

Kyrgyz Republic

An uncertain regulatory environment

Most regions of the Kyrgyz Republic are served by a mix of domestic and foreign-owned banks with branch concentrations in Bishkek and along the border with Uzbekistan (Chart 1). Kyrgyz banks face a different competitive environment compared to neighboring countries. Nearly all the responding banks cited foreign (mainly Kazakh) private banks as strong competitors for lending to small and medium-sized enterprises (SME) and large enterprises (LE) in both 2007 and 2011 (Chart 2). Domestic private banks are seen as strong competitors by only half of the respondents. To attract new customers, Kyrgyz banks have engaged in opening new bank branches, hiring new employees and adapting new IT systems at much higher rates than banks in the rest of the region.

Kyrgyz banks have significantly streamlined their loan approval process. For both SME and large enterprise loan applications, Kyrgyz banks report one of the lowest numbers of hierarchical layers involved in making a lending decision. Over 40 per

cent of the banks report that loan decisions are typically taken at the local office or branch level and another 20 per cent mention that these decisions are typically taken at the regional level. Domestic headquarters consequently play a much less important role than in other CIS countries (Chart 3).

Kyrgyz banks top the region with 50 per cent of banks agreeing or strongly agreeing that direct instructions from the regulator over and beyond published laws and regulations presents their bank with a significant burden (Chart 4). It is therefore no surprise that 80 per cent of banks in the Kyrgyz Republic, the highest in the region, agree or strongly agree that uncertainty over future laws and regulations disposes their bank towards restricting credit.

In terms of corruption, banks in the Kyrgyz Republic have reported a marginal decrease -from 47 to 43 per cent- in the need to “frequently”, “almost always” or “always” pay some irregular payments/gifts to court officials. The Kyrgyz Republic remains one of only three countries in the CIS region to report no need for banks to make irregular payments or gifts to bank regulators in both 2007 and 2011.

Chart 1 Bank localities by ownership

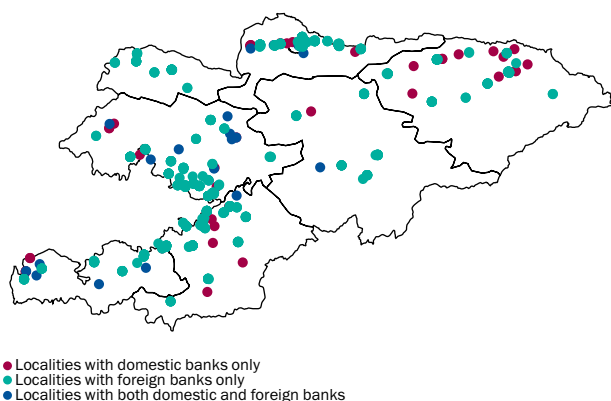


Chart 2 Strong competitors

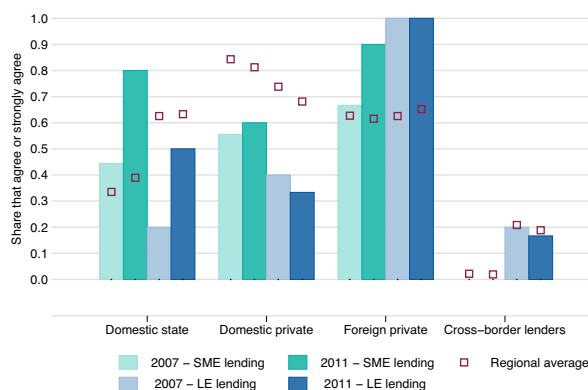


Chart 3 Location of final SME loan approval

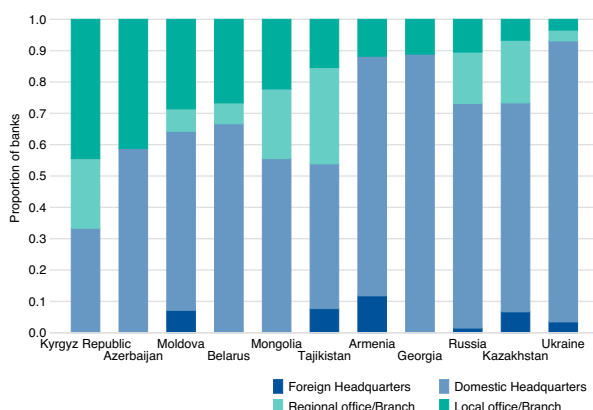


Chart 4 Direct instructions from regulator present significant burden

