



**National Bank  
of the Kyrgyz Republic**

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**THE FINANCIAL SECTOR  
STABILITY REPORT OF THE  
KYRGYZ REPUBLIC**

**according to the results of 2022**

**June, 2023**

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**Bishkek**

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The publication is registered with the Ministry of Justice of the Kyrgyz Republic, mass media registration certificate No. 1863 of August 17, 2012

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This publication is released 2 times a year. It is published in three languages: Kyrgyz, Russian and English.

Statistical, analytical and calculated data/estimates are given as of the end of the reporting period in this report.

Adjustments to previously published data are possible, and, therefore, a period of 10 years is considered to be “open” due to possible change in accounting methods or historical data used in this publication.

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## **Other Publications of the National Bank of the Kyrgyz Republic**

### ***Annual Report of the National Bank of the Kyrgyz Republic***

This publication is a complete report on the activity of the National Bank for the previous year. It contains assessment of changes in the real, financial and external sectors of economy, the description of decisions and actions of the National Bank in the monetary sphere, in the banking and payment systems, in the non-banking financial-credit organizations; it includes financial statements and general information on the National Bank, as well as the statistical appendices. It is published in the state, official and English languages.

### ***Bulletin of the National Bank of the Kyrgyz Republic***

The publication contains the statistical data on key macroeconomic and financial indicators of the Kyrgyz Republic. It is published on the official website of the National Bank in the state, official and English languages.

### ***Monetary Policy Report***

The Report informs the public of the decisions made by the National Bank in the monetary policy area based on the analysis and forecast of the key inflation factors and assessment of the economic development in the external and internal environment of the Kyrgyz Republic. It is published on the official website of the National Bank in the state, official and English languages.

### ***Balance of Payments of the Kyrgyz Republic***

The publication describes the recent development trends in the external sector and contains the data on the balance of payments, external trade, international reserves, external debt, and the international investment position, as well as the metadata and the information base to draw up the balance of payments. It is published quarterly - in February, June, August, and November in Kyrgyz, Russian and English languages.

### ***Regulatory Acts of the National Bank of the Kyrgyz Republic***

These are the regulations, instructions and other regulatory legal acts adopted by the National Bank of the Kyrgyz Republic. The estimated frequency of the journal publication is once a month in the state and official languages.

The publications of the National Bank are distributed according to the approved list, and are also posted on the official website of the National Bank at: [www.nbkr.kg/Publications](http://www.nbkr.kg/Publications).

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## **PREAMBLE**

National Bank of the Kyrgyz Republic has been publishing the Financial Sector Stability Report of the Kyrgyz Republic since 2012. The objective of the Report is to inform the public on the general assessment of the stability and soundness of the financial system of the Kyrgyz Republic.

Financial Stability in this publication means smooth and continuous functioning of the financial institutions, the financial markets and the payment systems enabling to perform functions of the financial intermediation even in conditions of financial imbalances and shocks.

Results of the monitoring and analysis of financial stability are considered by the National Bank in forming the main directions of the National Bank's monetary policy, regulating the banking activity and development of the strategy for financial-credit organizations of the Kyrgyz Republic.

The Financial Sector Stability Report of the Kyrgyz Republic is oriented to financial market participants and the audience interested in the financial stability issues.

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## MAJOR CONCLUSIONS

In 2022, the economy of the Kyrgyz Republic grew by 7.0 percent. The sectors of industry, agriculture and services were the main driver of economic growth. There was active recovery of domestic demand, as well as amid an increase in real wages.

In the reporting period, there was an increase in the main indicators of the banking sector, such as assets, loan portfolio, deposit base, capital and profit.

In 2022, the quality of the banking sector's loan portfolio improved compared to 2021. High level of capital adequacy in the banking system indicates that there is potential for further improvement of financial intermediation, operational efficiency and sustainability of the banking sector in the future.

The results of econometric modeling and financial forecast simulation still reflect availability of a financial safety margin based on the results of 2022. The results of "reverse" stress testing show that the banking sector can withstand a significant deterioration in the quality of the loan portfolio and macroeconomic shocks in the short-term period.

The state of the system of non-banking financial-credit organizations is assessed as moderately stable. The indicators such as assets, loan portfolio, and resource base demonstrated growth. Stress test results indicate that the credit risk of the sector of non-banking financial-credit organizations is moderate.

The level of risks was within the acceptable limits and was conditioned by the risk management mechanisms provided for by the legislation of the Kyrgyz Republic and the rules of payment systems, the current high level of liquidity, the system of insurance deposits and prepayment in the payment systems. Moreover, in the reporting period, the degree of influence of the country risks in the trading partner countries on the payment system of the Kyrgyz Republic was assessed, and preventive measures to minimize financial and operational risks were developed.

Development of the regulatory legal framework governing the activities of the financial-credit organizations was mainly aimed at maintaining stability in the banking system, protection of the consumers' rights affected by the armed conflict that occurred in Batken and Osh regions in September 2022, as well as development of the principles of Islamic finance and bringing the regulatory legal acts in line with the laws of the Kyrgyz Republic.



## I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

### 1.1. Macroeconomic Conditions and Risks

*In 2022, the economy of the Kyrgyz Republic grew by 7.0 percent. An increase of production output in the sectors of industry, agriculture and services was the main driver of economic growth. There was a recovery of domestic demand as well as amid an increase in real wages.*

*Current geopolitical situation worldwide and, at the same time, logistical difficulties resulted from changes in foreign trade relations, as well as, the global economic slowdown and growth of the world inflation rate conditioned high uncertainty in the external markets. World prices in the commodity markets remained high and volatile. Under these conditions, in 2022, consumer prices in the Kyrgyz Republic increased mainly due to growth of imported inflation and remained above the targets set by the National Bank.*

*In 2022, deficit in the public finance sector increased compared to the previous year amid higher expenses mainly due to growth in wages of the public sector employees and acquisition of non-financial assets.*

#### *External Conditions*

Economic development in the main trading partners of the Kyrgyz Republic was ambiguous amid geopolitical situation, acceleration of global inflation and ongoing COVID-19 pandemic. Economic activity in Russia was characterized by significant decline conditioned by large-scale restrictions. In Kazakhstan, despite external negative factors, the economic activity remained moderate due to fiscal stimulation of demand and oil prices. The economy of China grew by 3.0 percent, which was below the growth target of 5.5 percent set by the Chinese government and was conditioned by stable zero tolerance coronavirus policy, due to which the Chinese authorities regularly imposed lockdowns, as well as the ongoing downturn in the real estate market, and deterioration in exports and imports.

An increase in the key rates of the central banks to control inflation and the conflict in Ukraine put pressure on the global economic activity.

#### *Internal Conditions*

##### *Gross Domestic Product*

During 2022, economic activity in the Kyrgyz Republic demonstrated positive dynamics. At the end of 2022<sup>1</sup>, the real GDP growth made 7.0 percent (in 2021, GDP grew by 6.2 percent<sup>2</sup>). In the reporting period, the GDP growth rate, without “Kumtor” gold-mining enterprises, made 5.9 percent (in 2021, an increase by 6.8 percent). The main sectors of the economy demonstrated production growth: growth in industry made 12.2 percent, in construction – 8.0 percent, agriculture – 7.3 percent, services sector – 4.8 percent.

The key growth driver in industry was still the processing sector at Kumtor, production output rates thereof (+22.5 percent) were significant mainly due to relatively low base of 2021. Production in the energy sector, the share of which in the total output of the country is insignificant and constitutes 1.5 percent, decreased by 8.3 percent. Commissioning of the social and cultural facilities provided an increase in the construction sector by 8.0 percent. In the reporting period, agriculture demonstrated growth by 7.3 percent due to an increase in cereals production by almost 2 times with the low base of 2021 (-4.6 percent).

<sup>1</sup> According to the preliminary data.

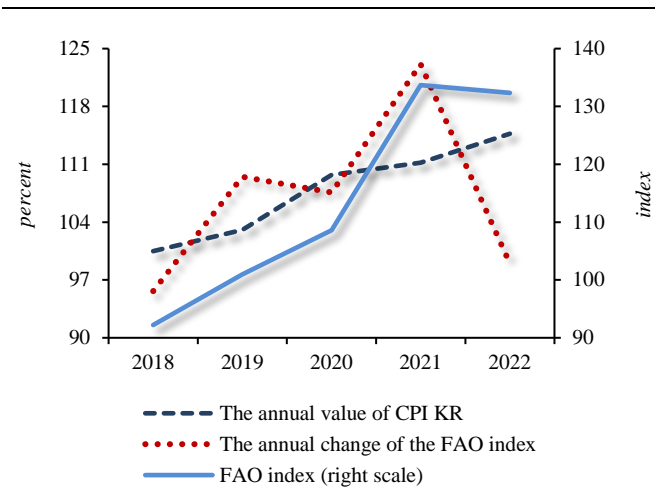
<sup>2</sup> According to the revised data.

In the reporting period, the services sector (2.3 p.p.) made the most significant positive contribution to economic growth, provided, among other things, by a significant increase in the volume of transport activity and trade turnover. Among the industrial sectors that contributed to GDP growth in the amount of 2.2 p.p., there was a positive input from the processing industry (2.1 p.p.), of which the contribution of production output at “Kumtor” gold-mining enterprises made 1.5 p.p.

GDP deflator was formed positive at 16.1 percent, having increased by 0.3 p.p. compared to 2021.

### Inflation

**Chart 1.1.1. Dynamics of the Kyrgyz CPI and the FAO Index**



Source: NSC KR

formation of CPI dynamics. This is due to a significant dependence of prices in the country on external markets, as well as the fact that food products, which occupy about half of the consumer basket, make a significant contribution to overall inflation.

In the reporting year, the Kyrgyz Republic experienced increased inflationary pressure, meanwhile, since August<sup>4</sup> 2022, there was gradual slowdown in inflation. High price volatility in the world commodity markets amid geopolitical tensions worldwide and the global inflation trend was the factor that made a significant contribution to CPI. According to the NSC KR, in December 2022, the annual inflation rate was 14.7 percent (in December 2021 – 11.2 percent).

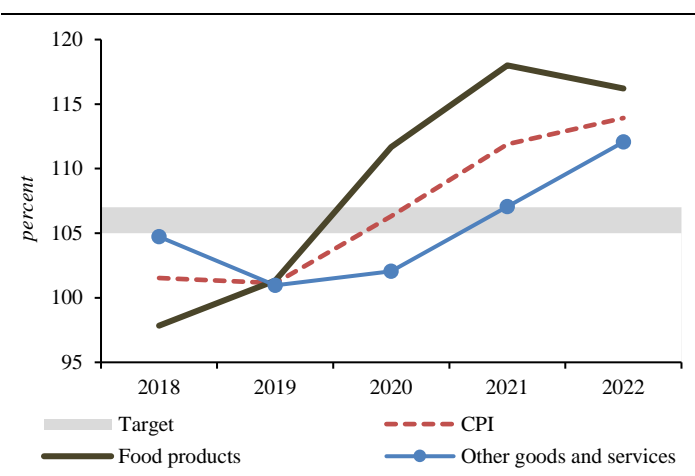
In 2022, the FAO index remained at a relatively high level, with a gradual downward trend from the highest values in the first half of 2022. There were factors with put upward pressures on the world food prices: strong global demand, unfavorable weather in some large producing countries, high production and transport costs, as well as uncertainty due to the situation in Ukraine. At the end of 2022, there was a decline in prices for vegetable oils (due to a decrease in crude oil prices<sup>3</sup>) and a slight decline in prices for cereals and meat, which neutralized moderate increase in prices for dairy products and sugar.

The global market of food products has a significant impact on inflation in the Kyrgyz Republic and often plays a decisive role in

<sup>3</sup> A significant share of vegetable oil consumption falls on industrial use mainly for production of biodiesel (dependence of vegetable oil prices on oil quotations is obvious), meanwhile, there is no pressure on sunflower oil, as the share of its food consumption constitutes about 95 percent.

<sup>4</sup> 15.6 percent, the maximum inflation rate in 2022.

**Chart 1.1.2. CPI in the Kyrgyz Republic (cumulatively year-to-date to the corresponding period of the previous year)**



Source: NSC KR, [www.fao.org](http://www.fao.org)

in the groups “restaurants and hotels” “recreation, entertainment and culture” and “miscellaneous goods and services”.

### Labor Market and Wages

According to the Ministry of Labor, Social Security and Migration of the Kyrgyz Republic, as of January 1, 2023, the number of unoccupied people in search of work registered at the state employment service decreased by 0.6 percent compared to the similar date in 2022 and constituted 98.8 thousand people. The registered unemployment rate decreased by 0.1 p.p. compared to the indicator of 2021 due to the economic recovery and made 2.8 percent of the economically active population.

In the reporting period, there was a positive dynamics of wage growth in all types of economic activity. At the end of 2022, the average monthly nominal wage per one employee increased by 31.8 percent compared to the indicator of 2021 and amounted to KGS 26.6 thousand. In the reporting year, real wages increased by 15.7 percent compared to the previous period.

Thus, decrease in the number of unemployed people and increase in real wages accelerated recovery of domestic demand.

### State Budget

According to the preliminary data of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic, in 2022, the state budget deficit amounted to KGS 10.4 billion or 1.1 percent to GDP (in 2021, the budget was executed with a deficit of 0.2 percent to GDP). The dynamics of state budget revenues demonstrated high growth rates, therefore expenses were increased, including those planned in terms of increase in wage, social payments and pensions, and unplanned expenses related to damage coverage and assistance rendering to the victims of the armed conflict on the Kyrgyz-Tajik border occurred in September 2022. Thus, budget revenues increased by 43.2 percent and amounted to KGS 300.5 billion (32.7 percent to GDP). The state budget expenses for operating activities increased by 35.8 percent and amounted to KGS 224.6 billion (24.4 percent to GDP). Current budget expenses stimulated growth of domestic demand and put slight upward pressure on inflation in the country. Net acquisition of non-financial assets increased significantly up to KGS 86.3 billion (growth by 1.9 times compared to 2021).

The Ministry of Finance conducted internal and external borrowings in order to finance the budget deficit in 2022. Thus, the volume of net internal financing of the budget deficit amounted to KGS

6.4 billion (+20.0 percent compared to 2021) and external financing – KGS 26.7 billion, which exceeds the results of 2021 by more than 2.1 times.

### ***Macroeconomic Risks***

Global economic growth still demonstrates slowdown amid high inflation rates, increase of interest rates, reduction in investments and supply chain disruption caused by ongoing conflict in Ukraine. There is a risk of global recession amid growing concerns about weakening demand, unfavorable geopolitical situation and its consequences. In such conditions, the risks of slowdown in capital inflow into the country, reduction in money transfers inflow, decrease in investment volumes and other factors subject to unfavorable changes remain relevant.

In 2023, external and internal conditions such as geopolitical uncertainty, high volatility and possible accelerated rise of prices in the world food and energy markets will put pressure on inflation. Domestic conditions include the effect of the fiscal impulse realized in 2022, increase in excise duties and tariffs for electricity and heat energy, as well as existing elevated inflation expectations of enterprises and households. Conducted monetary policy focused on minimizing the impact of external and monetary factors of inflation will contribute to decrease of the inflation rate to the target values in the medium term.

Given that about half of all budget revenues are provided by taxation of foreign economic activity, which directly depends on the terms of trade with other countries, their significant negative change may result in increased risks of budget revenues formation. Preservation of the high share of external borrowings may prevent from rapid economic recovery in the country.

## 1.2. Structure of the Financial Sector

Institutional structure of the financial sector in the Kyrgyz Republic is represented by the commercial banks and other financial institutions.

**Table 1.2.1. Institutional Structure of the Financial Sector**  
(number of the financial institutions)

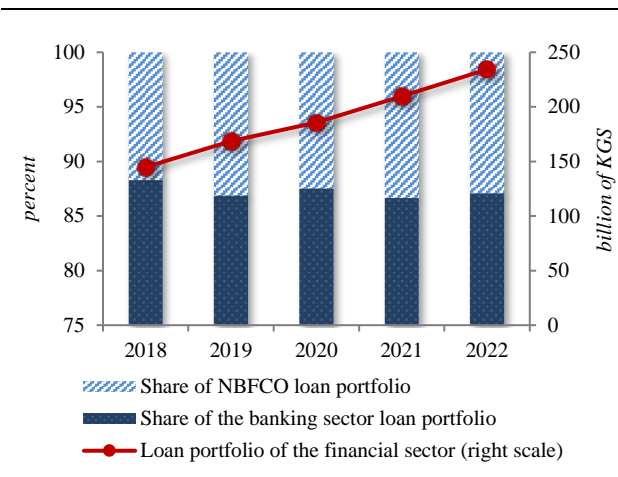
Financial institutions	2018	2019	2020	2021	2022
<b>Commercial banks</b>	<b>25</b>	<b>24</b>	<b>23</b>	<b>23</b>	<b>23</b>
<b>Other financial companies, including:</b>	<b>689</b>	<b>660</b>	<b>637</b>	<b>607</b>	<b>689</b>
<b>Non-banking financial-credit organizations (NBFCO), including:</b>	<b>665</b>	<b>637</b>	<b>617</b>	<b>604</b>	<b>686</b>
Microfinance organizations, including:	142	137	134	133	130
microcredit companies	95	89	87	86	87
microcredit agencies	39	39	38	37	34
microfinance companies	8	9	9	10	9
Specialized Financial-Credit Organization	1	1	1	1	1
Credit offices	2	2	2	2	2
Credit unions	106	95	92	88	84
Exchange offices	413	401	387	379	467
OJSC "Guarantee fund"	1	1	1	1	1
Housing saving credit company	-	-	-	-	1
<b>Insurance companies</b>	<b>17</b>	<b>17</b>	<b>17</b>	-	-
<b>Investment funds</b>	<b>4</b>	<b>3</b>	-	-	-
<b>Stock exchanges</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Pension funds</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>

Sources: CBs, NBFCOs, NSC KR, State Financial Supervision Service

As of the end of 2022, assets of the banks and the NBFCOs constituted KGS 519.2 billion or 56.5 percent to GDP.

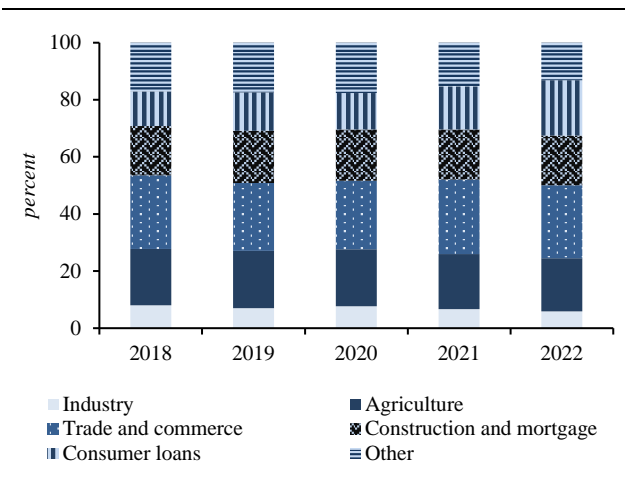
At the end of 2022, the total loan portfolio of the financial sector constituted KGS 234.3 billion or 25.5 percent of GDP. The share of the banks' loans in the loan portfolio of the financial sector increased by 0.4 percentage points and at the end of 2022 constituted 87.1 percent (Chart 1.2.1).

