



KYRGYZ REPUBLIC

June 2016

SECOND REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA— PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE KYRGYZ REPUBLIC

In the context of the second review under three-year arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its June 17, 2016 consideration of the staff report on issues related to the IMF arrangement under the Extended Credit Facility.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 17, 2016, following discussions that ended on May 4, 2016, with the officials of the Kyrgyz Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 3, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Kyrgyz Republic.

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

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

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



INTERNATIONAL MONETARY FUND



Press Release No. 16/291
FOR IMMEDIATE RELEASE
June 17, 2016

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

IMF Executive Board Completes the Second Review Under the Extended Credit Facility Arrangement for the Kyrgyz Republic and Approves US\$13.4 Million Disbursement

On June 17, 2016, the Executive Board of the International Monetary Fund (IMF) completed the second review of the Kyrgyz Republic's economic performance under the three-year Extended Credit Facility (ECF) arrangement. The Board's approval enables the immediate disbursement of SDR 9.514 million (about US\$13.4 million). This would bring total disbursements under the arrangement to SDR 28.542 million (about US\$40.3 million). The ECF arrangement for SDR 66.6 million (about US\$92.4 million) was approved on April 8, 2015 (see [Press Release No. 15/165](#)).

Following the Executive Board discussion Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

“The Kyrgyz authorities have been able to maintain their Fund-supported program broadly on track despite persistent external shocks, including lower commodity prices as well as weaker growth and currencies in trading partners. Growth is slowing down, external borrowing is raising debt levels, and exchange rate depreciation is increasing debt and financial sector vulnerabilities. The challenging near-term outlook and high vulnerabilities call for a decisive implementation of prudent macroeconomic policies and structural reforms.

“The authorities' commitment to resume fiscal consolidation in 2016 is welcome. Steadfast implementation of permanent measures to boost tax revenues, reduce the wage bill, streamline nonpriority spending, preserve much-needed social spending, and improve the public investment framework is critical to rebuilding buffers and ensuring that debt returns to more sustainable levels.

“The National Bank of the Kyrgyz Republic's (NBKR) flexible exchange rate policy has served the economy well by acting as a shock absorber. Going forward, the NBKR should continue to focus on containing inflation within the target range and maintaining a flexible exchange rate policy to preserve competitiveness.

“Swift enactment of the Banking Law, in a form substantially similar to the draft submitted to

Parliament in September 2013, is crucial to preserve financial sector stability in the current weak economic environment. Once adopted, the Law will strengthen the independence of the central bank, allow better protection of depositors' rights, and introduce a modern bank resolution mechanism. Moreover, to enhance confidence in the banking system, it is necessary to promptly liquidate bankrupt banks under the Debt Resolution Agency's management.

“Accelerating structural reforms to enhance broad-based growth, strengthen governance, reduce corruption, and maximize benefits from the Eurasian Economic Union is also critical.”

Kyrgyz Republic: Selected Social and Economic Indicators, 2015–21

	2015	2016	2017	2018	2019	2020	2021
	Est.			Projections			
Nominal GDP (in billions of soms)	423.6	455.4	506.6	561.2	614.6	675.7	734.5
Real GDP (growth in percent)	3.5	3.0	3.0	5.2	4.6	5.7	4.5
Nongold real GDP (growth in percent)	4.5	2.9	3.5	4.1	4.5	5.0	5.2
Consumer prices (12-month percent change, eop)	3.4	5.8	5.7	5.4	5.3	5.1	5.0
Consumer prices (12-month percent change, average)	6.5	2.8	8.1	5.3	5.5	5.2	5.1
General government finances (in percent of GDP) 1/							
Revenue	38.1	37.9	37.0	36.2	36.3	35.9	36.0
Of which: Tax revenue	20.0	21.8	22.3	22.5	22.6	22.7	22.9
Expense	30.6	30.9	29.5	28.5	28.4	27.9	27.7
Gross operating balance	7.5	6.9	7.5	7.7	7.9	8.0	8.3
Net acquisition of nonfinancial assets	8.7	11.4	9.9	8.2	8.4	8.5	8.6
Overall balance(net lending/borrowing)	-1.2	-4.5	-2.4	-0.4	-0.5	-0.5	-0.4
Overall balance including onlending	-3.2	-8.7	-5.1	-2.7	-2.0	-0.5	-0.4
Total public debt 2/	66.0	73.1	73.5	72.8	72.2	71.4	68.9
Banking sector							
Reserve money (percent change, eop)	4.0	13.5	9.9	8.8	8.4	7.5	7.2
Broad money (percent change, eop)	14.9	14.0	11.6	10.8	10.3	10.3	9.5
Credit to private sector (percent change, eop)	17.2	10.4	19.1	13.0	12.2	12.5	11.3
Credit to private sector (in percent of GDP)	22.7	23.3	25.0	25.5	26.1	26.7	27.3
External sector							
Current account balance (in percent of GDP)	-10.4	-15.2	-15.3	-12.6	-12.2	-10.1	-9.9
Export growth (percent change)	-18.5	-4.1	4.2	10.4	9.6	11.0	7.2
Import growth (percent change)	-28.2	1.7	7.0	5.1	3.5	3.8	6.7
Gross International reserves (in millions of U.S. dollars)	1,468	1,621	1,638	1,740	1,854	2,085	2,260
Gross reserves (months of next year imports, eop)	3.7	3.8	3.7	3.8	3.9	4.1	4.1
External public debt outstanding (in percent of GDP)	64.6	71.8	72.3	71.7	71.2	70.5	68.0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

2/ Calculated at end-period exchange rates.



KYRGYZ REPUBLIC

June 3, 2016

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

KEY ISSUES

Context. External shocks continue to shape both the outlook and policies. A weaker-than-expected external environment is hurting growth, straining the budget, and raising public debt and banking sector vulnerabilities. The authorities' response to shocks has focused on exchange rate flexibility and unorthodox stimulus measures, although the budget deficit in 2015 was well within the program target. For 2016, the authorities are undertaking additional efforts to adhere to the program's fiscal commitments. Financial sector vulnerabilities and risks are high and rising. Slow progress toward passing the Banking Law that aims to introduce a modern bank resolution system and increase the independence of the National Bank of the Kyrgyz Republic remains a concern. The change in the cabinet just six months after the elections underlines the fluidity of the country's political situation.

Program policies. Program conditionality has been broadly met. All end-December, 2015 quantitative performance criteria and all but one indicative target were met. All but two structural benchmarks were met. The authorities are committed to continuing fiscal consolidation in 2016 and beyond, with additional measures identified both to meet the 2016 deficit target and to underpin medium-term fiscal consolidation. They will also continue to exert their best efforts to ensure the enactment of the Banking Law and are committed to start the liquidation of banks under the Debt Resolution Agency (DEBRA). The authorities are requesting modification of performance criteria to reflect the revised macroeconomic outlook and that the third disbursement (SDR 9.514 million) be available upon completion of the review.

Outlook and risks. With implementation of program policies, growth should gradually pick up over the medium term and reach its potential. However, risks to the program remain significant, especially from a further weakening of the external environment, and populist policies in the run up to next year's presidential elections.

Approved By
Juha Kähkönen

Discussions were held in Bishkek during April 21–May 4 with Prime Minister Jeenbekov, Vice-Prime Minister Pankratov, Minister of Finance Kasymaliev, Chairman of the National Bank Abdygulov, other senior officials, representatives of the private sector, civil society, and the diplomatic community.

The staff team comprised Mr. Gemayel (head), Ms. Gicquel, Ms. Ostojic (MCD), Mr. Pula (SPR), Mr. Gurara (SPR/RES), Mr. Said (Resident Representative), and Ms. Kadyrberdieva and Ms. Shambetova (both local economists). Mr. Imashov (OED) participated in some of the policy discussions. Ms. Lagveshkina and Mr. Surin assisted with interpretation and translation services. Mr. Rosenthal provided research assistance. Ms. Stone (MCD) helped prepare the report.

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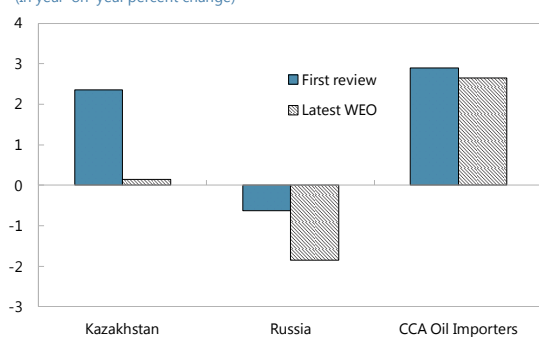
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CONTEXT

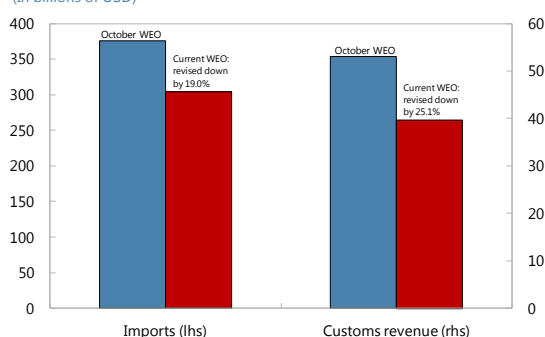
1. External shocks continue to hit the Kyrgyz economy hard, with the outlook for regional economic environment weaker than anticipated at the time of the first review. Oil and commodity prices, based on the latest (April 2016) WEO assumptions, are projected to be lower, with weaker growth and currencies in key trading partners such as Russia and Kazakhstan. These developments are depressing trade and remittances, reducing custom revenues, especially from the Eurasian Economic Union (EEU) countries, and harming the business sentiment. Moreover, trade diversion of Chinese goods through Kazakhstan following the EEU accession is creating additional strains on economy.

Projected 2016 Real Growth
(In year-on-year percent change)



Source: World Economic Outlook.

2016 Projections for EEU Imports and Customs Revenue
(In billions of USD)



Sources: Authorities' data and staff projections.

2. The authorities' response to the adverse external shocks has been a mix of exchange rate flexibility and, reflecting lack of fiscal space, unorthodox methods to stimulate the economy. Exchange rate flexibility helped the economy to absorb the external shocks. With public external debt surpassing the legal threshold of 60 percent of GDP in 2015, the authorities resorted to policies intended to stimulate demand with minimum direct fiscal impact, including targeted tax measures, a foreign exchange loan conversion program, and the establishment of a State Mortgage Company (SMC).

3. The political environment remains fluid. The prime minister resigned just six months after the elections amid allegations of corruption. The new government, with a new prime minister and minister of transport, was appointed swiftly. No major shifts in economic policies are expected, but populist measures in the run up to next year's presidential elections cannot be ruled out.

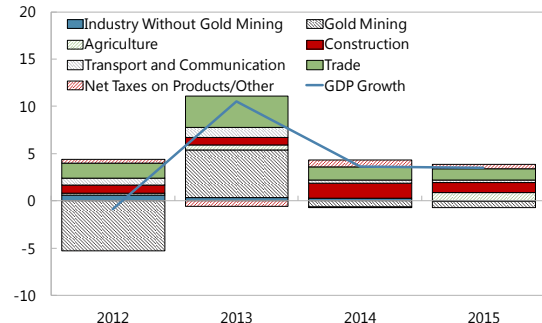
RECENT DEVELOPMENTS

4. After showing resilience in 2015, the economy is starting to slow down. Real output grew by 3.5 percent in 2015, with nongold growth better than expected at 4.5 percent, helped by construction, trade, and agriculture. However, as a result of a slowdown in energy production, and

back-loaded gold production, overall GDP contracted by 4.9 percent in April 2016, whereas nongold GDP was flat.

Contribution to GDP Growth

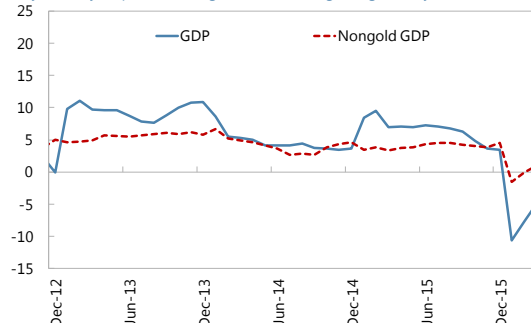
(Percentage points)



Source: National Statistics Committee.

Growth, 2012–16

(In year-on-year percent change, cumulative beginning of the year)

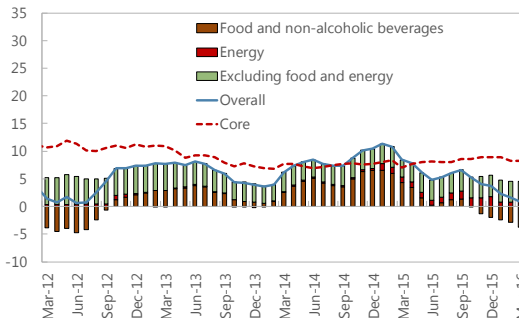


Source: National Statistics Committee.

5. While overall inflation has declined steadily, core inflation remains close to double digits. In 2015, inflation declined gradually to 3.4 percent by year-end, well below the National Bank of the Kyrgyz Republic’s (NBKR) target of 7 percent. This largely reflected a moderation in food prices. However, core inflation remained high at 9 percent, reflecting exchange rate pass-through to nonfood and nonfuel items. By March 2016, overall inflation had further dropped to 0.5 percent, while core inflation remained at 8.3 percent.

Contributions to Inflation

(In year-on-year percent change)

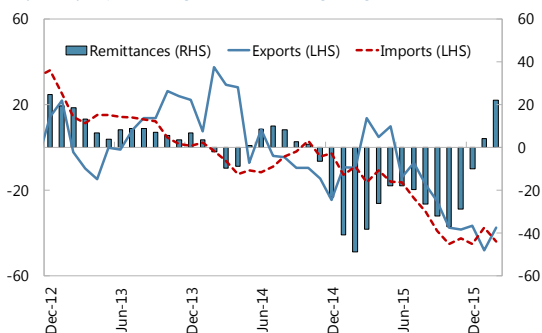


Source: National Statistics Committee.

6. The current account deficit narrowed to 10.4 percent of GDP in 2015, reflecting temporary factors in the run up to the EEU accession. Expectations of higher import tariffs following EEU accession, initially planned for early 2015, pushed businesses to advance their imports, especially cars, in late 2014, correspondingly reducing imports in 2015. Lower oil prices and delays in high-import content investment programs were also contributing factors. These developments significantly outweighed the fall in remittances (25 percent in dollar terms) and a weaker external demand (Annex I). Imports continued to decline over the first two months of 2016 (30 percent year-on-year), while nongold exports increased (36 percent year-on-year), driven by machinery and footwear. Remittances started to pick up and rose by 6 percent in dollar terms.

External Sector, 2012–16

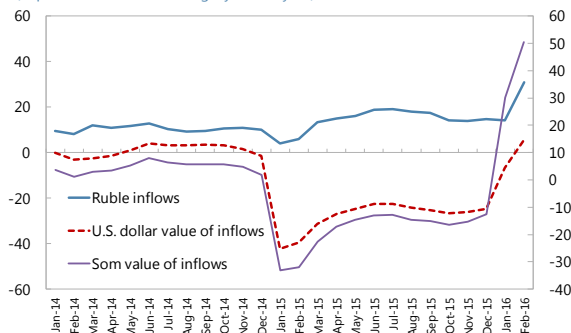
(In year-on-year percent change, three-month moving average, USD)



Sources: National Statistics Committee and NBKR data.

Remittances Inflows, 2014–16

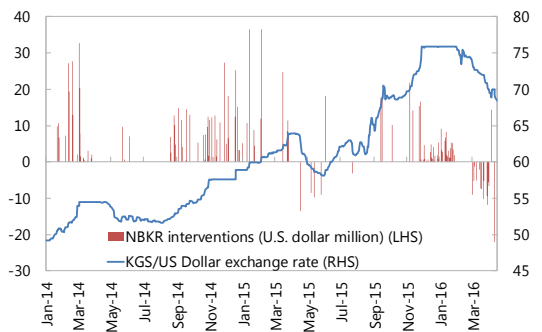
(In percent, cumulative change, year-on-year)



Sources: Authorities data and IMF staff calculations.

7. Monetary policy was kept on a tightening stance during 2015. The NBKR raised its policy rate to 10 percent as market pressures built up. It also allowed the som to depreciate by 29 percent against the U.S. dollar (and by 11 percent in nominal effective terms), while undertaking significant interventions, spending about one-sixth of its reserves. During 2016Q1, lower inflationary expectations allowed the NBKR to lower its policy rate to 8 percent. In addition, the combination of the recent ruble appreciation, tight som liquidity, and an increase in remittances helped the som appreciate by 10 percent, and allowed the NBKR to purchase about US\$80 million. Reserves were also boosted by the conversion of nonconvertible currencies to dollars and stood at US\$1.7 billion.

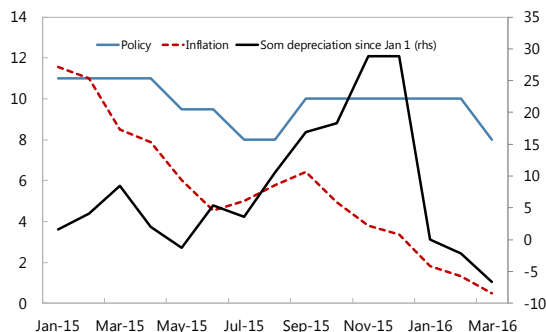
Foreign Exchange Market, 2014–16



Source: NBKR data.

Policy Rate, Inflation, and Depreciation

(In percent)

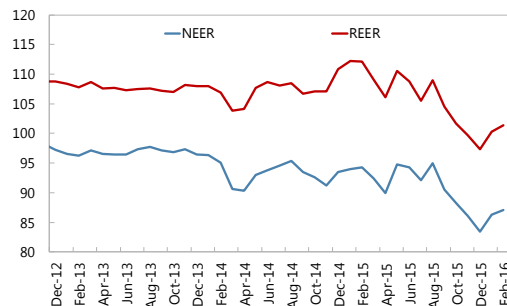


Source: NBKR data.

8. The exchange rate flexibility pursued by the NBKR helped mitigate the impact of the external shocks on the domestic economy. The real effective exchange rate (REER) depreciated by some 12 percent in 2015. In the first two months of 2016, the REER appreciated by 4 percent.

Exchange Rate Developments

(Index: 2010=100)



Sources: Authorities data and IMF staff calculations.

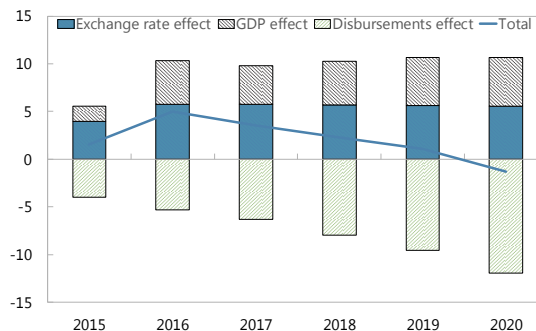
9. While fiscal policy in 2015 was designed to support growth in the face of emerging shocks, it ended up being contractionary due to one-off factors. The overall fiscal deficit fell to 1.2 percent of GDP, well below the program’s target of

3.5 percent of GDP. Revenues were better than anticipated due to one-off nontax revenues.¹ Tax revenues, on the other hand, underperformed reflecting a weak economic environment, especially in tax-generating sectors (trade and construction), and lower customs duties. The latter reflected lower imports by the Kyrgyz Republic before it joined the EEU in August, and lower imports by the EEU as a whole after August.² Nonpriority spending—mostly goods and services—was partially postponed to 2016 as budgetary support from the EU and Russia was delayed to the last quarter. Delays in major investment projects financed by China resulted in a significant drop in capital expenditure. In 2016Q1, fiscal performance was better than anticipated, with higher tax and grants revenues and lower current and development expenditures.

10. Debt vulnerabilities, however, intensified. While delays in major investments contained the increase, the external public debt ratio rose to 64.6 percent of GDP in 2015, 1.6 percentage points above projections at the time of the first review (Annex II), owing to weaker-than-anticipated nominal GDP growth and valuation effects from exchange rate depreciation. With the 60 percent of GDP legal threshold now breached, the authorities are reviewing the debt limit framework and have introduced annual debt limits in the context of the budget process.

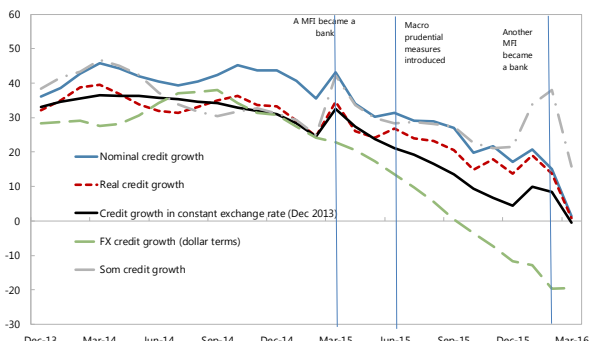
11. Vulnerabilities in the banking sector are high and rising, but capital buffers remain comfortable. In 2015, credit growth slowed significantly but remained relatively strong at 17 percent. The som depreciation led to a drop in demand for dollar loans—even before these loans to consumers were banned (Annex III)—and an increase in deposit dollarization. Banks remain well capitalized, with an average capital adequacy ratio of 23.5.³ Nonperforming loans (NPLs), mainly in the real estate and trade sectors, reached 7.1 percent. Loans under watch tripled in 2015,⁴ to 21.2 percent reflecting the deteriorated economic environment and weaker som. Credit

Contribution to Debt Increase from the First to the Second Review
(In percent)



Sources: Authorities data and IMF staff calculations.

Credit Growth
(In percent; year-on-year)



Sources: NBKR data and IMF staff calculations.

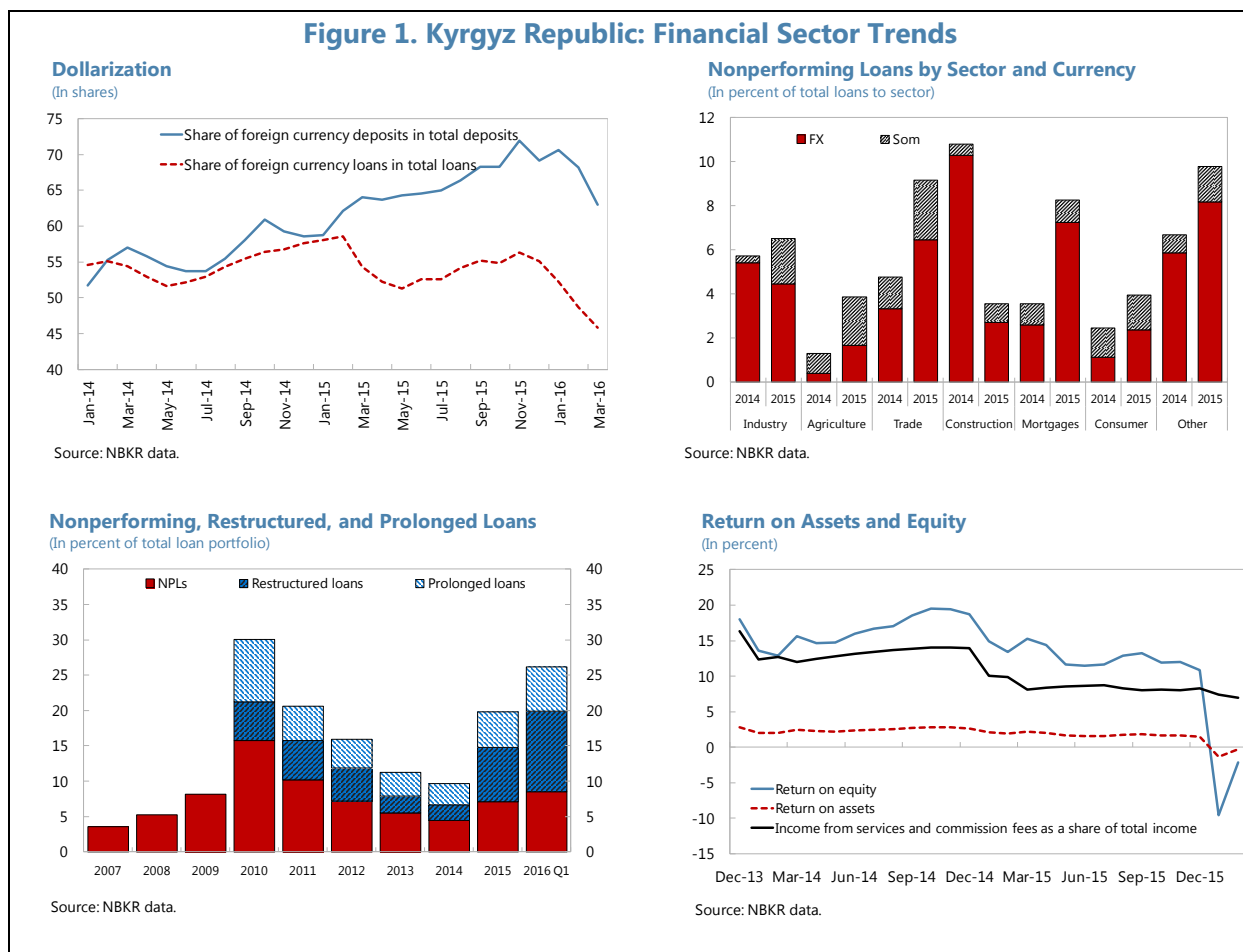
¹ The sale of the Geroi gold mine and radio frequencies.

² The Kyrgyz Republic customs revenues represent 1.9 percent of the EEU's total customs revenues.

³ A micro-finance company became a bank and a new bank was established, which contributed to the increase in CAR.

⁴ Includes prolonged and restructured loans. A prolonged loan is one which maturity has been extended. A restructured loan is one which terms have been modified.

growth slowed to 1 percent (year-on-year) by end-March 2016, mostly due to the contraction of the dollar denominated loan portfolio. However, som credit growth remained strong at 15 percent year-on-year.



12. Despite the mixed economic picture, program conditionality has so far been broadly met. All end-December quantitative performance criteria (PCs) and indicative targets (ITs) were met, except for the IT on tax revenues. All but two SBs have been met. The audit of DEBRA and banks under its management was not completed fully, as one of the eight banks still remains to be audited (prior action). The submission of the AML/CFT law to parliament was delayed to early June due, in part, to a protracted consultation process.

OUTLOOK AND RISKS

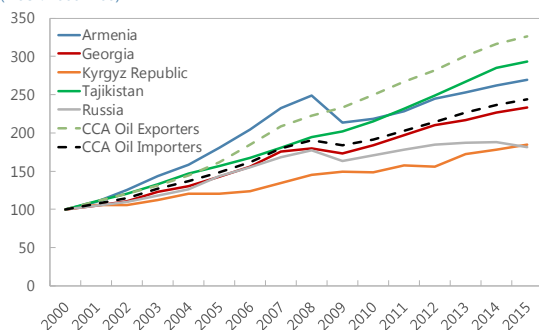
13. The near-term outlook has worsened slightly, but with appropriate policies the medium-term prospects should improve. Reflecting a weaker external environment, nongold growth is projected to grow by 2.9 percent in 2016. Projected annual credit growth of 10 percent—mostly spurred by funding from the Russian-Kyrgyz Development Fund (RKDF), which is being largely onlent via commercial banks—is expected to support economic recovery. Inflation is expected to remain low, driven by a further decline in international food and fuel prices and weak domestic demand. The current account deficit will widen again this year as imports will return to normal following last year's unusual dip ahead of the EEU accession and because of a pickup in the PIP program, but will gradually moderate thereafter as remittances recover and public investment moderates. Over the medium term, growth is expected to slowly recover as trading partner growth rebounds, reaching its potential of 5 percent by 2020. The fiscal and current account deficits are expected to gradually narrow.

14. The outlook is subject to significant downside risks. Near-term risks continue to stem from the external environment, especially developments in Russia, Kazakhstan, and China. Further som depreciation triggered by a weaker external environment could exacerbate the debt and banking sector vulnerabilities. Upside risks include a rebound in oil prices over the medium term, which would stimulate the economy through remittances and external demand, mainly via Russia. Other upside factors include the strengthening of economic ties with China and investments through the US\$1 billion RKDF.

15. The authorities broadly agreed with staff views on the outlook and risks. Their near-term growth projections are aligned with staff's forecast, but more optimistic for the medium term due to expectation of a faster recovery in the region. They agree on the increasing risks in the financial sector, as well as mounting debt vulnerabilities. In addition, they acknowledge that steadfast commitments to program policies and decisive implementation of reforms are necessary to weather the existing shocks and catch up with regional peers.

Real GDP: Kyrgyz Republic and Peers

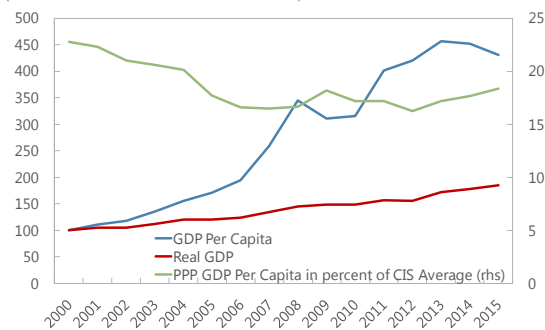
(Index: 2000=100)



Sources: World Economic Outlook and IMF staff calculations.

Real GDP, GDP per Capita, and PPP GDP per Capita, 2000–15

(Index: 2000=100 unless otherwise indicated)



Sources: World Economic Outlook and IMF staff calculations.

PROGRAM ISSUES

A. Resuming fiscal consolidation

16. While the 2016 budget approved by parliament targeted a deficit of 4.5 percent of GDP as programmed, it implied a much larger deficit. Since the budget was prepared, macroeconomic assumptions changed substantially as the exchange rate depreciated and GDP growth was marked down. In addition, the budget's tax revenue estimates were optimistic, and it included measures that would increase the deficit, such as the phasing out of the sales tax (0.6 percentage point of GDP) and accommodating expenditure carried over from 2015 (0.8 percentage point of GDP). As a result, the budget implied a deficit of 7.1 percent of GDP, 2.6 percentage points of GDP higher than targeted.

