



**National Bank
of the Kyrgyz Republic**

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

**according to the results
of the first half of 2023**

December 2023

Bishkek

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On the issues related to the content of the publication, please contact

Financial Stability Monitoring Division
National Bank of the Kyrgyz Republic
168 Chuy Avenue, Bishkek, Kyrgyz Republic
Tel.: (+996 312) 66-91-67
Fax: (+996 312) 61-07-30
E-mail: aorozaliev@nbkr.kg

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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.

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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 the first half of 2023, there was an acceleration of GDP growth in the Kyrgyz Republic. The services sector (wholesale and retail trade) was the main driver of GDP growth. Industrial growth rates demonstrated slowdown due to reduction in the processing sector.

In the first half of 2023, the state budget was executed with a surplus. Expansion of foreign trade, as well as the results of previously adopted measures on fiscalization of tax and customs procedures contributed to an increase in tax revenues. Growth of budget expenses was mainly conditioned by an increase in capital expenses and measures taken to increase wages of the public sector employees in 2022.

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

In the first half of 2023, the quality of the banking sector's loan portfolio improved compared to the same period of 2022. High level of capital adequacy in the banking system indicates that there is potential to further increase the level of financial intermediation, efficiency and sustainability of the banking sector in the future.

The results of econometric and financial forecast modeling still reflect the availability of financial strength based on the results of the first half of 2023. The results of «reverse» stress testing show that the banking sector can withstand significant deterioration in the quality of the loan portfolio and macroeconomic shocks.

The state of the system of non-banking financial-credit organizations is assessed as moderately stable. There was growth in the the following indicators: assets, loan portfolio, resource base. The results of stress testing indicate that the credit risk of the sector of non-banking financial-credit organizations is moderate.

The level of risks in the payment systems 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 the payment systems, the current high level of liquidity, the system of insurance deposits and prepayments.

In the reporting period, development of the regulatory legal framework governing the activities of financial-credit organizations was focused on expanding access to project financing, development of the lending system, introduction of digital documents, as well as development of the principles of Islamic finance.

I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

1.1. Macroeconomic Conditions and Risks

In January – June 2023, economic growth of the Kyrgyz Republic demonstrated positive dynamics. The services sector, primarily wholesale and retail trade, was the main growth driver. At the end of the reporting period, the industrial sector slowed down the growth rates due to reduced production output in the processing industry.

During the first half of 2023, the inflation rate demonstrated the downward trend due to slowdown in the growth of prices for food products, meanwhile stable prices for non-food products and services restrained the slowdown of inflationary processes. Pro-inflationary factors existing in the economy are conditioned by stably high uncertainty and geopolitical risks in the external economic environment.

In January-June 2023, the state budget was executed with a surplus due to higher revenue receipts. Tax revenues increased due to growth of foreign trade and measures previously taken for fiscalization of tax and customs procedures. At the same time, budget expenses increased due to growth of capital expenses and rise in wages of the public sector employees in 2022.

External Conditions

Global economic activity demonstrates slowdown amid economic and geopolitical challenges observed in recent years. Global inflation rate remains high and shows slight downward trend due to tightening of monetary policy by the leading countries, however, core inflation¹ remains stable with increased values. Economic development in the countries – main trading partners of the Kyrgyz Republic is formed ambiguously. The economy of Russia is recovering under the conditions of stable consumer activity, stimulus spending and adaptation to sanctions. Since the beginning of 2023, economic activity in Kazakhstan showed high growth rates with small fluctuations amid oil production recovery and stably high investment activity. Real GDP of China was formed below analysts' expectations and showed signs of slowdown due to weak domestic and export demand.

Internal Conditions

Gross Domestic Product

During the first half of 2023, economic activity demonstrated positive dynamics. In January-June 2023, the real GDP growth rate made 3.9 percent (in the same period of 2022, there was an increase by 5.2 percent).

The key driver of economic growth was the services sector, which made a significant input to GDP growth at +2.6 percentage points at the end of the first half of the year mainly due to an increase in the turnover of wholesale and retail trade (an increase by 12.3 percent compared to the first half of 2022).

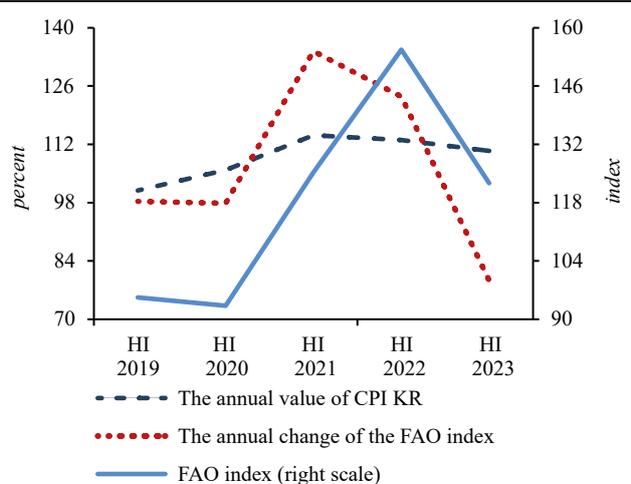
The industrial sector of the country demonstrated downward trend by the end of the reporting period, however, during the first six months of 2023, it increased by 0.5 percent compared to the same period of 2022 being supported by reduced output in the processing sector (-0.4 percent).

The GDP deflator was positive at 16.2 percent, having decreased by 1.1 percentage point compared to January-June 2022.

¹ Volatile prices for energy carriers and food products are not taken into account.

Inflation

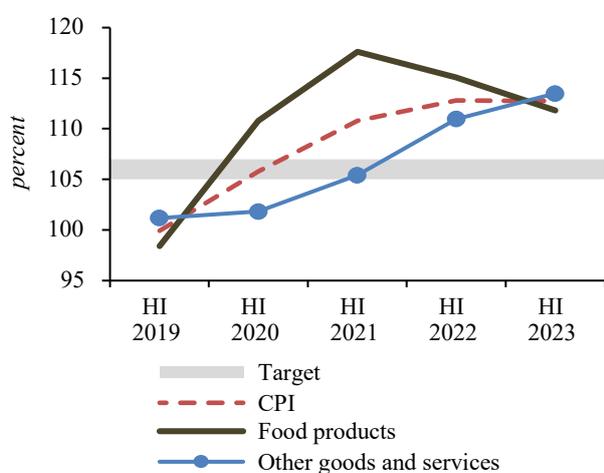
Chart 1.1.1. Dynamics of the Kyrgyz CPI and the FAO Index



Source: NSC KR

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.

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

markets is among the main factors restraining growth of prices for food products. Given the fact that most of the food products consumed in the country are imported, prices in the Kyrgyz Republic are sensitive to fluctuations in food prices in the world markets.

There was an increase in prices for the group «alcohol drinks and tobacco products» amid annual increase in prices for alcohol drinks and tobacco products. There was also rise in prices in the services sector due to an increase in prices for services in the groups «miscellaneous goods and services», «restaurants and hotels», «education» and «recreation, entertainment and culture». Prices for non-food products remain stable being conditioned by global geopolitical tensions and the effect of exchange rate volatility in early 2023. A decrease in prices for gasoline had slight downward impact on non-food inflation.

In the first half of 2023, the FAO index decreased significantly compared to the same period in 2022. Prices for basic food products demonstrated downward since the end of 2022 amid decrease in prices for vegetable oils, dairy products and some decline in prices for cereals. However, prices were partially balanced by rise in prices for sugar and slight increase in prices for meat. The decline in world food prices was conditioned by the large volume of supply worldwide, low demand for import and the extension of the Black Sea Grain Initiative.

Prices in the world food markets have a significant impact on inflation in the Kyrgyz Republic and often play a decisive role in formation of consumer price index (CPI) dynamics. This is due to a significant dependence

In the first half of 2023, the annual inflation rate demonstrated downward dynamics mainly due to slowdown in the growth of prices for food products and non-alcoholic beverages. According to the NSC KR, in June 2023, the annual inflation rate decreased from the maximum of 16.2 percent in February 2023 and constituted 10.5 percent.

The structure of the annual inflation rate formation is as follows: prices for non-food products increased by 4.1 percentage points, prices for food products and non-alcohol drinks – by 3.1 percentage points, for services – by 1.9 percentage points.

Slowdown in growth of prices for food products was conditioned by a decrease in prices for bakery products and cereals, dairy products and sugar. Decrease in prices in the world food

Labor Market and Wages

According to the data of the Ministry of Labor, Social Security and Migration of the Kyrgyz Republic, as of July 1, 2023, the number of unoccupied people in search of work registered at the state employment service decreased by 1.5 percent compared to the similar date in the previous year and constituted 99.1 thousand people, the number of registered unemployed people decreased by 0.5 percent or 74.9 thousand people.

The registered unemployment rate decreased by 0.1 percentage point compared to the indicator of 2022 and made 2.8 percent of the economically active population. Practically in all sectors of the economy there was an increase in the number of workplaces created at the end of the period.

In the reporting period, there was a positive dynamics of wage growth in all types of economic activity. At the end of the first half of 2023, the average monthly nominal wage per one employee increased by 29.1 percent compared to the same period of the last year and amounted to KGS 31.9 thousand. In January-June 2023, real wages increased by 14.6 percent compared to the corresponding period of 2022.

State Budget

According to preliminary data of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic, in the first half of 2023, the state budget surplus amounted to KGS 5.4 billion or 1.2 percent to GDP, as in the same period of 2022, which is a seasonal phenomenon. The dynamics of state budget revenues demonstrated high growth rates due to an increase in tax and non-tax revenues. Tax revenues increased due to growth of foreign trade, as well as measures taken by the Cabinet of Ministers of the Kyrgyz Republic to improve tax and customs administration. At the same time, budget expenses were still directed to consumption and coverage of current expenditures, which may put upward pressure on inflation. Generally, budget deficit was financed from the external and internal sources in the amount of KGS 6.4 billion (1.4 percent to GDP). At the same time, the volume of net internal financing of the budget deficit amounted to KGS 3.8 billion (-59.5 percent compared to the same period of 2022) and external financing – KGS 2.6 billion (+17.8 percent). As of the end of June 2023, public debt amounted to USD 5.7 billion (+2.8 percent year-to-date) or 54.0 percent to GDP. The share of external borrowings remained high (78.3 percent) in the structure of public debt. Large share of public external debt (up to 38.6 percent) was accounted for China being followed by the creditors such as the Asian Development Bank (ADB), the International Development Association (IDA), and the International Monetary Fund (IMF).

Macroeconomic Risks

In the reporting period, the economy of the Kyrgyz Republic and the main trading partners of the country were still in the state of uncertainty due to geopolitical risks. Under such conditions, there are still risks of slowdown in capital inflow into the country, reduction in money transfers inflow, decrease in investment volumes and other factors subjected to unfavorable changes.

In addition, in the world markets, pro-inflationary risks existing in the external economic environment can also have a restraining effect on the economic growth prospects in the country. The economy of the country becomes even more sensitive and vulnerable to exchange rate shocks under the conditions of high level of external debt (the situation is aggravated amid high dependence of import). In case of a decrease in business activity of Kyrgyzstan and the countries – main trading partners, there are risks of a decrease in planned inflow of duties and taxes to the budget, which may subsequently have a negative impact on fiscal sustainability.

Geopolitical instability and uncertainty in the world markets will continue to put pressure on the price level. Risks in food inflation related to the negative impact of unfavorable climate conditions on agriculture will also have an impact on CPI in the country. At the same time, the inflation rates will return to the medium-term target closer to 2025.

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	HI 2019	HI 2020	HI 2021	HI 2022	HI 2023
Commercial banks	25	23	23	23	23
Other financial companies, including:	649	627	607	611	752
Non-banking and specialized financial-credit organizations (NBSFCO), including:	649	627	607	611	752
Microfinance organizations, including:	139	134	134	130	129
microcredit companies	92	87	87	85	86
microcredit agencies	39	38	38	35	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	96	93	91	86	83
Exchange offices	410	396	377	390	535
OJSC «Guarantee fund»	1	1	1	1	1
Housing saving credit company	-	-	1	1	1
Insurance companies*	17	16	15	15	-
Investment funds*	3	3	3	3	-
Stock exchanges*	2	3	4	4	-
Pension funds*	3	3	3	3	-

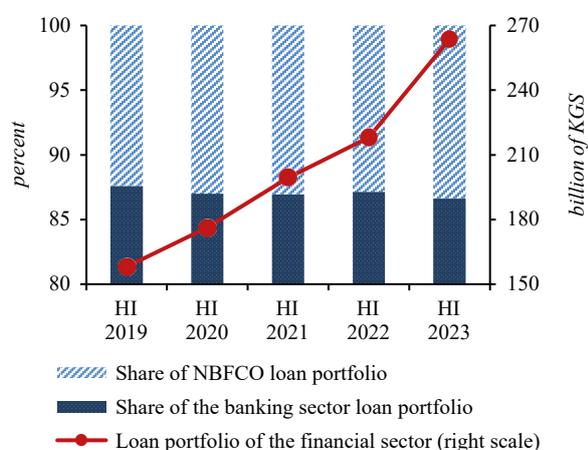
Sources: CBs, NBFCOs, NSC KR, State Financial Supervision Service

* Data as of the end of the year.

As of the end of the first half of 2023, assets of the banks and non-banking financial-credit organizations (NBFCOs) amounted to KGS 601.0 billion or 57.3 percent to GDP.

