



# THE KYRGYZ REPUBLIC

## Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Request for Modification of Performance Criteria

December 2013

In the context of the fifth review, the following documents have been released and are included in this package:

- **Staff Report** for the fifth review under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on September 25, 2013, 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 15, 2013. 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.
- **Staff Statement** of December 4, 2013
- **Informational Annex** prepared by the IMF.
- **Press Release** summarizing the views of the Executive Board as expressed during its December 4, 2013 discussion of the staff report that completed the request and/or review.
- **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\*  
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.

Copies of this report are available to the public from

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

Price: \$18.00 a copy

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



# KYRGYZ REPUBLIC

## FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

November 15, 2013

### EXECUTIVE SUMMARY

**Political context.** The political environment has been broadly stable, albeit the ongoing dispute with gold company Centerra is creating tensions. In September, the government and Centerra signed a memorandum of understanding which stipulated the exchange of 33 percent of the government's share in Centerra for a 50 percent stake in Kumtor. Parliament, however, asked for further negotiations with a view to increase the Kyrgyz share in the joint venture. The Kyrgyz parliament approved the legislation to close the Manas Transit Center in July 2014.

**Background.** Growth (both overall and nongold) was strong over the first nine months of 2013 (9.2 and 6.1 percent, respectively) and inflation has declined steadily. Intensive public investment programs and the decline in gold prices are putting temporary pressures on the current account. The loss of nontax revenues related to the closure of the Manas Transit Center next year is creating headwinds for fiscal consolidation. Nonetheless, the medium-term outlook is broadly favorable, despite the slowdown in the region. System-wide financial stability indicators have been broadly sound and the capitalization of Zalkar bank, which was renamed Rosinbank, is underway.

**Program.** The program is broadly on track with all end-June 2013 quantitative performance criteria, and all but one indicative targets met. The end-September structural benchmark on issuing regulations to expand commitment control to local budgets and special means was missed. Issuing the regulations is a prior action for this review. The authorities are requesting the sixth disbursement (SDR 9.514 million) to become available upon completion of this review.

Approved By  
**Juha Kähkönen (MCD)**  
**and Mark Flanagan**  
**(SPR)**

The team comprised C. Beddies (head), C. Gicquel, D. Ostojic (all MCD), P. Mathieu (MCM), Q. Chen (SPR) and K. Gvenetadze (Resident Representative). Y. Sobolev (incoming Resident Representative) joined part of the mission during his pre-assignment visit. Discussions were held in Bishkek during September 18–October 2, 2013. The mission met with President Atambaev, Head of the Parliamentary Budget Commission Keldybekov, Prime Minister Satybaldyev, First Vice Prime Minister Otorbaev, Minister of Finance Lavrova, Chairperson of the National Bank of the Kyrgyz Republic (NBKR) Asankojoeva, Minister of Economy Sariev, other senior government officials, representatives of donor community, the private sector, and civil society.

## CONTENTS

<b>RECENT DEVELOPMENTS</b>	<b>4</b>
A. Context	4
B. Recent Developments	4
C. Program Implementation	7
D. Medium-Term Outlook and Risks	8
<b>POLICY DISCUSSION</b>	<b>12</b>
A. Fiscal Policy	12
B. Monetary Policy	14
C. Financial Sector Policies	15
D. Structural Policies	18
<b>PROGRAM AND OTHER ISSUES</b>	<b>19</b>
<b>STAFF APPRAISAL</b>	<b>20</b>
<b>BOXES</b>	
1. Spillovers from Russia	9
2. Infrastructure Projects Over 2013–17	11
3. 2013 FSAP Update Recommendations	17
<b>FIGURE</b>	
1. Recent Economic Developments 2010–13	5
<b>TABLES</b>	
1. Selected Social and Economic Indicators, 2011–18	22

2. Balance of Payments, 2011–18	23
3. NBKR Accounts, 2011–14	24
4. Monetary Survey, 2011–14	25
5. General Government Finances, 2011–15 (in millions of soms)	26
6. General Government Finances, 2011–15 (in percent of GDP)	27
7. State Government Finances, 2011–15 (in millions of soms)	28
8. State Government Finances, 2011–15 (in percent of GDP)	29
9. Social Fund Operations, 2011–15	30
10. General Government Operations, GFSM 2001 Presentation, 2011–15	31
11. Proposed Reviews and Disbursements Under the Three-Year Extended Credit Facility Arrangement	32
12. Indicators of Capacity to Repay the Fund, 2013–18	33
13. Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2012–June 2013	34
14. Structural Benchmarks under the Extended Credit Facility for 2013–14	35

## **ANNEX**

I. Debt Sustainability Analysis Update	36
--	----

## **APPENDIX**

I. Letter of Intent	47
Attachment I. Revised Technical Memorandum of Understanding	57

## RECENT DEVELOPMENTS

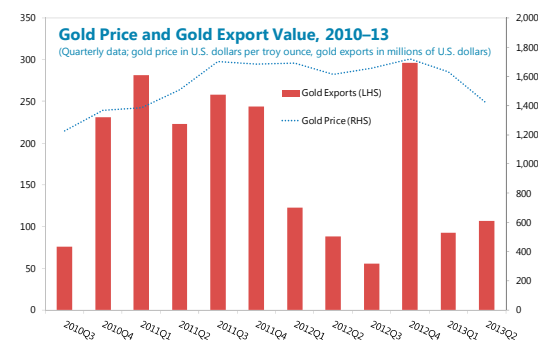
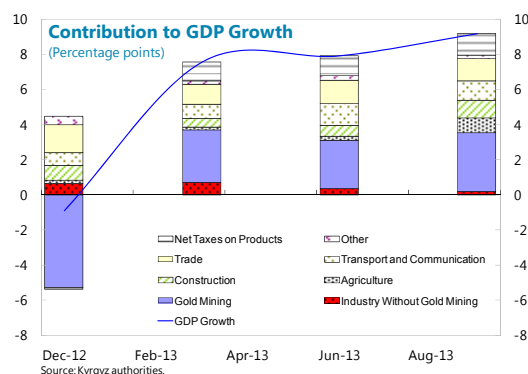
### A. Context

**1. The current coalition government has maintained a broadly stable political environment, but the situation remains challenging.** The key political controversy remains the dispute related to the Kumtor gold mine. At end-May, supporters of the then jailed leaders of the opposition faction Ata-Jurt (now released) blocked the access road to the Kumtor gold mine and cut its power supply. Government intervention helped normalize the situation, with road access and power supply restored quickly. The ongoing negotiations with Centerra may lead to renewed political turmoil. The government and Centerra signed a memorandum of understanding (MOU) which stipulated the exchange of 33 percent of the government's share in Centerra for a 50 percent stake in Kumtor. The MOU was submitted to parliament in mid-September, but members of parliament called for another round of negotiations to be completed by December 10, 2013, essentially asking for a larger share in the joint venture. The Kyrgyz parliament approved the legislation to close the Manas Transit Center in July 2014.

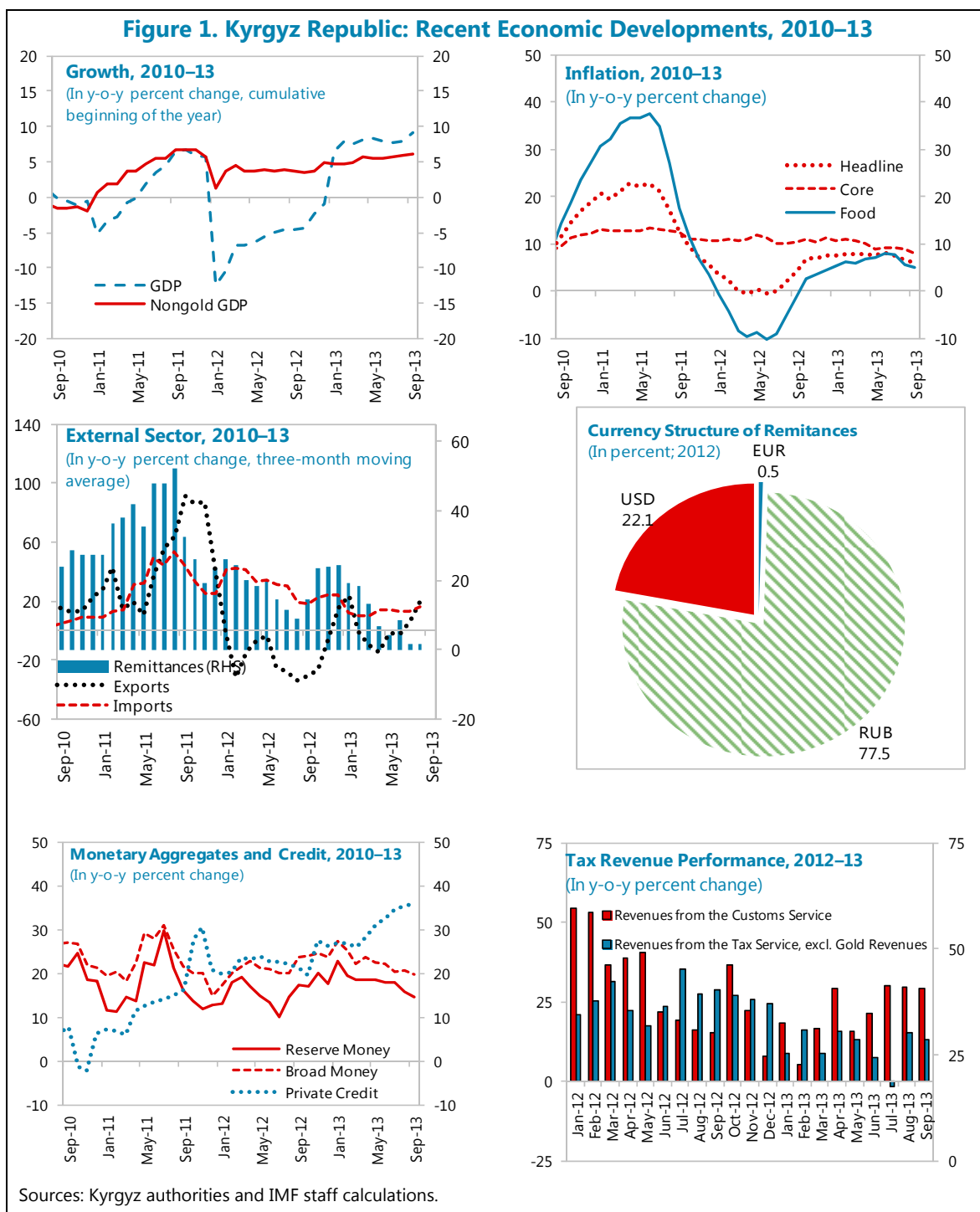
### B. Recent Developments

**2. Following the sharp contraction in 2012 related to disruptions in gold production, the economy is recovering strongly:**

- Growth reached 9.2 percent (year-on-year) in the first nine months of 2013. Growth was broad based, driven by the recovery in the gold sector and strong performance in the transport, communication, trade, and construction sectors. Nongold growth reached 6.1 percent (year-on-year).
- Headline inflation dropped to 6 percent in September, while core inflation has remained in single digits since May.
- The current account deteriorated in the first seven months of 2013, owing to an increase in imports, primarily related to public investment programs (PIPs) and FDI in the Upper-Naryn hydro-power plants, but also the decline in gold prices (partly mitigated by the recovery in gold production and therefore exports). The authorities are still studying the potential macroeconomic impact of joining the Eurasian Customs Union.



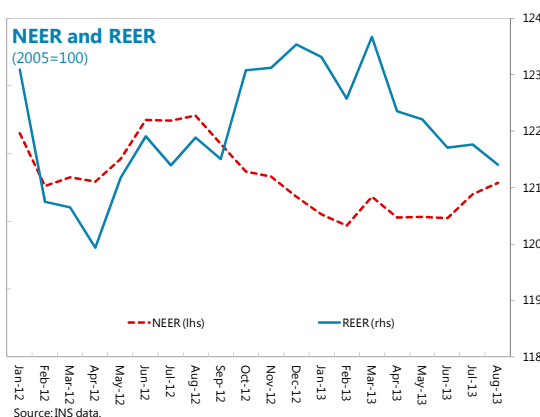
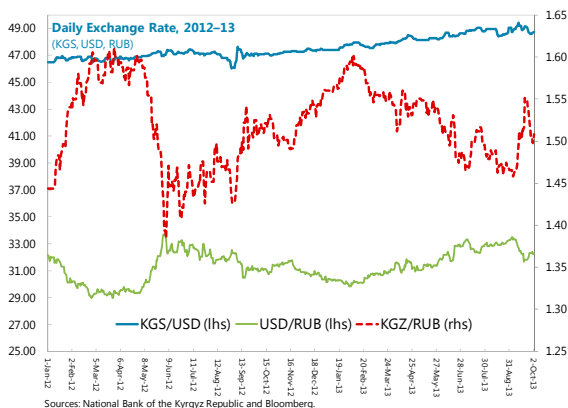
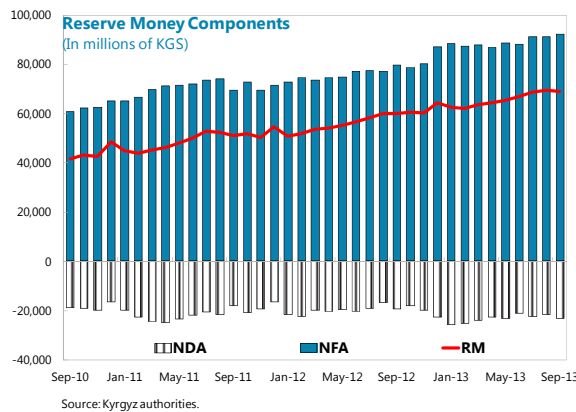
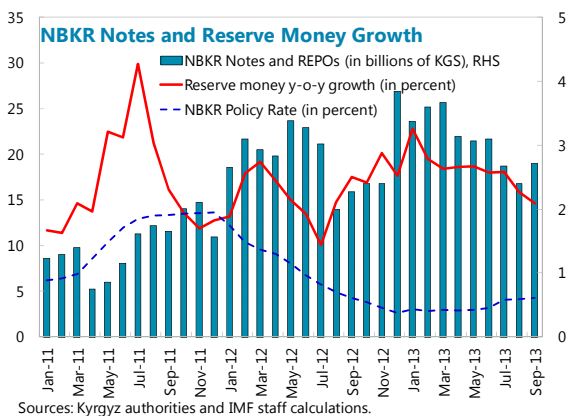
**3. The incidence of poverty remains a concern.** The overall poverty level increased to 38 percent in 2012, from 36.8 percent in 2011, while extreme poverty decreased by 0.2 percentage points (to 4.4 percent) during the same period. Poverty in urban areas increased by 4.6 percentage points, whereas in rural areas it decreased by 0.9 percentage points. The National Sustainable Development Strategy for 2013–17 is in its first year of implementation, and a more detailed progress report is under preparation.



**4. Fiscal policy has remained prudent.** Stronger-than-expected growth and higher imports led to an over performance of VAT and income taxes (excluding Kumtor) over the first six months. Nontax revenues from profits of state owned enterprises were also stronger than expected. Expenditures were in line with the program. As a result the end-June deficit was som 2.2 billion, compared with the adjusted target of som 5.7 billion. In early July, the government received a budget support grant (US\$20 million) from Russia which will offset the impact of lower gold prices on revenues this year.

**5. The NBKR continued to maintain a tight monetary policy stance over the first nine months of 2013. In particular:**

- Reserve money growth gradually declined from 22 percent year-on-year in January to 14.6 percent in September 2013.
- The NBKR increased sterilization efforts via NBKR notes, but the volume was not sufficient to keep reserve money growth within the indicative targets for March and June (albeit missed by a small margin). The indicative target for September was met.
- The NBKR intervened in the foreign exchange market only once to smooth excess volatility of the som, which has depreciated by 2.9 percent against the U.S. dollar and appreciated by 3.4 percent against the Russian ruble since the beginning of the year (cross exchange rate). The NEER has depreciated by 0.5 percent, while the REER has depreciated by 1.7 percent since the beginning of the year.



**6. The banking sector remains relatively stable and well capitalized, but credit growth has been strong.** Credit to the private sector increased by 36 percent year-on-year at end-September. The main drivers are loans in som with a maturity over six months to agriculture, trade, and industry. Following the strong credit expansion, capital adequacy and liquidity ratios have declined, but remain well above the thresholds (Text Table 1). The NPL ratio, which is low for the whole system but higher for small banks, continued to decline, in part because of high credit growth.

Text Table 1. Kyrgyz Republic: Selected Financial Soundness Indicators, 2010–13

	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
<b>Capital Adequacy 1/</b>													
Regulatory capital to risk weighted assets	25.4	23.1	31.0	30.4	28.2	29.7	30.3	29.7	27.3	27.9	28.3	25.9	24.6
Capital to total assets	18.0	16.0	20.0	20.1	18.7	19.8	20.1	19.4	17.9	17.9	18.3	17.6	16.9
<b>Liquidity</b>													
Liquidity ratio	75.6	64.8	72.8	76.5	73.1	72.8	74.9	83.5	80.3	78.6	80.0	77.7	68.4
Excess reserves/total reserves	43.4	39.3	57.3	34.3	34.7	33.5	27.0	40.0	32.5	33.6	34.6	39.0	23.2
<b>Asset quality 1,2/</b>													
Nonperforming loans/total loans	13.7	16.8	15.8	13.8	12.3	11.4	10.2	9.9	9.0	8.5	7.2	6.6	5.9
Loan-loss provisioning/nonperforming loan:	52.8	62.7	67.7	59.6	59.8	59.2	61.6	60.3	62.3	61.6	64.9	63.0	62.9
<b>Earnings and profitability 1,2/</b>													
Return on equity	-58.0	-51.3	7.1	13.3	14.4	14.6	17.7	15.0	16.9	19.5	18.5	13.7	15.2
Return on assets	-11.2	-9.3	1.2	2.5	2.7	2.7	3.0	2.7	2.7	3.3	3.0	2.3	2.5

Source: National Bank of the Kyrgyz Republic.

1/ AUB is excluded from October 2010.

2/ In March 2011, some NPLs were transferred from Zalkar bank to the old AUB and left the system.

**7. The usury law that was signed into law in late July may further inhibit competition and impede monetary transmission.** The law puts a cap on interest rates that both banks and MFIs can charge to their clients. The cap is 15 percent above the average weighted interest rate. Given that operational and funding costs vary among banks, among MFIs, and in particular between the two groups, this will limit competition and reduce access to credit, particularly in remote areas. In addition, not all costs of a loan are reflected in the interest rate (different types of fees, e.g., loan origination, etc). Given that the law is already effective, the NBKR intends to calculate weighted average interest rates based on annual percentage rates (APRs)—including all other costs of a loan—and make sure to differentiate between the rate for banks and the rate for microfinance organizations. This will help mitigate potential negative effects.

Text Table 2. Kyrgyz Republic: Interest Rates of Banks and MFIs

	Banks	MFI	Credit Unions
Loans in KGS	20.4	34.5	31.5

Source: National Bank of the Kyrgyz Republic.

## C. Program Implementation

**8. The program remains broadly on track.** All end-June 2013 quantitative performance criteria (QPCs) and all but one indicative targets were met (Table 13). A new tax policy department was created in the ministry of finance (at this time, 15 staff are working in the department). The



resolution requiring SOEs to report financial and borrowing plans to the state property management fund and to the ministry of finance was issued on June 10, 2013. The Banking Code has been submitted to the parliament on September 27, 2013. The end-September structural benchmark on issuing a regulation on expanding the coverage of the commitment register to include local budgets and special means was not observed because the authorities needed more time to address numerous comments from government agencies. This measure is now a prior action for the completion of this review (Table 14). The new owner of Zalkar bank, which was renamed Rosinbank, paid in the first installment of recapitalization.<sup>1</sup> The new owner intends to rebrand the bank and provide a broader range of services (including mobile banking and automated tax payments).

## D. Medium-Term Outlook and Risks

### 9. **Despite the decline in gold prices, the slowdown in the region, and headwinds for fiscal consolidation from the closure of the Manas Transit Center, the medium-term outlook remains broadly favorable:**

- Because of strong growth performance over the first nine months, the projection for this year was revised upward, with growth expected to reach at least 7.8 percent. However, due to the slowdown in Russia (Box 1), which transmits to the Kyrgyz Republic via remittances and external trade channels with a lag, growth for 2014 was revised downward from 7.5 percent to 6.5 percent. Growth is expected to stabilize at 5 percent over the medium term, supported by infrastructure investments and better access to credit.
- With the revised growth outlook, revenues from VAT and income tax are expected to weaken as automatic stabilizers take effect. Therefore, the fiscal deficit is projected at 4.1 percent in 2014, compared to 4.0 percent at the time of the fourth review. The medium-term adjustment path remains unchanged with the fiscal deficit expected to narrow to 2.3 percent by 2016.
- The current account deficit is estimated to decline to 10.4 percent of GDP in 2013, helped by the recovery in gold output (back-loaded in Q4), and lower food and fuel prices. Because of substantial import-intensive FDI and infrastructure loans (Box 2), the current account deficit is expected to widen to 15.7 percent in 2014 and decline gradually over the medium term. While the persistence of current account deficits remains a concern for external stability, imports related to the recently contracted concessional PIP loans and to a larger extent forthcoming FDI do not create additional pressures on the balance of payments. Taking this into account, reserves continue to be broadly adequate.
- The authorities agreed with the near- and medium-term projections, but highlighted that growth this year could be higher.

<sup>1</sup> To date, the new owner has paid US\$8.5 million (76 percent of total capital to be replenished by the investor).

Text Table 3. Kyrgyz Republic: Medium-Term Outlook, 2011–18

	2011	2012	2013	2014	2015	2016	2017	2018
			Projections					
	(Percentage change)							
Real GDP	6.0	-0.9	7.8	6.5	5.3	5.0	5.0	5.0
Nongold real GDP	5.6	5.0	5.0	4.0	5.0	5.0	5.0	5.0
Inflation (eop, year-on-year)	5.7	7.5	7.0	7.0	6.0	6.0	5.5	5.5
	(Percent of GDP, unless indicated otherwise)							
Gross investment	24.1	26.7	26.9	27.7	29.1	29.7	29.0	30.7
Gross savings	17.5	11.4	16.5	12.0	13.9	17.3	19.2	25.2
Fiscal balance	-4.6	-5.4	-5.2	-4.1	-2.6	-2.3	-2.5	-2.5
Current account balance	-6.5	-15.3	-10.4	-15.7	-15.1	-12.4	-9.8	-5.5
External public debt outstanding	45.2	46.8	44.6	44.5	44.3	43.7	40.9	39.3
Gross reserves (months of next year imports, eop)	3.4	3.7	3.3	3.5	3.5	3.5	3.6	3.6
Reserve money growth (12-month change, in percent)	12.8	17.7	16.3	12.5	9.0	9.0	8.5	8.0

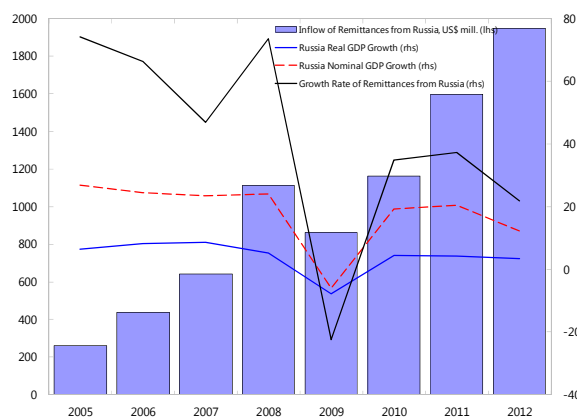
Sources: Kyrgyz authorities and IMF staff calculations.

### Box 1. Kyrgyz Republic: Spillovers from Russia

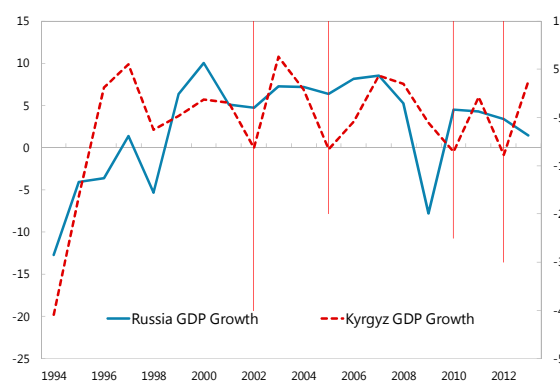
*The slowdown in Russia is expected to affect the Kyrgyz Republic via remittances and external trade channels and ultimately domestic demand, consumption, and tax revenues.*

Remittances account for 30 percent of GDP in the Kyrgyz Republic and about 95 percent of remittances come from Russia. Given the high elasticity of remittances to growth in the host country (the literature suggests that a 1 percent slowdown in growth will result in a 2 percent slowdown in remittances; the slope coefficient in the case of the Kyrgyz Republic is about 2.86), the channel will impact the Kyrgyz growth rate through weaker demand and domestic consumption. As a result, a slowdown in remittances would eventually result in lower tax revenues (Box 3.2 in the 2010 Middle East and Central Asia Regional Economic Outlook). The growth correlation between the Kyrgyz Republic and Russia seems to be weaker in the 2000's than before, as domestic factors (natural disasters and political revolutions in 2002, 2005, 2010, and 2012) dominated. Country Report 13/34 suggests that output linkages between the Russian and the Kyrgyz economies are not strong, with a correlation of 0.4.

