June 2008
IMF Country Report No. 08/175

Kyrgyz Republic: Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Kyrgyz Republic

In the context of the sixth review under the three-year arrangement under the Poverty Reduction and Growth Facility with the Kyrgyz Republic, the following documents have been released and are included in this package:

- The staff report for Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on March 5, 2008, 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 May 6, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its May 21, 2008 discussion of the staff report that completed the review.

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

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Kyrgyz Republic*
*Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the Middle East and Central Asia Department
(in cooperation with other departments)

Approved by David Owen (MCD) and Scott Brown (PDR)

May 6, 2008

Executive Summary

The Kyrgyz economy has weathered the political turmoil of recent years well. With sound macroeconomic policies, growth has recovered and debt indicators have improved dramatically. Inflation was low, but has recently surged to over 20 percent, due in large part to the rise in world food and energy prices.

The short-term outlook has deteriorated significantly, with a more uncertain global and regional economic environment. Growth (excluding gold production) is expected to slow, mainly due to spillover effects from the banking sector difficulties in neighboring Kazakhstan, while high inflation threatens to become entrenched.

The immediate challenge is to bring down inflation, while protecting growth and the poor. The authorities are tightening monetary policy to fight second round price and wage effects and prevent inflation expectations from adjusting upward, but stronger actions are needed. The envisaged tightening of fiscal policy relative to the approved budget will help to support monetary policy, while protecting medium-term growth prospects. Strong vigilance remains needed to detect and address any banking sector problems that may arise from a potential decline in asset quality or contagion from ongoing developments in Kazakhstan.

Staff recommends completion of the sixth and final review under the PRGF arrangement. Staff also supports the authorities' request for augmentation of resources under the PRGF, in light of the external shocks that have hit the Kyrgyz economy and the authorities' policy response, bringing the total disbursement upon completion of the review to SDR 10.15 million. The staff looks forward to continued close cooperation with the authorities after the current arrangement ends at the end of May.

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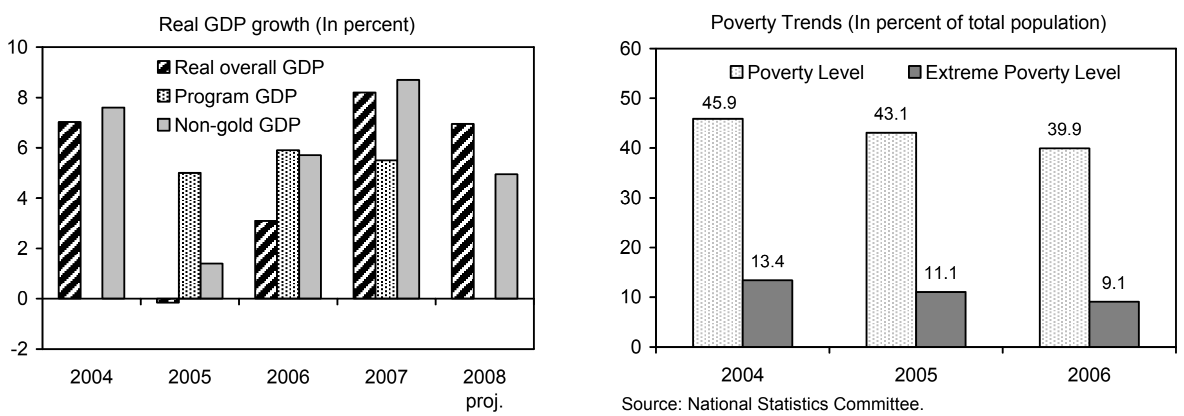
I. Economic Performance in Recent Years

1. **The PRGF arrangement approved in February 2005 aimed to preserve solid growth while maintaining low inflation, further reduce poverty, and tackle the country's large external debt overhang.** The success of the program was seen as depending on a strong commitment from the authorities to maintain strict fiscal discipline and continue with their reform efforts, particularly with regard to the investment climate.

2. **The March 2005 "Tulip Revolution" provided an opportunity to advance reforms, particularly in the area of governance, but lingering political tensions slowed progress.** The following years saw increased political uncertainty, with several constitutional reforms and changes in government, growing tensions between the government and parliament, and repeated demonstrations. Political stability was restored only recently.

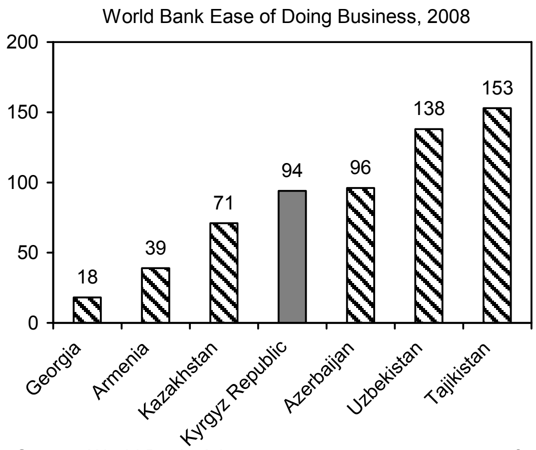
3. **The political turmoil adversely affected growth, but inflation remained low until recently.** With the economy stalling in 2005 and a major gold mining accident in 2006, overall real growth averaged only 3½ percent in 2005–07 (Table 1). Nongold growth was stronger, averaging 5¼ percent, reflecting the sharp pick-up in 2007. As the som strengthened, per capita GDP in U.S. dollar terms rose to $713 in 2007, from $435 in 2004. Poverty rates have fallen, with much of the decline coming from a drop in extreme poverty. Inflation remained close to 5 percent until it surged to over 20 percent in late 2007, due in large part to the rise in international commodity prices.



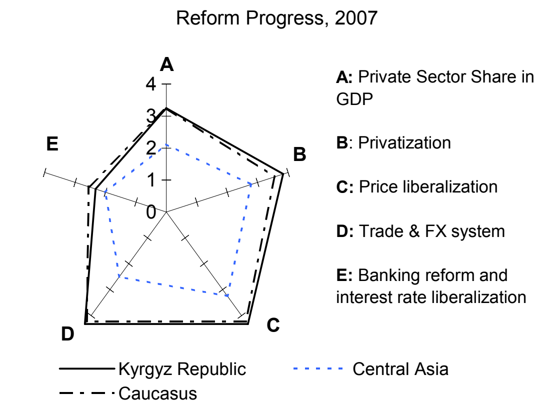
Source: Kyrgyz authorities; IMF staff projections.

Source: National Statistics Committee.
Note: Poverty indicator levels are based on household consumption expenditures.

4. **The political difficulties also slowed efforts to improve the business environment, although some progress was made.** Compared to other countries, the Kyrgyz Republic lost some ground in the World Bank's Doing Business survey, ranking 94th out of 178 countries in 2008—roughly the regional average—down from a 84th position in 2006. The new government has assigned improving the business environment a high priority and has been actively engaged with the World Bank to identify and start implementing reforms.

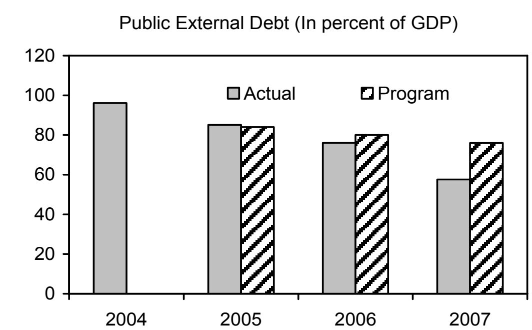


Source: World Bank. A lower score means greater ease of doing business.



Source: EBRD Transition Report 2007.
Note: Minimum score (little progress) is 1 and maximum score is 4.33 ("4+"). Privatization indicator is an average of small-scale and large-scale privatization.

5. **Fiscal performance has been impressive, with revenues rising sharply.** With firm fiscal policies and aided by recent strong growth and Paris Club support, the authorities were able to achieve a major improvement in debt indicators. Public debt (largely external) fell to 58 percent of GDP in 2007, from almost 100 percent of GDP in 2004.

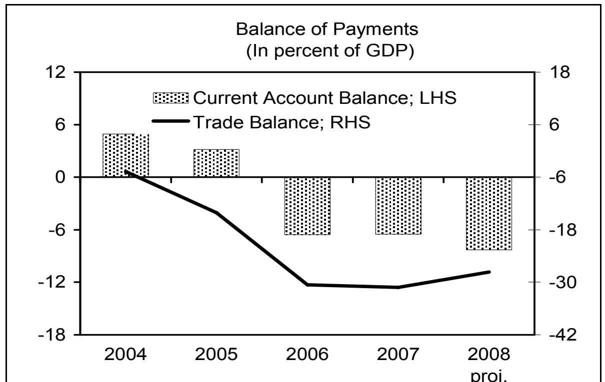


Source: Kyrgyz authorities.

II. Recent Developments and Performance Under the Program

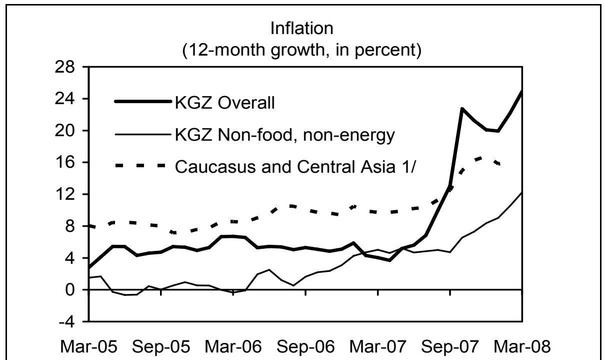
6. **President Bakiev's party won a large majority in the December 2007 parliamentary elections.** A new government, headed by Prime Minister Chudinov, was installed in January 2008. The new government is expected to get greater support from parliament for its policy agenda.

7. **Growth accelerated in 2007.** Real GDP grew by 8.2 percent, with nongold output rising by 8.7 percent, benefiting from strong growth in neighboring countries, which was reflected in a strong export performance and a further increase in remittances (to 27 percent of GDP). As a result, and despite strong growth in imports, the current account deficit is estimated to have remained broadly unchanged at 6½ percent of GDP (Table 2).

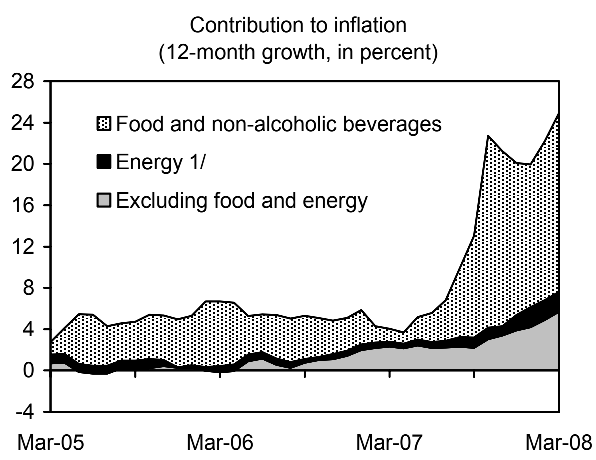


Source: Kyrgyz authorities; and Fund staff projections.

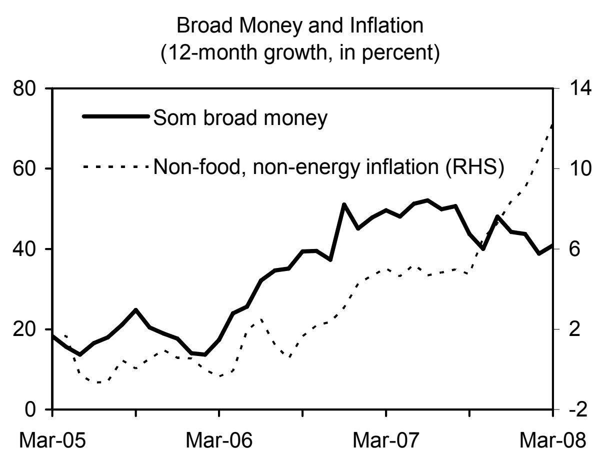
8. **Inflation picked up sharply in the second half of 2007 and continued to rise in early 2008.** Higher international food and energy prices were a major factor behind a surge in inflation to 25 percent in March 2008, compared to 5 percent at end-2006. Rapid monetary growth also seems to have added to inflationary pressures, as nonfood, nonenergy inflation rose steadily during 2007 and reached almost 12 percent in March 2008, up from 3 percent at end-2006.



Source: Authorities.
1/ GDP-weighted. The countries included are: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan.



