



**National Bank
of the Kyrgyz Republic**

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

according to the results of 2023

July, 2024

Bishkek

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Other Publications of the National Bank of the Kyrgyz Republic

Annual Report of the National Bank of the Kyrgyz Republic

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

Bulletin of the National Bank of the Kyrgyz Republic

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

Monetary Policy Report

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

Balance of Payments of the Kyrgyz Republic

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

Regulatory Acts of the National Bank of the Kyrgyz Republic

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

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

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PREAMBLE

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

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

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

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

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MAJOR CONCLUSIONS

In 2023, economic activity remained high. The services sector (wholesale and retail trade) and processing industry were the main drivers of GDP growth.

In the reporting period, inflation demonstrated downward trajectory due to timely monetary policy measures.

In 2023, the state budget was executed with a surplus of 1.0 percent to GDP resulted from outstripping growth rates of revenues over expenditures. Such situation is explained by economic growth in the country and measures taken to improve tax administration and growth of non-tax revenues.

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

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

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

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

The level of risks in the payment systems was within the acceptable limits and was conditioned by the risk management mechanisms provided for by the legislation of the Kyrgyz Republic and the rules of the payment systems, the current high level of liquidity, the system of insurance deposits and prepayments.

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

I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

1.1. Macroeconomic Conditions and Risks

In 2023, economic activity in the Kyrgyz Republic remained high. The services sector, in particular, wholesale and retail trade, construction and processing industry were the main sectors of economy that provided the largest input to economic growth.

The annual inflation rate declined smoothly from 14.7 percent in December 2022 down to 7.3 percent in December 2023 due to timely monetary policy measures.

Fiscal consolidation policy was conducted in the public finance sector to result in the state budget surplus in 2023.

External Conditions

Global economic activity remains weak amid a number of economic and geopolitical challenges observed in recent years. Global inflation rate demonstrates slight downward trend due to tightening of monetary policies by the leading countries, however, core inflation rate¹ remains stable with increased values in most countries of the world. Slowdown of economic growth rates in the world advanced countries condition decline in external demand in the developing countries. However, the economies of the EAEU member states demonstrate positive dynamics of real GDP growth.

Internal Conditions

Gross Domestic Product

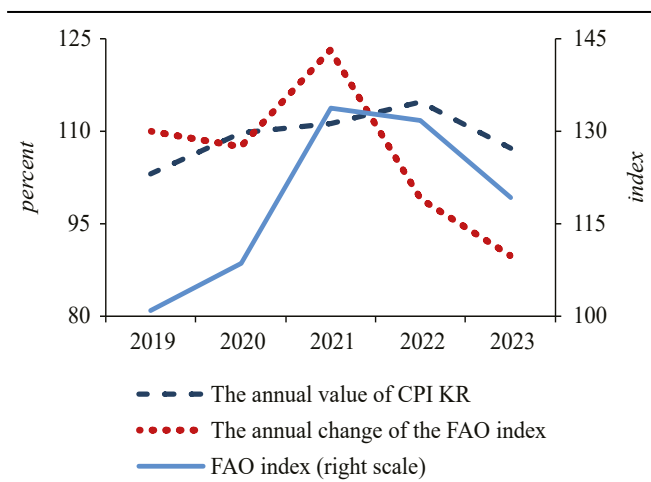
In 2023, economic activity in the Kyrgyz Republic demonstrated stable positive dynamics observed in the previous year. The real GDP growth rate made 6.2 percent (in 2022, 9.0 percent). At the end of the reporting year, the nominal GDP of the country (GDP in current prices) amounted to KGS 1,228.9 billion. The GDP deflator decreased by 6.2 percentage points compared to 2022 and was formed at 13.4 percent.

There was positive dynamics in all sectors of the economy, meanwhile, the highest economic activity was observed in the services and construction sectors. In 2023, input of the services sector to GDP growth constituted 3.1 percentage points, mainly due to an increase in the turnover of wholesale and retail trade by 15.1 percent. In the reporting year, the construction sector, which contributed 0.7 percentage points to GDP growth, increased by 10.3 percent in real terms due to growth in construction of mining, processing, wholesale and retail trade facilities. At the end of 2023, the industrial sector demonstrated growth by 2.7 percent against 11.9 percent in 2022.

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

Inflation

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

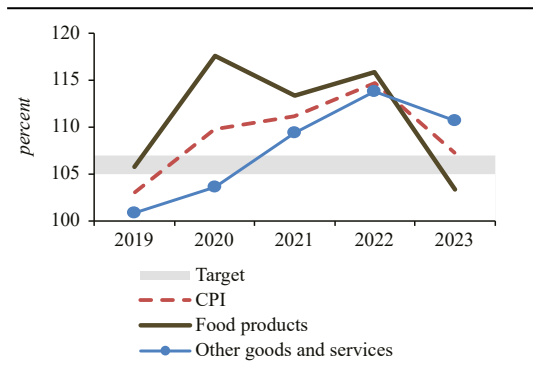


Source: NSC KR

conditions in the producing regions, meanwhile, there was a decline in prices by the end of the year.

The prices in the world food market have a direct impact on the formation of inflation in the Kyrgyz Republic due to significant dependence of domestic prices on external markets, as well as the fact that food products, which occupy about half of the consumer basket and which are mainly imported, make a significant contribution to overall inflation.

Chart 1.1.2. CPI in the Kyrgyz Republic (annual value, December 2023 to December 2022)



Source: NSC KR, www.fao.org

At the end of 2023, the FAO index decreased by 19.9 points or 13.8 percent compared to the average indicator of 2022 average and constituted 124.7 points. The downward trend of this index during 2023 was generally conditioned by sufficient supply and weak demand in the world food market. World prices for cereals and vegetable oils gradually decreased due to increased supply in the market; the market of meat and dairy products demonstrated downward price movement due to increase in supply from the exporting countries amid weak import demand. Prices in the world sugar market increased during the first 9 months of 2023 due to estimates of poor yield resulted from weather

The annual inflation rate of the Kyrgyz Republic demonstrated smooth decline. According to the NSC KR, the annual inflation rate decreased from 14.7 percent in December 2022 and constituted 7.3 percent by the end of 2023.

The structure of the annual inflation rate formation is as follows: prices for food products increased by 3.4 percent, prices for non-food products – by 12.2 percent, for alcoholic beverages and tobacco products – by 11.3 percent, for services – by 9.1 percent.

Labor Market and Wages

There was a significant reduction in the number of unoccupied people in search of work registered at the state employment service. As of January 1, 2024, the number of registered unemployed people decreased by 7.3 percent compared to the previous year and constituted 91.6 thousand (in 2022, a decrease by 1.5 percent). Moreover, the number of registered unemployed people out of the total number of unemployed population decreased down to 67.6 thousand people or 9.5 percent largely compared to 2022 (in 2022, a decrease by 0.5 percent).

In 2023, the registered unemployment rate decreased by 0.3 percentage points compared to the indicator of 2022 and made 2.5 percent of the economically active population.

In general, in 2023, there was a positive dynamics of wage growth in all types of economic activity. At the end of the reporting period, the average monthly nominal wage per one employee increased by 20.6 percent compared to the previous year and amounted to KGS 33.3 thousand. In 2023, real wages increased by 8.6 percent compared to 2022.

State Budget

According to the preliminary data of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic, in 2023, the state budget was executed with a surplus of KGS 12.6 billion (1.0 percent to GDP) due to outstripping growth rate of revenues compared to expenditures resulted from economic growth together with measures taken to improve tax administration and growth of non-tax revenues. At the same time, it is worth noting that 44.2 percent in the total volume of budget revenues was accounted for taxes imposed on goods imported into the country and official transfers received from abroad. A significant share of budget expenditures, as before, was directed to cover current expenditures, at the same time, there was an upward dynamics in capital expenditures, as well as within the framework of the program public investments. Measures of economic policy taken by the Cabinet of Ministers of the Kyrgyz Republic (hereinafter referred to as the Cabinet of Ministers) contributed to full and complete fulfillment of social obligations to the population in the reporting period.

In the structure of public debt, the share of internal debt increased from 19.7 percent at the end of 2022 up to 25.9 percent at the end of 2023. Therefore, there were significant expenditures on the items “shares and other equity”, “loans, advances and credits” and expenditures related to repayment of internal and external liabilities in terms of transactions conducted by the Cabinet of Ministers with financial assets and liabilities. Net financing of the budget from the external sources amounted to KGS 14.2 billion (1.2 percent to GDP) and from the internal sources – KGS 0.6 billion (0.05 percent to GDP).

Macroeconomic Risks

Macroeconomic risks remain due to geopolitical uncertainty worldwide.

Increased domestic demand and risks related to the negative impact of unfavorable climatic conditions on agriculture are still observed despite the downward dynamics of inflation at the end of 2023.

Generally, the main risks that may influence the economy of the country are associated with the factors of the external environment conditioned by high uncertainty and stable geopolitical tension worldwide.

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	2019	2020	2021	2022	2023
Commercial banks	24	23	23	23	23
Other financial companies, including:	662	642	630	711	842
Non-banking financial-credit organizations (NBFCO), including:	637	617	604	686	815
Microfinance organizations, including:	137	134	133	130	121
microcredit companies	89	87	86	87	78
microcredit agencies	39	38	37	34	34
microfinance companies	9	9	10	9	9
Specialized Financial-Credit Organization	1	1	1	1	1
Credit offices	2	2	2	2	2
Credit unions	95	92	88	84	81
Exchange offices	401	387	379	467	609
OJSC “Guarantee fund”	1	1	1	1	1
Housing saving credit company	-	-	1	1	0
Insurance companies*	17	16	16	15	17
Investment funds*	3	3	3	3	3
Stock exchanges*	2	3	4	4	4
Pension funds*	3	3	3	3	3

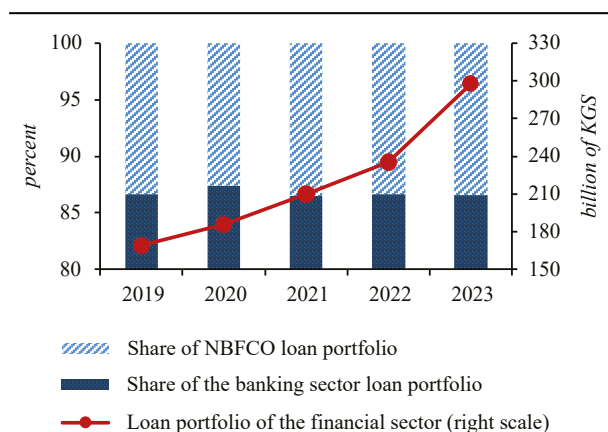
Sources: CBs, NBFCOs, NSC KR, State Financial Supervision Service

*Data as of the end of the year.

As of the end of 2023, assets of the banks and non-banking financial-credit organizations (NBFCOs) amounted to KGS 668.2 billion or 54.4 percent to GDP.

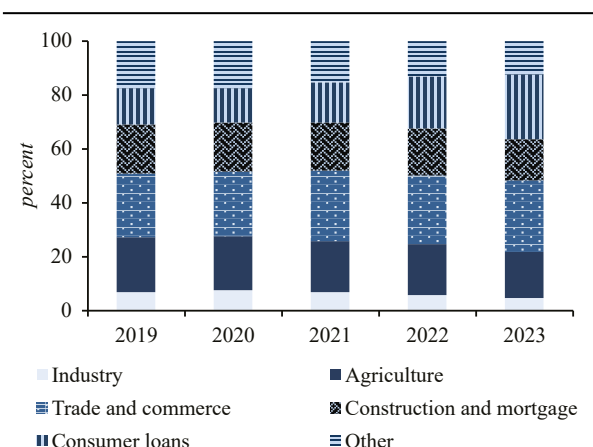
At the end of 2023, the total loan portfolio of the financial sector amounted to KGS 297.8 billion or 24.2 percent to GDP. The share of banks’ loans in the loan portfolio of the financial sector remained unchanged and made 86.6 percent at the end of 2023 (Chart 1.2.1).

Chart 1.2.1. Structure of the Loan Portfolio



Source: CBs and NBFCOs

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



Source: CBs and NBFCOs

High concentration of loans was still observed in the trading sector, and consumer loans – in the NBFCOs within the sectoral structure of the commercial banks’ loan portfolio. The aggregate share of the loan portfolio in the financial sector of the aforementioned sectors of the economy at the end of 2023 constituted 50.4 percent of total issued loans and amounted to KGS 129.9 billion (Chart 1.2.2).

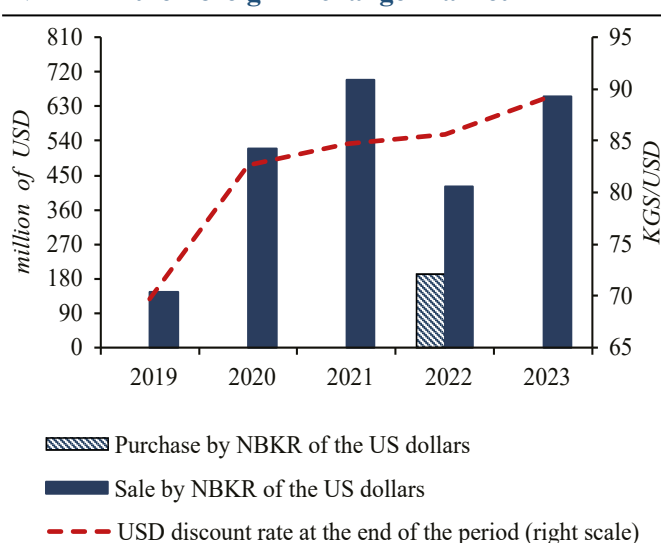
1.3. Financial Markets

The National Bank managed to maintain purchasing power of the national currency under the current floating exchange rate regime despite long-lasting geopolitical uncertainty in the region. The domestic foreign exchange market was stable. There were no significant changes in the interbank money market; the interest rates in this segment of the financial market fluctuated within the interest rate corridor set by the National Bank.

1.3.1. Foreign Exchange and Money Market

Foreign Exchange Market

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



Source: NSC KR

In 2023, the domestic foreign exchange market still developed taking into account economic trends in the Kyrgyz Republic amid stable geopolitical uncertainty in the region.

As of the end of 2023, the USD/KGS official exchange rate was 89.0853 KGS/USD, having increased by 4.0 percent compared to the end of 2022.

In 2023, the range of fluctuations of the official exchange rate decreased to 85.6800-89.3200 (KGS 3.6) KGS/USD amid relatively balanced supply and demand, meanwhile in 2022, the range was 79.5000-105.0000 (KGS 25.5) KGS/USD due to high volatility in the external markets amid deterioration of the geopolitical situation.

In 2023, the National Bank, following the floating exchange rate regime, conducted foreign exchange interventions for sale of foreign currency in the amount of USD 655.7 million to smooth sharp fluctuations of the exchange rate.

In the reporting period, the total volume of transactions on purchase and sale of foreign currency conducted by the commercial banks and exchange bureaus in the foreign exchange market, including transactions with non-residents, increased by 1.9 times, up to KGS 3.9 trillion. There was an increase in the volume of transactions with all main currencies (US dollar, Russian ruble, and euro), excluding Kazakh tenge.

