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Kyrgyz Republic: Fiscal Risks from State-owned Enterprises

Natalie Manuilova, Anh Dinh Minh Nguyen, and Erkeaim Shambetova

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Kyrgyz Republic: Fiscal Risks from State-owned Enterprises

Prepared by Natalie Manuilova, Anh Dinh Minh Nguyen, and Erkeaim Shambetova

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ABSTRACT: State-owned enterprises (SOEs) in the Kyrgyz Republic play a significant role in the economy but also present potential fiscal risks. This paper assesses these risks through both aggregate and firm-level lenses. At the aggregate level, the total amount of liabilities of largest SOEs liabilities amounted to approximately 25 percent of GDP, raising concerns about contingent fiscal liabilities. The firm-level assessment based on key financial indicators - profitability, solvency, and liquidity- confirms vulnerabilities, particularly among large SOEs in the energy sector, where low profitability largely reflects tariffs set below cost-recovery levels. These findings underscore the importance of strengthening SOE oversight, financial transparency, and advancing reforms to mitigate fiscal risks.

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Kyrgyz Republic: Fiscal Risks from State-owned Enterprises, Kyrgyz Republic

Kyrgyz Republic

Prepared by Natalie Manuilova, Anh Dinh Minh Nguyen, and Erkeaim Shambetova[1]

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KYRGYZ REPUBLIC

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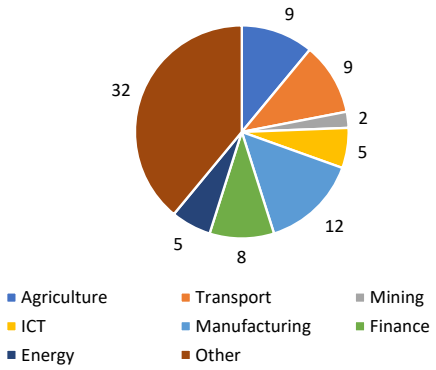
ANNEX

KYRGYZ REPUBLIC: FISCAL RISKS FROM STATE-OWNED ENTERPRISES [1]

A. Introduction

1. State-owned enterprises (SOEs) play an important role in the economy of the Kyrgyz Republic. There are eighty-two SOEs (Figure 1), broadly classified in two groups according to their legal status: Joint Stock Companies (JSCs), which are fully or majority state-owned, and State Enterprises (SEs), with both groups making roughly equal proportions. This number exceeds the OECD average of 51 SOEs. The largest SOEs operate in strategically and economically important sectors, including energy, mining and quarrying, finance, and communications sectors. In 2023, the total assets of major SOEs accounted for 50 percent of GDP, while their revenues represented 15 percent of GDP, underscoring their significant economic footprint (State Agency for the Management of State Property – SAMSP, 2024).

Figure 1. Sectoral Distribution
(Number of SOEs)



Source: SAMSP (2024) and IMF staffs calculations.

2. The financial soundness of SOEs may impact fiscal outcomes through different channels. Taxes, royalties, and dividends received from SOEs contribute to overall government revenue. Governments may face potentially substantial costs when SOEs struggle to service their debt, in case of explicit loan guarantees. In many cases, SOE-related fiscal risks are implicit and can weigh on public finances even in the absence of contractual obligations. For instance, the government may need to provide support in the form of subsidies, transfers, or recapitalization to ensure continuity of operations of SOEs and prevent arrears that may negatively impact the whole economy (Baum and others, 2020).

3. The purpose of this paper is to shed light on fiscal risks from Kyrgyz Republic's SOEs. First, it considers SOE-related fiscal risks from an aggregate perspective based on the state-guaranteed debt, contingent liabilities, and the budgetary impact of SOEs. Second, it uses firm-level data to assess the risks emanating from important SOEs by assessing their financial performance (profitability, liquidity, and solvency) using the IMF's SOE Health Check Tool (IMF, 2021a).[2] The last section of the paper concludes and recommends policies.

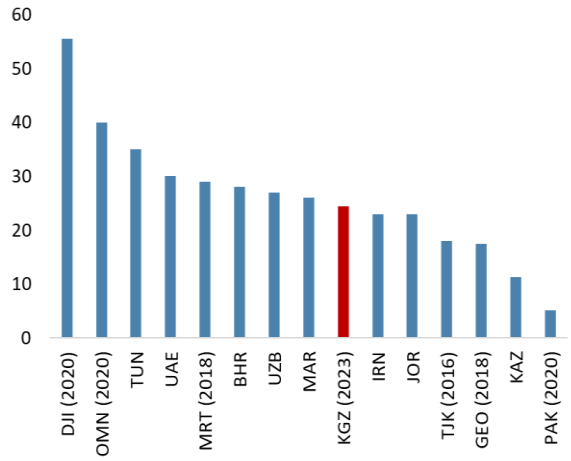
[1] Prepared by Natalie Manuilova (FAD), Anh Dinh Minh Nguyen (FAD) and Erkeaim Shambetova (MCD).

