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# KYRGYZ REPUBLIC

July 2014

## SIXTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY; STAFF REPORT; AND PRESS RELEASE

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

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on May 16, 2014, with the officials of Kyrgyz Republic on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 11, 2014
- An **Informational Annex** prepared by the IMF.
- A **Press Release**.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Kyrgyz Republic*
Poverty Reduction Strategy Paper
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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# KYRGYZ REPUBLIC

## KYRGYZ REPUBLIC—SIXTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

June 11, 2014

## EXECUTIVE SUMMARY


**Political context.** On April 3, 2014, parliament approved a new government, led by Mr. Otorbaev, the new Prime Minister. The ministers of economy and finances kept their positions. Moreover, on May 7, 2014, a new chairperson was appointed for the National Bank of the Kyrgyz Republic (NBKR). No major changes in economic policies are expected. In February 2014, parliament approved a new deal with Centerra, ending a two-year dispute over the Kumtor gold mine.

**Background.** In the first quarter, growth moderated to 5.6 percent (year-on-year) after the 2013 growth spike at 10.5 percent related to an unexpectedly high level of gold production. In the same period, inflation picked up slightly, owing to depreciation of the som in response to pressures from the depreciation of the Russian ruble and the devaluation of the Kazakh tenge. The NBKR intervened heavily to mitigate these pressures, but has recently rebuilt reserves to ensure a more comfortable level of over three months of imports. The current account is expected to deteriorate this year because of higher imports related to large public investments and FDI-financed infrastructure projects. Fiscal performance in 2013 was better than expected, with a deficit of 4 percent of GDP, but revenue headwinds call for a cautious budget in 2014. The medium-term outlook remains broadly favorable, provided prudent macroeconomic policies continue and are supported with structural reforms, including tax policy and administration reforms, public financial management (PFM) reforms, and implementation of FSAP recommendations, in particular the Banking Code.

**Program.** The program is broadly on track, with all end-December 2013 quantitative performance criteria and all but one indicative targets (IT) met for end-December 2013. Although three March 2014 ITs were missed, since then there has been progress in rebuilding reserves and enhancing tax collections. The two structural benchmarks (SBs) for end-December were met, and the SB on signing the contract with one of the big four audit companies to audit the Debt Resolution Agency (DEBRA) is expected to be completed with delay. The remaining SB on introducing the Treasury Single Account (TSA) on a pilot basis was missed. Overall, the Kyrgyz authorities are completing a

broadly successful three-year ECF arrangement, although further reforms will be needed to preserve and deepen the accomplishments. Despite occasional domestic political turmoil, the authorities have regained and maintained macroeconomic stability, consolidated the fiscal position, implemented a new monetary framework, and embarked on a comprehensive banking sector reform. The authorities have not yet expressed their intentions regarding a successor program.

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

The staff team comprised C. Beddies (head), C. Gicquel, D. Ostojic (all MCD), V. Salins (SPR), D. Knight (LEG), and Y. Sobolev (Resident Representative). Discussions were held in Bishkek during May 6–16, 2014. The mission met with President Atambaev, Prime Minister Otorbaev, First Vice Prime Minister Dill, Minister of Finance Lavrova, Acting Chairperson of the National Bank of the Kyrgyz Republic (NBKR) Abdygulov, Minister of Economy Sariev, other senior government officials, representatives of donor community, and the private sector.

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# RECENT DEVELOPMENTS

## A. Context

1. **A new parliamentary majority coalition (SPDK, Ata Meken, and Ar-Namys) nominated Djoomart Otorbaev as the new Prime Minister.** On March 18, the Ata Meken party left the three-party ruling coalition over differences in views with the prime minister. Ata Meken is the smallest of parliament's five factions, but its support was crucial to Prime Minister Satybaldyev's majority bloc. A new coalition was formed swiftly, with Ata Meken agreeing to rejoin the coalition, and parliament approved the new government on April 3, 2014. The new Prime Minister is Mr. Otorbaev (Ata Meken party), the former Vice Prime Minister. The ministers of economy and finances kept their positions. Moreover, on May 7, 2014, a new chairperson was appointed, and was confirmed by the parliament on May 29, 2014. No major changes in economic policies are expected.

2. **The parliament approved a new deal with Centerra, ending the two-year dispute over the Kumtor gold mine.** The deal stipulates: (i) the exchange of 33 percent of government shares in Centerra for 50 percent of shares in a Kumtor joint venture; (ii) an increase in the Kyrgyz share to 67 percent after 2026; and (iii) the lease of the equipment that Centerra bought in 2009 to the joint venture until 2026, after which the Kyrgyz government will own it. Discussions on some of the details are still ongoing, but the business community considers this deal a welcome step toward normalizing investor relations. The new deal will not impact the growth outlook because the production forecasts and budget revenues remain unchanged.

## B. Recent Developments

3. **After a strong recovery in 2013, growth has slowed to a more sustainable pace.**

- Overall growth in 2013 reached 10.5 percent, driven largely by higher-than-expected gold production toward the end of the year. Construction, trade, and communication also contributed to the strong performance. During the first quarter of 2014, overall growth reached 5.6 percent (year-on-year) while nongold growth was 4.9 percent (year-on-year). Growth was driven primarily by the gold, construction, and communication sectors.

- Inflation in 2013 was low at 4 percent. The 12-month inflation rate reached 6.3 percent as of March 2014 and core inflation has stayed in the single-digits since May 2013. Recent inflationary pressures were primarily due to the depreciation of the som related to the depreciation of the Russian ruble and devaluation of the Kazakh tenge in early 2014.

- The current account deficit decreased slightly from 15.1 percent of GDP in 2012 to 14.1 percent of GDP in 2013 owing to a narrower deficit of the balance of services and an increase of private current transfers. The balance of goods, however, deteriorated because of higher imports and lower gold prices, albeit the latter effect was mitigated by the strong rebound of gold production.

- The regional slowdown, especially in Russia, is affecting the Kyrgyz economy primarily through remittances and external trade, the main transmission channels. So far, the crisis in Ukraine has not had any direct impact as the relations between the two countries are limited.

**4. High rates of poverty and unemployment remain a concern.** The overall poverty rate increased to 38 percent in 2012 from 36.8 percent in 2011, while extreme poverty decreased by 0.2 percentage points (to 4.4 percent) during the same period. Poverty in urban areas increased by 4.6 percentage points, whereas in rural areas it decreased by 0.9 percentage points. In addition, unemployment is estimated to be much higher than official statistics (8.5 percent) suggest.

**5. Fiscal policy has remained prudent.** The 2013 fiscal deficit at 4 percent of GDP was 1.2 percent of GDP below the expected outcome of 5.2 percent of GDP at the time of the fifth review. This reflects higher-than-expected revenues and overall expenditures in line with the budget. Higher than expected imports resulted in higher VAT, customs revenues, and excises. Revenues from dividends and fees contributed to the higher than expected nontax revenues. In addition, the authorities received an unexpected budget grant of US$64 million (0.9 percent of GDP), from bilateral donors, in late 2013. The strong fiscal performance continued in the first quarter of 2014, with the fiscal surplus being 0.8 percent of GDP above the adjusted target. Tax revenues were slightly below the target due to harsh weather conditions and the temporary closure of borders, while expenditures were kept below budgeted levels.

**6. The NBKR started implementing a new monetary framework and raised interest rates while responding to exchange rate pressures through interventions.**

- Reserve money growth declined to 13.4 in December 2013 from 17.7 percent the previous year. Sterilization efforts increased in the second half of 2013 and the reserve money indicative targets were met for September and December. The policy rate was increased from 4.5 percent to 6 percent in March 2014.

- The som has been under pressure from external shocks from Russia and Kazakhstan in the first trimester of 2014. To smooth sharp fluctuations, the NBKR has intervened heavily selling a total of US$198.9 million in the cash as well as noncash foreign exchange markets since the beginning of 2014, representing 9 percent of its international reserves. The NBKR also tightened a limit on net open foreign exchange positions of banks. To avoid a potential panic, the NBKR accompanied its interventions with well-timed communications after the Russian ruble started depreciating and the Kazakh tenge was devalued. The depreciation peaked at 22 percent against the U.S. dollar in early March compared to the beginning of 2014, but has now stabilized at around 11 percent. Since end-March, the authorities have started to reaccumulate reserves corresponding to 18 percent of the maximum loss in NIR.

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

| | Dec-10 | Dec-11 | Mar-12 | Jun-12 | Sep-12 | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Capital Adequacy 1/** | | | | | | | | | | |
| Regulatory capital to risk weighted assets | 31.0 | 30.3 | 29.7 | 27.3 | 27.9 | 28.3 | 25.9 | 24.6 | 23.9 | 25.0 |
| Capital to total assets | 20.0 | 20.1 | 19.4 | 17.9 | 17.9 | 18.3 | 17.6 | 16.9 | 17.0 | 16.9 |
| **Liquidity** | | | | | | | | | | |
| Liquidity ratio | 72.8 | 74.9 | 83.5 | 80.3 | 78.6 | 80.0 | 77.7 | 68.4 | 66.5 | 70.0 |
| Excess reserves/total reserves | 57.3 | 27.0 | 40.0 | 32.5 | 33.6 | 34.6 | 39.0 | 23.2 | 19.5 | 13.7 |
| **Asset quality 1,2/** | | | | | | | | | | |
| Nonperforming loans/total loans | 15.8 | 10.2 | 9.9 | 9.0 | 8.5 | 7.2 | 6.6 | 5.9 | 5.7 | 5.5 |
| Loan-loss provisioning/nonperforming loans | 67.7 | 61.6 | 60.3 | 62.3 | 61.6 | 64.9 | 63.0 | 62.9 | 63.2 | 59.6 |
| **Earnings and profitability 1,2/** | | | | | | | | | | |
| Return on equity | 7.1 | 17.7 | 15.0 | 16.9 | 19.5 | 18.5 | 13.7 | 15.2 | 17.1 | 18.0 |
| Return on assets | 1.2 | 3.0 | 2.7 | 2.7 | 3.3 | 3.0 | 2.3 | 2.5 | 2.7 | 2.8 |

Source: National Bank of the Kyrgyz Republic.
1/ AUB is excluded from October 2010.
2/ In March 2011, some NPLs were transferred from Zalkar bank to the old AUB and left the system.

7. **Despite strong credit growth, the banking sector remains well capitalized and relatively stable.** Private sector credit growth reached 36 percent by December 2013, driven mostly by loans in som with a maturity of over one year to agriculture, and deposits grew by 34 percent, mostly households. Many banks introduced debit cards and expanded into remote regions. The foreign owner paid its share to recapitalize Rosinbank (formerly Zalkar). Capital adequacy ratios and liquidity ratios at end-2013 have declined compared to December 2012 but stabilized since June 2013. They still remain above the required thresholds. Nonperforming loans declined by almost 2 percentage points to 5.5 percent of total loans by the end of 2013. So far, the depreciation has not had a notable impact on bank balance sheets.

## C. Program Implementation

8. **The program remains broadly on track.** Overall, the main objectives of the program have been met and the authorities have made important strides toward stabilizing the macroeconomic environment and embarking on key structural reforms.

- All end-December 2013 quantitative performance criteria and all but one indicative targets (IT) were met. Three of the March 2014 ITs were missed. The floor on cumulative state government spending on targeted social assistance was missed for both December 2013 and March 2014 (although the authorities improved targeting of beneficiaries, resulting in lower-than-expected spending on unified monthly benefits). The March IT on the floor on net international reserves of the NBKR was missed because the NBKR reacted to external shocks by intervening to avoid excessive depreciation of the som. Discussions (below) identified actions to bring reserves back onto a comfortable path. The March IT on cumulative floor on state government tax collections fell short by a small margin due to the effects of regional instability and border disturbances on foreign trade, as well as a change in the schedule of advance corporate income tax payments.

- The end-April structural benchmark on introducing the Treasury Single Account (TSA) on a pilot basis was missed because of the expiration of the associated PFM project and issues with the software vendor. However, the authorities are preparing an action plan outlining the steps necessary to introduce the TSA and to complete other PFM reforms, which the minister of finance is expected to approve by early June. The end-February structural benchmark on identifying and signing a contract with one of the big four audit companies to audit the DEBRA and the banks under its management was also missed because of a delay in identifying financing. The authorities sent a letter to the World Bank end-May requesting initiation of the audit process under a World Bank project financed by the Swiss State Secretariat for Economic Affairs (SECO) (see LOI).

## D. Medium-Term Outlook and Risks

**9. The medium-term outlook remains broadly favorable despite regional uncertainties, fiscal headwinds related to the closure of the Manas Transit Center, and lower gold prices:**

- Overall growth for 2014 is expected to reach 4.4 percent. The growth forecast was revised downward by 0.4 percentage points because of the slowdown in Russia for 2014. The main drivers of growth remain gold production, construction, and communication sectors. Growth is expected to stabilize at 5 percent over the medium term, supported by stepped up infrastructure investment and improved access to credit.

- Inflation is projected to pick up in 2014 to 8.5 percent (year-on-year) primarily through pressures on import prices related to the depreciation of the som during the first quarter. However, it is expected to remain in single digits over the medium term barring any supply shocks.

- Despite the revised growth outlook, revenues are broadly in line with the end-of-year forecast. A bilateral donor's grant financed a modest increase in wages in law enforcement. The deficit is expected to reach 4.2 percent of GDP in 2014, slightly higher than at the time of the fifth review.

- Both gold exports and remittances are expected to stabilize in 2014 and the current account deficit is expected to reach 15.6 percent of GDP, with tighter controls at the Kazakhstan border that impede re-exports and a deterioration of the balance of income. The external debt remains at a moderate risk of debt distress.

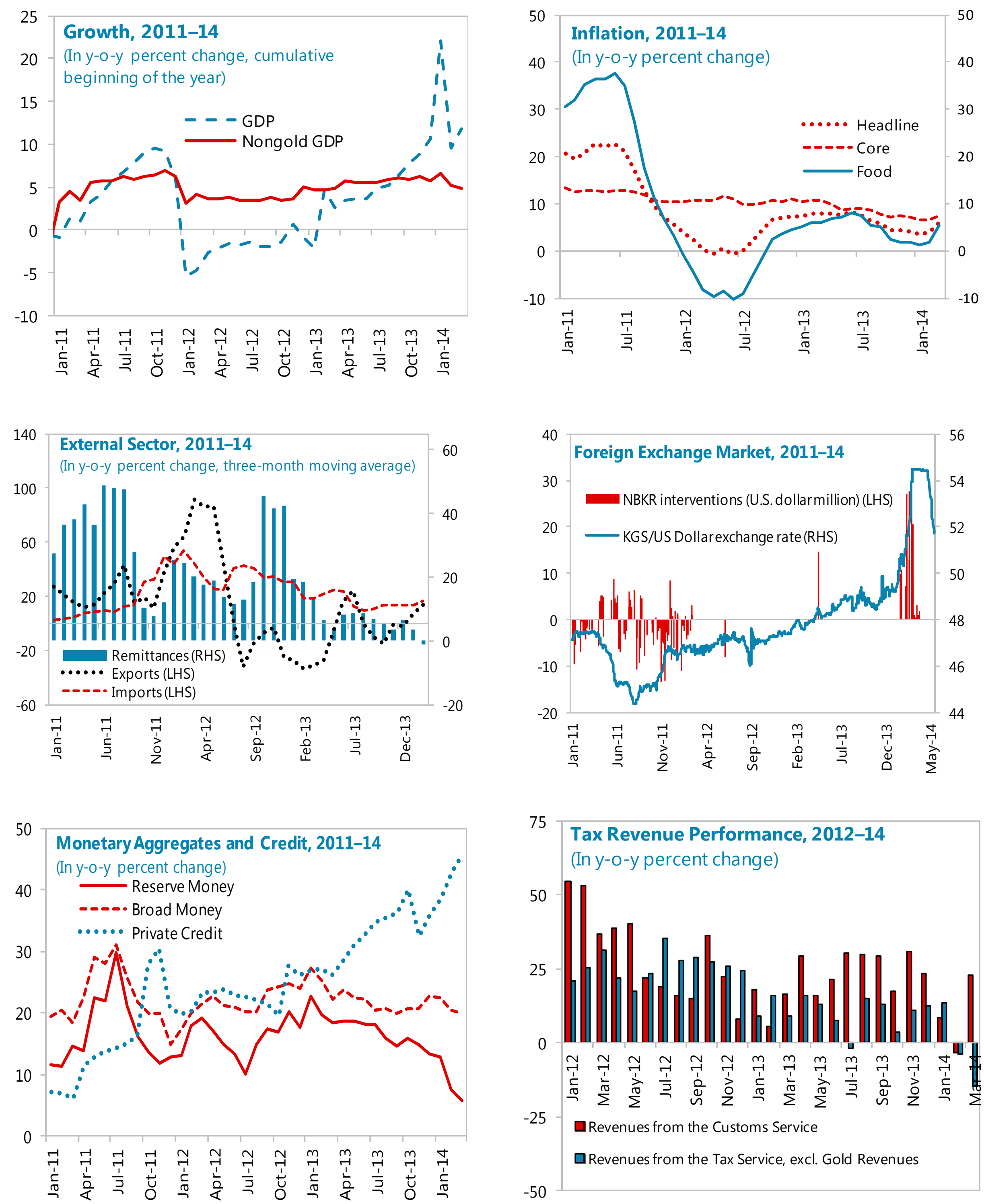
- The authorities agreed with the assessment, pointing out that growth projections could be higher and 4.4 percent was on the lower end of their range of estimates.

**10. Risks to the outlook, which are mainly regional and political, are significant but remain manageable:**

- The slowdown in Russia coupled with the situation related to Ukraine, could impact the Kyrgyz economy. The main transmission channels from the Russian economy are via remittances and external trade. About 95 percent of total remittances originate in Russia, representing 29 percent of GDP. A slowdown of 1 percent in Russian growth would decrease remittances by 2 percent and therefore growth by 0.4 percent. While exports to Russia are limited, imports from Russia represent 40 percent of total imports, including almost the entire oil bill. The effects on the current account are mixed. A depreciation of the ruble would improve the current account; however, an increase in oil prices would worsen it. Additionally, FDI from Russia could shrink. No direct impact is expected from Ukraine as economic linkages between the two countries are limited. Second-round effects through the neighboring countries may have an impact though.

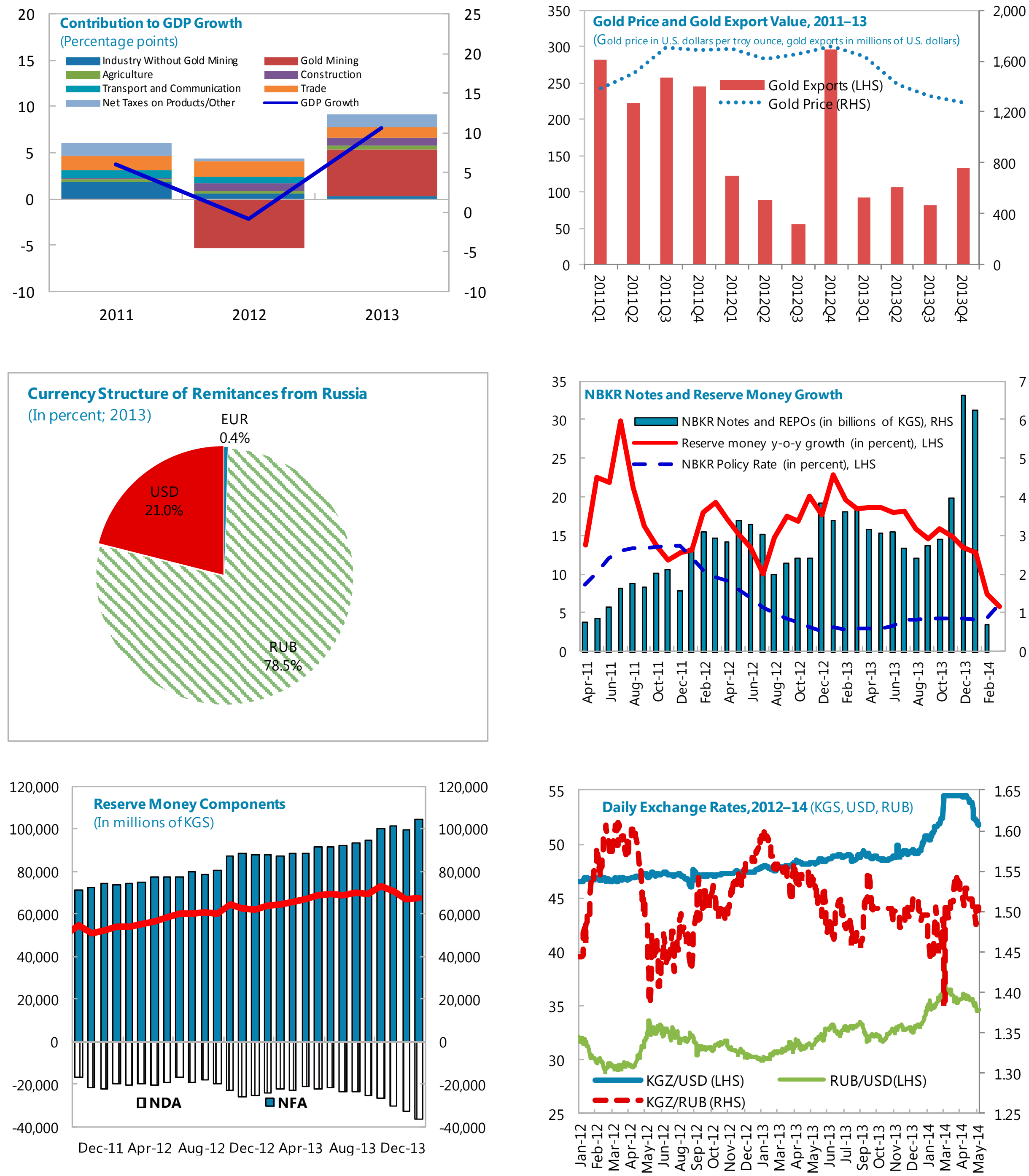
- The domestic political situation remains fragile as evidenced by yet another government reshuffling in March 2014. The parliament approved the agreement between the government and Centerra over the Kumtor gold mine, albeit some of the details are still being sorted out. The Kyrgyz Republic remains vulnerable to supply shocks which would put pressure on the current account, inflation and international reserves. To mitigate those risks, further diversification of the economy with an increasing share of nongold growth, pursuing decisively the structural reform agenda, including improving business environment, will be essential.

**Figure 1. Kyrgyz Republic: Recent Economic Developments, 2011–14**




Sources: Kyrgyz authorities and IMF staff estimates.

## Figure 1. Kyrgyz Republic: Recent Economic Developments, 2011–14 (concluded)




Sources: Kyrgyz authorities and IMF staff estimates.

