

Kyrgyz Republic: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; and Press Release on the Executive Board Consideration

In the context of the second review under the three-year arrangement under the Poverty Reduction and Growth Facility for the Kyrgyz Republic, the following documents have been released and are included in this package:

- the staff report for the Second 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 February 28, 2006, with the officials of the Kyrgyz Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 20, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Press Release summarizing the views of the Executive Board consideration of the staff report the completed the review.

The documents listed below have been or will be separately released.

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

*Also 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

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

Prepared by the Middle East and Central Asia Department
(in cooperation with other departments)

Approved by David Owen (MCD) and Michael Hadjimichael (PDR)

April 20, 2006

- The Kyrgyz Republic's three-year Poverty Reduction and Growth Facility arrangement in the amount of SDR 8.88 million (10 percent of quota) was approved on February 23, 2005 (IMF Country Report No. 05/119 dated March 2005). The first review was completed on October 24, 2005 (IMF Country Report No. 05/402 dated November 2005).
- Discussions for the second review under the arrangement were held in Bishkek during February 15–28, 2006. The mission met with President Bakiev, Prime Minister Kulov, Finance Minister Japarov, National Bank Chairman Sarbanov, other senior government officials, and representatives of civil society and the business community. The staff team consisted of Messrs. Neuhaus (head), Naseer, and Kumah, Ms. Funke (all MCD), Mr. Sadikov (PDR), and Mr. Skaarup (FAD). Mr. Mered (Resident Representative) assisted the mission. Mr. Zurbrügg (Executive Director for the Kyrgyz Republic) participated in the final policy discussions. The team cooperated with an overlapping World Bank mission.
- In the attached Letter of Intent and Memorandum of Economic Policies (Attachments I and II), which set out the economic program for 2006, the authorities request completion of the second review and revisions to the end-June monetary targets (relative to the levels set out at the first review). The authorities met all the performance criteria and structural benchmarks for end-December 2005.
- The authorities requested Highly Indebted Poor Country (HIPC) debt relief in a letter to Management dated March 23, 2006. The preliminary HIPC document will be circulated separately for consideration by the Executive Boards of the Fund and the World Bank.
- Relations with the IMF, World Bank, Asian Development Bank, and European Bank for Reconstruction and Development are summarized in Appendices I–IV. Fund technical assistance is described in Appendix V. The periodicity, availability, and quality of economic statistics are satisfactory (Appendix VI).
- The authorities have submitted a Poverty Reduction Strategy paper progress report to the Boards of the Fund and the World Bank. The report and the related Joint Staff Advisory Note will be posted on the Fund's external website.

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Executive Summary

The new government that has been in office since the March 2005 “Tulip Revolution” has broadly maintained political stability. Its relations with parliament have improved after the recent appointment of a new speaker.

Economic activity in 2005 was buffeted by the political upheaval and output growth fell short of expectations. While inflation remained low in 2005, it has edged up in recent months, to 6.7 percent in the 12-month ending February 2006. The authorities have, nonetheless, successfully maintained the Poverty Reduction and Growth Facility (PRGF) supported program on track and met all the quantitative and structural targets through end-December. The fiscal deficit, in particular, was lower than expected, as efforts to strengthen tax compliance to bear fruit.

The authorities’ program for 2006 builds on the country’s entrenched fiscal prudence and features a tightening in monetary policy and further reforms, so as to secure rapid sustained growth in a low-inflation environment. End-period inflation is targeted at 5.7 percent and real GDP growth at 5 percent, driven by a recovery in farm output and manufacturing, there will be a modest buildup in foreign reserves. A tax reform reducing the burden on labor and capital also is about to be finalized, and a new tax code has just been sent to parliament to underpin an overhaul in tax administration.

Structural reforms under the program will focus on financial sector development, public financial management, further measures to reduce the energy sector’s quasi-fiscal losses, and improvements in the business climate. In addition, the authorities are updating their poverty reduction strategy and will seek to improve the targeting and tracking of outlays for poverty alleviation. To bolster fiscal and external sustainability, the government’s has requested debt relief under the Highly Indebted Poor Country (HIPC) Initiative and, eventually, the Multilateral Debt Relief Initiative (MDRI).

The main immediate risks to the outlook come from political pressures for quick fixes or ad-hoc sectoral incentives that would be at odds with the program. Staff encourages the authorities to resist these pressures and to adhere steadfastly to the program, building on the recent establishment of an economic policy coordination council.

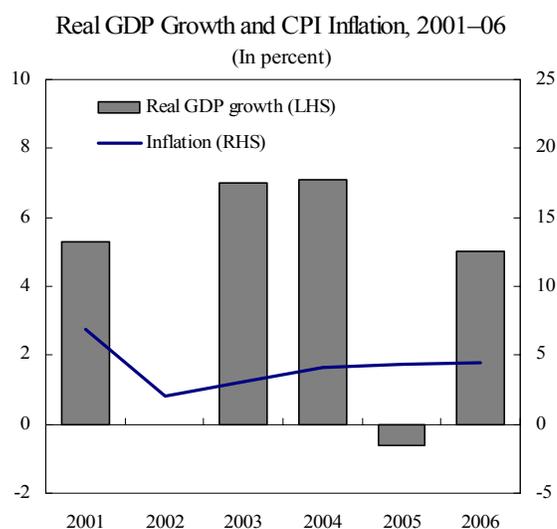
I. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. **The country's overarching development in 2005 was the March "Tulip Revolution," which culminated in the ouster of President Akayev and the election of President Bakiev in July for a five-year term.** The new government has broadly maintained political stability, but periodic tensions between the president and the prime minister, and between the government and parliament, have distracted the authorities and hampered passage of key legislation. Relations with parliament appear to have improved, however, after the appointment of a new speaker in March 2006. The central bank governor (Mr. Sarbanov), who is contesting charges of past irregularities, has been dismissed and on March 31, Mr. Marat Alapaiev, a private banker, was designated as new National Bank of the Kyrgyz Republic (NBKR) chairman.

2. **Against this backdrop, the authorities have succeeded in maintaining the Fund-supported program on track.** All end-December 2005 quantitative performance criteria (PCs) were met, in most cases by wide margins (Table 1). In particular, the primary fiscal balance before grants exceeded expectations, thanks to a drive to curb evasion and improve tax administration, which also made room for topping-up public expenditure; there are indications that tax receipts have remained strong in early 2006. Although energy tariffs have been frozen since 2002, the sector's quasi-fiscal deficit (QFD), an indicative target, declined as programmed in 2005, to 7.6 percent of GDP, helped by a rise in cash collections and a decline in losses. Nevertheless, the energy sector's financial imbalance and its dilapidated infrastructure remain a significant burden on the economy.

3. **All end-September and end-December structural benchmarks were also met on time.** Amendments to the civil code and to the central bank law geared toward improving central bank independence were sent to parliament. The NBKR increased the minimum own-funds requirement on banks to som 60 million (about \$1.5 million), and will increase it further to som 100 million by end-2007. The NBKR has also prepared an action plan to improve the payment system and foster financial intermediation.

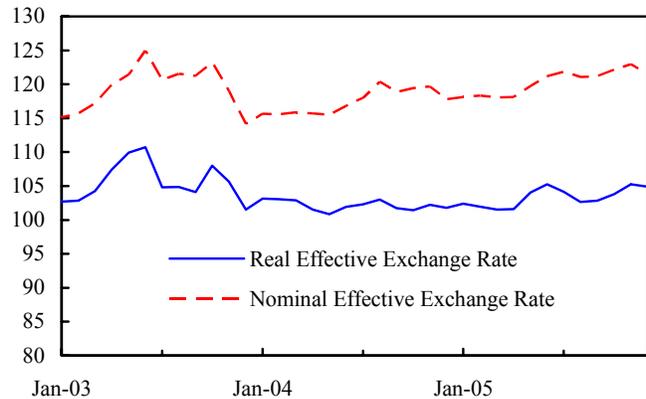
4. **Economic activity in 2005 was buffeted by the political upheaval.** Although a transitory drop in gold output had been anticipated before new mines come on stream, delays in planting cash crops and bad weather led to a shortfall in agricultural output. Moreover, manufacturing was depressed by the uncertain business climate. As a consequence, real GDP contracted slightly, instead of growing by 3 percent as programmed (Table 3). Preliminary data suggest that activity has begun to rebound in the first quarter of 2006.



Source: Kyrgyz authorities; and Fund staff projections.

5. **Inflation, while remaining low in 2005, has edged up in recent months**, to 6.7 percent in the 12 months ending March 2006. The shortfall in farm output just mentioned and increases in fuel prices seem to have been the driving factors, but an overrun in reserve money sparked by sizable unsterilized central bank intervention (to forestall an appreciation of the som) may also have played a part (Tables 9 and 10). In the event, the buildup in net international reserves was higher than expected, and by end-March 2006, gross reserves stood around \$590 million, or 4.4 months of projected 2006 imports of goods and services. The strong reserve buildup was driven by private capital inflows, as well as by higher remittances (sparked by buoyant incomes in Russia and Kazakhstan and an increase in Kyrgyz emigration) that partly offset a widening in the trade deficit.¹

Effective Exchange Rates,
January 2003–December 2005
(Index 2000=100)



Sources: Kyrgyz authorities; and Fund staff calculation.

1/ Effective exchange rate against the currencies of 20 major trading partners. An increase indicates appreciation.

II. POLICY DISCUSSIONS

6. **Discussions focused on economic policies for 2006, and touched on the government's longer-term goals and the need to strengthen policy coordination.** The outlook is for a rebound in real GDP growth to 5 percent in 2006, driven by recovery in farm output and manufacturing. The program also targets a modest buildup in foreign reserves and end-period inflation of 5.7 percent, and it envisages a narrowing in the external current account deficit to 6.8 percent of GDP resulting from a decline in the trade deficit and further growth in remittances. The officials stressed that they will maintain the entrenched fiscal prudence that has served the country well over the past several years, and will seek to expedite macro- and growth-critical reforms and poverty alleviation efforts. To help ensure long-term fiscal and external sustainability, the authorities have requested debt relief under the HIPC Initiative and, eventually, under the MDRI.

7. **To enhance policy coordination, the authorities have established an economic policy council (the "Coordination Council for Macroeconomic and Investment Policies") chaired by the prime minister and comprising the key economic ministers and the central bank governor.** The authorities plan to flesh out their reform agenda over the coming months, ahead of a consultative group meeting to be convened in Bishkek in the

¹ The larger trade deficit partly reflects a break in the import series, stemming from a broader coverage of shuttle trade under the new simplified customs procedures.

fall. Besides contacts with Fund staff, they have started a dialogue with other IFIs and bilateral donors on reforms in the energy and agricultural sectors, public administration, and infrastructure development. The government is keen on spurring economic growth to reduce unemployment and improve living standards, and to create sustainable fiscal space for priority outlays, it is intensifying domestic resource mobilization. The authorities recognize that rapid sustained growth in a low-inflation environment hinges on fostering productivity gains and lessening the dependence on gold exports, which are expected to taper off from 2013. Accordingly, they plan to improve the business climate and address other longstanding obstacles to growth.

Key Indicators, 2005–07

(Percent of GDP, unless otherwise specified)

	2005	2006	2007
Real GDP (percentage change)	-0.6	5.0	5.5
Inflation (eop, in percent)	4.9	5.7	4.5
External current account balance	-8.1	-6.8	-5.6
General government primary fiscal balance excluding grants	-2.8	-3.3	-2.9
Broad money growth (eop, in percent)	25.5	17.0	13.4
Investment ratio	21.8	22.6	23.0
Savings ratio	13.7	15.8	17.4

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

A. Fiscal and Quasi-Fiscal Issues

8. **To cushion the teething effects of changes in tax rates and in revenue administration, the authorities based the 2006 budget on a conservative revenue forecast.** In this vein, they capped expenditure at 27½ percent of GDP, noting they may ask for supplementary appropriations from parliament as revenues will likely over-perform during the year (Table 4).² Social spending is budgeted to increase slightly, including a ¾ percentage point of GDP employment and housing package and a ¼ percentage point social safety net associated with the unification of household electricity tariffs in April 2006. Given the nation’s vulnerability to natural disasters, originally budgeted outlays for emergency preparedness are being raised by 0.2 percent of GDP to permit imports of essential equipment. In all, the primary general government cash deficit excluding grants will be limited to 3.3 percent of GDP in 2006, and the overall cash deficit to 3.1 percent, entirely covered from external sources.

² The expenditure envelope reflects economies in interest payments equivalent to 0.5 percent of GDP beginning in 2006, as a result of bilateral agreements signed under the March 2005 Paris Club rescheduling.

9. **General government tax receipts programmed for this year take into account the revenue loss from a 2 percentage point reduction in the payroll tax rate from January; other changes in tax rates should be broadly revenue neutral.**³ Moreover, the authorities have just submitted a new tax code to parliament to underpin an overhaul in tax administration. In this vein, they will raise the coverage of the Large Taxpayer Unit to at least 60 percent of tax revenue (a structural benchmark for end-September 2006), from around 40 percent in 2005.

10. **The authorities were able to resist parliamentary pressures to lower the retirement age,** given the need to safeguard the finances of the Social Fund and make room for further cuts in the payroll tax to 25 percent over the medium term. They concurred with the staff's view that the pension system continues to face significant long-term challenges, and they intend to design a comprehensive pension reform strategy with World Bank assistance by spring 2007 (paragraph 12 of the Memorandum of Economic Policies (MEP)). To that end, a World Bank consultant has recently prepared a preliminary assessment of the current system.

11. **The government plans to introduce further improvements in expenditure management** (paragraph 13 of the MEP). An action plan for Public Financial Management reform is being drafted, in consultation with donors, focusing on steps to strengthen budget credibility and transparency and to enhance the tracking, monitoring, and reporting of poverty-related spending. Meanwhile, improvements in the budgetary process will build upon continued implementation of the three-year rolling medium-term budgetary framework, which will include a more precise definition of poverty-related spending.⁴ As part of the ongoing civil service reform, the number of ministries and other state bodies has been reduced, and the authorities intend to reduce civilian central government employment (currently estimated at 25,000 persons) by about 10 percent over the next two years. The government will also introduce performance-based competitive salaries for key personnel in 2006, while keeping the wage bill broadly constant relative to GDP over the medium term (paragraph 11 of the MEP).

12. **Energy sector reforms, which had stalled at the twilight of the previous regime (leading to World Bank disengagement from the sector), are now a priority in the administrations' agenda.** Accordingly, the authorities will formulate an action plan in close consultation with the World Bank to further reduce the energy sector's quasi-fiscal deficit in the coming years (paragraph 21 of the MEP).⁵ This will include measures to curb technical

³ The package, which is expected to be approved in the coming weeks retroactive to January 1, 2006, features cuts in corporate and personal income tax rates, and hikes in the rates of motor vehicle taxes and liquor excises (see EBS/05/145 and paragraph 10 of the MEP).

⁴ The authorities' Annual Report of the Kyrgyz National Poverty Reduction Strategy and the companion JSAN will be circulated separately.

⁵ These losses have apparently been financed over the years by allowing the sector's infrastructure to dilapidate and accumulating contingent government liabilities.

losses and theft; increase private participation in the distribution system through outright privatization or long-term concessions to improve the system's efficiency and bolster bill collections; and adjust power tariffs in a phased manner, starting in April 2006, to reach cost recovery levels by 2010. In all, the energy sector's QFD is slated to decline to 5.9 percent of GDP in 2006.

B. Monetary and Financial Sector Issues

13. **The NBKR has begun to tighten liquidity conditions, in light of the overrun in the growth of reserve money last year and the upturn in inflation in recent months.** The bank has largely refrained from unsterilized intervention since January 2006, and it will maintain the managed float of the exchange rate, limiting intervention to securing the programmed reserve buildup and smoothing exchange rate fluctuations. The NBKR has also started using its indirect monetary control instruments more actively to tighten liquidity conditions. Going forward, staff advised the authorities to allow for greater interest rate flexibility (since yields on short-term monetary instruments and government securities are currently negative in real terms), so as to meet the program's reserve money growth target for the year (14.5 percent) and help keep inflationary pressures in check. In light of the sizable foreign reserve buildup in 2005, the authorities have proposed revised end-June monetary targets (relative to the levels set out at the first review), raising the floor on the NIR and lowering the ceiling on the NDA of the NBKR; the end-2006 PCs were set in the same vein.

14. **The program features several measures to further strengthen the financial sector** (paragraphs 16–19 and Table 3 of the MEP). They focus on securing passage of the pending AML/CFT bills and legislative amendments to increase central bank independence; bolstering supervision; and fostering microfinance development, including by bringing the Kyrgyz Agricultural Finance Corporation to the point of sale by year's end. More generally, the NBKR has embarked on a medium-term banking sector development strategy with assistance from the Fund and the World Bank, especially to modernize the payment system (e.g., launching bulk-clearing of small retail and other regular payments, setting up a nationwide processing center for interbank clearing of plastic card based transactions, and establishing a *real time gross settlements* system) and to upgrade the accounting and internal controls of the central bank. Furthermore, the NBKR will continue to take preparatory steps to introduce a deposit insurance scheme by fall 2008 (it has already submitted enabling legislation to parliament), according to an action plan discussed with MFD that will be fine-tuned in light of the findings of the upcoming Financial Sector Assessment Program (FSAP) mission this summer.

C. Other Issues

15. **The Kyrgyz Republic needs to boost and diversify exports and foster private investment to achieve sustained economic growth.** The authorities recognized the need to create a market-friendly environment (e.g., by strengthening property rights and curbing red tape). They noted, nonetheless, the recurrent pressures they faced from vested interests that advocate an aggressive industrial policy (buttressed by tax breaks and credit subsidies) and a

larger government role in the financial sector, both of which could lead to resource misallocation, rent-seeking opportunities, or ballooning quasi-fiscal losses. The authorities indicated that recent upward revisions in proven gold reserves of the Kumtor mine have increased its lifetime by three years, while exports are being buoyed by high gold prices. They said that new investment in gold exploration is essential to increase production of smaller gold mines (thereby making up, at least partially, for the projected tapering off in output from Kumtor), and they also plan to spur development of other mineral deposits. This approach is endorsed by the IFIs involved in the mining sector, which also recommend supporting improvements in the regulatory framework, for example, to make licensing more agile and transparent. The authorities are also considering steps that could elicit IFI and donor support to foster energy exports to neighboring Asian countries (removing sectoral bottlenecks as a prerequisite) and other avenues to diversify the economy, for example, tapping into the country's promising tourist potential.⁶

16. The government is seeking to improve the coordination of labor market policies by consolidating responsibilities for the domestic labor market under the ministry of labor and social protection. While the new labor code introduced in 2004 has significantly eased labor market restrictions, this consolidation will equip the ministry to further assist in enhancing labor market flexibility (Box 1). Together with the envisaged economic recovery and planned future payroll tax cuts, these measures should ease unemployment and encourage legalization of the shadow economy over time.

Box 1. Labor Market Flexibility

- To underpin economic and social stability, the new administration attaches top priority to job creation, given the pervasive incidence of unemployment and under-employment in the country. The government has already cut payroll taxes (which it plans to reduce further over time), and included a job creation package in the 2006 budget.
- The 2004 reform of the labor code is widely seen as an important first step toward improving labor market flexibility, but more remains to be done.
- In this vein, the authorities will vest the ministry of labor and social protection with the responsibility for coordinating labor market policies, and they have tasked the ministry with preparation of a report by year's end (treated as a structural benchmark under the program), identifying lingering labor market rigidities, for example, in the areas of hiring and firing practices, mismatches in skills, and limited training opportunities. The report's recommendations will be subsequently implemented along with other measures to improve the business climate and spur private investment.

⁶ The World Bank and the Asian Development Bank, together with other donors (such as the United Kingdom's Department for International Development, the Swiss Agency for Development and Cooperation, and specialized UN agencies), have started working on a joint country assistance strategy for the Kyrgyz Republic, to be discussed by the authorities later this year.