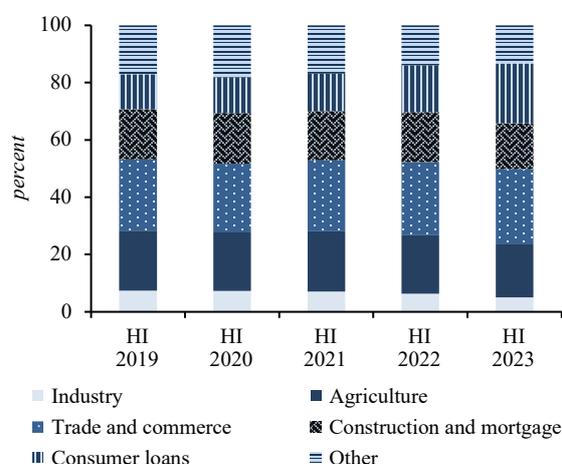
In the first half of 2023, the total loan portfolio of the financial sector amounted to KGS 236.6 billion or 25.1 percent to GDP. The share of banks' loans in the loan portfolio of the financial sector decreased by 0.5 percentage points and made 86.6 percent at the end of the first half of 2023 (Chart 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

High concentration of loans was still observed in the trading sector, and consumer loans – in the NBFCOs 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 the first half of 2023 constituted 46.8 percent of total issued loans and amounted to KGS 123.4 billion (Chart 1.2.2).

1.3. Financial Markets

The situation in the domestic foreign exchange market was still characterized by moderate volatility of the exchange rate. In some periods, there was an increased demand for foreign currency in cash, which was due to the influence of external and internal factors. The National Bank conducted foreign exchange interventions for sale of foreign currency to prevent significant fluctuations of the exchange rate. The volume of transactions in the money market increased compared to the same period of 2022, meanwhile, the market of the National Bank's notes demonstrated growth in the volume of transactions to the highest values. Transactions in the government securities market were characterized by decreased volumes compared to the interbank credit market and the foreign exchange market.

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

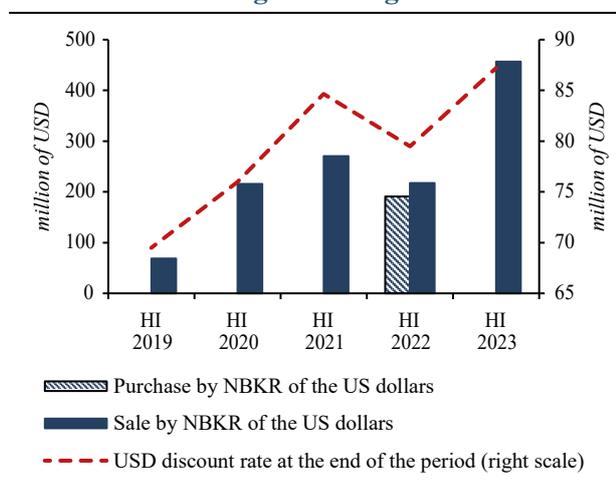
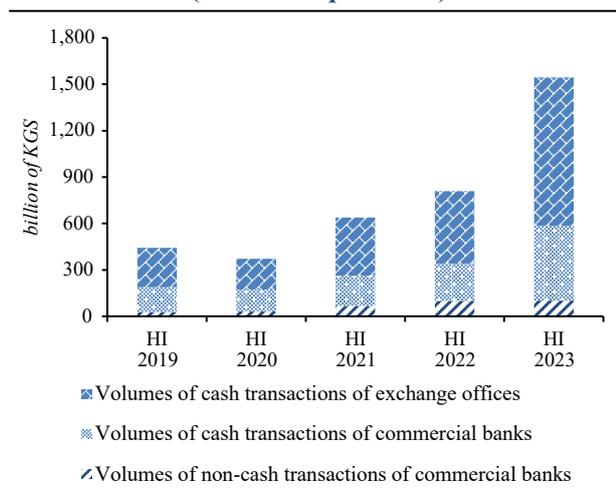


Chart 1.3.1.2. The Volume of Purchases and Sales of Foreign Currency by Type of Transactions (in KGS Equivalent)



Source: NBKR

The domestic foreign exchange market remained moderately volatile amid geopolitical uncertainty in the region. At the same time, the dynamics of the exchange rate was formed being influenced by tightened monetary conditions of developed countries and expectations of market participants resulted from weakening of the national currencies in the countries - main trading partners of Kyrgyzstan.

As of the end of June 2023, the USD/KGS official exchange rate was 87.2267 KGS/USD, having increased by 1.8 percent compared to the end of 2022.

In the first half of 2023, the range of fluctuations of the official exchange rate decreased to 85.6800-87.5900 (KGS 1.9) KGS/USD amid relatively balanced demand and supply, meanwhile, in the same period of 2022, the range was 79.5000-105.0000 (KGS 25.5) KGS/USD due to high volatility in the external markets amid deterioration of the geopolitical situation.

In the reporting period, the National Bank conducted foreign exchange interventions for sale of foreign currency in the amount of USD 456.6 million to smooth sharp fluctuations of the exchange rate.

In the reporting period, the total volume of foreign exchange purchase and sale transactions conducted by the commercial banks and exchange bureaus in the foreign exchange market, including transactions with non-residents, increased by 1.9 times, up to KGS 1.5 trillion. The increase in the volume of transactions was observed with all

main currencies (U.S. dollar, euro, Russian ruble), except for the Kazakh tenge. There was change in the structure of transactions by currencies: the main share fell on the transactions on purchase and sale of Russian rubles (their share increased from 41.5 percent up to 52.4 percent compared to 2022), the share

of transactions on purchase and sale of U.S. dollars, on the contrary, decreased from 56.8 percent down to 45.3 percent, the share of transactions in Kazakh tenge decreased from 0.2 percent down to 0.05 percent.

Generally, the transactions are still conducted in cash (93.4 percent, or +5.8 percentage points), meanwhile, in the structure of cash transactions the largest share, as before, was accounted for the cash transactions of the exchange bureaus, which was mainly due to the current situation in the domestic foreign exchange market. In terms of currencies in face terms, 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 the first half of 2023, activity in the interbank credit market increased compared to the indicator for the first half of the year and for the whole 2022.

In the first half of 2023, the volume of transactions in the interbank credit market increased by 38.8 percent compared to the same period of 2022 and amounted to KGS 15.1 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 10.99 percent (-0.8 percentage points), a decrease in the rate compared to the same period of 2022 is conditioned by easing of the monetary policy at the end of 2022. The average weighted terms decreased from 4.8 days in the same period of 2022, down to 3 days.

The banking sector used mainly the interbank borrowings to cover temporary liquidity gaps, demand for the National Bank's short-term credit resources decreased significantly compare to the same period of 2022. In the reporting period, the volume of overnight loans provided by the National Bank to support the banks' short-term liquidity decreased by 55.7 times compared to the first half of 2022 and amounted to KGS 297.6 million. The gross volume of funds placed by the commercial banks on overnight deposits increased by 55.5 percent compared to the first half of 2022 and amounted to KGS 1,950.4 billion (average daily volume – KGS 16.4 billion).

1.3.2. Securities Market

In the first half of 2023, 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 months², with the sales decreased by 88.8 percent compared to 2022.

Placement and circulation of government securities are conducted on two trading platforms since May 2023: 12-month ST-Bills and 2-year state treasury bonds (ST-Bonds) were placed on the trading platform of «Kyrgyz Stock Exchange» CJSC, the rest were still placed on the trading platform of the National Bank.

According to the results of auctions, as well as additional placements, the sales of ST-Bonds amounted to KGS 23.1 million with the weighted average yield of 9.9 percent.

Long-term government securities are in demand mainly among the institutional investors. In 2023, the Ministry of Finance continued conducting the policy of increasing the share of long-term borrowings at the expense of short-term state treasury bonds (ST-Bonds), which was initiated at the end of 2021. At the end of the first half of 2023, the volume of ST-Bonds supply at the auctions remained almost unchanged (+0.1 percent) compared to the first half of 2022 and amounted to KGS 16.6 billion, the total volume of ST-Bonds sales taking into account additional placements decreased by 13.1 percent, down to KGS 10.8 billion.

The weighted average yield of ST-Bonds (excluding 2-year ST-Bonds) demonstrated stable growth primarily due to sale of securities with longer maturities and was formed at 15.8 percent (+1.7 percentage points).

Transactions on purchase and sale of ST-Bills and ST-Bonds were not conducted in the secondary market since 2021.

The market of the National Bank's notes demonstrated peak indicators of demand, supply, and sales of these securities under the conditions of stable high level of excess liquidity in the banking system. In the reporting period, the National Bank's notes market was represented by 7-, 14-, 28-, 91- and 182-day notes. The largest volume of sales fell on the National Bank's notes with a maturity of 14 days. The rates on the National Bank's notes were close to the policy rate. After the decision to reduce the policy rate down to 13.0 percent made on November 29, 2022, the yields of notes gradually decreased following its level. The weighted average yield of the notes decreased from 12.91 percent in November down to 12.13 percent in December 2022, and down to 11.66 percent in January – June 2023.

² The Ministry of Finance of the Kyrgyz Republic offers only 12-month ST-Bills since February 2020.

1.4. Real Estate Market

At the end of the first half of 2023, there was an increase in the price index³ growth rate in the real estate market of the Kyrgyz Republic due to the growth in prices for individual houses (growth in prices by 41.0 percent) and apartments (growth in prices by 13.1 percent) compared to the same period of 2022.

In addition, there was an increase in the level of average wages (an increase by 33.6 percent), which had a favorable impact on the housing affordability index, characterizing improvement of the situation with real estate affordability. Risks to the financial sector from the real estate market remain moderate, which was conditioned by a low share of mortgage loans⁴ in the total loan portfolio of the banks.

At the end of the first half of 2023, an increase in the growth rate of the property price index from 6.9 percent to 25.2 percent, and growth of the property basis price index from 166.4 percent to 232.2 percent were observed in the Kyrgyz Republic due to rise in prices for individual houses by 41.0 percent and for apartments – by 13.1 percent compared to the same period of 2022.

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 Market⁵



Source: LRS under MA KR, NBKR calculations

As of June 30, 2023, the average price for 1 square meter of housing (apartment) in Osh increased by 7.9 percent (up to KGS 54.2 thousand), in Bishkek – by 15.2 percent (up to KGS 74.7 thousand) compared to the same period of 2022. The average price for 1 square meter of individual houses in Osh city increased by 52.5 percent (up to KGS 103.1 thousand), in Bishkek city – by 35.1 percent (up to KGS 91.2 thousand) compared to the same period of 2022.

³ The Laspeyres index method was used in developing price index for the real estate. In general, the Laspeyres index is computed as follows:

$$L = (\sum_{i=1}^K QoiPti / \sum_{i=1}^K QoiPoi) * 100,$$

where

K = number of real estate types;

Qoi = number of real estate of type i in the base period;

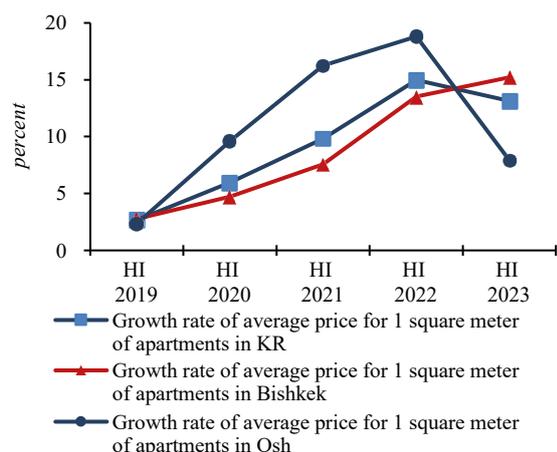
Poi = price of real estate of type i in the base period;

Pti = price of the real estate of type i in the current period.

⁴ Currently, a mortgage loan is usually a long-term loan extended on security of the title to real estate in the Kyrgyz Republic.

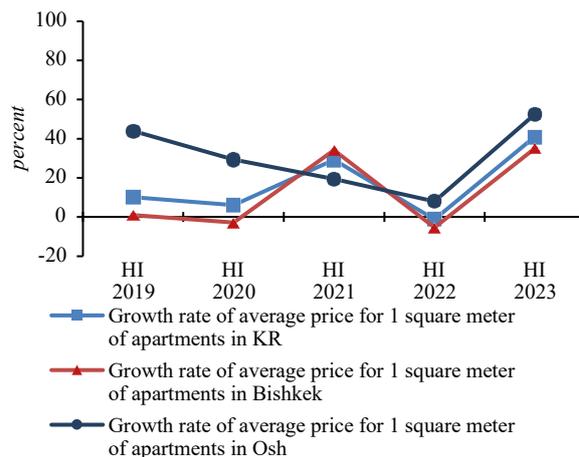
⁵ The year 2010 was taken as the base period.

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

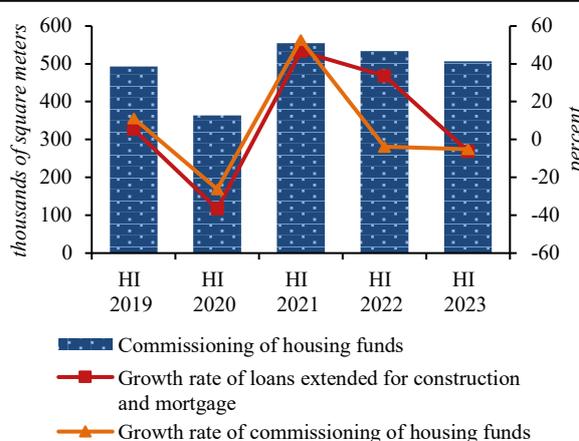


Source: LRS under MA KR, NBKR calculations

In the reporting period, the number of transactions on the real estate purchase and sale decreased by 9.1 percent and amounted to 25,415. The transactions on purchase and sale the apartments decreased by 14.6 percent and the transactions on purchase and sale of the houses decreased by 0.9 percent compared to the same period of 2022 and amounted to 14,224 and 11,191 transactions, accordingly.

There was a decrease in the level of housing funds commissioning. At the end of the first half of 2023, the aggregate level of housing funds commissioning decreased by 5.1 percent compared to the same period of 2022 mainly due to a reduction in the volume of housing funds commissioning in the following regions: Issyk-Kul (-41.5 percent), Naryn (-45.0 percent), Osh (-23.8 percent) and Talas (-19.4 percent) regions. Other oblasts demonstrated an increase in the level of housing funds commissioning.

