

Kyrgyz Republic: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Paper; Staff Supplement; News Brief on the Executive Board Discussion; and Statement by the Executive Director for Kyrgyz Republic

In the context of the First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff paper for the First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility prepared by a staff team of the IMF, following discussions that ended on **May 2, 2002**, with the officials of Kyrgyz Republic on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 17, 2002.** The views expressed in the staff paper are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff supplement of **June 27, 2002**, updating information on recent economic developments;
- a News Brief summarizing the **views of the Executive Board as expressed during its July 1, 2002 discussion** of the staff paper that completed the review.
- a statement by the Executive Director for Kyrgyz Republic.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Kyrgyz Republic*
Supplementary Memorandum of Economic Policies*
Technical Memorandum of Understanding*

*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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Price: \$15.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

**First Review Under the Three-Year Arrangement Under the
Poverty Reduction and Growth Facility**

Prepared by the European II and Policy Development and Review Departments
(in consultation with other departments)

Approved by Mohammad Shadman-Valavi and Michael Hadjimichael

June 17, 2002

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Executive Summary

Macroeconomic performance has been good. Real GDP grew by 5½ percent in 2001 for a second year in a row. Preliminary data indicate that output declined by 2.3 percent in the first four months of 2002, but this is expected to be temporary. Prices have continued to stabilize: the 12-month inflation rate fell to 0.8 percent in April 2002, from 3.7 percent at end-2001. Nominal and real interest rates have continued to decline.

Fiscal adjustment has been strong. The cash deficit fell to 5 percent of GDP in 2001, as compared with 9.2 percent in 2000, reflecting higher revenue and lower spending on the Public Investment Program (PIP). Monetary aggregates grew rapidly in the second half of 2001 associated with the ongoing remonetization of the economy. In 2002, the growth of money has abated.

All quantitative performance criteria have been observed and the program is on track. The end-March net international reserves (NIR) target was exceeded by 20 percent of reserve money, and net domestic assets (NDA) remained below the program ceiling by 4 percent of reserve money. The program's fiscal performance criteria were also met. The program conditionality on structural reforms was satisfied.

The revised fiscal program allows for a 0.2 percentage point of GDP higher cash deficit. This should make room for the clearance of arrears on the 2001 counterpart financing for the PIP and allowances for poor families, as well as adequate financing of targeted social expenditures and pensions to compensate vulnerable groups of the population for higher electricity tariffs.

Revisions to the monetary program aim at consolidating recent gains in the balance of payments adjustment. The end-September 2002 NIR target was increased to the level achieved in March 2002 and the NDA target was revised down correspondingly. The staff urged the NBKR to enhance its capacity to control liquidity by deepening the short-term securities market, for which the regularization of the financial relations between the Ministry of Finance and the NBKR provides a good opportunity.

Additional structural conditionality was designed to enhance the governance of public finances and strengthen banking sector reform. In the area of public finances, the authorities will initiate a Treasury reform and restructure the Ministry of Finance. Regarding the banking sector, proposed legislative amendments would strengthen the supervisory powers of the NBKR and require that the NBKR-confirmed financial statements of banks be used as basis for court procedures in bank liquidation cases.

I. INTRODUCTION

1. A staff team visited Bishkek during April 19-May 2, 2002, to conduct discussions for the first review of the Kyrgyz economic program supported by the three-year Poverty Reduction and Growth Facility (PRGF) arrangement.¹ Discussions were held with President Akayev, Prime Minister Bakiev, Finance Minister Abildaev, Governor Sarbanov of the National Bank of the Kyrgyz Republic (NBKR), and other government officials. The mission also met with members of parliament, diplomatic community, and pensioners. It liaised with the overlapping teams of the World Bank, the Asian Development Bank (AsDB), and the European Bank of Reconstruction and Development (EBRD).² The program's performance criteria for end-March 2002 were observed, and the structural benchmarks were satisfied (Tables 1-2).

2. On May 22, 2002, the government resigned in the aftermath of political unrest associated with the violent repression of demonstrations in the south of the country.³ The former First Deputy Prime Minister, Mr. Tanaev, was approved by parliament as a new Prime Minister on May 30, 2002. The new government has adopted the program commitments made by the previous government.

II. PERFORMANCE UNDER THE PROGRAM

3. **Economic growth continued strong in 2001 but turned negative in early 2002** (Table 3). Real GDP grew by 5½ percent in 2001, as in 2000, with output rising in mining, agriculture, construction, and trade. Preliminary data, however, indicate that real GDP dropped by 2.3 percent in the first four months of 2002, year-on-year, but this decline is expected to be

¹ On December 6, 2001, the Executive Board approved the PRGF arrangement with an access of SDR 73.4 million, or 82.6 percent of quota, and an initial disbursement of SDR 11.72 million. The mission comprised Mr. Saavalainen (head), Mr. Ruggiero, Mr. Luna, and Mr. Pivovarsky (all EU2), Mr. Vesperoni (FAD), and Mr. Kitabire (PDR). Mr. Mukhopadhyay, the Fund's resident representative in Bishkek, assisted the mission.

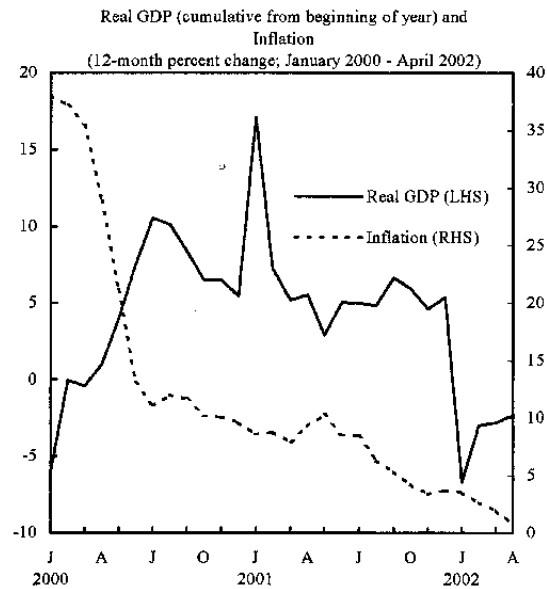
² The Kyrgyz Republic's relations with the Fund, World Bank, AsDB, and EBRD are described in Appendices I-IV.

³ In mid-March, the police opened fire on demonstrators demanding the release of a parliamentarian accused of past misconduct as an investigator in the oblast prosecutor's office. The deputy is a vocal critic of the government. Five people were killed and 90 injured in the incident, which unsettled the political climate. Demonstrations against the government continued in May.

temporary (see section III)⁴. Excluding Kumtor's gold production, real GDP increased by 0.9 percent.

4. Prices have continued to stabilize.

Despite administrative increases in utility tariffs, the 12-month consumer price index increased only by 3.7 percent during 2001, reflecting appropriately tight monetary and fiscal policies. By April 2002, 12-month inflation had dropped to 0.8 percent. The nominal exchange rate has remained stable and short-term interest rates (both in nominal and real terms) have fallen to about 10 percent, indicating increased confidence in the som.



5. Recent economic growth has reduced poverty—a primary objective under the Interim National Strategy for Poverty Reduction (I-NSPR) adopted in May 2001.

The World Bank's poverty assessment indicates that although poverty ratios increased with the 1998 Russian financial crisis, they have declined since, mainly reflecting growth in agriculture. In 2000, about 52 percent of the population lived below the poverty line, while preliminary data suggest that the poverty ratio declined to 48 percent in 2001.⁵

6. The balance of payments turned out better than expected: the current account deficit narrowed to 3.3 percent of GDP in 2001 from 7.5 percent in 2000.

⁴ As real output growth is measured cumulatively from the beginning of the year over the corresponding period a year earlier, recorded growth rates tend to be very volatile in the early part of the year.

⁵ The poverty line was defined at \$12.7 expenditure per capita per month.

⁶ In particular, expenditure on road building was delayed. Several factors accounted for lower spending under the PIP including shortfalls in domestic counterpart financing, organizational holdups when the responsibility for managing the PIP was transferred from Goskominvest to the Ministry of Finance, slower-than-expected loan processing procedures and progress reviews, the inclusion in the original plan of projects that had not yet been agreed upon or sufficiently specified with lenders, and the restructuring of Kyrgyzenergo.

the authorities linked to increased trade restrictions by neighboring countries. With a smaller surplus in the capital account, the NBKR's gross reserves were maintained at 4.4 months of imports. Kyrgyz goods remained competitive in 2001, as the real appreciation of the exchange rate against the U.S. dollar (3 percent) and the Uzbek som (16 percent) was broadly offset by the real depreciation against the Russian ruble (12 percent).⁷

7. **On March 7, 2002, the Paris Club agreed to a nonconcessional flow rescheduling of the Kyrgyz debt on somewhat-better-than-Houston terms** (Box 1). Debt service due to official bilateral creditors is projected to decline to about \$5 million from about \$130 million during 2002-2004. The agreement includes a goodwill clause for a stock rescheduling upon a successful implementation of the current PRGF arrangement. To date, the authorities have concluded debt-rescheduling negotiations with France, Denmark, and Germany. A government guaranteed loan from the Union Bank of Switzerland (UBS) could not be rescheduled on comparable terms; the loan was repaid in full from the pledged reserves of the NBKR after consultations with the Paris Club Secretariat.

8. **Fiscal adjustment has been strong.** The cash deficit fell to 5.0 percent of GDP in 2001 from 9.2 percent in 2000. This outcome was better than projected by 0.7 percentage point of GDP. Total revenue rose by almost 2 percentage points of GDP as VAT collection increased with the introduction of the destination principle in trade with Russia, and the budget received larger dividend payments from public enterprises and higher profit transfers from the NBKR. Total expenditure declined by 2½ percentage points of GDP, as lower PIP and interest outlays more than offset higher spending on for wages and social transfers. The end-March 2002 fiscal performance criteria (the cash deficit, tax collection, and zero budgetary arrears) were observed. Some arrears emerged, however, on domestic counterpart financing of the 2001 PIP and there were delays in reducing the old stock of arrears on allowances for poor families.

⁷ In 2001, the average monthly wage was \$29, significantly lower than in Kazakhstan and Russia (\$115 and \$130, respectively).

Box 1. Paris Club Rescheduling Agreement

On March 7, the Kyrgyz Republic and six participating creditor countries reached agreement on a nonconcessional flow rescheduling of the Kyrgyz public sector debt, broadly consistent with program assumptions.¹ The terms of the rescheduling stipulate that the maturities on commercial credits are to be repaid during 20 years with a 5-year grace period at negotiable interest rates not exceeding market rates. The maturities on Official Development Assistance (ODA) credits are to be repaid during 20 years with a 10-year grace period at interest rates at least as favorable as the concessional rates applied to these loans. In addition, the creditors decided to capitalize 50, 60, and 70 percent of moratorium interest falling due during the consecutive years of the consolidation period.

Assuming comparable treatment of other official bilateral debt and commercial government guaranteed debt, the agreement provides total cash relief (net of moratorium interest) of about \$147 million over the consolidation period.² The agreement also recognizes the possibility of allocating privatization receipts for early debt repayment, according to the debt reduction strategy adopted by the Kyrgyz government.

Under the agreement, the Kyrgyz Republic is committed to seek comparable treatment from public and private external bilateral creditors not participating in the agreement, and will inform the Chairman of the Paris Club no later than November 1, 2002, on the status of its negotiations and of the contents of its agreements with other creditors. Technical arrears accumulated between November 15, 2001 (when Paris Club gave financing assurances) and December 5, 2001 (beginning of the consolidation period) will have to be cleared by December 1, 2002.

Kyrgyz Republic: Debt Relief under Paris Club Agreement Compared to EBS/01/187
(In millions of U.S. dollars)

	Q4, 2001	2002	2003	2004	Total
Actual Agreement (net of moratorium interest)	14.0	28.8	39.4	42.4	124.6
Gross relief *	14.0	29.6	41.2	44.5	129.3
Moratorium interest	n.a.	.8	1.8	2.1	4.7
EBS/01/187 assumptions (net of moratorium interest)	19.1	20.1	43.9	46.7	129.8
Gross relief *	19.1	21.3	45.3	48.1	133.8
Moratorium interest	n.a.	1.2	1.4	1.4	4.0
Memorandum items					
Potential net relief from comparable terms on private sector creditors	--	0.2	11.3	10.8	22.3

* Includes Paris Club and non-Paris Club official bilateral credits relief.

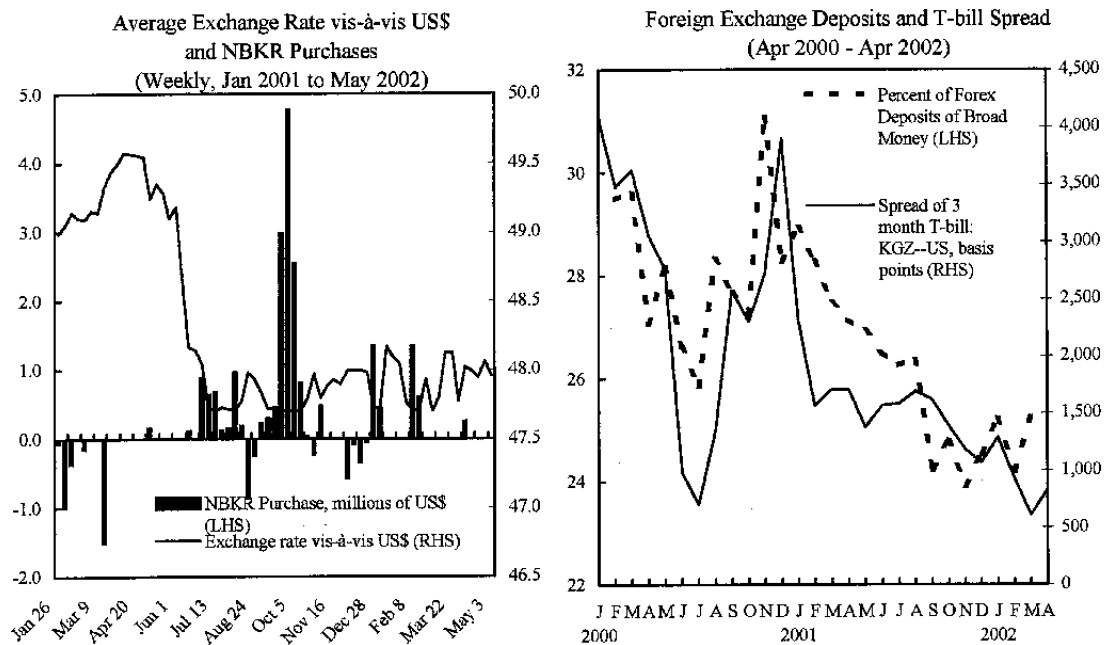
^{1/} The participating countries were Denmark, France, Germany, Japan, the Russian Federation, and Turkey. Observers of the governments of Canada, Italy, Switzerland, the United Kingdom, and the United States also attended the meeting. The cutoff-date was set at August 31, 2001.

^{2/} This net relief is \$23.8 million smaller than assumed in the original program as the collateralized loan from UBS could not be rescheduled.

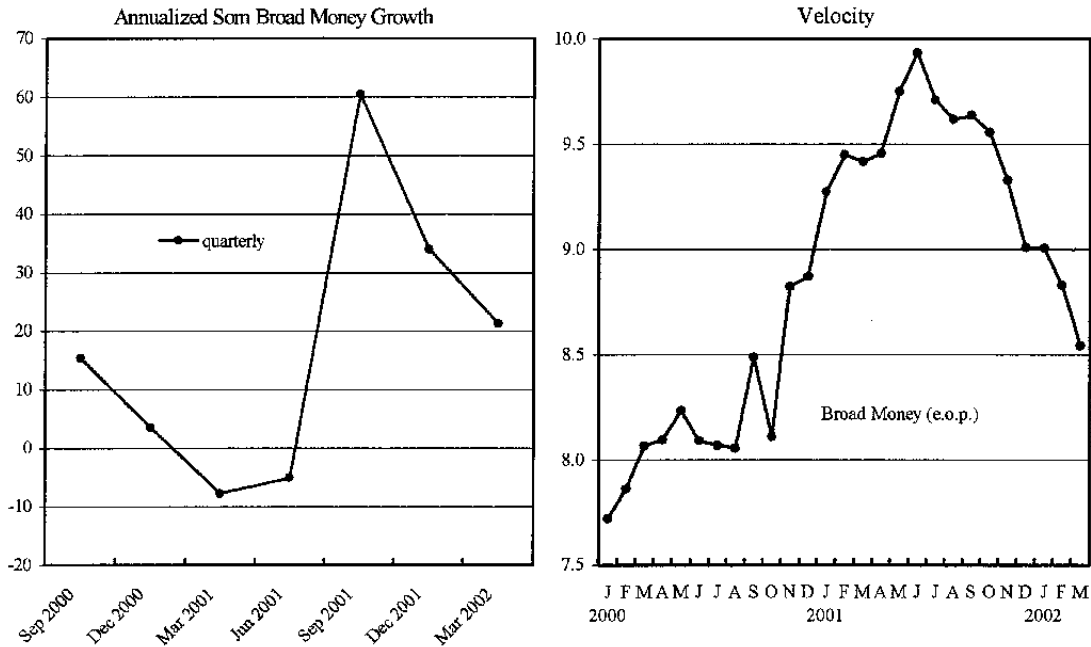
9. In April 2002, in line with the policies outlined in the I-NSPR, the authorities adopted a set of measures to increase lowest government salaries and compensate vulnerable population groups for a 42 percent increase in household electricity tariffs. Wages for social sector workers were increased by 15 percent, social benefits by about 20 percent, and pensions by 8 percent, on average. In part as a result of these measures,

social spending (health, education, and social benefits) is projected to increase by 5 percent in real terms in 2002.⁸

10. **Monetary policy has been appropriately tight.** The NBKR purchased significant amounts of foreign exchange in the market, especially in the second half of 2001. Unsterilized interventions led to a rapid growth of monetary aggregates without signs of price or exchange rate instability. This—together with a declining forex-deposit-to-money ratio and lower interest rate differentials between domestic and foreign assets—suggests that money demand has been stronger than anticipated. As a result, the end-March 2002 program floor of the NBKR’s net international reserves (NIR) was exceeded by US\$23 million, or 20 percent of reserve money. At the same time, the NBKR’s net domestic assets (NDA) remained below the program ceiling by 4 percent of reserve money. Recently, monetary expansion has abated: during the first quarter of 2002, some broad money grew at an annualized rate of 22 percent, less than half of the 46 percent expansion during the second half of 2001.



⁸ In 2001, the share of social spending of GDP is projected at 11.5 percent.



11. **The authorities met their objectives for structural reforms under the program.** The end-December performance criterion on approval of the privatization agenda for four strategic enterprises (Kyrgyz Telekom, Kyrgyz Air, Kyrgyz Gas, and four distribution companies of the unbundled Kyrgyz Energo) was observed. Five structural benchmarks were implemented satisfactorily.⁹ Regarding the sixth benchmark—the regularization of financial relations between the NBKR and the Ministry of Finance (MoF)—the authorities signed a tentative agreement in March but waited for MAE technical assistance to ensure that the agreement met the requirements of the Fund’s safeguards assessment.¹⁰ An overlapping MAE mission prepared a detailed proposal for the regularization of all mutual claims and approval of this regularization was included as a prior action for completing the first review.

12. **Progress has been made also in other structural areas.** In the energy sector, the increase of electricity tariffs in March is projected to reduce the sector’s domestic quasi-fiscal deficit by 2 percentage points of GDP (to 4.1 percent) by end-2002, which is covered by cross-

⁹ These were the reduction of the number of privileged energy users; the strengthening of the Debt Recovery Agency’s legal capacity; the elimination of legal inconsistencies between the Law on Pledges and the Civil Code (work to revise these laws more comprehensively continues under the Asian Development Bank’s conditionality); the publication of a Quarterly Fiscal Bulletin, which was issued with a short delay; and the introduction of a new minimum capital requirement on banks’ own capital.

¹⁰ See Appendix VII.

subsidization from exports. Regarding governance of public finances, the Economic Policy Council (EPC) is working well and has made policymaking more transparent. On banking reform, the sector as a whole generated profits in 2001 for the first time since the 1998 Russian crisis.¹¹ However, despite positive developments (including the recent closure of two weak banks and new regulations on banking operations with offshore banks), the NBKR faces persistent problems in exercising its supervisory powers owing to continuing strong resistance from vested interests, facilitated by weaknesses in the judiciary and legal framework.

III. POLICY DISCUSSIONS

13. **Given that the program remains on track, policy discussions focused on revising the 2002 program framework, strengthening further fiscal policy, and improving governance of public finances and in the banking sector.** The recent real GDP decline is expected to be temporary as it seems to be largely related to exceptionally high recorded production in early 2001, an inventory cycle in gold production, the impact of inclement weather on construction activity, and low recorded growth in agriculture. In the second half of the year, Kumtor's gold production is expected to rebound and construction activity should recover with higher PIP spending. Moreover, agricultural output is projected to grow again this year as significantly larger areas of grain were sown by end-2001. Meanwhile, retail trade and the demand for services appear buoyant. The staff and the authorities concluded that—at this stage—the available information does not warrant a downward revision of the growth target for 2002, notwithstanding its subdued pace in the first half of the year. In view of recent gains in price stabilization, the year-on-year inflation target was reduced to 4.1 percent from 7.5 percent. The current account outlook is better than projected earlier owing to higher gold prices and rising services revenue from the new international military base.

14. **The staff concurred with the authorities that there is no reason to revise the overall program strategy.** During the remainder of the arrangement period through 2004, further fiscal adjustment is needed and monetary policy has to support price stability while accommodating the ongoing remonetization process. For 2002, the authorities agreed to incorporate the achieved overperformance under the monetary program in the end-September performance criteria. Regarding the fiscal program, the cash deficit target was revised marginally to reflect the need to clear arrears and finance social spending. In the area of public finance and banking sector governance, the program's structural conditionality was strengthened by two performance criteria and four structural benchmarks. These revisions reflected the authorities' intentions stated in the I-NSPR and the recognition that as part of the CIS-7 Initiative, the participating countries are expected to strengthen their programs to support growth and poverty reduction.