17. **The authorities have requested debt relief under the HIPC Initiative's sunset clause, to be eventually followed by relief under the MDRI (Box 2).** The mission and an overlapping World Bank team made several presentations to senior officials on the HIPC and MDRI process and initiated exploratory discussions on broad areas that could be eventually fleshed out as HIPC completion point triggers. A preliminary HIPC paper that will be circulated separately for consideration by the IMF and IDA Boards will provide details of the envisaged HIPC Initiative assistance.

Box 2. Eligibility and Debt Relief under the Enhanced HIPC Initiative

The Kyrgyz Republic meets all the eligibility criteria for the enhanced HIPC Initiative. The country is IDA-only and PRGF-eligible and it has established a track record of reforms under IMF and IDA supported programs since October 1, 1996. In addition, its end-2004 NPV of debt-to-revenue ratio, after full application of the traditional debt relief mechanism, was 362 percent, exceeding the relevant HIPC threshold.¹ The Boards of the IMF and IDA have recently confirmed the Kyrgyz Republic's potential eligibility and included the country in the final list of countries potentially eligible for assistance under the extended sunset clause of the Initiative. Following internal discussions on the costs and benefits of seeking debt relief, including for future aid inflows, the authorities have decided to join the HIPC Initiative.

The envisaged assistance under the HIPC Initiative would contribute significantly to lowering the country's debt burden over the medium term. In stock terms, an estimated total assistance of \$397 million in end-2004 NPV terms would be required to bring the Kyrgyz Republic's debt-to-revenue ratio to the HIPC threshold of 250 percent. In nominal flow terms, HIPC assistance, including during the interim period, would amount roughly to \$450 million over the next 20 years. Annual debt service savings over the medium term would average \$37 million, lowering the debt service-to-revenue ratio by 6½ percentage points. A preliminary HIPC document that will be circulated separately for consideration by the IMF and IDA Boards will provide a detailed description of the assistance under the enhanced HIPC Initiative.

Upon reaching the Completion Point under the enhanced HIPC Initiative, the Kyrgyz Republic will also qualify for debt relief under the MDRI. At that time, all outstanding debt to the IMF (disbursed prior to end-2004) and to IDA (disbursed prior to end-2003) would be cancelled.

¹ In addition, the 3-year average exports and revenue-to-GDP ratios were 40.5 percent and 15.5 percent, respectively.

D. Risks to the Outlook

18. **Immediate risks to the outlook, sparked by heightened expectations since the revolution, come from political pressures for quick fixes or calls by vested interest for ill-conceived sectoral incentives.** Continued weaknesses in policy coordination could also complicate program implementation. These risks can be eased by clearly communicating government strategy, forging alliances with reform-minded political factions and civil society groups, and leveraging the newly-established economic policy council as an efficient tool to

bolster coordination. Until some of the remedies described earlier are in place, the country's narrow export base and its mountainous terrain will also keep it highly exposed to exogenous shocks. By contrast, the external debt relief the government is seeking would significantly improve the country's solvency and reduce its external vulnerability.⁷

III. STAFF APPRAISAL

19. Despite the economic dislocations and uncertainties caused by last year's revolution (evidenced by a small output contraction in 2005), the authorities have made a commendable effort to keep the PRGF-supported program on track and safeguard macroeconomic stability. All quantitative performance criteria for end-December 2005 were observed, in some cases with ample margins, and the strong revenue results, in particular, suggest that efforts to boost tax compliance are beginning to pay off. All end-September and end-December 2005 structural benchmarks were also met on time. Inflation has remained low, but edged up in recent months due in part to cost pressures, which the central bank was slow to counteract.

20. The authorities' economic program for 2006 targets a recovery in real GDP growth, end-period inflation of 5.7 percent and a modest foreign reserve buildup. To achieve these goals, they plan to maintain the entrenched fiscal prudence that has served the country well. In addition, they have introduced a tax reform easing the burden on labor and capital, and are seeking passage of a new tax code that should help modernize tax administration and encourage compliance.

21. The authorities have boldly resisted political pressures to lower the retirement age (which would have entailed serious fiscal consequences), and their commitment to formulate a comprehensive blueprint for pension reform by spring 2007 (with World Bank assistance) bodes well for putting the system on a sustainable longer-term footing. Meanwhile, prudent adjustments in pensions during the remainder of the program period would make room for further payroll tax cuts envisaged by the authorities to spur job creation.

22. The government's request for debt relief under the HIPC Initiative and, eventually, the MDRI, should help bolster fiscal and external sustainability. In the same vein, the authorities are embarked on reforms in public financial management that will, *inter alia*, improve the quality and tracking of public spending—including for poverty alleviation.

23. The authorities began to tighten liquidity conditions in early 2006 to help keep inflation in check, especially in light of recent and additional hikes in utility tariffs and in public sector salaries and pensions during the year. They are gradually raising interest rates on money market instruments and government securities, and would be advised to quickly move further toward positive real remuneration of these instruments. The NBKR is also taking important steps to strengthen supervision and foster financial deepening. To bolster the NBKR's effectiveness and credibility, every effort should be made to secure rapid

⁷ An updated debt sustainability analysis prepared jointly by the Fund and World Bank staff is included in the forthcoming preliminary HIPC paper.

approval of the pending legislation to strengthen central bank independence and the AML/CFT framework, despite pressures from some parliamentarians and vested interests. Furthermore, the government should rapidly clarify the role of the newly-established Agency for Financial Surveillance and Reporting to avoid an overlap with the responsibilities clearly established in the NBKR's charter.

24. Electricity sector quasi-fiscal losses declined as programmed in 2005, but the sector's imbalances continue to burden the economy. The priority given by the government to reviving energy sector reforms (which had stalled during the previous administration), in close cooperation with the World Bank, is encouraging—especially the commitment to gradually increase power tariffs toward cost-recovery levels by 2010. This needs to be backed by timely understandings with the Bank on the other pillars of the energy sector action plan (including on the methodology for periodically updating the underlying efficiency tariffs), for which the authorities expect to garner international support during the consultative group meeting planned later this year.

25. Achieving the rapid economic growth rates envisaged by the authorities in the coming years and diversifying exports hinges on a favorable investment climate and tangible progress in reducing corruption. In this vein, the authorities are urged to resist political and vested interest pressures for increasing government intervention in the economy and for granting ad-hoc tax and credit breaks, which could generate significant distortions and expand rent-seeking opportunities.

26. To conclude, the new government has shown determination to date in keeping the Fund-supported program on course, and has committed to continued macroeconomic prudence and appropriate reforms to enhance longer-term growth prospects. Support for these endeavors by the Fund and other donors, including through external debt relief and financial and technical support for high-quality spending of the added fiscal space, can help meet heightened expectations created by the new political configuration. For their part, the authorities need to steadfastly adhere to the program, improve economic policy coordination, and expedite macro and growth critical reforms. Overall, their economic program for 2006 and related broad strategy for the coming years provide a good platform for action on these fronts. On this basis, staff supports completion of the second review under the PRGF arrangement.

Table 1. Kyrgyz Republic: Quantitative Program Targets for 2005–06 1/

(In millions of soms, unless otherwise indicated; eop)

	2005					
	March	June	September	December		
	Benchmarks	PCs	Benchmarks	PCs		
	Actual	Actual	Prog.	Actual	Prog.	Actual
I. Performance criteria						
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars)	322	326	340	357	362	416
2. Ceiling on net domestic assets of the NBKR (eop stock)	-1,583	-1,486	-1,289	-1,647	-1,477	-1,943
3. Ceiling on cumulative primary deficit (excluding grants) of the general government	726	881	2,398	1,781	3,143	2,809
4. Cumulative floor on state government tax collections in cash	3,529	7,440	10,970	11,545	15,853	16,361
5. Ceiling on the stock of central government budget arrears	0	0	0	0	0	0
6. Ceiling on the stock of Social Fund pension arrears	0	0	0	0	0	0
7. Cumulative floor on payroll collections in cash of the Social Fund	1,198	2,386	3,228	3,597	4,461	4,912
8. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	0	0	0	0	0	0
9. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of less than one year (continuous, in millions of U.S. dollars)	0	0	0	0	0	0
10. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of one year or more (millions of U.S. dollars)	0	0	0	0	0	0
11. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	0	0
II. Indicative targets						
1. Ceiling on reserve money (eop stock)	12,603	12,765	12,894	13,885	13,624	15,466
2. Ceiling on the cumulative quasi-fiscal deficit of the electricity sector (in millions of som)	...	4,564	...	...	7,850	7,609
3. Ceiling on contracting or guaranteeing by the state government or NBKR of new concessional external debt (in millions of U.S. dollars) 2/						

(as specified in paragraph 30 of the TMU)

Table 1 (concluded). Kyrgyz Republic: Quantitative Program Targets for 2005–06 1/

(In millions of soms, unless otherwise indicated; eop)

	2006							
	March		June		September		December	
	Benchmarks		PCs		Benchmarks		PCs	
	IMF CR	IMF CR	IMF CR	IMF CR	IMF CR	IMF CR	IMF CR	IMF CR
No. 05/402	No. 05/402	Rev. Prog.	No. 05/402	Rev. Prog.	No. 05/402	Rev. Prog.	No. 05/402	Rev. Prog.
I. Performance criteria								
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars)	367	361	412	380	413	393	457	
2. Ceiling on net domestic assets of the NBKR (eop stock)	-1,566	-1,200	-1,752	-1,258	-1,413	-1,397	-1,469	
3. Ceiling on cumulative primary deficit (excluding grants) of the general government	1,099	1,377	1,377	2,619	2,541	3,234	3,701	
4. Cumulative floor on state government tax collections in cash	3,599	7,933	7,933	12,462	12,512	17,580	17,650	
5. Ceiling on the stock of central government budget arrears	0	0	0	0	0	0	0	
6. Ceiling on the stock of Social Fund pension arrears	0	0	0	0	0	0	0	
7. Cumulative floor on payroll collections in cash of the Social Fund	1,100	2,292	2,292	3,292	3,430	4,675	4,823	
8. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	0	0	0	0	0	0	0	
9. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of less than one year (continuous, in millions of U.S. dollars)	0	0	0	0	0	0	0	
10. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of one year or more (millions of U.S. dollars)	0	0	0	0	0	0	0	
11. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	0	0	0	
II. Indicative targets								
1. Ceiling on reserve money (eop stock)	13,750	13,850	15,549	14,596	15,905	15,000	17,708	
2. Ceiling on the cumulative quasi-fiscal deficit of the electricity sector (in millions of som)	...	3,910	3,745	...	...	7,110	6,509	
3. Ceiling on contracting or guaranteeing by the state government or NBKR of new concessional external debt (in millions of U.S. dollars) 2/								(as specified in paragraph 30 of the TMU)

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

1/ Definitions are provided in the Technical Memorandum of Understanding (TMU).

2/ New concessional loans during the year.

**Table 2. Kyrgyz Republic: Structural Conditionality
March–December 2006**

Structural benchmarks for end-March 2006

- Prepare, in close cooperation with the Fund staff, an action plan for the State Tax Inspectorate to streamline its operations, retrench redundant personnel, and introduce a merit-based pay system.

Structural benchmarks and performance criteria (*) for end-June 2006¹

- Develop a supervisory framework for market, country, and transfer risk as recommended by the September 2004 technical assistance mission of the IMF's Monetary and Financial Systems Department.
- Establish an independent audit committee to oversee the external and internal audit functions of the NBKR as recommended by the Safeguards Assessment Report conducted by Finance Department in 2005.
- The government will take the appropriate legal steps (accompanied by enabling regulations) to transfer the Centerra shares currently owned by KyrgyzAltyn JSC to the State Property Fund.*

Structural benchmarks for end-September 2006

- Prepare an action plan to reduce the energy sector's quasi-fiscal deficit in close cooperation with World Bank staff, addressing problems of transmission and distribution losses, payment indiscipline, and tariff adjustment.
- Expand the operation of the Large Taxpayers Unit to cover at least 60 percent of tax revenues.

Structural benchmarks for end-December 2006

- Conduct an independent review of the NBKR's internal audit function. The review could be performed by the internal audit department of another central bank, and should include a review of the capacity of the NBKR's internal audit division, as recommended by the Safeguards Assessment Report conducted by Finance Department in 2005.
- Bring KAFC to the point of sale and issue a privatization tender for the company.
- Submit to IMF staff a report prepared by the ministry of labor and social protection recommending measures to improve labor market flexibility.
- Secure approval of legislation that has been already sent to parliament to enhance the NBKR's legal independence and ensure legal protection of its employees in performing official duties.

¹ Actions labeled with an asterisk will be treated as structural performance criteria.

Table 3. Kyrgyz Republic: Selected Economic Indicators, 2003–07

	2003	2004	2005		2006		2007
	Actual	Actual	IMF CR No. 05/402	Actual	IMF CR No. 05/402	Rev. Prog.	Proj.
Nominal GDP (in billions of soms)	83.9	94.4	101.4	100.1	111.5	111.1	121.7
Nominal GDP (in millions of U.S. dollars)	1,921	2,216	2,414	2,441	2,655	2,646	2,898
Real GDP (growth in percent)	7.0	7.0	3.0	-0.6	5.0	5.0	5.5
GDP per capita (in U.S. dollars)	380	434	468	473	510	508	550
Consumer prices (percent change, eop)	5.6	2.8	4.7	4.9	4.5	5.7	4.5
Consumer prices (percent change, average)	3.1	4.1	4.3	4.3	4.5	5.7	4.5
Unemployment rate	8.9	9.0	...	...	...	...	...
Poverty rate (consumption approach)	50	46	...	...	...	...	...
GINI coefficient	0.33	0.33	...	...	...	...	...
Investment and savings							
Investment	20.5	20.9	21.6	21.8	22.2	22.6	23.0
Public	4.8	4.5	4.4	4.2	4.2	4.4	4.3
Private	15.8	16.4	17.2	17.6	18.0	18.2	18.8
Savings	16.4	17.5	17.2	13.7	17.5	15.8	17.4
Public	-0.9	-0.1	-0.7	-0.2	0.2	0.9	1.0
Private	17.3	17.6	17.8	14.0	17.3	14.9	16.4
Savings/Investment balance	4.1	3.4	4.4	8.1	4.7	6.8	5.6
General government finances (in percent of GDP) 1/							
Total revenue and grants	22.2	23.1	22.9	24.3	23.0	24.0	23.8
Tax revenue	17.7	18.3	18.9	20.2	18.8	19.2	19.4
Total expenditure (including net lending)	27.4	27.2	27.5	28.3	26.6	27.1	26.7
<i>Of which</i> : Current expenditure	23.1	23.2	23.5	24.5	22.8	23.1	22.9
Capital expenditure	4.8	4.5	4.4	4.2	4.2	4.4	4.3
Overall fiscal balance (cash basis)	-5.4	-4.1	-4.6	-4.0	-3.6	-3.1	-2.8
Primary balance excluding grants	-4.3	-3.5	-3.1	-2.8	-2.9	-3.3	-2.9
Banking sector 2/							
Net foreign assets (percent change, eop)	50.0	108.7	3.9	20.1	6.6	12.5	16.9
Net domestic assets (percent change, eop)	5.8	-52.3	73.2	54.5	39.4	35.4	1.4
Credit to private sector (in percent of GDP)	4.7	7.0	7.4	8.0	8.7	8.6	8.7
Broad money (percent change, eop)	34.5	33.6	15.4	25.5	14.8	17.0	13.4
Velocity of broad money 3/	6.0	5.6	4.5	4.7	4.4	4.4	4.3
Interest rate 4/	23.0	24.3	...	25.7	...	...	...
External sector							
Current account balance (in percent of GDP)	-4.1	-3.4	-4.4	-8.1	-4.7	-6.8	-5.6
Export of goods and services (million USD)	745	942	967	942	1,045	1,072	1,195
Export growth (percent change)	16.4	26.4	2.7	0.0	8.0	13.8	11.5
Import of goods and services (million USD)	875	1,135	1,265	1,421	1,401	1,607	1,739
Import growth (percent change)	15.7	29.7	11.4	25.1	10.7	13.1	8.2
Gross official reserves (million USD) 5/	359	544	544	609	557	627	676
Gross reserves (months of imports, eop)	3.8	4.6	4.7	4.5	4.6	4.4	4.3
External public debt outstanding (in percent of GDP) 6/	95	88	83	82	78	78	73
Debt service-to-export ratio (in percent) 6/	7.7	6.3	6.2	7.1	5.7	5.6	5.0
Memorandum items							
Exchange rate (soms per U.S. dollar, average)	43.7	42.6	...	41.0	...	...	...
Real effective exchange rate							
Index (1995=100)	73.7	71.4	...	72.1	...	...	...

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

1/ General government comprises state government and Social Fund finances. State government comprises central and local governments.

2/ Projections are based on program exchange rates (including som 42 per dollar) specified in the TMU.

3/ 12-month GDP over end-period broad money.

4/ Weighted average interest rate on som denominated loans.

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

6/ Excluding Kumtor gold mine.

Table 4. Kyrgyz Republic: Summary of General Government Fiscal Operations, 2004–07

	2004		2005			
	Act.		IMF Country Report 05/402		Act.	
	Million of soms	Percent of GDP	Million of soms	Percent of GDP	Million of soms	Percent of GDP
Total revenue and grants	21,756	23.1	23,191	22.9	24,286	24.3
Total revenue	21,016	22.3	22,970	22.7	23,883	23.9
Current revenue	20,699	21.9	22,859	22.5	23,750	23.7
Tax revenue 1/	17,280	18.3	19,162	18.9	20,182	20.2
Income tax	2,636	2.8	3,098	3.1	3,516	3.5
VAT	6,830	7.2	7,100	7.0	7,089	7.1
Excises	1,245	1.3	1,318	1.3	1,150	1.1
Customs	449	0.5	1,362	1.3	1,664	1.7
Land tax	335	0.4	376	0.4	319	0.3
Road tax and Emergency Fund	1,270	1.3	1,443	1.4	1,410	1.4
Retail sales tax	548	0.6	586	0.6	605	0.6
Social Fund revenue (excluding government contribution)	3,293	3.5	3,309	3.3	3,821	3.8
Other	673	0.7	569	0.6	610	0.6
Nontax revenue	3,419	3.6	3,697	3.6	3,568	3.6
Capital revenue	318	0.3	111	0.1	133	0.1
Grants	740	0.8	222	0.2	403	0.4
Total expenditure	26,076	27.6	28,304	27.9	28,735	28.7
Current expenditure	21,847	23.2	23,858	23.5	24,535	24.5
Wages	5,487	5.8	6,534	6.4	6,329	6.3
Transfers and subsidies 2/	2,879	3.1	3,017	3.0	3,409	3.4
Social Fund expenditures	5,413	5.7	5,549	5.5	5,664	5.7
Interest 3/	1,290	1.4	1,740	1.7	1,592	1.6
Purchases of other goods and services	6,778	7.2	7,017	6.9	7,541	7.5
Capital expenditure (including PIP)	4,229	4.5	4,447	4.4	4,201	4.2
Domestically financed capital expenditure	1,042	1.1	1,121	1.1	961	1.0
<i>Of which: additional emergency preparedness</i>	...	...	...	...	...	...
Foreign-financed PIP	3,187	3.4	3,326	3.3	3,240	3.2
Financial balance	-4,320	-4.6	-5,113	-5.0	-4,449	-4.4
Net lending	-439	-0.5	-451	-0.4	-451	-0.5
Accrual surplus (+) / deficit (-)	-3,881	-4.1	-4,662	-4.6	-3,998	-4.0
Cash surplus (+) / deficit (-)	-3,895	-4.1	-4,662	-4.6	-3,998	-4.0
Primary balance excluding grants	-3,344	-3.5	-3,143	-3.1	-2,809	-2.8
Total financing	3,895	4.1	4,662	4.6	3,998	4.0
External financing	4,689	5.0	3,886	3.8	3,708	3.7
Public investment program (PIP)	3,187	3.4	3,326	3.3	3,240	3.2
Disbursements (BOP support)	1,250	1.3	210	0.2	0	0.0
Total amortization	-1,618	-1.7	-1,750	-1.7	-1,845	-1.8
External arrears and debt relief	1,871	2.0	2,100	2.1	2,313	2.3
Domestic financing	-4,595	-4.9	707	0.7	129	0.1
Exceptional Financing 4/	3,801	4.0	69	0.1	161	0.2
Memorandum item:						
Social spending	13,216	14.0	15,349	15.1	14,646	14.6