The analysis of growing volumes of transactions on purchase and sale of other currencies showed a significant increase in the share of transactions on exchange of Chinese yuans in the total volume of transactions with other currencies (from 0.4 percent in 2022 to 97.9 percent in 2023). Such situation was conditioned by necessary separation of exchange transactions with Chinese yuans from the total volume of transactions with other currencies. Growth of these transactions was conditioned by increased demand from the foreign exchange market participants for export-import transactions.

There were changes in the overall structure of transactions by currencies: the main share was fell on the transactions on purchase and sale of US dollars (their share increased from 46.6 up to 48.6 percent compared to 2022); the share of transactions on purchase and sale of Russian rubles, on the contrary, decreased from 51.7 down to 48.4 percent; the share of transactions in euro remained at 1.6 percent; the share of transactions in Chinese yuans increased significantly from about zero value (0.0002 percent) up to 1.4 percent; the share of transactions in Kazakh tenge decreased from 0.1 up to 0.05 percent.

During the reporting year, the share of exchange transactions conducted in cash increased (95.1 percent (+4.6 percentage points) under the conditions of stable uncertainty in the region being an additional factor of increased demand for foreign currency. Meanwhile, the largest share, as before, was accounted for the cash transactions of the exchange bureaus in the structure of cash transactions.

Money Market

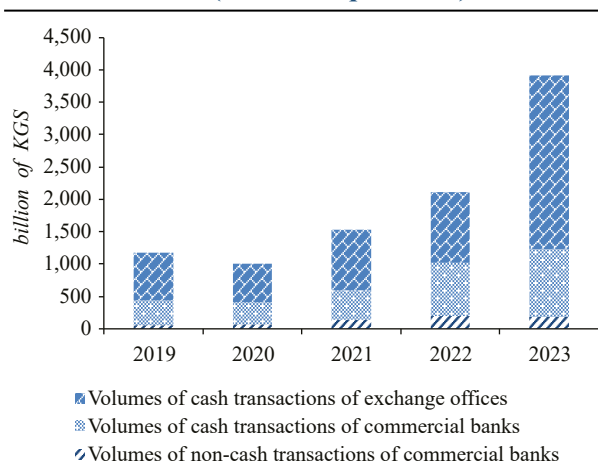
In 2023, the interbank credit market continued to ensure redistribution of financial resources, providing its participants with an opportunity to manage effectively their liquidity. The participants' activity remained high due to irregular distribution of excess liquidity in the banking system.

In the interbank market, the banks were active in the segments of repo and swap transactions (mainly using the national currency), meanwhile the transactions on extending standard loans in the national and foreign currencies were not conducted.

During the year, the volume of repo transactions increased by 70.3 percent compared to 2022, from KGS 14.9 billion to KGS 25.4 billion. The average weighted interest rate on repo transactions decreased down to 11.5 percent (-0.6 percentage points), however, the average weighted term amounted to 4 days, the same as in 2022.

In the reporting period, the total volume of swap transactions conducted by the commercial banks in the domestic market and with non-resident banks in US dollars decreased by 60.5 percent compared to 2022 and amounted to USD 774.4 million. At the same time, the volume of swap transactions using the national currency increased by 68.8 percent, up to KGS 52.0 billion. The National Bank did not conduct swap transactions in the reporting period.

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



Source: NBKR

In 2023, demand from the commercial banks for the National Bank’s short-term credit resources decreased significantly amid excess liquidity in the banking system. In the reporting period, the volume of “overnight” loans provided by the National Bank to cover temporary liquidity gaps amounted to KGS 844.5 million (in 2022, KGS 16.7 billion). Credit resources of the National Bank were not provided under other refinancing facilities. During the year, the commercial banks placed their available funds on “overnight” deposits with the National Bank on a daily basis. The total volume of funds placed by the commercial banks on “overnight” deposits with the National Bank increased by 24.4 percent compared to 2022 and amounted to KGS 4,402.1 billion (average daily volume – KGS 17.6 billion).

1.3.2. Securities Market

In 2023, the government securities market was represented by the state treasury bills (ST-Bills) and the state treasury bonds (ST-Bonds). Placement and circulation of government securities were conducted on two trading platforms since May 2023: 12-month ST-Bills and 2-year ST-Bonds were placed on the trading platform of “Kyrgyz Stock Exchange” CJSC (“KSE” CJSC), the rest were still placed on the trading platform of the National Bank².

In January-April 2023, the short-term segment of the government securities market was represented by 12-month ST-Bills on the trading platform of the National Bank. The volumes of supply, demand and sales amounted to KGS 0.5 billion, KGS 0.1 billion and KGS 11.7 million, accordingly. The weighted average yield of these securities amounted to 8.5 percent.

Long-term segment of the government securities on the trading platform of the National Bank showed growth of activity compared to 2022 and was represented by the securities of all maturities: from two to 20 years. There was demand for ST-Bonds from the state-owned banks and institutional investors. At the end of 2023, the volume of supply, the demand of participants, and the volume of ST-Bonds sales increased by 2.1 times, 2.2 times, and 2.4 times, accordingly. The largest volume of funds to finance the state budget was attracted through the sale of 10-year and 7-year ST-Bonds, the shares thereof in the total volume of sales constituted 29.3 percent and 24.5 percent, respectively. In the reporting period, the total weighted average yield of ST-Bonds increased by 0.6 percentage points compared to 2022 and was formed at 15.6 percent.

On the trading platform of “KSE CJSC, the volume of sales of 12-month ST-Bills amounted to KGS 0.2 billion with the weighted average yield of 13.0 percent, the volume of sales of 2-year ST-Bonds amounted to KGS 1.2 billion with the weighted average yield of 15.2 percent.

The market of the National Bank’s notes demonstrated peak indicators of demand, supply, and sales of these securities under the conditions of stable high level of excess liquidity in the banking system. The largest volume of sales fell on the notes with a maturity of 28 days (37.3 percent), followed by the notes with a maturity of 7 and 14 days (29.1 and 27.7 percent, accordingly), and 91- and 182-day notes (5.1 and 0.8 percent, accordingly). The weighted average yield of the notes decreased by 0.1 percentage point, down to 11.9 percent compared to 2022.

² The process of placement and circulation of 12-month ST-Bills and 2-year ST-Bonds on the trading platform of “Kyrgyz Stock Exchange” CJSC was initiated since May 2023 as part of implementation of the order of the Cabinet of Ministers of the Kyrgyz Republic No. 609-p dated November 4, 2022 aimed at expanding accessibility for the domestic and foreign investors to the market of publicly placed government securities.

1.4. Real Estate Market

At the end of 2023, there was a decrease in the price index growth rate in the real estate market of the Kyrgyz Republic due to slowdown in price growth for individual houses (growth in prices by 14.6 percent) and apartments (growth in prices by 4.8 percent) compared to 2022.

In addition, there was an increase in the level of average wages (an increase by 29.4 percent), which had a favorable impact on the housing affordability index, characterizing improvement of the situation with the real estate affordability. Risks for the financial sector from the real estate market remain moderate, which was conditioned by a low share of mortgage loans³ in the total loan portfolio of the banks.

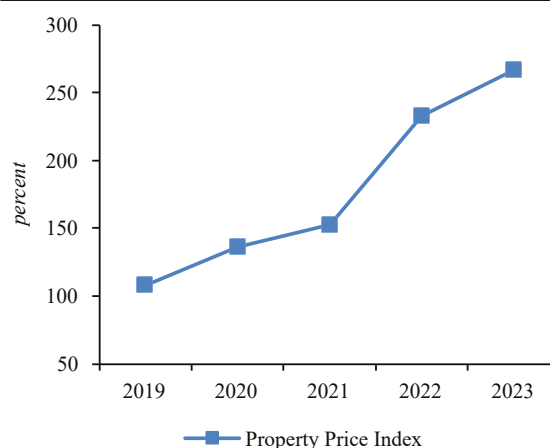
At the end of 2023, a decrease in the growth rate of the property price index from 30.7 percent to 9.8 percent, and growth of the property basis price index from 233.1 percent to 266.7 percent were observed in the Kyrgyz Republic due to rise in prices for individual houses by 14.6 percent and for apartments – by 4.8 percent compared to 2022.

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



Source: SALRCGC under the CM KR, NBKR calculations

Chart 1.4.2. Basis Price Index Growth Rate in the Real Estate Market⁴



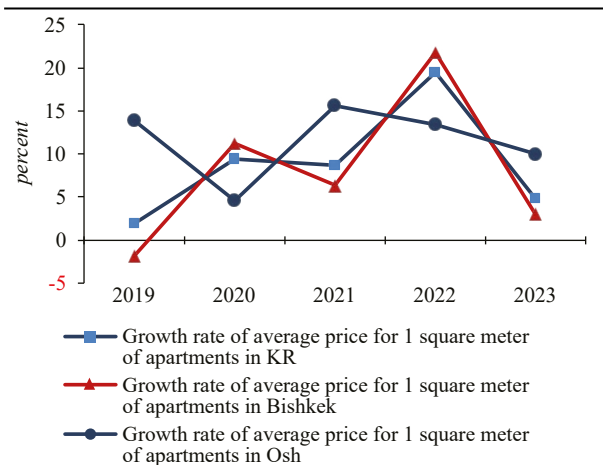
Source: SALRCGC under the CM KR, NBKR calculations

As of December 31, 2023, the average price of 1 square meter of housing (apartment) in Osh increased by 10.0 percent (up to KGS 54.1 thousand), in Bishkek – by 3.0 percent (up to KGS 73.4 thousand) compared to 2022. The average price of 1 square meter of individual houses in Osh city decreased by 18.8 percent (down to KGS 91.4 thousand), in Bishkek city – by 38.3 percent (down to KGS 113.5 thousand) compared to 2022.

³ Currently, a mortgage loan is usually a long-term loan extended on security of the title to real estate in the Kyrgyz Republic.

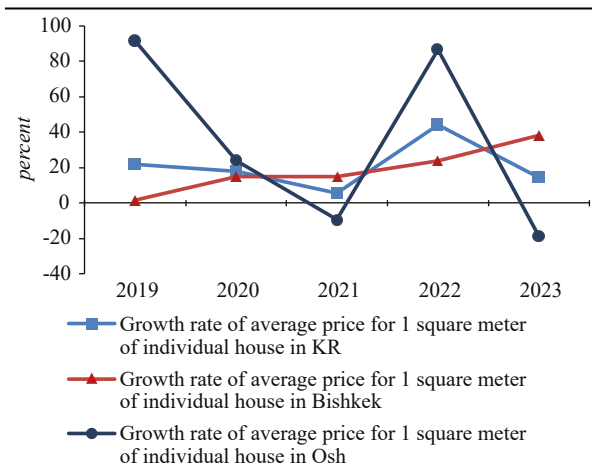
⁴ The year 2010 was taken as the base period.

Chart 1.4.3. Dynamics of Price Changes for Apartments



Source: SALRCGC under the CM KR, NBKR calculations

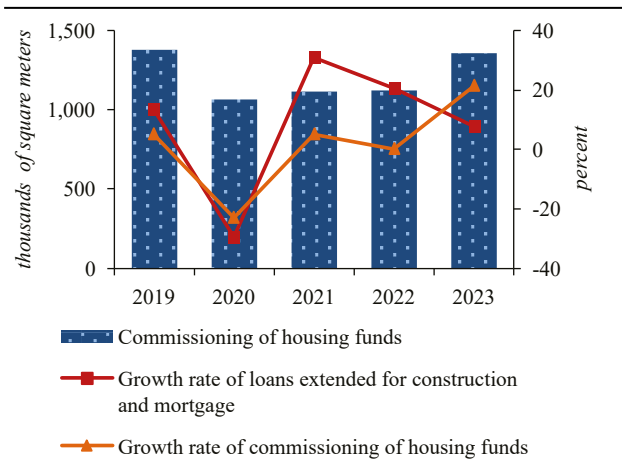
Chart 1.4.4. Dynamics of Price Changes for Individual Houses



Source: SALRCGC under the CM KR, NBKR calculations

In the reporting period, the number of transactions on the real estate purchase and sale decreased by 8.9 percent and amounted to 52,817. The transactions on purchase and sale the apartments decreased by 11.0 percent and the transactions on purchase and sale of the houses decreased by 5.8 percent compared to 2022 and amounted to 30,277 and 22,540 transactions, accordingly.

Chart 1.4.5. Dynamics of Housing Commissioning and Loans Extended for Construction and Mortgage⁵



Source: NSC KR, NBKR calculations

There was an increase in the level of housing funds commissioning. At the end of 2023, the aggregate level of housing funds commissioning increased by 21.6 percent compared to 2022 mainly due to growth in the volume of housing funds commissioning in the following regions: Bishkek city (123.3 percent), Osh city (65.0 percent), Batken (53.1 percent), Jalal-Abad (23.7 percent) and Chui regions (3.4 percent). Other regions demonstrated an increase in the level of housing funds commissioning.

⁵ Data for the period.

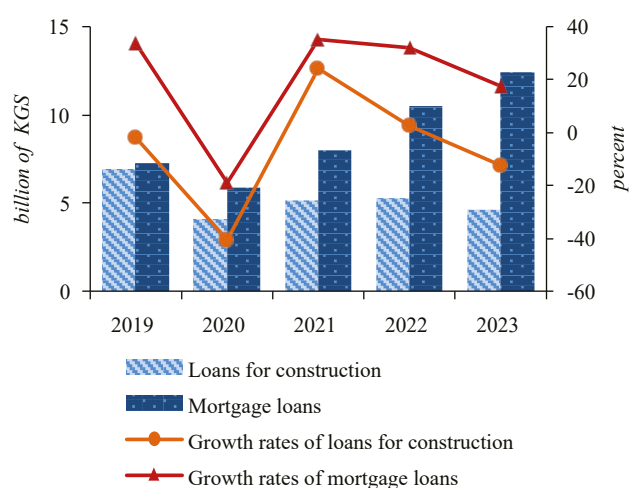
Table 1.4.1. Geographic Structure of Commissioned Housing

	2022		2023	
	Total commissioned area thous. sq.m	Share of total area, %	Total commissioned area thous. sq.m	Share of total area, %
Bishkek city and Chui region	360.7	32.2	545.9	40.1
Osh city and Osh region	275.2	24.6	287.3	21.1
other regions of the KR	483.2	43.2	527.3	38.8
Total	1,119.1	100.0	1,360.5	100.0

Source: NSC KR

As of December 31, 2023, there was a decrease in the volume of loans issued to finance construction and an increase in the volume of mortgage loans compared to 2022. In the reporting period, the volume of loans extended for construction decreased by 12.5 percent (down to KGS 4.6 billion), and the volume of mortgage loans increased by 17.6 percent (up to KGS 12.4 billion). The aforementioned sectors demonstrated growth in the volume of loans extended in the national currency, and a decrease – in foreign currency.

