

Rating-Agentur Expert RA confirmed at 'B' the ratings of Kyrgyzstan. The rating outlook is stable.

Rating-Agentur Expert RA confirmed the sovereign government credit rating (SGC) 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 stable which means that in the mid-term perspective there is a high probability of maintaining the rating score.

MAJOR FACTORS THAT INFLUENCED BOTH TYPES OF RATINGS:

Positive factors:

- Short term debt, including scheduled payments of the debt body, was 7,6% of total debt in 2018 and was well covered by FX reserves and budget revenues - 6x and 8x respectively;
- Recent real economic growth of 3,5% in 2018 was 1,2p.p. lower than in the previous year mainly due to lower gold production in the largest mine of the country "Kumtor", showing the high dependence of the overall economy on one extracting project. However, the economy is expected to grow at a higher pace of around 3,8% in 2019. The current growth is observed in all sectors of the economy, while the end of year forecast is based on the acceleration of the production in the gold industry, as well as potential support from the fiscal budget expenditures.

Restricting factors:

- A low inflation environment allowed the National Bank of the Kyrgyz Republic (NBKR) to continue with monetary expansion and cut the key policy rate twice during 2019 until 4,25% in May 2019. The NBRK forecasts the inflation rate to end 2019 at around 4%, still lower than mid-term target of 5-7%. At the same time, consumer prices on sugar and clothing materials have remained volatile and may affect the inflation level by the end of year;
- Growing operating expenses (8,6% increase y-o-y in April 2019) negatively affected profitability of the banking system. ROA and ROE indicators annually decreased by 0,7p.p. and 4,7p.p. respectively as of April 2019. Asset quality also slightly deteriorated as share of non-performing loans reached 7,8% (0,1p.p. annual increase). On the other hand, capitalization levels remained satisfactory with the ratio of net total capital to total assets at 17,8%;
- The uncompleted reform regarding special economic zone tax regulation as well as high level of corruption and moderately low level of institutional development constrain foreign direct investment growth; the position of direct investment in Kyrgyzstan decreased by 0,1% in 2018;
- We expect overall indebtedness of the government to remain high at around 56% of GDP for 2019. The credit risk is partially balanced by long maturities and the concessional nature of the debt. However, external debt is concentrated in terms of creditors – 45% of total external debt belongs to Export-Import Bank of China as of April 2019;
- The government of Kyrgyzstan was able to meet its fiscal targets in 2018 and finish the year with a deficit of 1,3% to GDP mainly due to the lower than previously expected capital expenditures. For 2019, we anticipate that the deficit could be slightly wider than the target of 1,6% of GDP as risks of revenue concentration (around 7% of all tax revenues in

2018 came from Kumtor mine operation), national currency fluctuations and lower remittances from abroad remain;

- Unemployment rate in 2019 is expected to be around 7%, creating a barrier for poverty reduction, especially among younger population;
- According to the World Bank Doing Business Report 2019, Kyrgyzstan was ranked 70th out of 190 countries (7 places up from 2018 edition). The largest improvements were noted in new civil procedure code and strengthening of creditor's rights. Nevertheless, high corruption perceptions, unresolved tensions on the border with the neighboring countries, complex tax regulation continue constrain business development.

Negative factors:

- Kyrgyzstan remains one of the poorest country in the Central Asia region¹ with GDP per capita in PPP terms at around USD 3,8 th in 2018 and high dependence one project in the mining industry, that has an adverse effect on the country's long-term growth perspectives;
- The banking sector remains underdeveloped with total banks' assets to GDP ratio around 41% as of 1Q 2019. As of April 2019, the overall volume of newly issued loans by commercial banks in national and foreign currency increased by 13% and 2% respectively y-o-y;
- In the Global Competitiveness Index 4.0 issued in 2018 Kyrgyzstan was ranked 97th out of 140 countries due to the limited market opportunities and out of date infrastructure. In 2018, the trade deficit increased by 4,5p.p. up to 36% to GDP;
- The national stock exchange is highly concentrated and provides few products for investors to trade. Total market capitalization of companies listed on the Kyrgyz Stock Exchange (KSE) remained below 5% of GDP as of April 2019.

Stress factors:

- The economy is highly dependent on third countries in the export market and remittances inflows. In 2018, more than 98% of cross-border payments came from Russia due to the easing access of the labor force from Kyrgyzstan and 38% of all export went to the U.K. (moderately weak stress-factor);
- Financial dollarization in Kyrgyzstan shows encouraging dynamics, but remains high: as of April 2019, 37,4% of total loans and 42,4% of total deposits were denominated in foreign currency (very weak stress-factor).

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Further significant decline of external government debt;
- Continued 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 slowdown of economic growth combined with further concentration in mineral resource industry;
- Deterioration of banking system soundness indicators.

“The SGC ratings of Kyrgyzstan were confirmed at ‘B’ level with a stable outlook supported by continuous economic recovery, high remittances inflow and reduction in financial dollarization.

¹ GDP per capita in PPP terms of USD estimated by IMF for 2018: Kazakhstan – 27 549, Tajikistan – 3 415, Turkmenistan – 19 527 and Uzbekistan – 7 665.

Subdued levels of inflation have allowed the Central Bank to loosen the monetary policy which has contributed to encourage credit growth. Moreover, strengthening of creditor's rights and improvements in the Civil Code, permitted Kyrgyzstan to climb some spots in the World Bank Doing Business ranking 2019.

However, significant public indebtedness, high level of poverty and the strong reliance on extracting industries as well as main trading partners, are factors restricting the country's creditworthiness and make the Kyrgyzstan's economy very sensitive to external shocks." – Clarified Olena Kolokolova, Rating Analyst of Rating-Agentur Expert RA.

Research report on Kyrgyzstan is available at:

[https://raexpert.eu/reports/Research report Kyrgyzstan 28.06.2019.pdf](https://raexpert.eu/reports/Research%20report%20Kyrgyzstan%2028.06.2019.pdf)

Next scheduled rating publication: 27 December 2019. The full sovereign rating calendar can be found at [Sovereign Rating Calendar 2019](#)

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RATING HISTORY:

Date	Review reason	SGC		Outlook	
		National currency	Foreign currency	National currency	Foreign currency
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

Minute's summary

The rating committee for Kyrgyzstan was held on 26 June 2019. 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.

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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Risk warning

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Office responsible for preparing the rating

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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The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.