Table 4 (concluded). Kyrgyz Republic: Summary of General Government Fiscal Operations, 2004–07

	2006				2007	
	IMF Country Report 05/402		Rev. Prog.		Proj.	
	Million of soms	Percent of GDP	Million of soms	Percent of GDP	Million of soms	Percent of GDP
Total revenue and grants	25,688	23.0	26,672	24.0	29,126	23.8
Total revenue	24,820	22.3	25,517	23.0	27,992	22.9
Current revenue	24,698	22.2	25,366	22.8	27,817	22.8
Tax revenue 1/	21,005	18.8	21,352	19.2	23,649	19.4
Income tax	3,102	2.8	3,065	2.8	3,343.3	2.7
VAT	7,956	7.1	7,721	6.9	8,686	7.1
Excises	1,480	1.3	1,379	1.2	1,485	1.2
Customs	1,600	1.4	1,978	1.8	2,242	1.8
Land tax	616	0.6	559	0.5	565	0.5
Road tax and Emergency Fund	1,520	1.4	1,550	1.4	1,680	1.4
Retail sales tax	652	0.6	675	0.6	728	0.6
Social Fund revenue (excluding government contribution)	3,426	3.1	3,703	3.3	4,060	3.3
Other	653	0.6	724	0.7	861	0.7
Nontax revenue	3,693	3.3	4,014	3.6	4,169	3.4
Capital revenue	122	0.1	151	0.1	174	0.1
Grants	868	0.8	1,155	1.0	1,134	0.9
Total expenditure	30,113	27.0	30,500	27.4	33,155	27.1
Current expenditure	25,416	22.8	25,650	23.1	27,958	22.9
Wages	7,137	6.4	6,981	6.3	7,679	6.3
Transfers and subsidies 2/	3,496	3.1	4,173	3.8	4,626	3.8
Social Fund expenditures	5,982	5.4	6,062	5.5	6,497	5.3
Interest 3/	1,599	1.4	928	0.8	1,024	0.8
Purchases of other goods and services	7,202	6.5	7,506	6.8	8,132	6.7
Capital expenditure (including PIP)	4,697	4.2	4,850	4.4	5,197	4.3
Domestically financed capital expenditure	1,352	1.2	1,393	1.3	1,532	1.3
Of which: additional emergency preparedness	...	...	210	0.2	...	...
Foreign-financed PIP	3,345	3.0	3,457	3.1	3,665	3.0
Financial balance	-4,425	-4.0	-3,828	-3.4	-4,030	-3.3
Net lending	-461	-0.4	-354	-0.3	-574	-0.5
Accrual surplus (+) / deficit (-)	-3,964	-3.6	-3,473	-3.1	-3,455	-2.8
Cash surplus (+) / deficit (-)	-3,964	-3.6	-3,473	-3.1	-3,455	-2.8
Primary balance excluding grants	-3,234	-2.9	-3,701	-3.3	-3,566	-2.9
Total financing	3,964	3.6	3,473	3.1	3,455	2.8
External financing	3,920	3.5	3,681	3.3	3,384	2.8
Public investment program (PIP)	3,345	3.0	3,457	3.1	3,665	3.0
Disbursements (BOP support)	420	0.4	748	0.7	342	0.3
Total amortization	-1,999	-1.8	-523	-0.5	-624	-0.5
External arrears and debt relief	2,153	1.9	0	0.0	0	0.0
Domestic financing	-165	-0.1	-495	-0.4	-239	-0.2
Exceptional Financing 4/	210	0.2	287	0.3	310	0.3
Memorandum item:						
Social spending	17,327	15.5	16,689	15.0	18,801	15.4

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

1/ Includes payroll tax revenue (contribution to the Social Fund), net of the government contribution to the Social Fund.

2/ Excludes transfer to Social Fund.

3/ Starting in 2006, interest and amortization reflect bilateral agreements signed following March 2005 Paris Club agreement.

4/ Mainly privatization proceeds.

Table 6. Kyrgyz Republic: State Government Finances, 2004–07

(In millions of soms)

	2004 Act.	2006											
		2005		1Q		2Q		3Q		4Q		Year	
		Prog.	Act.	Prog.	Rev.	Prog.	Rev.	Prog.	Rev.	Prog.	Rev.	Prog.	Rev.
Total revenue and grants	18,360	19,802	20,379	4,520	5,272	5,745	5,719	5,752	6,669	7,129	22,179	22,886	24,966
Total revenue	17,620	19,581	19,975	4,308	5,272	5,379	5,483	5,647	6,249	6,446	21,311	21,731	23,832
Current revenue	17,405	19,550	19,929	4,306	5,265	5,366	5,465	5,616	6,237	6,425	21,273	21,663	23,758
Tax revenue	13,987	15,853	16,361	3,599	4,334	4,334	4,529	4,579	5,117	5,137	17,580	17,650	19,589
Of which: Income tax	2,636	3,098	3,516	767	656	677	720	733	960	919	3,102	3,065	3,343
VAT 1/	6,830	7,100	7,089	1,513	2,076	1,974	2,003	1,946	2,365	2,301	7,956	7,721	8,686
Excises	1,245	1,318	1,150	349	369	343	385	359	377	353	1,480	1,379	1,485
Customs	449	1,362	1,664	302	372	460	419	518	506	626	1,600	1,978	2,242
Nontax revenue	3,419	3,697	3,568	707	930	1,032	936	1,036	1,120	1,288	3,693	4,014	4,169
Capital revenue	215	31	46	2	7	13	18	31	12	21	38	68	75
Grants	740	222	403	212	0	367	236	105	420	684	868	1,155	1,134
Total expenditure (excluding net lending)	22,804	24,903	25,209	5,626	6,417	6,248	6,778	7,048	7,713	8,030	26,535	26,645	28,961
Current expenditure	18,575	20,457	21,008	4,703	5,160	4,949	5,467	5,806	6,507	6,678	21,838	21,795	23,764
Wages and Social Fund contributions	6,538	7,706	7,484	1,425	2,162	2,066	2,632	2,180	2,137	2,610	8,355	8,150	8,891
Transfers and subsidies 2/	2,879	3,017	3,409	866	800	922	810	1,182	1,020	1,369	3,496	4,173	4,626
Transfers to Social Fund	1,090	976	982	296	296	260	297	260	260	260	1,186	1,038	1,091
Interest	1,290	1,740	1,592	150	730	397	160	146	559	241	1,599	928	1,024
Purchases of other goods and services 3/	6,778	7,017	7,541	1,967	1,173	1,304	1,568	2,037	2,494	2,198	7,202	7,506	8,132
Capital expenditure (including PIP)	4,229	4,447	4,201	923	1,257	1,299	1,311	1,242	1,206	1,352	4,697	4,850	5,197
Domestically financed capital expenditure	1,042	1,121	961	225	359	424	347	303	422	391	1,352	1,393	1,532
Of which: additional emergency preparedness	...	...	...	...	...	...	...	...	...	...	...	...	...
Foreign-financed PIP	3,187	3,326	3,240	698	898	875	964	940	784	962	3,345	3,457	3,665
Financial balance	-4,445	-5,101	-4,830	-1,107	-1,146	-502	-1,060	-1,296	-1,044	-901	-4,356	-3,759	-3,995
Net lending	-439	-451	-451	-79	-117	-205	-105	-196	-160	-113	-461	-354	-574
Accrual surplus (+) / deficit (-)	-4,006	-4,650	-4,379	-1,027	-1,029	-297	-955	-1,100	-884	-788	-3,895	-3,404	-3,421
Cash surplus (+) / deficit (-)	-4,019	-4,650	-4,379	-1,027	-1,029	-297	-955	-1,100	-884	-788	-3,895	-3,404	-3,421
Primary balance excluding grants	-3,468	-3,132	-3,190	-1,089	-299	-267	-1,031	-1,059	-746	-1,231	-3,165	-3,632	-3,531
Total financing	4,019	4,650	4,379	1,027	1,029	297	955	1,100	884	788	3,895	3,404	3,421
External financing	4,689	3,886	3,708	648	1,067	711	1,305	846	900	1,173	3,920	3,681	3,384
Public investment program (PIP)	3,187	3,326	3,240	698	898	875	964	940	784	962	3,345	3,457	3,665
Disbursements (BOP support)	1,250	210	0	0	0	0	420	0	0	420	420	748	342
Total amortization	-1,618	-1,750	-1,845	-231	-704	-163	-267	-93	-796	-208	-1,999	-523	-624
Arrears and rescheduling	1,871	2,100	2,313	181	874	0	187	0	912	0	2,153	0	0
Domestic financing	-4,472	695	509	354	-63	-434	-375	129	-150	-509	-234	-564	-273
Exceptional Financing 4/	3,801	69	161	25	25	19	25	124	134	124	210	287	310

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

1/ In 2005, the VAT and customs revenues were reclassified, leading to lower VAT and higher customs duty collections.

2/ Excludes transfer to Social Fund (columns for original program include transfer to Social Fund).

3/ Includes carry-forward expenditure from previous fiscal year (som 994 million in 2004, som 945 million in 2005, and som 480 million in 2006).

4/ Mainly privatization proceeds. Includes som 3,589 million related to the Kumtor mine restructuring for 2004.

Table 6 (concluded). Kyrgyz Republic: State Government Finances, 2004-07
(In percent of GDP)

	2004		2005		2006				2007								
	Act.	Prog.	Act.	Prog.	1Q		2Q		3Q		4Q		Year	Rev.	Prog.	Rev.	Prog.
					Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.						Prog.	Act.	Prog.
Total revenue and grants	19.5	19.5	20.4	4.1	4.7	5.2	5.1	5.2	6.0	6.4	19.9	20.6	20.4	19.5			
Total revenue	18.7	19.3	20.0	3.9	4.7	4.8	4.9	5.1	5.6	5.8	19.1	19.6	19.5				
Current revenue	18.4	19.3	19.9	3.9	4.7	4.8	4.9	5.1	5.6	5.8	19.1	19.6	19.4				
Tax revenue	14.8	15.6	16.3	3.2	3.9	3.9	4.1	4.1	4.6	4.6	15.8	15.9	16.0				
<i>Of which:</i> Income tax	2.8	3.1	3.5	0.7	0.6	0.6	0.6	0.7	0.9	0.8	2.8	2.8	2.7				
VAT 1/	7.2	7.0	7.1	1.4	1.9	1.8	1.8	1.8	2.1	2.1	7.1	6.9	7.1				
Excises	1.3	1.3	1.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.3	1.2	1.2				
Customs	0.5	1.3	1.7	0.3	0.3	0.4	0.4	0.5	0.5	0.6	1.4	1.8	1.8				
Nontax revenue	3.6	3.6	3.6	0.6	0.8	0.9	0.8	0.9	1.0	1.2	3.3	3.6	3.4				
Capital revenue	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1				
Grants	0.8	0.2	0.4	0.2	0.0	0.3	0.2	0.1	0.4	0.6	0.8	1.0	0.9				
Total expenditure (excluding net lending)	24.2	24.6	25.2	5.0	5.8	5.6	6.1	6.3	6.9	7.2	23.8	24.0	23.7				
Current expenditure	19.7	20.2	21.0	4.2	4.6	4.5	4.9	5.2	5.8	6.0	19.6	19.6	19.5				
Wages and Social Fund contributions	6.9	7.6	7.5	1.3	1.9	1.9	2.4	2.0	1.9	2.3	7.5	7.3	7.3				
Transfers and subsidies 2/	3.1	3.0	3.4	0.8	0.7	0.8	0.7	1.1	0.9	1.2	3.1	3.8	3.8				
Transfers to Social Fund	1.2	1.0	1.0	0.3	0.3	0.2	0.3	0.2	0.3	0.2	1.1	0.9	0.9				
Interest	1.4	1.7	1.6	0.1	0.7	0.4	0.1	0.1	0.5	0.2	1.4	0.8	0.8				
Purchases of other goods and services 3/	7.2	6.9	7.5	1.8	1.1	1.2	1.4	1.8	2.2	2.0	6.5	6.8	6.7				
Capital expenditure (including PIP)	4.5	4.4	4.2	0.8	1.1	1.2	1.2	1.1	1.1	1.2	4.2	4.4	4.3				
Domestically financed capital expenditure	1.1	1.1	1.0	0.2	0.3	0.4	0.3	0.3	0.4	0.4	1.2	1.3	1.3				
<i>Of which:</i> additional emergency preparedness	...	...	...	...	...	...	...	...	...	...	0.0	0.2	...
Foreign-financed PIP	3.4	3.3	3.2	0.6	0.8	0.8	0.9	0.8	0.7	0.9	3.0	3.1	3.0				
Financial balance	-4.7	-5.0	-4.8	-1.0	-1.0	-0.5	-1.0	-1.2	-0.9	-0.8	-3.9	-3.4	-3.3				
Net lending	-0.5	-0.4	-0.5	-0.1	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.4	-0.3	-0.5				
Accrual surplus (+) / deficit (-)	-4.2	-4.6	-4.4	-0.9	-0.9	-0.3	-0.9	-1.0	-0.8	-0.7	-3.5	-3.1	-2.8				
Cash surplus (+) / deficit (-)	-4.3	-4.6	-4.4	-0.9	-0.9	-0.3	-0.9	-1.0	-0.8	-0.7	-3.5	-3.1	-2.8				
Primary balance excluding grants	-3.7	-3.1	-3.2	-1.0	-0.3	-0.2	-0.9	-1.0	-0.7	-1.1	-2.8	-3.3	-2.9				
Total financing	4.3	4.6	4.4	0.9	0.9	0.3	0.9	1.0	0.8	0.7	3.5	3.1	2.8				
External financing	5.0	3.8	3.7	0.6	1.0	0.6	1.2	0.8	0.8	1.1	3.5	3.3	2.8				
Public investment program (PIP)	3.4	3.3	3.2	0.6	0.8	0.8	0.9	0.8	0.7	0.9	3.0	3.1	3.0				
Disbursements (BOP support)	1.3	0.2	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.4	0.4	0.7	0.3				
Total amortization	-1.7	-1.7	-1.8	-0.2	-0.6	-0.1	-0.2	-0.1	-0.7	-0.2	-1.8	-0.5	-0.5				
Arrears and rescheduling	2.0	2.1	2.3	0.2	0.8	0.0	0.2	0.0	0.8	0.0	1.9	0.0	0.0				
Domestic financing	-4.7	0.7	0.5	0.3	-0.1	-0.4	-0.3	0.1	-0.1	-0.5	-0.2	-0.5	-0.2				
Exceptional financing 4/	4.0	0.1	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.3	0.3				
Memorandum items:																	
Primary balance	-3.7	-2.9	-3.2	-0.8	-0.6	-0.2	-0.7	-1.0	-0.6	-1.1	-2.1	-3.3	-2.9				
Domestic balance 5/	0.1	-0.1	0.1	-0.2	0.3	0.7	0.1	0.0	0.3	0.3	0.6	0.5	0.7				
Underlying balance 6/	-1.2	-0.5	-0.7	-0.5	0.1	0.4	-0.2	-0.2	-0.4	-0.4	-0.3	-0.6	-0.6				

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

1/ In 2005, the VAT and customs revenues were reclassified, leading to lower VAT and higher customs duty collections.

2/ Excludes transfer to Social Fund (columns for original program include transfer to Social Fund)

3/ Includes carry-forward expenditure from previous fiscal year (1.1 percent of GDP in 2004, 0.9 percent of GDP in 2005 and 0.4 percent of GDP in 2006).

4/ Mainly privatization proceeds. Includes som 3,589 million related to the Kumtor mine restructuring for 2004.

5/ Overall balance (in cash) excluding foreign financed PIP and foreign interest payments.

6/ Primary balance excluding gold projects, grant and foreign financed PIP.

Table 7. Kyrgyz Republic: Social Fund Operations, 2004-07

	2006												2007							
	2004			2005			1Q			2Q			3Q			4Q			Year	
	Act.	Prog.	Rev.	Act.	Prog.	Rev.	Prog.	Prog.	Rev.	Prog.										
	(In millions of soms)																			
Total revenue	4,448	4,633	5,063	1,143	1,237	1,225	1,041	1,170	1,384	1,428	1,428	1,384	1,428	1,428	1,428	1,428	1,428	4,806	4,955	5,372
Total contribution	4,344	4,553	4,976	1,122	1,216	1,204	1,020	1,150	1,363	1,407	1,407	1,363	1,407	1,407	1,407	1,407	1,407	4,722	4,872	5,272
Contribution from government	1,051	1,244	1,156	307	320	311	316	237	354	409	409	354	409	409	409	409	409	1,297	1,169	1,212
Contribution from nongovernment	3,293	3,309	3,821	815	896	893	704	912	1,009	998	998	1,009	998	998	998	998	998	3,426	3,703	4,060
Other revenue	103	80	87	21	21	21	21	21	21	21	21	21	21	21	21	21	21	84	83	100
Total expenditure	5,413	5,621	5,664	1,449	1,512	1,495	1,550	1,536	1,550	1,616	1,616	1,550	1,616	1,616	1,616	1,616	1,616	6,061	6,062	6,497
Pension fund (cash)	4,926	5,326	5,330	1,382	1,445	1,428	1,483	1,469	1,483	1,549	1,549	1,483	1,549	1,549	1,549	1,549	1,549	5,793	5,794	6,211
Social insurance fund (cash)	158	67	79	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Employment fund (cash)	112	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Medical insurance fund (cash)	219	227	254	67	67	67	67	67	67	67	67	67	67	67	67	67	67	268	268	287
Net accumulation of arrears	-1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial balance	-965	-988	-601	-306	-274	-271	-508	-366	-166	-188	-188	-166	-188	-188	-188	-188	-188	-1,255	-1,107	-1,126
Budgetary transfer	1,090	976	982	296	296	260	297	260	297	260	260	297	260	260	260	260	260	1,186	1,038	1,091
Overall balance	124	-12	381	-10	21	-11	-211	-106	131	71	71	131	71	71	71	71	71	-69	-69	-35
	(In percent of GDP)																			
Total revenue	4.7	4.6	5.1	1.0	1.1	1.1	0.9	1.1	1.2	1.3	1.3	1.2	1.3	1.3	1.3	1.3	1.3	4.3	4.5	4.4
Total contribution	4.6	4.5	5.0	1.0	1.1	1.1	0.9	1.0	1.2	1.3	1.3	1.2	1.3	1.3	1.3	1.3	1.3	4.2	4.4	4.3
Contribution from government	1.1	1.2	1.2	0.3	0.3	0.3	0.3	0.2	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4	1.2	1.1	1.0
Contribution from nongovernment	3.5	3.3	3.8	0.7	0.8	0.8	0.6	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	3.1	3.3	3.3
Other revenue	0.1	0.1	0.1	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	0.1	0.1	0.1
Total expenditure	5.7	5.5	5.7	1.3	1.4	1.3	1.4	1.4	1.4	1.5	1.5	1.4	1.5	1.5	1.5	1.5	1.5	5.4	5.5	5.3
Pension fund (cash)	5.2	5.3	5.3	1.2	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.4	5.2	5.2	5.1
Social insurance fund (cash)	0.2	0.1	0.1	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	0.0	0.0
Employment fund (cash)	0.1	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	0.0	0.0	0.0	0.0
Medical insurance fund (cash)	0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Net accumulation of 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	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.0	-1.0	-0.6	-0.3	-0.2	-0.2	-0.5	-0.3	-0.1	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-1.1	-1.0	-0.9
Budgetary transfer	1.2	1.0	1.0	0.3	0.3	0.2	0.3	0.2	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	1.1	0.9	0.9
Cash balance	0.1	0.0	0.4	0.0	0.0	0.0	-0.2	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.1	-0.1	0.0
Memorandum items:																				
Average monthly pension (in som; end of period) 1/	727	780	787	814	870	854	870	876	870	876	876	870	876	876	876	876	876	870	876	929
Payroll tax rate	33	31	31	29	29	29	29	29	29	29	29	29	29	29	29	29	29	29	29	27

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

1/ Includes payments to compensate vulnerable households for electricity tariff increases introduced in June 2002.