*Remittances inflows are highly correlated with growth in Russia.*

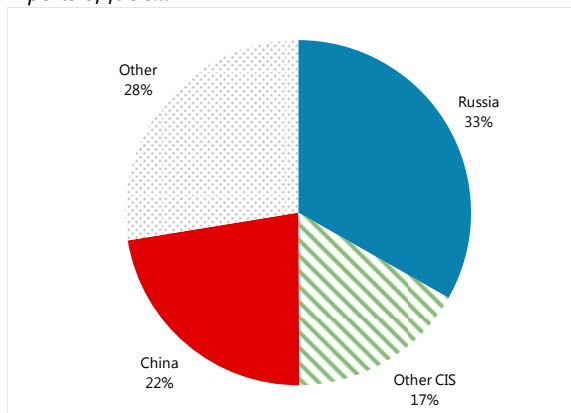


*Correlation of Russian and Kyrgyz growth has weakened due to domestic factors in 2002, 2005, 2010, and 2012.*

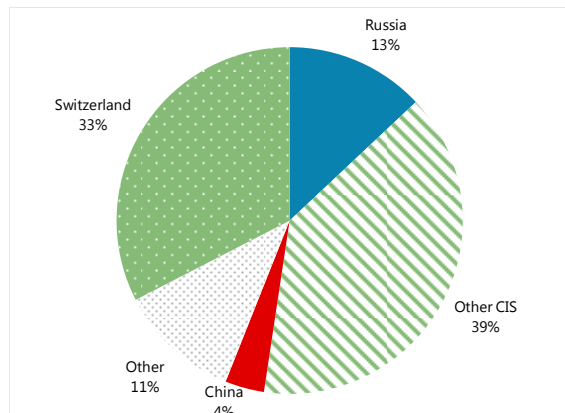


**Box 1. Kyrgyz Republic: Spillovers from Russia (concluded)**

*Russia remains an important trading partner, in particular imports of fuels...*



*...and still a significant export market.*



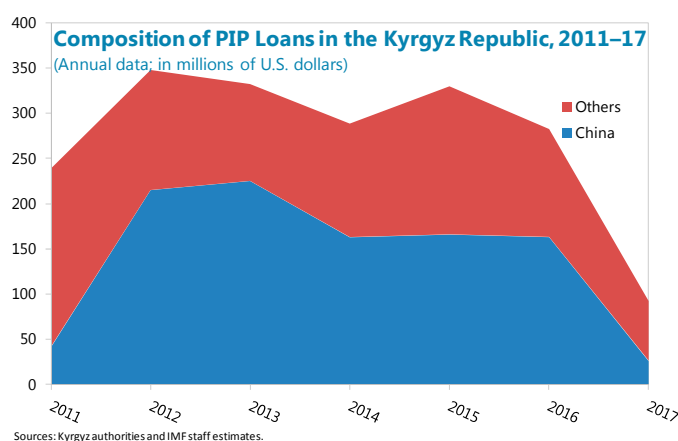
Sources: Kyrgyz authorities and IMF staff estimates.

External trade is another channel for transmitting spillovers to the Kyrgyz Republic. Imports from Russia account for 34 percent of total imports, of which 40 percent is fuel (nonelastic import). Imports may increase partly on account of more affordable goods from Russia. Exports to Russia are mainly clothing items, machinery, and food. Given that these exports account for 13 percent of total exports, the direct trade impact is expected to be limited. However, second round effects of weaker demand in other CIS countries because of weaker demand in, and lower remittances from, Russia may have a larger effect on the Kyrgyz Republic. The Kyrgyz Republic is the main re-exporter of Chinese goods to CIS countries. Exports to CIS countries account for over one half of total exports, while trade accounts for 16 percent of GDP in the Kyrgyz Republic (and contributed about 1.6 percent to GDP growth in both 2011 and 2012).

## Box 2. Kyrgyz Republic: Infrastructure Projects Over 2013–17

The Kyrgyz Republic is embarking on an intensive public investment program (PIP) for infrastructure projects. PIPs require substantial imports, widening the current account deficit. Because these PIPs are financed mostly by FDI and to a lesser degree by concessional loans, there is a limited impact on the balance of payments and debt sustainability (Annex I). While the large-scale hydropower project (Kambarata) could secure the long-term energy needs of the Kyrgyz Republic, it will be important that the project is based on a sound feasibility study and its financing arrangements do not jeopardize debt sustainability and macroeconomic stability.

PIP loans are estimated at around US\$1,326 million over period 2013–17, of which about 60 percent will be funded by China. The PIP loans from China (US\$800 million) were contracted for two projects: construction of an alternative highway from north to south and the Bishkek thermal power plant. Previous PIP loans were contracted for the reconstruction of highways, municipal infrastructure, and the energy sector.



FDI over the medium term is also mainly from China. According to an agreement signed during the visit of the Chinese president to Bishkek in September 2013, China will allocate an additional US\$2.2 billion in FDI to invest in public infrastructure over the coming four years. Out of this amount, US\$1.4 billion will be used for building a gas pipeline from Turkmenistan to China, for which the Kyrgyz Republic will receive royalties from China after the pipeline starts operating. Income from the pipeline is expected to range from US\$35 million starting in 2017 to up to US\$70 million. The remaining US\$800 million will be allocated to improving an oil refinery.

This large scale investment program will increase imports of goods and services related to projects, such as construction materials, from 2014 to 2017 and hence a slower recovery of the current account deficit in the coming four years. Because the imports are financed by either PIP loans or FDI, the overall balance of payment will not be affected much, nor the exchange rate. The impact on the real economy during the construction period is uncertain, as the concrete plan for construction is yet to be put in place. However, the impact is expected to be limited. Based on the operation of the existing PIP projects funded by China, the major contractors of the projects are Chinese companies and the majority of skilled labor comes from China, construction materials are also mostly imported. The impact on the domestic economy is mainly through hiring unskilled labor and daily supply of goods and services to the contractors, such as food.

The feasibility study for the Kambarata hydropower project is expected to be finalized by the end of the year, providing more details about the joint investment with Russia. The Kambaratinsk Dam is the sixth planned dam on the Naryn River in the central Kyrgyz Republic. It would become one of the largest dams in the world, once it is complete. The hydroelectric power plant at the base of the dam would generate 2,000 MW.

**10. Risks to the outlook are significant but manageable.** Political turmoil, fueled by further aggravation of the situation surrounding Kumtor, could result in policy slippages and a slowdown in structural reforms. Lower gold prices could pose additional challenges for balance of payments stability. The security situation in Afghanistan could also deteriorate after the NATO troop withdrawal in 2014, and this could in turn spill over to neighboring countries, including the Kyrgyz Republic. A protracted slowdown in Russia and Kazakhstan, as a consequence of unfavorable developments in advanced and other emerging economies, could spill over to the region via the remittances and external demand channels. The financing arrangements for the Kambarata hydro power project, which will become clear after the completion of the feasibility study, could expose the Kyrgyz Republic to substantial fiscal and debt sustainability risks. The economy also remains vulnerable to global oil and food price shocks which could raise imports and inflation, and could also be hit by further disruptions in gold production and lower gold prices. These shocks would aggravate external vulnerabilities by putting pressure on international reserves. The recovery in gold production along with strong growth in other sectors and continued implementation of program policies will help to mitigate these risks.

## POLICY DISCUSSION

### A. Fiscal Policy

**11. Despite the lower gold price, the deficit target for 2013 remains achievable.** The overall nominal deficit target of som 18,273 million remains unchanged, but is slightly lower as a share of GDP due to the upward revision of GDP (5.2 percent vs. 5.3 percent at the time of the fourth review). The adjustment in the primary balance of 0.1 percent of GDP in 2013 relative to 2012 is broadly in line with the original program (Text Table 4). The authorities are continuing to streamline nonpriority spending, while preserving social and increasing capital outlays (LOI14).

Text Table 4. Kyrgyz Republic: Changes in Revenues, Expenditures, and the Deficit

	Fourth Review							Fifth Review					
	2012	2013	2014	2015	Adjustment relative to the previous year			2013	2014	2015	Adjustment relative to the previous year		
	(In percent of GDP)												
Total revenues and grants	34.5	32.0	32.1	31.8	-2.5	0.1	-0.3	32.4	30.7	31.0	-2.1	-1.7	0.3
Tax revenues	26.0	25.4	25.7	25.8	-0.6	0.3	0.1	25.2	25.2	25.5	-0.8	0.0	0.3
No-tax revenues	5.7	4.8	4.7	4.8	-0.8	-0.1	0.1	4.8	3.4	3.4	-0.8	-1.4	0.0
Grants	2.6	1.4	1.3	0.8	-1.2	-0.1	-0.5	2.0	1.9	1.9	-0.6	-0.1	0.0
Total expenditures	39.8	37.2	36.1	34.4	-2.6	-1.1	-1.7	37.6	34.8	33.6	-2.3	-2.8	-1.3
Current expenditures	32.4	30.8	29.5	27.4	-1.6	-1.4	-2.1	31.0	27.5	26.1	-1.5	-3.4	-1.4
Wages	8.8	8.5	8.2	7.7	-0.3	-0.4	-0.5	8.6	7.4	7.0	-0.2	-1.2	-0.4
Goods and services	9.3	8.2	7.9	6.4	-1.1	-0.3	-1.5	8.4	6.5	5.7	-1.0	-1.9	-0.8
Capital expenditures	7.8	6.4	6.7	7.1	-1.4	0.3	0.4	6.6	7.3	7.4	-1.2	0.6	0.2
Overall balance	-5.4	-5.3	-4.0	-2.6	0.2	1.3	1.4	-5.2	-4.1	-2.6	0.2	1.1	1.5
Primary balance	-4.5	-4.3	-3.3	-1.9	0.2	1.0	1.4	-4.4	-3.3	-1.8	0.1	1.1	1.4
Primary balance excluding grants	-7.1	-5.7	-4.6	-2.7	1.4	1.0	1.9	-6.4	-5.2	-3.7	0.7	1.2	1.5

Sources: Kyrgyz authorities and IMF staff calculations.

**12. The authorities agreed that new developments have created headwinds for the planned medium-term fiscal adjustment:**

- The closure of the U.S. Transit Center at the Manas airport will result in a permanent nontax revenue loss of US\$60 million in 2014 and US\$120 million thereafter (0.8 percent of GDP in 2014, 1.4 percent of GDP in 2015, and gradually declining thereafter)—half of which is a direct payment from the center and half is related to payments from associated state-owned companies.
- Lower gold prices and weaker prospects for emerging economies, and consequently weaker growth in the Kyrgyz Republic in 2014, will result in lower revenue compared with the fourth review (0.2 percent of GDP).

**13. Despite these headwinds, the authorities remain committed to continued fiscal adjustment in 2014 and over the medium term (LOI15).** The 2014 budget is based on conservative revenue forecasts, wage-bill and nonpriority expenditure restraint, as well as social considerations. Tax revenues are expected to improve marginally. The loss of nontax revenues in 2014 is expected to be partly offset by grants, and partly by expenditure restraint. Wage-bill restraint is expected to generate fiscal savings of 1.2 percent of GDP (in addition to 0.4 percent of GDP identified during the fourth review, new savings account for 0.8 percent of GDP) by limiting new hiring. Ongoing procurement reforms together with scrutinizing and reducing outlays on other goods and services (which are 13 percent of total expenditures) are expected to facilitate further streamlining of nonpriority current expenditures. Pensions will increase to preserve the minimum subsistence level, while selected social transfers will be raised in response to increasing poverty levels. In particular, the minimum targeted social income will increase by 10 percent; food allotments for elderly people, special needs schools, and orphanages will also increase. The authorities are committed to reduce deficit to 2.6 percent of GDP in 2015, by increasing revenues and further streamlining the wage bill and outlays on goods and services.

**14. With the prospect for new nontax revenues and other offsetting measures, staff and the authorities agreed that there was no need to change the medium-term adjustment path, despite the permanent loss of transit center revenues (LOI16).** Revenues from the new oil refinery, which is starting operations in 2014, and revenues from the Chinese gas pipeline, starting from 2017 (US\$35 million in 2017 gradually increasing to US\$70 million), will help to make up for part of the loss of transit center revenues. Moreover, the authorities are planning to increase excises on tobacco and alcohol and increase tax collection by improving tax administration. In addition, the forthcoming World Bank Public Expenditure Review will help further streamline expenditures, while the forthcoming FAD TA on tax policy is expected to help identify measures to increase tax revenues.

**15. PFM reforms are advancing, albeit at a slow pace (LOI18).** The ministry of finance finalized requirements for the Treasury Management Information System (TMIS) and Budget Planning (BP) modules of the Financial Management Information System. Testing of TMIS is planned to begin later this year. The Treasury Single Account (TSA) will be introduced on a pilot basis starting early 2014, but strong and coordinated efforts between all parties (authorities and vendor) are

needed for this pilot. The authorities needed more time to address comments on the regulation for expansion of commitment control to include local budgets and special means (now prior action for the fifth review). The preparation of accounting and financial reporting in line with IAS is underway. The recent IMF TA mission has helped the authorities to design the central treasury bank account structure in the context of the TSA system. The government is finalizing the Procurement Law and revising the Budget Code. The World Bank is assisting the authorities in their efforts.

**16. Staff and the authorities agreed that the debt outlook remains manageable.**

The 2013 debt sustainability analysis (DSA) update (Annex I) reconfirms the moderate risk rating found in the 2012 DSA update (Country Report No. 12/329). The update takes into account information on new loans, as well as revised medium-term projections. Public debt remains highly sensitive to real GDP shocks (Tables 1a to 3c). Despite the new infrastructure projects (Box 2), the debt burden remains manageable over the medium term. Fiscal consolidation and prudent use of concessional loans, in particular for large-scale public investment programs, are key to keeping the debt outlook sustainable in the medium term.

## B. Monetary Policy

**17. The NBKR will maintain tight monetary conditions to keep inflation in single digits in 2013 and beyond (LOI19).** While inflation and core inflation have declined, the strong recovery in economic activity and strong credit growth are putting pressure on inflation. Staff advised the NBKR to respond to these pressures by increasing sterilization efforts, thereby containing reserve money growth, and to ensure that the policy rate is positive in real terms. The mission also advised the NBKR to be mindful of potential second round effects of unexpected external price shocks and react promptly by further tightening monetary conditions.

**18. The current practice of targeting monetary aggregates suffers from a number of weaknesses:** (i) the goals of monetary policy operations are not apparent (neither targeting a specific level of excess liquidity nor steering market rates); (ii) unsterilized foreign inflows have driven reserve money growth; (iii) there is no clearly identifiable policy rate—instead the discount rate (not used for discount operations), calculated as the average of the last four auctions of T-bills, is used as a policy rate; (iv) it is not clear how the cut-off rate for auctions is set; (v) the overnight lending rate is determined as a fixed ratio of the discount rate (1.2 times the discount rate); and (vi) the term structure of interest rates is inconsistent, as the rate for the NBKR's six-month lending facility is set below the three-month treasury bills rate. Moreover, the approach of targeting monetary aggregates is backward looking and cannot accommodate (i) shocks to money demand or supply; (ii) shocks to the multiplier; and (iii) output forecast errors.

**19. In light of these shortcomings, the authorities agreed to move toward a framework with the short-term interest rate as the operational target/policy instrument.** The new framework, which staff and the authorities have developed in the context of the 2013 Article IV consultation (Country Report 13/175) based on MCM TA and reinforced during the FSAP, will help to develop the interest rate transmission channel. IMF and EBRD TA is helping the authorities to develop a forecasting model that will enable them to target interest rates. The NBKR board

discussed the TA report in late-July and decided to move along its recommendations. Accordingly, the NBKR's board will issue a decision by the end of the year to introduce changes in the operational framework for monetary policy (LOI¶10).

**20. The key pillars of the new operational framework for monetary policy (LOI¶10) are:**

- Using the policy rate (instead of the discount rate) as an operational target for monetary policy. The level of the policy rate will be determined by the model the NBKR uses for generating inflation projections, and this rate will signal the policy stance to banks and guide them in placing bids for the NBKR's facilities.
- Creating a corridor around the policy rate, with the overnight deposit facility rate as a floor and the overnight lending facility rate as a ceiling. The level of rates will be determined by the model.
- Introducing a short-term lending facility that will be available to banks without sanctions and reexamining the pricing of the longer-term liquidity facility to correct the interest rate structure.
- Improving the NBKR's transparency by pre-announcing the schedule of monetary policy board meetings and improving the NBKR's communication via more regular and frequent press briefings, press releases, etc.
- Lowering reserve money growth for an extended period to support the new operational framework and facilitate financial deepening. Moreover, liquidity targets should precede NFA accumulation in excess of program targets (LOI¶13).
- Strengthening liquidity forecasting, including through better coordination between the NBKR and the ministry of finance to avoid an excessive drawdown of government deposits (LOI¶11).

The implementation of the new framework will be gradual and needs to be supported by TA. Moreover, maintaining the flexible exchange rate regime will be crucial for the success of the new operational framework.

## C. Financial Sector Policies

**21. The 2013 Financial Sector Assessment Program (FSAP) update took place in July.** The FSAP update identified key weaknesses in the Kyrgyz financial system and made a broad range of recommendations to address those weaknesses and develop the financial system (Box 3). The FSAP recommendations that will be addressed during this and the next review include: (i) recommendations related to the Banking Code (ongoing work); (ii) developing a strategic plan to strengthen supervision (LOI¶13); (iii) establishing a formal financial crisis preparedness framework (LOI¶13); (iv) unifying capital requirements (LOI¶13); and (v) auditing the assets of Debt Resolution Agency (DEBRA) to facilitate the liquidation of the remaining banks on DEBRA's books (LOI¶13). Additional technical assistance will be needed to support the authorities' efforts to implement the FSAP recommendations.



**22. The Banking Code has been submitted to the parliament.** The draft code, prepared with the assistance of the resident legal advisor and TA from LEG, is in line with Fund advice.<sup>2</sup> Staff stressed that it will be crucial to preserve the key features of the Code during the discussions in the parliament. The authorities concurred that the legal protection of NBKR staff should be strengthened, the scope of judicial actions against the NBKR should be limited, the new resolution regime should comprise compulsory bank liquidation as an out-of-court procedure, and governance procedures and the autonomy of the NBKR should be further strengthened. The NBKR agreed to step up efforts to explain key benefits of the new code and promote it to the parliament and the public.

**23. There has been no progress on the liquidation of the remaining banks under DEBRA.** The FSAP found that many of the liquidation cases that DEBRA handles have been lingering for more than a decade, despite the legal time limit of two years; its financial reports have not been published nor audited by professional auditors. In addition to slow procedures in court, the NBKR and ministry of finance have to be willing to write off their claims to facilitate the liquidation of those banks. To facilitate the liquidation of DEBRA assets, the authorities are planning to identify and sign a contract with one of the big four international audit companies to audit DEBRA (LOI¶14). Speeding up the liquidation process would help to increase confidence in the banking sector.

**24. The two-tier nominal capital requirements for licensing purposes are causing distortions in the banking system.** Banks established before 2010 are subject to capital requirements of som 200 million (US\$4 million), while banks established after 2010 are required to pay in som 600 million (US\$12 million). Sixteen banks have assets under som 4.8 billion (US\$100 million), while three banks under conservatorship have combined assets of less than som 1.2 billion (US\$26 million). Staff stressed that a decisive and time bound plan for unifying capital requirements is essential to create a level playing field for all banks and to facilitate banking supervision (LOI¶13).

**25. The enactment of the draft AML/CFT and Payment System laws is essential to meet the Financial Action Task Force (FATF) action plan.** The draft laws, prepared with Fund assistance, were submitted to the parliament in February 2013. Adoption of amendments to the Criminal Code and regulation on freezing of Terrorist Assets enabled the Kyrgyz Republic to stay on the list of jurisdiction with strategic deficiencies (light gray list) following the FATF plenary sessions in June and October, 2013. However, the payment system law was vetoed by the President in July. Failure to adopt the remaining revised legislation in due course would put the Kyrgyz Republic at risk of being blacklisted by the FATF (LOI¶15).

---

<sup>2</sup> The majority of the FSAP recommendations in this area highlighted the same issues as the LEG TA. FSAP recommendations on the Banking Code include (i) clarifying some definitions (recovery, rehabilitation, and financial recovery); (ii) giving a clear mandate to temporary administration as a resolution tool; and (iii) specifying in more detail issues related to receivership, writing down equity, bail-in of creditors, and compulsory liquidation.

### Box 3. Kyrgyz Republic: 2013 FSAP Update Recommendations

*The 2013 FSAP has confirmed that institutions, products, and services remain underdeveloped, but access to finance is broadly in line with comparators. With the exception of microcredit institutions, nonbank financial institutions play a limited role. The pension system is distorted and underfunded and the insurance sector is small and does not provide needed services. The FSAP pointed out the complexity of the legal and regulatory regime, and stressed that judicial uncertainty and parliamentary activism interfere with supervision and bank resolution.*

#### **The FSAP highlighted the following key weaknesses in the Kyrgyz financial system:**

- While the results of stress tests suggest that the banking system would be resilient to large shocks, credit and funding concentration, weak governance, and dollarization pose significant risks.
- Bank supervision, including AML/CFT supervision, is weakened by the lack of legal protection and capacity constraints. Bank supervision is compliance oriented. The NBKR does not yet conduct risk based or consolidated supervision; it lacks sufficiently trained and experienced staff as well as tools and technical capacity to monitor some important risks. Moreover, some supervisory practices are not fully aligned with the supervision manual.
- Routine use of temporary management and conservatorship more as a corrective measure than a resolution tool point to deficiencies in the resolution process. Furthermore, there is no formal crisis preparedness plan, and the legal framework does not assign explicit responsibility to any agency for overall financial stability and crises management. Like previous LEG TA, the FSAP highlighted the drawbacks of bankruptcy proceedings being a court-driven process.
- Deposit insurance has some limitations, such as excluding banks that do not make payments, long pay-out periods, and lack of clarity on deposit coverage.
- Monetary policy suffers from conflicting signals about objectives and high reserve money growth stemming from foreign reserve accumulation. In addition, microfinance institutions in particular lack long-term financing in som and swap instruments.
- There is no financial sector development policy and the mandate of state-owned banks is unclear.
- The credit reporting system suffers from incomplete information, and there is no clear mandate for oversight. The collateral registry does not cover movable assets, suffers from burdensome procedures for enforcement and foreclosure, and the credit registry is weak.
- The draft payment system law is too detailed, does not cover liquidity and credit risk of domestic foreign exchange transactions, and there is no comprehensive retail payment strategy.

#### **The FSAP made a number of recommendations, including:**

- ***In the near term:***
  - Establish a special resolution regime, headed by the NBKR;
  - Develop and execute a strategic plan for the supervisory function of the NBKR. The strategic plan should (i) provide for a comprehensive supervisory approach; (ii) ensure adequate capacity for supervisory staff; (iii) include current guidelines for the development of the supervisory function;

### Box 3. Kyrgyz Republic: 2013 FSAP Update Recommendations (concluded)

and (iv) address issues of consolidated supervision, risk management, supervision of systemically important banks, and large exposure limits;

- Establish a formal financial crisis preparedness framework including by creating a high-level, inter-agency committee dedicated to issues of financial stability and crisis management. Prepare a special plan for systemically important banks.
- ***In the medium term:***
  - Strengthen the AML/CFT supervision of financial institutions to ensure proper implementation of preventive measures and reporting of suspicious transactions;
  - Sustained low reserve money growth to absorb structural excess liquidity would enhance the effectiveness of monetary policy transmission and facilitate financial deepening;
  - Closer collaboration between the NBKR and the DPA on resolution and liquidation, including enabling DPA funds to be used for purchase of assets and assumption of liabilities transactions.
- ***In the longer term:***
  - Refocus Ayil state bank to increasingly operate as a provider of services and funds to the micro-finance sector, and privatize SSC bank;
  - Improvements in the payment system, collateral, and credit registries;

Reforms in the pension and insurance sectors.

## D. Structural Policies

**26. Continued improvements in the implementation of business legislation are key to fostering private sector-led growth.** Staff pointed out that weak economic governance and a high level of perceived corruption continue to be key impediments to improving the business climate. The government's prolonged dispute with Centerra has not been conducive to attracting investors. While establishing open budget portal was an important step in increasing transparency of budget operations and reducing corruption, more forceful anti-corruption efforts are needed. In particular, staff highlighted the need to strengthen the department on combating corruption in the prosecutor's office and inform the public about its operations. Moreover, staff advised to (i) closely monitor the business environment via business surveys to identify bottlenecks in the implementation of legislation and major constraints for doing business; (ii) continue streamlining the licensing process and inspections; and (iii) continue to conduct business forums to increase cross-border cooperation. Furthermore, strengthening the effectiveness of the AML/CFT regime will assist in the fight against corruption. The governance and anti-corruption measures are critical for ramping up investment. The authorities agreed that a stable and predictable investment climate with proper contract enforcement, strengthened property rights, and addressing corruption are essential for attracting investments and spurring private sector-led growth. The authorities' plans to establish a state development bank are on hold because of lack of financing.

**27. The government is expected to finalize the first annual PRSP progress report in early 2014.** The government developed a “Program on Transition of the Kyrgyz Republic to Sustainable Development” to realize the National Sustainable Development Strategy for 2013–17. The program, among other things, aims at accelerating economic growth, consolidating macroeconomic stability, maintaining debt sustainability, and advancing structural reforms. It recognizes that improving the business environment, reforming the public sector, strengthening the financial system, and addressing infrastructure development needs are essential for achieving high growth rates, thereby reducing poverty. While the program contains a list of around 80 national infrastructure projects with a total estimated cost of about US\$7.4 billion, it still lacks the linkages between the medium-term budget and the costs of the presented investment projects, as highlighted in the JSAN (Country Report 12/330).