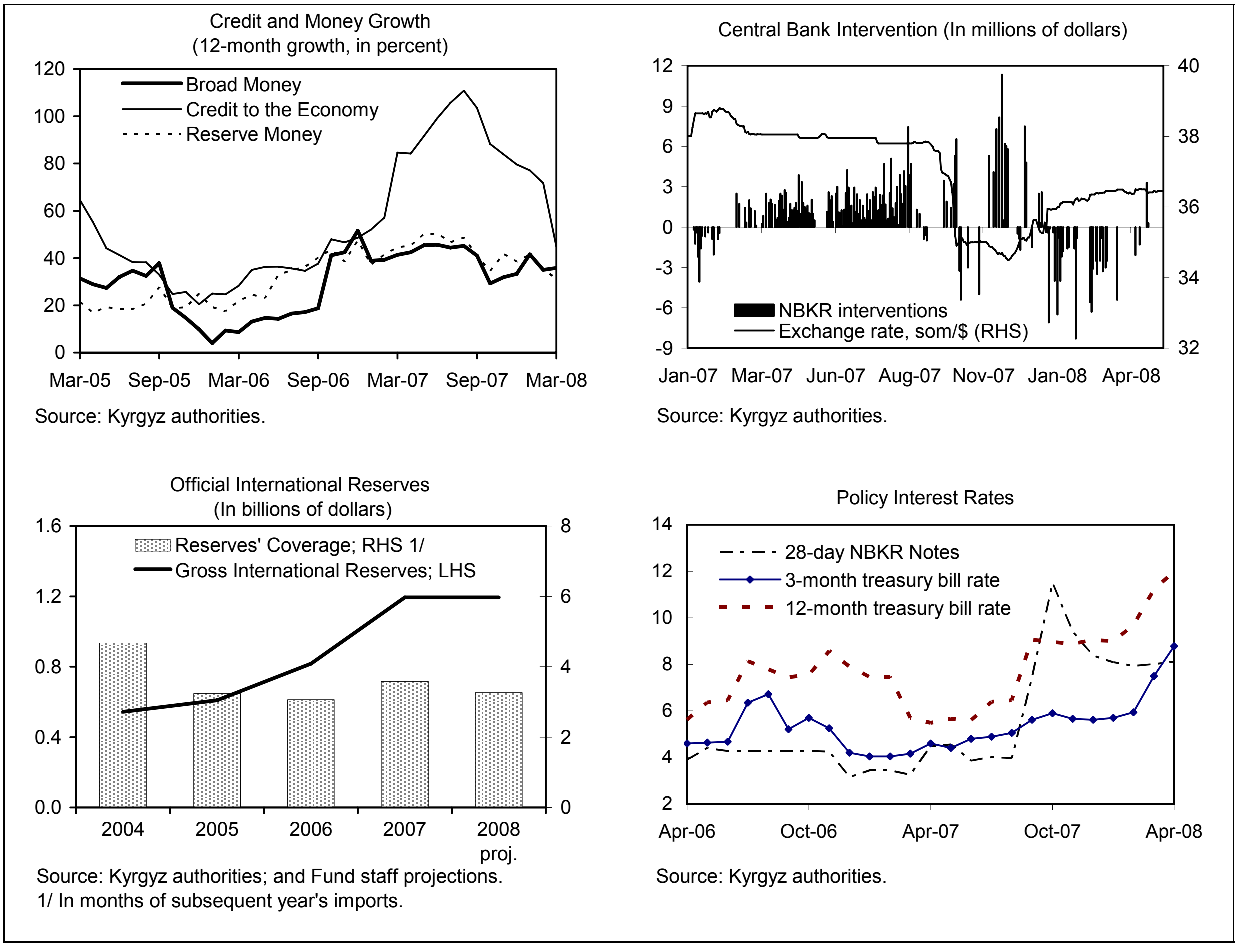
Source: Kyrgyz authorities.
1/ Electricity, gas, and other fuels.



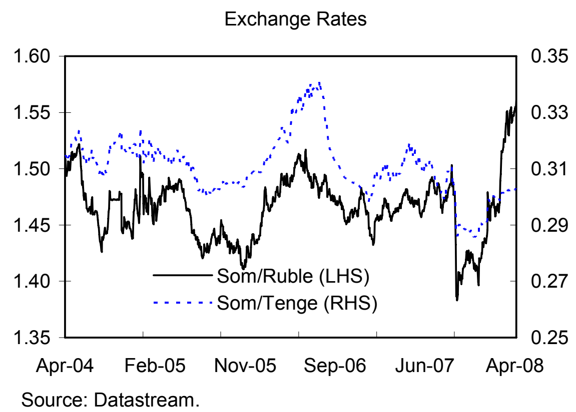
Source: Kyrgyz authorities.

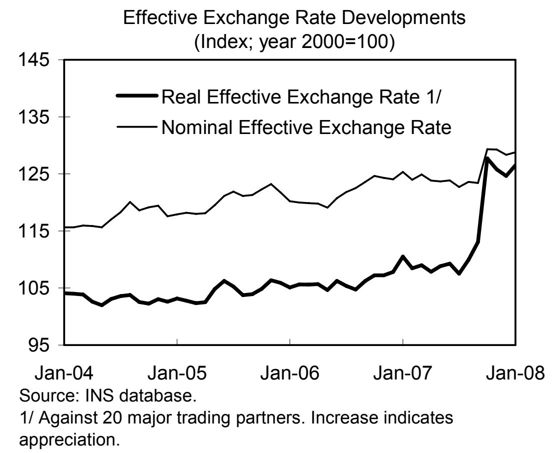
9. **Faced with rising inflation, the National Bank of the Kyrgyz Republic (NBKR) started to tighten monetary policy in the fall of 2007.** Monetary policy had been expansionary during much of the year, with the NBKR resisting pressures on the som to

appreciate, through large and mainly unsterilized foreign exchange purchases. Starting in September, the NBKR drastically scaled back its interventions and increased the issuance of NBKR bills. As a result, the som appreciated by almost 10 percent vis-à-vis the U.S. dollar through early December. Interest rates rose, but still became highly negative in real terms. The pace of monetary expansion slowed, although it remained high (Tables 3 and 4). The large foreign exchange inflows during the year allowed the NBKR to build up its reserves by about $375 million to almost $1.2 billion, covering 3½ months of imports.

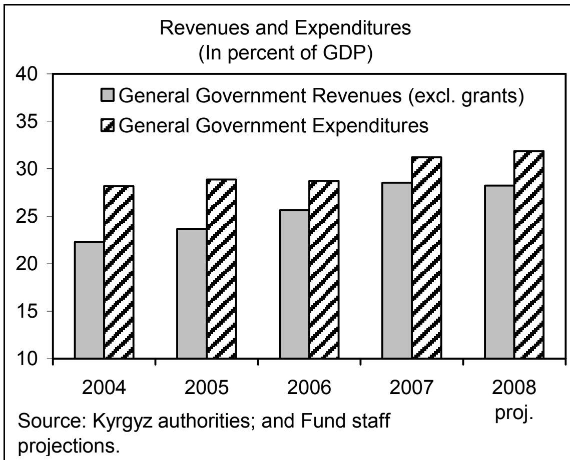


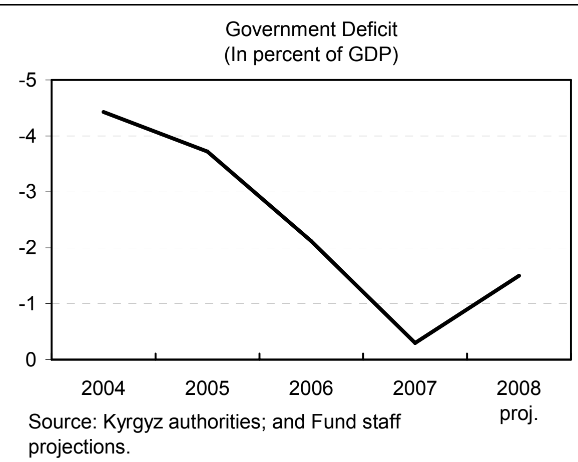
10. **The exchange rate came under pressure in the first quarter of 2008.** This appears to reflect a shift in the balance of payments, as the external outlook deteriorated (see below). The som depreciated by about 5½ percent against the U.S. dollar. The NBKR intervened repeatedly to support the som, selling over $80 million through early April. As a result, reserve money contracted in the first quarter.





11. **Government finances in 2007 benefited from the strong economic performance and the increase in trade, as well as from improved revenue administration.** With higher receipts of value added taxes and customs duties, the consolidated general government budget deficit remained well below target (Tables 5–9). The deficit was only 0.3 percent of GDP, down from 2.1 percent of GDP in 2006. Sizable increases in expenditures, particularly toward the end of the year, including on goods and services, wages, and pensions, lagged behind the growth in revenues.





12. **The PRGF-supported program remained on track.** All quantitative performance criteria for the sixth review were met, most with sizable margins (Table 10). The indicative limits on reserve money and the electricity sector's quasi-fiscal deficit were missed, however, the latter despite some progress in the reduction of losses and improved cost

recovery. Two of the three structural benchmarks for end-December were met (Table 11). Regarding the missed benchmark, the NBKR submitted to parliament amendments to the bank bankruptcy law in January, but these have yet to be discussed. The authorities have been working to fulfill some earlier missed benchmarks. An independent review of the NBKR's internal audit function was completed and legislation to strengthen the NBKR's independence in the area of bank supervision was recently approved by parliament. Further revisions are being made to the draft tax code, which is expected to be resubmitted to parliament later this year. The privatization of Ayul Bank is currently under discussion by the parliament.

III. Policy Discussions

13. **Discussions focused on policies to reduce inflation, while protecting growth in the face of a more uncertain global and regional economic environment.** While much of the increase in inflation reflects higher international food and energy prices, the rise in other prices indicates a risk that high inflation could become entrenched. This comes at a time of increased regional uncertainty, largely due to the impact of the global financial turmoil on Kazakhstan. With strong trade and financial linkages, developments in Kazakhstan have considerable spillover effects on the Kyrgyz economy (box 1). In light of this, the pace of economic expansion (excluding gold production) in the Kyrgyz Republic is expected to slow to about 5 percent in 2008. An improvement in gold production would bring overall economic growth to about 7 percent. Risks to the short-term outlook are on the downside. A sharper regional slowdown and additional spillover effects through the banking system would further slow growth.

14. **The balance of payments is expected to worsen relative to 2007, owing to external shocks.** The import bill for food and energy products is projected to be over $200 million higher this year than last, due to the full-year effect of higher world prices. Inflows, including remittances and other private (capital) flows, are expected to slow due to the regional slowdown. This will be only partially offset by higher volumes and prices of gold exports. As noted, these shocks were already reflected in downward pressures on the exchange rate in the first months of 2008.

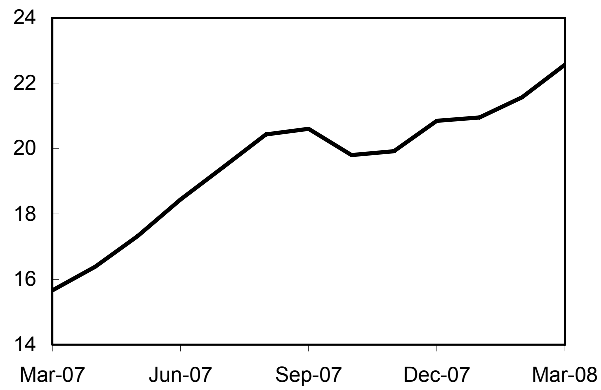
15. **The authorities agreed that the country needs to adjust to the external shocks.** To help ease the adjustment process, they request an augmentation of resources with the last review, of 10 percent of quota (SDR 8.88 million). They are also considering options for their engagement with the Fund after the current program ends. In the meantime, as outstanding use of Fund resources just exceeds 100 percent of the Kyrgyz Republic's quota, post-program monitoring would be appropriate.

Box 1. Regional Spillover Effects

In recent years, trade and financial linkages between the Kyrgyz Republic and its neighbors—especially Kazakhstan—have played an increasingly important role in strengthening the underpinnings of economic growth. Hence, an economic slowdown in Kazakhstan and further difficulties in the Kazakh banking sector would have large effects on the Kyrgyz economy:

- **Exports.** In 2007, Kazakhstan was the second largest market for non-gold exports, with exports (excluding re-exports) reaching $185 million (5 percent of GDP).
- **Remittances.** Remittances are another major source of inflows from Kazakhstan, with many Kyrgyz working in the Kazakh construction sector. Most remittances from Kazakhstan come through informal channels and were estimated at $150–200 million in 2007 (about 5 percent of GDP).
- **Imports.** The bulk of wheat imports comes from Kazakhstan. Despite a recently announced export ban on wheat, Kazakhstan has agreed to continue to supply wheat to the Kyrgyz Republic, but prices have increased significantly.
- **Banking sector.** Kazakh-owned banks have come to play an increasing role in financing trade and real estate in the Kyrgyz Republic. In February 2008, Kazakh-owned banks accounted for 38 percent of total assets of the Kyrgyz banking system, and for almost half of all loans. These banks abruptly stopped lending in the fall of 2007, as funding from their parent banks dried up following the onset of the global financial market turmoil. Consequently, overall credit growth slowed sharply. Recent data show that these banks have resumed lending in early 2008, but any further difficulties in the Kazakh banking sector will directly affect developments in the Kyrgyz Republic.

Total Loans of Comercial Banks (In billions of Som)



Source: Kyrgyz authorities.

A. Monetary and Exchange Rate Policy

16. **The authorities recognized the need to tighten monetary policy to reduce inflation, particularly to fight second round effects and prevent price expectations from being adjusted upward.** With further increases in international food and energy prices, and taking into account a 30 percent average pay rise granted early this year to most government employees and recently announced utility tariff increases, they aim to bring down inflation to below 15 percent by end-2008. This is consistent with reducing nonfood, nonenergy inflation to close to 5 percent.

17. **The NBKR intends to continue to resist the downward pressures on the nominal exchange rate.** In light of the low level of monetization, the power of the conventional monetary transmission mechanism working from interest rates is still relatively weak. This leaves the exchange rate as a more effective tool to influence inflation, especially given the large import content of the consumer basket. However, the NBKR recognizes it will need an

exit strategy from this policy, to avoid large losses in reserves if downward pressures on the exchange rate persist or intensify. The requested augmentation would help postpone the need to exit from this policy.

18. **The NBKR realizes that a further increase in interest rates is needed, but is concerned about the adverse impact on growth and government finances.** Reserve money has contracted in recent months and excess liquidity has been reduced, reflecting the NBKR's sizable foreign exchange sales, while credit growth has fallen sharply. Real interest rates remain highly negative, however. Higher yields will need to be offered to ensure that maturing central bank and government instruments will be rolled over.

B. Fiscal Policy

19. **The authorities indicated that fiscal policy will need to strike a balance between reducing inflation and protecting economic growth and the poor in the face of the increased downside risks.** Some widening of the deficit relative to the near-balance in 2007 is therefore appropriate, but not to 2.7 percent of GDP as envisaged in the approved budget for 2008.