Table 8. Kyrgyz Republic: Medium-Term Expenditure Framework for General Government
by Functional Classification, 2004–08

	2004		2005		2006		2007	2008
	Act.	Prog.	Act.	Prog.	Prog.	Rev. Prog.	Proj.	
Total expenditure 1/	27.2	27.5	28.3	26.6	27.1	26.7	26.7	26.7
I. General public services	3.3	2.3	3.0	2.0	2.7	2.5	2.5	2.5
II. Defense	1.5	1.2	1.4	1.1	1.3	1.2	1.2	1.2
III. Public order and safety affairs	1.3	1.0	1.7	0.9	1.5	1.4	1.4	1.4
IV. Social spending	14.0	15.1	14.6	15.5	15.0	15.4	15.4	15.7
Education	4.6	4.5	4.9	4.7	5.0	5.1	5.1	5.2
V. Health	2.0	2.4	2.3	2.5	2.5	2.7	2.7	2.9
VI. Social security and welfare affairs 2/	2.1	3.0	2.1	3.1	2.3	2.5	2.5	2.6
VII. Pension fund 3/	5.2	5.3	5.3	5.2	5.2	5.1	5.1	5.0
VIII. Housing and community services	1.1	1.2	1.0	1.1	0.9	0.9	0.9	0.8
IX. Recreational, cultural and religious activities	0.6	0.4	0.6	0.4	0.5	0.5	0.5	0.5
X. Energy complex (electricity production)	0.2	0.4	0.2	0.4	0.2	0.2	0.2	0.2
XI. Agriculture, water resources, forestry	2.2	2.1	2.1	1.9	1.9	1.7	1.7	1.7
XII. Mining and mineral resources	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.2
XIII. Transportation and communication	2.0	2.0	1.8	1.8	1.6	1.5	1.5	1.5
XIV. Other economic affairs and services	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6
XV. Other (including net lending)	-0.1	0.7	0.6	0.6	0.5	0.5	0.5	0.5

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

1/ Including PIP and net lending.

2/ Excluding net transfer to the Social Fund, but including the contingency item for social compensation in case of electricity tariff increases.

3/ Social Fund operations net of transfers to other funds.

Table 9. Kyrgyz Republic: NBKR Accounts, 2004–06 1/

	2005						
	2004	Mar.	Jun.	Sep.		Dec.	
	Act.	Act.	Act.	Prog.	Act.	Prog.	Act.
(Annual percent change)							
Net foreign assets	85.7	107.1	111.7	10.7	22.7	5.5	24.2
Net domestic assets	-97.6	-87.6	-87.0	196.9	87.1	522.2	108.9
Net claims on general government	-91.6	-80.9	-79.8	97.6	203.3	71.3	182.6
Claims on rest of the economy	60.1	420.0	129.9	96.2	-6.9	75.3	-27.3
Reserve money	22.9	21.5	18.3	15.4	24.3	10.1	24.9
Currency in circulation	19.4	21.7	16.2	...	22.1	...	20.5
Commercial banks' reserves and other balances	111.4	81.9	136.3	...	178.0	...	114.9
(Annual change relative to lagged reserve money, in percent)							
Net foreign assets	66.7	50.3	51.6	9.4	19.9	5.4	24.0
Net domestic assets	-43.8	-32.3	-35.6	4.5	2.0	4.6	1.0
<i>Of which:</i> net claims on general government	-45.3	-33.4	-35.3	2.6	5.4	2.4	6.2
Reserve money	22.9	18.0	16.0	13.9	21.9	10.1	24.9
<i>Of which:</i> currency in circulation	17.9	14.8	10.6	...	13.5	6.9	16.1
(In millions of soms)							
Net foreign assets including long-term liabilities	12,270	12,039	12,107	12,056	13,356	12,939	15,236
Net international reserves	13,799	13,542	13,705	14,265	14,992	15,201	17,477
Long-term foreign liabilities	-2,357	-2,357	-2,336	-2,321	-2,374	-2,374	-2,353
Other foreign assets	880	905	790	163	790	163	164
Balances with CIS countries	-51	-51	-51	-51	-51	-51	-51
Net domestic assets	110	564	657	838	528	685	230
Net claims on general government	421	975	1,108	648	995	721	1,188
Loans to government in forex (Turkish loan)	1,905	1,905	1,905	1,905	1,943	1,943	1,943
Total government deposits (-)	-6,135	-5,567	-5,237	-5,707	-5,391	-5,635	-5,202
Treasury bonds 2/	4,100	4,087	3,890	3,900	3,893	3,900	3,897
Treasury bills	550	550	550	550	550	550	550
Repos	40	-33	0	402	0	384	-50
Claims on commercial banks	374	364	360	344	354	341	351
Other items net 3/	-724	-743	-810	-557	-821	-760	-1,259
Reserve money	12,380	12,603	12,765	12,894	13,885	13,624	15,466
Currency in circulation	11,425	11,735	11,615	...	12,251	12,282	13,414
Commercial banks' reserves and other balances	955	868	1,150	...	1,634	1,343	2,052
<i>Of which:</i> required reserves	695	702	873	...	1,004	1,343	1,160
Memorandum items:							
Reserve money growth (in percent, relative to end of previous year)	22.9	1.8	3.1	18.5	12.2	10.1	24.9
Net international reserves (in millions of dollars) 4/	329	322	326	340	357	362	416
Net domestic assets (in millions of soms) 4/ 5/	-2,046	-1,583	-1,486	-1,289	-1,647	-1,477	-1,943

Table 9 (concluded). Kyrgyz Republic: NBKR Accounts, 2004–06 1/

	2006						
	Mar.	Jun.		Sep.		Dec.	
	Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.
	(Annual percent change)						
Net foreign assets	9.3	6.4	24.6	13.6	13.1	10.0	11.4
Net domestic assets	5.7	46.3	-30.3	7.9	51.0	11.7	217.6
Net claims on general government	8.7	-12.3	-26.3	-15.7	-4.5	-3.6	-25.1
Claims on rest of the economy	-10.6	68.3	13.3	17.1	53.1	-33.0	80.1
Reserve money	9.1	8.5	21.8	13.2	14.6	10.1	14.5
Currency in circulation	...	...	16.1	...	12.6	2.0	15.0
Commercial banks' reserves and other balances	...	...	79.4	...	29.2	84.3	11.0
	(Annual change relative to lagged reserve money, in percent)						
Net foreign assets	8.8	6.1	19.3	12.7	11.3	9.5	11.3
Net domestic assets	0.3	2.4	-1.3	0.5	1.7	0.6	3.2
<i>Of which:</i> net claims on general government	0.7	-1.1	-2.3	-0.8	-0.3	-0.2	-1.9
Reserve money	9.1	8.5	18.0	13.2	13.1	10.1	14.5
<i>Of which:</i> currency in circulation	...	...	12.1	...	10.0	1.8	13.0
	(In millions of soms)						
Net foreign assets including long-term liabilities	13,154	12,888	15,090	13,692	15,108	14,235	16,977
Net international reserves	15,416	15,150	17,310	15,953	17,328	16,497	19,176
Long-term foreign liabilities	-2,374	-2,374	-2,332	-2,374	-2,332	-2,374	-2,311
Other foreign assets	163	163	163	163	163	163	163
Balances with CIS countries	-51	-51	-51	-51	-51	-51	-51
Net domestic assets	596	962	458	904	797	765	731
Net claims on general government	1,060	971	816	547	951	695	890
Loans to government in forex (Turkish loan)	1,943	1,943	1,981	1,943	1,981	1,943	1,981
Total government deposits (-)	-5,295	-5,384	-5,366	-5,809	-5,232	-5,661	-4,792
Treasury bonds 2/	3,900	3,900	3,651	3,900	3,651	3,200	3,151
Treasury bills	550	550	550	550	550	550	550
Repos	-45	264	62	532	200	144	200
Claims on commercial banks	341	341	346	341	342	342	342
Other items net 3/	-760	-615	-765	-515	-695	-415	-701
Reserve money	13,750	13,850	15,549	14,596	15,905	15,000	17,708
Currency in circulation	11,000	11,080	13,486	11,677	13,795	12,525	15,430
Commercial banks' reserves and other balances	2,750	2,770	2,063	2,919	2,110	2,475	2,278
<i>Of which:</i> required reserves	...	...	1,302	...	1,499	...	1,411
Memorandum items:							
Reserve money growth (in percent, relative to end of previous year)	0.9	1.7	0.5	7.1	2.8	10.1	14.5
Net international reserves (in millions of dollars) 4/	367	361	412	380	413	393	457
Net domestic assets (in millions of soms) 4/ 5/	-1,566	-1,200	-1,752	-1,258	-1,413	-1,397	-1,469

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

1/ At program exchange rates (including 42 soms per dollar) specified in the TMU in IMF Country Report 05/119.

2/ Includes government securities issued in December 2002 to replace restructured bonds, as well as those issued for revaluation losses, lost capital in the Central Asia Development Bank, and capitalized past interest arrears on bonds.

3/ Includes since December 2002, revaluation losses, lost capital in the Central Asia Development Bank, and capitalized past interest arrears on bonds.

4/ Nonadjusted.

5/ Excludes medium- and long-term central bank liabilities (i.e. the loan by the Eximbank of Turkey and the EBRD/IDA enterprise loan channeled through the NBKR).

Table 10. Kyrgyz Republic: Monetary Survey, 2004–06 1/

	2005							Act. 1/
	2004	Mar.		Sep.		Dec.		
	Act.	Act.	Act.	Prog.	Act.	Prog.	Act.	
(Annual percent change)								
Net foreign assets	108.7	94.9	103.6	13.1	36.1	3.9	31.1	20.1
Net domestic assets	-52.3	-42.8	-43.1	104.6	61.5	73.2	47.3	54.5
Net claims on general government	-79.6	-77.0	-78.0	0.1	34.7	61.5	24.2	24.2
Credit to the rest of the economy	74.5	69.7	45.6	47.2	36.0	14.6	30.3	32.0
Broad money (M2X)	33.6	32.9	33.9	28.5	40.4	15.4	33.8	25.5
Currency held by the public	19.4	18.4	12.8	16.9	20.1	9.6	17.5	17.5
Total deposit liabilities	14.2	150.2	150.8	117.6	154.6	23.3	56.0	40.6
(Annual change relative to lagged broad money, in percent)								
Net foreign assets	58.0	52.1	54.4	10.9	30.0	3.2	26.0	16.9
Net domestic assets	-24.4	-19.3	-20.5	17.6	10.4	12.2	7.9	8.6
Domestic credit	-11.1	-10.8	-16.0	16.1	14.3	8.6	11.7	13.0
Net claims on general government	-30.5	-29.6	-30.1	0.0	2.0	3.6	1.4	1.6
Credit to the rest of the economy	19.4	18.8	14.0	16.1	12.3	5.0	10.3	11.4
Other items net	-13.3	-8.4	-4.4	1.5	-4.0	3.2	-3.9	-4.4
Broad money (M2X)	33.6	32.9	33.9	28.5	40.4	15.4	33.8	25.5
Currency held by the public	12.5	11.9	8.1	10.1	12.1	5.5	10.0	11.4
Total deposit liabilities	21.1	21.0	25.8	18.4	28.3	9.9	23.8	14.1
(In millions of soms)								
Net foreign assets including long-term foreign liabilities	16,130	15,999	16,934	15,561	18,728	16,758	21,153	17,232
<i>Of which:</i> long-term foreign liabilities (-)	-2,357	-2,357	-2,336	-2,321	-2,374	-2,374	-2,353	-2,353
Net domestic assets	3,220	3,853	4,277	5,713	4,510	5,577	4,743	4,170
Domestic credit	7,720	8,151	8,432	9,295	8,995	9,377	9,989	9,416
Net claims on general government	1,131	1,322	1,345	967	1,302	1,827	1,406	1,406
Credit to the rest of the economy	6,588	6,830	7,087	8,328	7,693	7,550	8,583	8,010
<i>Of which:</i> in forex	4,752	4,857	5,094	5,106	5,412	5,360	6,255	5,813
Other items net	-4,500	-4,298	-4,155	-3,582	-4,485	-3,874	-5,246	-5,246
Broad money (M2X)	19,350	19,853	21,211	21,274	23,238	22,334	25,895	21,402
<i>Of which:</i> Broad money, excluding forex deposits (M2)	13,568	13,681	13,841	16,097	15,038	15,233	16,281	15,959
Currency held by the public	11,124	11,409	11,269	11,597	11,915	12,190	13,065	13,065
Total domestic currency deposit liabilities	2,445	2,272	2,571	4,500	3,123	3,043	3,216	2,894
Memorandum items:								
Broad money (M2X) growth (in percent, relative to end of previous year)	33.6	2.6	9.6	9.9	20.1	15.4	33.8	25.5
Credit to the rest of the economy (in percent of GDP)	7.0	7.1	7.3	8.7	7.7	7.4	8.6	8.0
M2X velocity 2/	5.6	4.8	4.6	...	4.3	4.5	3.9	4.7
M2X multiplier	1.6	1.6	1.7	...	1.7	1.6	1.7	1.4
Dollarization indicators (in percent) 3/								
Asset dollarization	72.1	71.1	71.9	61.3	70.3	71.0	72.9	72.6
Liability dollarization	29.9	31.1	34.7	24.3	35.3	31.8	37.1	25.4

Table 10 (concluded). Kyrgyz Republic: Monetary Survey, 2004–06 1/

	2006						
	Mar.	Jun.		Sep.		Dec.	
	Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.
	(Annual percent change)						
Net foreign assets	12.9	-5.5	38.9	23.6	19.1	6.6	12.5
Net domestic assets	19.8	85.9	-38.8	-9.5	23.5	39.4	35.4
Net claims on general government	57.1	49.3	-20.9	68.3	-6.5	-12.8	-47.8
Credit to the rest of the economy	-2.9	32.7	-8.8	-4.2	17.0	28.6	19.9
Broad money (M2X)	14.3	12.9	22.7	14.7	20.0	14.8	17.0
Currency held by the public	-3.6	-1.7	13.5	0.7	9.8	-1.6	14.5
Total deposit liabilities	38.4	29.5	38.3	31.6	35.4	34.4	20.9
	(Annual change relative to lagged broad money, in percent)						
Net foreign assets	10.4	-4.4	32.5	17.3	17.7	4.9	10.1
Net domestic assets	3.8	17.3	-8.5	-2.5	5.5	9.8	6.9
Domestic credit	2.8	14.1	-5.0	1.5	6.7	8.6	4.3
Net claims on general government	3.8	3.1	-1.7	3.1	-0.5	-1.0	-3.1
Credit to the rest of the economy	-1.0	10.9	-3.4	-1.6	7.2	9.7	7.4
Other items net	2.1	2.0	-3.5	-0.2	-1.2	1.5	2.6
Broad money (M2X)	14.3	12.9	24.0	14.7	23.3	14.8	17.0
Currency held by the public	-2.1	-0.9	8.9	0.4	6.8	-0.8	8.9
Total deposit liabilities	16.3	13.8	15.1	14.4	16.4	15.6	8.1
	(In millions of soms)						
Net foreign assets including long-term foreign liabilities	18,070	16,000	19,791	19,238	18,851	17,857	19,393
<i>Of which:</i> long-term foreign liabilities (-)	-2,374	-2,374	-2,332	-2,374	-2,332	-2,374	-2,311
Net domestic assets	4,617	7,950	2,294	5,172	4,940	7,776	5,647
Domestic credit	8,707	11,413	7,046	9,605	9,622	11,305	10,335
Net claims on general government	2,076	2,008	1,063	1,628	1,218	1,593	734
Credit to the rest of the economy	6,631	9,405	5,983	7,977	8,404	9,712	9,601
<i>Of which:</i> in forex	5,445	5,748	4,207	5,858	5,910	5,896	6,721
Other items net	-3,874	-3,729	-4,752	-3,629	-4,682	-3,529	-4,688
Broad money (M2X)	22,687	23,950	22,085	24,410	23,791	25,633	25,040
<i>Of which:</i> Broad money, excluding forex deposits (M2)	16,787	17,650	16,558	17,060	17,608	17,508	19,156
Currency held by the public	11,000	11,080	12,787	11,677	13,080	12,000	14,961
Total domestic currency deposit liabilities	5,787	6,570	3,772	5,383	4,528	5,508	4,196
Memorandum items:							
Broad money (M2X) growth (in percent, relative to end of previous year)	1.6	7.2	3.2	9.3	11.2	14.8	17.0
Credit to the rest of the economy (in percent of GDP)	...	...	...	...	...	8.7	8.6
M2X velocity 2/	...	...	...	...	...	4.4	4.4
M2X multiplier	...	...	...	...	...	1.7	1.4
Dollarization indicators (in percent) 3/							
Asset dollarization	82.1	61.1	70.3	73.4	70.3	60.7	70.0
Liability dollarization	26.0	26.3	25.0	30.1	26.0	31.7	23.5

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

1/ At program exchange rates (including 42 soms per dollar) specified in the TMU in IMF Country Report No. 05/119. There is a break from the reclassification of commercial banks' deposit liabilities and loans to nonresidents as foreign liabilities and loans to nonresidents as foreign liabilities and assets, respectively, from December 2005 onward.

2/ 12-month GDP over end-period broad money.

3/ Asset dollarization is measured as the ratio of credit extended in foreign exchange to total banking system credit to the private sector, and liability dollarization as the share of foreign exchange deposits in broad money.