## PROGRAM AND OTHER ISSUES

**28. Program design and modification of performance criteria.** Modified quantitative performance criteria are being proposed for December 2013, while modified and new indicative targets are proposed for December 2013 and March 2014. The authorities and staff also agreed on targets for June, September, and December 2014 to facilitate the dialogue after the arrangement expires on June 19, 2014 (the targets beyond March 2014 are nonbinding). The structural conditionality—existing and new—is summarized in the Table 14 and LOI Table 2.

**29. Program monitoring will continue on a semi-annual basis.** The sixth review will be based on continuous and end-December 2013 QPCs. Structural conditionality will focus on macro-critical areas, particularly strengthening public financial management, and on addressing key weaknesses in the financial sector and monetary operations, as identified by the FSAP mission.

**30. Financing.** The sixth disbursement under the ECF arrangement will help the authorities meet their balance of payments needs. In this context, the authorities have indicated that they intend to use these Fund resources to finance the budget deficit of the government. The authorities have assurances from donors, which, together with the expected Fund support, will finance the estimated balance of payments gap during the remainder of the arrangement in 2013 and 2014 (Text Table 5). The July donor conference highlighted that the Kyrgyz Republic has come a long way in stabilizing the economy, but significant challenges remain. At the same time, participants emphasized the need for tangible progress in key reform areas by the authorities, as a precondition for stepped-up (additional) support from donors in the future. The authorities requested that the sixth disbursement under the ECF arrangement be directed to the budget.

Text Table 5. Kyrgyz Republic: Balance of Payment Financing Gaps, 2013–15

	2013		2014		2015	
	4thRev.	Proj.	4thRev.	Proj.	4thRev.	Proj.
	(In millions of U.S. Dollars)					
Financing Gap	115.2	130.7	114.5	139.3	37.9	47.3
Identified budget support	86.3	116.3	100.1	124.8	0.0	27.3
World Bank	39.7	36.1	33.5	42.0	0.0	18.7
European Union	6.6	13.3	6.6	15.8	0.0	8.6
Other Grants	0.0	22.0	20.0	22.0	0.0	0.0
Other 1/	40.0	45.0	40.0	45.0	0.0	0.0
Unidentified budget support	0.0	0.0	0.0	0.0	37.9	20.0
IMF ECF disbursement	28.9	14.4	14.4	14.5	0.0	0.0
	(In percent of GDP)					
Financing Gap	1.6	1.8	1.4	1.7	0.5	0.6
Identified budget support	1.2	1.6	1.2	1.6	0.0	0.3
World Bank	0.5	0.5	0.4	0.5	0.0	0.2
Other	0.0	0.2	0.2	0.2	0.0	0.1
European Union	0.1	0.3	0.1	0.3	0.0	0.0
Other	0.0	0.6	0.5	0.6	0.0	0.0
Unidentified budget support	0.6	0.0	0.0	0.0	0.0	0.2
IMF ECF disbursement	0.4	0.2	0.2	0.2	0.0	0.0
<i>Memorandum item:</i>						
GDP (in millions of U.S. dollars)	7,234	7,266	8,041	8,007	8,715	8,678

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Budget support loan from Turkey.

## STAFF APPRAISAL

**31. Economic performance this year has been strong.** Building on the impressive overall and nongold growth over the first nine months, growth in 2013 is expected to reach at least 7.8 percent. Inflation has been on declining trend, and should settle around 7 percent. While the current account deficit is expected to narrow in 2013, it will widen in 2014 because of substantial import-intensive FDI and PIPs. The debt sustainability outlook remains at a moderate risk of debt distress, despite stepped up infrastructure investments, and fiscal consolidation continues to be on track. The financial system is broadly stable, albeit vulnerabilities remain. The slowdown in the region, disruptions in gold production, or a slump in gold prices continue to be the main downside risks.

**32. Achieving sustainable and inclusive growth over the medium term warrants further improvements in the business climate, governance, and institutions.** Increasing business confidence and improving the business climate require evenhanded and consistent application of the existing business legislation. Business surveys would help identify bottlenecks in this area. A stable and predictable investment climate, protection of private property rights, and rule of the law would help in attracting more investment. While “open portal” is a positive step in addressing perceived corruption, more forceful reform efforts are needed, such as strengthening the department on combating corruption in the prosecutor’s office, bolstering the effectiveness of the AML/CFT regime, and informing the public about its operations.

**33. The authorities’ efforts to offset the fiscal impact of the closure of the Manas Transit Center and volatile gold prices are welcome.** In the near term, the loss of nontax revenues related

to the center will be offset by grants, revenues from the new oil refinery, and expenditure restraint. Over the medium term, revenues from the planned gas pipeline (starting from 2017), along with tax administration and tax policy reforms will help to offset the loss. Creating a sound and predictable revenue base, by eliminating exemptions, expanding the tax base and reexamining the level of tax rates, and improvements in tax administration will be instrumental in reducing the structural deficit. Continued procurement and PFM reforms, in particular commitment control, are necessary to put public finances on a sustainable footing. The authorities recognize the need to create additional fiscal space for priority spending, including education, health, and other social outlays that will enable them to address poverty.

**34. Improvements in the operational framework for monetary policy are welcome.** The implementation of the new framework, with the interest rate as an operational target, will help to improve the transmission of monetary policy to the economy and correct the current interest rate structure. The model, which is being fine tuned with the help of EBRD and IMF TA, will help the NBKR to better understand economic relationships in the Kyrgyz Republic. Using a model-based approach to determine the level of interest rates will help to correct the interest rate structure and better signal the monetary policy stance to banks. However, to make the new framework more successful will require stepping up the NBKR's communication. Moreover, lower reserve money growth is necessary to support the new framework and facilitate financial deepening by making liquidity scarce and giving incentives to banks to attract cash in circulation into deposits.

**35. Additional efforts are needed to address the remaining weaknesses in the financial sector.** The FSAP confirmed that institutions, products, and services remain underdeveloped. The Banking Code, once approved, will modernize banking legislation and constitute a milestone for improving confidence in the banking sector. However, it will be essential to preserve key features of the Banking Code during the parliamentary discussion. In particular, the special resolution regime with liquidation as an out of the court procedure, better protection of the NBKR's staff, enhanced autonomy and independence of the NBKR should be safeguarded. Timely approval of the Banking Code in line with Fund advice will be instrumental in achieving program objectives. Moreover, developing the strategic plan for supervision and establishing a formal crises preparedness plan will enable the authorities to address key weaknesses in supervision and crises management. In addition, timely unification of capital requirements for banks will be instrumental in removing distortions and improving competition in the banking system by forcing banks to step out of their niche markets.

**36. Staff recommends completion of the fifth review** and approval of the request for modification of the performance criteria for end-December 2013. The modified performance criteria and policies for the remainder of 2013 and the first half 2014 are appropriate to achieve the program's objectives.



Table 2. Kyrgyz Republic: Balance of Payments, 2011–18

(In millions of U.S. dollars)

	2011	2012	2013	2014	2015	2016	2017	2018
	Act.	Proj.						
Current account balance 1/	-405	-991	-755	-1,255	-1,314	-1,153	-988	-599
Excluding transfers	-2,242	-3,053	-2,955	-3,671	-3,899	-4,049	-4,058	-3,842
Trade balance	-1,690	-2,676	-2,590	-3,121	-3,272	-3,381	-3,404	-3,184
Exports, fob	2,271	2,290	2,604	2,896	2,881	3,075	3,297	3,470
CIS countries	1,024	1,462	1,586	1,652	1,534	1,647	1,771	1,845
Of which: Energy products	131	119	131	133	138	139	142	145
Of which: Re-exports of consumer goods	94	268	279	307	333	365	394	412
Non-CIS countries	1,247	828	1,017	1,245	1,347	1,428	1,526	1,624
Of which: Gold	1,006	562	727	917	1,002	1,064	1,136	1,216
Imports, fob	3,962	4,967	5,194	6,018	6,153	6,456	6,701	6,654
CIS countries	2,018	2,487	2,692	2,853	2,740	2,876	2,972	3,049
Of which: Energy (including for re-exports)	865	1,047	1,133	1,171	935	914	898	887
Non-CIS countries	1,943	2,480	2,502	3,165	3,413	3,580	3,728	3,605
Of which: Goods for re-exports	86	268	279	307	333	365	394	412
Services	-21	-232	-57	-88	-60	-14	-1	27
Receipts	1,117	1,250	1,445	1,523	1,621	1,809	1,973	2,191
Payments	-1,138	-1,482	-1,502	-1,611	-1,682	-1,823	-1,974	-2,164
Income	-530	-144	-308	-462	-567	-654	-652	-686
Interest payments	-31	-47	-122	-145	-161	-190	-203	-210
Other net income	-500	-97	-187	-318	-406	-464	-450	-476
Current Transfers (net) 1/	1,837	2,062	2,200	2,416	2,585	2,896	3,070	3,244
Of which: Private	1,755	1,998	2,198	2,418	2,587	2,898	3,072	3,225
Capital Account	121	152	286	104	118	80	80	84
Official 2/	121	170	304	122	136	98	98	101
Private	0	-18	-18	-18	-18	-18	-18	-18
Financial account	670	815	396	1,179	1,299	1,237	1,009	696
Commercial banks	-12	0	-50	-50	-50	-50	-50	-50
Medium- and long-term loans (net)	361	387	13	338	346	255	75	206
Disbursement 1/	592	687	747	770	859	891	701	871
Of which: Loan financed PIP (excl. energy investments financed by China)	198	133	107	126	164	120	66	263
Of which: Energy investments financed by China (PIP)	41	215	225	163	166	163	26	0
Amortization	-231	-299	-735	-432	-513	-636	-626	-665
Foreign direct investment	694	372	535	980	1,103	1,131	1,084	640
Portfolio investment 3/	0	6	0	0	0	0	0	0
Other (including SDR allocation)	0	0	0	0	0	0	0	0
Net short-term flows 4/	-208	50	-102	-88	-100	-100	-100	-100
Errors and omissions	-279	216	0	0	0	0	0	0
Overall balance	107	192	-74	28	104	163	101	181
Financing	-107	-192	74	-28	-104	-163	-101	-181
Net international reserves	-107	-192	-57	-167	-151	-183	-121	-181
Gross official reserves (-, increase)	-113	-200	-54	-147	-133	-160	-92	-149
IMF	6	9	-3	-20	-18	-24	-29	-33
Exceptional Financing (including arrears)	0	0	0	0	0	0	0	0
Financing gap 1/	0	0	131	139	47	20	20	0
<b>Memorandum items:</b>								
GDP (in millions of U.S. dollars)	6,199	6,473	7,266	8,007	8,678	9,316	10,038	10,839
Current account balance (percent of GDP)	-6.5	-15.3	-10.4	-15.7	-15.1	-12.4	-9.8	-5.5
Current account balance excl. official transfers (percent of GDP) 1/	-7.8	-16.3	-10.4	-15.7	-15.1	-12.4	-9.8	-5.7
Growth of exports of GNFS (volume, percent)	17.5	4.8	16.0	6.5	4.0	9.6	6.7	5.8
Growth of imports of GNFS (volume, percent)	12.1	29.5	3.6	14.9	5.2	6.9	5.4	1.9
Terms of trade (goods, percentage change)	-4.8	2.2	-0.9	1.6	1.2	0.6	1.0	0.9
Gold price (U.S. dollars per ounce)	1,569	1,669	1,462	1,396	1,413	1,433	1,459	1,490
Fuel Price Index (2005=100)	193.0	194.2	191.4	185.7	176.1	169.6	165.3	162.4
External Public Debt (in millions of U.S.dollars) 5/	2,803	3,032	3,240	3,560	3,849	4,070	4,108	4,257
As percent of GDP	45.2	46.8	44.6	44.5	44.3	43.7	40.9	39.3
External public debt service-to-exports ratio 5/ 6/	2.9	2.8	2.4	2.2	2.7	3.9	3.7	3.8
Gross reserves 7/	1,831	2,061	2,115	2,262	2,396	2,555	2,647	2,796
In months of subsequent year's imports	3.4	3.7	3.3	3.5	3.5	3.5	3.6	3.6
In months of subsequent year's imports (adjusted for imports financed by PIP and FDI for 2013 onwards) 8/	3.4	3.7	3.6	3.7	3.7	3.7	3.8	3.8

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

2/ The capital account includes debt write-offs in 2012 and 2013.

3/ Includes return of KRDF investments abroad.

4/ Net short-term flows in 2012 partially reflect capital inflows to domestic enterprises.

5/ Public and publicly-guaranteed debt.

6/ Net of rescheduling.

7/ 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.

8/ Assuming on average 70 percent of the FDI and PIP loans are used for imports.



Table 3. Kyrgyz Republic: NBKR Accounts, 2011–14

	2011	2012	2013				2014			
	Dec. 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	71,420	87,159	87,783	88,163	92,207	93,448	94,323	100,290	103,042	104,037
Net international reserves	79,629	93,046	93,579	94,100	98,259	99,432	100,332	106,223	108,937	110,021
Long-term foreign liabilities	-8,344	-6,192	-6,089	-6,197	-6,313	-6,244	-6,270	-6,193	-6,155	-6,244
Other foreign assets	135	305	293	260	261	260	260	260	260	260
Net domestic assets	-16,616	-22,670	-24,084	-21,248	-23,272	-18,451	-20,545	-23,959	-23,479	-19,682
Net claims on general government	-1,158	-2,968	-4,776	-6,765	-7,056	-2,687	-6,450	-8,010	-7,919	-6,318
<i>Of which:</i> Total government deposits (including foreign exchange deposits)	-6,480	-5,182	-6,390	-8,261	-8,578	-4,157	-7,932	-9,518	-9,440	-7,799
<i>Of which:</i> Securitized government debt	3,121	2,311	1,690	1,574	1,581	1,548	1,561	1,586	1,598	1,559
Claims on commercial banks	-398	-3,822	-3,738	-2,445	-2,129	-2,454	413	-1,667	-1,450	80
<i>Of which:</i> NBKR notes	-1,359	-3,047	-3,669	-3,102	-2,716	-3,420	-509	-3,078	-3,300	-1,729
Claims of other financial corporations	-156	0	-8	-72	-1	-250	-177	-197	-217	-250
Other items net	-14,904	-15,880	-15,562	-11,967	-14,084	-13,060	-14,331	-14,085	-13,893	-13,194
Reserve money	54,803	64,489	63,699	66,916	68,935	74,998	73,778	76,331	79,563	84,354
Currency in circulation	49,867	58,252	56,700	61,120	62,899	65,248	63,818	65,645	68,026	71,701
Commercial banks' reserves	4,936	6,237	6,999	5,796	6,037	9,750	9,960	10,686	11,537	12,653
<i>Of which:</i> Required reserves	3,143	3,948	4,077	4,352	4,698	5,062	5,212	5,977	6,480	6,514
(Contribution to reserve money growth, in percent) 1/										
Net foreign assets	12.9	28.7	1.0	1.6	7.8	9.8	1.2	9.1	12.8	14.1
Net domestic assets	-0.2	-11.0	-2.2	2.2	-0.9	6.5	-2.8	-7.3	-6.7	-1.6
<i>Of which:</i> Net claims on general government	1.8	-3.3	-2.8	-5.9	-6.3	0.4	-5.0	-7.1	-7.0	-4.8
Reserve money	12.8	17.7	-1.2	3.8	6.9	16.3	-1.6	1.8	6.1	12.5
<i>Of which:</i> Currency in circulation	13.5	15.3	-2.4	4.4	7.2	10.8	-1.9	0.5	3.7	8.6
<i>Memorandum items:</i>										
Reserve money growth (12-month change, in percent)	12.8	17.7	18.4	18.0	14.6	16.3	15.8	14.1	15.4	12.5
Gross International Reserves (in millions of U.S. dollars)	1,831	2,061	2,082	2,080	2,033	2,115	2,113	2,212	2,245	2,262
Net international reserves (in millions of U.S. dollars)	1,650	1,870	1,869	1,851	1,921	1,916	1,918	2,007	2,046	2,052
Exchange rate, som per U.S. dollar, end of period	46.5	47.4	...	...	...	...	...	...	...	...

Sources: Kyrgyz authorities and IMF 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, 2011–14

	2011	2012	2013				2014			
	Dec. 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	77,214	90,023	90,804	93,635	100,046	98,754	99,874	106,585	110,086	111,857
Net domestic assets	2,314	8,460	8,187	14,358	13,278	19,742	18,908	22,414	26,763	28,846
Domestic credit	30,293	38,336	39,705	42,129	45,472	56,298	57,695	59,803	66,265	70,536
Net claims on general government	-3,029	-3,701	-4,398	-7,214	-7,357	-2,220	-5,983	-6,035	-6,150	-4,165
Credit to the rest of the economy	33,322	42,036	44,104	49,343	52,829	58,518	63,678	65,838	72,415	74,701
Of which: In foreign exchange	17,510	21,814	23,186	24,330	26,082	28,716	31,057	31,913	34,883	35,611
Other items net	-27,979	-29,876	-31,518	-27,771	-32,193	-36,556	-38,787	-37,389	-39,502	-41,690
Broad money (M2X)	79,528	98,483	98,991	107,994	113,324	118,496	118,782	128,999	136,848	140,703
Of which:										
Broad money, excluding foreign exchange deposits (M2)	62,125	77,461	76,365	82,214	84,284	92,386	92,188	98,837	104,504	108,858
Currency held by the public	47,220	54,521	53,323	57,601	58,424	62,248	60,867	62,591	64,844	68,327
Total domestic currency deposit liabilities	14,906	22,939	23,042	24,613	25,859	30,138	31,321	36,246	39,660	40,531
	(Contribution to broad money growth, in percent) 1/									
Net foreign assets	8.4	16.1	0.8	3.7	10.2	8.9	0.9	6.6	9.6	11.1
Net domestic assets	6.5	7.7	-0.3	6.0	4.9	11.5	-0.7	2.3	5.9	20.7
Domestic credit	10.0	10.1	1.4	3.9	7.2	18.2	1.2	3.0	8.4	32.7
Net claims on general government	1.7	-0.8	-0.7	-3.6	-3.7	1.5	-3.2	-3.2	-3.3	-0.5
Credit to the rest of the economy	8.3	11.0	2.1	7.4	11.0	16.7	4.4	6.2	11.7	33.2
Other items (net)	-3.4	-2.4	-1.7	2.1	-2.4	-6.8	-1.9	-0.7	-2.5	-12.0
Broad money (M2X)	14.9	23.8	0.5	9.7	15.1	20.3	0.2	8.9	15.5	18.7
Of which:										
Broad money, excluding foreign exchange deposits (M2)	12.1	19.3	-1.1	4.8	6.9	15.2	-0.2	5.4	10.2	13.9
Currency held by the public	8.3	9.2	-1.2	3.1	4.0	7.8	-1.2	0.3	2.2	14.0
Total deposit liabilities	3.8	10.1	0.1	1.7	3.0	7.3	1.0	5.2	8.0	17.9
<i>Memorandum items:</i>										
Broad money (M2X) (12-month change, in percent)	14.9	23.8	22.3	22.2	19.8	20.3	20.0	19.5	20.8	18.7
Credit to the rest of the economy (12-month change, in percent)	20.8	26.2	26.0	32.7	36.1	39.2	44.4	33.4	37.1	27.7
Credit to the rest of the economy (in percent of GDP)	11.7	13.8	14.2	15.4	15.9	16.7	17.8	17.9	19.0	18.8
M2X velocity 2/	3.6	3.1	3.1	3.0	2.9	3.0	3.0	2.9	2.8	2.8
M2X multiplier	1.45	1.53	1.55	1.61	1.64	1.58	1.61	1.69	1.72	1.67
Dollarization indicators (in percent)										
Loan dollarization	52.5	51.9	52.6	49.3	49.4	49.1	48.8	48.5	48.2	47.7
Deposit dollarization	53.9	47.8	49.5	51.2	52.9	46.4	45.9	45.4	44.9	44.0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

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

**Table 5. Kyrgyz Republic: General Government Finances, 2011–15**  
(In millions of soms)

	2011	2012	2013					2014					2015		
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year		
	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	4th Rev.	Proj.	Proj.	Proj.	Proj.	4th Rev.	Proj.	
Total revenue and grants	91,057	104,999	23,089	29,680	29,156	31,304	113,229	111,348	25,056	30,483	29,844	36,434	121,817	128,040	137,160
Total revenue	82,433	97,112	22,585	28,918	26,375	28,391	106,268	106,418	23,553	27,524	28,319	34,892	114,287	122,678	128,873
Current revenue	81,682	96,286	22,469	28,701	26,060	27,777	105,007	105,159	23,506	27,430	29,215	33,704	113,275	121,207	127,744
Tax revenue	66,027	79,037	19,130	21,619	21,838	25,566	88,153	88,364	20,956	23,786	24,699	30,396	99,837	102,383	112,742
Income tax	17,122	18,537	4,459	4,363	4,281	5,887	18,990	19,662	5,483	5,085	4,952	6,448	21,969	24,111	24,528
VAT 1/	20,353	25,769	5,888	7,128	7,379	8,736	29,131	29,224	6,152	7,909	8,329	10,492	32,882	32,744	37,237
Excises	2,187	2,827	716	843	899	1,274	3,732	3,775	1,060	1,192	1,154	1,384	4,790	4,824	5,568
Customs	7,147	9,430	2,174	2,831	2,768	2,992	10,765	10,688	2,228	3,095	3,331	4,300	12,954	12,447	14,282
Land tax	762	757	201	213	223	226	863	871	157	149	234	366	906	914	952
Road tax and Emergency Fund 1/	10	4	7	0	0	0	8	0	0	0	0	0	0	0	0
New turnover tax 1/	4,128	4,989	1,264	1,594	1,496	1,504	5,859	5,829	1,387	1,563	1,693	1,987	6,629	6,673	7,389
Social Fund (excluding government contribution)	13,010	15,125	3,753	4,224	4,212	4,778	16,967	16,478	4,132	4,308	4,470	5,095	18,006	18,557	20,915
Other	1,309	1,599	668	422	579	170	1,838	1,838	356	485	535	324	1,701	2,114	1,871
Nontax revenue	15,655	17,249	3,339	7,081	4,223	2,211	16,853	16,795	2,373	3,511	3,367	4,187	13,439	18,824	15,002
Capital revenue	751	826	116	217	314	614	1,262	1,259	224	226	252	309	1,012	1,471	1,129
Grants	8,624	7,887	504	762	2,781	2,913	6,961	4,930	1,503	2,960	1,525	1,542	7,530	5,362	8,287
Program grants	3,963	3,151	0	177	1,064	1,200	2,441	1,073	270	1,717	274	281	2,541	2,062	2,415
PIP grants	4,661	4,736	504	585	1,718	1,713	4,520	3,857	1,233	1,243	1,252	1,261	4,989	3,300	5,872
Total expenditure (including net lending)	103,787	121,278	22,410	32,667	34,906	41,518	131,502	129,620	26,466	34,520	34,038	43,149	138,172	143,979	148,677
Total expenditure (excluding net lending)	104,125	122,567	22,536	33,169	34,906	40,891	131,502	129,620	26,466	34,520	34,038	43,149	138,172	143,979	148,677
Current expenditure	88,408	98,731	21,584	27,669	25,957	30,161	105,370	107,361	20,635	27,730	26,687	34,260	109,312	117,426	115,762
Wages	23,740	26,889	5,168	8,699	7,036	9,205	30,109	29,685	5,146	7,980	6,843	9,312	32,521	32,505	30,845
Transfers and subsidies	10,958	10,870	2,874	3,150	2,559	2,284	10,867	10,856	2,582	3,099	2,951	3,902	12,534	12,312	14,173
Social Fund expenditures	23,652	29,661	7,953	7,872	8,850	10,408	35,083	34,756	8,593	9,337	9,670	10,748	38,348	38,243	41,950
Interest	2,756	2,929	729	691	856	704	2,981	3,469	680	1,126	716	887	3,409	2,887	3,414
Purchases of other goods and services	27,302	28,382	4,859	7,256	6,656	7,559	26,330	28,596	3,634	6,189	6,507	9,411	25,740	31,479	25,380
Capital expenditure	15,717	23,836	952	5,500	8,949	10,730	26,132	22,259	5,830	6,790	7,351	8,889	28,861	26,553	32,915
Domestically financed capital expenditure	2,659	3,413	158	1,593	1,930	3,677	7,358	5,438	1,061	1,985	2,510	4,012	9,568	12,828	10,198
Foreign financed PIP loans	8,397	15,686	290	3,322	5,301	5,340	14,254	12,964	3,536	3,563	3,589	3,616	14,304	10,425	16,845
Energy infrastructure projects	1,863	10,117	0	2,593	4,130	4,160	10,884	6,736	1,995	2,010	2,025	2,039	8,068	5,451	8,467
Foreign financed PIP grants	4,661	4,736	504	585	1,718	1,713	4,520	3,857	1,233	1,243	1,252	1,261	4,989	3,300	5,872
Net lending	-338	-1,289	-126	-501	0	627	0	0	0	0	0	0	0	0	0
Discrepancy	-387	-292	-138	274	0	-137	0	0	0	0	0	0	0	0	0
Primary balance excluding grants	-18,986	-21,529	766	-2,784	-7,676	-12,559	-22,252	-19,734	-2,233	-5,871	-5,003	-7,370	-20,477	-18,414	-16,390
Primary balance	-10,361	-13,642	1,271	-2,022	-4,894	-9,646	-15,292	-14,804	-730	-2,911	-3,478	-5,828	-12,947	-13,052	-8,103
Overall balance	-13,117	-16,571	541	-2,713	-5,750	-10,351	-18,273	-18,273	-1,410	-4,037	-4,194	-6,715	-16,355	-15,939	-11,517
Overall balance excluding energy infrastructure projects	-11,254	-6,454	541	-120	-1,620	-6,190	-7,389	-11,537	194	-2,698	-1,875	-6,750	-8,287	-10,488	-3,050
Total financing	13,117	16,571	-541	2,713	5,750	10,351	18,273	18,273	1,410	4,037	4,194	6,715	16,355	15,939	11,517
External financing	9,351	15,597	-32	5,201	4,906	5,826	15,902	15,175	3,636	5,787	3,690	6,718	16,832	10,905	13,594
Public investment program	8,397	16,133	290	3,322	5,301	5,340	14,254	12,964	3,536	3,563	3,589	3,616	14,304	10,425	16,845
Program support loans	2,930	1,375	0	2,555	0	1,299	3,854	4,588	551	2,679	560	564	4,354	2,973	0
Total amortization	-1,976	-1,911	-322	-676	-395	-813	-2,206	-2,378	-452	-455	-458	-462	-1,826	-2,493	-3,251
Domestic financing	3,606	820	-509	-2,488	844	4,365	2,212	2,939	-2,267	-1,792	462	2,956	-642	1,399	-2,250
NBKR	894	511	-1,808	-1,989	507	4,301	1,012	1,739	-3,775	-1,586	78	1,641	-3,642	-1,601	-3,250
Commercial banks	272	1,258	1,027	-818	337	655	1,200	1,200	1,508	-206	384	1,314	3,000	3,000	1,000
Nonbank	2,440	-950	272	320	0	-591	0	0	0	0	0	0	0	0	0
Privatization	159	153	0	0	0	159	159	159	41	41	41	41	166	3,635	172
Use of KRDF investments abroad	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Sources: Kyrgyz authorities and IMF 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.

