

**Kyrgyz Republic: Enhanced Initiative for Heavily Indebted Poor Countries—  
Preliminary Document**

This paper was prepared by staff of the International Monetary Fund and the World Bank in connection with the Executive Board's consideration of the Kyrgyz Republic's preliminary assessment of eligibility for assistance under the Enhanced Initiative for Heavily Indebted Poor Countries. It is based on the information available at the time it was completed on September 15, 2006. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Kyrgyz Republic or the Executive Board of the IMF.

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

**To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to [publicationpolicy@imf.org](mailto:publicationpolicy@imf.org).**

Copies of this report are available to the public from

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

Price: \$18.00 a copy

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



INTERNATIONAL MONETARY FUND AND  
INTERNATIONAL DEVELOPMENT ASSOCIATION

KYRGYZ REPUBLIC

**Enhanced Initiative for Heavily Indebted Poor Countries—Preliminary Document**

Prepared by the Staffs of the International Monetary Fund and the World Bank

Approved by David Owen and Scott Brown (IMF) and  
Shigeo Katsu and Danny Leipziger (IDA)

September 15, 2006

Contents	Page
I. Introduction .....	4
II. Background and Eligibility for HIPC Initiative Assistance .....	4
A. PRGF and IDA Status .....	4
B. Economic Structure and Policy Track Record .....	5
C. Poverty and Social Development .....	11
D. Recent Political Developments and Governance .....	12
E. The Structural Reform Agenda .....	15
III. Medium- to Long-Term Macroeconomic Framework.....	17
IV. Debt Sustainability Analysis and Possible Assistance under the HIPC Initiative.....	19
A. Debt Reconciliation Status.....	19
B. Structure of External Debt .....	19
C. Eligibility and Possible Assistance under the HIPC Initiative.....	20
D. Debt Sustainability Analysis.....	22
E. Sensitivity Analysis.....	24
F. Debt Relief under the MDRI .....	25
V. The Decision and Floating Completion Points .....	25
A. PRSP Process .....	25
B. Possible Decision Point Timing .....	26
C. Possible Triggers Areas for the Floating Completion Point .....	27
D. Monitoring the Use of HIPC Initiative Resources .....	29
VI. Issues for Discussion .....	30

Appendix	
Debt Management Capacity .....	32
Boxes	
1. Progress on Structural Reforms, 1995–2005 .....	9
2. Poverty and Social Indicators .....	11
3. Key Macroeconomic Assumptions Underlying the DSA .....	23
4. Possible Triggers for the Floating Completion Point .....	28
5. Possible Medium-Term Expenditure Priorities .....	31
Text Figures	
1. Macroeconomic performance, 1993–2005 .....	7
2. Doing Business Indicators, 2006 .....	14
Text Tables	
1. The Structure of Output and Growth, 1991–2005 .....	6
2. Key Macroeconomic Indicators, 1991–2005 .....	8
3. Corruption Perception Index, 2005 .....	13
4. Corruption as a Problem in Doing Business, 2005 .....	13
5. Net Present Value of External Debt, end-2004 .....	20
Figures	
1. Net Present Value of Outstanding Debt at end-2004 by Creditor Group .....	33
2. External Debt Indicators for Medium- and Long-Term Public Sector Debt, 2004–24 .....	34
3. Sensitivity Analysis, 2004–24 .....	35
Tables	
1. Selected Economic and Financial Indicators, 2003–07 .....	36
2. Selected Long-Term Macroeconomic Indicators, 2005–24 .....	37
3. Nominal Stock and Net Present Value of Debt at end-2004 by Creditor Groups .....	38
4. HIPC Initiative: Assistance Levels Under a Proportional Burden-Sharing Approach .....	39
5. Net Present Value of External Debt, 2004–24 .....	40
6. External Debt Service, 2005–24 .....	42
7. External Debt Indicators and Sensitivity Analysis, 2005–24 .....	44
8. Discount Rate and Exchange Rate Assumptions, end-2004 .....	45
9. HIPC Initiative: Status of Country Cases Considered Under the Initiative .....	46

## Abbreviations and Acronyms

AsDB	Asian Development Bank
CAS	Country Assistance Strategy
CDS	Country Development Strategy
CSAC	Consolidated Structural Adjustment Credit
EFA	Education for All
ECA	Eastern Europe and Central Asia
GDP	Gross Domestic Product
GSAC	Governance Structural Adjustment Credit
HIPC	Heavily Indebted Poor Countries
EITI	Extractive Industries Transparency Initiative
IDA	International Development Association
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MoEF	Ministry of Economy and Finance
NBKR	National Bank of the Kyrgyz Republic
NPV	Net Present Value
NPRS	National Poverty Reduction Strategy
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SDC	Swiss Agency for Development and Cooperation
SDR	Special Drawing Rights
SOEs	State-Owned Enterprises
SOSAC	Social Sector Adjustment Credit

## I. INTRODUCTION

1. This paper presents a preliminary assessment of the Kyrgyz Republic's eligibility for assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. In consultation with the authorities, staffs of the IMF and IDA jointly conducted a preliminary debt sustainability analysis (DSA). The results show that the Kyrgyz Republic is eligible for debt relief under both the fiscal and the export criteria, since its NPV of external debt-to-central government revenues ratio (362 percent) and NPV of external debt-to-exports ratio (182 percent) at end-2004 exceeded the HIPC thresholds of 250 percent and 150 percent, respectively.<sup>1</sup> The authorities recognize that debt relief under the initiative would provide a unique opportunity to free up resources for additional poverty reducing spending. They also recognize that, to enable the country to benefit from the resources made available for the overarching objectives of poverty reduction and economic growth, structural reforms initiated in critical areas, including governance and anti-corruption, need to be accelerated. Against this backdrop, the authorities formally communicated to the Fund and the World Bank (in a letter dated March 23, 2006) that they wished to initiate discussions on the possibility of debt relief under the HIPC Initiative and, subsequently, under the Multilateral Debt Relief Initiative (MDRI). During the August 2006 mission that conducted discussions for the 3rd PRGF review (which overlapped with a WB mission), the authorities consented to consideration of the preliminary document by the Boards of the Fund and the Bank.

2. Section II provides background information on the country's eligibility under the enhanced HIPC Initiative. It summarizes the structure and performance of the economy as well as the poverty profile, analyzes the governance environment, and examines the policy track record and the unfinished reform agenda. Section III discusses medium- to long-term macroeconomic projections, while Section IV presents a preliminary DSA, incorporating possible assistance under the enhanced HIPC Initiative. Section V outlines the proposed timeline for preparation of the Decision Point document and key reform areas to be considered as possible Completion Point triggers, which are closely aligned with the government's own programs and the Kyrgyz Country Development Strategy). It also gives a preliminary indication of how debt-service savings after the Decision Point could be used and tracked. Finally, Section VI presents issues for discussion by Executive Directors.

## II. BACKGROUND AND ELIGIBILITY FOR HIPC INITIATIVE ASSISTANCE

### A. PRGF and IDA Status

3. In February 2005, the Executive Board of the IMF approved a new 3-year PRGF arrangement in an amount of SDR 8.88 million (10 percent of quota) to support the Kyrgyz Republic's economic program. The Board completed the second review under the arrangement on a lapse-of-time basis in May 2006. The Kyrgyz Republic is an IDA-only

---

<sup>1</sup> These estimates incorporate hypothetical application of a stock-of-debt operation under Naples terms.

country, with a per capita GDP of \$473 in 2005. The World Bank's Country Assistance Strategy (CAS) for 2003–06 expired in June 2006, and the World Bank together with the ADB, the Swiss Agency for Development and Cooperation (SDC/SECO), DFID, USAID, and UN agencies are preparing a Joint Country Support Strategy for FY 2007–10. Based on IDA's Performance-Based Allocation (PBA) system, the Kyrgyz Republic is eligible for 100 percent grant funding under IDA 14 for FY06/07. Future eligibility for grants will depend upon the country remaining an IDA-only country at high-risk of debt distress, as evidenced by a debt sustainability analysis.

## **B. Economic Structure and Policy Track Record**

4. The Kyrgyz Republic remains one of the poorest countries of the Commonwealth of Independent States (CIS), and following the collapse of the Soviet Union in 1991, it underwent a severe economic crisis, caused by a loss of transfers (about 13 percent of GDP) from the union's budget and disruption of economic linkages with the former Soviet republics. The economy is dominated by agriculture, which accounts for about 36 percent of real GDP and over 50 percent of the labor force. In the early 1990's, manufacturing industries (mainly machine building, metal processing, light industry and food processing) from the Soviet period were closed largely because they were unable to compete on price and quality with imported goods. They were replaced by services (particularly trade and transport), which now account for about 40 percent of value added, and, from 1997, by gold production, which makes up 8 percent of real GDP and 25 percent of exports. Fluctuations in gold prices and production have increased the volatility of GDP growth (Text Table 1). The power sector contributes about 4 percent to GDP, and energy supply is one of the key inputs for the development of other sectors. It is also a major potential source of revenues and exports.<sup>2</sup> Governance problems and low electricity tariffs have resulted in large quasi fiscal deficits—around 9 percent of GDP in 2005—which pose a threat to macroeconomic stability.<sup>3</sup>

5. From 1991 to 1995, a 50 percent decline in GDP was accompanied by hyperinflation and large increases in unemployment and poverty. In response to this, the government implemented fundamental economic reforms and created the foundations for a market-oriented economy. Among the key reforms were the introduction of the national currency, price liberalization, land reform, small and medium-scale privatization, and trade liberalization. These reforms began to yield results from 1996, when the economy started to recover and recorded the first positive real GDP growth since independence.

---

<sup>2</sup> Power exports depend on barter arrangements for the release of irrigation water to neighboring countries. Power exports increased from 5 percent of total exports in 1998 to 14 percent in 2000, but declined to 3 percent in 2003–05.

<sup>3</sup> The authorities' own estimate of the 2005 quasi-fiscal deficit—based on an outdated cost-recovery tariff—was 7½ percent of GDP.

Text Table 1. The Structure of Output and Growth, 1991–2005

	1991–95	1996–99	2000–05
Real GDP growth rate, (in percent)	-12.6	5.7	4.0
Agriculture	-5.9	9.6	2.7
Construction	-12.4	-11.7	6.7
Gold (Kumtor) 1/	0.0	10.6	1.1
Power 2/	...	-1.9	1.4
Manufacturing and nongold mining	-21.1	0.2	2.0
Services	-10.3	1.9	6.8
Nongold growth (in percent)	-12.5	4.3	4.5
Real GDP structure (in percent)	100.0	100.0	100.0
Agriculture	42.3	41.8	35.9
Construction	5.4	4.6	3.4
Gold (Kumtor)	0.0	7.1	8.0
Power 2/	...	3.7	4.5
Manufacturing and nongold mining	17.0	6.5	8.8
Services	35.3	36.3	39.4

Sources: Kyrgyz authorities; and Fund staff calculations.

1/ Gold growth rate refers to 1998-99 only. Gold output was zero in 1996 and increased to 6.4 percent of GDP in 1997.

2/ Due to statistical problems, power sector output in 1991–95 was included in manufacturing and mining.

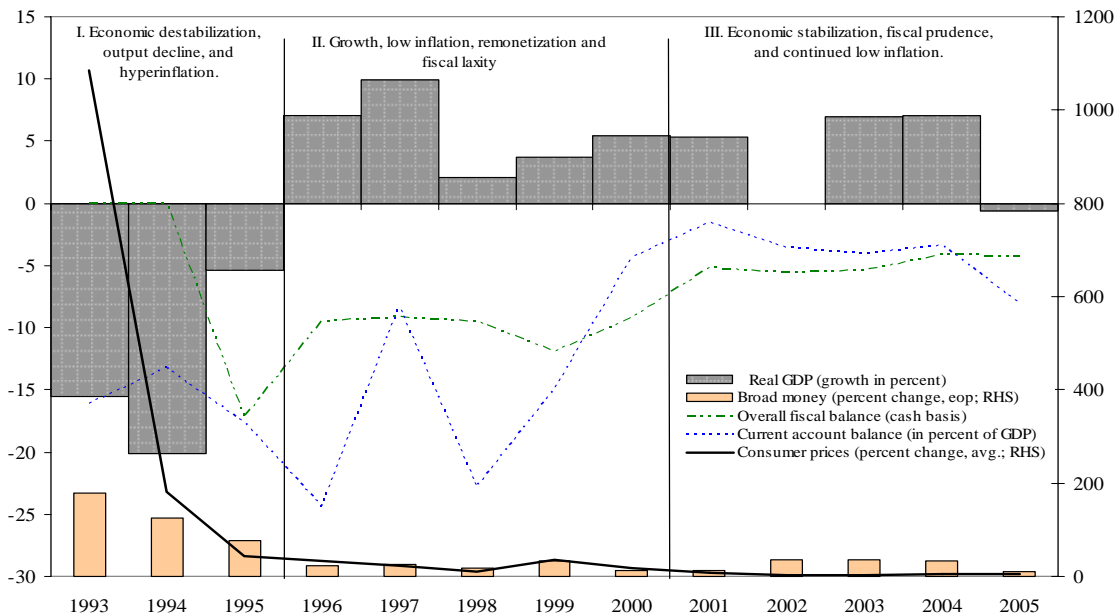
6. Partly reflecting early reform efforts and a benign external environment, economic performance improved significantly in 1996–99 (Text Figure 1 and Text Table 2). Real GDP grew by an annual average of 5.5 percent,<sup>4</sup> faster than in most CIS countries (whose average was 3.1 percent over the same period), and inflation declined from 32 percent in 1995 to below 10 percent in 2000. Growth was particularly strong in 1996 and 1997 (averaging 8 percent annually), driven mainly by strong agricultural growth as a result of agrarian reforms (distribution of land to farmers, price liberalization, restructuring of state-owned farms and, elimination of government regulation of product markets and of export duties) that led to increases in crop yields and increased production of high-value crops. In the aftermath of the Russian financial crisis in 1998, growth slowed to 2.9 percent in 1998–99. The domestic currency, the som, depreciated by almost 50 percent in real terms against the U.S. dollar in 1998, while it appreciated by 26 percent relative to the Russian ruble. The crisis led to a widening of the external current account deficit to 23 percent of GDP in 1998, from 8 percent in 1997, and it exposed the vulnerability of the economy to external shocks, partly reflecting the high level of geographical and commodity concentration of exports. The

<sup>4</sup> The rebound in growth from contraction in the early 1990s was supported by structural reforms, increasing external demand and foreign investment in the gold sector.



external current account deficit subsequently narrowed and the import coverage of official reserves increased. Nevertheless, banking sector problems intensified in the late 1990s, as nonperforming loans increased and banks failed to meet prudential requirements. These developments led to bank failures, and a specialized agency was established to handle bank liquidation.

Text Figure 1. Kyrgyz Republic: Macroeconomic Performance, 1993–2005



Sources: Kyrgyz authorities; and Fund staff estimates.

7. As a result of fiscal laxity since independence, exacerbated by poor debt management and the shock from the 1998 Russian crisis (accompanied by a sharp depreciation of the som that depressed the country's dollar GDP), the external debt burden began to swell (Text Figure 1 and Text Table 2). These problems were compounded by the low and often negative rates of return of many of the investments financed by the external debt accumulation, thereby undermining the debt repayment capacity. As a consequence by the early 2000s the external debt had risen to the equivalent of the country's GDP, up from one-third of GDP in 1995, while the debt service burden rose to one-fourth of export receipts in 2000, from one-fifth in 1995.