Text Table 1. Kyrgyz Republic: 2016 Budget Deviations and Additional Efforts

	2016		
	Authorities		Second Review
	Budget to Parliament	Budget with latest macro-assumptions 1/ (A)	Projections (B)
Revenue	33.2	36.9	35.7
Taxes	21.5	23.5	21.1
Social contributions	5.0	5.6	5.4
Grants	2.3	3.0	4.2
Other revenue	4.4	4.8	5.0
Expenditure	29.3	32.9	30.5
Compensation of employees	9.2	10.0	9.9
Purchases/use of goods and services	7.5	9.0	7.1
Interest	1.1	1.2	1.3
Subsidies and social benefits	11.6	12.7	12.3
Gross operating balance	3.9	4.0	5.2
Net acquisition of nonfinancial assets	8.4	10.4	9.7
Acquisition of nonfinancial assets	8.4	10.4	9.7
Domestically financed	2.9	3.2	1.7
Foreign financed	5.5	7.2	8.0
Disposals of nonfinancial assets	0.0	0.0	0.0
Overall balance including onlending	-4.5	-6.4	-4.5
Gap	(A)-(B) =	1.9	
Additional revenue shortfall from sales tax		0.7	
Total		2.6	
<i>Memo items:</i>			
Exchange rate (som per US\$)	64.8	77.4	77.4
GDP (In millions of soms)	501,583	455,374	455,374

Sources: Kyrgyz authorities and IMF staff estimates.

1/ Budget adjusted with staff exchange rate projections, GDP forecast, and expenses from revenues collected in 2015 by public agencies and not spent.

17. The authorities are committed to taking action to reduce the deficit to the targeted level. They concurred with staff that the absence of fiscal space prevents any relaxation of the fiscal target, despite the weaker economic outlook. Accordingly, they identified a comprehensive set of measures—more than two-thirds of which are permanent—which are expected to yield 2.6 percentage points of GDP, with no individual measure yielding more than 0.4 percentage point of GDP. These include: (i) tax revenue measures (strengthening tax administration, introducing new tax measures, and streamlining exemptions), which are expected to yield about 1.2 percentage points of GDP (LOI, ¶12); (ii) nontax revenue measures yielding 0.4 percentage point of GDP; (iii) expenditure measures amounting to 0.6 percentage point of GDP; and (iv) PFM measures equivalent to 0.4 percentage point of GDP. Some of the measures either require legislation, whose passage is uncertain or may yield less than expected. Should any of these measures fall short of their estimated impact, the authorities agreed to cut expenditures by an equivalent amount.

Text Table 2. Kyrgyz Republic: 2016 Measures to Close 2016 Fiscal Gap

Type of measure	Details	Estimated contribution (In percent of GDP)
Tax policy	<ul style="list-style-type: none"> Revise VAT applicable to certain types of exports and regulate of transfer pricing. Revise rates in mining licenses and harmonize of FEZ with EEU. Raise excise rate for beer. Raise excise rates on alcohol and tobacco products. Increase tax rate for luxury tax. Introduce labels for Kyrgyz goods to reduce the informal economy. Introduce a minimum level of target prices for imports from EEU. Cancel tax exemptions in the context of the harmonization with the EEU. 	0.5
Tax administration	<ul style="list-style-type: none"> Incentive to boost foreign activities through improved administrative procedures. Strengthen VAT administration for entrepreneurs by introducing electronic invoices and simplifying procedures. Strengthen administration of tax collection on a patent basis from cargo and passenger carriers by carrying joint inspection of the road patrol and STS. Introduce new administrative tools for local taxes, including giving powers to local authorities to establish additional coefficients and expand the range of existing rates. Improve customs payments through harmonization procedure, closer relationships with third countries and better information system. Fight against violation of customs duties and illegal imports of goods and vehicles, and collection of arrears by improving the monitoring of operations and procedures and pursuing unscheduled inspections. Remove prohibition of tires imports from third countries. Improve administration of tax and non tax payments by increasing the number of scheduled and non scheduled audits, and enforcing application of car stickers (group 4 vehicles). Speed up litigation cases. Speed up the collection of tax arrears. 	0.7
PFM	<ul style="list-style-type: none"> Improve efficiency of the payment system through savings in procurement operations. 	0.4
Expenditure	<ul style="list-style-type: none"> Streamlining of non priority goods and services. Reducing domestically financed capital expenditure. Abrogation of the employees' health promotion fund. 	0.6
Nontax revenues	<ul style="list-style-type: none"> Higher profits from the NBKR (already received). Privatization of state property. Increase in proceeds from the leasing of state property and dividends. Sales of mineral deposits. Reimbursement of taxes from criminal procedures and fraud. 	0.3
	Total	2.6
	of which permanent	1.8
<i>Memo item:</i>		
GDP (in billions of soms)	455.4	
Sources: Authorities data and IMF staff calculations.		

18. The authorities and staff agreed that a more efficient and growth-friendly fiscal framework is needed to support fiscal consolidation going forward. While past deficit targets have typically been met, the quality of adjustment was low. To address this, staff noted that on the revenue side this will require identification of permanent measures to build a solid revenue base, while one-off revenues should only be used to reduce the deficit. On the spending side, this will necessitate streamlining nonpriority expenditures, particularly on goods and services, through expenditure reforms rather than ad hoc cuts, while preserving the much-needed social programs. With respect to the development budget, increasing the efficiency of public investment and focusing on priority infrastructure projects will be essential (Annex V). The authorities broadly agreed with staff on the consolidation strategy, but reiterated that investments are needed to close the country's infrastructure gap.

19. The authorities and staff reaffirmed that fiscal consolidation should continue in 2017–18 to maintain public debt at sustainable levels, reduce external imbalances, and restore private sector confidence. The consolidation efforts during those two years should target a cumulative improvement in the primary balance of 3.7 percent of GDP, of which 1.8 percentage points are needed in 2017. To bolster their credibility, the authorities have developed a menu of measures from which the bulk of the adjustment is expected to come from:

- a. **On the revenue side**, they committed to strengthen the customs and VAT administrations, streamline exemptions, raise excise tax rates on alcohol and tobacco and harmonize excise tax rates with EEU countries, introduce excise stamps for domestically produced goods, and introduce a luxury tax on properties. They also intend to review the taxation of natural resources.
- b. **On the expenditure side**, they committed to gradually reduce the wage bill (Annex IV), refrain from ad hoc wage increases, and set up a comprehensive register for all public sector employees (SB, March 2017). Additionally, they will undertake a review of subsidies with the objective of streamlining them, improving the targeting of social benefits to avoid duplication (LOI, ¶13), and containing domestically financed capital expenditure. They will also refrain from potential quasi-fiscal activities that may have budgetary implications.
- c. **On tax administration**, they will take measures to strengthen the capacity of the State Tax Services (STS) to: (i) overcome the impact of the transition to the EEU by, among other things, increasing inspections and control at the borders; (ii) gradually add additional tax collection functions to the STS; and (iii) reduce the size of the informal sector (LOI, ¶12).

For 2017, the authorities have already committed to about 0.7 percentage point of GDP in permanent measures, namely from (i) tax policy including revisions to the VAT; and (ii) strengthening tax and customs administration, including improving payments through harmonization procedures. The remainder of the measures will be specified in the draft budget for 2017, which will be prepared in the fall.

20. Meeting the medium-term objectives will also require strengthening public investment management (Annex V). To enhance their public investment framework, the authorities undertook an action plan, where they agreed to: (i) modify through a government decree the decision-making process for the selection of public investment projects by formalizing the role of the ministry of economy and ministry of finance (LOI, ¶16) (SB, December 2016); and (ii) introduce a standardized framework for project monitoring of physical and financial performance for all projects exceeding KGS 50 million (SB, June 2017).

21. Strengthening public financial management remains a priority. First and foremost, it is critical to strengthen the budget process through better coordination or consolidation of tasks. Currently, the ministry of finance prepares the budget and is in charge of current spending; the ministry of economy designs tax policies and selects investments projects; and the STS, which reports to the prime minister, acts as the tax collecting agency. The authorities agreed to review the process with the objective of enhancing cooperation among the three agencies. The authorities will also continue working toward the implementation of the financial management information system (LOI, ¶31) with support from the Turkish Cooperation and Coordination Agency (SB, February 2017), which will help to better monitor spending and improve the oversight of the budget operations.

B. Preserving debt sustainability

22. The attached DSA suggests that debt sustainability has further deteriorated compared to the DSA in the November staff report. However, the DSA update suggests that debt remains at a moderate risk of debt distress. The present value of the public and publicly-guaranteed debt to GDP and remittances ratio is expected to exceed 36 percent of GDP in 2016–17, and will remain around 34 percent of GDP thereafter. Acknowledging escalating debt vulnerabilities, the authorities are revising their public investment framework to better manage debt and bring it back to sustainable levels. They also agreed with staff on the need for a more selective public investment process to maximize the long-term impact on growth and prevent the explosive path of the public debt (Annex VI).

C. Fine-tuning monetary and exchange rate policies

23. Monetary policy will continue to focus on containing inflation within the NBKR's targeted range of 5–7 percent. The NBKR and staff agreed that the policy rate should balance the need for policy relaxation stemming from the recent drop in headline inflation, the moderation in credit growth, and the weaker growth prospects, against potential fiscal and exchange rate pressures. The NBKR indicated that it will continue to adapt its monetary stance to circumstances (LOI, ¶17). Moreover, the NBKR and ministry of finance agreed to continue strengthening their coordination to facilitate liquidity management (LOI, ¶18). In addition, the NBKR will continue to work on enhancing the policy rate's transmission mechanism (LOI, ¶24).

24. Exchange rate flexibility has helped reduce external imbalances, enhance competitiveness, and prevent a rundown of external buffers. The NBKR stressed the need to

balance the objectives of financial sector stability and exchange rate flexibility. At the same time, the NBKR remains committed to: (i) limiting interventions in the foreign exchange market to only smoothing excessive fluctuations; and (ii) introducing new monetary and hedging instruments (LOI, ¶20).

25. Staff and the authorities agreed on the need to rebuild reserves to about four months of imports, given the country’s vulnerability to shocks and the high dollarization.

Following its large depreciation in 2015, the real effective exchange rate is assessed to be broadly in line with fundamentals. Although reserves are largely adequate, continued significant intervention or additional external shocks would make reserves drop below desired levels.

Text Table 3. Kyrgyz Republic: Estimated Exchange Rate Misalignment: Comparison Between Reviews

	First Review	Second Review
EBA LITE CA	14.0	4.8
Macroeconomic Balance	9.0	-3.8
External Sustainability	4.4	-4.8
Purchasing Power Parity	4.3	-1.4

Sources: Authorities data and IMF staff calculations.

D. Safeguarding financial stability and supporting growth

26. Financial sector risks are high and increasing, particularly foreign currency-induced risks.

Key vulnerabilities continue to stem from high dollarization and credit risks due to the economic slowdown and the som volatility. Stress test results continue to indicate increasing vulnerabilities from exchange rate volatility and sectoral concentration. The NBKR emphasized that the introduction of macroprudential measures has helped to contain foreign currency credit growth. It also agreed to closely watch

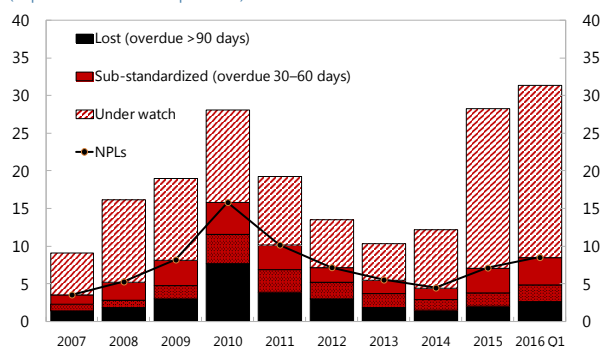
developments in NPLs and bring loan classification in line with international standards, in particular for restructured and extended loans. Staff argued for carefully monitoring FX liquidity, given the significant foreign currency denominated liabilities. The authorities are also committed to developing a strategic plan for robust banking supervision and to expanding the risk-based supervision framework to the entire sector (LOI, ¶22). Moreover, they are establishing a high-level financial stability committee and finalizing a crisis preparedness framework with the assistance from the IMF and World Bank (LOI, ¶23).

27. Staff argued that de-dollarization should be only pursued through market-based measures.

The authorities and staff concurred on the need to focus on stabilizing the economy and strengthening central bank credibility. They also agreed that the recent foreign currency loan conversion program should not be expanded beyond its current scope (Annex VII). They also

Loan Classification, 2007–16

(In percent of total loan portfolio)



Source: NBKR data.

indicated that they will be supervising the SMC should it engage in banking activities (LOI, ¶124). Moreover, the NBKR indicated that it is in the process of signing a memorandum of understanding with the RKDF to exchange the necessary information for the proper conduct of monetary and financial policies.

28. The current challenging economic environment strengthens the case for the immediate passage of the Banking Law. Staff reiterated that the current banking resolution framework is contradictory and inefficient, as it allows shareholders to delay the resolution process indefinitely. It also opens the door for insolvent banks to be resurrected and provides impunity to bank owners at the expense of depositors who are made to wait for years to be compensated. The draft Banking Law, which has been lingering in parliament since 2013, aims to address these issues by strengthening the independence of the central bank and establishing a robust banking resolution framework in line with international best practice. The proposed framework allows for swift resolution of distressed banks to prevent problems in one bank from destabilizing the entire sector. It also allows depositors to be paid out quickly and protects their rights. The authorities noted that delays in the passage of the Banking Law were continuing because clarifications were needed on the constitutionality of key provisions related to the judicial review of the NBKR's decision. The authorities nevertheless indicated that they will continue to exert their best efforts to ensure its passage by September in a form substantially similar to the draft submitted to parliament in September 2013 (LOI, ¶125).

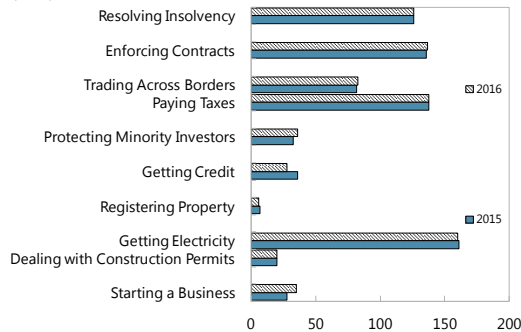
29. Speedy resolution of all problem banks under DEBRA is essential to enhance confidence in the banking sector. Staff indicated that the situation with DEBRA and the banks under its administration is another manifestation of the shortcomings of the existing bank resolution framework. Delays in the liquidation of these banks, some of which have been under DEBRA since the mid-1990s, undermine the credibility of banking regulations and trust in the system as a whole. The audit of DEBRA and the banks under its management suggests that four have no assets at all. As a result, the authorities proposed, and staff agreed, that as a first step the liquidation procedures for the four banks that have no assets will be initiated by September (SB) (LOI, ¶126). The authorities also committed to proceed with the liquidation of the remaining four banks in the first quarter of 2017. To ensure a smooth and successful liquidation process, staff and the authorities agreed on the need for full cooperation between DEBRA on one side, and the NBKR and ministry of finance, as the largest creditors in some banks, on the other side.

E. Advancing structural reforms

30. The authorities recognized that improving the business climate is essential for diversifying the economy and maximizing the benefits from EEU accession. While the country's 2016 Doing Business ranking remained largely unchanged, the Kyrgyz Republic continues to lag behind its' regional peers. The authorities and staff agreed that bold reforms are needed in several areas, including trading across borders, the insolvency regime, access to electricity, and contract enforcement. In addition, reforming the energy sector is important to ensure a better service delivery and to put it on sound economic footing (LOI, ¶130). Staff also underscored the importance

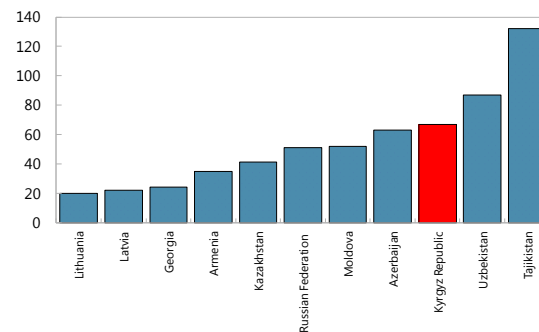
of a constructive and fair resolution of the dispute with Centerra, which is critical for maintaining a stable and predictable investment climate.

Doing Business Elements
(Rank)



Source: Doing Business database.

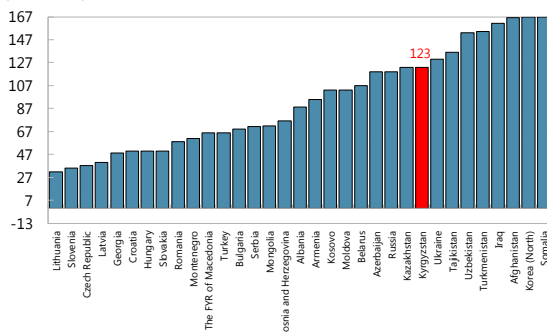
Cross-Country Comparison of Ease of Doing Business
(Rank, 2016)



Source: Doing Business database.

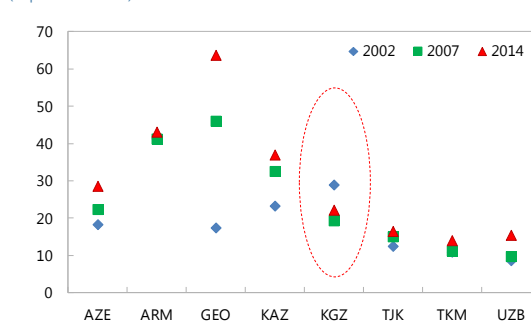
31. Corruption and the rule of law continue to prevent maximizing the economy’s potential by reducing inefficiency. According to Transparency International, corruption perception remains high, while governance indicators are deteriorating. Staff emphasized, and the authorities agreed, that timely adoption of the AML/CFT law by parliament should contribute to a positive assessment of technical compliance with the FATF standard by the Eurasian Group on Combating Money Laundering and Financing of Terrorism later this year. An AML/CFT legal framework in line with the 2012 FATF standard could complement anti-corruption efforts by assisting in detecting, prosecuting, and deterring instances of corruption. Staff welcomed the recent passage by parliament of the Budget Code, which is expected to enhance budgetary transparency.

Corruption Perception Index
(Rank, 2015)



Source: Transparency International data.

Governance Indicators
(In percentile rank)



Source: Worldwide Governance Indicators.

F. Program modalities

32. Program design and modification of performance criteria. Revised QPCs for June and December 2016—on the floor on NIR, ceiling on NDA, ceiling on cumulative over deficit of the general government, and present value on new external debt contracted or guaranteed and ITs on ceiling on reserve money, cumulative state government tax collections, and nonconcessional borrowing—are proposed (LOI, Table 1) to reflect the weaker macroeconomic outlook. Structural conditionality (LOI Table 2) will focus on macro-critical areas, particular in the financial sector and reforms to support fiscal consolidation. The program will continue to be monitored on a semi-annual basis.

33. Financing needs for the remainder of the year are covered. The IMF, along with multilateral and bilateral partners, is expected to cover the country's financing gap for the next 12 months. Despite the downside risk to the outlook, the Kyrgyz Republic's capacity to repay the Fund is expected to remain adequate.

Text Table 4. Kyrgyz Republic: Financing Needs

	2016	2017	2018
	Proj.	Proj.	Proj.
	(In millions of U.S. dollars)		
Financing Gap	97.6	121.6	86.3
Available financing	70.0	93.8	72.3
Identified budget support	70.0	43.8	22.3
World Bank	20.2	15.9	1.4
European Union	19.8	20.9	20.9
Other grants	30.0	7.0	0.0
Unidentified budget support	0.0	50.0	50.0
IMF ECF disbursement	27.6	27.8	14.0
	(In percent of GDP)		
Financing gap	1.7	1.9	1.3
Available financing	1.2	1.5	1.0
Identified budget support	1.2	0.7	0.3
World Bank	0.3	0.3	0.0
European Union	0.3	0.3	0.3
Other grants	0.5	0.1	0.0
Unidentified budget support	0.0	0.8	0.7
IMF ECF disbursement	0.5	0.4	0.2
<i>Memo item:</i>			
GDP (in millions of U.S. dollars)	5,882	6,354	6,901

Sources: Kyrgyz authorities and IMF staff estimates and projections.

34. An updated safeguards assessment was completed in October 2015. The assessment concluded that legal amendments are needed to strengthen the central bank's autonomy and governance arrangements. The enactment of the draft Banking Law should address these recommendations. Furthermore, the internal audit mechanism requires strengthening.

STAFF APPRAISAL

35. The Kyrgyz Republic continues to face large and persistent external shocks, requiring a strong policy response. The regional economic slowdown, which is being transmitted primarily through a decline in remittances, a slowdown in trade, and exchange rate pressures, has amplified domestic vulnerabilities. At the same time, large external borrowing has significantly increased debt levels, and the som depreciation has elevated financial and debt vulnerabilities. Given this environment, a more decisive implementation of macro policies and reforms is needed.

36. After showing resilience in 2015, the economy is expected to slow down this year before picking up again over the medium term. Lower oil prices, a weak regional economic environment, and the slowdown in China will all be contributing factors. Over the medium term, growth should gradually pick up, provided prudent macro policies are implemented and structural reforms accelerated.

37. Fiscal consolidation and a sound public investment management framework are critical to maintaining debt on a sustainable path. Reliance on grants and one-off revenues to keep fiscal deficits within program targets are not substitutes for permanent measures to ensure lasting fiscal consolidation. The authorities' commitment to resume consolidation in 2016 and bring the budget in line with program commitments by implementing additional measures is welcome. Compensating any possible shortfall from these measures by equivalent cuts in expenditures will be critical to meet fiscal targets. Going forward, success will hinge on identifying concrete measures to boost tax revenues over the medium term, reducing the wage bill, streamlining spending on goods and services, and improving the public investment framework. It is also critical to strengthen coordination among various government agencies to ensure an efficient budget process.

38. Public debt has reached worrisome levels and should be contained. Prudence should be exercised when selecting new infrastructure projects, and contracting and guarantying new public debt. Debt is close to moving from medium to high risk of debt distress, which would reduce access to concessional and nonconcessional borrowing. Furthermore, debt should be carefully monitored to avoid contingent liabilities. In addition, the new debt limit legislation, which would allow revisions to the debt limit on an annual basis, increases the risk of undermining its credibility. In this context, the authorities should refrain from frequent revisions to this limit, especially to soften up borrowing constraints.

39. Monetary policy should continue to focus on containing inflation within the NBKR's target range. The current interest rate level appropriately balances declining inflationary pressures, weakening credit, and GDP growth against rising fiscal and exchange rate pressures. The NBKR should continue to monitor developments and inflation expectations and adjust monetary policy as needed. Efforts to enhance the monetary transmission mechanism should be stepped up by, as a first step, narrowing the corridor around the policy rate and making it more symmetric. Strengthening coordination between the NBKR, ministry of finance, and the RKDF as well as

enhancing the forward looking component of the NBKR's communication policy will be critical in the period ahead.

40. The central bank's flexible exchange rate policy has served the economy well by acting as a shock absorber. Looking forward, the NBKR should continue to limit interventions only to smooth excessive volatility while allowing the som to move in the line with fundamentals. In this context, given the large current account deficit and the high degree of dollarization, building reserves to about four months of imports would be appropriate. The NBKR should also introduce new monetary and hedging instruments to offset the effect of its FX interventions.

41. High and rising banking sector vulnerabilities call for the immediate passage of the Banking Law, given its macro-criticality to preserve financial sector stability, particularly in the current difficult economic environment. The authorities should exert every effort to ensure the passage of the Law in a form substantially similar to the draft submitted to parliament in September 2013. At the very least, the Law should maintain the original provisions in the areas of: (i) governance and oversight; (ii) judicial review and nonsuspension of the NBKR's decisions; and (iii) powers of the NBKR in the resolution process.

42. Additional efforts are needed to ensure financial sector stability. The authorities' efforts to strengthen supervision by developing a strategic plan for banking supervision, improve the quality of prudential regulation, and put in place a crisis preparedness framework are all welcome. The NBKR should also stand ready to introduce additional macro-prudential measures. Moreover, finalizing the liquidation of all the banks under DEBRA and winding down DEBRA's activities by early 2017 are important measures to enhance confidence in the banking sector. Success will hinge on the full cooperation between DEBRA, NBKR, and ministry of finance.

43. Expanding the economy's potential will necessitate bold structural reforms. Improving the business climate, addressing the infrastructure bottlenecks and tackling corruption and governance are necessary to enhance broad-based growth and maximize benefits from the EEU. Governance reforms are essential to reduce the corruption perception and unlock the growth potential. Speeding up the PFM reforms will enable the authorities to better monitor spending and increase transparency of the budget's operations. Simplifying cross border trade, better enforcement of contracts and faster resolution of insolvency will allow the Kyrgyz Republic to have a competitive edge within the EEU.

44. The program continues to face significant risks, but the authorities' policy commitments provide safeguards and the Kyrgyz Republic's repayment capacity remains adequate. Regional economic slowdown, volatile exchange rates, and uncertainty about gold production are key risks to the program. Furthermore, political resistance to financial sector reforms, as well as populist policies in the run up to the 2017 presidential elections, could reverse the reform process, undermine macroeconomic and financial sector stability, and increase risk of debt distress. Continued dialogue with the Fund is essential for the success of the program.

45. Staff supports completing the second review of the authorities' program under the ECF arrangement. Staff supports authorities' request to modify end-June, end-September, and end-December 2016 QPCs and ITs. The policies outlined in the attached LOI are adequate to achieve the program's goals.

Table 1. Kyrgyz Republic: Selected Economic Indicators, 2014–21

I. Social and Demographic Indicators								
Population (In millions, 2015)	5.9		GINI Index (2012)					27.37
Unemployment rate (official, 2013)	8		Life expectancy at birth in years (2013)					70.2
Poverty rate (2013)	37		Adult literacy rate (percent of population)					99
GNI per capita (2014, Atlas method, U.S. dollars)	1,250		Under-five mortality (per 1000 live births) (2014)					22.6
II. Economic Indicators								
	2014	2015	2016	2017	2018	2019	2020	2021
	Act.	Est.	Projections					
Nominal GDP (in billions of soms)	400.7	423.6	455.4	506.6	561.2	614.6	675.7	734.5
Nominal GDP (in millions of U.S. dollars)	7,465	6,650	5,882	6,354	6,901	7,410	7,987	8,512
Real GDP (growth in percent)	3.6	3.5	3.0	3.0	5.2	4.6	5.7	4.5
Nongold real GDP (growth in percent)	4.6	4.5	2.9	3.5	4.1	4.5	5.0	5.2
GDP per capita (in U.S. dollars)	1,266	1,113	971	1,034	1,108	1,173	1,247	1,311
Consumer prices (12-month percent change, eop)	10.5	3.4	5.8	5.7	5.4	5.3	5.1	5.0
Consumer prices (12-month percent change, average)	7.5	6.5	2.8	8.1	5.3	5.5	5.2	5.1
Investment and savings (in percent of GDP)								
Investment	26.9	29.2	31.3	30.8	29.6	29.4	29.7	30.7
Public 1/	8.8	11.0	16.6	14.3	12.4	11.4	8.5	8.5
Private	18.2	18.2	14.7	16.4	17.2	18.0	21.1	22.1
Savings	9.1	18.8	16.1	15.5	17.0	17.1	19.5	20.9
Public	9.3	6.2	7.0	8.9	9.6	9.8	9.8	10.3
Private	-0.1	12.6	9.1	6.6	7.4	7.3	9.8	10.6
Savings-investment balance	-17.8	-10.4	-15.2	-15.3	-12.6	-12.2	-10.1	-9.9
General government finances (in percent of GDP) 2/								
Revenue	35.3	38.1	37.9	37.0	36.2	36.3	35.9	36.0
Of which: Tax revenue	20.6	20.0	21.8	22.3	22.5	22.6	22.7	22.9
Expense	29.7	30.6	30.9	29.5	28.5	28.4	27.9	27.7
Gross operating balance	5.7	7.5	6.9	7.5	7.7	7.9	8.0	8.3
Net acquisition of nonfinancial assets	4.7	8.7	11.4	9.9	8.2	8.4	8.5	8.6
Overall balance(net lending/borrowing)	1.0	-1.2	-4.5	-2.4	-0.4	-0.5	-0.5	-0.4
Overall balance excluding foreign financed PIP loans	3.5	3.2	4.2	4.5	4.7	4.4	5.4	3.5
Overall balance including onlending	-3.7	-3.2	-8.7	-5.1	-2.7	-2.0	-0.5	-0.4
Primary net lending/borrowing	1.9	-0.2	-3.1	-1.3	0.6	0.5	0.5	0.7
Primary balance excluding foreign financed PIP loans	4.3	4.2	5.6	5.6	5.7	5.5	6.4	4.5
Primary balance excluding grants	-1.4	-4.3	-8.7	-6.3	-3.4	-2.4	-1.6	-1.4
Cyclically adjusted balance	-4.7	-2.7	-7.2	-4.0	-1.8	0.5	0.5	0.8
Total public debt 3/	52.3	66.0	73.1	73.5	72.8	72.2	71.4	68.9
Banking sector								
Reserve money (percent change, eop)	-11.9	4.0	13.5	9.9	8.8	8.4	7.5	7.2
Broad money (percent change, eop)	3.0	14.9	14.0	11.6	10.8	10.3	10.3	9.5
Credit to private sector (percent change, eop)	43.6	17.2	10.4	19.1	13.0	12.2	12.5	11.3
Credit to private sector (in percent of GDP)	20.5	22.7	23.3	25.0	25.5	26.1	26.7	27.3
Velocity of broad money 4/	3.2	3.0	2.8	2.8	2.8	2.8	2.8	2.7
Policy Rate	10.5	10.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
External sector								
Current account balance (in percent of GDP)	-17.8	-10.4	-15.2	-15.3	-12.6	-12.2	-10.1	-9.9
Export of goods and services (in millions of U.S. dollars)	3,248	2,648	2,539	2,645	2,920	3,201	3,554	3,811
Export growth (percent change)	-23.2	-18.5	-4.1	4.2	10.4	9.6	11.0	7.2
Import of goods and services (in millions of U.S. dollars)	6,521	4,683	4,763	5,098	5,360	5,547	5,757	6,145
Import growth (percent change)	5.7	-28.2	1.7	7.0	5.1	3.5	3.8	6.7
Gross International reserves (in millions of U.S. dollars) 5/	1,856	1,468	1,621	1,638	1,740	1,854	2,085	2,260
Gross reserves (months of next year imports, eop)	4.8	3.7	3.8	3.7	3.8	3.9	4.1	4.1
External public debt outstanding (in percent of GDP)	50.6	64.6	71.8	72.3	71.7	71.2	70.5	68.0
External public debt service-to-export ratio (in percent)	3.6	4.9	7.2	7.3	7.5	7.5	7.2	7.1
<i>Memorandum items:</i>								
Exchange rate (soms per U.S. dollar, average)	53.7	64.4	...	...	...	...	...	...
Real effective exchange rate (2010=100) (average)	107.25	106.3	...	...	...	...	...	...
Gold related tax receipts of the general government (percent of GDP)	1.2	1.4	...	...	...	...	...	...