**Table 6. Kyrgyz Republic: General Government Finances, 2011–15**  
(In percent of GDP) 1/

	2011	2012	2013				2013				2014				2014	2015
	Year Act.	Year Act.	Q1 Act.	Q2 Act.	Q3 Proj.	Q4 Proj.	Year Proj.	4th Rev.	Year Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	4th Rev.	Year Proj.
Total revenue and grants	31.8	34.5	39.1	39.6	27.8	28.2	32.4	32.0	37.4	35.9	25.1	29.0	30.7	32.1	31.0	
Total revenue	28.8	31.9	38.3	38.6	25.2	25.6	30.4	30.6	35.2	32.4	23.8	27.7	28.8	30.8	29.1	
Current revenue	28.6	31.6	38.1	38.3	24.9	25.1	30.0	30.2	34.8	32.0	24.5	26.8	28.5	30.4	28.8	
Tax revenue	23.1	26.0	32.4	28.9	20.8	23.1	25.2	25.4	31.3	28.0	20.8	24.2	25.2	25.7	25.5	
Income tax	6.0	6.1	7.6	5.8	4.1	5.3	5.4	5.6	8.2	6.0	4.2	5.1	5.5	6.1	5.5	
VAT 2/	7.1	8.5	10.0	9.5	7.0	7.9	8.3	8.4	9.2	9.3	7.0	8.3	8.3	8.2	8.4	
Excises	0.8	0.9	1.2	1.1	0.9	1.1	1.1	1.1	1.6	1.4	1.0	1.1	1.2	1.2	1.3	
Customs	2.5	3.1	3.7	3.8	2.6	2.7	3.1	3.1	3.3	3.6	2.8	3.4	3.3	3.1	3.2	
Land tax	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.2	
Road tax and Emergency Fund 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	0.0	0.0	
New turnover tax 2/	1.4	1.6	2.1	2.1	1.4	1.4	1.7	1.7	2.1	1.8	1.4	1.6	1.7	1.7	1.7	
Social Fund (excluding government contribution)	4.5	5.0	6.4	5.6	4.0	4.3	4.9	4.7	6.2	5.1	3.8	4.0	4.5	4.7	4.7	
Other	0.5	0.5	1.1	0.6	0.6	0.2	0.5	0.5	0.5	0.6	0.5	0.3	0.4	0.5	0.4	
Nontax revenue	5.5	5.7	5.7	9.5	4.0	2.0	4.8	4.8	3.5	4.1	2.8	3.3	3.4	4.7	3.4	
Capital revenue	0.3	0.3	0.2	0.3	0.3	0.6	0.4	0.4	0.3	0.3	0.2	0.2	0.3	0.4	0.3	
Grants	3.0	2.6	0.9	1.0	2.7	2.6	2.0	1.4	2.2	3.5	1.3	1.2	1.9	1.3	1.9	
Program grants	1.4	1.0	0.0	0.2	1.0	1.1	0.7	0.3	0.4	2.0	0.2	0.2	0.6	0.5	0.5	
Public investment program (PIP) grants	1.6	1.6	0.9	0.8	1.6	1.5	1.3	1.1	1.8	1.5	1.1	1.0	1.3	0.8	1.3	
Total expenditure (including net lending)	36.3	39.8	38.0	43.6	33.3	37.4	37.6	37.2	39.5	40.6	28.6	34.3	34.8	36.1	33.6	
Total expenditure (excluding net lending)	36.4	40.3	38.2	44.3	33.3	36.9	37.6	37.2	39.5	40.6	28.6	34.3	34.8	36.1	33.6	
Current expenditure	30.9	32.4	36.6	37.0	24.8	27.2	30.1	30.8	30.8	32.6	22.4	27.2	27.5	29.5	26.1	
Wages	8.3	8.8	8.8	11.6	6.7	8.3	8.6	8.5	7.7	9.4	5.8	7.4	7.4	8.2	7.0	
Transfers and subsidies	3.8	3.6	4.9	4.2	2.4	2.1	3.1	3.1	3.9	3.6	2.5	3.1	3.2	3.1	3.2	
Social Fund expenditures	8.3	9.7	13.5	10.5	8.4	9.4	10.0	10.0	12.8	11.0	8.1	8.5	9.7	9.6	9.5	
Interest	1.0	1.0	1.2	0.9	0.8	0.6	0.9	1.0	1.0	1.3	0.6	0.7	0.9	0.7	0.8	
Purchases of other goods and services	9.5	9.3	8.2	9.7	6.3	6.8	7.5	8.2	5.4	7.3	5.5	7.5	6.5	7.9	5.7	
Capital expenditure	5.5	7.8	1.6	7.3	8.5	9.7	7.5	6.4	8.7	8.0	6.2	7.1	7.3	6.7	7.4	
Domestically financed capital expenditure	0.9	1.1	0.3	2.1	1.8	3.3	2.1	1.6	1.6	2.3	2.1	3.2	2.4	3.2	2.3	
Foreign financed PIP loans	2.9	5.2	0.5	4.4	5.1	4.8	4.1	3.7	5.3	4.2	3.0	2.9	3.6	2.6	3.8	
Energy infrastructure projects	0.7	3.3	0.0	3.5	3.9	3.8	3.1	1.9	3.0	2.4	1.7	1.6	2.0	1.4	1.9	
Foreign financed PIP grants	1.6	1.6	0.9	0.8	1.6	1.5	1.3	1.1	1.8	1.5	1.1	1.0	1.3	0.8	1.3	
Net lending	-0.1	-0.4	-0.2	-0.7	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Discrepancy	-0.1	-0.1	-0.2	0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Primary balance excluding grants	-6.6	-7.1	1.3	-3.7	-7.3	-11.3	-6.4	-5.7	-3.3	-6.9	-4.2	-5.9	-5.2	-4.6	-3.7	
Primary balance	-3.6	-4.5	2.2	-2.7	-4.7	-8.7	-4.4	-4.3	-1.1	-3.4	-2.9	-4.6	-3.3	-3.3	-1.8	
Overall balance	-4.6	-5.4	0.9	-3.6	-5.5	-9.3	-5.2	-5.3	-2.1	-4.8	-3.5	-5.3	-4.1	-4.0	-2.6	
Overall balance excluding energy infrastructure projects	-3.9	-2.1	0.9	-0.2	-1.5	-5.6	-2.1	-3.3	-1.7	-4.8	-2.7	-6.5	-2.1	-2.6	-0.7	
Total financing	4.6	5.4	-0.9	3.6	5.5	9.3	5.2	5.3	2.1	4.8	3.5	5.3	4.1	4.0	2.6	
External financing	3.3	5.1	-0.1	6.9	4.7	5.3	4.5	4.4	5.4	6.8	3.1	3.0	4.2	2.7	3.1	
PIP	2.9	5.3	0.5	4.4	5.1	4.8	4.1	3.7	5.3	4.2	3.0	2.9	3.6	2.6	3.8	
Program support loans	1.0	0.5	0.0	3.4	0.0	1.2	1.1	1.3	0.8	3.2	0.5	0.4	1.1	0.7	0.0	
Total amortization	-0.7	-0.6	-0.5	-0.9	-0.4	-0.7	-0.6	-0.7	-0.7	-0.5	-0.4	-0.4	-0.5	-0.6	-0.7	
Domestic financing	1.3	0.3	-0.9	-3.3	0.8	3.9	0.6	0.8	-3.4	-2.1	0.4	2.3	-0.2	0.4	-0.5	
NBKR	0.3	0.2	-3.1	-2.7	0.5	3.9	0.3	0.5	-5.6	-1.9	0.1	1.3	-0.9	-0.4	-0.7	
Commercial banks	0.1	0.4	1.7	-1.1	0.3	0.6	0.3	0.3	2.3	-0.2	0.3	1.0	0.8	0.8	0.2	
Nonbank	0.9	-0.3	0.5	0.4	0.0	-0.5	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	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.9	0.0	
Use of KRDF investments abroad																
<i>Memorandum items:</i>																
Nongold structural deficit excluding grants	-10.1	-9.1	...	...	...	...	-7.9	-7.1	...	...	...	...	-7.3	-7.5	-5.4	
Nongold structural primary deficit excluding grants	-9.2	-8.2	...	...	...	...	-6.8	-6.8	...	...	...	...	-6.6	-6.8	-4.7	

Sources: Kyrgyz authorities and IMF 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.

2/ 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.

**Table 7. Kyrgyz Republic: State Government Finances, 2011–15**

(In millions of soms)

	2011	2012	2013	2014	2015
	Year	Year	Year	Year	Year
	Act.	Act.	Proj.	Proj.	Proj.
Total revenue and grants	77,753	89,284	95,613	103,039	115,383
Total revenue	69,128	81,396	88,652	95,508	107,096
Current revenue	68,672	81,160	88,040	95,269	106,829
Tax revenue	53,017	63,912	71,186	81,831	91,827
Income tax	17,122	18,537	18,990	21,969	24,528
VAT 1/	20,353	25,769	29,131	32,882	37,237
Excises	2,187	2,827	3,732	4,790	5,568
Customs	7,147	9,430	10,765	12,954	14,282
Land tax	762	757	863	906	952
Road tax and Emergency Fund 1/	10	4	8	0	0
New turnover tax 1/	4,128	4,989	5,859	6,629	7,389
Other	1,309	1,599	1,838	1,701	1,871
Nontax revenue	15,655	17,249	16,853	13,439	15,002
Capital revenue	456	236	613	239	267
Grants	8,624	7,887	6,961	7,530	8,287
Program grants	3,963	3,151	2,441	2,541	2,415
Public investment program (PIP) grants	4,661	4,736	4,520	4,989	5,872
Total expenditure (including net lending)	91,059	105,940	114,354	119,407	127,664
Total expenditure	91,397	107,229	114,354	119,407	127,664
Current expenditure	75,680	83,393	88,222	90,546	94,749
Wages and Social Fund contributions	26,935	30,559	34,883	34,063	36,242
Transfers and subsidies	10,958	10,870	10,867	12,534	14,173
Transfers to Social Fund	7,729	10,652	13,160	14,800	15,540
Interest	2,756	2,929	2,981	3,409	3,414
Purchases of other goods and services	27,302	28,382	26,330	25,740	25,380
Capital expenditure (including PIP)	15,717	23,836	26,132	28,861	32,915
Domestically financed capital expenditure	2,659	3,413	7,358	9,568	10,198
Foreign financed PIP loans	8,397	15,686	14,254	14,304	16,845
Energy infrastructure projects	1,863	10,117	10,884	8,068	8,467
Foreign financed PIP grants	4,661	4,736	4,520	4,989	5,872
Financial balance	-13,644	-17,945	-18,741	-16,368	-12,281
Net lending	-338	-1,289	0	0	0
Discrepancy	-560	-289	0	0	0
Primary balance	-11,111	-14,016	-15,760	-12,960	-8,867
Primary balance excluding grants	-19,735	-21,903	-22,720	-20,490	-17,154
Overall balance	-13,867	-16,945	-18,741	-16,368	-12,281
Overall Balance excluding energy infrastructure projects	-12,004	-6,829	-7,857	-8,300	0
Total financing	13,867	16,945	18,741	16,368	12,281
External financing	9,351	15,597	15,902	16,832	13,594
PIP	8,397	16,133	14,254	14,304	16,845
Program support loans	2,930	1,375	3,854	4,354	0
Total amortization	-1,976	-1,911	-2,206	-1,826	-3,251
Domestic financing	4,356	1,194	2,680	-629	-1,486
NBKR	894	511	1,012	-3,642	-3,250
Commercial banks	-586	947	1,668	3,013	1,764
Nonbank	4,047	-263	0	0	0
Privatization	159	153	159	166	172

Sources: Kyrgyz authorities and IMF 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.

**Table 8. Kyrgyz Republic: State Government Finances, 2011–15**  
(In percent of GDP)

	2011	2012	2013	2014	2015
	Year	Year	Year	Year	Year
	Act.	Act.	Proj.	Proj.	Proj.
Total revenue and grants	27.2	29.3	27.4	26.0	26.0
Total revenue	24.2	26.7	25.4	24.1	24.2
Current revenue	24.0	26.7	25.2	24.0	24.1
Tax revenue	18.5	21.0	20.4	20.6	20.7
Income tax	6.0	6.1	5.4	5.5	5.5
VAT 1/	7.1	8.5	8.3	8.3	8.4
Excises	0.8	0.9	1.1	1.2	1.3
Customs	2.5	3.1	3.1	3.3	3.2
Land tax	0.3	0.2	0.2	0.2	0.2
Retail sales tax 1/	0.0	0.0	0.0	0.0	0.0
New turnover tax 1/	1.4	1.6	1.7	1.7	1.7
Other	0.5	0.5	0.5	0.4	0.4
Nontax revenue	5.5	5.7	4.8	3.4	3.4
Capital revenue	0.2	0.1	0.2	0.1	0.1
Grants	3.0	2.6	2.0	1.9	1.9
Program grants	1.4	1.0	0.7	0.6	0.5
Public investment program (PIP) grants	1.6	1.6	1.3	1.3	1.3
Total expenditure (including net lending)	31.8	34.8	32.7	30.1	28.8
Total expenditure	32.0	35.2	32.7	30.1	28.8
Current expenditure	26.5	27.4	25.2	22.8	21.4
Wages and Social Fund contributions	9.4	10.0	10.0	8.6	8.2
Transfers and subsidies	3.8	3.6	3.1	3.2	3.2
Transfers to Social Fund	2.7	3.5	3.8	3.7	3.5
Interest	1.0	1.0	0.9	0.9	0.8
Purchases of other goods and services	9.5	9.3	7.5	6.5	5.7
Capital expenditure (including PIP)	5.5	7.8	7.5	7.3	7.4
Domestically financed capital expenditures	0.9	1.1	2.1	2.4	2.3
Foreign financed PIP loans	2.9	5.2	4.1	3.6	3.8
Energy infrastructure projects	0.7	3.3	3.1	2.0	1.9
Foreign financed PIP grants	1.6	1.6	1.3	1.3	1.3
Financial balance	-4.8	-5.9	-5.4	-4.1	-2.8
Net lending	-0.1	-0.4	0.0	0.0	0.0
Discrepancy	-0.2	-0.1	0.0	0.0	0.0
Primary balance	-3.9	-4.6	-4.5	-3.3	-2.0
Primary balance excluding grants	-6.9	-7.2	-6.5	-5.2	-3.9
Overall balance	-4.8	-5.6	-5.4	-4.1	-2.8
Overall balance excluding energy infrastructure projects	-4.2	-2.2	-2.2	-2.1	-0.9
Total financing	4.8	5.6	5.4	4.1	2.8
External financing	3.3	5.1	4.5	4.2	3.1
PIP	2.9	5.3	4.1	3.6	3.8
Program support loans	1.0	0.5	1.1	1.1	0.0
Domestic financing	1.5	0.4	0.8	-0.2	-0.3
NBKR	0.3	0.2	0.3	-0.9	-0.7
Commercial banks	-0.2	0.3	0.5	0.8	0.4
Nonbank	1.4	-0.1	0.0	0.0	0.0
Privatization	0.1	0.1	0.0	0.0	0.0

Sources: Kyrgyz authorities and IMF 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.

**Table 9. Kyrgyz Republic: Social Fund Operations, 2011–15**

	2011	2012	2013	2014	2015
	Year	Year	Year	Year	Year
	Act.	Act.	Proj.	Proj.	Proj.
(In millions of soms)					
Total revenue	16,500	19,386	22,391	23,561	27,174
Total contribution	16,205	18,796	21,741	22,788	26,312
Other revenue	295	590	649	772	862
Total expenditure	23,652	29,661	35,083	38,348	41,950
Pension Fund	22,551	28,299	33,359	36,448	39,761
Medical Insurance Fund (including old funds)	978	1,210	1,536	1,693	1,951
Workers' Health Recovery Fund	123	152	187	206	238
Financial balance	-7,152	-10,275	-12,692	-14,787	-14,776
Budgetary transfer	7,729	10,652	13,160	14,800	15,540
Discrepancy	173	-3	0	0	0
Overall balance	750	374	468	13	764
Financing	-750	-374	-468	-13	-764
Commercial bank deposits	858	312	-468	-13	-764
Government bonds	-1,608	-686	0	0	0
(In percent of GDP)					
Total revenue	5.8	6.4	6.4	5.9	6.1
Total contribution	5.7	6.2	6.2	5.7	5.9
Other revenue	0.1	0.2	0.2	0.2	0.2
Total expenditure	8.3	9.7	10.0	9.7	9.5
Pension Fund	7.9	9.3	9.5	9.2	9.0
Medical Insurance Fund (including old funds)	0.4	0.4	0.5	0.5	0.5
Workers' Health Recovery Fund	0.0	0.0	0.1	0.1	
Financial balance	-2.5	-3.4	-3.6	-3.7	-3.3
Budgetary transfer	2.7	3.5	3.8	3.7	3.5
Discrepancy	0.1	0.0	0.0	0.0	0.0
Overall balance	0.3	0.1	0.1	0.0	0.2
Financing	-0.3	-0.1	-0.1	0.0	-0.2
Commercial bank deposits	0.3	0.1	-0.1	0.0	-0.2
Government bonds	-0.6	-0.2	0.0	0.0	0.0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

**Table 10. Kyrgyz Republic: General Government Operations, GFSM 2001 Presentation, 2011–15**  
(In millions of soms)

	2011	2012	2013	2014	2015
	Year	Year	Year	Year	Year
	Act.	Act.	Proj.	Proj.	Proj.
Revenue	93,796	110,761	126,479	126,360	142,291
Taxes	53,017	63,912	71,186	81,831	91,828
Taxes on income, profits, and capital gains	17,122	18,537	18,990	21,969	24,528
Taxes on property	1,682	1,724	1,974	2,167	2,359
Taxes on goods and services	26,668	33,585	38,722	44,301	50,194
General taxes on goods and services	24,481	30,758	34,990	39,511	44,626
Value-added taxes	20,353	25,769	29,131	32,882	37,237
Turnover and other general taxes on goods and services	4,128	4,989	5,859	6,629	7,389
Excises	2,187	2,827	3,732	4,790	5,568
Taxes on international trade and transactions	7,147	9,430	10,765	12,954	14,282
Other taxes	398	635	735	440	463
Social contributions	16,205	18,796	21,741	22,788	26,312
Grants	8,624	10,215	16,049	7,530	8,287
Program grants 1/	3,963	5,478	11,529	2,541	2,415
Project grants	4,661	4,736	4,520	4,989	5,872
Other revenue	15,950	17,839	17,502	14,211	15,865
Expense	91,603	102,401	113,099	114,094	121,159
Compensation of employees	26,935	30,559	34,883	34,063	36,242
Wages and salaries	23,740	26,889	30,109	29,281	30,845
Social contributions	3,195	3,670	4,774	4,782	5,397
Use of goods and services	27,302	28,382	29,285	25,740	25,380
Interest	2,756	2,929	2,981	3,409	3,414
Subsidies	2,138	2,260	2,256	3,493	3,899
Social benefits	32,473	38,271	43,694	47,389	52,224
Gross operating balance	2,193	8,359	13,380	12,266	21,132
Net acquisition of nonfinancial assets	15,261	23,600	22,565	28,622	32,648
Acquisition of nonfinancial assets	15,717	23,836	23,177	28,861	32,915
Domestically financed	2,659	3,413	7,358	9,568	10,198
Foreign financed	13,058	20,423	15,819	19,293	22,717
Disposals of nonfinancial assets	-456	-236	-613	-239	-267
Net lending/borrowing (overall balance)	-13,068	-15,240	-9,184	-16,355	-11,517
Statistical discrepancy	387	292	0	0	0
Net acquisition of financial assets	-1,579	-3,067	-4,248	3,489	3,841
Domestic	-1,579	-3,067	-4,248	3,489	3,841
Currency and deposits	-1,082	-1,625	-4,088	3,655	4,014
Loans	-338	-1,289	0	0	0
Sales of equity (privatization proceeds)	-159	-153	-159	-166	-172
Foreign	0	0	0	0	0
Net incurrence of liabilities	11,876	12,465	4,937	19,844	15,358
Domestic	2,524	-805	1,078	3,013	1,764
Foreign	9,351	13,270	3,859	16,832	13,594
Program loans	2,930	1,375	3,854	4,354	0
Public investment program loans	8,397	16,133	11,299	14,304	16,845
Amortization	-1,976	-4,238	-11,295	-1,826	-3,251

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Program grants include debt forgiveness by Turkey (US\$49.7 million) in 2012 and by Russia (US\$188.9 million) in 2013.



**Table 11. 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 December 7, 2011	Completed the first review based on end-June, 2011 performance criteria	SDR 9.514 million	14.3
On April 27, 2012	Completed the second review based on end-December, 2011 performance criteria	SDR 9.514 million	14.3
On December 3, 2012	Completed the third review based on end-June, 2012 performance criteria	SDR 9.514 million	14.3
On June 10, 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 12. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2013–18 1/**

	2013	2014	2015	2016	2017	2018
<b>Fund obligations based on existing credit</b>						
<i>(In millions of SDRs)</i>						
Principal	11.4	13.3	11.0	15.0	18.3	20.7
Charges and interest	0.0	0.0	0.3	0.2	0.2	0.1
<b>Fund obligations based on existing and prospective credit</b>						
<i>(In millions of SDRs)</i>						
Principal	11.4	13.3	11.0	15.0	18.3	20.7
Charges and interest	0.0	0.0	0.3	0.3	0.2	0.2
<b>Total obligations based on existing and prospective credit</b>						
<i>In millions of SDRs</i>						
In millions of U.S. dollars	17.3	20.4	17.5	23.7	28.9	32.8
In percent of Gross International Reserves	0.8	0.9	0.7	0.9	1.1	1.2
In percent of exports of goods and services	0.4	0.5	0.4	0.5	0.5	0.6
In percent of debt service 2/	6.1	20.7	14.2	12.5	14.7	15.3
In percent of GDP	0.2	0.3	0.2	0.3	0.3	0.3
In percent of quota	12.8	15.0	12.8	17.2	20.8	23.5
<b>Outstanding Fund credit</b>						
<i>In millions of SDRs</i>						
In billions of U.S. dollars	0.2	0.2	0.2	0.1	0.1	0.1
In percent of Gross International Reserves	8.8	7.4	6.3	5.0	3.8	2.5
In percent of exports of goods and services	4.6	3.8	3.4	2.6	1.9	1.2
In percent of debt service 2/	64.8	168.6	122.3	68.0	51.3	32.1
In percent of GDP	2.6	2.1	1.7	1.4	1.0	0.6
In percent of quota	137.5	122.5	110.1	93.2	72.7	49.4
<b>Net use of Fund credit (in millions of SDRs)</b>						
Disbursements	19.0	9.5	0.0	0.0	0.0	0.0
Repayments and Repurchases	11.4	13.3	11.0	15.0	18.3	20.7
<i>Memorandum items:</i>						
Nominal GDP (in millions of U.S. dollars)	7,266	8,007	8,678	9,316	10,038	10,839
Exports of goods and services (in millions of U.S. dollars)	4,049	4,420	4,502	4,884	5,269	5,661
Gross International Reserves (in millions of U.S. dollars)	2,115	2,262	2,395	2,555	2,647	2,796
Debt service (in millions of U.S. dollars) 2/	286.4	98.9	123.3	189.1	196.6	214.7
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 13. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2012–June 2013**  
(In millions of soms, unless otherwise indicated; eop)

	2012												2013							
	June				September				December				March				June			
	QPC				IT				QPC				IT				QPC			
	2nd Rev.	Adj.	Act.	Status	2nd Rev.	Adj.	Act.	Status	3rd Rev.	Adj.	Act.	Status	3rd Rev.	Adj.	Act.	Status	4th Rev.	Adj.	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)	1,635	1,611	1,725	Met	1,678	1,653	1,731	Met	1,723	1,781	1,819	Met	1,758	1,731	1,839	Met	1,848	1,864	1,894	Met
2. Ceiling on net domestic assets of the NBKR (eop stock)	-10,368	-8,993	-16,271	Met	-10,491	-9,031	-13,079	Met	-11,633	-14,035	-16,271	Met	-13,905	-12,633	-17,106	Met	-14,419	-15,111	-16,475	Met
3. Ceiling on cumulative overall cash deficit of the general government 2/	7,213	7,016	3,133	Met	12,703	17,579	10,773	Met	17,629	18,681	16,571	Met	920	133	-541	Met	6,486	5,729	2,172	Met
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	400	400	0	Met	400	400	0	Met	0	0	0	Met	0	0	30	Not met	0	0	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	0	0	0	Met	0	0	0	Met	0	0	0	Met
<i>Indicative Targets 1/</i>																				
1. Ceiling on reserve money	58,339	58,339	56,696	Met	60,222	60,222	60,175	Met	63,574	63,574	64,489	Not met	62,935	62,935	63,699	Not met	66,808	66,808	66,916	Not met
2. Cumulative floor on state government tax collections 2/	26,069	26,069	29,747	Met	42,874	42,874	45,615	Met	64,458	64,458	63,912	Not met	15,055	15,055	15,378	Met	31,412	31,412	32,773	Met
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	1,444	1,444	1,594	Met	2,166	2,166	2,353	Met	2,888	2,888	3,257	Met	1,112	1,112	1,024	Not met	2,175	2,175	2,175	Met

Sources: Kyrgyz authorities and IMF 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 of less than 35 percent, cumulative from the beginning of 2012 to end March 2013. The QPC was missed in February 2013 because of the contracting of a non-concessional loan in the amount of US\$30 million. A waiver was granted on June 10, 2013. The total amount of non-concessional loans contracted from the beginning of the program is US\$30 million.