¹¹ The aggregate risk-weighted capital adequacy ratio rose from 24 percent at end-December 1999 to 47 percent at end-March 2002. Over the same period, the share of problem loans dropped from 31 percent to 14½ percent.

A. Fiscal Policy

15. **Discussions on the fiscal program centered on the 2002 deficit and policies to improve tax collection.** Although fiscal revenue is now expected to be 1.3 percentage points of GDP higher than in the original program,¹² the authorities proposed to increase the deficit by 0.7 percent of GDP to provide room for further wage increases, higher social expenditure, and enterprise subsidies. In the end, the mission agreed to increase the cash deficit of the state budget by 0.2 percentage point of GDP to 5 percent, while leaving the accrual fiscal balance unchanged (Tables 4-6). With higher revenue and reallocation of expenditure, this should ensure clearance of arrears on the counterpart financing for the 2001 PIP and allowances for poor families; it should also provide scope for adequate financing of targeted social expenditures and pensions to compensate vulnerable groups of population for higher power tariffs.

16. **The mission proposed new reforms to increase the internationally low tax ratio.** While the authorities intend to incorporate many of the recent FAD tax policy mission's recommendations in the 2003 budget,¹³ they firmly resisted the mission's proposal for a further extension of the VAT on agriculture. The staff noted that since agriculture was the largest sector of the economy, such a broadening of the tax base was essential to ensure sound public finances over the medium term.¹⁴ However, the authorities were not prepared to add politically sensitive measures to the program at this stage, as tensions already ran high due to political unrest and higher electricity tariffs. However, they agreed to study the impact of the VAT extension on fiscal revenue, inflation, and the poor for the EPC's consideration by end-September 2002. Based on the results of this study, the staff will aim at reaching understandings with the authorities on a time schedule for implementation of this VAT reform during the program period.

¹² Additional resources are generated by grants equivalent to 0.6 percent of GDP, dividends from state-owned companies (0.2 percent of GDP), capital revenue (0.2 percent of GDP), and tax revenue (0.2 percent of GDP). Higher tax revenue and dividends are the result of better profit prospects in the mining industry, the approval of a further reduction of the VAT reimbursement on agricultural intermediate inputs, and the introduction of an excise tax on jet fuel.

¹³ The new measures include broadening the VAT base (e.g., harmonizing the VAT on new mining projects with international standards, and removing the VAT exemptions on purchases by the diplomatic community and on the sale of residential buildings) and improving tax administration (e.g., introducing new VAT invoice forms, penalties for omitting the Taxpayer Identification Number in tax declarations, and measures to control petroleum smuggling).

¹⁴ Although estimates are very uncertain, the extension of the VAT on large producers' direct sales of agricultural products could yield additional revenue equivalent to 0.5-0.8 percent of GDP on an annual basis.

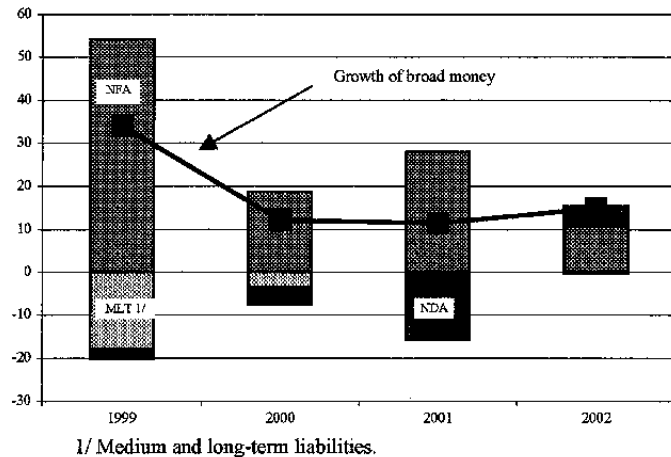
17. The authorities intend to improve revenue collection by merging the State Customs Committee, the State Tax Inspectorate (STI), the Financial Police, and the collection branch of the Social Security Fund into an independent revenue agency under the Ministry of Finance. The mission supported the initiative but advised that such a step be taken only after careful planning, as poor implementation might undermine revenue collection in the short term. The authorities recognized this risk and agreed to prepare a detailed merger plan for consideration of the EPC. Meanwhile, the authorities will give priority to improving the effectiveness of the STI by empowering the Large Taxpayer Unit (LTU), in line with the recommendations of the recent FAD tax policy mission. As a structural performance criterion under the program, the government will issue a resolution to this effect by end-September, 2002.

B. Monetary and Exchange Rate Policies

18. The revised monetary program aims at consolidating recent gains in remonetization. The end-September performance criterion on NIR aims at broadly maintaining the current reserve level, which is \$27 million higher than the indicative target in the original program (Attachment I, Table 1, Tables 5-6). The program's NDA target for end-September was reduced to reflect the program's balance of payments objectives and past overperformance. For 2002, the 12-month growth rate for reserve money is projected at 8 percent and for som broad money at 15 percent, assuming a continuing growth of real demand for money and further financial deepening.¹⁵

The authorities noted that external inflows had been partially sterilized by accumulating government deposits in the central bank since, in the absence of effective open market operations, the NBKR's autonomy to conduct monetary policy was limited. The staff agreed that because the central bank cannot lend to either the government or the private sector, som money supply is largely determined by balance of payments developments and currency substitution, making monetary conditions highly vulnerable to external and domestic shocks. The staff urged the NBKR to expand its capacity to control liquidity by deepening the short-term government securities market. In this context, the normalization of financial relations between the NBKR and the MoF will provide an

Contributions to Broad Money Growth, 1999-2002
(Percentage points)



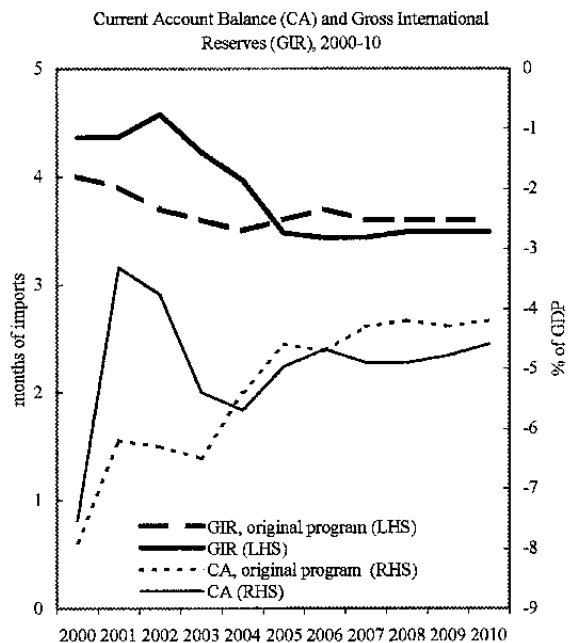
¹⁵ The velocity of som broad money is projected to decrease by 5 percent during 2002.

opportunity to almost double the stock of T-bills available to influence monetary conditions through open market operations.

19. **The mission also urged the NBKR to be cautious in foreign exchange interventions.** The national bank agreed to refrain from foreign exchange interventions except for smoothing temporary fluctuations of the exchange rate and buying foreign exchange to strengthen the official foreign reserve position. At this stage, leaning against a nominal appreciation of the exchange rate was considered appropriate in view of the need to maintain the tradable goods sector's competitiveness.

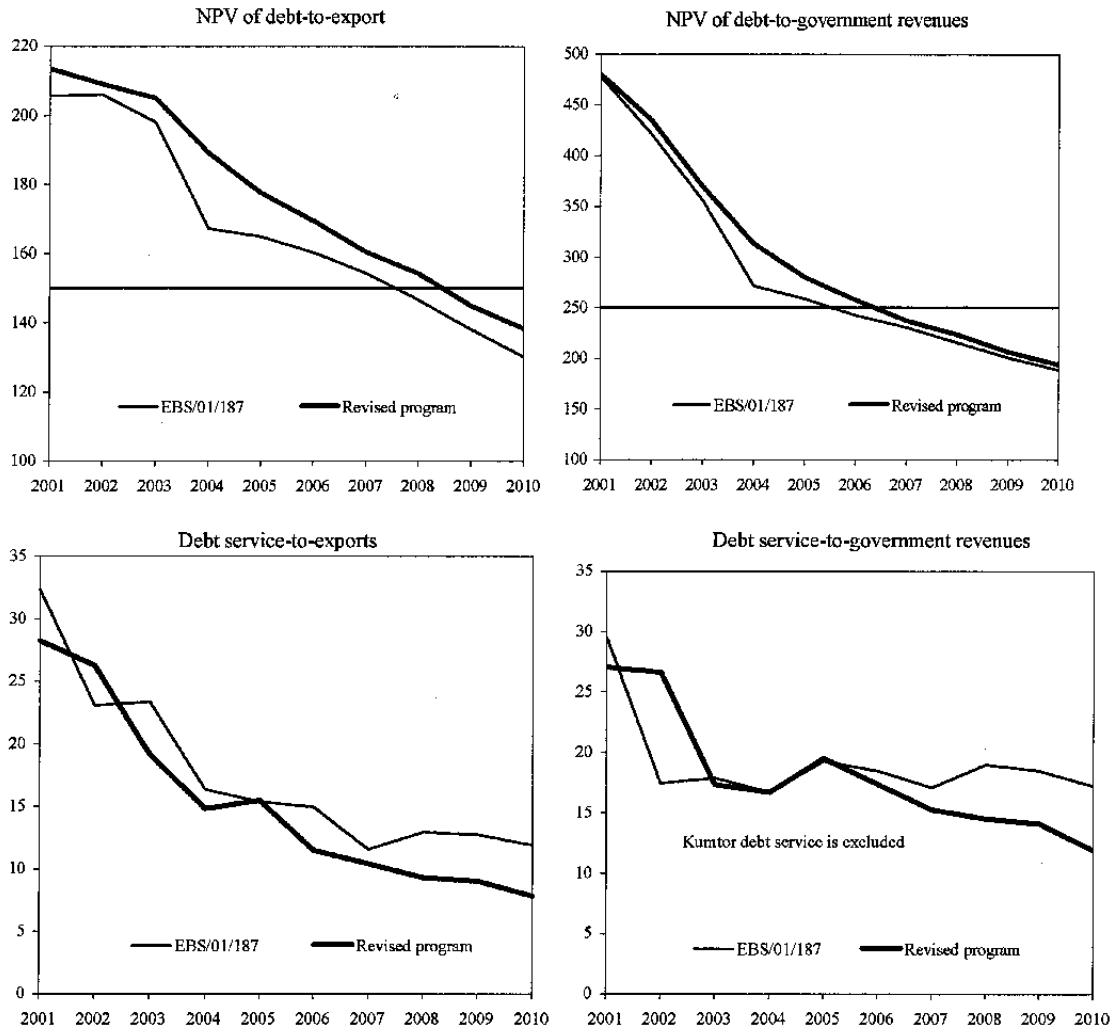
C. External Sector

20. **Although the outlook is better than expected under the original program, the current account is still projected to weaken in 2002 (Table 7).** This is due to the expected recovery of PIP-related imports, which will be offset only in part by higher gold export values and service receipts from the international military base. However, owing to higher disbursements for PIP projects, the capital account is projected to strengthen. Thus, gross reserves are projected to be slightly higher at end-2002 —equivalent to 4.6 months of imports —compared with the previous year. The external financing needs in 2002 will be covered by disbursements from the IMF (US\$29 million) and the AsDB (US\$7.5 million), as well as by the Paris Club debt rescheduling (US\$20 million). Over the medium term, the current account deficit is projected to widen to 4½-5½ percent of GDP and gross reserves to fall below 4 months of imports, broadly as projected earlier (Table 8).



21. **The Debt Sustainability Analysis was updated using the end-2001 actual debt data and the new balance of payments projection, including the impact of the Paris Club debt rescheduling.** The projected NPV debt ratios are now somewhat higher than projected in the original program. The NPV debt-to-exports ratio falls to less than under 170 percent by 2006 and further to 150 percent in 2009, i.e., one year later than in the original projections. The NPV debt-to-government-revenue declines to below 250 percent in 2007, also one year later than originally projected. After 2002, ratios are slightly more favorable than before mainly because of higher export and fiscal revenue forecasts. The difference in solvency ratios

relative to the original program projections stems mainly from the lower discount rate.¹⁶ With the earlier discount rate, the solvency ratios would fall below the critical 150 and 250 percent thresholds already in 2006.



IV. STRUCTURAL REFORM

22. **Strengthening governance is urgently needed, as a recent World Bank survey suggests that corruption is widespread.** The authorities indicated that, apart from the PRGF-supported program, which focuses on transparency and accountability of public finances, three other initiatives are underway:

¹⁶ The current discount rate is 5.7 percent while the rate used for the original analysis was 7.0 percent.

- The AsDB's Corporate Governance and Enterprise Reform Program focuses on creditors' rights, judicial reform, and the legal, accounting, and auditing frameworks to improve corporate governance;
- The AsDB's Customs Modernization Project will address efficiency and governance in customs administration; and
- The World Bank's Governance Structural Adjustment Credit (GSAC) will address public expenditure management and civil service reforms.

Also, the Presidential Special Representative on Foreign Investment is energizing ministries and agencies to implement various government initiatives to improve the investment climate in close cooperation with the local international community. In addition, the President indicated that his administration is preparing a comprehensive set of policy actions to address governance problems.

23. The staff also reached understandings with the authorities on new measures to enhance governance of public finances and in the banking sector under the PRGF-supported program. The next step to strengthen economic policymaking will be to modernize the Treasury and restructure the MoF along the lines proposed by the recent FAD technical assistance mission. For the Treasury reform they have already requested technical assistance from the Fund. As a first step, the Treasury will establish a Financial Planning Division that will produce the first cash forecast of revenue and expenditures for the remainder of 2002—a structural benchmark under the program. The approval of a restructuring plan for the MoF is also a structural benchmark under the program.

24. Regarding governance in the banking sector, three new measures are designed to strengthen structural conditionality. As a structural performance criterion, the authorities will submit to parliament legislative amendments to ensure that the NBKR-confirmed financial accounts of banks are used as a basis for court decisions in bank liquidation cases. This measure should ensure that the NBKR's enforcement actions are not dismissed by the courts based on the judge's own appreciation of the financial situation of the bank. As a structural benchmark, the authorities will submit to parliament a change in the Law on Licensing that would strengthen the supervisory powers of the NBKR. More generally, the authorities are cooperating closely with the recent FSAP mission and intend to draft, as a structural benchmark, a new strategy for banking sector reform based on the findings of the FSAP.

25. The authorities expect to finalize their National Strategy for Poverty Reduction (NSPR) in October 2002. The mission expressed concern that the work plan was very ambitious, and urged the authorities to prioritize, carefully cost policy options, and establish a simple set of indicators to monitor progress under the NSPR. The authorities recognize the magnitude of the task and have sought assistance from donors. In May, the World Bank held a training workshop in Bishkek and a resident advisor financed by the World Bank will assist the authorities in finalizing the NSPR.

26. **The Kyrgyz Republic compares favorably with other PRGF countries in the CIS in terms of availability of data needed to conduct Poverty and Social Impact Analysis.** The World Bank is leading three initiatives to help such an analysis: a poverty assessment project, a study of the impact of the tariff increases on the poor, and an audit of social protection programs. These studies are expected to be completed by August and to serve as inputs for the NSPR.

V. PROGRAM MONITORING

27. **The prior action for the completion of the first review, and the structural performance criteria and benchmarks for end-September 2002, are listed in Box 1 of the Supplementary Memorandum of Economic Policies (Attachment I).** Quantitative performance criteria for end-September 2002, as well as benchmarks for end-June 2002, are specified in the SMEP, Table 1. The second program review is scheduled for December 2003, with a focus on tax reform and governance.

VI. STAFF APPRAISAL

28. The Kyrgyz authorities are to be commended for good performance under the new PRGF-supported program. The program's macroeconomic objectives have been achieved or, in some cases, exceeded with large margins. Particularly welcome is the improved fiscal performance, where weaknesses often threw the program off track in the past. In addition, there are signs that progress on the macroeconomic front is beginning to yield results in poverty reduction. These are promising developments that suggest that the renewed program ownership is emerging after several years of disappointments.

29. The staff believes that the program's policy stance is consistent with achieving the 2002 growth objective: real interest rates are now significantly lower than in previous years and the program's fiscal impulse is designed to be neutral to avoid unduly constraining domestic demand. Although the recent output decline appears temporary, it underscores the need to diversify the economy, to work intensively with the neighboring countries and the international community to reduce trade restrictions, and strengthen structural policies to boost the country's export potential and to reduce the impact of exogenous factors to growth performance.

30. The program is in its early stages of implementation, however, and many challenges will need to be overcome. In the fiscal area, attention should be directed to medium-term revenue performance as tax collection remains low by international standards. Regrettably, the tense political climate did not allow the authorities to extend the VAT coverage. In the staff's view, leaving a significant part of agriculture—the largest economic sector—outside the tax network would seriously undermine the authorities' ability to finance poverty reduction. The staff is encouraged by the authorities' willingness to return to this issue in future program discussions.

31. Monetary policy has been appropriate, resulting in low inflation and reversal of currency substitution. The central bank should hold to this course, but be ready to tighten the monetary stance if there are signs of weakening money demand. To improve its capacity to control liquidity, the government securities market should be developed further to provide scope for open market operations. In this respect, the regularization of the financial relations between the MoF and the central bank should increase the depth of this market. The NBKR's exchange rate policy has been appropriate in smoothing temporary fluctuations of the nominal exchange rate and responding to higher-than-anticipated money demand by strengthening the official foreign reserve position.

32. The Paris Club debt rescheduling provides temporary relief from the heavy debt service that threatened the country's prospects for growth and poverty alleviation. The authorities should now implement their external debt strategy without slippages. In this respect, further fiscal adjustment is crucial, as well as continued efforts to prepare the large strategic state-owned enterprises for privatization once the market situation improves and investor interest recovers. Strong implementation of the PRGF-supported program will not only assist the recovery of the Kyrgyz economy, but it would also encourage the Paris Club creditors to exercise the goodwill clause for a debt stock relief.

33. Gains in macroeconomic stabilization and firming of financial policies should be supported by strengthening the foundation of price stability, growth, and poverty alleviation. For this, accelerating structural reform is the key. In particular, major efforts should now be directed to improving governance. The staff welcomes the authorities' commitment to address this problem. However, for tangible results, an overall national strategy is needed to bring the different initiatives under a concerted action plan, and to make this plan the number one priority at the highest level of the government.

34. Another critical reform area is the banking sector. Maintaining economic growth requires mobilization of domestic savings to finance investment; and for this, trust in banks is a crucial condition. The staff believes that it is now time to move from damage control to a development stage and urges the authorities to place a great emphasis on the preparation of the new banking sector reform program based on the results of the ongoing FSAP process. Meanwhile, the bank supervision authority should not shy away from strong regulatory measures against problem banks despite the problems stemming from weak judiciary and legal framework.

35. The authorities' work on the full-fledged NSPR is under way and several working groups have been established to develop concrete policy proposals. The staff appreciates the effort but feels that the agenda may be overly ambitious. The next steps in the process will need to be carefully prioritized and focused on key issues in order to meet the target of finalizing the strategy in October 2002.

36. As the authorities have successfully implemented the policies included in the program, the staff supports the completion of the first review under the PRGF.

Table 1. Kyrgyz Republic: Quantitative Program Targets
(In millions of soms, unless otherwise indicated, e.o.p.)

	2001			2002			
	Sept Actual 1/	December Benchmarks		December Actual	March Performance Criteria	March	March
		Program	Adjusted		Program	Adjusted	Actual
I. Performance criteria							
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars) 2/	7.7	23.8	22.8	39.3	15	30.6	53.6
2. Ceiling on net domestic assets of the NBKR (eop stock) 3/	2,371	1,631	1,680	1,257	1,853	1,090	893
3. Ceiling on cumulative fiscal deficit of the state government 4/	2,271	1,264	1,436 5/	1,290	2,364	n.a.	2,276
4. Cumulative floor on state government tax collections in cash 6/	4,456	2,787	n.a.	2,929	4,942	n.a.	5,008
5. Ceiling on the stock of central government budget arrears 7/	208	0	n.a.	0	0	n.a.	0
6. Ceiling on the stock of Social Fund pension arrears	0	0	n.a.	12	0	n.a.	0
7. Ceiling on contracting or guaranteeing by the state government or NBKR of new external debt of less than one year (in millions of U.S. dollars) 8/	0	0	n.a.	0	0	n.a.	0
8. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt (cumulative, in millions of U.S. dollars) 9/	0	0	n.a.	0	0	n.a.	0
9. Ceiling on new external payment arrears (in millions of U.S. dollars) 10/	0	0	n.a.	0	0	n.a.	0
II. Indicative targets							
1. Ceiling on reserve money (NBKR liabilities)	5,010	5,058	5,058	5,359	4,853	4,853	5,626

Sources: Data provided by the Kyrgyz authorities; and Fund staff estimates and projections.

1/ Foreign exchange components valued at the exchange rate US\$1 = som 49, gold holdings valued at US\$265 per ounce, SDR valued at SDR 1 = US\$1.259. Targets exclude claims and liabilities to BRO countries.

2/ Excludes swaps and international reserves of NBKR that are pledged or blocked.

3/ Excludes counterpart of the loan by the Eximbank of Turkey and the EBRD/IDA enterprise loan which are channeled through the NBKR. Starting September 2001 NDA do not include commercial banks' forex deposits with the NBKR.

4/ For September 2001, cumulative begins on April 1, 2001. State government comprises central and local government finances.