Chart 1.4.5. Dynamics of Housing Commissioning and Loans Extended for Construction and Mortgage⁶



Source: NSC KR, NBKR calculations

⁶ Data for the period.

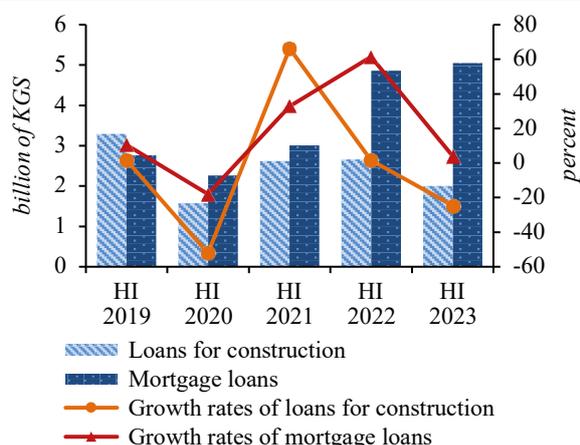
Table 1.4.1. Geographic Structure of Commissioned Housing

	HI 2022		HI 2023	
	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	150.0	28.1	168.8	33.4
Osh city and Osh region	139.8	26.2	111.8	22.1
Other regions of KR	243.6	45.7	225.5	44.6
Total	533.4	100.0	506.1	100.0

Source: NSC KR

As of June 30, 2023, there was a decrease in the volume of loans issued to finance construction financing and an increase in the volume of mortgage loans compared to the same period of 2022. In the reporting period, the volume of loans extended for construction decreased by 24.7 percent (down to KGS 2.0 billion), and the volume of mortgage loans increased by 4.0 percent (up to KGS 5.1 billion). The aforementioned sectors demonstrated growth in the volume of loans extended in the national currency, and a decrease – in foreign currency.

Chart 1.4.6. Loans Extended for Construction and Mortgage⁷



Source: CBs, NBKR

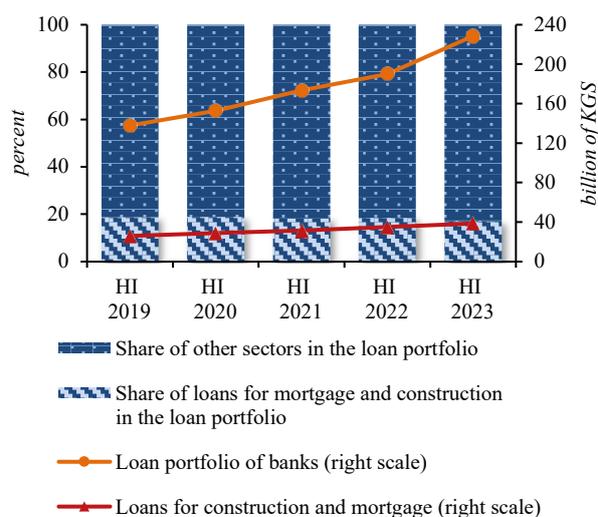
At the end of the first half of 2023, residential houses were generally constructed and commissioned at the expense of the population (85.2 percent of their total commissioning)⁸.

As of **June 30, 2023**, the share of loans for construction and mortgage amounted to 16.9 percent in the total loan portfolio of the commercial banks, the share of mortgage loans thereof constituted 11.5 percent. The share of loans for construction and mortgage decreased by 1.5 percentage points in the total loan portfolio of the commercial banks compared to the same period of 2022 (Chart 1.4.7).

⁷ Data for the period.

⁸ «Social and economic situation of the Kyrgyz Republic (January – June 2023)», NSC KR.

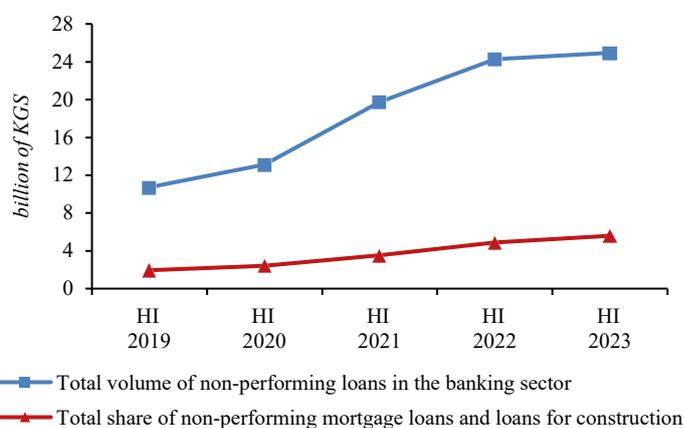
Chart 1.4.7. Total Share of Loans for Mortgage and Construction in the Loan Portfolio of Commercial Banks⁹



Source: CBs, NBKR

The total volume of non-performing loans for mortgage and construction increased by 14.8 percent and amounted to KGS 5,597.7 million. Therefore, in the reporting period, the aggregate share of non-performing loans in the aforementioned sectors increased by 2.4 percentage points and constituted 22.5 percent of the total volume of non-performing loans in the banking sector (Chart 1.4.8). The volume of non-performing loans for mortgage and construction in foreign currency increased by 22.8 percent and amounted to KGS 3,832.7 million mainly due to deterioration in the quality of issued loan for construction.

Chart 1.4.8. Dynamics of Non-performing Loans



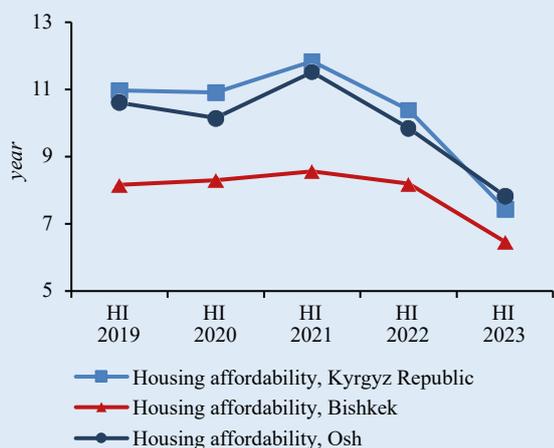
Source: CBs

⁹ Data as of the end of period.

Box 1. Housing Affordability Index

As of June 30, 2023, the housing affordability index in the Kyrgyz Republic increased from 10.4 to 7.4 years compared to the same period of 2022 due to reduction of time (number of years) required for an average family to save money for housing purchase (Chart 1). This is due to the growth rate of the average monthly nominal wages (33.6 percent) outrunning the growth rate of real estate prices (13.1 percent).

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



According to the results of the first half of 2023, 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 31,994.0), where the income is received by two people, and the minimum consumer budget of KGS 23,032.5 (36.0 percent of total family income), for 7.4 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 Sector¹⁰

As at June 30, 2023, the number of loans, secured by pledged real estate, constituted 52.8 percent of the total volume of loans in the loan portfolio of the banks. The volume of loans secured by real estate (at collateral value) constituted 67.2 percent of the total collateral of the loan portfolio.

Credit risks for the banking sector are conditioned by possible decrease in the value of pledged real estate below the loan repayment balance and further 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)	---	---	---
«Alternative» scenario (decrease in price for real estate by 40% per 2 years)	---	---	---
«Negative» scenario (decrease in price for real estate by 50% per a year)	---	KGS -6.6 billion	2 banks

* 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 52.5 percent and borrowers refuse to service previously obtained loans secured by real estate, as well as if collateral is put on the banks' books with subsequent sale thereof in the market at decreased prices. At the same time, individual systemically important banks are likely to face a similar risk in case of a decrease in prices for real estate by 43.0 percent. There is a risk of violation of the capital adequacy ratio by the banking sector, as well as by the systemically important banks when prices for real estate are likely to decrease by 71.8 and 65.5 percent, respectively¹¹.

¹⁰ Stress test was conducted on the basis of the commercial banks' data provided in the course of the survey as of June 30, 2023.

¹¹ The banks did not take into account in their calculations possible difference in estimated value of pledged real estate, which may be less than the market value by up to 20 percent. Taking this into account the aforementioned facts, reduction in the threshold level of prices for real estate may reach 20 percent.

II. BANKING SECTOR

Growth of the main indicators of the banking sector: assets, capital, deposit base and loan portfolio was observed at the end of the first half of 2023.

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 the first half of 2022.

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.

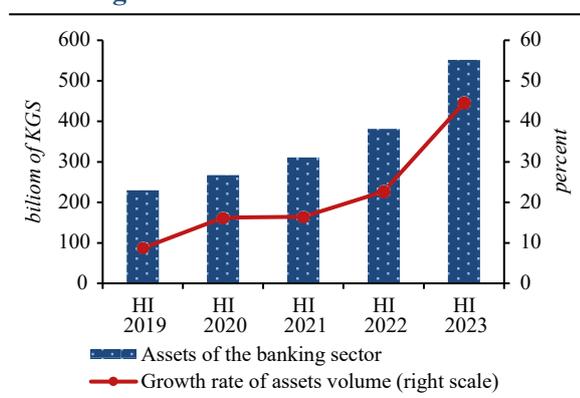
2.1. Major Trends of the Banking Sector Development

As of June 30, 2023¹², 23 commercial banks and 318 bank branches worked in the territory of the Kyrgyz Republic, among which there were 13 banks with foreign participation in the capital, including 10 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 the first half of 2023, 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 552.0 billion, having increased by 44.6 percent compared to 2022 (Chart 2.1.1).

Chart 2.1.1. Dynamics of Assets in the Banking Sector



Source: NBKR

Loan Portfolio

At the end of the first half of 2023, the banks' loan portfolio increased in all main sectors of the economy compared to 2022, 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 2.6 percentage points compared to the first half of 2022 and amounted to 21.7 percent (Chart 2.1.2).

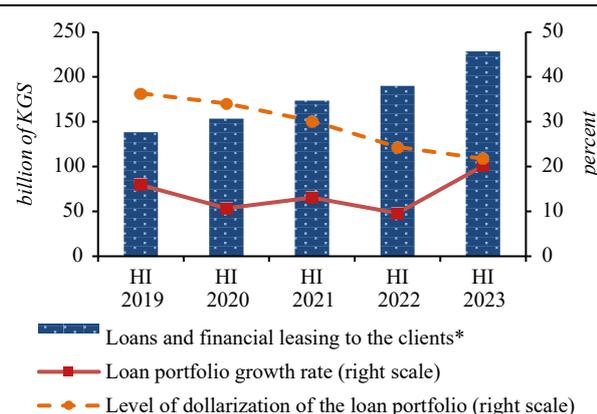
The growth of assets was mainly provided by increase of:

- liquidity in the form of cash and funds on correspondent accounts by 50.5 percent or KGS 47.4 billion;
- deposits in other banks by 3.0 times or by KGS 47.8 billion;
- the loan portfolio by 20.2 percent or by KGS 38.3 billion.

The share of loan portfolio in the structure of assets constituted 41.4 percent, having decreased by 8.4 percentage points compared to the first half of 2022.

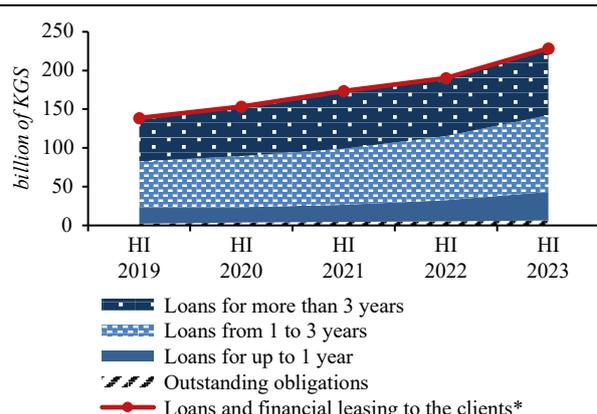
¹² The data are submitted according to periodic regulatory reporting of the commercial banks (PRBR).

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



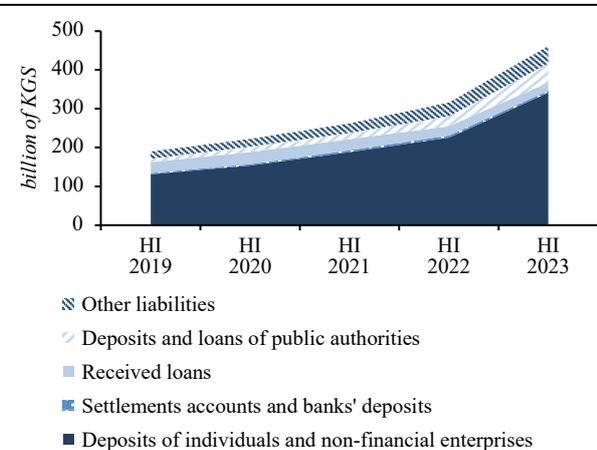
* Exclusive of loans provided by FCO and special loan loss provisions
Source: NBKR

In the maturity structure of loans issued in the first half of 2023, the main shares are accounted for short-term loans¹³ – 38.7 percent or KGS 48.0 billion, and medium-term loans¹⁴ – 34.0 percent or KGS 42.2 billion (Chart 2.1.3).

Liabilities

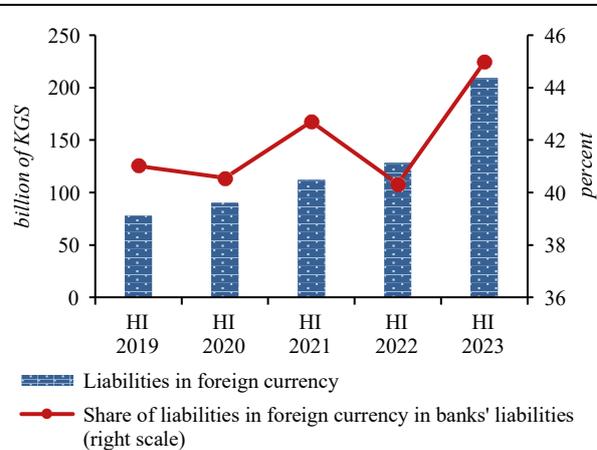
At the end of the first half of 2023, liabilities of the banking sector of the Kyrgyz Republic increased by 46.1 percent compared to 2022 and amounted to KGS 465.1 billion.