Chart 1.4.6. Loans Extended for Construction and Mortgage⁶



Source: CBs, NBKR

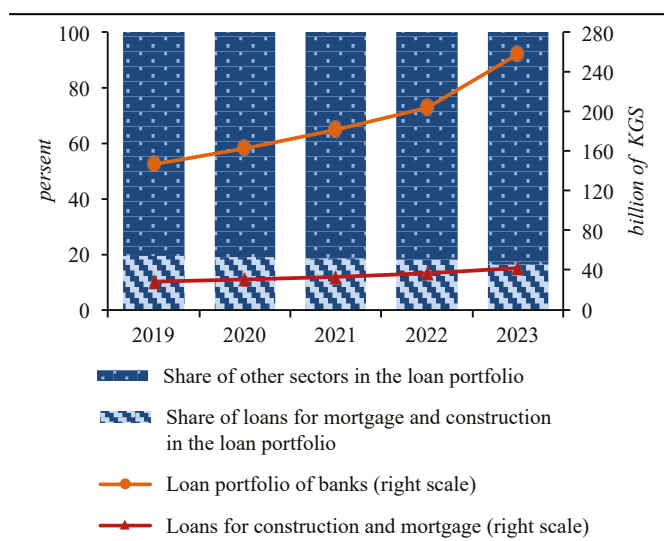
At the end of 2023, residential houses were generally constructed and commissioned at the expense of the population (76.6 percent of their total commissioning)⁷.

As of **December 31, 2023**, the share of loans for construction and mortgage amounted to 16.3 percent in the total loan portfolio of the commercial banks, the share of mortgage loans thereof constituted 11.6 percent. The share of loans for construction and mortgage decreased by 2.0 percentage points in the total loan portfolio of the commercial banks compared to 2022. (Chart 1.4.7).

⁶ Data for the period.

⁷ “Social and economic situation of the Kyrgyz Republic (January – December 2023)”, NSC KR.

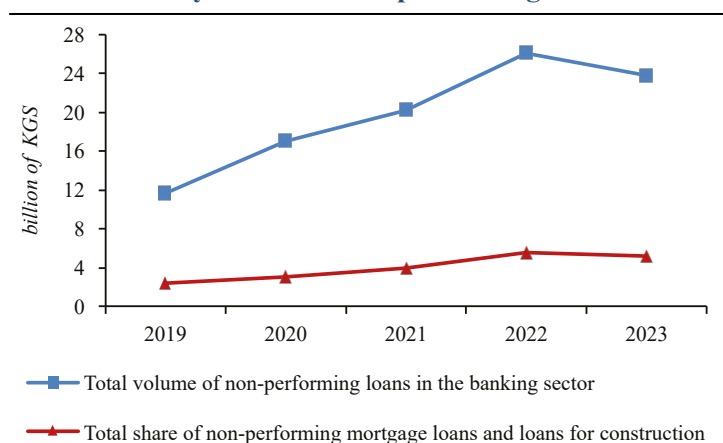
Chart 1.4.7. Total Share of Loans for Mortgage and Construction in the Loan Portfolio of Commercial Banks⁸



Source: CBs, NBKR

The total volume of non-performing loans for mortgage and construction decreased by 6.6 percent and amounted to KGS 5,209.9 million. Therefore, in the reporting period, the aggregate share of non-performing loans in the aforementioned sectors increased by 0.6 percentage points and constituted 21.9 percent of the total volume of non-performing loans in the banking sector (Chart 1.4.8). The volume of non-performing loans for mortgage and construction in foreign currency decreased by 9.4 percent and amounted to KGS 3,368.1 million mainly due to improvement in the quality of issued loans for construction.

Chart 1.4.8. Dynamics of Non-performing Loans



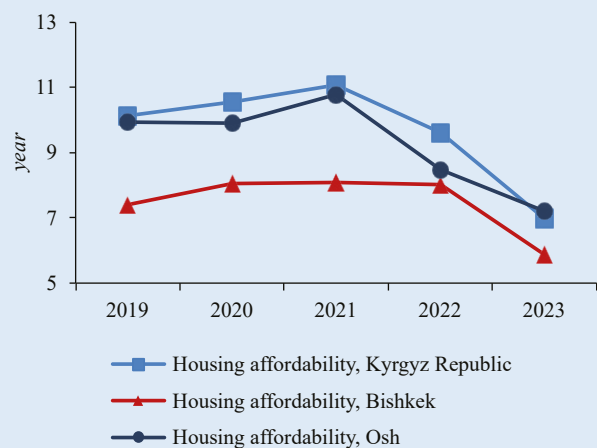
Source: CBs

⁸ Data as of the end of period.

Box 1. Housing Affordability Index

As of December 31, 2023, the housing affordability index in the Kyrgyz Republic increased from 9.6 to 7.0 years compared to 2022 due to reduction of time (number of years) required for an average family to save money for housing purchase (Chart 1). This is due to the growth rate of the average monthly nominal wages (29.4 percent) outrunning the growth rate of real estate prices (4.8 percent).

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



According to the results for 2023, to purchase an apartment of 54 square meters in the Kyrgyz Republic, one should save the average monthly nominal wage of the family consisting of three people (KGS 33,258.0), where the income is received by two people, and the minimum consumer budget of KGS 23,369.8 (35.1 percent of total family income), for 7.0 years with other conditions being equal.

Sources: NSC KR, SALRCGC under the CM KR, NBKR

Box 2. Stress Testing of Impact from Price Changes in the Real Estate Market on the Banking Sector⁹

As of December 31, 2023, the number of loans secured by pledged real estate constituted 22.4 percent of the total volume of loans in the loan portfolio of the banks. The volume of loans secured by real estate (at collateral value) constituted 71.8 percent of the total collateral in the loan portfolio.

Credit risks for the banking sector are conditioned by possible decrease in the value of pledged real estate below the loan repayment balance and further refusal of the borrower from loan repayment. Stress testing is focused on quantitative assessment of possible losses from outstanding loans and identification of the most vulnerable banks.

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

Scenario	Potential losses of the banking sector	Potential losses of large banks	Risk of capital adequacy ratio violation
"Historical" scenario* (decrease in price for real estate by 23% per a year)	---	---	---
"Alternative" scenario (decrease in price for realestate by 40% per 2 years)	---	---	2 banks
"Negative" scenario (decrease in price for real estate by 50% per a year)	---	---	3 banks

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

In addition to the stress test, the threshold level of decrease in prices for real estate, when there is a risk of a decrease in the profits of the banking sector and when the banks potentially suffer losses, was calculated. The banking sector may face the risk of decrease in profits and losses of individual banks if prices for the real estate decrease by 56.3 percent and borrowers refuse to service previously obtained loans secured by real estate, as well as if collateral is put on the banks' books with subsequent sale thereof in the market at decreased prices. At the same time, individual systemically important banks are likely to face a similar risk in case of a decrease in prices for real estate by 60.2 percent. There is a risk of violation of the capital adequacy ratio by the banking sector, as well as by the systemically important banks when prices for real estate are likely to decrease by 75.1 and 75.7 percent, respectively¹⁰.

⁹ Stress test was conducted on the basis of the commercial banks' data provided in the course of the survey as of December 31, 2023.

¹⁰ The banks did not take into account in their calculations possible difference in estimated value of pledged real estate, which may be less than the market value by up to 20 percent. Taking this into account the aforementioned facts, reduction in the threshold level of prices for real estate may reach 20 percent.

II. BANKING SECTOR

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

In the reporting period, the level of dollarization of the loan portfolio decreased and the share of deposits in foreign currency remained unchanged in the total deposit base of the banking sector compared to 2022.

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

2.1. Major Trends of the Banking Sector Development

As of December 31, 2023¹¹, 23 commercial banks and 320 bank branches worked in the territory of the Kyrgyz Republic, among which there were 13 banks with foreign participation in the capital, including 10 banks with foreign participation in the amount of more than 50 percent. All banking institutions of the country are universal by type of business.

Assets

Generally, at the end of 2023, there was an increase in the volume of assets in the banking sector of the Kyrgyz Republic. Assets of the banking sector amounted to KGS 614.3 billion, having increased by 27.4 percent compared to 2022 (Chart 2.1.1).

Chart 2.1.1. Dynamics of Assets in the Banking Sector



Source: NBKR

The growth of assets was mainly provided by increase of:

- the loan portfolio by 26.3 percent or by KGS 53.7 billion;
- liquidity in the form of cash and funds on correspondent accounts by 17.9 percent or KGS 28.4 billion;
- deposits in other banks by 74.5 percent or by KGS 21.3 billion.

The share of loan portfolio in the structure of assets constituted 42.0 percent, having decreased by 0.3 percentage points compared to 2022.

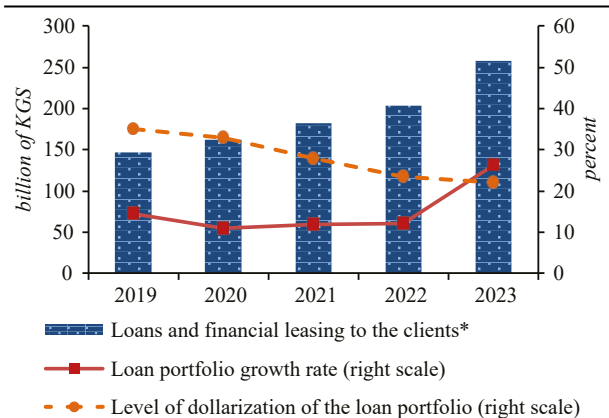
Loan Portfolio

At the end of 2023, the banks' loan portfolio increased in all main sectors of the economy compared to 2022, excluding the sectors of industry and construction.

At the end of the reporting period, the level of dollarization of the loan portfolio in the banking sector decreased by 1.5 percentage points compared to 2022 and amounted to 22.0 percent (Chart 2.1.2).

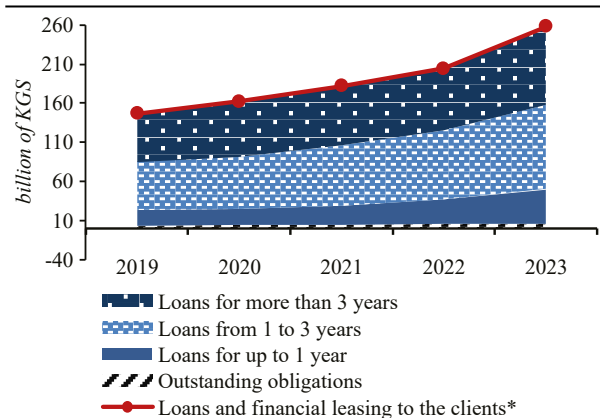
¹¹ The data are submitted according to periodic regulatory reporting of the commercial banks (PRBR).

Chart 2.1.2. Dynamics of Loan Portfolio in the Banking Sector



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

Chart 2.1.3. Structure of Loan Portfolio by Maturity



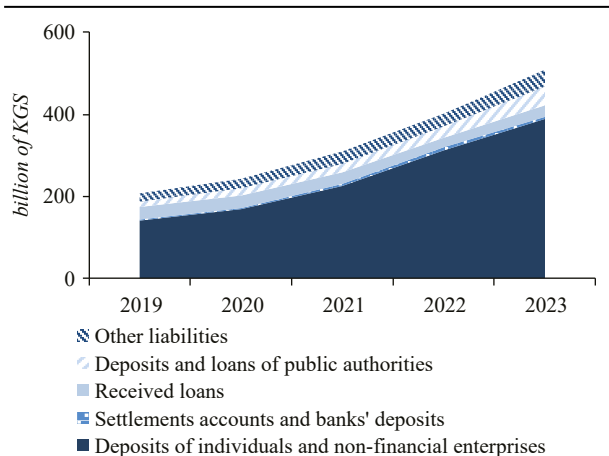
* Exclusive of loans provided by FCO and special loan loss provisions
Source: NBKR

In the maturity structure of loans issued in 2023, the main shares are accounted for short-term loans – 39.0 percent or KGS 59.1 billion, and medium-term loans – 33.3 percent or KGS 50.5 billion (Chart 2.1.3).

Liabilities

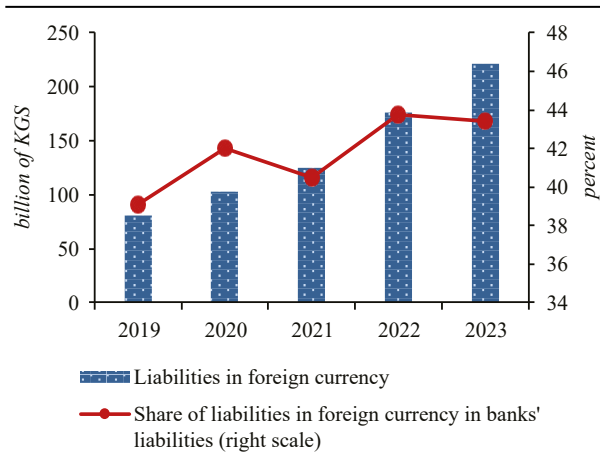
At the end of 2023, liabilities of the banking sector of the Kyrgyz Republic increased by 26.9 percent compared to 2022 and amounted to KGS 510.0 billion.

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



Source: NBKR

Chart 2.1.5. Banks' Liabilities in Foreign Currency



Source: NBKR

At the end of the reporting period, deposits of individuals and non-financial enterprises increased by 24.5 percent and amounted to KGS 389.7 billion (Chart 2.1.4). The share of individuals' and non-financial enterprises' deposits in the banks' liabilities decreased by 1.5 percentage points and amounted to 76.4 percent.

In 2023, the share of liabilities in foreign currency in the total volume of attracted funds decreased by 0.3 percentage points and amounted to 43.4 percent (Chart 2.1.5).

Financial Results

At the end of 2023, a decrease of the banking sector's profitability indicators was observed compared to 2022 due to excess of assets and capital growth rates over the growth rates of the commercial banks' profitability:

- return on assets (ROA) constituted 4.4 percent;
- return on equity (ROE) formed at 32.4 percent.

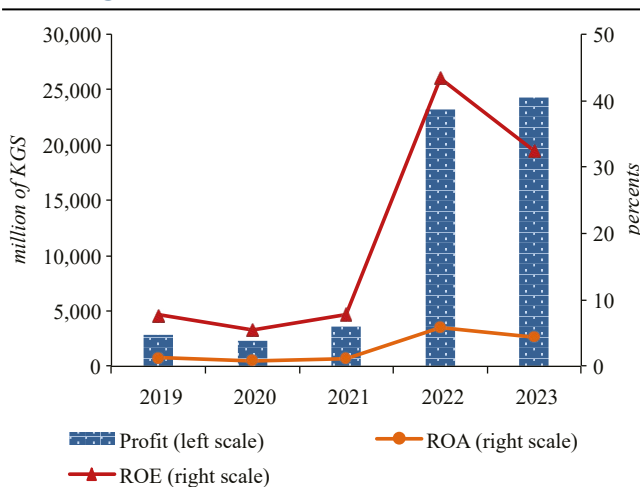
In 2023, net profit of the banking sector increased by 4.7 percent and amounted to KGS 24.2 billion (Chart 2.1.6).