5/ The deficit for the fourth quarter of 2001 is adjusted for interest payments rescheduled by the Paris Club (som 172 million).

6/ For September 2001, cumulative begins on April 1, 2001. From October onwards, cumulative beginning as of October 1, 2001. Includes collection of tax arrears but excludes tax offsets.

7/ Central government budget arrears comprise wages, payroll contributions and mandatory transfers to the Social Fund, categorical grants, payments to KyrgyzEnergO, and allowances to poor families from June onward.

8/ As specified in the Technical Memorandum of Understanding (TMU), external debt is defined as in Executive Board's Decision no. 12274 (00/85) of August 24, 2000. Includes leases and other instruments giving rise to external debt.

9/ As specified in the TMU, external debt is defined as in Executive Board's Decision no. 12274 (00/85) of August 24, 2000. A debt is classified as concessional if its grant element is at least 45 percent, calculated using a discount rate based on the 10-year average of OECD commercial interest reference rates (CIRR), for debts of maturity greater than 15 years; for debts of maturity 15 years or less, the discount rate should be based on the six month average of the OECD CIRR. The ceilings include loans, leases, supplier's credits and other instruments giving rise to external debt on nonconcessional terms. IMF lending is excluded from the ceiling on new nonconcessional borrowing.

10/ On a continuous basis.

Adjustors

1. The floor on net international reserves of the NBKR will be adjusted: (i) upward/downward by 100 percent for excesses/shortfalls of the use of net foreign financing of the state budget and cash grants; (ii) upward/downward by 100 percent for excess/shortfall of cash privatization receipts. The adjustment for shortfalls in adjustors (i) and (ii) is limited to US\$ 15 million each, valued at the program exchange rate. In the case of a release of the NBKR's pledged foreign reserves, the NIR floor will be adjusted upward by 100 percent of the net effect of the release and related amortization payments.

2. The ceiling on net domestic assets of the NBKR will be adjusted: (i) downward/upward by 100 percent for excesses/shortfalls of the use of net foreign financing of the state budget and cash grants; (ii) downward/upward by 100 percent for excess/shortfall of cash privatization receipts. The adjustment for shortfalls in adjustors (i) and (ii) is limited to US\$ 15 million each, valued at the program exchange rate, excluding the amortization payments for the release of the NBKR's pledged foreign reserves.

Table 2: Structural Performance Criterion and Benchmarks for end-December 2001 and end-March 2002

	Structural performance criterion (end-December)	Assessment on implementation
1	Issue a government resolution specifying an action plan and time schedule for the privatization of Kyrgyz Airlines, Kyrgyz Telecom, four power distribution companies of KyrgyzEnerg, and KyrgyzGaz.	Implemented On December 31, 2001, the Government issued Resolution № 840 "On the Action Plan and Schedule of Implementation of Measures for Sales of State Packages of Shares in Joint-Stock Companies "Kyrgyztelecom", "Kyrgyzgaz", "National Aircarrier "Kyrgyzstan Aba Joldoru", "Severelectro", "Vostokelectro", "Oshelectro", and "Jalal-Abadelectro."
	Structural benchmarks (end-December)	
1	Submit to parliament a new law on Energy Use Privileges to reduce the number of privileged energy users by at least 20 percent.	Implemented On December 25, 2001, the Government issued Resolution № 811 "On Transfer of Privileges Granted to Poor Families and Recipients of the Uniform Monthly Benefit (UMB) to Direct Cash Payments."
2	Strengthen the debt recovery capacity of DEBRA as defined in paragraph 33 of the Memorandum of Economic Policies (MEP) dated November 16, 2001.	Implemented On December 31, 2001, the Government issued Resolution № 845.
3	Submit to parliament amendments to conflicting legislation in the Law on Pledges and in the Civil Code to facilitate the execution of pledges.	Implemented. Further amendments under AsDB conditionality On December 27, 2001, the government issued Resolution № 822 "On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic," which contains amendments to the Law on Pledges and to the Civil Code. A new comprehensive Law on Pledges is being drafted by the Ministry of Justice with assistance from the AsDB.
	Structural benchmarks (end-March)	
1	Publish a quarterly fiscal bulletin reporting on budget execution including PIP, tax and expenditure arrears, and use of privatization proceeds. The bulletin should also include Social Fund budget execution	Implemented with short delay The MoF published a first quarterly fiscal bulletin in early April, 2002.
2	Introduce new minimum capital requirements on own capital (Tier I capital minus at least the cross ownership of shares) of som 25 million for all banks	Implemented The NBKR has introduced the new capital requirements.
3	Regularize the financial relations between the NBKR and the Ministry of Finance in line with recommendation of the IMF Safeguards Assessment mission	Implemented with short delay Before end-March 2002, the MoF and the NBKR agreed on how to regularize their financial relations on a preliminary basis and sought assistance from the Fund to ensure that the agreement met the recommendations of the safeguard assessment. The agreement has been signed as a prior action.

Table 3. Kyrgyz Republic: Selected Economic Indicators, 1997-2002

	1997	1998	1999	2000	2001	2002	2002
						Original Prog.	Revised Proj.
GDP							
Nominal GDP (in billions of soms)	30.7	34.2	48.7	65.4	73.9	80.2	81.5
Nominal GDP (in millions of U.S. dollars)	1,767	1,630	1,243	1,368	1,525	1,637	1,663
Real GDP (growth in percent)	9.9	2.1	3.7	5.4	5.3	4.5	4.4
GDP per capita (in U.S. dollars)	374	340	255	278	308	324	333
Prices and wages							
Consumer prices (percent change, eop)	13.0	16.8	39.9	9.6	3.7	6.0	4.9
Consumer prices (percent change, avg)	23.5	10.5	35.9	18.7	7.0	7.5	4.1
Nominal exchange rate (eop)	17.4	29.4	45.3	48.9	47.7	...	...
Exchange rate (soms per U.S. dollar, average)	17.4	21.0	39.1	47.8	48.4	...	...
Average real wage (1994=100)	114.6	129.7	118.0	120.8	133.6	135.5	137.8
Average monthly wage (in U.S. dollars)	36.1	37.4	24.7	24.7	28.8	31.2	30.5
(In percent of GDP)							
State government finances							
Total revenue and grants	16.2	18.0	17.7	15.1	17.0	17.3	18.3
Tax revenue	12.5	14.2	12.3	11.7	12.4	13.8	13.8
Total expenditure (including net lending)	25.3	28.8	30.4	24.9	22.2	22.2	23.0
Non-interest current expenditure	19.9	20.6	17.3	14.9	15.9	14.6	15.5
Public Investment Program (PIP)	3.1	5.7	9.4	6.8	4.4	5.5	5.4
Overall fiscal balance (incl. PIP, accrual basis)	-9.1	-10.8	-12.7	-9.7	-5.2	-4.9	-4.8
Primary balance 1/	-7.5	-7.4	-9.0	-6.9	-3.3	-2.9	-3.1
Primary balance (excl. PIP)	-4.4	-1.7	0.4	-0.2	1.1	2.6	2.3
(Percent change, unless stated otherwise)							
Money and credit 2/							
Reserve money (end-of-period)	21.1	6.8	23.4	12.3	11.3	8.0	8.1
Broad money (end-of-period)	25.4	17.2	33.9	10.2	12.9	12.4	14.1
Velocity of broad money 3/	8.4	8.6	8.5	10.0	9.4	10.8	8.8
Money multiplier	1.4	1.5	1.6	1.6	1.5	1.6	1.6
External sector							
Export growth (goods and services, in U.S. dollars, percent change)	20.1	-11.5	-11.8	8.6	-2.4	2.9	5.1
Import growth (goods and services, in U.S. dollars, percent change)	-20.8	14.0	-24.7	-7.2	-13.1	4.9	9.8
Current account balance (in percent of GDP)	-8.3	-22.9	-15.7	-7.5	-3.3	-6.3	-3.8
Gross international reserves (months of imports, end-period) 4/	1.8	2.2	3.4	4.4	4.4	3.7	4.6
External debt outstanding in percent of GDP 5/	54.2	72.3	109.3	111.1	108.5	114.9	107.1

Sources: Kyrgyz authorities; and Fund staff estimates and projections.

1/ Overall balance less accrued interest payments.

2/ 1999 estimate shown at actual exchange rate.

3/ For 1997-2000, annualized quarterly GDP/end-of-period broad money, for 2001-2002, 12-month GDP/average broad money for last two quarters.

4/ Gross reserves exclude international reserves of NBKR that are pledged or blocked.

5/ Excluding Kumtor.

Table 4. Kyrgyz Republic: General Government Finances

	2000	2001		2001		2002				2002	2003	2004	
		Q4 Act.	Annual Prog.	Annual Act.	Q1 Original Prog.	Q1 Prel.	Q2 Revised Prog.	Q3 Revised Prog.	Q4 Revised Prog.	Annual Original Prog.	Annual Revised Prog.	Annual Revised Prog.	Annual Revised Prog.
In million Som													
Total revenue and grants	12,196	4,780	15,724	15,050	3,292	3,449	4,236	4,181	5,936	17,029	17,803	19,935	22,152
Total revenue, of which:	11,588	4,631	14,668	14,428	3,292	3,206	3,783	4,181	5,749	16,634	16,919	19,151	21,564
Total tax revenue	9,976	3,658	12,144	11,694	2,752	2,688	3,074	3,635	4,782	14,247	14,179	16,109	18,270
State taxes	7,676	2,969	9,249	9,188	2,154	2,079	2,432	2,876	3,861	11,104	11,248	12,833	14,721
Social Security Revenue 1/	2,300	689	2,894	2,506	597	609	642	759	920	3,134	2,931	3,275	3,549
Grants	608	149	1,055	622	0	244	453	0	187	395	884	784	588
Total expenditure	18,907	6,187	20,400	19,705	4,417	4,446	5,723	5,586	6,467	21,467	22,221	24,282	25,189
Current expenditure, of which:	13,599	4,992	15,401	15,791	3,656	3,530	4,341	4,101	5,129	16,395	17,101	19,002	20,638
Wages	2,686	901	3,415	3,561	808	793	1,031	1,029	1,038	3,835	3,890	4,275	4,671
Social fund expenditure	3,376	1,100	3,961	3,963	941	1,074	1,072	1,094	1,310	4,472	4,549	5,028	5,565
Interest due	1,507	534	1,420	1,228	223	175	515	204	682	1,588	1,577	1,450	1,513
Capital expenditure (including PIP)	5,309	1,194	5,000	3,915	762	915	1,383	1,485	1,338	5,072	5,121	5,280	4,551
Financial balance	-6,711	-1,406	-4,676	-4,656	-1,126	-996	-1,487	-1,405	-531	-4,438	-4,419	-4,348	-3,037
Net lending	-311	-243	-517	-509	-25	-25	-30	-307	-210	-573	-573	-484	-489
Accrual surplus (+) / deficit (-)	-6,401	-1,163	-4,159	-4,147	-1,101	-971	-1,457	-1,098	-320	-3,865	-3,846	-3,864	-2,547
Total arrears and rescheduling 2/	427	-236	67	376	0	-89	-48	-30	-34	50	-201	0	0
Cash surplus (+) / deficit (-)	-5,974	-1,399	-4,227	-3,771	-1,101	-1,060	-1,505	-1,128	-355	-3,915	-4,047	-3,864	-2,547
Total financing	5,974	1,399	4,481	3,771	1,101	1,060	1,505	1,128	355	3,915	4,047	3,864	2,547
External financing	5,784	2,941	4,782	4,208	628	836	961	1,677	1,183	4,371	4,657	6,604	5,560
Domestic financing	21	-1,568	-1,304	-736	297	198	514	-635	-857	-2,761	-780	-3,230	-3,502
Privatization proceeds	170	26	266	299	85	27	0	85	58	170	170	490	490
Financing gap	0	0	938	0	91	0	0	0	0	1,935	0	0	0
Memorandum items:													
Primary surplus (+) / deficit (-)	-4,467	-865	-2,948	-2,543	-878	-885	-990	-923	328	-2,379	-2,470	-2,415	-1,034
Social Expenditure	7,057	2,675	8,214	8,470	...	2,249	...	...	...	8,889	9,394	10,579	11,671
Bonds issued to the NBKR 3/	...	...	...	...	...	...	1,166	...	...	1,166	...	...	...
Domestic quasi-fiscal deficit 4/	6,863	...	...	4,716	...	...	...	...	...	...	3,330	...	...
In percentage of GDP													
Total revenue and grants	18.7	6.5	22.2	20.4	4.1	4.2	5.2	5.1	7.3	21.2	21.8	22.3	22.6
Total revenue, of which:	17.7	6.3	20.7	19.5	4.1	3.9	4.6	5.1	7.1	20.7	20.8	21.4	22.0
Total tax revenue	15.3	5.0	17.1	15.8	3.4	3.3	3.8	4.5	5.9	17.8	17.4	18.0	18.7
State taxes	11.7	4.0	13.0	12.4	2.7	2.6	3.0	3.5	4.7	13.8	13.8	14.3	15.0
Social Security Revenue 1/	3.5	0.9	4.1	3.4	0.7	0.7	0.8	0.9	1.1	3.9	3.6	3.7	3.6
Grants	0.9	0.2	1.5	0.8	0.0	0.3	0.6	0.0	0.2	0.5	1.1	0.9	0.6
Total expenditure	28.9	8.4	28.0	26.7	5.4	5.5	7.0	6.9	7.9	26.1	27.3	27.1	25.7
Current expenditure, of which:	20.8	6.8	21.7	21.4	4.5	4.3	5.3	5.0	6.3	20.4	21.0	21.2	21.1
Wages	4.1	1.2	4.8	4.8	1.0	1.0	1.3	1.3	1.3	4.8	4.8	4.8	4.8
Social fund expenditure	5.2	1.5	5.6	5.4	1.2	1.3	1.3	1.3	1.6	5.6	5.6	5.6	5.7
Interest due	2.3	0.7	2.0	1.7	0.3	0.2	0.6	0.3	0.8	2.0	1.9	1.6	1.5
Capital expenditure (including PIP)	8.1	1.6	7.1	5.3	0.9	1.1	1.7	1.8	1.6	6.3	6.3	5.9	4.7
Financial balance	-10.3	-1.9	-6.3	-6.3	-1.4	-1.2	-1.8	-1.7	-0.7	-5.4	-5.4	-4.9	-3.1
Net lending	-0.5	-0.3	-0.7	-0.7	0.0	0.0	0.0	-0.4	-0.3	-0.7	-0.7	-0.5	-0.5
Accrual surplus (+) / deficit (-)	-9.8	-1.6	-5.9	-5.6	-1.4	-1.2	-1.8	-1.3	-0.4	-4.8	-4.7	-4.3	-2.6
Total arrears and rescheduling 2/	0.7	-0.3	0.1	0.5	0.0	-0.1	-0.1	0.0	0.0	0.1	-0.2	0.0	0.0
Cash surplus (+) / deficit (-)	-9.1	-1.9	-6.0	-5.1	-1.4	-1.3	-1.8	-1.4	-0.4	-4.9	-5.0	-4.3	-2.6
Total financing	9.1	1.9	6.3	5.1	1.4	1.3	1.8	1.4	0.4	4.9	5.0	4.3	2.6
External financing	8.8	4.0	6.7	5.7	0.8	1.0	1.2	2.1	1.5	5.7	5.7	7.4	5.7
Domestic financing	0.0	-2.1	-1.8	-1.0	0.4	0.2	0.6	-0.8	-1.1	-3.4	-1.0	-3.6	-3.6
Privatization proceeds	0.3	0.0	0.4	0.4	0.1	0.0	0.0	0.1	0.1	0.2	0.2	0.5	0.5
Financing gap	0.0	0.0	1.3	0.0	0.1	0.0	0.0	0.0	0.0	2.4	0.0	0.0	0.0
Memorandum items:													
Primary surplus (+) / deficit (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social Expenditure	10.8	3.6	11.1	11.5	...	2.8	...	...	...	10.9	11.5	11.8	11.9
Bonds issued to the NBKR 3/	...	...	...	...	...	...	1.4	...	...	1.4	...	...	...
Domestic quasi-fiscal deficit 4/	10.5	...	...	6.4	...	...	...	...	...	...	4.1	...	...

Source: Ministry of Finance and Fund staff projections.

1/ Excluding government contributions.

2/ It includes interest rescheduled for bilateral loans in 2000. From 2001 onwards, debt rescheduling operations are classified within external financing.

3/ Half of this amount is a new issue for the guarantee on the Zhübek Zhölu loan, and half represents a conversion of NBKR claims on Zhübek Zhölu into claims on the government.

4/ In the electricity sector.

Table 4.1. Kyrgyz Republic: State Government Finances

in million Som	2000	2001		2001		2002				2002	2002	2003	2004
		Q4 Act.	Annual Prog.	Annual Act.	Q1 Original Prog.	Q1 Prel.	Q2 Revised Prog.	Q3 Revised Prog.	Q4 Revised Prog.	Annual Original Prog.	Annual Revised Prog.	Annual Revised Prog.	Annual Revised Prog.
Total revenue and grants	9,896	4,091	12,829	12,544	2,694	2,841	3,594	3,422	5,016	13,887	14,872	16,659	18,603
Total revenue	9,288	3,942	11,774	11,922	2,694	2,597	3,141	3,422	4,828	13,492	13,988	15,875	18,015
Tax revenue	7,676	2,969	9,250	9,188	2,154	2,079	2,432	2,876	3,861	11,104	11,248	12,833	14,721
Income tax	1,379	533	2,085	2,008	403	521	491	565	605	2,077	2,182	2,325	2,688
VAT	2,976	1,525	4,035	4,221	951	957	1,137	1,309	1,650	4,901	5,052	5,997	6,876
Excises	1,518	311	1,184	1,103	235	208	278	320	429	1,211	1,236	1,428	1,660
Customs	275	89	325	301	86	62	84	96	130	443	372	403	494
Road tax	1,059	322	951	990	225	176	249	286	394	1,162	1,105	1,142	1,248
Other	468	189	670	553	254	155	293	337	517	1,311	1,302	1,537	1,754
Other revenue	1,612	974	2,525	2,734	540	518	709	546	967	2,388	2,740	3,042	3,294
Grants	608	149	1,055	622	0	244	453	0	187	395	884	784	588
Total expenditure	16,572	5,419	17,573	16,880	3,820	3,763	5,050	4,926	5,609	18,375	19,347	21,047	21,641
Current expenditure	11,263	4,225	12,574	12,966	3,058	2,847	3,667	3,441	4,270	13,303	14,226	15,766	17,090
Wages and social fund contributions	3,354	1,133	4,152	4,301	984	938	1,219	1,252	1,316	4,547	4,725	5,192	5,675
Transfers and subsidies 1/	2,000	923	2,590	2,619	659	604	650	748	750	2,636	3,061	3,403	3,719
Interest due	1,507	534	1,420	1,228	223	175	515	204	682	1,588	1,577	1,450	1,513
Purchases of goods and services	4,402	1,635	4,412	4,818	1,192	1,028	1,233	1,152	1,450	4,533	4,863	5,412	5,872
Capital expenditure (including PIP)	5,309	1,194	5,000	3,915	762	915	1,383	1,485	1,338	5,072	5,121	5,280	4,531
Domestically financed capital expenditure	897	420	718	676	100	140	148	162	261	662	711	1,739	1,615
of which: domestically financed PIP	441	...	430	232	74	112	143	157	260	413	672	1,524	1,419
Foreign financed PIP	4,412	774	4,280	3,239	662	776	1,235	1,323	1,077	4,410	4,410	3,541	2,936
Financial balance	-6,676	-1,328	-4,743	-4,337	-1,125	-922	-1,456	-1,504	-593	-4,488	-4,475	-4,388	-3,038
Net lending	-311	-243	-517	-509	-25	-25	-30	-307	-210	-573	-573	-484	-489
Accrual surplus (+) / deficit (-)	-6,365	-1,085	-4,227	-3,828	-1,100	-897	-1,426	-1,197	-383	-3,915	-3,902	-3,904	-2,549
Total arrears and rescheduling 2/	334	-205	0	155	0	-89	-20	-30	-34	0	-173	0	0
Cash surplus (+) / deficit (-)	-6,032	-1,290	-4,227	-3,673	-1,100	-986	-1,445	-1,227	-417	-3,915	-4,075	-3,904	-2,549
Total financing	6,032	1,290	4,227	3,673	1,100	986	1,445	1,227	417	3,915	4,075	3,904	2,549
External financing	5,784	2,941	4,275	4,208	628	836	961	1,677	1,183	4,571	4,657	6,604	5,560
Public investment program (PIP)	4,412	774	4,280	3,239	662	776	1,235	1,323	1,077	4,410	4,410	3,541	2,936
Disbursements (BOP support)	1,604	2,007	1,862	2,007	0	0	0	368	0	1,593	368	2,440	2,029
Total amortization	-1,621	-635	-1,868	-1,833	-34	-33	-699	-46	-151	-1,432	-930	-1,397	-1,587
Debt rescheduling 3/	1,389	795	0	795	0	94	426	33	257	0	809	2,020	2,182
Domestic financing	78	-1,677	-1,252	-834	296	123	484	-535	-824	-2,761	-752	-3,190	-3,501
NBKR	-43	-1,738	-1,423	-949	...	194	...	...	...	...	...	...	...
Others	122	61	172	115	...	-70	...	...	...	...	...	...	...
Privatization proceeds	170	26	266	299	85	27	0	85	58	170	170	490	490
Financing gap 3/	0	0	938	0	91	0	0	0	0	1,935	0	0	0
Memorandum items:													
Primary surplus (+) / deficit (-)	-4,524	-756	-3,149	-2,446	-877	-811	-931	-1,022	266	-2,327	-2,498	-2,454	-1,036
Primary surplus (+) / deficit (-) (accrual basis)	-4,858	-551	-3,149	-2,600	-877	-722	-911	-992	300	-2,327	-2,326	-2,454	-1,036
Subsidies to Public Enterprises	444	138	388	574	...	158	100	70	52	380	380	...	...
Bonds issued to the NBKR 4/	...	...	...	...	...	...	1,166	...	...	1,166	...	...	...
External debt service (accrual basis) 5/	2,784	...	...	2,797	...	...	...	...	...	...	2,072	2,443	2,660
External debt service (cash basis) 5/	1,395	...	...	2,003	...	...	...	...	...	...	1,262	423	477
PIF	4,853	...	...	3,471	...	887	1,378	1,480	1,337	...	...	5,065	4,355
Tax revenue collection in cash	7,375	2,929	...	...	4,942	5,008	7,440	10,316	...	...	...	...	...