Table 11. Kyrgyz Republic: Medium-Term Balance of Payments, 2004-08

(In millions of U.S. dollars)

	2004		2005		2006		2007		2008	
	Actual	IMF CR No. 05/402	Prel.	IMF CR No. 05/402	Rev. Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-75	-106	-197	-124	-179	-163	-150	-150	-150	-150
excluding transfers	-284	-393	-560	-447	-601	-639	-646	-646	-646	-646
Trade balance	-171	-285	-435	-342	-474	-480	-457	-457	-457	-457
Exports, fob	733	738	686	793	786	881	1023	1023	1023	1023
CIS countries	278	310	305	342	347	362	384	384	384	384
<i>Of which: energy</i>	31	38	33	42	38	43	48	48	48	48
Non-CIS countries	456	427	382	451	439	520	639	639	639	639
<i>Of which: gold</i>	287	248	231	251	268	343	457	457	457	457
Imports, fob	904	1023	1121	1135	1260	1361	1480	1480	1480	1480
CIS countries	554	644	648	723	747	809	877	877	877	877
<i>Of which: energy</i>	240	299	295	348	353	381	404	404	404	404
Non-CIS countries	350	380	473	412	513	553	603	603	603	603
Services	-22	-12	-45	-14	-61	-64	-69	-69	-69	-69
Receipts	209	229	256	252	285	314	338	338	338	338
<i>Of which: Transportation</i>	51	53	62	56	70	76	79	79	79	79
Payments	-231	-242	-300	-266	-347	-377	-407	-407	-407	-407
<i>Of which: transportation</i>	-87	-93	-125	-100	-143	-155	-163	-163	-163	-163
<i>Of which: gold project related payments</i>	-18	-19	-14	-19	-17	-21	-28	-28	-28	-28
Income	-90	-95	-80	-91	-65	-95	-120	-120	-120	-120
Interest payments 1/	-37	-40	-41	-35	-19	-22	-25	-25	-25	-25
Other net income	-53	-55	-39	-56	-46	-73	-95	-95	-95	-95
Current Transfers (net)	209	287	363	322	422	476	496	496	496	496
Official	24	41	28	60	37	49	47	47	47	47
Private	185	246	335	263	385	427	449	449	449	449
Capital Account	-16	...	-6	...	-6	15	21	21	21	21
Official	28	...	52	...	41	50	51	51	51	51
<i>Of which: debt forgiveness</i>	0	...	19	...	0	0	0	0	0	0
Private	-44	...	-58	...	-46	-35	-30	-30	-30	-30
Financial account	112	130	128	90	208	209	207	207	207	207
Commercial banks	-24	75	48	-30	-12	-20	-30	-30	-30	-30
Medium-and long-term loans, net	15	-12	-9	20	73	81	89	89	89	89
Principal not yet due	...	...	-586	...	...	...	...	...	...	...
Principal not yet due rescheduled	...	...	567	...	...	...	...	...	...	...
Disbursement	82	89	109	95	112	120	128	128	128	128
<i>Of which: loan financed PIP</i>	75	79	79	80	82	88	94	94	94	94
Amortization 1/	-67	-101	-99	-75	-39	-39	-39	-39	-39	-39
Foreign direct investment (net)	131	60	101	65	89	92	96	96	96	96
Portfolio investment (net)	-2	4	-14	20	6	8	9	9	9	9
Derivatives and short-term flows (net)	-8	2	2	16	52	48	44	44	44	44
Errors and omissions	67	-68	124	0	0	0	0	0	0	0
Overall balance	88	-44	49	-34	23	61	77	77	77	77

Table 11 (concluded). Kyrgyz Republic: Medium-Term Balance of Payments, 2004–08
(In millions of U.S. dollars)

	2004		2005		2006		2007		2008	
	Actual	IMF CR No. 05/402	Prel.	IMF CR No. 05/402	Rev. Prog.	2006	2007	2007	2008	2008
								Proj.		Proj.
Financing										
Net international reserves	-88	44	-49	34	-23	34	-61	-77	-77	-77
Gross official reserves (- increase)	-162	-13	-93	-36	-41	-36	-68	-77	-77	-77
IMF (net)	-161	0	-81	-13	-18	-13	-49	-58	-58	-58
Purchases and disbursements	-1	-13	-13	-23	-23	-23	-19	-19	-19	-19
Repurchases and repayments	28	18	18	4	4	4	4	2	2	2
Exceptional Financing (including arrears)	-29	-31	-31	-27	-27	-27	-23	-21	-21	-21
Accumulation of Arrears (net)	45	51	44	50	0	50	0	0	0	0
Debt rescheduling on principal	2	0	-7	0	0	0	0	0	0	0
on interest	44	51	51	35	0	35	0	0	0	0
BOP support loans (ADB)	27	33	33	15	0	15	0	0	0	0
BOP support loans (WB)	17	18	18	0	0	0	0	0	0	0
	28	0	0	10	8	10	8	8	8	8
	0	5	0	10	10	10	10	0	0	0
Memorandum items:										
GDP (in millions of U.S. dollars)	2,216	2,414	2,441	2,655	2,646	2,655	2,898	3,134	3,134	3,134
Current account balance (in percent of GDP)	-3.4	-4.4	-8.1	-4.7	-6.8	-4.7	-5.6	-4.8	-4.8	-4.8
Growth of exports of goods and services (volume, percent)	22.2	-0.6	-8.2	5.3	2.2	5.3	9.7	11.7	11.7	11.7
Growth of imports of goods and services (volume, percent)	26.0	8.2	14.4	8.0	6.7	8.0	5.1	6.4	6.4	6.4
External Public Debt (US\$ million) 2/	1,960	2,016	2,010	2,075	2,068	2,075	2,123	2,172	2,172	2,172
as percent of GDP	88	83	82	78	78	78	73	69	69	69
External Public Debt (NPV US\$ million) 2/	1,330	1,183	1,106	1,232	1,153	1,232	1,203	1,255	1,255	1,255
as percent of GDP	60	49	45	46	44	46	42	40	40	40
as percent of exports 3/	171	134	126	125	117	125	112	104	104	104
Public debt-to-exports service ratio 2/ 4/	6	6	7	6	6	6	5	5	5	5
Gross reserves 5/	544	544	609	557	627	557	676	734	734	734
in months of subsequent year's imports	4.6	4.7	4.5	4.6	4.4	4.6	4.3	4.3	4.3	4.3

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

1/ Starting 2006, interest and amortization reflect bilateral agreements signed following March 2005 Paris Club agreement to grant debt relief on London

2/ Public and publicly guaranteed debt.

3/ Based on three-year average exports of goods and nonfactor services.

4/ Net of resheduling.

5/ Valued at end-period exchange rates.

Table 12. Kyrgyz Republic: Indicators of Fund Credit, 2004–10

(In percent, unless otherwise indicated)

	Act.			Proj.			
	2004	2005	2006	2007	2008	2009	2010
Outstanding Fund credit (end-of-period)							
In millions of SDRs	133.2	124.5	108.4	94.8	81.3	66.5	50.3
In millions of U.S. dollars	197.3	183.8	155.3	135.9	116.6	96.3	72.9
In percent of quota 1/	150.1	140.2	122.1	106.8	91.5	74.9	56.6
In percent of GDP	8.9	7.5	5.9	4.7	3.7	2.9	2.0
In percent of total exports	20.9	19.5	14.5	11.4	8.6	6.1	4.4
In percent of external public debt	10.1	9.1	7.5	6.4	5.4	4.3	3.2
In percent of gross reserves (beginning of period)	54.9	33.8	25.5	21.7	17.3	13.1	8.7
Debt service due to the Fund							
In millions of SDRs	22.4	21.5	19.2	16.6	15.3	15.1	16.5
In millions of U.S. dollars	33.2	31.8	27.5	23.9	21.9	21.9	24.0
<i>Of which:</i>							
Charges/interests	1.0	1.0	0.8	0.7	0.6	0.5	0.4
Repurchases and repayments	32.2	30.8	26.7	23.1	21.3	21.3	23.5
In percent of quota 1/	25.3	24.3	21.6	18.7	17.2	17.0	18.6
In percent of GDP	1.5	1.3	1.0	0.8	0.7	0.6	0.7
In percent of total exports	3.5	3.4	2.6	2.0	1.6	1.4	1.5
In percent of total debt service	25.0	25.1	32.2	28.4	25.6	21.5	15.1
In percent of total public debt service	56.1	47.4	45.6	40.2	34.5	29.3	30.0
In percent of gross reserves (beginning of period)	9.3	5.9	4.5	3.8	3.2	3.0	2.9

Sources: IMF, Finance Department, and Fund staff calcul.

1/ Kyrgyz Republic quota: SDR 88.8 million.

Table 13. Kyrgyz Republic: Prospective Use of Fund Resources, 2005–10

(in millions of SDR, unless otherwise stated)

	Outstanding		Proj.			
	End-Dec. 2005	2006	2007	2008	2009	2010
PRGF transactions	124.5					
Disbursements		2.5	2.5	1.3	0.0	0.0
Repayments		18.6	16.1	14.8	14.7	16.2
Total Fund credit outstanding	124.5	108.4	94.8	81.3	66.5	50.3
Total Fund credit outstanding 1/	140.2	122.1	106.8	91.5	74.9	56.6
Disbursements under PRGF 1/	0.0	2.9	2.9	1.4	0.0	0.0

Sources: IMF, Finance Department; and Fund staff calculations.

1/ Relative to the quota of SDR 88.8 million.

Table 14. Kyrgyz Republic: Reviews and Disbursements Under the
Three-Year PRGF Arrangement

Date	Action	Associated Disbursement
February 23, 2005	Approved three-year arrangement.	SDR 1.26 million
October 24, 2005	Completed first review based on end-June 2005 performance criteria.	SDR 1.27 million
May 5, 2006	Complete second review based on end-December 2005 performance criteria, and adopt conditions and disbursements for the second year of the arrangement.	SDR 1.27 million
On or after August 15, 2006	Complete third review based on end-June 2006 performance criteria.	SDR 1.27 million
On or after February 15, 2007	Complete fourth review based on end-December 2006 performance criteria, and adopt conditions and disbursements for the third year of the arrangement.	SDR 1.27 million
On or after August 15, 2007	Complete fifth review based on end-June 2007 performance criteria.	SDR 1.27 million
On or after February 15, 2008	Complete sixth review based on end-December 2007 performance criteria.	SDR 1.27 million

Bishkek, Kyrgyz Republic

April 12, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. de Rato:

1. In February 2005, the IMF Executive Board endorsed the Kyrgyz Republic's three-year economic program, and approved a new Poverty Reduction and Growth Facility (PRGF) arrangement in support of that program. The first review was concluded in October 2005.
2. On behalf of the government of the Kyrgyz Republic, we hereby transmit the attached Memorandum of Economic Policies (MEP), which includes the program understandings reached by the government with the IMF, describes in detail the implementation of the program to date, and sets out the objectives and policies that the government intends to pursue in 2006. The MEP is consistent with the implementation and ongoing update of the National Poverty Reduction Strategy (NPRS). The government intends to make the contents of this letter and those of the attached MEP and its Technical Memorandum of Understanding (TMU), as well as the staff report on the second review under the PRGF arrangement, available to the public, and authorizes the staff to arrange for them to be posted on the IMF website after completion of the review by the Board.
3. Quantitative performance criteria and indicative targets, as well as structural benchmarks and structural performance criteria through end-2006 under the arrangement are set out in Tables 1, 2 and 3 of the MEP. The third review under the arrangement is expected to be completed on or after August 15, 2006 and the fourth review on or after February 15, 2007. As noted in Table 1, we have observed all the performance criteria for end-December 2005 and accordingly request disbursement of the SDR 1.27 million tranche available upon Board completion of the second review.
4. The government of the Kyrgyz Republic will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic policies and achieving the objectives of the program. The government believes that the policies and measures set forth in the MEP are adequate to achieve the objectives of the

program, but will take further measures to that end if deemed necessary. During the implementation of the current arrangement, the Kyrgyz Republic will consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of the government or whenever the Managing Director requests such a consultation.

Very truly yours,

/s/

Felix Kulov
Prime Minister
Kyrgyz Republic

/s/

Marat Alapaiev
Chairman
National Bank of the Kyrgyz Republic

Memorandum of Economic Policies for the Kyrgyz Republic

I. INTRODUCTION

1. The government's economic program for 2005–08, supported by the Poverty Reduction and Growth Facility (PRGF) arrangement approved by the IMF Executive Board in February 2005, aims to achieve sustained and rapid economic and social development in a low-inflation environment. This Memorandum of Economic Policies (MEP) reviews progress to date in program implementation, describes our policies through end-2006, and outlines the thrust of our economic strategy for the remainder of the program period.

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE

2. The government succeeded in maintaining macroeconomic discipline and adhering to the PRGF-supported program in 2005, despite the inevitable dislocations created by the collapse of the previous government and several supply shocks. All end-year performance criteria were observed, in some cases with ample margins, and all end-September and end-December structural benchmarks were also met (Tables 1 and 2). End-period inflation (4.9 percent) remained subdued, albeit slightly higher than projected, owing in part to crop shortfalls and rising world oil prices. Economic activity, however, was weaker than expected, as real GDP contracted by 0.6 percent as a result of a decline in gold production, a shortfall in agricultural output, and sluggish activity in other sectors, buffeted by the political developments and uncertainties in the investment outlook. Output growth excluding gold amounted to 1.4 percent.

3. Overall, fiscal results were somewhat better than expected in 2005, thanks in part to buoyant tax receipts, especially from import, income and payroll taxes, sparked by the incipient efforts to combat evasion. The general government primary deficit excluding grants (2.8 percent of GDP) was lower than programmed, despite a faster-than-expected increase in government spending—especially on goods and services. Public wages were increased by an average of 15 percent during the year, with higher increases for teachers, mid-level health care providers, and staff of cultural and law enforcement agencies. Pension benefits were raised by an average of nearly 10 percent, with higher increases for poor pensioners.

4. The quasi-fiscal deficit of the energy sector declined as expected from some 8.2 billion (8.7 percent of GDP) in 2004 to some 7.6 billion (7.6 percent) in 2005, owing in part to an increase in utility bill collections.

5. The external current account deficit widened to 8.1 percent of GDP in 2005, from 3.4 percent in 2004, as buoyant workers' remittances (partially reflecting rising incomes in host countries, especially Russia and Kazakhstan) were offset by a sharp increase in the trade deficit owing to a rising fuel import bill and a drop in gold exports (a break in the import series reflecting a broader coverage of shuttle trade may also have played a part). Thanks to a

stronger capital account, however, the buildup in foreign reserves was faster than expected, and at the end of the year, gross official foreign reserves amounted to over \$600 million, equivalent to 4½ months of projected 2006 imports of goods and services.

III. PROGRAM OBJECTIVES AND ECONOMIC POLICIES FOR 2006

6. The government regards 2006 as an important window to firm up the economic strategy for its five-year term and add momentum to structural reforms, while seeking to garner broad domestic and international support. The overarching goals are to secure a rapid and sustained improvement in living standards in the coming years in a low-inflation environment, thereby paving the way to meet the 2015 Millennium Development Goals in the social sphere. To foster private sector-led growth, the government will seek to remove structural bottlenecks, decisively combat corruption, and further strengthen the legal and regulatory framework, while minimizing its direct intervention in the economy.

7. Against this backdrop, the IMF-supported economic program for 2006 aims at keeping inflation subdued (despite a further projected rise in international fuel prices and public utility tariff hikes); achieving real GDP growth of 5 percent (although output could grow faster if the rapid rebound that we anticipate in business confidence and investment materializes); and achieving a modest further buildup in gross foreign reserves. The external current account deficit would decline slightly to 6.8 percent of GDP and would be fully financed by prospective financial assistance from the IMF and other donors, and by foreign direct investment and private capital inflows.

8. To achieve these objectives, we have designed a macroeconomic program characterized by continued fiscal prudence, a tightening of the monetary stance accompanied by greater exchange and interest rate flexibility, and concerted actions to further reduce the quasi-fiscal deficit of the energy sector (Table 1). In addition, we will intensify structural reforms to strengthen the financial system and fiscal management, as well as to enhance growth prospects and alleviate poverty (Table 3). We have also strengthened economic policy coordination, especially by establishing an economic policy council (the “Coordination Council for Macroeconomic and Investment Policies”), chaired by the prime minister and comprising the key economic ministers, as well as the governor of the NBKR. The council will meet at least once a month and will report to the President as needed.

A. Fiscal Policy

9. Fiscal discipline has become firmly entrenched in our country over the past several years and will be maintained during the program period to underpin low inflation and debt sustainability. While the need to improve social services and infrastructure is pressing, we will carefully prioritize public outlays and strengthen expenditure controls. We will also intensify the tax effort by curbing evasion, while streamlining the tax structure as well as tax and customs administration. For 2006, general government tax receipts are conservatively targeted at 19¼ percent of GDP, while general government outlays (excluding net lending) would be capped at 27½ percent of GDP and the primary fiscal deficit (excluding grants)

limited to 3.3 percent. In particular, the government will secure parliamentary approval for raising outlays on emergency preparedness by some 300 million from the level currently authorized in the 2006 budget (the bulk of which will be covered by a one-time \$5 million drawdown in the proceeds from an earlier sale of Centerra shares—in addition to the annual \$16 million drawdown envisaged in the program); these resources will be used to import essential disaster relief equipment, without affecting aggregate domestic demand. The government's overall cash deficit will be entirely covered from external sources. In step with the internal resource mobilization effort, we count on a scaling up of external aid in the wake of a consultative group meeting that we plan to convey in Bishkek later this year. Further, the Kyrgyz Republic is seeking external debt relief under the Highly Indebted Poor Country (HIPC) Initiative and, eventually, under the Multilateral Debt Relief Initiative (MDRI) to enhance external viability and create additional fiscal space for priority spending.

10. To foster job creation, we have lowered the payroll tax by 2 percentage points, to 29 percent, on January 1, 2006, as a first step towards lowering that rate to 25 percent in the medium term. The revenue loss to the Social Fund is expected to be offset by adhering to the agreed pace of pension increases in the period ahead and further strengthening payroll tax collection efforts. Moreover, we have just secured parliamentary approval of a tax reform that will be broadly revenue-neutral, featuring cuts in the corporate and personal income tax rates and increases in the rates of the motor vehicle taxes and liquor excises; an increase in the land tax rates is expected to be approved by end-April 2006. A new draft tax code, which aims to modernize tax administration and encourage compliance, while curbing tax evasion and fraud, was sent to parliament in late March 2006. Enabling property tax regulations are expected to be approved by end-April 2006, further broadening the tax base and making room for a reduction and eventual elimination of the distorting road and emergency taxes. We intend to create the conditions to eventually reintroduce a VAT on farm output, which has been suspended for the time being. Moreover, we will eliminate outstanding VAT refund arrears by end-September 2006, while committing to no longer incurring new arrears.

11. As part of the ongoing civil service reform, we have reduced the number of ministries and other state bodies, and we intend to further reduce civilian central government employment (which is currently estimated at 25,000 persons) on average by about 10 percent over the next two years, with due regard to accommodating new positions required in some sectors as part of the modernization of the public administration. In this context, we will introduce performance-based competitive salaries for key personnel from 2006, and will raise the government wage bill by 10 percent in May 2006, with higher increases for the social sector. While continuing to deepen the civil service reform, we will keep the wage bill broadly constant relative to GDP over the medium term.

12. The 2006 budget features an average increase in pensions of 10 percent, with an increase in the base pension in January and an additional increase in May. The government recognizes that reductions in the retirement age would be inconsistent with the sustainability of the pension system and is therefore committed to maintaining the existing policy on retirement ages. The government will formulate a strategy for a comprehensive reform of the pension system, with assistance from the World Bank, by spring 2007, and seek a

broad-based internal consensus to implement that strategy. Meanwhile, if Social Fund revenue exceeds expectations during 2006, we will attach priority to clearing the backlog of Social Fund obligations incurred through 2000 to the employment and medical insurance funds (about som 120 million), as well as to ensure that pension payments are made by the end of each month in the two lagging “oblasts” (costing about som 130 million), without, however, exceeding the programmed drawdown in Social Fund deposits in the banking system. The scope for using any excess Social Fund revenues (over and above the amount needed to regularize the problems just mentioned) will be assessed at the time of the discussions for the third review under the PRGF arrangement in summer 2006. However, the Social Fund will not make any unprogrammed drawdown in its deposits to finance pension increases beyond those already programmed in 2006.

13. We are drafting (with donor assistance) an action plan of public financial management reform, which will refocus reform efforts on basic issues, such as the implementation of the annual budget as approved without political interference. Meanwhile, improvements in the budgetary process will build upon continued issuance of the rolling three-year Medium-Term Fiscal Framework, as well as preparation of a Medium-Term Budgetary Framework (MTBF), which will be published in May 2006. The MTBF should facilitate medium-term policy formulation and coordination among ministries, operationalize the poverty reduction strategy, and lay a more solid foundation for annual budget preparation. Efforts will be made to integrate sectoral approaches into an overall strategy linked with annual budgets. Further, coverage of the MTBF will be broadened to include social benefit payments currently channeled through the Social Fund, as well as extra-budgetary operations. Government spending will be increasingly focused on reducing poverty and supporting private sector development, and a more precise classification of poverty-related spending will accordingly be included in the MTBF.

14. The PRGF-supported program is closely aligned with the National Poverty Reduction Strategy (NPRS), which the current government has endorsed and is updating in consultation with stakeholders. The 2006 budget increases social spending to 15 percent of GDP, from 14½ percent last year. It also includes a 0.7 percent of GDP employment and housing package and a 0.2 percent of GDP contingent social safety net to be activated when the phased increase in power tariffs comes into effect in April 2006. Further, government efforts to scale up foreign aid (including through the upcoming consultative group meeting) and to seek external debt relief should help create additional fiscal space for spending on priority social sectors and infrastructure. During the discussions for the third review under the PRGF arrangement, the scope for topping-up priority spending will be reviewed in light of the overall macroeconomic situation, and tax revenue performance in particular. The government will henceforth introduce more formal and transparent procedures for supplementary budget appropriations, instead of seeking ex post ratification of higher outlays.

B. Monetary and Financial Sector Policies and Reforms

15. The monetary program for 2006 targets end-period inflation at 5.7 percent. It is premised on further remonetization of the economy and is consistent with broad money

growth of 17 percent and reserve money growth of 14.5 percent. To keep liquidity growth in check, the NBKR will enhance its menu of monetary control instruments and allow for greater flexibility in the pricing of these instruments. In addition, the NBKR will maintain the managed exchange rate float system, while tailoring foreign exchange intervention to securing a comfortable reserve buildup and smoothing fluctuations.