20. **The authorities therefore plan to underexecute non-priority current spending (mainly spending on goods and services) by about 1 percent of GDP and further strengthen revenue collection.** In doing so, they will safeguard social spending and plan to raise social benefits. Additional revenues will be saved. With these measures, the overall deficit would be limited to about 1½ percent of GDP. To improve the Social Fund's finances, including over the longer term, the authorities will submit a proposal to parliament to reverse the reduction in the retirement age introduced last year. This would be expected to come into effect late this year or at the start of 2009.

21. **Paving the way for more productive spending in the medium-term, the authorities will continue with fiscal-structural reforms.** The authorities are discussing with the World Bank a civil service reform program, focusing on payroll policies. This will help control the wage bill (which has risen as a result of large wage increases granted in 2007 and 2008), while ensuring competitive pay for skilled government staff. A public financial management reform action plan is currently being updated, with the help of donors, to take stock of achievements, establish priorities, and sequence tasks.

C. Financial Sector Policies

22. **Strong supervisory vigilance over the banking sector continues to be needed.** With a strong capital base and high levels of liquidity, the Kyrgyz banking system seems well-placed to weather a more challenging economic and financial environment. The global financial turmoil has generally caused banks to be more cautious. As noted, Kazakh-owned banks had stopped lending in late 2007 when funding from their parent banks dried up, and

credit growth has slowed from its very rapid pace during much of 2007. However, a potential decline in asset quality resulting from an economic slowdown would likely not affect loan quality indicators immediately. The NBKR will therefore continue to monitor banks closely, including through enhanced analysis and inspections, to detect and address any liquidity or solvency issues early on.

Kyrgyz Republic. Selected Bank Prudential Indicators, 2005–08

	2005	2006	2007				2008
			Q1	Q2	Q3	Q4	Q1
			(in percent)				
Capital adequacy							
Regulatory capital/risk-weighted assets	26.5	28.5	28.9	26.5	26.7	31.0	30.3
Tier 1 capital/risk-weighted assets	20.6	21.7	25.2	21.7	20.7	23.6	27.6
Liquidity							
Liquidity ratio	93.3	77.8	73.6	67.8	68.9	71.3	78.0
Asset quality							
Non-performing loans/total loans	7.7	6.2	5.1	4.2	3.5	3.6	3.6
Loan-loss provisioning/nonperforming loans	49.1	51.3	56.0	55.6	57.7	59.0	61.3
Profitablitity							
Return on equity	19.6	23.2	18.5	24.3	27.4	27.0	17.2
Return on assets	2.6	3.4	3.1	4.0	4.3	4.4	3.3

Source: National Bank of the Kyrgyz Republic.

23. **A deposit insurance scheme will come into effect this summer, to help bolster confidence in the banking system**. Only 5 percent of the population has a bank account. The mandatory scheme will be funded by all banks and the government, and will insure deposits of individuals up to KGS 20,000 (about $550), covering about 80 percent of household deposits (equivalent to a little over 3 percent of GDP).

IV. Staff Appraisal

24. **On balance, the Kyrgyz economy has weathered the political turmoil of recent years well, largely because the authorities continued to implement sound fiscal and financial policies**. The improvement in government finances and, consequently, in the country's debt indicators, has been impressive. The political difficulties, however, slowed progress in structural reforms. This was reflected in performance under the program: quantitative targets were typically met, while performance in implementing structural measures was mixed.

25. **The short-term outlook has deteriorated**. As a small, open economy, the Kyrgyz Republic is particularly vulnerable to external shocks, including the fall-out from the global financial market turmoil on its neighbors and the rise in international food and energy prices. But as the Kyrgyz Republic is also a low-income country, these shocks threaten to have a considerable effect on poverty, through the erosion of incomes and a reduction in employment opportunities. In this context, the authorities are to be commended for not having introduced administrative controls.

26. **Macroeconomic policies will need to walk a fine line between preventing high inflation from becoming entrenched and protecting growth and the poor**. As nonfood, nonenergy inflation has continued to trend upwards, a further tightening of monetary policy—including a more substantial rise in interest rates—is needed to meet the authorities' inflation goal. The NBKR has been right to resist the downward pressures on the exchange rate, and an additional monetary tightening will help ease these pressures. The envisaged tightening of fiscal policy relative to the approved budget should be front-loaded as much as possible, as it is critical to ease the burden on monetary policy, and also to create room for automatic stabilizers to operate in the event that growth slows more than expected.

27. **Going forward, the authorities should take advantage of the current environment of improved cooperation between the government and parliament to move decisively to enhance the business environment**. Reducing poverty over the longer term requires continued strong private sector growth and an increase in investment, including in infrastructure and the energy sector. In the banking sector, strong supervisory efforts will continue to be needed to detect and address any banking sector problems that may arise from a potential decline in asset quality or contagion from ongoing developments in Kazakhstan.

28. **Staff supports the authorities' request for the completion of the sixth review and for the augmentation of resources under the PRGF**. The authorities' actual and planned response to the current challenges and the requested additional resources would entail a broadly appropriate mix of adjustment and financing. As the country is highly vulnerable to external shocks and there remains a risk of policy slippages, staff recommends post-program monitoring for the Kyrgyz Republic following completion of the current arrangement.

Table 1. Kyrgyz Republic: Selected Economic Indicators, 2005–08

	2005	2006	2007		2008	
	Act.	Act.	IMF/CR/07/369	Prel.	IMF/CR/07/369	Proj.
Nominal GDP (in billions of soms)	100.9	113.8	130.8	139.7	150.4	166.0
Nominal GDP (in millions of U.S. dollars)	2,459.6	2,837.4	3,488.0	3,747.8	4,066.0	4,758.0
Real GDP (growth in percent)	-0.2	3.1	7.5	8.2	7.0	7.0
Non-gold real GDP (growth in percent)	1.4	5.7	…	8.7	…	5.0
GDP per capita (in U.S. dollars)	478.2	545.6	663.4	712.9	764.9	895.1
Consumer prices (percent change, eop)	4.9	5.1	8.5	20.1	7.0	15.3
Consumer prices (percent change, average)	4.3	5.6	8.0	10.2	7.0	19.1
Producer prices (percent change, eop)	6.3	10.4	…	20.6	…	…
Producer prices (percent change, average)	2.8	15.3	…	11.9	…	…
Investment and savings (in percent of GDP) 1/						
Investment	21.8	22.9	23.0	22.0	23.0	23.1
Public	4.8	4.3	5.5	4.8	5.3	5.2
Private	17.0	18.5	17.5	17.2	17.7	17.8
Savings	25.0	16.3	5.1	15.5	7.8	14.5
Public	1.0	1.6	3.0	4.2	3.1	3.7
Private	24.0	14.7	2.1	11.3	4.7	10.9
Savings-investment balance	3.2	-6.6	-17.9	-6.5	-15.1	-8.5
General government finances (in percent of GDP) 1/ 2/						
Total revenue and grants	24.7	26.4	30.1	30.8	29.9	30.4
of which: Tax revenue	20.0	21.4	23.5	22.9	23.8	23.4
Total expenditure (including net lending)	28.1	28.9	32.3	31.5	31.9	31.9
of which: Current expenditure	23.7	24.8	27.1	26.6	26.8	26.7
Capital expenditure	4.8	4.3	5.5	4.8	5.5	5.2
Overall fiscal balance	-3.6	-2.1	-2.2	-0.3	-2.0	-1.5
Primary balance	-2.0	-1.2	-1.3	0.3	-1.2	-0.6
Total public debt	85.1	76.1	…	57.6	…	48.7
Banking sector 3/						
Net foreign assets (percent change, eop)	20.1	47.6	28.7	28.3	23.3	3.0
Net domestic assets (percent change, eop)	54.5	65.0	97.9	59.3	41.6	98.5
Credit to private sector (in percent of GDP)	8.0	10.4	16.1	17.3	16.3	19.6
Broad money (percent change, eop)	25.5	51.0	43.4	34.9	28.7	27.0
Velocity of broad money 4/	4.7	3.5	2.8	3.2	2.5	3.0
Interest rate 5/	4.3	4.2	...	5.6	...	...
External sector						
Current account balance (in percent of GDP) 1/	3.2	-6.6	-17.9	-6.5	-15.1	-8.5
Export of goods and services (million USD)	1,049.6	1,385.2	1,903.0	2,028.1	2,286.0	2,652.0
Export growth (percent change)	2.5	32.0	37.0	46.4	20.0	30.8
Import of goods and services (million USD)	1,396.8	2,253.2	3,379.0	3,196.0	3,771.0	4,001.6
Import growth (percent change)	23.9	61.3	50.0	41.8	12.0	25.2
Gross official reserves (million USD) 6/	608.5	817.1	1,053.0	1,193.7	1,233.0	1,193.7
Gross reserves (months of next year's imports of GNFS, eop)	3.2	3.1	3.4	3.6	3.8	3.3
External public debt outstanding (in percent of GDP)	78.0	69.8	57.7	55.4	50.5	44.5
Debt service-to-export ratio (in percent)	6.5	2.9	3.5	4.1	3.5	2.8
Memorandum items						
Exchange rate (soms per U.S. dollar, average)	41.0	40.1	...	37.3	...	...
Real effective exchange rate (2000=100) (average)	104.3	106.0	...	113.6	...	...

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

1/ The authorities are continuing to revise the historical external current account data, but at this point, there is a break in the series in 2006.
2/ General government comprises state government and Social Fund finances. State government comprises central and local governments.
3/ Projections are based on program exchange rates specified in the Technical Memorandum of Understanding (TMU).
4/ 12-month GDP over end-period broad money.
5/ Interest rate on 3-month treasury bills.
6/ Gross reserves exclude international reserves of the NBKR that are pledged or blocked.

Table 2. Kyrgyz Republic: Balance of Payments, 2005–13

(In millions of U.S. dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
	Act.	Act.	Prel.	Projections					
Current account balance	78	-186	-244	-407	-465	-510	-551	-572	-567
excluding transfers	-422	-902	-1,229	-1,501	-1,607	-1,718	-1,832	-1,923	-1,991
Trade balance	-311	-782	-1,124	-1,264	-1,267	-1,332	-1,451	-1,570	-1,658
Exports, fob	794	1,011	1,504	2,038	2,358	2,611	2,845	3,092	3,366
CIS countries	412	581	920	1,056	1,157	1,260	1,381	1,519	1,653
Of which: re-exports of consumer goods 1/	107	200	352	423	476	531	590	652	713
Non-CIS countries	382	430	584	982	1,202	1,351	1,464	1,573	1,713
Of which: gold	231	206	225	522	720	832	892	940	1,023
Of which: re-exports of oil products	31	106	173	238	240	241	242	244	245
Imports, fob	1,106	1,792	2,628	3,302	3,625	3,943	4,296	4,662	5,025
CIS countries	641	926	1,408	1,838	1,979	2,105	2,251	2,404	2,556
Of which: energy	289	460	681	976	1,034	1,083	1,137	1,196	1,264
Non-CIS countries	465	866	1,220	1,464	1,647	1,838	2,045	2,258	2,469
Of which: goods for re-exports 1/	97	182	320	384	432	563	627	692	757
Services	-36	-86	-44	-86	-106	-96	-76	-36	4
Receipts	256	374	524	614	655	737	851	983	1,117
Payments	-291	-461	-568	-700	-761	-833	-927	-1,019	-1,113
Income	-75	-34	-61	-151	-234	-290	-305	-317	-337
Interest payments 2/	-36	-18	-28	-22	-35	-35	-35	-36	-39
Other net income	-39	-16	-33	-129	-199	-255	-271	-281	-298
Current Transfers (net)	500	716	985	1,094	1,142	1,209	1,281	1,351	1,424
Of which: private	477	704	954	1,049	1,107	1,168	1,238	1,306	1,378
Capital Account	6	-36	-60	-37	-21	-3	14	29	42
Official	50	37	60	91	94	96	98	100	103
Private	-44	-73	-120	-128	-116	-98	-83	-71	-60
Financial account (including errors and omissions)	-35	411	344	451	509	567	590	613	613
Commercial banks	-27	-44	104	0	5	5	5	5	5
Medium-and long-term loans, net	11	79	52	53	42	44	50	54	76
Disbursement	89	116	108	99	100	107	116	125	140
Amortization 2/	-59	-37	-56	-46	-57	-63	-66	-71	-64
FDI and portfolio investment (net)	45	179	221	194	261	328	376	394	409
Net short-term flows (incl. errors & omissions)	-64	197	254	203	200	190	159	160	123
Overall balance	49	189	327	7	22	55	53	71	88
Financing	-49	-189	-327	-7	-22	-55	-53	-71	-88
Net international reserves	-93	-193	-328	-7	-22	-55	-53	-71	-88
Gross official reserves (- increase)	-81	-170	-307	0	0	-30	-30	-50	-70
IMF (net)	-12	-24	-21	-7	-22	-25	-23	-21	-18
Exceptional financing (including arrears)	44	4	1	0	0	0	0	0	0
Memorandum items:									
GDP (in millions of U.S. dollars)	2,460	2,837	3,748	4,758	5,795	6,621	7,305	7,987	8,698
Current account balance (in percent of GDP)	3.2	-6.6	-6.5	-8.5	-8.0	-7.7	-7.5	-7.2	-6.5
Growth of exports of goods and services (volume, percent)	-5	11.9	26.2	11.9	13.3	10.9	9.4	8.9	8.9
Growth of imports of goods and services (volume, percent)	11.2	42.6	29.4	9.8	10.6	10.2	9.8	8.6	8.0
External public debt (US$ million) 3/	1,918	1,982	2,077	2,118	2,139	2,163	2,192	2,231	2,281
as percent of GDP	78.0	69.8	55.4	44.5	36.9	32.7	30.0	27.9	26.2
External public debt (NPV US$ million) 3/	1,145	1,257	1,279	1,319	1,342	1,368	1,400	1,440	1,492
as percent of GDP	46.5	44.3	34.1	27.7	23.2	20.7	19.2	18.0	17.2
as percent of exports	109.1	90.7	63.1	49.7	44.6	40.9	37.9	35.3	33.3
Public debt service-to-exports ratio 3/ 4/	6.5	4.7	4.1	2.8	2.9	2.7	2.5	2.3	2.0
Gross reserves 5/	609	817	1,194	1,194	1,194	1,224	1,254	1,304	1,374
in months of subsequent year's imports	3.2	3.1	3.6	3.3	3.0	2.8	2.6	2.5	2.5

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

1/ Reflects adjustments to the official statistics to account for the staff's estimate for re-exports through informal border trade.