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 the reporting period, deposits of individuals and non-financial enterprises increased by 51.1 percent and amounted to KGS 341.4 billion (Chart 2.1.4). The share of individuals' and non-financial enterprises' deposits in the banks' liabilities increased by 2.4 percentage points and amounted to 73.4 percent.

The share of liabilities in foreign currency in the total volume of attracted funds increased by 4.7 percentage points and amounted to 45.0 percent (Chart 2.1.5).

¹³ Short-term loans are the loans extended for a period of up to 1 year.

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

Financial Results

At the end of the first half of 2023, a decrease of the banking sector’s profitability indicators was observed compared to the same period of 2022 due to the significant growth rates of assets and capital outstripping the commercial banks’ profitability:

- return of assets (ROA) constituted 4.6 percent;

- return on equity (ROE) formed at 32.5 percent.

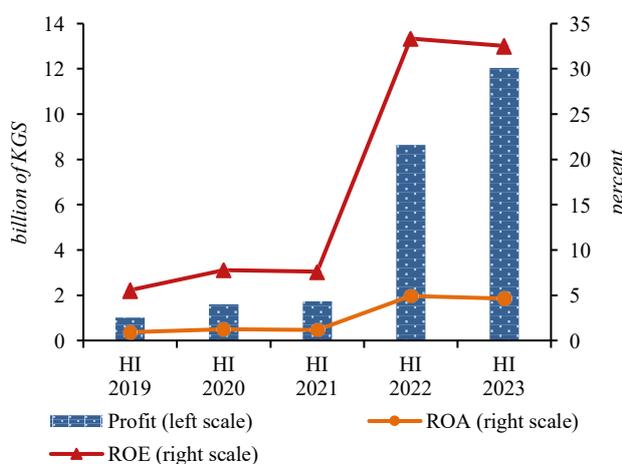
Net profit of the banking sector increased by 39.2 percent and amounted to KGS 12.0 billion (Chart 2.1.6).

Capital Adequacy

With statutory minimum capital adequacy at 12.0 percent, at the end of the first half of 2023, this figure decreased by 6.0 percentage points compared to 2022 and amounted to 23.5 percent (Chart 2.1.7).

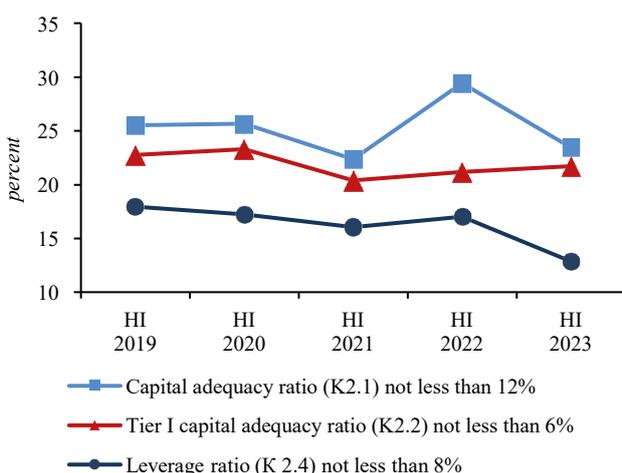
At the same time, the actual level of capital adequacy in the banking sector, generally formed according to the results of 2022, exceeded the established standard (at least 12 percent) by almost two times, indicating the relative stability of the banking sector to negative shocks, as well as the presence 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

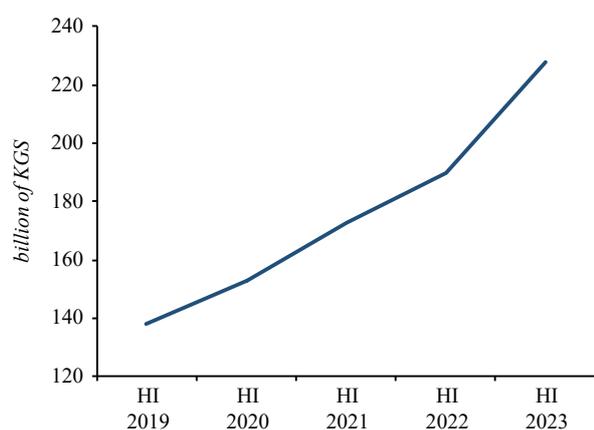
2.2. Banking Sector Risks

2.2.1. Credit Risk

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

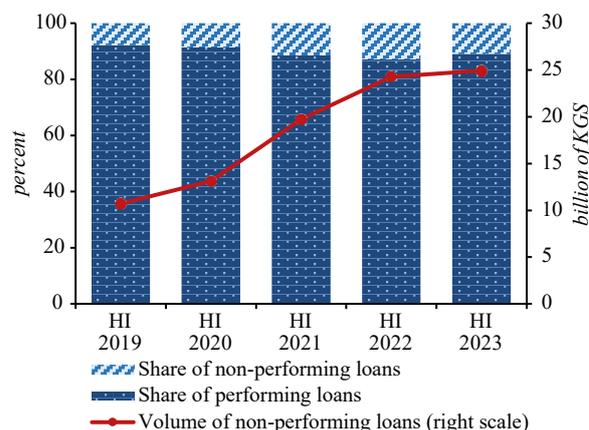
In the first half of 2023, the loan portfolio increased by 20.2 percent and amounted to KGS 228.4 billion (Chart 2.2.1). The share of non-performing loans in the loan portfolio of banks decreased from 12.8 percent to 10.9 percent compared to the first half of 2022 (Chart 2.2.2.2).

Chart 2.2.1. Dynamics of Loan Portfolio¹⁵



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).

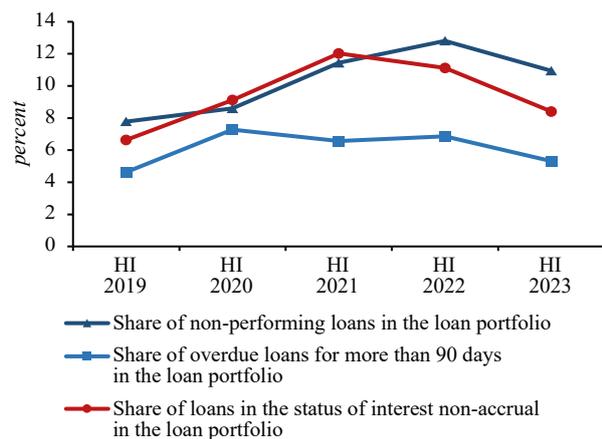
The indicator of the risk of default on assets (the ratio of special loan loss provisions (LLP) and loan portfolio) decreased by 0.6 percentage points compared to the first half of 2022 and constituted 7.5 percent.

Aggregate reserves created by the commercial banks constituted 9.5 percent of the total loan portfolio.

Meanwhile, the share of special loan loss provisions in the first half of 2023 constituted 78.2 percent of the total reserves (Chart 2.2.4).

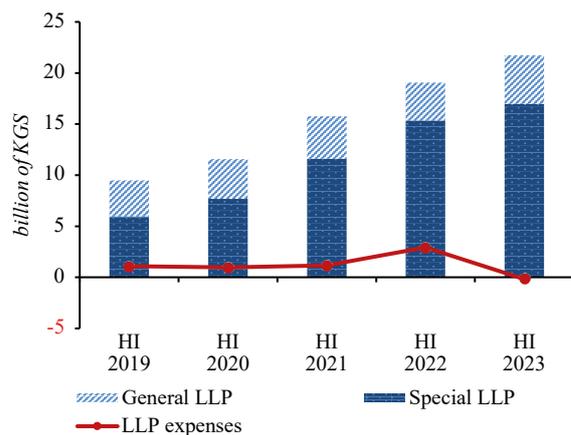
¹⁵ Loan portfolio excluding discount.

Chart 2.2.3. Indicators of the Loan Portfolio Quality



Source: NBKR

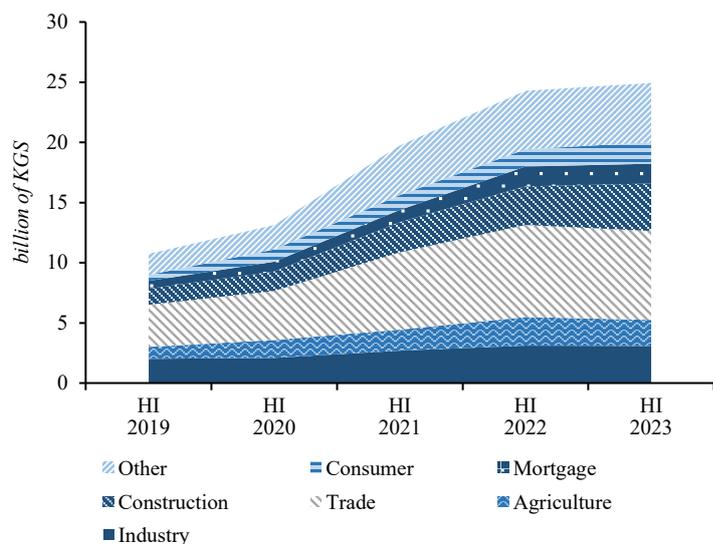
Chart 2.2.4. Total and Special Reserves



Source: NBKR

As of the end of the first half of 2023, 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

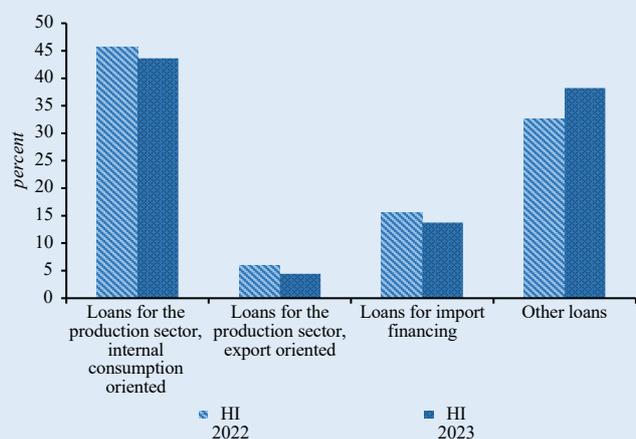


Source: NBKR

Box 3. Results of the Commercial Banks' Statistical Observation: Loans

According to the conducted survey of the commercial banks, at the end of the reporting period, a significant share of extended loans (43.6 percent of total borrowers' loans) was still concentrated in the production sector of the economy¹⁶, thereby reflecting the impact of lending on the country's GDP, meanwhile, 13.7 percent of issued loans were forwarded for financing of imports (Chart 1).

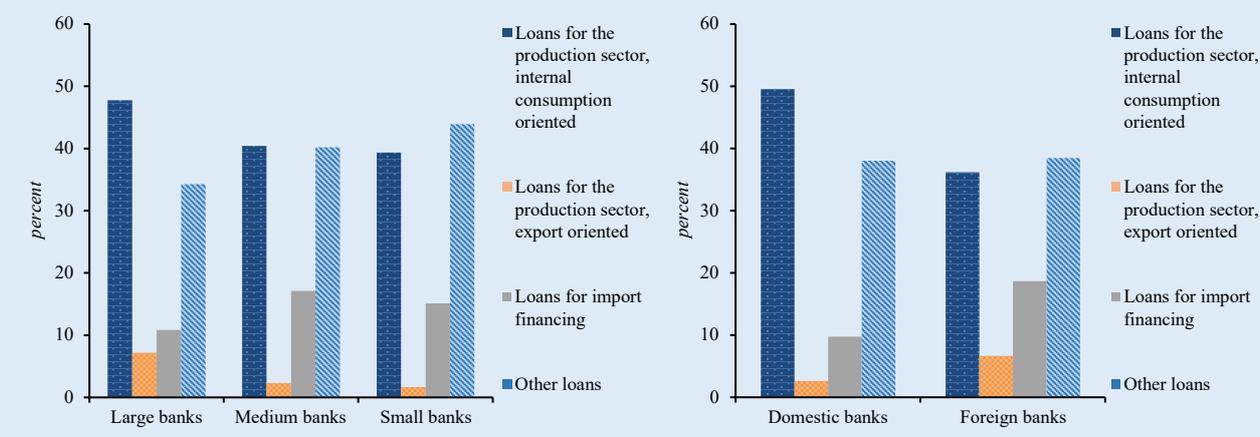
Chart 1. Sectoral Structure of Loans as of June 30, 2023.



Source: CBs

Domestic banks forwarded 49.6 percent of the loan portfolio to the production sector (GDP) and 9.8 percent – to finance imports. Generally, foreign banks also provided loans to the production sector of economy (36.2 percent). In the first half of 2023, the share of loans forwarded to finance imports constituted 18.7 percent of the loan portfolio (Chart 2).

Chart 2. Sectoral Structure of Loans by the Groups of Banks as of June 30, 2023



Source: CBs

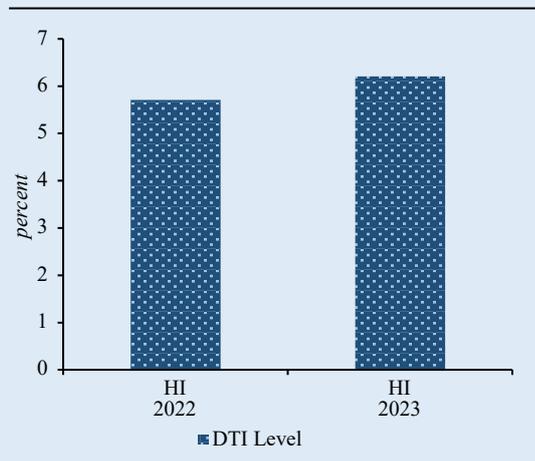
¹⁶ The production sector means the activity of the bank clients connected with the production of goods and services (construction, communication and automobile repair shop services, transport services, real estate leasing, hotels, restaurants, etc.).

