

Kyrgyz Republic: First Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria—Staff Report; Staff Statement and Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Kyrgyz Republic.

In the context of the first review under the three-year arrangement under the Extended Credit Facility and request for modification of performance criteria, the following documents have been released and are included in this package:

- The staff report for the First Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on September 21, 2011, with the officials of Kyrgyz Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 17, 2011. 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 statement of December 7, 2011 and staff supplement of November 17, 2011 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its December 7, 2011 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Kyrgyz Republic.

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

Letter of Intent sent to the IMF by the authorities of Kyrgyz Republic*
Revised Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

**First Review Under the Three-Year Arrangement Under the Extended Credit Facility
and Request for Modification of Performance Criteria**

Prepared by the Middle East and Central Asian Department
(In consultation with other departments)

Approved by David Owen (MCD) and Thomas Dorsey (SPR)

November 17, 2011

Executive Summary

Political context. Following the presidential elections on October 30, 2011, President-elect Atambaev, who received about 63 percent of the votes, could be inaugurated as early as December 1, 2011. While a reshuffling of the cabinet thereafter is possible, President-elect Atambaev was instrumental in negotiating the Extended Credit Facility (ECF) arrangement in his capacity as prime minister, and staff therefore expects no disruptions in program implementation.

Background. The economy has rebounded strongly from the deep political crisis last year, recording 8.7 percent growth in the first nine months of 2011. Inflation, which picked up sharply after the food price shock in mid-2010, is subsiding rapidly. Fiscal performance has been strong and, going forward, the pace of fiscal consolidation has been accelerated. Financial sector stability has been strengthening gradually and problem bank resolution is progressing. However, risks remain, including from the possibility of renewed political instability and the fragile global outlook, which could be exacerbated by potential policy slippages.

Program. A three-year ECF arrangement, amounting to SDR 66.6 million (75 percent of quota), was approved by the Executive Board on June 20, 2011. The ECF-supported program reinforces the authorities' efforts to consolidate the fiscal position with a view to rebuilding policy buffers and addressing weaknesses in the financial sector. A first disbursement of SDR 9.514 million was made following the Board meeting. All quantitative performance criteria and indicative targets for end-June 2011 have been met and all applicable structural benchmarks have been observed. The authorities are requesting the second disbursement (SDR 9.514 million) to become available upon completion of this review.

Discussions. The team comprised C. Beddies (head), D. Amaglobeli, B. Shukurov (all MCD), B. Rayner (SPR), and K. Gvenetadze (Resident Representative). Discussions were held in Bishkek during September 7–21, 2011. The mission met with President Otunbaeva, Prime Minister Atambaev, Speaker of Parliament Keldibekov, First Vice Prime Minister Babanov, Minister of Finance Mambetjanov, Chairwoman of the National Bank of the Kyrgyz Republic (NBKR) Asankojoeva, Minister of Economic Regulation Tashbaev, other senior government officials, and representatives of the donor community, the private sector, and civil society. A parallel LEG mission headed by D. Knight continued discussions on the bank resolution framework.

Exchange Rate Regime. The regime is classified as “other managed”. The Kyrgyz Republic maintains a multiple currency practice (MCP), which predates the arrangement, arising from the use of the official exchange rate for government transactions. The official rate may differ by more than 2 percent from market rates because it is based on the average transaction weighted rate of the preceding day. In practice, the official and market rates have never differed by more than 2 percent. Staff does not recommend approval of this MCP.

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I. RECENT DEVELOPMENTS AND OUTLOOK

A. Political Context

1. **The Kyrgyz Republic is emerging from a deep political crisis.** In April 2010, a popular uprising toppled the previous regime and internal ethnic conflict in June 2010 exacerbated the already difficult political situation. The crisis adversely affected economic activity and near-term growth prospects, straining the government's financial position, which was further worsened by critical reconciliation, recovery, and reconstruction needs. Parliamentary elections took place in October 2010 and a new coalition government took office in December 2010. Presidential elections took place on October 30, 2011 with the incumbent prime minister receiving over 63 percent of the votes. He is expected to serve a six-year term.¹ Following the inauguration, which could be as early as December 1, 2011, all members of the cabinet will be acting until confirmed or replaced as a result of coalition talks. However, because the president-elect was instrumental in negotiating the ECF arrangement in his capacity as prime minister, staff expects no disruptions in program implementation.

B. Economic Developments and Program Implementation

2. **The Kyrgyz economy is recovering strongly, while inflation is declining rapidly.**²
- Following the economic contraction in 2010, real GDP grew by 8.7 percent (year-on-year) in the first nine months of the year and is projected at 7 percent in 2011.³ Growth was broad-based and was driven by mining, manufacturing, and services. Despite this strong growth, however, unemployment remains a problem, especially among the youth (see Appendix).
 - Timely tightening of monetary policy, a rebound in agriculture, and retreating global food prices have helped to ease inflationary pressures.⁴ Inflation declined

¹ A total of 16 candidates contended for the president's office. The results that were officially announced on November 12, 2011, are as follows: from more than 60 percent of the voters who turned out at the polling stations 62.5 percent voted for the incumbent prime minister, while the two closest contenders collected about 15 percent each. None of the remaining candidates received more than 1 percent of the vote. The Organization for Security and Cooperation in Europe (OSCE) noted some shortcomings but is "cautiously optimistic about the future of democracy in Kyrgyzstan".

² See Tables 1–9 and the Figure.

³ While gold growth is projected at 9 percent this year, it is expected to be negative in the last quarter (gold production growth was largely concentrated in the first nine months of this year).

⁴ The NBKR has raised its policy rate by about 800 bps since the beginning of the year, bringing the rate to positive in real terms. This has allowed the NBKR to double the volume of open market operations.

significantly from above 20 percent in July 2011 to 9.5 percent in October and is projected at about 7.5 percent at end-2011.⁵

- Fiscal performance was strong during the first nine months of 2011. Tax revenue collections have increased by 30 percent compared to the same period of last year, partly because of a buoyant economy and high gold prices, but also because of administrative measures and improved customs valuation supported by the program. On the expenditure side, absorptive capacity constraints and uncertainty regarding the availability of financing led to a moderation in nonpriority spending, primarily on capital and goods and services outlays. As a result the end-June and end-September 2011 fiscal deficits were better than programmed: Som -0.2 billion at end-June 2011 versus programmed Som 4.0 billion and Som 4.0 billion at end-September 2011 versus the indicative target of Som 6.9 billion.

3. A favorable external environment helped to strengthen the current account during the first nine months of the year.

- Continued growth in Russia and Kazakhstan, combined with high gold prices, contributed to an expansion in remittances and gold exports by 33 percent and 74 percent, respectively.
- These developments combined with the tighter monetary policy stance led to appreciation pressures beginning in the second quarter of 2011 with the Kyrgyz som, strengthening by more than 6 percent against the U.S. dollar. In line with the NBKR's exchange rate policy to smooth short-term volatility, the NBKR accumulated international reserves. However, appreciation pressures subsided subsequently mainly because of seasonal effects (the tourism season ends in the fall) and higher wages and pensions.

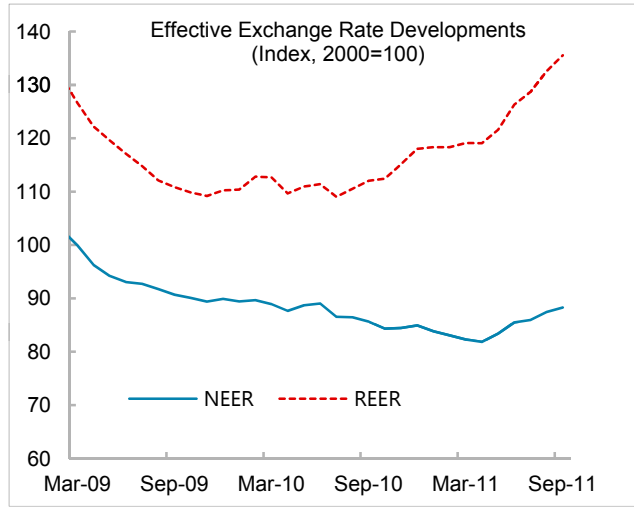
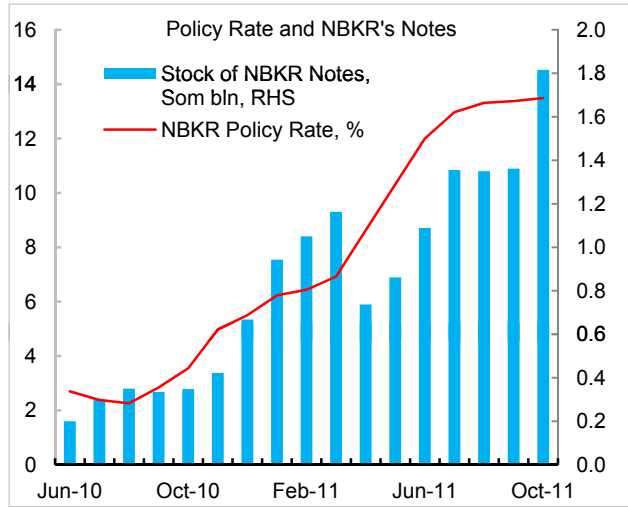
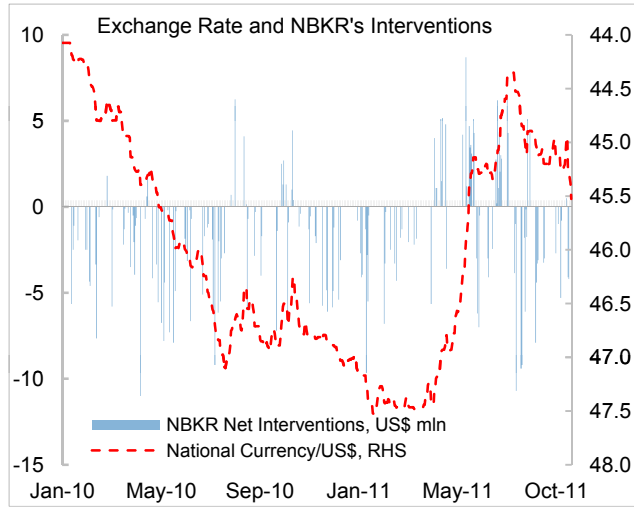
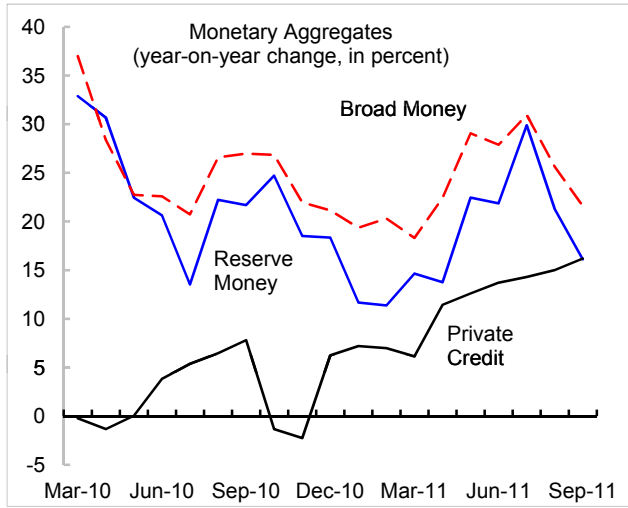
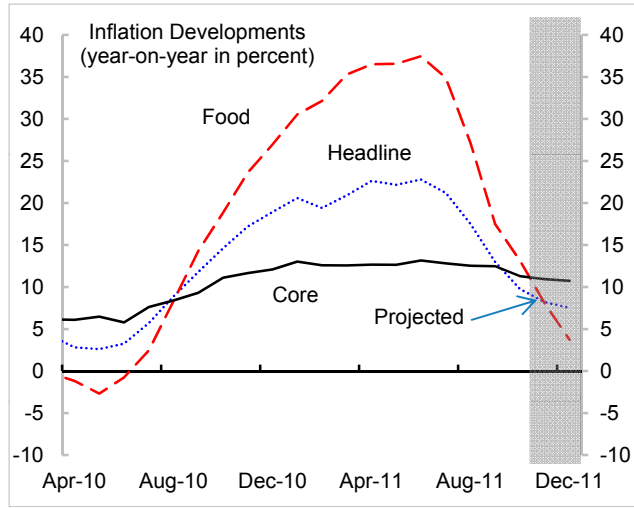
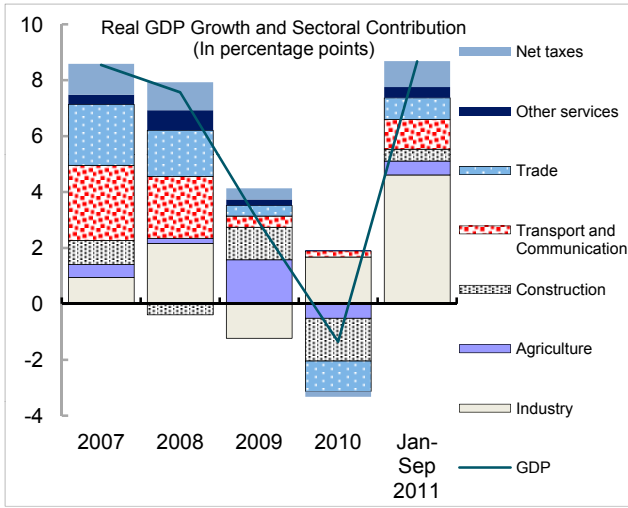
4. Financial sector performance is improving and problem bank resolution is progressing in line with program commitments.

- The banking sector shows signs of revival with year-on-year credit and deposit growth of 16 percent and 17 percent, respectively, as of September 2011.
- After reaching almost 17 percent in January 2011, nonperforming loans have declined to 11.4 percent in September, 2011, while capital adequacy remains sound and profitability indicators returned to their precrisis levels.

⁵ As also demonstrated during the previous food and fuel price shock episode, inflation in the Kyrgyz Republic is very volatile, primarily because of the high food and fuel content in the CPI basket and the high pass-through of changes in world prices into domestic inflation (see Box 3 of Country Report No. 11/155).

- The external audit confirmed the solvency of Zalkar bank and its sale is progressing. Ongoing litigations due to weaknesses in the bank resolution framework impede a timely resolution of the four banks remaining under conservatorship.
5. **Program performance has been strong.** All quantitative performance criteria and indicative targets for end-June and end-September 2011 were met. All structural benchmarks for end-September and end-October 2011 were also observed (see Table 13).

Figure. Kyrgyz Republic: Macroeconomic Developments



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

C. Medium-Term Outlook and Risks

6. **Political stability and a broadly supportive external environment would allow the Kyrgyz economy to continue to grow in 2012.**

- GDP is projected to grow by 5.5 percent in 2012 and average about 5 percent in 2013–14, somewhat slower than previously projected to reflect recent developments in partner economies including Russia. Domestic demand fuelled by growing remittance inflows and a gradual recovery in private sector credit will underpin private sector-led growth, while ongoing structural reforms should help to foster more inclusive growth than in the past. External demand is expected to support nongold exports and the planned increase in gold output will provide an additional impetus to growth. Prudent fiscal and prudent monetary policies will help contain inflation to 6–8 percent in the medium term.
- The current account balance is expected to improve. Exports are expected to continue to rebound with domestic stability and continued high gold prices, while remittances are likely to remain strong. However, imports will continue to grow, primarily as a result of strong economic growth and remittances, and because of large energy and mining related imports.

7. **Nonetheless, risks to the outlook remain.** Failure of the new government to demonstrate visible progress to reform governance and to achieve inclusive growth could destabilize the political situation. Slippages, including on fiscal policy and in the financial sector, are another source of vulnerability. The Kyrgyz economy also remains vulnerable to adverse terms of trade shocks, but could be partly insulated from a global downturn if that were to be accompanied by a sharp fall in oil prices (see the Box) or higher gold prices.

Box: Global Uncertainties and Other Risks—How is the Kyrgyz Republic Affected?

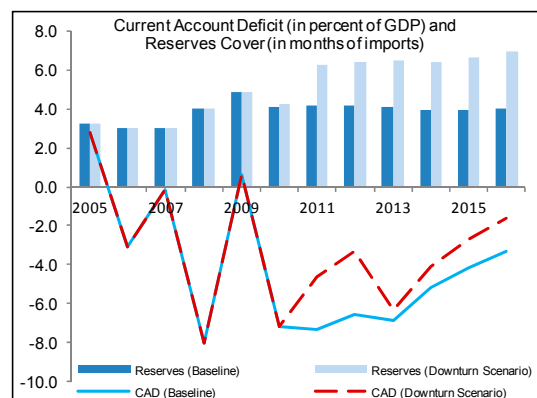
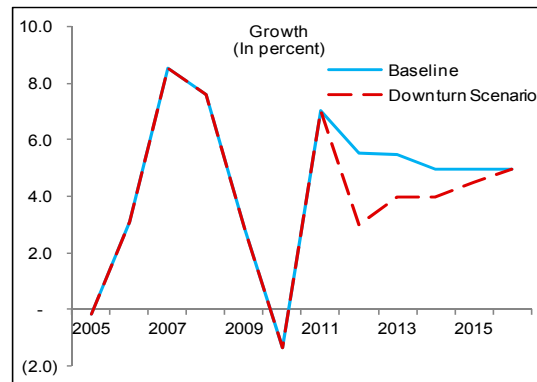
The global economy has entered a dangerous new phase with risks elevated. While a deepening of the European crisis would have limited direct contagion effects, the Kyrgyz Republic would be exposed to possible second round effects of a slowdown in Europe/Russia/Kazakhstan growth and remittances. Unemployment and social tensions remain high in the aftermath of last year's events, and policy buffers have been run down. However, while a global economic downturn will cause disruptions to the Kyrgyz economy, the negative impact is expected to be manageable.

Key assumptions:

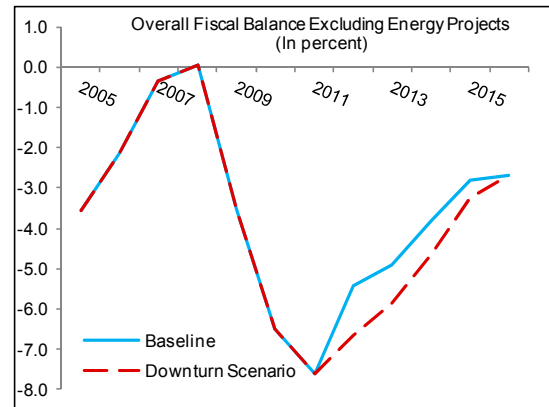
- A permanent external shock is assumed to bring oil prices down sharply to US\$55 per barrel in 2012, increase to US\$70 per barrel in 2013, and stay there in real terms for the remainder of the forecast (2016).
- Growth in Russia is assumed to decline to -2 percent in 2012 with a slow recovery starting in 2013, in line with the scenario presented in the recent Article IV report (IMF Country Report 11/294).
- Average gold prices are assumed to remain constant at the 2011 level of US\$1582 per ounce, while gold exports (volume) remain unchanged from the baseline.

How would a global downturn affect the Kyrgyz economy?

- The decline in remittances and exports would lead to a gradual depreciation of the som under the flexible exchange rate regime, with the central bank selling foreign exchange to mitigate large-scale downward pressure on the exchange rate. Inflation would also fall and the real effective exchange rate would depreciate, improving competitiveness.
- Consumer and investor confidence is likely to take a hit and banks are expected to become more risk averse, prompting aggregate demand, including for imports, to shrink and economic activity to slow. Nonetheless, growth would likely remain positive at about 3 percent. Nonperforming loans in the banking system would rise by 2–3 percentage points. However, developments in Europe could affect confidence in local subsidiaries.
- Lower oil prices would help improve the external position, and result in faster accumulation of foreign exchange reserves.



- The pace of fiscal consolidation will be disrupted through lower revenues associated with lower growth and inflation. While some spending adjustment could take place, the room for maneuver will be limited in 2012, as commitments for 2012 have already been made and large wage and pension increases implemented this year have increased the share of nondiscretionary spending. Assuming no further revenue measures, more drastic expenditure adjustments would be needed from 2013, including on wages, to maintain fiscal sustainability.



Impact of potential gold price volatility

- As a gold exporter, the Kyrgyz Republic would be adversely affected if the global downturn was also accompanied by a sharp drop in gold prices (compared to the constant prices assumed above). For example, if gold were to lose one-third of its 2011 value in 2012 and through the medium term, the current account deficit would reach 6½ percent of GDP, reserves would deteriorate to 3.4 months of imports, and the overall deficit excluding energy projects would be about 3.6 percent of GDP in 2016.

Stand-alone financial sector stress testing

- Stress tests conducted on the August 2011 banking sector data suggest that under a severe shock in which the NPL ratio deteriorates further to 35 percent (reflecting a peak observed across countries in past crises), the capital adequacy ratio of the banking system would decline to 13 percent.¹ While at the system level this is still above the minimum capital adequacy ratio of 12 percent, a few banks would fall below this minimum and would require recapitalization of about 1 percent of GDP.

Overall, the prospects of another global crisis highlight the importance of rebuilding policy buffers, which would enable the Kyrgyz Republic to more easily absorb any adverse shocks.

¹ The stress-testing assumptions are as follows: credit risk—one category migration of nonperforming loans and one category migration of 100 percent of watch loans and 50 percent of satisfactory loans; foreign exchange risk—direct impact of the 15 percent depreciation and indirect impact of 30 percent of foreign currency loans becoming nonperforming; and interest rate risk—600 basis points increase on local currency and 250 basis points increase on foreign currency.

II. POLICY DISCUSSIONS

A. Fiscal Policy

8. **The revised 2011 budget and the 2012 budget are appropriate.** The overall deficit excluding foreign-financed energy infrastructure projects is unchanged compared to the program for 2011 and 0.8 percentage points of GDP lower than programmed for 2012.⁶ Strong growth, tax and customs measures, and high gold prices have allowed the authorities to increase spending, partly reflecting pre-election pressures, including an additional 20 percent increase in pensions from October 2011. This has brought the average pension to about 85 percent of the nationwide minimum subsistence level.⁷ However, some grant financed spending was delayed until the next year. Despite the pension increase, current expenditures are projected to be lower than programmed for 2011–12. Financing remains under pressure. The authorities have delayed the planned large-scale privatizations until next year to maximize sales proceeds and substituted the shortfall by drawing down government deposits at the NBKR. After repeated delays, the disbursement from the EURASEC Anti-Crisis Fund (ACF) in the amount of US\$106.7 million is expected by the end-2011 (see LOI ¶5).

