



**National Bank  
of the Kyrgyz Republic**

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

**according to the results  
of the first half of 2022**

**December, 2022**

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**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](mailto: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](http://www.nbkr.kg/Publications).

## CONTENT

<b>PREAMBLE</b> .....	<b>6</b>
<b>LIST OF BOXES</b> .....	<b>7</b>
<b>MAJOR CONCLUSIONS</b> .....	<b>8</b>
<b>I. MACROECONOMIC AND FINANCIAL ENVIRONMENT</b> .....	<b>9</b>
1.1. Macroeconomic Conditions and Risks .....	9
1.2. Structure of the Financial Sector .....	13
1.3. Financial Markets .....	15
1.3.1. Currency and Money Market .....	15
1.3.2. Securities Market .....	16
1.4. Real Estate Market.....	18
<b>II. BANKING SECTOR</b> .....	<b>24</b>
2.1. Major Trends of the Banking Sector Development .....	24
2.2. Banking Sector Risks.....	27
2.2.1. Credit Risk.....	27
2.2.2. Liquidity Risk .....	32
2.2.3. Concentration Risk.....	33
2.2.4. Currency Risk.....	34
2.2.5. Interest Rate Risk .....	36
2.2.6. “Contagion” Risk .....	37
2.2.7. Country Risk.....	38
2.3. “Reverse” Stress Testing of the Banking Sector.....	39
2.3.1. “Reverse” Stress Testing of Credit Risk .....	39
2.3.2. “Reverse” Stress Testing of Liquidity Risk.....	40
2.3.3. “Reverse” Stress Testing of Market Risk.....	41
<b>III. NON-BANKING AND SPECIALIZED FINANCIAL-CREDIT ORGANIZATIONS</b> .....	<b>42</b>
3.1. Main Trends.....	42
3.2. Risks of Non-banking Financial-Credit Organizations.....	45
3.3. Stress Testing of NBSFCOs Sector .....	49
<b>IV. PAYMENT SYSTEMS</b> .....	<b>51</b>
<b>V. IMPROVEMENT OF THE FINANCIAL SECTOR REGULATION</b> .....	<b>54</b>
<b>GLOSSARY AND ABBREVIATIONS</b> .....	<b>56</b>
<b>LIST OF ABBREVIATIONS</b> .....	<b>57</b>

## **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.

## **LIST OF BOXES**

<b>Box 1.</b> Housing Affordability Index .....	22
<b>Box 2.</b> Stress Testing of Impact from Price Changes in the Real Estate Market on the Banking Sector ...	23
<b>Box 3.</b> Results of the Commercial Banks' Statistical Observation: Loans .....	29
<b>Box 4.</b> Results of the Commercial Banks' Statistical Observation: Largest Clients .....	30
<b>Box 5.</b> Credit and Currency Risks .....	35
<b>Box 6.</b> Concentration Indices based Assessment of NBSFCOs Sector Activity .....	47

## MAJOR CONCLUSIONS

In the first half of 2022 there was an acceleration of GDP growth in the Kyrgyz Republic. Industry, in particular, gold mining, construction, services and agriculture were the main drivers of GDP growth rates. An increase in domestic demand was an additional impulse.

In the reporting period, despite the volatility of the KGS/USD exchange rate, there was an increase in the key indicators of the banking sector such as assets, loan portfolio, deposit base, capital, and the indicators of financial intermediation.

At the end of the reporting period, the systemic risks of the banking sector were present and assessed as moderate. The banking sector has a high level of capital adequacy, which indicates that there is potential for further increasing the level of financial intermediation, the efficiency of functioning and ensuring the stability of the banking sector in the future.

In the reporting period, development of the regulatory framework governing the activities of the financial-credit organizations was mainly focused on maintaining stability in the banking system due to the current geopolitical situation.

The level of risks in the systemically important and significant 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 payment systems, the current high level of liquidity, the system of insurance deposits and prepayment.

## I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

### 1.1. Macroeconomic Conditions and Risks

*In January-June 2022, there was acceleration in GDP dynamics of the Kyrgyz Republic. The industry, in particular, the gold mining sector was the main growth driver. The GDP growth rate also increased due to resumed activity in such sectors as construction, services, and agriculture. An increase in domestic demand was an additional impulse.*

*Inflation in the trading partner countries was among the main factors that affected inflation in the Kyrgyz Republic, as an increase in imported inflation influenced the overall inflation. The world economy was and is under the pressure of geopolitical risks, as well as unstable economic situation and high price volatility in the world commodity markets, therefore the inflation rate in the world, including the Kyrgyz Republic, remained high.*

*In the public finance sector, a budget surplus was observed year-to-date due to more active receipt of tax revenues resulted from growth of economic activity, as well as measures taken for fiscalization of tax and customs procedures despite significant increase in expenses in terms of wages of the public sector employees.*

#### *External Conditions*

Economic development in the main trading partners of the Kyrgyz Republic was ambiguous among escalating geopolitical situation, acceleration of global inflation and ongoing pandemic COVID-19. Economic activity in Russia was characterized by significant decline conditioned by large-scale restrictions. Economic activity in Kazakhstan demonstrated multidirectional dynamics year-to-date with its slowdown at the end of the half-year and was supported by demand fiscal stimulation and oil prices. In the first half of the year, economy of China demonstrated slowdown due to ongoing zero-tolerance coronavirus policy and multiple lockdowns, the situation in the real estate sector, barriers to foreign trade, and low demand for Chinese products.

Generally, the global economy is under the influence of structural adjustment of economic processes, which affect economic growth, trade, and demand.

#### *Internal Conditions*

##### *Gross Domestic Product*

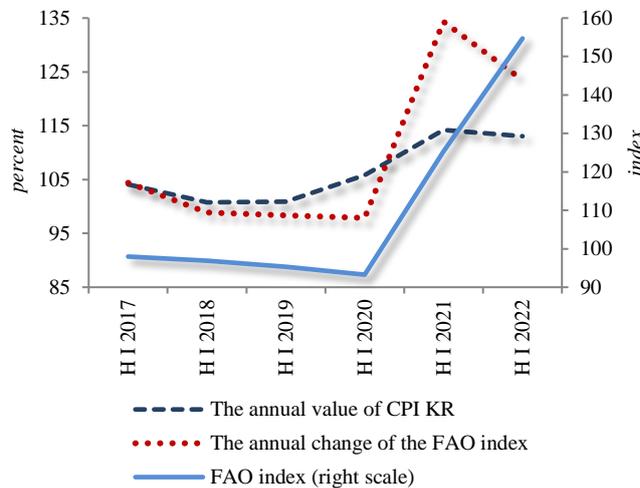
During the first half of the year, economic activity demonstrated positive dynamics. In January-June 2022, the GDP growth rate made 6.3 percent, which is partially conditioned by the low base in the corresponding period of 2021, when there was a decline of 1.5 percent. In the reporting period, the GDP growth rate, without “Kumtor” gold-mining enterprises, made 3.9 percent (in the corresponding period of 2021, an increase by 3.2 percent). Growth rates of almost all sectors demonstrated steady recovery in the real sector, among which the highest growth rates were observed in the sectors of industry (14.6 percent), services (4.0 percent) and construction (3.4 percent). The key growth driver was the processing industry at Kumtor, production output rates thereof were significant mainly due to substantially low base of the previous year (+32.0 percent). Decrease of production output in the energy sector observed year-to-date had a restraining impact on economic development.

In the reporting period, the sectors of industry (+3.0 p.p.), as well as services (+1.9 p.p.) traditionally made the most significant positive contribution to economic growth. There was a positive input from the processing industry (+3.1 p.p.) in the industrial sector, of which the contribution of production output at “Kumtor” gold-mining enterprises made 2.8 p.p.

GDP deflator was formed positive at 13.9 percent, having decreased by 3.2 p.p. compared to January-June 2021.

**Inflation**

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



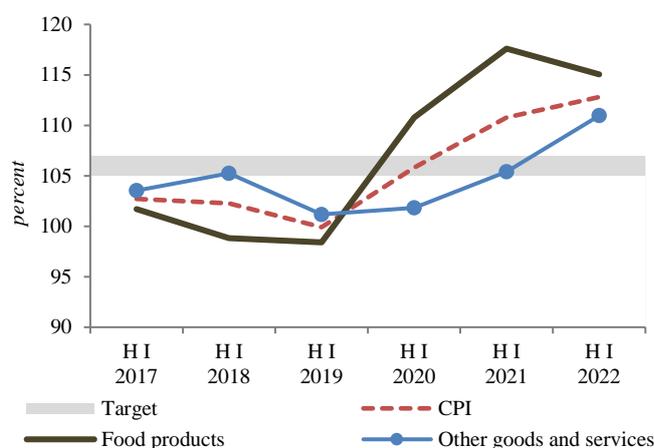
Source: NSC KR

High world prices for basic food products continued to put significant upward pressure on prices in the Kyrgyz Republic. In the first half of 2022, the FAO index reached the highest level ever. Thus, the world prices for a number of basic food products (cereals, vegetable oils, sugar) increased due to reduction of export supplies from Russia<sup>1</sup> and Ukraine, the state of crops in other exporting countries, as well as the forecasts for the harvest.

Global inflation demonstrate high levels. Excessive stimulation of the economy during the pandemic by the central banks and the governments of developed countries, disruption of commodities supply chains, uncertain geopolitical risks, as well as sharp rise in prices in the world commodity markets are the main reasons for rise in global inflation.

<sup>1</sup> In Russia, grain and sunflower oil are subject to restrictions in the form of quotas and duties.

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



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

There was acceleration of price growth for meat, sugar, vegetable oil, flour and petroleum, oil and lubricants (contribution to CPI – 7.0 p.p.) in all countries of the region (including the Kyrgyz Republic). Remarkably that the prices for the main goods increased substantially even in the producing countries amid significant increase in prices in the world markets.

There was rise in prices for the group “alcohol drinks and tobacco products” after annual (from January 1, 2022) increase in excise duty on tobacco and alcohol products. In addition, growth of prices in the services sector and increase in prices for non-food products put positive pressure on CPI. The “RUB-KGS” pair began to make additional contribution to the overall inflation under the current conditions in the market of the Kyrgyz Republic.

Under these conditions, the efforts of the National Bank were focused on mitigating the negative effect from the external sector and restricting the influence of monetary factors on the price level in the Kyrgyz Republic.

### *Labor Market and Wages*

According to the Ministry of Labor, Social Security and Migration of the Kyrgyz Republic, as of July 1, 2022, the number of unoccupied people in search of work registered at the state employment service decreased by 4.1 percent compared to the similar date in 2021 and constituted 100.6 thousand people. The registered unemployment rate decreased by 0.2 p.p. compared to the indicator of 2021 due to the economic recovery and made 2.9 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 2022, the average monthly nominal wage per one employee increased by 23.9 percent compared to the indicator of 2021 and amounted to KGS 23.9 thousand. In the reporting period of 2022, real wages increased by 9.8 percent compared to the corresponding period of 2021.

Thus, decrease in the number of unemployed people and increase in real wages contribute to the growth of economic activity by increasing domestic demand.

The current price movement in the economy of the Kyrgyz Republic is primarily conditioned by rise in prices for food products and energy resources worldwide. According to the NSC KR, in June 2022, CPI constituted 13.1 percent in annual terms (in January – 11.2 percent). In the reporting period, the inflation rates, which accelerated in 2021, continued to increase.

The current inflation rate was primarily conditioned by growth of prices for food products. Growth of prices for food products – about 51.3 percent of existing annual inflation rate made the main contribution to annual inflation rate or contribution to CPI of 6.7 p.p.

### ***State Budget***

In the first half of 2022, the state budget of the Kyrgyz Republic was executed with a surplus of 1.4 percent to GDP. The state budget revenues were actively replenished by tax revenues due to growth of economic activity in the country, increase in prices for goods and services, as well as fiscalization of tax and customs procedures. Thus, the volume of state budget revenues amounted to KGS 135.5 billion, 77.2 percent thereof are tax revenues, 18.7 percent are non-tax revenues and 4.2 percent are received official transfers. In the reporting period, the state budget expenses for operating activities increased by 28.5 percent compared to the same period of 2021 and amounted to KGS 100.2 billion, mainly due to an increase in wages of the public sector employees. This increase in wages can have a stimulating effect on aggregate demand in the long term and put upward pressure on the inflation rate in the country.

As of the end of June 2022, public debt amounted to USD 5.2 billion (+1.4 percent year-to-date) or 58.2 percent to GDP. The public debt of the country was formed and increased due to attracted external credit funds, as well as domestic borrowing. At the end of the reporting period, high share of external borrowings (80.2 percent) remained in the structure of the public debt.

### ***Macroeconomic Risks***

In the reporting period, the economy of the Kyrgyz Republic and the main trading partners of the country were in the state of uncertainty due to the growth of geopolitical risks. Under such conditions, there are risks of economic growth through domestic demand, money transfers, volumes of investments, etc. 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.

Geopolitical uncertainty and high level of global inflation will continue to put pressure on the price level. An increase in wages of the public sector employees, the state and municipal employees, as well as growth of pensions and social payments will put additional upward pressure on prices. Inflation risks resulted from previously delayed increase in tariffs for electricity and hot water supply will affect prices at the end of 2023. At the same time, the inflation rate will return to the medium-term target closer to 2024.

Preservation of the high share of external borrowings, as well as the global price increase may prevent from more rapid economic recovery in the country. At the same time, the policy conducted by the Ministry of Finance of the Kyrgyz Republic provides for an increase in domestic borrowings by developing the market of long-term government securities, which will reduce the share of public debt in foreign currency, however, on the other hand, it may require an increase in the cost of domestic debt service.

## 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)

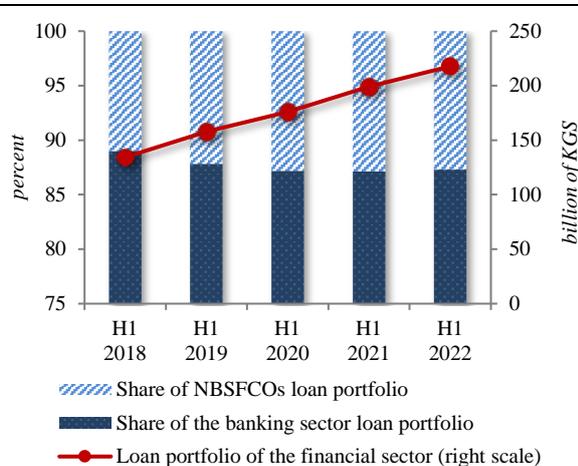
Financial institutions	H1 2018	H1 2019	H1 2020	H1 2021	H1 2022
<b>Commercial banks</b>	<b>25</b>	<b>25</b>	<b>23</b>	<b>23</b>	<b>23</b>
<b>Other financial companies, including:</b>	<b>681</b>	<b>672</b>	<b>650</b>	<b>609</b>	<b>614</b>
<b>Non-banking and specialized financial-credit organizations (NBSFCOs), including:</b>	<b>657</b>	<b>649</b>	<b>627</b>	<b>606</b>	<b>611</b>
Microfinance organizations, including:	148	139	134	134	130
microcredit companies	98	92	87	87	85
microcredit agencies	42	39	38	38	35
microfinance companies	8	8	9	9	10
Specialized Financial-Credit Organization	1	1	1	1	1
Credit offices	1	2	2	2	2
Credit unions	108	96	93	91	86
Exchange offices	398	410	396	377	390
OJSC "Guarantee fund"	1	1	1	1	1
<b>Insurance companies</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>-</b>	<b>-</b>
<b>Investment funds</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>-</b>	<b>-</b>
<b>Stock exchanges</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Pension funds</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>

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

As of the end of the first half of 2022, assets of the banks and the NBSFCOs constituted KGS 414.9 billion or 53.1 percent to GDP.