Box 4. Results of the Commercial Banks' Statistical Observation: Largest Clients

Borrowers solvency

At the end of the first half of 2023, the level of debt burden of 15 banks' largest clients calculated through DTI index¹⁷ increased by 0.5 percentage points compared to the first half of 2022 and constituted 6.2 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 medium banks (7.7 percent of the borrowers' basic income) (Table1). At the same time, the lowest level of debt burden was observed in the major borrowers of the large banks and constituted 3.8 percent.

Source: CBs, NBKR

Table 1. Debt Burden of 15 Banks' Largest Borrowers at the End of the First Half of 2023

	Banking sector	Large banks	Medium banks	Small banks
Loan balance, <i>billions of KGS</i>	86.5	37.0	31.6	17.9
Share of loans in 15 largest borrowers in the total volume of loan portfolio in the banking sector, <i>in %</i>	37.6	34.2	42.8	36.8
Ratio of expenses for loan debt servicing to the borrowers' total income, <i>in %</i>	6.2	3.8	7.7	7.7

Source: CBs, NBKR

In the first half of 2023, 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 the First Half of 2023

	Domestic banks	Foreign banks
Loan balance, <i>billions of KGS</i>	37.3	49.2
Share of loans in 15 largest borrowers in the total volume of loan portfolio in the banking sector, <i>in %</i>	29.2	48.0
Ratio of expenses for loan debt servicing to the borrowers' total income, <i>in %</i>	4.1	7.5

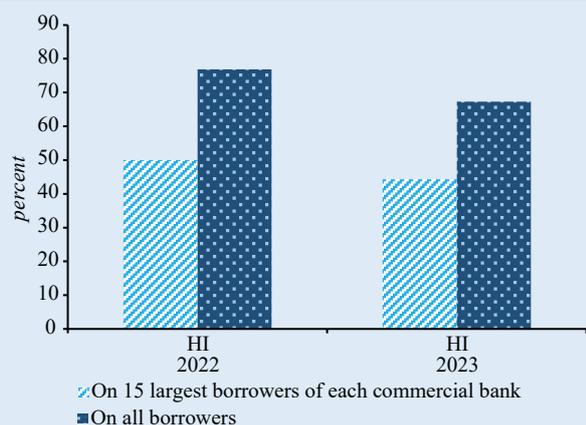
Source: CBs, NBKR

¹⁷ 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

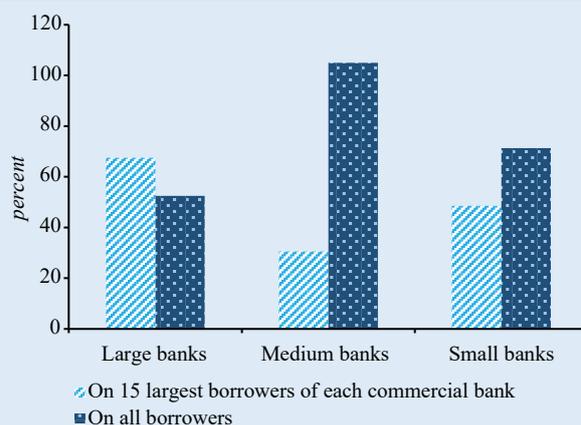
At the end of the first half of 2023, the LTV actual level¹⁸ in the banking sector amounted to 71.9 percent. The existing level of collateral indicates a relatively high level of the loans secured by the pledged property (Chart 2). At the same time, the LTV value of large banks is lower than that of 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 June 30, 2023



Source: CBs, NBKR

Chart 3. LTV Level on All Borrowers and on 15 Largest Borrowers by the Banks' Groups as of June 30, 2023



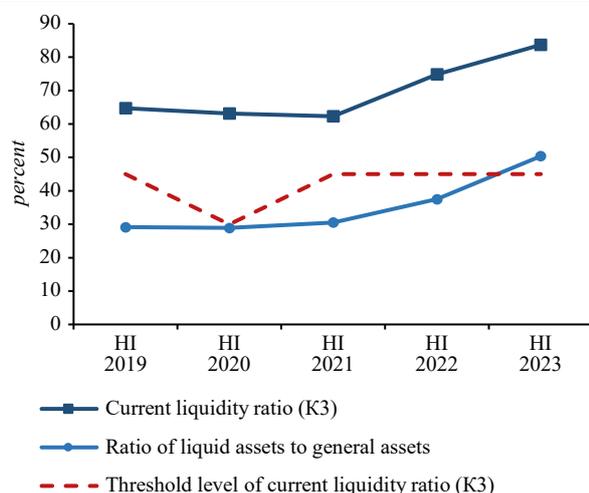
Source: CBs, NBKR

¹⁸ LTV (loan-to-value ratio) is the ratio of issued loans to the value of collateral.

2.2.2. Liquidity Risk

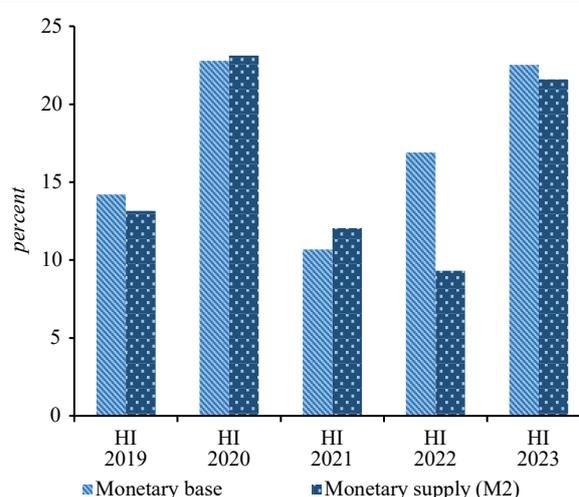
At the end of the first half of 2023, current liquidity ratio increased from 74.9 (at the end of the first half of 2022) up to 83.9 percent (Chart 2.2.6). Growth of money supply indicator (M2) was due to increase of monetary funds in the national currency and demand deposits in the economy (Chart 2.2.7).

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» and «from 6 to 12 months». Positive gap between assets and liabilities is observed in the maturity «from 1 to 3 months», «from 3 to 6 months» and «more than 12 months» (Table 2.2.1).

Table 2.2.1. Maturity of Financial Assets and Liabilities

as of June 30, 2023, 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	287,582	25,521	22,770	33,563	207,310	576,746
including loans and financial leasing to the clients	12,212	11,041	18,103	29,057	157,405	227,818
Total financial liabilities	320,643	20,417	21,808	37,522	59,372	459,761
including deposits of individuals and time deposits of legal entities	119,137	15,142	16,281	30,480	27,164	208,204
Gap	-33,061	5,104	962	-3,959	147,939	116,984
Including on loans and deposits	-106,925	-4,101	1,822	-1,423	130,241	19,613

2.2.3. Concentration Risk

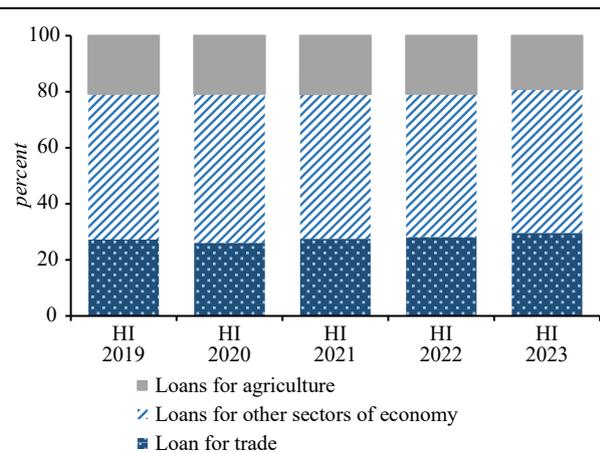
Concentration of the Largest Sources of Financing

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 five 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



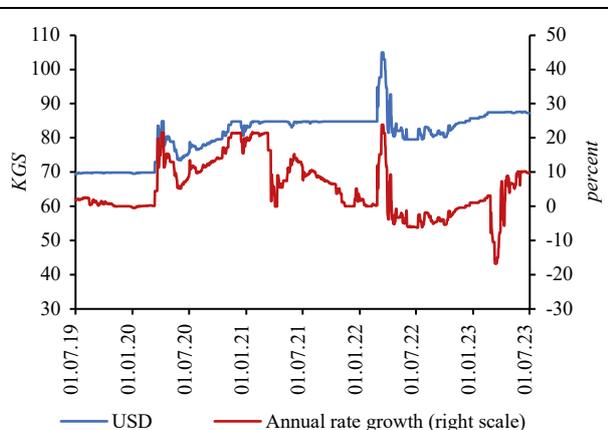
Decrease of the level of trade and agricultural loans concentration was observed in the sectoral structure of loan portfolio amid increase in the overall level of lending. At the end of the first half of 2023, the share of loans for trade increased by 1.4 percentage points, the share of loans for agriculture decreased by 1.8 percentage points (Chart 2.2.8).

Source: CBs, NBKR

2.2.4. Currency Risk

At the end of the first half of 2023, the average annual level of currency risk in the banking sector was at a moderate level. In the first half of 2023, the KGS/USD exchange rate was stable (Chart 2.2.9).

Chart 2.2.9. Dynamics of USD/KGS Nominal Exchange Rate



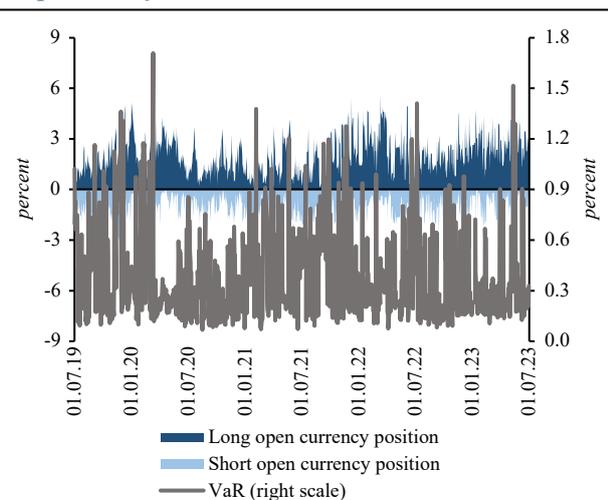
Source: NBKR

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 the first half of 2023, 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.

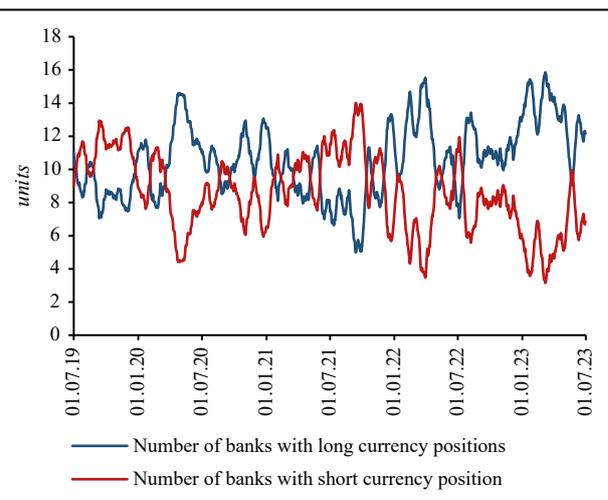
In the reporting period, 12 banks had a long currency position in U.S. dollars, and 7 banks adhered to a short currency position (Chart 2.2.11).

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



Source: NBKR

Chart 2.2.11. Currency Position of the Banks



Source: NBKR

Box 5. Credit and Currency Risks

As of June 30, 2023, 13.2 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 – 28.8 percent, basic incomes of the borrower are generated in the national currency, and the loans are repaid in foreign currency;
- Group 2 – 8.0 percent, basic incomes and loans payable by the borrower are generated in the same currency;
- Group 3 – 22.0 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 Loans¹⁹

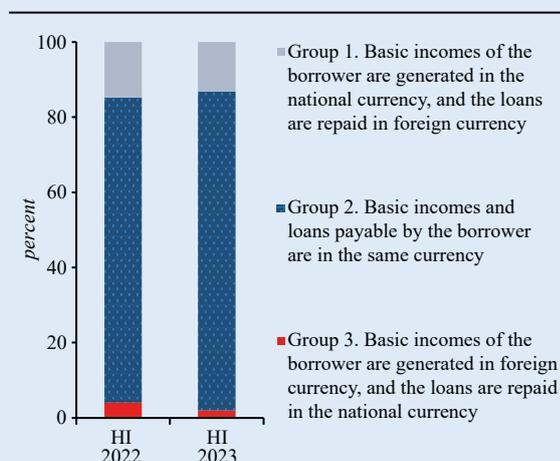
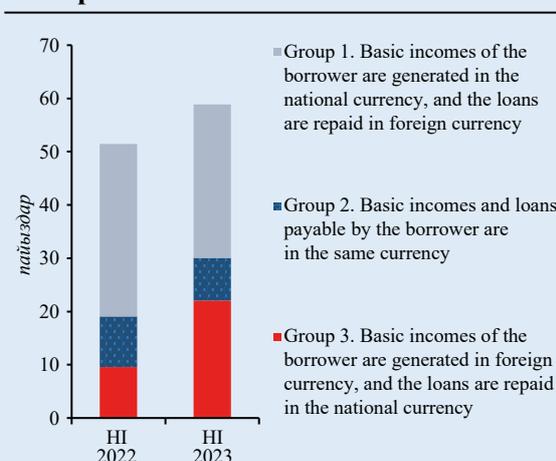


Chart 2. Share of Non-performing Loans by Groups of Loans²⁰



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

¹⁹ Breaking of loans into groups is presented in this chart. For example, the volume of loans for Group 1 as of June 30, 2023 amounted to KGS 29.5 billion or 13.2 percent of the total loan portfolio.