Sources: Kyrgyz authorities; and Fund staff estimates and projections.

1/ The following offset transactions were carried out in 2000, but were not included in the budget: in kind grants worth Som 244 million were received, of which Som 160 million were granted as allowances to the poor, and new housing facilities. Som 84 million were granted to the military. These transactions are shown in Q3, 2001.

2/ It includes interest rescheduled for bilateral loans in 2000. From 2001 onwards, debt rescheduling operations are classified within external financing.

3/ The difference between the programmed financing gap and the actual Paris Club rescheduling during 2002 is due to: (i) the decision to postpone debt buybacks envisaged in the Debt Reduction Strategy; and (ii) changes in debt data as a result of reconciliation.

4/ Half of this amount is a new issue for the guarantee on the Zhibek Zholu loan, and half represents a conversion of NBKR claims on Zhibek Zholu into claims on the government.

5/ Excluding Kumtor, debt service by the NBKR, and by the state-owned enterprises.

Table 4.1. Kyrgyz Republic: State Government Finances (concluded)

in percent of GDP	2000	2001		2001		2002				2002	2002	2003	2004
		Q4 Prel.	Annual Prog.	Annual Prel.	Q1 Original Prog.	Q1 Prel.	Q2 Revised Prog.	Q3 Revised Prog.	Q4 Revised Prog.	Annual Original Prog.	Annual Revised Prog.	Annual Revised Prog.	Annual Revised Prog.
Total revenue and grants	15.1	5.5	17.4	17.0	3.3	3.5	4.4	4.2	6.2	17.0	18.3	18.6	19.0
Total revenue	14.2	5.3	15.9	16.1	3.3	3.2	3.9	4.2	5.9	16.6	17.2	17.7	18.4
Tax revenue	11.7	4.0	12.5	12.4	2.6	2.6	3.0	3.5	4.7	13.6	13.8	14.3	15.0
Income tax	2.1	0.7	2.8	2.7	0.5	0.6	0.6	0.7	0.7	2.3	2.7	2.6	2.7
VAT	4.6	2.1	5.5	5.7	1.2	1.2	1.4	1.6	2.0	6.0	6.2	6.7	7.0
Excises	2.3	0.4	1.6	1.5	0.3	0.3	0.3	0.4	0.5	1.5	1.5	1.6	1.7
Customs	0.4	0.1	0.4	0.4	0.1	0.1	0.1	0.1	0.2	0.5	0.5	0.5	0.5
Road tax	1.6	0.4	1.3	1.3	0.3	0.2	0.3	0.4	0.5	1.4	1.4	1.3	1.3
Other	0.7	0.3	0.9	0.7	0.3	0.2	0.4	0.4	0.6	1.6	1.6	1.7	1.8
Other revenue	2.5	1.3	3.4	3.7	0.7	0.6	0.9	0.7	1.2	2.9	3.4	3.4	3.4
Grants	0.9	0.2	1.4	0.8	0.0	0.3	0.6	0.0	0.2	0.5	1.1	0.9	0.6
Total expenditure	25.4	7.3	23.8	22.8	4.7	4.6	6.2	6.0	6.9	22.5	23.7	23.5	22.1
Current expenditure	17.2	5.7	17.0	17.5	3.8	3.5	4.5	4.2	5.2	16.3	17.5	17.6	17.5
Wages and social fund contributions	5.1	1.5	5.6	5.8	1.2	1.2	1.5	1.5	1.6	5.6	5.8	5.8	5.8
Transfers and subsidies 1/	3.1	1.2	3.5	3.5	0.8	0.7	0.8	0.9	0.9	3.2	3.8	3.8	3.8
Interest due	2.3	0.7	1.9	1.7	0.3	0.2	0.6	0.3	0.8	1.9	1.9	1.6	1.5
Purchases of goods and services	6.7	2.2	6.0	6.5	1.5	1.3	1.5	1.4	1.8	5.6	6.0	6.0	6.0
Capital expenditure (including PIP)	8.1	1.6	6.8	5.3	0.9	1.1	1.7	1.8	1.6	6.2	6.3	5.9	4.7
Domestically financed capital expenditure	1.4	0.6	1.0	0.9	0.1	0.2	0.2	0.2	0.3	0.8	0.9	1.9	1.7
of which: domestically financed PIP	0.7	...	0.6	0.3	...	0.1	0.2	0.2	0.3	0.5	0.8	1.7	1.5
Foreign financed PIP	6.8	1.0	5.8	4.4	0.8	1.0	1.5	1.6	1.3	5.4	5.4	4.0	3.0
Financial balance	-10.2	-1.8	-6.4	-5.9	-1.4	-1.1	-1.8	-1.8	-0.7	-5.5	-5.5	-4.9	-3.1
Net lending	-0.5	-0.3	-0.7	-0.7	0.0	0.0	0.0	-0.4	-0.3	-0.7	-0.7	-0.5	-0.5
Accrual surplus (+) / deficit (-)	-9.7	-1.5	-5.7	-5.2	-1.4	-1.1	-1.7	-1.5	-0.5	-4.8	-4.8	-4.4	-2.6
Total arrears and rescheduling 2/	0.5	-0.3	0.0	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	-0.2	0.0	0.0
Cash surplus (+) / deficit (-)	-9.2	-1.7	-5.7	-5.0	-1.4	-1.2	-1.8	-1.5	-0.5	-4.8	-5.0	-4.4	-2.6
Total financing	9.2	1.7	5.7	5.0	1.4	1.2	1.8	1.5	0.5	4.8	5.0	4.4	2.6
External financing	8.8	4.0	5.8	5.7	0.8	1.0	1.2	2.1	1.5	5.6	5.7	7.4	5.7
Public investment program (PIP)	6.8	1.0	5.8	4.4	0.8	1.0	1.5	1.6	1.3	5.4	5.4	4.0	3.0
Disbursements (BOP support)	2.5	2.7	2.5	2.7	0.0	0.0	0.0	0.5	0.0	2.0	0.5	2.7	2.1
Total amortization	-2.5	-0.9	-2.5	-2.5	0.0	0.0	-0.9	-0.1	-0.2	-1.8	-1.1	-1.6	-1.6
Debt rescheduling 3/	2.1	1.1	0.0	1.1	0.0	0.1	0.5	0.0	0.3	0.0	1.0	2.3	2.2
Domestic financing	0.1	-2.3	-1.7	-1.1	0.4	0.2	0.6	-0.7	-1.0	-3.4	-0.9	-3.6	-3.6
NBKR	-0.1	-2.4	-1.9	-1.3	...	...	...	...	...	...	...	...	...
Others	0.2	0.1	0.2	0.2	...	...	...	...	...	...	...	...	...
Privatization proceeds	0.3	0.0	0.4	0.4	0.1	0.0	0.0	0.1	0.1	0.2	0.2	0.5	0.5
Financing gap 3/	0.0	0.0	1.3	0.0	0.1	0.0	0.0	0.0	0.0	2.4	0.0	0.0	0.0
Memorandum items:													
Primary surplus (+) / deficit (-)	-6.9	-1.0	-4.3	-3.3	-1.1	-1.0	-1.1	-1.3	0.3	-2.9	-3.1	-2.7	-1.1
Subsidies to Public Enterprises	0.7	0.2	0.5	0.8	...	0.2	0.1	0.1	0.1	0.5	0.5	...	...
Primary surplus (+) / deficit (-) (accrual basis)	-7.4	-0.7	-4.3	-3.5	-1.1	-0.9	-1.1	-1.2	0.4	-2.9	-2.9	-2.7	-1.1
Bonds issued to the NBKR 4/	...	...	...	...	...	...	1.4	...	...	1.4	...	...	...
External debt service (accrual basis) 5/	4.3	...	...	3.8	...	...	...	...	...	...	2.5	2.7	2.7
External debt service (cash basis) 5/	2.1	...	...	2.7	...	...	...	...	...	...	1.5	0.5	0.5
PIP	7.4	...	...	4.7	...	1.1	1.7	1.8	1.6	...	6.2	5.7	4.4

Sources: Kyrgyz authorities; and Fund staff estimates and projections.

1/ The following offset transactions were carried out in 2000, but were not included in the budget: in kind grants worth Som 244 million were received, of which Som 160 million were granted as allowances to the poor, and new housing facilities. Som 84 million were granted to the military. These transactions are shown in Q3, 2001.

2/ It includes interest rescheduled for bilateral loans in 2000. From 2001 onwards, debt rescheduling operations are classified within external financing.

3/ The difference between the programmed financing gap and the actual Paris Club rescheduling during 2002 is due to: (i) the decision to postpone debt buybacks envisaged in the Debt Reduction Strategy; and (ii) changes in debt data as a result of reconciliation.

4/ Half of this amount is a new issue for the guarantee on the Zhibek Zholu loan, and half represents a conversion of NBKR claims on Zhibek Zholu into claims on the government.

5/ Excluding Kumtor, debt service by the NBKR, and by the state-owned enterprises.

Table 4.2. Kyrgyz Republic: Social Fund

	2000	2001		2002					2003		2004		
		Q4 Prel.	Annual Prog.	Annual Prel.	Q1 Original Prog.	Q1 Prel.	Q2 Revised Prog.	Q3 Revised Prog.	Q4 Revised Prog.	Annual Original Prog.	Annual Revised Proj.	Annual Revised Proj.	Annual Revised Proj.
In million Soms													
Total revenues	3375	1039	4077	3702	951	1015	1084	1207	1363	4574	4669	5136	5642
Total contributions received	2971	911	3591	3218	784	763	859	986	1158	3843	3765	4196	4558
Total transfers from state budget	372	100	398	398	167	246	210	210	174	667	840	874	1014
Other revenue	32	28	89	87	16	6	16	16	26	64	64	67	70
Total expenditures	3410	1118	4010	4021	952	1089	1086	1108	1330	4324	4613	5097	5640
Pension Fund	2978	1083	3525	3549	882	1022	970	978	1154	3996	4124	4559	5077
Transfers to other funds	339	84	485	323	69	67	144	130	176	528	517	538	564
Net accumulation of arrears	93	-50	0	149	0	0	-28	0	0	0	-28	0	0
Accrual surplus(+) / deficit (-)	-35	-79	68	-319	-1	-74	-2	99	33	50	56	40	2
Net accumulation (+) / repayment (-) of arrears	93	-31	-68	222	0	0	-28	0	0	-50	-28	0	0
Cash surplus(+) / deficit (-)	58	-109	0	-97	-1	-74	-30	99	33	0	28	40	2
In percent of GDP													
Total revenues	5.2	1.4	5.5	5.0	1.2	1.2	1.3	1.5	1.7	5.7	5.7	5.7	5.8
Total contributions received	4.5	1.2	4.9	4.4	1.0	0.9	1.1	1.2	1.4	4.8	4.6	4.7	4.7
Total transfers from State budget	0.6	0.1	0.5	0.5	0.2	0.3	0.3	0.3	0.2	0.8	1.0	1.0	1.0
Other revenue	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Total expenditures	5.2	1.5	5.4	5.4	1.2	1.3	1.3	1.4	1.6	5.6	5.7	5.7	5.8
Pension Fund	4.6	1.5	4.8	4.8	1.1	1.3	1.2	1.2	1.4	4.9	5.1	5.1	5.2
Transfers to other funds	0.7	0.0	0.7	0.6	0.1	0.1	0.1	0.2	0.2	0.7	0.6	0.6	0.6
Net accumulation of arrears	0.1	-0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accrual surplus(+) / deficit (-)	-0.1	-0.1	0.1	-0.4	0.0	-0.1	0.0	0.1	0.0	0.1	0.1	0.0	0.0
Net accumulation (+) / repayment (-) of arrears	0.1	0.0	-0.1	0.3	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Cash surplus(+) / deficit (-)	0.1	-0.1	0.0	-0.1	0.0	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0

Sources: Kyrgyz authorities; and Fund staff estimates and projections.

Table 5. Kyrgyz Republic: NBKR Accounts, 1999-2002
(In millions of soms, end-period stocks)

	2001 1/					Mar. Original Prog.	Mar. Act.	Jun. Rev. Prog.	Sep. Rev. Prog.	Dec. Rev. Prog.
	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Act.	Dec. Act.					
Net foreign assets	3,327	2,926	2,854	4,947	3,215	4,945	3,561	3,914	4,236	
Net international reserves (without foreign assets with high risk)	608	604	376	1,930	737	2,626	2,467	2,820	3,142	
Other foreign assets	2,771	2,373	2,529	3,068	2,529	2,370	1,145	1,145	1,145	
Balance with CIS countries	-51	-51	-51	-51	-51	-51	-51	-51	-51	
Long-term foreign liabilities	-2,597	-2,592	-2,718	-2,716	-2,718	-2,709	-2,698	-2,698	-2,674	
Net domestic assets	3,885	3,928	4,873	3,128	4,357	3,390	4,740	4,484	4,230	
Domestic credit (net)	4,485	4,402	5,193	3,424	3,606	3,614	4,483	4,223	4,099	
Claims on government (net)	4,114	3,973	4,698	2,911	3,056	3,133	3,920	3,584	3,251	
Loan to gov in forex (Turkish loan)	2,009	2,009	2,135	2,135	2,135	2,135	2,135	2,135	2,135	
Total government deposits	-755	-829	-283	-2,078	-1,925	-1,861	-1,960	-2,295	-2,629	
Government restructurization bonds	1,853	1,563	1,563	1,563	1,563	1,563	1,283	1,283	1,283	
Treasury bonds	1,006	1,229	1,283	1,290	1,283	1,295	2,461	2,461	2,461	
Repos	-135	-69	0	25	55	-35	50	150	360	
Claims on DMB	506	499	495	488	495	515	513	488	488	
Other items net	-600	-475	-320	-296	751	-223	257	261	132	
including DEBRA liabilities under EBRD	98	98	97	97	97	97	97	97	97	
Reserve money	4,615	4,262	5,010	5,359	4,854	5,626	5,602	5,700	5,793	
Money outside of the banks	3,903	3,999	4,673	5,022	...	5,214	...	...	...
Deposits of banks in foreign currency	148	22	10	0	...	0	...	...	...
Cash of commercial banks	0	27	120	153	..	140	...	...	...
Reserves of commercial banks	564	215	206	184	...	272	...	...	...
<i>Memorandum items:</i>										
Reserve money growth (12 month)	15.0	-4.7	5.2	11.3	5.1	21.9	31.5	13.8	8.1	
Gross Reserves	195.1	188.4	180.9	225.8	198.8	235.1	241.1	243.4	257.3	
in months of imports	3.8	3.7	3.5	4.4	3.4	4.2	4.3	4.3	4.6	

Source: National Bank of the Kyrgyz Republic; and Fund staff estimates and projections.

1/ Foreign exchange assets and liabilities are valued at the program rate of 49 soms per US dollar, 1.259 U.S. dollar per SDR and a gold price of US\$ 265.0 per Troy ounce.

Table 6. Kyrgyz Republic: Monetary Survey, 1999-2002
(In millions of soms, end-period stocks)

	2001 1/					Mar. Original Prog.	Mar. Act.	Jun. Rev. Prog.	Sep. Rev. Prog.	Dec. Rev. Prog.
	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Act.	Dec. Act.					
Net foreign assets	4,109	3,829	4,335	6,534	4,837	6,812	5,526	5,815	6,235	
NBKR	3,327	2,926	2,854	4,947	3,215	4,945	3,561	3,914	4,236	
Commercial Banks	782	903	1,480	1,587	1,623	1,867	1,965	1,901	1,999	
Medium-term NBK obligations	-2,597	-2,592	-2,718	-2,716	-2,718	-2,709	-2,698	-2,698	-2,674	
Net domestic assets	5,609	5,754	6,028	4,443	6,011	4,636	6,054	5,940	5,865	
Credit to government, net	4,188	4,327	5,051	3,325	3,409	3,491	4,277	3,742	3,128	
Credit from the NBKR	4,114	3,973	4,698	2,911	3,056	3,133	3,920	3,584	3,251	
Commercial banks	74	354	353	414	353	358	358	158	-123	
Government bonds	42	202	149	132	149	130	130	130	130	
Treasury bills actual value	131	227	266	323	266	400	400	400	400	
Other	-98	-74	-62	-41	-62	-172	-172	-372	-653	
Credit to rest of the economy	2,748	2,765	2,724	2,831	3,319	2,864	3,014	3,431	4,101	
of which: extended in foreign currency	1,960	2,018	1,967	1,965	...	2,004	...	...	...
Other items, net	-1,327	-1,338	-1,747	-1,713	-717	-1,718	-1,238	-1,233	-1,363	
Broad money	7,121	6,991	7,645	8,260	8,130	8,739	8,881	9,057	9,427	
Currency outside banks	3,902	3,997	4,659	5,020	...	5,211	...	...	...
Deposits	3,219	2,995	2,987	3,240	...	3,528	...	...	...
of which: foreign currency deposits	1,942	1,880	1,893	2,071	1,939	2,244	2,250	2,273	2,296	
Broad money: som component	5,179	5,111	5,753	6,189	6,191	6,495	6,630	6,784	7,131	
<i>Memorandum items:</i>										
Velocity (quarterly) 2/	9.3	9.8	10.0	9.3	7.4	8.7	8.7	8.4	8.8	
Velocity som component (quarterly) 2/	12.9	13.4	13.5	12.9	9.8	11.7	11.6	11.2	11.7	
Broad money growth (12 months)	12.3	9.5	5.5	12.9	10.8	22.7	27.0	18.5	14.1	
Broad money growth som component (12 months)	16.3	1.1	9.8	17.0	15.0	25.4	29.7	17.9	15.2	
Multiplier	1.5	1.6	1.5	1.5	1.7	1.6	1.6	1.6	1.6	

Source: National Bank of the Kyrgyz Republic; and Fund staff estimates and projections.

1/ Foreign exchange assets and liabilities are valued at the program rate of 49 soms per US dollar, 1.259 U.S. dollar per SDR and a gold price of US\$ 265.0 per Troy ounce.

2/ 12 month GDP over average quarterly broad money

Table 7. Kyrgyz Republic: Quarterly Balance of Payments: 1999 - 2002
(in millions of USD)