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Includes general government and onlending to state owned enterprises

2/ General government comprises State Government and Social Fund finances. State government comprises central and local governments.

3/ Calculated at end-period exchange rates.

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

5/ The US\$263 million of reserve assets in nonconvertible currencies were reclassified to other assets at the end-2015 upon the recommendation of the Safeguards Assessment.

Table 2. Kyrgyz Republic: Balance of Payments 2014–21
(In millions of U.S. dollars)

	2014	2015	2016	2017	2018	2019	2020	2021
	Act.				Proj.			
Current account balance 1/	-1,330	-691	-893	-970	-872	-907	-808	-839
Excluding transfers	-3,581	-2,309	-2,505	-2,668	-2,612	-2,692	-2,592	-2,705
Trade balance	-2,943	-1,921	-2,154	-2,415	-2,431	-2,394	-2,299	-2,511
Exports, fob	2,348	1,805	1,816	1,815	2,000	2,160	2,403	2,514
CIS countries	1,346	900	1,011	1,019	1,075	1,170	1,280	1,383
Of which: Energy products	63	39	51	58	65	72	79	86
Of which: Re-exports of consumer goods	173	108	100	107	113	124	136	155
Non-CIS countries	1,002	905	805	796	924	991	1,122	1,131
Of which: Gold	717	665	729	718	845	908	1,038	1,042
Imports, fob	5,290	3,726	3,970	4,231	4,431	4,554	4,702	5,025
CIS countries	2,580	2,040	1,852	1,996	2,150	2,177	2,270	2,399
Of which: Energy (including for re-exports)	1,042	701	570	551	626	621	656	694
Non-CIS countries	2,710	1,686	2,118	2,235	2,281	2,378	2,432	2,626
Of which: Goods for re-exports	173	78	70	77	83	94	106	125
Services	-331	-114	-70	-38	-9	48	96	177
Receipts	901	843	723	830	920	1,041	1,152	1,298
Payments	-1,231	-957	-793	-867	-929	-993	-1,055	-1,120
Income	-308	-275	-280	-215	-171	-346	-389	-371
Interest payments	-79	-67	-150	-92	-48	-87	-169	-180
Other net income	-229	-208	-130	-123	-123	-258	-220	-191
Current Transfers (net)	2,251	1,618	1,612	1,697	1,740	1,785	1,784	1,865
Of which: Private	2,042	1,515	1,544	1,606	1,670	1,737	1,786	1,867
Capital Account	58	207	274	243	221	185	189	193
Official	53	184	274	243	221	185	189	193
Private	5	23	0	0	0	0	0	0
Financial account	779	584	735	712	738	834	847	807
Commercial banks	0	-140	0	0	0	0	0	0
Medium- and long-term loans (net)	490	283	316	228	165	173	152	-12
Disbursement 1/	901	647	829	731	659	677	680	555
Of which: Loan financed PIP (excl. energy investments financed by China)	96	95	144	186	218	184	210	108
Of which: Energy investments financed by China (PIP)	349	154	353	199	92	128	88	45
Amortization	-411	-364	-513	-503	-494	-504	-528	-567
Foreign direct investment 2/	348	704	512	465	493	527	545	564
Portfolio investment	0	2	0	0	0	0	0	0
Other (including SDR allocation) 3/	0	-263	0	0	0	0	0	0
Net short-term flows	-64	25	-94	20	80	135	150	255
Errors and omissions	367	-405	0	0	0	0	0	0
Overall balance	-127	-305	117	-15	86	112	228	161
Financing 4/	127	305	-117	15	-86	-112	-228	-161
Net international reserves	127	305	-174	-43	-130	-142	-258	-191
Gross official reserves (-, increase)	132	293	-153	-17	-101	-114	-232	-175
IMF	-6	12	-21	-26	-29	-28	-27	-16
Exceptional financing (including arrears)	0	0	30	30	30	30	30	30
Financing gap	0	0	28	28	14	0	0	0
<i>Memorandum items:</i>								
GDP (in millions of U.S. dollars)	7,465	6,650	5,882	6,354	6,901	7,410	7,987	8,512
Current account balance (percent of GDP)	-17.8	-10.4	-15.2	-15.3	-12.6	-12.2	-10.1	-9.9
Current account balance excluding official transfers (percent of GDP) 1/	-20.6	-11.9	-16.3	-16.7	-13.7	-12.9	-10.1	-9.8
Growth of exports of GNFS (volume, percent)	-22.7	-6.8	4.2	0.5	8.8	6.6	8.6	3.9
Growth of imports of GNFS (volume, percent)	7.4	-14.3	15.9	3.6	3.3	1.3	2.4	3.9
Terms of trade (goods, percentage change)	0.8	8.7	7.1	-1.1	-0.8	-0.5	-0.1	-0.7
Gold price (U.S. dollars per ounce)	1,266	1,160	1,219	1,231	1,234	1,256	1,278	1,300
Fuel Price Index (2005=100)	176.9	97.5	68.4	78.0	83.5	88.4	91.4	93.1
External Public Debt (in millions of U.S. dollars) 5/	3,440	3,606	4,143	4,548	4,898	5,224	5,575	5,734
As percent of GDP	50.6	64.6	71.8	72.3	71.7	71.2	70.5	68.0
External public debt service-to-exports ratio 5/ 6/	3.6	4.9	7.2	7.3	7.5	7.2	6.7	6.6
Gross reserves 3/ 7/	1,856	1,468	1,621	1,638	1,740	1,854	2,085	2,260
In months of subsequent year's imports	4.8	3.7	3.8	3.7	3.8	3.9	4.1	4.1

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Includes IMF and identified budget support.

2/ Includes return of KRDF investments abroad.

3/ The US\$263 million of reserve assets in non-convertible currencies were reclassified to other assets at the end-2015 upon the recommendation of the Safeguards Assessment.

4/ Projected IMF financing.

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.

Table 3. Kyrgyz Republic: NBKR Accounts, 2014–16

	2014	2015	2016			
	Dec. Act.	Dec. Act.	Mar. Act.	Jun. Proj.	Sep. Proj.	Dec. Proj.
	(In millions of soms)					
Net foreign assets	104,770	123,167	125,149	139,303	135,098	131,466
Net international reserves 1/	105,936	108,490	119,230	133,385	129,179	126,097
Long-term foreign liabilities	-7,233	-8,929	-8,379	-8,379	-8,379	-8,929
Other foreign assets 1/	6,068	23,606	14,298	14,298	14,298	14,298
Net domestic assets	-40,298	-56,112	-58,985	-63,389	-60,884	-55,374
Net claims on general government	-18,191	-13,714	-17,611	-6,865	-7,065	-6,107
<i>Of which:</i> Total government deposits (including foreign exchange deposits)	-19,618	-15,105	-18,999	-8,238	-8,438	-7,494
<i>Of which:</i> Securitized government debt	1,454	1,402	1,399	1,399	1,399	1,399
Claims on commercial banks	1,309	-2,204	-9,067	-6,398	-7,384	-6,621
<i>Of which:</i> NBKR notes	-1,326	-2,126	-1,999	-2,278	-3,264	-2,502
Claims of other financial corporations	0	-4,364	-6,562	-11,955	-6,898	-1,792
Other items net	-23,416	-35,829	-25,744	-38,171	-39,537	-40,854
Reserve money	64,472	67,055	66,163	75,915	74,213	76,092
Currency in circulation	57,075	58,398	57,495	64,907	63,081	64,297
Commercial banks' reserves	7,397	8,657	8,669	11,008	11,132	11,794
<i>Of which:</i> Required reserves	6,693	8,225	7,517	7,823	8,650	9,348
	(Contribution to reserve money growth, in percent) 2/					
Net foreign assets	6.6	28.5	3.0	24.1	17.8	12.4
Net domestic assets	-18.5	-24.5	-4.3	-10.9	-7.1	1.1
<i>Of which:</i> Net claims on general government	-15.3	6.9	-5.8	10.2	9.9	11.3
Reserve money	-11.9	4.0	-1.3	13.2	10.7	13.5
<i>Of which:</i> Currency in circulation	-13.5	2.1	-1.3	9.7	7.0	8.8
<i>Memorandum items:</i>						
Reserve money growth (12-month change, in percent)	-11.9	4.0	17.2	19.4	11.5	13.5
Gross International Reserves (in millions of U.S. dollars) 1/	1,856	1,468.3	1,726	1,757	1,681	1,621
Net international reserves (in millions of U.S. dollars) 1/	1,669	1,280	1,405	1,572	1,502	1,447

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ The US\$263 million of reserve assets in nonconvertible currencies were reclassified to other assets at the end-2015 upon the recommendation of the Safeguards Assessment.

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

Table 4. Kyrgyz Republic: Monetary Survey, 2014–16

	2014	2015	2016			
	Dec. Act.	Dec. Act.	Mar. Act.	Jun. Proj.	Sept. Proj.	Dec. Proj.
	(In millions of soms)					
Net foreign assets	108,590	134,500	127,683	141,837	137,632	142,799
Net domestic assets	15,955	8,643	7,764	5,057	16,732	20,417
Domestic credit	61,317	79,223	71,527	85,747	98,788	96,791
Net claims on general government	-20,831	-17,021	-21,706	-8,398	-7,796	-9,426
Credit to the rest of the economy 1/	82,148	96,245	93,233	94,145	106,584	106,217
Of which: In foreign exchange	45,464	51,711	42,711	43,128	48,827	54,944
Other items net	-45,363	-70,580	-63,763	-80,690	-82,056	-76,373
Broad money (M2X)	124,544	143,143	135,446	146,895	154,364	163,216
Of which:						
Broad money, excluding foreign exchange deposits (M2)	82,386	82,267	85,043	94,063	96,146	100,274
Currency held by the public	51,904	53,118	52,883	60,352	59,000	60,112
Total domestic currency deposit liabilities	30,482	29,149	32,161	33,711	37,147	40,162
	(Contribution to broad money growth, in percent) 2/					
Net foreign assets	2.4	20.8	-4.8	5.1	2.2	5.8
Net domestic assets	0.6	-5.9	-0.6	-2.5	5.7	12.1
Domestic credit	10.3	14.4	-5.4	4.6	13.7	59.4
Net claims on general government	-10.4	3.1	-3.3	6.0	6.4	-5.8
Credit to the rest of the economy	20.6	11.3	-2.1	-1.5	7.2	65.2
Other items (net)	-9.6	-20.2	4.8	-7.1	-8.0	-47.2
Broad money (M2X)	3.0	14.9	-5.4	2.6	7.8	14.0
Of which:						
Broad money, excluding foreign exchange deposits (M2)	-7.1	-0.1	1.9	8.2	9.7	12.6
Currency held by the public	-8.3	1.0	-0.2	5.1	4.1	4.9
Total deposit liabilities	1.2	-1.1	2.1	3.2	5.6	17.5
<i>Memorandum items:</i>						
Broad money (M2X) (12-month change, in percent)	3.0	14.9	13.1	16.8	13.8	14.0
Credit to the rest of the economy (12-month change, in percent) 1/	43.6	17.2	1.3	3.5	11.5	10.4
Credit growth FX portion in dollar terms (12-month change, in percent)	30.7	-11.8	-19.4	...	...	...
Credit growth FX portion in som term (12-month change, in percent)	55.7	13.7	-11.7	...	...	...
Credit growth som portion (12-month change, in percent)	31.1	21.4	15.8	...	...	...
Real credit growth, (12-month change, in percent)	33.2	13.8	0.8	...	...	...
Credit growth in constant exchange rate—DEC 2013 (12-month change, in percent)	30.9	4.5	-0.5	...	...	...
Credit to the rest of the economy (in percent of GDP)	20.7	22.7	20.5	20.7	23.4	23.3
M2X velocity 3/	3.2	3.0	3.4	3.1	3.0	2.8
M2X multiplier	1.9	2.1	2.0	1.9	2.1	2.1
Dollarization indicators (in percent)						
Loan dollarization	55.3	53.7	45.8	45.8	45.8	51.7
Deposit dollarization	58.0	67.6	61.0	61.0	61.0	61.0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ One MFI got banking licence in March 2015, and another in January 2016. It also includes RKDF lending via banks.

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

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

Table 5. Kyrgyz Republic: General Government Finances, 2014–18
(In millions of soms)

	2014	2015	2016				2017	2018	
	Year Act.	Year Prel.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	Year Proj.	
Revenue	141,578	161,262	39,844	39,686	43,145	49,758	172,434	187,693	202,962
Taxes	82,639	84,655	20,330	21,409	26,123	31,291	99,153	112,837	126,158
Taxes on income, profits, and capital gains	19,635	21,773	5,227	5,437	6,503	9,486	26,654	29,740	33,460
Payable by individuals	8,542	9,514	2,237	2,493	2,982	4,509	12,221	15,631	18,167
Payable by corporations and other enterprises	8,794	9,813	2,351	2,591	2,859	5,018	12,819	12,415	13,697
Other income taxes	2,299	2,446	639	354	662	-41	1,614	1,694	1,596
Taxes on property	2,210	2,286	601	487	582	716	2,386	2,642	2,919
Property Tax	1,290	1,332	346	292	349	444	1,432	1,593	1,765
Land Tax	920	954	255	195	233	271	954	1,049	1,154
Taxes on goods and services	46,260	48,486	11,424	13,077	14,846	17,132	56,480	64,361	71,925
General taxes on goods and services	39,926	40,729	9,667	11,071	12,184	13,625	46,548	53,493	59,686
Value-added taxes	32,663	33,221	7,855	9,048	9,922	11,191	38,015	43,067	48,093
Excises	6,334	7,757	1,757	2,006	2,662	3,507	9,933	10,869	12,239
Taxes on international trade and transactions	13,771	9,684	2,922	2,010	3,715	3,036	11,683	13,966	15,526
Other Taxes	763	2,425	155	398	476	921	1,950	2,127	2,328
Social contributions	22,058	24,106	5,655	6,565	5,762	7,313	25,295	26,628	30,080
Grants	13,132	17,192	5,153	4,837	5,339	9,790	25,120	25,273	22,192
Program grants	11,376	6,749	2,288	0	0	3,133	5,422	7,478	5,879
Project grants 1/	1,756	10,443	2,865	4,837	5,339	6,657	19,698	17,795	16,313
Other revenue	23,750	35,310	8,706	6,875	5,921	1,364	22,866	22,956	24,531
Expense	118,829	129,463	29,900	37,454	32,475	41,020	140,849	149,594	159,702
Compensation of employees	35,288	39,612	8,654	13,598	9,794	14,124	46,170	45,053	46,198
Wages and salaries	31,292	35,103	7,698	12,004	8,647	12,412	40,760	39,956	40,763
Social contributions	3,995	4,509	956	1,594	1,147	1,713	5,410	5,098	5,435
Purchases/use of goods and services	29,039	30,529	6,068	7,993	7,795	10,931	32,787	35,969	37,880
Consumption of fixed capital	0	0	0	0	0	0	0	0	0
Interest	3,466	4,023	1,524	1,542	1,560	1,524	6,149	5,677	5,665
Foreign interest	2,230	2,749	1,063	1,063	1,063	1,063	4,250	4,569	5,227
Domestic interest	1,236	1,274	461	479	497	461	1,899	608	438
Subsidies	3,359	3,518	1,129	603	398	-107	2,023	2,452	2,717
To public corporations	3,359	3,518	1,129	603	398	-107	2,023	2,452	2,717
To private entities	0	0	0	0	0	0	0	0	0
Grants	200	256	116	81	60	6	263	318	345
To foreign governments	0	0	0	0	0	0	0	0	0
To international organizations	200	256	116	81	60	6	263	318	345
To other general government units	0	0	0	0	0	0	0	0	0
Social benefits	47,476	51,524	12,410	13,638	12,868	14,543	53,458	60,125	66,897
Social Assistance	9,966	10,847	2,523	3,384	2,179	3,032	11,118	13,480	14,622
Social security benefits	37,510	40,677	9,887	10,254	10,688	11,511	42,340	46,645	52,275
Gross operating balance	22,750	31,799	9,945	2,232	10,670	8,738	31,585	38,099	43,259
Net acquisition of nonfinancial assets	18,740	36,749	7,867	16,417	14,164	13,628	52,076	50,362	45,740
Acquisition of nonfinancial assets	18,789	36,891	7,955	16,440	14,195	13,612	52,203	50,502	45,896
Domestically financed	8,940	18,327	1,469	5,519	3,498	2,033	12,518	15,343	17,042
Foreign financed 1/	9,849	18,564	6,486	10,921	10,698	11,579	39,685	35,159	28,854
Disposals of nonfinancial assets	-49	-142	-88	-23	-31	16	-126	-141	-156
Net lending/borrowing	4,010	-4,950	2,077	-14,185	-3,494	-4,890	-20,492	-12,263	-2,481
Net acquisition of financial assets	30,069	4,974	6,119	-7,190	7,009	4,865	11,706	10,993	11,481
Domestic	30,069	4,974	6,119	-7,190	7,009	4,865	11,706	10,993	11,481
Currency and deposits	11,358	-3,645	4,952	-10,186	-205	-2,159	-7,599	-2,721	-1,317
Loans	18,724	8,632	1,212	2,999	7,218	7,028	19,319	13,728	12,814
Sales of equity (privatization proceeds)	-13	-13	-45	-3	-3	-3	-14	-14	-15
Foreign	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	22,928	12,134	1,873	6,994	10,503	11,965	31,336	22,865	13,826
Domestic	-1,582	-933	485	-224	-224	-37	0	0	0
Foreign	24,509	13,067	1,388	7,219	10,727	12,002	31,336	22,865	13,826
Program loans	3,598	1,791	58	1,126	186	2,148	3,519	3,404	1,276
Public investment program loans	23,867	15,859	3,947	8,736	13,211	12,550	38,443	30,702	25,219
Amortization	-2,955	-4,582	-2,617	-2,643	-2,669	-2,696	-10,626	-11,241	-12,669

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Including grants in-kind from EEU accession.

Table 6. Kyrgyz Republic: General Government Finances, 2014–18
(In percent of GDP)

	2014	2015	2016				2017	2018	
	Year	Year	Q1	Q2	Q3	Q4	Year	Year	
	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Revenue	35.3	38.1	8.7	8.7	9.5	10.9	37.9	37.0	36.2
Taxes	20.6	20.0	4.5	4.7	5.7	6.9	21.8	22.3	22.5
Taxes on income, profits, and capital gains	4.9	5.1	1.1	1.2	1.4	2.1	5.9	5.9	6.0
Payable by individuals	2.1	2.2	0.5	0.5	0.7	1.0	2.7	3.1	3.2
Payable by corporations and other enterprises	2.2	2.3	0.5	0.6	0.6	1.1	2.8	2.5	2.4
Other income taxes	0.6	0.6	0.1	0.1	0.1	0.0	0.4	0.3	0.3
Taxes on property	0.6	0.5	0.1	0.1	0.1	0.2	0.5	0.5	0.5
Taxes on goods and services	11.5	11.4	2.5	2.9	3.3	3.8	12.4	12.7	12.8
General taxes on goods and services	10.0	9.6	2.1	2.4	2.7	3.0	10.2	10.6	10.6
Value-added taxes	8.2	7.8	1.7	2.0	2.2	2.5	8.3	8.5	8.6
Turnover and other taxes on goods and service	1.8	1.8	0.0	0.0	0.0	0.0	1.9	2.1	2.1
Excises	1.6	1.8	0.4	0.4	0.6	0.8	2.2	2.1	2.2
Taxes on international trade and transactions	3.4	2.3	0.6	0.4	0.8	0.7	2.6	2.8	2.8
Other Taxes	0.2	0.6	0.0	0.1	0.1	0.2	0.4	0.4	0.4
Social contributions	5.5	5.7	1.2	1.4	1.3	1.6	5.6	5.3	5.4
Grants	3.3	4.1	1.1	1.1	1.2	2.1	5.5	5.0	4.0
Program grants	2.8	1.6	0.5	0.0	0.0	0.7	1.2	1.5	1.0
Project grants 1/	0.4	2.5	0.6	1.1	1.2	1.5	4.3	3.5	2.9
Other revenue	5.9	8.3	1.9	1.5	1.3	0.3	5.0	4.5	4.4
Expense	29.7	30.6	6.6	8.2	7.1	9.0	30.9	29.5	28.5
Compensation of employees	8.8	9.4	1.9	3.0	2.2	3.1	10.1	8.9	8.2
Wages and salaries	7.8	8.3	1.7	2.6	1.9	2.7	9.0	7.9	7.3
Social contributions	1.0	1.1	0.2	0.3	0.3	0.4	1.2	1.0	1.0
Purchases/use of goods and services	7.2	7.2	1.3	1.8	1.7	2.4	7.2	7.1	6.8
Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.9	0.9	0.3	0.3	0.3	0.3	1.4	1.1	1.0
Foreign interest	0.6	0.6	0.2	0.2	0.2	0.2	0.9	0.9	0.9
Domestic interest	0.3	0.3	0.1	0.1	0.1	0.1	0.4	0.1	0.1
Subsidies	0.8	0.8	0.2	0.1	0.1	0.0	0.4	0.5	0.5
To public corporations	0.8	0.8	0.2	0.1	0.1	0.0	0.4	0.5	0.5
To private entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1
To other general government units	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	11.8	12.2	2.7	3.0	2.8	3.2	11.7	11.9	11.9
Social assistance	2.5	2.6	0.6	0.7	0.5	0.7	2.4	2.7	2.6
Social security benefits	9.4	9.6	2.2	2.3	2.3	2.5	9.3	9.2	9.3
Other Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance	5.7	7.5	2.2	0.5	2.3	1.9	6.9	7.5	7.7
Net acquisition of nonfinancial assets	4.7	8.7	1.7	3.6	3.1	3.0	11.4	9.9	8.2
Acquisition of nonfinancial assets	4.7	8.7	1.7	3.6	3.1	3.0	11.5	10.0	8.2
Domestically financed	2.2	4.3	0.3	1.2	0.8	0.4	2.7	3.0	3.0
Foreign financed 1/	2.5	4.4	1.4	2.4	2.3	2.5	8.7	6.9	5.1
Disposals of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing	1.0	-1.2	0.5	-3.1	-0.8	-1.1	-4.5	-2.4	-0.4
Net acquisition of financial assets	7.5	1.2	1.3	-1.6	1.5	1.1	2.6	2.2	2.0
Domestic	7.5	1.2	1.3	-1.6	1.5	1.1	2.6	2.2	2.0
Currency and deposits	2.8	-0.9	1.1	-2.2	0.0	-0.5	-1.7	-0.5	-0.2
Loans	4.7	2.0	0.3	0.7	1.6	1.5	4.2	2.7	2.3
Sales of equity (privatization proceeds)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	5.7	2.9	0.4	1.5	2.3	2.6	6.9	4.5	2.5
Domestic	-0.4	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	6.1	3.1	0.3	1.6	2.4	2.6	6.9	4.5	2.5
Program loans	0.9	0.4	0.0	0.2	0.0	0.5	0.8	0.7	0.2
Public investment program loans	6.0	3.7	0.9	1.9	2.9	2.8	8.4	6.1	4.5
Amortization	-0.7	-1.1	-0.6	-0.6	-0.6	-0.6	-2.3	-2.2	-2.3

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Including grants in-kind from EEU accession.

Table 7. Kyrgyz Republic: Selected Financial Soundness Indicators, 2014–16

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Jan-16	Feb-16
Capital Adequacy										
Regulatory capital to risk weighted assets	23.9	22.1	22.5	21.8	20.7	20.9	21.5	22.4	22.6	23.5
Tier 1 capital to risk weighted assets	20.6	18.2	17.7	16.4	17.8	17.6	17.4	18.1	20.4	21.1
Capital to total assets	16.9	16.3	16.7	16.2	15.4	15.7	15.7	15.6	16.1	16.3
Liquidity										
Liquidity ratio	67.3	56.8	55.1	65.1	67.5	64.7	70.5	77.8	80.7	83.8
Excess reserves/total reserves	16.0	7.4	7.3	8.3	4.2	20.5	7.2	3.2	10.4	9.3
Asset quality										
Nonperforming loans/total loans	5.4	4.6	4.2	4.5	5.4	5.2	6.0	7.1	7.9	8.4
Restructured Loans	2.1	1.7	1.9	2.2	3.6	4.3	...	7.7	7.8	9.4
Prolonged Loans	3.8	3.5	3.4	3.0	2.4	2.9	...	5.0	5.0	5.9
Nonperforming loans by sector (share of total loans)										
Industry	...	...	...	0.5	0.5	0.4	...	0.6	0.6	0.7
Agriculture	...	...	...	0.2	0.3	0.5	...	0.7	0.9	1.0
Trade	...	...	...	1.7	2.3	2.3	...	3.1	3.2	3.4
Construction	...	...	...	0.7	0.7	0.3	...	0.2	0.5	0.4
Mortgage	...	...	...	0.4	0.4	0.5	...	0.8	0.9	0.9
Consumer loans	...	...	...	0.2	0.2	0.3	...	0.4	0.4	0.5
Other	...	...	...	0.8	1.0	0.9	...	1.3	1.4	1.6
Nonperforming loans by currency (share of total loans)										
Foreign currency nonperforming loans	4.1	3.5	3.1	3.4	4.1	3.8	...	5.1	5.6	5.8
Som nonperforming loans	1.3	1.1	1.1	1.1	1.3	1.5	...	2.0	2.3	2.7
Loan-loss provisioning/nonperforming loans	59.8	61.0	61.3	58.8	53.7	54.0	54.1	53.4	53.2	53.8
Nonperforming assets/total assets	2.8	2.5	2.4	2.6	3.1	3.0	3.4	3.8	4.3	4.5
Earnings and profitability										
Return on equity	15.7	16.0	18.6	18.7	15.3	11.5	13.4	10.8	-9.6	-2.2
Return on assets	2.4	2.4	2.7	2.6	2.2	1.6	1.8	1.5	-1.3	-0.3
Net interest margin	7.9	8.1	8.4	8.3	8.3	8.3	8.1	7.8	7.6	7.0
Spread	7.4	7.7	8.0	7.9	7.7	7.8	7.5	7.1	7.3	6.3
Income from services and commission fee/total income	12.0	13.1	13.9	14.0	8.1	8.7	8.0	8.3	7.4	7.0
Loans and deposits										
Loans/deposits	100.1	104.2	109.4	109.7	118.3	117.5	111.5	100.7	106.2	106.0
Loans/total assets	52.5	54.9	57.3	58.3	57.7	58.1	56.8	53.0	53.9	52.8
Foreign currency exposure										
Foreign currency exposure	780.3	1,669.8	2,218.1	1,816.0	626.0	242.4	1,704.8	-578.0	-1,299.2	-1,570.2
Loans/deposits (in foreign currency)	95.6	101.3	104.5	107.9	100.3	95.7	90.0	80.3	78.6	75.7
Share of foreign currency deposits in total deposits 1/	57.0	53.7	58.0	58.6	64.1	64.5	68.3	69.1	70.6	68.2
Share of foreign currency loans in total loans	54.4	52.2	55.4	57.6	54.3	52.6	55.2	55.1	52.2	48.7
<i>Memorandum items:</i>										
Assets to GDP	32.8	33.4	33.7	33.9	37.6	36.4	38.9	41.7	42.2	41.7
Deposits to GDP	17.2	17.6	17.7	18.0	18.3	18.0	19.8	21.9	21.4	20.8

Source: National Bank of the Kyrgyz Republic.

1/ Without deposits of banks, nonbank financial-credit institutions, and deposits of the Government of the Kyrgyz Republic.

Table 8. Kyrgyz Republic: Proposed Reviews and Disbursements Under the Three-Year Extended Credit Facility Arrangement

Availability Date	Action	Associated Disbursement	Share of Access (In percent)
On April 8, 2015	First disbursement based on approval of the three-year ECF arrangement.	SDR 9.514 million	14.3
On October 7, 2015	Second disbursement based on completion of the first review.	SDR 9.514 million	14.3
On April 6, 2016	Third disbursement based on completion of the second review.	SDR 9.514 million	14.3
On October 5, 2016	Fourth disbursement based on completion of the third review.	SDR 9.514 million	14.3
On April 4, 2017	Fifth disbursement based on completion of the fourth review.	SDR 9.514 million	14.3
On October 3, 2017	Sixth disbursement based on completion of the fifth review.	SDR 9.514 million	14.3
On April 2, 2018	Seventh disbursement based on completion of the sixth review.	SDR 9.516 million	14.3
Total		SDR 66.600 million	100.0

Source: International Monetary Fund.