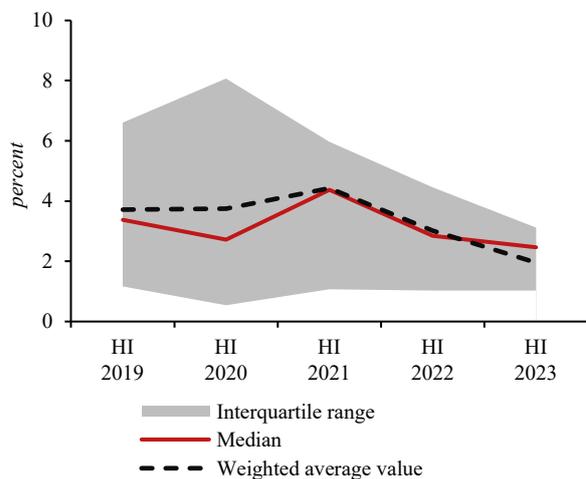
²⁰ This chart shows the shares of non-performing loans in the loan portfolio by each group of loans. For example, the volume of non-performing loans for Group 1 as of June 30, 2023 amounted to KGS 8.5 billion or 28.8 percent of the total loan portfolio for Group 1 (KGS 29.5 billion).

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 – the first half of 2023 was within accessible limits (2.0 – 4.4 percent of net total capital) (Chart 2.2.12).

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

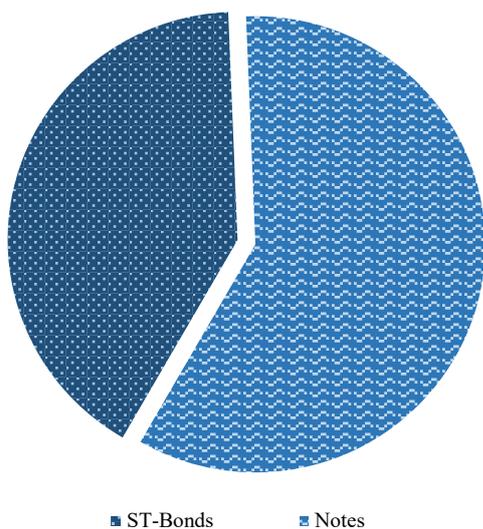


Source: NBKR

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 the First Half of 2023 between Resident Banks, Depending on Collateral



Source: NBKR

At the end of the first half of 2023, the volume of interbank loan transactions amounted to KGS 15.0 billion²¹.

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

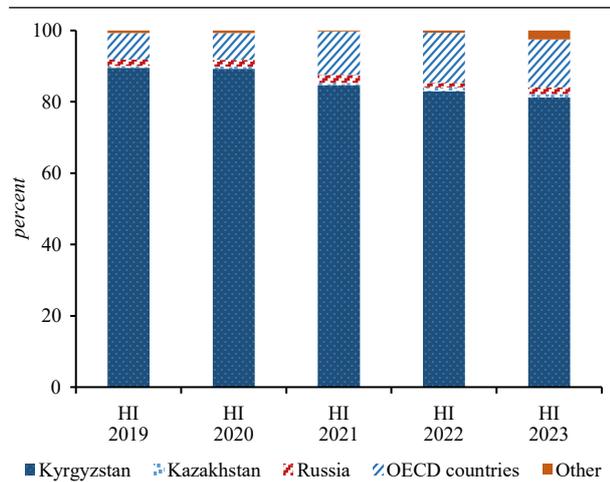
In general, the probability of the «contagion» risk materialization in the interbank credit market of the country is minimal, which is caused by highly liquid collateral.

²¹ The total volume of transactions made between the resident banks during the first half of 2023 is meant here.

2.2.7. Country Risk

As of June 30, 2023, according to the commercial banks, the aggregate volume of placed assets of non-residents constituted KGS 109.3 billion or 18.8 percent of the total banking sector assets. The highest concentration of placement was observed in the Organization for Economic Cooperation and Development (OECD) countries – 13.4 percent (KGS 77.8 billion) of the total assets in the banking sector of the Kyrgyz Republic.

Chart 2.2.14. Geographic Structure of Assets

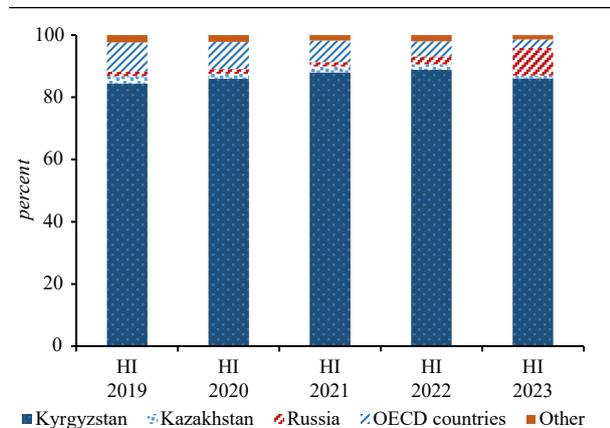


Булагы: Улуттук банк

The main share of assets placed abroad was focused on correspondent and deposit accounts and constituted KGS 95.9 billion or 87.7 percent of the total placed assets of non-residents (Chart 2.2.14).

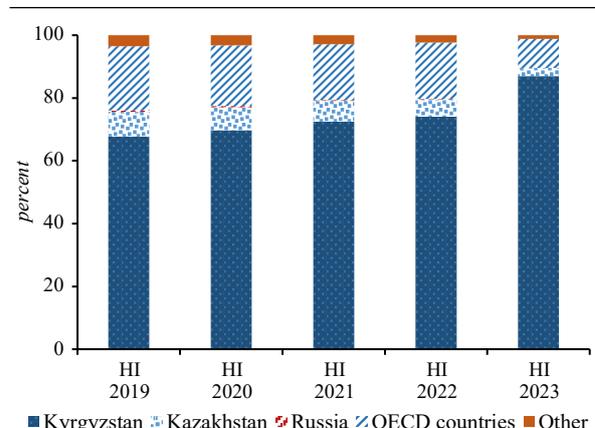
At the end of the first half of 2023, banks' liabilities to non-residents of the Kyrgyz Republic totaled KGS 63.8 billion or 13.9 percent of the total liabilities of the banking sector. Significant volume of these resources was drawn from the non-resident individuals and legal entities, as well as from non-resident banks in the form of deposits, which amounted to KGS 57.3 billion or 89.9 percent of the total liabilities non-residents. 2.7 percent of the liabilities to non-residents were accounted for the OECD countries, 0.8 and 9.0 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 the first half of 2023, foreign capital amounted to KGS 11.3 billion or 22.0 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 – 15.7 percent,
- residents of Kazakhstan – 4.3 percent,
- residents of other countries – 1.9 percent.

2.3. «Reverse» Stress Testing of the Banking Sector

2.3.1. «Reverse» Stress Testing of Credit Risk²²

Maximum allowable share of «performing» loans²³ 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.

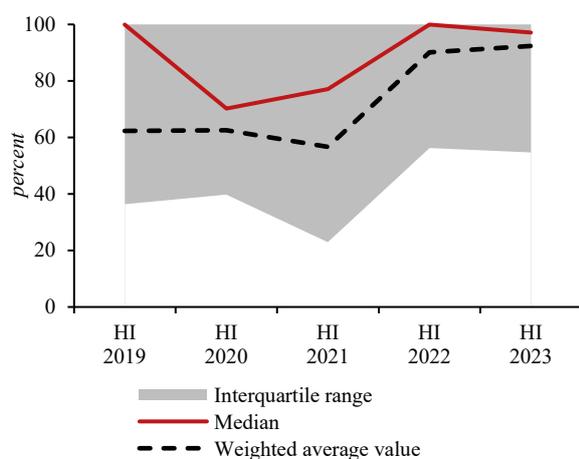
This method allows detecting a buffer stock of capital (net total capital) of banks, which can cover the additional allocations to LLP in connection with the transformation of «performing» loans into the category of «non-performing» loans²⁴.

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 June 30, 2023, the maximum allowable share of «performing» loans, transferring to the category of «non-performing» in the banking sector, amounted to approximately 90.0 percent (Chart 2.3.1).

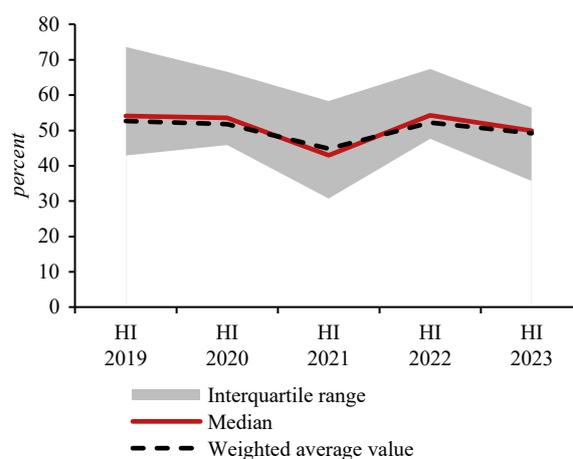
Thus, the banking sector can sustain a significant deterioration in the quality of the loan portfolio, which may require the creation of additional LLP. The volume of additional LLP can reach 48.8 percent of the net total capital (Chart 2.3.2).

Chart 2.3.1. Maximum Possible Share of «Performing»²⁵ Loans that May Become «Non-performing» Loans²⁶
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

²² Exclusive of troubled banks.

²³ Exclusive of «normal» loan category, which are risk free.

²⁴ Herewith, transition of «performing» loans to the category of «non-performing» loans is fulfilled smoothly by three categories («substandard», «doubtful» and «losses»).

²⁵ 6 Exclusive of «normal» loan category, which are risk free.

²⁶ When CAR decreases to the threshold level of 12 percent.

2.3.2. «Reverse» Stress Testing of Liquidity Risk

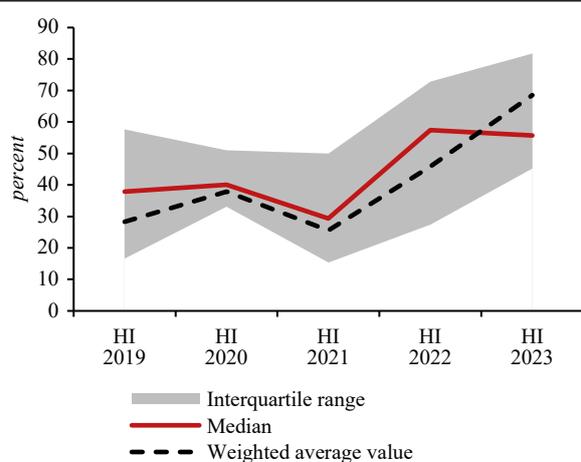
The reserve of liquid assets, which can cover a massive outflow of deposits of the clients' total deposit base, without violating the NBKR prudential standard on the current liquidity, was calculated for the evaluation of the liquidity risk in the banking sector.

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 June 30, 2023 the actual amount of liquid assets of the banking sector was able to cover the deposits outflow of an average of 68.8 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 June 30, 2023 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 20.5 percentage points 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 June 30, 2023

		Banking sector
Credit risk		
Scenario 1	Share of performing loans transferring to the category of «non-performing» loans, <i>in percent</i>	90.0
Interest rate risk		
Scenario 1	Decrease of weighted average interest rate on loans, when CAR declines to 12%, <i>in percentage points</i>	20.5
Currency risk		
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>	
Liquidity risk		
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>	68.8

III. NON-BANKING FINANCIAL-CREDIT ORGANIZATIONS

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

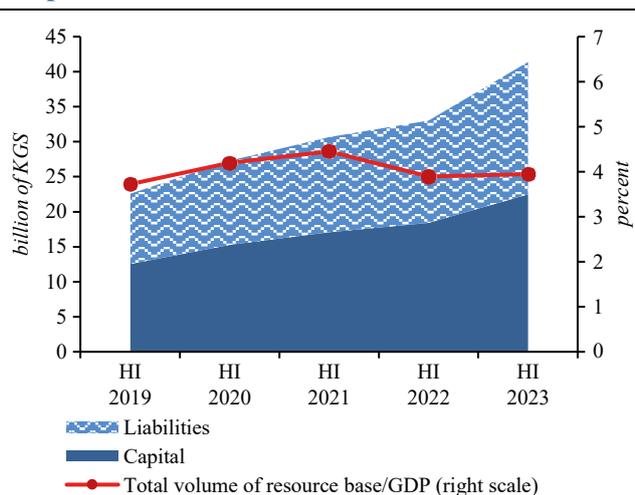
Weighted average interest rates on loans of the microfinance organizations increased by 0.4 percentage points compared to the same period of 2022 and constituted 30.7 percent.

3.1. Main Trends

The system of non-banking financial-credit organizations subject to licensing and regulation by the National Bank as of June 30, 2023 in the Kyrgyz Republic included: the specialized financial and credit organization – «FCCU» OJSC, «Guarantee Fund» OJSC; 83 credit unions, 129 microfinance organizations (including 9 microfinance companies, 86 microcredit companies and 34 microcredit agencies), 2 credit bureaus, 1 housing and savings credit company and 535 exchange bureaus.

Resources

Chart 3.1.1. Dynamics of NBFCOs Liabilities and Capital



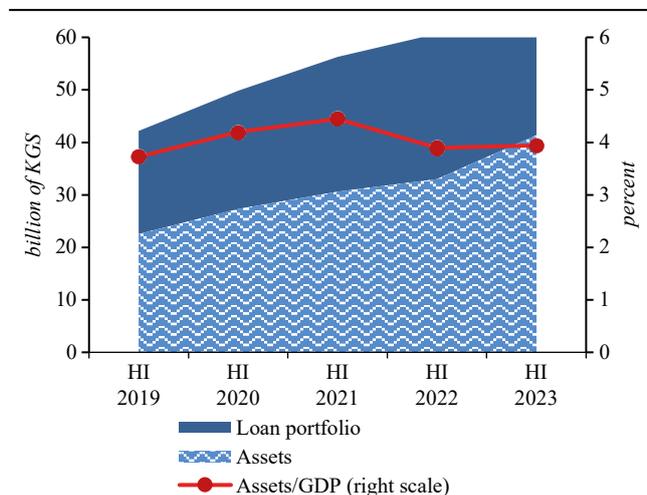
At the end of the first half of 2023, NBFCOs' liabilities increased by 29.1 percent compared to the **same period of 2022** and were formed in the amount of KGS 18.9 billion. As of June 30, 2023, NBFCOs capital increased by 22.2 percent and totaled KGS 22.5 billion (Chart 3.1.1).