# POLICY DISCUSSION

## A. Fiscal Consolidation for Pro-Poor Growth

**11. The authorities and staff agreed that the changed economic circumstances would justify a marginal increase in the deficit target for 2014.** The lower growth and weaker exchange rate in 2014 will result in 0.2 percent of GDP lower tax revenues than projected at the time of the fifth review. The authorities plan to allow automatic stabilizers to work only in part, and raised the deficit target by 0.1 percent of GDP compared with the fifth review, to 4.2 percent of GDP. Given the scope for streamlining further outlays on goods and services, this would not pose a significant burden and would preserve the momentum for fiscal consolidation, while safeguarding social outlays.

**12. The authorities remain committed to continued fiscal adjustment over the medium term.** Due to the stronger headwinds (decline in gold prices, loss of nontax revenues from the closure of the Manas Transit Center, and the slowdown in the region), the authorities and staff agreed on a slightly smoother indicative medium-term fiscal adjustment path compared with the previous review. The projected fiscal deficit of 2.5 percent of GDP in 2017 remains unchanged. This path will help preserve fiscal and debt sustainability. Staff suggested reducing the primary balance to below 2 percent of GDP over the longer term to maintain debt on a declining trajectory (fiscal anchor). To achieve this goal, it will be instrumental to create a sound and predictable revenue base by strengthening tax administration and launching new tax policy measures (Box 1). At the same time, further streamlining nonpriority expenditures, in particular cuts in spending on goods and services, supported by civil service and public procurement reforms would be essential to generate fiscal savings and facilitate an increase in pro-poor spending.

**13. Staff and the authorities agreed that there is scope to increase tax revenues over the medium term.** While overall tax collection at 25.5 percent of GDP appears relatively high, tax revenues excluding social contributions are below the regional average (Text Table 2). The authorities welcomed the key recommendations of the recent FAD TA report "tax policy reforms and capacity building", but noted that any tax measures would have to be carefully designed in the current political environment. The Kyrgyz Republic should look into: (i) strengthening the VAT and gradually phasing out the sales tax; (ii) simplifying the taxation of businesses below the VAT registration threshold; (iii) eliminating remaining tax exemptions, including for agro businesses; (iv) improving the

Text Table 2. Kyrgyz Republic: Regional Comparison of Tax Revenues as Share of GDP

| | **Tax Revenues** | Trade Taxes | Tax on Goods and Services | Taxes on Income and Profits | Property Taxes | **Social Contributions** |
|---|---|---|---|---|---|---|
| Georgia (2012) | 25.2 | 0.4 | 14.0 | 9.8 | 1.0 | n/a |
| Kazakhstan (2011) | 24.6 | 6.1 | 7.4 | 10.5 | 0.6 | n/a |
| Moldova (2011) | 20.4 | 1.4 | 15.9 | 2.8 | 0.3 | n/a |
| Uzbekistan (2011) | 20.2 | 0.7 | 12.0 | 6.2 | 1.3 | 8.0 |
| Kyrgyz Republic (2012) | 18.5 | 0.8 | 10.9 | 6.1 | 0.6 | 5.0 |
| Turkmenistan (2011) | 17.6 | 1.8 | 10.7 | 4.7 | 0.4 | 1.8 |
| Armenia (2011) | 16.7 | 0.9 | 9.2 | 6.0 | 0.4 | 3.0 |
| Tajikistan (2010) | 16.4 | 0.9 | 11.4 | 3.5 | 0.6 | 2.3 |
| **Average** | **19.9** | 1.6 | 11.4 | 6.2 | 0.7 | 4.7 |

Sources: WEO, ministry of finance, and FAD staff calculation (TA report).

coordination of customs and tax policies; (v) reforming the taxation of mineral resources; and (vi) increasing of the capacity of the ministry of finance for tax policy analysis and revenue forecasting. In addition, tax administration measures should accompany tax policy measures to increase revenue collections. In this context, reorganizing the State Tax Services headquarters and better aligning the business process to make better use of the new tax administration system would help.

**14. The authorities considered further streamlining of expenditures to be challenging but necessary to support fiscal consolidation efforts.** The World Bank Public expenditure review identified several key issues:

- While overall government spending is high, outcomes have been poor. The quality of health services remains poor, above 80 percent of 15-year-olds are considered illiterate (even though they attend school), wages in the public sector are low, and only two programs of social assistance are targeted to the poorest members of society.

- Recent increases have helped marginally. Spending on health increased over the last few years and reached 6.2 percent of GDP, but mostly on account of an increase in wages in the health sector, and remains below the ECA average. Spending on education also increased and at 7.2 percent of GDP is above the regional average. However, most of the increase in spending is again due to wages that vary significantly across oblasts. In addition, a large proportion of funds released by the TSA is not accounted for.

- Speeding up the civil service reform would provide for a more efficient and fairer system. While wages in the public sector remain low, all wage increases are on an ad hoc basis and there is no inflation adjustment in the interim.

- There is room for streamlining and reclassification of spending on goods and services (capital repairs should go into capital spending and payments for some medical services should be reclassified to wages). In addition, a centralized procurement system would help eliminate inefficiency and disparity in cost of goods and services, in particular in health and education.

**15. PFM reforms are facing delays.** The revised Budget Code and Procurement law were submitted to the parliament in December 2013 and February 2014, respectively. However, because of disagreements between the authorities and the software vendor, the testing of the Treasury Management Information System (TMIS) was not finalized on time. The WB PFM project, which financed the vendor, expired on December 31, 2013. The authorities are working on identifying a domestic solution for the software system or acquiring it from other countries to finalize the testing phase and introduce the TSA on a pilot basis by the end of this year. The authorities are developing an action plan for the remaining PFM reforms. The plan stipulates the deadline for the choice of the information system (expected over the next couple of months), the deadline for introducing the TSA, the deadline for introducing five modules of the TSA (budget preparation, budget execution, commitment control, cash planning, and the HR module), as well as the timing for applying the new accounting rules.

### Box 1. Kyrgyz Republic: Medium-Term Challenges for Fiscal Policy

**Decreasing aid dependency and putting public finances on a sustainable footing, while addressing poverty concerns, is a key challenge for fiscal policy over the medium term.** The last three years focused primarily on restoring fiscal sustainability (the primary deficit declined by 2 percent of GDP and the primary deficit excluding grants dropped by 3 percent of GDP), but going forward the authorities should create additional fiscal space for pro-poor spending (social, education, and health). To achieve this goal, decisive policy measures are needed on both the revenue and the expenditure sides.

**Creating a sound and predictable revenue base will be key to overcome the challenges that fiscal policy is facing.** Tax revenues excluding social contributions in the Kyrgyz Republic are below the regional average. Measures to raise revenues include: (i) removing tax exemptions including for large agro-businesses; (ii) including anti-avoidance and anti-evasion provisions in the tax code; (iii) raising excises; (iv) phasing out the turnover (sales) tax and replacing it with a presumptive tax for businesses below the VAT threshold; (v) gradually reducing the rates of social contributions; (vi) considering an increase of the corporate income tax rate and introducing a progressive tax rate for individuals; and (vii) considering a moderate increase of VAT rates. These measures are expected to yield about 2 percent of GDP over the next five years, despite the slowdown in growth, and potential negative effects stemming from the customs union.

**Tax policy measures should be supported by tax administration measures to increase the productivity of taxes.** In line with the Fund TA recommendations, the State Tax Service (STS) should address the following issues: (i) continue to develop a risk based sectoral compliance program piloted with the help of FAD TA; (ii) the quality and usability of the new integrated tax administration system; (iii) the effectiveness of the State Tax Service headquarters function; and (iv) the efficiency and effectiveness of the large taxpayers' unit (LTU). The STS needs to increase capacity of its staff to adequately maintain the new Integrated Tax Administration System (ITAS) provided by the ADB and realign the business processes to make full use of ITAS. Moreover, the field office structure of the STS should be rationalized and the STS should separate clearly the responsibilities for organizing, planning, and monitoring work, from other responsibilities. There is also a need to ensure that all large tax payers are filing tax returns electronically and to analyze the taxpayer population to define the optimum number that the LTU is handling.

## B. Improving Monetary Transmission with a New Operational Framework

**16. The NBKR is implementing the newly adopted monetary policy framework (Box 2).** On December 20, 2013, the NBKR board decided to start using the policy rate as an operational target for monetary policy. Supported by IMF/EBRD TA, the authorities have made significant progress in developing medium- and short-term models and have started determining the level of the policy rate at regular board meetings since the beginning of March. The NBKR also reactivated instruments to create a corridor around the policy rate, introduced a short-term liquidity facility, announced the schedule of board meetings on the web site, and issued the first press release after the December20, 2013 board meeting. Additional TA will be needed to fully operationalize the new framework.

### Box 2. Kyrgyz Republic: Enhancing the Role of Monetary Policy as a Lever

**In December 2013, the authorities issued several board decisions to set up a new operational monetary framework geared toward strengthening the transmission mechanisms:**

- Use the policy rate as an operational target for policy beginning in March 2014;
- Reactivate instruments to create a corridor around the policy rate;
- Introduce a short-term liquidity facility. An overnight deposit facility at 1 percent was created in February 2014 to strengthen the interest rate transmission channel of monetary policy on the real economy. This instrument should also provide an incentive to commercial banks to reconsider their interest rate policy for demand deposits and current accounts, which would subsequently increase the inflow of funds into the banking system by mopping up liquidity;
- Preannounce the schedule of the NBKR's board meetings on monetary policy on the NBKR's website. The schedule of NBKR's board meetings on monetary policy for 2014 is now posted on the website;
- Start issuing a press release after board meetings on monetary policy and economic developments. The press release should be issued two working days after the board meeting.

**17. The NBKR concurred that strict implementation of the monetary framework in 2014 is needed to improve monetary transmission and keep inflation at bay.** So far, inflation has remained in single digits. However, the depreciation of the Russian ruble, the devaluation of the Kazakh tenge, speculative attacks on the som, and strong private credit growth have created inflationary pressures. Staff advised to tighten monetary policy by maintaining sterilization efforts, keeping the policy rate in line with the inflation goal, and containing reserve money growth (taking into account developments in money demand).

**18. Despite the pressure on the som, interventions by the NBRK should stay limited.** During the first trimester, the NBKR intervened twenty two times, selling 9 percent of its international reserves to support the currency. While the initial interventions were necessary to stabilize the som, the authorities have since rebuilt reserves (not through interventions), and comfortably met their May commitment of US$1,922 million (LOI). Reserves now stand at a comfortable level of over three months of imports. Going forward, the NBKR agreed to limit interventions to smooth excess volatility of the exchange rate keep reserves at a comfortable level and maintain the flexible exchange rate regime.[1] While rebuilding the stock of reserves is essential to keep sufficient buffers against external shocks, the NBKR preferred that reserves be accumulated through official foreign inflows.

**19. Strengthening liquidity forecasting and management is key to contain reserve money growth.** The authorities hired new analysts to develop a new medium-term forecasting model to support the new forward-looking decision-making process. A predictable and well-understood

[1] The de facto regime is classified as an other managed arrangement.

liquidity framework would facilitate liquidity management of commercial banks and encourage interbank trading. The reserve requirement system plays an important role in liquidity management and some adjustments, such as extending the maintenance period or changing the calculation of reserve requirements, would be desirable. Moreover, the successful implementation of the new operational framework will require sterilization of structural excess liquidity, which, in turn, will require regular meetings with the ministry of finance.

## C. Developing the Financial Sector to Support Growth

**20. Approval of the Banking Code will be a milestone toward restoring confidence in the banking system, leveling the playing field, and increasing private savings.** The Banking Code has been submitted to parliament in September 2013, but has not been discussed yet at the committee level because of the long debate in parliament of the Kumtor dispute until early-February 2014 and the lengthy process of translating the Code into the Kyrgyz language. At the authorities' initiative and supported by an IMF legal expert, the Banking Code has been designed to modernize the legislative system, harmonize the different laws, and bring transparency into the sector. The Code is likely not to be approved before the summer recess given the significance of the reform, the long committee review process, and the required three rounds of readings of laws. The authorities recognize that maintaining the main features of the Code is essential for it to achieve its desired goal.[2]

**21. Progress on resolving banks under DEBRA remains limited.** The authorities identified one of the big four auditors to audit DEBRA and its banks, but could not finance the project. The authorities therefore committed to finalize the TOR for the DEBRA audit in consultation with the IMF, World Bank, and SECO. The World Bank with the financing of SECO agreed to lead the audit of DEBRA and its banks with a view to concluding the liquidation of the banks under DEBRA's management and winding down DEBRA's operations. A letter to the World Bank requesting this audit was sent end-May. The audit and liquidation of these banks are essential elements to prevent the resurrection of doubtful banks and help increase confidence in the banking sector. A proposal to merge DEBRA and the DPA is being considered in the parliament. Both IMF and World Bank staff advised strongly against it as deposit insurance and bank resolution are two separate functions. Moreover, given the size and structure of the Kyrgyz banking system, there is no need for an asset resolution or management agency. Furthermore, the DPA has a clear, narrow, and no time-bound mandate to protect depositors in the banking system. Its mandate should not be expanded or altered in any way that can conflict with its role of protecting depositors.

**22. The authorities prepared an action plan to implement key FSAP recommendations.** The plan for the supervisory function is instrumental in providing a comprehensive approach to

[2] The main FSAP recommendations on the Banking Code include (i) clarifying some definitions (recovery, rehabilitation, and financial recovery); (ii) giving a clear mandate to temporary administration as a resolution tool; and (iii) specifying in more detail issues related to receivership, writing down equity, bail-in of creditors, and compulsory liquidation.

supervision, ensuring adequate capacity of the staff, drafting guidelines for the development of the supervisory function and addressing issues of consolidated and risk-based supervision, and supervision of systematically important institutions. The crises preparedness framework will help the authorities to plan for systematically important banks at the highest level and to react promptly and adequately in the case of crises. The authorities are also making progress on capital requirements. To unify capital requirements, the NBKR launched a survey and the results suggest that about half of the banks could meet a minimum capital requirement of som 600 million by 2017.

**23. Staff encouraged the authorities to further strengthen the AML/CFT framework, including by swift enactment of the draft AML/CFT law.** The AML/CFT law was submitted to parliament in April 2013 and has been through the first reading. The progress of the three readings has been slow due to low capacity and mixed interest in seeing the law passed. An onsite visit from the Financial Action Task Force (FATF) in June 2014 will be an important step to remove the Kyrgyz Republic from the monitoring process. The country will be assessed against the revised FATF standardin the first half of 2015.

## D. Improving Competitiveness via Structural Reforms

**24. The business environment still suffers from bottlenecks.** The 2014 doing business ranking improved slightly, but implementation of laws and regulations remains weak. Poor governance and perceived corruption continue to be the main hurdles to improve the business environment. Nonetheless, the resolution of the dispute with Centerra sent a positive signal to the business community. Regular power outages also constitute a major impediment to doing businesses and investment. Improving the power sector would require implementing the 2012 Medium-Term Power Sector Development Strategy (Box 3). In this context, the authorities agreed to finalize the draft Law on the Electricity Sector to clearly delineate the policy setting functions and identify independent regulatory bodies, governance structures and accountability in the sector. Beyond governance and energy, key measures to foster investment and growth include monitoring the business environment via regular business surveys to identify obstacles and bottlenecks in the implementation of regulations, continuing to streamline the licensing process and inspections, and organizing business forums to increase cross-border cooperation.

### Box 3. Kyrgyz Republic: The Power Sector as an Engine of Growth

The 2012 Medium-Term Power Sector Development Strategy includes: (i) improving governance, regulation, and transparency of the power sector; (ii) bolstering financial viability of the power sector; (iii) increasing the volumes of power generation and export; and (iv) improving the reliability of power supply. Feasibility studies for large energy-infrastructure projects are necessary to ensure financial viability and public debt sustainability.

Corporate governance in the power sector would be improved by (i) selecting managers in state-owned companies through a transparent and competitive processes; (ii) mandating financial audits of power sector entities in accordance with IFRS; and (iii) setting up websites of key agencies to publish key power sector statistics and to ensure transparent and competitive bidding in the procurement of fuel.

**25. The Kyrgyz Parliament adopted the Sustainable Development Program (SDP) on December 18, 2013 as an administration tool to implement the National Sustainable Development Strategy (NSDS), (Box 4).** The SDP's objectives are to "become a strong and independent country that is part of developed countries, a democratic state with a stable political system, a dynamic and growing economy, and stable growth of the income of its citizens". The SDP aims to achieve these goals through accelerating economic growth, consolidating macroeconomic stability, maintaining debt sustainability, and advancing structural reforms. The macroeconomic policies laid out in the SDP are consistent with the ECF objectives and policies. However, the growth projections are rather ambitious. The plan also includes sizeable financing needs in the amount of som 791.8 billion (US$15 billion). As the SDP points out, it is unlikely that the economy can efficiently absorb all these investments. In addition, public administration capacity to manage all the projects may be limited. The SDP provides general envelopes for each component of the plan, but lacks details it particular on donor financing. It would benefit from a more realistic and detailed specification of the programs and outcomes that could be achieved with available financing, and a careful consideration of the timeline consistent with implementation capacity.

### Box 4. Kyrgyz Republic: Assessment of the Annual Progress Report of the National Sustainable Development Strategy

*The Sustainable Development Program 2013–17 (Annual Update of the National Sustainable Development Strategy 2012–17) focuses on human development and building human capital, while taking environmental concerns into account. It recognizes that deep sociopolitical and economic shocks over the last few years resulted in a notable increase in poverty. The SDP, among other policies, specifies the government's commitment to improve the quality of services and sets a number of indicators to measure progress in raising living standards of each segment of the population. However, while the costing of a majority of projects has improved, the projects remain rather ambitious and the financing is not fully specified or secured.*

**The Kyrgyz Parliament adopted the Sustainable Development Program (SDP) on December 18, 2013 as an administrative tool to implement the National Sustainable Development Strategy (NSDS).** The SDP objectives are derived from the objectives of the NSDS to "become a strong and independent country that is part of developed countries, a democratic state with a stable political system, a dynamic and

**Box 4. Kyrgyz Republic: Assessment of the Annual Progress Report of the National Sustainable Development Strategy (continued)**

growing economy, and maintains stable growth of income of its citizens". The SDP aims to achieve these goals through accelerating economic growth, consolidating macroeconomic stability, maintaining debt sustainability, and advancing structural reforms. It recognizes that improving the business environment, reforming the public sector, strengthening the financial system, and addressing infrastructure development needs are essential for achieving high, broad-based, and inclusive growth and reducing poverty. Staff supports the objectives and policies to achieve those goals. The SDP concerns are the imbalance between savings and consumption, and growth of population versus available employment opportunities. The SDP recognizes challenges for implementing specific programs arising from the difficult geographical location and limited access to international transport routes, as well as from decreasing water resources. It also highlights the need for additional financing from donors in order to fully implement programs.

**Key principles of the SDP are:** (i) to formulate a policy of transition to sustainable development through interrelating economic, social and environmental processes; (ii) focus on public administration and establishing a system for monitoring the progress in implementing programs envisaged by the SDP; (iii) defining detailed plans to improve quality of living standards of each segment of the population and the indicators to measure the progress within the next five years; (iv) a cross-sectoral approach in providing government services to address issues like child labor, children and people with disabilities, unemployment of illiterate citizens, energy efficiency, etc.; and (v) a regional approach.

To increase living standards and achieve social objectives the SDP defines specific programs with the aim to: (i) reform the labor market to provide more employment opportunities through government programs, while ensuring the right to work for vulnerable groups (women, young people, people with disabilities); (ii) increase the quality of education; (iii) improve the quality of health services and reduce the prevalence of diseases; and (iv) enhance the efficiency of the social protection and pension system by expanding coverage to vulnerable groups and ensuring social protection for children (in particular 11,000 children in government orphanages). The financing need for programs in this area is estimated at som 236 billion, of which 80 percent has been secured so far. The SDP also pays attention to increasing environmental protection and securing water resources.

**Macroeconomic policies laid out in the SDP are consistent with the ECF objectives and policies.** However, the growth projections are rather ambitious in two out of three scenarios (the optimistic scenario with 8.3 percent average growth for 2013–17; baseline growth rate of 7.5 percent over the same period; and pessimistic with average growth of 5.1 percent). The SDP lays out details of finalizing the PFM reforms to achieve an efficient and transparent budget system, as well as the need to keep the optimal debt structure (keeping the debt below 60 percent and ensuring that new borrowing has a minimum grant element of 35 percent).

**The SDP also presents a comprehensive list of economic reforms to improve the business environment and investment climate.** These among others include tax and customs policies, foreign trade policies and ensuring harmonization with the customs union regulations, polices for development and bank and nonbank financial policies. It also defines policies for the priority sectors such as energy, agriculture and tourism.

**Box 4. Kyrgyz Republic: Assessment of the Annual Progress Report of the National Sustainable Development Strategy (concluded)**

**Finally, the plan includes estimates of financing needs in the amount of som 791.8 billion (US$15 billion),** of which 40 percent are supposed to come from domestic and the remainder from donors and private investments (the SDP envisages 78 projects). At the same time, the SDP admits that it will be very difficult to absorb these resources over the next four years. So, far secured financing is about US$4 billion. The SDP provides general envelopes for each component of the plan, but lacks details it particular on donor financing. It would benefit from a more realistic and detailed specification the programs and outcomes that could be achieved with available financing.

## E. Program and Other Issues

**26. The program is fully financed.** The authorities asked for an extension of the program until end-July 2014 to allow more time to complete the review in light of the recent government reshuffling. The seventh disbursement under the ECF arrangement will help finance the balance of payments' gap (Text Table 3). The authorities have indicated that they intend to use these Fund resources to finance the budget deficit of the government, while implementing policies aimed at addressing the Kyrgyz Republic's balance of payments problem. The authorities have assurances from donors, which together with the expected Fund support, will finance the estimated balance of payments gap during the remainder of the arrangement.

Text Table 3. Kyrgyz Republic: Balance of Payment Financing, 2014–15

| | 2014 | | 2015 | |
|---|---|---|---|---|
| | 5thRev. | Proj. | 5thRev. | Proj. |
| | (In millions of U.S. Dollars) | | | |
| Financing Gap | 139.3 | 139.7 | 47.3 | 37.1 |
| Available financing | 124.8 | 125.1 | 47.3 | 7.8 |
| Identified budget support | 124.8 | 125.1 | 27.3 | 7.8 |
| World Bank | 42.0 | 13.8 | 18.7 | 0.0 |
| European Union | 15.8 | 14.3 | 8.6 | 7.8 |
| Other Grants | 22.0 | 52.0 | 0.0 | 0.0 |
| Other 1/ | 45.0 | 45.0 | 0.0 | 0.0 |
| Unidentified budget support | 0.0 | 0.0 | 20.0 | 0.0 |
| IMF ECF disbursement | 14.5 | 14.7 | 0.0 | 29.3 |
| | (In percent of GDP) | | | |
| Finanicng gap | 1.8 | 2.0 | 0.6 | 0.5 |
| Available financing | 1.6 | 1.6 | 0.6 | 0.1 |
| Identified budget support | 1.6 | 1.6 | 0.3 | 0.1 |
| World Bank | 0.6 | 0.2 | 0.2 | 0.0 |
| Other | 0.2 | 0.2 | 0.1 | 0.1 |
| European Union | 0.3 | 0.7 | 0.0 | 0.0 |
| Other | 0.6 | 0.6 | 0.0 | 0.0 |
| Unidentified budget support | 0.0 | 0.0 | 0.2 | 0.0 |
| IMF ECF disbursement | 0.2 | 0.2 | 0.0 | 0.4 |
| *Memorandum item:* | | | | |
| GDP (in millions of U.S. dollars) | 8,007 | 7,600 | 8,678 | 8,060 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.
1/ Budget support loan from Turkey.