Table 9. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2016–21 1/

	2016	2017	2018	2019	2020	2021
Fund obligations based on existing credit (In millions of SDRs)						
Principal	15.0	18.3	20.7	17.5	18.7	16.2
Charges and interest	0.0	0.0	0.0	0.2	0.1	0.1
Fund obligations based on existing and prospective credit (In millions of SDRs)						
Principal	15.0	18.3	20.7	17.5	18.7	17.1
Charges and interest	0.0	0.0	0.0	0.3	0.3	0.2
Total obligations based on existing and prospective credit						
In millions of SDRs	15.0	18.3	20.7	17.8	19.0	17.4
In millions of U.S. dollars	20.9	25.6	29.0	25.0	26.7	24.4
In percent of gross international reserves	1.3	1.6	1.7	1.4	1.3	1.1
In percent of exports of goods and services	0.8	1.0	1.0	0.8	0.8	0.6
In percent of debt service 2/	11.4	13.2	13.2	10.4	10.5	9.0
In percent of GDP	0.4	0.4	0.4	0.3	0.3	0.3
In percent of quota	16.9	20.6	23.3	20.1	21.4	19.5
Outstanding Fund credit 2/						
In millions of SDRs	139.9	140.6	129.5	112.0	93.2	76.1
In billions of U.S. dollars	0.2	0.2	0.2	0.2	0.1	0.1
In percent of gross international reserves	12.1	12.0	10.4	8.5	6.3	4.7
In percent of exports of goods and services	7.7	7.4	6.2	4.9	3.7	2.8
In percent of debt service 2/	106.8	101.5	82.8	65.2	51.5	39.3
In percent of GDP	3.3	3.1	2.6	2.1	1.6	1.3
In percent of quota	157.5	158.4	145.8	126.1	105.0	85.7
Net use of Fund credit (in millions of SDRs)	4.1	0.8	-11.2	-17.5	-18.7	-17.1
Disbursements	19.0	19.0	9.5	-	-	-
Repayments and Repurchases	15.0	18.3	20.7	17.5	18.7	17.1
<i>Memorandum items:</i>						
Nominal GDP (in millions of U.S. dollars)	5,882	6,354	6,901	7,410	7,987	8,512
Exports of goods and services (in millions of U.S. dollars)	2,539	2,645	2,920	3,201	3,554	3,811
Gross International Reserves (in millions of U.S. dollars)	1,621	1,638	1,740	1,854	2,085	2,260
Debt service (in millions of U.S. dollars) 2/	183.1	193.9	219.1	241.3	254.9	272.4
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 April 2015. PRGT interest waived through end-2016. RCF interest set at zero percent and no longer subject to biannual Board reviews. The following rates are assumed beyond 2016: projected interest charges between 2017 and 2018 are based on 0/0.25/0.25 percent per annum for the ECF, SCF, and ESF, respectively, and beyond 2018 0.25/0.5/0.25 percent per annum.

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

Table 10. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, December 2015–December 2016

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

	2015				2016						
	December QPC				March IT				June QPC	September IT	December QPC
	CR16/55	Adj.	Actual	Status	CR16/55	Adj.	Actual	Status			
<i>Quantitative performance criteria 1/</i>											
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,103	1,086	1,230	Met	948	1,064	1,375	Met	1,235	1,164	1,110
2. Ceiling on net domestic assets of the NBKR (eop stock)	-24,195	-21,313	-27,174	Met	-20,222	-20,187	-34,797	Met	-22,625	-23,688	-18,523
3. Ceiling on cumulative overall deficit of the general government 2/	15,304	8,195	4,950	Met	12,134	13,795	-2,077	Met	12,108	15,602	20,492
4. Present value of new external debt contracted or guaranteed (continuous, in millions of U.S. dollars)	65		0	Met	226		134	Met	220	220	220
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0		0	Met	0		0	Met	0	0	0
<i>Indicative Targets 1/</i>											
1. Ceiling on reserve money	69,145		67,055	Met	68,256		66,163	Met	75,915	74,213	76,092
2. Cumulative floor on state government tax collections 2/	87,009		84,655	Not met	19,639		20,330	Met	41,739	67,862	99,153
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	4,412		4,925	Met	1,189		1,368	Met	2,377	3,615	5,417
4. Ceiling on contracted or guaranteed of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	30		0	Met	0		0	Met	0	0	0

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.

Table 11. Kyrgyz Republic: Prior Action and Structural Benchmarks Under the Extended Credit Facility

Measures	Timing	Status
Prior Action		
Finalize the audit of DEBRA and banks under its management.	5 business days prior to the Board meeting	
Structural Benchmarks		
I. FISCAL POLICY		
Undertake a review of the public investment framework in cooperation with development partners and line ministries to identify gaps and then define an action plan.	End-April, 2016	Met
Draw an action plan for the reform of public sector personnel and remuneration policy to reduce the wage bill as a share of GDP.	End-May, 2016	
Revise the MDTs in light of the outcome of the new DSA.	End-July, 2016	
Conduct a review of all subsidies and draw up an action plan to reduce them.	End-September, 2016	
Sign a Memorandum of Co-operation with TIKA, the Turkish Cooperation and Coordination Agency, to develop new Financial Management Information System.	End-June, 2016	Met
Review the methodology for setting power tariffs to ensure economic soundness and adjust accordingly the roadmap for increasing tariffs.	End-June, 2016	Met
Set up a comprehensive register of all employees of the general government.	End-March 2017	New
Modify through government decree the decision making process for the selection of public investment projects by formalizing gate keeping roles of the MoE on evaluation, including economic assessment and project efficiency, and MoF on financing respectively. The PIP guidelines will be updated accordingly.	End-December 2016	New
Sign the FMIS terms of reference	End-February 2017	New
Introduce a standardized framework for project monitoring of physical and financial performance for all projects exceeding KGS 50 million.	End-June 2017	New
II. FINANCIAL SECTOR		
Resubmit to Parliament amendments to the code for administrative responsibility aimed at increasing penalties for unlicensed foreign exchange activity.	End-February, 2016	Met
Submit a new draft AML/CFT law that reflects all the recommendations provided by the Fund as well as other donors to the new parliament.	End-April, 2016	Broadly implemented
Finalize the audit of DEBRA and banks under its management.	End-March, 2016	Not met
Develop a crisis preparedness framework, including establishing a high-level financial stability council comprised of representatives of the NBKR, DPA, ministry of finance, and prime minister's office.	End-September 2016	
Enact and publish in the Official Gazette ("Erkin-Too") the banking law and the supporting law on "enactment of the banking law".	End-September 2016	
DEBRA to submit to the courts requests for liquidating the following banks: "Bishkek", "Mercury", "Kurulush-bank", and "Adil" banks.	End-September, 2016	New
DEBRA to submit to the courts requests for liquidating the following banks: "Kyrgyzzagroprombank" banks, "Manas", "Issyk-Kul", and "AUB" banks.	End-March, 2017	New
Develop a strategic plan for supervision with the following components: (i) personnel policy to attract and retain qualified personnel, and decrease personnel turnover rate; (ii) training of supervisors to ensure that staff is familiar with the NBKR's supervisory approach and to improve their technical ability; (iii) enhancing the supervisory approach, including implementation of the risk based supervision; and (iv) strengthening the current regulatory framework and bring it line with international standards.	End-December 2016	New

Table 12 a. Kyrgyz Republic: Actual Borrowing Program
(December 4–31, 2015)

PPG external debt	Volume of new debt in 2015	PV of new debt in 2015 (program)	PV of new debt in 2015 (including negative GEs)
	USD million	USD million	USD million
Sources of debt financing	0.0	0.0	0.0
Concessional debt, of which	0.0	0.0	0.0
Multilateral debt	0.0	0.0	0.0
Bilateral debt	0.0	0.0	0.0
Other	0.0	0.0	0.0
Non-concessional debt, of which	0.0	0.0	0.0
Semi-concessional	0.0	0.0	0.0
Commercial terms	0.0	0.0	0.0
By Creditor Type	0.0	0.0	0.0
Multilateral	0.0	0.0	0.0
Bilateral - Paris Club	0.0	0.0	0.0
Bilateral - Non-Paris Club	0.0	0.0	0.0
Other	0.0	0.0	0.0
Uses of debt financing	0.0	0.0	0.0
Infrastructure	0.0	0.0	0.0
Social Spending	0.0	0.0	0.0
Budget Financing	0.0	0.0	0.0
Other	0.0	0.0	0.0

Table 12 b. Kyrgyz Republic: Type of New External Debt
(In millions of U.S. dollars, December 4–31, 2015)

By the type of interest rate

Fixed Interest Rate	0.0
Variable Interest Rate	0.0
Unconventional Loans	0.0

By currency

USD denominated loans	0.0
Loans denominated in other currency	0.0

Table 12 c. Kyrgyz Republic: Actual Borrowing Program
(January 1–March 31, 2016)

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)		PV of new debt in 2016 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	220.7	100	133.5	100	133.5	100
Concessional debt, of which	220.7	100	133.5	100	133.5	100
Multilateral debt	113.1	51	69.7	52	69.7	52
Bilateral debt	107.6	49	63.8	48	63.8	48
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	0.0	0	0.0	0	0.0	0
Semi-concessional	0.0	0	0.0	0	0.0	0
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	220.7	100	133.5	100	133.5	100
Multilateral	113.1	51	69.7	52	69.7	52
Bilateral - Paris Club	107.6	49	63.8	48	63.8	48
Bilateral - Non-Paris Club	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	220.7	100	133.5	100	133.5	100
Infrastructure	220.7	100	133.5	100	133.5	100
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0	0.0	0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items						
<i>Indicative projections</i>						
Year 2	0.0		0.0		0.0	
Year 3	0.0		0.0		0.0	

Table 12 d. Kyrgyz Republic: Type of New External Debt
(In millions of U.S. dollars, January 1–March 31, 2016)

By the type of interest rate	
Fixed Interest Rate	214.2
Variable Interest Rate	6.5
Unconventional Loans	0.0
By currency	
USD denominated loans	100.0
Loans denominated in other currency	120.7

Table 12 e. Kyrgyz Republic: Projected External Borrowing Program
(January 1–December 31, 2016)

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)		PV of new debt in 2016 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	416.8	100	219.8	100	219.8	100
Concessional debt, of which	415.0	100	218.6	99	218.6	99
Multilateral debt	307.3	74	154.8	70	154.8	70
Bilateral debt	107.6	26	63.8	29	63.8	29
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	1.8	0	1.2	1	1.2	1
Semi-concessional	1.8	0	1.2	1	1.2	1
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	416.8	100	219.8	100	219.8	100
Multilateral	309.1	74	156.0	71	156.0	71
Bilateral - Paris Club	107.6	26	63.8	29	63.8	29
Bilateral - Non-Paris Club	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	416.8	100	219.8	100	219.8	100
Infrastructure	416.8	100	219.8	100	219.8	100
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0	0.0	0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items						
<i>Indicative projections</i>						
Year 2	0.0		0.0		0.0	
Year 3	0.0		0.0		0.0	

Table 12 f. Kyrgyz Republic: Type of the New External Debt
(In millions of U.S. dollars, January 1–December 31, 2016)

By the type of interest rate

Fixed Interest Rate	404.1
Variable Interest Rate	12.7
Unconventional Loans	0.0

By currency

USD denominated loans	165.5
Loans denominated in other currency	251.3

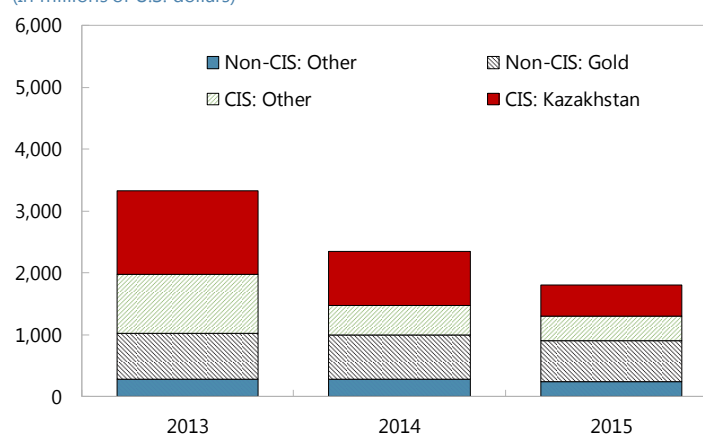
Annex I. Kyrgyz Republic: Current Account Trends

Despite a weakening external demand, the current account deficit of the Kyrgyz Republic narrowed significantly in 2015, roughly halving from 2014. The key drivers were lower oil prices, temporary pre-EEU accession pilling up of car imports and weak domestic demand, partly due to delays in public investment projects. Over the near term, the current account is expected to revert to historical trends.

Export values continued to decline in 2015, hampered by weak regional demand and administrative hurdles imposed by EEU regulations. Exports dropped by 23 percent last year and stood at roughly half of their value in 2013. The decline was almost exclusively driven by regional trends, as non-CIS exports (mainly gold) remained constant in value terms in the last two years. While in 2014 the decline in Kyrgyz exports was uniform across CIS trading partners, reflecting a broad-based weakening in regional demand, last year's drop was confined to Kazakhstan, as abolition of simplified customs procedures in the Kyrgyz Republic following the EEU entry resulted in a fall in Kyrgyz re-exports to Kazakhstan. Anecdotal evidence also suggests that Kyrgyz agricultural exports to Kazakhstan are subject to rising nontariff barriers.

Exports

(In millions of U.S. dollars)



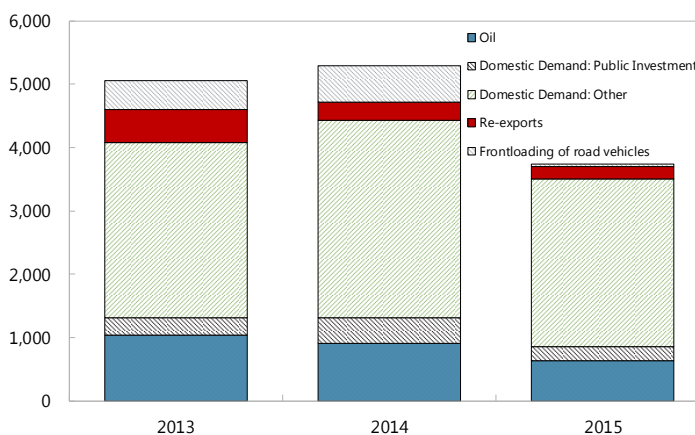
Source: NBKR data.

Remittances, which are almost as sizeable as exports, dropped by 25 percent in U.S. dollar terms in 2015, but are starting to recover. The decline was driven by the depreciation of the ruble, the dominant currency of remittances invoicing, vis-à-vis the dollar. In ruble terms, remittances increased by 19 percent, showing a remarkable resilience to the contraction of the Russian economy. The number of registered Kyrgyz workers in Russia increased by 10 percent between October 2015 and April 2016, during a period when the number of foreign workforce including those from other EEU countries dropped by 7 percent in total. This data suggest that the Kyrgyz Republic is a main beneficiary of the more favorable treatment of migrant workers under EEU rules.

The fall in imports far outpaced the reduction in exports and remittances. Imports have dropped by 30 percent, driven by both external and domestic factors. Weak domestic demand and delays in high-import content public investment program (PIP) contained import demand in 2015. Lower oil prices contributed to a 31 percent fall in oil imports. In addition, the entry into the EEU has also dampened imports via a number of channels. First, higher effective tariffs shifted demand from imported goods to cheaper domestic substitutes. Second, as re-exports are now diverted directly through Kazakhstan, imports of goods for re-export have also declined. Finally, while the expectations for an increase in tariffs propelled the import of passenger cars in 2014 to more than 100,000 cars equivalent to US\$585 million, imports came to an almost complete standstill following the EEU entry in 2015. While the impact of this frontloading is likely to be temporary, it may take some time for large inventories to unwind and the volume of imports to fully recover.

Imports

(In millions of U.S. dollars)



Sources: NBKR data and staff estimates.

* Import content of domestic demand and PIPs assumed at 0.4 and 0.9 respectively.

Looking ahead, the current account deficit is expected to widen again to historical trends as import growth accelerates and outpaces both exports and remittances. Imports will be supported by strong public investments in the next couple of years and the unwinding of car inventories. Export growth, on the other hand, remains largely dependent on the gradual recovery in regional demand and the reduction of administrative and nontariff barriers in the EEU. However, as PIP slows down, the current account is expected to gradually narrow over the medium term.

Annex II. Kyrgyz Republic: Debt Sustainability Analysis Update¹

The significant depreciation of the som at end-2015 contributed to a further increase in the external debt burden of the Kyrgyz Republic. The public and publicly guaranteed external debt is estimated to slightly exceed 36 percent of GDP and remittances² in present value (PV) terms in the next two years, implying that while the Kyrgyz Republic is still at moderate risk of debt distress, it is getting closer to the ultimate threshold of high risk of debt distress. In order to avoid debt being assessed in high risk of debt distress and the ensuing decline in concessional donor funding, the authorities need to remain extremely cautious when contracting and guaranteeing new debt and should resume fiscal consolidation this year without any delays. The authorities broadly concurred with the results of this DSA.

Background

1. The external public debt of the Kyrgyz Republic increased rapidly since 2013, propelled by large scale public investment.³ Starting from just 44 percent of GDP two years ago, external debt reached 64.6 percent of GDP by end-2015. The acceleration of debt accumulation at the end of last year was mainly driven by the significant depreciation of the som vis-à-vis the U.S. dollar and the weaker than expected nominal GDP growth. At the same time, the delays in PIP disbursements, mainly due to delays in Chinese projects, contained the accumulation of external debt. Looking forward, the external public debt to GDP ratio is expected to rise further to above 70 percent of GDP in the next two years, and gradually decline afterwards dropping below 60 percent of GDP by 2021.

Underlying DSA assumptions

¹ Prepared by the staff of the International Monetary Fund and the International Development Association. Approved by Juha Kähkönen, Masato Miyazaki (IMF), and Satu Kähkönen (IDA).

² The Kyrgyz Republic is classified as a large remittances case. In the 2013–15 period remittances averaged 27 percent of GDP and 78 percent of exports of goods and services, well above the 10 percent and 20 percent respective threshold-criteria for the large remittances case.

³ External public and publicly-guaranteed debt, which includes the debt of 19 largest SOEs, accounted for 97 percent of public debt in 2015.

Text Table AII.1. Kyrgyz Republic: Composition of External Public and Publicly-Guaranteed Debt in 2015

Creditor	In millions of USD	In percent of total external debt	In percent of GDP
Multilaterals	1,532	42.5	27.45
IMF	188	5.2	3.37
IDA	639	17.7	11.45
ADB	576	16.0	10.32
Other Multilateral	128	3.6	2.30
Official Bilaterals	2,057	57.0	36.9
Paris club	739	20.5	13.2
Non-Paris Club	1,318	36.6	23.6
Eximbank of China	1,296	35.9	23.2
Others Non-Paris Club	22	0.6	0.4
Commercial	17	0.5	0.3
TOTAL	3,606	100.0	64.6

Sources: Authorities data and IMF staff calculations.

2. In 2015, the Kyrgyz economy proved to be more resilient to external economic shocks compared to peer regional countries. Economic growth remained strong, while the fiscal deficit declined, largely due to one-off revenues and an underperformance in the PIP program. Total loan disbursements (including PIP and support loans) that were supposed to reach about US\$360 and US\$660 million in 2015 and 2016, respectively, were revised down to US\$265 and US\$539 million. Despite the weak external environment, the current account deficit narrowed, partly due to the weaker exchange rate and lower oil prices, but also due to reduced import demand under higher EEU tariffs and frontloading of import purchases in 2014.

Box AII.1. Kyrgyz Republic: Macroeconomic Assumptions for 2015–35

GDP growth: Against the backdrop of strong external headwinds, GDP growth is expected to bottom out in 2016, but recover gradually in the following years and each its potential estimated at 5 percent by 2020.

Growth in the medium to long run will be supported by public investments in infrastructure and energy and intensified trade relations within the EEU.

Inflation is expected to remain low by historical standards due to subdued energy and food prices and prudent monetary policy and converge to 4 percent in the long run.

The current account deficit dropped to 10.4 percent in 2015, mainly driven by lower oil prices, slightly weaker domestic demand, and the temporary adverse impact of EEU accession on imports (frontloading of imports in 2014). The current account is expected to widen in the near term, in line with the depletion of imported goods inventories and the pick-up in public investment programs. After the unwinding of these programs the current account is expected to stabilize around 10 percent in the medium to long run.

Box AII.1. Kyrgyz Republic: Macroeconomic Assumptions for 2015–35(concluded)

Public investments will be a major source of economic growth in the coming years. PIP disbursements will reach 8.5 percent of GDP in 2016, and gradually decline to around 4 percent in the medium run. Public investments, which predominantly infrastructure and energy projects financed by China, are also expected to increase net FDI to above 8 percent in 2016. In the long run FDI should stabilize at 6 percent of GDP.

The overall fiscal deficit is expected to rise to close to 9 percent this year driven by elevated capital spending. Following the unwinding of large public investment projects the fiscal balance should stabilize gradually at around 1 percent in the long run.

Financing: FDI and concessional borrowing remains the main source of financing for public infrastructure investments. The average grant element of external borrowing is projected to remain above 40 percent in the medium run, but gradually decline to 20 percent by the end of the period. The effective interest rate is expected to remain below 2 percent in the next five years, but converge towards the market rate by the end of the forecast period.

Text Table AII.2. Kyrgyz Republic: Selected Indicators 2015–20

	2015	2016	2017	2018	2019	2020
Real GDP growth						
Current DSA	3.5	3.0	3.0	5.2	4.6	5.7
Previous DSA (First Review)	2.4	3.6	3.1	5.3	5.2	6.0
Overall fiscal balance (percent of GDP)*						
Current DSA	-3.2	-8.8	-5.2	-2.8	-2.0	-0.5
Previous DSA (First Review)	-5.4	-9.1	-4.1	-1.1	0.6	1.3
Current account balance (percent of GDP)						
Current DSA	-10.4	-15.2	-15.3	-12.6	-12.2	-10.1
Previous DSA (First Review)	-16.0	-17.3	-14.9	-14.1	-13.1	-11.4
PIP Disbursements						
Current DSA	249	497	385	310	312	298
Previous DSA (First Review)	344	618	506	431	384	374
Exchange rate (year end)						
Current DSA	75.9	78.9	80.5	82.1	83.8	85.4
Previous DSA (First Review)	71.5	72.9	74.4	75.9	77.4	78.9

*Including onlending

Sources: Authorities data and IMF staff calculations

External DSA

3. The debt outlook is deteriorating and remains vulnerable to large external shocks. The recent depreciation of the national currency has further increased the risks of external debt distress. The ratio of present value of the public and publicly guaranteed (PPG) debt to GDP and remittances is in small breach of the 36 percent threshold in 2016 and 2017, but still within the +/- 5 percent confidence band. While the probability approach indicates that the risk rating changed to high-medium from medium-high in the first review,⁴ it shows no breach of the PV debt to GDP and remittances threshold.⁵ Thus the overall risk rating of Kyrgyz's external debt remains moderate risk of debt distress. The alternative measures of debt sustainability are below their indicative thresholds suggesting that liquidity risks remain limited.

4. The external PPG debt outlook remains vulnerable to large shocks, in particular to a further depreciation of the exchange rate. The PV of the debt to GDP and remittances ratio raises above the relevant indicative thresholds over the medium term under all stress test scenarios (see Table AII.2). In particular, a one-time 30 percent depreciation of the som vis-à-vis the U.S. dollar, which is not unprecedented given the magnitude of the 2015 depreciation, would significantly elevate the debt ratio and result in a high risk of debt distress rating for the next five years.

Text Table AII.3. Kyrgyz Republic: Comparison of Debt Ratios

	2015	2016	2017	2018	2019	2020	Long Term (2025)
PPGE debt to GDP ratio							
Current DSA	64.6	70.2	69.6	67.0	64.8	61.4	47.5
Previous DSA (First Review)	63.0	65.3	66.1	64.7	63.6	62.7	50.8
Public debt to GDP ratio							
Current DSA	66.5	72.0	71.2	68.5	66.1	62.6	57.7
Previous DSA (First Review)	64.9	66.9	67.6	66.1	64.9	63.8	64.6

Sources: Authorities data and IMF staff calculations.

Public DSA

5. The public debt outlook has also deteriorated compared to the previous DSA, mainly driven by the increase in external public debt following the depreciation of the som. Public debt reached 66.5 percent of GDP in 2015 and is expected to increase further to above 71 percent in 2016–17 as a result of planned disbursements for public infrastructure projects. Total public debt is

⁴ A borderline high/moderate case is one where stress tests result in one or more breaches, and there is a small breach (i.e., within the band) of the threshold in the baseline scenario. In the case of the Kyrgyz Republic this requires that the ratio of present value of debt to GDP and remittances falls between 36 and 37.8 percent. A borderline moderate/high case is where one or more stress tests indicate a breach, and the threshold is nearly breached in the baseline scenario (i.e., the ratio is between 34.2 and 36 percent).

⁵ Under the probability approach the indicative threshold is based on country specific CPIA and GDP growth information.

expected to be manageable in the medium and long term, but remains highly sensitive to shocks that reduce real GDP growth or a failure to reduce the primary deficit over the medium term.

Conclusion

6. The 2016 joint Bank-Fund debt sustainability analysis (DSA) suggests that debt sustainability in the Kyrgyz Republic has further deteriorated compared to the last November DSA.⁶ The Kyrgyz Republic is now a high-moderate borderline case, very close to its debt being rated at high risk of debt distress. A DSA assessment of high risk of debt distress would automatically reduce the availability of both concessional and nonconcessional resources,⁷ and thus should be avoided. Given the persistently weak external environment and high exchange rate volatility, the borrowing space has also become extremely limited.

7. Against this background, the authorities need to remain extremely cautious when contracting and guaranteeing new debt and should resume fiscal consolidation this year without any delays. In 2016, the primary fiscal deficit is expected to be some 5 percentage points higher than the debt-stabilizing level, implying contributing to a further 5.5 percentage points increase in the public debt ratio by end 2016. In this context, it is important that the new debt limit legislation, which would allow revisions to the debt limit on an annual basis, would not be used to soften up borrowing constraints. Further efforts are needed to strengthen public debt management, in order to ensure that potential gains from externally financed public investment projects are fully utilized.

8. The authorities broadly concurred with the results of this DSA. They stressed, however, that the recent rapid debt accumulation was mainly driven by exchange rate volatility, a factor beyond their control. They argued that large scale external borrowing was necessary to the country's economic development and considered that the current debt level was sustainable to the extent that public investment projects were successful in increasing the economy's debt servicing capacity. The authorities remained committed to refrain from nonconcessional borrowing and agreed to remain prudent when contracting concessional debt.

⁶ Country Report No 15/131.

⁷ If assessed to be at high risk of debt distress, the current IT on zero nonconcessional borrowing would be elevated to a PC and the PC on new external debt on PV terms would be quantified in nominal terms. Financing by the WB and ADB would be restricted to grant financing and based on the "modified volume approach" a 20 percent upfront volume discount would be applied on the overall grant allocation.

Table AII.1. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2016–36^{1/}

(In percent of GDP; unless otherwise indicated)

	Actual			Historical Average ^{4/}	Standard Deviation ^{4/}	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average		2026	2036	2022-2036 Average
External debt (nominal) 1/	72.9	80.5	99.0			109.1	104.6	98.8	94.5	89.4	83.9			65.7	45.2
<i>of which: public and publicly guaranteed (PPG)</i>	43.7	50.6	64.6			70.2	69.6	67.0	64.8	61.4	57.2			44.8	32.2
Change in external debt	-7.3	7.6	18.5			10.1	-4.5	-5.8	-4.3	-5.1	-5.5			-3.9	-1.3
Identified net debt-creating flows	-15.4	11.9	9.7			3.4	5.0	0.4	0.9	-1.7	-0.5			-0.1	-1.4
Non-interest current account deficit	0.2	16.8	9.4	4.4	6.8	12.6	13.8	11.9	11.1	8.0	7.7			7.1	4.1
Deficit in balance of goods and services	26.5	43.8	30.6			37.8	38.6	35.4	31.7	27.6	27.4			24.2	17.4
Exports	57.7	43.5	39.8			43.2	41.6	42.3	43.2	44.5	44.8			50.9	62.6
Imports	84.2	87.4	70.4			81.0	80.2	77.7	74.9	72.1	72.2			75.1	80.0
Net current transfers (negative = inflow)	-31.1	-30.2	-24.3	-28.5	2.4	-27.4	-26.7	-25.2	-24.1	-22.3	-21.9			-19.2	-14.3
<i>of which: official</i>	-1.7	-2.8	-1.6			-1.2	-1.4	-1.0	-0.6	0.0	0.0			0.0	0.0
Other current account flows (negative = net inflow)	4.8	3.1	3.1			2.2	1.9	1.8	3.5	2.8	2.2			2.1	0.9
Net FDI (negative = inflow)	-8.5	-4.7	-10.6	-7.2	2.6	-8.7	-7.3	-7.1	-7.1	-6.8	-6.6			-5.4	-4.9
Endogenous debt dynamics 2/	-7.0	-0.2	10.9			-0.5	-1.5	-4.3	-3.1	-2.9	-1.7			-1.8	-0.6
Contribution from nominal interest rate	1.0	1.1	1.1			2.9	1.5	0.7	1.2	2.1	2.1			2.0	1.6
Contribution from real GDP growth	-7.6	-2.6	-3.1			-3.4	-3.0	-5.1	-4.2	-5.0	-3.8			-3.7	-2.2
Contribution from price and exchange rate changes	-0.4	1.3	13.0			...	...	...	...	...	...			...	...
Residual (3-4) 3/	8.0	-4.3	8.8			6.7	-9.5	-6.2	-5.2	-3.4	-4.9			-3.8	0.1
<i>of which: exceptional financing</i>	0.0	0.0	0.0			-0.5	-0.5	-0.4	-0.4	-0.4	-0.4			0.0	0.0
PV of external debt 4/	...	...	75.7			84.4	80.6	76.2	73.0	69.4	65.7			51.8	34.7
In percent of exports	...	...	190.1			195.6	193.7	180.1	169.0	155.9	146.8			101.8	55.4
PV of PPG external debt	...	...	41.4			45.6	45.6	44.4	43.3	41.4	39.1			30.9	21.7
In percent of exports	...	...	103.9			105.7	109.6	105.0	100.3	93.1	87.2			60.7	34.6
In percent of government revenues	...	...	121.6			141.0	142.3	137.9	129.6	122.6	113.8			92.1	68.7
Debt service-to-exports ratio (in percent)	17.7	15.7	16.9			24.5	21.0	17.5	17.4	18.7	18.6			16.4	9.2
PPG debt service-to-exports ratio (in percent)	6.8	3.6	4.9			5.9	6.1	6.4	6.6	6.4	6.5			6.6	4.5
PPG debt service-to-revenue ratio (in percent)	12.3	4.9	5.8			7.9	7.9	8.4	8.5	8.4	8.5			10.0	9.0
Total gross financing need (Billions of U.S. dollars)	0.2	1.4	0.4			0.9	1.0	0.8	0.9	0.8	0.8			1.2	1.2
Non-interest current account deficit that stabilizes debt ratio	7.5	9.2	-9.1			2.5	18.4	17.7	15.4	13.1	13.2			11.0	5.4
Key macroeconomic assumptions															
Real GDP growth (in percent)	10.5	3.6	3.5	4.4	3.7	3.0	3.0	5.2	4.6	5.7	4.5	4.3	5.8	5.1	5.0
GDP deflator in US dollar terms (change in percent)	0.4	-1.7	-13.9	6.7	14.0	-14.2	4.9	3.2	2.6	2.0	2.0	0.1	2.0	2.0	2.0
Effective interest rate (percent) 5/	1.3	1.5	1.2	1.1	0.2	2.6	1.4	0.7	1.3	2.4	2.5	1.8	3.0	3.7	3.3
Growth of exports of G&S (US dollar terms, in percent)	10.3	-23.2	-18.5	12.2	24.6	-4.1	4.2	10.4	9.6	11.0	7.2	6.4	12.1	8.7	9.5
Growth of imports of G&S (US dollar terms, in percent)	12.6	5.7	-28.2	16.7	30.0	1.7	7.0	5.1	3.5	3.8	6.7	4.7	8.5	7.9	7.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	35.5	37.2	37.3	36.7	47.6	43.9	39.7	36.5	23.9	32.0
Government revenues (excluding grants, in percent of GDP)	32.0	32.1	34.0	...	...	32.4	32.1	32.2	33.4	33.8	34.3	...	33.6	31.5	32.9
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.4			0.4	0.4	0.4	0.3	0.3	0.2			0.4	0.5
<i>of which: Grants</i>	0.2	0.2	0.3			0.3	0.3	0.3	0.2	0.2	0.2			0.2	0.3
<i>of which: Concessional loans</i>	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1			0.2	0.3
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			8.8	7.5	5.7	4.4	3.4	2.7			2.8	2.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			59.6	63.9	65.9	62.5	71.0	77.2			59.6	43.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	7.3	7.5	6.7			5.9	6.4	6.9	7.4	8.0	8.5			11.9	23.6
Nominal dollar GDP growth	11.0	1.8	-10.9			-11.6	8.0	8.6	7.4	7.8	6.6	4.5	7.9	7.1	7.0
PV of PPG external debt (in Billions of US dollars)	...	...	2.31			2.6	2.9	3.0	3.2	3.3	3.3			3.6	5.1
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	...			4.9	4.1	2.6	2.1	1.3	0.2	2.5	0.5	1.0	0.8
Gross workers' remittances (Billions of US dollars)	2.2	2.0	1.5			1.5	1.6	1.7	1.7	1.8	1.9			2.3	3.4
PV of PPG external debt (in percent of GDP + remittances)	...	...	33.7			36.1	36.4	35.8	35.1	33.9	32.0			25.9	18.9
PV of PPG external debt (in percent of exports + remittances)	...	...	66.1			65.7	68.2	66.8	65.0	62.0	58.6			44.1	28.2
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.1			3.7	3.8	4.1	4.3	4.3	4.4			4.8	3.7

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $(r - g - p(1+g))/(1+g+p+gp)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and p = 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.