Chart 1.2.1. Structure of the Loan Portfolio



Source: CBs and NBFCOs

Chart 1.2.2. Sectoral Structure of the Loan Portfolio in the Financial Sector



Source: CBs and NBFCOs

The high concentration of loans was still observed in the trading sector, and in NBFCOs – in consumer loans within the sectoral structure of the commercial banks’ loan portfolio. The aggregate share of the loan portfolio in the financial sector of the aforementioned sectors of the economy at the end of 2022 constituted 45.0 percent of total issued loans and amounted to KGS 105.3 billion (Chart 1.2.2).

CONTENT

### 1.3. Financial Markets

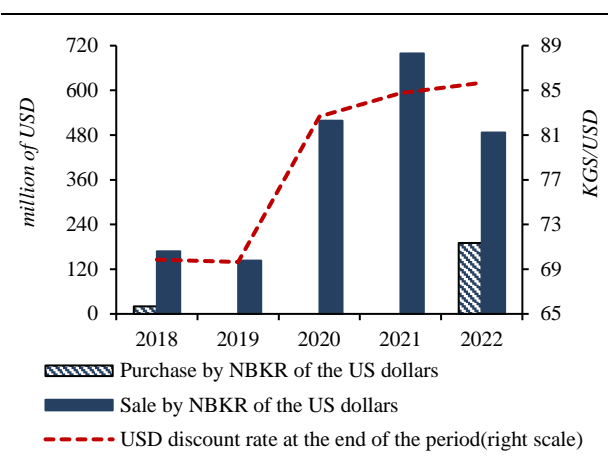
The situation in the domestic foreign exchange market was largely conditioned by the influence of the geopolitical situation worldwide and was characterized by volatility of the exchange rate in early 2022 with gradual market stabilization by the end of the year. In some periods, there was an increased demand for foreign currency in cash. The National Bank conducted foreign exchange interventions for purchase and sale of foreign currency to prevent significant fluctuations of the exchange rate, as well as took a number of anti-crisis measures, which contributed to restraining the outflow of US dollars in cash from the country.

Due to excess KGS liquidity in the banking system, the volume of transactions in the money market decreased compared to 2021, meanwhile, increased activity was observed in the National Bank's notes market in the reporting period. Generally, the government securities market demonstrated stable development in the long-term segment, the short-term securities were in little demand.

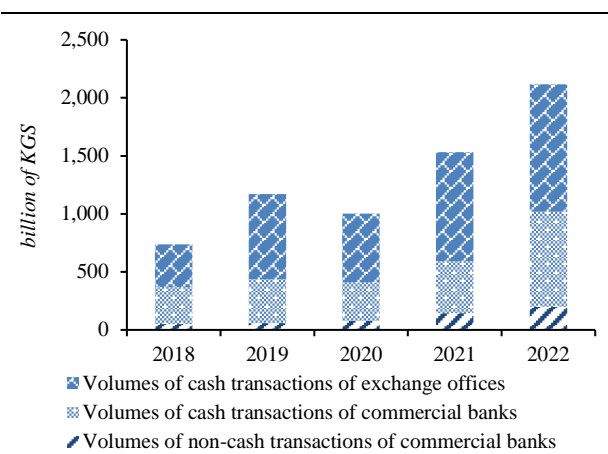
#### 1.3.1. Currency and Money Market

##### Currency Market

**Chart 1.3.1.1. Dynamics of Interventions of the NBKR in the Foreign Exchange Market**



**Chart 1.3.1.2. The Volume of Purchases and Sales of Foreign Currency by Type of Transactions (in KGS Equivalent)**



Source: NBKR

The situation in the domestic foreign exchange market was characterized by volatility of the exchange rate amid geopolitical situation in the region, as well as in the foreign exchange markets of the countries-main trading partners of the Kyrgyz Republic. In some periods, there was an increased demand for foreign currency in cash due to its temporary shortage. A similar situation was observed in other countries of the region. Transactions conducted by certain persons to obtain speculative profit arising due to the difference in the value of cash and non-cash US dollars in the foreign exchange markets of the countries in the region was an additional pressure factor of the domestic foreign exchange market.

In order to ensure economic security of the country and minimize the adverse effects of the crisis, the National Bank of the Kyrgyz Republic took a number of anti-crisis measures, including prohibition imposed on cash U.S. dollars export outside the country by the commercial banks, exchange bureaus and microfinance organizations.

As of the end of 2022, the USD/KGS official exchange rate was 85.6800 KGS/USD, having increased by 1.1 percent compared to the end of 2021 and having decreased by 18.4 percent compared to the highest official exchange rate of 105.0000 KGS/USD as of March 16, 2022.

The National Bank conducted foreign exchange interventions for sale of foreign currency in the amount of KGS 486.5 million and purchase of US dollars in the amount of KGS 190.7 million



to prevent significant fluctuations in the exchange rate.

In the reporting period, the total volume of foreign exchange purchase and sale transactions in the foreign exchange market, including transactions with non-residents increased by 38.0 percent, up to KGS 2.1 billion. The increase in the volume of transactions was observed with all currencies, except for the Kazakh tenge.

Generally, the transactions are still conducted in cash, meanwhile, in the structure of cash transactions the largest share, as before, was accounted for the cash transactions of the exchange bureaus, meanwhile the share of cash transactions of the commercial banks increased compared to 2021, which was mainly due to the current situation in the domestic foreign exchange market and increased demand for foreign currency in cash. In terms of currencies in face value, the volume of transactions on purchase and sale of foreign currency increased in all types of currencies, except for the Kazakh tenge.

### *Money Market*

In 2022, activity in the interbank credit market decreased compared to the previous years. The interest rates increased noticeably due to tightening of the monetary policy aimed at restraining inflationary developments in the country.

The volume of transactions in the interbank credit market decreased by 56.1 percent compared to 2021 and amounted to KGS 14.9 billion. In the reporting period, the standard transactions were not conducted in the national and foreign currencies, thus all transactions were conducted on repo terms. The average weighted rate in the interbank market was 12.1 percent compared to 5.7 percent in 2021. The average weighted terms decreased from 4.5 days in 2021 down to 3.8 days.

In the reporting period, the volume of overnight loans provided by the National Bank to support the banks' short-term liquidity decreased by 19.7 percent compared to 2021 and amounted to KGS 16,727.0 million. The volume of funds placed by the commercial banks on overnight deposits increased by more than 2 times compared to 2021 and amounted to KGS 3,539.0 billion.

#### *1.3.2. Securities Market*

In 2022, the short-term segment of government securities was characterized by low activity of participants and was represented only by the state treasury bills (ST-Bills) with a maturity of 12 months. According to the results of auctions, as well as additional placements, the sales of ST-Bills amounted to KGS 213.8 million with the weighted average yield of 8.28 percent.

In 2022, domestic borrowing expanded mainly due to the market of state short-term bonds (ST-Bonds). The volume of ST-Bonds supply at the auctions increased by 26.1 percent, the investors' demand for ST-Bonds increased by 18.1 percent, the volume of ST-Bonds sales (taking into account additional placements) demonstrated a positive dynamics by 1.4 percent. In the reporting period, 10-year ST-Bonds were in high demand, their share in the total volume of demand constituted 37.3 percent.

In the reporting period, the total weighted average yield of ST-Bonds was formed at 15.0 percent (+3.9 p.p.). In the reporting period, transactions with ST-Bills and ST-Bonds were not conducted in the secondary market.

For the first time since 2016, one auction was conducted on placement of 10-year ST-Bonds denominated in foreign currency in the amount of USD 52.0 million with the weighted average yield of 1.0 percent.

In the reporting period, the National Bank notes market was represented by 7-, 14-, 28-, and 91-day notes. The market of the National Bank's notes demonstrated peak indicators, taking into account the attractive yield, under the conditions of high level of excess liquidity in the banking system. The largest volume of sales fell on the National Bank's notes with a maturity of 14 days. In 2022, the weighted average yield on all National Bank's notes increased from 6.89 percent in January up to 12.13 percent in December and constituted 11.98 percent (+6.24 p.p.).



## 1.4. Real Estate Market

At the end of 2022, there was an increase in the price index<sup>5</sup> growth rate in the real estate market of the Kyrgyz Republic due to growth in prices for individual houses (an increase in prices by 44.0 percent) and apartments (an increase in prices for apartments by 19.5 percent) compared to 2021.

At the same time, the housing affordability index taking into account the minimum consumer budget in the Kyrgyz Republic decreased from 11.1 to 9.6 years compared to 2021 due to the growth rates of the average monthly nominal wages outrunning the growth rates of real estate prices.

Risks to the financial sector from the real estate market remain moderate, which was conditioned by a low share of mortgage loans<sup>6</sup> in the total loan portfolio of the banks.

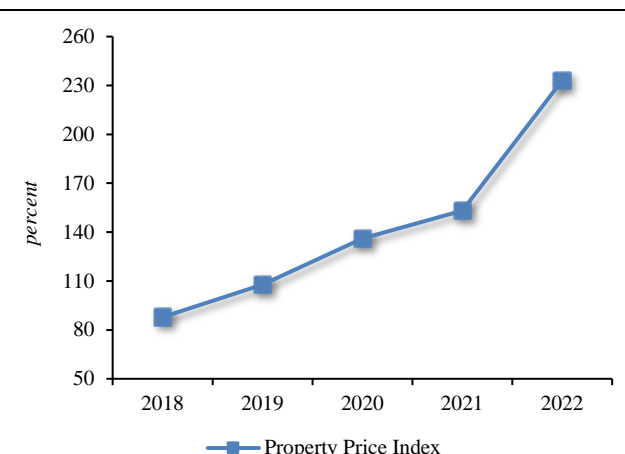
At the end of 2022, an increase in the growth rate of the property price index from 7.2 percent to 30.7 percent and growth in the property basis price index from 153.1 percent to 233.1 percent were observed in the Kyrgyz Republic due to an increase in prices of individual houses by 44.0 percent and rise in apartment prices by 19.5 percent compared to 2021.

**Chart 1.4.1. Price Index Growth Rate in the Real Estate Market**



Source: LRS under MA KR, NBKR calculations

**Chart 1.4.2. Basis Price Index Growth Rate in the Real Estate Market<sup>7</sup>**



Source: LRS under MA KR, NBKR calculations

As of December 31, 2022 the average price for 1 square meter of housing (apartments) in Osh increased by 13.4 percent, up to KGS 49.2 thousand, in Bishkek – by 21.8 percent, up to KGS 71.2 thousand compared to 2021. The average price of 1 square meter of individual houses in Osh increased by 86.7 percent, up to KGS 112.7 thousand, in Bishkek, the average price increased by 24.0 percent, up to KGS 82.1 thousand.

<sup>5</sup> The Laspeyres index method was used in developing price index for the real estate. In general, the Laspeyres index is computed as follows:

$$L = (\sum_{i=1}^K Q_{oi}P_{ti} / \sum_{i=1}^K Q_{oi}P_{oi}) * 100,$$

where

K = number of real estate types;

Q<sub>oi</sub> = number of real estate of type i in the base period;

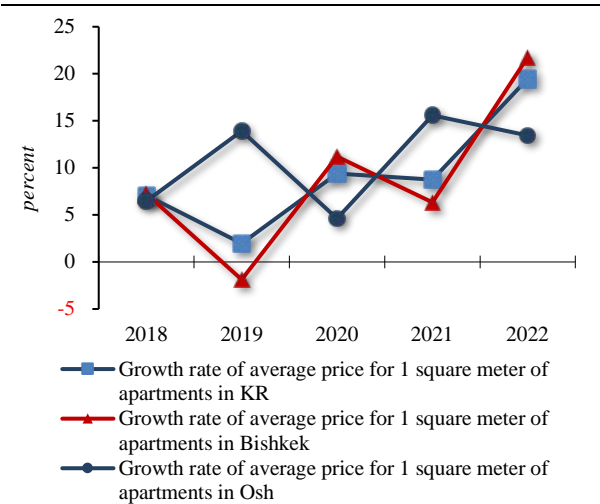
P<sub>oi</sub> = price of real estate of type i in the base period;

P<sub>ti</sub> = price of the real estate of type i in the current period.

<sup>6</sup> Currently, a mortgage loan is usually a long-term loan extended on security of the title to real estate in the Kyrgyz Republic.

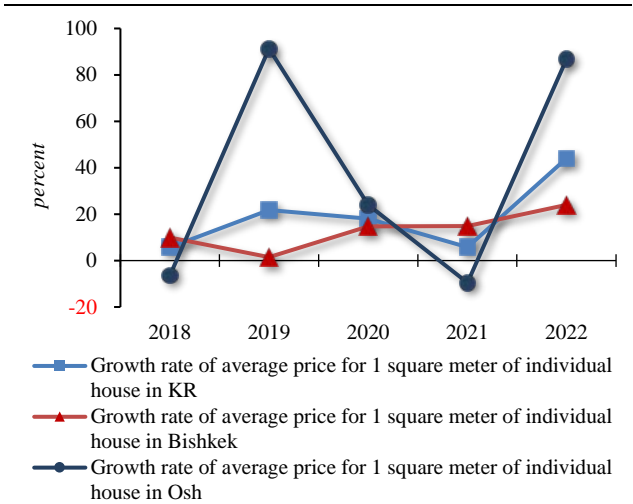
<sup>7</sup> The year 2010 was taken as the base period.

**Chart 1.4.3. Dynamics of Price Changes for Apartments**



Source: LRS under MA KR, NBKR calculations

**Chart 1.4.4. Dynamics of Price Changes for Individual Houses**

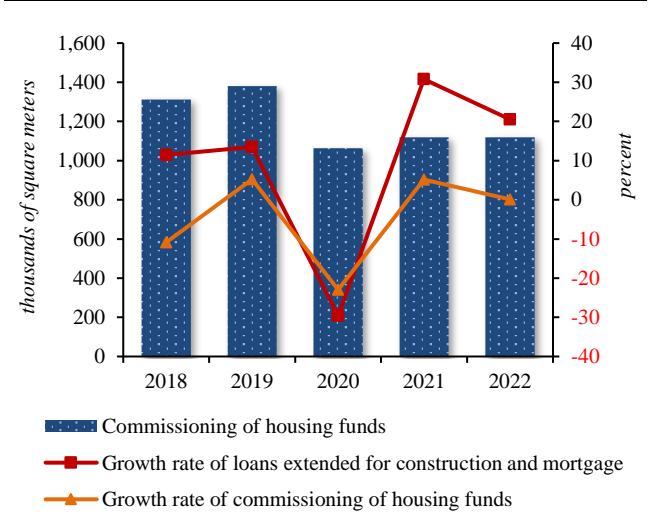


Source: LRS under MA KR, NBKR calculations

In 2022, the number of transactions on the real estate purchase and sale increased by 2.1 percent and amounted to 57,957. In particular, the transactions on purchase and sale of the apartments increased by 2.0 percent and the transactions on purchase and sale of the houses increased by 2.3 percent compared to 2021 and amounted to 34,032 and 23,925, accordingly.

There was growth in the level of housing funds commissioning. At the end of 2022, the increase in the aggregate level of housing funds commissioning constituted 0.1 percent compared to 2021 due to growth in the volume of housing funds commissioning in all regions, excluding Bishkek and Osh cities, as well as Naryn region (Table 1.4.1).

**Chart 1.4.5. Dynamics of Housing Commissioning and Loan Extended for Construction and Mortgage<sup>8</sup>**



Source: NSC KR, NBKR calculations

<sup>8</sup> Data for the period.

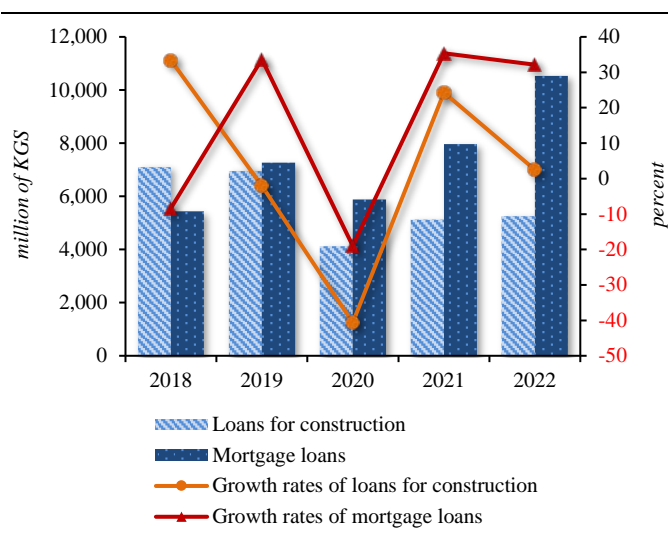
**Table 1.4.1. Geographic Structure of Commissioned Housing**

	2021		2022	
	Total commissioned area thous. sq.m	Share of total area, %	Total commissioned area thous. sq.m	Share of total area, %
Bishkek city and Chui region	407.3	36.4	360.7	32.2
Osh city and Osh region	271.0	24.2	275.2	24.6
Other regions of KR	439.9	39.3	483.2	43.2
<b>Total</b>	<b>1,118.2</b>	<b>100.0</b>	<b>1,119.1</b>	<b>100.0</b>

Source: NSC KR

As of the end of December 31, 2022 there was an increase in the volume of loans issued to finance construction and mortgage loans compared to 2021. Thus, in the reporting period, the volume of loans extended for construction increased by 2.5 percent, up to KGS 5.3 billion, and the volume of mortgages loans increased by 32.2 percent, up to KGS 10.5 billion. The sector of construction and mortgage demonstrated growth in the volume of loans extended in the national and foreign currency.