Capital Adequacy

With statutory minimum capital adequacy at 12.0 percent, at the end of 2023, this figure decreased by 0.7 percentage points compared to 2022 and amounted to 24.8 percent (Chart 2.1.7).

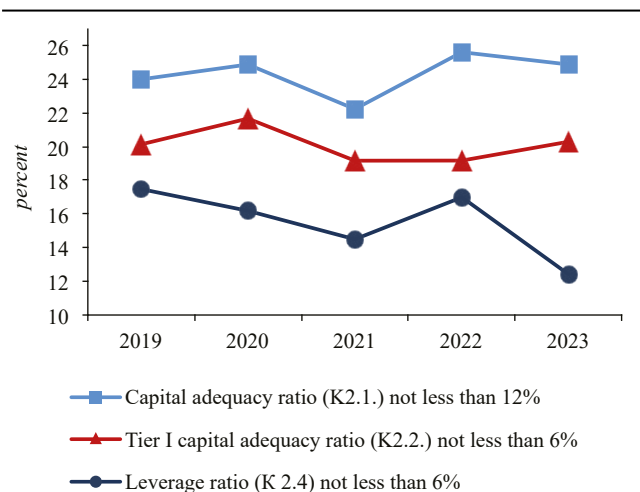
At the same time, the actual level of capital adequacy in the banking sector generally formed according to the results of 2023, exceeded the established standard (at least 12 percent) by more than twice, indicating the relative stability of the banking sector to negative shocks, as well as the presence of certain potential to increase the level of financial intermediation and efficiency of the banking sector activity in the future.

Chart 2.1.6. Profitability Indicators of the Banking Sector



Source: NBKR

Chart 2.1.7. Dynamics of Capital Adequacy Ratios



Source: NBKR

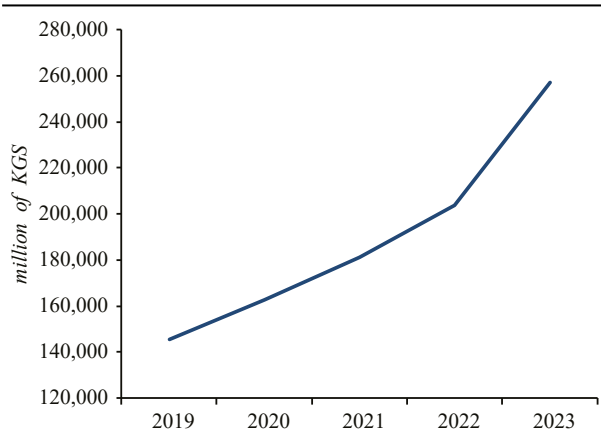
2.2. Banking Sector Risks

2.2.1. Credit Risk

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

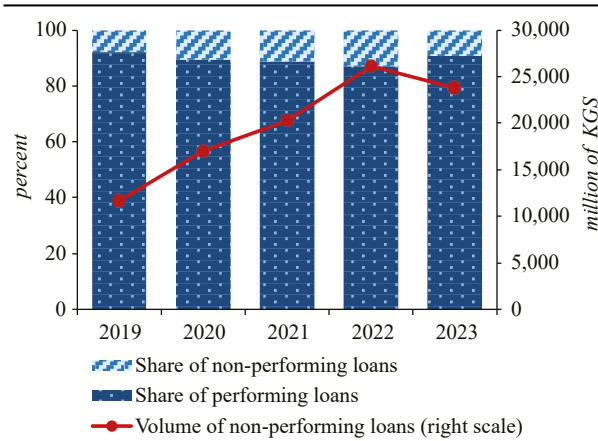
At the end of 2023, the loan portfolio increased by 26.3 percent during the year and amounted to KGS 257.8 billion (Chart 2.2.1). The share of non-performing loans in the loan portfolio of banks decreased from 12.8 percent to 9.2 percent compared to 2022 (Chart 2.2.2.2).

Chart 2.2.1. Dynamics of Loan Portfolio¹²



Source: NBKR

Chart 2.2.2. Loan Portfolio Quality



Source: NBKR

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

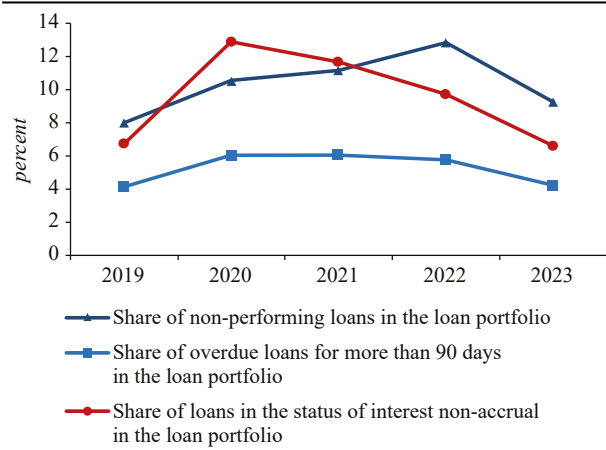
The indicator of the risk of default on assets (the ratio of special loan loss provisions (LLP) and loan portfolio) decreased by 2.4 percentage points compared to 2022 and constituted 6.2 percent.

Aggregate reserves created by the commercial banks constituted 8.2 percent of the total loan portfolio.

Meanwhile, the share of special loan loss provisions in 2023 constituted 75.9 percent of the total reserves (Chart 2.2.4).

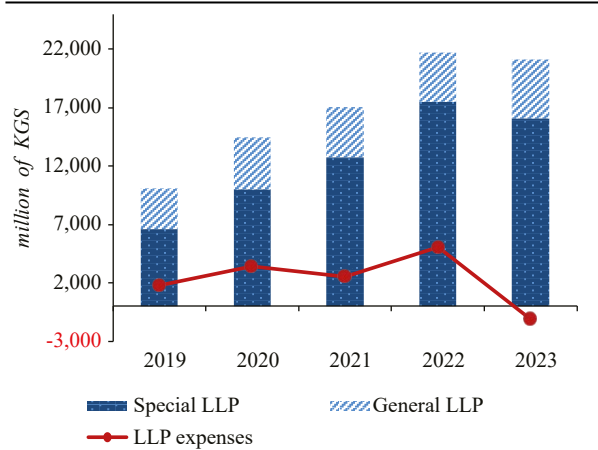
¹² Loan portfolio excluding discount.

Chart 2.2.3. Indicators of the Loan Portfolio Quality



Source: NBKR

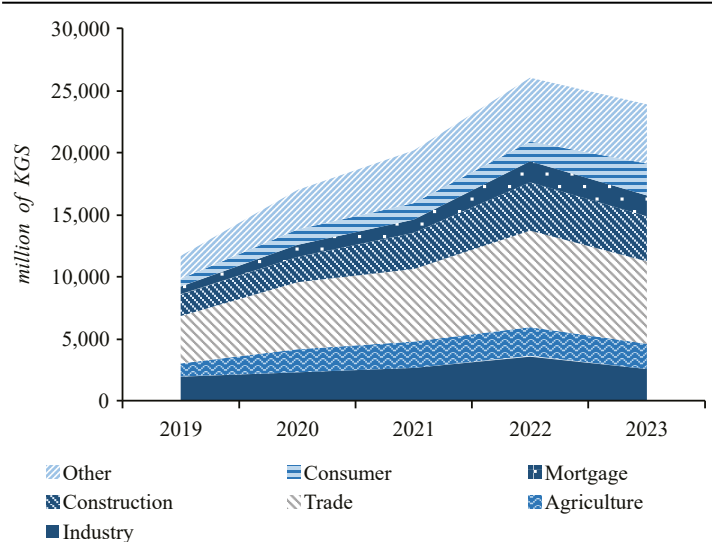
Chart 2.2.4. Total and Special Reserves



Source: NBKR

At the end of 2023, the highest concentration of credit risks was still observed in the trade sector of economy (Chart 2.2.5).

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



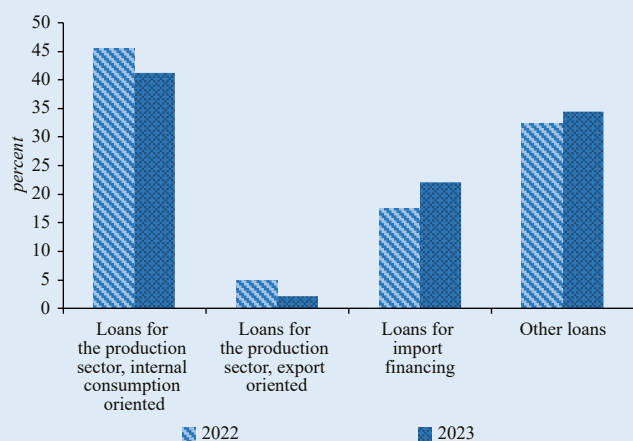
Source: NBKR

CONTENT

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

According to the conducted survey of commercial banks, at the end of the reporting period, a significant part of extended loans (41.2 percent of total borrowers' loans) was still concentrated in the production sector of the economy¹³, thereby reflecting the impact of lending on the country's GDP, meanwhile, 22.1 percent of issued loans were forwarded for financing of imports (Chart 1).

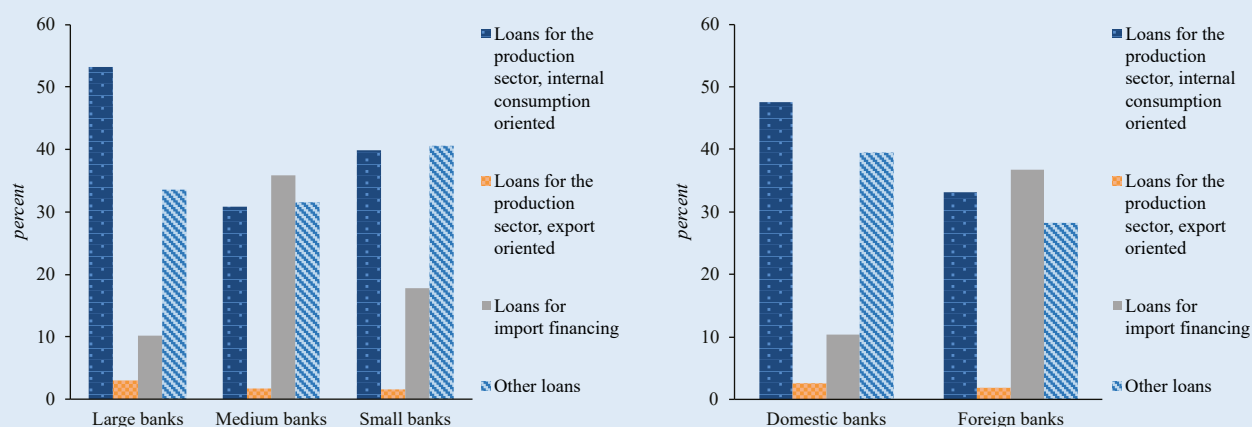
Chart 1. Sectoral Structure of Loans as of December 31, 2023



Source: CBs

Domestic banks forwarded 47.6 percent of the loan portfolio to the production sector (GDP) and 10.4 percent – to finance imports. Generally, foreign banks also provided loans to the production sector of economy (33.2 percent). In 2023, the share of loans forwarded to finance imports constituted 36.7 percent of the loan portfolio (Chart 2).

Chart 2. Sectoral Structure of Loans by the Groups of Banks as of December 31, 2023



Source: CBs

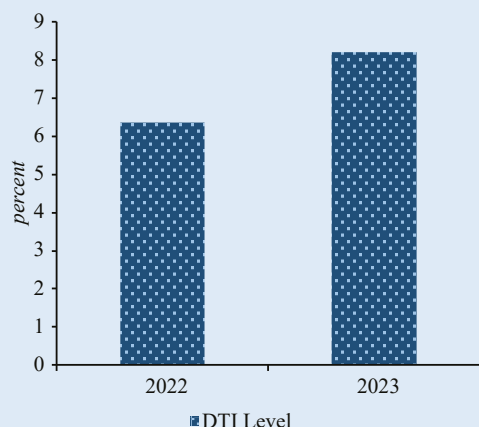
¹³ The production sector means the activity of the bank clients connected with the production of goods and services (construction, communication and automobile repair shop services, transport services, real estate leasing, hotels, restaurants, etc.).

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

Borrowers solvency

At the end of 2023, the level of debt burden of 15 banks' largest clients calculated through DTI index¹⁴ increased by 1.8 percentage points compared to 2022 and constituted 8.2 percent (Chart 1).

Chart 1. DTI Level on 15 Banks' Largest Borrowers



By the group of banks, the largest debt burden was observed in the major borrowers of the medium banks (13.0 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 large banks and constituted 4.3 percent.

Source: CBs, NBKR

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

	Banking sector	Large banks	Medium banks	Small banks
Loan balance, <i>billions of KGS</i>	56.4	15.4	29.6	11.5
Share of loans in 15 largest borrowers in the total volume of loan portfolio in the banking sector, <i>in %</i>	21.7	16.1	28.7	18.6
Ratio of expenses for loan debt servicing to the borrowers' total income, <i>in %</i>	8.2	4.3	13.0	8.4

Source: CBs, NBKR

In 2023, the level of debt burden in the foreign banks was higher than in the domestic banks (Table 2).

Table 2. Debt Burden in the Domestic and Foreign Banks at the End of 2023

	Domestic banks	Foreign banks
Loan balance, <i>billions of KGS</i>	22.7	33.8
Share of loans in 15 largest borrowers in the total volume of loan portfolio in the banking sector, <i>in %</i>	15.7	29.1
Ratio of expenses for loan debt servicing to the borrowers' total income, <i>in %</i>	4.8	12.1

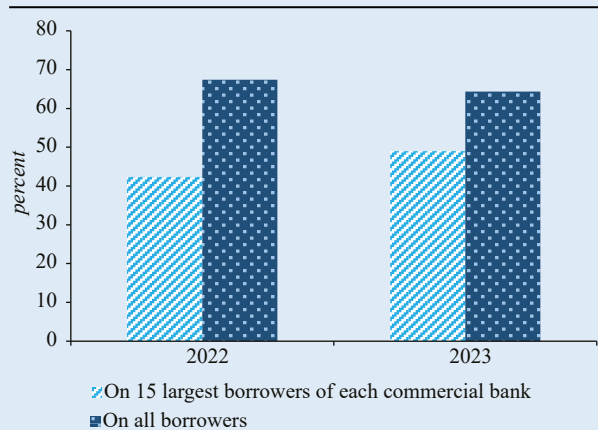
Source: CBs, NBKR

¹⁴ 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

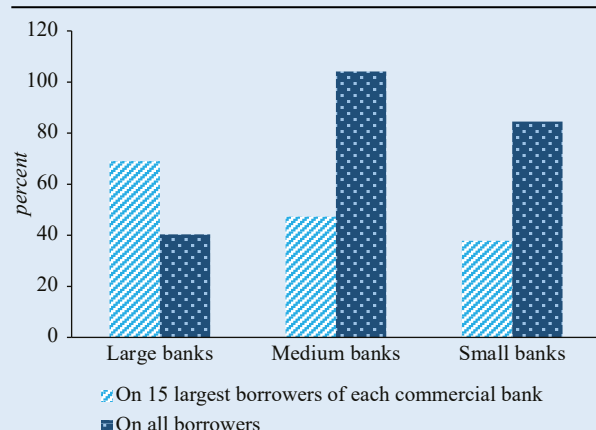
At the end of 2023, the LTV¹⁵ actual level in the banking sector amounted to 64.4 percent. The existing level of collateral indicates a relatively high level of the loans secured by the pledged property (Chart 2). At the same time, the LTV value of large banks is lower than that of small and medium banks and the banking sector as a whole (Chart 3).