**27. The Kyrgyz authorities have not indicated whether they intend to request a successor arrangement.** The authorities, including the President, expressed their gratitude for the IMF's support over the past three years, and wish to continue the cooperation with the IMF. However, they are still considering the precise modality they would prefer for future engagement. The potential for closer ties to Russia, including through joining the customs union (Box 5), and for further budget support from China and other donors, as well as the conditions in a successor program will all likely play a role in their decision making process.

## Box 5. Kyrgyz Republic: Customs Union Considerations

**At the end of 2013, the authorities agreed in principle to join the Kazakhstan-Russia-Belarus Customs Union (CU) with an expected entry date at the beginning of 2015.** The roadmap for accession remains unclear and the entry date will likely be delayed. The Kyrgyz Republic is one of the most open economies of the world, prone to external shocks. Being a landlocked country, neighboring countries, especially Russia and China, have a strong influence.

**In the short to medium runs, the effects of joining the CU are ambivalent and the authorities are still reviewing the pros and cons of accession.** The net effect will depend on the net gains from trade creation and trade diversion. Policies to limit or slow down tariff increases, especially toward Chinese imports would be essential. Creating a precautionary buffer would be key to smooth out fluctuations in fiscal revenues (VAT on imports, customs revenues, etc.).

More specifically, the likely effects of accession to the CU are as follows:

- A rise in inflation due to higher tariffs from imports from nonmember countries combined with a low probability of switching to domestic production and other importers.
- The current account could be affected in different ways: (i) higher import values from more expensive imported goods from nonmember countries and from the low probability of switching to domestic or member countries' goods as analytical work shows an inelastic demand for Chinese goods representing a third of Kyrgyz imports; and (ii) decline in net exports of services related to re-export business. However, as statistics are likely to improve, the statistical inclusion of currently under recorded re-exports would have a positive effect on the current account.
- The impact on customs revenues would depend on the net effect of increased tariffs on trade diversion. As the country is a transportation hub, a decrease of re-export business could also cause trade diversion due to a loss of competitiveness through higher import prices.

**In the long run, the impact on trade is expected to be largely driven by the integration into the common economic space (CES), a project of economic integration of member countries of the CU.** As the country has a limited domestic production base for exports, an optimal CES would support economic integration with member countries along the lines of establishing an efficient production network and facilitating intra-member trade and trade with nonmember countries. FDI inflows and inward spillovers of technology and institutional settings could also materialize. The revenue sharing rule with member countries needs to be carefully designed to avoid volatility and allow for efficient public financial management. Continued efforts to strengthen domestic infrastructure and macroeconomic, institutional and, business environments would facilitate FDI, which plays an important role in improving export performance, and trade in the long run.

# STAFF APPRAISAL

28. **Following exceptionally strong performance in 2013, growth is moderating to a more sustainable pace.** Last year's double-digit growth was largely because of a strong recovery in gold production. This year's growth is expected to be broad based and to moderate to 4.4 percent of GDP, slightly less than earlier anticipated on account of the slowdown in the region. The regional slowdown affects the Kyrgyz economy through remittances from and external trade with Russia. Inflationary pressures have increased during the first quarter of 2014, largely due to the depreciation of the exchange rate, and inflation is expected to reach 8.5 percent at end-2014. The current account deficit is projected increase to 15.6 percent of GDP because of tighter controls at the Kazakhstan border that impede re-exports and a deterioration of the balance of income. The debt sustainability outlook remains positive, despite large infrastructure projects.

29. **Prudent fiscal policy has been essential in putting public finances on a sustainable path.** The authorities' efforts to meet the fiscal target for end-2014 are welcome. While progress in the area of PFM reforms has been slow, the submission of the Budget Code and Procurement law to parliament is a step in the right direction. Timely approval of these codes would significantly strengthen the legislative framework for PFM. In addition, the move of the tax policy function from the ministry of economy to the ministry of finance is expected to improve the efficiency and predictability of the tax system.

30. **The adoption of a new monetary framework with the interest rate as an operational target is welcome.** The NBKR adopted a new monetary framework in December 2013 to improve the transmission of monetary policy and correct the current interest rate structure. The NBKR should develop further their forecasting models and improve liquidity management, the latter in close collaboration with the ministry of finance, while decreasing reserve money growth. In light of inflationary pressures, the monetary policy stance should stay tight this year. Moreover, interventions should be limited to smoothing exchange rate volatility to keep reserves at a comfortable level (and in line with NIR targets), maintain a flexible exchange rate regime. Better regulating money exchangers would mitigate sharp exchange rate fluctuations in the future.

31. **Substantial efforts remain necessary to address weaknesses in the financial sector.** The authorities developed an action plan to implement the FSAP recommendations to improve the supervisory function of the NBKR and the crisis preparedness framework. DEBRA and its banks should be audited swiftly and DEBRA's operations should be wound down. A more predictable and transparent resolution framework would improve greatly the confidence in and the health of the financial sector. In addition, capital requirements should be unified to create a level playing field and facilitate banking supervision. While the Banking Code has been submitted to parliament in September 2013, it has not been discussed yet at the committee level. It remains critical that the Code should be adopted with its key features intact to achieve its desired goal of facilitating the development of a financial sector that can support strong private sector-led growth. While the Banking Code will improve the de jure independence of the NBKR, it will be crucial to ensure its de facto independence as well.

**32. Inclusive and sustainable growth requires further improvements in the business environment, governance, and institutions.** Attracting investment is crucial for growth. However this warrants a stable and predictable business climate with protection of private property rights, and an evenhanded application of laws and regulations. The perceived level of corruption is still high and efforts to strengthen anti-corruption efforts as well as adopting and applying promptly the AML/CFT legislation would be helpful in this regard. Developing the power sector could be key in promoting growth. To that extent, the authorities should not only improve the overall environment of the sector but also finalize the draft Law on the Electricity Sector.

**33. The authorities' commitment to further fiscal consolidation to offset the growth slowdown and loss of Manas Transit Center revenues is welcome.** While in the short term, the loss of non tax revenue will be offset by grants, the authorities should pursue tax reforms to expand the tax base, eliminate exemptions, possibly increase VAT, raise excises, speed up civil service reform, and strengthen tax administration. This would help substantially in putting revenues on a sound footing and reducing dependency on financial aid. The authorities should also put in place swiftly an action plan to implement the remaining critical PFM reforms and redouble their efforts to streamline expenditures, especially goods and services to support fiscal consolidation and make room for pro-poor spending.

**34. Staff supports the completion of the sixth and final review.** This review marks the end of a broadly successful three-year program. Notwithstanding occasional domestic political turmoil—the government changed two times during the program period—the authorities are to be commended for (i) returning to macroeconomic stability and embarking on an ambitious fiscal consolidation path; (ii) initiating substantive tax and PFM reforms; (iii) setting the stage for comprehensive banking sector reforms (legislative and structural); and (iv) abolishing the SBRF However, additional reforms are needed to build on the gains achieved so far. Staff stands ready to discuss future cooperation with the Kyrgyz authorities.

## Table 1. Kyrgyz Republic: Selected Social and Economic Indicators, 2012–19

I. Social and Demographic Indicators

| | | | |
|---|---|---|---|
| Population (In millions, 2012) | 5.6 | GINI Index (2011) | 33.4 |
| Unemployment rate (official, 2011) | 8.5 | Life expectancy at birth in years (2011) | 69.6 |
| Poverty rate (2012) | 38.0 | Adult literacy rate (percent of population) | 99.0 |
| GNI per capita (2012, Atlas method, U.S. dollars) | 990 | Infant mortality (per 1000 live births) (2012) | 23.6 |

II. Economic Indicators

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| | Act. | Act. | | | | | | |
| Nominal GDP (in billions of soms) | 310.5 | 350.0 | 388.8 | 434.6 | 482.6 | 536.4 | 595.0 | 656.1 |
| Nominal GDP (in millions of U.S. dollars) | 6,603 | 7,225 | 7,600 | 8,060 | 8,690 | 9,377 | 10,147 | 10970 |
| Real GDP (growth in percent) | -0.9 | 10.5 | 4.4 | 4.9 | 5.0 | 5.1 | 5.2 | 5.3 |
| Nongold real GDP (growth in percent) | 5.0 | 5.8 | 4.5 | 4.7 | 5.0 | 5.1 | 5.2 | 5.3 |
| GDP per capita (in U.S. dollars) | 1,182 | 1,280 | 1,333 | 1,400 | 1,495 | 1,597 | 1,711 | 1831 |
| Consumer prices (12-month percent change, eop) | 7.5 | 4.0 | 8.5 | 6.5 | 6.0 | 5.5 | 5.5 | 5.5 |
| Consumer prices (12-month percent change, average) | 2.8 | 6.6 | 7.1 | 7.1 | 6.4 | 5.7 | 5.4 | 5.5 |
| Investment and savings (in percent of GDP) | | | | | | | | |
| Investment | 26.2 | 26.5 | 27.4 | 29.3 | 29.4 | 29.4 | 29.8 | 30.4 |
| Public | 7.7 | 7.2 | 7.5 | 9.6 | 10.0 | 6.4 | 4.9 | 4.8 |
| Private | 18.5 | 19.4 | 19.9 | 19.8 | 19.4 | 23.0 | 24.9 | 25.7 |
| Savings | 11.0 | 12.4 | 11.7 | 13.9 | 15.8 | 18.9 | 22.7 | 23.9 |
| Public | 2.0 | 3.4 | 3.3 | 6.3 | 7.2 | 3.9 | 2.6 | 2.7 |
| Private | 9.0 | 9.0 | 8.5 | 7.5 | 8.6 | 15.0 | 20.1 | 21.3 |
| Savings-investment balance | -15.1 | -14.1 | -15.6 | -15.5 | -13.6 | -10.6 | -7.1 | -6.5 |
| General government finances (in percent of GDP) 1/ | | | | | | | | |
| Total revenue and grants | 33.8 | 33.9 | 31.4 | 31.2 | 31.2 | 30.3 | 30.3 | 30.1 |
| *Of which:* Tax revenue | 25.5 | 25.6 | 25.2 | 25.5 | 26.0 | 25.8 | 26.0 | 26.0 |
| Total expenditure (including net lending) | 39.1 | 37.6 | 35.7 | 34.5 | 34.0 | 32.8 | 32.6 | 32.2 |
| *Of which*: Current expenditure | 31.8 | 30.5 | 28.2 | 24.9 | 23.9 | 26.4 | 27.7 | 27.5 |
| Capital expenditure | 7.7 | 7.2 | 7.5 | 9.6 | 10.0 | 6.4 | 4.9 | 4.8 |
| Overall fiscal balance | -5.3 | -4.0 | -4.2 | -3.2 | -2.8 | -2.5 | -2.3 | -2.1 |
| Primary balance | -4.4 | -3.1 | -3.3 | -2.3 | -2.0 | -1.5 | -1.4 | -1.2 |
| Primary balance excluding grants | -6.9 | -5.6 | -5.9 | -4.3 | -3.5 | -2.3 | -2.2 | -2.0 |
| Total public debt 2/ | 49.0 | 47.7 | 51.4 | 51.1 | 51.6 | 49.1 | 47.4 | 48.2 |
| Banking sector | | | | | | | | |
| Reserve money (percent change, eop) | 17.7 | 13.4 | 11.1 | 11.1 | 10.5 | 10.1 | 10.0 | 9.9 |
| Broad money (percent change, eop) | 23.8 | 22.8 | 18.7 | 19.3 | 15.1 | 17.1 | 16.8 | 15.9 |
| Credit to private sector (percent change, eop) | 26.2 | 36.1 | 26.8 | 28.6 | 16.5 | 16.7 | 16.0 | 15.4 |
| Credit to private sector (in percent of GDP) | 13.5 | 16.3 | 18.7 | 21.5 | 22.5 | 23.6 | 24.7 | 25.9 |
| Velocity of broad money 3/ | 3.2 | 2.9 | 2.7 | 2.5 | 2.5 | 2.3 | 2.2 | 2.1 |
| Interest rate 4/ | 5.2 | 4.5 | ... | ... | ... | ... | ... | ... |
| External sector | | | | | | | | |
| Current account balance (in percent of GDP) | -15.1 | -14.1 | -15.6 | -15.5 | -13.6 | -10.6 | -7.1 | -6.5 |
| Export of goods and services (in millions of U.S. dollars) | 3,387 | 3,912 | 3,807 | 4,083 | 4,411 | 4,717 | 4,979 | 5,371 |
| Export growth (percent change) | -0.1 | 15.5 | -2.7 | 7.3 | 8.0 | 6.9 | 5.6 | 7.9 |
| Import of goods and services (in millions of U.S. dollars) | 6,278 | 6,925 | 6,876 | 7,207 | 7,696 | 7,975 | 8,065 | 8,421 |
| Import growth (percent change) | 23.1 | 10.3 | -0.7 | 4.8 | 6.8 | 3.6 | 1.1 | 4.4 |
| Gross International reserves (in millions of U.S. dollars) | 2,061 | 2,226 | 2,128 | 2,336 | 2,738 | 3,093 | 3,347 | 3,560 |
| Gross reserves (months of next year imports, eop) | 3.6 | 3.9 | 3.5 | 3.6 | 4.1 | 4.6 | 4.8 | 4.9 |
| External public debt outstanding (in percent of GDP) | 45.9 | 44.8 | 46.8 | 47.7 | 46.8 | 43.8 | 41.9 | 40.1 |
| External public debt service-to-export ratio (in percent) | 2.9 | 2.6 | 2.8 | 3.4 | 4.3 | 4.2 | 4.3 | 4.5 |
| *Memorandum items:* | | | | | | | | |
| Exchange rate (soms per U.S. dollar, average) | 47.0 | 48.4 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate (2005=100) (average) | 121.6 | 120.3 | ... | ... | ... | ... | ... | ... |
| Gold related tax receipts of the general government (percent of GDP) | 1.5 | 1.0 | ... | ... | ... | ... | ... | ... |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

2/ Calculated at end-period exchange rates.

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

4/ Interest rate on three-month treasury bills.

# Table 2. Kyrgyz Republic: Balance of Payments, 2012–19

## (In millions of U.S. dollars)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| | Act. | Prel. | | | Proj. | | | |
| Current account balance 1/ | -999 | -1,022 | -1,188 | -1,247 | -1,181 | -991 | -724 | -713 |
| Excluding transfers | -3,061 | -3,304 | -3,453 | -3,577 | -3,790 | -3,753 | -3,611 | -3,715 |
| Trade balance | -2,708 | -3,096 | -3,140 | -3,373 | -3,653 | -3,671 | -3,488 | -3534 |
| Exports, fob | 2,247 | 2,518 | 2,422 | 2,502 | 2,645 | 2,824 | 2,996 | 3218 |
| CIS countries | 1,419 | 1,496 | 1,405 | 1,397 | 1,466 | 1,561 | 1,639 | 1767 |
| *Of which:* Energy products | 109 | 97 | 103 | 105 | 105 | 107 | 109 | 112 |
| *Of which:* Re-exports of consumer goods | 268 | 284 | 302 | 327 | 350 | 374 | 393 | 426 |
| Non-CIS countries | 828 | 1,022 | 1,017 | 1,105 | 1,179 | 1,264 | 1,357 | 1450 |
| *Of which:* Gold | 562 | 737 | 715 | 774 | 831 | 894 | 968 | 1035 |
| Imports, fob | 4,955 | 5,614 | 5,563 | 5,875 | 6,298 | 6,495 | 6,484 | 6751 |
| CIS countries | 2,519 | 2,787 | 2,651 | 2,597 | 2,687 | 2,780 | 2,834 | 2971 |
| *Of which:* Energy (including for re-exports) | 1,078 | 1,187 | 1,055 | 963 | 965 | 975 | 934 | 934 |
| Non-CIS countries | 2,436 | 2,827 | 2,912 | 3,278 | 3,612 | 3,715 | 3,650 | 3781 |
| *Of which:* Goods for re-exports | 268 | 284 | 302 | 327 | 350 | 374 | 393 | 426 |
| Services | -184 | 82 | 71 | 249 | 368 | 413 | 403 | 483 |
| Receipts | 1,139 | 1,394 | 1,384 | 1,581 | 1,766 | 1,892 | 1,983 | 2153 |
| Payments | -1,323 | -1,312 | -1,314 | -1,332 | -1,397 | -1,479 | -1,580 | -1670 |
| Income | -169 | -291 | -383 | -453 | -506 | -495 | -526 | -665 |
| Interest payments | -47 | -60 | -145 | -175 | -194 | -209 | -216 | -230 |
| Other net income | -123 | -232 | -238 | -278 | -312 | -287 | -310 | -435 |
| Current Transfers (net) 1/ | 2,062 | 2,282 | 2,265 | 2,330 | 2,610 | 2,762 | 2,887 | 3002 |
| *Of which:* Private | 1,998 | 2,154 | 2,176 | 2,329 | 2,608 | 2,764 | 2,889 | 3004 |
| Capital Account | 151 | 275 | 104 | 146 | 119 | 81 | 84 | 90 |
| Official 2/ | 170 | 292 | 121 | 163 | 136 | 98 | 101 | 105 |
| Private | -19 | -17 | -17 | -17 | -17 | -17 | -17 | -15 |
| Financial account | 595 | 793 | 977 | 1,297 | 1,459 | 1,266 | 928 | 839 |
| Commercial banks | 0 | -117 | -32 | -50 | -50 | -50 | -50 | 0 |
| Medium- and long-term loans (net) | 324 | 99 | 432 | 565 | 526 | 509 | 93 | -36 |
| Disbursement 1/ | 684 | 718 | 782 | 1,053 | 1,144 | 1,156 | 782 | 774 |
| *Of which:* Loan financed PIP (excl. energy investments financed by China) | 133 | 308 | 117 | 213 | 180 | 158 | 34 | 38 |
| *Of which:* Energy investments financed by China (PIP) | 215 | 88 | 163 | 289 | 330 | 364 | 114 | 0 |
| Amortization | -359 | -619 | -350 | -488 | -619 | -647 | -689 | -809 |
| Foreign direct investment | 292 | 758 | 626 | 881 | 1,083 | 907 | 985 | 978 |
| Portfolio investment 3/ | 6 | 5 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other (including SDR allocation) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net short-term flows 4/ | -27 | 49 | -50 | -100 | -100 | -100 | -100 | -103 |
| Errors and omissions | 445 | 108 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 192 | 154 | -107 | 196 | 397 | 355 | 288 | 216 |
| Financing | -192 | -154 | 107 | -196 | -397 | -355 | -288 | -216 |
| Net international reserves | -192 | -154 | 78 | -226 | -426 | -385 | -288 | -216 |
| Gross official reserves (–, increase) | -200 | -165 | 99 | -208 | -402 | -355 | -254 | -213 |
| IMF | 9 | 11 | -21 | -18 | -24 | -29 | -33 | -3 |
| Exceptional Financing (including arrears) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap 1/ | 0 | 0 | 29 | 29 | 29 | 29 | 0 | 0 |
| *Memorandum items:* | | | | | | | | |
| GDP (in millions of U.S. dollars) | 6,603 | 7,225 | 7,600 | 8,060 | 8,690 | 9,377 | 10,147 | 10970 |
| Current account balance (percent of GDP) | -15.1 | -14.1 | -15.6 | -15.5 | -13.6 | -10.6 | -7.1 | -6.5 |
| Current account balance excl. official transfers (percent of GDP) 1/ | -16.1 | -15.9 | -16.8 | -15.5 | -13.6 | -10.5 | -7.1 | -6.5 |
| Growth of exports of GNFS (volume, percent) | 0.6 | 18.0 | -3.0 | 8.0 | 10.3 | 6.7 | 4.6 | 5.9 |
| Growth of imports of GNFS (volume, percent) | 27.1 | 10.3 | -1.7 | 7.2 | 8.9 | 4.5 | 1.5 | 3.6 |
| Terms of trade (goods, percentage change) | 2.6 | -1.0 | -0.8 | 1.8 | 1.1 | 0.9 | 0.8 | 0 |
| Gold price (U.S. dollars per ounce) | 1,669 | 1,411 | 1,327 | 1,343 | 1,370 | 1,398 | 1,438 | 1463 |
| Fuel Price Index (2005=100) | 194.2 | 191.0 | 190.4 | 179.9 | 172.1 | 167.3 | 164.3 | 162.2 |
| External Public Debt (in millions of U.S.dollars) 5/ | 3,032 | 3,240 | 3,560 | 3,849 | 4,070 | 4,108 | 4,257 | 4403 |
| As percent of GDP | 45.9 | 44.8 | 46.8 | 47.7 | 46.8 | 43.8 | 41.9 | 40.1 |
| External public debt service-to-exports ratio 5/ 6/ | 2.9 | 2.6 | 2.8 | 3.4 | 4.3 | 4.2 | 4.3 | 3.4 |
| Gross reserves 7/ | 2,061 | 2,226 | 2,128 | 2,336 | 2,738 | 3,093 | 3,347 | 3560 |
| In months of subsequent year's imports | 3.6 | 3.9 | 3.5 | 3.6 | 4.1 | 4.6 | 4.8 | 4.9 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Includes IMF and indetfied budget support.
2/ The capital account in 2012 includes debt write-offs.
3/ Includes return of KRDF investments abroad.
4/ Net short-term flows in 2012 partially reflect capital inflows to domestic enterprises.
5/ Public and publicly-guaranteed debt.
6/ Net of rescheduling.
7/ Valued at end-period exchange rates. The discrepancy between the difference in year-end stocks and the change in reserves under financing is caused by movements in prices and exchange rates.