8. During 2000–05, the country achieved broad macroeconomic stability, and prompted by a growing awareness of the problematic debt overhang, the authorities were able to stabilize the debt ratios, mainly through fiscal consolidation supported by enhanced coordination between the IFIs. In particular, the fiscal deficit was reduced to 4 percent of GDP in 2005, from 12 percent in 1999. Inflation declined steadily to about 4 percent and the exchange rate remained stable. Nongold GDP grew on average by about 4.5 percent per year

in 2000–05, driven mainly by trade and other retail services,<sup>5</sup> compared with 7.2 percent in other CIS countries. This suggests that, in contrast to its neighbors, the country failed to realize its full potential and sustain high rates of growth, once the impact of the early reforms dissipated.

Text Table 2. Key Macroeconomic Indicators, 1991–2005

(In percent of GDP; unless otherwise indicated)

	1991–95	1996–99	2000–05	2001–03	2004	2005
Real GDP growth (in percent)	-12.6	5.7	4.0	4.1	7.0	-0.6
Nongold growth (in percent)	-12.5	4.3	4.5	4.4	7.8	1.5
Inflation (in percent)	884.0	25.4	6.5	4.0	4.1	4.3
Gross investment	14.9	20.1	19.3	18.5	20.9	21.8
Fiscal deficit	-15.1	-10.3	-5.5	-5.2	-4.1	-4.0
External current account balance	-9.6	-17.7	-4.2	-2.8	-3.4	-8.3
Exports	32.2	36.9	39.7	38.5	42.6	38.6
Imports	50.1	53.9	47.6	42.8	50.9	57.2
Foreign direct investment inflows	3.6	4.4	2.2	1.0	7.9	3.4
External debt	40.3	90.9	104.3	107.5	95.2	87.5
Debt service to exports ratio (in percent)	10.7	20.2	21.2	24.5	9.7	13.6

Sources: Kyrgyz authorities; and Bank-Fund staff estimates.

Notes: Data for 1991–96 are from the years with the best available data. Investment data for 2000–05 are estimates. The increase in FDI in 2004 is explained by a one-time transaction related to the Kumtor Gold Company.

9. While macroeconomic policy implementation in recent years has been adequate and the authorities have established a good record of implementation of successive PRGF-supported programs since 2001, progress on structural reforms has remained uneven. Macroeconomic stability and growth have been underpinned by a range of market-oriented structural reforms over the last decade, including price and trade liberalization and privatization of land and many state-owned enterprises (SOEs). The government phased out directed credits, sharply curtailed domestic financing of the budget deficit, and closed large loss-making state banks. It also made critical investments in essential telecommunications, energy, and irrigation infrastructure. Furthermore, it developed core economic legislation appropriate to a market-based economy and began the process of institutional reform and governance improvements that are critical to the effective implementation of such legislation. These efforts were supported with substantial assistance from the IMF, the World Bank, and other donors. The main areas of reform and results accomplished so far are summarized in Box 1 below.

<sup>5</sup> Most of these services are provided by individual entrepreneurs subject to a simplified tax system (patents); a large proportion of them is provided in the informal economy and not recorded in the official statistics.

### Box 1. Progress on Structural Reforms, 1995–2005

**Anti-corruption and transparency in public administration:** Numerous initiatives to address systemic corruption focused largely on (a) legal frameworks (adoption of a civil service law and procedures to promote professionalism of the service and approval of a law that requires income and asset declaration by key officials); and (b) formal institutional arrangements, including establishment of Councils of Good Governance (in 2003 and 2004) to advise on anti-corruption policy and an anti-corruption commission (2005) and a civil service agency to oversee appointments and promotion. Nevertheless, progress in implementing the legal frameworks has been slow and has not impacted corruption significantly.

**Privatization and public enterprise management:** Land privatization was largely carried out in the early 1990s—the land code, the law on land registration, and procedures for land-use rights and auctions were adopted—and about two-thirds of all land is now privately owned; but restrictions on land transfer remain. Efforts to accelerate and strengthen management of public utilities and state enterprises have been sporadic due to resistance from entrenched interests, resulting in weak management and continued lack of transparent practices and clear accountability mechanisms in SOEs.

**Financial sector:** The government established the Kyrgyz Agricultural Finance Corporation (KAFC) with World Bank funding in 1996 to provide financial services to the rural agricultural sector. The two-tier banking system established in 1997 led to entry of a large number of private banks. In the aftermath of the Russian financial crisis, which led to bank failures in the Kyrgyz Republic, the monetary authorities set up a debt and bank restructuring agency (DEBRA) in 2000 as the sole and exclusive liquidator of failed banks. The authorities recapitalized a systemically important bank, Kairat bank, in 2001 and placed four problem banks into liquidation. They also introduced improvements in banking supervision by adopting a regulatory response policy in 2001 aimed at (a) ensuring transparency and predictability of regulatory enforcement; (b) reducing political maneuvering to circumvent banking regulations; and (c) protecting the NBKR from accusations of discretion and arbitrariness. In early 2006, the authorities increased the minimum capital requirement on banks to \$1.5 million, which will be raised further to \$2.5 million by end-2007, and strengthened capital adequacy requirements. To enhance the payment system, the authorities developed bulk clearing facilities in 2005, and are implementing measures (with IMF and World Bank support) to further enhance financial intermediation. Despite these reforms, financial deepening remains slow and will depend on progress in legal judicial reforms and establishment of effective contract enforcement mechanisms.

**Energy sector reforms:** Enhancing efficiency of the sector—particularly in electricity—has been an important part of the authorities' reform agenda, which has been supported since 2000 by the World Bank's Consolidated Structural Adjustment Credit. The agenda includes (a) restructuring and subsequent privatization or concession of distribution companies; (b) transparency in accounting practices; and (c) tariff and regulatory changes. Progress has been thwarted by vested interests and lack of political will, resulting in physical and financial losses over the years; the quasifiscal deficit of the electricity sector is estimated at around 9 percent of GDP in 2005.

**Mining sector transparency:** The government endorsed the Extractive Industries Transparency Initiative (EITI) in July 2004, but compliance with commitments has been limited due in part to weak capacity. Deficiencies remain in mining sector legislation and continue to impede security of tenure (exemplified by the ongoing disputes on licenses for the Jerooy and Taldybulak gold mines) and flow of investments into the sector.

**Public financial management (PFM):** Basic elements of public financial management have been introduced, including a legal framework and procedures for budget management and a treasury system established in 1995. Due to weak capacity (stemming from lack of funds and technical assistance), the treasury system operates largely on a manual basis and has kept expenditure control less effective. Computerization of the treasury is supported by a World Bank credit approved in 2003 and is expected to be completed by 2008. The authorities are revising their budget classification system to enhance tracking of poverty related spending. PFM reforms have been supported by many donors, particularly the World Bank under its Public Sector Resource

### **Box 1 (concluded). Progress on Structural Reforms, 1995–2005**

Management Adjustment Credit (PSRMAC) program (1997–99), the GSAC (since 2003), and the Programmatic Public Expenditure Review (PPER) (since 2005). Nevertheless, shortcomings remain, and the authorities have recently developed a focused plan with assistance of donors for strengthening the PFM reform that will ultimately help spending agencies implement their budgets in a predictable way under a solid internal control.

**Tax and customs administration:** Institutional fiscal reforms have focused on development of tax and customs administration along with procedures and codes. Reforms were introduced to reduce the tax burden on labor and capital—halving tax rates on labor and capital income (2005). Good progress is expected in reducing the payroll tax to a medium-term benchmark level of 25 percent. A revised tax code, which is aimed at simplifying filing procedures, reducing overly interference by tax officers in private business and boosting compliance is, however, yet to be approved by parliament. A simplified customs code was adopted in 2005 based on best international practice, but its implementation will require customs procedure amendments to reduce bureaucratic requirements. Improving customs administration will benefit from technical assistance and support from the Asian Development Bank (AsDB).

**Public procurement:** The public procurement law (PPL) supported by the World Bank under the Country Procurement Assessment Review provides for a fair, transparent and competitive procurement process. Nevertheless, the State Commission on Public Procurement and Material Reserves (SCPPMR) has so far failed to help public agencies organize themselves in accordance with the PPL, and it still participates in procurement processes, in contravention of the law. This has resulted in a large number of sole-source contracts and other symptoms of potential corruption in the procurement process.

**Transport development and maintenance:** During the past ten years, the focus in the transport sector has been on rehabilitating major international and national roads, financed largely by external donors. Maintenance has largely been neglected, and consequently much of the road network is in poor condition. Thus the key issue in transport is prioritization of expenditures—spending the limited funds on economic activities with the highest returns, including maintenance.

**Agriculture:** Land privatization and market liberalization have been the principal drivers of reform within this sector—only a quarter of cultivated land is currently state owned. Despite market-oriented reforms, the state continues to announce ad hoc interventions in commodity markets as a means of supporting agricultural producers, creating uncertainty and unrealistic expectations among market participants and stifling private initiative. A large agenda for further reforms would include developing capacity for appropriate and effective agricultural policy formulation, ensuring that all farm land holders have proper title to land and that the water code is implemented, as well as taking actions to increase market-based access to rural credit.

**The business environment:** Bills to streamline licensing and inspection procedures are pending approval by parliament, but serious problems of corruption remain and continue to hinder the development of a business-friendly environment.

**Human development:** Several initiatives in education and health care have been taken since independence. The Manas National Health Care Reform program (1996–2005) restructured service delivery and initiated a streamlined “patient-focused” and “primary-care oriented” health system. The joint donor-supported Health Sector Wide Approach (SWAp) since 2005. Pension reform (1997) supported by the World Bank’s Social Sector Adjustment Credit (SOSAC) converted social fund accounts to an accrual system.

### C. Poverty and Social Development

10. Macroeconomic stability and growth have helped reduce poverty in the Kyrgyz Republic. Per capita incomes have almost doubled since their collapse in the early 1990s, and the capital city (Bishkek) and other urban areas have seen particularly strong reductions in poverty. The poverty level has declined to 46 percent in 2004, from 63 percent in 2000 (Box 2).

Box 2. Kyrgyz Republic: Poverty and Social Indicators

(In indicated units)

Indicator	Kyrgyz Republic	Eastern Europe and Central Asia	All low-income Countries
Population (in millions, mid-2004)	5.1	476	2,495
Population growth (in percent, 1998-2004)	1.1	0.1	1.9
Labor force growth (in percent, 1998-2004)	3.3	0.4	2.3
Gross national income per capita (US dollars, 2004)	390	2,160	430
Poverty (percent of population below the national poverty)	46	...	...
<i>Of which:</i> Urban poverty	28.3	...	...
Rural poverty	55.5	...	...
Life expectancy (years, 2004)	68	69	59
Infant mortality rate (per thousand, 2004)	21	25	81
Access to an improved water source (percent of population)	84	91	76
Illiteracy rate (percent of population age 15+, latest single year available during 1998–2004)	1	3	37
Gross primary enrollment rate (percent of school-age population, 1/ latest single year available during 1998–2004)	99	102	95
<i>Of which:</i> Male	99	103	103
Female	98	101	87

Source: World Bank, Economic and Social Indicators.

1/ This indicator exceeds 100 percent when enrolled pupils are in a grade that does not correspond to their age group.

11. Nevertheless, poverty—including its extreme manifestations—remains high, particularly in the rural areas, where three-quarters of the poor, or 1.8 million persons, live. Extreme poverty affects about 13 percent of the population. In addition, income inequality has worsened in recent years (the Gini index measured by per capita consumption increased to 32.8 percent in 2004, from 30.3 percent in 2000).

12. As shown in the World Bank's 2003 Poverty Assessment Report on the Kyrgyz Republic, there is a strong correlation between poverty and employment status, with widespread poverty reflecting a large pool of unemployed and underemployed workers, many of whom rely on subsistence agriculture and informal street trade and are not included in the official unemployment rate of nearly 10 percent. Other determinants of poverty include the province of residence and family size, especially the number of young children. This pattern of poverty is similar to that seen in other countries in the Eastern Europe and Central Asia (ECA) region of the World Bank.

13. The Kyrgyz Republic, like other CIS countries, began the transition with exceptionally favorable social indicators (Box 2). These indicators remain markedly better than those of other countries at comparable income levels. Nonincome dimensions of deprivation are, however, gradually becoming a source of concern and, given resource constraints, the country faces the challenge of halting the deterioration of social indicators. Continued erosion of the quality of social services, combined with a decline in affordability, has excluded many poor households from benefiting from public interventions.

14. Protecting the poor and the vulnerable has been a policy priority of the government since the 1990s. Despite the low income level, the magnitude of resources channeled to social protection is remarkably high. In relative terms, spending on social protection is estimated at about 12 percent of GDP. Without these transfers, poverty would be clearly higher. However, even with such high spending, resources allocated for poverty reduction do not effectively reach the extremely poor, while entailing substantial leakage to the nonpoor.<sup>6</sup>

#### **D. Recent Political Developments and Governance**

15. The March 2005 “Tulip revolution,” which resulted in the overthrow of the government that had been in power for the previous 15 years reflected frustration with corruption and poor governance prevalent under the previous regime. The revolution opened up possibilities for significant reforms, and the new authorities have indicated their commitment to improving governance and transparency. However, lingering political tensions and the pervasive influence of vested interests have at times slowed progress.

16. The Kyrgyz Republic is characterized by relatively liberal legislation in many areas,<sup>7</sup> low formal government interventions, and a formally deregulated business environment. This environment has created a basis for a steadily developing business community that, in turn, has helped stimulate a buoyant civil society, opening the way for increased voice and accountability. Following the revolution, civil society has consistently called on the authorities to fulfill their commitments to fight corruption and curb organized crime, and the authorities have, in turn, engaged in active dialogue with civil society. The mass media is freer now, and an environment of active political debate prevails.

---

<sup>6</sup> For detailed analysis see “Mitigating Social Risks in the Kyrgyz Republic”, Emil Daniel Tesliuc, World Bank, April 2004.

<sup>7</sup> Despite the presence of corruption, surveys demonstrate that the quality of regulations in the Kyrgyz Republic compares favorably to other CIS countries and HIPC countries in terms of regulatory quality. For example, the Kyrgyz Republic ranks well (84 out of 155 countries), and the best in Central Asia in the World Bank’s 2006 Doing Business rankings, largely due to a relatively good formal legal framework. In this dimension, it is also among the top twelve percent of HIPC countries.

17. Nevertheless, the country faces major challenges in providing good governance and reducing corruption.<sup>8</sup> As a result of weak capacity and poorly defined institutional responsibilities, mechanisms to resolve conflicts over policy are underdeveloped and the ability of the government to effectively enforce policies and laws is limited. Within the civil service, extensive patronage networks, low pay and the legacy of the “nomenclatura” system have made it difficult to establish a professional merit-based civil service, unaffected by changes in ministerial portfolios. However, in recent months the importance of a merit-based civil service has been increasingly recognized and significant steps have been taken to implement reforms supported by the World Bank’s GSAC since 2003, particularly with regard to requirements for competitive selection of civil servants.

Text Table 3. Corruption Perception Index, 2005			Text Table 4. Corruption as a Problem in Doing Business, 2005	
Country Rank	Country	CPI Score*	Country	Corruption (in percent) **
107	Belarus	2.6	Belarus	15
	Kazakhstan	2.6	Uzbekistan	19
	Ukraine	2.6	Kazakhstan	26
117	Bolivia	2.5	Tajikistan	32
126	Albania	2.4	Armenia	33
	Russia	2.4	Georgia	39
	Congo, Rep.	2.3	Russia	39
130	Georgia	2.3	Ukraine	42
	<b>Kyrgyz Republic</b>	<b>2.3</b>	Azerbaijan	49
137	Cameroon	2.2	Moldova	50
	Uzbekistan	2.2	<b>Kyrgyz Republic</b>	<b>59</b>
144	Congo, Dem. Rep.	2.1		
144	Tajikistan	2.1		
155	Haiti	1.8		
155	Turkmenistan	1.8		

Source: Transparency International, 2005.