Chart 2. LTV Level on All Borrowers and on 15 Largest Borrowers of Each Commercial Bank as of December 31, 2023



Source: CBs, NBKR

Chart 3. LTV Level on All Borrowers and on 15 Largest Borrowers by the Banks' Groups as of December 31, 2023



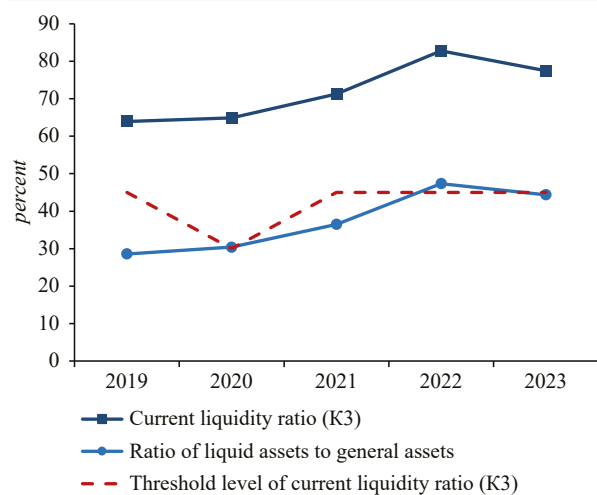
Source: CBs, NBKR

¹⁵ LTV (loan-to-value ratio) is the ratio of issued loans to the value of collateral.

2.2.2. Liquidity Risk

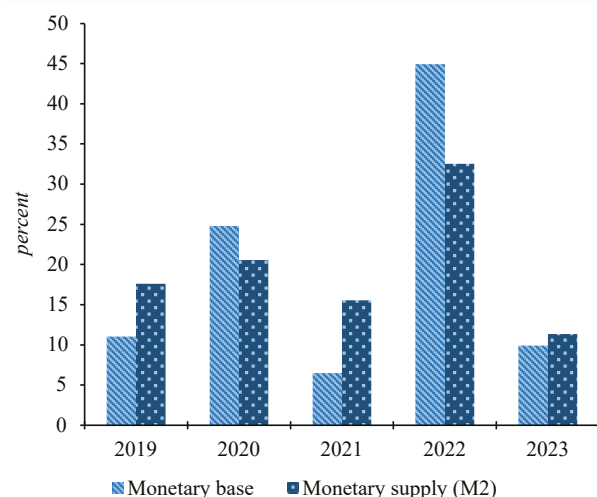
At the end of 2023, current liquidity ratio decreased from 82.8 (at the end of 2022) down to 77.4 percent (Chart 2.2.6). Growth of money supply indicator (M2) was due to increase of monetary funds in the national currency and demand deposits in the economy (Chart 2.2.7).

Chart 2.2.6. Liquidity Indicators in the Banking Sector



Source: NBKR

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



Source: NBKR

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

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

Table 2.2.1. Maturity of Financial Assets and Liabilities
as of December 31, 2023, millions of KGS

Name	Maturity					Total
	up to 1 month	1-3 months	3-6 months	6-12 months	more than 12 months	
Total financial assets	300,359	40,810	24,980	51,352	220,373	637,875
including loans and financial leasing to the clients	14,342	15,263	20,304	41,743	165,328	256,980
Total financial liabilities	350,180	15,357	26,522	45,717	66,037	503,814
including deposits of individuals and time deposits of legal entities	131,808	10,997	20,719	37,814	29,583	230,921
Gap	-49,821	25,453	-1,542	5,635	154,337	134,061
Including on loans and deposits	-117,466	4,267	-416	3,928	135,746	26,059

2.2.3. Concentration Risk

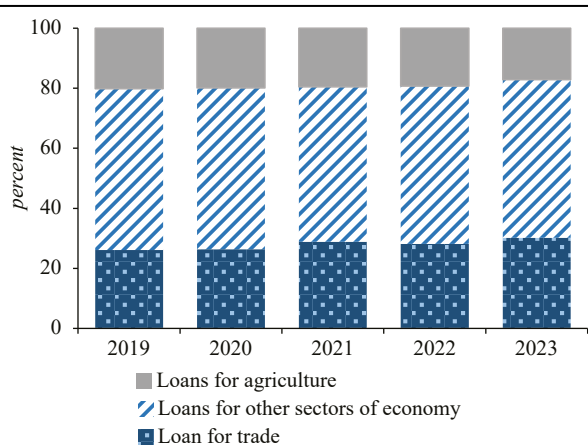
Concentration of the Largest Sources of Financing

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 prudential standard set by the NBKR.

Chart 2.2.8. Sectoral Concentration of the Loan Portfolio



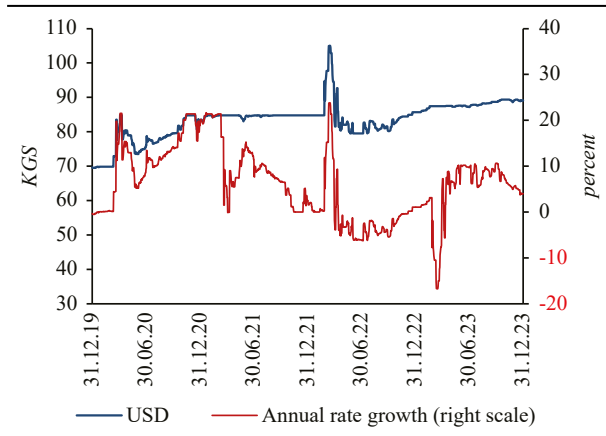
The level of trade and agricultural loans concentration remained unchanged in the sectoral structure of the loan portfolio amid an increase in the overall level of lending. At the end of 2023, the share of loans for trade increased by 2.1 percentage points, the share of loans for agriculture, on the contrary, decreased by 2.1 percentage points (Chart 2.2.8).

Source: CBs, NBKR

2.2.4. Currency Risk

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

Chart 2.2.9. Dynamics of USD/KGS Nominal Exchange Rate



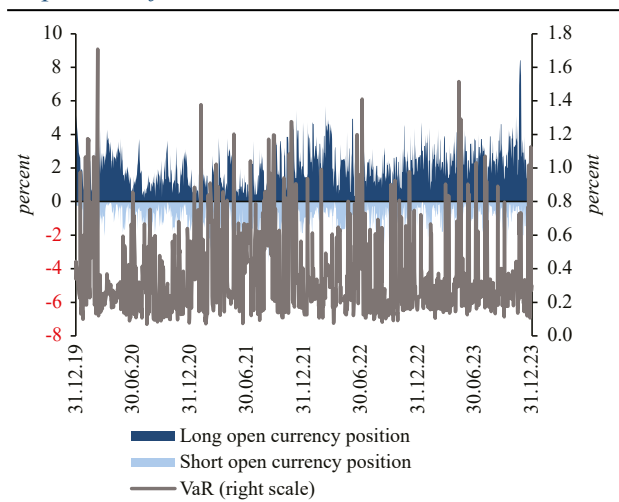
Source: NBKR

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

In 2023, the risk of currency position overestimation in the banking sector was minimum (VaR: 0.1-1.5 percent of the net total capital, Chart 2.2.10), i.e. the banks adhered to a conservative policy when conducting operations with foreign currency and were weakly exposed to currency risk.

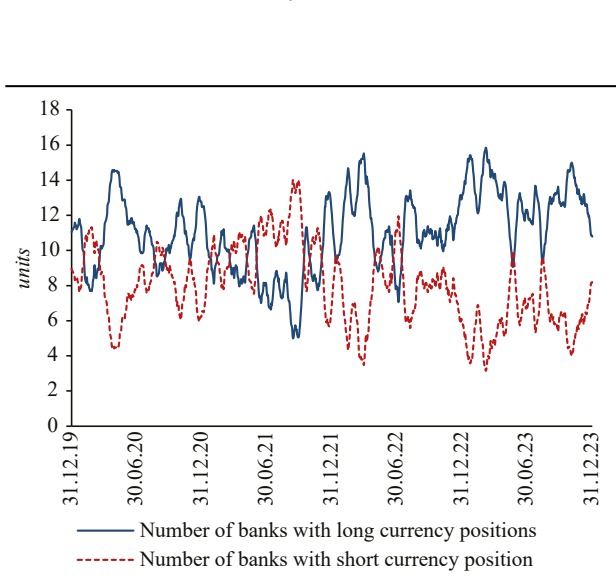
In the reporting period, 13 banks had a long currency position in U.S. dollars, and 6 banks adhered to a short currency position (Chart 2.2.11).

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



Source: NBKR

Chart 2.2.11. Currency Position of the Banks



Source: NBKR

Box 5. Credit and Currency Risks

As of December 31, 2023, 12.0 percent of the total loan portfolio was accounted for the loans, which were repaid in foreign currency, while the incomes of the borrowers were generated in the national currency (Chart 1). This volume of the loan portfolio was potentially exposed to credit and currency risks.

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

- Group 1 – 24.1 percent, basic incomes of the borrower are generated in the national currency, and the loans are repaid in foreign currency;
- Group 2 – 7.1 percent, basic incomes and loans payable by the borrower are generated in the same currency;
- Group 3 – 17.4 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 Loans¹⁶

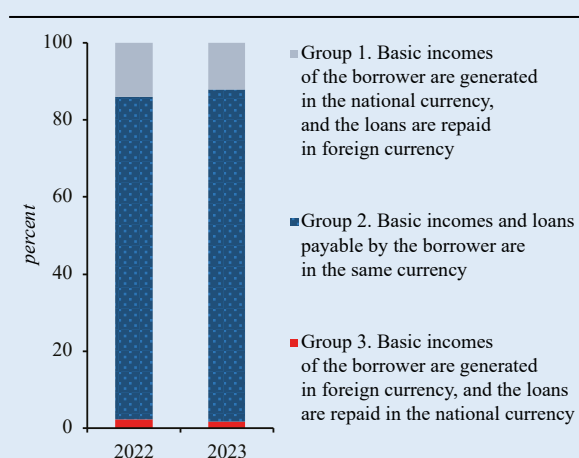
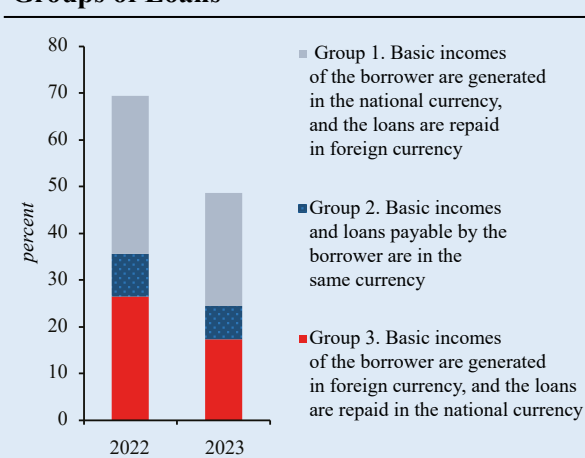


Chart 2. Share of Non-performing Loans by Groups of Loans¹⁷



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

¹⁶ Breaking of loans into groups is presented in this chart. For example, the volume of loans for Group 1 as of December 31, 2023 amounted to KGS 30.3 billion or 12.0 percent of the total loan portfolio.

¹⁷ This chart shows the shares of non-performing loans in the loan portfolio by each group of loans. For example, the volume of non-performing loans for Group 1 as of December 31, 2023 amounted to KGS 7.3 billion or 24.1 percent of the total loan portfolio for Group 1 (KGS 30.3 billion).

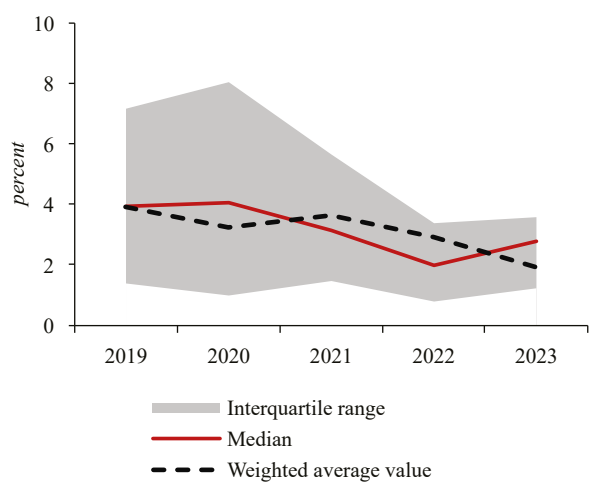
2.2.5. Interest Rate Risk

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 for the period of 2010 – 2023 was within accessible limits (1.9 – 4.0 percent of net total capital) (Chart 2.2.12).

Chart 2.2.12. Dynamics of Interest Rate Risk (VaR)

in percent of NTC

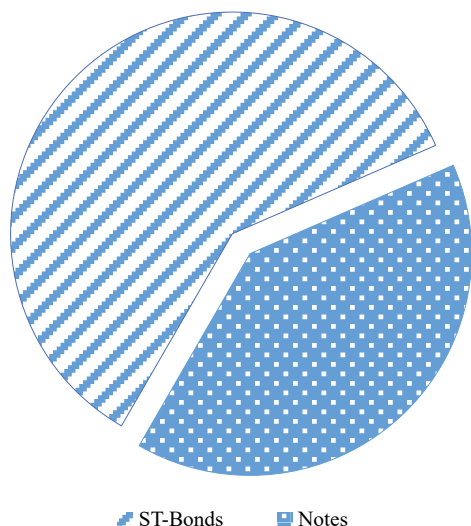


Source: NBKR

2.2.6. “Contagion” Risk

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

Chart 2.2.13. Distribution of Interbank Loan Transactions Made during 2023 between Resident Banks, Depending on Collateral



Source: NBKR

At the end of 2023, the volume of interbank loan transactions amounted to KGS 25.4 billion¹⁸.

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

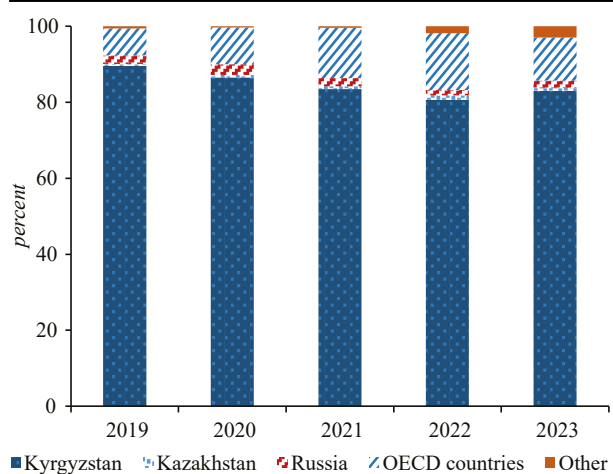
In general, the probability of the “contagion” risk materialization in the interbank credit market of the country is minimal, which is caused by highly liquid collateral.