Text Table 1. Kyrgyz Republic: General Government Budget, 2010–14
(In percent of GDP)

	2010		2011		2012		2013	2014
	Prel.	CR/11/155	Proj.	CR/11/155	Proj.	Proj.	Proj.	
Total revenue and grants	31.7	34.6	33.6	32.3	32.7	31.7	31.2	
Total revenue	28.8	30.4	30.1	30.1	29.7	30.1	30.2	
Tax revenue	23.2	24.0	24.0	25.0	25.1	25.4	25.5	
Nontax revenue	5.2	6.0	5.8	4.7	4.3	4.4	4.4	
Capital revenue	0.4	0.4	0.4	0.4	0.3	0.3	0.3	
Grants	2.9	4.3	3.5	2.1	2.9	1.5	1.0	
Total expenditures and net lending	38.1	42.3	41.9	39.4	39.6	38.7	36.3	
Current expenditures	32.2	34.9	34.6	32.8	32.6	31.7	31.0	
Capital expenditures	5.6	6.9	7.3	5.7	7.2	7.0	5.2	
Of which: Energy infrastructure projects 1/	0.0	0.0	0.7	0.0	1.5	2.1	1.3	
Net lending	0.3	0.4	0.1	0.9	-0.3	0.0	0.0	
Of which: Energy infrastructure projects 1/	0.0	0.0	0.0	0.9	0.0	0.0	0.0	
Discrepancy	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance	-6.5	-7.6	-8.3	-7.1	-6.9	-7.0	-5.1	
Primary balance excluding grants	-8.6	-10.6	-10.7	-8.3	-8.8	-7.6	-5.2	
Overall balance excluding energy infrastructure projects	-6.5	-7.6	-7.6	-6.2	-5.4	-4.9	-3.8	
Financing	6.5	7.6	8.3	7.1	6.9	7.0	5.1	
External	3.2	5.2	5.5	3.7	3.9	4.5	2.8	
Of which: Energy infrastructure projects	0.0	0.0	0.7	0.9	1.5	2.1	1.3	
Domestic (incl. privatization)	0.5	2.4	2.8	3.4	3.0	2.5	2.2	
Of which: Privatization	0.1	1.6	0.1	1.3	2.0	1.1	1.0	
Use of KRDF investments abroad	2.8	0.0	0.0	0.0	0.0	0.0	0.0	

Sources: Kyrgyz authorities, and Fund staff estimates.

1/ Foreign financed energy infrastructure projects have been reclassified from net lending to capital expenditures (PIP loans).

⁶ The energy infrastructure project, which had previously been assumed to start disbursing in 2012, has been expedited due to heightened energy security concerns.

⁷ The minimum subsistence level is calculated by the Kyrgyz authorities on a quarterly basis and is defined as the minimum cost of a representative consumer basket per person necessary for subsistence (currently about US\$95 per month).

9. **Recognizing downside risks and in light of the stronger recovery, staff has urged the authorities to accelerate medium-term fiscal consolidation.** This will help to rebuild fiscal policy buffers, which proved important to cushion the effects of previous adverse shocks. The tax policy reform and continued efforts to strengthen tax and customs administration will boost tax revenues. While the full-year impact of the recent pension increase will raise expenditures by about 1 percentage point of GDP in the medium term, adjustments in other areas including civil service reform are expected to more than offset this increase. Subsequently, the bulk of the adjustment will be in current spending, while capital expenditures financed from domestic sources will be maintained.⁸ As a result of faster fiscal consolidation and a successful renegotiation of the borrowing terms on the first phase of the foreign-financed energy infrastructure project, the debt outlook is expected to continue to improve.⁹

10. **Invigorating Public Financial Management (PFM) reforms will strengthen fiscal governance and transparency and aid in the process of fiscal consolidation.** The PFM reform will largely draw on the recently completed FAD technical assistance mission's recommendations and cover measures to revitalize public financial management reform by strengthening the ministry of finance's role in this process, revamp its organizational structure and reform treasury operations (see structural benchmarks, LOI ¶7).

B. Monetary Policy

11. **Staff and authorities agreed that the tight monetary stance needs to be maintained until underlying inflation pressures subside.** It will help to ensure that the concentration of fiscal spending in the remainder of 2011 does not create a large monetary overhang. In 2012, monetary policy should keep inflation in single digits. The authorities agreed that while headline inflation has been declining, supported by subsiding global food prices, continued strong remittance inflows and higher government spending and increased outlays on pensions and salaries will continue exerting upward pressure on core inflation. At the same time, the NBKR will continue to intervene in the foreign exchange market

⁸ Total capital expenditures are higher in 2011–13 and lower in 2014 compared with CR/11/155 because of a change in the disbursement schedule of foreign-financed energy infrastructure projects. On a cumulative basis total capital spending in 2011–14 is 0.2 percent of GDP lower than in CR/11/155 but unchanged in levels.

⁹ The authorities have also cleared approximately US\$14.4 million in arrears to Russia to pave the way for debt relief of about US\$194 million, which is expected before end-2011. The authorities also reached an agreement with the government of Turkey in April 2011 for debt relief of approximately US\$50 million. Although the timing of the Turkish relief is still uncertain, it is assumed that it will come before end-2011. They have contacted, and are awaiting a response from, the governments of Korea and China to clear arrears totaling about US\$7.6 million.

only to smooth excessive volatility. The ministry of finance and the NBKR have been closely coordinating their policies and this cooperation will need to be continued (see LOI ¶10).

C. Financial Sector Policies

12. On the back of improving system-wide financial stability indicators, the authorities' actions will focus on resolving problem banks and addressing vulnerabilities going forward. In line with the agreed resolution plan, the authorities have initiated a sales procedure for Zalkar bank, which was found to be solvent. The second largest state-owned bank, Settlement and Saving Company (SSC), has expanded its balance sheet by 225 percent over the last 20 months, because many former Asia Universal Bank customers have moved to SSC and the government launched directed lending operations through this bank to support agriculture and business in the south that suffered damages during last year's events. However, the pace of expansion and the directed lending have raised concerns as to whether lending standards have slipped. The NBKR has agreed to step up monitoring of SSC and take appropriate supervisory actions, as needed. Limiting capital injections for the purpose of extending such directed loans is important to constrain the bank's overall asset growth (see LOI ¶11). To address regulatory shortcomings revealed in the aftermath of the 2010 crisis, the legal reforms envisaged under the ECF-supported program are under way. Moreover, the (Swiss) State Secretariat for Economic Affairs (SECO) will fund a Legal Resident Advisor who will assist in codifying 5–6 banking laws and advising the authorities on improving basic legal operations of the NBKR.

D. Other Structural Reforms

13. In line with their program commitment to prepare a poverty reduction strategy paper (PRSP), the authorities have recently presented the first draft of the Medium-Term Development Program (MTDP) (see LOI ¶3). The final document, together with the Joint Staff Advisory Note (JSAN) will be presented to the Board together with the second review, expected in early May of next year.

14. While the Kyrgyz government expressed an interest in joining the Belarus-Kazakhstan-Russia customs union, timing of accession remains uncertain. Kyrgyz authorities have expressed concern that premature accession to the customs union may entail job losses in the trade sector, which employs a significant share of the local population. In the format of working level meetings with the customs union secretariat, both procedural issues related to the Kyrgyz Republic's WTO membership and options for mitigation of economic consequences from the accession are being discussed.

15. The authorities are contemplating the establishment of a development bank to encourage the development of underserved sectors of the economy. The authorities

have committed to consult closely with Fund staff and other development partners once a proposal is available and will ensure that any such institution is in line with their program commitments (see LOI ¶9).

III. PROGRAM ISSUES

16. Program design and modification of performance criteria. The review schedule and phasing of disbursements is outlined in Table 10. New quantitative performance criteria (QPC) and indicative targets for end-June and indicative targets for end-September and end-December 2012 have been proposed (see LOI Table 1). The authorities are requesting an upward modification of the QPC on the NBKR's net international reserves for end-December 2011 reflecting higher-than-expected foreign-exchange inflows with the subsequent modifications in the QPC on the NBKR's net domestic assets. In addition, they are requesting an upward modification of the QPC on the general government overall deficit targets for end-December 2011 to reflect the advancement of the foreign-financed energy infrastructure project. Moreover, in light of the successful renegotiation of the borrowing terms on the first phase of this project (in the amount of US\$208 million), the authorities are requesting a downward modification of the ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector. The structural conditionality—existing and proposed—is summarized in LOI Table 2. The new structural benchmarks aim to support the authorities' PFM reform efforts.

17. Program monitoring will continue to be performed on a semi-annual basis. The second review will be based on continuous and end-December 2011 QPC and the third review on continuous and end-June 2012 QPC. Structural conditionality will focus on macro-critical areas, particularly public financial management reform, public debt management, completion of problem bank resolution, and strengthening bank resolution legal framework and safeguards (see LOI Tables 1 and 2).

18. Financing. The program is fully financed for 2011 and 2012. The ECF will fill the residual balance of payments gap. As requested by the authorities and envisaged at the approval of the arrangement, the second disbursement will be directed to the budget.

Text Table 2. Kyrgyz Republic: Balance of Payment Financing Gaps, 2011–14

	2011		2012		2013		2014	
	US\$ Mn	Percent of GDP	US\$ Mn	Percent of GDP	US\$ Mn	Percent of GDP	US\$ Mn	Percent of GDP
Financing Gap	243.9	4.5	163.8	2.7	136.7	2.1	108.6	1.5
Identified budget support	214.1	3.9	133.5	2.2	-	-	-	-
<i>World Bank</i>	30.0	0.5	30.0	0.5	-	-	-	-
<i>Asian Development Bank</i>	40.6	0.7	20.0	0.3	-	-	-	-
<i>EURASEC Anti Crisis Fund</i>	106.7	1.9	40.0	0.7	-	-	-	-
<i>European Union</i>	16.8	0.3	43.5	0.7	-	-	-	-
<i>Other</i>	20.0	0.4	-	-	-	-	-	-
Unidentified budget support	-	-	-	-	106.5	1.6	93.5	1.3
IMF ECF disbursement	29.8	0.5	30.3	0.5	30.2	0.5	15.1	0.2

Source: Kyrgyz authorities, and Fund staff estimates.

19. **The recently completed safeguards assessment update highlighted some areas for improvement in NBKR operations.** The update with respect to the new ECF was completed on October 28, 2011. The assessment concluded that the NBKR has established important safeguards in financial reporting, external and internal audits. While the chairperson is accountable to parliament, governance arrangements need to be strengthened by establishing independent board oversight and more effective reporting by the audit committee that became operational following the 2009 assessment. The proposed new Banking Code also presents an opportunity to strengthen institutional autonomy and giving the NBKR sole responsibility for the governance of official foreign exchange reserves. Based on the assessment's recommendations, amendments to the law on NBKR, which will be prepared as part of the ongoing work on the new Banking Code, will include provisions on establishing the NBKR's sole authority to hold and manage official foreign reserves and an extended term of engagement for the NBKR external auditors (see structural benchmarks, LOI ¶12).

IV. STAFF APPRAISAL

20. **Strong adherence to the policies agreed under the Fund-supported program has played a pivotal role in achieving post-conflict economic recovery and macroeconomic stabilization.** Real growth was close to 9 percent in the first nine months of 2011, broad-based, and one of the highest in the Commonwealth of Independent States (CIS), albeit starting from a low base. As a result, fiscal revenues have improved markedly. Inflation, which exceeded 20 percent for a few months and was the highest in the region, has declined to 9.5 percent as of October 2011. Moreover, financial sector indicators have been improving gradually and the banking sector has resumed growth.

21. **Better governance and institutions are essential for a continued strong economic performance in the medium term.** Combating corruption and creating a vibrant public service, ensuring compliance with the regulatory framework, and building strong key public institutions will remove significant barriers to growth. Staff stands ready to discuss with the authorities the creation of a development bank, to ensure that any such institution is in line with the ECF-supported program and will not jeopardize macro-financial stability. The setup of the development bank should be in line with international best practice to avoid recent negative experience with similar development vehicles.

22. **The 2011 budget reflects election year priorities; going forward, fiscal consolidation should ensure restraint in current spending.** Large increases in wages and pensions this year have helped to mitigate social tensions and contributed to fostering political stability. In the medium term, the authorities will need to withstand popular pressures and limit current spending, while beefing up investments in public infrastructure, which have long-term growth effects. Moreover, given the uncertain global economic outlook employing conservative budgeting principles is needed to ensure fiscal

sustainability. Such an approach will allow the authorities to avoid painful spending adjustment later in the event that external risks materialize. This will also help maintain sufficient flexibility to respond to adverse shocks.

23. **Tight monetary policy is warranted to counteract this year's pre-election spending and strong remittance inflows.** Although headline inflation is on a firm downward trajectory, the NBKR needs to avoid excessive money growth prompted by fiscal spending and foreign exchange inflows. Moreover, close coordination between the monetary and fiscal authorities will be important to ensure a smooth implementation of monetary targets.

24. **Bank supervision needs to be strengthened and heightened vigilance is needed to monitor potentially vulnerable banks.** This in particular refers to the state-owned SSC bank, whose assets continue to grow rapidly due in part to the directed lending to the south following last year's events, but closer monitoring of other systemically important banks, including those with foreign ownership, is also needed. Resolution of Zalkar bank in line with program commitments is an important test to restore credibility in the system and improve investor confidence. The planned legal reforms will help to remove shortcomings in the bank resolution framework. Banking supervision capacity needs to be strengthened through increased resources and training.

25. **The Kyrgyz Republic maintains a multiple currency practice (MCP), which predates the arrangement, arising from the use of the official exchange rate for government transactions.** The official rate may differ by more than 2 percent from market rates because it is based on the average transaction weighted rate of the preceding day. In practice, the official and market rates have never differed by more than 2 percent. Staff does not recommend approval of this MCP.

26. **Staff recommends completion of the first review and approval of the request for modification of the performance criteria for end-December 2011.** Policies for the remainder of 2011 and 2012 are appropriate to achieve the program's objectives.

Table 1. Kyrgyz Republic: Selected Economic Indicators, 2009–16

	2009	2010	2011	2012	2013	2014	2015	2016
	Act.	Prel.			Proj.			
Nominal GDP (in billions of soms)	201.2	212.2	258.9	292.6	326.1	367.1	408.4	451.6
Nominal GDP (in millions of U.S. dollars)	4,683	4,615	5,480	6,087	6,587	7,198	7,775	8,347
Real GDP (growth in percent)	2.9	-1.4	7.0	5.5	5.5	5.0	5.0	5.0
Nongold real GDP (growth in percent)	3.4	-2.1	6.8	5.3	5.8	5.0	5.0	5.0
GDP per capita (in U.S. dollars)	864	843	991	1,089	1,167	1,263	1,351	1,436
Consumer prices (12-month percent change, eop)	0.0	18.9	7.5	7.5	7.5	7.1	6.0	6.0
Consumer prices (12-month percent change, average)	6.8	7.8	16.9	6.0	7.2	7.5	6.6	6.0
Investment and savings (in percent of GDP)								
Investment	23.0	24.9	26.7	26.8	26.7	25.1	25.6	24.7
Public	5.0	5.6	7.3	7.2	7.0	5.2	5.6	4.4
Private	17.9	19.3	19.4	19.5	19.7	19.9	20.0	20.3
Savings	23.6	17.7	19.3	20.2	19.9	19.9	21.5	21.4
Public	3.8	-0.4	-1.0	0.0	0.0	0.1	1.6	1.7
Private	19.8	18.1	20.3	20.1	19.9	19.8	19.9	19.6
Savings-investment balance	0.7	-7.2	-7.3	-6.6	-6.8	-5.2	-4.1	-3.3
General government finances (in percent of GDP) 1/								
Total revenue and grants	32.1	31.7	33.6	32.7	31.7	31.2	33.2	33.3
Of which: Tax revenue	22.2	23.2	24.0	25.1	25.4	25.5	25.6	25.7
Total expenditure (including net lending)	36.1	38.1	41.9	39.6	38.7	36.3	37.2	36.0
Of which: Current expenditure	28.4	32.2	34.6	32.6	31.7	31.0	31.6	31.5
Capital expenditure	5.0	5.6	7.3	7.2	7.0	5.2	5.6	4.4
Overall fiscal balance	-3.5	-6.5	-8.3	-6.9	-7.0	-5.1	-4.0	-2.7
Primary balance	-2.7	-5.6	-7.3	-5.8	-6.0	-4.2	-3.3	-2.0
Primary balance excluding grants	-7.8	-8.6	-10.7	-8.8	-7.6	-5.2	-4.5	-3.2
Overall balance excluding energy infrastructure projects	-3.5	-6.5	-7.6	-5.4	-4.9	-3.8	-2.8	-2.7
Total public debt 2/	58.0	62.6	54.2	54.1	55.9	55.1	55.3	53.5
Banking sector								
Reserve money (percent change, eop)	18.9	18.4	21.6	18.7	18.6	18.4	18.0	17.7
Broad money (percent change, eop)	20.9	21.1	20.9	20.0	19.9	19.6	19.2	18.9
Credit to private sector (percent change, eop)	-2.8	6.3	21.6	17.7	21.2	19.6	20.8	21.5
Credit to private sector (in percent of GDP)	12.9	13.0	12.9	13.5	14.7	15.6	16.9	18.6
Velocity of broad money 3/	3.5	3.1	3.1	2.9	2.7	2.5	2.4	2.2
Interest rate 4/	1.9	5.5	...	...	...	...	...	...
External sector								
Current account balance (in percent of GDP)	0.7	-7.2	-7.3	-6.6	-6.8	-5.2	-4.1	-3.3
Export of goods and services (in millions of U.S. dollars)	2,695	2,526	3,175	3,551	3,825	4,363	4,854	5,406
Export growth (percent change)	-11.3	-6.3	25.7	11.8	7.7	14.1	11.3	11.4
Import of goods and services (in millions of U.S. dollars)	3,683	3,905	5,067	5,594	6,107	6,701	7,436	8,137
Import growth (percent change)	-22.4	6.0	29.8	10.4	9.2	9.7	11.0	9.4
Gross International reserves (in millions of U.S. dollars)	1,584	1,716	1,944	2,127	2,284	2,448	2,689	2,878
Gross reserves (months of next year imports, eop)	4.9	4.1	4.2	4.2	4.1	4.0	4.0	4.0
External public debt outstanding (in percent of GDP)	52.8	57.3	49.0	48.2	49.3	48.1	47.7	45.3
External public debt service-to-export ratio (in percent)	3.2	3.6	2.8	2.5	2.3	2.3	2.1	2.3
Memorandum items:								
Exchange rate (soms per U.S. dollar, average)	43.0	46.0	...	...	...	...	...	...
Real effective exchange rate (2005=100) (average)	117.8	112.1	...	...	...	...	...	...
Gold related tax receipts of the general government (percent of GDP)	1.3	2.2	...	...	...	...	...	...

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

1/ General government comprises State Government, Social Fund and Development Fund (starting from September 2009) finances. State government comprises central and local governments.

2/ Calculated at end-period exchange rates.

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

4/ Interest rate on 3-month treasury bills.

Table 2. Kyrgyz Republic: Balance of Payments, 2009–16
(In millions of U.S. dollars)

	2009	2010	2011	2012	2013	2014	2015	2016
	Act.	Prel.			Proj.			
Current account balance 1/	30	-332	-401	-401	-451	-373	-322	-278
Excluding transfers	-1,177	-1,723	-2,117	-2,371	-2,638	-2,910	-3,037	-3,264
Trade balance	-978	-1,148	-1,674	-1,809	-2,091	-2,214	-2,483	-2,721
Exports, fob	1,835	1,833	2,331	2,637	2,788	3,115	3,407	3,703
CIS countries	894	838	1,040	1,123	1,218	1,365	1,482	1,587
Of which: energy products	180	74	88	89	97	102	110	115
Of which: Re-exports of consumer goods	141	54	94	103	111	73	41	18
Non-CIS countries	941	995	1,290	1,514	1,570	1,750	1,924	2,117
Of which: Gold	529	668	945	1,138	1,148	1,219	1,295	1,375
Of which: Re-exports of oil products	46	43	0	0	0	0	0	0
Imports, fob	2,814	2,981	4,005	4,446	4,879	5,329	5,890	6,425
CIS countries	1,594	1,590	2,238	2,269	2,379	2,606	2,846	3,079
Of which: Energy (including for re-exports)	722	772	1,152	1,165	1,211	1,292	1,379	1,471
Non-CIS countries	1,220	1,391	1,767	2,177	2,500	2,723	3,043	3,346
Of which: Goods for re-exports	128	49	86	93	101	66	37	16
Services	-9	-231	-218	-235	-191	-124	-99	-10
Receipts	860	693	844	913	1,037	1,248	1,448	1,702
Payments	-869	-924	-1,062	-1,148	-1,228	-1,372	-1,546	-1,712
Income	-190	-344	-225	-328	-356	-572	-455	-533
Interest payments	-44	-36	-54	-39	-47	-54	-62	-68
Other net income	-146	-308	-171	-289	-309	-518	-393	-465
Current Transfers (net) 1/	1,208	1,391	1,716	1,970	2,187	2,537	2,715	2,986
Of which: Private	1,013	1,313	1,707	1,972	2,188	2,539	2,716	2,988
Capital Account	14	10	279	16	-31	-56	-21	-19
Official	84	129	369	106	59	34	69	71
Private	-70	-120	-90	-90	-90	-90	-90	-90
Financial account	376	594	249	423	524	501	537	459
Commercial banks	-106	-4	-20	-15	-15	-15	-15	-15
Medium- and long-term loans, net	283	81	-109	141	235	187	219	124
Disbursement 1/	408	230	242	293	365	311	351	292
Of which: Loan financed PIP	70	150	144	138	146	122	140	161
Of which: Energy and other investments financed by China and Eurasec	...	0	40	90	138	90	92	0
Amortization	-125	-149	-352	-152	-130	-123	-132	-168
Foreign direct investment	190	438	378	297	304	329	333	350
Portfolio investment 2/	-21	164	0	0	0	0	0	0
Other (including SDR allocation)	131	0	0	0	0	0	0	0
Net short-term flows	-100	-75	0	0	0	0	0	0
Errors and omissions	-130	-169	-122	0	0	0	0	0
Overall balance	291	102	5	37	42	72	194	162
Financing	-291	-102	-5	-37	-42	-72	-194	-162
Net international reserves	-291	-102	-250	-201	-178	-181	-263	-210
Gross official reserves (-, increase)	-293	-112	-228	-183	-157	-163	-241	-189
IMF (net)	2	10	-21	-18	-21	-17	-22	-21
Exceptional Financing (including arrears)	0	0	0	0	0	0	0	0
Financing gap 1/	0	0	244	164	137	109	70	47
<i>Memorandum items:</i>								
GDP (in millions of U.S. dollars)	4,683	4,615	5,480	6,087	6,587	7,198	7,775	8,347
Current account balance (percent of GDP)	0.7	-7.2	-7.3	-6.6	-6.8	-5.2	-4.1	-3.3
Current account balance excl. official transfers (percent of GDP) 1/	-3.5	-8.9	-7.5	-6.6	-6.8	-5.2	-4.1	-3.3
Growth of exports of GNFS (volume, percent)	-3.1	-20.1	9.5	9.3	8.5	8.0	7.1	7.1
Growth of imports of GNFS (volume, percent)	-13.2	-15.8	11.5	11.5	10.1	7.2	8.6	7.1
Terms of trade (goods, percentage change)	4.0	-8.8	-4.6	2.0	0.4	0.7	0.1	0.1
Gold price (U.S. dollars per ounce)	973	1,225	1,582	1,758	1,760	1,790	1,830	1,880
Fuel Price Index (2005=100)	116.5	146.7	190.0	183.2	181.9	178.5	176.6	175.1
External Public Debt (in millions of U.S.dollars) 3/	2,472	2,644	2,687	2,935	3,250	3,461	3,713	3,784
As percent of GDP	52.8	57.3	49.0	48.2	49.3	48.1	47.7	45.3
External public debt service-to-exports ratio 3/ 4/	3.2	3.6	2.8	2.5	2.3	2.3	2.1	2.3
Gross reserves 5/	1,584	1,716	1,944	2,127	2,284	2,448	2,689	2,878
In months of subsequent year's imports	4.9	4.1	4.2	4.2	4.1	4.0	4.0	4.0

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

1/ Projected budget support is included in the financing gap.