[2] https://www.imf.org/en/Topics/fiscal-policies/Fiscal-Risks/Fiscal-Risks-Toolkit/Fiscal-Risks-Toolkit-SOE-HCT

B. Fiscal Risks: Aggregate Perspective

4. Contingent liabilities from SOEs are significant, therefore posing potential fiscal risks. The total amount of liabilities of the largest twenty-eight SOEs amounted to 25 percent of GDP in 2022 and 2023 (SAMSP, 2024), which is in the middle range of countries in the Middle East, North Africa, and Central Asia (henceforth, ME&CA) (Figure 2). This sizeable level of liabilities can be a source of concern, particularly if SOEs have low profitability or/and their assets are insufficient to cover their debts. A sectoral breakout indicates that non-financial SOEs held liabilities equivalent to 12 percent of GDP as of end 2023, with about 90 percent of the debt concentrated in the energy sector (Figure 3). While total liabilities in the energy sector fell by 2 percent of GDP over 2022-23, thanks to GDP growth, they increased in nominal terms by above 10 percent from KGS 127 billion to KGS 140 billion, primarily because of large operating losses. However, a mitigating factor is that approximately 85 percent of these liabilities are long term debt, reducing short-term fiscal pressures. Meanwhile, the liabilities of SOEs in the finance and banking sector amounted to 13 percent of GDP in 2023, but their large asset base significantly reduces their fiscal concern (Figure 4).

Figure 2. Contingent Liabilities of SOEs
(Percent of GDP)



Source: IMF (2021b), SAMSP (2024), and IMF staffs calculations. The data is 2019 or the latest.

Figure 3. Liabilities of Large SOEs by sector
(Percent of GDP)

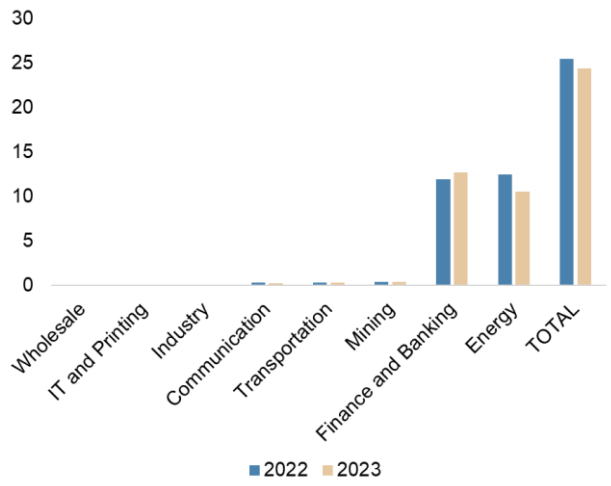
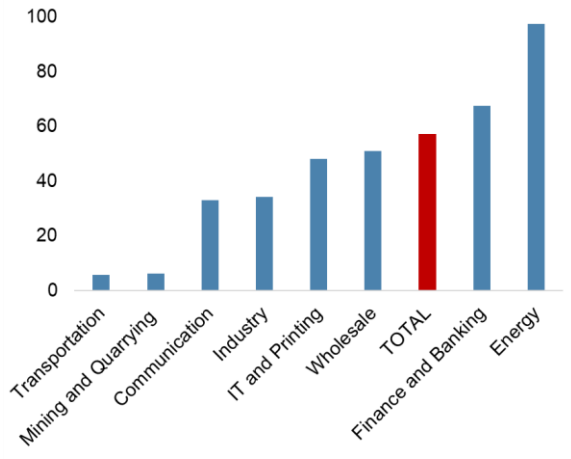


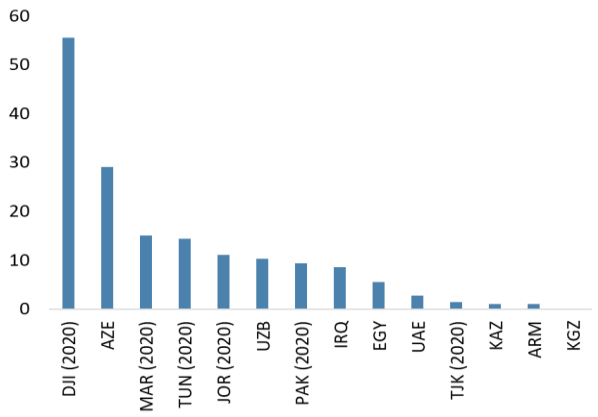
Figure 4. Debt-to-Asset Ratio in 2023
(Percent)



Source: SAMSP (2024) and IMF staffs calculations

5. There is currently no outstanding state-guaranteed debt for SOEs. The Kyrgyz Republic introduced a moratorium on state guarantees in 2007 in its medium-term public debt strategy, later reinforcing it with a special clause in the Budget Code.[3] For comparison, the state-guaranteed debt is about 10 percent in the ME&CA as well as in European Union countries on average (Figure 5 and Nguyen, 2024). On-lending of external loans to SOEs by the Ministry of Finance, however, implies de-facto guarantees. Additionally, a couple of agencies issue guarantees and sureties on behalf of the central government like Guarantee Fund and Finance and Credit Fund of the Ministry of Finance. Although the amounts are small, they have a potential to grow if not managed under prudent fiscal oversight.