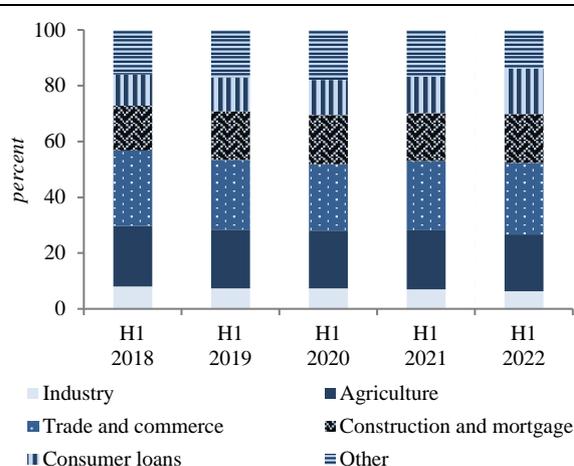
In the first half of 2022, the total loan portfolio of the financial sector constituted KGS 217.7 billion or 27.9 percent of GDP. The share of the banks' loans in the loan portfolio of the financial sector increased by 0.2 p.p. and at the end of the first half of 2022 made 87.3 percent (Chart 1.2.1).

**Chart 1.2.1. Structure of the Loan Portfolio**



Source: CBs and NBSFCOs

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



Source: CBs and NBSFCOs

The high concentration of loans was still observed in the trading sector (banks) and consumer loans (NBSFCOs) within the sectoral structure of the loan portfolio in the financial sector. 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 2022 constituted 41.9 percent of total issued loans and amounted to KGS 91.2 billion (Chart 1.2.2).

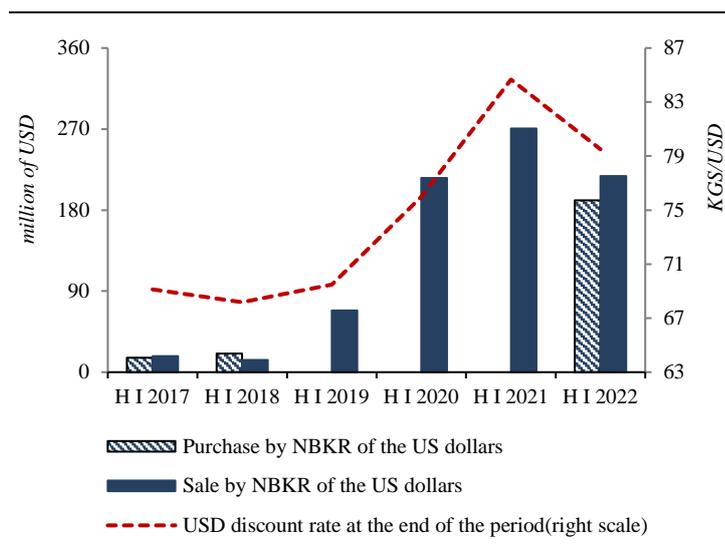
### 1.3. Financial Markets

The situation in the domestic foreign exchange market was characterized by volatility of the exchange rate amid geopolitical uncertainty. In some periods, there was an increased demand for foreign currency in cash, which was due to termination of supplies of US dollars and euros in cash to Russia by the central banks of the USA and the eurozone countries. The National Bank conducted foreign exchange interventions for purchase and sale of foreign currency to prevent significant fluctuations of the exchange rate, as well as took a number of anti-crisis measures, which contributed to restraining the outflow of US dollars in cash from the country. Due to excess liquidity, the volume of transactions in the money market decreased compared to the corresponding period of 2021, meanwhile, in the reporting period, the market of the National Bank's notes demonstrated expansion. The long-term securities are still the most attractive for the domestic and foreign investors compared to the short-term ones in the government securities market, which, in turn, is primarily due to the policy conducted by the Ministry of Finance.

#### 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**



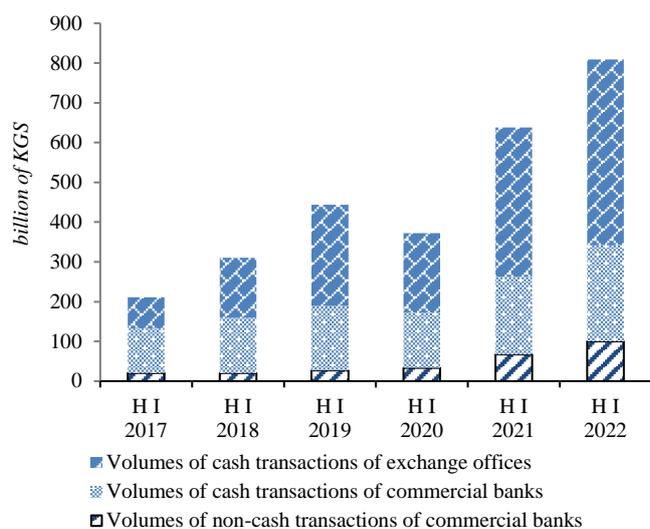
The situation in the domestic foreign exchange market amid geopolitical uncertainty was characterized by volatility of the exchange rate based on the situation in the foreign exchange markets of the countries-main trading partners of the Kyrgyz Republic. In some periods, there was an increased demand for foreign currency in cash due to termination of supplies of US dollars and euros in cash to Russia by the central banks of the USA and the eurozone countries. The resulting shortage of US dollars in cash was the main reason for the growing difference in the exchange rates of non-cash and cash US dollars due to the deficit of the latter. There was a similar situation in other countries of

the region. An additional factor for cash U.S. dollars shortage was the operations of the individuals conducted for speculative profits arising from the difference in the value of cash and non-cash US dollars in the foreign exchange markets of the countries in the region.

In order to ensure economic security of the country and minimize the adverse effects of the crisis, the National Bank of the Kyrgyz Republic took a number of anti-crisis measures, which contributed to restraining the outflow of cash US dollars to realize speculative profit - profit due to the difference in the value of cash and non-cash US dollars in the foreign exchange markets of the trading partner countries. As of the end of June 2022, the USD/KGS official exchange rate was 79.5000 KGS/USD, having decreased by 6.2 percent compared to the end of 2021 and by 24.3 percent compared to the highest official exchange rate of 105.0000 KGS/USD as of March 16.

The National Bank conducted foreign exchange interventions for sale of foreign currency in the amount of KGS 217.7 million and purchase of US dollars in the amount of KGS 190.7 million to prevent significant fluctuations in the exchange rate.

**Chart 1.3.1.2. The volume of purchases and sales of foreign currency by type of transactions (in equivalent of KGS)**



Source: NBKR

In the reporting period, the total volume of foreign exchange purchase and sale transactions in the foreign exchange market, including transactions with non-residents increased by 26.8 percent, up to KGS 809.0 billion. The increase in the volume of transactions was observed with all currencies, except for the Kazakh tenge.

Generally, the transactions are still conducted in cash, meanwhile, in the reporting period, in the structure of cash transactions, the largest share 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 value, the volume of transactions on purchase and sale of foreign currency increased in all types of currencies, except for the Kazakh tenge.

### Money Market

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

In the first half of 2022, the volume of transactions in the interbank credit market decreased by 48.1 percent compared to the same period of 2021 and amounted to KGS 10.9 billion. In the reporting period, the standard transactions were not conducted in the national and foreign currencies, thus all transactions were conducted on repo terms. The average weighted rate in the interbank market was 11.7 percent to be significantly higher than 4.8 percent registered in the first half of 2021. The average weighted terms increased from 3.6 days in the corresponding period of 2021, up to 4.5 days.

In the reporting period, the volume of overnight loans provided by the National Bank to support the banks' short-term liquidity increased by 15.1 percent compared to the first half of 2021 and amounted to KGS 16,582.5 million. The volume of funds placed by the commercial banks on overnight deposits increased by more than 2 times compared to the first half of 2021 and amounted to KGS 1,253.9 billion.

### 1.3.2. Securities Market

In the first half of 2022, the short-term segment of government securities was characterized by low activity of participants and was represented only by the state treasury bills (ST-Bills) with a maturity of 12 months<sup>2</sup>, meanwhile the auctions on ST-Bills placement were recognized as valid only in January, February and June, the auctions were not held in other months due to lack of demand from the participants.

According to the results of auctions, as well as additional placements, the sales of ST-Bills amounted to KGS 206.2 million with the weighted average yield of 8.20 percent.

Long-term government securities are still the most attractive for the investors compared to the short-term ones. In 2022, 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, when ST-Bonds with longer maturities of 15 and 20 years were offered to the market

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

participants. At the end of the first half of 2022, the volume of ST-Bonds supply at the auctions increased by 2.1 times compared to the first half of 2021, meanwhile, the total volume of ST-Bonds sales taking into account additional placements increased by 34.8 percent.

The rates in the long-term segment grew amid negative consequences of the pandemic, geopolitical uncertainty and accelerated inflation. In the reporting period, the total weighted average yield of ST-Bonds was formed at 14.17 percent (+3.44 p.p.).

In the reporting period, transactions with ST-Bills and ST-Bonds were not conducted in the secondary market.

The market of the National Bank's notes demonstrated peak indicators under the conditions of high level of excess liquidity in the banking system, which was characterized by growth of demand, supply and sales of these securities. In the reporting period, the National Bank notes market was represented by 7-, 14-, 28-, and 91-day notes. The largest volume of sales fell on the National Bank's notes with a maturity of 14 days. In the reporting period, the weighted average yield of the National Bank's notes increased from 6.89 percent in January up to 13.44 percent in June.

## 1.4. Real Estate Market

At the end of the first half of 2022, there was a slowdown in the price index<sup>3</sup> growth rate in the real estate market of the Kyrgyz Republic due to a decrease in prices for individual houses compared to the same period of 2021.

In addition, there was an increase in the average wages, which had a favorable impact on the housing affordability index.

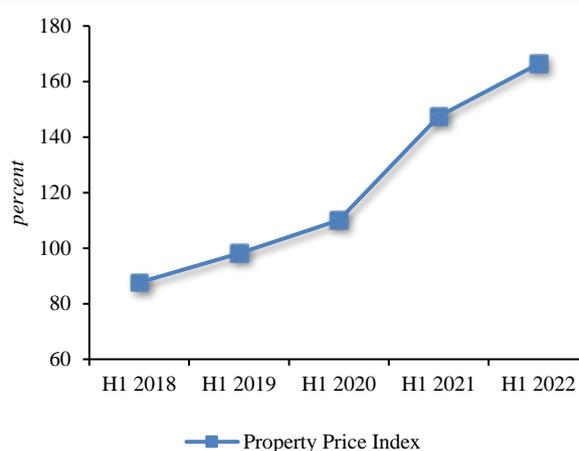
Risks to the financial sector from the real estate market remain moderate, which was conditioned by a low share of mortgage loans<sup>4</sup> in the total loan portfolio of the banks.

At the end of the first half of 2022, a slowdown in the growth rate of the property price index from 19.0 to 6.9 percent, and an increase in the property basis price index from 147.4 percent to 166.4 percent were observed in the Kyrgyz Republic due to a decrease in prices of individual houses by 1.2 percent with an increase in apartment prices by 15.0 percent compared to the same period of 2021.

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



**Chart 1.4.2. Basis Price Index Growth Rate in the Real Estate Market<sup>5</sup>**



Source: LRS under MA KR, NBKR calculations

Source: LRS under MA KR, NBKR calculations

As of June 30, 2022, the average price for 1 square meter of housing (apartments) in Osh increased by 18.8 percent, up to KGS 50.2 thousand, in Bishkek – by 13.5 percent, up to KGS 64.8 thousand compared to the same period of 2021. The average price for 1 square meter of individual houses in Osh increased by 8.0 percent, up to KGS 67,6 thousand, in Bishkek, the average price decreased by 5.3 percent, down to KGS 67.5 thousand.

In the first half of 2022, the number of transactions on the real estate purchase and sale increased by 7.6 percent and amounted to 27,948. In particular, the transactions on purchase and sale of the apartments

<sup>3</sup> The Laspeyres index method was used in developing price index for the real estate.

In general, the Laspeyres index is computed as follows:

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

where

$K$  = number of real estate types;

$Q_{oi}$  = number of real estate of type  $i$  in the base period;

$P_{oi}$  = price of real estate of type  $i$  in the base period;

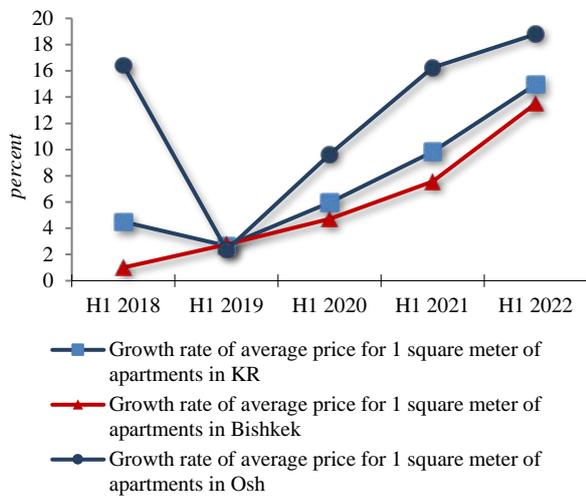
$P_{ti}$  = price of the real estate of type  $i$  in the current period.

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

<sup>5</sup> The year 2010 was taken as the base period.

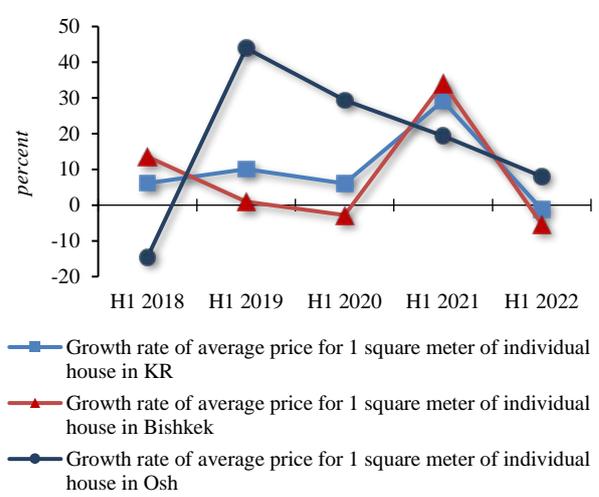
increased by 13.0 percent and the transactions on purchase and sale of the houses increased by 0.6 percent compared to the same period of 2021 and amounted to 16,655 and 11,293, accordingly.