Source: NBKR

Assets

According to the periodic regulatory reporting, the total assets of NBFCOs in the first half of 2023 increased by 25.2 percent and amounted to KGS 41.4 billion²⁷. 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



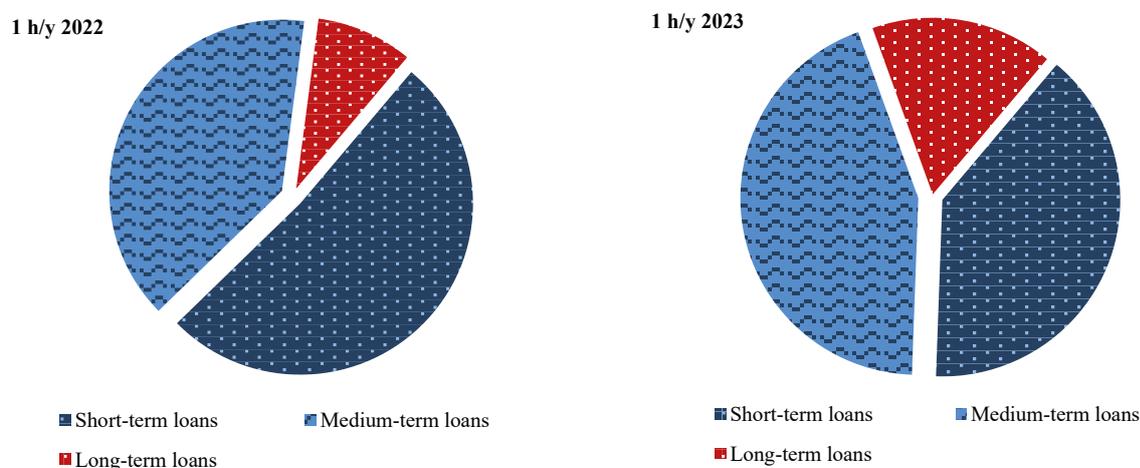
Lending remains the main activity of NBFCOs. As of June 30, 2023, the loan portfolio of NBFCOs increased by 26.2 percent and was formed in the amount of KGS 34.9 billion.

As at June 30, 2023, the number of borrowers increased by 11.3 percent compared to the same period of 2022 and amounted to 475,098 borrowers.

There was an increase in the share of long-term and medium-term loans and a decrease in the share of short-term credit resources within the maturity structure of loans provided by the NBFCOs during the first half of 2023 (Chart 3.1.3).

Source: NBKR, NBFCOs

Chart 3.1.3. Structure of the NBFCOs Loan Portfolio by Maturity²⁸



Source: NBKR, NBFCOs

The main regions where the major share of NBFCOs loan portfolio is concentrated (76.2 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.

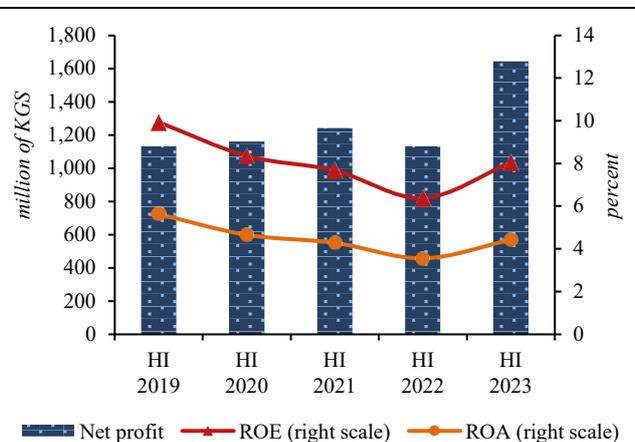
²⁷ Exclusive of SFCOs.

²⁸ Data for the period.

Revenue Position²⁹

At the end of the first half of 2023, net profit of NBFCOs increased by 45.2 percent compared to the **same period of 2022** and amounted to KGS 1.6 billion. As of June 30, 2023, ROA increased by 0.9 percentage points and amounted to 4.4 percent. ROE increased by 1.7 percentage points and constituted 8.0 percent (Chart 3.1.4).

Chart 3.1.4. Dynamics of NBFCOs Revenue Position³⁰



Source: NBKR, NBFCOs

²⁹ ROA and ROE indices are provided in annual term.

³⁰ Exclusive of SFCOs.

3.2. Risks of Non-banking Financial-Credit Organizations

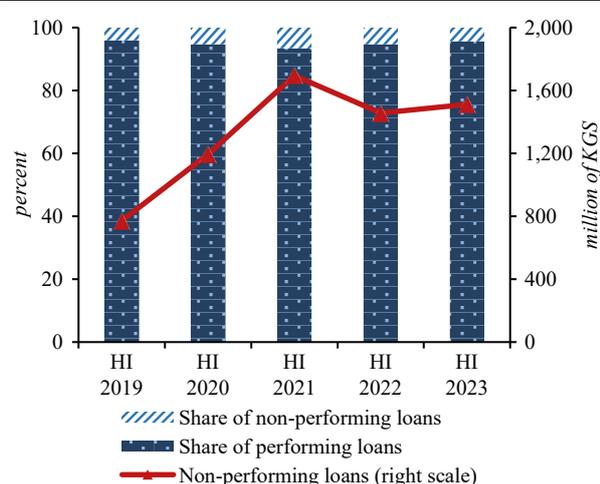
Major risk factors of the activities of NBFCOs are the quality of the loan portfolio, sectoral and institutional concentration, as well as status of the NBFCOs external debt.

Quality of the NBFCOs Loan Portfolio

As of 30 June 2023, the share of non-performing loans in the loan portfolio of NBFCOs constituted 4.3 percent, their nominal volume increased by KGS 56.1 million or 3.8 percent compared to the same period of 2022 (Chart 3.2.1).

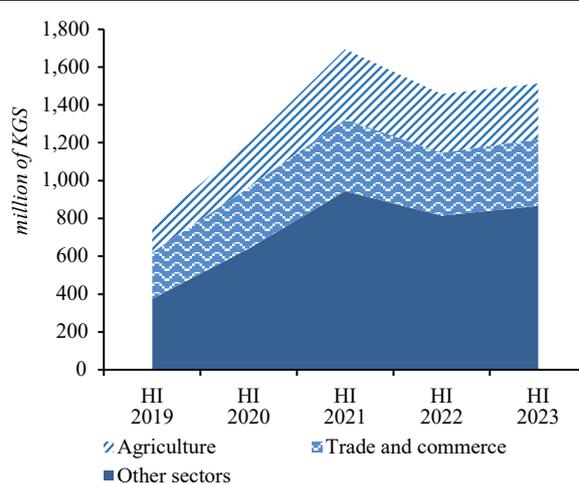
At the end of the first half of 2023, the structure of NBFCOs non-performing loans demonstrated an increase in the share of defaulting consumer loans (by 1.2 percentage points) and trade loans (by 0.5 percentage points), however, there was a decrease in the share of loans issued for agriculture (by 1.9 percentage points) compared to the same period of 2022. The share of defaulting consumer loans, loans issued for agriculture and trade in the total non-performing loans of NBFCOs constituted 36.6, 19.3 percent, and 23.4 percent, accordingly (Chart 3.2.2).

Chart 3.2.1. Quality of NBFCOs Loan Portfolio



Source: NBKR

Chart 3.2.2. Structure of NBFCOs Nonperforming Loans by Sectors of Economy



Source: NBKR

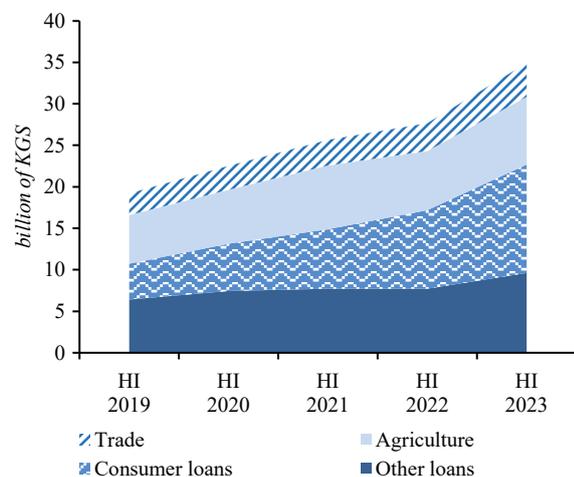
Sectoral Concentration

NBFCOs loan portfolio is concentrated in consumer loans (37.3 percent of NBFCOs total loans), as well as in the loans issued to agriculture and trade (23.4 and 11.7 percent of NBFCOs total loans, accordingly, Chart 3.2.3). Lending of agriculture is associated with significant dependence on climate conditions.

Institutional Concentration

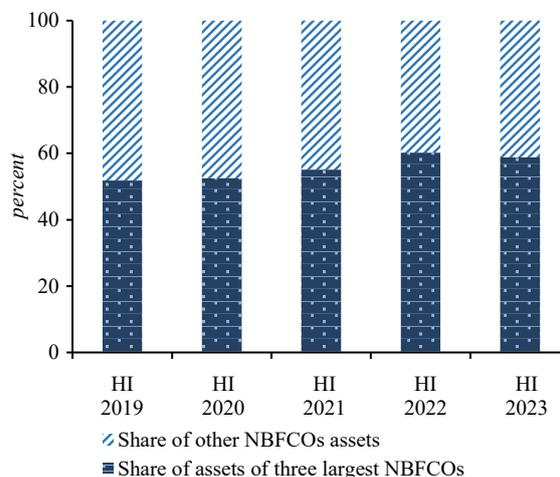
According to the results of the first half of 2023, the share of assets of three largest NBFCOs decreased by 1.4 percentage points compared to the same period of 2022 and constituted 58.8 percent of the total assets of the NBFCOs sector (Chart 3.2.4).

Chart 3.2.3. Sectoral Structure of NBFCOs Loan Portfolio



Source: NBKR, NBFCOs

Chart 3.2.4. Institutional Structure of NBFCOs Assets



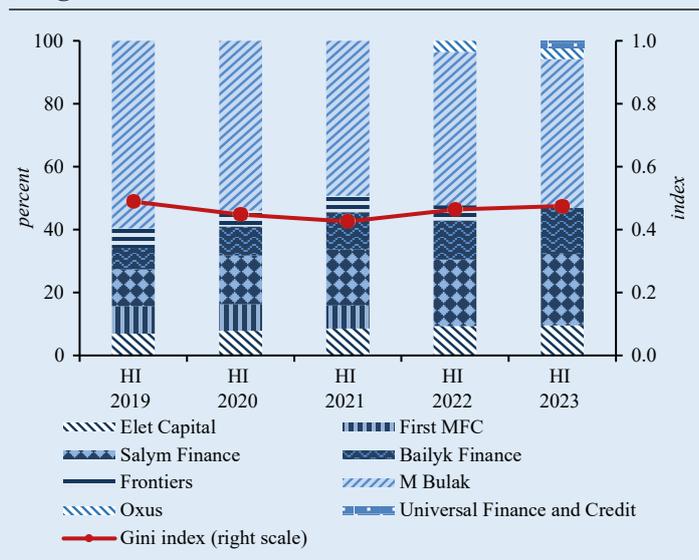
Source: NBKR, NBFCOs

Box 6. Concentration Indices based Assessment of NBFCOs Sector Activity³¹

The Herfindahl-Hirschman Index

Herfindahl-Hirschman³² index was calculated for the purposes of concentration risk analysis in the NBFCOs sector. As of June 30, 2023, Herfindahl-Hirschman index for the NBFCOs sector constituted 1,482.6 points. According to the rule of thumb³³, resulting value indicates availability of moderate concentration of NBFCOs assets or moderate concentration of microfinance market.

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



The Gini Index

The Gini index was calculated for estimating the uniformity of the NBFCOs assets distribution. As of June 30, 2023, the index value constituted 0.47. The Gini index value increased by 0.01 point compared to the first half of 2022, which indicates an increase in the level of concentration of asset distribution among 6 large NBFCOs (Chart 1).

Source: NBKR, NBFCOs

CONTENT

³¹ Concentration indices are calculated on the basis of data submitted by 6 largest NBFCOs.

³² $H = \sum_{i=1}^n (share_i)^2$.

³³ 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 June 30, 2023, the external debt of NBFCOs amounted to USD 108.8 million. Major part of the external debt of NBFCOs are loans provided by the foreign financial-credit organizations (65.6 percent of total external debt of NBFCOs), the rest (34.4 percent) are loans of the international financial institutions.

At the end of the first half of 2023, external debt of the largest NBFCOs increased by 24.5 percent compared to the same period of 2022 and amounted to USD 103.8 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.

