July 2009
IMF Country Report No. 09/209

Kyrgyz Republic: 2009 Article IV Consultation and First Review Under the 18-Month Arrangement Under the Exogenous Shocks Facility—Staff Report; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Kyrgyz Republic.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the combined discussion of the 2009 Article IV consultation and the first review under the 18-Month Arrangement under the Exogenous Shocks Facility with the Kyrgyz Republic, the following documents have been released and are included in this package:

- The staff report for the combined 2009 Article IV consultation and First Review Under the 18-Month Arrangement Under the Exogenous Shocks Facility, prepared by a staff team of the IMF, following discussions that ended on March 18, 2009 with officials of the Kyrgyz Republic on economic policies. Based on information available at the time of these discussions, the staff report was completed on May 11, 2009. 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 staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A Public Information Notice (PIN) and Press Release summarizing the views of the Executive Board as expressed during its May 22, 2009, discussion of the staff report on issues related to the Article IV consultation and the review, respectively.

- A statement by the Executive Director for the Kyrgyz Republic.

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*
Technical Memorandum of Understanding*
*Also be included in Staff Report.

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

Staff Report for the 2009 Article IV Consultation and First Review Under the 18-Month Arrangement Under the Exogenous Shocks Facility

Prepared by the Middle East and Central Asia Department
(In cooperation with other Departments)

Approved by David Owen and Ranil Manohara Salgado

May 11, 2009

Discussions were held in Bishkek during March 4–18, 2009. The team comprised Mr. van Rooden (head), Ms. Bacalu, Ms. Jardaneh (all MCD), Ms. Kongsamut (MCM), and Mr. Wu (SPR), and was assisted by Mr. McHugh (the Fund's Resident Representative in the Kyrgyz Republic). The team met with Prime Minister Chudinov, Deputy Prime Minister for Labor and Social Protection Abdullaeva, Minister of Finance Sultanov, Minister of Trade and Economic Development Japarov, National Bank Chairman Alapaev, other senior officials, and representatives of the donor community and the financial sector.

The last Article IV consultation was concluded on November 3, 2006. The exchange rate regime is classified as an other managed arrangement. The Kyrgyz Republic has accepted the obligations under Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

The Executive Board approved an 18-month arrangement under the high-access component of the Exogenous Shocks Facility (ESF) on December 10, 2008, in the amount of SDR 66.6 million (about $100 million), or 75 percent of quota. The authorities had requested the arrangement to support their economic program to address the consequences of the exogenous shocks that had hit the economy and to manage the effects of the slowdown in regional growth and spillovers from the global financial crisis. A first disbursement of SDR 16.65 million (about $25 million) was made following Board approval.

Staff recommends the completion of the first review under the ESF arrangement, based on the authorities' strong performance and the strength of their policy commitments expressed in the attached supplementary Letter of Intent. A second disbursement of SDR 16.65 million (about $25 million) would become available upon completion of the review.

Data provision is adequate for surveillance and program monitoring, although data could be improved in some areas (Annex VI). The Kyrgyz Republic subscribes to the SDDS.

Contents Page

Boxes

Attachments

Executive Summary

The outlook for the Kyrgyz economy has worsened as the region has been swept up by the global economic crisis. The crisis is hurting the Kyrgyz economy mainly through trade and remittance channels. Russia and Kazakhstan remain key trading partners of the Kyrgyz Republic and the main source of remittances. With these countries in recession, Kyrgyz growth is expected to almost come to a halt this year, before recovering modestly in 2010. Inflation has come down sharply to 13.6 percent in March 2009, as world commodity prices eased, and is expected to slow further to about 10 percent by year-end.

Policy implementation under the ESF program approved in December 2008 has been strong. All end-2008 performance criteria and structural benchmarks were observed. Policies have been aimed at supporting growth and the poor, while reducing inflation and maintaining financial sector stability.

The authorities' economic policies for 2009, together with large donor support, will help mitigate the impact of the crisis on the Kyrgyz economy. Sizable assistance received from Russia—including $450 million in highly concessional budget support—allows fiscal policy to accommodate the large shortfall in government revenues expected this year, while creating some room for an increase in capital and social spending. The resulting fiscal easing will provide a strong boost to the economy and help to avoid a recession. The assistance will more than cover the balance of payments and fiscal needs that were emerging for 2009.

The NBKR will allow continued exchange rate flexibility to absorb the large external shocks and limit foreign exchange reserve losses. The spread of the financial crisis resulted in strong depreciation pressures. The NBKR remains concerned about a loss in confidence in the national currency that could arise from a sudden and disorderly depreciation and will continue to intervene to smooth extreme volatility. Provided that inflation continues on a downward path and exchange rate pressures ease, interest rates could be gradually reduced.

Banks have held up well to the global financial crisis. Bank capitalization and liquidity remain high. Kazakh banks have so far maintained funding of their Kyrgyz subsidiaries. Credit growth, however, has come to a halt and nonperforming loans have started to rise. Stress tests indicate vulnerabilities to credit and concentration risks. The high level of capitalization of banks provides some cushion to these risks.

The authorities have taken a proactive approach to prepare for possible financial sector problems. They have put together a crisis preparedness plan, including plans for injecting capital into systemic banks if needed, funded from the budget. Emergency liquidity facilities are in place. The introduction of deposit insurance is being advanced and deposit insurance levels have been increased. The NBKR has also required banks to prepare their own contingency plans and has stepped up monitoring of the banks.

I. BACKGROUND

1. **Up to 2008, a favorable external environment and sound economic policies resulted in a steady increase in the pace of economic growth in the Kyrgyz Republic, while inflation remained low.** Following periods of political turmoil, economic growth accelerated to 8½ percent in 2007 and non-gold growth reached 9 percent that year. Poverty rates fell to 35 percent, from 54 percent in 2002, while extreme poverty dropped from 23 percent to 7 percent. Inflation remained close to 5 percent, until it started to surge in late 2007.

2. **Over the last year and a half, adverse external developments have led to a deterioration in economic conditions.** Initially, the Kyrgyz economy was hit by the rise in international commodity prices that caused a sharp increase in Kyrgyz inflation and a worsening of the external position. When the international economic tide turned in the second half of 2008 and the global economic and financial crisis spread to the region, the Kyrgyz economy was badly hit as well. Growth has slowed sharply over the last six months. In addition, long-standing energy sector problems matched up with water shortages, causing a major shortfall in hydropower capacity and widespread power outages.

Box 1. The Authorities' Response to Past Fund Advice

Despite a difficult political environment, the authorities' policies have generally been consistent with Fund advice. Implementation of the structural reform agenda was more mixed, but improved in recent years.

Fiscal Policy: During the last four years, the authorities were successful in consolidating the budget deficit, benefiting from strong economic performance, an increase in trade, and improved revenue administration. With prudent fiscal policies and aided by strong growth and Paris Club support, external public debt indicators improved considerably during this period. After some delay, a new tax code was passed in the fall of 2008, simplifying the tax regime. The new code, however, included a big decrease in the VAT rate and introduced a cascading turnover tax, against Fund advice.

Monetary Policy: Over the years, the NBKR has generally pursued appropriate monetary policies to keep inflation at low levels. It could have raised interest rates more quickly in late 2007, when inflation started to pick up; interest rates were raised to positive real levels only in 2008. Also, the NBKR has generally allowed the exchange rate to adjust to market forces, smoothing large fluctuations, apart from a period in 2007 when it resisted pressure on the exchange rate to appreciate. The NBKR's foreign exchange purchases during that period contributed to a rapid monetary expansion that may have made it easier for inflation to take hold later that year, but it also provided the NBKR with a much stronger foreign reserve cushion.

Financial sector: The authorities have made notable progress in implementing the recommendations of the 2006 FSSA report, including strengthening supervision, enhancing the central bank's independence, and taking the necessary measures to introduce a deposit insurance scheme.

3. **The Fund has continued to assist the Kyrgyz authorities with policy advice and financial assistance during these more challenging times.** An augmentation of resources by 10 percent of quota (SDR 8.88 million) was approved with the last review under the Kyrgyz Republic's arrangement under the Poverty Reduction and Growth Facility in May 2008. And in December 2008, the Executive Board approved an 18-month arrangement under the Exogenous Shocks Facility in the amount of SDR 66.6 million (75 percent of quota), to help the country manage the impact of the various exogenous shocks.

4. **Presidential elections have been advanced to July this year.** The elections were originally expected to be held in 2010. The Kyrgyz Republic has experienced a period of relative political stability, especially following the parliamentary elections in late 2007, resulting in an improved relationship between the government and the parliament.

II. Recent Developments

A. Spillovers from the Global Crisis: Economic Activity Slows Rapidly

5. **Growth remained strong in 2008, but the global and regional slowdown is affecting economic activity outside the gold sector.** Overall economic growth reached 7.6 percent, mainly on account of a strong recovery in gold production. Non-gold growth, however, fell to 5.4 percent in 2008, compared to 9 percent in 2007, as demand started to slow and the frequent power outages hurt production. With these power cuts, however, and aided by a relatively mild winter, a more serious energy crisis was avoided. Non-gold growth fell further to 0.8 percent in the first quarter of 2009 (relative to the same period last year) as the global crisis spread to the region.

6. **Inflation has come down sharply to 13.6 percent in March 2009, after spiking at over 30 percent in mid-2008.** Prices had risen rapidly through mid-2008, due to the surge in international food and fuel prices. The reversal in international commodity prices, the slowdown in activity, and a substantial tightening of monetary policy during 2008 contributed to the decline in inflation. Second-round price effects have caused core inflation to remain relatively high, however, at 14.4 percent in March 2009.

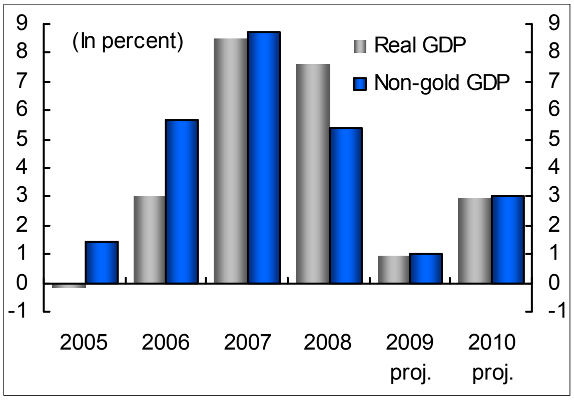
7. **The current account balance worsened substantially in 2008.** This mainly reflected higher import prices for food and fuel products. The higher import bill was partially offset by higher gold export receipts, strong remittance inflows, and higher tourism receipts, but the current account deficit widened by more than 6 percent of GDP, from a near balance in 2007. The NBKR's gross international reserves stood at just over $1.2 billion at end-2008 (covering 3½ months of imports), broadly the same level as at end-2007.

8. **Fiscal policy was more conservative than budgeted in 2008.** As the economy started to slow and began to affect revenue collection, the authorities sharply curtailed spending on non-priority items in the last few months of the year. Their aim was to maintain a comfortable balance in the Treasury accounts in anticipation of worse times to come,

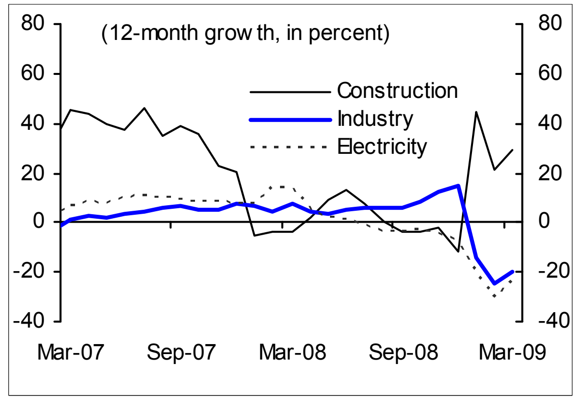
Figure 1. Kyrgyz Republic: Macroeconomic Developments

Strengthened economic performance of the past few years was put to the test by the rise in global food and fuel prices, and, more recently, by the global and regional slowdown. The outlook has worsened considerably.

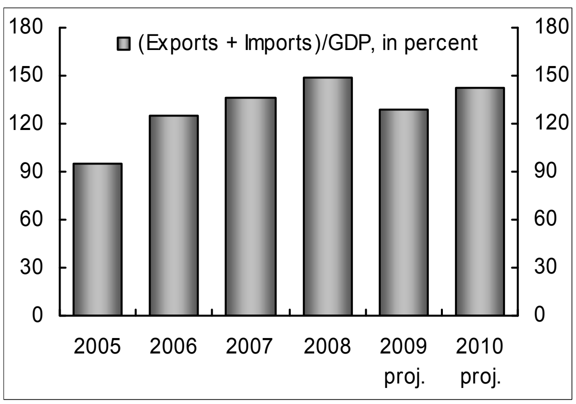
GDP growth is projected to almost come to a halt in 2009, before recovering modestly in 2010.



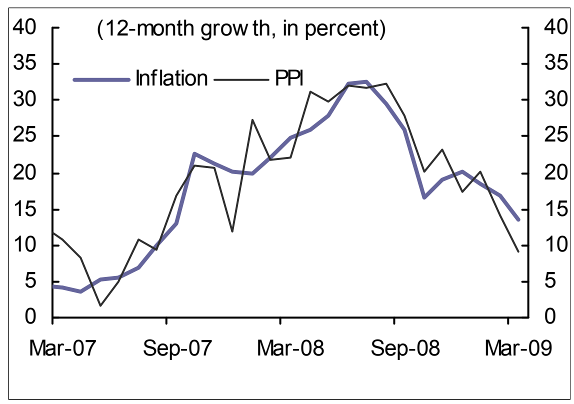
Construction slowed in 2008, but picked up in 2009 because of large infrastructure projects. Industry growth was led mostly by gold production in 2008, but has recently fallen sharply.



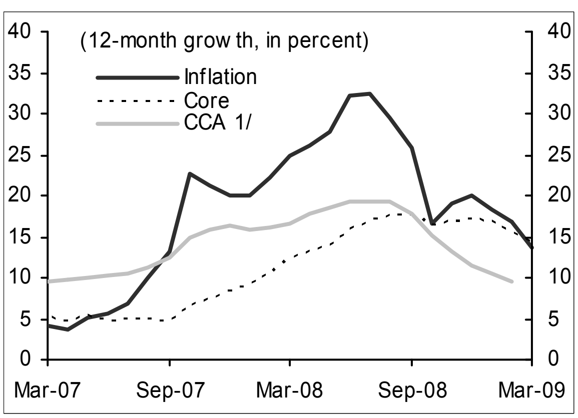
The country's openness, measured as a share of foreign trade to GDP, has been increasing rapidly in recent years, making the country more susceptible to external shocks.



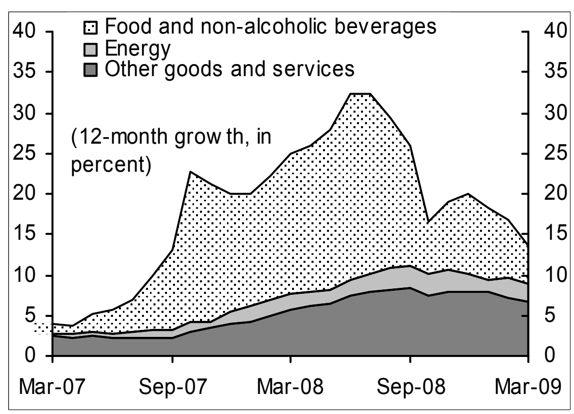
The global food and fuel price movements have been feeding through to Kyrgyz CPI and PPI. Inflation receded recently, after peaking in mid-2008.



With a high share of food in CPI (46½ percent) and no administrative interventions in price setting, inflation has been higher than on average in the Caucasus and Central Asia.



The contribution from food slowed markedly since mid-2008.



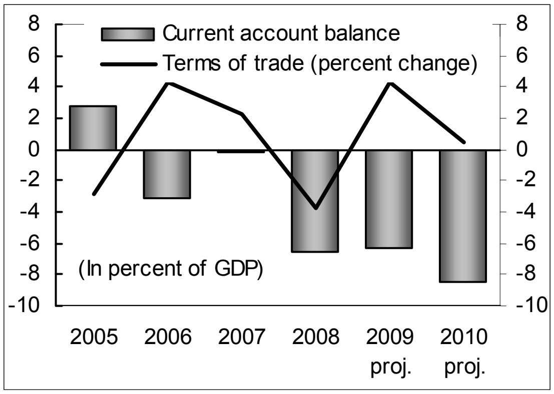
1/ Excluding Turkmenistan.

Sources: Kyrgyz authorities and IMF staff estimates.

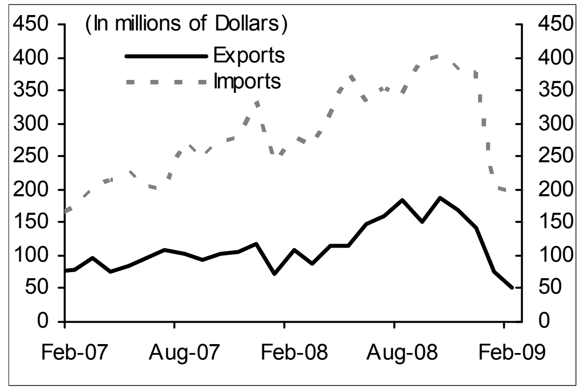
Figure 2. Kyrgyz Republic: External Sector Developments

The current account is estimated to have deteriorated substantially in 2008. Recent regional developments point to slowing demand for Kyrgyz exports and a decline in remittances. Official reserves are over 3 months of imports and, with large financial assistance from Russia coverage will reach almost 4 months this year.

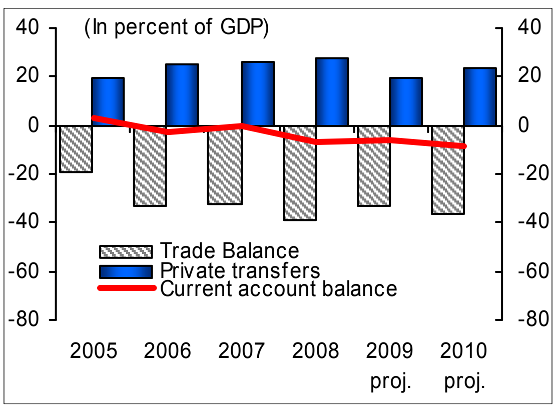
The current account deficit widened to 6½ percent in 2008 and is projected to remain high in 2009–10.



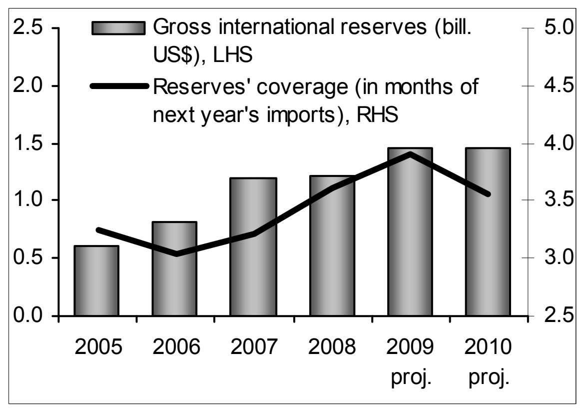
Until recently, export and import growth had remained robust. Recently, both exports and imports contracted.



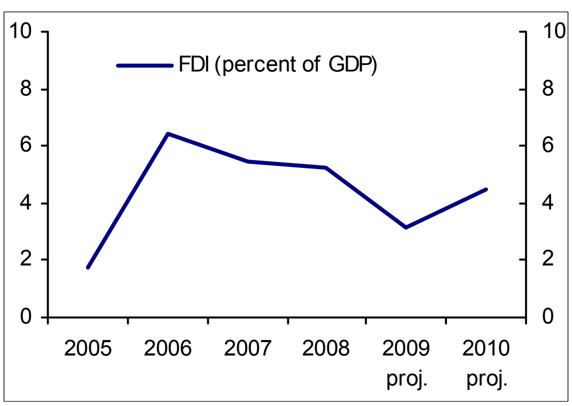
Remittances, which had broadly offset the large trade deficit, are expected to decline in 2009 as regional growth slows.



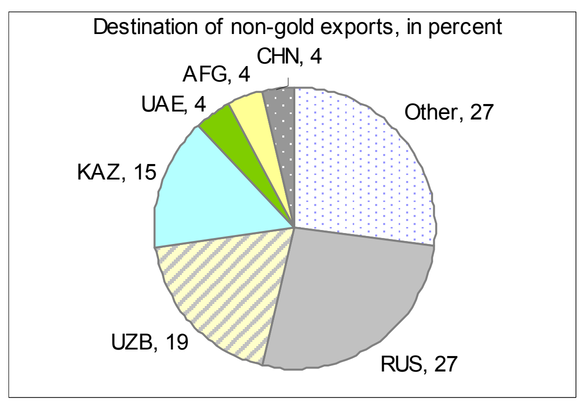
Official reserves are strengthened owing to large donor support.



Foreign direct investments increased in recent years, but are expected to slow.



Kazakhstan, Russia, and Uzbekistan are the main export markets for Kyrgyz goods.



Sources: Kyrgyz authorities and IMF staff estimates.

pending also their efforts to mobilize additional external financing for 2009. Combined with a larger-than-budgeted surplus of the Social Fund, this resulted in an overall budget deficit of only 0.1 percent of GDP for 2008.

B. Financial Spillovers: Pressures Emerge

9. **The spread of the global financial crisis resulted in strong depreciation pressures.** The som had been appreciating against the dollar through August of last year, reflecting strong remittance inflows and export earnings. But as the financial market turmoil spread and particularly as the Russian ruble depreciated against the dollar, the som came under pressure as well. Pressures intensified after the devaluation of the Kazakh tenge and the Armenian dram in early 2009. Since end-August, the som has depreciated by 25 percent against the dollar, while appreciating by about 7 percent against the ruble. The NBKR allowed greater exchange rate flexibility than most other countries in the region, but intervened to avoid a sharper depreciation. It sold $181 million during September 2008–March 2009 and reserves fell to $1,042 million by end-March 2009. Exchange rate pressures eased in March and April as the Russian ruble appreciated slightly against the dollar.

10. **The increased uncertainty affected money demand and credit growth, and contributed to an increase in dollarization.** Broad money contracted by 17 percent (at constant exchange rates) during October 2008–March 2009. With confidence in the local currency and in the banking system weakening, people shifted out of the som and out of banks. Local currency deposits fell by 22 percent during October 2008–March 2009 and foreign currency deposits by 16 percent. The decline in money demand seems to have leveled off recently. Credit also contracted, by 8 percent during this period, as demand for new loans fell and banks became more cautious. With the decline in demand for som, the NBKR has kept interest rates positive in real terms and has sought to keep banks' excess liquidity low.

11. **Banks have so far held up well to the global financial crisis, but signs of stress are emerging.** Bank capitalization and liquidity are high. Linkages to the international financial system have so far been broadly maintained without disruption: while subsidiaries of Kazakh banks account for more than a third of the Kyrgyz banking system, their parent institutions have maintained funding levels. Banks' non-performing loans (NPLs) have started to rise, however, and their deposit base declined.

C. Program Implementation: the Program is on Track

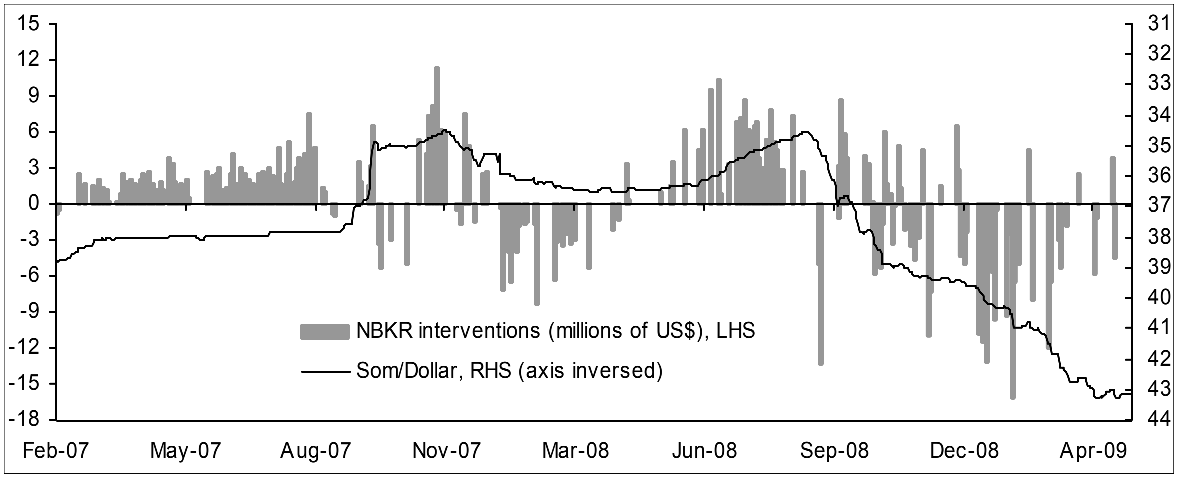
12. **Policy implementation under the ESF program has been strong.** All end-2008 performance criteria (PCs) and indicative targets were met. The fiscal PC and, linked to that, the PC on the NBKR's net domestic assets were met by wide margins as government spending was curtailed during the last month of 2008. Structural benchmarks were also observed:

- The government and NBKR issued a joint resolution clarifying the roles of the NBKR and the Ministry of Finance in dealing with problems in banks that are of systemic importance. The NBKR will take the lead in determining whether a bank is of systemic importance, while any capital injections would be provided from the budget.

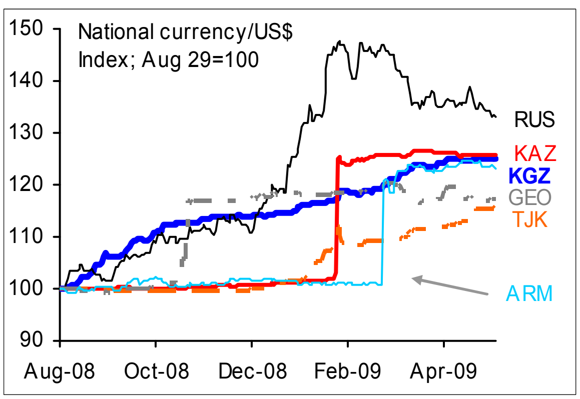
Figure 3. Kyrgyz Republic: Monetary and Exchange Rate Developments

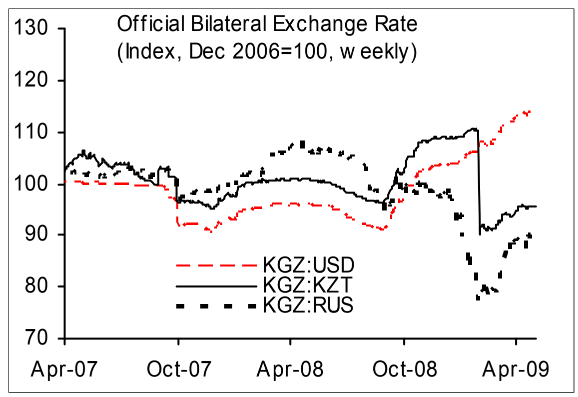
Monetary policy was tightened in 2008 to tackle inflation. While inflation has come down, interest rates have been kept high to support the som as exchange rate pressures emerged in late 2008 and money demand fell.

Exchange rate pressures intensified considerably in recent months. The NBKR intervened tot smooth day-to-day movements and prevent a loss of confidence. The som has depreciated by 25 percent against the U.S. dollar since end-August 2008.

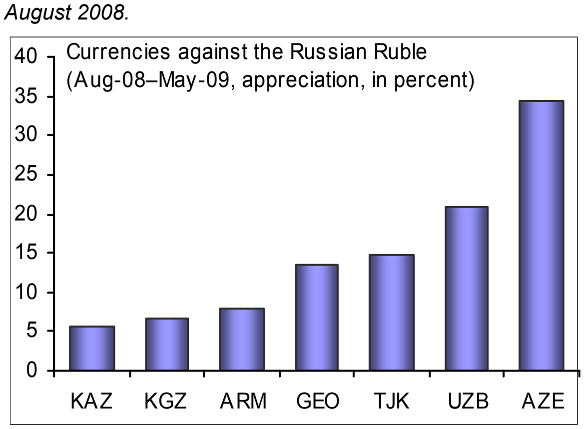


The NBKR allowed greater exchange rate flexibility.

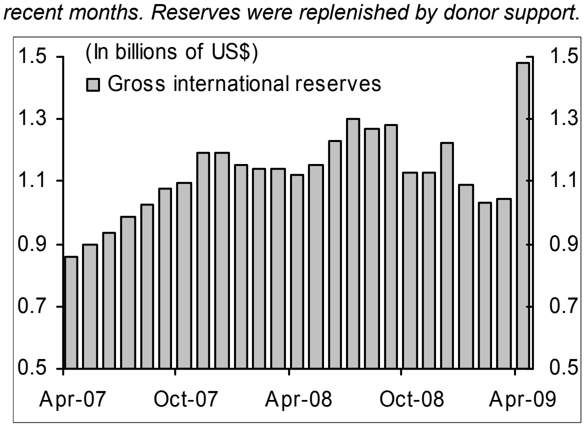




The som appreciated by 8 percent against the Ruble since August 2008.