2/ Includes return of KRDF investments abroad.

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, 2009–12

	2009		2010				2011				2012			
	Dec. Act.		Mar. Act.	Jun. Act.	Sep. Act.	Dec. Act.	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Proj.	Mar. Proj.	Jun. Proj.	Sep. Proj.	Dec. Proj.
	(In millions of soms)													
Net foreign assets	54,308	58,115	57,626	63,026	65,127	69,733	71,921	69,306	78,065	75,777	78,604	82,309	88,726	
Net international reserves	62,329	66,129	65,657	71,135	73,475	78,297	80,123	77,365	86,520	84,296	87,185	90,954	97,435	
Long-term foreign liabilities	-8,154	-8,138	-8,175	-8,501	-8,482	-8,761	-8,368	-8,213	-8,616	-8,680	-8,745	-8,810	-8,874	
Other foreign assets	133	124	144	392	134	197	165	154	161	162	164	165	166	
Net domestic assets	-13,248	-18,760	-16,620	-18,920	-16,529	-24,617	-21,948	-18,092	-18,949	-19,005	-18,151	-17,986	-18,551	
Net claims on general government	-1,644	-6,878	-5,931	-5,147	-2,053	-5,850	-6,258	-4,719	272	-331	831	1,412	1,141	
<i>Of which:</i> Total government deposits (including FX deposits)	-3,976	-4,415	-2,566	-10,311	-7,243	-10,904	-10,721	-9,273	-5,218	-5,866	-4,643	-4,107	-4,381	
<i>Of which:</i> Securitized government debt	2,908	3,164	2,995	3,022	3,027	2,873	2,380	2,471	3,300	3,328	3,250	3,278	3,264	
Claims on commercial banks	-1,264	-854	-188	52	87	-1,575	-1,290	-1,552	-2,600	-2,238	-1,922	-1,692	-1,317	
<i>Of which:</i> NBKR Notes	-1,060	-986	-200	-335	-668	-1,163	-1,088	-1,362	-2,394	-2,034	-1,713	-1,478	-908	
Claims of other financial corporations	-1,476	-1,477	-1,545	-1,027	-523	-687	-491	-423	-189	-209	-229	-249	-250	
Other items net	-8,864	-9,551	-8,956	-12,797	-14,040	-16,505	-13,909	-11,398	-16,432	-16,227	-16,830	-17,456	-18,125	
Reserve money	41,061	39,355	41,005	44,107	48,597	45,117	49,973	51,213	59,116	56,772	60,453	64,323	70,175	
Currency in circulation	35,739	34,510	36,943	39,992	43,290	40,846	45,544	46,568	53,754	51,282	54,606	58,103	62,455	
Commercial banks' reserves	5,322	4,845	4,063	4,115	5,307	4,270	4,429	4,646	5,363	5,491	5,847	6,221	7,720	
<i>Of which:</i> Required reserves	3,526	4,057	2,270	2,452	2,174	2,737	2,810	3,026	2,919	3,166	3,426	3,761	3,663	
	(Contribution to reserve money growth, in percent) 1/													
Net foreign assets	42.4	9.3	8.1	21.2	26.3	9.5	14.0	8.6	26.6	-3.9	0.9	7.2	18.0	
Net domestic assets	-23.5	-13.4	-8.2	-13.8	-8.0	-16.6	-11.2	-3.2	-5.0	-0.1	1.4	1.6	0.7	
<i>Of which:</i> Net claims on general government	-6.4	-12.7	-10.4	-8.5	-1.0	-7.8	-8.7	-5.5	4.8	-1.0	0.9	1.9	1.5	
Reserve money	18.9	-4.2	-0.1	7.4	18.4	-7.2	2.8	5.4	21.6	-4.0	2.3	8.8	18.7	
<i>Of which:</i> Currency in circulation	14.3	-3.0	2.9	10.4	18.4	-5.0	4.6	6.7	21.5	-4.2	1.4	7.4	14.7	
<i>Memorandum items:</i>														
Reserve money (12-month change, in percent)	18.9	32.9	20.6	21.7	18.4	14.6	21.9	16.1	21.6	25.8	21.0	25.6	18.7	
Gross International Reserves (in millions of U.S. dollars)	1,584	1,617	1,564	1,676	1,716	1,798	1,853	1,895	1,944	1,880	1,937	1,997	2,127	
Net international reserves (in millions of U.S. dollars)	1,414	1,462	1,415	1,525	1,526	1,622	1,719	1,663	1,761	1,701	1,748	1,813	1,932	
Exchange rate, Som per USD, end of period	44.1	45.2	46.4	46.6	47.1	47.2	45.2	45.0	...	...	...	...	...

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

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

Table 4. Kyrgyz Republic: Monetary Survey, 2009–12

	2009		2010				2011				2012			
	Dec. Act.	Mar. Act.	Jun. Act.	Sept. Act.	Dec. Act.	Mar. Act.	Jun. Act.	Sept. Act.	Dec. Proj.	Mar. Proj.	Jun. Proj.	Sept. Proj.	Dec. Proj.	
	(In millions of soms)													
Net foreign assets	60,114	63,697	61,419	69,254	71,425	76,377	78,461	76,686	85,328	83,182	86,104	89,954	96,710	
<i>Of which:</i> Long-term foreign liabilities (-)	-2,291	-2,343	-2,380	-2,386	-2,386	-2,387	-2,271	-2,253	-2,364	-2,381	-2,399	-2,417	-2,435	
Net domestic assets	-2,988	-7,364	-4,287	-6,345	-2,217	-9,729	-5,397	-187	-1,679	841	3,971	7,175	3,641	
Domestic credit	19,960	15,791	16,986	19,017	23,379	20,361	22,082	26,006	36,347	36,363	40,296	44,126	45,161	
Net claims on general government	-5,992	-10,927	-9,649	-8,538	-4,195	-7,997	-8,205	-6,009	2,823	2,514	4,292	5,944	5,698	
Credit to the rest of the economy	25,952	26,718	26,635	27,555	27,575	28,358	30,286	32,016	33,524	33,849	36,004	38,182	39,463	
<i>Of which:</i> In forex	15,474	14,980	14,592	14,633	14,599	14,758	15,305	16,250	16,874	17,020	18,086	19,161	20,915	
Other items net	-22,948	-23,155	-21,274	-25,362	-25,596	-30,090	-27,479	-26,193	-38,026	-35,522	-36,325	-36,951	-41,520	
Broad money (M2X)	57,126	56,333	57,132	62,909	69,208	66,648	73,064	76,500	83,649	84,023	90,075	97,128	100,351	
<i>Of which:</i>														
Broad money, excluding forex deposits (M2)	43,490	42,767	45,916	49,387	53,745	51,159	56,320	58,722	65,692	64,617	69,153	74,244	78,428	
Currency held by the public	33,882	32,563	35,341	38,389	41,471	39,014	43,460	44,236	51,212	48,841	52,008	55,338	59,649	
Total domestic currency deposit liabilities	9,608	10,204	10,575	10,998	12,274	12,145	12,860	14,486	14,479	15,775	17,145	18,906	18,779	
	(Contribution to broad money growth, in percent) 1/													
Net foreign assets	43.0	6.3	2.3	16.0	19.8	7.2	10.2	7.6	20.1	-2.6	0.9	5.5	13.6	
Net domestic assets	-26.5	-7.7	-2.3	-5.9	1.3	-10.9	-4.6	2.9	0.8	3.0	6.8	10.6	6.4	
Domestic credit	-8.3	-7.3	-5.2	-1.7	6.0	-4.4	-1.9	3.8	18.7	0.0	4.7	9.3	10.5	
Net claims on general government	-6.7	-8.6	-6.4	-4.5	3.1	-5.5	-5.8	-2.6	10.1	-0.4	1.8	3.7	3.4	
Credit to the rest of the economy	-1.6	1.3	1.2	2.8	2.8	1.1	3.9	6.4	8.6	0.4	3.0	5.6	7.1	
Other items (net)	-18.2	-0.4	2.9	-4.2	-4.6	-6.5	-2.7	-0.9	-18.0	3.0	2.0	1.3	-4.2	
Broad money (M2X)	20.9	-1.4	0.0	10.1	21.1	-3.7	5.6	10.5	20.9	0.4	7.7	16.1	20.0	
<i>Of which:</i>														
Broad money, excluding forex deposits (M2)	13.8	-1.3	4.2	10.3	18.0	-3.7	3.7	7.2	17.3	-1.3	4.1	10.2	15.2	
Currency held by the public	9.5	-2.3	2.6	7.9	13.3	-3.5	2.9	4.0	14.1	-2.8	1.0	4.9	10.1	
Total deposit liabilities	4.2	1.0	1.7	2.4	4.7	-0.2	0.8	3.2	3.2	1.5	3.2	5.3	5.1	
<i>Memorandum items:</i>														
Broad money (M2X) (12-month change, in percent)	20.9	37.0	22.6	27.0	21.1	18.3	27.9	21.6	20.9	26.1	23.3	27.0	20.0	
Credit to the rest of the economy (12-month change, in percent)	-2.8	-0.2	3.8	7.8	6.3	6.1	13.7	16.2	21.6	19.4	18.9	19.3	17.7	
Credit to the rest of the economy (in percent of GDP)	12.9	12.9	12.8	13.2	13.0	12.9	12.9	12.8	12.9	12.7	13.1	13.4	13.5	
M2X velocity 2/	3.5	3.7	3.7	3.3	3.1	3.3	3.2	3.3	3.1	3.2	3.0	2.9	2.9	
M2X multiplier	1.39	1.43	1.39	1.43	1.42	1.48	1.46	1.49	1.41	1.48	1.49	1.51	1.43	
Dollarization indicators (in percent)														
Loan dollarization	59.6	56.1	54.8	53.1	52.9	52.0	50.5	50.4	50.3	50.3	50.2	50.2	50.1	
Deposit dollarization	58.7	57.1	51.5	55.1	55.7	56.0	56.6	56.0	55.4	55.2	55.0	54.8	53.9	

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

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

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

Table 5. Kyrgyz Republic: General Government Finances, 2009–14

	2009 1/		2010		2011					2012					2013		2014	
	Act.	Year Act.	Q1 Act.	Q2 Act.	Q3 Proj.	Q4 Proj.	Year Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	Year Proj.	Year Proj.				
															Year Proj.	Year Proj.		
(In millions of soms, unless indicated otherwise)																		
Total revenue and grants	64,678	67,293	18,887	22,922	22,187	22,934	86,931	19,937	24,085	23,680	27,859	95,560	103,251	114,508				
Total revenue	54,431	61,117	16,455	21,575	20,677	19,257	77,965	18,055	20,897	22,212	25,811	86,975	98,273	110,869				
Current revenue	53,749	60,230	16,221	21,437	20,497	18,864	77,020	17,890	20,725	21,977	25,440	86,032	97,246	109,742				
Tax revenue	44,645	49,233	13,987	15,042	17,093	15,967	62,089	15,666	17,435	18,822	21,516	73,439	82,769	93,611				
Income tax	10,261	13,110	4,864	3,456	4,091	4,507	16,918	4,915	4,558	4,676	5,544	19,692	22,265	25,086				
VAT 1/	13,467	14,602	3,806	4,742	5,738	4,484	18,771	4,060	5,220	5,758	6,664	21,703	24,517	27,594				
Excises	1,669	1,689	421	528	647	661	2,257	681	766	803	827	3,077	3,748	4,133				
Customs	4,139	4,348	1,135	1,575	1,949	1,326	5,984	1,311	1,821	2,051	2,438	7,621	8,598	9,993				
Land tax	917	799	189	201	203	318	911	182	173	283	410	1,047	1,204	1,445				
Road tax and Emergency Fund 1/	403	42	0	3	1	-4	0	0	0	0	0	0	0	0				
Retail sales tax 1/	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
New turnover tax 1/	3,933	3,699	920	979	1,055	1,819	4,773	1,183	1,334	1,501	1,639	5,657	6,264	7,046				
Social Fund (excl. gov. contribution)	8,547	9,870	2,393	2,929	3,117	2,827	11,266	3,055	3,185	3,305	3,767	13,312	14,642	16,554				
Other	1,309	1,073	260	628	292	28	1,209	278	379	445	227	1,330	1,529	1,759				
Nontax revenue	9,104	10,997	2,234	6,396	3,404	2,897	14,931	2,224	3,290	3,155	3,923	12,592	14,476	16,131				
Capital revenue	682	887	234	138	180	393	945	166	172	235	371	943	1,028	1,127				
Grants	10,247	6,176	2,432	1,346	1,510	3,677	8,966	1,881	3,188	1,468	2,048	8,585	4,978	3,639				
Program grants	7,653	3,753	1,588	243	562	1,694	4,087	1,414	2,148	649	275	4,486	3,095	2,968				
PIP grants	2,595	2,423	844	1,103	949	1,983	4,879	467	1,040	819	1,773	4,099	1,884	671				
Total expenditure (including net lending and KRDF)	72,561	80,741	16,165	25,440	26,970	39,944	108,519	20,414	30,107	29,870	35,360	115,751	126,080	133,082				
Total expenditure (excluding net lending)	71,599	80,175	16,237	25,479	27,054	39,525	108,296	20,259	30,120	30,113	36,090	116,582	126,080	133,082				
Current expenditure	57,076	68,246	14,617	21,199	22,913	30,723	89,453	18,168	24,200	24,539	28,511	95,419	103,338	113,975				
Wages	14,669	16,903	3,709	5,970	5,521	13,156	28,356	5,796	8,878	8,196	8,971	31,841	35,025	37,652				
Transfers and subsidies	6,850	9,313	2,456	2,781	2,487	2,769	10,492	1,811	2,065	1,966	2,510	8,351	9,080	9,906				
Social Fund expenditures	13,361	18,993	4,748	5,503	6,108	7,755	24,115	6,689	7,269	7,529	8,370	29,858	33,164	37,118				
Interest	1,612	1,812	482	1,139	653	519	2,793	932	639	1,023	525	3,119	3,165	3,305				
Purchases of other goods and services	20,583	21,226	3,222	5,806	8,144	6,524	23,697	2,941	5,350	5,824	8,135	22,250	22,904	25,994				
Capital expenditure	10,159	11,929	1,620	4,280	4,141	8,802	18,843	2,090	5,920	5,573	7,579	21,163	22,741	19,107				
Domestically financed capital expenditure	4,582	3,310	181	409	906	4,039	5,535	574	1,162	2,395	1,954	6,085	6,777	7,646				
Foreign financed PIP loans	2,982	6,196	595	2,768	2,286	2,779	8,429	1,049	3,717	2,360	3,852	10,978	14,081	10,790				
Energy infrastructure projects 2/	...	...	0	0	1,402	407	1,809	475	958	1,447	1,458	4,339	6,833	4,590		
Foreign financed PIP grants	2,595	2,423	844	1,103	949	1,983	4,879	467	1,040	819	1,773	4,099	1,884	671				
Net lending 3/	962	565	-72	-39	-85	419	223	155	-13	-242	-731	-831	0	0				
Discrepancy	830	-345	-50	7	592	-550	0	1	-3	1	2	0	0	0				
Primary balance excluding grants	-15,689	-18,157	722	-2,718	-5,047	-20,717	-27,761	-1,426	-8,574	-6,635	-9,022	-25,657	-24,642	-18,908				
Primary balance	-5,442	-11,981	3,154	-1,372	-3,537	-17,040	-18,795	455	-5,386	-5,167	-6,974	-17,072	-19,663	-15,269				
Overall balance	-7,053	-13,792	2,672	-2,511	-4,190	-17,559	-21,588	-477	-6,025	-6,190	-7,499	-20,191	-22,828	-18,574				
Overall balance excluding energy infrastructure projects	-7,053	-13,792	2,672	-2,511	-2,788	-17,152	-19,779	-1	-5,067	-4,743	-6,041	-15,852	-15,996	-13,984				
Total financing	7,053	13,792	-2,672	2,511	4,190	17,559	21,588	477	6,025	6,190	7,499	20,191	22,828	18,574				
External financing	14,877	6,818	1,155	2,686	1,995	8,475	14,310	736	3,748	2,038	4,819	11,341	14,651	10,361				
Public investment program (PIP)	2,982	6,196	595	2,768	2,286	2,779	8,429	1,049	3,717	2,360	3,852	10,978	14,081	10,790				
Program support loans	13,367	2,282	810	696	0	6,398	7,905	0	790	0	1,944	2,734	2,797	2,371				
Total amortization	-1,472	-1,660	-251	-779	-292	-702	-2,023	-313	-760	-321	-978	-2,372	-2,228	-2,801				
Domestic financing	-2,839	918	-3,827	-179	2,195	8,832	7,021	-309	1,777	1,652	-246	2,874	4,495	4,418				
NBKR	-1,827	-1,085	-3,797	-408	1,539	4,990	2,324	-603	1,162	580	-271	868	600	0				
Commercial banks	-1,160	2,205	-5	200	656	3,842	4,694	294	615	1,072	25	2,006	3,895	4,418				
Nonbank	148	-202	-26	29	0	0	3	0	0	0	0	0	0	0				
Privatization	-253	173	0	5	0	253	257	50	500	2,500	2,926	5,976	3,682	3,795				
Use of KRDF investments abroad 4/	-4,732	5,883	0	0	0	0	0	0	0	0	0	0	0	0				

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 reduced from 20 to 12 percent, and a new turnover tax introduced.

Median turnover tax rate was reduced from 2.5 percent to 2 percent from January 1, 2010.

2/ Foreign financed energy infrastructure projects have been reclassified from net lending to PIP loans.

3/ Includes costs of SSC bank capitalization of KGS 400 million in 2011.

4/ Negative numbers indicate outflow of assets overseas.

Table 6. Kyrgyz Republic: General Government Finances, 2009–14

	2009	2010	2011					2012					2013	2014
	Act.	Year Act.	Q1 Act.	Q2 Act.	Q3 Proj.	Q4 Proj.	Year Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	Year Proj.	Year Proj.
	(In percent of GDP)													
Total revenue and grants	32.1	31.7	40.5	40.3	25.9	32.9	33.6	35.3	36.8	26.9	33.7	32.7	31.7	31.2
Total revenue	27.1	28.8	35.3	37.9	24.1	27.7	30.1	32.0	31.9	25.3	31.2	29.7	30.1	30.2
Current revenue	26.7	28.4	34.8	37.7	23.9	27.1	29.7	31.7	31.7	25.0	30.7	29.4	29.8	29.9
Tax revenue	22.2	23.2	30.0	26.4	19.9	22.9	24.0	27.7	26.6	21.4	26.0	25.1	25.4	25.5
Income tax	5.1	6.2	10.4	6.1	4.8	6.5	6.5	8.7	7.0	5.3	6.7	6.7	6.8	6.8
VAT	6.7	6.9	8.2	8.3	6.7	6.4	7.3	7.2	8.0	6.5	8.1	7.4	7.5	7.5
Excises	0.8	0.8	0.9	0.9	0.8	0.9	0.9	1.2	1.2	0.9	1.0	1.1	1.1	1.1
Customs	2.1	2.0	2.4	2.8	2.3	1.9	2.3	2.3	2.8	2.3	2.9	2.6	2.6	2.7
Land tax	0.5	0.4	0.4	0.4	0.2	0.5	0.4	0.3	0.3	0.3	0.5	0.4	0.4	0.4
Road tax and Emergency Fund	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail sales tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New turnover tax	2.0	1.7	2.0	1.7	1.2	2.6	1.8	2.1	2.0	1.7	2.0	1.9	1.9	1.9
Social Fund (excluding government contribution)	4.2	4.7	5.1	5.1	3.6	4.1	4.4	5.4	4.9	3.8	4.6	4.5	4.5	4.5
Other	0.7	0.5	0.6	1.1	0.3	0.0	0.5	0.5	0.6	0.5	0.3	0.5	0.5	0.5
Nontax revenue	4.5	5.2	4.8	11.2	4.0	4.2	5.8	3.9	5.0	3.6	4.7	4.3	4.4	4.4
Capital revenue	0.3	0.4	0.5	0.2	0.2	0.6	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.3
Grants	5.1	2.9	5.2	2.4	1.8	5.3	3.5	3.3	4.9	1.7	2.5	2.9	1.5	1.0
Program grants	3.8	1.8	3.4	0.4	0.7	2.4	1.6	2.5	3.3	0.7	0.3	1.5	0.9	0.8
PIP grants	1.3	1.1	1.8	1.9	1.1	2.8	1.9	0.8	1.6	0.9	2.1	1.4	0.6	0.2
Total expenditure (including net lending and KRDF)	36.1	38.1	34.7	44.7	31.4	57.4	41.9	36.1	46.0	34.0	42.7	39.6	38.7	36.3
Total expenditure (excluding net lending)	35.6	37.8	34.9	44.8	31.5	56.8	41.8	35.9	46.0	34.2	43.6	39.8	38.7	36.3
Current expenditure	28.4	32.2	31.4	37.3	26.7	44.1	34.6	32.2	37.0	27.9	34.5	32.6	31.7	31.0
Wages	7.3	8.0	8.0	10.5	6.4	18.9	11.0	10.3	13.6	9.3	10.8	10.9	10.7	10.3
Transfers and subsidies	3.4	4.4	5.3	4.9	2.9	4.0	4.1	3.2	3.2	2.2	3.0	2.9	2.8	2.7
Social Fund expenditures	6.6	9.0	10.2	9.7	7.1	11.1	9.3	11.8	11.1	8.6	10.1	10.2	10.2	10.1
Interest	0.8	0.9	1.0	2.0	0.8	0.7	1.1	1.6	1.0	1.2	0.6	1.1	1.0	0.9
Purchases of other goods and services	10.2	10.0	6.9	10.2	9.5	9.4	9.2	5.2	8.2	6.6	9.8	7.6	7.0	7.1
Capital expenditure	5.0	5.6	3.5	7.5	4.8	12.6	7.3	3.7	9.0	6.3	9.2	7.2	7.0	5.2
Domestically financed capital expenditure	2.3	1.6	0.4	0.7	1.1	5.8	2.1	1.0	1.8	2.7	2.4	2.1	2.1	2.1
Foreign financed PIP loans	1.5	2.9	1.3	4.9	2.7	4.0	3.3	1.9	5.7	2.7	4.7	3.8	4.3	2.9
Energy infrastructure projects	0.0	0.0	0.0	0.0	1.6	0.6	0.7	0.8	1.5	1.6	1.8	1.5	2.1	1.3
Foreign financed PIP grants	1.3	1.1	1.8	1.9	1.1	2.8	1.9	0.8	1.6	0.9	2.1	1.4	0.6	0.2
Net lending	0.5	0.3	-0.2	-0.1	-0.1	0.6	0.1	0.3	0.0	-0.3	-0.9	-0.3	0.0	0.0
Discrepancy	0.4	-0.2	-0.1	0.0	0.7	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance excluding grants	-7.8	-8.6	1.6	-4.8	-5.9	-29.8	-10.7	-2.5	-13.1	-7.5	-10.9	-8.8	-7.6	-5.2
Primary balance	-2.7	-5.6	6.8	-2.4	-4.1	-24.5	-7.3	0.8	-8.2	-5.9	-8.4	-5.8	-6.0	-4.2
Overall balance	-3.5	-6.5	5.7	-4.4	-4.9	-25.2	-8.3	-0.8	-9.2	-7.0	-9.1	-6.9	-7.0	-5.1
Overall Balance excluding energy infrastructure projects	-3.5	-6.5	5.7	-4.4	-3.3	-24.6	-7.6	0.0	-7.7	-5.4	-7.3	-5.4	-4.9	-3.8
Total financing	3.5	6.5	-5.7	4.4	4.9	25.2	8.3	0.8	9.2	7.0	9.1	6.9	7.0	5.1
External financing	7.4	3.2	2.5	4.7	2.3	12.2	5.5	1.3	5.7	2.3	5.8	3.9	4.5	2.8
Public investment program (PIP)	1.5	2.9	1.3	4.9	2.7	4.0	3.3	1.9	5.7	2.7	4.7	3.8	4.3	2.9
Program support loans	6.6	1.1	1.7	1.2	0.0	9.2	3.1	0.0	1.2	0.0	2.3	0.9	0.9	0.6
Total amortization	-0.7	-0.8	-0.5	-1.4	-0.3	-1.0	-0.8	-0.6	-1.2	-0.4	-1.2	-0.8	-0.7	-0.8
Domestic financing	-1.4	0.4	-8.2	-0.3	2.6	12.7	2.7	-0.5	2.7	1.9	-0.3	1.0	1.4	1.2
NBKR	-0.9	-0.5	-8.2	-0.7	1.8	7.2	0.9	-1.1	1.8	0.7	-0.3	0.3	0.2	0.0
Commercial banks	-0.6	1.0	0.0	0.4	0.8	5.5	1.8	0.5	0.9	1.2	0.0	0.7	1.2	1.2
Nonbank	0.1	-0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization	-0.1	0.1	0.0	0.0	0.0	0.4	0.1	0.8	2.8	3.5	2.0	1.1	1.0	1.0
Use of KRDF investments abroad	-2.4	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Yearly GDP ratios are as a percent of annual GDP. Quarterly GDP ratios are as a percent of quarterly GDP.