**Chart 1.4.6. Loans Extended for Construction and Mortgage<sup>9</sup>**



Source: CBs, NBKR

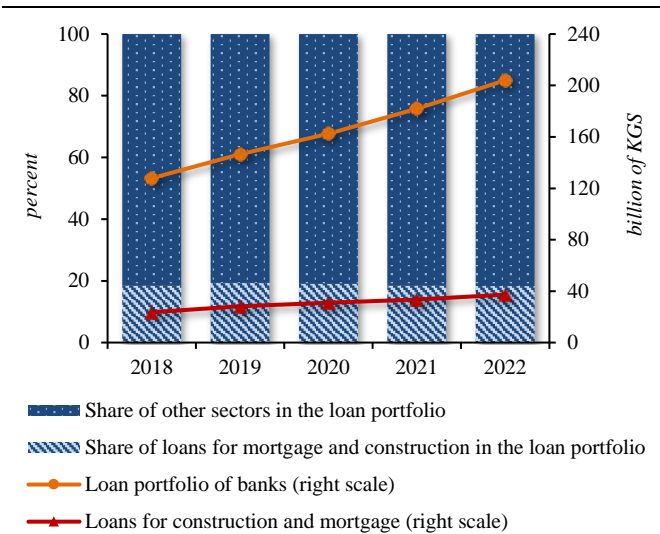
At the end of 2022, residential houses are generally constructed and commissioned at the expense of the population (98.2 percent of their total commissioning)<sup>10</sup>.

As of December 31, 2022, the share of loans for construction and mortgage decreased by 0.1 p.p. and amounted to 18.3 percent (Chart 1.4.7) in the total loan portfolio of the commercial banks.

<sup>9</sup> Data for the period.

<sup>10</sup> “Social and economic situation of the Kyrgyz Republic (January-December 2022)”, NSC KR.

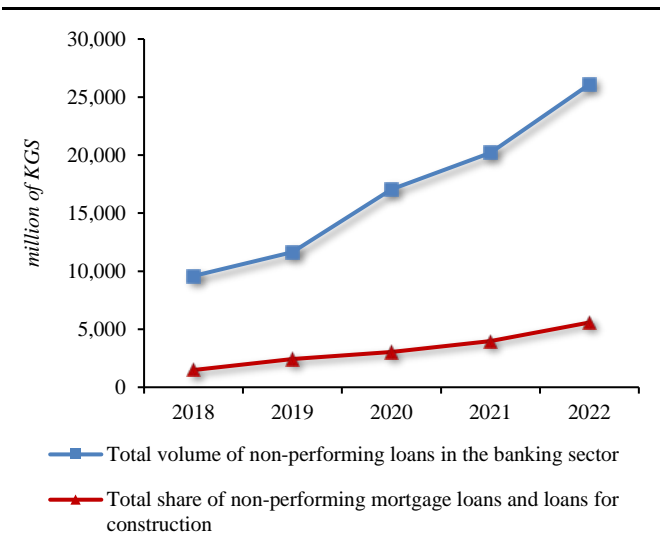
**Chart 1.4.7. Total Share of Loans for Mortgage and Construction in the Loan Portfolio of Commercial Banks<sup>11</sup>**



Source: CBs, NBKR

The total volume of non-performing loans for mortgage and construction increased by 40.1 percent and amounted to KGS 5,578.2 million. Therefore, the aggregate share of non-performing loans in the aforementioned sectors increased by 1.7 p.p. as of the end of 2022 and constituted 21.4 percent of the total volume of non-performing loans of the banking sector (Chart 1.4.8). The volume of non-performing loans for mortgage and construction in foreign currency increased by 50.8 percent and amounted to KGS 3,716.7 million.

**Chart 1.4.8. Dynamics of Non-performing Loans**



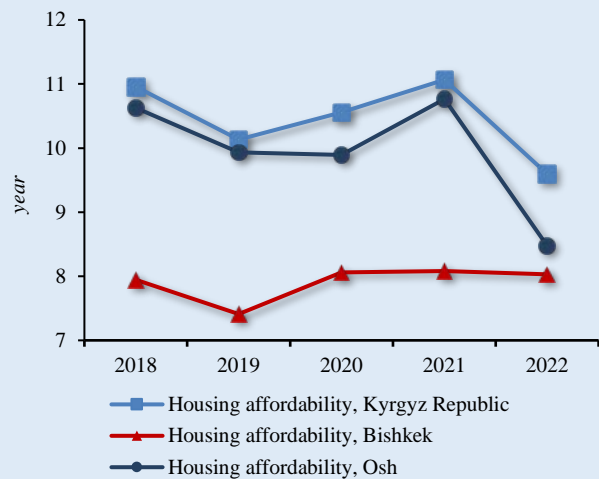
Source: CBs

<sup>11</sup> Data as of the end of period.

### Box 1. Housing Affordability Index

As of December 31, 2022, the housing affordability index taking into account the minimum consumer budget in the Kyrgyz Republic decreased compared to 2021 and amounted to 9.6 years (Chart 1). This is due to the growth rates of the average monthly nominal wages (27.0 percent) outrunning the growth rate of real estate prices (19.5 percent).

**Chart 1. Housing (Apartments) Affordability Index including Minimal Consumer Budget**



According to the results of 2022, to purchase an apartment of 54 square meters in the Kyrgyz Republic, one should save the average monthly nominal wage of the family consisting of three people (KGS 25,711.0), where the income is received by two people, and the minimum consumer budget of KGS 21,535.0 (41.9 percent of total family income), for 9.6 years with other conditions being equal.

Sources: NSC KR, LRS under MA KR, NBKR

### Box 2. Stress Testing of Impact from Price Changes in the Real Estate Market on the Banking Sector<sup>12</sup>

As of December 31, 2022, the share of loans, secured by pledged real estate, constituted 24.8 percent of the total volume of loans in the loan portfolio of the banks. The volume of pledged real estate (at collateral value) constituted 53.3 percent of the total collateral of the loan portfolio.

Credit risks of the banking sector are conditioned by possible decrease in the value of the pledged real estate below the loan repayment balance and further potential refusal of the borrower from loan repayment.

Stress testing is focused on quantitative assessment of possible losses from outstanding loans and identification of the most vulnerable banks (groups of banks).

#### Scheme 1. Results of Stress Testing of Impact from Price Changes in the Real Estate Market on the Level of Credit Risk of the Banking Sector

Scenario	Potential losses of the banking sector	Potential losses of large banks	Risk of capital adequacy ratio violation
"Historical" scenario* (decrease in price for real estate by 23% per a year)	----	----	1 bank
"Alternative" scenario (decrease in price for real estate by 40% per 2 years)	----	KGS -2.7 billion	1 bank
"Negative" scenario (decrease in price for real estate by 50% per a year)	KGS -7.1 billion	KGS -11.6 billion	1 bank

\* At the end of 2008, prices for real estate in the Kyrgyz Republic decreased by 23 percent.

In addition to the stress test, the threshold level of decrease in prices for real estate, when there is a risk of a decrease in the profits of the banking sector and when the banks potentially suffer losses, was calculated. The banking sector may face the risk of decrease in profits and losses of individual banks if prices for the real estate decrease by 46.0 percent, large banks – by 37.0 percent. There is a risk of violation of the capital adequacy ratio by the banking sector, as well as by the large banks when prices for real estate are likely to decrease by 69.8 and 61.2 percent, respectively.

The possible difference in the estimated value of the pledged real estate, which may be approximately 20 percent less than the market value, was not taken into account by the banks in calculations of the stress test. Taking into account aforementioned facts, the threshold level of decline in prices for real estate can increase by 20 percent.

<sup>12</sup> Stress test was conducted on the basis of the commercial banks' data provided in the course of the survey as of December 31, 2022.

## II. BANKING SECTOR

*At the end of 2022, growth of the main indicators of the banking sector: assets, capital, deposit base, and loan portfolio was observed despite decline in economic activity.*

*In the reporting period, the level of dollarization of the loan portfolio decreased and the share of deposits in foreign currency in the total deposit base of the banking sector increased compared to 2021.*

*At the end of the reporting period, systemic risks of the banking sector are estimated as moderate. The banking sector is characterized by a high level of capital adequacy, indicating the availability of the potential to further increase the level of financial intermediation, efficiency and sustainability of the banking sector in the future.*

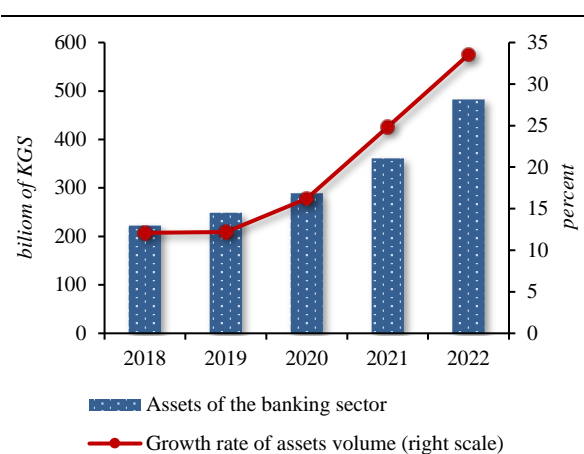
### 2.1. Major Trends of the Banking Sector Development

As of December 31, 2022<sup>13</sup>, 23 commercial banks (including the Bishkek branch of the National Bank of Pakistan) and 318 bank branches, among which there were 14 banks with foreign participation in the capital, including 11 banks with foreign participation in the amount of more than 50 percent. All banking institutions of the country are universal by the type of business.

#### Assets

Generally, at the end of 2022, there was an increase in the volume of assets in the banking sector of the Kyrgyz Republic. Assets of the banking sector amounted to KGS 482.2 billion, having increased by 33.5 percent compared to 2021 (Chart 2.1.1).

**Chart 2.1.1. Dynamics of Assets in the Banking Sector**



Source: NBKR

#### Loan Portfolio

In 2022, growth of the banks' loan portfolio was observed in all main sectors of economy, excluding the sectors of industry and construction.

At the end of the reporting period, the level of dollarization of the loan portfolio in the banking sector decreased by 4.4 p.p. compared to 2021 and amounted to 23.5 percent (Chart 2.1.2).

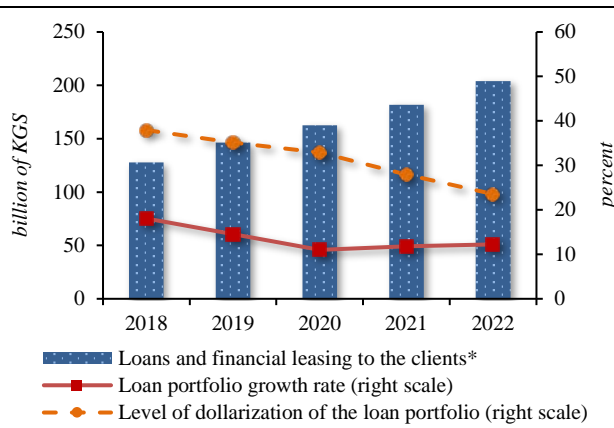
The growth of assets was mainly provided by increase of:

- the loan portfolio by 12.2 percent or KGS 22.2 billion;
- securities by 57.3 percent or KGS 19.1 billion;
- liquidity in the form of cash and funds on correspondent accounts by 68.0 percent, or KGS 75.7 billion KGS.

The share of loan portfolio in the structure of assets constituted 42.3 percent, having decreased by 8.0 p.p. compared to 2021.

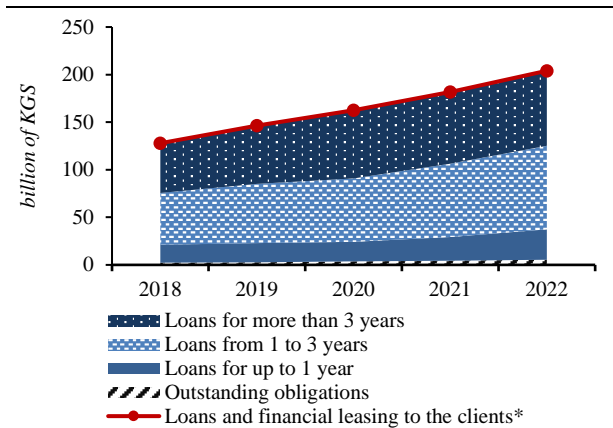
<sup>13</sup> The data are submitted according to periodic regulatory reporting of the commercial banks (PRBR).

**Chart 2.1.2. Dynamics of Loan Portfolio in the Banking Sector**



\* Exclusive of loans provided by FCO and special loan loss provisions  
Source: NBKR

**Chart 2.1.3. Structure of Loan Portfolio by Maturity**



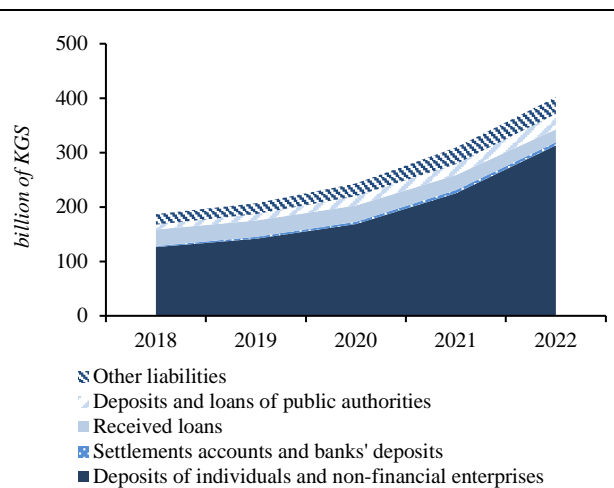
\* Exclusive of loans provided by FCO and special loan loss provisions  
Source: NBKR

In the structure of the loan portfolio by maturity, the major shares are accounted for medium-term loans<sup>14</sup> – 43.0 percent or KGS 87.8 billion, and long-term loans<sup>15</sup> – 38.7 percent or KGS 78.9 billion (Chart 2.1.3).

### Liabilities

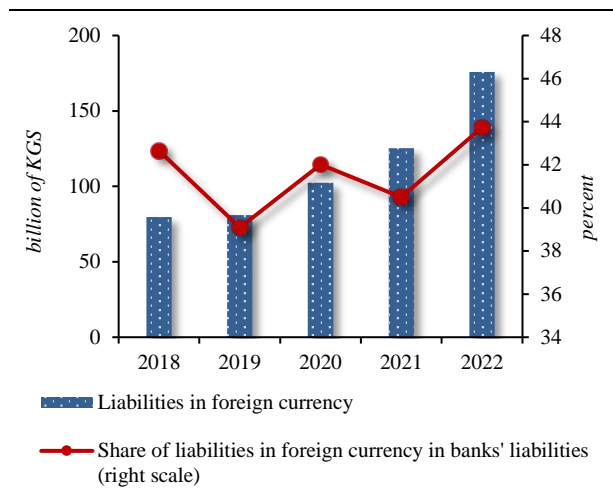
At the end of 2022, liabilities of the banking sector of the Kyrgyz Republic increased by 29.9 percent compared to 2021 and amounted to KGS 401.9 billion.

**Chart 2.1.4. Structure of Banks' Liabilities by the Reserve Sources**



Source: NBKR

**Chart 2.1.5. Banks' Liabilities in Foreign Currency**



Source: NBKR

At the end of reporting period, deposits of individuals and non-financial enterprises increased by 39.5 percent and amounted to KGS 339.0 billion (Chart 2.1.4). The share of individuals' and non-financial enterprises' deposits in the banks' liabilities increased by 5.8 p.p. and amounted to 84.3 percent.

The share of liabilities in foreign currency in the total volume of attracted funds increased by 4.4 p.p. and amounted to 45.6 percent (Chart 2.1.5).

<sup>14</sup> Medium-term loans are the loans issued for a period from 1 to 3 years.

<sup>15</sup> Long-term loans are the loans extended for a period of more than three years.



### Financial Results

At the end of 2022, an increase of the banking sector's profitability indicators was observed compared to 2021 due to the growth rate of profitability outstripping the growth rates of the commercial banks' assets and capital:

- ROA constituted 5.9 percent;
- ROE formed at 43.4 percent.

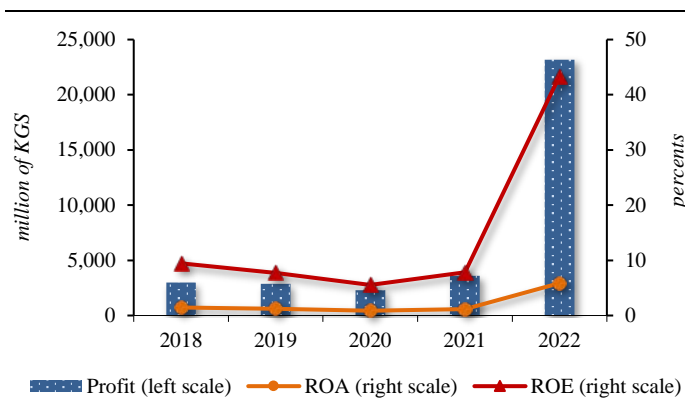
Net profit of the banking sector increased by 6.5 times and amounted to KGS 23.2 billion (Chart 2.1.6).

### Capital Adequacy

With statutory minimum capital adequacy at 12.0 percent, at the end of 2022, this figure increased by 3.4 p.p. compared to 2021 and amounted to 25.6 percent (Chart 2.1.7).

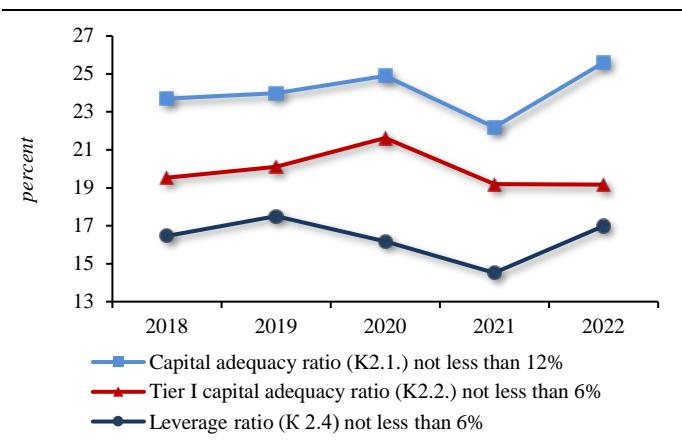
At the same time, the actual level of capital adequacy in the banking sector, generally formed according to the results of 2022, exceeded the established standard (at least 12 percent) by more than two times, indicating the relative stability of the banking sector to negative shocks, as well as the presence of certain potential to increase the level of financial intermediation and efficiency of the banking sector activity in the future.

**Chart 2.1.6. Profitability Indicators of the Banking Sector**



Source: NBKR

**Chart 2.1.7. Dynamics of Capital Adequacy Ratios**



Source: NBKR

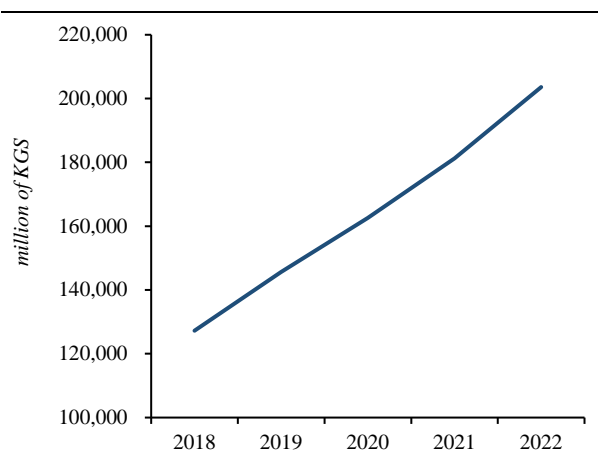
## 2.2. Banking Sector Risks

### 2.2.1. Credit Risk

Credit risk is one of the main risks that accompany banking activity.