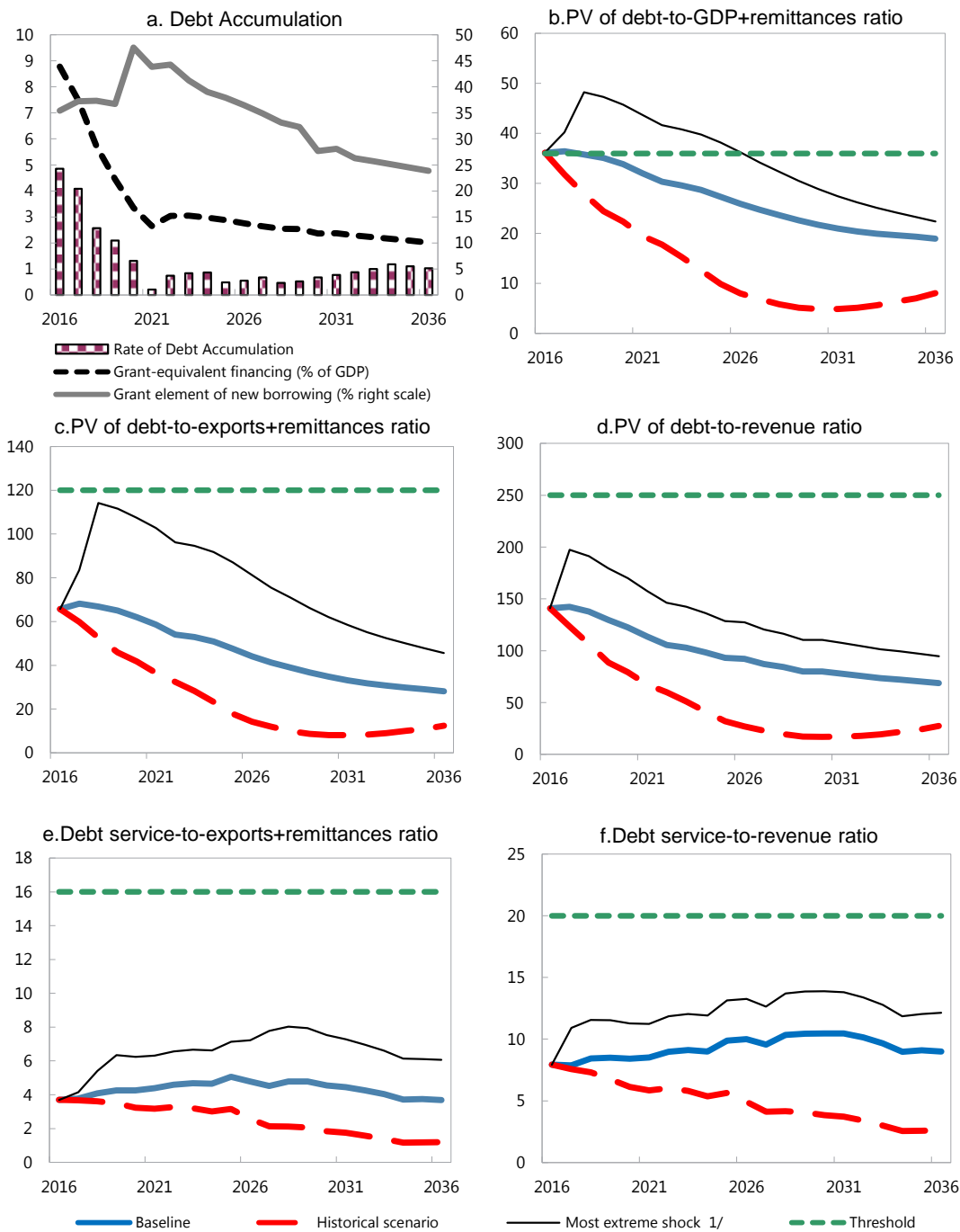
5/ Current-year interest payments divided by previous period debt stock.

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.

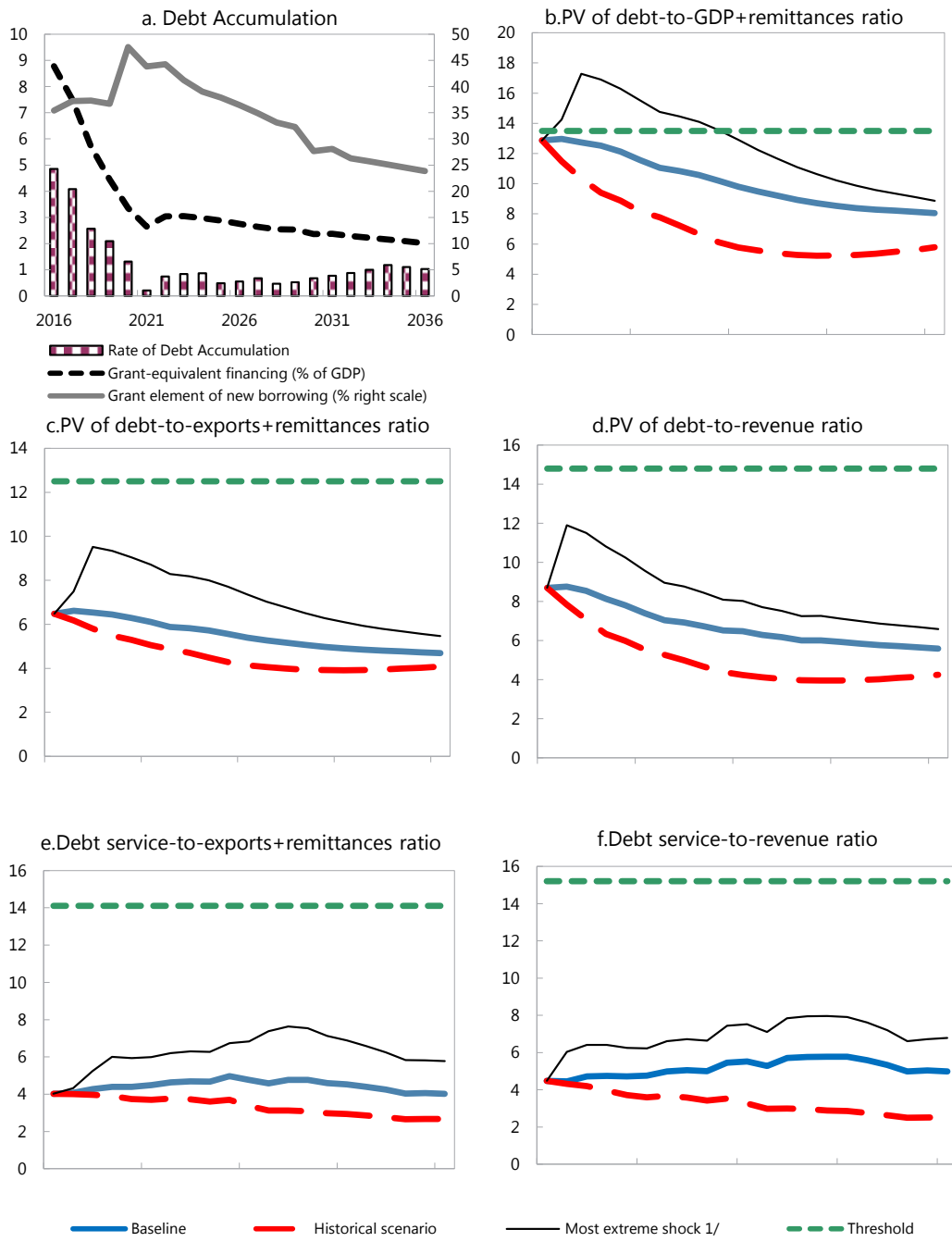
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Figure AII.1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016–36 /1



Sources: Country authorities; and staff estimates and projections.

Figure AII.2. Kyrgyz Republic: Probability of Debt Distress of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016–36 /1



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table AII.2. Kyrgyz Republic: Indicators of Public and Publicly-Guaranteed External Debt Under Alternative Scenarios, 2016–36^{1/}

	Projections							2036
	2016	2017	2018	2019	2020	2021	2026	
PV of debt-to-GDP+remittances ratio								
Baseline	36.1	36.4	35.8	35.1	33.9	32.1	26.2	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	36	32	28	24	22	20	8	8
A2. New public sector loans on less favorable terms in 2016-2036 2	36	37	37	38	37	35	32	32
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	36	37	37	37	35	34	27	20
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	36	40	48	47	46	44	37	22
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	36	40	42	42	40	38	31	23
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	36	38	38	38	36	35	28	19
B5. Combination of B1-B4 using one-half standard deviation shocks	36	40	47	45	44	42	35	23
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	36	47	46	45	44	42	34	25
PV of debt-to-exports+remittances ratio								
Baseline	66	68	67	65	62	59	45	28
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	66	60	53	46	42	37	14	13
A2. New public sector loans on less favorable terms in 2016-2036 2	66	70	70	70	67	64	54	47
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	66	68	66	64	61	58	44	28
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	66	84	114	112	108	103	82	45
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	66	68	66	64	61	58	44	28
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	66	72	71	70	67	63	48	29
B5. Combination of B1-B4 using one-half standard deviation shocks	66	74	85	82	79	75	59	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	66	68	66	64	61	58	44	28
PV of debt-to-revenue ratio								
Baseline	141	142	138	130	123	114	93	69
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	141	123	106	89	79	67	28	27
A2. New public sector loans on less favorable terms in 2016-2036 2	141	146	144	139	133	125	113	115
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	141	144	146	137	130	121	98	73
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	141	157	186	175	166	156	130	80
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	141	160	172	162	153	142	116	86
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	141	149	148	139	132	123	101	71
B5. Combination of B1-B4 using one-half standard deviation shocks	141	160	187	176	167	156	129	85
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	141	197	191	180	170	158	129	95

Table AII.2. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2016–36 (continued)^{1/}

Baseline	4	4	4	4	4	4	5	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	4	4	4	3	3	3	3	1
A2. New public sector loans on less favorable terms in 2016-2036 2	4	4	4	4	4	4	5	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	4	4	4	4	4	4	5	4
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	4	4	5	6	6	6	7	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	4	4	4	4	4	4	5	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	4	4	4	4	4	4	5	4
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	4	5	5	5	5	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	4	4	4	4	4	4	5	4
Debt service-to-revenue ratio								
Baseline	8	8	8	8	8	9	10	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	8	8	7	7	6	6	5	3
A2. New public sector loans on less favorable terms in 2016-2036 2	8	8	8	8	8	9	10	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	8	8	9	9	9	9	10	9
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	8	8	9	10	10	10	11	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	8	9	10	10	10	10	12	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	8	8	9	9	8	8	10	9
B5. Combination of B1-B4 using one-half standard deviation shocks	8	8	10	10	10	10	12	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	8	11	12	12	11	11	13	12
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	22	22	22	22	22	22	22	22

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 assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

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

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

Table AII.3. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013–36

(In percent of GDP; unless otherwise indicated)

	Actual			Average	s/	Standard Deviation	s/	Estimate					Projections			
	2013	2014	2015					2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	46.1	52.6	66.5					72.0	71.2	68.5	66.1	62.6	58.3		56.1	50.2
<i>of which: foreign-currency denominated</i>	43.7	50.6	64.6					70.2	69.6	67.0	64.8	61.4	57.2		44.8	32.2
Change in public sector debt	-2.9	6.5	13.9					5.5	-0.9	-2.7	-2.4	-3.5	-4.2		-1.6	-2.9
Identified debt-creating flows	-1.0	6.2	14.3					6.0	-1.3	-3.3	-3.1	-4.6	-3.8		-1.9	-1.4
Primary deficit	2.7	2.8	2.3	2.8	2.0			7.4	4.1	1.7	1.0	-0.5	-0.6	2.2	1.2	1.0
Revenue and grants	34.4	35.3	38.1					37.9	37.0	36.2	36.3	35.9	36.4		35.2	32.7
<i>of which: grants</i>	2.4	3.3	4.1					5.5	5.0	4.0	2.9	2.1	2.0		1.7	1.2
Primary (noninterest) expenditure	37.2	38.2	40.4					45.3	41.2	37.9	37.3	35.4	35.7		36.5	33.7
Automatic debt dynamics	-3.8	3.3	12.0					-0.9	-4.9	-4.6	-3.7	-3.7	-2.8		-3.1	-2.4
Contribution from interest rate/growth differential	-5.2	-2.0	-1.7					-1.9	-2.4	-3.8	-3.2	-3.7	-2.8		-3.1	-1.7
<i>of which: contribution from average real interest rate</i>	-0.5	-0.4	0.1					0.1	-0.3	-0.2	-0.2	-0.1	-0.1		0.1	0.8
<i>of which: contribution from real GDP growth</i>	-4.7	-1.6	-1.8					-2.0	-2.1	-3.5	-3.0	-3.6	-2.7		-3.2	-2.6
Contribution from real exchange rate depreciation	1.4	5.3	13.7					1.0	-2.6	-0.8	-0.5	0.0	0.0		...	...
Other identified debt-creating flows	0.0	0.0	0.0					-0.5	-0.5	-0.4	-0.4	-0.4	-0.4		0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0					0.0	0.0	0.0	0.0	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					-0.5	-0.5	-0.4	-0.4	-0.4	-0.4		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	-1.8	0.3	-0.4					-0.5	0.4	0.6	0.7	1.2	-0.4		0.3	-1.5
Other Sustainability Indicators																
PV of public sector debt	...	2.0	43.3					47.4	47.2	45.9	44.6	42.6	40.2		42.2	39.6
<i>of which: foreign-currency denominated</i>	...	0.0	41.4					45.6	45.6	44.4	43.3	41.4	39.1		30.9	21.7
<i>of which: external</i>	...	...	41.4					45.6	45.6	44.4	43.3	41.4	39.1		30.9	21.7
PV of contingent liabilities (not included in public sector debt)	...	...	...					...	...	...	...	...	...		...	...
Gross financing need 2/	7.7	6.1	5.5					11.3	7.6	5.3	4.6	3.0	2.8		10.4	2.9
PV of public sector debt-to-revenue and grants ratio (in percent)	...	5.7	113.7					125.1	127.5	126.8	122.9	118.7	110.4		119.7	121.2
PV of public sector debt-to-revenue ratio (in percent)	...	6.3	127.2					146.5	147.3	142.3	133.5	126.2	117.0		125.7	125.7
<i>of which: external 3/</i>	...	...	121.6					141.0	142.3	137.9	129.6	122.6	113.8		92.1	68.7
Debt service-to-revenue and grants ratio (in percent) 4/	11.6	5.7	5.9					7.9	7.2	7.8	8.1	8.3	8.2		15.6	12.1
Debt service-to-revenue ratio (in percent) 4/	12.5	6.3	6.7					9.2	8.4	8.8	8.8	8.8	8.7		16.4	12.6
Primary deficit that stabilizes the debt-to-GDP ratio	5.6	-3.7	-11.6					1.9	5.0	4.4	3.4	3.0	3.6		2.8	3.9
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	10.5	3.6	3.5	4.4	3.7			3.0	3.0	5.2	4.6	5.7	4.5	4.3	5.8	5.1
Average nominal interest rate on forex debt (in percent)	1.2	1.3	1.3	1.1	0.2			1.5	1.4	1.5	1.5	1.6	1.7	1.5	2.1	2.6
Average real interest rate on domestic debt (in percent)	16.7	5.1	13.3	2.9	8.8			18.3	1.9	1.9	1.9	1.9	1.9	4.6	0.0	0.0
Real exchange rate depreciation (in percent, + indicates depreciation)	3.4	12.8	28.1	-0.7	14.6			1.6	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.5	8.9	2.2	10.8	7.4			4.3	8.1	5.3	4.7	4.0	4.0	5.1	4.0	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	4.6	6.3	9.4	2.1	3.4			15.6	-6.4	-3.1	3.1	0.1	5.6	2.5	0.8	5.2
Grant element of new external borrowing (in percent)	...	...	0.0	0.0	...			35.5	37.2	37.3	36.7	47.6	43.9	39.7	36.5	23.9

Sources: Country authorities; and staff estimates and projections.

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

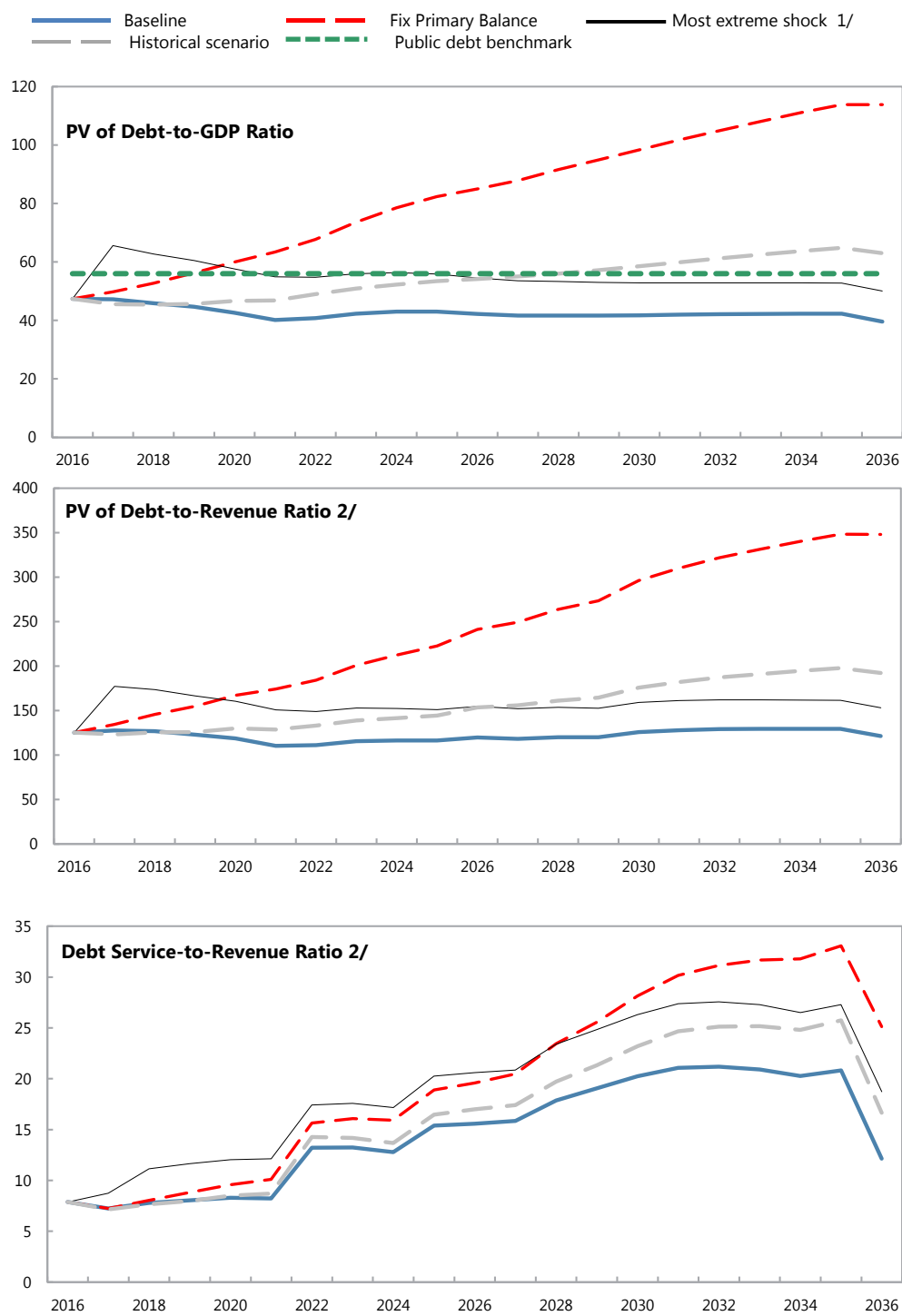
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

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.

Figure AII.3. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2016–36 /1



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.

2/ Revenues are defined inclusive of grants.

Table AII.4. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2016–36

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	47	47	46	45	43	40	42	40
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	47	46	45	46	47	47	54	63
A2. Primary balance is unchanged from 2016	47	50	53	56	60	63	85	114
A3. Permanently lower GDP growth 1/	47	48	47	47	46	45	57	84
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	47	49	51	52	51	50	60	68
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	47	48	49	47	45	43	45	41
B3. Combination of B1-B2 using one half standard deviation shocks	47	47	48	48	47	45	50	52
B4. One-time 30 percent real depreciation in 2017	47	66	63	60	58	55	55	50
B5. 10 percent of GDP increase in other debt-creating flows in 2017	47	55	53	52	50	47	48	44
PV of Debt-to-Revenue Ratio 2/								
Baseline	125	127	127	123	119	110	120	121
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	125	123	126	126	130	129	153	192
A2. Primary balance is unchanged from 2016	125	134	146	155	167	174	241	348
A3. Permanently lower GDP growth 1/	125	129	130	129	128	123	160	256
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	125	131	141	141	142	138	170	208
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	125	129	135	131	126	118	126	126
B3. Combination of B1-B2 using one half standard deviation shocks	125	127	134	132	130	123	143	160
B4. One-time 30 percent real depreciation in 2017	125	177	173	166	160	151	155	153
B5. 10 percent of GDP increase in other debt-creating flows in 2017	125	148	147	143	138	129	137	134
Debt Service-to-Revenue Ratio 2/								
Baseline	8	7	8	8	8	8	16	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	7	8	8	8	9	17	17
A2. Primary balance is unchanged from 2016	8	7	8	9	10	10	20	25
A3. Permanently lower GDP growth 1/	8	7	8	8	9	9	18	19
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	8	7	8	9	9	9	18	17
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	8	7	8	8	9	8	16	13
B3. Combination of B1-B2 using one half standard deviation shocks	8	7	8	8	9	9	17	15
B4. One-time 30 percent real depreciation in 2017	8	9	11	12	12	12	21	19
B5. 10 percent of GDP increase in other debt-creating flows in 2017	8	7	9	9	9	9	16	13

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.

Annex III. Kyrgyz Republic: Banking Sector Prudential Measures

Policy/Instrument	Details	Date Effective
Debt to Income Ratio	DTI of 50 percent for new loans in foreign currency	May, 2015
Differentiating loss loan provisioning (LLP) for loans in national and foreign currency	<ol style="list-style-type: none"> 1. Increase LLP for new FX loans: <ol style="list-style-type: none"> a. 2 percent if more than 75 percent of income in foreign currency. b. 5 percent if more than 50 percent of income in foreign currency. c. 10 percent if less than 50 percent of income in foreign currency. 2. Decrease LLP from 2 to 0 percent for som loans (normal loans). 3. Decrease LLP from 5 to 2 percent when restructuring FX loans into som loans. 4. Decrease LLP for second restructuring from 25 percent to 15 percent, and to 5 percent for second restructuring of FX to som loans. 5. Increase LLP to 25 percent for extended loan with principal repayment on higher than monthly frequency. 6. Increase LLP to 15 percent for extended loan with principal repayment on higher than monthly frequency if loan matures in two years. 	<p>May, 2015</p> <p>January, 2016 (increase relative to the level introduced in May 2015)</p> <p>May, 2015</p> <p>May, 2015</p> <p>January, 2016</p>
Differentiating reserve requirement (RR) for deposits in national and foreign currency	<ol style="list-style-type: none"> 1. RR for liabilities in national currency is 4 percent. 2. RR for liabilities in Armenian drams, Belarusian ruble, Kazakh tenge, Chinese Yuan Renminbi, Russian ruble is 4.0 percent. 3. RR for liabilities in all other currencies is 12.0 percent. 	December, 2015 (few rounds of gradually increasing RR for FX deposits and gradually decreasing RR for som liabilities)
Capital buffers	<p>Increase CAR to:</p> <ol style="list-style-type: none"> 1. 20 percent for systemic banks. 	January, 2016

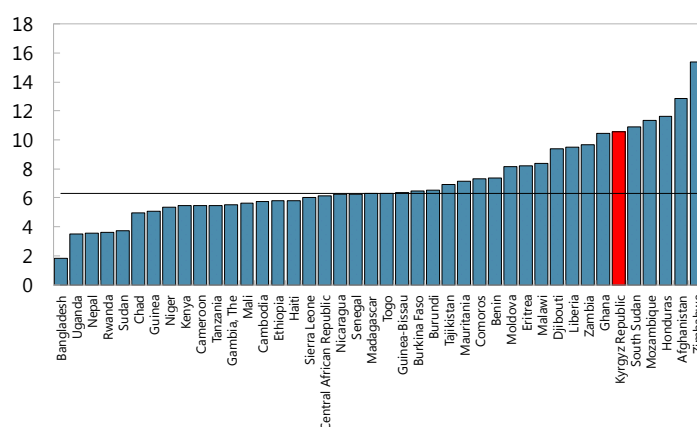
	<p>2. 18 percent for all other banks.</p> <p>No time limit by when banks need to comply, but dividends cannot be paid out till new CAR is reached.</p>	
Ban mortgage and consumer lending in foreign currency	<p>1. Ban issuing of new mortgage and consumer loans to individuals in foreign currency by banks and other financial institutions.</p> <p>2. Prohibit indexing payments on these loans to foreign currency.</p>	February, 2016
Liquidity ratios	<p>1. Increase liquidity ratio to 45 percent.</p> <p>2. Introduce short-term liquidity ratio of 35 percent.</p> <p>3. Introduce instant liquidity ratio for systemic banks. Individual ratios will be set for each bank that is subject to the policy (most likely systemic banks).</p>	January, 2016
Limit exposure to securities	OECD securities cannot account for more than 100 percent of net capital of the bank.	January, 2016

Annex IV. Kyrgyz Republic: Managing Government Wage Expenditure

Reducing government wages is a key pillar of the Kyrgyz Republic's fiscal consolidation effort and it is essential to achieve fiscal targets. Excessive growth of government wages may crowd out other expenditures that are important for supporting growth. While crude measures (such as containing nominal growth of average wages or reducing employment via attrition) can deliver fiscal adjustment in the short term, over a longer horizon only structural measures can bend the spending trajectory toward a sustainable path and improve the efficiency.

The Kyrgyz government wage bill is high compared to peers. It amounts to about 11 percent of GDP (including Mandatory Health Insurance Fund (MHIF)), against a median wage bill for the country's peers (in terms of income level) of 6.3 percent in 2014. Employment is relatively high in international comparison, with education and health sectors representing the largest employers. The government wage bill has been rising over the recent years, mostly driven by increases in compensation.

Government Wage Bill
(In percent of GDP)



Source: IMF database.

Since 2011, the government has undertaken a number of reforms, some of which are yet to be fully implemented. Reform of compensation was first introduced in the social sectors (such as health and education). Measures have achieved some important results, such as an increase of the share of base salaries in total compensation, separate pay scales in health and education sectors, elimination of the thirteenth month salary, and progress in providing incentives by linking bonuses to staff performance. Reform for the civil service was approved only in 2013. Despite these recent reforms, the public sector pay system is still fairly opaque and overly complex, leading to difficulties when comparing compensation across sectors and inefficiencies.

In general, the current framework for setting wage policies and managing the government wage bill has important weaknesses, namely: (1) the data availability for monitoring and analysis; (2) budgeting and financing reflecting norms, rather than needs and availability of resources; and (3) lack of a framework for guiding wage policies.

Improving the management of the government wage bill will require addressing these weaknesses with structural reforms, such as:

- Improving data and information availability for analysis, budgeting, and monitoring of public wages and headcounts (including the establishment of a unified register of all employees in the general government sector).
- Carrying out functional reviews to assess staffing needs and remuneration policies (starting with the main sectors of health, education, and the civil service).
- Reviewing budgeting and financing mechanisms to better reflect staffing needs.
- Strengthening the public financial management framework, including the assessment of the merit and viability of transitioning to a rule-based framework.