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



Source: LRS under MA KR, NBKR calculations

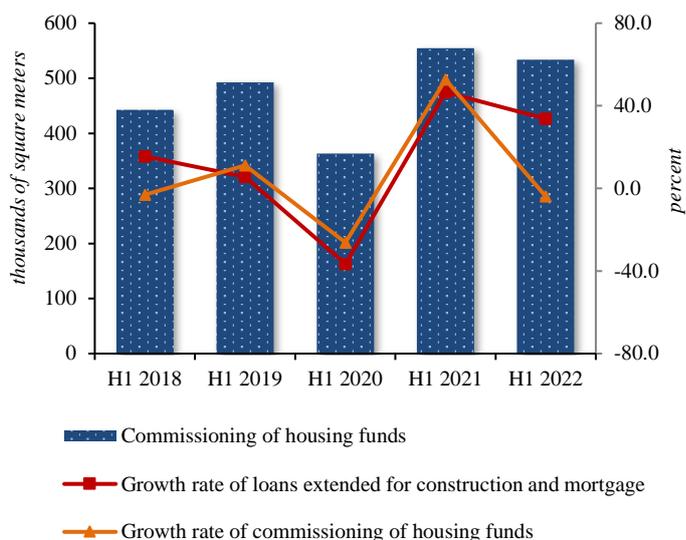
**Chart 1.4.4. Dynamics of Price Changes for Individual Houses**



Source: LRS under MA KR, NBKR calculations

**There was a decrease in the level of housing funds commissioning.** At the end of the first half of 2022, the decrease in the aggregate level of housing funds commissioning constituted 3.8 percent compared with the same period of 2021 mainly due to a decrease in the volume of housing funds commissioning in Bishkek and Osh cities, as well as in Naryn region. Other regions demonstrated growth of this indicator (Table 1.4.1).

**Chart 1.4.5. Dynamics of Housing Commissioning and Loan Extended for Construction and Mortgage<sup>6</sup>**



Source: NSC KR, NBKR calculations

<sup>6</sup> Data for the period.

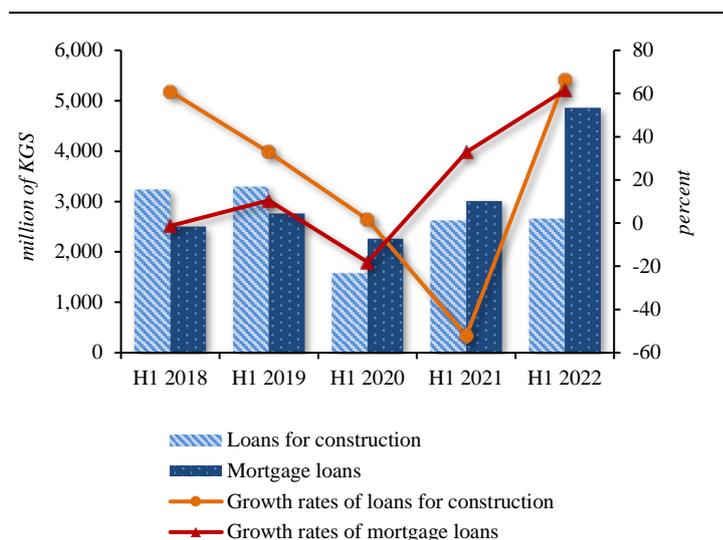
**Table 1.4.1. Geographic Structure of Commissioned Housing**

	HI 2021		HI 2022	
	Total commissioned area thous. sq.m	Share of total area, %	Total commissioned area thous. sq.m	Share of total area, %
Bishkek city and Chui region	184.6	33.3	150.0	28.1
Osh city and Osh region	133.8	24.1	139.8	26.2
Other regions of KR	236.2	42.6	243.6	45.7
<b>Total</b>	<b>554.6</b>	<b>100.0</b>	<b>533.4</b>	<b>100.0</b>

Source: NSC KR

As of June 30, 2022, there was an increase in the volume of loans issued for finance construction and mortgage loans compared to the same period of 2021. Thus, in the first half of 2022, the volume of loans extended for construction increased by 1.6 percent (up to KGS 2.7 billion), and the volume of mortgage loans increased by 61.5 percent (up to KGS 4.9 billion). The sector of construction and mortgage demonstrated growth in the volume of loans extended in the national and foreign currency.

**Chart 1.4.6. Loans Extended for Construction and Mortgage<sup>7</sup>**



Source: CBs, NBKR

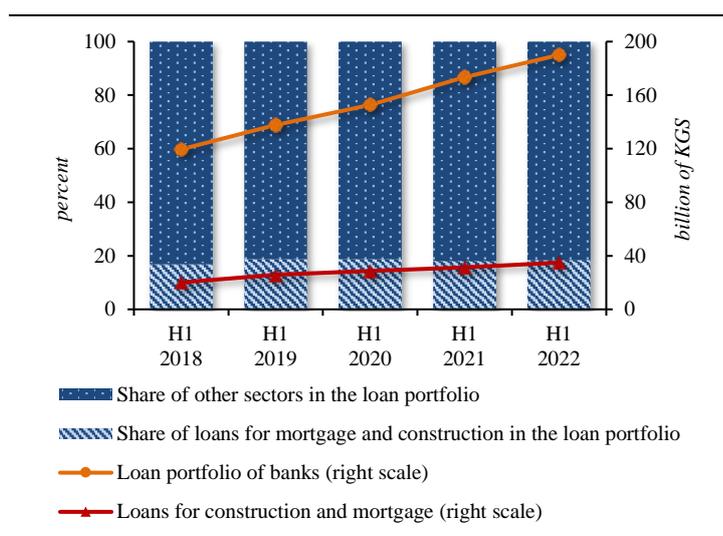
At the end of the first half of 2022, residential houses are generally constructed and commissioned at the expense of the population (99.1 percent of their total commissioning)<sup>8</sup>.

As of June 30, 2022, the share of loans for construction and mortgage increased by 0.3 p.p. and constituted 18.4 percent (Chart 1.4.7) in the total loan portfolio of the commercial banks.

<sup>7</sup> Data for the period.

<sup>8</sup> "Social and economic situation of the Kyrgyz Republic (January-June 2022)", NSC KR.

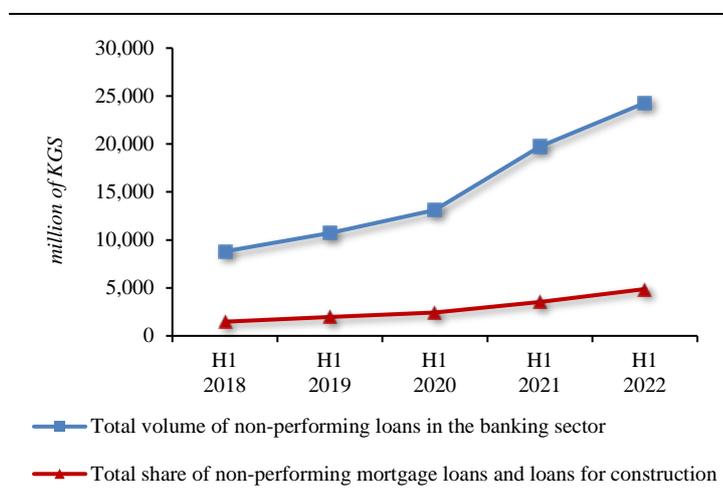
**Chart 1.4.7. Total Share of Loans for Mortgage and Construction in the Loan Portfolio of Commercial Banks<sup>9</sup>**



Source: CBs, NBKR

The total volume of non-performing loans for mortgage and construction increased by 38.1 percent and amounted to KGS 4,878.0 million. Therefore, the aggregate share of non-performing loans in the aforementioned sectors increased by 2.2 p.p. as of the end of the first half of 2022 and constituted 20.1 percent of the total volume of non-performing loans of the banking sector (Chart 1.4.8). Moreover, the volume of non-performing loans for mortgage and construction in foreign currency increased by 32.2 percent and amounted to KGS 3,121.9 million.

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



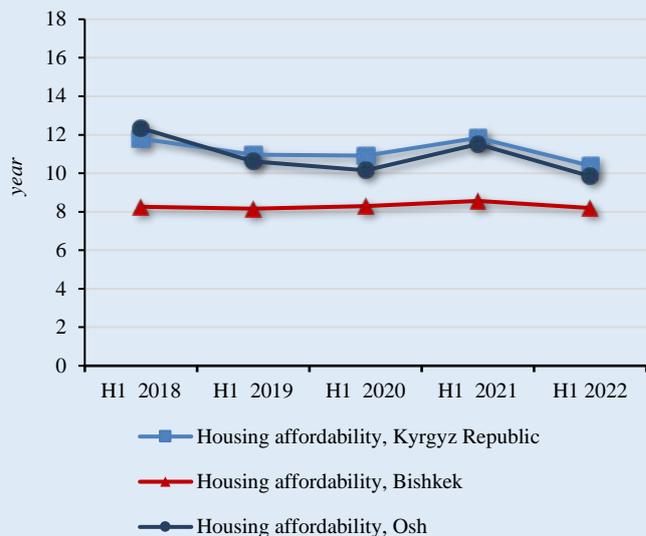
Source: CBs

<sup>9</sup> Data as of the end of period.

### Box 1. Housing Affordability Index

As of June 30, 2022, the housing affordability level in the Kyrgyz Republic decreased from 11.8 to 10.4 compared to the same period of 2021. This is due to the growth rates of the average monthly nominal wages (9.5 percent) outrunning the growth rates of real estate prices (by 8.7 percent) (Chart 1).

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



Sources: NSC KR, LRS under MA KR, NBKR

According to the results of the first half of 2022, to purchase an apartment of 54 square meters in the Kyrgyz Republic one should save the average monthly nominal wage of the family consisting of three people, where the income is received by two people, and the minimum consumer budget of KGS 21,954.7 (45.9 percent of total family income), for 10.4 years with other conditions being equal.

### Box 2. Stress Testing of Impact from Price Changes in the Real Estate Market on the Banking Sector<sup>10</sup>

As of June 30, 2022, the share of loans, secured by pledged real estate, constituted 27.0 percent of the total volume of loans in the loan portfolio of the banks. The volume of pledged real estate (at collateral value) constituted 67.2 percent of the total collateral of the loan portfolio.

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

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

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

Scenario	Potential losses of the banking sector	Potential losses of large banks	Risk of capital adequacy ratio violation
“Historical” scenario* (decrease in price for real estate by 23% per a year)	-----	-----	1 bank
“Alternative” scenario (decrease in price for real estate by 40% per 2 years)	KGS -8.3 billion	KGS -5.5 billion	2 banks
“Negative” scenario (decrease in price for real estate by 50% per a year)	KGS -23.2 billion	KGS -15.5 billion	4 banks

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

In addition to 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 a decrease in profits and losses of individual banks if prices for the real estate decrease by 32.7 percent, large banks – by 32.4 percent. There is a risk of violation of the capital adequacy ratio by the banking sector, as well as by the large banks when prices for real estate are likely to decrease by 58.7 and 51.5 percent, respectively.

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

<sup>10</sup> Stress test was conducted on the basis of the commercial banks’ data provided in the course of the survey as of June 30, 2022.

## II. BANKING SECTOR

*At the end of the first half of 2022, growth of the main indicators of the banking sector: assets, capital, deposit base, and loan portfolio was observed compared to the first half of 2021.*

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

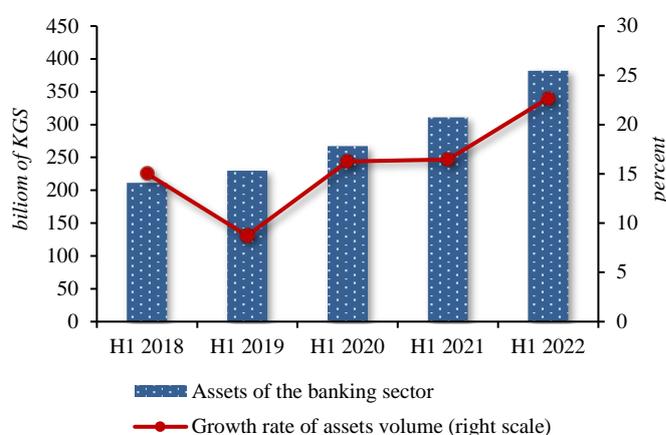
### 2.1. Major Trends of the Banking Sector Development

As of June 30, 2022<sup>11</sup>, 23 commercial banks (including the Bishkek branch of the National Bank of Pakistan) and 316 bank branches worked in the territory of the Kyrgyz Republic, among which there were 15 banks with foreign participation in the capital, including 11 banks with foreign participation in the amount of more than 50 percent. All banking institutions of the country are universal by the type of business.

#### Assets

Generally, at the end of the first half of 2022, assets amounted to KGS 381.8 billion, having increased by 16.4 percent compared to the first half of 2021 (Chart 2.1.1).

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



The growth of assets was mainly provided by increase of:

- the loan portfolio by 9.6 percent or KGS 190.1 billion;

- liquidity in the form of cash and funds on the correspondent accounts by 51.9 percent or KGS 38.4 billion.

The share of loan portfolio in the structure of assets constituted 49.8 percent, having decreased by 6.0 p.p. compared to the first half of 2021.

Source: NBKR

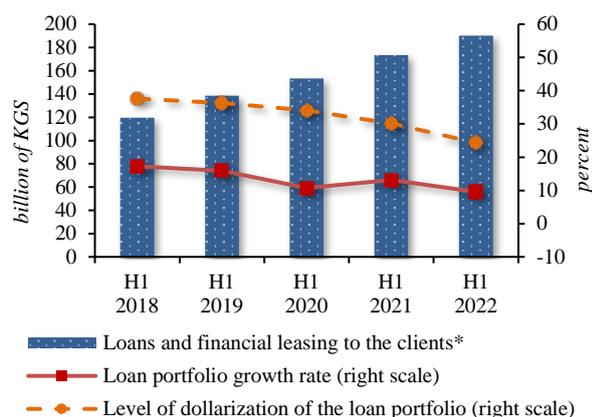
#### Loan Portfolio

In the first half of 2022, growth of the banks' loan portfolio was observed in all main sectors of economy.

At the end of the reporting period, the level of dollarization of the loan portfolio in the banking sector decreased by 5.8 p.p. compared to the first half of 2021 and amounted to 24.3 percent (Chart 2.1.2).

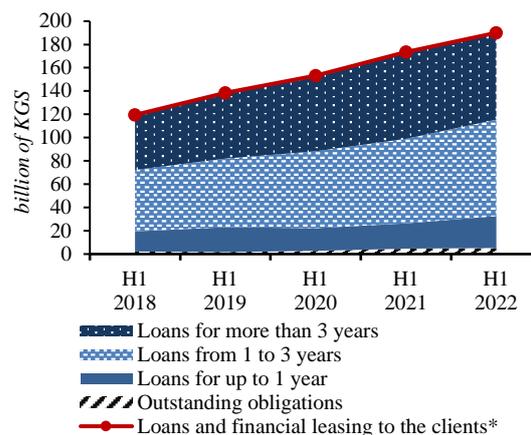
<sup>11</sup> The data are submitted according to periodic regulatory reporting of the commercial banks (PRBR).