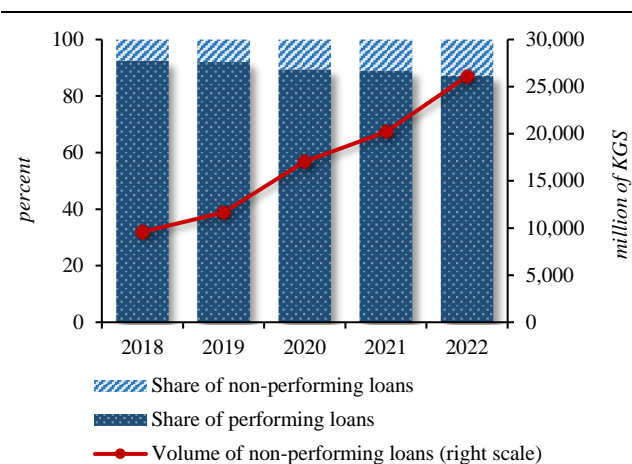
In 2022, the loan portfolio increased by 12.2 percent and amounted to KGS 204.0 billion (Chart 2.2.1). The share of non-performing loans in the loan portfolio of banks increased from 11.1 percent to 12.8 percent compared to 2021 (Chart 2.2.2).

Chart 2.2.1. Dynamics of Loan Portfolio<sup>16</sup>



Source: NBKR

Chart 2.2.2. Loan Portfolio Quality



Source: NBKR

In order to assess the quality of the loan portfolio, the commercial banks use a loan classification system, which contributes to determining the possible level of potential losses from bad loans and compensating them in time through creation of appropriate reserves (Chart 2.2.3).

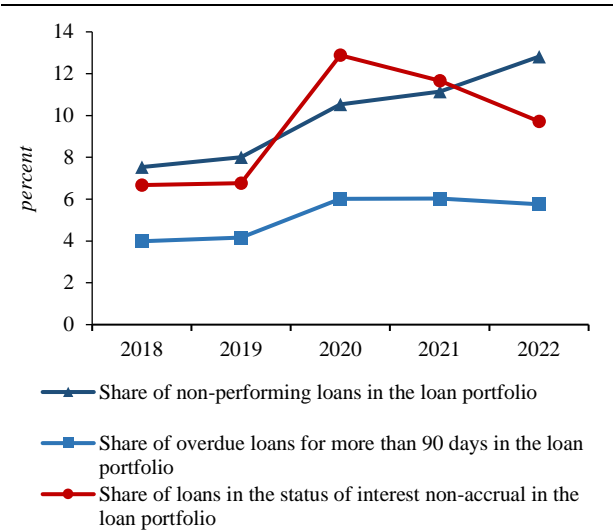
The indicator of the risk of default on assets (the ratio of special loan loss provisions and loan portfolio) increased by 1.3 p.p. compared to 2021 and constituted 10.7 percent.

Aggregate reserves created by the commercial banks constituted 19.3 percent of the total loan portfolio.

Meanwhile, the share of special loan loss provisions in 2022 constituted 80.7 percent of the total reserves (Chart 2.2.4).

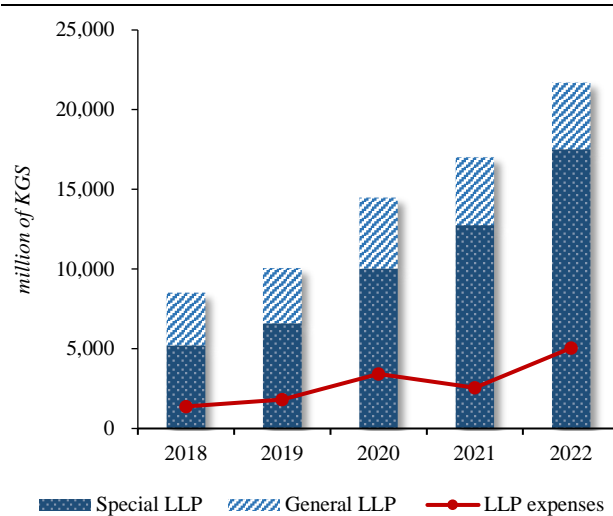
<sup>16</sup> Loan portfolio excluding discount.

**Chart 2.2.3. Indicators of the Loan Portfolio Quality**



Source: NBKR

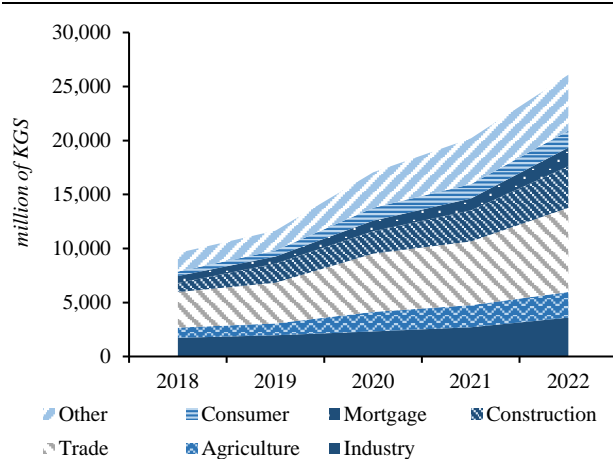
**Chart 2.2.4. Total and Special Reserves**



Source: NBKR

As of the end of 2022, the highest concentration of credit risks was still observed in the trade sector of economy (Chart 2.2.5).

**Chart 2.2.5. Volume of Non-performing Loans by Sectors of Economy**

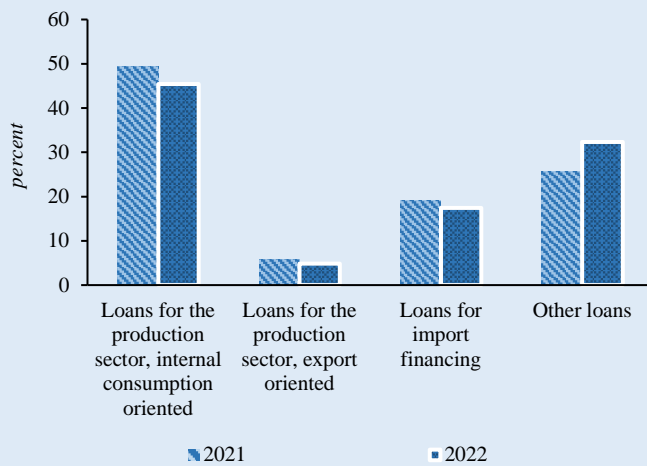


Source: NBKR

**Box 3. Results of Lending Survey by the Commercial Banks (Sectoral Structure)**

According to the conducted survey of the commercial banks, at the end of the reporting period, a significant share of extended loans (45.5 percent of total borrowers' loans) was still concentrated in the production sector of the economy<sup>17</sup>, thereby reflecting the impact of lending on the country's GDP, meanwhile, 17.4 percent of issued loans were forwarded for financing of imports (Chart 1).

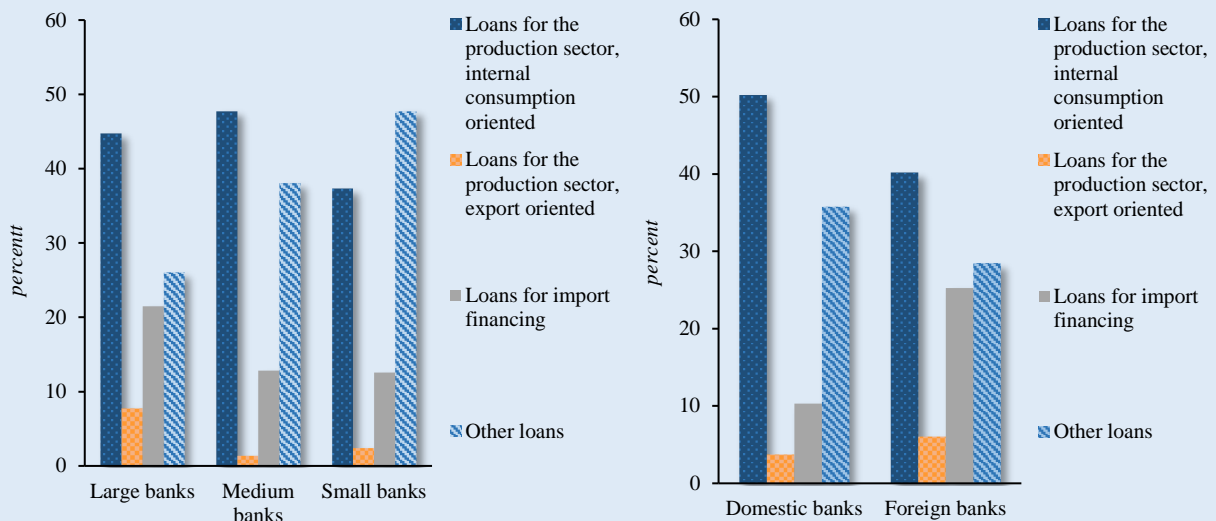
**Chart 1. Sectoral Structure of Loans as of December 31, 2022**



Domestic banks forwarded 50.2 percent of the loan portfolio to the production sector (GDP) and 10.3 percent – to finance imports. Generally, foreign banks also provided loans to the production sector of economy (40.2 percent). In 2022, the share of loans forwarded to finance imports constituted 25.3 percent of the loan portfolio (Chart 2).

Source: CBs

**Chart 2. Sectoral Structure of Loans by the Groups of Banks as of December 31, 2022**



Source: CBs

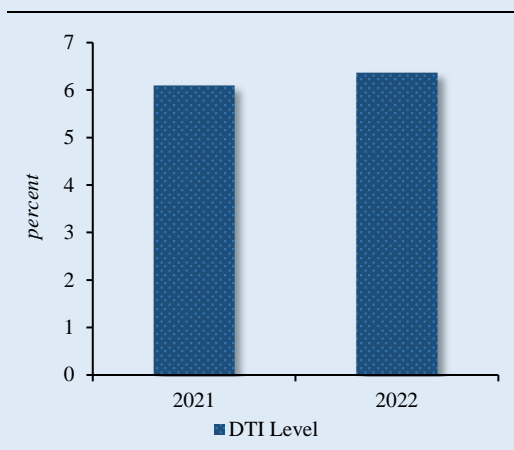
<sup>17</sup> The production sector means the activity of the bank clients connected with the production of goods and services (construction, communication and automobile repair shop services, transport services, real estate leasing, hotels, restaurants, etc.).

### Box 4. Survey Results of 15 Commercial Banks' Largest Clients

#### Borrowers solvency

At the end of 2022, the level of debt burden of 15 banks' largest clients calculated through DTI index<sup>18</sup> increased by 0.3 p.p. compared to the same indicator in 2021 and constituted 6.4 percent (Chart 1).

**Chart 1. DTI Level on 15 Banks' Largest Borrowers**



By the groups of banks, the largest debt burden was observed in the major borrowers of the *small banks* (9.8 percent of the borrowers' basic income) (Table 1). At the same time, the lowest level of debt burden was observed in the major borrowers of the *medium banks* and constituted 4.5 percent.

Source: CBs, NBKR

**Table 1. Debt Burden of 15 Banks' Largest Borrowers at the End of 2022**

	Banking sector	Large banks	Medium banks	Small banks
Loan balance, <i>billions of KGS</i>	75.5	44.9	20.8	9.9
Share of loans in 15 largest borrowers in the total volume of loan portfolio in the banking sector, in %	36.7	40.9	27.7	46.2
Ratio of expenses for loan debt servicing to the borrowers' total income, in %	6.4	7.1	4.5	9.8

Source: CBs, NBKR

In 2022, the level of debt burden in the foreign banks was higher than in the domestic banks (Table 2).

**Table 2. Debt Burden in the Domestic and Foreign Banks at the End of 2022**

	Domestic banks	Foreign banks
Loan balance, <i>billions of KGS</i>	34.3	41.2
Share of loans in 15 largest borrowers in the total volume of loan portfolio in the banking sector, in %	31.8	42.0
Ratio of expenses for loan debt servicing to the borrowers' total income, in %	5.5	7.0

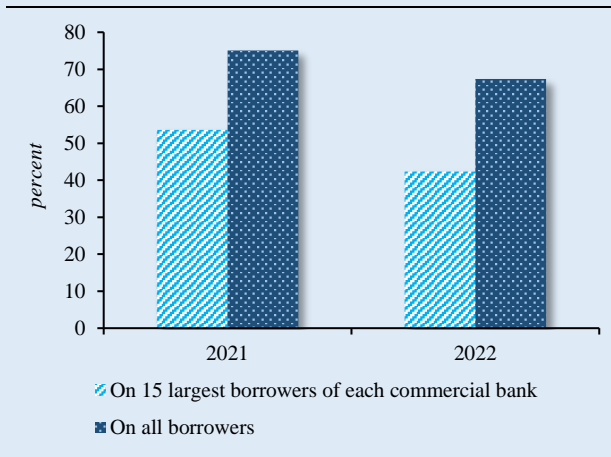
Source: CBs, NBKR

<sup>18</sup> DTI (debt-to-income) is the ratio of the amount of the borrowers' payments on loans (including the amount of principal and interest payments for the reporting period) to the main annual income of the borrower declared at the time of issuing a loan.

Security of the borrowers' loans

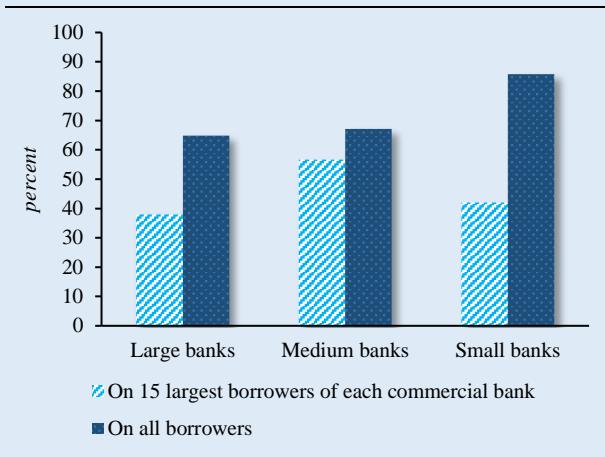
At the end of 2022, the LTV actual level<sup>19</sup> in the banking sector amounted to 67.4 percent. The existing level of collateral indicates a relatively high level of the loans secured by the pledged property (Chart 2). At the same time, the LTV value of large banks is lower than that of small and medium banks and the banking sector as a whole (Chart 3).

**Chart 2. LTV Level on All Borrowers and on 15 Largest Borrowers of Each Commercial Bank as of December 31, 2022**



Source: CBs, NBKR

**Chart 3. LTV Level on All Borrowers and on 15 Largest Borrowers by the Banks' Groups as of December 31, 2022**



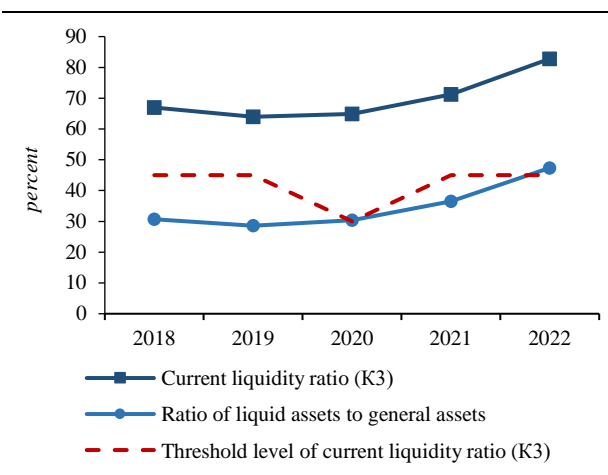
Source: CBs, NBKR

<sup>19</sup> LTV (loan-to-value ratio) is the ratio of issued loans to the value of collateral.

### 2.2.2. Liquidity Risk

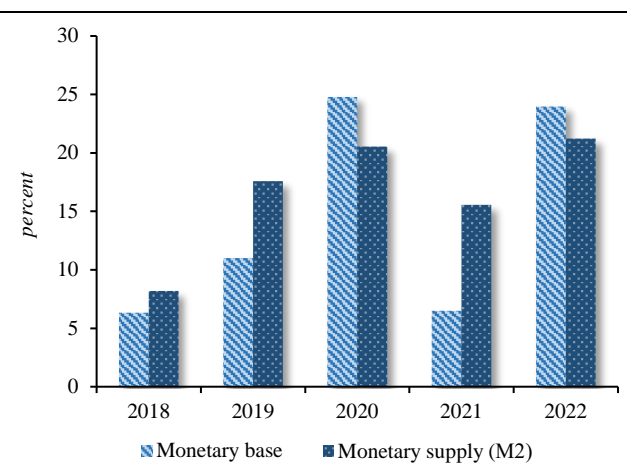
At the end of 2022, current liquidity ratio increased from 71.3 (at the end of 2021) up to 82.8 percent (Chart 2.2.6). Growth of money supply indicator (M2) was due to increase of monetary funds in the national currency and time deposits in the economy (Chart 2.2.7).

**Chart 2.2.6. Liquidity Indicators in the Banking Sector**



Source: NBKR

**Chart 2.2.7. Growth Rates of Money Supply (M2) and Monetary Base**



Source: NBKR

Liquidity ratio of the banking sector increased due to excess of liquid assets over current liabilities growth rates.

There was a gap between assets and liabilities in terms of their maturity. There was a negative gap between assets and liabilities with maturity “up to 1 month”, “from 3 to 6 months” and “from 6 to 12 months”. Positive gap between assets and liabilities is observed in the maturity “from 1 to 3 months” and “more than 12 months” (Table 2.2.1).