The authorities, in line with the requirements under the ECF program, are preparing an action plan, which will draw the path to undergo the much needed structural reforms and enable achieving the 2018 wage bill target.

Annex V. Kyrgyz Republic: Public Investment Management Assessment

The Kyrgyz Republic recently intensified public investment program to close the infrastructure gap and improve quality of infrastructure. The current framework suffers from numerous weaknesses in the planning and prioritization of projects, monitoring process, and budgeting practices. Reforms are necessary to improve efficiency of public investments and maximize their impact of growth.

Since independence to 2010, public investment ratios declined and the Kyrgyz capital stock was halved, aggravating the large infrastructure gap. The trend was reversed recently with an ambitious investment program undertaken by the authorities, financed mostly by external creditors, especially China. PIPs aim at supporting sectors that are key to the country's long-term growth. The largest share of PIPs is concentrated in the road and energy sectors, followed by urban infrastructure and social services, particularly education.

Although the Kyrgyz Republic compares favorably to peers in access to infrastructure, the perceptions of quality are poor. The perceptions of corruption are also high, hindering investment. The quality and efficiency of institutions for managing public investment are comparable to other LICs, however practical implementation remains the country's major weakness.

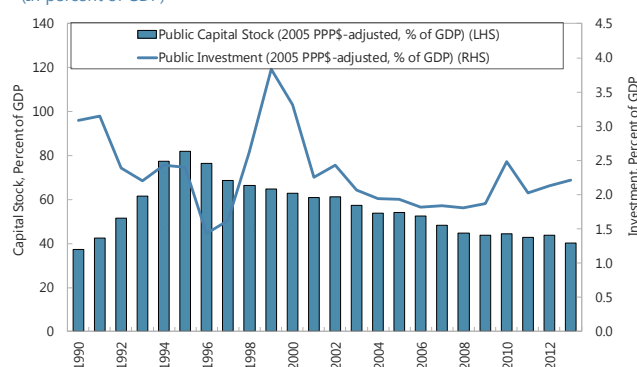
The priority areas for reform are:

(1) strengthening the planning and prioritization of projects; (2) upgrading the monitoring framework; and (3) improving budget practices to avoid projects being stalled or stranded. More specifically, the government should:

- Modify, through government decree, the decision-making process for the selection of public investment projects by formalizing gate-keeping roles of the ministry of economy (on evaluation) and ministry of finance (on financing).
- Subject projects to an initial assessment and prioritize them on the basis of their economic value, taking account of financial constraints before they are included in the next national sustainable development strategy (due in 2018).
- Introduce a standardized framework for project monitoring of physical and financial performance for all major projects and support this through the development of a database system.

Public Investment and Capital Stock

(In percent of GDP)



Sources: WEO, authorities data, and IMF staff estimates.

- Develop a system for tracking multi-year commitments for investment projects, prioritize funding for existing projects over new projects (unless a decision has been taken to close them), and ensure the funding of recurrent costs at the time the decision is taken to construct the project.

Being aware of the need to prioritize their investment plan and enhance efficiency, the authorities drew an action plan accordingly. The authorities were reluctant, but finally agreed, to include domestically-financed capital expenditure to the plan.

Annex VI. Kyrgyz Republic: Public Investment, Debt Sustainability, and Growth

A. Introduction

1. The Kyrgyz Republic pushed forward a significant scale up in public infrastructure investment to close its infrastructure deficit. Public investment on infrastructure increased from 4.8 percent of GDP in 2011 to 7.6 percent of GDP in 2015, and it is expected to increase further maintaining an average of 7.9 percent of GDP over the coming decade. Significant part of the public investment is expected to be financed through external concessional loans. This annex looks at the macroeconomic implications of the scale up using the debt-investment-growth (DIG) model developed by Buffie and others (2012).

B. Model calibration: key parameters

2. The model's parameters are calibrated to match the Kyrgyz Republic's economy. This annex focuses on two key parameters that underpin the institutional environment under which public investment is scaled up: the return on public investment and efficiency of public investment.

Return on investment

3. The return on public investment is set at 30 percent, corresponding to Dalgaard and Hansen's (2005) upper bound estimate for developing countries. The median rate of return on the Kyrgyz Republic public investment projects financed by the World Bank¹ is 27.5 percent, with the minimum rate of return of 13.7 percent. The return on public investment could however be lower if infra-marginal projects are selected and/or implementation capacity is weak.

Public investment efficiency

4. A dollar of public investment spending may not necessarily be translated into a dollar of public capital. Some of the spending may be wasted or spent on poor (sub-marginal) projects. Dabla-Norris and others' (2011) public investment management quality index ranks the Kyrgyz Republic at forty-eighth out of 71 countries and it is the least efficient among its regional peers.² Public investment efficiency is thus set at 40 percent in the baseline. That is, for every dollar of public investment, only 40 cents will be transformed into public capital.

¹ This refers to only the projects evaluated by the Independent Evaluation Group (IEG). The IEG evaluation database has rate of return only on 11 projects out of the total of 48 projects under evaluation.

² Kyrgyz scores 1.41 out of a scale of 4, and much lower than the median score of 1.65. As compared to the best performer in the group—South Africa with a score of 3.53—Kyrgyz's relative public investment efficiency is around 40 percent.

C. Baseline scenario

5. Higher public investment financed through concessional loans would lead to a moderate increase in the level of output but also raise the external debt substantially. The baseline scenario assumes a scale up of public investment at around 7.9 percent of GDP over the coming years. Consistent with the macro framework, concessional external financing is assumed to cover close to 90 percent of public investment, on average, until 2023 and decline gradually thereafter, implying that investment is increasingly financed from fiscal savings either in the form of increase in taxes or reduction in transfers. The impact of this investment scale up on growth is minimal. Growth picks up from its trend level of 3.5 percent to 3.9 percent at the peak and gradually tapers off to an average of 3.7 percent. As a result, total public debt to GDP ratio increases to 86 percent in 2032 before it starts declining (Figure AVI.1).

D. Alternative scenarios

6. Improvement in public investment efficiency would increase the positive impacts of the public investment scale up. With a gradual improvement in public investment efficiency from the baseline level of 40 percent to 70 percent over a decade,³ growth would reach 4.3 percent at the peak, and remain elevated with an average of 4.2 percent over a decade. In level terms, real GDP will be higher than the baseline by 6.2 percent by 2036 (Figure AVI.2). The peak of total debt to GDP ratio would also be lower by 4.3 percentage points as compared to the baseline.

7. Lower returns erode the growth dividend of the scale up. At a conservative rate of return of 15 percent due to poor project selection and implementation, real GDP growth rate will be lower than the baseline by about 0.1 percentage points on average, leading to higher external debt to GDP ratio. As a result, the required fiscal adjustment to pay for the maturing debt will be higher than the baseline. Consumption tax rate has to rise up to 16.3 percent to pay for the accumulated debt as compared to 15.1 percent in the baseline (Figure AVI.2).

8. In the presence of adverse external shocks, low return on public investment and high public investment inefficiency could lead to unsustainable debt path. Under both the baseline and lower return scenarios, external debt to GDP ratio surpassed the 100 percent mark in about nine years. The debt dynamics could even blow up in the absence of stringent fiscal adjustment. However, in the case of the efficiency improvement scenario, debt would not be explosive, and it starts to decline gradually as growth remains resilient (Figure AVI.3).

³ In terms of the Dabla-Norris and others (2011) public investment management quality index, this improvement closes the efficiency gap between the Kyrgyz Republic and the best performing Eurasian Economic Union (EEU) member country, Armenia, by 2026.

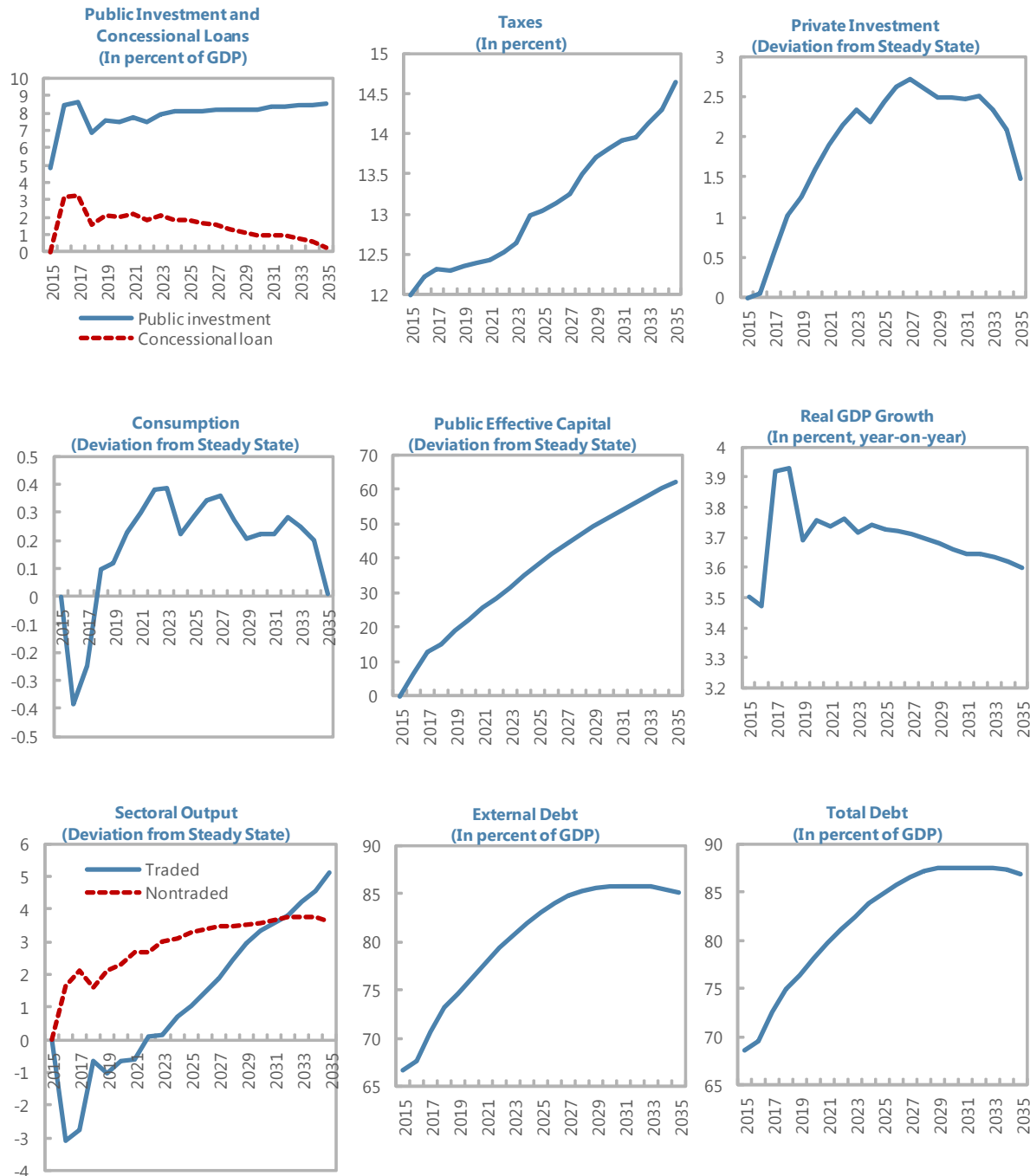
E. Conclusion

9. The model results suggest that public investment scale up has a positive effect on growth when high return projects are prioritized and public investment efficiency is high.

Scaling up of public investment when returns are low and inefficiencies are high run the risk of undermining debt sustainability. Overall, the growth impact of the Kyrgyz Republic public investment scale up plan, on average, ranges between 0.2 to 0.7 percentage points per annum depending on the return and efficiency considerations. However, adverse external shock undermines debt sustainability, particularly when returns are low and inefficiencies are high. Proper planning and prioritization of projects should thus be at the forefront of public investment allocation to guarantee the selection of high return projects. This should be complemented by adequate monitoring of physical and financial progress of projects to reduce leakages and promote investment efficiency.

10. The authorities welcomed the model simulation results and expressed interest to receive technical assistance on how to use the model for policy analysis.

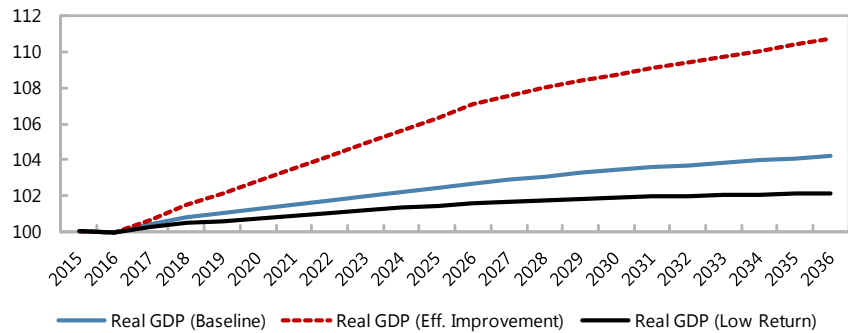
Figure AVI.1. Kyrgyz Republic: Baseline



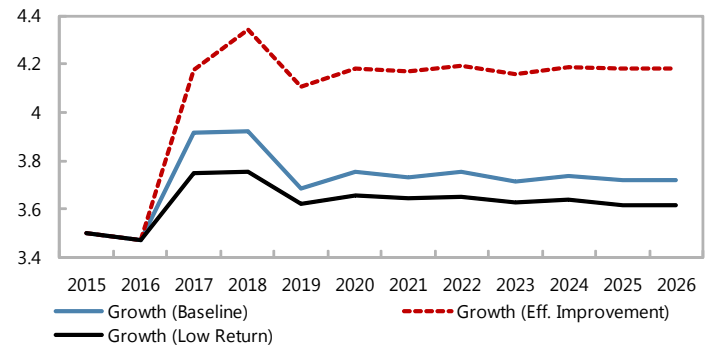
Sources: Authorities data and IMF staff calculations.

Figure AVI.2. Kyrgyz Republic: Baseline vs. Alternative Scenarios

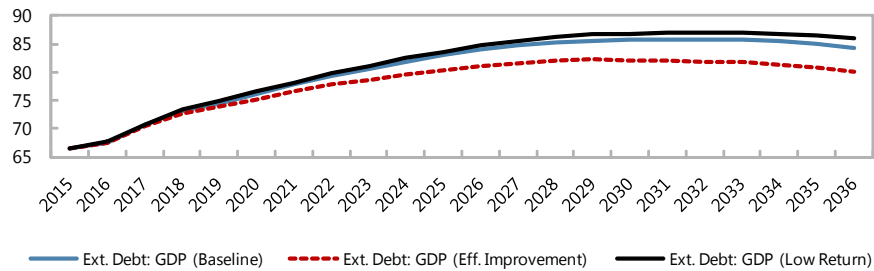
Real GDP



Real GDP Growth

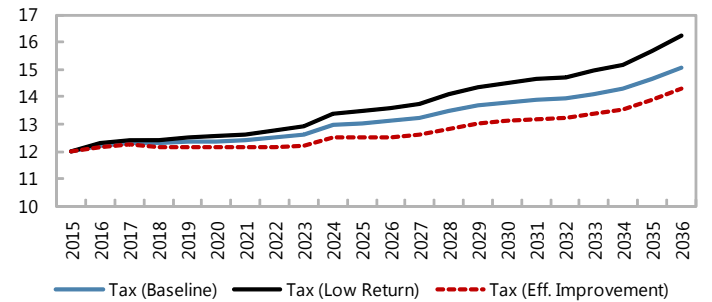


External Debt Percent of GDP



Tax

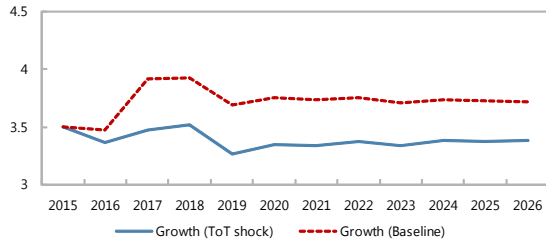
(In percent)



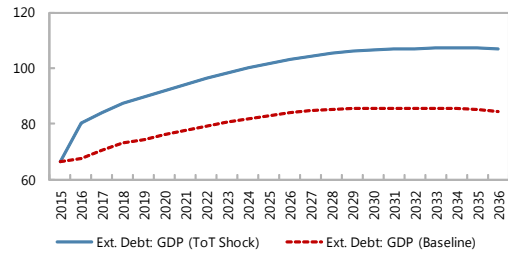
Sources: Authorities data and IMF staff calculations.

Figure AVI.3. Kyrgyz Republic: Terms of Trade Shock Impact on Growth and Debt

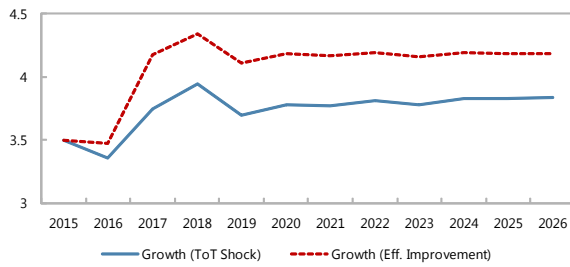
Growth: Baseline and ToT Shock



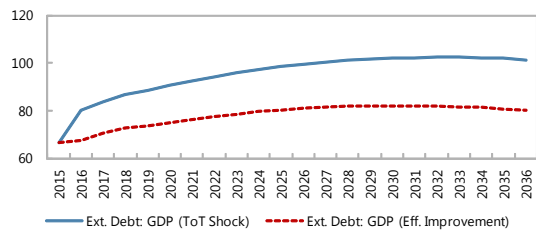
External Debt Percent GDP: Baseline vs ToT Shock



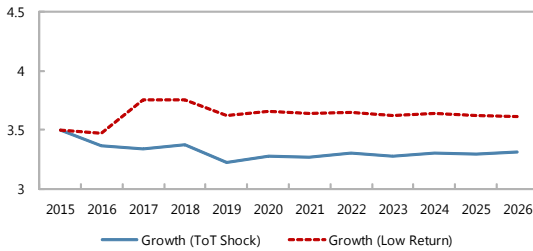
Growth: Efficiency Improvement and ToT Shock



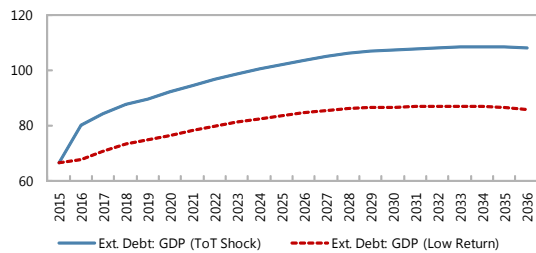
External Debt Percent GDP: Efficient Improvement with ToT Shock



Growth: Low Return and ToT Shock



External Debt Percent GDP: Low Return with ToT Shock



Sources: Authorities data and IMF staff calculations.

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Dabla-Norris, E., Brumby, J., Kyobe, A., Mills, Z, and Papageorgiou, C. 2011. Investing in Public Investment: An Index of Public Investment Efficiency. IMF Working Paper No. WP/11/37. International Monetary Fund. Washington DC.

Dalgaard, C. and H. Hansen (2005), "The Return to Foreign Aid," Discussion Paper no. 05-04, Institute of Economics, University of Copenhagen.

Annex VII. Kyrgyz Republic: Financial Sector Initiatives Aimed at Reducing Dollarization and Addressing Social Needs

This annex provides an overview of a number of sporadic financial sector initiatives that the authorities are implementing. Most of the initiatives are in response to the regional slowdown or populist efforts to stimulate lending to certain sectors. Reacting to an exchange rate spike in November 2015, parliament encouraged the government and the National Bank of the Kyrgyz Republic (NBKR) to introduce de-dollarization measures.

A. Conversion of foreign currency denominated mortgages

1. The authorities implemented a conversion program for foreign currency denominated mortgages during March 2016. The program, which banks were “advised” to implement, covers US\$45 million of mortgage loans (or 3.6 percent of total loan portfolio) and was restricted to loans under US\$40,000. Mortgage loans were converted at the July 1, 2015 exchange rate of KGS 62.14 per U.S. dollar and will carry an interest rate of 19.6 percent, which is equal to the weighted average interest rate of outstanding som denominated loans as of January 1, 2016. The exchange rate subsidy, estimated at KGS 574 million (0.15 percent of GDP), was fully bourn by the budget. In order to minimize the negative impact of the conversion program on banks’ balance sheets, the NBKR offered a number of instruments, including foreign exchange swaps and som loans. Additionally, the NBKR provided incentives for banks to de-dollarize their balance sheet by relaxing reserve requirements.

2. The conversion program adds to the fiscal burden and is subject to risks, especially for the financial sector. It namely:

- Undermines private contracts, erodes investors’ confidence, and creates moral hazard by shielding some borrowers and lenders from the consequences of their decisions. Anticipation of future conversions could affect the willingness of current and future borrowers to honor contractual commitments, undermine the credibility of the NBKR and weaken financial intermediation.
- Could have a negative impact on bank’s balance sheets. Net open foreign exchange position for the sector is expected to deteriorate. Banks could be in violation of the NBKR requirements in this regard. The NBKR should ensure that the above instruments are appropriate to correct this imbalance.

B. State Mortgage Company (SMC)

3. The authorities established the SMC in July 2015 with a capital of KGS 300 million. The ministry of finance will on-lend funds to the SMC for 10 years at 5 percent, which it is expected to raise from: (i) the Russian Kyrgyz Development Fund (RKDF) by issuing U.S. dollar denominated five

year bonds at 2 percent; and (ii) the Social Fund (SF) by issuing som denominated T-bonds at 8 percent. The SMC will not engage in direct lending activities but rather operate through commercial banks against a 5 percent margin. Participation in the program will be initially limited to borrowers working in health, education and social services. The SMC will be neither licensed nor supervised by the NBKR. SMC's future plans include refinancing mortgages and issuing mortgage backed securities.

4. While SMC design has certain safeguards, the SMC could create the following risks:

- The SMC's financing scheme (i.e., issuance of USD denominated bonds) exposes the budget to a number of risks. The budget will incur losses from borrowing at 8 percent from the SF while lending to the SMC at 5 percent. Likewise, interest paid by SMC is unlikely to cover the 3.5 percent interest on the U.S. dollar denominated T-bonds sold to RKDF. Inflation and exchange rate depreciation pose even greater risks to the budget. In addition, the issuance of dollar denominated T-bills contradicts the government's de-dollarization efforts.
- The SMC's operations could distort mortgage and real-estate markets. The SMC's different lending terms could create market distortions. Also, by initially being restricted to state employees, SMC policies contradict private sector promotion policies. This approach could also lead to abuse considering that the civil service registry is not complete and does not have accurate statistics.

C. Russia-Kyrgyz Development Fund (RKDF)

5. The RKDF was established to facilitate accession of the Kyrgyz Republic to the Eurasian Economic Union, by modernizing and developing Kyrgyz economy. The RKDF was established as an international financial institution, with a capital is US\$1 billion (US\$500 million as Russian FDI, and US\$500 million as a loan from Russian to RKDF when need). So, far US\$400 of FDI have been disbursed, while remaining US\$100 is expected in the second quarter of the 2016. In 2015, the RKDF placed US\$265 million in Russian banks, and financed projects in the Kyrgyz Republic in the amount of US\$43 million, of which about half via the state owned banks. During the 2016, the RKDF plans to expand its lending activities, by investing additional US\$90 million via banks and US\$100 million directly to enterprises for investment projects over US\$1 million.

6. The RKDF is operating increasingly as a commercial bank. It is benefiting from privileged access to som liquidity from the NBKR without being subject to regulatory and supervisory constraints faced by other banks. However, it provides U.S. dollar as collateral for som loan it receives from the NBKR.

Appendix I. Letter of Intent

June 2, 2016

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

Dear Madame Lagarde:

We continue to make progress on a comprehensive economic and financial reform program, supported by an arrangement under the Extended Credit Facility (ECF) approved by the IMF Executive Board on April 8, 2015. We are grateful to the IMF for its continued support.

The external environment has worsened over the past few months, affecting the outlook for our economy. Having withstood severe adverse shocks in 2015, growth is expected to slow further this year. Lower demand for our exports among key trading partners, the impact of lower remittances on domestic demand and the challenges of adjusting to membership in the Eurasian Economic Union (EEU) will take their toll. We expect growth to slow down this year before picking up from next year. We are undertaking a number of stimulus measures, including the expansion of credit from the Russian Kyrgyz Development Fund (RKDF) and continued progress on our Public Investment Program (PIP) to help mitigate some of the impact of the adverse environment.

We remain committed to the policies and objectives supported by the ECF arrangement. Our actions ensured that all end-December quantitative performance criteria (PCs) and indicative targets (ITs) were met. All, but two structural benchmarks have been met. We have submitted the law on administrative responsibility to parliament. As per our commitments, we drafted an action plan to review the public investment framework and increase efficiency of borrowing, and an action plan to reduce the public wage bill. However, the audit of DEBRA has not yet been completed, whereas the draft law of the Kyrgyz Republic on combating the legalization (laundering) of proceeds from crime, financing of terrorist and extremist activities will be submitted to parliament with a delay due, in part, to a protracted consultation process. Notwithstanding, some setbacks in passing the Banking Law, we will continue to make every effort to ensure its enactment by parliament by September 2016.

In view of the progress made and our continued commitment to the program, we request completion of the second review and disbursement in the amount of SDR 9.514 million (US\$13.35 million). We ask that the disbursements under the ECF arrangement be channeled to the budget.

We believe that the economic and financial policies set forth in this Letter of Intent (LOI) to be adequate to meet the program's objectives.

We will continue to maintain a policy dialogue and consult with the IMF, at our own initiative or whenever the Managing Director of the IMF requests such a consultation, in advance of revisions to the policies contained in our LOI, in accordance with the IMF's policies on such consultations. We will provide IMF staff with data and information necessary for monitoring program implementation.

As in the past, the government of the Kyrgyz Republic agrees to the publication of this letter, the Technical Memorandum of Understanding (TMU), and the Debt Sustainability Analysis.

Recent economic developments

- 1. Adverse external shocks continue to affect our economy, with the regional environment weaker than anticipated at the end of last year.** The economy contracted in early 2016, and weaker-than-expected growth rates and exchange rates in the region (especially Russia and Kazakhstan) will weigh on growth throughout the year. Inflation continues to decline, having reached 0.5 percent year-on-year by end-March 2016, well below our 5–7 percent target, reflecting a moderation in food prices.
- 2. The som depreciated by 29 percent against the U.S. dollar in 2015 due to the depreciation of the ruble and the tenge, drop in remittance and other regional factors.** To contain inflation and mitigate exchange rate volatility, we kept monetary policy on a tightening stance. We raised the policy rate to 10 percent and undertook significant interventions. However, since the beginning of 2016, most of the above factors were reversed due largely to the rise in oil prices, which, in combination with the monetary policy measures taken, allowed the som exchange rate to appreciate by 7.7 percent between January and March. This allowed us to lower the policy rate to 8 percent and intervene on the foreign exchange market by purchasing U.S. dollars.
- 3. The overall fiscal deficit for 2015 reached 1.2 percent of GDP, well below the 3.5 percent of GDP program target.** Revenues were better than anticipated due to one-off nontax receipts from the sale of the Geroi gold mine and some radio frequencies, and NBKR profits. On the other hand, tax revenue underperformed due to a weaker economic environment, especially in tax-generating sectors (trade and construction). Some nonpriority spending—mostly goods and services and domestically financed capital expenditures—was postponed to 2016 due to delays in budgetary support. Delays in PIP project execution resulted in a significant drop in capital expenditure. In particular, there were procedural delays in the construction of the Eximbank China North-South road. The refurbishment of the Bishkek power and heating plant was postponed due to the power shortage.
- 4. Public external debt continued to rise increasing by 14 percentage points of GDP over 2015, reflecting additional borrowing and exchange rate depreciation.**
- 5. We are facing mounting challenges in tax administration particularly in the process of transitioning to EEU.** The shift of VAT and excise collection, following EEU accession, from the customs services to the state tax services (STS) where they are paid on the basis of self-assessment after the goods have entered the country have resulted in underperformance in the collection of these taxes. Our ability to collect these taxes is further limited due to reliance on the not yet fully developed tax administration system within fellow EEU members tax authorities. We are mindful that while it is preferable to have a one-stop shop for tax payment, any addition of collection functions to the STS should be done gradually to ensure maximum efficiency.
- 6. The current account deficit narrowed to 10.4 percent of GDP by the end of 2015, largely driven by a significant drop in imports, which more than compensated the fall in remittances.** While falling by 25 percent in dollar terms, remittances growth remained positive in

ruble terms. As a result of the depreciation of the som and low inflation, the real effective exchange rate depreciated by 9.6 percent by end-2015.

7. We are aware of the elevated risks to the financial sector stemming from exchange rate volatility coupled with a high degree of dollarization and higher credit risk due to economic slowdown. We are closely monitoring the quality of the loan portfolio for signs of increase in nonperforming loans. To contain exchange rate risk for highly dollarized bank balance sheets, we introduced new macro-prudential measures aimed at: (i) further increasing the provisioning for foreign currency denominated loans; and (ii) further differentiating reserve requirements between som and dollar deposits.

8. We have recently introduced several policies aimed at reducing dollarization, addressing affordable housing shortage and stimulating the economy. We successfully implemented a conversion program for foreign currency denominated mortgages and banned mortgage and consumer lending in foreign currency. We have also established a SMC and accelerated lending from the RKDF.

Outlook and risks

9. The near-term outlook has worsened over the past few months but medium-term prospects should improve. Reflecting a weaker external environment, nongold growth is now projected to reach around 3 percent in 2016. Growth is expected to gradually pick up over the medium term as trading partners' growth rebounds. Inflation is expected to remain low, driven by a further decline in international food and fuel prices, and weak domestic demand. The current account deficit will widen this year due to higher activity under the PIP program but will gradually moderate thereafter as remittances recover and public investment moderates.

10. We are mindful of the increase in downside risks. In the near term, these continue to stem from developments in Russia, Kazakhstan, and China. The impact of EEU accession has been mixed so far, reflecting a weak economic activity within the union and change in trade flows. The exchange rate volatility will have an impact on debt and banking sector. Upside risks include the recovery of oil prices and consequently revival of economic activity among our key trading partners.