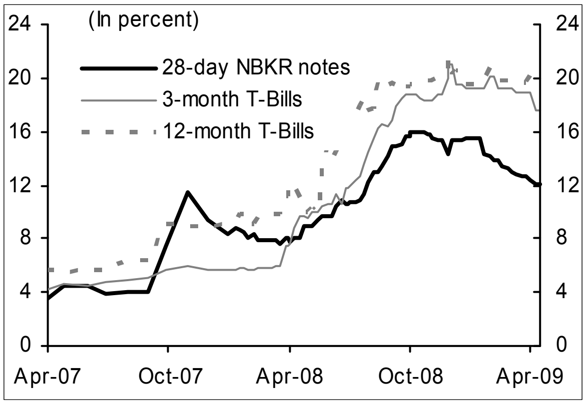
With strong depreciation pressures, the NBKR lost reserves in recent months. Reserves were replenished by donor support.



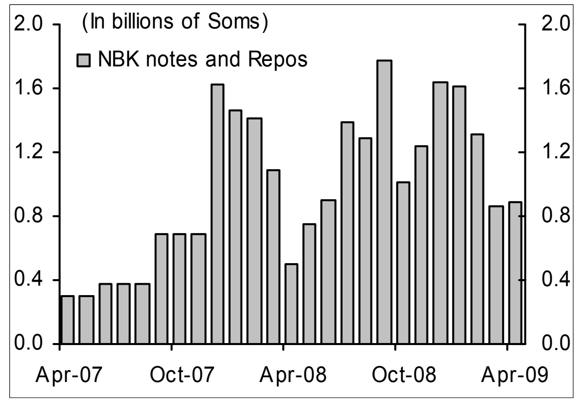
Sources: Kyrgyz authorities and IMF staff estimates.

Figure 3. Kyrgyz Republic: Monetary and Exchange Rate Developments (continued)

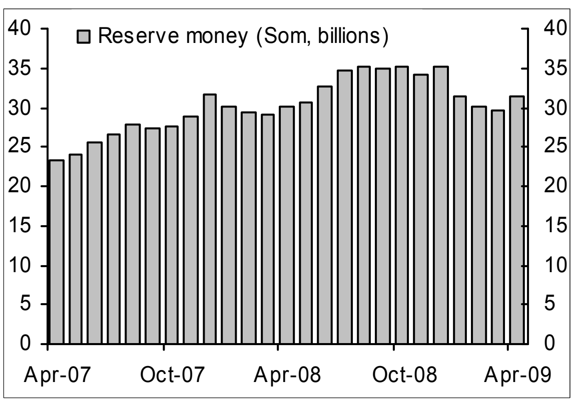
Higher interest rates aimed at reducing inflation and supporting the som.



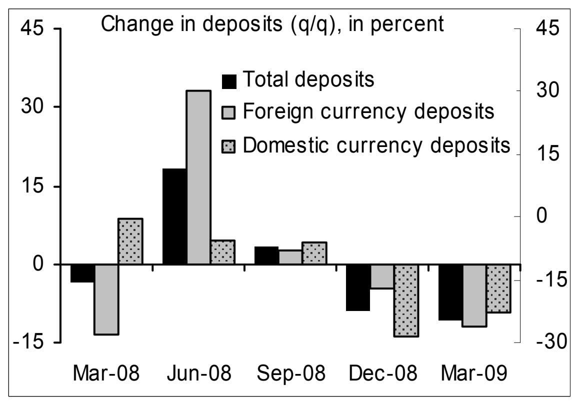
The NBKR stepped up issuing notes and conducting REPO operations to mop up liquidity.



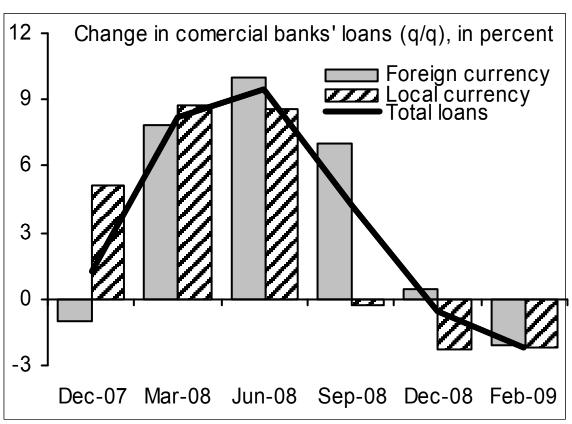
Reserve money growth stalled toward end-2008 and turned negative in recent months.



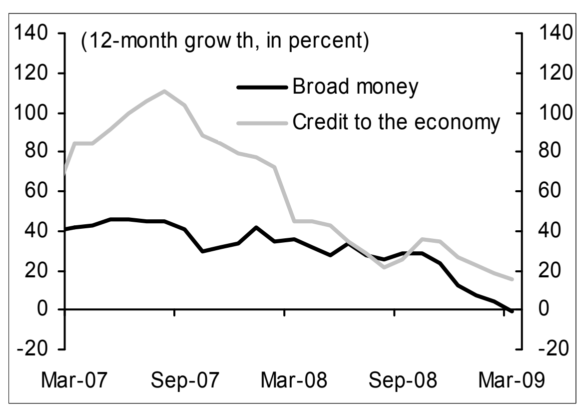
Deposits fell in the last quarter of 2008 and first quarter of 2009, with som deposits declining faster than foreign currency deposits.



Lending by commercial banks also fell…



… and money and credit growth slowed significantly.



Sources: Kyrgyz authorities and IMF staff estimates.

- Parliament approved the amendments to the central bank law to strengthen the NBKR's financial independence by increasing its statutory capital and ensuring an asymmetric (and thus more conservative) treatment of unrealized valuation gains and losses in the central bank's income statement.

- Coordination between the NBKR and the Ministry of Finance on financial operations has been strengthened through the regular exchange of information on financial operations.

- No transfers to off-budget funds took place.

- The review of the proposed new arrangements for the government securities market was completed with some delay in April 2009. Based on this review, staff advised that moving government securities issuance and trading to the stock exchange would be premature, pending creation of a single depository and an accompanying secure payment and settlement infrastructure. Also, trading of government securities should not be made exclusive to the stock exchange; large parties (banks) should continue to be allowed to trade over-the-counter.

III. Outlook: A Challenging Year Ahead

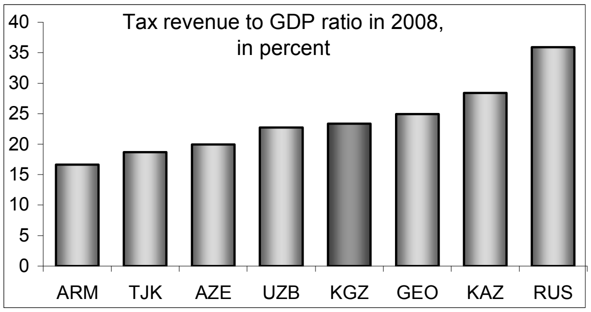
13. **With the spread of the global crisis, 2009 will be a difficult year for the Kyrgyz economy.** The outlook for the Kyrgyz economy has worsened substantially as countries in the region are increasingly being swept up by the global crisis. Russia and Kazakhstan remain key trading partners of the Kyrgyz Republic and a major source of remittances (remittances were equivalent to almost 30 percent of GDP in 2008). The recession in these countries is hurting the Kyrgyz economy via trade and remittance channels, spilling over to domestic demand. As a result, and taking into account the planned fiscal stimulus, economic growth in the Kyrgyz Republic is expected to almost come to a halt in 2009, before recovering modestly in 2010. Growth is projected to accelerate over the medium term as the region recovers and reforms continue.

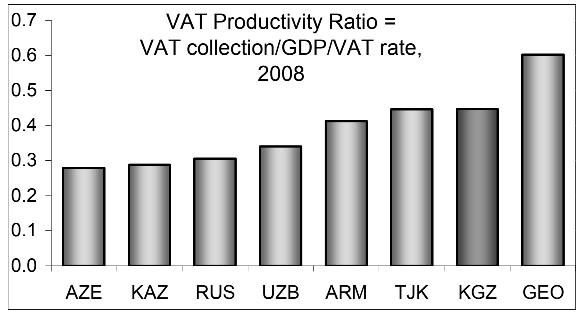
14. **The spreading economic crisis is putting pressure on the balance of payments.** In 2009, the current account deficit (excluding official transfers) is expected to widen further to 10 percent of GDP, as the reversal in food and fuel prices is projected to be more than offset by a drop in exports and remittances.

15. **The economic slowdown is also causing a decline in government revenues.** Revenues were already anticipated to fall relative to GDP in 2009 due to the changes in tax policy that came into effect in January, in particular the reduction in the VAT rate from 20 to 12 percent (see Box 2). The decline in economic activity, however, combined with decreasing commodity prices, is causing a much sharper drop in government revenues than anticipated earlier.

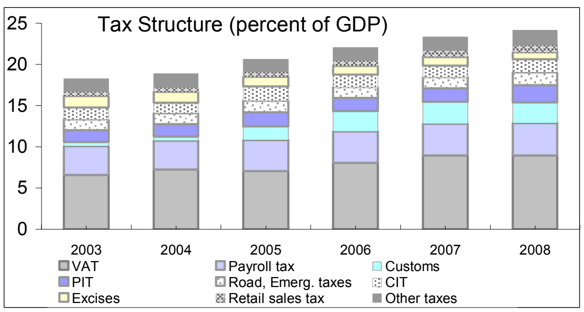
Box 2. Tax Revenue Developments

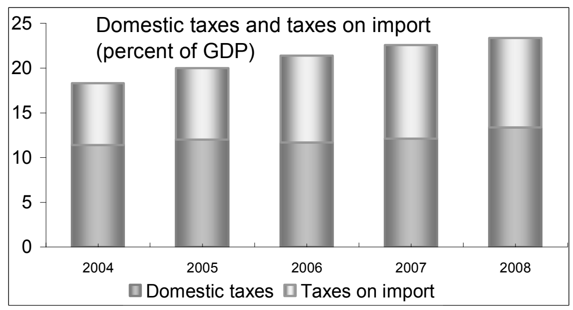
Tax collection in the Kyrgyz Republic compares favorably with that in the region. Propped up also by strong growth, tax collection improved in recent years on account of improved customs administration and streamlined tax procedures, including better arrears management.



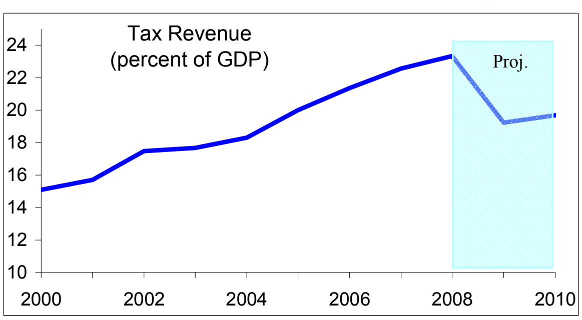


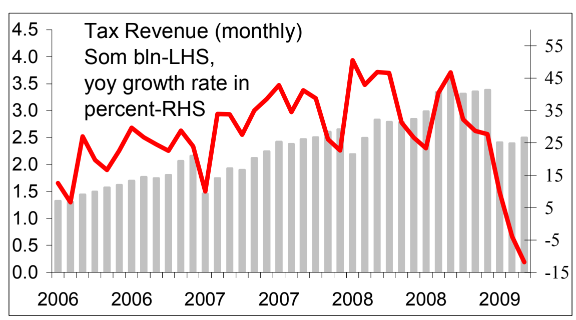
Taxes on consumption and labor are the main sources of revenue. VAT collection accounted for 39 percent of total taxes in 2008, followed by taxes on labor at 25 percent. Reliance on taxes on imports (VAT, customs duties, and excises) is strong, accounting for more than 40 percent of all taxes collected.





Tax revenue is expected to drop sharply in 2009. On top of the earlier expected decline in taxes due to large tax cuts (most notably, of the VAT rate from 20 to 12 percent), recent data point to a sharper decline in tax collections. This can be attributed to a combination of factors: declining economic activity; lower commodity prices leading to lower taxes collected on imports; and a worsening in taxpayers' compliance. The enforcement of the new property tax has been delayed due to the complexities of application. The new wider turnover tax that was introduced to offset some of the expected revenue losses and that replaced the cascading sales, road, and emergency taxes is also cascading and therefore continues to distort the allocation of resources. The recent increase in the excise rate on petroleum products will only make a modest contribution to revenues.





Kyrgyz Republic: Selected Economic Indicators, 2008–10

	2008		2009		2010	
	CR/08/381	Actual	CR/08/381	Proj.	CR/08/381	Proj.
Nominal GDP (in millions of U.S. dollars)	4,805	5,050	5,124	4,948	5,838	5,066
Real GDP (growth in percent)	7.5	7.6	3.7	0.9	6.2	2.9
Non-gold real GDP (growth in percent)	5.0	5.4	3.0	0.8	4.5	2.0
Consumer prices (12-month percent change, eop)	19.8	20.1	11.0	10.0	7.0	8.2
Consumer prices (12-month percent change, average)	24.5	24.5	11.9	12.4	8.9	8.6
General government finances (in percent of GDP)						
Total revenue and grants	31.7	30.3	28.5	29.3	28.7	26.4
of which: Tax revenue	23.9	23.3	22.2	19.2	23.0	19.7
Total expenditure (including net lending)	33.1	29.6	30.2	31.3	30.2	30.9
of which : Current expenditure	26.2	25.2	23.5	25.0	23.9	24.8
Capital expenditure	6.5	4.1	6.9	5.9	6.5	5.7
Overall fiscal balance	-1.3	-0.1	-1.7	-1.9	-1.5	-4.5
Primary balance	-0.5	0.7	-0.9	-1.1	-0.7	-3.8
Primary balance excluding grants	-3.2	-1.1	-3.5	-6.7	-2.7	-6.1
Banking sector						
Reserve money (percent change, eop)	17.6	11.3	15.0	1.0	19.1	12.8
Broad money (percent change, eop)	19.0	11.4	17.0	4.1	21.0	15.0
Credit to private sector (percent change, eop)	25.6	26.4	21.1	17.3	24.2	24.1
External sector						
Current account balance (in percent of GDP)	-6.4	-6.5	-8.5	-6.3	-6.3	-8.4
Current acc. balance excl. off. transfers (percent of GDP)	-7.4	-7.3	-9.3	-10.2	-6.9	-9.2
Export of GNFS growth (percent change)	39.9	39.9	-3.2	-14.2	14.5	13.0
Import of GNFS growth (percent change)	42.3	46.9	-0.2	-14.9	10.4	12.0
Gross official reserves (million USD) 5/	1,162	1,222	1,260	1,459	1,449	1,459
Gross reserves (months of next year imports, eop)	3.0	3.6	3.0	3.9	3.1	3.5
External public debt outstanding (in percent of GDP)	44.4	41.8	43.8	45.1	41.2	46.0

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

17. **Inflation, meanwhile, is expected to ease further, to about 10 percent by end-2009.** This reflects the decline in international commodity prices, the continuation of a tight monetary policy, and slowing demand. It also takes into account the additional increases in utility tariffs and the impact of the depreciation of the som.[1]

I. Policy Discussions: Managing the Impact of the Global Crisis

18. **Policy discussions focused on how to manage the impact of the global crisis on the Kyrgyz economy.** The authorities agreed that policies would need to support growth and the poor and safeguard external stability, while keeping inflation on a downward path and maintaining financial sector stability. In the absence of large financial assets, however, such as those accumulated by oil and gas producing countries elsewhere in the region, they recognized that the room for policies to support growth depended critically on the availability of donor support. The authorities have therefore actively sought to mobilize additional aid.

Large donor support, mainly provided by the Russian Federation, will help cushion the impact of the crisis. The Russian Federation recently disbursed a $150 million grant and a $300 million concessional loan to help support the Kyrgyz budget (together

[1] Heating tariffs were almost doubled in January, following a near-doubling of the price of natural gas imported from Uzbekistan, while another round of electricity tariff increases, raising tariffs on average by 10 percent, is planned for mid-year.

equivalent to about 9 percent of GDP).[2] The Russian Federation is also providing $190 million in debt relief and a possible $1.7 billion commercial loan for the construction of the Kambarata hydropower plant over the next several years. The budget support more than covers the financing needs that were emerging for 2009. The authorities therefore intend to use this money in a medium-term fiscal framework, also taking into account the limited administrative capacity, with a little over one-third used to finance the 2009 budget.

19. **The authorities have updated their Country Development Strategy (CDS) to take account of the new external challenges.** The updated CDS was approved in February and extended to cover the period 2009–11. The new version does not change the vision and goals, but stresses that the overarching goal is the improvement of the quality of life through improving the quality of economic growth, management, and the environment. As such, the CDS remains focused on four key pillars: (i) economic development; (ii) governance and transparency in public administration; (iii) human capital development; and (iv) environmental sustainability. The updated version also commits to achieve the Millennium Development Goals by 2015. Supporting the authorities in their efforts, the donor community continues to work closely together in the framework of the Joint Country Support Strategy.

A. Fiscal Policy: Room for Stimulus

20. **The external financing will allow fiscal policy to accommodate the large shortfall in government revenues expected this year, while creating some room for an increase in spending, providing a strong boost to the economy and helping to avoid a recession.** Measured by the widening in the primary fiscal deficit excluding grants relative to 2008, the use of a little more than one-third of the Russian budget support will imply a fiscal easing of 5½ percent of GDP in 2009. The overall deficit will remain limited to 2 percent of GDP.

21. **Besides raising capital spending, which will improve medium-term growth prospects, the authorities will also increase social support.** The decline in economic activity combined with the expected decline in remittances will cause a drop in disposable household incomes that could reverse much of the gains in poverty reduction achieved in recent years. To mitigate the effects on the poor, the main social benefit—the Unified Monthly Benefit (UMB)—will be increased further this year, adding to the increase in the benefit level introduced last year. Work to improve the targeting of benefits is continuing with the help of the World Bank and the European Union.

22. **In the coming years, available concessional financing will allow for relatively large budget deficits without jeopardizing fiscal sustainability**. The utilization of the remaining funds provided by the Russian Federation, combined with an expected spike in the

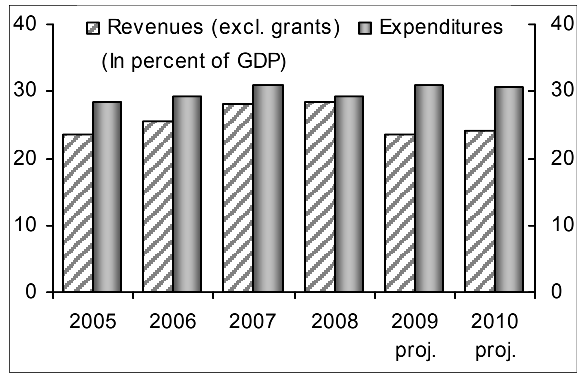
[2] The loan is on IDA-terms.

Figure 4. Kyrgyz Republic: Fiscal Developments

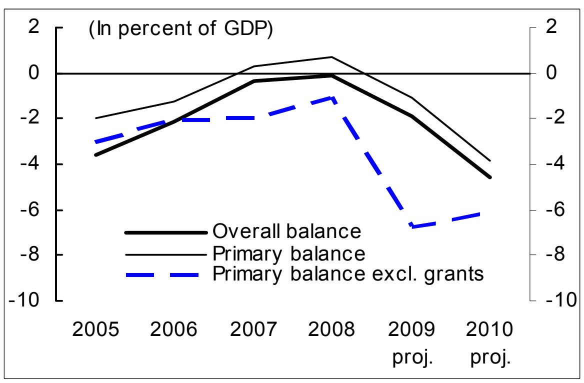
Fiscal policy was tighter than budgeted in 2008. Against a sharp slowdown in growth, revenues are projected to fall more than expected in 2009. Large donor support allows for a substantial fiscal easing in 2009, accommodating the revenue shortfall, which will help support the economy.

Kyrgyz Republic: General Government Budget, 2006–10
(in percent of GDP)

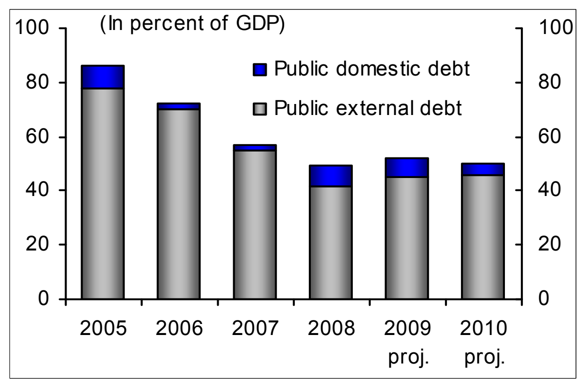
	2006	2007	2008	2009	2010
Total revenue and grants	26.4	30.3	30.3	29.3	26.4
Total revenue	25.6	28.1	28.5	23.6	24.1
Grants	0.8	2.3	1.8	5.6	2.3
Total expenditures and net lending	28.9	31.0	29.6	31.3	30.9
Current expenditures	24.8	26.2	25.2	25.0	24.8
Capital expenditures	4.3	4.8	4.1	5.9	5.7
Net lending	-0.2	0.1	0.4	0.4	0.4
Discrepancy	0.4	0.4	-0.7	0.1	0.0
Balance	-2.1	-0.3	-0.1	-1.9	-4.5
Primary balance	-1.2	0.3	0.7	-1.1	-3.8
Primary balance excluding grants	-2.0	-1.9	-1.1	-6.7	-6.1
Financing	2.1	0.3	0.1	1.9	4.5
External	2.5	1.3	0.4	7.1	2.4
Domestic (incl. privatization)	-0.4	-1.0	-0.3	-5.2	2.1



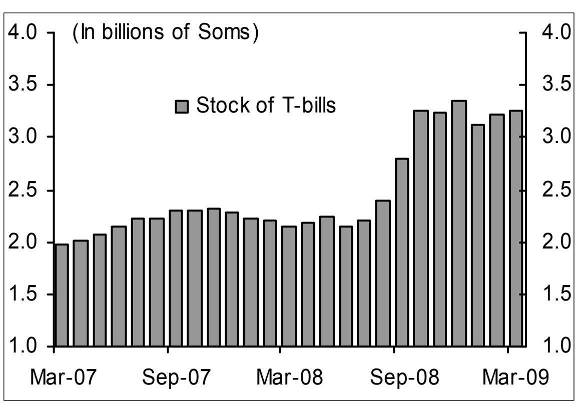
The budget was close to balance in 2007−08. Large donor support allows for larger deficits in 2009–10.



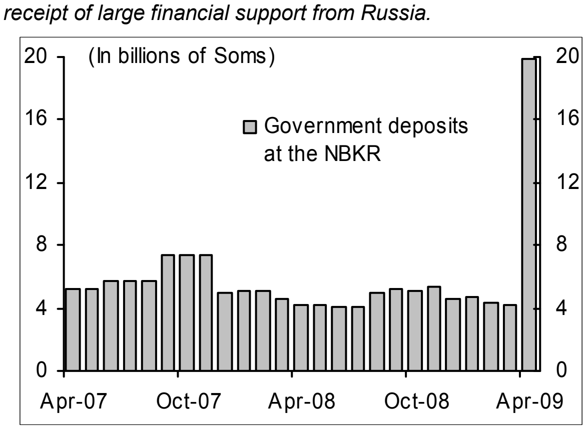
Public debt declined considerably in recent years and with prudent policies will remain manageable.



Issuance of government securities increased in the second half of 2008.



Government deposits with the NBKR were on average lower in 2008 than in previous years, but benefited in April 2009 from the receipt of large financial support from Russia.



Sources: Kyrgyz authorities and IMF staff estimates.

donor-financed public investment program (mainly infrastructure projects) will allow an annual average budget deficit of about 3¾ percent of GDP during 2010–12. Due to the high degree of concessionality of the donor support, however, this will not undermine fiscal sustainability. Over the medium term, the fiscal deficit will need to be reduced to a level of about 2 percent of GDP annually to ensure that debt ratios, which are picking up slightly this year due to the disbursement of the Russian assistance and the depreciation of the som, continue their downward trend. An updated debt sustainability analysis continues to place the Kyrgyz Republic at a moderate risk of debt distress.

23. **The authorities are considering further revenue measures to ensure fiscal sustainability over the medium term, when donor support may decline.** Also, if growth slows further or if the recovery is delayed, revenue measures could be needed if donor assistance is to be preserved for the coming years. Excise rates on oil products have already been increased. Further measures could include a partial reversal of the reduction in the VAT rate and eliminating VAT exemptions on imported goods. Some increase in the VAT rate may also be needed to proceed with the planned elimination of the cascading and therefore less-efficient turnover tax by end-2011. Export duties on the export of wheat have expired. The authorities are also exploring a range of measures to strengthen tax administration, including improving large taxpayer administration, expanding audit operations, and intensifying arrears collection, while assisting financially distressed taxpayers through paying timely VAT refunds and providing payment options.

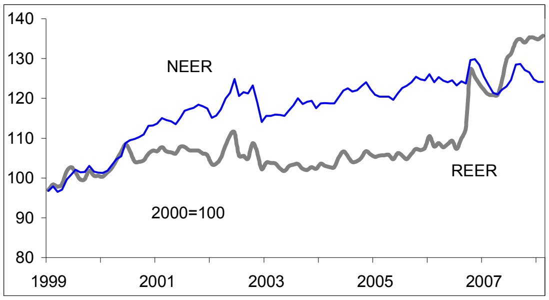
B. Monetary and Exchange Rate Policy: Safeguarding External and Internal Stability

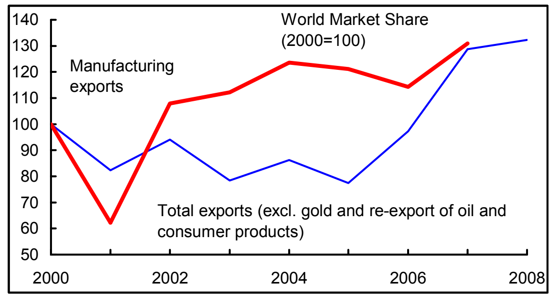
24. **The NBKR will allow continued exchange rate flexibility to absorb the large external shocks, maintain competitiveness, and limit foreign exchange reserve losses.** An assessment of the exchange rate suggests that, in real effective terms, the som moved from having been moderately undervalued to a slight overvaluation (see Box 3). Depending on the movements of trading partners' currencies, some further downward adjustment of the som could be expected, to bring the exchange rate in line with its equilibrium. The NBKR remains concerned, however, about a loss in confidence in the currency that could arise from a sudden and disorderly depreciation. Therefore, while the NBKR will pursue a flexible exchange rate policy, it will continue to intervene to smooth extreme volatility, but at a lower scale. Interventions have been more limited in the last two months.

25. **Monetary policy will aim at further reducing inflation and mitigating exchange rate pressures.** Price pressures are expected to ease, reflecting the impact of declining international commodity prices and the slowdown in activity, but the depreciation of the som and recent and planned utility tariff increases will have some offsetting effects (see Box 4). With large changes in money demand and a flexible exchange rate regime, the NBKR will continue to follow a more discretionary approach toward monetary policy. The NBKR recognized that during the coming months it would need to carefully manage the increase in

Box 3. Exchange Rate Assessment and Competitiveness

After a period of stability, the som appreciated sharply in real effective terms from mid-2007 until mid-2008. This mostly reflected the sharper rise in inflation in the Kyrgyz Republic than in partner countries. The Kyrgyz Republic's export growth (both including and excluding gold exports) remained strong, however, and the country's share in world exports has actually increased slightly.[1]

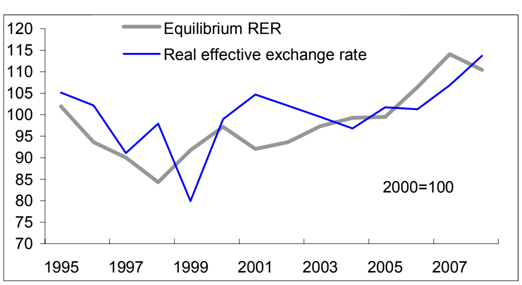


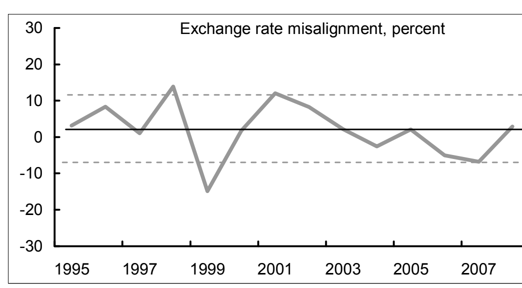


The som is assessed to be broadly in line with fundamentals using CGER estimates. These estimates consistently indicate that the real effective exchange rate (REER) is only marginally overvalued by about 2 percent on average.[2]

CGER Methodologies	Medium- term CA Norm	Estimate of misallignment	Comments
Macroeconomic Balance Approach (2014)	-3.2	1.2	(+) overvalued
External Sustainability Approach (2014)	-2.8	2.3	(+) overvalued
Equilibrium Real Exchange Rate Approach			
Current fundamentals (2008)	...	2.9	(+) overvalued
Medium-term fundamentals (2014)	...	2.8	(+) overvalued

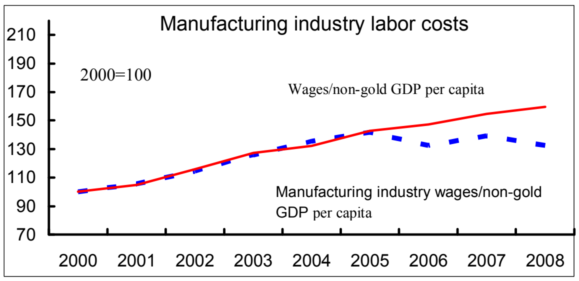
The **macroeconomic balance** approach suggests that the current level of the real exchange rate is about 1¼ percent above the level consistent with the equilibrium current account deficit (the medium-term current account norm) of about 3¼ percent of GDP. The **external sustainability** approach indicates that in real effective terms, the som is about 2¼ percent above the value needed for the current account to decline to a level that stabilizes the ratio of the country's net foreign liabilities to GDP at its 2008 level. The **equilibrium real exchange rate** approach suggests that the som has moved from being slightly undervalued to marginally overvalued, by less than 3 percent.