**Table 2.2.1. Maturity of Financial Assets and Liabilities**

as of December 31, 2022, millions of KGS

Name	Maturity					Total
	up to 1 month	1-3 months	3-6 months	6-12 months	more than 12 months	
Total financial assets	246,707	21,766	17,837	30,785	190,918	508,014
including loans and financial leasing to the clients	9,586	8,279	12,295	28,398	145,038	203,596
Total financial liabilities	273,540	15,043	24,853	38,574	45,876	397,886
including deposits of individuals and time deposits of legal entities	105,298	11,509	20,381	29,063	21,401	187,651
Gap	-26,833	6,723	-7,015	-7,788	145,042	110,128
Including on loans and deposits	-95,712	-3,230	-8,085	-665	123,637	15,945

### 2.2.3. Concentration Risk

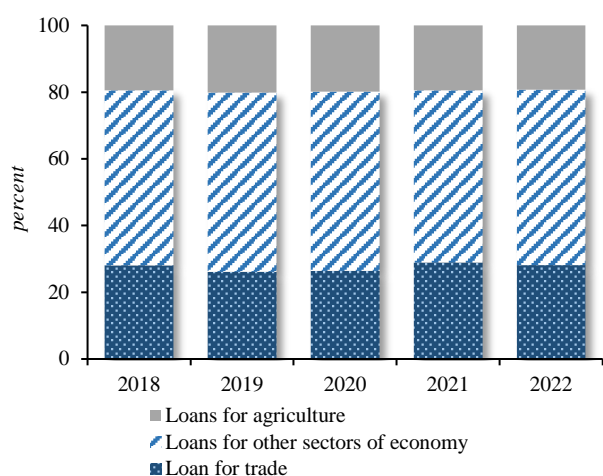
#### Concentration of the Largest Sources of Financing

The results of “reverse” stress testing show that some banks could not withstand the shock related to monetary funds outflow from one to five large clients, when the liquidity ratio decreases below the threshold level of 45 percent.

#### Loan Concentration

Potential default from one to four largest borrowers in separate banks may decrease regulatory capital below economic standard set by the NBKR.

**Chart 2.2.8. Sectoral Concentration of the Loan Portfolio**



Decrease of the level of trade and agricultural loans concentration was observed in the sectoral structure of loan portfolio amid increase in the overall level of lending. At the end of 2022, the share of loans for trade decreased by 0.7 p.p., for agriculture – by 0.2 p.p. (Chart 2.2.8).

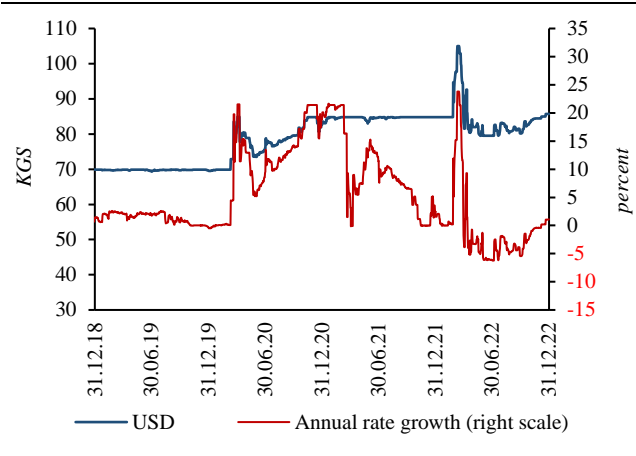
Source: CBs, NBKR



### 2.2.4. Currency Risk

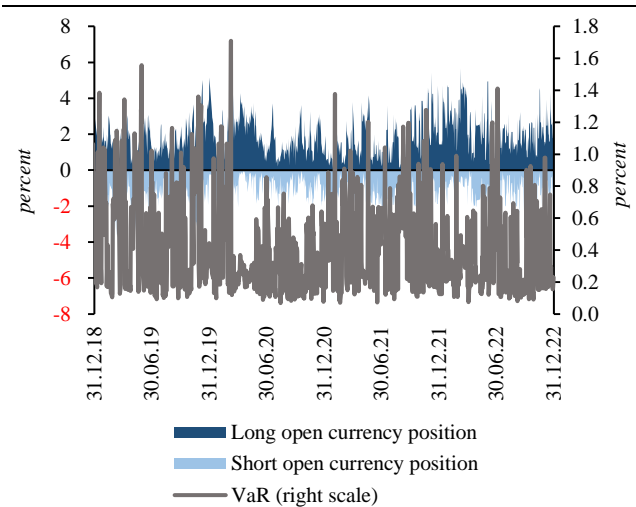
At the end of 2022, the average annual level of *currency risk* in the banking sector was at a moderate level. In 2022, the KGS/USD exchange rate was stable (Chart 2.2.9).

**Chart 2.2.9. Dynamics of USD/KGS Nominal Exchange Rate**



Source: NBKR

**Chart 2.2.10. Dynamics of Open Currency Position (OCP) and Revaluation Risk (VaR) in percent of NTC**



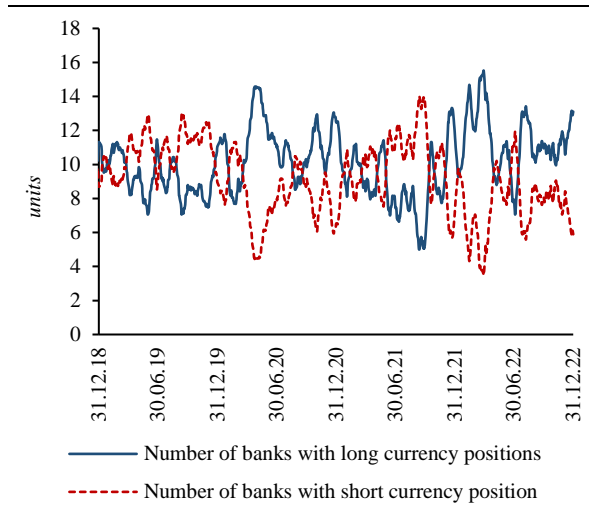
Source: NBKR

In general, the banks kept open currency positions of assets and liabilities within the limits set by the prudential standards of the National Bank of the Kyrgyz Republic.

In 2022, the risk of currency position overestimation in the banking sector was minimum (VaR: 0.1-1.4 percent of the net total capital, Chart 2.2.10), i.e. the banks adhered to a conservative policy when conducting operations with foreign currency and were weakly exposed to currency risk.

In the reporting period, 11 banks had a long currency position in U.S. dollars, and 8 banks adhered to a short currency position (Chart 2.2.11).

**Chart 2.2.11. Currency Position of the Banks**



Source: NBKR

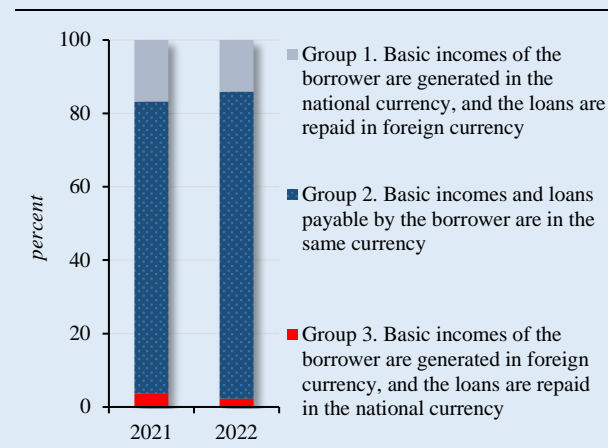
### Box 5. Credit and Currency Risks

As of December 31, 2022, 14.1 percent of the total loan portfolio was accounted for the loans, which were repaid in foreign currency, while the incomes of the borrowers were generated in the national currency (Chart 1). This volume of the loan portfolio was potentially exposed to credit and currency risks.

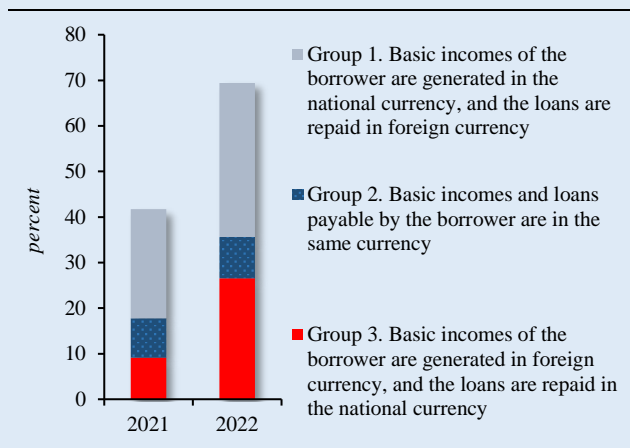
The impact made by the currency risk on credit risk is given in Chart 2 that displays the proportion of non-performing loans by groups of loans:

- Group 1 – 33.8 percent, basic incomes of the borrower are generated in the national currency, and the loans are repaid in foreign currency;
- Group 2 – 9.0 percent, basic incomes and loans payable by the borrower are generated in the same currency;
- Group 3 – 26.6 percent, basic incomes of the borrower are generated in foreign currency, and the loans are repaid in the national currency.

**Chart 1. Loan Portfolio by Groups of Loans<sup>20</sup>**



**Chart 2. Share of Non-performing Loans by Groups of Loans<sup>21</sup>**



Source: CBs, the volume of loan portfolio is specified exclusive of overdraft loans.

<sup>20</sup> Breaking of loans into groups is presented in this chart. For example, the volume of loans for Group 1 as of December 31, 2022 amounted to KGS 28.2 billion or 14.1 percent of the total loan portfolio.

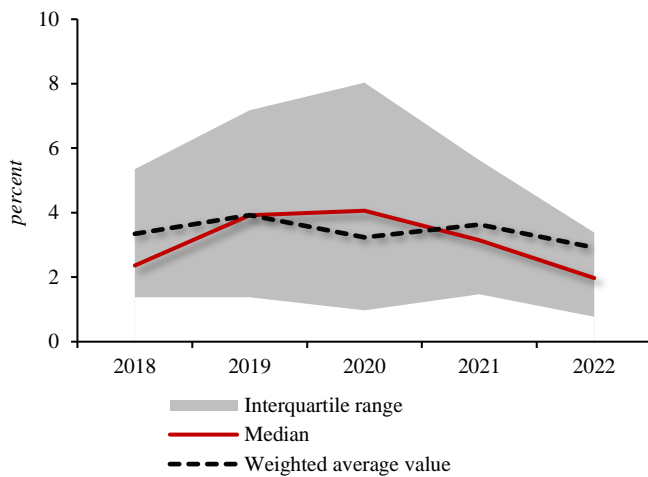
<sup>21</sup> This chart shows the shares of non-performing loans in the loan portfolio by each group of loans. For example, the volume of non-performing loans for Group 1 as of December 31, 2022 amounted to KGS 9.5 billion or 33.8 percent of the total loan portfolio for Group 1 (KGS 28.2 billion).

### 2.2.5. Interest Rate Risk

At the end of the reporting period, there was a decrease in the *interest rate risk* due to the high growth rates of the net total capital compared to risk-weighted assets.

Average value of interest rate risk during the period of 2010-2022 was within accessible limits (2.4-4.0 percent of net total capital) (Chart 2.2.12).

**Chart 2.2.12. Dynamics of Interest Rate Risk (VaR)**  
in percent of NTC

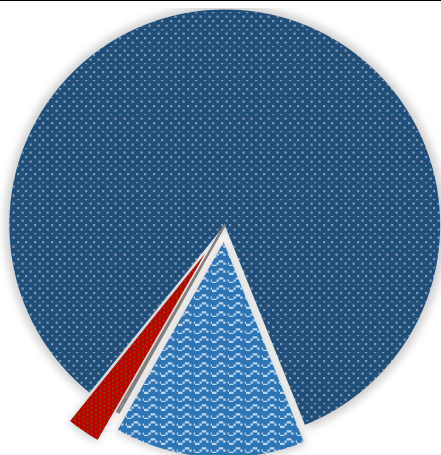


Source: NBKR

### 2.2.6. “Contagion” Risk

The purpose of this analysis is to assess the consequences of “contagion” effect in the interbank credit market of the Kyrgyz Republic, which can set off chain-reaction upon occurrence of problems with liquidity in one bank.

**Chart 2.2.13. Distribution of Interbank Loan Transactions Made during 2022 between Resident Banks, Depending on Collateral**



■ ST-Bills ■ ST-Bonds ■ Notes □ Without collateral

At the end of 2022, the volume of interbank loan transactions amounted to KGS 14.9 billion<sup>22</sup>.

The loans in the interbank market are generally covered by collateral in the form of highly liquid government securities (Chart 2.2.13) in the banking sector of the Kyrgyz Republic.

In general, the probability of the “contagion” risk materialization in the interbank credit market of the country is minimal, which is caused by highly liquid collateral.

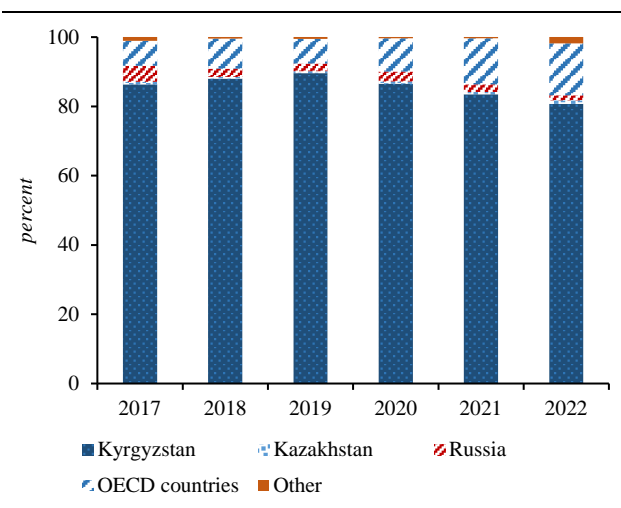
Source: NBKR

<sup>22</sup> The total volume of transactions made between the resident banks during 2022 is meant here.

### 2.2.7. Country Risk

As of December 31, 2022, according to the commercial banks, the aggregate volume of placed assets of non-residents constituted KGS 99.0 billion or 19.3 percent of the total banking sector assets. The highest concentration of placement was observed in the OECD countries – 15.0 percent (KGS 77.0 billion) of the total assets in the banking sector of the Kyrgyz Republic.

**Chart 2.2.14. Geographic Structure of Assets**

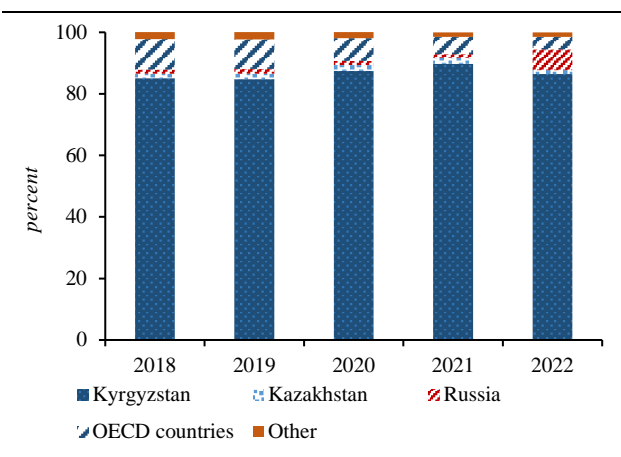


Source: NBKR

The main share of assets placed abroad was focused on correspondent and deposit accounts and constituted KGS 97.0 billion or 98.0 percent of the total placed assets of non-residents (Chart 2.2.14).

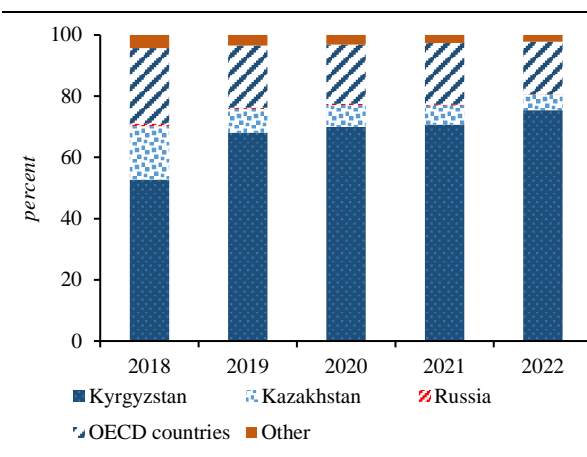
At the end of 2022, banks' liabilities to non-residents of the Kyrgyz Republic totaled KGS 54.1 billion or 13.6 percent of the total liabilities of the banking sector. Significant volume of these resources was drawn by the non-resident banks in the form of loans and deposits, which amounted to KGS 39.2 billion or 91.3 percent of the total liabilities to non-residents. 4.0 percent of the liabilities to the non-residents were accounted for the OECD countries, 1.3 and 6.8 percent – for Kazakhstan and Russia, accordingly (Chart 2.2.15).

**Chart 2.2.15. Geographic Structure of Liabilities**



Source: NBKR

**Chart 2.2.16. Authorized Capital by Countries**



Source: NBKR

At the end of 2022, foreign capital amounted to KGS 10.8 billion or 24.5 percent of the total authorized capital of the banking sector. The structure of foreign capital by countries is distributed among (Chart 2.2.16):

- residents of the OECD countries – 17.7 percent,
- residents of Kazakhstan – 2.5 percent,
- residents of other countries – 2.2 percent.

## 2.3. “Reverse” Stress Testing of the Banking Sector

### 2.3.1. “Reverse” Stress Testing of Credit Risk<sup>23</sup>

Maximum allowable share of “performing” loans<sup>24</sup> in the loan portfolio, which upon categorized as “non-performing” loans can reduce the CAR (capital adequacy ratio) down to the threshold level of 12 percent, is calculated by means of the “reverse” stress testing of the credit risk.

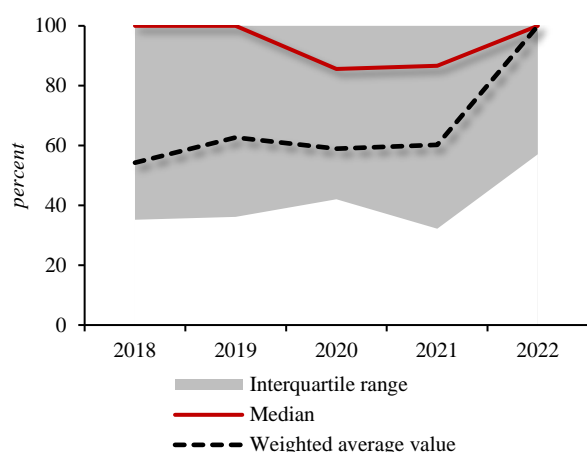
This method allows detecting a buffer stock of capital (net total capital) of banks, which can cover the additional allocations to LLP in connection with the transformation of “performing” loans into the category of “non-performing” loans<sup>25</sup>.

Moreover, the maximum growth rate of “non-performing” loans, where capital adequacy (K2.1) will be reduced to the threshold level of 12 percent, can be calculated by means of this method.

Based on the results of the “reverse” stress testing of the banking sector as of December 31, 2022, the maximum allowable share of “performing” loans, transferring to the category of “non-performing” in the banking sector, amounted to approximately 100.0 percent (Chart 2.3.1).