The government's policies for the remainder of 2016

To keep the program on track, we will implement the necessary policies to ensure that the program's objectives are achieved. In this context, we will carry out the necessary measures to prevent budgetary slippages. We remain committed to containing inflation and maintaining a flexible exchange rate that would allow us to preserve foreign exchange reserves. We will do our best to have the draft banking law adopted by the new parliament in a form substantially similar to the draft submitted to parliament in September 2013. Having recently completed the audit of DEBRA, we will now proceed to liquidate some of the banks under its management.

Fiscal policy

11. As per our commitment at the time of the first review, our 2016 fiscal deficit target remains at 4.5 percent of GDP. As a result of the depreciation of the som and the downward revision of our growth prospect for this year, the target deficit of the budget as approved by parliament last December has increased to about 7 percent of GDP. Despite these adverse developments, we remain committed to a deficit of 4.5 percent of GDP and will do our utmost effort to meet this target. Earlier this year, we started working on an action plan to mobilize additional revenues and continued to prioritize our investment budget and improve its efficiency. This allowed us to bring down our deficit target substantially, but we were left with a gap of 1.5 percentage points of GDP. More recently, through great efforts we have identified new measures to close this gap, in the following areas (Attachment 1): (i) tax policy; (ii) tax administration; (iii) nontax revenues; and (iv) PFM and rationalization of expenditures. Furthermore, should any shortfall emerge from these measures, we are committed to reducing expenditures in an equivalent amount in order to ensure that we meet our fiscal target.

12. On the revenue side, we have identified new measures, which will contribute to closing the 2016 fiscal gap and support the medium-term adjustment. We will strengthen the VAT administration by, among others, enhancing control with tax officers and other regulatory authorities in the border areas. We are reviewing the system of exemptions in order to streamline them; meanwhile we will refrain from extending expiring exemptions or granting new ones. We are also harmonizing excise tax rates on alcohol and tobacco products with some EEU countries, considering introducing excise stamps for domestically produced goods, and considering the introduction of a luxury tax for properties. Additionally, we are planning to review taxation of natural resources with the help of an international expert.

13. On the expenditure side, we will keep on streamlining nonpriority current expenditures particularly within the goods and services category and domestically financed capital spending around 3 percent of GDP. We already introduced the e-procurement system, which will help us substantially rationalize non-priority expenditures. We will refrain from potential quasi-fiscal activities that may have budgetary implications. We undertook a review of our electricity tariffs and are firmly committed to pursue the Medium Term Tariffs Policy of the Kyrgyz Republic for Electric and Heat Energy (MTTP) for 2014–17. A revised MTTP based on the principle of energy sector actual costs recovery will be approved by the Government of the Kyrgyz Republic in July 2016. We will carry out a review of all subsidies with the objective of streamlining them (structural benchmark, September 2016). To maximize pro-poor spending, we will improve the targeting of social benefits to avoid duplication.

14. We remain committed to gradually reduce the wage bill to 8 percent of GDP by 2018. We finalized the action for the reform of the public sector personnel and remuneration policy to reduce the wage bill. Next step in the implementation of the action plan is to set up a comprehensive register of all public employees by March 2017 (structural benchmark). As a first step, the register will cover, by November 2016, health and education employees. We will also develop a wage rule and undertake a functional review of main sectors (including assessment of

staffing needs and remuneration policies), which will be included in the action plan to be implemented in the medium term.

15. We will undertake urgent measures to ensure debt remains at sustainable levels. To this end we will: (i) refrain from nonconcessional borrowing; (ii) improve debt monitoring, to minimize fiscal risk stemming from SOEs; and (iii) undertake remedial actions to maintain external public debt at moderate risk of debt distress.

16. We will build on the recommendations of the recent Public Investment Management Assessment (PIMA) mission to enhance the efficiency of public sector investments, mainly by: (i) strengthening planning and prioritization of projects; (ii) upgrading the monitoring framework; and (iii) improving budget practices to avoid projects being stalled or stranded. Following our action plan, we will modify through government decree the decision making process for the selection of public investment projects by formalizing gate keeping roles of the ministry of economy on evaluation, including economic assessment and project efficiency, and ministry of finance on financing respectively. The PIP guidelines will be updated accordingly (structural benchmark, December 2016). We will also introduce a standardized framework for project monitoring of physical and financial performance for all projects exceeding KGS 50 million (structural benchmark, June 2017).

Monetary and exchange rate policy

17. Containing inflation within the targeted range of 5–7 percent remains the anchor of our monetary policy. We will ensure that our monetary policy formulation is forward looking, given the dynamic nature of monetary policy and the lags with which it affects the key economic variables. We will continue to adjust the policy rate in line with the emerging market pressures. We are, at present, balancing the need for policy relaxation stemming from the recent drop in headline inflation, the moderation of credit growth, and weaker growth prospects, against the potential of fiscal and exchange rate pressures. We stand ready to tighten monetary policy should inflation pick up again or depreciation pressures re-emerge.

18. We will work on improving co-ordination between the NBKR, ministry of finance, and RKDF to facilitate monetary policy management. Back-loaded and unpredictable spending by large players in the financial system complicates liquidity forecasting and monetary policy operations. To overcome these obstacles, we will work on establishing regular communications between the NBKR and ministry of finance to ensure smoothing of budget spending throughout the year. We will also finalize a memorandum of understanding between the NBKR and the RKDF to exchange the necessary information and to better estimate the impact of RKDF's investments on monetary policy.

19. We are committed to further improving the operational framework for monetary policy and enhancing the transmission mechanism. We are continuing to fine-tune our models, improve statistics and increase capacity of our staff. We are focused on improving the transmission mechanism of monetary policy and aligning market rates with policy rates. In that context, we will

consider narrowing the corridor around the policy rate and make it more symmetric. At the same time, we will also undertake measures to deepen the interbank market by: (i) maintaining liquidity at a level that provides incentive for interbank trading; and (ii) allowing NBKR notes to be used as collateral in the interbank market. We will further enhance the forward looking component of our communication policy.

20. We are committed to exchange rate flexibility as a mean to reduce external imbalances, enhance competitiveness, and preserve foreign exchange reserves. In order to maintain an adequate level of reserves we will: (i) continue to limit interventions in the foreign exchange market to only smoothing excessive fluctuations; and (ii) consider introducing new monetary instruments and developing hedging instruments.

Financial sector

21. We continue to monitor the financial sector for emerging risks associated with foreign exchange volatility, dollarization, and economic slowdown. In this context, we will improve the monitoring of nonperforming loans (NPLs) by collecting additional information from banks. Moreover, we will continue our efforts to align our legislation with international best practice. We will consider the classification of the prolonged loans category, the differentiation between performing and nonperforming restructured loans and the introduction of a new category for loans issued to refinance NPLs.

22. We will finalize the strategic plan for supervision by the end of the year, with the help of the IMF and WB. The key elements of the plan are: (i) personnel policy to attract and retain qualified personnel, and decrease personnel turnover rate; (ii) training of supervisors to ensure that staff is familiar with the NBKR's supervisory approach and to improve their technical ability; (iii) enhancing the supervisory approach, including implementation of the risk based supervision; and (iv) strengthening the current regulatory framework and bring it line with international standards. We will work towards the full transition to the risk-based supervision during the first half of next year in the context of the WB project.

23. We will develop a crisis preparedness framework, including establishing a high-level financial stability council comprised of representatives of the NBKR, DPA, ministry of finance, and prime-minister's office (structural benchmark, September 2016). As a first step, we will analyze the task, functions and regulation of the financial stability council based on Kyrgyz legislation. The key components of the framework are: (i) coordinating arrangements between relevant agencies; (ii) supervisory remedial actions; (iii) depositor safety net; (iv) NBKR's emergency liquidity assistance mechanisms for banks; (v) effective banking resolution system; and (vi) assigning clear roles to each representative. We are aware that the success of the framework will hinge on closer coordination among all relevant agencies including, regular communication and exchange of information between the NBKR, ministry of finance, and DPA. In this context, and with a goal of testing and improving our coordinating arrangements, we will conduct a crisis simulation exercise with the help of the WB.

24. Our efforts to reduce dollarization will remain strictly market based and will not come at the expense of economic stabilization or central bank credibility. In this context we will not expand the foreign currency denominated loan conversion program beyond the recently completed program for mortgages. We are exerting our best efforts to implement affordable housing program 2015–20, mostly through the recently established SMC. Should the SMC activities evolve into banking activities, as defined by banking legislation, we will consider regulating it by the NBKR. In providing direct liquidity to the RKDF, the NBKR will ensure that credit policy remains consistent with the monetary policy objectives.

25. We remain committed to exert our best efforts to enact the Banking Law in a form substantially similar to the draft submitted to parliament in September 2013 (structural benchmark, September 2016). The banking law is macro-critical as it is essential for preserving financial stability, especially at times of rising vulnerabilities. Having an efficient and effective bank resolution framework in place is necessary to prevent troubles in one bank from spilling over to the whole system. Furthermore, the law establishes the appropriate balance between the various stakeholders during the bank resolution process and enhances the protection of depositors. In this respect, amendments to the Banking Law proposed by some deputies during recent parliamentary deliberations undermine the essence of the law. We will work with parliament to address concerns regarding the constitutionality of certain provisions while maintaining the essence of the law. We will make every effort to ensure that the law maintains the original provisions in the areas of: (i) governance and oversight; (ii) judicial review and nonsuspension of the NBKR's decisions; and (iii) powers of the NBKR in the resolution process.

26. We believe that the liquidation of all banks under DEBRA is essential to maintaining the integrity of the banking sector. We completed the audit of DEBRA and all the banks under its management. The audit concluded that four banks have no assets and therefore all chances for debt recovery have been exhausted. Therefore, as a first step DEBRA will, in accordance with the legal procedures, submit to the courts requests for liquidating these bankrupt banks: "Bishkek", "Mercury", "Kurulush-bank", and "Adil" (structural benchmark, September 2016). As a second step, DEBRA will submit to the courts requests to liquidate: "Kyrgyzzagroprombank", "Manas", "Issyk-Kul", and "AUB" banks (structural benchmark, March 2017). In addition, we will sign the final debt reconciliation protocol thereby terminating the agreement between NBKR, ministry of finance, and DEBRA on the collection of debt outside the banks by end-March 2017.

27. We are committed to strengthening and implementing an AML/CFT regime in line with international standards. We will submit in early June to parliament a draft law of the Kyrgyz Republic on combating the legalization (laundering) of proceeds from crime, financing of terrorist and extremist activities, which incorporates the main recommendations from IMF experts. Timely action through the adoption and publication of the law should contribute to a positive assessment by the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) during 2016–17.

28. Accelerating the activity of the RKDF is a key pillar of our policy aimed at stimulating economic activity and adjusting the economy to membership in the EEU. The RKDF continues

to lend to SME's primarily through commercial banks including state owned Aiyl and RSK as well KICB. During 2016, the RKDF will expand the SME lending program by US\$90 million operating through 9–10 partner banks. In addition, the RKDF aims to lend directly about US\$100 million in 2016 to support the economic recovery. Through our representatives at the board of the fund, we will ensure that RKDF will continue to follow international best practice for development banks and institutions and carries out its activities without causing market distortions. We will continue to maintain a level playing field among the various agents operating the financial-investment space. We will make sure that neither the Government, nor the NBKR are liable for obligations (including guarantees) of the RKDF, and vice versa.

Institutional and structural reforms to ensure board based growth

29. We firmly believe that improving the business environment will be key to withstanding external shocks, attracting investment and generating inclusive growth. In order to realize the full benefits from EEU membership, we will redouble our efforts to address weaknesses in the business environment. The latest World Bank Doing Business report is mostly unchanged from previous year. We continue to face challenges in the areas of ease of paying taxes, access to the power grid and resolving a business. While there was improvement in access to credit, our position in terms of establishing a business has deteriorated. To address these challenges, we will continue to work in the following directions: (i) reducing the number of activities subject to licensing and streamlining the licensing process, (ii) streamlining tax and other inspection regimes, (iii) streamlining property registration; and (iv) establishing a unified and transparent procedure for access to utilities including the power grid. We will continue to improve the tax regime to ensure simplicity, fairness and equal treatment of all tax payers, a precondition for reducing the shadow economy. We will put all our efforts toward a constructive resolution of the dispute with Centerra to ensure that it does not lead to disruptions in gold production. A stable and predictable investment climate with proper contract enforcement, strong property rights, less red tape and corruption are essential for attracting investment and spurring private sector-led growth. Additionally, we developed an anti-crisis action plan to counter the weak outlook and external shocks.

30. Reforming the energy sector to ensure better service delivery and putting it on sound economic footing. In this context, we are: (i) improving the governance aspects of the sector by introducing a transparent cash settlement mechanisms monitored by the State Regulatory Agency for Fuel and Energy sector; (ii) increasing the human and financial resources available to the Regulatory Agency to match them to the entity's functions and ensure proper functioning of the regulatory; (iii) enhancing policy planning and sector management by establishing and operationalizing a national Electricity Holding company to improve coordination among the various actors and enhance efficiency of operations; (iv) working to improve internal controls, introducing management information systems (MIS) at power companies and rolling out smart power meters; and (v) continuing reforms in the power sector and improving conditions for private sector investment. We remain committed to restoring the financial viability of the energy sector by, in particular, setting adequate tariff levels in line with MTTP for 2014–17 years.

31. PFM Reforms will remain our top priority. We recently agreed to a new Multi Donor Trust Fund arrangement to support PFM reforms. The implementation financial management information system (FMIS) would speed up the launching of the treasury single account (TSA). To that effect, a Memorandum of Co-operation with TIKA, the Turkish Cooperation and Coordination Agency to finance the new FMIS was signed in the last quarter of 2015 (structural benchmark, June 2016). We expect the announcement by TIKA of the tender for the selection of the FMIS software provider in early 2017. We will work with TIKA and other donors to implement a human resources management module covering all employees of the public sector under a new project. We expect to finalize the draft FMIS terms of reference by the end of 2016 and sign it by end-February 2017 (structural benchmark). We remain committed to extend treasury coverage to the Social Fund. The budget code was approved by parliament in April 2016 and will become effective in January 2017.

Program monitoring

32. The ECF-supported program will continue to be monitored through prior actions, quantitative performance criteria, continuous performance criteria, indicative targets, and structural benchmarks. Quantitative performance criteria (QPC) for June and December 2016 and indicative targets (IT) for June, September and December 2016 and continuous performance criteria are set out in Table 1. Prior actions 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 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 attached Technical Memorandum of Understanding (TMU).

33. In line with the recommendations of the IMF safeguards assessment of the NBKR, we are taking the necessary measures to improve the NBKR's governance arrangements, audit mechanisms, and internal controls. Once adopted, the banking law will enable us to overcome key safeguards vulnerabilities by enhancing the institutional autonomy of the NBKR, independent oversight, and the external audit mechanism. In the interim, our future audit engagement letters will ensure that the audits are compliant with International Standards of Auditing and the engagement partner meets with the audit committee to discuss the audit plan and findings. In addition, NIR and NDA data for each test date under the program will be confirmed by an internal (end-June) and external audit (end-December).

Sincerely yours,

/s/

S.Sh. Jeenbekov

Prime Minister of the Kyrgyz Republic

/s/

A.A. Kasymaliev
Minister of Finance of
the Kyrgyz Republic

/s/

T.S. Abdygulov
Chairman of the National
Bank of the Kyrgyz Republic

Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2015–December 2016

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

	2015				2016							
	December				March				June	September	December	
	CR16/55	Adj.	QPC	Status	CR16/55	Adj.	Actual	Status	QPC	IT	QPC	
<i>Quantitative performance criteria 1/</i>												
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,103	1,086	1,230	Met	948	1,064	1,375	Met	1,235	1,164	1,110	
2. Ceiling on net domestic assets of the NBKR (eop stock)	-24,195	-21,313	-27,174	Met	-20,222	-20,187	-34,797	Met	-22,625	-23,688	-18,523	
3. Ceiling on cumulative overall deficit of the general government 2/	15,304	8,195	4,950	Met	12,134	13,795	-2,077	Met	12,108	15,602	20,492	
4. Present value of new external debt contracted or guaranteed (continuous, in millions of U.S. dollars)	65		0	Met	226		134	Met	220	220	220	
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0		0	Met	0		0	Met	0	0	0	
<i>Indicative Targets 1/</i>												
1. Ceiling on reserve money	69,145		67,055	Met	68,256		66,163	Met	75,915	74,213	76,092	
2. Cumulative floor on state government tax collections 2/	87,009		84,655	Not met	19,639		20,330	Met	41,739	67,862	99,153	
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	4,412		4,925	Met	1,189		1,368	Met	2,377	3,615	5,417	
4. Ceiling on contracted or guaranteed of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	30		0	Met	0		0	Met	0	0	0	

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.

Table 2. Kyrgyz Republic: Prior Action and Structural Benchmarks Under the Extended Credit Facility

Measures	Timing	Status
Prior Action		
Finalize the audit of DEBRA and banks under its management.	5 business days prior to the Board meeting	
Structural Benchmarks		
I. FISCAL POLICY		
Undertake a review of the public investment framework in cooperation with development partners and line ministries to identify gaps and then define an action plan.	End-April, 2016	Met
Draw an action plan for the reform of public sector personnel and remuneration policy to reduce the wage bill as a share of GDP.	End-May, 2016	
Revise the MDTs in light of the outcome of the new DSA.	End-July, 2016	
Conduct a review of all subsidies and draw up an action plan to reduce them.	End-September, 2016	
Sign a Memorandum of Co-operation with TIKA, the Turkish Cooperation and Coordination Agency, to develop new Financial Management Information System.	End-June, 2016	Met
Review the methodology for setting power tariffs to ensure economic soundness and adjust accordingly the roadmap for increasing tariffs.	End-June, 2016	Met
Set up a comprehensive register of all employees of the general government.	End-March 2017	New
Modify through government decree the decision making process for the selection of public investment projects by formalizing gate keeping roles of the MoE on evaluation, including economic assessment and project efficiency, and MoF on financing respectively. The PIP guidelines will be updated accordingly.	End-December 2016	New
Sign the FMIS terms of reference	End-February 2017	New
Introduce a standardized framework for project monitoring of physical and financial performance for all projects exceeding KGS 50 million.	End-June 2017	New
II. FINANCIAL SECTOR		
Resubmit to Parliament amendments to the code for administrative responsibility aimed at increasing penalties for unlicensed foreign exchange activity.	End-February, 2016	Met
Submit a new draft AML/CFT law that reflects all the recommendations provided by the Fund as well as other donors to the new parliament.	End-April, 2016	Broadly implemented
Finalize the audit of DEBRA and banks under its management.	End-March, 2016	Not met
Develop a crisis preparedness framework, including establishing a high-level financial stability council comprised of representatives of the NBKR, DPA, ministry of finance, and prime minister's office.	End-September 2016	
Enact and publish in the Official Gazette ("Erkin-Too") the banking law and the supporting law on "enactment of the banking law".	End-September 2016	
DEBRA to submit to the courts requests for liquidating the following banks: "Bishkek", "Mercury", "Kurulush-bank", and "Adil" banks.	End-September, 2016	New
DEBRA to submit to the courts requests for liquidating the following banks: "Kyrgyzagroprombank" banks, "Manas", "Issyk-Kul", and "AUB" banks.	End-March, 2017	New
Develop a strategic plan for supervision with the following components: (i) personnel policy to attract and retain qualified personnel, and decrease personnel turnover rate; (ii) training of supervisors to ensure that staff is familiar with the NBKR's supervisory approach and to improve their technical ability; (iii) enhancing the supervisory approach, including implementation of the risk based supervision; and (iv) strengthening the current regulatory framework and bring it line with international standards.	End-December 2016	New

Attachment I. Kyrgyz Republic: Identified Fiscal Measures to Close the 2016 Fiscal Gap

Type of measure	Details	Estimated contribution (In percent of GDP)
Tax policy	Revise VAT applicable to certain types of exports and regulate of transfer pricing. Revise rates in mining licenses and harmonize of FEZ with EEU.	0.03
Tax administration	Incentive to boost foreign activities through improved administrative procedures. Improve customs payments through harmonization procedure, closer relationships with third countries and better information system. Fight against violation of customs duties and illegal imports of goods and vehicles, and collection of arrears by improving the monitoring of operations and procedures and pursuing unscheduled inspections. Remove prohibition of tires imports from third countries Improve administration of tax and non tax payments by increasing the number of scheduled and non scheduled audits, and enforcing application of car stickers (group 4 vehicles). Speed up litigation cases. Speed up the collection of tax arrears.	0.56
PFM	Improve efficiency of the payment system through savings in procurement operations.	0.44
Expenditure	Streamlining of non priority goods and services.	0.13
Nontax revenues	Higher profits from the NBKR (already received). Privatization of state property. Increase in proceeds from the leasing of state property and dividends. Sales of mineral deposits. Reimbursement of taxes from criminal procedures and fraud.	0.35
		Total 1.50
		of which permanent 0.66
<i>Memo item:</i>		
GDP (in billions of soms)	455.4	

Sources: Authorities data and IMF staff calculations.

Attachment II. Kyrgyz Republic: Technical Memorandum of Understanding

June 2, 2016

Introduction

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 June 2, 2016 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

Performance Criteria and Indicative Targets

A. Definitions and concepts

Test dates. Quantitative performance criteria are set semi-annually starting June 30, 2015 through December 31, 2018, and are to be met at the end of each period.

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.

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 1), 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.

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.

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.

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 have not been paid.

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 rate 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 concessional debt will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The calculation is performed by the authorities and verified by the IMF staff based on the data provided by the authorities.

Variable interest rate. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -200 basis points.¹ Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

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 as of February 17 of 2015 exchange rate of KGS 60.7523 = 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

¹ The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Fall 2014 World Economic Outlook (WEO).

Definitions

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. For program purposes, convertible foreign currencies refer only to: U.S. dollar, Euro, British Pound, Japanese Yen, Swiss Franc, Australian Dollar, and Canadian Dollar. 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 resident financial institutions (commercial banks and the Russia-Kyrgyz Development Fund) in foreign currency and illiquid assets of the NBKR are excluded from NIR. 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.² 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\$1,230 million on December 31, 2015.

Net foreign assets (NFA) of the NBKR. NFA consist of net international reserve assets plus other net foreign assets, including other net claims on CIS countries, reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, illiquid assets, and obligations of the NBKR on SDR allocation. For program monitoring purposes, other NFA will also be valued at program exchange rates.

Adjustors

The floor on NIR will be adjusted upward/downward to the full extent of any excess/shortfall in program and other 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.

² In case of a currency swap providing for receipt of foreign exchange by the NBKR and transfer of domestic currency to a resident financial institution, total international reserves increase, NIR remain unchanged, and net claims on domestic banks in soms increase. In case of a currency swap providing for transfer of foreign exchange by the NBKR and receipt of domestic currency from a resident financial institution, total international reserves and NIR decrease, and net claims by NBKR on domestic banks remain unchanged.

Ceiling on the net domestic assets of the NBKR

Definitions

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.

Thus defined, NDA consist of: (a) net claims to the general government from the NBKR; (b) net claims to other depository 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 27,174 million on December 31, 2015.

Adjustors

The ceiling on NDA will be adjusted downward/upward to the full extent of any excess/shortfall in program and other 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. The ceiling on NDA will be adjusted downward/upward to the full extent of any excess/shortfall of the Russia-Kyrgyz Development Fund net flows given in Table 3a.

Ceiling on the cumulative overall cash deficit of the general government

Definitions

The overall cash deficit of the general government will be measured from the financing side (below the line) as the net cash inflow from financing activities, defined as the net incurrence of liabilities minus the net acquisition of financial assets other than cash. These will be measured at current exchange rates and will be defined as the sum of:

- 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 and overdrafts on the current accounts of the general government with banks;
- The change in the stock of net claims of foreign governments, banking systems, and nonfinancial institutions and households on the general government;
- Net transactions in equity, i.e., any new sales net of purchases of shares;
- Net foreign loans disbursed to the general government for budgetary support; and

- Net foreign loans disbursed to the general government for PIP financing.

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

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 the present value of new external debt contracted or guaranteed, and accumulation of new external payment arrears by the public sector (continuous quantitative performance criteria).

Definitions

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), as amended by Decision No. 15688–(14/107), point 8, adopted December 5, 2014, and reads as follows:

- 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:
 - 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);
 - 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
 - Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all

lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

- Under the definition of debt set out in point 8 (a) in the above mentioned Executive Board Decision, 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.

For program purposes, external debt is defined based on the residency of the creditor.

External debt ceilings. A performance criterion (ceiling) applies to the present value (PV) of new external debt, contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. The ceiling is subject to an adjustor defined below.

An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

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.

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.

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

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

Cumulative floor on state government tax collections

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

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

Ceiling on the new non concessional external debt contracted or guaranteed

An indicative target applies to the contracting or guaranteeing by the public sector of nonconcessional external debt, i.e. external debt with grant element of less than 35 percent, except normal short-term import-related credits and the NBKR international reserve liabilities.

Reporting Requirements Under the Arrangement

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. Analytical balance sheet of the NBKR

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 net foreign assets of the NBKR; the net international reserves of the NBKR; total reserve assets and total reserve liabilities of the NBKR; the net domestic assets of the NBKR; net credit from the NBKR to the general government, disaggregated by state government and special funds of the KR; net credit from the NBKR to other deposit corporations and other financial corporations (including Russia-Kyrgyz Development Fund); 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

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, 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.

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 protection agency); 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

The NBKR will provide monthly data within 20 days from the end of the month on its gross and net international reserves within the framework of reporting “International Reserves and Foreign Currency Liquidity” (IMF’s SDDS). The report on foreign assets and liabilities by currency will be provided 20 days after the end of each quarter. 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, reports should be sent to the IMF on 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. Reports on 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, nonperforming loans by sector and by currency, restructured and prolonged loans by sector and by currency, return on equity, liquidity, earning and profitability, loans and deposits ratios in domestic and foreign currency, foreign currency exposure and dollarization as well as data on bank deposits and loans by maturity and sector, and bank deposit and lending rates by maturity. On the twentieth day of the month following the reference quarter the NBKR will provide data on nonperforming loans for micro-finance organizations and credit unions

D. External debt

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

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

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

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

Table 1. Ten Largest SOE's
(Included in the public sector)

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

Sources: Authorities data and IMF staff calculations.

Table 2. Program Cross Exchange Rates and Gold

Abbreviation	Currency Name	Currency/US\$	US\$/Currency
AUD	Australian Dollar	1.2926	0.7736
AMD	Armenian Dram	479.6865	0.0021
CAD	Canadian Dollar	1.2525	0.7984
CNY	Chinese Yuan	6.2477	0.1601
CNH	Chinese Yuan	6.2517	0.1600
JPY	Japanese Yen	119.0568	0.0084
KZT	Kazakh Tenge	185.0512	0.0054
KWT	Korean won	1,100.5851	0.0009
KWD	Kuwati dinar	3.3824	0.2956
KGS	Kyrgyz Som	60.7523	...
NOK	Norwegian Crown	7.6020	0.1315
RUB	Russian Ruble	62.6635	0.0160
SAR	Saudi Rial	4.6076	0.2170
SGD	Singapore Dollar	1.3585	0.7361
SEK	Swedish Crown	8.4426	0.1184
CHF	Swiss Franc	0.9293	1.0760
AED	UAE Dirham	3.6779	0.2719
GBP	UK Pound Sterling	0.6508	1.5366
SDR	SDR	0.7096	1.4092
XAG	Silver	0.0579	17.2700
BYR	Belarusian Ruble	15,318.2804	0.0001
EUR	Euro	0.8757	1.1420
XAU	Gold (US\$/troy ounce)	1,229.2500	...

Sources: Authorities data and IMF staff calculations.

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

	2015				2016			
	March	June	September	December	March	June	September	December
Program grants	0.0	27.6	27.8	50.5	30.0	0.0	0.0	40.0
Program loans	0.00	6.76	0.00	21.4	0.8	14.5	2.4	27.7
Grants in-kind	32.3	32.3	32.3	32.3	28.8	28.8	28.8	28.8
PIP grants excl. grants in-kind	5.4	6.6	10.4	12.5	8.8	34.0	39.9	56.7
PIP grants incl. grants in-kind	37.6	38.9	42.7	44.8	37.6	62.8	68.6	85.5
Other grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PIP loans	12.5	31.0	26.5	178.9	51.0	112.8	170.6	162.1
PIP loans, excl. onlending	8.4	12.5	21.9	93.6	49.0	81.1	72.3	66.9
Amortization of public external debt	16.5	18.7	18.8	18.0	34.3	34.3	34.3	34.3
Interest payments	12.3	9.1	12.7	9.1	13.7	13.7	13.7	13.7

Table 3a. Projected flows of the Russia-Kyrgyz Fund
(In millions of U.S. dollars)

	2016			
	March	June	September	December
Inflows	50.0	100.0	0.0	0.0
Lending	0.0	30.0	65.0	65.0
Net	50	70	(65)	(65)

Table 4. Reporting Requirements and Frequency Under the Arrangement

Reporting Agency	Data	Frequency	Timing
NBKR	Analytical balance sheet of NBKR at actual and program exchange rates	Daily	The following working day
NBKR	Monetary surveys of the banking sector and other depository corporations at actual and program exchange rates	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 gross and net international reserves Net foreign financing flows	Monthly	Within 20 days of the end of each month
NBKR	Reserve composition by currency and instrument	Quarterly	Within 10 days of the end of each quarter
NBKR	Nominal exchange rates Foreign exchange interbank market turnover Volume of NBKR foreign exchange sales and purchases in the domestic interbank market on a daily basis	Daily	The following working day
NBKR	Treasury bill yields and the amount of treasury bill sales and redemptions, and operations with other parties	Weekly	Every Monday
NBKR	Balance sheet and income statement of banks (aggregated); data on capital assessment of the commercial banks and the data on the main factors of the loan portfolio's growth of the banking system and separately of the group of banks with a significant share of the Kazakh capital	Monthly	Within 25 days of the end of each month
NBKR	Balance sheet and income statement by individual bank and banking groups; sectoral distribution of loans and NPLs by currency and by bank; restructured and renewed loans; largest exposures by bank; loan classification by banks and by groups;	Monthly	Within 25 days of the end of each month
NBKR	Nonperforming loans for microfinancing organization and credit unions	Quarterly	Within 20 days of the end of each quarter
NBKR	Indicators of financial soundness of the banking system (capital adequacy, liquidity, asset quality, earning and profitability, loans and deposits ratios, foreign currency exposure and dollarization)	Monthly	Within 25 days of the end of each month
State Property Fund	Balance sheets of the 10 largest SOEs	Annually	Within 91 days after the end of the year
MOF	Revenues, expenses, net lending and on-lending of financial assets and liabilities of the central government	Monthly	Within 26 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	Monthly	Within 21 days of the end of each month
MOF	Details (amount, currency, and financing terms) on new loans contracted on public external debt, including SOEs.	Quarterly	Within 25 days of the end of each quarter
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, budgetary grants, and grants in kind.	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 60 days of the end of each month
NBKR	Remittances by country of origin and currency.	Monthly	Within 45 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

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

June 3, 2016

Prepared By

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

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RELATIONS WITH THE FUND

(As of April 30, 2016)

Membership status: Joined: May 08, 1992

Article VIII

General resources account:	SDR million	% Quota
Quota	88.80	100.00
Fund holdings of currency (Exchange Rate)	88.80	100.00
Reserve Tranche Position	0.00	0.01

SDR department:	SDR million	% Allocation
Net cumulative allocation	84.74	100.00
Holdings	130.61	154.14

Outstanding purchases and loans:	SDR million	% Quota
ESF Arrangements	21.65	24.38
RCF Loans	19.98	22.50
ECF Arrangements	91.97	103.57

Latest financial arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Apr 08, 2015	Apr 07, 2018	66.60	19.03
ECF	Jun 20, 2011	Jul 07, 2014	66.60	66.60
ESF	Dec 10, 2008	Jun 09, 2010	17.76	33.30

Projected payments to Fund ^{1/}

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

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	12.75	18.27	20.68	17.52	18.71
Charges/Interest	0.00	0.04	0.02	0.17	0.14
Total	12.75	18.30	20.70	17.70	18.85

^{1/} 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 April 8, 2015 was completed on October 5, 2015. The assessment concluded that the National Bank of the Kyrgyz Republic (NBKR) continues to have significant vulnerabilities in the legal structure, particularly in governance arrangements. The audit committee's authority remains limited, as it only has an advisory role vis-à-vis the NBKR Board. Further, the internal audit mechanism is in need of improvement. The NBKR, in coordination with the government, should actively pursue and advocate the prompt enactment of the Banking Law. Previous assessments were completed in October 2011, 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 2015 Article IV consultation discussions were held in September 2015 and were completed by the Executive Board in December 2015 (see Country Report No. 16/55).