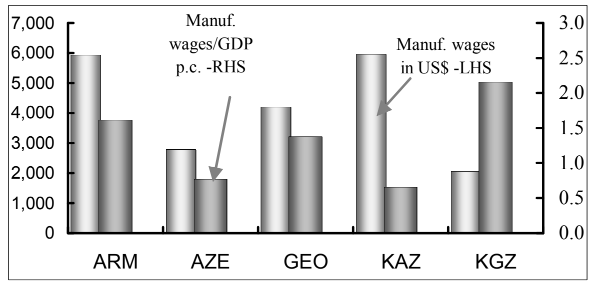




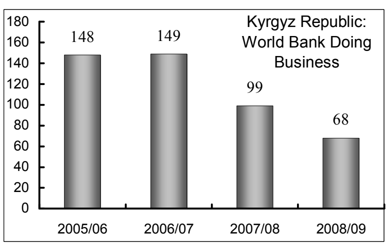
Box 3. Exchange Rate Assessment and Competitiveness (continued)

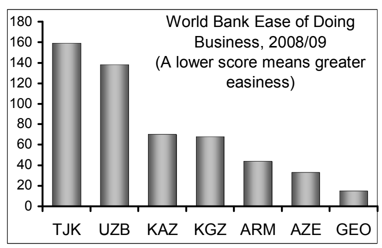
Manufacturing sector wages are low in U.S. dollar terms compared to other countries in the region, but unit labor costs seem high. [3] The ratio of manufacturing wages to per capita GDP (as a proxy for unit labor cost) is high compared to other countries in the region, raising concerns on manufacturing wage competitiveness in the Kyrgyz Republic. Nevertheless, the manufacturing wages/income ratio has stayed flat in recent years and even declined slightly in 2008 as inflation picked up.

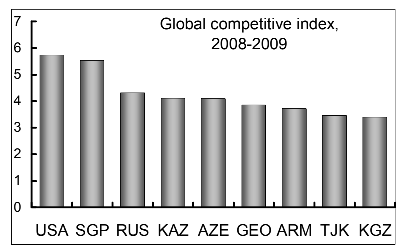




Improving productivity through broad-based structural reforms should therefore remain a priority. Considerable progress has been made in the last two years in improving the business environment, earning the Kyrgyz Republic a ranking as one of the top ten reformers of last year's World Bank Doing Business Survey, and moving it to ranking of 68 out of 181 countries. The Kyrgyz Republic, however, was ranked 122nd among 134 countries in competitiveness (and the lowest among the CIS countries ranked) by the World Economic Forum's Global Competitiveness Report.







Sources: Kyrgyz authorities, ILO, World Bank, World Economic Forum, WITS, and IMF staff estimates.

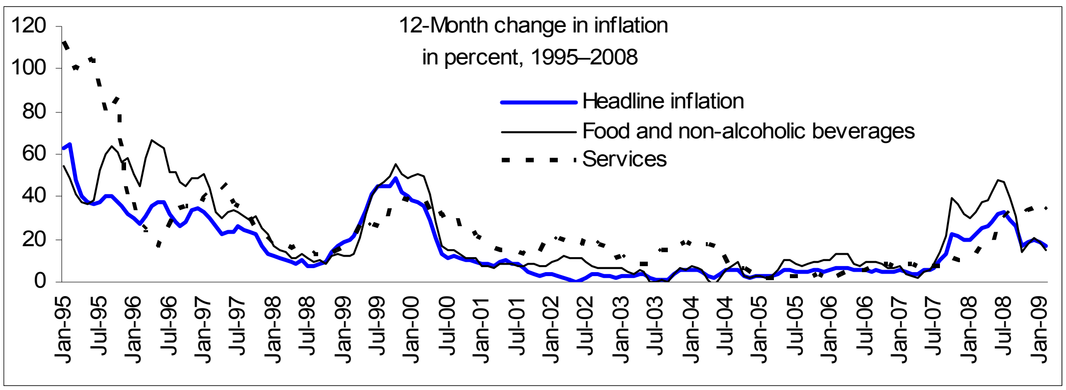
1/ Part of the increases in 2006/2007 may reflect the improvement of the statistics on agricultural exports and re-exports of consumer goods.

2/ The methodologies are described in detail in "Methodology for CGER Exchange Rate Assessments" (www.imf.org). The Kyrgyz Republic was not part of the sample analyzed in that paper. Standard out of sample coefficients were used in calculations. Data limitations result in considerable statistical uncertainties regarding these calculations.

3/ 2008 manufacturing wages except for Azerbaijan (2007), Kazakhstan (industry wages), and Armenia (private sector wages).

Box 4. Determinants of Inflation in the Kyrgyz Republic

Inflation in the Kyrgyz Republic remained stable during 2002-06, but picked up sharply starting in mid-2007. Inflation in the Kyrgyz Republic was successfully brought down to low double-digits by 1995 with the implementation of a money-based stabilization program. Inflation rose again during 1998–99 in the aftermath of the Russian financial crisis as the domestic currency depreciated sharply. It was brought down again and remained stable at around 5 percent during 2002–06, before rising again in the summer of 2007 and reaching a high of 32.5 percent in July 2008. The latest inflationary episode was marked by a sharp increase in food prices, rising by 47 percent in the twelve months through July 2008 and reflecting international developments. The prices of services rose by 30 percent during the same period, largely reflecting the pass-through effects of higher energy prices and utility tariffs. Food accounts for almost 50 percent in the consumer basket and services for 10 percent. Since mid-2008, inflation has come down steadily due to falling food and energy prices.



A Vector Autoregressive (VAR) model was estimated to explore the drivers of inflation. The model uses monthly data for the period 1999:1-2008:12 for the following variables specified in the order as listed: international food price index, real GDP, price for services (as a proxy for administered prices), headline CPI, M2, and the som/dollar exchange rate. [1,2]

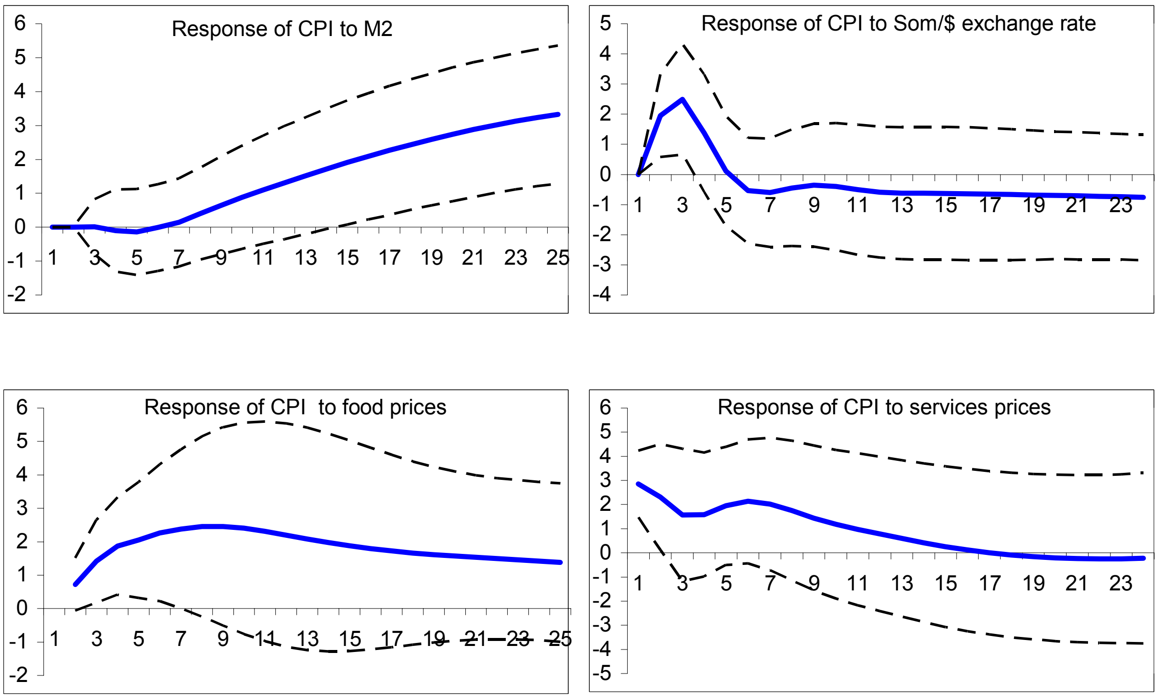
The results suggest that a shock to broad money, international food prices, the som/dollar exchange rate, and services prices are all significant. A shock to money results in an increase in inflation with a lag of about 12 months. The impact of the shock increases over time and lasts for 12 months. In terms of exchange rate pass-through, a 10 percent depreciation of the som results in an almost immediate 2.5 percent increase in inflation. The impact of the shock is significant for a period of 3 months. A 10 percent increase in international food prices also results in a 2½ percent increase in inflation, with a lag of about 4 months, and with the impact of the shock lasting for about 7 months. Finally, a 10 percent increase in service prices is expected to result in a 3 percent increase in inflation with almost no lag. The impact however only lasts for around two months.

Variable 1/	CPI response in percent, per month	Impulse duration 2/ in months
M2	2.1	12
Depreciation of som/$	2.5	3
International food prices	2.4	7
Services CPI	2.9	2

1/ The response corresponds to a 10 percent shock in variables above.
2/ Refers to statistically significant impulse.

Box 4. Determinants of Inflation in the Kyrgyz Republic (continued)

Impact on Headline CPI of One S. D. (10 percent) shock (+/- 2 S.D.)



Source: Kyrgyz authorities, and Fund staff estimates.

Some offsetting factors notwithstanding, the observed decline in international commodity prices will contribute to a decline in inflation this year. With imported goods constituting close to 65 percent of the consumer basket, the depreciation of the exchange rate will, however, put upward pressure on prices. Using the above analysis, a 25 percent depreciation in the som/dollar exchange rate can add close to 5 percent to inflation. Another potential offsetting factor is the increase in energy tariffs expected in the second half of 2009 (tariffs are captured in the price of services in the above analysis).

1/ The ordering of variables is verified using Granger causality test where commodity food price index, GDP, and price of services are shown to be exogenous relative to CPI, M2, and the exchange rate.

2/ All data with the exception of the exchange rate is seasonally adjusted. Unit root tests showed that all variables in the system are I(1). There is also evidence of cointegration. Tests for lag structure specification revealed that the optimal lag structure is three, and LM test indicated no autocorrelation.

liquidity resulting from the higher levels of government spending. The authorities also acknowledged that as long as exchange rate pressures continue, there would be little room for a change in interest rates, which remain at positive real levels. However, provided that inflation continues on a downward path and exchange rate pressures ease, money demand can be expected to recover and interest rates could be gradually reduced, to help stimulate economic growth. Meanwhile, the NBKR is working out the details of a new refinancing facility that would aim at providing liquidity to banks that lend domestically.

C. Financial Sector Policies: Maintaining the Banks' Health

26. **The authorities recognized the risks to the banking system from the worsening economic outlook and the spreading financial crisis.** NPLs are likely to increase further as the economy slows (see Box 5). Furthermore, although banks do not have large open foreign exchange positions, the depreciation of the som may cause a deterioration in the quality of foreign exchange loans made to unhedged borrowers. The high level of capitalization of banks provides some cushion to these risks. Subsidiaries of Kazakh banks may still see a decline in funding from their parent banks if the latter face increased difficulties.

27. **The authorities have taken a proactive approach to prepare for possible financial sector problems.** They have put together a crisis preparedness plan, including plans for injecting capital into systemic banks if needed, funded from the budget. Emergency liquidity facilities are in place. The introduction of deposit insurance is being advanced to mid-2009 and the planned deposit insurance levels have been raised from about $500 per household deposit to $2,500. The budget will ensure that the deposit insurance fund is fully funded, with the banks' contribution recovered over the next two years. The NBKR has also stepped up monitoring of banks and required them to prepare their own contingency plans.

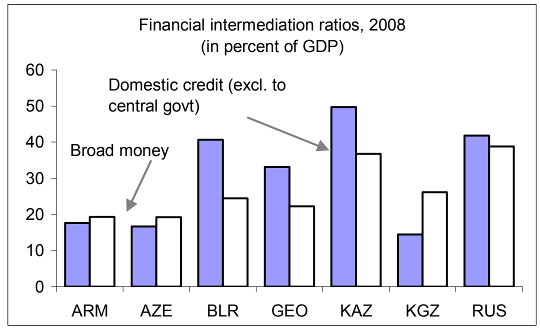
D. Structural Reforms

28. **The authorities continue to advance their broader structural reform agenda to ensure that the Kyrgyz economy will be well-placed to benefit from a global recovery.** They are continuing with their efforts to strengthen public financial management, reduce the administrative burden on businesses, including in the areas of taxation and trade, and fight corruption.

29. **In the energy sector, policies are aimed at improving the sector's financial soundness, reducing demand, and increasing the supply of electricity.** A second round of electricity tariff increases is planned for this summer. A feasibility study for the large Kambarata hydropower project is underway and a new joint venture with participation of

Box 5. Financial Sector Assessment

Financial intermediation in the Kyrgyz Republic remains relatively low and is concentrated in the banking sector. At end-2008, total bank loans to the economy amounted to 17 percent of GDP, while total deposits stood at 12½ percent of GDP. The system comprises 21 banks, half of which are majority-foreign-owned, and which account for over 70 percent of system assets. Kazakh subsidiaries form the largest sub-group of foreign banks, with 30 percent of system assets and almost 50 percent of loans as of December 2008.



The banks came into the current crisis with some cushion. Capital adequacy was 27.7 percent in March 2009, banks were still profitable, and highly liquid. After recovering from a banking crisis partly triggered by the 1998 Russia crisis, the favorable global environment until late 2007 helped fuel a credit boom driven by capital inflows and increased confidence in banks and the som. Deposits grew and dollarization fell; annual credit growth reached over 80 percent in mid-2007, with the largest share of loans supporting the trade sector. The strong overall economic performance boosted bank profitability and strengthened their capital positions.

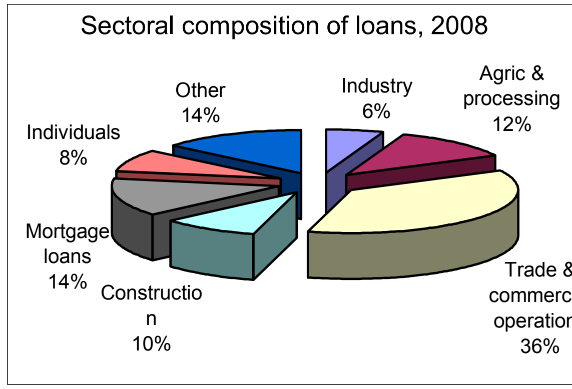
As the effects of the current crisis began to be felt—including through a slowing economy and depreciation pressures on the som—dollarization of deposits crept up, while overall system deposits declined. Non-performing loans rose to 7 percent in March 2009. The large share of Kazakh subsidiaries in the system gives rise to concerns about spillover effects from difficulties encountered by the parent banks. The subsidiaries reportedly have been more profitable than their parent banks and, so far, funding from the parent banks has been broadly maintained. There is a risk of retrenchment, however, arising from both the parent banks' continuing difficulties as well as the deterioration in performance expected in the subsidiaries from the economic slowdown. A few banks have also faced some difficulties in securing credit lines with correspondent banks, as the latter have become more sensitive to counterparty risks.

Kyrgyz Republic. Selected Bank Prudential Indicators, 2005–09

	2005	2006	2007				2008				2009
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	(in percent)										
Capital adequacy											
Regulatory capital/risk-weighted assets	26.5	28.5	28.9	26.5	26.7	31.0	30.3	28.8	30.8	32.6	27.7
Tier 1 capital/risk-weighted assets	20.6	21.7	25.2	21.7	20.7	23.6	27.6	25.2	25.7	26.3	25.8
Liquidity											
Liquidity ratio	93.3	77.8	73.6	67.8	68.9	71.3	78.0	77.1	81.0	82.0	87.7
Asset quality											
Non-performing loans/total loans	7.7	6.2	5.1	4.2	3.5	3.6	3.6	3.9	4.1	5.3	7.0
Loan-loss provisioning/nonperforming loans	49.1	51.3	56.0	55.6	57.7	59.0	61.3	56.9	56.7	55.9	54.2
Profitablitity											
Return on equity	19.6	23.2	18.5	24.3	27.4	27.0	17.2	18.0	20.4	20.7	13.0
Return on assets	2.6	3.4	3.1	4.0	4.3	4.4	3.3	3.4	3.8	3.8	2.5

Source: National Bank of the Kyrgyz Republic.

Box 5. Financial Sector Assessment (continued)



With the economic slowdown, banks' health will be affected as non-performing loans are likely to continue to rise. Stress tests were conducted for credit risk, foreign exchange rate risk, interest rate risk, liquidity risk (deposit withdrawals), sectoral tests, and large borrowers. Results indicate that, besides the funding risk discussed above, credit risk is a key source of concern, arising from a deterioration in credit quality through worsening economic conditions, unhedged foreign currency borrowing, the concentration of loans in the trade, mortgage and construction sectors, and a concentration of exposure to a few large borrowers in some banks.

The authorities have been proactive in tackling these challenges along the following dimensions:

- Deposit insurance has been raised to 100,000 som, with all commercial banks automatically members of the fund. The government will provide the bulk of the initial funding, with gradual reimbursement by the commercial banks to agreed levels through 2010. The deposit insurance is expected to become operational in July 2009.
- Contingency plans have been prepared in case of fast-moving events. These include emergency liquidity support by the NBKR, and a newly adopted resolution that will allow for capital injections into systemic banks through the budget, in the event that this should be needed.
- Close monitoring of banks, including of transactions with non-residents.
- Banks have been required to prepare their own contingency plans. Banks have increased liquidity, tightened lending standards, raised provisioning, cut costs, and have sought alternative sources of funding.

Kyrgyz and Russian companies is being created for this project. If the project is considered viable, the Russian partner is to arrange $1.7 billion in financing needed for the construction.[3] With Kambarata, the Kyrgyz Republic would be able to meet its own electricity needs and to export electricity. The latter would also require investment in transmission lines.

[3] Based on the current agreements, repayment of this loan would not be guaranteed by the Kyrgyz government.

V. Risks

30. **The short-term economic outlook is subject to significant downside risks.** A deeper or longer than already projected recession in Russia and Kazakhstan would further hurt growth and remittances. Banking sector difficulties in the region could also intensify, spilling over to the Kyrgyz banking sector. The authorities are prepared, however, to deal with a further worsening of the external environment and the assistance received from Russia provides a large buffer. In case of a sharper economic downturn, a key concern would be to ensure sufficient support to the poor. Over the medium term, once the region recovers, growth in the Kyrgyz Republic may pick up at a faster pace than currently projected.

31. **Political uncertainty surrounding the upcoming elections and domestic tensions could affect confidence or weaken the authorities' ability to adhere to sound policies.** The upcoming elections may trigger an increase in spending over and above budget targets, including by channeling donor assistance to off-budget funds. This would leave less funds available to cover the financing needs of the central government budget in the coming years. The authorities, however, expressed a strong commitment to use the support in a medium-term budget framework.

32. **The Kambarata hydropower project could provide large benefits to the Kyrgyz Republic, but is not without risks.** Financing this project with loans would sharply increase the country's external debt (see the accompanying debt sustainability analysis). Moreover, if the government were to assume any responsibility for the repayment of these loans, public debt indicators would deteriorate dramatically. The authorities, however, have indicated that any decision regarding Kambarata will not be made until the feasibility study is completed and that they will continue to refrain from issuing any government guarantees.

VI. Program Issues

33. **Conditionality continues to center on macroeconomic policies.** Performance criteria have been agreed for end-June and end-December 2009 and are set out in Table 1 attached to the authorities' supplementary Letter of Intent. Two additional structural benchmarks have been added, again derived from the authorities' policy agenda, which focus on ensuring that the deposit insurance is fully funded and raising social benefits.

34. **A safeguards assessment update found a strengthened framework that meets the expected standards under the Fund's safeguards policy.** The update found that the NBKR continues to adhere to key aspects of the safeguards framework. In particular: (i) the NBKR publishes its annual financial statements, together with the external audit opinions, on a timely basis; (ii) the external audit is conducted in accordance with international standards and the audit opinions have been unqualified; (iii) the building blocks for a modern internal audit function are in place and this activity is playing an increasingly important role in safeguarding the NBKR's operations; and (iv) an audit oversight mechanism is in place, following the establishment of an Audit Committee in 2008.

35. **The safeguards assessment considered the NBKR to be well-placed to build on these foundations and complete the remaining challenges.** These include: (i) allowing a multi-year mandate for the bank's external audit firm, subject to a periodical tendering and rotation of the audit firm or partner every five to seven years; (ii) specifying a benchmark financial reporting framework in the central bank law (while the NBKR's financial statements are *de facto* close to International Financial Reporting Standards, there is no requirement to follow a specific benchmark); and (iii) consolidating the progress made in modernizing the internal audit function through a strengthening of skills and resources.

VII. Staff Appraisal

36. **The Kyrgyz Republic's economic outlook has worsened further in recent months.** The global crisis is causing a sharper economic slowdown than already expected at the time of approval of the ESF arrangement. This is creating revenue shortfalls and larger balance of payments needs. Confidence in the national currency and the banking system has weakened.

37. **The authorities' macroeconomic policies, together with substantial and timely donor support, will help mitigate the impact of the global crisis on the Kyrgyz economy.** The large support offered by the Russian Federation will more than cover the fiscal gap and balance of payments needs. Without this support, stronger adjustment efforts would have been needed to safeguard external stability, which in the short run would have hurt growth further.

38. **Despite the worsening external environment, the authorities' strategy designed in the fall of 2008 remains appropriate.** The larger donor support will allow fiscal policy to provide an even stronger boost to the economy than envisaged earlier. The exchange rate is broadly in line with fundamentals and continued exchange rate flexibility will help ensure that external stability is maintained over the medium term. Monetary policy continues to focus on reducing inflation and mitigating exchange rate pressures. Provided that inflation continues to fall and demand for som recovers, a gradual easing of monetary policy could help support growth. The provision of liquidity to banks should continue to remain free from interference in banks' lending decisions.

39. **Further revisions to the tax system would be needed to remove remaining inefficiencies and ensure strong revenue collection over the longer term.** Donor support may decline over the medium term and higher revenue collection would be needed to safeguard fiscal sustainability. A partial reversal of the reduction in the VAT rate and the removal of import exemptions could also allow for the early elimination of the distortive turnover tax. Revenue administration needs to be strengthened further, focusing particularly on large taxpayers.

40. **The authorities have prepared themselves to deal with possible financial sector difficulties.** The banking system has weathered the crisis thus far and banks have some

buffer. The updated stress tests indicate vulnerabilities to credit and concentration risks and the NBKR will need to continue to monitor banks closely. Putting the deposit insurance into effect and increasing its coverage should help increase confidence in the banking system. Until the depository issue can be addressed, the NBKR should retain its role as agent in issuing, settling, and acting as depository of government securities.

41. **On the basis of the Kyrgyz Republic's performance to date and the policy intentions expressed by the authorities in the attached letter of intent, staff recommends the completion of the first review under the ESF arrangement.** Program implementation has been strong and macroeconomic policies are sound.

42. It is proposed that the next Article IV consultation with the Kyrgyz Republic be held in accordance with the decision on consultation cycles approved on July 15, 2002.

Table 1. Kyrgyz Republic: Selected Economic Indicators, 2006–14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
				Projections					
Nominal GDP (in billions of soms)	113.8	141.9	185.0	211.9	236.7	264.1	290.5	319.9	353.7
Nominal GDP (in millions of U.S. dollars)	2,837	3,805	5,050	4,948	5,066	5,488	5,860	6,265	6,726
Real GDP (growth in percent)	3.1	8.5	7.6	0.9	2.9	4.0	4.2	4.9	5.6
Non-gold real GDP (growth in percent)	5.7	9.0	5.4	0.8	2.0	3.0	4.0	5.0	5.5
GDP per capita (in U.S. dollars)	546	726	953	923	932	998	1,053	1,113	1,181
Consumer prices (12-month percent change, eop)	5.1	20.1	20.1	10.0	8.2	5.7	5.2	4.7	4.5
Consumer prices (12-month percent change, average)	5.6	10.2	24.5	12.4	8.6	7.2	5.5	5.0	4.7
Producer prices (12-month percent change, eop)	10.4	20.6	17.4	…	…	…	…	…	
Producer prices (12-month percent change, average)	15.3	11.8	26.4	…	…	…	…	…	
Investment and savings (in percent of GDP)									
Investment	22.8	21.3	21.1	20.3	22.0	23.7	24.5	25.0	25.2
Public	4.3	4.8	4.1	5.9	5.7	5.5	5.5	5.5	5.5
Private	18.5	16.6	17.0	14.4	16.3	18.1	19.0	19.5	19.7
Savings	19.8	21.2	14.6	14.0	13.5	17.2	19.2	21.0	21.6
Public	1.6	4.1	5.1	4.3	1.6	2.2	2.7	3.0	3.2
Private	18.2	17.0	9.5	9.7	12.0	15.0	16.5	18.0	18.5
Savings-investment balance	-3.1	-0.2	-6.5	-6.3	-8.4	-6.5	-5.2	-4.0	-3.6
General government finances (in percent of GDP) 1/									
Total revenue and grants	26.4	30.3	30.3	29.3	26.4	27.0	27.3	27.7	27.8
of which: Tax revenue	21.4	22.6	23.3	19.2	19.7	20.5	20.9	21.5	21.7
Total expenditure (including net lending)	28.9	31.0	29.6	31.3	30.9	30.7	30.3	30.2	30.1
of which : Current expenditure	24.8	26.2	25.2	25.0	24.8	24.8	24.6	24.7	24.6
Capital expenditure	4.3	4.8	4.1	5.9	5.7	5.5	5.5	5.5	5.5
Overall fiscal balance	-2.1	-0.3	-0.1	-1.9	-4.5	-3.7	-3.0	-2.5	-2.3
Primary balance	-1.2	0.3	0.7	-1.1	-3.8	-3.1	-2.4	-1.8	-1.6
Primary balance excluding grants	-2.0	-1.9	-1.1	-6.7	-6.1	-4.9	-4.1	-3.4	-3.2
Total public debt	72.5	56.8	49.2	52.0	49.7	49.1	48.5	47.3	45.9
Banking sector 2/									
Reserve money (percent change, eop)	47.4	38.5	11.3	1.0	12.8	...	...	...	...
Broad money (percent change, eop)	51.6	31.4	11.4	4.1	15.0	...	...	...	...
Credit to private sector (percent change, eop)	48.6	79.7	26.4	17.3	24.1	...	...	...	...
Credit to private sector (in percent of GDP)	10.3	14.9	14.4	14.5	16.1	...	...	...	...
Velocity of broad money 3/	3.5	3.3	3.9	4.3	4.2	...	...	...	...
Interest rate 4/	4.2	5.6	19.2	...	...	...	...	...	...
External sector									
Current account balance (in percent of GDP)	-3.1	-0.2	-6.5	-6.3	-8.4	-6.5	-5.2	-4.0	-3.6
Export of goods and services (million USD)	1,485	2,244	3,138	2,694	3,044	3,472	3,801	4,141	4,499
Export growth (percent change)	40.9	51.1	39.9	-14.2	13.0	14.0	9.5	9.0	8.6
Import of goods and services (million USD)	2,253	3,218	4,728	4,026	4,507	4,934	5,306	5,678	6,061
Import growth (percent change)	61.3	42.8	46.9	-14.9	12.0	9.5	7.5	7.0	6.7
Gross official reserves (million USD) 5/	814	1,194	1,222	1,459	1,459	1,507	1,564	1,715	1,905
Gross reserves (months of next year imports, eop)	3.0	3.0	3.6	3.9	3.5	3.4	3.3	3.4	3.5
Gross reserves to short-term debt ratio (in percent) 6/	332.4	329.2	270.2	…	…	…	…	…	…
External public debt outstanding (in percent of GDP)	69.8	54.6	41.8	45.1	46.0	44.1	41.9	39.9	37.9
External public debt service-to-export ratio (in percent)	4.0	2.9	2.3	10.7	2.7	2.4	2.2	2.0	2.0
Memorandum items									
Exchange rate (soms per U.S. dollar, average)	40.1	37.3	36.6	...	...	...	...	...	...
Real effective exchange rate (2000=100) (average)	106.0	113.3	128.7	...	...	...	...	...	...

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/ At actual exchange rates for 2006–08, at program exchange rates (including Som 38.21 per 1 US$) for 2009.
3/ 12-month GDP over end-period broad money.
4/ Interest rate on 3-month treasury bills.
5/ Gross reserves exclude international reserves of the NBKR that are pledged or blocked.
6/ Short-term debt includes public and private debt amortization with remaining maturity of less than one year in addition to commercial banks' gross foreign liabilities.

