 5.3 | 3.5 | 0.0 | 1.2 | 8.2 | 4.8 | 1.5 | 1.4 | 1.3 | 11.9 | 17.1 |
| Automatic debt dynamics 2/ | -0.7 | 5.4 | -1.5 | -5.6 | -1.5 | 0.0 | -1.3 | -1.4 | -2.6 | -1.8 | -1.7 | -3.2 | -8.8 |
| Contribution from interest rate/growth differential 3/ | -4.5 | -2.8 | -5.4 | -4.9 | -1.5 | -1.2 | -2.6 | -2.8 | -4.1 | -3.2 | -3.1 | -15.9 | -15.9 |
| Of which contribution from real interest rate | -2.7 | -0.8 | -2.6 | -2.2 | 0.4 | 0.8 | -0.4 | -0.1 | -1.2 | -1.1 | -1.0 | -4.5 | -3.8 |
| Of which contribution from real GDP growth | -1.8 | -2.0 | -2.8 | -2.7 | -2.0 | -2.0 | -2.2 | -2.7 | -2.9 | -2.1 | -2.1 | -11.5 | -12.0 |
| Contribution from exchange rate depreciation 4/ | 3.9 | 8.2 | 3.9 | -0.7 | 0.0 | 1.3 | 1.2 | 1.4 | 1.5 | 1.5 | 1.5 | 12.7 | 7.1 |
| Other identified debt-creating flows | 4.6 | 6.3 | -11.9 | 1.9 | -1.2 | -0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -5.9 | 0.2 |
| Residual, including asset changes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Debt-Stabilizing Primary Balance (' - ' means deficit)** | | | | | | | -1.3 | -1.4 | -2.6 | -1.7 | -1.6 | | |

*1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.*
*2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).*
*3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.*
*4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).*
*5/ Derived as nominal interest expenditure divided by previous period debt stock.*
*6/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.*

### Table 3: - External Indicators

| | Actual | | | | | Est. | Forecast | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Debt Service (% of Reserves) A/ B/ | 30.9 | 36.3 | 43.6 | 57.1 | 52.9 | 59.0 | | | | | |
| Imports of Goods and Services (% of Reserves) B/ | 288.2 | 247.6 | 267.4 | 257.9 | 251.9 | 259.7 | 330.7 | 447.7 | 677.4 | 1291.9 | 9310.9 |
| Interest Payments of Gov. External Debt (% of Reserves) B/ | 1.9 | 2.2 | 2.6 | 2.6 | 2.5 | 3.4 | 4.4 | 5.9 | 9.0 | 17.1 | 123.4 |

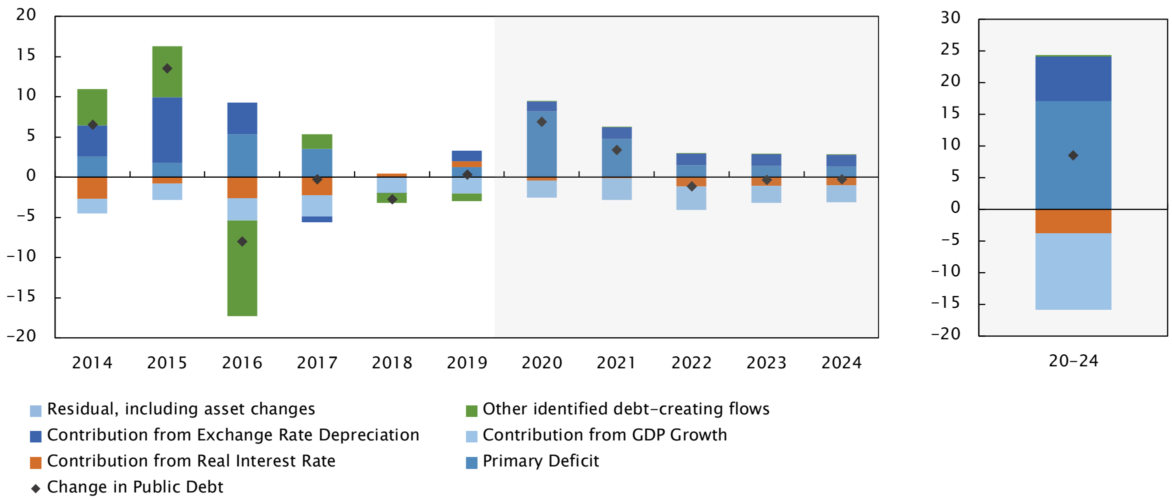
*A/ Debt Service in year t is the sum of interests payments in yeat t, ST debt outstanding at end of year t-1, and amortization payments of MLT debt in year t.*
*B/ Reseves are stocks measured at end of the preceding year.*

GDP = gross domestic product.
Sources: ADB staff estimates, IMF estimates.

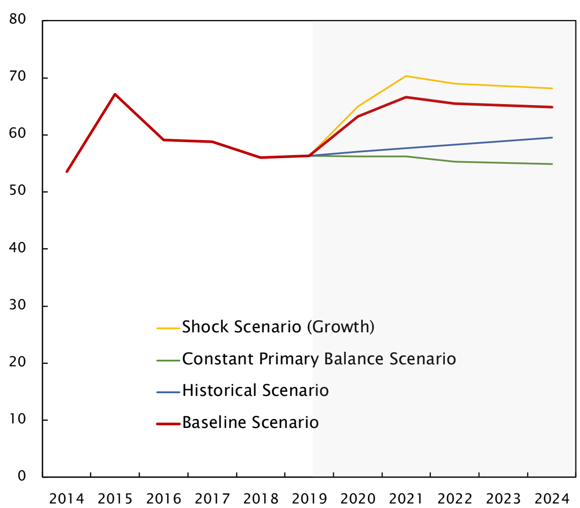
## Kyrgyz Republic: Public Debt Sustainability Assessment

(variables expressed in percentage of GDP, unless otherwise indicated)

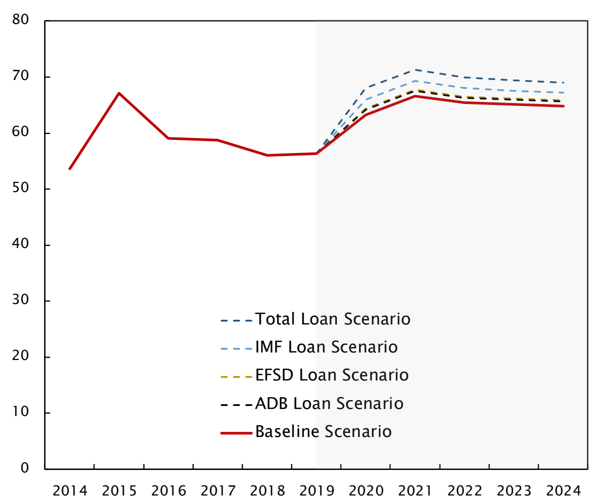
### Graph 1: Change in Public Debt and Its Drivers (percentage points)




### Graph 2: Public Debt – *Baseline and Alternative Scenarios*




### Graph 3: Public Debt – *Baseline and ADB Loan Scenarios*




ADB = Asian Development Bank, GDP = gross domestic product.
Sources: ADB staff estimates, IMF estimates.