¹⁸ The total volume of transactions made between the resident banks during 2023 is meant here.

2.2.7. Country Risk

As of December 31, 2023, according to the commercial banks, the aggregate volume of placed assets of non-residents constituted KGS 110.1 billion or 17.0 percent of the total banking sector assets. The greatest concentration of placements was observed in the Organization for Economic Cooperation and Development (OECD) countries – 11.3 percent (KGS 73.1 billion) of the total assets of the banking sector of the Kyrgyz Republic.

Chart 2.2.14. Geographic Structure of Assets



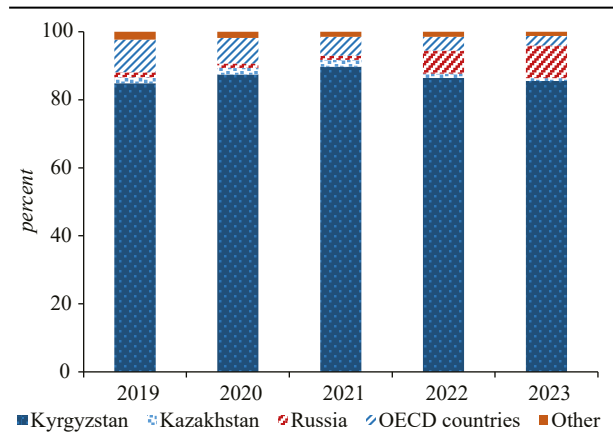
Source: NBKR

The main share of assets placed abroad is focused on correspondent and deposit accounts and constituted KGS 108.1 billion or 98.2 percent of the total placed assets of non-residents (Chart 2.2.14).

At the end of 2023, banks' liabilities to non-residents of the Kyrgyz Republic totaled KGS 73.0 billion or 14.5 percent of the total liabilities of the banking sector. Significant volume of these resources was drawn from non-resident individuals and legal entities, as well as from non-resident banks in the form of deposits, which amounted to KGS 64.6 billion or 88.5 percent of the total liabilities to non-residents.

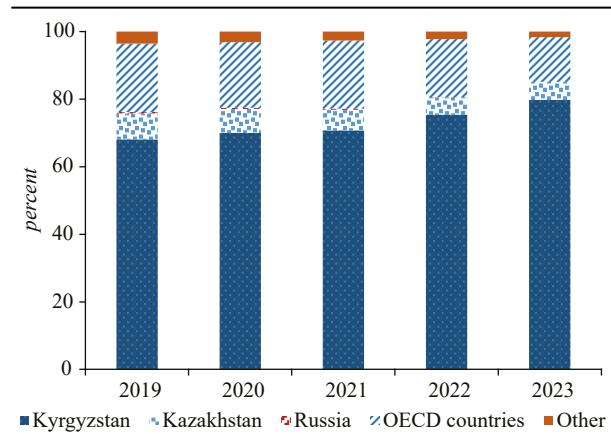
2.8 percent of the liabilities to non-residents were accounted for the OECD countries, accounted for, 0.8 and 9.6 percent – for Kazakhstan and Russia, accordingly (Chart 2.2.15).

Chart 2.2.15. Geographic Structure of Liabilities



Source: NBKR

Chart 2.2.16. Authorized Capital by Countries



Source: NBKR

At the end of 2023, foreign capital amounted to KGS 12.2 billion or 20.3 percent of the total authorized capital of the banking sector. The structure of foreign capital by countries is distributed among (Chart 2.2.16):

- residents of the OECD countries – 13.2 percent,
- residents of Kazakhstan – 5.4 percent,
- residents of other countries – 1.7 percent.

2.3. “Reverse” Stress Testing of the Banking Sector

2.3.1. “Reverse” Stress Testing of Credit Risk¹⁹

Maximum allowable share of “performing” loans²⁰ 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.

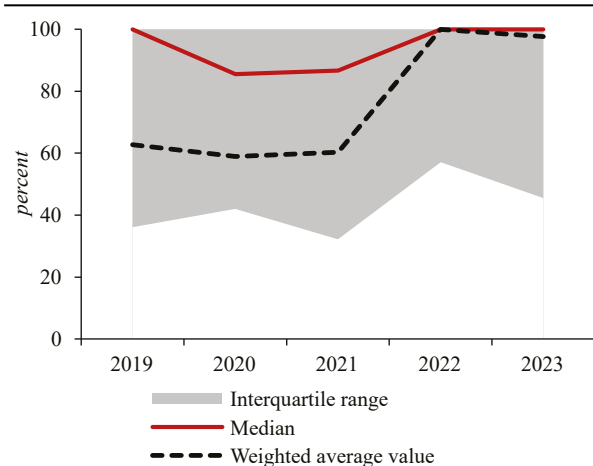
This method allows detecting a buffer stock of capital (net total capital) of banks, which can cover the additional allocations to LLP in connection with the transformation of “performing” loans into the category of “non-performing” loans²¹.

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

Based on the results of the “reverse” stress testing of the banking sector as of December 31, 2023, the maximum allowable share of “performing” loans, transferring to the category of “non-performing” in the banking sector, amounted to approximately 97.6 percent (Chart 2.3.1).

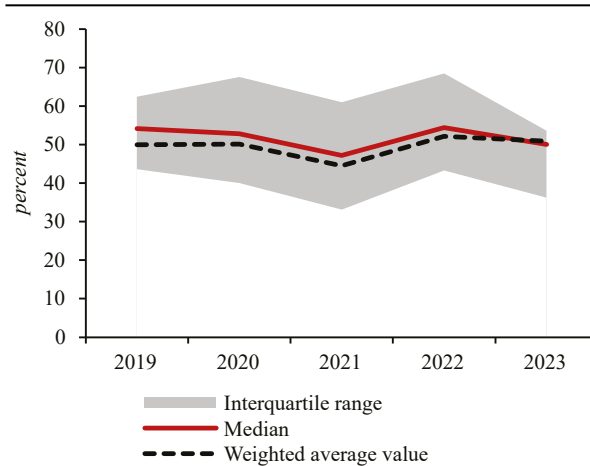
Thus, the banking sector can sustain a significant deterioration in the quality of the loan portfolio, which may require the creation of additional LLP. The volume of additional LLP can reach 51.7 percent of the net total capital (Chart 2.3.2).

Chart 2.3.1. Maximum Possible Share of “Performing”²² Loans that May Become “Non-performing” Loans²³, 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

¹⁹ Exclusive of troubled banks.

²⁰ Exclusive of “normal” loan category, which are risk free.

²¹ Herewith, transition of “performing” loans to the category of “non-performing” loans is fulfilled smoothly by three categories (“substandard”, “doubtful” and “losses”).

²² Exclusive of “normal” loan category, which are risk free.

²³ When CAR decreases to the threshold level of 12 percent.

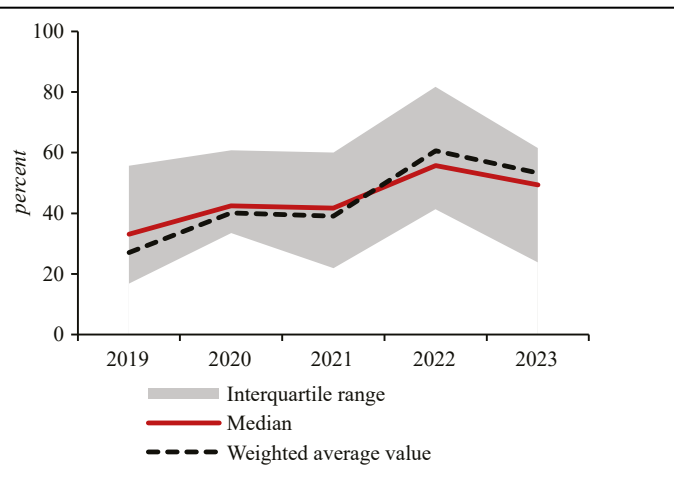
2.3.2. “Reverse” Stress Testing of Liquidity Risk

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

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

The results of the “reverse” stress testing show (Chart 2.3.3), that as at December 31, 2023, the actual amount of liquid assets of the banking sector was able to cover the deposits outflow of an average of 68.8 percent of the clients’ total deposit base (Table 2.3.1).

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



Source: NBKR

2.3.3. “Reverse” Stress Testing of Market Risk

The results of the “reverse” stress testing of the market risk indicate that the banking sector as of December 31, 2023 has little sensitivity to the interest rate and currency risks.

Interest Rate Risk

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

The results of the “reverse” stress testing indicate little sensitivity of the banking sector to the direct interest rate risk. Decrease of the average interest rates on loans by 23.5 percentage points can reduce the level of capital adequacy ratio to 12 percent (Table 2.3.1).

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

Currency Risk (Revaluation Risk)

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

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

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

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

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

Table 2.3.1. General Results of the “Reverse” Stress Tests as of December 31, 2023

		Banking sector
Credit risk		
Scenario 1	Share of performing loans transferring to the category of “non-performing” loans, <i>in percent</i>	97,6
Interest rate risk		
Scenario 1	Decrease of weighted average interest rate on loans, when CAR declines to 12%, <i>in percentage points</i>	23,5
Currency risk		
Scenario 1	Growth rate of USD/KGS (\pm) exchange rate, when CAR decreases to 12%, <i>in percent</i>	change of currency rate by 100 percent (KGS/USD)
Scenario 2	Growth rate of USD/ KGS (\pm) exchange rate, when net profit decreases to zero level, <i>in percent</i>	
Liquidity risk		
Scenario 1	Outflow of clients’ deposit and received loans of the total deposits and loans, when current liquidity ratio declines to 45%, <i>in percent</i>	53,3

III. NON-BANKING FINANCIAL-CREDIT ORGANIZATIONS

In general, the state of the system of non-bank financial-credit organizations (NBFCOs) is assessed as stable. Increase of major indicators such as assets, loan portfolio, resource base is observed.

Stress test results indicate that the credit risk of the NBFCOs system is moderate.

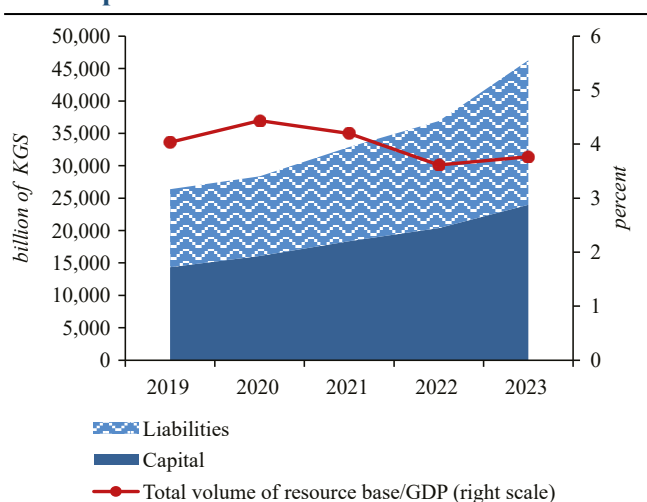
Weighted average interest rates on loans of the microfinance organizations increased by 2.0 percentage points compared to 2022 and constituted 32.0 percent.

3.1. Main Trends

The system of non-banking financial-credit organizations subject to licensing and regulation by the National Bank as of December 31, 2023 in the Kyrgyz Republic included: the specialized financial-credit organization “FCCU” OJSC, 81 credit unions, 121 microfinance organizations (including 9 microfinance companies, 78 microcredit companies and 34 microcredit agencies), and 609 exchange bureaus.

Resources

Chart 3.1.1. Dynamics of NBFCOs Liabilities and Capital



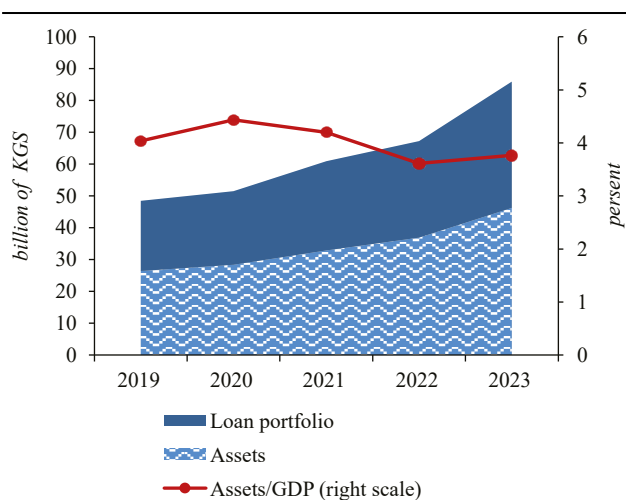
At the end of 2023, NBFCOs’ liabilities increased by 34.6 percent compared to 2022 and were formed in the amount of KGS 22.3 billion. As of December 31, 2023, NBFCOs’ capital increased by 17.8 percent and totaled KGS 24.0 billion (Chart 3.1.1).

Source: NBKR

Assets

According to the periodic regulatory reporting data, the total assets of NBFcos in 2023 increased by 25.3 percent and amounted to KGS 46.3 billion²⁴. This increase was due to growth in the loan portfolio of NBFcos (Chart 3.1.2).

Chart 3.1.2. Dynamics of NBFcos Assets and Loans



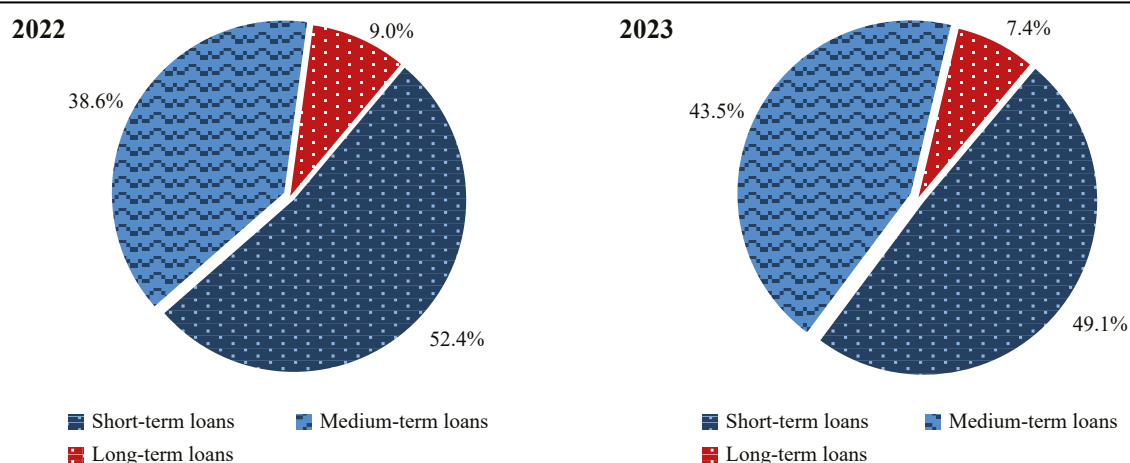
Source: NBKR, NBFcos

Lending remains the main activity of NBFcos. As of December 31, 2023, the loan portfolio of NBFcos increased by 31.0 percent and formed in the amount of KGS 39.7 billion.