Table 2. Kyrgyz Republic: Balance of Payments, 2006–14
(In millions of U.S. dollars)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
			Prel.			Projections			
Current account balance	-87	-6	-330	-312	-427	-354	-307	-252	-242
excluding transfers	-817	-1,026	-1,769	-1,486	-1,642	-1,711	-1,770	-1,816	-1,910
Trade balance	-686	-1,076	-1,578	-1,370	-1,497	-1,484	-1,524	-1,568	-1,602
Exports, fob	1,106	1,559	2,143	1,841	2,066	2,394	2,623	2,854	3,122
CIS countries	676	976	1,263	1,012	1,116	1,273	1,400	1,562	1,719
of which: energy products	43	106	276	168	203	225	242	262	279
of which: Re-exports of consumer goods 1/	200	223	267	228	247	283	313	351	377
Non-CIS countries	430	584	880	830	950	1,121	1,222	1,293	1,403
of which: Gold	206	225	463	519	602	745	819	859	942
of which: Re-exports of oil products	106	173	143	76	92	100	106	109	113
Imports, fob	1,792	2,635	3,721	3,211	3,563	3,878	4,146	4,422	4,724
CIS countries	926	1,417	2,060	1,673	1,889	2,064	2,200	2,314	2,465
of which: Energy (including for re-exports)	460	681	1,168	751	883	967	1,023	1,078	1,158
Non-CIS countries	867	1,219	1,661	1,538	1,674	1,814	1,946	2,108	2,259
of which: Goods for re-exports	182	202	243	207	224	258	285	319	342
Services	-82	102	-11	38	34	22	19	30	41
Receipts	379	684	995	853	979	1,078	1,178	1,287	1,377
Payments	-461	-582	-1,006	-815	-944	-1,056	-1,159	-1,256	-1,337
Income	-48	-52	-180	-154	-180	-249	-265	-279	-349
Interest payments 2/	-20	-26	-29	-29	-29	-34	-38	-42	-46
Other net income	-28	-27	-151	-125	-151	-215	-227	-236	-303
Current Transfers (net)	730	1,020	1,440	1,174	1,215	1,356	1,463	1,564	1,669
of which: Private	717	990	1,400	980	1,175	1,322	1,428	1,528	1,632
Capital Account	-36	-53	-18	288	96	89	89	89	90
Official	37	58	72	308	106	99	99	99	99
Private	-73	-111	-89	-20	-10	-10	-10	-10	-9
Financial account	344	344	158	234	332	336	296	331	362
Commercial banks	-44	104	15	-40	0	0	0	0	0
Medium-and long-term loans, net	83	54	34	161	106	89	30	59	83
Disbursement	120	105	92	421	201	201	159	173	187
of which: Loan financed PIP	87	59	38	91	148	149	98	101	105
Amortization 2/	-37	-51	-58	-260	-95	-111	-129	-114	-104
FDI and Portfolio investment (net)	179	190	233	157	226	247	266	272	279
Net short-term flows	126	-5	-124	-44	0	0	0	0	0
Errors and omissions	-37	38	289	0	0	0	0	0	0
Overall balance	184	323	100	210	0	71	78	169	210
Financing	-184	-323	-100	-210	0	-71	-78	-169	-210
Net international reserves	-193	-327	-103	-210	0	-71	-78	-169	-210
Gross official reserves (– increase)	-170	-307	-121	-237	0	-48	-57	-151	-190
IMF (net)	-24	-21	18	27	0	-23	-21	-17	-20
Exceptional Financing (including arrears)	10	5	3	0	0	0	0	0	0
Memorandum items:									
GDP (in millions of U.S. dollars)	2,837	3,805	5,050	4,948	5,066	5,488	5,860	6,265	6,726
Current account balance (percent of GDP)	-3.1	-0.2	-6.5	-6.3	-8.4	-6.5	-5.2	-4.0	-3.6
Current account balance excl. official transfers (percent of GDP)	-3.5	-1.0	-7.3	-10.2	-9.2	-7.1	-5.8	-4.6	-4.1
Growth of exports of GNFS (volume, percent)	19.5	39.2	20.8	0.3	5.4	8.7	5.8	5.8	6.0
Growth of imports of GNFS (volume, percent)	42.6	34.5	22.1	3.8	5.0	4.9	4.9	4.7	4.5
Terms of trade (goods, percentage change)	0.4	-0.6	-4.3	7.6	-1.7	-1.0	-0.2	-0.2	-0.3
External Public Debt (US$ million) 3/	1,982	2,079	2,113	2,232	2,330	2,418	2,457	2,502	2,548
as percent of GDP	69.8	54.6	41.8	45.1	46.0	44.1	41.9	39.9	37.9
External Public Debt (PV US$ million) 2/	1,257	1,372	1,355	1,360	1,432	1,506	1,556	1,612	1,671
as percent of GDP	44	36	27	27	28	27	27	26	25
as percent of exports	85	61	43	50	47	43	41	39	37
Public debt service-to-exports ratio 3/ 4/	4.0	2.9	2.3	10.7	2.7	2.4	2.2	2.0	2.0
Gross reserves 5/	814	1,194	1,222	1,459	1,459	1,507	1,564	1,715	1,905
in months of subsequent year's imports	3.0	3.0	3.6	3.9	3.5	3.4	3.3	3.4	3.5

Sources: Kyrgyz authorities and Fund staff estimates and projections.

1/ Reflects adjustments to the official statistics to account for the staff's estimate for re-exports through informal border trade.
2/ Starting 2006, interest and amortization reflect bilateral agreements signed following March 2005 Paris Club agreement to grant debt relief on London terms.
3/ Public and publicly guaranteed debt.
4/ Net of rescheduling.
5/ Valued at end-period exchange rates. The discrepancy between the difference in year-end stocks and the change in reserves under Financing is caused by movements in prices and exchange rates.

Table 3. Kyrgyz Republic: NBKR Accounts, 2006–09 1/

	2006	2007	2008				2009			
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.
	(In millions of soms)									
Net foreign assets	21,072	31,544	28,826	31,400	36,405	35,740	29,924	43,736	43,767	43,881
Net international reserves	23,197	34,430	31,287	33,783	38,538	37,742	31,828	45,626	45,657	45,771
Long-term foreign liabilities	-2,184	-2,181	-2,047	-2,044	-2,058	-2,035	-2,029	-2,015	-2,015	-2,015
Other foreign assets	111	-654	-368	-291	-24	72	148	148	148	148
Balances with CIS countries	-51	-51	-46	-48	-51	-38	-23	-23	-23	-23
Net domestic assets	1,727	39	292	1,140	-1,459	-608	-227	-13,637	-10,660	-8,397
Net claims on general government	1,802	767	531	1,001	-136	456	411	-13,319	-10,800	-10,434
Of which: total government deposits	-5,242	-4,994	-4,616	-4,111	-5,271	-4,612	-4,265	-17,994	-15,476	-15,109
Repos	-504	-193	-182	-231	-10	0	-11	-11	-11	-11
Claims on commercial banks	313	305	302	301	300	299	297	800	1,223	1,619
Other items (net)	117	-840	-360	69	-1,612	-1,363	-925	-1,108	-1,072	428
Reserve money	22,799	31,583	29,117	32,540	34,947	35,132	29,696	30,099	33,107	35,483
Currency in circulation	19,910	27,562	25,605	28,418	30,613	30,803	25,778	26,728	29,399	31,864
Commercial banks' reserves and other balances	2,889	4,021	3,512	4,122	4,333	4,329	3,919	3,371	3,708	3,619
Of which: required reserves	1,522	2,195	2,226	2,515	2,563	2,668	2,667	2,340	2,273	2,640
	(Contribution to reserve money growth, in percent) 2/									
Net foreign assets	34.4	45.9	-8.6	-0.5	15.4	13.3	-16.6	22.8	22.8	23.2
Net domestic assets	13.1	-7.4	0.8	3.5	-4.7	-2.0	1.1	-37.1	-28.6	-22.2
Of which: net claims on general government	7.0	-4.5	-0.7	0.7	-2.9	-1.0	-0.1	-39.2	-32.0	-31.0
Reserve money	47.5	38.5	-7.8	3.0	10.7	11.2	-15.5	-14.3	-5.8	1.0
Of which: currency in circulation	42.0	33.6	-6.2	2.7	9.7	10.3	-14.3	-11.6	-4.0	3.0
Memorandum items:										
Reserve money (12-month change, in percent)	47.5	38.5	31.3	27.6	27.5	11.2	2.0	-7.5	-5.3	1.0
Net international reserves (in millions of dollars)	607	901	819	884	1,009	988	833	1,194	1,195	1,198
Net domestic assets (in millions of soms) 3/	-321	-2,036	-1,781	-948	-3,561	-2,705	-2,318	-15,723	-12,744	-10,477
Reserve assets (in millions of dollars)	773	1,043	952	1,031	1,145	1,147	982	1,366	1,358	1,384

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

1/ Based on new program exchange rates (including 38.21 Som/US dollar) specified in the TMU.

2/ Contribution is defined as change of asset stock relative to previous end-year reserve money stock (in percent).

3/ 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 4. Kyrgyz Republic: Monetary Survey, 2006–09 1/ 2/ 3/

	2006	2007	2008				2009			
	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.
	(In millions of soms)									
Net foreign assets	23,634	29,995	26,494	30,143	34,736	33,939	29,700	44,085	44,116	44,230
Of which: long-term foreign liabilities (-)	-2,184	-2,181	-2,047	-2,044	-2,058	-2,035	-2,029	-2,015	-2,015	-2,015
Net domestic assets	8,524	12,889	13,616	15,491	13,678	12,915	10,461	-1,768	827	4,525
Domestic credit	13,197	20,326	21,438	23,877	23,701	23,478	21,314	10,769	14,527	17,925
Net claims on general government	1,449	-1,738	-2,364	-2,552	-3,500	-2,674	-3,698	-15,985	-13,145	-12,754
Credit to the rest of the economy	11,748	22,064	23,802	26,428	27,202	26,152	25,012	26,754	27,671	30,679
Of which: in forex	8,191	14,180	14,350	15,793	16,228	15,752	15,005	16,106	16,686	18,714
Other items net	-4,673	-7,437	-7,822	-8,385	-10,024	-10,563	-10,853	-12,536	-13,700	-13,400
Broad money (M2X)	32,158	42,884	40,110	45,635	48,413	46,854	40,161	42,317	44,943	48,755
Of which:										
Broad money, excluding forex deposits (M2)	24,108	34,168	32,581	35,608	38,111	37,028	31,518	33,449	36,038	38,176
Currency held by the public	19,410	26,675	24,447	27,095	29,254	29,385	24,591	25,584	28,141	30,516
Total domestic currency deposit liabilities	4,698	7,493	8,135	8,513	8,857	7,643	6,928	7,865	7,897	7,660
	(Contribution to broad money growth, in percent) 4/									
Net foreign assets	29.4	19.8	-8.2	0.3	11.1	9.2	-9.0	21.7	21.7	22.0
Net domestic assets	26.6	13.6	1.7	6.1	1.8	0.1	-5.2	-31.3	-25.8	-17.9
Domestic credit	24.6	22.2	2.6	8.3	7.9	7.4	-4.6	-27.1	-19.1	-11.9
Net claims on general government	2.3	-9.9	-1.5	-1.9	-4.1	-2.2	-2.2	-28.4	-22.3	-21.5
Credit to the rest of the economy	22.3	32.1	4.1	10.2	12.0	9.5	-2.4	1.3	3.2	9.7
Other items (net)	2.1	-0.1	-0.9	-2.2	-6.0	-7.3	-0.6	-4.2	-6.7	-6.1
Broad money (M2X)	56.0	33.4	-6.5	6.4	12.9	9.3	-14.3	-9.7	-4.1	4.1
Of which:										
Broad money, excluding forex deposits (M2)	39.5	31.3	-3.7	3.4	9.2	6.7	-11.8	-7.6	-2.1	2.4
Currency held by the public	29.6	22.6	-5.2	1.0	6.0	6.3	-10.2	-8.1	-2.7	2.4
Total deposit liabilities	26.4	10.8	-1.3	5.4	6.9	2.9	-4.1	-1.6	-1.4	1.6
Memorandum items:										
Broad money (M2X) (12-month change, in percent)	56.0	33.4	32.1	30.4	25.4	9.3	0.1	-7.3	-7.2	4.1
Credit to the rest of the economy (12-month change, in percent)	64.2	87.8	48.5	39.3	27.0	18.5	5.1	1.2	1.7	17.3
Credit to economy (in percent of GDP)	10.3	15.5	16.2	16.8	15.6	14.1	13.1	13.6	13.6	14.5
M2X velocity 5/	3.5	3.3	3.5	3.4	3.6	3.9	4.8	4.7	4.5	4.3
M2X multiplier	1.4	1.4	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4
Dollarization indicators (in percent)										
Loan dollarization	69.7	64.3	60.3	59.8	59.7	60.2	60.0	60.2	60.3	61.0
Deposit dollarization	63.1	53.8	48.1	54.1	53.8	56.2	55.5	53.0	53.0	58.0

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

1/ The monetary survey has been augmented since March 2007 to include the balances of Ayil Bank (formerly KAFC, a NBFI), which introduces a break into the series.

2/ Based on new program exchange rates (including 38.21 Som/US dollar) specified in the TMU.

3/ As of January 2009, banks are compiling their balance sheets based on a new reporting framework which introduces a break in the series. Data for 2007– 08 was adjusted for comparability.

4/ Contribution is defined as change of asset stock relative to previous end-year broad money stock (in percent).

5/ 12-month GDP over end-period broad money.

Table 5. Kyrgyz Republic: General Government Finances, 2007–12

	2007	2008	2009 1/					2010	2011	2012
			Q1	Q2	Q3	Q4	Year			
		Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of soms, unless indicated otherwise)									
Total revenue and grants	43,039	56,015	11,828	19,672	13,990	16,503	61,994	62,491	71,201	79,215
Total revenue	39,821	52,700	10,506	11,695	12,625	15,244	50,070	57,125	66,307	74,152
Current revenue	39,200	51,323	10,451	11,451	12,218	14,308	48,427	55,347	64,153	71,786
Tax revenue	32,005	43,169	8,634	9,516	10,485	12,080	40,715	46,557	54,152	60,845
Income tax	4,338	6,909	1,899	1,808	1,855	2,250	7,812	8,822	10,126	11,381
VAT 1/	12,702	16,540	2,861	2,848	3,141	2,990	11,840	13,513	15,806	17,838
Excises	1,448	1,575	325	427	448	517	1,716	2,282	2,924	3,640
Customs	3,789	4,634	877	1,231	1,187	1,859	5,153	5,741	6,643	7,326
Land tax	587	666	171	126	207	261	765	984	1,321	1,452
Road tax and Emergency Fund 1/	1,913	2,879	272	0	0	0	272	0	0	0
Retail sales tax 1/	1,121	1,516	0	0	0	0	0	0	0	0
New turnover tax 1/	…	…	476	1,295	1,265	1,813	4,849	5,669	6,332	6,940
Social Fund (excl. gov. contribution)	5,460	7,244	1,341	1,348	1,925	2,178	6,793	8,053	9,162	10,268
Other	646	1,207	414	433	458	212	1,516	1,494	1,838	1,998
Nontax revenue	7,195	8,155	1,816	1,935	1,732	2,228	7,712	8,790	10,001	10,941
Capital revenue	466	1,377	55	244	408	936	1,643	1,778	2,154	2,366
Grants	3,218	3,314	1,322	7,978	1,365	1,259	11,924	5,367	4,894	5,063
Program grants	1,790	1,400	562	6,796	232	311	7,900	1,313	1,059	1,112
of which: Russian grant	...	...	0	6,422	0	0	6,422	0	0	0
PIP grants	1,429	1,915	760	1,181	1,133	949	4,023	4,054	3,835	3,950
Total expenditure (including net lending)	44,020	54,836	11,424	17,901	18,013	18,882	66,220	73,241	81,040	88,000
Total expenditure (excluding net lending)	43,915	54,186	11,572	17,763	17,709	18,411	65,455	72,301	80,086	87,419
Current expenditure	37,170	46,582	9,337	13,720	13,884	15,963	52,905	58,808	65,481	71,444
Wages	9,928	12,228	2,615	4,068	4,055	4,517	15,255	16,693	18,704	20,616
Transfers and subsidies	5,047	6,156	1,361	1,727	1,590	1,294	5,972	6,568	7,495	8,434
Social Fund expenditures	7,495	9,384	2,397	2,922	3,032	3,658	12,009	14,282	16,622	18,047
Interest	916	1,371	222	783	200	505	1,710	1,674	1,671	1,904
Purchases of other goods and services	13,783	17,443	2,743	4,220	5,007	5,989	17,959	19,592	20,989	22,443
Capital expenditure	6,745	7,605	2,235	4,043	3,825	2,448	12,550	13,492	14,605	15,975
Domestically financed capital expenditure	3,112	4,297	790	1,902	1,464	475	4,631	3,257	3,601	7,189
Foreign financed PIP loans	2,205	1,393	685	960	1,227	1,024	3,897	6,920	7,170	4,836
Foreign financed PIP grants	1,429	1,915	760	1,181	1,133	949	4,023	3,315	3,835	3,950
Net lending	105	650	-148	138	304	471	765	940	954	581
Discrepancy 2/	538	-1,308	150	0	0	0	150	0	0	0
Primary balance excluding grants	-2,746	-2,073	-546	-5,423	-5,187	-3,133	-14,290	-14,442	-13,062	-11,945
Primary balance	472	1,241	775	2,554	-3,822	-1,874	-2,366	-9,075	-8,168	-6,882
Overall balance	-444	-130	554	1,772	-4,023	-2,379	-4,077	-10,750	-9,839	-8,786
Total financing	444	130	-554	-1,772	4,023	2,379	4,077	10,750	9,839	8,786
External financing	1,911	705	410	12,026	813	1,839	15,089	5,729	5,380	2,951
of which: Russian loan	...	...	0	12,844	0	0	12,844	0	0	0
Domestic financing	-1,671	-322	-990	-13,850	3,163	464	-11,212	4,820	4,259	5,627
NBKR	-1,234	138	0	-15,434	2,820	411	-12,202	4,673	4,813	4,938
Commercial banks 3/	-437	-575	-1,040	1,504	323	24	810	148	-754	489
Nonbank	1	115	50	80	20	30	180	0	200	200
Privatization	203	-253	27	52	46	75	200	200	200	208

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

1/ In 2009, the road, emergency and retail taxes have been abolished, the VAT tax rate declined from 20 percent to 12 percent, and a new turnover tax was introduced.

2/ In 2008, discrepancy includes Som 1,059 million in final settlement expenditures made in January 2008 for the 2007 budget.

3/ 2008 bank financing was adjusted based on preliminary data on the effects of the revised accounting in the banking sector.

Table 6. Kyrgyz Republic: General Government Finances, 2007–12

	2007	2008	2009					2010	2011	2012
			Q1	Q2	Q3	Q4	Year			
		Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(percent of GDP)									
Total revenue and grants	30.3	30.3	34.4	46.0	19.2	26.7	29.3	26.4	27.0	27.3
Total revenue	28.1	28.5	30.5	27.3	17.3	24.7	23.6	24.1	25.1	25.5
Current revenue	27.6	27.7	30.4	26.8	16.8	23.2	22.9	23.4	24.3	24.7
Tax revenue	22.6	23.3	25.1	22.2	14.4	19.6	19.2	19.7	20.5	20.9
Income tax	3.1	3.7	5.5	4.2	2.5	3.6	3.7	3.7	3.8	3.9
VAT 1/	9.0	8.9	8.3	6.7	4.3	4.8	5.6	5.7	6.0	6.1
Excises	1.0	0.9	0.9	1.0	0.6	0.8	0.8	1.0	1.1	1.3
Customs	2.7	2.5	2.5	2.9	1.6	3.0	2.4	2.4	2.5	2.5
Land tax	0.4	0.4	0.5	0.3	0.3	0.4	0.4	0.4	0.5	0.5
Road tax and Emergency Fund 1/	1.3	1.6	0.8	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Retail sales tax 1/	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New turnover tax 1/	…	…	1.4	3.0	1.7	2.9	2.3	2.4	2.4	2.4
Social Fund (excl. gov. contribution)	3.8	3.9	3.9	3.2	2.6	3.5	3.2	3.4	3.5	3.5
Other	0.5	0.7	1.2	1.0	0.6	0.3	0.7	0.6	0.7	0.7
Nontax revenue	5.1	4.4	5.3	4.5	2.4	3.6	3.6	3.7	3.8	3.8
Capital revenue	0.3	0.7	0.2	0.6	0.6	1.5	0.8	0.8	0.8	0.8
Grants	2.3	1.8	3.8	18.6	1.9	2.0	5.6	2.3	1.9	1.7
Program grants	1.3	0.8	1.6	15.9	0.3	0.5	3.7	0.6	0.4	0.4
of which: Russian grant	...	...	0.0	15.0	0.0	0.0	3.0	0.0	0.0	0.0
PIP grants	1.0	1.0	2.2	2.8	1.6	1.5	1.9	1.7	1.5	1.4
Total expenditure (including net lending)	31.0	29.6	33.2	41.8	24.7	30.6	31.3	30.9	30.7	30.3
Total expenditure (excluding net lending)	30.9	29.3	33.6	41.5	24.3	29.8	30.9	30.5	30.3	30.1
Current expenditure	26.2	25.2	27.1	32.1	19.0	25.8	25.0	24.8	24.8	24.6
Wages	7.0	6.6	7.6	9.5	5.6	7.3	7.2	7.1	7.1	7.1
Transfers and subsidies	3.6	3.3	4.0	4.0	2.2	2.1	2.8	2.8	2.8	2.9
Social Fund expenditures	5.3	5.1	7.0	6.8	4.2	5.9	5.7	6.0	6.3	6.2
Interest	0.6	0.7	0.6	1.8	0.3	0.8	0.8	0.7	0.6	0.7
Purchases of other goods and services	9.7	9.4	8.0	9.9	6.9	9.7	8.5	8.3	7.9	7.7
Capital expenditure	4.8	4.1	6.5	9.5	5.2	4.0	5.9	5.7	5.5	5.5
Domestically financed capital expenditure	2.2	2.3	2.3	4.4	2.0	0.8	2.2	1.4	1.4	2.5
Foreign financed PIP loans	1.6	0.8	2.0	2.2	1.7	1.7	1.8	2.9	2.7	1.7
Foreign financed PIP grants	1.0	1.0	2.2	2.8	1.6	1.5	1.9	1.4	1.5	1.4
Net lending	0.1	0.4	-0.4	0.3	0.4	0.8	0.4	0.4	0.4	0.2
Discrepancy	0.4	-0.7	0.4	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Primary balance excluding grants	-1.9	-1.1	-1.6	-12.7	-7.1	-5.1	-6.7	-6.1	-4.9	-4.1
Primary balance	0.3	0.7	2.3	6.0	-5.2	-3.0	-1.1	-3.8	-3.1	-2.4
Overall balance	-0.3	-0.1	1.6	4.1	-5.5	-3.9	-1.9	-4.5	-3.7	-3.0
Total financing	0.3	0.1	-1.6	-4.1	5.5	3.9	1.9	4.5	3.7	3.0
External financing	1.3	0.4	1.2	28.1	1.1	3.0	7.1	2.4	2.0	1.0
of which: Russian loan	...	...	0.0	30.0	0.0	0.0	6.1	0.0	0.0	0.0
Domestic financing	-1.2	-0.2	-2.9	-32.4	4.3	0.8	-5.3	2.0	1.6	1.9
NBKR	-0.9	0.1	0.0	-36.1	3.9	0.7	-5.8	2.0	1.8	1.7
Commercial banks	-0.3	-0.3	-3.0	3.5	0.4	0.0	0.4	0.1	-0.3	0.2
Nonbank	0.0	0.1	0.1	0.2	0.0	0.0	0.1	0.0	0.1	0.1
Privatization	0.1	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Sources: Kyrgyz authorities; and Fund staff estimates and projections.
1/ In 2009, the road, emergency and retail taxes have been abolished, the VAT tax rate declined from 20 percent to 12 percent, and a new turnover tax was introduced.

Table 7. Kyrgyz Republic: State Government Finances, 2007–12

	2007	2008	2009					2010	2011	2012
			Q1	Q2	Q3	Q4	Year			
		Prel.	Proj	Proj	Proj	Proj	Proj.	Proj.	Proj.	Proj
	(In millions of soms)									
Total revenue and grants	37,424	48,511	10,455	18,287	12,027	14,281	55,051	54,328	62,010	68,917
Total revenue	34,206	45,197	9,133	10,309	10,663	13,022	43,127	48,962	57,116	63,854
Current revenue	33,740	44,080	9,109	10,103	10,292	12,130	41,634	47,294	54,991	61,517
Tax revenue	26,545	35,925	7,293	8,168	8,560	9,901	33,922	38,504	44,990	50,577
Income tax	4,338	6,909	1,899	1,808	1,855	2,250	7,812	8,822	10,126	11,381
VAT	12,702	16,540	2,861	2,848	3,141	2,990	11,840	13,513	15,806	17,838
Excises	1,448	1,575	325	427	448	517	1,716	2,282	2,924	3,640
Customs	3,789	4,634	877	1,231	1,187	1,859	5,153	5,741	6,643	7,326
Land tax	587	666	171	126	207	261	765	984	1,321	1,452
Road tax and Emergency Fund	1,913	2,879	272	0	0	0	272	0	0	0
Retail sales tax	1,121	1,516	0	0	0	0	0	0	0	0
New turnover tax	…	…	476	1,295	1,265	1,813	4,849	5,669	6,332	6,940
Other	646	1,207	414	433	458	212	1,516	1,494	1,838	1,998
Nontax revenue	7,195	8,155	1,816	1,935	1,732	2,228	7,712	8,790	10,001	10,941
Capital revenue	466	1,117	24	206	370	892	1,493	1,668	2,125	2,337
Grants	3,218	3,314	1,322	7,978	1,365	1,259	11,924	5,367	4,894	5,063
Program grants	1,790	1,400	562	6,796	232	311	7,900	1,313	1,059	1,112
of which: Russian grant	...	...	0	6,422	0	0	6,422	0	0	0
PIP grants	1,429	1,915	760	1,181	1,133	949	4,023	4,054	3,835	3,950
Total expenditure (incl. net lending)	39,620	48,989	10,447	16,379	15,909	16,148	58,883	63,813	70,291	76,424
Total expenditure	39,515	48,339	10,595	16,241	15,605	15,677	58,117	62,873	69,337	75,843
Current expenditure	32,769	40,735	8,360	12,198	11,780	13,229	45,567	49,381	54,731	59,868
Wages and Social Fund contributions	11,604	14,043	3,570	4,959	4,447	4,843	17,819	19,120	21,947	24,246
Transfers and subsidies	5,047	6,156	1,361	1,727	1,590	1,294	5,972	6,568	7,495	8,434
Transfers to Social Fund	1,419	1,722	464	508	536	598	2,107	2,427	2,629	2,841
Interest	916	1,371	222	783	200	505	1,710	1,674	1,671	1,904
Purchases of other goods and services	13,783	17,443	2,743	4,220	5,007	5,989	17,959	19,592	20,989	22,443
Capital expenditure (including PIP)	6,745	7,605	2,235	4,043	3,825	2,448	12,550	13,492	14,605	15,975
Domestically financed capital expenditure	3,112	4,297	790	1,902	1,464	475	4,631	3,257	3,601	7,189
Foreign financed PIP loans	2,205	1,393	685	960	1,227	1,024	3,897	6,920	7,170	4,836
Foreign financed PIP grants	1,429	1,915	760	1,181	1,133	949	4,023	3,315	3,835	3,950
Financial balance	-2,090	172	-139	2,046	-3,578	-1,395	-3,067	-8,544	-7,327	-6,926
Net lending	105	650	-148	138	304	471	765	940	954	581
Discrepancy	538	-949	0	0	0	0	0	0	0	0
Primary balance	-742	-57	230	2,691	-3,681	-1,361	-2,122	-7,811	-6,610	-5,603
Primary balance excluding grants	-3,960	-3,371	-1,092	-5,287	-5,046	-2,621	-14,045	-13,178	-11,504	-10,666
Overall balance	-1,658	-1,428	8	1,908	-3,882	-1,866	-3,832	-9,485	-8,281	-7,507
Total financing	1,658	1,428	-8	-1,908	3,882	1,866	3,832	9,485	8,281	7,507
External financing	1,911	705	410	12,026	813	1,839	15,089	5,729	5,380	2,951
of which: Russian loan	...	...	0	12,844	0	0	12,844	0	0	0
Domestic financing	-457	976	-445	-13,986	3,022	-48	-11,457	3,555	2,701	4,348
NBKR	-1,234	138	0	-15,434	2,820	411	-12,202	4,673	4,813	4,938
Commercial banks	777	573	-572	1,348	142	-512	405	-1,277	-2,472	-950
Nonbank	1	264	127	100	60	53	340	160	360	360
Privatization	203	-253	27	52	46	75	200	200	200	208