2/ Starting 2006, interest and amortization reflect bilateral agreements signed following the March 2005 Paris Club agreement to grant debt relief on London terms.

3/ Public and publicly guaranteed debt.

4/ Net of rescheduling.

5/ Valued at end-period exchange rates.

Table 3. Kyrgyz Republic: NBKR Accounts, 2005–08

	2005	2006		2007 1/				2008 1/	
	Dec.	Dec.		Mar.	Jun.	Sep.	Dec.	Mar.	Dec.
	Act.	Act.	Act. 1/	Act.	Act.	Act.	Act.	Act.	Proj.
	(In millions of soms)								
Net foreign assets	15,236	23,114	22,767	23,061	27,250	31,411	34,109	31,393	35,080
Net international reserves	17,477	25,445	24,908	25,252	29,409	33,724	37,017	33,877	37,287
Long-term foreign liabilities	-2,353	-2,401	-2,201	-2,201	-2,199	-2,199	-2,197	-2,063	-2,056
Other foreign assets	164	121	111	61	92	-62	-659	-370	-100
Balances with CIS countries	-51	-51	-51	-51	-51	-51	-51	-51	-51
Net domestic assets	230	-308	33	-885	-1,754	-4,001	-2,526	-2,275	1,872
Net claims on general government	1,188	1,596	1,530	580	-151	-1,871	532	304	1,989
Repos	-50	-504	-504	-255	-278	-473	-193	-182	949
Claims on commercial banks	351	332	314	311	310	307	306	304	306
Other items (net)	-1,259	-1,732	-1,307	-1,520	-1,634	-1,964	-3,171	-2,700	-1,371
Reserve money	15,466	22,806	22,800	22,177	25,496	27,410	31,583	29,118	36,952
Currency in circulation	13,414	19,910	19,910	19,354	22,487	24,333	27,562	25,605	33,497
Commercial banks' reserves and other balances	2,052	2,896	2,890	2,823	3,010	3,077	4,021	3,513	3,455
Of which: required reserves	1,160	1,529	1,522	1,745	1,809	2,145	2,196	2,226	2,809
	(Annual percent change)								
Net foreign assets	24.2	51.7	49.7	53.4	64.9	62.7	49.8	36.1	2.8
Net domestic assets	108.9	-233.9	-87.1	-385.1	-507.1	-2874.1	-7,808.0	-97.4	-174.1
Of which:									
Net claims on general government	182.6	34.3	34.4	-40.3	-112.3	-250.1	-65.2	-99.5	273.6
Claims on commercial banks	-27.3	-157.1	-167.4	-77.1	-75.3	93.0	-119.6	118.7	1,010.5
Reserve money	24.9	47.5	47.4	44.5	50.3	40.9	38.5	31.3	17.0
Currency in circulation	20.5	48.4	52.4	49.3	54.6	46.4	38.4	32.3	21.5
Commercial banks' reserves and other balances	114.9	41.1	41.0	40.1	51.3	30.5	39.2	24.4	-14.1
	(Contribution to reserve money growth, in percent) 2/								
Net foreign assets	24.0	50.9	48.9	1.3	19.7	37.9	49.7	-8.6	3.1
Net domestic assets	1.0	-3.5	-1.4	-4.0	-7.8	-17.7	-11.2	0.8	13.9
Of which: net claims on general government	6.2	2.6	2.5	-4.2	-7.4	-14.9	-4.4	-0.9	4.6
Reserve money	24.9	47.5	47.4	-2.7	11.8	20.2	38.5	-7.8	17.0
Of which: currency in circulation	16.1	42.0	44.3	-2.4	11.3	19.4	33.6	-6.2	18.8
Memorandum items:									
Net international reserves (in millions of dollars) 3/	416	606	647	656	764	876	961	880	968
Net domestic assets (in millions of soms) 3/ 4/	-1,943	-2,559	-2,031	-2,944	-3,830	-6,075	-4,617	-4,363	-253

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

1/ Based on new program exchange rate (38.5 soms/dollar) specified in the TMU, replacing the previous rate of 42.0 soms/dollar.

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

3/ Non-adjusted.

4/ Excludes medium- and long-term central bank liabilities (i.e.the loan by the Eximbank of Turkey and the EBRD/IDA enterprise loan channeled through the NBKR).

Table 4. Kyrgyz Republic: Monetary Survey, 2005–08

	2005	2006		2007 1/				2008 1/	
	Dec.	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Dec.
	Act.	Act.	Act. 1/	Act.	Act.	Act.	Act.	Act.	Proj.
	(In millions of soms)								
Net foreign assets	17,232	25,946	25,433	22,874	25,335	29,092	32,626	29,140	33,597
Of which: long-term foreign liabilities (-)	-2,353	-2,401	-2,201	-2,341	-2,206	-2,208	-2,204	-2,072	-2,056
Net domestic assets	4,170	7,033	6,879	7,577	9,748	9,634	10,960	11,419	21,758
Domestic credit	9,416	13,761	12,989	15,462	17,541	18,192	20,927	22,728	31,724
Net claims on general government	1,406	1,203	1,174	-658	-1,534	-3,343	-1,260	-1,199	-755
Credit to the rest of the economy	8,010	12,558	11,816	16,121	19,076	21,536	22,187	23,926	32,480
Of which: in forex	5,813	9,001	8,259	9,821	12,072	14,057	14,303	14,449	20,137
Other items net	-5,246	-6,728	-6,110	-7,885	-7,794	-8,558	-9,966	-11,309	-9,966
Broad money (M2X)	21,402	32,979	32,312	30,451	35,082	38,726	43,586	40,559	55,355
Of which:									
Broad money, excluding forex deposits (M2)	15,959	24,108	24,108	24,018	27,809	30,125	34,769	32,924	44,279
Currency held by the public	13,065	19,410	19,410	18,738	21,781	23,561	26,675	24,447	32,518
Total domestic currency deposit liabilities	2,894	4,698	4,698	5,280	6,029	6,564	8,094	8,477	11,761
	(Annual percent change)								
Net foreign assets	20.1	50.6	47.6	35.8	41.0	37.3	28.3	27.4	3.0
Net domestic assets	54.5	68.7	65.0	76.7	67.4	59.9	59.3	50.7	98.5
Of which:									
Net claims on general government	24.2	-14.4	-16.5	-153.1	-218.9	-398.9	-207.4	82.1	-40.1
Credit to the rest of the economy	32.0	56.8	47.5	95.2	106.9	110.2	87.8	48.4	46.4
Broad money (M2X)	25.5	54.1	51.0	44.1	47.4	42.3	34.9	33.2	27.0
Of which:									
Broad money, excluding forex deposits (M2)	43.5	51.1	84.5	49.6	52.1	43.7	44.2	37.1	27.4
Currency held by the public	17.5	48.6	48.6	44.6	49.7	41.8	37.4	30.5	21.9
Total deposit liabilities	40.6	47.8	54.8	43.2	43.8	43.2	31.1	37.6	35.0
	(Contribution to broad money growth, in percent) 2/								
Net foreign assets	16.9	40.7	38.3	-7.9	-0.3	11.3	22.3	-8.0	2.2
Net domestic assets	8.6	13.4	12.7	2.2	8.9	8.5	12.6	1.1	24.8
Domestic credit	13.0	20.3	16.7	7.7	14.1	16.1	24.6	4.1	24.8
Net claims on general government	1.6	-0.9	-1.1	-5.7	-8.4	-14.0	-7.5	0.1	1.2
Credit to the rest of the economy	11.4	21.2	17.8	17.9	30.1	30.1	32.1	4.0	23.6
Other items (net)	-4.4	-6.9	-4.0	-5.5	-5.2	-7.6	-11.9	-3.1	0.0
Broad money (M2X)	25.5	54.1	51.0	-5.8	8.6	19.8	34.9	-6.9	27.0
Of which:									
Broad money, excluding forex deposits (M2)	28.4	38.1	64.8	-0.3	11.5	18.6	33.0	-4.2	21.8
Currency held by the public	11.4	29.6	29.6	-2.1	7.3	12.8	22.5	-5.1	13.4
Total deposit liabilities	14.1	24.5	21.3	-3.7	1.2	7.0	12.4	-1.8	13.6
Memorandum items:									
Credit to economy (in percent of GDP)	8.0	11.0	10.4	13.9	15.8	15.8	17.3	16.3	19.6
M2X velocity 3/	4.7	3.8	3.5	3.8	3.4	3.6	3.2	3.6	3.0
M2X multiplier	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5
Dollarization indicators (in percent) 4/									
Asset dollarization	72.6	71.7	69.9	60.9	63.3	65.3	64.5	60.4	62.0
Liability dollarization	25.4	26.9	25.4	21.1	20.7	22.2	20.2	18.8	20.0

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

1/ Based on new program exchange rate (38.5 soms/dollar) specified in the TMU, replacing the previous program rate (42.0 soms/dollar). The monetary survey has been augmented since March 2007 to include the balances of Ayil Bank, which introduces a break into the series.

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

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

4/ Asset dollarization is measured as the ratio of credit extended in foreign exchange to total banking system credit to the private sector, and liability dollarization as the share of foreign exchange deposits in broad money.

Table 5. Kyrgyz Republic: General Government Finances, 2005–08

	2005	2006	2007	2008	
	Act.	Act.	Prel.	Budget	Proj.
	(In millions of soms)				
Total revenue and grants	24,913	30,062	43,039	51,293	50,454
Total revenue	23,883	29,174	39,821	47,464	46,877
Current revenue	23,750	28,955	39,200	46,495	45,688
Tax revenue 1/	20,182	24,317	32,005	39,809	38,803
Of which:					
Income tax	3,516	3,506	4,338	7,428	6,847
VAT	7,089	9,151	12,702	16,000	15,367
Customs	1,664	2,803	3,789	5,000	5,000
Social Fund revenue (excl. government contribution)	3,821	4,336	5,460	5,222	5,429
Nontax revenue	3,568	4,637	7,195	6,685	6,885
Capital revenue	133	220	621	969	1,188
Grants	1,031	888	3,218	3,829	3,577
Total expenditure (including net lending)	28,312	32,922	44,020	55,528	52,944
Total expenditure	28,763	33,149	43,915	55,630	53,046
Current expenditure	23,940	28,232	37,170	46,502	44,336
Wages	6,329	7,451	9,928	12,160	12,107
Transfers and subsidies 2/	3,401	4,201	5,047	5,614	5,614
Social Fund expenditures	5,664	6,421	7,495	9,555	9,588
Interest	1,564	1,002	916	1,801	1,526
Purchases of other goods and services	6,983	9,157	13,783	17,371	15,501
Capital expenditure (including PIP)	4,823	4,918	6,745	9,128	8,710
Domestically financed capital expenditure	961	1,287	3,112	3,967	3,967
Foreign financed PIP loans	3,240	3,035	2,205	2,430	2,202
Foreign financed PIP grants	622	596	1,429	2,731	2,541
Financial balance	-3,850	-3,087	-876	-4,338	-2,592
Net lending	-451	-227	105	-102	-102
Overall balance (accrual)	-3,399	-2,860	-982	-4,236	-2,490
Primary balance	-2,032	-1,411	488	-2,435	-963
Primary balance excluding grants	-3,062	-2,298	-2,730	-6,264	-4,540
Discrepancy	-197	447	554	…	0
Total financing	3,596	2,413	428	4,236	2,490
External financing	3,526	2,837	1,778	1,740	1,734
Public investment program (PIP)	3,240	3,035	2,205	…	2,202
Program loans	0	301	211	…	638
Total amortization	-1,803	-677	-675	…	-1,106
External arrears and debt relief	2,088	178	37	…	0
Domestic financing	-91	-445	-1,553	2,246	505
Privatization	161	21	203	250	250
Memorandum item:					
Social spending 3/	14,646	18,078	21,936	…	…

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

1/ Includes payroll tax revenue (contribution to the Social Fund), net of the government contribution to the Social Fund.
2/ Excludes transfers to the Social Fund.
3/ There is a break in the social spending series in 2007, due to the transition to a new (GFSM 2001) budget classification.