16. To improve the functioning of the securities market and provide alternative investment opportunities, the volume of government securities available to banks will be further increased. As part of the ongoing phased redemption of government bonds, around som 180 million of bonds currently held by the NBKR will be redeemed by end-April 2006. In addition, to improve the structure of the central bank balance sheet, the government will cancel som 500 million of its bond debt against a similar amount of government deposits at the central bank before end-2006. The ministry of economy and finance and the NBKR will work to simplify the nomenclature of debt instruments.

17. The central bank continues to implement technical advice from the IMF and other donor agencies. In particular, the NBKR is strengthening the banking sector by increasing its capital base and stepping up supervision. In this vein, the central bank has introduced a phased increase in the minimum own-funds requirement for banks to som 60 million in January 2006 and som 100 million by end-2007. To enhance supervision, the NBKR will improve its ability to stress-test banks and establish the supervisory framework to assess market, operational, country and transfer risks. Further, the NBKR will encourage the banking sector to strengthen the effectiveness of the credit information agency during 2006 (with help from the EBRD) in order to improve risk management. The government will clarify the supervisory role of the newly-established Agency for Financial Surveillance and Reporting to avoid an overlap of responsibilities with those of the NBKR that are clearly established in its charter. Parliamentary approval of legislation already sent to parliament to enhance the NBKR's legal independence and ensure legal protection for its employees in performing official duties will be treated as a structural benchmark under the program. In this connection, any tax privileges extended to the NBKR will be specified in the Tax and Customs Codes according to international best practice. Parliament is also expected to pass as soon as feasible the pending legislation to combat money laundering and the financing of terrorism, as well as to approve the corresponding amendments to the Criminal Code and other relevant legislation.

18. The government and the NBKR will continue to implement their strategy of fostering microfinance development. As envisaged under the PRGF-supported program, we remain committed to bringing the Kyrgyz Agricultural Finance Corporation (KAFC), which has been extending micro loans to farmers with World Bank financing, to the point of sale by end-2006. KAFC will remain as a nonbank microfinance institution until privatization and will not be involved in housing finance. A banking license will, however, be part of the privatization deal. To develop mortgage lending and foster the corresponding savings mobilization, the government will formulate an action plan with World Bank assistance by end-May 2006 to strengthen the legal framework for mortgage lending and collateral recovery. In addition, it will propose amendments to the Civil Code aimed at attracting

deposits with longer maturities. Moreover, the government will refrain from establishing a state mortgage bank, since its strategy is to encourage the private sector to take the lead in this area.

19. The NBKR has completed the action plan to introduce a deposit insurance scheme for small depositors by late 2008. This plan will be discussed with the Financial Sector Assessment Program mission scheduled for spring 2006. Attention will also be paid to further measures to improve the payments system, develop microfinance, and improve conditions for effective use of collateral. The current action plan to foster financial intermediation by banks envisages (a) a transition to government wage payments through commercial banks; (b) increased tax and customs duty collections through banks; and (c) a gradual transition to utility bill payments through banks.

C. Other Structural Reforms

20. Besides the measures described above to bolster fiscal management and the financial sector, the government's reform agenda focuses on strengthening the physical and financial viability of the energy sector and addressing the nexus of governance and business climate issues. Actions in these areas will continue to be supported by the IMF, other IFIs, and bilateral donors.

Energy sector reforms

21. The government is working closely with the World Bank and other stakeholders to reduce the sizable quasi-fiscal deficit of the energy sector, while striving to provide steady and reliable energy supplies. In particular, a comprehensive action plan will be formulated in the context of an energy sector summit to be hosted by the government in Bishkek this spring, including steps to bolster bill collections; reduce technical losses and theft; gradually streamline and increase energy tariffs; and increase private sector participation in the system through management contracts, concessions or outright privatizations. The actions described above should lower the sector's QFD (an indicative target under the program) by about som 1.1 billion, to som 6.5 billion (5.9 percent of GDP) in 2006. Meanwhile, the government has decided to unify the electricity tariff for all households at som 0.62 per kWh effective April 15, 2006, at that time activating the social safety net included in the budget. The government will subsequently raise the unified tariff significantly by end-April 2007. Meanwhile, sufficient budgetary resources have been allocated to budgetary organizations for utility consumption, with strict cut-off orders if consumption exceeds allocated resources. A significant further decline in the quasi-fiscal deficit is envisaged in the coming years, especially as tariffs continue to be adjusted periodically to reach cost-recovery levels by 2010.

Governance and business climate issues

22. Promoting good governance and improving the business climate are key to improve the productivity and accountability of public spending and to spur private investment. Besides deepening the civil service reform, as noted above, the government will further

strengthen the institutions tasked with fighting corruption, in accordance with its stated internal and international commitments (including the *Istanbul Anti-Corruption Action Plan*, to which the Kyrgyz Republic subscribed together with several other countries of the former Soviet Union). In particular, bribing and other corrupt practices will be firmly stamped out in tax, law enforcement, and government procurement bodies, and greater transparency in public operations will be introduced to minimize rent-seeking opportunities. The government will fully disclose the income and asset declarations of all officials legally required to make these declarations, and enforce existing civil service regulations requiring competitive and transparent appointments. Further, it will no longer allow arbitrary appointments outside due process in the civil service.

23. At the same time, the government will continue to simplify licensing procedures, streamline regulatory bodies, improve the autonomy and efficacy of the judiciary, and strengthen property rights. In particular, and under a recently negotiated technical assistance project from the World Bank, the government will strictly enforce the laws on technical regulations and on inspections, such that the number of inspections of enterprises is significantly reduced. In addition, the government will take the appropriate legal steps by end-June 2006 to transfer all Centerra shares previously owned by KyrgyzAltyn to the State Property Fund. Furthermore, while the new labor code introduced in 2004 has significantly eased labor market restrictions, the government plans to consolidate the responsibility for domestic labor market policies under the ministry of labor and social protection, and it has tasked that Ministry to propose additional measures by end-2006 to enhance labor market flexibility.

D. Program Monitoring

24. The program will continue to be monitored through semi-annual reviews. Completion of the third review under the PRGF arrangement, scheduled for fall 2006, will require observance of the quantitative and structural performance criteria for end-June 2006 as shown in Tables 1 and 3. For that purpose, we have revised some of the targets for that test date and established quantitative performance criteria and indicative targets for end-December 2006, as well as semi-annual indicative targets for reserve money and the quasi-fiscal deficit of the electricity sector. We have also established structural benchmarks for end-September and end-December 2006 (Table 3). Quantitative performance criteria, program adjustors, data sources, and reporting requirements are defined in the attached Technical Memorandum of Understanding.

Table 1. Kyrgyz Republic: Quantitative Program Targets for 2005–06 1/

(In millions of soms, unless otherwise indicated; eop)

	2005					
	March	June	September	December		
	Benchmarks	PCs	Benchmarks	PCs		
	Actual	Actual	Prog.	Actual	Prog.	Actual
I. Performance criteria						
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars)	322	326	340	357	362	416
2. Ceiling on net domestic assets of the NBKR (eop stock)	-1,583	-1,486	-1,289	-1,647	-1,477	-1,943
3. Ceiling on cumulative primary deficit (excluding grants) of the general government	726	881	2,398	1,781	3,143	2,809
4. Cumulative floor on state government tax collections in cash	3,529	7,440	10,970	11,545	15,853	16,361
5. Ceiling on the stock of central government budget arrears	0	0	0	0	0	0
6. Ceiling on the stock of Social Fund pension arrears	0	0	0	0	0	0
7. Cumulative floor on payroll collections in cash of the Social Fund	1,198	2,386	3,228	3,597	4,461	4,912
8. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	0	0	0	0	0	0
9. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of less than one year (continuous, in millions of U.S. dollars)	0	0	0	0	0	0
10. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of one year or more (millions of U.S. dollars)	0	0	0	0	0	0
11. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	0	0
II. Indicative targets						
1. Ceiling on reserve money (eop stock)	12,603	12,765	12,894	13,885	13,624	15,466
2. Ceiling on the cumulative quasi-fiscal deficit of the electricity sector (in millions of som)	...	4,564	...	...	7,850	7,609
3. Ceiling on contracting or guaranteeing by the state government or NBKR of new concessional external debt (in millions of U.S. dollars) 2/						

(as specified in paragraph 30 of the TMU)

Table 1 (concluded). Kyrgyz Republic: Quantitative Program Targets for 2005–06 1/

(In millions of soms, unless otherwise indicated; eop)

	2006						
	March	June		September		December	
	Benchmarks	PCs		Benchmarks		PCs	
	IMF CR No. 05/402	IMF CR No. 05/402	Rev. Prog.	IMF CR No. 05/402	Rev. Prog.	IMF CR No. 05/402	Rev. Prog.
I. Performance criteria							
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars)	367	361	412	380	413	393	457
2. Ceiling on net domestic assets of the NBKR (eop stock)	-1,566	-1,200	-1,752	-1,258	-1,413	-1,397	-1,469
3. Ceiling on cumulative primary deficit (excluding grants) of the general government	1,099	1,377	1,377	2,619	2,541	3,234	3,701
4. Cumulative floor on state government tax collections in cash	3,599	7,933	7,933	12,462	12,512	17,580	17,650
5. Ceiling on the stock of central government budget arrears	0	0	0	0	0	0	0
6. Ceiling on the stock of Social Fund pension arrears	0	0	0	0	0	0	0
7. Cumulative floor on payroll collections in cash of the Social Fund	1,100	2,292	2,292	3,292	3,430	4,675	4,823
8. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	0	0	0	0	0	0	0
9. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of less than one year (continuous, in millions of U.S. dollars)	0	0	0	0	0	0	0
10. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of one year or more (millions of U.S. dollars)	0	0	0	0	0	0	0
11. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	0	0	0
II. Indicative targets							
1. Ceiling on reserve money (eop stock)	13,750	13,850	15,549	14,596	15,905	15,000	17,708
2. Ceiling on the cumulative quasi-fiscal deficit of the electricity sector (in millions of som)	...	3,910	3,745	...	...	7,110	6,509
3. Ceiling on contracting or guaranteeing by the state government or NBKR of new concessional external debt (in millions of U.S. dollars) 2/							

(as specified in paragraph 30 of the TMU)

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

1/ Definitions are provided in the Technical Memorandum of Understanding (TMU).

2/ New concessional loans during the year.

**Table 2. Kyrgyz Republic: Structural Conditionality
September–December 2005**

Structural benchmarks for end-September 2005

- Submit to parliament amendments to the civil code to provide for legal independence of the NBKR. The ministry of justice will revise the NBKR's institutional legal status accordingly. [**Observed**]
- Submit to parliament amendments to the central bank Law as specified in paragraph 27 of the original Memorandum of Economic Policies. [**Observed**]

Structural benchmarks for end-December 2005

- Enforce the decision to increase the minimum own funds requirement for banks from som 30 million to som 60 million. [**Observed**]
- Prepare a payments system action plan, as specified in paragraph 44 of the Revised Memorandum of Economic Policies. [**Observed**]

**Table 3. Kyrgyz Republic: Structural Conditionality
March–December 2006**

Structural benchmarks for end-March 2006

- Prepare, in close cooperation with the Fund staff, an action plan for the State Tax Inspectorate to streamline its operations, retrench redundant personnel, and introduce a merit-based pay system.

Structural benchmarks and performance criteria (*) for end-June 2006¹

- Develop a supervisory framework for market, country, and transfer risk as recommended by the September 2004 technical assistance mission of the IMF's Monetary and Financial Systems Department.
- Establish an independent audit committee to oversee the external and internal audit functions of the NBKR as recommended by the Safeguards Assessment Report conducted by Finance Department in 2005.
- The government will take the appropriate legal steps (accompanied by enabling regulations) to transfer the Centerra shares currently owned by KyrgyzAltyn JSC to the State Property Fund.*

Structural benchmarks for end-September 2006

- Prepare an action plan to reduce the energy sector's quasi-fiscal deficit in close cooperation with World Bank staff, addressing problems of transmission and distribution losses, payment indiscipline, and tariff adjustment.
- Expand the operation of the Large Taxpayers Unit to cover at least 60 percent of tax revenues.

Structural benchmarks for end-December 2006

- Conduct an independent review of the NBKR's internal audit function. The review could be performed by the internal audit department of another central bank, and should include a review of the capacity of the NBKR's internal audit division, as recommended by the Safeguards Assessment Report conducted by Finance Department in 2005.
- Bring KAFC to the point of sale and issue a privatization tender for the company.
- Submit to IMF staff a report prepared by the Ministry of Labor and Social Protection recommending measures to improve labor market flexibility.
- Secure approval of legislation that has been already sent to parliament to enhance the NBKR's legal independence and ensure legal protection of its employees in performing official duties.

¹ Actions labeled with an asterisk will be treated as structural performance criteria.

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. The Kyrgyz Republic's performance during the period January 1, 2005–December 31, 2007 under the three-year PRGF-supported program will be assessed by the IMF on the basis of the observance of quantitative performance criteria and structural benchmarks. This memorandum and its attached tables define the quantitative performance criteria and indicative targets under the poverty reduction and growth facility (PRGF) arrangement.⁸ This update reflects the changes made to the program as defined in the Memorandum of Economic Policies (MEP).

2. The program exchange rate of the Kyrgyz som to the U.S. dollar is set at som 42 = \$1. The program cross exchange rates and program gold price referred to in the MEP or this Technical Memorandum of Understanding (TMU) for 2006 are provided in Table 11.

I. QUANTITATIVE PERFORMANCE CRITERIA

3. The quantitative targets (i.e., quantitative benchmarks for end-September 2006, and quantitative performance criteria for end-June and end-December 2006) presented in Table 1 of the MEP are defined below.

Floor on net international reserves of the National Bank of the Kyrgyz Republic (NBKR) in convertible currency

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

5. Total gross 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 or with foreign banks, and debt instruments (including accrued interest). Amounts pledged as collateral or in swaps or otherwise blocked, capital subscriptions in foreign financial institutions, and illiquid assets of the NBKR are excluded. Also excluded are net forward positions, defined as the difference between the face value of foreign currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. In addition, net claims on other Commonwealth of Independent States (CIS) countries are excluded from the floor. For program monitoring purposes, gross international reserves shall be valued at program exchange rates and gold prices.

⁸ Central government and republican government are synonymous in this memorandum. State government comprises central and local governments. General government comprises the state government and the Social Fund.

6. Total international reserve liabilities of the NBKR in convertible currencies shall be defined as outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. For program monitoring purposes, total international reserve liabilities shall be valued at the program exchange rates. Thus calculated, the stock of net international reserves in convertible currencies amounted to \$416 million as of December 31, 2005.

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

Table 1. Floors on NIR of the NBKR in Convertible Currencies 1/
(In millions of U.S. dollars)

March 31, 2006 (benchmark)	367
June 30, 2006 (performance criterion)	412
September 30, 2006 (benchmark)	413
December 31, 2006 (performance criterion)	457

1/ End-of-period stocks.

8. The floor on net international reserves of the NBKR will be adjusted:
(a) upward/downward by 100 percent for any excess/shortfall in net foreign financing defined in paragraph 9 below; (b) upward by 30 percent for any nonprogrammed cash grants; and (c) upward/downward by 100 percent for any excess/shortfall in cash privatization receipts in foreign exchange. Valued at the program exchange rate, the program cash privatization receipts are equivalent to \$5 million in the fourth quarter of 2006. The total adjustment in respect of adjustors (a) and (c) is to be limited to \$25 million, valued at the program exchange rate.

9. 'Net foreign financing and cash grants' is defined as balance of payment support loans, plus cash grants to the state government budget, plus any changes in the balance of unused PIP funds held at the NBKR minus amortization (excluding repayments to the Fund) and interest payments on external debt made by the ministry of finance and NBKR. This definition applies to the adjustors to both the NIR and the NDA. The program cumulative net foreign financing is given in Table 2. The balance of unused PIP funds was equivalent to \$0.03 million as of December 31, 2005.

Table 2. Projected Net Foreign Financing and Cash Grants 1/
(In millions of U.S. dollars)

March 31, 2006	0.8
June 30, 2006	3.9
September 30, 2006	1.6
December 31, 2006	18.4

1/ Cumulative from the beginning of the calendar year.

Ceiling on the net domestic assets of the NBKR

10. Net domestic assets of the NBKR are defined as reserve money of the NBKR (defined below), minus the NBKR's net foreign assets,⁹ minus the medium- and long-term NBKR obligations (MLT), minus the counterpart of the loan by the Eximbank of Turkey, minus the counterpart of the EBRD and IDA enterprise loans (Equation 1).

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

11. Thus defined, the NBKR's net domestic assets consist of: (a) gross credit to the general government from the NBKR, minus deposits of the general government with the NBKR, minus the counterpart of the loan by the Eximbank of Turkey; (b) gross credit to domestic banks by the NBKR, minus the counterpart of the EBRD and IDA enterprise loans; and (c) all other net assets of the NBKR (other items net). Thus defined, the stock of the NBKR's net domestic assets amounted to som -1,943 million on December 31, 2005.

12. The program ceilings on the NDA of the NBKR are reported in Table 3 below.

Table 3. Ceilings on the NDA of the NBKR 1/
(In millions of soms)

March 31, 2006 (benchmark)	-1566
June 30, 2006 (performance criterion)	-1,752
September 30, 2006 (benchmark)	-1,413
December 31, 2006 (performance criteria)	-1,469

1/ End-of-period stocks.

⁹ The NBKR's net foreign assets consist of net international reserves, as defined in this TMU, plus other foreign assets, plus the net claims on other CIS countries.

13. The ceiling on net domestic assets of the NBKR will be adjusted: (a) downward/upward by 100 percent of the excess/shortfall in net foreign financing of the state government budget; (b) downward by 30 percent for any nonprogrammed cash grants; and (c) downward/upward by 100 percent of the excess/shortfall of cash privatization receipts. The total adjustment for shortfalls in adjustors (a) and (c) is to be limited to \$25 million, valued at the program exchange rate.

Ceiling on the cumulative primary fiscal deficit of the general government

14. The general government primary fiscal deficit excluding grants is defined as the sum of: (a) the change in the stock of net claims of the domestic banking system and nonfinancial institutions—including state-owned enterprises and public companies—and households on the general government; (b) the change in the stock of net claims of the foreign banking system and nonfinancial institutions and households on the general government; (c) net privatization receipts; (d) net foreign loans disbursed to the state government for budgetary support; and (e) net foreign loans disbursed to the general government for project financing. From this total, foreign grants received by the general government and accrued interest on the general government are deducted. The fiscal balance will be measured at the program exchange rates, unless foreign currency-denominated assets or liabilities are converted into domestic currency upon receipt or accrual. The ceiling of the cumulative general government fiscal deficit will be adjusted upward by the full amount of any excess in program foreign grants.

15. The change in the stock of net claims of the domestic and foreign banking systems on the general government is defined as the change in the stock of claims of these banking systems on the general government, less the change in the stock of all deposits of the general government with these banking systems. The claims of these banking systems on the general government include: (a) bank loans to general government; (b) securities or bills issued by the general government held by banks with the exception of those issued in relation with bank rescue operations; and (c) overdrafts on the current accounts of the general government with banks.

16. The program ceilings on the cumulative primary deficit (excluding grants) of the general government are reported in Table 4 below.

Table 4. Ceilings on the Primary Deficit (excluding grants) of the General Government 1/

(In millions of soms)

March 31, 2006 (benchmark)	1,099
June 30, 2006 (performance criterion)	1,377
September 30, 2006 (benchmark)	2,541
December 31, 2006 (performance criteria)	3,701

1/ Cumulative beginning from the beginning of the calendar year.

Cumulative floor on state government tax collections in cash

17. Tax collections in cash correspond to the line “IV. Tax Receipts” in the Treasury Report and comprise the following categories: 1.0 tax on income and profits; 2.0 taxes on goods and services; 3.0 specific taxes on services; 4.0 taxes on property; and 5.0 taxes on international trade. Cumulative tax collections in cash include collections of tax arrears but exclude tax offsets.

18. The program floors for the cumulative state government cash tax collection are reported in Table 5 below.

Table 5. Floors on State Government Cash Tax Collections 1/

(In millions of soms)

March 31, 2006 (benchmark)	3,599
June 30, 2006 (performance criterion)	7,933
September 30, 2006 (benchmark)	12,512
December 31, 2006 (performance criterion)	17,650

1/ Cumulative from the beginning of the calendar year.