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

| | 2011 | 2012 | 2013 | 2014 | | | |
|---|---|---|---|---|---|---|---|
| | Dec. Act. | Dec. Act. | Dec. Act. | Mar. Act. | Jun. Proj. | Sep. Proj. | Dec. Proj. |
| | (In millions of soms) | | | | | | |
| Net foreign assets | 71,420 | 87,159 | 99,925 | 104,132 | 100,931 | 102,842 | 105,180 |
| Net international reserves | 79,629 | 93,046 | 106,116 | 108,958 | 104,815 | 106,688 | 109,116 |
| Long-term foreign liabilities | -8,344 | -6,192 | -6,426 | -7,135 | -6,193 | -6,155 | -6,244 |
| Other foreign assets | 135 | 305 | 235 | 2,309 | 2,309 | 2,309 | 2,309 |
| Net domestic assets | -16,616 | -22,670 | -26,785 | -36,748 | -26,070 | -25,729 | -23,896 |
| Net claims on general government | -1,158 | -2,968 | -6,974 | -9,676 | -8,562 | -8,657 | -9,215 |
| *Of which:* Total government deposits (including foreign exchange deposits) | -6,480 | -5,182 | -8,426 | -11,149 | -10,070 | -10,178 | -10,696 |
| *Of which:* Securitized government debt | 3,121 | 2,311 | 1,512 | 1,518 | 1,586 | 1,598 | 1,559 |
| Claims on commercial banks | -398 | -3,822 | -6,523 | -3,211 | 9 | 920 | 859 |
| *Of which:* NBKR notes | -1,359 | -3,047 | -6,635 | -3,079 | -1,401 | -930 | -949 |
| Claims of other financial corporations | -156 | 0 | 0 | 0 | -197 | -217 | -250 |
| Other items net | -14,904 | -15,880 | -13,289 | -23,859 | -17,320 | -17,775 | -15,291 |
| Reserve money | 54,803 | 64,489 | 73,139 | 67,384 | 74,861 | 77,113 | 81,284 |
| Currency in circulation | 49,867 | 58,252 | 66,954 | 60,409 | 64,380 | 65,932 | 69,091 |
| Commercial banks' reserves | 4,936 | 6,237 | 6,185 | 6,975 | 10,481 | 11,181 | 12,193 |
| *Of which:* Required reserves | 3,143 | 3,948 | 5,322 | 5,772 | 6,064 | 6,420 | 6,986 |
| | (Contribution to reserve money growth, in percent) 1/ | | | | | | |
| Net foreign assets | 12.9 | 28.7 | 19.8 | 5.8 | 1.4 | 4.0 | 7.2 |
| Net domestic assets | -0.2 | -11.0 | -6.4 | -13.6 | 1.0 | 1.4 | 3.9 |
| *Of which:* Net claims on general government | 1.8 | -3.3 | -6.2 | -3.7 | -2.2 | -2.3 | -3.1 |
| Reserve money | 12.8 | 17.7 | 13.4 | -7.9 | 2.4 | 5.4 | 11.1 |
| *Of which:* Currency in circulation | 13.5 | 15.3 | 13.5 | -8.9 | -3.5 | -1.4 | 2.9 |
| *Memorandum items:* | | | | | | | |
| Reserve money growth (12-month change, in percent) | 12.8 | 17.7 | 13.4 | 5.8 | 11.9 | 11.9 | 11.1 |
| Gross International Reserves (in millions of U.S. dollars) | 1,831 | 2,061 | 2,226 | 2,051 | 2,044 | 2,036 | 2,128 |
| Net international reserves (in millions of U.S. dollars) | 1,650 | 1,870 | 2,050 | 2,064 | 1,926 | 1,923 | 1,931 |
| Exchange rate, som per U.S. dollar, end of period | 46.5 | 47.4 | 49.5 | … | … | … | … |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

## Table 4. Kyrgyz Republic: Monetary Survey, 2011–14

| | 2011 | 2012 | 2013 | 2014 | | | |
|---|---|---|---|---|---|---|---|
| | Dec. | Dec | Dec | Mar. | Jun. | Sept. | Dec |
| | Act. | Act. | Act. | Act. | Proj. | Proj. | Proj. |
| | (In millions of soms) | | | | | | |
| Net foreign assets | 77,214 | 90,023 | 105,724 | 109,923 | 107,489 | 110,182 | 113,636 |
| Net domestic assets | 2,314 | 8,460 | 15,180 | 8,741 | 21,272 | 23,995 | 29,831 |
| Domestic credit | 30,293 | 38,336 | 48,883 | 53,759 | 59,897 | 64,379 | 63,837 |
| Net claims on general government | -3,029 | -3,701 | -8,308 | -10,543 | -8,769 | -10,020 | -8,677 |
| Credit to the rest of the economy | 33,322 | 42,036 | 57,191 | 64,302 | 68,666 | 74,399 | 72,513 |
| *Of which:* In foreign exchange | 17,510 | 21,814 | 29,205 | 33,614 | 35,689 | 38,446 | 37,109 |
| Other items net | -27,979 | -29,876 | -33,704 | -45,018 | -38,625 | -40,384 | -34,006 |
| Broad money (M2X) | 79,528 | 98,483 | 120,903 | 118,664 | 128,761 | 134,177 | 143,466 |
| *Of which:* | | | | | | | |
| Broad money, excluding foreign exchange deposits (M2) | 62,125 | 77,461 | 90,963 | 83,651 | 91,316 | 94,891 | 109,311 |
| Currency held by the public | 47,220 | 54,521 | 61,907 | 56,227 | 61,386 | 62,847 | 65,840 |
| Total domestic currency deposit liabilities | 14,906 | 22,939 | 29,055 | 27,424 | 29,930 | 32,044 | 43,471 |
| | (Contribution to broad money growth, in percent) 1/ | | | | | | |
| Net foreign assets | 8.4 | 16.1 | 15.9 | 3.5 | 1.5 | 3.7 | 6.5 |
| Net domestic assets | 6.5 | 7.7 | 6.8 | -5.3 | 5.0 | 7.3 | 12.1 |
| Domestic credit | 10.0 | 10.1 | 10.7 | 4.0 | 9.1 | 12.8 | 12.4 |
| Net claims on general government | 1.7 | -0.8 | -4.7 | -1.8 | -0.4 | -1.4 | -0.3 |
| Credit to the rest of the economy | 8.3 | 11.0 | 15.4 | 5.9 | 9.5 | 14.2 | 12.7 |
| Other items (net) | -3.4 | -2.4 | -3.9 | -9.4 | -4.1 | -5.5 | -0.3 |
| Broad money (M2X) | 14.9 | 23.8 | 22.8 | -1.9 | 6.5 | 11.0 | 18.7 |
| *Of which:* | | | | | | | |
| Broad money, excluding foreign exchange deposits (M2) | 12.1 | 19.3 | 13.7 | -6.0 | 0.3 | 3.2 | 15.2 |
| Currency held by the public | 8.3 | 9.2 | 7.5 | -4.7 | -0.4 | 0.8 | 3.3 |
| Total deposit liabilities | 3.8 | 10.1 | 6.2 | -1.3 | 0.7 | 2.5 | 11.9 |
| *Memorandum items:* | | | | | | | |
| Broad money (M2X) (12-month change, in percent) | 14.9 | 23.8 | 22.8 | 19.9 | 19.2 | 18.4 | 18.7 |
| Credit to the rest of the economy (12-month change, in percent) | 20.8 | 26.2 | 36.1 | 45.8 | 39.2 | 40.8 | 26.8 |
| Credit to the rest of the economy (in percent of GDP) | 11.7 | 13.5 | 16.3 | 17.9 | 18.7 | 19.7 | 18.7 |
| M2X velocity 2/ | 3.6 | 3.2 | 2.9 | 3.0 | 2.9 | 2.8 | 2.7 |
| M2X multiplier | 1.45 | 1.53 | 1.65 | 1.76 | 1.72 | 1.74 | 1.77 |
| Dollarization indicators (in percent) | | | | | | | |
| Loan dollarization | 52.5 | 51.9 | 51.1 | 52.3 | 52.0 | 51.7 | 51.2 |
| Deposit dollarization | 53.9 | 47.8 | 50.8 | 56.1 | 55.6 | 55.1 | 44.0 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

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

## Table 5. Kyrgyz Republic: General Government Finances, 2011–15

(In millions of soms)

| | 2011 | 2012 | 2013 | 2014 | | | | | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | Q1 | Q2 | Q3 | Q4 | Year | Year |
| | Act. | Act. | Proj. | Act. | Proj. | Proj. | Proj. | Proj. | Proj. |
| Total revenue and grants | 91,057 | 104,999 | 118,808 | 27,019 | 28,680 | 29,552 | 36,889 | 122,140 | 135,785 |
| Total revenue | 82,433 | 97,112 | 110,178 | 25,228 | 27,080 | 27,921 | 32,127 | 112,355 | 126,813 |
| Current revenue | 81,682 | 96,286 | 109,331 | 23,506 | 27,430 | 29,215 | 33,704 | 111,274 | 125,605 |
| Tax revenue | 66,027 | 79,037 | 89,576 | 20,711 | 23,403 | 24,359 | 29,663 | 98,137 | 110,920 |
| Income tax | 17,122 | 18,537 | 17,221 | 4,919 | 4,561 | 4,443 | 5,785 | 19,708 | 22,520 |
| VAT | 20,353 | 25,769 | 30,083 | 6,133 | 8,108 | 8,539 | 10,930 | 33,710 | 38,705 |
| Excises | 2,187 | 2,827 | 4,090 | 1,062 | 1,168 | 1,131 | 1,332 | 4,692 | 5,664 |
| Customs | 7,147 | 9,430 | 11,886 | 2,385 | 3,148 | 3,388 | 4,256 | 13,176 | 15,369 |
| Land tax | 762 | 757 | 888 | 231 | 161 | 252 | 333 | 977 | 1,026 |
| Road tax and Emergency Fund | 10 | 4 | 30 | 0 | 0 | 0 | 0 | 0 | 0 |
| New turnover tax | 4,128 | 4,989 | 6,494 | 1,506 | 1,685 | 1,826 | 2,132 | 7,149 | 7,891 |
| Social Fund (excluding government contribution) | 13,010 | 15,125 | 16,734 | 4,041 | 4,004 | 4,155 | 4,535 | 16,735 | 17,557 |
| Other | 1,309 | 1,599 | 2,150 | 434 | 567 | 626 | 361 | 1,989 | 2,187 |
| Nontax revenue | 15,655 | 17,249 | 19,755 | 4,325 | 3,433 | 3,292 | 2,089 | 13,138 | 14,685 |
| Capital revenue | 751 | 826 | 848 | 192 | 244 | 270 | 375 | 1,081 | 1,208 |
| Grants | 8,624 | 7,887 | 8,629 | 1,791 | 1,600 | 1,632 | 4,762 | 9,785 | 8,971 |
| Program grants | 3,963 | 3,151 | 5,614 | 1,498 | 0 | 0 | 3,137 | 4,635 | 1,296 |
| PIP grants | 4,661 | 4,736 | 3,015 | 293 | 1,600 | 1,632 | 1,625 | 5,150 | 7,675 |
| Total expenditure (including net lending) | 103,787 | 121,278 | 131,450 | 25,341 | 35,839 | 35,462 | 42,018 | 138,660 | 149,905 |
| Total expenditure (excluding net lending) | 104,125 | 122,567 | 131,954 | 25,635 | 35,839 | 35,462 | 41,724 | 138,660 | 149,905 |
| Current expenditure | 88,408 | 98,731 | 106,911 | 24,190 | 27,754 | 26,733 | 30,811 | 109,488 | 108,375 |
| Wages | 23,740 | 26,889 | 27,790 | 5,974 | 8,249 | 7,074 | 8,972 | 30,270 | 32,974 |
| Transfers and subsidies | 10,958 | 10,870 | 12,288 | 3,081 | 3,226 | 3,073 | 3,670 | 13,049 | 14,815 |
| Social Fund expenditures | 23,652 | 29,661 | 33,044 | 9,301 | 9,099 | 9,413 | 9,526 | 37,338 | 39,998 |
| Interest | 2,756 | 2,929 | 2,992 | 911 | 1,100 | 782 | 750 | 3,543 | 4,239 |
| Purchases of other goods and services | 27,302 | 28,382 | 30,797 | 4,923 | 6,080 | 6,392 | 7,893 | 25,287 | 16,348 |
| Capital expenditure | 15,717 | 23,836 | 25,043 | 1,445 | 8,085 | 8,729 | 10,913 | 29,172 | 41,530 |
| Domestically financed capital expenditure | 2,659 | 3,413 | 7,167 | 459 | 1,985 | 2,510 | 4,613 | 9,568 | 10,251 |
| Foreign financed PIP loans | 8,397 | 15,686 | 14,860 | 693 | 4,500 | 4,587 | 4,675 | 14,454 | 23,604 |
| Energy infrastructure projects | 1,863 | 10,117 | 9,026 | 0 | 2,757 | 2,811 | 2,864 | 8,433 | 15,559 |
| Foreign financed PIP grants | 4,661 | 4,736 | 3,015 | 293 | 1,600 | 1,632 | 1,625 | 5,150 | 7,675 |
| Net lending | -338 | -1,289 | -504 | -294 | 0 | 0 | 294 | 0 | 0 |
| Discrepancy | -387 | -292 | -1,218 | 868 | 0 | 0 | -868 | 0 | 0 |
| Primary balance excluding grants | -18,986 | -21,529 | -19,497 | 1,666 | -7,660 | -6,760 | -10,008 | -22,762 | -18,852 |
| Primary balance | -10,361 | -13,642 | -10,867 | 3,457 | -6,059 | -5,128 | -5,246 | -12,977 | -9,881 |
| Overall balance | -13,117 | -16,571 | -13,860 | 2,545 | -7,159 | -5,910 | -5,997 | -16,520 | -14,120 |
| Overall balance excluding energy infrastructure projects | -11,254 | -6,454 | -4,834 | 2,545 | -4,401 | -3,099 | -3,132 | -8,087 | 1,439 |
| Total financing | 13,117 | 16,571 | 13,860 | -2,545 | 7,159 | 5,910 | 5,997 | 16,520 | 14,120 |
| External financing | 9,351 | 15,597 | 18,066 | 241 | 7,231 | 4,114 | 4,916 | 16,502 | 20,169 |
| Public investment program | 8,397 | 16,133 | 14,860 | 693 | 4,500 | 4,587 | 4,675 | 14,454 | 23,604 |
| Program support loans | 2,930 | 1,375 | 5,319 | 0 | 3,195 | 0 | 724 | 3,919 | 0 |
| Total amortization | -1,976 | -1,911 | -2,113 | -452 | -464 | -473 | -482 | -1,871 | -3,435 |
| Domestic financing | 3,606 | 820 | -4,220 | -2,790 | -75 | 1,792 | 1,077 | 5 | -6,062 |
| NBKR | 894 | 511 | -4,006 | -3,193 | 1,080 | -108 | -517 | -2,739 | -7,062 |
| Commercial banks | 272 | 1,258 | -666 | 660 | -1,155 | 1,901 | 1,594 | 3,000 | 1,000 |
| Nonbank | 2,440 | -950 | 452 | -256 | 0 | 0 | 0 | -256 | 0 |
| Privatization | 159 | 153 | 13 | 3 | 3 | 3 | 3 | 13 | 13 |
| Use of KRDF investments abroad | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

## Table 6. Kyrgyz Republic: General Government Finances, 2011–15

(In percent of GDP) 1/

| | 2011 | 2012 | 2013 | 2014 | | | | | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | Q1 | Q2 | Q3 | Q4 | Year | Year |
| | Act. | Act. | Proj. | Act. | Proj. | Proj. | Proj. | Proj. | Proj. |
| Total revenue and grants | 31.8 | 33.8 | 33.9 | 39.9 | 34.5 | 25.8 | 29.9 | 31.4 | 31.2 |
| Total revenue | 28.8 | 31.3 | 31.5 | 37.3 | 32.6 | 24.4 | 26.0 | 28.9 | 29.2 |
| Current revenue | 28.6 | 31.0 | 31.2 | 34.8 | 32.0 | 24.5 | 26.8 | 28.6 | 28.9 |
| Tax revenue | 23.1 | 25.5 | 25.6 | 30.6 | 28.1 | 21.3 | 24.0 | 25.2 | 25.5 |
| Income tax | 6.0 | 6.0 | 4.9 | 7.3 | 5.5 | 3.9 | 4.7 | 5.1 | 5.2 |
| VAT | 7.1 | 8.3 | 8.6 | 9.1 | 9.8 | 7.5 | 8.8 | 8.7 | 8.9 |
| Excises | 0.8 | 0.9 | 1.2 | 1.6 | 1.4 | 1.0 | 1.1 | 1.2 | 1.3 |
| Customs | 2.5 | 3.0 | 3.4 | 3.5 | 3.8 | 3.0 | 3.4 | 3.4 | 3.5 |
| Land tax | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 |
| Road tax and Emergency Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New turnover tax | 1.4 | 1.6 | 1.9 | 2.2 | 2.0 | 1.6 | 1.7 | 1.8 | 1.8 |
| Social Fund (excluding government contribution) | 4.5 | 4.9 | 4.8 | 6.0 | 4.8 | 3.6 | 3.7 | 4.3 | 4.0 |
| Other | 0.5 | 0.5 | 0.6 | 0.6 | 0.7 | 0.5 | 0.3 | 0.5 | 0.5 |
| Nontax revenue | 5.5 | 5.6 | 5.6 | 6.4 | 4.1 | 2.9 | 1.7 | 3.4 | 3.4 |
| Capital revenue | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 |
| Grants | 3.0 | 2.5 | 2.5 | 2.6 | 1.9 | 1.4 | 3.9 | 2.52 | 2.1 |
| Program grants | 1.4 | 1.0 | 1.6 | 2.2 | 0.0 | 0.0 | 2.5 | 1.2 | 0.3 |
| Public investment program (PIP) grants | 1.6 | 1.5 | 0.9 | 0.4 | 1.9 | 1.4 | 1.3 | 1.3 | 1.8 |
| Total expenditure (including net lending) | 36.3 | 39.1 | 37.6 | 37.5 | 43.1 | 31.0 | 34.0 | 35.7 | 34.5 |
| Total expenditure (excluding net lending) | 36.4 | 39.5 | 37.7 | 37.9 | 43.1 | 31.0 | 33.8 | 35.7 | 34.5 |
| Current expenditure | 30.9 | 31.8 | 30.5 | 35.8 | 33.4 | 23.4 | 24.9 | 28.2 | 24.9 |
| Wages | 8.3 | 8.7 | 7.9 | 8.8 | 9.9 | 6.2 | 7.3 | 7.8 | 7.6 |
| Transfers and subsidies | 3.8 | 3.5 | 3.5 | 4.6 | 3.9 | 2.7 | 3.0 | 3.4 | 3.4 |
| Social Fund expenditures | 8.3 | 9.6 | 9.4 | 13.7 | 10.9 | 8.2 | 7.7 | 9.6 | 9.2 |
| Interest | 1.0 | 0.9 | 0.9 | 1.3 | 1.3 | 0.7 | 0.6 | 0.9 | 1.0 |
| Purchases of other goods and services | 9.5 | 9.1 | 8.8 | 7.3 | 7.3 | 5.6 | 6.4 | 6.5 | 3.8 |
| Capital expenditure | 5.5 | 7.7 | 7.2 | 2.1 | 9.7 | 7.6 | 8.8 | 7.5 | 9.6 |
| Domestically financed capital expenditure | 0.9 | 1.1 | 2.0 | 0.7 | 2.4 | 2.2 | 3.7 | 2.5 | 2.4 |
| Foreign financed PIP loans | 2.9 | 5.1 | 4.2 | 1.0 | 5.4 | 4.0 | 3.8 | 3.7 | 5.4 |
| Energy infrastructure projects | 0.7 | 3.3 | 2.6 | 0.0 | 3.3 | 2.5 | 2.3 | 2.2 | 3.6 |
| Foreign financed PIP grants | 1.6 | 1.5 | 0.9 | 0.4 | 1.9 | 1.4 | 1.3 | 1.3 | 1.8 |
| Net lending | -0.1 | -0.4 | -0.1 | -0.4 | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 |
| Discrepancy | -0.1 | -0.1 | -0.3 | 1.3 | 0.0 | 0.0 | -0.7 | 0.0 | 0.0 |
| Primary balance excluding grants | -6.6 | -6.9 | -5.6 | 2.5 | -9.2 | -5.9 | -8.1 | -5.9 | -4.3 |
| Primary balance | -3.6 | -4.4 | -3.1 | 5.1 | -7.3 | -4.5 | -4.2 | -3.3 | -2.3 |
| Overall balance | -4.6 | -5.3 | -4.0 | 3.8 | -8.6 | -5.2 | -4.9 | -4.2 | -3.2 |
| Overall balance excluding energy infrastructure projects | -3.9 | -2.1 | -1.4 | 3.8 | -5.3 | -2.7 | -2.5 | -2.1 | 0.3 |
| Total financing | 4.6 | 5.3 | 4.0 | -3.8 | 8.6 | 5.2 | 4.9 | 4.2 | 3.2 |
| External financing | 3.3 | 5.0 | 5.2 | 0.4 | 8.7 | 3.6 | 4.0 | 4.2 | 4.6 |
| PIP | 2.9 | 5.2 | 4.2 | 1.0 | 5.4 | 4.0 | 3.8 | 3.7 | 5.4 |
| Program support loans | 1.0 | 0.4 | 1.5 | 0.0 | 3.8 | 0.0 | 0.6 | 1.0 | 0.0 |
| Total amortization | -0.7 | -0.6 | -0.6 | -0.7 | -0.6 | -0.4 | -0.4 | -0.5 | -0.8 |
| Domestic financing | 1.3 | 0.3 | -1.2 | -4.1 | -0.1 | 1.6 | 0.9 | 0.0 | -1.4 |
| NBKR | 0.3 | 0.2 | -1.1 | -4.7 | 1.3 | -0.1 | -0.4 | -0.7 | -1.6 |
| Commercial banks | 0.1 | 0.4 | -0.2 | 1.0 | -1.4 | 1.7 | 1.3 | 0.8 | 0.2 |
| Nonbank | 0.9 | -0.3 | 0.1 | -0.4 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 |
| Privatization | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