\* Scores are on a scale of 1 to 10 (10 = least corrupt).  
The ranking covers 159 countries.

Source: World Bank BEEPS, 2005.

\*\* percent of firms reporting corruption to be a moderate or major obstacle to doing business.

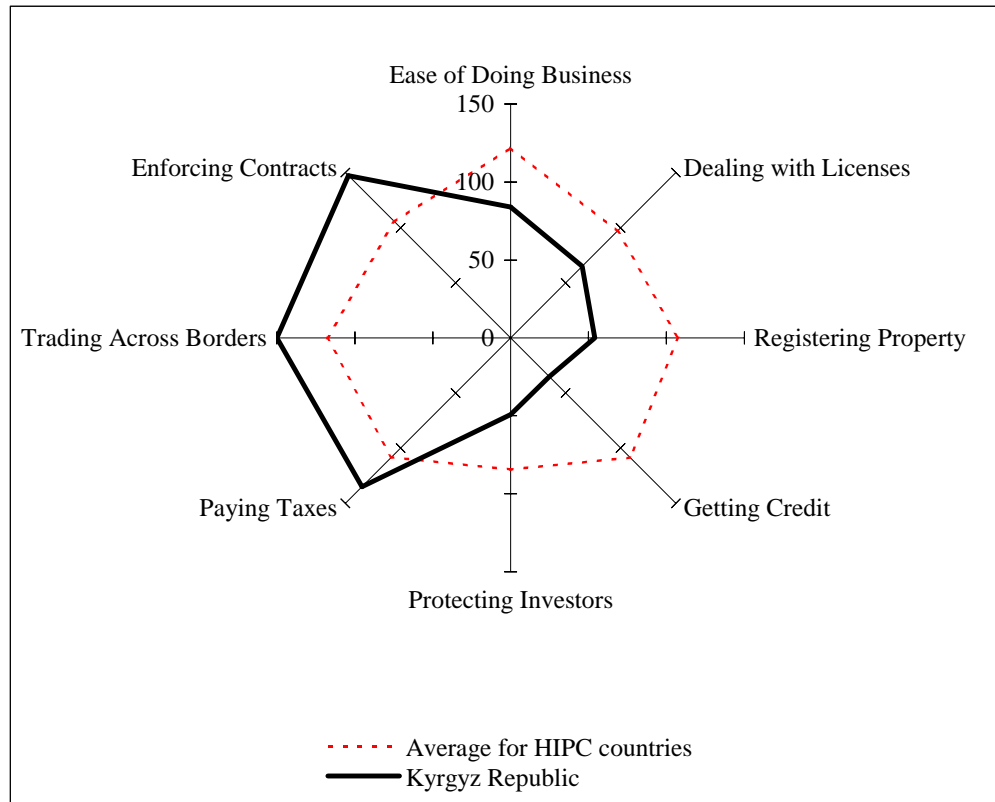
18. In 2005, the Corruption Perception Index (CPI)—an aggregate expert opinion indicator developed by Transparency International<sup>9</sup>—ranked the Kyrgyz Republic in the top

<sup>8</sup> Governance is broadly defined as the authorities’ willingness and capability to effectively manage public resources in the public interest, and to design and implement sound economic policies.

<sup>9</sup> The two types of international indicators of corruption outcomes are those generated by the views of (usually foreign) experts and those based on surveys of people or firms within the countries.

half of the lowest quartile of countries included in the sample (130 out of 159 countries, Text Table 3). Among HIPC countries, the Kyrgyz Republic ranked 25 out of 36 countries included in the sample.<sup>10</sup> Among CIS countries, the Kyrgyz Republic's score is comparable to the other Central Asian countries and Georgia.

Text Figure 2: Doing Business Indicators, 2006  
(Comparing the Kyrgyz Republic and HIPC countries)



Source: World Bank's Doing Business, 2006.

Note: The score on each item refers to the country's rank among all countries surveyed in difficulty of doing business. Thus, a lower rank indicates a better business environment.

19. The EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) indicators for 2005, which capture the experience of corruption by enterprises as opposed to experts' perceptions of corruption, and which are available only for countries in the ECA region of the World Bank, show that enterprises in the Kyrgyz Republic experience some of the worst problems of administrative corruption among ECA countries (Text Table 4).

<sup>10</sup> The index should be treated with caution, since it is the central value of a 90 percent confidence interval depending upon the number of surveys available for each country. When the HIPC countries are ranked on the lower bound of the confidence interval, the Kyrgyz Republic is close to the median (equivalent to 18<sup>th</sup> out of 36 countries).



20. Problems of corruption exist despite an apparently sound formal legal and regulatory framework as measured in the World Bank's Doing Business Indicators. These indicators, based mainly on an assessment of the formal legal and regulatory framework, rank the Kyrgyz Republic slightly below the average for the world, among the top 6 performers out of 37 HIPC countries, and above most CIS countries in terms of ease of doing business (Text Figure 2).

21. In sum, the level of corruption in the Kyrgyz Republic appears to be similar to that in many countries currently receiving assistance under the HIPC Initiative. However, the Kyrgyz Republic also appears to have a better legal framework, a more liberal political environment and freer media than most countries with comparable governance problems. The political events of March 2005 and a more open political environment support staffs' view that sustained external assistance along with continued scrutiny from civil society could improve governance significantly.

### **E. The Structural Reform Agenda**

22. Given the country's low income and high poverty, sustained growth is the fundamental requirement for progress in poverty reduction. While the government has initiated wide-ranging reforms and achieved some tangible outcomes over the past decade, many of the reforms have not been completed. The key constraint has been poor governance, manifested through weak public administration and entrenched interests of public officials. Moving ahead with the unfinished reform agenda is critical to encouraging private sector development and ensuring that public resources are efficiently targeted at the most important priorities and the most vulnerable groups in the population. The new government recognizes the importance of decisive action to expedite reforms. It has recently begun to show its commitment through implementation of competitive processes for civil service appointments, publication of declarations of income and assets of the president, the prime minister, deputy prime ministers, ministers, members of parliament and senior judges,, and introduction of a new series of public finance reforms.

23. The HIPC process is expected to help the government implement the unfinished reform agenda in a well-sequenced and prioritized manner, with a focus on strengthening governance. The reform agenda draws on the authorities' own stated commitments and priorities, now explicitly articulated in the new poverty reduction strategy (renamed the Country Development Strategy). It has also been supported by years of donor engagement, dialogue, and analytical work. The governance reform agenda is also supported by the population, with civil society actively demanding better governance and reduced corruption, and a relatively free media helping to reinforce these demands for government accountability. The government will need to steadfastly implement the reform agenda and demonstrate its ability to deal with corruption, by reducing rent-seeking opportunities among public officials and changing perceptions about what is tolerated in society. In particular, it will need to address challenges in key areas identified below.

24. *Enhancing transparency and accountability in the civil service:* In recent months, the authorities have begun to implement the new legal framework for competitive and merit-based appointments to the civil service. One of the key tasks going forward will be to ensure that due process is followed in all appointments and dismissals. Another important step forward in promoting accountability of public officials has been the publication of income and asset declarations by high state officials on the internet and in the mass media. Considerable efforts, supported by the external community, are still needed to strengthen ownership of reforms and the capacity of agencies to ensure development of a professional and accountable public service.

25. *Improving public enterprise management:* A key issue is to address poor corporate governance structures in SOEs and lack of managerial accountability. A strategy for managing all public enterprises, including a definition of management and accounting standards along with explicit procedures for appointing directors is a necessary first step towards more accountable and market-oriented SOEs, and would provide a basis for supporting government plans for privatization of some of these enterprises where feasible and appropriate. In addition, mechanisms are required to ensure that agencies responsible for managing SOEs report on compliance with audit reports. As in the case of public service reform, capacity building and external support are needed, along with political leadership and ownership of these reforms.

26. *Regulatory reform and transparency in the energy and mining sectors:* The challenges comprise creating transparent tariff structures and financing arrangements, consistent with cost-recovery, along with good corporate governance to attract private capital. In the mining sector, it is necessary to enact new legislation and a fiscal regime consistent with international norms and standards, and publish audited financial reports of state revenues originating from the mining sector in accordance with the country's commitments under the Extractive Industries Transparency Initiative (EITI).

27. *Strengthening public financial management (PFM):* The main challenge will be to implement the recently developed action plan and show clear improvements in annual budget execution. In addition to fostering convergence to best practices, the reforms must also curtail rent-seeking within the budget process and bolster the credibility of budget agencies. The authorities will also need to help the major procuring entities organize themselves and begin to establish capacity to implement the law on public procurement. Implementation of the new law on the Chamber of Accounts will require extensive training for its auditors in modern international audit practices.

28. *Fostering a business-friendly regulatory environment:* The main challenges will be to adopt and implement a new tax code that removes ambiguities and contradictions, together with a tax administration strategy that moves towards risk-based assessment and away from excessively intrusive inspections. Similarly, implementation of the customs code will require introduction of selective risk-based inspections, proper systems of data exchange, and swift procedures to facilitate trade in line with international best practices, while safeguarding

revenue collection. The authorities will need to implement existing legislation aimed at reducing the number of technical regulations and mandatory standards, and introduce limits in the number and duration of inspections without jeopardizing tax enforcement. Finally, it will be necessary to streamline licensing procedures and introduce mechanisms for reviewing new regulations that affect the business environment.

29. *Improving human development outcomes on a sustained basis:* The ultimate objective of good governance is to create the basis for sustained growth and poverty reduction. Efficient and effective provision of health, education and social protection services is critical to achieving that end. A key challenge in all three sectors is to secure adequate budget resources. Health sector reforms need to focus also on providing adequate primary care and ensuring transparent and predictable budgets for the sector. Flexible education financing arrangements are required to enhance basic education in rural areas. Further, the social protection system needs to be better targeted to ensure fiscal sustainability, while providing adequate protection to pensioners.

### III. MEDIUM- TO LONG-TERM MACROECONOMIC FRAMEWORK

30. Macroeconomic projections in this paper have been prepared jointly with the authorities (Tables 1 and 2) and are consistent with the policy strategy outlined in their PRGF-supported economic program for 2006 (*IMF Country Report No. 6/235*). The main parameters and objectives underlying these projections include (a) average medium-term output growth of 5½ percent; and (b) inflation of 5.7 percent in 2006, declining to 4 percent in the medium term. Achieving rapid growth will require increasing private sector investment, a rebound of the gold sector, and diversification of production and exports. The government will need to maintain fiscal prudence, while seeking to increase domestic resource mobilization and concessional external assistance to create fiscal space for further poverty reducing spending, consistent with its debt-reduction strategy. In addition, the macroeconomic framework assumes that supporting structural reforms, such as those outlined in section V, are carried out. In the absence of such a program, the projected productivity and investment growth required for the medium-term growth of 5¼ percent may not be attained, and there is a serious risk that the economy could find itself trapped at a significantly lower growth rate.

31. Achieving strong productivity gains is also crucial to spur output growth and nongold exports. Productivity growth, stemming from improvements in resource efficiency and accompanied by declines in rent-seeking activities by key public officials, is expected to contribute about 2⅔ percentage points per year to output growth in 2006–15 and about 2⅓ percentage points per year in 2016–24. In the absence of shocks, this should safeguard external competitiveness and allow moderate but steady growth in real wages. Unemployment is expected to decline as growth picks up, supporting poverty reduction.

32. To foster private sector development, which is essential to underpin pro-poor growth, the government is committed to creating an enabling business environment and gradually reducing tax rates on labor. One of the constraints to further development of manufacturing and services is the unfavorable business environment for small and medium enterprises. The number of SMEs and their employment and output levels have remained broadly unchanged in recent years. To reduce the tax burden on labor and encourage employment and tax compliance, the 2006 budget introduced a flat 10 percent personal and corporate income tax rate (eliminating the 20 percent personal income tax bracket and halving the corporate tax rate) and lowered the payroll tax rate by 2 percentage points to 29 percent as a step toward the authorities' objective of a 25 percent payroll tax rate. In addition, the authorities have announced their intention to reduce corruption and improve efficiency of public services, including in tax and customs administration, in order to broaden the tax base. In this connection, the new tax code currently being discussed by parliament aims at eliminating legislation burdensome to private sector operations, while clarifying taxpayer obligations and rights. In all, the investment-to-GDP ratio is expected to increase to an average 24 percent in 2006–14, from 20½ percent in 2000–05. This would come almost entirely from the private sector, as public investment would increase slightly. This outlook is also consistent with the move to limit external debt funding of the Public Investment Program (PIP).

33. Fiscal consolidation and a prudent debt management strategy should underpin macroeconomic stability. To secure a gradual decline in the fiscal deficit, tax revenues are expected to increase as the tax code is streamlined and tax and customs administration are enhanced to encourage compliance, while expenditures would increase at a moderate pace. In addition, it will be important to realign public expenditure towards social and capital spending. In line with the poverty reduction strategy, social spending will increase by 1 percentage point of GDP, to almost 16 percent of GDP from 2005 to 2008, and stabilize around 17 percent in 2015–24, while capital spending will increase by ½ a percentage point of GDP in the medium term. In addition, continued prudence in debt management will require contracting only highly concessional loans.

34. The external current account deficit is expected to decline in the medium term, in response to strong growth in gold mining and efficiency gains in the rest of the economy (on the assumption that the business environment and the energy situation improve). Supported by continuing close relations with major CIS partners and a gradual removal of transport bottlenecks, merchandise exports are expected to grow rapidly, while a well-educated labor force and rising employment opportunities should facilitate export diversification. In the long run, the external current account deficit is expected to stabilize at 5½–6 percent of GDP (Table 2).

#### **IV. DEBT SUSTAINABILITY ANALYSIS AND POSSIBLE ASSISTANCE UNDER THE HIPC INITIATIVE**

##### **A. Debt Reconciliation Status**

35. The DSA presented below was jointly prepared by the staffs of the IMF and IDA in consultation with the authorities.<sup>11</sup> It is based on loan-by-loan data provided by the authorities on debt outstanding and disbursed as of end-2004.<sup>12, 13</sup> The exchange and discount rates used in calculating the nominal stock of debt and the NPV of debt as of end-2004 are presented in Table 8. Debt estimates and NPV calculations are preliminary, pending completion of debt reconciliation with creditors (all multilateral debt, and four-fifths of bilateral debt data have already been reconciled).

##### **B. Structure of External Debt**

36. Based on reconciled data, the Kyrgyz Republic's nominal stock of disbursed and outstanding external debt is estimated at \$1.95 billion as of end-2004. In net present value (NPV) terms, the end-2004 stock of debt amounted to \$1.48 billion or 419 percent of fiscal revenue before application of traditional debt relief (Table 3).<sup>14</sup>

37. Of the total nominal debt at end-2004, just over two-thirds were owed to multilateral creditors. Nearly 90 percent of the bilateral debt was owed to Paris Club creditors. The largest official creditors were the AsDB, IMF, IDA, and Paris Club creditors, accounting for 24 percent, 11 percent, 30 percent and 28 percent of total debt, respectively (Table 3).