Figure 5. Total Stock of Government Guarantees
(Percent of GDP)



Source: IMF (2021b) and IMF staffs calculations. The data is 2019 or the lastest.

6. Solvency risks vary across sectors, with the energy sector posing a significant concern. The debt-to-asset (D/A) ratio, which measures the debt burden relative to assets and serves as an indicator of solvency, remains below 50 percent for most sectors. The lowest D/A ratios are observed in the transportation and mining and quarrying sectors (less than 10 percent). On the other hand, the D/A ratio for the energy sector was about 97 percent in 2023, increasing by almost 10 percentage points from 89 percent in 2018 mainly due to operating losses, therefore indicating an elevated risk of solvency, particularly if losses continue.

7. Fiscal support to SOEs has been balanced out with their contribution to the budget in 2022-2023. The average contribution of SOEs to the budget was 1.4 percent of GDP, with (direct) tax contribution of 0.5 percent of GDP and dividends of 0.9 percent of GDP. This is broadly equal to the direct fiscal support to SOEs, including subsidies (about 0.6 percent of GDP) and lending (about 0.9 percent of GDP).

8. The establishment of National Investment Fund should be accompanied with fiscal discipline to limit potential risks. The National Investment Fund (NIF) was established by the Cabinet of Ministers in November 2024 with an objective to improve the efficiency of SOEs corporate management and ensure their long-term growth. Lessons from international experience highlight the need for careful implementation, as many of these funds have struggled to achieve their objectives (Bauer, 2014). The challenges mainly stem from inadequate financial management and weak governance frameworks, as well as a poor integration of such funds into the budget process, which in turn is hampering fiscal discipline and leading to fiscal risks. Therefore, it is vital to

[3] Recent changes in the Budget Code could allow the Government to issue guarantees under certain conditions.

ensure transparency and accountability of the NIF, prevent overlapping responsibilities with the SPMSP while continue strengthening SOEs oversight. Given that the NIF is tasked with assisting SOEs in attracting funding and investments, the SPMSP should oversee SOE fiscal risks to prevent a conflict of interest for the NIF. Consistent policy frameworks and full disclosure of financial performance are key principles for managing holding companies to mitigate risks related to borrowing, quasi-fiscal activities, and contingent liabilities, and reinforcing long-term fiscal stability. Moreover, it is crucial to avoid preferential treatment of SOEs and maintain a level playing field for all businesses.

C. Fiscal Risks: Firm-Level Analysis

9. This section complements the aggregate perspective with a firm-level analysis of fiscal risks by assessing the financial health of major SOEs in the Kyrgyz Republic. Table 1 describes the main sources of risks and the associated key financial indicators to assess the potential for those risks to arise. These indicators encompass three aspects—profitability, solvency, and liquidity—to identify risks across the entire portfolio of key SOEs in recent years. Specifically, *profitability metrics* assess an SOE's efficiency in using its assets to generate returns for its shareholders. *Solvency metrics* evaluate an SOE's ability to withstand unexpected losses, repay its debt in the long term, and continue operating as a going concern. Finally, *liquidity metrics* reflect an SOE's ability to service its current liabilities and how readily it can convert assets into cash.

Table 1. Kyrgyz Republic: Fiscal Risks and Financial Indicators

Fiscal Risk	Main Source of Risk at SOE level	Key Financial Indicators
Lower dividends and taxes	• Lower revenues • Higher costs	Deteriorating profitability indicators
Higher subsidies	• Higher cost of subsidized activities	Deteriorating profitability indicators
Equity injections	• Losses eroding equity • Unsustainably high debt levels • Write-off or impairment of assets	Deteriorating solvency indicators (debt to assets)
Increased borrowing needs	• Weak internal generation of cash (often due to poor profitability) • Poor working capital management (collection from debtors and payment of creditors) • Inadequate access to market financing to meet obligations as they fall due	Deteriorating liquidity or solvency (interest coverage) indicators
Materialization of contingent liabilities	• Weak internal generation of cash (often due to poor profitability) • Inadequate access to market financing to meet obligations as they fall due	Deteriorating liquidity or solvency (interest coverage) indicators

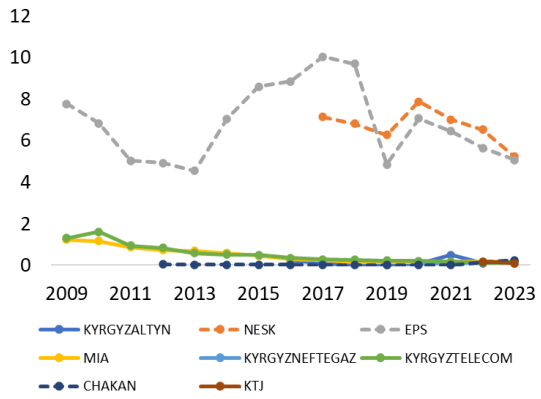
Source: IMF (2021a).