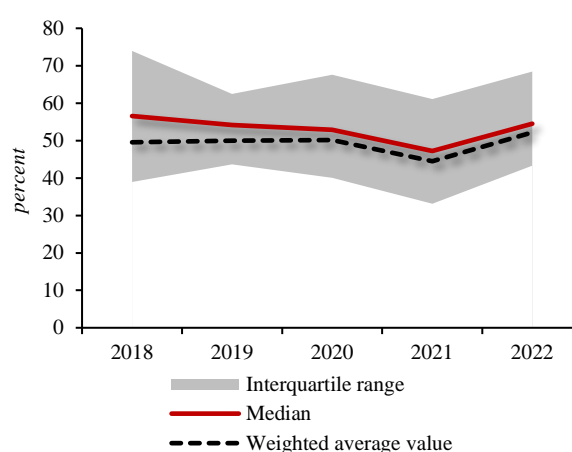
Thus, the banking sector can sustain a significant deterioration in the quality of the loan portfolio, which may require the creation of additional LLP. The volume of additional LLP can reach 52.2 percent of the net total capital (Chart 2.3.2).

**Chart 2.3.1. Maximum Possible Share of “Performing”<sup>26</sup> Loans that May Become “Non-performing” Loans<sup>27</sup>**  
percent of performing loans



Source: NBKR

**Chart 2.3.2. Additional LLP, in Creating thereof CAR Decreases to 12 Percent**  
percent of NTC



Source: NBKR

<sup>23</sup> Exclusive of troubled banks.

<sup>24</sup> Exclusive of “normal” loan category, which are risk free.

<sup>25</sup> Herewith, transition of “performing” loans to the category of “non-performing” loans is fulfilled smoothly by three categories (“substandard”, “doubtful” and “losses”).

<sup>26</sup> Exclusive of “normal” loan category, which are risk free.

<sup>27</sup> When CAR decreases to the threshold level of 12 percent.

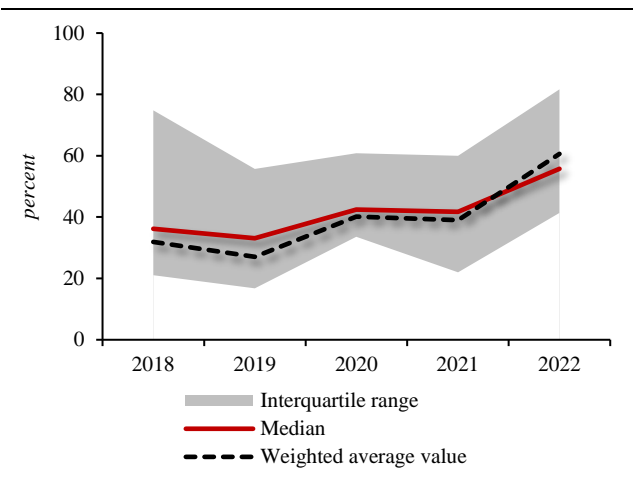
### 2.3.2. “Reverse” Stress Testing of Liquidity Risk

The reserve of liquid assets, which can cover a massive outflow of deposits of the clients’ total deposit base, without violating the NBKR prudential standard on the current liquidity, was calculated for the evaluation of the liquidity risk in the banking sector.

**Shock** is the maximum volume of the outflow of the individuals’ and non-financial enterprises’ deposits, which may reduce the liquidity ratio down to the threshold level of 45 percent.

The results of the “reverse” stress testing show (Chart 2.3.3), that as of the end of 2022 the actual amount of liquid assets of the banking sector was able to cover the deposits outflow of an average of 60.6 percent of the clients’ total deposit base (Table 2.3.1).

**Chart 2.3.3. Scope of Potential Outflow of Deposits when K3.1 May Drop to 45 Percent, percent of clients’ total deposits**



Source: NBKR

### 2.3.3. “Reverse” Stress Testing of Market Risk

The results of the “reverse” stress testing of the market risk indicate that the banking sector as of the end of 2022 has little sensitivity to the interest rate and currency risks.

#### Interest Rate Risk

**Scenario 1** – decrease of average weighted interest rate on loans, when the level of capital adequacy decreases to the threshold level (12 percent).

The results of the “reverse” stress testing indicate little sensitivity of the banking sector to the direct interest rate risk. Decrease of the average interest rates on loans by 23.1 p.p. can reduce the level of capital adequacy ratio to 12 percent (Table 2.3.1).

Generally, the results of the “reverse” stress testing show that the banking sector is characterized by low level of interest rate risk.

#### Currency Risk (Revaluation Risk)

Maximum increase level of the KGS/USD exchange rate, which will influence capital adequacy and net profit, is calculated for valuation of the currency risk in the banking sector.

**Scenario 1** – maximum increase level of the KGS/USD exchange rate, when the level of capital adequacy (K2.1) declines to the threshold level (12 percent).

Calculations of the “reverse” stress testing indicate that the banking sector is characterized by low risk of assets and liabilities revaluation and confirms availability of low sensitivity to currency risk (Table 2.3.1).

**Scenario 2** – maximum increase level of the KGS/USD exchange rate, when net profit of the commercial banks decreases to zero level.

The results of stress testing indicate that the commercial banks can stand the impact of currency risk (Table 2.3.1).

**Table 2.3.1. General Results of the “Reverse” Stress Tests as of December 31, 2022**

		Banking sector
<b>Credit risk</b>		
Scenario 1	Share of performing loans transferring to the category of "non-performing" loans, <i>in percent</i>	100.0
<b>Interest rate risk</b>		
Scenario 1	Decrease of weighted average interest rate on loans, when CAR declines to 12%, <i>in percentage points</i>	23.1
<b>Currency risk</b>		
Scenario 1	Growth rate of USD/KGS ( $\pm$ ) exchange rate, when CAR decreases to 12%, <i>in percent</i>	change of currency rate by 100 percent (KGS/USD)
Scenario 2	Growth rate of USD/ KGS ( $\pm$ ) exchange rate, when net profit decreases to zero level, <i>in percent</i>	
<b>Liquidity risk</b>		
Scenario 1	Outflow of clients' deposit and received loans of the total deposits and loans, when current liquidity ratio declines to 45%, <i>in percent</i>	60.6



### III. NON-BANKING FINANCIAL-CREDIT ORGANIZATIONS

*In general, the state of the system of non-banking financial-credit organizations (NBFCOs) is assessed as stable. Major indicators such as assets, loan portfolio, and resource base demonstrate growth. Stress test results indicate that the credit risk of the NBFCOs system is moderate.*

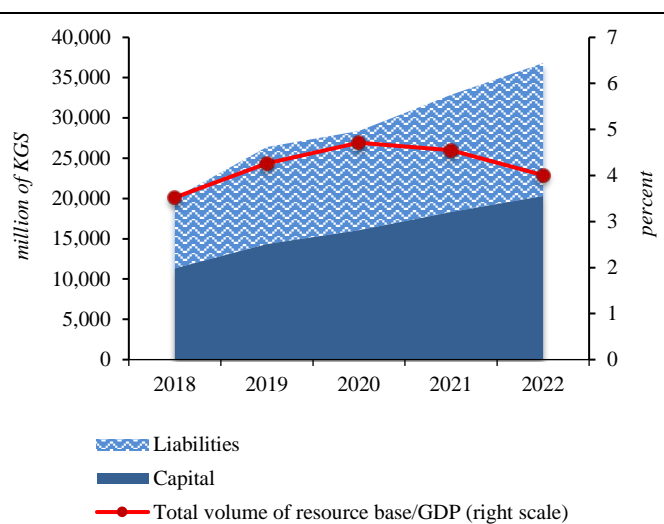
*The weighted average interest rates on loans of the microfinance organizations and credit unions increased compared to 2021.*

#### 3.1. Main Trends

The system of non-banking financial-credit organizations subject to licensing and regulation by the National Bank as of December 31, 2022 in the Kyrgyz Republic, included: the specialized financial and credit institution – “FCCU” OJSC, “Guarantee Fund” OJSC; 84 credit unions, 130 microfinance organizations (including 9 microfinance companies, 87 microcredit companies and 34 microcredit agencies), 467 exchange offices.

#### Resources

**Chart 3.1.1. Dynamics of NBFCOs Liabilities and Capital**



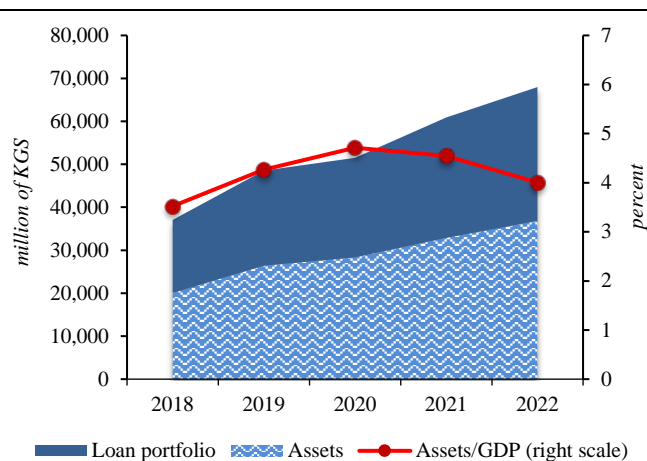
At the end of 2022, NBFCOs liabilities increased by 13.8 percent compared to 2021 and were formed in the amount of KGS 16.5 billion. NBFCOs capital demonstrated growth by 11.0 percent and totaled KGS 20.4 billion (Chart 3.1.1).

Source: NBKR

### Assets

According to the periodic regulatory reporting, the total assets of NBFCOs at the end of 2022 increased by 12.3 percent and amounted to KGS 36.9 billion<sup>28</sup>. This increase was due to growth in the loan portfolio of NBFCOs (Chart 3.1.2).

**Chart 3.1.2. Dynamics of NBFCOs Assets and Loans**



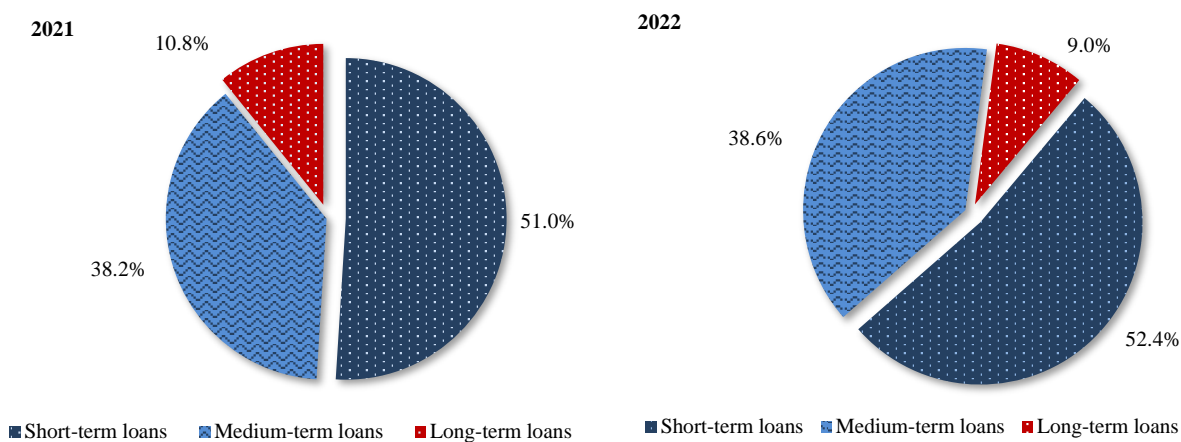
Source: NBKR, NBFCOs

Lending remains the main activity of NBFCOs. As of December 31, 2022, the loan portfolio of NBFCOs increased by 8.1 percent and was formed in the amount of KGS 30.3 billion.

At the end of the reporting period, the number of borrowers increased by 6.5 percent compared to 2021 and amounted to 455,143 borrowers.

There was a decrease in the share of long-term loans and an increase in the share of short-term and medium-term credit resources within the maturity structure of loans provided by the NBFCOs during the reporting period (Chart 3.1.3).

**Chart 3.1.3. Structure of the NBFCOs Loan Portfolio by Maturity<sup>29</sup>**



Source: NBKR, NBFCOs

The main regions where the major share of NBFCOs loan portfolio is concentrated (76.1 percent of the total loan portfolio) are Bishkek city, Chui, Osh and Jalal-Abad regions, which is due to the highest level of business activity in these regions of the republic.

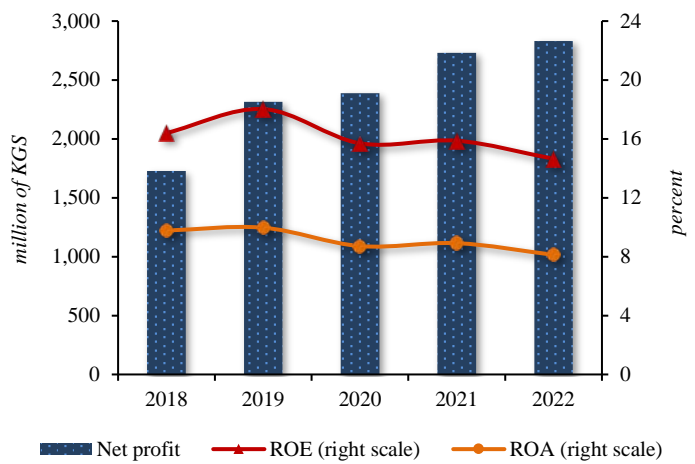
<sup>28</sup> Exclusive of SFCOs.

<sup>29</sup> Data for the period.

**Revenue Position<sup>30</sup>**

At the end of 2022, net profit of NBFCOs increased by 4.3 percent compared to 2021 and amounted to KGS 2.9 billion. In 2022, ROA decreased by 0.8 p.p. and amounted to 8.2 percent. ROE decreased by 1.2 p.p. and constituted 14.7 percent (Chart 3.1.4).

**Chart 3.1.4. Dynamics of NBFCOs Revenue Position<sup>31</sup>**



Source: NBKR, NBFCOs

<sup>30</sup> ROA and ROE indices are provided in annual term.

<sup>31</sup> Exclusive of SFCOs.

### 3.2. Risks of Non-banking Financial-Credit Organizations

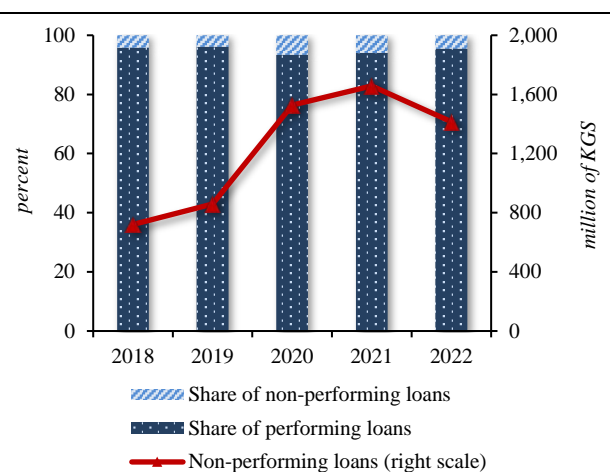
Major risk factors of the activities of NBFCOs are the quality of the loan portfolio, sectoral and institutional concentration, as well as status of the NBFCOs external debt.

#### Quality of the NBFCOs Loan Portfolio

At the end of the reporting period, the share of non-performing loans in the loan portfolio of NBFCOs decreased by 1.5 p.p. and constituted 4.4 percent, their nominal volume increased by KGS 317.6 million or 19.2 percent compared to 2021 (Chart 3.2.1).

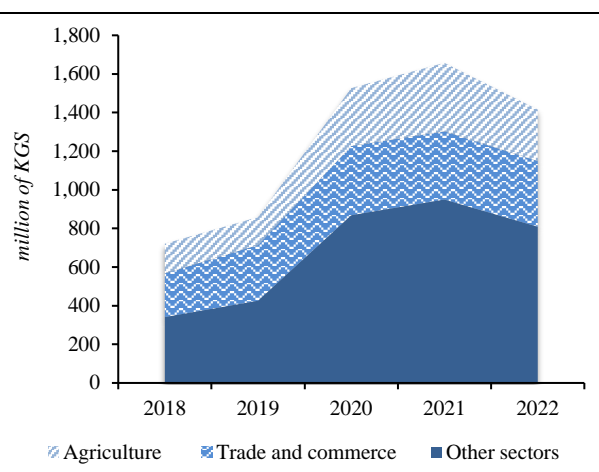
At the end of 2022, NBFCOs non-performing loans demonstrated increase in the share of defaulting consumer (by 6.1 p.p.) and trade loans (by 1.5 p.p.), however, there was a decrease in the share of loans issued for agriculture (by 2.9 p.p.) compared to 2021. The share of defaulting consumer loans, loans issued for agriculture and trade in the total non-performing loans of NBFCOs constituted 39.1, 18.5 percent, and 22.8 percent, accordingly (Chart 3.2.2).

**Chart 3.2.1. Quality of NBFCOs Loan Portfolio**



Source: NBKR

**Chart 3.2.2. Structure of NBFCOs Non-performing Loans by Sectors of Economy**



Source: NBKR

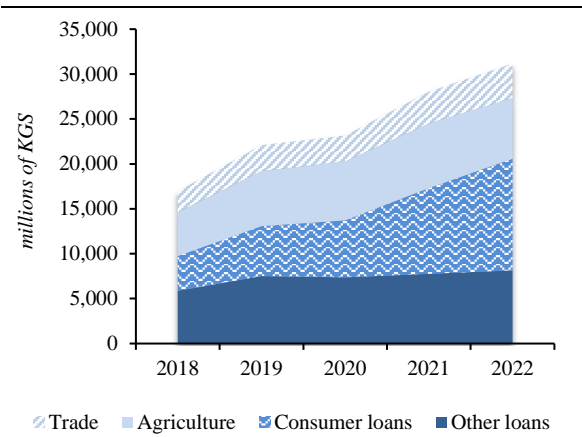
#### Sectoral Concentration

NBFCOs loan portfolio is concentrated in consumer loans (41.1 percent of NBFCOs total loans), as well as in the loans issued to agriculture and trade (21.7 and 12.0 percent of NBFCOs total loans, accordingly, Chart 3.2.3). Lending of agriculture is associated with significant dependence on climate conditions.

#### Institutional Concentration

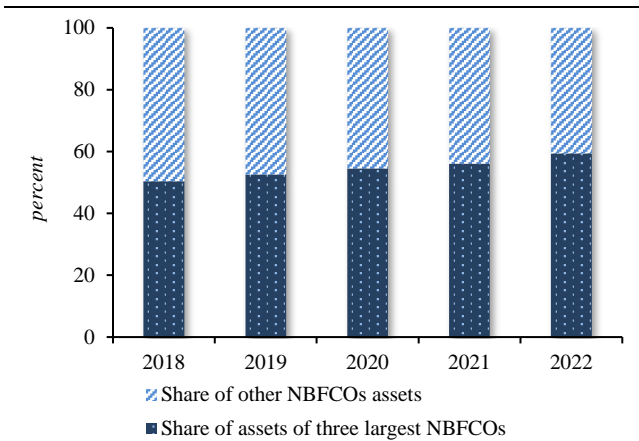
According to the results of the reporting period, the share of assets of three largest NBFCOs increased by 3.1 p.p. compared to 2021 and amounted to 59.2 percent of the total assets of the NBFCOs sector (Chart 3.2.4).