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



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

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



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

In the structure of the loan portfolio by maturity, the major shares are accounted for long-term loans<sup>12</sup> – 39.3 percent, or KGS 74.7 billion, and medium-term loans<sup>13</sup> issued for 1-3 years – 43.5 percent or KGS 82.7 billion (Chart 2.1.3).

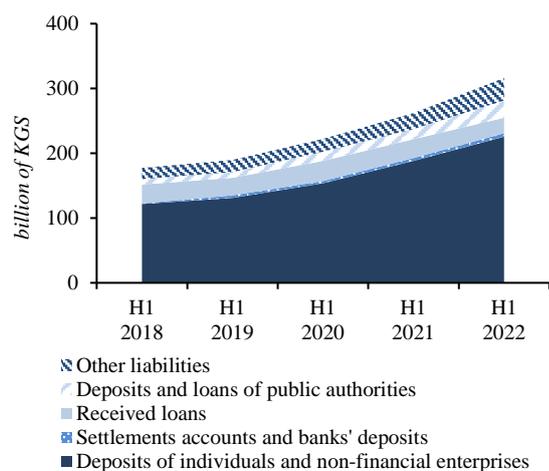
### Liabilities

At the end of the first half of 2022, liabilities of the banking sector of the Kyrgyz Republic increased by 21.6 percent compared to the first half of 2021 and amounted to KGS 318.4 billion.

At the end of reporting period, deposits of individuals and non-financial enterprises increased by 19.8 percent and amounted to KGS 225.4 billion (Chart 2.1.4). The share of individuals' and non-financial enterprises' deposits in the banks' liabilities decreased by 0.5 p. p. and amounted to 71.3 percent.

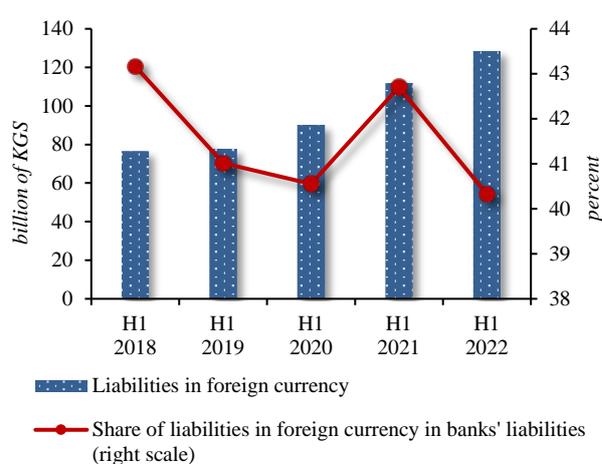
The share of liabilities in foreign currency in the total volume of attracted funds decreased by 2.4 p.p. and amounted to 40.3 percent (Chart 2.1.5).

**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

<sup>12</sup> Long-term loans are the loans extended for a period of more than three years.

<sup>13</sup> Medium-term loans are the loans issued for a period from 1 to 3 years.

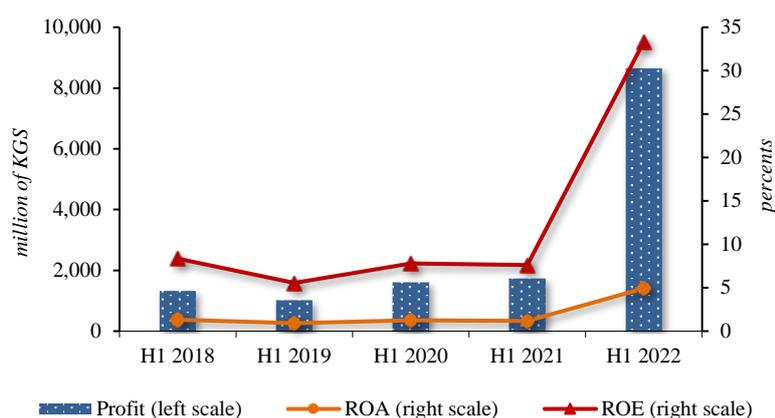
### Financial Results

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

- ROA constituted 4.9 percent;
- ROE formed at 33.3 percent.

Net profit of the banking sector increased by 5.0 times and amounted to KGS 8.6 billion (Chart 2.1.6).

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

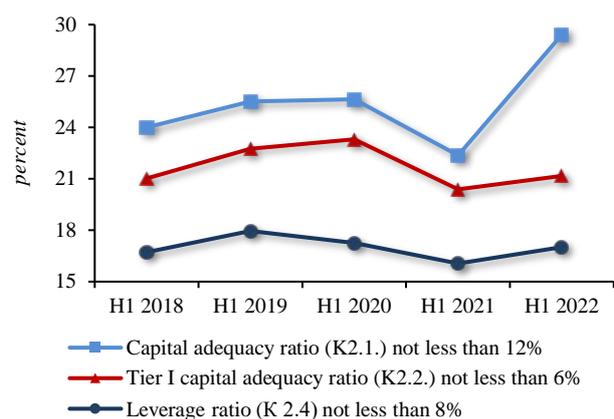


Source: NBKR

### Capital Adequacy

With statutory minimum capital adequacy at 12.0 percent, at the end of the first half of 2022, this figure increased by 3.4 p.p. compared to the first half of 2021 and amounted to 29.4 percent (Chart 2.1.7).

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



Source: NBKR

At the same time, the actual level of capital adequacy in the banking sector, generally formed according to the results of the first half of 2022, can further increase the volume of risky and earning assets by almost 2.0 times, without exceeding established level of capital adequacy.

The abovementioned information indicates relative stability of the banking sector to negative shocks and the presence of certain potential to increase the level of financial intermediation and efficiency of the banking sector activity in the future.

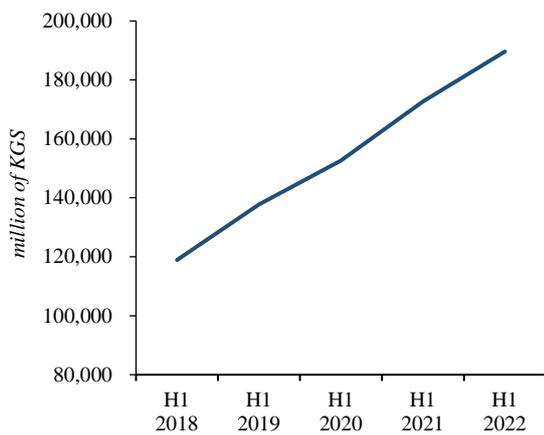
## 2.2. Banking Sector Risks

### 2.2.1. Credit Risk

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

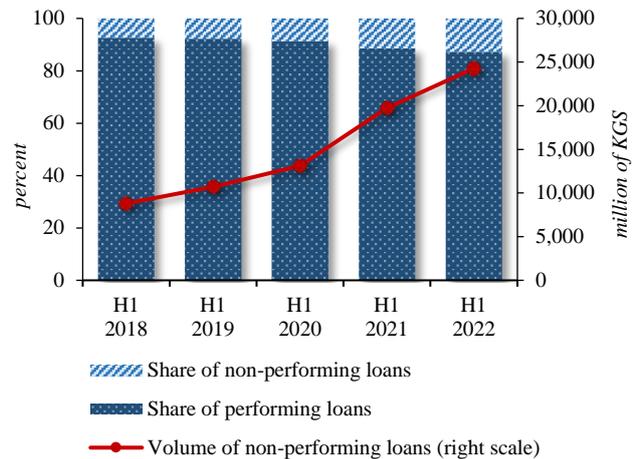
In the reporting period, the share of non-performing loans in the loan portfolio of banks increased from 11.4 percent to 12.8 percent compared with the first half of 2021 (Chart 2.2.2).

Chart 2.2.1. Dynamics of Loan Portfolio



Source: NBKR

Chart 2.2.2. Loan Portfolio Quality

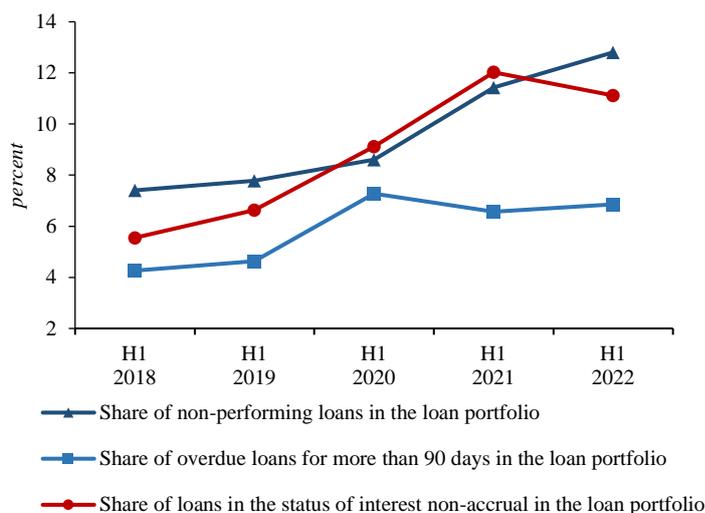


Source: NBKR

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

The indicator of the risk of default on assets (the ratio of special loan loss provisions and loan portfolio) increased by 1.4 p.p. compared to the first half of 2021 and constituted 8.1 percent.

Chart 2.2.3. Indicators of the Loan Portfolio Quality

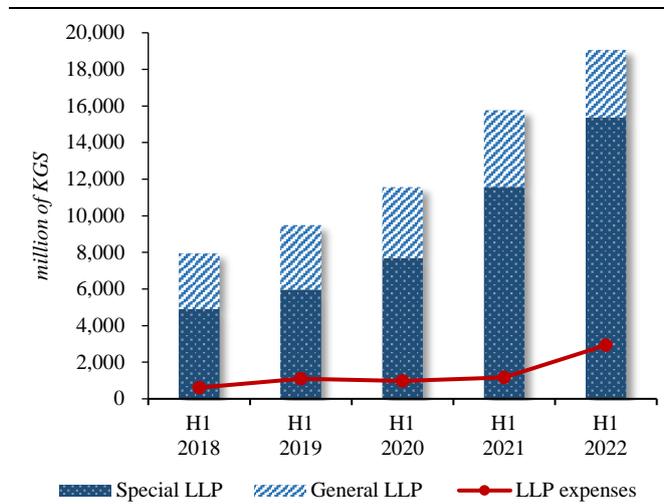


Source: NBKR

Aggregate reserves created by the commercial banks increased by 0.9 p.p. compared to the first half of 2021 and constituted 10.1 percent of the total loan portfolio.

Meanwhile, the share of special loan loss provision in the first half of 2022 constituted 73.5 percent of the total reserves (Chart 2.2.4).

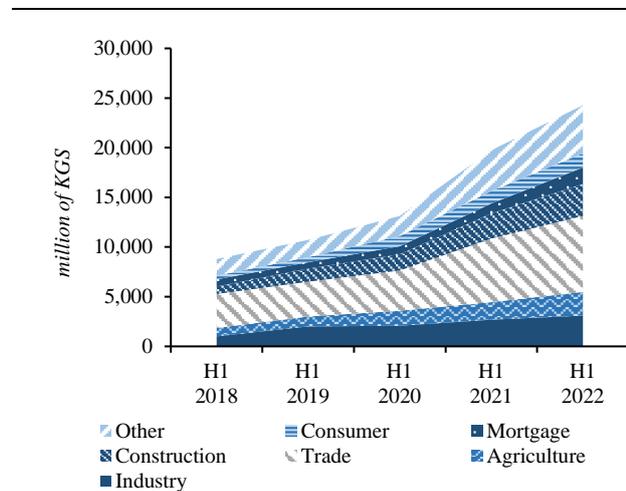
**Chart 2.2.4. Total and Special Reserves**



Source: NBKR

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

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

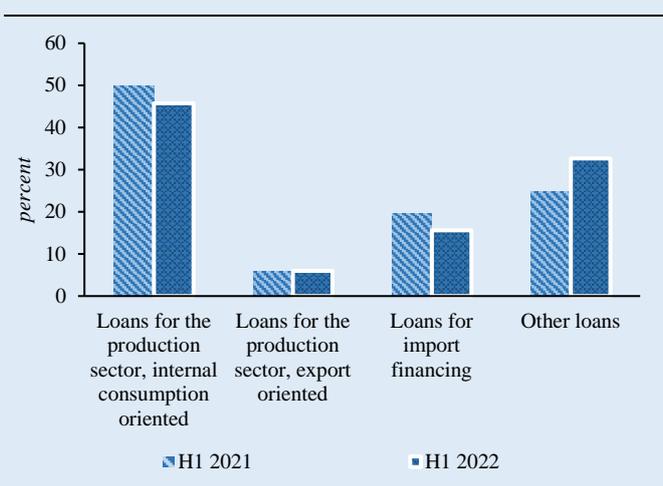


Source: NBKR

### Box 3. Results of 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 (45.7 percent of total borrowers' loans) was still concentrated in the production sector of the economy<sup>14</sup>, thereby reflecting contribution of the banking sector in creation of the country's GDP, meanwhile, 15.6 percent of issued loans were forwarded for financing of imports (Chart 1).

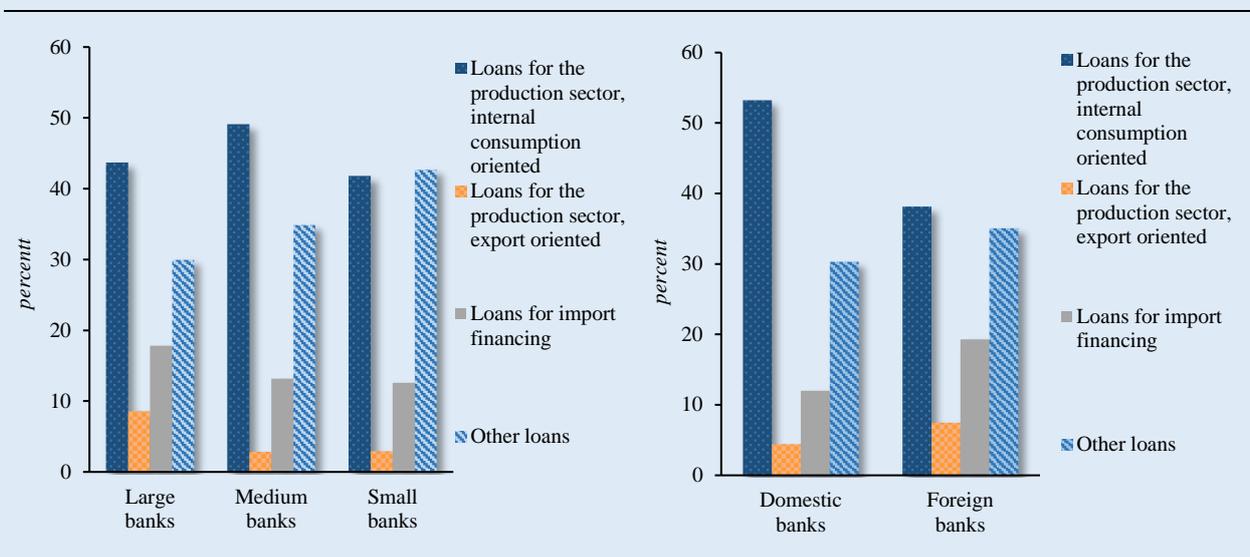
**Chart 1. Sectoral Structure of Loans as of June 30, 2022**



Domestic banks forwarded 53.2 percent of the loan portfolio to the production sector (GDP) and 12.0 percent – to finance imports. Generally, foreign banks also provided loans to the production sector of economy (38.2 percent). In the first half of 2022, the share of loans forwarded to finance imports constituted 19.3 percent of the loan portfolio (Chart 2).