FSAP participation and ROSC assessment

An FSAP update mission in July 2013 reviewed progress since the 2007 assessment, and the Board discussed the Financial System Stability Assessment (FSSA) along with the fifth ECF review in December 2013. The FSSA was not published. 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 tenth resident representative of the Fund in the Kyrgyz Republic, Mr. Said, took his post in Bishkek in March 2016.

RELATIONS WITH THE WORLD BANK GROUP

(As of May 19, 2016)

The Performance and Learning Review of the joint WB/IFC Country Partnership Strategy (CPS for FY14–17) for the Kyrgyz Republic for the period FY14–15 was reviewed by the Board on March 22, 2016. The overarching objective of the CPS is strengthened governance. This governance-oriented approach focuses on three dimensions of the relationship between the state and the citizen, which correspond to three broad areas of engagement—public administration and public service delivery, business environment and investment climate, and the management of natural resources and physical infrastructure. IFC’s role in the WBG Country Partnership Strategy for the Kyrgyz Republic is to support the development and diversification of the private sector, contributing to country’s greater competitiveness, and improving employment opportunities.

Since the Kyrgyz Republic joined the World Bank in 1992, the Bank has approved US\$1.3 billion for International Development Association (IDA)-funded projects and Recipient Executed Trust Funds (RETFs), out of which US\$1.1 billion has been disbursed. To date, 50 IDA investment operations for US\$1.2 billion have been completed and closed. The Kyrgyz Active Portfolio includes nine IDA projects and 20 RETFs for a total amount of US\$201.8 million. From 1992 until 2000, the Kyrgyz portfolio had a significant focus on budget support; since 2001, however, there has been a gradual shift toward investment projects till 2010. To achieve macroeconomic stability in the country after political turmoil in April 2010, the Kyrgyz government requested the Bank to provide budget support. There have been three budget support operations since the July 2010 Donors Conference. Further, the multiyear programmatic budget support program is envisioned till FY17; the first in a series of two Programmatic Development Policy Operations—the Programmatic Governance and Competitiveness Development Policy Operation—has been negotiated on May 19, 2016 and is scheduled for the Board approval in June 2016.

IDA financed operations: Under the CPF, two operations were delivered in FY16: Integrated Forest Ecosystem Management Project (US\$12 million equivalent) and the Urban Development Project (US\$12 million equivalent). The Governance and Competitiveness Development Policy Operation (US\$24 million equivalent) is scheduled for the Board approval in June 2016.

The following operations are planned to be delivered in FY17, the Rural Water Supply and Sanitation Project 3 (US\$13 million equivalent) and the Integrated Dairy Productivity Improvement Project (US\$5 million equivalent).

Trust funds: In addition to the IDA portfolio, the Kyrgyz program includes a significant number of stand-alone trust funds (TFs). Currently, the RETFs Portfolio has a total value of about US\$53.4 million, out of which US\$12 million has been disbursed. Three sectors—Health, Education, and Water—receive most of the TFs. The largest trust funds are the Kyrgyz Global Partnership for Education (US\$12.7 million equivalent), the Swiss TF for the Kyrgyz Second Health and Social Protection Project (US\$11.9 million equivalent), the Kyrgyz Health Results Based Financing

(US\$11 million equivalent), and the National Water Resources Management Project (US\$7.8 million equivalent). Additionally, the Global Agriculture and Food Security (GAFS) RETF Agriculture Productivity and Nutrition Improvement Project (US\$38 million equivalent) has been approved by the Bank and is going through the process of becoming effective. TFs are mainly provided to co-finance IDA operations and to support capacity-building activities. The main contributors to the TFs have been Switzerland and Russia.

Analytical advisory activities: These include among others debt management reform plan, Custom Union and competitiveness analysis, roadmap for improving social safety net administration, national private sector development strategy, business environment enhancement technical assistance, and capacity building for public sector accounting reform.

IFC program: Since becoming a member of IFC in 1993, the Kyrgyz Republic has received commitments totaling more than US\$123 million from IFC's own funds to finance 39 projects in the financial sector, including banking and microfinance, mining, agribusiness, as well as in the pulp and paper sectors. As of June 30, 2015, IFC's committed portfolio stood at US\$27.4 million, which includes investments in financial markets and manufacturing sectors. IFC prioritizes activities aimed at improving the investment climate, increasing access to finance and promoting corporate governance, while at the same time exploring a greater role in energy efficiency and renewable energy and developing opportunities for public private partnerships jointly with IDA. In the banking sector, IFC aims to increase access to finance for MSMEs by improving regulatory framework, strengthening local financial institutions, expanding microfinance organizations, and providing financing for MSME financing to local banks. In the real sector, IFC aims to improve corporate business practices, while looking for emerging opportunities to invest across variety of sectors, particularly in agribusiness, mining, and infrastructure.

IFC advisory programs implemented in the Kyrgyz Republic focus on: i) improving financial markets infrastructure, specifically credit information sharing systems and risk management; (ii) promoting the institutional and capacity building of financial intermediaries; (iii) promoting microfinance and housing microfinance development; (iv) enhancing the investment climate and tax administration; (v) improving corporate governance of local companies, including SMEs and succession planning; (vi) developing agri-finance and agricultural value chains with focus on dairy; (vii) helping producers improve food safety standards; and (viii) developing public-private partnership (PPP) projects, currently in the health sector.

MIGA program: MIGA's current portfolio in the Kyrgyz Republic does not have any projects. The last one project, financed by Austrian and Italian investors, in support of the country's manufacturing and services sector expired in June 2015.

ICSID: The Kyrgyz government lost an ICSID supported lawsuit relating to an expropriated hotel and defaulted on the required payment. In October, the Canadian court approved the confiscation of Kyrgyz holdings on the Toronto Stock Exchange. The Kyrgyz government has contested this decision.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ADB)

(As of December 31, 2015)

The Kyrgyz Republic joined ADB in 1994. ADB approved the current 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 (NSDS). 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, focusing on rehabilitation of a regional corridor and maintenance of the road network.; (iii) the energy sector, focusing on rehabilitating and upgrading a major hydropower plant, and institutional and technological reform to improve sector efficiency; (iv) education and training, focusing on improvement of the availability and quality of a skilled workforce, and employability of the population; and (v) water supply and sanitation (WSS), responding to the government’s request and commitment to sector reform. ADB has been active in these areas and within each sector will focus more strongly on addressing regional disparities. The Country Operations Business Plan (COBP) 2016–18 was endorsed by the Board in September 2015. The COBP 2017–19 is being prepared.

ADB is one of the major development partners in the country. The Kyrgyz Republic is a Group A developing member country and has access to Asian Development Fund (ADF) resources and concessional ordinary capital resources (OCR). The indicative ADF and concessional OCR resource allocation for 2016–18 is US\$283.8 million, including US\$60.0 million from sub-regional pool. The final allocation will depend on available ADF resources and concessional OCR, and the outcome of the country performance assessments. In addition, co-financing and funding from other sources, including the ADF and concessional OCR sub-regional pool, will be explored. The 2014 debt distress classification of the Kyrgyz Republic was assessed as moderate risk of debt distress. In accordance with the ADF grants framework, the country is to receive 50 percent of its country allocation in grants during 2015–16, subject to a 20 percent volume discount of the grant portion of the country allocation. The nonlending program includes US\$4.9 million of technical assistance grants for 2016–18.

As of 31 December 2015, the country received US\$1,464.3 million consisting of 40 loans for US\$981.7 million and 34 grants for US\$482.6 million, including two nonsovereign loans for US\$20.0 million and 8 Japan Fund for Poverty Reduction grants for US\$8.5 million. About 22 percent (US\$324.0 million) of the total funding resources had been provided through thirteen program operations to support policy reforms and facilitate economic transition.

As of 31 December 2015, the total portfolio included 16 projects totaling US\$584.8 million which were being implemented through 10 ADF loans (US\$307.2 million) and 13 ADF grants (US\$276.1 million) and one grant financed by the Japan Fund for Poverty Reduction grant

(US\$1.5 million). Transport and energy are the top two sectors in terms of ADB financing volume accounting for about 70 percent of the total active portfolio. Four projects, namely: Investment Climate Improvement Program (ICIP), Subprogram 3 for US\$22 million; Strengthening Education System Sector Development Program and Project for US\$12 and US\$10 million; Toktogul Rehabilitation Phase 2 Project for US\$110 million (US\$65.5 million loan and US\$44.5 million grant); CAREC Transport Corridor I (Bishkek-Torugart Road) Project 3—Additional financing for US\$15.1 million (US\$10.8 million loan and US\$4.3 million grant) were approved in 2014. In 2015, CAREC Corridors 1 and 3 Connector Road Project, Project Design Advance (PDA) for US\$3 million and the Second Investment Climate Improvement Program (Subprogram 1) for US\$20 million were approved.

ADB has also provided 90 technical assistance (TA) projects amounting to US\$51.9 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, Support for Strategic Assessment of the Kyrgyz Economy, and Strengthening Government Capacity for Managing Development Projects. Two TAs were approved in 2015: project Advisory TA (PATA) for Accession to the Eurasian Economic Union—Capturing the Opportunities and Addressing the Risks for US\$0.5 million, and project Preparatory TA (PPTA) Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road for US\$1 million.

The year-end performance of ADB's portfolio was satisfactory in 2015 with 90 percent projects on track. Contract awards and disbursements as of 31 December 2015 reached US\$88.2 million and US\$71.7 million (153 percent and 250 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.

By the end of 2015, cumulative direct value-added official co-financing for the Kyrgyz Republic since 1997 amounted to US\$216.6 million for eleven investment projects and US\$4.13 million for eight technical assistance projects.

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. In December 2012, three banks in the Kyrgyz Republic signed TFP agreements including Demir Kyrgyz International Bank, Kyrgyz Investment and Credit CJSC, and RSK

Bank OJSC. In 2015, a US\$10 million Senior Unsecured Loan to Bai Tushum Bank for Broadening Access to Finance was approved.

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 September 30, 2015)

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 2015, the Bank signed 128 projects accounting for a net cumulative business volume of €516 million. The Bank's portfolio amounted to €209 million in 54 active projects. The current private sector portfolio ratio (as a percentage of the total portfolio) is 68 percent which is well above the Bank's 60 percent mandated ratio.

On 25 February 2015 the EBRD Board of Directors approved a new country strategy for the Kyrgyz Republic which will guide the Bank's operations in the country for the next four years. The key strategic priorities include (i) fostering sustainable growth by strengthening regional cross-border linkages; (ii) enabling SMEs to scale-up and bolster competitiveness; and (iii) promoting sustainability of public utilities through commercialization and private sector participation. In addition, the Bank will seek to support through the above priorities the reduction of regional economic disparities, by increasing its outreach to less developed rural areas, in particular in the southern regions, and addressing inclusion gaps in relation to gender and youth across sectors.

Fostering sustainable growth by strengthening regional cross-border linkages:

As a landlocked economy with a limited domestic market, the Kyrgyz Republic would benefit greatly from deeper regional integration, given its important energy export potential, as well as good regional trade and transit position. The country is engaged in several regional integration processes, which create opportunities in terms of export markets and potential inwards investments.

- In that context, the Bank aims to help facilitate economic and trade cooperation and integration with the region, by supporting rehabilitation of critical infrastructure. In 2014 and 2015 the Bank completed physical implementation of US\$35 million project to rehabilitate a section of Osh-Isfana road, an important trade and transport corridor in the Fergana valley and has been exploring opportunities for further involvement in the road sector.
- The Bank helped local SMEs to develop export potential by providing direct business advice involving both local and international consultants, organizing specialized seminars, trainings to promote trade finance instruments and equip consultant with much needed knowledge on export promotion.
- The Bank continued its engagement with the government on public procurement improvement 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 working with the government on helping to

open negotiations and join the GPA to comply with requirements of both WTO and Eurasian Economic Union in terms of public procurement.

Enabling SMEs to scale-up and bolster competitiveness:

The Bank's operations in support of local SMEs took advantage of the ETC Initiative and recently created SME Department, which was instrumental in enabling the Bank to deliver a number of small projects with significant transition impact, particularly in the areas of corporate governance and business conduct. In 2014 and first nine months of 2015 the Bank signed nine corporate sector projects all with local SMEs.

- Under the Direct Finance Facility, in 2014 the Bank financed a local retail chain to support expansion and improve shop conditions; and a local property and hotel developer to complete the major construction and refurbishment works.
- Under the Risk-sharing Facility (RFF), jointly with local partner banks the Bank supported expansion to Jalalabad of one of the leading flour producing companies; financed two local construction companies, one to invest into expansion of its stone crushing and mortar product lines to increase efficiency and ensure acceptable product quality, and another to increase own fleet to maintain a continuous raw materials supply; financed one of the largest manufacturing enterprises in the country supplying radiators and other spare parts to its partners in Russia and Kazakhstan helping to improve health and safety standards at the site as well as modernize production facilities; supported a local resort to help modernize its wastewater treatment facility with the aim to reduce energy consumption and improve the resort's area and facilities; provided financing to a local fuel trader to expand the network of fuel stations across the country; and supported a local producer of confectionery in the southern area to refurbish its manufacturing workshop.
- Improving access to finance by developing local financial sector remained a priority for the Bank in supporting SMEs. In 2014–15 the Bank signed ten new loan agreements with local banks and MFIs, including eight loan agreements 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). In September 2015 EBRD has approved US\$33 million financing package to OptimaBank, the largest bank in the country. This includes credit line for support of MSMEs, limits opened under Trade Facilitation Program and Risk-sharing Facility.
- Loans to local financial institutions also included the energy efficiency credit lines to four participating financial institutions provided under the US\$20 million Kyrgyz Sustainable Energy Efficiency Facility (KyrSEFF) 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. KyrSEFF offers to provide financing for small-size energy efficiency improvements in the residential, service, agribusiness, SME, and industry sectors.

Based on the success of KyrSEFF, EBRD works on mobilizing additional US\$35 million of credit resources to be directed for energy efficiency but also water efficiency and management.

- The Bank also engaged in policy dialogue with the National Bank of the Kyrgyz Republic (NBKR) on supporting development of mobile banking regulation, and strengthening the NBKR capacity in monetary policy implementation (inflation targeting TC Program). Jointly with KfW, the Bank initiated a technical assistance project to support further development of the local capital market.
- Small Business Support (SBS) connects small and medium-sized enterprises to the expertise that can help transform their businesses. Depending on the nature of the company's needs, SBS works by providing business advice, supporting short-term specific projects with local consultants, or through industry expertise, using longer-term projects that help senior managers develop new business skills and make the structural changes their companies need to thrive.
 - SBS 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. SBS has undertaken 55 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 €3.2 million.
 - SBS 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. SBS 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 23 September 2015, SBS Kyrgyz Republic has undertaken 893 projects, engaging 202 consultants. More than 65 percent of the enterprises assisted are located outside the main cities. Despite the difficult business climate, turnover increased in nearly 66 percent of SBS beneficiary companies in the year following project completion, while 57 beneficiaries secured external investments, for a total investment of €31 million. SBS Kyrgyz Republic is funded by the Swiss and the U.S. Governments and the EBRD Shareholders Special Fund which have contributed €4.5 million, €0.7 and €1 million respectively.

Promoting sustainability of public utilities through commercialization and private sector participation:

To build the institutional framework for sustainable operations of municipal services, the Bank strengthened its activities in municipal infrastructure projects and worked on implementation of a €20 million framework to improve water supply and wastewater treatment supported by co-financing grants from bilateral and multilateral donors. The framework was fully utilized by the end of 2014. In 2015 the Bank extended the original framework by approving new €20 million to cover additional sub-projects in the following cities: Naryn, Batken, Cholpon-Ata, Balykchi, Karakol, Kara-Suu, Uzgen, Kizil-Kiya, Toktogul, Mailu-Suu and second phases of water projects in Osh, Jalal-Abad and Talas.

- Under this framework, the Bank signed new water and wastewater projects for Tokmok, Naryn and Batken in 2015. The new loans in total amount of €5.5 million (€2.0 million for Tokmok, €2.0 million for Naryn and €1.5 million for Batken) are co-financed by capital grants in total amount of €8.8 million (€3.1 million for Tokmok, €3.2 million for Naryn and €2.5 million for Batken) from the European Union's Investment Facility for Central Asia (EU IFCA), Swiss State Secretariat for Economic Affairs (SECO) and the EBRD Shareholder Special Fund (SSF) respectively for Tokmok, Naryn and Batken and will be used to finance critical water and wastewater infrastructure improvements in these cities. The capital expenditure grants are required to meet conditions for non-concessional lending and mitigate affordability constraints. Projects in the water sector enabled the Bank to make progress with water tariff reforms, implementing IFRS accounting standards, and promoting efficiency in the water companies.
- In 2015 the EBRD declared effective the €11 million loan to finance critical solid waste investments in Bishkek, which is the first project supporting solid waste management in the country. The loan is co-financed by €3 million capital grant from the Bank's Shareholder Special Fund (SSF) and €8 million from the EU IFCA. The project is expected to 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. In addition, substantial TC has been mobilized to assist the Bishkek municipality with development and implementation of resettlement and livelihood restoration in connection with the existing landfill. By end of 2015 the Bank intends to provide new loans of €3.5 million in total to finance critical solid waste investments in Osh and Jalal-Abad cities. The Bank loans will be co-financed by €7 million loans from the European Investment Bank and €9 million capital grants from EU IFCA.
- The Bank continued implementation of the Bishkek Public Transport project with 79 new high- and low-floor trolleybuses delivered to Bishkek by the end of 2014 and in the same year provided a new loan of €5.7 million for improvement of public transport system in the City of Osh. The loan was co-financed by €3.1 million capital grant from EBRD Shareholder Special Fund. For all municipal projects gender was taken into consideration with respect to improving

equality of access to the new services. By the end of 2015 the Bank intends to provide additional loan of €5 million in total to finance the second phase of the Bishkek Public Transport project for procurement of additional up to 60 new trolleybuses. The Bank loan will be co-financed by €3.4 million capital grant from EBRD SSF.

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, in particular transport sector (road maintenance and financing) reform.
- The Bank is providing support to the development of local capital markets through policy dialogue, TC deepening the market, and reducing financial institutions' funding mismatches, including in local currency.
- The Bank has been working on implementing TC to provide institutional capacity building support to the State Agency for Geology to support mining sector reform.
- 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 continued policy dialogue with the authorities and utility companies to improve employment opportunities and HR practices affecting women, youth and regional populations in utility and public transport. An initial study of impediments for creating equal opportunities for women's employment in the mining sector has been produced which suggested a need for changes to be further discussed with the authorities.

TECHNICAL ASSISTANCE PROVIDED BY THE FUND

(February 2003–May 2016)

Dept.	Subject/Identified Need	Timing	Counterpart
FAD	Improving the Effectiveness of the Large Taxpayer Unit	February 24–March 7, 2003	Ministry of Finance
	Treasury Management Information System	July 21–29, 2003	Ministry of Finance
	VAT on agriculture	November 3–11, 2003	Ministry of Finance
	Priorities for Tax Administration Reform	July 22–August 5, 2004	Ministry of Finance
	Supporting Tax Administration Reform and Installing New Expert Advisor	January 16–28, 2006	Prime Minister's Office
	Fiscal ROSC Reassessment (Fiscal Transparency Module)	September 11–25, 2007	Ministry of Finance
	Securing Tax Revenues During the Economic Downturn	March 9–20, 2009	Ministry of Finance
	Strengthening the Link between Fiscal Policy and Budget Preparation	October 12–23, 2009	Ministry of Finance
	Monitoring Expenditure Arrears; Adjusting the New BO-COA	October 20–23, 2009	Ministry of Finance
	IMF peripatetic assignment to support overall LTO (large taxpayer office) enhancement	February 22–March 12, 2010	State Tax Service
	Reviewing Treasury's Work and Advising the Authorities on COA Issues	February 15–18, 2011	Ministry of Finance
	Tax Policy Advice	April 20–May 4, 2011	Ministry of Finance, State Tax Service, 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

Dept.	Subject/Identified Need	Timing	Counterpart
	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

Dept.	Subject/Identified Need	Timing	Counterpart
	Tax Administration Enforcement (Module 6—TPA TTF)	November 19–23, 2013	Ministry of Finance, State Tax Service, State Customs Service
	Tax Administration Enforcement (Module 6—TPA TTF)	January 8–22, 2014	Ministry of Finance, State Tax Service, State Customs Service
	Public Finance Management	May 2–13, 2014	Ministry of Finance
	Public Finance Management	December 5–18, 2014	Ministry of Finance
	Public Finance Management (	April 23–May 7, 2015	Ministry of Finance
	Tax Policy (Impact of the Accession to the EEU)	April 29–May 13, 2015	Ministry of Economy
	Public Finance Management (Fiscal risk disclosure)	September 17–October 1, 2015	Ministry of Finance
	Public Investment Management Assessment Information-Gathering	December 14–16, 2015	Ministry of Finance, Ministry of Economy
	Public Investment Management Assessment	January 27–February 10, 2016	Ministry of Finance, Ministry of Economy
	Managing Government Wage Expenditure	March 15–28, 2016	Ministry of Finance, Ministry of Labor
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

Dept.	Subject/Identified Need	Timing	Counterpart
	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

Dept.	Subject/Identified Need	Timing	Counterpart
	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

Dept.	Subject/Identified Need	Timing	Counterpart
	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
	Operational Advice on Improving the Monetary Policy Framework	February 3–14, 2014	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	April 20–28, 2015	National Bank of the Kyrgyz Republic
	Strengthening Near-Term Modeling and Forecasting Capacities	April 18–29, 2016	National Bank of the Kyrgyz Republic
	Medium-Term Debt Management Strategy	April 20–28, 2016	Ministry of Finance
LEG	Review of Bank Legislation	March 1–4, 2004 April 26–May 6, 2004	National Bank of the Kyrgyz Republic
	Review of Tax Legislation	July 27–August 5, 2004	Ministry of Finance
	Assisting in drafting Tax Code	December 4–10, 2005	Prime Minister's Office
	AML/CFT Follow-up	July 2–6, 2007	National Bank of the Kyrgyz Republic

Dept.	Subject/Identified Need	Timing	Counterpart
	AML/CFT Follow-up	September 3–6, 2007	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Framework	February 11–15, 2008 March 3–7, 2008	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	Review of the Draft Tax Code	April 22–30, 2008	Ministry of Finance
	AML/CFT capacity building	March 25–31, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	May 18–29, 2009	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

Dept.	Subject/Identified Need	Timing	Counterpart
	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

Dept.	Subject/Identified Need	Timing	Counterpart
	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
	AML/CFT Follow-up	February 2014	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	January 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	June 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	October–November 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor

Dept.	Subject/Identified Need	Timing	Counterpart
	AML/CFT Follow-up	January 2016	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	April 2016	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

Dept.	Subject/Identified Need	Timing	Counterpart
	Price Statistics	February 18–March 1, 2013	National Statistics Committee
	Price Statistics	March 31–April 11, 2014	National Statistics Committee
	External Sector Statistics	February 16–27, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	October 26–November 6, 2015	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 15–28, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	October 26–November 6, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	April 4–15, 2016	National Bank of the Kyrgyz Republic
	Quarterly National Accounts	April 11–16, 2016	National Statistics Committee
	Government Finance Statistics	April 11–22, 2016	Ministry of Finance
	Monetary and Financial Statistics	April 13–26, 2016	National Bank of the Kyrgyz Republic

List of Resident Advisors			
MFD	Banking Supervision/Restructuring Advisor	Mr. Svartsman	January 2004–January 2005
MFD	Public Debt Policy and Management	Mr. 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–April 2014
MCM	Banking Supervision/Restructuring Advisor	Mr. Svartsman	July 2013–January 2014
MCM	Banking Supervision/Restructuring Advisor	Ms. Sonbul Iskender	January 2016–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 Economy and Industry, the Ministry of Finance, and the 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/rosoc) 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. However, a follow-up April 2016 STA mission found deficiencies in the quarterly discrete data.

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. Revenue and expenditure data generally accord with the GFSM 2001, but some deficiencies remain. The April 2016 GFS TA mission provided authorities with birding table for transition to GFSM 2014. Monthly GFS data are reported to STA for publication in the IFS; the latest data reported for publication in the GFS Yearbook were for 2012 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 MFS Technical Assistance (TA) mission visited the Kyrgyz Republic in April 2015 and assisted the National Bank of Kyrgyz Republic (NBKR) in migrating to the IMF recommended Standardized Report Forms (SRFs). The pilot data SRF 1SR for the NBKR and SRF 2SR for other depository corporations (which currently include operational commercial banks only) were developed and submitted to STA for review. STA identified classification and sectorization issues in the reported SRF data, which were communicated to the authorities. The data will be published in International Financial Statistics as soon as these issues are resolved. The April 2016 MFS TA mission focused on extending a coverage of SRF 2SR by including other deposit taking institutions as well as developing SRF 4SR for other financial corporations.

13. The NBKR submitted pilot data on Financial Soundness Indicators (FSIs) to STA. STA works with the NBKR to bring FSIs compilation practice in line with those outlined in the FSIs Compilation Guide.

External sector statistics

14. Data on the balance of payments and international investment position (IIP) are compiled and disseminated on a quarterly basis. The Kyrgyz Republic is one of the three beneficiary countries that are covered by the 18-month project on improving external sector statistics (ESS) finance by the Switzerland Government (SECO). Two technical assistance (TA) missions in ESS have been conducted during 2015 within SECO project. The missions noted that the compilation of balance of payments and IIP statistics broadly follows the methodology recommended in the BPM5; however, their coverage, compilation techniques, temporal consistency, and timeliness needed improvement. A specific concern was the accuracy of private sector external debt statistics. With the missions' assistance, the BPM6 was implemented on an experimental basis for balance of payments for 2015: Q1–Q2, and the reporting of external debt data for all institutional sectors to the World Bank Quarterly External Debt Statistics database was resumed. While progress had been made in several areas, further improvements are needed in foreign direct investment, estimation of shuttle trade, and in remittances. Specific concerns are regarding the adjustment of trade statistics to the requirements of Custom Union (CU) whose member the Kyrgyz Republic became in 2015. There is need to reconcile the customs declarations database for the trade with CU members and with the rest of the world.

Kyrgyz Republic: Table of Common Indicators Required for Surveillance

(As of May 18, 2016)

	Date of latest observation	Date received	Frequency of data ⁷	Frequency of reporting ⁷	Frequency of publication ⁷	Memo Items:	
						Data Quality Methodological Soundness ⁸	Data Quality Accuracy and Reliability ⁹
Exchange Rates	05/17/16	05/18/16	D	D	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	4/30/16	5/16/16	M	M	M		
Reserve/Base Money	05/17/16	05/18/16	D	D	M	LO, O, LO, LO	LO, O, O, LO, LO
Broad Money	4/30/16	5/16/16	M	M	M		
Central Bank Balance Sheet	05/17/16	05/18/16	D	D	M		
Consolidated Balance Sheet of the Banking System	4/30/16	5/16/16	M	M	M		
Interest Rates ²	4/30/16	5/16/16	M	M	M		
Consumer Price Index	4/30/16	5/12/16	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance, and Composition of Financing ³ —General Government ⁴	3/31/16	4/29/16	M	M	A	O, LNO, LO, O	LO, O, O, LO, LO
Revenue, Expenditure, Balance, and Composition of Financing ³ —Central Government	3/31/16	4/29/16	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	12/31/15	3/30/16	Q	Q	Q		
External Current Account Balance	12/31/15	4/20/16	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, LO, LO
Exports and Imports of Goods and Services	2/29/16	4/20/16	Q	Q	Q		
GDP/GNP	3/30/15	10/13/15	M	M	M	O, O, LO, O	LO, LO, LO, O, O
Gross External Debt	12/31/15	4/20/16	Q	Q	A		
International Investment Position ⁶	12/31/15	4/20/16	Q	Q	Q		

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

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

³ Foreign and domestic financing only.

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

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

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

⁸ Reflects the assessment provided in the data ROSC (published in November 2003, and based on the findings of the mission that took place during November 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁹ Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.