38. The Kyrgyz Republic has had two debt restructuring agreements with the Paris Club. The first, in December 2002, provided for flow rescheduling, in three phases and on Houston terms, of maturities falling due between December 2001 and April 2005, all of which have been implemented. The second, in March 2005, under the Evian approach, stipulated that the full amount of principal payments on ODA credits was to be repaid over 40 years, with a 13-year grace period, at interest rates at least as favorable as the original concessional rates

---

<sup>11</sup> Debt management capacity of the public debt and assets department of the ministry of economy and finance is described in the Appendix.

<sup>12</sup> For the Decision Point document, the DSA is expected to be prepared on the basis of end-2005 debt data.

<sup>13</sup> The debt data do not include thus far debts of public enterprises (defined as at least 50 percent owned by the state) not guaranteed by the government, which, according to the current guidelines, should be covered by the HIPC Initiative. The authorities will conduct a comprehensive survey of external debts of public enterprises not guaranteed by the government and include them in end-2005 debt data provided for the Decision Point document. It appears, however, that these debts are small relative to the rest of public and publicly guaranteed debt, and their inclusion will not change qualitatively the conclusions of this DSA.

<sup>14</sup> Consistent with the current guidelines on eligibility for assistance under the HIPC Initiative, revenue is defined as central government revenue excluding grants, and exports of goods and services exclude transit goods.

applied to those loans. On non-ODA credit, creditors agreed to halve the NPV, following either the debt reduction or debt service reduction options.<sup>15</sup>

### C. Eligibility and Possible Assistance under the HIPC Initiative

39. The Kyrgyz Republic is eligible for relief under the enhanced HIPC Initiative under both the export and the fiscal/openness criteria. After hypothetical application of traditional debt relief, its NPV of debt-to-exports ratio (182 percent) and its NPV of debt-to-revenue ratio (362 percent) at end-2004 exceed the respective HIPC thresholds (Text table 5).<sup>16 17</sup> Calculations of assistance and debt projections in this paper are based on the fiscal/openness criterion, which would yield higher assistance.

Text Table 5: Kyrgyz Republic: Net Present Value of External Debt, end-2004

(In units indicated)

	NPV of debt	
	Million U.S. Dollars	Percent of total
Total	1481	100
Multilateral	905	61
Official Bilateral	576	39
Paris Club	517	35
Other	58	4
Memorandum items:		
NPV of debt after traditional relief /1	1282	...
In percent of government revenue, excluding grant	362	...
In percent of exports /2	182	...

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

1/ After application of traditional debt relief.

2/ Excludes transit goods.

<sup>15</sup> In addition, to grant temporary cash flow relief, creditors decided to capitalize 80 percent, 75 percent, 70 percent and 65 percent of interest accrued in 2005, 2006, 2007, and 2008, respectively, and to extend the repayment period to 23 years with a 7-year grace period.

<sup>16</sup> In addition, the three-year average export-to-GDP ratio and central government revenue-to-GDP ratio were 36¾ percent and 15½ percent, respectively, at end-2004.

<sup>17</sup> These debt ratios differ somewhat from those presented (see [www.imf.org](http://www.imf.org)). The differences are mainly due to (1) updated external debt data, and (2) differences in exchange rates used (in the case of the debt-to-revenue ratio). Regarding the second factor, the HIPC Initiative guidelines specify that for eligibility purposes (as is the case (see [www.imf.org](http://www.imf.org)), average exchange rates be used to convert government revenues into U.S. dollars. However, end-of-period exchange rates should be used for projecting and calculating HIPC Initiative assistance, as is the case for this preliminary document.

40. Debt relief under the enhanced HIPC Initiative would substantially reduce the external debt (Table 4). After full use of traditional debt relief, the NPV of external debt would be reduced to \$1.28 billion, equivalent to 362 percent of central government revenue. Reducing the external debt-to-revenue ratio to the 250 percent HIPC threshold would require total assistance of \$397 million in NPV terms. The implied common reduction factor for all creditors would be 31 percent of exposure (in NPV terms) remaining at end-2004 after full application of traditional debt-relief mechanisms. Based on proportional burden sharing, the contribution in NPV terms from multilateral creditors would amount to \$280 million and relief from bilateral creditors to \$117 million.

41. The staffs' preliminary DSA estimates assume that the Decision Point will be reached by end-2006, with a further two years to Completion Point to allow time to achieve observable reforms in governance prior to completion of assistance.<sup>18</sup> However, it should be recognized that completion could take significantly longer, although with extraordinary effort and commitment, the Government might reach the Completion Point ahead of time. The time profile and the amount of possible enhanced HIPC Initiative assistance are underpinned by the following assumptions:

- A. **Paris Club creditors:** At the Decision Point, the Paris Club would provide interim relief through flow rescheduling on Cologne terms—i.e., a 90 percent reduction in NPV terms. This would be followed by delivery of the remaining required assistance at the Completion Point through a stock-of-debt operation on Cologne terms.
- B. **IDA:** Total relief from IDA would amount to some \$101 million in NPV terms, to be provided (upon approval of the Decision Point document by the Boards of the IMF and IDA) through a reduction in debt service due on debt outstanding and disbursed as of end-2004.
- C. **Asian Development Bank:** Full participation of the AsDB in the enhanced HIPC Initiative is assumed. The AsDB's estimated share of assistance (amounting to \$102 million in NPV terms) is assumed to be provided on similar terms as IDA, through a debt service reduction upon approval of the Decision Point document.

---

<sup>18</sup> During the interim period—between the Decision and Completion Points—bilateral and multilateral creditors are generally expected to provide interim assistance. For bilateral creditors, this implies rescheduling obligations coming due on Cologne terms, while the IMF and IDA provide interim relief in the form of grants used to meet countries' debt service obligations.

- D. **IMF:** Total Fund assistance is estimated at \$54 million in NPV terms, which would be delivered through a debt service reduction following approval of the Decision Point document by the Boards of the IMF and IDA.
- E. **Other creditors:** Other multilateral creditors are assumed to provide their share of relief at the Decision Point or Completion Point through debt service reduction. Non-Paris Club official creditors would provide relief on terms comparable to the Paris Club.

#### **D. Debt Sustainability Analysis**

42. The macroeconomic assumptions used in this analysis reflect the framework underlying the current PRGF-supported program and staff projections through 2024 (Box 3 and Tables 1 and 2). The framework assumes continuation of sound macroeconomic policies—including fiscal consolidation and prudent public debt management—as a necessary condition for sustaining growth. It is premised on moderate economic growth, underpinned by steadfast implementation of structural reforms, particularly in the area of governance, to remove impediments to private investment and economic diversification. In addition, the scenario factors in the recent increase in reserves of the Kumtor goldmine and initiation of exploitation of the Jerooy goldmine. It also assumes that continued benign economic conditions in neighboring Russia, Kazakhstan and China will maintain export growth and the flow of remittances, which currently amount to 13¾ percent of GDP.

43. Under the baseline scenario (which includes the impact of HIPC assistance), external debt sustainability indicators would improve over the medium term (Table 5, Figure 2). Taking into account the phased provision of enhanced HIPC Initiative assistance, the NPV of debt-to-revenue ratio (including new borrowing) would drop below the HIPC threshold and fall steadily to 154 percent in 2011. This profile reflects substantial increases in gold output and strict adherence to the minimum 45 percent grant element requirement for new external public borrowing, as stipulated in the current PRGF-supported program.

44. Assistance under the HIPC Initiative would provide considerable debt service relief to the Kyrgyz Republic over the medium term (Table 6, Figure 2). Including interim assistance, the average annual debt service-to-revenue ratio would fall to 7 percent in 2006–14 after full delivery of HIPC assistance, from 11½ percent after the use of traditional relief. In nominal terms, HIPC assistance would total roughly \$520 million over the projection period, averaging \$38 million a year during 2007–11. Resources freed by this relief would permit a sizable scaling up of poverty reducing spending.<sup>19</sup> Starting from 2015, however,

---

<sup>19</sup> In nominal flow terms, HIPC assistance by multilateral creditors is defined as the reduction in debt service before and after the assistance (assuming there are no arrears). For bilateral creditors, it is defined as the difference between debt service due after traditional debt relief and that after HIPC assistance.



debt service would begin to increase, reflecting an assumption of new borrowing at less concessional terms, lower amount of annual HIPC assistance, and an increase in servicing of earlier rescheduled bilateral debt as part of traditional relief. Debt service would stabilize at 15 percent of government revenues after 2022.

### Box 3. Key Macroeconomic Assumptions Underlying the DSA

Key medium- to long-term macroeconomic assumptions used in the baseline scenario of the DSA are in line with the authorities' debt management strategy. These assumptions include:

- **A rebound of output growth** to  $4\frac{2}{3}$  percent a year in 2006–24, spurred by increases in private investment, a pickup in gold output, and continued benign economic conditions in trading partners. During 2016–24, growth would stabilize around  $4\frac{1}{2}$  percent per year.
- **Fiscal consolidation**, supported by increasing mobilization of domestic resources as tax administration is enhanced and prudent expenditure management is maintained. Accordingly, central government revenues before grants are projected at  $17\frac{3}{4}$  percent of GDP in 2006–10, and would increase gradually to  $18\frac{1}{4}$  percent in 2024.

Reflecting these assumptions along with success in structural reforms and increased private savings, the external current account deficit would decline to 6.1 percent of GDP in 2010 from 8.3 percent in 2005 but increase again to an average of 6.4 percent per year in 2016–24. The current account would be driven by movements in gold exports, while foreign direct investment is expected to be attracted into nontraditional sectors such as tourism, transportation and telecommunications.

**Sensitivity analyses were carried out under three alternative scenarios** corresponding to the following assumptions:

- **Alternative scenario 1 (lower concessionality of further borrowing)**: assumes unfavorable terms for medium-term nonconcessional borrowing—2.5 percentage-point higher interest rates than under the baseline;
- **Alternative scenario 2 (terms-of-trade shock—sharp decline in gold prices)**: characterized by a temporary 40 percent cumulative decline in gold prices in 2007–09 (which would revert thereafter to the baseline price path), accompanied by a currency depreciation and a widening of the current account deficit; and
- **Alternative scenario 3 (rapid energy sector development)**: assumes rapid growth in the energy sector, buoyed by efficiency gains from successful reforms. In this scenario, reforms expand FDI by an additional 1 percentage point of GDP annually and raise long-term growth to 5 percent, from 4.3 percent in the baseline scenario.

### E. Sensitivity Analysis

45. Simulations under three alternative scenarios were conducted to test the sustainability of the external debt after HIPC Initiative assistance (Table 7 and Figure 3).

- The first scenario highlights the sensitivity of debt indicators to the concessionality of new borrowing. Unlike the baseline scenario, new borrowing is contracted on much less favorable terms throughout the projection period—with an assumed 2.5 percentage points higher interest rates on all new borrowing. The NPV of debt-to-revenue ratio would accordingly deviate considerably from the baseline, approaching the HIPC threshold (250 percent) by the end of the projection period. Debt service would become a substantial burden on the public finances and by the end of the period the country would be spending about a quarter of revenues on debt service payments.
- The second scenario illustrates the impact of a temporary sharp decline in gold prices over a three-year period, with gold prices assumed to drop by a cumulative 40 percent in 2007–09, rebounding to the 2006 level by 2011, and increasing thereafter in line with the assumptions of the baseline scenario. Such a shock, which would likely entail currency depreciation, would slow FDI in mining as well as exports and output growth. The shock would also dramatically worsen the debt-to-revenue ratio, breaching the HIPC threshold in 2010–21. The debt service ratios would deteriorate as well, contributing to a further debt buildup.
- The third scenario considers the impact of rapid energy sector growth. Premised upon progress in implementing the *Energy Sector Action Plan*, it envisages \$45 million higher FDI on average than in the baseline in 2008–18 to finance construction of new hydroelectric stations and transmission lines to potential export markets in South Asia. Accompanying second-round effects are included—in the short run, large investments and related construction would spur economic activity; in the medium to long term, new energy sources would come on stream and sustain export growth. Under this scenario, the NPV of debt-to-revenue ratio would decline steadily, reaching 93 percent by 2024. The debt service burden would ease substantially, averaging just below 9 percent of fiscal revenues by the end of the projection horizon.

46. The sensitivity analyses show that the debt solvency and liquidity ratios are vulnerable to external shocks and export performance, as well as to a hardening in the composition and terms of external borrowing. By contrast, comprehensive structural reforms aimed at fostering productivity gains and promoting FDI in areas where the country has a clear comparative advantage could lead to substantial reduction in the debt overhang. The analysis underscores the importance of a strong and sustained domestic reform effort, tangible improvements in governance, prudent debt management strategy, and external assistance on concessional terms.

## **F. Debt Relief Under the MDRI**

47. Upon reaching the Completion Point under the HIPC Initiative, the Kyrgyz Republic would qualify for debt relief from the IMF and IDA under the MDRI. In the case of the Fund, such debt relief would cancel debts disbursed prior to end-2004 and still outstanding after provision of assistance under the HIPC Initiative. Relief under the HIPC Initiative, previously delivered in flow terms over a number of years, would be provided through stock-of-debt reduction at the Completion Point.<sup>20</sup> In the case of IDA, MDRI debt relief would cover all outstanding debt disbursed prior to end-2003, and would start at the beginning of the quarter following confirmation of the country's eligibility by IDA's Executive Board. Thus, IDA would provide debt relief under the MDRI by irrevocably canceling the payment obligations under eligible credits (after any assistance available under the Enhanced HIPC Initiative).

48. Preliminary estimates indicate that the stock of outstanding debt owed to the IMF and IDA after full provision of HIPC assistance, which would be covered by debt relief under the MDRI, could amount to \$446 million (\$64 million owed to the IMF and \$382 million to IDA). The amount of MDRI relief will depend on the date the Kyrgyz Republic reaches the Completion Point. For example, it is estimated that a one year delay in reaching the Completion Point could result in the country foregoing about \$18 million in debt relief.

## **V. THE DECISION AND FLOATING COMPLETION POINTS**

### **A. PRSP Process**

49. The government presented a National Poverty Reduction Strategy (NPRS) for 2003–05, prepared in close collaboration with stakeholders, to the Boards of the IMF and IDA in January 2003, as a medium-term action program for economic, social and political reforms aimed at human development and poverty reduction. The NPRS constituted the first stage of implementation of the Comprehensive Development Framework, comprising a governance reform agenda focused on equity and efficiency of public policies for effective poverty reduction. It also recognized the importance of sustaining and broadening the sources of growth through accelerated economic and governance reforms as the main challenges for achieving the Millennium Development Goals (MDGs). The authorities prepared the second annual progress report on implementation of the NPRS, which was submitted along with the

---

<sup>20</sup> The G-8 countries have committed to cover, on a fair burden-sharing basis, the cost of debt relief for countries that may become eligible for the HIPC Initiative under the extended sunset clause, including the Kyrgyz Republic. Upon reaching the Completion Point, the Kyrgyz Republic would need to formally (a) request MDRI assistance from the IMF; and (b) consent to a revised schedule of any unused HIPC interim assistance that may not have yet been provided by the Completion Point.

staffs' JSAN to the Boards in April 2006. The progress report admitted lapses in policy implementation, but also outlined modalities for resolving these shortcomings in the ongoing update and extension of the poverty reduction strategy.

50. The NPRS emphasized the need to improve public administration, promote fair distribution of health and educational resources, and foster reforms, particularly in the energy and mining sectors. It assigns economic growth and supporting structural reforms a key role in poverty reduction and emphasizes the need to refocus budget expenditures on social sectors so as to have the desired impact on the poor.