Source: CBs

**Chart 2. Sectoral Structure of Loans by the Groups of Banks as of June 30, 2022**



Source: CBs

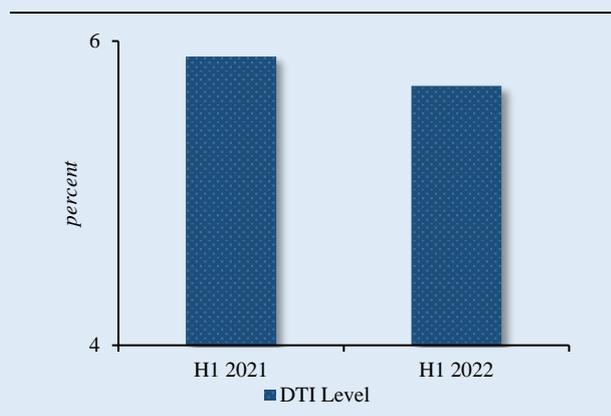
<sup>14</sup> The production sector means the activity of the bank clients connected with the production of goods and services (construction, communication and automobile repair shop services, transport services, real estate leasing, hotels, restaurants, etc.).

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

##### Borrowers solvency

At the end of the first half of 2022, the level of debt burden of 15 banks' largest clients calculated through DTI index<sup>15</sup> decreased by 0.2 p.p. compared to the same indicator in the first half of 2021 and constituted 5.7 percent.

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



By the groups of banks, the largest debt burden was observed in the major borrowers of the *small banks* (9.3 percent of the borrowers' basic income) (Table 1). At the same time, the lowest level of debt burden was observed in the major borrowers of the *medium banks* and constituted 3.3 percent.

Source: CBs, NBKR

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

	Banking sector	Large banks	Medium banks	Small banks
Loan balance, <i>billions of KGS</i>	73.3	42.6	25.7	5.1
Share of loans in 15 largest borrowers in the total volume of loan portfolio in the banking sector, in %	38.3	41.1	33.8	42.9
Ratio of expenses for loan debt servicing to the borrowers' total income, in %	5.7	7.3	3.3	9.3

Source: CBs, NBKR

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

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

	Domestic banks	Foreign banks
Loan balance, <i>billions of KGS</i>	34.1	39.2
Share of loans in 15 largest borrowers in the total volume of loan portfolio in the banking sector, in %	35.4	41.2
Ratio of expenses for loan debt servicing to the borrowers' total income, in %	5.2	6.0

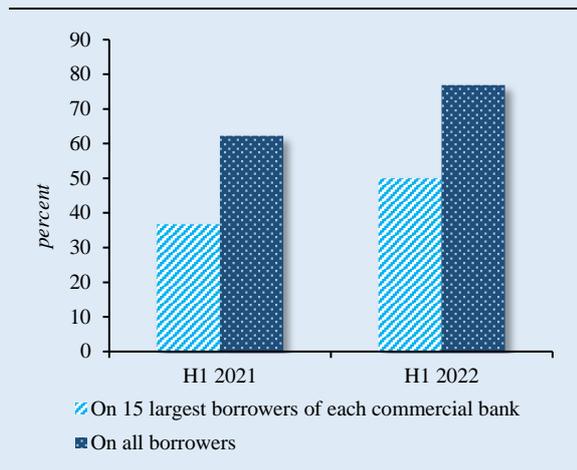
Source: CBs, NBKR

<sup>15</sup> DTI (debt-to-income) is the ratio of the amount of the borrowers' payments on loans (including the amount of principal and interest payments for the reporting period) to the main annual income of the borrower declared at the time of issuing a loan.

*Security of the borrowers' loans*

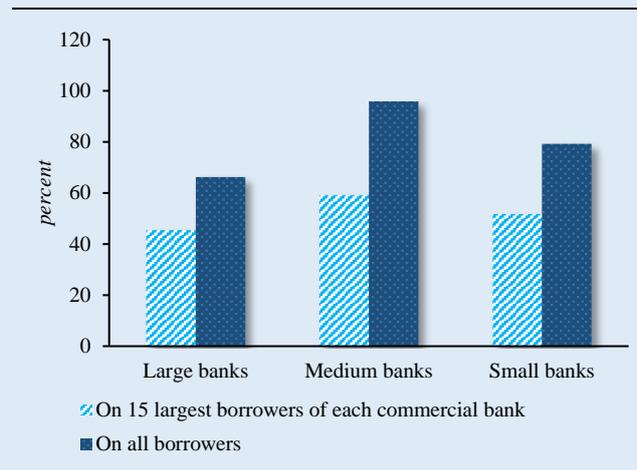
At the end of the first half of 2022, the LTV actual level<sup>16</sup> in the banking sector amounted to 76.9 percent. The existing level of collateral indicates a relatively high level of the loans secured by the pledged property (Chart 2).

**Chart 2. LTV Level on All Borrowers and on 15 Largest Borrowers of Each Commercial Bank as of June 30, 2022**



Source: CBs, NBKR

**Chart 3. LTV Level on All Borrowers and on 15 Largest Borrowers by the Banks' Groups as of June 30, 2022**



Source: CBs, NBKR

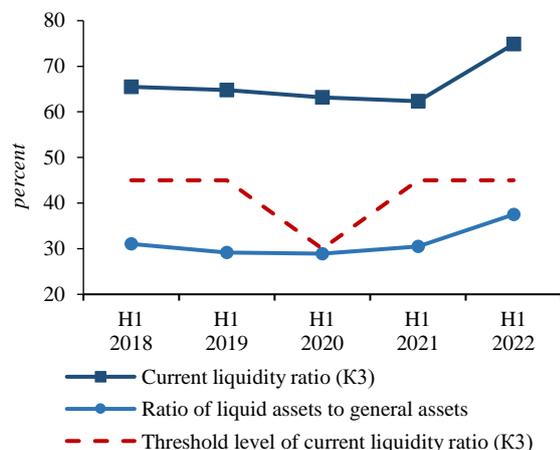
Meanwhile, the LTV value in the large banks is lower than in the small and medium banks and in the banking sector as a whole (Chart 3).

<sup>16</sup> LTV (loan-to-value ratio) is the ratio of issued loans to the value of collateral.

### 2.2.2. Liquidity Risk

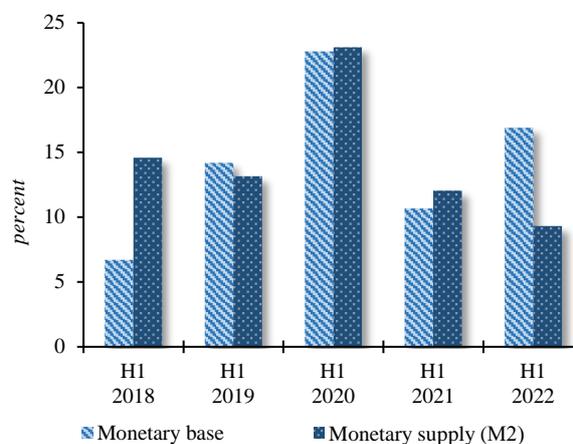
At the end of the first half of 2022, current liquidity ratio increased from 62.3 percent (at the end of the first half of 2021) up to 74.9 percent (Figure 2.2.11).

**Chart 2.2.11. Liquidity Indicators in the Banking Sector**



Source: NBKR

**Chart 2.2.12. 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.

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

as of June 30, 2022, millions of KGS

Name	Maturity					Total
	up to 1 month	1-3 months	3-6 months	6-12 months	more than 12 months	
Total financial assets	170,329	15,420	14,230	28,310	174,446	402,736
including loans and financial leasing to the clients	9,484	7,256	11,982	25,178	135,723	189,623
Total financial liabilities	202,802	12,153	17,788	37,087	43,332	313,162
including deposits of individuals and time deposits of legal entities	69,033	8,364	13,509	27,925	19,778	138,609
Gap	-32,473	3,268	-3,558	-8,777	131,115	89,574
Including on loans and deposits	-59,549	-1,108	-1,526	-2,747	115,944	51,014

### 2.2.3. Concentration Risk

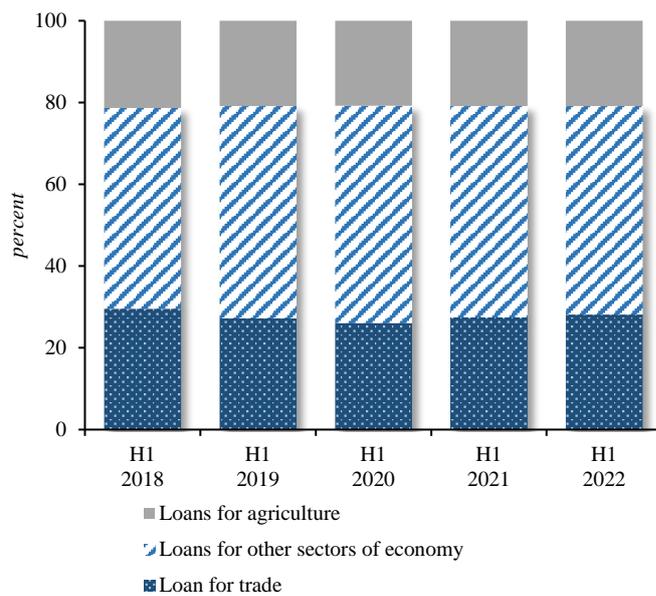
#### Concentration of the Largest Sources of Financing

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 2.2.13. Sectoral Concentration of the Loan Portfolio**



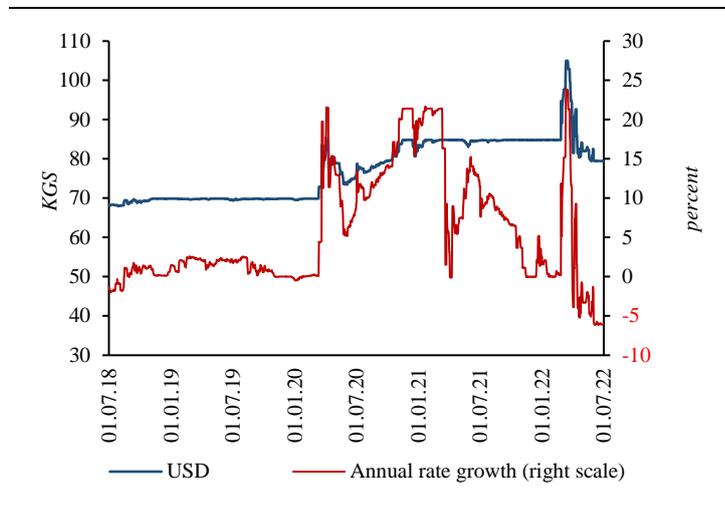
Increase of the level of trade loans concentration was observed in the sectoral structure of loan portfolio amid increase of lending to all sectors. At the end of the first half of 2022, the share of loans for trade increased slightly from 27.5 percent to 28.1 percent (Chart 2.2.13).

Source: CBs, NBKR

### 2.2.4. Currency Risk

At the end of the first half of 2022, the annual average level of *currency risk* in the banking sector was at a moderate level.

**Chart 2.2.14. Dynamics of USD/KGS Nominal Exchange Rate**

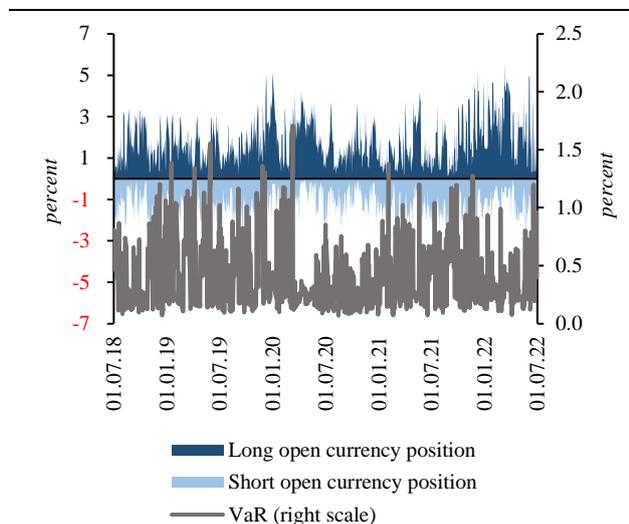


In general, the banks kept open currency positions of assets and liabilities within the limits set by the prudential standards of the National Bank of the Kyrgyz Republic.

In the first half of 2022, the risk of currency position overestimation in the banking sector was minimum (VaR: 0.1-1.3 percent of the net total capital, Chart 2.2.15) i.e. the banks adhered to a conservative policy when conducting operations with foreign currency and were weakly exposed to currency risk.

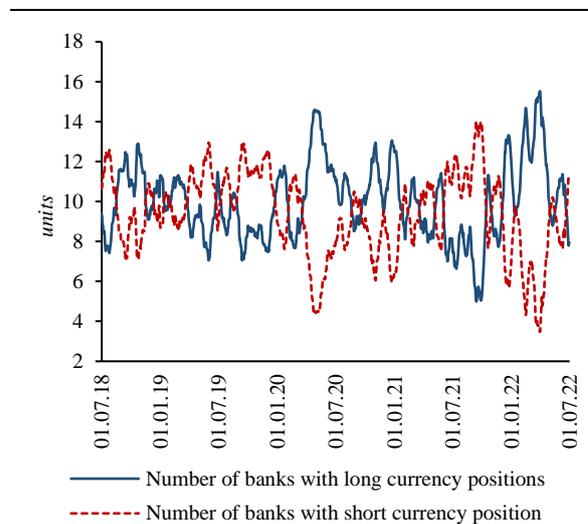
Source: NBKR

**Chart 2.2.15. Dynamics of Open Currency Position (OCP) and Revaluation Risk (VaR) in percent of NTC**



Source: NBKR

**Chart 2.2.16. Currency Position of the Banks**



Source: NBKR

### Box 5. Credit and Currency Risks

As of June 30, 2022, 14.8 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.