Table 7. Kyrgyz Republic: State Government Finances, 2009–14

	2009	2010	2011					2012					2013	2014
	Act.	Year Act.	Q1 Act.	Q2 Act.	Q3 Proj.	Q4 Proj.	Year Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	Year Proj.	Year Proj.
	(In millions of soms, unless indicated otherwise)													
Total revenue and grants	55,719	57,165	16,460	19,951	18,979	19,967	75,358	16,789	20,808	20,283	24,000	81,879	88,222	97,547
Total revenue	45,471	50,989	14,029	18,605	17,468	16,289	66,392	14,908	17,620	18,814	21,952	73,294	83,243	93,908
Current revenue	45,159	50,360	13,828	18,509	17,380	16,037	65,754	14,835	17,540	18,672	21,673	72,720	82,603	93,188
Tax revenue	36,098	39,363	11,594	12,113	13,976	13,140	50,823	12,611	14,250	15,517	17,750	60,128	68,127	77,057
Income tax	10,261	13,110	4,864	3,456	4,091	4,507	16,918	4,915	4,558	4,676	5,544	19,692	22,265	25,086
VAT	13,467	14,602	3,806	4,742	5,738	4,484	18,771	4,060	5,220	5,758	6,664	21,703	24,517	27,594
Excises	1,669	1,689	421	528	647	661	2,257	681	766	803	827	3,077	3,748	4,133
Customs	4,139	4,348	1,135	1,575	1,949	1,326	5,984	1,311	1,821	2,051	2,438	7,621	8,598	9,993
Land tax	917	799	189	201	203	318	911	182	173	283	410	1,047	1,204	1,445
Road tax and Emergency Fund	403	42	0	3	1	-4	0	0	0	0	0	0	0	0
Retail sales tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New turnover tax	3,933	3,699	920	979	1,055	1,819	4,773	1,183	1,334	1,501	1,639	5,657	6,264	7,046
Other	1,309	1,073	260	628	292	28	1,209	278	379	445	227	1,330	1,529	1,759
Nontax revenue	9,061	10,997	2,234	6,396	3,404	2,897	14,931	2,224	3,290	3,155	3,923	12,592	14,476	16,131
Capital revenue	312	629	200	97	88	252	638	74	79	142	279	574	640	721
Grants	10,247	6,176	2,432	1,346	1,510	3,677	8,966	1,881	3,188	1,468	2,048	8,585	4,978	3,639
Program grants	7,653	3,753	1,588	243	562	1,694	4,087	1,414	2,148	649	275	4,486	3,095	2,968
PIP grants	2,595	2,423	844	1,103	949	1,983	4,879	467	1,040	819	1,773	4,099	1,884	671
Total expenditure (including net lending)	71,789	69,630	13,755	22,665	23,503	36,226	96,149	17,272	27,015	26,602	31,875	102,764	111,843	116,990
Total expenditure	70,826	69,064	13,827	22,704	23,588	35,807	95,926	17,118	27,028	26,844	32,606	103,595	111,843	116,990
Current expenditure	48,365	57,135	12,207	18,424	19,447	27,005	77,083	15,027	21,108	21,271	25,027	82,433	89,101	97,883
Wages and Social Fund contributions	16,911	19,110	4,144	6,789	6,254	15,326	32,512	6,672	10,234	9,324	10,478	36,708	40,974	44,143
Transfers and subsidies	6,850	9,313	2,456	2,781	2,487	2,769	10,492	1,811	2,065	1,966	2,510	8,351	9,080	9,906
Transfers to Social Fund	2,410	5,674	1,903	1,909	1,909	1,868	7,589	2,672	2,820	3,133	3,380	12,004	12,978	14,535
Interest	1,612	1,812	482	1,139	653	519	2,793	932	639	1,023	525	3,119	3,165	3,305
Purchases of other goods and services	20,583	21,226	3,222	5,806	8,144	6,524	23,697	2,941	5,350	5,824	8,135	22,250	22,904	25,994
Capital expenditure (including PIP)	10,159	11,929	1,620	4,280	4,141	8,802	18,843	2,090	5,920	5,573	7,579	21,163	22,741	19,107
Domestically financed capital expenditure	4,582	3,310	181	409	906	4,039	5,535	574	1,162	2,395	1,954	6,085	6,777	7,646
Foreign financed PIP loans	2,982	6,196	595	2,768	2,286	2,779	8,429	1,049	3,717	2,360	3,852	10,978	14,081	10,790
Energy infrastructure projects	0	0	0	0	1,402	407	1,809	475	958	1,447	1,458	4,339	6,833	4,590
Foreign financed PIP grants	2,595	2,423	844	1,103	949	1,983	4,879	467	1,040	819	1,773	4,099	1,884	671
Financial balance	-15,108	-11,899	2,633	-2,753	-4,609	-15,840	-20,569	-328	-6,220	-6,561	-8,606	-21,716	-23,621	-19,443
Net lending	962	565	-72	-39	-85	419	223	155	-13	-242	-731	-831	0	0
Transfer to the KRDF	12,302	0	0	0	0	0	0	0	0	0	0	0	0	0
Discrepancy	-156	330	65	-162	157	-60	0	1	-3	1	2	0	0	0
Primary balance	-14,614	-10,323	3,252	-1,737	-3,714	-15,800	-17,998	450	-5,571	-5,295	-7,349	-17,766	-20,456	-16,138
Primary balance excluding grants	-24,862	-16,499	820	-3,083	-5,224	-19,477	-26,964	-1,432	-8,759	-6,764	-9,397	-26,351	-25,434	-19,777
Overall balance	-16,226	-12,135	2,770	-2,876	-4,367	-16,319	-20,792	-482	-6,210	-6,318	-7,874	-20,885	-23,621	-19,443
Overall Balance excluding energy infrastructure projects	-16,226	-12,135	2,770	-2,876	-2,965	-15,912	-18,983	-7	-5,252	-4,871	-6,416	-16,546	-16,789	-14,854
Total financing	16,226	12,135	-2,770	2,876	4,367	16,319	20,792	482	6,210	6,318	7,874	20,885	23,621	19,443
External financing	14,877	6,818	1,155	2,686	1,995	8,475	14,310	736	3,748	2,038	4,819	11,341	14,651	10,361
Public investment program (PIP)	2,982	6,196	595	2,768	2,286	2,779	8,429	1,049	3,717	2,360	3,852	10,978	14,081	10,790
Program support loans	13,367	2,282	810	696	0	6,398	7,905	0	790	0	1,944	2,734	2,797	2,371
Total amortization	-1,472	-1,660	-251	-779	-292	-702	-2,023	-313	-760	-321	-978	-2,372	-2,228	-2,801
Domestic financing	1,602	-2,757	-3,926	186	2,372	7,592	6,224	-303	1,962	1,780	129	3,568	5,288	5,287
NBKR	794	-3,660	-3,797	-408	1,539	4,990	2,324	-603	1,162	580	-271	868	600	0
Commercial banks	659	1,106	-103	565	108	1,826	2,397	300	800	1,200	400	2,700	4,688	5,287
Nonbank	148	-202	-26	29	725	775	1,503	0	0	0	0	0	0	0
Use of KRDF resources	...	7,901	0	0	0	0	...	0	0	0	0	0	0	0
Privatization 1/	-253	173	0	5	0	253	257	50	500	2,500	2,926	5,976	3,682	3,795

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

1/ Negative number means unwinding of previous privatizations.

Table 8. Kyrgyz Republic: State Government Finances, 2009–14

	2009	2010		2011				2012					2013		2014
	Act.	Year Act.	Q1 Act.	Q2 Act.	Q3 Proj.	Q4 Proj.	Year Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	Year Proj.	Year Proj.	
	(In percent of GDP)														
Total revenue and grants	27.7	26.9	35.3	35.1	22.1	28.7	29.1	29.7	31.8	23.1	29.0	28.0	27.1	26.6	
Total revenue	22.6	24.0	30.1	32.7	20.4	23.4	25.6	26.4	26.9	21.4	26.5	25.0	25.5	25.6	
Current revenue	22.4	23.7	29.7	32.5	20.3	23.0	25.4	26.3	26.8	21.2	26.2	24.9	25.3	25.4	
Tax revenue	17.9	18.6	24.9	21.3	16.3	18.9	19.6	22.3	21.8	17.6	21.5	20.5	20.9	21.0	
Income tax	5.1	6.2	10.4	6.1	4.8	6.5	6.5	8.7	7.0	5.3	6.7	6.7	6.8	6.8	
VAT	6.7	6.9	8.2	8.3	6.7	6.4	7.3	7.2	8.0	6.5	8.1	7.4	7.5	7.5	
Excises	0.8	0.8	0.9	0.9	0.8	0.9	0.9	1.2	1.2	0.9	1.0	1.1	1.1	1.1	
Customs	2.1	2.0	2.4	2.8	2.3	1.9	2.3	2.3	2.8	2.3	2.9	2.6	2.6	2.7	
Land tax	0.5	0.4	0.4	0.4	0.2	0.5	0.4	0.3	0.3	0.3	0.5	0.4	0.4	0.4	
Road tax and Emergency Fund	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Retail sales tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
New turnover tax	2.0	1.7	2.0	1.7	1.2	2.6	1.8	2.1	2.0	1.7	2.0	1.9	1.9	1.9	
Other	0.7	0.5	0.6	1.1	0.3	0.0	0.5	0.5	0.6	0.5	0.3	0.5	0.5	0.5	
Nontax revenue	4.5	5.2	4.8	11.2	4.0	4.2	5.8	3.9	5.0	3.6	4.7	4.3	4.4	4.4	
Capital revenue	0.2	0.3	0.4	0.2	0.1	0.4	0.2	0.1	0.1	0.2	0.3	0.2	0.2	0.2	
Grants	5.1	2.9	5.2	2.4	1.8	5.3	3.5	3.3	4.9	1.7	2.5	2.9	1.5	1.0	
Program grants	3.8	1.8	3.4	0.4	0.7	2.4	1.6	2.5	3.3	0.7	0.3	1.5	0.9	0.8	
PIP grants	1.3	1.1	1.8	1.9	1.1	2.8	1.9	0.8	1.6	0.9	2.1	1.4	0.6	0.2	
Total expenditure (including net lending)	35.7	32.8	29.5	39.8	27.4	52.0	37.1	30.6	41.3	30.2	38.5	35.1	34.3	31.9	
Total expenditure	35.2	32.6	29.7	39.9	27.5	51.4	37.1	30.3	41.3	30.5	39.4	35.4	34.3	31.9	
Current expenditure	24.0	26.9	26.2	32.4	22.7	38.8	29.8	26.6	32.3	24.2	30.2	28.2	27.3	26.7	
Wages and Social Fund contributions	8.4	9.0	8.9	11.9	7.3	22.0	12.6	11.8	15.6	10.6	12.7	12.5	12.6	12.0	
Transfers and subsidies	3.4	4.4	5.3	4.9	2.9	4.0	4.1	3.2	3.2	2.2	3.0	2.9	2.8	2.7	
Transfers to Social Fund	1.2	2.7	4.1	3.4	2.2	2.7	2.9	4.7	4.3	3.6	4.1	4.1	4.0	4.0	
Interest	0.8	0.9	1.0	2.0	0.8	0.7	1.1	1.6	1.0	1.2	0.6	1.1	1.0	0.9	
Purchases of other goods and services	10.2	10.0	6.9	10.2	9.5	9.4	9.2	5.2	8.2	6.6	9.8	7.6	7.0	7.1	
Capital expenditure (including PIP)	5.0	5.6	3.5	7.5	4.8	12.6	7.3	3.7	9.0	6.3	9.2	7.2	7.0	5.2	
Domestically financed capital expenditures	2.3	1.6	0.4	0.7	1.1	5.8	2.1	1.0	1.8	2.7	2.4	2.1	2.1	2.1	
Foreign financed PIP loans	1.5	2.9	1.3	4.9	2.7	4.0	3.3	1.9	5.7	2.7	4.7	3.8	4.3	2.9	
Energy infrastructure projects	0.0	0.0	0.0	0.0	1.6	0.6	0.7	0.8	1.5	1.6	1.8	1.5	2.1	1.3	
Foreign financed PIP grants	1.3	1.1	1.8	1.9	1.1	2.8	1.9	0.8	1.6	0.9	2.1	1.4	0.6	0.2	
Financial balance	-7.5	-5.6	5.7	-4.8	-5.4	-22.7	-7.9	-0.6	-9.5	-7.5	-10.4	-7.4	-7.2	-5.3	
Net lending	0.5	0.3	-0.2	-0.1	-0.1	0.6	0.1	0.3	0.0	-0.3	-0.9	-0.3	0.0	0.0	
Transfer to the KRDF	6.1	...	...	...	...	...	...	...	...	...	...	...	...	...
Discrepancy	-0.1	0.2	0.1	-0.3	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	...	...	...
Primary balance	-7.3	-4.9	7.0	-3.1	-4.3	-22.7	-7.0	0.8	-8.5	-6.0	-8.9	-6.1	-6.3	-4.4	
Primary balance excluding grants	-12.3	-7.9	1.8	-5.4	-6.1	-28.0	-10.4	-2.5	-13.4	-7.7	-11.4	-9.0	-7.8	-5.4	
Overall balance	-8.0	-5.9	5.9	-5.1	-5.1	-23.4	-8.0	-0.9	-9.5	-7.2	-9.5	-7.1	-7.2	-5.3	
Overall Balance excluding energy infrastructure projects	-8.0	-5.9	5.9	-5.1	-3.5	-22.9	-7.3	0.0	-8.0	-5.5	-7.8	-5.7	-5.1	-4.0	
Total financing	8.1	5.7	-5.9	5.1	5.1	23.4	8.0	0.9	9.5	7.2	9.5	7.1	7.2	5.3	
External financing	7.4	3.2	2.5	4.7	2.3	12.2	5.5	1.3	5.7	2.3	5.8	3.9	4.5	2.8	
Public investment program (PIP)	1.5	2.9	1.3	4.9	2.7	4.0	3.3	1.9	5.7	2.7	4.7	3.8	4.3	2.9	
Program support loans	6.6	1.1	1.7	1.2	0.0	9.2	3.1	0.0	1.2	0.0	2.3	0.9	0.9	0.6	
Total amortization	-0.7	-0.8	-0.5	-1.4	-0.3	-1.0	-0.8	-0.6	-1.2	-0.4	-1.2	-0.8	-0.7	-0.8	
Domestic financing	0.8	-1.3	-8.4	0.3	2.8	10.9	2.4	-0.5	3.0	2.0	0.2	1.2	1.6	1.4	
NBKR	0.4	-1.7	-8.2	-0.7	1.8	7.2	0.9	-1.1	1.8	0.7	-0.3	0.3	0.2	0.0	
Commercial banks	0.3	0.5	-0.2	1.0	0.1	2.6	0.9	0.5	1.2	1.4	0.5	0.9	1.4	1.4	
Nonbank	0.1	-0.1	-0.1	0.1	0.8	1.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization	-0.1	0.1	0.0	0.0	0.0	0.4	0.1	0.1	0.8	2.8	3.5	2.0	1.1	1.0	
Use of KRDF resources	...	3.7	...	...	...	...	...	...	...	...	...	...	...	...

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

Table 9. Kyrgyz Republic: Social Fund Operations, 2009–14

	2009	2010	2011					2012					2013	2014
	Act.	Year Act.	Q1 Act.	Q2 Act.	Q3 Proj.	Q4 Proj.	Year Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	Year Proj.	Year Proj.
(In millions of soms)														
Total revenue	11,178	12,336	2,862	3,789	3,941	5,137	15,729	4,023	4,634	4,525	5,366	18,548	20,978	23,452
Total contribution	10,808	12,078	2,828	3,748	3,850	4,997	15,422	3,931	4,542	4,433	5,274	18,179	20,591	23,045
Contribution from government	2,261	2,207	435	819	733	2,169	4,156	876	1,357	1,128	1,507	4,867	5,949	6,491
Contribution from nongovernment	8,547	9,870	2,393	2,929	3,117	2,827	11,266	3,055	3,185	3,305	3,767	13,312	14,642	16,554
Other revenue	370	258	34	42	92	140	308	92	92	92	92	369	387	407
Total expenditure	13,361	18,993	4,748	5,503	6,108	7,755	24,115	6,689	7,269	7,529	8,370	29,858	33,164	37,118
Pension Fund	12,644	18,222	4,678	5,263	5,843	7,185	22,968	6,337	6,917	7,177	8,018	28,450	31,616	35,456
Medical Insurance Fund (including old Funds)	675	690	63	190	226	540	1,019	313	313	313	313	1,251	1,376	1,477
Workers' Health Recovery Fund	42	81	8	50	40	31	128	39	39	39	39	157	172	185
Financial balance	-2,183	-6,657	-1,887	-1,714	-2,167	-2,618	-8,386	-2,666	-2,635	-3,004	-3,005	-11,310	-12,185	-13,666
Budgetary transfer	2,395	5,674	1,903	1,909	1,909	1,868	7,589	2,672	2,820	3,133	3,380	12,004	12,978	14,535
Discrepancy	150	18	-114	170	435	-490	0	0	0	0	0	0	0	0
Overall balance	362	-965	-98	365	177	-1,240	-797	6	185	128	375	694	793	869
Financing	-407	965	98	-365	-177	1,240	797	-6	-185	-128	-375	-694	-793	-869
Commercial bank deposits	-547	965	98	-365	548	2,016	2,297	-6	-185	-128	-375	-694	-793	-869
Government bonds	140	0	0	0	-725	-775	-1,500	0	0	0	0	0	0	0
(In percent of GDP)														
Total revenue	5.6	5.8	6.1	6.7	4.6	7.4	6.1	7.1	7.1	5.1	6.5	6.3	6.4	6.4
Total contribution	5.4	5.7	6.1	6.6	4.5	7.2	6.0	7.0	6.9	5.0	6.4	6.2	6.3	6.3
Other revenue	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure	6.6	9.0	10.2	9.7	7.1	11.1	9.3	11.8	11.1	8.6	10.1	10.2	10.2	10.1
Pension Fund	6.3	8.6	10.0	9.2	6.8	10.3	8.9	11.2	10.6	8.2	9.7	9.7	9.7	9.7
Medical Insurance Fund (including old Funds)	0.4	0.4	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.5	0.5	0.5
Workers' Health Recovery Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial balance	-1.1	-3.1	0.0	0.0	0.0	0.0	-3.2	0.0	0.0	0.0	0.0	-3.9	-3.7	-3.7
Budgetary transfer	1.2	2.7	0.0	0.0	0.0	0.0	2.9	0.0	0.0	0.0	0.0	4.1	4.0	4.0
Discrepancy	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.2	-0.5	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.2	0.2	0.2
Financing	-0.2	0.5	0.2	-0.6	0.6	2.9	0.3	0.0	-0.3	-0.1	-0.5	-0.2	-0.2	-0.2
Commercial bank deposits	-0.3	0.5	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.2
Government bonds	0.1	0.0	0.0	0.0	0.0	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 10. Kyrgyz Republic: Proposed Reviews and Disbursements Under the
Three-Year Extended Credit Facility Arrangement

Date	Action	Associated Disbursement	Share of Access (In percent)
On June 20, 2011	Approved three-year ECF arrangement	SDR 9.514 million	14.3
On or after November 30, 2011	Completed the first review based on end-June, 2011 performance criteria	SDR 9.514 million	14.3
On or after April 16, 2012	Completed the second review based on end-December, 2011 performance criteria	SDR 9.514 million	14.3
On or after November 15, 2012	Completed the third review based on end-June, 2012 performance criteria	SDR 9.514 million	14.3
On or after April 15, 2013	Completed the fourth review based on end-December, 2012 performance criteria	SDR 9.514 million	14.3
On or after November 15, 2013	Completed the fifth review based on end-June, 2013 performance criteria	SDR 9.514 million	14.3
On or after April 30, 2014	Completed the sixth and final review based on end-December, 2013 performance criteria	SDR 9.516 million	14.3
Total		SDR 66.600 million	100.0

Source: International Monetary Fund.