51. In the wake of the March 2005 "Tulip Revolution," the new administration began to draft a new poverty reduction strategy (now called the Country Development Strategy). A draft of the CDS has already been shared with the IFIs and is expected to be finalized in fall 2006. Responsibility for coordinating the CDS was transferred in March 2006 from the presidential administration to the ministry of economy and finance. The CDS builds on the NPRS and emphasizes the importance of governance and structural reforms (particularly in reducing systemic corruption, fostering transparency in public financial management, and boosting efficiency in the energy and mining sectors) to improve the business environment, encourage private sector development, and reduce poverty. It is consistent with the broad diagnosis presented above and its implementation would indicate strong government commitment to making real progress in governance reforms a cornerstone for poverty reduction and growth.

### **B. Possible Decision Point Timing**

52. As indicated in the Fund staff's Ex Post Assessment of Longer-Term Program Engagement (*IMF Country Report No. 05/32*), performance under the PRGF-supported program of 2001–04 was satisfactory, despite shortcomings in implementation of previous Fund-supported programs.<sup>21</sup> As noted earlier, the Kyrgyz Republic has made good progress towards macroeconomic and financial stability and has sustained this performance through committed delivery of quantitative targets and structural benchmarks under the current PRGF-supported program. Conditional on the reaching of understandings between the staffs and the authorities on detailed Completion Point triggers (outlined in broad terms in Box 4 below), finalization of the CDS, and continued satisfactory performance under the PRGF-supported program as evidenced by completion of the third review, the staffs recommend that the Decision Point document for the Kyrgyz Republic be considered by the Boards by the end of 2006.

---

<sup>21</sup> Since independence, the Kyrgyz Republic has had five arrangements (including the current PRGF-supported program) with the Fund. These are the May 1993 SBA, the March 1994 ESAF, the June 1998 PRGF, the December 2001 PRGF and the current PRGF approved by the Board in February 2005. Performance under these programs is summarized in the staff's Ex Post Assessment of Longer-Term Program Engagement (*IMF Country Report No. 05/32*).

### **C. Possible Trigger Areas for the Floating Completion Point**

53. The structural reform agenda outlined in section II provides a helpful framework to identify possible Completion Point triggers supported by the authorities (who have already included many of these actions in their draft CDS) and civil society. The staffs of the IMF and IDA have reached preliminary understandings with the authorities on the broad coverage of these trigger areas (Box 4), but more specific measures and monitorable indicators of progress will need to be agreed upon, along with monitoring mechanisms for all the triggers, prior to the Decision Point.

54. While many of the key trigger areas identified in Box 4 below deal with specific areas of poor governance that hamper economic and social development of the Kyrgyz Republic and are major sources of corruption, the authorities, civil society and the staffs of the IMF and IDA recognize that the endemic nature of corruption will require additional specific measures focused at identifying, exposing and reforming corrupt institutions—and taking swift action against corrupt individuals. It will therefore require a collective effort to develop a detailed corruption diagnosis and an implementable action plan to fight corruption directly, and to give civil society the confidence that the authorities are serious in their intentions to reduce corruption.

55. To support the HIPC and MDRI process, careful assessment of improvements in governance based on measurable indicators will be crucial. The envisaged Completion Point triggers, which are in three broad categories—(a) standard triggers (economic management and poverty reduction strategy, and public financial management); (b) governance, energy and mining, the business environment and economic development; and (c) human development, are aimed at strengthening the conditions for pro-poor growth and at facilitating achievement of the MDGs. Progress in implementing these reforms will be an integral part of the policy dialogue with the Fund and IDA going forward. Regarding the SOEs, the staffs emphasize the importance of establishing effective accountability structures as a first step towards enforcing sound standards of corporate governance. The authorities need to implement the Energy Sector Action Plan—including changes in tariff policy—to be agreed with the World Bank, and introduce a transparent fiscal and regulatory regime in the mining sector, consistent with international practices.

## **Box 4. Possible Trigger Areas for the Floating Completion Point<sup>1</sup>**

### **1. Economic Management and Poverty Reduction Strategy**

- **Macroeconomic management:** Maintain macroeconomic stability, evidenced by satisfactory implementation of an ongoing PRGF-supported program.
- **CDS process:** Complete the Country Development Strategy) before the Decision Point (as the NPRS expired in June 2006) and implement the CDS successfully for [x] years, including satisfactory alignment of budget priorities with the CDS.
- **Debt management:** Continue prudent external debt management, shown by compliance with external borrowing ceilings under the PRGF-supported program.

### **2. Public Financial Management**

- **Budget management:** Achieve significant improvements in Public Financial Management by continuing to implement the existing action plan to improve budget preparation, execution, and monitoring of public expenditure, including tracking of poverty related expenditures; among other actions, secure *ex ante* parliamentary approval for all supplementary budgets; adopt and implement an internal audit function, and significantly reduce within year budget revisions. Implement the public procurement law, reduce the number of sole source procurements and step up auditing of large procurements.
- **Public enterprise oversight:** Implement an Integrated Corporate Governance Management Plan to be developed prior to the Decision Point for a number of large state-owned enterprises (SOEs).

### **3. Governance and Transparency**

- **Anti-corruption diagnostic and action plan:** Implement an anti-corruption action plan, based on an in-depth governance and corruption diagnostic prepared by a joint group of experts from government, key donors and representatives of civil society; evaluate success in implementation using (a) one or more objective indicators such as BEEPS, to be determined prior to the Decision Point; and (b) formal monitoring mechanisms (including nongovernment stakeholders) to be established.
- **Public administration:** Empower the Civil Service Agency to manage the competitive selection of civil servants, and make all appointments and dismissals in full compliance with legal and due process requirements. Fully implement the 2004 “Law on Declaration and Publication of Income and Assets of High-level State Officials” and post all declarations on a publicly available website.

### **4. Energy and Mining**

- **Energy sector:** Implement an Energy Sector Action Plan, to be agreed upon with the World Bank prior to the Decision Point, including a schedule of tariff increases and achievement of annual targets to reduce the sector’s quasi fiscal deficit.
- **Mining:** Implement an action plan, developed prior to the Decision Point, to restructure and enhance transparency in the mining sector, including publication of annual audits of KyrgyzAltyn; produce a plan for the transparent management and utilization of the Centerra shares currently held by KyrgyzAltyn (a state enterprise) on behalf of the state; and publish audited financial reports (according to international audit standards) of all payments from mining companies to the government and all mining revenues (including in-kind receipts) received by the government .

#### **Box 4 (concluded). Possible Trigger Areas for the Floating Completion Point**

##### **5. Business Environment**

- **Tax administration:** Enact and adopt the new Tax Code. Finalize and implement a strategy to strengthen tax administration and reduce corruption.
- **Customs administration:** Develop and implement a strategy for strengthening customs administration, including steps to reduce corruption.

##### **6. Economic Development**

- **Transport and infrastructure:** Prepare a prioritized road sector investment plan. Implement the provisions of the laws related to local utilities debt restructuring and finalize and implement the rural water supply sector development strategy.
- **Agriculture:** Strengthen arable and livestock farming through continued land and agrarian reforms, including particularly: ensuring full and clear title to land for all farm land holders; transfer of management responsibility for pasture land to the rural communities and livestock owner associations; strengthen water resources management and irrigation through full implementation of the water code; improve access to credit in agriculture through completion of the transition of KAFC to a private rural bank and strengthening the credit union system.

##### **7. Human Development**

- **Health:** Enhance coverage of key MDG-related health interventions (e.g. pre-natal care, Directly Observed Therapy (DOT) for tuberculosis, and programs for preventing HIV/AIDS) as agreed under the Manas Taalami Health Program.
- **Education:** Improve school attendance and learning achievement in line with achievement of the MDGs on educational attainment, monitored within the framework of the Education for All (EFA) initiative.
- **Social Protection and Pensions:** Introduce a better targeted and administered social assistance system that supports the goals of the CDS and continues to maintain fiscal sustainability of the pension system.

---

1/ This list is indicative only and subject to negotiation prior to the Decision Point.

#### **D. Monitoring the Use of HIPC Initiative Resources**

56. The government intends to monitor spending of resources made available by the HIPC Initiative within the context of an overall push for improvements in public financial management, reporting and transparency. The mechanism for tracking poverty related spending (to be redefined under the CDS) is expected to be in place by the time of the Decision Point, and will require continued efforts to strengthen the programming, execution and control of public expenditures and to improve service delivery and efficiency in several

sectors. In the interests of transparency, it will be necessary to have independent technical and financial audits of budget execution to ensure the effective use of HIPC Initiative resources for poverty reduction, and all such audits should be published.

57. Indicative spending areas—with a heavy tilt towards mitigating poverty and consistent with envisaged improvements in governance and transparency in public administration and the other broad objectives of the CDF—will be identified in the CDS. This should empower local communities to participate in defining development priorities and strategies, an essential element of the participatory process. In line with the recommendations of the Public Expenditure Review (PER) published in 2004, HIPC Initiative financing from debt relief is likely to be focused on program areas outlined in Box 5.<sup>22</sup>

## VI. ISSUES FOR DISCUSSION

58. This paper presents a preliminary assessment of the Kyrgyz Republic's eligibility for assistance under the enhanced HIPC Initiative. Executive Directors' views and guidance are sought in particular on the following issues:

- **Eligibility:** Do Directors consider the Kyrgyz Republic to be eligible for assistance under the enhanced HIPC Initiative?
- **Long-term effectiveness of HIPC assistance:** Do Directors agree that conditions of governance in the Kyrgyz Republic will enable the country to benefit from HIPC assistance through an effective long term reform program?
- **Timing of the Decision Point:** Do Directors agree that the Kyrgyz Republic could reach its Decision Point by late 2006, provided that (a) policy performance under the PRGF-supported program is satisfactory; (b) the new CDS is completed; (c) an adequate system for tracking poverty related spending and use of HIPC resources is put in place; and (d) understandings are reached on a set of Completion Point triggers?
- **Floating Completion Point:** What are Directors' views on possible triggers and key policy measures (against which satisfactory performance would have to be measured) linked to the floating completion point?

---

<sup>22</sup> The World Bank's 2004 PER, which identified lapses in social spending and capital maintenance, outlined necessary steps for improving expenditure management and achieving the twin goals of fiscal consolidation and poverty reduction. According to the findings of the Bank's ongoing Programmatic Expenditure Review (PPER), enhancements in strategic planning by spending agencies, flexibility in budgeting practices, and improved prioritization and targeting of spending would be crucial. An action plan for achieving these objectives is being developed by the ministry of economy and finance, supported by the PPER.



### **Box 5. Possible Medium-Term Expenditure Priorities**

#### **Governance**

- Finance the creation of a professional civil service equipped to significantly strengthen implementation capacity, accountability and transparency.
- Modernize business processes in the Treasury and Budget divisions of the ministry of economy and finance as an essential step towards improving public financial management and budgeting.

#### **Social Protection**

- Promote job creation by furthering employment training and retraining.
- Enhance efficiency and targeting of the social assistance system, and fiscal sustainability and administration of the pension system.

#### **Health**

- Ensure availability of health care services in all regions of the country.
- Support and improve funding of the health care sector.
- Rehabilitate and computerize health care institutions.
- Reduce infant and maternal mortality and child poverty.

#### **Education**

- Promote accessibility of universal basic education.
- Build and enhance maintenance of public schools and educational facilities, particularly in rural areas.
- Increase the number and professional quality of teachers.

#### **Infrastructure development**

- Minimize the physical impact of natural disasters (by strengthening riverbanks, mudslide dams, etc.).
- Rehabilitate important access roads and bridges.

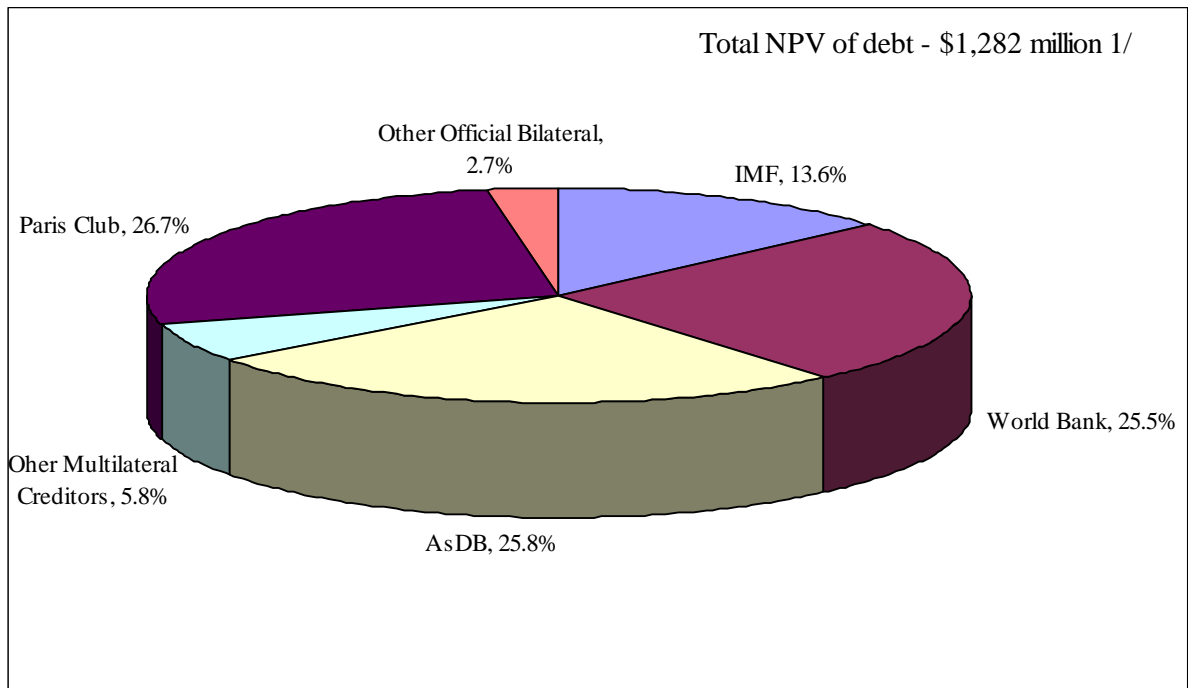
#### **Rural infrastructure development**

- Develop water management and supply to boost farm productivity of irrigated land.
- Develop micro financing facilities to support acquisition of technical equipment and machinery by farmers.
- Upgrade infrastructure in remote areas.

**APPENDIX—DEBT MANAGEMENT CAPACITY**

1. The public debt and assets department of the ministry of economy and finance (MoEF) is responsible for debt management. It systematically monitors the stock, disbursements, principal and interest payments – both actual and falling due – on public debt. The National Bank of the Kyrgyz Republic (NBKR) collects information on external debt, including private sector debt, and external sector statistics.
2. The MoEF has adequate technical and human resources to effectively monitor and manage the public debt. Its debt management capacity has improved significantly during the last two PRGF-supported programs, where achieving debt sustainability was one of the program's key objectives. It has strengthened also due to two consecutive Paris Club agreements in 2002 and 2005. The end-2004 loan-by-loan debt data provided by the authorities and used by the staffs of the IMF and the World Bank for the recent ring-fencing exercise revealed high degree of accuracy during its reconciliation. Debt management has been supported under a joint technical assistance (TA) program provided by the IMF and the Swiss government since 2000. The TA has been directed at improving debt management capacity of the MoEF through both establishing a sound legislative framework and a computer systems support along with training for better data collection, registration and analysis, which brought tangible benefits.
3. While the debt management capacity is overall adequate, the MoEF and the NBKR should direct their efforts at (a) building analytical and debt management capacity, including the ability to conduct DSAs that require macroeconomic analysis and knowledge of relevant software packages, such as DebtPro; (b) upgrading the current computer system and developing an intermediate database for all on-lending activities; and (c) enhancing coordination between the MoEF and the NBKR in debt monitoring and analysis. In addition, the MoEF should build capacity to collect and monitor loan-by-loan data on public enterprise debts that have not received government guarantees.