Ceiling on the stock of central government budget arrears

19. For the purposes of the program, central government budget arrears are defined as an overdue payment obligation of the republican budget arising since the start of the three-year program period (January 1, 2005) and related to: (a) wages; (b) Social Fund payroll contributions; (c) mandatory transfers to the Social Fund; (d) categorical grants; (e) payments of electricity bills; and (f) allowances to poor families. A payment is defined to be overdue if it remains unpaid after its due date for (c) and (d); for 30 days after its due date for (a) and (b); for 60 days after its due date for (e); and for 40 days after its due date for (f). The program ceilings on the stock of central government budget arrears are zero at each test date.

Ceiling on the stock of Social Fund pension arrears

20. A pension payment by the Social Fund is defined as overdue if it has come due since the start of the three-year program period (January 1, 2005) and remains unpaid for 30 days or more after its due date. The program ceilings on the stock of Social Fund pension arrears are zero at each test date. No new pension arrears will be accumulated.

Floor on the Social Fund payroll tax collections in cash

21. Payroll tax collections in cash correspond to the total cash contributions collected by the Social Fund from both employers and employees for a given period.
22. The program floors for the Social Fund tax collections in cash are reported in Table 6 below.

Table 6. Floor on Social Fund Cash Payroll Tax Collections 1/

(In millions of soms)

March 31, 2006 (benchmark)	1,100
June 30, 2006 (performance criterion)	2,292
September 30, 2006 (benchmark)	3,430
December 31, 2006 (performance criterion)	4,823

1/ Cumulative from the beginning of the calendar year.

Ceiling on the stock of Social Fund arrears to the medical insurance fund

23. Social Fund arrears to the Medical Insurance Fund are defined as overdue transfer obligations of the former to the latter as defined by law and refer to arrears incurred starting January 1, 2005. A transfer is defined to be overdue if the value date of any transfer obligation is more than five business days after the due date. The program ceilings on the stock of Social Fund pension arrears to the Medical Insurance Fund are zero at each test date.

Ceilings on contracting or guaranteeing of new external debt by the state government of the Kyrgyz Republic or the NBKR or any other agency acting on behalf of the state government

24. In connection with the contracting or guaranteeing of external debt by the state government of the Kyrgyz Republic, the NBKR, or any other agency acting on behalf of the state government of the Kyrgyz Republic, “debt” is understood to have the meaning set out in point 9 of the Guidelines on Performance Criteria with respect to External Debt in Fund arrangements (Decision No. 12274-00/85, dated August 24, 2000).¹⁰

¹⁰ Debt 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. Debt can take a number of forms, the primary ones being as follows: (a) loans, i.e., advances of money

(continued)

25. External debt ceilings apply to (a) the contracting or guaranteeing of short term external debt (i.e. external debt with an original maturity of less than one year, except normal import-related credits and NBKR reserve liabilities); and (b) contracting or guaranteeing of **nonconcessional** medium- and long-term external debt (i.e., external debt with an original maturity of one year or more). Disbursements by the Fund from the PRGF Trust are excluded from the ceilings on external debt. Also excluded from these external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt at terms more favorable to the debtor. The limit on the contracting or guaranteeing of short-term external debt is zero on a continuous basis throughout the period of the arrangement. The limit on the contracting or guaranteeing of medium- and long-term nonconcessional external debt is zero as specified in Table 2 of the MEP.

Ceiling on new external payments arrears

26. For the purposes of the program, external payments arrears will consist of all debt-service obligations (i.e., payments of principal or interest) arising in respect of any debt contracted or guaranteed or assumed by the state government of the Kyrgyz Republic, or the NBKR, or any agency acting on behalf of the state government of the Kyrgyz Republic since the Kyrgyz Republic's independence, including, without limitations, unpaid penalties, interest charges or judicially awarded damages associated with these arrears owed by the state government of the Kyrgyz Republic, or the NBKR, or any agency acting on behalf of the state government of the Kyrgyz Republic, on imports received subsequent to independence. The ceiling on new external payments arrears shall apply on a continuous basis throughout the period of the arrangement.

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); (b) 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 (c) 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. Under the above definition of debt, 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.

II. INDICATIVE TARGETS

Ceiling on reserve money

27. 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 indicative program limits are reported in Table 7 below.

Table 7. Ceilings on Reserve Money 1/

(In millions of soms)

March 31, 2006	13,750
June 30, 2006	15,549
September 30, 2006	15,905
December 31, 2006	17,708

1/ End-of-period stocks.

Ceiling on the quasi-fiscal deficit of the electricity sector

28. The quasi-fiscal deficit (QFD) of the electricity sector is defined as cost of production minus cash revenues:

$$(1) \text{ QFD} = \text{Q} * \text{MC} - \text{R};$$

$$(2) \text{ Q} = 1 / (1 - \ell) * (\sum \text{Ci});$$

$$(3) \text{ R} = (\sum \text{Ci}) * \text{T} * \text{Ccash},$$

where:

Q is the domestic supply (generation plus import minus export) minus normative losses;

MC is the marginal cost of production required for efficient supply of Q;

R is the total cash revenue;

$\sum \text{Ci}$ is the sum of consumption by all end-users (households, industry, agriculture, budgetary institutions, and other);

ℓ is the annual average loss rate of excessive (i.e., above normative) technical and commercial losses in percent of Q;

T is the annual weighted average of posted (or nominal) tariffs for end-users; and

Ccash is the ratio of annual average cash collections to total billing to end-users.

29. For the purposes of the program, the marginal cost of production is equal to U.S. cents 2.3 per kilowatt hour, and normative losses (including own use) are defined as 15 percent of domestic supply. Total billing of end-users is defined as consumption times the posted nominal tariff. The cash collection component is the amount of bills paid in cash to the energy companies, and excludes any form of cash-to-cash settlements, off-sets, barter, or other noncash payments. The indicative ceiling on the quasi-fiscal deficit in the electricity sector is as follows (Table 8).

Table 8. Ceiling on Quasi-Fiscal Deficit in the Electricity Sector 1/
(In millions of soms)

June 30, 2006	3,745
December 31, 2006	6,509

1/ Cumulative from the beginning of the calendar year.

Ceiling on contracting or guaranteeing of concessional external debt

30. The annual ceiling on the contracting or guaranteeing of new concessional external debt by the state government of the Kyrgyz Republic or the NBKR or any other agency working on behalf of the state government is set by the U.S. dollar nominal sum of project loan agreements yet to be signed and agreed, plus balance of payments support loans required to fill the external financing gap, as programmed. Pursuant to monitoring this indicative target ceiling, the ministry of finance will provide quarterly information on the total nominal U.S. dollar value of: (a) new project and program loans signed and agreed during the previous three-month period; and (b) new project and program loans planned, but yet to be signed and agreed, during the previous three-month period. The annual indicative ceilings on the contracting or guaranteeing of new medium- and long-term concessional external loans for 2006 are specified in Table 9.

Table 9. Annual Indicative Ceiling on Contracting and Guaranteeing of New
Concessional Loans in 2006 1/
(In millions of U.S. dollars)

With disbursements beginning in:	
2006	25
2007	73

1/ New concessional loans signed in 2006, excluding contingency amounts.

These ceilings are nominal debt lumped by the year in which their disbursements commenced. For 2006, the limit implies contracting loans of which \$25 million will start disbursing in 2006 and \$73 million in 2007.

31. 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. The average of the CIRRs over the last 10 years will be used for debts with maturity of at least 15 years and the average CIRR of the preceding six months will be used for shorter maturities.

III. REPORTING REQUIREMENTS UNDER THE PROGRAM

32. 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:¹¹

The balance sheet of the NBKR

33. The NBKR will provide to the Fund its balance sheet on a daily basis. The information provided will clearly identify the following items in the definitions specified above: the gross foreign assets and liabilities of the NBKR, decomposed by currency and instrument for the assets and by currency and creditor for the liabilities; the net foreign assets of the NBKR; the net international reserves of the NBKR; medium- and long-term liabilities; the net domestic assets of the NBKR; net credit from the NBKR to the general government; net credit from the NBKR to commercial banks; the balance of unused PIP funds held in the NBKR; 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 will be provided to the IMF Resident Representative and/or transmitted by e-mail to the Fund.

Monetary survey

34. 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 will 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 government, 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.

¹¹Any correction or revisions to the data previously reported should be clearly indicated and documented as to the reasons for revision.

35. 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, GKO, 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

36. 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 NBKR accounts; second, at those specified in the program (Section I). In addition, weekly reports should be sent to the Fund 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, on a daily basis; and (b) treasury bill yields and the amount of treasury bill sales and redemptions on a weekly basis every Monday. On the 25th day of the month following the reference month, the NBKR will provide indicators of financial soundness of the banking system, including the ratios of regulatory capital to risk-weighted assets, nonperforming loans to total loans, and return on equity, as well as data on bank deposit and lending rates by maturity.

Banking system data

37. 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 as well as any penalties, sanctions and other administrative actions imposed on banks; and (b) reserve requirements on a weekly basis.

External debt

38. 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 the 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 extra budgetary data

39. 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 TMU. 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.

40. The State Energy Agency, in consultation with the ministry of finance and the World Bank, will submit to Fund staff each March and September their semi-annual report on the electricity sector QFD according to the format specified in Table 10 below.

Balance of payments data

41. 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

42. 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 10. Kyrgyz Republic: Electricity Quasi-Fiscal Deficit

	Period
Production (GWh) 1/	
Losses (GWh)	
Loss Rate (in percent) 2/	
Consumption (GWh)	
Tariff (\$ct/kWh) 3/	
Cash Collection Rate (in percent)	
Effective Tariff (\$ct/kWh) 4/	
cash effective rate	
total effective rate	
Cost Recovery Tariff (\$ct/kWh) 5/	
Quasi-Fiscal Deficit	
in percent of GDP	
in \$ millions	
in millions of soms	

1/ Generation plus imports minus exports minus normative losses.

2/ Excess technical and commercial losses as percent of production.

3/ Average posted tariff, calculated as quotient of total bill and consumption volume.

4/ Nominal tariff times cash collection rate

5/ Marginal costs, derived from marginal incremental capital cost.

Table 11. Program Cross Exchange Rates

Currency Names		National Currency/US\$	US\$/National Currency
SDR		0.6712	1.4899
GBP	UK pound sterling	0.5481	1.8243
DKK	Danish krone	5.8893	0.1698
EUR	Euro	0.7920	1.2625
INR	Indian rupee	45.6184	0.0219
CAD	Canadian dollar	1.2444	0.8036
CNY	Chinese yuan	8.2765	0.1208
KRW	South Korean won	1,697.3875	0.0006
NOK	Norwegian krone	6.5116	0.1536
TRL	Turkish lira	1,480,190.1408	0.0000
SEK	Swedish krona	7.2007	0.1389
CHF	Swiss franc	1.2185	0.8207
JPY	Japanese yen	107.5896	0.0093
AZM	Azerbaijani manat	4,905.0092	0.0002
AMD	Armenian dram	507.0856	0.0020
BYR	Belarusian rubel	2,171.0169	0.0005
KZT	Kazakh tenge	132.4847	0.0075
LVL	Latvian lats	0.5380	1.8587
LTL	Lithuanian litas	2.7422	0.3647
MDL	Moldavian lei	12.3694	0.0808
RUR	Russian ruble	29.1158	0.0343
TJS	Tajik somoni	3.0229	0.3308
UZS	Uzbek sum	1,043.1117	0.0010
UAH	Ukrainian hryvnia	5.3065	0.1884
EEK	Estonian kroon	12.3927	0.0807
AUD	Australian dollar	1.3556	0.7377
	Gold (\$/troy ounce)		426.2000

KYRGYZ REPUBLIC—FUND RELATIONS
(As of February 28, 2006)

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

II. General Resources Account	SDR Million	Percent of Quota
Quota	88.80	100.00
Fund Holdings of Currency	88.80	100.00
Reserve Position	0.00	0.01

III. SDR Department	SDR Million	Percent of Allocation
Holdings	16.60	N/A

IV. Outstanding Purchases and Loans	SDR Million	Percent of Quota
PRGF Arrangements	121.30	136.60

V. **Latest Financial Arrangements**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	03/15/2005	03/14/2008	8.88	2.53
PRGF	12/06/2001	03/14/2005	73.40	73.40
PRGF	06/26/1998	07/25/2001	73.38	44.69

VI. **Projected Payments to Fund**
(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2006	2007	2008	2009	2010
Principal	15.45	16.12	14.80	14.73	6.24
Charges/Interest	0.57	0.49	0.41	0.33	0.25
Total	16.02	16.61	15.21	15.06	16.49

VII. **Implementation of HIPC Initiative.** Not Applicable.

VIII. **Implementation of MDRI Assistance.** Not Applicable.

IX. Safeguards Assessments

Under the Fund's safeguards assessment policy, the National Bank of the Kyrgyz Republic (NBKR) is subject to an assessment with respect to the PRGF arrangement, which was approved on March 15, 2005. An updated safeguards assessment of the NBKR was completed on October 14, 2005. The assessment found that the NBKR's safeguards framework has been strengthened since the previous assessment completed in 2002. However, a number of areas were identified where further steps would solidify the progress achieved, which include improving oversight of the audit processes and the internal control systems by establishing an audit committee, strengthening the legal framework for NBKR's autonomy, and enhancing the NBKR's internal audit function.

X. Exchange Rate Arrangements

The currency of the Kyrgyz Republic has been the som (100 tyiyn =1 som) since May 15, 1993. The Kyrgyz Republic's exchange regime is classified as a managed float with no pre-announced path for the exchange rate. The NBKR publishes daily the exchange rate of the som in terms of the U.S. dollar, which is determined in the interbank foreign exchange market. The Kyrgyz Republic maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board decision No. 144-(52/51).

XI. Article IV Consultations

The Kyrgyz Republic is on the 24-month consultation cycle. The last Article IV consultation discussions were held in August–October 2004 and were completed by the Executive Board on November 19, 2004. At the same time, the Executive Board considered the staff's Ex Post Assessment of Longer-Term Program Engagement.

XII. FSAP Participation and ROSC Assessment

FSAP missions were held in May and September 2002, and the discussions were concluded during the 2002 Article IV consultation. A ROSC Fiscal Transparency mission was held in March 2001 and the ROSC Fiscal Transparency Module was published on March 13, 2002. A ROSC Data mission was held in November 2002 and the ROSC Data Module was published on November 10, 2003.

XIII. Resident Representative

The sixth resident representative of the Fund in the Kyrgyz Republic, Mr. Michael Mered, has held his post in Bishkek from July 19, 2004.

KYRGYZ REPUBLIC—RELATIONS WITH THE WORLD BANK GROUP
(As of March 24, 2006)

1. The current Country Assistance Strategy (CAS) for the World Bank Group was endorsed by the World Bank Board of Directors in May 2003 and covers the period FY 03–06. The CAS is based on the government’s National Poverty Reduction Strategy Paper, which seeks to capitalize on major reforms to date while maintaining a reform and growth course, that will reduce poverty and enhance prospects for debt sustainability. At present, the World Bank country team jointly with development partners—ADB, DFID, SECO, and UN agencies—has started the preparation of Joint Country Support Strategy for FY 07–10.
2. **International Development Association (IDA).** Since the Kyrgyz Republic joined the World Bank in September 1992, it has received commitments of \$733 million for 34 IDA-funded projects, out of which \$568 million have already been disbursed. Out of 17 operations totaling \$432 million completed so far, eight structural adjustment credits, including a recently closed CSAC project, provided quick disbursing support for the government’s economic reform programs in privatization, enterprise restructuring, agricultural policy, financial sector, public sector resource management, pension reform and energy reform. Nine investment operations supported reform and rehabilitation of the telecommunications sector, social safety nets, health, rural finance, private enterprises and livestock development. In addition, the Kyrgyz Republic was included in two regional projects, with a grant funded by the Global Environmental Facility.
3. The active Bank portfolio in the Kyrgyz Republic comprises 17 operations with total commitments of \$261.3 million, of which \$131.5 million (50.32 percent) remains to be disbursed. A Health & Social Protection project was approved by the Board on December 15, 2005 which is expected to be effective by April 1, 2006. Additionally a project for Avian Influenza Control and Human Pandemic Preparedness and Response—not planned under the current CAS—has been approved by the Board (February 13, 2006) and will be financed on a grant basis to the value of \$6.4 million. Two new projects—Water Management Improvement and Reducing Technical Barriers for Entrepreneurship and Trade—are planned for Board discussion by July, 2006. All newly approved projects will be funded on a grant basis.
4. The World Bank Group’s operational objective for the next six months is to deliver all agreed projects under the current CAS and continue supporting the ongoing government’s efforts to improve energy sector performance, the business environment, the banking sector, governance, public expenditure management, intergovernmental finance, the pension system, social protection, health, water and sanitation, and agriculture, and to enhance the portfolio performance. It will continue assisting the government with economic sector work and capacity building. In this endeavor, the Bank has delivered a trade and growth study, a poverty assessment, an agriculture policy update, and a PPER the under country economic memorandum. In addition, the Bank recently approved NPRS Trust Fund for the Kyrgyz

Republic to support the government in NPRS-II preparation. The World Bank Institute has delivered a number of training events related to poverty analysis, gender, community empowerment and economic competitiveness and is ready to support the government with NPRS-II preparation.

5. **International Finance Corporation (IFC).** The IFC strategy focuses on institution and capacity building through investment and technical assistance to promote private sector development, especially small and medium-size enterprises (SMEs), and support the transformation into a market-based economy. IFC's portfolio has grown steadily to \$17.4 million. Building upon IFC's initial investment in the financial sector (the Demir Kyrgyz International Bank), IFC has played an instrumental role in establishing 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 micro enterprises. This investment was accompanied by technical assistance to FINCA to facilitate its transformation and to the government to develop the appropriate regulatory framework. IFC has also provided technical assistance to review and develop the legal and regulatory framework for leasing. The largest investment in the existing portfolio is the Kumtor gold mine, with additional investments in a packaging plant (Altyn-Ajydar). In 2002, under the Small Enterprise Fund (SEF) procedure, IFC disbursed a direct investment into a pasta plant (Akun) in the amount of \$1.4 million. The IFC Board also approved in May 2002 a micro and small enterprise facility for Central Asia, with IFC investment of \$45 million. In the same year, the Central Asia Small Enterprise Fund (CASEF) was set up in collaboration with other lenders. The amount of IFC's investment into this fund is \$2.5 million. The fund will provide equity, quasi-equity, and debt financing, as well as technical and managerial assistance to growth-oriented SMEs. 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 efforts to develop leasing activities, and support agri-business for local and export markets. Technical assistance with a focus on developing tourism has been undertaken in the sector. IFC has also reviewed the IT sector, including its investment opportunities and development potential. In 2005, IFC has continued implementing its investment and technical assistance program in the Republic. IFC is planning to directly finance a packaging production enterprise and a microfinance company to provide several credit lines to local commercial banks for small business financing and leasing activities. It is also planning to start a regional technical assistance project to improve corporate governance in enterprises of Central Asia, as well as to provide technical assistance to improve the legal and regulatory framework for housing finance.

6. **Multilateral Investment Guarantee Agency (MIGA).** MIGA has supported private sector development in the Kyrgyz Republic by extending guarantees to foreign direct investments in four projects in the manufacturing, services, and mining sectors. Three are currently outstanding—two related to airport services at Manas airport and one related to the Kumtor gold mine. The total amount of foreign direct investment facilitated by 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, under an initiative supported by the Swiss Government. MIGA plans to continue to assist the development of the Kyrgyz Republic through its guarantee program and capacity building. Data on the Kyrgyz Republic are also featured in MIGA's Privatization Link service, which connects potential investors to information on companies slated for divestiture via the Internet.