**Table 14. Kyrgyz Republic: Structural Benchmarks under the Extended Credit Facility for 2013–14**

Measure	Timing	Macroeconomic Rationale	Status
<b>Prior Action</b>			
Issue a regulation on expanding the coverage of the commitment register to include local budgets and special means.			
<b>Structural Benchmarks</b>			
<b>I. FISCAL POLICY</b>			
Create a new, adequately staffed, department on tax policy in the Ministry of Finance.	End-June, 2013	Develop a sound revenue base by strengthening the tax policy function by ensuring that the Ministry of Finance becomes the focal point on all tax policy-related matters.	Met
Issue a regulation on expanding the coverage of the commitment register to include local budgets and special means.	End-September, 2013	Optimize spending by enhancing the treasury's ability to exercise public expenditure control.	Not met
Develop and approve regulations on accounting and financial reporting using the unified chart of accounts on the basis of international norms.	End-December, 2013	Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management.	In progress
Introduce the Treasury Single account on a pilot basis.	End-April, 2014	Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management.	New
<b>II. FINANCIAL SECTOR</b>			
Submit the 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. 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.		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;  Strengthen institutional and financial autonomy of the NBKR.	
(i) to government	End-April, 2013		Met
(ii) to parliament	End-September, 2013		Met
Identify and sign contract with one of the big 4 audit companies to audit DEBRA.	End-February, 2014	Speed up the liquidation process.	New
<b>III. MONETARY POLICY</b>			
Issue a board decision comprising the following:	End-December, 2013	Enhance the monetary policy framework and improve transmission of monetary policy.	New
(i) use the policy rate as an operational target for monetary policy;			
(ii) reactivate instruments to create a corridor around the policy rate;			
(iii) introduce a short-term liquidity facility;			
(iv) preannounce the schedule of the NBKR's board meetings on monetary policy on the NBKR's web site;			
(v) start issuing a press release after board meetings on monetary policy and economic developments.			

## ANNEX I. Kyrgyz Republic: Debt Sustainability Analysis Update

*The Kyrgyz Republic<sup>1</sup> remains at a moderate risk of debt distress. Stress tests suggest that the country is still vulnerable to large exogenous shocks. Fiscal consolidation and prudent use of concessional loans, in particular for large-scale public investment programs, are key to keeping the debt outlook sustainable in the medium term.*

**1. The 2013 updated joint Bank-Fund debt sustainability analysis (DSA) reconfirms the moderate risk rating found in the last DSA (country report No.1 2/329).** The Kyrgyz Republic is classified as a large remittances case. The update takes into account revised macroeconomic assumptions and data on new borrowing<sup>2</sup>. Debt burden indicators under the baseline scenario with remittances show that Kyrgyz is at moderate risk. The macroeconomic assumptions are based on a revised growth path, following the sharp contraction in 2012, and a slower recovery of the current account deficit in the medium term. The lower gold price throughout the medium term and significantly higher imports related to public investment programs (PIPs) funded by foreign loans, grants, and FDI, are additional factors affecting the current account. In the long run, exports and imports are projected to grow faster, because of (i) the extension of the life of the Kumtor gold mine by 5 years to 2026 and new gold mines coming online, (ii) higher domestic demand resulting from the higher income from gold exports, (iii) growth of transportation services following the completion of large scale infrastructure projects (e.g. high ways).

Table 1. Kyrgyz Republic: Underlying Long-Term DSA Assumptions

	2012 DSA	2013 DSA Update
Real GDP growth (in percent )	5.0	5.0
Growth of exports of G&S (U.S. dollar terms, in percent )	6.4	8.6
Growth of imports of G&S (U.S. dollar terms, in percent )	6.5	7.3
Primary Deficit (percent of GDP)	1.7	1.7
Inflation rate	4.0	4.0

Sources: Kyrgyz authorities and IMF staff projections.

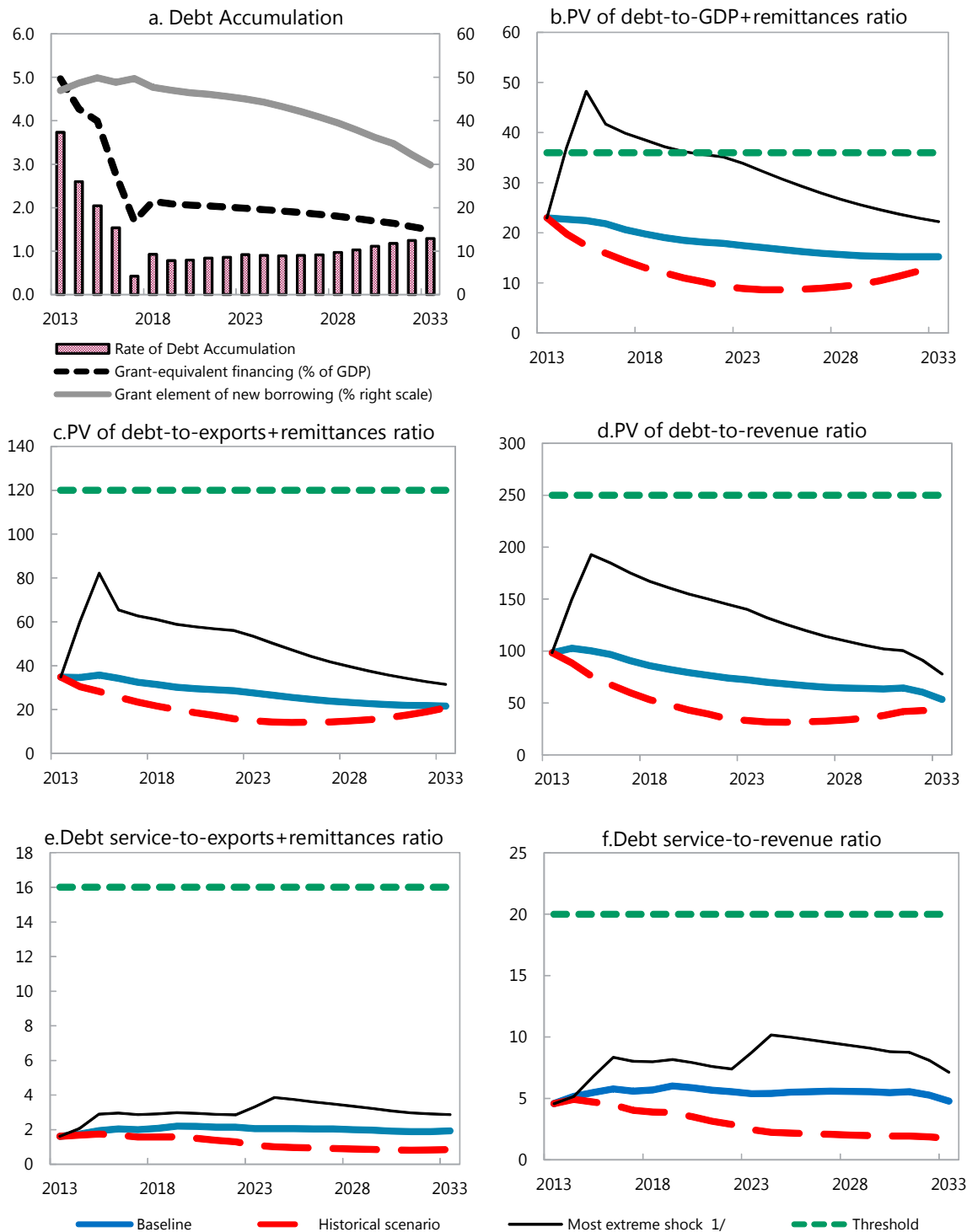
**2. The debt outlook is sustainable but remains vulnerable to large external shocks, with remittance an important factor in mitigating risks of debt distress.** All external debt burden indicators in the baseline scenario are below the thresholds. However, stress tests indicate that the Kyrgyz Republic remains vulnerable to large external shocks, especially in light of increased

<sup>1</sup> The average CPIA score 2010–12 is 3.62, while policy performance category is medium.

<sup>2</sup> Only part (US\$200 million) of the Chinese PIP loans is included in the DSA. Assuming full disbursement of the US\$800 million PIP loans would not change the DSA findings.

borrowing related to PIP projects over the medium-term. The present value (PV) of debt to GDP ratio in the most extreme shock (a shock to non-debt flows (FDI or net transfers in 2014 and 2015) breaches the threshold. Steady growth of remittances is essential for the Kyrgyz Republic to mitigate debt-related risks, including lower gold prices, changing global oil and food prices, a protracted slowdown in Russia and Kazakhstan, unfavorable developments in advanced and other emerging economies and the security situation in the region. The PV of external public debt to GDP ratio is projected to decline gradually from 32.7 percent in 2013 to 28.3 percent in 2033. Maintaining a prudent borrowing strategy remains key to keep the debt outlook sustainable, especially related to large projects such as the Kambarata hydro power plant.

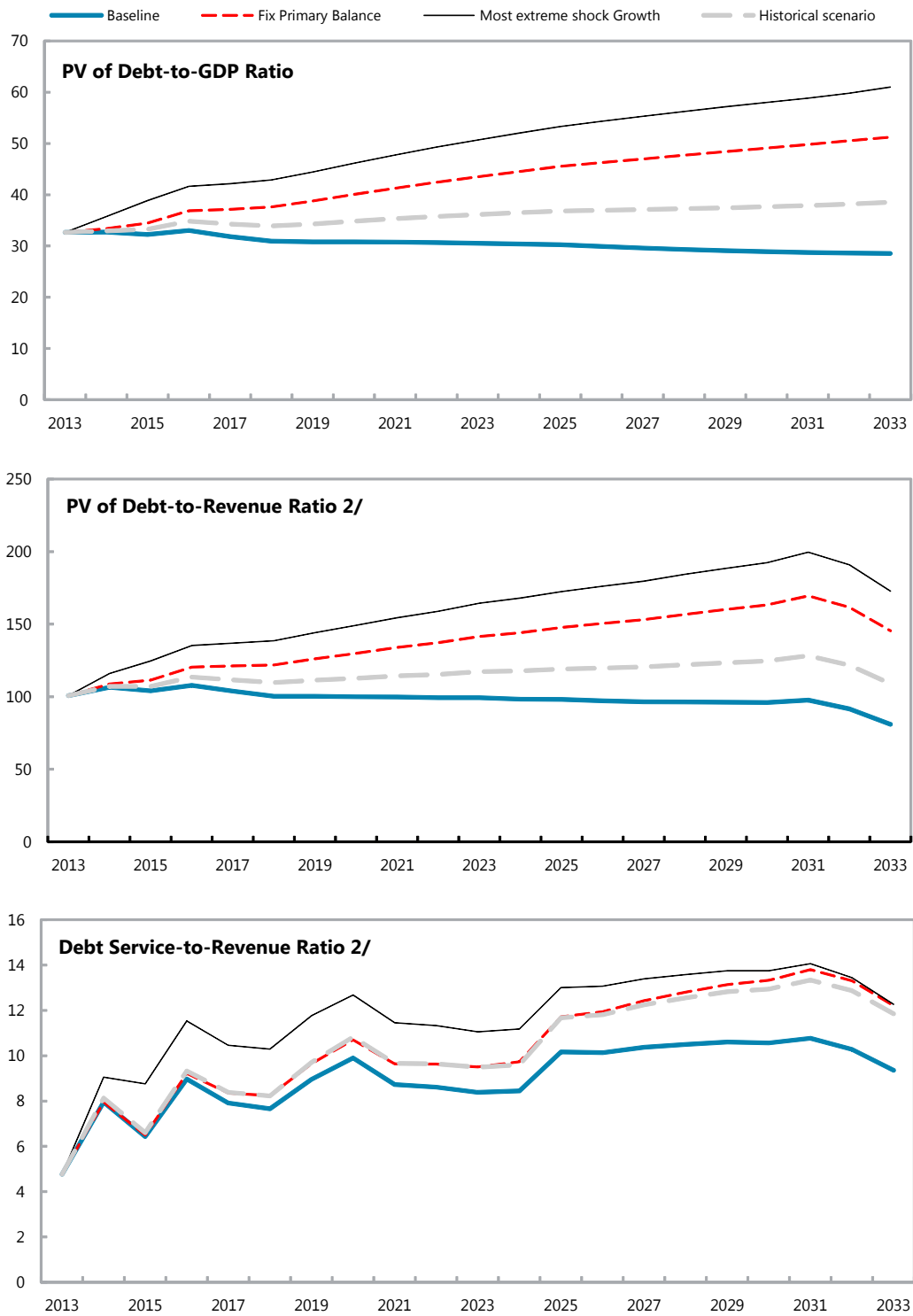
**Figure 1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios Including Remittances, 2013–33**



Sources: Kyrgyz authorities and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock; in d. to a Non-debt flows shock; in e. to a Non-debt flows shock and in figure f. to a Non-debt flows shock

**Figure 2. Kyrgyz Republic: Indicators of Public Debt under Alternatives Scenarios Including Remittances, 2013–33 1/**



Sources: Kyrgyz authorities and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.



Table 1. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–33

	Actual			Average	s/	Standard Deviation	s/	Estimate		Projections					2019-33 Average	
	2010	2011	2012					2013	2014	2015	2016	2017	2018	2013-18 Average		2023
<b>Public sector debt 1/</b>	59.7	49.4	50.0					48.0	48.3	48.1	48.7	46.4	44.9		42.9	39.0
<i>of which: foreign-currency denominated</i>	56.8	46.2	47.9					45.3	45.1	45.0	44.3	41.5	39.7		34.1	29.2
Change in public sector debt	1.7	-10.3	0.6					-2.0	0.3	-0.2	0.7	-2.3	-1.5		-0.4	-0.2
Identified debt-creating flows	4.5	-9.9	3.2					0.0	-0.4	-1.2	-1.3	-1.1	-1.3		-0.5	-0.3
Primary deficit	5.2	3.7	4.4	2.3		2.0		4.3	3.2	1.7	1.5	1.6	1.7	2.3	1.7	1.7
Revenue and grants	30.5	31.8	34.5					32.4	30.7	31.0	30.6	30.7	30.8		30.7	34.5
<i>of which: grants</i>	2.8	3.0	2.6					2.0	1.9	1.9	1.0	1.0	0.9		0.8	0.6
Primary (noninterest) expenditure	35.7	35.5	38.9					36.7	33.9	32.6	32.1	32.3	32.6		32.4	36.2
Automatic debt dynamics	-0.6	-13.5	-1.1					-4.3	-3.6	-2.9	-2.6	-2.7	-2.9		-2.2	-1.9
Contribution from interest rate/growth differential	0.7	-3.3	0.5					-3.7	-3.0	-2.5	-2.4	-2.5	-2.4		-2.2	-1.4
<i>of which: contribution from average real interest rate</i>	0.4	0.1	0.1					0.0	0.0	0.0	-0.2	-0.2	-0.2		-0.1	0.5
<i>of which: contribution from real GDP growth</i>	0.3	-3.4	0.4					-3.6	-2.9	-2.4	-2.3	-2.3	-2.2		-2.1	-1.9
Contribution from real exchange rate depreciation	-1.3	-10.2	-1.7					-0.6	-0.6	-0.4	-0.1	-0.3	-0.5		...	...
Other identified debt-creating flows	-0.1	-0.1	-0.1					0.0	0.0	0.0	-0.2	0.0	0.0		0.0	0.0
Privatization receipts (negative)	-0.1	-0.1	-0.1					0.0	0.0	0.0	-0.2	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes	-2.8	-0.4	-2.6					-2.0	0.7	1.0	1.9	-1.2	-0.3		0.2	0.1
<b>Other Sustainability Indicators</b>																
<b>PV of public sector debt</b>	...	...	32.4					32.7	32.7	32.2	33.0	31.8	31.0		30.4	28.3
<i>of which: foreign-currency denominated</i>	...	...	30.3					29.9	29.6	29.2	28.6	27.0	25.7		21.6	18.5
<i>of which: external</i>	...	...	29.6					29.9	29.6	29.2	28.6	27.0	25.7		21.6	18.5
PV of contingent liabilities (not included in public sector debt)	...	...	...					...	...	...	...	...	...		...	...
Gross financing need 2/	8.7	7.1	11.3					6.9	7.0	5.0	5.6	6.0	6.2		7.6	5.3
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	93.8					100.9	106.6	104.1	107.8	103.8	100.4		98.9	82.1
PV of public sector debt-to-revenue ratio (in percent)	...	...	101.4					107.5	113.6	110.8	111.5	107.2	103.5		101.6	83.6
<i>of which: external 3/</i>	...	...	92.8					98.5	102.6	100.3	96.7	90.8	86.0		72.3	54.5
Debt service-to-revenue and grants ratio (in percent) 4/	7.5	7.0	15.5					4.8	8.0	6.4	9.0	7.9	7.7		8.3	9.4
Debt service-to-revenue ratio (in percent) 4/	8.2	7.8	16.8					5.1	8.5	6.8	9.3	8.2	7.9		8.5	9.6
Primary deficit that stabilizes the debt-to-GDP ratio	3.5	14.0	3.8					6.3	2.9	1.9	0.8	4.0	3.2		2.1	1.9
<b>Key macroeconomic and fiscal assumptions</b>																
Real GDP growth (in percent)	-0.5	6.0	-0.9	4.1		3.6		7.8	6.5	5.3	5.0	5.0	5.0	5.8	5.0	5.0
Average nominal interest rate on forex debt (in percent)	1.1	1.2	1.2	1.2		0.3		1.2	1.5	1.6	1.4	1.4	1.4	1.4	1.5	1.8
Average real interest rate on domestic debt (in percent)	2.5	-7.3	7.6	-0.1		6.2		13.4	7.1	3.9	2.5	1.9	0.0	4.8	0.0	0.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.3	-18.9	-3.6	-7.2		7.9		-1.4	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	10.0	22.4	7.4	10.8		7.1		6.5	6.5	6.0	5.4	5.7	5.4	5.9	4.0	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.1	0.1	0.1		0.1		0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Grant element of new external borrowing (in percent)	...	...	...	...		...		47.0	48.7	49.9	48.9	49.7	47.7	48.6	45.0	29.8

Sources: Country authorities; and staff estimates and projections.

1/ Covers general government and gross debt is used.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

**Table 2. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2013–33**

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	33	33	32	33	32	31	30	28
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	33	33	33	35	34	34	36	38
A2. Primary balance is unchanged from 2013	33	33	34	37	37	38	43	51
A3. Permanently lower GDP growth 1/	33	33	33	35	34	34	40	59
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	33	36	39	42	42	43	51	61
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	33	33	34	35	34	33	32	29
B3. Combination of B1-B2 using one half standard deviation shocks	33	34	36	38	38	38	43	49
B4. One-time 30 percent real depreciation in 2014	33	44	42	42	40	39	35	31
B5. 10 percent of GDP increase in other debt-creating flows in 2014	33	39	38	39	37	36	35	31
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	101	107	104	108	104	100	99	80
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	101	107	107	114	112	110	117	108
A2. Primary balance is unchanged from 2013	101	109	111	120	121	122	141	145
A3. Permanently lower GDP growth 1/	101	108	107	113	111	110	129	167
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	101	116	125	135	137	139	164	172
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	101	109	111	115	111	107	105	83
B3. Combination of B1-B2 using one half standard deviation shocks	101	111	114	123	122	122	139	139
B4. One-time 30 percent real depreciation in 2014	101	145	137	138	132	126	115	88
B5. 10 percent of GDP increase in other debt-creating flows in 2014	101	126	123	126	121	117	113	88
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	5	8	6	9	8	8	8	9
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	5	8	7	9	8	8	9	12
A2. Primary balance is unchanged from 2013	5	8	7	9	8	8	9	12
A3. Permanently lower GDP growth 1/	5	8	7	9	8	8	10	13
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	5	8	7	10	9	9	11	14
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	5	8	7	9	8	8	8	10
B3. Combination of B1-B2 using one half standard deviation shocks	5	8	7	10	9	9	10	12
B4. One-time 30 percent real depreciation in 2014	5	9	9	12	10	10	11	12
B5. 10 percent of GDP increase in other debt-creating flows in 2014	5	8	7	10	8	8	9	10

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Table 3a. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2010–33

