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WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **MARAT A. SULTANOV,**
Governor of the Bank for the **KYRGYZ REPUBLIC,**
at the Joint Annual Discussion

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Dear Ladies and Gentlemen:

Allow me on behalf of the Government of the Kyrgyz Republic to greet all the participants in the Annual Meetings of the Boards of Governors of the IMF and the WB. It is a great honor for the KR delegation and for me personally to participate in these meetings.

These meetings of the leaders of financial institutions are taking place at a critical time for the global economy. The crisis has affected practically every country, regardless of their size or their values. Therefore, these meetings are an excellent forum for an exchange of experiences among our countries in overcoming the adverse effects of the crisis.

Allow me to familiarize you with our country’s experience.

We are a small, mountainous, post-Soviet country that does not have abundant oil and gas reserves. After the breakup of the USSR we experienced an enormous shock because of the destruction of common economic links and the loss of state transfers from Moscow which resulted in a huge increase in poverty. We carried out reforms with the support of the IMF and the WB and, for all intents and purposes, built a completely different model of a state. From the beginning of this century until the crisis hit, we had a stable annual growth rate of 5-7 percent; a small budget deficit of 1-2 percent of GDP; a low, single-digit inflation in the 4-5 percent range; a stable exchange rate; good tax revenues; a stable banking system; and a significant inflow of remittances (more than USD 1.3 billion). We have pursued a liberal trade policy and maintained full convertibility in our current and capital accounts.

The first shockwave hit Kyrgyzstan in the middle of 2007, when prices for basic farm products increased and we faced the threat of a shortage of basic foodstuffs normally imported from other countries. For the first time we received very prompt assistance from multilateral and bilateral donors in solving this problem.

The second shockwave involved a sharp rise in energy prices and again we received very timely and high-quality assistance from the World Bank.

But the third wave of the crisis was already looming. The government immediately adopted a package of anti-crisis measures to prevent harmful effects for the economy. Its plan consisted of the following:

1. Reducing taxes for the real sector of the economy. A VAT decrease from 20 to 12 percent proved especially effective. We believed this approach was fairer than targeting assistance to specific companies;
2. Freezing the planned electricity tariffs increase, as an additional subsidy for the private sector;
3. Adopting a program to improve the business climate, in terms of which, incidentally, we became one of the top three countries in the world that have achieved the greatest progress in this respect;
4. Sharply increasing the budget for development and the national investment program;
5. Bolstering market mechanisms for providing assistance to agriculture and social protection for the most vulnerable, specifically raising pensions by 50 percent;
6. Establishing a deposit insurance fund and guaranteed depositors protection of their deposits up to KGS 100,000 [soms] (USD 2,300);
7. Capitalizing banks where the state had a stake;
8. Deciding to capitalize the National Bank.

All these measures led to an increase in the budget deficit.

But in order to successfully carry out this plan, we had to seek out additional external financial assistance. And we are thankful to Great Russia for providing support in the amount of USD 150 million and USD 300 million in credit, virtually on IDA terms. We are also grateful for the very rapid and high-quality assistance from multilateral donors (especially the WB, the IMF and the ADB) and our old, traditional donors from the EU, Switzerland, Japan, UK, etc.

While drawing up the anti-crisis plan we proceeded from the premise that the crisis created problems but also offered new opportunities. For instance, we import oil products, grain, building materials and process equipment, which fell in price. This enabled us to make efficient use of the development budget and even to achieve some economic growth, while keeping down inflation which had become a problem after the first two shocks that I referred to earlier.

As a result we were able to substantially mitigate the effect of the global crisis on our economy, and are now preparing a recovery strategy, the essence of which is as follows:

1. To prevent the external debt from ballooning to more than 45-47 percent of GDP and to reduce it to 40 percent of GDP over the course of the next three years;
2. To reduce the budget deficit annually by 1-1.5 percent and reach pre-crisis levels by 2013;

3. To eliminate the quasi-fiscal deficit in the energy sector within a year to 18 months, to privatize distribution companies and to create conditions for an inflow of private investment in generating companies;
4. To reform state administration, especially enhancing the effectiveness of investments in agriculture by developing market-based financial institutions;
5. To sharply increase the country's attractiveness as an investment destination by establishing a public-private partnership and creating institutions responsible for this;
6. To strengthen our partnership with international institutions and bolster regional cooperation in order to support food-safety programs and global environmental programs related to climate change.

As is clear from the foregoing, the Kyrgyz Republic fully supports the initiatives that have been adopted by the international community lately and appreciates that these programs are not just aimed at solving the problems of future generations but are also relevant today.

The assistance from the WB and the IMF helps low-income countries to increase their economic and resource capacity, develop their human resources and, most importantly, to successfully reduce poverty through economic growth. This is the main objective both for the donor community and for the recipient countries.

In closing, I join my colleagues in expressing deep appreciation to the Government and people of Turkey, the leadership of the WB and the IMF, the Executive Directors and the Secretariat for their hard work and hospitality in preparing these meetings, and in wishing everyone success and the best of luck!