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

Table 8. Kyrgyz Republic: State Government Finances, 2007–12

	2007	2008	2009					2010	2011	2012
			Q1	Q2	Q3	Q4	Year			
		Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In percent of GDP)									
Total revenue and grants	26.4	26.2	30.4	42.8	16.5	23.1	26.0	23.0	23.5	23.7
Total revenue	24.1	24.4	26.6	24.1	14.6	21.1	20.4	20.7	21.6	22.0
Current revenue	23.8	23.8	26.5	23.6	14.1	19.6	19.7	20.0	20.8	21.2
Tax revenue	18.7	19.4	21.2	19.1	11.7	16.0	16.0	16.3	17.0	17.4
Income tax	3.1	3.7	5.5	4.2	2.5	3.6	3.7	3.7	3.8	3.9
VAT	9.0	8.9	8.3	6.7	4.3	4.8	5.6	5.7	6.0	6.1
Excises	1.0	0.9	0.9	1.0	0.6	0.8	0.8	1.0	1.1	1.3
Customs	2.7	2.5	2.5	2.9	1.6	3.0	2.4	2.4	2.5	2.5
Land tax	0.4	0.4	0.5	0.3	0.3	0.4	0.4	0.4	0.5	0.5
Road tax and Emergency Fund	1.3	1.6	0.8	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Retail sales tax	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New turnover tax	...	...	1.4	3.0	1.7	2.9	2.3	2.4	2.4	2.4
Other	0.5	0.7	1.2	1.0	0.6	0.3	0.7	0.6	0.7	0.7
Nontax revenue	5.1	4.4	5.3	4.5	2.4	3.6	3.6	3.7	3.8	3.8
Capital revenue	0.3	0.6	0.1	0.5	0.5	1.4	0.7	0.7	0.8	0.8
Grants	2.3	1.8	3.8	18.6	1.9	2.0	5.6	2.3	1.9	1.7
Program grants	1.3	0.8	1.6	15.9	0.3	0.5	3.7	0.6	0.4	0.4
of which: Russian grant	...	...	...	...	...	...	3.0	0.0	0.0	0.0
PIP grants	1.0	1.0	2.2	2.8	1.6	1.5	1.9	1.7	1.5	1.4
Total expenditure (incl. net lending)	27.9	26.5	30.4	38.3	21.8	26.1	27.8	27.0	26.6	26.3
Total expenditure	27.8	26.1	30.8	38.0	21.4	25.4	27.4	26.6	26.3	26.1
Current expenditure	23.1	22.0	24.3	28.5	16.2	21.4	21.5	20.9	20.7	20.6
Wages and Social Fund contributions	8.2	7.6	10.4	11.6	6.1	7.8	8.4	8.1	8.3	8.3
Transfers and subsidies	3.6	3.3	4.0	4.0	2.2	2.1	2.8	2.8	2.8	2.9
Transfers to Social Fund	1.0	0.9	1.3	1.2	0.7	1.0	1.0	1.0	1.0	1.0
Interest	0.6	0.7	0.6	1.8	0.3	0.8	0.8	0.7	0.6	0.7
Purchases of other goods and services	9.7	9.4	8.0	9.9	6.9	9.7	8.5	8.3	7.9	7.7
Capital expenditure (including PIP)	4.8	4.1	6.5	9.5	5.2	4.0	5.9	5.7	5.5	5.5
Domestically financed capital expenditure	2.2	2.3	2.3	4.4	2.0	0.8	2.2	1.4	1.4	2.5
Foreign financed PIP loans	1.6	0.8	2.0	2.2	1.7	1.7	1.8	2.9	2.7	1.7
Foreign financed PIP grants	1.0	1.0	2.2	2.8	1.6	1.5	1.9	1.4	1.5	1.4
Financial balance	-1.5	0.1	-0.4	4.8	-4.9	-2.3	-1.4	-3.6	-2.8	-2.4
Net lending	0.1	0.4	-0.4	0.3	0.4	0.8	0.4	0.4	0.4	0.2
Discrepancy	0.4	-0.5	…	…	…	…	…	…	…	…
Primary balance	-0.5	0.0	0.7	6.3	-5.0	-2.2	-1.0	-3.3	-2.5	-1.9
Primary balance excluding grants	-2.8	-1.8	-3.2	-12.4	-6.9	-4.2	-6.6	-5.6	-4.4	-3.7
Overall balance	-1.2	-0.3	0.0	4.5	-5.3	-3.0	-1.8	-4.0	-3.1	-2.6
Total financing	1.2	0.8	0.0	-4.5	5.3	3.0	1.8	4.0	3.1	2.6
External financing	1.3	0.4	1.2	28.1	1.1	3.0	7.1	2.4	2.0	1.0
of which: Russian loan	...	...	0.0	30.0	0.0	0.0	6.1	0.0	0.0	0.0
Domestic financing	-0.3	0.5	-1.3	-32.7	4.1	-0.1	-5.4	1.5	1.0	1.5
NBKR	-0.9	0.1	0.0	-36.1	3.9	0.7	-5.8	2.0	1.8	1.7
Commercial banks	0.5	0.3	-1.7	3.2	0.2	-0.8	0.2	-0.5	-0.9	-0.3
Nonbank	0.0	0.1	0.4	0.2	0.1	0.1	0.2	0.1	0.1	0.1
Privatization	0.1	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

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

Table 9. Kyrgyz Republic: Social Fund Operations, 2007–12

	2007	2008	2009					2010	2011	2012
			Q1	Q2	Q3	Q4	Year			
			Prel.	Proj	Proj	Proj	Proj.	Proj.	Proj.	Proj.
					(millions of soms)					
Total revenue	7,290	9,319	2,328	2,277	2,355	2,547	9,507	10,590	12,434	13,927
Total contribution	7,136	9,059	2,296	2,240	2,317	2,504	9,357	10,480	12,405	13,898
Other revenue	155	260	32	38	38	43	150	110	29	29
Total expenditure	7,495	9,384	2,397	2,922	3,032	3,658	12,009	14,282	16,622	18,047
Pension Fund	7,088	8,824	2,352	2,775	2,879	3,398	11,403	13,596	15,857	17,206
Medical Insurance Fund (incl. old Funds)	407	560	45	147	153	260	606	685	765	841
Financial balance	-205	-65	-69	-645	-677	-1,111	-2,502	-3,692	-4,188	-4,120
Budgetary transfer	1,419	1,704	464	508	536	598	2,107	2,427	2,629	2,841
Discrepancy	0	-341	150	0	0	0	150	0	0	0
Overall balance	1,214	1,298	545	-136	-141	-513	-245	-1,265	-1,558	-1,279
Financing	-1,214	-1,298	-545	136	141	513	245	1,265	1,558	1,279
Commercial bank deposits	-1,214	-1,148	-468	156	181	535	405	2,118	2,481	2,278
Funded Pillar	0	0	0	0	0	0	0	-693	-763	-839
Government bonds	…	-149	-77	-20	-40	-23	-160	-160	-160	-160
					(percent of GDP)					
Total revenue	5.1	5.0	6.8	5.3	3.2	4.1	4.5	4.5	4.7	4.8
Total contribution	5.0	4.9	6.7	5.2	3.2	4.1	4.4	4.4	4.7	4.8
Other revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Total expenditure	5.3	5.1	7.0	6.8	4.2	5.9	5.7	6.0	6.3	6.2
Pension Fund	5.0	4.8	6.8	6.5	3.9	5.5	5.4	5.7	6.0	5.9
Medical Insurance Fund (incl. old Funds)	0.3	0.3	0.1	0.3	0.2	0.4	0.3	0.3	0.3	0.3
Financial balance	-0.1	0.0	-0.2	-1.5	-0.9	-1.8	-1.2	-1.6	-1.6	-1.4
Budgetary transfer	1.0	0.9	1.3	1.2	0.7	1.0	1.0	1.0	1.0	1.0
Discrepancy	0.0	-0.2	0.4	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Overall balance	0.9	0.7	1.6	-0.3	-0.2	-0.8	-0.1	-0.5	-0.6	-0.4
Financing	-0.9	-0.7	-1.6	0.3	0.2	0.8	0.1	0.5	0.6	0.4
Commercial bank deposits	-0.9	-0.6	-1.4	0.4	0.2	0.9	0.2	0.9	0.9	0.8
Funded Pillar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.3	-0.3
Government bonds	…	-0.1	-0.2	0.0	-0.1	0.0	-0.1	-0.1	-0.1	-0.1

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

Table 10. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2007-15 1/

	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Actual	Actual			Projections				
Fund obligations based on existing credit (in millions of SDRs)									
Principal	16.1	14.8	14.7	16.2	15.3	13.5	11.4	8.3	4.4
Charges and interest	0.5	0.5	0.5	0.4	0.3	0.3	0.2	0.2	0.1
Fund obligations based on existing and prospective credit (in millions of SDRs)									
Principal	16.1	14.8	14.7	16.2	15.3	13.5	11.4	13.3	16.0
Charges and interest	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.3
Total obligations based on existing and prospective credit									
In millions of SDRs	16.6	15.3	15.3	16.9	15.9	14.0	11.8	13.7	16.4
In millions of US$	25.5	24.1	22.7	24.8	23.3	20.6	17.4	20.3	24.2
In percent of Gross International Reserves	2.1	2.0	1.6	1.7	1.5	1.3	1.0	1.1	1.2
In percent of exports of goods and services	1.1	0.8	0.8	0.8	0.7	0.5	0.4	0.5	0.5
In percent of debt service 2/	39.0	33.4	23.8	30.1	27.7	24.4	20.8	22.2	24.1
In percent of GDP	0.7	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3
In percent of quota	18.7	17.2	17.2	19.0	17.9	15.8	13.3	15.5	18.4
Outstanding Fund credit 2/									
In millions of SDRs	94.8	106.8	125.4	125.8	110.5	97.0	85.7	72.3	56.3
In billions of US$	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
In percent of Gross International Reserves	12.2	13.3	12.7	12.6	10.7	9.1	7.3	5.6	4.0
In percent of exports of goods and services	6.5	5.2	6.9	6.1	4.7	3.8	3.1	2.4	1.8
In percent of debt service 2/	222.2	225.0	195.4	224.1	192.4	169.5	151.1	117.1	83.0
In percent of GDP	3.8	3.2	3.8	3.6	3.0	2.4	2.0	1.6	1.2
In percent of quota	106.8	120.3	141.2	141.7	124.4	109.2	96.5	81.4	63.4
Net use of Fund credit (millions of SDRs)	(13.6)	12.0	18.6	0.4	(15.3)	(13.5)	(11.4)	(13.3)	(16.0)
Disbursements	2.5	26.8	33.3	16.7	-	-	-	-	-
Repayments and Repurchases	16.1	14.8	14.7	16.2	15.3	13.5	11.4	13.3	16.0
Memorandum items:									
Nominal GDP (in millions of US$)	3,805	5,050	4,948	5,066	5,488	5,860	6,265	6,726	7,071
Exports of goods and services (in millions of US$)	2,244	3,138	2,694	3,044	3,472	3,801	4,141	4,499	4,615
Gross International Reserves (in millions of US$)	1,194	1,222	1,464	1,464	1,512	1,569	1,720	1,910	2,070
Debt service (in millions of US$) 2/	65.3	72.2	95.2	82.5	84.3	84.2	83.7	91.4	100.3
Quota (millions of SDRs)	88.8	88.8	88.8	88.8	88.8	88.8	88.8	88.8	88.8

Sources: IMF staff estimates and projections.

1/ Assumes a new ESF arrangement of 75 percent of quota (SDR 66.6 million).

2/ Total external public debt service includes IMF repurchases and repayments.

Table 11. Kyrgyz Republic: Reviews and Disbursements Under the 18-month ESF Arrangement

Date	Action	Associated Disbursement
On December 10, 2008	Approved 18-month ESF arrangement.	SDR 16.65 million
On or after March 10, 2009	Completed first review based on end-December 2008 performance criteria.	SDR 16.65 million
On or after September 10, 2009	Completed second review based on end-June 2009 performance criteria.	SDR 16.65 million
On or after March 10, 2010, but no later than June 10, 2010	Completed third review based on end-December 2009 performance criteria.	SDR 16.65 million
Total		SDR 66.6 million

Source: International Monetary Fund.

Table 12. Kyrgyz Republic: Millennium Development Goals

	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (percent)	59	58	58	59
Employment to population ratio, ages 15-24, total (percent)	41	40	40	41
Income share held by lowest 20 percent	10.6	2.5	7.5	..
Malnutrition prevalence, weight for age (percent of children under 5)	..	8.2	..	..
Poverty headcount ratio at national poverty line (percent of population)	..	..	47.6	43.1
Prevalence of undernourishment (percent of population)	..	21	..	..
Vulnerable employment, total (percent of total employment)	..	..	51	..
Goal 2: Achieve universal primary education				
Literacy rate, youth female (percent of females ages 15-24)	..	..	100	..
Literacy rate, youth male (percent of males ages 15-24)	..	..	100	..
Persistence to last grade of primary, total (percent of cohort)	..	..	93	99
Primary completion rate, total (percent of relevant age group)	..	99	95	99
Total enrollment, primary (percent net)	..	..	93	93
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (percent)	..	1	1	0
Ratio of female to male enrollments in tertiary education	..	..	101	127
Ratio of female to male primary enrollment	..	..	99	99
Ratio of female to male secondary enrollment	102	..	103	101
Ratio of young literate females to males (percent ages 15-24)	..	..	100	..
Share of women employed in the nonagricultural sector (percent of total nonagricultural employment	..	..	45.8	51.9
Goal 4: Reduce child mortality				
Immunization, measles (percent of children ages 12-23 months)	94	97	98	97
Mortality rate, infant (per 1,000 live births)	63	53	44	36
Mortality rate, under-5 (per 1,000)	75	62	51	41
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	38	34	31
Births attended by skilled health staff (percent of total)	..	98	99	98
Contraceptive prevalence (percent of women ages 15-49)	..	60	..	48
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	150
Pregnant women receiving prenatal care (percent)	..	97	..	97
Unmet need for contraception (percent of married women ages 15-49)	..	12	..	1
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (percent of children under age 5 with fever)	..	..	..	..
Condom use, population ages 15-24, female (percent of females ages 15-24)	..	..	..	..
Condom use, population ages 15-24, male (percent of males ages 15-24)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	55	77	135	123
Prevalence of HIV, female (percent ages 15-24)	..	..	..	0
Prevalence of HIV, total (percent of population ages 15-49)	..	..	0.1	0.1
Tuberculosis cases detected under DOTS (percent)	..	3	42	63
Goal 7: Ensure environmental sustainability				
Annual freshwater withdrawals, total (percent of internal resources)	..	..	22	..
CO2 emissions (kg per PPP $ of GDP)	2	1	1	..
CO2 emissions (metric tons per capita)	2	1	1	..
Forest area (percent of land area)	4.0	..	4.0	5.0
Improved sanitation facilities (percent of population with access)	..	92	93	93
Improved water source (percent of population with access)	..	77	82	89
Marine protected areas, (percent of surface area)	..	..	..	..
Nationally protected areas (percent of total land area)	..	..	..	..
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	5	62	44	60
Debt service (PPG and IMF only, percent of exports of G&S, excl. workers' remittances)	..	13.2	9	5.1
Internet users (per 100 people)	0	..	1	14.3
Mobile phone subscribers (per 100 people)	0	0	0.2	41
Telephone mainlines (per 100 people)	7	8	8	9
Other				
Fertility rate, total (births per woman)	3.7	3.3	2.4	2.4
GNI per capita, Atlas method (current US$)	510	350	280	590
GNI, Atlas method (current US$) (billions)	2.3	1.6	1.4	3.1
Gross capital formation (percent of GDP)	24.2	18.3	20.0	17.4
Life expectancy at birth, total (years)	68	66	69	68
Literacy rate, adult total (percent of people ages 15 and above)	..	..	99.0	..
Population, total (millions)	4.4	4.6	4.9	5.2
Trade (percent of GDP)	78.8	71.8	89.4	115.7

Source: World Development Indicators database

May 6, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

In December 2008, the International Monetary Fund approved an arrangement under its Exogenous Shocks Facility (ESF) for the Kyrgyz Republic, in support of our economic program for 2008–09 aimed at managing the effects of the external shocks that have hit our economy since early 2008. This support proved valuable and timely, and we are grateful to the IMF for its support.

This letter describes the economic policies that we plan to implement during the rest of 2009. As the global and regional economic outlook has continued to worsen, we remain committed to implementing policies aiming to support growth and the poor, while keeping inflation on a downward path and maintaining financial sector stability. In this regard, we remain, of course, fully committed to carrying out the policies set out in our economic program attached to our letter of intent dated November 25, 2008.

Recent Economic Developments

Overall economic performance in 2008 was still strong. Real GDP grew by 7.6 percent, compared to 8.5 percent in 2007. The impact of the shocks that have hit our economy, however, including the rise in commodity prices until mid-2008, a shortfall in hydropower, and the slowdown in regional growth, contributed to a decline in activity outside the gold sector. Real GDP excluding gold production slowed to 5.4 percent last year, from 9 percent in 2007.

Inflation has come down sharply since spiking at over 30 percent in mid-2008. Reflecting a tightening of monetary policy, declining international commodity prices, and slowing domestic demand, 12-month inflation subsided to 20 percent by end-2008 and further to 13.6 percent in the 12 months through March 2009. Core inflation has remained relatively high at 14.4 percent in March.

The current account balance deteriorated in 2008, mainly due to the higher cost of importing food and fuel. Strong remittance inflows mitigated the widening trade deficit. The overall balance still recorded a surplus and the National Bank of the Kyrgyz Republic's (NBKR) foreign exchange reserves increased slightly to $1,222 million by end-2008 (covering about 3½ months of imports).

Our national currency, the som, came under pressure, however, in the last quarter of 2008, as the global financial crisis spread and the Russian ruble depreciated against the dollar. Pressures on the exchange rate of the som intensified in early 2009, especially in the period immediately following the devaluation of the Kazakh tenge. Since end-August, the som has depreciated by about 25 percent against the dollar, while appreciating by about 10 percent against the ruble. The NBKR allowed the exchange rate to adjust, but intervened to avoid an overly rapid depreciation that could undermine confidence in the currency, contributing to a decline in reserves to $1,042 million by end-March 2009.

Macroeconomic Policies for 2009

The outlook for the Kyrgyz economy has worsened as the global economic crisis has intensified. The economic slowdown in several of our main regional partners, notably Russia and Kazakhstan, is affecting growth in the Kyrgyz Republic via trade and remittance channels, spilling over to domestic demand. As a result, economic growth is expected to slow sharply to less than 1 percent in 2009. The slowdown in activity is creating fiscal and balance of payment gaps in 2009 that are expected to persist in 2010. These gaps are covered, however, by the sizable and timely financial support provided by the Russian Federation. This support will help us weather the effects of the global economic crisis and avoid a major contraction in economic activity.

We will use the $450 million in concessional budget support provided by the Russian Federation in a medium-term fiscal framework, and intend to use $165 million during 2009. This allows fiscal policy to accommodate the large shortfall in government revenues expected for 2009, while creating some room for an increase in spending, both of which will support growth. Measured by the primary fiscal balance excluding grants, this will imply a fiscal stimulus of almost 6 percent of GDP. The overall fiscal balance will remain limited to less than 2 percent of GDP.

Particular emphasis will be given to capital spending, which improves medium-term growth prospects, but also to social support. The decline in economic activity and, even more so, the expected decline in remittance inflows will result in a considerable reduction in disposable household incomes that threatens to reverse much of the gains in poverty reduction achieved in recent years. To mitigate the effects on the poorest segments of the population, as of July 1, 2009, we will top up the Unified Monthly Benefit (UMB) by another Som 40 per UMB recipient (structural benchmark for July), in addition to the Som 35 top-up introduced in October 2008, which we will maintain. Meanwhile, we will continue our work to refine the eligibility criteria for the UMB to improve its targeting, for implementation in 2010. We are furthermore considering options to increase revenue collection, including changes in the tax structure, tax rates, and measures to strengthen tax administration.

The NBKR will continue to aim its policies at further reducing inflation and maintaining financial sector stability. With interest rates at positive real levels and the easing of international price pressures, but taking into account additional increases in utility tariffs and the impact of the depreciation of the som, we expect 12-month inflation to fall to within a range of 10–15 percent by end-2009. The NBKR will allow continued exchange rate flexibility to absorb the large external shocks, maintain competitiveness, and limit reserve losses. The NBKR will manage commercial banks' excess liquidity through its operations in the financial markets. Should it be necessary to act decisively to withdraw liquidity, the NBKR is prepared to raise interest rates on its securities and repurchase operations. However, provided that inflation continues on a downward path and exchange rate pressures ease, interest rates could be eased gradually, to help stimulate economic growth.

Banks have held up well to the global financial crisis. Bank capitalization and liquidity remain high. Credit growth, however, has come to a halt, as demand for financing has weakened and banks have become more cautious. Non-performing loans have started to rise and are likely to increase further as the economy slows. Deposits have fallen and new funding from external sources has been drying up. In this more challenging financial environment, the NBKR has taken a proactive approach and is monitoring banks closely. We have prepared contingency plans that envisage emergency liquidity support by the NBKR, and possible capital injections by the government for systemic banks (which would require revisions to the budget). The NBKR has also required banks to prepare their own contingency plans. Legislation to advance the date at which the deposit insurance scheme comes into effect and to increase coverage of household deposits from $500 to $2,500 was approved in March. In accordance with this legislation, we will ensure that the deposit insurance fund will be fully funded by end-June to enable the deposit insurance to come into effect on July 1, 2009 (structural benchmark).

While our main focus is on macroeconomic policies to manage the spillover effects of the global economic crisis, we will continue to advance structural reforms, to improve macroeconomic management and ensure strong growth over the longer term. In this regard, we will continue with our efforts to further strengthen public financial management, reduce the administrative burden on businesses, including in the areas of taxation and trade, enhance financial intermediation, strengthen the energy sector, and fight corruption.

Program Monitoring

All performance criteria for end-December 2008 under the ESF arrangement were met. We also observed the structural benchmarks for end-2008. We therefore request the completion of the first review under the arrangement and the disbursement of the second tranche of SDR 16.65 million.

As the ESF arrangement is subject to semi-annual reviews, we understand that the second and third reviews are expected to be completed no later than November 2009 and May 2010, respectively, and will require observance of the quantitative performance criteria for end-June and end-December 2009, respectively, set out in Table 1 attached to this letter and described in more detail in the attached revised Technical Memorandum of Understanding (TMU).

The current economic environment remains highly uncertain and risks are on the downside. We believe that the policies set forth in our economic program attached to our letter of November 25, 2008 and as supplemented by this letter are adequate to achieve our objectives, but we are prepared to take all additional measures necessary to achieve these objectives. We will consult with the IMF on the adoption of these measures and in advance of any revision to the policies contained in our economic program, in accordance with the IMF's policies on such consultation. The Kyrgyz government and the NBKR will continue to provide the Fund with the necessary information for assessing progress in implementing our program, as specified in the attached revised TMU, and will maintain a close policy dialogue with the IMF staff.

We authorize the IMF to publish this Letter of Intent and its attachments, as well as the related staff report on the Fund's website following consideration of our request by the IMF's Executive Board.

Sincerely yours,

/s/

Igor Chudinov
Prime Minister of the Kyrgyz Republic

/s/

Marat Alapaev
Chairman
National Bank of the Kyrgyz Republic

Table 1. Kyrgyz Republic: Quantitative Program Targets

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

	2007	2008				2009	
	December	June	December			June	December
	Actual	Actual	IMF/CR/08/381 PCs	Adjusted	Actual 1/	PCs	PCs
I. Performance criteria							
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars) 2/	901	884	903	903	988	1,194	1,198
2. Ceiling on net domestic assets of the NBKR (eop stock) 2/ 3/	-2,036	-948	-994	-994	-2,705	-15,723	-10,477
3. Ceiling on cumulative overall deficit of the general government 2/	444	423	2,332	2,021	130	-2,325	4,077
4. 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) 4/	0	0	0	0	0	0	0
5. Ceiling on contracting or guaranteeing by the state government, NBKR, or any other agency acting on behalf of the state overnment, of new nonconcessional external debt with maturity of one year or more (continuous, millions of U.S. dollars) 4/	0	0	0	0	0	0	0
6. 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)	31,583	32,540	37,144	37,144	35,132	30,099	35,483
2. Cumulative floor on state government tax collections in cash	26,545	15,925	35,834	35,834	35,925	15,461	33,922

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

1/ Preliminary data for fiscal outcome.

2/ These targets are subject to adjustment in case of changes in flows of external budget financing by bilateral and multilateral donors as defined in the TMU.

3/ The target 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).

4/ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest reference rates. Excludes borrowing from the IMF.

Table 2. Kyrgyz Republic: Structural Measures	
Measures	Comment
Structural benchmarks for continuous implementation	
The Ministry of Finance and the National Bank of the Kyrgyz Republic to exchange and discuss projected financial operations, including state budget spending and revenue forecasts and securities and notes issuance plans on at least a bi-weekly basis.	Observed.
For purposes of the IMF program, reflect the transfers of public resources to the Development Fund, the Kazakh-Kyrgyz Fund, and any other off-budget state-owned agencies transparently under net lending in the State budget, while the Development Fund refrains from unsecured borrowing and issuing guarantees to guarantee consistency with the law on Public and Non-Public Debt of the Kyrgyz Republic.	Observed.
Structural benchmarks for 2008	
Adopt the Resolution on Decision Making Procedure for Measures for Rehabilitation of Banks of Systemic Importance, identifying the roles of the NBKR and the Ministry of Finance in the bank resolution process (end-December, 2008).	Observed. The Government and the NBKR issued a joint Resolution (No. 734).
Submit to Parliament amendments to the Law on the NBKR to: (i) increase its statutory capital to at least Som 1 billion; and (ii) ensure that net unrealized price and exchange rate valuation gains are not reflected in the NBKR's income statement, while net unrealized price and exchange rate valuation losses are reflected in the NBKR's income statement at the end of the financial year, in line with international central bank best practice. This provision shall be reflected in the NBKR's financial reporting (end-December, 2008).	Observed. The draft law was submitted to Parliament on December 24, 2008 and approved on March 13, 2009.
Structural benchmarks for 2009	
Conduct a review, with the assistance of the IMF, of the pilot project at the stock market selected to become the platform for the government securities market to assess whether arrangements meet public interests, including confidentiality and transparency concerns, and international best practices. This review will examine: (i) information sharing and decision making for public debt auctions; (ii) governance structures; and (iii) settlement and custody arrangements (end-March, 2009).	Completed with delay in April 2009.
Ensure that the deposit insurance fund is fully funded (end-June, 2009).	
Top up the Unified Monthly Benefit by Som 40 per beneficiary (in addition to the Som 35 top-up introduced in October 2008) (July 1, 2009)	
Ensure that the NBKR's capital is at least equal to its statutory minimum (end-December, 2009).	

REVISED TECHNICAL MEMORANDUM OF UNDERSTANDING

I. INTRODUCTION

1. The Kyrgyz Republic's performance during the period January 1, 2009–December 31, 2009 under the 18-month arrangement under the Exogenous Shocks Facility 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 ESF-supported program. It reflects the Economic Program of the Kyrgyz authorities as attached to their Letter of Intent dated November 25, 2008 and updated in their Letter of Intent dated May 6, 2009.

2. The program exchange rate of the Kyrgyz som to the U.S. dollar is set at som 38.2101 = $1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 7.

3. Central government and republican government are synonymous in this memorandum. The State budget comprises central and local government budgets. The general government budget comprises the State and Social Fund budgets.

II. QUANTITATIVE PERFORMANCE CRITERIA

4. The quantitative targets (i.e., quantitative performance criteria) for end-June 2009 and end-December 2009 as presented in Table 1 attached to the letter, dated May 6, 2009, are defined below.

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

5. 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 international reserve assets and total international reserve liabilities of the NBKR in convertible currencies.

6. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, any reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments (including accrued interest) issued by nonresidents that are liquid. Amounts pledged as collateral or in swaps or otherwise encumbered, 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. For program monitoring purposes, international reserve assets shall be valued at program exchange rates and gold prices. Total international reserve liabilities of the NBKR in convertible currencies are 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 will be valued at the program exchange rates as described in paragraph 2 above.

7. Thus calculated, the stock of net international reserves in convertible currencies amounted to $988 million at December 31, 2008 and $833 million at March 31, 2009. 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)

June 30, 2009 (performance criterion)	1,194
December 31, 2009 (performance criterion)	1,198

1/ End-of-period stocks.

8. The NBKR's net foreign assets consist of net international reserve assets plus other net foreign assets, including the medium- and long-term foreign obligations of the NBKR, other net claims on CIS countries, amounts pledged as collateral or in swaps or otherwise encumbered, net forward positions, capital subscriptions in foreign financial institutions, and illiquid assets. For program monitoring purposes, the other net foreign assets will also be valued at the program exchange rates.

9. The floor on net international reserves of the NBKR will be adjusted upward/downward to the full extent of any excess/shortfall in program grants and program loans as given in table 4, and upward/downward to the full extent that amortization of public external debt is less/more than the amortization given in table 4.

B. 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 as defined above, minus the counterpart of the loan by the Eximbank of Turkey and the counterpart of the EBRD and IDA enterprise loans. Items in foreign currencies will be valued at the program exchange rates.

NDA=RM–NFA–Turkish Loan–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 minus Som 2,705 million on December 31, 2008 and minus Som 2,318 on March 31, 2009.

12. The program ceilings on the NDA of the NBKR are reported in Table 2 below.

Table 2. Ceilings on the NDA of the NBKR 1/

(In millions of soms)

June 30, 2009 (performance criterion)	-15,723
December 31, 2009 (performance criterion)	-10,477
1/ End-of-period stocks.	

13. The ceiling on net domestic assets of the NBKR will be adjusted downward/upward to the full extent of any excess/shortfall in program grants and program loans as given in table 4, and downward/upward to the full extent that amortization of public external debt is more/less than the amortization given in table 4.

C. Ceiling on the cumulative overall deficit of the general government

14. The overall deficit of the general government 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 including from any new sales or purchases of shares; (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. The targets for the fiscal balance are based on an Som/US dollar exchange rate of 42.8140. Adjustments, as defined in paragraph 17, will be made using program exchange rates.