**Chart 3.2.3. Sectoral Structure of NBFCOs Loan Portfolio**



Source: NBKR, NBFCOs

**Chart 3.2.4. Institutional Structure of NBFCOs Assets**



Source: NBKR, NBFCOs

**Box 6. Concentration Indices based Assessment of NBFCOs Sector Activity<sup>32</sup>**

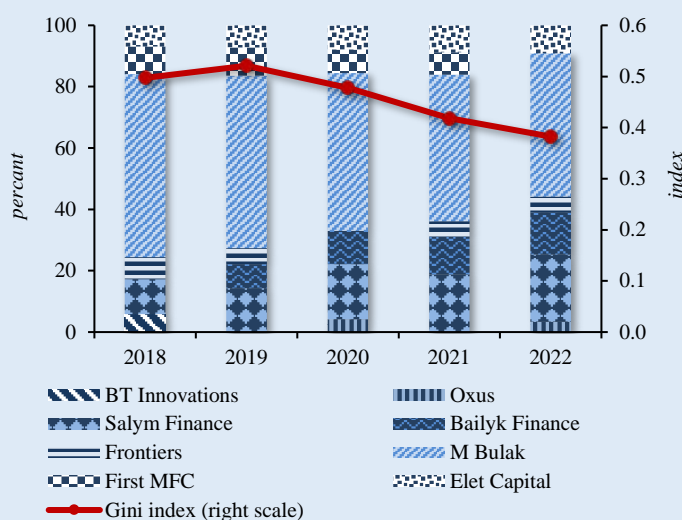
**The Herfindahl-Hirschman Index**

Herfindahl-Hirschman<sup>33</sup> index was calculated for the purposes of concentration risk analysis in the NBFCOs sector. As of the end of 2022, Herfindahl-Hirschman index for the NBFCOs sector constituted 1,535.9 points. According to the rule of thumb<sup>34</sup>, resulting value indicates availability of moderate concentration of NBFCOs assets or moderate concentration of microfinance market.

**The Gini Index**

**Chart 1. Dynamics of the Gini Index and Assets of 6 Largest NBFCOs**

The Gini index was calculated for estimating the uniformity of the NBFCOs assets distribution. As of the end of 2022, the index value constituted 0.38 with a simultaneous decrease of concentration level (Chart 1).



Source: NBKR, NBFCOs

<sup>32</sup> Concentration indices are calculated on the basis of data submitted by 6 largest NBFCOs.

<sup>33</sup>  $H = \sum_{i=1}^n (share_i)^2$ .

<sup>34</sup> The following rule of thumb was used for determining the level of market concentration:

- index value is below 0.1 (or 1,000) – insignificant market concentration;
- index value is from 0.1 to 0.18 (or from 1,000 to 1,800) – average market concentration;
- index value is above 0.18 (or 1,800) – high market concentration

### ***External Debt Status of NBFCOs***

As of the end of the reporting period, the external debt of NBFCOs amounted to USD 79.9 million. Major part of the external debt of NBFCOs are loans provided by the foreign financial-credit organizations (90.8 percent of total external debt of NBFCOs), and the rest (9.2 percent) are loans of the international financial institutions.

At the end of 2022, external debt of the largest NBFCOs decreased by 4.9 percent compared to 2021 and amounted to USD 78.2 million.

### 3.3. Stress Testing of NBFCOs Sector

#### Stress Testing of the NBFCOs Credit Risk

Stress testing was conducted to assess the effect of deterioration of the loan portfolio quality on the NBFCOs sector.

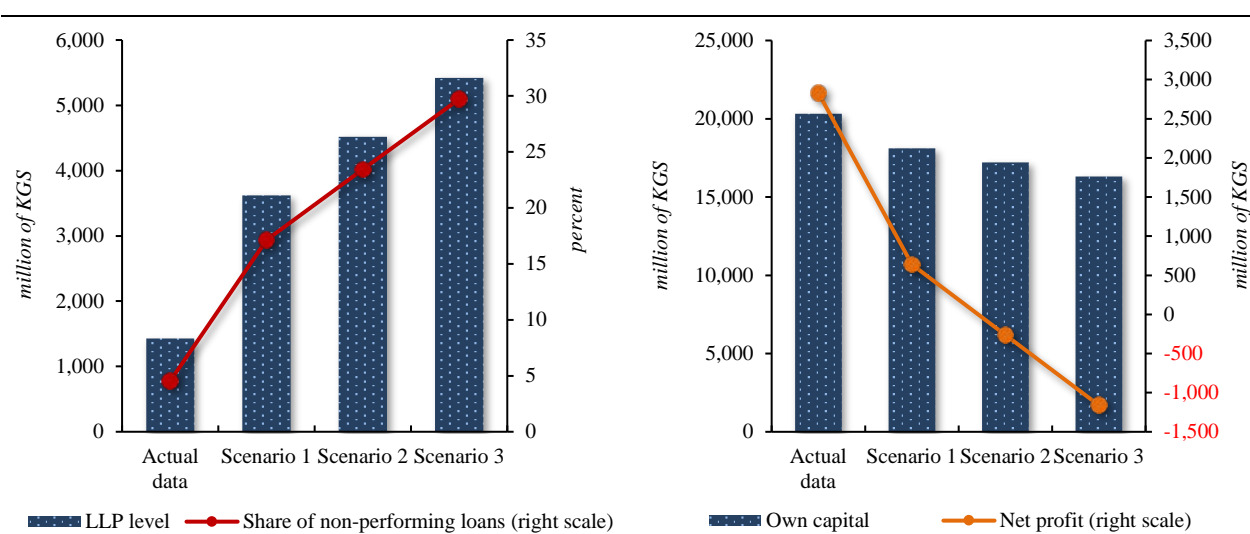
Three scenarios were considered when conducting stress testing:

- scenario 1: 50% of loans transition from one category to another;
- scenario 2: 75% of loans transition from one category to another;
- scenario 3: 100% of loans transition from one category to another.

The transition of loans from one category to another occurs uniformly by such categories as: “standard”, “under supervision”, “substandard”, “doubtful” and “losses”.

The level of loan loss provisions<sup>35</sup> in the loan portfolio of NBFCOs increased from 153.6 to 279.7 percent, depending on the scenario in conducting this stress testing (Chart 3.3.1).

**Chart 3.3.1. Results of Stress Testing of the Credit Risk as of December 31, 2022**



Source: NBKR

It should be noted that the deterioration of the loan portfolio quality entails a gradual decline in equity and net profit of NBFCOs. In case of two scenarios implementation, the NBFCOs sector will experience losses in the amount of KGS 243.7 and 1,143.3 million, accordingly (Chart 3.3.1).

<sup>35</sup> MFOs create general and special loan loss provisions for relevant categories of classifications implementing the following allocations indicated in percentage from the amount of assets:

- Standard, in %	-	from 0 to 5
- Assets under supervision, in %	-	10
- Substandard, in %	-	25
- Doubtful, in %	-	50
- Losses, in %	-	100



**Table 3.3.1. Results of Stress Testing of the Credit Risk, percent**

	<b>Share of non-performing loans in the loan portfolio of NBFCOs</b>
Scenario 1: transition of 50% of loans from one category to another	17.1
Scenario 2: transition of 75% of loans from one category to another	23.4
Scenario 3: transition of 100% of loans from one category to another	29.7

Source: NBKR

Implementation of the first scenario may result in an increase in the share of non-performing loans in the loan portfolio of NBFCOs by 12.7 p.p., to the level of 17.1 percent. In the case of the second scenario, non-performing loans may increase by 19.0 p.p., to the level of 23.4 percent, and in the implementation of the third scenario – by 25.3 p.p. and may reach the level of 29.7 percent.

## IV. PAYMENT SYSTEMS

During the reporting period, the level of risks was within acceptable limits and was determined by the risk management mechanisms provided for by the legislation of the Kyrgyz Republic and the rules of payment systems, the current high level of liquidity, the system of insurance deposits and prepayment in the systemically important and significant payment systems. The degree of influence of the country risks in the trading partner countries on the payment system of the Kyrgyz Republic was assessed in 2022. As a result, the National Bank developed appropriate measures to minimize the financial and operational risks.

Effective and uninterrupted payment system is one of the main factors, which determine stability of the financial sector in the country.

As of January 1 2023, the payment system of the Kyrgyz Republic included the following components:

Large Value Payment System of the National Bank – Real Time Gross Settlement (RTGS).

Systems of Retail Payments: the System of Batch Clearing of Small Retail and Regular Payments (SBC), Systems of Payment Cards Settlement, Money Transfer Systems, E-money Payment Systems, systems to accept payments in favor of third parties.

Payment Messages Receiving and Processing Infrastructure (SWIFT Service Bureau, Interbank Communication Network).

At the end of 2022, the following systems were recognized according to the criteria for the payment systems significance:

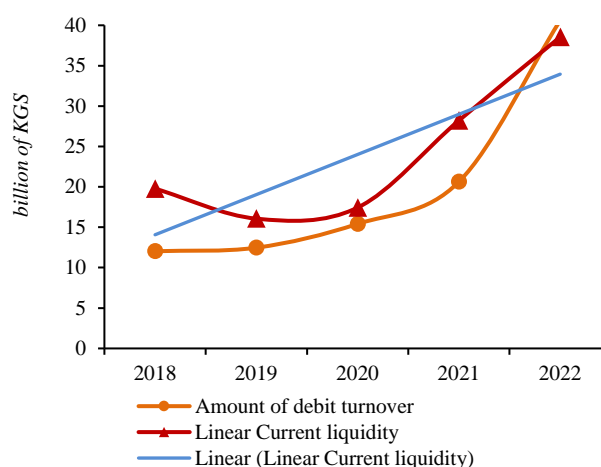
1. systemically important payment systems – the RTGS and SBC systems;
2. national payment systems – RTGS, SBC and Elcart systems.

These systems are the key participants of the payment system of the Kyrgyz Republic. Failures in operation of the systemically important payment systems may result in systemic risks for the payment system of the country, and therefore are subject to increased requirements.

The **RTGS** functioned normally during 2022.

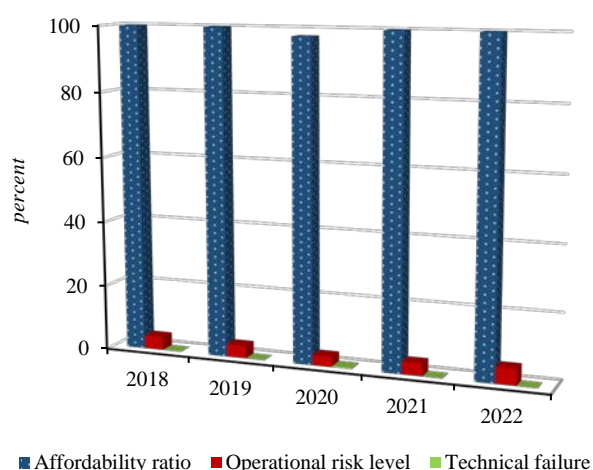
The level of financial risks in the RTGS remained low due to high level of liquid funds on the participants' accounts: average daily volume of liquid assets of participants showed an increase

**Chart 4.1. Dynamics of Changes of Daily Average Indicator of Payment Volumes and Liquidity in the RTGS**



Source: NBKR

**Chart 4.2. Ratio of Affordability and Operational Risk in the RTGS**



Source: NBKR

	2018	2019	2020	2021	2022
Technical failure, %	0.0	0.0	0.3	0.0	0.0
Affordability ratio, %	100.0	100.0	97.7	100.0	100.0
Operational risk level, %	4.1	3.9	3.2	3.9	5.1

by 36.7 percent (compared to 2021) and amounted to KGS 38.6 billion.

During 2022, the RTGS affordability ratio remained high and constituted 100.0 percent; meanwhile, the level of operational risk, taking into account prolongation of the transaction day, was 5.1 percent.

In functioning of the **SBC** the level of financial risks in the reporting period was also low. Reserves exhibited by the participants to cover a debit net position were 3 times higher than the required level. According to the results of the SBC operation monitoring, the system affordability ratio remained rather high and amounted to 99.9 percent during the reporting period. Meanwhile, the level of operational risk in the system was 5.1 percent taking into account incidents and extending upon request of separate participants.

**Systems of Bank Payment Cards Settlements.** As of January 1, 2023, six international payment card systems, the national payment card settlement system “Elcart” (hereinafter – the system “Elcart”) and co-badging cards “Elcart-UPI<sup>36</sup>” operated in the Kyrgyz Republic.

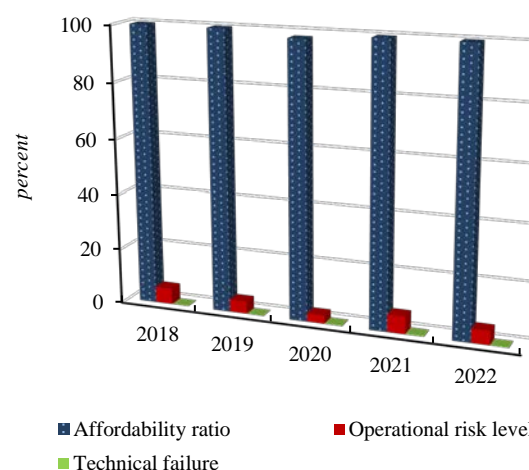
In the reporting period, 21 commercial banks worked with **the system “Elcart”**.

In 2022, the results of operation monitoring and analysis indicated that the system affordability ratio was 99.8 percent, and the level of operational risks in the system, taking into account technical failures was 0.2 percent.

**Money transfer systems. Money transfer systems.** During 2022, receipt and transfer of international remittances without opening an account in the commercial banks was carried out by means of nine **international money transfer** systems.

In respect of local money transfer systems, 14 local money transfer systems operated as of January 1, 2022, the banks of the Kyrgyz Republic are the operators thereof. In respect of **local money transfer systems**, 14 local money transfer systems operated as of January 1, 2023, the banks of the Kyrgyz Republic are the operators thereof.

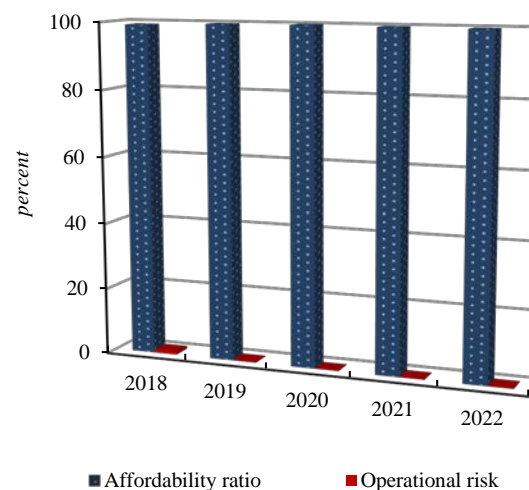
**Chart 4.3. Ratio of Affordability Index and Operational Risk in the SBC**



	2018	2019	2020	2021	2022
Technical failure, %	0.0	0.0	0.1	0.3	0.1
Affordability ratio, %	100.0	100.0	98.0	99.7	99.9
Operational risk level, %	5.8	4.5	3.1	6.4	5.1

Source: NBKR

**Chart 4.4. Ratio of Affordability Index and Operational Risk in the SIPC**



	2018	2019	2020	2021	2022
Affordability ratio, %	99.2	99.8	99.9	99.8	99.8
Operational risk, %	0.8	0.2	0.1	0.2	0.2

Source: NBKR

<sup>36</sup> According to the Regulation “On bank payment cards in the Kyrgyz Republic”, a co-badging card is a card issued within the framework of two payment systems. Thus, “Elcart”-UPI is serviced according to the rules of the “Elcart” system in the territory of the Kyrgyz Republic, and outside the country - by Union Pay.

**E-money payment systems.** At the end of 2022, six commercial banks were e-money issuers, ten commercial banks were licensed to issue e-money, and eight local e-money settlement systems were in operation.

As of January 1, 2023, the number of e-wallets increased by 14.6 percent compared to the same period of 2022 and amounted to more than 5.4 million wallets.

Among them, the number of identified e-wallets is about 2,016 thousand, i.e. 37.2 percent of the total number of e-wallets.

**Financial messaging channels.** The banking and payment systems use the following channels to exchange financial messages in the financial system of the Kyrgyz Republic:

- interbank communication network;
- financial message transmission channels (SWIFT, etc.);
- Bank-Bank / Bank-Client systems.

SWIFT is the main channel for the banking system to exchange cross-border financial messages with its correspondent banks.

As of the end of 2022, the payment infrastructure of the Kyrgyz Republic included 23 non-banking systems to **accept payments in favor of third parties.**

Competition in this segment is developed due to availability of a large number of systems in the market for accepting payments in favor of third parties.

*Note: These data are subject to change due to possible adjustments by the commercial banks and payment system operators.*

## V. IMPROVEMENT OF THE FINANCIAL SECTOR REGULATION

*In the reporting period, development of the regulatory legal framework governing the activities of the financial-credit organizations was mainly aimed at maintaining stability in the banking system due to the current geopolitical situation, protection of the consumers' rights affected by the armed conflict that occurred in Batken and Osh regions in September 2022, development of the principles of Islamic finance and bringing the regulatory legal acts in line with the laws of the Kyrgyz Republic.*

1. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic” No. 2022-P-12/9-4-(NPA) on February 24, 2022 in order to standardize the model contracts Ijarah Muntahia Bittamlik and Ijarah Service. The amendments were made to expand the list of Islamic banking transactions available to the banks' clients.

2. On March 9, 2022, the Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into the Resolution “On approval of the Regulation “On licensing of banks' activities” No. 2017-P-12/23-1-(NPA) dated June 8, 2017”.

The Resolution was adopted to bring the Regulation “On licensing of banks' activities” in compliance with the newly adopted Code of the Kyrgyz Republic on Offences, as well as to improve the regulatory legal acts of the National Bank on the issue of excluding the requirements of paper delivery of the commercial banks' certain letters, which will be provided in electronic format, revising the established requirements for length of employment (experience) of the Shariah Board members of banks and the members of the Boards of subsidiary banks of the National Bank who are invited to perform special tasks.

3. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On temporary decisions of the National Bank of the Kyrgyz Republic to regulate the activity of the commercial banks of the Kyrgyz Republic” No. 2022-P-12/13-2-(NPA) on March 10, 2022 to maintain the financial stability of the banking system, stabilize the situation in the financial market and ensure continuity of the banks' operational activity.