Table 2. Kyrgyz Republic: Selected SOEs for Analysis

A. Enterprise	B. Sector
National Electric Network of Kyrgyzstan (NESK)	Energy
Electric Power Stations (EPS)	Energy
Chakan GES	Energy Transportation
Kyrgyz Temir Zholu (KTZ)	Mining and Quarrying
Kyrgyzaltyn	Mining and Quarrying
Kyrgyzneftegaz	Telecommunications
Kyrgyztelecom	Transportation
Manas International Airport (MIA)	

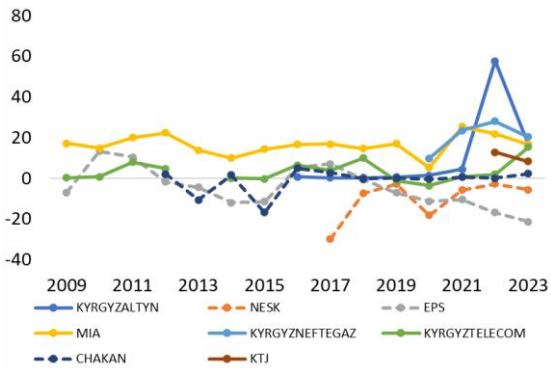
10. The analysis focuses on selected eight large non-financial SOEs in different sectors of the economy. These SOEs operate in four strategically important sectors of the economy, including energy (3 SOEs), transportation (2 SOEs), telecommunications (1 SOE), and mining and quarrying (2 SOE) (Table 2).[4] These SOEs account for approximately 95 percent of the total assets and liabilities of the non-financial SOEs analyzed in the SAMSP 2024 report. Therefore, evaluating their financial performance can further help identify sources of fiscal risks arising from SOEs. In addition, high concentration of liabilities in two energy SOEs –NESK and EPS – highlights the need for a further in-depth analysis of their financial position and sustainability, and closer monitoring of their financial health by the MoF (Figure 6).

Figure 6. Total Liabilities
(Percent of GDP)



Sources: Orbis database, SAMSP (2024), and IMF staff calculations.

Figure 7. Return of Asset
(Percent)



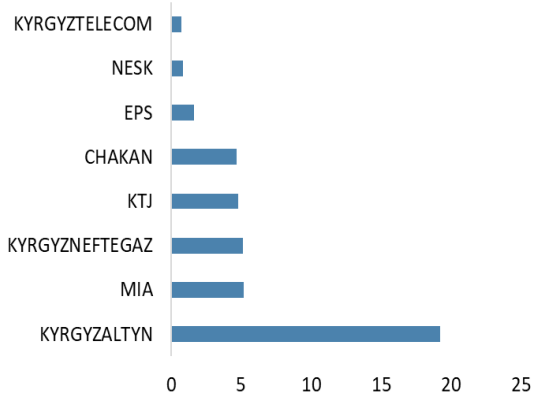
Sources: Orbis database, SAMSP (2024), and IMF staff calculations.

[4] Among eight selected SOEs, Kyrgyz Temir Zholu is a state enterprise and other SOEs are joint stock companies.

11. While the majority of large SOEs are profitable, the energy sector SOEs are loss-making. The SAMSP (2024) reports that, among twenty-eight largest SOEs, twenty-two made total of profit of KGS 35.5 billion in 2023. Meanwhile, six SOEs incurred aggregate losses of KGS 18.9 billion, resulting in an aggregate net profit of KGS 16.6 billion. These losses are generated primarily by the energy sector SOEs. Among the eight largest SOEs analyzed in this paper, all three energy companies, EPS, NESK, and Chakan had lower return of asset (ROA) compared to SOEs in other sectors (Figure 7). EPS and NESK have continuously reported losses in most years since 2009, while Chakan's profitability remains close to zero. These persistent financial challenges largely stem from below-the-cost residential tariffs for electricity, cost inefficiencies of operations, as well as poor governance (World Bank, 2020; Shambetova and van Houtte, 2024).

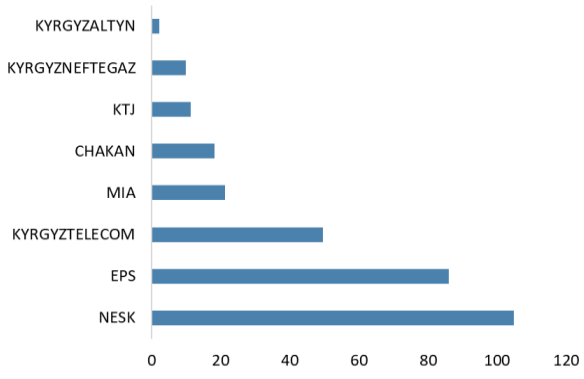
12. Low profitability has led to liquidity challenges. Kyrgyztelecom and NESK have an average current ratio below 1, indicating insufficient liquid assets to pay the amounts due to creditors in the short run (i.e., 12 months) (Figure 8). While EPS's current ratio is above 1 on average, it has declined steadily from 2 in 2021 to 1.1 in 2023, signaling rising liquidity concerns. In addition, NESK and, to some extent, EPS face heightened solvency concerns due to high debt-to-asset ratios of close to 100 percent. A firm with the ratio greater than 100 percent and negative equity is technically insolvent. These indicators imply the need for adjustments to enhance solvency and financial viability of energy SOEs. In 2024 the debt to asset ratio of NESK declined sharply to 64 percent from 99 percent in 2023, mainly due to capital injections, which lowers its solvency risks.