Table 6. Kyrgyz Republic: General Government Finances, 2005–08

	2005	2006	2007	2008	
	Act.	Act.	Prel.	Budget	Proj.
	(In percent of GDP)				
Total revenue and grants	24.7	26.4	30.8	32.5	30.4
Total revenue	23.7	25.6	28.5	30.0	28.2
Current revenue	23.5	25.4	28.1	29.4	27.5
Tax revenue 1/	20.0	21.4	22.9	25.2	23.4
Of which:					
Income tax	3.5	3.1	3.1	4.7	4.1
VAT	7.0	8.0	9.1	10.1	9.3
Customs	1.6	2.5	2.7	3.2	3.0
Social Fund revenue (excl. government contribution)	3.8	3.8	3.9	3.3	3.3
Nontax revenue	3.5	4.1	5.1	4.2	4.1
Capital revenue	0.1	0.2	0.4	0.6	0.7
Grants	1.0	0.8	2.3	2.4	2.2
Total expenditure (including net lending)	28.1	28.9	31.5	35.1	31.9
Total expenditure	28.5	29.1	31.4	35.2	32.0
Current expenditure	23.7	24.8	26.6	29.4	26.7
Wage	6.3	6.5	7.1	7.7	7.3
Transfers and subsidies 2/	3.4	3.7	3.6	3.6	3.4
Social Fund expenditures	5.6	5.6	5.4	6.0	5.8
Interest	1.6	0.9	0.7	1.1	0.9
Purchases of other goods and services	6.9	8.0	9.9	11.0	9.3
Capital expenditure (including PIP)	4.8	4.3	4.8	5.8	5.2
Domestically financed capital expenditure	1.0	1.1	2.2	2.5	2.4
Foreign loan financed PIP	3.2	2.7	1.6	1.5	1.3
Foreign grant financed PIP	0.6	0.5	1.0	1.7	1.5
Financial balance	-3.8	-2.7	-0.6	-2.7	-1.6
Net lending	-0.4	-0.2	0.1	-0.1	-0.1
Overall balance (accrual)	-3.4	-2.5	-0.7	-2.7	-1.5
Primary balance	-2.0	-1.2	0.3	-1.5	-0.6
Primary balance excluding grants	-3.0	-2.0	-2.0	-4.0	-2.7
Discrepancy	-0.2	0.4	0.4	…	0.0
Total financing	3.6	2.1	0.3	2.7	1.5
External financing	3.5	2.5	1.3	1.1	1.0
Public investment program (PIP)	3.2	2.7	1.6	…	1.3
Program loans	0.0	0.3	0.2	…	0.4
Total amortization	-1.8	-0.6	-0.5	…	-0.7
External arrears and debt relief	2.1	0.2	0.0	…	0.0
Domestic financing	-0.1	-0.4	-1.1	1.4	0.3
Privatization	0.2	0.0	0.1	0.2	0.2
Memorandum item:					
Social spending 3/	14.5	15.9	15.7	…	...

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

1/ Includes payroll tax revenue (contribution to the Social Fund), net of the government contribution to the Social Fund.
2/ Excludes transfers to the Social Fund.
3/ There is a break in the social spending series in 2007, due to the transition to a new (GFSM 2001) budget classification.

Table 7. Kyrgyz Republic: State Government Finances, 2005–08

	2005	2006	2007	2008	
	Act.	Act.	Prel.	Budget	Proj.
	(In millions of soms)				
Total revenue and grants	21,006	25,644	37,424	45,991	44,888
Total revenue	19,975	24,756	34,206	42,162	41,311
Current revenue	19,929	24,618	33,740	41,273	40,259
Tax revenue	16,361	19,981	26,545	34,588	33,374
of which:					
Income tax	3,516	3,506	4,338	7,428	6,847
VAT	7,089	9,151	12,702	16,000	15,367
Customs	1,664	2,803	3,789	5,000	5,000
Nontax revenue	3,568	4,637	7,195	6,685	6,885
Capital revenue	46	138	466	889	1,051
Grants	1,031	888	3,218	3,829	3,577
Program grants	393	266	1,790	1,098	1,036
PIP grants	637	622	1,429	2,731	2,541
Total expenditure (incl. net lending)	24,794	29,008	39,620	49,532	46,986
Total expenditure	25,245	29,235	39,515	49,634	47,089
Current expenditure	20,422	24,317	32,769	40,505	38,378
Wages and Social Fund contributions	7,484	8,699	11,604	13,993	14,012
Transfers and subsidies	3,401	4,201	5,047	5,614	5,614
Transfers to Social Fund	982	1,257	1,419	1,726	1,726
Interest	1,564	1,002	916	1,801	1,526
Purchases of other goods and services	6,983	9,157	13,783	17,371	15,501
Capital expenditure (including PIP)	4,823	4,918	6,745	9,128	8,710
Domestically financed capital expenditure	961	1,287	3,112	3,967	3,967
Foreign financed PIP loans	3,240	3,035	2,205	2,430	2,202
Foreign financed PIP grants	622	596	1,429	2,731	2,541
Financial balance	-4,239	-3,591	-2,090	-3,643	-2,201
Net lending	-451	-227	105	-102	-102
Overall balance	-3,788	-3,364	-2,196	-3,541	-2,099
Primary balance	-2,412	-1,913	-726	-1,740	-572
Primary balance excluding grants	-3,254	-3,249	-3,944	-5,569	-4,149
Discrepancy	-189	448	554	…	…
Total financing	3,977	2,915	1,642	3,541	2,099
External financing	3,526	2,837	1,778	1,740	1,734
Public investment program (PIP)	3,240	3,035	2,205	…	2,202
Program loans	0	301	211	…	638
Total amortization	-1,803	-677	-675	…	-1,106
External arrears and debt relief	2,088	178	37	…	0
Domestic financing	290	58	-339	1,551	114
Privatization	161	21	203	250	250

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

Table 8. Kyrgyz Republic: State Government Finances, 2005–08

	2005	2006	2007	2008	
	Act.	Act.	Prel.	Budget	Proj.
	(In percent of GDP)				
Total revenue and grants	20.8	22.5	26.8	29.1	27.0
Total revenue	19.8	21.8	24.5	26.7	24.9
Current revenue	19.8	21.6	24.1	26.1	24.3
Tax revenue	16.2	17.6	19.0	21.9	20.1
of which:					
Income tax	3.5	3.1	3.1	4.7	4.1
VAT	7.0	8.0	9.1	10.1	9.3
Customs	1.6	2.5	2.7	3.2	3.0
Nontax revenue	3.5	4.1	5.1	4.2	4.1
Capital revenue	0.0	0.1	0.3	0.6	0.6
Grants	1.0	0.8	2.3	2.4	2.2
Program grants	0.4	0.2	1.3	0.7	0.6
PIP grants	0.6	0.5	1.0	1.7	1.5
Total expenditure (incl. net lending)	24.6	25.5	28.4	31.3	28.3
Total expenditure	25.0	25.7	28.3	31.4	28.4
Current expenditure	20.2	21.4	23.4	25.6	23.1
Wages and Social Fund contributions	7.4	7.6	8.3	8.9	8.4
Transfers and subsidies	3.4	3.7	3.6	3.6	3.4
Transfers to Social Fund	1.0	1.1	1.0	1.1	1.0
Interest	1.6	0.9	0.7	1.1	0.9
Purchases of other goods and services	6.9	8.0	9.9	11.0	9.3
Capital expenditure (including PIP)	4.8	4.3	4.8	5.8	5.2
Domestically financed capital expenditure	1.0	1.1	2.2	2.5	2.4
Foreign financed PIP loans	3.2	2.7	1.6	1.5	1.3
Foreign financed PIP grants	0.6	0.5	1.0	1.7	1.5
Financial balance	-4.2	-3.2	-1.5	-2.3	-1.3
Net lending	-0.4	-0.2	0.1	-0.1	-0.1
Overall balance	-3.8	-3.0	-1.6	-2.2	-1.3
Primary balance	-2.4	-1.7	-0.5	-1.1	-0.3
Primary balance excluding grants	-3.2	-2.9	-2.8	-3.5	-2.5
Discrepancy	-0.2	0.4	0.4	…	…
Total financing	3.9	2.6	1.2	2.2	1.3
External financing	3.5	2.5	1.3	1.1	1.0
Public investment program (PIP)	3.2	2.7	1.6	…	1.3
Program loans	0.0	0.3	0.2	…	0.4
Total amortization	-1.8	-0.6	-0.5	…	-0.7
External arrears and debt relief	2.1	0.2	0.0	…	0.0
Domestic financing	0.3	0.1	-0.2	1.0	0.1
Privatization	0.2	0.0	0.1	0.2	0.2

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

Table 9. Kyrgyz Republic: Social Fund Operations, 2005–08

	2005	2006	2007	2008	
	Act.	Act.	Prel.	Budget	Proj.
			(millions of soms)		
Total revenue	5,063	5,667	7,290	7,134	7,471
Total contribution	4,976	5,585	7,136	7,054	7,334
Contribution from government	1,156	1,249	1,675	1,832	1,905
Contribution from non-government	3,821	4,336	5,460	5,222	5,429
Other revenue	87	82	155	80	137
Total expenditure	5,664	6,421	7,495	9,555	9,588
Pension Fund	5,330	6,100	7,088	9,098	9,111
Medical Insurance Fund (incl. old Funds)	334	321	407	457	477
Financial balance	-601	-754	-205	-2,421	-2,117
Budgetary transfer	982	1,257	1,419	1,726	1,726
Overall balance	381	503	1,214	-695	-391
			(percent of GDP)		
Total revenue	5.0	5.0	5.2	4.5	4.5
Total contribution	4.9	4.9	5.1	4.5	4.4
Contribution from government	1.1	1.1	1.2	1.2	1.1
Contribution from non-government	3.8	3.8	3.9	3.3	3.3
Other revenue	0.1	0.1	0.1	0.1	0.1
Total expenditure	5.6	5.6	5.4	6.0	5.8
Pension Fund	5.3	5.4	5.1	5.8	5.5
Medical Insurance Fund (incl. old Funds)	0.3	0.3	0.3	0.3	0.3
Financial balance	-0.6	-0.7	-0.1	-1.5	-1.3
Budgetary transfer	1.0	1.1	1.0	1.1	1.0
Overall balance	0.4	0.4	0.9	-0.4	-0.2

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

Table 10. Kyrgyz Republic: Quantitative Program Targets for 2006–07 1/

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

	2006		2007			
	December PCs		June PCs		December PCs	
	Program	Actual	Program	Actual	Program	Actual
I. Performance criteria						
1. Floor on net international reserves of the NBKR in convertible convertible (eop stock, in millions of U.S. dollars)	457	606	658	764	787	961
2. Ceiling on net domestic assets of the NBKR (eop stock) 2/	-1,469	-2,559	-1,094	-3,830	-1,769	-4,617
3. Ceiling on cumulative primary deficit of the general government 3/	3,701	2,459	…	…	…	…
4. Ceiling on cumulative overall deficit of the general government	…	…	1,665	-841	3,937	982
5. Cumulative floor on state government tax collections in cash	17,650	19,981	10,246	11,517	23,141	26,545
6. Ceiling on the stock of central government budget arrears	0	0	0	0	0	0
7. Ceiling on the stock of Social Fund pension arrears	0	0	0	0	0	0
8. Cumulative floor on payroll collections in cash of the social fund	4,823	5,528	2,864	2,639	5,738	7,117
9. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	0	0	0	0	0	0
10. Ceiling on contracting or guaranteeing by the state government, NBKR, or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of less than one year (continuous, in millions of U.S. dollars)	0	0	0	0	0	0
11. Ceiling on contracting or guaranteeing by the state government, NBKR, or any other agency acting on behalf of the state overnment, of new nonconcessional external debt with maturity of one year or more (millions of U.S. dollars)	0	0	0	0	0	0
12. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	0	0
II. Indicative targets						
1. Ceiling on reserve money (eop stock)	17,708	22,806	24,177	25,496	28,499	31,583
2. Ceiling on the cumulative quasi-fiscal deficit of the electricity sector (in millions of soms)	6,509	6,127	3,822	4,171	6,633	6,910
3. Ceiling on contracting or guaranteeing by the state government or NBKR of new concessional external debt (in millions of U.S. dollars) 4/	(as specified in the TMU attached to IMF/CR./07/195)					

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

1/ Definitions are provided in the TMU.

2/ The target excludes medium- and long-term central bank liabilities (i.e.the loan by the Eximbank of Turkey and the EBRD/IDA enterprise loan channeled through the NBKR).

3/ Ceilings on the primary deficit are not performance criteria after December 2006.

4/ New concessional loans during the year.

Table 11. Kyrgyz Republic: Structural Conditionality

I. September–December 2006

Structural benchmarks for end-September 2006

- Prepare an action plan to reduce the energy sector's quasi-fiscal deficit in close cooperation with World Bank staff, addressing problems of transmission and distribution losses, payment indiscipline, and tariff adjustment. [Observed]

- Expand the operation of the Large Taxpayers Unit to cover at least 60 percent of tax revenues. [Observed]

Structural benchmarks for end-December 2006

- Conduct an independent review of the NBKR's internal audit function. The review could be performed by the internal audit department of another central bank, and should include a review of the capacity of the NBKR's internal audit division, as recommended by the Safeguards Assessment Report conducted by Finance Department in 2005. [Observed with delay]

- Bring KAFC to the point of sale and issue a privatization tender for the company. [Not observed]

- Submit to IMF staff a report prepared by the ministry of labor and social protection recommending measures to improve labor market flexibility. [Observed]

- Secure approval of legislation that has been already sent to parliament to enhance the NBKR's legal independence and ensure legal protection of its employees in performing official duties. [Observed with delay]

II. March–December 2007

Structural benchmarks for end-March 2007

- The government will submit to parliament amendments (drafted by the NBKR) to the civil, housing and land codes, as well as to all the laws governing collateral, in order to harmonize provisions on collateralized lending by financial institutions and facilitate collateral seizure in cases of default. [Partially observed. Amendments to the housing code are pending]

- Approval of the tax code bill that is before parliament. [Not observed]

- The government will adopt a new medium-term external debt management strategy aimed at ensuring external debt sustainability, as described in paragraph 24 of the MEP. [Not observed. A preliminary strategy was drafted and is being revised by the government.]