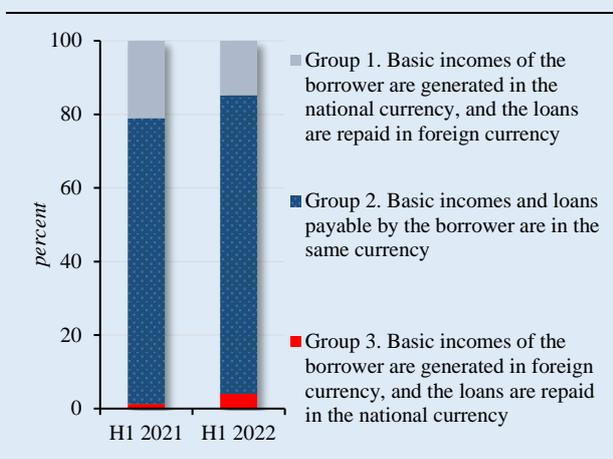
The impact made by the currency risk on the credit risk is given in Chart 2 that displays the proportion of non-performing loans by groups of loans:

- Group 1 – 32.4 percent, basic incomes of the borrower are generated in the national currency, and the loans are repaid in foreign currency;

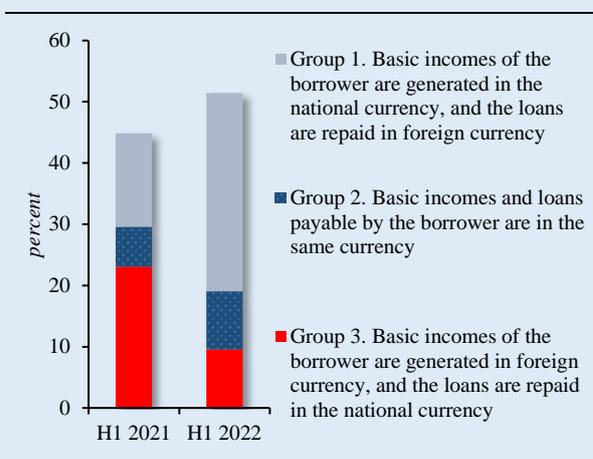
- Group 2 – 9.5 percent, basic incomes and loans payable by the borrower are generated in the same currency;

- Group 3 – 9.6 percent, basic incomes of the borrower are generated in foreign currency, and the loans are repaid in the national currency.

**Chart 1. Loan Portfolio by Groups of Loans<sup>17</sup>**



**Chart 2. Share of Non-performing Loans by Groups of Loans<sup>18</sup>**



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

<sup>17</sup> Breaking of loans into groups is presented in this chart. For example, the volume of loans for Group 1 as of June 30, 2022 amounted to KGS 27.7 billion or 14.8 percent of the total loan portfolio.

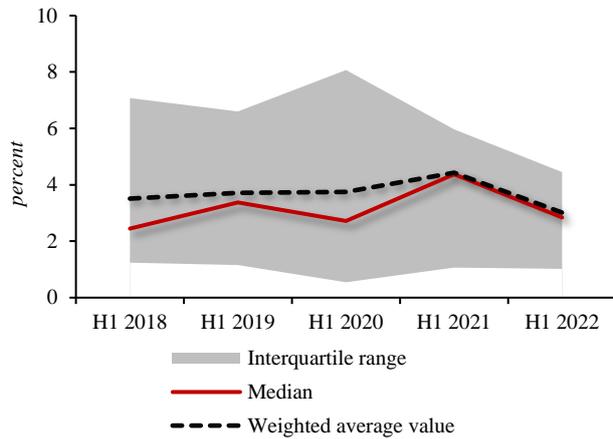
<sup>18</sup> This chart shows the shares of non-performing loans in the loan portfolio by each group of loans. For example, the volume of non-performing loans for Group 1 as of June 30, 2022 amounted to KGS 9.0 billion or 32.4 percent of the total loan portfolio for Group 1 (KGS 27.7 billion).

### 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 – first half of 2021 was within accessible limits (2.4-4.4 percent of net total capital).

**Chart 2.2.17. Dynamics of Interest Rate Risk (VaR)**  
in percent of NTC



Source: NBKR

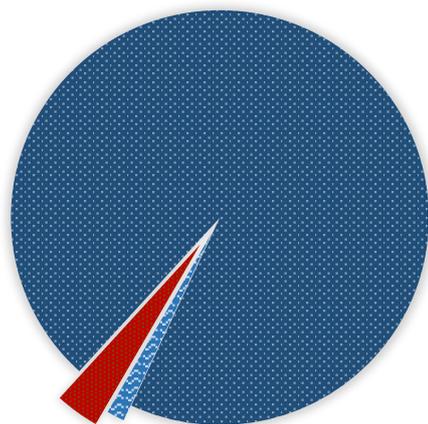
### 2.2.6. “Contagion” Risk

The purpose of this analysis is to assess the “contagion” risk in case of interbank lending, which can set off chain-reaction upon occurrence of problems with liquidity in one bank.

At the end of the first half of 2022, the volume of interbank loan transactions amounted to KGS 10.9 billion<sup>19</sup>.

**Chart 2.2.18. Distribution of Interbank Loan Transactions Made during the First Half of 2022 between Resident Banks, Depending on Collateral**

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■ ST-Bills   ■ ST-Bonds   ■ Notes

The loans in the interbank market are generally covered by collateral in the form of highly liquid government securities (Chart 2.2.18) 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.

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Source: NBKR

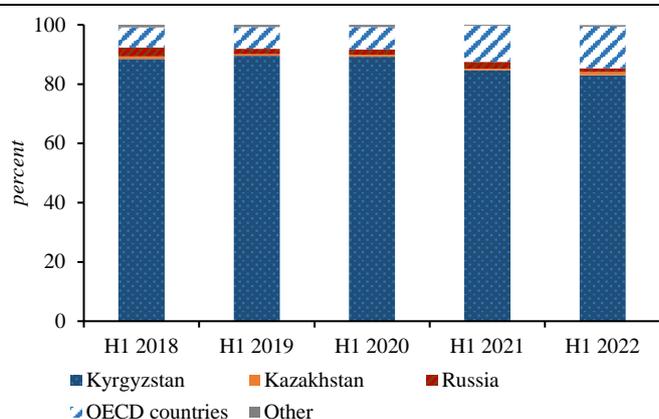
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<sup>19</sup> The total volume of transactions made between the resident banks during the first half of 2022 is meant here.

### 2.2.7. Country Risk

As of June 30, 2022, according to the commercial banks, the aggregate volume of placed assets of non-residents constituted KGS 69.4 billion or 17.0 percent of the total banking sector assets. The highest concentration of placement was observed in the OECD countries – 82.4 percent (KGS 57.2 billion) of placed -residents’ assets.

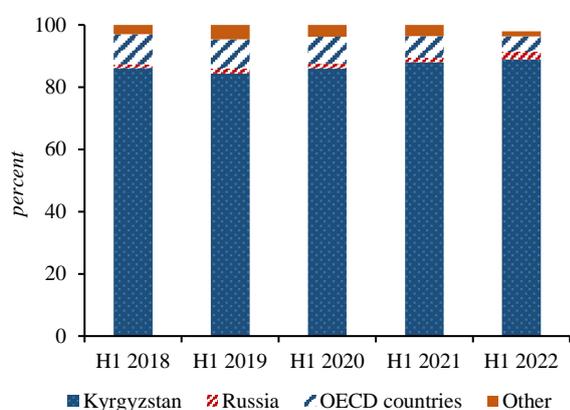
**Chart 2.2.19. Geographic Structure of Assets**



Source: NBKR

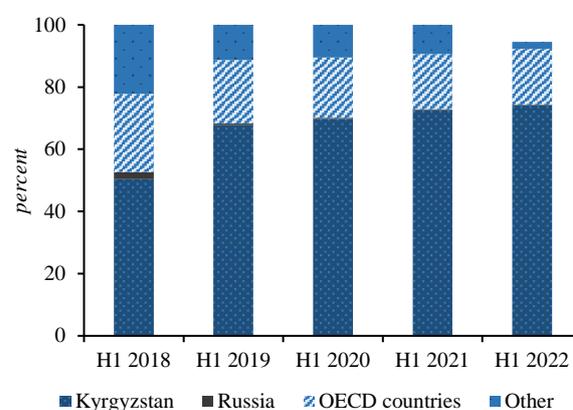
the non-residents were accounted for the OECD countries, 15.5 and 22.3 percent – for Kazakhstan and Russia, accordingly (Chart 2.2.20).

**Chart 2.2.20. Geographic Structure of Liabilities**



Source: NBKR

**Chart 2.2.21. Authorized Capital by Countries**



Source: NBKR

At the end of the first half of 2022, foreign capital amounted to KGS 10.7 billion or 25.9 percent of the total authorized capital of the banking sector. The structure of foreign capital by countries is distributed among (Chart 2.2.21):

- residents of the OECD countries – 69.2 percent,
- residents of Kazakhstan – 21.1 percent,
- residents of Russia – 0.8 percent,
- residents of other countries – 8.8 percent.

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

### 2.3.1. “Reverse” Stress Testing of Credit Risk<sup>20</sup>

Maximum allowable share of “performing” loans<sup>21</sup> in the loan portfolio, which upon categorized as “non-performing” loans can reduce the CAR (capital adequacy ratio) down to the threshold level of 12 percent, is calculated by means of the “reverse” stress testing of the credit risk.

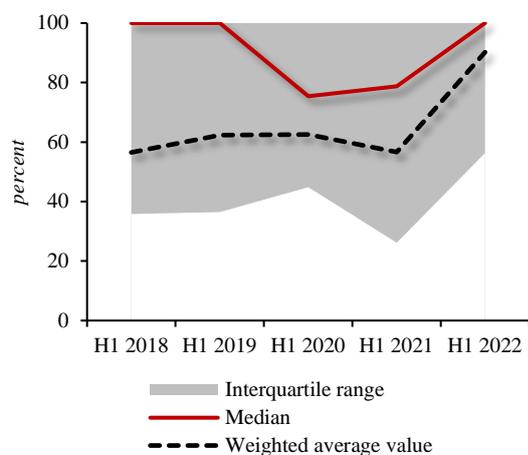
This method allows detecting a buffer stock of capital (net total capital) of banks, which can cover the additional allocations to LLP in connection with the transformation of “performing” loans into the category of “non-performing” loans<sup>22</sup>.

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

Based on the results of the “reverse” stress testing of the banking sector as of June 30, 2022, the maximum allowable share of “performing” loans, transferring to the category of “non-performing” in the banking sector, amounted to approximately 90.2 percent (Chart 2.3.1).

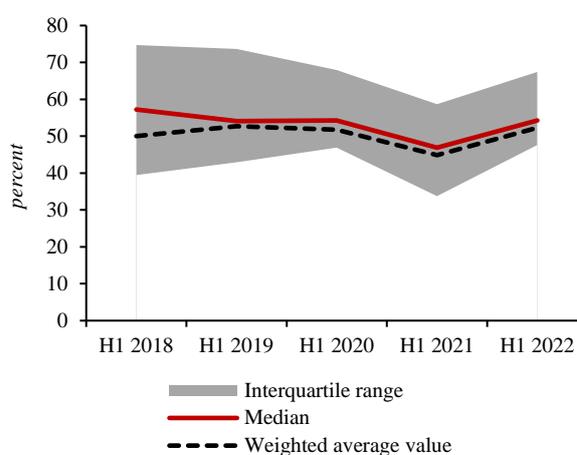
Thus, the banking sector can sustain a significant deterioration in the quality of the loan portfolio, which may require the creation of additional LLP approximately up to 53.4 percent of net total capital (Chart 2.3.2).

**Chart 2.3.1. Maximum Possible Share of “Performing”<sup>23</sup> Loans that May Become “Non-performing” Loans<sup>24</sup>**  
percent of performing loans



Source: NBKR

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



Source: NBKR

<sup>20</sup> Exclusive of troubled banks.

<sup>21</sup> Exclusive of “normal” loan category, which are risk free.

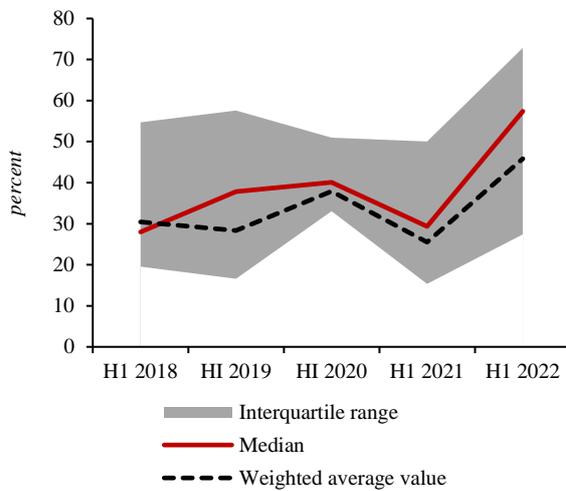
<sup>22</sup> Herewith, transition of “performing” loans to the category of “non-performing” loans is fulfilled smoothly by three categories (“substandard”, “doubtful” and “losses”).

<sup>23</sup> Exclusive of “normal” loan category, which are risk free.

<sup>24</sup> When CAR decreases to the threshold level of 12 percent.

2.3.2. “Reverse” Stress Testing of Liquidity Risk

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



Source: NBKR

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

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

The results of the “reverse” stress testing show (Chart 2.3.3), that as of the end of the first half of 2022 the actual amount of liquid assets of the banking sector was able to cover the deposits outflow of an average of 45.8 percent of the clients’ total deposit base (Table 2.3.1).

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

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

#### Interest Rate Risk

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

The results of the “reverse” stress testing indicate little sensitivity of the banking sector to the direct interest rate risk. Decrease of the average interest rates on loans by 19.0 p.p. can reduce the level of capital adequacy ratio to 12 percent (Table 2.3.1).

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

#### Currency Risk (Revaluation Risk)

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

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

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

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

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

**Table 2.3.1. General Results of the “Reverse” Stress Tests as of June 30, 2022**

		Banking sector
<b>Credit risk</b>		
Scenario 1	Share of performing loans transferring to the category of “non-performing” loans, <i>in percent</i>	90.2
<b>Interest rate risk</b>		
Scenario 1	Decrease of weighted average interest rate on loans, when CAR declines to 12%, <i>in percentage points</i>	19.0
<b>Currency risk</b>		
Scenario 1	Growth rate of USD/KGS ( $\pm$ ) exchange rate, when CAR decreases to 12%, <i>in percent</i>	change of currency rate by 100 percent (KGS/USD)
Scenario 2	Growth rate of USD/ KGS ( $\pm$ ) exchange rate, when net profit decreases to zero level, <i>in percent</i>	
<b>Liquidity risk</b>		
Scenario 1	Outflow of clients’ deposit and received loans of the total deposits and loans, when current liquidity ratio declines to 30%, <i>in percent</i>	45.8

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

*In general, the state of the system of non-banking and specialized financial-credit organizations (NBSFCOs) 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 NBSFCOs system is moderate.*

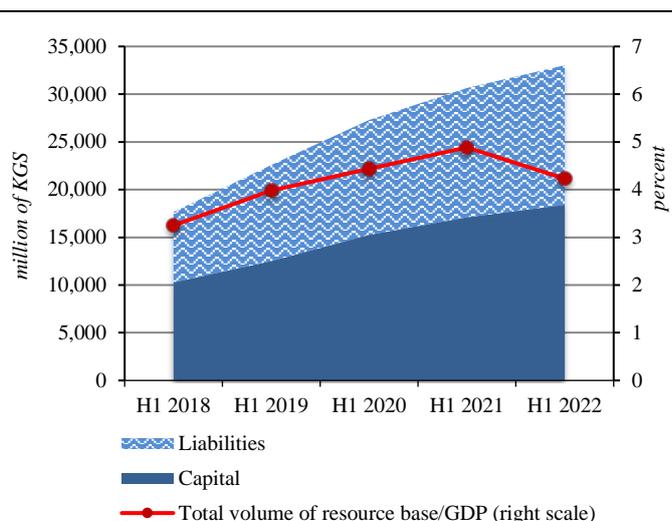
*The weighted average interest rates on loans of the microfinance organizations and credit unions decreased compared to the same period of 2021.*

#### 3.1. Main Trends

The system of non-banking and specialized financial-credit organizations subject to licensing and regulation by the National Bank as of June 30, 2022 in the Kyrgyz Republic, included: the specialized financial and credit institution – “FCCU” OJSC, “Guarantee Fund” OJSC; 86 credit unions, 130 microfinance organizations (including 10 microfinance companies, 85 microcredit companies and 35 microcredit agencies), and 390 exchange offices and 2 credit bureaus.