As at December 31, 2023, the number of borrowers increased by 10.6 percent compared to 2022 and amounted to 503,403 borrowers.

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

Chart 3.1.3. Structure of the NBFcos Loan Portfolio by Maturity²⁵



Source: NBKR, NBFcos

The main regions where the major share of NBFcos loan portfolio is concentrated (76.2 percent of the total loan portfolio) are Bishkek city, Osh, Chui and Jalal-Abad regions, which is due to the highest level of business activity in these regions of the republic.

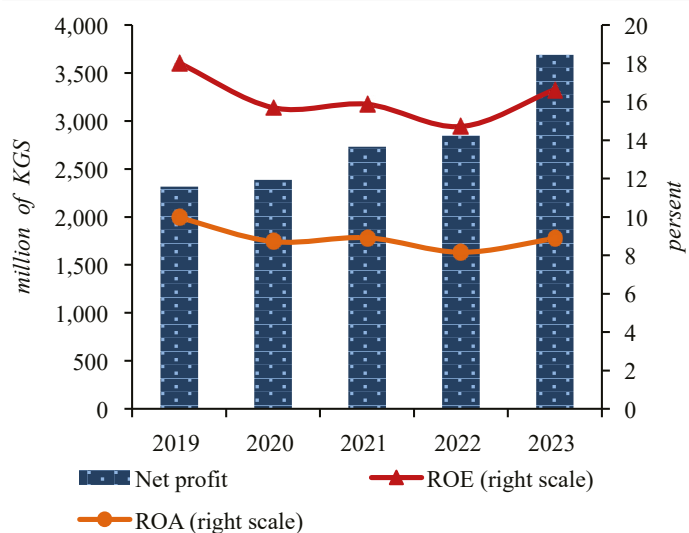
²⁴ Exclusive of SFCOs.

²⁵ Data for the period.

Revenue Position²⁶

At the end of 2023, net profit of NBFcos increased by 29.6 percent compared to 2022 and amounted to KGS 3.7 billion. At the end of December 31, 2023, ROA increased by 0.7 percentage points and amounted to 8.9 percent. ROE increased by 1.9 percentage points and constituted 16.6 percent (Chart 3.1.4).

Chart 3.1.4. Dynamics of NBFcos Revenue Position²⁷



Source: NBKR, NBFcos

²⁶ ROA and ROE indices are provided in annual term.

²⁷ Exclusive of SFCOs.

3.2. Risks of Non-banking Financial-Credit Organizations

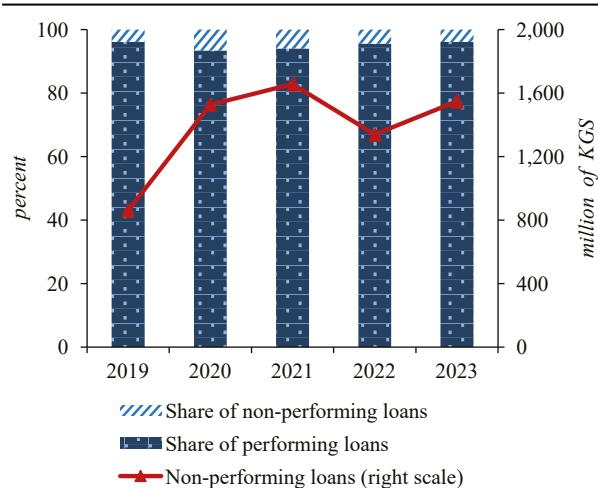
Major risk factors of the activities of NBFCOs are the quality of the loan portfolio, sectoral and institutional concentration, as well as status of the NBFCOs external debt.

Quality of the NBFCOs Loan Portfolio

As of December 31, 2023, the share of non-performing loans in the loan portfolio of NBFCOs constituted 3.9 percent, their nominal volume increased by KGS 209.2 million or 15.6 percent compared to 2022 (Chart 3.2.1).

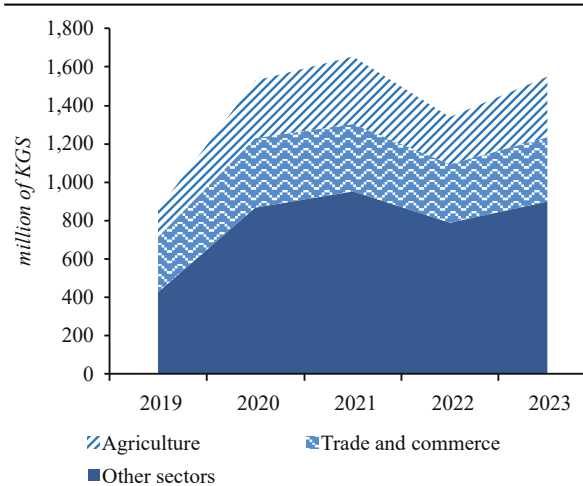
At the end of 2023, the structure of NBFCOs non-performing loans demonstrated a decrease in the share of defaulting consumer loans (by 1.1 percentage points) and trade loans (by 1.1 percentage points), however, there was an increase in the share of loans issued for agriculture (by 1.8 percentage points) compared to 2022. The share of defaulting consumer loans, loans issued for trade and agriculture in the total non-performing loans of NBFCOs constituted 38.0, 21.7 percent, and 20.3 percent, accordingly (Chart 3.2.2).

Chart 3.2.1. Quality of NBFCOs Loan Portfolio



Source: NBKR

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



Source: NBKR

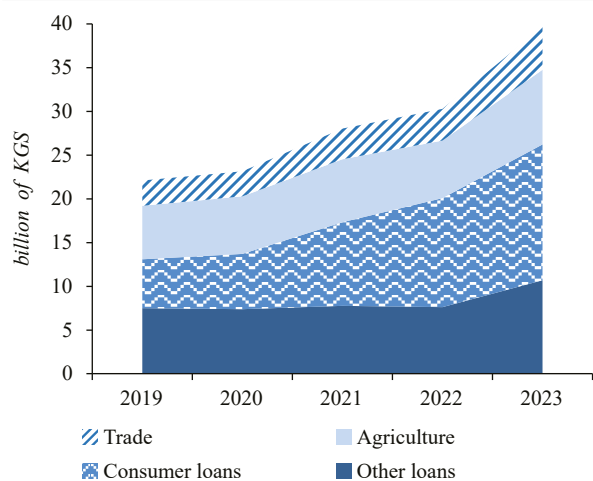
Sectoral Concentration

NBFCOs loan portfolio is concentrated in consumer loans (39.1 percent of NBFCOs total loans), as well as in the loans issued to agriculture and trade (21.6 and 12.3 percent of NBFCOs total loans, accordingly, Chart 3.2.3). At the same time, lending of agriculture is associated with significant dependence on climatic conditions.

Institutional Concentration

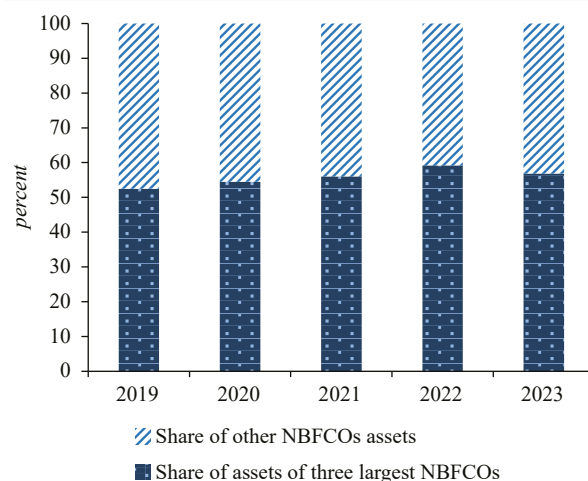
According to the results of 2023, the share of assets of three largest NBFCOs decreased by 2.3 percentage points compared to 2022 and constituted 56.8 percent of the total assets of the NBFCOs sector (Chart 3.2.4).

Chart 3.2.3. Sectoral Structure of NBFCOs Loan Portfolio



Source: NBKR, NBFCOs

Chart 3.2.4. Institutional Structure of NBFCOs Assets



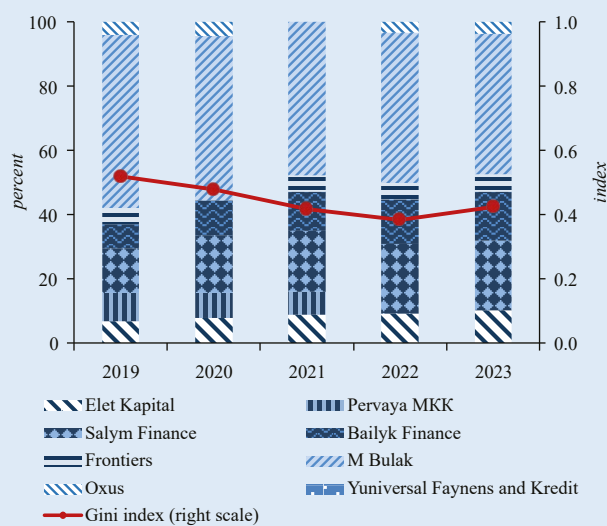
Source: NBKR, NBFCOs

Box 6. Concentration Indices based Assessment of NBFCOs Sector Activity²⁸

The Herfindahl-Hirschman Index

Herfindahl-Hirschman²⁹ index was calculated for the purposes of concentration risk analysis in the NBFCOs sector. As of December 31, 2023, Herfindahl-Hirschman index for the NBFCOs sector constituted 1,369.2 points. According to the rule of thumb³⁰, resulting value indicates availability of moderate concentration of NBFCOs assets or moderate concentration of microfinance market.

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



Source: NBKR, NBFCOs

The Gini Index

The Gini index was calculated for estimating the uniformity of the NBFCOs assets distribution. As of December 31, 2023, the index value constituted 0.42. The Gini index value increased by 0.04 points compared to 2022, which indicates an increase in the level of concentration of asset distribution among 6 large NBFCOs (Chart 1).

²⁸ Concentration indices are calculated on the basis of data submitted by 6 largest NBFCOs.

²⁹ $H = \sum_{i=1}^n (share_i)^2$.

³⁰ The following rule of thumb was used for determining the level of market concentration:
 - index value is below 0.1 (or 1.000) – insignificant market concentration;
 - index value is from 0.1 to 0.18 (or from 1.000 to 1.800) – average market concentration;
 - index value is above 0.18 (or 1.800) – high market concentration.

External Debt Status of NBFCOs

As of December 31, 2023, the external debt of NBFCOs amounted to USD 299.0 million. Major part of the external debt of NBFCOs are loans provided by the foreign financial-credit organizations (83.0 percent of total external debt of NBFCOs), the rest (17.0 percent) are loans of the international financial institutions.

At the end of 2023, external debt of the largest NBFCOs increased by 272.6 percent compared to 2022 and amounted to USD 291.5 million.

3.3. Stress Testing of NBFCOs Sector

Stress Testing of the NBFCOs Credit Risk

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

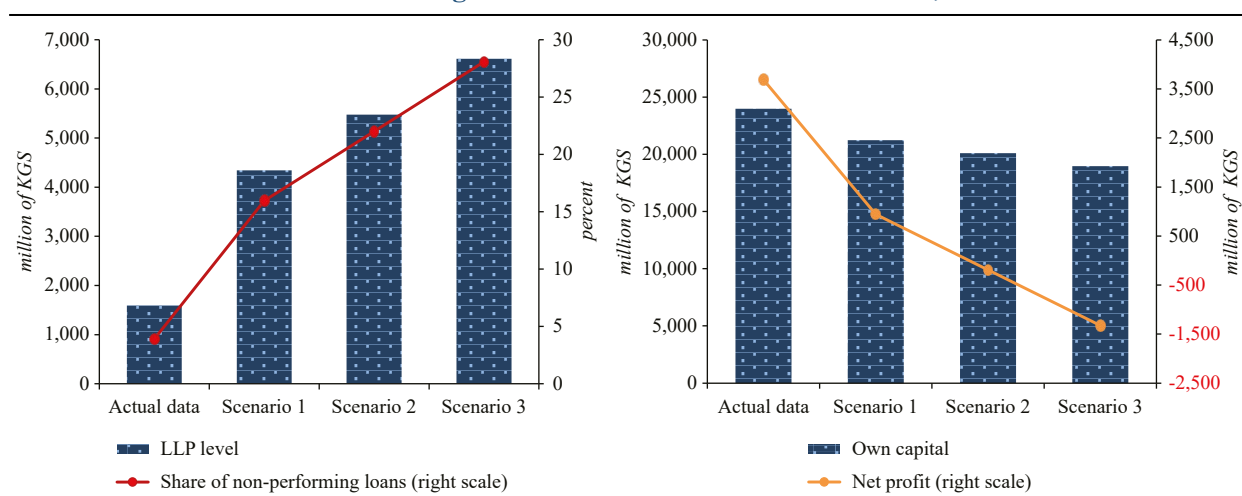
Three scenarios were considered when conducting stress testing:

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

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

The level of loan loss provisions³¹ in the loan portfolio of NBFCOs increased from 172.1 to 314.1 percent, depending on the scenario in conducting this stress testing (Chart 3.3.1).

Chart 3.3.1. Results of Stress Testing of the Credit Risk as of December 31, 2023



Source: NBKR

It should be noted that deterioration in the loan portfolio quality entails a gradual decline in equity and net profit of NBFCOs. In case one of two scenarios implementation, the NBFCOs sector will experience losses in the amount of KGS 191.4 million and 1,325.7 million, accordingly (Chart 3.3.1).

³¹ MFOs create general and special loan loss provisions for relevant categories of classifications implementing the following allocations indicated in percentage from the amount of assets:

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

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

	Share of non-performing loans in the loan portfolio of NBFCOs
Scenario 1: transition of 50% of loans from one category to another	16.0
Scenario 2: transition of 75% of loans from one category to another	22.0
Scenario 3: transition of 100% of loans from one category to another	28.1

Source: NBKR

Implementation of the first scenario may result in an increase in the share of non-performing loans in the loan portfolio of NBFCOs by 12.1 percentage points, to the level of 16.0 percent. In the case of the second scenario, non-performing loans may increase by 18.1 percentage points, to the level of 22.0 percent, and in the implementation of the third scenario – by 24.2 percentage points and may reach the level of 28.1 percent.

IV. PAYMENT SYSTEMS

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

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

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

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

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

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

At the end of 2023, the following systems were recognized according to the criteria for the payment systems significance:

1) systemically important payment systems – the RTGS and SBC systems;

2) national payment systems – RTGS, SBC and Elcart systems.