Figure 8. Current Ratio



Sources: Orbis database, SAMSP (2024), and IMF staff calculations. Figures show the average from the first available data (from 2009) to 2023 for each SOE.

Figure 9. Debt to Assets Ratio
(Percent)



Sources: Orbis database, SAMSP (2024), and IMF staff calculations. Figures show the average from the first available data (from 2009) to 2023 for each SOE.

13. The IMF's State-Owned Enterprise Health Check Tool (IMF, 2021) is applied to provide a comprehensive assessment of the fiscal risks at the firm level. The tool presents the risks associated with metrics of profitability, liquidity, and solvency. Twelve indicators are associated with the metrics (Table 3).

Table 3. Kyrgyz Republic: Financial Indicators in Three Metrics: Liquidity, Solvency, and Profitability

Ratios	Description
Liquidity	
Current Ratio	Measures an SOE's ability to meet short-term liabilities (those falling due within 12 months) from liquidating short-term assets. A high ratio indicates that the company is better able to withstand shocks and still meet its current liabilities
Quick Ratio	A stricter form of current ratio, this measures an SOE's ability to meet short-term liabilities with only the most liquid short-term assets. A high ratio indicates that the company is better able to withstand shocks and still meet its current liabilities
Debtor Turnover Days	Measures the speed with which a company is paid by its customers. A high ratio could indicate that the SOE is taking a long time to collect amounts owed by its customers and may face increasing liquidity challenges.
Creditor Turnover Days	Measures the speed with which an SOE pays its suppliers. A high ratio indicates that the SOE pays its suppliers more slowly and may indicate the build up of arrears or worsening financial condition.
Solvency	
Debt to Assets	Measures the proportion of a company's financing that comes from liabilities. This ratio helps to assess whether the company is solvent and the size of the debt burden on the entity. Debt financing is more cost-effective and therefore most companies maintain some level of leverage, but a high ratio indicates greater reliance on debt financing and has less financial flexibility.
Debt to Equity	Measures the proportion of a company's financing that comes from liabilities relative to equity. This ratio helps to assess whether the company is solvent and the size of the debt burden on the entity. Debt financing is more cost-effective and therefore most companies maintain some level of leverage, but a high ratio indicates greater reliance on debt financing and has less financial flexibility.
Debt to EBITDA	Indicates the ability of a firm to service any debt it holds. The indicator indicates, at the current rate of cash generation, the number of years it would take for the company to generate sufficient cash to pay off all its debt. A higher indicator indicates a more indebted company, where there is a higher risk that it may not be able to service its debt.
Interest Coverage	Indicates whether an SOE is generating sufficient operating profits to cover financing costs and still remain profitable. A high ratio indicates that the entity has more capacity to absorb shocks and still cover its financing costs.
Cash Interest Coverage	Indicates whether an SOE is generating sufficient cash to cover its financing costs. A high ratio indicates that the entity has more capacity to absorb shocks and still cover its financing costs.
Profitability	
Return on Assets	Measures the allocative efficiency of the company in managing its assets to produce profits. A high ratio indicates that larger profits are being generated per unit of asset
Return on Equity	Measures the ability of a firm to generate profits using the capital its shareholders have invested in the company. A higher ratio indicates that the company is generating higher returns for each unit of equity
Cost Recovery	Measures ability to generate adequate revenue to cover operating expenses. A ratio < 1 indicates entity is unable to cover its operating expenses and is not sustainable without supplementary funding. A higher ratio indicates a company better able to withstand shocks and remain profitable and sustainable

Source: IMF (2021).

14. The tool categorizes risk levels for each indicator into five tiers. The risk level increases from low risk (Category 1) to high risk (Category 5) (Table 4). These thresholds are applied to all SOEs to ensure a consistent comparison, despite industry-specific risk variations. Most thresholds align with common benchmarks (Halstead and others, 2021), with two exceptions. First, for ROE, SOEs are classified in the lowest risk category if their ROE exceeds 16 percent, which is the 90th-percentile of ROEs of firms in the Kyrgyz Republic.[5] The low-to-moderate risk rating (Category 2) is for SOEs that generate at least a return of 8 percent – which is the median ROE across both private and public firms. Loss-making SOEs are included in the two highest-risk categories. Second, for ROA, the thresholds for Categories 1 and 2 are derived from the ROE-related thresholds, adjusted by an

[5] This includes both private enterprises and SOEs, where data is available in the Orbis database. The last available year in most cases is 2023 or 2024. The selected value is close to the default parameter of 20 percent in the toolkit.

asset-to-equity leverage ratio of 2 for SOEs over the 2022-23 period (i.e., ROE thresholds divided by 2).