	1999 Year Act.	2000 Year Act.	2001 Q1 Act.	2001 Q2 Act.	2001 Q3 Act.	2001 Q4 Prov.	2001 Year Program	2001 Year Pred.	2002 Q1 Original Prog.	2002 Q1 Prsl. Prog.	2002 Q2 Rev. Prog.	2002 Q3 Rev. Prog.	2002 Q4 Rev. Prog.	2002 Year Original Prog.	2002 Year Revised Prog.
Current account balance (excluding official transfers)	-194.8	-103.1	2.9	-18.8	4.6	-39.4	-89.8	-50.6	-56.9	-52.1	5.2	-17.2	1.5	-103.1	-62.7
	-268.8	-193.7	-3.1	-25.1	-5.8	-48.3	-151.0	-82.3	-66.8	-65.0	-9.1	-24.1	-11.3	-160.0	-109.5
Trade balance	-84.4	8.8	20.0	12.0	21.5	-13.5	-1.2	39.9	-23.4	-17.9	22.8	-2.2	2.7	-11.3	5.3
Exports, fob	462.6	510.9	115.2	109.5	132.4	123.3	482.7	480.3	105.4	104.9	134.4	129.5	121.2	496.2	490.0
CIS countries	191.3	213.7	35.7	44.2	59.6	35.3	185.7	174.8	32.4	29.9	59.3	54.4	46.2	203.9	189.7
Energy	53.1	82.0	2.5	14.0	33.3	1.8	50.3	51.6	4.3	4.3	16.7	16.7	10.0	48.1	47.6
Other	138.4	131.7	33.2	30.2	26.3	33.5	135.4	123.2	28.0	25.6	42.6	49.7	24.2	155.8	142.1
Non-CIS	271.0	297.2	79.5	65.3	72.8	88.0	297.0	305.5	73.1	75.1	75.1	75.1	75.1	292.3	300.3
Gold	183.1	195.3	61.1	49.2	52.9	50.0	213.3	213.2	49.0	53.1	59.1	53.1	53.1	195.9	212.3
Imports, fob	546.9	502.1	95.2	97.5	110.8	136.8	483.9	440.4	128.9	122.9	111.6	131.7	118.5	507.5	484.7
CIS countries	244.6	275.0	57.2	49.4	63.1	80.3	269.0	250.0	70.1	66.9	55.6	75.7	62.5	272.7	260.7
Energy	109.0	115.7	30.2	21.2	25.2	40.0	115.6	116.6	36.4	34.4	18.2	18.2	27.4	104.1	98.3
Other	135.6	159.3	27.0	28.2	37.9	40.3	153.4	133.4	33.7	32.5	37.4	45.5	47.1	168.6	162.4
Non-CIS	302.4	227.1	38.0	48.1	47.7	56.5	214.9	190.4	58.7	56.0	56.0	56.0	56.0	234.8	223.9
Services (net)	-163.4	-176.3	-21.3	-36.8	-15.9	-36.0	-123.5	-110.0	-37.9	-40.2	-29.9	-19.3	-12.2	-125.7	-101.5
Non-interest service	-89.4	-87.0	-12.9	-13.7	-4.0	-15.6	-67.0	-46.2	-29.3	-28.3	-8.2	-11.2	9.2	-71.0	-38.4
Interest payments (scheduled) o/w moratorium interest	-67.3	-50.9	-5.6	-12.4	-7.9	-13.5	-41.1	-39.4	-4.5	-4.3	-15.5	-3.6	-15.4	-38.7	-38.8
Other net income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.7
Other net income	-6.7	-38.5	-2.8	-10.7	-4.0	-6.8	-15.4	-24.3	-4.0	-7.6	-6.2	-4.5	-6.0	-16.0	-24.3
Transfers (net)	32.9	64.4	4.2	6.1	-1.0	10.1	34.9	19.4	4.4	6.1	12.2	4.3	10.9	33.9	33.5
Official	73.9	90.5	6.0	6.3	10.4	8.9	61.2	31.6	9.9	12.9	14.2	6.9	12.8	56.9	46.8
Private	-21.0	-26.1	-1.8	-0.2	-11.4	1.2	-26.3	-12.2	-5.5	-6.8	-2.0	-2.6	-1.9	-23.0	-13.3
Capital account balance	220.2	81.0	15.4	-13.3	-14.6	28.6	10.4	15.9	46.3	64.9	-41.2	16.3	-2.6	22.4	37.4
Commercial banks	-4.6	-1.9	3.4	-2.3	-9.9	-3.7	-18.8	-12.5	0.7	-3.7	-2.0	1.3	-2.0	-5.0	-8.4
Medium- and long-term loans, net	133.3	36.1	12.4	-13.0	-0.9	-17.2	-2.3	-18.9	6.6	6.1	-26.5	17.0	7.5	-7.5	4.1
Disbursement	196.6	131.7	17.7	23.3	14.6	17.1	95.1	72.7	18.0	18.0	28.5	19.0	29.5	95.0	95.0
CIS	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Non-CIS	188.1	131.7	17.7	23.3	14.6	17.1	95.1	72.7	18.0	18.0	28.5	19.0	29.5	95.0	95.0
Of which PIP	118.1	92.3	13.6	21.1	12.9	18.5	87.7	66.1	13.5	15.3	25.2	27.0	22.5	90.0	90.0
Amortization (scheduled)	-63.3	-95.7	-5.3	-36.3	-15.5	-34.3	-97.4	-91.6	-11.4	-11.9	-55.0	-2.0	-22.0	-102.5	-90.9
CIS	-1.5	-13.2	-0.3	-0.3	-10.9	-0.3	-22.4	-12.0	-0.3	0.0	0.0	0.0	0.0	-1.4	0.0
Non-CIS	-61.8	-82.5	-3.0	-36.0	-4.6	-34.0	-75.0	-79.6	-11.1	-11.9	-55.0	-2.0	-22.0	-101.1	-90.9
Of which Kumtor	-49.3	-59.9	0.0	-25.0	0.0	-24.0	-49.3	-49.3	0.0	0.0	-25.3	0.0	-24.0	-49.3	-49.3
Foreign direct investment	38.4	28.5	10.8	-8.5	11.4	8.2	35.3	21.9	38.8	24.7	5.8	2.1	-7.6	33.8	25.0
Other assets (including acc. pay. & receiv.)	53.1	18.3	-11.2	10.5	-15.2	41.3	-8.8	25.4	0.3	39.8	-18.5	-4.1	-0.5	1.1	16.7
Errors and omissions & short term capital	-7.2	7.0	-25.5	30.9	5.4	-14.7	25.8	-3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	18.2	-15.1	-7.2	-1.2	-4.6	-25.6	-53.6	-38.6	-10.6	12.8	-36.0	-0.9	-1.1	-80.8	-25.3
Financing	-18.2	15.1	7.2	1.2	4.6	25.6	34.5	38.6	8.7	-12.8	36.0	0.9	1.1	36.3	25.3
NIR	-41.7	-19.9	7.5	1.2	4.6	-31.6	-2.9	-18.3	8.7	-14.2	3.2	-7.2	-6.6	3.8	-24.8
Gross official reserves (- increase) 1/	-61.2	-21.2	10.4	6.7	7.5	-44.9	-4.9	-20.3	13.6	-9.3	-6.0	-2.3	-13.8	-2.9	-31.5
IMF (net)	19.5	7.3	-2.9	-5.5	-2.9	9.3	-2.0	-2.0	-4.9	-4.9	9.2	-4.9	7.2	6.7	6.7
Purchases and disbursements	26.8	18.7	0.0	0.0	0.0	14.8	14.8	14.8	0.0	0.0	14.7	0.0	14.7	29.4	29.4
Repurchases and repayments	-7.3	-11.4	-2.9	-5.5	-2.9	-5.5	-16.8	-16.8	-4.9	-4.9	-5.5	-4.9	-7.5	-22.7	-22.7
Release of pledged reserves 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25.0	0.0	0.0	25.0	
Exceptional Financing (including arrears)	23.7	29.1	-0.3	0.0	0.0	16.2	37.4	15.9	0.0	1.4	7.8	0.6	7.7	32.5	17.6
Accumulation of arrears (net)	23.7	-0.2	-0.3	0.0	0.0	2.2	-0.6	1.9	0.0	0.0	0.0	-1.0	-1.2	0.0	-2.2
Debt rescheduling	0.0	29.3	0.0	0.0	0.0	14.0	0.0	14.0	0.0	1.4	7.8	3.6	9.0	0.0	19.8
on arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
on principal	0.0	0.0	0.0	0.0	0.0	12.1	0.0	12.1	0.0	0.6	2.2	0.6	2.7	0.0	6.1
on interest	0.0	0.0	0.0	0.0	0.0	2.0	0.0	2.0	0.0	0.8	5.6	0.9	5.5	0.0	12.9
on moratorium interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.7	0.0	0.8
BOP support (ADB) 3/	0.0	0.0	0.0	0.0	0.0	33.4	30.0	33.4	0.0	0.0	0.0	7.5	0.0	17.5	7.5
BOP support (WB) 3/	0.0	0.0	0.0	0.0	0.0	7.5	8.0	7.5	0.0	0.0	0.0	0.0	0.0	15.0	0.0
Financing gap (-) (after fiscal measures)	0.0	0.0	0.0	0.0	0.0	0.0	-19.1	0.0	-1.9	0.0	0.0	0.0	0.0	-44.5	0.0
Memorandum items															
Gross reserves to months of imports			3.8	3.6	3.5	4.4	3.9	4.4	3.4	4.2	4.3	4.4	4.6	3.7	4.6

Sources: Kyrgyz authorities; and Fund staff estimates and projections.

1/ Valued at end-year exchange rates. Gross reserves exclude NBKR pledges to secure government-guaranteed loans and blocked deposits.

2/ Released after the UBS/Zhibek Zholu loan was paid.

3/ BOP support loans for 1999 and 2000 are shown as part of disbursements under capital account.

Table 8. Kyrgyz Republic: Medium-Term Balance of Payments, 2000-2010
(In millions of U.S. dollars)

	2000 Actual	2001 Prel	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current account balance 1/	-103.1	-50.6	-62.6	-98.7	-113.7	-117.8	-123.9	-143.5	-176.1	-166.5	-175.3
Trade balance	8.8	39.9	5.3	-30.7	-55.4	-60.8	-68.7	-94.8	-125.9	-125.9	-132.6
Exports, fob	510.9	480.3	490.0	505.2	524.6	565.5	609.0	646.7	688.7	763.9	832.0
CIS countries	213.7	174.8	189.7	214.7	245.3	274.1	304.9	331.8	363.3	413.2	461.9
of which : Energy	82.0	51.6	47.6	49.6	53.3	56.9	60.3	65.1	68.4	73.9	77.6
Other countries	297.2	305.5	300.3	290.5	279.3	291.4	304.0	314.9	325.3	350.7	370.1
Of which : Gold	195.3	213.2	212.3	191.3	168.1	168.1	162.9	151.0	99.7	61.7	48.7
Imports, fob	502.1	440.4	484.7	535.8	580.0	626.4	677.7	741.5	814.5	889.8	964.6
CIS countries	275.0	250.0	260.7	297.1	328.9	362.3	393.3	442.8	496.0	547.9	598.0
Other countries	227.1	190.4	223.9	238.8	251.1	264.1	284.4	298.7	318.5	341.9	366.6
Services (net)	-176.3	-110.0	-101.4	-106.8	-98.5	-94.3	-87.9	-82.4	-79.0	-69.4	-71.4
Non-interest service	-87.0	-46.2	-38.4	-33.8	-30.4	-20.5	-15.9	-17.6	-3.3	4.3	1.4
Receipts	61.8	78.8	97.4	101.9	106.4	120.8	138.2	157.9	182.5	201.7	211.9
Payments	-148.8	-125.0	-135.9	-135.7	-136.8	-141.3	-154.1	-175.5	-185.8	-197.4	-210.5
Interest payments (scheduled)	-50.9	-39.4	-38.7	-49.2	-46.4	-46.4	-46.4	-46.4	-46.4	-46.4	-46.4
o/w moratorium interest	0.0	0.0	-0.7	-4.4	-7.1	-7.1	-7.1	-7.1	-7.1	-7.1	-7.1
Other net income	-38.5	-24.3	-24.3	-23.8	-21.7	-27.4	-25.6	-18.4	-29.3	-27.3	-26.4
Transfers (net)	64.4	19.4	33.5	38.8	40.2	37.4	32.8	33.8	28.8	28.8	28.8
Capital account balance	81.0	15.9	37.4	5.3	28.1	43.1	60.5	92.0	101.8	117.4	124.3
Commercial banks	-1.9	-12.5	-8.4	-4.4	-5.0	-6.0	-7.0	-5.0	-7.0	-3.0	-7.0
Medium- and long-term loans, net	36.1	-18.9	4.1	-41.2	-26.6	-27.9	-5.5	9.7	14.8	18.4	33.3
Disbursement -Projects	131.7	72.7	95.0	77.0	67.5	86.4	82.0	84.0	89.0	97.0	105.0
Amortization (scheduled)	-95.7	-91.6	-90.9	-118.2	-94.1	-114.4	-87.5	-74.3	-74.2	-78.6	-71.7
Foreign direct investment	28.5	21.9	25.0	39.1	49.0	70.0	66.0	80.3	87.0	95.0	91.0
Other assets (including accounts payable and receivable)	18.3	25.4	16.7	11.8	10.7	7.0	7.0	7.0	7.0	7.0	7.0
Errors and omissions and short term capital	7.0	-3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-15.1	-38.6	-25.3	-93.3	-85.7	-74.7	-63.3	-51.5	-74.3	-49.1	-51.0
Financing	15.1	38.6	25.3	93.4	85.7	-14.0	-45.0	-49.0	-50.0	-40.0	-58.4
Net international reserves	-13.9	-18.3	-24.8	-0.3	-5.2	-14.0	-45.0	-49.0	-50.0	-40.0	-58.4
Gross official reserves (- increase)	-21.2	-20.3	-31.5	3.6	-1.4	12.7	-21.3	-24.1	-29.9	-25.3	-46.9
IMF (net)	7.3	-2.0	6.7	-3.9	-3.8	-26.7	-23.7	-24.9	-20.1	-14.7	-11.5
Purchases and disbursements	18.7	14.8	29.4	24.0	24.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases and repayments	-11.4	-16.8	-22.7	-27.9	-27.8	-26.7	-23.7	-24.9	-20.1	-14.7	-11.5
Release of pledged reserves 2/	0.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional Financing (including arrears)	29.1	15.9	17.6	43.9	49.5	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of Arrears (net)	-0.2	1.9	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	29.3	14.0	19.8	43.9	49.5	0.0	0.0	0.0	0.0	0.0	0.0
on arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
on principal	0.0	12.1	6.1	28.5	32.4	0.0	0.0	0.0	0.0	0.0	0.0
on interest	0.0	2.0	12.9	12.7	12.2	0.0	0.0	0.0	0.0	0.0	0.0
on moratorium interest	0.0	0.0	0.8	2.6	5.0	0.0	0.0	0.0	0.0	0.0	0.0
BOP support loans (ADB) 3/	0.0	33.4	7.5	17.5	25.0	...	...	...	...	...	...
BOP support loans (WB) 3/	0.0	7.5	0.0	32.3	16.4	...	...	...	...	...	...
Financing gap (-)	0.0	0.0	0.0	0.0	0.0	-88.7	-108.3	-100.5	-124.3	-89.1	-109.4
Memorandum items:											
GDP (in millions of U.S. dollars)	1368	1527	1663	1828	1997	2182	2388	2616	2859	3129	3426
Current account balance (in percent of GDP)	-7.5	-3.3	-3.8	-5.4	-5.7	-5.4	-5.2	-5.5	-6.2	-5.3	-5.1
Export of Goods and Service in percent of GDP	42%	37%	35%	33%	32%	31%	31%	31%	30%	31%	30%
Imports of Goods and services in percent of GDP	48%	37%	37%	37%	36%	35%	35%	35%	35%	35%	34%
Growth of exports of goods and services(volume)	7.7%	-1.7%	4.7%	1.1%	1.1%	5.3%	5.1%	5.4%	5.7%	6.4%	3.7%
Growth of imports of goods and services (volume)	-15.6%	-12.9%	9.4%	7.1%	5.0%	6.0%	7.0%	8.5%	7.1%	6.7%	6.6%
External public debt (in millions of U.S. dollars)4/	1520.3	1657.2	1780.4	1859.4	1899.9	1947.0	2014.8	2076.5	2124.3	2178.2	2252.6
as percent of GDP	111.1%	108.5%	107.1%	101.7%	95.1%	89.3%	84.4%	79.4%	74.3%	69.6%	65.8%
Gross reserves 5/	205.5	225.8	257.3	253.6	255.0	242.4	263.6	287.8	317.7	343.0	389.9
In months of subsequent year's imports	4.4	4.4	4.6	4.2	4.0	3.5	3.5	3.5	3.5	3.5	3.5
In percent of short term debt by remaining maturity	189.5	198.7	176.1	208.0	180.9	218.0	265.8	305.1	340.4	412.1	468.4
Financing gap as percentage of GDP	0.0	0.0	0.0	0.0	0.0	-4.1	-4.5	-3.8	-4.3	-2.8	-3.2

Sources: Kyrgyz authorities and Fund staff estimates and projections.

1/ Including transfers.

2/ Repayment from pledged reserves of the government guaranteed loan from UBS to JSC Zhibek Zholu.

3/ BOP support loans for 1998-2000 are shown as part of disbursements under capital account.

4/ Public and publicly guaranteed debt (excluding Kumtor)

5/ Valued at end-year exchange rates. Gross reserves exclude NBKR pledges to secure government-guaranteed loans and blocked deposits.

KYRGYZ REPUBLIC—FUND RELATIONS
(As of April 30, 2002)

I. Membership Status: Joined: 05/08/1992; Article VIII

II. General Resources Account	SDR Million	Percent of Quota
Quota	88.80	100.0
Fund Holdings of Currency	98.86	109.08
Reserve position in Fund	0.00	0.01
III. SDR Department	SDR Million	Percent of Allocation
Holdings	1.68	N/A
IV. Outstanding Purchases and Loans	SDR Million	Percent of Quota
Systemic Transformation	8.06	9.08
ESAF/PRGF arrangements	129.32	145.63

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	12/06/2001	12/05/2004	73.40	11.72
ESAF/PRGF	06/26/1998	06/25/2001	73.38	44.69
ESAF	07/20/1994	03/31/1998	88.15	88.15

VI. Projected Obligations to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Overdue	Forthcoming				
	1/31/2002	2002	2003	2004	2005	2006
Principal		12.8	21.7	21.7	20.9	18.6
Charges/Interest		0.8	0.6	0.5	0.4	0.3
Total		13.6	22.3	22.2	21.3	18.9

VII. Implementation of HIPC Initiative. Not applicable.

VIII. Safeguards Assessments

A Stage One safeguards assessment of the NBKR was completed on July 5, 2001. A report of Stage Two on-site assessment of NBKR was finalized in January 2002. It identified only a few vulnerabilities in the safeguard controls of NBKR and concluded that high risks may exist in financial reporting framework and internal control systems. Measures to alleviate these risks are being implemented as part of the three-year PRGF arrangement (Appendix VII).

IX. Exchange Rate Arrangements

The currency of the Kyrgyz Republic has been the som (100 tyiyn =1 som) since May 15, 1993. The National Bank of Kyrgyz Republic publishes daily the exchange rate of the som in terms of the U.S. dollar, which is determined in the interbank foreign exchange market.

X. Article IV Consultations

The Kyrgyz Republic is on the 12-month consultation cycle. The last Article IV consultation discussions were held in September 2001 and the Article IV consultation was completed by the Executive Board on December 6, 2001.

XI. FSAP Participation and ROSC Assessment

The first FSAP mission was held on May 15-28, 2002 and a second mission is planned for mid-September 2002. A ROSC Fiscal Transparency mission was held on March 2-13, 2001 and the ROSC Fiscal Transparency Module has been submitted to the Board concurrently with 2001 Article IV consultation report.

XII. Resident Representative

The fifth resident representative of the Fund in the Kyrgyz Republic, Mr. Bhaswar Mukhopadhyay, has held his post in Bishkek since March 17, 2001.

KYRGYZ REPUBLIC—RELATIONS WITH THE WORLD BANK GROUP
(As of April 30, 2002)

1. On December 6, 2001, the World Bank Boards of Directors endorsed a Country Assistance Strategy (CAS) Progress Report for World Bank Group based on the Government's Interim National Poverty Reduction Strategy Paper and Comprehensive Development Framework, which suggest that Fiscal Year 2002 will be a year of consolidation and stocktaking.
2. **International Development Association (IDA).** Between 1994 and April 30, 2002, IDA has approved 24 projects totaling approximately \$614 million (after cancellations), of which about \$442.5 million has been disbursed. Six structural adjustment credits have already been completed, which provided quick disbursing support for the Government's economic reform programs in privatization, enterprise restructuring, agricultural policy, financial sector, public sector resource management and pension reform. Four investment operations have also been completed supporting reform and rehabilitation of the telecommunication sector, social safety nets, health, and rural finance.
3. The active portfolio includes 14 operations:
 - A balance of payments support operation (Consolidation Structural Adjustment Credit) assisting with reforms in the power and gas sector, and improvements to the business environment (reducing the cost on business from licensing and inspections). The first tranche of the CSAC was disbursed at the end of 2000, and the second at the end of 2001. One additional tranche remains to be disbursed before the closing date of June 2003.
 - Two operations supporting energy sector rehabilitation and reform (Power and District Heating and a Technical Assistance Credit supported the CSAC program).
 - Seven operations supporting provision of key public goods and reform in agriculture (irrigation rehabilitation, flood emergency, on-farm irrigation, rural finance, agricultural support services, sheep and wool development, and land registration—the latter also provides the basis for the introduction of a tax of non-movable property in rural and urban areas).
 - An operation supporting capacity building in the financial sector and a line of credit for private enterprises.
 - A second health sector operation continuing support for sectoral restructuring and reform program.
 - A rural water supply and sanitation operation (approved together with the CAS Progress Report).
 - A urban transport operation.

4. The World Bank Group's operational objectives for the next 12 months are to support completion of a full Poverty Reduction Strategy through focused analytical work and technical assistance, the enhancement of portfolio performance, and the ongoing structural reforms in energy, business environment, public expenditure management, health and water and sanitation and agriculture. The Bank will also undertake a Public Expenditure Review, a Pension Note Update, and a Poverty Assessment. A CAS for the fiscal years 2003–2005 will be prepared upon completion of the Government's full Poverty Reduction Strategy Paper, expected to be finalized in Fall 2002.

5. IFC has focused on institution building, technical assistance, and strategic investments. Building upon IFC's initial investment in the financial sector, the Demir Kyrgyz International Bank, IFC played an instrumental role in the establishment of the largest bank in the country the Kyrgyz Investment and Credit Bank, with a \$1.4 million equity investment. IFC developed a strategic partnership with FINCA by investing \$1.0 million in a fund to support microenterprises. This investment was accompanied by technical assistance to FINCA to facilitate its transformation and to the government in developing the appropriate regulatory framework. IFC has also provided technical assistance to review and develop the legal and regulatory framework for leasing. Under the Extending IFC's Reach Initiative, IFC has undertaken promotional and business development activities with small and medium-sized enterprises and approved three investments of \$470,000, \$300,000 and \$1.4 million for agribusiness, packaging and pasta production projects respectively. IFC is playing a catalytic role in the development of SEAF-CAESIF, a regional equity fund that will provide equity, quasi-equity and debt financing as well as technical and managerial assistance to growth-oriented SMEs.

6. The primary focus of IFC activities in the period leading up to the next CAS will be to improve the business environment, provide support for SMEs and closely coordinating with the World Bank to create a framework that will facilitate foreign investment in mining, utilities and infrastructure. With financial support from the Swiss Government, IFC draws upon the resources of the Private Enterprise Partnership to advise on improving the business environment, provide training and support services for SMEs, continue past IFC efforts to develop leasing activities, and support agri-business for local and export markets. Technical assistance with a focus on project development is currently being undertaken in the tourism sector. IFC will work with IDA on a possible agricultural marketing and processing project, which could provide the basis and framework for collaboration in agricultural leasing. IFC will investigate opportunities for development of the IT sector. IFC will cooperate with IDA and the government in developing a legal and regulatory framework that will facilitate new foreign investment in mining in future years.

7. MIGA has supported the development of private sector in Kyrgyz Republic by extending guarantees to foreign direct investments in four projects in the manufacturing, services, and mining sectors. As of June 30, 2000, the total amount of foreign direct investment facilitated, as a result of MIGA guarantees, is over \$360 million. MIGA has also provided capacity building in foreign investment techniques to the State Committee on Foreign Investments and Economic Development, in an initiative supported by the Swiss

government. MIGA plans to continue to assist the development of Kyrgyz Republic through its guarantee program and capacity building. Data on the Kyrgyz Republic is also featured in MIGA's Privatization Link service, which connects potential investors to information on companies slated for divestiture via the Internet.