Table 11. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2011–16 1/

	2011	2012	2013	2014	2015	2016
	Projections					
Fund obligations based on existing credit						
<i>(In millions of SDRs)</i>						
Principal	15.3	13.5	11.4	13.3	11.0	15.0
Charges and interest	0.0	0.3	0.2	0.2	0.2	0.1
Fund obligations based on existing and prospective credit						
<i>(In millions of SDRs)</i>						
Principal	15.3	13.5	11.4	13.3	11.0	15.0
Charges and interest	0.0	0.3	0.2	0.2	0.2	0.1
Total obligations based on existing and prospective credit						
<i>In millions of SDRs</i>						
In millions of SDRs	15.3	13.7	11.6	13.5	11.2	15.1
<i>In millions of U.S. dollars</i>	22.8	20.5	17.3	20.2	16.8	22.6
<i>In percent of Gross International Reserves</i>	1.2	1.0	0.8	0.8	0.6	0.8
<i>In percent of exports of goods and services</i>	0.7	0.6	0.5	0.5	0.3	0.4
<i>In percent of debt service 2/</i>	6.5	22.5	18.1	19.2	15.4	17.7
<i>In percent of GDP</i>	0.4	0.3	0.3	0.3	0.2	0.3
<i>In percent of quota</i>	17.2	15.5	13.0	15.2	12.6	17.0
Outstanding Fund credit 2/						
<i>In millions of SDRs</i>						
In millions of SDRs	118.4	124.0	131.6	127.8	116.8	101.8
<i>In billions of U.S. dollars</i>	0.2	0.2	0.2	0.2	0.2	0.2
<i>In percent of Gross International Reserves</i>	9.1	8.7	8.6	7.8	6.5	5.3
<i>In percent of exports of goods and services</i>	5.6	5.2	5.1	4.4	3.6	2.8
<i>In percent of debt service 2/</i>	50.4	203.1	206.2	181.1	160.4	119.0
<i>In percent of GDP</i>	3.2	3.0	3.0	2.7	2.2	1.8
<i>In percent of quota</i>	133.4	139.6	148.2	143.9	131.5	114.7
Net use of Fund credit (in millions of SDRs)						
Disbursements	3.7	5.5	7.7	(3.8)	(11.0)	(15.0)
Repayments and Repurchases	19.0	19.0	19.0	9.5	-	-
	15.3	13.5	11.4	13.3	11.0	15.0
Memorandum items:						
Nominal GDP (in millions of U.S. dollars)	5,480	6,087	6,587	7,198	7,775	8,347
Exports of goods and services (in millions of U.S. dollars)	3,175	3,551	3,825	4,363	4,854	5,406
Gross International Reserves (in millions of U.S. dollars)	1,944	2,127	2,284	2,448	2,689	2,878
Debt service (in millions of U.S. dollars) 2/	349.8	91.0	95.3	105.5	108.8	127.9
Quota (millions of SDRs)	88.8	88.8	88.8	88.8	88.8	88.8

Sources: IMF staff estimates and projections.

1/ Assumes seven semi-annual disbursements under the ECF facility of 75 percent of quota (SDR 66.6 million) starting in June 2011. Projections of interest payments incorporate the temporary interest relief initiative and interest rate structure under the new architecture of LIC facilities and financing.

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

Table 12. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June-September 2011
(In millions of soms, unless otherwise indicated; eop)

	2011							
	June				September			
	QPC				IT			
	CR/11/155	Adj.	Act.	Status	CR/11/155	Prel. Adj.	Prel.Act.	Status
<i>Quantitative performance criteria 1/</i>								
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,586	1,583	1,640	Met	1,612	1,496	1,637	Met
2. Ceiling on net domestic assets of the NBKR (eop stock)	-16,016	-15,898	-18,968	Met	-15,189	-9,702	-17,602	Met
3. Ceiling on cumulative overall cash deficit of the general government 2/	3,652	4,017	-161	Met	12,698	6,933	4,029	Met
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	450	450	0	Met	450	450	0	Met
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	Met	0	0	0	Met
<i>Indicative Targets 1/</i>								
1. Ceiling on reserve money	50,390	50,390	49,973	Met	52,464	52,464	51,213	Met
2. Cumulative floor on state government tax collections 2/	22,607	22,607	23,707	Met	35,332	35,332	37,683	Met
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/	1,255	1,255	1,276	Met	2,027	2,027	2,037	Met

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

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ External debt contracted or guaranteed with a grant element less than 35 percent. The limit is cumulative from end-December 2010 and tied to energy infrastructure projects only. Should the total borrowings for these projects be less than US\$450 million, the remaining space cannot be used to borrow for other projects. While exact terms are still under negotiation, the grant element on these loans is expected to be slightly less than 35 percent, but will not be lower than 30 percent.

Table 13. Kyrgyz Republic: Prior Actions and Structural Benchmarks under the Extended Credit Facility for 2011 and 2012

Measure	Timing	Macroeconomic rationale	Status
Prior Actions			
Select a reputable international auditing firm (big-four) to conduct a forensic audit of the Kyrgyz Republic Development Fund (KRDF).		Strengthen transparency of public finances.	Met
Select a reputable international auditing firm (big-four) to conduct a financial audit of the opening and end-April 2011 balance sheets of Zalkar Bank.		Expedite a complete and transparent resolution of the AUB/Zalkar.	Met
Announce the liquidation of the SBRF by issuing the relevant NBKR Board decision.		Remove distortions in the central bank operations.	Met
Structural Benchmarks			
I. FISCAL POLICY			
Submit to Parliament amendments to the tax and customs codes and issue relevant government resolutions to raise additional revenues by:	End-October, 2011	Revenue measures are critical to achieve medium-term fiscal consolidation without sizable downward adjustments of expenditures.	Met
(a) Improving the customs valuation system and moving the majority of imported goods from weight-based to price-based valuation.		Introduce best international practices in customs valuation of imported goods.	
(b) Removing the turnover tax exemption on electricity, heat and natural gas for commercial users.		Raise revenues in an easy to administer way.	
(c) Removing VAT exemptions on communication (internet and roaming) services.		Broaden the tax base.	
(d) Reforming excise taxation on tobacco and alcohol in line with the draft tax code amendments.		Raise revenues in an easy to administer way.	
(e) Moving to a contract-based tax regime for food services.		Strengthen enforcement of the tax legislation.	
Strengthen tax administration by:	End-September, 2011	Tax policy measures alone will be insufficient to generate additional revenues in support of fiscal consolidation. Raising revenues from large taxpayers is fundamental to sound revenue administration.	Met
a) Strengthening the large taxpayers office (LTO) by: (i) reviewing the current criteria for identifying large taxpayers and modifying, if necessary; (ii) expanding the LTO coverage of the large taxpayers to achieve at least 60 percent of the number of taxpayers meeting the established criteria; (iii) ensuring that LTO participation is mandatory; and (iv) reviewing organization charts and making changes, if necessary.			
(b) Deterring noncompliance through improved audits by introducing best practices in the taxpayer audits by: (i) completing the first phase of computer-based risk scoring system; and (ii) measuring and closely monitoring audit performance.		Increase the quality of taxpayer audits.	
(c) Enhancing communication with taxpayers, staff and other stakeholders by: (i) publicizing information for the taxpayers on the existing guidance and assistance on tax issues available at the tax offices; (ii) regular briefings of industry associations, tax accountants and other third parties; and (iii) preparing quarterly reports to the public about the communication activities.		Increase transparency of tax administration.	
Adopt a government resolution on the procedures for submission of budgets of the 10 largest SOEs to be approved and monitored by the government.	End-October, 2011	Reduce fiscal risks stemming from state-owned enterprises and boost revenues from dividends.	Met
Develop and adopt a medium-term debt management strategy.	End-March, 2012	Strengthen macroeconomic management and ensure debt sustainability.	
Publish the external audit report on the KRDF.	End-September, 2011*	Strengthen transparency of public finances.	Met
II. FINANCIAL SECTOR			
Refund in the process of liquidation the portions of the SBRF financed by the NBKR and the government, respectively.	End-October, 2011	Remove distortions in the central bank operations.	Met
Based on the audit results, resolve Zalkar Bank as follows:		Complete resolution of the AUB/Zalkar.	
1) If the bank is solvent, then:			
a) sell to a reputable bank, or	End-February, 2012		
b) if no acquirer is found, initiate disposal of assets and liabilities to interested investors.	End-February, 2012		
2) If the bank is insolvent, then initiate closure and liquidation.	End-September, 2011		
Submit to the Parliament a draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; and (iii) enhance legal protection for NBKR staff and agents.	End-April, 2012	Strengthen bank resolution framework and supervisory independence of the NBKR.	
Develop a sales strategy for the SSC bank.	End-April, 2012	Reduce the government's involvement in the commercial banking activity.	

* For compliance monitoring purposes, delays directly caused by the audit company will be acknowledged.

ATTACHMENT I. KYRGYZ REPUBLIC: LETTER OF INTENT

November 17, 2011

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431

Dear Ms. Lagarde:

On June 20, 2011, the Executive Board of the International Monetary Fund (IMF) approved an arrangement under the Extended Credit Facility (ECF) for the Kyrgyz Republic. We are grateful to the IMF for its continued support of our economic development and reform program.

The Kyrgyz economy is recovering strongly from the last year's political turmoil and economic downturn. Real GDP grew by 8.7 percent year-on-year over the first nine months of 2011 as a result of continued political stability and a strong rebound in neighboring countries. Consumer price inflation is now on a solid downward path with end-October 2011 inflation at 9.5 percent year-on-year.

We have made considerable progress in our reform efforts under the ECF-supported program. All end-June quantitative performance criteria and indicative targets have been met. Implementation of the structural reform agenda is progressing in line with our commitments outlined in the Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP) dated June 2, 2011. The financial audit of Zalkar bank conducted by KPMG indicated that the bank is solvent. Consistent with our program commitments, we are preparing to sell it to a reputable bank through a transparent and competitive privatization process. The forensic audit of the Kyrgyz Republic Development Fund conducted by PWC, which revealed a lack of governance and transparency, has been published. The liquidation of the Special Bank Refinancing Fund has also been completed. We submitted to parliament amendments to the tax and customs codes and issued the relevant government resolutions to raise additional revenues. We have also strengthened tax administration and adopted the measures as outlined in the MEFP. The government resolution on the procedures for submission of the budgets of the ten largest state-owned enterprises (SOEs) has been adopted.

In light of this progress and our continued commitment to the program, we are requesting the completion of the first review under the ECF-supported program and the second

disbursement in the amount of SDR 9.514 million (about US\$15 million). We are also requesting modification of end-December 2011 performance criteria to accommodate the effects of higher-than-expected economic growth and foreign exchange inflows, as well as the advancement of, and successful renegotiation of terms on, foreign-financed energy infrastructure projects. The government believes that the policies set forth in our LOI and MEFP dated June 2, 2011, supplemented with this LOI and modified quantitative performance and updated structural benchmarks criteria (see Tables 1 and 2, respectively) are adequate to meet the objectives of our economic program, but stands ready to take additional measures as needed. We will consult with Fund staff on such measures and in advance of any revision to policies contained in the MEFP and updated LOI, in accordance with the Fund's policies.

Consistent with our commitment to transparency, we agree to publish this letter and other ECF-related documents circulated to the IMF Executive Board on the IMF's web site.

I. POLICIES FOR THE REMAINDER OF THE YEAR AND BEYOND

1. The policies and commitments set out in the LOI and MEFP dated June 2, 2011 remain valid and are updated with this LOI.

2. Continued economic recovery and macroeconomic stability remain the cornerstone of our Fund-supported program. In particular:

- We expect real GDP to grow by about 7 percent this year and 5½ percent on average during 2012–14 on the back of continued political stability and strong growth in agriculture, trade and construction.
- Continued tight monetary policy is needed to help reduce underlying inflation in 2011. In 2012–14 inflation will stabilize at about 7½ percent in 2013–14, largely reflecting receding international food and fuel prices, and prudent fiscal and monetary policies.
- The general government deficit, excluding foreign-financed energy investment projects, will be brought down to 3.8 percent of GDP by 2014, primarily on account of prudent fiscal policies and tax administration and public financial management measures.
- The current account deficit will remain high in 2011, largely as a result of high import prices, but will gradually decline over the medium term in line with lower fuel prices, strong export-oriented growth, and fiscal consolidation. However, large energy infrastructure projects, which will have a significant import component, will prevent the current account deficit from declining faster.

3. With the assistance of our development partners and in line with our commitments (see MEFP ¶7) we are finalizing a Medium Term Development Strategy (MTDS/PRSP). The MTDS/PRSP will be circulated to the IMF Executive Board with the

documents for the second review under the program. The main goal of the reforms under the MTDS/PRSP is to build up an effective system of the executive aimed at economic development, poverty reduction, and improvement in the business climate. The MTDS/PRSP objectives are to (i) reduce the fiscal deficit; (ii) strengthen public sector asset management, (iii) implement national investment projects, and (iv) improve the business environment. The strategy also envisions a reduction in the number of public sector employees by 20 percent.

4. We recognize that the fragile global economic environment poses risks to the Kyrgyz economy, primarily through a decline in external demand, commodity export prices, and remittances. In this regard, our efforts under the ECF-supported program will continue to be geared toward rebuilding policy buffers to mitigate the effects of potential adverse shocks. Against this background, we established the Macroeconomic and Investment Policy Coordination Council under the Government of the Kyrgyz Republic aimed at enhancing coordination of economic policies and designing possible policy responses to adverse scenarios.

A. Fiscal policy

5. Despite large increases in wages and pensions in 2011, the fiscal balance, excluding foreign-financed energy infrastructure projects, will not worsen compared to the program. The wage and pension increases were necessary to restore public confidence in government, alleviate the conditions of those who suffered during the 2010 turmoil, and peacefully conduct elections. In addition, fiscal spending has been supportive of the economic recovery. Tax revenue collections have been strong this year due to continued improvements in tax administration, a solid economic recovery and high gold prices, allowing us to offset shortfalls in other revenues and finance priority outlays. To compensate for the delayed privatizations of KyrgyzTelecom and MegaCom, we will use treasury savings in central bank accounts. This delay will allow us to better prepare an open and competitive bidding process and maximize the sales proceeds in a more stable political environment. We have completed all formal requirements for receiving budget support from the EURASEC Anti-Crisis Fund in the amount of US\$106.7 million (by end-2011).

6. Recognizing the need to rebuild fiscal policy buffers and given the stronger-than-expected economic recovery, we will launch a more ambitious fiscal consolidation than envisaged earlier. We have adopted tax policy and administration measures (see MEFP ¶13) and will continue to improve tax administration with Fund technical assistance, which will help ensure strong tax revenue performance. While maintaining an adequate level of social spending, the planned reduction in the size of civil service, nominal wage restraint and more prudent expenditure policies will generate substantial fiscal savings. This will allow us to reduce the fiscal deficit excluding foreign-financed energy infrastructure projects to 3.8 percent of GDP by 2014, 0.6 percent of GDP lower than previously targeted (see MEFP ¶9). In light of the uncertain global economic outlook, we will exercise caution in fiscal policy implementation and prepare

appropriate contingency measures. To increase the efficiency of public enterprises, we intend to launch a comprehensive privatization program, which will become an important source of financing over the medium term. We will continue to strengthen monitoring of the remaining state-owned companies' finances to increase dividends. Moreover, developing the domestic debt market under the leadership of the ministry of finance and with the participation of other stakeholders will be instrumental to decrease reliance on external financing.

7. As part of our governance reform agenda, we will advance public financial management (PFM) reform and adopt recommendations of the recently completed Fund technical assistance mission. We will establish a high-level committee for coordination of PFM reforms that will be chaired by the Minister of Finance. To increase the efficiency of government we will revamp the organizational structure of the ministry of finance in line with Fund technical assistance recommendations. We will also issue an instruction for introducing, through the treasury management information system (TMIS), a commitment control system based on cash limits, and adopt a government decree to extend treasury coverage to the Social Fund (structural benchmarks). We also intend to reform the system of public procurement, which is an area of high fiscal risk, and could generate significant additional fiscal savings.

8. The advancement of foreign-financed energy infrastructure projects, originally planned to begin in 2012, was critical to ensure the country's energy security. We have successfully renegotiated the loan terms of the first phase of the project in the amount of US\$208 million to make it concessional. We will approach our creditor to ensure that the borrowing terms for the second phase of the project are also on concessional terms.

9. We remain committed to enhancing good governance and transparency. In this context, we will ensure that all of our development plans are consistent with these principles. We are currently contemplating the establishment of a development bank that would help to develop affordable (i) mortgage lending; (ii) leasing for agriculture; and (iii) loans for farmers and entrepreneurs. We will ensure that any such development institution is fully consistent with our ECF-supported program targets and objectives. Once we have developed a concrete proposal, we will consult with IMF staff and other development partners before taking any further action in this regard (see MEFP ¶25 and ¶30).

B. Monetary, exchange rate and financial sector policies

10. In light of wage and pension increases, which will put pressure on inflation, continued tight monetary policy is needed. This will mitigate the impact of continued strong foreign exchange inflows and the expected concentration of fiscal spending in the remainder of the year. We will ensure close coordination between the fiscal and monetary authorities and continue to intervene in the foreign exchange market only to smooth excessive volatility.

11. Continued strong actions will allow us to address the remaining banking sector vulnerabilities.

- Following completion of the financial audit of Zalkar Bank, which found it to be solvent, we have initiated its sale to a reputable bank through a transparent and competitive process in line with our commitment. If the privatization is not successful within the allotted timeframe, the assets and liabilities will be disposed of in a transparent and competitive tender process to interested investors within a reasonable timeframe (see MEFP ¶23).
- Recognizing the aggressive expansion of the systemically important state-owned SSC bank, we have stepped up its monitoring. We acknowledge that the capital injection through August 2011 by the ministry of finance is sufficient this year to allow the bank to extend loans to the entrepreneurs who suffered damage during the June 2010 events (see MEFP ¶23). Going forward, we will discuss with IMF staff modalities of how such programs could be implemented without jeopardizing the soundness of the bank and the stability of the financial system. Moreover, we will ensure that the bank's growth is effectively monitored and controlled (sustainable), including through the application of appropriate supervisory measures.
- Resolving the four banks under conservatorship has been impeded by pending court cases. The legal reforms envisaged under the ECF-supported program, once adopted, will strengthen the bank resolution framework and thereby better equip the central bank to effectively deal with problem banks in the future.

C. Safeguards assessment

12. We are committed to implement the recommendations of the recent NBKR safeguards assessment update. ECF structural conditionality to develop a new Banking Code, including the Law on the NBKR, provides an opportunity to establish the supremacy of that law over other laws and regulations that might affect the NBKR, establish the NBKR's sole authority to hold and manage official foreign reserves, and extend the term of engagement of the NBKR external auditors (see structural benchmarks). We will also strengthen safeguards through continuous professional education of NBKR internal audit staff.

D. Program monitoring

13. The ECF-supported program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks. Quantitative performance criteria and indicative targets for December 2011, March 2012, June 2012, September 2012, and December 2012 and continuous performance criteria are set out in Table 1; and structural benchmarks are set out in Table 2. Program reviews will continue to be conducted semi-annually, based on end-June and end-December test dates. The second

and third reviews are expected to take place by May 15, 2012 and November 15, 2012, respectively. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative performance criteria and structural benchmarks described in this LOI and reporting requirements are further specified in the LOI, MEFP, and technical memorandum of understanding (TMU) dated June 2, 2011 as updated in the attached.

Sincerely yours,

/s/

Almazbek Atambaev
Prime Minister of the Kyrgyz Republic

/s/

Melis Mambetjanov
Minister of Finance of
the Kyrgyz Republic

/s/

Zina Asankojoeva
Chairperson of the National Bank of
the Kyrgyz Republic

Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets under the Extended Credit Facility, December 2011–December 2012
(In millions of soms, unless otherwise indicated; eop)

	2011		2012					
	December		March		June		September	December
	QPC		IT		IT	QPC	IT	IT
	CR/11/155	Revised	CR/11/155	Revised	CR/11/155			
<i>Quantitative performance criteria 1/</i>								
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,617	1,694	1,637	1,633	1,657	1,678	1,742	1,861
2. Ceiling on net domestic assets of the NBKR (eop stock)	-11,327	-12,384	-11,681	-11,868	-10,761	-10,310	-9,447	-9,208
3. Ceiling on cumulative overall cash deficit of the general government 2/	19,111	21,588	-1,108	477	7,188	6,502	12,692	20,191
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	450	250	450	250	450	250	250	250
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	0	0	0	0
<i>Indicative Targets 1/</i>								
1. Ceiling on reserve money	56,571	59,116	57,155	56,772	59,014	60,453	64,323	70,175
2. Cumulative floor on state government tax collections 2/	49,119	50,823	15,299	12,611	31,789	26,861	42,378	60,128
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/	2,800	2,800	772	722	1,544	1,444	2,166	2,888

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

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ External debt contracted or guaranteed with a grant element less than 35 percent. The limit is cumulative from end-December 2010 and tied to energy infrastructure projects only. Should the total borrowings for these projects be less than US\$250 million, the remaining space cannot be used to borrow for other projects. While exact terms are still under negotiation, the grant element on these loans will not be lower than 30 percent.

Table 2. Kyrgyz Republic: Structural Benchmarks under the Extended Credit Facility for 2011 and 2012

Measure	Timing	Macroeconomic Rationale
Structural Benchmarks		
I. FISCAL POLICY		
Strengthen public financial management by:		
Establishing a high-level committee for coordination of PFM reforms chaired by the Minister of Finance	End-December, 2011	Strengthen the management of PFM reforms via proper prioritization, sequencing, and coordination of reform measures.
Adopting a decree to extend treasury coverage to the remaining extra-budgetary funds, including the Social Fund.	End-March, 2012	Strengthen the reporting on general government finances.
Developing and adopting a medium-term debt management strategy.	End-March, 2012	Strengthen macroeconomic management and ensure debt sustainability.
Adopting an instruction for introducing, through TMIS, a commitment control system based on cash limits.	End-July, 2012	Strengthen the treasury's ability to check commitments against authorized limits, register commitments and enhance control and recording of cash spending requests.
Reforming the ministry of finance by revamping its organizational structure consistent with Fund TA advice.	End-September, 2012	Increase the efficiency of government and public financial management, in particular.
II. FINANCIAL SECTOR		
Based on the audit results, which found the bank to be solvent, resolve Zalkar Bank as follows:		Complete resolution of the AUB/Zalkar.
a) sell to a reputable bank, or	End-February, 2012	
b) if no acquirer is found, initiate disposal of assets and liabilities to interested investors.	End-February, 2012	
Submit to the Parliament a draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; (iii) enhance legal protection for NBKR staff and agents.	End-April, 2012	Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR
The Banking Code reform will also: (i) establish the NBKR's sole authority to hold and manage official foreign reserves, and (ii) extend the term of engagement of the NBKR external auditors.	End-April, 2012	Strengthen institutional and financial autonomy of the NBKR.
Develop a sales strategy for the SSC bank.	End-April, 2012	Reduce the government's involvement in the commercial banking activity.