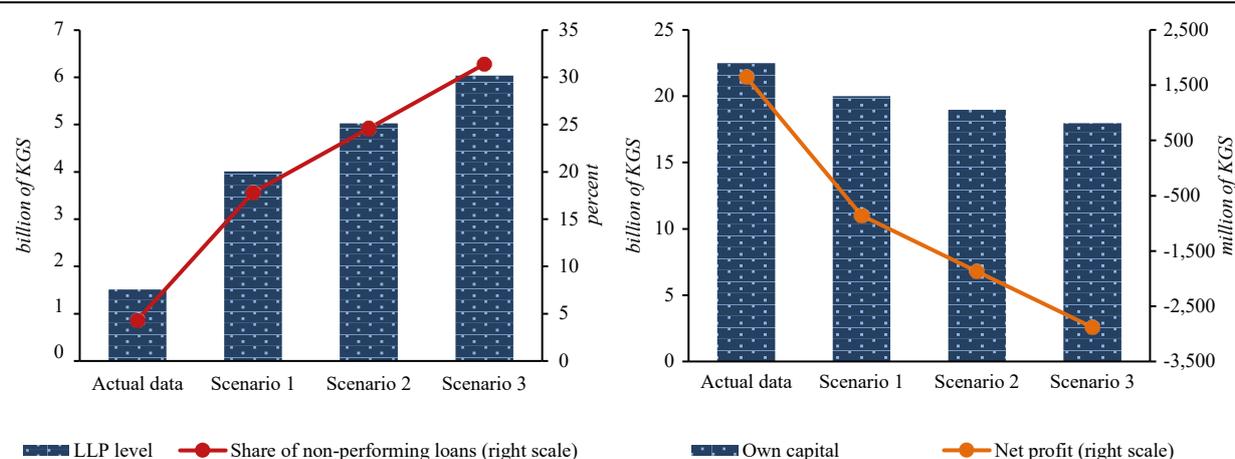
Three scenarios were considered when conducting stress testing:

- 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 provisions³⁴ in the loan portfolio of NBFCOs increased from 165.4 to 299.6 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 June 30, 2023



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 one of three scenarios implementation, the NBFCOs sector will experience losses in the amount of KGS 855.2, 1,868.7 and 2,882.2 million, accordingly (Chart 3.3.1).

³⁴ 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

	Share of non-performing loans in the loan portfolio of NBFCOs
Scenario 1: transition of 50% of loans from one category to another	17.8
Scenario 2: transition of 75% of loans from one category to another	24.6
Scenario 3: transition of 100% of loans from one category to another	31.4

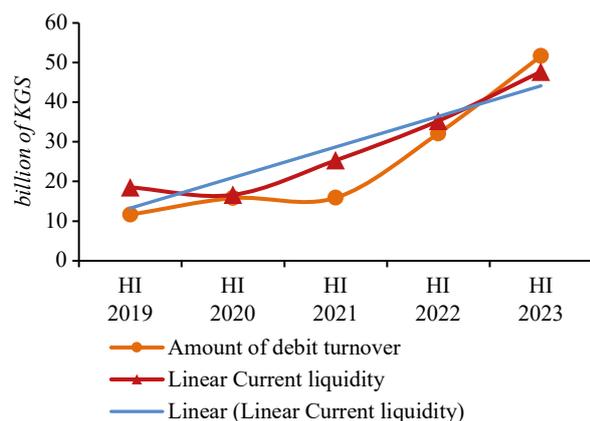
Source: NBKR

Implementation of the first scenario may result in an increase in the share of non-performing loans in the loan portfolio of NBFCOs by 13.5 percentage points, to the level of 17.8 percent. In the case of the second scenario, non-performing loans may increase by 20.3 percentage points, to the level of 24.6 percent, and in the implementation of the third scenario – by 27.0 percentage points and may reach the level of 31.4 percent.

IV. PAYMENT SYSTEMS

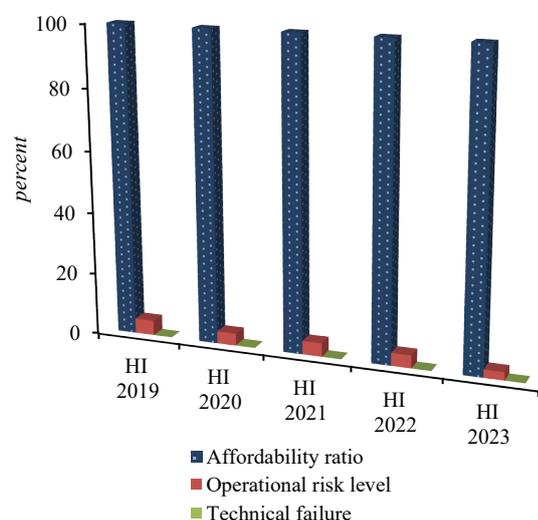
During the reporting period, the level of risks in the systemically important and significant payment systems was within the accessible limits and was conditioned by the risk management mechanisms provided for by the legislation of the Kyrgyz Republic and the rules of payment systems, in particular, by the current high level of liquidity, the system of insurance deposits and prepayments.

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



	HI 2019	HI 2020	HI 2021	HI 2022	HI 2023
Technical failure, %	0.0	0.2	0.0	0.0	0.0
Affordability ratio, %	100.0	99.8	100.0	100.0	100.0
Operational risk level, %	4.9	4.0	4.5	4.2	2.7

Source: NBKR

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

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

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

2) 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;

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

At the end of the first half of 2023, 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.

The RTGS functioned normally during the first half of 2023. 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 by 35.2 percent and amounted to KGS 47.7 billion.

During the first half of 2023, 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 2.7 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 2.7 percent taking into account incidents and extending upon request of separate participants.

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.

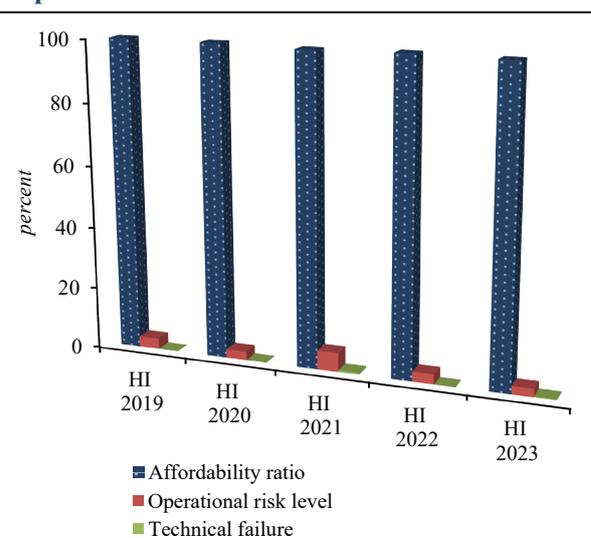
Systems of Bank Payment Cards Settlements. As of July 1, 2023, six international payment card systems, the local system «Elcart» and co-badging cards «Elcart-UPI³⁵» operated in the Kyrgyz Republic.

In the reporting period, 20 commercial banks worked with **the national system «Elcart»**.

In the first half of 2023, the results of operation monitoring and analysis indicated that the system affordability ratio was 100.0 percent, and the level of operational risks in the system was minimal.

Money transfer systems. During the first half of 2023, receipt and transfer of international remittances without opening an account in the commercial banks was carried out by means of eight international money transfer systems. The major share of payments/transfers received and forwarded was accounted for «Zolotaya Korona», «Western Union», CONTACT and «Unistream» systems.

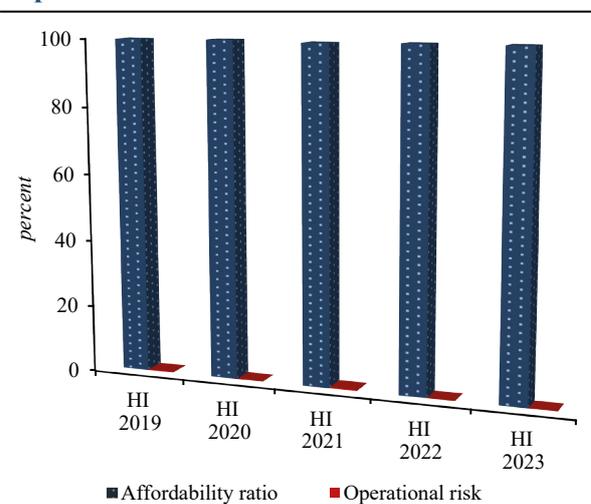
Chart 4.3. Ratio of Affordability Index and Operational Risk in the SBC



	HI 2019	HI 2020	HI 2021	HI 2022	HI 2023
Technical failure, %	0.0	0.1	0.5	0.0	0.4
Affordability ratio, %	100.0	100.0	99.5	100.0	99.6
Operational risk level, %	3.4	2.8	6.2	3.3	2.7

Source: NBKR

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



	HI 2019	HI 2020	HI 2021	HI 2022	HI 2023
Affordability ratio, %	99.8	100.0	99.7	100.0	100.0
Operational risk, %	0.2	0.0	0.3	0.0	0.0

Source: NBKR

³⁵ 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.

E-money payment systems. As of July 1, 2023, the number of e-wallets increased by 14.0 percent compared to the same period of 2022 and amounted to more than 5.9 million wallets. Among them, the number of active (identified) e-wallets is about 2,179 thousand, i.e. only 37.8 percent of the total number of e-wallets.

Indicators on turnovers with e-money for the first half of 2022 compared to the same period of 2022 were as follows:

- the volume of operations for transfer of funds between e-wallets increased by 32.2 percent compared to the same period of 2022 and amounted to KGS 11.8 billion. The number of funds transfers increased by 46.0 percent and amounted to 4.2 million operations;

- the volume of operations on payment for goods and services with e-money increased by 44.0 percent compared to the same indicator of 2022 and amounted to KGS 12.9 billion, the number of operations increased by 24.4 percent and amounted to 8.8 million operations;

- in the reporting half year, the number of operations for distribution of e-money by replenishing e-wallet increased by 22.6 percent compared to the previous half year and amounted to 5.2 million operations, meanwhile the volume of operations decreased by 7.4 percent and amounted to KGS 15.9 billion;

- the number and volume of operations on redemption of e-money decreased by 34.9 and 22.9 percent, accordingly, and totaled 1.8 million operations to the amount of KGS 8.6 billion.

Financial messaging channels. During the first half of 2023, the exchange of cross-border financial messages was made through the SWIFT telecommunications network, «bank-client» services and interbank communication network. Meanwhile, the main flow fell on the SWIFT telecommunications network.

As of July 1, 2023, the payment infrastructure of the Kyrgyz Republic included 16 payment systems to accept payments in favor of third parties, which have their own payment processing system.

Based on the analysis of the data received in the reporting period, payment system operators processed 119.2 million payments to the total amount of KGS 170.5 billion. The volume of payments increased by 2 times compared to the same period of 2022, while the number of payments increased by 36.9 percent.

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

Note: The above information was prepared, in particular, on the basis of reports submitted by the commercial banks and the payment system operators and is subject to change due to possible adjustments in reporting on their part.

V. IMPROVEMENT OF THE FINANCIAL SECTOR REGULATION

In the reporting period, development of the regulatory legal framework governing the activities of financial-credit organizations was focused on expanding access to project financing, developing the lending system, introducing digital documents, and improving the principles of Islamic finance.

1. 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 on credit risk» No.2023-P-12/22-3-(NPA) was adopted on April 5, 2023 in order to develop the crediting system and encourage the financial-credit organizations to use automated systems for issuing loans.

The Resolution provides for changes in terms of increasing the amount of loans issued on the basis of credit rating, remote service channel and loans to the individuals - agricultural producers.

2. Amendments were introduced into the Resolution of the Board of the National Bank of the Kyrgyz Republic «On approval of the Regulation «On requirements for formation, publication and submission of non-banking financial-credit organizations' financial statements to the National Bank of the Kyrgyz Republic» No.2021-P-33/53-9-(NBKU) dated September 28, 2021 by the Resolution of the Board of the National Bank of the Kyrgyz Republic No.2023-P-12/38-2-(NBKU) on June 14, 2023.

Different requirements for publication of non-banking financial-credit organizations' quarterly and annual financial statements in the mass media, on the official website and in the Public Depository of Financial Statements are stipulated within the framework of the above Resolution, depending on the type of these organizations.

3. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution «On approval of the Regulation «On minimum requirements for credit risk management when providing project financing by the commercial banks» No.2023-P-12/27-8-(NPA)» on April 26, 2023 in order to expand access to financing as well as to effectively manage the bank's credit risk when providing project financing.

The aforementioned Resolution authorizes the commercial banks to finance various infrastructure and private sector projects, including start-ups, through direct lending or/and participation in the capital of business entities.

4. The Board of the National Bank of the Kyrgyz Republic adopted 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.2023-P-12/29-1-(NPA) on April 29, 2023. The Resolution provides for changes in calculation of the maximum amount of risk on the operations with affiliated and bank-related parties, as well as other changes related to the operations with securities.

The Resolution also stipulates clarifying standards regarding the requirements for conducting external and voluntary audit by the banks and standards holding the providers of banking services liable to disclose the components of tariffs for provided services in the pricing policy.

5. On June 14, 2023, the Board of the National Bank of the Kyrgyz Republic adopted the Resolution of the National Bank's Board «On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic» to bring the regulatory legal acts of the National Bank in compliance with the adopted Resolution of the Cabinet of Ministers of the Kyrgyz Republic «On introduction of amendments into some decisions of the Government of the Kyrgyz Republic for the purpose of introducing the use of digital documents in the Kyrgyz Republic» No.637 dated November 18, 2022.

In accordance with this Resolution, the banks' clients may receive banking services upon submitting the digital versions of the documents.

6. Amendments were approved in some regulatory legal acts of the National Bank concerning Islamic bank cards by the Resolution of the Board of the National Bank of the Kyrgyz Republic «On introduction of amendments into some legal acts of the National Bank of the Kyrgyz Republic»

No.2023-P-12/38-3-(NPA) dated June 14, 2023 in order to create conditions for improving the quality and expanding access to banking services rendered in accordance with the principles of Islamic banking and finance.

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.

VaR (value at risk) is maximum possible losses in monetary terms over a certain period of time.

LIST OF ABBREVIATIONS

AsDB	– Asian Development Bank
BCS	– Bulk Clearing System
CAR	– Capital Adequacy Ratio
CB	– Commercial Bank
CJSC	– Closed Joint-Stock Company
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
FCCU	– Financial Company of Credit Unions
FCO	– Financial-Credit Organization
GDP	– Gross Domestic Product
IDA	– International Development Association
IMF	– International Monetary Fund
K3.1.	– Economic 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
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
RLA	– Regulatory and Legal Acts
ROA	– Return on Assets
ROE	– Return on Equity
PRBR	– Periodic Regulatory Bank Reporting
RTGS	– Real Time Gross Settlement System
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
SWIFT (Society for Worldwide Interbank Financial Telecommunications)	– International Interbank System to Transfer Information and Make Payments
USA	– United States of America