15. The change in the stock of net claims of the domestic banking system on the general government is defined as the change in the stock of the banking system claims on the general government, less the change in the stock of all deposits of the general government with the banking system. The claims of the banking system on the general government include: (a) bank loans to the 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 overall deficit of the general government are reported in Table 3 below. The ceiling on the overall budget deficit of the general government will be adjusted upward to the full extent that concessional foreign loans with a grant element of at least 35 percent disbursed to the budget are higher than the amounts given in Table 4. The ceiling on the overall budget deficit of the general government will also be

adjusted upward to the full extent that program grants received are less than the amounts given in Table 4. The ceiling on the overall budget deficit of the general government will be adjusted downward/upward to the full extent that disbursements of PIP loans are less/more than the amounts given in Table 4. The ceiling on the overall budget deficit of the general government will be adjusted downward/upward to the full extent that amortization of public external debt is less/more than the amortization given in Table 4.

Table 3. Ceilings on the Overall Budget Deficit of the General Government 1/

(In millions of soms)

	Overall Deficit
June 30, 2009 (performance criterion)	−2,325
December 31, 2009 (performance criterion)	4,077

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

Table 4. Projected Budget Support
(millions of US dollars)

	H1 2009	2009
Program grants	171.9	188.1
WB	3.8	5.0
EU	2.6	9.2
SWAP (including WB)	15.4	23.9
Other donors	150.0	150.0
PIP grants	45.3	94.0
Asian Development Bank	13.5	28.0
World Bank	21.2	43.9
KfW	6.1	12.7
Switzerland	1.8	3.7
DFID	2.7	5.6
Program loans (BOP support)	308.9	308.9
WB	1.1	1.1
ADB	7.8	7.8
Other donors	300.0	300.0
PIP loans	38.4	91.0
ADB	9.0	21.3
WB	5.2	12.3
Islamic Development Bank	7.7	18.2
KFW	7.2	17.1
China	9.3	22.1
Amortization of public external debt 1/	21.8	47.4

1/ Excluding repayments to the Fund.

D. 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

17. 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).[1]

18. External debt ceilings apply to (a) the contracting or guaranteeing of new non-concessional short term external debt (i.e. external debt with an original maturity of less than one year and grant element less that 35 percent, 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 and with grant element of less that 35 percent). Disbursements by the Fund 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 also zero and on a continuous basis throughout the period of the arrangement, as specified in Table 1 of the economic program of the authorities.

---

[1] 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 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.

19. For the purposes of the ceiling on contracting and guaranteeing new external debt, any other agency acting on behalf of the state government will in particular include the Development Fund and the Kazakh-Kyrgyz Fund as well as all nonfinancial public enterprises with share capitals of not less than Kyrgyz som 100 million in which the state government holds at least 51 percent of the share capital.

E. Ceiling on accumulation of new external payments arrears

20. For the purposes of the program, external payment 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. The ceiling on new external payment arrears shall apply on a continuous basis throughout the period of the ESF arrangement.

III. Indicative Targets

A. Ceiling on reserve money

21. 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 5 below.

Table 5. Ceilings on Reserve Money 1/

(In millions of soms)

June 30, 2009 (performance criterion)	30,099
December 31, 2009 (performance criterion)	35,483

1/ End-of-period stocks.

B. Cumulative floor on state government tax collections in cash

22. Tax collections in cash correspond to the line "Tax Receipts" in the Treasury Report and comprise the following categories: tax on income and profits; taxes on goods and services; specific taxes on services; turnover taxes; taxes on property; taxes on international trade; and other taxes. Cumulative tax collections in cash include collections of tax arrears but exclude tax offsets.

23. The program floors for the cumulative state government cash tax collection are reported in Table 6 below.

Table 6. Floors on State Government Cash Tax Collections 1/

(In millions of soms)

June 30, 2009 (performance criterion)	15,461
December 31, 2009 (performance criterion)	33,922

1/ Cumulative from the beginning of the calendar year.

IV. Reporting Requirements Under the Program

24. 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:[2]

A. The balance sheet of the NBKR

25. 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 (decomposition provided on a monthly basis); 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.

B. Monetary survey

26. 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.

[2] Any correction or revisions to data previously reported should be clearly indicated and documented along with the reasons for revision.

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

C. International reserves and key financial indicators

28. 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.

D. External debt

29. 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 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.

E. Budgetary and extra budgetary data

30. In addition to the monthly treasury report, the Social Fund will report monthly on its operations. 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. The Development Fund will also submit a monthly report including its balance sheet and its deposits in the NBKR and the rest of the financial system.

F. Balance of payments data

31. 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.

G. Other general economic information

The National Statistics Committee will notify the Fund of the monthly Consumer Price Index by category by the 15th business day of the following month, and convey quarterly GDP estimates within two months of the end of each quarter.

Table 7. Program Cross Exchange Rates

	Currency Names	Currency/US$	US$/ Currency
AUD	Australian dollar	0.6329	1.5800
AZN	Azerbaijani manat	0.8111	1.2329
BYR	Belarusian ruble	2,115.0282	0.0005
CAD	Canadian dollar	0.7823	1.2783
CHF	Swiss franc	0.8539	1.1711
CNY	Chinese yuan	6.8488	0.1460
CZK	Czech crown	20.1903	0.0495
DKK	Danish krone	5.9253	0.1688
EEK	Estonian kroon	12.4228	0.0805
EUR	Euro	0.7940	1.2595
GBP	UK pound sterling	0.6392	1.5645
HUF	Hungarian forint	223.3072	0.0045
INR	Indian rupee	49.9478	0.0200
JPY	Japanese yen	93.9908	0.0106
KRW	South Korean won	1,420.4498	0.0007
KZT	Kazakh tenge	119.7809	0.0083
LTL	Lithuanian litas	2.6952	0.3710
LVL	Latvian lats	0.5500	1.8182
MDL	Moldovan lei	10.3176	0.0969
NOK	Norwegian krone	7.0535	0.1418
NZD	New Zealand dollar	0.5730	1.7452
PKR	Pakistani rupee	81.3154	0.0123
RUR	Russian ruble	27.0591	0.0370
SDR	SDR	0.6700	1.4925
SEK	Swedish krona	7.9594	0.1256
TJS	Tajik somoni	3.4026	0.2939
TRY	Turkish lira	0.5875	1.7020
UAH	Ukrainian hryvnia	5.1500	0.1942
UZS	Uzbek sum	1,340.7053	0.0007
XAU	Gold ($/troy ounce)	692.5000	

INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

Joint World Bank/IMF Debt Sustainability Analysis

Prepared by the Staffs of the International Monetary Fund
and the World Bank

Approved by David Owen and Ranil Manohara Salgado (IMF) and
Luca Barbone and Carlos Alberto Braga (World Bank)

May 11, 2009

Based on the joint World Bank-IMF Low-Income Country Debt Sustainability Framework, the Kyrgyz Republic is assessed to be at a moderate risk of external debt distress.[1] *Compared to the previous joint DSA, the long-term debt outlook did not change. Some stress tests suggest that the country is still vulnerable, particularly to a combination of exogenous shocks. Further improvement of the debt outlook will depend on maintaining sound macroeconomic policies; including prudent borrowing, as well as ensuring continued concessional financing to support the country's large development needs.*

I. Background

The Kyrgyz Republic's nominal stock of public and publicly guaranteed (PPG) external debt declined from about 100 percent in 2003 to 70 percent of GDP in 2006, and further to 42 percent in 2008. The decline has been mainly the result of an acceleration in the pace of economic growth and a nominal appreciation of the domestic currency, but also reflects firm fiscal discipline and Paris Club support. The present value (PV) of PPG external debt was equivalent to $1,355 million (27 percent of GDP) at end-2008, of which 70 percent is owed to international financial institutions (IFIs) and the remaining 30 percent to bilateral creditors. The external private debt reached four percent of GDP at end-2008.

The Kyrgyz Republic had two debt restructuring agreements with the Paris Club. The first debt restructuring with the Paris Club, in December 2002, provided for flow rescheduling, in three phases and on Houston terms, of maturities falling due between December 2001 and April 2005, all of which have been implemented. The second, in March 2005, under the Evian approach, stipulated that the full amount of principal payments on official development assistance credits was to be repaid over 40 years, with a

[1]The DSA has been produced jointly by Bank and Fund staffs, in consultation with Asian Development Bank staff and the Kyrgyz authorities. The fiscal year for the Kyrgyz Republic is January 1–December 31.

13-year grace period, at interest rates at least as favorable as the original concessional rates applied to those loans. The Kyrgyz authorities indicated in early 2007 that they did not wish to avail themselves of the HIPC initiative, but subsequently expressed interest for the MDRI. At end-2008, indebtedness indicators were estimated to be below the applicable HIPC Initiative thresholds, while income levels were estimated to be above the IMF MDRI thresholds.

II. Underlying Debt Sustainability Analysis Assumptions

The macroeconomic assumptions reflect the framework underlying the current IMF program and World Bank and IMF staff projections through 2029. They have been updated to incorporate recent developments and changes to the medium-term outlook, but long-term assumptions are broadly similar to the framework used in the last DSA. The data on the stock of external debt at end-2008 and debt payment schedule were provided by the Kyrgyz authorities, except for the data on the World Bank and Asian Development Bank debt, which were provided directly by the two institutions.

The framework assumes continuation of sound macroeconomic policies—including fiscal consolidation and prudent public debt management—as a basis for sustaining growth (Box 1). The baseline projections do not rely on substantially higher growth rates than the historical average nor on significant improvement in loan terms. Growth would be underpinned by firm implementation of structural reforms to remove impediments to private investment and stimulate economic diversification. The framework features average long-run GDP growth of about five percent per year over 2011–29, in line with growth assumed in the last DSA, backed by strong private investments (including foreign direct investment) spurred by improvements in the business climate. The external current account deficit is projected to decline from 6.3 percent of GDP in 2009 to 4.7 percent in 2029.

The main change compared with the last DSA is the financial package from the Russian Federation agreed in February 2009. This includes the cancellation of the existing Russian debt of $194 million (with a PV of $126 million), the contracting of a $300 million concessional loan (with a PV of $132 million), and a grant of $150 million for budget support. An agreement has also been reached between the governments of the Russian Federation and the Kyrgyz Republic to set up a joint stock company to construct the Kambarata-I hydropower dam. Russia's RAO UES will own 50 percent of the company, and the remaining 50 percent will be owned by a Kyrgyz company which itself is about 90 percent owned by the Kyrgyz government. A pre-feasibility study is underway and is expected to be finalized in July, and, depending on the outcome, this is expected to be followed by a formal feasibility study. It is unclear, however, whether these studies will conclude that the project is economically viable. Given the very large uncertainty associated with the project, it is not incorporated in the DSA. Nevertheless, some analysis is included to explore the potential impact on the external debt sustainability, which is reported in Box 2.

Box 1. Baseline Macroeconomic Assumptions

Real GDP growth is projected to average about 5 percent over the longer term, only marginally higher than the historical average of about 4½ percent, on the back of strong private investment, including FDI, spurred by improvements in the business climate. Affected by the global and regional slowdown combined with weaker domestic demand due to lower remittances inflows and slowdown in credit expansion, GDP growth is expected to be depressed in the near term. In the medium term, however, growth will rebound, supported by continued development of the mining industry, the resumed reforms in the energy sector, and an increase in tourism.

The gradual decline in gold output is assumed to be compensated by gains in tourism receipts and other exports. In all, annual growth of exports of goods and services, including estimates for informal agricultural exports and reexports of consumer goods, would average 6¾ percent over the long term, maintaining the export-to-GDP ratio at about 66 percent. Consistent with growth projections and expected FDI inflows, imports of goods and services would grow at about 6½ percent per year over the long term, with the import-to-GDP ratio declining slightly to 86 percent. Remittances are projected to slow down in the near term, but will remain strong over medium and long term, with their ratio to GDP gradually declining.

Net FDI inflows would stay at about 4 percent of GDP over the long term. While in the near-term FDI would be concentrated in sectors like mining, financial services, and industry, the business climate improvements should yield a more diversified structure of FDI in the outer years. International reserves would be kept above three months of imports of goods and services.

Medium-term public borrowing is assumed to be on highly concessional terms. Over the DSA horizon, concessionality of new external public borrowing would gradually decline from around 42.8 percent in 2009–14 to 12.8 percent in 2015–29, as more borrowing will be contracted at less concessional terms from bilateral and commercial creditors.

Consistent with the assumption of continued sound fiscal and monetary policies, inflation (measured by the GDP deflator) would average 4½ percent annually over 2011–29. Expenditure controls and a strengthening of revenue performance will bring the primary balance back to a low level of below ½ percent of GDP on average in 2015–29. As a result, the public sector debt would stabilize at just under 50 percent of GDP over the longer term.

III. External Debt Sustainability Analysis

A. Baseline

The baseline scenario points to a cautiously favorable improvement in the external debt outlook over time. Already by end-2008, the PV of debt-to-exports and the PV of debt-to-revenue ratios, at 43 and 94 percent respectively, were well below their policy-based indicative thresholds.[2] Only the PV of PPG debt-to-GDP ratio, at 27 percent, is closer to its relevant threshold of 40 percent in 2008. Over the DSA horizon, all debt ratios move steadily on a downward path underpinned by steady growth, fiscal consolidation, and prudent debt management.

Debt service is expected to remain manageable throughout the DSA horizon. This reflects the high concessionality of both the outstanding multilateral debt and the assumed new borrowing over the medium term. The PPG debt service ratio would increase slightly from 3.5 percent of exports (5.3 percent of revenues) in 2008 to 7.5 percent of exports (11.4 percent of revenues) in 2029, driven by less-concessional new borrowing and the repayment of the previously restructured bilateral debt.

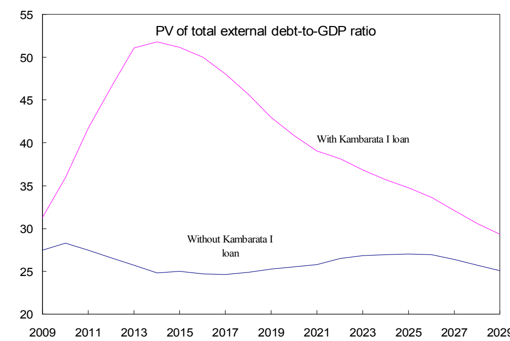
B. Alternative Scenarios and Stress Tests

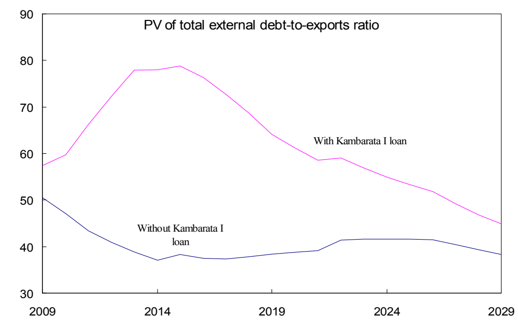
Stress tests and alternative scenarios show that the Kyrgyz Republic's external debt is vulnerable to large shocks or substantially less favorable assumptions. The PV of the external debt-to-GDP ratio and the PV of the external debt-to-revenue rise above the relevant indicative thresholds under some tests. The PV of debt-to-GDP ratio rises above the indicative threshold of 40 percent in the medium term (or even over the longer term) when (i) export value growth is at historical average minus one standard deviation in 2010−11; (ii) the net non-debt creating inflows over 2010−11 are one standard deviation below their historical average; and (iii) under a shock over 2010−11 combining lower GDP and export growth, currency depreciation, and lower net non-debt creating inflows. The ratio of PV of debt-to-revenue would also rise above the relevant indicative threshold of 250 percent in the medium term under the last two conditions. However, the PV of debt-to-exports ratio is robust and does not breach its threshold under various tests. Debt service ratios also prove resilient, staying below their indicative threshold levels under various tests. The historical scenario—where key macro variables evolve according to their historic averages—points to a more benign external debt outlook than the baseline scenario.

[2] The Kyrgyz Republic is rated as a *medium performer* based on the World Bank's Country Performance and Institutional Assessment Index for low income countries. The relevant policy-dependent thresholds for countries in this category are 40 percent for the PV of the debt-to-GDP ratio, 150 percent for the PV of debt-to-exports ratio, 250 percent for the PV of debt-to-revenue ratio, 20 percent of the debt service-to-exports ratio, and 30 percent of the debt service-to-revenue ratio.

Box 2. Kambarata-I Loan

The Kambarata hydropower project could provide large benefits to the Kyrgyz Republic, but is not without risks. The Kambarata-I loan would substantially increase Kyrgyz Republic's external debt burden, especially in the medium term. According to the agreement reached between the Russian and Kyrgyz governments, the Russian partner of the joint stock company would provide $1.7 billion in financing at LIBOR plus three percent, with an eight-year grace period, and twenty-year maturity. It is assumed that the construction of the dam would start in 2011, with full production capacity reached in 2019. Growth would benefit during the construction phase, although a large part of the materials would be imported. Growth rates would also increase somewhat once production of electricity starts, but will level off once the production capacity is reached. Electricity output in excess of domestic demand is assumed to be exported at six cents per kWh. Over the DSA period, on average about half of the output is assumed to be exported. The PV of external debt-to-GDP and debt-to-exports ratios would shoot up over the next few years when the loan is disbursed, and gradually decline over the longer term as electricity export receipts are used to repay the debt.





Based on current agreements, repayment of the loan would not be guaranteed by the government. But if the government were to assume any responsibility for the repayment of these loans, public debt indicators would deteriorate dramatically. The authorities, however, have indicated that any decision regarding Kambarata will not be made until the feasibility study is completed and that they will continue to refrain from issuing any government guarantees.

IV. Public Debt Sustainability Analysis

A. Baseline

Domestic debt is projected to increase and will play a more important role in financing the budget deficit in the medium and long term. Domestic debt currently accounts for less than 10 percent of total public debt. However, by 2029, domestic debt is projected to reach 40 percent of total public debt as domestic financial markets deepen.

The Kyrgyz Republic's public debt outlook is projected to be manageable in the medium and long term. Under the baseline scenario, the PV of public debt to GDP ratio increases gradually from 33 percent in 2009 to 46 percent by 2029 reflecting declining concessionality of new external borrowing and increased domestic debt. The tax revenue ratio will increase from 23 percent in 2008 to 25 percent by 2029. The tax revenue ratio will drop somewhat in 2009 due to tax cuts introduced with the new tax code and, in addition, declining economic activity and lower commodity prices affecting the tax base. However, in the longer run, tax collection will gradually recover and, aided by continued tax reforms and discipline on the expenditure side, contribute to the sustainability of public debt indicators.

B. Alternative Scenarios and Stress Tests

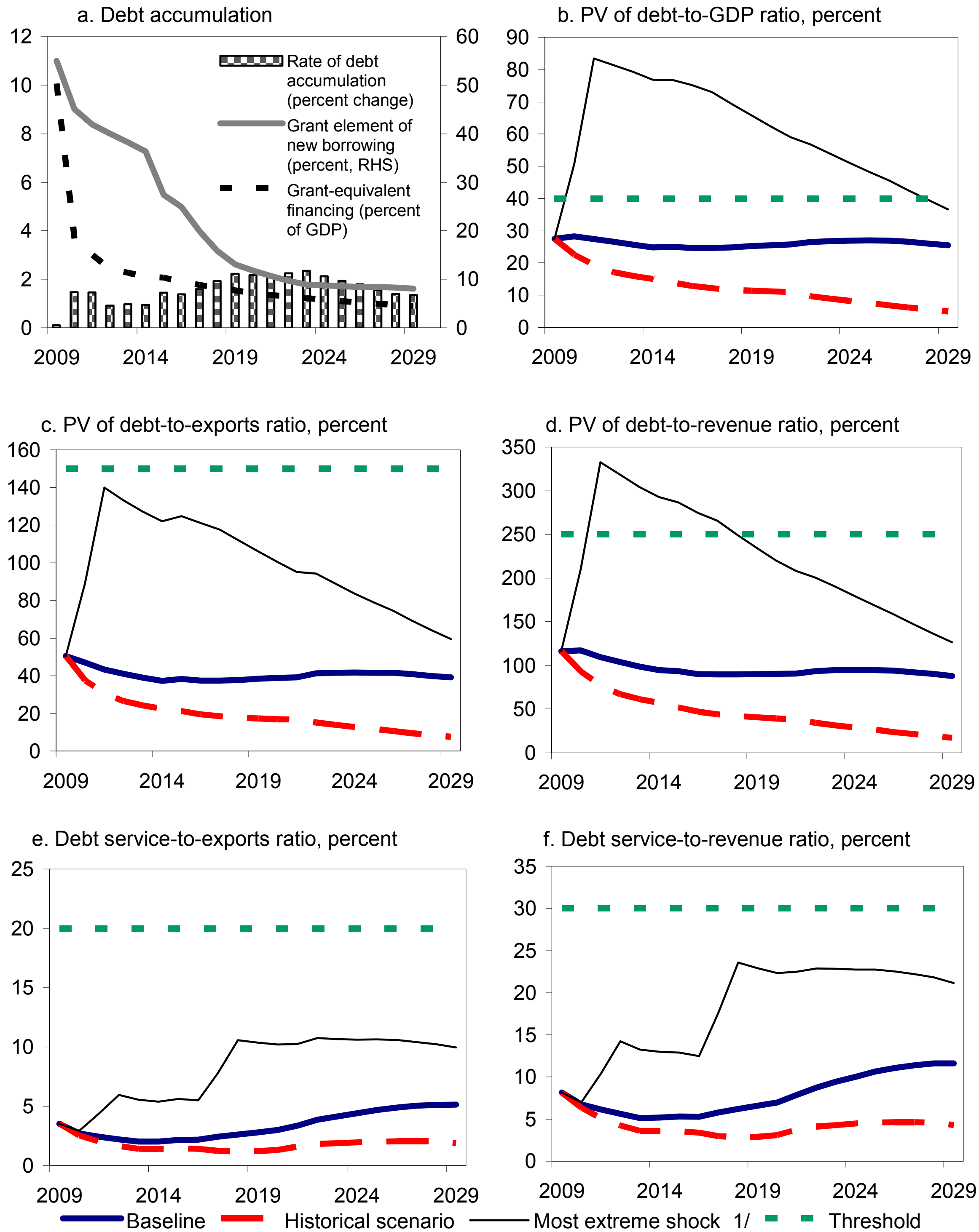
Alternative scenarios and stress tests show that Kyrgyz Republic's public debt remains sensitive to shocks that reduce real GDP growth. The standard sensitivity analysis based on the historical variation of key parameters, including real GDP growth and exchange rate, shows that debt ratios will rise considerably in the long run. Under different stress tests and scenarios, the PV debt-to-GDP ratio in 2029 will vary from about 33 percent under the fixed (at 2009 level) primary deficit scenario to 95 percent under the permanent real GDP growth shock scenario.

V. Debt Distress Classification and Conclusions

Based on the projected external debt burden indicators, Kyrgyz Republic is assessed to be at moderate risk of debt distress. The public DSA suggests that Kyrgyz Republic's total public sector debt seems manageable in light of the dynamics of the domestic debt stock. All PV-based external debt indicators in the baseline are projected to stay below their indicative thresholds over the DSA horizon. Moreover, under the baseline scenario, the debt service burden would remain well below the thresholds, reflecting the high concessionality of the external debt. Nevertheless, alternative scenarios and stress tests show that the external public debt indicators could approach or breach the thresholds if the Kyrgyz Republic were to experience large adverse exogenous shocks or relax its prudent debt management policy. This conclusion is consistent with the last DSA.

Low-concessionality loans from bilateral and commercial creditors to finance large public investment projects continue to pose a risk to the debt outlook. Staff recognizes that the Kyrgyz Republic has large developmental needs, but considers paramount to lock in the recent progress towards achieving and maintaining debt sustainability. Even if loans have a grant element of at least 35 percent, it would be important to ensure that the underlying projects are viable and that market risks, including exchange rate risk, are accounted for, so as to avoid the build up of an unsustainable debt burden. Similarly, it would remain important for the government to not provide any guarantees for commercial loans, including in the energy sector.

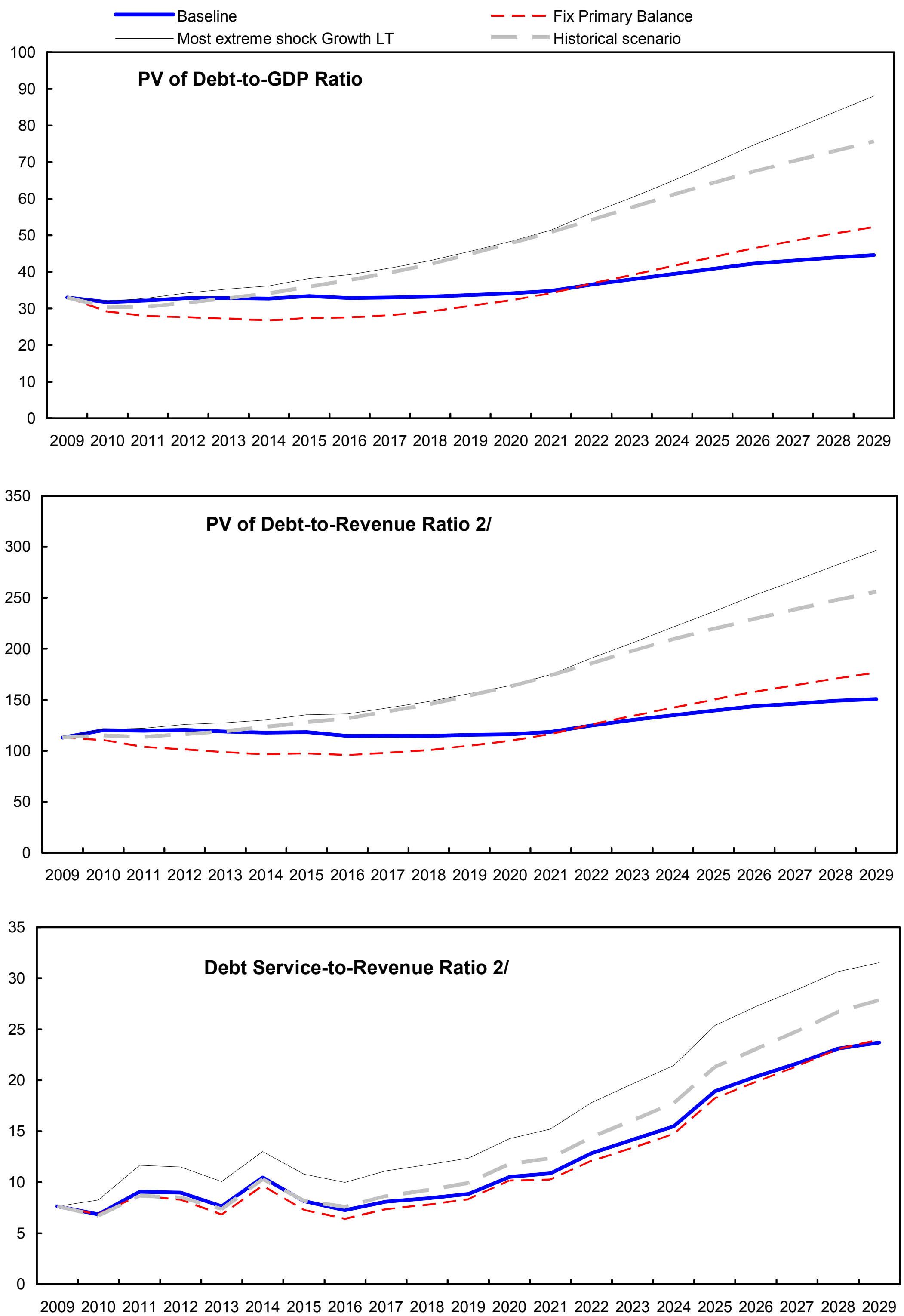
Figure 1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009-2029 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in picture f. to a Combination shock

Figure 2. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2009-2029 1/



Sources: Kyrgyz authorities; and Fund staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2019.
2/ Revenues are defined inclusive of grants.