KYRGYZ REPUBLIC—RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ASDB)
(As of April 30, 2002)

In November 1996 the Board of the Asian Development Bank endorsed the Country Operational Strategy (COS). The strategy confirmed the principal objectives of the Interim Operational Strategy that had guided AsDB's operations in the Kyrgyz Republic since 1994. These objectives are: (i) support for the government's reform through encouraging institutional changes and strengthening institutional capacity, and improving the provision of public services; (ii) encouraging private sector development; and (iii) improving long-term growth potential through investment in both physical infrastructure and human development and preserving the environment. In achieving these objectives, the COS has deliberately adopted a sharp focus on a small number of strategic areas, including (i) improvement in the provision of public services, particularly social services provided by local governments and the management of reform by the central government; (ii) agriculture, including rural finance; (iii) human development, especially education; and (iv) infrastructure rehabilitation. In 1999, in response to the negative effects of the Russian crisis, the AsDB's reach was broadened to include assistance to the financial sector. This selective approach has enabled the AsDB to maintain a strong sector presence and a well-focused policy dialogue.

1. To date, AsDB has approved 20 loans, all on concessional terms, totaling \$527.2 million, of which about \$316 million had been disbursed by 31 January 2002. Lending for fast disbursing, policy based projects has accounted for about 34.6 percent of total lending.
2. Besides loan operations, AsDB has extended technical assistance (TA) grants totaling about \$28.2 million since 1994. The TA operations follow the sharp sectoral focus of the COS and complement the AsDB's loan operations. A high proportion of the TA assistance is for supporting the government's efforts for institution strengthening and capacity building, with a view to supporting sustainable economic development. In 2002, one loan is being processed, a Trade Facilitation and Customs Modernization Programs loan (\$15 million) which is expected to be presented to the ADB board towards the end of the third quarter.
3. In 1997 the AsDB initiated support for enhanced subregional economic cooperation among the Central Asian republics and the western-most province of the People's Republic of China. In 1998, the AsDB approved a Private Sector Strategy for Central Asia. The thrust of the strategy is to complement the AsDB's public sector operations with various instruments including nonguaranteed equity participation and loans to privately sponsored projects.
4. With the adoption in 1999 of poverty reduction as the AsDB's overarching objective, deliberate shifts are being made in the operational program to ensure more explicit support for projects which include beneficiaries living below the poverty line and for projects which will assist others to remain out of poverty.

**KYRGYZ REPUBLIC—RELATIONS WITH THE EUROPEAN BANK FOR
RECONSTRUCTION AND DEVELOPMENT (EBRD)**

(As of March 31, 2002)

In 2002, the key strategic priorities of the EBRD in Kyrgyzstan include: the development of a dynamic micro, small and medium enterprise sector; the strengthening of the financial sector; the support to the privatization program and assistance with attracting foreign direct investment.

1. Between 1994 and February 28, 2002, the EBRD signed 17 investment projects in Kyrgyzstan with a total commitment of €172 million. The private sector accounts for 57 percent of the commitments with 80 percent provided as debt and 20 percent—as equity. The public sector accounts for 43 percent of the commitments, all in the form of debt.
2. Thirteen projects are in the private sector, which include two credit lines for micro, small and medium enterprises and a regional trade facilitation program. Five of the private sector investments have been made under the Direct Investment Facility program, established in 1998. The objective of this program is to demonstrate the viability of equity investment with local entrepreneurs in difficult markets by providing equity and limited debt financing to private sector businesses.
3. Four projects are in the public sector, with one project aimed at the modernization of the telecommunications network, two projects focusing on upgrading components of the electricity transmission network, and one project in the agribusiness sector. The total commitment of these projects is €82.4 million (or 43 percent of the total).
4. These projects have been supported by the EBRD's technical cooperation program, which is targeted at the financial sector, natural resource management, agribusiness, and critical infrastructure bottlenecks (such as the modernization of telecommunications, and electricity transmission and distribution).
5. The EBRD objective is to avoid putting pressure on Kyrgyzstan's foreign debt burden. Therefore, the EBRD sets high requirements in terms of their expected impact on the country's systemic transition for any investments involving sovereign obligations.

KYRGYZ REPUBLIC: TECHNICAL ASSISTANCE PROVIDED BY THE FUND, 1997–2001
(As of May 31, 2002)

<i>Dept.</i>	<i>Subject/Identified Need</i>	<i>Timing</i>	<i>Counterpart</i>
FAD	Review status of revenue administration; evaluate need for further technical assistance	June 1997	Ministry of Finance
	Review status of revenue administration; evaluation need for further technical assistance	January 1998	Ministry of Finance
	Tax policy and administration	April 1998–May 1999 (long-term peripatetic advisor)	Ministry of Finance
	Tax Policy and Administration	March 1999	Ministry of Finance
	Expenditure control and Fiscal Transparency	May 1999	Ministry of Finance
	Customs Administration	September 1999	Ministry of Finance
	ROSC Fiscal Transparency Module	March 2–13, 2001	Ministry of Finance
	Tax Policy and Administration	January 28-February 9, 2002	Ministry of Finance
	Treasury Reform and Expenditure Management	February 11-27, 2002	Ministry of Finance
MAE	Foreign exchange operations, monetary operations, government securities market and central bank organization	September 1997	National Bank of the Kyrgyz Republic
	Foreign Exchange Management	June–July 1998	National Bank of the Kyrgyz Republic
	Central bank operations and liquidity management	October 1998	National Bank of the Kyrgyz Republic
	Banking Supervision	March–April 1999	National Bank of the Kyrgyz Republic
	Central Bank operation and liquidity management	December 2–15, 1999	National Bank of the Kyrgyz Republic

KYRGYZ REPUBLIC: TECHNICAL ASSISTANCE PROVIDED BY THE FUND, 1997–2001
(As of May 31, 2002)

<i>Dept.</i>	<i>Subject/Identified Need</i>	<i>Timing</i>	<i>Counterpart</i>
	Banking System Stabilization and Research	January 21–February 3, 2000	National Bank of the Kyrgyz Republic
	Banking and Payment Systems Reform	November 10–23, 2000	National Bank of the Kyrgyz Republic
	Bank Restructuring (short-term expert)	April 9–May 16, 2001	National Bank of the Kyrgyz Republic
	Financial Institutions (short-term expert)	April 23–May 7, 2001	National Bank of the Kyrgyz Republic
	Banking Sector Reform, Central Bank Law, Monetary Operations	July 23–August 4, 2001	National Bank of the Kyrgyz Republic
	Payment Systems	September 21–October 3, 2001	National Bank of the Kyrgyz Republic
	Payment Systems	March 21–April 8, 2002	National Bank of the Kyrgyz Republic
	Financial Sector Assessment Program (in cooperation with the World Bank)	May 15–18, 2002	National Bank of the Kyrgyz Republic
STA	Balance of Payments Statistics	July 1997	National Statistical Committee
	Review of monetary statistics and finalization of IFS page	February 1998	National Bank of the Kyrgyz Republic
	Review of trade statistics procedures	March 1998	National Statistical Committee
	Money and Banking Statistics	March 1999	National Bank of the Kyrgyz Republic
	Balance of Payments Statistics	October–November, 1999	National Bank of the Kyrgyz Republic
	Price Statistics	March 1–15, 2000	National Statistical Committee
	National Accounts Statistics	March 2–15, 2000	National Statistical Committee
	GDSS Metadata Preparation	Dec. 14–22, 2000	National Statistical Committee

List of Resident Advisors

FAD	Establishment of Treasury	Mr. Chaturvedi	Oct. 1994–Aug. 1996
FAD	Tax Administration	Mr. Walker	Oct. 1994–Dec. 1996
FAD	Tax Policy Advisor	Mrs. Guevara	Jun.–Dec. 1999
FAD	Customs Administration Advisor	Mr. Sawyer	Mar.–Jun. 2000 and From Aug.–Nov. 2000
MAE	General Policy	Mr. Aurikko	Sep. 1995–Aug. 1996
MAE	Accounting	Mr. Listman	Oct. 1995–Jun. 1996
MAE	Accounting	Mr. Seng	May 1996–Dec. 1997
MAE	Banking Supervision Advisor	Mr. Franson	Sep. 1999–Feb. 2001
MAE	Banking Supervision/Restructuring Advisor	Mr. Svartsman	Nov. 2001–Nov. 2002
PDR	External Debt Advisor	Mr. Azarbayejani	Feb. 2000–May 2001
STA	Balance of Payments	Mr. Hafiz	Jun. 1996–May 1997
STA	Multitopic General Advisor	Mr. Khawaja	Apr. 1996–Apr. 1999

KYRGYZ REPUBLIC—STATISTICAL ISSUES

General framework

1. The NSC maintains a comprehensive and regularly updated data web site largely incorporating Fund dissemination standards metadata structure and format, with good coverage and timeliness (<http://stat-gvc.bishkek.su>). The Kyrgyz Republic is presently participating in the Fund's General Data Dissemination System (GDDS).

National accounts

2. In general, data dissemination of national accounts statistics is prompt. Technical assistance has been received from the IMF, EUROSTAT, OECD, World Bank, and bilateral donors. While significant progress has been made in improving the national accounts estimation process, problems persist with respect to the quality of the primary data. Difficulties also remain in properly estimating the degree of underreporting, especially in the private sector. To improve the coverage and reliability of primary data, work has been undertaken to introduce scientific sampling procedures. Improved sampling procedures have been adopted for household surveys and new report forms are being introduced for the survey of enterprises. The NSC has established a division of sample surveys, which would assist in improving the sampling techniques. However, subannual national accounts statistics are still collected on a cumulative basis rather than by discrete time periods.

Prices, wages, and employment

3. The new CPI has been published since January 1995, and the new PPI has been published since October 1996. They are both calculated according to international standards although their coverage needs to be improved. The coverage of the PPI, which was already broadened in May 1997, is to be expanded further in the coming years.

4. Progress has been made in computing unit value indices for imports and exports. Work continues with regard to computation of these indices using a standard index presentation and the development of an export price index.

5. Problems exist in the compilation of the average wage, especially with respect to the valuation of payments in kind and the coverage of the private sector. Also, the monthly statistics are not comparable with the annual data due to different coverage and classifications.

6. Employment data have similar inconsistencies between annual and monthly data. The coverage of unemployment includes an estimate of unregistered unemployed.

Fiscal accounts

7. The coverage of the budget has been improved significantly since 1995 with the assistance of the IMF and the World Bank. While revenue and expenditure data are generally set up according to GFS standards, both categories have some items misclassified. There are nontax revenues classified as taxes and specific expenditure items are misclassified in the budget and treasury accounts. Data for inclusion in the GFS Yearbook covering budgetary central government and local government were provided for the first time in 1999. However, the deficit data received by STA for 1996 and 1998-2000 are not equal to the reported total financing for these years. At present no detail is provided for financing data.

8. The provision of data on external debt service has improved. The External Debt Division of the Ministry of Finance is now solely responsible for monitoring external debt. The unit has benefited from the on-site training provided by a Swiss-financed long-term consultant and has computerized its database. Data on actual debt service payments on public and publicly guaranteed payments and outstanding loans as well as revised projections are provided on a monthly basis. The quality and timeliness of external debt data is adequate.

Monetary sector

9. The authorities introduced new charts of accounts for the NBKR and the commercial banks during 1997, with the assistance of a resident MAE advisor and the USAID. A money and banking statistics mission in March 1999 reviewed the compilation of the monetary data and found that the classification of accounts is generally in accordance with the Fund's methodology. However, the mission identified areas where the charts of accounts and accompanying instructions need to be improved. Monetary data for *IFS* publication have been reported on a regular monthly basis with a lag of about one month.

External sector

10. The compilation of balance of payments statistics has improved with the assistance of a technical assistance mission on balance of payments statistics that visited the NBKR during 1999. Data on imports and exports are now based on customs records. However, the shuttle trade with the countries of the customs union—Russian Federation, Belarus and Kazakhstan—is not accurately estimated. Dissemination of international trade statistics started in June 1998. The NBKR compiles balance of payments statistics in cooperation with the NSC. The responsibility of compiling services data has recently been given to the NSC. Coordination with the NSC has been intensified, but coverage deficiencies remain with respect to trade, services, and foreign direct investment. A progress report sent by the NBKR on the implementation of the recommendations of the mission mentions that work is underway to improve the coverage of direct investment in the free economic zone and to introduce revised forms for surveying enterprises.

KYRGYZ REPUBLIC—CORE STATISTICAL INDICATORS
(As of May 20, 2002)

	Exchange Rates	Internat'l Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/Debt Service
Date of Latest Observation	5/20/02	5/16/02	5/16/02	5/16/02	4/30/02	5/10/02	Apr/02	Q1/02	Q4/01	Mar/02	Apr/02	Apr/02
Date Received	5/20/02	5/20/02	5/20/02	5/20/02	5/19/02	5/14/02	5/8/02	4/20/02	4/20/02	4/20/02	5/8/02	May/02
Frequency of Data	D	D	W	W	M	W	M	Q	Q	M	M	M
Frequency of Reporting	D	D	D	D	M	W	M	Q	Q	M	M	M
Source of Update	A	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting	E	E	E	E	E	E	E	E	E	C	E	C
Confidentiality	C	A	A	A	C	C	C	C	C	C	C	C
Frequency of Publication	W	M	M	M	M	W	M	Q	Q	M	M	Y

Explanation of abbreviations:

Frequency of data, reporting and publication: D-daily, W-weekly, M-monthly, Q-quarterly, Y-yearly in conjunction with staff visits.

Source of data: A-direct reporting by National Bank, Ministry of Finance, Ministry of Statistics and Analysis or other official agency.

Mode of reporting: C-cable or facsimile; E-electronic news reporting; F-floppy provided. Most data are provided to the Resident Representative's office and then forwarded to headquarters.

Confidentiality: A for use by the staff only; C-unrestricted use.

SAFEGUARDS ASSESSMENT—SUMMARY OF CONCLUSIONS

Safeguards Assessment

An on-site assessment of the NBKR was conducted during August 2001. The assessment received full cooperation from the NBKR, and its management agreed to all the measures proposed by the staff.

Vulnerabilities

The vulnerabilities identified included:

- (i) a significant portion of the NBKR's assets was in the form of non-interest bearing government securities with infinite maturity, the actual fair value of these assets being significantly lower than their normal value, therefore, overstating the capital base of the bank, and
- (ii) the central bank law does not preclude distribution of net unrealized gains on foreign exchange or securities.

Remedies Under Program Conditionality

The NBKR and the MoF have finalized an agreement to regularize their financial relations. As part of the agreement, the noninterest-bearing securities with infinite maturity held by the NBKR have been converted into short- and medium-term securities that bear a market rate of interest, while the NBKR will pay interest on government deposits. The agreement becomes effective by end-2002.

The NBKR has considered, as recommended in the Safeguard Assessment, modifying the national bank law to specifically state that net unrealized gains on market price fluctuations for domestic and foreign securities, as well as on foreign exchange rate revaluations, will not be distributed to the government. It is, however, not necessary to open parliamentary discussions on amendments to the national bank law, as the arrangement can be confirmed through a formal agreement between the NBKR and the MoF. According to an agreement to be signed in June 2002, the NBKR continues to make distributions from realized profits only.

Bishkek, Kyrgyz Republic
June 13, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C.20431

Dear Mr. Köhler:

1. On December 6, 2001, the IMF Executive Board endorsed the Kyrgyz Republic's three-year economic program, and approved a Poverty Reduction and Growth Facility (PRGF) arrangement in support of that program.
2. On behalf of the government of the Kyrgyz Republic, we are pleased to transmit herewith a Supplementary Memorandum of Economic Policies, which describes in detail the implementation of our program to date and our near-term policy intentions in addition to those described in our original Memorandum of Economic Policies, dated November 16, 2001. It also proposes quantitative performance criteria, as well as structural performance criteria and benchmarks, for end-September 2002.
3. We believe that the policies and measures set forth in the Supplementary Memorandum are adequate to achieve the objectives of our program, and we stand ready to take any additional measures that may become necessary for this purpose in consultation with the Fund staff. The government will provide the Fund with such information as the Fund requests in connection with the Kyrgyz Republic's policies and developments under the program.

Yours sincerely,

/s/
Nikolai Tanaev
Prime Minister
Kyrgyz Republic

/s/
Ulan Sarbanov
Chairman
National Bank of the Kyrgyz Republic

KYRGYZ REPUBLIC

SUPPLEMENTARY MEMORANDUM OF ECONOMIC POLICIES

I. INTRODUCTION

1. This Supplementary Memorandum of Economic Policies (SMEP) updates our Memorandum of Economic Policies (MEP) dated November 16, 2001, which describes the economic policies supported by the International Monetary Fund with a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). The SMEP reviews performance over the six months through March 2002 and supplements the policies detailed in the MEP for the period April-September 2002. These policies are consistent with the National Strategy for Poverty Reduction (NSPR) which we intend to finalize in September 2002.

II. PERFORMANCE UNDER THE PROGRAM

2. The Kyrgyz Republic's economy has performed largely as expected over the period under review. Real GDP grew 5½ percent in 2001 for the second year in a row, with growth driven by mining agriculture, construction, and trade. Although preliminary data indicate negative year-on-year growth in the first three months of 2002, we believe that this reduction is temporary and expect growth in 2002 to be in line with the program projection (4.4 percent). The 12-month inflation rate fell to 3.7 percent in December 2001 from 9.6 percent in 2000 and further to 2 percent in March 2002, reflecting appropriately tight monetary and fiscal policies. Nominal and real interest rates declined over the period under review, and the nominal exchange rate remained stable, indicating increased confidence in the som. The balance-of-payment adjustment was stronger than expected, with the current account deficit narrowing to 3.3 percent of GDP in 2001. The adjustment was partly due to lower imports associated with a decline in the Public Investment Program (PIP), but a good harvest also reduced agricultural imports.

3. In March 2002, our creditors in the Paris Club granted a flow rescheduling of our debt for 2002-2004 on somewhat better than Houston terms, thus ensuring that our program is fully financed. Creditors also expressed their goodwill to consider a concessional treatment of the stock of our debt upon successful implementation of the current three-year PRGF arrangement and approval of an appropriate follow-up medium-term arrangement.

4. Poverty has begun to decline. Our preliminary analysis indicates that poverty ratios have dropped since 1998, reflecting recent economic growth, particularly in agriculture, and the impact of the land reform of the mid-1990s.

5. We have achieved all quantitative program targets for the first review. The quantitative performance criteria for end-March and the quantitative benchmarks for end-December have been observed (Table 1). The structural performance criterion on the approval of a privatization action plan by end-December 2001 has been met. The structural

benchmarks for end-December 2001 and end-March 2002 were implemented. However, for technical reasons, there was a short delay in publishing the first Financial and Economic Bulletin of the Ministry of Finance (MoF). Regarding the structural benchmark on the regularization of the financial relations between the NBKR and the MoF, we had reached a preliminary agreement between the parties in March, but waited for technical assistance from the Fund to ensure that the final agreement meets the recommendations of the Fund's safeguard assessment.

6. Further amendments are being made to the privatization action plan and legislation on collateral. As agreed with the staff, we did not include targets for tariffs and bill collection rates over the period of 2003-2004 in the privatization action plan adopted in December 2001 as we are specifying these targets in the context of the World Bank's Consolidation Structural Adjustment Credit. Although we submitted to parliament legislative amendments to facilitate the execution of pledges, with assistance from the Asian Development Bank (AsDB), we have drafted a new law on collaterals and mortgages which we will present to parliament before the summer recess. In April 2002, the NBKR revoked the license of two problem banks—Kramds and Issyk-Kul. The NBKR Board also approved new regulations on asset provisioning and operations with offshore banks, which will improve accuracy in the classification of banks' assets once they become effective on June 1, 2002. We have completed the fencing of two Free Economic Zones (FEZ). The feasibility of fencing two other FEZ, encompassing one oblast each, will be reviewed after an in-depth study to be completed in September.

III. PROGRAM REVISIONS FOR THE PERIOD JUNE 2002-SEPTEMBER 2002

7. We will supplement the MEP in two main areas: revisions to the 2002 macroeconomic framework and program targets; and additional structural measures to strengthen governance of public finance and in the banking sector. As a prior action for the program review, we will complete the regularization of the financial relations between the NBKR and the MoF in accordance with the understandings reached with the staff, including the impact of the repaid government guaranteed loan from the Union Bank of Switzerland to JSC Zhibek Zholu. We have supplemented the MEP with two structural performance criteria and four structural benchmarks for end-September 2002 (Box 1).

8. In view of recent gains in price stabilization, we have revised the program's 2002 year-on-year inflation target from 7.5 percent to 4.1 percent. The slowdown of growth in the first quarter of 2002 does not warrant a downward revision of programmed real GDP at this stage as we believe that this slowdown is temporary. We expect the current account deficit to widen somewhat in 2002, mainly because higher PIP-related imports will be offset only in part by higher service revenue from the international military base. We expect gross reserve at end-2002 to be at broadly the same levels of previous years—equivalent to 4½ months of imports.

Fiscal policies

9. We have revised the fiscal program's revenue estimates in view of additional grants from Switzerland and higher tax and nontax revenue mainly stemming from gold production and related profits, the reduction of VAT credit on agriculture, and the imposition of a new excise on jet fuel. We propose to increase the program's deficit target by 0.2 percent of GDP to 5 percent in 2002, to ensure adequate social spending and emergency outlays for the recent natural disaster in the south of the country, and clearance of arrears on counterpart funding for the PIP and allowances for poor families. We will initiate discussions with the donors to increase the domestic counterpart funding of the PIP and reduce the foreign borrowing for the PIP correspondingly in the coming years. During 2002, the MoF will streamline procedures for the release of counterpart funds and, in the context of the 2003 budget preparation, it will identify priority projects for 2003-2005 in coordination with donors. We will also increase pensions below som 1000 per month by som 25 to som 90 with higher increases for lower pensions as of June 1, 2002. To ensure adequate funding of pension expenditures, the Republican budget will effect a transfer, currently estimated at som 840 million, to the Social Fund. To underscore our commitment to protecting vulnerable groups, we have decided to include allowances to poor families among the central government budget arrears monitored as a performance criterion under the program.