#### Resources

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

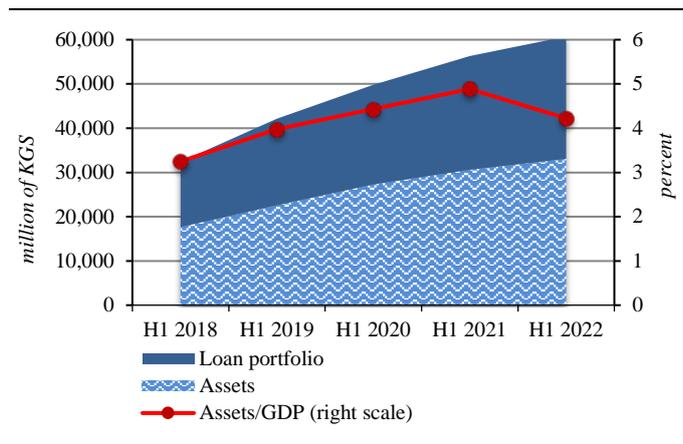


At the end of the first half of 2022, NBSFCOs liabilities increased by 7.9 percent compared to the same period of 2021 and were formed in the amount of KGS 14.6 billion. NBSFCOs capital demonstrated an increase by 7.7 percent and totaled KGS 18.4 billion (Chart 3.1.1).

Source: NBKR

Assets

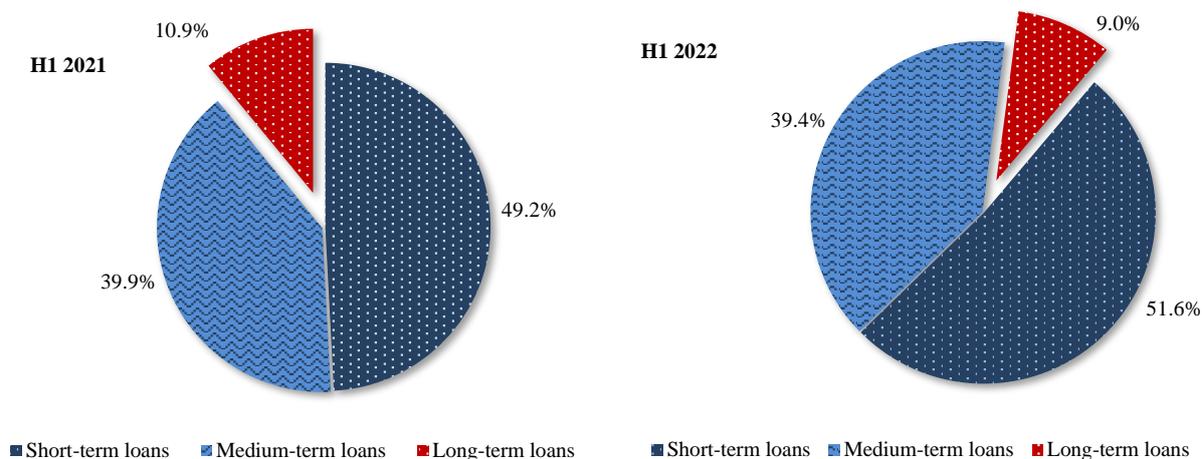
Chart 3.1.2. Dynamics of NBSFCOs Assets and Loans



Source: NBKR

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

Chart 3.1.3. Structure of the NBSFCOs Loan Portfolio by Maturity<sup>26</sup>



Source: NBKR

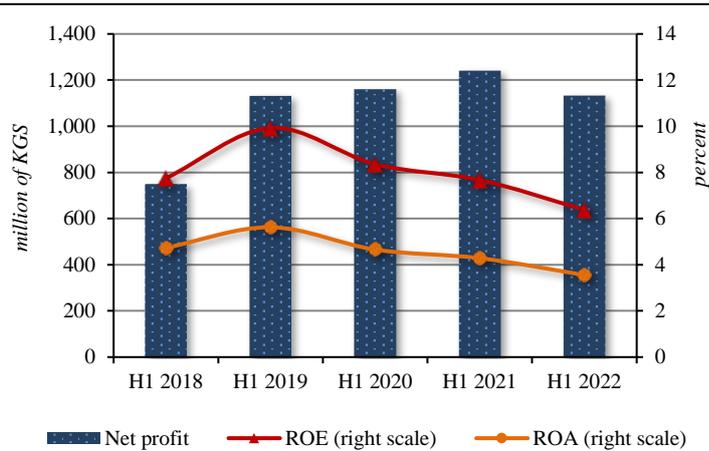
The main regions where the major share of NBSFCOs loan portfolio is concentrated (73.2 percent of the total loan portfolio) are Bishkek city, Chui, Osh and Jalal-Abad regions, which is due to the highest level of business activity in these regions of the republic.

<sup>25</sup> Exclusive of SFCOs.

<sup>26</sup> Data for the period.

Revenue Position<sup>27</sup>

Chart 3.1.4. Dynamics of NBSFCOs Revenue Position<sup>28</sup>



At the end of the first half of 2022, net profit of NBSFCOs increased by 8.8 percent compared to the same period of 2021 and amounted to KGS 1.1 billion. As of the first half of 2022, ROA decreased by 0.7 p.p. and amounted to 3.6 percent. ROE decreased by 1.3 p.p. and constituted 6.4 percent (Chart 3.1.4).

Source: NBKR

<sup>27</sup> ROA and ROE indices are provided in annual term.

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

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

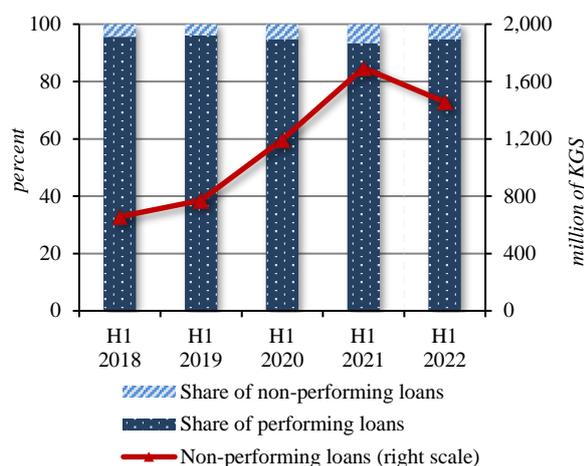
Major risk factors of the activities of NBSFCOs are the quality of the loan portfolio, sectoral and institutional concentration, as well as status of the NBSFCOs external debt.

#### Quality of the NBSFCOs Loan Portfolio

As of the end of the first half of 2022, the share of non-performing loans in the loan portfolio of NBSFCOs constituted 5.3 percent, meanwhile, their nominal volume decreased by KGS 238.8 million or 14.1 percent compared to the same period of 2021 (Chart 3.2.1).

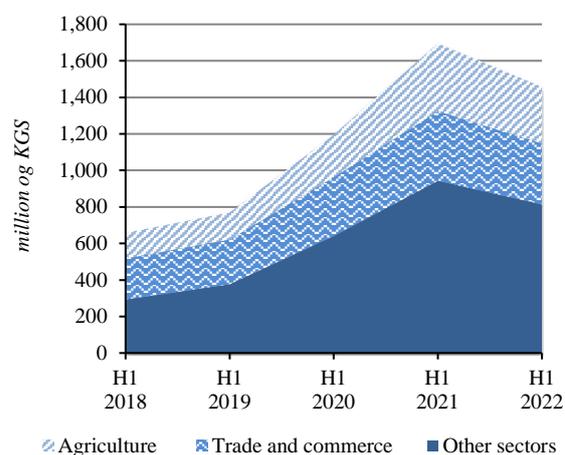
At the end of the first half of 2022, the structure of NBSFCOs non-performing loans demonstrated increase in the share of defaulting loans issued for consumer purposes (by 6.3 p.p.) and trade (by 0.4 p.p.), and decrease in the share of non-performing loans issued to agriculture (by 0.7 p.p.) compared to the same period of 2021. The share of defaulting loans issued for consumer purposes in the total non-performing loans of NBSFCOs constituted 35.4 percent, to agriculture – 21.2 percent, to trade – 22.9 percent (Chart 3.2.2).

Chart 3.2.1. Quality of NBSFCOs Loan Portfolio



Source: NBKR

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



Source: NBKR

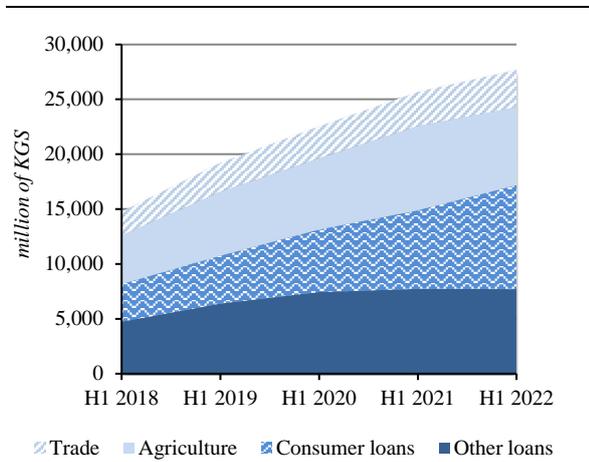
#### Sectoral Concentration

NBSFCOs loan portfolio is concentrated in consumer loans (34.2 percent of NBSFCOs total loans), as well as in the loans issued to agriculture and trade (25.7 percent and 12.3 percent of NBSFCOs total loans, accordingly, Chart 3.2.3).

### Institutional Concentration

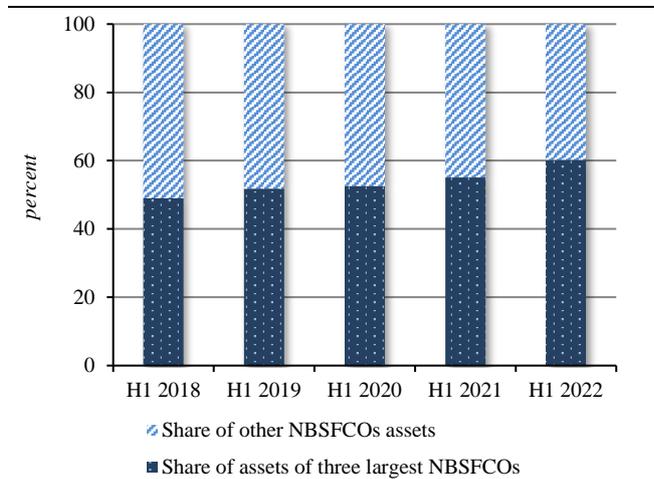
According to the results of the reporting period, the share of assets of three largest NBSFCOs increased by 5.1 p.p. compared to the same period of 2021 and amounted to 60.2 percent of the total assets of NBSFCOs sector (Chart 3.2.4).

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



Source: NBKR

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



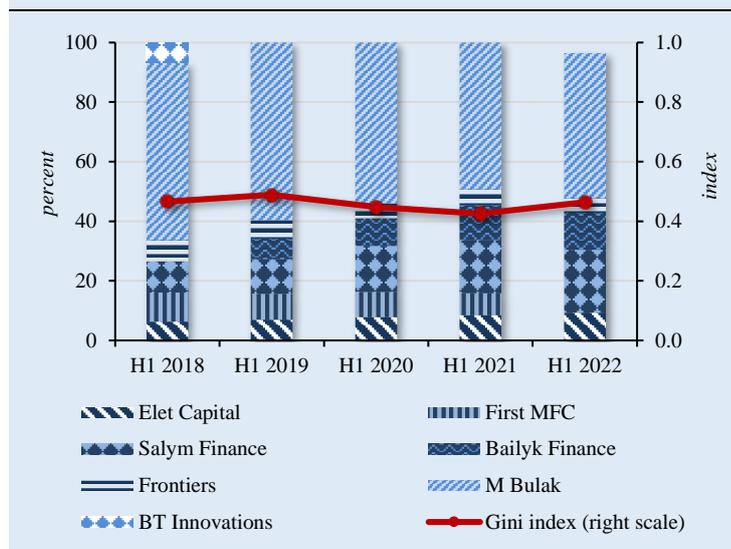
Source: NBKR

### Box 6. Concentration Indices based Assessment of NBSFCOs Sector Activity<sup>29</sup>

#### The Herfindahl-Hirschman Index

Herfindahl-Hirschman<sup>30</sup> index was calculated for the purposes of concentration risk analysis in the NBSFCOs sector. As of the end of the first half of 2022, Herfindahl-Hirschman index for the NBSFCOs sector constituted 1,661.4 points. According to the rule of thumb<sup>31</sup>, resulting value indicates availability of moderate concentration of NBSFCOs assets or moderate concentration of microfinance market.

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



Source: NBKR

#### The Gini Index

The Gini index was calculated for estimating the uniformity of the NBSFCOs assets distribution. As of the end of the first half of 2022, the index value constituted 0.46 with a simultaneous decrease of concentration level (Chart 1).

<sup>29</sup> Concentration indices are calculated on the basis of data submitted by 6 largest NBSFCOs.

<sup>30</sup>  $H = \sum_{i=1}^n (share_i)^2$ .

<sup>31</sup> The following rule of thumb was used for determining the level of market concentration:

- index value is below 0.1 (or 1.000) – insignificant market concentration;
- index value is from 0.1 to 0.18 (or from 1.000 to 1.800) – average market concentration;
- index value is above 0.18 (or 1.800) – high market concentration.

***External Debt Status of NBSFCOs***

As of the end of the reporting period, the external debt of NBSFCOs amounted to USD 84.9 million. Major part of the external debt of NBSFCOs are loans provided by the foreign financial-credit organizations (97.9 percent of total external debt of NBSFCOs), and the rest (2.1 percent) are loans of the international financial institutions.

At the end of the first half of 2022, external debt of the largest NBSFCOs increased by 26.4 percent compared to the same period of 2021 and amounted to USD 83.4 million.