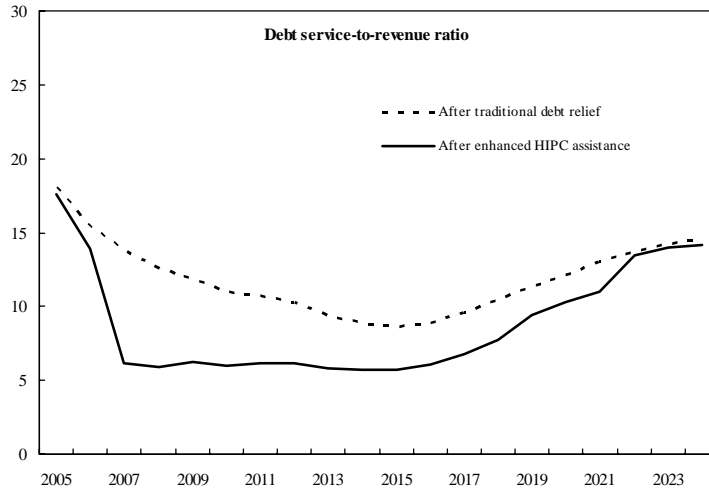
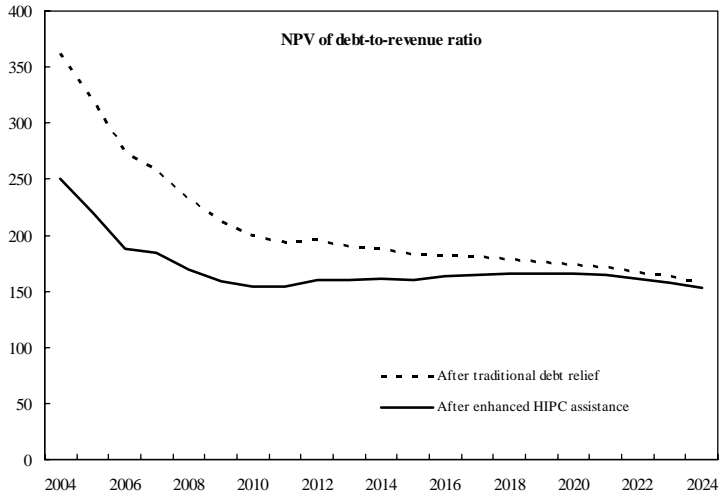
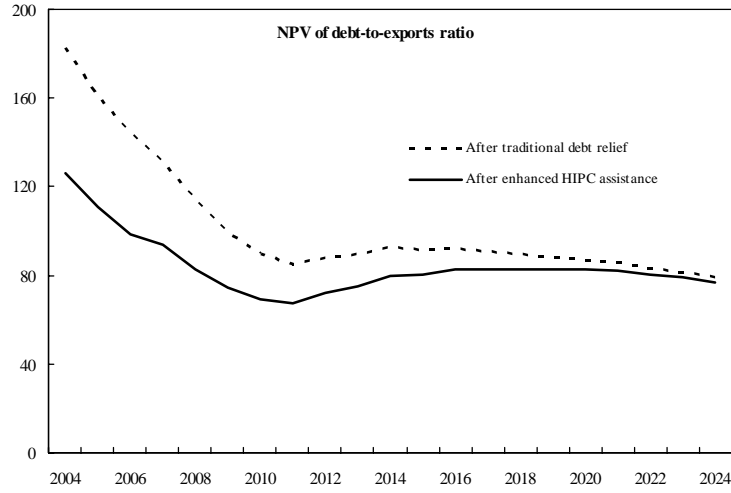
Figure 1. Kyrgyz Republic: Net Present Value of Outstanding Debt at end-2004  
by Creditor Group 1/



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

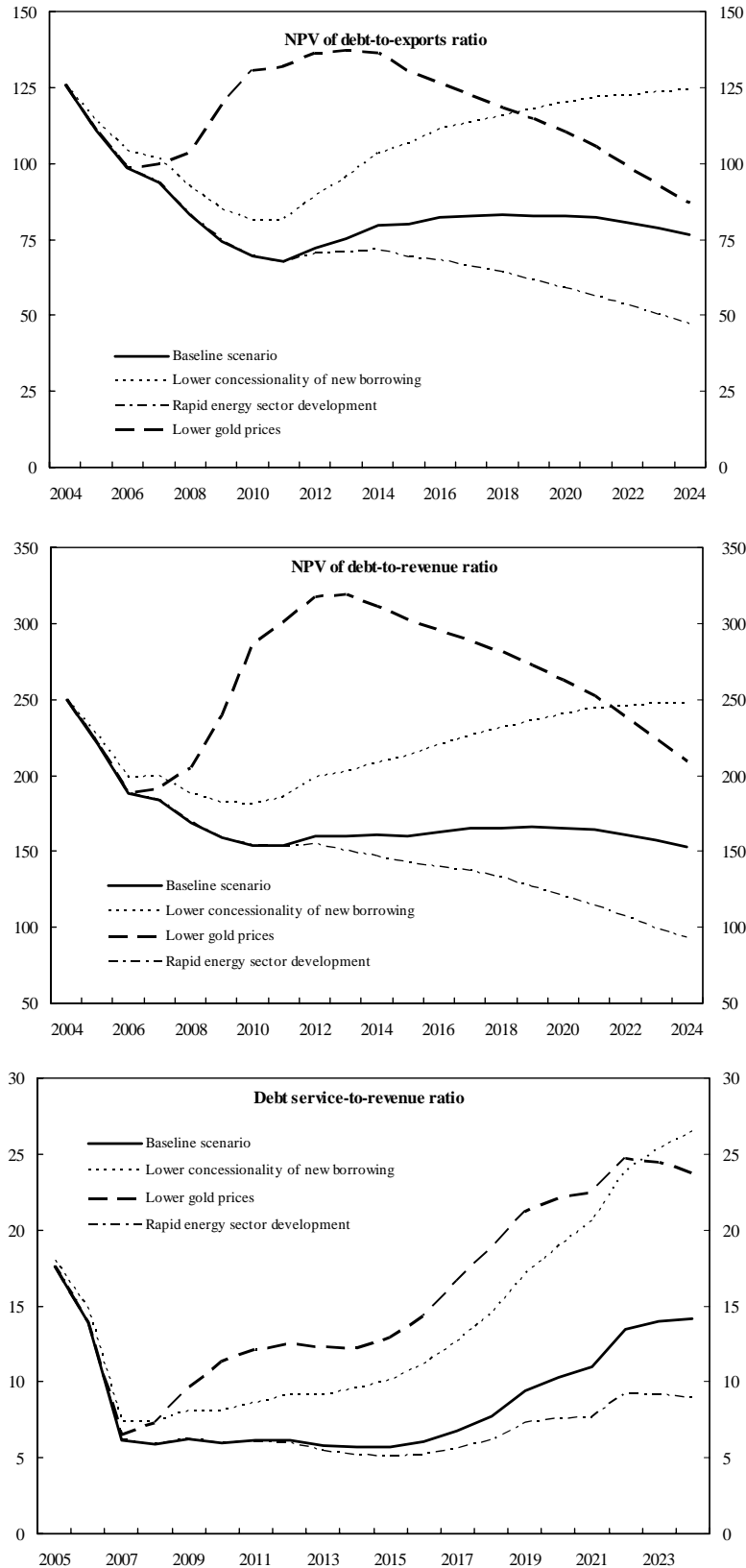
1/ Assumes a hypothetical stock of debt operation on Naples terms at end-2004 on all Paris Club creditors and comparable treatment for other bilateral creditors.

Figure 2. Kyrgyz Republic: External Debt Indicators for Medium- and Long-Term Public Sector Debt, 2004–24 (In percent)



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

Figure 3. Kyrgyz Republic: Sensitivity Analysis, 2004–24  
(In percent)



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

Table 1. Kyrgyz Republic: Selected Economic Indicators, 2003–07

	2003	2004	2005	2006		2007
	Actual	Actual	Actual	IMF Country Report 06/235	Rev. Proj.	Proj.
Nominal GDP (in billions of soms)	83.9	94.4	100.1	111.1	110.1	121.3
Nominal GDP (in millions of U.S. dollars)	1,921	2,216	2,441	2,646	2,751	3,071
Real GDP (growth in percent)	7.0	7.0	-0.6	5.0	4.0	5.5
GDP per capita (in U.S. dollars)	381	435	473	508	528	583
Consumer prices (percent change, eop)	5.6	2.8	4.9	5.7	5.7	4.5
Consumer prices (percent change, average)	3.1	4.1	4.3	5.7	5.7	4.5
Unemployment rate	8.9	9.0	9.7	...	...	...
Poverty rate (consumption approach)	50	46	44	...	...	...
GINI coefficient	0.33	0.33	...	...	...	...
Investment and savings (in percent of GDP)						
Investment	20.5	20.9	21.8	22.6	22.8	23.2
Public	4.8	4.5	4.2	4.4	4.4	4.5
Private	15.8	16.4	17.6	18.2	18.4	18.7
Savings	16.4	17.4	13.4	15.8	11.8	13.3
Public	-0.9	-0.1	-0.2	0.9	0.9	0.8
Private	17.3	17.6	13.6	14.9	10.9	12.5
Savings/Investment balance	4.1	3.4	8.3	6.8	11.0	9.8
General government finances (in percent of GDP) 1/						
Total revenue and grants	22.2	23.1	24.3	24.0	24.9	24.8
Tax revenue	17.7	18.3	20.2	19.2	20.2	20.5
Total expenditure (including net lending)	27.0	27.5	28.2	27.1	28.1	28.0
Of which: Current expenditure	22.7	23.5	24.5	23.1	24.0	24.0
Capital expenditure	4.8	4.5	4.2	4.4	4.4	4.5
Overall fiscal balance (cash basis)	-4.9	-4.5	-3.9	-3.1	-3.2	-3.2
Primary balance excluding grants	-3.9	-3.9	-2.8	-3.3	-2.9	-2.9
Banking sector 2/						
Net foreign assets (percent change, eop)	50.0	108.7	20.1	12.5	23.3	23.3
Net domestic assets (percent change, eop)	5.8	-52.3	54.5	35.4	84.1	84.1
Credit to private sector (in percent of GDP)	4.7	7.0	8.0	8.6	10.5	10.5
Broad money (percent change, eop)	34.5	33.6	25.5	17.0	35.1	35.1
Velocity of broad money 3/	6.0	5.6	4.7	4.4	3.8	3.8
Interest rate 4/	23.0	24.3	25.7	...	...	...
External sector						
Current account balance (in percent of GDP)	-4.1	-3.4	-8.3	-6.8	-11.0	-9.8
Export of goods and services (million USD)	745	943	942	1,072	1,101	1,299
Export growth (percent change)	16.4	26.6	-0.1	13.8	16.9	18.0
Import of goods and services (million USD)	875	1,127	1,397	1,607	1,786	2,042
Import growth (percent change)	15.7	28.8	23.9	13.1	27.9	14.3
Gross official reserves (million USD)	359	544	609	627	721	813
Gross reserves (months of imports, eop)	3.8	4.7	4.1	4.4	4.2	4.3
External public debt outstanding (in percent of GDP)	92	88	82	78	75	70
Public debt service-to-export ratio (in percent)	15.7	9.4	13.6	5.6	7.9	6.6
Memorandum items						
Exchange rate (soms per U.S. dollar, average)	43.7	42.6	41.0	...	...	...
Real effective exchange rate						
Index (1995=100)	73.7	71.4	72.1	...	...	...

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

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

2/ Projections are based on program exchange rates specified in the Technical Memorandum of Understanding.

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

4/ Weighted average interest rate on som denominated loans.

Table 2. Kyrgyz Republic: Selected Long-term Macroeconomic Indicators, 2005–24.

	2005	2006	2007	2010	2015	2024	Averages			
							2000–05	2006–10	2011–15	2016–24
	(in units indicated)									
Real GDP growth (percent change)	-0.6	4.0	5.5	5.0	4.5	4.25	4.0	5.6	3.9	4.4
GDP per capita (in U.S. dollars)	473	528	583	763	988	1,671	366	646	886	1,381
Population (millions)	5.2	5.2	5.3	5.4	5.8	6.4	5.0	5.3	5.6	6.1
percent change	1.0	1.1	1.1	1.1	1.2	1.0	1.0	1.1	1.2	1.1
Consumer prices (percent change, average)	4.3	5.7	4.5	4.0	4.0	4.0	6.5	4.4	4.0	4.0
	(in percent of GDP)									
Consumption	97.8	103.1	102.1	94.6	93.6	88.4	88.4	98.8	94.2	90.3
Government	19.5	19.1	19.1	18.9	18.9	19.1	18.7	19.0	19.0	19.0
Private	78.3	84.0	82.9	75.7	74.7	69.3	69.8	79.8	75.2	71.3
Gross Investment	21.8	22.8	23.2	23.0	25.4	25.5	20.5	23.0	25.0	25.6
Government	4.2	4.4	4.5	5.0	5.0	5.0	5.5	4.7	5.0	5.0
Private	17.6	18.4	18.7	18.0	20.4	20.5	15.0	18.3	20.0	20.6
Net exports of goods and services	-19.6	-25.9	-25.2	-17.6	-19.0	-13.9	-8.7	-21.8	-19.1	-15.9
Exports	37.7	39.0	41.3	45.5	39.4	36.2	39.3	43.2	40.9	38.3
<i>Of which:</i> Gold	9.5	6.8	9.4	16.9	6.0	4.3	12.5	12.9	9.0	5.3
Imports	57.2	64.9	66.5	63.1	58.4	50.1	48.1	65.0	60.0	54.2
Gross national savings	13.4	11.8	13.3	16.9	17.3	19.9	16.1	14.7	17.0	19.2
Total revenue, including grants	24.3	24.9	24.8	25.1	25.5	26.5	21.9	25.1	25.4	26.1
<i>Of which:</i> tax revenue	20.2	20.2	20.5	21.2	21.7	22.7	17.4	20.7	21.5	22.3
Total expenditure (including net lending)	28.2	28.1	28.0	28.1	28.2	28.6	27.6	28.0	28.2	28.4
<i>Of which:</i> Current expenditure	24.5	24.0	24.0	23.6	23.6	24.1	22.7	23.7	23.7	23.9
Capital expenditure	4.2	4.4	4.5	5.0	5.0	5.0	5.5	4.7	5.0	5.0
Overall fiscal balance	-3.9	-3.2	-3.2	-3.0	-2.7	-2.1	-5.7	-2.9	-2.8	-2.3
Primary balance excluding grants	-2.8	-2.9	-2.9	-2.5	-2.0	-1.0	-4.8	-2.8	-2.2	-1.4
External current account balance	-8.3	-11.0	-9.8	-6.1	-8.1	-5.6	-4.4	-8.3	-7.9	-6.4
<i>Of which:</i> Trade balance (Goods and nonfactor service)	-18.6	-24.9	-24.2	-16.4	-18.0	-14.2	-8.7	-20.7	-18.1	-15.4
Exports, f.o.b.	38.6	40.0	42.3	46.6	40.4	40.5	39.3	44.3	41.9	40.7
Imports, f.o.b.	57.2	64.9	66.5	63.0	58.5	54.7	48.1	65.0	60.0	56.1
Capital and financial account balance	10.3	15.3	13.2	8.6	8.8	6.4	5.0	11.9	9.2	7.3
Overall external balance	2.0	4.3	3.3	2.5	0.7	0.8	0.6	3.6	1.2	0.9
	(in millions of U.S. dollars)									
Memorandum items:										
Nominal GDP	2,441	2,751	3,071	4,149	5,702	10,655	1,846	3,444	5,001	8,531
Central government revenue before grants	409	487	532	747	1,024	1,935	268	610	898	1,544
Exports of goods and services	942	1,101	1,299	1,934	2,306	4,314	734	1,540	2,088	3,470
Imports of goods and services	1,397	1,786	2,042	2,616	3,333	5,825	906	2,235	2,995	4,768

Sources: Kyrgyz authorities; and Bank-Fund staff estimates.