10. In the 2003 budget, we plan to adopt most measures identified by the two recent Fiscal Affairs Department's (FAD) technical assistance missions (on tax policy and on expenditure management). We believe that there is considerable potential for broadening the tax base and improving tax compliance. On two areas, however, we need more time. On value added taxation (VAT), we will carefully investigate the revenue impact of extending the VAT to sales of agricultural products by producers whose turnover is above the VAT registration threshold. This study will also assess the impact of such VAT extension on inflation and on vulnerable population groups. It will be brought for consideration of the Economic Policy Council by end-September 2002. On taxation of consumption on public utilities, we will discuss the issue in the context of the World Bank's energy sector reform program. We will revise the taxation regime for new mining projects in line with the recommendations of the FAD tax policy mission. In particular, for VAT purposes, exports from new mining projects (excluding Kumtor) will be zero-rated and the tax paid on intermediate inputs will be credited against VAT liabilities. No new tax exemptions will be granted to mining companies. To improve collection enforcement and coordination among different revenue agencies, the EPC will review the proposal to merge the State Customs Committee, the State Tax Inspectorate, the Financial Police, and the collection branch of the Social Security Fund in an independent Revenue Agency under the Ministry of Finance. We will establish a working group to prepare a detailed merger plan to ensure that such merger has no negative impact on revenue collection in its implementation phase. We will request technical assistance from the international financial institutions to make the agency effective. The government will also issue a resolution to convert the existing Large Taxpayer Unit (LTU) into a fully empowered LTU as specified by the recent FAD tax mission in Section IV.F of its report on "Further Reform of Tax Policy and Administration." The issuance of such decree will be a structural performance criterion for end-September 2002. In

cooperation with the Fund staff, we will also conduct a review of the impact of Free Economic Zones on investment, tax revenue, exports, and employment by end-September 2002. In the context of the 2003 budget, we will consider amending the funding mechanism of the custom services as a pilot project, so that a progressively larger share of higher-than-budgeted collections will remain in the agency for its internal use. The pilot will be carefully designed in the context of the AsDB's Custom Modernization Project.

11. We intend to further enhance economic policymaking by restructuring the MoF in line with FAD recommendations. Such restructuring would include, for example:

- the relocation of staff of sectoral departments in part to the budget department and in part to the respective line ministries;
- the transfer of the PIP department to the budget department to better integrate the formulation of capital and recurrent budgets;
- the assignment of increased managerial and financial powers to the Treasury with the creation of cash planning and internal control divisions;
- the rationalization and clearer separation of functions among the deputy ministers in charge of revenue, expenditures, and economy.

The approval of the MoF restructuring plan, as prepared in close consultation with the IMF staff, will be a structural benchmark for end-September 2002. The Financial Planning Division which we intend to establish within the Treasury will prepare quarterly cash forecasts and plans. The establishment of such division and the preparation of its first cash forecast of revenue and expenditures for the remainder of 2002 will be a structural benchmark for end-September 2002.

Monetary policies

12. As a result of the better-than-expected balance of payment outcome, we exceeded the end-March net international reserves (NIR) target by a significant amount—20 percent of reserve money. We believe that the rapid growth in reserve money associated with such foreign exchange inflows reflected the ongoing remonetization process in the economy, thus having no inflationary impact. During the remainder of the year, we intend to consolidate these gains. We thus aim at gross reserves equivalent to 4½ months of imports by end-December 2002. Consistent with such target and largely reflecting the programmed accumulation of government deposits, the NDA of the NBKR—which remained below the end-March program ceiling by 4 percent of reserve money—will decrease significantly. In view of the expected low inflation and continued growth, we plan to limit the increase of some broad money to 15.2 percent during 2002 so as to ensure that liquidity conditions remain consistent with the program's macroeconomic objectives. The NBKR will refrain from foreign exchange interventions except for smoothing temporary fluctuations in the exchange rate. If appreciation pressures arise, the NBKR intends to primarily strengthen the official

foreign reserve position. The NBKR, however, stands ready to expand open market operations and let interest rates rise should inflation show signs of acceleration. Following assistance from MAE, the agreement between the NBKR and the MoF on how to regularize their financial relations is now being finalized and it follows the recommendations of the Fund's safeguards assessment. We have used this opportunity to deepen the market for government paper in view of the NBKR's need to expand its open market operations.

Structural policies

13. We place great importance to improving governance to enhance economic growth and promote poverty reduction. In the MEP we specified several measures aimed at improving transparency and accountability in the use of public resources. We believe that such objectives could be promoted further through the publication of the Chamber of Account's audits of state finances. On one hand, managers would use public resources more effectively knowing that their operations will be scrutinized. On the other, the Chamber of Account's itself would become more accountable to public scrutiny. We plan to publish the Chamber of Accounts' 2001 audit of state finance in October 2002.

14. Regarding governance in the financial sector, it is essential that the NBKR can enforce its regulatory and supervisory powers effectively. In order to increase the accountability of owners and banks' management, we are working with the AsDB to amend the Law on Banks and Banking Activities and the Bankruptcy Law. We will also introduce a new Law on Bankruptcy of Banks. At the same time, the NBKR will forcefully implement the Regulatory Response Policy (RRP) for any bank that does not meet prudential requirements. The NBKR will reclassify the assets of banks according to the newly approved regulations on asset provisioning and operations with offshore banks. If the asset quality of a bank deteriorates as a result, the NBKR will require the bank to properly provision its assets. If the capital is below the minimum level required, the NBKR will require owners to recapitalize the bank. If the NBKR's requests are not met, a bank's license will be revoked, or a bank will be placed under temporary administration. In addition, we will strengthen the NBKR's supervisory powers by submitting to parliament amendments to the law on Licensing. The new Law will stipulate that all licensing activities associated with financial institutions (that are regulated and licensed by the NBKR) are subject to the laws on Banks and Banking Activities, on the National Bank, on Credit Unions, and other specialized enabling legislation. The submission to parliament of such amendments will be a structural benchmark for end-September 2002. We will also propose amendments to current legislation to ensure that the courts accept, as the representation of banks' financial position, the banks' financial statements confirmed by the NBKR. The latter measure will be a structural performance criterion for end-September 2002.

15. With the financial support from the World Bank we will hire a consultant to develop a business plan for DEBRA and help us privatize the Savings and Settlements Corporation. Kairat Bank has restructured its operations and it is now generating profits. If the government decides to privatize the bank, we will ensure the conduct of due diligence and transparent privatization procedures. In any event, the status of Kairat Bank will not be significantly

altered without consulting the staff. We expect the upcoming Financial Sector Assessment Program (FSAP) missions to help us identify further measures to strengthen the banking sector. On the basis of these findings, and in consultation with the IMF staff, the NBKR will draft a strategy for further banking sector reforms. To underscore the importance we associate to further improving the soundness of our banking system, the drafting of such strategy before end-September 2002 will be a structural benchmark under the program.

16. Our plan for developing the NSPR remains ambitious as it includes comprehensive consultations with stakeholders and various levels of government. We plan to deepen its assessment of poverty while linking the latter more explicitly to the measures under our strategy. We have sought external technical assistance to help us prioritize and cost policy options and establish a simple set of indicators to monitor progress under the strategy. We expect to finalize the NSPR by October 2002.

IV. PROGRAM MONITORING

17. To monitor policy implementation under the first-year program through end-September 2002, quantitative and structural performance criteria and benchmarks are set out in Table 1 and Box 1 of this SMEP. Detailed definitions of the quantitative budgets appear in the revised Technical Memorandum of Understanding.

18. The government of the Kyrgyz Republic and the NBKR believe that the policies and measures set forth in this Supplementary Memorandum are adequate to achieve the objectives of the program. However, in consultation with the Fund staff we will take any further measures that may be needed to ensure the success of the program. These consultations can be initiated by the government or whenever the Managing Director requests them.

**Box 1. Prior Action, Structural Performance Criteria, and Benchmarks
Through end-September 2002**

Prior Action

Regularization of the financial relations between the NBKR and the Ministry of Finance as recommended by the staff in the MAE technical assistance report of May 2002 "Debt Restructuring at the National Bank of the Kyrgyz Republic", and including the impact of the repayment of the government guaranteed loan to the UBS.

Structural performance criteria

By end-September 2002

- Submission to Parliament of amendments to the existing legislation to ensure that the NBKR-confirmed financial statements of banks are used as basis for court procedures in bank liquidation cases.
- Issuance of government resolution to convert the current Large Taxpayer Unit (LTU) into a fully functioning LTU as specified by the recent FAD tax policy mission in Section IV.F of its report on "Further Reform of Tax Policy and Administration."

Structural benchmarks

By end-September 2002

- In consultation with IMF staff and based on the forthcoming FSAP missions' findings, the NBKR will draft a strategy for further banking sector reforms.
- Establishment of a Financial Planning Division within the Treasury and production of the first cash forecast of revenue and expenditure for the remainder of 2002.
- Approval of the MoF restructuring plan as described in paragraph 11 and specified in consultation with IMF staff on the basis of the recent FAD Public Expenditure mission; and
- Submission to parliament of amendments to the Law on Licensing as described in paragraph 14.

Table 1. Kyrgyz Republic: Quantitative Program Targets
(in millions of soms, unless otherwise indicated, e.o.p.)

	2001			December Actual	2002			June Indicative Targets Prog.	June Benchmark Rev. Prog.	Sept Indicative Targets Program	September Performance Criteria Rev. Prog.	December Indicative Target Rev. Prog.	
	Sept Actual 1/	December Benchmarks			March Performance Criteria Program	March Adjusted	March Actual						June Indicative Targets Prog.
		Program	Adjusted										
I. Performance criteria													
1. Floor on net international reserves of the NBKR in convertible currencies (top stock, in millions of U.S. dollars) 2/	7.7	23.8	22.8	39.3	15	30.6	53.6	7.6	50.3	30.8	57.6	64.1	
2. Ceiling on net domestic assets of the NBKR (top stock) 3/	2,371	1,631	1,680	1,257	1,853	1,090	893	3,368	2,243	2,865	1,987	1,733	
3. Ceiling on cumulative fiscal deficit of the state government 4/	2,271	1,264	1436 5/	1,290	2,364	n.a.	2,276	3,622	3,721	4,848	4,948	417	
4. Cumulative floor on state government tax collections in cash 6/	4,456	2,787	n.a.	2,929	4,942	n.a.	5,008	7,440	7,440	10,316	10,316	3,861	
5. Ceiling on the stock of central government budget arrears 7/	208	0	n.a.	0	0	n.a.	0	0	30	0	0	0	
6. Ceiling on the stock of Social Fund pension arrears	0	0	n.a.	12	0	n.a.	0	0	0	0	0	0	
7. Ceiling on contracting or guaranteeing by the state government or NBKR of new external debt of less than one year (in millions of U.S. dollars) 8/	0	0	n.a.	0	0	n.a.	0	0	0	0	0	0	
8. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt (cumulative, in millions of U.S. dollars) 9/	0	0	n.a.	0	0	n.a.	0	0	0	0	0	0	
9. Ceiling on new external payment arrears (in millions of U.S. dollars) 10/	0	0	n.a.	0	0	n.a.	0	0	0	0	0	0	
II. Indicative targets													
1. Ceiling on reserve money (NBKR liabilities)	5,010	5,058	5,058	5,359	4,853	4,853	5,626	4,775	5,602	5,409	5,700	5,793	

Sources: Data provided by the Kyrgyz authorities; and Fund staff estimates and projections.

1/ Foreign exchange components valued at the exchange rate US\$1 = som 49, gold holdings valued at US\$265 per ounce, SDR valued at SDR 1 = US\$1.259. Targets exclude claims and liabilities to BRO countries.

2/ Excludes swaps and international reserves of NBKR that are pledged or blocked.

3/ Excludes counterpart of the loan by the Eximbank of Turkey and the EBRD/IDA enterprise loan which are channeled through the NBKR. Starting September 2001 NDA do not include commercial banks' forex deposits with the NBKR.

4/ For September 2001, cumulative begins on April 1, 2001. From December 2001 onwards, cumulative begins as of October 1, 2001. For December 2002, cumulative begins from October 1, 2002. State government comprises central and local government finances.

5/ The deficit for the fourth quarter of 2001 is adjusted for interest payments rescheduled by the Paris Club (som 172 million).

6/ For September 2001, cumulative begins on April 1, 2001. From December 2001 onwards, cumulative begins as of October 1, 2001. For December 2002, cumulative begins from October 1, 2002. Includes collection of tax arrears but excludes tax offsets.

7/ Central government budget arrears comprise wages, payroll contributions and mandatory transfers to the Social Fund, categorical grants, payments to KyrgyzEnergo, and allowances to poor families from June onward.

8/ As specified in the Technical Memorandum of Understanding (TMU), external debt is defined as in Executive Board's Decision no. 12274 (09/85) of August 24, 2000. Includes leases and other instruments giving rise to external debt.

9/ As specified in the TMU, external debt is defined as in Executive Board's Decision no. 12274 (09/85) of August 24, 2000. A debt is classified as concessional if its grant element is at least 45 percent, calculated using a discount rate based on the 10-year average of OECD commercial interest reference rates (CIRR), for debts of maturity greater than 15 years; for debts of maturity 15 years or less, the discount rate should be based on the six month average of the OECD CIRR. The ceilings include loans, leases, supplier's credits and other instruments giving rise to external debt on nonconcessional terms. IMP lending is excluded from the ceiling on new nonconcessional borrowing.

10/ On a continuous basis.

Adjustors

1. The floor on net international reserves of the NBKR will be adjusted: (i) upward/downward by 100 percent for excesses/shortfalls of the use of net foreign financing of the state budget and cash grants; (ii) upward/downward by 100 percent for excess/shortfall of cash privatization receipts. The adjustment for shortfalls in adjustors (i) and (ii) is limited to US\$ 15 million each, valued at the program exchange rate. In the case of a release of the NBKR's pledged foreign reserves, the NIR floor will be adjusted upward by 100 percent of the net effect of the releases and related amortization payments.

2. The ceiling on net domestic assets of the NBKR will be adjusted: (i) downward/upward by 100 percent for excesses/shortfalls of the use of net foreign financing of the state budget and cash grants; (ii) downward/upward by 100 percent for excess/shortfall of cash privatization receipts. The adjustment for shortfalls in adjustors (i) and (ii) is limited to US\$ 15 million each, valued at the program exchange rate, excluding the amortization payments for the release of the NBKR's pledged foreign reserves.

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. The Kyrgyz Republic's performance under the PRGF-supported program will be assessed by the IMF on the basis of the observance of quantitative and structural performance criteria and benchmarks. This annex and the tables attached to the Supplementary Memorandum of Economic Policies (SMEP) define the quantitative performance criteria and indicative targets, the structural benchmarks and performance criteria (Box 1 attached to the SMEP), as well as the monitoring requirements.

I. QUANTITATIVE TARGETS

2. Quantitative targets are summarized in Table 1 of the SMEP and defined below. This annex sets out the quantitative benchmarks for end-June 2002, quantitative performance criteria for end-September 2002, and indicative targets for end-December 2002. At the time of the second review, quantitative performance criteria will be set for end-March 2003.

Floor on net international reserves of the NBKR in convertible currency

3. The program contains a floor on the minimum amount of the stock of net official international reserves of the NBKR in convertible currencies. This floor will be calculated as the difference between total gross international reserves in convertible currencies at the NBKR and total official reserve liabilities of the NBKR in convertible currencies.

4. Total gross official international reserves of the NBKR shall be defined as the NBKR holdings of monetary gold, holdings of SDRs; any reserve position in the IMF; and any holdings of convertible currencies in cash, debt instruments (including accrued interest) or with foreign banks. Amounts pledged as collateral or in swaps or otherwise blocked, and capital subscriptions in foreign financial institutions and non-liquid assets of the NBKR are excluded. Excluded are also net forward positions, defined as the difference between the face value of foreign currency denominated NBKR off-balance sheet claims on non-residents and foreign currency obligations to both residents and non-residents. For program monitoring purposes, official international reserves shall be valued at a fixed program exchange rate of som 49 per U.S. dollar and \$1.259 per SDR. Official gold holdings shall be valued at \$265 per troy ounce. Program cross exchange rates are listed in Table 8.

5. Official reserve liabilities of the NBKR in convertible currencies shall be defined as outstanding liabilities to the IMF and other convertible currency liabilities of the NBKR to non-residents with an original maturity of up to and including one year. However, net claims on other BRO countries are excluded from the ceiling. The change in NIR will be calculated as the sum of program loan disbursements and cash grants net of external debt service payment due by the NBKR and the government of the Kyrgyz Republic excluding payments due on pledged loans. Thus calculated, the stock of net official international reserves in convertible currencies amounted to \$53.6 million as of March 31, 2002.

6. The floors on the NIR of the NBKR in convertible currencies during the program period are reported in Table 1 below.

Table 1. Floors on NIR of the NBKR in Convertible Currencies 1/

	(In millions of U.S. dollars)
June 30, 2002 (benchmark)	50.3
September 30, 2002 (performance criterion)	57.6
December 31, 2002 (indicative target)	64.1

1/ End-of-period stocks.

7. The floor on net international reserves of the NBKR will be adjusted: (i) upward/downward by 100 percent for any excess/shortfall in net foreign financing and cash grants; and (ii) upward/downward by 100 percent for any excess/shortfall in cash privatization receipts (see Table 4 of the Staff Report). The adjustment for shortfalls in adjustors (i) and (ii) is to be limited to \$15 million each. In the case of a release of the NBKR's pledged foreign reserves, the NIR floor will be adjusted upward by 100 percent of the net effect of the releases and related amortization payments.¹

8. Net foreign financing is defined as balance of payment support loans plus cash grants to the state budget minus amortization payments by the Ministry of Finance and NBKR (excluding repayments to the Fund). This definition applies to the adjustors to NIR and NDA. The cumulative net foreign financing for the program period is as follows:

Table 2. Projected Net Foreign Financing and Cash Grants 1/

	(In millions of soms)
June 30, 2002	1,454.2
September 30, 2002	1,805.1
December 31, 2002	1,982.2

1/ Cumulative from April 1, 2002. Based on accounting exchange rate of som 49=\$1.

Ceiling on the net domestic assets of the NBKR

9. Net domestic assets of the NBKR are defined as reserve money of the NBKR (defined below) minus the NBKR's net foreign assets² minus the medium- and long-term

¹ This does not apply to the Zhibek Zholu loan since it is already reflected in the targets.

² The NBKR's net foreign assets consist of net international reserves, as defined in this Annex, plus other foreign assets plus the net claims on other CIS countries. The value of the latter is kept constant at som -51 million for program monitoring purposes.

NBKR obligations (MLT) minus the counterpart of the loan by the Eximbank of Turkey minus the counterpart of the EBRD and IDA enterprise loans (see equation 1 below).

$$\text{NDA} = \text{RM} - \text{NFA} - \text{MLT} - \text{Turkish Loan} - \text{EBRD-IDA Enterprise Loan} \quad (1)$$

10. Thus defined, the NBKR's net domestic assets consist of: (a) gross credit to the State government from the NBKR minus deposits of the State government with the NBKR minus the counterpart of the loan by the Eximbank of Turkey; (b) gross credit to subnational governments from the NBKR minus deposits of subnational governments with the NBKR; (c) gross outstanding credit to domestic banks by the NBKR minus the counterpart of the EBRD and IDA enterprise loans; and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of the NBKR's net domestic assets amounted to som 893 million on March 31, 2002.

11. The ceilings on the net domestic assets of the NBKR during the program period are reported in Table 3 below.

Table 3. Ceilings on the Net Domestic Assets of the NBKR 1/

	(In millions of soms)
June 30, 2002 (benchmark)	2,243
September 30, 2002 (performance criterion)	1,987
December 31, 2002 (indicative target)	1,733

1/ End-of-period stocks.

12. The ceiling on net domestic assets of the NBKR will be adjusted: (i) downward/upward by 100 percent of the excess/shortfall in net foreign financing and cash grants; and (ii) downward/upward by 100 percent of the excess/shortfall of cash privatization receipts (see Table 4 of the Staff Report). The adjustment for shortfalls in adjustors (i) and (ii) is to be limited to \$15 million each valued at the program exchange rate excluding the amortization payments for the release of the NBKR's pledged foreign reserves.

Ceiling on the cumulative fiscal deficit of the state government³

13. The ceiling on the state government fiscal deficit⁴ is defined as the negative sum of: (i) the change in the stock of net claims of the domestic banking system and nonfinancial

³ State government comprises central government and local government finances. Central government and Republican government are synonymous in this memorandum.

⁴ Minor weaknesses in the fiscal statistical base, as noted the Appendix IV, do not hamper the monitoring of the fiscal outturn in relation to the performance criteria set here.

institutions—including state-owned enterprises and public companies—and households on the state government; (ii) the change in the stock of net claims of foreign banking system and nonfinancial institutions and households on the state government; (iii) net privatization receipts; (iv) net foreign loans disbursed to the state government for budgetary support; (v) net foreign loans disbursed to the state government for project financing; and (vi) rescheduling of bilateral debt (principal and interest payments), following the Paris Club agreement. The fiscal balance will be measured excluding valuation gains and losses on all foreign currency denominated assets and liabilities arising from exchange rate fluctuations.

14. The change in the stock of net claims of the domestic and foreign banking systems on the state government are defined as the change in the stock of claims of these banking systems on the state government less the change in the stock of all deposits of the state government with these banking systems. The claims of these banking systems on the state government include: (i) bank loans to state government; (ii) securities or bills issued by the state government held by banks with the exception of those issued in relation with bank rescue operations; and (iii) overdrafts on the current accounts of the state government with banks.

