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Ratings

Sovereign Government Credit (LC)	B
Sovereign Government Credit (FC)	B
Country Credit Environment (LC)	B
Country Credit Environment (FC)	B

* These ratings are unsolicited

Main Economic Indicators of Kyrgyzstan

Macro indicators	2013	2014	2015
Gross gov. debt, KGS bn	164	211	280
Nominal GDP, KGS bn	355	397	436 ^f
Real GDP growth, %	10,5	3,6	3,5
Gross gov. debt/GDP, %	46,1	53,0	64,3
Deficit (surplus)/GDP, %	-3,7	-0,5	-1,4
Inflation rate, %	4,0	10,5	3,4
Current Account Balance/GDP, %	-	-	-17,7 ^f
External debt, USD bn	-	-	3,5
Development indicators	2015		
Inequality adj. HDI	0,56		
GDP per capita, USD th	3,3		

Source: RAEX (Europe) calculations based on data from the IMF, Ministry of Finance of Kyrgyzstan, CBKR, UN

Summary

Kyrgyzstan's 'B' ratings are mainly driven by increasing government debt metrics, persistent and volatile deficit figures and high exposure to external risks. While external debt accounts for the majority of the government debt load, it does not present a substantial credit risk to the country since it is mainly concessional and held by international organizations.

Monetary policy has continuously underperformed and remains subordinated to external shocks. Highly volatile inflation rates combined with fluctuating KGS exchange rates contributed to increasing dollarization levels. The country's banking sector keeps showing mixed results with stable profitability and weak balance sheet metrics.

The decline of real growth rates in Kyrgyzstan over the past two years resulted from an economic slowdown of the main trade partners of the country as well as the drop in gold prices which followed the recovery of financial international markets.

Debt metrics on upward trend. As a result of ambitious investment programs, gross government debt increased steadily over the past six years reaching 64% of GDP and 219% of budget revenues by end-2015. External debt accounted for around 93% of total debt in November 2015. Around 99% of these obligations are concessional (see graph 1) which, if necessary, would allow the country to restructure or roll-over the debt. While credit risks on debt repayment are almost negligible, a moderate FX risk from unexpected KGS devaluation remains in place.

Short-term debt, around 0,9% of GDP and 3% of budget revenues, presents no risk for the country. In contrast, long-term debt accounted for 73% of the total debt load by November 2015 and posed a substantial risk, as evidenced by the 5-year government bond yield at 17,6%.

Fiscal balance moving towards consolidation. During 2010-2015 the fiscal balance showed persistent and volatile deficits, reaching 1,4% of GDP by end-2015. Nevertheless, the fiscal deficit has narrowed over this period (see graph 2).

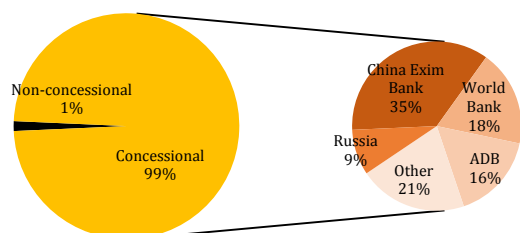
In early February 2016 the IMF urged the country to take stronger efforts to resume fiscal consolidation in order to achieve deficit targets during 2016-2017 as agreed under the Fund Support Extended Credit Facility.

Following IMF suggestions, the Kyrgyz authorities instrumented a number of measures to tackle fiscal consolidation in the mid- and long-run.

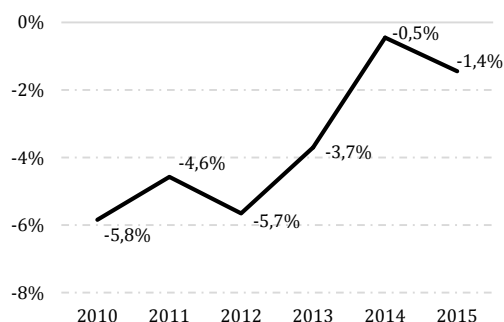
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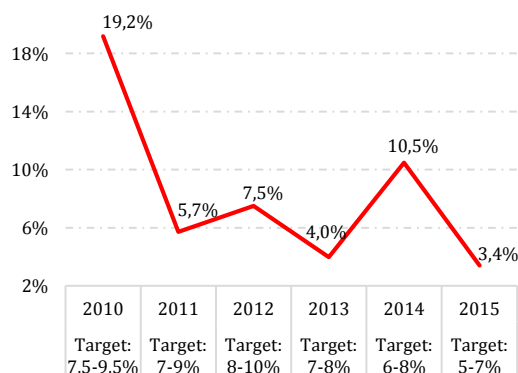
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Graph 1: External debt as of November 2015, %

Source: RAEX (Europe) calculations based on data from the Ministry of Finance of Kyrgyzstan

Graph 2: Kyrgyz fiscal balance, % GDP

Source: RAEX (Europe) calculations based on data from the

Graph 3: Actual vs. targeted inflation rate, %

Source: RAEX (Europe) calculations based on data from the CBKR

Recently, a fiscal reform aimed at reducing deficit through an increase in tax and non-tax was outlined in the parliament. Additionally, the Ministry of Finance unveiled a plan to reduce the amount of tax remissions which on average amount to KGS 20bn (around 15% of budget revenues) annually.

Sluggish performance of the monetary policy. The monetary policy of the National Bank of the Kyrgyz Republic (NBKR) has underperformed in recent years. Inflation rates were highly volatile and missed the targets imposed by the NBKR (see graph 3). In 2015, the inflation rate registered its lowest figure in six years dropping to 3,4%. This sharp decline was mainly fueled by lower import prices and evidenced the still high influence of the exchange rate on price volatility as well as the ineffective transmission mechanism of NBKR monetary policy.

High and volatile inflation rates, combined with fluctuating KGS exchange rates contributed to increase the already elevated levels of dollarization in Kyrgyzstan. In November 2015, FX deposits and loans accounted for 72% and 56% of total deposits and loans respectively. To reduce dollarization levels, the NBKR instrumented a number of measures in February 2016 aimed at limiting transactions in foreign currency. However, the Agency expects current levels to persist until a sustainable long-run policy to tackle inflation and exchange rate volatile is instrumented.

The banking sector showed mixed results. Banks remained profitable with average ROA at 1,8% during 10M 2015. Even though banks' assets and private credit remain low around 41% and 22% of GDP respectively, these figures increased constantly over the past six years.

During the same period, the average capital adequacy ratio declined by around 4,4p.p. to 15,6% in 2015. Furthermore, despite NPLs climbing by 3p.p. to 7,4% between 2014-2015, loan loss provisions/NPLs ratio declined by 7p.p. during 9M 2015 down to 51%.

External exposure remains the main risk. Kyrgyzstan is strongly exposed to external shocks. As of 4Q 2015, imports represented a large amount of internal consumer goods amounting to 75% of GDP. Exports of gold, which represent around 16% of GDP and are largely controlled by a single company, remain the main driver of economic growth for the country.

Kyrgyzstan relies heavily on trade and remittances from neighboring countries, most of which are currently slowing down or going through a crisis. In 2015, 97% of the USD 1,3bn net remittances were sent from Russia. Additionally, around 35% of imports arrived from Russia and 55% of exports were aimed to CIS countries (mainly energy products and re-export of consumer goods).

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http://www.raexpert.eu/reports/Press_release_Kyrgyzstan_19.02.2016.pdf

Both documents shall be treated as essential parts of each other.

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