Table 4. Kyrgyz Republic: Risk Thresholds

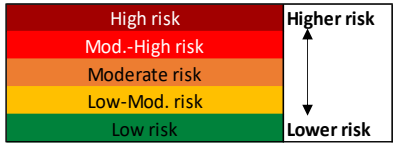
		Low-Moderate risk	Moderate risk	Moderate - High risk	High risk
Profitability	**Low risk**				
Return on assets	greater than	8%	4%	0%	-5%
Return on equity	greater than	16%	8%	0%	-10%
Cost recovery	greater than	1.5	1.3	1.0	0.8
Liquidity					
Current ratio	greater than	2.0	1.5	1.3	1.0
Quick ratio	greater than	1.2	1.0	0.8	0.7
Debtor turnover days	less than	30.0	40.0	50.0	75.0
Creditor turnover days	less than	30.0	60.0	90.0	120.0
Solvency					
Debt to assets	less than	30%	50%	80%	100%
Debt to equity	less than	50%	100%	150%	200%
Debt to EBITDA	less than	1.5	2.0	3.0	5.0
Interest coverage	greater than	2.0	1.5	1.2	1.0
Cash interest coverage	greater than	3.0	2.0	1.5	1.0
Debt coverage	greater than	0.8	0.6	0.4	0.3

Sources: IMF (2021a) and IMF staff calculations.

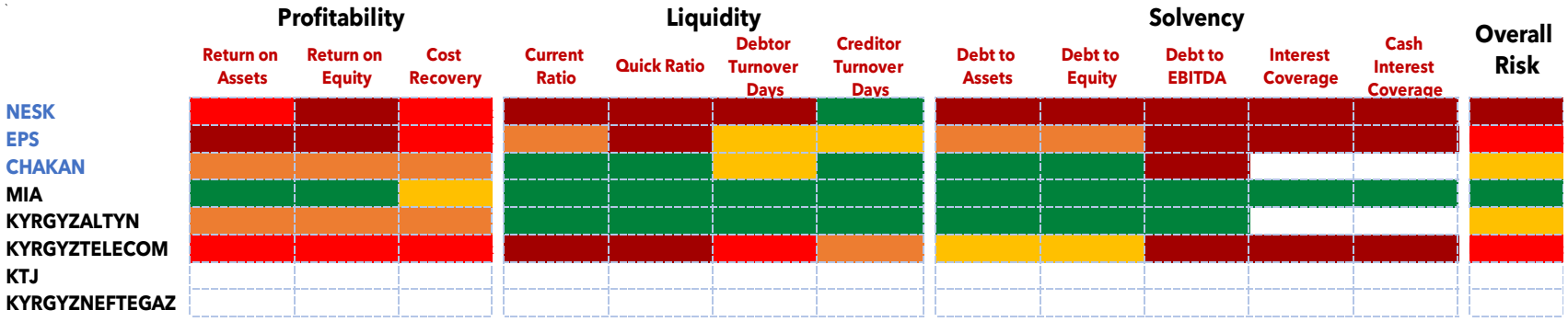
Note: The threshold set for Category 2 (low-to-moderate risk) means that any indicator with a lower/higher value (depending on the indicator) will be classified as Category 1 (low risk). Indicators lying between Category 2 and Category 3 thresholds, Category 3 and Category 4 thresholds, and Category 4 and Category 5 thresholds will be classified as Category 2 (low-to-moderate risk), Category 3 (moderate risk), and Category 4 (moderate to high risk), respectively. Indicators beyond the Category 5 threshold will be classified as Category 5 (high risk).

15. SOEs in energy and telecommunications sectors had risk ratings above moderate levels in the pre-COVID period. These include: NESK, EPS, and Kyrgyztelecom (Table 5.A), which had low profitability and liquidity ratios (see also Figure 8), and also a high solvency risk, particularly in terms of their ability to service outstanding debt, as measured by the ratio of debt to earnings before interest, tax, depreciation, and amortization (EBITDA). A higher indicator denotes a more indebted company, and a higher risk of default. These SOEs also face challenges in covering financing costs (as captured by low interest coverage). Furthermore, a high debt-to-equity ratio signaled greater reliance on debt financing compared to equity, increasing financial vulnerability. By contrast, the other three SOEs with available data (Chakan, MIA, and Kyrgyzaltyn) had risk ratings below the moderate level, though both Chakan and Kyrgyzaltyn showed some profitability concerns.