Structural benchmarks for end-June 2007

- The NBKR will implement regulations for consolidated supervision to monitor risks faced by financial institutions, in line with the recommendations of the 2005 Basel Core Principles for Effective Banking Supervision Assessment. [Observed]

- The government will introduce a new and detailed budget classification, based on the best practice reporting of government finances (GFS 2001), which will permit monitoring of poverty reducing expenditures in the monthly budget execution reports. [Observed]

Table 11 (Concluded). Kyrgyz Republic: Structural Conditionality

Structural benchmarks for end-September 2007

- Submit to IMF staff a written Memorandum of Understanding agreed between the NBKR and the State Agency for Financial Supervision and Reporting (SAFSR), delineating the specific supervisory responsibilities of the SAFSR and establishing modalities for information-sharing between them, as recommended by the FSAP update mission. [Observed]

- Submit to parliament an internal audit law for government agencies in line with best international audit practices, in order to establish an appropriate framework for internal public sector controls. [Observed]

Structural benchmarks for end-December 2007

- To ensure finality of bank resolution, the government and the NBKR will secure parliamentary approval of further amendments to the bank bankruptcy law modifying the provisions introduced in September 2006, which allowed reinstatement of banks that are insolvent and in the process of liquidation. [Not observed]

- Submit to IMF staff a best-practice, time-bound action plan to modernize customs administration, including greater selectivity of customs control based on risk criteria and expanding post-clearance audits. [Observed]

- Submit to parliament enabling legislation to enhance flexibility in the use of bank accounts (including demand deposits) for settlement purposes by legal entities and physical persons. [Observed]

Table 12. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2007-15 1/

	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Actual				Projections				
Fund obligations based on existing credit (in millions of SDRs)									
Principal	16.1	14.8	14.7	16.2	15.3	13.5	10.3	6.3	2.4
Charges and interest	0.5	0.4	0.4	0.3	0.2	0.1	0.1	0.0	0.0
Fund obligations based on existing and prospective credit (in millions of SDRs)									
Principal	16.1	14.8	14.7	16.2	15.3	13.5	11.4	8.3	4.4
Charges and interest	0.5	0.5	0.4	0.3	0.3	0.2	0.1	0.1	0.0
Total obligations based on existing and prospective credit									
In millions of SDRs	16.6	15.3	15.1	16.6	15.6	13.7	11.5	8.4	4.4
In millions of US$	25.4	23.0	22.9	25.1	23.7	21.0	17.7	13.0	6.8
In percent of Gross International Reserves	2.1	1.9	1.9	2.1	1.9	1.6	1.3	0.9	0.5
In percent of exports of goods and services	1.3	0.9	0.8	0.8	0.6	0.5	0.4	0.3	0.1
In percent of debt service 2/	30.8	30.8	26.2	27.8	25.6	22.7	19.8	13.6	6.5
In percent of GDP	0.7	0.5	0.4	0.4	0.3	0.3	0.2	0.1	0.1
In percent of quota	18.7	17.2	17.0	18.7	17.5	15.4	12.9	9.5	5.0
Outstanding Fund credit 2/									
In millions of SDRs	94.8	90.2	75.4	59.2	43.9	30.4	19.0	10.7	6.3
In billions of US$	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
In percent of Gross International Reserves	12.1	11.4	9.5	7.3	5.3	3.6	2.1	1.1	0.6
In percent of exports of goods and services	7.2	5.1	3.8	2.7	1.8	1.1	0.7	0.4	0.2
In percent of debt service 2/	175.9	181.8	130.4	99.3	72.1	50.6	32.8	17.4	9.4
In percent of GDP	3.9	2.9	2.0	1.4	0.9	0.6	0.3	0.2	0.1
In percent of quota	106.8	101.5	84.9	66.7	49.4	34.2	21.4	12.1	7.1
Net use of Fund credit (millions of SDRs)	-13.6	-4.7	-14.7	-16.2	-15.3	-13.5	-11.4	-8.3	-4.4
Disbursements	2.5	10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	16.1	14.8	14.7	16.2	15.3	13.5	11.4	8.3	4.4
Memorandum items:									
Nominal GDP (in millions of US$)	3,747.8	4,758.0	5,794.9	6,621.2	7,305.1	7,987.2	8,697.7	9,359.5	10,031.3
Exports of goods and services (in millions of US$)	2,028.1	2,652.0	3,012.9	3,347.8	3,696.5	4,074.6	4,483.4	4,597.1	4,561.1
Gross International Reserves (in millions of US$)	1,193.7	1,193.7	1,193.7	1,223.7	1,253.7	1,303.7	1,373.7	1,443.7	1,513.7
Debt service (in millions of US$) 2/	82.4	74.6	87.3	90.4	92.8	92.2	89.5	95.0	104.5
Quota (millions of SDRs)	88.8	88.8	88.8	88.8	88.8	88.8	88.8	88.8	88.8

Sources: IMF staff estimates and projections.

1/ Assumes the last PRGF disbursement of SDR 10.15 million to include a PRGF augmentation of 10 percent of quota (SDR 8.88 million).

2/ Total debt service includes IMF repurchases and repayments.

Table 13. Kyrgyz Republic: Reviews and Disbursements Under the Three-Year PRGF Arrangement

Date	Action	Associated Disbursement
February 23, 2005	Approved three-year arrangement.	SDR 1.26 million
October 24, 2005	Completed first review based on end-June 2005 performance criteria.	SDR 1.27 million
May 5, 2006	Completed second review based on end-December 2005 performance criteria.	SDR 1.27 million
November 3, 2006	Completed third review based on end-June 2006 performance criteria.	SDR 1.27 million
May 18, 2007	Completed fourth review based on end-December 2006 performance criteria.	SDR 1.27 million
November 16, 2007	Completed fifth review based on end-June 2007 performance criteria.	SDR 1.27 million
On or after May 21, 2008	Complete sixth review based on end-December 2007 performance criteria.	SDR 10.15 million 1/
Total		SDR 17.76 million 1/

Source: International Monetary Fund.

1/ Including augmentation in the amount of SDR 8.88 million (10 percent of quota).

ATTACHMENT I

April 30, 2008

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

Dear Mr. Strauss-Kahn:

In February 2005, the International Monetary Fund (IMF) approved a three-year arrangement under its Poverty Reduction and Growth Facility (PRGF) for the Kyrgyz Republic. In the subsequent three years, we have continued to implement sound economic and financial policies, despite a sometimes difficult domestic political situation. These policies have born fruit, as witnessed by the strong performance of our economy in 2007. Moreover, with strong economic growth and firm fiscal discipline, our country's debt indicators have improved dramatically. And most importantly, living standards have improved as well, with per capita GDP having increased from $435 in 2004 to $710 in 2007. We greatly value the support offered by the IMF during these last three years and we wish to thank you for that.

We are pleased to inform you that we have met all quantitative performance criteria, with comfortable margins, as well as two out of the three structural benchmarks for end-December 2007. We have submitted amendments to the Law of the Kyrgyz Republic "On Conservation, Liquidation and Bankruptcy of Banks", aimed at ensuring finality of bank resolution, to the Jogorku Kenesh, but we are awaiting consideration of these amendments. In the meantime, we have been able to complete two pending benchmarks, as an independent review of the National Bank of the Kyrgyz Republic's (NBKR) internal audit function has now been completed and legislation to strengthen the NBKR's independence in the area of bank supervision was recently approved by the Jogorku Kenesh. Also, following discussions with the business community, we are now working on further revisions to the draft tax code. We plan to submit the revised draft to the Jogorku Kenesh in the second half of 2008.

Based on this performance, we request the completion of the sixth and final review under the PRGF arrangement. In addition, we request an augmentation of resources under the PRGF in light of the exogenous shocks that have recently hit our economy, as we explain below. We request that the amount of assistance made available to us upon completion of the sixth review be increased by SDR 8.88 million, to reach a total amount of SDR 10.15 million.

Over the last several months, the Kyrgyz Republic, like many other countries, has been adversely affected by the sharp rise in international food and energy prices. This has resulted in an acceleration in inflation, to over 20 percent by end-2007. With these higher prices for food, particularly of wheat, and energy, we project our import bill for these items to increase by over $200 million in 2008. These price shocks come at a time of an expected slowdown in the global economy and a more uncertain regional outlook, including due to the impact of the global financial turmoil on financial and economic developments in neighboring Kazakhstan. Already, this has affected our own economy, through a sharp decline in the pace of credit expansion in the last months of 2007 and early 2008, as Kazakh-owned banks scaled back lending. Also, a shift in balance of payments flows resulted in some downward pressures on the exchange rate of the som in the first few months of 2008 and the NBKR sold about $80 million in foreign exchange reserves. With the Kyrgyz Republic being a small and open economy and having strong linkages to neighboring countries, any regional economic slowdown would have a strong impact on our economy. In light of this, we expect a certain slowing of our economic expansion (excluding gold production) in 2008.

Our most immediate challenge is to avoid that high inflation becomes entrenched, putting at risk the gains from our earlier policies. While the increase in inflation has been largely due to external price increases, the rate of inflation excluding food and energy prices has been rising as well, to almost 8½ percent by end-2007. We recognize that swift action is needed to reduce second round effects and to avoid that price expectations are adjusted upward. Taking into account our plans to raise utility tariffs by mid-year, we aim to bring down twelve-month inflation to between 12 and 15 percent by the end of this year.

To achieve a reduction in inflation, the NBKR will tighten its monetary policy further, including by mopping up liquidity more forcefully through its open market operations and allowing interest rates to rise. In particular, the NBKR will step up the issuance of NBKR notes, while a gradual conversion of non-marketable government debt in its portfolio into marketable instruments by the Ministry of Finance will allow the NBKR to make greater use of repurchase operations. Given the large import content of the consumer basket, the NBKR will also resist the downward pressures on the nominal exchange rate of the som and allow the som to appreciate when the balance of payments improves again.

To avoid placing the entire burden of reducing inflation on the central bank, fiscal policy will need to be supportive of monetary policy. At the same time, fiscal policy will need to strike a balance between reducing inflation on the one hand, and protecting economic growth in the face of the increased downside risks and mitigating the effects of the higher price levels on the poor on the other hand. Thus, we will strive to limit the consolidated budget deficit this year through reducing non-priority spending, while safeguarding social and capital spending, and by further strengthening our revenue collection efforts. In addition, we will submit a proposal to the Jogorku Kenesh to reverse the reduction in the retirement age introduced last year, which is also needed to help ensure the long-term sustainability of the Social Fund.

Besides these policies aimed at ensuring macroeconomic stability, we will continue our efforts to encourage private sector growth. In particular, we will further improve the business environment, to attract higher levels of investment. Specific measures include legislation to reduce the burden of inspections and the new tax code that will further reduce the tax burden on enterprises, streamline the tax regime, and simplify procedures. In addition, we also aim to significantly simplify the business registration process. In the financial sector, the NBKR has intensified its work on financial sector vulnerabilities and is closely monitoring the health of the banking system in light of the rapid pace of credit expansion last year and the current global financial sector difficulties. Despite these risks we believe that the Kyrgyz banking system can weather a more challenging environment well, as evidenced by a strong capital base and high levels of liquidity.

We believe that with these policies we will be able to achieve our objectives, but we are ready to take any additional measures. In this regard, we will maintain a close dialogue with IMF staff and look forward to our continued close cooperation with the IMF. We agree to publication on the IMF's website of the staff report for the sixth review under the PRGF arrangement and this letter.

Sincerely yours,

/s/
Igor Chudinov
Prime Minister of the Kyrgyz Republic

/s/
Marat Alapaev
Governor of the
National Bank of the Kyrgyz Republic

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Informational Annex

May 6, 2008

Contents Page

ANNEX I. KYRGYZ REPUBLIC—RELATIONS WITH THE FUND

(As of March 31, 2008)

I. Membership Status: Joined: 05/08/1992; Article VIII

II. General Resources Account	**SDR Million**	**Percent of Quota**
Quota	88.80	100.00
Fund Holdings of Currency	88.80	100.00
Reserve Position	0.00	0.01

III. SDR Department	**SDR Million**	**Percent of Allocation**
Holdings	3.34	N/A

IV. Outstanding Purchases and Loans	**SDR Million**	**Percent of Quota**
PRGF Arrangements	89.17	100.42

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	02/23/2005	05/31/2008	8.88	7.61
PRGF	12/06/2001	03/14/2005	73.40	73.40
PRGF	06/26/1998	07/25/2001	73.38	44.69

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

	Forthcoming				
	2008	2009	2010	2011	2012
Principal	9.16	14.73	16.24	15.31	13.48
Charges/Interest	0.43	0.36	0.28	0.20	0.13
Total	9.59	15.08	16.51	15.51	13.60

VII. Status of HIPC and MDRI Assistance

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

VIII. Safeguards Assessments

Under the Fund's safeguards assessment policy, the National Bank of the Kyrgyz Republic (NBKR) is subject to an assessment with respect to the PRGF arrangement, which was approved on March 15, 2005. An updated safeguards assessment of the NBKR was completed on October 14, 2005. The assessment found that the NBKR's safeguards framework has been strengthened since the previous assessment completed in 2002. However, a number of areas were identified where further steps would solidify the progress achieved, which include improving oversight of the audit processes and the internal control systems by establishing an audit committee, strengthening the legal framework for NBKR's autonomy, and enhancing the NBKR's internal audit function.

IX. Exchange Rate Arrangements

The currency of the Kyrgyz Republic has been the som (100 tyiyn =1 som) since May 15, 1993. Effective March 1, 2007, the exchange rate arrangement has been reclassified to a conventional pegged arrangement from managed floating with no predetermined path for the exchange rate. During September – November, 2007 the som appreciated by about 10 percent against the U.S. dollar. Thus, effective October 1, 2007, the exchange rate arrangement has been reclassified to managed floating with no predetermined path for the exchange rate. 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 Kyrgyz Republic maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions maintained for security reasons relating to the restriction of financial transactions and the freeze of accounts of certain individuals or organizations associated with terrorism pursuant to (i) relevant UN Security Council resolutions and (ii) the list of current terrorist organizations designated by the U.S. Secretary of State. The authorities have notified these measures to the Fund pursuant to Executive Board decision No. 144-(52/51) in May 2007 (see EBD/07/96, 9/7/07 and EBD/04/129, 11/19/04).