	Actual			Historical Average	Standard Deviation	Projections						2013-2018 Average	2019-2033 Average	
	2010	2011	2012			2013	2014	2015	2016	2017	2018			2023
<b>External debt (nominal) 1/</b>	<b>92.7</b>	<b>76.7</b>	<b>81.3</b>			<b>74.4</b>	<b>72.6</b>	<b>71.3</b>	<b>69.7</b>	<b>66.0</b>	<b>63.0</b>		<b>56.8</b>	<b>66.9</b>
<i>of which: public and publicly guaranteed (PPG)</i>	55.9	45.6	47.2			45.3	45.1	45.0	44.3	41.5	39.7		34.1	29.2
Change in external debt	3.5	-16.1	4.6			-6.9	-1.8	-1.3	-1.6	-3.7	-3.1		-0.2	2.1
Identified net debt-creating flows	-4.8	-25.7	6.3			-2.6	-1.0	-1.1	-3.2	-4.3	-3.5		-2.8	-3.6
<b>Non-interest current account deficit</b>	<b>5.6</b>	<b>6.0</b>	<b>14.6</b>	<b>3.7</b>	<b>7.3</b>	<b>8.7</b>	<b>13.8</b>	<b>13.1</b>	<b>10.2</b>	<b>7.7</b>	<b>3.5</b>		<b>2.4</b>	<b>-1.5</b>
Deficit in balance of goods and services	29.0	27.6	44.9			36.4	40.1	38.4	36.4	33.9	29.1		24.5	18.7
Exports	52.7	54.7	54.7			55.7	55.2	51.9	52.4	52.5	52.2		54.8	64.5
Imports	81.7	82.3	99.6			92.2	95.3	90.3	88.9	86.4	81.3		79.2	83.1
Net current transfers (negative = inflow)	-29.0	-29.6	-31.8	-24.0	7.6	-30.3	-30.2	-29.8	-31.1	-30.6	-29.9		-23.7	-21.4
<i>of which: official</i>	-1.6	-1.3	-1.0			0.0	0.0	0.0	0.0	0.0	-0.2		-0.1	-0.1
Other current account flows (negative = net inflow)	5.6	8.1	1.5			2.5	3.9	4.5	4.9	4.4	4.3		1.7	1.3
<b>Net FDI (negative = inflow)</b>	<b>-9.1</b>	<b>-11.2</b>	<b>-5.7</b>	<b>-6.0</b>	<b>2.9</b>	<b>-7.4</b>	<b>-12.2</b>	<b>-12.7</b>	<b>-12.1</b>	<b>-10.8</b>	<b>-5.9</b>		<b>-4.9</b>	<b>-3.7</b>
<b>Endogenous debt dynamics 2/</b>	<b>-1.3</b>	<b>-20.5</b>	<b>-2.5</b>			<b>-3.9</b>	<b>-2.5</b>	<b>-1.5</b>	<b>-1.2</b>	<b>-1.2</b>	<b>-1.1</b>		<b>-0.3</b>	<b>1.5</b>
Contribution from nominal interest rate	0.8	0.5	0.7			1.7	1.9	2.1	2.1	2.0	2.0		2.3	4.6
Contribution from real GDP growth	0.4	-4.3	0.7			-5.7	-4.4	-3.6	-3.3	-3.2	-3.0		-2.7	-3.1
Contribution from price and exchange rate changes	-2.5	-16.7	-3.9			...	...	...	...	...	...		...	...
<b>Residual (3-4) 3/</b>	<b>8.3</b>	<b>9.6</b>	<b>-1.7</b>			<b>-4.2</b>	<b>-0.8</b>	<b>-0.2</b>	<b>1.6</b>	<b>0.6</b>	<b>0.5</b>		<b>2.6</b>	<b>5.7</b>
<i>of which: exceptional financing</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
PV of external debt 4/	...	...	63.7			59.1	57.1	55.5	54.0	51.5	49.0		44.4	56.1
In percent of exports	...	...	116.4			106.0	103.4	107.0	103.1	98.1	93.9		81.0	87.1
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>29.6</b>			<b>29.9</b>	<b>29.6</b>	<b>29.2</b>	<b>28.6</b>	<b>27.0</b>	<b>25.7</b>		<b>21.6</b>	<b>18.5</b>
In percent of exports	...	...	54.2			53.7	53.5	56.2	54.6	51.4	49.2		39.5	28.7
In percent of government revenues	...	...	92.8			98.5	102.6	100.3	96.7	90.8	86.0		72.3	53.4
<b>Debt service-to-exports ratio (in percent)</b>	<b>19.1</b>	<b>8.4</b>	<b>15.9</b>			<b>17.0</b>	<b>14.0</b>	<b>15.7</b>	<b>16.8</b>	<b>15.7</b>	<b>15.5</b>		<b>17.7</b>	<b>30.5</b>
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>3.6</b>	<b>2.9</b>	<b>9.7</b>			<b>2.5</b>	<b>2.7</b>	<b>3.1</b>	<b>3.3</b>	<b>3.2</b>	<b>3.3</b>		<b>2.9</b>	<b>2.6</b>
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>6.9</b>	<b>5.5</b>	<b>16.7</b>			<b>4.6</b>	<b>5.2</b>	<b>5.5</b>	<b>5.8</b>	<b>5.6</b>	<b>5.7</b>		<b>5.4</b>	<b>4.8</b>
Total gross financing need (Billions of U.S. dollars)	0.3	0.0	1.1			0.8	0.7	0.7	0.6	0.5	0.6		1.1	4.4
Non-interest current account deficit that stabilizes debt ratio	2.2	22.1	10.0			15.5	15.6	14.4	11.8	11.4	6.5		2.6	-3.6
<b>Key macroeconomic assumptions</b>														
Real GDP growth (in percent)	-0.5	6.0	-0.9	4.1	3.6	7.8	6.5	5.3	5.0	5.0	5.0	5.8	5.0	5.0
GDP deflator in US dollar terms (change in percent)	2.8	22.0	5.4	11.0	11.0	4.1	3.4	2.9	2.3	2.6	2.9	3.0	2.0	2.0
Effective interest rate (percent) 5/	0.9	0.7	1.0	1.2	0.4	2.4	2.8	3.1	3.1	3.2	3.2	3.0	4.4	7.6
Growth of exports of G&S (US dollar terms, in percent)	-1.1	34.1	4.5	20.0	18.4	14.4	9.2	1.9	8.5	7.9	7.4	8.2	9.2	8.5
Growth of imports of G&S (US dollar terms, in percent)	6.0	30.2	26.4	26.1	23.2	3.8	13.9	2.7	5.7	4.8	1.6	5.4	7.8	7.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	47.0	48.7	49.9	48.9	49.7	47.7	48.6	45.0	29.8
Government revenues (excluding grants, in percent of GDP)	27.7	28.8	31.9			30.4	28.8	29.1	29.6	29.7	29.9		29.9	34.6
Aid flows (in Billions of US dollars) 7/	0.3	0.4	0.3			0.6	0.5	0.5	0.4	0.2	0.4		0.5	0.7
<i>of which: Grants</i>	0.1	0.2	0.2			0.1	0.2	0.2	0.1	0.1	0.1		0.1	0.2
<i>of which: Concessional loans</i>	0.2	0.2	0.1			0.4	0.4	0.4	0.3	0.1	0.3		0.3	0.5
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.0	4.3	4.0	2.8	1.7	2.1		2.0	1.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			59.6	63.1	65.2	60.5	69.7	61.8		58.0	42.6
<b>Memorandum items:</b>														
Nominal GDP (Billions of US dollars)	4.8	6.2	6.5			7.3	8.0	8.7	9.3	10.0	10.8		15.4	30.4
Nominal dollar GDP growth	2.4	29.3	4.4			12.2	10.2	8.4	7.4	7.7	8.0	9.0	7.1	7.1
PV of PPG external debt (in Billions of US dollars)	...	...	1.9			2.1	2.3	2.5	2.6	2.7	2.8		3.3	5.6
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			3.7	2.6	2.0	1.5	0.4	0.9	1.9	0.9	1.3
Gross workers' remittances (Billions of US dollars)	1.3	1.8	2.0			2.2	2.4	2.6	2.9	3.1	3.2		3.6	6.5
PV of PPG external debt (in percent of GDP + remittances)	...	...	22.6			23.0	22.7	22.5	21.8	20.6	19.8		17.5	15.2
PV of PPG external debt (in percent of exports + remittances)	...	...	34.6			34.8	34.6	35.7	34.3	32.4	31.4		27.6	21.5
Debt service of PPG external debt (in percent of exports + remittances)	...	...	6.2			1.6	1.7	2.0	2.0	2.0	2.1		2.1	1.9

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - \rho(1+g)] / (1+g+\rho+g)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $\rho$  = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

**Table 3b. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt Including Remittances, 2013–33**

	Projections							2033
	2013	2014	2015	2016	2017	2018	2023	
<b>PV of debt-to-GDP+remittances ratio</b>								
<b>Baseline</b>	23	23	22	22	21	20	<b>17</b>	15
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	23	20	17	16	15	13	<b>9</b>	14
A2. New public sector loans on less favorable terms in 2013-2033 2	23	23	24	24	23	23	<b>23</b>	26
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	23	23	24	23	22	21	<b>19</b>	16
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	23	24	26	25	24	23	<b>20</b>	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	23	23	23	23	21	21	<b>18</b>	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	23	37	48	42	40	39	<b>34</b>	22
B5. Combination of B1-B4 using one-half standard deviation shocks	23	34	40	35	34	32	<b>29</b>	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	23	29	29	28	26	25	<b>23</b>	20
<b>PV of debt-to-exports+remittances ratio</b>								
<b>Baseline</b>	35	35	36	34	32	31	<b>28</b>	22
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	35	30	28	26	24	22	<b>15</b>	21
A2. New public sector loans on less favorable terms in 2013-2033 2	35	36	38	38	37	36	<b>37</b>	37
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	35	34	35	34	32	31	<b>27</b>	21
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	35	39	43	41	39	38	<b>33</b>	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	35	34	35	34	32	31	<b>27</b>	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	35	60	82	65	63	61	<b>53</b>	31
B5. Combination of B1-B4 using one-half standard deviation shocks	35	52	60	51	49	47	<b>41</b>	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	35	34	35	34	32	31	<b>27</b>	21
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	98	103	100	97	91	86	<b>72</b>	53
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	98	89	76	68	60	54	<b>34</b>	42
A2. New public sector loans on less favorable terms in 2013-2033 2	98	106	108	107	103	100	<b>97</b>	91
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	98	107	110	106	99	95	<b>79</b>	58
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	98	109	114	110	103	98	<b>83</b>	57
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	98	105	105	101	95	90	<b>76</b>	56
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	98	150	193	185	175	167	<b>140</b>	78
B5. Combination of B1-B4 using one-half standard deviation shocks	98	141	165	158	150	143	<b>119</b>	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	98	142	139	134	126	120	<b>100</b>	74

**Table 3b. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt Including Remittances, 2013–33 (concluded)**

Debt service-to-exports+remittances ratio								
<b>Baseline</b>	2	2	2	2	2	2	2	2
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	2	2	2	2	2	2	1	1
A2. New public sector loans on less favorable terms in 2013-2033 2	2	2	2	2	2	2	2	2
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	2	2	2	2	2	2	2	2
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	2	2	2	2	2	2	2	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	2	2	2	2	2	2	2	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	2	2	3	3	3	3	3	3
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	2	2	2	3	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	2	2	2	2	2	2	2	2
<b>Debt service-to-revenue ratio</b>								
<b>Baseline</b>	5	5	5	6	6	6	5	5
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	5	5	5	4	4	4	2	2
A2. New public sector loans on less favorable terms in 2013-2033 2	5	5	5	6	6	6	6	5
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	5	5	6	6	6	6	6	5
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	5	5	6	6	6	6	6	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	5	5	6	6	6	6	6	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	5	5	7	8	8	8	9	7
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	7	8	7	7	8	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	5	7	8	8	8	8	8	7
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	39	39	39	39	39	39	39	39
Sources: Country authorities; and staff estimates and projections.								
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.								
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.								
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly an offsetting adjustment in import levels).								
4/ Includes official and private transfers and FDI.								
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.								
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.								

**Table 3c. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33**

	Projections							2033
	2013	2014	2015	2016	2017	2018	2023	
<b>PV of debt-to GDP ratio</b>								
<b>Baseline</b>	30	30	29	29	27	26	<b>22</b>	18
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	30	25	22	20	18	16	<b>10</b>	15
A2. New public sector loans on less favorable terms in 2013-2033 2	30	31	31	32	30	30	<b>29</b>	31
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	30	31	32	31	30	28	<b>24</b>	20
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	30	31	33	33	31	29	<b>25</b>	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	30	30	31	30	28	27	<b>23</b>	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	30	43	56	55	52	50	<b>42</b>	27
B5. Combination of B1-B4 using one-half standard deviation shocks	30	41	48	47	44	43	<b>36</b>	25
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	30	41	40	40	37	36	<b>30</b>	26
<b>PV of debt-to-exports ratio</b>								
<b>Baseline</b>	54	54	56	55	51	49	<b>39</b>	29
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	54	46	43	38	34	31	<b>19</b>	23
A2. New public sector loans on less favorable terms in 2013-2033 2	54	55	61	61	58	57	<b>53</b>	49
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	54	53	55	54	51	49	<b>39</b>	28
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	54	61	69	67	63	61	<b>49</b>	33
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	54	53	55	54	51	49	<b>39</b>	28
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	54	78	108	104	99	96	<b>77</b>	42
B5. Combination of B1-B4 using one-half standard deviation shocks	54	71	82	79	75	72	<b>58</b>	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	54	53	55	54	51	49	<b>39</b>	28
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	98	103	100	97	91	86	<b>72</b>	53
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	98	89	76	68	60	54	<b>34</b>	42
A2. New public sector loans on less favorable terms in 2013-2033 2	98	106	108	107	103	100	<b>97</b>	91
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	98	107	110	106	99	95	<b>79</b>	58
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	98	109	114	110	103	98	<b>83</b>	57
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	98	105	105	101	95	90	<b>76</b>	56
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	98	150	193	185	175	167	<b>140</b>	78
B5. Combination of B1-B4 using one-half standard deviation shocks	98	141	165	158	150	143	<b>119</b>	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	98	142	139	134	126	120	<b>100</b>	74

**Table 3c. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33 (concluded)**

(In percent)

**Debt service-to-exports ratio**

<b>Baseline</b>	2	3	3	3	3	3	<b>3</b>	3
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	2	3	3	3	2	2	<b>1</b>	1
A2. New public sector loans on less favorable terms in 2013-2033 2	2	3	3	3	3	4	<b>3</b>	3
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	2	3	3	3	3	3	<b>3</b>	3
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	2	3	3	4	4	4	<b>3</b>	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	2	3	3	3	3	3	<b>3</b>	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	2	3	4	5	5	5	<b>5</b>	4
B5. Combination of B1-B4 using one-half standard deviation shocks	2	3	3	4	4	4	<b>4</b>	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	2	3	3	3	3	3	<b>3</b>	3

**Debt service-to-revenue ratio**

<b>Baseline</b>	5	5	5	6	6	6	<b>5</b>	5
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	5	5	5	4	4	4	<b>2</b>	2
A2. New public sector loans on less favorable terms in 2013-2033 2	5	5	5	6	6	6	<b>6</b>	5
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	5	5	6	6	6	6	<b>6</b>	5
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	5	5	6	6	6	6	<b>6</b>	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	5	5	6	6	6	6	<b>6</b>	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	5	5	7	8	8	8	<b>9</b>	7
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	7	8	7	7	<b>8</b>	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	5	7	8	8	8	8	<b>8</b>	7
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	39	39	39	39	39	39	<b>39</b>	39

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly a an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

## Appendix I. Letter of Intent

November 15, 2013

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
700 19th Street, N.W.  
Washington, D.C., 20431  
U.S.A.

Dear Ms. Lagarde:

The fourth review of our economic and financial program, supported by an arrangement under the Extended Credit Facility (ECF), was completed by the IMF Executive Board on June 10, 2013. We are grateful to the IMF for its continued support of our economic reform program.

The ECF arrangement continues to play a pivotal role in maintaining macroeconomic stability and in promoting private sector-led growth. Following the disruption in gold production in the largest gold-mining company and negative growth in 2012, the economy rebounded strongly this year with robust and broad based growth in a low inflation environment. We have advanced our negotiations with the gold mining company Centerra and signed a memorandum of understanding that is being considered by parliament.

The program remains on track and the government is committed to the reform path under the ECF arrangement. For the fifth review of the ECF-supported program, all end-June 2013 quantitative performance criteria and all but one indicative targets were met. A new tax policy department was created in the ministry of finance at end-June. The department is now fully staffed. The Banking Code has been reconciled at the government level in line with Fund advice and has been submitted to parliament for approval. Public Financial Management (PFM) reforms are also on track. The regulation on expanding the coverage of the commitment register to include local budgets and special means could not be issued on time because we needed to address numerous comments from government agencies. We are committed to issue this regulation ahead of the IMF Executive Board's consideration of the fifth review. The sale of Zalkar bank was successfully completed in May. The new owner, who rebranded the bank into Rosinbank, started recapitalization in September. The bank is expected to expand the range of its services. The government has also fully paid for its share of Rosinbank's recapitalization.

In view of our achievements and continued commitment to the program, we request completion of the fifth review under the ECF-supported program. We request the sixth disbursement under the ECF arrangement in the amount of SDR 9.514 million (US\$14.57 million). We ask that the sixth and



seventh disbursements under the ECF arrangement be channeled to the budget. The government believes that the economic and financial policies set forth in our LOI and MEFP of June 2, 2011, the LOIs of November 17, 2011; April 12, 2012; November 14, 2012; and May 20, 2013, supplemented with this LOI and the modified quantitative performance criteria and updated structural benchmarks (Tables 1 and 2, respectively) are adequate to meet the objectives of the ECF arrangement. During the period of the ECF arrangement, the Kyrgyz government will continue to maintain a policy dialogue with the Fund and stands ready to take additional measures as needed. We will consult with Fund staff on such measures and in advance of revisions contained in the MEFP dated June 2, 2011, LOIs of November 17, 2011; April 12, 2012; November 14, 2012; May 20, 2013, and this updated LOI in accordance with Fund policies.

As in the past, the government of the Kyrgyz Republic agrees to publish this letter and other ECF-related documents circulated to the IMF Executive Board on the IMF website.

### **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, the LOIs dated November 17, 2011; April 12, 2012; November 14, 2012; and May 20, 2013 remain valid and are updated with this LOI.
2. **The Government's policy framework will continue to focus on sustaining macroeconomic stability.**
  - Growth in 2013 is expected to rebound strongly to at least 7.8 percent on the back of the recovery in gold production and continued strong performance in the nongold sector. We expect growth to moderate to 6.5 percent in 2014 because of the impact of slower growth in Russia on the Kyrgyz economy. Growth is expected to stabilize at 5 percent in the medium term.
  - Twelve-month inflation continued to drop during the first 8 months of 2013 and we reduced core inflation to single digits in May. We will keep monetary conditions tight to ensure that inflation remains in single digits in 2013 and beyond.
  - The current account deficit is estimated to decline in 2013, helped by the recovery in gold output and lower food and fuel prices. However, because of the substantial import intensive FDI and infrastructure loans, the current account deficit will deteriorate in 2014 and decline gradually over the medium term. Lower gold prices, slower projected growth in trading partner economies, and higher imports related to ongoing public investment projects are contributing factors to the lower than anticipated recovery.
  - While gold prices are expected to be lower than anticipated, we are committed to maintain the fiscal deficit target of 5.2 percent of GDP in 2013. Notwithstanding the loss of non tax revenue related to the closure of the Manas transit center, we are committed to keep the fiscal deficit on a sustainable path. We project a deficit of 4.1 percent of GDP in 2014, declining to 2.3 percent of GDP by 2016.

- We will continue to carefully monitor external borrowing to ensure that public debt remains manageable and continues its downward path in the medium term.

**3. We are mindful of the risks to our medium-term projections. Lower gold prices could pose additional challenges for balance of payments stability.** A protracted slowdown in Russia could further spill over to the region, including the Kyrgyz Republic, via the remittances and external demand channels. Ruble depreciation against the U.S. dollar did not have a significant impact on the Kyrgyz economy so far, but we will be monitoring developments carefully.

## A. Fiscal Policy

**4. We are on track to achieve the agreed deficit target for 2013 despite lower gold prices and slower growth in our major trading partners.** The decline in tax revenues due to lower gold prices is partly offset by a Russian grant that we received in July this year. Our efforts to consolidate the fiscal position are focused on streamlining nonpriority spending, while safeguarding social outlays. We increased the average pension by 11 percent on October 1, 2013 and are maintaining spending on key social programs. Additional external financing (PIP loans and grants) and faster implementation of investment projects are enabling us to further increase capital outlays in 2013, including for much needed energy and road infrastructure.

**5. We are fully committed to continued fiscal adjustment in 2014 and over the medium term.** The 2014 budget is based on prudent revenue forecasts, including conservative gold price assumptions, wage bill and non-priority expenditure restraint, and social considerations. In particular:

- We expect a marginal increase in tax revenues in 2014 because of the slowdown in growth. The decline in nontax revenues as a result of the closure of the Manas transit center (US\$ 60 million in 2014 and US\$120 million thereafter) is anticipated to be offset partly by grants.
- We continue our efforts to strengthen tax administration and to increase compliance, including with support from the IMF. We piloted the new tax compliance approach by targeting high risk economic sectors. We are working on rolling out a broader sectoral compliance plan, which is expected to improve revenues collections in the future.
- The government remains fully committed to gradually reducing the wage bill as a share of GDP. We envisage that the wage bill will decline by 1 percent of GDP in 2014 compared with 2013. The ongoing procurement reform, including e-procurement, is helping to generate fiscal savings by reducing outlays on goods and services by 1 percent of GDP in 2014 compared with 2013.
- We will increase pensions by 9 percent in 2014, in line with our legislation, to reflect the increase in the minimum subsistence level. We assign high priority to alleviating poverty, which increased by 1.2 percent in 2012. As a result, we will raise the minimum targeted social income by 10 percent in 2013, as well as a number of other social transfers such as food allotments for elderly people, special needs schools, and orphanages.

**6. We are mindful of the fiscal challenges posed by the closure of the Manas transit center.** We are working on identifying measures to offset the permanent revenue shortfall over the medium term and keep the deficit on a sustainable path. To this end, we are planning an additional increase in excises on tobacco and alcohol in 2014 and we are exploring new avenues to increase tax collection by improving tax administration. We are looking forward to the forthcoming IMF TA on tax policy, which is expected to help us raise additional revenues. At the same time, we are expecting an increase in revenues related to income from the new oil refinery, which will start operations in 2014, and revenues from the Chinese gas pipeline. The pipeline is expected to generate revenues in the amount of US\$35 million starting in 2017, gradually increasing thereafter (up to US\$70 million). Over the medium term, we will continue to rationalize nonpriority spending, in particular on goods and services, and to decrease the wage bill as a share of GDP to create fiscal space for pro-poor and pro-growth spending. We will also improve budget planning of the social fund.

**7. We continue to improve debt management with a view to reducing the debt service burden on the budget.** We updated the medium-term debt management strategy to include the World Bank's medium-term debt management strategy analytical tool. We acknowledge that transforming the government securities market into a deep and liquid market will take time. The new trading platform of the National Bank of the Kyrgyz Republic (NBKR), which will remain the government agent for conducting primary auctions and the central depository for all government securities, enables us to improve the operational infrastructure for the primary market of government securities.

**8. Finalizing PFM reforms remains a key priority.** We completed requirements (technical specifications) for the Treasury Management Information System (TMIS), and are testing the necessary forms and modules. We expect to finalize the testing of the TMIS in the first quarter of the 2014, and introduce the Treasury Single Account (TSA) on a pilot basis by end-April 2014 (structural benchmark). This remains a complex issue that will require close cooperation with the vendor. At the same time, we are working with the IMF regional advisor and the World Bank to finalize the regulation on accounting and financial reporting using the unified chart of accounts on the basis of international norms. The regulation on expanding the coverage of the commitment register to include local budgets and special means could not be issued on time because we needed to address numerous comments from government agencies. We are committed to issue this regulation ahead of the IMF Executive Board's consideration of the fifth review (prior action). We reconciled the Procurement Law at the government level and submitted it to the parliament for approval. We also presented the revised version of the Budget Code to parliament.

## **B. Monetary, Exchange Rate, and Financial Sector Policies**

**9. The NBKR will maintain a tight monetary policy stance to keep inflation in single digits in 2013 and beyond.** Even though core inflation declined to single digits in May 2013, the strong recovery in economic activity this year is putting pressure on inflation. We will respond to these pressures by further tightening monetary policy. We acknowledge that second-round effects of unexpected external price shocks will require further policy actions. The NBKR will maintain its policy

of intervening in the foreign exchange market to smooth excessive volatility and ensure orderly market conditions.

**10. We are stepping up our efforts to enhance the operational framework for monetary policy and improve transmission channels.** We are fine-tuning the model developed with the help of the IMF and EBRD to improve inflation forecasting and better understand economic relationships in our country. The NBKR board will issue a decision by the end of the year (structural benchmark) to:

- Use the policy rate (currently the discount rate) as an operational target for monetary policy. We will continue to refine the new model to determine the level of the policy rate and phase out current practice of determining the policy rate based on the average of the last four auctions. The announced policy rate is expected to signal to banks the monetary policy direction and guide them in placing bids for NBKR facilities.
- Reactivate the overnight deposit facility that will, together with the overnight lending facility, create a corridor around the policy rate. We will also start reimbursing overnight deposits. Moreover, we will revise the mechanism to set the level of the overnight lending rate.
- Introduce a short term liquidity facility that will be available to banks without sanctions. This facility will enhance interbank trading by providing a backup option in case of liquidity shortages. Moreover, we will reexamine the pricing of our 6-month refinancing facility with a view to set it above the short term liquidity facilities. This is expected to enable us to correct the interest rate structure.
- Preannounce the schedule of the NBKR's board meetings on monetary policy on the NBKR's website.
- Start issuing a press release after board meetings on monetary policy and economic developments. We will further improve the NBKR's communications about the macroeconomic outlook and the NBKR's forecasts through more regular and frequent press briefings, expert and discussion forums, and publication of notes and articles.

**11. The NBKR and the ministry of finance will continue to cooperate closely to facilitate liquidity management.** In particular, the government will carefully plan the timing of the issuance of government securities to avoid an excessive drawdown of government deposits, thereby facilitating liquidity management. The NBKR and the government will work to determine the minimum level of government deposits at the NBKR to facilitate liquidity management. In addition, we will conduct timely and sufficient OMOs and periodically reassess the maturity of notes used for OMOs to better withdraw excess liquidity. The potential adverse impact on NBKR profits will not be a constraint to the implementation of monetary policy.

**12. We will limit reserve money growth to support the new monetary policy framework, improve monetary transmission and facilitate financial sector development.** This is expected to

help make liquidity scarce, thereby providing incentives to banks to start trading with each other and explore options to attract cash in circulation into bank deposits.

**13. Our financial sector remains broadly sound.** Banks are well capitalized and liquid, and nonperforming loans continue to decline. Deposits and loans have also increased. We continue our efforts to address remaining vulnerabilities in the banking sector

- We reconciled the Banking Code within government and sent it to parliament in September, 2013. We will communicate to parliament the major benefits of the new code to ensure that it remains consistent with IMF TA advice and organize training for members of parliament and judges on key features of the code.
- We welcome the FSAP recommendation to develop a strategic supervisory plan. The plan will enable us to strengthen our supervisory function by improving the regulatory framework, organizational, human and financial resources. It will prepare us for the challenges arising from the ongoing modernization of the banking sector. The strategic plan will set out the main principles of improving supervisory functions (including consolidated and risk-based supervision, and supervision of systematically important banks).
- We will establish a formal crises preparedness plan, in line with FSAP recommendations, that will involve the following key institutions: the Prime Minister Office, NBKR, ministry of finance, and Deposit Protection Agency. We will set up a council that will work on the financial crises preparedness plan and financial sector development.
- We are analyzing the modalities of unifying minimum capital requirements for banks, both existing and new. We expect to complete the analysis by end-February 2014 with a view to determining the appropriate level of unified capital requirements and the timeframe for implementation. We are mindful of the need to preserve at least current capital adequacy ratios. We believe that eliminating the current two-tier capital requirements for banks will increase competition in the banking sector.

**14. Progress in resolving banks under liquidation remains limited.** To make a decision on initiating the long-overdue liquidation and writing off the claims against these banks dating back to the 1990's requires an audit of the assets. Therefore, the government will instruct the Debt Resolution Agency (DEBRA) board to identify and sign a contract with one of the big 4 audit companies to audit DEBRA (structural benchmark). The findings of the audit will help us and other creditors to write-off the claims and finalize the liquidation process of the remaining six banks on DEBRA's balance sheet (one of the banks under liquidation was resurrected recently by a Swiss investor and is starting to operate).

