ACRA

SOVEREIGNS

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ACRA AFFIRMS LT B TO THE KYRGYZ REPUBLIC, OUTLOOK STABLE

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ACRA has affirmed the following ratings to the Kyrgyz Republic (hereinafter, Kyrgyzstan, or the country) under the international scale:

- Long-term foreign currency credit rating at B and local currency credit rating at B;
- Short-term foreign currency credit rating at B and local currency credit rating at B.

The outlook on the long-term foreign currency credit rating is Stable and local currency credit rating is Stable. The Stable outlook assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

Positive rating assessment factors

- Moderate public debt and low interest expenses for servicing it, which were achieved due to a high share of concessional debt.
- Institutional changes that contributed to the creation of the Kyrgyzstan Stabilization Fund, improvement of the digital format of taxation, and strengthening of budget discipline.
- Stable support from international development institutions.
- Relatively low shares of the public and quasi-public sectors in the economy.

Negative rating assessment factors

- Relatively low level of economic wealth of the population.
- Strong dependence of the economy on factors associated with the external sector, in particular, imports and overseas remittances, weak export and industrial diversification.
- Low coverage of external debt by reserves, foreign currency debt, as well as significantly increased imports.
- Significant risk of weakening of the national currency over the medium term, which may increase the country's debt payment obligations.
- Comparatively low assessments of institutional quality and human capital factors.

CREDIT RATING RATIONALE

Kyrgyzstan's B sovereign credit ratings stem from the comparatively low economic wealth of its population, high dependence on the economies of the country's main trade partners, relatively low indicators of the institutional quality, moderate public debt, as well as comparatively favorable conditions for external borrowing. In addition, ACRA notes the country's focus on reforming economic policy and actively attracting investments to major infrastructure projects.

Macroeconomics

Kyrgyzstan's economy is characterized by the relatively low economic welfare of its population — average per capita GDP in current prices is around USD 1,800.

The country's economy is also characterized by high external dependence on trade channels, especially imports (the shares of Russia and China were 17% and 42% in 2023, respectively), as well as a significant outflow of labor resources from the labor market abroad. The latter forms an imbalance in the labor market and in the long term may put pressure on the budget sector through pension insurance. The outflow of workers and volatility of remittances from the country's citizens are also sources of risks for the country's balance of payments. Remittances from abroad amounted to a quarter of GDP on average from 2019 to 2022.

ACRA expects the Kyrgyz economy to grow by around 4% annually in 2024–2026 amid consumer price inflation of 9% in 2024, followed by inflationary dynamics weakening to 5.5% by 2026, in the event of no new serious inflationary shocks in the country's key trade partners.

Despite the adoption of a rather significant set of anti-crisis measures in 2020–2021, Kyrgyzstan was able to maintain room to maneuver in terms of the budget process (public debt grew to 68% of GDP in 2020 and stabilized at 52% of GDP in 2022). Nevertheless, the country has a chronic double deficit — the budget and current account.

Public finances

ACRA notes a trend toward more active growth of budget revenues compared to expenditures, as well as overall budget stabilization. The share of current expenditures, however, remains heightened (within 75–80% of total expenditures), and dependence of domestic investments and capital budget items on external support programs remains high, which implies some volatility in budget formation.

According to ACRA's expectations, in the medium term and long term, the country will be able to maintain its public debt at a moderate level. This will be facilitated by low interest payments and a noticeable increase in budget revenues due to better administration of taxation. Tax revenues were significantly supported by an increase in the volume of imported products in 2022 and 2023.

In 2022, the total volume of contingent liabilities of state-owned banks amounted to around 10% of GDP. The Agency assesses both explicit and implicit contingent liabilities of the country as insignificant.

External position

ACRA considers the consistently negative high current account balance, the predominance of direct investment within the financial sector, and negative net exports to be some of the main characteristics of Kyrgyzstan's external position. At the same time, the country possesses significant transit potential to strengthen its position in exporting services, which may be realized as the North–South and China–Kyrgyzstan–Uzbekistan transport corridors are created.