Table 3. Kyrgyz Republic: Nominal Stock and Net Present Value of Debt at end-2004 by Creditor Groups

	Nominal Debt Stock		NPV of Debt		NPV of Debt after Traditional Debt Relief 1/	
	Millions of	Percent	Millions of	Percent	Millions of	Percent
	U.S. dollars	of total	U.S. dollars	of total	U.S. dollars	of total
<b>Total</b>	<b>1,954</b>	<b>100</b>	<b>1,481</b>	<b>100</b>	<b>1,282</b>	<b>100</b>
Multilateral	1,343.2	68.7	905.4	61.1	905.4	70.6
IMF	206.9	10.6	173.7	11.7	173.7	13.6
World Bank Group	580.4	29.7	326.5	22.0	326.5	25.5
IBRD	0.0	0.0	0.0	0.0	0.0	0.0
IDA	580.4	29.7	326.5	22.0	326.5	25.5
AsDB	465.7	23.8	330.6	22.3	330.6	25.8
Other multilaterals	90.1	4.6	74.6	5.0	74.6	5.8
IFAD	9.4	0.5	5.3	0.4	5.3	0.4
NDF	6.9	0.4	3.5	0.2	3.5	0.3
EBRD	36.5	1.9	36.0	2.4	36.0	2.8
ISDB	30.3	1.6	23.5	1.6	23.5	1.8
OPEC	7.0	0.4	6.4	0.4	6.4	0.5
Bilateral	610.5	31.3	575.7	38.9	376.3	29.4
Paris Club:	541.6	27.7	517.2	34.9	342.2	26.7
Post-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0
ODA	0.0	0.0	0.0	0.0	0.0	0.0
Non-ODA	0.0	0.0	0.0	0.0	0.0	0.0
Pre-cutoff date	541.6	27.7	517.2	34.9	342.2	26.7
ODA	293.8	15.0	281.3	19.0	260.3	20.3
Non-ODA	247.9	12.7	235.8	15.9	81.9	6.4
Denmark	5.9	0.3	5.5	0.4	1.9	0.2
France	5.7	0.3	5.1	0.3	4.1	0.3
Germany	51.7	2.6	36.5	2.5	19.6	1.5
Japan	249.9	12.8	253.3	17.1	241.1	18.8
Russia	181.8	9.3	179.5	12.1	60.1	4.7
Turkey	46.7	2.4	37.3	2.5	15.4	1.2
Other Official Bilateral:	68.9	3.5	58.5	3.9	34.1	2.7
Post-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0
ODA	0.0	0.0	0.0	0.0	0.0	0.0
Non-ODA	0.0	0.0	0.0	0.0	0.0	0.0
Pre-cutoff date	68.9	3.5	58.5	3.9	34.1	2.7
ODA	47.0	2.4	37.5	2.5	26.9	2.1
Non-ODA	21.9	1.1	21.0	1.4	7.2	0.6
China	13.6	0.7	10.2	0.7	5.6	0.4
India	1.0	0.1	0.8	0.1	0.3	0.0
Korea	16.5	0.8	11.4	0.8	8.4	0.7
Kuwait Fund	16.9	0.9	15.8	1.1	13.0	1.0
Pakistan	9.3	0.5	9.0	0.6	3.1	0.2
Uzbekistan	11.6	0.6	11.2	0.8	3.8	0.3
Memorandum items:						
Total debt in percent of GDP	88.2	...	66.9	...	57.9	...
Total debt in percent of revenue 2/	552.1	...	418.5	...	362.2	...
Total debt in percent of exports of goods and services 3/	278.0	...	210.8	...	182.4	...

Sources: Kyrgyz authorities and staff estimates.

1/ Includes a stock-of-debt operation on Naples terms at end-2004 and at least comparable action by other official bilateral and commercial creditors on eligible debt (pre-cutoff and non-ODA).

2/ Revenues are defined as central government revenues, excluding grants.

3/ Based on the three-year backward looking average of exports of goods and services, excluding transit goods (2002-04).



Table 4. Kyrgyz Republic HIPC Initiative:  
Assistance Levels Under a Proportional Burden-Sharing Approach 1/  
(In millions of U.S. dollars in end-2004 NPV terms; unless otherwise indicated) 2/

	Total	Multilaterals	Bilaterals	Common Reduction Factor 3/ (In percent)
NPV of debt-to-revenue target (in percent)	250			
Debt relief under baseline scenario	397	280	117	30.98
NPV of debt 4/	1282	905	376	
Revenue - year 2004 5/	354			
NPV of debt-to-revenue ratio (in percent)	362			
Three-year export average (2002–04) 6/	703			
NPV of debt-to-export ratio (in percent)	182			

Sources: Kyrgyz authorities and staff estimates and projections.

1/ Assumes proportional burden-sharing as described in "HIPC Initiative: Estimated Costs and Burden-Sharing Approaches," that is, after full application of traditional debt relief mechanisms.

2/ Using six-month backward-looking discount rates at end-2004, and end-2004 exchange rates.

3/ Each creditor's NPV reduction in percent of its exposure at end-2004 (after hypothetical stock-of-debt operation on Naples terms at the end-2004).

4/ After a hypothetical stock-of-debt operation on Naples terms based on end-2004 data with comparable treatment from non-Paris club creditors.

5/ Revenues are defined as central government revenues, excluding grants.

6/ Based on the three-year backward looking average of exports of goods and services, excluding transit goods (2002–04).



Table 5 (concluded). Kyrgyz Republic: Net Present Value of External Debt, 2004–24 1/

(In millions of U.S. dollars; unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2015	2024	2006–14	2015–24
	Actual	Projected						Average			
Multilateral	905	881	856	548	539	526	516	491	345	553	447
AsDB	331	336	340	233	234	234	233	226	157	244	203
IDA	327	333	337	231	235	238	240	251	182	252	234
IMF	174	148	126	57	47	36	25	0	0	35	0
Others	75	64	54	28	24	18	17	14	6	22	10
NPV of new debt	0	50	102	158	219	287	363	867	2376	392	1609
Memorandum items:											
Old Debt											
NPV of debt-to-exports ratio (percent) 2/	210.8	162.8	139.9	96.4	65.5	54.5	47.5	37.8	15.0	63.3	26.4
NPV of debt-to-revenue ratio (percent) 3/	418.5	324.1	267.1	189.0	133.3	116.9	105.3	75.5	29.9	130.2	52.6
Total Debt											
NPV of debt-to-exports ratio (percent) 2/	210.8	169.0	150.9	111.5	83.2	74.3	69.3	80.1	76.7	87.1	81.2
NPV of debt-to-revenue ratio (percent) 3/	418.5	336.4	288.1	218.8	169.4	159.1	153.9	160.3	152.6	180.5	162.0
<b>After unconditional delivery of enhanced HIPC assistance 6/</b>											
NPV of total debt	885	901	917	979	1022	1083	1150	1640	2953	1184	2324
NPV of old debt	885	851	815	820	803	795	787	773	578	791	715
Official bilateral and commercial	260	262	264	276	267	269	271	282	233	273	268
Paris Club	236	240	244	248	252	254	256	266	214	255	250
Other official bilateral	24	21	19	17	15	15	16	16	19	16	18
Commercial	0	0	0	10	0	0	0	0	0	1	0
Multilateral	625	589	552	545	536	526	516	491	345	519	447
AsDB	227	229	229	233	234	234	233	226	157	231	203
IDA	225	227	227	231	235	238	240	251	182	240	234
IMF	121	93	68	57	47	36	25	0	0	29	0
Others	52	40	28	24	21	18	17	14	6	19	10
NPV of new debt	0	50	102	158	219	287	363	867	2376	392	1609
Memorandum items:											
Old Debt											
NPV of debt-to-exports ratio (percent) 2/	125.9	104.6	87.6	78.6	65.2	54.5	47.5	37.7	15.0	55.5	26.4
NPV of debt-to-revenue ratio (percent) 3/	250.0	208.2	167.3	154.3	132.8	116.9	105.3	75.5	29.9	115.1	52.6
Total Debt											
NPV of debt-to-exports ratio (percent) 2/	125.9	110.8	98.6	93.8	82.9	74.2	69.3	80.1	76.7	79.3	81.2
NPV of debt-to-revenue ratio (percent) 3/	250.0	220.5	188.3	184.0	168.9	159.1	153.8	160.3	152.6	165.4	162.0
Exports of goods and services 7/	880	881	1031	1217	1449	1710	1818	2179	4116	1655	3076
Three-year export average 8/	703	814	931	1043	1232	1459	1659	2048	3851	1532	2873
Central government revenue 9/	354	409	487	532	605	681	747	1024	1935	724	1439
GDP	2215	2441	2751	3071	3431	3819	4149	5702	10655	4058	7961

Sources: Kyrgyz authorities and staff estimates and projections.

1/ Refers to public and publicly guaranteed external debt only and is discounted on the basis of the average commercial interest reference rate for the respective currency derived over the six-month period prior to the latest date for which actual data are available (December 2004).

2/ NPV of debt in percent of three-year average of exports of goods and nonfactor services, excluding transit goods.

3/ NPV of debt in percent of central government revenues, excluding grants.

4/ Assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) as of end-2004 and at least comparable action by other official bilateral and commercial creditors.

5/ For the bilateral creditors, assumes the implementation of 2005 Paris Club agreement for Paris Club creditors, then a Cologne flow operation during the interim period (December 2006–December 2008) followed by a Cologne stock operation at the completion point. Multilateral creditors are assumed to provide debt relief as of the decision point, except for the NDF and IFAD, for which the delivery would start at the completion point.

6/ NPV of the debt shows the results of the (hypothetical) unconditional commitment and delivery of enhanced HIPC assistance at end-2004.

7/ As defined in IMF, Balance of Payments Manual, 5th edition, 1993. Excludes transit goods.

8/ Three-year backward looking average of exports of goods and nonfactor services, excluding transit goods.

Table 6. Kyrgyz Republic: External Debt Service, 2005–24 1/

(In millions of U.S. dollars; unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2015	2024	2006–14	2015–24
	Average									
<b>Before traditional debt relief</b>										
Total	114.0	115.4	112.9	116.7	123.6	110.9	110.7	268.7	114.4	184.4
Principal	82.4	84.8	83.0	86.9	93.8	81.2	72.8	173.0	83.0	118.5
Multilateral	48.8	49.6	47.6	49.6	53.0	53.4	35.5	46.9	47.8	45.7
AsDB	0.8	2.5	3.4	8.3	10.3	13.0	14.9	18.5	10.4	19.0
IDA	4.6	6.5	9.1	9.9	11.9	12.9	18.4	27.8	12.1	24.9
IMF	32.4	28.9	25.0	23.0	22.9	23.5	0.0	0.0	19.4	0.0
Others	11.1	11.7	9.9	8.4	7.9	3.9	2.2	0.7	5.9	1.8
Official bilateral	33.6	35.2	35.4	37.3	40.8	27.8	28.0	10.4	32.9	23.6
Paris Club	30.0	31.5	32.9	34.4	37.0	24.0	24.7	9.6	28.9	21.6
Non-Paris Club	3.6	3.7	2.6	2.9	3.8	3.8	3.3	0.8	4.0	2.0
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt	0.0	0.0	0.0	0.0	0.0	0.0	9.4	115.7	2.3	49.2
Interest	31.6	30.6	30.0	29.8	29.8	29.7	37.9	95.6	31.4	65.9
Multilateral	12.7	12.0	11.3	11.0	10.5	9.5	7.7	3.9	9.9	5.9
AsDB	4.7	4.6	4.6	4.9	4.8	4.9	4.1	2.1	4.7	3.1
IDA	4.3	4.3	4.3	4.2	4.1	4.0	3.5	1.8	4.0	2.7
IMF	1.0	0.8	0.7	0.5	0.4	0.3	0.0	0.0	0.3	0.0
Others	2.7	2.3	1.8	1.5	1.2	0.3	0.1	0.1	0.9	0.1
Official bilateral	18.0	16.5	15.4	14.3	13.1	12.1	7.5	0.7	12.3	4.0
Paris Club	15.9	15.0	14.0	13.0	11.9	11.0	6.9	0.6	11.2	3.7
Non-Paris Club	2.1	1.6	1.4	1.3	1.2	1.1	0.6	0.1	1.1	0.3
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt	0.9	2.0	3.2	4.4	6.2	8.1	22.7	91.0	9.3	56.0
<b>After traditional debt relief mechanisms 2/</b>										
Total	73.6	74.9	73.3	76.3	80.9	82.2	88.1	280.4	80.8	173.7
Principal	48.8	49.6	47.6	49.6	53.0	53.4	46.7	176.9	50.4	101.7
Multilateral	48.8	49.6	47.6	49.6	53.0	53.4	35.5	46.9	47.8	45.7
AsDB	0.8	2.5	3.4	8.3	10.3	13.0	14.9	18.5	10.4	19.0
IDA	4.6	6.5	9.1	9.9	11.9	12.9	18.4	27.8	12.1	24.9
IMF	32.4	28.9	25.0	23.0	22.9	23.5	0.0	0.0	19.4	0.0
Others	11.1	11.7	9.9	8.4	7.9	3.9	2.2	0.7	5.9	1.8
Official bilateral	0.0	0.0	0.0	0.0	0.0	0.0	1.8	14.3	0.4	6.7
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	1.7	12.8	0.3	6.1
Non-Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.4	0.0	0.6
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt	0.0	0.0	0.0	0.0	0.0	0.0	9.4	115.7	2.3	49.2
Interest	24.8	25.3	25.7	26.7	27.9	28.8	41.4	103.5	30.3	72.0
Multilateral	12.7	12.0	11.3	11.0	10.5	9.5	7.7	3.9	9.9	5.9
AsDB	4.7	4.6	4.6	4.9	4.8	4.9	4.1	2.1	4.7	3.1
IDA	4.3	4.3	4.3	4.2	4.1	4.0	3.5	1.8	4.0	2.7
IMF	1.0	0.8	0.7	0.5	0.4	0.3	0.0	0.0	0.3	0.0
Others	2.7	2.3	1.8	1.5	1.2	0.3	0.1	0.1	0.9	0.1
Official bilateral	11.2	11.2	11.2	11.2	11.2	11.2	11.0	8.5	11.2	10.1
Paris Club	9.8	9.8	9.8	9.8	9.8	9.8	9.6	7.3	9.7	8.7
Non-Paris Club	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.2	1.4	1.3
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt	0.9	2.0	3.2	4.4	6.2	8.1	22.7	91.0	9.3	56.0
<b>After enhanced HIPC assistance 3/</b>										
Total	71.8	67.9	33.0	35.4	42.7	44.5	58.4	274.1	47.6	150.7
Principal	55.1	52.0	23.6	25.0	26.2	26.8	27.0	175.1	29.1	86.4
Multilateral	48.8	49.6	23.6	25.0	26.2	26.8	17.4	46.9	26.6	29.9
AsDB	0.8	2.5	1.7	4.0	5.0	6.3	7.1	18.5	5.2	12.3
IDA	4.6	6.5	4.5	4.8	5.8	6.3	9.0	27.8	6.2	16.4
IMF	32.4	28.9	13.3	12.2	12.1	12.5	0.0	0.0	11.8	0.0
Others	11.1	11.7	4.2	3.9	3.3	1.7	1.3	0.7	3.4	1.3