15. The ceilings on the cumulative fiscal deficit of the state government during the program period are reported in Table 4 below.

Table 4. Ceilings on the Cumulative Fiscal Deficit of the State Government 1/

	(In millions of soms)
June 30, 2002 (benchmark)	3,721
September 30, 2002 (performance criterion)	4,948
December 31, 2002 (indicative target) 2/	417

1/ Cumulative beginning from October 1, 2001.

2/ Cumulative beginning from October 1, 2002

Floor on cumulative tax collections in cash

16. Cumulative tax collections in cash correspond to the line “TV. Tax Receipts” in the Treasury Report and comprise the following categories: 1.0 taxes on income and profits; 4.0 taxes on property; 5.1 VAT on domestic and imported products; 5.1.1.0 retail sales tax; 5.2 excises on domestic and imported products; 5.4 specific taxes on services; 5.5 taxes on use of goods and services; 5.6 taxes on use of natural resources; 6.0 taxes on international trade; 7.0 other taxes. Thus defined, cumulative tax collections in cash since October 1, 2001 amounted to som 5,008 million as of March 31, 2002. Cumulative tax collections in cash include collections of tax arrears but exclude tax offsets.

17. The floors for the cumulative tax collection in cash during the program period are reported in Table 5 below.

Table 5. Cumulative Floors on Tax Collections in Cash 1/

	(In millions of soms)
June 30, 2002 (benchmark)	7,440
September 30, 2002 (performance criterion)	10,316
December 31, 2002 (indicative target) 2/	3,861

1/ Cumulative from October 1, 2001.

2/ Cumulative from October 1, 2002.

Ceiling on the stock of central government budget arrears

18. For the purposes of the program, central government budget arrears are defined as an overdue payment obligation of the Republican budget related to: (i) wages; (ii) Social Fund payroll contributions; (iii) mandatory transfers to the Social Fund; (iv) categorical grants; (v) payments to Kyrgyz Energo; and (vi) allowances for poor families. A payment is defined to be overdue if it remains unpaid after its due date for (iii) and (iv); for 30 days after its due date for (i) and (ii); 60 days after its due date for (v); and 40 days after its due date for (vi). As of March 31, 2002, the stock of thus defined central government budgetary arrears was som 78.9 million.

19. The ceilings on the stock of central government budget arrears during the program period are reported in Table 6 below.

Table 6. Stock of Central Government Budget Arrears

	(In millions of soms)
June 30, 2002 (benchmark)	30
September 30, 2002 (performance criterion)	0
December 31, 2002 (indicative target)	0

Ceiling on the outstanding stock of Social Fund pension arrears

20. A pension payment by the Social Fund is defined as overdue if it remains unpaid for 30 days after its due date. As of March 31, 2002, the stock of pension arrears was zero.

Ceilings on contracting or guaranteeing of new external debt by the government or the NBKR

21. The contracting or guaranteeing of external debt by the government of the Kyrgyz Republic, the NBKR, or any other agency acting on behalf of the government, is understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement

through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.⁵

22. Under the definition of debt above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

23. External debt limits apply to the **contracting or guaranteeing of short term external debt** (with an original maturity of less than one year, except normal import-related credits and NBKR reserve liabilities); **and contracting or guaranteeing of nonconcessional medium- and long-term external debt** (with original maturities of one year or more). Disbursements under the Fund's PRGF are excluded from the ceilings on external debt. The limit on the contracting or guaranteeing of short-term external debt is zero throughout the program period. Excluded from these external debt limits is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing debt at terms more favorable to the debtor.

24. For program purposes, a debt is considered concessional if the grant element is at least 45 percent, calculated by using currency specific discount rates based on the Commercial Interest Reference Rates (CIRRs) published by the OECD plus margins depending on the debt maturity. A lower grant element will be considered only for new loans committed to replace old debt originally contracted at less favorable terms. The average of the CIRRs over the last 10 years will be used for debts with a maturity of at least 15 years and the average CIRR of the preceding six months will be used for shorter maturities.

⁵ Executive Board's Decision No. 12274 (00/85) August 24, 2000.

Ceiling on new external arrears

25. For the purposes of the program, external arrears of the government of the Kyrgyz Republic or the NBKR will consist of all overdue debt-service obligations (i.e., payments of principal and interest) arising in respect of loans contracted or guaranteed by the state government or the NBKR since the Kyrgyz Republic's independence, unpaid penalties or interest charges associated with these arrears, and overdue payments owed by the state government or the NBKR on imports received subsequent to independence, unless these debt-service obligations in the view of the parties involved are not to be regarded as arrears for the purposes of the program. No such new arrears shall be incurred during the period of the arrangement.

Ceiling on reserve money

26. For the purposes of the program, reserve money consists of currency issued by the NBKR and balances on commercial banks' correspondent accounts with the NBKR. The stock of reserve money amounted to som 5,626 million as of end-March, 2002. The indicative limits for the program periods are reported in Table 7 below.

Table 7. Ceilings on Reserve Money 1/

	(In millions of soms)
June 30, 2002 (indicative target)	5,603
September 30, 2002 (indicative target)	5,700
December 31, 2002 (indicative target)	5,793

1/ End-of-period stocks.

II. DISBURSEMENTS UNDER THE PROGRAM

27. The three-year PRGF arrangement envisages seven loan disbursements: the first, equivalent to SDR 11.72 million (13.2 percent of quota), upon approval of the arrangement; the second, equivalent to SDR 11.72 million (13.2 percent of quota), on completion of the first review based on the end-March 2002 performance criteria; the third, equivalent to SDR 11.72 million (13.2 percent of quota), on completion of the second review based on the performance criteria at end-September 2002; the fourth, equivalent to SDR 9.56 million (10.1 percent of quota), on completion of the third review based on end-March 2003 performance criteria; the fifth, equivalent to SDR 9.56 million (10.1 of quota), upon completion of the fourth review based on end-September 2003 performance criteria; the sixth, equivalent to SDR 9.55 million (10.1 percent of quota), on completion of the fifth review based on end-March 2004 performance criteria; and the seventh, equivalent to SDR 9.55 million (10.1 percent of quota) on completion of the sixth review based on end-September 2004 performance criteria. Performance criteria beyond September 2002 will be established in successive reviews.

III. REPORTING REQUIREMENTS UNDER THE PROGRAM

28. The government and the NBKR will provide the Fund with the necessary economic and financial statistical data to monitor economic developments and the quantitative targets. In particular, the government and the NBKR will provide the following specific information:⁶

The balance sheet of the NBKR

29. The NBKR will provide to the Fund its balance sheet every Monday. The information provided will clearly identify the following items in the definitions specified above: the net foreign assets of the NBKR; the net international reserves; medium- and long-term liabilities; the net domestic assets of the NBKR; net credit from the NBKR to the general and other governments; net credit provided to commercial banks, other items net; and reserve money. The balance sheet will be provided valued at the actual exchange rate as well as according to the valuation applied under the program, as specified in Section I. The above information should be provided to the IMF Resident Representative and/or transmitted by e-mail to the Fund.

Monetary survey

30. Monthly banking system data, in the form of a monetary survey, will be reported to the Fund by the NBKR within 14 days of the end of the month. The information provided should clearly identify the following items: net foreign assets and net domestic assets of the banking system, medium- and long-term liabilities, net credit from the banking system to the general and other governments, financing provided to the rest of the economy, other items net, and broad money. The monetary survey will be provided valued at the actual exchange rate as well as according to the valuation applied under the program, as specified in Section I.

31. The NBKR will provide monthly data to the Fund within seven days after the end of the month on the amount of holdings of treasury bills, GKOs, state obligations, state bonds, and other securities issued by the state government, differentiated by the following categories of holders: the NBKR, resident banks, resident nonbanks, and nonresidents. The information will be provided in both the book (nominal) value and the actual value, where applicable.

International reserves and key financial indicators

32. The NBKR will provide detailed monthly data within 14 days from the end of the month on the composition of both its gross and net international reserves in convertible currencies and holdings of monetary gold. These data will be provided at two alternative sets of the exchange rates and the gold price: first, at those used to derive the NFA position in the

⁶Any correction or revisions to the data previously reported should be clearly indicated and documented as to the reasons for revision.

NBKR accounts; second, at those specified in the program (Section I). In addition, weekly reports should be sent to the Fund every Monday on: (a) exchange rates (including the official and interbank exchange rates), foreign exchange interbank market turnover, and the volume of NBKR foreign exchange sales and purchases in the interbank market and with other parties; and (b) treasury bill yields and the amount of treasury bill sales and redemptions. On the 25th day of the month following the reference month, the NBKR will provide data on bank deposit and lending rates by maturity.

Banking system data

33. The NBKR will provide detailed bank-by-bank data within 14 days of the end of the month on commercial banks' compliance with: (a) prudential requirements; and (b) reserve requirements, as well as any penalties, sanctions and other administrative actions imposed on banks.

External debt

34. The Ministry of Finance, together with the NBKR, will provide monthly information on the disbursements, principal and interest payment—both actual and falling due; on contracting and guaranteeing of medium- and long-term external loans by the state government and the NBKR; and any stock of outstanding arrears on external debt service payments within 21 days of the end of each month. In addition, the Ministry of Finance will also report the total amount of outstanding government guarantees and external arrears on a monthly basis. While NBKR will provide the debt service payment data on private debt, the Ministry of Finance will provide data on debt service on public and publicly guaranteed loans.

Budgetary and extrabudgetary data

35. In addition to the monthly treasury report, the Ministry of Finance and the Social Fund will report monthly on all their recorded expenditure arrears, in particular on those defined above in this Annex. This information will be provided to the Fund staff within 26 days from the end of each reference month. The Ministry of Finance will also provide monthly reports on the disbursements and use under the public investment program and budgetary grants with a one-month time lag.

Balance of payments data

36. The NBKR will provide current account and capital account data, including data on foreign trade, services, official and private transfers, foreign investment, and disbursements of public and private loans, on a quarterly basis, with at most a two-month lag. The NBKR will also provide monthly foreign trade data with a two-month lag.

Other general economic information

37. The National Statistics Committee will notify the Fund of the monthly Consumer Price Index by category by the 5th business day of the following month, and convey quarterly GDP estimates within two months of the end of each quarter.

Table 8. Program Cross Exchange Rates

	Currency Names	National Currency/US\$	US\$/National Currency
ATS	Austrian schilling	16.2219	0.06164506
GBP	UK pound sterling	0.7105	1.407459536
BEF	Belgium franc	47.5566	0.021027576
DKK	Danish krone	8.7845	0.113836872
EUR	euro	1.1789	0.84825
INR	Indian rupee	47.04	0.021258503
ITL	Italian lira	2282.6645	0.000438085
CAD	Canadian dollar	1.5233	0.656469507
CNY	Chinese yuan	8.277	0.120816721
KRW	South Korean won	1299.9	0.00076929
DEM	Deutsche mark	2.3057	0.433707768
NLG	Dutch guilder	2.5979	0.384926287
NOK	Norwegian krone	9.2985	0.107544228
PTE	Portuguese escudo	236.3478	0.004231053
TRL	Turkish lira	1259000	0.000000794
FIM	Finnish markka	7.0094	0.142665563
FRF	French franc	7.7331	0.129314247
SEK	Swedish krona	10.8441	0.092216044
CHF	Swiss franc	1.7947	0.557196189
JPY	Japanese yen	124.3050	0.008044703
AZM	Azerbaijani manat	4648	0.000215146
AMD	Armenian dram	554.11	0.001804696
BYR	Byelorussian ruble	1380	0.000724638
KZT	Kazakh tenge	146.5	0.006825939
LVL	Latvian lats	0.639	1.564945227
LTL	Lithuanian litas	4	0.25
MDL	Moldavian lei	12.9102	0.077458134
RUR	Russian ruble	29.1098	0.034352692
TJS	Tajik somoni	2.35	0.425531915
UZS	Uzbek sum	375.77	0.002661202
UAH	Ukrainian hryvnia	5.3828	0.185776919
EEK	Estonian kroon	18.4458	0.054212883

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Supplementary Information

Prepared by European II and Policy Development and Review Departments
(In consultation with other departments)

Approved by Mohammad Shadman-Valavi and Michael Hadjimichael

June 27, 2002

1. This supplement reports on developments since the staff report (EBS/02/106) was issued, and on the implementation of the prior action for the completion of the first program review.
2. **The appointments to Prime Minister Tanaev's new cabinet have been completed.** The key economic ministers of the previous government (including the Minister of Finance and the Minister of Agriculture) retained their posts. A new post of Minister for Economic Development (without portfolio) was created to strengthen the government's economic policy making. New ministers to the Ministries of Interior, Trade and Industry, and Foreign Affairs were appointed.
3. **In the first five months of 2002, real GDP declined by 1.9 percent compared with the same period last year.** This decline was smaller than in the first four months (-2.3 percent) and consistent with the program projections. Excluding gold production, real GDP increased by 1.6 percent, up from 0.9 percent a month earlier. Prices continued to stabilize: the 12-month inflation rate fell to 0.1 in May 2002, from 0.8 percent at end-April. The nominal exchange rate has appreciated by 3 percent since end-April, 2002.
4. **The prior action on the regularization of the financial relations between the central bank (NBKR) and the Ministry of Finance has been observed.** The master agreement signed on June 21, 2002 is consistent with the recommendations of the Fund's Safeguard Assessment. In particular, long term government bonds held by the NBKR with no explicit maturity and interest rate will be replaced by a new series of treasury bills and medium term treasury bonds to be issued by the end of the NBKR's fiscal year (December 30, 2002). By October 31, 2002, the authorities will determine the detailed structure and terms of these securities in line with the recommendations of MAE technical assistance mission. This measure will almost double the stock of T-bills available to the NBKR for open market operations. In addition, the agreement ensures that the NBKR's capital will not be impaired as a result of the repayment of the government guaranteed loan to United Bank of Switzerland from the NBKR's pledged reserves.

5. **The FSAP process was started in May 2002.** Based on an in-depth analysis of the financial system, the August FSAP mission will focus on areas where reforms are necessary for the strengthening of the banking sector, including streamlining the judicial framework of bank supervision, a new business concept for the Savings and Settlements Corporation (which holds the bulk of household deposits), and further steps in restructuring the state-owned Kairat Bank.

Staff appraisal

6. As the prior action has been fully implemented and macroeconomic stabilization is advancing, the staff continues to support the completion of the first review under the PRGF.



FOR IMMEDIATE RELEASE

News Brief No. 02/58
FOR IMMEDIATE RELEASE
July 2, 2002

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

**IMF Completes First Review of the Kyrgyz Republic Under the
Three-Year Arrangement under the Poverty Reduction and Growth
Facility**

The Executive Board of the International Monetary Fund (IMF) completed the first review of the Kyrgyz Republic's economic performance under the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). Completion of this review entitles the Kyrgyz Republic to borrow an amount equivalent to SDR 11.72 million (about US\$16 million) under the arrangement.

The IMF's Executive Board approved the three-year arrangement on December 6, 2001 (see [Press Release No. 01/49](#)) for a total of SDR 73.4 million (about US\$98 million).

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty.

Following the discussion of the Executive Board, Eduardo Aninat, Deputy Managing Director, and Acting Chairman, said:

"The authorities should be commended for the favorable performance under the program supported by the Poverty Reduction and Growth

EXTERNAL RELATIONS DEPARTMENT

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Facility—in particular, the fiscal performance and the better-than-expected accumulation of foreign reserves. At the same time, political uncertainties have prevented the further broadening of the small tax base by expanding the VAT coverage within the agricultural sector. A stronger tax effort from current low levels will be essential to allow the government to finance poverty reduction programs without rekindling inflationary and balance of payment pressures.

“A cautious monetary stance has contributed to low inflation and declining currency substitution. While money growth has abated since the beginning of the year, the central bank should stand ready to mop up excess liquidity if any indications of price or exchange rate instability reappear. The recent agreement between the central bank and the Ministry of Finance to deepen the government securities market, and increase the volume of government paper available for open market operations is welcome.

“In the banking sector, the slow progress of reform is a source of concern and it would be important to formulate a comprehensive strategy—based on the results of the FSAP mission—to address the remaining weaknesses in this sector, including those related to the legal framework.

“The rescheduling agreement reached with the Paris Club will help improve the country’s prospects for growth and poverty alleviation, provided that the authorities implement their debt reduction strategy effectively. In particular, further fiscal consolidation will be needed to enhance the credibility of the debt strategy and to keep the program on track, and to assure a successful rescheduling of the debt stock.

“The pace of structural reform needs to be accelerated. In particular, it is essential to strengthen governance in order to improve the investment climate,” Mr. Aninat said.

**Statement by Roberto F. Cippà, Executive Director and Narynbek Davletov,
Assistant to the Executive Director for the Kyrgyz Republic
July 1, 2002**

1. On behalf of our Kyrgyz authorities, we would like to thank staff for the very useful discussions and assistance, and for preparing a comprehensive paper on the first review under the PRGF. Over the period of review, the Kyrgyz economy has continued to perform well, albeit in a difficult political environment. All quantitative performance criteria have been observed and conditionality on structural reforms was satisfied. Moreover, progress on the macroeconomic front is beginning to yield results in poverty reduction. Preliminary analysis indicates that poverty ratios have dropped since 1998, mainly reflecting growth in agriculture and the impact of the land reform of the mid-1990s.

2. As hoped for at our last Board discussion, the Economic Policy Council (EPC) has improved coordination and transparency of policy making. To further enhance the governance of public finances and strengthen economic policymaking, our authorities intend to modernize the Treasury and the Ministry of Finance along the lines proposed by the recent FAD technical assistance missions. They are also committed to strengthening governance in the financial sector, and the FSAP currently undertaken in the Kyrgyz Republic will provide important input for banking sector reform.

Recent Macroeconomic Developments

3. Real GDP grew by more than 5 percent in 2001, with growth driven by mining, agriculture, construction, and trade. However, in the first quarter of 2002 year-on-year growth turned negative, mainly due to a decrease in gold production. This development should only be temporary, and growth in 2002 is expected to be sufficiently close to program projections. Excluding Kumtor's gold production, real GDP increased by 0.9 percent in the first quarter.

4. Prices have continued to stabilize, allowing for a downward revision of the 2002 year-on-year inflation target from 7.5 percent to 4.1 percent. Nominal and real short-term interest rates have further declined while the nominal exchange rate remained stable, indicating increased confidence in the national currency. The current account deficit narrowed from 7.5 percent to 3.3 percent of GDP in 2001, partly due to lower imports associated with a decline in the Public Investment Program.

Fiscal Policy

5. The new tax measures introduced last year, stricter expenditure control, and better policy coordination allowed for a substantial fiscal adjustment. Total revenues rose by almost 2 percentage points of GDP, while total expenditures declined by 2.5 percentage points of GDP. The increase in the program's cash deficit by 0.2 percent of GDP in 2002 has been requested to ensure adequate social expenditures and pensions to compensate vulnerable groups for higher electricity tariffs, emergency outlays for a natural disaster in the south of

the country, and clearance of arrears on counterpart funding for the PIP and allowances for poor families.

6. Our authorities are fully aware of the importance of directing attention to medium-term revenue performance. They have agreed to adopt most measures identified by the two recent FAD's technical assistance missions for broadening the tax base and improving tax compliance to be implemented in the 2003 budget, however they have requested more time on the issue of extending the VAT to sales of agricultural products by producers whose turnover is above the VAT registration threshold. A study on the impact of such an extension on revenue, inflation, and poverty will be undertaken and brought for consideration of the EPC by end-September 2002. In cooperation with staff, the authorities will also conduct a review of the impact of Free Economic Zones on investment, tax revenue, and employment. Our authorities also agreed to restructure the Ministry of Finance in line with FAD recommendations and to review a proposal for establishing a new Revenue Agency under the Ministry of Finance.

Monetary Policy

7. The National Bank of Kyrgyz Republic (NBKR) has continued with an appropriately tight monetary policy stance, further consolidating the gains that have been made in disinflation and exchange rate stability. As a result, confidence in the national currency is increasing, accelerating the remonetization process in the economy. In consequence of the better-than-expected balance of payment outcome, the net international reserve target was exceeded by a significant amount. To maintain the increased reserve level, this overperformance has been incorporated in the end-September performance criteria.

8. The NBKR will refrain from foreign exchange interventions except for smoothing temporary fluctuations in the exchange rate. Efforts are being made to deepen the short-term government securities market to allow the NBKR to expand its open market operations. The regularization of financial relations between the NBKR and the Ministry of Finance, which follows the recommendations from MAE and of the Fund's safeguard assessment, contributes to this end.

Structural Policy

9. The Kyrgyz authorities agree with staff that structural reforms, and improving governance in particular, are key for economic growth and poverty reduction. All performance criteria and structural benchmarks have been met. Progress has also been made in the energy and in the banking sector, in privatization, and in improving governance, transparency, and accountability in the use of public resources.

10. As regards the banking sector, several initiatives are underway in order to strengthen the NBKR's regulatory and supervisory powers. A first FSAP mission was held in May and a second mission is planned for September. The authorities intend to draft a new strategy for banking sector reform based on the findings of the FSAP.

11. The macroeconomic framework of the PRGF program constitutes an integral part of our authorities' National Strategy for Poverty Reduction (NSPR), which is now in its final stage of completion. In order to address the concerns raised in the staff paper, efforts are currently undertaken, with the assistance of the World Bank, to improve poverty assessment data, prioritization, and cost policy options.

External Debt

12. Our authorities are grateful to the Fund and the Bank for their support in the negotiations with the Paris Club. Paris Club Creditors agreed to a nonconcessional flow rescheduling for 2002-4 on somewhat-better-than Houston terms. This agreement provides much-needed temporary relief from a heavy debt service burden. Moreover, a successful implementation of the current PRGF arrangement could further provide for debt stock relief, owing to a goodwill clause included in the agreement.