The country's external public debt, unlike its internal public debt, is at a rather high level and accounts for 43.2% of projected GDP in 2023. However, a substantial share of this debt is made up of concessional borrowings with favorable repayment terms. Internal public debt is significantly smaller (15% of GDP in 2023) and practically entirely long-term.

ACRA notes that at the end of 2023 there was a slight recovery of the gross reserves of the National Bank of Kyrgyzstan to the level recorded at the end of 2021 (USD 3 bln). However, the consistently negative foreign trade balance may lead to significant pressure on the national currency and depletion of reserves. This scenario, if realized, will create additional pressure on inflation and lead to an increase in the country's debt load.

The Agency also notes a low level of coverage by monetary reserves, both with regard to Kyrgyzstan's debt positions and imports. As of the end of 2023, coverage of external debt by reserves amounted to around 30%, while reserve coverage of the country's average annual imports of goods and services forecast by ACRA for this year was around three months, which the Agency considers to be a low level of coverage.

Institutions

Kyrgyzstan has medium scores for World Governance Indicators and a consistently low level of human capital. The latter may constrain progress in achieving economic diversification and also affect the quality of government decisions. At the same time, ACRA notes the country's focus on reforming a number of spheres of economic and social life (creation of specialized sector funds for economic development, strengthening the role of automation in fiscal practice, creating state budget reserves), which considerably decrease economic uncertainty and support economic growth in the long term.

The risk of foreign economic pressure with regard to Kyrgyzstan's foreign trade flows is taking on increased importance. This may serve as a negative factor in stability of the national currency and have a constraining impact on the activity of international development institutions.

SOVEREIGN MODEL APPLICATION RESULTS

Kyrgyzstan has been assigned a B+ Indicative Credit Rating in accordance with the core part of ACRA's sovereign model. A number of modifiers in the modifiers part of the model downgrade Kyrgyzstan's Indicative credit rating. These include the following, which are determined by the Methodology for Credit Rating Assignment to Sovereign Entities under the International Scale:

- Fiscal policy and budget flexibility;
- Vulnerability of the balance of payments;
- Sustainability of foreign debt;
- Political instability and recent political decisions;
- Involvement in geopolitical conflicts, exposure to geopolitical risks.

In view of the abovementioned modifiers, a Final Credit Rating of B has been assigned. There are no analytical adjustments and limitations that could result in an adjustment of the Final Rating. In connection with this, the long-term foreign currency credit rating is B.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

A positive rating action may be prompted by:

- Growth of trade diversification, an increase of investment inflows.
- Significant increase of the level of the welfare of Kyrgyzstan's population, which stimulates higher domestic demand and economic growth restructuring.
- Stable increase in domestic lending on exclusively market-based principles.
- Further institutional transformations that increase the quality of human capital.

A negative rating action may be prompted by:

- Weakening of the national currency and depletion of the country's international reserves while maintaining a significant trade deficit and a negative current account balance.
- Transfer of risks from its major trading partners (Russia, China) due to a slowdown of their economic activity.

- Lower investments in the event of reduced lending by international financial organizations, decreased economic activity, sharp deterioration of budget parameters.
- New signs of political instability, an escalation of conflict in the region.

REGULATORY DISCLOSURE

The sovereign credit ratings have been assigned to the Kyrgyz Republic under the international scale based on the Methodology for Credit Rating Assignment to Sovereign Entities under the International Scale and the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities.

The sovereign credit ratings of the Kyrgyz Republic were published by ACRA for the first time on September 7, 2022. The sovereign credit ratings and their outlooks are expected to be revised within 182 days following the publication date of this press release as per the Calendar of sovereign credit rating revisions and publications.

The sovereign credit ratings were assigned based on information from publicly available sources and ACRA's own databases. The sovereign credit ratings are unsolicited. The Cabinet of Ministers of the Kyrgyz Republic participated in the sovereign credit rating assignment.

In assigning the sovereign credit ratings, ACRA used only information, the quality and reliability of which were, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to the Kyrgyz Republic. No conflicts of interest were discovered in the course of the sovereign credit rating assignment.

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