**15. We will work with parliament to ensure that the draft AML/CFT law and the reconciled version of the draft payment system law are adopted swiftly, in line with Fund technical assistance (TA).** We submitted a draft Law on the payment system that was approved by the Parliament in June, 2013, but later objected by the President of the Kyrgyz Republic. We will urge

the parliament to review the President's objections as soon as possible and adopt the reconciled version of the payment system law in due course. We worked with the parliament to introduce amendments to the Criminal Code (to criminalize money laundering and financing of terrorism, and the confiscation of assets) that were also supported by the President. We also adopted the freezing of Terrorists' Assets Regulations in line with IMF TA advice. We revised the relevant provisions of the draft AML/CFT Law (customer due diligence, suspicious reporting requirements, supervisory framework, and the Financial Intelligence Unit) in line with the proposals by the parliamentary committees, the private sector, and IMF TA advice that will be discussed and adopted during the parliamentary committee review process. We will urge the parliament to adopt the AML/CFT law in line with IMF TA advice and the revised FATF recommendations. Timely action through the adoption and publication of these laws should contribute to progress in the implementation of the action plan agreed with the FATF with a view to exiting the International Cooperation Review Group process in due course.

### C. Structural Policies

**16. Further improving the business environment remains a key pillar of our strategy to achieve a sustainable and inclusive growth.** We continue to streamline the de facto regulatory burden and foster the implementation of the existing rules to improve the attractiveness of the Kyrgyz economy for domestic and foreign investors. Our aim is to further reduce the state's role in the economy and make the private sector the engine of the growth. We have established several social platforms where businesses and government can discuss, identify, and address impediments to business development. We intend to monitor the progress in improving the business environment via business surveys. Moreover, we conducted several extensive business forums that allowed concluding a series of mutually beneficial agreements between businesses in the Kyrgyz Republic and other countries. We are streamlining the process of issuing of licenses and permits. A draft law has been submitted to the parliament in June. The new risk-based approach to inspection is expected to reduce the regulatory burden on businesses.

**17. We will prepare the annual progress report (APR) of our Medium Term Development Program by early 2014.** The APR will be based on the recently approved Kyrgyz Republic 2013-2017 National Sustainable Development Strategy (NSDS). The strategy focuses on accelerating economic growth, consolidating macroeconomic stability, maintaining debt sustainability, and advancing structural reforms. It recognizes that improving the business environment, reforming the public sector, strengthening the financial system, and addressing infrastructure development needs are essential for achieving high, broad-based, and inclusive growth and reducing poverty. Our development partners expressed readiness during the high level development conference in July to finance new projects in support of the NSDS provided that the government continues strong policies and establishes efficient institutions.

## D. Program Monitoring

**18. The ECF-supported program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks.** Quantitative performance criteria for December 2013 and indicative targets for September 2013, December 2013, and March 2014 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 sixth and final review under the ECF arrangement is expected to take place on or after April 30, 2014. 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 Technical Memorandum of Understanding as updated in the attached.

Sincerely yours,

/s/

Zhantoro Satybaldyev  
Prime Minister of the Kyrgyz Republic

/s/

Olga Lavrova  
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, June 2013–March 2014**

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

	2013								2014					
	June				September	December			March		June		September	December
	QPC				IT	QPC			IT		Target 4/		Target 4/	Target 4/
	4th Rev.	Adj.	Act.	Status	4th Rev.	4th Rev.	Revised	4th Rev.	Revised	4th Rev.	Revised			
<i>Quantitative performance criteria 1/</i>														
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,848	1,864	1,894	Met	1,861	1,941	1,964	1,921	1,967	1,971	2,056	2,095	2,117	
2. Ceiling on net domestic assets of the NBKR (eop stock)	-14,419	-15,111	-16,475	Met	-11,617	-10,564	-12,480	-16,320	-13,845	-15,056	-15,492	-14,078	-10,311	
3. Ceiling on cumulative overall cash deficit of the general government 2/	6,486	5,729	2,172	Met	11,644	18,273	18,273	1,345	1,410	6,337	5,447	9,641	16,355	
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	30	30	30	Met	0	0	0	0	0	0	0	0	0	
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	Met	0	0	0	0	0	0	0	0	0	
<i>Indicative Targets 1/</i>														
1. Ceiling on reserve money	66,808	66,808	66,916	Not met	70,243	75,053	74,998	74,146	73,778	77,765	76,331	79,563	84,354	
2. Cumulative floor on state government tax collections 2/	31,412	31,412	32,773	Met	49,599	71,886	71,186	17,263	16,823	36,054	36,301	56,530	81,831	
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/	2,175	2,175	2,175	Met	3,318	4,570	4,323	1,223	1,169	2,447	2,338	3,557	4,755	

Sources: Kyrgyz authorities and IMF 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 of less than 35 percent, cumulative from April 1, 2013. The QPC was missed in February 2013 because of the contracting of a non-concessional loan in the amount of US\$30 million and a waiver was granted on June 10, 2013. The total amount of non-concessional loans contracted from the beginning of the program is US\$30 million.

4/ The authorities and staff agreed on targets for June, September, and December 2014 (after the arrangement expires on June 19, 2014). Targets beyond March 2014 are nonbinding.



**Table 2. Kyrgyz Republic: Structural Benchmarks and Prior Actions under the Extended Credit Facility for 2013–14**

Measure	Timing	Macroeconomic Rationale	Status
<b>Prior Action</b>			
Issue a regulation on expanding the coverage of the commitment register to include local budgets and special means.			
<b>Structural Benchmarks</b>			
<b>I. FISCAL POLICY</b>			
Create a new, adequately staffed, department on tax policy in the Ministry of Finance.	End-June, 2013	Develop a sound revenue base by strengthening the tax policy function by ensuring that the Ministry of Finance becomes the focal point on all tax policy-related matters.	Met
Issue a regulation on expanding the coverage of the commitment register to include local budgets and special means.	End-September, 2013	Optimize spending by enhancing the treasury's ability to exercise public expenditure control.	Not met
Develop and approve regulations on accounting and financial reporting using the unified chart of accounts on the basis of international norms.	End-December, 2013	Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management.	In progress
Introduce the Treasury Single Account on a pilot basis.	End-April, 2014	Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management.	New
<b>II. FINANCIAL SECTOR</b>			
Submit the 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. 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.		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;  Strengthen institutional and financial autonomy of the NBKR.	
(i) to government	End-April, 2013		Met
(ii) to parliament	End-September, 2013		Met
Identify and sign contract with one of the big 4 audit companies to audit DEBRA.	End-February, 2014	Speed up the liquidation process.	New
<b>III. MONETARY POLICY</b>			
Issue a board decision comprising the following:	End-December, 2013	Enhance the monetary policy framework and improve transmission of monetary policy.	New
(i) use the policy rate as an operational target for monetary policy;			
(ii) reactivate instruments to create a corridor around the policy rate;			
(iii) introduce a short-term liquidity facility;			
(iv) preannounce the schedule of the NBKR's board meetings on monetary policy on the NBKR's web site;			
(v) start issuing a press release after board meetings on monetary policy and economic developments.			

# ATTACHMENT I. Revised Technical Memorandum of Understanding

November 15, 2013

## 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 15, 2013 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, 2013, 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, the 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 1a), and any other newly created public development institution. The State budget comprises central and local government budgets. The general government budget includes the State and Social Fund budgets.

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.

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 is 5 percent. The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation of concessionality 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 currencies

#### *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, deposits of commercial banks in foreign currency 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. 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\$1,922 million on September 30, 2013. Net international reserves including deposits of commercial banks in foreign currency amounted to US\$1,939 million on September 30, 2013.

**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 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) net claims to the general government from the NBKR; (b) net claims to other depositary corporations 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 16,575 million on September 30, 2013.

#### ***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 and accumulation of new external payment arrears 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 sometime 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.

**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.** The 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 depository 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 (see Table 4). In particular, the government and the NBKR will provide the following specific information.

#### 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 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 1a. Kyrgyz Republic: Ten largest SOEs  
(Included in the public sector)

---

	<u>Name of SOE</u>
1	JSC KyrgyzAltyr
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 1b. Kyrgyz Republic: Other SOEs  
(To be monitored, not included in the public sector)

---

	<u>Name of SOE</u>
11	JSC "Chakan HPP"
12	JSC "Kyrgyzstan Airlines"
13	JSC "Khaidarkansky Mercury Plant"
14	JSC "Uchkun"
15	JSC "SSC Bank"
16	JSC "Vostoc Electro"
17	JSC "Osh Electro"
18	JSC "Jalalabat Electro"
19	SOE Fuel and Refueling Complex "Manas"
20	SOE "Kyrgyz Pochtasy"

---

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
SGD	Singapore Dollar	1.3011	0.7686
CNH	Chinese Yuan	6.5700	0.1522
NOK	Norwegian Crown	5.8218	0.1718
SEK	Swedish Crown	6.7098	0.1490
XAU	Gold (US\$/troy ounce)	1405.5000	...

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

	2013 1/			2014 1/	
	June	September	December	March	June
Program grants	3.7	25.7	50.7	5.5	40.3
Program loans	38.9	38.9	65.6	11.3	51.0
Public investment program loans	75.4	185.2	295.0	72.2	144.3
Amortization of public external debt	20.9	29.1	45.8	9.2	18.4
Interest payments	15.5	29.2	34.4	10.4	20.8

1/ Cumulative disbursements since the beginning of the year.

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



# KYRGYZ REPUBLIC

November 15, 2013

## FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department  
(In collaboration with other departments)

### CONTENTS

RELATIONS WITH THE FUND	2
RELATIONS WITH THE WORLD BANK GROUP	5
RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ADB)	9
RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)	11
TECHNICAL ASSISTANCE PROVIDED BY THE FUND	15
STATISTICAL ISSUES	24

## RELATIONS WITH THE FUND

(As of September 30, 2013)

**Membership Status:** Joined: May 08, 1992

Article VIII

<b>General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
Quota	88.80	100.00
Fund holdings of currency (Exchange Rate)	88.80	100.00
Reserve Tranche Position	0.00	0.01

<b>SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	84.74	100.00
Holdings	120.73	142.47

<b>Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
ESF Arrangements	33.30	37.50
RCF Loans	22.20	25.00
ECF Arrangements	68.28	76.89

### Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jun 20, 2011	Jun 19, 2014	66.60	47.57
ESF	Dec 10, 2008	Jun 09, 2010	66.60	33.30
ECF <sup>1/</sup>	Mar 15, 2005	May 31, 2008	17.76	17.76

<sup>1/</sup> Formerly PRGF.

### Projected Payments to Fund <sup>2/</sup>

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

	Forthcoming				
	2013	2014	2015	2016	2017
Principal	1.65	13.33	11.04	14.97	18.27
Charges/Interest			0.26	0.23	0.19
Total	1.65	13.33	11.30	15.20	18.46

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

### Status of HIPC and MDRI Assistance

On November 30, 2011, the Executive Board considered the addition of income and indebtedness criteria for end-2010 to the HIPC Initiative framework, which resulted in the removal of the Kyrgyz Republic from the ring-fenced list of eligible countries.

## 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.

## 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. The new trading software that is currently being tested will enable automatic matching and settlement of transactions and will eliminate the existing segmentation of the foreign exchange market. The software is expected to be rolled out to banks over the next few months and to remove the MCP. 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 U.N. 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.

### **Article IV Consultations**

The Kyrgyz Republic is on the 24-month consultation cycle. The 2011 Article IV consultation discussions were held in April–May 2011 and were completed by the Executive Board in June 2011 (see Country Report No. 11/155).

### **FSAP Participation and ROSC Assessment**

An FSAP update mission in July 2013 reviewed progress since the 2007 assessment, and the Board will consider the Financial System Stability Assessment (FSSA) along with the fifth ECF review in December 2013. 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.

### **Resident Representative**

The ninth resident representative of the Fund in the Kyrgyz Republic, Mr. Sobolev, took up his post in Bishkek in November 2013.



## RELATIONS WITH THE WORLD BANK GROUP

(As of October 23, 2013)

### World Bank Group Strategy

The Kyrgyz Republic Country Partnership Strategy (CPS) for FY13–17 was approved by the Board in July 2013. The CPS strategic goal is to help reduce extreme poverty and promote shared prosperity through support for improved governance along three broad areas: i) public administration and public service delivery; ii) business environment and investment climate; and iii) management of natural resources and physical infrastructure. The adoption of the CPS marked the return to the standard assistance framework for the Kyrgyz Republic underscoring the progress that the country achieved following the 2010 turmoil. The CPS is aligned with the Kyrgyz Government's 2013–17 National Sustainable Development and its objective of establishing a democratic state with a stable political system, dynamic economic growth, and rising incomes of its citizens.

Since the Kyrgyz Republic joined the World Bank in 1992, International Development Association (IDA)-funded projects and Recipient Executed Trust Funds (RETFs), reached over US\$1.1 billion, out of which US\$966 million has been disbursed. The active portfolio consists of 14 projects in the amount of US\$343.6 million. The FY13–17 CPS envisages new IDA lending (balanced between investment and development policy lending) averaging US\$55 million annually supplemented where appropriate by trust fund financing.

In addition to the IDA portfolio, the Kyrgyz program includes a significant number of co-financing and stand-alone trust funds (TFs). Currently, the Recipient Executed TFs Portfolio has a total value of US\$29.6 million, out of which US\$14.5 million has been disbursed as of June 2013. Two sectors—Agriculture and Rural Development and Public Sector Management—receive most of the TFs. The largest TFs are the Agricultural Productivity Assistance Project (US\$6.85 million), Capacity Building in Public Financial Management (US\$7.49 million), Policy and Human Resources Development (PHRD) TFs for Water Management Improvement Project (US\$4.4 million). Two large Recipient-Executed TFs—Kyrgyz Global Partnership for Education (US\$12.7 million) and Kyrgyz Health Results Based Financing (US\$11 million)—are in pending status. TFs are mainly provided to co-finance IDA operations and to support capacity-building activities. The main contributors to the TFs have been the European Union (EU), Switzerland, Russia, Japan, and the United Kingdom.

### Budget Support and Investment Lending

FY13 IDA Program: The following projects were approved in FY13: the Education Sector Support Program (US\$16.5 million); Second Health and Social Protection Project (US\$16.5 million); and Additional Financing 2 for Village Investment Project<sup>2</sup> (US\$4.2 million). Due to some delay in preparation, the first Programmatic Development Policy Operation was only negotiated in FY13.

FY14 Planned IDA program: The first Programmatic Development Policy Operation (DPO1) was approved by the Board (US\$25 million) in July 2013. The program for FY14 also includes the second

Programmatic Development Policy Operation (DPO2), the Central Asia Regional Roads Project APL I and the Central Asia South Asia Electricity Transmission and Trade Project (CASA-1000). This would bring the total IDA lending envelope to up to US\$80 million.

FY13 Trust Funds (TF) Program: Global Agriculture and Food Security Program (GAFSP) for irrigation (US\$16.5 million).

FY14 planned Trust Funds: Kyrgyz Health Results Based Financing; Kyrgyz Global Partnership for Education; National Water Resource Management Project (Switzerland); Agriculture Productivity and Nutrition Improvement Project (GAFSP); Kyrgyz Second Health and Social Protection Project—Swiss TF; Round 3—Kyrgyz Republic—Support to Community Seed Funds Project. The TF portfolio is expected to total up to US\$76 million.

### **Analytical Advisory Activities**

FY13 Analytical Advisory Activities (AAA program) included: Continuation of the programmatic public expenditure review (PER); analytical poverty work; climate change; private sector development (PSD) reform; governance reform; and preparation of Country Partnership Strategy (CPS).

FY14 planned AAA activities: Continuation of programmatic PER and technical assistance (TA) in number of sectors, including mining sector business environment; railways trade link; Chamber of Accounts to enhance the public procurement audit methodology; public sector reform roadmap; PSD policy dialogue; agribusiness study; and conflict filter.

### **IFC Program and Portfolio**

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 since 2009, 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 may 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 sub national basis, in power transmission, hydropower plants, and municipal utilities. In addition, an IFC PPP Advisory program has been implemented in the Central Asia region and IFC is seeking to engage with the Kyrgyz government to assist with privatizations and concessions. IFC PPP team provided assistance in managing privatization of Zalkar Bank and will be assisting the Government in implementing CASA 1000 energy project.

## IFC Strategy and Program

- Increase access to finance for MSMEs by strengthening local financial institutions, providing credit lines for MSME financing to local banks and microfinance institutions.
- Develop institutional capacity and support capacity building of financial institutions and improve corporate governance in local enterprises.
- Increase private sector participation in infrastructure through selective advisory engagement.
- Assist the agribusiness sector directly and through MSMEs finance to banks and microfinance institutions.
- 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\$102 million from IFC's own funds to finance more than 35 projects in the financial, banking and microfinance, oil, gas and mining sector, agribusiness, pulp, and paper sectors. New commitments in 2012 amounted to US\$10.6 million for investments in three projects representing banking, microfinance, and infrastructure sectors. As of February 2013, IFC's committed portfolio was US\$28 million, which includes investments in eight companies, representing banking, microfinance, real, and infrastructure sectors.

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 continues its work on strengthening the institutional capacity of the credit bureau and collateral registry, and work to improve on related laws and regulations, as well as on a financial literacy program. The Investment Climate project continues working with the government on ensuring higher transparency standards by helping to develop the amendments to the new Law on Inspections which were approved in 2012 and worked 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 will 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 MIGA guarantees extended is US\$132 million.

MIGA's current portfolio in the Kyrgyz Republic consists of one project in the aviation sector owned by an Austrian investor. The gross exposure from this project is US\$5.8 million. The project was the subject of disputes between the investor and the government in the past. The settlement between

the Kyrgyz Government and investors, which was worked out in May 2008 with MIGA's mediating role, has now been fully implemented by both sides. There were no new MIGA projects in the Kyrgyz Republic in FY13. One contract was cancelled in April 2013 (loan by an Italian investor in the aviation sector) as the related loan was prepaid in full.

**ICSID:** In 2009, the Kyrgyz Government lost an ICSID supported lawsuit relating to an expropriated hotel and defaulted on the required payment. In October 2012, the Canadian court approved the confiscation of Kyrgyz holdings on the Toronto Stock Exchange. The Kyrgyz Government has contested this decision. A new case was registered in April 2013 involving the Kyrgyz Republic by a Canadian company related to a mining concession.

## RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ADB)

(As of September 30, 2013)

The Kyrgyz Republic joined ADB in 1994. ADB approved the new Country Partnership Strategy (CPS) 2013–17 for the Kyrgyz Republic in August 2013. The CPS is aligned with the National Sustainable Development Strategy, 2013–17 approved by the President of the Kyrgyz Republic in January 2013 (NSDP). The overarching goal of the CPS is poverty reduction through inclusive economic growth. The CPS supports the government in addressing key constraints to growth and equitable access to economic opportunities. It focuses on (i) public sector management for private sector development; (ii) transport and logistics; (iii) energy; (iv) education and training; and (v) water supply and sanitation (WSS). ADB has been active in these areas and within each sector will focus more strongly on addressing regional disparities. The Country Operations Business Plan 2014–16 is expected to be endorsed by the Board in November 2013.

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). The Kyrgyz Republic has been eligible for 50 percent grant and 50 percent ADF loan since 2009. ADB's annual lending began with US\$40 million in 1994 and reached the peak level of US\$167.8 million in 2010.

Based on the results of the 2012 country performance assessment, the country received an ADF allocation of US\$121.44 million for 2013–14, comprising US\$53.97 million in grants and US\$67.47 million in loans. For 2013, a US\$65 million (US\$32.50 million in loans and US\$32.50 million in grants) regional ADF allocation and cofinancing of US\$60 million from the Eurasian Development Bank are confirmed to finance the Central Asia Regional Economic Cooperation Corridor 3 (Bishkek–Osh Road) Improvement Project, Phase 4. Cofinancing for other projects, especially in energy and transport, is actively sought. As of 30 September 2013, the country has received 35 loans worth US\$820.4 million, 17 ADF and one GEF grants worth US\$323.3 million. The Kyrgyz Republic has also received eight grants from Japan Fund for Poverty Reduction (JFPR grants) amounting to US\$8.5 million. ADB is the largest funding agency in the transport and education sectors.

The active ADB portfolio of 12 projects (total size of US\$453.3 million) contained nine ADF loans (total size of US\$216.9 million) and ten ADF grants (total size of US\$234.9 million) and one JFPR grant for US\$1.5 million.

ADB has also provided 85 technical assistance (TA) projects amounting to US\$48.28 million as of today. ADB also provides TA through the regional technical assistance facility. Among the most recent assistance is technical assistance for developing an e-procurement strategy for the Kyrgyz Republic.

The performance of ADB's portfolio is partially satisfactory. Contract awards and disbursements as of 30 September 2013 reached US\$20.73 million and US\$23.35 million (27.9 percent and 47.5 percent of year's projections), respectively.

The Kyrgyz Republic is a strong advocate for regional economic cooperation, and is an active participant in the Central Asia Regional Economic Cooperation (CAREC) Program. The Kyrgyz Republic has benefited significantly from regional road development. Following CAREC initiatives in key areas approved at sector meetings, the Kyrgyz Republic is taking measures in trade policy and trade facilitation sectors to increase trade and transport flow. The reconstructed roads ensure safer and faster year-round travel to Kazakh, Tajik, and Chinese borders. Investments in energy will expand energy production and distribution. CAREC transport and trade facilitation projects are expected to support the government's goal of developing external trade activities. ADB is also helping to develop procedures and technical tools to enhance land acquisition and resettlement practices to foster more effective infrastructure development in the region.

As of the end of 2012, cumulative direct value-added official cofinancing for the Kyrgyz Republic since 1997 amounted to US\$54.7 million for eight investment projects and US\$3.1 million for eight technical assistance projects. ADB is preparing the CAREC Corridor 3 (Bishkek-Osh Road) Improvement Project Phase 4, which will be cofinanced by the Eurasian Development Bank (US\$60 million). The Eurasian Development Bank and European Bank for Reconstruction and Development are interested in cofinancing an energy sector project in 2014. The government's endorsement for the co-financing is being sought.

ADB private sector operations in the Kyrgyz Republic began in 2012 with the signing of a US\$10 million SME loan to the Kyrgyz Investment and Credit Bank. ADB's Trade Finance Program (TFP) fills market gaps in trade finance by providing guarantees and loans through over 200 partner banks in support of trade. TFP has supported US\$13 billion in trade involving over 2,500 small- and medium-sized enterprises. In December 2012, three banks in the Kyrgyz Republic signed TFP agreements including Demir Kyrgyz International Bank, Kyrgyz Investment and Credit CJSC, RSK Bank OJSC. ADB anticipates transactions to start flowing in 2013.

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.

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

# RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

(As of October 1, 2013)

## 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 September 2013, the Bank signed 103 projects accounting for a net cumulative business volume of €457 million. The Bank's portfolio amounts to €227 million in 49 active projects. The current private sector portfolio ratio (as a percentage of the total portfolio) is 78 percent which is well above the Bank's 60 percent mandated ratio. The current country strategy for the Kyrgyz Republic which sets the key priorities for the Bank's operations was approved in September 2011 and was 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 country strategy are supporting local private enterprises, in particular through support for micro, small, and medium sized enterprises (MSMEs), alongside support to strengthen the financial sector and develop critical 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. Despite difficult economic and political situation in the country the Bank signed four corporate sector projects in the first nine months of 2013.

- Under the Direct Lending Facility (DLF), in 2013 the Bank financed a local producer of bottled water and soft drinks to support expansion of existing beverage business including diversification into beer production.
- Under the Medium-Sized Co-Financing Facility (MCFF), the Bank supported one of the leading distribution companies of packaged food products and cosmetic goods in the country to support business expansions and servicing new distribution contracts; a local operator of customs warehouse to improve the quality of services offered to its clients; and a local dairy that has been modernizing its cheese and butter production to improve quality and increase output of its products that are mainly exported.
- Small Business Support connects small and medium-sized enterprises to the expertise that can help transform their businesses. Depending on the nature of the company's needs, Small Business Support works either through Business Advisory Services, supporting short-term, specific projects with local consultants, or through the Enterprise Growth Programme, using longer-term projects that help senior managers develop new business skills and make the structural changes their companies need to thrive.

- The Enterprise Growth Programme (EGP) works with international advisers with more than 15 years' experience in a particular industry or field. In visits over the course of 12–18 months, the advisers strive to transfer their know-how to receptive managers. The teaching of international best practices is tailored to the needs of the client, and can cover anything from restructuring, to marketing and design or financial management. EGP has undertaken 49 projects in the Kyrgyz Republic with companies in manufacturing, ICT, tourism and agriculture. The majority of projects focused on improving marketing and sales, organization, operations, and financial management. The total donor commitment for these projects was approximately €2.9 million.
- Business Advisory Services helps companies work with qualified local consultants on a range of projects, covering concerns from market research to strategic planning, quality management and certification or energy efficiency and environmental management. These projects are undertaken on a cost-sharing basis. BAS also work with the local consultancy sector, supporting professional capacity building to develop the skills of local consultants to enable them to serve the SME sector on a sustainable basis, and to introduce more sophisticated advisory services in areas such as quality management and energy efficiency. As of 1 October 2013, BAS Kyrgyz Republic has undertaken 670 projects, engaging 213 consultants. More than 70 per cent of the enterprises assisted are located outside the main cities. Despite the difficult business climate, turnover increased in nearly 66 per cent of BAS beneficiary companies in the year following project completion, while 30 beneficiaries secured external investments, for a total investment of €15 million. BAS Kyrgyz Republic is funded by the Swiss Government.