### 3.3. Stress Testing of NBSFCOs Sector

#### Stress Testing of the NBSFCOs Credit Risk

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

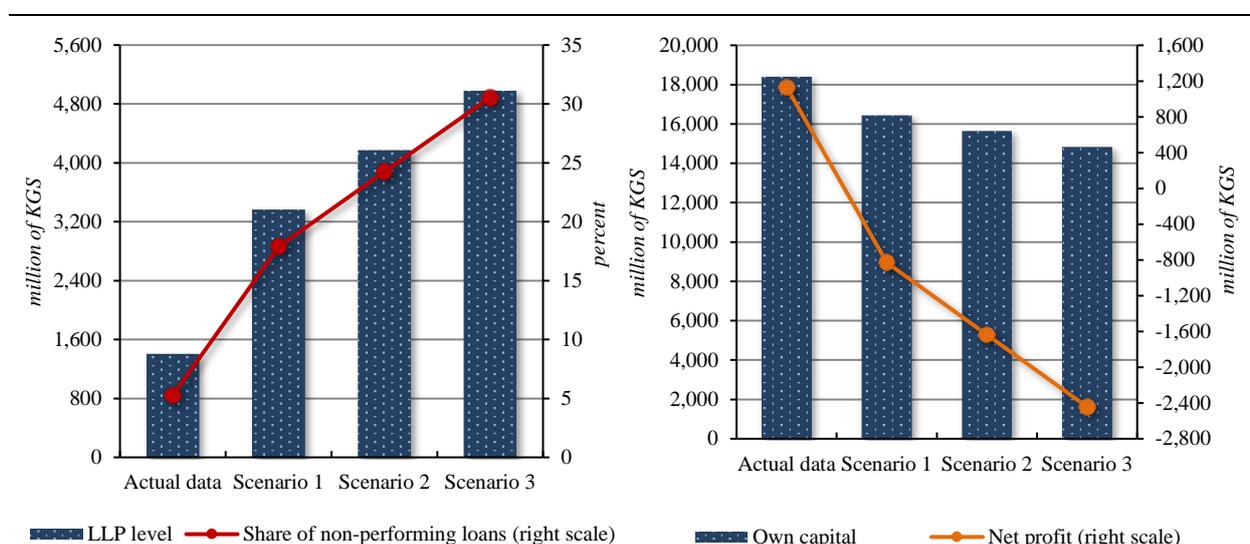
Three scenarios were considered when conducting stress testing:

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

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

The level of loan loss provisions<sup>32</sup> in the loan portfolio of NBSFCOs increased from 139.7 to 254.5 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, 2022**



Source: NBKR

It should be noted that the deterioration of the loan portfolio quality entails a gradual decline in equity and net profit of NBSFCOs. In case of three scenarios implementation, the NBSFCOs sector will experience losses in the amount of KGS 830.4; 1,636.6 and 2,442.8 million, accordingly (Chart 3.3.1).

<sup>32</sup> MFOs create general and special loan loss provisions for relevant categories of classifications implementing the following allocations indicated in percentage from the amount of assets:

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

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

	<b>Share of non-performing loans in the loan portfolio of NBSFCOs</b>
<b>Scenario 1:</b> transition of 50% of loans from one category to another	17.9
<b>Scenario 2:</b> transition of 75% of loans from one category to another	24.2
<b>Scenario 3:</b> transition of 100% of loans from one category to another	30.6

Source: NBKR

Implementation of the first scenario may result in an increase in the share of non-performing loans in the loan portfolio of NBSFCOs by 12.6 p.p., to the level of 17.9 percent. In the case of the second scenario, non-performing loans may increase by 19.0 p.p., to the level of 24.2 percent, and in the implementation of the third scenario – by 25.3 p.p. and may reach the level of 30.6 percent.

## IV. PAYMENT SYSTEMS

*In the reporting period, the level of risks was within acceptable limits and was determined by the risk management mechanisms provided for by the legislation of the Kyrgyz Republic and the rules of payment systems, the current high level of liquidity, the system of insurance deposits and prepayment in the systemically important and significant payment systems.*

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 2022, 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 Bulk Clearing System of Small Retail and Regular Payments (BCS), 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 2021, the following systems were recognized according to the criteria for the payment systems significance:

1. systemically important payment systems – the RTGS and BCS systems;
2. national payment systems – RTGS, BCS and Elcard systems.

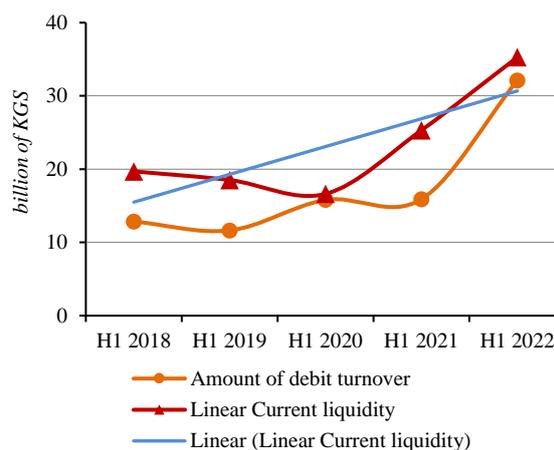
**Systemically important payment systems.** The RTGS functioned normally during the first half of 2022.

The level of financial risks in the RTGS remained low due to high level of liquid funds on the participants' accounts: average daily volume of liquid assets of participants showed an increase by 39.3 percent compared to the first half of 2021 and amounted to KGS 35.3 billion.

During the first half of 2022, the RTGS affordability ratio remained high and constituted 100.0 percent; meanwhile, the level of operational risk, taking into account prolongation of the transaction day, was 4.2 percent.

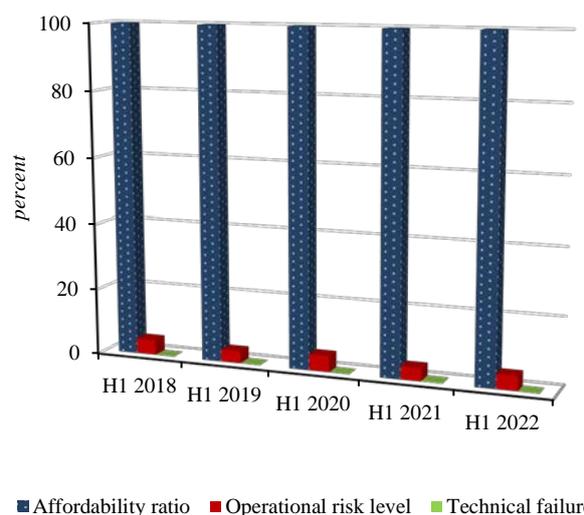
In functioning of the BCS the level of financial risks in the reporting period was also low. Reserves exhibited by the participants to

**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**



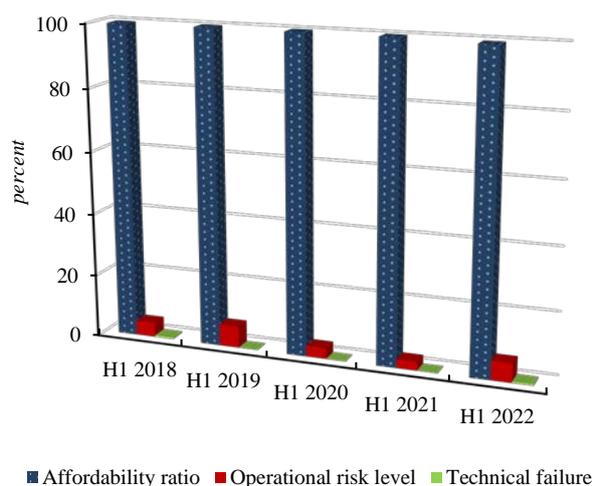
	H 1 2018	H 1 2019	H 1 2020	H 1 2021	H 1 2022
Technical failure, %	0.1	0.0	0.2	0.0	0.0
Affordability ratio, %	99.9	100.0	99.8	100.0	100.0
Operational risk level, %	3.7	4.9	4.0	4.5	4.2

Source: NBKR

cover a debit net position were 3 times higher than the required level. According to the results of the BCS operation monitoring, the system affordability ratio remained high and amounted to 100.0 percent during the reporting period. Meanwhile, the level of operational risk in the system was 3.3 percent taking into account emergency situations in the system, which did not affect the availability of the system and extending upon request of separate participants.

Systemically important payment systems are the key components of the payment system of the Kyrgyz Republic, failures thereof may result in systemic risks for the payment and banking systems of the country, and therefore are subject to increased requirements.

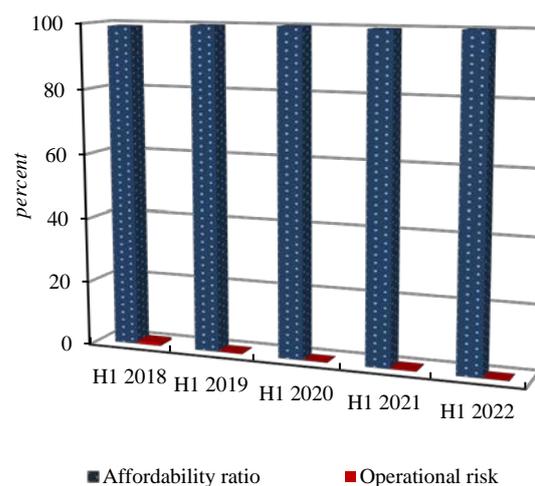
**Chart 4.3. Ratio of Affordability Index and Operational Risk in the BCS**



	H 1 2018	H 1 2019	H 1 2020	H 1 2021	H 1 2022
Technical failure, %	0.04	0.0	0.1	0.5	0.0
Affordability ratio, %	100.0	100.0	100.0	99.5	100.0
Operational risk level, %	6.9	3.4	2.8	6.2	3.3

Source: NBKR

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



	H 1 2018	H 1 2019	H 1 2020	H 1 2021	H 1 2022
Affordability ratio, %	99.1	99.8	100.0	99.7	100.0
Operational risk, %	0.9	0.3	0.0	0.3	0.0

Source: NBKR

**Systems of Bank Payment Cards Settlements.** As of July 1, 2022, six international payment card systems, the local system “Elcart” and co-badging cards “Elcart-UPI<sup>33</sup>” operated in the Kyrgyz Republic.

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

In the first half of 2022, 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, taking into account technical failures was 0.03 percent.

**Money transfer systems.** During the first half of 2021, receipt and transfer of international remittances without opening an account in the commercial banks was carried out by means of seven international money transfer systems. The major share of payments/transfers received and forwarded was accounted for “Zolotaya Korona”, “Western Union”, CONTACT and “Unistream” systems.

**E-money payment systems.** As of July 1, 2022, the number of e-wallets increased by 22.1 percent compared to the same period of 2021 and amounted to more than 5.1 million wallets. Among them, the number of active (identified) e-wallets is about 1,616 thousand, i.e. only 31.9 percent of the total number of e-wallets.

<sup>33</sup> According to the Regulation “On bank payment cards in the Kyrgyz Republic”, a co-badging card is a card issued within the framework of two payment systems. Thus, “Elcart”-UPI is serviced according to the rules of the “Elcart” system in the territory of the Kyrgyz Republic, and outside the country - by Union Pay.

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

- the volume of operations for transfer of funds between e-wallets increased by 64.3 percent compared to 2021 and amounted to KGS 8.9 billion, the number of funds transfers increased by 6.6 percent and amounted to 2.9 million operations;

- the volume of operations on payment for goods and services with e-money increased by 2 times compared to the same indicator of 2021 and amounted to KGS 9.0 billion, while the number of operations increased by 7.9 percent and amounted to 7.1 million operations;

- in the reporting year, the number of operations for distribution of e-money by replenishing e-wallet increased by 20.1 percent compared with the same period of the previous year and amounted to 4.3 million operations, the volume of operations increased by 18.1 percent and amounted to KGS 17.2 billion;

- the number and volume of operations on redemption of e-money increased by 37.2 and 7.9 percent, accordingly, and totaled 2.8 million operations to the amount of KGS 11.1 billion;

**Financial messaging channels.** As of July 1, 2022, the exchange of cross-border financial messages was made through the SWIFT network, “bank-client” services, while the main flow fell on the SWIFT telecommunications network.

As of July 1, 2022, the payment infrastructure of the Kyrgyz Republic included 16 non-banking **systems to accept payments in favor of third parties.**

Based on the analysis of the data received in the reporting period, payment system operators processed 87.0 million payments to the total amount of KGS 76.3 billion. The volume of payments increased by 2.0 times compared to the same period of 2021, while the number of payments increased by 16.4 percent.

Conclusion can be made that competition is developed in this segment due to availability of a large number of systems for accepting payments in favor of third parties.

## V. IMPROVEMENT OF THE FINANCIAL SECTOR REGULATION

*In the reporting period, development of the regulatory framework governing the activities of the financial-credit organizations was mainly aimed at maintaining stability in the banking system due to the current geopolitical situation, as well as at development of the principles of Islamic finance.*

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

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

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

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

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

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

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

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

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

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

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

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

8. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution "On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic" No. 2022-P-12/20-1-(NPA) on April 6, 2022 in order to bring the forms of the periodic regulatory bank report in compliance with the Regulation "On calculation of liquidity coverage ratio of the commercial banks", and to obtain information on the restructured loans. The Resolution also provides for clarification on disclosure of the volume of loan loss provision in the banks' financial statements in accordance with the requirements of the National Bank.

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

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

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

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

11. The Board of the National Bank of the Kyrgyz Republic approved the Resolution of the Board of the National Bank "On approval of the instruction on maintaining the database on obligations of the bank, housing and savings credit company, microfinance company, attracting deposits to the depositors" No. 2022-P-12/35-1-(NPA) on June 2, 2022.

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

## GLOSSARY AND ABBREVIATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## LIST OF ABBREVIATIONS

BCS	– Bulk Clearing System
CAR	– Capital Adequacy Ratio
CB	– Commercial Bank
COVID-19	(COroNaVirus Disease 2019) is the coronavirus infection of 2019
CPI	– Consumer Price Index
DTI	(debt-to-income) is the ratio of the amount of the borrowers’ payments on loans (including the amount of principal and interest payments for the reporting period) to the main annual income of the borrower declared at the time of issuing a loan
EAEU	– Eurasian Economic Union
FAO	– Food Agriculture Organization of the United Nations
FCCU	– Financial Company of Credit Unions
FCO	– Financial-Credit Organization
GDP	– Gross Domestic Product
IFRS	– International Financial Reporting Standards
K3.1.	– Economic Liquidity Ratio
K3.2.	– Short-term Liquidity Ratio
K3.3.	– Instant Liquidity Ratio
KR	– Kyrgyz Republic
LLP	– Loan Loss Provisions
LRS under MA KR	– Land Resources Service under the Ministry of Agriculture of the Kyrgyz Republic
LTV	(loan-to-value ratio) is the ratio of issued loans to the value of collateral
MF KR	– Ministry of Finance of the Kyrgyz Republic
MFO	– Microfinance Organization
M2	– Money Supply
NBSFCOs	– Non-banking and Specialized 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
p.p.	– Percentage Points
PRBR	– Periodic Regulatory Bank Reporting
R	– Refinery
RLA	– Regulatory and Legal Acts
ROA	– Return on Assets
ROE	– Return on Equity
POL	– Petroleum, Oil, Lubricants
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
SS	– Service Station
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

USD/KGS (United States dollar/ Kyrgyz som) – USD/KGS ratio

VaR – Interest Rate Risk