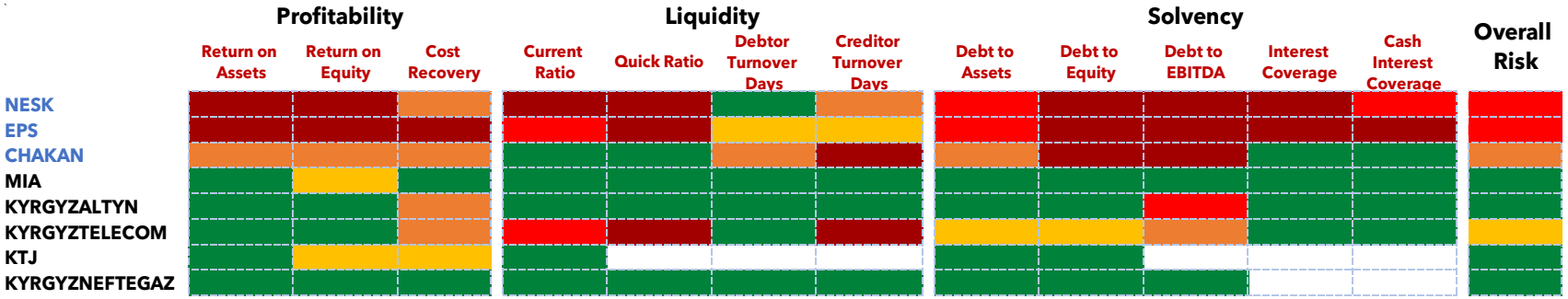
Table 5. Kyrgyz Republic: Kyrgyzstan SOEs Health Check



A. 2019



B. 2023



Sources: Orbis database, SAMSP (2024), and IMF staff calculations.
Note: SOEs are ordered by size of liabilities in 2023 from largest to smallest. Blank space is where te data is not available for calculation. SOEs in the energy sector are coloured in blue in the first column.

16. SOEs' financial performance outside the energy sector improved noticeably in 2023 compared to the pre-COVID period. MIA has consistently maintained a low-risk rating, while both Kyrgyzaltyn and Kyrgytelecom have shown a gradual risk reduction, particularly due to profitability and solvency improvements over the 2019–2023 period (Table 5.B and Annex Table A2). Nevertheless, liquidity risk remains a concern, as evidenced by low current and quick ratios. Two SOEs – KTJ and Kyrgyzneftegaz - where data is only available for the post-COVID period, are classified as low-risk rating.

17. In contrast, concerns persist with SOEs in the energy sector. The risk ratings of NESK and EPS remained above moderate in 2023, reflecting ongoing challenges in profitability, liquidity, and solvency. However, NESK has improved in cost recovery, generating adequate revenue to cover operating expenses. Meanwhile, Chakan's rating deteriorated compared to 2019, primarily due to a significant increase in debt between 2019 and 2023.

18. NESK and EPS exhibit weaker financial performance compared to their international SOE peers.[6] Two groups of international electricity-generating SOEs are considered: (i) SOEs with a similar operating revenue range (about 200 SOEs) and (ii) top 1,000 SOEs by operating revenue (Table 6). The median operating revenue of SOEs in these two groups are about $200 million, though the latter has a larger interquartile range due to a larger sample[7].

- **Profitability:** Unlike NESK and EPS, peer SOEs have positive ROA and ROE, greater than 2 percent and 5 percent on average, respectively. Additionally, NESK's and EPS's returns fall significantly below the first quartile of peers, highlighting their lower allocative efficiency in using assets to produce profits. EPS's cost recovery of 0.7 is also notably weaker than most of its peer. Lower profitability is due to the below-the-cost tariffs, which highlights the importance of continuing the ongoing tariff reform to reach full cost-recovery by 2030.

- **Employment:** Lower productivity contributes to the weak profitability of EPS and NESK. Both SOEs employ 20 times more staff than their peers, resulting in significantly lower operating revenue or profit per employee.

- **Liquidity:** while EPS's current ratio of 1 aligns with peer benchmarks, NESK faces higher liquidity risk, as reflected in the current ratio being three times lower than the industry average.

- **Solvency:** Both EPS and NESK rely more heavily on debt financing than their peers, reducing financial flexibility and increasing solvency risks.

[6] For international comparison the analysis focuses on these two SOEs because they have significantly larger stock of debt (as percent of GDP) than other SOEs.

[7] The findings remain when comparing NESK with international SOE peers in the group of NACE Rev. 2 industry classification: 3512 - Transmission of electricity, as shown in Annex Table 1.

Table 6. Kyrgyz Republic: International Comparison with SOEs in Electricity Sector
(2023 or last available data)

	NESK	EPS	Similar International SOEs in Revenue *(Median, 25th and 75th range)*	Top 1000 International SOEs *(Median, 25th and 75th range)*
Operating Revenue (ml USD)	264	184	220 [182 ; 267]	220 [71 ; 657]
Profitability				
ROA (%)	-5.6	-21	2 [-2.1 ; 5.5]	3.3 [0.2 ; 6.3]
ROE (%)	-399	-999	5.5 [-1.5; 14.5]	9.4 [1.3; 17]
Cost recovery	1.1	0.7	1.1 [1.0 ;1.3]	1.1 [1.0; 1.3]
Liquidity				
Current ratio (%)	0.4	1.1	1.4 [1.0; 1.8]	1.2 [0.8; 2.0]
Solvency				
Debt to Assets (%)	99	98	68 [46; 80]	68.6 [50; 87]
Employment				
Number of employees	10400	5246	247 [132; 468]	218 [65 ; 768]
Operating revenue per employee (th USD)	25	35	786 [445; 1510]	848 [465 ; 1706]
Profit per employee (th USD)	-5	-31	29 [0; 160]	88 [14 ; 279]

Source: Orbis database and IMF staff calculations

Note: Similar international SOEs, column 4th, are SOEs amongst the standard peer group with revenues close to those of EPS and NESK, including SOEs with revenue between EPS's ad NESK's revenues (about 90 SOEs), 50 SOEs with revenue higher than NESK, and 50 SOEs with revenue smaller than EPS. Top 1000 international SOEs according to the Operating revenue (Turnover) amongst the standard peer group. The standard peer group is based on NACE Rev. 2 industry classification: 3511 - Production of electricity.