7. **World Bank contacts:**

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KYRGYZ REPUBLIC—RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ADB)
(As of February 28, 2006)

1. The Kyrgyz Republic became a member of the ADB in 1994 and began receiving assistance in the same year. The country has received 25 loans and 1 grant for a total amount of \$604 million (as of December 31, 2005). Of the total loans, sixteen loans have been closed and nine loans are ongoing. Seven out of the 25 loans are program loans totaling \$199.5 million provided to support policy reforms to facilitate the transition to a market economy. The remaining 18 are project loans and 1 project grant totaling \$404.5 million provided to support various investment activities. At present, 9 loans with approved loan amount of \$185.3 million are ongoing. These loans have an un-disbursed balance of \$112.3 million as of February 28, 2006. All these loans were provided on concessional terms from the Bank's special fund resources—Asian Development Fund (ADF).

2. ADB's average annual lending level during 2002 and 2003 was \$15.25 million. This was much lower than the lending levels in the past, largely due to the government's policy of restrained borrowings as part of its debt strategy. This strategy envisages a reduction in the size of the largely externally funded PIP from about 6 percent of GDP in 2001 to about 3 percent of GDP by 2005. ADB's annual lending began with \$40 million in 1994 and reached the peak level of \$89.2 million by 1997. Thereafter, lending levels fell slightly and hovered between \$65 million and \$75 million through 2001. The level of assistance for the block of two year 2005–06 is determined at \$60.8 million. The allocation for the block of two years 2007–08 is likely to be \$61.1 million. This program will be reviewed, based on the availability of ADF funds and the rules governing grants, to make it consistent with the Government's debt reduction strategy and the limits on the PIP. In addition, ADB had provided 63 technical assistance (TA) projects amounting to \$37.2 million as of today. Of these, 18 are project preparatory TAs amounting to \$11.7 million and the remaining 45 TAs for \$25.5 million are advisory TAs for capacity building, policy advice, institutional strengthening and training. The Kyrgyz Republic has also received 5 JFPR Grants amounting to \$4 million.

3. The performance of ADB's portfolio is generally satisfactory, although two loans were rated at risk. The scarcity of budgetary resources, and ceilings on the externally funded PIP constituted the biggest risks to the country portfolio. ADB and the World Bank have thus sought the removal of quarterly disbursement ceilings, which delay project implementation. In August 2005, IMF agreed to be more flexible in determining annual targets for the PIP, which is expected to improve portfolio performance.

4. ADB's assistance to the country has sought to support the development objectives of the government's National Poverty Reduction Strategy by fostering growth and providing selective support for the social sectors. ADB's strategy for 2006–08 supports government approach to poverty reduction and accomplishment of Millennium Development Goals. In particular, ADB's social sector projects aim to improve access to pre-school and basic education, primary vocational education, and maternity and child health services for the poor.

5. The allocation of ADF resources to the country is based on the government's attainment of performance targets (triggers) in five areas: (a) making steady progress in macroeconomic management and structural reforms in the financial sector, and customs administration; (b) making progress in prioritizing on-going PIP projects; (c) adhering to the national debt reduction strategy; (d) finalizing the NPRS; and (e) implementing a package of legal and judicial reforms for improving the investment climate for the private sector. Accordingly, based on performance, allocation for the Kyrgyz Republic for 2005 and beyond would range between \$14.4 million and \$32 million based on the availability of ADF resources. ADB's annual investment levels averaged \$57.3 million during 1994–2004 and fell down to \$30.4 per year on average in 2005–06. From 2005 onward, up to 50 percent of ADF assistance to the country will be in the form of grants.

6. ADB coordinates its activities closely with the EBRD, IMF, IsDB, World Bank, the UN System, and bilateral donors at all levels of development cooperation. There have been significant strides forward in aid coordination since the last CG meeting held in Bishkek in November 2002, when both the Government and the donors agreed to focus on improving significantly coordination efforts. Since then efforts are being made to share sectoral and operational information and better coordinate lending and technical assistance activities. In 2003, ADB and World Bank, which together account for over 75 percent of the PIP, conducted a joint portfolio review. The Kyrgyz Republic is one of the partnership countries selected for harmonization of donor procedures at the Rome conference on harmonization held in February 2002.

7. The Kyrgyz Resident Mission, which plays a pivotal role in aid coordination, is participating in the working group set up by the Government to identify areas for harmonization of donor procedures. The areas identified for harmonization in the immediate future are: (a) procedures for procurement of goods and services; (b) financial management and monitoring of projects; and (c) project implementation units. World Bank and ADB procurement documentation has been harmonized in these areas.

8. In September 2005, ADB together with other major bilateral and multilateral agencies providing assistance to Kyrgyz Republic, participated in discussions of a joint Country Support Strategy for more effective aid delivery.

**KYRGYZ REPUBLIC—RELATIONS WITH THE EUROPEAN BANK FOR
RECONSTRUCTION AND DEVELOPMENT (EBRD)**
(As of December 31, 2005)

1. The EBRD facilitates the transition to a market-based economy through its direct support for private sector investment and key infrastructure, and targeted technical assistance. Under its recently introduced Early Transition Countries' Initiative (ETCI), which is of particular relevance to the Kyrgyz Republic, the Bank is introducing innovative instruments, and will consider smaller, more difficult and riskier projects. The ETCI also foresees technical cooperation (TC) to support investment development.

2. According to the Strategy for the Kyrgyz Republic approved in November 2004, the Bank's priorities for the period of 2004–06 are to: (a) foster the private sector; (b) strengthen the financial sector; (c) provide support for essential infrastructure; and (d) strengthen the policy dialogue to improve the investment climate and support reform efforts.

3. As of 31 December 2005, the Bank had approved 38 projects (including restructurings) for a total value of EUR 766.7 million, out of which the Bank had financed 23 percent for a gross commitment of EUR 174.1 million. During the past three years, the Bank expanded its activities in the financial sector to include:

- The Kyrgyz Micro and Small Enterprises Financing Facility (MSEFF): \$20 million approved in 2002 had fully utilized and a second MSEFF line of \$30 million was approved at the beginning of 2005 with component of rural agricultural financing. As of 31 December 2005, more than \$67 million (cumulative) had been disbursed to 36,057 small and medium-size enterprises via six participating local commercial banks. In 2005, the bank signed credits with non banking institutions—Bai-Tushum, and FINCA.
- Equity investments in Ineximbank, Demir Bank, and KICB.
- Expansion of Trade Facilitation Program (TFP). Four banks are participants in the TFP.
- In 2004, the Bank signed a cofinancing facility of \$4 million to KICB. This new ETC product is provided to meet financing needs of emerging medium-sized private companies. The first sub loan agreement has been signed on December 26, 2005 for EUR 450,000.

Other activities of the Bank include:

- Five investments (equivalent to \$2.7 million) via the Direct Investment Facility.

- \$20 million loan and \$10 million sub debt, since converted into \$17 m equity participation in Centerra Gold (the Bank's senior loan have been fully repaid).
- Loan to Hyatt-Regency Hotel.
- Loan to Interglass plant, \$6 million in 2004.
- Loan to Limatex (cotton-processing plant), \$1 million in 2005.
- Loan to Raduga Invest (resort on Issyk-Kul lake), \$6 million in 2005.

The Bank is implementing/monitoring public sector entities, including:

- Modernization of the telecommunications network (\$9.4 million 1994).
- Two projects to upgrade electricity transmission networks in Issyk-Kul and Talas regions (\$38 million 1995 and \$24.7 million 1997 respectively).

4. The Bank also implements grant-funded TC to support its investment portfolio, including the financial sector (MSEFF among others), natural resources/environment, agribusiness and infrastructure. Total TC provided is equivalent to more than EUR 16 million. Recent TCs include:

- In telecoms, for development of improved access arrangements between telecoms operators;
- Training for judges in commercial law;
- Roll out of the Business Advisory Service and Turn Around Management programs, providing consulting services to viable businesses.

5. Finally, the Bank maintains an active dialogue with the government. For example, the Bank was instrumental in founding the International Business Council, which is devoted to working with the government on improving the investment climate. The Bank also has provided guidance on legal reforms, such as the newly revised Law on Pledge.

**KYRGYZ REPUBLIC—TECHNICAL ASSISTANCE PROVIDED BY THE FUND,
FEBRUARY 2003—APRIL 2006**

Dept.	Subject/Identified Need	Timing	Counterpart
FAD	Improving the Effectiveness of the Large Taxpayer Unit	February 24– March 7, 2003	Ministry of finance
	Treasury Management Information System	July 21–29, 2003	Ministry of finance
	VAT on agriculture	November 3–11, 2003	Ministry of finance
	Priorities for Tax Administration Reform	July 22–August 5, 2004	Ministry of finance
	Supporting Tax Administration Reform and installing new Expert Advisor	January 16–28, 2006	Prime minister's office
MFD	Review of the Capital Adequacy and Dividend Arrangements for the National Bank of the Kyrgyz Republic	August 18–28, 2003	National Bank of the Kyrgyz Republic
	Review of Debt Restructuring Operation and 2003 Financial Reporting	October 28–November 10, 2003	National Bank of the Kyrgyz Republic
	Monetary Operations, Banking System Development, and Central Bank Autonomy	September 13–23, 2004	National Bank of the Kyrgyz Republic
	Review of NBKR Debt Restructuring Arrangements, Options for Deepening Financial Markets and Amendments to the NBKR Law	December 7–18, 2004	National Bank of the Kyrgyz Republic
	Payments System	January 25–February 7, 2005, April 12–25, 2005, and October 18–27, 2005, February 20–March 5, 2006	National Bank of the Kyrgyz Republic
	Bank Supervision and Regulation	February 23–March 8, 2005, May 18–28, 2005, July 17–28, 2005, October 02-13, 2005, January 15–26, 2006, February 12–23, 2006, March 20–30, 2006	National Bank of the Kyrgyz Republic
	FSAP update	September 4–15, 2005	National Bank of the Kyrgyz Republic

**KYRGYZ REPUBLIC—TECHNICAL ASSISTANCE PROVIDED BY THE FUND,
FEBRUARY 2003—APRIL 2006**

Dept.	Subject/Identified Need	Timing	Counterpart
LEG	Update of the AML/CFT Legislation (jointly with MFD)	February 5–11, 2004	National Bank of the Kyrgyz Republic
	Review of Bank Legislation	March 1–4, 2004 April 26–May 6, 2004	National Bank of the Kyrgyz Republic
	Review of Tax Legislation	July 27–August 5, 2004	Ministry of finance
	Assisting in drafting Tax Code	December 4–10, 2005	Prime minister's office
STA	SDDS Subscription	January 28–February 5, 2004	National Statistical Committee
	Balance of Payments Statistics	March 15–29, 2004	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 27–May 11, 2004	National Bank of the Kyrgyz Republic

List of Resident Advisors

MFD	Banking Supervision/Restructuring Advisor	Mr. Svartsman	January 2004– January 2005
MFD	Public Debt Policy and Management	Mr. Azarbajevani	December 2002– December 2004

KYRGYZ REPUBLIC: STATISTICAL ISSUES

General framework

1. The three institutions responsible for collecting, compiling and disseminating macroeconomic statistics—the National Statistics Committee (NSC), the ministry of finance (MOF), and the National Bank of Kyrgyz Republic (NBKR)—have legal and institutional environments that support statistical quality, and their respective staff are well versed in current methodologies. Unlike staff resources, however, computer and financial resources are generally not commensurate with current needs and therefore constrain statistical development, especially for the NSC.
2. The NSC maintains a comprehensive and regularly-updated web site with data that largely incorporate international methodological recommendations and adequate coverage and timeliness (<http://www.stat.kg>). The Kyrgyz Republic subscribes to the Special Data Dissemination Standard (SDDS).
3. A data ROSC mission in November 2002 assessed the Kyrgyz Republic's data dissemination practices against the GDDS and undertook an in-depth assessment of the quality of national accounts, prices, government finance, monetary, and balance of payments statistics. The mission concluded that the quality of the Kyrgyz Republic's macroeconomic statistics had improved significantly in the last few years. The authorities had established a good track record of implementing recommendations of past technical assistance missions in statistics and had demonstrated commitment to pursue plans and programs to further improve their statistics. The mission recommended that a program of regular intersectoral consistency checks be introduced to reduce the sometimes significant, unexplained discrepancies between the government finance and monetary and balance of payments datasets. The authorities' response to the data module ROSC (posted on the IMF website (www.imf.org/external/np/rosc)) includes an update on the status of implementation of the ROSC mission's recommendations.
4. In February 2004, following improvements in compilation and dissemination of the reserves template and external debt data, the Kyrgyz Republic subscribed to the SDDS.

National accounts

5. In general, dissemination of national accounts statistics is timely. Technical assistance has been received from the IMF, EUROSTAT, OECD, the World Bank, and bilateral donors. While significant progress has been made in improving the national accounts estimation process, problems persist regarding the quality of the source data, due mainly to excessively tight collection deadlines associated with the national accounts release schedule. Efforts are needed to improve the quality of the source data for quarterly GDP estimates. Moreover, subannual national accounts statistics are still prepared on a cumulative basis rather than by discrete time periods. 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 sampling procedures. Improved sampling procedures have been adopted for household surveys and new report forms are being introduced for the enterprise survey. The NSC has established a division of sample surveys, which would assist in improving the sampling techniques.

Prices, wages, and employment

6. The concepts and definitions used in the consumer price index (CPI), which has been published since January 1995, are broadly consistent with international standards. The price index covers all urban resident households of all sizes and income levels, but excludes rural households, which comprise the majority of the population. The ROSC mission recommended that the authorities expand the coverage of the CPI to include rural households.

7. The producer price index (PPI), which has been published since October 1996, is compiled broadly in accordance with international standards, although its coverage needs to be improved. The coverage of the PPI was broadened in May 1997 and is expected to be further expanded in the coming years.

8. 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. However, problems in customs administration have led to incomplete coverage of trade and the lack of an appropriate valuation system. Moreover, the quality of data processing by customs has suffered due to the use of an outdated computer software system.

9. 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. Monthly and annual data are not comparable because of different coverage and classifications. These problems extend to employment data as well. The coverage of unemployment includes an estimate of unregistered unemployed.

Fiscal accounts

10. The scope of central government statistics falls short of international standards in that it excludes data for the Social Fund and the externally-financed Public Investment Program, although these data are published separately. Other limitations include the exclusion of financial transactions with domestic banks and the discrepancies between the deficit and financing data. While revenue and expenditure data generally accord with *GFSM 1986*, there are misclassifications in both categories (for example, some nontax revenues are classified as taxes, and certain expenditure items are misclassified in the budget and treasury accounts). Monthly GFS data for *IFS* publication have been reported up to October 2005. GFS data however, are reported each year for the *GFS Yearbook*, with the latest data being for 2001, and only include budgetary central government and local government data.

11. The provision of data on public external debt service has improved. Data on actual debt service, guaranteed debt service, outstanding debt and revised debt projections, are provided on a monthly basis. The quality (including timeliness) of external debt data is adequate. The External Debt Division of the MOF is now solely responsible for monitoring external debt, and this division has benefited from on-site training provided by a Swiss-financed long-term consultant and the computerization of its database.

Monetary sector

12. The 2002 data ROSC mission found that: (a) the residency criterion was not uniformly applied, as the currency denomination was used to classify some transactions with foreign and domestic units; (b) deposits with banks in liquidation were included in broad money; and (c) source data did not provide sufficient information for a more detailed sectoral breakdown (e.g., subsectorization of nonbank institutions as recommended in the *Monetary and Financial Statistics Manual (MFSM)*).

13. An STA mission on monetary and financial statistics visited Bishkek during April 27–May 11, 2004 to (a) follow up on the implementation of the ROSC mission's recommendations; (b) expand the institutional coverage of the broad money survey; and (c) assist the NBKR in implementing the methodology in the *MFSM*. This mission found that the NBKR had made substantial progress in implementing the ROSC mission's recommendations pertaining to monetary statistics. To address the outstanding issues, the mission further recommended that the NBKR (a) improve the basic source data to allow for proper classification of the transactions with foreign and domestic units; (b) fully implement the *MFSM*'s methodology concerning accrual accounting; (c) exclude deposits with banks in liquidation from monetary aggregates and classify them as restricted deposits; and (d) set up a working group to follow up on consistency between monetary and balance of payments statistics. The mission also recommended expanding the current broad money survey to include the accounts of credit unions and micro-finance companies.

14. Monthly monetary data for IFS publication are reported on a regular and timely basis. Since December 2002, monetary data have been reported electronically to STA. In 2005, the NBKR began reporting its monetary data to STA using Standardized Report Forms, which are designed in accordance with the *MFSM*'s methodology.

External sector

15. Data on the balance of payments and international investment position are compiled and disseminated on a quarterly basis. The 2002 data ROSC mission noted that the compilation of balance of payments statistics broadly follows the *Balance of Payments Manual, Fifth Edition (BPM5)*. The NBKR has good arrangements with other agencies to ensure timely data flow. However, because of legal issues related to secrecy provisions, high value transactions cannot be verified with respondents, limiting the ability to cross-check the accuracy of data. Although the data collection program has been expanded in the recent past, coverage deficiencies remain with respect to trade, services, and foreign direct investment.

The NBKR enterprise surveys lack an up-to-date register and have inadequate coverage of enterprises, particularly those in free economic zones. There is also a need to improve compilation procedures for achieving temporal consistency of data, and investigating and reconciling discrepancies.

16. The NSC conducts a quarterly sample survey for the estimation of shuttle trade, and uses customs records on the number of people crossing the border with CIS countries to derive the sample. However, the high value limits applied for free import of goods by individuals have fostered a large shuttle trade, which has complicated estimation of this activity.

17. An STA mission on balance of payments statistics was in Bishkek during March 15–29, 2004 in response to the authorities' request for technical assistance to address compilation issues, and to assess training needs. The mission noted that while improvements have been made in several areas, further improvements were needed in the international transactions reporting system; data sampling methods; and data validation and coverage, particularly on trade, services, private sector external debt and foreign direct investment. The mission developed a questionnaire for collecting data on foreign direct investments and provided guidelines on the collection of data on external debt.

KYRGYZ REPUBLIC: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(As of January 27, 2006)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶	Memo Items:	
						Data Quality–Methodological soundness ⁷	Data Quality–Accuracy and reliability ⁸
Exchange Rates	3/21/06	3/23/06	D	D	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	12/28/06	3/23/06	M	M	M		
Reserve/Base Money	2/21/06	2/23/06	D	D	M	LO, O, LO, LO	LO, O, O, LO, LO
Broad Money	2/28/06	3/17/06	M	M	M		
Central Bank Balance Sheet	2/21/06	2/23/06	D	D	M		
Consolidated Balance Sheet of the Banking System	2/28/06	3/17/06	M	M	M		
Interest Rates ²	3/17/06	3/23/06	W	W	W		
Consumer Price Index	2/28/06	3/15/06	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	12/31/05	2/20/06	M	M	Y	O, LNO, LO, O	LO, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	12/31/05	2/20/06	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	1/31/06	3/2/06	M	M	Y		
External Current Account Balance	12/31/05	2/20/06	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, LO, LO
Exports and Imports of Goods and Services	12/31/05	2/20/06	Q	Q	Q		
GDP/GNP	2/28/06	3/15/06	M	M	M	O, O, LO, O	LO, LO, LO, O, O
Gross External Debt	2/28/06	23/3/06	M	M	Y		

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign and domestic financing only.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

⁷ Reflects the assessment provided in the data ROSC (published on November 2003, and based on the findings of the mission that took place during November 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁸ Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.



Press Release No. 06/97
FOR IMMEDIATE RELEASE
May 12, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under the Kyrgyz Republic's PRGF Arrangement and Approves US\$1.86 million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the second review of the Kyrgyz Republic's performance under its economic reform program supported by a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. Completion of the review was on a lapse of time basis on May 5, 2006 and enabled the Kyrgyz Republic to draw an amount equivalent to SDR 1.27 million (about US\$1.86 million) under the arrangement.

The IMF's Executive Board approved the three-year arrangement on February 23, 2005 (see [Press Release No. 02/54](#)) for an amount equivalent to SDR 8.88 million (about US\$13.6 million). Drawing the amount made available by completion of the second review will bring total disbursements under the arrangement to SDR 3.79 million (about US\$5.59 million).

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in each country's [Poverty Reduction Strategy Paper \(PRSP\)](#). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.