X. Article IV Consultations

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

XI. FSAP Participation and ROSC Assessment

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

XII. Resident Representative

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

ANNEX II. KYRGYZ REPUBLIC—RELATIONS WITH THE WORLD BANK GROUP

(As of April 2008)

1. **The new Joint Country Support Strategy** (JCSS) covering FY07–10 was approved by the Board on June 19, 2007. The WB Country team jointly with four development partners (ADB, DFID, SWISS, and UN Agencies) developed JCSS to support implementation of the Country Development Strategy. The JCSS is closely aligned with the Government's development goals. The strategic choices agreed among the development partners are: (i) focus on areas where support for reforms is already embedded; (ii) mitigate risks associated with high indebtedness and growth volatility; (iii) focus on basic reforms, as opposed to complex operations; and (iv) focus on economic and sector work and capacity building.

2. **The World Bank Group Program within JCSS**. The WBG program contributes to the strategic goals outlined in the JCSS, with a particular focus on supporting the Government's efforts to improve the environment for business and economic growth and improve the quality of and access to basic services (health, education, water and sanitation). The WBG strategy emphasizes greater selectivity given the limited IDA resources and limitations placed on the Government's own public investment program. Building on lessons learned, and in line with the principles of the JCSS, the Bank Program will build on successful results achieved in first generation projects, target activities where the Bank can show visible results to the population, and leverage our lending and analytical work to attract financing from other development partners. The proposed annual allocation for the Kyrgyz Republic under JCSS 2007–2010 is about $30 million U.S. dollars.

3. **International Development Association (IDA):** As of March 31, 2008 the active World Bank portfolio comprise of 19 operations with total commitments of US$ 230.1, of which US$ 127.2 million (55.3 percent) remains to be disbursed. One over aged project—Power & District Heating Rehabilitation Project was closed in FY 08. The most recently approved new project was the Bishkek and Osh Urban Infrastructure project ($12 million) in March 2008. Two more new projects—Agricultural Investments and Services and Environmental Management and Capacity Building Project are planned for FY 08. In addition to the country specific operations, the government also benefits from the regional HIV/AIDS project.

4. **International Finance Corporation (IFC) Program and Portfolio.** Since becoming a member of IFC in 1993, the Kyrgyz Republic has received commitments totaling nearly US$65 million from IFC's own funds to finance twelve projects in the financial, oil and gas, food and beverage, and pulp and paper sectors. The committed IFC portfolio as of March 1, 2008 stands at $16 million, with $11 million disbursed. The largest investment in the existing portfolio was the Kumtor Gold Mine, with further investments in packaging plants "Altyn-Ajydar" and "Magic Box," pasta plant "Akun," financial sector projects

Demirbank, KICB, FINCA, and Bai-Tushum. Under the framework of MSEF joint project with EBRD, IFC has provided credit lines to local banks as AKB Kyrgyzstan, Ineximbank and Kazcommertsbank.

5. **IFC has completed 14 technical assistance projects** in the areas of: (i) institutional and capacity building in the financial sectors including leasing; microfinance; (ii) creating favorable business environment for SME; (iii) improving investment climate; and (iv) developing capacity building for tourism. IFC PEP Central Asian Primary Market Development Project was launched in 2005, and the second phase of IFC PEP Central Asian Regional Leasing Project was started. In November 2007, IFC PEP Central Asian Regional Project on Corporate Governance was opened in Bishkek to improve corporate governance in enterprises of the Republic.

6. **Multilateral Investment Guarantee Agency (MIGA)** has supported private sector development in the Kyrgyz Republic by extending guarantees to foreign direct investments in four projects in the manufacturing, services, and mining sectors. MIGA's current portfolio consists of two projects, financed by Austrian and Italian investors, in support of the country's services sector. The combined gross exposure from these projects is US$14.8 million. Two claims have been filed relating to projects guaranteed by MIGA. One of them is the Kyrgyz Airlines project in which the Government of the Kyrgyz Republic cancelled the airline's license to operate, alleging that the investor breached material obligations under the license agreement. The second dispute relates to the Manas Management Company project which handles the catering and cargo operations of the Manas International Airport in Bishkek. MIGA is seeking to settle the dispute through mediation, and is in close contact with both the Kyrgyz authorities and the investors for this purpose. Recently, settlement agreement was signed by two parties. The case was withdrawn from arbitration court in London. The total amount of foreign direct investment facilitated by MIGA guarantees is over US$360 million. At present, there are no projects involving the Kyrgyz Republic in MIGA's FY08 pipeline.

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

(As of March 31, 2008)

1. ADB has been the second largest development partner in the Kyrgyz Republic since its joining in 1994. The current Joint Country Support Strategy (JCSS) for the period 2007–10 was prepared by ADB together with the United Kingdom's Department for International Development, Swiss Cooperation, United Nations agencies, and the World Bank Group. The priority areas for JCSS are identified as its main pillars: (i) promoting private sector and economic growth, (ii) good governance and reducing corruption, and (iii) improving health, education and other social services.

2. In line with the Government's own 2007–10 Country Development Strategy, ADB's future program will focus on (i) promoting economic management consistent with strong and sustained pro-poor growth; (ii) improving governance; promoting effective public administration and reducing corruption; (iii) building sustainable human and social capital; and (iv) ensuring environmental sustainability and natural resources management. It will be premised on ensuring environmental sustainability, private sector development, and regional cooperation.

3. As of 31 March 2008, the country has received 26 loans worth $603.5 million and 5 ADF grants worth $66.1 million. Seven out of 26 loans are program loans totaling $199.5 million provided to support policy reforms to facilitate the transition to a market economy. The remaining 19 project loans and grants (worth $470.1 million) were provided to support various investment activities. At present, 7 loans and 5 grants with approved amount of $219.4 million are ongoing. These loans and grants have an un-disbursed balance of $140.5 million as of March 31, 2008. All assistance provided to the Kyrgyz Republic is from concessional ADB's special fund resources—Asian Development Fund (ADF). The Kyrgyz Republic has also received 7 grants from Japan Fund for Poverty Reduction (JFPR grants) amounting to $7 million. The transport and communications sectors account for the largest share of ADB assistance, followed by the multisector, and law, economics and public policy.

4. In addition to loans and grants, ADB had provided 68 technical assistance (TA) projects amounting to $39.7 million as of today. Of these, 19 are project preparatory TAs amounting to $12.7 million and the remaining 49 TAs for $27 million are advisory TAs for capacity building, policy advice, institutional strengthening and training.

5. The performance of ADB's portfolio is generally satisfactory with no loan rated at risk. The scarcity of budgetary resources, and ceilings on the externally funded PIP constituted the biggest risks to the country portfolio. ADB and the World Bank have thus sought the removal of quarterly disbursement ceilings, which delay project implementation.

In August 2005, IMF agreed to be more flexible in determining annual targets for the PIP, which is expected to improve portfolio performance.

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

7. Since 2005, up to 50 percent of ADF assistance to the country was provided in the form of grants in view of the heavy external indebtedness of the country. In September 2007, the new grants framework was approved by ADB's Board of Directors, which enables the Kyrgyz Republic to receive 100 percent of its annual ADF allocation in grants. Access to grants will depend on the county's debt repayment capacity, which will need to be assessed periodically. The allocation for the block of two years 2007–08 is determined at $44 million.

8. The Kyrgyz Republic was selected as one of the pilot countries during the February 2003 Rome Conference on Harmonization. Since then key development partners have learned to better coordinate and harmonize procurement procedures, oversee financial management and monitoring, share project implementation units, and conduct joint country portfolio reviews. The JCSS for the Kyrgyz Republic has been prepared by five funding agencies. Kyrgyz Resident Mission participated actively in the harmonization working group and contributed to the development of the National Action Plan for Harmonization which was approved by the Government in February 2005. The areas identified for harmonization in the immediate future are: (a) procedures for procurement of goods and services; (b) financial management and monitoring of projects; and (c) project implementation units. World Bank and ADB procurement documentation has been harmonized in these areas.

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

ANNEX IV. KYRGYZ REPUBLIC—RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

(As of April 1, 2008)

1. The EBRD facilitates the transition to a market-based economy through its direct support for private sector investment and key infrastructure, and targeted technical assistance. Under the Early Transition Countries' Initiative (ETCI) introduced in 2005, the Bank is able to more innovatively respond to the Kyrgyz economic requirements. Therefore, the Bank is considering smaller, "more challenging" projects. Under the ETCI, the Bank also provides technical cooperation (TC) in support of investment development.

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

3. As of April 2008, the Bank had approved 59 investment projects (including restructurings) with total financing of €769 million. The Bank has provided more than €202 million of this amount.

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

- With an objective to develop dynamic micro, small and medium-sized enterprises, the Bank has been trying to strengthen the financial sector by investing and lending to stronger local financial institutions and encouraging co-investment.
- The Bank works with seven partner banks and also with four nonbanking institutions—Bai-Tushum, FINCA, Kompanion and Frontiers.
- In 2007, the Bank has signed $4 million with three non-bank' institutions Frontiers, Bai-Tushum, and Kompanion. And
- In 2007, the Bank has approved $40 million in support of the Bank's Financial Sector Strategy for the Kyrgyz Republic which aims to strengthen the sector by addressing identified gaps and weaknesses and promoting best practice. The project will support development of the private enterprises and banking sector in the Kyrgyz Republic by increasing medium- and long-term financing to the productive sector of the economy through local banks. In 2007, under this project KICB received $3 million credit line for lending to small and medium sized enterprises and $2 million loan for mortgage financing. The SME credit line is used to finance local enterprises in the tourism sector and related services. The mortgage loan is used for financing residential mortgages.
- Equity investments in DKIB and KICB.
- Expansion of Trade Facilitation Program (TFP). Four banks are participants in the TFP.

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

- $20 million loan and $10 million sub debt, since converted into $17 million equity participation in Centerra Gold (the Bank's senior loan have been fully repaid).
- Loan to Hyatt-Regency Hotel, $6.3 million in 1997.
- Loan to Interglass plant, $6 million in 2004.
- Loan to Limatex (cotton-processing plant in Djalal-Abad), $1 million in 2005.
- Loan to Karven Four Seasons (resort on Issyk–Kul Lake), $3.8 million in 2006.
- Loan to Orion Hotel (hotel and business centre in Bishkek), $4 million in 2007.

The Bank provided the Kyrgyz Republic with sovereign guaranteed loans in the past and continues to monitor the development of key infrastructure projects in the public sector. The Bank is currently working with the Government for the possible EBRD financing of selected transport and municipal environmental infrastructure projects to be blended with concessional financing from other IFIs and bilateral donors. The Bank is also considering the possible non sovereign financing for airports, telecoms, gas pipeline projects to be financed on a commercial basis.

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

- In telecoms, to advise on key reforms, including intercapacity access arrangements;
- Training for judges in commercial law;
- Business Advisory Service and Turn Around Management programs, providing consulting services to viable businesses.

6. The Bank actively promotes policy dialogue and implements selected TC activities to improve the business climate. The Bank supported the creation of an Investment Council to ensure high-level policy dialogue between the government and business community. ETC Fund resources ensures professional management of the Council, and the Bank participates in the process together with domestic and foreign private investors as well as other donors.

ANNEX V. KYRGYZ REPUBLIC—TECHNICAL ASSISTANCE PROVIDED BY THE FUND
February 2003–April 2008

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
MFD/ MCM	Review of the Capital Adequacy and Dividend Arrangements for the National Bank of the Kyrgyz Republic	August 18–28, 2003	National Bank of the Kyrgyz Republic
	Review of Debt Restructuring Operation and 2003 Financial Reporting	October 28–November 10, 2003	National Bank of the Kyrgyz Republic
	Monetary Operations, Banking System Development, and Central Bank Autonomy	September 13–23, 2004	National Bank of the Kyrgyz Republic
	Review of NBKR Debt Restructuring Arrangements, Options for Deepening Financial Markets and Amendments to the NBKR Law	December 7–18, 2004	National Bank of the Kyrgyz Republic
	Payments System	January 25–February 7, 2005, April 12–25, 2005, October 18–27, 2005,	National Bank of the Kyrgyz Republic

ANNEX V. (CONTINUED) KYRGYZ REPUBLIC—TECHNICAL ASSISTANCE PROVIDED BY THE FUND
February 2003–January 2008

Dept.	Subject/Identified Need	Timing	Counterpart
		February 20–March 5, 2006, October 16-27, 2006, March 3-17, 2007, December 9-15, 2007	
	Bank Supervision and Regulation	February 23–March 8, 2005, May 18–28, 2005, July 17–28, 2005, October 02–13, 2005, January 15–26, 2006, February 12–23, 2006, March 20–30, 2006	National Bank of the Kyrgyz Republic
	FSAP update	September 5–15, 2005 October 10–23, 2006	National Bank of the Kyrgyz Republic
	AML/CFT	April 19–25, 2006	National Bank of the Kyrgyz Republic
	Islamic Banking Framework	February 4–12, 2008	National Bank of the Kyrgyz Republic
LEG	Update of the AML/CFT Legislation (jointly with MFD)	February 5–11, 2004	National Bank of the Kyrgyz Republic
	Review of Bank Legislation	March 1–4, 2004 April 26–May 6, 2004	National Bank of the Kyrgyz Republic
	Review of Tax Legislation	July 27–August 5, 2004	Ministry of Finance
	Assisting in drafting Tax Code	December 4–10, 2005	Prime Minister's office
	AML/CFT Follow-up	July 2–6, 2007	National Bank of the Kyrgyz Republic
	Review of the draft Tax Code	April 22–30, 2008	Ministry of Finance

ANNEX V. (CONCLUDED) KYRGYZ REPUBLIC—TECHNICAL ASSISTANCE PROVIDED BY THE FUND
February 2003–January 2008

Dept.	Subject/Identified Need	Timing	Counterpart
	AML/CFT Follow-up	September 3–6, 2007	National Bank of the Kyrgyz Republic and Financial Intelligence Unit
	AML/CFT Framework	February 11–15, 2008 March 3–7, 2008	National Bank of the Kyrgyz Republic and Financial Intelligence Unit
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

List of Resident Advisors

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

ANNEX VI. KYRGYZ REPUBLIC—STATISTICAL ISSUES

General framework

1. Data provision is adequate for surveillance. The three institutions responsible for collecting, compiling and disseminating macroeconomic statistics—the National Statistics Committee (NSC), the ministry of economy and finance (MOF), and the National Bank of the Kyrgyz Republic (NBKR)—have legal and institutional environments that support statistical quality, and their respective staff are well-versed in current methodologies. Unlike staff resources, however, computer and financial resources are generally not commensurate with current needs and therefore constrain statistical development, especially for the NSC.