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

(In millions of soms)

| | 2011 | 2012 | 2013 | 2014 | | | | | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | Q1 | Q2 | Q3 | Q4 | Year | Year |
| | Act. | Act. | Proj. | Act. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (In millions of soms, unless indicated otherwise) | | | | | | | | |
| Total revenue and grants | 77,753 | 89,284 | 101,363 | 22,794 | 24,465 | 25,186 | 32,114 | 104,559 | 117,281 |
| Total revenue | 69,128 | 81,396 | 92,733 | 21,003 | 22,864 | 23,554 | 27,352 | 94,773 | 108,310 |
| Current revenue | 68,672 | 81,160 | 92,597 | 20,994 | 22,832 | 23,496 | 27,217 | 94,539 | 108,048 |
| Tax revenue | 53,017 | 63,912 | 72,842 | 16,670 | 19,399 | 20,204 | 25,128 | 81,401 | 93,363 |
| Income tax | 17,122 | 18,537 | 17,221 | 4,919 | 4,561 | 4,443 | 5,785 | 19,708 | 22,520 |
| VAT | 20,353 | 25,769 | 30,083 | 6,133 | 8,108 | 8,539 | 10,930 | 33,710 | 38,705 |
| Excises | 2,187 | 2,827 | 4,090 | 1,062 | 1,168 | 1,131 | 1,332 | 4,692 | 5,664 |
| Customs | 7,147 | 9,430 | 11,886 | 2,385 | 3,148 | 3,388 | 4,256 | 13,176 | 15,369 |
| Land tax | 762 | 757 | 888 | 231 | 161 | 252 | 333 | 977 | 1,026 |
| Road tax and Emergency Fund | 10 | 4 | 30 | 0 | 0 | 0 | 0 | 0 | 0 |
| New turnover tax | 4,128 | 4,989 | 6,494 | 1,506 | 1,685 | 1,826 | 2,132 | 7,149 | 7,891 |
| Other | 1,309 | 1,599 | 2,150 | 434 | 567 | 626 | 361 | 1,989 | 2,187 |
| Nontax revenue | 15,655 | 17,249 | 19,755 | 4,325 | 3,433 | 3,292 | 2,089 | 13,138 | 14,685 |
| Capital revenue | 456 | 236 | 136 | 8 | 32 | 58 | 135 | 234 | 262 |
| Grants | 8,624 | 7,887 | 8,629 | 1,791 | 1,600 | 1,632 | 4,762 | 9,785 | 8,971 |
| Program grants | 3,963 | 3,151 | 5,614 | 1,498 | 0 | 0 | 3,137 | 4,635 | 1,296 |
| Public investment program (PIP) grants | 4,661 | 4,736 | 3,015 | 293 | 1,600 | 1,632 | 1,625 | 5,150 | 7,675 |
| Total expenditure (including net lending) | 91,059 | 105,940 | 115,176 | 20,594 | 31,968 | 31,043 | 38,057 | 121,663 | 133,686 |
| Total expenditure | 91,397 | 107,229 | 115,680 | 20,889 | 31,968 | 31,043 | 37,763 | 121,663 | 133,686 |
| Current expenditure | 75,680 | 83,393 | 90,637 | 19,444 | 23,882 | 22,315 | 26,850 | 92,490 | 92,156 |
| Wages and Social Fund contributions | 26,935 | 30,559 | 31,510 | 6,828 | 9,646 | 8,238 | 10,576 | 35,288 | 38,744 |
| Transfers and subsidies | 10,958 | 10,870 | 12,288 | 3,081 | 3,226 | 3,073 | 3,670 | 13,049 | 14,815 |
| Transfers to Social Fund | 7,729 | 10,652 | 13,049 | 3,700 | 3,831 | 3,831 | 3,962 | 15,323 | 18,010 |
| Interest | 2,756 | 2,929 | 2,992 | 911 | 1,100 | 782 | 750 | 3,543 | 4,239 |
| Purchases of other goods and services | 27,302 | 28,382 | 30,797 | 4,923 | 6,080 | 6,392 | 7,893 | 25,287 | 16,348 |
| Capital expenditure (including PIP) | 15,717 | 23,836 | 25,043 | 1,445 | 8,085 | 8,729 | 10,913 | 29,172 | 41,530 |
| Domestically financed capital expenditure | 2,659 | 3,413 | 7,167 | 459 | 1,985 | 2,510 | 4,613 | 9,568 | 10,251 |
| Foreign financed PIP loans | 8,397 | 15,686 | 14,860 | 693 | 4,500 | 4,587 | 4,675 | 14,454 | 23,604 |
| Energy infrastructure projects | 1,863 | 10,117 | 9,026 | 0 | 2,757 | 2,811 | 2,864 | 8,433 | 15,559 |
| Foreign financed PIP grants | 4,661 | 4,736 | 3,015 | 293 | 1,600 | 1,632 | 1,625 | 5,150 | 7,675 |
| Financial balance | -13,644 | -17,945 | -14,317 | 1,905 | -7,503 | -5,858 | -5,648 | -17,104 | -16,405 |
| Net lending | -338 | -1,289 | -504 | -294 | 0 | 0 | 294 | 0 | 0 |
| Discrepancy | -560 | -289 | -1,083 | 491 | -1,711 | 949 | -348 | 0 | 0 |
| Primary balance | -11,111 | -14,016 | -11,904 | 3,601 | -8,114 | -4,128 | -5,540 | -13,561 | -12,165 |
| Primary balance excluding grants | -19,735 | -21,903 | -20,533 | 1,810 | -9,715 | -5,759 | -10,302 | -23,346 | -21,137 |
| Overall balance | -13,867 | -16,945 | -14,896 | 2,690 | -9,214 | -4,909 | -6,290 | -17,104 | -16,405 |
| Overall Balance excluding energy infrastructure projects | -12,004 | -6,829 | -5,870 | 3,149 | -7,229 | -2,399 | -1,677 | -8,672 | 0 |
| Total financing | 13,867 | 16,945 | 14,896 | -2,690 | 9,214 | 4,909 | 6,290 | 17,104 | 16,405 |
| External financing | 9,351 | 15,597 | 18,066 | 241 | 7,231 | 4,114 | 4,916 | 16,502 | 20,169 |
| PIP | 8,397 | 16,133 | 14,860 | 693 | 4,500 | 4,587 | 4,675 | 14,454 | 23,604 |
| Program support loans | 2,930 | 1,375 | 5,319 | 0 | 3,195 | 0 | 724 | 3,919 | 0 |
| Total amortization | -1,976 | -1,911 | -2,113 | -452 | -464 | -473 | -482 | -1,871 | -3,435 |
| Domestic financing | 4,356 | 1,194 | -3,183 | -2,934 | 1,980 | 792 | 1,371 | 589 | -3,778 |
| NBKR | 894 | 511 | -4,006 | -3,193 | 1,080 | -108 | -517 | -2,739 | -7,062 |
| Commercial banks | -586 | 947 | 529 | -104 | 900 | 900 | 1,888 | 3,584 | 3,285 |
| Nonbank | 4,047 | -263 | 293 | 363 | 0 | 0 | 0 | 363 | 0 |
| Privatization | 159 | 153 | 13 | 3 | 3 | 3 | 3 | 13 | 13 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

## Table 8. Kyrgyz Republic: State Government Finances, 2011–15

(In percent of GDP)

| | 2011 | 2012 | 2013 | 2014 | | | | | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | Q1 | Q2 | Q3 | Q4 | Year | Year |
| | Act. | Act. | Proj. | Act. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | | | | (In percent of GDP) | | | | | |
| Total revenue and grants | 27.2 | 28.8 | 29.0 | 33.7 | 29.4 | 22.0 | 26.0 | 26.9 | 27.0 |
| Total revenue | 24.2 | 26.2 | 26.5 | 31.0 | 27.5 | 20.6 | 22.1 | 24.4 | 24.9 |
| Current revenue | 24.0 | 26.1 | 26.5 | | | | | 24.3 | 24.9 |
| Tax revenue | 18.5 | 20.6 | 20.8 | 24.6 | 23.3 | 17.7 | 20.3 | 20.9 | 21.5 |
| Income tax | 6.0 | 6.0 | 4.9 | 7.3 | 5.5 | 3.9 | 4.7 | 5.1 | 5.2 |
| VAT | 7.1 | 8.3 | 8.6 | 9.1 | 9.8 | 7.5 | 8.8 | 8.7 | 8.9 |
| Excises | 0.8 | 0.9 | 1.2 | 1.6 | 1.4 | 1.0 | 1.1 | 1.2 | 1.3 |
| Customs | 2.5 | 3.0 | 3.4 | 3.5 | 3.8 | 3.0 | 3.4 | 3.4 | 3.5 |
| Land tax | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 |
| Retail sales tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New turnover tax | 1.4 | 1.6 | 1.9 | 2.2 | 2.0 | 1.6 | 1.7 | 1.8 | 1.8 |
| Other | 0.5 | 0.5 | 0.6 | 0.6 | 0.7 | 0.5 | 0.3 | 0.5 | 0.5 |
| Nontax revenue | 5.5 | 5.6 | 5.6 | 6.4 | 4.1 | 2.9 | 1.7 | 3.4 | 3.4 |
| Capital revenue | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Grants | 3.0 | 2.5 | 2.5 | 2.6 | 1.9 | 1.4 | 3.9 | 2.5 | 2.1 |
| Program grants | 1.4 | 1.0 | 1.6 | 2.2 | 0.0 | 0.0 | 2.5 | 1.2 | 0.3 |
| Public investment program (PIP) grants | 1.6 | 1.5 | 0.9 | 0.4 | 1.9 | 1.4 | 1.3 | 1.3 | 1.8 |
| Total expenditure (including net lending) | 31.8 | 34.1 | 32.9 | 30.4 | 38.4 | 27.1 | 30.8 | 31.3 | 30.8 |
| Total expenditure | 32.0 | 34.5 | 33.0 | 30.9 | 38.4 | 27.1 | 30.6 | 31.3 | 30.8 |
| Current expenditure | 26.5 | 26.9 | 25.9 | 28.7 | 28.7 | 19.5 | 21.7 | 23.8 | 21.2 |
| Wages and Social Fund contributions | 9.4 | 9.8 | 9.0 | 10.1 | 11.6 | 7.2 | 8.6 | 9.1 | 8.9 |
| Transfers and subsidies | 3.8 | 3.5 | 3.5 | 4.6 | 3.9 | 2.7 | 3.0 | 3.4 | 3.4 |
| Transfers to Social Fund | 2.7 | 3.4 | 3.7 | 5.5 | 4.6 | 3.3 | 3.2 | 3.9 | 4.1 |
| Interest | 1.0 | 0.9 | 0.9 | 1.3 | 1.3 | 0.7 | 0.6 | 0.9 | 1.0 |
| Purchases of other goods and services | 9.5 | 9.1 | 8.8 | 7.3 | 7.3 | 5.6 | 6.4 | 6.5 | 3.8 |
| Capital expenditure (including PIP) | 5.5 | 7.7 | 7.2 | 2.1 | 9.7 | 7.6 | 8.8 | 7.5 | 9.6 |
| Domestically financed capital expenditures | 0.9 | 1.1 | 2.0 | 0.7 | 2.4 | 2.2 | 3.7 | 2.5 | 2.4 |
| Foreign financed PIP loans | 2.9 | 5.1 | 4.2 | 1.0 | 5.4 | 4.0 | 3.8 | 3.7 | 5.4 |
| Energy infrastructure projects | 0.7 | 3.3 | 2.6 | 0.0 | 3.3 | 2.5 | 2.3 | 2.2 | 3.6 |
| Foreign financed PIP grants | 1.6 | 1.5 | 0.9 | 0.4 | 1.9 | 1.4 | 1.3 | 1.3 | 1.8 |
| Financial balance | -4.8 | -5.8 | -4.1 | 2.8 | -9.0 | -5.1 | -4.6 | -4.4 | -3.8 |
| Net lending | -0.1 | -0.4 | -0.1 | -0.4 | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 |
| Discrepancy | -0.2 | -0.1 | -0.3 | 0.7 | -2.1 | 0.8 | -0.3 | 0.0 | 0.0 |
| Primary balance | -3.9 | -4.5 | -3.4 | 5.3 | -9.8 | -3.6 | -4.5 | -3.5 | -2.8 |
| Primary balance excluding grants | -6.9 | -7.1 | -5.9 | 2.7 | -11.7 | -5.0 | -8.3 | -6.0 | -4.9 |
| Overall balance | -4.8 | -5.5 | -4.3 | 4.0 | -11.1 | -4.3 | -5.1 | -4.4 | -3.8 |
| Overall balance excluding energy infrastructure projects | -4.2 | -2.2 | -1.7 | 4.0 | -7.8 | -1.8 | -2.8 | -2.2 | -0.2 |
| Total financing | 4.8 | 5.5 | 4.3 | -4.0 | 11.1 | 4.3 | 5.1 | 4.4 | 3.8 |
| External financing | 3.3 | 5.0 | 5.2 | 0.4 | 8.7 | 3.6 | 4.0 | 4.2 | 4.6 |
| PIP | 2.9 | 5.2 | 4.2 | 1.0 | 5.4 | 4.0 | 3.8 | 3.7 | 5.4 |
| Program support loans | 1.0 | 0.4 | 1.5 | 0.0 | 3.8 | 0.0 | 0.6 | 1.0 | 0.0 |
| Domestic financing | 1.5 | 0.4 | -0.9 | -4.3 | 2.4 | 0.7 | 1.1 | 0.2 | -0.9 |
| NBKR | 0.3 | 0.2 | -1.1 | -4.7 | 1.3 | -0.1 | -0.4 | -0.7 | -1.6 |
| Commercial banks | -0.2 | 0.3 | 0.2 | -0.2 | 1.1 | 0.8 | 1.5 | 0.9 | 0.8 |
| Nonbank | 1.4 | -0.1 | 0.1 | 0.5 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 |
| Privatization | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

| | 2011 | 2012 | 2013 | 2014 | | | | | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | Q1 | Q2 | Q3 | Q4 | Year | Year |
| | Act. | Act. | Proj. | Act. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | | | | (In millions of soms) | | | | | |
| Total revenue | 16,500 | 19,386 | 21,165 | 5,079 | 5,612 | 5,530 | 6,378 | 22,600 | 24,273 |
| Total contribution | 16,205 | 18,796 | 20,454 | 4,896 | 5,401 | 5,318 | 6,138 | 21,753 | 23,326 |
| Other revenue | 295 | 590 | 711 | 184 | 212 | 212 | 240 | 847 | 946 |
| Total expenditure | 23,652 | 29,661 | 33,044 | 9,301 | 9,099 | 9,413 | 9,526 | 37,338 | 39,998 |
| Pension Fund | 22,551 | 28,299 | 31,479 | 8,626 | 8,348 | 8,662 | 8,699 | 34,336 | 36,941 |
| Medical Insurance Fund (including old funds) | 978 | 1,210 | 1,390 | 220 | 429 | 429 | 639 | 1,717 | 1,699 |
| Workers' Health Recovery Fund | 123 | 152 | 174 | 34 | 53 | 53 | 72 | 213 | 207 |
| Financial balance | -7,152 | -10,275 | -11,878 | -4,221 | -3,486 | -3,883 | -3,148 | -14,739 | -15,725 |
| Budgetary transfer | 7,729 | 10,652 | 13,049 | 3,700 | 3,831 | 3,831 | 3,962 | 15,323 | 18,010 |
| Discrepancy | 173 | -3 | -134 | 619 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 750 | 374 | 1,037 | 98 | 344 | -52 | 813 | 584 | 2,285 |
| Financing | -750 | -374 | -1,037 | -98 | -344 | 52 | -813 | -584 | -2,285 |
| Commercial bank deposits | 858 | 312 | -1,195 | 474 | -344 | 52 | -813 | -584 | -2,285 |
| Government bonds | -1,608 | -686 | 159 | -619 | 0 | 0 | 0 | 0 | 0 |
| | | | | (In percent of GDP) | | | | | |
| Total revenue | 5.8 | 6.2 | 6.0 | 7.5 | 6.7 | 4.8 | 5.2 | 5.8 | 5.6 |
| Total contribution | 5.7 | 6.1 | 5.8 | 7.2 | 6.5 | 4.6 | 5.0 | 5.6 | 5.4 |
| Other revenue | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| Total expenditure | 8.3 | 9.6 | 9.4 | 13.7 | 10.9 | 8.2 | 7.7 | 9.6 | 9.2 |
| Pension Fund | 7.9 | 9.1 | 9.0 | 12.7 | 10.0 | 7.6 | 7.0 | 8.8 | 8.5 |
| Medical Insurance Fund (including old funds) | 0.4 | 0.4 | 0.4 | 1.0 | 0.9 | 0.7 | 0.7 | 0.8 | 0.7 |
| Workers' Health Recovery Fund | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | |
| Financial balance | -2.5 | -3.3 | -3.4 | -6.2 | -4.2 | -3.4 | -2.5 | -3.8 | -3.6 |
| Budgetary transfer | 2.7 | 3.4 | 3.7 | 5.5 | 4.6 | 3.3 | 3.2 | 3.9 | 4.1 |
| Discrepancy | 0.1 | 0.0 | 0.0 | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 0.3 | 0.1 | 0.3 | 0.1 | 0.4 | 0.0 | 0.7 | 0.2 | 0.5 |
| Financing | -0.3 | -0.1 | -0.3 | -0.1 | -0.4 | 0.0 | -0.7 | -0.2 | -0.5 |
| Commercial bank deposits | 0.3 | 0.1 | -0.3 | 0.7 | -0.4 | 0.0 | -0.7 | -0.2 | -0.5 |
| Government bonds | -0.6 | -0.2 | 0.0 | -0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

## Table 10. Kyrgyz Republic: General Government Operations, GFSM 2001 Presentation, 2011–15

(In millions of soms)

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| | Year Act. | Year Act. | Year Act. | Year Proj. | Year Proj. |
| | (In millions of soms, unless indicated otherwise) | | | | |
| Revenue | 93,796 | 120,042 | 125,960 | 126,924 | 141,293 |
| Taxes | 53,017 | 63,912 | 76,410 | 81,401 | 93,364 |
| Taxes on income, profits, and capital gains | 17,122 | 18,537 | 17,221 | 19,708 | 22,520 |
| Taxes on property | 1,682 | 1,724 | 2,065 | 2,284 | 2,486 |
| Taxes on goods and services | 26,668 | 33,585 | 40,667 | 45,552 | 52,260 |
| General taxes on goods and services | 24,481 | 30,758 | 36,577 | 40,859 | 46,596 |
| Value-added taxes | 20,353 | 25,769 | 30,083 | 33,710 | 38,705 |
| Turnover and other general taxes on goods and services | 4,128 | 4,989 | 6,494 | 7,149 | 7,891 |
| Excises | 2,187 | 2,827 | 4,090 | 4,692 | 5,664 |
| Taxes on international trade and transactions | 7,147 | 9,430 | 11,886 | 13,176 | 15,369 |
| Other taxes | 398 | 635 | 1,003 | 682 | 727 |
| Social contributions | 16,205 | 18,796 | 20,454 | 21,753 | 23,326 |
| Grants | 8,624 | 19,496 | 8,629 | 9,785 | 8,971 |
| Program grants 1/ | 3,963 | 14,760 | 5,614 | 4,635 | 1,296 |
| Project grants | 4,661 | 4,736 | 3,015 | 5,150 | 7,675 |
| Other revenue | 15,950 | 17,839 | 20,466 | 13,984 | 15,632 |
| Expense | 91,603 | 102,401 | 110,631 | 114,506 | 114,145 |
| Compensation of employees | 26,935 | 30,559 | 31,510 | 35,288 | 38,744 |
| Wages and salaries | 23,740 | 26,889 | 27,790 | 30,270 | 32,974 |
| Social contributions | 3,195 | 3,670 | 3,720 | 5,018 | 5,769 |
| Use of goods and services | 27,302 | 28,382 | 30,797 | 25,287 | 16,348 |
| Interest | 2,756 | 2,929 | 2,992 | 3,543 | 4,239 |
| Subsidies | 2,138 | 2,260 | 2,532 | 3,245 | 3,659 |
| Social benefits | 32,473 | 38,271 | 42,800 | 47,143 | 51,154 |
| Gross operating balance | 2,193 | 17,641 | 15,329 | 12,418 | 27,148 |
| Net acquisition of nonfinancial assets | 15,261 | 23,600 | 24,907 | 28,938 | 41,268 |
| Acquisition of nonfinancial assets | 15,717 | 23,836 | 25,043 | 29,172 | 41,530 |
| Domestically financed | 2,659 | 3,413 | 7,167 | 9,568 | 10,251 |
| Foreign financed | 13,058 | 20,423 | 17,876 | 19,604 | 31,279 |
| Disposals of nonfinancial assets | -456 | -236 | -136 | -234 | -262 |
| Net lending/borrowing (overall balance) | -13,068 | -5,959 | -9,578 | -16,520 | -14,120 |
| Statistical discrepancy | 387 | 292 | 4,786 | 0 | 0 |
| Net acquisition of financial assets | -1,579 | -3,067 | 3,921 | 3,311 | 9,334 |
| Domestic | -1,579 | -3,067 | 3,921 | 3,311 | 9,334 |
| Currency and deposits | -1,082 | -1,625 | 4,439 | 3,323 | 9,347 |
| Loans | -338 | -1,289 | -504 | 0 | 0 |
| Sales of equity (privatization proceeds) | -159 | -153 | -13 | -13 | -13 |
| Foreign | 0 | 0 | 0 | 0 | 0 |
| Net incurrence of liabilities | 11,876 | 3,184 | 18,285 | 19,830 | 23,454 |
| Domestic | 2,524 | -805 | 219 | 3,328 | 3,285 |
| Foreign | 9,351 | 3,989 | 18,066 | 16,502 | 20,169 |
| Program loans | 2,930 | 1,375 | 5,319 | 3,919 | 0 |
| Public investment program loans | 8,397 | 16,133 | 14,860 | 14,454 | 23,604 |
| Amortization | -1,976 | -13,519 | -2,113 | -1,871 | -3,435 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

## Table 11. Kyrgyz Republic: Proposed Reviews and Disbursements Under the Three-Year Extended Credit Facility Arrangement

| Date | Action | Associated Disbursement | Share of Access (In percent) |
|---|---|---|---|
| On June 20, 2011 | Approved three-year ECF arrangement | SDR 9.514 million | 14.3 |
| On December 7, 2011 | Completed the first review based on end-June, 2011 performance criteria | SDR 9.514 million | 14.3 |
| On April 27, 2012 | Completed the second review based on end-December, 2011 performance criteria | SDR 9.514 million | 14.3 |
| On December 3, 2012 | Completed the third review based on end-June, 2012 performance criteria | SDR 9.514 million | 14.3 |
| On June 10, 2013 | Completed the fourth review based on end-December, 2012 performance criteria | SDR 9.514 million | 14.3 |
| On December 4, 2013 | Completed the fifth review based on end-June, 2013 performance criteria | SDR 9.514 million | 14.3 |
| On or after April 30, 2014 | Completed the sixth and final review based on end-December, 2013 performance criteria | SDR 9.516 million | 14.3 |
| Total | | SDR 66.600 million | 100.0 |

Source: International Monetary Fund.