**Strengthening Financial Institutions:** In 2013, the EBRD continued supporting the country's financial institutions. The Bank signed five new loan agreements with local banks and MFIs in local currency as part of the Bank's Local Currency and Local Capital Market Initiative, a risk-sharing program supported by donor grants to catalyze local currency lending in the early transition countries (ETC). These also included the first ever energy efficiency credit lines provided under the new US\$20 million Kyrgyz Sustainable Energy Efficiency Facility (KyrSEEF) which is an example of an integrated approach combining policy dialogue, financing and TC-supported capacity building at local intermediaries, benefiting from donor-funded investment incentives. KyrSEEF offers to provide financing for small-size energy efficiency improvements in the residential, service, agribusiness, SME and industry sectors.

The Bank also engaged in policy dialogue on stabilizing the banking sector, strengthening deposit insurance, enhancing the regulation of the microfinance sector, addressing concerns about rapidly rising borrowers' over-indebtedness, supporting development of mobile banking and improving financial inclusion. Building on the Memorandum of Understanding signed in the context of the local currency financing program, the Bank commenced work on developing the corporate bond market using a combination of TC and investments supporting the issuance of local currency



corporate bonds for the equivalent of US\$2 million by a leading commercial bank, KICB. Technical cooperation projects with the Central Bank and the securities market regulator aimed at improving corporate bond market issuance and disclosure standards and strengthening the regulatory framework for bond issuance and trading. In addition the EBRD acted as an anchor investor with an equivalent of US\$500,000 for this first issue by KICB. A successful placement of the bond is expected to allow others to replicate this financial instrument and access local currency funds.

**Support for Critical Infrastructure:** To build the institutional framework for sustainable operations of municipal services, the Bank strengthened its activities in municipal infrastructure projects and approved a €20 million framework to improve water supply and wastewater treatment supported by co-financing grants from bilateral and multilateral donors. The framework has been almost fully utilized by today.

- Under this framework, the Bank continued implementation of the water rehabilitation projects in Bishkek, Osh, Djalal-abad and Kara-Balta and in 2013 signed new water/wastewater project for Kant. The new loan of €1.5 million is co-financed by €3.6 million capital grant from the Swiss Secretariat for Economic Affairs (SECO) and will be used to finance water network rehabilitation, a metering programme covering the entire city, limited wastewater improvements and operations and maintenance equipment. The capital expenditure grant is required to meet IMF conditions for nonconcessional lending and mitigate affordability constraints. 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.
- In 2013 the EBRD provided the first loan of €11 million to finance critical solid waste investments in Bishkek. The loan is co-financed by €3 million capital grant from the Bank's Shareholder Special Fund (SSF) and €8 million is considered by the EU's Investment Facility for Central Asia (IFCA). The project will improve the city's solid waste management, including collection across the city, investment in an urgently needed sanitary landfill, and the closure of the existing dumpsite, which is at the end of its economic life. The project will help optimize solid waste collection including via acquisition of new trucks and containers and is expected to result in an improved level of public service, the introduction of waste recycling and environmental improvements.
- The Bank continued implementation of the Bishkek Public Transport project with a tender for purchase about 80 new high- and low floor trolleybuses completed late in 2012. The first trolleybuses have been already delivered and operate in the city. For all municipal projects gender was taken into consideration with respect to improving equality of access to the new services.

**Policy Dialogue:** EBRD is continuing support to the Business Development and Investment Council, which has been providing local and international business representatives (representing the mining, industry, agro-processing and tourism sectors) with a platform to discuss the main barriers to doing business with top officials of the 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.
- The Bank is providing support to the development of local capital markets through policy dialogue, TC deepening the market and reducing bank funding mismatches.
- The Bank has been working on developing TC to provide institutional capacity building support to the State Agency for Geology to support mining sector reform.
- The Bank has offered TC to support the government's efforts to improve public procurement under the joint EBRD–UNCITRAL technical cooperation project designed to upgrade public procurement regulation in the CIS to the new UNCITRAL Model Law on Procurement of Goods, Construction, and Services.
- The Bank continues its support for renewable energy development including through TC to the Ministry of Energy and Industry to support the renewable energy framework, and a possible financing of a pilot mini-hydro project(s).
- The Bank has been providing TC to the Deposit Insurance Agency and intends to continue assisting the Agency to improve IT, increase operating procedures effectiveness, strengthening monitoring and risk management.

## TECHNICAL ASSISTANCE PROVIDED BY THE FUND

(February 2003–November 2013)

<b>Dept.</b>	<b>Subject/Identified Need</b>	<b>Timing</b>	<b>Counterpart</b>
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, and 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, and State Customs Service
	Unified Chart of Accounts	November 3–11, 2011	Ministry of Finance
	Public Finance Management	December 8–13, 2011	Ministry of Finance
	Tax Administration Reform	February 27–March 17, 2012	State Tax Service
	Tax Administration Enforcement (Module 6—TPA TTF)	September 14–24, 2012	Ministry of Finance, State Tax Service, and State Customs Service
	Public Finance Management	September 27–October 3, 2012	Ministry of Finance
	Public Finance Management	February 13–25, 2013	Ministry of Finance
	Tax Administration Enforcement (Module 6—TPA TTF)	April 11–24, 2013	Ministry of Finance, State Tax Service, and State Customs Service
	Pilot Mission on Fiscal Safeguards	April 22–24, 2012	Ministry of Finance
	Tax Administration in Transition	April 24–May 7, 2013	Ministry of Finance, State Tax Service, and State Customs Service
	Tax Administration Enforcement (Module 6—TPA TTF)	April 11–24, 2013	Ministry of Finance, State Tax Service, State Customs Service
	Fiscal Safeguards Pilot	April 22–24, 2013	Ministry of Finance
	Public Finance Management	August 13–23, 2013	Ministry of Finance
	Tax Policy	October 24–November 8, 2013	Ministry of Finance
MFD/ MCM	Review of the Capital Adequacy and Dividend Arrangements for the National Bank of the Kyrgyz Republic	August 18–28, 2003	National Bank of the Kyrgyz Republic

Review of Debt Restructuring Operation and 2003 Financial Reporting	October 28–November 10, 2003	National Bank of the Kyrgyz Republic
Monetary Operations, Banking System Development, and Central Bank Autonomy	September 13–23, 2004	National Bank of the Kyrgyz Republic
Review of NBKR Debt Restructuring Arrangements, Options for Deepening Financial Markets and Amendments to the NBKR Law	December 7–18, 2004	National Bank of the Kyrgyz Republic
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

	Reserve Management	January 28–February 9, 2013	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	March 22–29, 2012	National Bank of the Kyrgyz Republic
	FSAP Scoping Mission	April 1–5, 2013	National Bank of the Kyrgyz Republic
	FSAP update	July 1–15, 2013	National Bank of the Kyrgyz Republic
LEG	Review of Bank Legislation	March 1–4, 2004	National Bank of the Kyrgyz Republic
		April 26–May 6, 2004	
	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	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
		March 3–7, 2008	
	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	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
AML/CFT Follow-up	August 3–14, 2009	National Bank of the Kyrgyz Republic 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	National Bank of the Kyrgyz Republic and 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	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
AML/CFT Follow-up	January 18–20, 2011	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
Legal Framework for Crisis Management and Bank Resolution	March 9–23, 2011	National Bank of the Kyrgyz Republic, Ministry of Finance, Deposit Protection Agency, Debt Enterprise Bank Resolution Agency, Ministry of Foreign Affairs, and Union of Banks



	Legal Frameworks for Bank Resolution	September 6–16, 2011	National Bank of the Kyrgyz Republic and Debt Enterprise Bank Resolution Agency
	AML/CFT Follow-up	October 17–21, 2011	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	Legal Frameworks for Bank Resolution and Central Banking	March 5–15, 2012	National Bank of the Kyrgyz Republic
	Legal Frameworks for Bank Resolution and Central Banking	December 11–20, 2012	National Bank of the Kyrgyz Republic
	AML/CFT Follow-up	February 2013	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and 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
Government Finance Statistics	February 13–24, 2012	Ministry of Finance
Private Sector External Debt Statistics	February 4–15, 2–12	National Statistics Committee and National Bank of the Kyrgyz Republic
Price Statistics	February 18–March 1, 2013	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–April 2013
LEG	Long-Term Banking Advisor	Mr. Zaveckas	August 2012–present
MCM	Banking Supervision/Restructuring Advisor	Mr. Svartsman	July 2013–present

## STATISTICAL ISSUES

1. Data provision is adequate for surveillance. The four institutions responsible for collecting, compiling and disseminating macroeconomic statistics—the National Statistics Committee (NSC), the Ministry of Economic 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.
2. The NSC maintains a comprehensive and regularly updated website with data that largely incorporate international methodological recommendations with adequate coverage and timeliness (<http://www.stat.kg>). In February 2004, the Kyrgyz Republic subscribed to the SDDS.
3. A data ROSC mission in November 2002 concluded that the quality of the macroeconomic statistics had improved significantly in the last few years. The authorities' response to the data ROSC (posted on the IMF website ([www.imf.org/external/np/rosc](http://www.imf.org/external/np/rosc))) includes an update on the status of implementation of the ROSC recommendations.

### National accounts

4. In general, dissemination of national accounts statistics is timely. Technical assistance has been received from the IMF, EUROSTAT, OECD, the World Bank, and bilateral donors. While significant progress has been made in improving the national accounts estimation process, problems persist regarding the quality of the source data, due mainly to excessively tight collection deadlines associated with the release schedule. Efforts are needed to improve the quality of the source data for quarterly GDP estimates. Moreover, while the quarterly GDP estimates are disseminated on a discrete basis for SDDS purposes, these estimates are still derived from cumulative data. Difficulties also remain in properly estimating the degree of underreporting, especially in the private sector. To improve the coverage and reliability of primary data, work has been undertaken to introduce sampling procedures. Improved sampling procedures have been adopted for household surveys and new report forms have been introduced for the enterprise survey. The NSC has established a division of sample surveys, which would assist in improving the sampling techniques.
5. 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

6. 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.
7. 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.
8. Progress has been made in computing unit value indices for imports and exports. Work continues with regard to computation of these indices using a standard index presentation and the development of an export price index. However, problems in customs administration have led to incomplete coverage of trade and the lack of an appropriate valuation system. Moreover, the data processed by customs have suffered due to the use of an outdated computer software system.
9. Problems exist in the compilation of the average wage, especially with respect to the valuation of payments in kind and the coverage of the private sector. Monthly and annual data are not comparable because of different coverage and classifications. These problems extend to employment data as well. The coverage of unemployment includes an estimate of unregistered unemployed.

### Government finance statistics

10. 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.
11. The provision of data on public external debt service has improved. Data on actual debt service, guaranteed debt service, outstanding debt, and revised debt projections are provided on a monthly basis. The quality (including timeliness) of external debt data is adequate. The External Debt Division of the 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)**

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

13. 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.

14. 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.

15. 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**

16. 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 29, 2013)

	Date of latest observation	Date received	Frequency of data <sup>7</sup>	Frequency of reporting <sup>7</sup>	Frequency of publication <sup>7</sup>	Memo Items:	
						Data Quality Methodological Soundness <sup>8</sup>	Data Quality Accuracy and Reliability <sup>9</sup>
Exchange Rates	11/15/13	11/15/13	D	D	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	10/31/13	11/11/13	M	M	M		
Reserve/Base Money	11/14/13	11/15/13	D	D	M	LO, O, LO, LO	LO, O, O, LO, LO
Broad Money	9/30/13	10/16/13	M	M	M		
Central Bank Balance Sheet	11/14/13	11/15/13	D	D	M		
Consolidated Balance Sheet of the Banking System	9/30/13	10/16/13	M	M	M		
Interest Rates <sup>2</sup>	8/31/13	9/30/13	W	W	W		
Consumer Price Index	10/31/13	11/12/13	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance, and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	9/30/12	10/31/13	M	M	A	O, LNO, LO, O	LO, O, O, LO, LO
Revenue, Expenditure, Balance, and Composition of Financing <sup>3</sup> —Central Government	9/30/12	10/31/13	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	9/30/12	10/31/13	Q	Q	Q		
External Current Account Balance	6/30/12	9/30/13	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, LO, LO
Exports and Imports of Goods and Services	6/30/12	9/30/13	Q	Q	Q		
GDP/GNP	10/31/13	11/13/13	M	M	M	O, O, LO, O	LO, LO, LO, O, O
Gross External Debt	6/30/12	9/30/13	Q	Q	A		
International Investment Position <sup>6</sup>	6/30/12	9/30/13	Q	Q	Q		

<sup>1</sup> 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.

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

<sup>3</sup> Foreign and domestic financing only.

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

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions *vis-à-vis* nonresidents.

<sup>7</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).

<sup>8</sup> 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).

<sup>9</sup> 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 4, 2012**

1. This statement provides an update on recent developments since the issuance of the staff report. It does not alter the thrust of the staff appraisal.
2. Growth remains strong. During the first 10 months of 2013, real GDP grew by 10.2 percent, while nongold growth was 5.9 percent. The main drivers of nongold growth continued to be the trade, agriculture, and construction sectors. Twelve-month inflation reached 4.4 percent in October, primarily owing to lower food and energy prices.
3. In November 2013, Russia provided a US\$30 million grant (0.4 percent of GDP). In line with program commitments, the end-December deficit target will therefore be adjusted downward by 0.4 percent of GDP.
4. The prior action for the review has been met. At end-October 2013, the authorities adopted a resolution to extend the coverage for the registration of budgetary obligations for all institutions financed from the republican and local budgets, including from special funds. Moreover, they issued an order to implement the resolution as of November 13, 2013.
5. All end-September indicative targets were met.

**Kyrgyz Republic: End-September 2013 Indicative Targets**

	2013			
	September			
	IT			
	4th Rev.	Adj.	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)	1,861	1,889	1,939	Met
2. Ceiling on net domestic assets of the NBKR (eop stock)	-11,617	-12,820	-16,575	Met
3. Ceiling on cumulative overall cash deficit of the general government 2/	11,644	10,289	5,959	Met
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	0	0	0	Met
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	Met
<i>Indicative Targets 1/</i>				
1. Ceiling on reserve money	70,243	...	68,935	Met
2. Cumulative floor on state government tax collections 2/	49,599	...	51,725	Met
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/	3,318	...	3,318	Met

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





Press Release No. 13/490  
FOR IMMEDIATE RELEASE  
December 4, 2013

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes the Fifth Review under the ECF Arrangement for the Kyrgyz Republic and Approves US\$14.6 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Kyrgyz Republic's economic performance under the program supported by the Extended Credit Facility (ECF). The Executive Board's decision enables the immediate disbursement of an amount equivalent to SDR 9.514 million (about US\$14.6 million) to the Kyrgyz Republic, bringing total disbursements under the arrangement to SDR 57.08 million (about US\$87.6 million). The Executive Board also considered the Report on the 2013 Financial System Stability Assessment (FSSA).

The Kyrgyz Republic's Extended Credit Facility arrangement was approved by the IMF's Executive Board on June 20, 2011 (see Press Release No. 11/245) with total access equivalent to SDR 66 million (about US\$102.2 million).

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

“The Kyrgyz economy is recovering strongly after a contraction related to disruptions in gold production in 2012. Fiscal policy has remained prudent despite declining gold prices. Imports for large infrastructure projects are putting pressure on the current account. The medium-term outlook is broadly favorable, but not without challenges, including from gold price volatility and the slowdown in the region.

“The loss of nontax revenues related to the closure of the Manas Transit Center in 2014 will create headwinds for the fiscal consolidation that is needed to reduce vulnerabilities, rebuild policy buffers, and ensure macroeconomic stability and debt sustainability. In the near term, the revenue loss will be offset by grants, revenues from the new oil refinery, and expenditure restraint. Over the medium term, tax system reforms are expected to offset the loss and build a more stable and predictable revenue base. In addition, public financial management reforms will strengthen fiscal governance and transparency, and help to control expenditures.

“Proper implementation of the new operational framework for monetary policy will be instrumental in improving monetary transmission. It will be important for the National Bank to maintain a tight monetary policy stance to mitigate potential inflationary pressures stemming from the strong recovery and rapid credit growth.

“Creating a well-functioning financial sector is key to supporting private sector-led growth. The new banking code, once enacted, will be instrumental to strengthen the bank intervention and resolution process and bolster confidence in the banking system. Developing a strategic plan to strengthen bank supervision and a crisis management framework are important elements to increase stability and resilience of the financial sector. To strengthen the Anti-Money Laundering/Combating the Financing of Terrorism framework, the authorities should adopt the remaining legislative changes.

“Diversification of the economy would help reduce the volatility in growth stemming from potential disruptions in gold production and reduce the persistently high current account deficit. Good governance and sound institutions remain critical to create a level playing field, improve investor confidence, and lay the foundation for strong private sector-led growth.”

**Statement by Daniel Heller, Executive Director for the Kyrgyz Republic  
And Jerome Duperrut, Advisor to Executive Director  
December 4, 2013**

On behalf of our Kyrgyz authorities, we thank staff for the continuous support under the Extended Credit Facility (ECF) arrangement and the constructive policy discussions. The authorities remain strongly committed to the program and to its objective of strengthening the macro-economic foundations of the economy. This objective will be achieved by further improving institutions and governance, promoting national reconciliation, and strengthening regional cooperation. The support provided by the ECF is appropriately complemented by the Fund's extensive capacity development. We are also thankful to the bilateral donors for their additional contributions, which have been received in a timely manner in 2013. The authorities are also appreciative of the July FSAP discussions, as these will serve as a basis to further strengthen the financial sector and deepen financial intermediation.

**Macro-economic outlook and policies**

Since the beginning of 2013, economic activity in the Kyrgyz Republic has rebounded strongly. The gross domestic product expanded by 10.2 percent in the first ten months of 2013, led by a pick-up in gold production combined with significant growth in the non-gold sectors. The broad-based improvement is particularly noticeable in infrastructure, retail trade, agriculture, and exports. With these strong results, staff has revised the GDP forecast up for the whole of 2013 to 7.8 percent – our authorities predict an even higher increase. They are also confident that the Kyrgyz Republic will continue to experience sustainable growth over the medium-term. The extension of the life expectancy of gold production is a positive factor in this regard. Furthermore, they see growth potential in agriculture, hydro-energy, tourism, mining, information technology, transport, and light industries. While they recognize the existence of downside risks, the authorities agree with staff that these risks are mostly beyond their control, i.e., fluctuations in the gold price, economic slowdown in the main trading partner countries, and the regional security situation. As for domestic risks identified by staff, the Kyrgyz authorities understand that a peaceful and democratic political system, as well as a stable and predictable business climate, is important to attracting investment and generating sustainable and inclusive growth. They value the importance of gold production, in terms of its contribution to the domestic economy, as well as its signaling effect in attracting future investments. In this context, the government aims to reach a fair and mutually beneficial agreement with foreign investors on the financial, environmental, and social aspects of the Kumtor mine. The Kyrgyz Republic is also making further legal progress towards joining the Customs Union, as this should help unlock export markets and enhance the country's competitiveness and investment climate.

The authorities are confident in their ability to meet the 2013 fiscal targets under the program. On the revenue side, tax collection has been buoyant, especially value-added and customs taxes. Non-tax revenues from profits of state-owned enterprises have also over-performed. The strong performance in these areas will more than compensate for the

impact of the lower gold price on direct taxes. Progress has also been made in strengthening tax policy and administration, particularly by transferring the tax policy unit back to the ministry of finance; this ensures that all strategic fiscal policy matters are under the responsibility of the same ministry. On the spending side, the fiscal adjustment in 2013 was significant, with a reduction of the expenditure to GDP ratio of more than 2 percent. This is achieved via sizeable cuts in current spending on goods, services, public wages, and infrastructure, while pro-poor spending on pensions, education and healthcare is protected.

Going forward, the 2014 budget proposal is in line with the authorities' commitment to further consolidate the fiscal position, as agreed under the program. Fiscal consolidation is important for sustainable economic development. On the revenue side, the Kyrgyz authorities are aiming for a liberal tax regime, which will compare favorably with regional peers in terms of tax collection and administration. Tax revenues are expected to rise slightly thanks to further improvements in tax administration. The permanent loss of revenue from the closure of the U.S. Transit Center should be gradually compensated by increases in excises on tobacco and alcohol, additional grants, as well as revenues, including those generated by the public investment programs (PIPs). On the expenditure side, the main drivers will be the large PIPs aimed at improving infrastructure and providing a sound platform for broad-based private-sector led growth. Spending on the wage bill will be reduced, primarily through further reforms in the public sector. As poverty needs to be brought down in a meaningful way, pro-poor spending on pension, social assistance, and healthcare will be increased. Finally, the authorities are also committed to implementing further public financial management reforms.

Over the medium-term, the authorities are committed to bringing the budget deficit to below 3 percent of GDP by 2015. To this end, the authorities will use technical assistance on taxation and expenditure provided by the Fund and the World Bank. The authorities also take good note of the joint updated debt sustainability analysis of the Fund and the World Bank, which takes into account the expanded PIPs. It shows that the Kyrgyz Republic debt outlook is sustainable and that the country remains at moderate risk of debt distress. The authorities take confidence that the debt burden indicators under both the baseline and the stress tests scenarios have improved slightly.

The large PIPs will generate a temporary increase in the current account deficit, which will be financed mostly through foreign direct investment and concessional loans. The authorities do not expect that pressures will build neither on the balance of payments nor on the exchange rate, as the deficit should shrink to sustainable levels. Moreover, the authorities are committed to select projects in the crucial transportation and energy sectors, which should efficiently contribute to economic development. These projects will be based on credible feasibility studies and financed in a way that is sustainable.

The National Bank of the Kyrgyz Republic (NBKR) is committed to keeping inflation in single digits. Over the course of 2013, both headline and core inflation rates have dropped to middle single digits. Reserve money growth has been brought down accordingly, which resulted in the related end-September indicative target to be met. Following the discussions during the 2013 Article IV consultation on the determinants of monetary policy transmission

mechanism, as well as helpful Fund technical assistance, the NBKR is moving forward in implementing Fund recommendations to improve the effectiveness of its monetary targeting framework and its signaling instruments. As main first steps, the NBKR will set the short-term interest rate as the key policy instrument and develop a model to improve inflation forecasting. The next steps will be implemented in a gradual manner and rely on further technical assistance by the Fund. Furthermore, the authorities express their continued support for the flexible exchange rate regime. The NBKR will continue to refrain from intervening in the foreign exchange market, except in the rare cases of excessive volatility – it happened only once this year. The NBKR also agrees with staff that foreign reserves are broadly adequate, and should remain so going forward.

The authorities emphasize their commitment to making further structural reforms, in accordance with the National Sustainable Development Strategy. Recognizing the importance of improving governance and fighting corruption, they aim to engender a business climate conducive to private sector activity by adopting a transparent regulatory regime and by reducing the number of licenses and permits. In this context, they are pleased with the steady improvement of the Kyrgyz Republic in global rankings, appropriately noted in the World Bank 2013 Doing Business report.

### **Financial sector**

As reported in the July 2013 FSAP update, the stability of the domestic banking system is further strengthened thanks to bank recapitalization and reforms to financial sector legislation. After the successful transfer of 90 percent of Zalkar Bank shares to private investors, the new owners started to recapitalize the bank in September. This process should be completed by the end of the year. Demand for credit has been strong, due to the rising and broad-based activity in the non-gold sectors of the economy. Financial soundness indicators are generally healthy, in particular with the further decline of non-performing loans. It is also noteworthy that deposits continue to increase. On the policy side, the authorities aim to modernize and simplify the legal framework to improve confidence in the banking sector and expand access to finance. In this context, they have submitted a new Banking Code to Parliament. This Code incorporates inputs from the Fund's technical assistance and legal advice.

Going forward, the authorities will assess the other FSAP recommendations, in particular in the areas of supervision, crisis preparedness, capital requirements, resolution, and legislation on anti-money laundering and combating the financing of terrorism (AML/CFT). As a follow-up, they will request further technical assistance from the Fund to improve legislation and regulation in these areas. Furthermore, to improve upon past laxities in the area of AML/CFT, the authorities have adopted amendments to the Criminal Code and to the Law on Combating Terrorism. A new version of the payment system law will be submitted to Parliament in due course.

## **Program performance**

The Kyrgyz authorities ask the Executive Board to approve this fifth review under the ECF-supported arrangement, with the related disbursement to be directed to the budget. The authorities continue to make good progress with the implementation of the ECF-supported program. All quantitative performance criteria for end-June 2013 were met, some by wide margins. As an improvement against the previous program review, there was no new contracting of non-concessional loans by state-owned enterprises (SOEs). The issuance of a resolution requiring SOEs to report financial and borrowing plans to the state property management fund and to the ministry of finance was instrumental in this regard. All end-September indicative targets have also been met. As reported above, the structural benchmarks on creating a new tax policy unit in the Ministry of Finance and the submission to parliament of the Banking Code have been completed in a timely manner. The end-September structural benchmark on issuing a regulation expanding the coverage of the commitment register to include local budgets and special means, which was reset as a prior action for this review, has now been fulfilled as assurances were given by the Minister on the definition of local budgets and special means.

Going forward, the authorities remain committed to the reform path under the ECF-arrangement. They ask for modifications of the end-December 2013 quantitative performance criteria on the net international reserves and net domestic assets, as well as the indicative targets. This is mostly to account for the improved economic performance. The structural benchmarks will complement the program's quantitative conditionality and focus on the key macro-critical areas such as the stability of the financial sector, the operation of monetary policy, and the efficiency of public financial management. The Kyrgyz authorities are looking forward to continuing their fruitful cooperation with the Fund after the completion of this ECF arrangement.