ATTACHMENT II. KYRGYZ REPUBLIC: REVISED TECHNICAL MEMORANDUM OF UNDERSTANDING

November 17, 2011

I. INTRODUCTION

1. This memorandum defines the quantitative performance criteria, indicative targets and adjustors, and establishes the content and frequency of the data to be provided to IMF staff for program monitoring related to the economic program supported by an arrangement under the Extended Credit Facility (ECF). The indicators presented in Table 1 of the Letter of Intent dated November 17, 2011 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Definitions and concepts

2. **Test dates.** Quantitative performance criteria are set semi-annually starting June 30, 2011 through December 31, 2012, and are to be met at the end of each period.
3. **National Bank of the Kyrgyz Republic (NBKR).** The NBKR is the central bank of the country and is responsible for the formulation and implementation of monetary policy, bank supervision, and the payment system. For the purpose of the program, the NBKR includes all its central and regional offices.
4. **Public sector.** For the purpose of the program, the public sector comprises the general government, the NBKR, and 10 largest nonfinancial public enterprises (enterprises and agencies in which the government owns more than 50 percent of the shares, but which are not consolidated in the budget, as listed in Table 1). The State budget comprises central and local government budgets. The general government budget includes the State, Social Fund and the Development Fund (hereinafter, KRDF) budgets.¹
5. **Foreign-financed Public Investment Program (PIP) loans and grants.** The foreign financed PIP is a program of investments in infrastructure and social sectors agreed by the general government of the Kyrgyz Republic and its donors (including but not limited to international financial organizations). The PIP is fully financed by related grants and loans.
6. **Program loans and grants** are loans and grants received by the general government for direct budget support from external donors and not related to PIP financing.

¹ KRDF will be included for the duration of its existence.

7. The stock of **external payment arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid within the grace period specified in the relevant debt contract, including contractual and late interest. For arrears to exist, a creditor must claim payment of amounts due and not paid. Amounts in dispute are not considered arrears. Arrears for which a clearance framework/rescheduling or restructuring has been agreed with the creditor are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that has not been paid.

8. **Concessional and nonconcessional debt.** Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation of concessional debt will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The calculation is performed by the authorities and verified by the IMF staff based on the data provided by the authorities.

9. **Valuation changes (program exchange rates).** For program monitoring, U.S. dollar-denominated components of the NBKR's balance sheets will be valued at the program exchange rates. The program exchange rate of the KGS to the U.S. dollar is set at the end-2010 exchange rate of KGS 47.0992 = US\$1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 2.

B. Quantitative performance criteria

Floor on net international reserves of the NBKR in convertible currencies²

Definitions

10. **Net international reserves (NIR) of the NBKR.** The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral 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. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident financial institutions. Total international reserves and NIR decline with the provision of foreign assets by the NBKR through foreign currency swaps with resident financial institutions.³ For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 9. Thus calculated, the stock of net international reserves in convertible currencies amounted to US\$1,526 million on December 31, 2010.

11. **Net foreign assets (NFA) of the NBKR.** NFA 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, reserve assets pledged as collateral or

² Convertible currencies are defined as currencies that are freely usable for settlements of international transactions.

³ In case of a foreign currency swap that involves receipt of foreign currency by the NBKR and transfer of local currency to a resident financial institution, total international reserves increase, NIR is unchanged, and net claims on domestic banks in soms increase. In case of a foreign currency swap that involves transfer of foreign currency by the NBKR and receipt of local currency from a resident financial institution, total international assets and NIR decline, while the NBKR net claims on resident banks remain unchanged.

otherwise encumbered, capital subscriptions in foreign financial institutions, and illiquid assets. For program monitoring purposes, other NFA will also be valued at program exchange rates.

Adjustors

12. The floor on NIR will be adjusted upward/downward to the full extent of any excess/shortfall in program grants and program loans, as given in Table 3 and upward/downward to the full extent that amortization and interest payments of public external debt is less/more than the amortization and interest payments given in Table 3.

Ceiling on the net domestic assets of the NBKR

Definitions

13. **Net domestic assets** of the NBKR (NDA) are defined as reserve money of the NBKR (defined below), minus NFA as defined above. Items in foreign currencies will be valued at program exchange rates.

14. Thus defined, NDA consist of: (a) gross credit to the general government from the NBKR, minus deposits of the general government with the NBKR; (b) gross credit to domestic banks by the NBKR; (c) net claims on other financial corporations; and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of NDA amounted to minus KGS 14,933 million on December 31, 2010.

Adjustors

15. The ceiling on NDA will be adjusted downward/upward to the full extent of any excess/shortfall in program grants and program loans, as given in Table 3 and downward/upward to the full extent that amortization and interest payments of public external debt is less/more than the amortization and interest payments given in Table 3.

Ceiling on the cumulative overall cash deficit of the general government

Definitions

16. **The overall cash deficit of the general government** will be measured from the financing side (below the line) at current exchange rates and will be defined as the sum of:

- a) the change in the stock of net claims of the domestic banking system and nonfinancial institutions and households on the general government. 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: bank

- loans to the general government; any securities issued by the general government and held by domestic banks, with the exception of those issued in relation with bank rescue operations; and overdrafts on the current accounts of the general government with banks;
- b) the change in the stock of net claims of foreign governments, banking systems, and nonfinancial institutions and households on the general government;
 - c) net privatization receipts, i.e. any new sales net of purchases of shares;
 - d) net foreign loans disbursed to the general government for budgetary support; and
 - e) net foreign loans disbursed to the general government for PIP financing.
17. The quantitative performance criteria for the fiscal balance are calculated on the projected exchange rate. Reporting and adjustments, as defined above, will be made using current exchange rates.

Adjustors

18. The ceiling on the cumulative overall cash deficit of the general government will be adjusted downward to the full extent of any excess in program grants, as given in Table 3. The ceiling on the cumulative overall cash deficit of the general government will be adjusted downward to the full extent of any shortfall in program loans, as given in Table 3 and upward/downward to the full extent that PIP loans are more/less than PIP loans given in Table 3.

Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector (continuous quantitative performance criteria)

Definitions

19. **Debt.** In connection with the contracting or guaranteeing of short-, medium-, and long-term external debt by any entity of the public sector, for program purposes, the definition of debt is set out in Executive Board Decision No. 6230–(79/140, Point 9, as revised on August 31, 2009 (Decision No. 14416–(09/91)) and reads as follows:

- a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
 - ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and
 - iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
20. For program purposes, external debt is defined based on the residency of the creditor.
21. **External debt ceilings** apply to the contracting or guaranteeing by the public sector (as defined in section II. A., paragraph 4) of nonconcessional external debt, i.e. external debt with grant element of less than 35 percent (see section II. A., paragraph 7), except normal short-term import-related credits and NBKR international reserve liabilities. The current nonzero ceiling (US\$250 million) is tied to infrastructure projects in the energy sector. Should the total borrowings for these projects be less than US\$250 million, the remaining space cannot be used to borrow for other projects. The grant element on these loans will not be lower than 30 percent.
22. **Exclusions from the external debt limits.** Disbursements by the IMF are excluded from the ceilings on external debt. Also excluded from external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt on the terms more favorable to the debtor.
23. **Guarantees.** For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the

debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full a shortfall incurred by the debtor.

24. **New external payments arrears.** Ceiling on accumulation of **new external payments arrears** is a continuous quantitative performance criterion.

C. Indicative targets

Ceiling on reserve money

25. **Reserve money** is defined as the NBKR's national currency liabilities to the economy, which includes currency issued and liabilities to other depositary corporations.

Cumulative floor on state government tax collections

26. **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. Tax collections include collections of tax arrears but exclude tax offsets.

Cumulative floor on state government spending on targeted social assistance

27. **Targeted social assistance spending** comprises state government spending on Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs.

III. REPORTING REQUIREMENTS UNDER THE ARRANGEMENT

28. The government and the NBKR will provide the IMF with the necessary economic and financial statistical data to monitor economic developments and the quantitative targets (Table 4). In particular, the government and the NBKR will provide the following specific information.⁴

A. The balance sheet of the NBKR

29. The NBKR will provide to the IMF its analytical 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

⁴ Any correction or revisions to data previously reported should be clearly indicated and documented along with the reasons for the revision.

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, disaggregated by state government and the KRDF; net credit from the NBKR to commercial banks; net claims to other financial corporations; other items net; and reserve money. The balance sheet will be provided using both actual and program exchange rates. The above information will be provided to the IMF Resident Representative and/or transmitted by e-mail to the IMF.

B. Monetary survey

30. Monthly banking system data, in the form of monetary surveys of the banking sector and other depository corporations, will be reported to the IMF by the NBKR within 16 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 disaggregated by the state government, the social fund and the KRDF, net claims to the rest of the economy, other items net, and broad money. The monetary survey will be provided using both program and actual exchange rates.

31. The NBKR will provide monthly data to the IMF within seven days after the end of the month on the amount of holdings of treasury bills, treasury bonds and other securities issued by the state government, differentiated by the following categories of holders: the NBKR; resident banks; resident nonbanks (including separately the social fund and deposit insurance fund); 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

32. The NBKR will provide detailed monthly data within 20 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; and second, at those specified in the program (see Section I). The NBKR will also provide data on net foreign financing flows, including disbursements of program loans and grants, amortization, interest payments on external debt, interest income on reserves, other direct foreign currency payments by the government and the NBKR. In addition, weekly reports should be sent to the IMF on (a) nominal 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 domestic 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 twenty-fifth 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

33. 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, nonfinancial public enterprises, 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

34. 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.

F. Balance of payments data

35. 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 three-month lag. The NBKR will also provide monthly foreign trade data with a two-month lag.

G. Other general economic information

36. The National Statistics Committee will notify the IMF of the monthly Consumer Price Index by category by the fifteenth business day of the following month, and convey monthly GDP estimates within 30 days of the end of each month.

Table 1. Kyrgyz Republic: Ten largest SOEs

	Name of SOE
1.	JSC KyrgyzAltyN
2.	JSC KyrgyzNefteGaz
3.	JSC "Electrical Stations"
4.	JSC "National Electrical Grid of Kyrgyzstan"
5.	JSC "Manas International Airport"
6.	JSC KyrgyzTelecom
7.	JSC SeverElectro
8.	SOE "National Company Kyrgyz Temir Jolu"
9.	JSC KyrgyzGaz
10.	JSC BishkekTeploset

Table 2. Kyrgyz Republic: Program Cross Exchange Rates and Gold Price

Abbreviation	Currency Name	Currency/US\$	US\$/Currency
AUD	Australian Dollar	0.9971	1.0029
CAD	Canadian Dollar	1.0098	0.9903
CNY	Chinese Yuan	6.6387	0.1506
JPY	Japanese Yen	83.0287	0.0120
KZT	Kazakh Tenge	147.4129	0.0068
KGS	Kyrgyz Som		47.0992
LVL	Latvian Lat	0.5406	1.8500
MYR	Malaysian ringgit	3.1012	0.3225
RUB	Russian Ruble	30.6345	0.0326
CHF	Swiss Franc	0.9635	1.0379
GBP	UK Pound Sterling	0.6487	1.5416
TRY	New Turkish Lira	1.5499	0.6452
SDR	SDR	0.6551	1.5266
BYR	Belarusian Ruble	3011.5757	0.0003
EUR	Euro	0.7622	1.3120
UAH	Ukrainian Hryvnia	7.9783	0.1253
XAU	Gold (\$/troy ounce)	1405.5000	...

Table 3. Kyrgyz Republic: Projected Budget Support, PIP, and Amortization
(In millions of U.S. dollars)

	2011 1/		2012 1/	
	September	December	March	June
Program grants	66.9	87.9	29.8	74.6
Program loans	123.8	140.3	0.0	16.5
PIP loans 2/	126.0	152.3	22.1	99.7
Amortization of public external debt	28.7	43.8	6.6	22.5
Interest payments	41.3	41.5	7.0	12.0

1/ Cumulative disbursements since the beginning of the year.

2/ PIP loans include foreign-financed energy infrastructure projects starting from 4th Quarter, 2011.

Table 4. Kyrgyz Republic: Reporting Requirements/Frequency under the Arrangement

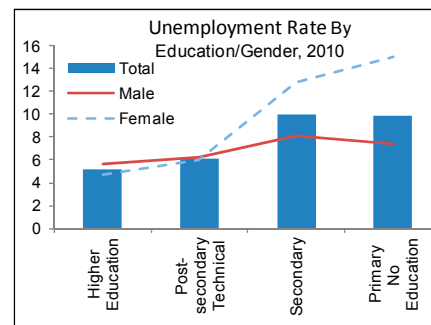
Reporting Agency	Data	Frequency	Timing
NBKR	Analytical balance sheet of NBKR	Daily	The following working day
NBKR	Monetary surveys of the banking sector and other depository corporations	Monthly	Within 16 days of the end of each month
NBKR	The amount of holdings of treasury bills, treasury bonds and other securities issued by the state government	Monthly	Within 7 days of the end of each month
NBKR	The composition of both its gross and net international reserves in convertible currencies and holdings of monetary gold Net foreign financing flows	Monthly	Within 20 days of the end of each month
NBKR	Nominal exchange rates Foreign exchange interbank market turnover Volume of NBKR foreign exchange sales and purchases in the domestic interbank market and with other parties, on a daily basis; Treasury bill yields and the amount of treasury bill sales and redemptions	Weekly	The following working day
NBKR	Indicators of financial soundness of the banking system	Monthly	Within 25 days of the end of each month
MOF NBKR	Disbursements, principal and interest payment (external debt) Contracting and guaranteeing of medium- and long-term external loans Any stock of outstanding arrears on external debt service payments Total amount of outstanding government guarantees and external arrears	Monthly	Within 21 days of the end of each month
Social Fund	Social Fund operations report	Monthly	Within 26 days of the end of each month
MOF	Disbursements and use under the public investment program and budgetary grants	Monthly	Within 30 days of the end of each month
NBKR	Current account and capital account data	Quarterly	Within 90 days of the end of each quarter
NBKR	Foreign trade data	Monthly	Within 30 days of the end of each month
NSC	Consumer Price Index by category	Monthly	Within 15 days of the end of each month
NSC	GDP	Monthly	Within 30 days of the end of each month

APPENDIX: UNEMPLOYMENT IN THE KYRGYZ REPUBLIC¹

Unemployment has been high for many years in the Kyrgyz Republic, most notably for the youth. While employment opportunities in Russia and other countries provide significant absorption of many labor market participants, the authorities need to address structural impediments for strong private sector-led growth. In addition, policies geared toward training and education would help equip the workforce with the skills necessary for securing jobs.

Unemployment in the Kyrgyz Republic is high among the youth, female, and less educated and is concentrated in urban areas:²

- Young people accounted for about 19 percent and 16 percent of unemployed in their age group (15–19 and 20–24, respectively) and about 50 percent of total unemployed.
- With age, the unemployment rate tends to decline, to 6 percent for people between 30 and 39, and to about 5 percent for people over 50 years old, mainly reflecting a lower concentration of the economically active population in these age groups.
- The unemployment rate for women was higher than for men—9.9 percent versus 7.7 percent respectively. The female youth unemployment rate was 24 percent (15–19 age group), which is 8 percentage points higher than male youth unemployment and is the highest rate among all age and gender groups.
- Higher and post-secondary technical education has a positive impact on employment.
- The unemployment rate in urban areas was 11 percent, while the rural unemployment rate was 7 percent.



¹ Prepared by Bahrom Shukurov.

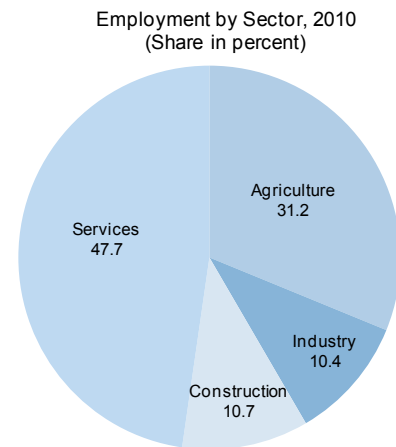
² Based on the Household Integrated Survey 2010 data.

Economic growth in the Kyrgyz Republic has not been strong enough to result in a decline in unemployment:

- Growth has been volatile at 4 percent on average per year over the last decade.
- At the same time, the working age population was rising strongly.
- As a result, the unemployment rate rose from 7.5 percent in 2000 to 8.6 percent in 2010 (the external and internal crises also contributed to increased unemployment in 2009–10).³

Some sectors have not provided strong growth in both value added and job creation:⁴

- *Agriculture*: low growth in value added and negative growth in employment, about 1 percent and -3 percent, respectively.
- *Manufacturing*: low growth in value added and employment, about 3 percent and 2 percent, respectively.
- *Services*: strong growth in value added and some growth in employment, about 7 percent and 3 percent, respectively.
- *Construction*: strong growth in both value added and employment, about 8 percent and 10 percent, respectively.



Therefore, a sustained acceleration in growth is needed to reduce unemployment.

Assuming an employment elasticity of GDP growth of 0.5 (the historic value) suggests that GDP needs to grow by about 5–6 percent a year until 2016 under different unemployment scenarios.⁵ The number of employed would need to grow by up to 3 percent annually, which means generating about 300,000 new jobs over the period 2011–16. If the authorities pursue reforms aimed at improving the business environment, the elasticity would rise allowing for stronger employment gains with the same rates of GDP growth.

³ True unemployment rates may be substantially higher than the rates suggested by available official sources. For example, a study conducted by the National Statistics Committee in 2006 revealed that the unemployment rate was about 17 percent that year (the study was conducted only once).

⁴ Growth provided below is average per year in the last five years.

⁵ Two unemployment scenarios were considered: (i) to reduce the unemployment rate to 7 percent by 2016, and (ii) to halve the unemployment rate by 2016.

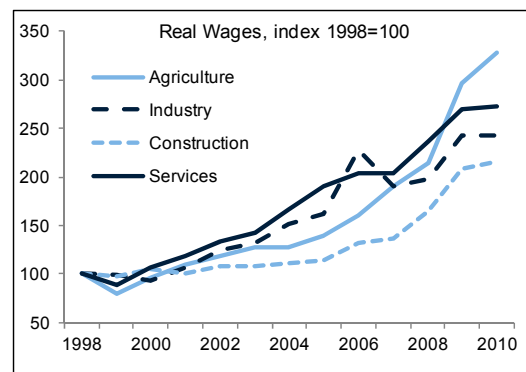
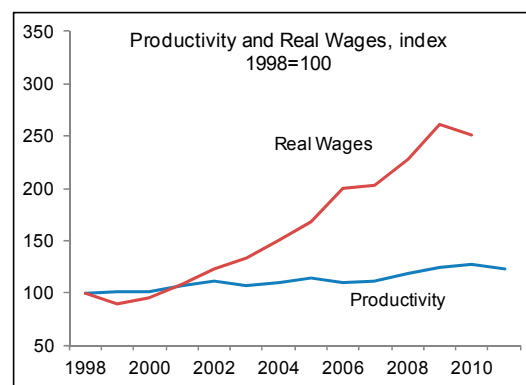
Growth and Unemployment 2011–16

New Entrants to the labor force (mln)	0.28
Total number of currently unemployed and new entrants (mln)	0.49
Employment elasticity	0.50
<i>(In percent)</i>	
Change in employment required to reduce unemployment to 7 percent	12.4
Annual percentage growth in employment required to reduce unemployment to 7 percent	2.4
Required annual real GDP growth rate for 2011–16 to reduce unemployment to 7 percent	4.7
Change in employment required to reduce unemployment by 50 percent	17.1
Annual percentage growth in employment required to reduce unemployment by 50 percent	3.2
Required annual real GDP growth rate for 2011–16 to reduce unemployment by 50 percent	6.4

Source: NSC, IMF staff calculations

High growth in real wages combined with low growth in productivity could lead to a loss of competitiveness, which may lead to rising unemployment.

- Real wages were growing by about 8 percent annually in 1999–2010.⁶ One of the factors explaining the strong growth is rapidly increasing remittance inflows. At the same time, productivity growth has been a mere 2 percent on average, which is attributable to impediments to private sector growth.
- From a sectoral perspective, real wage growth has been driven notably by agriculture (although starting from a very low base), transport and communication, and real estate. The financial sector had lower wage growth but this is because the wages started growing from a relatively high level; in 2009 the average nominal wage in the sector was the highest compared to other sectors.
- While higher productivity would lead to temporary increases in unemployment, in the long run it would result in higher growth and consequently lower unemployment.



⁶ Growth in real wages is expected to be more than 10 percent in 2011 driven by a two-fold increase in social sector's wages.

The unemployment problem is mitigated by the large number of Kyrgyz working abroad, but this may not last.

- With limited domestic opportunities, many low-skilled workers seek jobs abroad. Russia with its booming construction sector is able to accommodate a large number of labor migrants from a number of CIS countries including the Kyrgyz Republic.⁷ Remittances that are sent by labor migrants to the Kyrgyz Republic have helped alleviate poverty and unemployment and increase family income above extremely low levels.
- This, however, was delaying needed economic reforms and in the event of a more sluggish growth or recession in host countries, the situation may change. If migrant workers stop sending remittances and return home, this would put pressure on macroeconomic stability and the local labor market, which cannot absorb the additional workforce within a short period.

To reach higher employment growth and thereby reduce unemployment, the authorities need to press ahead with structural reforms. The government needs to continue working towards improving the business climate (see Box 4 on the business environment in IMF country report No. 11/155) and creating a level playing field by addressing the perception of corruption, strengthening governance and institutional frameworks, promoting financial sector development and private investment, and increasing human capital (by improving education services). Regarding the latter, measures could include the following:

- Developing comprehensive job strategies that would boost skill formation.
- Providing training programs for the youth; assessing demand for skills and developing adapting programs for young people.
- Removing any structural impediments to growth in labor-intensive industries such as tourism.