## Table 12. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2013–19 1/

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|
| Fund obligations based on existing credit | | | | | | | |
| (In millions of SDRs) | | | | | | | |
| Principal | 11.4 | 11.4 | 11.0 | 15.0 | 18.3 | 20.7 | 17.5 |
| Charges and interest | 0.0 | 0.0 | 0.3 | 0.3 | 0.2 | 0.2 | 0.1 |
| Fund obligations based on existing and prospective credit | | | | | | | |
| (In millions of SDRs) | | | | | | | |
| Principal | 11.4 | 13.3 | 11.0 | 15.0 | 18.3 | 20.7 | 18.5 |
| Charges and interest | 0.0 | 0.0 | 0.3 | 0.3 | 0.2 | 0.2 | 0.1 |
| Total obligations based on existing and prospective credit | | | | | | | |
| In millions of SDRs | 11.4 | 13.3 | 11.4 | 15.3 | 18.5 | 20.9 | 18.6 |
| In millions of U.S. dollars | 17.5 | 20.6 | 17.7 | 24.0 | 29.4 | 33.4 | 30.0 |
| In percent of Gross International Reserves | 0.8 | 1.0 | 0.8 | 0.9 | 1.0 | 1.0 | 0.8 |
| In percent of exports of goods and services | 0.4 | 0.5 | 0.4 | 0.5 | 0.6 | 0.7 | 0.6 |
| In percent of debt service 2/ | 17.3 | 19.6 | 12.8 | 12.7 | 15.0 | 15.6 | 12.5 |
| In percent of GDP | 0.2 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| In percent of quota | 12.8 | 15.0 | 12.8 | 17.2 | 20.8 | 23.5 | 21.0 |
| Outstanding Fund credit | | | | | | | |
| In millions of SDRs | 131.6 | 127.8 | 116.8 | 101.8 | 83.6 | 62.9 | 44.4 |
| In billions of U.S. dollars | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| In percent of Gross International Reserves | 9.1 | 9.3 | 7.8 | 5.9 | 4.3 | 3.0 | 2.0 |
| In percent of exports of goods and services | 5.2 | 5.2 | 4.5 | 3.6 | 2.8 | 2.0 | 1.3 |
| In percent of debt service 2/ | 199.6 | 187.6 | 131.3 | 84.8 | 67.5 | 46.9 | 29.9 |
| In percent of GDP | 2.8 | 2.6 | 2.3 | 1.8 | 1.4 | 1.0 | 0.7 |
| In percent of quota | 148.2 | 144.0 | 131.5 | 114.7 | 94.1 | 70.8 | 50.0 |
| Net use of Fund credit (in millions of SDRs) | 7.6 | -3.8 | -11.0 | -15.0 | -18.3 | -20.7 | -18.5 |
| Disbursements | 19.0 | 9.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayments and Repurchases | 11.4 | 13.3 | 11.0 | 15.0 | 18.3 | 20.7 | 18.5 |
| *Memorandum items:* | | | | | | | |
| Nominal GDP (in millions of U.S. dollars) | 7,225 | 7,600 | 8,060 | 8,690 | 9,377 | 10,147 | 10,970 |
| Exports of goods and services (in millions of U.S. dollars) | 3,912 | 3,807 | 4,083 | 4,411 | 4,717 | 4,979 | 5,371 |
| Gross international reserves (in millions of U.S. dollars) | 2,226 | 2,128 | 2,336 | 2,738 | 3,093 | 3,347 | 3,560 |
| Debt service (in millions of U.S. dollars) 2/ | 101.5 | 105.5 | 139.0 | 189.1 | 196.6 | 214.7 | 239.5 |
| Quota (millions of SDRs) | 88.8 | 88.8 | 88.8 | 88.8 | 88.8 | 88.8 | 88.8 |

Sources: IMF staff estimates and projections.

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

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

## Table 13. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2013–March 2014

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

| | 2013 | | | | | | | | | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | June | | | | Sep | | | | Dec | | | | March | | | |
| | QPC | | | | IT | | | | QPC | | | | IT | | | |
| | 4th Rev. | Adj. | Act. | Status | 4th Rev. | Adj. | Act. | Status | 5th Rev. | Adj. | Act. | Status | 5th Rev. | Adj. | Actual | Status |
| *Quantitative performance criteria 1/* | | | | | | | | | | | | | | | | |
| 1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars) | 1,848 | 1,864 | 1,894 | Met | 1,861 | 1,889 | 1,939 | Met | 1,964 | 2,039 | 2,062 | Met | 1,967 | 1,969 | 1,914 | Not met |
| 2. Ceiling on net domestic assets of the NBKR (eop stock) | -14,419 | -15,111 | -16,475 | Met | -11,617 | -12,820 | -16,575 | Met | -12,480 | -16,003 | -20,075 | Met | -13,845 | -14,006 | -20,010 | Met |
| 3. Ceiling on cumulative overall cash deficit of the general government 2/ | 6,486 | 5,729 | 2,172 | Met | 11,644 | 10,289 | 6,099 | Met | 18,273 | 15,902 | 13,860 | Met | 1,410 | -2,009 | -2,545 | Met |
| 4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/ | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met |
| 5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars) | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met |
| *Indicative Targets 1/* | | | | | | | | | | | | | | | | |
| 1. Ceiling on reserve money | 66,808 | 66,808 | 66,916 | Not met | 70,243 | 70,243 | 68,935 | Met | 74,998 | 74,998 | 73,139 | Met | 73,778 | 73,778 | 67,384 | Met |
| 2. Cumulative floor on state government tax collections 2/ | 31,412 | 31,412 | 32,773 | Met | 49,599 | 49,599 | 51,725 | Met | 71,186 | 71,186 | 72,842 | Met | 16,823 | 16,823 | 16,670 | Not met |
| 3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/ | 2,175 | 2,175 | 2,175 | Met | 3,318 | 3,318 | 3,318 | Met | 4,323 | 4,323 | 4,241 | Not met | 1,169 | 1,169 | 1,083 | Not met |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ External debt contracted or guaranteed with a grant element of less than 35 percent, cumulative from April 1, 2013.

## Table 14. Kyrgyz Republic: Structural Benchmarks Under the Extended Credit Facility for 2013–14

| Measure | Timing | Macroeconomic Rationale | Status |
|---|---|---|---|
| ***Structural Benchmarks*** | | | |
| **I. FISCAL POLICY** | | | |
| Create a new, adequately staffed, department on tax policy in the Ministry of Finance. | End-June, 2013 | Develop a sound revenue base by strengthening the tax policy function by ensuring that the Ministry of Finance becomes the focal point on all tax policy-related matters. | Met |
| Issue a regulation on expanding the coverage of the commitment register to include local budgets and special means. | End-September, 2013 | Optimize spending by enhancing the treasury's ability to exercise public expenditure control. | Met with delay |
| Develop and approve regulations on accounting and financial reporting using the unified chart of accounts on the basis of international norms. | End-December, 2013 | Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management. | Met |
| Introduce the Treasury Single account on a pilot basis. | End-April, 2014 | Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management. | Not met |
| **II. FINANCIAL SECTOR** | | | |
| Submit the draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; and (iii) enhance legal protection for NBKR staff and agents. The Banking Code reform will also: (i) establish the NBKR's sole authority to hold and manage official foreign reserves, and (ii) extend the term of engagement of the NBKR external auditors. | | Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR;<br><br>Strengthen institutional and financial autonomy of the NBKR. | |
| (i) to government | End-April, 2013 | | Met |
| (ii) to parliament | End-September, 2013 | | Met |
| Identify and sign contract with one of the big 4 audit companies to audit DEBRA. | End-February, 2014 | Speed up the liquidation process. | Not met |
| **III. MONETARY POLICY** | | | |
| Issue a board decision comprising the following:<br>(i) use the policy rate as an operational target for monetary policy;<br>(ii) reactivate instruments to create a corridor around the policy rate;<br>(iii) introduce a short-term liquidity facility;<br>(iv) preannounce the schedule of the NBKR's board meetings on monetary policy on the NBKR's web site;<br>(v) start issuing a press release after board meetings on monetary policy and economic developments. | End-December, 2013 | Enhance the monetary policy framework and improve transmission of monetary policy. | Met |

# Appendix I. Letter of Intent

June 9, 2014

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

Dear Ms. Lagarde:

The fifth review of our economic and financial program, supported by an arrangement under the Extended Credit Facility (ECF), was completed by the IMF Executive Board on December 4, 2013. We are grateful to the IMF for its continued support of our economic reform program.

The ECF arrangement, which was extended until 7/31/2014, continues to play a pivotal role in maintaining macroeconomic stability and in promoting private sector-led growth. The economy rebounded strongly in 2013, following negative growth in 2012 related to disruptions in gold production, with robust and broad-based growth in a low inflation environment. Fiscal policy remained prudent, and we managed to keep the deficit below program targets. We are pursuing an intensive public investment program that is creating temporary pressures on the current account, but is expected to spur growth once finalized. We signed a memorandum of understanding with the gold mining company Centerra that was approved by parliament on February 6, 2014.

The program remains on track and the government is committed to the reform path under the ECF arrangement. For the sixth review of the ECF-supported program, all end-December 2013 quantitative performance criteria and all but one indicative targets were met. The Board of the National Bank of the Kyrgyz Republic issued a decision to implement a new operational framework for monetary policy in December 2013 and started to implement the new framework in March 2014. We approved the regulation on accounting and financial standards using the chart of accounts based on international norms. In view of the expiration of the Governance Technical Assistance Credit project late last year and issues with the vendor, we could not introduce the TSA on a pilot basis and delays in securing financing for the audit of DEBRA and the banks under its management prevented us from signing a contract with a big four auditor on time.

We prepared the annual progress report (APR) of our Medium Term Development Program in early 2014. The APR is based on the recently approved Kyrgyz Republic 2013–17 National Sustainable Development Strategy (NSDS). The strategy focuses on accelerating economic growth, consolidating macroeconomic stability, maintaining debt sustainability, and advancing structural reforms. It recognizes that improving the business environment, reforming the public sector, strengthening the financial system, and addressing infrastructure development needs are essential for achieving high, broad-based, and inclusive growth and reducing poverty.

We are committed to implement the remaining reforms set out in the MEFP and LOI dated June 2, 2011, and the LOIs dated November 17, 2011; April 12, 2012; November 14, 2012; May 20, 2013; and November 15, 2013. Moreover we intend to continue our fiscal consolidation efforts over the medium term, further improve tax policy and tax administration, finalize the remaining PFM reforms, and step up pro-poor spending to reverse recently rising poverty levels. In particular, we will draft an action plan by early June with the following components: choice of information system, introduction of the TSA, implementation of the accounting rules, and introduction and integration of modules for budget preparation, budget execution, cash planning, commitment control, and human resources. We commit to finalizing the TOR for the DEBRA audit, in consultation with the IMF, the World Bank and SECO, with a view to concluding the liquidation of the banks under DEBRA's management and subsequently winding down DEBRA's operations. In this context, we sent a letter end-May to the World Bank to initiate the process for the audit. To fend off strong depreciation pressures earlier in the year, we intervened heavily in the foreign exchange markets, but are committed to re-accumulate reserves to ensure that net international reserves are not lower than US$1,922 million, by end May. The NBKR is aiming to improve further forecasting models, liquidity management and the operational framework for monetary policy. In this regard, we would benefit from additional technical assistance. We are determined to resolve the lingering issues in the financial sector and push forward with the legislative reforms in the banking and financial sector as well as the implementation of the remaining 2013 FSAP recommendations.

We will continue to improve the business environment and tackle perceived corruption. More specifically, potential medium-term measures are outlined in Box 1 of this LOI.

In view of our achievements, we request completion of the sixth review under the ECF-supported program. We request the seventh disbursement under the ECF arrangement in the amount of 9.516 million in the equivalent of SDR (US$14.55 million). We ask that the seventh disbursement under the ECF arrangement be channeled to the budget.

We believe that economic and financial policies and measures set forth in this letter and MEFP of June 2, 2011, the LOIs of November 17, 2011; April 12, 2012; November 14, 2012; May 20, 2013 and November 15, 2013, are adequate to meet the objectives of the ECF arrangement. We stand ready to take any additional measures necessary to achieve the program objectives, and we will consult with the IMF staff before adoption such measures or changes to policies stated in the MEFP dated June 2, 2011, LOIs of November 17, 2011; April 12, 2012; November 14, 2012; May 20, 2013; November 15, 2013, and this updated LOI in accordance with Fund policies.

To set a path for a possible successor arrangement, we intend to keep the reform momentum. In particular we will: (i) maintain macroeconomic stability and observe indicative targets set in this letter (Table 1); (ii) speed up the public financial sector management reforms; and (iii) finalize remaining legislative reforms in the financial sector.

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

/s/
Djoomart Otorbaev
Prime Minister of the Kyrgyz Republic

/s/
Olga Lavrova
Minister of Finance of
the Kyrgyz Republic

/s/
Tolkunbek Abdygulov
Chairperson of the National
Bank of the Kyrgyz Republic

## Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2013–March 2014

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

| | 2013 | | | | | | | | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | September | | | | December | | | | March | | | | June | | September | December |
| | IT | | | | QPC | | | | IT | | | | Target 4/ | | Target 4/ | Target 4/ |
| | 4th Rev. | Adj. | Act. | Status | 5th Rev. | Adj. | Act. | Status | 5th Rev. | Adj. | Actual | Status | 5th Rev. | Revised | | |
| *Quantitative performance criteria 1/* | | | | | | | | | | | | | | | | |
| 1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars) | 1,861 | 1,889 | 1,939 | Met | 1,964 | 2,039 | 2,062 | Met | 1,967 | 1,969 | 1,914 | Not met | 2,056 | 1,922 | 1,919 | 2,015 |
| 2. Ceiling on net domestic assets of the NBKR (eop stock) | -11,617 | -12,820 | -16,575 | Met | -12,480 | -16,003 | -20,075 | Met | -13,845 | -14,006 | -20,010 | Met | 15,492 | -13,043 | -10,621 | -10,591 |
| 3. Ceiling on cumulative overall cash deficit of the general government 2/ | 11,644 | 10,289 | 6,099 | Met | 18,273 | 15,902 | 13,860 | Met | 1,410 | -2,009 | -2,545 | Met | 5,447 | 4,613 | 10,523 | 16,520 |
| 4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/ | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | | 0 | 0 | 0 | 0 |
| 5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars) | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | | 0 | 0 | 0 | 0 |
| *Indicative Targets 1/* | | | | | | | | | | | | | | | | |
| 1. Ceiling on reserve money | 70,243 | ... | 68,935 | Met | 74,998 | ... | 73,139 | Met | 73,778 | | 67,384 | Met | 76,331 | 74,861 | 77,113 | 81,284 |
| 2. Cumulative floor on state government tax collections 2/ | 49,599 | ... | 51,725 | Met | 71,186 | ... | 72,842 | Met | 16,823 | | 16,670 | Not met | 36,301 | 36,069 | 56,273 | 81,401 |
| 3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/ | 3,318 | ... | 3,318 | Met | 4,323 | ... | 4,241 | Not met | 1,169 | | 1,083 | Not met | 2,338 | 2169 | 3,255 | 4,377 |

Sources: Kyrgyz authorities and Fund staff estimates and projections.

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ External debt contracted or guaranteed with a grant element of less than 35 percent, cumulative from April 1, 2013.

4/ Targets beyond March 2014 are nonbinding.

## Table 2. Kyrgyz Republic: Structural Benchmarks under the Extended Credit Facility for 2013–14

| Measure | Timing | Macroeconomic Rationale | Status |
|---|---|---|---|
| ***Structural Benchmarks*** | | | |
| **I. FISCAL POLICY** | | | |
| Create a new, adequately staffed, department on tax policy in the Ministry of Finance. | End-June, 2013 | Develop a sound revenue base by strengthening the tax policy function by ensuring that the Ministry of Finance becomes the focal point on all tax policy-related matters. | Met |
| Issue a regulation on expanding the coverage of the commitment register to include local budgets and special means. | End-September, 2013 | Optimize spending by enhancing the treasury's ability to exercise public expenditure control. | Met with delay |
| Develop and approve regulations on accounting and financial reporting using the unified chart of accounts on the basis of international norms. | End-December, 2013 | Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management. | Met |
| Introduce the Treasury Single account on a pilot basis. | End-April, 2014 | Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management. | Not met |
| **II. FINANCIAL SECTOR** | | | |
| Submit the draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; and (iii) enhance legal protection for NBKR staff and agents. The Banking Code reform will also: (i) establish the NBKR's sole authority to hold and manage official foreign reserves, and (ii) extend the term of engagement of the NBKR external auditors. | | Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR;<br><br>Strengthen institutional and financial autonomy of the NBKR. | |
| (i) to government | End-April, 2013 | | Met |
| (ii) to parliament | End-September, 2013 | | Met |
| Identify and sign contract with one of the big 4 audit companies to audit DEBRA. | End-February, 2014 | Speed up the liquidation process. | Not met |
| **III. MONETARY POLICY** | | | |
| Issue a board decision comprising the following:<br><br>(i) use the policy rate as an operational target for monetary policy;<br>(ii) reactivate instruments to create a corridor around the policy rate;<br><br>(iii) introduce a short-term liquidity facility;<br>(iv) preannounce the schedule of the NBKR's board meetings on monetary policy on the NBKR's web site;<br>(v) start issuing a press release after board meetings on monetary policy and economic developments. | End-December, 2013 | Enhance the monetary policy framework and improve transmission of monetary policy. | Met |

## Box 1. Kyrgyz Republic: Potential Medium-Term Economic Reform Measures to Support the NSDS

Maintaining macroeconomic stability through continued fiscal consolidation, speeding up public financial sector management reforms, finalizing the remaining legislative reforms in the financial sector, and enhancing the business environment will play a pivotal role in achieving the goals of our National Sustainable Development Strategy.

Consolidating the fiscal position and putting public finances on a sound footing, while raising livings standards, would require to reduce the primary deficit and to maintain a sustainable debt path. Reducing gradually the wage bill and expenditures on goods and services in percent of GDP, in particular by improving procurement, and increasing further tax revenues as share of GDP by implementing tax policy and tax administration measures will play a key role in this regard.

Potential tax policy measures that would support fiscal consolidation include removing gradually remaining tax exemptions and adding anti-avoidance and anti-evasion provisions in the tax code. Other options include adjusting selective tax rates.

Measures to improve the effectiveness of the State Tax Service (STS) would include: (i) continuing to develop a risk-based sectoral compliance program; (ii) increasing the efficiency and effectiveness of the large taxpayers' unit (LTU), including through the definition of the optimum number of taxpayers that the LTU is handling; (iii) strengthening the capacity of STS IT staff; and (iv) realigning the business processes to make full use of the new Integrated Tax Administration System (ITAS).

Sound public financial management will help make public finances more effective and transparent. In particular, introducing the Treasury Single Account, extending the coverage of the treasury system to include the Social Fund, and applying the new accounting rules, including the unified chart of accounts, in line with international accounting standards, would improve our PFM system substantially. In addition, implementing all modules of the treasury management system, in particular integrating the commitment control and cash planning modules will strengthen our treasury system. Finalizing and enacting the budget code, taking into account the suggestions of the World Bank and the IMF, and implementing the Procurement Law will improve the legislative PFM framework.

We have made important strides toward improving our monetary policy framework. Going forward, key measures include improving the short- and medium-term forecasting models, staffing properly the department in charge of monetary policy (economic management department), limiting reserve money growth over the medium term, analyzing the level of excess reserves and linking it with market interest rates to improve liquidity forecasting. In this context, it will be crucial to enhance the coordination between the ministry of finance and the National Bank of the Kyrgyz Republic (NBKR). With regard to exchange rate policy, limiting interventions in the foreign exchange market, except to smooth excess volatility, will be instrumental in maintaining our floating exchange rate regime. Enhancing the control over the foreign exchange bureaus, including requirements to keep mandatory accounts at commercial banks, will improve functioning of the foreign exchange market.

A sound financial sector is key to strong and private sector-led growth. Key measures to further develop the sector include enacting the Banking Code as submitted to parliament in September 2013 and updating/developing subsequently supporting legislation (regulations, instruction, and guidelines) for the Banking Code, and the deposit protection law. It will be important to create a level playing field for all banks by harmonizing the minimum capital requirement, while maintaining the 12 percent regulatory capital requirement. Moreover, it will be key to conclude the liquidation process of banks under DEBRA's management and wind down DEBRA's operations. It is also important to enhance further bank supervision by developing and executing a strategic plan to build supervisory capacity and establishing a formal crisis preparedness framework. To improve the functioning of our pension system, we intend to conduct an independent actuarial

**Box 1. Kyrgyz Republic: Potential Medium-Term Economic Reform Measures to Support the NSDS (concluded)**

evaluation of the pay-as-you-go component of the Social Fund and to develop a timetable for the reform of the social insurance and pension system. In addition, we envisage enacting the Payment System and AML/CFT legislations will bring our financial legislation in line with international best practice.

Enhancing the business environment is the cornerstone of our strategy to foster investment and growth. Key measures in that area include monitoring the business environment via regular business surveys to identify obstacles and bottlenecks in the implementation of regulations, continuing to streamline the licensing process and inspections, and organizing business forums to increase cross-border cooperation. Our power sector could develop into an engine of growth, but to achieve this goal will require implementing the 2012 Medium-Term Power Sector Development Strategy. This includes: (i) improving governance, regulation and transparency of the power sector; (ii) bolstering financial viability of the power sector; (iii) increasing the volumes of power generation and export; and (iv) improving in reliability of power supply. In addition, we envisage finalizing the draft Law on the Electricity Sector to clearly delineate the policy setting functions and identifying independent regulatory bodies, governance structures and accountability in the sector. Finally, corporate governance in the power sector would be improved by (i) selecting managers in state-owned companies through a transparent and competitive processes; (ii) mandating financial audits of power sector entities in accordance with IFRS; and (iii) setting up websites of key agencies to publish key power sector statistics and to ensure transparent and competitive bidding in the procurement of fuel. Feasibility studies for large energy-infrastructure projects are necessary to ensure financial viability and public debt sustainability.

# Attachment I. Revised Technical Memorandum of Understanding

June 9, 2014

### I. Introduction

**1.** This memorandum defines the quantitative performance criteria, indicative targets and adjustors, and establishes the content and frequency of the data to be provided to IMF staff for program monitoring related to the economic program supported by an arrangement under the Extended Credit Facility (ECF). The indicators presented in Table 1 of the Letter of Intent dated June 9, 2014 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

### II. Quantitative Performance Criteria

## A. Definitions and Concepts

**2.** **Test dates.** Quantitative performance criteria are set semi-annually starting June 30, 2011 through December 31, 2013, and are to be met at the end of each period.

**3.** **National Bank of the Kyrgyz Republic (NBKR).** The NBKR is the central bank of the country and is responsible for the formulation and implementation of monetary policy, bank supervision, and the payment system. For the purpose of the program, the NBKR includes all its central and regional offices.

**4.** **Public sector.** For the purpose of the program, the public sector comprises the general government, the NBKR, the 10 largest nonfinancial public enterprises (enterprises and agencies in which the government owns more than 50 percent of the shares, but which are not consolidated in the budget, as listed in Table 1a), and any other newly created public development institution. The State budget comprises central and local government budgets. The general government budget includes the State and Social Fund budgets.