Certain requirements of the regulatory legal acts, regulating the commercial banks' activity were revised by the aforementioned Resolution.

Thus, the banks should weigh the newly issued loans in foreign currency by the degree of credit risk at the rate of 300 percent instead of the existing 150 percent prior to adoption of the relevant decision by the Board of the National Bank of the Kyrgyz Republic.

In addition, correspondent relations on foreign exchange accounts may be established between resident banks to preserve liquidity in the banking system and to provide commercial banks with an opportunity to hold funds.

4. The following documents were excluded from the list of documents required for opening bank accounts (deposits) by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2022-P-12/17-5-(NPA) dated March 23, 2022 to simplify the procedure for opening bank accounts (deposits) by the individuals, including those registered as individual entrepreneurs, as well as to bring the regulatory legal acts of the National Bank in compliance with the Tax Code of the Kyrgyz Republic, which entered into force in 2022:

- certificate of the relevant state authorities on the fact of tax registration of the taxpayer (in hard copy or in the form of an e-document);
- a signature specimen card, including a seal impression – for an individual entrepreneur.

Through adoption of this Resolution the banks' clients may actively use transfers with account opening, especially in a situation when due to worsening geopolitical situation cross-border transfers through quick money transfer systems have become less accessible.

5. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic in the field of accounting” No. 2022-P-12/17-4-(NPA) on March 23, 2022 in order to bring the regulatory legal acts of the National Bank of the Kyrgyz Republic in compliance with the International Financial Reporting Standards (hereinafter – IFRS), in particular IFRS 9 “Financial Instruments”, as well as with the legislation in the sphere of accounting.

6. The Resolution No. 2022-P-12/17-6-(NPA), under which the commercial banks were allowed, when calculating the liquidity ratios, to preserve the sovereign rating of the Russian Federation, as well as the rating for the Russian counterparty banks at the level established as of February 1, 2022, was adopted by the Board of the National Bank of the Kyrgyz Republic on March 23, 2022 in order to ensure stability in the banking system amid decrease of the international ratings of the Russian Federation and the Russian banks and to prevent the risks of the banks’ liquidity ratios violations.

This measure was in effect until July 1, 2022.

7. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On additional temporary decisions of the National Bank of the Kyrgyz Republic on classification of the financial-credit organizations’ assets” No. 2022-P-12/19-4-(NPA) on March 31, 2022 in order to smooth the effects of the external economic shock on the banking system and to establish separate requirements for assets classification, including restructured loans.

8. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic” No. 2022-P-12/20-1-(NPA) on April 6, 2022 in order to bring the forms of the periodic regulatory bank report in compliance with the Regulation “On calculation of liquidity coverage ratio of the commercial banks”, and to obtain information on the restructured loans.

The Resolution also provides for clarification on disclosure of the volume of loan loss provision in the banks’ financial statements in accordance with the requirements of the National Bank.

9. The Board of the National Bank of the Kyrgyz Republic approved the Resolution “On additional temporary decisions of the National Bank of the Kyrgyz Republic on asset classification” No. 2022-P-12/25-2-(NPA) on April 20, 2022.

The Resolution was adopted to establish specific requirements for classification of the loans secured by guarantees of the Fund established under the interstate (intergovernmental) agreement and to be issued within the framework of the project of the Cabinet of Ministers of the Kyrgyz Republic “Crediting agribusiness”, approved by the order of the Cabinet of Ministers of the Kyrgyz Republic No. 120-r on March 16, 2022.

10. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On additional temporary decisions of the National Bank of the Kyrgyz Republic on penalty sanctions” No. 2022-P-12/27-4-(BS) on April 27, 2022 in order to smooth the effects of the external economic shock for the consumers of banking services and to set separate requirements for the commercial banks and non-banking financial-credit organizations.

The Resolution introduces temporary restriction for the commercial banks and non-banking financial-credit organizations on imposing and collection of penalties, including forfeit (fine/penalty fee) from the borrowers for non-performance/improper performance of obligations under the credit agreements.

11. The Regulation “On the procedure of syndicated lending in the Kyrgyz Republic” was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2022-P-12/31-1-(BS) on May 18, 2022 in order to increase the availability of financial services, to contribute to further sustainable economic growth, as well as to develop the banking sector in the Kyrgyz Republic, to improve and optimize the lending system.

12. The Board of the National Bank of the Kyrgyz Republic approved the Resolution of the Board of the National Bank “On approval of the instruction on maintaining the database on obligations of



the bank, housing and savings credit company, microfinance company, attracting deposits to the depositors” No. 2022-P-12/35-1-(NPA) on June 2, 2022.

The Resolution was developed in order to strengthen the requirements for correct maintenance and completion of the database on liabilities of a bank, housing and savings credit company, microfinance company attracting deposits to the depositors and implementation of internal control over database maintenance.

13. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic regulating credit unions” No. 2022-P-33/37-2-(NFKU) on June 15, 2022 in order to set a unified approach to calculation of prudential standards for newly established and existing credit unions, to relax the requirements for liquidity and capital adequacy ratios of the credit unions, to provide an opportunity to conduct transactions on acceptance of savings equity stakes and issuance of loans without cash office if all credit union transactions are conducted in non-cash form.

14. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On temporary decisions for exchange transactions with foreign currency in order to ensure economic security of the Kyrgyz Republic and due to the current geopolitical situation worldwide to minimize adverse effects, risks and their impact on the domestic financial market” No. 2022-P-33/45-2-(NPA) on July 22, 2022. This Resolution establishes the restriction for the commercial banks to conduct one-time exchange transactions with the exchange bureaus during the calendar day within the amount of exchange bureaus’ current assets.

15. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into the Resolution of the Board of the National Bank of the Kyrgyz Republic “On approval of the Regulation “On special regulatory regime” No. 2020-P-12/45-3 (NPA) dated August 12, 2020” No. 2022-P-12/47-4-(NPA) on July 27, 2022 in order to specify the conditions and criteria for participation in the special regulatory regime and reduce the barriers to introduction of the innovative services/technologies in the market of banking and payment systems by the existing and new players for the purpose of increasing the availability of services, as well as in the regions of the Kyrgyz Republic, developing competition and reducing the cost of financial services, harmonizing and controlling innovative activities.

16. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On approval of the Instruction “On conducting inspections in the non-banking financial-credit organizations and other legal entities supervised by the National Bank of the Kyrgyz Republic” No. 2022-P-33/52-2-(NFKU) on August 17, 2022 in order to optimize the regulatory legal acts establishing the requirements for conducting inspections in the non-banking organizations and other legal entities supervised by the National Bank of the Kyrgyz Republic.

17. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic regarding guarantee funds” No. 2022-P-33/59-4-(NFKU) on September 26, 2022 due to introduction of amendments into the Law of the Kyrgyz Republic “On Guarantee Funds in the Kyrgyz Republic”, which stipulate that the guarantee funds may issue portfolio guarantees under the agreements with the financial-credit organizations and guarantees to the participants of state housing programs, and set the requirements to the policy of granting guarantees, as well as the requirements for obtaining authorization to purchase shares of the guarantee fund.

18. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On invalidation of some temporary decisions of the National Bank of the Kyrgyz Republic” No. 2022-P-12/60-2-(NPA) on September 28, 2022.

Some temporary resolutions of the Board of the National Bank of the Kyrgyz Republic, which were adopted to mitigate the impact of restrictive measures taken to combat the spread of COVID-19 pandemic, as well as due to the negative consequences of external economic shocks, became invalid according to the aforementioned resolution.

19. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On minimum authorized capital of the non-banking financial-credit organizations” No. 2022-P-33/61-2-(NFKU) and “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic on establishment of requirements for the authorized capital of non-banking financial-credit organizations” No. 2022-P-33/61-3-(NFKU) on October 5, 2022 in order to strengthen the sustainability, safety and reliability of the system, as well as to increase public confidence in the non-banking financial-credit organizations.

20. The Resolution of the Board of the National Bank of the Kyrgyz Republic “On some decisions of the National Bank of the Kyrgyz Republic on the issues of providing support to the clients of commercial banks, non-banking and specialized financial-credit organizations, who suffered from the armed conflict in Batken and Osh regions” No. 2022-P-12/62-2 (NPA) was adopted on October 6, 2022 in order to provide support to the clients of commercial banks, non-banking and specialized financial-credit organizations (hereinafter - FCOs), who suffered from the armed conflict that occurred in Batken and Osh regions in September 2022.

21. A new version of the Instruction on determination of capital sufficiency (adequacy) standards for the commercial banks of the Kyrgyz Republic was adopted by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2022-P-12/63-1-(NPA) on October 12, 2022 within the framework of bringing the regulatory legal acts of the National Bank of the Kyrgyz Republic in compliance with the laws on standard-setting technique.

22. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic” No. 2022-P-12/70-1-(NPA) dated November 16, 2022 in order to bring the regulatory legal acts of the National Bank of the Kyrgyz Republic in compliance with the Civil Code of the Kyrgyz Republic.

23. The Resolution of the Board of the National Bank of the Kyrgyz Republic “On some temporary decisions of the National Bank of the Kyrgyz Republic” No. 2022-P-12/71-1 (NPA) was adopted on November 18, 2022 in order to provide support to citizens, business entities residing and conducting economic activities in Batken region of the Kyrgyz Republic, to expand access to financing, to create necessary conditions for restoration and development of administrative territories, including those damaged due to the armed conflict that occurred in Batken region in September 2022.

24. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into the Resolution of the Board of the National Bank of the Kyrgyz Republic “On suspension of the Resolution of the Board of the National Bank of the Kyrgyz Republic “On temporary decisions for exchange transactions with foreign currency” No. 2022- P-33/45-2-(NPA) dated July 22, 2022” No. 2022-P-33/55-1-(NPA) dated September 5, 2022” No. 2022-P-12/74-4-(NPA) on November 30, 2022 in order to lift restrictions temporarily in respect of the transactions conducted by the commercial banks with the exchange bureaus for purchase/sale of foreign currency.

This Resolution suspends the effect of the Resolution of the Board of the National Bank of the Kyrgyz Republic “On temporary decisions for exchange transactions with foreign currency” No. 2022-P-33/45-2-(NPA) dated July 22, 2022 for the period until March 1, 2023.

25. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic on the issues of capital adequacy, bank accounts and safe deposit boxes” No. 2022-P-12/78-8-(NPA) on December 14, 2022 in order to bring the regulatory legal acts of the National Bank of the Kyrgyz Republic in compliance with the Law of the Kyrgyz Republic “On Banks and Banking Activity”.

The Resolution contains amendments concerning the following issues:

- formation of authorized capital, acquisition of the bank’s shares and threshold participation in the bank’s capital;
- blocking of accounts and items kept in a safe deposit box;
- expansion of grounds to ban or impose restrictions by the National Bank of the Kyrgyz Republic on dividend payment.



26. The Resolution of the Board of the National Bank of the Kyrgyz Republic “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic” No. 2022-P-12/78-10-(NPA) dated December 14, 2022 was adopted in order to bring the regulatory legal acts of the National Bank of the Kyrgyz Republic in compliance with the adopted Constitutional Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” and the Law of the Kyrgyz Republic “On Banks and Banking Activity”. The Resolution contains technical amendments.

27. On December 21, 2022, the Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic” No. 2022-P-12/81-7-(NFKU) on the issues of regulating the activities of non-banking financial-credit organizations in order to bring the requirements of the regulatory legal acts of the National Bank of the Kyrgyz Republic in compliance with the Constitutional Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” and the Law of the Kyrgyz Republic “On Banks and Banking Activity”.

The Resolution provides for amendments of content-related and technical nature concerning the clients’ rights for early repayment of the loan (lease) in full or in parts at any time without charging commissions, penalties and other fees.

28. The Resolution “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic on enforcement actions” No. 2022-P-12/83-6-(NPA) was adopted on December 28, 2022 in order to bring the regulatory legal acts of the National Bank of the Kyrgyz Republic in compliance with the adopted Constitutional Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” and the Law of the Kyrgyz Republic “On Banks and Banking Activity”.

The Resolution provides for amendments of content-related and technical nature concerning:

- possibility of combining various enforcement measures applied to the banks;
- addenda on justifications for the National Bank’s requirement related to sale of shares by the bank’s shareholder;
- regulation of changing the bank’s activity and re-registration into a microfinance company upon the decision of the general meeting of the bank’s shareholders within the framework of considering the issue of the bank’s restructuring;
- voluntary and forced liquidation of the banks.

29. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic on antimonopoly regulation, price formation, subsidiaries and affiliates” No. 2022-P-12/83-8-(NPA) on December 28, 2022 in order to bring the regulatory legal acts of the National Bank of the Kyrgyz Republic in compliance with the Constitutional Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” and the Law of the Kyrgyz Republic “On Banks and Banking Activity”.

The Resolution provides for amendments of technical and content-related nature concerning the establishment of the Shariah Council in the subsidiaries and affiliates, application of enforcement measures for violation of antimonopoly regulation requirements.

30. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic” No. 2022-P-12/83-7-(NPA) dated December 28, 2022 developed for the purpose of bringing the regulatory legal acts of the National Bank in compliance with the laws of the Kyrgyz Republic, updating the current requirements for account opening, the procedure for conducting the banks’ exchange transactions and corporate governance.

The Resolution provides for the following amendments:

- 1) requirements for the banks to have reference-certificates were excluded;
- 2) requirements for corporate governance in the banks were updated, including requirements for holding meetings of the committees and the board of directors, establishment of the Committee for new products when transferring banking transactions to digital platforms, as well as for exchange transactions;

3) certain norms of the regulatory legal acts of the National Bank were brought in compliance with the Civil Code of the Kyrgyz Republic, the Law of the Kyrgyz Republic “On Banks and Banking Activity”, the Law of the Kyrgyz Republic “On Countering Financing of Terrorism and Anti-Money Laundering”, the Law of the Kyrgyz Republic “On Appraisal Activity”, the Law of the Kyrgyz Republic “On Auditing Activity”, the Regulation “On the procedure for conducting customer due diligence” approved by the decree of the Government of the Kyrgyz Republic No. 606 dated December 25, 2018;

4) clarifications were made to some regulatory legal acts of the National Bank of the Kyrgyz Republic.

## GLOSSARY AND ABBREVIATIONS

*A bank deposit* is the amount of money, accepted by a financial-credit organization under contract from another person on the terms of repayment, payment and maturity. Deposits can be time and demand. Demand deposits are made without specifying the shelf life, and time deposits are made for a certain period.

*A bank loan* is money provided by a bank for a fixed period under the terms of re-payment and payment of loan interest.

*A foreign exchange market* is a market in which the purchase/sale of foreign currencies is made. By the economic content, it is a sector of the money market, where supply and demand for a specific product such as currency are balanced. According to its purpose and form of organization, it is a set of specific institutions and mechanisms that in concert provide an opportunity to freely sell and/or buy domestic and foreign currency on the basis of supply and demand.

*A money market* is a market in which there is the giving and receiving of funds in the form of loans and securities for a short term within the range of participants.

*Return on securities* is the ratio of the annual return on the security to its market price; the rate of return received by the owner of the security.

*The housing affordability index* is an indicator of the state of the housing market in terms of the possibility of acquiring apartments by the people. Calculated as the ratio of the average market value of a standard apartment (total area of 54 sq. m.) to the average annual income of a family of three (two adults and a child).

*The payment system affordability index* is a measure of the availability of the system as access to services and information for users of the system on their demand. Downtime of the system due to technical failures, power outages, late opening or early closing of the trading day of the system reduce the time to access the system.

*The liquidity ratio of payment systems* characterizes sufficiency of liquid funds in the accounts of the participants of the system for the payments and settlements.

*Macroprudential analysis* is an assessment and monitoring of strong sides and vulnerable spots of the financial system taken as a whole.

*Minimum consumer budget* is the cost of a set of minimum benefits and services to the subsistence minimum.

*A securities market* is organized exchanges and structures (securities depository companies, accounting and clearing houses), as well as other companies that provide services related to the activities of the exchange. This category includes depositories and electronic clearing systems, the activity of which is ensured by financial corporations and national self-regulatory organizations of oversight over the activities of stock exchanges and related institutional units or their regulation.

*Stress tests* are methods used for assessment of portfolios vulnerability with respect to significant changes in the macroeconomic situation or exceptional but possible events.

*An unemployment rate* is the percentage of the actual number of unemployed to the total economically active population.

*Financial assets* include equity instruments and units/shares of investment funds, debt instruments, derivatives, stock options for employees and monetary gold.

## LIST OF ABBREVIATIONS

CAR	– Capital Adequacy Ratio
CB	– Commercial Bank
COVID-19	(CoronaVirus Disease 2019) is the coronavirus infection of 2019
CPI	– Consumer Price Index
DTI	(debt-to-income) is the ratio of the amount of the borrowers’ payments on loans (including the amount of principal and interest payments for the reporting period) to the main annual income of the borrower declared at the time of issuing a loan
FAO	– Food Agriculture Organization of the United Nations
FCO	– Financial-Credit Organization
GDP	– Gross Domestic Product
ICN	– Interbank Communication Network
K3.1.	– Economic Liquidity Ratio
K3.2.	– Short-term Liquidity Ratio
K3.3.	– Instant Liquidity Ratio
KR	– Kyrgyz Republic
LLP	– Loan Loss Provisions
LRS under MA KR	– Land Resources Service under the Ministry of Agriculture of the Kyrgyz Republic
LTV	(loan-to-value ratio) is the ratio of issued loans to the value of collateral
MF KR	– Ministry of Finance of the Kyrgyz Republic
MFO	– Microfinance Organization
M2	– Money Supply
NBFCOs	– Non-banking Financial-Credit Organizations
NBKR	– National Bank of the Kyrgyz Republic
NSC KR	– National Statistical Committee of the Kyrgyz Republic
NTC	– Net Total Capital
OCP	– Open Currency Position
OECD	– Organization for Economic Cooperation and Development
OJSC	– Open Joint-Stock Company
POL	– Petroleum, oil, lubricants
p.p.	– percentage points
PRBR	– Periodic Regulatory Bank Reporting
RLA	– Regulatory and legal acts
ROA	– Return on Assets
ROE	– Return on Equity
RTGS	– Real Time Gross Settlement System
SBC	– System of Batch Clearing
SFCO	– Specialized Financial-Credit Organization
SFSS (State Financial Supervision Service)	– State Service for Regulation and Supervision of Financial Markets at the Ministry of Economy and Commerce of the Kyrgyz Republic
SIPC	– Single Inter-bank Processing Center
ST-Bills	– State Treasury Bills
ST-Bonds	– State Treasury Bonds
USA	– United States of America
VaR	– Interest Rate Risk