⁷ The estimated number of labor migrants from the Kyrgyz Republic equivalents to more than 20 percent of the labor force.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

**First Review Under the Three-Year Arrangement Under the Extended Credit Facility
and Request for Modification of Performance Criteria—Informational Annex**

November 17, 2011

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ANNEX I. KYRGYZ REPUBLIC—RELATIONS WITH THE FUND
(As of September 30, 2011)

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
Net cumulative allocation	84.74	100.00
Holdings	107.21	126.52

IV. Outstanding Purchases and Loans	SDR Million	Percent of Quota
ESF Arrangements	33.30	37.50
RCF Loans	22.20	25.00
ECF Arrangements	54.83	61.75

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	06/20/2011	06/19/2014	66.60	9.51
ESF	12/10/2008	06/09/2010	66.60	33.30
ECF 1/	03/15/2005	05/31/2008	17.76	17.76

1/ Formerly PRGF.

VI. Projected Payments to Fund 2/

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	1.43	13.48	11.36	13.33	11.04
Charges/Interest	0.00	0.25	0.22	0.20	0.17
Total	1.43	13.73	11.58	13.52	11.21

2/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Status of HIPC and MDRI Assistance

Based on end-2004 data, the Kyrgyz Republic is potentially eligible for HIPC relief. The Executive Board considered the preliminary HIPC document on October 13, 2006. However, in 2007, the authorities indicated that they did not wish to avail themselves of debt relief under the HIPC Initiative.

VIII. Safeguards Assessments

An update assessment with respect to the new ECF approved by the IMF Board on June 20, 2011 was completed on October 28, 2011. The assessment concluded that the National Bank of the Kyrgyz Republic (NBKR) has established important safeguards in financial reporting, external and internal audits. While the chairperson is accountable to parliament, governance arrangements need to be strengthened by establishing independent board oversight and more effective reporting by the Audit Committee that became operational following the 2009 assessment. The proposed new Banking Code also presents an opportunity to strengthen institutional autonomy and giving the NBKR sole responsibility for the governance of official foreign exchange reserves. Previous assessments were completed in April 2009, October 2005, and January 2002.

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 floating arrangement. The NBKR participates and intervenes in the interbank foreign exchange market to limit exchange rate volatility as necessary. The *de-facto* exchange rate arrangement is classified as other managed arrangement. 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 calculated as the daily weighted average of the exchange rates used in the purchase and sale transactions of dollars conducted in the foreign exchange market through the Trade Information Electronic System (TIES) of the NBKR for the reporting period from 3.00 pm of the previous trading day to 3.00 pm of the current trading day. The government uses the official exchange rate for budget and tax accounting purposes as well as for all payments between the government and enterprises and other legal entities. The Kyrgyz Republic maintains a multiple currency practice (MCP), which predates the arrangement, arising from the use of the official exchange rate for government transactions. The official rate may differ by more than 2 percent from market rates because it is based on the average transaction weighted rate of the preceding day. In practice, the official and market rates have never differed by more than 2 percent. Staff does not recommend approval of this MCP.

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 the MCP discussed above and 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 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 April–May 2011 and were completed by the Executive Board in June 2011 (see CR No. 11/155).

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 fourth 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 eighth resident representative of the Fund in the Kyrgyz Republic, Mr. Gvenetadze, took up his post in Bishkek in October 2009.

ANNEX II. KYRGYZ REPUBLIC—RELATIONS WITH THE WORLD BANK GROUP
(As of October 5, 2011)

World Bank Group Strategy: The Kyrgyz Republic Interim Strategy Note (ISN) for FY 12–13 was approved by the Board in August 2011. The ISN focuses on the country’s recovery and stabilization needs, while paving the way for support for long-term development. The need for an interim strategy approach was underscored by the fragile political, social and economic situation in the country and the absence of a medium-term development framework upon which a full IDA strategy could be based. The ISN is built around the near-term program of an elected government as well as strong donor partnerships, characterized by joint IMF and IDA funding of budgetary needs together with other multilateral donors, and well developed joint initiatives in high poverty-impact investment programs, in such areas as health and community development.

IDA allocation: IDA allocations for the FY11 were US\$136 million, including US\$10.4 million from Crisis Response Window (CRW) facility and US\$56 million from reallocation of IDA-15 envelope. An IDA-16 tentative annual allocation for the Kyrgyz Republic is US\$60 million on a 45 percent grant and 55 percent credit basis.

IDA Portfolio: The active portfolio consists of 19 IDA financed investment projects and one budget support operation, totaling US\$358.6 million out of which US\$174.94 million has been disbursed.

Recently approved operations: In FY11, the Bank delivered six unplanned operations totaling US\$136 million out of which:

- Two emergency operations—the Emergency Recovery Project (US\$70 million) and the Additional Financing to the National Road Rehabilitation Project (US\$10 million)—were approved in September 2010.
- Three further operations, each additional financing focusing on the south—Health and Social Protection SWAP (US\$24 million), and On-Farm Irrigation Project (US\$15 million) and the second Additional Financing for National Road Rehabilitation Project (US\$16 million)—were approved by the Board in June 2011.
- Additional financing (US\$1 million) to cover a gap of the Disaster Hazard Mitigation Project was also approved in June 2011.
- In early FY12 Economic Recovery Support Operation (ERSO) was approved by the Board. The ERSO (US\$30 million), a budget support operation, supports the Government’s efforts to strengthen public sector governance, address urgent social and reconstruction needs and restore private sector confidence, all critical to put the country back on track to recovery, growth and poverty reduction.

Pipeline projects: In FY12 and FY13 the Bank expects to deliver one Development Policy Operation (DPO) in July 2012, and two investment projects in each fiscal year, all currently

under preparation. The investment operations (Additional Financing for Bishkek-Osh Urban Infrastructure Project for US\$15.8 million, and Financial Sector Investment Operation for US\$13 million) to be delivered to the Board in December 2011 and January 2012 respectively.

Trust Funds (TF): In addition to IDA funds, the Bank manages a significant number of co-financing and stand-alone Trust Funds. To date, the TF Portfolio has a total value of US\$85 million including 29 Bank Executed TFs and 13 Recipient Executed TFs, out of which US\$57 million has been disbursed. The largest TF donors are EU, SDC, DFID, GEF, and Japan. Three large TFs (US\$6.8 million Russian TF for Agriculture Productivity, US\$10 million EU Food Crisis Rapid Response Facility, US\$6 million Fast Track Initiative FTI-2) were approved in FY11.

AAA Program: The Bank led the preparation of a Joint Economic Assessment (JEA), together with the Asian Development Bank and the International Monetary Fund, with the participation of four other donors. The JEA, which followed the principles of the European Commission-United Nations-World Bank agreement Joint Declaration on Post-Crisis Assessments and Recovery Planning, 2008, was presented at the High Level Donors Meeting on July 27, 2010, where donors pledged US\$1.1 billion over a 30-month period including US\$200 million pledged by the World Bank.

The ongoing AAA program includes a Poverty Update, an Agricultural Policy Update, Gender Assessment, PER, and Financial Sector Reform and Strengthening (FIRST) Initiative TAs on: (i) Strengthening Bank Supervision and Resolution, (ii) Strengthening the Legal, Regulatory, Supervisory and Market Infrastructure Framework for Non-Bank Financial Institutions (NBFI) and Securities Markets, and (iii) Deposit Protection Agency (DPA) Capacity Building.

IFC Program and Portfolio

1. The International Finance Corporation (IFC) continues to contribute to sustainable private sector development with long-term financing and advisory services to local financial institutions, and direct financing to small enterprises for the expansion and modernization of their operations. **The engagement of IFC has accelerated in the period of 2007–10, and these efforts have been complimentary to WB efforts in private sector development and development of the financial sector.** IFC will continue focusing on private sector development and aiming to increase its investments with a particular focus on the banking, manufacturing, mining, and agribusiness sectors. In addition, IFC is planning to participate in financing investment programs of privatized entities if privatization is undertaken in an open and transparent manner and in line with international best practice. In infrastructure, IFC is exploring opportunities, primarily on a subnational basis, in power transmission, hydropower

plants, and municipal utilities. In addition, an IFC Infrastructure Advisory program is being implemented in the Central Asia region and IFC is seeking to engage with the Kyrgyz government to assist with privatizations and concessions.

2. IFC Strategy and Program:

- **Increase access to finance for MSMEs** by strengthening local financial institutions and providing credit lines for MSME financing to local banks and expanding microfinance institutions.
- **Develop institutional capacity** and support capacity building of financial institutions (including leasing and insurance, if there are opportunities) and microfinance companies and **improve corporate governance** in local enterprises.
- Increase private sector participation in **infrastructure** through selective advisory and investment climate engagement.
- Assist the **agribusiness** sector directly and through MSMEs finance to banks and microfinance companies.
- Support the improvement of **business environment and investment climate**.

Since becoming a member of IFC in 1993, the Kyrgyz Republic has received commitments totaling more than US\$90 million from IFC's own funds to finance more than 25 projects in the financial, banking and microfinance, oil, gas and mining sector, agribusiness, pulp, and paper sectors. **New commitments in 2011 amounted to US\$9.8 million for investments in four projects representing banking, microfinance, and real sectors.** As of July 1, 2011, IFC's committed portfolio was US\$37.2 million, which includes investments in seven companies, representing banking, microfinance, and real sector companies.

IFC will continue its advisory services work in the financial sector, developing corporate governance and improving the business environment. The Azerbaijan-Central Asia Financial Infrastructure Project is planning to complete its work on the Code of Conduct, strengthen the institutional capacity of the private credit bureau, and possibly work on the special law on credit bureaus. The Investment Climate project will continue working with the government on ensuring higher transparency standards by helping to draft the new Law on Inspections and working with inspectorates on introducing risk-based criteria for inspections and using checklists during inspections. In order to address the revenue transparency and financial disclosure challenge in the Kyrgyz Republic, a new Project on Regulatory Reform and Tax Transparency has been launched in 2011 to identify the main policy constraints, root causes of low formalization, poor tax compliance by real sector companies, and define a set of actionable policy options to increase compliance and formalization. The project is expected to complement the efforts of IFC's Investment Climate work and facilitate an increase in IFC investments in the real sectors of the economy.

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 US\$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 these projects were the subject of disputes between the investors and the Government during the last four years. The settlement between the Kyrgyz Government and investors, which was worked out in May of 2008 with MIGA's mediating role, has now been fully implemented by both sides. This finally resolves this matter that had been pending for more than four years. In August 2009 MIGA's guarantee holders withdrew their claim against MIGA and released MIGA from any liability. In addition, they have dismissed their claims against the government, which had been pending in the London Court of International Arbitration. There were no new MIGA projects in the Kyrgyz Republic in FY11.

**Table 1. Kyrgyz Republic Active Project Portfolio
As of July 2011
(In millions, USD Equivalent)**

Project Name	IDA Comm Amt	IDA Disb in FY	IDA Undisb Bal
Agribusiness & Marketing Project	8.1	0.3	3.2
Water Management Improvement Project (WMIP)	19.0	3.0	10.2
Second On-farm Irrigation Project	31.0	2.8	22.7
Agricultural Investments and Services Project	13.0	3.6	2.1
Avian Influenza Control & Human Pandemic Preparedness & Response Project	4.0	0.6	0.9
Second Land and Real Estate Registration Project	5.9	1.6	3.0
Capacity Building for Economic Management Grant	3.0	0.2	2.5
Emergency Recovery Project	70.0	30.8	42.3
Emergency Energy Assistance	15.0	2.5	2.4
Disaster Hazard Mitigation Project	7.9	1.6	3.8
Payments & Banking System Modernization Project	9.0	0.0	4.2
Reducing Technical Barriers for Entrepreneurship and Trade	5.0	0.4	3.3
Health & Social Protection Project	45.0	2.2	27.3
Governance Technical Assistance Project	7.8	1.4	4.9
Second Village Investment Project	23.0	7.5	1.6
National Road Rehabilitation Project (Osh-Batken-Isfana)	51.0	4.8	45.8
Small Towns Infrastructure & Capacity Building Project	19.0	2.3	0.5
Bishkek and Osh Urban Infrastructure Project	12.0	2.4	6.0
Second Rural Water Supply & Sanitation	10.0	0.2	9.8
	358.6	68.3	196.7

**Table 2. Kyrgyz Republic Active Trust Fund Portfolio
As of September 2011**

Active Trust Funds Portfolio									
#	Fund	Fund Name	Donor	Program	Usage Type	Disb	Grant Amount	Closing Date	Managing Unit
						USD	USD		
Grand Total						56,829,269.03	84,465,524.56		
Bank Executed Trust Funds			Subtotal:			27,366,496.87	32,446,781.81		
1	TF094665	READ FUNDING FOR THE KYRGYZ REPUBLIC	Gov of Russian Federation	Russia Education Aid for Development	TA	248,733.09	350,000.00	6/30/2011	ECSHD
2	TF095028	JAPAN CTF - FY10: GENERAL BBMC (ALL BANK BORROWING MEMBER COUNTRIES/ALL SECTORS AND THEMES)	Japan- Ministry of Finance	Integrated Consultant TF	CT	1,917,834.27	2,014,574.76	6/30/2011	CFPPM
3	TF055016	CARBON FINANCE ASSIST (DISBURSING FUND UNDER TF054846)	Multiple Donors	Carbon Finance Assist	CF	12,486,289.45	12,611,880.63	2/28/2013	WBICC
4	TF099482	SPN budget for Kyrgyz Fast Track Initiative Catalytic Trust Fund II	Multiple Donors	EFAFTI	TA	821.51	100,000.00	8/31/2012	ECSHD
5	TF091980	KYRGYZ (EFA FTI EPDF-ECA): CAPACITY DEVELOPMENT	Multiple Donors	EFA-FTI	TA	81,981.09	120,000.00	12/31/2011	ECSHD
6	TF091981	KYRGYZ (EFA FTI EPDF-ECA): MONITORING EVALUATION & KNOWLEDGE SHARING	Multiple Donors	EFA-FTI	TA	186,849.32	324,000.00	12/31/2011	ECSHD
7	TF091982	KYRGYZ (EFA FTI EPDF-ECA): STRENGTHEN PARTNERSHIPS	Multiple Donors	EFA-FTI	TA	185,089.99	264,000.00	12/31/2011	ECSHD
8	TF092574	KRYGYZ EPDF -- EDUCATION SECTOR PLAN	Multiple Donors	EFA-FTI	TA	67,871.32	80,000.00	12/31/2011	ECSHD
9	TF054664	EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE - CHILD TF	Multiple Donors	Extractive Industries Transparency Init.	TA	4,786,166.73	5,897,192.50	10/22/2012	COCPO
10	TF090446	BANK EX.SUPPORT FOR EITI IN COUNTRY IMPLEMENTATION	Multiple Donors	Extractive Industries Transparency Init.	TA	5,095,076.03	6,000,000.00	10/22/2012	COCPO
11	TF091286	KYRGYZSTAN: NBF1 CAPACITY BUILDING	Multiple Donors	Financial Sector Reform & Strength. Init	TA	340,075.94	450,100.00	10/31/2011	ECSPF
12	TF094144	W2-INFORMATION MATTERS - TRANSPARENCY AND ACCOUNTABILITY IN THE KYRGYZ REPUBLIC	Multiple Donors	GPF	TA	299,282.55	793,000.00	10/31/2012	ECSPE
13	TF094769	KYRGYZ REPUBLIC HRBF PILOT ACTIVITIES	Multiple Donors	Health Results-Based Financing	TA	342,914.47	400,000.00	9/30/2013	ECSHD
14	TF050683	NORWAY/WORLD BANK INSTITUTE (WBI) PROGRAMME IN GOVERNANCE - PHASE II	Norway- Ministry of Foreign Affairs	WBI	TA	371,579.29	373,440.45	12/31/9999	WBIGV
15	TF096039	EU TF Food Security: Global Food Crisis Response	EU	GFCRP	OP	264,701.26	320,032.59	8/31/2011	ECSSD
16	TF096491	Rapid Assistance to Improve Social Safety Nets in Kyrgyzstan in the Face of Energy Tariff Reforms	DFID	RAPID SOCIAL RESPONSE CATALYST	TA	43,056.15	50,000.00	6/30/2011	ECSHD
17	TF096647	FIRST #9002 Kyrgyz Republic: Deposit Protection Agency Capacity Building	Multiple Donors	FIRST	TA	96,696.60	252,000.00	7/30/2011	FPDFT
18	TF097853	Kyrgyz Capacity Building PFM TF Supervision of Recipient Activities	Multiple Donors	FS-7PE	TA	15,396.30	112,357.00	6/30/2013	ECSPE
19	TF097911	Kyrgyz Republic #10059 Strengthening Bank Supervision and Resolution	Multiple Donors	FIRST	TA	118,582.65	124,755.00	3/31/2011	ECSPF
20	TF098145	Kyrgyz Republic #9026 Corporate Financial Reporting	Multiple Donors	FIRST	TA	55,812.16	209,600.00	3/1/2012	ECCAT
21	TF098284	Kyrgyz Republic Food security Project	Gov of Russian Federation	GFCRP		68,366.54	275,000.00	4/30/2014	ECSSD
22	TF098542	TF071472-Kyrgyz Rep DFID TA-CO TF for RWSSP-2	DFID	FS-7SD		53,260.27	366,448.88	4/30/2013	ECSSD
23	TF098716	Kyrgyz Republic: Mining Sector TA Project	Multiple Donors	ETAF	TA	89,861.22	300,000.00	12/31/2011	SEGOM
24	TF098717	Kyrgyz Republic: Mining Sector TA supervision	Multiple Donors	ETAF	TA	28,855.30	54,000.00	12/31/2011	SEGOM
25	TF099115	Kyrgyz Republic Support to Vulnerable Remote Mining Communities	Japan - Ministry of Finance	JSDF	TA	33,189.65	50,000.00	12/30/2011	SEGOM
26	TF095391	Forests and Rural Livelihood in the Kyrgyz Republic - Development Potentials	Multiple Donors	PROFOR	TA	79,795.60	120,000.00	10/31/2011	ECSS1
27	TF099787	(BETF) Kyrgyz Republic Disaster Risk management (GFDRR; Track II TA Core)	Multiple Donors	GFDRR	TA	8,358.12	100,000.00	6/30/2013	ECSS6
28	TF099885	Kyrgyz Republic: Preparation of a New Statistical Master Plan	Multiple Donors	TFSCB	TA	0.00	74,400.00	6/30/2012	ECSPE
29	TF099994	Enhancement of the Targeted Social Assistance Program to Allow Rapid Expansion, Improved Administration and Better Coverage/Protection of the Poor during Periods of Economic Volatility	Multiple Donors	RSR	TA	0.00	260,000.00	6/30/2012	ECSHD

Recipient Executed Trust Funds				Subtotal:		29,462,772.16	52,018,742.75		
1	TF090545	KYRGYZ REPUBLIC - SUPPORT TO THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE	Multiple Donors	Extractive Industries Transparency Init.	TA	265,077.61	265,725.00	6/30/2011	COCPO
2	TF095472	Capacity Building in Public Financial Management	Multiple Donors	FS-7PE	TA	508,175.35	7,491,433.00	6/30/2013	ECSPE
3	TF090072	SECOND VILLAGE INVESTMENT PROJECT IN THE KYRGYZ REPUBLIC	DFID	FS-7SD	CO	13,750,434.12	14,596,724.86	6/30/2011	ECSSD
4	TF055171	GEF MSP-KYRGYZ REPUBLIC : DISASTER HAZARD MITIGATION PROJECT	Multiple Donors	GEFIA	TA	962,322.88	1,000,000.00	10/31/2011	ECSSD
5	TF090667	KYRGYZ REPUBLIC: IDF GRANT FOR CAPACITY BUILDING IN PUBLIC SECTOR AUDITING	IBRD	IDF	TA	310,971.92	370,000.00	12/5/2011	ECSPS
6	TF053554	PHRD-KYRGYZ REPUBLIC: AGRIBUSINES AND MARKETING PROJECT	Japan- Ministry of Finance	PHRD Fund - Technical Assistance TF	CO	4,133,853.38	4,750,000.00	12/31/2011	ECSSD
7	TF056324	PHRD-KYRGYZ REPUBLIC: WATER MANAGEMENT IMPROVEMENT PROJECT	Japan- Ministry of Finance	PHRD Fund - Technical Assistance TF	CO	4,227,452.64	4,400,000.00	12/31/2011	ECSSD
8	TF090641	PHRD-KYRGYZ REPUBLIC: REDUCING TECHNICAL BARRIERS FOR ENTREPRENEURSHIP AND TRADE	Japan- Ministry of Finance	PHRD Fund - Technical Assistance TF	TA	200,280.61	299,600.00	4/30/2011	ECSPE
9	TF095989	IDF-INTRODUCTION OF QUALITY MANAGEMENT SYSTEMS IN THE ROADS SECTOR PROJECT	IBRD	IDF	TA	0	480,000.00	8/18/2013	ECSSD
10	TF096043	Eropean union food crisis rapid response Facility, Kyrgyz AISP	EU	GFCRP	OP	1,540,281.52	9,746,446.91	6/30/2011	ECSSD
11	TF097870	Additional Financing Swiss Grant for Co-financing of the Health and Social Protection Project	SDC	FS-7HD	CO	1,122,876.00	1,122,852.50	6/30/2011	ECSHD
12	TF098740	Additional Financing for the Health and Social Protection Project	DFID	FS-7HD	CO	1,441,046.13	1,495,960.48	6/30/2011	ECSHD
13	TF098844	Kyrgyz Fast Track Initiative Catalytic Trust Fund II	Multiple Donors	EFAFTI	CO	1,000,000.00	6,000,000.00	8/31/2012	ECSHD

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

(As of September 30, 2011)

The Kyrgyz Republic joined ADB in 1994. ADB's country partnership strategy for the Kyrgyz Republic is presented in the joint country support strategy²¹ (JCSS) for 2007–10. The JCSS was prepared in cooperation with four development partners—the Swiss Cooperation, the United Kingdom's Department for International Development, the United Nations Agencies, and the World Bank Group. Three other development partners—the European Commission, the German Government (presented by GTZ and KfW), International Monetary Fund, and United States Agency for International Development joined the JCSS at the later years. 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.

ADB's country operations business plan (COBP) 2011–12 updates the country strategy and program 2007–10 to better help the country address challenges that arose after political disturbances in April 2010 and a conflict in June 2010, while maintaining consistency with the priorities set out in ADB's Strategy 2020.²² The program for 2011–12 continues support to public infrastructure and institutional reforms, which will contribute to creating a favorable environment for sustainable growth with broader private sector participation, thereby generating more jobs and income. ADB will continue to support: (i) transport, (ii) water supply and other municipal infrastructure and services, (iii) energy, and (iv) public sector management. Continued support for the education sector, especially for skills development, is being discussed.

ADB is one of the major development partners in the country. All assistance provided to the Kyrgyz Republic is from concessional ADB's special fund resources—Asian Development Fund (ADF). As of 30 September 2011, the country has received 32 loans worth US\$791.2 million, 14 ADF and one GEF grants worth US\$249.1 million. The Kyrgyz Republic has also received seven grants from Japan Fund for Poverty Reduction (JFPR grants) amounting to US\$7 million. Nine operations totaling US\$252 million provided to support policy reforms to facilitate the transition to a market economy. The remaining operations (worth US\$788.3 million) were provided to support various investment activities. At present, seven loans and 11 grants with approved amount of US\$424.3 million are ongoing.