19. The debt-to-equity swap potentially helps improve financial health of energy SOEs. In 2022 the Cabinet of Minister issued a decree to convert an outstanding debt to capital in the two largest energy companies, EPS and NESK, totaling KGS 10.7 billion in 2023, KGS 55.8 billion in 2024, and KGS 57 billion in 2025. These amounts are roughly equal to the loan repayments toward the

state budget in 2026-2030.[8] This conversion of part of their outstanding debt into equity, released debt pressure of SOEs' balance sheet and improved their financial health. However, this measure should be accompanied by full financial disclosure.

D. Conclusion and Recommendations

20. The findings from both aggregate and firm-level based analyses indicate potential SOE-related factors that can contribute to fiscal risks. Contingent liabilities of 12 percent of GDP, mainly from the energy sector, could lead to long-term fiscal challenges. A detailed firm-level analysis confirms that major energy SOEs consistently underperform their international peers, partially due to below-the-cost tariffs and cost inefficiencies of operations. In addition, these SOEs are consistently incurring heavy losses and have difficulties in managing short-term debts. They also have high liabilities relative to their assets, therefore raising concerns about long-term solvency.

21. These issues call for the following policy recommendations:

- **It is important to closely monitor financial performance of SOEs and identify mitigation measures timely.** This includes establishing a (digital) unified database between the MoF and SAMSP that facilitates the information exchange and analysis of SOEs' financial performance and fiscal risks assessment. The aggregate report on SOEs' financial performance in the 2023 SAMSP report is a welcome step towards this objective.[9] The MoF's Statement of Information on Fiscal Risks and its chapter on fiscal risks stemming from SOEs is gradually evolving. It could be further supplemented with tables and charts from the IMF SOE Health Check Tool, and its coverage should increase over time to cover the energy sector SOEs.

- **It is crucial to implement reforms aimed to improve SOEs' financial performance.** First, it is important to continue the tariff reform to improve cost-recovery for the energy SOEs and reduce the costs of their quasi-fiscal activities. Second, while the ongoing debt to equity conversions improve financial viability, they should be accompanied by full financial disclosure. Third, reforms should continue to strengthen the SOE governance—management, oversight, and transparency. Over time, these will have a positive effect on SOEs' financial performance, increasing productivity and lowering costs. In addition, such reforms can help boost the overall economic competitiveness and productivity, given the crucial role of SOEs in the production network of the economy.

[8] Debt-to-equity conversion is made by the Ministry of Finance that becomes a co-shareholder of the energy companies, with its stake to reach 1/3 of the total share capital. The Ministry of Energy would remain the majority shareholder with the rest of the stake.

[9] In 2024 the SAMSP issued a comprehensive report covering 28 largest SOEs. The report was completed with support of the world Bank and ADB. It covers many important aspects of SOEs' activities including their financial performance and measures undertaken by the government to improve the SOE policy and management.

Annex I. The Global Comparison

Annex Table 1. Kyrgyz Republic: NESK and International Comparison
(2023 or last available data)

	NESK	Similar International SOEs in Revenue *(Median, 25th and 75th range)*	International SOEs *(Median, 25th and 75th range)*
Operating Revenue (ml USD)	264	264 [166; 479]	65 [12; 858]
Profitability			
ROA (%)	-5.6	2.9 [0.9; 6.3]	2.7 [0.4 ; 6.4]
ROE (%)	-399	6.8 [2.0; 12.5]	6.5 [1.2; 12.1]
Cost recovery	1.1	1.1 [1.0; 1.3]	1.1 [1.0; 1.3]
Liquidity			
Current ratio (%)	0.4	1.2 [0.7; 1.8]	1.2 [0.7; 2.0]
Solvency			
Debt to Assets (%)	99	54 [43 ; 70]	49 [25 ; 67]
Employment			
Number of employees	10400	571 [248 ; 1452]	284 [45 ; 1925]
Operating revenue per employee (th USD)	25	470 [230; 1150]	406 [62 ; 1053]
Profit per employee (th USD)	-5	46 [7.0 ; 199]	34 [3.1 ; 169]

Source: Orbis database and IMF staff calculations

Note: Similar international SOEs, column 4th, are SOEs amongst the standard peer group with revenues close to those of NESK, including 50 SOEs with revenue higher than that of NESK, and 50 SOEs with revenue smaller than that of NESK. International SOEs are those in the standard peer group, which is based on NACE Rev. 2 industry classification: 3512 - Transmission of electricity, whose revenue is greater than USD 1 million. This group has about 460 companies in Orbis database.

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