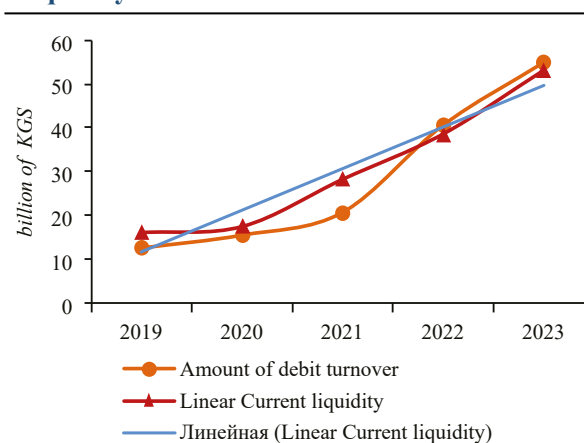
These systems are the key participants of the payment system of the Kyrgyz Republic. Failures in operation of the systemically important payment systems may result in systemic risks for the payment and banking systems of the country, and therefore are subject to increased requirements.

The **RTGS** functioned normally during 2023.

The level of financial risks in the RTGS remained low due to high level of liquid funds on the participants' accounts: average daily volume of liquid assets of participants showed an increase by 37.7 percent (compared to 2022) and amounted to KGS 53.1 billion.

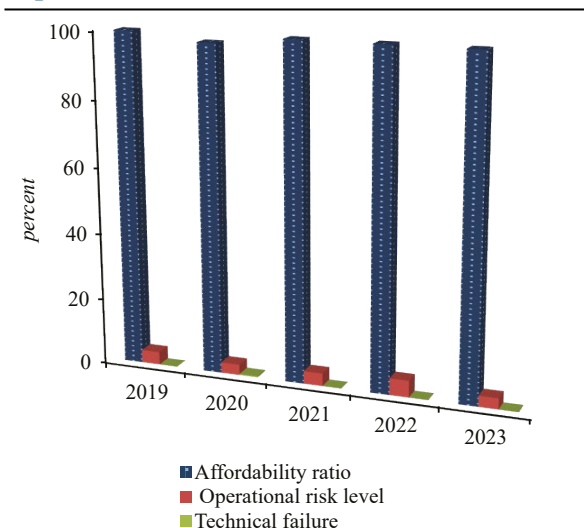
During 2023, the RTGS affordability ratio remained high and constituted 100.0 percent; meanwhile, the level of operational risk, taking into account prolongation of the transaction day, was 3.3 percent.

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



	2019	2020	2021	2022	2023
Technical failure, %	0.0	0.3	0.0	0.0	0.0
Affordability ratio, %	100.0	97.7	100.0	100.0	100.0
Operational risk level, %	3.9	3.2	3.9	5.1	3.3

Source: NBKR

In functioning of the SBC the level of financial risks in the reporting period was also low. Reserves exhibited by the participants to cover a debit net position were 3 times higher than the required level.

According to the results of the SBC operation monitoring, the system affordability ratio remained rather high and amounted to 99.8 percent during the reporting period. Meanwhile, the level of operational risk in the system was 3.4 percent taking into account incidents and extending upon request of separate participants.

Systems of Bank Payment Cards Settlements. As of January 1, 2024, six international payment card systems and one national payment card settlement system “Elcart” (hereinafter – the system “Elcart”) and co-badging cards “Elcart-UPI” operated in the Kyrgyz Republic.

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

In 2023, the results of operation monitoring and analysis indicated that the system affordability ratio was 99.7 percent, and the level of operational risks in the system, taking into account technical failures was 0.3 percent.

Money transfer systems. During 2023, receipt and transfer of international remittances without opening an account in the commercial banks was carried out by means of ten international money transfer systems.

In respect of local money transfer systems, 15 local money transfer systems operated as of January 1, 2024, the banks of the Kyrgyz Republic are the operators thereof.

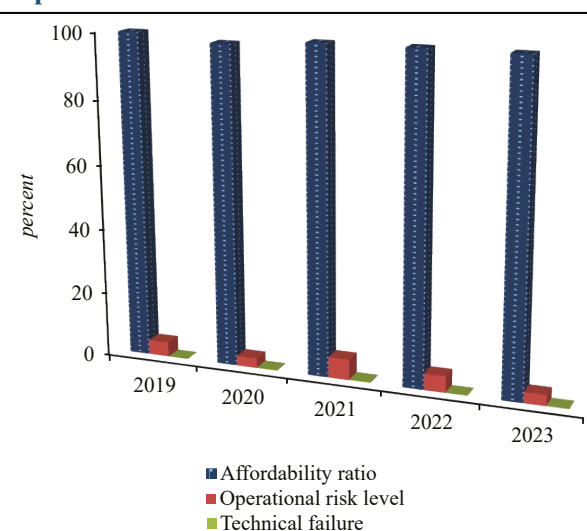
E-money payment systems. At the end of 2023, ten commercial banks were licensed to issue e-money, six commercial banks were e-money issuers, and ten local e-money settlement systems were in operation.

As of January 1, 2024, the number of e-wallets increased by 19.7 percent compared to the same period of 2023 and amounted to more than 6.5 million wallets.

Among them, the number of identified e-wallets is about 2,727 thousand, i.e. 42.1 percent of the total number of e-wallets.

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

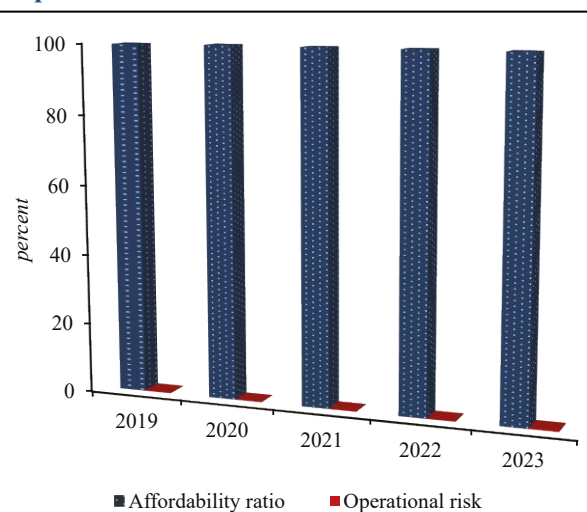
Chart 4.3. Ratio of Affordability Index and Operational Risk in the SBC



	2019	2020	2021	2022	2023
Technical failure, %	0.0	0.1	0.3	0.1	0.2
Affordability ratio, %	100.0	98.0	99.7	99.9	99.8
Operational risk level, %	4.5	3.1	6.4	5.1	3.4

Source: NBKR

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



	2019	2020	2021	2022	2023
Affordability ratio, %	99.8	99.9	99.8	99.8	99.7
Operational risk, %	0.2	0.1	0.2	0.2	0.3

Source: NBKR

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

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

As of the end of 2023, the payment infrastructure of the Kyrgyz Republic included 16 payment systems **to accept payments in favor of third parties.**

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

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

V. IMPROVEMENT OF THE FINANCIAL SECTOR REGULATION

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

1. The Resolution of the Board of the National Bank of the Kyrgyz Republic “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic on credit risk” No.2023-P-12/22-3-(NPA) was adopted on April 5, 2023 in order to develop the crediting system and encourage the financial-credit organizations to use automated systems for issuing loans.

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

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

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

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

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

4. The Board of the National Bank of the Kyrgyz Republic adopted the Resolution of the Board of the National Bank of the Kyrgyz Republic “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic” No.2023-P-12/29-1-(NPA) on April 29, 2023.

The Resolution provides for changes in calculation of the maximum amount of risk on the operations with affiliated and bank-related parties, as well as other changes related to the operations with securities.

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

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

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

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

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

7. The Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2023-P-12/55-1-(NPA) dated August 30, 2023 “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic on exchange of credit information and real estate” was adopted in order to bring the regulatory legal acts of the National Bank in compliance with the Law of the Kyrgyz Republic “On Introduction of Amendments into the Law of the Kyrgyz Republic “On Exchange of Credit Information” No. 74 dated March 29, 2023 and the Law of the Kyrgyz Republic “On Introduction of Amendments into Some Legislative Acts of the Kyrgyz Republic (into the Laws of the Kyrgyz Republic “On Sustainable Development of the Eco-Economic System “Issyk-Kul”, “On Pledge”)” No. 105 dated May 23, 2023.

8. On September 13, 2023, the Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On temporary decisions of the National Bank of the Kyrgyz Republic on regulation of the activities of “State Development Bank of the Kyrgyz Republic” OJSC” within the framework of execution of the Decree of the President of the Kyrgyz Republic “On “State Development Bank of the Kyrgyz Republic” Open Joint Stock Company No. 217 dated September 5, 2023.

Some resolutions of the Board of the National Bank of the Kyrgyz Republic regulating the activities of “State Development Bank of the Kyrgyz Republic” OJSC had been suspended by the Resolution until the relevant decision of the Board of the National Bank of the Kyrgyz Republic was made.

9. The Recommendations on identification, monitoring and disclosure of financial risks associated with sustainability factors (ESG risks) were approved by the Resolution of the Supervision Committee No. 37/1 dated September 28, 2023 in order to implement the activities of the state programs to introduce the principles of sustainable financing and development of green economy in the Kyrgyz Republic.

10. The Board of the National Bank made a decision to resume (since 2025) validity of the regulatory legal acts of the National Bank on disclosure of information related to the commercial banks’ activities and calculation of the liquidity coverage ratio, the entry into force thereof was suspended due to the situation conditioned by the COVID-19 pandemic, by the Resolution No. 2023-P-12/67-3-(NPA) dated October 25, 2023 within the framework of measures on implementation of international standards of the Basel Committee on Banking Supervision, in particular, Basel II and III, and harmonization of the laws of the EAEU member states.

11. The Resolution of the Board of the National Bank of the Kyrgyz Republic “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic” No. 2023-P-12/38-4-(NPA) dated June 14, 2023 was approved in order to bring the regulatory legal acts of the National Bank in compliance with the adopted Resolution of the Cabinet of Ministers of the Kyrgyz Republic No. 637 dated November 18, 2022 “On introduction of amendments into some decisions of the Government of the Kyrgyz Republic for introduction of digital documents in the Kyrgyz Republic”.

12. On December 8, 2023, the Board of the National Bank of the Kyrgyz Republic adopted the Resolution No. 2023-P-12/76-1-(BS) “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic”.

The Resolution provides for amendments related to acquisition by the commercial banks of the subsidiaries, affiliated companies involved in development of the financial technologies to implement banking services, as well as to bring the regulatory legal acts in compliance with the Law of the Kyrgyz Republic “On the Rights and Guarantees of Persons with Disabilities”, as well as the Constitutional Law of the Kyrgyz Republic “On the State Language of the Kyrgyz Republic”.

13. On December 13, 2023, the Board of the National Bank of the Kyrgyz Republic adopted the Resolution No. 2023-P-12/77-1-(NPA) “On introduction of amendments into the Resolution

of the Board of the National Bank of the Kyrgyz Republic “On approval of the Regulation “On special regulatory regime” No. 2020-P-12/45-3-(NPA) dated August 12, 2020”, which is focused on improving the conditions for establishment and conducting the special regulatory regime, including acceptance of applications to establish the special regulatory regime for testing banking operations and services, which are already provided by other entity(ies) within the framework of the special regulatory regime.

14. On December 20, 2023, the Resolution of the Board of the National Bank of the Kyrgyz Republic “On introduction of amendments into some regulatory legal acts of the National Bank of the Kyrgyz Republic on the issues of asset classification” No. 2023-P-12/80-4-(NPA) was adopted in order to strengthen the requirements for classification of newly issued loans in foreign currency, as well as to mitigate the current requirements of the National Bank of the Kyrgyz Republic in terms of asset classification during introduction of emergency situations.

15. Amendments on the issues of corporate governance, financial reporting, credit risk management, asset classification and loan losses provision when conducting operations in accordance with the principles of Islamic finance were approved into some regulatory legal acts by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2023-P-12/80-3-(NPA) dated December 20, 2023 in order to create equal legal environment for traditional banks and the banks conducting operations in accordance with the principles of Islamic finance, etc.

16. Amendments were introduced into some regulatory legal acts of the National Bank of the Kyrgyz Republic by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2023-P-12/82-7-(NPA) dated December 27, 2023 due to adoption of amendments into the legislation on countering the financing of terrorism and anti-money laundering.

According to these amendments:

- the size was increased for the threshold amount for foreign currency exchange operations in cash, in the course of which the commercial banks and non-banking financial-credit organizations conduct client due diligence;

- the mechanism was defined, according to which the commercial banks may suspend or terminate business relations with a client when conducting consecutive measures within the framework of implementation of the internal control program on countering the financing of terrorism and anti-money laundering;

- the requirement was set for the inspectors to prepare a report on the results of risk assessment in the activities conducted by the non-banking financial-credit organizations.

The Resolution also contains amendments on the issues of special accounts and calculation of capital adequacy ratios of the commercial banks.

GLOSSARY AND ABBREVIATIONS

A bank deposit is the amount of money, accepted by a financial-credit organization under contract from another person on the terms of repayment, payment and maturity. Deposits can be time and demand.

Demand deposits are made without specifying the shelf life, and time deposits are made for a certain period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LIST OF ABBREVIATIONS

BCS	– Bulk Clearing System
CAR	– Capital Adequacy Ratio
CB	– Commercial Bank
CJSC	– Closed Joint-Stock Company
CPI	– Consumer Price Index
DTI (debt-to-income)	is the ratio of the amount of the borrowers’ payments on loans (including the amount of principal and interest payments for the reporting period) to the main annual income of the borrower declared at the time of issuing a loan
FAO	– Food Agriculture Organization of the United Nations
FCCU	– Financial Company of Credit Unions
FCO	– Financial-Credit Organization
GDP	– Gross Domestic Product
K3.1.	– Economic Liquidity Ratio
KR	– Kyrgyz Republic
LLP	– Loan Loss Provisions
LTV (loan-to-value ratio)	is the ratio of issued loans to the value of collateral
MFO	– Microfinance Organization
M2	– Money Supply
NBFCOs	– Non-banking Financial-Credit Organizations
NBKR	– National Bank of the Kyrgyz Republic
NSC KR	– National Statistical Committee of the Kyrgyz Republic
NTC	– Net Total Capital
OCP	– Open Currency Position
OECD	– Organization for Economic Cooperation and Development
OJSC	– Open Joint-Stock Company
p.p.	– percentage point
RLA	– Regulatory and Legal Acts
ROA	– Return on Assets
ROE	– Return on Equity
PRBR	– Periodic Regulatory Bank Reporting
RTGS	– Real Time Gross Settlement System
SALRCGC under the CM KR	– State agency for land resources, cadastre, geodesy and cartography under the Cabinet of Ministers of the Kyrgyz Republic
SFCO	– Specialized Financial-Credit Organization
SFSS (State Financial Supervision Service)	– State Service for Regulation and Supervision of Financial Markets at the Ministry of Economy and Commerce of the Kyrgyz Republic
SIPC	– Single Inter-bank Processing Center
ST-Bills	– State Treasury Bills
ST-Bonds	– State Treasury Bonds
SWIFT (Society for Worldwide Interbank Financial Telecommunications)	– International Interbank System to Transfer Information and Make Payments
USA	– United States of America