²¹ ADB. 2007. *Joint Country Support Strategy (2007–10): Kyrgyz Republic*. Manila.

²² ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–20*. Manila.

The Kyrgyz Republic has been eligible for 50 percent grant and 50 percent ADF loan since 2009. The indicative allocation for the two years 2011–12 is US\$120 million.

In addition to investment loans and grants, ADB has provided 75 technical assistance (TA) projects amounting to US\$42.9 million as of today.

The performance of ADB's portfolio is generally satisfactory with no loans or grants rated at risk. ADB's annual lending began with US\$40 million in 1994 and reached the peak level of US\$167.8 million in 2010.

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: (i) procedures for procurement of goods and services; (ii) financial management and monitoring of projects; and (iii) 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 October 1, 2011)

Overview of EBRD Activities to Date

The Bank has been actively supporting the transition in Kyrgyz Republic since 1995. From 1995 to the end of 2010, the Bank signed 79 projects accounting for a net cumulative business volume of €371 million as of 1 October 2011. Over the past four years the Bank signed on average 9–10 projects per year with a total of 35 projects and €185 million in volume over the period with an average project size of €5.3 million. The Bank has continued to disburse commitments at approximately €15 million per year. The current private sector portfolio ratio (as a percentage of the total portfolio) is 80 percent which is well above the Bank's 60 percent mandated ratio. In September 2011, EBRD's Board has approved a new country strategy for the Kyrgyz Republic, which is designed to ensure continued EBRD support for the recovery of the country's economy and sustainable growth after a period of social and political unrest in the recent past. The EBRD's key priorities under the new country strategy will be supporting local private enterprises, with a particular focus on the agribusiness sector, stabilising and developing the country's financial sector, and strengthening vital infrastructure.

Fostering the Private Sector: The Bank's operations in support of local private enterprises took advantage of the ETC Initiative, which was instrumental in enabling the Bank to deliver a number of small projects with significant transition impact, particularly in the areas of corporate governance and business conduct. In all, the Bank supported eight local operations under the ETC Initiative. The impact of the global financial crisis and the domestic socio-political crisis impeded the Bank's ability to generate the volume of projects originally anticipated. In particular, a number of private sector projects under preparation when the crises hit—under DLF or MCFF—were cancelled or postponed as they became unbankable.

- Under the Direct Lending Facility (DLF), in 2011 the Bank supported two manufacturing sector operations (a local furniture producer and expansion of gas stations to the regions). As a result of the two crises, the Bank supported fewer DLF operations than expected: following the global financial crisis in 2008–09, the number of potential projects decreased; following the socio-political turmoil in 2010, several DLF projects under preparation were cancelled and/or postponed and a few existing have been restructured.
- In July 2011 the Bank has approved a new €8 million additional loan to Interglass LLC, the largest industrial glass producer in Central Asia, to complete the upgrade and modernization the plant's facilities, located at Tokmok, northern Kyrgyzstan.
- Under the Medium-Sized Co-Financing Facility (MCFF), the Bank supported three MCFF loans: a leading food retailer with two MCFF loans, and one of the leading distribution companies of packaged food products and cosmetic goods. These were the

Bank's first deals in the country's retail sector and the first sub-project with a new MCFF partner bank (Demir Kyrgyz International Bank). This was a modest achievement, with fewer deals under MCFF than expected coming to fruition. Following the 2010 crisis, it was particularly difficult to identify larger size investment projects that could be well supported by MCFF.

- Under the TAM/BAS program, the Bank facilitated the skill transfers to the local consultancy industry and improved the know-how and management of the MSME sector through the provision of management and advisory services to over 500 small local enterprises under the TAM/BAS grant-funded program. This included a successful crisis response initiative in the South in 2010. Despite the difficult business climate, turnover increased in nearly 50 percent of TAM/BAS in the year following project completion, and 16 percent of the clients secured external investments. The Bank has supported the growing professionalism of local advisory services to serve the MSME sector on a sustainable basis and introduced more sophisticated advisory services in areas such as quality management and energy efficiency.
- The Bank supported a landmark large scale operation with a foreign strategic investor in 2010: a US\$150 million three-year revolving credit facility with Centerra Gold Inc. in support of the company's ongoing operations and potential acquisitions of mining assets, signed in 2010. The company, 33 percent owned by the Kyrgyz state, owns the Kumtor gold mine, which generates 30 percent of country's foreign currency reserves and 10 percent of its GDP. One of the major achievements of the project was to improve the reporting of taxes paid by the mining industry under the "Extractive Industries Transparency Initiative (EITI)" and on March 2011, the Kyrgyz Republic became "EITI Compliant". The EBRD supported this process through the active policy dialogue with the authorities and Centerra, the largest mining company in the country.

Strengthening Financial Institutions: The Bank provided crucial support to financial institutions during the previous strategy period at a time when the country was feeling the impact of the global financial crisis in 2008–09 and the domestic socio-political crisis in 2010. The global financial crisis affecting Russia and Kazakhstan had a knock-on effect on the Kyrgyz Republic, in terms of lower demand for Kyrgyz exports and a fall in inflows of remittances to fund private consumption. As the Kyrgyz banking system was dominated by banks with foreign capital, particularly from Kazakhstan, all banks and nonbank micro financial institutions reduced or stopped lending by the end of 2008. The Bank's crisis response included:

- In 2009, provision of local currency financing to banks. The Bank provided three local banks and three nonbank micro financial institutions (NBMFIs) with local currency credit lines totaling the equivalent of €22.7 million at a time of scarce alternative commercial funding.

- In 2010, the Bank disbursed US\$6.5 million equivalent (mainly in local currency) under four existing committed credit facilities in support of local enterprises. The Bank's continued support to the financial sector after the events of April and June 2010 was seen as a strong signal to the Bank's clients as well as other lenders to the sector.
- In the context of ongoing work to address local currency lending broadly across the region under the Bank's Local Currency and Local Capital Market Initiative, the Bank developed a proposal for local currency financing mechanisms, which was approved in February 2011. The Bank aimed to ensure more competitively priced and less volatile local currency operations and to decrease systemic dollarization risk in the financial sector by introducing a risk-sharing scheme supported by donor funds.
- In response to the crisis in 2010, the Bank supported the National Bank with technical assistance, including through supporting its efforts to restructure Asia Universal Bank (AUB), the largest bank in terms of assets prior to the events in 2010, with a forensic audit of its accounts. This has helped contain a possible systemic crisis in the banking system.
- EBRD keeps supporting the financial sector in 2011 by providing uncommitted tranche US\$1.5 million to Mol Bulak Finance, additional lending to Kompanion US\$3 million and KICB equity increase US\$1.3 million. Also the Bank has disbursed second tranche of US\$10 million under a Credit Line of US\$20 million to UniCredit -Kyrgyzstan, to support the Kyrgyz economy via credits to the country's micro and small and medium-sized business sectors.
- During 2011 EBRD has provided local currency loans in amount of US\$12.2 millions to such microfinance institutions as Bai Tushum, Kompanion and Frontiers to catalyze the local currency loan market in Kyrgyzstan.

The Bank has continued moving its partners forward in area of corporate governance, through strengthening external and internal audit, improving shareholder transparency, and implementing better internal policies and procedures. The Bank also conducts training courses for its partner banks in the area of anti-money laundering (AML), which will continue to support better AML standards both at Government and bank levels, and may help to reduce crime and corruption. AML is important in helping local banks and NBMFIs with their transition to more transparent and commercially oriented operations.

Support for Critical Infrastructure: During the previous strategy period, the Bank financed two key infrastructure projects, the first projects to be financed by the Bank in this sector since 1997. However, intentions to finance infrastructure projects on the basis of PPPs turned out to be overly ambitious, given the very weak legal and regulatory framework and the early stage of transition.

- The Bank provided a US\$35 million sovereign loan to finance the renovation of the highway linking the towns of Osh, Batken and Isfana. This road plays a crucial role as an

international transit route in the region by linking Uzbekistan, Tajikistan, and China. Through its financing and policy dialogue the Bank sought the following transition objectives: (i) introduction of tendering procedures for periodic road maintenance, (ii) refining road user charges and reform of the Road Fund, (iii) formulating the privatization plan for maintenance units, and (iv) introducing service level agreements for routing maintenance.

- In the municipal infrastructure sector, the Swiss Government and the EBRD provided €11.8 million to improve the water supply in Bishkek. The project is financed by a grant of €5.7 million from the Swiss Government and a €5.5 million sovereign loan from EBRD. Projects in the water sector enabled the Bank to make progress with water tariff reforms, meeting IFRS accounting standards, and promoting efficiency in the Bishkek water company.
- Despite the difficult domestic situation following the events in April and June 2010, the Bank continued the implementation of the municipal water project and the preparation of project in urban transport in Bishkek.
- In May 2011, the Bank signed new water/wastewater projects for Osh and Jalalabad municipalities. The EBRD's €6 million loan to the projects will be co-financed by a capex grant from SECO (Switzerland). The capex grant is required to meet IMF conditions for nonconcessional lending and mitigate affordability constraints.

Policy Dialogue: EBRD is continuing support to the Investment Council, which has been providing local and international business representatives (representing the mining, industry, agro-processing and tourism sectors) with a forum to discuss the main barriers to doing business with top officials of the government. Following the political events and subsequent changes in 2010, the new government acknowledged its commitment to improve the investment climate in the country and renamed the council as the Council for Business Development and Investment. The donor community expressed its readiness to continue its full support to the Council under the new government.

- The Bank continued to actively engage in policy dialogue with the government and local authorities to promote the further reform agenda in corporate and infrastructure sectors, although reform efforts were temporarily suspended due to the internal political crisis.
- The Bank strengthened its collaboration with the Kyrgyz Supreme Court with a view to increasing capacity in the judiciary dealing with commercial disputes. Since 2007, the Bank provided technical advice to the Judicial Training Centre, trained judicial trainers, delivered commercial law training seminars for up to 240 existing judges, created a law library at the Supreme Court, organized internships in the courts of Kazakhstan and Russia, and published a bench book on commercial law. The Bank expanded its assistance in 2010 to help establish a training system for candidate judges, and implement a fair and transparent judicial selection process. In 2011 under Juridical Capacity Building Project of EBRD 36 Judges have received Certificates for Successful

Completion of Training for Judges who successfully passed Training Program for Applicants to the Position of Local Courts Judges of the Kyrgyz Republic.

ANNEX V. KYRGYZ REPUBLIC—TECHNICAL ASSISTANCE PROVIDED BY THE FUND

February 2003–October 2011

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
	Strengthening the Link between Fiscal Policy and Budget Preparation	October 12–23, 2009	Ministry of Finance
	Monitoring Expenditure Arrears; Adjusting the new BO-COA	October 20–23, 2009	Ministry of Finance
	IMF peripatetic assignment to support overall LTO (large taxpayer office) enhancement	February 22–March 12, 2010	State Tax Service
	Reviewing Treasury's Work and Advising the Authorities on COA Issues	February 15–18, 2011	Ministry of Finance
	Tax Policy Advice	April 20–May 4, 2011	Ministry of Finance, State Tax Service, State Customs Service
	Reviewing progress on COA work	July 4–7, 2011	Ministry of Finance
	Public Financial Management	August 17–30, 2011	Ministry of Finance

	Tax Administration Diagnostic Mission (TPA TTF Module 6)	September 16–29, 2011	Ministry of Finance, State Tax Service, State Customs Service
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
	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, September 22–October 9, 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

	Monetary Framework, Operations, and Liquidity Management	June 25–July 15, 2007	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
	Public Debt Management	July 14–31, 2009	Ministry of Finance and others
	Risk Management within the Islamic Banking Framework	July 6–15, 2009	National Bank of the Kyrgyz Republic
	Financial Stability Analysis and Stress Testing	March 10–18, 2010	National Bank of the Kyrgyz Republic
	Improving the Bank Resolution Framework	March 31–April 9, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	May 31–June 3, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	July 26–August 1, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	August 10–19, 2010	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
	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 State Financial Intelligence Service

	AML/CFT Framework	February 11–15, 2008 March 3–7, 2008	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	Review of the draft Tax Code	April 22–30, 2008	Ministry of Finance
	AML/CFT capacity building	March 25–31, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	May 18–29, 2009	NBKR and State Financial Intelligence Service
	AML/CFT Follow-up	August 3–14, 2009	NBKR and State Financial Intelligence Service
	AML/CFT follow-up	September 22–25, 2009	State Financial Intelligence Service
	AML/CFT Follow-up	October 5–16, 2009	NBKR, State Financial Intelligence Service
	AML/CFT Follow-up	January 27–29, 2010	State Financial Intelligence Service
	AML/CFT Follow-up	February 22–March 4, 2010	NBKR, State Financial Intelligence Service
	AML/CFT Follow-up	January 18–20, 2011	NBKR, State Financial Intelligence Service
	Legal Framework for Crisis Management and Bank Resolution	March 9–23, 2011	NBKR, MoF, Deposit Protection Agency, Debt Enterprise Bank Resolution Agency, Ministry of Foreign Affairs, Union of Banks
	Legal Frameworks for Bank Resolution	September 6–16, 2011	NBKR
	AML/CFT Follow-up	October 17–21, 2011	NBKR, State Financial Intelligence Service, Public Prosecutor
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
National Accounts Statistics	March 1–12, 2010	National Statistics Committee

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–June 2011
MCD	Macroeconomic Analysis and Forecasting	Mr. Petkov	January 2010–January 2011
MCM	Banking Supervision/Restructuring Advisor	Mr. Svartsman	October 2010–present

ANNEX VI. KYRGYZ REPUBLIC—STATISTICAL ISSUES

14. 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 Regulation (MER), 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.

15. 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.

16. 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

17. 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.

18. The November 2008 STA mission on national accounts assisted the staff of the National Accounts Division in NCS to produce discrete quarterly GDP estimates at current and constant prices, using both the production and expenditure approaches. The mission made a number of recommendations, including: (a) need to introduce the new establishment surveys; (b) disseminate the industrial production index (IPI) as a chain-linked indices, in line with international standards; (c) investigate the inconsistency between the IPI and the producer price index (PPI); (d) fully computerize the calculation of volume estimates for agriculture in line with international practice; and (e) obtain time series data for loans and deposits of financial institutions.

Price and labor market statistics

19. 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.

20. 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.

21. 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.

22. 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

23. 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; and the data were compiled using the *GFSM 2001* analytical framework.

24. 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 ministry of finance 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)

25. 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*).

26. 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.

27. 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.

28. 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

29. 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 October 20, 2011)

	Date 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	10/18/11	10/18/11	D	D	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	10/18/11	10/18/11	M	M	M		
Reserve/Base Money	10/18/11	10/18/11	D	D	M	LO, O, LO, LO	LO, O, O, LO, LO
Broad Money	9/30/11	10/15/11	M	M	M		
Central Bank Balance Sheet	10/18/11	10/18/11	D	D	M		
Consolidated Balance Sheet of the Banking System	9/30/11	10/15/11	M	M	M		
Interest Rates ²	9/30/11	10/15/11	W	W	W		
Consumer Price Index	9/30/11	10/10/11	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	8/30/11	9/26/11	M	M	A	O, LNO, LO, O	LO, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	8/30/11	9/26/11	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	8/30/11	9/26/11	Q	Q	Q		
External Current Account Balance	6/30/10	8/30/11	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, LO, LO
Exports and Imports of Goods and Services	6/30/10	8/30/11	Q	Q	Q		
GDP/GNP	9/30/11	10/10/11	M	M	M	O, O, LO, O	LO, LO, LO, O, O
Gross External Debt	6/30/10	8/30/11	Q	Q	A		
International Investment Position ⁶	6/30/10	8/30/11	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.

Statement by the Staff Representative on the Kyrgyz Republic
December 7, 2011

1. This statement provides an update on recent developments since the issuance of the Staff Report for the First Review under the Three-Year Arrangement under the Extended Credit Facility and Request for Modification of Performance Criteria (www.imf.org). It does not alter the thrust of the staff appraisal.
2. President Atambaev was inaugurated on December 1, 2011. In line with official procedures, the government and the speaker of the parliament remain in office in an acting capacity. By December 19 the parties are expected to form a coalition that can command a parliamentary majority and then nominate a prime minister and cabinet for approval by Parliament. Staff does not expect any disruptions in program implementation during this process as the president was instrumental in negotiating the ECF arrangement in his capacity as prime minister.
3. The council of the Eurasian Development Bank's Anti Crisis Fund decided on November 28 that the planned US\$106.7 million disbursement, which the authorities were expecting would contribute to budgetary financing in 2011, will not be forthcoming during the remainder of this year. The council plans to revisit the issue early 2012. The resulting shortfall in external program financing will trigger a program adjustor, reducing the 2011 fiscal deficit target commensurately. In light of the uncertainties surrounding this disbursement, the authorities have been implementing the 2011 budget very cautiously, and staff expects that they will be able to meet the adjusted end-December fiscal deficit target.



Press Release No. 11/446
FOR IMMEDIATE RELEASE
December 7, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under the Extended Credit Facility for the Kyrgyz Republic, Approves US\$14.8 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 program supported by a three-year, SDR 66.6 million (about US\$103.53 million) Extended Credit Facility arrangement (see [Press Release No. 11/245](#)). Approval of the review makes SDR 9.514 million (about US\$14.79 million) available to the Kyrgyz Republic. This would bring total disbursements under the arrangement to SDR 19.03 million (about US\$29.58 million).

In completing the review, the Board approved the authorities' request for an upward modification of the quantitative performance criteria (QPC) on the net international reserves held by the National Bank of the Kyrgyz Republic (NBKR) for end-December 2011, reflecting higher-than-expected foreign-exchange inflows. with the subsequent modifications in the QPC on the NBKR's net domestic assets. The Board approved also the authorities' request for an upward modification of the QPC on the general government overall deficit target for end-December 2011 to reflect the advancement of the foreign-financed energy infrastructure project. Moreover, in light of the successful renegotiation of the borrowing terms on the first phase of this project, the Board approved a downward modification of the ceiling on contracting or guaranteeing of nonconcessional external debt by the public sector.

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

“Implementation of sound policies under the Fund-supported program has helped the Kyrgyz Republic recover from the sharp slowdown last year. Growth has been strong and inflation has fallen considerably. However, the country faces a number of challenges going forward, including from a deterioration in the global economic environment.

“Fiscal performance has been strong and the authorities have agreed to accelerate fiscal consolidation in the medium term to reduce vulnerabilities, rebuild policy buffers, and ensure debt sustainability. The government intends to restrain current spending while preserving priority capital outlays to increase the economy’s long-term growth potential. Reforms in tax policy and administration are expected to boost revenues, while public financial management reforms will strengthen governance and transparency.

“The authorities’ response to the pickup in inflation has been effective. The central bank plans to maintain a tight monetary stance to mitigate underlying price pressures. While key banking indicators have been improving, ongoing efforts to enhance the resilience of the financial sector are critical. The authorities intend to press ahead with legal reforms to strengthen the bank resolution framework and to keep monitoring closely systemically important institutions.

“Good governance and sound institutions remain key to creating a level-playing field for strong private sector-led growth. The authorities remain committed to ensuring that all of their development plans are consistent with the principles of good governance and transparency.”

Statement by Mr. Weber and Mr. Duperrut on Kyrgyz Republic
December 7, 2011

On behalf of our Kyrgyz authorities, we thank staff for their competent and valuable advice on sound macroeconomic policies and for their support in strengthening the country's medium-term economic fundamentals. The Fund's engagement in the Kyrgyz Republic is highly appreciated as it has contributed to a strong recovery after a difficult period of internal conflict. The new arrangement under the ECF has, in particular, provided a firm—but welcome—stability-oriented policy framework in the run-up to the presidential elections in late October. With these peaceful and inclusive elections, the Kyrgyz Republic has largely completed the political transition to a system of parliamentary democracy.

The authorities are committed to the objectives of the program and take good note of the staff's appraisal and recommendations, including on the need for restraint on current spending and allow for the build-up of fiscal buffers in case of adverse shocks. They will continue to strive for political, economic, and social stability and, to this end, will further strengthen laws and institutions, combat corruption, strengthen policy implementation capacity and public service delivery, and actively seek national reconciliation.

Program performance

Program performance has been strong with all quantitative performance criteria, indicative targets, and structural benchmarks being met. The Kyrgyz authorities have requested to modify several quantitative performance criteria on account of stronger than projected economic growth, higher foreign exchange inflows, improved terms on external borrowing, and the earlier start of an important energy-related infrastructure project. These requests reflect their high degree of ownership of the program.

While being thankful to the international donor community for their support, the authorities are concerned about the predictability of committed external assistance. They would like to emphasize that such assistance should be more foreseeable in order for them to budget realistically and sensibly. As it were, some large amounts of budget support that was previously pledged will not become available in 2011. It is mainly due to the fiscal overperformance under the program that these shortfalls will have a limited impact on the government's ability to pursue its fiscal objectives, including spending on development and social services.

Macroeconomic outlook

The recovery in economic activity has been stronger than expected, while inflationary pressures are abating rapidly. The Kyrgyz economy is experiencing a strong and broad-based rebound, reported at 9.0 percent year-on-year in January-October 2011, led by rapid industrial output growth. The authorities are confident that this rebound can be sustained over the medium-term thanks to sound monetary and fiscal policies. The National Bank of the Kyrgyz Republic (NKBR) has taken decisive monetary policy actions, which have resulted in a rapid lowering of inflation, and a re-anchoring of inflationary expectations.

On the fiscal front, the revenue outturn has improved significantly, thus creating fiscal space and allowing for an increase in much needed social spending, especially—from a low base and as a one-off measure—on pensions. Overall, the fiscal balance has stayed within agreed limits, and the authorities remain committed to the ambitious fiscal consolidation path, which should result in a further decline in the total public debt-to-GDP ratio. The solid performance over time on debt reduction has led to the graduation of the Kyrgyz Republic from the HIPC initiative, as recently acknowledged by the Boards of the IMF and the World Bank.

The authorities are taking appropriate action to strengthen the stability of the banking system, namely by resolving problem bank and closely monitoring systemic banks. They acknowledge that strengthening banking supervision, adopting a bank resolution framework, and solving litigation issues will require additional measures, for which technical assistance provided by the Fund and by donors is much appreciated. The authorities commend staff's support of the NBKR operational and managerial independence, and will work on further amending the law on the NBKR to reflect the recommendations made as part of the recently concluded safeguards assessment.

The authorities take good note of the risk scenarios presented by staff. The state of the global economy is indeed a major concern, as economic activity relies significantly on trade, remittances, and global commodity prices. However, macro-economic stability in the Kyrgyz Republic should be ensured, in particular, thanks to the ECF and with the support of other development partners. The authorities stand ready to take additional measures, as needed.