Table 6 (concluded). Kyrgyz Republic: External Debt Service, 2005–24 1/

(In millions of U.S. dollars; unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2015	2024	2006–14 Average	2015–24 Average
Official bilateral 4/	6.3	2.4	0.0	0.0	0.0	0.0	0.2	12.5	0.3	7.3
Paris Club	2.7	0.0	0.0	0.0	0.0	0.0	0.2	12.3	0.0	7.3
Non-Paris Club	3.6	2.4	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.0
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt	0.0	0.0	0.0	0.0	0.0	0.0	9.4	115.7	2.3	49.2
Interest	16.7	15.9	9.3	10.4	16.5	17.8	31.5	99.0	18.5	64.2
Multilateral	12.7	12.0	5.9	5.7	5.3	4.7	3.7	3.9	5.6	3.5
AsDB	4.7	4.6	2.2	2.3	2.3	2.4	2.0	2.1	2.5	1.9
IDA	4.3	4.3	2.1	2.0	2.0	2.0	1.7	1.8	2.2	1.6
IMF	1.0	0.8	0.7	0.5	0.4	0.3	0.0	0.0	0.3	0.0
Others	2.7	2.3	0.9	0.8	0.6	0.1	0.0	0.1	0.5	0.1
Official bilateral 4/	3.1	1.8	0.3	0.3	5.0	5.0	5.0	4.1	3.6	4.7
Paris Club	1.0	0.8	0.0	0.0	4.4	4.4	4.4	3.5	3.0	4.1
Non-Paris Club	2.1	1.0	0.3	0.3	0.6	0.6	0.6	0.6	0.6	0.6
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt	0.9	2.0	3.2	4.4	6.2	8.1	22.7	91.0	9.3	56.0
Reduction in debt service as a result of:										
traditional debt relief mechanisms 5/	...	...	39.7	40.4	42.7	28.7	22.6	-11.7	32.8	10.7
HIPC Initiative assistance 6/	...	...	40.3	40.9	38.2	37.6	29.7	6.3	36.4	23.0
Memorandum items:										
Central government revenue, excluding grants	409	487	532	605	681	747	1,024	1,935	724	1,439
Debt service-to-revenue ratio before debt relief (in percent)	27.9	23.7	21.2	19.3	18.2	14.8	10.8	13.9	16.6	12.6
Debt service-to-revenue ratio after traditional debt relief (in percent)	...	15.4	13.8	12.6	11.9	11.0	8.6	14.5	11.6	11.7
Debt service-to-revenue ratio after HIPC relief (in percent)	...	13.9	6.2	5.9	6.3	6.0	5.7	14.2	6.9	9.9
Debt relief under traditional mechanisms and HIPC Initiative	...	...	80.0	81.3	81.0	66.3	52.3	-5.4	69.3	33.7

Sources: Kyrgyz authorities and staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed debt.

2/ Assumes a hypothetical stock-of-debt operation on Naples terms at end-2004.

3/ Completion point is assumed to be reached in December 2008.

4/ Includes the implementation of the 2005 Paris Club agreement by Paris club creditors.

5/ Measured as the difference between the projected debt service before and after full use of traditional debt relief.

6/ Measured as the difference between the projected debt service after full use of traditional debt relief and after the application of HIPC assistance.

Table 7. Kyrgyz Republic: External Debt Indicators and Sensitivity Analysis, 2005–24 1/

	2004	2005	2006	2007	2008	2009	2010	2015	2024	Average	
										2006–14	2015–24
(In millions of U.S. dollars; unless otherwise indicated)											
<b>Baseline scenario</b>											
NPV of debt-to-revenue ratio 2/	250.0	220.5	188.3	184.0	168.9	159.1	153.8	160.3	152.6	165.4	162.0
NPV of debt-to-exports ratio 3/	125.9	110.8	98.6	93.8	82.9	74.2	69.3	80.1	76.7	79.3	81.2
Debt service-to-exports ratio 4/	...	8.2	6.6	2.7	2.4	2.5	2.5	2.7	6.7	3.0	4.6
Debt service-to-revenues ratio 2/	...	17.6	13.9	6.2	5.9	6.3	6.0	5.7	14.2	6.9	9.9
<b>Memorandum items:</b>											
Exports of goods and services	880	881	1031	1217	1449	1710	1818	2179	4116	1655	3076
Three-year export average	703	814	931	1043	1232	1459	1659	2048	3851	1532	2873
Government revenues	354	409	487	532	605	681	747	1024	1935	724	1439
<b>Alternative scenario I - lower concessionality of new borrowing 5/</b>											
NPV of debt-to-revenue ratio 2/	250.0	226.4	198.7	199.2	188.3	182.1	180.9	213.0	247.2	193.8	234.9
NPV of debt-to-exports ratio 3/	125.9	113.7	104.0	101.5	92.4	85.0	81.5	106.5	124.2	92.7	117.7
Debt service-to-exports ratio 4/	...	8.4	7.0	3.2	3.1	3.2	3.3	4.7	12.4	4.0	8.5
Debt service-to-revenues ratio 2/	...	18.1	14.8	7.4	7.4	8.1	8.1	10.1	26.5	9.2	18.1
<b>Alternative scenario II - Terms of trade shock: sharp decline in gold prices 6/</b>											
NPV of debt-to-revenue ratio 2/	250.0	220.5	188.3	191.6	205.0	239.0	285.9	302.3	209.6	262.1	262.8
NPV of debt-to-exports ratio 3/	125.9	110.8	98.6	99.7	103.5	119.1	130.7	130.4	86.9	121.5	110.7
Debt service-to-exports ratio 4/	...	8.2	6.6	3.0	3.4	4.5	4.7	5.2	9.2	4.7	7.9
Debt service-to-revenues ratio 2/	...	17.6	13.9	6.5	7.3	9.6	11.4	13.0	23.7	10.9	20.2
<b>Alternative scenario III - rapid energy sector development 7/</b>											
NPV of debt-to-revenue ratio 2/	250.0	220.5	188.3	184.0	168.9	159.0	153.6	142.0	92.8	162.0	121.2
NPV of debt-to-exports ratio 3/	125.9	110.8	98.6	93.8	82.9	74.4	69.5	69.0	47.0	77.7	59.5
Debt service-to-exports ratio 4/	...	8.2	6.6	2.7	2.4	2.5	2.5	2.3	4.2	3.0	3.3
Debt service-to-revenues ratio 2/	...	17.6	13.9	6.2	5.9	6.3	6.0	5.1	8.9	6.8	7.2

Sources: Kyrgyz authorities and staff estimates.

1/ Includes new debt. The completion point is assumed to be reached in December 2008; HIPC assistance is assumed to be committed and delivered unconditionally at decision point, in December 2006.

2/ Revenue is defined as central government revenue, excluding grants.

3/ As defined in IMF Balance of Payments Manual, 5th edition, 1993. Based on a backward looking three-year average of exports, excluding transit goods (e.g., average exports over 2002–04 for NPV of debt-to-exports ratio in 2004).

4/ Exports of goods and services of the current year. Excludes transit goods.

5/ Assumes that the new borrowing is contracted with an interest rate 2 percentage points higher than in the baseline from 2005 onward.

6/ Assumes that gold price declines cumulatively by 33 percent in 2007–09, rebounds to the 2006 level by 2011, and increases thereafter in line with the baseline assumptions.

7/ Assumes successful implementation of the WB's Energy Action Plan. FDI in energy sector—to finance the construction of new hydroelectric stations and transmission in 2008–18 than in the baseline. Includes second-round effects on growth and exports.

Table 8. Kyrgyz Republic:  
Discount Rate and Exchange Rate Assumptions, end-2004

	Discount Rates 1/ (in percent)	Exchange Rates 2/ (currency per U.S. dollar)
Belgian Franc	4.82	29.62
Canadian Dollar	5.36	1.20
Swiss Franc	3.48	1.13
Chinese Yuan	4.64	8.28
Deutsche Mark	4.82	1.44
CFA Franc	4.82	481.58
Danish Kronor	4.94	5.47
Srilanka Rup	4.64	104.61
Euro	4.82	0.73
Great Britain Sterling	6.01	0.52
Irish Punt	4.82	0.58
Italian Lira	4.82	1,421.53
Japanese Yen	2.15	104.12
Kuwaiti Dinar	5.03	0.29
Luxembourg Franc	4.82	29.62
Netherlands Guilder	4.82	1.62
United Arab Emirates Dirham	4.64	3.67
United States Dollar	5.03	1.00
Special Drawing Rights	4.64	0.64
Norwegian Kronor	4.70	6.04
Swedish Kronor	5.38	6.61
Korean Won	5.21	1,035.10
Memorandum item:		
Paris Club cutoff date is August 31, 2001		

Sources: IMF, International Financial Statistics; OECD; and staff estimates.

1/ Average Commercial Interest Reference Rates for respective currencies over the six-month period prior to end-December 2004 (i.e., the end of the period for which actual debt and export data are available).

2/ End-of-period exchange rates as of end-December 2004.

Table 9. HIPC Initiative: Status of Country Cases Considered Under the Initiative, August 1, 2006

Country	Decision Point	Completion Point	Target		Total	Assistance Levels 1/		IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)
			NPV of Debt-to-Exports (In percent)	Gov. Revenue		(In millions of U.S. dollars, present value) Bilateral and commercial	Multi-lateral				
<b>Completion point reached under enhanced framework</b>											
Benin	Jul. 00	Mar. 03	150		265	77	189	24	84	31	460
Bolivia					1,302	425	876	84	194		2,060
<i>Original framework</i>	Sep. 97	Sep. 98	225		448	157	291	29	54	14	760
<i>Enhanced framework</i>	Feb. 00	Jun. 01	150		854	268	585	55	140	30	1,300
Burkina Faso					553	83	469	57	231		930
<i>Original framework</i>	Sep. 97	Jul. 00	205		229	32	196	22	91	27	400
<i>Enhanced framework</i>	Jul. 00	Apr. 02	150		195	35	161	22	79	30	300
<i>Topping-up</i>	...	Apr. 02	150		129	16	112	14	61	24	230
Cameroon	Oct. 00	Apr. 06	150		1,267	879	322	37	176	27	4,917
Ethiopia					1,982	637	1,315	60	832		3,275
<i>Enhanced framework</i>	Nov. 01	Apr. 04	150		1,275	482	763	34	463	47	1,941
<i>Topping-up</i>	Feb. 02	Jul. 04	144	250	707	155	552	26	369	31	1,334
Ghana					2,186	1,084	1,102	112	781	56	3,500
Guyana					591	223	367	75	68		1,354
<i>Original framework</i>	Dec. 97	May 99	107	280	256	91	165	35	27	24	634
<i>Enhanced framework</i>	Nov. 00	Dec-03	150	250	335	132	202	40	41	40	719
Honduras	Jul. 00	Mar-05	110	250	556	215	340	30	98	18	1,000
Madagascar	Dec. 00	Oct-04	150		836	474	362	19	252	40	1,900
Mali					539	169	370	59	185		895
<i>Original framework</i>	Sep. 98	Sep. 00	200		121	37	84	14	43	9	220
<i>Enhanced framework</i>	Sep. 00	Mar. 03	150		417	132	285	45	143	29	675
Mauritania	Feb. 00	Jun. 02	137	250	622	261	361	47	100	50	1,100
Mozambique					2,023	1,270	753	143	443		4,300
<i>Original framework</i>	Apr. 98	Jun. 99	200		1,717	1,076	641	125	381	63	3,700
<i>Enhanced framework</i>	Apr. 00	Sep. 01	150		306	194	112	18	62	27	600
Nicaragua	Dec. 00	Jan. 04	150		3,308	2,175	1,134	82	191	73	4,500
Niger					663	235	428	42	240		1,190
<i>Enhanced framework</i>	Dec. 00	Apr. 04	150		521	211	309	28	170	53	944
<i>Topping-up</i>	...	Apr. 04	150		143	23	119	14	70	25	246
Rwanda					696	65	631	63	383		1,316
<i>Enhanced framework</i>	Dec. 00	Apr-05	150		452	56	397	44	228	71	839
<i>Topping-up</i>	...	Apr-05	150		243	9	235	20	154	53	477
Senegal	Jun. 00	Apr. 04	133	250	488	212	276	45	124	19	850
Tanzania	Apr. 00	Nov. 01	150		2,026	1,006	1,020	120	695	54	3,000



Table 9. HIPC Initiative: Status of Country Cases Considered Under the Initiative, August 1, 2006

Country	Decision Point	Completion Point	Target		Total	Assistance Levels 1/		World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)
			NPV of Debt-to-Exports (In percent)	Gov. Revenue (In percent)		(In millions of U.S. dollars, present value)	Multi-lateral			
Uganda			150	202	1,003	183	820	517		1,950
<i>Original framework</i>	<i>Apr. 97</i>	<i>Apr. 98</i>			<i>347</i>	<i>73</i>	<i>274</i>	<i>160</i>	<i>20</i>	<i>650</i>
<i>Enhanced framework</i>	<i>Feb. 00</i>	<i>May 00</i>	<i>150</i>		<i>656</i>	<i>110</i>	<i>546</i>	<i>357</i>	<i>37</i>	<i>1,300</i>
Zambia	Dec. 00	Apr-05	150		2,499	1,168	1,331	493	63	3,900
<b>Decision point reached under enhanced framework</b>										
Burundi	Aug. 05	Floating	150		826	124	701	425	92	1,465
Chad	May. 01	Floating	150		170	35	134	68	30	260
Congo, Democratic Rep. of	Jul. 03	Floating	150		6,311	3,837	2,474	831	80	10,389
Congo Rep. of	Mar. 06	Floating	250		1,679	1,561	118	49	32	2,881
Gambia, The	Dec. 00	Floating	150		67	17	49	22	27	90
Guinea	Dec. 00	Floating	150		545	215	328	152	32	800
Guinea-Bissau	Dec. 00	Floating	150		416	212	204	93	85	790
Malawi	Dec. 00	Floating	150		643	163	480	331	44	1,000
São Tomé and Príncipe	Dec. 00	Floating	150		97	29	68	24	83	200
Sierra Leone	Mar. 02	Floating	150		600	205	354	122	80	950
Decision point reached under original framework										
Côte d'Ivoire	Mar. 98 3/	...	141	280	345	163	182	91	6 4/	800
<b>Total assistance provided/committed</b>					<b>34,756</b>	<b>17,239</b>	<b>17,377</b>	<b>2,588</b>	<b>5/</b>	<b>61,221</b>
Preliminary HIPC document issued								<b>8,203</b>		
Côte d'Ivoire 6/	...	...	91	250	2,569	1,027	918	438	37	3,900

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.

2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.

3/ Côte d'Ivoire reached its decision point under the original framework in March 1998. The total amount of assistance committed thereunder was \$345 million in NPV terms.

4/ Nonschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation of this ratio.

5/ Equivalent to SDR 1,804 million at an SDR/USD exchange rate of 0.6765, as of May 3, 2006.

6/ It is suggested that enhanced HIPC relief for Côte d'Ivoire overtake the commitments made under the original HIPC framework.