
KYRGYZSTAN BECOMES FIRST IN THE WORLD TO GET IMF EMERGENCY LOAN OF \$120MLN TO ADDRESS COVID-19 PANDEMIC

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The Executive Board of the International Monetary Fund (IMF) approved a purchase of the Kyrgyz Republic under the Rapid Financing Instrument (RFI) equivalent to SDR 59.2 million (US\$ 80.6 million at today's US\$/SDR exchange rate, 33 percent of quota) and a disbursement under the Rapid Credit Facility (RCF) equivalent to SDR 29.6 million (US\$ 40.3 million at today's US\$/SDR exchange rate, 17 percent of quota) to meet the urgent balance of payment needs stemming from the outbreak of the COVID-19 pandemic.

This is the first IMF emergency loan under the RFI/RCF worldwide since the outbreak of the pandemic, IMF reports.

The outbreak of the pandemic has weakened the macroeconomic outlook for the Kyrgyz Republic and opened a balance of payments gap estimated at about US\$400 million. There is an unprecedented high level of uncertainty surrounding this projection. The IMF support helps provide a backstop, increase buffers, and shore up confidence for the Kyrgyz economy. It also helps catalyze donor support and preserve fiscal space for essential COVID-19-related health expenditure.

To absorb the shock of the pandemic, the government is appropriately implementing a temporary loosening of macroeconomic and financial policies.

Following the Executive Board discussion, Ms. Kristalina Georgieva, Managing Director and Chair, made the following statement:

The COVID-19 pandemic has been hitting the Kyrgyz economy very hard and created an urgent balance of payments need. All sectors are being impacted with extreme severity as measures are being taken to stop the spread of the virus.

Given the unprecedented high level of uncertainty, IMF emergency support under the Rapid Financing Instrument and the Rapid Credit Facility helps provide a backstop and increase buffers and shore up confidence. It also helps to preserve fiscal space for essential COVID-19-related health expenditure and catalyze donor support.

To address the crisis, macroeconomic and financial policies need to be loosened. A temporary increase in headline inflation owing to the weakening of the exchange rate needs to be

accommodated. Monetary policy needs to gradually bring inflation back within its target range next year. Flexibility in the exchange rate needs to be maintained to restore external balance.

A temporary widening of the budget deficit is appropriate, provided it can be fully financed with donor financing. In the short run, the priority is to safeguard health spending and create space for increasing health and other spending once the full impact of mitigation measures is assessed. In the medium run, the budget deficit will need to be reduced to lower levels once the crisis abates.

Banks capital and liquidity buffers need to be used to absorb credit losses and the liquidity squeeze. Once these buffers are exhausted, the central bank needs to show flexibility on the timing of bringing capital and liquidity above the minimum required, considering the length of the crisis.

Expeditious donor support is needed to close the remaining balance of payments gap and ease the adjustment burden.

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