Table 1a. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	72.5	56.8	49.2			52.0	49.7	49.1	48.5	47.3	45.9		42.5	48.7	
o/w foreign-currency denominated	71.6	55.9	42.8			46.0	46.8	44.8	42.6	40.5	38.4		34.3	29.8	
Change in public sector debt	-13.4	-15.7	-7.6			2.8	-2.3	-0.7	-0.6	-1.1	-1.4		-0.3	0.4	
Identified debt-creating flows	-12.8	-18.3	-8.7			2.1	0.6	-0.2	-0.2	-0.8	-1.1		-2.0	-2.4	
Primary deficit	1.5	0.0	-1.4	3.2	3.4	1.2	3.8	3.1	2.4	1.8	1.6	2.3	0.3	-0.4	0.2
Revenue and grants	26.4	30.3	30.3			29.3	26.4	27.0	27.3	27.7	27.8		29.2	29.6	
of which: grants	0.8	2.3	1.8			5.6	2.3	1.9	1.7	1.6	1.5		1.1	0.6	
Primary (noninterest) expenditure	27.9	30.3	28.9			30.5	30.2	30.1	29.6	29.5	29.4		29.5	29.3	
Automatic debt dynamics	-14.3	-18.0	-7.5			1.0	-3.2	-3.2	-2.5	-2.6	-2.7		-2.2	-2.0	
Contribution from interest rate/growth differential	-4.4	-6.9	-4.7			-0.5	-1.1	-1.7	-2.1	-2.6	-2.8		-2.2	-2.0	
of which: contribution from average real interest rate	-1.8	-1.2	-0.7			0.0	0.4	0.2	-0.2	-0.3	-0.3		-0.1	0.4	
of which: contribution from real GDP growth	-2.6	-5.7	-4.0			-0.5	-1.5	-1.9	-2.0	-2.3	-2.5		-2.1	-2.4	
Contribution from real exchange rate depreciation	-9.9	-11.1	-2.7			1.5	-2.1	-1.5	-0.4	0.0	0.1		...	...	
Other identified debt-creating flows	0.0	-0.2	0.1			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Privatization receipts (negative)	0.0	-0.1	0.1			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.6	2.6	1.1			0.7	-2.8	-0.5	-0.4	-0.3	-0.3		1.7	2.8	
Other Sustainability Indicators															
PV of public sector debt	6.2	5.1	33.0			33.1	31.8	32.2	32.8	32.9	32.7		33.8	44.6	
o/w foreign-currency denominated	1.6	1.2	30.1			30.5	29.5	28.6	27.6	26.7	25.8		25.9	25.9	
o/w external	...	...	29.0			29.6	28.7	27.8	26.9	26.1	25.2		25.5	25.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.7	3.1	1.3			4.7	6.8	6.6	6.6	6.5	7.8		6.2	10.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	24	17	109			113	120	119	120	119	118		116	150	
PV of public sector debt-to-revenue ratio (in percent)	24	18	116			140	132	128	129	126	125		120	154	
o/w external 3/	…	…	102			125	119	111	106	100	96		91	89	
Debt service-to-revenue and grants ratio (in percent) 4/	10.6	6.5	5.4			7.7	6.9	9.1	9.0	7.7	10.5		8.9	23.7	
Debt service-to-revenue ratio (in percent) 4/	10.9	7.0	5.7			9.5	7.5	9.7	9.6	8.1	11.1		9.2	24.2	
Primary deficit that stabilizes the debt-to-GDP ratio	15.0	15.7	6.2			-1.6	6.1	3.8	3.0	2.9	3.0		0.6	-0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.1	8.5	7.6	5.4	3.5	0.9	2.9	4.0	4.2	4.9	5.6	3.8	5.2	5.2	5.0
Average nominal interest rate on forex debt (in percent)	0.9	0.9	0.9	1.6	0.7	1.2	1.0	1.0	1.0	1.1	1.1	1.1	1.7		2.2
Average real interest rate on domestic debt (in percent)	-1.8	-7.3	-6.2	-5.0	7.8	-1.5	2.8	2.5	1.1	0.6	0.4	1.0	0.2	0.0	0.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-13.1	-17.2	-5.4	-8.0	4.8	3.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.4	14.9	21.2	13.0	10.3	13.4	8.6	7.2	5.5	5.0	4.7	7.4	4.0	4.0	4.1
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.2	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	55.0	45.1	41.9	40.1	38.2	36.4	42.8	13.1	8.1	12.8

Sources: Country authorities; and Fund staff estimates and projections.
1/ General government gross debt.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2a. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt 2009–2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	33	32	32	33	33	33	34	45
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	33	30	31	32	33	34	45	76
A2. Primary balance is unchanged from 2009	33	29	28	28	27	27	31	52
A3. Permanently lower GDP growth 1/	33	32	33	34	35	36	46	88
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	33	32	34	35	36	36	41	58
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	33	34	38	38	38	38	38	48
B3. Combination of B1-B2 using one half standard deviation shocks	33	32	34	35	35	35	35	45
B4. One-time 30 percent real depreciation in 2010	33	44	44	44	44	43	43	56
B5. 10 percent of GDP increase in other debt-creating flows in 2010	33	40	41	41	41	41	41	50
PV of Debt-to-Revenue Ratio 2/								
Baseline	113	120	119	120	119	118	116	150
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	113	115	114	116	119	123	154	256
A2. Primary balance is unchanged from 2009	113	110	104	101	98	97	105	177
A3. Permanently lower GDP growth 1/	113	121	122	126	127	130	156	296
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	113	121	125	129	129	131	140	194
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	113	129	139	140	137	136	131	162
B3. Combination of B1-B2 using one half standard deviation shocks	113	122	128	128	126	124	120	150
B4. One-time 30 percent real depreciation in 2010	113	167	162	161	157	155	149	189
B5. 10 percent of GDP increase in other debt-creating flows in 2010	113	153	151	151	148	146	140	169
Debt Service-to-Revenue Ratio 2/								
Baseline	8	7	9	9	8	10	9	24
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	7	9	9	7	10	10	28
A2. Primary balance is unchanged from 2009	8	7	9	8	7	10	8	24
A3. Permanently lower GDP growth 1/	8	7	9	9	8	11	11	34
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	8	7	9	9	8	11	10	27
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	8	7	9	10	9	11	10	25
B3. Combination of B1-B2 using one half standard deviation shocks	8	7	9	9	8	11	9	24
B4. One-time 30 percent real depreciation in 2010	8	8	12	12	10	13	12	32
B5. 10 percent of GDP increase in other debt-creating flows in 2010	8	7	10	11	9	12	10	26

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

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Table 3a. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2006–2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009–2014 Average	2019	2029	2015–2029 Average
External debt (nominal) 1/	**77.7**	**60.2**	**45.8**			**49.2**	**49.6**	**47.0**	**44.2**	**42.0**	**40.1**		**36.4**	**32.6**	
o/w public and publicly guaranteed (PPG)	69.8	54.6	41.8			45.1	46.0	44.1	41.9	39.9	37.9		33.9	29.6	
Change in external debt	-7.8	-17.5	-14.4			3.4	0.5	-2.6	-2.8	-2.2	-1.9		-0.4	-0.7	
Identified net debt-creating flows	-14.7	-25.1	-13.6			2.7	2.6	0.1	-1.2	-2.3	-2.8		-0.9	-0.5	
Non-interest current account deficit	**2.4**	**-0.5**	**6.0**	**-0.5**	**3.8**	**5.7**	**7.9**	**5.8**	**4.6**	**3.3**	**2.9**		**3.7**	**3.7**	3.8
Deficit in balance of goods and services	27.1	25.6	31.5			26.9	28.9	26.6	25.7	24.5	23.2		25.5	20.5	
Exports	52.3	59.0	62.1			54.4	60.1	63.3	64.9	66.1	66.9		65.8	65.4	
Imports	79.4	84.6	93.6			81.4	89.0	89.9	90.5	90.6	90.1		91.3	85.9	
Net current transfers (negative = inflow)	-25.7	-26.8	-28.5	-14.8	9.6	-23.7	-24.0	-24.7	-25.0	-25.0	-24.8		-23.0	-18.0	-21.6
o/w official	-0.4	-0.8	-0.8			-3.9	-0.8	-0.6	-0.6	-0.6	-0.5		-0.4	-0.2	
Other current account flows (negative = net inflow)	1.0	0.7	3.0			2.5	3.0	3.9	3.9	3.8	4.5		1.2	1.2	
Net FDI (negative = inflow)	**-6.4**	**-5.5**	**-5.3**	**-3.0**	**2.6**	**-3.2**	**-4.5**	**-4.5**	**-4.5**	**-4.3**	**-4.1**		**-3.7**	**-3.7**	-3.7
Endogenous debt dynamics 2/	**-10.7**	**-19.1**	**-14.3**			**0.2**	**-0.8**	**-1.2**	**-1.2**	**-1.3**	**-1.5**		**-0.9**	**-0.5**	
Contribution from nominal interest rate	0.7	0.7	0.6			0.6	0.6	0.6	0.7	0.7	0.7		0.9	1.2	
Contribution from real GDP growth	-2.3	-4.9	-3.4			-0.4	-1.4	-1.9	-1.9	-2.0	-2.2		-1.8	-1.6	
Contribution from price and exchange rate changes	-9.1	-14.8	-11.4			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**6.9**	**7.6**	**-0.8**			**0.7**	**-2.1**	**-2.7**	**-1.7**	**0.1**	**0.8**		**0.5**	**-0.2**	
o/w exceptional financing	-0.3	-0.1	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	30.8			31.6	31.9	30.4	28.8	27.8	27.0		27.7	28.5	
In percent of exports	...	...	49.5			58.0	53.1	48.1	44.4	42.1	40.4		42.1	43.5	
PV of PPG external debt	**...**	**...**	**26.8**			**27.5**	**28.3**	**27.4**	**26.5**	**25.7**	**24.8**		**25.3**	**25.5**	
In percent of exports	**...**	**...**	**43.2**			**50.5**	**47.0**	**43.4**	**40.9**	**38.9**	**37.1**		**38.4**	**39.0**	
In percent of government revenues	**...**	**...**	**94.2**			**116.3**	**117.2**	**109.3**	**104.0**	**98.8**	**95.5**		**89.1**	**85.7**	
Debt service-to-exports ratio (in percent)	**5.7**	**4.5**	**3.5**			**4.4**	**4.9**	**4.8**	**5.0**	**4.2**	**3.8**		**4.9**	**7.5**	
PPG debt service-to-exports ratio (in percent)	**4.7**	**3.1**	**2.4**			**3.5**	**2.7**	**2.4**	**2.2**	**2.0**	**2.0**		**2.8**	**5.2**	
PPG debt service-to-revenue ratio (in percent)	**9.5**	**6.5**	**5.3**			**8.1**	**6.7**	**6.1**	**5.6**	**5.1**	**5.2**		**6.5**	**11.3**	
Total gross financing need (Billions of U.S. dollars)	0.0	-0.1	0.1			0.2	0.3	0.2	0.2	0.1	0.1		0.3	0.9	
Non-interest current account deficit that stabilizes debt ratio	10.2	17.0	20.4			2.3	7.4	8.5	7.4	5.5	4.9		4.1	4.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.1	8.5	7.6	4.4	3.5	0.9	2.9	4.0	4.2	4.9	5.6	3.8	5.2	5.2	5.0
GDP deflator in US dollar terms (change in percent)	11.9	23.6	23.3	4.6	15.2	-2.9	-0.5	4.1	2.4	1.9	1.6	1.1	2.0	2.0	1.8
Effective interest rate (percent) 5/	0.9	1.2	1.3	2.0	1.0	1.3	1.2	1.3	1.5	1.6	1.7	1.4	2.5	3.7	3.1
Growth of exports of G&S (US dollar terms, in percent)	40.9	51.1	39.9	14.5	20.7	-14.2	13.0	14.0	9.5	9.0	8.6	6.7	7.2	7.4	6.8
Growth of imports of G&S (US dollar terms, in percent)	61.3	42.8	46.9	20.6	27.2	-14.9	12.0	9.5	7.5	7.0	6.7	4.6	6.8	6.6	6.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	55.0	45.1	41.9	40.1	38.2	36.4	42.8	13.1	8.1	12.8
Government revenues (excluding grants, in percent of GDP)	25.6	28.1	28.5			23.6	24.1	25.1	25.5	26.1	26.0		28.3	29.8	28.8
Aid flows (in Billions of US dollars) 7/	0.1	0.2	0.1			0.7	0.2	0.2	0.2	0.2	0.2		0.2	0.2	
o/w Grants	0.0	0.1	0.1			0.3	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
o/w Concessional loans	0.1	0.1	0.0			0.4	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			10.1	3.7	3.0	2.4	2.3	2.1		1.5	0.9	1.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			73.5	68.2	65.5	70.7	69.3	67.2		35.9	20.7	32.5
Memorandum items:															
Nominal GDP (Billions of US dollars)	2.8	3.8	5.0			4.9	5.1	5.5	5.9	6.3	6.7		9.2	18.3	
Nominal dollar GDP growth	15.4	34.1	32.7			-2.0	2.4	8.3	6.8	6.9	7.4	5.0	7.3	7.3	6.9
PV of PPG external debt (in Billions of US dollars)	…	…	1.4			1.4	1.4	1.5	1.6	1.6	1.7		2.3	4.7	
(PVt-PVt-1)/GDPt-1 (in percent)	…	…	…			0.1	1.5	1.5	0.9	1.0	0.9	1.0	2.2	1.3	1.8

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - d(1+g)]/(1+g+d+gd) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and d = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. Projections also include contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**	2029
	PV of debt-to GDP ratio											
Baseline	27	28	27	27	26	25	25	25	25	25	**25**	26
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2009-2029 1/	27	22	19	17	16	15	14	13	12	12	**11**	5
A2. New public sector loans on less favorable terms in 2009-2029 2	27	29	29	28	28	27	28	28	28	29	**30**	37
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	27	29	29	28	27	26	26	26	26	26	**27**	27
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	27	37	53	52	51	49	49	48	47	45	**44**	30
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	27	31	36	34	33	32	32	32	32	32	**33**	33
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	27	50	71	70	68	66	66	64	62	59	**56**	32
B5. Combination of B1-B4 using one-half standard deviation shocks	27	51	83	81	79	77	77	75	73	69	**66**	37
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	27	40	39	38	37	36	36	35	35	36	**36**	37
	PV of debt-to-exports ratio											
Baseline	50	47	43	41	39	37	38	37	37	38	**38**	39
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2009-2029 1/	50	37	31	26	24	23	21	20	18	18	**17**	8
A2. New public sector loans on less favorable terms in 2009-2029 2	50	48	45	43	42	40	42	42	43	44	**45**	56
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	50	47	43	41	39	37	38	37	37	38	**38**	39
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	50	74	123	117	112	107	110	107	105	101	**97**	66
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	50	47	43	41	39	37	38	37	37	38	**38**	39
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	50	84	113	107	102	98	101	98	95	90	**86**	49
B5. Combination of B1-B4 using one-half standard deviation shocks	50	89	140	133	127	122	125	121	118	112	**106**	59
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	50	47	43	41	39	37	38	37	37	38	**38**	39
	PV of debt-to-revenue ratio											
Baseline	116	117	109	104	99	95	94	90	89	89	**89**	86
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2009-2029 1/	116	93	77	67	61	58	52	47	44	42	**40**	17
A2. New public sector loans on less favorable terms in 2009-2029 2	116	119	114	110	106	104	104	101	102	103	**106**	124
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	116	119	115	109	104	100	99	95	94	93	**94**	90
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	116	154	213	203	194	188	184	176	171	162	**155**	99
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	116	130	142	135	128	124	122	117	116	115	**116**	111
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	116	208	284	272	260	253	247	235	226	212	**199**	108
B5. Combination of B1-B4 using one-half standard deviation shocks	116	210	333	319	304	296	289	275	265	248	**232**	123
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	116	168	157	149	141	137	135	129	128	127	**128**	123

(To be continued on the next page)

Table 3b. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

Debt service-to-exports ratio												
Baseline	3.5	2.7	2.4	2.2	2.0	2.0	2.2	2.2	2.4	2.6	**2.8**	5.2
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2009-2029 1/	3.5	2.5	2.0	1.7	1.4	1.4	1.5	1.4	1.2	1.2	**1.2**	1.9
A2. New public sector loans on less favorable terms in 2009-2029 2	3.5	2.7	2.4	2.3	2.1	2.2	2.3	2.4	2.5	2.6	**2.7**	6.2
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	3.5	2.7	2.4	2.2	2.0	2.0	2.2	2.2	2.4	2.6	**2.8**	5.2
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	3.5	3.3	4.3	5.5	5.1	5.0	5.2	5.2	6.6	8.9	**8.9**	10.2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	3.5	2.7	2.4	2.2	2.0	2.0	2.2	2.2	2.4	2.6	**2.8**	5.2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	3.5	2.7	3.7	4.8	4.5	4.4	4.5	4.5	6.5	8.5	**8.3**	8.2
B5. Combination of B1-B4 using one-half standard deviation shocks	3.5	2.9	4.4	5.9	5.5	5.4	5.6	5.5	7.8	10.6	**10.4**	10.0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	3.5	2.7	2.4	2.2	2.0	2.0	2.2	2.2	2.4	2.6	**2.8**	5.2
Debt service-to-revenue ratio												
Baseline	8.1	6.7	6.1	5.6	5.1	5.2	5.3	5.3	5.8	6.2	**6.5**	11.3
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2009-2029 1/	8.1	6.3	5.1	4.2	3.6	3.6	3.6	3.4	3.0	2.8	**2.8**	4.2
A2. New public sector loans on less favorable terms in 2009-2029 2	8.1	6.7	6.1	5.8	5.4	5.5	5.7	5.7	6.0	6.1	**6.2**	13.7
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	8.1	6.9	6.4	5.9	5.4	5.5	5.6	5.5	6.1	6.5	**6.8**	11.9
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	8.1	6.7	7.5	9.5	8.8	8.8	8.8	8.5	10.7	14.3	**14.1**	15.2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	8.1	7.5	7.9	7.3	6.6	6.8	6.9	6.8	7.5	8.0	**8.4**	14.7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	8.1	6.7	9.4	12.2	11.4	11.3	11.2	10.8	15.5	19.9	**19.3**	17.9
B5. Combination of B1-B4 using one-half standard deviation shocks	8.1	6.9	10.4	14.2	13.3	13.1	13.0	12.5	17.6	23.4	**22.7**	20.6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	8.1	9.7	8.8	8.1	7.3	7.5	7.6	7.6	8.3	8.8	**9.3**	16.2
Memorandum item:												
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	13	13	13	13	13	13	13	13	13	13	**13**	13

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

Staff Report for the 2009 Article IV Consultation and First Review Under the 18-Month Arrangement Under the Exogenous Shocks Facility—Informational Annex

May 11, 2009

Contents Page

ANNEX I. KYRGYZ REPUBLIC—RELATIONS WITH THE FUND
(March 31, 2009)

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	29.25	N/A

IV. Outstanding Purchases and Loans	**SDR Million**	**Percent of Quota**
ESF Arrangements	**16.65**	**18.75**
PRGF Arrangements	83.47	94.00

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESF	12/10/2008	06/09/2010	66.60	16.65
PRGF	03/15/2005	05/31/2008	17.76	17.76
PRGF	12/06/2001	03/14/2005	73.40	73.40

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

	Forthcoming				
	2009	2010	2011	2012	2013
Principal	8.03	16.24	15.31	13.48	11.36
Charges/Interest	0.49	0.41	0.33	0.26	0.20
Total	8.52	16.65	15.65	13.74	11.56

VII. Status of HIPC and MDRI Assistance

The Executive Board considered the preliminary HIPC document on October 13, 2006. However, in 2007, the authorities have decided not to avail themselves of HIPC and MDRI assistance. The updated LIC DSA shows that the Kyrgyz Republic does not qualify for HIPC debt relief.

VIII. Safeguards Assessments

Under the Fund's safeguards assessments policy, the National Bank of the Kyrgyz Republic (NBKR) is subject to an update assessment in conjunction with a new arrangement under the high-access component of the Exogenous Shocks Facility. The update assessment was completed April 9, 2009. Previous assessments were completed in October 2005 and in January 2002. The 2009 assessment found a strengthened safeguards framework at the central bank, but raised concerns and made recommendations about the need for updated terms of reference for audits of program data, and the lack of a benchmark financial reporting framework and multi-year audit appointments.

IX. Exchange Rate Arrangements

The currency of the Kyrgyz Republic has been the som (100 tyiyn =1 som) since May 15, 1993. The de jure exchange rate arrangement is other managed arrangement. The National Bank of the Kyrgyz Republic (NBKR) participates and intervenes in the interbank foreign exchange market to limit exchange rate volatility as necessary. Effective February 2, 2009, the classification of the de facto exchange rate arrangement has been changed from managed floating with no predetermined path for the exchange rate to other managed arrangement retroactively to April 30, 2008, due to the revision of the classification methodology. Thus, the change reflects only a methodological modification and does not imply a judgment that there has been a substantive alteration in the country's exchange arrangement or other policies. 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 official exchange rate of the som against the dollar is defined as the weighted average of the exchange rates of the interbank foreign exchange market transactions for the week.

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 relating to the restriction of financial transactions and the freeze of accounts of certain individuals or organizations associated with terrorism pursuant to (i) relevant UN Security Council resolutions and (ii) the list of current terrorist organizations designated by the U.S. Secretary of State. The authorities have notified these measures to the Fund pursuant to Executive Board decision No. 144-(52/51) in May 2007.

X. Article IV Consultations

The Kyrgyz Republic is on the 24-month consultation cycle. The last Article IV consultation discussions were held in August 2006 and were completed by the Executive Board in November 2006 (see IMF Country Report No. 07/135).

XI. FSAP Participation and ROSC Assessment

An FSAP update mission in October 2006 reviewed progress since the 2002 assessment, and the Board considered the Financial System Stability Assessment (FSSA) along with the 4th PRGF review in May 2007. A fiscal ROSC mission was held in March 2001 and the ROSC Fiscal Transparency Module was published on March 13, 2002. A data ROSC mission was held in November 2002 and the ROSC Data Module was published in November 2003. A fiscal ROSC reassessment was held in September 2007.

XII. Resident Representative

The seventh resident representative of the Fund in the Kyrgyz Republic, Mr. McHugh, took up his post in Bishkek in late September 2006.

ANNEX II. KYRGYZ REPUBLIC—RELATIONS WITH THE WORLD BANK GROUP
(As of May 1, 2009)

The Joint Country Support Strategy (JCSS) covering FY07–10, a joint strategy of the donor community closely aligned with the Government's development goals was approved by the Board on June 19, 2007 to support implementation of the Country Development Strategy (CDS). The WB Country team jointly with seven development partners (Asian Development Bank, European Commission, the German Government, IMF, Swiss Cooperation, UK DFID, and United Nations Agencies) is currently preparing a mid-term progress report to assess progress in implementation of the JCSS and to review the overall strategic direction for the remaining JCSS period of 2009–10 in light of the new challenges faced by the Government stemming from the ongoing regional and global financial crisis. The Government also updated the CDS in 2008 to present its key priorities for 2009–2011. The JCSS progress report due in May 2009 would reflect the new priorities and will continue to ensure coordination of donor assistance in support of the government development objectives.

The World Bank Group Program within JCSS. The WBG program contributes to the strategic goals outlined in the JCSS, with a particular focus on supporting the Government's efforts to improve the environment for business and economic growth and improve the quality of and access to basic services (health, education, water and sanitation). The WBG strategy emphasizes greater selectivity given the limited IDA resources and limitations placed on the Government's own public investment program. Building on lessons learned, and in line with the principles of the JCSS, the Bank Program builds on successful results achieved in first generation projects, targets activities where the Bank can show visible results to the population, and leverage lending and analytical work to attract financing from other development partners.

The proposed annual allocation for the Kyrgyz Republic under JCSS 2007–2010 is about $46 million U.S. dollars. To respond to short term needs arising from rapid increase in food and energy prices, the World Bank increased its activities significantly in 2008 by approving additional financing for the Agricultural Investment and Services project of US$4.0 million and additional financing of US$6.0 million for the Health and Social Protection SWAp, a $10 million Energy Emergency Project to secure fuel supplies for the Bishkek power station for winter 08/09, bringing the total disbursement over 2007–08 to $126 million. Additional financing for VIP-II in amount of US$7 million to maintain the momentum and complete the 4-year support cycle in all ayl okmotuu (local self government territories) and additional financing for STI project in amount of US$4 million to finalize sub-projects in four towns are planned to be provided in FY09.

The Bank Group is currently reviewing its program within the context of the JCSS progress report to provide support where the real need is demonstrated and where it can complement the existing donor support. In addition to the existing programs, support is envisaged for reforms in the electricity, state owned enterprises, and the education sectors.

IDA allocation: The World Bank has upgraded the status of the Kyrgyz Republic under IDA–15 program from ‘red light’ to ‘yellow light,’ reflecting the country’s improved status to “moderate risk” of debt distress, as assessed by the latest WB/IMF debt sustainability analysis (DSA). The Kyrgyz Republic is assessed to be at moderate risk of debt distress because, starting in 2007, all external debt indicators in the baseline are projected to stay below the indicative threshold over the DSA horizon. Therefore, future IDA allocations for the Kyrgyz Republic will be on a 45% grant /55% credit basis.

IDA Portfolio As of March 2009, the active Bank portfolio (Table 2) in the Kyrgyz Republic comprises 18 operations with total commitments of US$ 191.7million, of which US$115.92 (60%) million remains undisbursed. In addition to 18 projects financed by IDA, the World Bank manages EFT–FTA funds and donors TFs for Health & Social Protection SWAp, and a TF on Public Financial Management currently under preparation.

New projects on Bishkek-Osh Infrastructure (US$12 million), Agricultural Investment and Services (US$9 million), Real Estate and Land Registration-II (US$6 million), and Economic Management Capacity Building TA (US$12 million) were approved by the Board in FY08.

In addition to the four projects, the Board approved amendments in amount of US$10 million for two ongoing projects Health & Social Protection SWAp and AISP as a response to food price crisis. Both the Health SWAp portion (US$6 million) and the agriculture support part (US$4 million) have been declared effective and actual disbursement for the Unified Monthly Benefit top-ups commenced with effect from October 1, 2008. Additional financing for the Small Towns Infrastructure and Capacity Building Project ($4 million) was approved by the Board on March 31, 2009. In addition to the country portfolio, the Kyrgyz Republic also benefits from the regional HIV/AIDS project. Osh–Isfana Road and Rural Water Sanitation-II are under preparation.

IFC Program and Portfolio: Since becoming a member of IFC in 1993, the Kyrgyz Republic has received commitments totaling more than $75 million from IFC’s own funds to finance more than 20 projects in the financial, banking and microfinance, oil and gas sector, agribusiness, pulp and paper sectors. The committed IFC portfolio as of April 2009 stands at $18.2 million, with US$15.0 million disbursed (81% in financial markets, 19% in general manufacturing. In 2005–2008, IFC investments amounted to US$19 million.

IFC has completed and is implementing 17 technical assistance projects in the areas of: (i) institutional and capacity building of financial institutions; (ii) leasing and microfinance development; (iii) business enabling environment (launched in the fall of 2008), and (iv) improving corporate governance in local companies. IFC Central Asian Primary Market Development Project was launched in 2005, and the second phase of IFC PEP Central Asian

Regional Leasing was launched in 2006. At the end of 2007, IFC started regional TA project to improve corporate governance in enterprises of Central Asia including Kyrgyzstan.

In FY 2008, IFC committed investments for Altyn–Ajydar for the production of construction materials (US$1.6 million), and long term financing and advisory services for Kyrgyz Investment and Credit Bank (US$5million) to expand their activities. IFC supported the Government in passing legislation in May 2008 which creates important tax incentives for leasing. In addition, IFC intends to support the agribusiness sector by providing credit lines through local commercial banks for agribusiness companies.

In FY 2009 IFC plans to invest more than US$30 million dollars into the Kyrgyz economy in new investments, with focus on the financial sector. This will be complemented with a new advisory services project to improve financial markets infrastructure, specifically credit information sharing systems, financial intermediaries' credit underwriting practices, and risk management education. As a response to financial crisis, IFC is reinforcing its work with credit bureaus which would help financial institutions identify risks and safely re-engage in lending activities when the economic cycle permits. IFC will continue its advisory services aimed at implementing the regulatory framework for institutional and capacity building in the financial sectors, developing corporate governance and improving business environment for private sector and investment climate.

In addition, IFC is preparing an infrastructure advisory program for Central Asia. This initiative could provide advice and assistance to the Kyrgyz Government in designing public private partnerships and, possibly, privatization of infrastructure companies. Infrastructure in the Kyrgyz Republic is in the great need of investments and this constitutes a constraint to economic growth. The Infrastructure Advisory Program could attract external investments to these sectors and increase the capacity of the Government to develop and structure projects on a PPP basis.

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. The total amount of foreign direct investment facilitated by MIGA guarantees is over $360 million.

MIGA's current portfolio in the Kyrgyz Republic consists of guarantees for two projects in the transport sector: an airline (Kyrgyz Airlines) and an airport services company (Manas Management Company). The projects are owned by Austrian and Italian investors. The combined gross exposure from these projects is US$14.8 million. Both of the projects are the subject of active and ongoing disputes between the investors and the Government.

The operations license of the airline was cancelled by the government and is currently the subject of a proceeding at the London Court of International Arbitration. If the investor is successful in that forum it will result in a claim under MIGA's guarantee. A claim has been

filed against MIGA in connection to the Manas Management Company as the result of the Government's taking of certain shares of the company.
MIGA is working with the parties to reach a settlement of the disputes and is in close contact with both the Kyrgyz authorities and the investors for this purpose. An agreement was reached in 2008, but, because of delays in carrying out its terms, the settlement is not yet effective. At present, there are no new projects in the Kyrgyz Republic in MIGA's FY09 pipeline.

World Bank contacts:
Afsaneh Sedghi (asedghi@worldbank.org), Country Economist.
Phone No. (202) 473-7518
Dinara Djoldosheva (ddjoldosheva@worldbank.org), Sr. Country Officer.
Phone No. (996312) 610650

ANNEX III. KYRGYZ REPUBLIC—RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ADB)

(As of 31 March 2009)

ADB has been the second largest development partner in the Kyrgyz Republic since its joining in 1994. ADB's country partnership strategy for the Kyrgyz Republic is presented in the joint country support strategy [1] (JCSS) for 2007–10 approved in October 2007. The JCSS was prepared in cooperation with four development partners—the Swiss Cooperation, the United Kingdom Department for International Development, the United Nations Agencies, and the World Bank Group. Two other development partners—the European Commission and the German Government—joined the JCSS in December 2007. The JCSS supports the government development agenda, articulated in the country development strategy for 2007–10, of which the main theme is to contribute to robust and sustainable economic growth and poverty reduction, and the attainment of Millennium Development Goals.[2]

In line with the country development strategy, the JCSS identifies four priority areas: (i) promoting economic management consistent with strong and sustained pro-poor growth; (ii) improving governance, promoting effective public administration, and reducing corruption; (iii) building sustainable human and social capital; and (iv) ensuring environmental sustainability and natural resources management.