**5.** **Foreign-financed Public Investment Program (PIP) loans and grants.** The foreign financed PIP is a program of investments in infrastructure and social sectors agreed by the general government of the Kyrgyz Republic and its donors (including but not limited to international financial organizations). The PIP is fully financed by related grants and loans.

**6.** **Program loans and grants are loans** and grants received by the general government for direct budget support from external donors and not related to PIP financing.

**7.** The stock of **external payment arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid within the grace period specified in the relevant debt contract, including contractual and late interest. For arrears to exist, a creditor must claim payment of amounts due and not paid. Amounts in dispute are not considered arrears.

Arrears for which a clearance framework/rescheduling or restructuring has been agreed with the creditor are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that has not been paid.

**8. Concessional and nonconcessional debt.** Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose is 5 percent. The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The calculation is performed by the authorities and verified by the IMF staff based on the data provided by the authorities.

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

## B. Quantitative Performance Criteria

**Floor on net international reserves of the NBKR in convertible currencies**

***Definitions***

**10. Net international reserves (NIR) of the NBKR.** The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, deposits of commercial banks in foreign currency and illiquid assets of the NBKR are excluded. Also excluded are net forward positions, defined as the difference between the face value of foreign-currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident financial institutions. Total international reserves and NIR decline with the provision of foreign assets by the NBKR through foreign currency swaps with resident financial institutions. For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 9. Thus calculated, the stock of net international reserves in convertible currencies amounted to US$1,914 million on March 31, 2014. Net international reserves including deposits of commercial banks in foreign currency amounted to US$1,943 million on March 31, 2014.

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

***Adjustors***

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

**Ceiling on the net domestic assets of the NBKR**

***Definitions***

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

**14.** Thus defined, NDA consist of: (a) net claims to the general government from the NBKR; (b) net claims to other depositary corporations by the NBKR; (c) net claims on other financial corporations; and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of NDA amounted to minus KGS 20,010 million on March 31, 2014.

***Adjustors***

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

**Ceiling on the cumulative overall cash deficit of the general government**

***Definitions***

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

a) the change in the stock of net claims of the domestic banking system and nonfinancial institutions and households on the general government. The change in the stock of net claims of the domestic banking system on the general government is defined as the change in the stock of the banking system claims on the general government, less the change in the stock of all deposits of the general government with the banking system. The claims of the banking system on the general government include: bank loans to the general government; any securities issued by the general government and held by domestic banks, with the exception of those issued in relation with bank rescue operations; and overdrafts on the current accounts of the general government with banks;

b) the change in the stock of net claims of foreign governments, banking systems, and nonfinancial institutions and households on the general government;

c) net privatization receipts, i.e. any new sales net of purchases of shares;

d) net foreign loans disbursed to the general government for budgetary support; and

e) net foreign loans disbursed to the general government for PIP financing.

**17.** The quantitative performance criteria for the fiscal balance are calculated on the projected exchange rate. Reporting and adjustments, as defined above, will be made using current exchange rates.

***Adjustors***

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

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

***Definitions***

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

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

i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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

**21. External debt ceilings** apply to the contracting or guaranteeing by the public sector (as defined in section II. A., paragraph 4) of nonconcessional external debt, i.e. external debt with grant element of less than 35 percent (see section II. A., paragraph 7), except normal short-term import-related credits and NBKR international reserve liabilities.

**22. Exclusions from the external debt limits.** Disbursements by the IMF are excluded from the ceilings on external debt. Also excluded from external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt on the terms more favorable to the debtor.

**23. Guarantees.** For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full a shortfall incurred by the debtor.

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

## C. Indicative Targets

**Ceiling on reserve money**

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

**Cumulative floor on state government tax collections**

**26. Tax collections** in cash correspond to the line "Tax Receipts" in the Treasury Report and comprise the following categories: tax on income and profits; taxes on goods and services; specific taxes on services; turnover taxes; taxes on property; taxes on international trade; and other taxes. Tax collections include collections of tax arrears but exclude tax offsets.

**Cumulative floor on state government spending on targeted social assistance**

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

### III. Reporting Requirements Under the Arrangement

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

## A. The Balance Sheet of the NBKR

**29.** The NBKR will provide to the IMF its analytical balance sheet on a daily basis. The information provided will clearly identify the following items in the definitions specified above: the gross foreign assets and liabilities of the NBKR, decomposed by currency and instrument for the assets and by currency and creditor for the liabilities (decomposition provided on a monthly basis); the net foreign assets of the NBKR; the net international reserves of the NBKR; medium- and long-term liabilities; the net domestic assets of the NBKR; net credit from the NBKR to the general government, disaggregated by state government and the KRDF; net credit from the NBKR to commercial banks; net claims to other financial corporations; other items net; and reserve money. The balance sheet will be provided using both actual and program exchange rates. The above information will be provided to the IMF Resident Representative and/or transmitted by e-mail to the IMF.

## B. Monetary Survey

**30.** Monthly banking system data, in the form of monetary surveys of the banking sector and other depository corporations, will be reported to the IMF by the NBKR within 16 days of the end of the month. The information provided will clearly identify the following items: net foreign assets and net domestic assets of the banking system, medium- and long-term liabilities, net credit from the banking system to the general government disaggregated by the state government, the social fund and the KRDF, net claims to the rest of the economy, other items net, and broad money. The monetary survey will be provided using both program and actual exchange rates.

**31.** The NBKR will provide monthly data to the IMF within seven days after the end of the month on the amount of holdings of treasury bills, treasury bonds and other securities issued by the state government, differentiated by the following categories of holders: the NBKR; resident banks; resident nonbanks (including separately the social fund and deposit insurance fund); and nonresidents. The information will be provided in both the book (nominal) value and the actual value, where applicable.

## C. International Reserves and Key Financial Indicators

**32.** The NBKR will provide detailed monthly data within 20 days from the end of the month on the composition of both its gross and net international reserves in convertible currencies and holdings of monetary gold. These data will be provided at two alternative sets of the exchange rates and the gold price: first, at those used to derive the NFA position in the NBKR accounts; and second, at those specified in the program (see Section I). The NBKR will also provide data on net foreign financing flows, including disbursements of program loans and grants, amortization, interest payments on external debt, interest income on reserves, other direct foreign currency payments by the government and the NBKR. In addition, weekly reports should be sent to the IMF on (a) nominal exchange rates (including the official and interbank exchange rates), foreign exchange interbank market turnover, and the volume of NBKR foreign exchange sales and purchases in the domestic interbank market and with other parties, on a daily basis; and (b) treasury bill yields and the amount of treasury bill sales and redemptions on a weekly basis every Monday. On the twenty-fifth day of the month following the reference month, the NBKR will provide indicators of financial soundness of the banking system, including the ratios of regulatory capital to risk-weighted assets, nonperforming loans to total loans, and return on equity, as well as data on bank deposit and lending rates by maturity.

## D. External Debt

**33.** The ministry of finance, together with the NBKR, will provide monthly information on the disbursements, principal and interest payment—both actual and falling due—on contracting and guaranteeing of medium- and long-term external loans by the state government, nonfinancial public enterprises, and the NBKR; and any stock of outstanding arrears on external debt service payments within 21 days of the end of each month. In addition, the ministry of finance will report the total amount of outstanding government guarantees and external arrears on a monthly basis. While the NBKR will provide the debt service payment data on private debt, the ministry of finance will provide data on debt service on public and publicly guaranteed loans.

## E. Budgetary and Extra Budgetary Data

**34.** In addition to the monthly treasury report, the Social Fund will report monthly on its operations. This information will be provided to the Fund staff within 26 days from the end of each reference month. The ministry of finance will also provide monthly reports on the disbursements and use under the public investment program and budgetary grants with a one month time lag.

## F. Balance of Payments Data

**35.** The NBKR will provide current account and capital account data, including data on foreign trade, services, official and private transfers, foreign investment, and disbursements of public and private loans, on a quarterly basis, with at most a three-month lag. The NBKR will also provide monthly foreign trade data with a two-month lag.

## G. Other General Economic Information

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

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

| | Name of SOE |
|---|---|
| 1 | JSC KyrgyzAltyn |
| 2 | JSC KyrgyzNefteGaz |
| 3 | JSC “Electrical Stations” |
| 4 | JSC “National Electrical Grid of Kyrgyzstan” |
| 5 | JSC “Manas International Airport” |
| 6 | JSC KyrgyzTelecom |
| 7 | JSC SeverElectro |
| 8 | SOE “National Company Kyrgyz Temir Jolu” |
| 9 | JSC KyrgyzGaz |
| 10 | JSC BishkekTeploset |

Table 1b. Kyrgyz Republic: Other SOEs
(To be monitored, not included in the public sector)

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

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

| Abbreviation | Currency Name | Currency/US$ | US$/Currency |
|---|---|---|---|
| AUD | Australian Dollar | 0.9971 | 1.0029 |
| CAD | Canadian Dollar | 1.0098 | 0.9903 |
| CNY | Chinese Yuan | 6.6387 | 0.1506 |
| JPY | Japanese Yen | 83.0287 | 0.0120 |
| KZT | Kazakh Tenge | 147.4129 | 0.0068 |
| KGS | Kyrgyz Som | 47.0992 | … |
| LVL | Latvian Lat | 0.5406 | 1.8500 |
| MYR | Malaysian ringgit | 3.1012 | 0.3225 |
| RUB | Russian Ruble | 30.6345 | 0.0326 |
| CHF | Swiss Franc | 0.9635 | 1.0379 |
| GBP | UK Pound Sterling | 0.6487 | 1.5416 |
| TRY | New Turkish Lira | 1.5499 | 0.6452 |
| SDR | SDR | 0.6551 | 1.5266 |
| BYR | Belarusian Ruble | 3011.5757 | 0.0003 |
| EUR | Euro | 0.7622 | 1.3120 |
| UAH | Ukrainian Hryvnia | 7.9783 | 0.1253 |
| SGD | Singapore Dollar | 1.3011 | 0.7686 |
| CNH | Chinese Yuan | 6.5700 | 0.1522 |
| NOK | Norweigan Crown | 5.8218 | 0.1718 |
| SEK | Swedish Crown | 6.7098 | 0.1490 |
| XAU | Gold (US$/troy ounce) | 1405.5000 | … |

Table 3. Kyrgyz Republic: Projected Budget Support, PIP, and Amortization

| | 2013 1/ | 2014 1/ | |
|---|---|---|---|
| | December | March | June |
| Program grants | 114.9 | 30.2 | 30.2 |
| Program loans | 80.3 | 0.0 | 48.4 |
| Public investment program loans | 305.0 | 13.9 | 102.8 |
| Amortization of public external debt | 43.6 | 9.1 | 18.2 |
| Interest payments | 34.1 | 8.8 | 20.9 |

1/ Cumulative disbursements since the beginning of the year.

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

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

INTERNATIONAL MONETARY FUND

# KYRGYZ REPUBLIC

June 11, 2014

## SIXTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX


Prepared By

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


## CONTENTS

# RELATIONS WITH THE FUND

(As of April 30, 2014)

**Membership status:** Joined: May 08, 1992 Article VIII

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

| **SDR department:** | **SDR million** | **%Allocation** |
|---|---|---|
| Net cumulative allocation | 84.74 | 100.00 |
| Holdings | 120.73 | 142.47 |

| **Outstanding purchases and loans:** | **SDR million** | **%Quota** |
|---|---|---|
| ESF Arrangements | 33.30 | 37.50 |
| RCF Loans | 22.20 | 25.00 |
| ECF Arrangements | 73.02 | 82.23 |

**Latest financial arrangements:**

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| ECF | Jun 20, 2011 | Jun 19, 2014 | 66.60 | 57.08 |
| ESF | Dec 10, 2008 | Jun 09, 2010 | 66.60 | 33.30 |
| ECF [1/] | Mar 15, 2005 | May 31, 2008 | 17.76 | 17.76 |

[1/] Formerly PRGF.

**Projected payments to Fund [2/]**
(SDR million; based on existing use of resources and present holdings of SDRs):

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Principal | 10.21 | 11.04 | 14.97 | 18.27 | 20.68 |
| Charges/Interest | | 0.29 | 0.26 | 0.22 | 0.17 |
| Total | 10.21 | 11.33 | 15.23 | 18.48 | 20.84 |

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

**Status of HIPC and MDRI assistance**

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

**Safeguards assessments**

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

**Exchange rate arrangements**

The currency of the Kyrgyz Republic has been the som (100 tyiyn = 1 som) since May 15, 1993. The de jure exchange rate arrangement is floating arrangement. The NBKR participates and intervenes in the interbank foreign exchange market to limit exchange rate volatility as necessary. The de facto exchange rate arrangement is classified as other managed arrangement. The NBKR publishes daily the exchange rate of the som in terms of the U.S. dollar, which is determined in the interbank foreign exchange market. The official exchange rate of the som against the dollar is calculated as the daily weighted average of the exchange rates used in the purchase and sale transactions of dollars conducted in the foreign exchange market through the Trade Information Electronic System (TIES) of the NBKR for the reporting period from 3:00 pm of the previous trading day to 3:00 pm of the current trading day. The government uses the official exchange rate for budget and tax accounting purposes as well as for all payments between the government and enterprises and other legal entities. The Kyrgyz Republic maintains a multiple currency practice (MCP), which predates the arrangement, arising from the use of the official exchange rate for government transactions. The official rate may differ by more than 2 percent from market rates because it is based on the average transaction weighted rate of the preceding day. In practice, the official and market rates have never differed by more than 2 percent. The new trading software that is currently being tested will enable automatic matching and settlement of transactions and will eliminate the existing segmentation of the foreign exchange market. The software is expected to be rolled out to banks over the next few months and to remove the MCP. Staff does not recommend approval of this MCP.

The Kyrgyz Republic maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for the MCP discussed above and exchange restrictions maintained for security reasons relating to the restriction of financial transactions and the freeze of accounts of certain individuals or organizations associated with terrorism pursuant to (i) relevant U.N. Security Council resolutions, and (ii) the list of current terrorist organizations designated by the U.S. Secretary of State. The authorities have notified these measures to the Fund in May 2007.

**Article IV consultations**

The Kyrgyz Republic is on the 24-month consultation cycle. The 2013 Article IV consultation discussions were held in March-April 2013 and were completed by the Executive Board in June 2013 (see Country Report No. 13/75).

**FSAP participation and ROSC assessment**

An FSAP update mission in July 2013 reviewed progress since the 2007 assessment, and the Board will consider the Financial System Stability Assessment (FSSA) along with the fifth ECF review in December 2013. A fiscal ROSC mission was held in March 2001 and the ROSC Fiscal Transparency Module was published on March 13, 2002. A data ROSC mission was held in November 2002 and the ROSC Data Module was published in November 2003. A fiscal ROSC reassessment was held in September 2007.

**Resident representative**

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

# RELATIONS WITH THE WORLD BANK GROUP

(As of June 2, 2014)

**World Bank Group strategy:** The CPS for FY14–17: The joint WB/IFC CPS was reviewed by the Board on July 25, 2013. Its strategic goal is to help reduce extreme poverty and promote shared rosperity through support for improved governance. This governance-oriented approach focuses on three dimensions of the relationship between the state and the citizen, which correspond to three broad areas of engagement—public administration and public service delivery, business environment and investment climate, and the management of natural resources and physical infrastructure. IFC's primary focus would be the second and potentially the third areas of engagement, contributing to the CPS agenda by promoting private sector development through investment and advisory services that encourage diversification and competitiveness.

Since the Kyrgyz Republic joined the World Bank in 1992, the Bank has approved US$1.2 billion for International Development Association (IDA)-funded projects and Recipient Executed Trust Funds (RETFs), out of which US$1 billion has been disbursed. To date, 41 operations for US$885 million have been completed and closed, and The Kyrgyz Active Portfolio includes 11 IDA projects and 17 RETFs, which include two IDF and one GEF for US$314 million are ongoing. From 1992 until 2000, the Kyrgyz portfolio had a significant focus on budget support; since 2001, however, there has been a gradual shift toward investment projects till 2010. To achieve macroeconomic stability in the country after political turmoil in April 2010, the Kyrgyz Government requested the Bank to provide budget support. There have been two budget support operations since the July 2010 Donors Conference and the multiyear programmatic budget support program is envisioned till FY17.

**IDA financed operations:** Under the CPS, the following were delivered in FY14: DPO-1 (US$25 million equivalent), Central Asia Roads Link Project (US$45 million equivalent) and the Central Asia South Asia Electricity Transmission and Trade Project (US$45 million equivalent). The first Development Policy Operation of the multiyear programmatic budget support program became effective on December 6, 2013 and the second Development Policy Operation is under preparation with the Board meeting scheduled on June 10, 2014.

Electricity Supply Accountability and Reliability Improvement Project, Pasture and Livestock Management Improvement Project are scheduled for Board discussion in early FY15.

**Trust funds:** In addition to the IDA portfolio, the Kyrgyz program includes a significant number of cofinancing and stand-alone trust funds (TFs). Currently, the RETFs Portfolio has a total value of US$27 million, out of which US$13 million has been disbursed. Two sectors—Agriculture and Rural Development and Public Sector Management—receive most of the TFs. The largest TFs are the Agricultural Productivity Assistance Project (US$6.85 million), and Capacity Building in Public Financial Management (US$7.49 million), Kyrgyz Global Partnership for Education (US$12.7 million) and Kyrgyz Health Results Based Financing (US$11 million). TFs are mainly provided to co-finance IDA operations and to support capacity-building activities. The main contributors to the TFs have been the European Union (EU), Switzerland, Russia, and the United Kingdom.

**Analytical advisory activities** include continuation of programmatic PER and technical assistance (TA) in number of sectors, including mining sector business environment; railways trade link; analytical poverty work; Chamber of Accounts to enhance the public procurement audit methodology; public sector reform roadmap; PSD policy dialogue; agribusiness study; and conflict filter.

**IFC program:** Since becoming a member of IFC in 1993, the Kyrgyz Republic has received commitments totaling more than US$113 million from IFC's own funds to finance 33 projects in the financial sector, including banking and microfinance, mining sector, agribusiness, as well as in the pulp and paper sectors. In FY12–14, IFC committed about US$22 million in 12 projects representing banking, microfinance, and infrastructure sectors. As of December 31, 2013, IFC's committed portfolio stood at US$30 million, which includes investments in financial markets and manufacturing sectors.

**IFC's strategy:** IFC's role in the WBG Country partnership Strategy for the Kyrgyz Republic is to support the development and diversification of the private sector, contributing to country's greater competitiveness, and improving employment opportunities. IFC prioritizes activities aimed at improving the investment climate, increasing access to finance and promoting corporate disclosure standards, while at the same time exploring a greater role in energy efficiency and renewable energy and looking for opportunities in the area of PPP jointly with IDA. In the banking sector, IFC aims to increase access to finance for MSMEs by improving regulatory framework, strengthening local financial institutions, expanding microfinance organizations, and providing credit lines for MSME financing to local banks. In the real sector, IFC aims to improve corporate business practices, while looking for emerging opportunities to invest across variety of sectors, particularly in agribusiness, mining, and infrastructure.

**IFC advisory programs** implemented in the Kyrgyz Republic focus on: i) improving financial markets infrastructure, specifically credit information sharing systems and risk management education; (ii) institutional and capacity building of financial intermediaries; (iii) microfinance and housing microfinance development; (iv) investment climate and tax administration, (v) improving corporate governance in local companies and (vi) designing public-private partnership projects, currently in health and power sectors.

**MIGA program:** MIGA's current portfolio in the Kyrgyz Republic consists of one project, financed by Austrian and Italian investors, in support of the country's manufacturing and services sector. The outstanding gross exposure from this investment is US$10.8 million.

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

# RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ADB)

(As of May 15, 2014)

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

ADB is one of the major development partners in the country. All assistance provided to the Kyrgyz Republic is from concessional ADB's special fund resources—Asian Development Fund (ADF). The Kyrgyz Republic has been eligible for 50 percent grant and 50 percent ADF loan since 2009. ADB's annual approvals began with US$40 million in 1994 and reached the peak level of US$167.8 million in 2010.

Based on the results of the 2012 country performance assessment, the country received an ADF allocation of US$121.44 million for 2013–14, comprising US$53.97 million in grants and US$67.47 million in loans. For 2013, a US$65 million (US$32.50 million in loans and US$32.50 million in grants) regional ADF allocation and cofinancing of US$60 million from the Eurasian Development Bank are confirmed to finance the Central Asia Regional Economic Cooperation Corridor 3 (Bishkek–Osh Road) Improvement Project, Phase 4. Cofinancing for other projects, especially in energy and transport projects, is actively sought. As of 15 May 2014, the country has received 36 loans worth US$885.4 million, 19 ADF and one GEF grants worth US$358.3 million. The Kyrgyz Republic has also received eight grants from Japan Fund for Poverty Reduction (JFPR grants) amounting to US$8.5 million. ADB is the largest funding agency in the transport and education sectors.

The active ADB portfolio of 13 projects (total net size of US$526.6million) contained ten ADF loans (total size of US$285.2 million) and eleven ADF grants (total size of US$239.9 million) and one JFPR grant for US$1.5 million.

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

The performance of ADB's portfolio is presently satisfactory with all projects on track. As of 15 May, contract awards and disbursements reached US$2.90 million and US$7.21 million (3 percent and 16.3 percent of year's projections), respectively.

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

As of 15 May 2014, cumulative direct value-added official cofinancing for the Kyrgyz Republic since 1997 amounted to US$116.2 million for ten investment projects and US$3.1 million for eight technical assistance projects. In November 2013, ADB approved the CAREC Corridor 3 (Bishkek-Osh Road) Improvement Project Phase 4, which is cofinanced by the Eurasian Development Bank (US$60 million). Cofinancing of energy sector projects with the Eurasian Development Bank and European Bank for Reconstruction and Development in 2014 and 2016 is being discussed.

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

The Kyrgyz Republic was selected as one of the pilot countries during the February 2003 Rome Conference on Harmonization. Since then key development partners have learned to better coordinate and harmonize procurement procedures, oversee financial management and monitoring, share project implementation units, and conduct joint country portfolio reviews.

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

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

(As of May 1, 2014)

**Overview of EBRD activities to date**

The Bank has been actively supporting the transition in Kyrgyz Republic since 1995. From 1995 to the end of April 2014, the Bank signed 111 projects accounting for a net cumulative business volume of €455 million. The Bank's portfolio amounted to €221 million in 50 active projects. The current private sector portfolio ratio (as a percentage of the total portfolio) is 78 percent which is well above the Bank's 60 percent mandated ratio. The latest country strategy for the Kyrgyz Republic which sets the key priorities for the Bank's operations was approved in September 2011 and was designed to ensure continued EBRD support for the recovery of the country's economy and sustainable growth after a period of social and political unrest in the recent past. The EBRD's key priorities under the country strategy are supporting local private enterprises, in particular through support for micro-, small-, and medium-sized enterprises (MSMEs), alongside support to strengthen the financial sector and develop critical infrastructure.