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, following improvements in compilation and dissemination of the reserves template and external debt data, 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 had established a good track record of implementing recommendations of past technical assistance and had demonstrated commitment to pursue plans and programs to further improve their statistics. The mission recommended that a program of regular intersectoral consistency checks be introduced to reduce the sometimes significant unexplained discrepancies between the government finance, monetary, and balance of payments datasets. The authorities' response to the data ROSC (posted on the IMF website (www.imf.org/external/np/rosc) includes an update on the status of implementation of the ROSC recommendations.

National accounts

4. In general, dissemination of national accounts statistics is timely. Technical assistance has been received from the IMF, EUROSTAT, OECD, the World Bank, and bilateral donors. While significant progress has been made in improving the national accounts estimation process, problems persist regarding the quality of the source data, due mainly to excessively tight collection deadlines associated with the release schedule. Efforts are needed to improve the quality of the source data for quarterly GDP estimates. Moreover, subannual national accounts are still prepared on a cumulative basis rather than by discrete time periods. 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.

Prices, wages, and employment

5. The concepts and definitions used in the consumer price index (CPI), which has been published since January 1995, are broadly consistent with international standards. The price index covers all urban resident households of all sizes and income levels, but needs to cover rural households, which comprise the majority of the population.

6. The producer price index (PPI), which has been published since October 1996, is compiled broadly in accordance with international standards, although its coverage needs to be improved. The coverage of the PPI was broadened in May 1997 and is expected to be further expanded in the coming years.

7. Progress has been made in computing unit value indices for imports and exports. Work continues with regard to computation of these indices using a standard index presentation and the development of an export price index. However, problems in customs administration have led to incomplete coverage of trade and the lack of an appropriate valuation system. Moreover, the data processed by customs have suffered due to the use of an outdated computer software system.

8. Problems exist in the compilation of the average wage, especially with respect to the valuation of payments in kind and the coverage of the private sector. Monthly and annual data are not comparable because of different coverage and classifications. These problems extend to employment data as well. The coverage of unemployment includes an estimate of unregistered unemployed.

Fiscal accounts

9. The scope of central government statistics falls short of international standards because it excludes data for the Social Fund and the externally financed Public Investment Program (these data are published separately). Other limitations involve the exclusion of financial transactions with domestic banks and the discrepancies between the deficit and financing data. While revenue and expenditure data generally accord with the *GFSM 1986*, there are misclassifications in both categories (for example, some nontax revenues are classified as taxes, and certain expenditure items are misclassified in the budget and treasury accounts). Monthly GFS data are reported to STA for publication in the *IFS*; the latest data reported for publication in the *GFS Yearbook* were for 2006, and covered general government and its subsectors; the data were compiled using the *GFSM 2001* analytical framework.

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

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

Monetary sector

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

12. An STA mission on monetary and financial statistics visited Bishkek during April 27–May 11, 2004 to (a) follow up on the implementation of the data ROSC mission's recommendations; (b) expand the institutional coverage of the broad money survey; and (c) assist the NBKR in implementing the methodology spelled out in the *MFSM*. It found that the NBKR had made substantial progress in implementing ROSC recommendations pertaining to monetary statistics. To address the outstanding issues, the mission further recommended that the NBKR (a) improve the basic source data to allow for proper classification of the transactions with foreign and domestic units; (b) fully implement the *MFSM*'s methodology concerning accrual accounting; (c) exclude deposits with banks in liquidation from monetary aggregates and classify them as restricted deposits; and (d) set up a working group to follow up on consistency between monetary and balance of payments statistics. The mission also recommended expanding the current broad money survey to include the accounts of credit unions and microfinance companies.

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

External sector

14. Data on the balance of payments and international investment position are compiled and disseminated on a quarterly basis. The 2002 data ROSC mission noted that the compilation of balance of payments statistics broadly follows the methodology recommended in the *Balance of Payments Manual, Fifth Edition (BPM5)*. The NBKR has good arrangements with other agencies to ensure timely data flow. However, because of legal issues related to secrecy provisions, high value transactions cannot be verified with respondents, limiting the ability to cross-check the accuracy of data. Although the data collection program has been expanded in the recent past, coverage deficiencies remain with respect to trade, services, and foreign direct investment. The NBKR enterprise surveys lack an up-to-date register and have inadequate coverage of enterprises, particularly those in free

economic zones. There is also a need to improve compilation procedures for achieving temporal consistency of data, and investigating and reconciling discrepancies.

15. The NSC conducts a quarterly sample survey for the estimation of shuttle trade, and uses customs records on the number of people crossing the border with CIS countries to derive the sample. The State Customs Inspectorate has introduced the customs receipt order for shuttle traders that simplifies and improves recording of imports of goods by shuttle traders. However, the high value limits applied for free import of goods by individuals have fostered a large shuttle trade, which has complicated estimation of this activity.

16. An STA mission on balance of payments statistics was in Bishkek during March15–29, 2004 to address compilation issues, and to assess training needs. The mission noted that while progress had been made in several areas, further improvements were needed in the international transactions reporting system; data sampling methods; and data validation and coverage, particularly on trade, services, private sector external debt, and foreign direct investment. The mission developed a questionnaire for collecting data on foreign direct investments and provided guidelines on the collection of data on external debt.

Kyrgyz Republic: Table of Common Indicators Required for Surveillance
(As of May 2, 2008)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]	Memo Items:	
						Data Quality—Methodological soundness[7]	Data Quality—Accuracy and reliability[8]
Exchange Rates	4/30/08	5/02/08	D	D	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	4/30/08	5/02/08	M	M	M		
Reserve/Base Money	4/30/08	5/02/08	D	D	M	LO, O, LO, LO	LO, O, O, LO, LO
Broad Money	3/31/08	4/16/08	M	M	M		
Central Bank Balance Sheet	4/30/08	5/02/08	D	D	M		
Consolidated Balance Sheet of the Banking System	3/31/08	4/16/08	M	M	M		
Interest Rates[2]	4/24/08	5/02/08	W	W	W		
Consumer Price Index	3/31/08	4/16/08	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2/29/08	4/15/08	M	M	A	O, LNO, LO, O	LO, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	2/29/08	4/15/08	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2/29/08	3/12/08	M	M	A		
External Current Account Balance	12/31/07	2/28/08	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, LO, LO
Exports and Imports of Goods and Services	12/31/07	2/28/08	M	Q	Q		
GDP/GNP	12/31/07	2/08/08	M	M	M	O, O, LO, O	LO, LO, LO, O, O
Gross External Debt	12/31/07	4/10/08	M	M	A		

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[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] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).
[7] 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).
[8] 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.

Press Release No. 08/119
FOR IMMEDIATE RELEASE
May 22, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth and Final Review Under the PRGF Arrangement with the Kyrgyz Republic, Augments Access under the PRGF Arrangement to Mitigate Impact of High Food and Fuel Prices, and Approves US$16.5 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the sixth and final review of the Kyrgyz Republic's economic performance under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. To help meet a larger balance of payments need, due to the impact of high food and fuel prices, the Board also approved an augmentation in access under the PRGF arrangement to SDR 17.76 million (about US$28.8 million) from SDR 8.88 million (about US$14.4 million). The completion of the sixth review allows the release of an amount equivalent to SDR 10.15 million (about US$16.5 million), bringing total disbursements to the full amount of SDR 17.76 million (about US$28.8 million). In addition, the Executive Board called on the Kyrgyz Republic to engage in Post-Program Monitoring.

The PRGF arrangement was originally approved on February 23, 2005 (see Press Release No. 05/40) for an amount equivalent to SDR 8.88 million (about US$14.4 million).

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

"The Kyrgyz Republic's economic performance strengthened significantly in recent years, notwithstanding difficult political circumstances, and the authorities are to be commended for their continued adherence to sound macroeconomic and financial policies. As a result, the objectives of the authorities' economic program supported under the Poverty Reduction and Growth Facility have been largely met. Growth has rebounded and become broader-based, and poverty rates have fallen. Firm fiscal policies, combined with economic growth and Paris Club support, have led to an impressive reduction in the country's debt burden, while inflation remained low until recently.

"The Kyrgyz Republic's near-term outlook has become more uncertain, with inflation rising and growth expected to slow, largely due to the rise in global food and energy prices and the spillover effects from the economic slowdown in neighboring Kazakhstan. The doubling of the Fund's financial assistance under the PRGF arrangement in the final disbursement is the first case of an augmentation of resources under a PRGF arrangement to help countries address the impact of high food and energy prices, and will support the policies that the Kyrgyz authorities are committed to implement to adjust to these shocks.

"The immediate challenge facing the authorities is to bring down inflation while protecting growth and the poor. To this end, the authorities intend to further tighten monetary policy, to limit second round effects from higher food and fuel prices and prevent inflation expectations from being adjusted upwards. Fiscal policy will need to be supportive of the central bank's efforts to tackle inflation. The authorities are appropriately planning to limit the government deficit by reducing non-priority current spending and further strengthening revenue collection. At the same time and also appropriately, they will safeguard social spending and plan to raise social benefits to cushion the effects of higher food and energy prices on the poor.

"Looking ahead, continued strong growth will be needed to substantially reduce poverty. This will require firmly entrenching macroeconomic stability and pressing ahead decisively with reforms to strengthen the business environment, address problems in the energy sector, and improve infrastructure. In these endeavors, the authorities plan to maintain close cooperation with the Fund after the expiration of the PRGF arrangement," Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the country's Poverty Reduction Strategy Paper. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½ -year grace period on principal payments.

Post-Program Monitoring (PPM) provides for frequent consultations between the IMF and members whose arrangements have expired but who continue to have significant IMF credit outstanding. Generally, PPM is recommended when the credit outstanding exceeds 100 percent of the member's quota with the IMF. In PPM consultations, particular focus is placed on policies that have a bearing on external viability.

Statement by Thomas Moser, Executive Director for Kyrgyz Republic and Martin Lanz, Advisor to Executive Director May 21, 2008

1. Our Kyrgyz authorities would like to thank the staff and management for the continuous support throughout this PRGF-supported arrangement, and for the fruitful discussions in the context of the sixth and final review. They would also like to thank the staff for the support in view of the sharp rise in international food and energy prices, which for a small and very open economy like the Kyrgyz Republic poses a considerable challenge to macroeconomic management and poverty reduction.

2. The Kyrgyz authorities should be commended for their sound economic policies and macroeconomic achievements under the program in spite of difficult circumstances. From the outset of the program, the authorities had to face considerable internal and external shocks, but they nevertheless managed to keep the PRGF-supported program on track. In addition to the most recent sharp rise in international food and energy prices, the Kyrgyz economy has also been considerably affected by the global financial market turmoil. Partially as a result of these external shocks, the exchange rate came under pressure earlier this year, but the pressure has subsided since.

3. Despite the recent external shocks, all quantitative performance criteria were met. Moreover, the authorities have refrained from administrative controls in response to the rise in food prices and rather tightened monetary policy to bring inflation back under control. Continued prudent fiscal policy will support monetary policy in this respect, while safeguarding social spending to help mitigate the effects of the higher price levels on the poor.

4. On the structural side, the authorities met two out of the three structural benchmarks for end-December. As to the third structural benchmark, which requires parliamentary approval of amendments to the bank bankruptcy law, the government has submitted the amendments to parliament but awaits parliamentary consideration. The authorities have further completed two pending structural benchmarks: the independent review of the NBKR’s internal audit function and parliamentary approval of the legislation to strengthen the NBKR’s independence in the area of bank supervision. Moreover, the privatization of Ayul Bank (formerly Kyrgyz Agricultural Financial Corporation) is expected to be approved by parliament on May 22.

5. One of the main objectives of this PRGF-supported program has been to improve government finances and achieve external debt sustainability. In this respect, the authorities were extremely successful, despite the fact that political turmoil and external shocks adversely affected economic growth throughout the program period, and despite the fact that

the authorities decided to forego assistance under the HIPC Initiative and MDRI. External public debt has been reduced from over 90 percent of GDP at the beginning of the program to 55 percent of GDP in 2007. Although Paris Club support and debt restructuring played their role, the authorities need to be commended for their fiscal discipline, manifested in the steady improvement of revenue and the firm stand against politically motivated spending pressures.

6. While quantitative performance criteria have been consistently met throughout the program, structural performance may have been less satisfactory. However, it should be pointed out that structural reforms have generally been timely implemented if their completion was under the control of the executive. Implementation has been less satisfactory if legislative action was required, given the tensions between the government and the former parliament. Nevertheless, the authorities have untiringly continued to make steady progress on pending structural conditionality, and they expect to complete all pending issues before the end of the year.

7. Given their performance under the PRGF-supported arrangement, the authorities would like to request the completion of the sixth review. In view of the severe external shocks affecting the Kyrgyz economy and to help ease the adjustment process, the Kyrgyz authorities would like to request an augmentation of 10 percent of quota (SDR 8.88 million) with the last review. The authorities are currently evaluating their options regarding their future engagement with the Fund. They have much appreciated the staff’s policy advice and look forward to continuing the close cooperation.