The country operations business plan (COBP) for 2009–11, which was approved in January 2009, is broadly in line with the JCSS priorities, with some adjustments in the lending and non-lending program to reflect: (i) impact of the ongoing global financial and economic crises; and (ii) the Government's latest economic policy to address the country's short- and long-term development challenges.[3] In May 2008 ADB adopted Strategy 2020, which requires ADB to be more effective through more focused operations in five core areas. The adjustments made in the forward program are compliant with this approach.

As of 31 March 2009, the country has received 26 loans worth $603.5 million, 9 ADF and 1 GEF grants worth $134 million. Eight out of 26 loans and 10 grants are program loans totaling $212 million provided to support policy reforms to facilitate the transition to a market economy. The remaining 19 project loans and 9 grants (worth $525.5 million) were provided to support various investment activities. At present, 6 loans and 8 grants with approved amount of $264.8 million are ongoing. These loans and grants have an undisbursed balance of $132.2 million as of 31 March 2009. All assistance provided to the Kyrgyz Republic is from concessional ADB's special fund resources—Asian Development

[1] ADB. 2007. *Joint Country Support Strategy (2007–10): Kyrgyz Republic.* Manila.

[2] Kyrgyz Republic. 2007. *Country Development Strategy (2007–10*). Bishkek.

[3] President Kurmanbek Bakiev's Address to the Nation delivered on 10 January, 2008 in Bishkek.

Fund (ADF). The Kyrgyz Republic has also received 7 grants from Japan Fund for Poverty Reduction (JFPR grants) amounting to $7 million. The transport and communications sectors account for the largest share of ADB assistance, followed by the multisector, and law, economics and public policy.

In addition to loans and grants, ADB had provided 71 technical assistance (TA) projects amounting to $41.251 million as of today. Of these, 23 are project preparatory TAs amounting to $14.44 million and the remaining 48 TAs for $26.811 million are advisory TAs for capacity building, policy advice, institutional strengthening and training.

The performance of ADB's portfolio is generally satisfactory with one loan 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.

ADB's annual lending began with $40 million in 1994 and reached the peak level of $89 million in 1997. Thereafter, lending declined as the Government's debt reduction strategy limited the size of its externally funded PIP to about 3 percent of GDP.

Since 2005, up to 50 percent of ADF assistance to the country was provided in the form of grants in view of the heavy external indebtedness of the country. In September 2007, the new grants framework was approved by ADB's Board of Directors, which enables the Kyrgyz Republic to receive 100 percent of its annual ADF allocation in grants. Access to grants will depend on the county's debt repayment capacity, which will need to be assessed periodically. As debt sustainability of the country strengthens, the Kyrgyz Republic will again be eligible for 50 percent grant and 50 percent loan starting from 2009. The allocation for the block of two years 2009–10 is determined at $120.78 million.

The Kyrgyz Republic was selected as one of the pilot countries during the February 2003 Rome Conference on Harmonization. Since then key development partners have learned to better coordinate and harmonize procurement procedures, oversee financial management and monitoring, share project implementation units, and conduct joint country portfolio reviews. The JCSS for the Kyrgyz Republic has been prepared by five funding agencies. 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.

ADB cooperates extensively with civil society organizations in the Kyrgyz Republic to strengthen the effectiveness, quality, and sustainability of the services it provides.

Annex IV. Kyrgyz Republic—Relations with the European Bank for Reconstruction and Development (EBRD)

(As of March 1, 2009)

The EBRD facilitates the transition to a market-based economy through its support to the local banks and non-bank micro financial institutions, selected financially viable local enterprises, key infrastructure, and targeted technical assistance. Under the Early Transition Countries' Initiative (ETCI) introduced in 2004, the Bank is able to more innovatively respond to the Kyrgyz economic conditions and support more challenging smaller local projects. Under the initiative, the Bank also provides technical cooperation (TC) in support of investment development.

In accordance with the Strategy for the Kyrgyz Republic approved in June 2007, the Bank's priorities are: (a) fostering the private sector; (b) strengthening the financial sector; (c) support for critical infrastructure; and (d) policy dialogue to improve the investment climate and support reform efforts.

As of March 2009, the Bank had supported 66 investment projects (including restructurings) with total financing of €779 million. The Bank has provided €212 million of this amount.

During the past three years, the Bank expanded its activities in the financial sector including the following:

- With an objective to develop dynamic micro-, small- and medium-sized enterprises, the Bank has been trying to strengthen the financial sector by investing and lending to stronger local financial institutions and encouraging co-investment.
- The Bank works with five-partner banks and also with four non-banking institutions—Bai-Tushum, FINCA, Kompanion and Frontiers.
- In 2007, the Bank approved $40 million in support of the Bank's Financial Sector Strategy for the Kyrgyz Republic which aims to strengthen the sector by addressing identified gaps and weaknesses and promoting best practice. The project will support development of the private enterprises and banking sector in the Kyrgyz Republic by increasing medium- and long-term financing to the productive sector of the economy through local banks. In 2007, under this project KICB received $3 million credit line for lending to small- and medium-sized enterprises and $2 million loan for mortgage financing. The SME credit line is used to finance local enterprises in the tourism sector and related services. The mortgage loan is used for financing residential mortgages.
- Equity investments in DKIB and KICB.
- Expansion of Trade Facilitation Program (TFP). Four banks are participants in the TFP.

- In 2008, the Bank continued the MSE financing in sum of € 2.8 million with two non-bank microfinance institutions—Bai-Tushum and Kompanion, as well as the MSE financing in sum of € 2 million with Kazkommertzbank 2nd Tranche.

Other major investments by the Bank during its operations in KR include:

- $20 million loan and $10 million sub debt, since converted into $17 million equity participation in Centerra Gold (the Bank's senior loan was fully repaid).
- Loan to Hyatt–Regency Hotel, $6.3 million in 1997.
- Loan to Interglass plant, EURO 5.5 million in 2004.
- Loan to Karven Four Seasons (resort on Issyk–Kul Lake), $3.8 million in 2006.
- Loan to Orion Hotel (hotel and business centre in Bishkek), $4 million in 2007.
- Equity to Dairy Spring €1.3 in 2008.

The Bank provided the Kyrgyz Republic with sovereign guaranteed loans in the past and continues to monitor the development of key infrastructure projects in the public sector. The Bank is currently working with the Government for the possible EBRD financing of the following projects to be blended with concessional financing from other IFIs and bilateral donors:

- Rehabilitation and upgrading of the section of the road linking the main cities of the south and southwest of Kyrgyz Republic, Osh–Pulgon–Burgandy–Batken. The EBRD will co-finance with the World Bank ($20 million) and the EU (EURO 7.3 million grant for the Phase I - currently under implementation - and EUR 7.4 million grant for Phase II).

- Rehabilitation of the Bishkek municipal water supply infrastructure by replacing the most deteriorated parts of the water supply network. The operation will comprise a EURO 5.5 million sovereign loan to the Kyrgyz Republic to be on-lent to the Bishkek Water Company. The project will be co-financed with a EURO 5.7 million grant from the Swiss State Secretariat for Economic Affairs (SECO).

The Bank also implements grant-funded TC in support of investment projects, including the following ones in the FI (including MSFF consultants among others), natural resources/environment, energy, agribusiness and infrastructure sectors:

- Business Advisory Service and Turn Around Management programs, providing consulting services to viable businesses.
- In telecoms, to advise on key reforms, including intercapacity access arrangements.

- In energy sector, to promote the use of renewable energy sources, with a focus on small- and medium-sized hydropower and to create favorable investment climate for private sector participation in renewable energy development in the country.
- Training for judges in commercial law.

The Bank actively promotes policy dialogue and supported the creation of the Kyrgyz Investment Council to ensure high-level policy dialogue between the government and business community. With EBRD finance under ETC initiative, the Bank supported the secretariat to ensure professional management of the Investment Council, and the Bank participates in the process together with domestic and foreign private investors, as well as other donors.

ANNEX V. KYRGYZ REPUBLIC—TECHNICAL ASSISTANCE PROVIDED BY THE FUND
February 2003–April 2009

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
	Fiscal ROSC Reassessment (Fiscal Transparency Module)	September 11–25, 2007	Ministry of Finance
	Securing Tax Revenues During the Economic Downturn	March 9–20, 2009	Ministry of Finance
MFD/ MCM	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

ANNEX V. KYRGYZ REPUBLIC—TECHNICAL ASSISTANCE PROVIDED BY THE FUND (Continued)
February 2003–April 2009

Dept.	Subject/Identified Need	Timing	Counterpart
	Payments System	January 25–February 7, 2005, April 12–25, 2005, October 18–27, 2005, February 20–March 5, 2006, October 16–27, 2006, March 3–17, 2007, December 9–15, 2007, May 19–June 3, 2008, February 23–March 11, 2009	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 5–15, 2005 October 10–23, 2006	National Bank of the Kyrgyz Republic
	AML/CFT	April 19–25, 2006	National Bank of the Kyrgyz Republic
	Islamic Banking Framework	February 4–12, 2008	National Bank of the Kyrgyz Republic
	Assessment of the Government Primary and Secondary Market Arrangements in the Kyrgyz Republic	May 6–16, 2008	National Bank of the Kyrgyz Republic
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

ANNEX V. KYRGYZ REPUBLIC—TECHNICAL ASSISTANCE PROVIDED BY THE FUND (Concluded)
February 2003–April 2009

Dept.	Subject/Identified Need	Timing	Counterpart
	Assisting in drafting Tax Code	December 4–10, 2005	Prime Minister's office
	AML/CFT Follow-up	July 2–6, 2007	National Bank of the Kyrgyz Republic
	AML/CFT Follow-up	September 3–6, 2007	National Bank of the Kyrgyz Republic and Financial Intelligence Unit
	AML/CFT Framework	February 11–15, 2008 March 3–7, 2008	National Bank of the Kyrgyz Republic and Financial Intelligence Unit
	Review of the draft Tax Code	April 22–30, 2008	Ministry of Finance
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
	National Accounts Statistics	November 17−28, 2008	National Statistics Committee
	Government Finance Statistics	November 11−14, 2008	Ministry of Finance
INS	Course in Financial Programming	November 12−20, 2008	Ministry of Economic Development and Trade & others

List of Resident Advisors

MFD	Banking Supervision/Restructuring Advisor	Mr. Svartsman	January 2004–January 2005
MFD	Public Debt Policy and Management	Mr. Azarbayejani	December 2002–December 2004
MCM	Debt Management and Development of Government Securities Management	Mr. Riecke	August 2006–August 2009

ANNEX VI. KYRGYZ REPUBLIC—STATISTICAL ISSUES

1. Data provision is adequate for surveillance. The four institutions responsible for collecting, compiling and disseminating macroeconomic statistics—the National Statistics Committee (NSC), the Ministry of Economic Development and Trade (MOEDT), the Ministry of Finance (MOF), and the National Bank of the Kyrgyz Republic (NBKR)—have legal and institutional environments that support statistical quality, and their respective staff are well-versed in current methodologies.

2. The NSC maintains a comprehensive and regularly updated website with data that largely incorporate international methodological recommendations with adequate coverage and timeliness (http://www.stat.kg). In February 2004, the Kyrgyz Republic subscribed to the SDDS.

3. A data ROSC mission in November 2002 concluded that the quality of the macroeconomic statistics had improved significantly in the last few years. The authorities' response to the data ROSC (posted on the IMF website (www.imf.org/external/np/rosc) includes an update on the status of implementation of the ROSC recommendations.

National accounts

4. 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 release schedule. Efforts are needed to improve the quality of the source data for quarterly GDP estimates. Moreover, while the quarterly GDP estimates are disseminated on a discrete basis for SDDS purposes, these estimates are still derived from cumulative data. Difficulties also remain in properly estimating the degree of underreporting, especially in the private sector. To improve the coverage and reliability of primary data, work has been undertaken to introduce sampling procedures. Improved sampling procedures have been adopted for household surveys and new report forms have been introduced for the enterprise survey. The NSC has established a division of sample surveys, which would assist in improving the sampling techniques.

Price and labor market statistics

5. The concepts and definitions used in the 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 needs to cover rural households, which comprise the majority of the population.

6. The 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.

7. 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 data processed by customs have suffered due to the use of an outdated computer software system.

8. 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.

Government finance statistics

9. The scope of central government statistics falls short of international standards because it excludes data for the Social Fund (these data are published separately). Other limitations involve the discrepancies between the deficit and financing data. While revenue and expenditure data generally accord with the *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 are reported to STA for publication in the *IFS*; the latest data reported for publication in the *GFS Yearbook* were for 2006, and covered general government and its subsectors; the data were compiled using the *GFSM 2001* analytical framework.

10. 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 has benefited from on-site training provided by a Swiss-financed long-term consultant and the computerization of its database.

Monetary and financial statistics (MFS)

11. 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 *MFSM*.

12. The April/May 2004 STA mission on MFS found that the NBKR had made substantial progress in implementing ROSC 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 microfinance companies.

13. The new accounting framework for banks implemented in January 2009 revealed some problems in classification of a part of the Social Fund deposits. Efforts are under way to address the consequences of the introduction of the new accounting rules.

14. Monetary data have been reported electronically to STA using Standardized Report Forms (SRFs). STA identified classification issues in the reported SRF data, which were communicated to the authorities. The data will be published in *IFS* and *IFS Monetary and Financial Statistics Supplement* as soon as these issues are resolved.

External sector statistics

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 methodology recommended in the *BPM5*. However, deficiencies remain with respect to data on remittances, trade, services, and foreign direct investment. There is also a need to improve compilation procedures for achieving temporal consistency of data, and investigating and reconciling discrepancies. The March 2004 STA mission on balance of payments statistics noted that while progress had 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.

Kyrgyz Republic: Table of Common Indicators Required for Surveillance

(As of April 28, 2009)

	Data of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo Items	
						Data Quality—Methodological soundness[8]	Data Quality—Accuracy and reliability[9]
Exchange Rates	4/28/09	4/28/09	D	D	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	4/27/09	4/28/09	M	M	M		
Reserve/Base Money	4/27/09	4/28/09	D	D	M	LO, O, LO, LO	LO, O, O, LO, LO
Broad Money	3/31/09	4/17/08	M	M	M		
Central Bank Balance Sheet	4/27/09	4/28/09	D	D	M		
Consolidated Balance Sheet of the Banking System	3/31/09	4/17/08	M	M	M		
Interest Rates[2]	4/9/09	4/13/09	W	W	W		
Consumer Price Index	3/31/09	4/15/09	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2/28/09	4/14/09	M	M	A	O, LNO, LO, O	LO, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	2/28/09	4/14/09	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/31/08	2/02/09	M	M	A		
External Current Account Balance	12/31/08	3/18/08	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, LO, LO
Exports and Imports of Goods and Services	2/28/09	4/08/09	Q	Q	Q		
GDP/GNP	2/28/09	4/08/09	M	M	M	O, O, LO, O	LO, LO, LO, O, O
Gross External Debt	12/31/08	6/30/08	Q	Q	A		
International Investment Position[6]	2008	4/15/09	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means

[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] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

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

[8] Reflects the assessment provided in the data ROSC (published in 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).

[9] 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.

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

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

Public Information Notice (PIN) No. 09/69
FOR IMMEDIATE RELEASE
May 29, 2009

IMF Executive Board Concludes 2009 Article IV Consultation with the Kyrgyz Republic

On May 22, 2009 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Kyrgyz Republic.[1]

Background

Up to 2008, a favorable external environment and sound economic policies resulted in a steady increase in the pace of economic growth in the Kyrgyz Republic, while inflation remained low. Following periods of political turmoil, economic growth accelerated to 8½ percent in 2007 and non-gold growth reached 9 percent that year. Poverty rates fell to 35 percent, from 54 percent in 2002, while extreme poverty dropped from 23 percent to 7 percent. Inflation remained close to 5 percent, until it started to surge in late 2007.

Over the last year and a half, adverse external developments have led to a deterioration in economic conditions. Initially, the Kyrgyz economy was hit by the rise in international

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

commodity prices that caused a sharp increase in Kyrgyz inflation, to over 30 percent by mid-2008, and a worsening of the external position. When the international economic tide turned in the second half of 2008 and the global economic and financial crisis spread to the region, the Kyrgyz economy was badly hit as well. In addition, long-standing energy sector problems combined with water shortages caused a major shortfall in hydropower capacity and widespread power outages. Overall growth remained strong in 2008, reaching 7.6 percent on account of a strong recovery in gold production, but the global and regional slowdown started to affect economic activity outside the gold sector, with non-gold growth falling to 5.4 percent. The global crisis is hurting the Kyrgyz economy mainly through trade and remittance channels. Russia and Kazakhstan remain key trading partners and the main source of remittances. With these countries in recession, Kyrgyz growth is expected to almost come to a halt in 2009, before recovering modestly in 2010.

The Kyrgyz authorities' economic policies for 2009, together with large donor support, will help mitigate the impact of the crisis on the Kyrgyz economy. Sizable assistance received from Russia allows fiscal policy to accommodate the large shortfall in government revenues expected this year, while creating room for an increase in capital and social spending. The resulting fiscal easing will provide a strong boost to the economy and help to avoid a recession. The assistance will more than cover the balance of payments and fiscal needs that were emerging for 2009. Accordingly, the authorities are planning to use this money in a medium-term fiscal framework.

The National Bank of the Kyrgyz Republic (NBKR) continues to aim its policies at further reducing inflation and maintaining financial sector stability. Inflation has come down sharply to 13.6 percent in March 2009, as world commodity prices have eased, and is expected to slow further to about 10 percent by year-end. The NBKR has allowed continued exchange rate flexibility to absorb the large external shocks and limit foreign exchange reserve losses. Notwithstanding some signs of stress, including an increase in non-performing loans and a loss of deposits, the banking sector has thus far weathered the crisis well.

Although the current emphasis of the authorities' policies is on addressing the impact of the external shocks, they continue to advance their broader structural reform agenda to ensure strong growth over the medium term. Considerable progress was made in the last two years in improving the business environment, earning the Kyrgyz Republic a ranking as one of the top ten reformers in last year's World Bank Doing Business Survey. The authorities are continuing with their efforts to strengthen public financial management, reduce the administrative burden on businesses, including in the areas of taxation and trade, and fight corruption.

Executive Board Assessment

Executive Directors noted that the Kyrgyz Republic is being adversely affected by the global economic crisis spreading to the region, primarily through trade and remittances, spilling over to domestic demand, and creating a revenue shortfall and larger balance of payments needs. As a result, growth in the Kyrgyz Republic is likely to come to a halt this year, with considerable downside risks associated with a possibly more protracted recession, a worsening of financial sector difficulties in the region, and uncertainties surrounding the upcoming elections. Looking ahead, Directors were encouraged by the authorities' commitment to sound economic policies and their readiness to take additional measures if needed to ensure macroeconomic stability.

Directors commended the authorities on their prompt response to the crisis including a strong performance under the ESF arrangement. They agreed with the Kyrgyz authorities' emphasis on managing the spillover from the global crisis, aiming to support growth, safeguard external and financial stability, and mitigate the impact on the poor. Directors welcomed the large financial support provided by the Russian Federation and the authorities' commitment to use this support in a medium-term budget framework.

Directors noted that the larger donor support will permit fiscal stimulus to sustain economic activity, by compensating for a revenue shortfall, while still leaving room to increase capital and social spending. Directors particularly welcomed the authorities' plans to raise the level and improve the targeting of social benefits, with the help of the World Bank and the European Union. Looking forward, they encouraged the authorities to press ahead with fiscal reforms, including strengthening public financial management, further revising the tax system, including a partial reversal of the recent VAT rate reduction and eliminating VAT exemptions on imports, and strengthening revenue administration. These measures will be crucial to ensure fiscal sustainability over the medium term, when donor support may decline.

Directors noted the updated debt sustainability analysis, which continues to place the Kyrgyz Republic at a moderate risk of debt distress. They underscored the need to maintain a prudent debt strategy, and supported the authorities' decision to abstain from issuing guarantees for commercial projects, including in the energy sector.

Directors concurred with the central bank's monetary policy aimed at further reducing inflation, while maintaining a flexible exchange rate regime. They noted the staff's assessment that the real effective exchange rate is broadly in line with fundamentals. In the short term, Directors saw limited scope for monetary easing to help support economic growth, given depreciation pressures and the persistence of high core inflation. Looking ahead, they considered that the pace of any gradual easing would depend on lower inflation and the easing of exchange rate pressures. Directors welcomed the decision to increase the central bank's capital, thereby strengthening its independence.

Directors observed that banks have been resilient to the global financial turmoil. They were encouraged by the authorities' readiness to deal with any financial sector problems, including by providing emergency liquidity support and injecting capital into systemic banks if needed. Directors also welcomed the early introduction of the deposit insurance scheme, which would help improve confidence in the banking system. The authorities should continue to monitor banks closely, as banks' asset quality is likely to worsen further as the economy slowed.

Kyrgyz Republic: Selected Economic Indicators, 2005–10

	2005	2006	2007	2008	Proj. 2009	Proj. 2010
Real sector						
Nominal GDP (in billions of soms)	100.9	113.8	141.9	185.0	211.9	236.7
Nominal GDP (in millions of US$)	2,460	2,837	3,805	5,050	4,948	5,066
Real GDP (growth in percent)	-0.2	3.1	8.5	7.6	0.9	2.9
Non-gold real GDP (growth in percent)	1.4	5.7	9.0	5.4	0.8	2.0
GDP per capita (in US$)	478	546	726	953	923	932
Consumer prices (12-m percent change, eop)	4.9	5.1	20.1	20.1	10.0	8.2
Consumer prices (12-m percent change, ave)	4.3	5.6	10.2	24.5	12.4	8.6
General government finances (in percent of GDP) 1/						
Total revenue and grants	24.7	26.4	30.3	30.3	29.3	26.4
Total expenditure and net lending	28.1	28.9	31.0	29.6	31.3	30.9
Overall fiscal balance	-3.6	-2.1	-0.3	-0.1	-1.9	-4.5
Primary balance	-2.0	-1.2	0.3	0.7	-1.1	-3.8
Primary balance (excluding grants)	-3.0	-2.0	-1.9	-1.1	-6.7	-6.1
Total public debt	85.9	72.5	56.8	49.2	52.0	49.7
Banking sector 2/						
Reserve money (percent change, eop)	24.9	47.4	38.5	11.3	1.0	12.8
Broad money (percent change, eop)	9.9	51.6	31.4	11.4	4.1	15.0
Credit to private sector (percent change, eop)	20.5	48.6	79.9	26.4	17.3	24.1
Interest rate 3/	4.3	4.2	5.6	19.2	…	...
External sector						
Current account balance (in percent of GDP)	2.8	-3.1	-0.2	-6.5	-6.3	-8.4
Exports of goods and services (in millions of US$)	1,053	1,485	2,244	3,138	2,694	3,044
Export growth (percent change)	2.9	40.9	51.1	39.9	-14.2	13.0
Import of goods and services (in millions of US$)	1,397	2,253	3,218	4,728	4,026	4,507
Import growth (percent change)	23.9	61.3	42.8	46.9	-14.9	12.0

Gross official reserves (in millions of US$) 4/	608	814	1,194	1,222	1,459	1,459
Gross reserves (months of next year imports, eop)	3.2	3.0	3.0	3.6	3.9	3.5
External public debt (in percent of GDP)	78.0	69.8	54.6	41.8	45.1	46.0
Exchange rate						
Exchange rate (soms per US$, average)	41.0	40.1	37.3	36.6	…	…
Real effective exchange rate (2000=100, average)	104.3	106.0	113.3	128.7	…	…

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/ At actual exchange rates for 2005–08, projections at program exchange rates (including som 38.21 per US$ for 2009–10.
3/ Interest rate on 3-month treasury bills.
4/ Gross reserves exclude international reserves of the NBKR that are pledged or blocked.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/184
FOR IMMEDIATE RELEASE
May 22, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review Under Exogenous Shock Facility with the Kyrgyz Republic and Approves US$25.5 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of the Kyrgyz Republic's economic performance under the 18-month Exogenous Shocks Facility (ESF) arrangement and approved the immediate release of SDR 16.65 million (about US$25.5 million). This will bring total disbursements under the ESF to SDR 33.3 million (about US$51 million). The 18-month, SDR 66.6 million (about US$102 million) arrangement under the ESF was approved on December 10, 2008 (see Press Release 08/316).

The Board also concluded the 2009 Article IV consultation. Details of the findings will be published in a Public Information Notice.

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The global crisis is causing a sharper economic slowdown in the Kyrgyz Republic than was expected at the time of the approval of the 18−month arrangement under the Exogenous Shocks Facility (ESF) in December 2008. The crisis is affecting the Kyrgyz economy mainly through trade and remittance channels, spilling over to domestic demand and creating revenue shortfalls and larger balance of payments needs. As a result, economic growth is expected to slow sharply in 2009. The authorities are committed to take additional measures as needed.

"The spread of the global financial crisis has also put downward pressure on the exchange rate. The banking system has been resilient, but the increased uncertainty has affected money demand and credit growth, and banks' asset quality has deteriorated. At the same time, inflation has declined sharply, helped by lower international food and energy prices, prudent monetary policy, and, more recently, the slowdown in activity.

"The authorities' macroeconomic policies aim to mitigate the impact of the crisis on economic growth and the poor. Policy implementation under the ESF arrangement has been strong, and all targets set for end-December 2008 were met. Large financial support from the Russian Federation will also help sustain activity by allowing fiscal policy to accommodate the revenue shortfall, and create room for an increase in capital and social spending. The sizable donor support will also cover the larger balance of payments needs and help maintain an adequate level of foreign exchange reserves.

"The Kyrgyz central bank's policies aim to lower inflation and maintain financial sector stability. The central bank will continue to pursue a flexible exchange rate policy to absorb external shocks and limit reserve losses. Provided that inflation continues to decline and exchange rate pressures abate, monetary policy could be eased gradually to provide additional support to the economy. The central bank will continue to monitor banks closely. The authorities have acted proactively by putting in place emergency liquidity facilities and by standing ready to provide capital to systemic banks if needed. The early introduction of a deposit insurance scheme will help bolster confidence in the banking system," Mr. Portugal said.

Statement by Thomas Moser, Executive Director of the Kyrgyz Republic
May 22, 2009

1. Our Kyrgyz authorities would like to thank the staff for very constructive policy discussions. They are grateful to the IMF for the very timely support under the Exogenous Shocks Facility (ESF), which has been helpful in addressing the consequences of the significant exogenous shocks that the Kyrgyz economy is experiencing. Performance under the arrangements has been strong, with all performance criteria and structural benchmarks met, and the authorities continue to be committed to the agreed economic program.

2. In line with global and regional developments, transmitted both through trade and remittance channels, the outlook for the Kyrgyz economy has further deteriorated. The recent World Economic Outlook shows that as the global economic crisis spreads, CIS countries are forecast to experience the largest reversal of economic fortune in the near term. Given the importance of Russia and Kazakhstan as trading partners of the Kyrgyz Republic and source of remittances, the slowdown in those countries severely affects the Kyrgyz economy. Kyrgyz economic growth is projected to slow sharply, from 7.6 percent in 2008 to less than 1 percent in 2009, significantly lower than what was projected at the time of the ESF request. Moreover, these projections continue to be subject to significant downside risks.

3. The further deterioration is creating revenue shortfalls and larger balance of payments needs. The Kyrgyz authorities are thus thankful for the substantial donor support provided by the Russian Federation. The recently disbursed grant of US$150 million and the US$300 million concessional loan for budget support will help to cushion the impact of the crisis. This allows fiscal policy to accommodate the large shortfall in government revenues expected for 2009, while creating room for increasing capital spending and social support. The overall fiscal balance will remain limited to less than 2 percent of GDP.

4. As the staff report points out, the National Bank of the Kyrgyz Republic (NBKR) has allowed greater exchange rate flexibility than most other countries in the region, and it will allow continued exchange rate flexibility to absorb the large external shocks and limit foreign exchange reserve losses. Monetary policy will focus on reducing inflation and mitigating exchange rate pressures.

5. So far, the banking sector has held up well to the global financial crisis, as evidenced by high bank capitalization and liquidity indicators, but credit growth has come to a halt, non-performing loans have started to rise, and deposits have fallen. The NBKR is monitoring banks closely and has prepared contingency plans, envisaging both emergency liquidity support and possible capital injections by the government for systemic banks. A fully funded deposit insurance scheme with increased deposit insurance levels (originally planed for 2010) will come into effect

already on July 1, 2009. The government will provide the bulk of the initial funding, with gradual reimbursement by the commercial banks through 2010.

6. Although crisis management is currently taking center stage, the Kyrgyz authorities intend to move ahead with structural reforms. Some significant improvement has been achieved, as evidenced in the World Bank's latest "Doing Business" report. In categories such as better protecting investors, starting businesses or dealing with construction permits, much higher rankings were scored.

7. In the energy sector, long-standing problems are being addressed, including through further increases in electricity tariffs. The Kyrgyz Republic has an enormous, still unused potential for hydropower production. The Kambarata project would be an important milestone in the development of this potential. While the financing for the construction of the Kambarata hydropower would be available, the authorities will await the results of the feasibility study to see whether the project would be economically viable before making any decision, and they will continue to refrain from issuing any government guarantees.