**Fostering the private sector:** The Bank's operations in support of local private enterprises took advantage of the ETC Initiative, which was instrumental in enabling the Bank to deliver a number of small projects with significant transition impact, particularly in the areas of corporate governance and business conduct. Despite challenging economic and political situation in the country the Bank signed four corporate sector projects in 2013 and two more in the first four months of 2014.

- Under the Direct Lending Facility (DLF), in 2013 the Bank financed a local producer of bottled water and soft drinks to support expansion of existing beverage business including diversification into beer production.

- Under the Medium-Sized Co-Financing Facility (MCFF), the Bank supported one of the leading distribution companies of packaged food products and cosmetic goods in the country to support business expansions and servicing new distribution contracts; a local operator of customs warehouse to improve the quality of services offered to its clients; a local diary that has been modernizing its cheese and butter production to improve quality and increase output of its products that are mainly exported; a local construction material company to modernize its equipment and increase export potential; and a local retail chain to expand its network of shops in Bishkek.

- Small Business Support connects small and medium-sized enterprises to the expertise that can help transform their businesses. Depending on the nature of the company's needs, Small Business Support works either through Business Advisory Services, supporting short-term specific projects with local consultants, or through the Enterprise Growth Programme, using longer-term projects that help senior managers develop new business skills and make the structural changes their companies need to thrive.

- The Enterprise Growth Programme (EGP) works with international advisers with more than 15 years' experience in a particular industry or field. In visits over the course of 12–18 months, the advisers strive to transfer their know-how to receptive managers. The teaching of international best practices is tailored to the needs of the client, and can cover anything from restructuring, to marketing and design or financial management. EGP has undertaken 50 projects in the Kyrgyz Republic with companies in manufacturing, ICT, tourism, and agriculture. The majority of projects focused on improving marketing and sales, organization, operations, and financial management. The total donor commitment for these projects was approximately €3 million.

- Business Advisory Services helps companies work with qualified local consultants on a range of projects, covering concerns from market research to strategic planning, quality management and certification or energy efficiency and environmental management. These projects are undertaken on a cost-sharing basis. BAS also work with the local consultancy sector, supporting professional capacity building to develop the skills of local consultants to enable them to serve the SME sector on a sustainable basis, and to introduce more sophisticated advisory services in areas such as quality management and energy efficiency. As of 1 May 2014, BAS Kyrgyz Republic has undertaken 774 projects, engaging 278 consultants. More than 70 percent of the enterprises assisted are located outside the main cities. Despite the difficult business climate, turnover increased in nearly 66 percent of BAS beneficiary companies in the year following project completion, while 45 beneficiaries secured external investments, for a total investment of €25 million. BAS Kyrgyz Republic is funded by the Swiss and the U.S. Governments which have contributed €4.5 million and €230,000 consequently.

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

The Bank also engaged in policy dialogue on stabilizing the banking sector, strengthening deposit insurance, enhancing the regulation of the microfinance sector, addressing concerns about rapidly rising borrowers' over-indebtedness, supporting development of mobile banking, and improving financial inclusion. Building on the Memorandum of Understanding signed in the context of the local currency financing program, the Bank commenced work on developing the corporate bond market using a combination of TC and investments supporting the issuance of local currency corporate bonds for the equivalent of US$2 million by a leading commercial bank, KICB. Technical cooperation projects with the Central Bank and the securities market regulator aimed at improving corporate bond market issuance and disclosure standards and strengthening the regulatory framework for bond issuance and trading. In addition the EBRD acted as an anchor investor having invested about US$400,000 equivalent for this first issue by KICB. A successful placement of the bond is expected to allow others to replicate this financial instrument and access local currency funds.

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

- Under this framework, the Bank continued implementation of the water rehabilitation projects in Bishkek, Osh, Djalal-abad and Kara-Balta and in 2013 signed new water/wastewater project for Kant. The new loan of €1.5 million is co-financed by €3.6 million capital grant from the Swiss Secretariat for Economic Affairs (SECO) and will be used to finance water network rehabilitation, a metering programme covering the entire city, limited wastewater improvements and operations and maintenance equipment. The capital expenditure grant is required to meet IMF conditions for nonconcessional lending and mitigate affordability constraints. Projects in the water sector enabled the Bank to make progress with water tariff reforms, meeting IFRS accounting standards, and promoting efficiency in the Bishkek water company.

- In 2013 the EBRD provided the first loan of €11 million to finance critical solid waste investments in Bishkek. The loan is co-financed by €3 million capital grant from the Bank's Shareholder Special Fund (SSF) and €8 million from the EU's Investment Facility for Central Asia (IFCA). The project will improve the city's solid waste management, including collection across the city, investment in an urgently needed sanitary landfill, and the closure of the existing dumpsite, which is at the end of its economic life. The project will help optimize solid waste collection including via acquisition of new trucks and containers and is expected to result in an improved level of public service, the introduction of waste recycling and environmental improvements. In addition substantial TC has been mobilized to assist the Bishkek municipality with development and implementation of resettlement and livehood restoration in connection with the existing landfill.

- The Bank continued implementation of the Bishkek Public Transport project with a tender for purchase about 80 new high- and low-floor trolleybuses completed late in 2012. The first trolleybuses have been already delivered and operate in the city. For all municipal projects gender was taken into consideration with respect to improving equality of access to the new services.

**Policy dialogue:** EBRD is continuing support to the Business Development and Investment Council, which has been providing local and international business representatives (representing the mining, industry, agro-processing and tourism sectors) with a platform to discuss the main barriers to doing business with top officials of the government.

- The Bank continued to actively engage in policy dialogue with the government and local authorities to promote the further reform agenda in corporate and infrastructure sectors.

- The Bank is providing support to the development of local capital markets through policy dialogue, TC deepening the market, and reducing bank funding mismatches.

- The Bank has been working on developing TC to provide institutional capacity building support to the State Agency for Geology to support mining sector reform.

- The Bank engaged with the government on public procurement improvement under the joint EBRD–UNCITRAL technical cooperation project designed to upgrade public procurement regulation in the CIS to the new UNCITRAL Model Law on Procurement of Goods, Construction, and Services.

- The Bank continues its support for renewable energy development including through TC to the Ministry of Energy and Industry to support the renewable energy framework, and a possible financing of a pilot mini-hydro project(s).

- The Bank has initiated a TC project to assist the NBKR with the review and development of legal and normative framework as well provide training to the key stakeholders in mobile payments area.

# TECHNICAL ASSISTANCE PROVIDED BY THE FUND

(February 2003–May 2014)

| Dept. | Subject/Identified Need | Timing | Counterpart |
|---|---|---|---|
| FAD | Improving the Effectiveness of the Large Taxpayer Unit | February 24–March 7, 2003 | Ministry of Finance |
| | Treasury Management Information System | July 21–29, 2003 | Ministry of Finance |
| | VAT on agriculture | November 3–11, 2003 | Ministry of Finance |
| | Priorities for Tax Administration Reform | July 22–August 5, 2004 | Ministry of Finance |
| | Supporting Tax Administration Reform and Installing New Expert Advisor | January 16–28, 2006 | Prime Minister's Office |
| | Fiscal ROSC Reassessment (Fiscal Transparency Module) | September 11–25, 2007 | Ministry of Finance |
| | Securing Tax Revenues During the Economic Downturn | March 9–20, 2009 | Ministry of Finance |
| | Strengthening the Link between Fiscal Policy and Budget Preparation | October 12–23, 2009 | Ministry of Finance |
| | Monitoring Expenditure Arrears; Adjusting the New BO-COA | October 20–23, 2009 | Ministry of Finance |
| | IMF peripatetic assignment to support overall LTO (large taxpayer office) enhancement | February 22–March 12, 2010 | State Tax Service |
| | Reviewing Treasury's Work and Advising the Authorities on COA Issues | February 15–18, 2011 | Ministry of Finance |
| | Tax Policy Advice | April 20–May 4, 2011 | Ministry of Finance, State Tax Service, and State Customs Service |
| | Reviewing Progress on COA Work | July 4–7, 2011 | Ministry of Finance |
| | Public Financial Management | August 17–30, 2011 | Ministry of Finance |

| Dept. | Subject/Identified Need | Timing | Counterpart |
|---|---|---|---|
| | Tax Administration Diagnostic Mission (TPA TTF Module 6) | September 16–29, 2011 | Ministry of Finance, State Tax Service, and State Customs Service |
| | Unified Chart of Accounts | November 3–11, 2011 | Ministry of Finance |
| | Public Finance Management | December 8–13, 2011 | Ministry of Finance |
| | Tax Administration Reform | February 27–March 17, 2012 | State Tax Service |
| | Tax Administration Enforcement (Module 6—TPA TTF) | September 14–24, 2012 | Ministry of Finance, State Tax Service, and State Customs Service |
| | Public Finance Management | September 27–October 3, 2012 | Ministry of Finance |
| | Public Finance Management | February 13–25, 2013 | Ministry of Finance |
| | Tax Administration Enforcement (Module 6—TPA TTF) | April 11–24, 2013 | Ministry of Finance, State Tax Service, and State Customs Service |
| | Pilot Mission on Fiscal Safeguards | April 22–24, 2012 | Ministry of Finance |
| | Tax Administration in Transition | April 24–May 7, 2013 | Ministry of Finance, State Tax Service, and State Customs Service |
| | Tax Administration Enforcement (Module 6—TPA TTF) | April 11–24, 2013 | Ministry of Finance, State Tax Service, State Customs Service |
| | Fiscal Safeguards Pilot | April22–24, 2013 | Ministry of Finance |
| | Public Finance Management | August 13–23, 2013 | Ministry of Finance |
| | Tax Policy | October 24–November 8, 2013 | Ministry of Finance |

| Dept. | Subject/Identified Need | Timing | Counterpart |
|---|---|---|---|
| | Tax Administration Enforcement (Module 6—TPA TTF) | November 19–23, 2013 | Ministry of Finance, State Tax Service, State Customs Service |
| | Tax Administration Enforcement (Module 6—TPA TTF) | January 8–22, 2014 | Ministry of Finance, State Tax Service, State Customs Service |
| | Public Finance Management | May 2–13, 2014 | Ministry of Finance |
| MFD/<br>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<br>April 12–25, 2005<br>October 18–27, 2005<br>February 20–March 5, 2006<br>October 16–27, 2006,<br>March 3–17, 2007<br>December 9–15, 2007<br>May 19–June 3, 2008 | National Bank of the Kyrgyz Republic |

| Dept. | Subject/Identified Need | Timing | Counterpart |
|---|---|---|---|
| | | February 23–March 11, 2009<br>September 22–October 9, 2009 | |
| | Bank Supervision and Regulation | February 23–March 8, 2005<br>May 18–28, 2005<br>July 17–28, 2005<br>October 02–13, 2005<br>January 15–26, 2006<br>February 12–23, 2006<br>March 20–30, 2006 | National Bank of the Kyrgyz Republic |
| | FSAP update | September 5–15, 2005<br>October 10–23, 2006 | National Bank of the Kyrgyz Republic |
| | AML/CFT | April 19–25, 2006 | National Bank of the Kyrgyz Republic |
| | Monetary Framework, Operations, and Liquidity Management | June 25–July 15, 2007 | National Bank of the Kyrgyz Republic |
| | Islamic Banking Framework | February 4–12, 2008 | National Bank of the Kyrgyz Republic |
| | Assessment of the Government Primary and Secondary Market Arrangements in the Kyrgyz Republic | May 6–16, 2008 | National Bank of the Kyrgyz Republic |
| | Public Debt Management | July 14–31, 2009 | Ministry of Finance and others |
| | Risk Management within the Islamic Banking Framework | July 6–15, 2009 | National Bank of the Kyrgyz Republic |

| Dept. | Subject/Identified Need | Timing | Counterpart |
|---|---|---|---|
| | Financial Stability Analysis and Stress Testing | March 10–18, 2010 | National Bank of the Kyrgyz Republic |
| | Improving the Bank Resolution Framework | March 31–April 9, 2010 | National Bank of the Kyrgyz Republic |
| | Bank Resolution | May 31–June 3, 2010 | National Bank of the Kyrgyz Republic |
| | Bank Resolution | July 26–August 1, 2010 | National Bank of the Kyrgyz Republic |
| | Bank Resolution | August 10–19, 2010 | National Bank of the Kyrgyz Republic |
| | Reserve Management | January 28–Febraury 9, 2013 | National Bank of the Kyrgyz Republic |
| | Operational Advice on Improving the Monetary Policy Framework | March 22–29, 2012 | National Bank of the Kyrgyz Republic |
| | FSAP Scoping Mission | April 1–5, 2013 | National Bank of the Kyrgyz Republic |
| | FSAP update | July 1–15, 2013 | National Bank of the Kyrgyz Republic |
| | Operational Advice on Improving the Monetary Policy Framework | February 3–14, 2014 | National Bank of the Kyrgyz Republic |
| LEG | Review of Bank Legislation | March 1–4, 2004<br>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 |

| Dept. | Subject/Identified Need | Timing | Counterpart |
|---|---|---|---|
| | | | Office |
| | AML/CFT Follow-up | July 2–6, 2007 | National Bank of the Kyrgyz Republic |
| | AML/CFT Follow-up | September 3–6, 2007 | National Bank of the Kyrgyz Republic and State Financial Intelligence Service |
| | AML/CFT Framework | February 11–15, 2008<br>March 3–7, 2008 | National Bank of the Kyrgyz Republic and State Financial Intelligence Service |
| | Review of the Draft Tax Code | April 22–30, 2008 | Ministry of Finance |
| | AML/CFT capacity building | March 25–31, 2009 | National Bank of the Kyrgyz Republic and State Financial Intelligence Service |
| | AML/CFT Follow-up | May 18–29, 2009 | National Bank of the Kyrgyz Republic and State Financial Intelligence Service |
| | AML/CFT Follow-up | August 3–14, 2009 | National Bank of the Kyrgyz Republic and State Financial Intelligence Service |
| | AML/CFT follow-up | September 22–25, 2009 | State Financial Intelligence Service |

| Dept. | Subject/Identified Need | Timing | Counterpart |
|---|---|---|---|
| | AML/CFT Follow-up | October 5–16, 2009 | National Bank of the Kyrgyz Republic and State Financial Intelligence Service |
| | AML/CFT Follow-up | January 27–29, 2010 | State Financial Intelligence Service |
| | AML/CFT Follow-up | February 22–March 4, 2010 | National Bank of the Kyrgyz Republic and State Financial Intelligence Service |
| | AML/CFT Follow-up | January 18–20, 2011 | National Bank of the Kyrgyz Republic and State Financial Intelligence Service |
| | Legal Framework for Crisis Management and Bank Resolution | March 9–23, 2011 | National Bank of the Kyrgyz Republic, Ministry of Finance, Deposit Protection Agency, Debt Enterprise Bank Resolution Agency, Ministry of Foreign Affairs, and Union of Banks |
| | Legal Frameworks for Bank Resolution | September 6–16, 2011 | National Bank of the Kyrgyz Republic and Debt Enterprise Bank Resolution Agency |
| | AML/CFT Follow-up | October 17–21, 2011 | National Bank of the Kyrgyz Republic, State Financial Intelligence Service, |

| Dept. | Subject/Identified Need | Timing | Counterpart |
|---|---|---|---|
| | | | and Public Prosecutor |
| | Legal Frameworks for Bank Resolution and Central Banking | March 5–15, 2012 | National Bank of the Kyrgyz Republic |
| | Legal Frameworks for Bank Resolution and Central Banking | December 11–20, 2012 | National Bank of the Kyrgyz Republic |
| | AML/CFT Follow-up | February 2013 | National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor |
| | AML/CFT Follow-up | February 2014 | National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor |
| STA | SDDS Subscription | January 28–February 5, 2004 | National Statistical Committee |
| | Balance of Payments Statistics | March 15–29, 2004 | National Bank of the Kyrgyz Republic |
| | Monetary and Financial Statistics | April 27–May 11, 2004 | National Bank of the Kyrgyz Republic |
| | National Accounts Statistics | November 17–28, 2008 | National Statistics Committee |
| | Government Finance Statistics | November 11–14, 2008 | Ministry of Finance |

| Dept. | Subject/Identified Need | Timing | Counterpart |
|---|---|---|---|
| | National Accounts Statistics | March 1–12, 2010 | National Statistics Committee |
| | Government Finance Statistics | February 13–24, 2012 | Ministry of Finance |
| | Private Sector External Debt Statistics | February 4–15, 2–12 | National Statistics Committee and National Bank of the Kyrgyz Republic |
| | Price Statistics | February 18–March 1, 2013 | National Statistics Committee |
| | Price Statistics | March 31–April 11, 2014 | National Statistics Committee |

**List of Resident Advisors**

| | | | |
|---|---|---|---|
| MFD | Banking Supervision/Restructuring Advisor | Mr. Svartsman | January 2004–January 2005 |
| MFD | Public Debt Policy and Management | Mr. Azarbayejani | December 2002–December 2004 |
| MCM | Debt Management and Development of Government Securities Management | Mr. Riecke | August 2006–June 2011 |
| MCD | Macroeconomic Analysis and Forecasting | Mr. Petkov | January 2010–January 2011 |
| MCM | Banking Supervision/Restructuring Advisor | Mr. Svartsman | October 2010–April 2013 |
| LEG | Long-Term Banking Advisor | Mr. Zaveckas | August 2012–April 2014 |
| MCM | Banking Supervision/Restructuring Advisor | Mr. Svartsman | July 2013–January 2014 |

# STATISTICAL ISSUES

1. Data provision is adequate for surveillance. The four institutions responsible for collecting, compiling and disseminating macroeconomic statistics—the National Statistics Committee (NSC), the Ministry of Economic Regulation (MER), the Ministry of Finance (MOF), and the National Bank of the Kyrgyz Republic (NBKR)—have legal and institutional environments that support statistical quality, and their respective staff are well-versed in current methodologies.

2. The NSC maintains a comprehensive and regularly updated website with data that largely incorporate international methodological recommendations with adequate coverage and timeliness (http://www.stat.kg). In February 2004, the Kyrgyz Republic subscribed to the SDDS.

3. A data ROSC mission in November 2002 concluded that the quality of the macroeconomic statistics had improved significantly in the last few years. The authorities' response to the data ROSC (posted on the IMF website www.imf.org/external/np/rosc) includes an update on the status of implementation of the ROSC recommendations.

**National accounts**

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

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

**Price and labor market statistics**

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

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

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

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

**Government finance statistics**

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

11. The provision of data on public external debt service has improved. Data on actual debt service, guaranteed debt service, outstanding debt, and revised debt projections are provided on a monthly basis. The quality (including timeliness) of external debt data is adequate. The External Debt Division of the ministry of finance is now solely responsible for monitoring external debt, and has benefited from on-site training provided by a Swiss-financed long-term consultant and the computerization of its database.

**Monetary and financial statistics (MFS)**

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

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

14. The new accounting framework for banks implemented in January 2009 revealed some problems in classification of a part of the Social Fund deposits. Efforts are under way to address the consequences of the introduction of the new accounting rules.

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

**External sector statistics**

16. Data on the balance of payments and international investment position are compiled and disseminated on a quarterly basis. The 2002 data ROSC mission noted that the compilation of balance of payments statistics broadly follows the methodology recommended in the BPM5. However, deficiencies remain with respect to data on remittances, trade, services, and foreign direct investment. There is also a need to improve compilation procedures for achieving temporal consistency of data, and investigating and reconciling discrepancies. The March 2004 STA mission on balance of payments statistics noted that while progress had been made in several areas, further improvements were needed in the international transactions reporting system; data sampling methods; and data validation and coverage, particularly on trade, services, private sector external debt, and foreign direct investment.

## Kyrgyz Republic: Table of Common Indicators Required for Surveillance

### (As of June 2, 2014)

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

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign and domestic financing only.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions *vis-à-vis* nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).
[8] Reflects the assessment provided in the data ROSC (published in November 2003, and based on the findings of the mission that took place during November 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[9] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

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**IMF Executive Board Completes Sixth Review Under the ECF Arrangement for the Kyrgyz Republic and Approves US$14.7 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and final review of the Kyrgyz Republic's economic performance under the program supported by a three-year, SDR 66.6 million (about US$106 million at the time of approval) arrangement under the Extended Credit Facility (ECF)[1]. The completion of the review enables an immediate disbursement of an amount equivalent to SDR 9.516 million (about US$14.7 million). The decision was taken without a formal Board meeting.[2] The ECF arrangement was approved on June 20, 2011 (see press release 11/245).

The Kyrgyz Republic concluded the ECF arrangement successfully, without delays and with a robust performance. During the program, strong adherence to the authorities' Fund-supported program played a pivotal role in achieving economic recovery and macroeconomic stabilization following the 2010 domestic crisis. Over the past three years, average economic growth was strong and broad-based, supported by a generally stable political environment, a largely favorable external environment and solid credit growth. Inflation has dropped substantially, although underlying inflationary pressures remain. Fiscal adjustment has been commendable and system-wide banking sector indicators are improving. The overall structural reform agenda has also been advancing. In light of the uncertain regional economic outlook, downside risks remain.

Following strong growth in 2013 of 10.5 percent, economic activity moderated to 5.6 percent in March 2014 (year-on-year) and inflation picked up slightly due to the depreciation of the Kyrgyz som in response to pressures on the Russian ruble and the devaluation of the Kazakh tenge. At the end of 2013, a new monetary framework, with the interest rate as an operational target, was adopted, aiming to improve the transmission mechanism of monetary policy. The

[1] The ECF is the IMF's main tool for medium-term financial support to low-income countries. Financing under the ECF currently carries a zero percent interest rate, with a grace period of 5½ years, and a maturity of 10 years (http://www.imf.org/external/np/exr/facts/ecf.htm).
[2] The Executive Board takes decisions without a meeting (based on lapse of time procedures) when it is agreed by the Board that a proposal can be considered without convening formal discussions.

outlook for the remainder of 2014 and beyond remains broadly favorable. Downside risks primarily stem from the slowdown in Russia via remittances and external trade channels, regional uncertainties, and fragmented domestic politics.

Notwithstanding economic progress, challenges remain. To sustain strong growth over the medium term, it is essential to improve the business climate, further strengthen governance and key institutions, implementing expeditiously financial sector reforms and public financial management and tax reforms. Moreover, continued prudent fiscal policy will be essential. Increasing tax revenue to compensate for the loss of revenue from the Manas Transit Center and restructuring expenditures to create fiscal space for pro-poor spending would help put public finances on sound footing. Continued tight monetary policy will be necessary to contain inflationary pressures. While financial indicators remain healthy, the banking sector's legal framework would improve substantially following the adoption of the Banking Code. This would facilitate the development of the financial sector and thereby support strong private sector-led growth. Addressing these challenges would help strengthen the Kyrgyz Republic's resilience to external shocks, reduce aid dependency, preserve debt sustainability, and improve the prospects for stable and sustained economic growth and poverty reduction.